

GEMADEPT CORP (GMD) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND53,800	VND64,400	2.70%	Add	INDUSTRIALS

29 April 2022

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

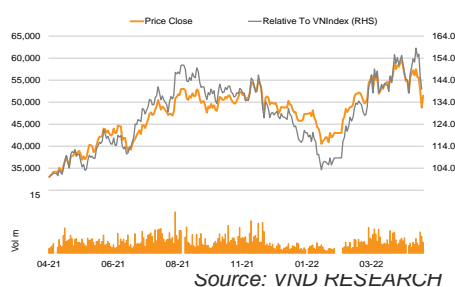
Consensus*: Add:5 Hold:5 Reduce:0

Target price / Consensus: 3.1%

Key changes in the report

➤ Raise FY22-26F NP CAGR by 2.7%

Price performance



Key statistics

52w high (VND)	59,500
52w low (VND)	33,350
3m Avg daily value (VNDmn)	149,425
Market cap (VND bn)	14,692
Free float (%)	85
TTM P/E (x)	25.4
Current P/B (x)	2.46

Ownership

Vietnam Investment Fund II, Limited	14.4%
SSJ Consulting Co., LTD	10.0%
KIM Vietnam Growth Equity Fund	5.2%
Others	70.4%

Source: VND RESEARCH

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Strong in all facets

- GMD reported 1Q22 net profit (NP) of VND274bn (+86.1% yoy), in line at 27.2% of our full-year forecast.
- We expect NP to increase at CAGR of 23.0% in FY22-26F thanks to new investment plans to ride on Vietnam's vibrant seaport & seafreight market.
- Upgrade to Add with higher TP of VND64,400 (+22.2%) following higher net profit growth over FY22-26F.

Strong 1Q22 results

1Q22 GMD's revenue increased 28.0% yoy, of which port services revenue rose 26.3% yoy on the back of a 24% yoy growth in container volume throughput and a 1.9% yoy increase in average handling fee. Logistics revenue increased 37.2% yoy mainly thanks to the contribution of depot services with GMD's warehouse area increasing 21.2% yoy and inland container shipping which benefited from skyrocketed container shipping rates. Gemalink's container volume has reached 300,000 TEUs and recorded net profit of VND38.5bn in 1Q22, bringing associates' profit up 408.8% yoy. Consequently, 1Q22 NP rose 86.1% yoy to VND274bn, in-line at 27.2% of our full-year forecast.

Capital raising plan to finance for capacity expansion

GMD plans to issue shares to outstanding shareholders with exercise rate 3:1 and offering price VND20.000/cp. If successful, GMD will raise its capital by VND2,009bn to finance for Nam Dinh Vu phase 2 (VND800bn) and Gemalink phase 2 (VND1000bn). GMD is in negotiation process to divest its 24% stake of Gemalink. GMD aims VND1,200bn for FY22F pre-tax profit (+48.9% yoy) in best scenario, however, we expect FY22F pre-tax profit may increase 55.7% yoy to VND1,255bn mainly thanks to the contribution of Gemalink (VND275bn).

Maintain FY22-23F EPS forecast and raise FY22-26F NP CAGR by 2.7%

We almost maintain FY22-23F EPS on mixed factors. Moreover, we expect a better long-term prospect for GMD thanks to the investment plans to capture Vietnam's vibrant seaport and seafreight market, thus we increase revenue CAGR in FY22-26F from 4.3% to 9.9%, which help net profit CAGR in FY22-26F raise from 20.3% to 23.0%.

