

TASECO AIR SERVICES JSC (AST) – INITIATION

Market Price	Target Price	Dividend Yield	Rating	Sector
VND60,200	VND85,700	0.00%	ADD	CONSUMER SERVICES

01 April 2022

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

Consensus*: Add:0 Hold:1 Reduce:0

Target price / Consensus: 27.5%

Key changes in the report

➤ NA
➤

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	65,600
52w low (VND)	46,000
3m Avg daily value (VNDmn)	1,585
Market cap (VNDbn)	2,732
Free float (%)	11
TTM P/E (x)	N/A
Current P/B (x)	7.26

Ownership

Thang Long Air Services Corporation	51.0%
PENM IV Germany GmbH & Co.KG	17.6%
Stic Pan-Asia 4th Industry Growth Private Equity Fund	10.0%
Others	21.4%

Source: VND RESEARCH

Analyst(s):



Dzung Nguyen

dung.nguyentien5@vndirect.com.vn
www.vndirect.com.vn

The worst seems to be over

- Taseco Air Services JSC (AST) owns the largest chain of airport retail stores in Vietnam, with 108 stores covering all of Vietnam key airports.
- We expect AST's net profit to be back to growth trajectory from 2022F onwards following the recovery of Vietnam's aviation industry.
- Initiate coverage on AST with an Add rating and TP of VND85,700.

Local key player in airport retail

AST has established the largest chain of airport retailing in Vietnam with a total of 108 stores covering Vietnam key airports. AST's retailing chain outperforms its following rival, Southern Airport Services JSC (SAS) with an estimated 50 stores. Being able to offer comprehensive non-aeronautical and tourism services enhances AST's competitiveness and makes it stand out distinctively, in our view.

Vietnam air travel is on the bumpy road to recover

We expect the domestic pax to increase 137.0% yoy in FY22F (103% of prepandemic level) with recovering travel demand. The domestic pax may continue to grow strongly by 15.8% yoy in FY23F before slowing down to 7.9%/8.3% yoy in FY24-25F. International tourism is the key to the recovery of Vietnam int'l air traffic in the coming periods. In our base case, air traffic between Vietnam and Southeast Asia countries will recover strongly from 2Q22F as the tourism promotion has been implemented, followed by Korea, Europe, Japan and the U.S in 3Q22F, Taiwan and Russia in 4Q22F and China in 1Q23F. In the base case, we expect Vietnam int'l pax to reach 12.2m pax in FY22F (29.3% of prepandemic level), and may increase 222.5%/11.7% yoy in FY23-24F.

Net profit to revert in FY22F and grow at 127.2% CAGR in 2023-25F

AST's revenue may increase 363.2% in FY22F and increase at 47.9% CAGR in FY23-25F on the recovery of Vietnam aviation. With the contribution from financial income and affiliate income from VINACS, we expect AST's net profit to revert to VND29bn in FY22F from the net loss of VND118bn in FY21, and may grow at 127.2% CAGR in FY23-25F.

Initiate coverage with an Add rating and target price (TP) of VNDD85,700

We initiate coverage on AST with an Add rating and the DCF-based TP of VND85,700. Re-rating catalysts include (1) international air traffic is fully re-opened, (2) higher-than-expected new stores growth and same stores sales growth, and (3) expanding business into new airports. Downside risks include (1) risk of delisting if FY22F net profit continues to be negative, (2) slower-than-expected international tourism recovery from Vietnam's major markets, and (3) growing competition from the downtown duty free retailing.

Financial summary (USD)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	359	154	714	1,701
Revenue growth	(68.5%)	(57.1%)	363.2%	138.3%
Gross margin	41.7%	27.9%	41.9%	54.3%
EBITDA margin	(2.2%)	(62.9%)	10.1%	26.4%
Net profit (bn)	(49)	(118)	29	274
Net profit growth	(125.7%)	140.8%		849.4%
Recurring profit growth				
Basic EPS	(1,089)	(2,623)	642	6,094
Adjusted EPS	(1,089)	(2,623)	642	6,094
BVPS	10,896	8,289	8,931	14,025
ROAE	(9.1%)	(27.3%)	7.5%	53.1%

Source: VND RESEARCH

THE WORST SEEMS TO BE OVER

Investment thesis

We like AST for:

- Owning the largest chain of airport retail stores in Vietnam with a total of 108 stores covering all of Vietnam key airports.
- Airport retail is also a business model with superb profitability thanks to its low price sensitivity in consumer behavior of tourists.
- Riding on Vietnam aviation recovery when the government will fully reopen borders for tourism from 15/03/2022, we expect AST's net profit to increase to VND29bn in FY22F from the net loss of VND118bn in FY21, and may grow 8.45 times to VND274bn in FY23F.
- In the longer-term, AST has many opportunities to expand its business into new terminal airports including the Terminal 3 at Tan Son Nhat Int'l airport, the expansion of Terminal 2 at Noi Bai Int'l airport and the mega project Long Thanh Int'l airport.

We initiate coverage on AST with ADD rating

Our target price is VND85,700, based on DCF valuation with assumed WACC of 10.57%. We believe that DCF valuation method could effectively reflect fundamental aspects of the company. With potential upside of 42.4%, we believe the risk-reward is quite attractive to accumulate a good stock with great growth potential like AST. In our view, AST is suitable for a long-term investment horizon to enjoy the recovery and growth of Vietnam's aviation industry.

Figure 1: AST's discounted cashflows

	2022F	2023F	2024F	2025F	2026F
EBIT	39	410	537	669	788
less: Taxes	0	54	108	134	158
EBIAT	39	356	429	535	630
Plus: Depreciation and amortization	33	38	43	49	55
Less: Capital expenditure	36	40	43	47	51
Less: Increase in net working capital	126	61	18	19	81
Unlevered free cash flow (FCFF)	-90	294	411	517	552
Present value of FCF	-90	265	336	383	370
Cumulative Present value of FCFF	1,265				

Source: VNDIRECT RESEARCH

Figure 2: DCF model input

DCF key input	
Cost of equity	11.8%
Cost of debt	7.1%
Targeted D/(D+E)	20.0%
Effective tax rate	20.0%
WACC	10.6%
Long term growth	2.0%

Source: VNDIRECT RESEARCH

Figure 3: DCF valuation

Unit	VNDbn except for target price
Cumulative Present value of FCF	1,265
Terminal value	6,575
Present value of terminal value	4,399
Enterprise value	5,664
Less: Market value of Debt	45.8
Less: Noncontrolling interest	1,898
Plus: Cash and Cash Equivalents	138
Implied equity value	3,858
Outstanding shares	45,000,000
Equity value per share	85,729
Rounded TP	85,700

Source: VNDIRECT RESEARCH

Figure 4: Peer comparison

Company	Ticker	Price	Mkt cap	P/E (x)		3-year EPS		P/B (x)		EV/EBITDA (x)		ROE (%)	
		LC\$	US\$m	FY21	FY22F	CAGR (%)	FY21	FY22F	FY21	FY22F	FY21	FY22F	
Regional listed air services companies													
Southern Airport Services JSC	SAS VN	30,300	192.3	33.1	NA	-12.0	2.9	NA	260.7	NA	8.6	NA	NA
Cam Ranh International Airport	CIA VN	17,000	15.0	NA	NA	NA	1.3	NA	NA	NA	-14.4	NA	NA
Danang Airport Services JSC	MAS VN	47,500	10.8	NA	NA	NA	8.7	NA	186.4	NA	-40.3	NA	NA
Atlas Air Worldwide Holdings	AAWW US	88	2,201.4	NA	5.2	NA	NA	0.7	4.1	4.1	19.5	15.8	NA
Xiamen Interna-A	600897 CH	17	793.7	17.7	17.7	-13.8	1.3	1.3	NA	6.7	6.3	7.4	NA
Median				25.4	11.5		2.1	1.0	186.4	5.4	6.3	11.6	
Average				25.4	11.5		3.6	1.0	150.4	5.4	-4.1	11.6	
Taseco Air Services JSC	AST VN	60,200	123.2	NA	93.4	218.4	7.2	6.7	NA	55.0	-27.2	7.5	NA

Source: VNDIRECT RESEARCH, BLOOMBERG DATA AS AT 01/04/2022

Source: VNDIRECT RESEARCH, BLOOMBERG DATA AS AT 01/04/2022

Potential re-rating catalysts and downside risks

Potential re-rating catalysts:

- International air traffic recovers faster than our expectation.
- Higher-than-expected new stores opening and same-store sales growth.
- Expanding business into new airports.

