AIRPORTS CORPORATION OF VIETNAM (UPCOM: ACV)

Profit Growth Lower Amid Headwinds

(VND bn)	2Q-FY19	1Q-FY19	+/- qoq	2Q-FY18	+/- yoy
Net revenue	4,470	4,439	1%	4,024	11%
PAT	1,701	1,994	-15%	2,111	-19%
EBIT	1,979	1,974	0%	1,738	14%
EBIT margin	44.3%	44.5%	0%	43.2%	1%

Source: ACV, Rong Viet Securities

1H2019 – Passenger volume growth has decelerated, +9.6% YoY (1H2018: +15% YoY)

- Int'l pax volume grew 13% YoY (vs 1H2018's growth of 25% YoY) as inbound tourism arrivals slowed down
- Domestic pax volume rose 8% YoY (vs 1H2018's growth of 11% YoY)
- Gross profit surged 12% YoY partly driven by aeronautical services charges hike according to Decision 2345 of MoT and incremental contribution from new Int'l Terminal in Cam Ranh

2019-2020 Outlook - Earnings to turn into a moderate growth track after a booming period

- Earnings growth to be lower (FY18: 42% YoY) due to softer passenger traffic growth
- Interest income to strongly boost earnings (FY19E: +24% YoY and contribute 18% to total PBT) due to a large amount of term deposit (VND28.6tn by the end of 2Q-FY19)
- Runways maintenance in Tan Son Nhat and Noi Bai Airport to be postponed till 2020
- HOSE listing and State divestment at ACV are unlikely to happen in the near-term
- Downside risks: Stronger-than-expected JPY/VND FX rate, weaker passenger volume growth

Valuation and recommendation

ACV's share price movement is facing a number of challenges in the short term due to (1) slowdown in passenger traffic after consecutive years of high growth, (2) risk of being re-nationalized, following a recent proposal of the Ministry of Transport and (3) the HSX listing plan. However, we believe that the Government may not approve the shares buyback proposal soon due to the lack of an eligible mechanism.

Instead, we expect ACV will soon be approved to be responsible for using the revenue generated from airfield assets to invest in runway maintenance. Runway rehabilitation may have a temporary negative effect on revenue in 2020 (due to the runway closure). but will give ACV the opportunity to improve operational efficiency at key airports. In addition, we view the slowdown in passenger growth as a transition phase from high growth to more sustainable growth in the long term. Therefore, we remain optimistic about the long-term prospect of ACV.

*We use the DCF method (WACC 11%; Terminal growth rate: 3%) to determine the fair value of ACV. We recommend **ACCUMULATING** for ACV with a target price of VND 78,000, implying a FY20F P/E of 26.5x and an EV / EBITDA of 13.7x.*

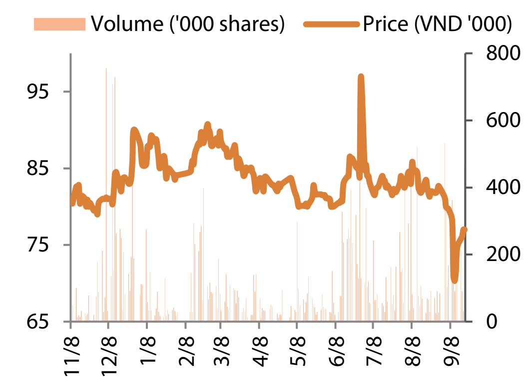
ACCUMULATE	+3%
Target price (VND)	78,000
Current market price (VND)	76,400
Cash dividend (VND)*	900

** Expected in the next 12 months*

Stock Info	
Sector	Industrials
Market Cap (VND billion)	166,327
Current Shares O/S (Mn)	2,177
Avg. Daily Volume (in 20 sessions)	160,956
Free float (%)	4.6%
52 weeks High	97,000
52 weeks Low	70,300
Beta	0.46

	FY2018	Current
EPS	2,818	2,954
EPS Growth (%)	49.6%	16.5%
Diluted EPS	2,818	2,954
P/E	27.1	25.9
P/B	5.2	4.6
EV/EBITDA	17.7	14.8
Cash dividend yield (%)	1	1
ROE (%)	20.0	19.9

