AUTOMOBILES

THE DEMAND IS EXPECTED TO BE BRIGHTER IN 2H2023

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AUTOMOBILES – THE DEMAND IS EXPECTED TO BE BRIGHTER IN 2H 2023

Investment Rating	Negative — **Neutral** (↑) — Positive
Overview	We believe that the weak car sales in 1H2023, evidenced by the negative growth of -40.8% YoY, is due to the constraints of Vietnam economic, including rising inflation, increased interest rate or pent-up savings. However, we suppose that 2H2023 picture will be reversed compared to 1H2023 as the economic headwinds has eased. The sales will be supported by buffer policies and the recovery of macroeconomy. As regards profits, the combination of lower registration fees and higher car demands will help car distributors to save costs, resulting in improved profit margins. Among the listed auto distributors, HAX owns the highest gross margin backed by the ability to optimize cost. Therefore, we expect that they will have more room to enlarge the gross margin compared to the peers in the recovery period.
Highlights	**The sales of passenger cars (PCs) tumbled in 1H2023 under the rising interest rate environment** • In 1H2023, the sales of PCs was 91,807 units, equivalent to growth of -40.8% YoY and -32.1% HoH. The main reasons of the weak consumption are 1) lack of supportive policies such as lower registration fees; 2) rising interest rate which drive loan rates to be higher; and 3) pent-up savings regarding weak economic outlook. • The sales of car distributors likes Haxaco (HSX: HAX) or City Auto (HSX: CTF) were weak on the back of unfavorable business conditions. Furthermore, their net profits showed negative growth as these companies spent a huge of selling expenses to stimulate car sales. In Q4 2022, car distributors increased their inventory of cars to prepare for 2023 business period. Because cars tend to depreciate quickly overtime, the car distributors must optimize their car inventory under weak demand environment. Therefore, we suppose that the high selling expenses is compulsory. **Car sales is believed to go up in 2H2023 owing to favorable business conditions** • The sales of PCs hints a recovery signal in Jun & Jul-2023 as the car distributors pushed various promotion campaigns to boost sales. • 2H2023 will be a better time for automobiles consumption than 1H2023 given the issued buffer policies such as: 1) 50% cut in automobile registration fees for domestic manufactured and assembled automobiles decision; and 2) roadmap for interest rate reduction since 2H2023 of State bank of Vietnam (SBV). • The completion of road infrastructure projects is expected to inspired mobility needs, then encouraging consumers to purchase cars.

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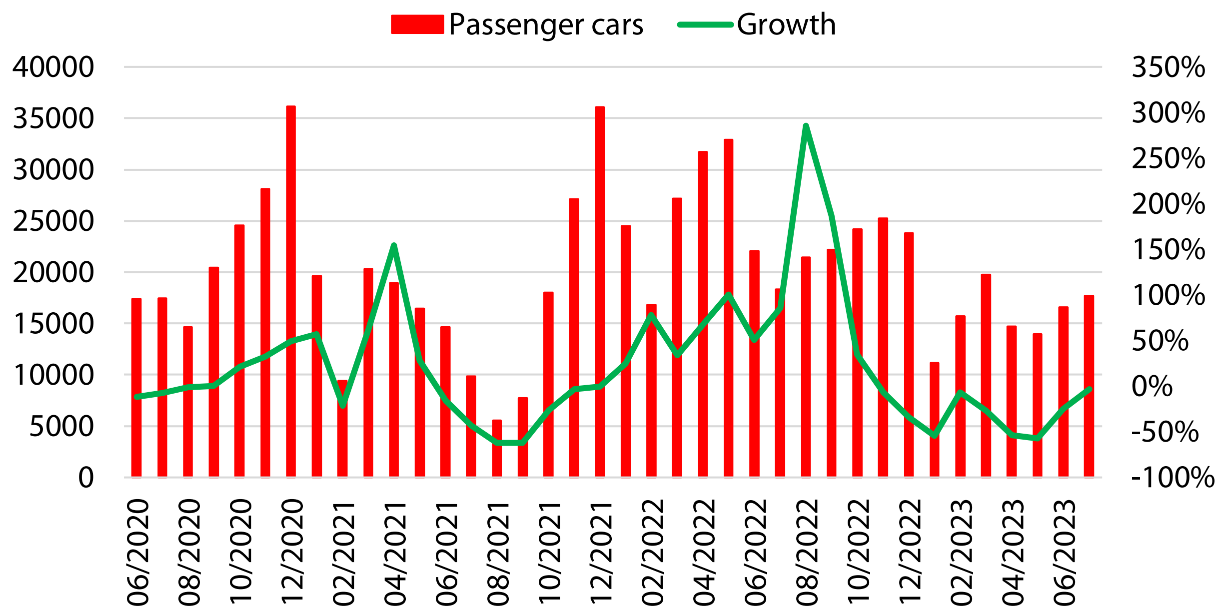
	The profit margins are expected to expand under increased car sales • We suppose that the lower registration fees will help car distributors to save discounts on car 's prices, thereby improving gross margin. Among listed car distributors, we suppose HAX is a bright spot owing to its ability to optimize gross margin. In 1H2023, HAX 's gross margin fluctuated in a narrow range as well as standing at the highest position compared to its peers. Backed by this, we believe that the company will have more room to enlarge the gross margin in the recovery period. • Given the improving demand, we expect that car dealers' selling expenses to sales will gradually decrease, thus leaving cashflow to net profit. Together with the improved gross margin, we believe that HAX will present a higher net profit growth compared to other companies in the same industry.
Valuation	The valuation of Vietnam **automobile stocks** illustrated a flat trend compared to the beginning of 2023 under the bleak information environment. Based on the positive outlook in 2H2023, we suppose that the valuation will show positive move.
Stocks Recommendation	**HAX** (ACCUMULATE, TP: VND18,300)
Risks	Consumers would not totally absorb the policies which stimulate car consumption, leading car sales to not recover as expected.

