

VIETJET AIR JSC (VJC) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND115,300	VND138,900	0.00%	Add	AVIATION

9 June 2021

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

Consensus*: Add:0 Hold:3 Reduce:3

Target price / Consensus: -0.4%

Key changes in the report

- Decrease FY21F EPS by 15.3%
- Decrease FY22-23F EPS by 6.5%/5.5%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	137,700
52w low (VND)	94,500
3m Avg daily value (VNDmn)	62,059
Market cap (VND bn)	57,736
Free float (%)	55
TTM P/E (x)	816
Current P/B (x)	3.74

Ownership

Sunflower Sunny Investment Co.	28.6%
Nguyen Thi Phuong Thao	8.8%
Sovico JSC	7.6%
Others	55.0%

Source: VND RESEARCH

Analyst(s):



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Good entry point for an upcoming recovery

- VJC posted VND123bn in 1Q21 net profit, completing 9.1% of our FY21F forecast as the Covid-19 outbreak since Tet hit harder than expected.
- Lower target price (TP) by 3.5% to VND138,900 to reflect the negative effects of recent Covid-19 outbreak on VJC's FY21 results.
- We upgrade to Add as VJC's share price decline opens up an opportunity to accumulate for the inevitable recovery from 2022F onwards.

1Q21 net profit saved by sell & lease-back (S&LB) and financial activities

In 1Q21, VJC total flights fell 31.7% yoy due to the absence of international flights, leading to the 63.3% yoy plunge in core revenue. VJC had one S&LB transaction with a gross margin (GM) of 26.7%, which narrowed gross loss to VND1,014bn. However, thanks to (1) the 154.3% yoy surge in financial income due to transferring real estate projects and (2) the 87.9% yoy decrease in financial expenses due to the provision reversal of VND115bn in PV Oil investment, VJC recorded net profit of VND123bn in 1Q21.

Asset liquidation and financial activities to improve financial health

With the additional cash flow of VND3,708bn from selling treasury shares and transferring real estate projects estimated to be collected in 2Q21F, we believe VJC's liquidity and financial health will improve, which will help VJC stay strong through the pandemic and continue to expand its fleet when the time comes.

Inevitable recovery ahead

We believe Vietnam can re-open the international skies by end-3Q21 as expected. Hence, we forecast FY21F international passengers might be the same as in FY20 and jump significantly in FY22F with a volume growth of 650% yoy while domestic passengers would increase 10.0%/19.4% yoy in FY21-22F. As a result, we expect total ASK (Available seat kilometers) capacity to increase 2.9%/99.5% yoy in FY21-22F.

Earnings forecast revision

We lower FY21F EPS by 15.3% and lower FY22-23F EPS by 6.5%/5.5% to reflect: (1) 9.5% lower in FY21F domestic pax as the current Covid-19 outbreak would reduce domestic air travel demand in FY21, (2) 67.2% lower in FY21F international pax in FY21F and 7.2%/0.8% lower in FY22-23F as Vietnam is getting vaccines slower, (3) 11.8% pts expanding in S&LB GM to 26.7% in FY21F, equivalent to S&LB GM in 1Q21, and (4) 3.3% upward adjustment in total outstanding shares as VJC has sold its treasury shares in Apr-2021.

Upgrade to Add with lower TP of VND138,900

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	50,603	18,220	32,802	56,368
Revenue growth	(5.6%)	(64.0%)	80.0%	71.8%
Gross margin	11.1%	(7.7%)	3.0%	10.9%
EBITDA margin	10.1%	1.9%	5.1%	8.1%
Net profit (bn)	3,807	69	1,165	3,887
Net profit growth	(28.6%)	(98.2%)	1598.2%	233.7%
Recurring profit growth	(41.3%)	(151.2%)		251.8%
Basic EPS	7,146	131	2,187	7,177
Adjusted EPS	6,074	111	1,859	6,100
BVPS	28,445	28,592	34,176	41,544
ROAE	26.3%	0.5%	7.0%	19.0%

Source: VND RESEARCH

Investment thesis

We like VJC for:

- Its position as Vietnam leading low-cost carrier – accounting for the largest domestic market share of Vietnam with 40% in 2020. VJC also accounts for the second largest international market share of Vietnam aviation industry.
- Significant improvement in cashflow thanks to asset liquidation.
- Global aviation industry is on the way to recovery thanks to the urgent vaccination all over the world, including Vietnam. We expect Vietnam to safely reopen the international skies by the end of 3Q20, which will help VJC's business results recover strongly from FY22F onwards.
- VJC's share price has dropped 15.5% since March-2021 due to the Covid-19 outbreak in the same period, implying a potential upside of 20.5%. However, we expect the government to successfully contain this outbreak thanks to improved medical capacity and experiences in fighting the pandemic through the previous ones. Hence, we believe the risk-reward profile of VJC is relatively attractive to accumulate.

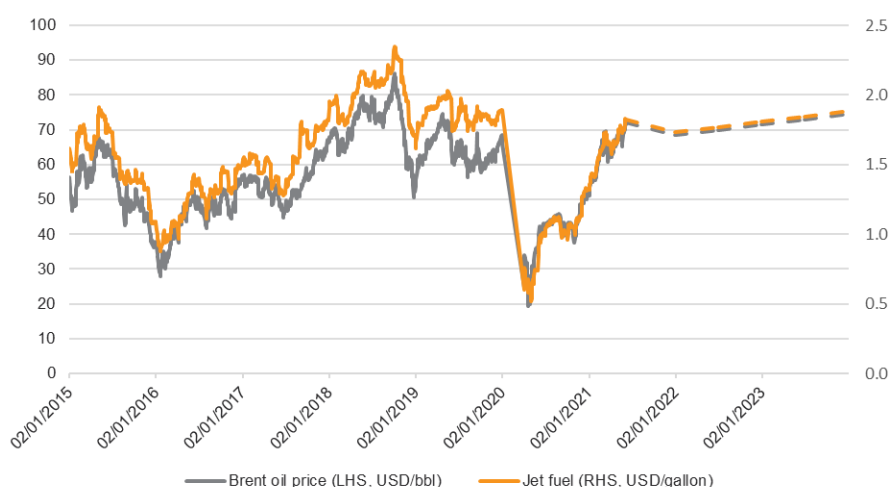
Investment risks:

Upside risk includes higher-than-expected international traffic recovery since FY22F.

Downside risks include:

- A longer-than-expected Covid-19 pandemic.
- Slower-than-expected construction of aviation infrastructure.
- Higher-than-expected fuel price leading to higher operating cost. Currently, Brent oil price has increased 41% to around US\$70/bbl since the beginning of 2021 due to the strong recovery of the global economy. We expect oil price to be resilience on the new base with average Brent oil price of US\$67/70/73 per barrel in FY21/22/23F as the oil supplies could not rise fast enough to catch up with the expected demand recovery, leading to the estimated average jet fuel price of US\$1.69/1.77/1.84 per gallon in FY21/22/23F.

Figure 1: Brent oil price and jet fuel price movements in FY15-FY20 and forecasts in FY21-23F



Source: VNDIRECT RESEARCH, BLOOMBERG

Upgrade to Add with lower TP of VND138,900

We slightly trim our DCF-based TP (WACC: 11.05%) by 2.9% to VND138,900 to reflect the 15.3% downward revision in FY21F EPS and the 6.5%/5.5% downward revision in FY22-23F EPS.

Figure 2: Discounted cash flow model (Unit: VNDbn)

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT	1,560	4,391	7,500	8,389	11,247	12,236	17,179	23,508	30,155	40,676
less: Taxes	0	0	0	283	586	999	1,687	2,513	3,775	5,256
EBIAT	1,560	4,391	7,500	8,106	10,661	11,237	15,492	20,995	26,380	35,420
Plus: Depreciation and amortization	127	156	189	227	271	322	382	452	533	614
Less: Capital expenditure	4,122	2,670	3,143	3,250	4,343	5,322	5,484	6,027	7,201	7,682
Less: Increase in net working capital	-6,622	9,915	3,709	3,826	5,641	7,076	7,824	9,288	11,459	13,520
Unlevered free cash flow (FCFF)	4,186	-8,038	837	1,256	948	-838	2,566	6,132	8,254	14,832
Present value of FCF	4,186	-7,238	678	918	624	-496	1,368	2,945	3,570	5,777
Cumulative present value of FCFF	12,332									

