

VIETJET AIR JSC (VJC) – UPDATE

Market Price VND137,600	Target Price VND142,200	Dividend Yield 2.2%	Rating HOLD	Sector AVIATION
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Outlook – Short term



Outlook – Long term



Valuation



Eye on aircraft delivery timeline

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VJC reported unexciting 1H19 results due in part to delayed aircraft delivery. 1H19 topline grew only 15.7% yoy, far below the strong growth seen in 1H17 and 1H18 (30.8% and 29.2%, respectively) and fulfilled only 45.8% of the company's annual target. 1H19 net profit recorded a modest growth of 4.3% to come in at 38.6% of the company's guidance.

Core business growth cooled down due to slow fleet expansion. VJC's capacity (in terms of available seat kilometer) only increased 15% yoy in 1H19, far below the 1H18 growth of 45% yoy, per our estimation. 1H19 core revenue rose 17% yoy thanks mainly to surging ancillary revenue (+43% yoy), which offset the weak growth of passenger revenue (+9% yoy).

We believe the slow fleet expansion cannot be resolved in near term. According to our observation, the supply of narrow-body aircraft will continue to fall behind demand, which will affect the airlines with large order (especially A321neo and Boeing 787 Max). We expect VJC could receive four A321neo aircrafts in the last four months of 2019 (eight in total for the whole of 2019), thus increasing its fleet size to 71. For FY2019-22F, we expect VJC could add another 23 aircrafts (net increase), thus achieving a CAGR of 12% in capacity, far below the 42% rate seen in FY2014-18.

We expect an improvement in 2H19F and a brighter outlook in FY20F. We expect VJC's core EBIT to recover 3% yoy in 2H19F, after a drop of 29% yoy in 1H19 regarding more aircrafts to be delivered. For FY19F, we expect core EBIT to decrease 12.5% yoy but a 20% yoy jump in aircraft trading pretax profit could help net profit to grow at a modest rate of 3% yoy. For FY20F, we expect a ramp-up in aircraft delivery, which will bring a soft improvement in GM and a stronger S&LB business growth. Consequently, FY20F net profit is estimated to grow 18.1% yoy.

Reiterate HOLD with TP of VND142,200/share. We maintain a neutral view on VJC's FY19F performance but expect a better FY20 outlook. We believe current valuation is relatively fair regarding the recent price rally on the back of treasury stock buy-back and the inclusion into ETFs. Re-rating catalyst includes faster-than-expected aircraft delivery. Main risks to our call are: (1) jet fuel price volatility, (2) higher-than-expected competition from new players.

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	143,730
52w low (VND)	110,500
3m Avg daily volume (shares)	1.0m
3m Avg daily value (VNDm)	92,771
Market cap (VNDbn)	72,080
Outstanding shares (m)	524
Free float (%)	50
TTM P/E (x)	13.9
Current P/B (x)	5.3

Ownership

Sunflower Sunny Investment Co. Ltd	29.5%
Nguyen Thi Phuong Thao	9.1%
Sovico JSC	7.9%
Others	53.5%

Source: VNDIRECT RESEARCH

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	42,303	53,577	56,057	66,942
Revenue growth	53.8%	26.7%	4.6%	19.4%
Gross margin	15.5%	14.0%	13.9%	13.7%
EBITDA margin	13.1%	11.3%	12.7%	13.2%
Net profit (bn)	5,073	5,335	5,497	6,492
Net profit growth	103.3%	5.2%	3.0%	18.1%
Recurring profit growth	105.4%	5.1%	2.4%	18.1%
Basic EPS	9,367	9,850	10,149	11,987
Adjusted EPS	7,962	8,373	8,627	10,189
BVPS	23,469	25,917	31,924	39,020
ROAE	66.2%	43.3%	35.1%	33.8%

