June, 2018

NAM LONG GROUP (NLG – HSX)

Unlock huge clean land bank

(VND bn)	Q1-FY18	Q4-FY17	+/- qoq	Q1-FY17	+/- yoy
Net revenue	539	1,525	-65%	256	111%
PAT	32	183	-83%	21	50%
EBIT	91	355	-74%	28	221%
EBIT margin	16.8%	23.3%	-600 bps	11.1%	600 bps

Source: NLG, RongViet Securities

H1 2018: Record gain from re-valuation of Akari City project

- Revenue and NPAT-MI in Q2 2018 will be estimated at VND 799 billion (-21% YoY) and VND 99 billion (-66% YoY), respectively.
- Compared to 2018's guidance, we estimate that Nam Long will achieve higher profit in 2018, mainly driven by re-valuation of Waterpoint phase 1 with land area of 165ha.
- NLG intends to do an auction of 40 million shares mostly for domestic investors by the end of next month. The auction can have a positive impact on NLG's stock price in the short term in case the deal succeeds.

***Valuation and Recommendation*:**

After a long time of accumulation land bank, in 2018, Nam Long has come into the final step of implementing the Waterpoint project - the largest project in NLG's land bank. In addition, after the successful launch of the Mizuki Park project, the company will be busy on developing other new projects such as Akari City and Flora Keshi, creating momentum for Nam Long in the coming years.

As same as previous projects, NLG continues to privilege a 50:50 strategic partnership with Japanese partners. We suppose that it considered this to be a smart strategy because this collaboration not only help NLG raise more funds for the project development, but also support NLG in terms of project management, design, and implementation.

RongViet Securities has a NLG share value of **VND 40,200**, **39.3%** higher than the closing price on June 20, 2018. We recommend a **BUY** on the stock. The target price was revised up from the 2018 Strategic Report published in February to reflect the bright prospects of launching two key projects, namely Waterpoint and Akari City. On the flipside, investors should consider the risk that Keppel land's convertible bond, which is expected to convert into equity by late-2018, could cause a dilution of approximately 10%.

BUY

CMP (VND)	28,850
Target Price (VND)	40,200
Cash dividend (VND)*	-

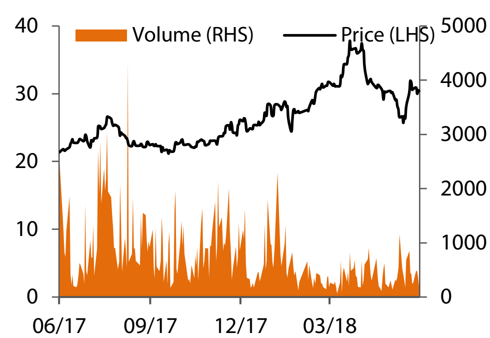
**Expected in the next 12 months*

Stock Info

Sector	Real Estate
Market Cap (USD million)	246.5
Current Shares O/S (million)	209,897,255
Avg. Daily Volume (in 20 sessions)	454,972
Free float (%)	41.1
52 weeks High	37,810
52 weeks Low	21,163
Beta	0.75

	FY2017	Current
EPS	3,403	2,887
EPS Growth (%)	40.1	18.8
P/E	7.3	8.8
P/B	1.3	1.6
EV/EBITDA	4.4	5.3
Cash dividend	225	-
ROE (%)	15.6	15.1

Price performance



Major Shareholders (%)	
Mr. Nguyen Xuan Quang	12.9
PYN Elite Fund	6.8
Foreign ownership room (%)	0.0

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Exhibit 1: Q1/2018 Results

(VND bn)	Q1-FY18	Q4-FY17	+/-(qoq) (%)	Q1-FY17	+/-(yoy) (%)
Net revenue	539	1,525	-64.6	256	110.8
Gross profit	181	540	-66.5	81	123.9
SG&A	(105)	(207)	-49.2	(63)	67.6
Operating income	91	355	-74.4	28	220.7
EBITDA	94	358	-73.7	32	197.1
EBIT	91	355	-74.4	28	220.7
Financial expenses	(4)	(7)	-44.7	(5)	-23.5
- Interest Expenses	(4)	(6)	-40.0	(4)	-10.2
Dep. and amortization	3	3	-2.0	3	-0.9
Non-recurring items (*)					
Extraordinary items (*)					
PBT	93	358	-74.2	30	211.5
PAT	32	183	-82.7	21	50.3
(*) Adjusted PAT	0	0	0.0	0	0.0

