VINCOM RETAIL (HOSE: VRE)

Patience will pay

ACCUMULATE	+15%
Starting price (VND)	37,650
Target price (VND)	43,400
Dividend yield (%) *	-

** Expected in the next 12 months*

Vietnam is one of the most dynamic retail country in the world. Modern retail is taking off, supported by many positive factors such as a young population, expansion of the middle class and a retail spending boom. However, it is not an easy road because of tough competition by the entry of newcomers and the expansion by large existing players.

Vincom Retail, the largest Vietnam's retail property play, is ramping up its portfolio to an unprecedended scale. The company is poised to benefit from both a stable cash flow from its rental income and one-off sales of residential projects. To mitigate the impact of ecommerce, Vincom Retail also implements O2O offerings in the key shopping malls in order to help retailers raise their offline sales through online platform, namely Adayroi and loyalty program, namely VinID. Besides, the company has improved its financial performance during the recent years by reducing net gearing combined with a solid stream of cash flow. On the flip side, its current valuation looks expensive, which is quite similar to other leading Asia retail property firms. We expect that patient holders will profit in the long run.

*We used both RNAV and multiples method to evaluate Vincom Retail's stock and estimate the fair value at **VND 43,400/share**. The total return should be **15%** compared to the starting price in 07/09/2018. Therefore, we have a **ACCUMULATE** on the stock.*

Investment Rationale

- Vincom Retail is ramping up its scale to capture the booming modern retail mkt
- Healthier balance sheet
- Current valuations not attractive but it is a story for long-term investors

Risks

- Competition from both entry of newcomers and expansions by existing players
- Vincom Retail expansion plan runs ahead of modern retail growth in tier-2 and 3 provinces

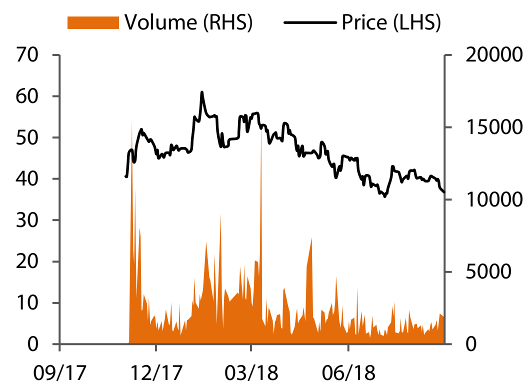
Key financial ratios

Y/E Dec (VND Bn)	FY2016	FY2017	FY2018F	FY2019F
Net revenue	6,386	5,518	8,230	10,195
%change	7.2	-13.6	49.1	23.9
PAT	2,437	2,027	2,418	2,973
% change	123.6	-16.8	19.2	23.0
Net margin (%)	38.2	36.7	29.4	29.2
ROA (%)	6.9	5.6	6.3	7.4
ROE (%)	12.3	8.0	8.8	9.8
EPS (VND)	1,607	1,066	1,272	1,564
Book value (VND)	16,275	13,726	16,584	18,148
Cash dividend (VND)	-	-	-	-
P/E (x)	-	44.2	31.3	25.5
P/BV (x)	-	3.4	2.4	2.2

Source: RongViet Securities

Stock Info

Sector	Real estate
Market Cap (VND Bn)	69,484
Share O/S (Mn)	1,901
Free Float (%)	-
52 weeks high	61,000
52 weeks low	35,700
Average trading volume (20 sessions)	1,258,234



Performance (%)

	3M	1Y	3Y
VRE	-12.1	-18.5	N/a
Real estate	-6.2	7.7	40.7
VN-Index	-7.3	-7.3	20.4

Major shareholders (%)

Vingroup	57.0
Venture Capital, Investment advisory and Bank	35.9
Foreigner Investor Room (%)	*31.4*

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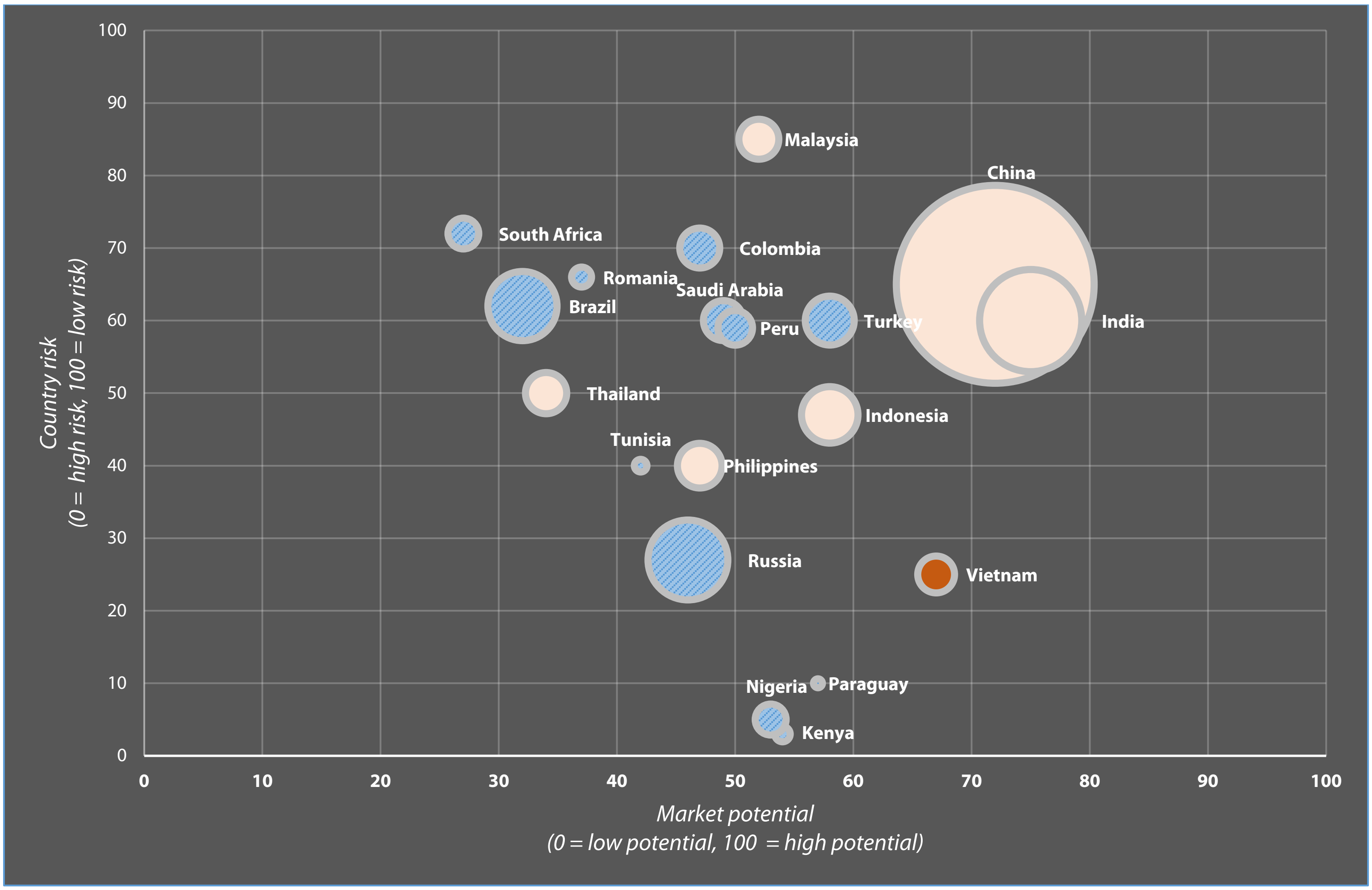
INVESTMENT RATIONALE

Vincom Retail is ramping up its scale to capture the booming modern retail market

In terms of country attractiveness, according to the ATKearney report published on 2017, Vietnam's retail market ranked sixth in the world, following India, China, Malaysia, Turkey and the Arab world. The calculation is based on four main indicators, including market attractiveness, country risk, market saturation, and time pressure. In particular, the Vietnam's retail market is highly appreciated by an harmonious combination of market potential and low economic & political conditions. On the other hand, compared to populous countries like China or India, it is obvious that Vietnam's market scale is not large enough, reducing the relative attractiveness.

Figure 1: 2017 GRDI country attractiveness



Source: The 2017 Global Retail Development Index – The Age of Focus, ATKearney

Vincom Retail has multi-format mall types to cover the whole Vietnam's retail market. The business models of Vincom Retail present themslves in a diverse range of retail types to access the demand of each type of customers. There are four mall formats in total, including Vincom Megamall, Vincom Center, Vincom Plaza and Vincom+. Since 2015, Vincom Retail quickly decided to shift into suburbs in tier-2 and 3 provinces. It formed new business concepts, namely Vincom Plaza and Vincom+. Given excellent locations at the center of provinces and almost no-existing competition is expected to bring the absolute advantage for Vincom Retail in the future.

Table 1: Vincom Retail business models

	Vincom Megamall	Vincom Center	Vincom Plaza	Vincom+
GFA size (sqm)	60,000 - 150,000	40,000 - 60,000	10,000 - 25,000	~ 4,000
Location	Hanoi & HCMC	Tier-1 cities	Tier-1, 2 cities	Tier-2, 3 cities
Customer segmentation	All income segments	Middle and upper middle income	Family and middle income	Low-to-middle income
Competitors	Aeon, SC Vivo, Cresent	Lotte department, Takashimaya, Parkson	Sense City, Lotte mart	BigC, Co-opmart
Development	+ 24 months	18-24 months	+ 12 months	+ 6 months
Rental rate (USD/sqm/month)	18 – 20	40 – 60	18 – 20	8 - 10
% Occupancy	80-85%	90-100%	85-95%	70-80%

Source: Vincom Retail, RongViet Securities compiled

Key strategies to mitigate the impact of ecommerce. At the Vincom Center and Megamall shopping malls, Vincom Retail has attracted international leading brands to drive customers to the malls, such as H&M, Zara, Old Navy, Massimo Dutti, Pull & Bear, Stradivarious, etc. Besides, there are many foreign retailers are starting to grab the attention of Vietnam market such as Uniqlo, F21, and it is in the process of negotiating with Vincom Retail for a leasing contract. The most obvious effect is since Vincom Retail made the presence of anchors like Zara or H&M at Vincom Dong Khoi, bringing a surge in footfall. Besides, there are also foreign brands becoming "flagshop store", such as Armani Exchange and Adidas, offering a variety of product experiences.

On the other hand, at tier-2 and 3 provinces, two remaining formats, including Vincom Plaza and VIncom+, aim for lower-income customers. As a result, the tenants at these shopping malls will be lower-end brands, which is more suitable for lower income local consumers. There are also many retail brands planning for expansion in these areas, mostly F&B and retail businesses, such as Canifa or Highland Coffee, etc.

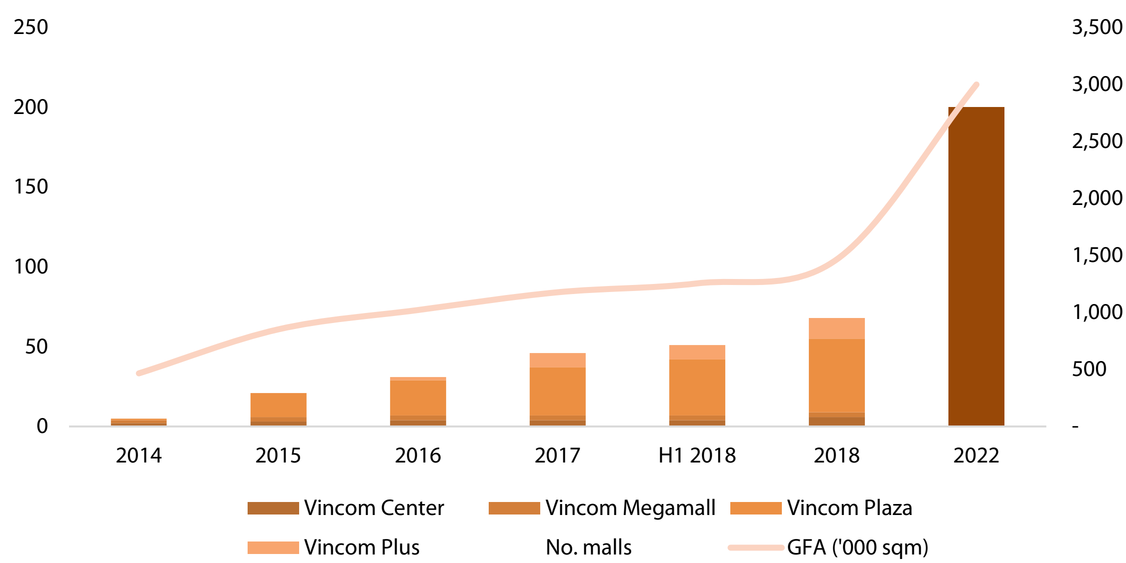
In addition, the unique point in Vincom Retail's business model over rivals is the comprehensive ecosystem. It is the combination of online platform, namely Adayroi and loyalty program VinID, providing complete solutions for both lessees and customers. Due to the high growth of internet retailing, department stores will move online for more interactive communication with customers and to generate additional sales. In 2017, Robins department store acquired Zalora, an ecommerce retailer, introducing both website and mobile online sales. Two years ago Vincom Retail's parent company, also launched an in-house ecommerce website, namely Adayroi, with plans to strengthen its stand in the ecommerce retail industry. Support will be given to retain the current customers and encourage lessees to post items on Adayroi website, which increases brand awareness from offline to online. Recently, Vingroup has increased investment in VinID. It is Vingroup's loyalty card, accumulating points for loyal customers of sales channels and services providers of member companies of Vingroup. Besides, VinID is also used to connect and integrate loyalty programs for customers using Vingroup's products or services. As updated of June 2018, there are over 4.4 million members. We suppose that the ecosystem should help Vincom Retail gain advantages over other competitors.

