

Sector note

27 Dec 2022

PORT & SHIPPING: OPPORTUNITIES IN TURBULENCE TIMES

- Sea freight rates are entering a downward trend following the oversupply, bringing a gloomy outlook for shipping companies in FY23-24F.
- Mixed factors create a neutral outlook for global seaport industry but Vietnam's picture may be brighter thanks to improved macroeconomics.
- Our stock pick is GMD while PHP, VSC and HAH are in our watchlist.

2023F to be a big challenge for global port & shipping industry

We believe global port & shipping industry will face many difficulties in 2023F as global economic slowdown may negatively affect global trade activities as well as global sea freight volume. However, we still see a few factors that could help improve the outlook of the industry in 2023F, including: (1) container shortage has been resolved due to the additional supply of containers in 2022, (2) China is on the way to re-opening its economy, which will pump up global consumption & trade activities, (3) we forecast average Brent oil price to stay around US\$90/bbl in 2023F, which will reduce fuel cost for shipping companies and improve global trade activities. In the context of mixed factors, we believe 2023F to be a big challenge for global port & shipping industry.

Shipping companies' earnings to weaken in FY23-24F due to oversupply

According to Alphaliner, number of new ship orders keep increasing, bringing current order volume to reach 27.9% of total market capacity – the highest level since 2012. Oversupply will put great pressure on sea freight rates in coming periods. The shipping company business results have a certain lag with movement of sea freight rates as shipping time charter contracts are usually signed for 6-12 months. Thus, the impact of the decline in sea freight rates will clearly affect business results of Vietnam shipping companies in 2023-24F.

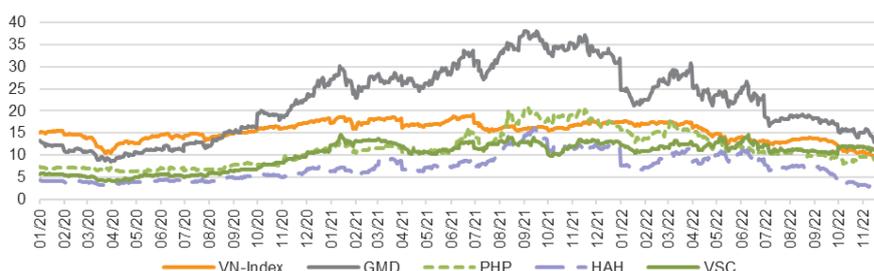
Brighter outlook for seaport operators in 2023-24F

The picture of Vietnam seaport may be brighter thanks to rising disbursed FDI in manufacturing sector and several trade agreements in force. We expect Vietnam's container volume to grow at 8.6% CAGR in 2022-30F, in which Hai Phong port cluster with decreasing oversupply and Cai Mep – Thi Vai port cluster with infrastructure upgrade & favorable mechanisms have the most potential among major ports. In 2023-24F, some major expansion projects will be implemented and come onstream, such as GMD's Nam Dinh Vu Phase 2 and Gemalink phase 2 (VND6,070bn), PHP's deep-water port (VND6,946bn), which will bring great growth potential for the owners in the coming years.

Our stock pick is GMD

We prefer seaport operators which have capacity expansion plan while maintaining earnings growth in the coming years, thus we pick GMD. We also put PHP, VSC and HAH on our watch list due to capital expansion plan and attractive valuation.

Post & shipping companies' P/E since 2020



SOURCES: VNDIRECT RESEARCH

Analyst(s):



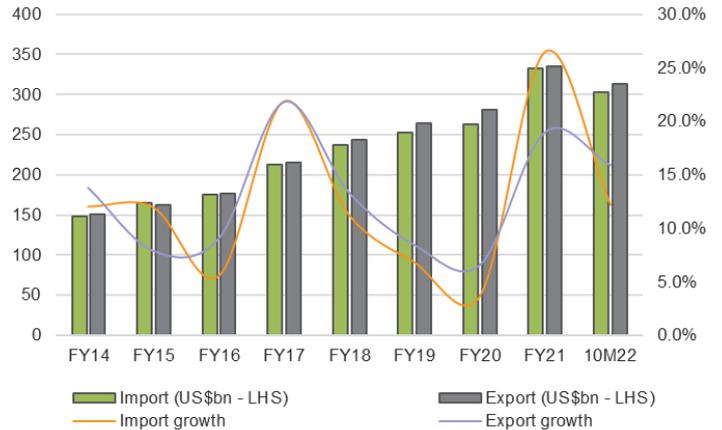
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Vietnam port & shipping snapshot in 2022 YTD