Downside risks:

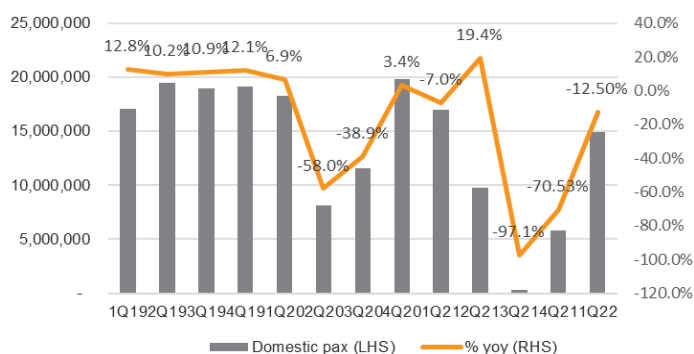
- AST has been put into the warning status since 2021 as the company recorded a loss in net profit for two consecutive years FY20-21. According to Ho Chi Minh stock exchange 's rule, the stock would be removed to UPCOM in case it reported a loss in FY22F earnings. In our base case, we expect AST to record VND29bn in net profit following the surging air travel demand and the comeback of international travelers.
- Slower-than-expected air travelers from Vietnam 's major markets such as Korea, Japan and China.
- Growing competition from the downtown duty free store. Lotte, a large player in duty free space, aims to open three downtown dutyfree stores in Hanoi, Danang and HCMC. However, the company has postponed these expansions due to Covid-19. We believe Lotte might resume these stores in the next couple of years to ride on the recovery of overseas tourism.

Vietnam air travel is on the bumpy road to recover

Domestic air traffic to recovery strongly since 2Q22F

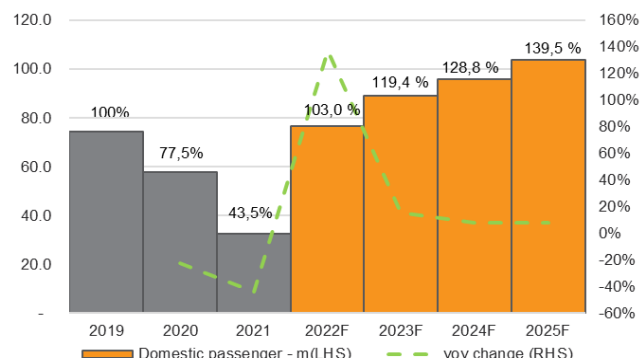
With the improving vaccination, Vietnam's domestic air traffic has been gradually resumed from 4Q21 and come back to normal operations since 2022. Demand for domestic air traffic has increased sharply from the second half of Jan-22, which help frequency of domestic flights in Jan-22 reach 70% of pre-pandemic level, before reaching 92% of pre-pandemic level by the end of Feb-22. As a result, 1Q22 domestic pax has recovered to 87% of pre-pandemic level (1Q19).

Figure 5: Vietnam domestic pax from 1Q19 – 1Q22



Source: VNDIRECT RESEARCH

Figure 6: Vietnam medium-term domestic pax forecast



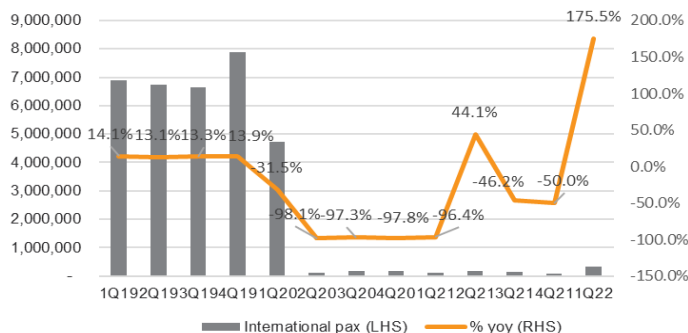
Source: VNDIRECT RESEARCH

Currently, domestic passengers are not required to have certificates of negative test result for Covid-19 unless the passengers come from provinces with pandemic level 4. This will make it easier for people to travel by air, along with tourism stimulus programs that the provinces are implementing, we believe Vietnam domestic air traffic may come back and exceed pre-pandemic level in 2022. We expect the domestic pax to increase 137.0% yoy in FY22F as the country is stepping into “normalized” with recovering travel demand. The domestic pax may continue to grow strongly by 15.8% yoy in FY23F before growth slows down to 7.9%/8.3% yoy in FY24-25F. In our estimates, Vietnam domestic pax may exceed pre-pandemic levels in FY22F (103% of FY19 base) and may reach to 139.5% of FY19 base in FY25F.

The recovery of international air traffic is more bumpy

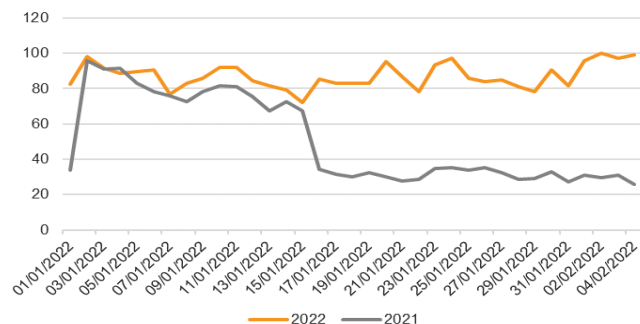
International tourism is the key to the recovery of Vietnam international air traffic in the coming periods. According to Google Destination Insights, from the beginning of 2022, the volume of international searches for Vietnam aviation and tourism has remained very high. Total searches from 01/01/2022 to 04/02/2022 has increased 72.8% yoy.

Figure 7: Vietnam international pax from 1Q19 – 1Q22



Source: VNDIRECT RESEARCH

Figure 8: International searches for Vietnam aviation and tourism



Source: VNDIRECT RESEARCH, Google

On 15/02/2022, Vietnam has lifted restrictions on the frequency of international flights. Until 15/03/2022, Vietnam has fully resumed international air traffic, in which (1) the number of regular routes has almost returned to the prepandemic levels (90%), (2) restoring prepandemic visa policy and (3) international tourists only need validate Covid-19 test results and medical insurances. Compared to the prepandemic period, there are still 8 countries that have not reopened regular flight routes with Vietnam, including Brunei, India, Indonesia, Myanmar, Macao, Finland, Italy, and Switzerland. In 1Q22, international pax has surged 176.2% yoy to 321,000 pax and reached 4.7% of prepandemic level (1Q19).

