

Real estate outlook

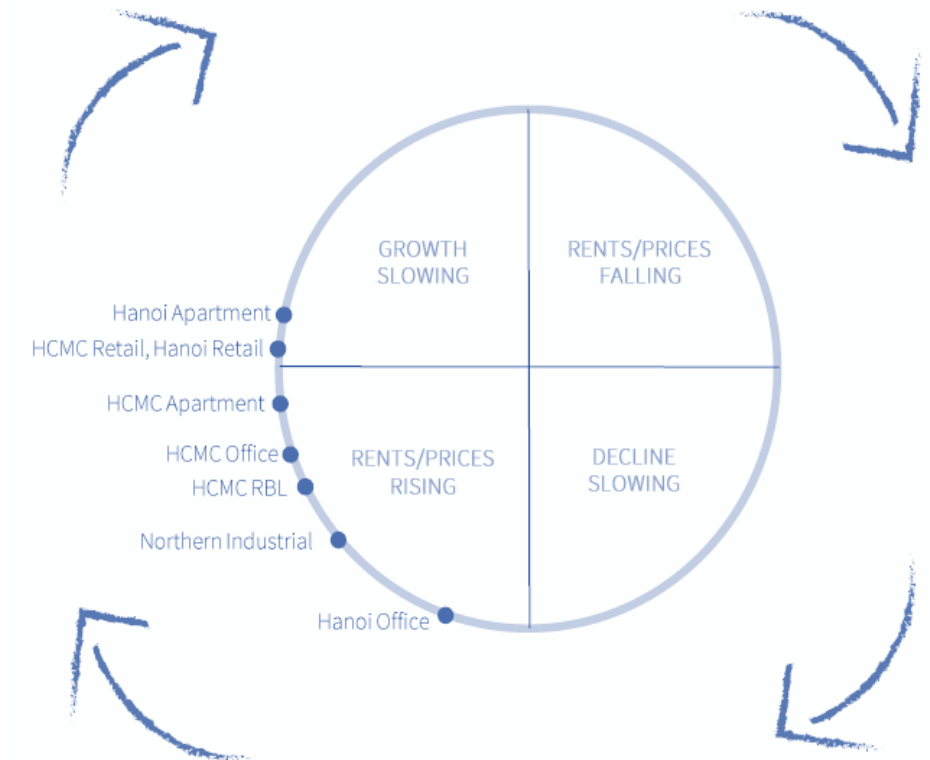
“Covid-19 have mixed impacts on Industrial Parks, mildly negative impacts on Housing and Residential sector, and significantly short term negative impacts on Retail, Office and Vacation real estates.

Real estate

Covid-19's impacts on various sectors

	Covid-19 impacts	Details
Industrial Parks	Mixed impacts	<ul style="list-style-type: none"> - On one hand, slow growth of Global economy, and capital withdrawals due to Covid-19 may negatively influence FDI inflows into Vietnam. Potential foreign and local producers may face financial difficulties from the virus and may postpone their plans on new projects. The restriction on traveling due to Covid-19 also affect progresses of new/potential projects. - On the other hand, Vietnamese Government has dealt with Covid-19 quite well, stopped the spread of the Virus completely and very short lock down period compared to other countries. Vietnam will benefit from the movements of supply chains going out of China, recent Trade agreements and strong macroeconomic factors.
Residential	Mild impacts	Covid-19 slowed down both supply and demand sides of the market, and may impact home-buyers' sentiments as well. However, the Government may support by increasing spending on infrastructure and loosening policies/regulation to support real estate developers.
Retail	Large impacts	Footfalls in shopping centre decreased dramatically due to Covid-19 (about 70% YoY in Q1/2020 - according to CBRE). Retail sales fall, leading to tenants facing difficulties and landlords having to reduce rent prices / payments.
Vacation property, hotel, condotel	Large impacts	Tourism dramatically affected by Covid-19, Vietnam National Administration of Tourism (VNAT) has forecasted two scenarios: (1) The coronavirus to be contained by June 2020 - international tourist arrivals would reduce by 70% ; (2) The coronavirus to be contained by September 2020 - international tourist arrivals would reduce by 75%
Office	Mild impacts	Businesses may delay the decision to rent new offices in the first half of 2020, but demand will mostly return. However, the habit/culture of working remotely may start in certain businesses, thus lower office demand.

Property cycle



Source: MBS Research, JLL Research

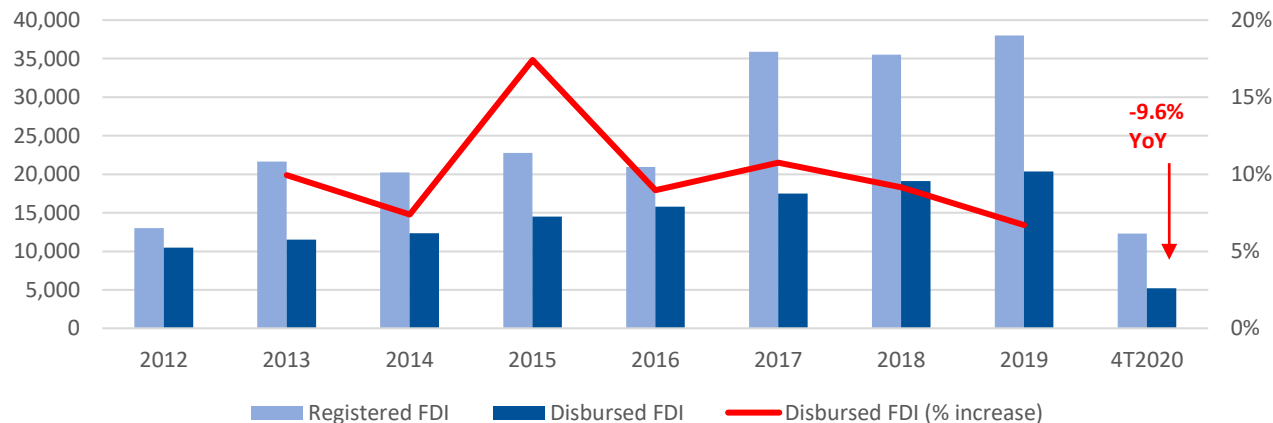
Real Estate – Industrial Parks

Vietnam's picture

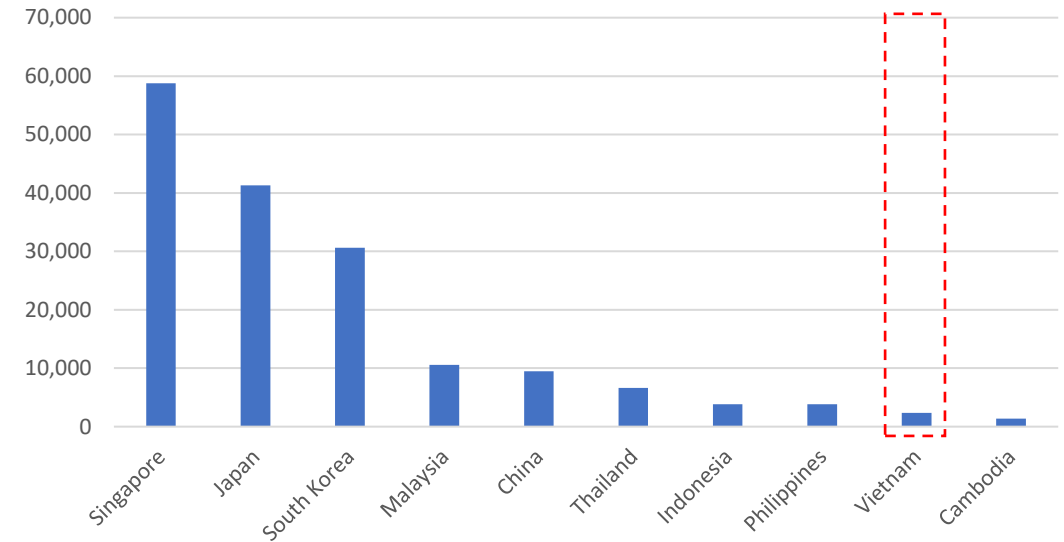
Advantages of Vietnam:

- Relatively low labour cost compared to other countries in the area, and a young workforce (52% of people in working age).
- Stable and high growth economy.
- Large market with increasing purchasing power and rising middle class, with total population of 95 million.
- Strategic geographical location: Located next to China, Viet Nam's proximity makes it an ideal alternative location for investors seeking to diversify their supply chains from China.
- Increasing participation in global connections: recent strategic trade agreements: AFTA, EU-Vietnam FTA, CPTPP
- Supporting regulatory framework: the government is improving the investment environment to become more transparent and fair.

FDI flows into Vietnam



Average annual income (USD/year)



Countries	Land rental costs (USD/m2/rent cycle)	Labour cost per month	Corporate tax
Vietnam	104	197	20%
Phillipines	122	319	30%
Indonesia	238	320	25%
Malaysia	225	883	24%
Thailand	183	551	20%
Myanmar	80	162	25%
Singapore	423	4,898	17%
China	180	788	25%

Real Estate – Industrial Parks

Impacts from Covid-19

In the long term, Vietnam may benefit:

- Vietnam's international reputation benefited from handling Covid-19 quite successfully, and is currently exporting masks and medical equipment to the world, promoting branding of the nation.
- In addition, businesses from the US and the world will tend to withdraw from China, for example, Japan recently spent more than US \$ 2 billion to support businesses to withdraw from China because the Covid-19 epidemic disrupted the supply chain between the two countries.
- Besides, Vietnam has been participating in a series of free trade agreements (FTAs), including EVFTA, which has recently been expected in the long term.

However, in the short term and especially in 2020, industrial enterprises will encounter negative factors from:

- Global economic activities fall dramatically from Covid-19, causing corporates to face financial difficulties. Enterprises that are planning / preparing to invest will have to pause due to financial impacts, unclear macro factors from diseases, and experts' traveling in order to examine new projects is limited.
- FDI inflows into Vietnam in the first quarter of 2020 decreased in both quantity and total investment capital, Q1 / 2020 FDI reached only 8.55 billion USD, down 20.9% over the same period in 2019. Disbursed investment capital also decreased but remained at a good level, reaching 3.85 billion USD, equaling 93.4% as compared to the same period in 2019.
- The process of infrastructure construction Vietnam has slowed down in 2020 due to social isolation.

Therefore, at least in the first half of 2020, the revenue of industrial zone enterprises will drop sharply.

Opportunities from Government efforts

To deal with Covid-19 and support companies, the government may implement:

- On the monetary policy side, the State Bank of Vietnam (SBV) has continuously cut interest rates since September 2019, both mobilizing and lending rates of commercial banks. Credit growth expected to be about 10% in 2020.
- The Government has also stepped up public investment to spur growth, with a total planned investment of VND 700,000 billion in 2020. At the same time, launching economic support packages estimated at VND 600,000 billion, equivalent to 10% of GDP.
- Infrastructure investments will be supported and pushed by government after 3 slow years, first and foremost by removing bottlenecks related to public-private partnership (PPP), including a comprehensive legal framework for PPP projects, and improving public reaction to fares and road toll collection, etc.
- Maintaining a high GDP growth (in good scenario reaching 5% GDP growth), stable economic factors including inflation and foreign exchange rates.

