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## Vingroup JSC (VIC: HOSE): 1Q15 Quick Update

### Earnings Update:

(bn VND)	1Q15	1Q14	YoY	4Q14	QoQ	Completion of 2015 target	Margin			
							1Q15	1Q14	4Q14	2014
Net sales	6,394.1	6,174.8	3.6%	6,199.2	3.1%	21.3%				
Gross profit	2,243.2	2,409.8	-6.9%	2,304.3	-2.7%		35.1%	39.0%	37.2%	37.7%
Operating profit	1,301.0	2,040.6	-36.2%	107.0	1115.5%		20.3%	33.0%	1.7%	25.1%
EBIT	1,192.7	2,059.6	-42.1%	1,260.7	-5.4%		18.7%	33.4%	20.3%	29.3%
EBITDA	1,192.7	2,060.2	-42.1%	2,841.6	-58.0%		18.7%	33.4%	45.8%	35.0%
Pretax profit	691.7	1,547.4	-55.3%	602.7	14.8%		10.8%	25.1%	9.7%	19.5%
Net income	357.4	1,068.3	-66.5%	330.5	8.1%	11.9%	5.6%	17.3%	5.3%	13.6%
NI attributable to shareholders	427.9	1,075.7	-60.2%	334.8	27.8%		6.7%	17.4%	5.4%	11.4%

- In 1Q15, VIC posted revenue of VND 6,398.3 billion, a slight increase of 4% YoY; yet dropping 66.7% YoY in net income due to slow apartment handover and higher SG&A cost derived from greater expansion to other businesses.
- ✓ **Residential sales:** continued to be the backbone of the firm's top line with 67%, reaching VND4,285 billion, yet experienced a decline of 12% compared to 1Q14, mostly due to less recognition of past sale in Vinhomes Royal City (VND 1,700 billion) and Vinhomes Times City (VND 2,600 billion). However, improving in cash collection suggested enhanced sale performance during the period. The followings are detailed updates of sale progress in its on-going residential projects by 30 April, 2015:

No	Project Name	Location	No. of units sold	No. of units launched	% Sold	1Q15 received value (VND, bn)	Total contracted value (VND, bn)	YTD Received amount (VND, bn)	% Received
1	Vinhomes Royal City	Hanoi	4,322	4,574	94%	1,248	19,200	18,500	96%
2	Vinhomes Times City	Hanoi	6,874	7,382	93%	2,400	18,600	17,000	91%
3	Vinhomes Nguyen Chi Thanh	Hanoi	364	378	96%	530	2,200	780	35%
4	Vinhomes Central Park (*)	HCMC	1,220	1,551	79%	946	5,588	1,430	26%

(\*): includes villas and apartments

- ✓ **Recurring revenue:** generated from leasing retail spaces in its shopping malls, accounted for 8% of total revenue, saw a slight decrease of 2.67% YoY. This was mainly due to the fact that in 1Q15, Vingroup took back a number of spaces for their direct operation and retail business instead of leasing to outside tenants.
- ✓ **Hospitality:** though the number of visitors to Vietnam continued to decrease ever since June 2014 till now, the Group was still able to maintain 29.1% YoY growth in this business segment, increasing its portion to 10% of total revenue compared to 8% on average of previous periods thanks to the full operation from of Vinpearl Phu Quoc (Phase 1) in 4Q14 coupled with the positive performance of Vinpearl Land.

Other than that, Vingroup has launched approximately 880 villas under the Vinpearl Premium brand for sale with an average price of USD 800,000 per unit; and 51% of such amount has been sold with total contract value of over USD 400 million as of 30 April, 2015.
- ✓ **Consumer Retail (including VinMart, VinPro, VinFashion, F&B service):** added greater contribution to total revenue with 7.4% during the period and a strong growth of 364% YoY backed by the growing number of shops that were added to its consumer retail chain. By 30 May 2015, VIC was operating 15 VinMart supermarkets and 31 VinMart+ convenient stores; opened 6 VinPro (Hanoi, HCMC, Ha Long) and 8 VinPro+ (Hanoi, HCMC, Da Lat and Da Nang); and owned 9 EMIGO shops (VinFashion) in Hanoi, HCMC and Ha Long. This early stage business segment generates gross profit margin of 10.8%.
- ✓ **Healthcare and education services:** altogether accounted for 4.24% of total revenue and increased 52% compared with 1Q14.
- In 1Q15, SG&A cost ascended 76% YoY which was mainly driven by further expansion of the consumer retail business with the launch of VinPro and more VinMart shops opened during the period. Notably, during the period, there was an amount of VND 118 billion booked in other expenses which was related to the previous long term lease contracts of a number of apartments in Royal City incurred since VIC early terminated the contracts to get those units back for sale

and realized profits. This shows continued improvement in sales performance at the project recently.

