

## Real estate industry

Update report

September 2014

Recommendation **OUTPERFORM**

Target price (VND) **28,800**

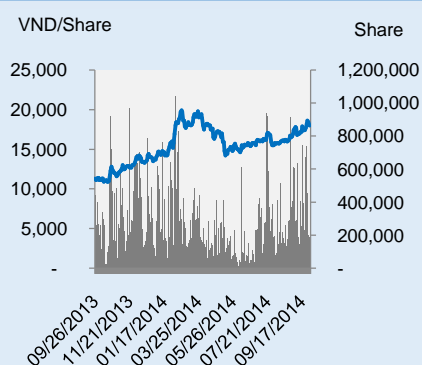
Market price (30/9/2014) **18,000**

Expected profit **60%**

### SHARES INFORMATION

Trading exchange	HSX
52-week price range	10,600-19,900
Market cap	687 Bil VND
Outstanding shares	38.150.420
10-day average volume	422.896
% foreign owned	36.89%
Foreign room	49%
Dividend per share	500
Dividend yield	2.8%
Beta	1.33

### PRICE MOVEMENTS



	YTD	1T	3T	6T
TDH	59.3%	3.4%	11.8%	67.0%
VN-Index	23.4%	-6.5%	1.4%	21.9%

Analyst

**Nguyen Chi Hong Ngoc**

(84 8) 3914 6888 ext: 492

nguyenchihongngoc@baoviet.com.vn

# THUDUC HOUSE DEVELOPMENT JSC

Ticker: TDH

Reuters: TDH.HM

Bloomberg: TDH VN

**Asset value be priced attractively with stalled real estate projects be restarted**

### Investment focus.

TDH is supposed to be among real estate companies that have market price much lower than company's net asset values. Its mid-term prospect from 2015 onwards will be likely favorable with the recovery of real estate market. Accordingly, the company will restart 5 projects during 2 years 2014 and 2015. Because TDH has completed the compensation of its land plot projects as well as foundation construction of TDH – Phuoc Long apartment building, it can start to record revenue from these projects in 2015 and 2016. Moreover, the profit of VND75 – 80 billion from Cantavil Premier project will be recorded since 2015. However, in short-term, it is also noticeable that TDH may only fulfill 55% of target profit due to being unable to record revenue from Cantavil project as planned. Nevertheless, its NPAT will still increase by 71% yoy.

According to our valuation, TDH share has a fair value of **VND28,800**, 60% higher than the market price as at 30/9/2014. Therefore, we rate **OUTPERFORM** on TDH share for mid-term and long-term perspective with a holding period of  $\geq 6$  months. We believe that the restart of stalled projects and selling financial investments can support its share price in the coming time better reflect the value of assets under its ownership.

- ❑ TDH is forecast to earn a revenue of **VND438 billion** in 2014, fulfilling 58% plan. Accordingly, its net profit is expected at **VND36.4 billion**, fulfilling 54% plan. These results are forecast based on the number of sold apartments, a part of unsold apartments and 2 under-progress land plot projects. We have not taken into account its profit from Cantavil Premier project because assuming that this profit can only be recorded in 2015.
- ❑ **Its current clear land bank is about 25 hectares**, mostly located at District 9, Thu Duc District and Long An province (5.5 hectares). Projects of TDH have advantages of low cost price, legal completion and short investment time before available for sales. Moreover, its associates have many assets, opening more opportunities for the company to expand its land bank.
- ❑ TDH share price based on **NAV and P/B comparison method** is VND28,800, 60% higher than the market price as at 30/9/2014. This price is prudently estimated with certain discounts for projects and investments that the company has no plan for execution to reflect the risk of future fluctuations.

