November, 2018

TASECO Air JSC (HSX: AST)

Exploring New Markets

(VND Bn)	Q3-FY18	Q2-FY18	+/- qoq	Q3-FY17	+/- yoy
Net revenue	225	207	9%	181	24%
PAT	44	34	28%	32	37%
EBIT	55	48	15%	46	19%
EBIT margin	24.5%	23.0%	+144 bpt	25.6%	- 115 bps

Source: AST, Rong Viet Securities

9M 2018: Airport retail segment to maintain its growth

- Robust growth from the airport retail segment; sales and gross profit jumped by 49% and 50% YoY, respectively.
- Higher margin and healthy financial structure
- VINACS needs more time to break-even

2018-2019 Outlooks: The retail segment remains strong, but loss from VINACS, an affiliate, might affect profit

We are still positive on the airport retail business of AST. Besides strong growth of air passenger's volume in Vietnam, the main catalyst for this segment now is from the plan to open new stores in Van Don International Airport. Moreover, AST is also bidding to open more POS in Phu Quoc and at Tan Son Nhat Airport.

Nevertheless, the loss from its airlines catering affiliate, VINACS, may undermine AST's profitability. In 9M2018, VINACS incurred a loss of VND 39 bn. Most of the loss came from the Noi Bai branch, as the company is still struggling to establish a customer base. We expect that this affiliate will drag AST's NPAT down by VND 17 bn this year and still not be able to contribute to profits until 2021 in our base case. In the fourth quarter, AST will acquire 49% of JDV, a duty-free airport retailer. We expect that income from JDV can mitigate the loss from VINACS.

According to the management, private placement to raise capital to develop condotel project in Quang Ninh will not be implemented in this year.

Valuation and recommendation: *We still like the stock, especially its retail business that is still growing. However, the loss from VINACS may hinder profits until that segment can cover its cost in 2021.*

We use a sum-of-the-parts method to evaluate the company, consisting of AST's core business value plus equity value in its affiliates, namely JDV and VINACS. We apply a 2019 PE target of 15x and DCF method for AST's core business. We assume equity value of AST in JDV equal to the acquirement value that AST paid and use P/B method to value VINACS. AST's target price is ***VND 74,500 per share.*** *We reduced the target price to reflect larger losses than expected from VINACS and a possible dilution risk from the private placement next year. With an expected cash dividend of VND 2,000 per share, the potential upside is* ***19%*** *hence we recommend investors* ***ACCUMULATE*** *the stock.*

ACCUMULATE +19%

Target price (VND)	74,500
Current market price (VND)	64,500
Cash dividend (VND)*	2,000

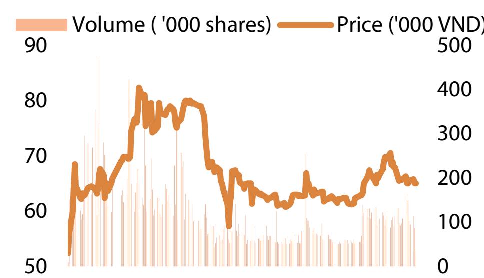
** Expected in the next 12 months*

Stock info

Sector	Industrials
Market Cap (VND bn)	2,369
Current Shares O/S	36,000,000
Avg. Daily Volume (in 20 sessions)	106,164
Free float (%)	27
52 weeks High	82,366
52 weeks Low	52,388
Beta	0.64

	FY2017	Current
EPS (VND)	4,093	4,346
EPS growth (%)	49	6
Diluted EPS	4,093	3,725
P/E	n.a	174
P/B	n.a	4.6
EV/EBITDA	n.a	9.9
Cash dividend	2,000	2,000
ROE (%)	32	31

Price performance



Major Shareholders (%)

