AVIATION

THE WORST HAS PASSED

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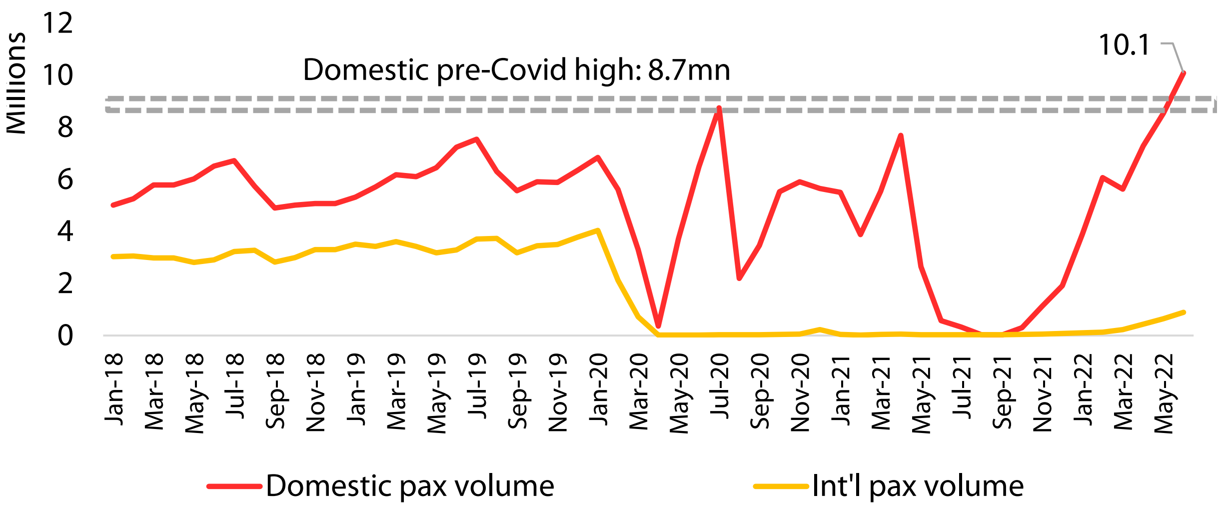
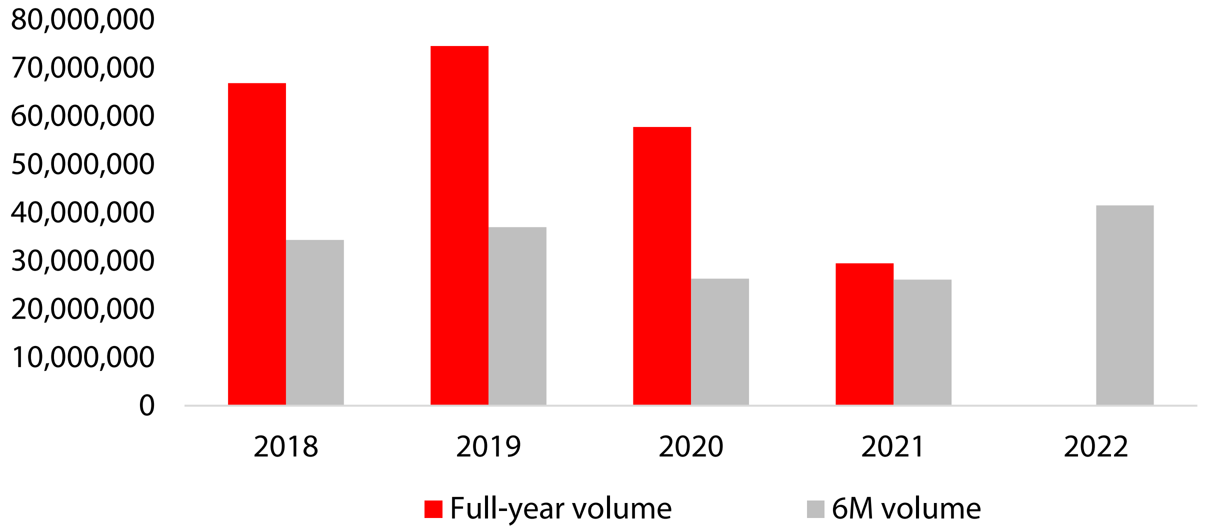
AIR PASSENGER VOLUME BROKE THE RECORD IN JUNE

Figure 1: Pax volume recorded a new all-time high of near 11 mn pax



Source: ACV, Rong Viet Securities

Figure 2: The strongest first-half-result of the domestic market



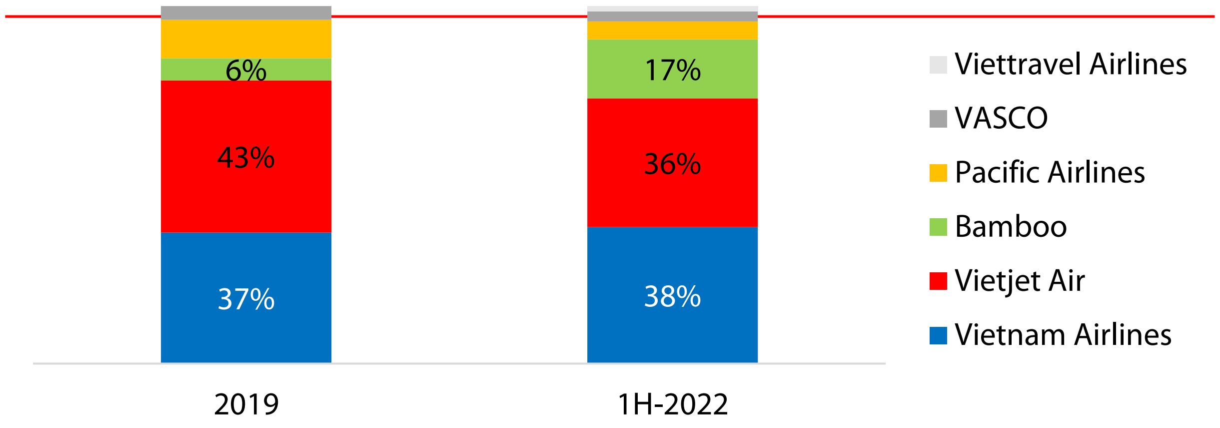
Source: ACV, Rong Viet Securities

- Domestic market maintains high momentum into the peak season, breaking the all-time high record in June 2022 with a volume of 10.1 mn pax.
- International market is gradually picking up but remains under 1mn pax in June 2022.

