May, 2020

NAM LONG GROUP (HSX: NLG)

Awaiting for stake transfer of the Waterfront project

BUY	+36%
Target price (VND)	31,500
Current market price (VND)	23,150

(VND bn)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Net revenue	416	1,221	-66%	332	25%
PAT	110	548	-80%	145	-24%
EBIT	130	477	-73%	18	616%
EBIT margin	31.3%	39.0%	-800 bps	5.5%	+2,600bps

Source: NLG, Rong Viet Securities

1Q 2020 – On-going deliveries of the Mizuki Park project

- Net sales and NPATMI came at VND 416 billion (+25% YoY) and VND 110 billion (-24% YoY), fulfilling 27% and 13% of the year's target, respectively. Net profit was lower than last year because in Q1 2019, Nam Long recognized a one-off profit from negative goodwill from the acquisition of Viet Thien Lam (VND 137 billion).
- The profit was driven by the hand-over of the Mizuki Park project. NLG delivered 280 units to customers, corresponding to a value of VND 618 billion. Mizuki Park's deliveries accounted for 77% and 66% of total units and total value, respectively. The remaining deliveries came from the hand-over of the Flora Novia and Nguyen Son projects.

2Q 2020 – Continuing deliveries of the Mizuki Park and Flora Novia projects

- NLG continues to deliver units in the Mizuki Park and Flora Novia in 2Q. Total handed-over units will be 268 units, corresponding to a value of VND 425 billion.
- Due to the effect of the Covid-19 epidemic, the majority of sales will happen in the second half of 2020. Additionally, NLG is approaching the final stage of negotiations on a 35% stake transfer in the Waterfront project. It is expected to record a gain in Q3. The profit is estimated at nearly VND 400 billion.
- Estimated revenue and net profit in Q2 2020 will be VND 432 billion (-28% YoY) and VND 146 billion (+ 21% YoY).

Valuation and recommendation

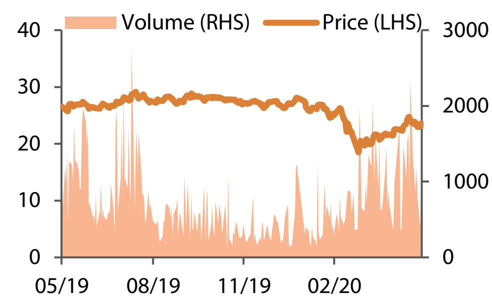
Among listed real estate companies, NLG is one owning a large land bank (nearly 700ha) located at relatively convenient locations: 1) In Ho Chi Minh City or 2) In provinces where there will be major infrastructure improvement in the mid-term like Dong Nai and Hai Phong provinces. NLG is also trading at attractive relative valuation with a 2020 forward PBR of only 1.0 time.

*Using the RNAV method, Rong Viet Securities sets a target price for NLG at VND 31,500. We have a **BUY** on the stock with a total estimated return of 36%, based on the closing price on May 27, 2020.*

Stock Info	
Sector	Real estate
Market Cap (VND billion)	5,798
Current Shares O/S (million)	260
Avg. Daily Volume (in 20 sessions)	896,552
Free float (%)	61.6
52 weeks High	29,151
52 weeks Low	18,500
Beta	0.83

	FY2019
EPS	3,697
EPS Growth (%)	16%
Diluted EPS	3,697
P/E	6.7
P/B	1.0
Cash dividend yield (%)	3.1
ROE (%)	17%

One-year price performance



Major Shareholders (%)	
Mr. Nguyen Xuan Quang	14.7
Ibeworth Pte.Ltd	10.3
PYN Elite Fund	6.0
Foreign ownership room (%)	1.6

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Exhibit 1: 1Q FY2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/- (qoq)	1Q-FY19	+/- (yoy)
Net revenue	416	1,221	-65.9%	332	25.3%
Gross profit	157	482	-67.4%	96	64.1%
SG&A	(76)	(140)	-45.8%	(87)	-13.2%
Operating income	130	477	-72.7%	18	616.3%
EBITDA	135	478	-71.7%	22	522.4%
EBIT	130	477	-72.7%	18	616.3%
Financial expenses	(3)	(2)	104.9%	(14)	-77.5%
- Interest Expenses	(3)	(1,154)	-99.7%	(14)	-77.9%
Dep. and amortization	5	2	194.7%	4	43.4%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	140	721	-80.6%	155	-9.8%
PAT	110	548	-79.8%	145	-24.0%
(*) Adjusted PAT	0	0	0.0%	0	0.0%