TASECO Group	60
PENM IV	10
Foreign ownership room (%)	27

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Exhibit 1: 3Q 2018 results

(VND Bn)	3Q-FY18	2Q-FY18	+/- (qoq)	3Q-FY17	+/- (yoy)	9M-FY18	+/-(yoy)
Net revenue	225	207	9%	181	24%	642	34%
Gross profit	124	109	15%	98	27%	350	36%
SG&A	69	61	14%	52	34%	193	45%
Operating profit	55	48	15%	46	19%	157	13%
EBITDA	61	54	15%	51	20%	172	29%
EBIT	55	48	15%	46	19%	154	26%
Financial expense	2	1	50%	2	-1%	4	-19%
Interest expense	1	1	-7%	2	-58%	2	-52%
D&A	6	6	8%	5	32%	18	57%
Nonrecurring items (*)				13			
Extraordinary items (*)							
PBT	54	45	21%	41	31%	152	13%
PAT	44	34	28%	32	37%	119	8%
(*) Adjusted PAT	44	34	28%	19	127%	119	23%

Source: AST, Rong Viet Securities

Exhibit 2: 3Q 2018 performance analysis

Particulars	3Q-FY18	2Q-FY18	+/- (qoq)	3Q-FY17	*+/- (yoy)*
Profitability ratios (%)					
Gross margin	55.4%	52.5%	2.9%	54.4%	1.0%
EBITDA margin	27.3%	25.9%	1.4%	28.3%	-1.0%
EBIT margin	24.5%	23.0%	1.4%	25.6%	-1.2%
Net margin	19.5%	16.6%	3.0%	17.7%	1.8%
Adjusted net margin	19.5%	16.6%	3.0%	8.9%	10.6%
Turnover *(x)					
-Inventories	10	10	0.1	9	0.7
-Receivables	21.7	21.7	-0.1	10.9	10.8
-Payables	3	3	-0.1	4	-1.2
Leverage (%)					
Total debt/ equity	22.6%	45.0%	-22.4%	26.0%	-3.4%

Source: AST, (*) Annualized turnover

Exhibit 3: 2018-2019 performance forecast

(VND Bn)	FY18	+/-(YoY)	FY19
Revenue	853	+29%	944
Gross profit	461	+32%	505
EBIT	208	+31%	226
NPAT	155	+5%	197

Source: Rong Viet Securities

Updates

Table 1: Business performance update

Unit: Bn VND	9M2017	9M2018	YoY%
Revenue	**480**	**642**	**33.8%**
Souvenir	221	337	52.5%
Fast food and restaurants	56	75	32.4%
Hotel	150	147	-1.9%
Media and others	52.6	83	57.8%
Gross profit margin	**53.7%**	**54.5%**	**80 bps**
Souvenir	60.6%	63.9%	330 bps
Fast food and restaurants	60.5%	61.7%	120 bps
Hotel	47.7%	43.8%	-390 bps
Media and others	34.6%	29.0%	-560 bps

Source: AST

Robust growth from the airport retail segment

For 9M2018, sale of fast food and souvenirs at airports continued to be the earnings growth driver for AST:

- Noi Bai Branch (Noi Bai Airport): Retail sales reached VND 177 bn in 9M2018 (+28% YoY) thanks to three new souvenir stores and two new fast food stores opened in 3Q2017.

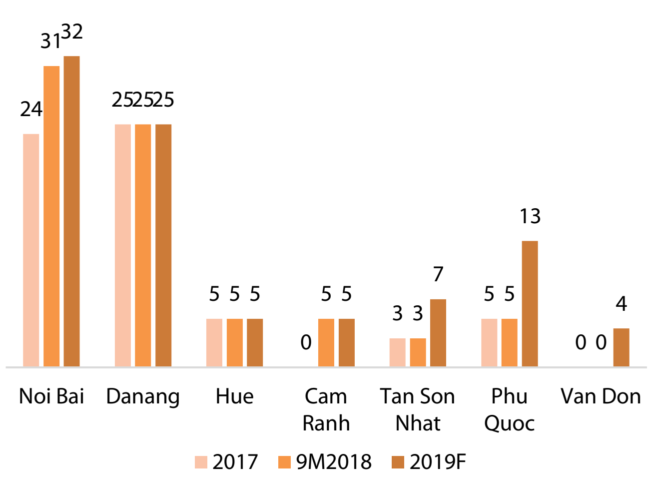
- Da Nang Branch (Hue, Da Nang and Cam Ranh Airport): Retail sales grew 54% YoY, reaching VND 204 bn thanks to contribution from 15 souvenir stores opened in 2Q2017. However, two were closed due to inefficient locations. Moreover, five souvenir stores were opened in the International terminal of Cam Ranh Airport in 2Q2018, which contribute VND 12 bn to this branch's revenue. We expect this branch to be a great contributor in 2019 as the growth rate of tourists to Da Nang and Nha Trang is expected to continue to rise.

