NAM TAN UYEN INDUSTRIAL PARK JSC (UpCOM: NTC)

Flourishing rental activity and attractive cash dividend

(VND bn)	*Q2-FY18*	*Q1-FY18*	*+/- qoq*	*Q2-FY17*	*+/- yoy*
Net revenue	48.1	37.9	+27%	42.1	+14%
PAT	55.2	32.5	+70%	55.7	-1%
EBIT	69.3	41.7	+66%	65.4	+6%
EBIT margin	144%	110%	-34bps	155%	+11bps

Source: NTC, RongViet Securities

1H 2018: Attractive rental activity and high cash dividend

- 1H 2018's revenue and NPAT were at VND 85.9 billion (+18% YoY) and VND 87.7 billion (+ 17% YoY), respectively. Gross margin increased sharply, reaching 87% due to a change in COGS recognition. Favorable rental income and financial income contributed significantly to earning growth during the period.
- We estimate that 2018's revenue will arrive at VND 145 billion (-1% YoY) from leasing about 25 ha of remaining commercial land. In addition, NTC expects to book about VND 320 billion of the residential project in 2018. Thus, net earnings could be tripled to VND 428 billion, compared to the previous year.
- The AGM approved a 60% cash dividend for 2017. The expected cash payment for 2018 is 25%. Dividend plan appears to be conservative when the company may need a huge amount of fundings to exploit Nam Tan Uyen 3.

Nam Tan Uyen 3 to drive long term growth when approved

Having the two existing industrial parks being fully occupied, NTC is preparing to exploit Nam Tan Uyen 3 IP with 255 ha of commercial area. Despite the project is still waiting for final approval, we are optimistic about its absorption due to a 40% pre-sold rate. Nam Tan Uyen 3 Industrial Park will be the growth driver in the next five years when coming into operation. Unceasingly large FDI inflows and the relocation of factories across the regions have been creating a solid lease demand in Binh Duong. In addition, operating industrial parks on rubber land helps lower costs than others. Healthy financials with the abundant cash and low debt ratio comfort a consecutive cash dividend at an average of 38% charter capital.

Valuation and recommendation

However, we believe there is a risk of dilution when the company has to raise its charter capital to meet the minimum level for Nam Tan Uyen 3. The raising procedure has not been announced. On the other hand, we are concerned that the cross-ownership structure between Vietnam Rubber Group (Upcom: VRG), Phuoc Hoa Rubber (PHR) and NTC may affect the timeliness of the projects. Although we are optimistic about the potential and the attractive valuation at **VND 85,300 per share** (31% higher than the closing price on August 6th, 2018), we do not have a recommendation on NTC at this time.

MONITOR

CMP (VND)	65,000
Cash dividend (VND)*	6,000

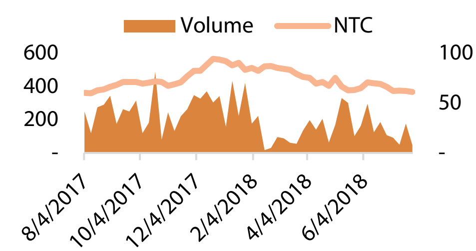
**Expected in the next 12 months*

Stock Info

Sector	Industrial Real Estate
Market Cap (VND billion)	995
Current Shares O/S	16,000,000
Avg. Daily Volume (in 20 sessions)	15,910
Free float (%)	49
52 weeks High	94,000
52 weeks Low	59,500
Beta	0.47

	FY2017	Current
EPS	8,905	5,485
EPS Growth (%)	15.2	17.0
Diluted EPS	8,905	5,485
P/E	10.5	11.9
P/B	3.92	2.8
EV/EBITDA	6.56	2.12
Cash dividend yield (%)	6.41	N/A
ROE (%)	37	24

Price performance



Major Shareholders (%)	
Phuoc Hoa Rubber JSC	32
Rubber Corporation	20
Foreign ownership room (%)	49

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Exhibit 1: Q2/2018 Results

(VND Bn)	Q2-FY18	Q1-FY18	+/-(qoq)	Q2-FY17	+/-(yoy)
Net revenue	48.1	37.9	+27%	42.2	+14%
Gross profit	47.9	26.7	+79%	31.1	+54%
SG&A	10.4	9.4	+11%	8.6	+21%
Operating income	37.5	17.3	+117%	22.5	+67%
EBITDA	79.6	51.3	+55%	74.6	+7%
EBIT	69.0	41.7	+65%	65.4	+6%
Financial expenses	-	-		-	
- Interest Expenses	-	-	-	-	-
Dep. and amortization	9.6	10.3	+7%	9.1	+5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	64.5	39.4	+64%	63.5	+2%
PAT	55.2	32.5	+70%	55.7	-1%
(*) Adjusted PAT	55.2	32.5	+70%	55.7	-1%

