

## AIRPORT CORPORATION OF VIETNAM (ACV) – UPDATE

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND70,000	VND87,500	0.00%	Add	INDUSTRIALS

26 May 2021

**Outlook – Short term:** **Neutral**  
**Outlook – Long term:** **Positive**  
**Valuation:** **Positive**

Consensus\*: Add:7 Hold:2 Reduce:0

Target price / Consensus: 0.6%

### Key changes in the report

&gt; N/A

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	83,100
52w low (VND)	51,600
3m Avg daily value (VNDmn)	17,375
Market cap (VND bn)	150,669
Free float (%)	5
TTM P/E (x)	93.0
Current P/B (x)	4.1

### Ownership

State capital management	95.4%
Other	4.6%

Source: VND RESEARCH

### Analyst(s):


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## Awaiting a bright outlook

- ACV posted VND684bn in 1Q21 NP, fulfilling 16% of our FY21F forecast.
- With the aggressive of Covid-19 vaccination, we believe Vietnam's international sky will be safely re-opened by end-3Q21.
- Reiterate Add with unchanged TP of VND87,500.

### Financial income saved 1Q21 net profit

In 1Q21, ACV's revenue fell 47.4% yoy to VND1913bn as total pax throughput slumped 31.0% yoy, in which domestic pax dropped 10.6% yoy due to the Covid-19 outbreak in 2021 Tet holiday while international pax tumbled 99.0% yoy due to the frozen international air travel. Due to the huge fixed cost, gross profit fell more sharply at 78.2% yoy. As financial income surged 40.9% yoy mostly due to FX gain from 6.4% depreciation of JPY against VND in 1Q21, 1Q21 net profit only fell 55.8% yoy to VND684bn, fulfilling 15.7% of our FY21F full-year forecast.

### Qualified opinions to be eliminated

Since 1Q21, ACV has started to consolidate the airfield assets' results instead of recording them in account receivables and account payables as before. With the new accounting treatment, we believe ACV's qualified opinions to be eliminated in its audited financial reports from 2021 onwards and ACV is on track to list on the main bourse in 2022F, which is the main factor to help ACV's price to be re-rated.

### Race to fight the pandemic and return to the international skies

Based on batches of vaccine expected to be received, we expect 14.66%/26.02% of the Vietnam population to be fully vaccinated by the end of 3Q21/4Q21. Along with higher vaccination rates in Vietnam's key international air traffic markets, we believe Vietnam may re-open the international skies by end-3Q21 as expected.

### Conservative plan for FY21F

ACV set a target of VND5,025bn in pre-tax profit (+151.3% yoy) for FY21F which is equivalent to 93.0% of our FY21F forecast. We believe ACV could record more positive results as Covid-19 vaccination are urgently deploying in Vietnam and the prospect of safely re-opening Vietnam's international sky is not far away.

### Reiterate Add with unchanged TP of VND87,500

Our TP is based on DCF valuation with the WACC estimate of 8.9%. Downside risks include: (1) the Covid-19 outbreak in May-2021 might get out of control leading to lower-than-expected domestic passenger throughput (according to CAAV, total domestic flights in 19/4/2021-18/5/2021 rose 134.5% yoy but declined 15.8% compared to the period of 19/3/2021-18/4/2021, (2) a stronger-than-expected JPY vs VND and (3) slower-than-expected construction of LTIA.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	18,329	7,767	12,057	17,928
Revenue growth	13.7%	(57.6%)	55.2%	48.7%
Gross margin	50.9%	17.9%	35.8%	51.5%
EBITDA margin	77.3%	65.5%	71.8%	73.6%
Net profit (bn)	8,201	1,636	4,369	7,417
Net profit growth	32.9%	(80.1%)	167.1%	69.8%
Recurring profit growth	32.9%	(80.1%)	167.1%	69.8%
Basic EPS	3,767	751	2,007	3,407
Adjusted EPS	3,654	729	1,947	3,305
BVPS	16,859	17,235	18,274	20,610
ROAE	24.3%	4.4%	11.3%	17.5%

Source: VND RESEARCH

## AWAITING A BRIGHT OUTLOOK

### Reiterate Add with unchanged TP of VND87,500

Our TP is based on DCF valuation with the WACC estimate of 8.9%. In our view, ACV is interesting for long-term investment horizon, based on:

- Solid recovery of business results in the coming years.
- Possibility of listing on HSX in 2022F.
- Long Thanh International Airport growth potential.

