RONGVIET SECURITIES

April, 2018

# Hang Xanh Motors Service JSC (HSX:HAX)

## Slowdown Is Temporary

| (VND Bn) | Q4-FY17 | Q3-FY17 | +/- QoQ | Q4-FY16 | +/- YoY |
|---|---|---|---|---|---|
| Net revenue | 1,074 | 945 | 13.7% | 1,006 | 6.8% |
| PAT | 26 | 39 | -34.3% | 16 | 63.5% |
| EBIT | 44 | 60 | -26.2% | 24 | 83.4% |
| EBIT margin | 4.1% | 6.3% | -222bps | 2.4% | 172bps |

*Source: HAX, Rong Viet Securities*

**Q4 2017 performance: Revenue slowdown, profits grew**

Compared to previous quarters, with top-line average growth rate of 50%, the 6.8% growth in Q4 2017 looks quite poor. Considering the strong growth of Mercedes-Benz cars sales in Vietnam during the same period last year (+27.9% YoY), it is likely that HAX suffered competitive pressure from other dealers.

However, HAX's NPAT saw an impressive growth of 64%, mainly reflecting the company's performance in 9M 2017, with sales growth of >50% YoY.

**Q1 2018 Outlook: Slowdown is likely to continue**

In Q1 2018, HAX said that they sold 500 cars. Based on its market share and the growth rate of total Mercedes-Benz car sales, we estimate HAX's sales growth rate to be approximately 4%. With unchanged retail prices, HAX's top line will continue to experience a slowdown for the second quarter in a row.

As for the bottom line, based on HAX's sales in 2017 and other criteria, we estimate HAX will get an 'incentive' of around VND 50.0 Bn (+10% YoY) from Mercedes-Benz Vietnam (MBV). We forecast NPAT, which depends heavily on MBV's incentive, to reach VND 31.3 Bn (+12% YoY). Such a growth in earnings would be disappointing, given HAX's historical earnings growth rate of ~24%.

### *Valuation and Recommendation*

*Although Mercedes-Benz car sales saw a slowdown (+4% versus the average growth rate of 20%-30%), we still believe that the luxury car segment in Vietnam as ample room to grow due to the rapid growth of the middle class. Aggressive expansion plans by Daimler, which aim to raise the number of dealerships from the current 14 to 20 by 2020, also indicate the German company's confidence in the market.*

*We expect HAX will be able to expand its current network by 1 or 2 more dealerships in 2018. Based on this assumption, we project HAX will sell 2,600 cars (+35% in 2018), leading to growth rates of 34% in its revenue and NPAT.*

*Recent selling pressure in the stock came mainly from the slowdown of Mercedes-Benz sales. It makes the stock's current price attractive. Our target price is **VND29,500/share, 51%** higher than the closing price on 16 April 2018. We have **BUY rating** on the stock.*

## BUY

| | |
|---|---|
| CMP (VND) | 19,600 |
| Target Price (VND) | 29,500 |
| Cash Dividend (VND)* | - |

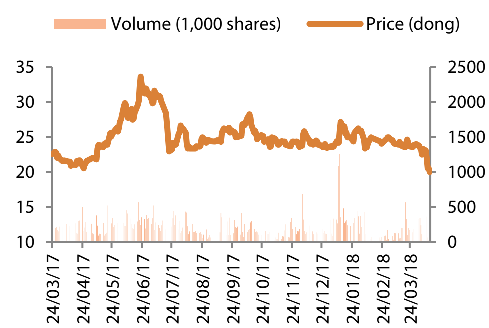
** Expected in the next 12 months*

**Stock Info**

| | |
|---|---|
| Sector | Automobile & Parts |
| Market Cap (VND Bn) | 583.5 |
| Current Shares O/S | 35,013,649 |
| Beta | 0.73 |
| Free Float (%) | 56.9 |
| 52-week High | 33,625 |
| 52-week Low | 19,600 |
| Avg. Daily Volume (20 sessions) | 117,100 |

| | FY2017 | Current |
|---|---|---|
| EPS | 3,610 | 3,610 |
| EPS Growth (%) | -34.1 | -34.1 |
| Adjusted EPS | 2,407 | 2,407 |
| P/E | 9.7 | 9.7 |
| P/B | 2.2 | 2.2 |
| EV/EBITDA | 33.5 | 33.5 |
| Cash Dividend | 1,500 | 1,500 |
| ROE (%) | 24.5 | 24.5 |

**Price performance**




**Major Shareholders (%)**

| | |
|---|---|
| Mr. Do Tien Dung | 23.86 |
| *Remaining foreign room (%)* | 27.81 |