LOAD FACTOR IMPROVED SIGNIFICANTLY

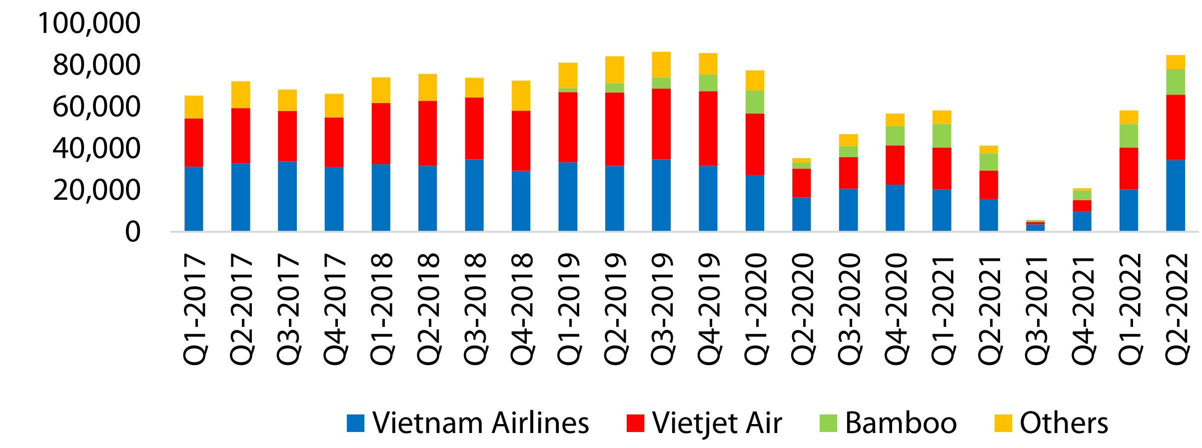
- The number of total flight of Vietnamese arilines is just around the peak in Q2 and Q3 of 2019 (~85k).
- Given the new high of quarterly pax volume, we estimate the implied pax per flights and, thus, load factors have improved largely in Q2-2022.
- Vietnam Airlines and Bamboo Airways saw their market shares growing after Covid.

Figure 3: Domestic airlines market share by number of flight post-covid



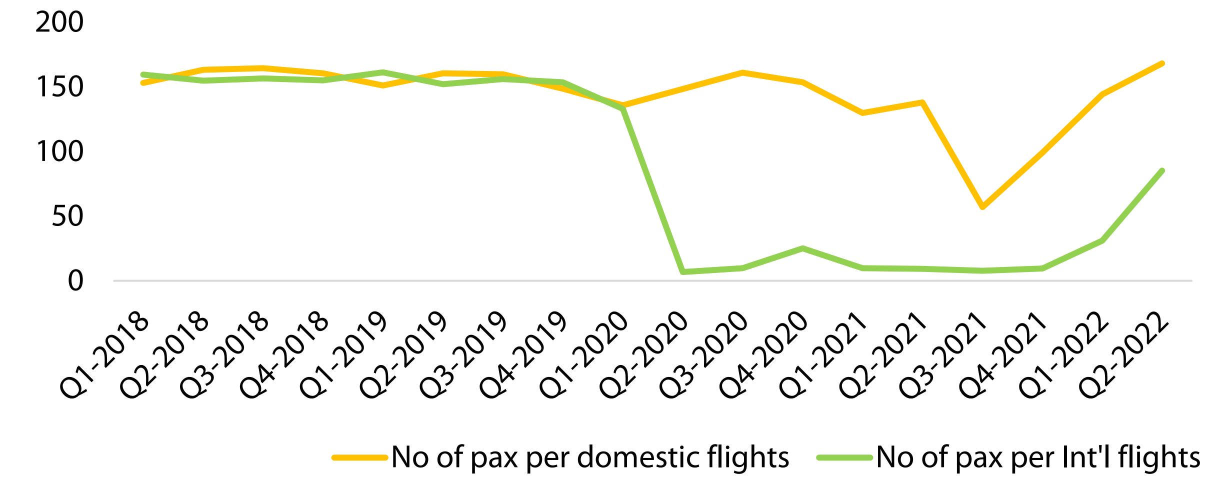
Source: CAAV, Rong Viet Securities

Figure 4: Total number of flights is reaching historaical high



Source: CAAV, Rong Viet Securities

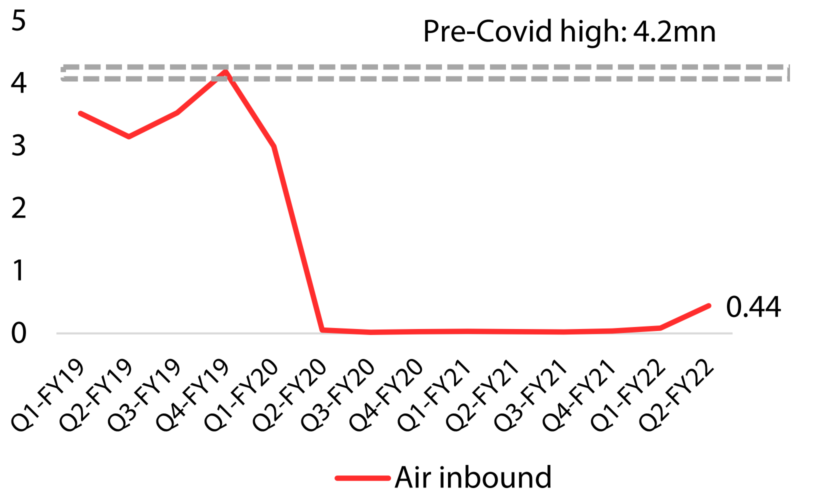
Figure 4: Improved load factor for domestic airlines



Source: ACV, Rong Viet Securities

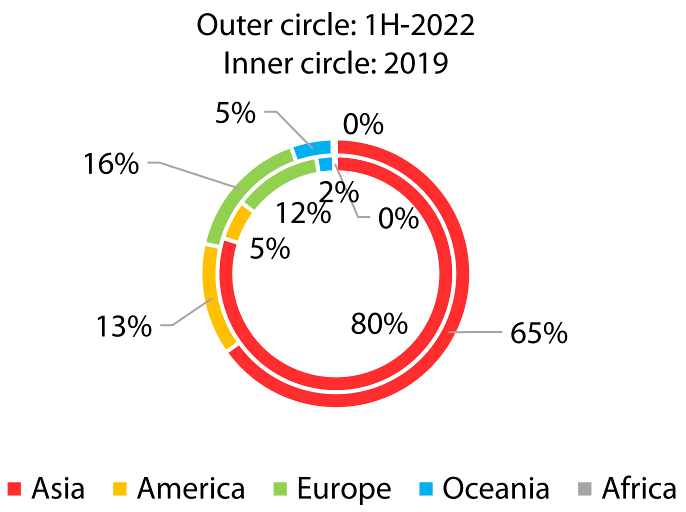
INTERNATIONAL TOURISTS INBOUND

Figure 6: International tourist inbound (mn)



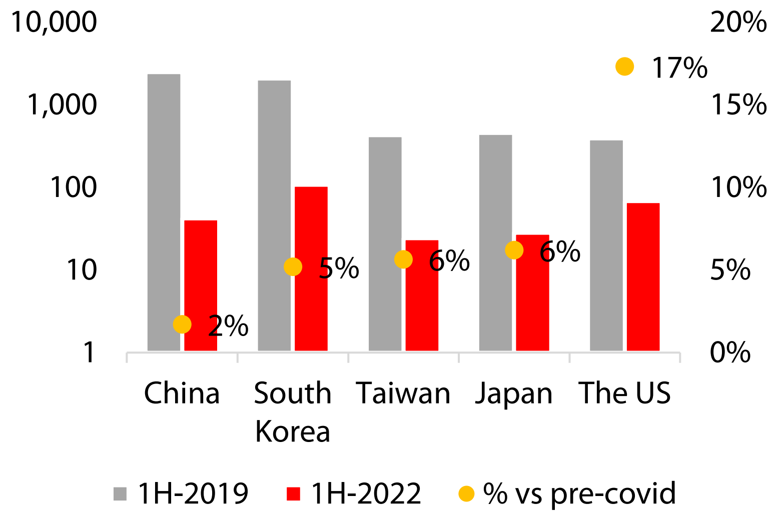
Source: GSO, Rong Viet Securities

Figure 7: International arrivals compositon



Source: GSO, Rong Viet Securities

Figure 8: Top 5 markets (Unit: '000 arrival)