Downside risks include:

- The Covid-19 outbreak in May-2021 might get out of control leading to lower-than-expected domestic passenger throughput. According to the Civil Aviation Authority of Vietnam (CAAV), total domestic flights in 19/4/2021-18/5/2021 rose 134.5% yoy but declined 15.8% compared to the previous period (19/3/2021-18/4/2021). However, we expect the government to successfully contain this outbreak thanks to improved medical capacity and experiences in fighting the pandemics through the previous ones.
- A stronger-than-expected JPY vs VND.
- Slower-than-expected construction of LTIA.

Figure 1: DCF model key input

DCF key input	
Cost of equity	15.0%
Cost of debt	3.5%
Targeted D/(D+E)	50.0%
Effective tax rate	20.0%
WACC	8.9%
Long term growth	4.5%

Source: VNDIRECT RESEARCH

Figure 2: DCF valuation model

Unit	VNDbn except for target price
<b>Cumulative Present value of FCFI</b>	<b>46,273</b>
Terminal value	768,456
<b>Present value of terminal value</b>	<b>232,931.8</b>
<b>Enterprise value</b>	<b>279,204.9</b>
Less: Market value of Debt	(122,379.2)
Plus: Cash and Cash Equivalents	33,683.8
<b>Implied equity value</b>	<b>190,509.5</b>
Outstanding shares	2,177,173,236
<b>Equity value per share</b>	<b>87,503</b>
<b>Rounded TP</b>	<b>87,500</b>

Source: VNDIRECT RESEARCH

Figure 3: Peer comparison

Company name	Ticker	Price (Local curr)	TP (Local curr)	Recom.	Market Cap (US\$ m)	3-year EPS CAGR (%)	P/E		P/BV		ROE (%)		Dividend yield (%)		EV/EBITDA	
							2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
<b>Airports</b>																
Airport Corp of Vietnam	ACV VN	70,000	87,500	ADD	6,581.1	-4.2	37.1	21.9	4.1	3.6	11.3	17.5	1.3	1.2	22.5	14.9
Airport of Thailand	AOT TB	61	N/A	NR	27,760.4	-20.7	NA	118.7	6.8	6.6	-8.0	6.7	0.1	0.5	NA	49.2
Shanghai International Air-A	600009 CH	47	N/A	NR	14,213.7	NA	314.2	33.3	3.1	2.9	1.1	9.0	0.0	0.7	106.4	22.6
Beijing Capital Intl Airpo-H	694 HK	6	N/A	NR	3,243.9	NA	NA	28.5	1.0	1.0	-3.9	2.7	0.3	1.8	47.2	10.3
Japan Airport Terminal Co	9706 JP	4,625	N/A	NR	3,958.1	55.5	NA	69.5	2.5	2.5	-8.5	3.9	0.2	0.3	47.8	14.3
Shenzen Airport Co-A	000089 CH	8	N/A	NR	2,560.0	-35.1	37.2	27.4	1.3	1.3	3.4	4.2	0.6	0.8	21.3	15.2
Malaysia Airports Holdings	MAHB MK	5	N/A	NR	2,119.6	NA	NA	45.7	1.3	1.2	-8.5	2.3	0.1	1.4	22.0	8.0
<b>Average</b>							<b>129.5</b>	<b>49.3</b>	<b>2.9</b>	<b>2.7</b>	<b>-1.9</b>	<b>6.6</b>	<b>0.4</b>	<b>1.0</b>	<b>44.5</b>	<b>19.2</b>
<b>Median</b>							<b>37.2</b>	<b>33.3</b>	<b>2.5</b>	<b>2.5</b>	<b>-3.9</b>	<b>4.2</b>	<b>0.2</b>	<b>0.8</b>	<b>34.8</b>	<b>14.9</b>

