

Residential Real Estate Sector: 1H2024 Update

New housing supply will boost developer cash flows but also increase leverage

Vietnam's residential property sector recovered in 1H2024, marked by increases in housing supply and transactions following quickened legal procedures. Developer leverage remained high, and operating cash flow and cash resources improved slightly. Over the next 12-18 months, we expect developers to accelerate new project development and add to new housing supply. While cash flows will improve from faster sales, developers will take on more debt to fund new project development.

Robust housing demand will boost developer sales and cash proceeds. Nationwide property transactions in Q2/2024 reached the highest level since Q4/2022 alongside the continued increase in property prices in Hanoi and Ho Chi Minh City (HCMC). Over the next 12-18 months, we expect homebuyer sentiment to remain robust and buoyed by the low interest rate environment. Large developers such as VHM, KDH, NLG, and DXG will lead the industry in project sales from newly launched housing projects in Hanoi and HCMC. In 1H2024, contracted sales for these developers increased by an average of 31% yoy.

Speeding up the legal approval processes will quicken new project development and boost housing supply. In 1H2024, new housing supply increased mostly in major cities in the North such as Hanoi and Hai Phong. As legal approvals for new projects quicken, we expect more housing units in the mid-to-high-end segments will be launched in HCMC and other major cities in the next 12-18 months. New regulations will restrict highly leveraged developers from developing new projects. But we expect large developers like VHM, KDH, NLG, and Sun Group, will be unaffected and on track to complete their large-scale projects. Social housing supply is currently only at around 10% of the government's 2025 target of 428,000 units and will need time to increase meaningfully.

Leverage will increase faster than operating cash flow, underpinning the weak debt-servicing capacity of developers, particularly those embroiled in project legal issues. In 1H2024, the total debt of listed developers rose 19% yoy, mainly driven by new project development of VHM (+63% yoy in total debt), VPI (+54%), DIG (+59%), and KDH (+33%). Leverage will continue to increase as developers raise more debt to fund new project development. The sector Debt/EBITDA rose to 3.7x in 1H2024 from 2.7x in 2023; cash resources rose by 5%; operating cash flow recovered marginally but remained negative in 1H2024. Over two-thirds of the listed developers have weak to extremely weak cash flow to repay outstanding debt obligations, i.e. operating cash flow of less than 5% of total debt, particularly those affected by legal issues relating to their projects such as LDG, QCG, and NVL.

Heavy reliance on short-term borrowings poses significant refinancing risks. Listed developers' short-term debt as a percentage of total debt remained high at 44% in Q2/2024, in which companies with limited cash buffers (for example, CKG, NBB, QCG, KOS) are most in need of refinancing. In addition, around VND 105 trillion of real estate bonds are maturing in 2025. We estimate that around 50% of developer bonds maturing in the next 12 months are at risk of defaults: the majority relate to developers that had defaulted recently such as NVL, Sunshine, Van Thinh Phat and Hung Thinh. In general, developers' access to new financing has improved over the course of 2024, evidenced by the growth in real estate business loans and the doubling of equity issuances from the prior year. Real estate new bond issuance in 8M2024 fell 5% yoy, and further growth is likely to remain muted by stringent issuance requirements and the impending changes in the securities law. According to the current draft law, the proposed changes include a mandatory collateral requirement for publicly offered bonds and restricting private placements to institutional investors only.