Figure 2: Vincom Retail benefits from its parent group, namely Vingroup's ecosystem

Source: RongViet Securities compiled

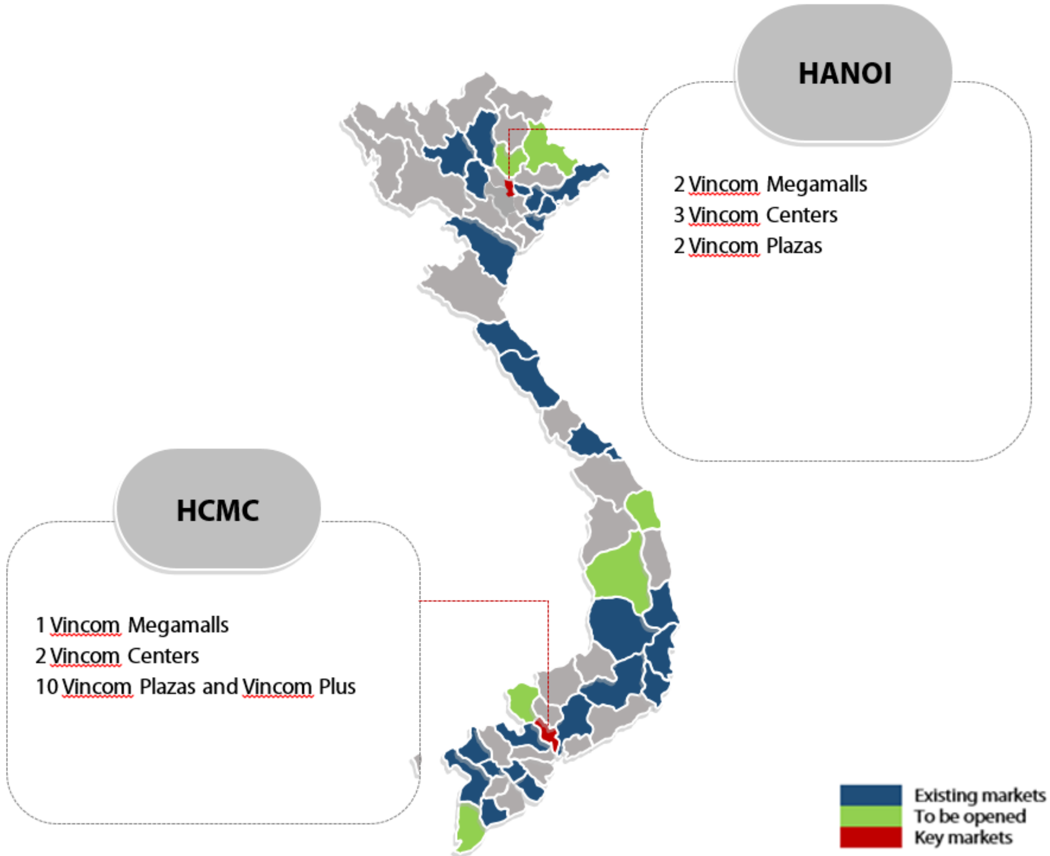
Vincom Retail to dominate the market. Vincom Retail plans to open 20-30 shopping centers each year, aiming for covering more than 50 provinces and increasing its mall network to 200 by 2022. As of July 2018, there are 55 shopping malls covering 32 provinces and cities across Vietnam. In term of GFA for leasing, according to 2Q 2018 report published by Savills, we estimate that Vincom Retail accounts for 30% market share in Ho Chi Minh City and 55% market share in Hanoi. The two cities are still two major markets, representing 70-80% of total revenue. However, Vincom retail plans to boost its network in tier-2 and 3 cities and provinces in the long run. It is considered to be an agressive expansion plan. We suppose that the expansion into suburbs in tier-2 and 3 provinces may be running ahead of the growth potential of modern retail. There is suspicion that modern retail has not been developed in these provinces due to local consumer behavior. Therefore, it will take more time to build up the market, along with the improvement of business performance.

Figure 3: Increasing mall network to 200 by 2022, of which Vincom Plaza and Vincom+ will be the majority, showing a trend more clearly moving to tier-2 and 3 provinces



Source: Vincom Retail, RongViet Securities compiled

Figure 4: Vincom Retail covers 32 provinces and cities, which will increase to 50 by 2022

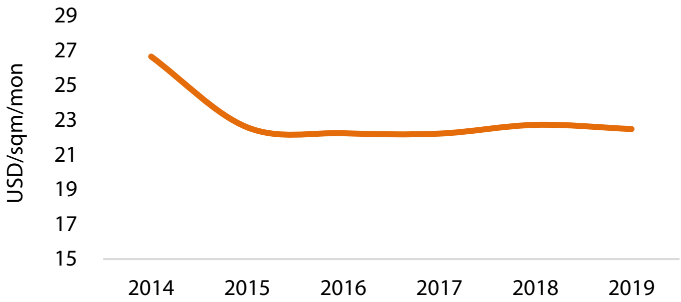


Source: Vincom Retail, Rong Viet Securities

Vincom Retail to generate stable cash flow. Commercial property refers to real estate property that leases space for rental income. In general, tenants usually sign a three to five or ten years contract. There are two types of contract, which are fix rent and revenue sharing. It is usually a fix rent 3-year contract for almost non-anchor tenants, of which rental rate will be changed annually and normally be re-rated after 3-year operation. Regarding anchor tenants, they usually sign revenue sharing contract in five or ten years, depending on their scale, which leads to the dependence of rental growth on tenant sales growth. As a result, the performance of tenants indirectly affects the cash flow of the mall owners, in case of whether they continue to extend or terminate the lease contract. Nowadays, revenue sharing contracts are becoming more and more popular. It will raise the role of both sides, lessors and lessees, in improving the efficiency of business operations. Currently, almost international tenants choose this type of contract due to its higher attractiveness and better performance over local ones. This leads to significant improvement in average rental rate with the participant of these anchors. The typical cases are Vincom Dong Khoi and Vincom Ba Trieu. Since the arrival of these, the average rental rate has increased by 10-15%. We suppose that this scenario will happen at other Vincom Center or Vincom Megamall in the future. According to Vincom Retail's expansion plan, Vincom Plaza and Vincom+ will have greater and greater influence on total profits. Opportunities will only come when modern retail potential is more developed in tier-2 and 3 provinces.

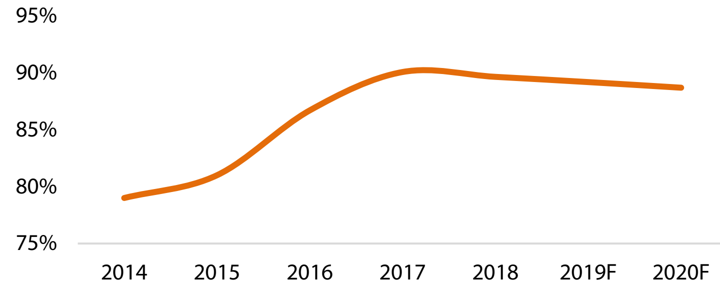
Occupancy rate is another indicator having great impact on the performance of a shopping mall. At premium sites like Vincom Center and Megamall, occupance is around 90-95% on average while Vincom+ and Vincom Plaza have lower occupancy rates of 80% on average in first 3-year operation and 85-90% afterward.

Figure 5: Average gross rental rate declined due to an increase in expansion of Vincom Plaza and Plus



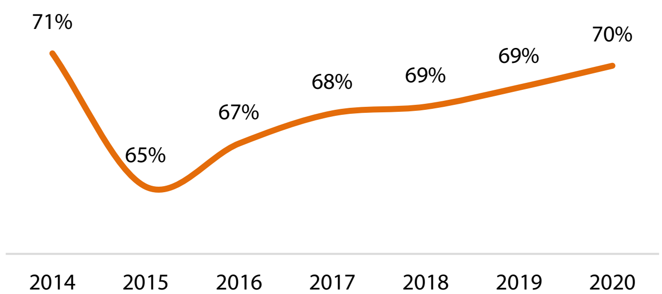
Source: RongViet Securities compiled and estimated

Figure 6: Average occupancy rate maintained at 90% on average



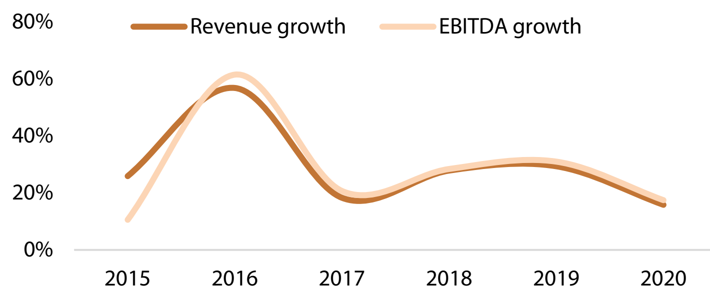
Source: RongViet Securities compiled and estimated

Figure 7: EBITDA margin



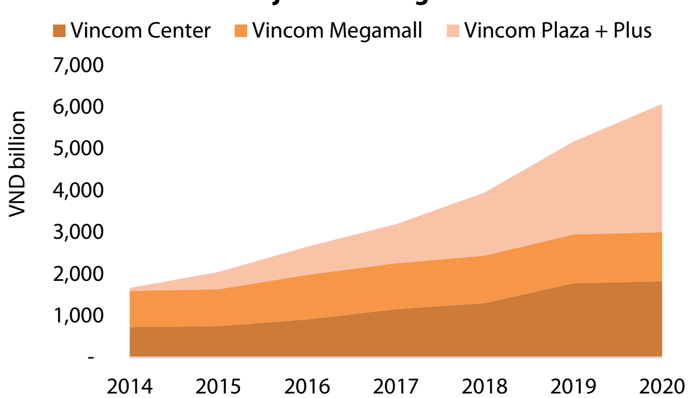
Source: RongViet Securities compiled and estimated

Figure 8: Revenue and EBITDA growth 2015 – 2020



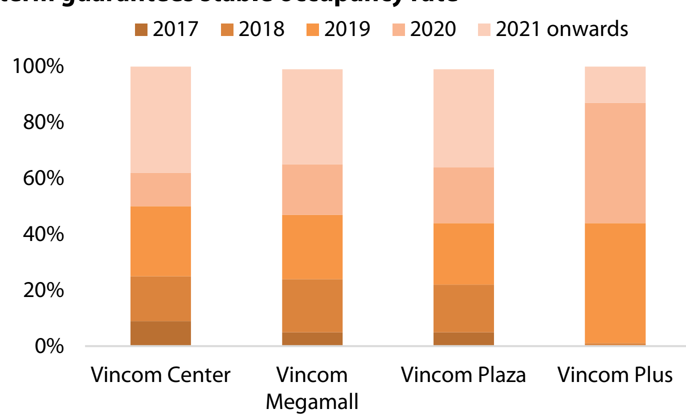
Source: RongViet Securities compiled and estimated

Figure 9: EBITDA breakdown by type of mall: Vincom Plaza and Vincom+ will be major for total growth



Source: Vincom Retail, RongViet Securities compiled

Figure 10: Low percentage of contracts expiring in medium term guarantees stable occupancy rate



Source: Vincom Retail, RongViet Securities compiled

Shophouses sales support capex for shopping malls

As expansion in tier-2 and 3 provinces takes place, Vincom Retail will also launch shophouse products, bringing short-term cash flow. Each project consists of 20 to 60 units on average, located next to shopping malls with identical designs. The standardization helps to boost rapid growth of Vincom Retail.