Price performance



Major Shareholders (%)	
CMSC	95.40
Korea Investment Mgt	0.23
Royal Bank of Canada	0.21
Foreign ownership room (%)	4.6

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Exhibit 1: 2Q 2019 Results

(VND Bn)	2Q-FY19	1Q-FY19	+/- qoq	2Q-FY18	+/- yoy
Net revenue	4,470	4,439	0.7%	4,024	11.1%
Gross profit	2,289	2,298	-0.4%	2,003	14.3%
SG&A	310	323	-4.0%	265	17.1%
Operating income	1,979	1,974	0.2%	1,738	13.9%
EBITDA	2,984	2,980	0.1%	2,688	11.0%
EBIT	1,979	1,974	0.2%	1,738	13.9%
Financial expenses	484	25	1,846.8%	(445)	-208.7%
- Interest Expenses	25	23	5.0%	24	1.4%
Dep. and amortization	1,006	1,006	0.0%	951	5.8%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	2,090	2,473	-15.5%	2,618	-20.2%
PAT	1,703	1,994	-14.6%	2,111	-19.3%
(*) Adjusted PAT	1,703	1,994	-14.6%	2,111	-19.3%

Source: ACV, Rong Viet Securities

Exhibit 2: 1Q 2019 Performance Analysis

Particulars	2Q-FY19	1Q-FY19	+/- qoq	2Q-FY18	+/- yoy
Profitability Ratios (%)	51.2%	51.8%	-0.6%	49.8%	1.4%
Gross Margin	66.8%	67.1%	-0.4%	66.8%	-0.1%
EBITDA Margin	44.3%	44.5%	-0.2%	43.2%	1.1%
EBIT Margin	38.1%	44.9%	-6.8%	52.5%	-14.4%
Net Margin	38.1%	44.9%	-6.8%	52.5%	-14.4%
Adjusted Net Margin	51.2%	51.8%	-0.6%	49.8%	1.4%
Turnover *(x)					
-Inventories	19.8	18.1	1.7	21.3	-1.5
-Receivables	2.7	2.7	0.0	2.4	0.2
-Payables	1.0	1.2	-0.2	1.2	-0.2
Leverage (%)					
Total Debt/ Equity	34.3%	24.2%	10.1%	29.0%	5.3%

Source: Rong Viet Securities

Exhibit 3: 3Q 2019 Performance Forecast

Particulars (VND Bn)	3Q-FY19	+/- qoq	+/- yoy
Revenue	4,389	-2%	10%
Gross profit	2,304	1%	13%
EBIT	1,976	0%	13%
NPAT	2,085	22%	12%

Source: ACV, Rong Viet Securities

Update

1H2019: Core earnings growth lower in line with the deceleration of passenger volume

