GEMADETP CORPORATION (HSX: GMD)

Diminishing Throughput Amid The Pandemic

(VND Bn)	Q1-FY20	Q4-FY19	+/- qoq	Q1-FY19	+/- yoy
Net revenue	601	645	-7%	629	-4%
PAT	114	64	77%	120	-5%
EBIT	118	44	170%	148	-20%
EBIT margin	19.6%	6.8%	12.9 pps	23.5%	-3.9 pps

Source: GMD, Rong Viet Securities

Q1 FY20 – Core operations just started to bear the initial brunt of COVID-19

- Total net sales declined by 4.4% YoY to VND 601 Bn. Port revenue, accounting for 83.9% of total revenue, declined 10.2% YoY, amid weaker container volume throughput. Meanwhile, other segments' revenue rose by 42.7% YoY owing to the revenue recognition in construction activities for the Gemalink project.
- While GPM remained relatively stable compared to last year at 39.5%, an 17.0% increase in SG&A expenses translated into lower EBIT margin of 19.6% (-3.9% YoY).
- Gain from JVs soared by 38.7% YoY as Gemalink posted the very first profitable quarter results owing to the financial income from FX revaluation, beside the stable growth in profit of key affiliate, SCSC.
- NPAT-MI declined slightly by 4.9% YoY, though net profit posted an annual decrease of 16.2%, on the back of lower minority interest expenses as the subsidiary port Nam Dinh Vu incurred losses amid lower container volume handled.

FY20 Outlook – Container throughput volume to be hit hard

Widespread Covid-19-induced country lockdowns will weigh on overall global consumption demand as well as trade flows, impacting Vietnam's activities. This will translate into weaker overall import/export container volume throughput at key terminals in Vietnam, including the Hai Phong area. In the meantime, global carriers are cutting dozens of services, a result of weak global demand, and expected to prioritize larger ships so as to optimize operations. While this will likely benefit deep-water port competitors, we see little scope for new feeder services at GMD's ports in FY20.

We expect the full impact of Covid-19 to be felt in Q2 FY20, followed by a slow recovery in 2H20 assuming that the virus could be contained by then. Forecasted FY20 container volume is to be 1.5 mn TEUs (-15.8% YoY), which results in FY20 NPAT-MI of VND 424 Bn (-18.0% YoY).

Valuation and recommendation

The near-term outlook of GMD has deteriorated given the COVID-19 pandemic. Nevertheless, we like the stock for its promising long-term potential from new terminals: the deep water port Gemalink and Nam Dinh Vu Phase 2. The success of these ports will be the key earnings growth driver in the next few years as they will contribute a combined capacity of over 2 mn TEU per annum, doubling capacity of GMD's current port system.

*We reiterate our **ACCUMULATE** recommendation on GMD with a SoTP-derived fair value of VND 22,000 per share, down by 15% from our last call due to the coronavirus' impact. Based on the market price as of June 1st 2020, total expected return is at 17%.*

ACCUMULATE +17%

Target price (VND)	22,000
Current market price (VND)	19,700
Cash dividend (VND)*	1,000

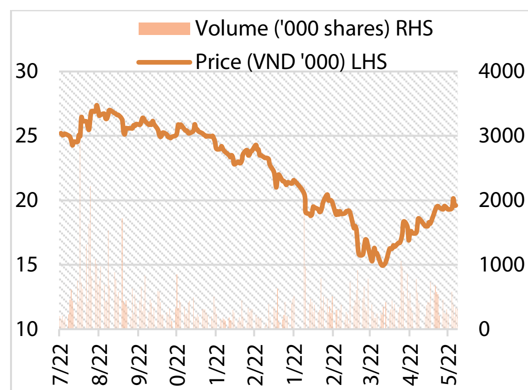
(*) Expected in 12 months

Stock Info

Sector	Industrials
Market Cap (VND Bn)	5,760
Current Shares O/S	296.9
Avg. Daily Volume (in 20 sessions)	427,608
Free float (%)	80.8
52 weeks High	27,383
52 weeks Low	14,950
Beta	0.98

	FY2019	Current
EPS	1,741	1,714
EPS Growth (%)	-72.0	-25.3
Diluted EPS	1,741	1,714
P/E	11.0	11.3
P/B	0.9	1.0
EV/EBITDA	9.0	7.8
Cash dividend yield (%)	7.3	7.7
ROE (%)	8.8	7.5