Source: VNDIRECT RESEARCH

Figure 3: FCFF valuation

Unit	VNDbn
Terminal FCFF	14,832
Growth	2.0%
Terminal value	167,248
Discount factor	0.39
Present value of terminal value	65,141
Enterprise Value	77,473
Enterprise value	77,473
Less: Total debt	7,913
Plus: Cash and Cash Equivalents	5,670
Implied equity value	75,230
Outstanding shares	541,611,334
Equity value per share	138,900

Source: VNDIRECT RESEARCH

Figure 4: Peer comparison

Company name	Ticker	Price (Local curr)	TP (Local curr)	Recom.	Market Cap (US\$ m)	3-year EPS CAGR (%)	P/E		P/BV		ROE (%)		Dividend yield (%)		EV/EBITDA	
							2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
VIETJET AVIATION JSC	VJC VN	115,300	138,900	ADD	2,523.6	-40.6	52.7	16.1	3.4	2.8	7.0	19.0	0.0	0.0	34.5	12.8
AIRASIA GROUP BHD	AAGB MK	1	N/A	NR	844.9	NA	NA	NA	NA	NA	47.2	18.7	0.0	0.0	NA	10.8
CEBU AIR INC	CEB PM	47	N/A	NR	597.3	NA	NA	26.2	1.7	1.3	-45.5	24.4	NA	NA	54.9	4.2
AIRASIA X BHD	AAX MK	0.1	N/A	NR	85.4	NA	NA	NA	NA	NA	35.5	0.0	0.0	0.0	NA	10.4
ASIA AVIATION PCL	AAV TB	3	N/A	NR	422.1	NA	NA	NA	1.2	1.2	-26.8	-0.3	0.0	0.2	NA	8.7
Average							52.7	21.1	2.1	1.8	-4.5	19.5	0.0	0.0	44.7	9.4
Median							52.7	21.1	1.7	1.3	-9.9	19.0	0.0	0.0	44.7	10.4

Source: VNDIRECT RESEARCH, BLOOMBERG

GOOD ENTRY POINT FOR AN UPCOMING RECOVERY

1Q21 net profit saved by S&LB and financial activities.

Figure 5: VJC's 1Q21 business results (Unit: VNDbn)

	1Q21	1Q20	vs previous yoy forecast		
Total flights	20,142	29,491	-31.7%	14.9%	In 1Q21, VJC's total flights fell 31.7% yoy due to the absence of international flights.
Total passengers (m)	3.60	4.50	-20.0%	18.0%	Lower than our expectation due to the Covid-19 outbreak in Tet holiday - the high season for domestic air travel.
-Domestic (m)	3.60	3.55	1.4%	21.1%	International commercial flights are still suspended.
-International (m)	-	0.95	-100.0%	0.0%	
Net revenue	4,049	7,230	-44.0%	14.4%	
Core revenue	2,693	7,330	-63.3%	13.6%	
-Fare	1,082	4,499	-76.0%	10.9%	VJC reduced ticket price to maintain domestic market share.
-Auxiliary & cargo	1,516	2,569	-41.0%	18.2%	VJC has launched freight forwarding services in a variety of ways and products. In 1Q21, VJC has transported 18,000 tons of cargoes, versus of not providing this service in 1Q20.
-Others	95	262	-63.9%	10.8%	
-S&LB	1,356	-	NA	16.6%	VJC had 1 S&LB transaction in 1Q20.
Gross profit	(1,014)	(841)			
Gross margin	-25.04%	-11.63%	-13.4% pts		
-Core GM	-51.09%	-11.63%	-39.5% pts		
-S&LB GM	26.70%	NA	NA		
Financial income	1,395	548	154.3%	324.6%	Financial income surged 154.3% yoy mainly due to transferring real estate projects with profit of VND1,358bn.
Financial expenses	38	314	-87.9%	4.2%	Financial expenses decreased 87.9% yoy mainly due to provision reversal of VND115bn in PV Oil (OIL) investment, versus the provision of VND135bn in 1Q20.
Selling expenses	114	227	-49.9%	14.0%	Selling expenses decreased 49.9% yoy thanks to VJC's cost-cutting efforts
G&A expenses	107	112	-4.5%	25.3%	
Net other income	(4)	5	-170.3%	-2.3%	Lower than our expectation as the Covid-19 outbreak in Tet holiday generally affected the domestic air travel.
Net profit	123	(989)	-112.5%	9.1%	
Excl. S&LB	(239)	(989)	-75.9%		

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Asset liquidation and financial activities to help improve VJC's cash flow to overcome the pandemic

Beside cost-cutting efforts, VJC has been proactive in assets liquidation and financial activities to help improve its cash flow to overcome the pandemic.