Table 1: 1H2019 Parent Business Results

Unit: Bn VND	1H2018	1H2019	YoY %	Commentaries
Sales	**7,957**	**8,913**	**12%**	
Aeronautical revenue	6,364	7,128	12%	▪ **Passenger service charges (PSC) revenue, a main portion of aeronautical revenue, grew at a slower pace of only 6% YoY.** ▪ Revenue shared from Cam Ranh International Terminal (began operation since 2Q2018) helped raise the aeronautical revenue growth to 12%
Non-aeronautical revenue	918	1,021	11%	▪ International arrivals growth reached 13.4% YoY while domestic grew 7.6% YoY. In total, pax volume's growth was 9.6% YoY, reaching 57.4 mn. ▪ Chinese tourists dropped 3% YoY (vs 1H2018 grew 16% YoY), offset by strong Korean arrivals (+21% YoY). Tourists from other markets such as Japan, Taiwan, and the United States increased (Figure 3) but at a low rate.
Retail revenue	683	779	14%	▪ Aeronautical/ (Non-aero + retail) revenue stayed at 80%/20%.
Gross profit	3,993	4,565	14%	Vs 1H2018 growth of 42% YoY.
GPM	50.2%	51.2%	105bps	GPM kept expanding due to (1) higher capacity utilization, (2) service charges hike according to Decision 2345 and (3) incremental revenue shared from Cam Ranh Int'l Terminal.
SG&A	523	629	20%	
% SG&A/Sales	6.6%	7.1%	48bps	These expenses were mainly driven by high increase in royalty fees, +33% YoY, reaching VND 115 Bn.
EBIT	3,469	3,936	13%	
EBIT margin	43.6%	44.2%	57bps	
EBITDA	**5,383**	**5,941**	**10%**	**EBITDA growth down vs 1H2018 of 63% YoY which was attributable to slower revenue and EBIT growth.**
EBITDA margin	67.7%	66.7%	-98bps	
Financial income	829	1,039	25%	▪ Interest income reached VND 783bn (+24% YoY). ▪ Term deposits continued to increase by VND3.5tn compared to the end of 1Q2019, and by VND5tn YTD to reach VND28.6tn. ▪ We believe that ACV is saving to fund many upcoming expansion projects, notably T3 Terminal in Tan Son Nhat Airport (expected to start construction in 2020) and Long Thanh Airport. In addition, unclear investment rights are also a factor that prevents this enterprise from investing in expanding the existing airports (i.e: runway maintenance).
Financial expenses	519	509	-2%	▪ In 2Q2019 only, FX losses reached VND 457bn as JPY/VND increased by about 4%. ▪ As ACV recorded exchange rate gains of VND 474bn in 2Q 2018 (JPY/VND depreciated), this led to huge decline in PBT in 2Q2019 of 22% YoY.
PBT	**3,780**	**4,473**	**18%**	
PBT margin	47.5%	50.2%	269bps	
PAT	**3,062**	**3,617**	**18%**	
Net margin	38.5%	40.6%	211bps	

Source: ACV, Rong Viet Securities

2019-2020 Outlook

Passenger growth to slow down

We expect total passenger traffic growth of around 10% in 2019-2020 amid slower international visitations (weaker Chinese arrivals, which accounts for 29% of foreign travelers to Vietnam). In 8M2019, the total number of tourists coming to Vietnam by air increased at a low rate of 5.6% YoY. Chinese tourists decreased by 1% YoY.

Though the domestic aviation market has decelerated in recent years as airlines prioritized international routes, we expect domestic passenger growth to pick up in the coming two years thanks to additional capacity from newcomers, namely Bamboo Airways and Vinpearl Air (in July 2020). Bamboo Airways has opened more than 20 domestic routes this year while VJC has added four more domestic routes (mainly connecting to the new Van Don Airport and Can Tho Airport).

Several expansion projects to be implemented to alleviate capacity constraint

ACV has been pushing forward several terminals and aprons expansion projects to further increase flight capacity at key airports. Major projects to be constructed in coming years, include: new T3 passenger terminal at Tan Son Nhat, new passenger terminals at Phu Bai, Cat Bi, Chu Lai.

Table 2: Key expansion projects

Airport	Project	Status
Tan Son Nhat	19.79 ha apron	Completed
	North apron expansion	Completed
	Terminal T2 expansion-phase 2	Completed
	New terminal T3 construction	Expect to commence construction in 2020 10 Mn pax capacity to be added by 2022 CAPEX ~ USD500mn
Noi Bai	Apron expansion	Completed
	Terminal T2 expansion	Planning phase
Da Nang	Apron expansion to the North	On-going
Cat Bi	New terminal T2 construction	Planning phase; 5 Mn pax capacity
Vinh	New terminal T2 construction	Planning phase; 5 Mn pax capacity
Phu Bai	New terminal T2 construction	Planning phase; 5 Mn pax capacity
Chu Lai	New terminal T2 construction	Planning phase; 5 Mn pax capacity
Lien Khuong	Apron expansion	Completed

Source: ACV, Rong Viet Securities

Regarding the Long Thanh airport project, the timeline to report the feasibility study (FS) to the National Assembly was postponed instead of being submitted in Oct 2019 as planned. Thereby, this project's FS will not be discussed in the upcoming National Assembly meeting.

Airfield assets investment mechanism to be soon finalized

As the airfield assets (runways, taxiways) belong to the State, ACV does not have the right to invest in upgrading/expansion/maintenance for those. This prohibits ACV from implementing runway rehabilitation projects at Noi Bai and Tan Son Nhat Airport.

