

**BUY [+26%]**

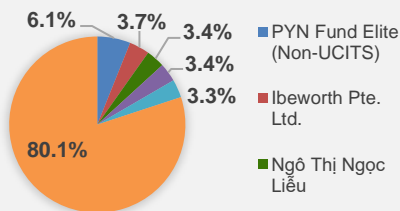
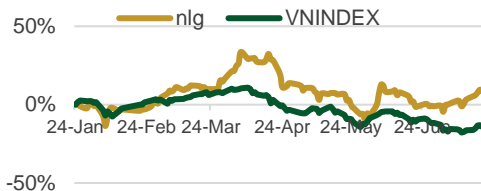
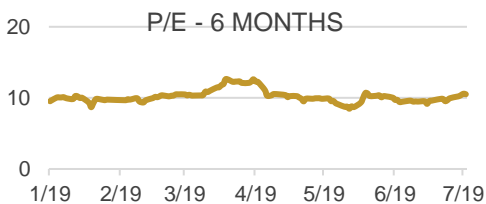
Updated time: 27/07/2018

Target price	37,135	VND
Current price (July 26 <sup>th</sup> )	29,500	VND

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**Stock information**

Outstanding share (million)	209.9
Free-float (million)	104.9
Market cap (billion dong)	6,454
3 month average volume	411.194
Foreign owning rate	49%
First listing date	08/04/2013

**Major shareholder**

**Price movement comparing to the Index**

**Evaluating history**


Source: FiinPro

Financial indicators	2014A	2015A	2016A	2017A	2018F
Net revenue (billion VND)	867	1,259	2,534	3,161	3,746
Earnings after tax (billion VND)	104	209	388	756	748
EPS (VND)	713	1,497	2,434	3,575	2,884
EPS growth (%)	223%	110%	63%	47%	-19%
Book value (VND)	14,434	17,140	22,146	23,678	19,305
P/E	17.6	9.3	6.7	6.0	10.4
P/B	0.9	0.8	0.7	0.9	1.5
Cash dividend (%)	258	271	473	225	500

## Positive prospect in long-term with Waterpoint project

### Business results update

Net revenue in first 6 months 2018 is 1,410 billion, up by 12 YoY even without revenue from real estate transferring like in same period. Core business revenue is 1,288 billion, up by 2.3 times YoY with much more houses delivered in the year. We expect that 2018 revenue will be 3,770 billion (+19% YoY) with the delivery of the products in Fuji, Kikyo projects and ground land in Can Tho and Long An.

Revenue increased strongly in the first half of the year but gross profit dropped to 39% from 49% in same period. In general, 6 month EAT is 298.5 billion (-24%), in which, parent company EAT is 215.1 billion.

Good growing prospect in the last 6 months, expected EAT for 2018 is 748.2 billion, similar to 2017.

### Growing prospect

2 big projects Mizuki Park (Binh Chanh, HCM) and Akari City (Binh Tan, HCM) with over 8,000 apartments (expected revenue is over 8 trillion) are expected to be growing motivation for strong revenue growth from 2019.

The most remarkable project is Waterpoint Long An, a very big project with 355 ha of land, with phase 1 being operated is a bright point in Nam Long profit picture in the next few years. The project has 3,000 products and expected revenue is about 10.7 trillion. Especially, the investment expense in this project is very low (0.42 million/m<sup>2</sup>) comparing to market price (C&W evaluate the price at 65 USD/m<sup>2</sup>). The company might see irregular profit from the investment in this project.

### Risks

NLG has risk of diluting, the company has been issuing shares to mobilize capital for controlling more land while profit growing speed is not enough to compensate. In the first 6 months 2018, NLG has issued 31.4 million shares and will see 2<sup>nd</sup> issuance of 40 million shares this year.

Besides, Nam Long business situation in particular and real estate section in general might be influenced in the last few months because of interest raising pressure.

### Evaluation and recommendation:

We use NAV solution for evaluating NLG. NLG reasonable price is 37,135 dong/share, 26% higher than closing price on July 26<sup>th</sup>. So we recommend BUY on NLG.

## Nam Long's remarkable projects

Nam Long develops 3 main products in middle and low price sections including Ehome (introduced in 2007), Flora (2015), and Valora (2016).

