June, 2019

GEMADEPT CORPORATION - JSC (HSX: GMD)

Withstanding Fierce Competition

(VND bn)	1Q-FY19	4Q-FY18	+/- qoq	1Q-FY18	+/- yoy
Net revenue	629	687	-8%	689	-9%
PAT	120	155	-23%	1,267	-91%
EBIT	148	97	52%	106	40%
EBIT margin	23.5%	14.2%	+933bps	15.3%	+819bps

Source: GMD, Rong Viet Securities

1Q 2019 - Positive results from port operation and gains from joint ventures

- GMD fulfilled 22% and 23% of 2019 revenue and PBT targets, respectively.
- PAT sharply decreased given last year's one-off income from selling stakes in Logistics and Shipping subsidiaries.
- Excluding extraordinary items, core PBT grew 9% YoY.

2019 Outlook - Core businesses to maintain healthy growth

- Stable growth in volume throughput.
- The HICT deep-water port will less affect GMD ports in Haiphong than those of its competitors.
- Affiliates' income will continue to boost earnings
- Restart deep-water port, Gemalink project, doubling capacity by 2021.

Valuation and recommendation

After many years and lack of capital, the Gemalink deep-water port project has been restarted. As shipping lines tend to use large vessels to transport containers, this strategic project is crucial for GMD in order to secure fast container volume growth in Cai Mep, Vung Tau. GMD will compete directly with market leaders Saigon New Port and Vinalines.

In the short term, however, growth is mostly coming from the northern port cluster. This region is facing fierce competition due to oversupply, especially after the arrival of a new player, HICT deep-water port. Service prices are declining but we believe GMD's volume growth can compensate for this. Also, we think GMD's ports have several advantages compared to other river ports to withstand the competition from HICT. In addition to owning a good position in the downstream, GMD also has experience in port operation and adds more value to its customers through offering a chain of logistics services (seaports, freight transportation, warehouses and distribution centers). Moreover, most of GMD's customers do not have direct calls at HICT.

Operations of logistics associates are improving. Overall, we expect GMD's core EBT to grow to 24% YoY in 2019. We estimate the fair value of GMD at ***VND 30,000*** *per share and reiterate* ***BUY*** *with a total return of 21%.*

In terms of risks, investors should pay attention to the annual losses related to rubber plantation in recent years. This item is unpredictable yet a significant factor affecting PBT from 2019 onwards. In 2019, we assume that GMD will record a VND70 Bn loss from the rubber segment (accounting for around 10% of 2019 EBT).

BUY	+21%
Target price (VND)	30,000
Current market price (VND)	26,100
Cash dividend (VND)*	1,500

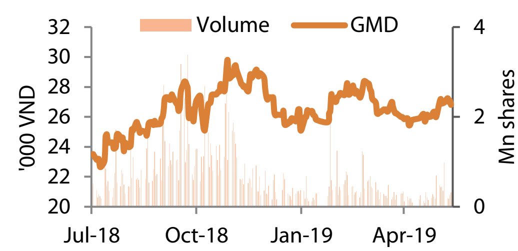
** Expected in the next 12 months*

Stock Info

Sector	Industrials
Market Cap (VND billion)	7,567
Current Shares O/S	288,277,000
Avg. Daily Volume (in 20 sessions)	206,864
Free float (%)	53
52 weeks High	29,800
52 weeks Low	22,197
Beta	1.02

	FY2018	Current
EPS	6,223	1,737
EPS Growth (%)	253	-72
Diluted EPS	6,223	1,737
P/E	4.2	15.1
P/B	1.2	1.3
EV/EBITDA	11.8	10.1
Cash dividend yield (%)	26.6	5.7
ROE (%)	31.4	8.7

Price performance



Major Shareholders (%)	
VI Fund II, L.P	29.55
Le Thuy Huong	4.96
ReCollection Pte. Ltd.	4.59
Foreign ownership room (%)	0