Late aircraft delivery dented core business performance in 1H19

Figure 1: 1H19 result comparison

Unit: VNDbn, otherwise noted	1H18	1H19	yoy	% versus company guidance	Comment
Net revenue	21,222	24,556	15.7%	45.8%	
Transportation	16,259	18,992	16.8%	56.2%	
- Pax revenue	12,452	13,555	8.9%		Mainly due to slow aircraft delivery, which affected transportation plan, both number of flights and number of pax fell short of VJC's guidance.
- Ancillary revenue	3,807	5,437	42.8%		
Sale and lease back (S&LB)/Secondary agreement trades (SAT)	4,702	5,052	7.4%	25.5%	Slower aircraft delivery hit S&LB revenue, however, VJC started booking Secondary agreement trades (SAT), which transfer aircraft purchasing right.
Gross Profit	2,999	3,452	15.1%		
Gross margin	14.1%	13.1%	-1.0% pts		
Transportation GM	13.0%	9.7%	-3.4% pts		
Aircraft trading GM	18.0%	31.0%	13.0% pts		SAT activities has higher GM than S&LB despite of lower revenue recorded.
Financial income	137	255	85.6%		
Financial expenses	494	618	25.3%		
Core operating profit	1,708	1,218	-28.7%		
Selling expenses	320	487	52.4%		
General and admin expenses	126	182	44.9%		
Selling expenses/revenue	1.5%	1.9%	0.3% pts		
G&A/revenue	0.6%	0.7%	0.1% pts		
Net accounting profit/(loss) before tax	2,159	2,398	11.0%	38.6%	
NPATMI	1,999	2,085	4.3%		
Core operating profit margin	10.3%	6.2%	-4.1% pts		
Net margin	9.4%	7.9%	-1.5% pts		
Flights	59,944	68,821	14.8%	47.2%	Slow flight growth due to delay in aircraft delivery.
Number of passenger (m)	11.1	13.5	21.8%	48.7%	Number of pax growth outpaced flight growth as load factor increased 1.2% pts thanks to promotion and schedule re-arrangements.
Fleet	55	66			
Load factor	86.8%	88.0%	1.2% pts		

Source: VNDIRECT RESEARCH, VJC

Transportation revenue hit by late aircraft delivery and software operation issue

1H19 topline grew only 15.7% yoy, far below the strong growth seen in 1H17 and 1H18 (30.8% and 29.2%, respectively). Transportation business witnessed a slowdown with +15.7% yoy in 1H19, versus 50.5% yoy in 1H18. In 1H19, VJC received only three A321neo aircrafts (new engine option), vs. eight scheduled for the whole of 2019, and had to delay the four Boeing 787 Max planes until 2020 following manufacturers' production or safety issues.

In this June, VJC had to cancel or delay several flights as some technical issues happened when operating new software. About 134 flights were delayed or cancelled in just two days (Jun 15-16, 2019). 1H19 load factor increased to 88.0% from 86.8% in 1H18 as a result of flight merging following the cancellation. Per our estimates, passenger yield dropped 9.8% to VND843/pax/km, bringing a slowdown in passenger revenue (+8.9% yoy in 1H19 vs 51.6% in 1H18). Ancillary revenue took the spotlight by an impressive surge +42.8% yoy in 1H19 thanks to more long-haul flight routes.

Core net profit dropped amid accelerating competition and increasing cost from wet leased flights

Transportation GM dropped 3.4% pts due to lower operating yield (-3.4% yoy) as a result of tougher competition in 1H19, when Bamboo Airlines entered the market since Jan 2019. In addition, leasing expenses rose 43% yoy as VJC had to enhance its fleet with four

wet-leasing aircrafts during the peak season in 2Q19. Besides, VJC's launch of 9 new international routes in 1H19 required lots of promotion and establishing expenses. Thus, SG&A expenses in the period surged 50% yoy, weighing on operating profit margin (-4.1% pts yoy).

Larger contribution from aircraft trading business

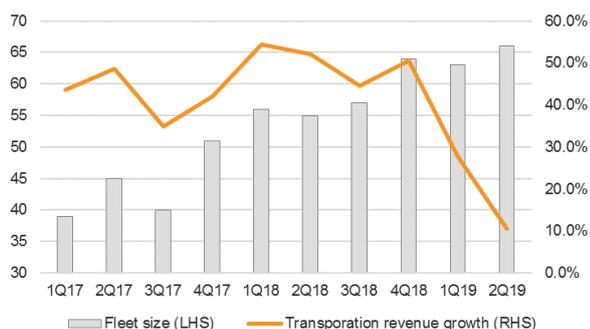
In 1Q19, VJC executed some Secondary Agreement Trade (SAT) transactions, a new way of aircraft trading, while in 2Q19 it only had three Sale & Leaseback (S&LB) transactions, far below the initial target of 12 for the whole year of 2019. We observe that almost all carriers tend to sign with the manufacturers (Boeing, Airbus) to buy big blocks (around 100 aircrafts per contract) to get discount price. Under Vietnamese Accounting Standard (VAS), revenue from SAT transactions will be recorded when VJC transfers purchase rights to other buyers. Other costs of SAT transaction are deposits and related financial fees. The key difference between the two activities is that S&LB revenue can only be recorded when the manufacturer delivers the aircraft, while SAT revenue can be booked for future aircraft purchase, regardless of the handover time.