Figure 6: VJC's assets liquidation and financial activities since the start of Covid-19

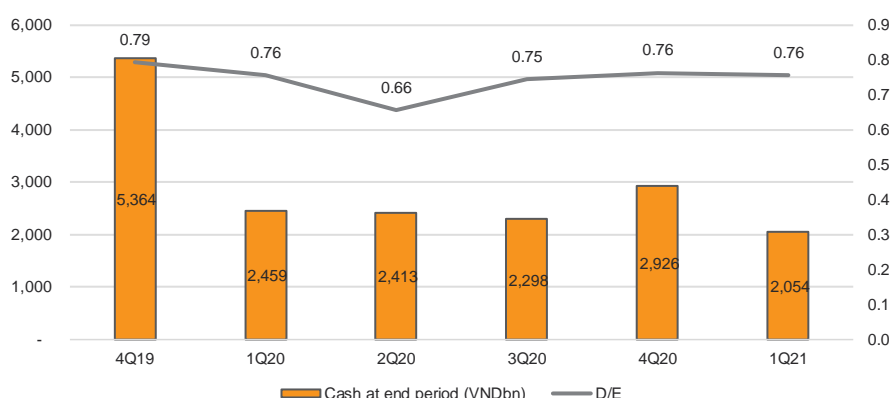
Time	Actions
1Q20	Collect VND708bn from held to maturity investment Net paying VND1,527bn in loans from banks
2Q20	Collect VND357bn from compensation for the delayed aircraft productions. Net paying VND475bn in loans from banks
3Q20	Collect VND595bn from selling OIL call options Net borrowing VND606bn in loans from bank
4Q20	Collect 793bn from transferring Vietjet Plaza building Collect VND391bn from liquidating long-term assets Issue VND311bn in 3-year-bond with 9% interest rate Net borrowing VND750bn in loans from bank
1Q21	Issue VND307bn in 3-year-bond with 9% interest rate Net paying VND706bn in loans from banks VJC recorded profit of VND1,358bn from transferring real estate projects but we haven't seen cash flow from this activity yet
2Q21	In 2Q21, VJC has successfully sold 17.7m of its treasury shares for VND2,350bn .

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Thanks to VJC's necessary actions since the start of Covid-19, the liquidity of VJC's stock is always guaranteed although the aviation industry is severely affected. VJC's cash ranges from VND2,000bn to VND3,000bn during the pandemic, which is sufficient for its operation while D/E ratio always remains at

strong level of 0.66-0.76, which is ample to increase credit for financing the fleet expansion when the international border is re-opened.

Figure 7: Cash is sufficient for operations while leverage remains low since the pandemic



Source: VNDIRECT RESEARCH, COMPANY REPORTS

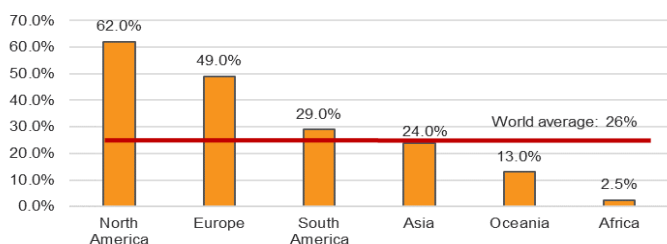
With the additional expected cash flow of VND3,708bn from selling treasury shares and transferring real estate projects estimated to be collected in 2Q21F, we believe VJC' liquidity and financial health to continue to improve, which will help VJC stay strong through the pandemic and continue to expand its fleet when the time comes.