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Exhibit 1: 1Q 2019 Results

(VND Bn)	*1Q-FY19*	*4Q-FY18*	*+/- qoq*	*1Q-FY18*	*+/-(yoy)*
Net revenue	629	687	-8.5%	689	-8.7%
Gross profit	250	207	20.5%	205	21.7%
SG&A	102	110	-7.1%	100	2.3%
Operating income	148	97	51.7%	106	40.1%
EBITDA	236	187	26.5%	183	28.7%
EBIT	148	97	51.7%	106	40.1%
Financial expenses	44	46	-4.7%	20	124.3%
- Interest Expenses	36	43	-16.5%	24	52.5%
Dep. and amortization	88	89	-1.0%	78	13.4%
Non-recurring items (*)	4.8	0.0	n.a	-14.8	-132.3%
Extraordinary items (*)	1.1	0.0	n.a	1,379.6	-99.9%
PBT	161	188	-14.5%	1,507	-89.3%
PAT	120	155	-22.6%	1,267	-90.6%
(*) Adjusted PAT	155	188	-17.6%	142	9.1%

Source: GMD, Rong Viet Securities

Exhibit 2: 1Q 2019 Performance Analysis

Particulars	*1Q-FY19*	*4Q-FY18*	*+/- qoq*	*1Q-FY18*	*+/-(yoy)*
Profitability Ratios (%)	39.7	30.2	957bps	29.8	994bps
Gross Margin	37.5	27.1	1,039bps	26.6	1,093bps
EBITDA Margin	23.5	14.2	933bps	15.3	819bps
EBIT Margin	19.0	22.5	-348bps	183.9	-16,490bps
Net Margin	24.7	27.4	-272bps	20.7	402bps
Adjusted Net Margin	39.7	30.2	957bps	29.8	994bps
Turnover *(x)					
-Inventories	23	32	-8.6	24	-0.2
-Receivables	2.4	3.2	-0.9	3.3	-0.9
-Payables	0	1	-0.1	0	0.2
Leverage (%)					
Total Debt/ Equity	20.9%	22.4%	-148bps	25.0%	-415bps

Source: Rong Viet Securities

Exhibit 3: 2Q 2019 Performance Forecast

Particulars (VND Bn)	2Q-FY19	+/- qoq	+/- yoy
Revenue	665	9%	665
Gross profit	277	3%	277
EBIT	164	9%	164
NPAT*	117	-57%	117

Source: GMD, Rong Viet Securities

** 2Q/2018, GMD recorded one-off gains of more than VND 239 bn from selling stake in GMD-Hoa Sen Port and reversing all provision of MSB shares.*

Update

1Q 2019: Positive results from port operation and gains from joint ventures

At the end of 1Q 2019, GMD completed 22% and 23% of its 2019 revenue and PBT targets, respectively. Port operation continues to be the main earnings driver. Gross profit of this segment increased 17% YoY and accounted for 91% of consolidated gross profit.

Table 1: 1Q 2019 Result

Unit: Bn VND	1Q 2018	1Q 2019	YoY%
Net sales	**689**	**629**	**-9%**
Port operation	499	561	12%
Logistics	190	68	-64%
Gross profit	**205**	**250**	**22%**
Port operation	195	227	17%
Logistics	11	23	116%
GPM	**30%**	**40%**	**995bps**
Port operation	39%	41%	146bps
Logistics	6%	34%	2,823bps
SG&A	-100	-102	2%
% SG&A/Net sales	15%	16%	175bps
EBIT	**106**	**148**	**40%**
Gain from JVs	23	43	83%
Financial gain/(loss)	1,375	-33	-102%
Other gain/(loss)	3	3	1%
EBT	**1,507**	**161**	**-89%**
Extraordinary income	*-1,365*	*-6*	*-100%*
Core EBT	**142**	**155**	**9%**

Source: GMD, Rong Viet Securities

Port volume throughput growth remains stable

In Hai Phong: Total volume reached 210K TEU (+4% YoY). According to our observation, GMD hasn't received any new services here since last year. In 1Q 2019, the number of weekly calls remained unchanged from last year at 14-15. Nam Dinh Vu phase 2 will be delayed because (1) GMD prioritizes Gemalink project at Cai Mep, Vung Tau and (2) the current utilization rate of Nam Dinh Vu (phase 1) is still low (30% designed capacity). With the build-to-suit motto, GMD will consider the demand from shipping lines before expanding. Currently, we believe that GMD is less affected by competition from HICT deep-water port in Lach Huyen than other rival ports (such as VIP Green, Tan Vu and Dinh Vu) as GMD's main customers don't have direct service routes at HICT.