Vietnam’s import-export value growth decelerated

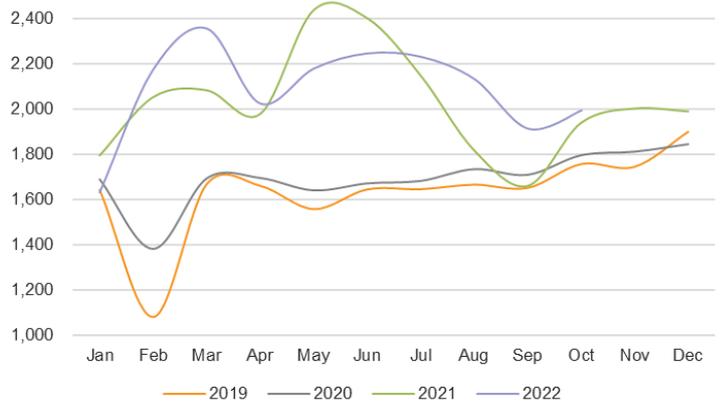
In 10M22, Vietnam’s import-export value growth decelerated to 12.2%/15.9% yoy due to (1) new export orders of major markets maintained the downward trend as sanctions against Russia have disrupted manufacturing in these markets, and (2) Chinese export orders also fell further below the 50-mark due to the zero-covid policy.



Sources: GSO, VNDIRECT RESEARCH

Vietnam total container volume throughput

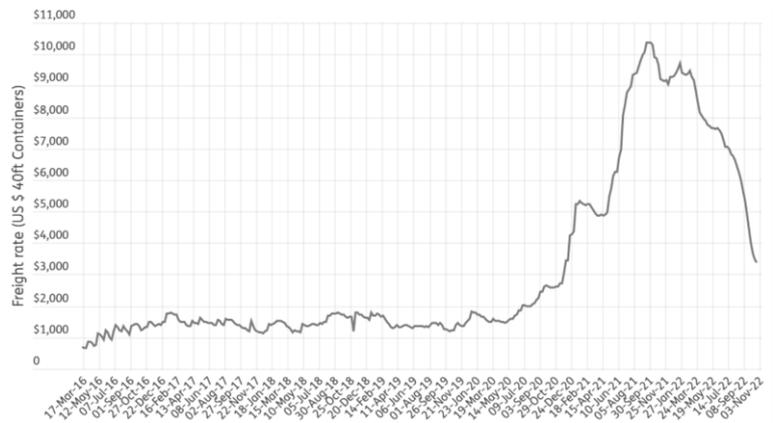
Vietnam total cargo volume throughput started to decelerate since 2Q22 and 3Q22, bringing cargo volume throughput to only increase 3.0% yoy and total container volume throughput to only increase 2.9% yoy in 10M22. Although container volume in Oct-22 recorded growth (+2.9% yoy), this growth came from low base in Oct-21 when the pandemic broke out and current monthly container volume is gradually decreasing following weak global demand.



Sources: Vinamarine, VNDIRECT RESEARCH

The world container index has plunged 67% from its peak set in Sep-2021

In the international market, after a period of skyrocketed growth, sea freight rates unexpectedly dropped, in which the world container index – a proxy used for container shipping rates, has plunged 67% from its peak set in Sep-2021. This is the results of global weak shipping demand while the market concerns that supply will increase in the coming periods.



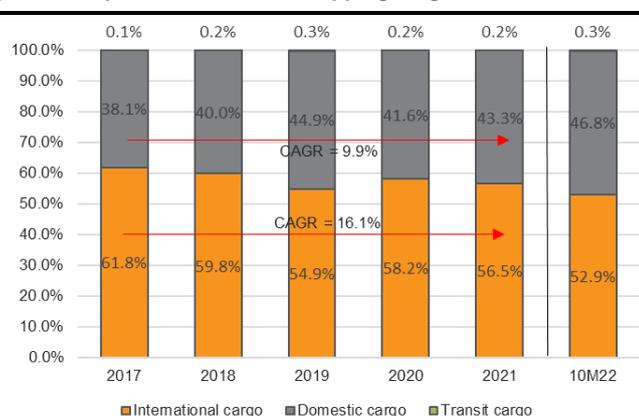
Sources: Infogram, VNDIRECT RESEARCH

Shipping: earnings to retreat after peaking in FY22

A stellar 2022 riding on high sea freight rates

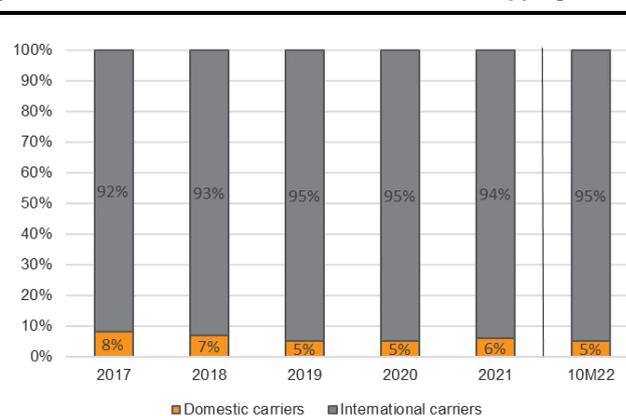
Although Vietnam's international shipping cargo volume increase at 9.9% CAGR, which is lower than 16.1% CAGR of domestic shipping cargo volume in 2017-21, international shipping still accounts for the majority in Vietnam total shipping cargo volume with the proportion of 52.9% in 10M22. International shipping is also the segment that bring the most revenue & earnings for the carriers with a much higher freight distances than domestic shipping. Thanks to government protection, the domestic carriers' cargo volume market share in the domestic shipping segment has remained stable at 80% over years, however, in the international shipping segment, proportion of domestic carriers has decreased year by year and only accounts for about 5% in 10M22. Vietnam international shipping is dominated by international carriers due to their large fleet size with big vessels which help them to minimize transportation cost and increase their competitiveness.

