

Ha Do Group (HSX: HDG)

Growth momentum

(VND Bn)	Q3-FY18	Q2-FY18	+/- QoQ	Q3-FY17	+/- YoY
Net revenue	696	383	82%	310	124%
PAT	103	10	980%	(1)	-18,807%
EBIT	143	15	826%	5	2,870%
EBIT margin	20.6%	4.0%	1,700bps	1.6%	1,900bps

Source: HDG, Rong Viet Securities

Q3/2018 results: Profit growth due to the contribution of the residential business

HDG's revenue in Q3 was mainly driven by the handover of two real estate projects:

Centrosa Garden in district 10 (VND 400 billion) and Hado Riverside in district 12 (VND 250 billion). These results partly offset the shortfall in the first half.

The hydropower segment's results hit by seasonality. Currently, HDG is running three plants, of which the Nhan Hac plant started operations in September 2018, resulting in a slight contribution to Q3's total profit. Of the other two plants, only Za Hung is the main driver. However, this plant did not achieve a high performance due to low rainfall in Quang Nam during Q3 2018.

Better than our expectation from the office and hotel segments. The revenue and gross profit were VND 187 billion and VND 93 billion, respectively. The new opening of an IBIS four-star hotel in early-2017 and the improvement of this segment in 9M 2018 help this segment boost the earning growth.

Q4/2018 is expected to be peak season for both residential and hydropower businesses, while the office and hotel segments should be stable

In term of revenue booking, HDG will finish the handover of the two-block Orchid in the fourth quarter, bringing revenue and net profit of VND 2,000 billion and VND 330 billion, respectively. HDG will launch three projects, namely Dragon City (Hanoi), Green Lane (Ho Chi Minh City) and Noong Tha (Laos).

Regarding the hydropower segment, there will be more contribution from the Nhan Hac plant and the recovery from the Za Hung plant as the rainy season comes back in in Quang Nam. For 2018, HDG aims to generate 15% more of electricity output compared to 2017.

Valuation and Recommendation

Compared to our report published in 2017, we revise HDG's valuation upward due to new residential projects, including NoongTha, Dragon City and Green Lane. We maintain conservative view on the success of these launching due to less favorable location. Our target price is **VND38,500/share** and anticipates a cash dividend of VND500 per share in the following 12 months, **20%** higher than the closing price on November 12, 2018. We have a **BUY** rating on the stock.

BUY **+20%**

CMP (VND)	32,450
Target Price (VND)	38,500

Cash Dividend (VND)* 500

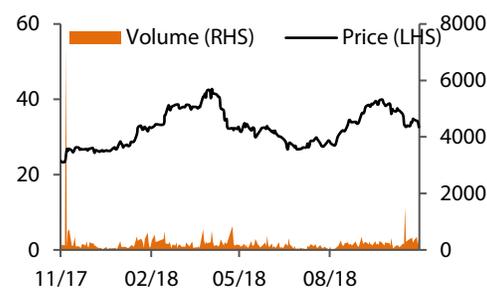
* Expected in the next 12 months

Stock Info

Sector	Real estate
Market Cap (VND Bn)	3,048
Current Shares O/S	95,000,000
Beta	0.73
Free Float (%)	30.9
52-week High	42,723
52-week Low	23,309
Avg. Daily Volume (20 sessions)	330,288

	FY2017	Current
EPS	2,348	3,674
EPS Growth (%)	-24.3%	56.5%
P/E	11.9	8.5
P/B	1.0	1.3
EV/EBITDA	6.2	8.5
Cash Dividend	1,000	-
ROE (%)	9.1%	15.7%

Price performance



Major Shareholders (%)

Mr. Nguyen Trong Thong	35.1
Mr. Nguyen Van To	9.0
Venner Group	4.8
Remaining foreign room (%)	35.3

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Exhibit 1: Q3 2018 Results

(VND bn)	Q3-FY18	Q2-FY18	+/- QoQ	Q3-FY17	+/- YoY	FY18 TTM	+/- (YoY)
Net revenue	696	383	81.9%	310	124.5%	2,507	5.2%
Gross profit	207	113	82.4%	63	227.9%	814	8.3%
SG&A	(42)	(86)	-51.7%	(40)	4.9%	(285)	-31.6%
Operating income	165	27	511.8%	23	608.7%	489	98.1%
EBITDA	189	27	601.2%	41	361.2%	644	54.1%
EBIT	143	15	826.1%	5	2,870.0%	489	98.1%
Financial expenses	(23)	(20)	11.5%	(28)	-17.8%	(73)	-48.4%
- Interest Expenses	(18)	(20)	-8.5%	(23)	-20.6%	(67)	-50.3%
Dep. and amortization	24	-	-	18	36.0%	54	-44.1%
Non-recurring items (*)	-	-	-	-	-	-	-
Extraordinary items (*)	-	-	-	-	-	-	-
PBT	147	14	921.2%	6	2,306.2%	504	102.8%
PAT	103	10	979.6%	6	1,589.5%	309	169.7%
(*) Adjusted PAT	-	-	-	-	-	-	-