Source: NLG, Rong Viet Securities

Exhibit 2: 1Q FY2020 Performance Analysis

Particulars	1Q-FY20	4Q-FY19	*+/- (qoq)*	1Q-FY19	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	37.7%	39.4%	-107bps	28.8%	890bps
EBITDA Margin	32.5%	39.2%	-660bps	6.5%	2,600bps
EBIT Margin	31.3%	39.0%	-770bps	5.5%	2,580bps
Net Margin	26.5%	44.9%	-1,830bps	43.7%	-1,720bps
Adjusted Net Margin	0.0%	0.0%	0.0%	0.0%	0.0%
Turnover *(x)					
-Inventories	0.1	0.3	-0.2	0.0	0.0
-Receivables	0.6	1.8	-1.2	0.3	0.3
-Payables	2.4	4.0	-1.7	1.6	0.8
Leverage (%)					
Total Debt/ Equity	106.9%	112.8%	-580bps	94.8%	1,220bps

Source: Rong Viet Securities, (*) Annualized turnover

Exhibit 3: 2Q FY2020 Performance Forecast

Particulars (VND Bn)	2Q-FY20	+/- qoq	+/- yoy
Revenue	432	4%	-28%
Gross profit	136	-14%	-46%
EBIT	184	41%	7%
NPAT	146	32%	21%

Source: Rong Viet Securities

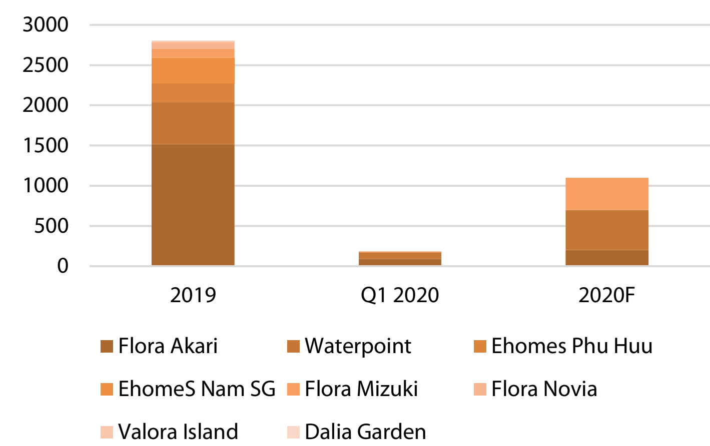
Update

Project launching: waiting for the next phase of existing projects

During Q1 2020, due to the effects of the Covid-19 epidemic, there were no major launches. NLG deployed its online sales channel. Accordingly, there were 90 units of Waterpoint and 90 units of Akari City sold during this period, bringing VND 500 billion to total backlogs.

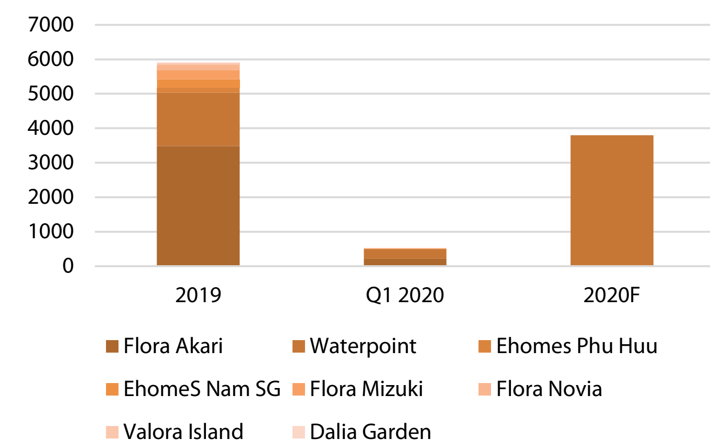
In the upcoming quarters, Nam Long plans to launch the next stage of sales in existing projects, including Mizuki Park, Waterpoint and Akari City. The plan varies depending on the Covid-19 situation. As a result, the total number units to be launched under the base case scenario will be 1,500 units, including 400 units of Mizuki Park, 500 units of Waterpoint, and 200 units of Akari City. The remaining will be from new projects in Can Tho and Hai Phong provinces. Total contract sales value is estimated at VND 3,800 billion. Majority of the sales will happen in the second half of 2020.