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**Exhibit 1: Q4 2017 Results**

| (VND bn) | Q4-FY17 | Q3-FY17 | +/- QoQ | Q4-FY16 | +/- YoY | FY17 | +/-(YoY) |
|---|---|---|---|---|---|---|---|
| Net revenue | 1,074 | 945 | 13.7% | 1,006 | 6.8% | 3,833 | 33.1% |
| Gross profit | 41 | 55 | -25.7% | 29 | 41.1% | 146 | 46.3% |
| SG&A | 30 | 33 | -11.7% | 33 | -9.3% | 125 | 51.9% |
| Operating income | 11 | 22 | -47.3% | -4 | -425.0% | 21 | 19.8% |
| EBITDA | 51 | 60 | -16.4% | 29 | 76.1% | 175 | 41.4% |
| EBIT | 44 | 60 | -26.2% | 24 | 83.4% | 146 | 34.7% |
| Financial expenses | 12 | 10 | 13.5% | 4 | 186.3% | 36 | 190.8% |
| *- Interest Expenses* | 12 | 10 | 17.5% | 4 | 196.5% | 36 | 200.0% |
| Dep. and amortization | 6 | 1 | 1039.0% | 5 | 37.9% | 29 | 89.1% |
| Non-recurring items (*) | | | | | | | |
| Extraordinary items (*) | | | | | | | |
| PBT | 32 | 50 | -35.2% | 20 | 60.6% | 110 | 14.1% |
| PAT | 26 | 39 | -34.3% | 16 | 63.5% | 84 | 8.0% |
| (*) Adjusted PAT | 26 | 39 | -34.3% | 16 | 63.5% | 84 | 8.0% |

*Source: HAX, RongViet Securities*

**Exhibit 2: Q4 2017 Analysis**

| Particulars | Q4-FY17 | Q3-FY17 | +/- QoQ | Q4-FY16 | +/- YoY |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| Gross Margin | 3.8% | 5.8% | -2.0% | 2.9% | 0.9% |
| EBITDA Margin | 4.7% | 6.4% | -1.7% | 2.9% | 1.9% |
| EBIT Margin | 4.1% | 6.3% | -2.2% | 2.4% | 1.7% |
| Net Margin | 2.4% | 4.2% | -1.8% | 1.6% | 0.8% |
| Adjusted Net Margin | 2.4% | 4.2% | -1.8% | 1.6% | 0.8% |
| **Turnover *(x)** | | | | | |
| -Inventories | 6 | 5 | 0.8 | 9 | -3.3 |
| -Receivables | 12.7 | 15.1 | -2.4 | 25.7 | -12.9 |
| -Payables | 27 | 40 | -12.9 | 20 | 7.3 |
| **Leverage (%)** | | | | | |
| Total Debt/ Equity | 278.0% | 317.1% | -39.1% | 180.8% | 97.1% |

*Source: HAX, (*) Annualized turnover*

**Exhibit 3: Q1 2018 Forecast**

| Particulars (VND Bn) | Q1-2018 | +/- QoQ | +/- YoY |
|---|---|---|---|
| Revenue | 811 | -4.8% | 4.0% |
| Gross profit | 25 | 10.8% | 5.1% |
| EBIT | 46 | 180.1% | 14.4% |
| NPAT | 31 | 189.4% | 11.7% |

*Source: HAX, RongViet Securities*

**Updates:**

**Opportunities from car rental segment**

HAX started renting cars from mid-2017, with revenues and profits mainly from its subsidiary, PTM JSC. (Upcom: PTM). It is coincidental that 2017 is the first year that PTM posted profit in 6 years. The company made VND 3.9 Bn, contributing roughly to 5% of HAX's consolidated earnings. In the future, we expect that this segment will play an important role in HAX's operation due to two reasons:

Firstly, the car rental market is expected to grow over the next five years. According to Euromonitors, over the last 5 years, car rental sales in Vietnam was roughly VND 1Tn (with CAGR of 16% in the period 2012-2017). The organization also expects that the market will keep growing at 8%/year to reach VND 1.5 Tn in 2025.

Secondly, there is ample room for small players in the market. The car rental market in Vietnam is fragmented, mainly run by small operators. Most of these players mainly cater to low-end renters. HAX, who rents Mercedes-Benz cars, is among one of the outliers in the market and we expect the company can expand its rental activity because serious competition is not there.

In 2018, we expect PTM to earn VND 12 Bn, which would account for 10% of HAX's consolidated earnings.