☐ **Some financial ratios of TDH**

Financial ratio		2011	2012	2013	2014F
Revenue	Bil VND	533	200	409	472
EBIT	Bil VND	124	82	78	-
NPAT	Bil VND	45	33	22	37
EPS	VND	1,178	865	568	883
P/E	x	15.0	20.5	31.1	20.3
P/B	x	0.5	0.5	0.5	0.5
ROA	%	2%	1%	1%	-
ROE	%	3%	2%	2%	-

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**OWNERSHIP INFORMATION**

State owned	8.86%
Foreign owned	36.89%
Others	54.25%

**MAJOR SHAREHOLDERS**

HFIC	8.86%
J.P Morgan WhiteFriars Inc.	8.35%
J.P.Morgan Securities Ltd.	7.83%

**FORECASTED FINANCIAL RATIOS**
**Profit and loss statement**

Unit (VND billion)	2010	2011	2012	2013	2014F
Revenues	557	533	200	409	443
Cost of goods sold	328	348	151	280	348
Gross profit	229	185	49	130	94
Financial income	91	46	79	6	33
Financial expenses	16	110	47	52	36
Net income	249	45	33	22	37

**Balance sheet**

Unit (VND billion)	2010	2011	2012	2013	2014F
Cash and cash equivalents	104	49	38	46	-
Accounts receivable – short-term	575	470	422	457	-
Inventories	419	399	479	448	-
Tangible fixed assets	247	226	190	181	-
Long-term investments	846	1,033	1,010	1,033	-
<b>Total assets</b>	<b>2,338</b>	<b>2,266</b>	<b>2,216</b>	<b>2,260</b>	<b>-</b>
Short-term loans	300	260	304	242	-
Long-term debt	270	358	294	273	-
Owners' equity	1,379	1,318	1,340	1,361	-
<b>Total resources</b>	<b>2,338</b>	<b>2,266</b>	<b>2,216</b>	<b>2,260</b>	<b>-</b>

**Financial ratios**

Items	2010	2011	2012	2013	2014F
<b>Growth</b>					
Revenue growth (%)	15.8%	-4.4%	-62.5%	104%	8%
Net profit growth (%)	-8.3%	-86.8%	-28.2%	-23.1%	71%
<b>Yield</b>					
Gross profit margin (%)	41.2%	34.8%	24.4%	31.6%	
Net profit margin (%)	44.7%	8.4%	16.4%	5.3%	
ROA (%)	11.9%	1.9%	1.5%	1.0%	
ROE (%)	19.0%	3.3%	2.5%	1.6%	
<b>Capital structure</b>					
Total liabilities to total asset (%)	0.36	0.38	0.36	0.36	
Total liabilities to owners' equity (%)	0.62	0.65	0.60	0.60	
<b>Per shares</b>					
EPS (VND/share)	6,571	1,178	865	568	883
Book value (VND/share)	36,397	34,805	35,388	35,679	33,318

## Q2/2014's operating updates

### **Its gross profit margin tumbled in Q2/2014 while recording profit from stake transfer**

Its core business, although recording revenue growth, had stiff decline in gross profit margin. Specifically, Q2's revenue reached VND114 billion, up 46% qoq but down slightly 3% yoy. Gross profit was recorded at VND13.8 billion, down 40% qoq, mostly due to the decline in profit from real estate trading segment. During the period, real estate segment recorded VND24 billion of sales returns, resulted in a decline in revenue from VND98 billion to VND74 billion. Accordingly, its gross profit margin could only reach 5.2% versus the margin 39% in Q1 and 38.6% in 2013. One highlight in its operation is market service trading segment which has continued to generate good cash flows for the company with 18% growth in revenue and 2.3x growth in gross profit. With a profit margin improvement from 12.1% to 24%, this segment generated a profit of VND9.3 billion, 70% of its Q2/2014 total profit. In terms of financial activities, TDH transferred 3.3 million shares of Phong Phu Corporation to earn a profit of VND20 billion. The company received rather high dividends and distributed earnings in Q2, about VND5.4 billion, higher than the amount of VND3.6 billion received in FY2013. Therefore, the company reached financial income of VND28 billion, increasing 4 fold yoy.

