December, 2018

VICONSHIP JSC (HSX: VSC)

Maintaining Impressive Utilization Rate

(VND Bn)	Q3-FY18	Q2-FY18	+/- qoq	Q3-FY17	+/- yoy
Net revenue	448	430	4%	352	27%
PAT	72	87	-17%	63	14%
EBIT	97	119	-18%	92	6%
EBIT margin	21.7%	27.7%	-600 bps	26.1%	-400 bps

Source: VSC, RongViet Securities

9M 2018: Improvement because of the VIP Green Port

- Container throughput surged in both VIP Green and Green Port, +43% yoy and +13% yoy, respectively.
- New logistics center, GIC, came into operation in 3Q2017 and increased capacity of VIP Green Port.

2019 outlook: Lower growth momentum

We expect that the volume growth will slow down as the VIP Green Port is reaching its maximum capacity, while the Green Port has limited potential growth due to a location that does not provide much advantages. We estimate total container throughput in 2018 and 2019 will be 1,048K TEU (+31%) and 1,056K TEU (+1% YoY).

On the other hand, we expect the new circular that regulates higher range of international container handling tariffs to apply in Hai Phong next year. This will be an upside potential for VSC.

Valuation and recommendation:

In our view, VSC is one of the good operators in the seaport sector because of its strong customer relationship, management capability, healthy balance sheet (strong operating cash flow, stable dividends, decreasing debts in VIP Green port). Above all, it's trading at cheap valuations, current PE is 7.3x and PB of 1.3x. On the downside, constraint in capacity may affect the prospects of the company.

We estimate 2018 and 2019 PATMI to be VND 294 bn (+24% YoY) and VND 315 bn (+7% YoY), respectively. This translates to a 2018 and 2019 EPS of VND 5,870 and VND 6,280, respectively. We assume VSC will transfer 5% of its stake in VIP Green Port to Evergreen in 2019.

*Applying a target PE multiple of 7.5x, we arrive at a target price of **VND 47,000.** We expect a 2019 cash dividend of VND 2,000, which means the total return would be 17%. We recommend **ACCUMULATING** the stock.*

ACCUMULATE +17%

Target price (VND)	47,000
CMP (VND)	42,000
Cash dividend (VND)*	**2,000**

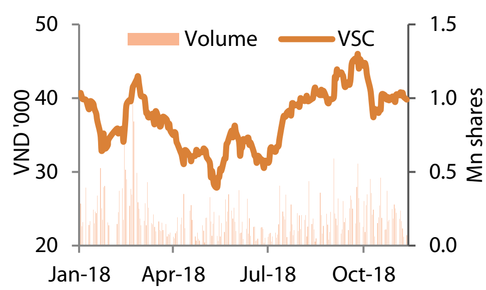
** Expected in the next 12 months*

Stock info

Sector	Industrials
Market Cap (VND billion)	1,974
Current Shares O/S	50,113,000
Avg. Daily Volume (in 20 sessions)	204,903
Free float (%)	88.6
52 weeks High	46,000
52 weeks Low	27,896
Beta	0.8

	FY2017	Current
EPS	4,735	5,750
EPS growth (%)	-14	+20
Adjusted EPS	4,735	5,750
P/E	8.6	7.3
P/B	1.4	1.3
EV/EBITDA	4.7	3.9
Cash dividend (VND)	2,000	2,000
ROE (%)	15.4	15.6

Price performance



Major Shareholders (%)

Franklin Resources Inc	12.6
KWE Beteiligungen AG	10
FOUM ONE VCG PARTNERS VN F	4.9
Foreign ownership room (%)	10.7

