

Recommendation **Buy**
Target price 6,400 VND
Current price 11,300 VND
Investment horizon 1 year

INITIAL COVERAGE

RECOMMENDATION: We recommend investor to buy NVT with target price of 11,300 VND per share in 1-year investment horizon.

Forecast summary

VND	2011	2012	2013	2014F
Sales (bil)	175.36	205.96	207.29	220.00
+/- yoy (%)	-25.1%	17.4%	0.6%	6.1%
Net profit (bil)	(77.16)	(69.73)	20.61	45.00
+/- yoy	-374.3%	-9.6%	-129.6%	118.3%
Total asset (bil)	1,511.25	1,181.25	1,390.41	1,668.49
+/- yoy	5.4%	-21.8%	17.7%	20.0%
Equity (bil)	663.43	594.17	839.78	884.78
+/- yoy	-10.3%	-10.4%	41.3%	5.4%
Debt/Asset	39.5%	35.5%	28.1%	47.0%
Gross profit margin	32.1%	37.2%	46.1%	0.0%
Net profit margin	-44.0%	-33.9%	9.9%	20.5%
EPS (VND)	473	(1,275)	248	497
ROA	-6.1%	-6.0%	1.5%	2.7%
ROE	-12.8%	-12.9%	2.5%	5.1%

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Highlights:

- ❖ NVT operates mainly in tourism industry who is owner of some luxury 5 stars resorts such as: Six Senses Ninh Van Bay (Nha Trang, Khanh Hoa), Emeraldalda Ninh Binh (Gia Vien, Ninh Binh). Besides, the company is also investing in some potential real estate tourism such as Emeraldalda Hoi An (Hoi An, Quang Nam), Six Senses Sai Gon River (Nhon Trach, Dong Nai), Lac Viet New Tourist City (Ham Tan, Binh Thuan).
- ❖ Revenues remained relatively stable in recently years, but profit decreased dramatically in 2011 and 2012. According to company's explanation, the negative profits came from 2 reasons. First is Vietnam's economy downturn. Secondly, the cash flows from Emeraldalda project could not cover costs because of the untapped project capacity. Almost of costs are depreciation and interest expenses. In 2013, the growth of tourism revenue and the capital support from Recapital that helped the business results of NVT increased significantly.
- ❖ Vietnam's resort industry holds much unexplored potential, expects strong growth in the future.

Weakness:

- ❖ Many of NVT's projects are in the early stages of operation or investment preparation stage. Therefore, the capital demand on restructure and developing projects are essential, putting pressure on company.

GENERAL INFORMATION

Basic Information	
Price on Jun 09, 2014(k VND)	6.4
EPS trailing (k VND)	0.31
P/E	20.47
Book value per share (k VND)	9.37
Beta	1.46
Average trading volume	87,540
Outstanding shares	90,500,000
Market Cap (bil VND)	570.15

Company's History

The origin of NVT is Investment & Construction Tuan Phong JSC was established in Sept of 2006 in Hanoi. The company operates mainly in investment, basic construction and sales of construction materials.

In 2009, Tuan Phong JSC renamed to Ninh Van Bay travel real estate JSC and merged with 2 members that are Hai Dung Pte. Ltd (owed 90% charter capital) and Hong Ha Tourism JSC (owed 51% charter capital). They restructured company and focus on developing luxury resorts sector.

Apr 28, 2010, Ninh Van Bay travel real estate JSC was listed in HOSE and started trading with 50.5 million outstanding shares. After 2 charter capital raising periods in 2010 and 2013, outstanding shares of NVT are 90.5 million equal to 905 bil VND of charter capital.

Shareholder structure

At present, Recapital Investment Pte. Ltd is the largest shareholder, holding approximately 35.87% NVT's charter capital. Mr.Le Xuan Hai, Chairman, owning 8.37% charter capital. Other shareholders are Belton Investments Ltd, KyThuong Funds Ltd and Mr. Hoang Anh Dung, CEO.

Foreign shareholders are holding 48.49% outstanding shares of NVT that closed to the current 49% foreign shareholding limit.

Management Team

Both Chairman and CEO of NVT are big shareholders. Representative of Techcom Capital and Recapital also undertook some positions relating to the Board of Directors and Supervisory Board.

BUSINESS OPERATION SITUATION

Business model

NVT operates mainly in tourism industry who is owner of some luxury 5 stars resorts such as: Six Senses Ninh Van Bay (Nha Trang, Khanh Hoa), Emeraldalda Ninh Binh (Gia Vien, Ninh Binh). Besides, the company is also investing in some potential real estate tourism such as Emeraldalda Hoi An (Hoi An, Quang Nam), Six Senses Sai Gon River (Nhon Trach, Dong Nai), Lac Viet New Tourist City (Ham Tan, Binh Thuan).