Figure 1: Units sold (units)



Source: NLG, Rong Viet Securities

Figure 2: Contracted sales value (VND billion)



Source: NLG, Rong Viet Securities

Although Nam Long has a valuable land bank, it will not be implemented in 2020. Two notable projects are Waterfront and Paragon Dai Phuoc, which have completed legal procedures yet await for launch in 2021 onwards. Regarding the legal status, these projects have received investment licenses, got approvals of 1/500 master planning and red book for each super land lot. We suppose that the projects will enjoy huge benefits from the upgrades of infrastructure conditions in the mid-term: 1) Closely located to Ho Chi Minh city, being suitable for second-home residents and 2) Near Long Thanh international airport.

Table1: Project updates

No	Project	Updates
1	Waterpoint	There are still 35ha not transferred, but expected to be 24ha to JVs in 2020. Revenue and profit respectively are VND 100 billion and VND 65 billion. In term of sales progress, the company has sold more than 700 units, expected to hand over 440 units this year, from Q3 2020.
2	Mizuki Park	Handing over 380 units in 2020, corresponding to revenue and profits of VND 670 billion and VND 100 billion.
3	Paragon Dai Phuoc	In process of negotiating with three partners to transfer 35% or 50% stake in the project. The company plans to transfer 50% stake and record a gain of VND 50 billion in 2020.
4	Waterfront	Sold 35% stake in the project (equivalent to 50% ownership of NLG), for a nearly 400 billion gain.
5	Akari City	The legal status has not been finalized; hence it may not be transferred in 2020. Up to now, NLG has sold nearly 1,600 units, of which 100 units in Q1 2020.
6	VSIP Hai Phong	The master plan has not been finalized yet. Currently, NLG has deposited VND 200 billion for land fees. Due to the Covid-19 epidemic, the launching plan has been delayed to early-2021.
7	Can Tho	In process of land site clearance, of which 80% land area has been compensated for.

Source: NLG, Rong Viet Securities compiled

Revenue recognition: project backlog to enable Nam Long to hit its profit target from 2021 onwards

In Q1 2020, net sales and NPATMI came at VND 416 billion (+25% YoY) and VND 110 billion (-24% YoY), fulfilling 27% and 13% of the year's target, respectively. Net profit was lower than last year because in Q1 2019, Nam Long recognized VND 137 billion profit from negative goodwill from the acquisition of Viet Thien Lam. The company handed over 280 units during Q1 2020, equivalent to a value of VND 620 billion.

As of 31/03/2020, the company's project backlog is worth VND 5,958 billion, equivalent to 2,474 units of Flora and Valora, which will be delivered in 2020 – 2022. Under our base case scenario, the launch of 1,500 units in 2020 will generate more than VND 3,800 billion to its total backlogs, which will gradually be recorded as revenue over the next 2-3 years. This will keep the company cash flow still strong.

In term of construction progress, the Waterpoint, Mizuki Park and Akari City have been on track with the company's plan. As of end April 2020:

Table 2: Construction progress of notable projects

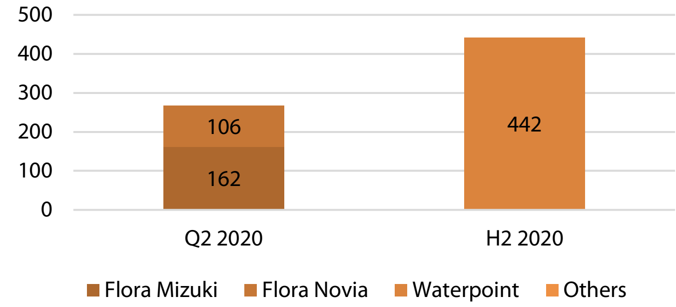
Waterpoint: The Rivera 1 part has been completed. The Aquaria and Marina parts have been in construction phase, 3-month behind Riveria 1.	**Akari City:** Block AK3 & 2 up to 7th floor, Block AK4 up to 3th floor, Block AK1 & 5 up to 8th floor.	**Mizuki Park:** MP1, 2, 3, 4, 5 blocks have been completed. Being prepared for next launches in MP6, 7, 8 blocks.
		
		

Source: Rong Viet Securities compiled

We project that revenue and net profit in Q2 2020 will be VND 432 billion (-28% YoY) and VND 146 billion (+ 2195% YoY):

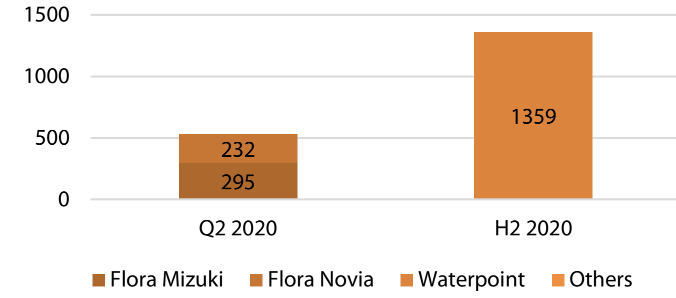
- Q2 2020: Continuous deliveries in the Novia and Mizuki Park projects. Total revenue and delivered unit will be VND 527 billion and 268 units, respectively.
- The transferring stake of Waterfront will be in H2, hence, there will be no major recognition during this quarter.