In the Central: Dung Quat port volume **increased 40-45% YoY,** mainly due to the higher demand for project cargo supplies in Vietnam Singapore Industrial Park in Quang Ngai. The remaining cargoes are mainly wood chips exported to Japan and China to serve paper production.

In HCMC: Cargo volume grew well thanks to the contribution from Binh Duong port. GMD also plans to expand Binh Duong port (raising handling capacity to 500K TEU per annum) to support deep-water port Gemalink in the long term.

We believe that port operation margins increased slightly because of improved performance at Nam Dinh Vu and Binh Duong port.

Logistics segment was highly effective thanks to asset leasing activities

Along with shipping agency activities, GMD also leases barges to its affiliate, CJ GMD Shipping Holdings, servicing the Can Tho-Cambodia and HCM-Cai Mep route. This activity brought a relatively high GPM for this segment (see table 1).

Gains from associates showed positive growth

CJ GMD Shipping Holdings joint venture started contributing profits this quarter (compared to a loss of VND 13 billion last year). Encouraging given Vietnam's container shipping industry is still facing difficulties due to falling freight rates, fierce market competition, oversupply and fluctuating oil prices. Currently, this joint venture owns and manages 4 vessels and over 10 barges.

As usual, SCSC contributed most to GMD's profits.

Table 2: Gain/loss from JVs (Bn VND)

JVs	1Q 2018	1Q 2019	YoY%
SCSC	29.9	38.8	30%
CJ GMD Logistics	n.a	2.8	n.a
CJ GMD Shipping	n.a	4.6	n.a
Gemalink	-3.2	-3.3	3%

Source: GMD

Despite its rubber segment divesture plans, GMD continued to invest another VND 17 billion in the first quarter.

Gemalink deep-water port project: estimated to be profitable after 3 years of operation

Gemalink will test run in the second half of 2020 and officially operate in early 2021. Phase 1 capacity is 1.5 million TEU, doubling the total container handling capacity of GMD ports system to about 3.2 million TEU/year.

Gemalink Port's competitive advantages:

- Well-located at the Thi Vai river mouth with the deepest draft, able to accommodate very large mother ships;

- The main berth of 1,150m in length can simultaneously serve 3 mother ships;

- Owns a separate berth for feeder vessels/barges.

Competition in Cai Mep area

GMD's competitors here can be divided into two main groups: joint ventures of Saigon New Port SNP (TCIT, TCCT, Tan Cang ODA) and joint ventures of Vinalines MVN (CMIT, SSIT). Like Gemalink, most of these joint-venture ports have shares of foreign shipping companies to back up cargo volume (see Table 3).

Table 3: Gemalink's competitors

Company	Shareholders	Customers
TCIT + TCCT	SNP, MOL, Wan Hai Line, Hanjin	COSCO, OOCL, Wan Hai, Hyundai and THE Alliance (Yang Ming, ONE, Hapag Lloyd)
TCTT (Tan Cang ODA)	SNP	ZIM, Maersk
CMIT	Vinalines, SGP, APM Terminal (Maersk)	CMA-CGM/APL, Maersk, MSC
SSIT	Vinalines, SGP, SSA Marine	MSC

Source: SNP, MVN, Rong Viet Securities

Currently, CMA-CGM (a shareholder holding 35% stake in Gemalink) is calling at CMIT. In 2018, estimated volume of this liner was 450K TEU. CMA-CGM will be calling at Gemalink in 2021. Assuming 10% annual growth in the next 3 years, CMA-CGM could account for 40% of Gemalink's capacity by 2021 (600K TEU).

