

Dat Xanh Group JSC (HSX: DXG)

Q3/2023 Update Report: Short-term challenges remaining

Recommendation: **HOLD** | Target price: **23,300 VND (+18.0%)****We believe that the real estate sector will be challenging in 2024.**

The delay in approving the revised Land Law will continue to prolong the time for completing legal procedures for new projects and could slow down the market recovery process in 2024. In addition, high house prices in Hanoi and Ho Chi Minh City will lead to buyers choosing to rent instead of buying new homes in the near future.

The real estate segment is less favourable in 2023-2024 but promising from 2025 onwards. Presales and recorded revenue from the real estate segment are low due to the lack of projects to be recorded, mainly from the Gem Sky World (GSW) project. However, presales and revenue are expected to improve from 2025 with the relaunch of DXH Riverside. We believe that DXG will open this project in 2025, and this will improve DXG's growth potential thanks to the large presales helping to increase revenue from 2026 onwards for DXG.

The real estate brokerage segment in 2024 will recover from a low base. The comprehensive real estate brokerage segment of DXS-DXG's subsidiary was severely affected when the market encountered difficulties. However, TVS believes the real estate brokerage services segment will recover strongly in 2024 from a low base in 2023. DXG's real estate brokerage segment's revenue in 2023 and 2024 is expected to reach VND 600 billion (-70% YoY) and VND 1,043 billion (+74% YoY). Gross profit margin will improve from 59.4% in 2023 to 63.4% in 2024.

TVS forecasts that DXG's net profit will be VND 265 billion (-50% YoY) and VND 692 billion (+162% YoY) in 2023 and 2024, respectively. DXG's real estate segment revenue will reach VND 2,988 billion (+7% YoY) and VND 4,944 billion (-42.5% YoY), mainly from GSW and Opal Skyline. Gross profit margin will fall sharply to 40.6% in 2023, then recover to 43.6% in 2024.

We recommend HOLD for DXG shares with a target price of VND 23,300 for 2024 based on the RNAV valuation method.

Key ratios

Report date	29/11/2023
Current price (VND)	19,750
Market cap (bn VND)	12,048
OS shares (mn shares)	610
3M ADTV (bn VND)	390.5
Free float (%)	85.0%
Remaining foreign room (%)	27.7%
P/E (x)	-43.3
P/B (x)	1.3
ROE (%)	-3.0%
ROA (%)	-0.9%

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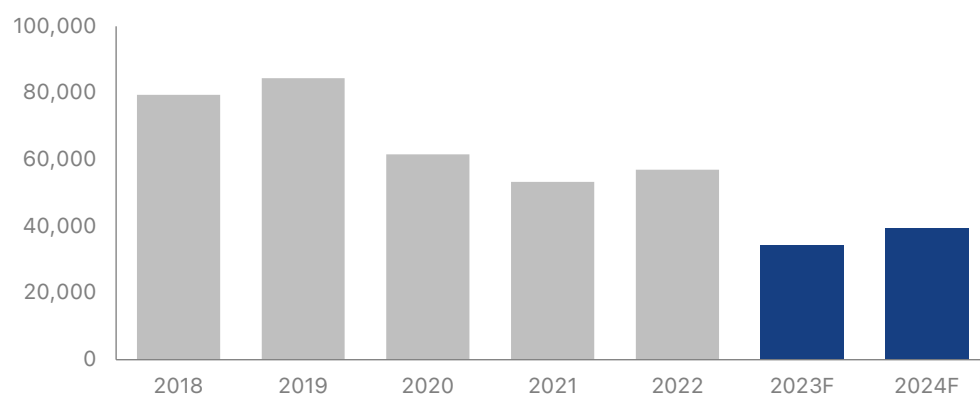
Investment highlights

The real estate (RE) market faces short-term challenges but holds promising prospects in the medium to long term.

The delay in passing the new legislation related to the real estate market is expected to hinder the acceleration of real estate projects. On November 16, 2023, the Chairman of the National Assembly announced the postponement of the approval of the amended Land Law in the 6th session of the XV National Assembly, scheduling further discussion and authorization in the January 2024 session after addressing additional issues. We believe this delay will extend the implementation time of legal procedures based on the new law, resulting in a slow recovery of new supply in the market in 2024.