The recovery of Vietnam international tourism depends on the entry requirements of the destination country. Currently, some countries in Southeast Asia (SEA) such as Thailand, Singapore, Malaysia.. has minimized entry requirements and started to deploy the bilateral tourism with Vietnam. In the East Asia, Korea will also minimize entry requirements from 1/4/2022 while Japan requires 3-day quarantine and China requires 14-day quarantine. Thus, we build three-case scenarios for the recovery of international traffic based on each bilateral tourism with countries as follows:

Figure 9: Three scenarios for the re-openings of Vietnam's major air travel markets

Time to implement bilateral tourism with Vietnam	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Best case		SEA, Korea, Japan, Europe, US	Taiwan, Russia, Korea, Europe, Japan, US	China				
Base case		SEA	Korea, Europe, US	Japan, Russia	Taiwan			
Worst case		SEA	Korea, Europe, US	Japan, Russia	Taiwan		China	

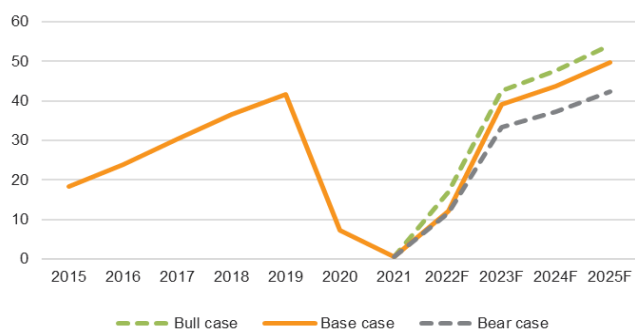
Source: VNDIRECT RESEARCH

Figure 10: Recovery rate of international pax volume estimates, in our base case

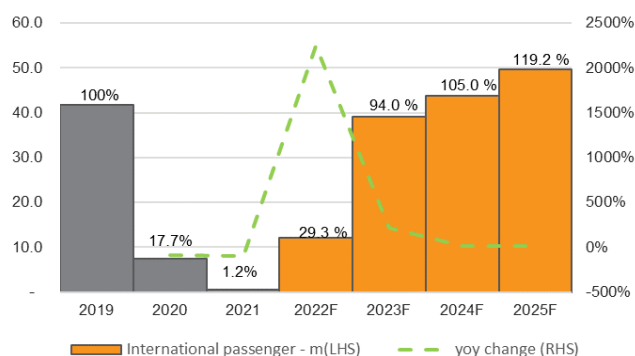
		1Q22	2Q22F	3Q22F	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F
Country	Prepandemic weight (as at FY19)								
China	34.5%	4%	5%	10%	20%	50%	80%	90%	100%
Korea	25.5%	5%	20%	50%	80%	90%	100%	105%	110%
SEA	12.5%	5%	50%	80%	90%	100%	105%	110%	115%
Europe	8.1%	5%	20%	50%	80%	90%	100%	105%	110%
Japan	5.6%	6%	20%	50%	80%	90%	100%	105%	110%
Taiwan	5.5%	4%	10%	20%	50%	80%	90%	100%	105%
U.S	4.4%	5%	20%	50%	80%	90%	100%	105%	110%
Russia	3.8%	5%	10%	20%	50%	80%	90%	100%	105%
Total	100.0%	4.66%	17.65%	37.17%	57.77%	76.53%	92.80%	99.99%	106.71%
			29.31%				94.01%		

Source: VNDIRECT RESEARCH

In our base case, air traffic between Vietnam and SEA will recover strongly from 2Q22F as the tourism promotion has been implemented, followed by Korea, Europe, Japan and the U.S in 3Q22F, Taiwan and Russia tourism promotion may be implemented in 4Q22F while China tourism promotion may be implemented in 1Q23F. In the base case, we expect Vietnam international pax to reach 12.2m pax in FY22F (versus 0.5m pax in FY21), and may increase 222.5%/11.7% yoy in FY23-24F. In our estimates, Vietnam international pax may fully recover to pre-pandemic levels in FY24F (105.0% of FY19 base) and may reach to 119.2% of FY19 base in FY25F.

Figure 11: Our forecasts for Vietnam international air traffic in three scenarios (m pax)


Source: VNDIRECT RESEARCH

Figure 12: Vietnam medium-term international pax forecasts


Source: VNDIRECT RESEARCH

AST is one of local key players in airport retail

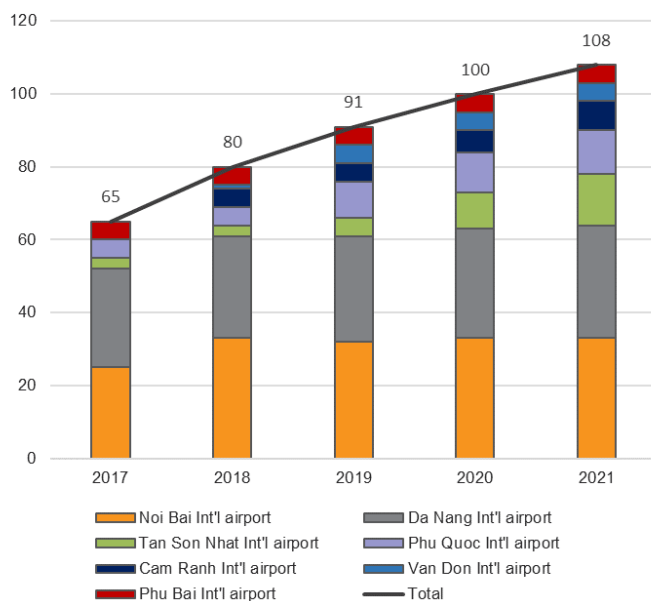
Owning the largest chain of airport retail stores in Vietnam

Taseco Air Service JSC (AST), formerly known as Taseco Noi Bai JSC, has over 17 years of experiences in retail business at the airports with the first store opening at Noi Bai International airport (NIA) in 2005. After transforming into a corporation model, AST has merged with other subsidiaries of Taseco Group operating in Da Nang International airport (DIA) and Tan Son Nhat International airport (TIA) to become a leader in the airport retail business of Vietnam.

Currently, AST has established the largest chain of airport retail stores in Vietnam with a total of 108 stores covering all of Vietnam key airports, largely concentrated in NIA and DIA. AST's airport retail chain outperforms its following rival, Southern Airport Services JSC (SAS) with an estimated 50 stores concentrated in TIA.

Figure 13: AST's retail stores presents at every key int'l airports


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 14: AST's airport retail chain in FY17-21


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 15: AST's souvenir shops


Source: VNDIRECT RESEARCH

Figure 16: AST's F&B shops


Source: VNDIRECT RESEARCH

Figure 17: AST's duty free shops


Source: VNDIRECT RESEARCH

AST provides a wide range of services, including: souvenir products, food & beverages, duty-free products, telecommunication & transportation services, tour and hotel booking, through 106 stores across nationwide airports. Since 2020, the company tapped in to airport lounge space by launching 2 lounge in NIA and DIA.

AST owns 27% stake in Vietnam Caterings Services JSC (VINACS). VINACS currently operates two airline catering factories at Noi Bai Int'l airport and Cam Ranh Int'l airport which supply inflight meals for airlines with total designed capacity of 20,000 meals/day.

Additionally, the company own a 4-star hotel A La Carte with 202 rooms located in My Khe beach, Da Nang, one of the most popular beaches in Vietnam.