We estimate that SAT activities bring even higher gross margin than S&LB. Consequently, aircraft trading business (including S&LB, SAT) posted a solid growth of 7.4% yoy in 1H19 revenue and contributed 68.2% to 1H19 pretax profit. According to VJC's management, the company has no plan to expand SAT activities in future but we believe SAT can be used as a back-up plan to replace S&LB amid further delay in aircraft delivery.

Slow fleet expansion - VJC's main headache

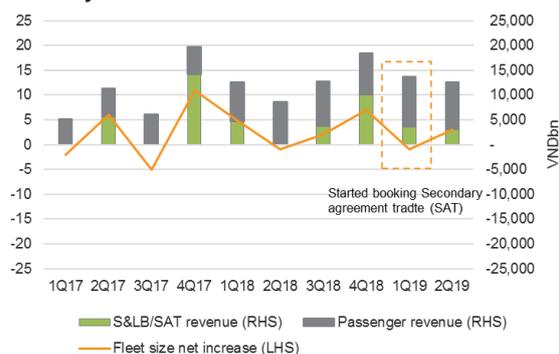
Fleet expansion to drive VJC's growth in the last three years

Figure 2: Transport revenue growth is affected whenever the fleet expansion speed slows



Source: VJC, VND RESEARCH

Figure 3: Relation of VJC's fleet expansion and revenue volatility



Source: VJC, VND RESEARCH

Per our view, aggressive aircraft purchase is key to VJC's success in recent years. Using proceeds from S&LB transactions to fund nearly all its fleet, VJC has doubled its aircraft between 1Q17 and 2Q19 without carrying significant financial burden. Besides, more new aircraft certainly brought S&LB revenue to VJC, which contributed between 51% and 64% to pretax profit in FY16-18.

Large aircraft backlog signed with Boeing, Airbus

VJC fleet expansion focuses on the newest generation of Boeing 737s (737 Max) and Airbus A321neos (A319, A320, A321). According to Centre for Aviation (CAPA), Boeing B737 and Airbus A320 families (A319, A320, A321) are the most commonly operated aircraft types, accounting for 55.0% of all commercial planes in service by numbers as at Feb 2019. By Aug 2018, VJC has ordered

123 A321neo and 200 Boeing 737 aircrafts, which are regarded as the most fuel-efficient narrow-body types at present.

Especially, A321neo is the biggest narrow-body plane with the longest range of 7,400km, which can help VJC operate routes to major Asian destinations such as Japan's Tokyo, Bali in Indonesia or India's New Delhi.

Duopoly aircraft manufacturer market reveals limitation

VJC received three A321 aircrafts in 1H19 and another one in 3Q19 (according to data from VJC and Airbus), far behind its plan to get 12 aircrafts as announced at the 2019 AGM. Recently, VJC said it has adjusted the target to receiving only eight new aircrafts in FY2019, given that it is hard to deliver the four Boeing 737 Max aircrafts on time, which are previously slated to arrive in 4Q19. As at Jun 30, 2019, VJC's fleet comprised of 66 planes, including 22 A320s, 34 A321neos (current engine option) and 10 A321neos (turning to 11 as at Aug 2019).

As discussed earlier, many airlines choose Boeing 737 Max and A320 families for fleet addition, and they are all hit when the deliveries of these two types face headwinds:

- **Boeing** stopped all the on-going deliveries of its 737 Max in Mar 2019 after two accidents involving the type. Boeing and the administrators are trying to test and make sure the 737 Max planes are safe to fly again. But even when Boeing can meet the expected delivery schedule at end-2019, we think it will take time for global aviation regulators to give full permission for Boeing 737 Max to operate.
- Meanwhile, **Airbus** is facing an issue in the production of A320/21neo at a time when demand for the narrow-body aircraft peaks worldwide. The manufacturer has advised clients that the delivery for A321neos will be delayed, according to announcements by airlines. As at Aug 2019, Airbus delivered 90 A321neos YTD (cumulatively 212 aircrafts from 2016) as part of the total 2,762 planes in orders.