Real Estate – Industrial Parks

Overview map of Vietnam's IP

Total IPs approved by government:

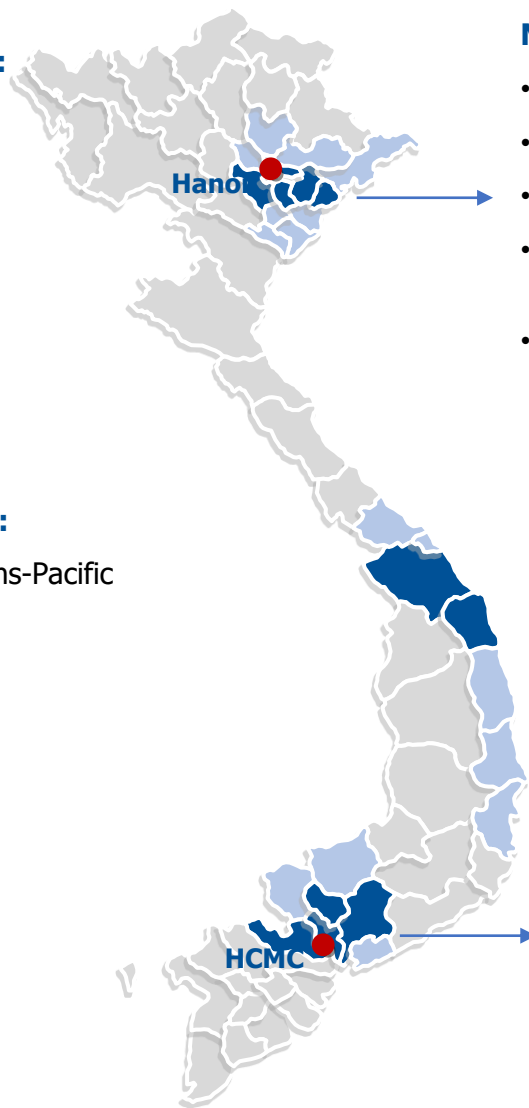
- Industrial parks: 327
- Total land area: 96,100

Of which, operating IPs:

- Industrial parks: 256
- Total land area: 67,600
- 75% occupancy rate

12 FTAs in effect. Key FTAs include:

- Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)
- EU - Viet Nam FTA (EVFTA)
- ASEAN - Hong Kong FTA (AHKFTA)



Major Northern Industrial Area:

- **Industrial land:** 8,942 ha
- **Occupancy rate:** 91.4%
- **Asking rent:** US \$65 – 260
- **Tier 1 provinces:** Hanoi, Bac Ninh, Hung Yen, Hai Duong, Hai Phong
- **Tier 2 provinces:** Thai Nguyen, Vinh Phuc, Bac Giang, Quang Ninh, Ha Nam, Thai Binh, Nam Dinh, Ninh Binh

Major Southern Industrial Area:

- **Industrial land:** 30,678 ha
- **Occupancy rate:** 78.9%
- **Asking rent:** US \$80 – 300
- **Tier 1 provinces:** HCMC, Binh Duong, Long An, Dong Nai
- **Tier 2 provinces:** Binh Phuoc, Tay Ninh, Ba Ria – Vung Tau

Provinces	No. of Ips	Areas (ha)
Northern Vietnam		
Bac Ninh	13	4,217
Hai Phong	19	3,292
Ha Noi	19	1,710
Vinh Phuc	9	1,859
Quang Ninh	11	1,609
Hung Yen	10	1,392
Northern Vietnam		
Quang Ngai	8	10,138
Quang Nam	8	4,331
Hue	6	2,393
Phu Yen	8	2,215
Binh Dinh	8	1,961
Da Nang	6	1,160
Khanh Hoa	4	854
Northern Vietnam		
Binh Duong	28	10,931
Dong Nai	31	9,813
Ba Ria - Vung Tau	15	7,488
Ho Chi Minh	16	4,206
Long An	22	3,415
Tay Ninh	7	2,328
Binh Phuoc	13	1,182

Real Estate – Industrial Parks

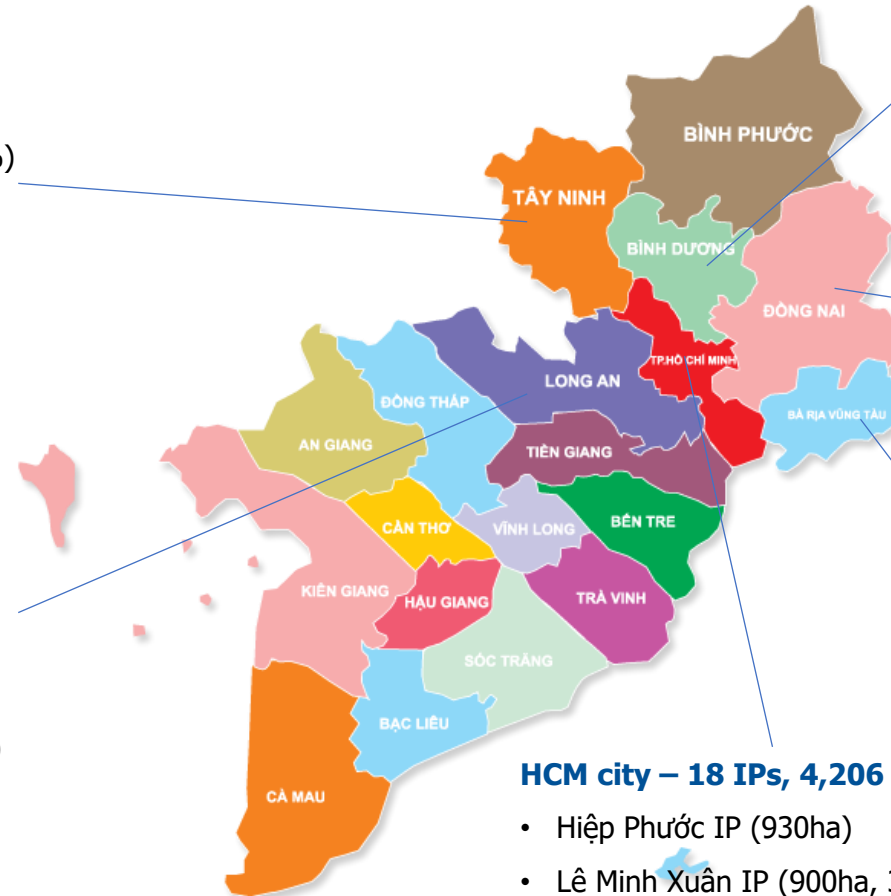
Southern Vietnam key IPs

Tay Ninh - 5 IPs, 2,328 ha:

- Thành Thành Công (760ha, 33%)
- Trảng Bàng (189ha, 62%)
- Phước Đông (189ha, 58%)

Long An – 28 IPs, 10,216 ha:

- Tân Đức IP (543ha, 75%)
- Phú An Thạnh IP (395ha, 70%)
- Hải Sơn IP (366ha, 95%)
- Đức Hoà Resco IP (295ha, 85%)
- Long Hậu IP (245ha, 100%)



HCM city – 18 IPs, 4,206 ha:

- Hiệp Phước IP (930ha)
- Lê Minh Xuân IP (900ha, 33%)
- Vĩnh Lộc IP (282ha, 33%)
- Tân Tạo IP (443ha, 100%)
- Tân Phú Trung IP (590ha, 23%)

Binh Duong – 28 IPs, 10,931 ha:

- Bàu Bàng IP (997ha, 17%)
- Mỹ Phước IP (377ha, 87%)
- Mỹ Phước 2 IP (477ha, 99%)
- Mỹ Phước 3 IP (977ha, 50,8%)
- Sóng Thần 3 IP (533ha, 67%)
- Nam Tân Uyên IP (330ha, 90%)

Dong Nai – 31 IPs, 9,813 ha:

- Ông Kèo IP (823ha, 77%)
- Nhơn Trạch III IP (688ha, 100%)
- Amata IP (494 ha, 100%)
- Long Thành IP (488ha, 73%)
- Giang Điền IP (529 ha, 70%)

Ba Ria, Vung Tau – 15 IPs, 7,488 ha:

- Cái Mép IP (303ha, 49%)
- Long Sơn IP (850ha, 50%)
- Phú Mỹ I IP (695ha, 95%)
- Phú Mỹ II IP (605ha, 85%)
- Mỹ Xuân B1 IP (337ha, 100%)

Real Estate – Industrial Parks

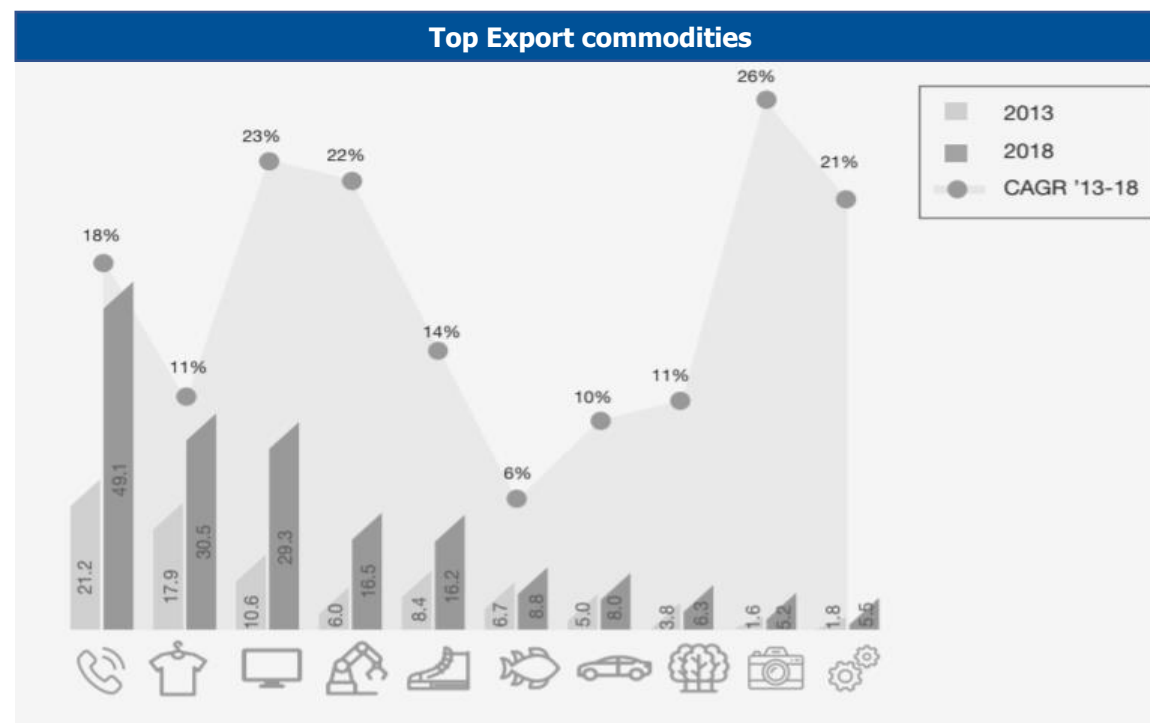
Trends

FDI by sectors	2019		4m 2020	
	value (mn \$)	% of total	value (mn \$)	% of total
Manufacturing	24,562	65%	5,965	48%
Real estate activities	3,876	10%	665	5%
Wholesale and retail trade, repair of motor vehicles and motorcycles	2,588	7%	776	6%
Professional, scientific and technical activities	1,567	4%	313	3%
Finance, banking, insurance services	1,172	3%	176	1%
Electricity, gas, steam and air conditioning	1,010	3%	3,920	32%
Construction	979	3%	84	1%
Total	38,019	100%	12,332	100%

FDI by provinces	2019		4m 2020	
	value	% of total	value	% of total
Hanoi	8,455	22%	982	8%
HCM city	8,295	22%	1,310	11%
Binh Duong	3,413	9%	526	4%
Dong Nai	2,143	6%	289	2%
Bac Ninh	1,583	4%	253	2%
Hai Phong	1,384	4%	286	2%
Ba Ria - Vung Tau	1,085	3%	1,901	15%
Ha Nam	843	2%	534	4%
Long An	798	2%	362	3%
Hai Duong	684	2%	69	1%
Da Nang	514	1%	78	1%
Hung Yen	460	1%	145	1%
Total	38,019	100%	12,332	100%

Source: MBS Research, GSO

FDI by countries	2019		4m 2020	
	value (mn \$)	% of total	value (mn \$)	% of total
Korea	7,917	21%	991	8%
Hong Kong	7,869	21%	310	3%
Singapore	4,502	12%	5,067	41%
Japan	4,138	11%	1,156	9%
China	4,063	11%	1,057	9%
Taiwan	1,842	5%	999	8%
Thailand	868	2%	1,455	12%
Total	38,019	100%	12,332	100%



