

Industrial real estate

Legal issues are being resolved

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Positive maintain

Recommendations

GVR	BUY
Price target	VND38,800

KBC	BUY
Price target	VND42,000

Industrial park rental prices continue to grow, and the occupancy rate remains high

In the first quarter of 2024, the average occupancy rates of industrial parks in level 1 Northern and Southern provinces were 83% and 92%, respectively. Industrial park rental prices gained in both the North and the South in 1Q24 thanks to positive demand. The average rental price for the tier 1 market reached USD133/m²/remaining term (+7.8% YoY) in the North and USD189/m²/remaining term (+2.4% YoY) in the South.

The business results of industrial park enterprises are mixed

While many businesses recorded high increases in revenue, many posted flat or even negative growth YoY since (1) new projects were behind schedule to be put into operation as prolonged legal procedures led to the land bank of many businesses being exhausted; and (2) the speed of handing over available land is slower than expected due to problems from the other party or the province running out of industrial park land quotas.

Industrial park land prices are expected to maintain an increase of 3–9%/year in the next three years

Industrial land rents should gain by 5–9%/year in the Northern region and 3–7%/year in the Southern region, based on (1) positive demand from many industry groups and foreign customers amid growing FDI capital inflows and (2) slow growth of supply, especially in level 1 provinces while occupancy rate remains high.

New industrial park supply in the coming time is expected to be supported by legal adjustments

The current supply of industrial park land is at a low level, and the growth rate is slow due to legal problems that are expected to be solved in the near future thanks to the positive impacts from: (1) the planning of many provinces and cities being passed; (2) decision 227/QĐ-TTg on land use criteria; and (3) decree 12/2024/ND-CP on land valuation methods.

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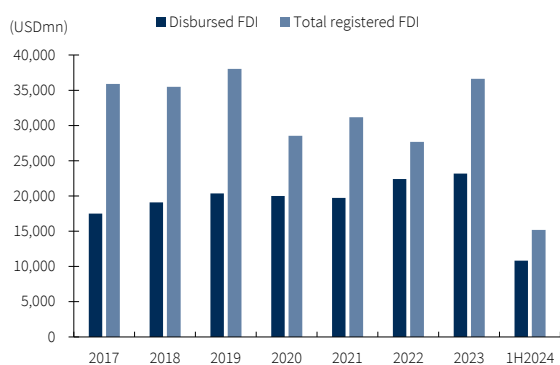
I. Business performance in 1H24

The FDI capital inflows into Vietnam is positive in 5M24

In the first five months of 2024, the total newly registered investment capital, adjustments and capital contributions, share purchases, and contributed capital of foreign investors reached nearly USD11.07 billion (+2% YoY). Of that, newly registered capital with 1,227 projects were granted investment registration certificates (+27.5% YoY), and total registered capital hit up to USD7.94 billion (+50.8% YoY). Disbursed capital of foreign investment projects is estimated at USD8.25 billion (+7.8% YoY).

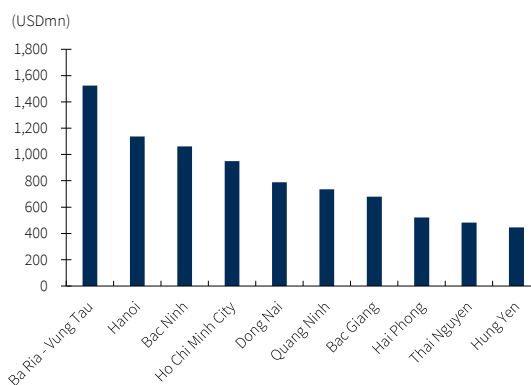
- Investment partners with the largest number of projects are Singapore, Hong Kong, Japan, China, and Korea (accounting for 73% of new investment projects) with a total capital equivalent to 73.5% of the country's registered investment capital.
- Localities attracting the largest investment capital include Ba Ria - Vung Tau, Hanoi, Bac Ninh, Ho Chi Minh City, Dong Nai, Quang Ninh, Bac Giang, Hai Phong, Thai Nguyen, and Hung Yen, accounting for 74.7 % of new projects, contributing 75.2% of the country's investment capital in 5M24.