We believe the slow fleet expansion cannot be resolved in near term

With the current market situation, we think the supply of narrow-body aircraft will continue to fall behind demand, which will affect the airlines with large order (especially of A321neos and Boeing 787 Max). IATA forecasts the global airlines fleet growth will slow to 3.6% in FY19F, from 4.7% in FY2018.

We expect VJC could receive four A321neo aircrafts in the last four months of 2019 (eight in total for the whole of 2019), thus increasing its fleet size to 71. For FY2019-22, we expect VJC could add another 23 aircrafts (net increase) to make 94 in its fleet, achieving a CAGR of 12% in capacity, well below the 42% rate seen in FY2014-18.

With the future delivery of Boeing 787 Max aircrafts, VJC will have a fleet of duo-aircraft type. For low-cost airlines, single aircraft type is the important key for optimising fleet as the airlines can reduce training/operating expenses and lower the maintenance costs. Thus, VJC Boeing 787s Max addition could lead to higher operating expense.

Rising competitions from new entrances could create more pressure on routes expansion and flight operation

After VJC's success, with net profit soaring 103.3% yoy in FY17, new airlines want to jump in for a slice of the cake. Bamboo Airways

(unlisted) started its first flight in Jan 2019 and managed to grab 4% of domestic share only six months later. In Jul 2019, Vietstar Airlines (unlisted), a military-run company, secured the Aircraft Operator Certificate (AOC), becoming the sixth airline in Vietnam. There are more to come, as some major travel companies are seeking licences to run their own airlines, including Viettravel, Thien Minh Group, VinAsia (a subsidiary of VinGroup – VIC VN, Not rated). Meanwhile, Air Asia (AAGB MK, Not rated) has not given up its plan to join the Vietnamese market even though it has experienced unsuccessful cooperation with domestic partners.

Beyond the war for pax market share, we expect a rising competition in securing pilots and crews. Vietnam’s current annual training capacity is 100 pilots, with the practice course still conducted overseas. According to BAA Training (Europe), the demand for Vietnam’s aviation market is 670 pilots a year. Given the short supply, we expect Vietnam-based airlines to face pressure in securing enough pilots to operate the current and additional aircrafts, while the labour cost is expected to jump following a hike of salary for pilots and flight attendants. Vinpearl Air and Bamboo Airways have plans to start their own aviation schools, but these establishments cannot help cool the heated crew market in the next few years.

International routes become main growth engine

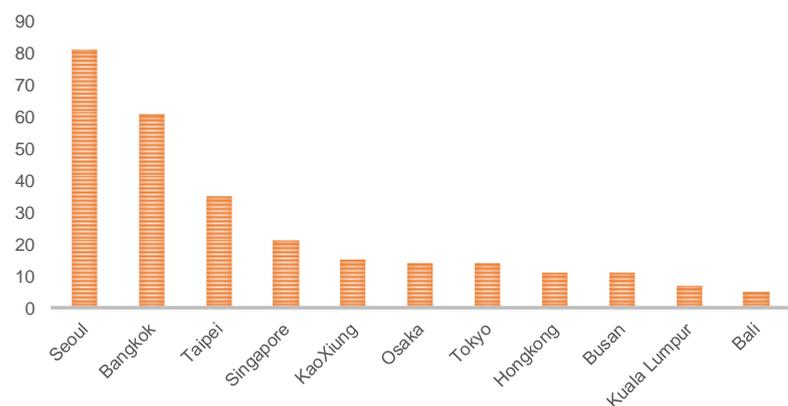
In 1H19, VJC’s international revenue jumped 50.6% yoy, surpassing domestic market (-6.9% yoy), and contributed 51% of total pax revenue. Adding new A321neos, VJC can reach further to major Asian hubs with longer flight time (Tokyo, Bali, New Delhi etc.). VJC opened 9 new international routes in 1H19, mostly connecting domestic airports with its major market in North East Asia (Taiwan, Korea and Japan) while started discovering new tourist routes to South Pacific (Bali) and South Asia (New Delhi).