- Sai Gon Branch (Tan Son Nhat and Phu Quoc Airport): Sales jumped 130%. Since majority of point-of-sale (POS) here was opened in late 2Q2017, the contribution in revenue to 9M2018 has improved significantly.

Average sales per store generally showed an improvement compared to last year (Figure 2)

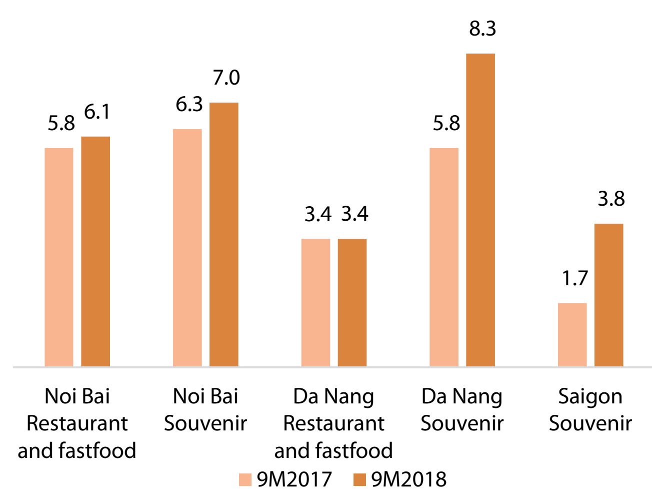
The gross margin has improved as we expected since the fixed costs of each stores are very low relatively to sales. 9M2018's gross margin improved by 80 basis points YoY with strong upturn in the margin of souvenir and fast food-restaurants segment, up + 330 bps and 120 bps, respectively.

Figure 1: Number of store by location



Source: AST

Figure 2: Average sales per store by branch (bn VND)



Source: AST, Rong Viet Securities

International air passengers' growth to Vietnam continue to be a favorable support. Total international arrivals by air in 9M 2018 reached 9.4 mn, +24% YoY. Many cities whose airports have AST's POS also experienced significant increase in number of tourist thanks to new direct flights, such as Da Nang and Nha Trang.

Figure 3: International visitors arrival by air and by nationality in 9M2018 (million)

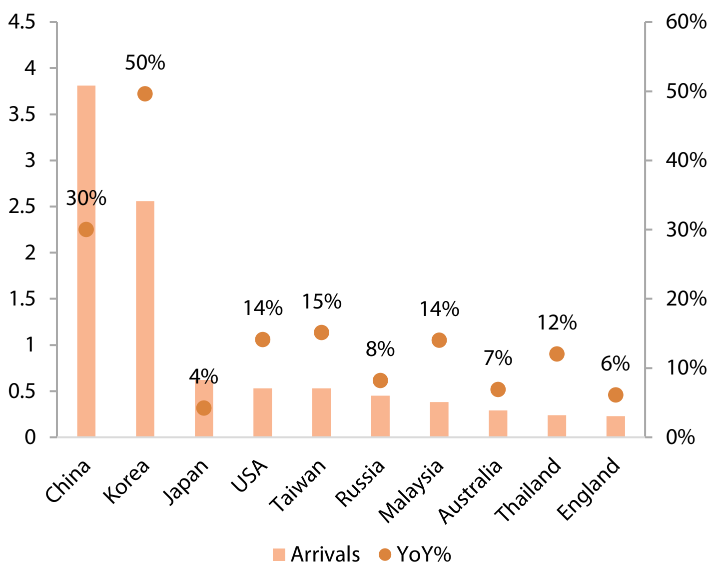
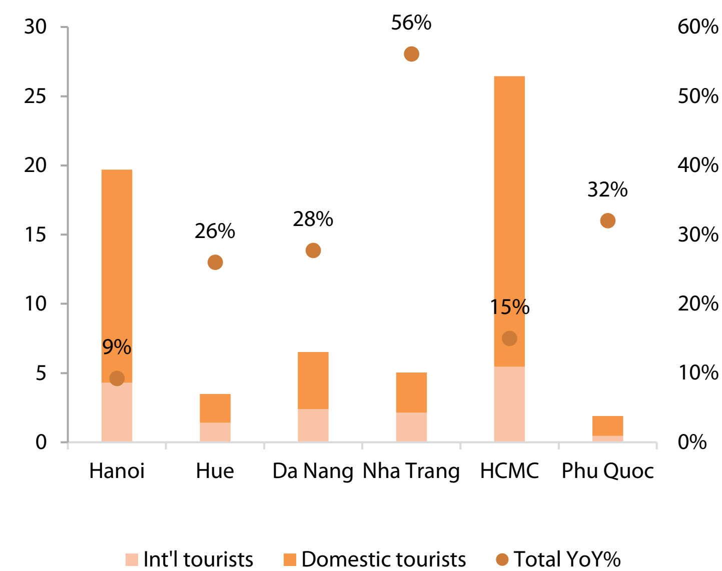