Many of NVT's resorts have been built along Vietnam from the South to the North. Six Senses resorts located in Ninh Van, Nha Trang, Khanh Hoa City that is the first company's resort and bringing major revenue for company, following that is Emeraldalda Ninh Binh in Gia Van, Gia Vien, Ninh Binh.

Development Strategy

The vision of Ninh Van Bay travel real estate JSC is becoming the leader company in resort and tourism industry, creating international standard assets that have Vietnamese style.

Business results

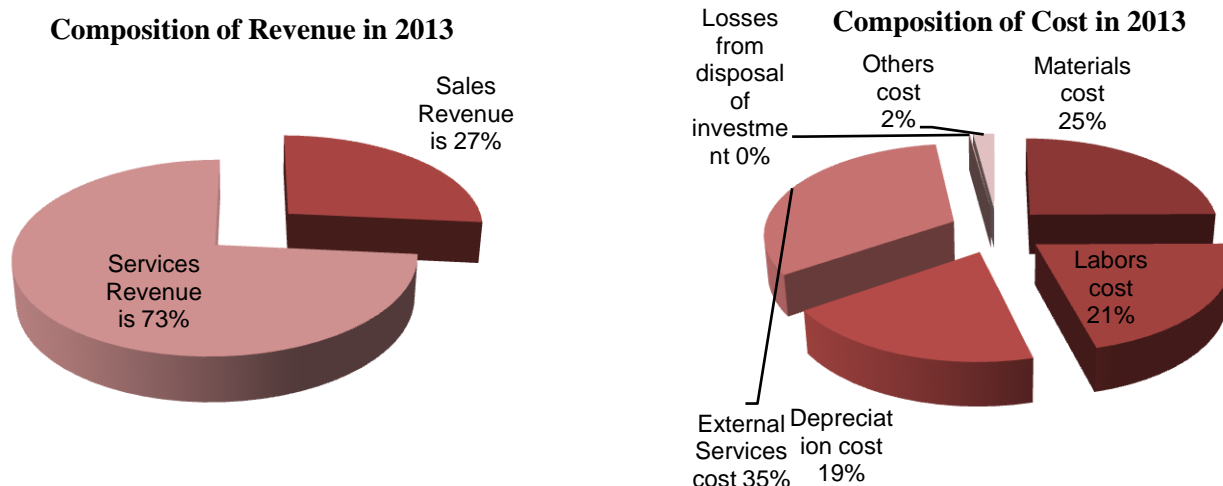
Unit: billion VND	2009	2010	2011	2012	2013
Net revenue	200.90	234.01	175.36	205.96	207.29
<i>Growth rate of net revenue</i>	5927%	16%	-25%	17%	1%
Gross profit	10.01	119.23	56.26	76.51	95.64
<i>Growth rate of gross profit</i>	1468%	1091%	-53%	36%	25%
Operating income	9.37	29.08	(85.08)	(72.13)	39.72
<i>Growth rate of operating income</i>	3651%	210%	-393%	-15%	-155%
Profit after tax of mother company	7.49	28.13	(77.16)	(69.73)	20.61
<i>Growth rate of profit after tax</i>	3945%	276%	-374%	-10%	-130%

We can see that revenues remained relatively stable in recently years, but profit decreased dramatically in 2011 and 2012. According to company's explanation, the negative profits came from 2 reasons. First is Vietnam's economy downturn. Secondly, the cash flows from Emeraldalda project could not cover costs because of the untapped project

capacity. Almost of costs are depreciation and interest expenses. In 2013, the growth of tourism revenue and the capital support from Recapital that helped the business results of NVT increased significantly

In 2013, business results of NVT increased significantly. Although resort cards segment separated from company, revenue from resorts business increased dramatically. Room occupancy rate sometimes reached 100%. Therefore, the profit of 2013 only achieved 90% of expectation, which still higher than in 2012. Because profit margin in resort business was higher than resort cards segment, gross profit from operating business obtained 95.6 billion VND. Compared to 2012, it increased by 25%. It was accurate that the orientation of company focuses on resort business

NVT also issued 30 mil shares to Recapital Investment PTE LTD in form of private placement. With the supports from Recapital Investment about funds and management experiences, NVT restructured successfully, accelerate construction projects and generate more company's revenue. Compared to 2012, profit after tax in 2011 increased dramatically by 40.5 billion, higher than 213% a plan year.



Business Results each sectors

Six senses Ninh Van Bay Resort located in Nha Trang, Khanh Hoa which was affirmed on products quality as well as international services standard. It has been managing by Six Senses Hotels Group that is one of the leading Spa & Resort groups in Thailand. This project has continued to be one of the top luxury resorts in Vietnam. The highest room occupancy rate was 100%, an average booking rate is 63%. Earnings before tax reached 51 billion VND in 2013.