Figure 4: VJC’s current destination



Source: Flightradar24

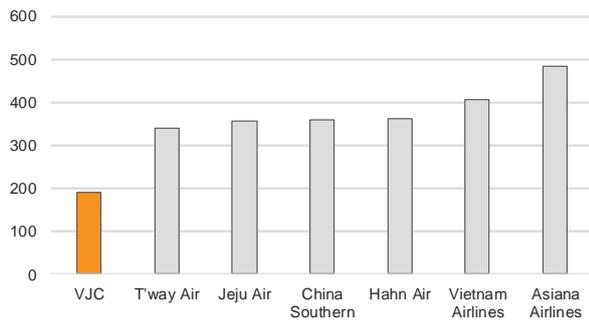
Figure 5: Number of VJC’s round-trip flights per week to Asian airports



Source: Flightradar24

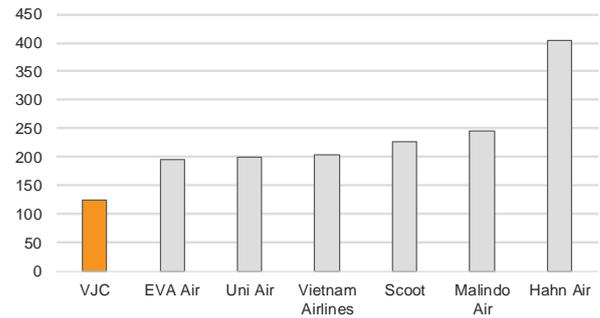
- Northeast Asia. Tourism between Vietnam and Taiwan, South Korea and Japan has surged in the last two years (CAGR of 34% in terms of total pax carried), and extended the solid growth of 21.9% yoy in 9M19. Capturing high demand from tourism, VJC now operates 22 routes to Northeast Asia countries and offers the lowest fares in major routes (Busan, Tokyo, Seoul). We think VJC will continue to open new routes, connecting tier-2 airports in Vietnam (Nha Trang, Da Nang, Phu Quoc, Van Don) with major hubs (Busan, Seoul, Tokyo) or raise the flight frequency with new A321neo/B737Max aircrafts, which are well-fitted with these routes.

Figure 6: Round-trip ticket: pre-order 1 month (US\$) on HCMC – Seoul flights



Source: Skyscanner, data as of Aug-19

Figure 7: Round-trip ticket: pre-order 1 month (US\$) on HCMC – Taipei flights



Source: Skyscanner, data as of Aug-19

- Southeast Asia/South Asia. We think VJC will play selectively in expanding new routes in this region, where Air Asia and Lion Air are dominating LCC segment. VJC's new HCMC-Bali route, launched since April 2019, is the first step to connect cities in Vietnam with regional second-tier cities. We believe opening direct flight routes to some tourist destinations in the Philippines, Indonesia and Myanmar are possible while Malaysia can be a challenging market due to the domination of Air Asia. VJC already has Thai Vietjet (affiliate) to exploit routes in Thailand.

Longer flights could generate more ancillary revenue but increase the risks to fuel volatility. For LCCs, fuel expense accounts for about 30-40% of total operating expense (in terms of CASK), but higher following longer flights. Given VJC has plans to operate more mid-to-long-haul flights (four- to seven-hour flights), we are concerned that VJC might increase its exposure to oil price volatility.

We expect an improvement in 2H19 and a brighter outlook in FY20

We expect VJC's core operating EBIT to grow at a modest 3% yoy in 2H19F, after a drop of 29% yoy in 1H19 regarding more aircrafts to be delivered and the absence of numerous flight cancellation. For FY19F, we expect core operating EBIT to decrease 12.5% yoy on the back of a 15.8% yoy growth in transportation revenue (including pax revenue, ancillary and other revenues) and a drop of 2.5% pts yoy in core gross margin. We expect the aircraft trading pretax profit (S&LB and SAT) to jump 20% for FY19F, which will help VJC's NPAT to grow 3% yoy.

For FY20F, we expect a ramp-up in aircraft delivery which will bring a soft improvement in GM and a stronger S&LB business growth. Core earnings growth is forecasted to outpace the core revenue growth (20.4% and 16.4%, respectively). We expect VND21,380bn (+26.3% yoy) in FY20F aircraft trading business. Consequently, FY20F net profit is expected to grow 18.1% yoy.