Upgrade to Add with higher TP of VND64,400

We upgrade our rating to Add on GMD with a higher SOTP-based TP of VND64,400 as (1) we roll forward our valuation to FY22F, and (2) we raise NP CAGR in FY22-26F from 20.3% to 23.0%. Upside risks to our forecasts include (1) higher-than-expected container volume and handling fee at GMD's ports and (2) assets divestments at higher-than-expected prices. Downside risks are (1) uncertainty from the pandemic or geopolitical concerns hindering the growth of global trade and (2) slower-than-expected construction of Gemalink phase 2.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	2,606	3,206	3,871	4,406
Revenue growth	(1.4%)	23.1%	20.7%	13.8%
Gross margin	36.4%	35.6%	35.4%	35.5%
EBITDA margin	41.4%	40.4%	48.4%	48.9%
Net profit (bn)	371	612	1,008	1,237
Net profit growth	(28.3%)	65.0%	64.6%	22.8%
Recurring profit growth	(28.3%)	65.0%	64.6%	22.8%
Basic EPS	1,231	2,031	3,343	4,104
Adjusted EPS	1,231	2,031	3,343	4,104
BVPS	19,582	20,967	24,247	28,351
ROAE	6.3%	10.0%	14.8%	15.6%

STRONG IN ALL FACETS

Investment thesis

We like GMD for:

- GMD maintain its leading position among seaport operators, with outstanding capacity, integrated comprehensive logistics system, providing customers a full supply chain services. GMD's earnings growth engine is Gemalink, Vietnam's most modern deep-water port with the capable of accommodating 250,000 DWT fully loaded vessels, locating in Cai Mep – Thi Vai port cluster, which is well-positioned to ride on the buoyant ocean trade.
- Following a zero-covid strategy, China has introduced lockdown measures in its two biggest cities, Beijing and Shanghai, leading to the congestion in China major ports, along with war between Russia and Ukraine have caused seafreight to skyrocket recently. Global container index has surged 76.1% yoy in 1Q22. We believe these factors could maintain high sea freight rates in FY22-23F before cooling down in FY24F, which will benefit GMD's inland container shipping. Besides, we believe Vietnam will benefit from the congested supply chains of consumer goods in major producers such as Ukraine and China, leading to the vibrant import-export activities as well as the seaport and seafreight market.
- GMD plans to issue shares to outstanding shareholders with exercise rate 3:1 and offering price VND20,000/share. If successful, GMD will raise its capital by VND2,009bn to finance for Nam Dinh Vu phase 2 (VND800bn) and Gemalink phase 2 (VND1,000bn). GMD is in negotiation process to divest its 24% stake of Gemalink. We believe these are strong catalysts for GMD's stock price in near-term.

Investment risks:

- Upside risks to our forecasts include (1) higher-than-expected container volume and handling fee at GMD's ports and (2) assets divestments at higher-than-expected prices.
- Downside risks are (1) uncertainty arising from the China zero-covid or geopolitical concerns hindering the growth of global trade including Vietnam and (2) slower-than-expected construction of Gemalink phase 2.

Upgrade to Add with higher SOTP-based TP of VND64,400

We upgrade our rating to Add on GMD with a higher SOTP-based TP of VND64,400 (+22.2%) as (1) we roll forward our valuation to FY22F, and (2) we raise net profit CAGR in FY22-26F from 20.3% to 23.0% thanks the investment plans to capture Vietnam's vibrant seaport and seafreight market in the coming periods. Our WACC of 11.9% on GMD's core business valuation is derived from: (1) a risk free rate of 3%; (2) beta of 0.93 and (3) equity risk premium of 11%.

Figure 1: SOTP valuation

Equity value on core business	16,963
Equity value on rubber plantation	1,414
Equity value on real estate	1,021
Total equity value (VNDbn)	19,398
No. of outstanding share (m)	301
Equity value per share (VND)	64,400

Source: VNDIRECT RESEARCH

Figure 2: Assumptions

Assumptions	Value
Beta	0.93
Market risk premium	11.0%
Risk free rate	3.0%
Cost of equity	13.2%
Cost of debt	8.5%
Corporate tax	20.0%
WACC	11.9%
Permanent growth	5.0%

Source: VNDIRECT RESEARCH

Figure 3: Equity value on core business (Unit: VNDbn)

DCF method	Value
Present value of future cashflow to firm (VNDbn)	8,932
Present value of Terminal Value (VNDbn)	9,989
Port and logistics value (VNDbn)	18,921
Less: Net debt (VNDbn)	(1,922)
Less: Preferred securities	-
Plus: Cash and short-term investment (VNDbn)	689
Less: Minority interest (VNDbn)	(726)
Equity value on core business	16,963