Price performance



Major Shareholders (%)

VIETNAM INVESTMENT GROUP	14.4
SSJ	10.0
KOREA INVESTMENT MGM	5.3
Remaining Foreign Room (%)	*0.0*

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Exhibit 1: Q1 2020 Results

(VND Bn)	Q1-FY20	Q4-FY19	+/- (qoq)	Q1-FY19	+/- (yoy)
Net revenue	601	645	-6.8%	629	-4.4%
Gross profit	238	193	23.0%	250	-5.0%
SG&A	119	149	-20.1%	102	17.0%
Operating income	118	44	170.2%	148	-20.1%
EBITDA	217	140	55.4%	236	-8.1%
EBIT	118	44	170.2%	148	-20.1%
Financial expenses	56	28	97.7%	44	27.3%
- Interest Expenses	40	37	7.8%	36	11.4%
Dep. and amortization	99	96	3.1%	88	12.1%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	141	93	51.9%	161	-12.6%
PAT	114	64	76.8%	120	-4.9%
(*) Adjusted PAT	114	93	22.7%	120	-4.9%

Source: GMD, Rong Viet Securities

Exhibit 2: Q1 2020 Performance Analysis

Particulars	Q1-FY20	Q4-FY19	+/- (qoq)	Q1-FY19	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	39.5	29.9	9.6 pps	39.7	-0.2 pps
EBITDA Margin	36.1	21.7	14.5 pps	37.5	-1.4 pps
EBIT Margin	19.6	6.8	12.9 pps	23.5	-3.9 pps
Net Margin	18.9	10.0	9.0 pps	19.0	-0.1 pps
Adjusted Net Margin	18.9	14.4	4.5 pps	19.0	-0.1 pps
Turnover * (x)					
-Inventories	17	23	-5.7	23	-6.5
-Receivables	7	7	-0.5	5	1.1
-Payables	0	0	-0.1	0	-0.2
Leverage (%)					
Total Liabilities/ Equity	28.4%	27.9%	0.5 pps	20.9%	7.5 pps

*Source: Rong Viet Securities, * Annualized*

Exhibit 3: Q2 2020 Performance Forecast

Particulars (VND Bn)	Q2-FY20	+/- qoq	+/- yoy
Revenue	547	-13.1%	-18.3%
Gross profit	196	-21.5%	-27.6%
EBIT	97	-34.1%	-38.8%
NPAT-MI	93	-22.2%	-44.9%

Source: Rong Viet Securities

Description

Subdued trading activities will put pressure on GMD port volume throughput and, thus, its revenue. Depreciation costs (~20% of total COGS) are likely to remain unchanged over the next quarter, shrinking GPM by 4.6 pps YoY in Q2 FY20 to 36%. Also, EBIT margin is poised to contract due to higher goodwill depreciation from Binh Duong Port. Forecasted lower financial income and gain from JVs will further squeeze NPAT's annual growth.

Upside risks: Higher financial income and/or other income from one-off transactions.

Update

Q1 2020: Robust growth in other segments' revenues partly offset the drop from the port segment

Table 1: Q1 FY20 Financial results

Unit: VND Bn	Q1 FY19	Q1 FY20	YoY%	% of FY20F
Net sales	**629**	**601**	**-4.4%**	**26.1%**
Port operations	561	504	-10.2%	
Logistics & Others	68	97	42.7%	
Gross profit	**250**	**238**	**-5.0%**	
Port operations	227	195	-14.0%	
Logistics & Others	23	42	84.3%	
SG & A expenses	-102	-119	17.0%	
EBIT	**148**	**118**	**-20.2%**	
Gains from JVs	43	60	38.7%	
Financial revenue	12	17	43.4%	
Financial expenses	-44	-56	27.3%	
Other gains/losses	3	3	-1.9%	
PBT	**161**	**141**	**-12.6%**	
NPAT-MI	**120**	**114**	**-4.9%**	**28.7%**

Source: GMD

Consolidated net sales slightly declined by 4.4%YoY to VND 601 Bn, following a mixed performance between port operations (-10.2% YoY) and other segments (+42.7% YoY).