Items (Bil VND)	Q2.14	Q2.13	1H.14	PLAN	%PLAN
Revenue	114	119	193	745	26%
Pre-tax profit	14	-7.7	25	74	33.7%
NPAT	13	-8	22.4	67	33.4%

*Source: Compiled by BVSC*

### **Earning a net profit of VND13 billion thanks to cutting financial expenses**

TDH's financial expenses reduced 17% yoy from VND21.8 billion to VND18.1 billion. Its interest expenses also declined significantly yoy from VND22 billion to VND12 billion, resulted from a decline in its loan outstanding balance from VND560 billion to VND505 billion. Meanwhile, the interest rates of its loans slid significantly about 1 – 1.5% yoy. Other expenses such as selling and administrative expenses remained stable. This decline in financial expenses was good signal contributing to the improvement in TDH's operating results. Accordingly, the company earned a net profit of VND13 billion in Q2/2014, rather favorable when compared with the net loss of VND8 billion in Q2/2013.

## 2014's prospect – BVSC's forecast

### Restarting low-end and mid-end projects

After a period of stalling, as planned, TDH will restart its 5 projects in the ending months of 2014 and in 2015. These projects are mostly categorized into segments of mid-end land plots and low-end apartments, thus meeting the requirements of the VND30,000 billion credit package. Among which, land plot will be the segment for investment concentration in the ending months to generate cash flows for the company. The specific execution sequence is as follows: (1) Phuoc Long SpringTown Phase 2 – 57 plots (2) Binh Chieu – 4 hectares (3) Long Hoi City – Phase 2 (4) TDH – Phuoc Long Apartment Building with 118 apartments and (5) Tocontap apartments and land plots. About progress, these land plot projects have completed land clearance and only wait for infrastructure completion to be offered for sales. TDH–Phuoc Long apartment building, on the other hand, has completed foundation construction, thus able to be offered for sales when the market shows signs of recovery. This willingness for execution of its land bank is one advantage of TDH over other real estate companies. In our opinion, projects which will likely be available for sales in Q4/2014 are Phuoc Long SpringTown và Binh Chieu Residential Area. Thanks to their high liquidity, these 2 projects will be prioritized for recording revenue in 2014. The resources for executing these 5 projects will come from its share issuance to existing shareholders in a ratio of 2:1 in the coming time. In the case this issuance is unsuccessful, the company can liquidate some investments to have certain resources for investment into core projects. As per plan, in 2H/2014, the company will divest its investments in Vietnam Textile and Garment Finance JSC and Orient Commercial Joint Stock Bank which have a total book value of VND73 billion. Their selling prices must at least be equal to book values.

### Forecast of 2014's operating results

In 1H/2014, the company fulfilled 26% target revenue and 33% target profit. Among which, its profit was mostly contributed by provision reversal and profit from liquidating financial investments. However, its profit from core business was only enough to offset the expenses, especially interest expenses, incurred during the period. We think TDH can hardly fulfill 2014 target plan because (i) Revenue from selling market areas was completely recorded in 2013 (ii) Old projects have limited inventories for trading (iii) New projects can only be offered in Q4/2014, thus only contributing modest revenue (iv) The company will no longer have financial income because most of its investments will be liquidized at cost price. Moreover, profit from Cantavil Premier project has not

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yet been recorded because this project is performing an investment audit. Based on the above assessments, we estimate TDH's 2014 revenue at **VND443** billion, fulfilling 59% plan. Accordingly, its net profit is estimated at **VND37** billion, fulfilling 55% plan.