Real Estate – Industrial Parks

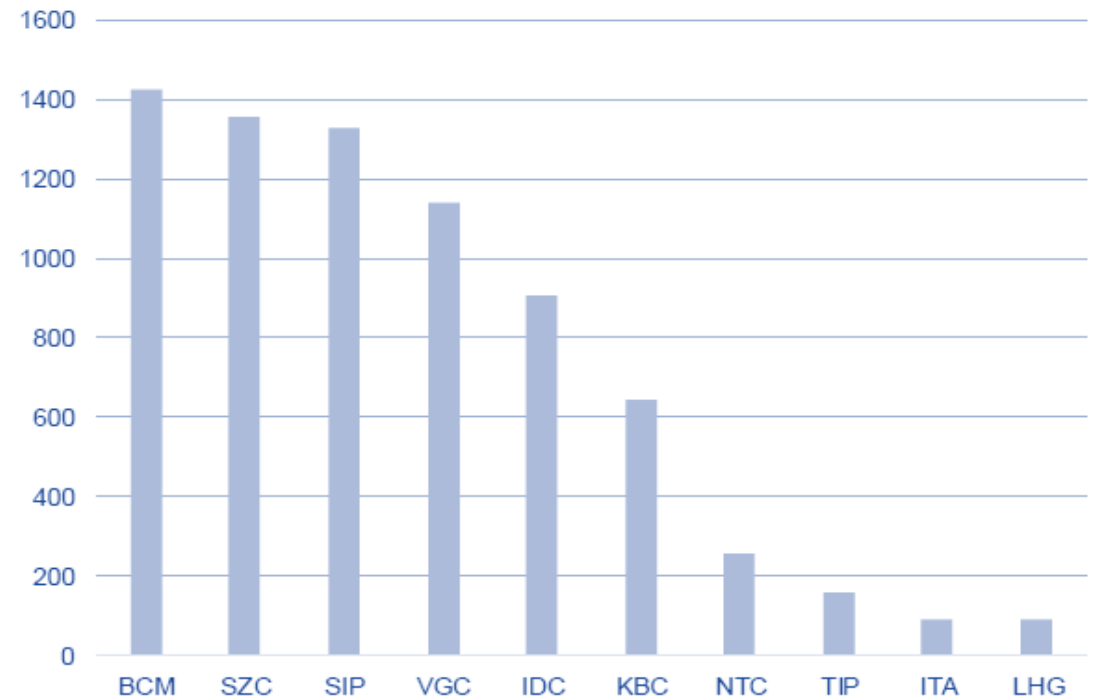
Recent updates

US – China Trade war and Covid-19 in China has accelerate movements of international companies from China to Vietnam, including:

- **Samsung, LG** and many **Japanese manufacturers** have been moving factories from China to Vietnam.
- **Foxconn** and other **Apple suppliers** have said that they have been intending to set up production base in Vietnam for many years.
- **Google** plans to move parts of production chain of Pixel 4A and Pixel 5 phones to Vietnam in 2020-2021.
- **Microsoft** plans to move parts of production chain of Surface computers to Vietnam in 2020-2021.
- **Nintendo**, a video game company, has transferred a part of its Switch Lite game console production to Vietnam.
- **Komatsu**, because of the COVID-19 epidemic, is shifting its production line of components used for motor vehicle frames and wiring sets from China to Japan and to Vietnam.
- Other companies such as **TCL** (electronics – China), **Goertek** (electronics – China), **Lenovo** (electronics, comuter – China), **Sharp** (electronics, camera – Japan), **Kyocera** (printer, photocopy – Japan), **Asics** (Shoes – Japan), etc... are the other notable names planning to move to Vietnam.

New land resources available for IPs in Q2-Q2/2020 about 1.890ha, mostly in southern provinces such as Binh Duong. Companies with already-available land resources will benefit directly from the coming movements of factories to Vietnam.

Available for rent land resources - listed companies (ha)



Real Estate – Industrial Parks

Listed companies

Source: Bloomberg, MBS Research

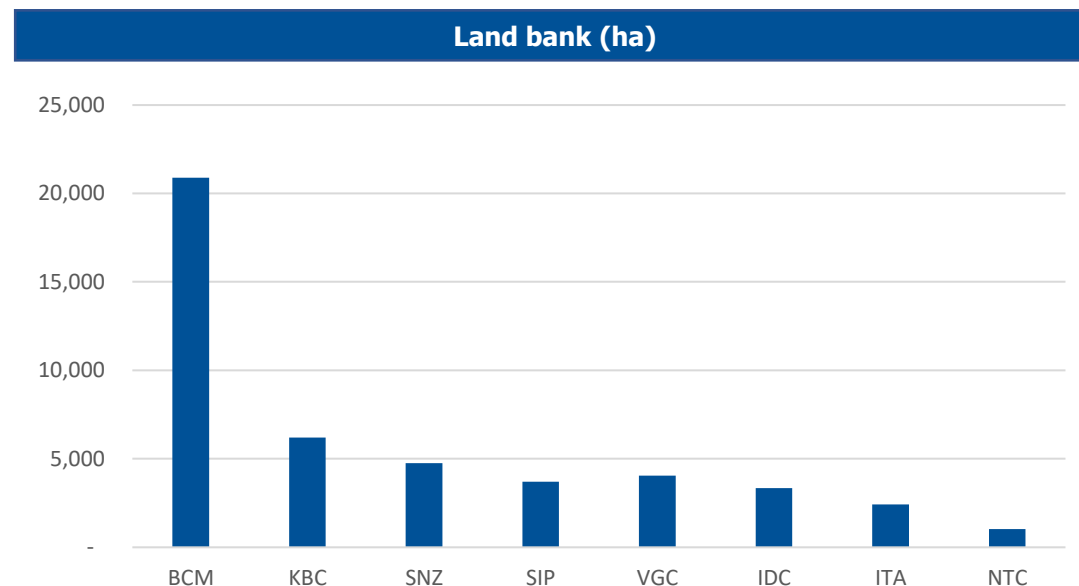
Ticker	Market cap (USD million)	Debt / Equity	Gross profit margin	Net profit margin	ROE	ROA	P/E	P/B
BCM	1,037	92%	41%	30%	18%	6%	10.0	1.7
KBC	258	19%	58%	29%	10%	5%	6.8	0.6
SNZ	363	57%	31%	11%	9%	3%	20.7	1.9
SIP	225	19%	14%	14%	43%	5%	8.8	3.2
VGC	327	31%	24%	6%	10%	3%	11.7	1.2
IDC	214	62%	17%	7%	10%	2%	14.5	1.5
ITA	106	4%	32%	16%	2%	2%	11.1	0.2
NTC	127	1%	71%	122%	40%	7%	12.5	5.1
Average		36%	36%	29%	18%	4%	1204%	191%
Median		25%	32%	15%	10%	4%	1141%	155%

Focus on companies with:

- Decent available land resources, good client portfolio
- Solid and stable financial health
- Attractive valuation

Risks include:

- Compensation and site clearance: certain projects face difficulties in increased cost of compensation and delay of project progress.
- Depends on macroeconomic factors and FDI inflows to Vietnam
- Risks from changing international politics and also Vietnam's government policies.



Real Estate – Industrial Parks

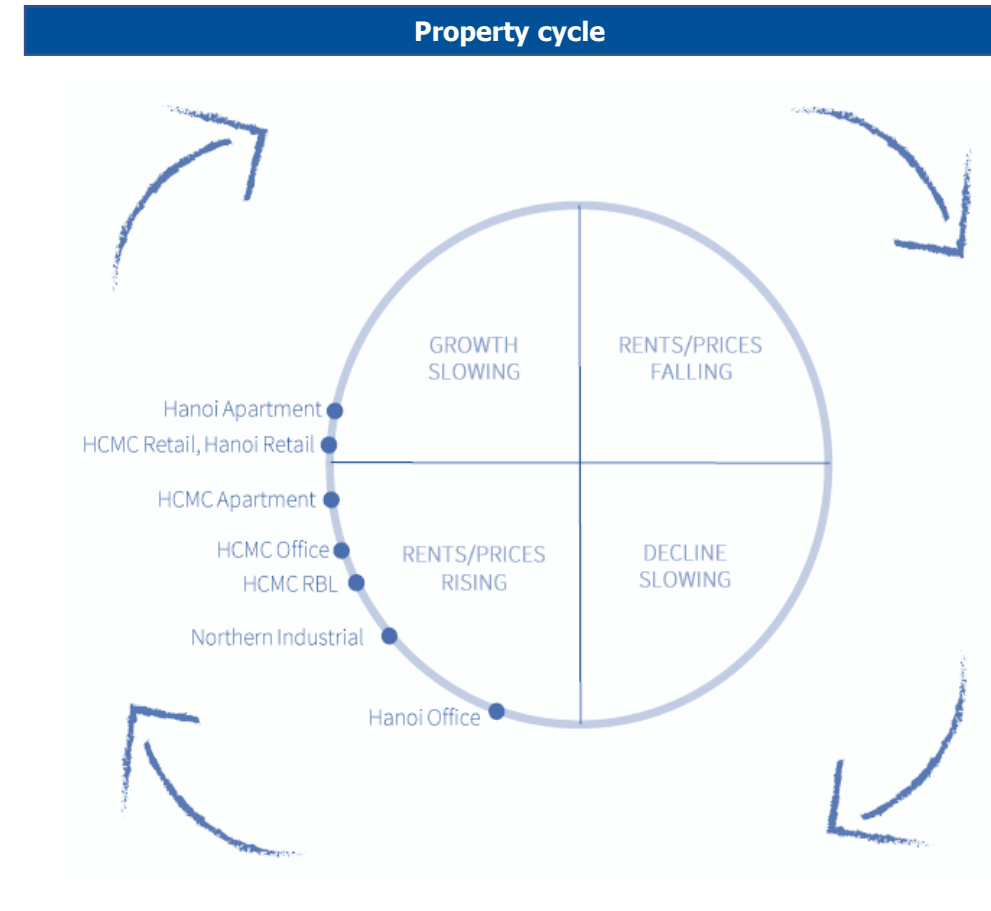
Listed companies

Company	Notable clients	Catalysts
KBC	LG (Trang Due IP), Canon , Foxconn , Mitac , DK UIL , Nippon Steel (Que Vo IP)	<ul style="list-style-type: none">• KBC has a large land portfolio, mostly in northern part of Vietnam, with many industrial parks with very strategic advantages in attracting key FDI producers such as Que Vo (Bac Ninh), Trang Due (Hai Phong) etc.• Future potential will come from Trang Due III (in Hai Phong) and Nam Son Hap Linh (Bac Ninh) of which total areas are 687 and 433 ha respectively. These IPs have very advantageous positions and will greatly benefit from increasing manufacturing activities in Vietnam• KBC is trading at P/B 0.6x. Target price: 15,000 VND/share (17% upside).
VGC	Samsung , Lock&Lock , Canon , Orion , BenQ (Yen Phong IP)	<ul style="list-style-type: none">• VGC owns large portfolio of Industrial Zone projects, including 11 industrial zones with total area of 4,038 ha in 07 provinces. Projects like Yen Phong (Bac Ninh), Tien Son (Bac Ninh), Dong Van IV (Ha Nam), etc. have quite advantageous locations. We believe the key to VGC's growth in coming years will come from the industrial parks segment.• VGC also has Building materials segments, accounting for about 70% of the company's revenue and profit, which synergize with real estate segment and benefit from expected higher government spending, especially on infrastructure in 2020-2021.• VGC is trading at P/B 1.2. Target price: 23,500 VND/share (+38%)
NTC	N/A	<ul style="list-style-type: none">• Nam Tan Uyen 3 IP, 346ha, has been approved recently and will bring large profits and cashflows for NTC in coming years.