Fig 1. Vietnam – Registered & disbursed FDI from 2017 (USDmn)



Source: General Statistics Office, KB Securities Vietnam

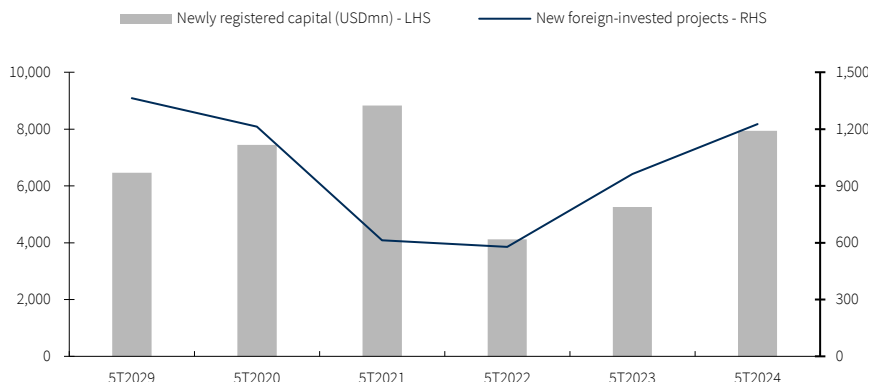
Fig 2. Vietnam – Top 10 FDI attracting provinces in 5M24



Source: FiinPro

Fig 3. Vietnam – Investment capital of new FDI projects in 5M24 (USDbn)

In 5M24, Vietnam witnessed the most significant recovery in the number of new FDI projects compared to the same period last year. The figure has been increasing YoY in the period 2022 – 2024 and exceeded 11% growth in 5M24 vs 5M19 – the time before the pandemic. Total new investment capital in 5M24 recorded the record high in the last six years. The increase in both the number of projects and total investment capital shows that Vietnam is still an attractive destination for investors.



Source: FiinPro, KB Securities Vietnam

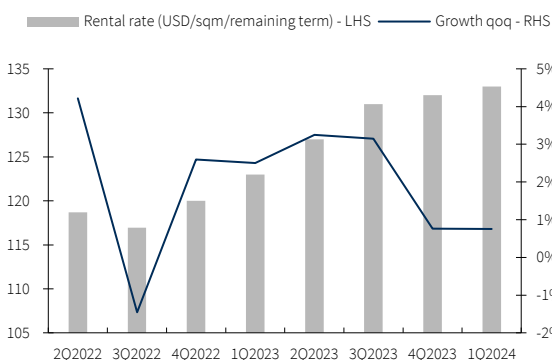
Industrial park rents has been growing with high occupancy rates

According to CBRE's report, industrial park rents gained in both the North and the South thanks to positive demand. In 1Q2024, the average rental price for the tier 1 market reached USD133/m²/remaining term (+7.8% YoY) in the North and USD189/m²/remaining term (+2.4% YoY) in the South

The average occupancy rate of industrial parks across the country reached 80%:

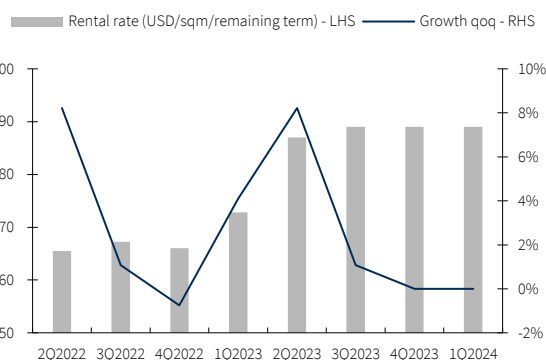
- In the North: The average occupancy rate increased to 83% (with absorption area reaching 110ha in 1Q24) due to the lack of new industrial parks, while existing industrial parks still attract more customers. The province with the highest occupancy rate is Hai Phong (92%), followed by Bac Ninh (89%) and Vinh Phuc (88%).
- In the South: Due to limited supply, the industrial park occupancy rate in the Southern provinces remained at 92%, with a total absorption area of only 20ha.