Ehome	Apartment/social houses for average incomers at the price of 450 – 1,000 million dong/unit
Flora	Apartment for above average incomers at the price from 1.1 billion dong/unit
Valora	House/Villa for high incomers

Targeting middle and low price section is NLG's main direction since the demand is increasing for this section. Especially, NLG's products have good infrastructure, and good transportation connection to the center regions via Nguyen Van Linh avenue from South Saigon, Vo Van Kiet avenue from West Saigon, Long Thanh – Dau Giay highway, Second Ring, and Thu Thiem tunnel from East Saigon.

Important projects for the company last year were Fuji Residences (District 9, HCM), Kikyo Residences (District 9, HCM), Ehome S South Saigon (Binh Chanh, HCM) that supply over 6,200 EhomeS and Flora apartments and 300 Valora villas.

The projects brought main revenue for NLG in the next few years are Mizuki Park (Binh Chanh, HCM) and Akari City (Binh Tan, HCM) with total of over 8,000 units. Mizuki Park is a joint venture between NLG and Japan partner with investment rate of 50%, and Akari City is 100% owned by the company. Remarkably, NLG is strengthening the investment in Waterpoint project at 355 ha in Long An which is expected to be the main motivation for the company's strong growth in the next 5 years.

Project	Owning rate	Area (ha)	Location	Type	Quantity	Time	2018	2019	2020	2021	2022	2023	2024
Waterpoint	100%	355	Long An	Resident	N/a	2018-2024							
Akari City	100%	8.8	Binh Tan	Flora	4,617	2017-2024							
Mizuki Park	50%	26.4	Binh Chanh	Flora	3,959	2017-2024							
	50%		Binh Chanh	Valora	170	2017-2024							
Kikyo Residences	100%	17.8	District 9	Ehome S	1,420	2017-2019							
	50%		District 9	Flora	234	2017-2019							
	50%		District 9	Valora	110	2017-2019							
Fuji Residences	50%	5.6	District 9	Flora	789	2016-2018							
	50%		District 9	Valora	84	2016-2018							
Areco	100%	1.1	Thủ Đức	Flora	518	2018-2019							
Ehome S Nam Sài Gòn	87%	11.4	Binh Chanh	Ehome	1,678	2017-2019							
Valora Island	87%		Binh Chanh	Valora	44	2016-2017							
Nam Long Hưng Thạnh	100%	23.5	Cần Thơ	Ground land	548	2020							
Nam Long 2	100%	43	Cần Thơ	Ground land	1,200	2019-2021							

Source: NLG & PHS collected

### Waterpoint project:

Located in Ben Luc district, Long An province which is becoming a satellite city of Vietnam with competitive index and FDI always among top 10 of the country. Connecting with city area conveniently through Trung Luong highway, the location is as good as Binh Duong and Bien Hoa (Dong Nai). So, Long An real estate has recently seen big investors like Van Thinh Phat (Ben Luc), Bingroup (Tan An), Himland from 2017. This is a good sign showing better prospect on the economic and real estate market in Long An in general, and in good locations like Ben Luc and Tan An in particular.

Waterpoint project scale is 355ha and total investment is about 15 trillion. Waterpoint project phase 1 is expected to start constructing from June 2018, expected total investment is from 6.9 trillion and total revenue will be about 10.7 trillion. Currently, NLG has finished clearing the site and receiving red book for the whole project and the company is looking for strategic investors for this project.

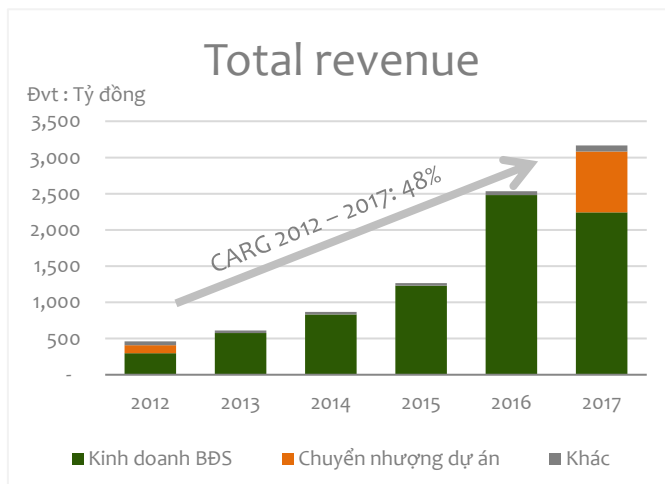
On July 14<sup>th</sup>, Nam Long group has officially released strategic investors for developing phase 1 of Waterpoint City, Long An. According to the agreement, Nam Long group, Japan investor Nishi Nippon Railroad, TBS Group and Tan Hiep Invtment Limited have cooperated with NLG to develop 5 projects.