Figure 1: The number of newly launched apartments in major cities will recover slowly in 2024

Number of newly launched apartments in major cities from 2018-2024F [units]



Source: CBRE, Savills, TVS Research forecast

Despite reduced interest rates, the demand for home purchases does not show a robust recovery. TVS believes that the average annual house price increase of 12% in Hanoi and Ho Chi Minh City makes it difficult to buy a new home, as this is higher than the average annual income growth of 1.2%. As a result, the continued rise in house prices in 2023 will create difficulties for homebuyers in a slowing economic environment.

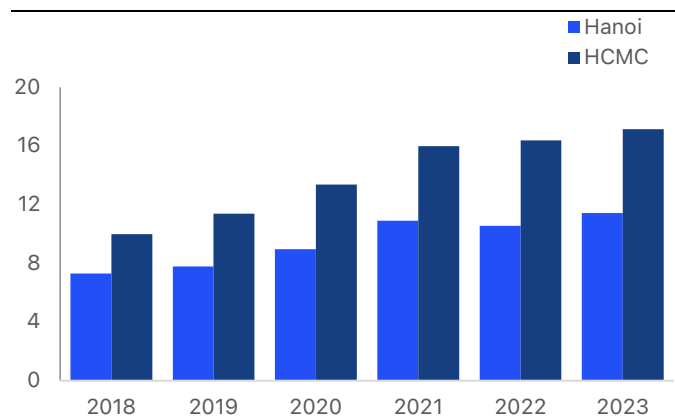
We estimate that the average time it takes to buy a house in Hanoi and Ho Chi Minh City has been increasing steadily since 2018, at 10.6 and 16.4 years of income in Hanoi and Ho Chi Minh City, respectively, to be able to buy a 2-bedroom apartment by the end of 2022. This number is expected to increase to 11.4 and 17.1 years by the end of 2023, according to TVS estimates.

With income growth trailing behind housing prices in challenging

economic conditions, we anticipate a reduction in demand for new home purchases as individuals opt to continue renting while awaiting more positive market signals.

Figure 2: House prices/average annual income have continuously increased from 2018 to present

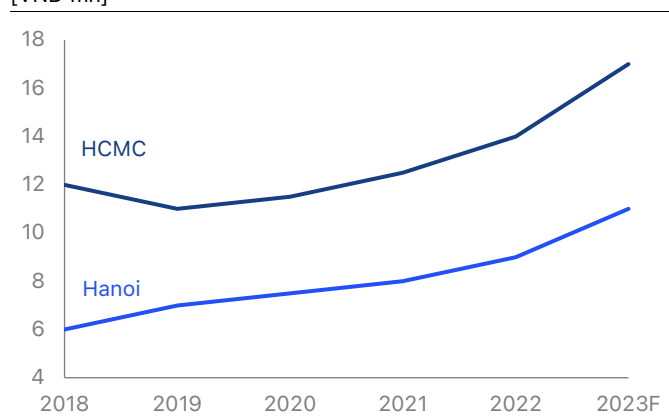
House price/average annual income in Hanoi and HCM City [x]



Source: GSO, Savills, TVS Research forecast

Figure 3: 2-bedroom apartment rental prices will increase sharply in 2023 in Hanoi and HCM City

Average 2-bedroom apartment rental price in Hanoi and HCM City [VND mn]



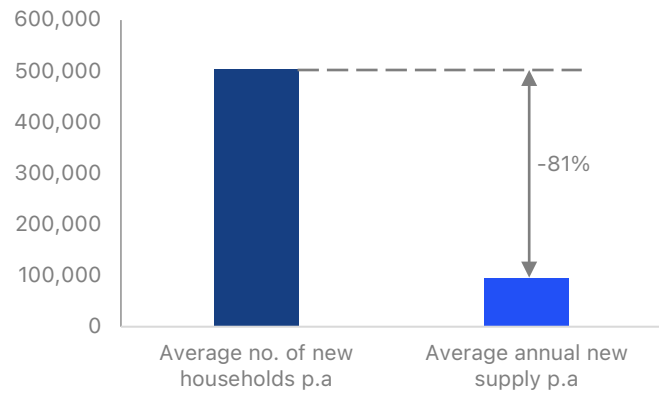
Source: Batdongsan.com, TVS Research

Despite short-term challenges, there is a sustained significant demand for housing in the medium to long term due to inadequate supply. We maintain a positive outlook on the Vietnamese real estate market for the medium to long time, driven by a high economic growth rate, increasing urbanization, unmet housing needs, and infrastructure improvements.