THE SALES OF PASSENGER CARS TUMBLED IN 1H2023

Weakening sales in the unfavorable business conditions

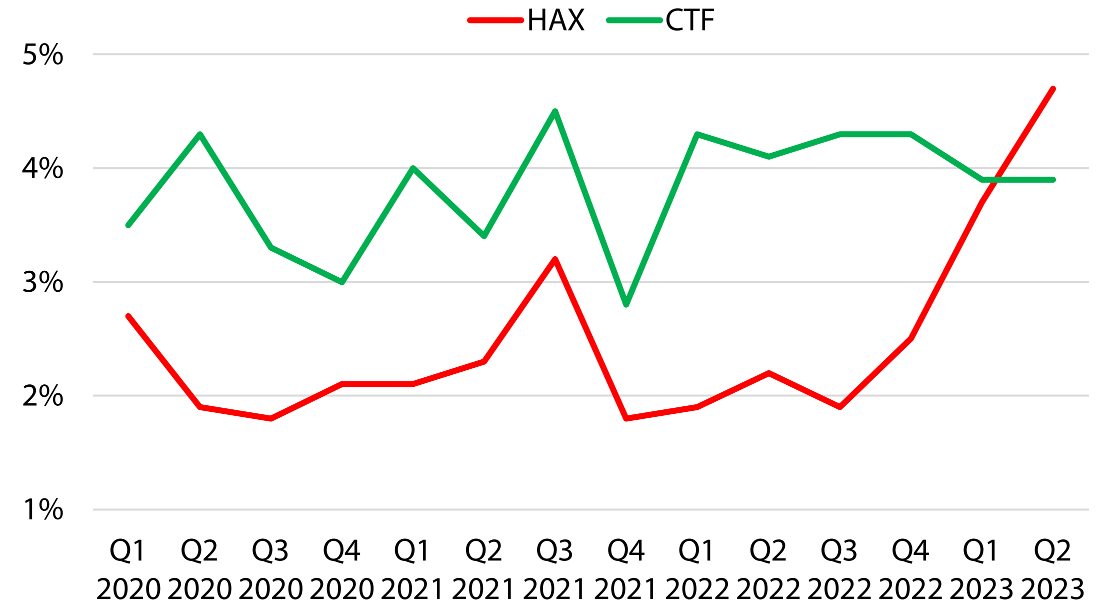
- In 1H2023, the sales of PCs was 91,807 units, equivalent to growth of -40.8% YoY and -32.1% HoH. The main reasons of the weak consumption are 1) lack of supportive policies such as lower registration fees; 2) rising interest rate which drive loan rates to be higher; and 3) pent-up savings regarding weak economic outlook. In the first 6 months of 2022, PCs sales surged in the combination of lower registration fees and pent-up demand after lockdown period. Since Jul-2022, the sales of PCs presents a downward trend as the policy expired together with rising inflation.
- The sales of car distributors such as Haxaco (HSX: HAX) or City Auto (HSX: CTF) were weak on the back of unfavorable business conditions. Furthermore, their net profits showed negative growth as these companies spent a huge of selling expenses to stimulate car sales.

Figure 1: Sales of PCs by month (units, LHS) and growth (% YoY, RHS)



Source: VAMA, RongViet Securities

Figure 2: Selling expenses of car distributors remained at high level to stimulate car demand – Selling expenses/sales (%)



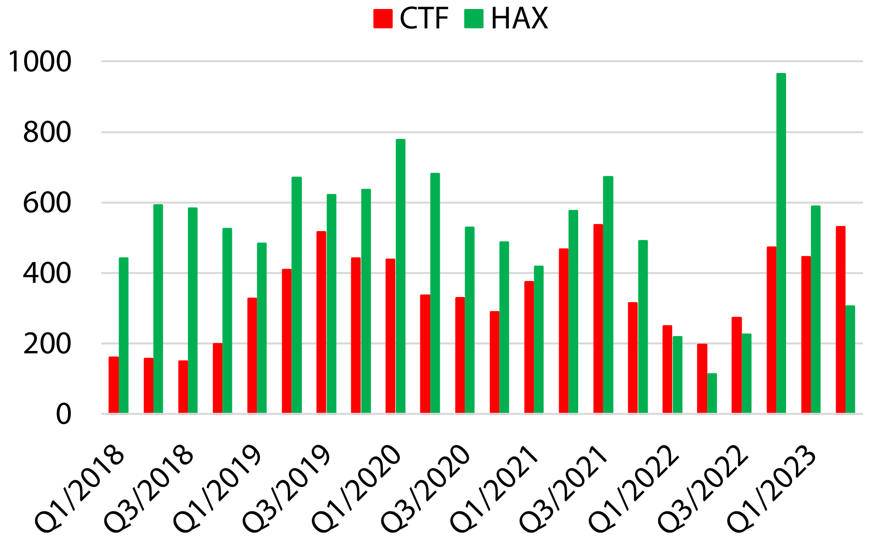
Source: Fiinpro, RongViet Securities

SELLING EXPENSES REMAINED HIGH IN 1H2023

High selling expenses is compulsory to optimize inventory as well as create premise for higher sales growth in 2H2023