Together with CMA-CGM, COSCO, OOCL, Evergreen are also in the a maritime alliance, namely Ocean Alliance. However, we think these allied shipping lines are unlikely to shift their services to Gemalink as they are cooperating with Saigon New Port Corporation (SNP), the biggest port operator in Vietnam. SNP possesses advantages including an extensive network of ICD ports, warehouses and logistics centers in Ho Chi Minh City, Dong Nai and Binh Duong. With this network, SNP can enjoy economies-of-scale and offer customers better logistics chain services at competitive prices.

Financial concerns of this project

The total investment for this project is around USD 330 million, including (1) equity worth USD 120 mn (contributed since 2010 to rent land) and (2) loans worth USD 210 million (preliminary estimate). Loans will be used for infrastructure construction (about USD 120 million) and equipments (USD 80-90 million).

Table 4: Gemalink's forecasted results

Unit: Bn VND	2021F	2022F	2023F	2024F	2025F
Sales	771	993	1,023	1,264	1,302
Volume ('000 TEU)	**624**	**780**	**780**	**936**	**936**
COGS	597	686	698	795	810
Gross profit	174	307	325	470	492
Interest expenses	322	295	283	254	224
PAT	**-187**	**-38**	**-9**	**138**	**183**

Source: Rong Viet Securities

Gemalink is likely to occur a loss in the first years of operation given large interest and depreciation expenses. Main risks to the project are interest rates and client concentration.

Having said that, we believe that owning a deep-water port is necessary for GMD to maintain its position in the seaport industry, especially as shipping lines tend to upsize vessels. In the long term, we expect shipping lines to add more services in this area. We have a positive outlook for this project and expect GMD to negotiate and successfully attract new customers going forward.

FY2019 Forecast

Table 5: 2019 Forecast

Unit: Bn VND	2018	2019F	YoY%	Notes
Sales	2.708	2.859	+6%	Slight rise in volume throughput, 1.8 million TEU (+ 8% YoY). In particular, the Hai Phong port cluster will serve 1 million TEU (+ 6% YoY). We assume there will be no new shipping services here due to intense competition, compared with the assumption of an additional 2 calls per week at Nam Dinh Vu in our last report. In HCM City, ICD Phuoc Long and Binh Duong port are expected to reach 800K TEU (+ 10% YoY).
Gross profit	968	1.143	+18%	Consolidated GPM will approach the GPM of port operation (41% for 2019) as this segment will contribute 93% to consolidated gross profit.
GPM	*36%*	*40%*	*+420 bps*	
SG&A	-423	-465	+10%	
Financial gain/loss	1.582	-128	n.a	
Gain from JVs	**133**	**174**	**+31%**	
SCSC	*136*	*156*	*+15%*	
CJ GMD Logistics Holding	*28*	*31*	*+10%*	
CJ GMD Shipping Holding	*-13*	*5*	*n.a*	
Gemalink	*-13*	*-13*	*0%*	
Other JVs	*-5*	*-5*	*0%*	
Other losses	-78	-70		Rubber plantation expenses
PBT	2.182	653	-70%	
Core PBT	**582**	**723**	**+24%**	

Source: Rong Viet Securities

Valuation

We use a sum-of-the-parts valuation method to estimate the fair value of GMD.

Table 6: Valuation summary

Unit: Bn VND	GMD's ownership	Method	Corresponding fair value
Core businesses (1)		EV/EBITDA @ 6x	3,650
Key affiliates (2)			4,290
SCSC	33%	DCF và P/E 18x	2,560
CJ GMD Logistics Holding	49%	P/E @ 10x	310
CJ GMD Shipping Holding	51%	P/B @ 1x	80
Gemalink	65%	P/B @ 1x	1,340
Non-core companies (3)*		P/B @ 0,5x	950
Total = (1) + (2) + (3)			**8,890**
Total outstanding shares (mn)			297
Fair value per share			**30,000**

Source: Rong Viet Securities

** Book value of rubber subsidiaries and associates related to real estate and other activities.*

We use a P/B valuation method with a target multiple of 1x for the Gemalink project instead of the 50% previously because the project has officially restarted earlier this year.

