

Residential Property Sector: 9M2023 Update

Poor market sentiment led to weak project sales and operating cash flow, access to new financing is key to cope with refinancing risks

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Listed residential property developers' profitability plunged in 9M2023 amid market downturn. Debt coverage capacity remains weak due to deteriorating cash flow driven by weak pre-sales. We expect developers' performance in 2023 will diminish notably compared to 2022 before gradually recovering in 2H2024, as the government support measures come into effect.

Revenue and profit for 9M2023 of listed developers declined significantly by 38% yoy and 81% yoy respectively due to slump in project sales. Only 8 out of 30 listed developers covered by our analysis (e.g., VHM, NLG, KDH and AGG) recorded yoy 9M2023 EBITDA growth; these developers were able to launch and sell new projects in 2022 that are located in the high-demand tier-1 cities and suburbs and clear of legal obstacles. Based on 9M2023 data, we expect the sector's performance to deteriorate significantly in 2023 with around five out of 26 companies meeting their announced 12M2023 profit targets.

Low level of new property supply and slow recovery in homebuyers' sentiment will continue to dampen developer sales in 1H2024. The number of projects granted construction permits remains low, indicating legal obstacles will prolong and new supply will remain low in upcoming quarters. Apartment sales recovered slightly in Q3/2023 but were still at low level compared with prior years. We expect homebuyer sentiment and property sales to gradually recover in 2H2024 as the government support measures come into effect.

Debt servicing capacity for majority of listed developers continued to deteriorate from high leverage and weak cash flow. Listed developers' aggregate debt declined by 16% in 9M2023. However, debt ratios deteriorated in 9M2023 as weaker revenue and margins resulted in EBITDA falling by 44%. Operating cash flows worsened in 9M2023 from weaker sales and rising inventories. We note that developers' cash resources had fallen to the lowest level over the last five years. Significant bond maturities of around VND 114 trillion per year in 2023-2024 period will pose refinancing risks.

Developers' ability to access new financing has somewhat improved, mostly through banks extending new credit to support developers' project and debt restructuring. Bank credit to property-related businesses grew 22% in 9M2023, with growth beginning in Q2/2023. On the other hand, mortgage loan growth remains weak. We expect the upcoming amendment of various laws to accelerate project legal approvals and enable developers to access new financing.



Profitability for 9M2023 plummeted, driven by weak supply and demand amid prolonged difficulties in legal approval procedures and weak homebuyers' sentiment

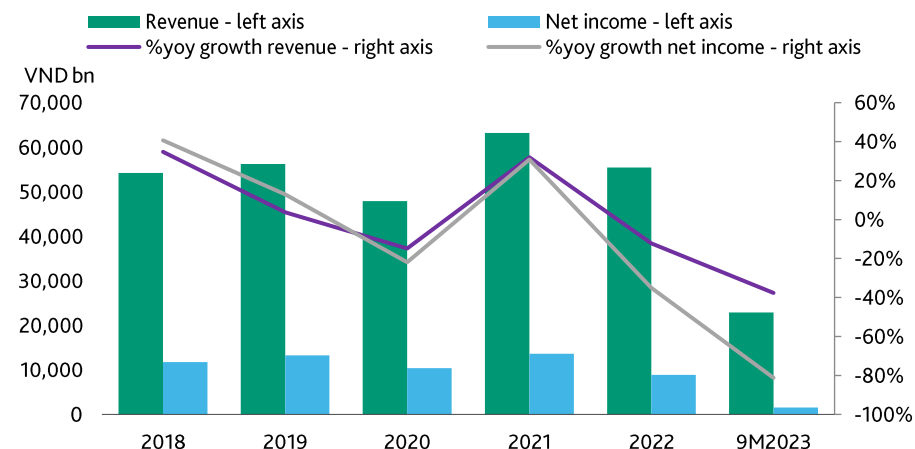
Revenue and profit of developers for 9M2023 declined significantly by 38% and 81% respectively, to the lowest level over the last six years driven by a plunge in core business activities amid weak supply and demand (Exhibit 1).

Some developers recorded strong growth in financial income from business cooperation activities which offset the slump in profits from their core business lines.

A handful of developers such as VHM, AGG, NLG and KDH recorded EBITDA growth in 9M2023(Exhibit 2), because of the large handover of their ongoing projects, supported by strong pre-sales from previous years. These projects are located in high-demand tier-1 cities and suburbs, and clear of legal obstacles.

