

SAIGON CARGO SERVICES CORPORATION (SCS) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND177,000	VND200,800	3.08%	Add	INDUSTRIALS

21 April 2022

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

Consensus*: Add:7 Hold:1 Reduce:0

Target price / Consensus: 8.5%

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	177,000
52w low (VND)	125,700
3m Avg daily value (VNDmn)	2,653
Market cap (VND bn)	8,875
Free float (%)	42
TTM P/E (x)	15.9
Current P/B (x)	7.18

Ownership

Gemadep JSC	32.0%
Airport corporation of Vietnam	13.0%
41 Aircraft maintenance LTD	12.5%
Others	42.5%

Source: VND RESEARCH

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On track for buoyant growth

- SCS reported 1Q22 net profit (NP) of VND188bn (+36.6% yoy), in line at 26.4% of our full-year forecast.
- We expect FY22F NP to increase 25.9% yoy. In addition, capacity expansion plan and share dividend plan are strong catalysts in near-term.
- Maintain Add with a DCF-based target price (TP) of VND200,800.

1Q22 NP grew strongly thanks to vibrant air freight market

In 1Q22, total cargo volume increased 18.5% yoy with mainly contribution from international cargo volume (+40.8% yoy) thanks to vibrant import-export activities while domestic cargo volume dropped 34.6% yoy as the terminal capacity has reached its maximum and SCS had to limit room for domestic cargo. Average selling price (ASP) increased 6.9% yoy as SCS applied a new fee scheme since May 21. As a result, 1Q22 net revenue increased 25.4% yoy to VND246bn. 1Q22 gross margin expanded 4.2% pts to 83.5% to bringing gross profit up 32.0% yoy. In addition, financial income increased 75.3% yoy on widening cash & short-term investment. Consequently, 1Q22 net profit rose 36.6% yoy to VND188bn. 1Q22 revenue/NP were largely in-line at 25.1%/26.4% of our full-year forecast.

Capacity expansion for near-term growth

SCS is operating at 133% of current designed capacity, thus, the company will begin to expand the terminal capacity from 200,000 tonnes p.a to 350,000 tonnes p.a in 2022. SCS may invest US\$10m in the capacity expansion plan and fully finance the project with internally generated funds. SCS also plans to construct a second office building for rent with a total investment of US\$10m when the building license is approved in 2022. In order to finance the capacity expansion and the second building, SCS will retain its undistributed earnings for reinvestment and plans to pay stock dividend of 85% in 2022. We believe this is a strong catalyst in near-term.

SCS targets a conservative pre-tax profit plan of VND640bn (+5.7% yoy), however, we expect FY22F NP may increase 25.9% yoy to VND711bn mainly thanks to increasing demand for air freight.

Maintain Add with DCF-based TP of VND200,800

We maintain our Add rating on SCS with a DCF-based (WACC: 12.1%) TP of VND200,800. Upside risk is higher-than-expected cargo volume coming from the strong air freight market. Downside risk includes uncertainties arising from the pandemic hindering air traffic. Re-rating catalysts include: (1) the approval of air cargo terminal investment at Long Thanh International Airport and (2) the approval of M&A plans.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	693	839	979	1,144
Revenue growth	(7.4%)	21.1%	16.7%	16.8%
Gross margin	77.6%	77.7%	80.9%	78.0%
EBITDA margin	79.8%	78.7%	83.2%	84.0%
Net profit (bn)	464	565	711	749
Net profit growth	(7.5%)	21.6%	25.9%	5.4%
Recurring profit growth	(7.5%)	21.5%	25.9%	5.4%
Basic EPS	9,152	11,127	14,006	14,757
Adjusted EPS	9,152	11,127	14,006	14,757
BVPS	20,016	24,640	32,479	40,006
ROAE	46.0%	49.8%	49.0%	40.7%