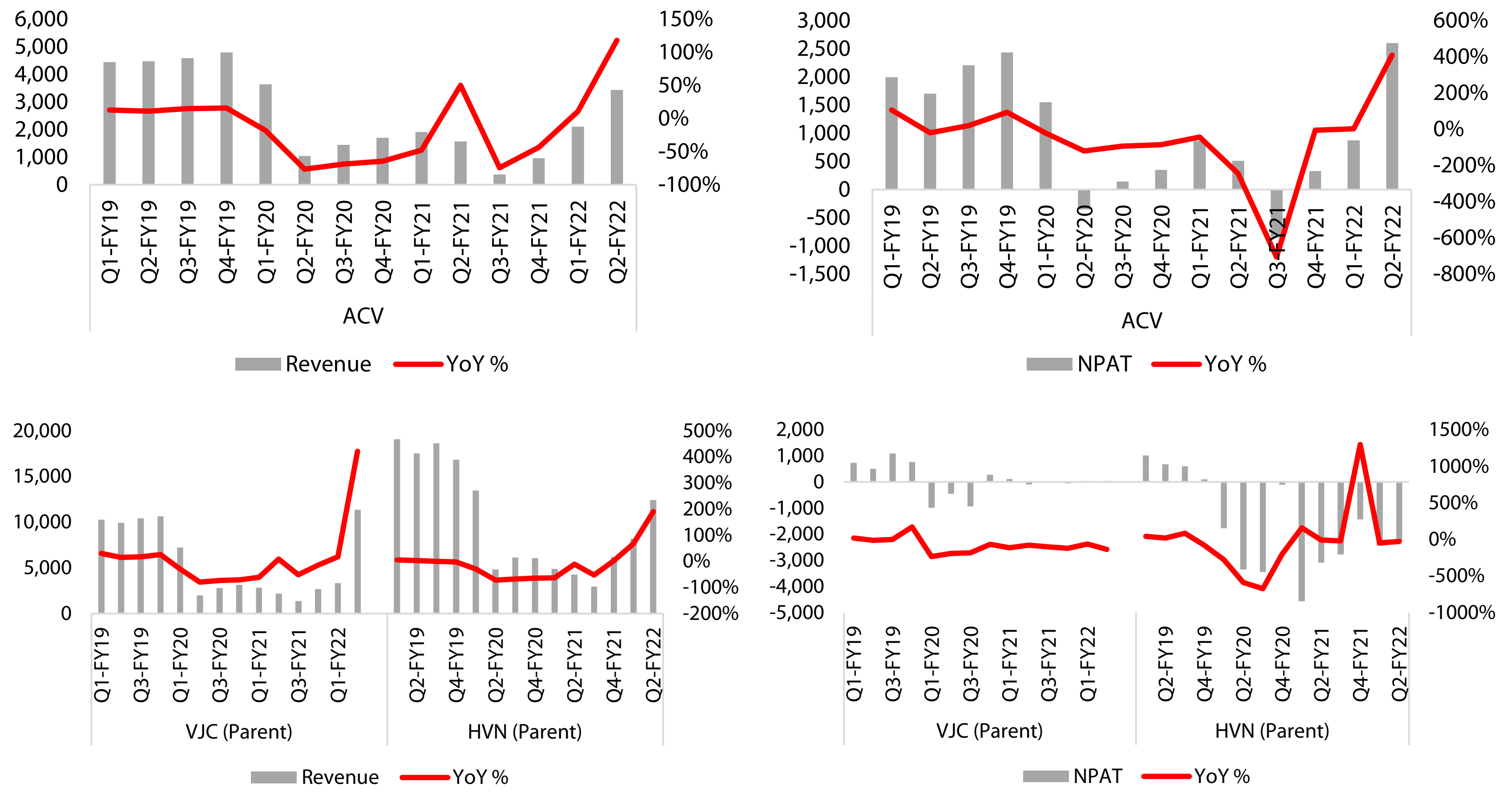


Source: GSO, Rong Viet Securities

- The international market is gradually recovering, but the recovery rate is still low because many countries and regions (especially Northeast Asian countries) are still applying regulations and policies on travel restrictions
- Asia remains the largest inbound market, but the contribution decreased to 65% from pre-covid level of 80% due to declining Chinese tourist, a result of its restrictive traveling policies.
- Vietnamese and foreign airlines to increase frequency, reopen/open new routes connecting Vietnam with India, Singapore, South Korea, Malaysia, China.

1H-2022 RESULTS: AIPORT OPERATOR SAW PROFIT RECOVERING FASTER THAN AIRLINES

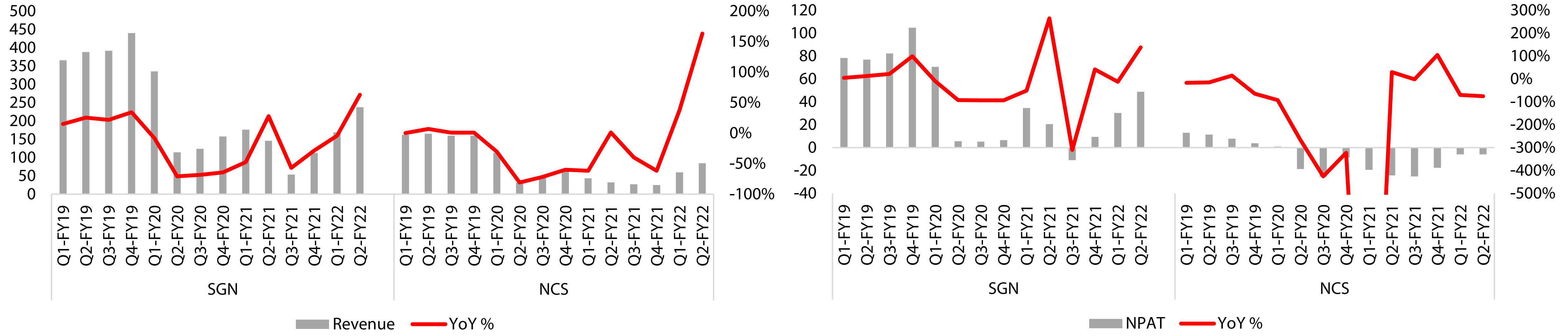
Figure 9: ACV, VJC, HVN's revenue and net profit



Source: Companies filings, Rong Viet Securities

- The strong passenger volume seen in May and June has directly driven ACV, VJC and HVN's sales in Q2-2022.
- ACV and HVN's sales recovered to around 70%~ pre-covid level while VJC's revenue in Q2-2022 exceeded Q2-2019's by 15% due to recognition of sales of aircrafts buying rights transfer.
- Unlike ACV who has a high operating leverage, airlines are still struggling to breakeven due to surging fuel expenses.