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Exhibit 1: 3Q 2018 results

(VND Bn)	3Q-FY18	2Q-FY18	+/- (qoq)	3Q-FY17	+/- (yoy)	9M-FY18	+/-(yoy)
Net revenue	448	430	4.3%	352	27.3%	1,244	30%
Gross profit	121	144	-15.8%	113	7.2%	374	24%
SG&A	24	25	-3.6%	21	12.5%	68	19%
Operating profit	97	119	-18.4%	92	6.0%	307	32%
EBITDA	155	175	-11.7%	143	8.5%	475	22%
EBIT	97	119	-18.4%	92	6.0%	307	25%
Financial expense	8	9	-8.9%	13	-34.1%	28	-26%
Interest expense	8	9	-9.0%	13	-34.1%	28	-26%
D&A	57	56	2.4%	51	13.0%	168	16%
Nonrecurring items (*)							
Extraordinary items (*)							
PBT	93	113	-17.3%	81	14.8%	288	29%
PAT	72	87	-16.8%	63	14.0%	223	33%
(*) Adjusted PAT	72	87	-16.8%	63	14.0%	223	33%

Source: VSC, Rong Viet Securities

Exhibit 2: 3Q 2018 performance analysis

Particulars	3Q-FY18	2Q-FY18	+/- (qoq)	3Q-FY17	*+/- (yoy)*
Profitability ratios (%)					
Gross margin	27.1%	33.5%	-650 bps	32.2%	-510 bps
EBITDA margin	34.5%	40.8%	-630 bps	40.5%	-600 bps
EBIT margin	21.7%	27.7%	-600 bps	26.1%	-440 bps
Net margin	16.1%	20.2%	-410 bps	18.0%	-190 bps
Adjusted net margin	16.1%	20.2%	-410 bps	18.0%	-190 bps
Turnover *(x)					
-Inventories	60	54	6.1	75	-14.6
-Receivables	8.2	7.9	0.3	7.3	0.9
-Payables	1	1	0.1	1	0.4
Leverage (%)					
Total debt/ equity	15.7%	15.4%	30 bps	19.6%	-390 bps

Source: VSC, (*) Annualized turnover

Exhibit 3: 2018-2019 performance forecast

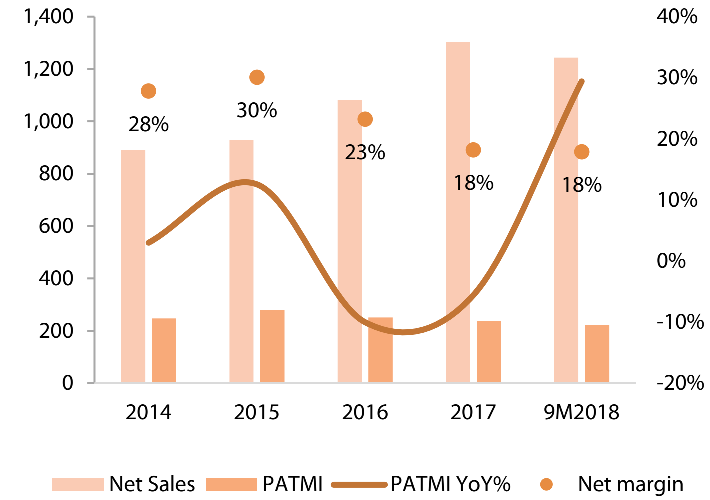
(VND Bn)	FY18	+/-(YoY)	FY19
Revenue	1,642	26%	1,700
Gross profit	497	22%	519
EBIT	405	22%	424
PATMI	294	24%	315

Source: Rong Viet Securities.

Update

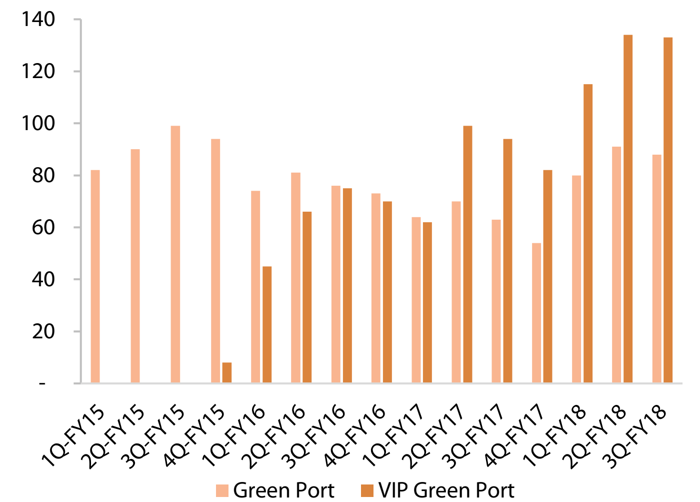
VSC's performance continued to improve in terms of revenue (from vessel calls and volume) and bottom line's growth. However, lower pricing has led to lower margins.