Figure 1: Proportion of Vietnam shipping cargo volume



Source: Vinamarine, VNDIRECT RESEARCH

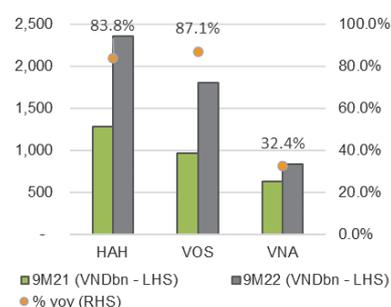
Figure 1: Market share of Vietnam's international shipping market



Source: Vinamarine, VNDIRECT RESEARCH

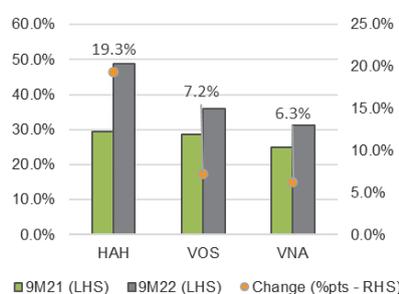
In 9M22, revenue of listed shipping companies increased 73.7% yoy mainly driven by high sea freight rates that the companies negotiate from the beginning of 2022. Gross margin also improved 13.0% pts yoy due to rising economies of scale. As a result, NP of listed shipping companies increased 70.8% yoy, in which HAH recorded the strongest earnings growth of 171.8% yoy thanks to its strong fleet expansion in 2022.

Figure 3: Revenue of shipping companies in 9M22



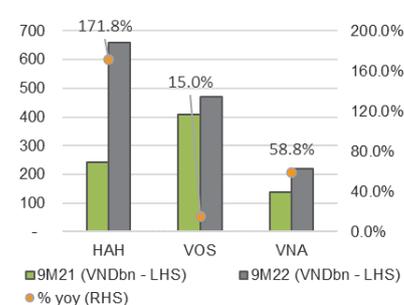
Source: VNDIRECT RESEARCH

Figure 4: Gross margin of shipping companies in 9M22



Source: VNDIRECT RESEARCH

Figure 5: Net profit of shipping companies in 9M22



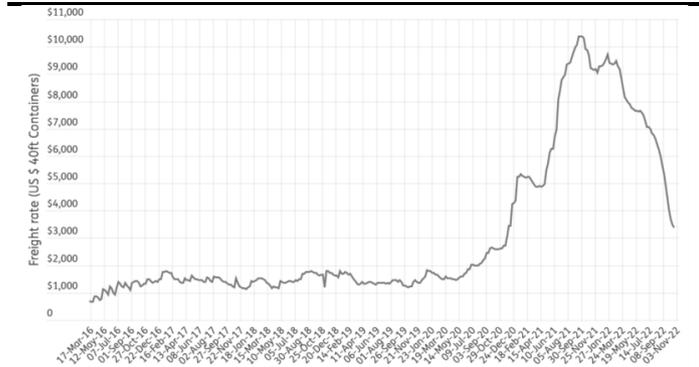
Source: VNDIRECT RESEARCH

Weakening outlook for shipping industry due to oversupply

In the international market, after a period of skyrocketed growth, sea freight rates unexpectedly dropped, in which the world container index (a proxy used

for container shipping rates) has plunged 67% from its peak and the BDI index (a proxy used for dry bulk shipping rates) has plunged 71% from its peak.

Figure 6: The world container index has plunged 67% from its peak set in Sep-2021



Source: Infogram, VNDIRECT RESEARCH

Figure 7: The BDI index has plunged 71% from its peak set in Sep-2021

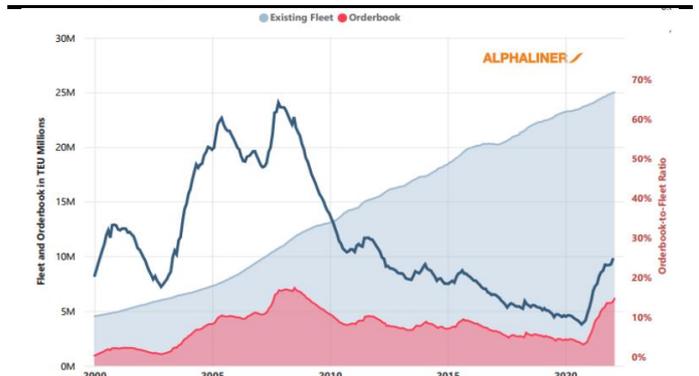


Source: Freightos, VNDIRECT RESEARCH

This is the result of global weak shipping demand while the market concerns that supply will increase in the coming periods. According to Alphaliner, the number of new ship orders continues to increase, bringing current order volume to reach 27.9% of total market capacity – the highest level since 2012. Global fleets may increase 4.4%/8.2% yoy in FY22-23F due to new orders to be delivered, while global cargo volume throughput may only increase 0.9%/2.7% in FY22-23F due to global economic slowdown.

