

Dat Xanh Real Estate Service Construction Corp.

3Q2017 strong performance bolstered by brokerage segment

Equity Update | December 12, 2017

We initiate a **BUY** rating for **Dat Xanh Real Estate & Construction Corporation (HOSE: DXG)** with a **12-month target price of VND 25,388 (+25% potential upside before dividend yield)** based on the following key points:

3Q2017 showed mark improvement driven by brokerage sector. In 3Q2017, DXG has reported an improvement in its financial results with revenue reaching VND 797bn (+240% YoY) and net profit of VND 257bn. The positive results were bolstered by strong performance in both brokerage and development sectors. In particular, development sector increased five times to contribute VND 241bn while brokerage sector achieved VND 512bn (+228% YoY). As the result, DXG achieved revenue of VND 1,676bn (+27% YoY) and earnings of VND 460bn (+219% YoY) in 9M2017 season. EPS reached VND 1,609 (+31% YoY). Brokerage sector has replaced development sector to be the biggest contributor accounting for 57% revenue.

Brokerage sector is likely to do well in coming quarters, but high gross margin comes at a cost of (i) forfeit opportunity costs of the amount used as deposits; (ii) risk of those financially distressed projects. In addition, we expect gross margin of development sector to be decreasing as the company may have capitalized the loans into the COGS.

For FY2017, we forecast that DXG will achieve VND 3,499bn in revenue (+39% YoY) and VND 1,715bn (+53% YoY) in gross profit. We forecast brokerage segment will carry out 11,450 transactions and brings about VND 1,177bn (+45% YoY). Development segment will report revenue of VND 1,914bn (+29% YoY). On pro-forma basis, we expect Opal Riverside and Opal Garden projects will be main contributor to FY2017 results. FY2017 earning is expected to be VND 826bn (+54% YoY) and EPS arrives at VND 3,010.

For FY2018, we conservatively forecast that DXG would achieve revenue of VND 3,843bn (+9.8% y/y) and gross profit VND 1,706bn (-0.5% YoY). Development revenue will come from already sold-out projects Opal Garden and Lux Garden and partly from Opal Skyview and Gem Riverside. We expect brokerage segment will continue to do well and grow at least 10% YoY due to ease-money policy in 4Q2017. FY2018 EPS is lower because of lower-than-expected-selling progress in FY2017, which may affect FY2018 revenue. This is amplified by an issuance of additional 17.3 million shares in 4Q2017. However, a good selling progress at key project Gem Riverside next year would offset for FY2017 slow sale.

Figure: 2017F and 2018F Revenue / Gross Profit

VNDbn unless otherwise stated	FY2017F	FY2018F	% change
Revenue	3,499	3,843	10%
.Development	1,914	1,792	-6%
.Brokerage	1,177	1,295	10%
Gross profit	1,715	1,706	-1%
.Development	628	538	-14%
.Brokerage	929	902	-3%

Source: TVS research

Valuation. We derive our target price for DXG of **VND 25,388 (+25% upside)** using DCF. We use WACC of 11.34% based on current capital structure and CAPM-based cost of equity of 13.14%. The terminal growth rate is 2% in line with Vietnam equity market.

BUY – 29% Potential Upside

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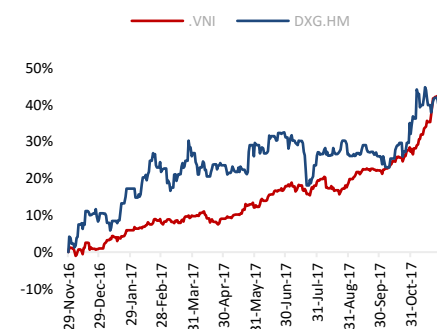
Target Price
 12-month price target: **VND 25,388**

Trading Data and Key Metrics

Ticker	DXG
Sector	Real Estate
Listed since	22/Dec/2009
Price as of 12-Dec-2017	19,650
52-week range (VND)	20,250/9,800
Market cap (VND bn)	5,816
Shares outstanding (mn)	302.9
Free Float (mn)	222.07
10-day average volume	4,279,408
LTM P / BV (x)	1.55
LTM P / E (x)	4.05
Dividend yield (%)	2.24%
Debt to Equity	51.52%

Source: TVS Research, Thomson Reuters Data

Price Performance Chart



Source: TVS Research, Thomson Reuters Data

Company Description

Dat Xanh Real Estate Service & Construction Corporation (HOSE:DXG) is a Vietnam-based company in real estate industry. DXG's trading floors have one of the highest sale volumes in the industry. The company has been transforming into renowned real estate developer with large land bank and specializing in mid-end and affordable housing segments. The company also operates secondary property investment, property management and construction.