In July 2019, the Ministry of Transport has proposed the PM to assign ACV to be in charge of using the revenue generated from airfield assets to invest in runway maintenance. As the runway maintenance tasks are now very urgent, it seems difficult to delay any longer. Therefore, we expect the Government to approve this proposal in late 2019, followed by runways maintenance in 2020.

The State seems to lose intention to divest its stake in ACV

In a meeting with the the Government Standing Committee in March, CMSC, the largest shareholder, asked the Government to extend the divestment schedule for ACV. Besides, MoT also proposed the Government to buy back share of non-state shareholders in ACV. Although we do not expect the Government to approve this proposal due to lack of an eligible mechanism, this may imply that the State will reconsider the further divestment in ACV.

Besides reasons of ensuring aviation security and national defense, being a state-owned enterprise makes it easier for ACV to invest in the maintenance and expansion of the airfield zone without being entangled with many legal obstacles on investment rights in State assets.

However, this proposal also led to a change in investors' expectation of ACV's HSX listing plan. We believe that HSX listing plan may not materialize in 2019- 2020, even after the airfield assets management and investment mechanism approval (a requirement for ACV to be listed on the HSX).

Forecast

Table 3: 2019 Forecast

Unit: VND Bn	2018	2019F	YoY %	Assumptions
Net sales	**16,090**	**18,224**	**13%**	
Aeronautical revenue	12,880	14,365	12%	▪ Total international pax to grow 12% YoY lower than 2018 rate of 21% due to lower inbound tourist arrivals ▪ Domestic pax growth rate to pick up to 8% YoY compared to 5% last year.
Non-aeronautical revenue	1,890	2,137	13%	
Retail revenue	1,369	1,592	16%	
Gross profit	7,772	8,692	12%	
GPM	48.3%	47.4%	-61 bps	
EBIT	6,588	7,389	12%	
EBIT margin	40.9%	40.5%	-40 bps	
EBITDA	10,549	11,793	12%	
EBITDA margin	65.6%	64.7%	-85 bps	
Financial income	1,363	1,694	24%	Interest income to reach VND1,585bn owing to increased amount of term deposits in 2019.
Financial expenses	756	532	-30%	JPY to appreciate 3% against VND as a safety haven amid looming global economy downturn
PBT	**7,575**	**8,953**	**18%**	
PBT margin	47.1%	49.1%	205 bps	
NPATMI	**6,135**	**7,147**	**16%**	
Net margin	38.1%	39.2%	108 bps	

Source: ACV, Rong Viet Securities

Valuation

We apply a DCF valuation as our primary methodology and EV/EBITDA as a source for comparison with other airports.

We assume a 11% WACC and 3 % terminal growth. Our PT implies a FY20E P/E of 26.5x and EV/EBITDA of 13.7x.

Table 4: DCF summary

WACC Calculation		Implied Equity Value (VND bn) and Share Price (VND)	
10Y Risk Free Rate	4.0%	Enterprise Value	161,021
Market Return	15.0%	Less: Total Debts	15,194
Adjusted Beta	0.9	Plus: Cash and Cash Equivalents	24,369
Cost of Equity	**13.9%**	Less: Minority interest	46
		Implied Equity Value	**170,149**
Cost of Debt	**3.0%**		
		Number of shares (mn shares)	2,177
% Total debts/Total assets	25%	**Price per Share**	**78,152**
% Equity/Total assets	75%		
Tax Rate	20%	**Implied Forward EV/EBITDA**	**13.7**
WACC	**11.0%**	**Implied Forward P/E**	**26.5**