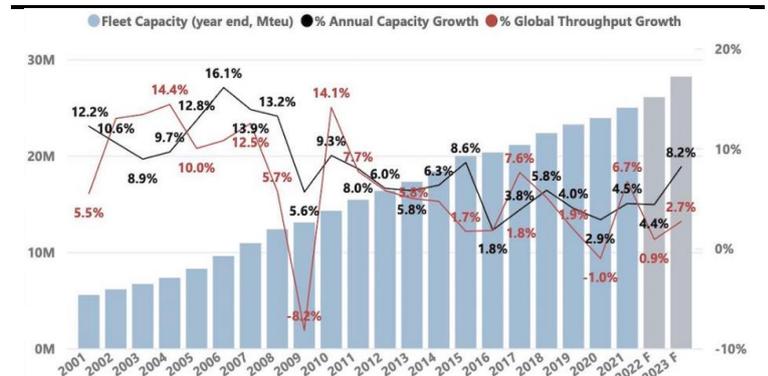
Oversupply will put great pressure on sea freight rate in the coming periods. The shipping companies' business results have a certain lag with fluctuations of sea freight rates as shipping time charter contracts are usually signed for 6-12 months. Therefore, the impact of the decline in sea freight rates will clearly affect business results of shipping companies in FY23-24F. However, we still see some positive factors that could somehow alleviate negative impacts from decreasing sea freight rate, including (1) China is on the way to re-opening its economy, which will pump up global consumption & trade activities, (2) we forecast average Brent oil price to stay around US\$90/bbl in 2023F, which will reduce fuel cost for shipping companies.

Figure 8: Current new order volume has reached 27.9% of total market capacity



Source: Alphaliner, VNDIRECT RESEARCH

Figure 9: Forecast for fleet growth and global cargo volume throughput until 2023F



Source: Alphaliner, VNDIRECT RESEARCH

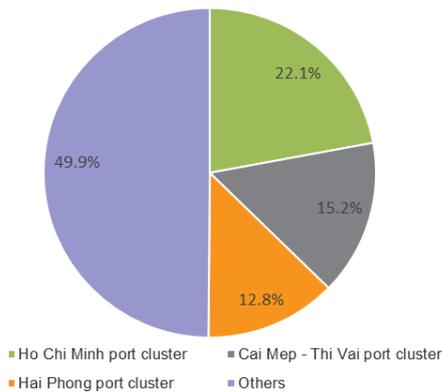
Risks to the industry include 1) Sea freight rates decline more than expected, 2) higher-than-expected oil prices.

Port operation: brighter outlook in 2023-24F

Seaport operators' business results recorded positive growth in the context of weak global demand

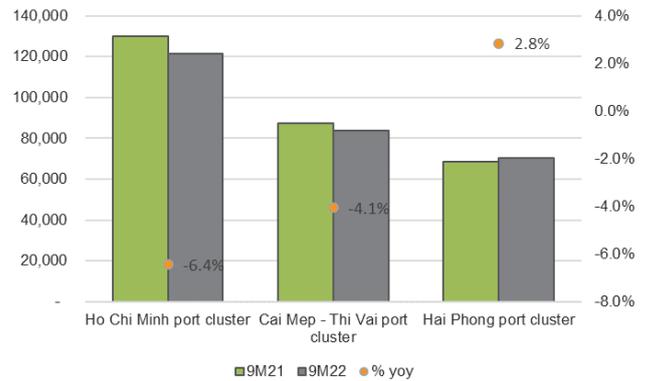
In 9M22, in terms of cargo volume, Ho Chi Minh port cluster is still the busiest port cluster of Vietnam with market share of 22.1%, followed by Cai Mep – Thi Vai port cluster (15.2%) and Hai Phong port cluster (12.8%). 9M22 total cargo volume increased 3.0% yoy, in which cargo volume of Ho Chi Minh port cluster and Cai Mep – Thi Vai port cluster dropped 6.4%/4.1% yoy due to drained stream while cargo volume of Hai Phong port cluster increased 2.8% yoy as the stream has been upgraded.

Figure 10: Market share of total cargo volume in 9M22



Source: Infogram, VNDIRECT RESEARCH

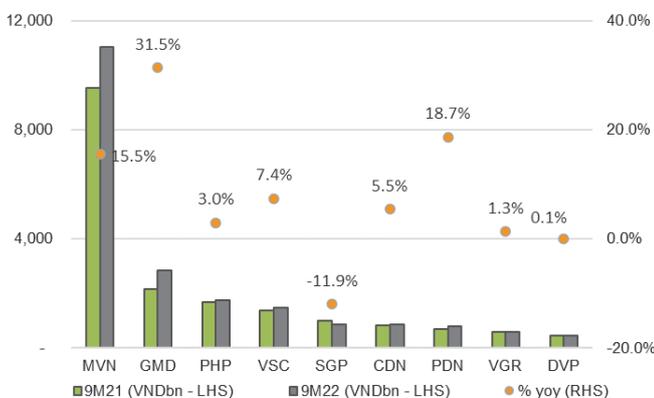
Figure 11: Volume growth of major port clusters in 9M22 (Unit: thousand tonnes)



