May, 2019

Ha Do Group (HSX: HDG)

Running the first solar power

(VND Bn)	*1Q-FY19*	*4Q-FY18*	*+/- QoQ*	*1Q-FY18*	*+/- YoY*
Net revenue	901	1,858	-51%	225	300%
PAT	208	468	-56%	18	1,067%
EBIT	364	685	-47%	46	686%
EBIT margin	40.4%	36.8%	+400bps	20.6%	+2,000bps

Source: HDG, Rong Viet Securities

1Q 2019 results: Driven by residential sales

- HDG's revenue was driven by the handover of two real estate projects: Hado Centrosa Garden in district 10 (nearly VND 600 billion) and Hado Riverside in district 12 (VND 34 billion).
- Revenue from hydropower increased 85% YoY thanks to the contribution of the Nhan Hac plant since Sep 2018. Compared to 4Q 2018, growth was flat while gross profit margins reached 78%.
- The office and hotel segments continue to perform well. Revenue and gross profit were VND 78 billion and VND 39 billion, respectively and gross profit margins reached 50%.

2Q 2019: Residential launches and the first solar power operation

Energy and real estate will still be the main profit drivers next quarter. We estimate revenue and net profit will be VND 834 billion (-8% QoQ) and VND 93 billion (-65% QoQ), respectively. The shortfall in total net profit is due to the timing of income recognition in the real estate business. Total revenue will only see a slight decrease thanks to the contribution of the construction segment.

In the coming period, the company will have a busy time preparing for the launch of Hado Dragon City and Nongtha Central Park projects in 2H 2019 as well as Commercial Operation Date (COD) of Hong Phong plant in June. In late 2018, The Hado Dragon City has adjusted the site planning from high-rise to low-rise for the remaining land, resulting in a 528 low-rise unit offering to the market. Up to now, there has not been an official launch schedule.

HDG plans to spend VND 3,500 - 4,000 billion on major energy plants during 2019-2020, causing an increase in both its debt balance and interest costs. We believe this is manageable. The company plans to issue both equity warrant bonds as well as straight bonds to fund the development during this period.

Valuation and Recommendation

The COD of Hong Phong 4 plant is expected in June 2019. Although the profit contribution is minimal, it creates good sentiment for upcoming renewable projects. Together with real estate, renewable energy is one of HDG's key pillars in the coming years. The company is conducting a feasibility study of other wind and solar power plants, with total designed capacity of 300-400MW. Also, Ha Do plans to exploit the Nam An Khanh land bank. The real estate monetization will create a cash inflow to fund the capex for energy projects.

*Ha Do more actively pursuits growth and leverages its scale after the State's divestment. The company is one of our favorite stocks in the industry thanks to its large assets base and land bank. Our target price is **VND46,500/share**, **15%** higher than the closing price on May 30, 2019. The target price is revised up due to factoring Dakmi 2 plant into our model and in general, we believe HDG is on the right track, increasing its stake in both residential projects and energy plants. We have an **ACCUMULATE** rating on the stock.*

ACCUMULATE +15%

CMP (VND)	40,600
Target Price (VND)	46,500
Cash Dividend (VND)*	-

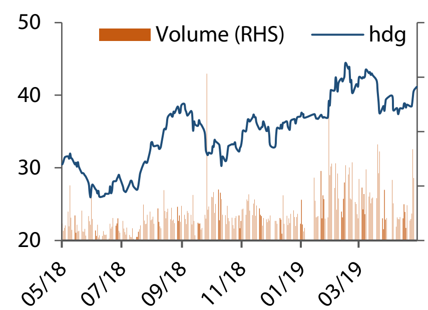
** Expected in the next 12 months*

Stock Info

Sector	Real estate
Market Cap (VND Bn)	3,906
Current Shares O/S (mn)	94.9
Beta	1.0
Free Float (%)	31%
52-week High	44,450
52-week Low	25,963
Avg. Daily Volume (20 sessions)	352,075

	FY2018	Current
EPS	3,674	8,304
EPS Growth (%)	56.5	202.4
P/E	8.5	4.9
P/B	1.3	1.3
EV/EBITDA	4.7	5.6
Cash Dividend	1.000	-
ROE (%)	23.1	20.5

Price performance



Major Shareholders (%)

Mr. Nguyen Trong Thong	35.1
Mr. Nguyen Van To	8.9
Venner Group	4.8
Remaining foreign room (%)	33.2