Real estate

Covid-19's impacts on various sectors

	Covid-19 impacts	Details
Industrial Parks	Mixed impacts	<ul style="list-style-type: none"> - On one hand, slow growth of Global economy, and capital withdrawals due to Covid-19 may negatively influence FDI inflows into Vietnam. Potential foreign and local producers may face financial difficulties from the virus and may postpone their plans on new projects. The restriction on traveling due to Covid-19 also affect progresses of new/potential projects. - On the other hand, Vietnamese Government has dealt with Covid-19 quite well, stopped the spread of the Virus completely and very short lock down period compared to other countries. Vietnam will benefit from the movements of supply chains going out of China, recent Trade agreements and strong macroeconomic factors.
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Retail	Large impacts	Footfalls in shopping centre decreased dramatically due to Covid-19 (about 70% YoY in Q1/2020 - according to CBRE). Retail sales fall, leading to tenants facing difficulties and landlords having to reduce rent prices / payments.
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Source: MBS Research, JLL Research

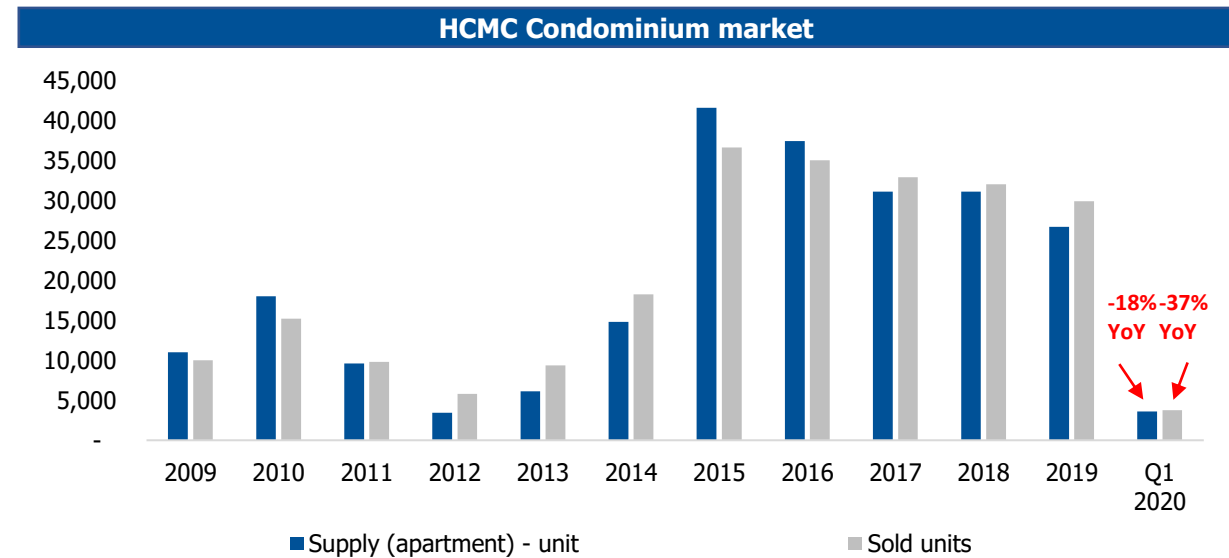
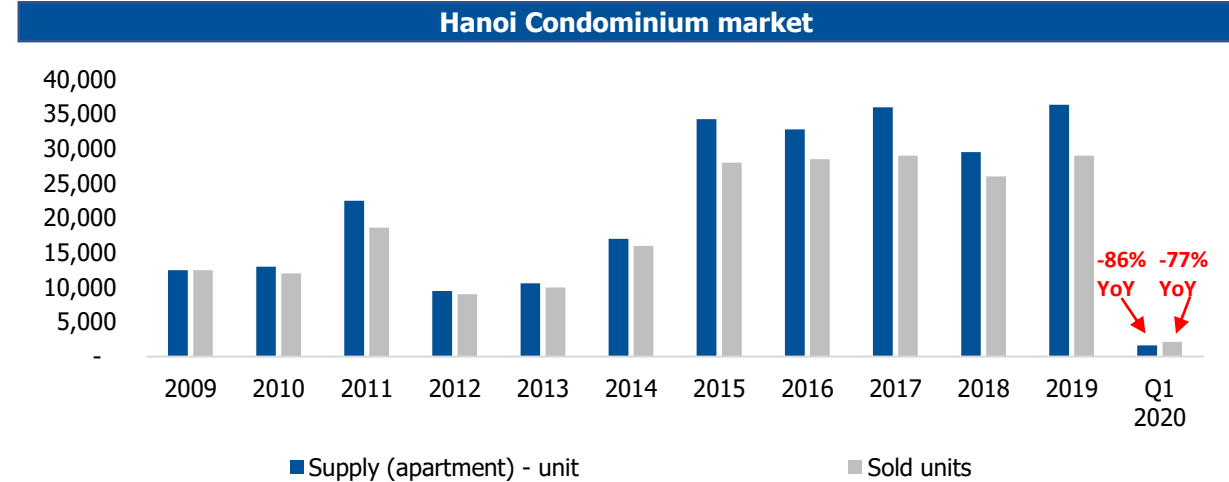
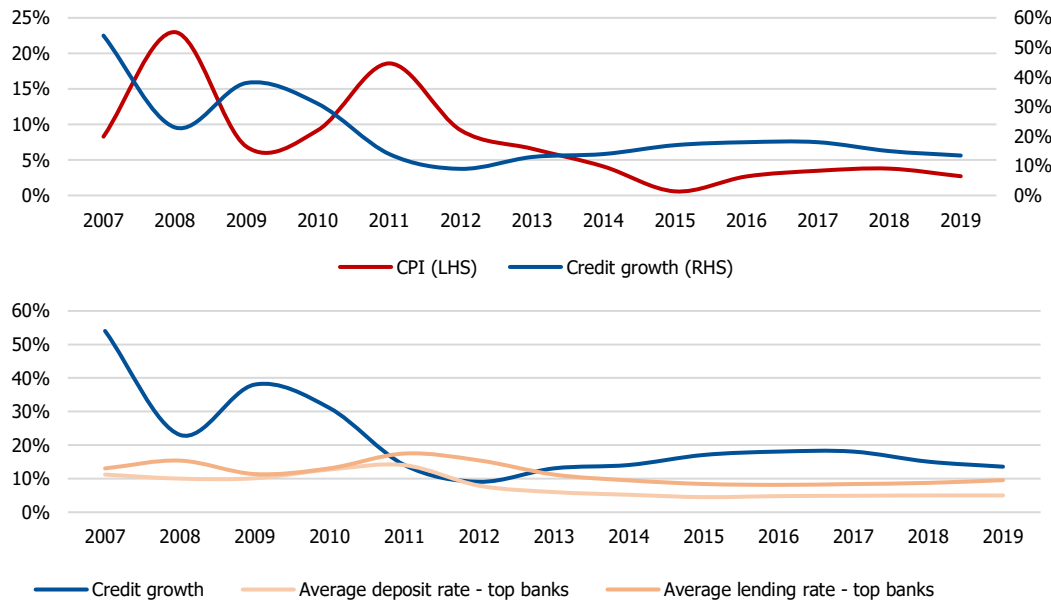
Real estate - Residential

Difference in segments

Condominium	Luxury	High-end	Mid-end	Affordable
Hanoi	N/A	2.335 USD/m2 ▲ 4% YoY ▲ 0% QoQ	1.299 USD/m2 ▲ 5% YoY ▼ -1% QoQ	788 USD/m2 ▲ 1% YoY ▲ 1% QoQ
HCM City	6.322 USD/m2 ▲ 8% YoY ▲ 0% QoQ	2.561 USD/m2 ▲ 6% YoY ▲ 0% QoQ	1.463 USD/m2 ▲ 15% YoY ▲ 2% QoQ	939 USD/m2 ▲ 9% YoY ▲ 5% QoQ

Source: CBRE Research, Q1/2020

CPI, credit growth and interest rate



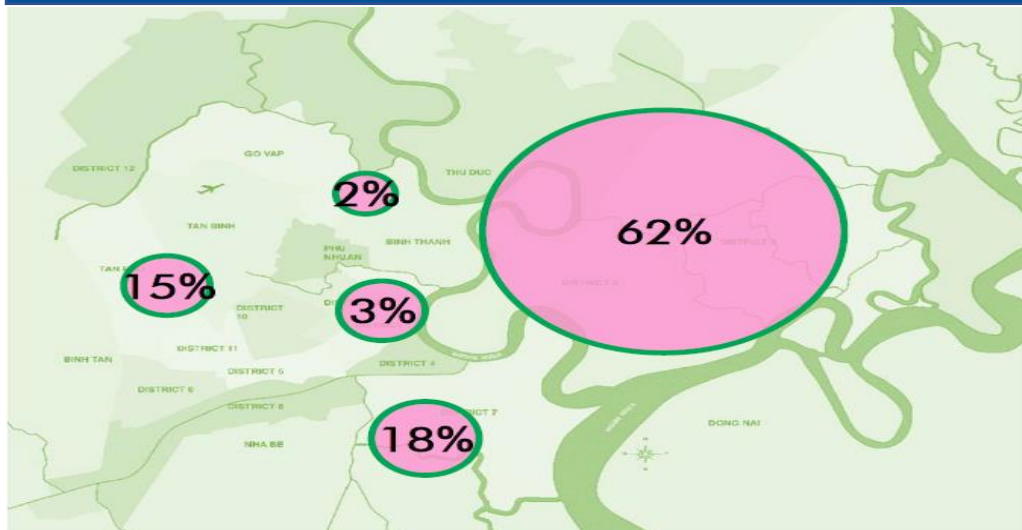
Real Estate - Residential

Major city

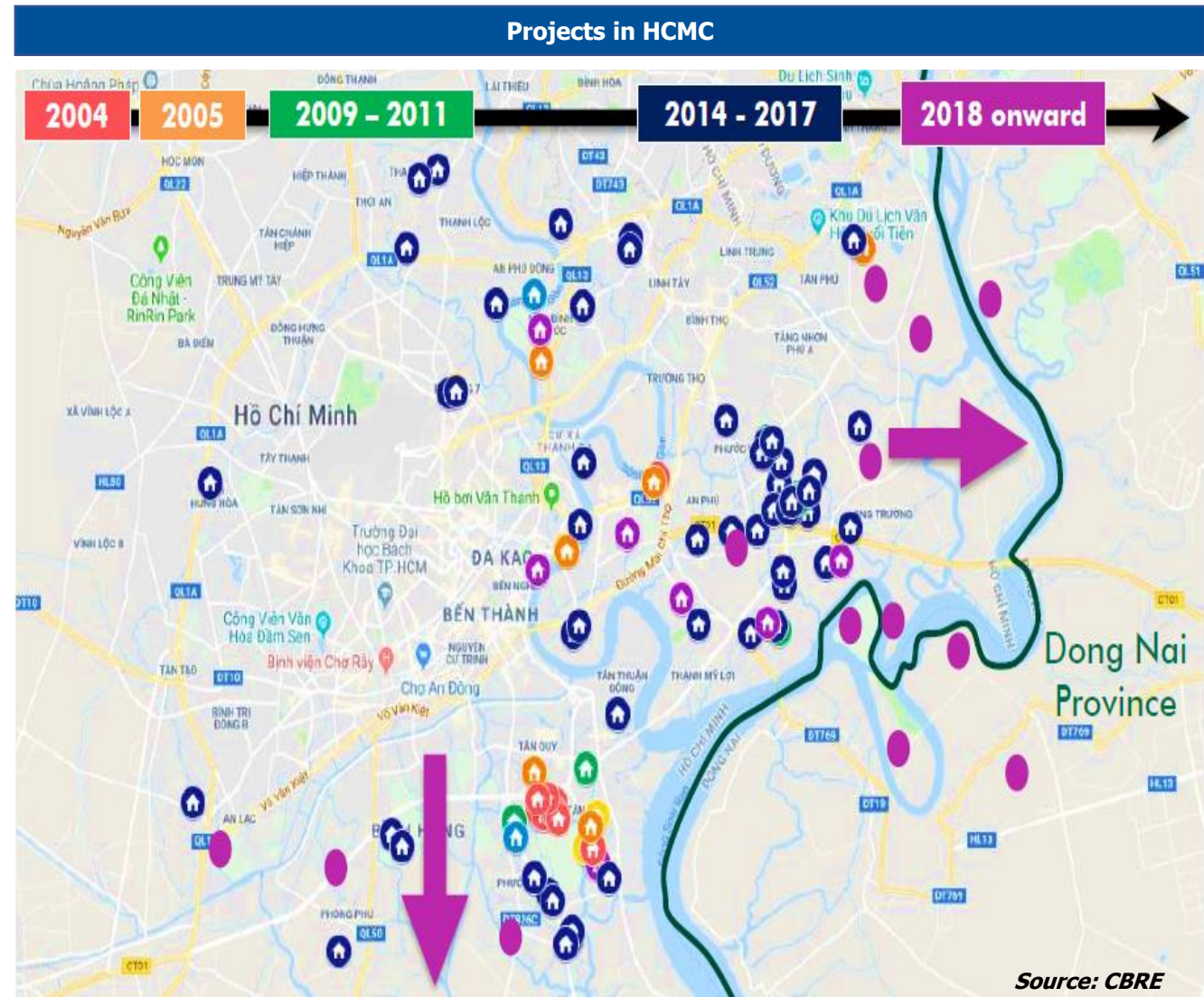
In Tp. HCM:

- The mid-end segment is the main demand driver: Sales reached 17,248 units in the third quarter of 2019, from 14 projects with Vinhomes Grand Park contributing more than 60% of the units implemented.
- Buyers for investment and speculation purposes - the main source of demand for high-end apartments, turned to villas / townhouses to achieve higher expected returns.
- The prices of apartments did not fall due to Covid-19 - the average price increases by about 9% YoY, and new project sales rate at about 81% (1Q/2019 at 85%).
- Covid-19 scenarios:
 - ❖ Covid-19 controlled by June/2020: Supply increase by 5% YoY in 2020 (28,000 units), price increase by 5% YoY, units sold decrease by 5% YoY (29,000 units).
 - ❖ Covid-19 controlled by September/2020: Supply decrease by 60% YoY in 2020 (15,000 units), price decrease by 6% YoY, units sold decrease by 55% YoY (13,600 units).