Source: NLG, RongViet Securities

Exhibit 2: Q1/2018 Performance Analysis

Particulars	Q1-FY18	Q4-FY17	*+/-(qoq)*	Q1-FY17	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	33.6%	35.4%	-190 bps	31.6%	200 bps
EBITDA Margin	17.5%	23.5%	-600 bps	12.4%	510 bps
EBIT Margin	16.8%	23.3%	-640 bps	11.1%	580 bps
Net Margin	5.9%	12.0%	-610 bps	8.2%	-240 bps
Adjusted Net Margin	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%	-580 bps	94.8%	1,220 bps

Source: NLG, (*) Annualized turnover

Exhibit 3: Q2/2018 Performance Forecast

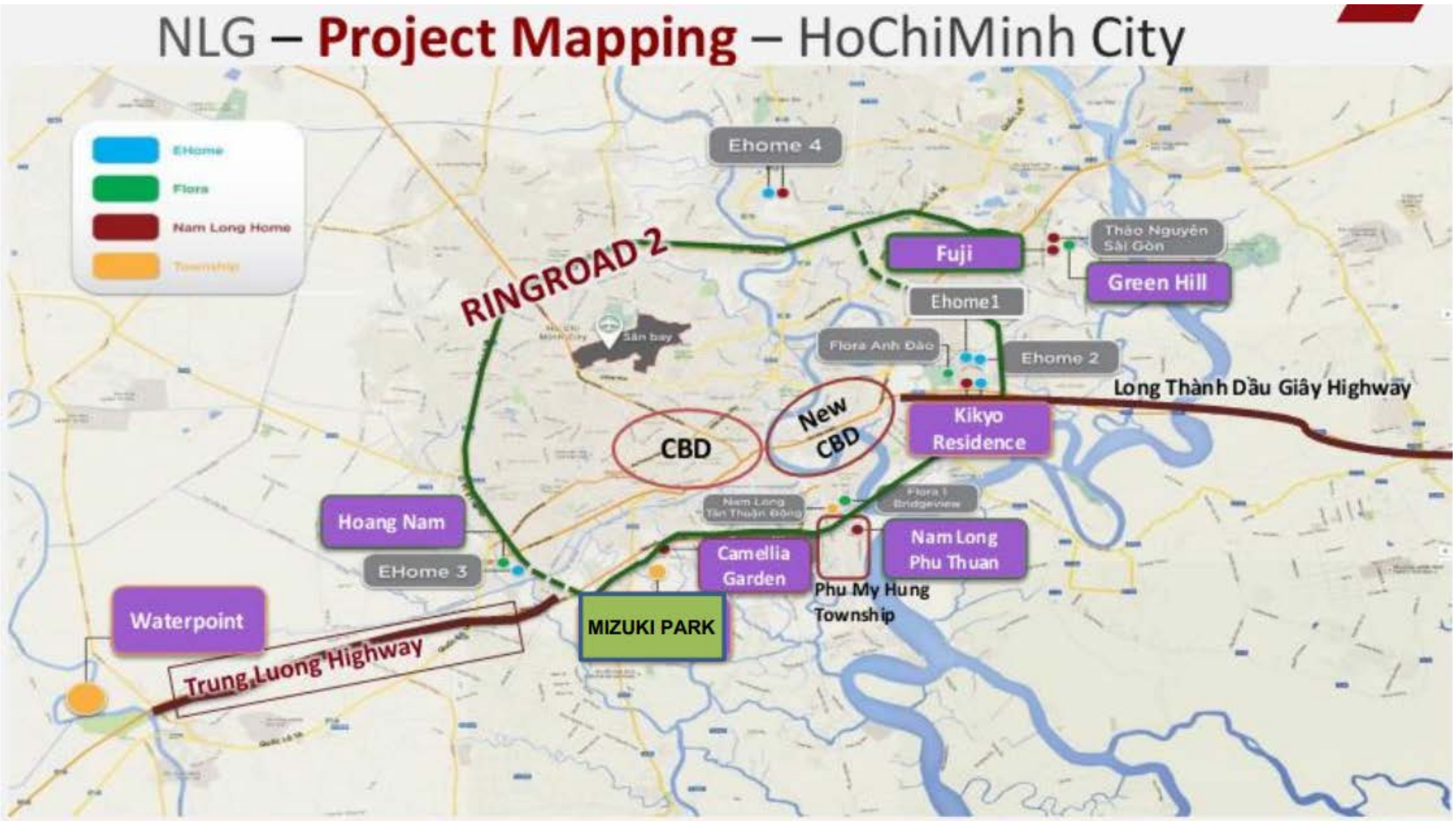
Particular (VND bn)	Q2-FY18	+/- qoq	+/- yoy
Net revenue	799	48%	-21%
Gross profit	259	43%	-52%
EBIT	205	126%	-56%
PAT	99	213%	-66%