Figure 18: AST's retail store chain

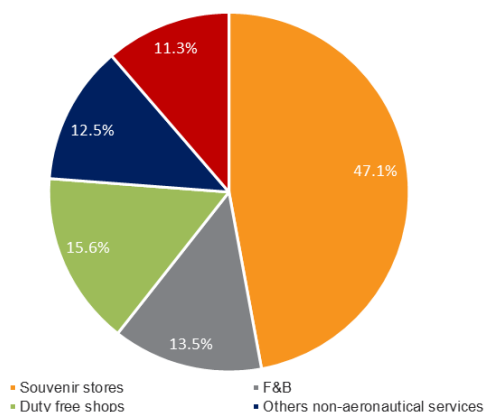
Sub-segments	Ownership	Brand name	FY21 stores
Souvenir stores	100%	Lucky souvenir shop	54
F&B	100%	Lucky restaurant & Lucky cafe fastfood	27
Duty free shops	51%	Jalux Duty Free Vietnam	9
Vip lounge	100%		2
		Telecommunication services, pick-up and drop-off services, tourism services, commercial	
Others	100%	advertisements.	16
Total			108

Source: VNDIRECT RESEARCH, AST

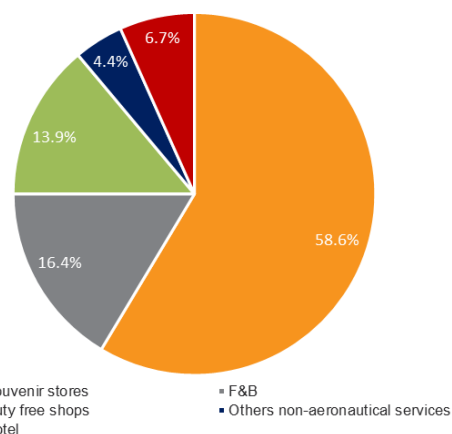
Figure 19: AST's comprehensive non-aeronautical and tourism ecosystem


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Before the outbreak, the souvenir stores business contributed about 47% to total revenue and 58.6% to gross profit, followed by F&B and duty-free business. F&B was the business that enjoyed highest gross profit margin (65.8%), followed by souvenir (65.1%) and duty-free business (48.0%).

Figure 20: AST's prepandemic (FY19) revenue breakdown by sub-segment


Source: VNDIRECT RESEARCH, COMPANY REPORTS

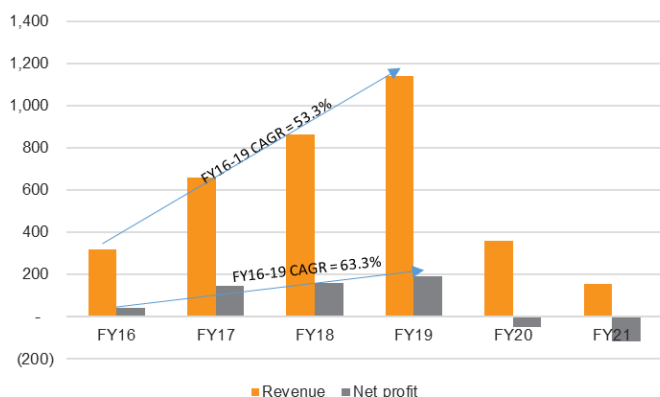
Figure 21: AST's prepandemic (FY19) gross profit breakdown by sub-segment


Source: VNDIRECT RESEARCH, COMPANY REPORTS

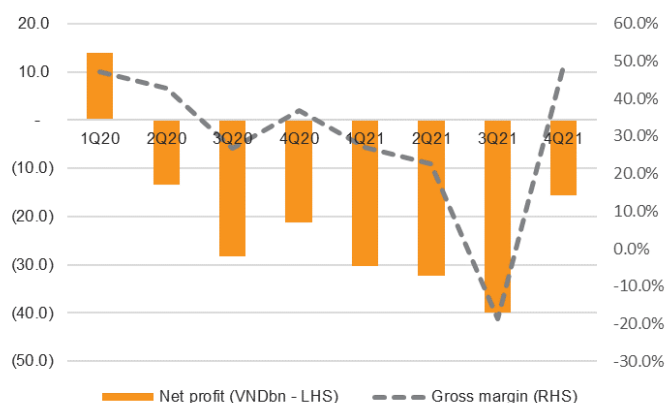
During the pandemic in FY20-21, souvenir stores, F&B and duty-free shops are still three main businesses of AST, but gross profit proportion has changed significantly due to frozen international traffic. In FY21, we estimate F&B business contributed the most to total gross profit (59.8%), followed by souvenir (25.7%) and duty-free business (15.4%). Profit margin of all sub-segments also declined with souvenir stores (51.2%), F&B (50.6%) and duty-free shops (33.4%).

Outstanding profitability among domestic peers

AST delivered strong performance with revenue CAGR of 53.3% and earnings CAGR of 63.3% during FY16-19. Then, the business got hit hard during 2020 - 2021. The international air traffic was frozen for two years while domestic air traffic was limited in each outbreaks, leading to the 68.5%/57.1% yoy decrease of FY20-21 revenue. AST recorded net loss of VND49/118bn in FY20-21 versus net profit of VND191bn in FY19. However, we see positive sign showing that AST's business results has started to recover since 4Q21 with strongly improvement of gross margin and net profit on a qoq basis thanks to the resumption of domestic air traffic since October-2021.

Figure 22: AST's revenue and net profit in FY16-21


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 23: AST's quarterly gross margin and net profit in FY20-21


Source: VNDIRECT RESEARCH, COMPANY REPORTS

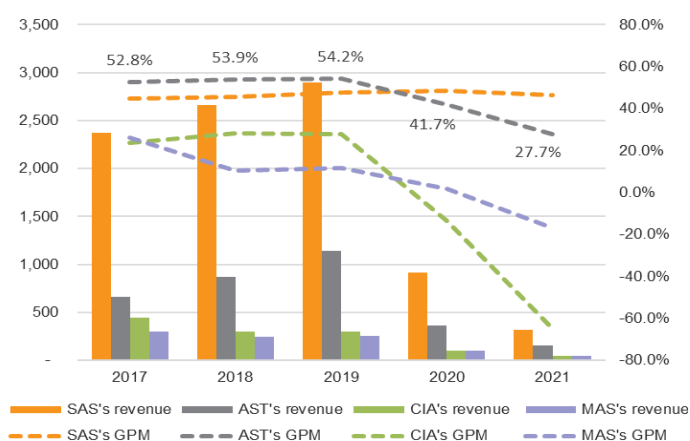
AST is the second largest airport retailers in term of revenue, ranking after Southern Airport Services JSC (SAS: UPCOM); but larger than Cam Ranh International Airport Services JSC (CIA: HNX) and Da Nang Airport Services

JSC (MAS: HNX). However, different with AST, 23.5% of SAS's revenue was generated from hospitality property.