Source: Freightos, VNDIRECT RESEARCH

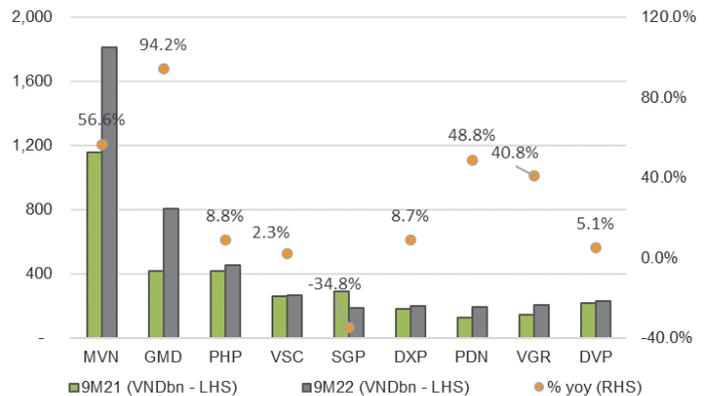
In terms of listed seaport operators' business results, in 9M22, aggregate revenue increased 13.0% yoy due to (1) growth of cargo volume through Vietnam seaports, and (2) ASP improved on reducing oversupply through nationwide seaports and stronger US\$. Gross margin of seaport operators increased 2.2% pts yoy as higher revenue offset fixed costs. Thanks to high operating leverage of seaport operators, 9M22 net profit of seaports companies increased 35.4% yoy, in which GMD recorded the strongest growth of 94.2% yoy thanks to the contribution of Gemalink phase 1.

Figure 12: Revenue of port operators in 9M22



Source: VNDIRECT RESEARCH

Figure 13: Net profit of port operators in 9M22



Source: VNDIRECT RESEARCH

Brighter outlook for seaport operators thanks to attractive sea freight rates and released congestion in major ports

We believe positive factors include lower sea freight rates, released congestion in major ports and potential of easing China-zero Covid policy could offset weak global economy in 2023-24F, bringing a neutral outlook for global seaport industry.

Figure 14: Global factors may affect global seaport industry in 2023F

Factor	Impact on seaport operators	Comments
Sea freight rates reduce		Attractive sea freight rates will support global trade activities.
Released congestion		Container shortage - the main problem causing congestion in major ports has been resolved due to the additional supply of containers. In addition, with operations fully resumed after the pandemic, the backlog of waiting vessels was quickly reduced and almost cleared in major ports.
Easing China zero-Covid policy		We believe China is on the way to re-opening its economy, which will pump up global consumption and trade activities. In particular, China's re-opening will benefit Hai Phong port cluster as this is the main sea trade gateway between Vietnam and China, thus we believe ports in Hai Phong will be the most beneficiaries.
Weak global demand		The IMF forecasted global GDP growth of 3.2% in 2022F and may slow to 2.7% in 2023F. Major events hindering growth include the FED interest rate hike and Russia - Ukraine war. Global economic slowdown may negatively affect global trade activities and global cargo volume throughput.

Source: VNDIRECT RESEARCH

The picture for Vietnam seaport industry may be brighter in the coming periods. Despite global monetary tightening, disbursed FDI into Vietnam still increased 15.2% yoy in 10M22 with a major portion of the projects targeted at industrial and manufacturing sector (60%). The RCEP, which took effect in early 2022, has boosted some of Vietnam's manufacturing industries to achieve strong growth in 1H22, but slowed down in the second half as global consumption declined. We still believe these trade agreements will have positive impact on Vietnam import-export activities in the coming years when global consumption recovers, thereby benefits Vietnam seaport industry. We expect Vietnam's container volume to grow 2.5% yoy in 2022F to 24.9m TEUs following the 2.9% yoy growth in 10M22, then grow at 8.6% CAGR in 2022-30F following Ministry of Transportation's (MOT) aim of 48m TEUs through Vietnam seaports until 2030F in the seaport master plan for the period of 2021-30F.

Figure 15: Disbursed FDI into Vietnam grew at 5.3% CAGR, which help bolster cargo volume throughput (Unit: US\$bn)