**Indirectly benefiting from new regulations**

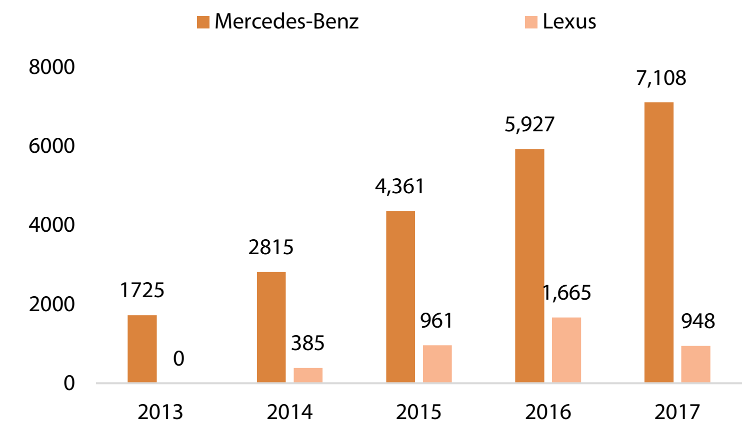
We expect a supply shortage of Lexus cars (Mercedes-Benz's largest rival) in 2018. Considering that most of Lexus cars' come from Japan, and the Japanese authorities have shown no intention of issuing the VTA certificates, Lexus dealers may face a shortfall in the short run. This can help Mercedes-Benz expands its market share.

**Cash dividend is not sustainable**

2017 was the first time that HAX paid cash dividends in 10 years. However, we do not think the cash dividend will be sustainable, considering that:

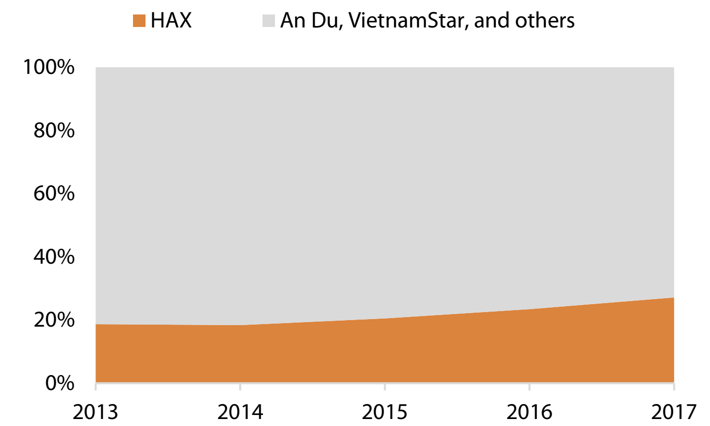
(1) HAX's operating cash flow has been negative since 2015, mainly because of high growth of its inventory;
(2) High capex demand to meet the expansion plan of MBV (each dealership costs USD 3-5 Mn, or VND 70-115 Bn).