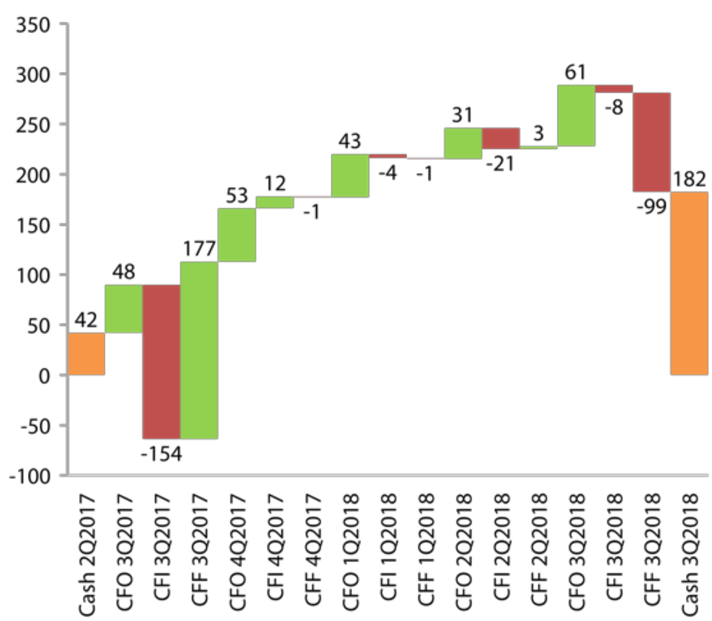
Figure 4: Tourists to cities that have AST's point of sale in 9M 2018 (million)



Source: Vietnam National Administration of Tourism, Rong Viet Securities

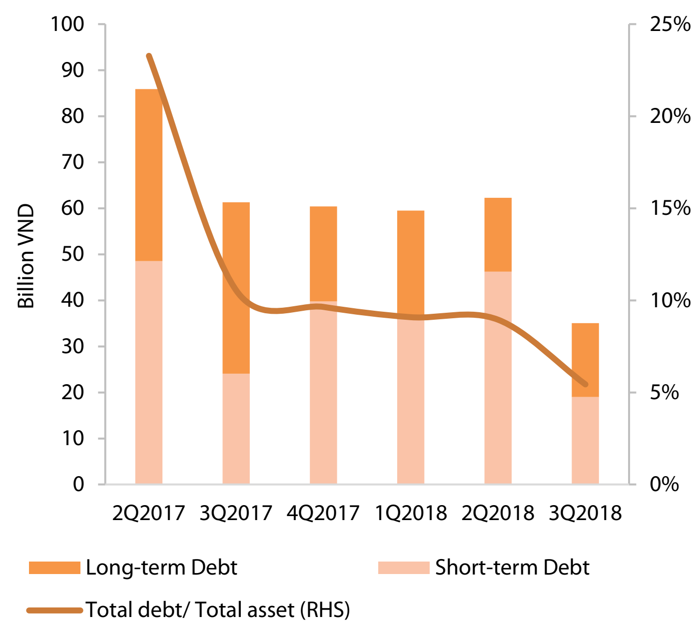
Healthy financial position

Figure 5: Cash flow (VND billion)



Source: AST

Figure 6: Capital structure



Source: AST

Thanks to strong cash inflow from operating activities, AST repaid quite a lot of its long-term borrowings, making the total debt/total assets ratio down to only 5%.