At present, Vincom Retail has a total of 2,612 shophouses and shopoffices across the country. The company also has plans to exploit new locations, such as Ca Mau, Sa Dec, Mong Cai (Quang Ninh).

Table 2: List of shophouses in existing shopping centers

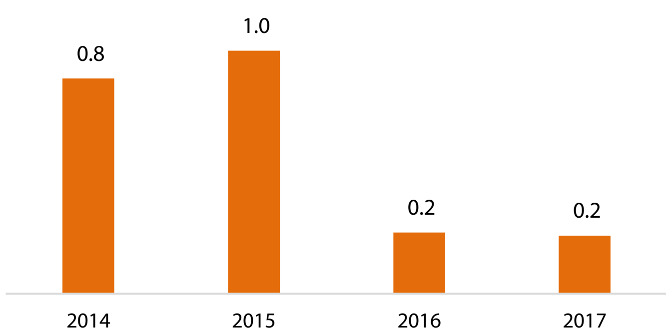
No.	Shophouse	Units	Selling rate	Hand-over rate
Complered / Under construction	Hai Phong, Hau Giang, Tra Vinh, Vinh Long, Tay Ninh, Long An, Phu Yen	2,612	96%	73%
Under development	Ca Mau, Sa Dec, Mong Cai (Quang Ninh)			

Source: Vincom Retail, RongViet Securities compiled

Balance sheet has never been healthier

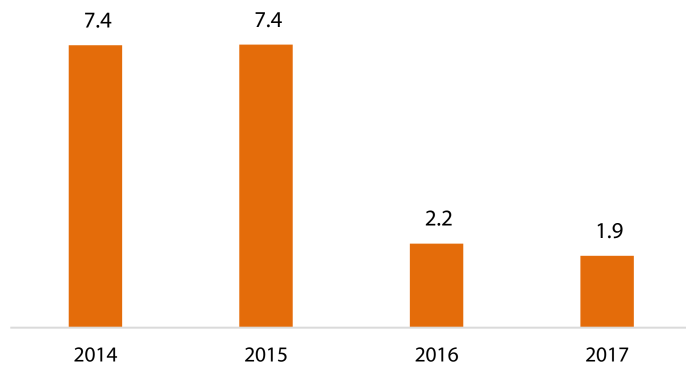
Cash flow from residential monetization, combined with a solid cash-flow stream from the leasing business should reduce net gearing to nearly zero at YE17, the lowest ever. The leverage ratio dropped dramatically to 0.2 times in 2016 and 2017 from 1.0 times in 2015. In addition, the ratio of recurring revenue generated from shopping malls' cash flow to interest expenses will also see a surge. From 3.0 times in 2016 to 8.5 times in 2017, reflecting the effective restructuring of the debt of Vincom Retail.

Figure 11: Decrease in leverage – Net debt / Equity



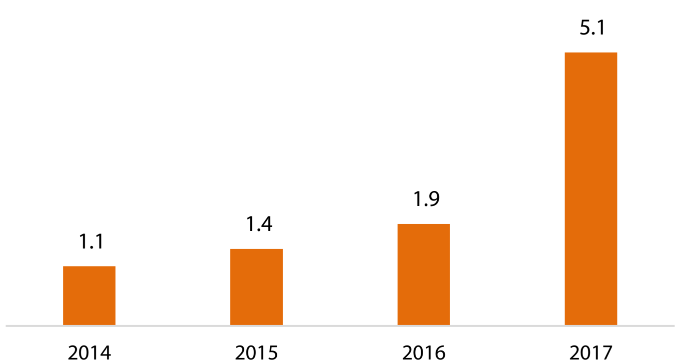
Source: Vincom Retail, RongViet Securities compiled

Figure 12: Decrease in leverage – Net debt / EBITDA



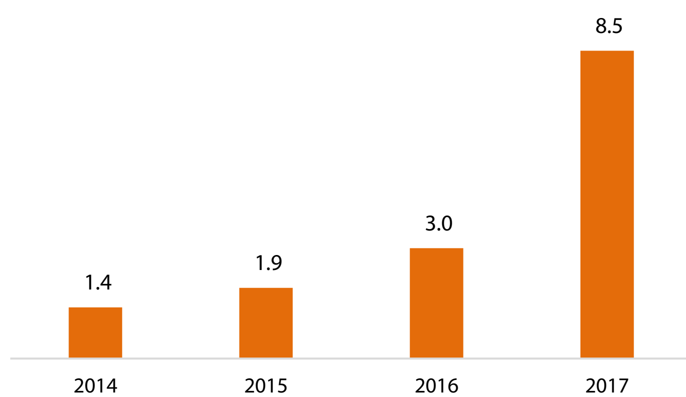
Source: Vincom Retail, RongViet Securities compiled

Figure 13: Debt interest coverage



Source: Vincom Retail, RongViet Securities compiled

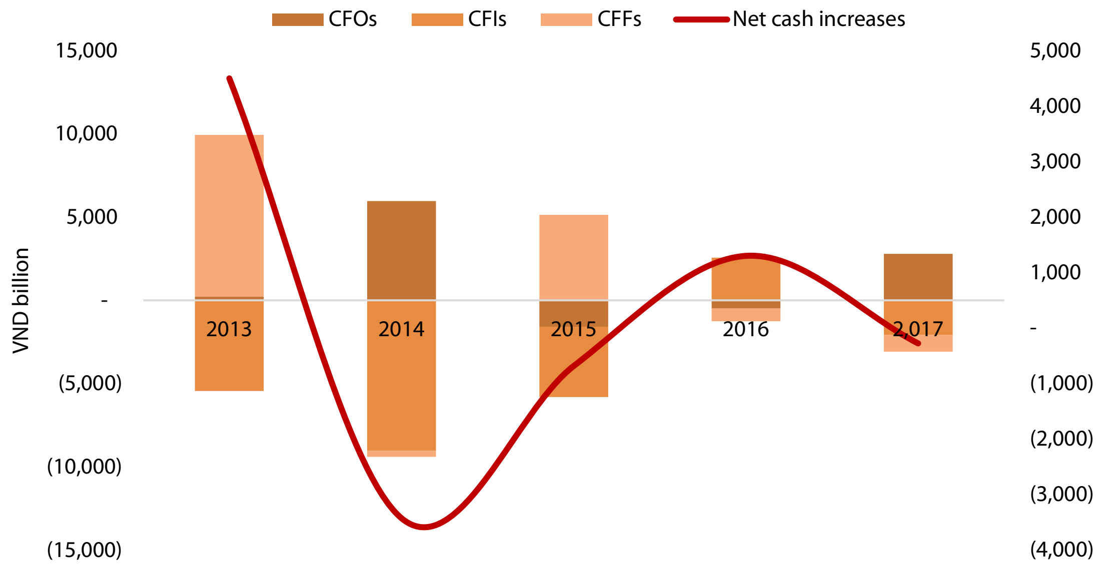
Figure 14: Recurring revenue to cover interest expense



Source: Vincom Retail, RongViet Securities compiled

Increasing proceeds from issuance of shares and divestment in other entities. Financial resources have been restructured by Vincom Retail in recent years. The company has transformed the bank loans into owners' equity by continuously raising capital. In addition, Vincom Retail has actively divested from its subsidiaries and affiliates, providing cash flow to support its investment and development projects. This helps to reduce the interest burden and increase the overall financial performance.

Figure 15: Net cash increase recently: Further reducing dependence on borrowings, increase in capex



Source: Vincom Retail, RongViet Securities compiled

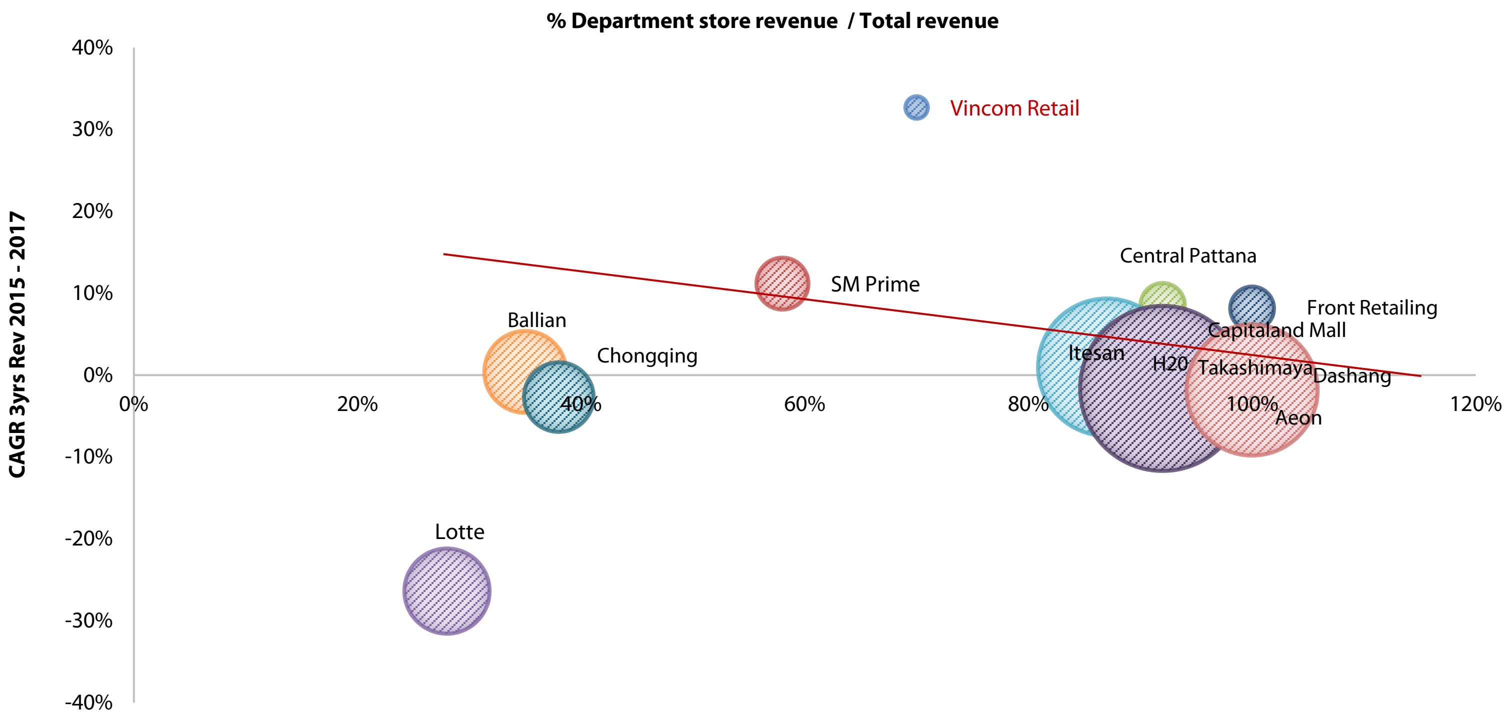
RISK

Competition from both entry of newcomers and expansion by existing players.

Vietnam's retail market will continue to witness an expansion in the scale of existing retailers as well as the increasing involvement of many well-known international brands. Major retail property companies in the world are increasing their presence in Vietnam. Over the past 10 years, Parkson was one of the leading department store retailers in the country with locations at the most prestigious locations in both Hanoi and Ho Chi Minh City. Newly arrived Aeon and Takashimaya have hurt Parkson which lost market share. Besides, slow economic growth during the period 2010-2015 raised more concern about spending on luxury items, which are "strategic products" at Parkson shopping mall.

Many of Asia's leading retail property companies have not had a good performance during the recent three years. Only SM Primes in the Philippines and Central Pattana in Thailand have achieved a CAGR of 10% annually in the period 2015-2017. On the flip side, Vincom Retail has experienced an impressive growth, with CAGR of 33% per annum during the 2015-2017 period.

Figure 16: Performance of some leading retail property firms in Asia



Source: Bloomberg, RongViet Securities compiled

Vincom Retail expansion plan runs ahead of modern retail growth in tier-2 and 3 provinces. Currently, Vincom Retail has a portfolio of 55 shopping malls, and plans to expand to 200 malls by 2022, of which Vincom Plaza and Vincom+ will be majority of them. Therefore, the aggressive expansion plan in upcoming markets may not lead to positive result in the first years of operation.