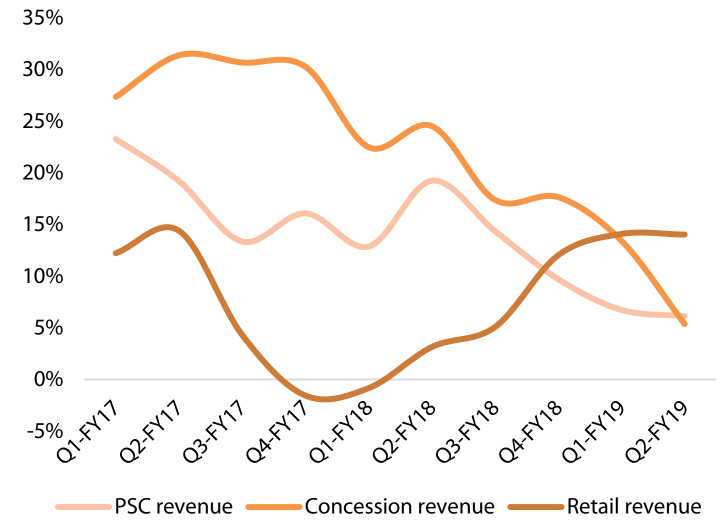
Source: Rong Viet Securities

Table 5: Peers' valuation metrics

No	Company	Market cap (Mn USD)	T12M P/E (x)	P/B (x)	EV/ T12M EBITDA (x)
1	Airports Of Thailand Pcl	33,968	41.0	7.0	26.5
2	ADP	17,215	24.9	3.3	12.0
3	Sydney Airport	12,286	45.5	N/A	24.4
4	Frankfurt Airport	7,657	14.0	1.7	9.4
5	Auckland Intl Airport Ltd	7,062	21.5	1.9	24.3
6	Japan Airport Terminal Co	3,650	33.7	2.3	11.9
7	Malaysia Airports Hldgs Bhd	3,422	32.9	1.7	9.4
8	Xiamen International Airport	907	12.6	1.9	6.4
9	Guangzhou Baiyun Int'l Airport	6,162	51.2	2.7	15.8
10	Beijing Capital Int'l Airport	3,845	10.2	1.1	5.6
11	Shenzhen Airport	3,097	36.4	1.8	17.0
	Average	**8,870**	**29.4**	**2.8**	**13.7**
	ACV	7,168	29.0	5.4	14.8

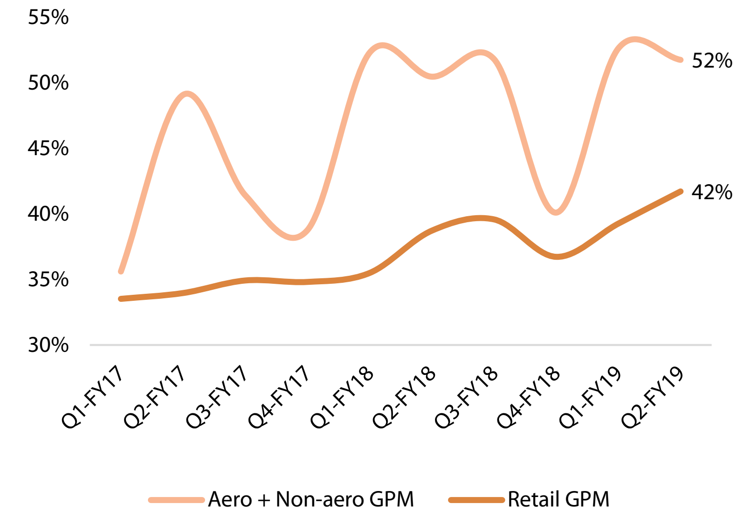
Source: Bloomberg, Rong Viet Securities

Figure 1: Key segments' revenue growth (YoY %)



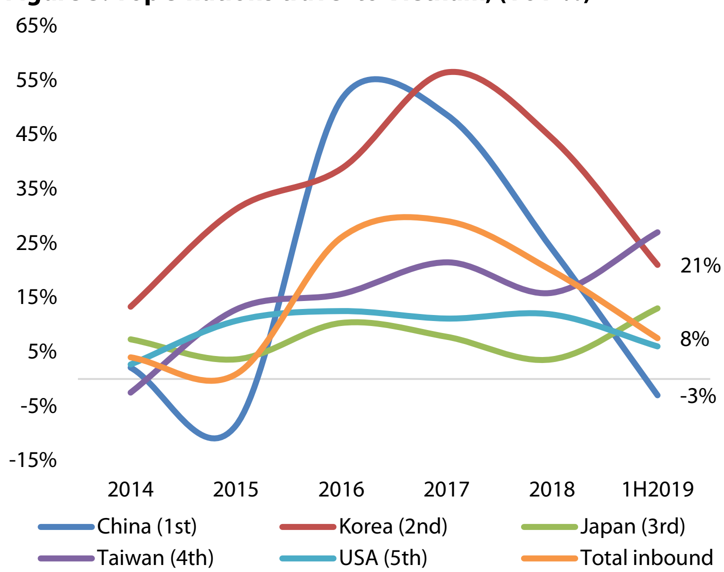
Source: ACV, Rong Viet Securities

Figure 2: Gross profit margin (%)