Source: HDG, Rong Viet Securities

Exhibit 2: Q3 2018 Analysis

Particulars	Q3-FY18	Q2-FY18	+/- QoQ	Q3-FY17	+/- YoY
Profitability Ratios (%)					
Gross Margin	29.7%	29.6%	10 bps	20.3%	940bps
EBITDA Margin	27.2%	7.1%	2,010 bps	13.2%	1,400 bps
EBIT Margin	20.6%	4.0%	1,660 bps	1.6%	1,900 bps
Net Margin	14.8%	2.5%	1,230 bps	2.0%	1,280 bps
Adjusted Net Margin	0.0%	0.0%	-	0.0%	-
Turnover *(x)					
-Inventories	0.5	0.4	0.0	0.6	(0.1)
-Receivables	2.1	1.8	0.3	2.5	(0.4)
-Payables	6.3	7.0	(0.7)	8.8	(2.6)
Leverage (%)					
Total Debt/ Equity	99.8%	97.7%	200 bps	95.8%	400 bps

Source: HDG, (*) Annualized turnover

Exhibit 3: Q4 2018 Forecast

Particulars (VND Bn)	Q4-2018	+/- QoQ	+/- YoY
Revenue	2,359	239%	96%
Gross profit	700	238%	76%
EBIT	492	243%	67%
NPAT	386	275%	77%

Source: HDG, Rong Viet Securities

Update:
Real estate business – Profit booking in the next two years and positive signals from exploiting the land bank
Significant profit growth in 2018 and 2019 thanks to the Centrosa Garden project

Centrosa Garden is Ha Do's biggest project, bringing in a total of 2,000 billion in net profit. Almost all units have been sold out and gradually booked as revenue. HDG will complete the booking from two Orchid blocks in Q4/2018, bringing a total revenue and net profit of VND 2,000 billion and VND 330 billion, respectively. The remaining six blocks, including two Jasmine and four Iris blocks, will be delivered to customers from 2019 onwards. It will help HDG's earnings growth for 2019. We estimate that NPAT-MI will be VND 395 billion and VND 785 billion in 2018 and 2019, respectively, only from Centrosa Garden project.

Newly launch of residential projects to sustain long-term cash flow

HDG is busy with planning to launch three projects. Notably, the Dragon City project after 10 years since groundbreaking in phase 1. It shows the positive signal since State divestment at the end of 2017. In addition, two other residential projects will be also implemented, including Noong Tha (Laos) and Green Lane (District 8, Ho Chi Minh City). The contribution of these projects will help the company maintain its profitability from 2020 onwards, following the success of the Centrosa Garden project. In addition, HDG also owns a 1ha land bank in Dich Vong Ward, Cau Giay District, Hanoi. This project comprises a 48-storey building, offering a GFA of 250,000 m² to the market. It is another key project, which is expected to generate significant cash inflow in the future. However, as of November 2018, there is no official launch schedule.

Table 1: Main residential projects

No.	Project name	Location	Land area	Units	GFA (m ²)	Expected sales (VND billion)	Launch time	Hand-over time
1	Noong Tha phase 1	Vientiane, Laos	6.0 ha	100	60,000	1,000	Q4 2018	2019
2	Dragon City	An Khanh, An Thuong, Hanoi	5.6 ha	500	56,000	2,000	Q4 2018	2020
3	Green Lane	District 8, Ho Chi Minh	2.3 ha	1,000	100,000	2,000	Q4 2018	2020
4	HH1	Dich Vong, Cau Giay, Hanoi	1.0 ha	2,000	250,000	5,000	2020	2022

Source: HDG, Rong Viet Securities

Power segment to be a new strategic player

Hydropower will continue to generate stable cash flow. The construction progress of new hydropower projects is on schedule. The new plant, namely Nhan Hac, started generating electricity in September 2018. This project consists of two below-30MW hydropower units, with a total capacity of 59MW. Therefore, it enjoys the avoided cost tariff policy. HDG expects that the project can achieve good results as the Za Hung plant. In addition, HDG is still in the process of constructing the Song Tranh 4 project, which is expected to generate electricity from Q2 2020. In 2018, the hydrographical conditions is not as favorable as 2017, affecting profit growth of this segment. However, thanks to the additional contribution from the new plant, HDG still targets a 15% growth in electricity output in 2018.