- We believe the decline in the port segment was attributable to an approximately 15% decrease in throughput at GMD's ports in the Hai Phong area. Main reasons are: (1) its key trade lane - feeder services between China/Hong Kong and Hai Phong - have started to decline in the wake of COVID-19, coupled with the fact that (2) the company lost some services to the only deep-water seaport in Hai Phong, HICT. Beside GMD, many other river ports also fell victim to the emergence of HICT. In fact, we estimate HICT's market share in terms of TEU throughput rose rather significantly from 8% at the end-FY19 to circa 18% at end of Q1 FY20, according to the Vietnam Port Association (VPA).
- Meanwhile, GMD's southern ports, namely Phuoc Long ICD and Binh Duong Port, posted healthy growth as the main trade lanes there – connecting Vietnam and the US/EU markets - were less disrupted by the pandemic for the most part of Q1 FY20, as per VPA. In fact, according to Vietnam's Maritime Administration, container volume throughput at ports in HCMC and Vung Tau surged by 16% YoY and 22% YoY respectively. However, this was not enough to cover the lackluster performance of the Group's ports in Hai Phong.
- Revenue from other segments, especially logistics services, soared as GMD recorded revenue of VND 87 Bn from construction for the Gemadept-Terminal Link (Gemalink) deep-water port in Vung Tau.

Gross profit margin remained stable. Costs of goods sold was lower by 4.1% YoY, in line with revenue, owing to a decrease in manpower costs (-10% YoY) arising from salary cut measures in tandem with the decline in variable costs (outside services expenses – 6% YoY, other cash expenses -16% YoY). Nevertheless, the **EBIT margin shrank due to higher goodwill depreciation after the acquisition of Binh Duong Port**. Worth highlighting, in Q4 FY19, GMD increased its controlling interest in Binh Duong Port to 80%, which resulted in an increase of VND 276 Bn in goodwill. Meanwhile, the net margin was relatively the same because Nam Dinh Vu Port, a subsidiary port of GMD in Hai Phong, incurred a loss as opposed to last year, weighing tremendously on minority interest (-66.9% YoY).

Financial income surged 43.4% YoY and came at VND 17 Bn, mostly brought about by the minor stake sales (0.23%) at an affiliate named SCSC. Additionally, gain from joint ventures reached VND 60 Bn (+38.7% YoY) on the back of a turnaround in Gemalink's profitability and steady growth in SCSC.

Table 2: Estimated gain from key affiliates in Q1 FY20

Unit: VND Bn	Q1 FY19	Q1 FY20	Change
Gemalink	-3.3	14.0	-524.2%
SCSC	38.8	42.8	10.4%
Gemadept Logistics Holdings	2.9	3.4	19.8%
Gemadept Shipping Holdings	4.6	-3.6	-177.5%

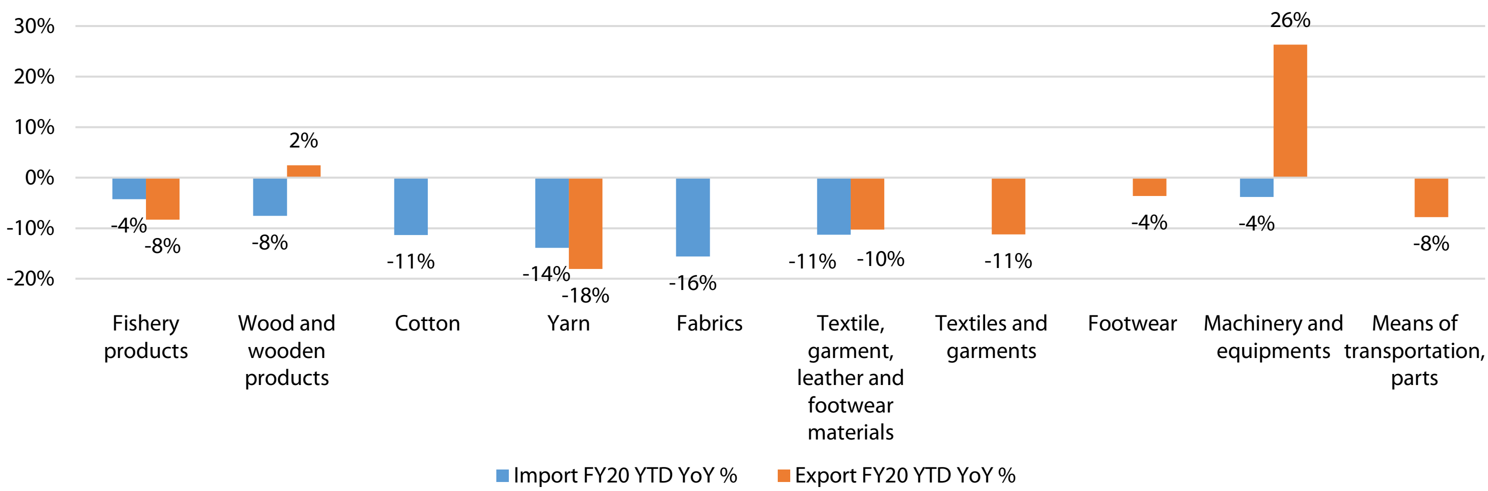
Source: GMD

2020 Outlook

Container volume throughput is set for a downturn due to deteriorating trading activities