Source: VNDIRECT RESEARCH

Figure 4: Discounted cash flow model (Unit: VNDbn)

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	1,460	1,733	1,737	2,067	2,167	2,293	2,431	2,680
Add: Depreciation	421	421	421	421	421	421	421	421
Less: Capital Expenditure	-1,102	-100	-100	-100	-100	-100	-100	-100
Changes in working capital	-459	-878	-169	-235	-199	-178	-169	-155
Free Cashflow (FCF)	320	1,176	1,889	2,153	2,289	2,436	2,583	2,846
Less: Tax Paid	-129	-149	-149	-163	-178	-200	-223	-265
Free Cashflow To Firm	192	1,027	1,740	1,990	2,111	2,235	2,360	2,581
PV of FCF	192	918	1,391	1,422	1,349	1,277	1,205	1,178

Source: VNDIRECT RESEARCH

Figure 5: Peer comparison

Company name	Ticker	Price	Target price	Recomm.	Mkt cap	P/E		3-year EPS		P/BV		ROE (%)		EV/EBITDA	
		LC\$	LC\$			US\$m	2022F	2023F	CAGR (%)	2022F	2023F	2022F	2023F	2022F	2023F
Domestic ports															
Port of Hai Phong JSC	PHP VN	21,700	29,200	ADD	309.1	11.8	11.4	-2.9	1.6	1.4	14.2	13.2	6.5	6.2	
Gemadept Corp	GMD VN	53,800	64,400	ADD	706.4	16.2	13.2	27.3	2.2	1.9	14.8	15.6	9.8	8.6	
Vietnam Container Shipping	VSC VN	46,800	NA	NR	224.8	25.8	23.7	4.3	1.8	1.6	14.5	14.3	5.9	5.5	
Sai Gon Port Jsc	SGP VN	31,900	NA	NR	300.6	17.3	15.4	109.0	2.1	1.8	17.8	21.7	5.1	4.4	
Hai An Transport & Stevedoring JSC	HAH VN	74,500	NA	NR	221.7	7.1	5.9	71.0	2.3	1.7	42.1	35.6	4.3	3.6	
Vietnam average						15.6	13.9		2.0	1.7	20.7	20.1	6.3	5.6	
Vietnam median						16.2	13.2		2.1	1.7	14.8	15.6	5.9	5.5	
Regional ports															
Adani Ports And	ADSEZ IN	885	NA	NR	24,422.1	31.6	25.3	NA	4.6	4.0	16.9	17.1	20.6	16.8	
Xiamen Interna-A	600897 CH	14	NA	NR	643.8	21.3	11.4	NA	1.1	1.0	5.2	9.3	6.8	4.4	
Namyong Terminal	NYT TB	5	NA	NR	169.0	19.3	15.7	NA	1.8	1.7	9.0	10.8	6.7	6.2	
Regional average						24.1	17.5		2.5	2.3	10.4	12.4	11.4	9.1	
Regional median						21.3	15.7		1.8	1.7	9.0	10.8	6.8	6.2	

Source: VNDIRECT RESEARCH

Strong 1Q22 results

Figure 6: GMD's 1Q22 business results summary

	1Q22	1Q21	vs previous		
			% yoy	forecast	
				Comments	
Net revenue	880	687	28.0%	25.8%	
- Port services	736	582	26.3%	25.1%	Higher than our expectation. In 1Q22, we estimate GMD's container volume throughput to increase 24% yoy amid a 6.0% yoy increase in Vietnam container volume throughput. Average selling price (ASP) increased 1.9% yoy as the oversupply in Hai Phong port cluster has gradually decreased.
- Logistics services	144	105	37.2%	30.1%	Higher than our expectation. In 1Q22, logistics services revenue increased 37.2% yoy mainly thanks to the contribution of depot services with GMD's warehouse area increasing 21.2% yoy and inland container shipping which benefited from skyrocketed container shipping rates (global container freight index surged 76.1% yoy in 1Q22).
Gross profit	352	259	36.0%	28.5%	
Blended gross margin	40.02%	37.67%	+2.35% pts		
- GM of port services	40.02%	39.26%	+0.76% pts		Gross margin of port services increased 0.76% pts yoy in 1Q22 as higher revenue offsets fixed cost.
- GM of logistics services	40.07%	28.88%	+11.19% pts		Gross margin of logistics services increased 11.19% pts yoy thanks to the hike in container shipping rates.
Selling expenses	39	34	14.8%	21.9%	
G&A	71	66	7.9%	19.3%	
Associates' profit	126	25	408.8%	18.4%	Lower than our expectation. Gemalink's container volume has reached 300,000 TEUs and recorded net profit of VND38.5bn in 1Q22.
Financial income	4	22	-80.5%	13.5%	
Financial expenses	32	28	17.4%	16.8%	
Net profit	274	147	86.1%	27.2%	In-line with our expectation.