Emeralda Ninh Binh Resort located in Eco-tourism Van Long Complex. It is one of biggest 5 stars resort which reach international services standard in Vietnam's north. This resort has been operated in May 2011. It has 166 luxury rooms, 3 restaurants, La Cochinchine spa, conference center... In 2013, revenue from Emeralda Ninh Binh Resort was 61 billion.

This project has continued to be one of the top luxury resorts in Vietnam. The highest room occupancy rate was 100%, an average booking rate is 63%. Earnings before tax reached 51 billion VND in 2013.

First Quarter Business Results

Unit: Bil VND	Q1/2013	Q I/2014	
Sales	62.39	72.96	16.95%
COGS	29.20	29.52	1.10%
COGS/Sales	46.81%	40.46	
Gross Profit	33.16	43.44	30.89%
Administration Expenses	14.89	18.08	21.46%
EBT	10.70	18.54	73.26%
Profit of parent company	1.52	8.13	434.87%

According to NVT's report, Six Sense Ninh Van Bay operated efficiently. Compared with the same period of last year, revenue and profit from this project is higher 10%, contributing to the growth of consolidated business result.

Net profit in the first quarter was 73 bil VND, more than 17% same period of last

year. Financial earning was slightly 1 billion VND higher than last year. NVT's earnings after tax rose significantly to 8.1 billion VND (after deducted 12.5 billion for minority shareholders)

Q1 profit decreased the accumulated losses of NVT from 90 bil VND to 81.7 bil VND.

FINANCIAL ANALYSIS

Unit: Bil VND	2009	2010	2011	2012	2013
Liquidity Ratios					
Current ratio	1.01	2.06	0.86	1.13	1.30
Quick ratio	0.93	1.84	0.69	0.93	1.15
Cash ratio	0.09	0.16	0.06	0.10	0.05
Solvency Ratios					
Long-term debt/Total asset	0.07	0.13	0.17	0.14	0.05
Debt/Total asset	0.15	0.17	0.24	0.23	0.17
Liabilities/Total asset	0.42	0.29	0.40	0.35	0.28
Activity Ratios					
Day of sales outstanding	198	270	196	149	147
Day of inventory on hand	27	96	114	112	129
Number of days of payable	180	382	120	76	24
Cash conversion cycle	46	(16)	191	185	252
Profitability Ratios					
Gross profit margin	5.0%	50.9%	32.1%	37.2%	46.1%
Operating profit margin	4.7%	12.4%	-48.5%	-35.0%	19.2%
Pretax profit margin	4.9%	22.0%	-49.6%	-36.8%	19.2%
Net income margin	4.1%	15.8%	-51.3%	-39.5%	19.6%
ROA	1.5%	2.9%	-6.1%	-6.0%	3.2%
ROE	3.3%	5.9%	-12.8%	-12.9%	5.7%

Asset Structure

It can be seen that the liquidity and solvency of NVT recovered in two consecutive years (2012 and 2013) after falling into warning levels in 2011. Although, in 2013, the current ratio reached 1.3 times, the cash ratio was 0.05 because the company used the large portion of cash to short – term investment. In the end of 2013, the net value of finance short-term investment was 229 billion VND (16% of total asset), increasing significantly to 50 billion VND in the end of 2012. According to notes to financial statements, finance short-term investment was mainly credit mortgage loans with the interest rate from 12% to 19% per year.

Financial leverage sharply decreased in 2013. The company used a portion of cash received from private placement in 2013 to settle the loans. However, in 2014, the company plans to issue bonds secured by 40,000,000 USD for financing the company's projects.

Most of the company's assets have been non-current assets (75% of total assets). To be more specific, the fixed assets hold 50%, mainly in intangible assets (19%) and construction in progress (24%). According to Notes to Financial Statements, the intangible assets have been the right of 49.98 ha land use and 94.5 ha sea level in Ninh Van Island, Ninh Van District, Khanh Hoa Province.

Expenses of construction in progress were the majority of Six Senses Latitude Sai Gon Project's construction expenses (increased from 283 bil to 325 bil).

Efficiency

Company maintained the profitability ratios at high level during the period from 2010 to 2013. Operating profit and net profit were negative in 2011 and 2012 since gross profit didn't cover financial expenses (mainly interest expense), selling and administration expenses.

In 2013, thanks to decreasing financial leverage, reducing selling and administration expenses, profit margin improved considerably. In term of total assets and equity, however, profitability ratios remained low with 3.2% ROA and 5.7% ROE.

Real estate tourism expectation

Although Vietnam tourism market is underdeveloped compared to countries in the region, but has made significant progress in recent years. Hotels, resorts, and entertainment centers along with historical and religious destinations have been placed in the top positions.