New supply in 2020-2021



Source: CBRE Research, Q1/2020



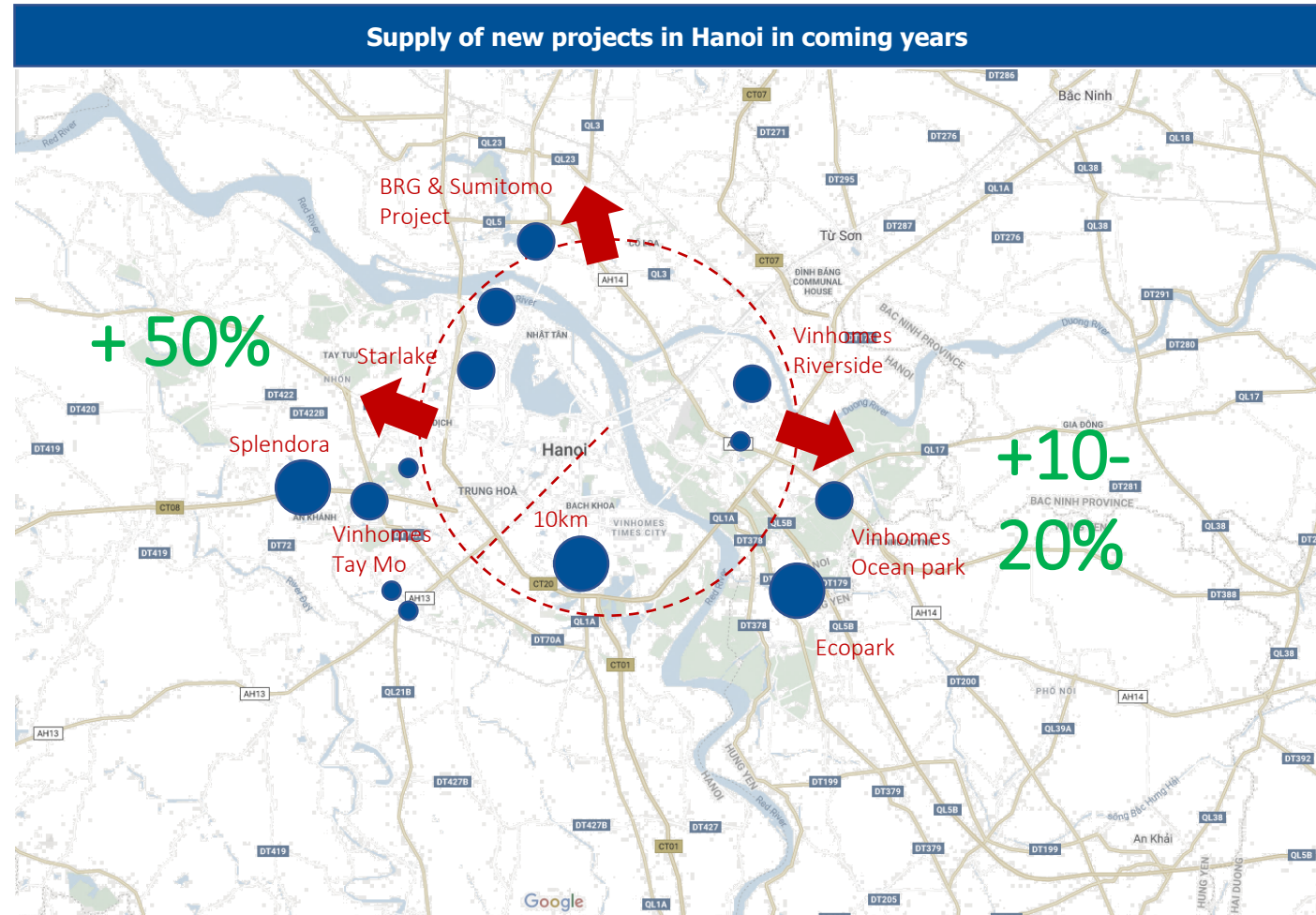
Source: CBRE

Real estate - Residential

Difference in segments

Hanoi:

- Most new supply comes from the west of Hanoi, about 50% of new supply. Projects from Vinhomes and Ecopark have accelerated to expand to the east of Hanoi as well.
- A number of new projects will be launched in the next few years, especially in the North along Nhat Tan Bridge Expressway, with Vinroup and BRG planning to deploy major projects.
- RE developers in the future need to focus on increasing the quality of mid-high-end projects, or choosing to develop lower-cost projects in locations far from the center in the coming years. Purchasing power and BDS demand are still quite positive and strong.
- Covid-19 scenarios:
 - ❖ Covid-19 controlled by June/2020: Supply decrease by 26% YoY in 2020 (27,000 units), price increase by 3% YoY, units sold decrease by 20% YoY (25,000 units).
 - ❖ Covid-19 controlled by September/2020: Supply decrease by 62% YoY in 2020 (14,000 units), price decrease by 6% YoY, units sold decrease by 70% YoY (9,000 units).



Real Estate - Residential

SUPPLY SIDE

Developers have to focus on higher quality products, with main land banks expanding into suburban areas around big city like Hanoi and HCMC, and trending provinces like Quang Ninh, Phu Quoc, Binh Duong, Dong Nai, etc.

Supply will continue to be scarce, at least until 2nd half of 2020, due to very few new projects approved in 2019. Forecasted number of units developed in 2020-2022 is also expected to be lower than the period 2017-2018.

Infrastructure will be a key factor in the speed of growth for the real estate industry in the next 10 years. The speed of supply for new projects will depend heavily on pipelines of highways around major city, North-South highway and other infrastructures in major cities, especially HCMC.

Government's tightening policies in granting land use rights and construction licenses, will make supply in coming years quite uncertain.

Tightening policies from the lending side – the 85% LDR limit for banks and stricter lending requirements.

It is also getting harder to raise capital via bonds for developers, with rates now at about 10-13%, with some cases reaching 14-15%.

DEMAND SIDE

Demand is looking to remain relatively hot due to high urbanization rate and favourable macroeconomic factors including high GDP growth, FDI inflows and low interest rates and inflation.

For HCMC, mid-end and low-end segment will continue to be the main driver, and locations for new projects will have to be moved further to the east and south of HCMC. Meanwhile, high-end segment is expected to face some slow-down, as higher prices making investment purchases less attractive.

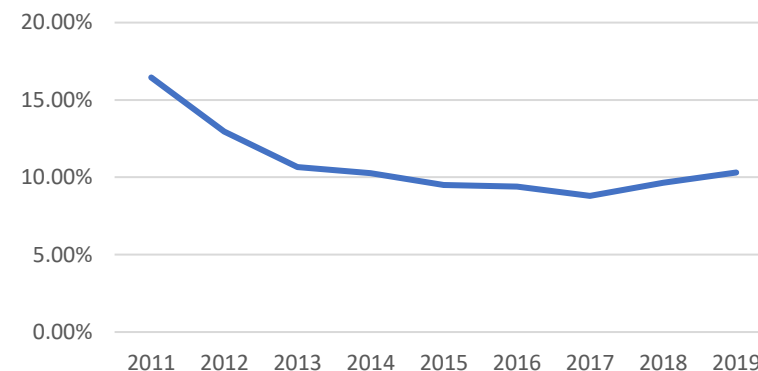
A large proportion of new projects pipeline will come from large projects, namely GS Metro City in Nha Be District and Vinhomes Grand Park in District 9

For Hanoi, limited land resources and more city-center focused demand than HCMC will force developers to push for higher quality products.

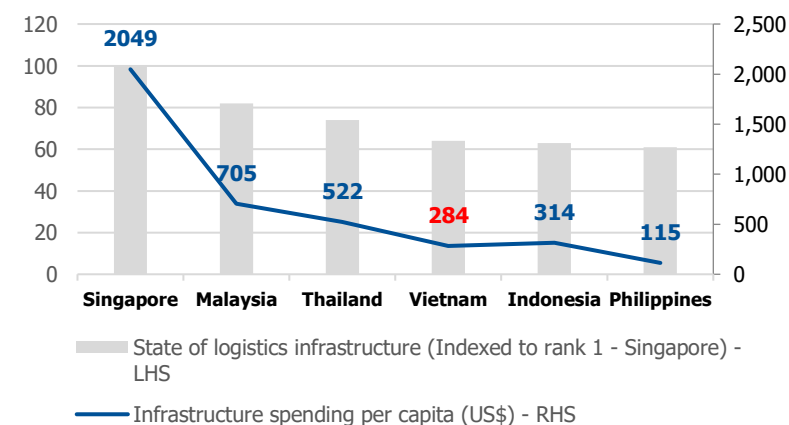
New projects pipeline will come from large projects, the biggest coming from developers like BRG Group and VinGroup.

New investors from other Asian countries such as Japan, South Korea and China may make the prices in key areas like Hanoi, HCMC and other provinces like Quang Ninh to increase.