9M2017 Performance & 2018 Outlook

3Q2017 showed marked improvement driven by brokerage sector

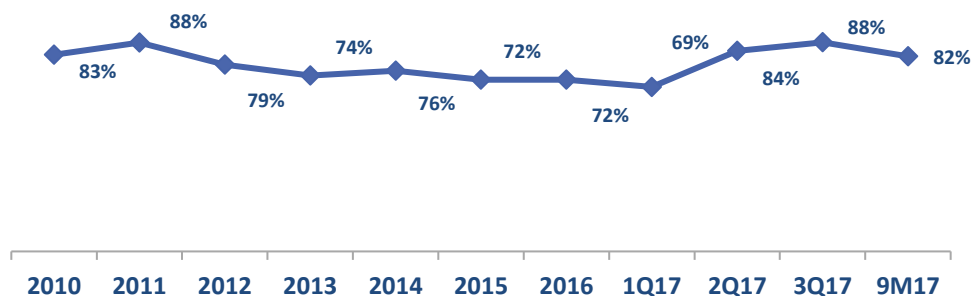
Big volume of broker boosted 3Q2017 revenue.

600% YoY increase in gross profit was bolstered by best performance of brokerage sector

In 3Q17, DXG reported revenue of VND 797bn (+240% YoY). Brokerage and development still accounted for the majority of revenue. In particular, development sector increased five times to contribute VND 241bn while revenue brokerage sector achieved VND 512bn (+228% YoY).

COGS decreased sharply from 58% to nearly 30% boosting gross profit go up 600% YoY to VND 561bn. Gross margin increased to 70%, a substantial amount compared with 42% in 3Q2016 and 40% in 3Q2015. The reason rooted from brokerage sector, which witnessed both the highest quarterly revenue since DXG listed and the 7-year high gross margin (88%). In 2Q2017, DXG had VND 1,900bn put as cash advance at more than 12 projects of other developers. These projects may be in financial distress, therefore the deposits is considered as low-interest loans. In exchange, DXG obtains the right to be the prime broker or DXG may convert the loans into actual housing units at favorable prices once the projects complete. In addition, DXG may require the projects to be constructed by DXG's construction division. At the end of 3Q2017, DXG still has more than VND 1,700bn as cash advance to investment projects. In downside view, we believe that all-time high gross margin comes at a cost of (i) forfeit opportunity costs of the amount used as deposits; (ii) risk of those financially distressed projects.

Figure 1: Gross margin of Brokerage sector



Source: Company data, TVS Research

Financial expenses increased more than five times to VND 19bn. SG&A went up to VND 135bn (+71% YoY) due to increase in commission and HR expenses, yet this expense grew still much lower than 3Q2017 revenue. This was due to a significant increase in gross margin of brokerage sector. DXG also reported a gain of VND 32bn from LDG contracting with a loss of VND 8bn in 3Q2016. The bottom line reached VND 257bn and EPS arrived at VND 898. To recall, DXG made loss of VND 5bn in 3Q2016 due to surge in SG&A and loss from LDG of VND 8bn. EPS arrived at VND 898.

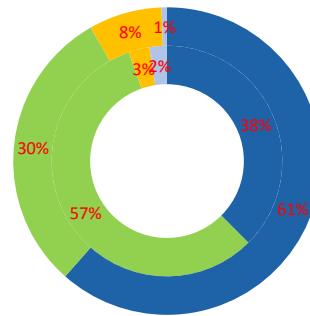
9M2017 PERFORMANCE

The strong performance in brokerage segment boosts impressive earning growth (+219% YoY).

In 9M2017, DXG achieved revenue of VND 1,676bn (+27% YoY) and earnings of VND 460bn (+219% YoY). EPS reached VND 1,609 (+31% YoY). Brokerage sector has replaced development sector to be the biggest contributor accounting for 57% revenue.

Figure 2: Revenue contributed from sectors. Inner circle 9M17 / Outer circle 9M16

■ Development ■ Brokerage ■ Construction ■ Others



Source: DXG, TVS Research

Thanks to a big jump of the company’s gross margin in 3Q, 9M2017’s gross margin was lifted to a new high of 62% compared with 34% at 9M2016 and 50% at 9M2015. We expect gross margin of development sector to be decreasing as the company may have capitalized the loans into the COGS.

Contribution from affiliated company (LDG) increased by 203% amounting to VND 86bn. Cash & equivalents maintained at nearly VND 2,000bn and financial income jumped to VND 51bn (+183 YoY) amplifying fast sale process and 300% increase in Unearned Revenue.

From the beginning, DXG has chosen right market segments which are mid-end and affordable. Consequently, the company has performed well on core aspects with brokerage and development sectors enjoy the benefit of the booming demand of the mid-end/affordable segments accompanied with lower credit risk and higher liquidity compared with high-end segment. DXG’s national market share in mid-end and affordable end increased from last year’s 14.8% to 16% 6M2017. Therefore, we retain our favorable view of DXG as the company continues to benefit from the growing mid-range/affordable segment and maintain its leading position in brokerage sector.