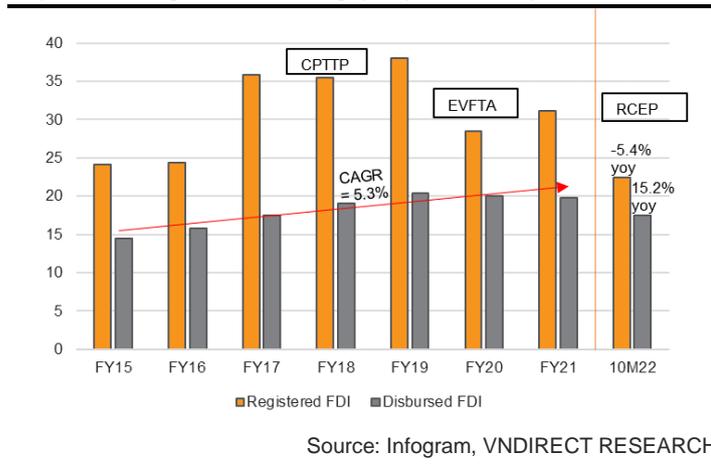
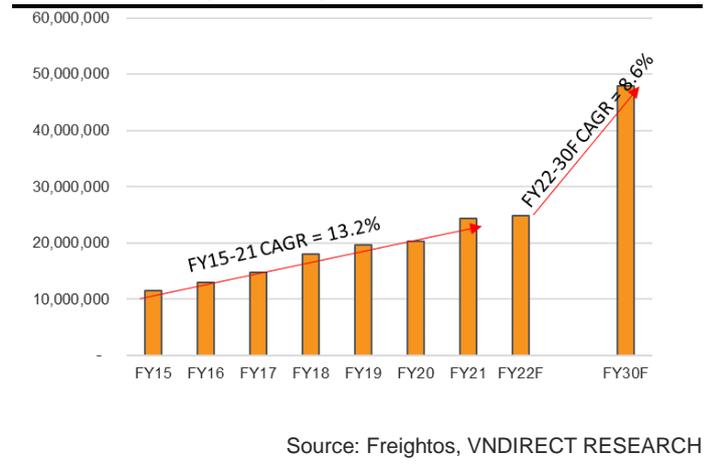


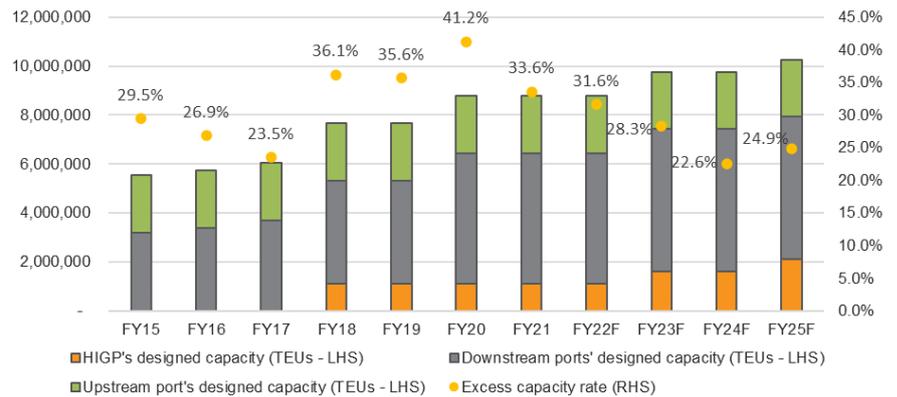
Figure 16: Vietnam container volume is expected to grow at 8.6% CAGR in 2022-30F (Unit: TEUs)



In the seaport master plan for 2021-30F, among major port clusters in Vietnam, Hai Phong port cluster and Cai Mep – Thi Vai port cluster are classified as special port cluster of Vietnam and will be focused the most in development. We also believe these two ports cluster to have more growth potential in FY23-24F as:

- The oversupply in Hai Phong port cluster has been gradually decreased, in which the excess capacity rate may reduce to 31.6%/28.3%/22.6% in FY22/23/24F as there are only 2 ports coming onstream until FY25F (GMD's Nam Dinh Vu phase 2 and PHP's deep-water ports) while many upstream ports will convert functions or remove (PHP's Hoang Dieu port). The low excess capacity rate could help increase the utilisation rate of HIGP and downstream ports here and may also reduce competition and increase ASP in the coming years. We forecast Hai Phong port cluster's container volume to grow 3.0%/6.0%/8.0% yoy in FY22/23/24F.

Figure 17: The competition pressure is tending to decrease



Source: VNDIRECT RESEARCH, Vinamarine

- By Aug-2022, MOT has approved the project of upgrading Cai Mep – Thi Vai channel from buoy No.0 to the Cai Mep container ports. Total investment of VND1,414bn, the capital will be allocated in accordance with the project's four-year execution schedule. The projects would help Cai Mep – Thi Vai port cluster to receive heavier vessels and reduce cost for the carriers, thereby attracting global shipping companies and helping to increase container volume through the ports here. In addition, the Politburo has approved Resolution 24, which will be a boost for Cai Mep – Thi Vai when mentioning the implementation of new mechanisms and policies, especially it has oriented to form a free trade zone associated with seaports in Cai Mep area, turning Cai Mep – Thi Vai port cluster to become a large international transshipment port cluster in Asia. In FY22-24F, facing difficulties from the global economy slowdown, we expect Cai Mep – Thi Vai container volume to grow 5.0%/8.0%/12.5% yoy in FY22-24F.

Risks to industry: China delays the reopening.