Lending rates for real estate buyers



ASEAN-6 infrastructure position and spending



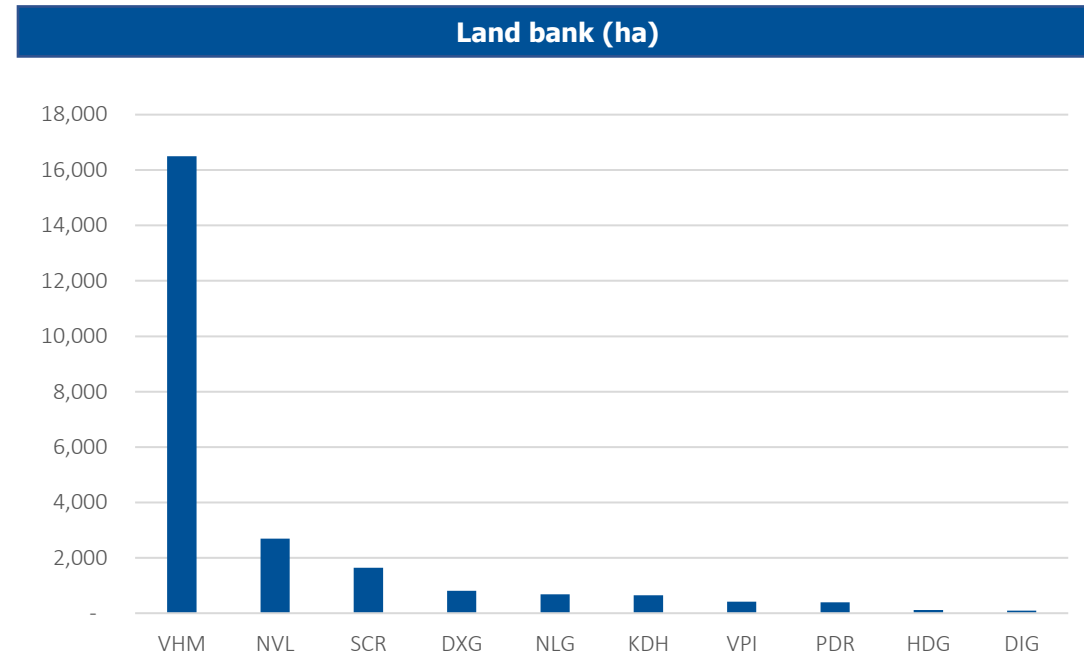
Real Estate - Residential

Listed companies

Ticker	Market cap (USD million)	Debt / Equity	Gross profit margin	Net profit margin	ROE	ROA	P/E	P/B
VHM	10,084	41%	53%	42%	48%	16%	9.2	3.7
NVL	2,183	141%	29%	31%	16%	4%	14.7	2.3
SCR	73	48%	41%	27%	6%	3%	6.3	0.4
DXG	235	48%	53%	21%	16%	5%	4.6	0.8
NLG	259	14%	42%	38%	18%	9%	6.7	1.1
KDH	513	10%	53%	33%	13%	8%	12.3	1.5
VPI	287	158%	27%	17%	21%	6%	13.2	2.7
PDR	393	50%	39%	26%	23%	7%	10.5	2.3
HDG	136	177%	42%	21%	39%	7%	3.5	1.2
DIG	157	32%	30%	18%	12%	5%	9.5	1.0
Average		72%	41%	27%	21%	7%	9.0	1.7
Median		48%	41%	26%	17%	7%	9.3	1.4

Notable stocks & their coming projects' locations

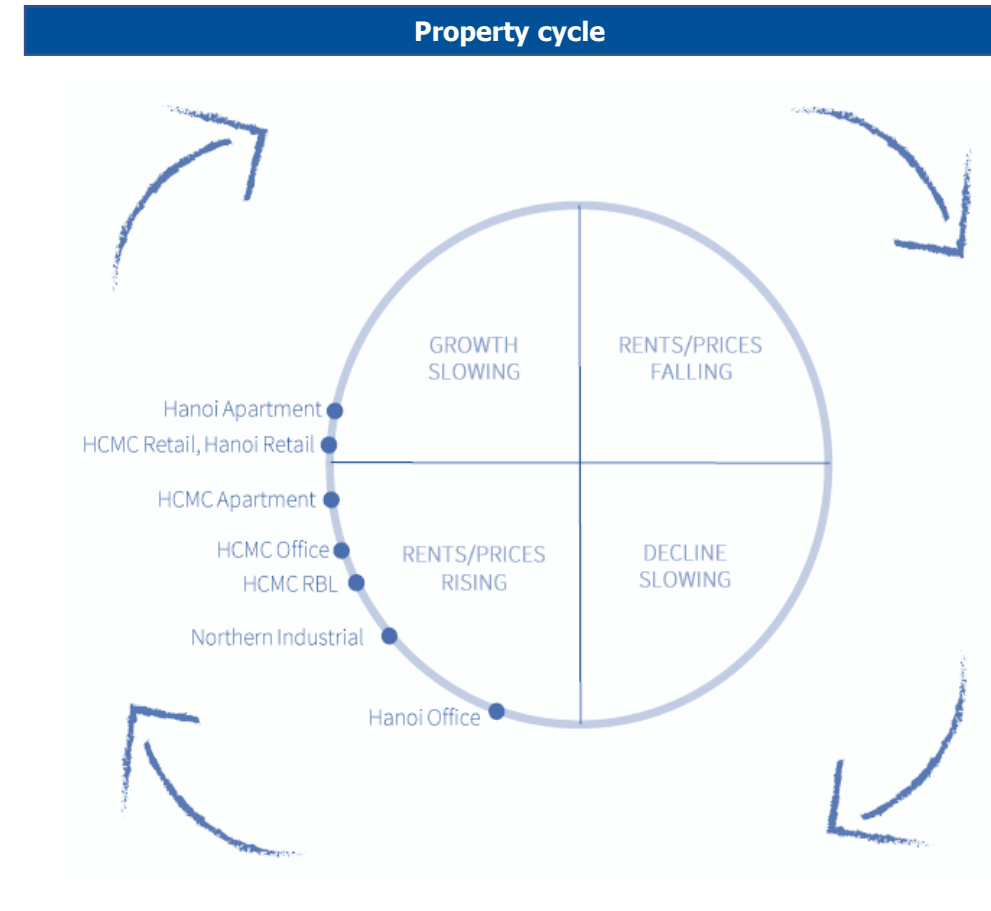
- VHM: Hanoi, HCMC – suburban areas and Quang Ninh province
- NLG: Long An, Dong Nai, Hai Phong
- HDG: HCMC
- DXG: Binh Duong
- NVL: condotels and resorts



Real estate

Covid-19's impacts on various sectors

	Covid-19 impacts	Details
Industrial Parks	Mixed impacts	<ul style="list-style-type: none"> - On one hand, slow growth of Global economy, and capital withdrawals due to Covid-19 may negatively influence FDI inflows into Vietnam. Potential foreign and local producers may face financial difficulties from the virus and may postpone their plans on new projects. The restriction on traveling due to Covid-19 also affect progresses of new/potential projects. - On the other hand, Vietnamese Government has dealt with Covid-19 quite well, stopped the spread of the Virus completely and very short lock down period compared to other countries. Vietnam will benefit from the movements of supply chains going out of China, recent Trade agreements and strong macroeconomic factors.
Residential	Mild impacts	Covid-19 slowed down both supply and demand sides of the market, and may impact home-buyers' sentiments as well. However, the Government may support by increasing spending on infrastructure and loosening policies/regulation to support real estate developers.
Retail	Large impacts	Footfalls in shopping centre decreased dramatically due to Covid-19 (about 70% YoY in Q1/2020 - according to CBRE). Retail sales fall, leading to tenants facing difficulties and landlords having to reduce rent prices / payments.
Vacation property, hotel, condotel	Large impacts	Tourism dramatically affected by Covid-19, Vietnam National Administration of Tourism (VNAT) has forecasted two scenarios: (1) The coronavirus to be contained by June 2020 - international tourist arrivals would reduce by 70% ; (2) The coronavirus to be contained by September 2020 - international tourist arrivals would reduce by 75%
Office	Mild impacts	Businesses may delay the decision to rent new offices in the first half of 2020, but demand will mostly return. However, the habit/culture of working remotely may start in certain businesses, thus lower office demand.

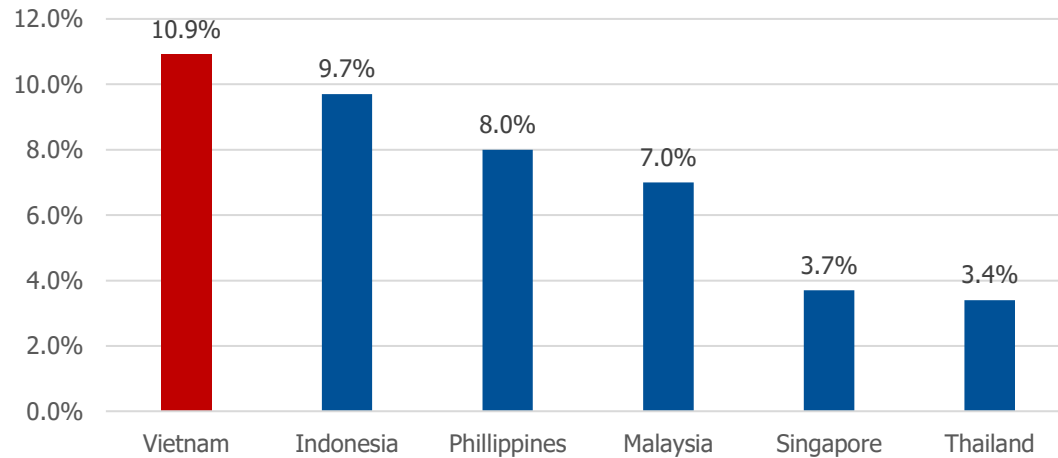


Source: MBS Research, JLL Research

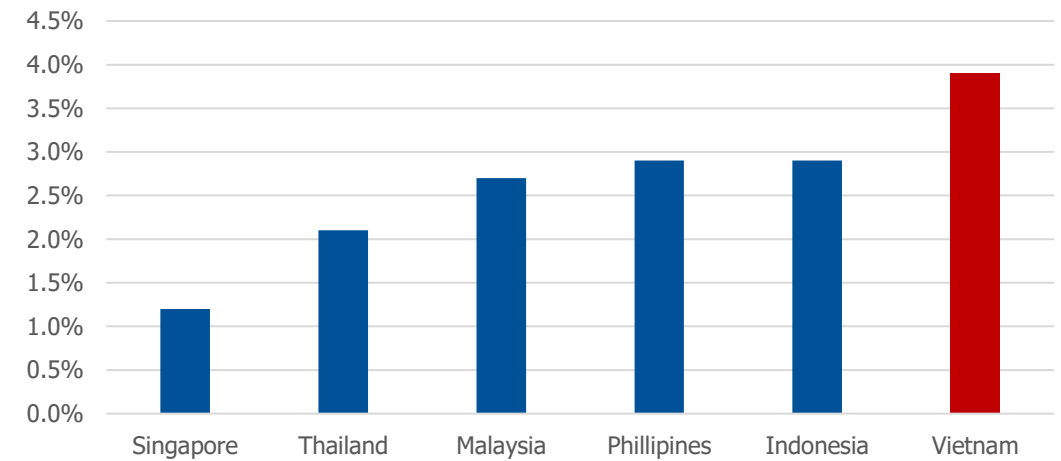
Real estate - Retail

Long term growth potential from macroeconomic and demographic factors

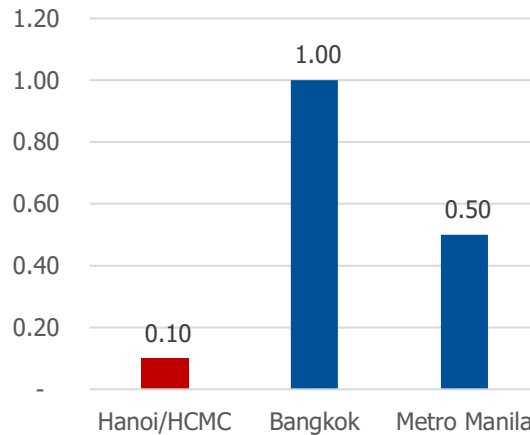
2017 – 2021E CAGR in retail sales (%)



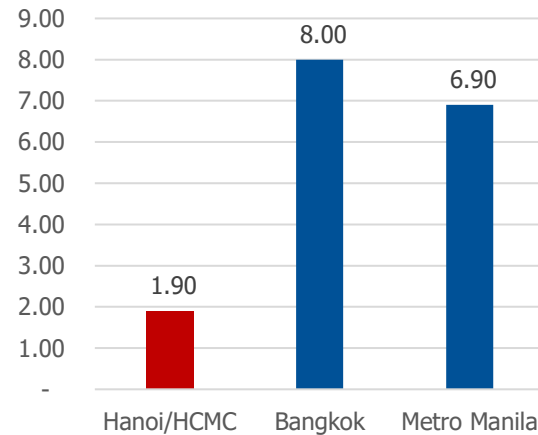
Urban Population 2018A – 2025E Growth (%)



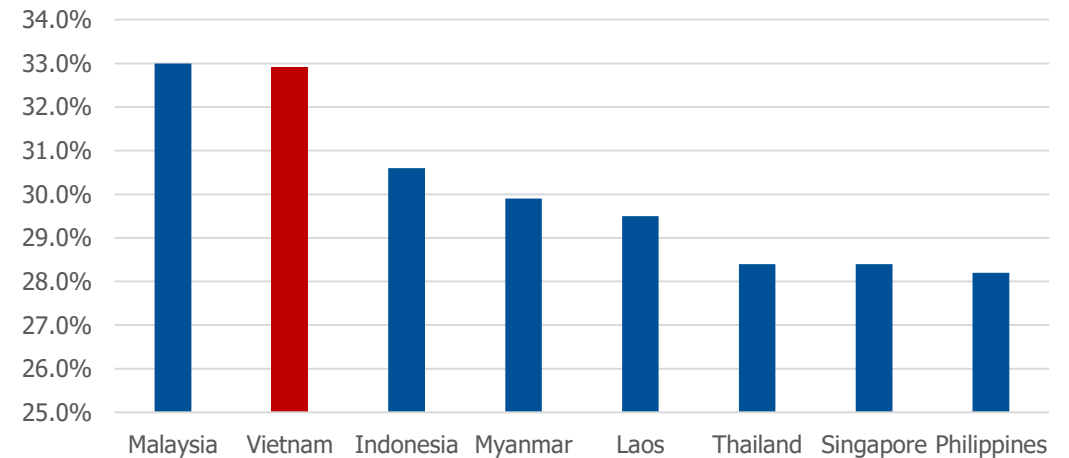
Mall GFA per capita (sqm)



Mall GFA per capita (sqm)



Population with Age Range Between 25 – 44 as % of Total Population (2018)



VIETNAM REAL ESTATE

Vincom Retail JSC (HSX: VRE)

Investment keys

We recommend a BUY for VRE with target price of VND 38,700 (36% upside) due to the following:

- Huge advantage from Vingroup's eco-system and fast-growing mega projects like Vinhomes Ocean Park, Smart City, Grand Park, coming by end of 2020.