Import-Export (IM/EX) value growth has trended downward significantly since February due to order cancellations from key importers (in EU/America/Japan) and global supply chain disruption amid country lockdowns. Trading value for a variety of seaborne cargoes, among other product groups, took the worst hit. In fact, in terms of those cargoes, the YTD import value dropped by 7.6% YoY whereas the YTD export value rose modestly by 0.7% YoY. Inputs for manufacturing activities were the main drivers for the decrease in imports, such as fabrics, plastics and textiles, footwear, leather materials. Meanwhile, export growth's key draggers were textiles, footwear and fishery.

Figure 1: Import/Export growth up to first half of May FY20: key seaborne cargoes*



Source: Vietnam Customs, Rong Viet Securities

Going forward, the seaports' cargo flow will largely depend on the consumption demand in Vietnam's key export markets, which is expected to be relatively weak. As the demand is unlikely to pick up any time soon, which in turn will cascade through lower imports, especially input materials for production. As a result, the export/import container volumes are poised to face stronger headwinds throughout the year even after the ratification of the EVFTA this July. The magnitude of these negative impacts on the container volume throughput will largely depend on the duration of lockdowns and how firms and customers respond after that.

Cutting services by global carriers: increasing threats from deep-water terminals HICT

The falling demand in global trade mentioned above has caused carriers to massively idle capacity in favor of maintaining freight rates and reducing operating costs. While the share of idle container ship capacity reached 2.5 Mn TEUs or 10.6% of capacity in early March 2020 as per Sea Intelligence, more cancellations are expected to take place in the coming months.

In order to optimize operations in the wake of service cancellations, carriers are likely to prioritize large ships while reducing the number of feeder services according to International Transport Forum, an inter-governmental organization within the OECD. As for the case in Hai Phong, this is likely to accelerate the process of utilizing more mother ships which took place since the inception of HICT, posing an even more significant threat to river ports which are not able to handle these mother vessels. In fact, even during the COVID-19 outbreak, HICT is still able to attract new services from global carriers thanks to the large ships adaptability advantage, as evidenced by new joined service between Hapag Lloyd, Yang Ming, ONE, HMM in May 2020. Up to now, HICT is serving as many as 10 long haul services by many of the big names in the shipping industry, including some current customers of GMD and others players in the region. As a result, HICT has deprived some of these ports a significant share of container volume. Going forward, we should see little changes in terms of weekly vessel calls, an indicator for the number of shipping services at one port, at river ports in the most positive case, let alone new services.

We, therefore, expect that the vessel schedule at GMD's port members in Hai Phong will remain the same as in the first quarter throughout the rest of 2020 (table 1), though average number of TEU per call may be lower levels amid weaker overall IM/EX activities and mother ships prioritization by international carriers. **We now expect that GMD's total container volume will see a 15.8% drop in FY20.** Out of which, we anticipate a 21% decrease for port members in Haiphong and a 10% decrease for port members in the South.

Table 3: Average number of ship arrivals per week at GMD's Hai Phong Ports

Port	Q1 FY19	Q1 FY20	FY19	FY20E
Nam Hai	2.1	2.9	2.6	3
Nam Hai Dinh Vu	8.3	8.8	8.4	9
Nam Dinh Vu	4.8	3.1	5.7	3

Source: Vinamarine, Rong Viet securities

Valuation

Based on the sum-of-the-parts (SoTP) method, we arrive at a **target price of 22,000 VND per share**. Valuation metrics for GMD, along with peers, are shown in Table 5.