These expenses weighted down the firm's net income to fall 66.5% YoY, fulfilling only 12% of the year's PAT target. Consequently, 1Q15 EPS was VND 318.

### Recent corporate activities:

- **Convertible bonds' conversion status:**

At present, approximately USD 144.7 million out of USD 300 million of convertible bonds have been converted. The remaining amount may be converted anytime and at the current conversion price, such amount could be converted into approximately 83 million shares, equivalent to roughly 5.69% of total current outstanding shares.

Though the firm continued to have the CBs converted, its gearing ratio did not exhibit any improvement in this period (1.73x at 1Q15-end compared with 1.63x at 2014-end) since the Group acquired more short term bank loans to fund several on-going projects.

- **Acquisition of Saigon Port:**

As mentioned in our [previous report](#), Vingroup was showing their interest to acquire up to 80% of Saigon Port upon its initial public offering. Recently, the HCMC Stock Exchange has announced details on the IPO of Saigon Port which will take place at the end of June. Accordingly, there will be 35.7 million shares (equivalent to 16.51%) of Saigon Port up for auction at a starting price of VND11,500/shares and a similar number of shares will be offered to strategic shareholders of which Vingroup is included at a price not lower than the average auctioned price.

Saigon Port is valued at nearly VND 4,000 billion, of this, the State's equity stake is approximately VND 2,162 billion. In the case Vingroup purchases 80% stake upon divestment of the State, the Group needs around **VND 3,200 billion** to acquire the State's stake. With such acquisition, we believe that Vingroup is inching close to its land bank accumulation target. Saigon Port is currently operating 4 ports in Dist.4 and Dist. 7 in HCMC and Nha Rong Khanh Hoi Port (District 4) and its situation in an attractive location along the Saigon River and holds great potential for development of mix-used real estate projects.

- **Launch of The Landmark (HCMC):**

On 16<sup>th</sup> May, Vingroup launched the Landmark complex which is located in the heart of Vinhomes Central Park (HCMC), comprising The Landmark 81 – the tallest tower in Vietnam and 3 condominium blocks of Landmark 1, 2 and 3. The three apartment blocks will be offering one to four bedroom high-end units comprising of sizes between 53.5 sqm to 159.7 sqm per unit. Selling price ranges from USD 2,600 to USD 2,800 per sqm (including VAT) and the apartments are planned to be delivered in 2017.

### **Outlook and Our view:**

- In June 2015, Vingroup is going to execute 2014 dividend payment as decided at the AGM. Accordingly, VIC is preparing for the issuance of additional 276 million shares to pay dividend at a ratio of 258 per 1,000 shares. Subsequent to the payment, the Group's charter capital will increase to approximately VND 18.4 trillion.
- In regards to business performance, we believe that in 2Q15 in particular and FY2015 in general, Vingroup's major income streams will continue to be sales of apartments at Vinhomes Royal City and Vinhomes Times City, villas at Vinhomes Central Park and Vinpearl Premium. Other projects including Vinhomes Nguyen Chi Thanh, Vinhomes Central Park (apartment), , will generate significant cash flow from the positive sales performances but will only show accounting income in FY2016 and FY2017 upon delivery. Recurring income will continue to be generated from leasing activities of nationwide high quality shopping malls at golden sites across the country
- Overall, we reiterate our positive view on VIC with growing recurring income and good sale progress at its on-going residential and premium villa projects given the current improvement of the real estate market under low interest context. One thing that is concerning is the aggressive expansion into the consumer retail business of the Group and only time will tell whether this was a wise business decision. Additionally, pressure from CBs remains a persistent issue. At the current price of VND 48,800/share, VIC is being traded at 2015 P/E of 23x (based on the firm's net income plan) and current PB of 3.4x which is higher than peers with average PE of 12.9x and PB of 2.4x. However, our current estimated RNAV of VIC is VND 63,894/share. Thus, we recommend investor to consider the stock only on price weakness.