Fig 4. Vietnam – Average rent of industrial parks in the Northern level 1 provinces



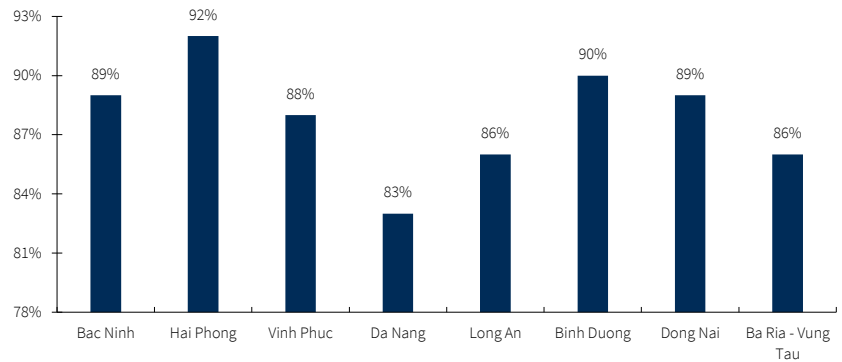
Source: CBRE, KB Securities Vietnam

Fig 5. Vietnam – Vietnam – Average rent of industrial parks in the Southern level 1 provinces



Source: CBRE, KB Securities Vietnam

Fig 6. Vietnam – Occupancy rates in key provinces

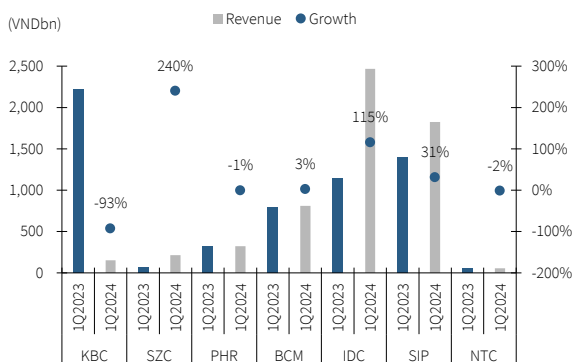


Source: Savills

1Q business performance of industrial parks are mixed

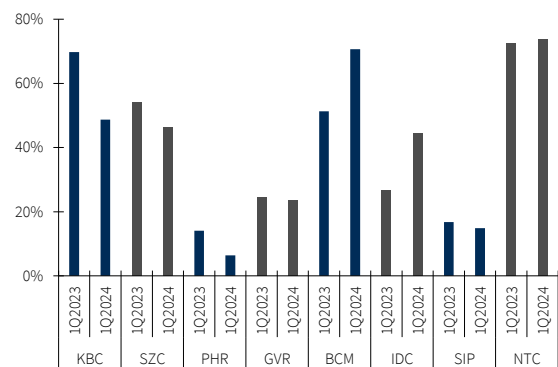
1Q24 business results of industrial park enterprises showed a clear differentiation. Those that recorded strong revenue growth YoY also have large land bank available for lease and industrial parks in localities with room for industrial park quotas: IDICO Corporation (IDC, handing over about 40ha of industrial park land and 1.45ha at Aeon in 1Q24), SONADEZI Chau Duc (SZC, increasing land area handed over in the quarter), and Sai Gon VRG Investment (SIP, delivering 16ha of land in Loc An Binh Son Industrial Park to SEA Logistics Partners. Meanwhile, many industrial parks recorded a decline in business results compared to 1Q23 mainly because they have no land bank available for lease like Phuoc Hoa Rubber (PHR) and Nam Tan Uyen (NTC) or the business has legal problems with the land that cannot be handed over like Kinh Bac City Development (KBC).

Fig 7. Vietnam – Revenue growth of industrial parks (%)



Source: Industrial parks, KB Securities Vietnam

Fig 8. Vietnam – GPM of industrial parks (%)



Source: Industrial parks, KB Securities Vietnam

II. Business outlook for 2H24

The industrial real estate sector outlook for 2024 is bright thanks to increasing FDI capital into Vietnam and (2) promoted investment in infrastructure

The global minimum tax applied since the beginning of this year has somewhat affected the attractiveness of tax incentive policies for FDI capital to Vietnam, but the industrial real estate industry still has great growth potential:

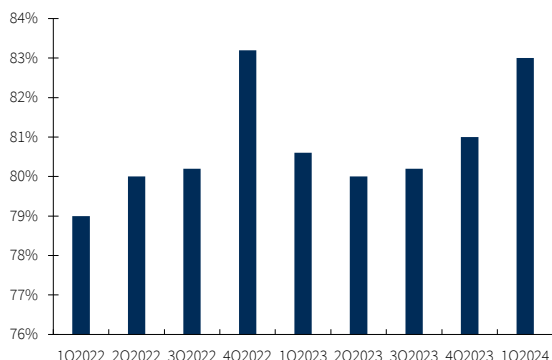
- Vietnam is still an attractive destination for FDI capital because (1) the trend of moving production bases from China has been continued. (2) A series of FTAs that Vietnam signed and the upgrade of cooperative relationship with the US, Australia, Korea, and China in 2H23 is promising to high-tech FDI capital to Vietnam in the coming time. (3) Vietnam has the advantages of cheap labor and lower electricity and water costs than many countries in the region.
- Vietnam is the country with the strongest commitment to infrastructure investment in the region. Transport infrastructure construction projects that are being promoted by the Government. The North-South expressway, Ring Road 4 in Hanoi, seaport and airport projects will increase the attractiveness of industrial parks to many investors and benefit the whole sector in the long term.

Industrial park land rental prices are expected to continue to maintain an increase of 3 - 9%/year

KBSV forecasts that in the next three years, industrial land rents would gain 5-9%/year in the Northern region and 3-7%/year in the Southern region, based on (1) positive demand from many industry groups and foreign customers amid growing FDI capital inflows and (2) slow growth of supply, especially in level 1 provinces while occupancy rate remains high.

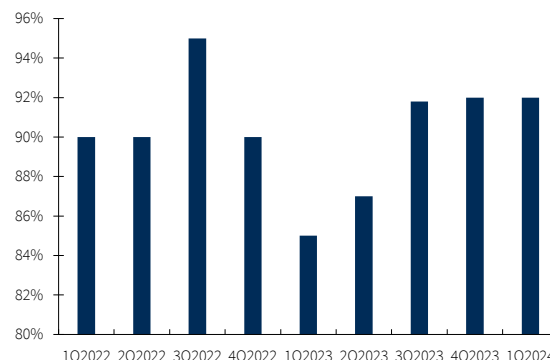
- With the current high rents in the Southern region, the Northern provinces are expected to attract more tenants in the near future, especially those from China and Korea, the two countries with the largest total FDI capital, when the leasable land bank in the North is higher, and the rental price is lower.
- In the South, an area with low supply and higher rents, domestic and foreign manufacturers tend to switch to leasing land in secondary markets such as Ba Ria - Vung Tau and Tay Ninh provinces, which have large land area and more competitive rental prices than the primary market.

Fig 9. Vietnam – Occupancy rates in the South (%)



Source: CBRE, KB Securities Vietnam

Fig 10. Vietnam – Occupancy rates in the North (%)



Source: CBRE, KB Securities Vietnam

New industrial park supply in the coming time is expected to be supported by legal adjustments

The current supply of industrial park land is at a low level, and the growth rate is slow due to legal problems that are expected to be solved in the near future thanks to the positive impacts from: (1) the planning of many provinces and cities being passed; (2) decision 227/QĐ-TTg on land use criteria; and (3) decree 12/2024/ND-CP on land valuation methods:

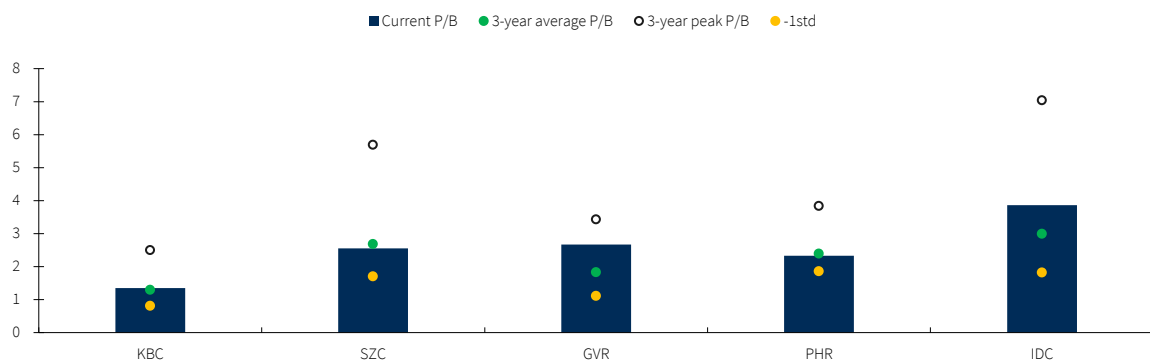
- As of June 2024, 56 provincial-level plans have been approved. In particular, the approved plans of provinces that own large industrial park land funds such as Binh Phuoc, Ba Ria Vung Tau, Tay Ninh, and Hung Yen are the basis for projects to continue the investment process. The plans of the remaining provinces are expected to be passed soon this year, including Binh Duong and Dong Nai, two key areas of industrial park projects.
- Decree 12/2024/ND-CP dated February 5, 2024 amending and supplementing Decree 44/2014 on land valuation regulations has overcome the limitations of previous land valuation methods (mostly based on assumptions, without clear guidance). Decree 12 is expected to remove obstacles in calculating land use fees and accelerate the process of paying land use fees for industrial park projects.
- Decision 227/QĐ-TTg adjusting land use targets issued last March has supplemented land use targets for many provinces and cities, especially in Bac Ninh, Thai Binh and Binh Phuoc provinces with an additional land area in each province up to 600 - 700ha. This adjustment should have a positive impact on the progress of local projects with increased land use targets, overcoming the situation of not being able to deploy/hand over to customers.