## 2017 business results

**2017 business result was positive with strong revenue growth, the expense was well managed so profit margin was better.**

Annual revenue double growth in 2012-2017 is 42%. In which, 2017 net revenue is 3,161 billion (+24.8% YoY), 15% higher than year profit target. 2017 revenue growth came from the transferring of 26ha Nguyen Son project in Binh Chanh, HCMC at the value of 838.3 billion to NNH Mizuki JSC (Japan holds 50% investment). This revenue accounts 26% total revenue of 2017.

Meanwhile, real estate revenue (accounting 98% total revenue in recent years) dropped to 2,244 billion (-10% YoY), contributing only 71% total revenue. The rest was from service and utilities for citizens, including super market, kindergarten, parking place, school, and trading centers.



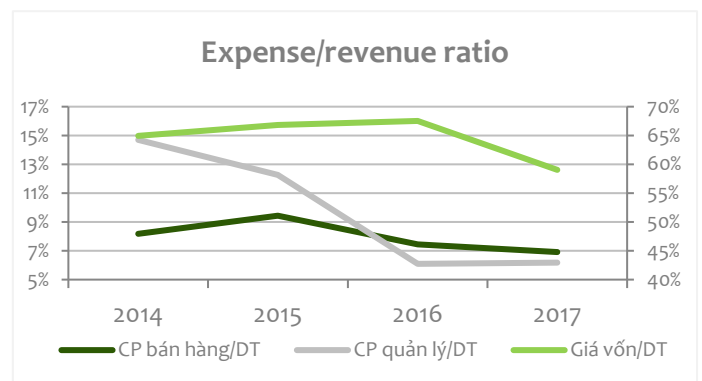
(Source: NLG, PHS summarization)

The reason for the drop in main operation is that in the first few months 2017, long-term mobilization interest rate increased which pushed long-term loan rate up, placing pressure on real estate market. For NLG, Q1/2017 revenue dropped by 32% YoY, and revenue in Q3/2017 saw the poorest performance because of July rain effect which lowered the revenue by 38% YoY. Especially, Q4 is usually a busy season, without revenue from transferring, revenue this quarter dropped by 20% YoY. The reason might be because there was no product to be delivered.

For product structure, in recent years, revenue contribution from Ehome products dropped because old Ehome products have completed while new projects like Ehome S South Saigon are under construction. Meanwhile, revenue from Flora and Valora villas in Fuji and Kikyo projects both increased positively.

**2017 gross profit increased to 41% from 32.5% in 2016**, higher than same scale companies like KDH (34%), HDG (34%). The main reason is the high gross profit from transferring activities (54%). However, gross profit of main business also improved to 37% from 33% in 2016.

**Business expense was well controlled.** Selling expense/revenue dropped to 6.9% comparing to the average rate of 8.4% in 3 recent years. Management expense /revenue is 6.2% of last year, but it is much better than previous years. This weight is much lower than same scale companies like DXG (10%, 9%) and HDG (10%, 6%).



(Source: PHS)

Revenue increased, gross profit got better while operation expense was well controlled so main business profit increased strongly to 881.3 billion (+83.6%). Not just that, finance profit increased by nearly 3 times in 2017 to 97.5 billion, because of banking interest and investment profit. Meanwhile, loan interest expense was 28.5 billion, up by 39% YoY, loan interest paying rate is 27.5 times, similar to peer companies.

**In 2017, EAT is 756.2 billion, up by 95% YoY**, which is a record profit for NLG in one year.

However, parent company EAT is 535 billion, 70% total EAT. Remarkably, this rate is dropping in recent years and might drop further in the next few years since the company is strengthening the investment with partners to improve the resource to push on construction progress. 2017 EPS is 3,575 dong/share.