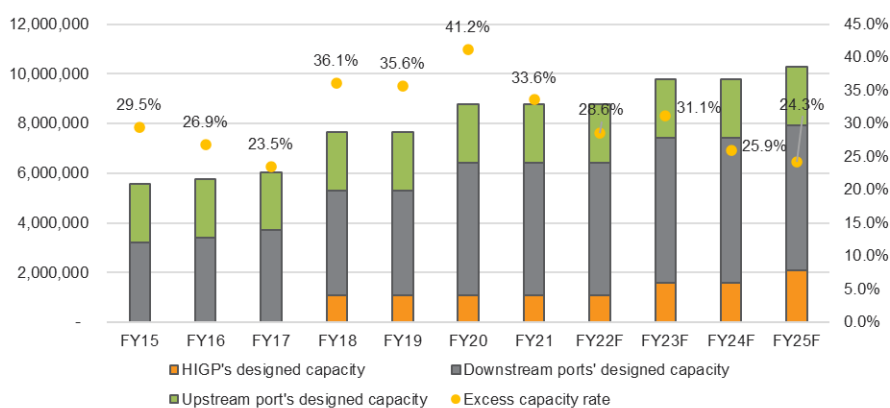
Source: VNDIRECT RESEARCH, Company reports

We almost maintain FY22-23F EPS on mixed factors and raise the long-term prospect by increasing FY22-26F CAGR by 2.7%

We change our forecasts for GMD's business results as follows:

- We increase FY22-23F port services revenue by 13.2-21.0% mainly due to brighter prospect of GMD ports in Hai Phong port cluster. The oversupply here has been gradually decreased, in which the excess capacity rate may reduce to 28.6%-25.9% in FY22-24F and many upstream ports will convert functions, thus reducing the excess capacity rate further. The low excess capacity rate could help increase the utilisation rate of GMD's ports here and GMD may also increase its ASP by 2%/4% yoy in FY22-23F, in our estimates. We also increase the utilisation rate of Nam Dinh Vu phase 2 from 30%/42% to 48%/67% in FY23-24F on the brighter outlook of Hai Phong port cluster.

Figure 7: The oversupply in Hai Phong port cluster has been gradually decreased (Unit: TEU)



Source: VNDIRECT RESEARCH

- We increase FY22-23F logistics revenue by 14.9%-31.2%. For the depot services segment, we expect GMD would increase its warehouse area by 10%/8% yoy in FY22-23F thanks to increasing warehouse demand. For the inland container shipping segment, shipping lines have deployed as much capacity as possible on the more-lucrative transpacific and Asia-Europe trades, leaving intra-Asia capacity down, leading to higher rates and more workload for GMD's inland shipping. We expect GMD's shipping volume to increase 5%/15% yoy while the inland shipping rates may adjust 20%/5% in FY22-23F as the congestion of ports in China and was between Russia and Ukraine could maintain high sea freight rates in FY22-23F before cooling down in FY24F.
- We reduce FY22-23F associates' profit by 8.7-14.8% as Gemalink phase 2 may come onstream later than expected due to construction license pending approval. We forecast Gemalink phase 2 may start construction in 4Q22F when the construction license is approved and may reach its designed capacity (900,000 TEUs) in its first year of operation 2025F. For the entire project (phase 1 and phase 2), we expect Gemalink to operate at maximum capacity of 2,880,000 TEUs/year (utilisation rate of 120%, typically seen in ports operating at excess capacity) in 2026F, thereby contributing VND703bn net profit in FY26F, accounting for 40.9% of GMD's FY26F net profit.