Source: NTC

Exhibit 2: Q2/2018 Performance Analysis

Particulars	Q2-FY18	Q1-FY18	*+/-(qoq)*	Q2-FY18	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	100%	70%	+30bps	74%	+26bps
EBITDA Margin	165%	135%	+30bps	177%	-12bps
EBIT Margin	143%	110%	+30bps	155%	-12bps
Net Margin	115%	86%	+29bps	132%	-17bps
Adjusted Net Margin	115%	86%	+29bps	132%	-17bps
Turnover *(x)					
-Inventories					
-Receivables					
-Payables					
Leverage (%)					
Total Debt/ Equity	96%	72%	+24bps	55%	+41bps

Source: NTC

Exhibit 3: Q3/2018 Performance Forecast

Particulars (VND Bn)	Q2-FY18	+/- qoq	+/- yoy
Revenue	43.5	-10%	+3%
Gross profit	42.1	-12%	+36%
EBIT	65.0	-6%	+91%
NPAT	50.7	-8%	+111%

Source: NTC, RongViet Securities

Updates

Nam Tan Uyen 3 to drive the long-term growth when approved.

Since Nam Tan Uyen 1 and Nam Tan Uyen 2 are almost full, Nam Tan Uyen 3 is expected to be soon approved in order to maintain growth. According to the latest update, the project is still awaiting approval from the Prime Minister. The project has a total area of 346 hectares, of which the commercial area is 255 hectares. In the context of increasing FDI in Binh Duong, the asking rental rate for industrial zones will be maintained at an average annual growth rate of three to five percent due to (1) rising demand; (2) higher cost of capital and (3) narrowing leasable area. When Nam Tan Uyen 3 is put into operation, the rental price is estimated at USD72 – 78/sqm/50 years, which is 15 - 20% higher than the average price for Nam Tan Uyen 1 and 2. Given solid demand and a 40% pre-sold rate at Nam Tan Uyen 3, we are positive on the project's absorption and revenue contribution.

Table 1: Current status of NTC's industrial parks

Industrial Park	Year established	Total area (ha)	Total leasable land (ha)	Occupancy rate (%)	Remaining leasable area (ha)
Nam Tan Uyen 1	2006	331	229	99%	2,84
Nam Tan Uyen 2	2010	289	213	99%	2,4
Nam Tan Uyen 3	2019E	346	255	0%	N/A
Total		**965**	**697**	**99%**	**5,24**

Source: NTC

We project FY2018's revenue of VND 145 billion (-1% YoY) and profit after tax of VND 468 billion (+200% YoY). Here are our key assumptions:

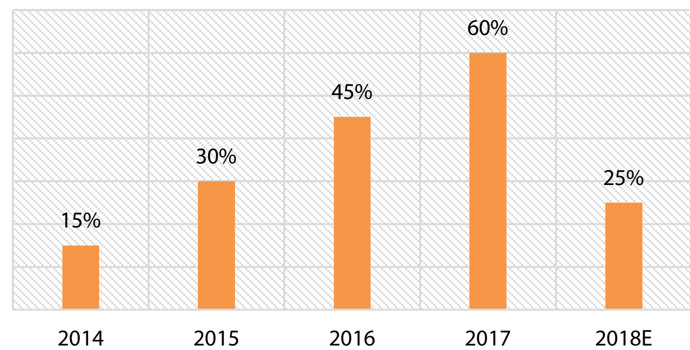
- Re-leasing about 20 hectares and 5 more hectares remaining with an average price of over USD70/sqm/50 years;
- Recognizing a high level of financial income as in 2017 due to a VND 1,118 billion short-term investment;
- Obtaining VND 320 billion from the upcoming residential project.

Tempting cash dividend underpinned by healthy financials.

The low debt and abundant cash flow helped the company maintain an attractive cash dividend policy for many consecutive years. One-time payment schedule and the allocation of land used rights (LUR) payments creates the flexibility for its operating cash flow, easing borrowing pressures. The solvency ratio was maintained at an average of 2.24 times. The dividend payout ratio has been increasing for four consecutive years with an average of 72%. The latest AGM approved a 60% cash dividend for FY2017. Having a large amount of LUR paid along with current ample cash, NTC can access loans at preferential rates for Nam Tan Uyen 3. The company thereby is likely to exercise its payout policy in the coming years.