Figure 8: VJC forecast summary

	Unit	2016	2017	2018	2019F	2020F
Load factor		87.9%	88.0%	88.1%	88.5%	88.0%
Number of pax	m	14.1	17.1	23.1	27.9	31.9
Net revenue	VNDbn	27,499	42,303	53,577	56,057	66,942
Transporation revenue	VNDbn	15,917	22,549	33,779	39,132	45,563
Aircraft trading	VNDbn	11,582	19,754	19,798	16,925	21,380
Gross Profit	VNDbn	3,902	6,549	7,492	7,807	9,153
Selling expenses	VNDbn	518	579	713	842	957
General and admin expenses	VNDbn	189	226	295	332	371
Operating EBIT	VNDbn	1,669	2,345	3,536	3,095	3,728
Pretax profit	VNDbn	2,703	5,303	5,816	5,992	7,077
Net profit	VNDbn	2,496	5,073	5,335	5,497	6,492
Core pretax profit	VNDbn	1,086	1,902	2,868	2,454	2,980
ASK growth			40.6%	41.4%	20.0%	15.3%
RPK growth			40.7%	41.5%	20.6%	14.7%
Pax growth			21.7%	35.1%	20.6%	14.7%
Net revenue growth			53.8%	26.7%	4.6%	19.4%
Transporation revenue			41.7%	49.8%	15.8%	16.4%
GM			15.5%	14.0%	13.9%	13.7%
Transporation revenue GM			14.0%	13.5%	10.9%	11.1%
Aircraft trading GM		13.2%	17.2%	14.9%	20.9%	19.2%
SG&A as % of revenue			1.9%	1.9%	2.1%	2.0%
EBIT margin			5.5%	6.6%	5.5%	5.6%
Net profit growth			103.3%	5.2%	3.0%	18.1%
Core earning growth			40.5%	50.8%	-12.5%	20.4%

Source: VNDIRECT RESEARCH, VJC

Expanding the aviation value chain

VJC now has a portfolio of aviation-related investment: PVOil (OIL VN), Saigon Ground Services (SGN VN) and Cam Ranh International Airport (CIA VN). Besides, VJC has sought Civil Aviation Authority of Vietnam's permission to use in-house ground services at Noi Bai and Cam Ranh airports. We think VJC is seeking better control over material and service inputs, however we need to wait for more actual results from these investments.

Reiterate HOLD recommendation

We maintain a neutral view on VJC's FY19F outlook and expect a better FY20F. However, the current market price rally following a treasury stock buy-back and the inclusion in ETFs has made valuation look fair now. We reiterate HOLD recommendation with target price of VND142,200/share, using the combination of FCFE based valuation (Cost of equity: 10.95%, LT growth: 2%) for airline business and PV valuation (Cost of equity: 20%) for the aircraft trading segment.

Figure 9: FCFE valuation for airline business (Unit: VNDbn)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
EBIT	4,896	5,807	5,173	5,827	7,826	8,644	8,717	8,310	8,895	11,625
less: Taxes	-495	-585	-548	-611	-786	-863	-880	-860	-921	-1,156
EBIAT	4,401	5,222	4,626	5,216	7,040	7,781	7,837	7,450	7,975	10,470
Plus: Depreciation and amortization	200	219	238	258	277	297	316	335	355	374
Less: Capital expenditure	-194	-194	-194	-194	-194	-194	-194	-194	-194	-194
Less: Increase in net working capital	689	677	230	60	155	83	20	6	63	215
Less: SALB	-3,246	-3,759	-2,952	-3,427	-5,180	-5,775	-5,640	-4,987	-5,347	-7,782
Unlevered free cash flow (FCFF)	1,850	2,166	1,949	1,913	2,098	2,192	2,340	2,610	2,852	3,083
Less: Interest after tax	263	298	344	381	405	415	407	416	448	471
Plus: Increase in debt	-20	600	428	175	-158	-560	-893	286	112	-102
Free cash flow to Equity (FCFE)	1,566	2,468	2,033	1,708	1,535	1,217	1,039	2,481	2,516	2,510
PV of FCFE	1,566	2,225	1,651	1,250	1,013	724	557	1,199	1,096	985