Table 4: SoTP summary

Unit: Bn VND	Methododology	Fair value
Port operation	EV/EBITDA	2,107
Key logistics affiliates	P/E, DCF	3,522
Non-core assets	P/B	977
Total		**6,605**
Total outstanding shares (mn)		297
Fair value per share		**22,000**

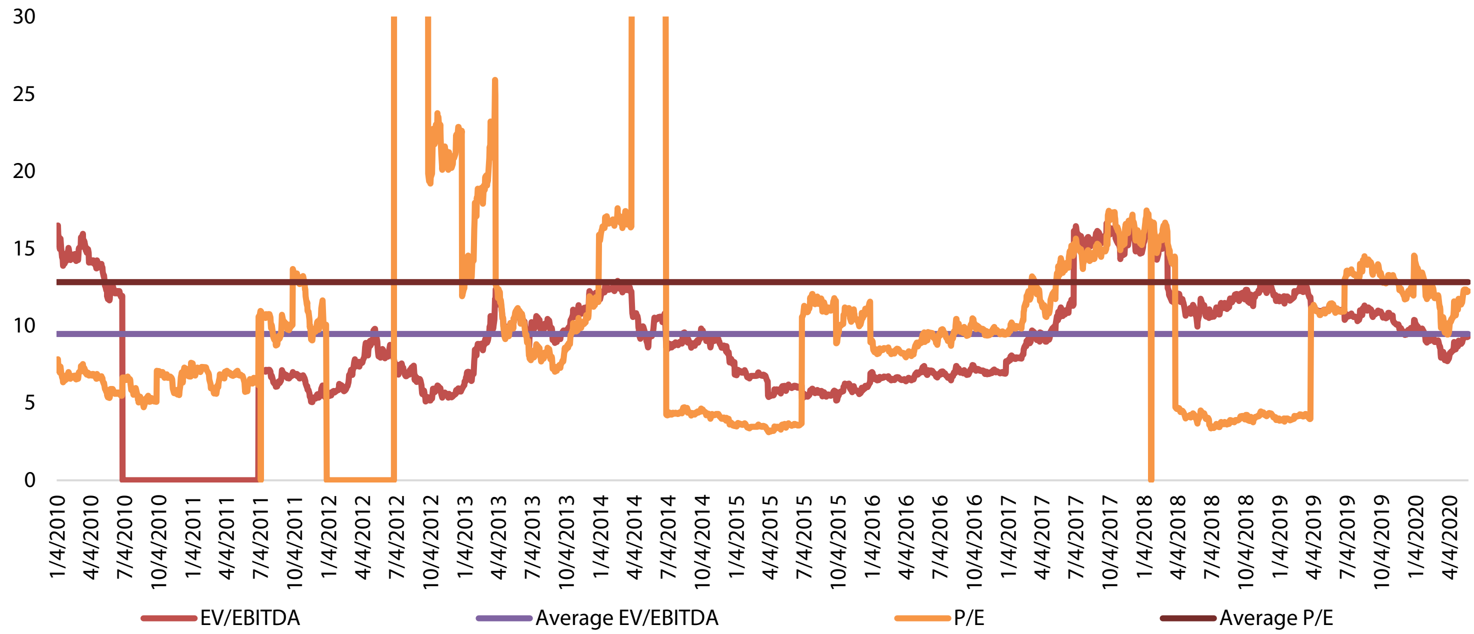
Source: Rong Viet Securities

Table 5: Peers comparison

Company	Ticker	Market Cap (USD Mn)	EV/EBITDA (x)	P/E (x)	P/B (x)
VIETNAM CONTAINER SHIPPING	VSC VN	67.8	2.1	6.3	0.9
PORT OF HAI PHONG JSC	PHP VN	140.5	2.4	7.9	0.8
DANANG PORT JSC	CDN VN	80.4	4.6	9.4	1.3
DONG NAI PORT JSC	PDN VN	52.5	5.4	8.3	2.2
DINH VU PORT INVESTMENT & DE	DVP VN	59.6	1.1	5.6	1.1
XIAMEN INTERNATIONAL PORT-H	3378 HK	207.5	8.0	5.3	0.3
TIANJIN PORT DVLP HLDS LTD	3382 HK	381.3	9.0	7.5	0.2
CHINA MERCHANTS PORT HOLDING	144 HK	4307.0	20.2	3.9	0.4
QINGDAO PORT INTERNATIONAL-H	6198 HK	4934.9	7.6	6.7	0.8
HUTCHISON PORT HOLDINGS TR-U	HPHT SP	975.6	8.4	14.3	0.3
WESTPORTS HOLDINGS BHD	WPRTS MK	3130.5	10.4	22.4	5.4
Average		**1,303.4**	**7.2**	**8.9**	**1.2**
GMD (Trailing @ CMP)		251.4	7.8	12.4	1.0
GMD (FY20F @ CMP)	GMD VN	247.2	8.5	15.9	1.0
GMD (FY20F @ TP)		280.3	9.5	18.1	1.1