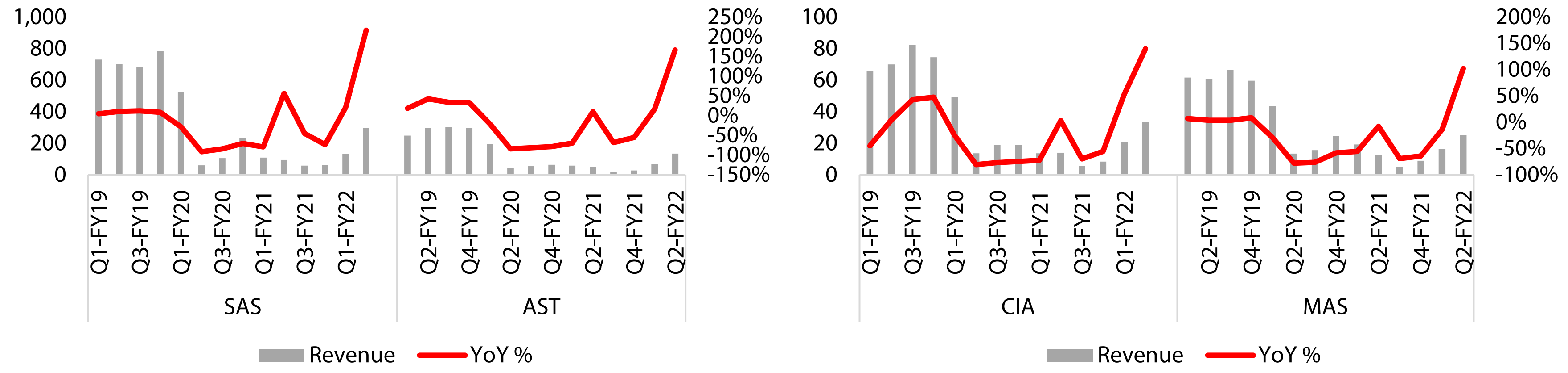
Figure: Ground handling operator SGN has recovered faster than air meals producer NCS in terms of both revenue and profit

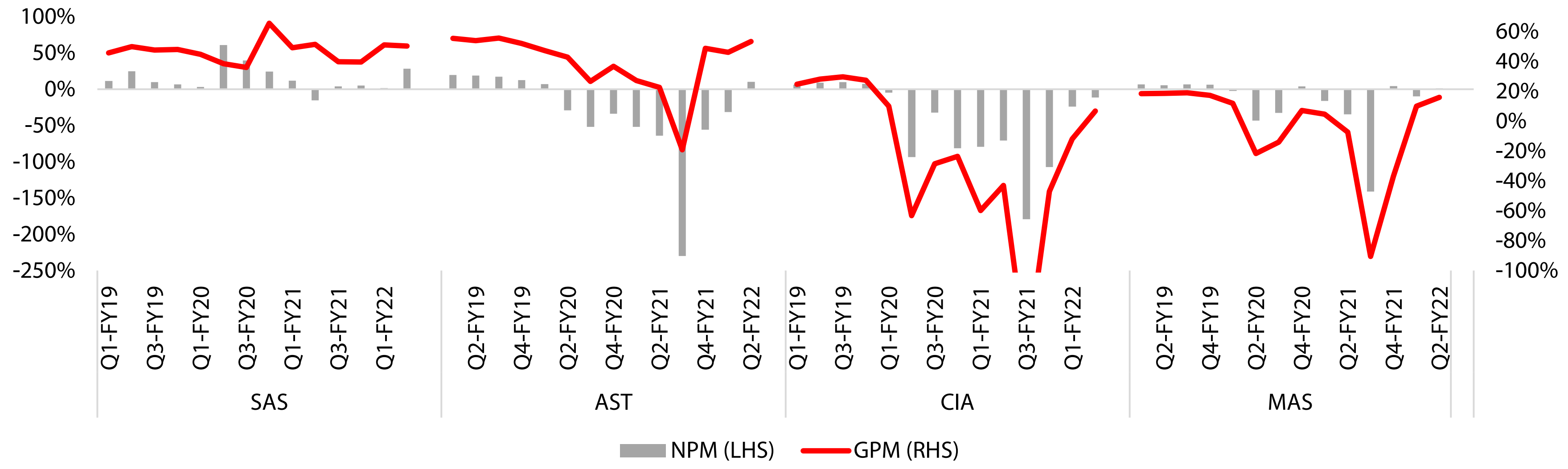


Source: Companies filings, Rong Viet Securities

- SGN's revenue stood at 60% pre-covid level while NCS's was only 50% due to increasing pressure from new competitor namely VINACS.
- SGN's high operating leverage and duopoly nature of the market supported the company to protect its profit margins and quickly recover its net profit given good number of total flights.
- Higher competition and lower contribution of international air meals make NCS's GPM contract to only 5% in 1H 2022 vs 15% in 2019, resulting in a continued net losses.

Figure 10-: Airport retailers' revenue and profit

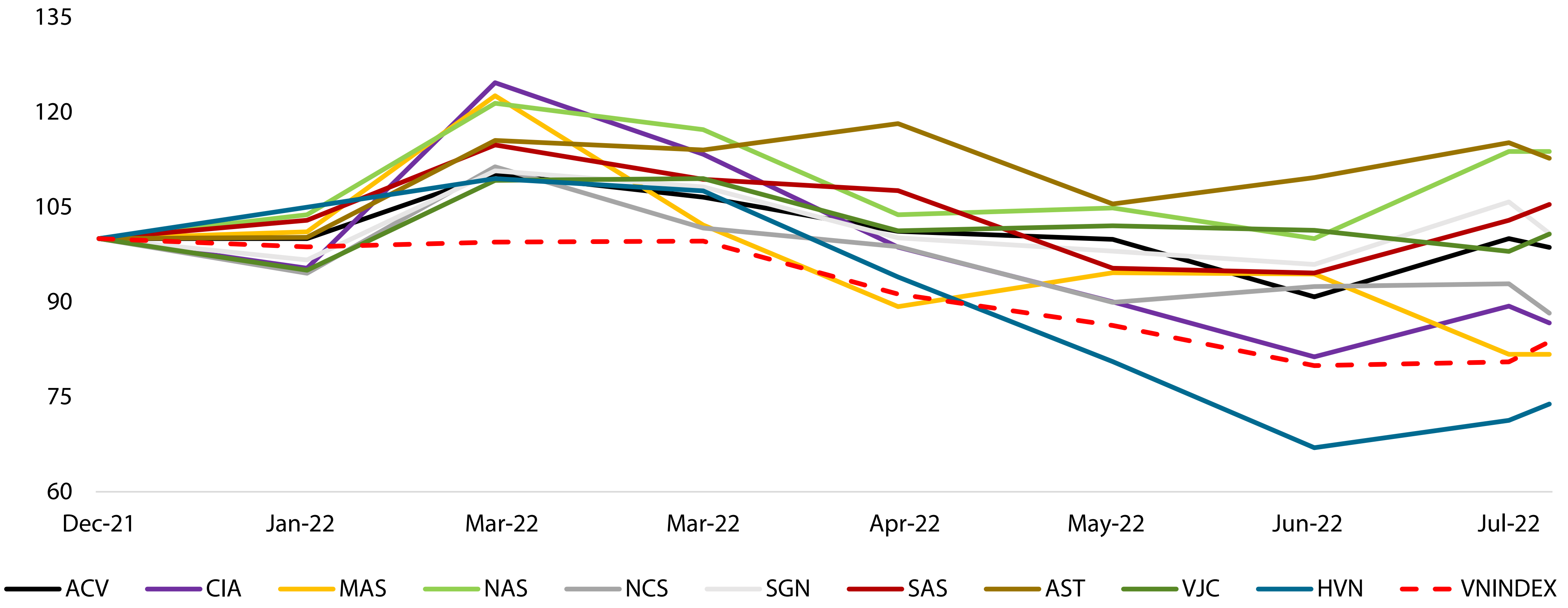




Source: Companies filings, Rong Viet Securities

- Impacted purchasing power of domestic passengers and lack of international customers have led to lower recovery level of retailers (~45% vs pre-covid) compared to other services in the industry.
- Retailers who have stores in busy airports like SGN, HAN posted higher profit margins than retailers located in DAD and CXR.