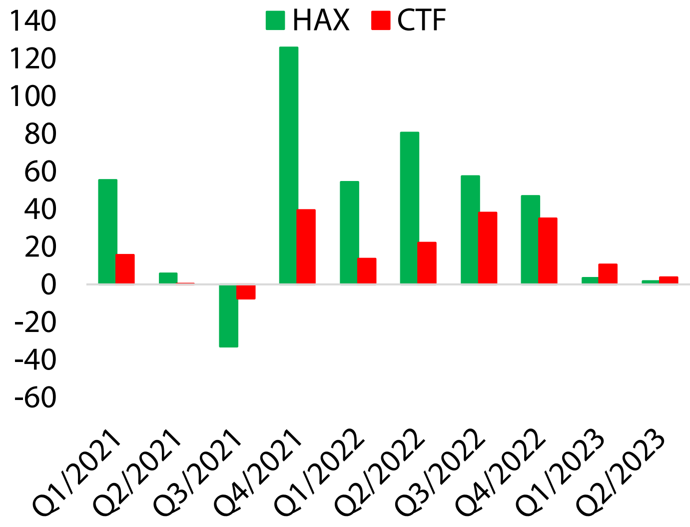
- In Q4 2022, car distributors increased their inventory of cars to prepare for 2023 business period. However, they underestimated the impact of rising inflation, thus the inventory remained high during 1H2023 (Figure 3). Because cars tend to depreciate quickly overtime (typically a new car loses 20% of its value in the first year, then 10% annually over the next four years), car distributors have to optimize their car inventory under weak demand environment. Therefore, we suppose that the high selling expenses is compulsory.
- In the combination of weak sales and high selling expenses, the net profit dropped in 1H2023 (Figure 4).

Figure 3: Car distributors increased inventory of cars (VND bn) in Q4 2022. In the context of weak demand, they have to keep selling expenses/sales at high level to optimize inventory



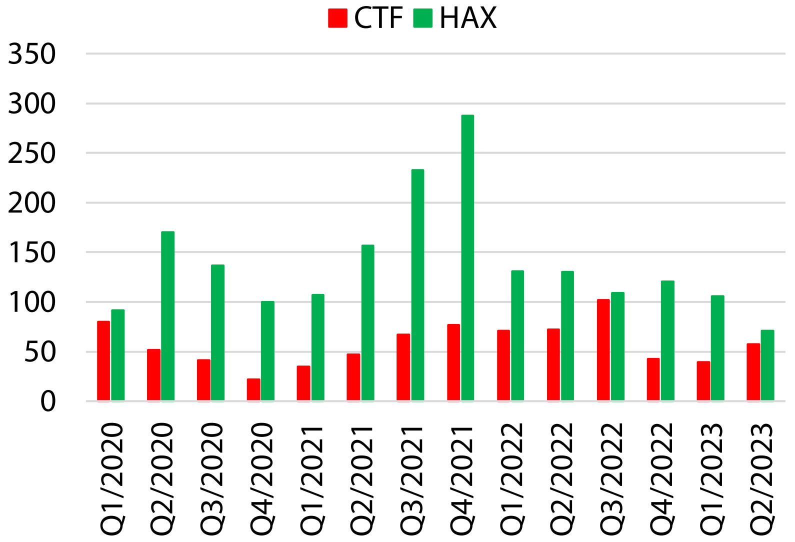
Source: Fiinpro, RongViet Securities

Figure 4: Net profit of HAX and CTF (VND bn)



Source: Fiinpro, RongViet Securities

Figure 5: Car distributors kept receiving payment in advance (VND bn) from customers during economic downturn thanks to the effect of sales policies



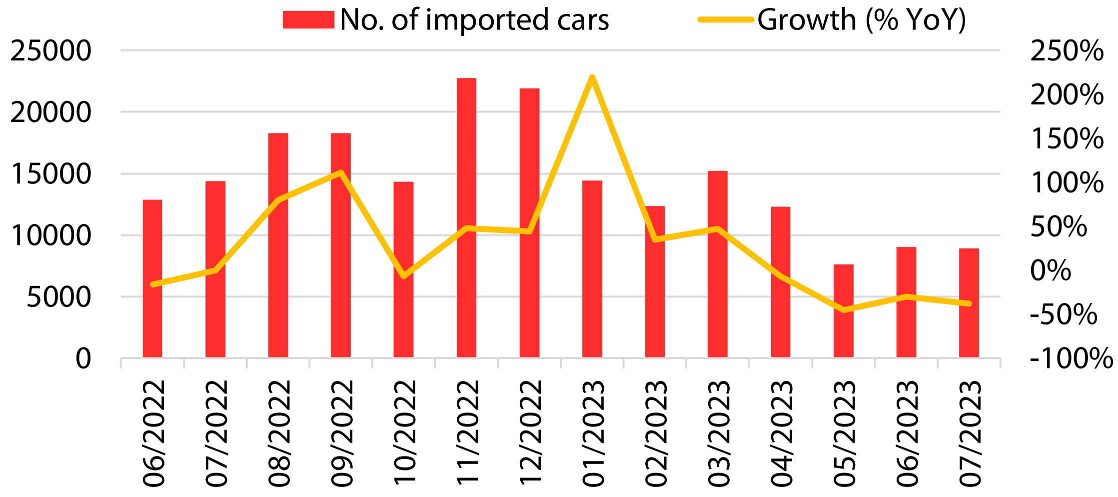
Source: Fiinpro, RongViet Securities

CAR SALES IS BELIEVED TO GO UP IN 2H2023

2H2023 is turning out to be a better time for automobiles consumption than 1H2023