## Mercedes and Lexus sales in Vietnam



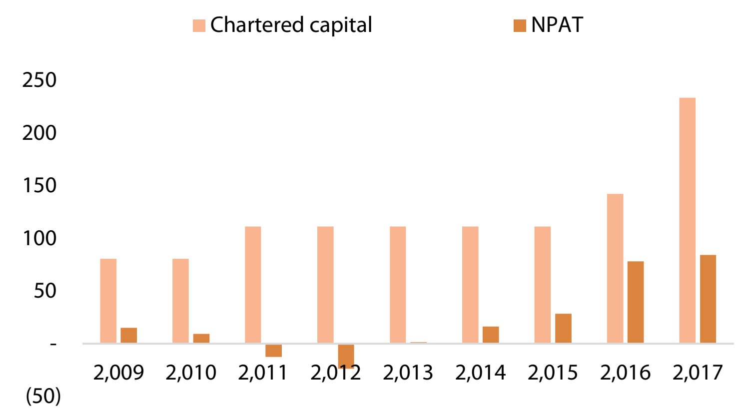

*Source: VAMA, RongViet Securities*

## HAX's market share



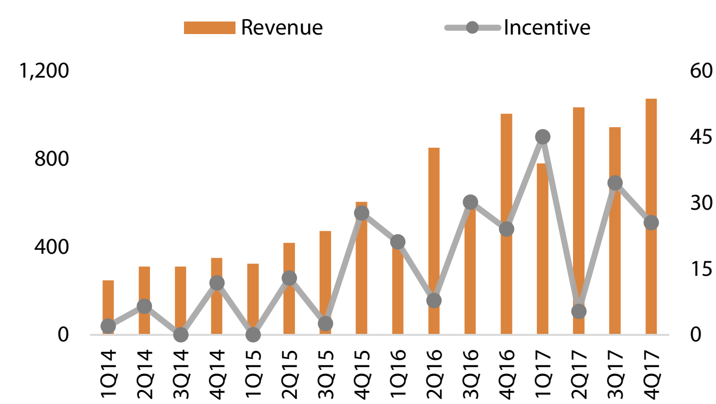

*Source: HAX, VAMA, RongViet Securities*

## Changes in PAT and capital of HAX since 2006 (VND Bn)



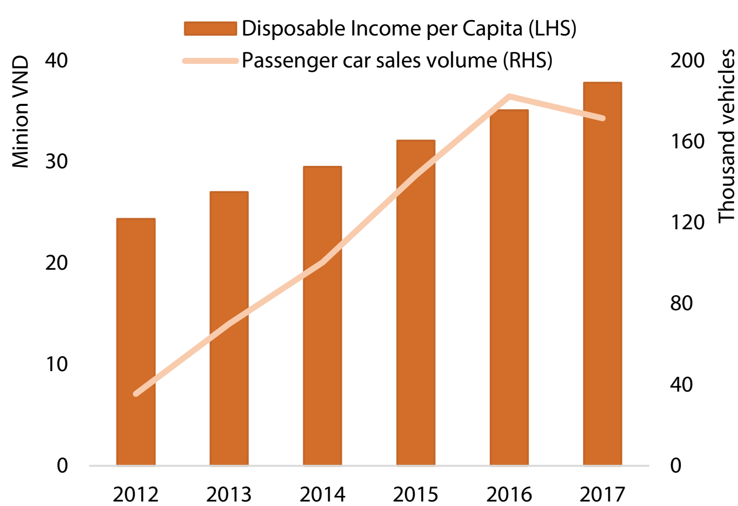

*Source: HAX, RongViet Securities*

## HAX's revenues from selling cars and incentives from MBV



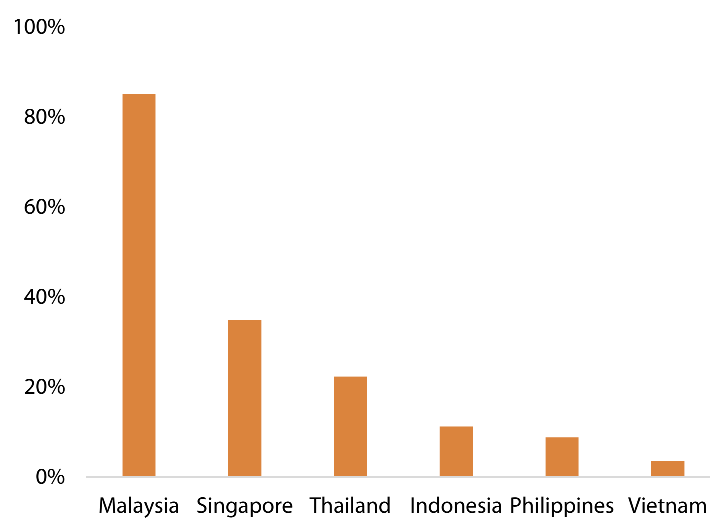

*Source: HAX, RongViet Securities*

## Average annual disposable income and total vehicle sales




*Source: Euromonitor, VAMA, RongViet Securities*

## Car ownership rates in Vietnam and other ASEAN countries




*Source: Euromonitor*

VND Bn

| INCOME STATEMENT | FY2016 | FY2017 | FY2018E | FY2019F |
|---|---|---|---|---|
| Revenue | 2,880 | 3,833 | 5,139 | 6,695 |
| COGS | 2,780 | 3,688 | 4,938 | 6,436 |
| **Gross profit** | 100 | 146 | 201 | 259 |
| Selling Expense | 59 | 84 | 118 | 152 |
| G&A Expense | 23 | 41 | 52 | 65 |
| Finance Income | 1 | 0 | 3 | 5 |
| Finance Expense | 12 | 36 | 34 | 41 |
| Other profits | 91 | 125 | 142 | 181 |
| **PBT** | 97 | 110 | 141 | 188 |
| Prov. of Tax | 18 | 26 | 28 | 38 |
| Minority's Interest | 0 | 0 | 0 | 0 |
| **PAT to Equity** | 78 | 84 | 113 | 150 |
| EBIT | 109 | 146 | 175 | 228 |
| EBITDA | 124 | 175 | 228 | 282 |