CONTACTS

Pham Anh Tu, MSc

Associate Analyst

tu.pham@visrating.com

Hoang Thi Hien

Associate Analyst

hien.hoang@visrating.com

Duong Duc Hieu, CFA

Director- Senior Analyst

hieu.duong@visrating.com

Simon Chen, CFA

Head of Ratings & Research

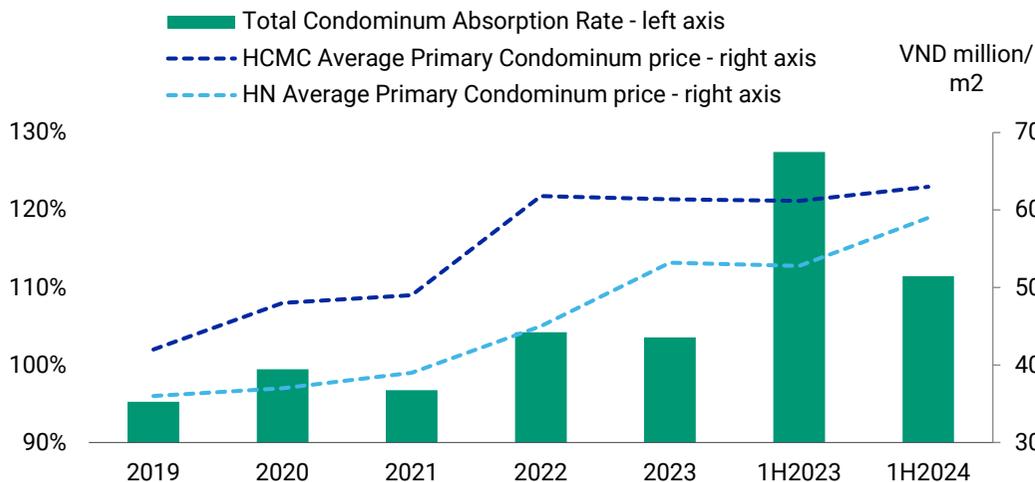
simon.chen@visrating.com



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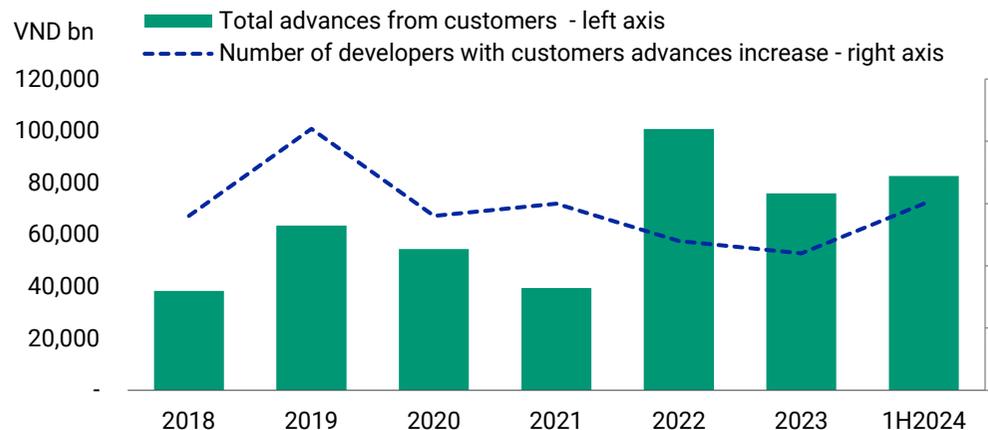
Robust housing demand will boost developer sales and cash proceeds

Exhibit 1: Housing demand remained robust in 1H2024, indicated by high absorption rates and elevated primary prices in Hanoi and Ho Chi Minh City



Source: CBRE, Vietnam Investors Service

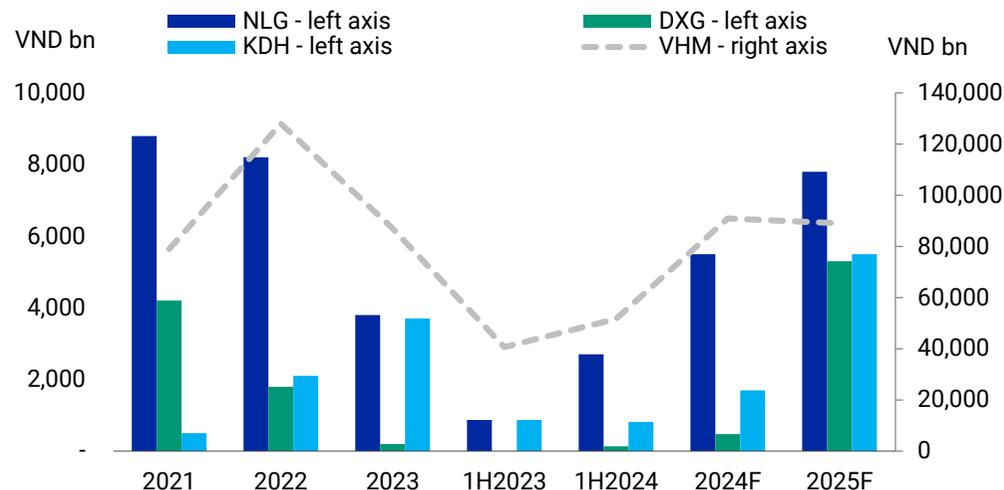
Exhibit 3: Proceeds from homebuyers increase leading to improving developer's customer advances balance