AST posted an outperformed gross profit margin (GPM) among its domestic peers during the pre-pandemic period. In FY17-19, AST has recorded an average GPM of 53.6%, higher than its main competitor SAS with average GPM of 46.0% despite SAS's revenue is much higher than AST. In our view, AST's high GPM comes from the following reasons:

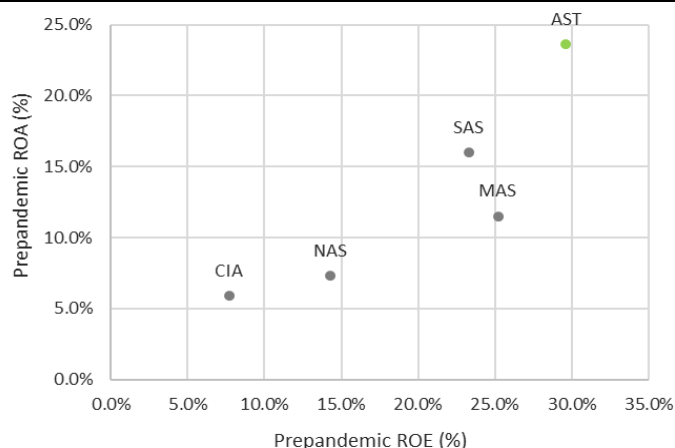
- The proportion of AST's airport retail revenue is higher than its domestic peers, which is around 90% in pre-pandemic period;
- Airport retail is a business model with superb profitability thanks to its low price sensitivity in consumer behavior of tourists, leading to the airport retailer's ability to set a much higher price of goods for a high GPM without reducing its purchasing power. Operating expenses mainly include cost of goods sold, costs of sales staff and space rental cost, all of which are relatively stable and easy to control. A store of AST has CAPEX of VND2.1bn but brings revenue of VND9bn with GPM of 53.6% (average FY17-19). Thus, GPM and ROIC of airport retail is very high and sustainable.

Figure 24: AST has the highest GPM among domestic peers in the pre-pandemic period



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 25: AST's profitability outperforms its domestic peers in the pre-pandemic period (data as at FY19)



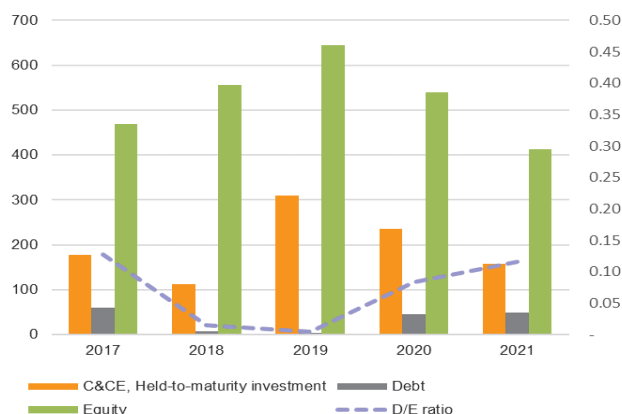
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Goods sold are paid in cash with relatively fast turnover, resulting in low receivables, low inventories and low working capital requirements. Therefore, AST's ROA and ROE also outperformed its peers during the pre-pandemic period.

Abundant cash balance and low debt-to-equity ratio supported AST to overcome and expand the retail chain amid the pandemic

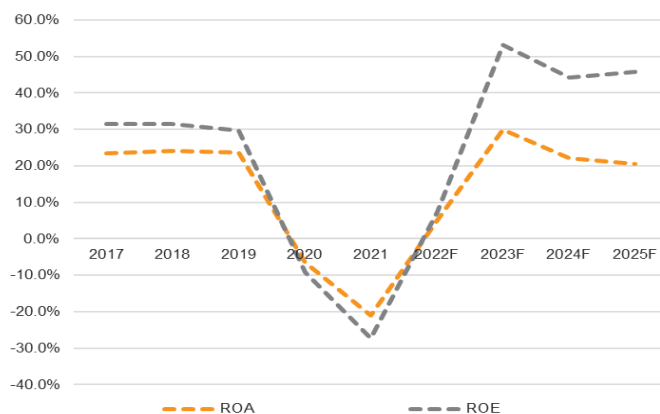
In FY17-21 period, AST maintained its low debt-to-equity (D/E) ratio around 0 - 0.13x thanks to (1) low CAPEX per store and (2) fast operating turnover leading to low working capital requirements. Combined with strong cash balance of VND158bn to VND235bn (including cash & cash equivalent and held-to-maturity investment) during the pandemic period, AST has strong financial capacity to grab this chance to expand its retail chain amid the pandemic.

Figure 26: AST maintained strong cash balance and low D/E ratio in FY17-21 (Unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 27: AST's profitability to strongly recover from FY22F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

AST's ROA and ROE have maintained at high level in FY17-19, before tumbling to negative level due to the severe impacts of the pandemic. In the near future when the entire aviation industry recovers, we expect AST to return to its high profitability as before thanks to AST's strong financial health which help the company overcome the pandemic and consistently expand its retail chain despite short-term difficulties.

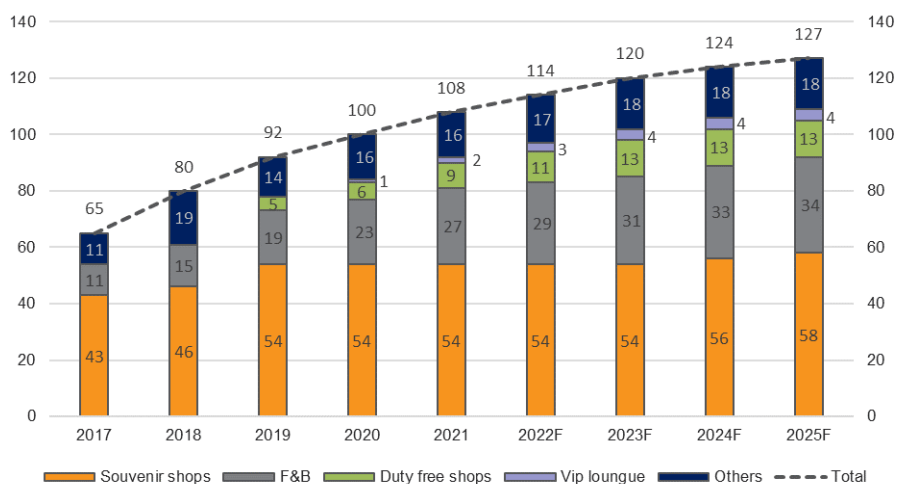
FY22-23 outlook: The worst seems to be over

AST has taken the chance to expand its network during the pandemic

Airport retail industry has a high barrier to entry, especially at key airports due to:

- Limited airport space;
- Most airport store leasing contracts allow the lessee to extend the leasing period when the term ends, making it difficult for new competitors to enter, or even existing enterprises to expand their store chain.

Therefore, there was not much room for AST to expand its airport retail segments after FY19. However, the arrival of the Covid-19 pandemic has caused severe difficulties for the aviation industry, but also brought opportunities for enterprises with strong financial strength like AST to stand firm and expand its retail chain amid the pandemic. In the 2020-21 period, many airport retail businesses were unsustainable and have been acquired by AST. In this hard time, thanks to abundant cash balance, AST has expanded by 16 more stores, bringing the total number of stores from 92 stores in 2019 to 108 stores in 2021 (+17.4%). AST's retail chain scalability is also supported by Taseco Group, AST's parent company, which owns 40% stake at Da Nang International Terminal Investment and Operation JSC (AHT), operating the international terminal of DIA, thus this brought AST advantages in negotiating favorable terms to rent space here. Overall, we appreciate that AST has turned challenges into opportunities to expand its business in the context of the entire aviation industry being hit hard by the Covid-19 pandemic.