Source: VND RESEARCH

ON TRACK FOR BOUYANT GROWTH

1Q22 NP grew strongly thanks to vibrant air freight market

Figure 1: SCS's 1Q22 business results summary

1Q22 results overview	1Q22	1Q21	vs. FY22F		Comments
			%yoy	forecast	
Total cargo volume (tonnes)	66,604	56,219	18.5%	26.5%	
- Domestic cargo volume (tonnes)	10,867	16,626	-34.6%	19.2%	Domestic cargo volume dropped 34.6% yoy as the terminal capacity has reached its maximum and SCS had to limit rooms for domestic cargo
- International cargo volume (tonnes)	55,737	39,593	40.8%	28.6%	International cargo volume increased 40.8% yoy thanks to vibrant import-export activities.
Net revenue (VNDbn)	246	196	25.4%	25.1%	In-line with our expectation
- Cargo services (VNDbn)	233	184	26.7%	25.3%	Total cargo volume increased 18.5% yoy and ASP increased 6.9% yoy as SCS applied a new fee policy with decent rise in cargo handling charges since May-2021.
Gross profit (VNDbn)	205	155	32.0%	25.9%	
SG&A	15	15	2.7%	18.1%	
Financial income	12	7	75.3%	20.8%	Financial income increased 75.3% yoy as short-term deposits increased 63.8% yoy.
Pre-tax profit (VNDbn)	202	147	37.1%	26.4%	
Net profit (VNDbn)	188	137	36.6%	26.4%	In-line with our expectation

Source: VNDIRECT RESEARCH, BLOOMBERG

Maintain Add with DCF-based TP of VND200,800

We maintain our Add rating on SCS with a DCF-based (WACC: 12.1%) TP of VND200,800.

Figure 2: SCS discounted cashflows

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT	763	867	1,009	1,126	1,239	1,357	1,482	1,614	1,755
less: Taxes	104	173	202	225	248	271	296	323	351
EBIAT	659	694	807	901	991	1,086	1,186	1,291	1,404
Plus: Depreciation and amortization	52	94	86	79	73	67	62	58	54
Less: Capital expenditure	475	12	12	12	13	13	13	14	14
Less: Increase in net working capital	34	9	34	25	22	23	24	25	26
Unlevered free cash flow (FCFF)	201	768	848	943	1,029	1,117	1,210	1,310	1,418
Present value of FCF	201	685	675	669	651	631	610	589	569
Cumulative Present value of FCFF	5,281								

Source: VNDIRECT RESEARCH

Figure 3: FCFF valuation

Terminal FCFF	1,418
Growth	2.00%
Terminal value	14,321
Discount factor	0.40
Present value of terminal value	5,744
Enterprise Value	11,025
Less: Total debt	-
Less: Preferred securities	892
Less: Noncontrolling interest	-
Plus: Cash and Cash Equivalents	58
Implied equity value	10,191
Outstanding shares	50,745,700
Equity value per share	200,800

Source: VNDIRECT RESEARCH

Figure 4: Peer comparison

Company name	Ticker	Price		Mkt cap		P/E		3-year EPS		P/BV		EV/EBITDA		ROE (%)	
		LC\$	US\$m	2022F	2023F	CAGR (%)	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	
Air cargo terminal															
Atlas Air Worlwide Holdings	AAWW US	71	1,920.8	4.5	5.7	NA	0.8	0.7	4.0	4.6	21.6	13.2			
Xiamen Interna-A	600897 CH	17	803.7	18.0	11.8	-13.8	1.3	1.2	6.8	5.0	7.4	10.8			
Saigon Cargo Services Corp	SCS VN	177,000	338.6	12.6	12.0	12.6	5.4	4.4	9.7	8.2	49.0	40.7			
Average				11.7	9.8		2.5	2.1	6.8	5.9	26.0	21.6			
Median				12.6	11.8		1.3	1.2	6.8	5.0	21.6	13.2			

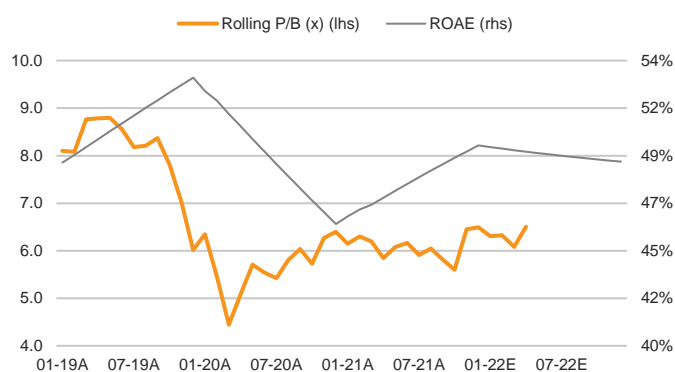
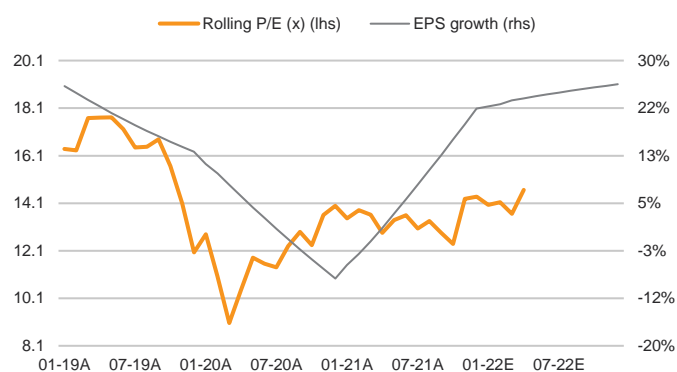
Source: VNDIRECT RESEARCH, BLOOMBERG