According to the Vietnam Population Strategy 2030, the urban population will account for 45% of the total population (compared to 37.3% at the end of 2022). The growing working-age population will boost housing demand, especially in major cities, due to the need for young people aged 25–35 to move out independently.

Figure 4: The available supply falls significantly short of the potential demand

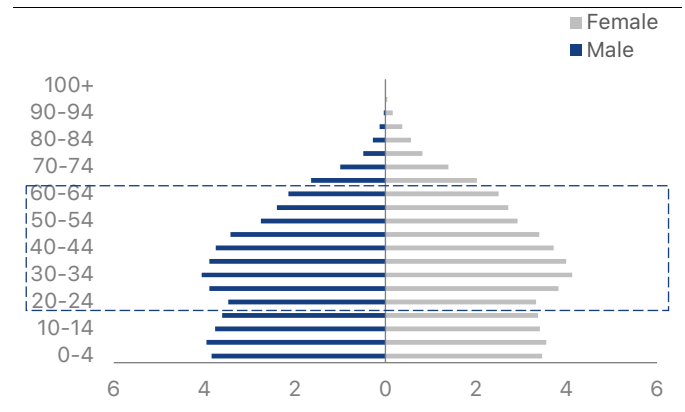
The average number of households p.a. and new apartment supply p.a increased in 2018-2022 [unit]



Source: Ministry of Construction, GSO, TVS Research forecast

Figure 5: Golden population structure with a large number of people of working age

Vietnam's population pyramid by the end of 2022 [mn people]



Source: World Bank, TVS Research

The real estate segment is negative in the short term due to only recording the Gem Sky World and Opal Skyline projects, but it will be positive from 2025 onwards when DXH Riverside is opened for sale.

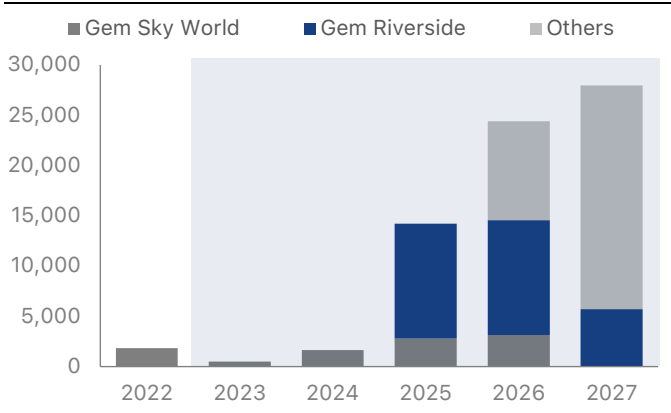
The presales and recognized revenue for the real estate segment in 2023–2024 will be low due to the lack of projects to identify. We forecast that DXG's presales will be low, reaching VND504 billion and VND2,072 billion in 2023 and 2024, respectively, as presales will only come from the Gem Sky World (GSW) project. Regarding the recognized revenue for the real estate segment in 2023-2024, TVS forecasts that DXG will recognize a portion of the GSW and Opal Skyline projects, contributing VND2.5 trillion and VND4.5 trillion to the real estate segment in the next two years.

However, presales and revenue will improve in 2025 when DXH Riverside is relaunched. The DXH Riverside project (formerly known as Gem Riverside) is located in Thu Duc City and was acquired by DXG from Keppel Land. The project was launched in 2018, but the sales process was halted due to changes to the investment certificate and construction permits. DXG has announced that it will refund the deposits to customers who purchased in 2018 (VND250 million/unit) to recover and relaunch the entire project with a new price of VND75 million/m² (compared to VND35 million/m² in 2018).