Figure 28: AST's number of stores in each sub-segment forecast to 2025F


Source: VNDIRECT RESEARCH, COMPANY REPORTS

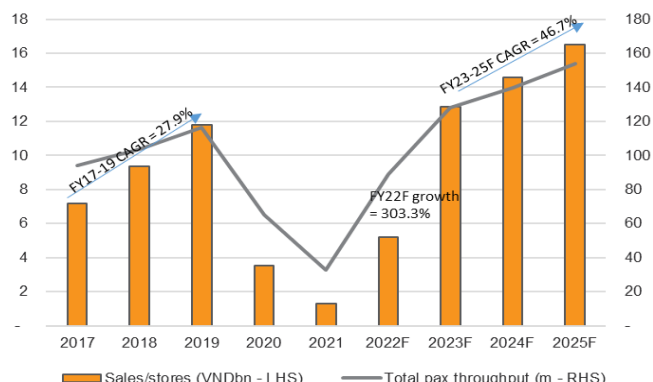
In our conservative view, due to increasingly limited expansion space at key airports, we believe AST's scalability in the endemic will be slower. As a results, we expect AST's number of stores may increase at 4.1% CAGR and reach 127 stores in FY22-25F in a conservative view. In the near future, AST has many opportunities to expand its business into new terminal airports but we haven't included those in the forecast as these projects haven't finished yet. Major aviation infrastructure projects can be mentioned such as:

- The Terminal 3 Tan Son Nhat, which has started construction in Dec-2021 and may launch in FY24F, will raise TIA's total designed capacity from 30m p.a to 50m p.a.
- The expansion of NIA Terminal 2, which may start construction in 4Q22 and finish in 3Q24, will raise total designed capacity of NIA from 25m p.a to 30m p.a.
- Long Thanh International airport (LTIA), which has started construction of phase 1 in Dec-2020 and may complete it in FY25F. LTIA phase 1 can serve 25m pax throughput.

AST's retail chain to strongly recover in the endemic

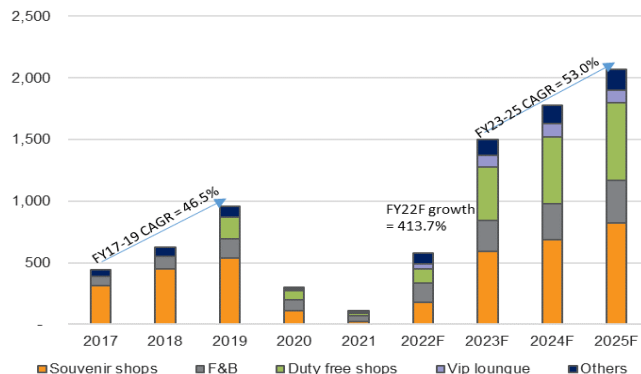
AST's same store sales growth has a high correlation with the growth of Vietnam total pax, as shown in Figure 29. In FY17-19, Vietnam total pax increased at a CAGR of 11.1% while AST's same store sales increased at a CAGR of 27.9% as AST focus on expanding the souvenir store chain with higher revenue per store and high exposure to international passenger. In FY20-21, as AST's business model has a high sensitivity to international air traffic, AST's sales per store has bottomed to VND1.3bn in FY21. However, with the strong recovery of Vietnam total pax in medium-term, especially the international pax when the government fully reopens borders for tourism from 15/03/2022, we expect AST to strongly benefit from this with the same store sales to increase 303.3% yoy in FY22F and increase at a CAGR of 46.7% in FY22-25F.

Figure 29: AST's same store sales growth has a high correlation with total pax growth



Source: VNDIRECT RESEARCH, COMPANY REPORTS

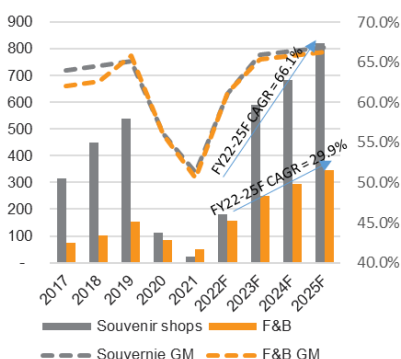
Figure 30: AST's retail revenue may increase 413.7% yoy in FY22F and increase at 53.0% CAGR in FY23-25F (Unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

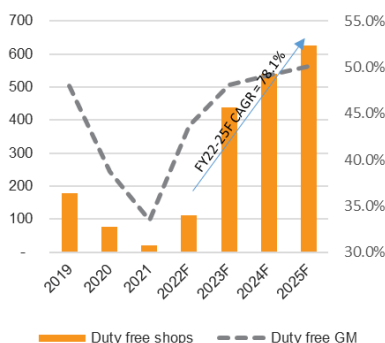
Combined with the persistent retail chain expansion during the hard time, we expect AST can capture the recovery of Vietnam aviation in the coming years. We expect AST's retail revenue to increase 413.7% yoy in FY22F and increase at 53.0% CAGR in FY23-25F, in which:

Figure 31: Revenue and gross margin of souvenir and F&B business forecast



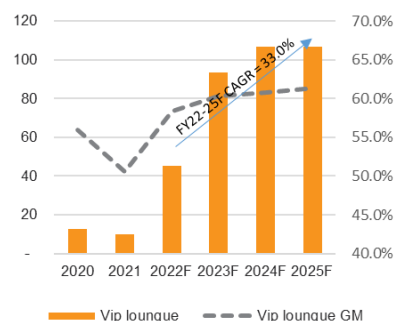
Source: VNDIRECT RESEARCH

Figure 32: Revenue and gross margin of duty free business forecast



Source: VNDIRECT RESEARCH

Figure 33: Revenue and gross margin of Vip lounge business forecast

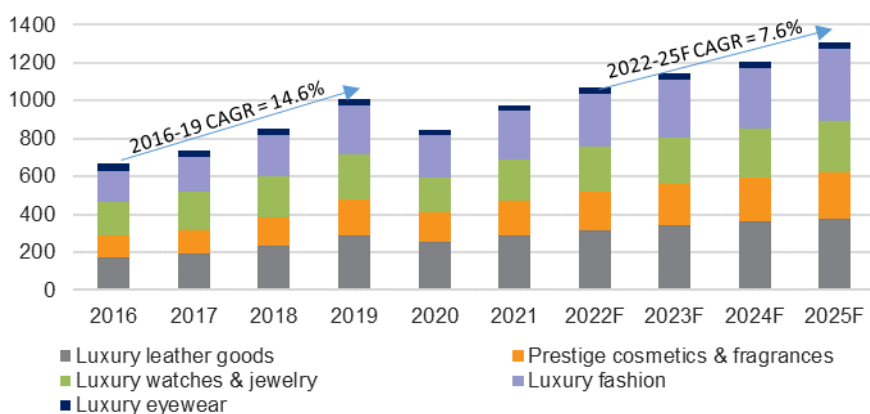


Source: VNDIRECT RESEARCH

- The number of souvenir stores may not change due to its large coverage at major airports. Revenue of the souvenir stores may increase 724% yoy in FY22F from the low base of FY21, and then may increase at CAGR of 66.1% until FY25F thanks to its high correlation with international traffic growth. Souvenir GM may recover to 61.2% in FY22F and gradually increase to 66.9% in FY25F thanks to rising economies of scales.
- The number of F&B shops may increase modestly from 27 in FY21 to 34 in FY25F (6% CAGR) as airports at Phu Quoc, Cam Ranh, Van Don, Phu Bai still have room to expand this retail sub-segment. Having high correlation with both international and domestic traffic, revenue of the F&B shops may increase 209% yoy in FY22F and then increase at 29.9% CAGR until FY25F. F&B GM may recover to 61.2% in FY22F and gradually increase to 66.3% in FY25F.
- Duty free retailing is the most potential business of AST in the coming years, in our view. According to Adroit Market Research, the global duty free retailing market is expected to be worth USD112.75bn by 2025F, implying a CAGR of 6.5% in FY22-25F. Increasing number of low cost