Inevitable recovery ahead

There are many grounds to believe that Vietnam may soon re-open the international skies:

- Currently, the biggest vaccination campaign in global history is underway. By 03/06/2021, more than 1.98 billion Covid-19 vaccine doses have been administered, enough to fully vaccinate 12.9% of the global population. Based on batches of vaccine expected to be received, we expect 14.66%/26.02% of Vietnam population to be fully vaccinated by the end of 3Q21/4Q21.

Figure 8: Vaccination rates by continents (doses administered per 100 people by 03/06/2021)



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 9: Vietnam's Covid-19 vaccination (m doses)

	1Q21	2Q21	3Q21	4Q21
Pfizer*			15.50	15.50
AstraZeneca (VNVC)	0.12	4.24	12.36	
AstraZeneca (COVAX)	1.37	2.80	12.95	12.95
Total doses administered (not include Pfizer, 15% discount to reflect number of actual delivery may be less than planned)	1.26	5.98	21.51	22.29
% population fully vaccinated (accumulated)	0.64%	3.70%	14.66%	26.02%

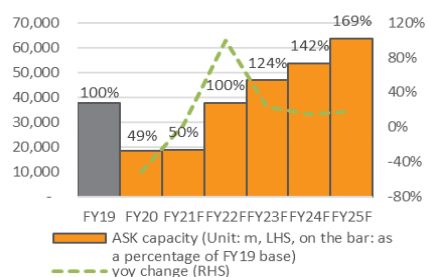
Source: VNDIRECT RESEARCH, Ministry of Health

- Most recent, HVN (Vietnam Airlines) has utilized the International Air Transport Association (IATA) Travel Pass mobile application while VJC will also deploy the application soon. The IATA's Travel Pass enables passengers to share the test and vaccination certificates in order to securely manage their travel in line with government's guideline. This is a crucial step to the recovery of international aviation: facilitating smooth travel for passengers in a verifiable manner while ensuring government entry requirements for Covid-19 testing or vaccination are met.

Along with higher vaccination rates in Vietnam's key international air traffic markets, we believe Vietnam may re-open the international skies by end-3Q21 as expected. Hence, we forecast:

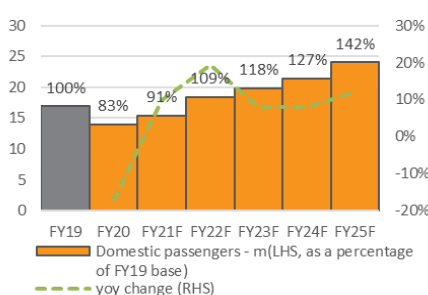
- VJC's international pax will begin to recover since 4Q21F with FY21F international pax might be the same as in FY20. The international pax will jump significantly in FY22F with a volume growth of 650% yoy.
- The vaccination would also help VJC's domestic pax to increase 10.0%/19.4% yoy in FY21-22F.
- As a result, we expect total ASK (Available seat kilometers) capacity to increase 2.9%/99.5% yoy in FY21-22F.

Figure 10: VJC's medium-term ASK capacity, in our estimates



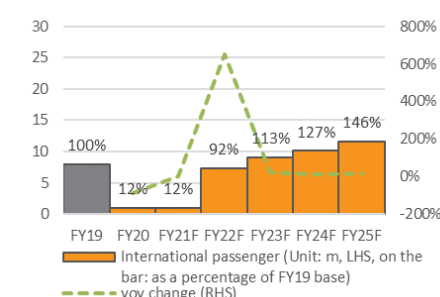
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 11: VJC's medium-term domestic passengers, in our estimates



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 12: VJC's medium-term international passengers, in our estimates