Cumulative Present value of FCFE **12,267.1**

Source: VNDIRECT RESEARCH

Figure 10: VJC Sum of the parts valuation

Unit: VNDbn, otherwise noted	Value
Terminal FCFE	129,324
Present value of terminal value	45,763
Cumulative Present value of FCFE	12,267
Equity value	58,030
Outstanding shares	541,611,334
Implied equity value per share (VND)	107,143
S&LB value per share (discount 50% due to non-core business)	35,099
Implied value per share	142,242
Target price (rounded)	142,200

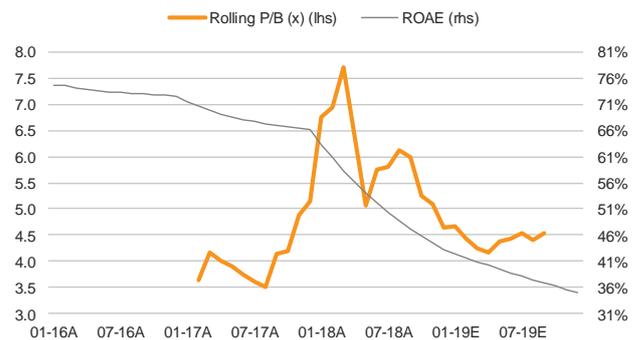
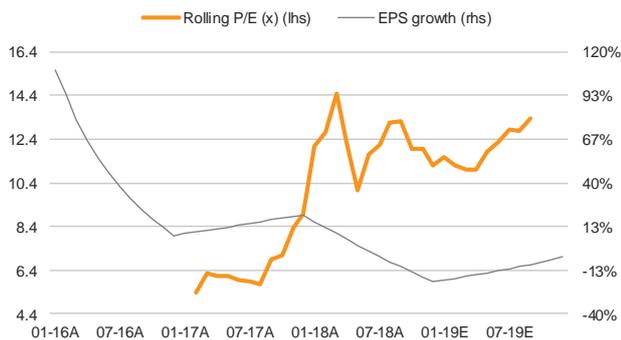
Source: VND RESEARCH

Figure 11: Peer comparison (data as of Oct 04, 2019)

Company	Ticker	Recom.	Target price (VND)	Market cap (US\$m)	EPS growth (%)			P/E (x)		P/B (x)		ROE (%)		ROA (%)		D/E (x)	EV/EBIT DAR
					FY19F	FY20F	TTM	FY19F	TTM	FY19F	TTM	FY19F	TTM	FY19F			
LCC peers																	
SOUTHWEST AIR	LUV US	n/a	n/a	29,418	(0.2)	21.1	12.7	12.9	3.0	2.5	24.0	22.9	9.1	9.4	0.4x	4.9x	
RYANAIR HLDGS	RYA ID	n/a	n/a	12,481	(21.8)	30.8	14.3	14.0	2.2	2.1	16.2	14.8	6.0	6.2	0.7x	7.9x	
JETBLUE AIRWAYS	JBLU US	n/a	n/a	4,927	23.5	24.8	9.7	8.7	1.0	0.9	9.6	11.8	4.2	5.9	0.4x	3.7x	
WESTJET AIRLINES	WJA CN	n/a	n/a	2,671	126.2	16.2	23.2	16.6	1.5	n/a	7.2	8.1	2.3	2.4	0.9x	n/a	
AIR ARABIA PJSC	AIRARABI UH	n/a	n/a	1,550	n/a	-	n/a	8.8	1.1	1.3	(9.1)	12.6	(4.1)	6.3	0.8x	6.5x	
AIRASIA GROUP BH	AAGB MK	n/a	n/a	1,445	(76.1)	28.6	9.5	12.4	0.8	1.2	7.4	7.9	2.5	3.4	0.2x	2.6x	
CEBU AIR INC	CEB PM	n/a	n/a	1,058	119.0	17.8	7.0	6.4	1.3	1.2	18.7	20.4	5.4	6.8	1.3x	4.0x	
ASIA AVIATION	AAV TB	n/a	n/a	488	797.4	50.0	n/a	25.2	0.7	0.7	(2.9)	2.9	(1.0)	1.4	0.7x	6.3x	
AIRASIA X BHD	AAX MK	n/a	n/a	164	46.2	90.0	n/a	n/a	1.3	1.8	(59.9)	(42.2)	(6.3)	(3.1)	1.2x	1.7x	
Median							11.2	12.7	1.3	1.2	7.4	11.8	2.5	5.9	0.7x	4.5x	
Average							12.7	13.1	1.4	1.5	1.3	6.6	2.0	4.3	0.7x	4.7x	
Vietjet Air	VJC VN Equity	HOLD	142,200	3,091	3.0	18.1	13.9	13.5	5.3	4.3	43.3	37.8	15.1	13.9	0.4x	6.6x	