airlines is leading to an increase in the number of tourists which is further driving the sales of several goods at duty free retail stores at diverse areas including airports. Increasing foreign tourism in Vietnam is the key aspect driving the growth of the duty free retailing market. According to Statista, Vietnam's revenue of luxury goods in FY16-19 grew at a CAGR of 14.6% and may grow at a CAGR of 7.6% in FY22-25F from a high base in FY21. This is a strong support for the prospect of Vietnam duty free retailing in the coming years. Currently, AST has 9 duty free shops in which 3 stores in NIA and 3 stores in DIA had operated before the pandemic, 1 stores in TIA and 2 stores in Phu Quoc Int'l airport was acquired and developed amid the pandemic. As TIA's space is very limited, we believe AST may look for space in Phu Quoc or Cam Ranh to expand this chain. We expect AST may open 4 more duty free shops in Phu Quoc and Cam Ranh until FY25F, increasing the number of duty free shops from 9 in FY21 to 13 in FY25F. We expect AST's revenue of the duty free retailing may increase 455% yoy in FY22F and then increase at 78.1% CAGR until FY25F. Duty free GM may recover to 43.7% in FY22F and increase to 50.1% in FY25F.

Figure 34: Vietnam's luxury goods market value in FY16-25F



Source: VNDIRECT RESEARCH, WORLDBANK

- Vip lounge is also a potential business segment at key airports in the near future, especially when Vietnam's middle class is growing rapidly. We expect AST to open 2 more lounges at major airports until FY25F. Revenue of the Vip lounge business may increase 359% yoy in FY22F, and then may increase at CAGR of 33.0% until FY25F on the recovery of domestic traffic. Vip lounge GM may recover to 58.4% in FY22F and rise to 61.3% in FY25F.

Hospitality: predictable recovery ahead

AST's hotel, A La Carte Da Nang, possessed advantages including:

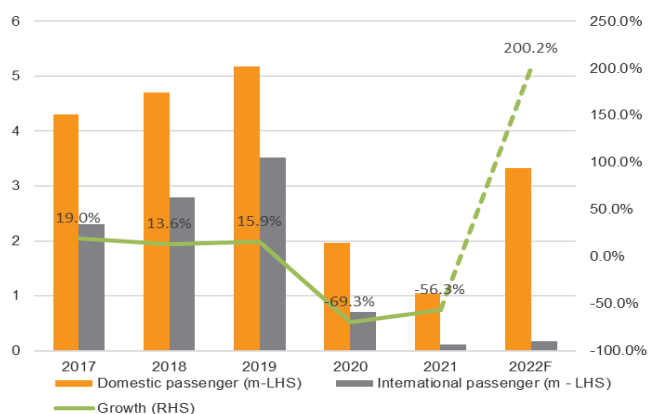
- The high tourists growth of Da Nang;
- Its premier location right next to My Khe beach.

Therefore, A La Carte's occupancy rate had always been at high level before the pandemic. However, the Covid-19 pandemic has seriously affect Da Nang's tourism industry including accommodation services like A La Carte. The occupancy rate has bottomed to around 10% in FY20-21 period.

Moving to 2022, the city is stepping into "normalized" with the aim of restoring the tourism industry and expects total visitors to strongly increase 200.2% yoy, thus we expect A La Carte's business to recover with the occupancy rate increasing to 45% in FY22F and reaching 75% in FY25F, which will help AST's

hotel revenue increase 359.0% in FY22F and increase at 20.9% CAGR in FY23-25F.

Figure 35: Da Nang tourism department expects total passenger to increase 200.2% yoy in FY22F



Source: VNDIRECT RESEARCH, tourism.danang.gov.vn

Figure 36: A La Carte Da Nang's occupancy rate is expect to gradually recover from FY22F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Catering service: time will prove it all

Before the pandemic, VINACS had contributed to AST VND12bn in net profit with an estimated utilisation rate of 63%. Currently, total number of airlines that VINACS serves has reached 31 airlines, including big names such as Qatar Airways, Malaysia Airlines, Vietjet, Bamboo Airways... Therefore, in the coming years, when the number of total passenger recovers, VINACS would be able to increase its utilisation rate and increase profit contribution to AST. We expect VINACS's net loss on AST may reduce to VND0.8bn in FY22F from the net loss of VND22bn in FY21, and net profit may reach VND32bn in FY25F, accounting for 9.3% of AST's FY25F NP.

Figure 37: VINACS's net profit contribution to AST, based on our estimates

	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Total meal supply (m/year)	0.9	3.1	4.6	2.6	1.3	3.5	5.1	5.5	6.1
Utilisation rate	12.3%	42.5%	63.0%	35.3%	17.8%	48.2%	69.5%	75.8%	83.3%
Net profit attributed to AST (VNDbn)	(11)	(12)	13	(12)	(22)	(1)	19	25	32
% contribution in AST's NP	-7.6%	-7.6%	6.8%	24.9%	18.5%	-2.7%	6.9%	8.4%	9.3%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

We forecast earnings to strongly recover in FY22F and may grow at 44.2% CAGR in FY23-25F

Figure 38: AST's business results forecasts in FY22-25F

	2021	2022F	2023F	2024F	2025F
Total stores	108	114	120	124	127
% yoy	8.0%	5.6%	5.3%	3.3%	2.4%
- Souvenir shops	54	54	54	56	58
- F&B	27	29	31	33	34
- Duty free shops	9	11	13	13	13
- Vip lounge	2	3	4	4	4
- Other non-aeronautical services	16	17	18	18	18
VNDbn					
Net revenue	154	714	1,701	1,995	2,308
% yoy	-57.1%	363.2%	138.3%	17.3%	15.7%
- Souvenir shops	22	180	591	685	822
- F&B	51	158	249	296	347
- Duty free shops	20	111	438	540	626
- Vip lounge	10	45	94	107	107
- Other non-aeronautical services	10	84	131	150	168
- Hotel	21	94	139	153	167
- Advertisements	22	41	59	64	71
Gross profit	43	299	924	1,110	1,305
Gross profit margin (%)	27.9%	41.9%	54.3%	55.6%	56.5%
Selling expenses	74	189	375	424	477
G&A expenses	76	91	201	234	269
Financial income	10	22	46	64	83
Financial expenses	3	5	8	11	14
Net other income	(6)	2	2	2	2
Income from associates	(22)	(1)	19	25	32
Pretax profit	(128)	36	407	532	661
Net profit	(118)	29	274	294	339
EPS (VND)	(2,623)	642	6,094	6,534	7,529
% yoy	NA	NA	849.4%	7.2%	17.6%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

We expect AST's revenue to increase 363.2% in FY22F and increase at 47.9% CAGR in FY23-25F, in which:

- For the airport retail segment, we expect AST's retail revenue to increase 413.6% yoy in FY22F and increase at 53.0% CAGR in FY23-25F as (1) AST's number of stores may increase at 4.1% CAGR in FY22-25F in a conservative view, and (2) same store sales may increase 303.3% yoy in FY22F and increase at a CAGR of 46.7% in FY22-25F thanks to the strong recovery of Vietnam total pax in medium-term, especially the international pax.
- For the hotel segments, AST's hotel revenue may increase 359.0% in FY22F and increase at 20.9% CAGR in FY23-25F with the occupancy rate increasing to 45% in FY22F and reaching 75% in FY25F.