We believe that DXG will relaunch the project in 2025 instead of 2024 due to the following factors: (1) The slow recovery of homebuyer demand in 2024, (2) DXG's difficulty in raising additional capital to implement the project due to the limited supply of real estate credit in 2023-2024. TVS believes that relaunching DXH Riverside will improve DXG's growth potential thanks to the large presales, ensuring revenue growth from 2026 onwards. In addition, the project's prime location

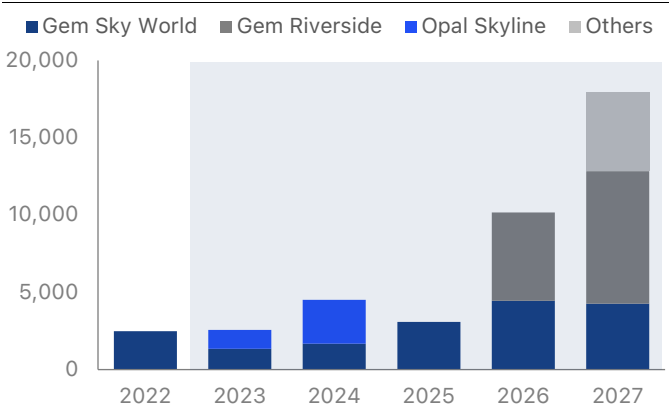
and low cost of capital (estimated gross profit margin of 60% compared to the average of 40%) in the context of a shortage of supply in Ho Chi Minh City will be a significant advantage for DXG compared to other real estate developers like NLG and KDH in the coming years.

Figure 6: DXH Riverside will make the main contribution to presales from 2025 onwards
Presales of DXG [VND bn], : forecast



Source: DXG, TVS Research forecast

Figure 7: Recorded revenue in 2023-2025 is mainly from GSW & Opal Skyline
Recorded revenue from DXG projects [VND bn], : forecast



Source: DXG, TVS Research forecast

The real estate brokerage segment is expected to recover in 2024.

The challenging market conditions significantly affected the comprehensive real estate brokerage segment of DXS, a subsidiary of DXG. In the 2018–2022 period, the comprehensive brokerage segment accounted for the majority of DXS's brokerage revenue(70–78%)) with high gross profit margins (60–85% compared to 45–55% for traditional brokerage). Due to the nature of the model, DXS needs to place more deposits for a brokerage apartment, participate in the project development strategy process, and enjoy the price difference between the market price and the committed selling price to the developer when the market is in a favourable period. When the real estate market is facing challenges, the real estate brokerage segment, especially the comprehensive brokerage segment, is severely affected due to the following factors: (1) completion of legal procedures for projects provided by DXS's comprehensive brokerage services, (2) high-interest rates reducing buying and selling demand, (3) increased costs for sales and related activities, and (4) no longer enjoying price differences.

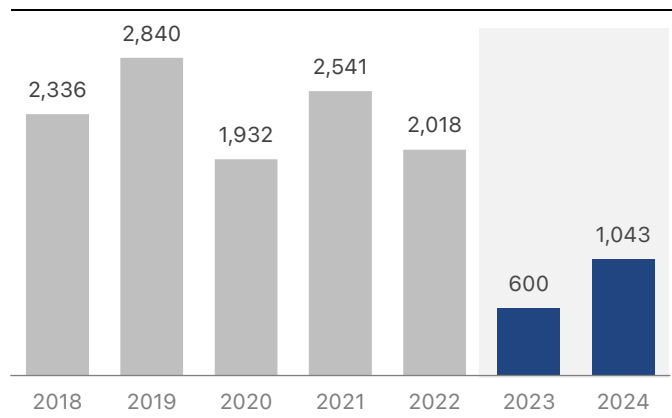
TVS forecasts that the real estate brokerage segment will recover strongly in 2024 from the low base of 2023. According to DXS, the absorption rate in the three regions has improved in Q3 2023, with

rates of 20%/10%/20% in the North, Central, and South, respectively (compared to 15%/5%/15% in Q2 2023). TVS believes that the supply of apartments in Hanoi and Ho Chi Minh City will recover slightly in 2024 (Figure 1), helping brokerage firms such as DXS recover from the low base of 2023.

We forecast that DXG's real estate brokerage segment revenue in 2023 and 2024 will be VND600 billion (-70% YoY) and VND1,043 billion (+74% YoY), respectively. Gross profit margin is expected to improve from 59.4% in 2023 to 63.4% in 2024 as the market recovers, helping to reduce sales and other ancillary costs.