INVESTMENT RECOMMENDATION

Vietnam is one of the most dynamic retail country in the world. Modern retail is taking off, supported by many positive factors such as a young population, expansion of the middle class and a retail spending boom. However, it is not an easy road because of tough competition by the entry of newcomers and the expansion by large existing players.

Vincom Retail, the largest retail property play, ramps up its portfolio to an unprecedended scale. The company is poised to benefit from both a stable cash flow from its rental income and short-term sales of residential projects. To mitigate the impact of ecommerce, Vincom Retail also implements O2O offerings in the key shopping malls in order to help retailers raise their offline sales through online platform, namely Adayroi and loyalty program VinID. Besides, the company has improved its financial performance during the recent years by reducing net gearing combined with solid cash flow stream. On the flip side, its current valuation looks expensive, which is quite similar to other leading Asia's retail property firms.

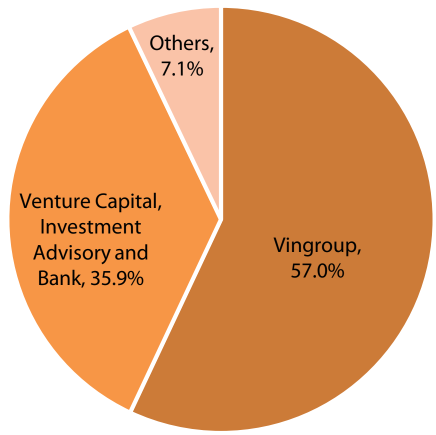
*We used both capitalization rate and multiples method to evaluate Vincom Retail's stock and estimate the fair value at **VND 43,400/share**. The total return should be **15%** compared to the starting price in 07/09/2018. Therefore, we have a **ACCUMULATE** on the stock.*

COMPANY OVERVIEW

Vincom Retail started off by opening its first outlet in the form of Vincom Center in 2003, namely Vincom Ba Trieu. Vincom Retail is one of the the pioneers of the shopping mall channel in Vietnam.

In late-2017, after the IPO on the stock exchange, Vincom Retail broke records in terms of transaction value and volume of shares. The partcipation of foreign investors such as Avanda Investment Management Pte., Dragon Capital, Genesis Investment Management LLP, GIC Pte., HSBC Asset Management, Karst Peak, RWC Asset Advisors, Templeton Investments, and TT International was strong. Some foreign shareholders completed their partial divestment in Vincom Retail. Notably, Warburg Pincus and Credit Suisse decreased their holding to 4.9% and 1.6% from 15.2% and 5.1%, respectively. In addition, Vingroup's ownership stake also decreased to 57% from 80%.

Figure 17: Shareholder structure



Source: Vingroup, Bloomberg

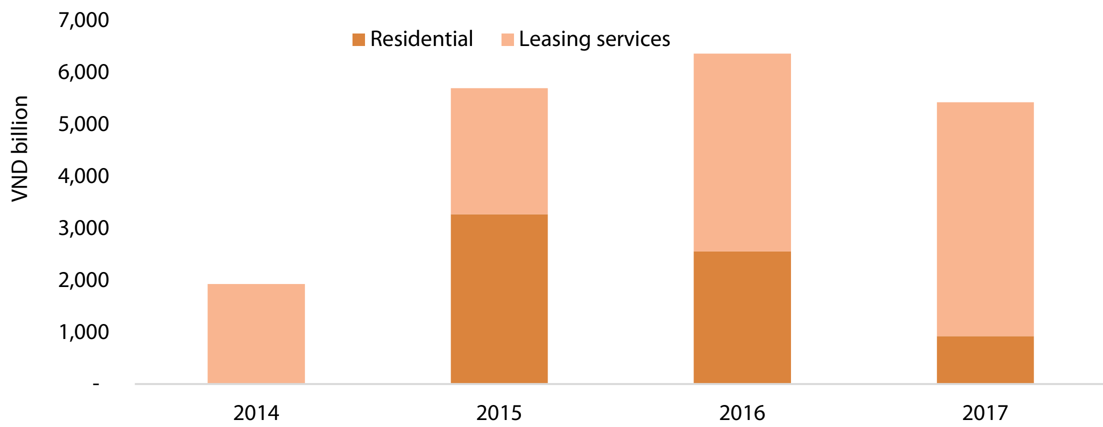
Business overview

Shopping mall continue to be main core business. The business model of Vincom Retail is diversified with a variety of retail types to access the demand of various type of customers. There are four mall formats in total, including Vincom Megamall, Vincom Center, Vincom Plaza and Vincom+. Recently, Vincom Retail takes a quick step to shift from central urban areas into suburbs at tier-2 and 3 provinces, forming of new business concepts, namely Vincom Plaza and Vincom+. As update of July 2018, there are 55 shopping malls in 30 provinces and cities across Vietnam.

Residential sales account for a large proportion of total revenue over recent three years, which supports partly the development of shopping malls. Each project consists of 20 to 60 units on average, located next to shopping malls with identical designs. The standardization helps to boost rapid growth of Vincom Retail.

At present, Vincom Retail comprises a total of 2,612 shophouses and shopoffices across the country. In coming period, the company will also have plans to exploit in new locations, such as Hoa Binh, Sa Dec, Dong Thap, Mong Cai (Quang Ninh).

Figure 18: Revenue breakdown



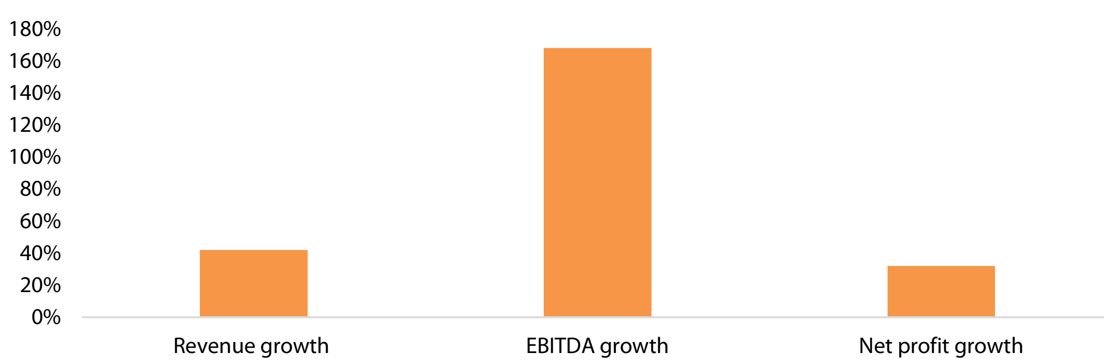
Source: RongViet Securities compiled

FINANCIAL ANALYSIS

Positive growth

Vincom Retail posted strong annual growth for both revenue and net profit in the past three years, 42.0% and 168.3%, respectively. There are two main reasons for the good performance: ***1) The scale has increased, resulting in markedly improved revenue growth,*** and ***2) Support from revenue of the residential segment***. Besides shophouse components attached to shopping malls in tier-2 and 3, Vincom Retail also owns other real estate projects such as Vinhomes Nguyen Chi Thanh (completely handed over) or Vinhomes Bac Ninh (expected to be handed over in 2018 and 2019). However, we suppose that real estate will not be a key component in the coming years, as growth will be mainly driven by increasing in scale and improvement of efficiency in existing shopping malls.

Figure 19: CAGR 2014-2017

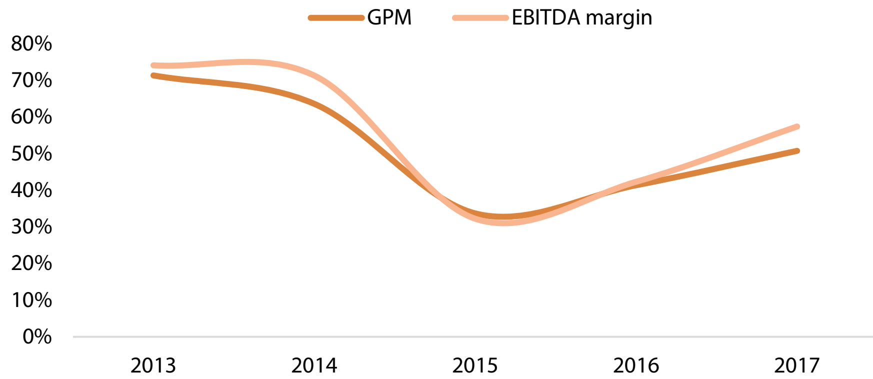


Source: Vincom Retail, RongViet Securities compiled

Profitability and liquidity

Gross profit margin has narrowed as Vincom Retail expands into new retail types, including Vincom Plaza and Vincom+. In addition, new opened Vincom Center Pham Ngoc Thach or Nguyen Chi Thanh are not as efficient as the previous commercial centers, like Vincom Ba Trieu or Vincom Dong Khoi. In addition, during the period from 2015 to 2017, Vincom Retail also increased rapidly, from 21 malls to 46 malls. Therefore, it will take time to achieve an optimum performance, around three years on average.

Figure 20: Gross profit margin and EBITDA margin

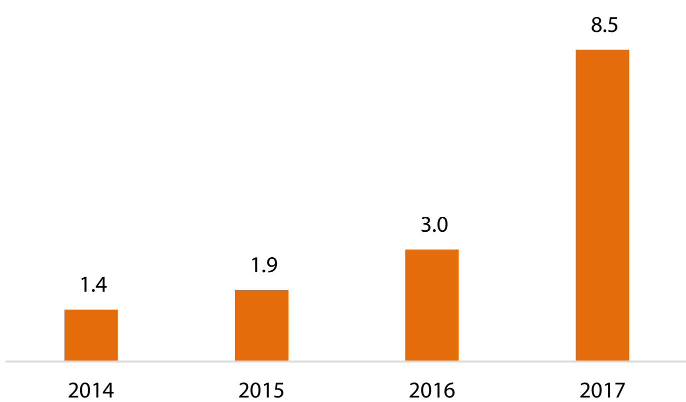


Source: Vincom Retail, RongViet Securities compiled

Healthier balance sheet

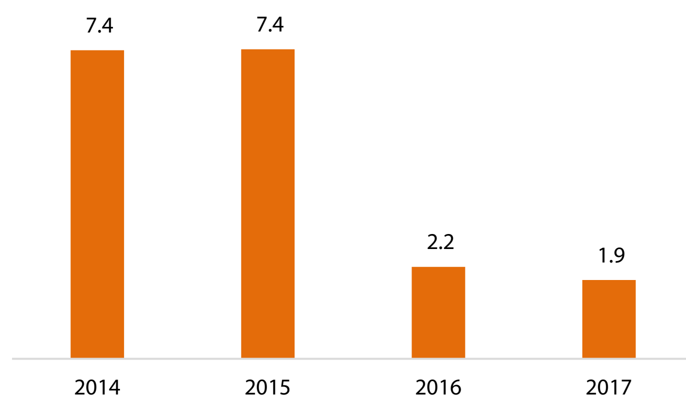
Cash flow from residential monetization, combined with a solid cash-flow stream from leasing business, should reduce net gearing to nearly zero at YE17, the lowest ever. The leverage ratio dropped dramatically to 0.2 times in 2016 and 2017 from 1.0 times in 2015. In addition, the ratio of recurring revenue generating from shopping malls' cash flow to interest expenses will also see a surge, from 3.0 times in 2016 to 8.5 times in 2017, reflecting the effective restructuring of the financial debt of Vincom Retail.