For FY17, we forecast that **DXG will achieve VND 3,499bn in revenue (+39% YoY) and earning is expected to be VND 826bn (+54% YoY)** based on the following facts:

- DXG handed over 160 units of Lux City in 1Q2017 (VND 314bn) and 196 units in 2Q2017 (VND 365bn). The officetel will be handed over in 1Q2018. Construction of the Opal Riverside and Opal Garden projects is on course for delivery in 4Q2017. We

We retain our favorable view as DXG chooses the right market segment, which are including mid-end and affordable.

forecast that DXG would book 100% of 626 units at Opal Riverside and 50% of 235 units at Opal Garden in 4Q. Although 100% of Lux Garden has been sold in 1H17 with revenue exceeding VND 900bn, the company pre-sales has been weaker than expected due to delay in launching of Opal Skyview, Gem Riverside, Lux Riverview, and Opal City.

- Gross profit will increase 53% YoY to VND 1,715bn.

With our forecast, EPS arrives at VND 3,010 implying a FY2017 P/E and EV/EBITDA of 6.7x and 5.6x respectively.

FY2018 Outlook

For FY2018, we forecast that DXG would achieve revenue of VND 3,843bn (+9.8% YoY) and gross profit will be VND 1,706bn (-1% YoY).

Development revenue will come from already sold-out projects Opal Garden and Lux Garden and partly from Opal Skyview and Gem Riverside. We expect brokerage segment will continue to do well and grow at least 10% YoY due to ease-money policy in 4Q2017.

We expect the bottom line will be VND 843bn (+2% YoY). Diluted EPS arrives at VND 2,782 (-8% YoY). FY2018 P/E forward is 7.3x and EV/EBITDA arrives at 6.3x. FY2018 EPS is decreased because of lower-than-expected-selling progress in FY2017, which may affect FY2018 revenue. It is amplified by an issuance of additional 17.3 million shares in 4Q2017. However, a good selling progress at key project Gem Riverside next year would offset for FY2017 slow sale and boost FY2018 EPS higher than our base-case scenario in this report.

Figure 3: Revenue and Gross Profit forecast

<i>in VNDbn unless otherwise stated</i>	FY17	FY18	% change
Revenue	3,499	3,843	10%
.Development	1,914	1,792	-6%
.Brokerage	1,177	1,295	10%
.Construction	359	700	95%
.Others	49	56	14%
Gross profit	1,715	1,706	-1%
.Development	628	538	-14%
.Brokerage	929	902	-3%
.Construction	157	245	56%
.Others	1	21	2000%

Source: TVS Research

Valuation

We derive our target price for DXG of **VND 25,388 (+25% upside)** using DCF - method. Below we show our DCF-based valuation. Our DCF-model arrives **fair value of VND 25,388** when we use WACC of 11.34% based on current capital structure and CAPM-based cost of equity of 13.14%. The terminal growth rate is 2% in line with Vietnam equity market.

Figure 4: DCF-based method

<i>VND bn unless otherwise stated</i>	Indicators	2017F	2018F	2019F	2020F	2021F	2022F
EBIT		1,306	1,230	1,354	1,489	1,638	1,744
Tax Paid	20%	(261)	(246)	(271)	(298)	(328)	(349)
EBIAT		1,045	984	1,083	1,191	1,310	1,395
<i>Adjust for:</i>							
(+)Depreciation & Amortization Expense		17	26	28	30	32	34
(-)Change in Net Working Capital		111	122	130	138	147	157
(-)Capital Expenditure		71	73	92	116	146	184
Free Cash Flow to Firm (FCFF)		881	816	890	967	1,049	1,089
WACC	11.34%						
Present Value of FCFF		873	726	711	695	677	631
Cumulative Present Value of FCFF	4,312						
Growth rate	2.00%						
Required return	13.14%						
Terminal Value	9,970						
Present Value of Terminal Value	5,775						
FCFF	10,088						
Less : Total Debt*	(2,396)						
Implied Equity Value	7,691						
Total Share (million)	302,9						
Price per Share (VND)	25,388						

Source: TVS Research

SUMMARY FINANCIALS

Earning Model (VNDbn)	2013A	2014A	2015A	2016A
Net sales	343	506	1395	2507
Cost of sales	137	204	735	1455
Gross profit	206	302	659	1052
Selling expenses	72	66	136	202
General administration expenses	69	69	131	202
Other operating income/(expenses)	-49	-	-	-
EBITDA	115	168	393	651
Depreciation & Amortization	3	2	3	4
EBIT	111	165	390	643
Net interest income/(expenses)	0	0	0	0
Net investment income	2	16	-	-
Others (recurring)	1	0	64	14
Pretax Profit	120	266	540	821
Income tax	31	53	95	157
Tax rate (%)	26	20	18	19
Minorities	30	69	188	293
Net Income	90	213	446	664
EPS (basic, reported)	973	1360	2133	3086
Weighted shares outstanding (mn)	85	123	158	165
Common dividends declared	-	-	-	-
DPS (VND)	0	551	0	420
Dividend Payout ratio (%)	0.0	0.4	0.0	0.1
Dividend cover (X)	Infinity	2	Infinity	7