Figure 3: Handed over units by projects (units)



Source: NLG, Rong Viet Securities

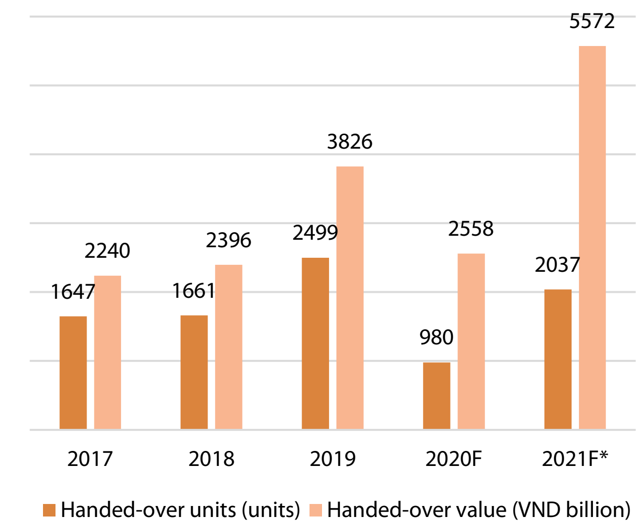
Figure 4: Revenue recognition by projects (VND billion)



Source: NLG, Rong Viet Securities

2020 will be a year of shortage in project deliveries. Accordingly, total handed-over units is estimated at only 980 (-60% YoY), and total value will decrease by 32% YoY. However, financial incomes from stake transfers of the Waterfront (VND 400 billion profit, 35% ownership) and Paragon Dai Phuoc projects (VND 50 billion profit, 50% ownership) will offset the whole year' profit. Looking forward to 2021 prospects will get brighter, thanks to the contribution of the Akari City project. Total handed-over units and value only from this project will be over 1,000 units and VND 2,500 billion, respectively.

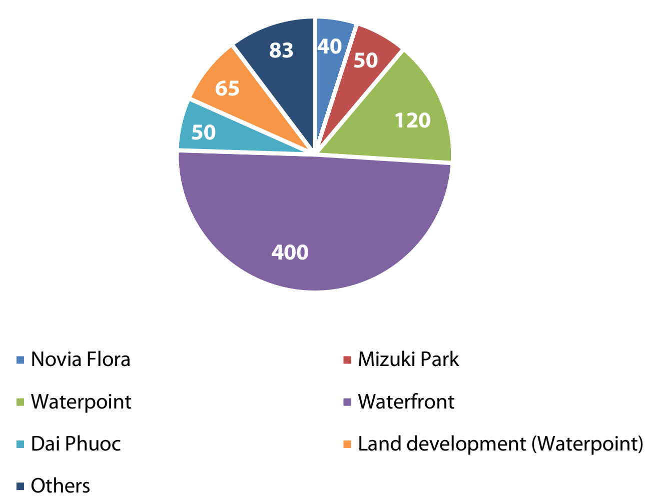
Figure 5: Project deliveries



Source: NLG, Rong Viet Securities

(*) Nam Long's estimation

Figure 6: 2020's profit breakdown (VND billion)



Source: NLG, Rong Viet Securities

Valuation

Among listed real estate companies, NLG is one of the companies owning a large land bank (nearly 700ha) located at relatively convenient locations: 1) In Ho Chi Minh City or 2) In provinces where there will be major infrastructure improvement in the mid-term likes Dong Nai and Hai Phong provinces. NLG is also trading at attractive relative valuation, at a 2020 forward PBR of only 1.0 time. The valuation for the stock in the next one year is VND 31,500/share, generating a total return of 36%, based on the closing price on May 27, 2020.