Figure 21: Recurring revenue to cover interest expense



Source: Vincom Retail, RongViet Securities compiled

Figure 22: Decrease in leverage – Net debt / EBITDA

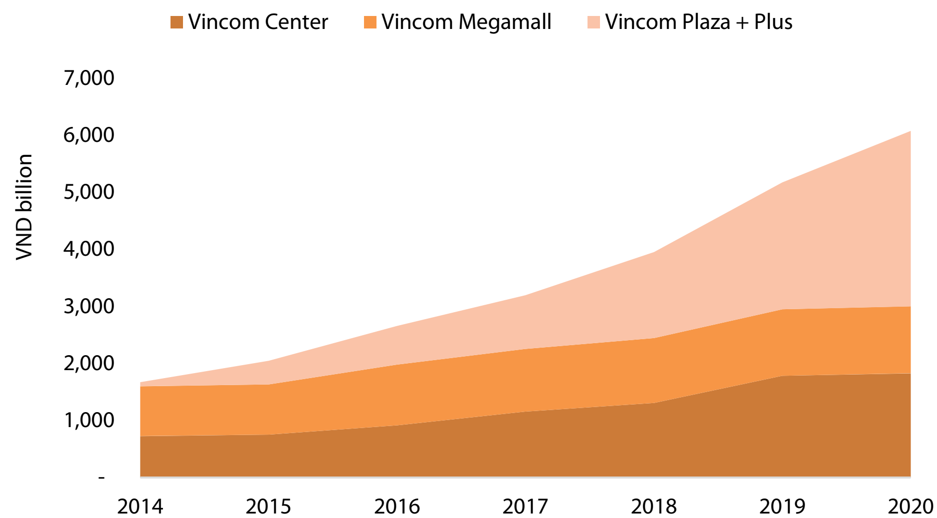


Source: Vincom Retail, RongViet Securities compiled

FORECAST

With the expansion plans focused on Vincom Plaza and Vincom+, Vincom Retail's growth momentum in the coming years will be concentrated in these segments. As of 2014, the proportion of EBIT generated from these two is nearly zero, but we forecast that it will rise to 40-45% by 2020. Given the advantage of its prime location, there will be many anchor tenants involved, helping to increase the rental rate for Vincom center. On the other hand, this will also be the most competitive model, as the change in business environment will be more complex in large cities, like Hanoi and Ho Chi Minh City, with the participation of many foreign competitors. There are case studies like Diamond Plaza and Parkson shopping mall. Given the favorable location, but the lack of innovation in renovation of design layout and tenant mixture, they have gradually lost their competitive advantages, compared to other rivals like Vincom Center Dong Khoi or Takashimaya.

Figure 23: EBITDA forecast of each types of shopping malls



Source: RongViet Securities compiled and estimated

Table 3: Business result forecast

	2016	2017	2018F	2019F
Revenue	**6,361**	**5,518**	**8,230**	**10,195**
Leasing services	3,805	4,501	5,616	7,231
Residential	2,556	923	2,614	2,964
COGS	**(3,726)**	**(2,717)**	**(4,254)**	**(5,041)**
Leasing services	(1,793)	(2,125)	(2,411)	(2,945)
Residential	(1,933)	(552)	(1,843)	(2,096)
Gross profit	**2,635**	**2,801**	**3,976**	**5,154**
SG&A	(676)	(570)	(715)	(853)
EBIT	**2,732**	**2,193**	**3,260**	**4,320**
Net profit	**2,437**	**2,027**	**2,418**	**2,973**

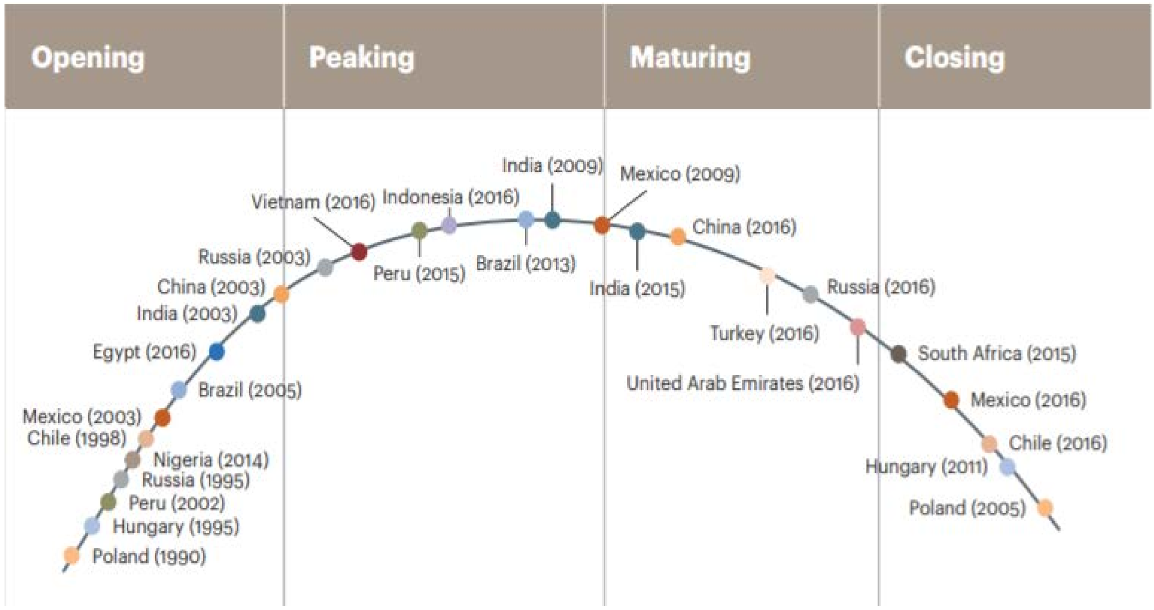
Source: RongViet Securities compiled and estimated

VALUATION

Lofty valuations, stock price is running ahead of fundamentals

Many leading Asia's retail property are trading at a premium with an average P/E of 19.3x and EV/EBITDA of 12.4x. Among Asia's countries, the Philippines and Thailand's players are valued higher, due to the potential growth compared to other regions. Vietnam is quite similar to these countries; therefore, we use them as reference. According to the report "The 2017 Global Retail Development Index – The Age of Focus", published by ATKearney, Vietnam's retail market currently is in the same position as China was in 2009 -2010. At that time, China's shopping mall companies were trading at a P/E of 31 times, EV/EBITDA of 19 times and P/B of 3.2 times. Two markets closer to Vietnam, Thailand and the Philippines, have maintained their P/E in the range of 25-30x, EV/EBITDA of 17-20 times and P/B of 3.0-3.5 times over the past five years, corresponding to a CAGR profit of 22%. We use a discount of 20% to reflect current valuation of Vincom Retail, at P/E of 25.0 times, EV/EBITDA of 17 times, and P/B of 3.0 times.

Figure 24: The retail market cycle



Source: The 2017 Global Retail Development Index – The Age of Focus, ATKearney

Table 4: Vincom Retail valuation using EV/EBITDA and P/E multiple methods, only leasing business

	2017	2018	2019	2020
EBITDA/share (VND)	1,680	2,009	2,626	3,099
EV/EBITDA (x)				17.0
Fair EV/share (VND)				42,756
Adjustment for:				
(+) Debt				1,500
(--) Cash				(800)
Fair price per share				**43,400**
EPS (VND)	963	1,109	1,532	1,864
P/E (x)				25.0
Fair price per share				**37,800**
BVPS	13,726	16,584	18,146	19,906
P/B (x)				3.0
Fair price per share				**48,500**

Source: RongViet Securities estimates

In addition, we also use the capitalization rate method to determine fair value of each shopping malls.

Table 5: Valuation table

	Method	NPV	% Stake	Effective NPV
SHOPPING MALLS				**73,425**
Completed				**46,768**
Royal City	Cap rate	6,897	100%	6,897
Times City	Cap rate	5,277	100%	5,277
Dong Khoi	Cap rate	7,080	100%	7,080
Ba Trieu	Cap rate	5,828	100%	5,828
Thao Dien	Cap rate	2,251	100%	2,251
Ngo Quyen	Cap rate	748	100%	748
Thu Duc	Cap rate	891	100%	891
Nguyen Chi Thanh	Cap rate	2,845	100%	2,845
Pham Ngoc Thach	Cap rate	1,591	100%	1,591
VCP-ed	Cap rate	9,812	100%	9,812
VC+-ed	Cap rate	670	100%	670
Landmark 81	Cap rate	2,877	100%	2,877
Under construction & development				**30,812**
Star City	Cap rate	2,349	100%	2,349
Metropolis	Cap rate	1,592	100%	1,592
Others	Cap rate	26,871	100%	26,871
TOTAL				**77,579**
(+) Net cash				1,532
(--) Debts				(2,788)
Net Asset Value				**76,324**
Total outstanding shares (million)				1,901
Price per share (VND)				**40,200**

Source: RongViet Securities estimates

Table 6: Valuation Summary: We use SoTP to evaluate the fair value of Vincom retail, including shopping mall and residential business segments.

	Price/share (VND)	Weighted %	Effective value (VND)
Shopping mall			
RNAV	40,200	25.0%	10,037
EV/EBITDA	43,400	25.0%	10,852
P/B	48,500	25.0%	12,117
P/E	37,800	25.0%	9,455
		100%	**42,500**
Residential	**900**	**100%**	**900**
Target price per share (VND)			**43,400**

Source: RongViet Securities estimates

*We used both capitaliztion rate and multiples method to evaluate Vincom Retail's stock and estimate the fair value at **VND 43,400/share**. The total return should be **15%** compared to the starting price in 06/09/2018. Therefore, we have a **ACCUMULATE** on the stock.*

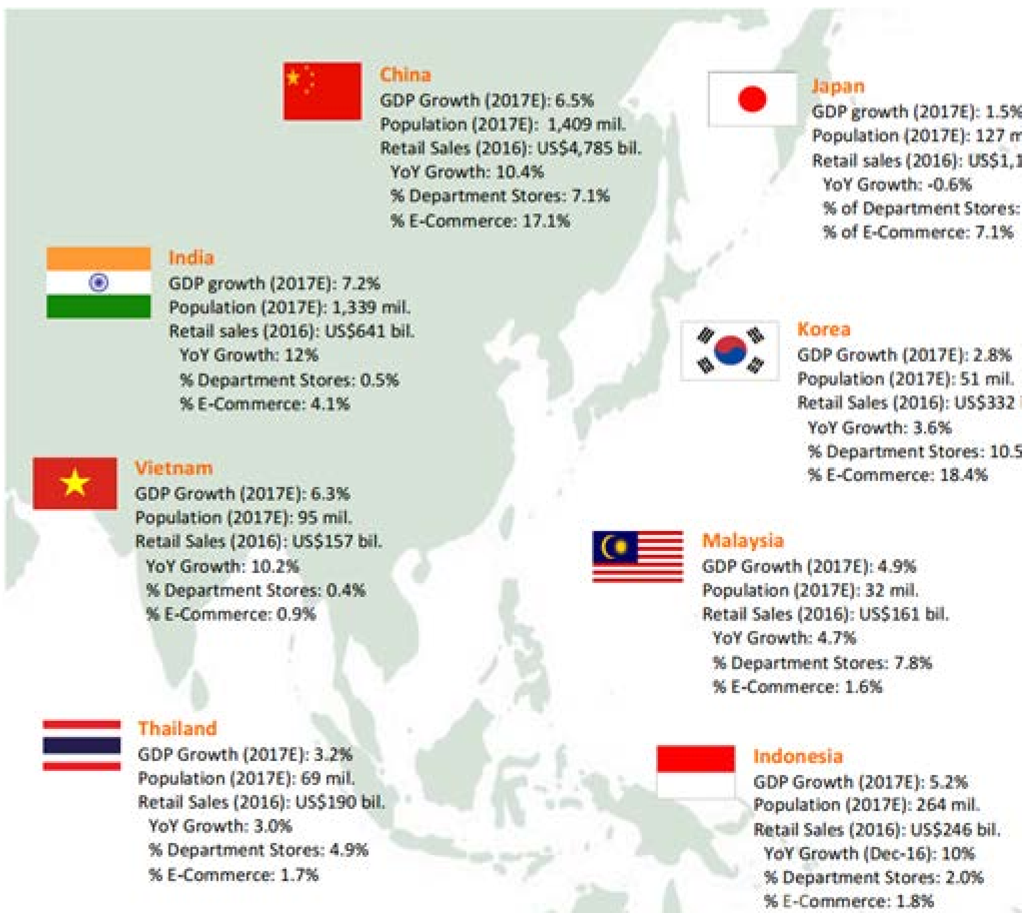
Appendix

There are more room left for growth of retail property in Vietnam

The Asia retail market is increasingly gaining influence in the world's retail growth, while developed markets such as the Americas or Europe have reached a saturation stage. According to a report by ATKearney named "The 2017 Global Retail Development Index – The Age of Focus", Asia ranks second in the world in term of retail sales growth, followed by the Middle East and Africa, with the CAGR in the period of 2017-2022 from 3.9% to 10.4%.

Modern retail channels are taking off in Vietnam, supported by many positive factors such as young population, expansion of middle class and retail spending boom. In general, traditional retail is expected to continue to dominate the whole retail market due to Vietnamese people's shopping habits. The growth of retail property is closely related to the development of the retail industry. In 2017, department stores recorded a growth of 15% to reach VND 8,326 billion. This segmane is expected to reach a size of VND 27,457 billion in 2022. Compared with other regional markets, Vietnam still has a huge potential for retail property, with an estimated retail growth at 10.2%, while retail property only account for 0.4% of total retail sales, very low compared to other countries in the region.