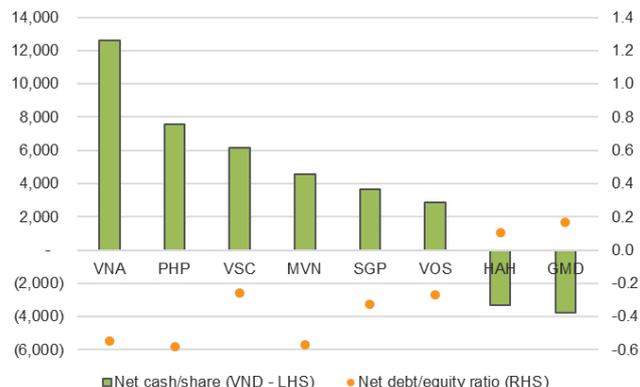
Potential impact of rising interest rates and US\$ appreciation among Port & Shipping listed companies

We see the impacts of rising interest rates environment on port & shipping listed companies as follows:

- Companies with strong net cash position and low net debt/equity ratio include VNA, PHP, VSC, MVN, SGP, VOS. We believe these companies will benefit from the rising interest rates environment in near-term. We see PHP to be the key beneficiary based on the contribution of net interest income into PHP's 9M22 pretax profit.

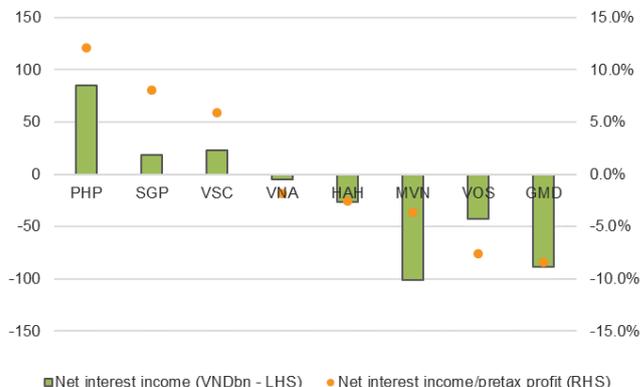
- In contrast, HAH and GMD may be negatively affected from the rising interest rates environment as these companies have higher leverage ratio to finance for their capacity expansion plan.

Figure 18: Most of port & shipping companies have strong net cash position



Source: VNDIRECT RESEARCH

Figure 19: Impact level of rising interest rates will depend on net interest income contribution into 9M22 results



Source: VNDIRECT RESEARCH

Stronger US\$ may also affect new capacity expansion plans borrowing in US\$ in the coming periods. Besides, shipping companies like HAH and MVN currently have high exposure to US\$-based debt and may face headwinds in the strong US\$ environment. However, as these carriers have a part of its revenue in US\$, it may somehow offset the increased financial expenses from FX loss when US\$ appreciates in the coming periods.

Figure 20: HAH and MVN may face headwinds from stronger US\$ (unit: VNDbn)

	USD-based debt	Total debt	USD-based debt/total debt
HAH	401	1,177	34.1%
MVN	1,918	4,218	45.5%

Source: VNDIRECT RESEARCH

Our stock pick is GMD

We prefer seaport operators which have capacity expansion plan while maintaining earnings growth in the coming years, thus we pick GMD. We also put PHP, VSC and HAH on our watchlist due to capital expansion plan and attractive valuation.

Figure 21: FY22-24F earnings forecasts of stocks under coverage

	GMD			PHP		
	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	3,762	3,962	4,140	2,324	2,506	2,772
% growth	17.3%	5.3%	4.5%	1.7%	7.8%	10.6%
Gross margin (%)	41.4%	36.5%	35.9%	37.2%	37.3%	39.6%
EBITDA margin (%)	50.4%	50.0%	52.8%	48.3%	48.5%	48.8%
Net profit (VNDbn)	1,005	1,086	1,291	569	627	673
% growth	64.2%	8.0%	18.9%	3.5%	10.1%	7.3%
EPS (VND/share)	3,336	3,602	4,283	1,741	1,918	2,058
BVPS (VND/share)	24,239	27,841	31,624	14,396	15,913	16,971
D/E	0.3	0.2	0.2	0.2	0.2	0.5
Dividen yield (%)	2.9%	0.0%	1.2%	2.5%	2.5%	6.3%
ROAE (%)	14.8%	13.8%	14.4%	12.7%	12.7%	12.5%
ROAA (%)	8.7%	8.4%	9.2%	8.8%	8.6%	7.6%