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Earnings forecast revision

Figure 13: Changes in forecast

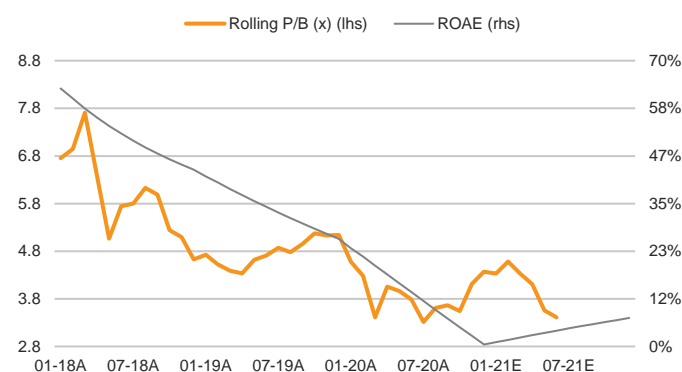
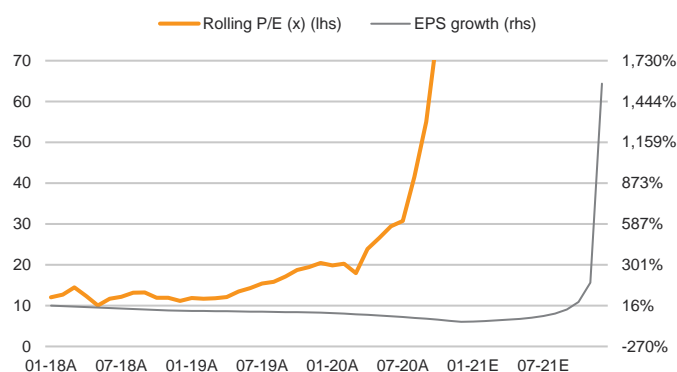
	FY20	FY21F			FY22F			FY23F		
		Old forecast	New forecast	Changes	Old forecast	New forecast	Changes	Old forecast	New forecast	Changes
Total passengers (m)	15.00	20.04	16.40	-18.2%	26.33	25.76	-2.2%	29.00	28.93	-0.3%
Domestic (m)	14.02	17.05	15.42	-9.5%	18.41	18.41	0.0%	19.89	19.89	0.0%
International (m)	0.98	2.99	0.98	-67.2%	7.92	7.35	-7.2%	9.11	9.04	-0.8%
Net revenue (VNDbn)	18,210	42,961	32,802	-23.6%	59,722	56,368	-5.6%	87,386	85,646	-2.0%
Core revenue (VNDbn)	15,086	31,301	19,330	-38.2%	43,750	40,515	-7.4%	50,991	49,610	-2.7%
S&LB revenue (VNDbn)	3,124	11,660	13,472	15.5%	15,972	15,853	-0.7%	36,395	36,036	-1.0%
Core GM	-13.1%	5.1%	-13.4%	-18.6% pts	11.2%	9.3%	-1.9% pts	11.7%	8.4%	-3.3% pts
S&LB GM	23.8%	14.9%	26.7%	11.8% pts	14.9%	14.9%	0.0% pts	14.9%	14.9%	0.0% pts
Financial income (VNDbn)	1,033	430	1,686	292.1%	597	564	-5.6%	874	856	-2.0%
Financial expenses (VNDbn)	559	915	644	-29.6%	1,222	930	-23.9%	1,657	1,406	-15.1%
Net other income (VNDbn)	2,519	161	125	-22.6%	224	214	-4.4%	327	325	-0.5%
Net profit	70	1,353	1,165	-13.9%	4,022	3,887	-3.4%	6,898	6,739	-2.3%
EPS (VND)	134	2,583	2,187	-15.3%	7,678	7,177	-6.5%	13,167	12,443	-5.5%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

We change our forecasts on VJC's business as followed:

- We lower FY21F domestic pax by 9.5% as the current Covid-19 outbreak would reduce domestic air travel demand in FY21. We maintain VJC's domestic pax in FY22-23F as we expect the domestic to recover strongly thanks to the vaccination.
- We lower FY21F international pax by 67.2% in FY21F and 7.2%/0.8% in FY22-23F as the Covid-19 vaccines distribution has been lopsided and Vietnam is getting vaccines slower than countries and regions with high income. This will constrain the reopening of international flights and reduce VJC's international pax sharply in FY21F.