Based on 9M2023 data, we expect just around five out of 26¹ listed developers covered by our analysis are likely to meet 12M2023 profit targets, which we note are already lower than targets for 2022 (Exhibit 3).

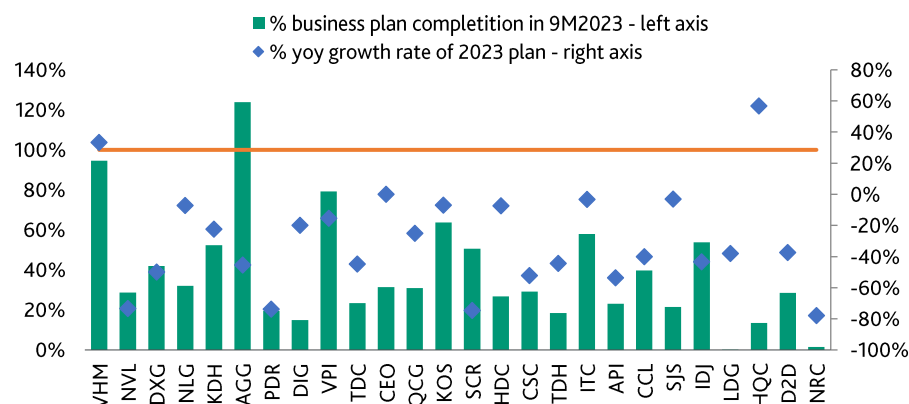
Exhibit 1: Profitability 9M2023 was at the lowest level over the last 6 years



Source: Company data, Vietnam Investors Service

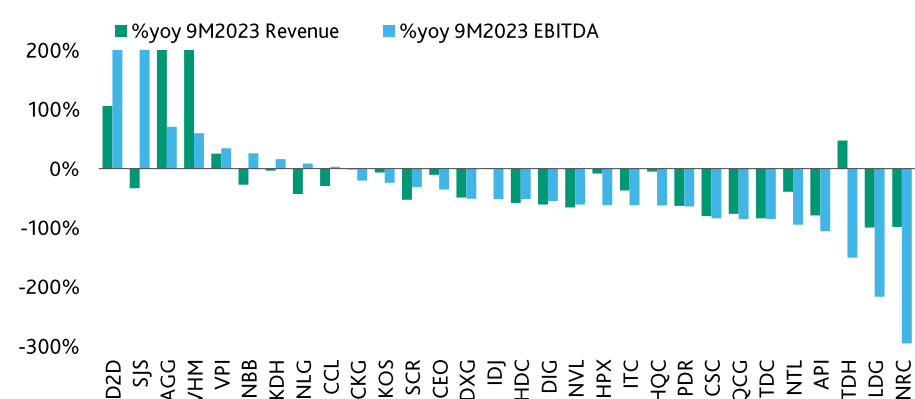
Note: VHM is excluded from calculation as it is not representative of sector performance

Exhibit 3: Most of the developers are set to miss their 2023 profit targets



Source: Company data, Vietnam Investors Service

Exhibit 2: Most of the developers experienced a strong fall in profitability 9M2023



Source: Company data, Vietnam Investors Service

Note: Top 30 residential developers in terms of revenue

¹ 26 out of 30 firms covered by our analysis announced their business plans 2023. This publication does not announce a credit rating action.

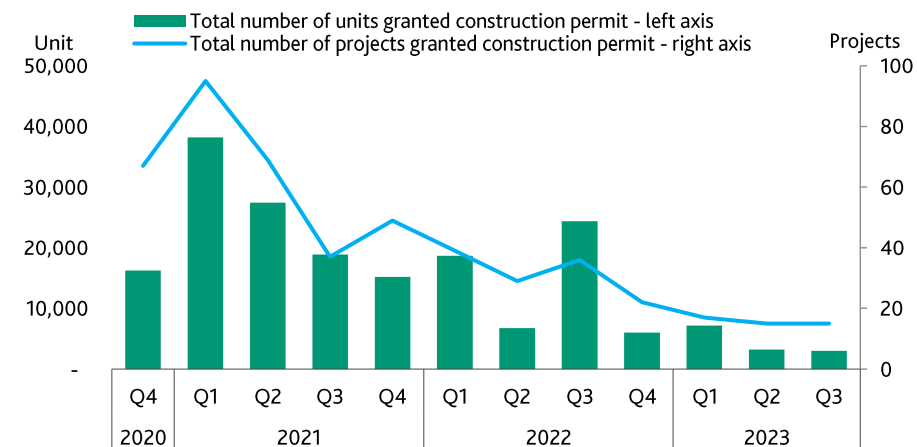
Low new supply and slow recovery in homebuyers' sentiment will dampen developer sales in 1H2024

The number of projects granted construction permits declined significantly since Q4/2022, indicating legal obstacles prolong and supply shortage in upcoming quarters (Exhibit 4).