Relatively high barriers of entry: (1) very limited supply of land resources in big cities like Hanoi and HCMC, (2) very few large urban areas like Vinhomes' projects and (3) brand name of Vingroup as high quality developer proven over the last 10 years.
- Largest and fastest growing retail real estate developer and operator in Vietnam, far ahead of other competition.
- Ambitious plan for new mall launch, VRE expects to grow its total Gross Floor Area (GFA) by 170,000 m2 in 2020 and about 250,000 m2 per year in the next years. Net profit will grow steadily in the next 3 years, thanks to new malls launched and higher rent price.
- One of few stock in VN30 to benefit from the attractive retail markets of Vietnam, supported by strong macroeconomic growth, stable interest rates and exchange rates, and golden demographic conditions.

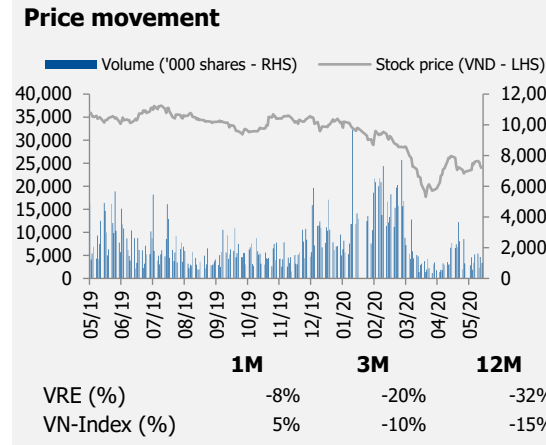
Key risks

The recent coronavirus will have significant impacts on the retail industry and consumption behavior, and the extend of spread of the virus is still unclear. The virus would create both a supply and demand shock for the economy and for retail sector particularly, as suppliers facing high difficulties (such as labour shock, liquidity risks, operation closure risks) and consumption behavior will change drastically.

- There is high uncertainty at the moment, therefore we use a higher discount rate than our previous valuation. Further downside risk to our valuation include further negative impacts from coronavirus to the economy and retail industry, thus VRE would face challenges in occupancy rates and rental prices.
- Upside potential to our valuation is from higher discount rate, if the market risks and macroeconomic risks are controlled and coronavirus had insignificant impacts on VRE's occupancy rates and rental prices.

Valuation

Our 12-month target price of 38,700 VND/share (+36% upside) is based on NAV method. A BUY recommendation is supported by solid earnings growth and robust growth of GFA over the next few years. VRE is currently trading at 2019F P/E of 30x.



Report date	May 17, 2020
Current price	24,100 VND/shares
Target price	38,700 VND/shares
Upside	61%
Bloomberg ticker	VRE VN
Market cap	VND 56,125 bn USD 2,395 mn
52 weeks movement	VND 17,700 – VND 37,500
Average daily value	VND 72 bn USD 3 mn
FOL	50%
Current FO	35%

Unit: VND billion	2019A	2020F	2021F	2022F
Revenue	9,259	9,768	11,531	12,694
EBIT	3,585	3,896	4,687	5,279
Net profit	2,849	2,891	3,450	3,917
EPS (VND)	1,223	1,237	1,476	1,676
EPS growth rate (%)	18%	1%	19%	14%
P/E (x)	27.8	19.5	16.3	14.4
EV/EBITDA (x)	15.1	12.4	10.4	9.2
DPS (VND)	1,053	1,000	1,000	1,000
Dividend yield (%)	3%	4%	4%	4%
P/B (x)	2.9	2.0	2.0	1.9
ROE (%)	11%	10%	12%	13%
Debt/equity (%)	10%	17%	19%	19%

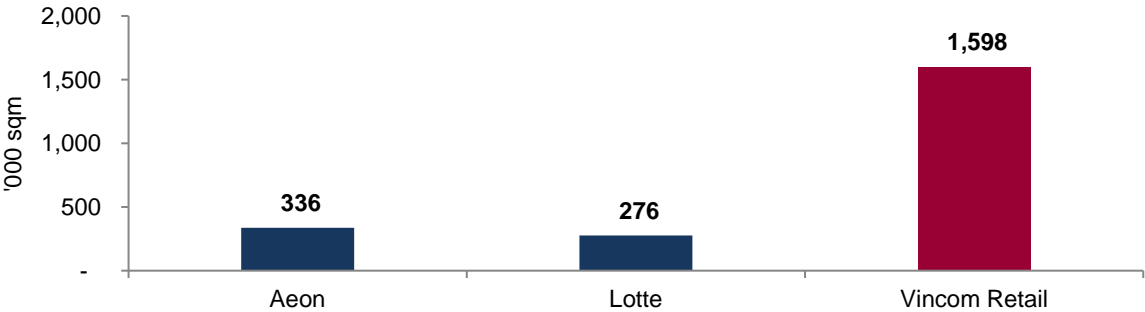
Source: MBS Research

Leading in retail lease sector

In our estimation, VRE is now the leader of Vietnam’s retail lease sector with 63% and 34% market shares in Hanoi and HCMC, respectively. VRE owns **79 malls** with GFA of **1,597,561 m²**, significantly higher than its peers: Aeon Mall has 5 malls with 336,000 m² while Lotte Mart has 14 supermarkets with GFA of 276,000 m².

VRE are now possessing 4 retail formats including Vincom Center (VCC), Vincom Mega Mall (VMM), Vincom Plaza (VCP) and Vincom+ (VC+) to cover segments in retail market. VCCs are located in Hanoi and HCM city center for serving middle and upper middle income class while VMMs are set up in integrated development area for targeting families across all income segments. VCPs are in center of provincial town and urban non-CBD consumers of key cities aiming to middle income class while VC+ are in regional and non-CBD catchment areas for serving low to middle income class. With the network encompassing prime business location throughout Vietnam, as well as differentiating segmentation and competitive advantage, we believe VRE will fully benefit from the robust growth of retail sector in Vietnam.

GFA of large retail lessors



Formats of VRE’s malls						
	Vincom Retail				Lotte Mart	Aeon Mall
	Vincom Center	Vincom MegaMall	Vincom Plaza	Vincom +		
Quantity	7	3	54	15	14	5
Total	79					
GFA (m²)	280,026	388,082	857,517	71,936	~276,000	~336,000
Total	1,597,561					

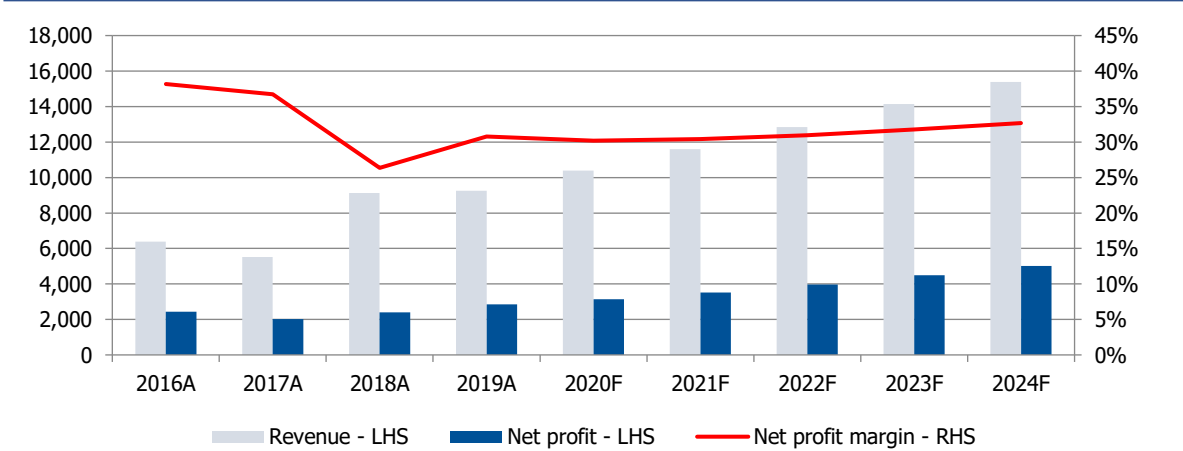
Brand	Vincom Center	Vincom Mega Mall	Vincom Plaza	Vincom+
Typical Size (GFA sqm)	40,000 –60,000	60,000 –150,000+	10,000 –40,000	~3,000 - 5,000
Development Timeline (months)	18 –24	24+	12+	6+
Positioning	Situated in high-density locations in key cities of Hanoi & HCMC Attracts affluent or aspirational crowds in search of latest trends & brands	Lifestyle malls located in integrated / mixed use dev. in key cities of Hanoi & HCMC “Fortress Malls” with lifestyle needs for masses & middle income families	Communityretail malls located in high-density non-CBD locations & in other provinces Acting as “one-stop” retail containing predominantly local brands	Community retail malls located in medium density non-CBD locations & in other provinces Modern retail experience with hypermarkets & family focus

Source: VRE, MBS Research

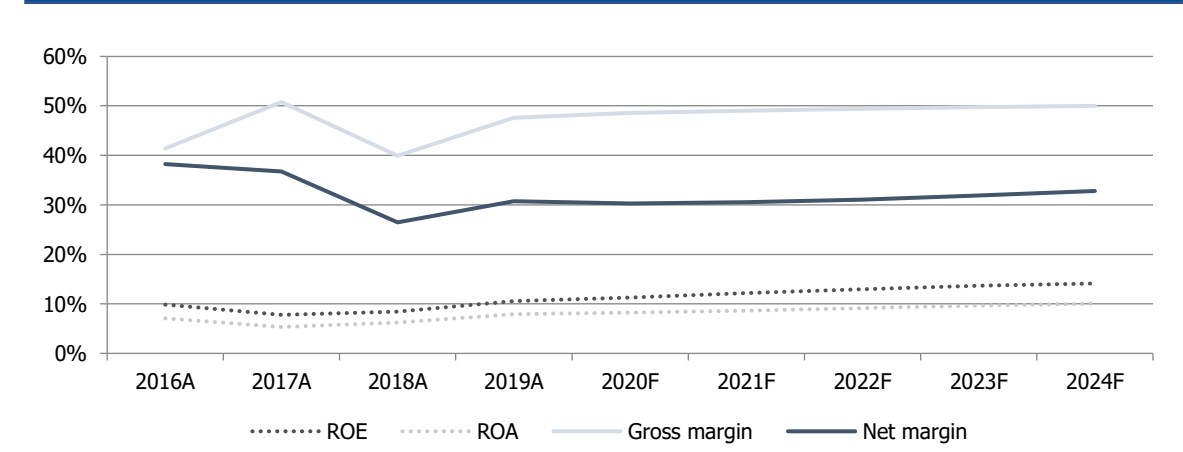
Vincom Retail JSC (HSX: VRE)