In 2017, total asset increased by 1,697 billion, especially cash and cash equivalent with a strong growth of 1,150 billion, and long-term investment growth is

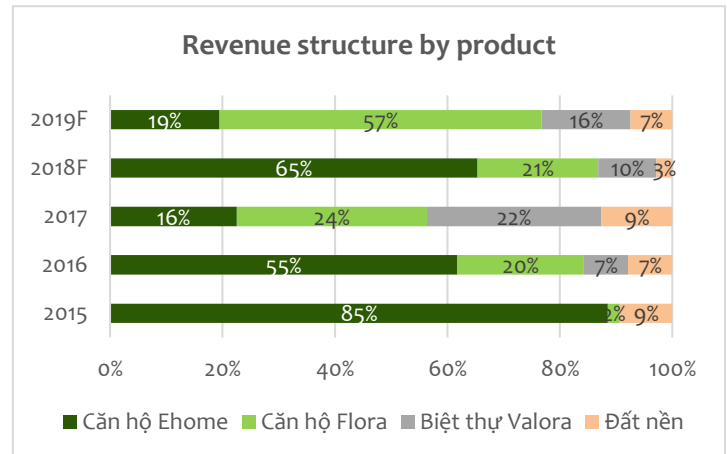
Trong năm 2017, tổng tài sản tăng 1,697 billion, đáng kể nhất là tiền và tương đương tiền tăng mạnh 1,150 billion và tăng đầu tư dài hạn 750 billion in NNH Mizuki, equivalent to 50% capital from Q3/2017. However, remarkably, as of Q4/2017, the company has transferred the 26ha Nguyen Son project in Binh Chanh to NNH Mizuki joint venture and collected 838.3 billion.

For capital resource, total debt increased by 1,100 billion but a positive point is that bank loan dropped by nearly 260 billion which lowered loan interest expense, while capital usage debt and buyers' prepaid increased by 600 billion since in 2017, NLG sold many projects and collected deposits from customers. Among total debt, there was 500 billion dong of convertible bond (12% total resource), 4 year period, issued on April 08<sup>th</sup>, 2016 and converting price is 23,500 dong/share. Accordingly, expected number of share being issued is 21.3 million which create diluting pressure for NLG in the future.

## Updating 6 months 2018 business results and 2018 estimation

**6 month 2018 net revenue is 1,410 billion, up by 12% YoY.** Different from same period, 6 month revenue didn't see any revenue from real estate transferring, showing that core operation revenue has increased positively. Accordingly, revenue from real estate business is 1,288 billion, up by 2.3 times YoY since during the period, the company delivered 822 products (including 543 apartments, 92 conjoint houses and 187 ground land pieces) comparing to a modest figure of 358 products in same period same period 2017. **We expect that 2018 revenue is 3,770 billion (+19% YoY)** which is close to the company target. According to plan, in the last 6 months, the company will deliver about over 1,000 products including (1) Flora and Ehome from Fuji, Kikyo and South Saigon projects, (2) Valora from Kikyo and Nguyen Son projects, (3) ground land in Can Tho and Long An.

**The company performance in the first 6 months is also quite good,** with positive growth in both quantity and value. Selling quantity increased to 1,107 apartments comparing to 833 apartments in same period, mainly focusing on Flora and Ehomes with 1,013 products (82%) which came mainly from Mizuki project. Meanwhile, Valora dropped from 199 to 31 products so total selling value in the first 6 months only increased slightly by 6% to 1,954 billion. With positive selling, we think that the revenue in the next few years will increase strongly from delivering big projects like Mizuki Park from 2019, and Akari from 2020 with total of 8,000 products. Besides, the projects of Areco (Thu Duc, HCM), Ehome S South Saigon with total of 2,000 apartments will also contribute remarkably in the company revenue. Especially, NLG's Waterpoint project, phase 1 with over 3,000 products including ground land for expected revenue of 10.7 trillion will be recorded from 2019.



(Source: NLG)

**Revenue increased strongly but gross profit dropped to 39% in the first 6 months from 49%** in same period because of lower real estate profit margin comparing to transferring and real estate profit margin dropped comparing to same period to 40% from 43% last year, the reason might be that the remaining products in Fuji and Kikyo projects might not see as high profit as previously sold products.

**Not just that, operation expense also increased** with selling expense increased by 122% YoY in the first 6 months to 120 billion, management expense also increased by 13% YoY to 91 billion so net operation profit dropped by 23% YoY to 381 billion.