## APPENDIX 1: ANNUAL FINANCIAL STATEMENTS

VND Billion	2013	2014	2015F	2016F
<b>Balance Sheet</b>				
+ Cash	7,534	7,608	9,547	10,958
+ Short-term investments	5,513	6,168	7,364	8,860
+ Account receivables	3,792	2,864	3,134	3,623
+ Inventories	18,914	16,598	18,861	22,073
+ Other current assets	4,092	1,638	1,801	2,085
<b>Total Current Assets</b>	<b>39,845</b>	<b>34,876</b>	<b>40,708</b>	<b>47,599</b>
+ LT Receivables	0	0	0	0
+ Net Fixed Assets	11,724	22,320	26,361	30,582
+ Investment properties	13,629	15,399	17,505	21,237
+ LT Investments	4,532	4,949	5,141	6,304
+ Goodwill	4,804	6,214	5,417	4,619
+ Other LT Assets	1,239	6,727	7,439	8,629
<b>Total Long-Term Assets</b>	<b>35,928</b>	<b>55,610</b>	<b>61,864</b>	<b>71,370</b>
<b>Total Assets</b>	<b>75,773</b>	<b>90,485</b>	<b>102,572</b>	<b>118,969</b>
+ Current Liabilities	26,675	24,604	27,958	32,719
<i>In which: ST debt</i>	<i>3,023</i>	<i>1,321</i>	<i>1,501</i>	<i>1,757</i>
+ Non-current Liabilities	30,481	38,597	43,858	51,327
<i>In which: LT debt</i>	<i>24,360</i>	<i>32,015</i>	<i>36,379</i>	<i>42,574</i>
<b>Total Liabilities</b>	<b>57,156</b>	<b>63,201</b>	<b>71,816</b>	<b>84,046</b>
+ Contributed capital	9,296	14,546	14,546	14,546
+ Share premium	1,782	4,583	4,583	4,583
+ Retained earnings	7,728	4,220	7,272	10,810
+ Other capital/fund	-4,334	-2,952	-2,949	-2,946
<b>Owners' Equity</b>	<b>14,472</b>	<b>20,396</b>	<b>23,451</b>	<b>26,992</b>
NCI	4,145	6,889	7,305	7,930
<b>Total Liabilities &amp; Equity</b>	<b>75,773</b>	<b>90,485</b>	<b>102,572</b>	<b>118,969</b>
<b>Cash Flow</b>				
CFO	9,284	9,897	5,784	6,618
CFI	-8,892	-20,399	-8,388	-11,659
CFF	5,526	10,576	4,544	6,451
<b>Net increase in cash</b>	<b>5,917</b>	<b>73</b>	<b>1,940</b>	<b>1,410</b>
Beginning cash	1,617	7,534	7,608	9,547
<b>Ending cash</b>	<b>7,534</b>	<b>7,608</b>	<b>9,547</b>	<b>10,958</b>
<b>Liquidity Ratios</b>				
Current ratio	1.5	1.4	1.5	1.5
Acid-test ratio	0.6	0.7	0.7	0.7
Cash ratio	0.5	0.6	0.6	0.6
Net debt / EBITDA	1.6	2.3	2.7	2.8
Interest coverage	7.7	3.0	2.2	2.3
Days of receivables	21.2	11.5	10.5	10.2
Days of payables	46.0	29.4	32.3	31.9
Days of inventory	590.2	374.9	329.5	325.0
<b>Capital Structure</b>				
Equity/Total asset	0.19	0.23	0.23	0.23
Liabilities/Total Assets	0.75	0.70	0.70	0.71
Liabilities/Equity	3.95	3.10	3.06	3.11
Debt/Equity	1.89	1.63	1.62	1.64
ST Debt/Equity	0.21	0.06	0.06	0.07