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Exhibit 1: 1Q 2019 Results

(VND bn)	1Q-FY19	4Q-FY18	+/- QoQ	1Q-FY18	+/- YoY
Net revenue	901	1,858	-51.5%	225	300.2%
Gross profit	425	783	-45.8%	97	337.3%
SG&A	-61	-99	-38.2%	-51	19.8%
Operating income	323	666	-51.6%	36	800.6%
EBITDA	408	735	-44.4%	69	495.7%
EBIT	364	685	-46.9%	46	685.7%
Financial expenses	-45	-50	-10.9%	-22	100.1%
- Interest Expenses	*-44*	*-43*	*2.9%*	*-21*	*106.7%*
Dep. and amortization	43	15	192.6%	-	-
Non-recurring items (*)					
Extraordinary items (*)					
PBT	321	686	-53.3%	37	773.6%
PAT	208	468	-55.6%	18	1,066.8%
(*) Adjusted PAT	0	0	-	0	-

Source: HDG, Rong Viet Securities

Exhibit 2: 1Q 2019 Analysis

Particulars	1Q-FY19	4Q-FY18	+/- QoQ	1Q-FY18	+/- YoY
Profitability Ratios (%)					
Gross Margin	47.1%	42.1%	+500 bps	43.1%	+400 bps
EBITDA Margin	45.3%	39.5%	+580 bps	30.4%	+1,490 bps
EBIT Margin	40.4%	36.8%	+350 bps	20.6%	+1,980 bps
Net Margin	23.1%	25.2%	-210 bps	7.9%	+1,520 bps
Adjusted Net Margin	0.0%	0.0%	0 bps	0.0%	0 bps
Turnover *(x)					
-Inventories	0.5	0.4	0.0	0.6	(0.1)
-Receivables	2.1	1.8	0.3	2.5	(0.4)
-Payables	6.3	7.0	(0.7)	8.8	(2.6)
Leverage (%)					
Total Debt/ Equity	99.8%	97.7%	+200 bps	95.8%	+400 bps

Source: HDG, (*) Annualized turnover

Exhibit 3: 2Q 2019 Forecast

Particulars (VND Bn)	2Q-2019	+/- QoQ	+/- YoY
Revenue	834	-8%	118%
Gross profit	318	-25%	180%
EBIT	234	-35%	768%
NPAT	93	-55%	876%

Source: HDG, Rong Viet Securities

Update:

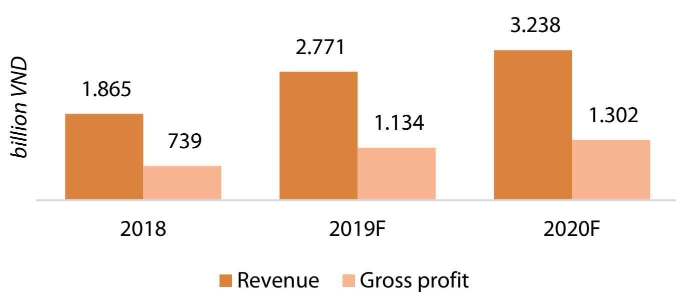
Real estate: Preparing project launches and accumulating land bank.

Preparing project launches. HDG targeted to launch three projects by the end of 2018, including the Hado Dragon City (Hanoi), Nongtha Central Park (Lao) and Green Lane (HCMC). However, all three projects were re-scheduled to 2H 2019 due to site planning adjustments. The Nongtha and Dragon City are expected to launch in June 2019, and Green Lane by the end of this year. Currently, there are no updates about the launching schedule.

Accumulating land bank. By the end of 2018, HDG acquired a project in Thu Duc district, HCMC. The project has a total area of 3ha, offering room for 1,000 high-rise units. The company also increased its stake in Education Equipment 1 JSC to 99% for the development of 300-400 condo units. Both projects are expected to launch in 2020.

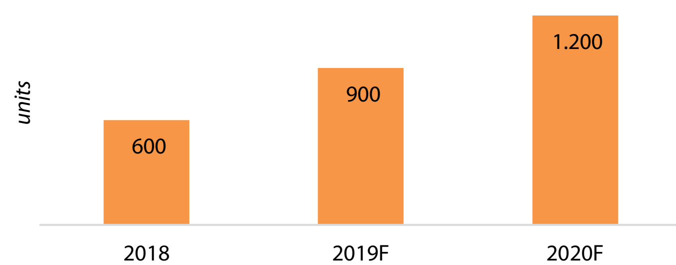
We estimate that HDG will deliver 900 units to customers in 2019, for a revenue and gross profit of VND 2,771 billion (+48% YoY) and VND 1,134 billion (+53% YoY), respectively. The main contribution is still from the Centrosa Garden project, accounting for 92% of total revenue and 95% of total gross profit, as our estimation.