Apartment transactions dropped significantly by 60% yoy in 9M2023, indicating weak market sentiment despite a slight qoq increase in Q3/2023 (Exhibit 5). As a result, pre-sales funding experienced a significant drop in Q3/2023 to the lowest level over the last six years except for Covid time (Exhibit 6). These exhibit that homebuyers' sentiment is still weak amid uncertain recovery of the real estate market and economic slowdown. We view the recent improvement in condominium sales in Q3/2023 is not sufficient to signal a clear recovery in market sentiment.

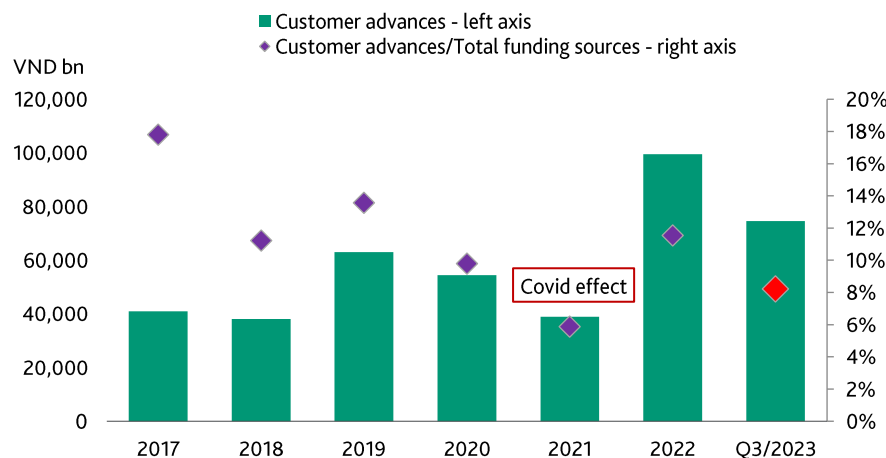
We expect the upcoming amendment of laws on lands, housing and real estate business will drive improvement in project approvals and new supply from mid-2024 onwards².

Exhibit 4: The low number of projects achieving construction permit will drive supply shortage



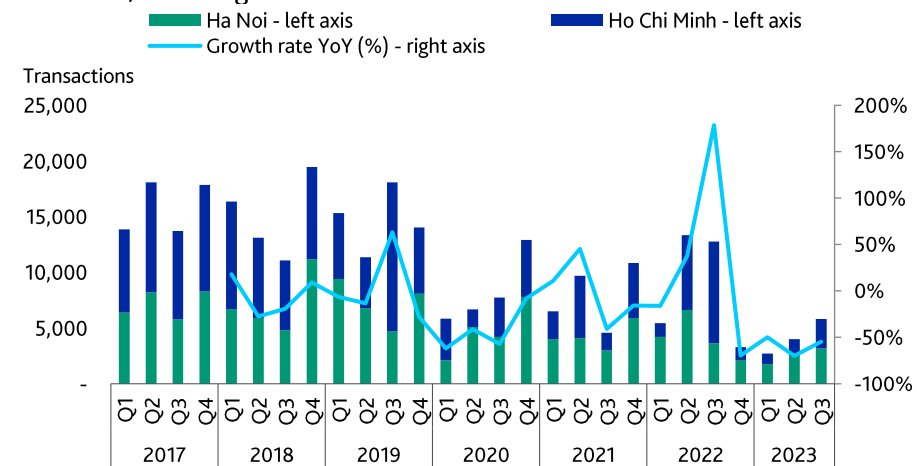
Source: Ministry of Construction, Vietnam Investors Service

Exhibit 6: Funding by customer advances in Q3/2023 declined to the lowest level excluding Covid time due to weak homebuyers' sentiment amid market downturn



Source: Company data, Vietnam Investors Service

Exhibit 5: Apartment transactions recovered marginally in Q3/2023 but are still at a low level, indicating weak market sentiment



Source: CBRE, Vietnam Investors Service

² Refer to our [Credit Insights: Resolution No.33/NO-CP on Solutions for Property Sector \(23 March 2023\)](#)

This publication does not announce a credit rating action.