%

| FINANCIALS | FY2016 | FY2017 | FY2018E | FY2019F |
|---|---|---|---|---|
| **Growth** | | | | |
| Revenue | 58.1% | 33.1% | 34.1% | 30.3% |
| Operating Income | 142.8% | 41.4% | 30.4% | 23.5% |
| EBITDA | 113.5% | 34.1% | 20.1% | 30.1% |
| PAT | 170.7% | 8.1% | 34.2% | 32.6% |
| Total Assets | 107.2% | 71.5% | 13.6% | 23.6% |
| Equity | 133.2% | 28.0% | 67.8% | 23.2% |
| **Profitability** | | | | |
| Gross margin | 3.5% | 3.8% | 3.9% | 3.9% |
| EBITDA margin | 4.3% | 4.6% | 4.4% | 4.2% |
| EBIT margin | 3.8% | 3.8% | 3.4% | 3.4% |
| Net margin | 2.7% | 2.2% | 2.2% | 2.2% |
| ROA | 9.1% | 5.7% | 6.7% | 7.2% |
| ROE | 35.5% | 37.1% | 26.8% | 28.4% |
| **Efficiency** | | | | |
| Receivable Turnover | 13.4 | 10.7 | 12.5 | 11.1 |
| Inventory Turnover | 7.1 | 5.9 | 7.2 | 7.2 |
| Payable Turnover | 12.8 | 18.7 | 33.3 | 50.0 |
| **Liquidity** | | | | |
| Current | 1.2 | 1.0 | 1.2 | 1.3 |
| **Solvency** | | | | |
| Total Debt/Equity | 112.1% | 229.5% | 134.9% | 142.7% |
| Current Debt/Equity | 112.1% | 229.5% | 134.9% | 142.7% |
| Long-term Debt/Equity | 0.0% | 0.0% | 0.0% | 0.0% |

VND Bn

| BALANCE SHEET | FY2016 | FY2017 | FY2018E | FY2019F |
|---|---|---|---|---|
| Cash and cash equivalents | 41 | 69 | 22 | 44 |
| Short-term investments | 0 | 0 | 0 | 0 |
| Accounts receivable | 215 | 359 | 411 | 603 |
| Inventories | 390 | 629 | 682 | 889 |
| Other current assets | 18 | 48 | 63 | 81 |
| Property, plant & equipment | 116 | 293 | 420 | 376 |
| Acquired intangible assets | 78 | 71 | 71 | 71 |
| Long-term investments | 0 | 0 | 0 | 0 |
| Other non-current assets | 5 | 8 | 8 | 9 |
| **Total assets** | **861** | **1,476** | **1,676** | **2,071** |
| Accounts payable | 217 | 198 | 148 | 129 |
| Short-term borrowings | 338 | 885 | 874 | 1,138 |
| Long-term borrowings | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 1 | 4 | 3 | 3 |
| Bonus and Welfare fund | 0 | 0 | 0 | 0 |
| Technology-science, dev. fund | 0 | 0 | 0 | 0 |
| **Total liabilities** | **556** | **1,087** | **1,025** | **1,270** |
| Common stock and APIC | 206 | 297 | 446 | 446 |
| Treasury stock (enter as -) | 0 | 0 | 0 | 0 |
| Retained earnings | 88 | 84 | 202 | 358 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Inv. and Dev. Fund | 8 | 4 | 0 | -6 |
| **Total equity** | **301** | **386** | **647** | **797** |
| **Minority Interest** | **4** | **4** | **4** | **4** |

| VALUATION | FY2016 | FY2017 | FY2018E | FY2019F |
|---|---|---|---|---|
| EPS (VND/share) | 5,479 | 3,610 | 3,231 | 4,283 |
| P/E (x) | 6.3 | 5.7 | 8.2 | 6.6 |
| BVPS (VND/share) | 21,284 | 16,525 | 18,897 | 23,476 |
| P/B (x) | 1.9 | 2.2 | 1.6 | 1.3 |
| DPS (VND/share) | - | 1,500 | - | - |
| Dividend yield (%) | 0.0 | 4.1 | 0.0 | 0.0 |
| Stock valuation (using P/E) | | | 29,087 | |
| Stock valuation (using P/S) | | | 29,819 | |
| **Target price (VND)** | | | **29,449** | |

| VALUATION HISTORY | Price(*) | Recommendation | Period |
|---|---|---|---|
| 02/10/2017 | 27,200 | Neutral | 1-year |
| 05/02/2018 | 29,000 | Neutral | 1-year |
| (*) Adjusted price | | | |

## 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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