Figure 8: Real estate brokerage revenue will recover in 2024 from the low base of 2023

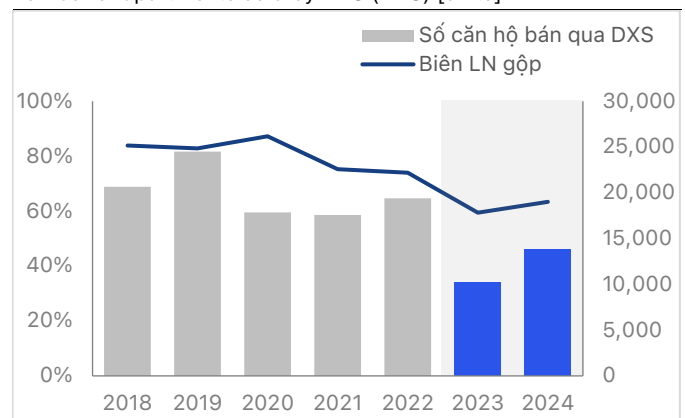
DXG's real estate brokerage revenue [VND bn]



Source: DXG, TVS Research forecast

Figure 9: Gross profit margin will increase again thanks to the recovery in apartment supply

Gross profit margin of real estate brokerage (LHS) [%] and number of apartments sold by DXS (RHS) [units]



Source: DXS, DXG, TVS Research forecast

Earning forecasts & Valuation

TVS forecasts that the NPAT of DXG will reach VND265 billion (-50% YoY) and VND692 billion (+162% YoY) in 2023 and 2024, respectively.

The revenue from the Real estate sector is expected to remain stable compared to 2022 and increase significantly in 2024, primarily due to the substantial handover of Opal Skyline. TVS predicts that the Real estate revenue of DXG in 2023 will reach VND2,988 billion (+7% YoY), coming from GSW and a portion of Opal Skyline, contributing 45% and 41% to the Real estate revenue, respectively. For 2024, Real estate revenue is projected to reach VND4,944 billion (+66% YoY), with GSW and Opal Skyline contributing 34% and 57%, respectively.

The gross profit margin is expected to decrease significantly to 40.6% in 2023 and then recover to 43.6% in 2024, thanks to the gradual recovery of the real estate market in 2024, boosting housing demand and reducing costs for the real estate brokerage segment.

We recommend HOLD for DXG shares with a target price of 23,300 VND for 2024.

We employ the RNAV method to value projects in DXG's future development plan. Our target price is VND23,300/share, equivalent to a P/B of 0.97x for 2024F, aligning with the industry's current median. We apply a 10% discount due to the slow recovery outlook for the industry in 2024 and unforeseeable volatile factors.

Table 1: DXG's RNAV valuation

Project	Method	Total value	Ownership ratio	Ownership value
Real estate development				17,718
Gem Sky World	DCF	2,040	100%	2,040
Gem Riverside	DCF	9,895	100%	9,895
Gem Premium	DCF	2,470	75%	1,852
Opal City	DCF	1,268	100%	1,268
Opal Cityview	DCF	533	100%	711
DXH Parkview	DCF	1,826	100%	913
DXH Parkcity	DCF	1,556	100%	778
Lux Star	DCF	520	100%	260
Brokerage & Services	DCF, P/E, P/B	4,708	60.8%	2,861
+ Cash & ST investments				1,029
- Debt				-5,771
- Minority shareholders				-4,919
RNAV				15,809
OS shares (mn shares)				612
Discount				10%
Fair value (VND)				23,300
Current price (VND)				19,750
Upside				18.0%

Source: TVS Research forecast

Dilution risk from DXG's share issuance plan. Our Valuation does not include any capital raising plans, such as the plan at DXG's 2023 Annual General Meeting, as we do not have specific information about the timing of implementation and the success rate of the offering. However, we believe that if the issuance is carried out, it will pose a dilution risk and reduce our target price, as shown in Table 1. Below is TVS's estimate of the change in target price if the capital increases are completed in 2024.

Table 2: Target price adjustment following DXG's capital increase plans

Capital increase plans	Current	Rights issue	Private placement for professional investors	ESOP		
Plan details		102 million shares for existing shareholders, exercise ratio 6:1, offering price VND 12,000/share	57 million shares privately placed for professional investors, offering price of VND 15,000/share.	ESOP 9 million shares.		
Assume capital increases		(1)	(2)	(3)	(1)+(2)	(1)+(2)+(3)
RNAV (VND bn)	15,809	18,030	17,220	15,987	19,390	19,619
Outstanding shares (mn shares)	612	714	669	621	771	780
Current price (VND)	19,750	18,600	19,300	19,600	18,400	18,300
Target price	23,300	22,700	23,200	23,100	22,700	22,600