Developers' debt servicing capacity continues to deteriorate due to high leverage and weak cash flow

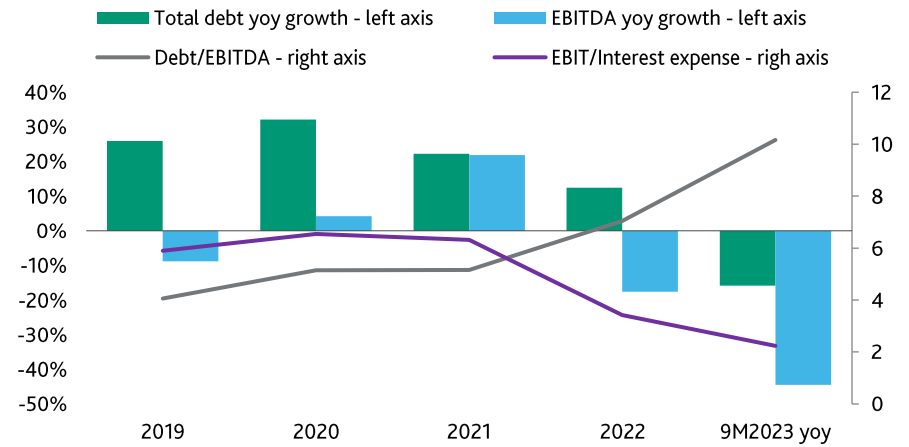
Developers' leverage indicated by Debt/EBITDA remained high due to a sharp deterioration in profitability.

Developers' aggregate debt declined by around 16% yoy in 9M2023 due to matured debt repayment and slower project development activities amid market downturn and legal delays. However, significantly weaker revenue and gross profit, leading to a sharper decline in EBITDA, outpaced debt reductions (Exhibit 7).

Besides, significant bond maturities with around VND 114 trillion per year in 2023-2024 continue to drive refinancing risks (Exhibit 8).

On the other hand, cash flow from operations decreased strongly since 2022 driven by deteriorating pre-sales activities (Exhibit 9), resulting in declining cash resources. We expect coverage will continue to be weak as profitability outlook is negative and cash resources will remain at a low level due to sluggish operating cash flow.

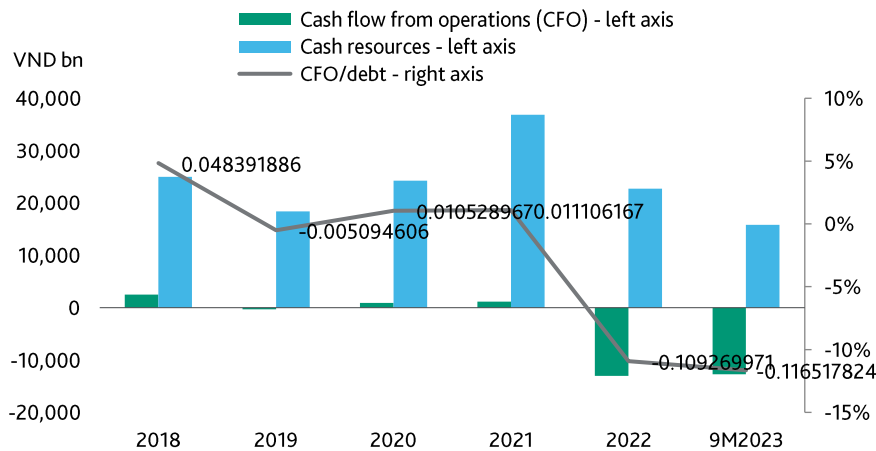
Exhibit 7: Debt growth surpassed profitability growth



Source: Company data, Vietnam Investors Service

Note: VHM is excluded from calculation as it is not representative of sector performance