Upside and downside risks:

- Upside risk includes higher-than-expected cargo volume coming from the strong air freight market in the endemic.
- Downside risk includes uncertainties arising from the pandemic hindering air traffic.

Re-rating catalysts:

- Approval and announcements of M&A plans. SCS is planning to acquire an air cargo terminal operator at Noi Bai International Airport. However, management said negotiations may take longer than expected.
- Approval and announcements of air cargo terminal investment at Long Thanh International Airport (LTIA). LTIA construction is in the designing phase and SCS is providing Airport Corporation of Vietnam (ACV) with insights on the air cargo terminal layout based on SCS's experiences. We believe SCS has many advantages in bidding for the air cargo terminal in LTIA.

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	839	979	1,144
Cost of sales	(187)	(187)	(252)
Gen & admin expenses	(78)	(85)	(98)
Selling expenses	0	0	0
Operating profit	574	707	794
Operating EBITDA	629	759	888
Depreciation and amortisation	(54)	(52)	(94)
Operating EBIT	574	707	794
Interest income	35	59	77
Financial expense	(1)	(1)	(1)
Net other income	(2)	(2)	(2)
Income from associates & JVs	0	0	0
Pre-tax profit	606	763	867
Tax expense	(42)	(52)	(118)
Minority interest	0	0	0
Net profit	565	711	749
Adj. net profit to ordinary	565	711	749
Ordinary dividends	(271)	(313)	(367)
Retained earnings	293	398	382

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	58	76	340
Short term investments	480	392	572
Accounts receivables	312	349	408
Inventories	0	0	0
Other current assets	1	4	5
Total current assets	852	820	1,325
Fixed assets	412	611	559
Total investments	0	0	0
Other long-term assets	152	388	370
Total assets	1,416	1,818	2,253
Short-term debt	0	0	0
Accounts payable	8	8	10
Other current liabilities	154	159	208
Total current liabilities	162	167	219
Total long-term debt	0	0	0
Other liabilities	4	4	5
Share capital	579	579	579
Retained earnings reserve	619	1,017	1,399
Shareholders' equity	1,250	1,648	2,030
Minority interest	0	0	0
Total liabilities & equity	1,416	1,818	2,253

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	606	763	867
Depreciation & amortisation	54	52	94
Tax paid	(23)	(52)	(118)
Other adjustments	(50)	0	0
Change in working capital	10	(34)	(9)
Cash flow from operations	598	728	834
Capex	(12)	(475)	(12)
Proceeds from assets sales	0	0	0
Others	(291)	77	(192)
Other non-current assets changes			
Cash flow from investing activities	(304)	(398)	(204)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	0	0	0
Other financing cash flow	(0)	0	0
Dividends paid	(271)	(313)	(367)
Cash flow from financing activities	(272)	(313)	(367)
Cash and equivalents at beginning of period	36	58	76
Total cash generated	22	17	264
Cash and equivalents at the end of period	58	76	340

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	67.3%	72.6%	65.5%
Asset turnover	0.67	0.61	0.56
ROAA	45.0%	44.0%	36.8%
Avg assets/avg equity	1.11	1.12	1.11
ROAE	49.8%	49.0%	40.7%
Efficiency			
Days account receivable	39.3	33.7	33.7
Days inventory	-	0.0	0.0
Days creditor	14.9	14.9	14.9
Fixed asset turnover	1.94	1.91	1.96
ROIC	45.2%	43.1%	36.9%
Liquidity			
Current ratio	5.3	4.9	6.1
Quick ratio	5.3	4.9	6.1
Cash ratio	3.3	2.8	4.2
Cash cycle	24.4	18.8	18.8
Growth rate (yoy)			
Revenue growth	21.1%	16.7%	16.8%
Operating profit growth	21.3%	23.2%	12.3%
Net profit growth	21.6%	25.9%	5.4%
EPS growth	21.6%	25.9%	5.4%

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.

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