Growth and Margin (%)				
Sales Growth	-0.15	0.48	1.75	0.80
EBITDA Growth	0.44	0.47	1.34	0.66
EBIT Growth	0.58	0.49	1.36	0.65
Net Income Growth	0.52	1.37	1.09	0.49
EPS Growth	-0.04	0.40	0.57	0.45
Gross Margin	0.60	0.60	0.47	0.42
EBITDA Margin	0.33	0.33	0.28	0.26
EBIT Margin	0.32	0.33	0.28	0.26
Net Margin	0.24	0.33	0.24	0.20

Cash flow Statements (VNDbn)	2013A	2014A	2015A	2016A
Net income	120	266	540	821
<i>Adjustments for:</i>				
Depreciation and amortization	4	3	4	8
Change in inventories	-298	-57	-310	73
Change in trade receivables	-414	-470	-403	-871
Change in trade payables	610	992	625	-159
Other operating cash flow	-152	-426	-343	-340
Cash flow from operations	-130	309	112	-467
Net Capital expenditure	-2	-3	-21	-27
Acquisition	-	-	-	-
Divestures	-	-	-	-
Other investments, net	49	23	33	26
Cash flow from investing	-119	124	-315	-40
Equity issued	114	236	49	1217
Net borrowings	74	50	319	245
Dividends to shareholders	-2	-16	-32	-47
Other financing	120	266	540	821
Cash flow from financing	185	270	336	1416
Net cash flow	-63	703	133	909
Opening cash	136	73	776	910
Closing cash	73	776	910	1818

Balance Sheet (VNDbn)	2013A	2014A	2015A	2016A
Cash and equivalents	73	776	910	1818
Financial investment	-	0	-	-
Accounts receivable	374	394	829	1792
Inventory	433	499	1122	916
Prepaid expenses, other CA	55	87	127	102
Total current assets	934	1756	2987	4627
Property and equipment				
At cost	21	19	65	190
<i>Less accumulated depreciation</i>	-9	-10	-15	-17
Net property and equipment	12	9	50	173
Net intangibles	13	1	30	47
Other long - term assets	57	40	91	98
Total Assets	1268	2160	3573	5563
Account Payables	21	55	134	161
Short-term debt	0	0	0	117
Other current liabilities, CL	510	839	1382	1250
Total Current Liabilities	531	893	1517	1528
Long-term debt	70	119	283	494
Other long-term liabilities	34	145	190	296
Total long-term liabilities	104	264	473	791
Stockholders' equity	633	1003	1584	3245
Common Equity	528	750	1173	2530
Treasury shares	0	-1	-1	-1
Retained earnings	84	229	382	677
Budget sources and other funds	10	13	19	27
Minority interest	30	69	188	293
Total liabilities and equity	1268	2160	3573	5563
Capitalized leases	-	-	-	-
Capital employed	737	1267	2057	4035

Ratios				
ROE (%)	13.9	20.5	26.0	22.3
ROA (%)	8.6	12.4	15.5	14.5
ROIC (%)	14.2	22.4	29.1	23.7
Inventory days	753	835	404	256
Receivable days	347	277	160	191
Payable days	76	68	47	37
Asset Turnover	0.33	0.30	0.49	0.55
Net debt/equity	0.04	-0.59	-0.18	-0.26
Interest cover - EBIT(x)	0.00	0.00	0.01	0.05

Valuation (Multiples)				
EV / EBITDA	7.18	4.03	6.07	3.56
P/E	8.40	6.73	6.82	3.58
Dividend Yield (%)	0.00	6.02	0.00	3.80
P/B	1.26	1.26	1.69	0.97

Notes: CA = current assets; CL = current liabilities

Source: Thomson Reuters historical data, TVS model and forecast

ANALYST CERTIFICATION

I, **Son Nguyen**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

RATING and VIEWS

Buy (B), Neutral (N), Sell (S) – Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

TVS Investment Research: Equity Rating Definitions

12-month rating	Definition
Buy	Total Stock's Return Potential > 15%
Neutral	Total Stock's Return Potential between (-15%) and 15%
Sell	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
Buy	Stock price expected to rise within three-month because of a specific catalyst or event
Sell	Stock price expected to fall within three-month because of a specific catalyst or event
Not-rated	The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target.

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