The industrial real estate outlook for 2024 is positive

We believe the industrial real estate sector will be positive in 2024 thanks to positive growth from FDI capital and high rental demand despite climbing rents.

We appreciate stocks with large leasable areas such as KBC, IDC, and SZC, especially in the context of a continuing supply shortage. KBC expects to put Trang Due 3 (687ha) into operation soon, in addition to the current large land bank. SZC owns more than 540ha of available land, and IDC currently has up to 554ha of remaining land for lease with attractive dividends. In the long term, investors can consider stocks of businesses that own large, converted rubber land funds that have been included in planning such as Vietnam Rubber Group (GVR) and PHR as they have positive prospects from compensation and cash flow from leasing industrial park land regularly for many years. Currently, most stocks in the industrial real estate sector have made multiple time increases compared to the bottom at the end of 2022. However, some stocks are still 15 – 40% lower than the peak in 2021, including KBC, SZC, and PHR. In addition to these stocks, investors should only buy when a stock has more attractive stories and reasonable valuation.

Fig 11. Vietnam – 3-year P/B of industrial parks



Source: Bloomberg, KB Securities Vietnam



Companies

Kinh Bac City (KBC)

Vietnam Rubber (GVR)

Kinh Bac City (KBC)

Expecting to rebound in 2H24

June 14, 2024

Analyst Nguyen Ngoc Anh
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KBC posted VND152 billion (~93% YoY) in 1Q revenue and a loss of VND77 billion

In 1Q24, Kinh Bac City Development (KBC) revenue plunged 93% YoY to VND152 billion as it failed to hand over the industrial park land for lease, only completing 2% of the 2024 plan revenue. NPAT recorded a loss of VND77 billion (~107% YoY) after four straight quarter of profit growth.

KBC should hand over 111ha of industrial park land for lease this year

We expect KBC can record additional rental revenue for 111ha of industrial park land in 2024, including 16ha of Quang Chau Industrial Park, 30ha of Nam Son Hap Linh Industrial Park, 25ha of Tan Phu Trung Industrial Park, 30ha of Trang Due Industrial Park 3, and 10ha of Hung Yen Industrial Park, given Trang Due 3 and Hung Yen Industrial Park start leasing in 2H24.

KBC is proposing to deploy two more industrial parks in Can Tho, accumulating more land for development

In early June, KBC worked with the leadership of Can Tho province on an investment proposal for O Mon and Co Do industrial parks with a total scale of up to 1,320ha, which, along with projects being implemented by KBC across the country, will ensure the industrial park land bank for the business in the long term.

KBC plans to issue 250 million private shares to raise charter capital to VND10,176 billion

KBC submitted to the AGM this June a plan to issue 250 million private shares. If the placement is successful, the charter capital will increase from VND7,676 billion to VND10,176 billion. The proceeds should be used to restructure loans and increase capital contributions to subsidiaries and affiliated companies.

Valuation: BUY rating – Target price VND42,000/share

Based on business prospects and valuation results, we give a BUY rating to KBC with a price target of VND42,000, equal to a return of 38.6%.