2019 Outlooks

Retail segment

For 2019, we forecast the revenue and gross profit of this segment to be VND 560 bn (+12%) and VND 320 bn (+10% yoy). Our main assumptions are: (1) Same store sales growth of 5-7% (depending on POS type and location), (2) new four souvenir stores in Van Don Airport. Van Don International Airport is expected to begin operation at the end of 2018 and serve many Asian routes. This segment's gross margin will be slightly decreased due to these new POS to 57.2%, from 57.8% in 2018.

AST is participating in bidding process to rent eight POS in Phu Quoc Airport and four in Tan Son Nhat Airport.

VINACS to drag earnings down until 2021

VINACS is finding a way to solicit customers by offering competitive prices compared to Noi Bai Catering Services JSC (Upcom: NCS), the leading player in flight catering services at Noi Bai Airport. The largest customer is Qatar Airways. We think that the competition here will be fiercer as NCS has just put a new catering factory into operation in 2Q2018, triple their current capacity up to 35k meals per day. Therefore, we think NCS will try their best to protect their market share to maintain operating efficiency and offset the incremental expenses from the new plant.

Meanwhile, in Cam Ranh, VINACS has proved its competitive edge while quickly increasing its customer base by taking away from the only competitor, Middle Airports Services Company (HNX: MAS). Main international customers are Russian and Chinese charter airlines while Vietjet Air is the largest in the domestic market. These airlines contribute over 90 percent revenue for this branch. As mentioned above, the number of tourists from Russia and China coming to Nha Trang has long been very strong. We expect that number will continue to sustain at least a CAGR of 15-20 percent in the next three years, backing a promising outlooks for this branch.

In 9M2018, VINACS incurred a loss of VND 39 bn, more than two thirds came from the Noi Bai branch. We think that VINACS will need more time to build up and maintain a relationship with other international airlines, especially in Noi Bai, in order to provide growth in revenues. Furthermore, as VINACS's plants require a huge amount of investments, depreciation and interest expenses are not small. Therefore, in our base case, we expect that VINACS will be profitable from 2021 with a breakeven point of VND 400 bn in revenue. We revised VINACS' earnings in 2018 suggesting a loss of more than VND 62 bn compared to VND 19 bn in our last report.

Duty-free affiliate, Jalux Duty Free Vietnam (JDV), to mitigate the loss from VINACS

In the fourth quarter, AST will pay VND 81 bn to its parent company, TASECO Group, to own 49% in a joint venture that operates duty free stores, namely JDV. Another founder of JDV is JALUX Inc., a Japanese trading company with over 25 years of duty free business experience. This JV is operating five duty-free stores: three in Noi Bai Airport and two in Da Nang Airport. Main line of goods are cosmetics, liquor, tobacco, cigars, and confectionery. All products are imported directly from Japanese companies such as KOSE, DHC, Royce, etc. The acquisition will further expand AST's range of services related to airports retail businesses.

In 9M2018, JDV's net sales and PAT reached VND 177 bn and VND 32 bn, respectively. We expect that 2018 JDV's PAT can reach VND 40 bn and contribute VND 3.9 bn in 4Q2018 AST's PAT.

The stable growth in international passengers to/from Hanoi and Da Nang is the main catalyst for JDV's growth. Assuming that JDV can maintain its net margin of 18%, we expect the PAT's growth can be sustained at 8%-10% per annum in the next three years and offset the loss from VINACS.