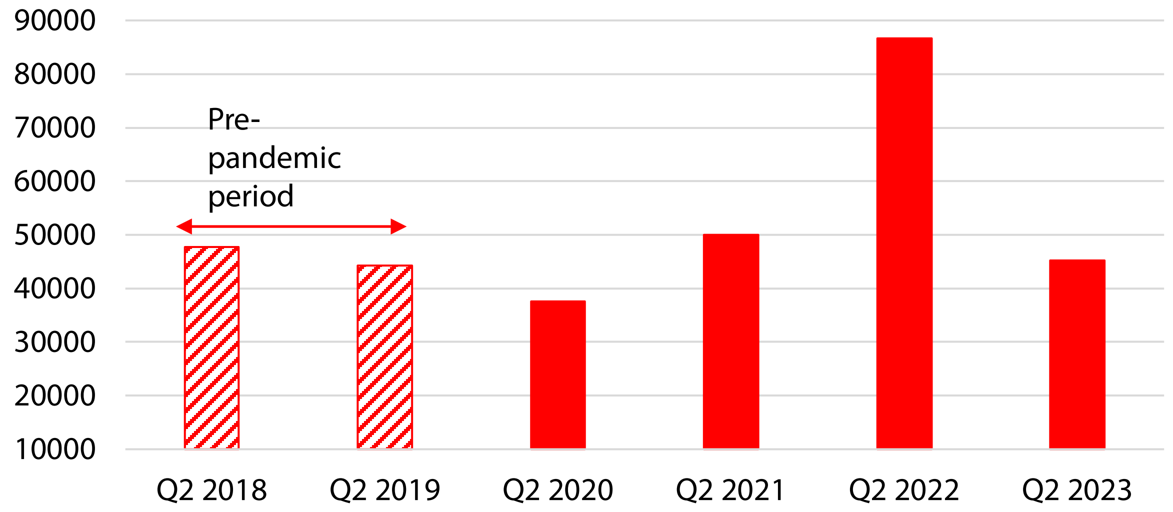
- The sales of passenger cars (PCs) and the imported car numbers hint recovery signals since Jun-2023 (Figure 1 & 6). The strong sales in Jun drove Q2 2023 sales of PCs back to pre-pandemic level despite the weak sales in Apr & May 2023 (Figure 7). The main engines are promotional campaigns launched by car distributors and better consumer sentiment. In addition, the sales of PCs in Jul-2023 continued increasing MoM, witnessed at 16,682 units (+6.7% MoM; -3.4% YoY).
- Supportive policies to boost consumers' confidence and spending in the H2 2023. In which, 50% cut in automobile registration fees for domestic manufactured and assembled automobiles decision will take effect since 01st Jul 2023. Moreover, we expect that lending rate will keep reducing in the H2 2023. Almost customers finance for their car expenditure by loans, thus we expected that the lower loan rate will fuel car demand.
- The completion of ring road and highway projects as part of fiscal policies to support economic growth since 2H2023. We believe that the mobility needs will be inspired by the convenience of road infrastructure, resulting in higher car ownership ratio.

Figure 6: The imported car numbers to Vietnam recovered since Jun-2023 (units, LHS) and growth (% YoY, RHS)



Source: Fiinpro, RongViet Securities

Figure 7: Q2 2023 Sales of PCs was back to pre-pandemic level (units)



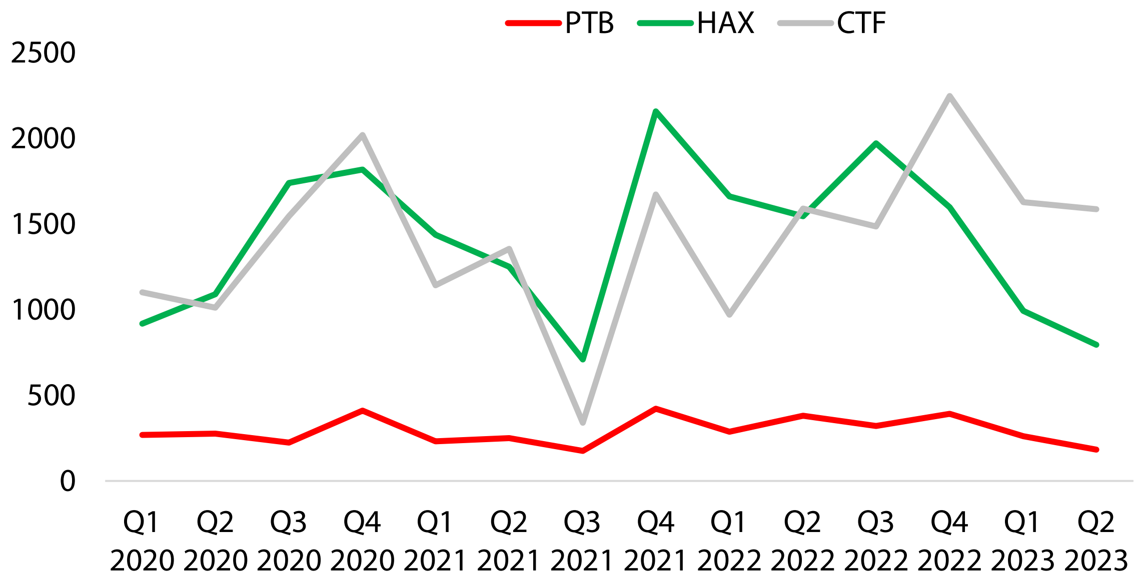
Source: VAMA, RongViet Securities

PROFIT MARGINS ARE EXPECTED TO EXPAND UNDER INCREASED CAR SALES

The combination of lower registration fees and higher car demands will help car distributors to save costs.