Figure 25: Dashboard – The Asian Retail Industry

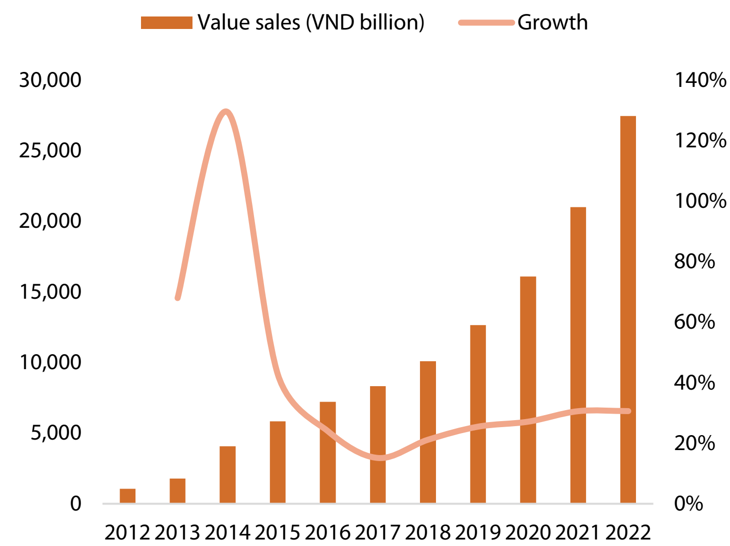


Source: ATKearney

Figure 26: Total retail sales in Vietnam by channels

Source: Euromonitor

Figure 27: Vietnam's Department Store Sales

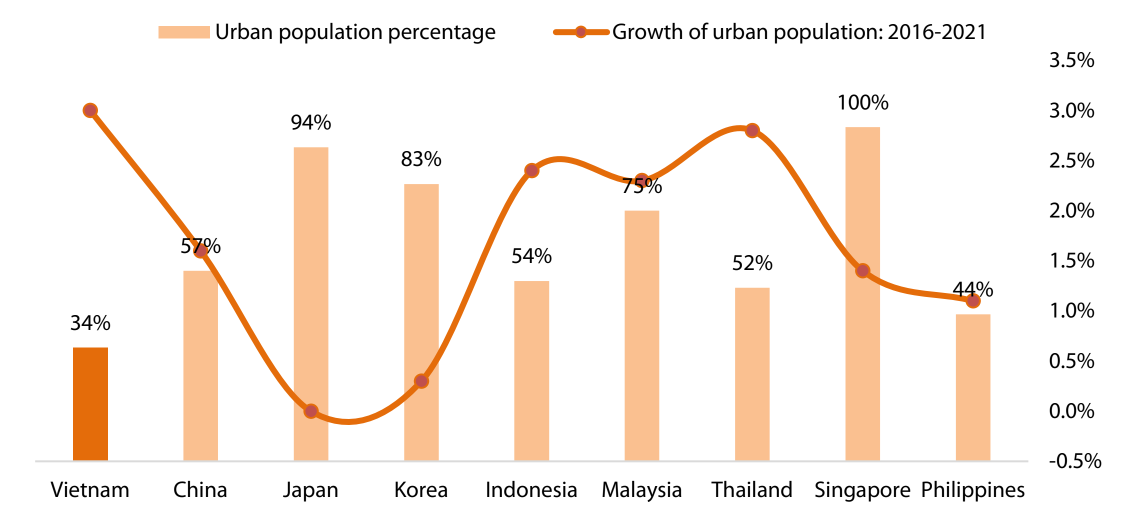


Source: Euromonitor

Consumer is changing. The shopping habits are gradually changing towards younger people and the middle class, shaping the shopping trend and having impacts on the strategy of shopping malls.

Vietnam urbanization among fastest in region. Vietnam has been undergoing rapid urbanization in recent years, and this has given a boost to urban department stores, bringing an influx of consumers into their catchment areas. Urban areas in Vietnam have expanded spatially at 3.0% per year and this is among the fastest rates in the region. Besides, the most notable thing about urban expansion in Vietnam is the rapid growth of Hanoi and HCMC. Their expansion rates of 3.8% and 4.0% per year respectively are much faster than those of urban areas in other East Asian countries, except China.

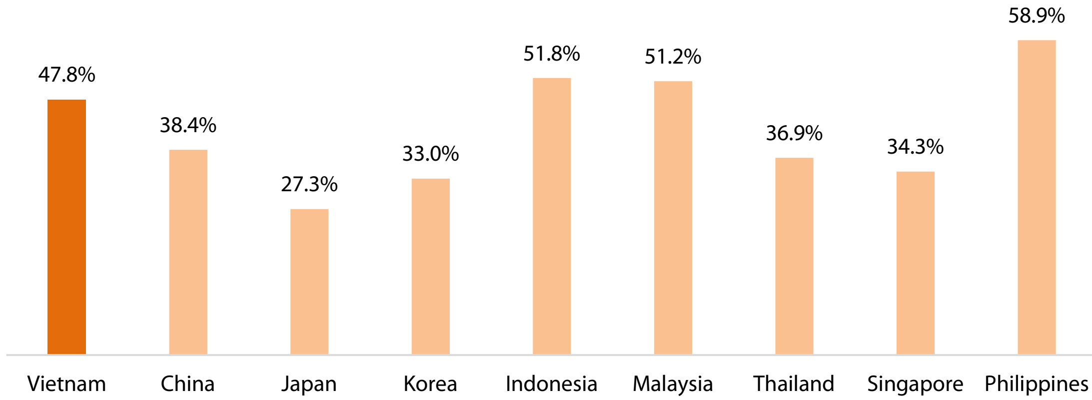
Figure 28: Urbanisation driving changes in consumer profile



Source: Euromonitor

Demographics is an advantage, adding to it the fact that Vietnam's population is relatively young and that it is moving fast into urban centers, where avenues for spending abound. The whole retail market landscape may require a lot of innovation, especially targeted at the young population.

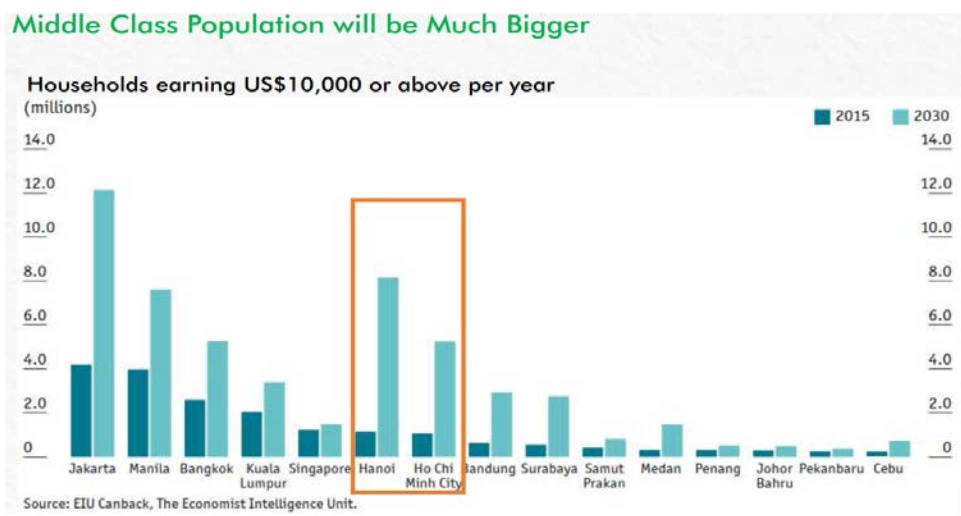
Figure 29: Proportion of 15-44 compared to other countries in the region



Source: Euromonitor

A growing middle and upper middle class. As the region's upper middle class continues to grow, so does consumer demand, and this represents a huge potential. Consumers in the upper middle class are highly sophisticated, well informed about international trends and tend to spend more freely. According to BCG, the middle and affluent class (MAC) in Viet Nam will double in size between 2014 and 2020, from 12 million to 33 million. By 2020, Vietnam's average per capita income will rise from $1,400 to $3,400 a year. By 2020, Vietnam's MAC population will be two-thirds the size of Thailand's MAC population. Average per capita income will rise from about $1,400 to $3,400 per year.

Figure 30: Growing middle and upper middle class



Source: BCG

Digital savviness. Vietnam consumers are digital natives, in other words, online platforms and social media are the easiest way to reach this group. In addition, their shopping preferences are increasingly shaped by social media marketing. The ubiquity of smartphones has also given rise to mobile commerce (mcommerce), as consumers increasingly browse for products, shop and pay all using their mobile devices. Retailers have set up their own profiles on social media platforms to interact with consumers and post advertising and promotional activity.

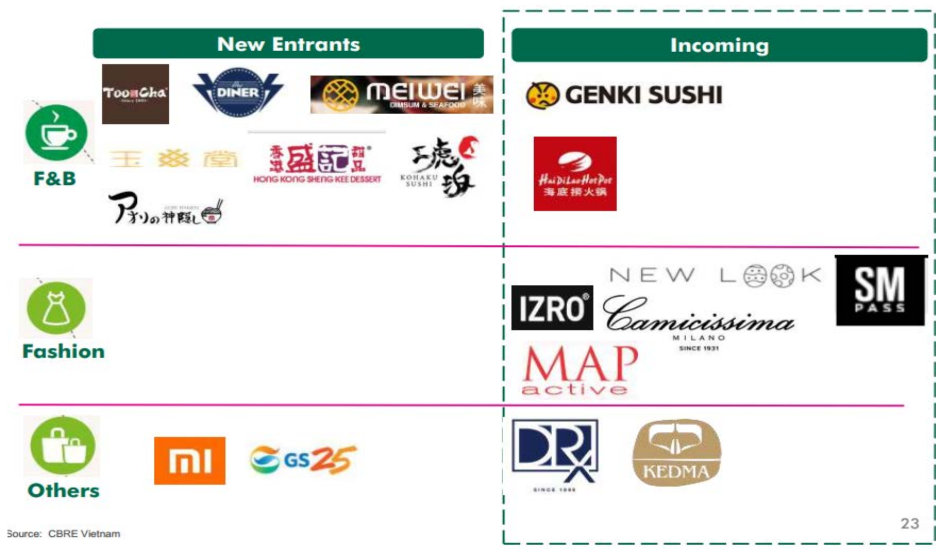
Figure 31: E-payment on the rise in Vietnam

Source: CBRE

Search for convenience. Similar to the West, Vietnam consumers prioritize convenience in their shopping experience. However, Vietnam consumers can sometimes be more demanding than their Western counterparts. This expectation for on-demand services from retailers is not particular to Vietnam alone, but shared across Asia.

Exposure to international brands. Due to the strong influence of foreign cultures on the younger generation, stores will continuously adapt their strategies to offer imported product. International retail brands are eyeing up expansion in Vietnam, where modern trade channels account for a quarter of retail business and new opportunities are opening up as trade agreements remove barriers.

Figure 32: International brands coming to Vietnam

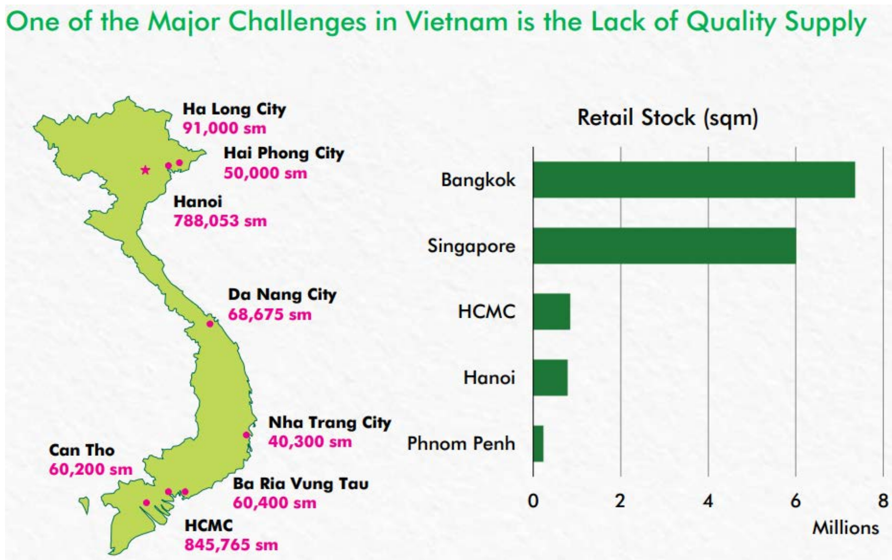


Source: CBRE

Market snapshot: Increase in both HCMC and Hanoi, but tier-2 and 3 cities still lagging

In Vietnam, consumers seek organized formats and exposure to international brands, while retail shopping districts are being developed. The market will move to "maturing phase", as consumers spending has expanded, desirable real estate is more difficult to secure, and local competition has become more sophicated. The retail market is also typically organic. Besides the development of modern retail in both two largest cities, namely Hanoi and Ho Chi Minh, modern retail sales in other provinces as tier-2 and 3 are relatively slow. Hanoi and Ho Chi Minh City are still the two most developed retail cities in Vietnam. The trend has also shifted to neighboring provinces with similar development speed, such as Ha Long, Hai Phong, Da Nang, Nha Trang, Can Tho.