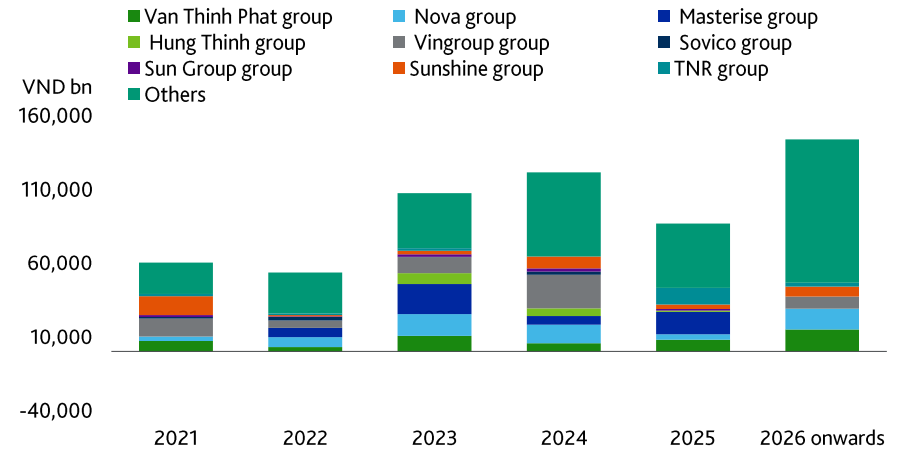
Exhibit 9: Cash flow from operations of listed developers remain strained in 2023



Source: Company data, Vietnam Investors Service

Note: VHM is excluded from calculation as it is not representative of sector performance

Exhibit 8: Real estate bond maturities will rise in 2024



Source: Hanoi Stock Exchange (HNX), Vietnam Investors Service

Note: Bond maturities related to groups are based on our estimation of bond maturities of companies have linkages to corresponding Groups

Property sector funding access has gradually been improved as real estate business loan expansion has offset mortgage slowdown

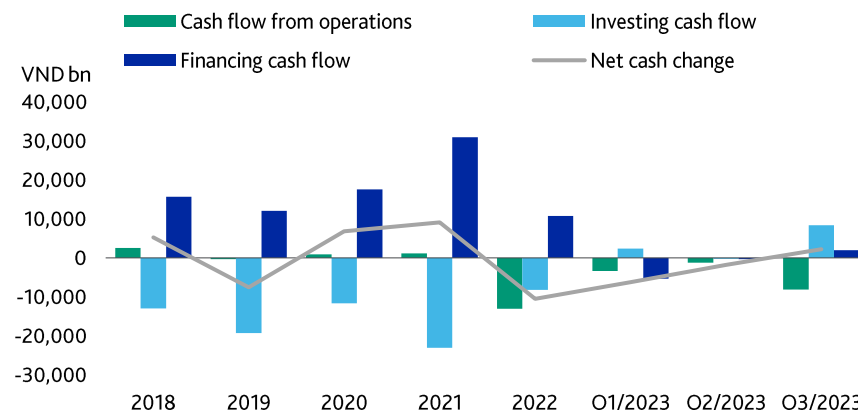
After experiencing cash depletions since 2022, developers' liquidity position shows a slight improvement in Q3/2023 as shortage in operating cash flow has been offset by a significant rise in investing and financing cash flow (Exhibit 10).

Increasing investing cashflow indicated developers' efforts to restructure their real estate projects portfolio by project M&As or equity stake transfer, which temporarily helped developers overcome liquidity shortages.

Privately-owned banks have also been providing financing support for developers' project and debt restructuring³, leading to credit to real estate businesses expanding by 22% in 9M2023 (Exhibit 11). On the other hand, mortgage loan growth remains weak. We expect the upcoming amendment of various laws to accelerate project legal approvals and enable developers to access new financing.

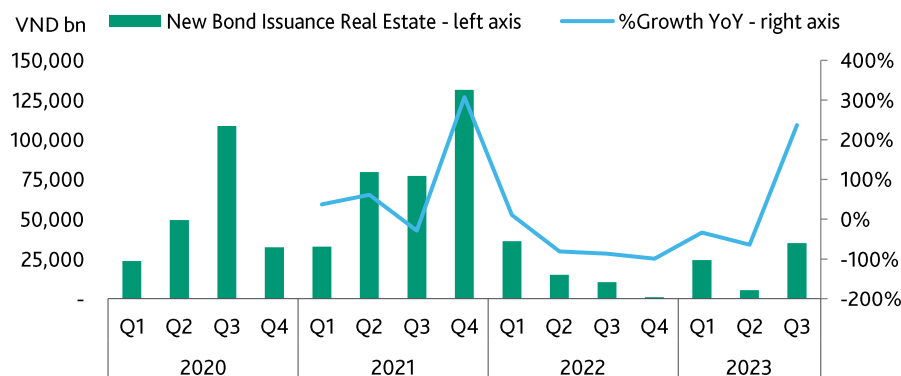
Bonds issued by property sector companies also increased considerably by 237% yoy in Q3/2023 compared to the trough level in the previous quarter (Exhibit 12). 78% of these new bonds by volume were issued by Vingroup, Nam Long and Masterise. These developers have ongoing projects located in Hanoi and Ho Chi Minh City, which continue to benefit from strong buyer demand.