With the contribution from (1) huge financial income from abundant cash flow accumulated in the business, which may increase at 71.6% CAGR in FY22-25F, and (2) net loss from VINACS which may reduce to VND0.8bn in FY22F and and net profit from VINACS may reach VND32bn in FY25F, we expect AST's net profit to recover to VND29bn in FY22F from the net loss of VND118bn in FY21, and may grow at 127.2% CAGR in FY23-25F.

Investment risks

Figure 39: Higher oil price will reduce air travel demand



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 40: Draft plan to impose floor price on domestic air tickets

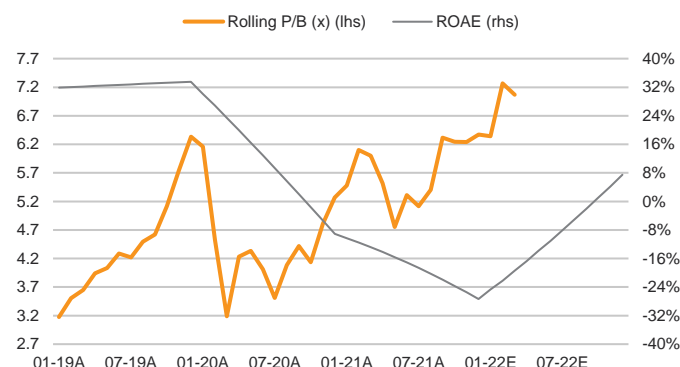
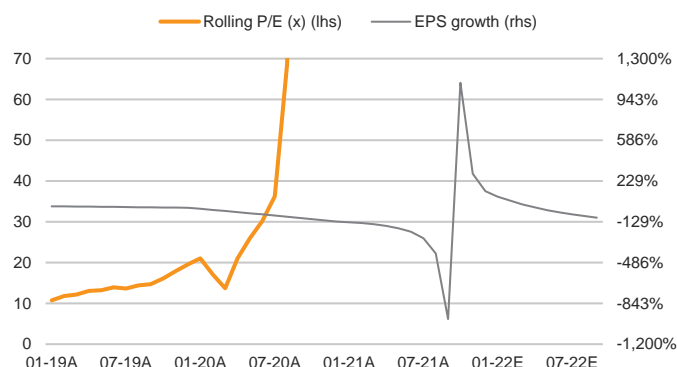
Route distance	Floor price (VND)
Under 500 km	340,000
500 - 850 km	440,000
850 - 1,000 km	560,000
1,000 - 1,280 km	640,000
Over 1,280 km	750,000

Source: CAAV

Although AST's business has great opportunities to recover in the post-pandemic period, we still see three major risks which may negatively affect the recovery outlook:

- Brent oil price has touched 14-year high at US\$139.13/bbl on 7 March under the mixed impact of geopolitical crisis, global macro growth and supply chain vulnerabilities. Higher-than-expected fuel price leading to higher operating cost of the airlines, which may lift up ticket price and reduce air travel demand.
- Recently, CAAV has submitted the draft plan to impose a domestic floor price on air tickets. In our view, if the draft plan is approved, imposing floor price for domestic flight tickets will eliminate cheap fares and reduce the competitiveness of low-cost carrier model. This may also hinder plans to stimulate air travel and tourism of the government in the coming periods
- The attractive duty free retailing market also increase the level of competition, in which the biggest threat to current airport duty free retailers is the downtown duty free stores. The concept of selling duty free products outside the airport area is popular only in few countries, but it has touched 55% sales of duty free retailing in Korea while Japan and China are following this trend. Most recently, Lotte PK Duty Free, the world's leading duty free retailer, aims to open three downtown dutyfree stores in Hanoi, Danang and HCMC; followed by Tran Thai Cam Ranh JSC, which aims to open the first downtown duty free store in The Arena, Khanh Hoa. Compared to airport duty free shops, downtown stores have lower rent-to-sales ratio, better product variety, and flexibility in product pricing and promotion. The development of duty-free outlets in downtown areas can attract customers from the airport duty free stores. However, with the advantage of the duty free retailing platform, we believe AST has the ability to build its own downtown duty free stores to tap into this business in the future.

Valuation



Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	154	714	1,701
Cost of sales	(111)	(415)	(777)
Gen & admin expenses	(76)	(91)	(201)
Selling expenses	(74)	(189)	(375)
Operating profit	(107)	18	348
Operating EBITDA	(78)	52	386
Depreciation and amortisation	(29)	(33)	(38)
Operating EBIT	(107)	18	348
Interest income	10	22	46
Financial expense	(3)	(5)	(8)
Net other income	(6)	2	2
Income from associates & JVs	(22)	(1)	19
Pre-tax profit	(128)	36	407
Tax expense	(0)	0	(54)
Minority interest	10	(7)	(79)
Net profit	(118)	29	274
Adj. net profit to ordinary	(118)	29	274
Ordinary dividends	0	0	(45)
Retained earnings	(118)	29	229

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	9	138	328
Short term investments	149	185	398
Accounts receivables	84	26	62
Inventories	28	64	152
Other current assets	12	7	18
Total current assets	282	420	959
Fixed assets	117	119	121
Total investments	57	56	75
Other long-term assets	47	40	43
Total assets	503	635	1,198
Short-term debt	45	43	103
Accounts payable	22	35	82
Other current liabilities	20	107	255
Total current liabilities	87	185	440
Total long-term debt	3	3	3
Other liabilities	0	0	0
Share capital	450	450	450
Retained earnings reserve	(77)	(48)	181
Shareholders' equity	373	402	631
Minority interest	39	46	125
Total liabilities & equity	503	635	1,198

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	(128)	36	407
Depreciation & amortisation	29	33	38
Tax paid	(0)	0	(54)
Other adjustments	46	(36)	(214)
Change in working capital	7	126	61
Cash flow from operations	(47)	159	238
Capex	(20)	(36)	(40)
Proceeds from assets sales	0	0	0
Others	22	1	(19)
Other non-current assets changes	10	7	(3)
Cash flow from investing activities	12	(28)	(62)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	3	(2)	60
Other financing cash flow	0	0	0
Dividends paid	0	0	(45)
Cash flow from financing activities	3	(2)	15
Cash and equivalents at beginning of period	40	9	138
Total cash generated	(32)	129	190
Cash and equivalents at the end of period	8	138	328

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	(76.6%)	4.0%	16.1%
Asset turnover	0.27	1.25	1.85
ROAA	(20.9%)	5.1%	29.9%
Avg assets/avg equity	1.31	1.47	1.78
ROAE	(27.3%)	7.5%	53.1%
Efficiency			
Days account receivable	53.7	5.4	5.4
Days inventory	92.8	56.3	71.7
Days creditor	73.7	30.4	38.7
Fixed asset turnover	1.27	6.05	14.13
ROIC	(25.6%)	5.9%	31.8%
Liquidity			
Current ratio	3.2	2.3	2.2
Quick ratio	2.9	1.9	1.8
Cash ratio	1.8	1.7	1.7
Cash cycle	72.9	31.3	38.3
Growth rate (yoy)			
Revenue growth	(57.1%)	363.2%	138.3%
Operating profit growth	63.9%		1,801.1%
Net profit growth	140.8%		849.4%
EPS growth	140.8%		849.4%

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.

Hien Tran Khanh – Research Director

Email: hien.trankhanh@vndirect.com.vn

Dzung Nguyen – Senior Analyst

Email: dung.nguyentien5@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>