VND Billion	2013	2014	2015F	2016F
<b>Income Statement</b>				
<b>Net Sales</b>	<b>18,378</b>	<b>27,724</b>	<b>30,357</b>	<b>35,093</b>
COGS	-11,347	-17,285	-19,641	-22,986
<b>Gross Profit</b>	<b>7,031</b>	<b>10,439</b>	<b>10,716</b>	<b>12,107</b>
Financial Income	6,436	1,346	913	1,146
Financial Expense	-1,944	-3,491	-3,984	-4,220
Selling Expense	-450	-739	-820	-948
Admin Expense	-1,466	-2,171	-2,429	-2,807
<b>Income from business operation</b>	<b>9,607</b>	<b>5,384</b>	<b>4,396</b>	<b>5,278</b>
Net Other Income	79	35	61	70
Income from associates	55	-9	-7	-6
Profit Before Tax	9,740	5,410	4,450	5,342
<b>Net Income</b>	<b>7,149</b>	<b>3,776</b>	<b>3,471</b>	<b>4,167</b>
Minority interest	370	617	417	625
<b>NI attributable to shareholders</b>	<b>6,780</b>	<b>3,159</b>	<b>3,055</b>	<b>3,542</b>
<b>Growth</b>				
Sales	132%	51%	10%	15.6%
EBITDA			2%	13.0%
EBIT			1%	13.3%
NI			-8%	20.0%
Equity	37.1%	40.9%	15.0%	15.1%
Chartered Capital	32.7%	56.5%	0.0%	0.0%
Total assets	35.7%	19.4%	13.4%	16.0%
<b>Valuation</b>				
PER	13.2	19.2	22.9	19.8
PBR	4.0	3.2	3.0	2.6
P/Sales	3.2	2.4	2.3	2.0
Dividend yield	3.1%	0.0%	0.0%	0.0%
EV/EBITDA	5.9	8.8	9.0	8.0
EV/Sales	4.0	3.1	2.9	2.5
<b>Profitability Ratios</b>				
Gross Margin	38.3%	37.7%	35.3%	34.5%
Operating Margin	56%	25.1%	24.0%	23.1%
Net Margin	39%	13.6%	11.4%	11.9%
Selling exp./Net sales	2.4%	2.7%	2.7%	2.7%
Admin exp./Net sales	8.0%	7.8%	8.0%	8.0%
ROE	57.1%	21.7%	15.8%	16.5%
ROA	10.9%	4.5%	3.6%	3.8%
ROIC	22.1%	11.9%	11.2%	11.0%

## APPENDIX 2: QUARTERLY FINANCIAL STATEMENTS

VND Billion	2Q14	3Q14	4Q14	1Q15
<b>Balance Sheet</b>				
+ Cash	6,721	5,209	7,608	5,400
+ Short-term investments	6,344	7,235	6,320	6,138
+ Account receivables	4,360	4,548	2,936	6,722
+ Inventories	16,775	13,607	11,880	16,027
+ Other current assets	10,442	5,950	2,865	4,654
<b>Total Current Assets</b>	<b>44,642</b>	<b>36,550</b>	<b>31,609</b>	<b>38,940</b>
+ LT Receivables	0	0	0	1,135
+ Net Fixed Assets	16,415	21,760	27,055	25,333
+ Investment properties	13,722	14,859	15,412	15,587
+ LT Investments	3,575	3,542	4,797	2,852
+ Goodwill	4,344	4,887	6,143	6,014
+ Other LT Assets	1,109	1,193	5,467	6,196
<b>Total Long-Term Assets</b>	<b>39,166</b>	<b>46,242</b>	<b>58,874</b>	<b>57,117</b>
<b>Total Assets</b>	<b>83,808</b>	<b>82,792</b>	<b>90,483</b>	<b>96,057</b>