A positive point is that finance revenue increased by 52% YoY to 53 billion because of bank deposit interest in the first 6 months, cash and cash equivalent increased by 436 billion from the end of 2017 to 2,518 billion so bank deposit interest increased strongly. Meanwhile, loan interest expense dropped by 52% to 8 billion.

**In total, 6 month EAT is 298.5 billion (-24%), in which, parent company EAT is 215.1 billion.** We expect that 2018 EAT might be 748.2 billion, similar to 2017. Revenue expects to grow positively but profit will only increase slightly because of dropping profit margin. Accordingly, parent company profit is 529.4 billion and EPS is expected at 2,884 dong (-19%yoy).

## **Diluting risk**

On April 17<sup>th</sup>, 2018, the company issued 31.4 million shares, on June 21<sup>st</sup>, the company issued another 21 million shares to pay dividend, so outstanding share increased remarkably in the first 6 months. Other than the first issuance in the year, NLG plans to issue another 40 million shares to mobilize capital to develop new land source. If this issuance is executed, EPS will be remarkably diluted. However, in NLG recent meeting, the company stated that it might postpone the issuance since the market is not favorable.

## **Evaluation**

We use NAV method to determine NLG real value with total asset being re-evaluated at 13,199 billion, deducting debt and non-controlling shareholder benefit to get market price for total equity at 8,474 billion. We expect that number of share in 2018 is 228,000, so reasonable value for each share is 37,135 dong.

## Company profile

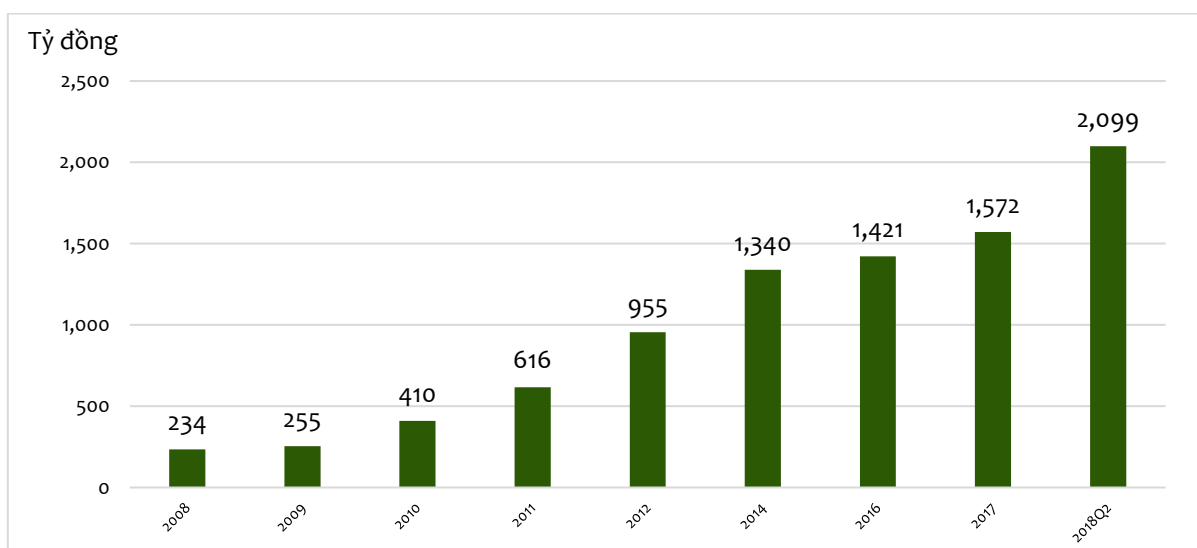
Founded in 1992, Nam Long is one of the pioneer city developers in Vietnam, main operation is in HCMC.

In 2003, the company expanded the investment to neighbor provinces like Binh Duong, Can Tho, Long An, Ba Ria – Vung Tau, and Dong Nai. Until now, NLG is studying the market and will expand the operation to Northern provinces like Hanoi and Hai Phong.

In 2013, the company shares were listed and traded on HOSE under the code NLG. In 2017, the company raised chartered capital to 1,572 billion. In 2018, it raised chartered capital to over 2,000 billion.