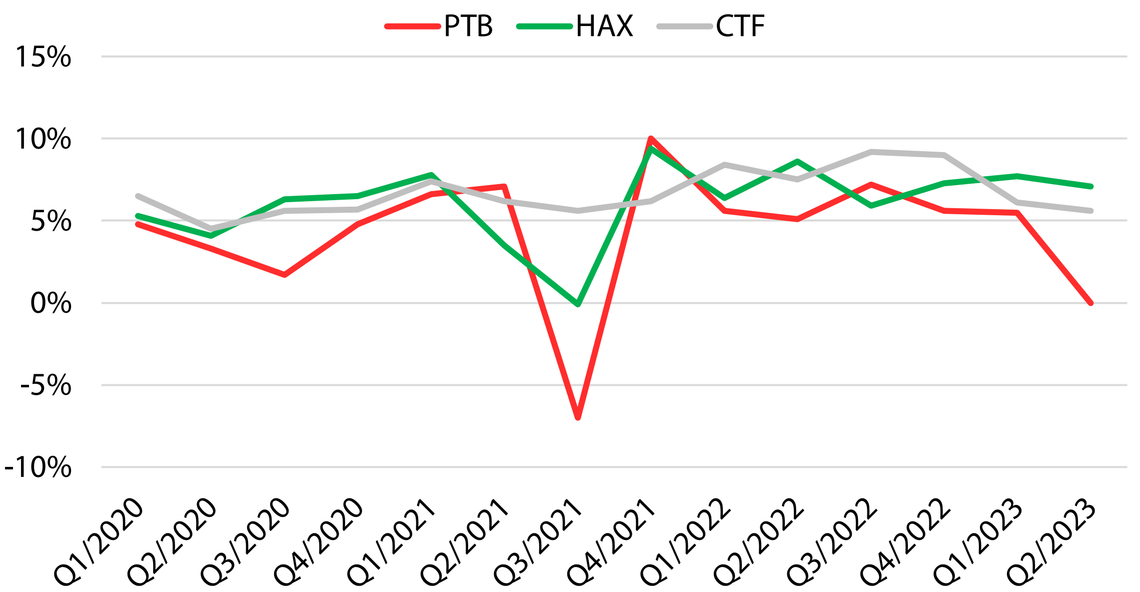
- In Q1 & Q2 2023, Vietnam automobiles distributors such as Haxaco (HSX: HAX) or City Auto (HSX: CTF) illustrated narrowed gross margin due to the weak car demand. These companies have to give more discounts on selling prices to attract customers, thereby encouraging car consumption. Therefore, we expect that the lower registration fees will help them to save the discounts on car's prices, resulting in improved gross margin.
- Among listed car distributors, we suppose HAX is a bright spot thanks to their ability to optimize gross margin. From figure 9, it can be seen that HAX has actively controlled the input costs, driving the gross margin to fluctuate in a narrow range as well as standing at the highest position compared to the peers during the economic downturn. Backed by this, we believe that the company will have more room to enlarge the gross margin in the recovery period.
- In the context of strong demand, car distribution companies, included HAX, will not have to spend huge money on selling expenses, thus leaving cashflow to net profit. As a result, we believe that HAX would present a higher net profit growth compared to other companies in the same industry.

Figure 8: Sales of HAX, CTF, PTB (Toyota distribution segment) (VND bn)



Source: PTB, HAX, CTF, RongViet Securities

Figure 9: Gross margin of HAX, CTF, PTB (Toyota distribution segment) (%) move in the same direction as the sales



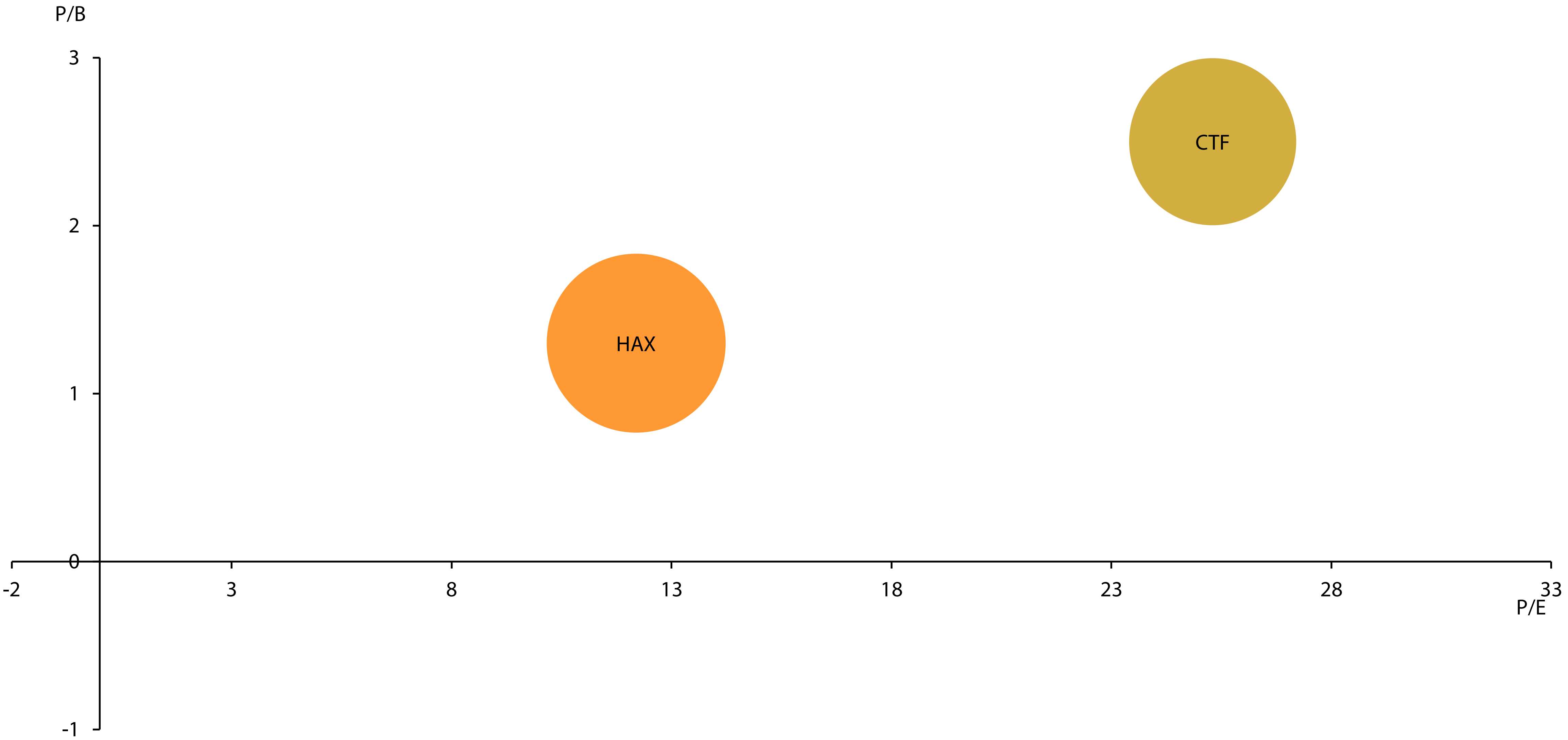
Source: PTB, HAX, CTF, RongViet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2023 's Profitability		P/E		P/B	
	($mn)	(VND)	(07/31/2022)			2022A	2023F	2024F	2022A	2023F	2024F	ROA(*)	ROE(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
HAX	60	18,300	17,100	500	38	22.0	-2.2	2.7	51.6	-1.4	8.1	9.9	15.0	6.0	7.1	1.0	1.4
CTF	101	n.r	30,000	n.a	49	39.9	n.a	n.a	213.2	n.a	n.a	10.5	3.5	25.3	239.1	2.5	2.3