Source: Company data, Vietnam Investors Service

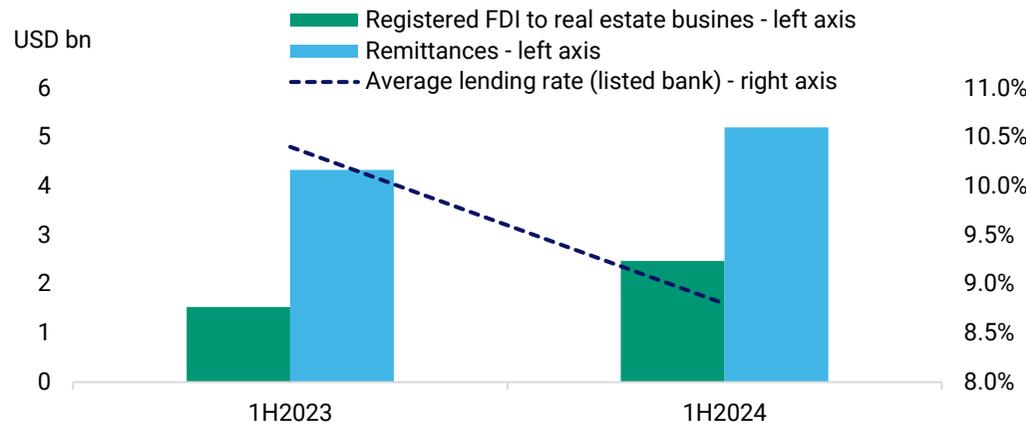
Note: Top 30 listed residential developers in terms of revenue

Exhibit 2: Large developers' contracted sales continue growing from newly/existing projects such as Vinhomes Royal Island (VHM), Clarita (KDH), Akari (NLG), Gem Sky World (DXG)



Source: Company data, Vietnam Investors Service

Exhibit 4: Interest rates remain low while foreign inflow indicators are strong in 1H2024, supporting the property market

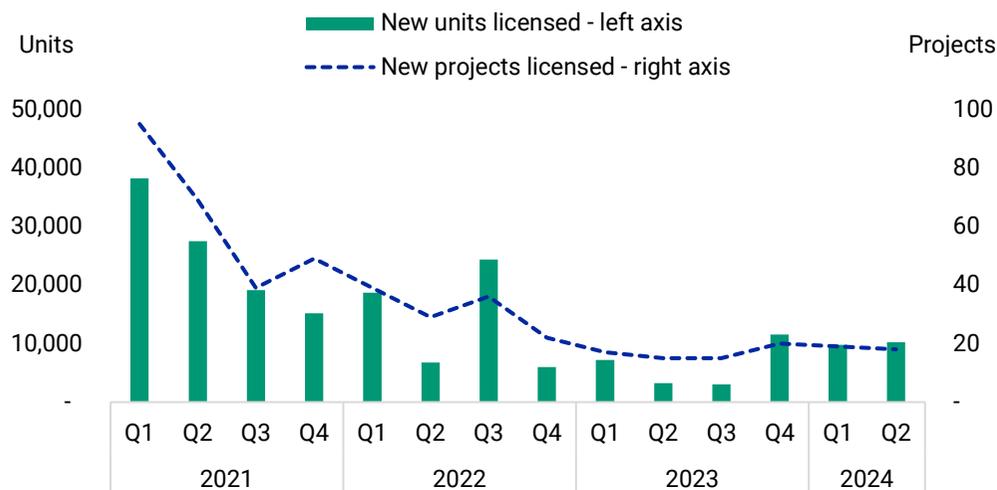


Source: State Bank of Vietnam, General Statistics Office of Vietnam, Vietnam Investors Service