Figure 1: Revenue and gross profit in residential segment



Source: HDG, RongViet Securities

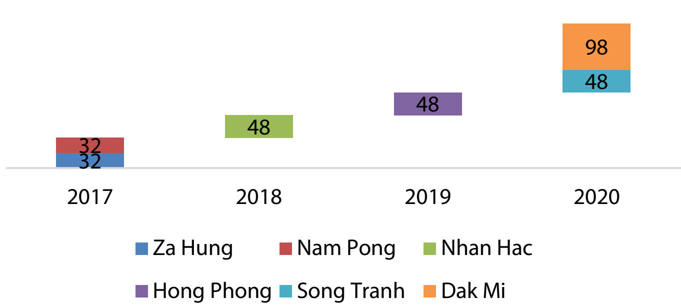
Figure 2: Hand-over units



Source: HDG, RongViet Securities

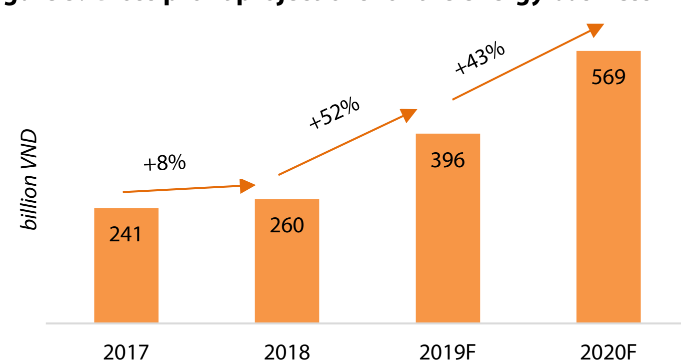
Energy: The Nhan Hac plant was operational since September 2018 and reached full capacity. Meanwhile, the Hong Phong plant's construction progress is on schedule and the Commercial Operation Date (COD) is expected to be in June 2019. Once completed, the project will generate 96 million kWh, equivalent to a revenue of VND 200 billion per year. Aside from this project, there are two hydropower plants under construction with total capacity of 150 MW, which are expected to operate in 3Q 2020. In addition, the company is conducting a feasibility study of other wind and solar power plants, with total designed capacity of 300-400MW. Together with real estate, renewable energy is one of HDG's key pillars in coming years. HDG has increased its stake in energy projects, including Dakmi2, Song Tranh 4 and Hong Phong 4, and now owns 100%, 61% and 83%, respectively. We think this is the right step for HDG. Total gross profit is estimated at VND 396 billion (+52% YoY), thanks to the contribution of full-year Nhan Hac plant and half-year Hong Phong 4 plant.

Figure 4: Expanding total capacity (MW)



Source: HDG, RongViet Securities

Figure 5: Gross profit projections for the energy business

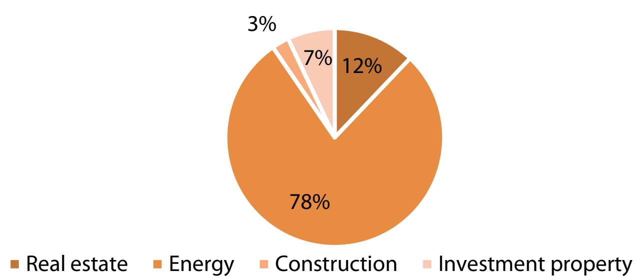


Source: HDG, RongViet Securities

Issuing bonds to fund development. According to management, HDG plans to issue a 3-year VND 1,500 billion equity warrant bond with coupon rate of 6%. Conversion price is estimated at VND 55,000 per share, equivalent to 27.27 million shares. HDG targets to issue the bond in 2Q 2019, however, the timeline could be extended. The deal will help HDG enjoy cash flow at low borrowing costs and may be a short-term catalyst for the stock price. Besides, the company recently issued a 2-year straight bond, total face value of VND 250 billion with a coupon rate of 10.5-11.0%. The company may have more bond issuances in the near future.