Vietnam real estate tourism status

Hotels and resorts have been playing a key role in the tourism industry. Vietnam, nowadays, has been witnessing a change in the number of real estate products, both domestically and internationally. The market has reached the level of expectation to meet domestic demands on tourism. In the future, we have the right to think about the expansion and development of most of the segments.

There have been many entertainment centers concentrated on big cities like Hanoi and Ho Chi Minh. These places will become suitable destinations for day-trips and fundamental foundation for large-scale entertainment projects in the future. Generally, the attractive destinations in Vietnam primarily focus on the historical and religious places like temples, villages and coastal resorts.

Achievements and Market Trend

In the previous years, the international brands investing in Vietnam has supported the domestic market to develop and the tourism resorts have had considerable improvements. The clear evidences are that the development of hotel real estate such as Fusion Maia Da Nang, Flamingo Dai Lai Resort, Art Deco Hotels belonged to Accor's M-Gallery is the same as Hanoi De L'opera hotel recently opened. Additionally, the hotel management companies have been also emerging as Indochine Collection hotel, running Ana Rasa Ninh Binh and Ana Mandara Hue Resorts.

The quality product and service would be focused when the tourism market demand has increase, together with competition among investors. In the next 12 months, there will be many international investors to invest in Vietnam with the appearance of the prominent names such as Da Nang Hyatt Regency, Intercontinental Hanoi Landmark, JW Marriott Da Nang Resort, Pullman Da Nang Beach and Sheraton Hoi An Resort. Until 2012, many international brands will continue to invest projects in Vietnam market like Le Meridien Saigon, Westin Cam Ranh Bay or Four Seasons Cham Island in Da Nang. The investors expand market in Vietnam, including U-hote of AHS Ariva Thailand and Singapore. Simultaneously, the domestic investment developed during the period from 2011 to 2012. In the future, the resorts will play an important role in Vietnam tourism industry. Some big projects have been implementing, such as the MGM Grand Ho Tram and Happyland Complex Ben Luc Combination in Ho Chi Minh City, or Flamboyant Do Son, Hai Phong.

The development pressurized investors but much of needs has been not developed yet such as campaign tourism and caravan, discovery trip and outdoor activities, the activities in accordance with the natural condition and geography in Vietnam. Travelling by motorbike and carriage, the prior activities of outdoor travelling have been expanded in mountainous region. The unexploited fields consist of water sports, yacht and sea adventure. Vessel industry and big ports in Vietnam have been improved; therefore, we expect several big boats like Princess Cruise and Camival which add Vietnam to their highlight list.

Prospect to tourists

Domestic tourists increasingly have demands on the quality of tourism services. The reasons are that many Vietnamese people have visited many countries in the world and many people have experienced the international services in your own country. Travelers have the chance to get better products and competitive prices. The better the quality requirements are, the more the investors pour capital in Vietnam market. The good quality of products, the high-upgrade services and higher price have been easily accepted. In contrast, guests could purchase products and services with the higher prices; this means that many tourism projects play an important part in the world economy.

Faculty of Vietnam Science – Hanoi National University of Education

According to Kenneth Atkinson's assessment, CEO Vietnam Grant Thornton, Vietnam has had the advantages of abundant landscapes, diversified culture, historical monument but lack of the supplementary services. However, it has been the foundation and basic for the development of high-grade resorts like the strategies of NVT.

Expectation 2014

In 2014, NVT expects 220 billion VND of revenue and 45 billion VND of consolidated profit. Company makes plan to invest 845 billion VND in Six Senses Sai Gon (780 bil) and Lac Viet Maria Resort (65 bil). In the context of the current macroeconomy and the bussiness performance of the first quarter, we appreciate these projects which are completely feasible.

DCF method

Unit: Bil VND	2014	2015	2016	2017	2018
Revenue	220.00	242.00	266.20	292.82	322.10
Net income	45.00	49.50	54.45	59.90	65.88
Interest (I-T)	22.85	25.13	27.65	30.41	33.45
Depreciation	10.78	11.86	13.04	14.35	15.78
Fixed asset investment	23.54	25.89	28.48	31.33	34.46
Working capital investment	11.66	12.83	14.11	15.52	17.07
Free cash flow (FCFF)	43.43	47.77	52.55	57.80	63.58
Company value after 2017					1,177.42
Company value					1,437.46
Debt					391.32
Outstanding share	90,500,000				
Value per share (VND)	11,560				

NAV recalculation method

Project	Area	Recalculation
Six Senses Ninh Van Bay	55ha	550
Six Senses Sai Gon River	32ha	224
Emeralda Ninh Binh	16ha	112
Emeralda Hoi An	25ha	125
Lac Viet Marina Resort	78ha	390
Debt		391.32
Outstanding share		90,500,000
Value per share		11,157

The average price of two methods is 11.350 VND per share. We recommend investor to buy NVT with the current price.

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