Source: VNDIRECT RESEARCH, BLOOMBERG

## Financial income saved 1Q21 net profit

**Figure 4: 1Q21 results overview**

1Q21 results overview	1Q21	1Q20	vs FY21F		
			% yoy	forecast Comments	
Net revenue	1,913	3,635	-47.4%	15.9%	In 1Q21, total pax throughput slumped 31.0% yoy, in which domestic pax dropped 10.6% yoy due to the Covid-19 outbreak in Tet holiday while international pax thumbed 99.0% yoy as the international traffic is still frozen.
- Aeronautical services	1,547	2,846	-45.6%	16.7%	
- Non aeronautical services	299	511	-41.5%	18.0%	
- Commercial	67	278	-75.9%	6.1%	
Gross profit	354	1,623	-78.2%	8.2%	
<i>Gross margin</i>	18.5%	44.6%			Fixed cost eroded gross margin as revenue fell 47.4% yoy.
Financial income	902	545	65.5%	40.9%	Financial income surged 40.9% yoy mostly due to FX gain from debt valuation. JPY depreciated 6.4% against VND in 1Q21 resulting in VND423bn FX gain.
Financial expenses	24	42	-42.0%	7.8%	
Selling expenses	27	72	-62.0%	9.7%	
General and admin expenses	183	174	5.5%	19.2%	
Gain/(loss) from joint ventures	44	44	0.5%	10.6%	
<b>Take-off and landing profit (return to the state)</b>	<b>180</b>	<b>0</b>	<b>N/A</b>	<b>16.9%</b>	ACV had to return profit from the airfield assets operation to the state, according to Decision No. 2007/QĐ-TTg.
<b>Net profit</b>	<b>684</b>	<b>1549</b>	<b>-55.8%</b>	<b>15.7%</b>	

Source: VNDIRECT RESEARCH, COMPANY REPORTS

We see ACV's new accounting treatment in 1Q21 as a bright spot as follows:

- According to Decision No. 2007/QĐ-TTg, ACV was officially assigned to manage the airfield assets and started to consolidate the airfield assets' results instead of recording them in accounts receivables and account payables as before since 2021. ACV has returned VND180bn profit to the state in 1Q21 and reported it clearly in the financial statement, which will help ACV in eliminating the qualified opinions in its audited financial reports from 2021F onwards.
- With the new accounting treatment, we believe ACV is on track to list on the main bourse in 2022F, which is an important factor to help ACV's share price to be re-rated.

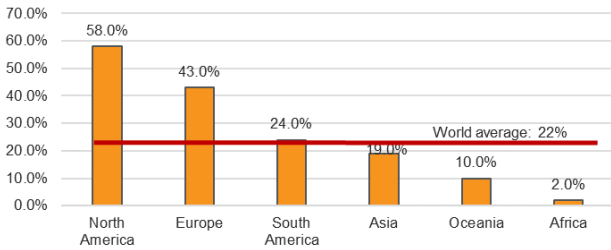
## Race to fight the pandemic and return to the international skies

The prospect of re-opening Vietnam's international air traffic is associated with the global Covid-19 vaccination, including Vietnam. There are many grounds to believe that Vietnam may soon re-open the international skies:

- Currently in the world, the biggest vaccination campaign in history is underway. By 24/05/2021, more than 1.65 billion Covid-19 vaccine doses have been administered, enough to fully vaccinate 10.8% of the global population. However, the distribution has been lopsided. Countries and regions with the highest income are getting vaccines more than 30 times faster than those with the lowest. According to many forecasts, the bulk of the population in advanced economies will have been vaccinated by mid-2022, which are also Vietnam's key international air traffic markets.
- Most recently, Vietnam's Ministry of Health (MOH) has signed an agreement to receive 31 million Covid-19 vaccine doses developed by US-based firm Pfizer in the second half of 2021. However, in our conservative view, we do not include this batch of vaccines into total doses administered to Vietnamese people in 2021 as this contract still

has many undecided key issues. Based on previous batches of vaccine expected to be received, we expect 14.66%/26.02% of Vietnam population to be fully vaccinated by the end of 3Q21/4Q21 in our estimates. Along with higher vaccination rates in Vietnam's key international air traffic markets, we believe Vietnam has the ability to safely re-open the international skies by end-3Q21 as expected.