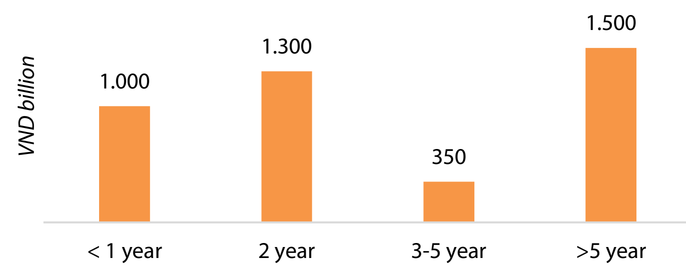
The company will likely accelerate spending on renewables to capture opportunities. In 2019-2020, HDG plans to spend VND 3,500 - 4,000 billion on major plants like Song Tranh, Dak Mi, and others. In 1Q 2019, total debt increased by approximately VND 1,500 billion QoQ, driven mainly by capex for the Dakmi 2 and Hong Phong 4 plants. Current loan interest rates range from 9-10%. The recent bond issuance will help Ha Do roll over its short-term debt. We do not see significant pressure on cash flow.

Figure 6: Debt breakdown by segment*



Source: HDG, RongViet Securities estimates

Figure 7: Debt maturity*



Source: HDG, RongViet Securities estimates

**As of 1Q 2019*

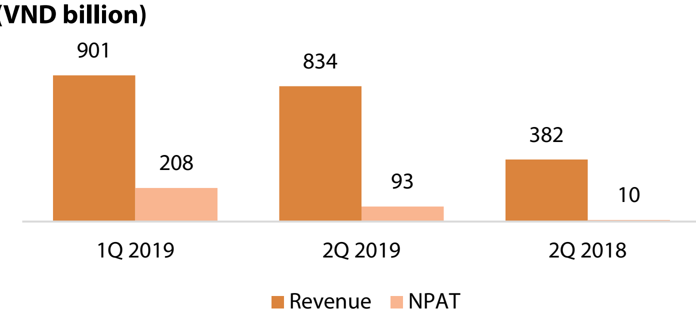
Business results update. In 1Q 2019, HDG posted revenue and NPAT of VND 901 billion (+300% YoY) and VND 208 billion (+1,067% YoY), respectively, in line with our expectation.

- Residential: Delivered the rest of two Orchids blocks and Riverside in District 12 added VND 600 billion to total revenue.
- Energy: Increased contribution from the Nhan Hac plant, while gross margins at Za Hung improved as depreciation expenses fell.
- Hotel and Office: Stable cash flow.

We forecast revenue and net profit in 2Q 2019 to be VND 834 billion (-8% QoQ) and VND 93 billion (-65% QoQ), respectively. Q2 is the low season for profit booking but the company will have a busy time preparing for the launch of Dragon City and Noongtha and COD of Hong Phong plant in June.

- Residential: No significant bookings in 2Q 2019. Main driver is from Riverside deliveries.
- Energy: Start of rainy season leads to higher profits. The two projects located in Nghe An province enjoy higher income, while Quang Nam province is still in the dry season, leading to flat income in the Za Hung plant compared to Q1 figures.
- Hotel and Office: Plan to develop 2,600 sqm retail leasing at the podium of Orchids blocks in June.

Figure 8: Revenue and net profit (VND billion)



Source: HDG, RongViet Securities

Valuation

We revise HDG's valuation up from our Nov 2018 report due to the above-mentioned residential launches while factoring Dakmi 2 in our model. The COD of Hong Phong 4 plant is expected in June 2019. Although the profit contribution is minimum it creates good sentiment for incoming renewable projects.

Our target price is **VND46,500/share**, **15%** higher than the closing price on May 30, 2019. We have an **ACCUMULATE** rating on the stock.

Table 1: Valuation summary

	Method	NPV	% Stake	Effective NPV
RESIDENTIAL				**3,047**
Hado Centrosa Garden	DCF	1,072	89%	954
Hado Riverside	DCF	19	100%	19
Hado Dragon City	DCF	583	100%	583
Nongtha Central Park	DCF	415	100%	415
Alila Bao Dai	DCF	513	65%	333
Hado Green Lane	DCF	189	99%	188
Linh Trung	DCF	319	99%	316
62 Phan Dinh Giot	BV	120	99%	119
OFFICE & HOTEL				**1,536**
IBIS Hotel	DCF	574	100%	574
South building	DCF	268	100%	268
Airport building	DCF	209	100%	209
Bao Dai hotel	DCF	289	65%	188
Centrosa malls	DCF	176	89%	157
Others	DCF	141	100%	141
CONSTRUCTION		**439**	60%	**263**
ENERGY				**3,150**
Za Hung	DCF	733	52%	381
Nam Pong	DCF	591	52%	308
Nhan Hac	DCF	878	52%	456
Song Tranh 4	DCF	428	60%	257
Dak Mi 2	DCF	1,128	98%	1,106
Hong Phong	DCF	773	83%	642
Total				**7,996**
(+) Net cash				654
(-) Net debt				(4,232)
Net asset value				**4,418**
Total outstanding shares (million)				95
Price per share				**46,500**