Table 2: Affiliates financial forecast

Bn VND	2017	2018F	2019F	2020F	2021F
VINACS					
AST owns 26.7% from 3Q2017					
Revenue	36	155	239	327	411
Net income/loss	(31)	(62)	(28)	(4)	16
JDV					
AST owns 49% from 4Q2018					
Revenue	161	225	247	272	299
Net income	24	40	45	49	54
Gain/loss from Joint ventures	**(11)**	**(12)**	**14**	**23**	**31**

Source: AST, Rong Viet Securities

Valuation

Table 3: Sum-of-the-parts summary

Entity	Method	Equity value (VND bn)
AST core business	2019 PE ratio of 15x (50%) DCF: WACC@14% (50%)	3,000
JDV	Transaction value	81
VINACS	Target P/B of 1x	50
Total		**3,131**
Dilution-adjusted shares outstanding		42,000,000
Dilution-adjusted 1-Y target price		**74,500**

Source: Rong Viet Securities

VND Billion

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	317	659	844	935
COGS	148	311	388	436
Gross profit	**168**	**348**	**456**	**499**
Selling expense	78	127	173	188
G&A expense	39	64	80	90
Finance income	4	37	7	7
Finance expense	3	6	5	4
Other profits	2	3	2	2
Gain/(loss) from JVs	0	-11	-12	14
PBT	**55**	**181**	**195**	**240**
Prov. of tax	11	32	41	45
Minority's interest	0	1	3	3
PAT to equity S/H	**44**	**147**	**151**	**192**
EBIT	51	158	203	221

%

Financial ratio	FY2016	FY2017	FY2018F	FY2019F
Growth (%)				
Revenue	720	108	28	11
Operating income	3104	197	26	8
EBITDA	3540	207	29	9
PAT	3890	236	2	27
Total assets	670	70	20	2
Equity	642	130	13	3
Profitability (%)				
Gross margin	53	53	54	53
EBITDA margin	19	26	26	25
EBIT margin	16	24	24	24
Net margin	14	22	18	21
ROA	12	24	20	25
ROE	22	32	29	36
Efficiency (x)				
Receivable turnover	2.5	22.6	11.1	11.1
Inventory turnover	7.1	7.7	10.0	10.0
Payable turnover	1.5	3.2	2.5	2.5
Liquidity (x)				
Current	1.4	2.0	2.0	1.4
Solvency (%)				
Total debt/equity	33	13	12	7
Current debt/equity	16	9	9	5
Long-term Debt/equity	17	4	3	2

VND Billion

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	41	178	273	141
Short-term investments	0	0	0	0
Accounts receivable	125	29	76	84
Inventories	21	40	39	44
Other current assets	2	20	21	22
Property, plant & equipment	90	126	117	106
Acquired intangible assets	8	8	8	7
Long-term investments	0	57	46	38
Other non-current assets	81	168	170	320
Total assets	**368**	**626**	**750**	**762**
Accounts payable	98	96	155	174
Short-term borrowings	33	40	47	27
Long-term borrowings	34	21	16	11
Other non-current liabilities	0	0	0	0
Bonus and welfare fund	1	0	2	3
Technology-science, dev. fund	0	0	0	0
Total liabilities	**166**	**157**	**219**	**216**
Common stock and APIC	160	360	420	420
Treasury stock (enter as -)	0	0	0	0
Retained earnings	41	105	105	119
Other comprehensive income	0	0	0	0
Inv. and dev. fund	0	0	0	0
Total equity	**202**	**465**	**525**	**539**
Minority interest	**0**	**4**	**6**	**7**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019F
EPS (VND)	2,732	4,093	3,411	4,347
P/E (x)	n/a	n/a	19	15
BV (VND)	12,582	12,924	12,489	12,836
P/B (x)	n/a	n/a	5.2	5.1
DPS (VND/cp)	2,500	4,500	2,000	2,000
Dividend yield	n/a	n/a	3%	3%

Valuation model	*Price*	*Weight*	*Average*
Sum-of-the-parts	74,500	100%	74,500
Target price (VND)			**74,500**

Valuation history	*Price*	*Recommendation*	*Period*
5/2/2018	83,100	Buy	Long term
11/16/2018	74,500	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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