Expand hydropower capacity through acquisitions. In 2017, HDG acquired a 44% stake from Tan Tao Group to be the owner of the Dakmi2 plant located in Quang Nam. The project has a capacity of 98MW, consisting of two hydropower units, expecting to start operating from 2020.

Renewable energy projects. The company will accelerate its involvement in the energy sector, especially solar power and wind power. In the context of increasing demand for electricity and the suspension of licensing new hydropower projects, the company plans to expand the total generation capacity to 500-700MW in the next 5-10 years. In Q3/2018, HDG got the investment license for a solar project in Binh Thuan, namely Hong Phong, with a designed capacity of 48 MW. The construction is expected to be completed by April 2019 in order to meet the deadline of connecting to the grid before June 30, 2019. This to enjoy the preferential purchasing price from EVN for a 20 years contract. The total estimated investment cost is VND 1,100 billion. The equipment is imported from Europe, and uses advantaged technology, solar sun tracking instead of fixed PV systems, boosting return on solar investment due to their increased production capacities. We expect that the project will generate a good return, with an average revenue of VND 200 billion annually. The risk is not meeting the deadline.

In addition, HDG is in the process of investing in wind power, with the Tien Thanh project in Binh Thuan province. The project has a capacity of 60MW, with a total estimated investment cost of VND 2,100 billion and will be completed by the end of 2019. HDG expects that the output will be 245 million kWh per year. According to Decision 39 issued on September 2018, the FiTs for wind energy projects have been increased from US cents 7.8/kWh to VND 1,928/ kWh (US cents 8.5 per kWh) for onshore wind power projects. The new FiTs which are in effect since November will have a positive impact on the industry as previous tariffs were not commercially viable for developers. It is considered to be a good point for HDG.

Table 2: Ha Do's energy projects

No.	Project name	Type	Location	Designed capacity	Start operation	Capex (VND billion)	Annual output (million kWh/year)
1	Za Hung	Hydropower	Quang Nam	32 MW	Q4 2009	500	120
2	Nam Pong	Hydropower	Nghe An	32 MW	Q1 2014	800	60
3	Nhan Hac	Hydropower	Nghe An	59 MW	Q3 2018	1.800	220
4	Song Tranh 4	Hydropower	Nghe An	48 MW	Q2 2020	1.700	180
5	Hong Phong	Solar power	Binh Thuan	48 MW	Q2 2019	1.100	90
6	Tien Thanh	Wind power	Binh Thuan	60 MW	Q1 2020	2.000	245
7	Dakmi 2	Solar power	Quang Nam	98 MW	Q3 2020	3.100	415

Source: HDG, Rong Viet Securities

Investment property – Better than our expectation

Currently, HDG operates two office buildings and one hotel, both in Tan Binh district, Ho Chi Minh City. Compared with our report published in September 2017, the performance of the projects is better than we expected. Total revenue and gross profit in 9M 2018 are VND 187 billion and VND 93 billion. The average occupancy rate of the two office buildings is 100%, as the rising demand for office leasing in Ho Chi Minh City. The hotel building occupancy is 80%. In 2019, there is more 9,000 sqm commercial GFA from Centrosa Garden, bringing the annual revenue of VND 57 billion. In addition, Bao Dai Resort, Nha Trang is also expected to come into operation in the near future, providing 108 five-star hotel rooms.

Revenue and profit forecast in the next 3 years: The main drivers will still be Centrosa Garden and additional contribution from energy

Figure 1: Projected revenue by segments for 2018-2020



Source: HDG, Rong Viet Securities

Figure 2: Gross profit projection for 2018-2020 by segments: Contribution from energy and investment property will be more and more significant



Source: HDG, Rong Viet Securities

Valuation Summary

Compared to our report published in 2017, we revise HDG's valuation upward due to new residential projects, including NoongTha, Dragon City and Green Lane.

1. Residential business: We maintain a conservative view on the success of these launches due to less favorable locations than Centrosa Garden. Therefore, we put a lower selling price assumption than HDG's target.
2. Power business: We just add valuation of only the Hong Phong solar plant.
3. Investment property business: The valuation does not include Bao Dai Hotel in Nha Trang.

Our target price is **VND38,500/share** and anticipate a cash dividend of VND500 per share in the following 12 months, **20%** higher than the closing price on November 12, 2018. We have a **BUY** rating on the stock.