Note: Remittances are represented by remittances to HCMC

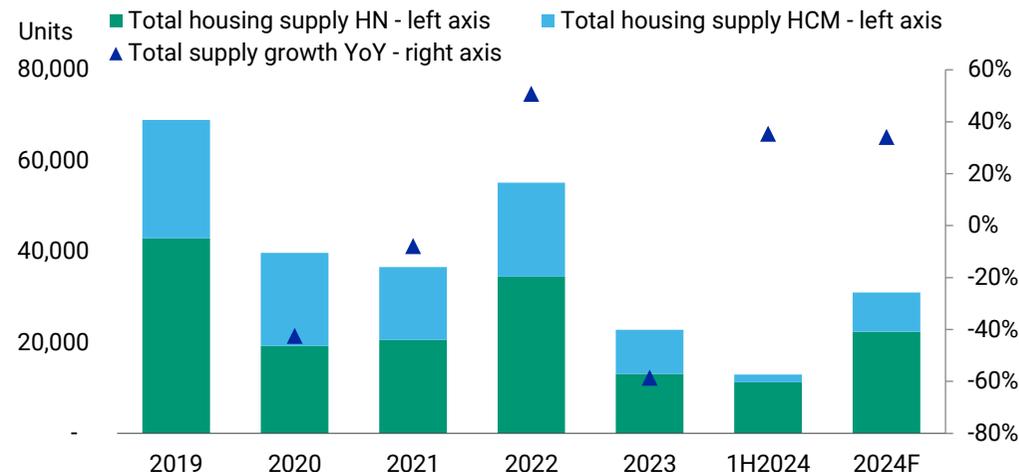
Speeding up the legal approval processes will quicken the development of new projects and boost the housing supply

Exhibit 5: New construction permit licensing remained high in Q2 2024



Source: Ministry of Construction, Vietnam Investors Service

Exhibit 6: After Hanoi and Northern cities, supply improvements will expand to HCMC and other cities



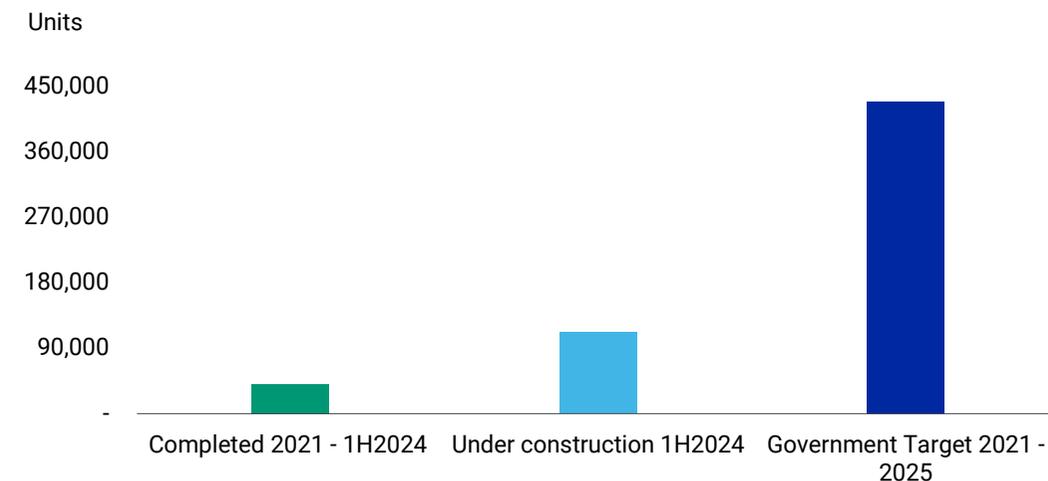
Source: CBRE, Vietnam Investors Service

Exhibit 7: Several large-scale projects in mid-to-high-end segments will be launched in the next 12-18 months

Project	Developer	Scale (ha)	Location	Sales launch
Izumi City	NLG	170	Dong Nai	2025F
Vinhomes Wonder Park	VHM	133	Hanoi	2025F
Emeria/Clarita	KDH	12	HCMC	2025F
Sun Urban City	Sun Group	420	Ha Nam	Q4/24F
Vinhome Global Gate	VHM	385	Ha Noi	Q4/24F
The Pathway	Sun Group	2.25	Thanh Hoa	Q2/2024
Lumi	CapitaLand	6	Ha Noi	Q2/2024
Eaton Park	Gamuda Land	3.7	HCMC	Q1/2024
Vinhomes Royal Island	VHM	887	Hai Phong	Q1/2024
Syncamore	CapitaLand	19	Binh Duong	Q1/2024