Figure 8: Gemalink's net profit contribution to GMD, based on our estimates

	FY21	FY22F	FY23F	FY24F	FY25F	FY26F
Gemalink phase 1						
Container throughput (TEUs)	700,000	1,500,000	1,800,000	1,800,000	1,800,000	1,800,000
Utilisation rate	47%	100%	120%	120%	120%	120%
Gemalink phase 2						
Container throughput (TEUs)					900,000	1,080,000
Utilisation rate					100%	120%
Total Gemalink volume (TEUs)	700,000	1,500,000	1,800,000	1,800,000	2,700,000	2,880,000
Net profit attributed to GMD (VNDbn)	(37)	275	413	422	682	703
% contribution in GMD's NP		27.4%	33.7%	33.4%	42.4%	40.9%

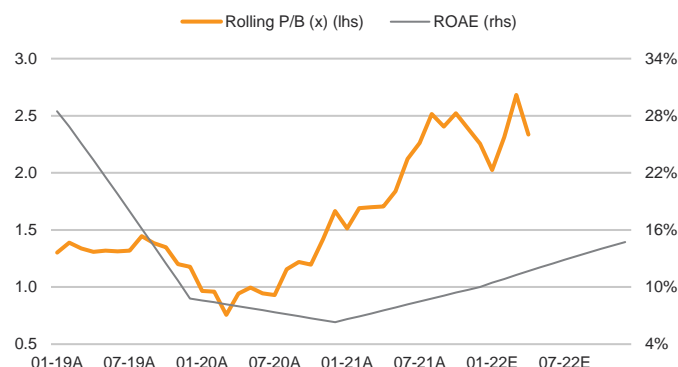
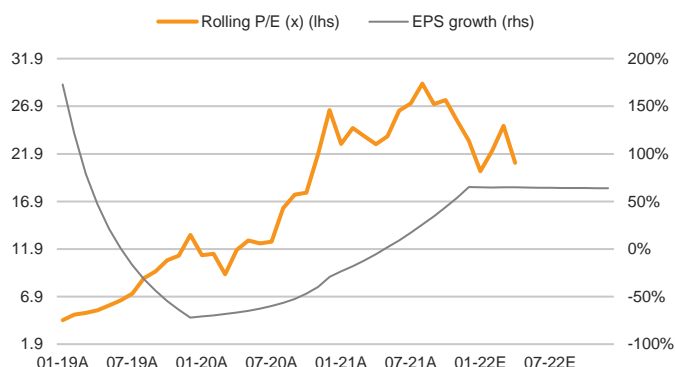
Source: VNDIRECT RESEARCH

Consequently, we almost maintain FY22-23F EPS on mixed factors. Moreover, we expect a better long-term prospect for GMD thanks to the investment plans to capture Vietnam's vibrant seaport and seafreight market, thus we increase revenue CAGR in FY22-26F from 4.3% to 9.9%, which help net profit CAGR in FY22-26F raise from 20.3% to 23.0%.

Figure 9: Changes in our FY22-23F earnings forecast

	FY21	FY22F			FY23F		
		Old forecast	New forecast	% change	Old forecast	New forecast	% change
Total cargo volume (TEUs)	1,862,910	2,134,695	2,214,428	3.7%	2,322,897	2,504,849	7.8%
Net revenue (VNDbn)	3,206	3,412	3,871	13.5%	3,600	4,406	22.4%
- Port services (VNDbn)	2,763	2,933	3,321	13.2%	3,097	3,747	21.0%
- Logistics services (VNDbn)	444	479	550	14.9%	503	660	31.2%
Gross profit (VNDbn)	1,142	1,235	1,372	11.1%	1,274	1,565	22.8%
Selling expenses	154	180	186	3.5%	190	212	11.6%
G&A expenses	295	369	347	-5.8%	386	389	0.8%
Associates' profit (VNDbn)	237	681	622	-8.7%	918	782	-14.8%
- Gemalink (VNDbn)	(37)	368	275	-25.2%	576	413	-28.3%
- Others (VNDbn)	274	313	347	10.7%	341	369	8.1%
Net profit (VNDbn)	612	1,006	1,008	0.1%	1,252	1,237	-1.2%
EPS (VND)	2,031	3,340	3,343	0.1%	4,153	4,104	-1.2%