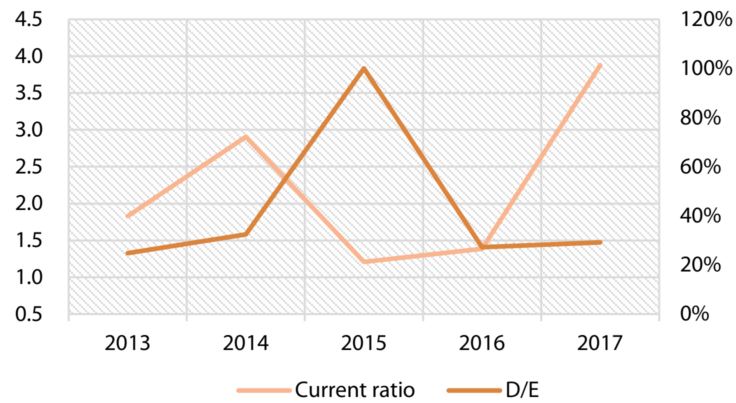
NTC will need a huge amount of funding to finance the costs of compensation, infrastructure and LUR payment for Nam Tan Uyen 3. The company, therefore, should face certain pressures to carry on a high dividend payout ratio as in the previous years. This was partly demonstrated in FY2018's prudent dividend plan as the company proposed a 25% of charter capital cash dividend compared to 60% as of FY2017.

Figure 1: Historical cash dividend (%)



Source: NTC AGM

Figure 2: Solvency (times) and D/E ratio (%)



Source: NTC, RongViet Securities

Favorable rental absorption.

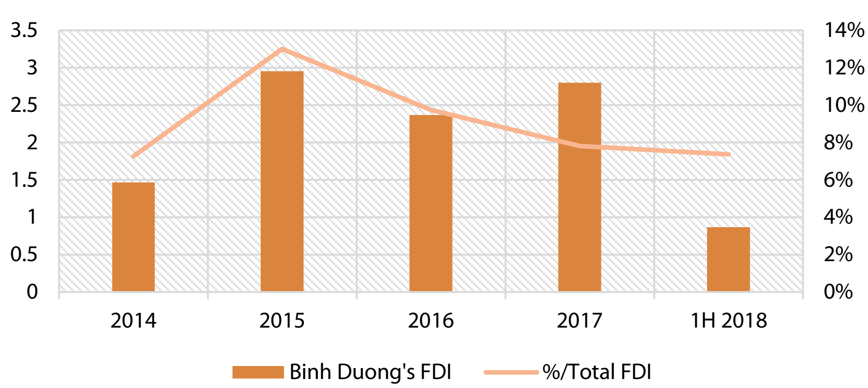
We assess the speed of leasing the Nam Tan Uyen 3 by following these factors:

(1) *Favorable location and the movement of manufacturing plants from central areas such as Ho Chi Minh City and Di An to the suburban.* We maintain our point of view on their favorable location as it is near the raw material wood of Nam Tan Uyen Industrial Park (as we mentioned in the Company Report - here). In addition, we observe a shift of some manufacturing enterprises in the central areas such as Ho Chi Minh City, Di An to the suburban industrial parks due to regulatory changes.

(2) *Large FDI disbursement accompanied with the increase investment in infrastructure in Binh Duong*. Continuous and intensive investment coupled with a good quality of infrastructure are the two factors boosting lease activities of industrial zones in Binh Duong. In 2017, in terms of components of provincial competitiveness index (PCI), Binh Duong ranked first in infrastructure indexes. This indicator is based on four factors: (1) availability and quality of existing industrial zones; (2) road system of asphalt pavement coverage and indirect costs incurred; (3) cost and reliability of telecommunications services, energy and (4) accessibility and application of information technology in the locality. Binh Duong is expanding its main routes such as DT744, My Phuoc - Tan Van. This will help to shorten the travel time and facilitate the transportation of goods between there and the surrounding areas, creating long-term motivation for the leasing of industrial zones.

In addition, the customer structure in Binh Duong industrial zones is highly diversified and does not depend largely on mega projects such as Samsung or LG Electronics in the North. For Nam Tan Uyen industrial zones, the client structure is distributed equally between domestic and FDI enterprises. We believe that this structure will help reduce the rental risk and increase leasing stability.

Figure 3: Foreign Direct Investment in Binh Duong (USD billion)



Source: MPI

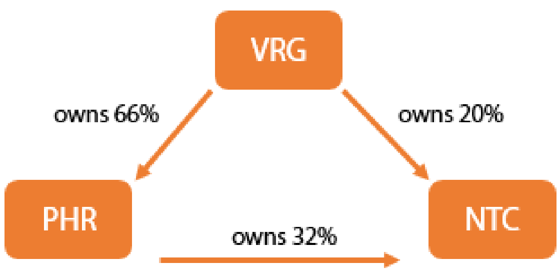
Risks and valuation

We think that NTC shares are diluted if they raise capital through additional issuance. Pursuant to Decree 43/2014/ND-CP, NTC should meet at least 20% as equity on the total investment capital of the project. Given the estimated investment capital for Nam Tan Uyen 3 at least VND 870 billion, we suppose the company needs at least VND 174 billion equity funding. Dilution based on this assumption will be around 37%.