Source: ACV, Rong Viet Securities

Figure 3: Top 5 nations travel to Vietnam, (YoY %)



Source: GSO, Rong Viet Securities

Figure 4: Inbound tourism by air, (YoY %)

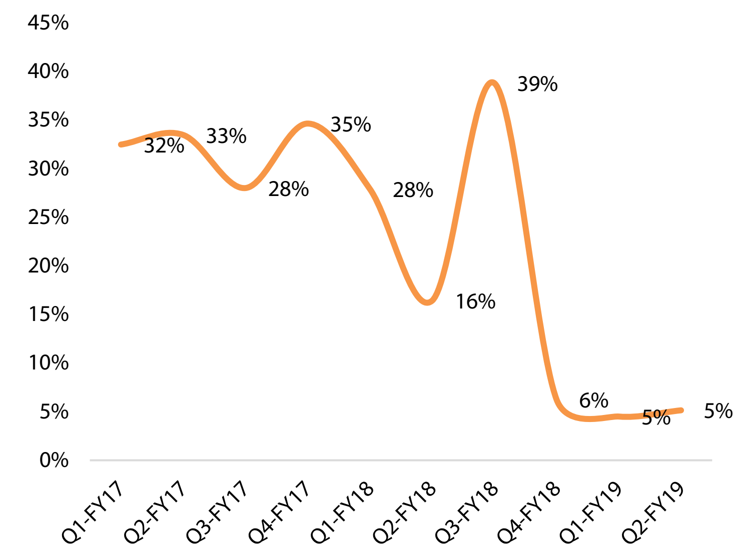
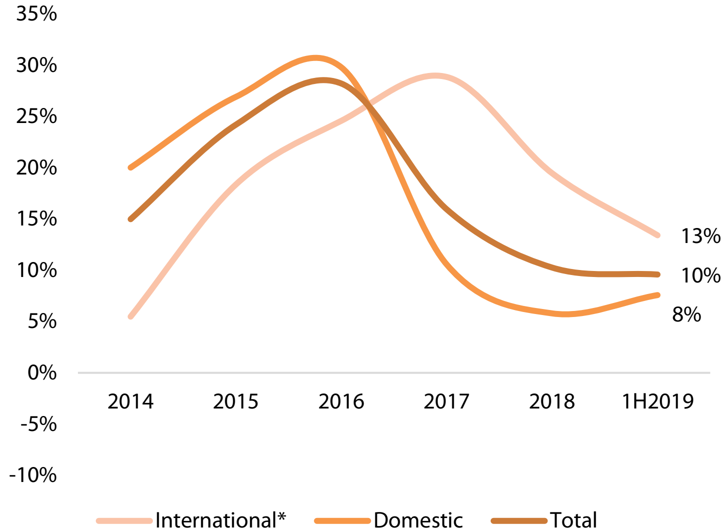
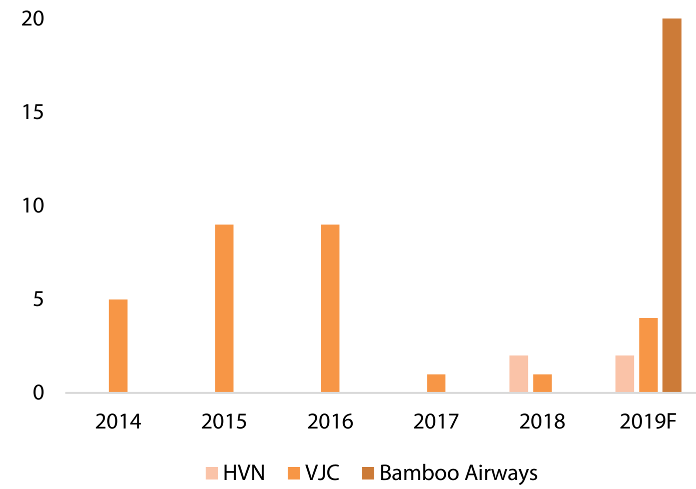