Source: VNDIRECT RESEARCH, Company reports

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	3,206	3,871	4,406
Cost of sales	(2,064)	(2,499)	(2,841)
Gen & admin expenses	(295)	(347)	(389)
Selling expenses	(154)	(186)	(212)
Operating profit	693	839	964
Operating EBITDA	1,072	1,259	1,385
Depreciation and amortisation	(380)	(421)	(421)
Operating EBIT	693	839	964
Interest income	16	23	17
Financial expense	(84)	(164)	(170)
Net other income	(55)	(55)	(55)
Income from associates & JVs	237	622	782
Pre-tax profit	806	1,263	1,538
Tax expense	(86)	(130)	(153)
Minority interest	(108)	(126)	(148)
Net profit	612	1,008	1,237
Adj. net profit to ordinary	612	1,008	1,237
Ordinary dividends	(426)	0	0
Retained earnings	186	1,008	1,237

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	637	488	371
Short term investments	52	33	33
Accounts receivables	842	1,153	1,313
Inventories	69	120	137
Other current assets	90	142	161
Total current assets	1,689	1,936	2,014
Fixed assets	3,067	3,749	3,428
Total investments	2,830	3,452	4,109
Other long-term assets	3,144	3,484	4,406
Total assets	10,731	12,620	13,957
Short-term debt	860	995	1,018
Accounts payable	381	461	524
Other current liabilities	1,022	1,237	1,406
Total current liabilities	2,263	2,693	2,948
Total long-term debt	1,061	1,406	1,103
Other liabilities	363	363	363
Share capital	3,014	3,014	3,014
Retained earnings reserve	661	1,569	2,707
Shareholders' equity	6,319	7,307	8,544
Minority interest	726	851	999
Total liabilities & equity	10,731	12,620	13,957

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	806	1,263	1,538
Depreciation & amortisation	380	421	421
Tax paid	(103)	(130)	(153)
Other adjustments	(117)	(668)	(823)
Change in working capital	(2)	(459)	(886)
Cash flow from operations	965	427	97
Capex	(586)	(1,102)	(100)
Proceeds from assets sales	97	0	0
Others	132	47	166
Other non-current assets changes	0	0	0
Cash flow from investing activities	(356)	(1,055)	66
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	78	479	(280)
Other financing cash flow	(50)	0	0
Dividends paid	(426)	0	0
Cash flow from financing activities	(399)	479	(280)
Cash and equivalents at beginning of period	428	637	488
Total cash generated	210	(149)	(117)
Cash and equivalents at the end of period	637	488	371

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	19.1%	26.0%	28.1%
Asset turnover	0.31	0.33	0.33
ROAA	6.0%	8.6%	9.3%
Avg assets/avg equity	1.68	1.71	1.68
ROAE	10.0%	14.8%	15.6%
Efficiency			
Days account receivable	49.7	50.7	50.7
Days inventory	12.1	17.6	17.6
Days creditor	67.3	67.3	67.3
Fixed asset turnover	1.05	1.14	1.23
ROIC	6.8%	9.5%	10.6%
Liquidity			
Current ratio	0.7	0.7	0.7
Quick ratio	0.7	0.7	0.6
Cash ratio	0.3	0.2	0.1
Cash cycle	(5.4)	0.9	0.9
Growth rate (yoy)			
Revenue growth	23.1%	20.7%	13.8%
Operating profit growth	47.2%	21.0%	15.0%
Net profit growth	65.0%	64.6%	22.8%
EPS growth	65.0%	64.6%	22.8%

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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