**Figure 5: Vaccination rates by continents (doses administered per 100 people by 24/05/2021)**



Source: VNDIRECT RESEARCH, BLOOMBERG

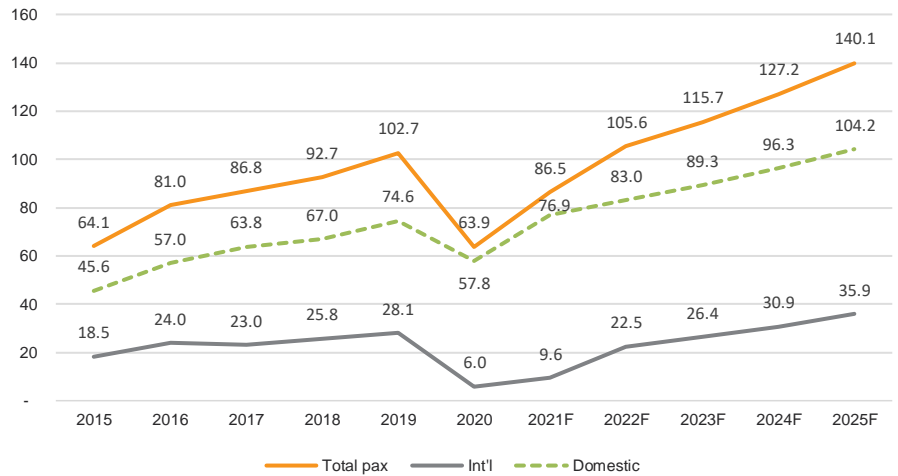
**Figure 6: Vietnam's Covid-19 vaccination (m doses)**

	1Q21	2Q21	3Q21	4Q21
Pfizer*			15.50	15.50
AstraZeneca (VNVC)	0.12	4.24	12.36	
AstraZeneca (COVAX)	1.37	2.80	12.95	12.95
Total doses administered (not include Pfizer, 15% discount to reflect number of actual delivery may be less than planned)	1.26	5.98	21.51	22.29
<b>% population fully vaccinated (accumulated)</b>	<b>0.64%</b>	<b>3.70%</b>	<b>14.66%</b>	<b>26.02%</b>

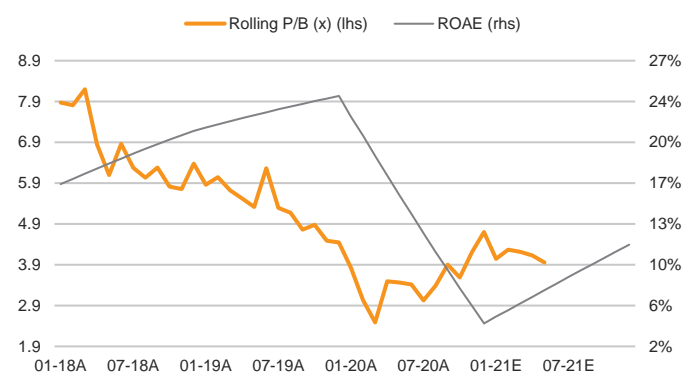
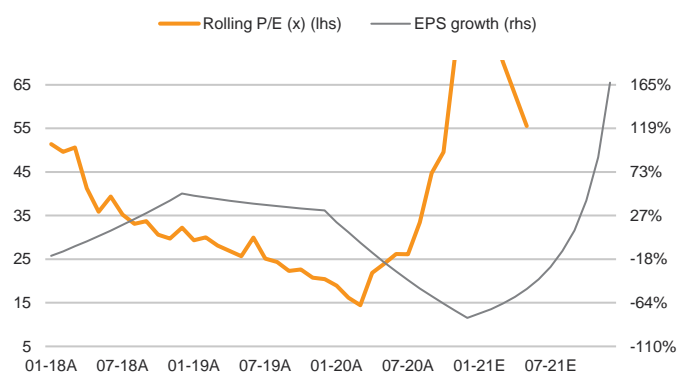
Source: VNDIRECT RESEARCH, MOH

In case that Vietnam's international air traffic is re-opened as expected by the end of 3Q21, we expect ACV's international passenger throughput to begin to recover since 4Q21F and jump significantly in 2022F with volume growth of 58.6%-135.1% yoy in 2021-22F, greatly contributing to ACV's total passenger throughput growth of 35.4%-22.1% yoy in 2021-22F.

**Figure 7: ACV's total pax throughput, based on our forecasts (m)**



Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Valuation**

**Income statement**

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	7,767	12,057	17,928
Cost of sales	(6,378)	(7,741)	(8,690)
Gen & admin expenses	(666)	(956)	(1,091)
Selling expenses	(146)	(280)	(345)
<b>Operating profit</b>	<b>577</b>	<b>3,080</b>	<b>7,801</b>
Operating EBITDA	3,569	6,101	11,094
<b>Depreciation and amortisation</b>	<b>(2,992)</b>	<b>(3,020)</b>	<b>(3,293)</b>
<b>Operating EBIT</b>	<b>577</b>	<b>3,080</b>	<b>7,801</b>
Interest income	2,231	2,202	1,922
Financial expense	(968)	(307)	(1,023)
Net other income	13	15	22
Income from associates & JVs	147	420	462
<b>Pre-tax profit</b>	<b>2,000</b>	<b>5,410</b>	<b>9,185</b>
Tax expense	(359)	(1,028)	(1,745)
Minority interest	(6)	(13)	(23)
<b>Net profit</b>	<b>1,636</b>	<b>4,369</b>	<b>7,417</b>
Adj. net profit to ordinary	1,636	4,369	7,417
Ordinary dividends	(3)	(1,959)	(1,959)
<b>Retained earnings</b>	<b>1,632</b>	<b>2,410</b>	<b>5,458</b>