Figure 11: Aviation stock prices monthly performance



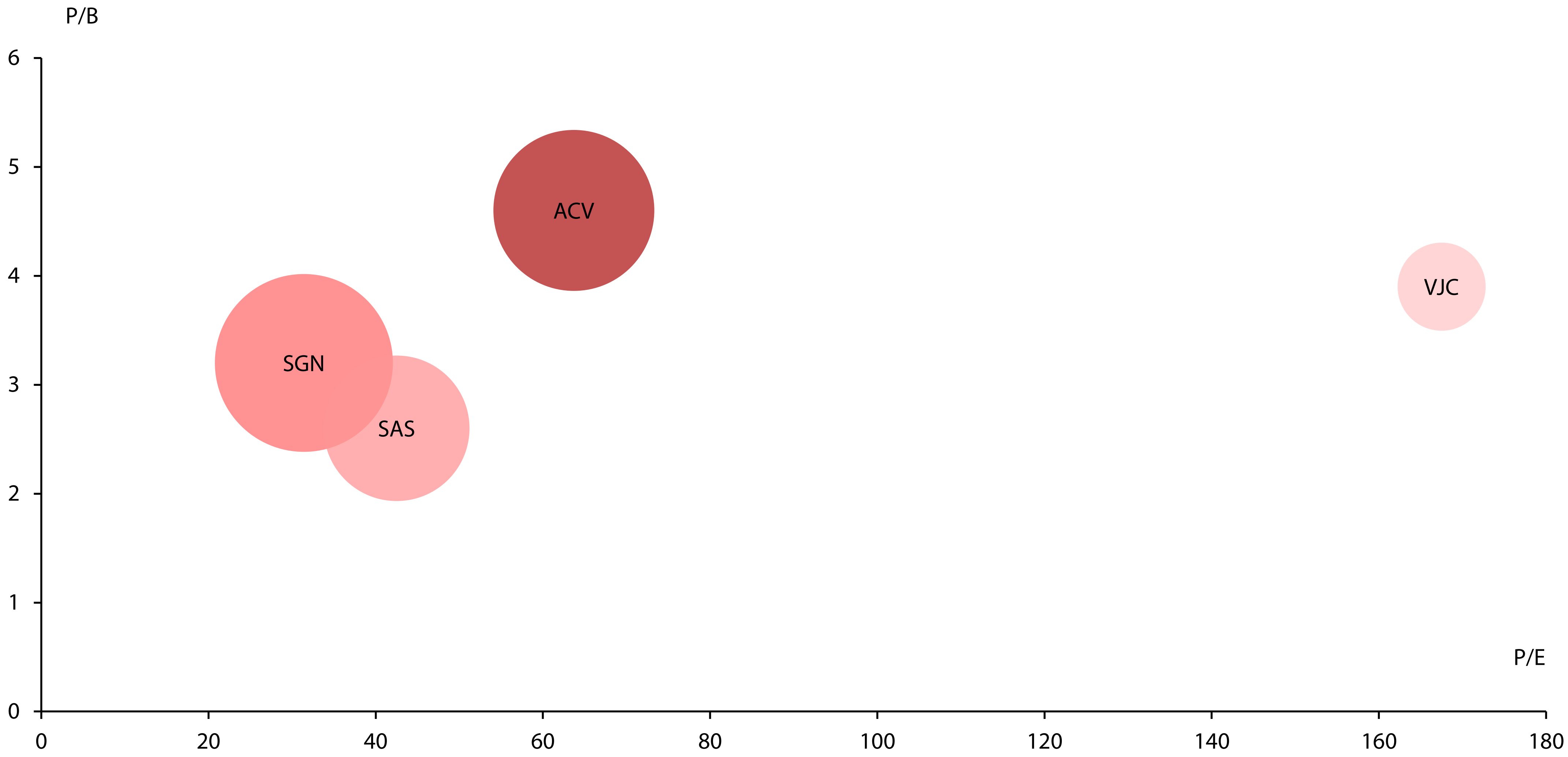
Source: Bloomberg, Rong Viet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
ACV	187,871	102,300	-1.65	1.20	68.27	47.42	1.94	37.85	9.69	15.70	0.00	237.88	5.00
CIA	239	N/A	4.39	41.07	-27.43	-56.09	36.62	-41.01	-8.10	-10.83	0.00	N/A	0.97
MAS	162	N/A	-23.63	N/A	0.00	0.00	22.89	-16.13	-10.93	-32.83	0.00	N/A	6.56
NAS	268	N/A	5.05	19.89	2.41	1.29	1509.08	0.90	2.35	12.97	0.00	N/A	6.65
NCS	377	N/A	9.61	N/A	9.37	1.81	3.58	143.08	22.02	23.66	0.00	N/A	4.94
SGN	2,431	N/A	-5.15	-0.02	33.81	13.47	15.34	13.52	7.37	10.03	6.91	31.42	3.18
SAS	3,870	N/A	5.58	-4.57	25.61	10.46	-17.64	2.92	0.78	2.51	3.91	1,260.87	2.72
AST	2,678	N/A	-26.21	-8.14	-40.89	-63.96	-19.25	-67.98	-20.62	-27.15	0.00	N/A	7.61
VJC	67,918	N/A	44.75	21.90	3.76	3.31	155.89	1.75	0.66	2.18	0.00	180.43	3.89
HVN	40,081	N/A	47.54	N/A	-14.55	-20.32	27.90	-21.96	-15.07	N/A	0.00	N/A	N/A

Source: Fiinpro, Rong Viet Securities. Share price as of August 10 2022.

PE, PB & ROE (TTM)

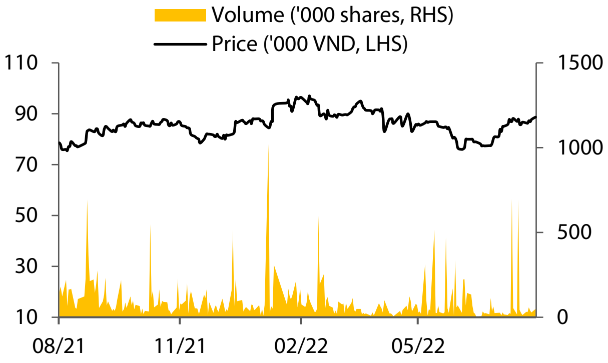


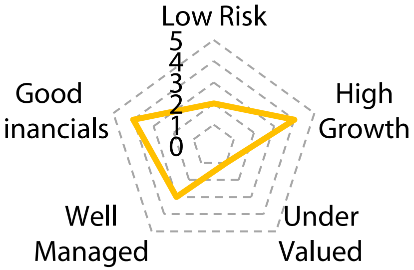
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 10 August 2022.