Source: Bloomberg, VND RESEARCH

Valuation



Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	53,577	56,057	66,942
Cost of sales	(46,085)	(48,250)	(57,789)
Gen & admin expenses	(295)	(332)	(371)
Selling expenses	(713)	(842)	(957)
Operating profit	6,484	6,634	7,826
Operating EBITDA	6,484	7,488	9,275
Depreciation and amortisation	0	(854)	(1,449)
Operating EBIT	6,484	6,634	7,826
Interest income	332	561	669
Financial expense	(918)	(1,184)	(1,396)
Net other income	7	42	50
Income from associates & JVs	(89)	(60)	(72)
Pre-tax profit	5,816	5,992	7,077
Tax expense	(481)	(495)	(585)
Minority interest	(0)	(0)	(0)
Net profit	5,335	5,497	6,492
Adj. net profit to ordinary	5,335	5,497	6,492
Ordinary dividends	(2,017)	(2,078)	(2,454)
Retained earnings	3,318	3,419	4,038

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	7,165	8,843	13,554
Short term investments	817	945	1,335
Accounts receivables	10,273	11,438	12,560
Inventories	469	543	631
Other current assets	356	416	483
Total current assets	19,079	22,185	28,563
Fixed assets	1,646	1,738	1,790
Total investments	68	68	68
Other long-term assets	18,293	21,980	23,118
Total assets	39,086	45,971	53,538
Short-term debt	4,958	5,052	5,822
Accounts payable	924	1,096	1,270
Other current liabilities	9,059	10,873	8,857
Total current liabilities	14,941	17,021	15,949
Total long-term debt	572	287	325
Other liabilities	9,535	11,370	16,129
Share capital	5,416	5,416	5,416
Retained earnings reserve	8,256	11,454	15,200
Shareholders' equity	14,037	17,291	21,134
Minority interest	2	2	2
Total liabilities & equity	39,086	45,971	53,538

Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	5,816	5,992	7,077
Depreciation & amortisation	147	200	219
Tax paid	(108)	(495)	(585)
Other adjustments	991	(1,945)	2
Change in working capital	(2,416)	402	352
Cash flow from operations	4,429	4,154	7,066
Capex	(800)	(969)	(1,263)
Proceeds from assets sales	1,546	187	281
Others	(924)	405	481
Other non-current assets changes	0	0	0
Cash flow from investing activities	(178)	(377)	(501)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	(1,998)	(20)	600
Other financing cash flow	0	0	0
Dividends paid	(2,017)	(2,078)	(2,454)
Cash flow from financing activities	(4,015)	(2,099)	(1,854)
Cash and equivalents at beginning of period	6,862	7,165	8,843
Total cash generated	237	1,678	4,711
Cash and equivalents at the end of period	7,098	8,843	13,554

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	10.0%	9.8%	9.7%
Asset turnover	1.51	1.32	1.35
ROAA	15.1%	12.9%	13.0%
Avg assets/avg equity	2.87	2.72	2.59
ROAE	43.3%	35.1%	33.8%
Efficiency			
Days account receivable	19.8	20.9	16.3
Days inventory	3.71	4.11	3.99
Days creditor	7.32	8.29	8.04
Fixed asset turnover	33.7	33.1	38.0
ROIC	27.3%	24.3%	23.8%
Liquidity			
Current ratio	1.28	1.30	1.79
Quick ratio	1.25	1.27	1.75
Cash ratio	0.53	0.58	0.93
Cash cycle	16.2	16.8	12.3
Growth rate (yoy)			
Revenue growth	26.7%	4.6%	19.4%
Operating profit growth	12.9%	2.3%	18.0%
Net profit growth	5.2%	3.0%	18.1%
EPS growth	5.2%	3.0%	18.1%
Share value			
Basic EPS (VND)	9,850	10,149	11,987
BVPS (VND)	25,917	31,924	39,020

Source: VNDIRECT 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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