Figure 5: Passenger volume, (YoY %)



Source: ACV, Rong Viet Securities
**Including international passenger volume at Da Nang and Cam Ranh International terminals.*

Figure 6: New domestic routes opened



Source: Company filings, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	13,830	16,090	18,220	19,978
COGS	8,182	8,318	9,528	10,541
Gross profit	5,648	7,772	8,692	9,437
Selling Expense	293	306	337	370
G&A Expense	809	878	966	1,063
Finance Income	1,122	1,363	1,694	1,983
Finance Expense	606	756	532	548
Other income/loss	25	59	0	0
PBT	**5,343**	**7,575**	**8,953**	**9,921**
Prov. of Tax	1,222	1,427	1,791	1,984
Minority's Interest	21	13	15	18
PAT to Equity S/H	**4,101**	**6,135**	**7,147**	**7,919**
EBIT	4,546	6,588	7,389	8,004
EBITDA	8,711	10,549	11,793	12,881

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	-5.6	16.3	13.2	9.6
Operating Income	8.1	21.1	11.8	9.2
EBITDA	18.3	44.9	12.2	8.3
PAT	-19.7	49.6	16.5	10.8
Total Assets	11.3	8.9	12.5	12.2
Equity	16.0	12.3	16.9	14.6
Profitability (%)				
Gross margin	40.8	48.3	47.7	47.2
EBITDA margin	63.0	65.6	64.7	64.5
EBIT margin	32.9	40.9	40.6	40.1
Net margin	29.6	38.1	39.2	39.6
ROA	8.3	11.5	11.9	11.7
ROE	15.0	20.0	19.9	19.3
Efficiency				
Receivable Turnover	2.0	2.6	2.6	2.6
Inventory Turnover	20.2	17.7	20.0	20.0
Payable Turnover	1.2	1.2	1.2	1.2
Liquidity				
Current	3.7	4.3	4.6	4.8
Quick	3.7	4.3	4.5	4.8
Finance Structure (%)				
Total Debt/Equity	53.0	49.5	44.3	40.0
Current Debt/Equity	0.5	0.5	0.4	0.6
Long-term Debt/Equity	52.4	49.0	43.8	39.4

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	1,314	638	1,040	3,494
Short-term investments	17,563	23,730	28,476	31,324
Accounts receivable	6,958	6,126	6,937	7,607
Inventories	404	470	476	527
Other current assets	105	300	315	330
Property, plant & equipment	19,624	18,967	19,294	20,095
Acquired intangible assets	1	3	3	3
Long-term investments	2,695	2,791	3,193	3,675
Other non-current assets	500	498	498	498
Total assets	**49,163**	**53,524**	**60,233**	**67,553**
Accounts payable	6,947	7,038	7,970	8,739
Short-term borrowings	148	151	159	255
Long-term borrowings	14,328	15,043	15,722	16,201
Other non-current liabilities	97	111	0	0
Bonus and Welfare fund	259	432	1,146	1,938
Technology-science, dev. fund	0	0	0	0
Total liabilities	**21,778**	**22,775**	**24,997**	**27,132**
Common stock and APIC	21,786	21,786	21,786	21,786
Treasury stock (enter as -)	0	0	0	0
Retained earnings	4,849	6,360	7,372	12,615
Other comprehensive income	0	-1	-1	-1
Inv. and Dev. Fund	702	2,551	6,725	6,725
Total equity	**27,337**	**30,696**	**35,883**	**41,126**
Minority Interest	**47**	**53**	**53**	**53**

VALUATION RATIO (*)	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	1,883	2,818	2,954	3,273
P/E (x)	57.0	31.9	25.9	23.3
BV (dong)	12,556	14,099	16,481	18,890
P/B (x)	8.5	6.4	4.6	4.0
DPS (dong/cp)	600	900	900	900
Dividend yield (%)	1%	1%	1%	1%

VALUATION MODEL	Price	Weight	Average
DCF	78,000	100%	78,000

Target price (VND)

VALUATION HISTORY	Price	Recommendation	Period
Jan 2017	67,000	BUY	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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