Source: NLG, RongViet Securities

Updates:

Key time to exploit the land bank. Following the success of collaboration in many projects in the past, Nam Long continues to join hand with Japanese partners to exploit its land bank. As we mentioned in our previous report, it is considered to be a smart strategy because this collaboration not only help NLG raise more funds for the project development, but also support NLG in terms of project management, design, and implementation. Specifically, the company will establish joint ventures with Japanese partners to co-develop two key projects, namely Waterpoint (Long An) and Akari City (Binh Tan District, Ho Chi Minh City).

Figure 1: NLG's project location



Source: NLG

Waterpoint - The largest project ensuring long-term growth. The project is strategically located, directly close to Trung Luong and Ben Luc – Long Thanh highway. It takes approximately one hour to get to the project and about 20km from the center of Ho Chi Minh City. Moreover, there are three views of Vam Co Dong river, with 5km of lake boundary and ecological feature is one of the most advantage of this project. Waterpoint is located in a site with an area of 355 ha. NLG plans to develop 165ha in phase 1 during the next 5 years, offering above 3,000 low-rise units to the market. The selling price will range VND 16 to 20 million/psm, equivalent to VND 1,3 -1,9 billion / units with 100sqm land area. We suppose that the budget is acceptable and suitable for Vietnamese young people. In term of financial performance, the company expects that Waterpoint could generate a profit of about VND 2,100 billion in phase 1 after the 5-year development. We estimate that NLG will record a pre-tax profit of VND 300-350 billion when re-evaluating this project in 2018.

Akari City – ready to launch in Q3 2018. The project located in Vo Van Kiet Boulevard, Binh Tan District, Ho Chi Minh City, with a land area of 8.8 ha and offering 4,600 Flora units to the market. The company also established a JV with two other Japanese partners, namely Hankyu Hanshin Properties Corp and Nishi Nippon Railroad, to co-develop this project. The Akari City project is classified as mid-end segment, with an estimated selling price of VND 22 million/psm. NLG will launch the first sale in the next quarter with around 1,000 units. We estimate that NLG could record a pre-tax profit of VND 80 billion in 2018 after re-evaluating the land.

Sale launch of Flora Keshi, a project located in Pham Van Dong Street, Thu Duc District. NLG plans to launch the first sale of Flora Keshi in H2 2018, offering 500 high-rise units to the market. As of May 2018, the model house was nearly completed. We estimate that the average selling price is between VND 20 and 22 million/psm.

Mizuki Park – Successful launch. After more than a year of development, Mizuki Park and Nguyen Son project are gradually taking shape. Being by a convenient location and at a reasonable price, the project achieved a very good selling rate.

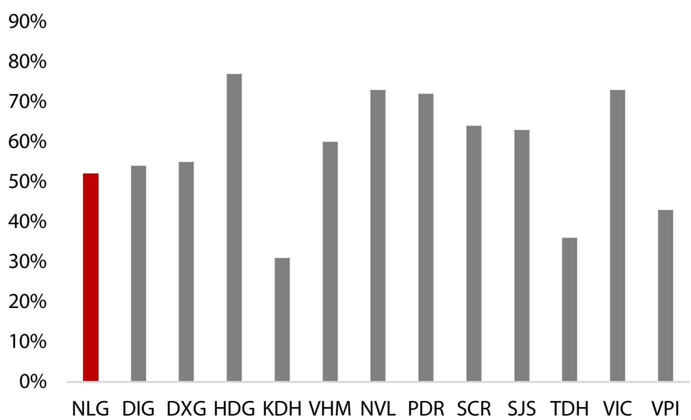
Table 1: Mizuki Park selling progress (As of May 2018)