Source: Fiinpro, RongViet Securities. Share price as of 31 Jul 2023

PE, PB AND ROE (TTM)

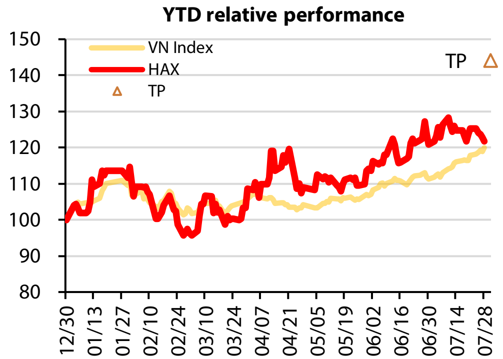


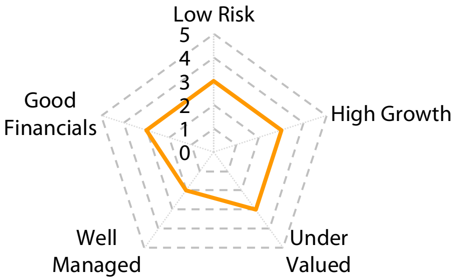
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 31 Jul 2023.

SALES TO IMPROVE IN THE H2 2023 OWING TO SUPPORTIVE POLICIES

HSX: HAX

ACCUMULATE: +19% **MP: 15,800** **TP: 18,300**





STOCK INFO

Sector	Automobiles
Market Cap ($ mn)	59
Current Shares O/S (mn shares)	90
3M Avg. Volume (K)	1,127
3M Avg. Trading Value (VND Bn)	17
Remaining foreign room (%)	38
52-week range ('000 VND)	9.6 - 21.2

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	6,775	6,627	6,809
NPAT-MI (VND bn)	239	228	244
ROA (%)	28.6%	18.4%	16.2%
ROE (%)	26.0%	9.4%	12.5%
EPS (VND)	4,204	2,643	2,832
BVPS (VND)	16,184	13,398	16,913
Cash dividend (VND)	435	500	500
P/E (x)	3.9	6.9	6.5
P/B (x)	1.0	1.3	1.0

INVESTMENT RATIONALES

The decision of 50% discount on registration fees, which has taken into effect since 01st Jul 2023 until Dec 2023, for local automotive will boost sales

- 2H2023 sales is expected to double the number of 1H2023 period, encouraged by the decision of 50% discount on registration fees. In the period of 2012-2022, even experienced Covid-19 pandemic, HAX' yearly sales drew an upward trend. Backed by this, we suppose that demand for Mercedes cars in Vietnam is strong across the economic cycle. Therefore, the consumers will raise their expenditure on owning the cars when the selling prices soften.

The rising car demand will help improve HAX 's operating profit margin

- We expect that when demand improves in the H2 2023, the company will spend less on promotion expenses, which will partly compensate to the increasing of depreciation cost (to Can Tho showroom). Therefore, we anticipate that the company's operating profit margin will show the improvement in the H2 2023.

Profit growth will depend on the commissions from Mercedes-Benz Group

- In 1H2023, HAX reduced its short-term debts and successfully converted its bond into shares. As such, we suppose that its interest expenses will drop in 2H2023
- We predict that HAX will book commissions from Mercedes-Benz Group in 2023. Because HAX's sales is expected to stable during 2022-2024F period, we believe that net profit growth will depend on these commissions.

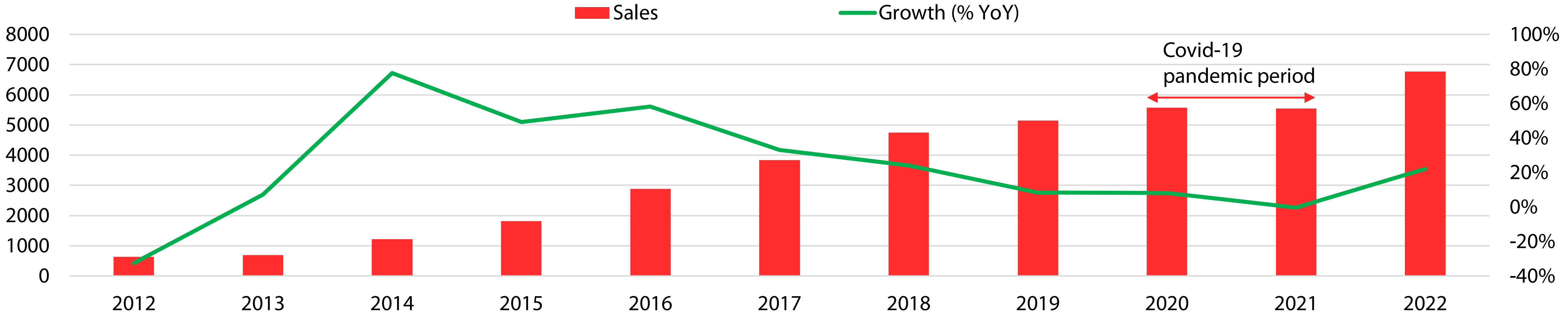
Decreasing loan rates will fuel Mercedes-Benz cars demand in 2H2023 and 2024

- Low loan rates is the most important factor, besides increasing income, affecting Mercedes car purchasing decision. As a result, we expect that the decreasing loan rates will encourage Mercedes-Benz cars demand in both 2H2023 and 2024.