Figure 1: 9M2018 performance



Source: VSC

Figure 2: Number of vessel calls, quarterly



Source: Maritime administration of Haiphong, Rong Viet Securities

Green Port: Shipping lines are moving downstream but recent increase in volume is a positive sign. At the end of 3Q2018, Green Port served seven calls per week, up two calls per week yoy. This increase came from: (1) new weekly service, Chu Lai Haiphong Express, from APL and (2) one weekly call increase from joint services of Korea Shipping Partnership (Dongjin, Sinokor and Heung A) that targets intra-Asia and Southeast Asia services. For domestic liners, Green port started to serve Vietsun Logistics on a two-weekly basis since Dec 2017. Overall, Green Port's 9M2018 container throughput reached 248K TEU (+13% yoy).

VIP Green Port (UPCOM: VGR) was servicing 10-11 calls weekly in 9M2018, increasing from an average of 6.5 calls last year. Evergreen, customer and shareholder in VGR, contributed 27% of total revenue to this port. They also increased one more call to VGR. Yang Ming also launched a new China-Vietnam Express service and dock at VGR. This is the joint service with TS Lines and Maersk's intra-Asia specialist, Sealand. Besides, Maersk also increased one call, which previously docked at Tan Vu Port. VGR's 9M2018 throughput was 472K TEU (+38% yoy).

2019 Outlook

VIP Green Port, the main profit contributor will face overcapacity

With the robust growth, VGR quickly reached its designed capacity after two years of operation. Two wharfs of VGR started to experience overcapacity issue. Currently, this port has to hire some nearby ports, such as PTSC Dinh Vu, Nam Hai Dinh Vu and Nam Dinh Vu, due to same vessels arrivals schedule. The 10-ha depot yard GIC Logistics center (VSC owns 66%) was set up in late 2017 to help mitigate this overcapacity problem. We expect that GIC can increase its container throughput of VIP Green Port up to 800,000 TEU in 2019 (100K more TEU comparing to our VGR's 2018 estimated total throughput).

Minor competition from Lach Huyen HICT

We believe competition from the new deep-water port in Lach Huyen, HICT, is negligible as shipping lines are losing money when berthing at this port due to low volume. Haiphong is still a small market compared to other regional hubs and it will take time for shipping lines to fulfill enough cargo for panamax-sized mother ships. Furthermore, cargo owners don't want to receive cargo at HICT because they have to travel a longer distance, up to 40km, comparing to ports cluster in the Dinh Vu zone.

Potential upside from higher international container handling tariffs

According to the circular draft of the Ministry of Transport, floor price for international container handling services of seaports in Haiphong will increase by 10%. We expect this to be effective in 2019. The main beneficiaries will be downstream terminals, which mainly serve international clients. With more than 70% of VGR's revenue from container handling, we think that at least the ASP will not be lower in 2019 if the draft is approved.

Appendix

Table 1: Throughput assumptions

Unit: '000 TEU	2017	2018	YoY	2019	YoY
Total throughput (exclude PTSC)	**800**	**1,048**	**+31%**	**1,056**	**1%**
Green Port	283	338	+20%	312	-8%
VIP Green Port	517	710	+37%	744	+5%
Hire PTSC port	90	120	33%	140	17%