Exhibit 10: The rise in financial and investing cash flow supports liquidity position of developers



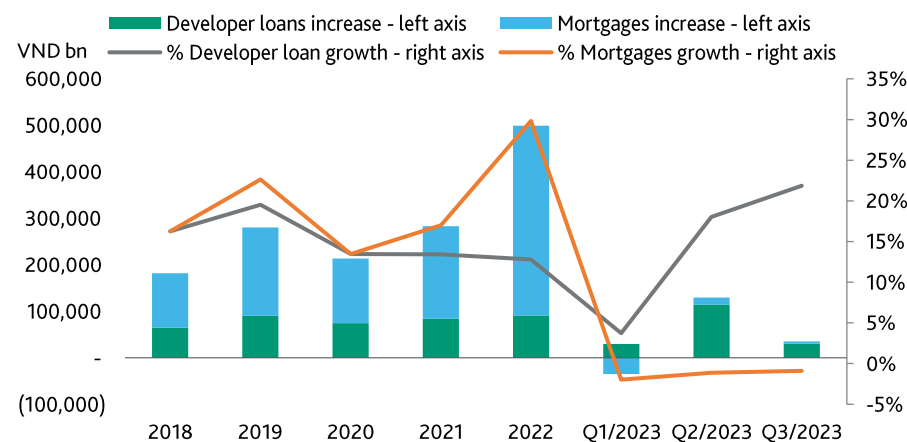
Source: Company data, Vietnam Investors Service
 Note: VHM is excluded from calculation as it is not representative of sector performance

Exhibit 12: Real estate bond issuances recovered in Q3/2023



Source: HNX, Vietnam Investors Service

Exhibit 11: Real estate business loan increase offset mortgage loan decrease



Source: State Bank of Vietnam (SBV), Vietnam Investors Service

³ Refer to our [Banking sector update: 9M2023 profits fell from the 2022 peak but recovery is within sight as net interest margin and credit pick up \(13 November 2023\)](#)

This publication does not announce a credit rating action.

APPENDIX

List of top 30 residential property companies by revenue

The firms included in our analysis are as follows:

	<i>Short Name</i>	<i>Full Name</i>
1	VHM	Vinhomes Joint Stock Company
2	NVL	No Va Land Investment Group Corporation
3	DXG	Dat Xanh Group Joint Stock Company
4	NLG	Nam Long Investment Corporation
5	KDH	Khang Dien House Trading and Investment Joint Stock Company
6	AGG	An Gia Real Estate Investment and Development Corporation
7	PDR	Phat Dat Real Estate Development Joint Stock Company
8	DIG	Development Investment Construction Joint Stock Company
9	VPI	Van Phu - Invest Investment Joint Stock Company
10	TDC	Binh Duong Trade and Development Joint Stock Company
11	CEO	C.E.O Group Joint Stock Company
12	NBB	NBB Investment Corporation
13	HPX	Hai Phat Investment JSC
14	QCG	Quoc Cuong Gia Lai Joint Stock Company
15	KOS	KOSY Joint Stock Company
16	CKG	Kien Giang Construction Investment Consultancy Group
17	SCR	Sai Gon Thuong Tin Real Estate Joint Stock Company
18	HDC	Ba Ria - Vung Tau House Development Joint Stock Company
19	CSC	COTANA Group Joint Stock Company
20	TDH	Thu Duc Housing Development Corporation
21	ITC	Investment and Trading of Real Estate Joint Stock Company
22	API	Asia - Pacific Investment Joint Stock Company
23	CCL	Cuu Long Petro Urban Development & Investment Corporation
24	SJS	Song Da Urban & Industrial Zone Investment & Development Joint Stock Company
25	IDJ	IDJ Vietnam Investment Joint Stock Company
26	LDG	LDG Investment Joint Stock Company
27	NTL	Tu Liem Urban Development Joint-Stock Company
28	HQC	Hoang Quan Consulting-Trading-Service Real Estate Corporation
29	D2D	Industrial Urban Development Joint Stock Company No. 2
30	NRC	Danh Khoi Group JSC

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