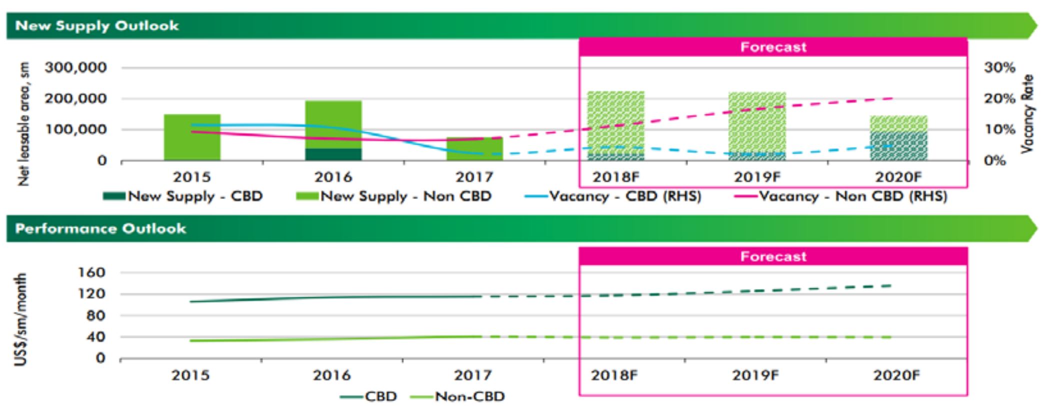
Figure 33: Retail supply by regions



Source: CBRE

HCMC market. The market will continue to have new supply sources, increasing the level of competition. Accordingly, the occupancy rate will be gradually reduced, focusing on quality malls and higher competitiveness. At the same time, rents will improve significantly, especially in the CBD, with a 10-15% increase over the next three years.

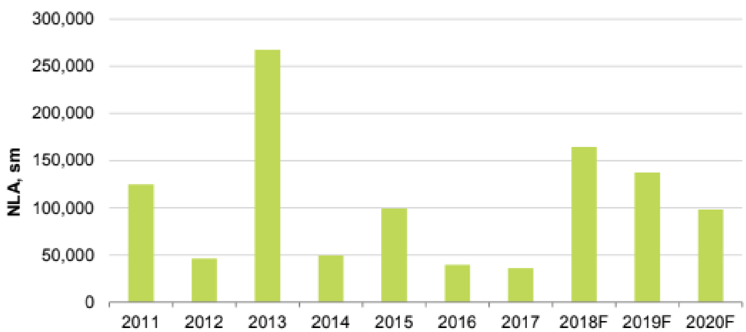
Figure 34: HCMC new supply and performance outlook



Source: CBRE

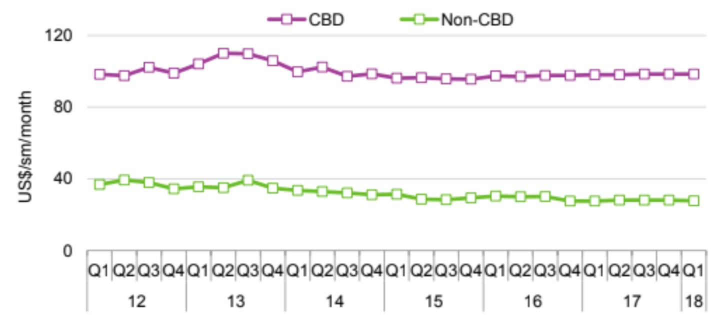
Hanoi market. The trend of supply moving outward is expected to continue in the next three years. At the moment, there is no future supply in the centre at least until 2020. Meanwhile, future supply in non-CBD locations seems promising in the next three years with a total of nearly 400,000 sm NLA retail, increasing competition of this area. The two recent site acquisitions by Lotte and Aeon Group will provide approximately 155,000 sqm NLA in 2019 – 2020. In term of local players, Vingroup will continue to be the largest retail operator in Hanoi with a significant pipeline of shopping malls to be opened as a component of residential complexes. Some other well-known developers will also join the retail market with shopping centers attached to podiums of their projects such as the two Sun Grand City by Sun Group, FLC Twin Towers by FLC.

Figure 35: Future supply by year of expected opening



Source: CBRE

Figure 36: Average ground floor asking rents



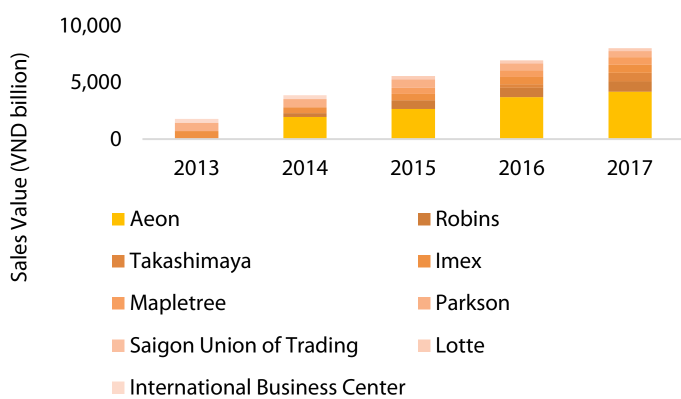
Source: CBRE

Competition from both entry of newcomers and expansions by existing players.

Vietnam's retail market will continue to witness an expansion in the scale of existing retailers in Vietnam as well as the increasing involvement of many well-known international brands in the world. Emerging markets, with consumers experiencing leaps in purchasing power and greater appreciation of international brands, are opening up opportunities for brands to cater to a burgeoning middle-class that is looking to upgrade their living standards. Basically, the Vietnamese retail market still holds great potential, as modern shopping in Vietnam just makes up 25% of total retail sales, and most supermarkets and commercial centers are often located in major cities. As predicted until 2020, the proportion of modern retail channels will rise by 45%. Therefore, the modern retail market in Vietnam has much room left for development.

Major retail property companies in the world are increasing their presence in Vietnam, along with strong growth plan in the near future. Over the past 10 years, Parkson was one of the leading retailers in the country with locations at the most prestigious locations in both Hanoi and Ho Chi Minh City. Newly arrived Aeon and Takashimaya have hurt Parkson which lost market share. Besides, slow economic growth during the period 2010-2015 raised more concern about spending on luxury items, which are “strategic products” at Parkson shopping mall.

Figure 37: Aeon’s market share in Vietnam



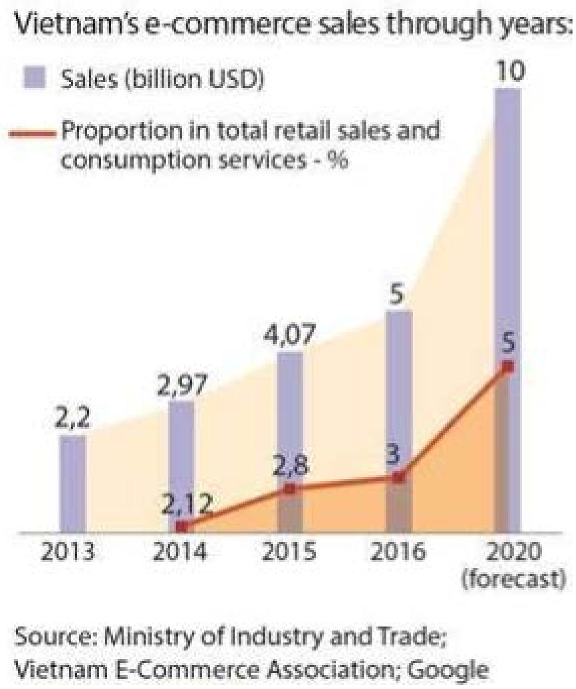
Source: Euromonitor

Figure 38: Foreign retailers’ expansion plans

Source: RongViet Securities compiled

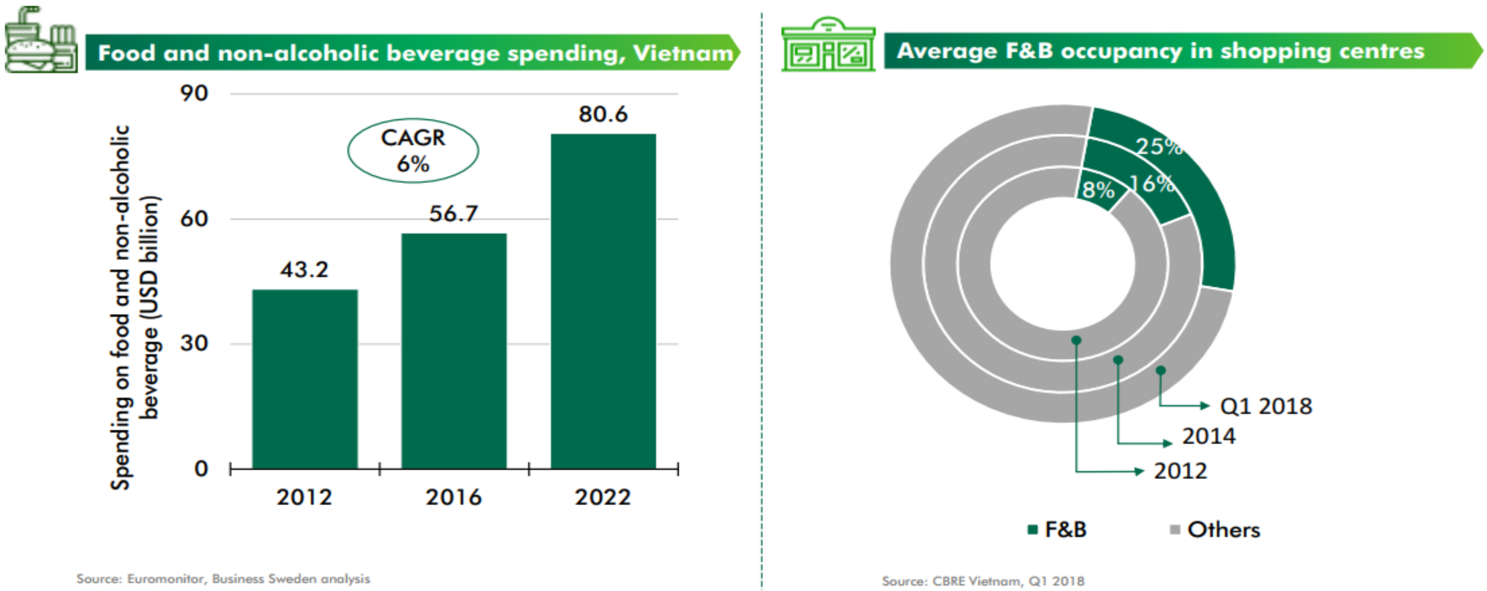
Impact of growing trend in ecommerce. Vietnam’s e-commerce market climbed to about US$ 4 billion in 2016 as one of the fastest-growing markets worldwide, which is forecasted to hit US$ 10 billion by 2020. Up to now, most of Vietnam's e-commerce market share is in the hands of Chinese-related enterprises Alibaba and Tencent. Alibaba gained market share in Vietnam through its investment in Lazada, whilst Tencent also expanded its coverage thru platforms Shopee and Tiki.