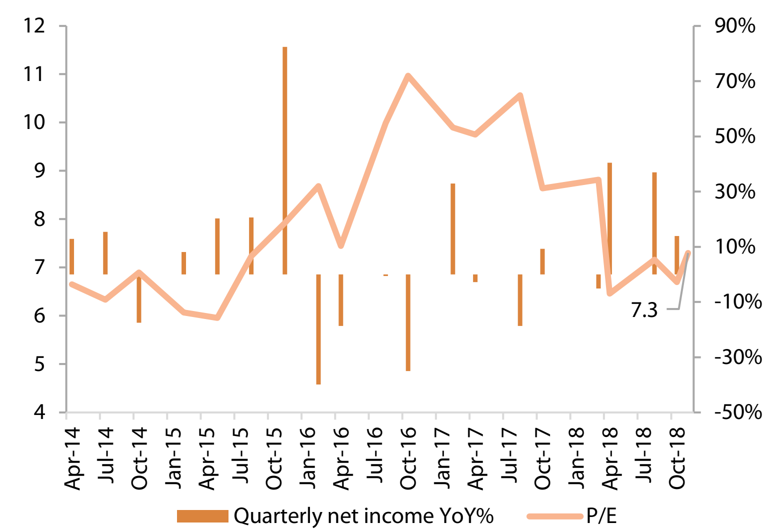
Source: Rong Viet Securities

Table 2: Peers

Name	Country	EV/EBITDA	P/E	P/B	ROE% T12M	ROA % T12M	Financial Leverage	GPM% T9M	Net margin % T9M
SHANGHAI INTERNATIONAL POR-A	CH	n.a	10.9	1.8	13	7	2.1	36	60
XIAMEN INTERNATIONAL PORT-H	CH	9	9.7	0.5	n.a	n.a	4.1	n.a	2
DALIAN PORT (PDA) CO LTD-H	CH	n.a	22.0	0.7	3	2	1.9	16	4
NINGBO ZHOUSHAN PORT CO LT-A	CH	n.a	17.4	1.3	7	4	1.8	20	7
QINGDAO PORT INTERNATIONAL-H	CH	8	7.0	0.9	n.a	n.a	1.9	n.a	n.a
GUANGZHOU PORT CO LTD-A	CH	n.a	29.4	2.1	7	3	1.8	21	6
COSCO SHIPPING PORTS LTD	HK	n.a	10.3	0.6	10	6	1.7	27	30
WESTPORTS HOLDINGS BHD	MA	15	21.2	5.8	30	14	2.2	41	37
HUTCHISON PORT HOLDINGS TR-U	SI	10	21.9	0.4	3	1	2.7	61	8
GEMADEPT CORP	VN	12	4.4	1.5	7	4	1.7	26	17
DINH VU PORT	VN	4	6.2	1.6	30	26	1.1	42	38
CAT LAI PORT JSC	VN	5	9.7	1.4	13	12	1.2	52	39
PORT OF HAI PHONG JSC	VN	4	9.8	1.1	12	8	1.5	32	18
VIETNAM CONTAINER SHIPPING	**VN**	**4**	**7.3**	**1.3**	**17**	**10**	**1.6**	**31**	**19**
Average		**8**	**13.8**	**1.5**	**12**	**8**	**2.0**	**34**	**22**
Median		**9**	**10.3**	**1.3**	**10**	**6**	**1.8**	**32**	**17**