Source: Company Data, Vietnam Investors Service

Exhibit 8: Social housing supply remains moderate and will need time to increase meaningfully



Source: Ministry of Construction, Vietnam Investors Service

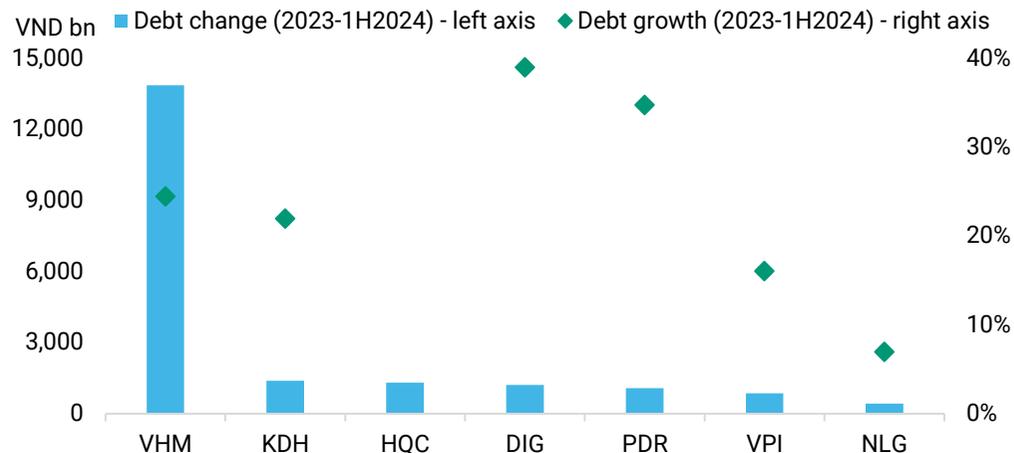
Leverage will increase faster than operating cash flow, underpinning the weak debt-servicing capacity of developers, particularly those embroiled in legal issues

Exhibit 9: Listed developers' leverage keeps rising as debt growth outpaced EBITDA growth



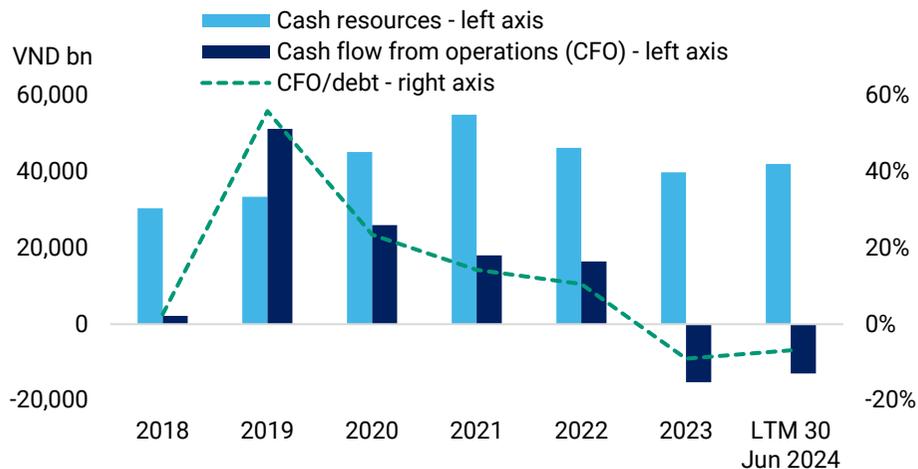
Source: Company data, Vietnam Investors Service
 Note: Top 30 listed residential developers in terms of revenue

Exhibit 10: Some large developers raised debt significantly in 1H2024 to execute their extensive ongoing project pipelines