Table 3: Valuation Summary *(billion VND)*

Project	Method	NPV	% Stake	Effective NPV
Mizuki Park	DCF	4,146	50%	2,073
Akari City	DCF	3,259	50%	1,630
Flora Novia	DCF	33	100%	33
Waterpoint phase 1	DCF	2,250	50%	1,125
Waterpoint phase 2	BV	750	100%	750
Paragon Dai Phuoc	BV	1,700	100%	1,700
Others	BV	308	100%	308
Total				**7,618**
(+) Net cash				1,424
(+) Short-term investment				55
(-) Debts				(893)
Total net asset value				**8,203**
Total outstanding shares (million)				260
CMP (VND/share)				31,500

Source: Rong Viet Securities

(VND Billion)

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	3,554	2,546	1,982	2,064
COGS	-2,054	-1,480	-879	-1,108
Gross profit	1,500	1,066	1,103	956
Selling Expense	-252	-119	-111	-116
G&A Expense	-239	-306	-148	-154
Finance Income	129	120	38	33
Finance Expense	-37	-44	-44	-41
Other profits	9	383	0	0
Gain/loss in associates	14	126	173	882
PBT	1,125	1,226	1,010	1,561
CIT	-240	-219	-202	-312
Minority's Interest	124	47	0	0
PAT to Equity S/H	761	960	808	1,248
EBIT	1,116	843	1,016	1,568

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth				(%)
Revenue	40.3%	-28.4%	-22.1%	4.1%
Operating Income	129.8%	-23.9%	19.3%	53.8%
EBITDA	133.6%	-24.4%	20.5%	54.3%
PAT	96.3%	26.2%	-15.8%	54.5%
Total Assets	54.2%	12.7%	9.5%	13.6%
Equity	67.8%	17.4%	-9.7%	17.7%
Profitability				
Gross margin	42.2%	41.9%	55.6%	46.3%
EBITDA margin	31.8%	33.7%	51.7%	76.4%
EBIT margin	31.4%	33.1%	51.3%	76.0%
Net margin	21.4%	37.7%	40.8%	60.5%
ROA	7.9%	8.9%	6.8%	9.3%
ROE	14.4%	16.7%	13.7%	20.5%
Efficiency				
Receivable Turnover	1.9	1.7	0.9	0.9
Inventory Turnover	0.6	0.4	0.2	0.3
Payable Turnover	7.6	8.5	0.6	0.7
Liquidity				
Current	4.7	5.4	2.2	2.0
Quick	2.6	2.5	1.1	1.1
Finance Structure				
Total Debt/Equity	19.1%	14.0%	16.2%	11.1%
Current Debt/Equity	3.8%	1.0%	1.8%	1.6%
Long-term Debt/Equity	15.3%	13.0%	14.4%	9.5%

(VND Billion)

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	2,084	1,894	1,661	2,272
Short-term investments	16	73	54	63
Accounts receivable	1,879	1,500	2,232	2,411
Inventories	3,211	4,205	4,311	4,391
Other current assets	126	109	154	276
Property, plant & equipment	52	71	413	685
Acquired intangible assets	0	0	0	0
Long-term investments	1,684	1,808	1,846	1,846
Other non-current assets	271	288	1,143	1,477
Total assets	**9,572**	**10,788**	**12,283**	**13,964**
Accounts payable	270	175	1,429	1,478
Advance from customers	1,080	1,199	2,464	3,269
Short-term borrowings	201	63	103	103
Long-term borrowings	806	806	806	626
Other non-current liabilities	718	695	706	734
Bonus and Welfare fund	44	60	52	44
Technology-science development fund	0	0	0	0
Total liabilities	**4,290**	**4,588**	**5,561**	**6,254**
Common stock and APIC	2,391	2,597	3,586	3,586
Treasury stock (enter as -)	-86	-383	-383	-383
Retained earnings	1,291	1,839	2,387	3,376
Other comprehensive income			0	0
Inv. and Dev. Fund	11	11	11	11
Total equity	**5,282**	**6,199**	**5,600**	**6,589**
Minority Interest	**684**	**1,145**	**1,121**	**1,121**

VALUATION RATIO	FY2018	FY2019	FY2020F	FY2021F
EPS (VND)	3,182	3,697	3,111	4,807
P/E (x)	7.8	6.7	7.7	5.0
BV (VND)	22,088	23,871	25,890	29,697
P/B (x)	1.1	1.0	0.9	0.8
DPS (VND/share)	386	770	1,000	1,000
Dividend yield (%)	1.6	3.1	4.2	4.2

VALUATION MODEL	Price	Weight	Average
RNAV	31,500	100%	31,500
Target price (VND)			**31,500**

VALUATION HISTORY	Price	Recommendation	Period
21/06/2018	32,500	Buy	One-year
26/11/2019	38,900	Buy	Long-term
28/05/2020	31,500	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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