RISKS TO OUR CALL

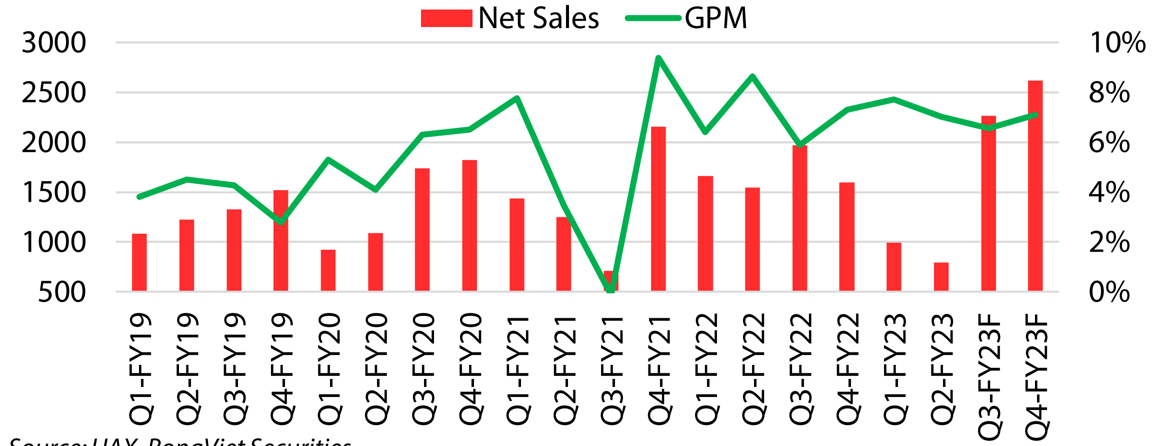
- The unpredicting commissions from Mercedes-Benz group which would lead the net profit to fluctuate.

Figure 1: HAX' yearly sales drew upward trend with 2012-2022 CAGR of +26.6% – Sales (VND bn, LHS) and Growth (% YoY, RHS)



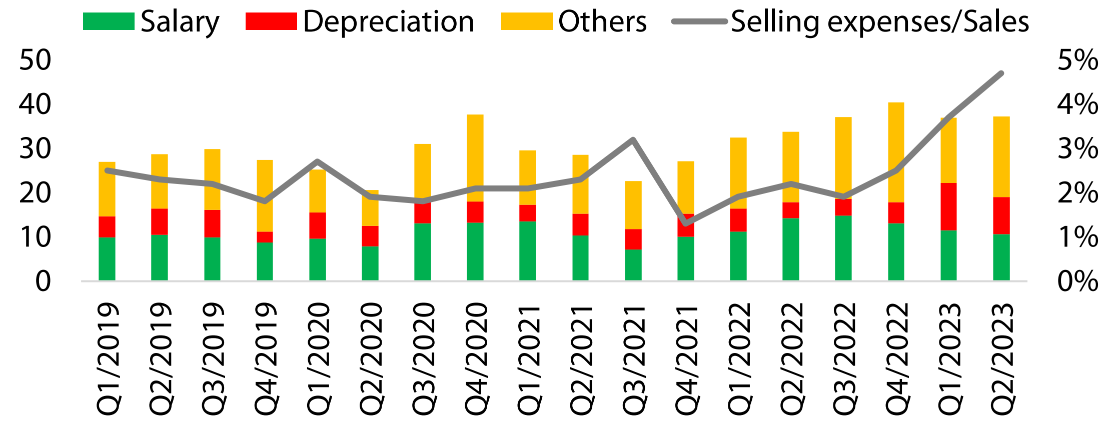
Source: HAX, RongViet Securities

Figure 2: HAX' s gross margin (%, RHS) would expand in the strong car demand environment (%) – Net sales (VND bn, LHS)



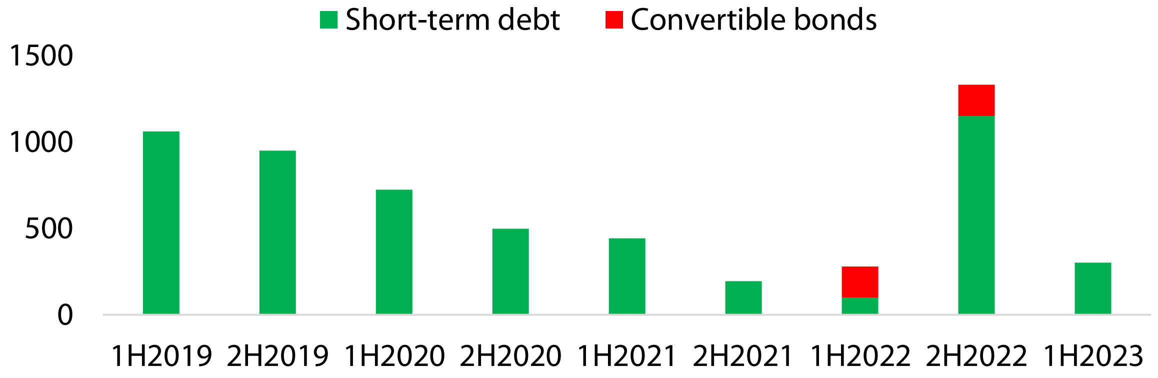
Source: HAX, RongViet Securities

Figure 3: The higher depreciation cost will partly be compensated by lower salary expenses – selling expenses breakdown (VND bn, LHS) and Selling expenses/ratio (%, RHS)