**Forecast of 2014's operating results**

Item	2013	2014F	% yoy	Assumption
<b>Revenue (bil VND)</b>	<b>409,480</b>	<b>442,983</b>	<b>8%</b>	
<i>Selling goods</i>	257,069	278,166	8%	<ul style="list-style-type: none"> <li>Selling and recording the remaining of SpringTown Phase 1, Long Hoi City, TDH – Phuoc Binh. TDH – Truong Tho project has slow consumption because its unsold apartments have large areas. We assume that the company can record 20 out of 60 unsold apartments.</li> <li>Offering for sales 2 land plot projects named Springtown Phase 2 and Binh Chieu Residential Area. Binh Chieu project with attractive selling price is assumed to sell and record 40% of its land plots; SpringTown has about 1,000 square meters of street front land plots which will likely have good consumption and high revenue recognition. Its gross profit margin will be about 30%.</li> <li>Cantavil Premier Joint Venture is still leaving open its capability of recording revenue in 2014 because this project is performing an investment audit. Nevertheless, this project is still expected to bring TDH a net profit of VND75 – 80 billion. This project has nearly sold out all of its apartments, except for 10 unsold penhouse apartments. We have prudently assumed that this project will be recorded in 2015.</li> </ul>
<i>Rendering services</i>	150,468	162,817	8%	<ul style="list-style-type: none"> <li>Its operation of rendering services at Thu Duc market is rather stable with a revenue growth rate of 13% in 2013 and an expected growth rate of 8% in 2014. This segment has a gross profit margin of 20%.</li> </ul>
<i>Investment properties &amp; others</i>	1,943	7,644	390%	
<b>Gross profit</b>	<b>129,582</b>	<b>94,383</b>	<b>-27%</b>	
<b>Financial income</b>	6,281	33,085	427%	<ul style="list-style-type: none"> <li>The biggest contribution into the company's financial income will be the profit of VND20 billion from transferring Phong Phu Corporation to Vinatex. The remaining will likely come from its deposit interest and received dividends of VND13 billion (versus VND9 billion in 1H/2014).</li> </ul>
<b>Financial expenses</b>	51,787	36,101	-40%	<ul style="list-style-type: none"> <li>Its financial expenses are estimated to reduce VND4 billion yoy to VND51 billion. However, TDH will also have a provision reversal, estimated at VND22 billion. We assume that its</li> </ul>

				share price will continue to be favorable as at 31/12/2014. The company will unlikely have to make provision.
<b>Selling expenses</b>	5,620	5,316	-5%	• Accounting for about 1.2% of its revenue and unchanged yoy.
<b>Administrative expenses</b>	51,802	50,000	-3%	
<b>Other income</b>	1,583	3,182		

Source: TDH, estimated by BVSC

## TDH's financial status

- **Its liquidation of financial investments has helped improve its cash flow to use for cutting down outstanding loan balance.** According to its latest FSs, its cash flow from investing activities was recorded at VND65.9 billion versus VND-35 billion in 1H/2013. Its income from transferring equity surged from VND34 billion in 2013 to VND89 billion. This result partly showed the recovery in financial market which has helped its transfers happen more fluently. Along with the cash flows from investing activities, its cash flow from operating activities was recorded at VND65.8 billion, significantly improving TDH's financial status. Therefore, the company has settled VND124 billion of outstanding loan balance to reduce it to only VND505 billion on 30/06/2014. If compared with larger sized companies in the industry such as BCI, TDC, DIG, etc, TDH has rather safe financial structure with a Total Debt to Equity Ratio of 36%. This ratio will likely be improved significantly in 2H when TDH continues to transfer financial investments and issue shares for raising capital.

Item	DIG	BCI	DXG	TDC	TDH
Cash ratio	0.55	0.16	0.54	0.01	0.15
Quick ratio	1.69	0.65	1.11	0.20	1.55
Current ratio	3.92	4.37	1.92	1.11	2.69
Debt/Total assets	0.30	0.13	0.04	0.06	0.34
Debt/Equity	0.65	0.26	0.08	0.36	0.36

(Source: compiled by BVSC)

- **High financial expenses have reduced its operating efficiency.** That is because the company can no longer capitalize its financial expenses into these projects because have been completed. According to data on



its FSs, its financial expenses capitalized during 2012-2013 was only about 20% of the total actual settled loan interest, equivalent to about VND10-15 billion/year. The remained interest has continued to be recorded in its income statement, making its net profit remain modest in recent time. However, on a brighter side, a low rate of interest expenses capitalization can ensure an attractive profit margin for its upcoming projects. Meanwhile, low cost price will bring in an advantage on price for its projects when competing with other rivals in the industry. This is one good point investors should consider when assessing TDH's mid-term prospect. Its financial expenses will likely change because the company has been reducing loan balance and its upcoming projects will mostly be financed by the additional owner's equity from the share issuance in Q4/2014