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	3,984	2,708	2,859	3,116
COGS	2,955	1,739	1,716	1,789
Gross profit	**1,029**	**968**	**1,143**	**1,327**
Selling Expense	87	102	122	147
G&A Expense	344	321	343	395
Finance Income	173	1,625	17	19
Finance Expense	146	44	145	145
Other income/loss	-83	-78	-70	-70
PBT	**650**	**2,182**	**653**	**740**
Prov. of Tax	69	282	62	76
Minority's Interest	74	53	67	69
PAT to Equity S/H	**508**	**1,848**	**524**	**595**
EBIT	597	546	677	786
EBITDA	909	881	1,030	1,159

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	6.5	(32.0)	5.6	9.0
Operating Income	(3.2)	(3.1)	16.9	12.6
EBITDA	(9.3)	(8.7)	24.1	16.1
PAT	30.3	263.8	(71.6)	13.5
Total Assets	11.6	(11.6)	(0.5)	6.2
Equity	22.8	(7.3)	2.3	5.1
Profitability (%)				
Gross margin	25.8	35.8	40.0	42.6
EBITDA margin	22.8	32.5	36.0	37.2
EBIT margin	15.0	20.2	23.7	25.2
Net margin	12.7	68.2	18.3	19.1
ROA	4.5	18.5	5.3	5.6
ROE	8.0	31.4	8.7	9.4
Efficiency				(times)
Receivable Turnover	3.5	2.9	2.9	2.9
Inventory Turnover	27.4	26.5	26.5	26.5
Payable Turnover	1.5	2.1	2.1	2.1
Liquidity				(times)
Current	0.8	0.9	1.1	1.2
Quick	0.8	0.9	1.0	1.2
Finance Structure (%)				
Total Debt/Equity	30.5	38.6	32.2	33.6
Current Debt/Equity	11.3	11.5	8.7	7.9
Long-term Debt/Equity	19.2	27.1	23.5	25.8

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	780	173	209	264
Short-term investments	113	112	112	112
Accounts receivable	1,128	949	1,002	1,092
Inventories	108	66	65	67
Other current assets	95	92	98	106
Property, plant & equipment	5,350	4,831	4,634	4,919
Acquired intangible assets	409	336	326	318
Long-term investments	2,310	2,632	2,714	2,914
Other non-current assets	998	794	774	754
Total assets	**11,291**	**9,984**	**9,933**	**10,547**
Accounts payable	1,915	847	835	871
Short-term borrowings	715	675	520	497
Long-term borrowings	1,221	1,592	1,417	1,629
Other non-current liabilities	300	299	293	287
Bonus and Welfare fund	47	42	51	60
Technology-science, dev. fund	0	0	0	0
Total liabilities	**4,197**	**3,455**	**3,116**	**3,345**
Common stock and APIC	4,825	4,911	4,911	4,911
Treasury stock (enter as -)	0	0	0	0
Retained earnings	1,113	542	621	919
Other comprehensive income	265	287	344	355
Inv. and Dev. Fund	141	141	141	141
Total equity	**6,344**	**5,880**	**6,017**	**6,325**
Minority Interest	**751**	**649**	**800**	**877**

VALUATION RATIO (*)	FY2016	FY2017	FY2018F	FY2019F
EPS (dong)	1,762	6,223	1,737	2,216
P/E (x)	18.0	4.2	15.1	11.8
BV (dong)	22,005	19,804	20,263	22,049
P/B (x)	1.3	1.2	1.3	1.2
DPS (dong/cp)	0	9,500	1,500	1,000
Dividend yield (%)	0	26,6	5,7	3,8

VALUATION MODEL	Price	Weight	Average
Sum-of-the-parts	30,000	100%	30,000
Target price (VND)			**30,000**

VALUATION HISTORY	Price	Recommendation	Period
09/19/2018	30.800	Accumulate	Long term
12/28/2018	33.000	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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