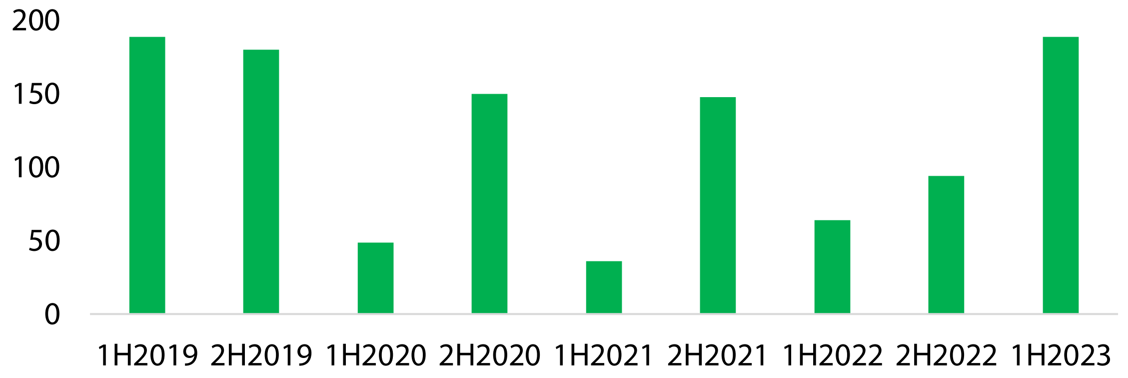
Source: HAX, RongViet Securities

Figure 4: HAX has reduced total debts in 1H2023, leading to ease interest expenses pressure in 2H2023 (VND bn)



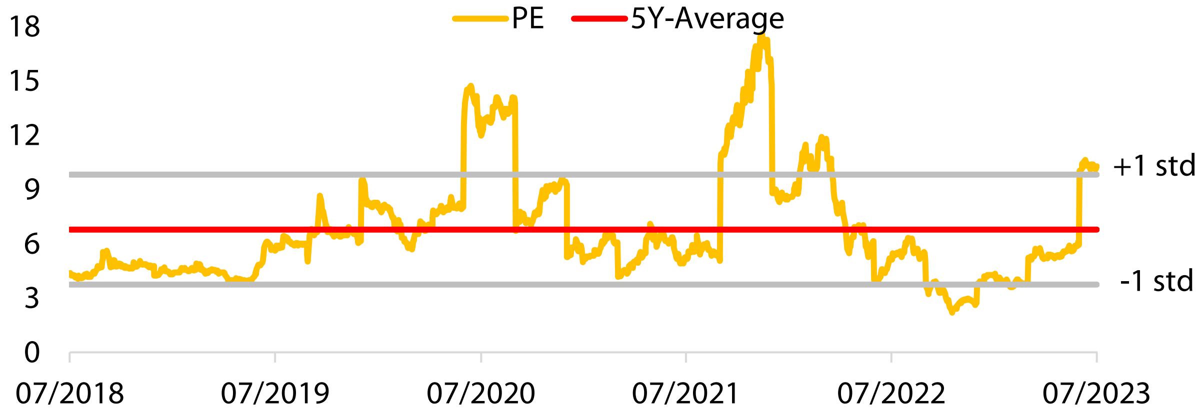
Source: HAX, RongViet Securities

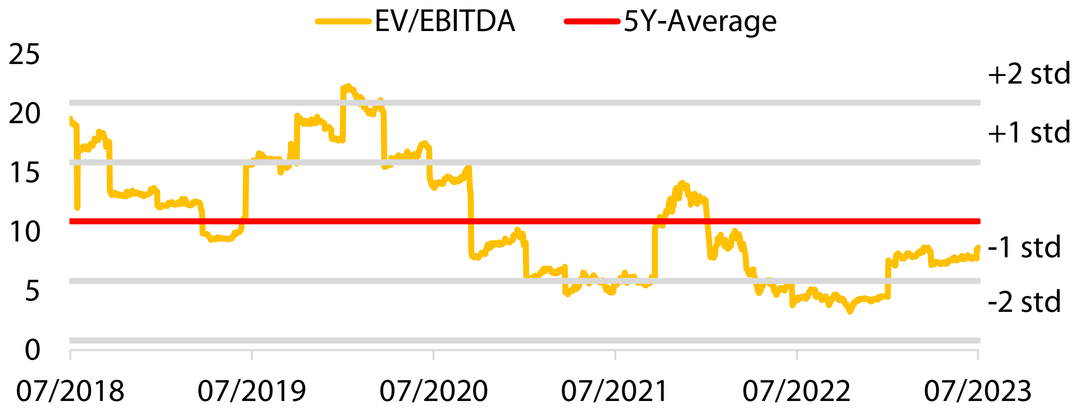
Figure 5: HAX has not book the commission from Mercedes-Benz Group in 1H2023, thus we expect it will book in 2H2023 – Account payable from Mercedes-Benz Group (VND bn)



Source: HAX, RongViet Securities

Figure 6: HAX' stock prices has increased from the beginning of Jun-2023 after the lower registration fees decision was approved. The equivalent trailing P/E is 10.2x which above 5Y-average P/E level (6.7x). Therefore, we suppose that the positive catalysts has partly reflected on the stock price movement in short-term. However, in the long-term, we expect that the valuation of HAX shares remains attractive, evidenced by trailing EV/EBITDA of 8.6x which is under the 5Y-Average EV/EBITDA level (11.0x).





Source: Bloomberg, RongViet Securities

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