## Stock valuation

□ **NAV method:** TDH is in process of liquidating financial investments and restarting real estate projects, resulted in certain impacts on its share price. Therefore, we use NAV method to estimate the fair value of TDH share, based on the following assumptions:

- *Real estate portfolio:* The unsold products of its projects such as TDH – Truong Tho, TDH – Phuoc Binh, etc will be revalued according to market value. Among projects to be executed, only Phuoc Long Spring Town Phase 2 and Binh Chieu Residential Area are revalued because these 2 projects have completed compensation and are prioritized for execution. The value of the remaining projects which the company has no plan for execution will be equal to their cost prices discounted by 20% to reflect risks of price movements and legal regulation.
- *Financial investment portfolio:* The investments to be transferred will have the same value as cost price because TDH will not sell investments below cost price. Other remained investments, on prudent perspective, will be discounted by 20% although they have rather low cost prices.
- *Short-term receivables:* is VND487 billion, accounting for 22% of total assets, VND384 billion of which are receivables from related companies and third party. On prudent perspective, we use a discount rate of 20% for these receivables.
- Total outstanding share: 41,965,462 shares, 10% of which are bonus shares to be distributed in Q4/2014.
- TDH's share price estimated by NAV method: **VND34,786/share.**



Items	30/6/2014	Revalued
<b>TOTAL ASSETS</b>	<b>2,229,234</b>	<b>2,222,109</b>
<b>Short-term assets</b>	<b>981,768</b>	<b>966,025</b>
Cash and cash equivalents	55,350	55,350
Short-term investments	11,909	11,909
Short-term receivables	487,557	410,757
Inventories	416,456	474,472
Other current assets	10,496	10,496
<b>Long-term assets</b>	<b>78,726</b>	<b>1,256,084</b>
Fixed assets	148,039	148,039
Long-term investments	1,024,458	1,033,077
<b>LIABILITIES</b>	<b>762,300</b>	<b>762,300</b>
<b>Market price of its owner's equity</b>		<b>1,459,809</b>
Outstanding share number		41,965,462
<b>Share price (VND/share)</b>		<b>34,786</b>

□ **P/B method:**

- The industry average P/B is calculated based on data of companies having similar sizes and characteristics such as SCR, BCI, DIG, QCG, NBB.
- 2014's book value: VND**33,318**/share.
- Industry average P/B: 0.69x
- TDH's share price estimated by P/B method: **VND22,989/share**.

□ **In conclusion, TDH share is valued at : VND28,888/share**

**Valuation result**

Pricing method	Price	Proportion	Weighted average
NAV	34,786	50%	17,393
P/B	22,989	50%	11,495
<b>Average price</b>			<b>28,888</b>

## Recommendation

TDH is supposed to be among real estate companies that have market price much lower than company's net asset values. Its mid-term prospect from 2015 onwards will be likely favorable with the recovery of real estate market. Accordingly, the company will restart 5 projects during 2 years 2014 and 2015. Because TDH has completed the compensation of its land plot projects as well as foundation construction of TDH – Phuoc Long apartment building, it can start to record revenue from these projects in 2015 and 2016. Moreover, the profit of VND75 – 80 billion from Cantavil Premier project will be recorded since 2015. However, in short-term, it is also noticeable that TDH may only fulfill 55% of target profit due to being unable to record revenue from Cantavil project as planned. Nevertheless, its NPAT will still increase by 71% yoy.

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## REPORT COMMENTARY

**Target price** is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE, FCFF, DDM); NAV-based valuation; comparative indicators (P/E, P/B, EV/EBIT, EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

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Recommendation levels	
Recommendation	Explanation
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price



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## RESEARCH & INVESTMENT ADVISORY DEPARTMENT

### **Bao Viet Securities Joint Stock Company**

Head office: 8 Le Thai To, Hoan Kiem Dist., Hanoi

Tel: (84 4) 3 928 8080 Fax: (8 44) 3 928 9888

Branch: Floor 8, 233 Dong Khoi, Dist. 1, HCM City

Tel: (84 8) 3 914 6888 Fax: (84 8) 3 914 7999