Source: Bloomberg, Rong Viet Securities; Data as of June 1st 2020

Figure 2: GMD is trading around its long-term historical valuation metrics



Source: Bloomberg, Rong Viet Securities

VND Bn

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	2,708	2,643	2,298	2,480
COGS	1,739	1,630	1,472	1,576
Gross profit	**968**	**1,013**	**826**	**905**
Selling Expense	102	138	120	122
G&A Expense	321	331	321	337
Finance Income	1,625	107	78	62
Finance Expense	44	147	167	167
Other profits	-78	-37	0	-30
PBT	**2,182**	**705**	**511**	**471**
Prov. of Tax	282	91	39	40
Minority's Interest	53	97	48	53
PAT to Equity S/H	**1,848**	**517**	**424**	**377**
EBIT	546	544	385	445
EBITDA	881	910	803	939

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	-32.0	-2.4	-13.0	7.9
Operating Income	-3.1	3.3	-11.8	16.9
EBITDA	-8.7	-0.3	-29.2	15.5
PAT	263.8	-72.0	-18.0	-10.9
Total Assets	-11.6	1.4	2.7	4.0
Equity	-7.3	-0.1	2.4	1.6
Profitability (%)				
Gross margin	35.8	38.3	36.0	36.5
EBITDA margin	32.5	34.4	34.9	37.9
EBIT margin	20.2	20.6	16.8	17.9
Net margin	68.2	19.6	18.4	15.2
ROA	18.5	5.1	4.1	3.5
ROE	6.4	6.5	4.4	4.9
Efficiency				
Receivable Turnover	2.9	3.4	3.0	3.0
Inventory Turnover	26.5	20.8	25.0	25.0
Payable Turnover	2.1	1.5	1.7	1.7
Liquidity				
Current	0.9	0.7	0.6	0.6
Quick	0.9	0.6	0.5	0.6
Finance Structure (%)				
Total Debt/Equity	38.6	35.4	36.0	34.8
Current Debt/Equity	11.5	11.1	13.9	11.8
Long-term Debt/Equity	27.1	24.3	22.1	23.0

VND Bn

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	173	186	234	153
Short-term investments	112	44	44	44
Accounts receivable	949	787	758	818
Inventories	66	78	59	63
Other current assets	92	92	80	87
Property, plant & equipment	4,831	4,876	4,706	4,739
Acquired intangible assets	336	566	546	514
Long-term investments	2,632	2,684	2,899	3,060
Other non-current assets	794	806	786	766
Total assets	**9,984**	**10,120**	**10,113**	**10,245**
Accounts payable	847	1,115	883	945
Short-term borrowings	675	652	838	719
Long-term borrowings	1,592	1,426	1,328	1,409
Other non-current liabilities	299	299	293	287
Bonus and Welfare fund	42	62	96	126
Technology-science, dev. Fund	0	0	0	0
Total liabilities	**3,455**	**3,553**	**3,438**	**3,486**
Common stock and APIC	4,911	4,911	4,911	4,911
Treasury stock (enter as -)	0	0	0	0
Retained earnings	542	505	632	713
Other comprehensive income	287	307	322	338
Inv. and Dev. Fund	141	153	153	153
Total equity	**5,880**	**5,876**	**6,018**	**6,114**
Minority Interest	**649**	**691**	**740**	**793**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (VND)	6,223	1,741	1,313	1,169
P/E (x)	4.2	11.0	14.8	16.6
BV (VND/share)	19,804	19,789	20,267	20,593
P/B (x)	1.2	0.9	1.0	0.9
DPS (VND/share)	1,500	1,500	1,000	1,000
Dividend yield (%)	5.4	7.3	5.1	5.1

VALUATION MODEL	Price	Weight	Average
Sum of the parts	22,000	100%	22,000
Target price (VND)			**22,000**

VALUATION HISTORY	Price	Recommendation	Period
Dec 2019	26,000	ACCUMULATE	Long-term
Jun 2019	28,500	ACCUMULATE	Long-term
Dec 2018	31,500	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.

RATING GUIDANCE

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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