	Scale	Selling rate	Note
Mizuki Flora	4,676 units	25%	Hand-over since 2019
Mizuki Valora	170 units	19%	Not have plan to launch the next phase yet
Nguyen Son – EhomeS	1,726 units	60%	Hand-over partly in 2018
Nguyen Son – Villa	44 units	100%	Hand-over 100% in 2018

Source: NLG, RongViet Securities compiled

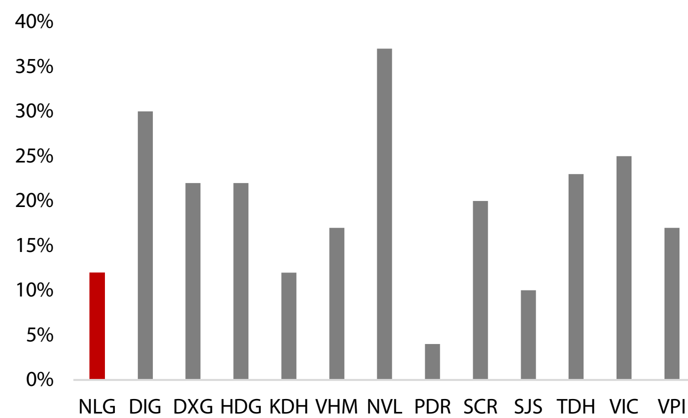
Healthy financial situation. NLG's leverage is relatively low compared to most of the other real estate companies. Total debt to total assets has been stable at an average of 0.5x in recent years. We suppose that the real estate market will no longer benefit from favorable lending rates due to tightening of the monetary policy. NLG will be one of the companies which is least likely to be affected from that trend, supported by a low leverage ratio and cash inflow from Japanese partners.

Figure 2: Total liabilities to total assets *(as update of Q1 2018)*



Source: FiinPro, RongViet Securities compiled

Figure 3: Total debts[1] to total assets *(as update of Q1 2018)*



Source: FiinPro, RongViet Securities compiled

Dilution risk.

Increase charter capital by issuing more 40 million shares and Keppel land's convertible bond. NLG intends to do an auction of more 40 million shares for mostly domestic investors by the end of next month, which will be executed as a public auction. The starting price is VND 26,500 per share. We suppose that the auction can have positive impact on NLG's stock price in the short term in case the deal is successful. The main reason for this auction is that Keppel Land may need some room to exercise the right of conversion of VND 500 billion convertible bond by the end of this year, equivalent to approximately 25 million shares. We estimate that the conversion can cause a dilution of approximately 10%.

[1] Total debts = Short term borrowing + Long term borrowing + Bonds

Valuation

We use the RNAV method to evaluate the projects at Nam Long. For the Waterpoint project, we use the RNAV method for phase-1 while we apply the MV method for phase-2 due to the lack of a development plan at this moment.

RongViet Securities has a NLG share value of **VND 40,200, 39.3%** higher than the closing price on June 20, 2018. We recommend a **BUY** on the stock. The target price was revised up from the 2018 Strategic Report published in February to reflect the bright prospects of launching two key projects, namely Waterpoint and Akari City.

Table 2: Valuation Summary *(billion VND)*

Project	Method	NPV	% Stake	Effective NPV
Kikyo	DCF	**(14)**		**(55)**
Fuji	DCF	**45**		**23**
Dalia Garden	DCF	**89**	**94%**	**84**
Mizuki	DCF	**4,676**		**2,464**
Nguyen Son - EhomeS		292	87%	254
Mizuki - Valora		48	50%	24
Nguyen Son - Villa		48	87%	42
Mizuki Park - Flora		3,770	50%	1,885
Camellia Garden	DCF	**124**	**60%**	**74**
Akari City	DCF	**1,731**	**50%**	**866**
Flora Keshi	DCF	**402**	**100%**	**402**
Waterpoint phase 1	DCF	**1,879**	**50%**	**939**
Waterpoint phase 2	MV	**1,900**	**100%**	**1,900**
Total				**6,976**
(+) Net cash[2]				2,367
(+) Short-term investment				46
(-) Debts				(923)
Total net asset value				**8,457**
Total outstanding shares (million)				210
Target price per share *(VND)*				**40,200**