Source: TVS Research forecast

Financial statements and key data

Income Statement				Balance Sheet			
	2022	2023F	2024F		2022	2023F	2024F
Net revenue	5,512	3,798	6,219	Total Assets	30,321	28,466	29,835
COGS	-2,542	-2,258	-3,508	Short-term assets	27,371	25,895	26,999
Gross Profit	2,970	1,540	2,710	Cash & cash equivalents	919	607	821
Financial Revenue	464	394	90	Short-term investment	181	181	181
Financial Expenses	-521	-638	-571	Accounts receivable	11,948	10,187	10,425
Gain/loss from JVs	2	0	0	Inventory, net	14,031	14,495	15,583
Selling expenses	-1,057	-380	-564	Long-term assets	2,950	2,570	2,835
G&A expenses	-1,083	-542	-805	Long-term receivables	147	147	147
Operating profit	775	375	860	Fixed assets	394	405	401
Other income, net	-7	0	0	Long-term assets in progress	711	663	663
PBT	768	375	860	Long-term investments	506	532	558
CIT	-234	-112	-172	Goodwill	0	0	0
NPAT	534	262	688	Total Liabilities & Equity	30,321	28,466	29,835
Minorities interest	-319	-79	-206	Liabilities	16,236	14,040	14,515
NPAT-MI	215	184	481	Short-term liabilities	12,255	10,434	11,246
EBITDA	1,316	957	1,414	Short-term debt	2,023	1,919	1,824
EPS (VND)	351	300	787	Short-term payable	1,149	621	772
BVPS (VND)	23,026	23,580	25,042	Other short-term liabilities	9,083	7,894	8,649
DPS (VND)	552	0	0	Long-term liabilities	3,981	3,606	3,269
				Long-term debt	3,748	3,374	3,036
Financial ratios	2022	2023F	2024F	Other long-term liabilities	232	232	232
1. Growth ratios				Total Equity	14,087	14,426	15,320
Revenue	-45.4%	-31.1%	63.7%	Paid-in capital	6,118	6,118	6,118
EBITDA	-56.9%	-27.3%	47.7%	Share premium	80	80	80
PBT	69.5%	51.2%	-129.4%	Retained earning	2,308	2,571	3,258
NPAT-MI	66.5%	50.8%	-162.2%	State budget capital & funds	108	107	107
2. Operating ratios				Minorities interest	4,840	4,918	5,125
Gross LN ratio	53.9%	40.6%	43.6%				
EBITDA Margin	23.9%	25.2%	22.7%	Cash Flow Statement	2022	2023F	2024F
LNST-CĐTS ratio	3.9%	4.8%	7.7%	PBT	768	375	860
ROE	3.9%	1.8%	4.6%	Depreciation	86	84	97
ROA	1.8%	0.9%	2.4%	Net interest	-520	0	0
3. Valuation ratios				Taxes paid	-485	-112	-172
P/E	36.3	77.6	29.6	Change in working capital	-4,065	768	-1,174
P/B	0.6	1.0	0.9	Other adjustments	312	-956	1,019
EV/EBITDA	2.6	10.3	7.5	Cash flow from operations	-3,904	158	630
4. Solvency ratios				Capex	-148	-95	-93
Cash ratio	0.1	0.1	0.1	Liquidation of fixed assets	6	0	0
Quick ratio	1.1	1.1	1.0	Acquisitions & investments	311	25	27
Current ratio	2.2	2.5	2.4	Other adjustments	68	78	82
Interest coverage	2.7	1.8	2.9	Cash flow from investing	237	9	16
Accounts receivable days	753	979	612	Dividends paid	-338	0	0
Inventory days	1814	2306	1565	Issue of shares	417	0	0
Accounts payable days	143	100	80	Change in debt	1,769	-479	-432
CCC	2424	3184	2096	Other adjustments	0	0	0
5. Capital structure				Cash flow from financing	1,848	-479	-432
Total Equity/Total Asset	0.5	0.5	0.5	Cash, beginning of period	2,738	919	607
Total Liabilities/Total Equity	0.5	0.5	0.5	Change in cash	-1,819	-312	213
D/E	0.4	0.4	0.3	Cash, end of period	919	607	821

Source: DXG's financial report, TVS Research forecast

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Equity rating key	Definition
BUY	If the projected TSR is higher than 20%
HOLD	If the projected TSR is between -10% and 20%
SELL	If the projected TSR is lower than -10%

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