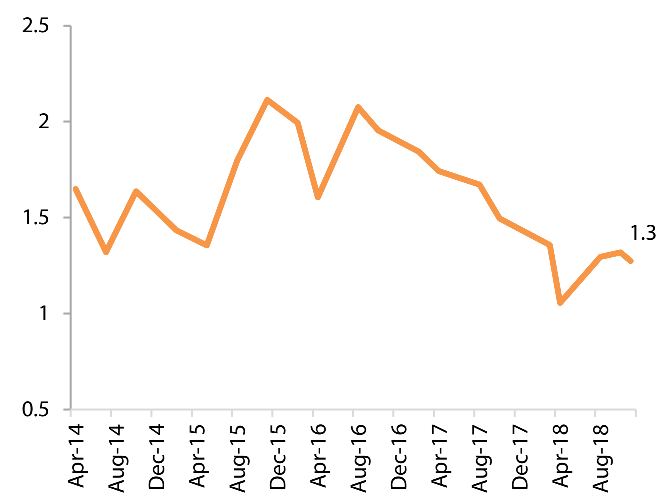
Source: Bloomberg

Figure 3: PE history and quarterly net income growth



Source: Bloomberg

Figure 4: PB History



Source: Bloomberg

VND in billions

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	1,082	1,303	1,642	1,700
COGS	686	895	1,145	1,181
Gross profit	**396**	**408**	**497**	**519**
Selling expense	11	15	26	27
G&A expense	53	61	66	68
Finance income	17	10	11	17
Finance expense	44	50	36	21
Other profits	1	0	2	2
Gain/(loss) from JVs	6	6	5	5
PBT	**311**	**298**	**386**	**428**
Prov. of tax	49	35	39	39
Minority's interest	11	27	53	74
PAT to equity S/H	**251**	**237**	**294**	**315**
EBIT	331	332	405	424

%

Financial ratio	FY2016	FY2017	FY2018E	FY2019F
Growth (%)				
Revenue	16.6	20.4	26.0	3.6%
Operating income	23.8	4.1	10.7	4.4%
EBITDA	3.1	0.2	22.0	4.7%
PAT	-10.0	-5.6	23.9	7.1%
Total assets	14.6	3.4	2.8	5.5%
Equity	6.8	8.9	13.2	12.9%
Profitability (%)				
Gross margin	36.6	31.3	30.3	30.6%
EBITDA margin	47.0	40.6	35.7	36.0%
EBIT margin	30.6	25.5	24.7	25.0%
Net margin	23.2	18.2	17.9	18.5%
ROA	10.5	9.6	11.5	11.7%
ROE	15.5	15.5	17.7	17.6%
Efficiency (x)				
Receivable turnover	8.3	8.4	8	8
Inventory turnover	74.1	67.0	67	67
Payable turnover	3.5	4.2	4	4
Liquidity (x)				
Current	2.4	1.5	2.8	3.7
Finance Structure (%)				
Total debt/equity	47.7	35.4	17.5	6.9
Current debt/equity	4.3	8.1	0.0	0.0
Long-term Debt/equity	43.4	27.3	17.5	6.9

VND in billions

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	331	212	447	718
Short-term investments	32	49	10	10
Accounts receivable	130	155	196	203
Inventories	9	13	17	18
Other current assets	102	62	78	81
Property, plant & equipment	1,215	1,266	1,105	987
Acquired intangible assets	11	11	12	12
Long-term investments	105	112	117	122
Other non-current assets	461	598	568	538
Total assets	**2,397**	**2,479**	**2,550**	**2,689**
Accounts payable	199	211	270	279
Short-term borrowings	58	120	0	0
Long-term borrowings	585	400	290	130
Other non-current liabilities	0	0	0	0
Bonus and welfare fund	40	38	32	35
Technology-science, dev. fund	0	0	0	0
Total liabilities	**882**	**769**	**593**	**444**
Common stock and APIC	492	537	537	537
Treasury stock (enter as -)	0	0	0	0
Retained earnings	258	285	317	352
Other comprehensive income	0	0	0	0
Inv. and dev. fund	**599**	**647**	808	988
Total equity	**1,349**	**1,469**	**1,662**	**1,877**
Minority interest	**167**	**241**	**294**	**368**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019E
EPS (VND)	5,014	4,735	5,870	6,280
P/E (x)	8.4	8.6	7.2	6.7
BV (VND)	29,602	29,307	33,174	37,646
P/B (x)	1.4	1.2	1.3	1.1
DPS (VND/cp)	1,000	2,000	2,000	2,000
Dividend yield (%)	5	4.6	5	5

Valuation model	*Price*	*Weight*	*Average*
PE	47,000	100	47,000
Target price (VND)			47,000

Valuation history	*Price*	*Recommendation*	*Period*
November 2016	58,900	Buy	Long term
April 2016	55,400	Accumulate	Long term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20	5 to 20	-20 to -5	<-20

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