VND Bn

INCOME STATEMENT	FY2017	FY2018	FY2019E	FY2020F
Revenue	**2,297**	**3,203**	**4,744**	**6,049**
COGS	-1,516	-2,002	-2,993	-3,829
Gross profit	**781**	**1,201**	**1,752**	**2,220**
Selling Expense	-234	-68	-237	-302
G&A Expense	-136	-204	-237	-302
Finance Income	40	58	100	0
Finance Expense	-123	-118	-345	-380
Other profits	-5	43	0	0
PBT	**323**	**911**	**1,032**	**1,235**
Prov. of Tax	-50	-159	-219	-242
Minority's Interest	95	144	159	192
PAT to Equity	**178**	**608**	**654**	**801**
EBIT	412	929	1,161	1,375

%

FINANCIALS	FY2017	FY2018	FY2019E	FY2020F
Growth				
Revenue	15.5	39.4	48.1	27.5
Operating Income	26.3	94.5	31.3	17.7
EBITDA	23.9	125.6	31.1	16.8
PAT	-24.3	240.6	7.6	17.6
Total Assets	25.6	29.5	9.7	-0.9
Equity	13.6	26.0	27.2	22.2
Profitability				
Gross margin	34.0	37.5	36.9	36.7
EBITDA margin	23.0	32.0	27.2	25.4
EBIT margin	17.9	29.0	24.5	22.7
Net margin	7.8	19.0	13.8	13.2
ROA	2.1	5.6	5.5	6.5
ROE	8.6	23.1	19.6	18.8
Liquidity				
Current	1.3	1.4	1.8	1.5
Financial structures				
Total Debt/Equity	89.7	100.5	136.2	82.8
Current Debt/Equity	13.3	35.9	46.2	37.5
Long-term Debt/Equity	76.4	64.6	90.0	45.3

VND Bn

BALANCE SHEET	FY2017	FY2018	FY2019E	FY2020F
Cash and cash equivalents	707	652	1,568	515
Short-term investments	29	111	65	66
Accounts receivable	1,309	2,379	1,430	1,202
Inventories	3,018	3,758	3,158	3,564
Other current assets	70	109	69	56
Property, plant & equipment	1,745	2,875	2,790	4,312
Long-term incomplete assets	1,055	540	1,160	-
Long-term investments	377	336	214	185
Other non-current assets	105	142	82	59
Total assets	**8,416**	**10,902**	**11,963**	**11,853**
Accounts payable	405	497	428	443
Advance from customers	3,558	4,403	3,134	2,797
Short-term borrowings	278	943	1,543	1,543
Long-term borrowings	1,592	1,697	3,006	1,866
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	5	9	3	3
Total liabilities	**6,331**	**8,276**	**8,622**	**7,770**
Common stock and APIC	760	950	950	950
Treasury stock	0	0	0	0
Retained earnings	479	735	1,589	2,330
Other comprehensive income / (loss)	0	0	0	0
Investment and Development Fund	30	23	28	28
Total equity	**2,084**	**2,626**	**3,341**	**4,083**
Minority Interest	0	0	0	0

VALUATION	FY2017	FY2018	FY2019E	FY2020F
EPS (VND/share)	2,348	3,674	6,886	8,439
P/E (x)	11.9	8.5	5.9	4.8
BVPS (VND/share)	27,435	24,860	35,186	43,338
P/B (x)	1.0	1.3	1.2	0.9
DPS (VND/share)	1,000	1,000	-	-
Dividend yield (%)	3.6	3.2	-	-

VALUATION HISTORY	*Price(*)*	*Recommendation*	*Period*
25/09/2017	31,500	Buy	1-year
12/11/2018	38,500	Buy	1-year
29/05/2019	46,500	Accumulate	1-year

(*) Adjusted price

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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