HIGH GROWTH TRAJECTORY AHEAD

UPCOM: ACV

ACCUMMULATE: 18% **<MP: 86,500>** **<TP: 102,300>**





STOCK INFO

Sector	Aviation
Market Cap ($ mn)	8,053.8
Current Shares O/S (mn shares)	187,653.1
3M Avg. Volume (K)	91
3M Avg. Trading Value ($ mn)	0.0
Remaining foreign room (%)	--
52-week range ('000 VND)	75.5-97.0

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	4,752	11,503	15,248
NPATMI VND bn)	790	5,449	6,498
ROA (%)	1.4%	9.2%	10.0%
ROE (%)	2.1%	12.6%	13.2%
EPS (VND)	363	2,503	2,985
Book Value (VND)	17,275	19,890	22,577
Cash dividend (VND)	900	0	0
P/E (x)	220.5	34.4	28.8
P/B (x)	4.6	4.3	3.8

INVESTMENT RATIONALES

Air passenger volume is increasing rapidly after the lifting of travel/entry restrictions, boding well for a strong recovery path ahead.

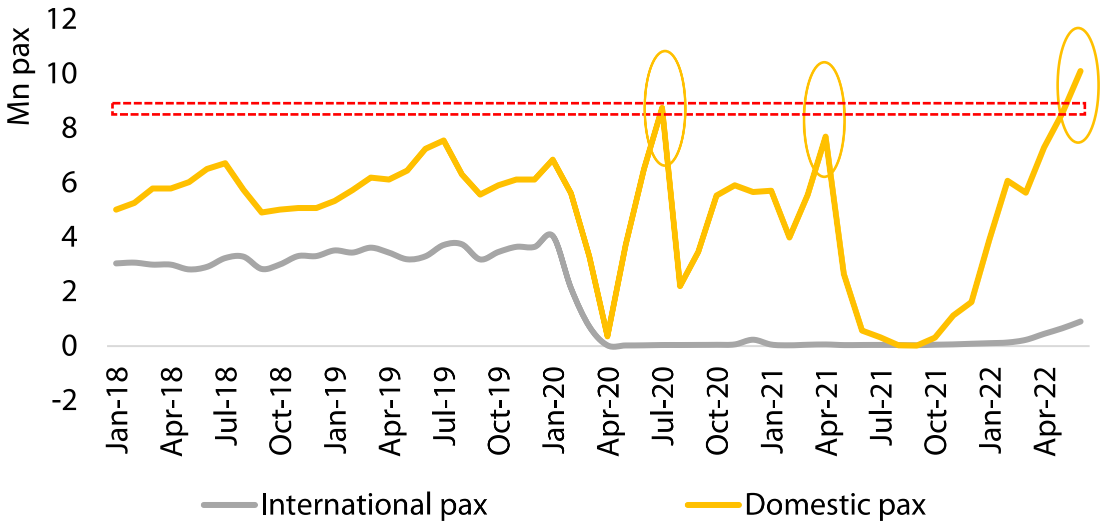
- Monthly domestic volume broke the all-time high in June 2022, showing very strong momentum of recovery. We project that the domestic market will recover to pre-covid level in this year, reaching 71 million, followed by a 3Y CAGR of 10% over 2022F-25F. Meanwhile, the recovery progress of the international market should be slower as international travel restrictions were lifted at the end of Q1-2022 and depends on the covid-19 control policies of other countries. 2022F international pax volume stands at 7 million pax, followed by a high 3Y CAGR of 78% over 2022F-25F.
- 3Y CAGR of Sales and NPAT-MI over 2022F-25F are projected at 30% and 28%, respectively.

Catalyst related to HOSE listing may not materialize soon as no significant progress in removing auditor's emphasis of matter was witnessed. Although ACV was able to manage aerodrome assets and record related sales/ expenses, the company has not yet been able to legally consolidate these assets into its balance sheet due to the lack of a legal scheme. This factor, together with the lack of equitization settlement, makes it difficult for ACV to remove the emphasis of matter from the auditor relating to aerodrome assets.

RISKS TO OUR CALL

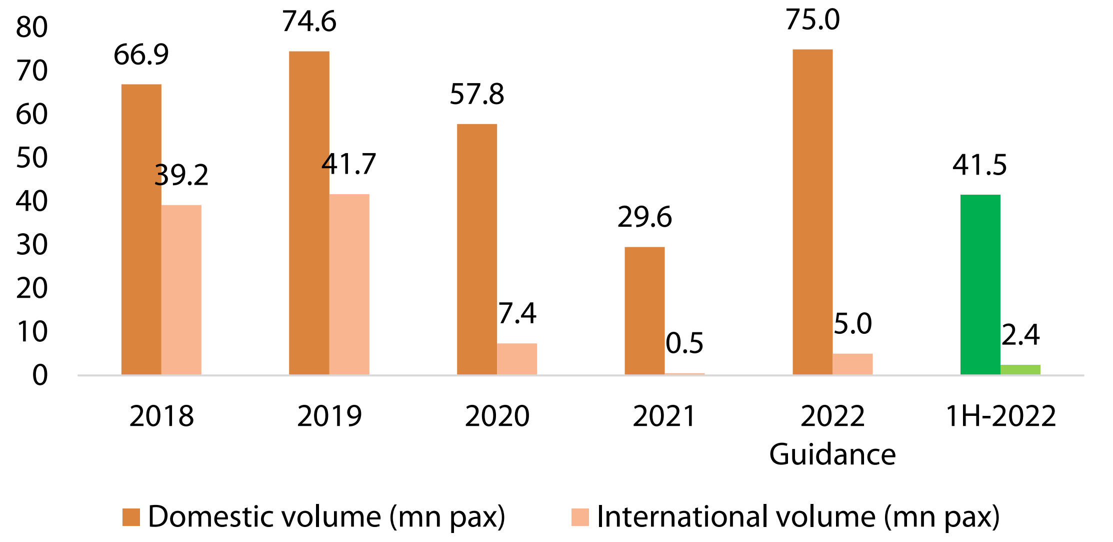
- Upside risks: Recording of reversal of provisions for doubtful receivables from airlines.
- Downside risks: High inflation to affect traveling spending, uncertainty relating to geopolitical risks and China's "zero-covid" policy.