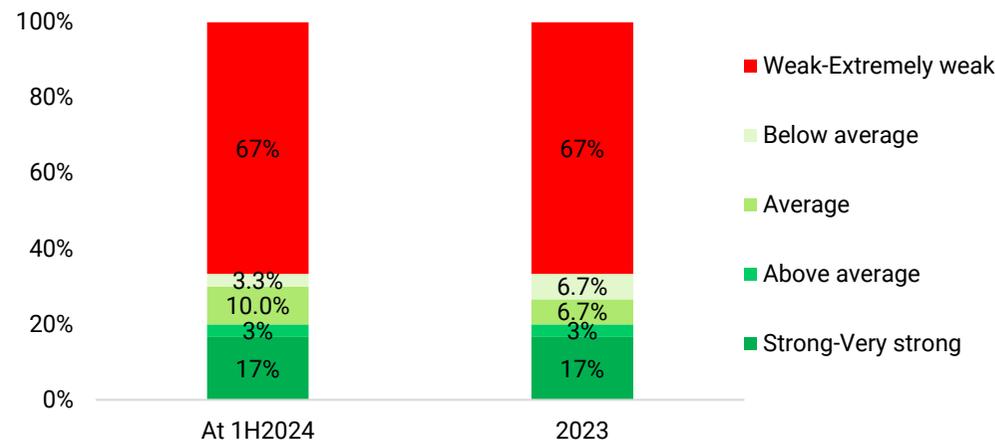
Source: Company data, Vietnam Investors Service

Exhibit 11: Debt servicing ability recovered slightly in 1H2024, driven by improving operating cash flow and cash resources



Source: Company data, Vietnam Investors Service
 Note: Top 30 listed residential developers in terms of revenue

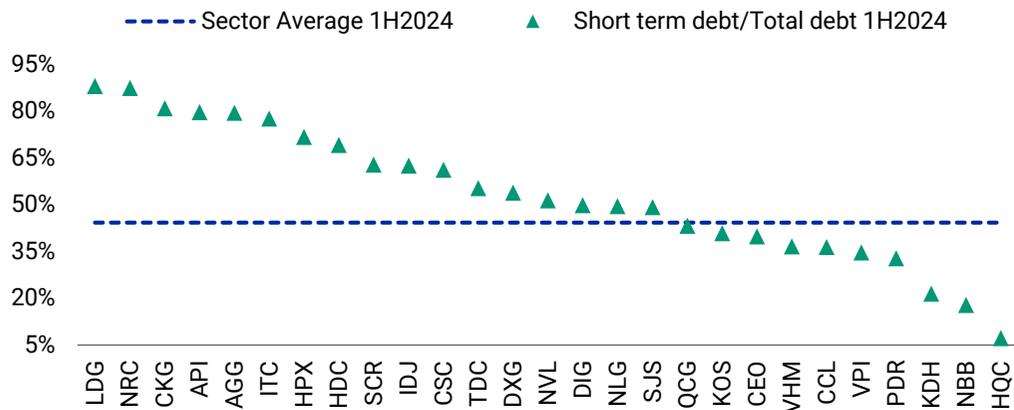
Exhibit 12: CFO/Debt: Over two-thirds of the listed developers have weak to extremely weak cash flow to repay outstanding debt obligations



Company data, Vietnam Investors Service
 Note: Top 30 listed residential developers in terms of revenue

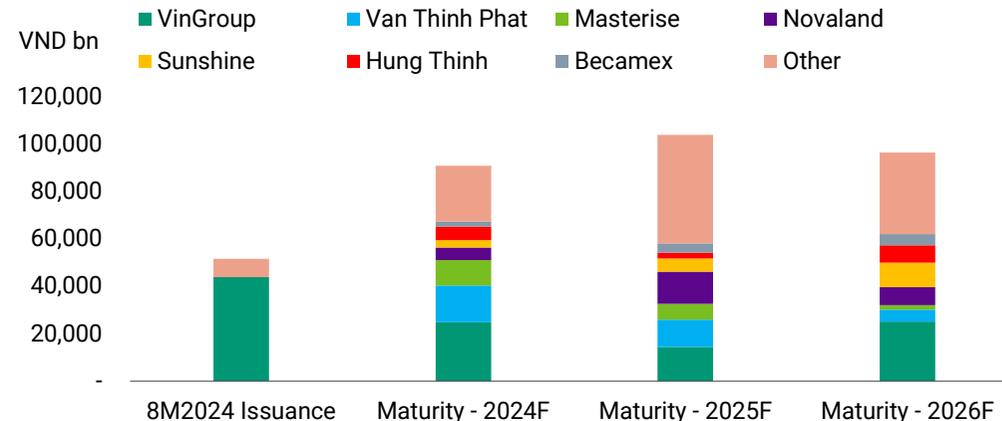
Heavy reliance on short-term borrowings poses significant refinancing risks