[2] Including cash from the proceed of 5:1 right issuance with issue price at VND 18,000/share, which will be consolidated in BS in Q2 2018

VND billion

INCOME STATEMENT	2016A	2017A	2018F	2019F
Revenue	2,534	3,161	3,537	1,398
COGS	-1,711	-1,866	-2,120	-851
Gross profit	823	1,295	1,417	547
Selling expense	-189	-219	-134	-10
G&A expense	-154	-195	-107	-8
Financial income	26	95	51	120
Financial expense	-29	-29	-29	-7
Other income/loss	7	6	0	0
Gain/(loss) from JV	1	-3	48	527
PBT	484	950	1,247	1,169
Tax expense	-97	-194	-249	-234
Minority interests	42	221	137	10
PAT	345	535	861	925
EBIT	478	944	1,225	1,056

%

FINANCIAL RATIO	FY2016	FY2017	FY2018F	FY2019F
Growth (%)				
Revenue	101.3%	24.8%	11.9%	-60.5%
Operating Income	208.7%	94.9%	28.8%	-13.7%
EBITDA	229.7%	97.6%	29.8%	-13.8%
PAT	65.5%	55.0%	61.0%	7.4%
Total Assets	23.6%	27.3%	5.2%	30.5%
Equity	29.7%	18.3%	22.2%	28.3%
Profitability (%)				
Gross margin	32.5%	41.0%	40.1%	39.1%
EBITDA margin	19.4%	30.3%	34.9%	76.1%
EBIT margin	18.8%	29.9%	34.6%	75.5%
Net margin	13.6%	16.9%	24.3%	66.1%
ROA	5.6%	6.8%	11.3%	9.3%
ROE	11.0%	15.6%	20.8%	17.8%
Efficiency				
Receivable Turnover	2.3	5.5	5.0	1.8
Inventory Turnover	0.5	0.5	0.6	0.2
Payable Turnover	8.6	6.4	9.9	3.9
Liquidity				
Current	4.8	3.9	2.6	2.1
Finance Structure (%)				
Total Debt/Equity	22.3%	11.9%	5.7%	4.5%
Current Debt/Equity	11.2%	5.8%	0.7%	0.5%
Long-term Debt/Equity	11.1%	6.1%	5.0%	3.9%

VND billion

BALANCE SHEET	FY2016	FY2017	FY2018F	FY2019F
Cash and cash equivalents	932	2,082	1,738	3,835
Short-term investments	39	61	35	40
Accounts receivable	1,095	579	708	756
Inventories	3,698	3,884	3,842	4,010
Other current assets	64	173	94	100
Property, plant & equipment	55	56	46	46
Acquired intangible assets (inc. Goodwill)	0	0	8	2
Long-term investments	31	755	756	756
Other non current assets	131	206	398	404
Total assets	**6,209**	**7,906**	**8.315**	**10.950**
Accounts payable	199	291	214	218
Advance from customers	652	1,250	2,215	3,909
Short-term borrowings	354	216	32	32
Long-term borrowings	350	229	229	229
Other non-current liabilities	463	471	249	240
Bonus and Welfare fund	11	29	29	29
Technology-science development fund	0	0	0	0
Total liabilities	**3,062**	**4,183**	**2,967**	**4,657**
Common stock and APIC	1,421	1,572	3,113	3,584
Treasury stock	-60	-60	-60	-60
Retained earnings	578	864	1,485	2,299
Inv. and Dev. Fund	11	11	10	10
Total equity	**3,147**	**3,723**	**4,548**	**5,833**
Minority Interest	**0**	**0**	**800**	**674**

VALUATION RATIO	FY2016	FY2017	FY2018F	FY2019F
EPS (dong)	2,429	3,403	3,459	3,375
P/E (x)	6.7	7.3	8.8	9.1
BV (dong)	22,146	23,678	21,648	23,754
P/B (x)	0.7	1.0	1.4	1.3
DPS (dong/cp)	722	249	-	-
Dividend yield (%)	4.4%	1.0%	-	-

Target price (dong) **40,200**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
15/08/2017	30,000	Accumulate	Long term
30/12/2017	37,200	Accumulate	Long term
21/06/2018	40,200	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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