We are afraid of the risk of lack of control and assertiveness. Rubber Corporation (UpCOM: VRG) and Phuoc Hoa Rubber JSC (HSX: PHR) own more than 50% stake in Nam Tan Uyen Industrial Park. We believe that this complex ownership structure between VRG, PHR and NTC limits NTC's ability to make timely decisions because major shareholders do not directly operate the business. However, we still have a positive view on the large area of rubber land from VRG and PHR which could be the long-term supply for Nam Tan Uyen's upcoming projects.

Therefore, we believe there is a possibility that NTC's stock price may fall sharply in the short term due to the risk of issuance and the fact that the dilution ratio may be higher than our assumption.

Figure 4: Ownership between VRG, PHR and NTC



Source: RongViet Securities compiled

We use the RNAV method to determine the fair value of NTC shares and come up with a number close to **VND 85,300 per share**, 31% higher than the closing price on August 6th. We applied a 30% discount reflecting the aforementioned risks. However, we are temporarily not recommending NTC stock since we cannot quantify these risks and need more adequate evidence to assess the credibility of the shareholding structure.

VND Billion

INCOME STATEMENT	FY2016	FY2017	FY2018F	FY2019F
Revenue	147	146	145	164
COGS	-21	-45	-42	-9
Gross profit	**127**	**101**	**103**	**155**
Selling Expense	-2	-2	-6	-11
G&A Expense	-43	-36	-27	-33
Finance Income	66	114	119	57
Finance Expense	-5	-8	-6	-6
Other profits	-1	-2	316	-2
PBT	**142**	**167**	**497**	**160**
Prov. of Tax	18	25	69	8
Minority's Interest	0	0	0	0
PAT to Equity S/H	**124**	**142**	**428**	**152**
EBIT	148	175	491	156
EBITDA	179	211	532	201

%

FINANCIAL RATIO	FY2016	FY2017	FY2018F	FY2019F
Growth (%)				
Revenue	18	-1	-1	14
Operating Income	144	-23	9	61
EBITDA	87	18	152	-62
PAT	115	18	181	-68
Total Assets	109	15	200	-64
Equity	23	33	27	16
Profitability (%)				
Gross margin	86	69	71	95
EBITDA margin	56	43	48	67
EBIT margin	121	144	368	122
Net margin	101	119	340	95
ROA	84	98	296	93
ROE	6	6	13	4
Efficiency				
Receivable Turnover	3.6	3.2	3.0	3.4
Inventory Turnover	430.6	565.2	548.6	657.3
Payable Turnover	0.3	0.3	0.3	0.1
Liquidity				
Current	1.4	3.9	10.1	16.4
Finance Structure (%)				
Total Debt/Equity	27	29	10	7
Current Debt/Equity	25	28	9	7
Long-term Debt/Equity	3	2	1	0

VND Billion

BALANCE SHEET	FY2016	FY2017	FY2018F	FY2019F
Cash and cash equivalents	19	3	532	701
Short-term investments	131	1,118	1,118	1,118
Accounts receivable	41	49	46	51
Inventories	0	0	0	0
Other current assets	8	8	7	8
Property, plant & equipment	21	40	44	50
Acquired intangible assets	0	0	0	0
Long-term investments	97	62	62	301
Other non-current assets	447	453	491	534
Total assets	**2,117**	**2,820**	**3,592**	**4,173**
Accounts payable	31	103	57	13
Short-term borrowings	71	105	89	71
Long-term borrowings	8	6	6	4
Other non-current liabilities	42	96	23	30
Bonus and Welfare fund	0	0	0	0
Technology-science, dev. fund	0	0	0	0
Total liabilities	**1,827**	**2,440**	**2,613**	**3,105**
Common stock and APIC	160	160	254	254
Treasury stock (enter as -)	0	0	0	0
Retained earnings	99	170	482	556
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	24	44	96	111
Total equity	**289**	**380**	**979**	**1,068**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2016	FY2017	FY2018F	FY2019F
EPS (dong)	7,730	8,905	16,851	5,998
P/E (x)	4.6	10.5	5.1	14.2
BV (dong)	18,067	23,720	38,545	42,043
P/B (x)	1.95	3.92	2.21	2.03
DPS (dong/cp)	4,500	6,000	2,500	2,500
Dividend yield (%)	12.8	6.4	2.9	2.9

(*) Post-issuance assumption

VALUATION MODEL	Price	Weight	Average
RNAV	85,300	100%	85,300
Target price (VND)			**85,300**

VALUATION HISTORY	Price	Recommendation	Period
2017/29/05	73,500	Buy	Long term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

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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