Figure 1: Monthly pax volume



Source: ACV, Rong Viet Securities

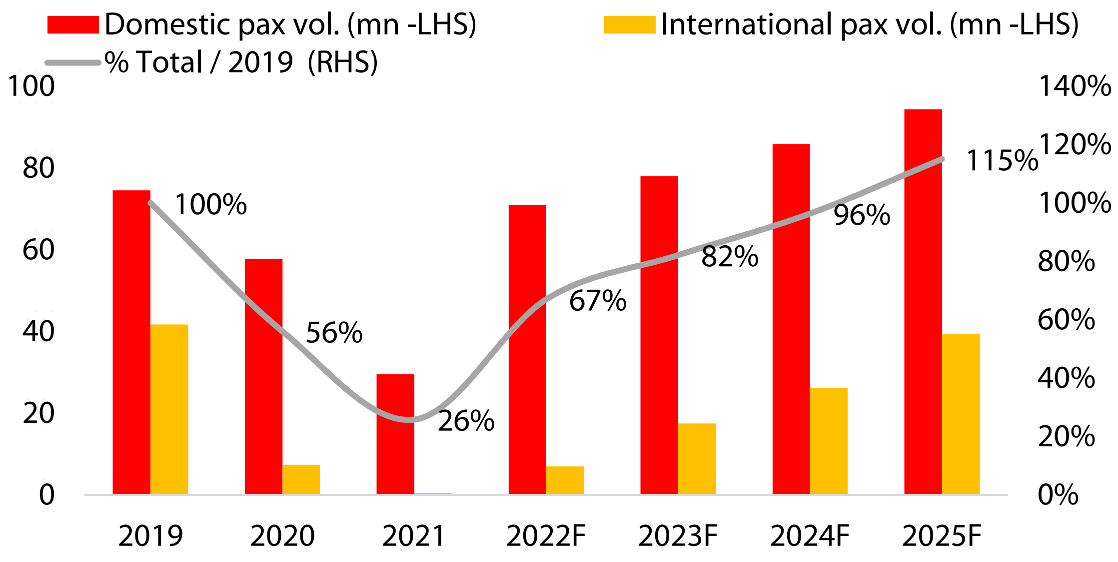
Figure 2: Accumulated pax volume



Source: ACV, Rong Viet Securities

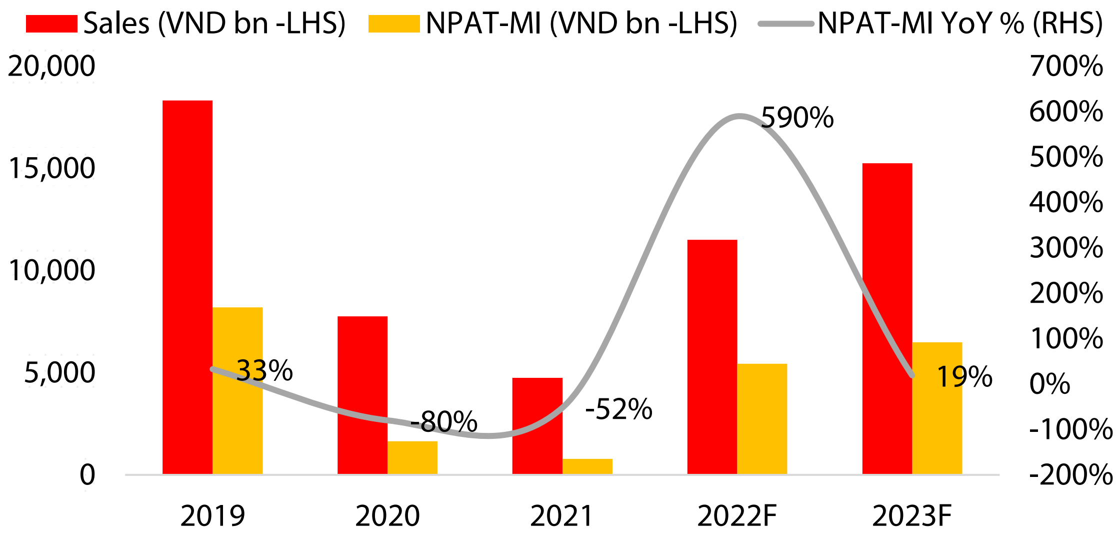
- Monthly domestic volume broke the all-time high in June 2022, showing very strong momentum of recovery.
- The recovery progress of the international market should be slower as international travel restrictions were lifted at the end of Q1-2022 and depends on the covid-19 control policies of other countries (i.e.. China's "zero-covid" policy).
- Domestic and international pax volume have fulfilled 55% and 49% of full-year guidance, respectively.

Figure 3: Forecasted pax volume by market



Source: ACV, Rong Viet Securities

Figure 4: Forecasted financials

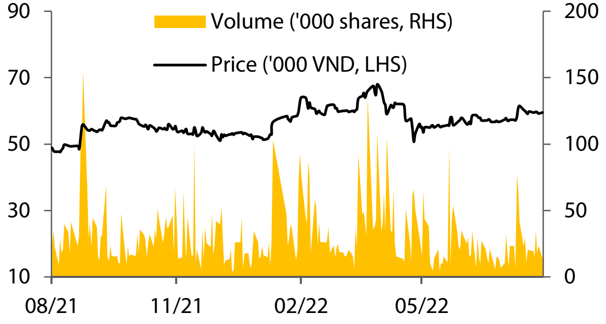


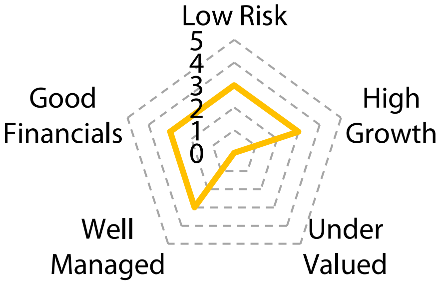
Source: ACV, Rong Viet Securities

- The domestic aviation market will recover to pre-covid level by the end of this year, better-than-expected while we expect that international market will return to 2019 level by 2025F with inflation risks, covid control policy and geopolitical risks are headwinds.
- The 3-year CAGR for domestic/international volume for 2022F-25F are projected at 10% / 78%, spurring NPAT to grow at a 3-year CAGR of 28% over the same period.

EARNINGS TO TURN POSITIVE AFTER TWO YEARS OF THE PANDEMIC

<NON-RATED> <MP:59,500>





STOCK INFO

Sector	Airport retail
Market Cap ($ mn)	115.3
Current Shares O/S (mn shares)	2,686.5
3M Avg. Volume (K)	25
3M Avg. Trading Value ($ mn)	0.0
Remaining foreign room (%)	6.4
52-week range ('000 VND)	47.6-68

FINANCIALS	2019A	2020A	2021A
Revenue (VND bn)	1,141	359	154
NPATMI VND bn)	191	-49	-118
ROA (%)	22%	-8%	-23%
ROE (%)	32%	-10%	-32%
EPS (VND)	4,241	-1,089	-2,623
Book Value (VND)	13,107	10,896	8,289
Cash dividend (VND)	1,000	0	0
P/E (x)	19.6	-47.7	-19.8
P/B (x)	5.8	4.8	6.3

INVESTMENT RATIONALES

While the robust recovery of domestic air passenger traffic has bolstered core earnings in late Q1 and Q2-2022, we believe that ramping up operation in international terminals, amid recovering international pax, will drive stronger earnings in 2H-2022.