Exhibit 13: Developers' short-term debt as a percentage of total debt remained high at 44% in Q2/2024, in which companies with limited cash buffers are most in need of refinancing



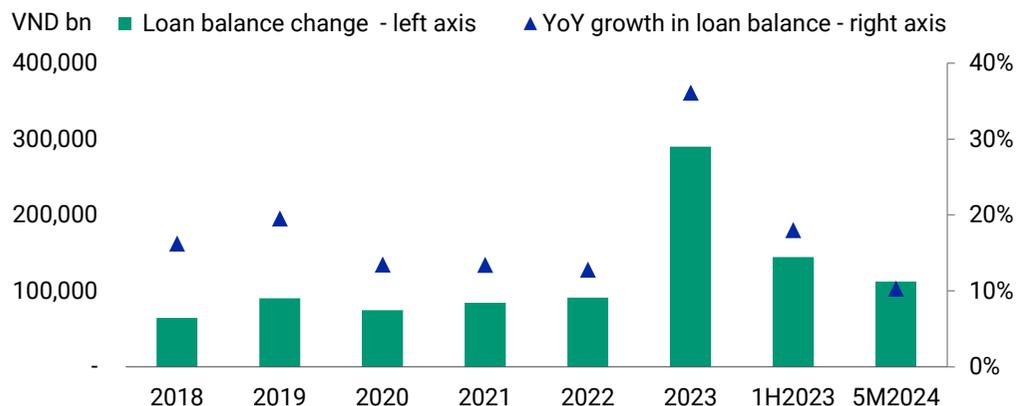
Source: Company data, Vietnam Investors Service
 Note: Top 30 listed residential developers in terms of revenue

Exhibit 14: Real estate bond maturity remains high in 2025 while new issuance will remain muted by stringent issuance requirements¹ and the impending changes in the securities law



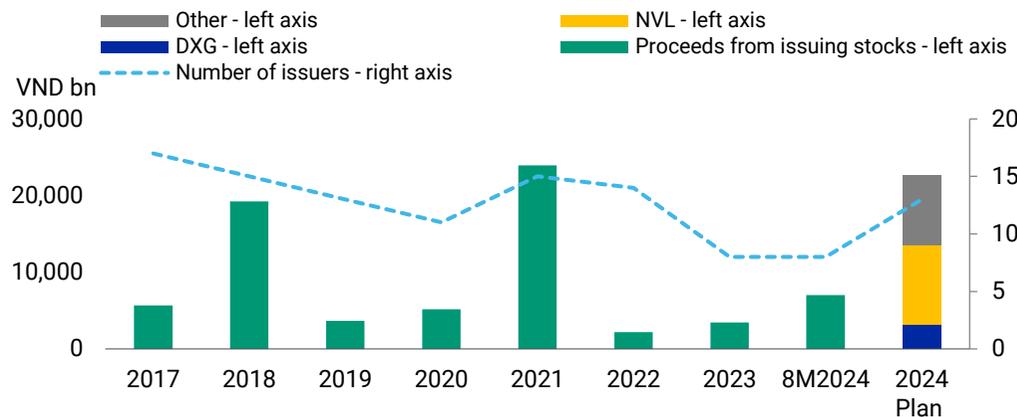
Source: HNX, Vietnam Investors Service

Exhibit 15: Real estate business loans increased by 10.29% in 5M2024, serving as the primary source of funding for developers



Source: Ministry of Construction, Vietnam Investors Service
 Note: 1H2023 and 5M2024 are YTD growth

Exhibit 16: Proceeds from stock issuances will continue increasing



Source: Company data, Vietnam Investors Service

¹ Refer to our Corporate Bond Market Review (12 September 2024)

APPENDIX

The companies included in our analysis are as follows:

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

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