Source: VNDIRECT RESEARCH, CAAV

Figure 22: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	 GMD	62,300	ADD	<p>We like GMD for:</p> <p>(1) GMD's earnings growth engine in short-term is Gemalink phase 1, 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. We forecast Gemalink will contribute 14.6%/26.4%/32.8% in GMD's FY22-24F NP.</p> <p>(2) GMD plans to raise its capital by VND2,009bn through issuing shares to outstanding shareholders to finance for Nam Dinh Vu phase 2 (VND800bn) and Gemalink phase 2 (VND1000bn). We expect a better long-term prospect for GMD thanks to these capacity expansion plan to capture Vietnam's vibrant seaport and sea freight markets.</p> <p>(3) We forecast GMD's NP to grow 8.0%/18.9% yoy in FY23-24F.</p>
2	PHP	NA	NA	<p>(1) Owning the leading position in Hai Phong - the second largest port cluster in Vietnam, PHP is well-positioned to ride on the buoyant ocean trade.</p> <p>(2) PHP's current ports are running close to their designed capacity, since then the company is going to invest the new deep-water port in Hai Phong Int'l Gateway Port (HIGP) which will enhance its capacity by 52.4% to 3,200,000 TEUs p.a. The project has started construction in 3Q22, which would become PHP's growth engine from FY25F.</p> <p>(3) We forecast PHP's NP to grow 10.1%/7.3% yoy in FY23-24F.</p> <p>(4) PHP is the key beneficiary in the rising interest rate environment.</p> <p>(5) PHP has been moved to list on Upcom since Sep-2022 due to qualified opinion in financial statements for 3 consecutive years (2019,2020,2021) as the state capital (using ODA-funded) related to the investment project for the wharf No.4&5 and the container yard at Chua Ve port has not been finalized yet. PHP's share price has dropped 46.6% since its peak in Mar-2022 and we believe the negative information has already reflected in share price. PHP is working with the government to finalized this state capital, along with growth prospects in short-term and long-term, we believe the risk-reward profile is quite attractive to accumulate.</p>
3	VSC	NA	NA	<p>(1) VSC is a big player in Hai Phong port cluster, owning Green port and Vip Green port with total capacity of 1.1m TEUs p.a. The company also own Quang Binh – Dinh Vu ICD, one of the largest ICD in the northern region. In addition, VSC owns 36% of VIMC Dinh Vu port with capacity of 520,000 TEUs p.a, which has come onstream since Sep-2022.</p> <p>(2) Strong financial health with no debt.</p> <p>(3) Ambitious M&A plan: VSC plans to spend VND600bn acquiring 49% of Vinaship (VNA). Besides, VSC also plans to spend VND2,000bn to VND3,000bn to acquire a seaport operator in Hai Phong port cluster.</p>
4	HAH	NA	NA	<p>(1) HAH owns a fleet of 11 ships with total capacity of 15,885 TEUs, operating in domestic routes.</p> <p>(2) Earnings has peaked in FY22 and may decline in FY23-24F following sea freight rates downward trend, however, HAH's scale and profit have far exceeded pre-pandemic levels.</p> <p>(3) Current valuation is relatively attractive with trailing P/B around 0.95x.</p>

Source: VNDIRECT RESEARCH

Figure 23: 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	2023FCAGR (%)	2022F	2023F	2022F	2023F	2022F	2023F
Port operators														
Port of Hai Phong JSC	PHP VN	16,300	NA	NR	213.2	8.7	8.1	7.8	1.1	1.0	13.5	13.1	5.1	4.8
Vietnam Container Shipping	VSC VN	30,300	NA	NR	160.6	11.4	10.6	4.3	1.2	1.1	12.6	12.1	4.6	4.4
Adani Ports And Special Econ	ADSEZ IN	882	NA	NR	23,333.3	26.4	21.6	6.8	4.1	3.5	16.4	17.8	18.3	15.2
Xiamen Interna-A	600897 CH	15	NA	NR	634.0	28.0	14.3	-27.2	1.2	1.1	2.9	9.5	15.2	5.7
Namyong Terminal	NYT TB	4	NA	NR	121.4	22.0	18.8	-12.7	1.4	1.3	6.9	6.9	6.9	6.5
Gemadep Corp	GMD VN	44,600	62,300	ADD	518.7	13.4	12.4	27.4	1.8	1.6	14.8	13.8	7.8	7.5
<i>Average</i>						18.3	14.3		1.8	1.6	11.2	12.2	9.7	7.3
<i>Median</i>						17.7	13.3		1.3	1.2	13.1	12.6	7.4	6.1
Shipping companies														
Ap Moller-Maersk A/S-B	MAERSKB	14,945	NA	NR	38,140.0	1.3	5.2	NA	0.6	0.6	53.3	8.0	0.9	2.6
Cosco Shipping Holdings Co-A	601919 CH	12	NA	NR	26,231.1	1.7	4.4	402.8	0.9	0.9	64.5	19.0	0.3	0.7
Evergreen Marine Corp Ltd	2603 TT	151	NA	NR	10,219.2	1.0	6.2	8,643.1	0.5	0.5	71.5	9.0	0.2	1.1
Hmm Co Ltd	011200 KS	20,550	NA	NR	7,420.4	1.1	4.7	NA	0.5	0.5	63.9	12.7	0.1	0.3
Hai An Transport & Stevedori	HAH VN	29,400	NA	NR	79.7	2.5	3.0	71.0	0.9	0.7	45.4	27.3	1.8	1.8
<i>Average</i>						1.5	4.7		0.7	0.7	59.7	15.2	0.7	1.3
<i>Median</i>						1.3	4.7		0.6	0.6	63.9	12.7	0.3	1.1

Source: VNDIRECT RESEARCH, BLOOMBERG DATA AS AT 27/12/2022

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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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