Buy maintain

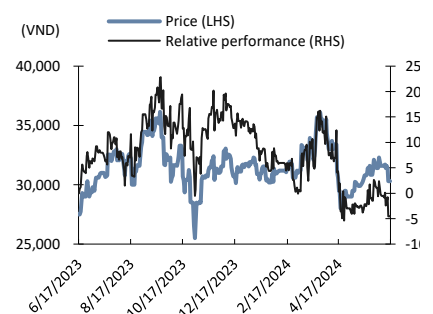
Target price	VND42,000
Upside	38.6%
Current price (Jun 14, 2024)	VND30,300
Consensus target price	VND38,200
Market cap (VNDtn/USDbn)	23.3/0.9

Trading data	
Free float	55.3%
3M avg trading value (VNDbn/USDmn)	251.6/10.0
Foreign ownership	21.2%
Major shareholder	Chairman Dang Thanh Tam (18.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	4.0	-7.7	1.1	13.2
Relative	-0.7	-10.6	-16.1	-3.3

Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	950	5,645	4,967	6,446
Operating income/loss (VNDbn)	1,577	2,218	1,949	1,804
NPAT-MI (VNDbn)	1,526	1,996	1,754	1,623
EPS (VND)	1,993	2,600	2,285	2,114
EPS growth (%)	20%	30%	-12%	-7%
P/E (x)	15	12	13	14
P/B (x)	1.0	1.2	1.1	1.0
ROE (%)	9%	11%	9%	8%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

Vietnam Rubber (GVR)

Potential from converted rubber plantations

June 17, 2024

Analyst Nguyen Ngoc Anh
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1Q revenue hit VND4,590 billion (+11% YoY), completing 18% of 2024 revenue target

In 1Q24, Vietnam Rubber Group (GVR) posted VND4,590 billion in net revenue (+11% YoY), underpinned by the core business, natural rubber, with revenue reaching VND3,391 billion (+16% YoY) thanks to higher average rubber price (VND36.7 million/ton, +13% YoY). By the end of 1Q, the business completed 18% of the planned revenue set for 2024.

GVR's average rubber price reached more than 38 million/ton in June and should stay high until the end of the year

Currently, GVR's average rubber price has reached VND38.4 million/ton, an increase of VND6 million/ton compared to that in 2023. We expect the price in 2024 to grow 8% YoY given (1) recovering world demand for automobile tires and tubes, (2) high oil prices and (3) unfavorable weather in the main rubber supplying countries.

The potential of GVR's converted rubber land becomes clearer

We expect that the speed of land conversion and implementation of GVR's industrial park projects will be faster since (1) the planning of Binh Phuoc, Ninh Thuan, and Ba Ria - Vung Tau provinces has been approved with 25,000ha of converted rubber land of GVR; and (2) the decision 227/QĐ-TTg issued in March 2024 has increased land use targets in Binh Phuoc and removed legal obstacles related to the limited land area of the province.

Valuation: BUY rating – Target price VND38,800

We give a BUY rating to GVR stock with a price target of VND38,800/share, equal to an expected return of 16.3% compared to the closing price on June 17, 2024.

Buy maintain

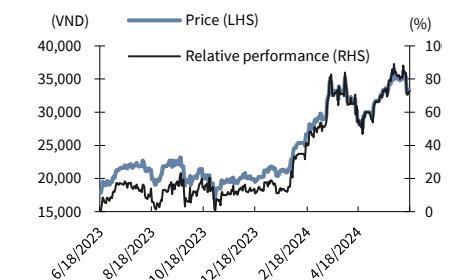
Target price	VND38,800
Upside	16.3%
Current price (Jun 17, 2024)	VND33,350
Consensus target price	VND29,900
Market cap (VNDtn/USDbn)	135.8/5.3

Trading data	
Free float	3.2%
3M avg trading value (VNDbn/USDmn)	154.2/6.1
Foreign ownership	0.5%
Major shareholder	CMSC (96.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.0	2.5	71.5	87.4
Relative	-0.1	-0.1	54.7	73.1

Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	25,426	22,080	24,831	26,581
Operating income/loss (VNDbn)	4,381	2,744	3,747	4,839
NPAT-MI (VNDbn)	3,839	2,585	2,927	3,818
EPS (VND)	807	646	732	954
EPS growth (%)	-22%	-20%	13%	30%
P/E (x)	41.3	51.6	45.6	34.9
P/B (x)	2.5	2.4	2.3	2.1
ROE (%)	9%	6%	7%	8%
Dividend yield (%)	0.1%	0.1%	0.1%	0.1%



Source: Bloomberg, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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