Figure 39: Vietnam's ecommerce sales



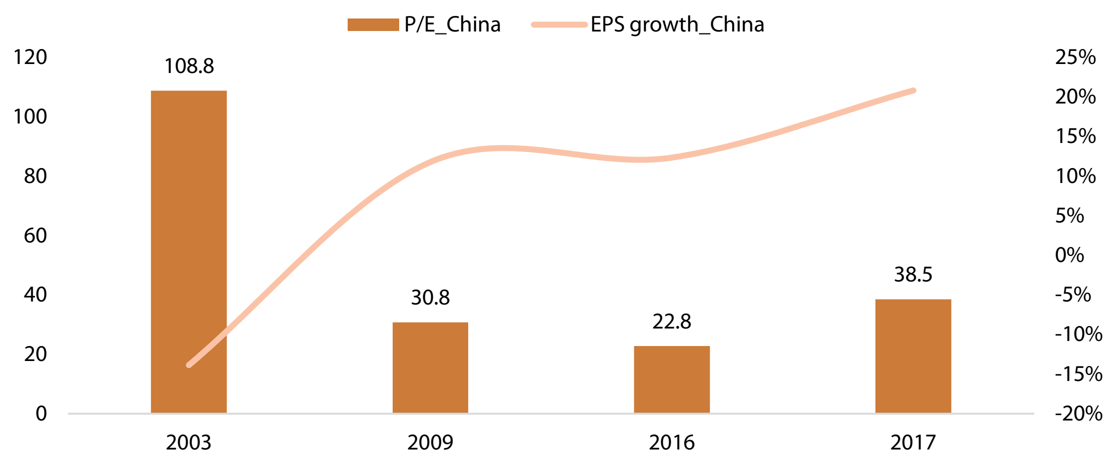
Buiding a better in-store shopping experience to compete against online shopping. Due to the high growth of internet retailing, Robins, a department store, implemented O2O offerings in order to help retailers raise their offline salest to win the future battle by acquiring an online platform, namely Zalora. Besides, many department stores try to improve the in-store experience for shoppers, such as spending more leasing space and adjusting tenant mix more towards catering, experiential services, entertainment, education and social activities. Moreover, they also sign a deal with anchor tenants, which can be considered as the main driving force to attract customers to shopping malls. The other foreign companies offer foreign culture to gain attention. Located in the central area of Ho Chi Minh City, Takashimaya applies the same successful concept as Takashimaya Singapore and Takashimaya Japan by offering Japanese cultural shopping as a selling point. Another successful case study is Aeon. Entering Vietnam in 2014, Aeon owns 4 shopping centers across the country. Following a one-stop shopping business model, Aeon brings a new twist to the shopping experience, with cooked food and food court which generates a better experience than only shopping.

Figure 40: F&B account for an important role in shopping malls



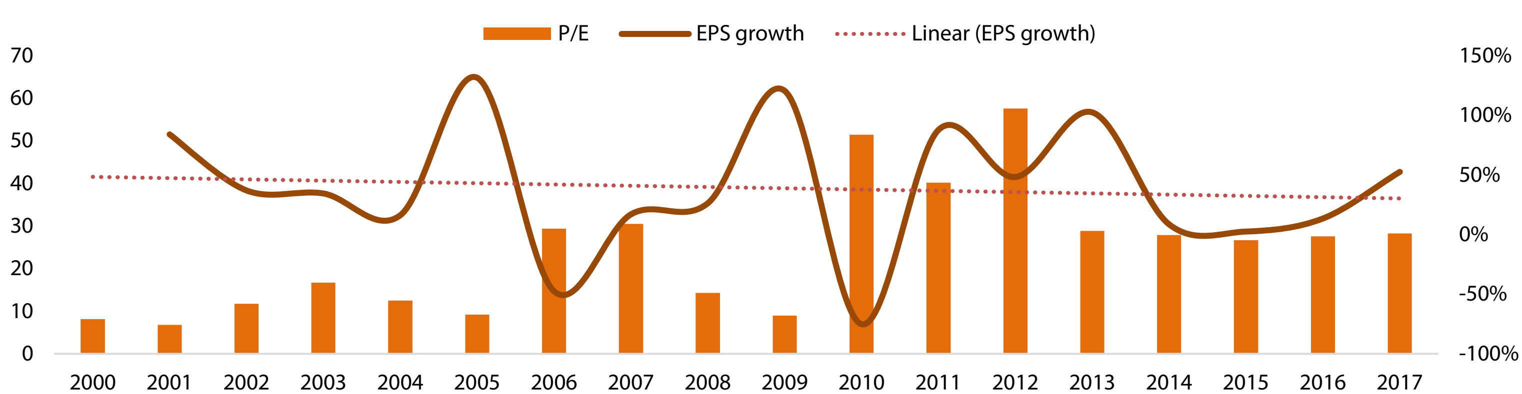
Source: CBRE

Figure 41: China shopping mall's valuation and performance in recent years



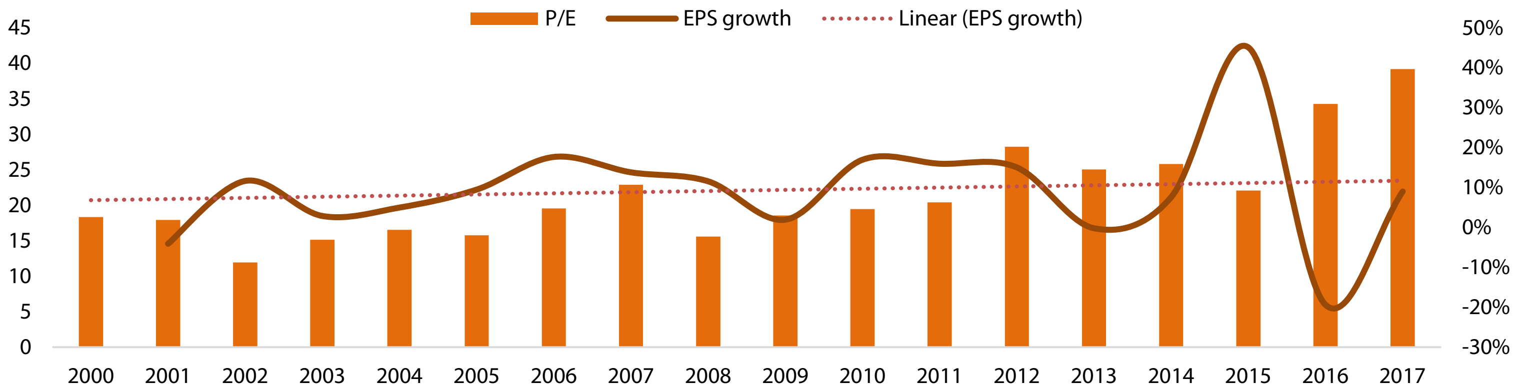
Source: Bloomberg, RongViet Securities compiled

Figure 42: Central Pattana Valuation



Source: Bloomberg, RongViet Securities compiled

Figure 43: SM Prime Valuation



Source: Bloomberg, RongViet Securities compiled

Table 7: Valuation of some regional peers

Company	Country	P/E 2017	P/E 2018	P/B 2017	P/B 2018	EV/EBITDA 2017	EV/EBITDA 2018
SM Prime Holdings	Philippines	59.0	24.0	3.4	2.1	29.7	17.8
Central Pattana	Thailand	39.2	34.3	4.2	3.7	24.9	22.2
Average		**49.1**	**29.2**	**3.8**	**2.9**	**27.3**	**20.0**
Robinson	Thailand	28.2	23.0	6.2	4.9	19.2	15.6
Takashimaya	Japan	150.0		0.4	0.5	6.9	7.9
Bailian	China	16.9	13.6	0.9	0.7	7.7	7.6
Matahari	Indonesia	19.3	22.6	1.0	1.1	6.1	
Capitaland mall	Singapore	15.3	12.8	12.5	9.5	10.3	8.7
Isetan Mitsukoshi	Japan	16.4	14.3	0.9	0.7	8.4	7.7
Chongqing	China	31.9		0.8	0.9	10.3	11.9
Aeon	Japan	16.8	18.6	2.0	2.6	9.7	
J. Front Retailing	Japan	11.3	10.5	1.4	1.2	2.8	
Average		**36.8**	**19.3**	**3.1**	**2.5**	**12.4**	**12.4**

Source: Bloomberg, RongViet Securities compiled

Unit: VND billion

PROFIT & LOSS STATEMENT	2016	2017	2018F	2019F
Revenue	**6,386**	**5,518**	**8,230**	**10,195**
COGS	-3,743	-2,717	-4,254	-5,041
Gross profit	**2,642**	**2,801**	**3,976**	**5,154**
Selling expenses	-349	-256	-360	-429
G&A expenses	-327	-314	-356	-424
Financial income	1,244	587	600	600
Financial expense	-1,261	-1,166	-1,154	-1,451
Other income/loss	-144	-24	0	0
Gain/(loss) from joint	784	540	-60	-60
Profit Before Tax	**2,588**	**2,169**	**2,706**	**3,451**
Tax expense	-148	-141	-144	-239
Minority interests	3	0	0	0
Profit After Tax	**2,437**	**2,027**	**2,418**	**2,973**
EBIT	1,966	2,231	2,706	3,451
EBITDA	2,703	3,167	3,852	4,751

Percentile changes	2016	2017	2018F	2019F
Growth				
Revenue	22.6	-13.6	49.1	23.9
EBITDA	40.8	17.2	21.6	23.3
EBIT	22.6	13.5	21.3	27.5
PAT	123.6	-16.8	19.2	23.0
Total assets	-4.6	11.2	11.1	9.9
Total equity	65.8	5.7	20.8	9.4
Profitability				
Gross margin	41.4	50.8	48.3	50.6
EBITDA margin	42.3	57.4	46.8	46.6
EBIT margin	30.8	40.4	32.9	33.8
Net margin	38.2	36.7	29.4	29.2
ROA	7.1	5.3	6.3	7.2
ROCE	5.8	6.5	7.2	8.5
ROE	9.9	7.8	8.4	9.4
Efficiency				
Receivables turnover	1.9	1.4	2.0	2.5
Inventories turnover	5.5	1.5	-	-
Payables turnover	8.3	2.6	5.0	6.5
Liquidity				
Current	16.1	3.4	13.4	20.2
Quick	14.6	3.0	13.4	20.2
Finance Structure				
Total debt/equity	24.1	22.9	6.7	0.2
ST debt/equity	0.0	10.8	0.0	0.0
LT debt/equity	24.1	12.1	6.7	0.1

Unit: VND billion

BALANCE SHEET	2016	2017	2018F	2019F
Cash and cash equivalents	1,698	1,422	1,269	5,712
Short-term investments	0	60	31	34
Accounts receivable	3,340	4,053	4,053	4,053
Inventories	683	1,817	0	0
Other current assets (inc. non-trade receivables)	1,666	6,006	6,006	6,006
Property, plant & equipment	399	171	171	171
Acquired intangible assets (Inc. Goodwill)	16,579	20,401	21,344	20,025
Long term investments	4,029	1,830	0	0
Other non-current assets	1,815	1,287	1,287	1,287
Total assets	**34,299**	**38,133**	**38,414**	**41,541**
Accounts payable	453	1,065	843	774
Short-term borrowings	6	2,816	6	6
Long-term borrowings	5,954	3,158	2,098	50
Other non-current liabilities	1,300	1,924	1,393	1,401
Bonus and Welfare fund	3	3	3	3
Technology-science development fund	0	0	0	0
Total liabilities	**9,616**	**12,039**	**9,646**	**9.802**
Common stock and APIC (additional paid in capital)	22,880	23,335	23,335	23,335
Treasury stock (enter as -)	0	0	0	0
Retained earnings / accumulated deficit	1,831	2,787	5,460	8,432
Other comprehensive income / (loss)	-58	-58	-27	-29
Investment and Development Fund	0	0	0	0
Total equity	**24,683**	**26,094**	**28,768**	**31,739**
Minority Interest	**31**	**31**	**0**	**0**

CASH FLOW STATEMENT	2016	2017	2018F	2019F
Profit before tax	**2,588**	**2,169**	**2,935**	**4,162**
Depreciation	737	936	1,145	1,300
Adjustments	-737	91	491	389
Change in Working capital	-951	331	765	-797
Net Operating CFs	**-484**	**2,799**	**3,893**	**3,124**
Change in Fixed Asset	-1,467	-7,214	-846	1,319
Change in Deposit, equity investment	3,337	3,269	-	-
Interest, dividend, cash profit received	683	1,856	-	-
Net Investing CFs	**2,563**	**-2,089**	**-846**	**1,319**
Change in Capital	5,133	-	-	-
Change in Debt	-5,107	275	-3,200	-
Dividend paid & other	-804	-1,262	-	-
Net Financing CFs	**-778**	**-986**	**-**	**-**
Beginning cash & equivalents	**396**	**1,698**	**1,422**	**1,269**
Change in cash & equivalents	1301	-276	-153	5,684
Ending cash & equivalents	**1,698**	**1,422**	**1,269**	**5,712**

Initial Coverage

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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