Table 3: Valuation summary

	Method	NPV	% Stake	Effective NPV
RESIDENTIAL		3,783		2,443
Centrosa Garden	DCF	538	89%	479
Riverside_highrise	DCF	32	100%	32
Dragon City_Phase 2	DCF	387	100%	387
Noong Tha	DCF	302	100%	302
Bao Dai Villas	DCF	126	100%	126
Green Lane	DCF	1,115	99%	1,115
OFFICE & HOTEL		898		898
IBIS Hotel	DCF	525	100%	525
South building	DCF	199	100%	199
Airport building	DCF	175	100%	175
CONSTRUCTION	DCF	259	60%	155
HYDRO ELECTRIC		3,752		2,327
Za Hung	DCF	676	52%	352
Nam Pong	DCF	428	52%	222
Nhan Hac	DCF	951	52%	494
Hong Phong	DCF	989	76%	752
Total				5,317
(+) Net cash				682
(-) Net debt				(2,355)
Net asset value				3,644
Total outstanding shares (million)				95
Price per share				38,500

	VND Bn			
INCOME STATEMENT	FY2016	FY2017	FY2018E	FY2019F
Revenue	1,988	2,297	3,663	6,187
COGS	-1,415	-1,516	-2,546	-4,298
Gross profit	573	781	1,117	1,889
Selling Expense	-146	-234	-183	-309
G&A Expense	-95	-136	-183	-309
Finance Income	19	40	36	0
Finance Expense	-118	-123	-91	-123
Other profits	52	-5	18	18
PBT	293	323	697	1,148
Prov. of Tax	-41	-50	-80	-140
Minority's Interest	17	95	100	207
PAT to Equity	236	178	516	801
EBIT	332	412	687	1,064

	%			
FINANCIALS	FY2016	FY2017	FY2018E	FY2019F
Growth				
Revenue	34.4	15.5	59.5	68.9
Operating Income	125.1	26.3	52.2	63.8
EBITDA	111.6	23.9	66.8	54.8
PAT	90.8	-24.3	189.5	55.1
Total Assets	119.3	25.6	28.6	-5.3
Equity	20.6	8.2	48.8	42.1
Profitability				
Gross margin	28.8	34.0	30.5	30.5
EBITDA margin	21.0	23.0	21.9	21.3
EBIT margin	16.7	17.9	18.8	17.2
Net margin	11.8	7.8	14.1	12.9
ROA	3.5	2.1	4.8	7.8
ROE	6.6	5.7	11.5	14.0
Efficiency				
Liquidity	2.0	2.1	4.0	6.2
Current				
Solvency	156.3	308.6	238.3	93.8
Total Debt/Equity	125.9	286.3	221.3	81.6
Current Debt/Equity	30.4	22.3	17.0	12.2
Long-term Debt/Equity	34.4	15.5	59.5	68.9

	VND Bn			
BALANCE SHEET	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	627	707	1,911	1,366
Short-term investments	55	29	64	65
Accounts receivable	1,009	1,087	908	997
Inventories	2,391	3,018	4,268	3,454
Other current assets	64	70	66	72
Property, plant & equipment	2,352	2,800	3,304	3,984
Acquired intangible assets	12	11	0	0
Long-term investments	13	377	181	175
Other non current assets	177	317	117	134
Total assets	6,700	8,416	10,820	10,248
Accounts payable	238	-2,388	335	345
Advance from customers	1,446	3,558	4,511	2,298
Short-term borrowings	349	278	346	345
Long-term borrowings	2,250	1,592	1,949	1,949
Other non-current liabilities	577	3,286	68	71
Bonus and Welfare fund	31	30	30	30
Total liabilities	4,894	6,357	8,739	7,430
Common stock and APIC	760	760	950	950
Treasury stock	0	0	0	0
Retained earnings	385	479	1,076	1,842
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	4	4	13	26
Total equity	1,149	1,243	2,039	2,818
Minority Interest	655	811	725	832

VALUATION	FY2016	FY2017	FY2018E	FY2019F
EPS (VND/share)	3,101	2,348	5,438	8,433
P/E (x)	6.0	11.9	5.7	3.7
BVPS (VND/share)	24,142	27,435	27,331	36,521
P/B (x)	0.8	1.0	1.1	0.9
DPS (VND/share)	500	1,000	500	500
Dividend yield (%)	2.7	3.6	1.6	1.6

VALUATION HISTORY	Price(*)	Recommendation	Period
26/09/2017	31,900	Buy	1-year
05/02/2018	38,500	Buy	1-year
(*) Adjusted price			

RESULT UPDATE

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RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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