Growth potential

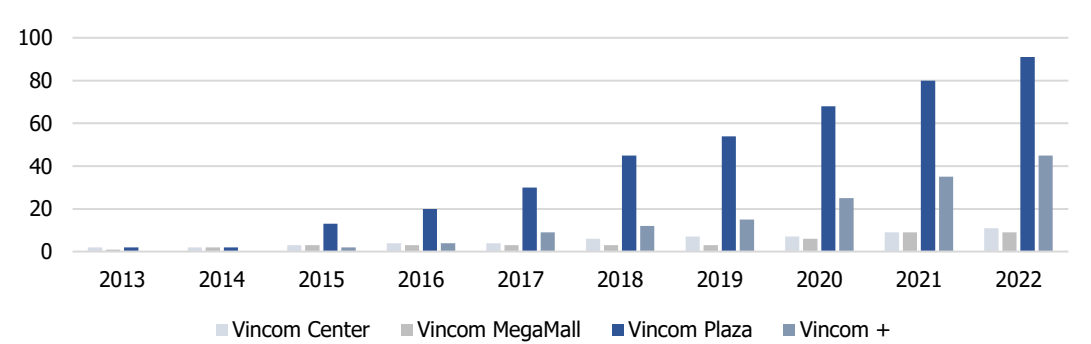
Revenue & profit margin



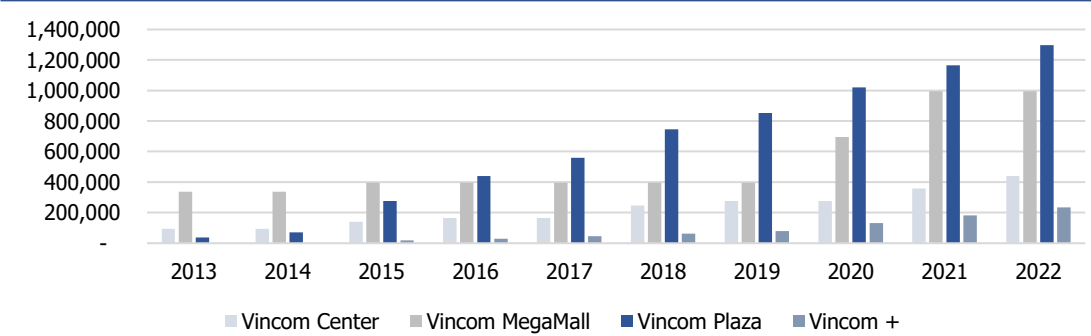
Profitability ratios



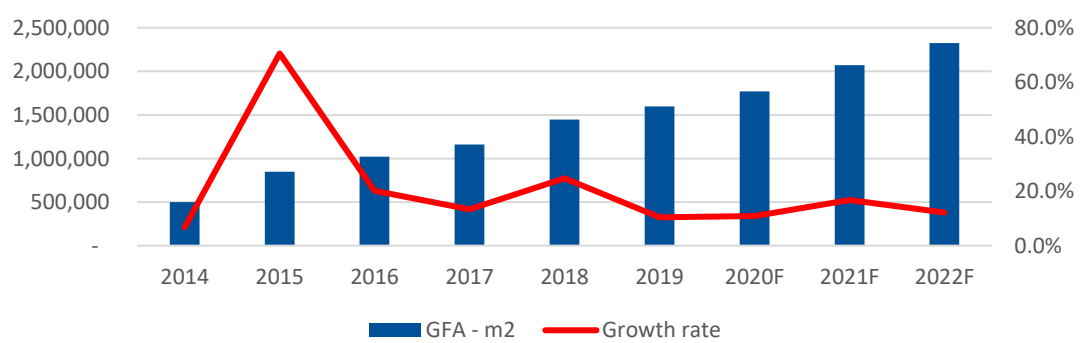
No. of malls



GFA



GFA growth

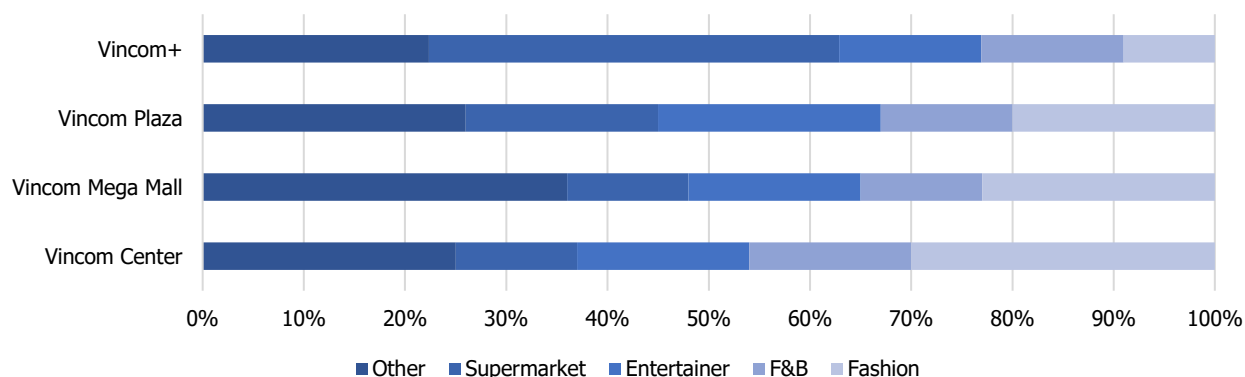


Vincom Retail JSC (HSX: VRE)

Valuation

Our forecast						
VND billion	2019	2020F	2021F	2022F	2023F	2024F
GFA (mn m2)	1.598	1.772	2.070	2.323	2.576	2.759
Leasing revenue	7,017	7,768	9,531	10,996	12,366	13,667
Total Revenue	9,259	9,768	11,531	12,694	14,064	14,895
<i>Growth</i>	<i>1%</i>	<i>5%</i>	<i>18%</i>	<i>10%</i>	<i>11%</i>	<i>6%</i>
COGS	4,854	5,051	5,879	6,357	7,001	7,283
Gross Profit	4,405	4,717	5,651	6,337	7,063	7,612
<i>Growth</i>	<i>21%</i>	<i>7%</i>	<i>20%</i>	<i>12%</i>	<i>11%</i>	<i>8%</i>
Net profit	2,849	2,891	3,450	3,917	4,446	4,904
<i>Growth</i>	<i>18%</i>	<i>2%</i>	<i>19%</i>	<i>14%</i>	<i>13%</i>	<i>10%</i>
EPS	1,223	1,237	1,476	1,676	1,902	2,098
<i>Growth</i>	<i>18%</i>	<i>1%</i>	<i>19%</i>	<i>14%</i>	<i>13%</i>	<i>10%</i>
BVPS	11,572	11,816	12,298	12,981	13,891	14,999
ROE	10.6%	10.5%	12.0%	12.9%	13.7%	14.0%
ROA	8.0%	7.6%	8.4%	9.0%	9.5%	9.9%

Tenant mix by NLA



Assumption

%NFA/GFA	75%
Net operating income (NOI) for Rental Revenue	68%
WACC	12.5%
Operating years for Malls	50

Valuation

Method	NAV (VNDbn)
NAV of current malls	
<i>Vincom Center</i>	<i>DCF</i> 30,860
<i>Vincom Mega Mall</i>	<i>DCF</i> 15,968
<i>Vincom Plaza</i>	<i>DCF</i> 20,442
<i>VINCOM+</i>	<i>DCF</i> 1,190
NAV of future malls	DCF 21,632
Cash flows from residential property sales	DCF 1,448
Gross assets value	91,540
Net debt	(1,396)
Net asset value	90,144
Shares outstanding	2,328,818,400
Value per share	38,708

Source: VRE, MBS Research

Vincom Retail JSC (HSX: VRE)

Financial statements



Income Statement (VND bn)	2018	2019	2020F	2021F	2022F
Revenue	9,124	9,259	9,768	11,531	12,694
Cost of good sold	5,483	4,854	5,051	5,879	6,357
Gross profit	3,641	4,405	4,717	5,651	6,337
Financial income	519	265	73	98	148
Financial expenses	417	303	376	497	555
SG&A expenses	751	820	822	964	1,059
Profit before tax	3,053	3,578	3,658	4,364	4,956
Profit after tax	2,413	2,849	2,891	3,450	3,917
Profit after tax for parent company	2,404	2,848	2,881	3,437	3,903
Non-controlling interest	9	0	11	13	14

Balance Sheet (VND bn)	2018	2019	2020F	2021F	2022F
Current assets	7,123	4,368	6,088	7,926	9,406
I. Cash & cash equivalents	2,431	1,388	1,455	2,478	3,437
II. Short-term investments	701	89	0	0	0
III. Receivables	432	420	527	622	685
IV. Inventories	902	986	1,262	1,470	1,589
V. Other current assets	2,656	1,485	2,843	3,357	3,695
Non-current assets	31,561	31,454	31,929	32,946	34,087
I. Long-term receivables	10	9	11	13	14
II. Fixed assets	308	474	283	250	227
1. Tangible fixed assets	282	450	270	249	227
2. Intangible fixed assets	26	23	13	0	0
III. Investment properties	26,429	28,064	28,087	29,221	30,308
IV. Long-term assets in progress	1,343	640	1,200	964	964
V. Long-term investments	1,832	700	700	700	700
VI. Other non-current assets	1,638	1,568	1,647	1,799	1,874
Total assets	38,684	35,823	38,016	40,871	43,493
Liabilities	10,174	8,872	10,498	12,231	13,262
I. Current liabilities	6,260	4,768	4,839	5,653	6,141
1. Short-term payables	6,242	4,748	4,839	5,653	6,141
2. Short-term borrowings	18	19	0	0	0
II. Non-current liabilities	3,915	4,105	5,659	6,578	7,121
1. Short-term payables	1,152	1,340	1,094	1,277	1,386
2. Long-term borrowings	2,762	2,765	4,565	5,301	5,735
Equity	28,509	26,950	27,518	28,641	30,231
1. Share capital	23,288	23,288	23,288	23,288	23,288
2. Share premium	47	47	47	47	47
3. Retained earnings	5,191	5,589	6,334	7,497	9,113
4. Non-controlling interest	42	34	40	42	44
5. Other capitals	-58	-2,008	-2,191	-2,233	-2,262
Total resources	38,684	35,823	38,016	40,871	43,493

Ratios	2019	2020F	2021F
Valuation			
EPS	1,223	1,237	1,476
Book value per share (BVPS)	11,572	11,816	12,298
P/E	27.8	19.5	16.3
P/B	2.9	2.0	2.0
Profitability			
Gross profit margin	48%	48%	49%
EBITDA margin	54%	48%	48%
Net profit margin	31%	30%	30%
ROE	11%	10%	12%
ROA	8%	8%	8%
Growth			
Revenue	1%	5%	18%
Profit before tax	17%	2%	19%
Profit after tax	18%	2%	19%
EPS	18%	1%	19%
Total assets	-7%	6%	8%
Equity	-5%	2%	4%
Liquidity			
Current ratio	0.92	1.26	1.40
Quick ratio	0.31	0.30	0.44
Debt/Total assets	8%	12%	13%
Debt/Equity	10%	17%	19%
Interest coverage	11.99	11.78	10.56
Operating efficiency			
Receivables turnover	21.1	20.1	19.5
Days sales outstanding	17 days	18 days	19 days
Inventory turnover	5.1	4.5	4.3
Days sales of Inventory	71 days	81 days	85 days
Payables turnover	1.8	2.5	2.6
Days payables outstanding	206 days	149 days	139 days

Cashflow Statement (VND bn)	2019	2020F	2021F
Cashflows from operation	3,567	447	4,339
Cashflows from investing activities	-205	161	-1,725
Cashflows from financing activities	-4,405	-542	-1,592
Net cash flows during the period	-1,043	66	1,023
Cash & cash equivalents - opening balance	2,431	1,388	1,455
Cash & cash equivalents - closing balance	1,388	1,455	2,478

Sources: VRE, MBS Research