+ Current Liabilities	25,041	18,675	19,724	29,085
<i>In which: ST debt</i>	<i>4,589</i>	<i>1,775</i>	<i>1,321</i>	<i>3,714</i>
+ Non-current Liabilities	34,720	36,821	43,481	38,139
<i>In which: LT debt</i>	<i>28,178</i>	<i>29,935</i>	<i>32,015</i>	<i>32,412</i>
<b>Total Liabilities</b>	<b>59,761</b>	<b>55,496</b>	<b>63,205</b>	<b>67,224</b>
+ Contributed capital	9,296	14,300	14,546	14,546
+ Share premium	1,816	3,193	4,583	4,583
+ Retained earnings	9,369	3,886	4,240	4,652
+ Other capital/fund	-2,952	-2,952	-2,952	-2,952
<b>Owners' Equity</b>	<b>17,529</b>	<b>18,426</b>	<b>20,416</b>	<b>20,828</b>
NCI	6,518	8,869	6,861	7,122
<b>Total Liabilities &amp; Equity</b>	<b>83,808</b>	<b>82,792</b>	<b>90,483</b>	<b>95,174</b>

<b>Cash Flow</b>				
CFO	1,783	99	8,723	1,375
CFI	-10,549	-2,852	525	-6,947
CFF	7,953	1,241	-6,849	3,365
<b>Net increase in cash</b>	<b>-813</b>	<b>-1,512</b>	<b>2,399</b>	<b>-2,207</b>
Beginning cash	7,534	6,721	5,209	7,608
<b>Ending cash</b>	<b>6,721</b>	<b>5,209</b>	<b>7,608</b>	<b>5,400</b>

<b>Liquidity Ratios</b>				
Current ratio	1.78	1.96	1.60	1.34
Acid-test ratio	0.70	0.91	0.85	0.63
Cash ratio	0.52	0.67	0.71	0.40
Net debt / EBITDA	10.83	11.05	9.05	25.76
Interest coverage	3.25	2.99	1.92	2.38

VND Billion	2Q14	3Q14	4Q14	1Q15
<b>Income Statement</b>				
<b>Net Sales</b>	<b>7,692</b>	<b>7,658</b>	<b>6,199</b>	<b>6,394</b>
COGS	-4,796	-4,829	-3,895	-4,151
<b>Gross Profit</b>	<b>2,895</b>	<b>2,829</b>	<b>2,304</b>	<b>2,243</b>
Financial Income	470	422	206	324
Financial Expense	-1,174	-953	-799	-773
Selling Expense	-123	-103	-387	-342
Admin Expense	-422	-572	-739	-652
<b>Income from business operation</b>	<b>1,646</b>	<b>1,624</b>	<b>585</b>	<b>800</b>
Net Other Income	39	-39	17	-116
Income from associates	-22	11	1	8
Profit Before Tax	1,663	1,596	603	692
<b>Net Income</b>	<b>1,149</b>	<b>1,229</b>	<b>330</b>	<b>357</b>
Minority interest	290	339	-4	-71
<b>NI attributable to shareholders</b>	<b>859</b>	<b>889</b>	<b>335</b>	<b>428</b>

Basic EPS (VND)	1,014	699	-551	318
BVPS (VND)	18,856	12,886	14,036	14,319
EBIT	2,404	2,397	1,261	1,193
EBITDA	2,404	2,398	2,842	1,193

<b>Growth (YoY)</b>				
Sales	258.2%	-10%	-8.5%	4%
EBITDA				
EBIT				
NI				
Equity	19.8%	12.4%	41.1%	33.9%
Chartered Capital	0.1%	54.0%	56.5%	56.5%
Total assets	43.2%	34.4%	19.4%	22.7%

<b>Profitability Ratios</b>				
Gross Margin	37.6%	37%	37.2%	35.1%
Operating Margin	31.0%	32%	1.7%	20.3%
Net Margin	14.9%	16%	5.3%	5.6%
Selling exp./Net sales	1.6%	1%	6.2%	5.3%
Admin exp./Net sales	5.5%	7%	11.9%	10.2%

<b>Capital Structure</b>				
Equity/Total asset	0.21	0.22	0.23	0.22
Liabilities/Total Assets	0.71	0.67	0.70	0.70
Liabilities/Equity	3.41	3.01	3.10	3.23
Debt/Equity	1.87	1.72	1.63	1.73
ST Debt/Equity	0.26	0.10	0.06	0.18

Source: VIC, SSI Research



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*\*The market required rate of return is calculated based on 1-year Vietnam government bond yield and market risk premium derived from using Relative Equity Market Standard Deviations method. Our rating bands are subject to changes at the time of any significant changes in the above two constituents.*

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