- As a result, we lower core revenue forecast by 38.2% in FY21F and 7.4%/2.7% in FY22-23F, which causes core GM narrow by 18.6% pts in FY21F and 1.9%/3.3% in FY22-23F.
- However, we increase S&LB GM by 11.8% pts to 26.7% in FY21F, equivalent to S&LB GM in 1Q21.
- We increase FY21F financial income by 292.1% to reflect VJC's transferring real estate projects in 1Q21.
- Financial expenses decreased 29.6%-15.1% in FY21-23F as additional expected cash flow from selling treasury shares and transferring real estate projects could help VJC to lower the leverage ratio.
- We upward adjust VJC's total share outstanding by 3.3% as VJC has successfully sold its treasury shares in Apr-2021.
- Overall, we lower FY21F EPS by 15.3% and lower FY22-23F EPS by 6.5%/5.5%.

Valuation

Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	18,220	32,802	56,368
Cost of sales	(19,632)	(31,804)	(50,232)
Gen & admin expenses	(375)	(258)	(541)
Selling expenses	(764)	(741)	(1,552)
Operating profit	(2,551)	(1)	4,043
Operating EBITDA	(2,409)	127	4,199
Depreciation and amortisation	(141)	(127)	(156)
Operating EBIT	(2,551)	(1)	4,043
Interest income	970	1,686	564
Financial expense	(419)	(644)	(930)
Net other income	1,773	125	214
Income from associates & JVs	(18)	0	0
Pre-tax profit	(244)	1,166	3,891
Tax expense	313	0	0
Minority interest	(0)	(1)	(4)
Net profit	69	1,165	3,887
Adj. net profit to ordinary	69	1,165	3,887
Ordinary dividends	0	0	0
Retained earnings	69	1,165	3,887

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	2,926	5,670	6,052
Short term investments	604	605	611
Accounts receivables	20,896	13,072	27,318
Inventories	712	446	746
Other current assets	244	325	566
Total current assets	25,383	20,117	35,294
Fixed assets	850	922	999
Total investments	198	198	198
Other long-term assets	18,765	21,396	28,989
Total assets	45,197	42,633	65,479
Short-term debt	10,095	6,617	13,869
Accounts payable	3,422	1,701	2,850
Other current liabilities	6,317	6,649	10,374
Total current liabilities	19,834	14,967	27,093
Total long-term debt	1,347	1,296	2,715
Other liabilities	9,038	7,857	13,164
Share capital	5,416	5,416	5,416
Retained earnings reserve	11,589	12,754	16,641
Shareholders' equity	14,978	18,510	22,501
Minority interest	1	2	6
Total liabilities & equity	45,197	42,633	65,479

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	(244)	1,166	3,891
Depreciation & amortisation	141	127	156
Tax paid	(255)	0	0
Other adjustments	(382)	20	98
Change in working capital	(2,472)	6,622	(9,915)
Cash flow from operations	(3,211)	7,934	(5,771)
Capex	(294)	(4,122)	(2,670)
Proceeds from assets sales	397	0	0
Others	1,040	113	151
Other non-current assets changes	0	0	0
Cash flow from investing activities	1,143	(4,009)	(2,519)
New share issuance	0	0	0
Shares buyback	0	2,347	0
Net borrowings	(369)	(3,529)	8,672
Other financing cash flow	0	0	0
Dividends paid	0	0	0
Cash flow from financing activities	(369)	(1,182)	8,672
Cash and equivalents at beginning of period	5,364	2,926	5,670
Total cash generated	(2,438)	2,743	382
Cash and equivalents at the end of period	2,926	5,670	6,052

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	0.4%	3.6%	6.9%
Asset turnover	0.39	0.75	1.04
ROAA	0.1%	2.7%	7.2%
Avg assets/avg equity	3.15	2.62	2.64
ROAE	0.5%	7.0%	19.0%
Efficiency			
Days account receivable	172.7	61.1	74.6
Days inventory	13.3	5.1	5.4
Days creditor	63.8	19.5	20.7
Fixed asset turnover	16.91	37.01	58.69
ROIC	0.3%	4.4%	9.9%
Liquidity			
Current ratio	1.3	1.3	1.3
Quick ratio	1.2	1.3	1.3
Cash ratio	0.2	0.4	0.2
Cash cycle	122.1	46.7	59.3
Growth rate (yoy)			
Revenue growth	(64.0%)	80.0%	71.8%
Operating profit growth	(161.0%)	(100.0%)	
Net profit growth	(98.2%)	1,598.2%	233.7%
EPS growth	(98.2%)	1,569.9%	228.2%

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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