**Balance sheet**

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	499	2,452	4,080
Short term investments	33,185	33,185	24,185
Accounts receivables	3,811	3,580	5,228
Inventories	357	325	483
Other current assets	123	112	157
<b>Total current assets</b>	<b>37,974</b>	<b>39,654</b>	<b>34,133</b>
Fixed assets	15,401	24,501	57,023
Total investments	2,891	2,924	3,062
Other long-term assets	636	467	695
<b>Total assets</b>	<b>56,902</b>	<b>67,546</b>	<b>94,913</b>
Short-term debt	248	796	1,990
Accounts payable	823	1,020	1,171
Other current liabilities	2,821	3,715	4,441
<b>Total current liabilities</b>	<b>3,893</b>	<b>5,531</b>	<b>7,601</b>
Total long-term debt	15,345	21,925	42,261
Other liabilities	99	263	137
Share capital	21,772	21,772	21,772
Retained earnings reserve	9,705	10,275	12,767
<b>Shareholders' equity</b>	<b>37,523</b>	<b>39,785</b>	<b>44,872</b>
Minority interest	42	42	42
<b>Total liabilities &amp; equity</b>	<b>56,902</b>	<b>67,546</b>	<b>94,913</b>

**Cash flow statement**

(VNDbn)	12-20A	12-21E	12-22E
<b>Pretax profit</b>	<b>2,000</b>	<b>5,410</b>	<b>9,185</b>
Depreciation & amortisation	2,992	3,020	3,293
Tax paid	(902)	(1,028)	(1,745)
Other adjustments	(1,759)	(1,798)	(2,132)
<b>Change in working capital</b>	<b>332</b>	<b>1,365</b>	<b>(974)</b>
<b>Cash flow from operations</b>	<b>2,662</b>	<b>6,969</b>	<b>7,626</b>
Capex	(2,414)	(12,644)	(35,495)
Proceeds from assets sales	0	33	0
Others	2,416	2,202	1,922
Other non-current assets changes	(2,264)	0	9,000
<b>Cash flow from investing activities</b>	<b>(2,261)</b>	<b>(10,408)</b>	<b>(24,573)</b>
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(246)	7,352	20,534
Other financing cash flow	(3)	0	0
Dividends paid	(3)	(1,959)	(1,959)
<b>Cash flow from financing activities</b>	<b>(251)</b>	<b>5,393</b>	<b>18,575</b>
Cash and equivalents at beginning of period	350	499	2,452
<b>Total cash generated</b>	<b>150</b>	<b>1,953</b>	<b>1,628</b>
Cash and equivalents at the end of period	499	2,452	4,080

**Key ratios**

	12-20A	12-21E	12-22E
<b>Dupont</b>			
Net profit margin	21.1%	36.2%	41.4%
Asset turnover	0.13	0.19	0.22
ROAA	2.8%	7.0%	9.1%
Avg assets/avg equity	1.55	1.61	1.92
ROAE	4.4%	11.3%	17.5%
<b>Efficiency</b>			
Days account receivable	109.2	51.0	51.0
Days inventory	20.5	15.3	20.3
Days creditor	47.3	48.1	49.2
Fixed asset turnover	0.48	0.60	0.44
ROIC	3.1%	7.0%	8.3%
<b>Liquidity</b>			
Current ratio	9.8	7.2	4.5
Quick ratio	9.7	7.1	4.4
Cash ratio	8.7	6.4	3.7
Cash cycle	82.4	18.2	22.1
<b>Growth rate (yoy)</b>			
Revenue growth	(57.6%)	55.2%	48.7%
Operating profit growth	(92.7%)	433.7%	153.3%
Net profit growth	(80.1%)	167.1%	69.8%
EPS growth	(80.1%)	167.1%	69.8%

Source: VND RESEARCH

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**RECOMMENDATION FRAMEWORK**

**Stock Ratings**

Definition:

- Add                    The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold                    The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce                The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight            An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral                A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight          An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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