## Capital raising progress (billion dong)



(Source: NLG, PHS estimation)

**Finance statement (billion dong)**

Business results	2014A	2015A	2016A	2017A	2018E
Net revenue	867	1,259	2,534	3,161	3,746
Cost of goods sell	563	841	1,711	1,866	2,457
Gross profit	304	418	823	1,295	1,289
Selling expense	71	119	189	219	278
Management expense	127	154	154	195	187
Operational profit	106	145	480	881	824
Financial profit	44	142	25	98	82
Loan interest profit	11	11	21	29	75
Earnings before tax	139	276	484	950	831
Earning after tax	104	209	388	756	748
Parent company's EAT	96	206	345	535	529
Balance sheet	2014A	2015A	2016A	2017A	2018E
<b>Current asset</b>	<b>3,391</b>	<b>4,699</b>	<b>5,828</b>	<b>6,779</b>	<b>6,444</b>
Cash and equivalent	374	423	932	2,082	1,797
Short-term finance investment	16	17	39	60	60
Short-term receivables	320	516	1,095	579	661
Inventory	2,610	3,673	3,698	3,884	3,703
Other current asset	71	70	64	173	222
<b>Non-current asset</b>	<b>539</b>	<b>323</b>	<b>381</b>	<b>1,127</b>	<b>1,169</b>
Long-term receivables	-	86	125	76	99
Fixed asset	55	50	55	56	52
Invested real estate	60	57	39	33	22
In progress construction	0	0	-	-	0
Long-term finance investment	290	30	31	755	755
Other non-current asset	109	81	117	197	237
Good will	24	19	14	9	4
<b>Total asset</b>	<b>3,929</b>	<b>5,022</b>	<b>6,209</b>	<b>7,906</b>	<b>7,613</b>
<b>Payables</b>	<b>1,938</b>	<b>2,596</b>	<b>3,062</b>	<b>4,183</b>	<b>3,560</b>
Short-term debt	1,476	2,102	2,179	3,061	2,455
Long-term debt	463	494	882	1,123	1,105
<b>Equity capital</b>	<b>1,934</b>	<b>2,426</b>	<b>3,147</b>	<b>3,723</b>	<b>4,053</b>
Chartered capital	1,340	1,416	1,421	1,572	2,099
Minority benefit	58	174	278	363	708
<b>Total resource</b>	<b>3,929</b>	<b>5,022</b>	<b>6,209</b>	<b>7,906</b>	<b>7,613</b>

Cash flow	2014A	2015A	2016A	2017A	2018E
Operational net cash flow	109	59	(261)	2,261	(59)
Investment net cash flow	(146)	(163)	(45)	(786)	(1,371)
Financial net cash flow	244	153	815	(324)	1,145
Net cash flow during the period	207	49	508	1,151	(285)
Cash and equivalent at the beginning	167	374	423	932	2,082
Cash and equivalent at the end	374	423	932	2,082	1,797
Financial indicators (%)	2014A	2015A	2016A	2017A	2018E
Growth					
Revenue	44%	45%	101%	25%	19%
Earnings after tax	200%	101%	86%	95%	-1%
Total asset	19%	28%	24%	27%	-4%
Total equity	50%	25%	30%	18%	9%
Profitability					
Gross margin	35%	33%	32%	41%	34%
EBIT margin	13%	17%	16%	25%	22%
EBITDA margin	15%	19%	17%	25%	22%
Net margin	12%	17%	15%	24%	20%
ROA	0%	10%	14%	22%	19%
ROE	0%	5%	6%	8%	10%
Efficiency					
Receivables days	133	148	156	66	63
Inventory days	1,670	1,573	778	749	543
Payables days	64	85	42	56	26
Liquidity					
Current ratio	2.3	2.2	2.7	2.2	2.6
Quick rator	0.5	0.5	1.0	0.9	1.1
Financial structure					
Total debt/Total asset	49%	52%	49%	53%	47%
Total debt/Equity	100%	107%	97%	112%	88%
Short-term debt/Equity	13%	16%	25%	14%	15%
Long-term debt/Equity	33%	29%	25%	15%	11%

Source: PHS



## Analyst Certification

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Buy = Expected to outperform the local market by >10%

Hold = Expected to in line with the local market by +10%~ -10%

Sell = Expected to underperform the local market by >10%.

Not Rated = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends)

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