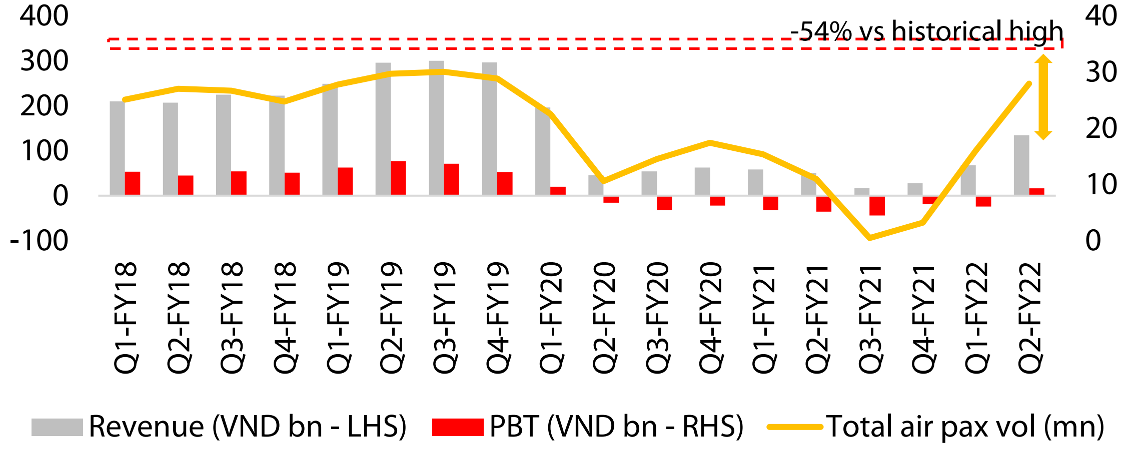
- AST reopened 70% of its store-counts by the end of Q2-2022, in which outlets in domestic terminals were fully reopened. This largely bolstered AST's retail revenue, which jumped to around VND 100 bn in 1H-2022 vs VND 59bn in 2021.
- About 40% of outlets in international terminals remains closed currently. Given ongoing recovery of international market, the company will reopen all of its closing stores in international terminals (SGN, HAN, PQC, DAD), which provide more upside to earnings in 2H-2022.

While we believe that the recovery of airports' passenger traffic will boost earnings prospect going forward, current valuation is still unjustified with 2022F P/E (assuming that the company meets profit guidance) of 103x.

RISKS TO OUR CALL

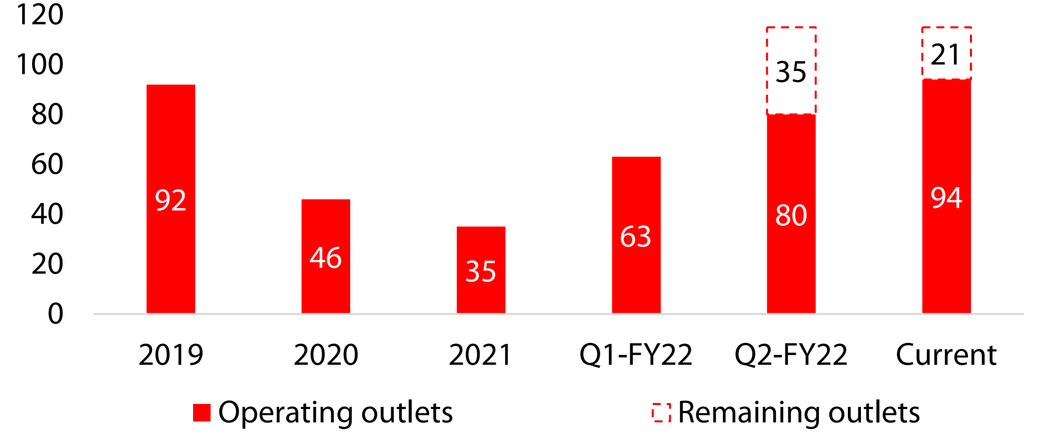
- Softer-than-expected purchasing power of air travelers.

Figure 1: Profit turned positive on recovering air traffic



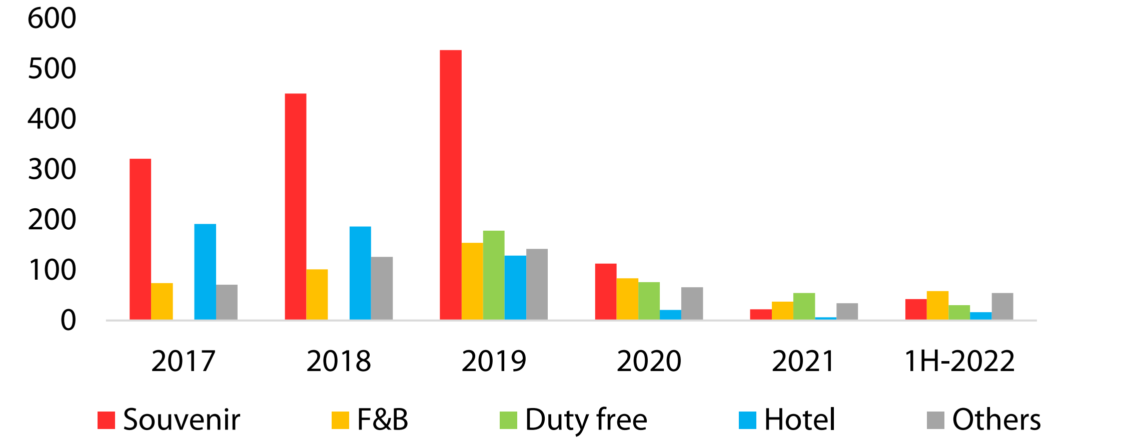
Source: AST, Rong Viet Securities

Figure 2: Continue to reopen remaining stores going forward



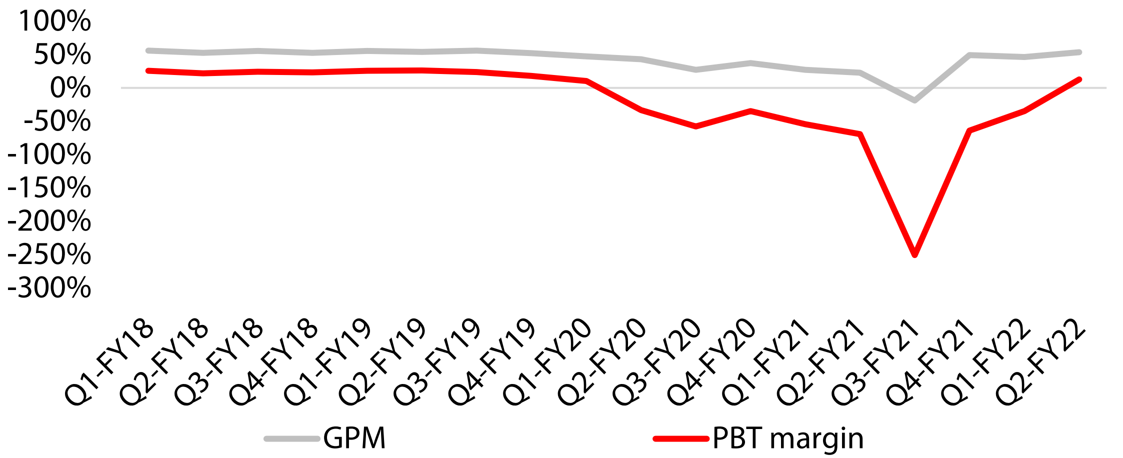
Source: AST, Rong Viet Securities

Figure 3: Revenue breakdown by segment



Source: AST, Rong Viet Securities

Figure 4: GPM returned to pre-covid level in Q2-2022



Source: AST, Rong Viet Securities

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