November, 2016

Vietnam Sun Corporation (VNS – HSX)

The battle for market share

- **Q3 2016 Earnings Results – An Alarming Stability**
- **Prospects for Vietnam's Taxi Industry Are Still Optimistic**
- **Severe Competition in Vietnam's Taxi Market in the Southern Area**
- **Dealing with Competition from E-Hailing Applications: Many Challenges**

Outlook

As a result of the great penetration from Uber and Grab over the last 2 years, VNS and other taxi companies are facing fierce competition and receiving negative impacts on business results and efficiency. The efficiency, convenience, and competitive costs from technology companies forces traditional taxi companies to adjust and transform to this new environment. VNS is the leading company in dealing with this issue with its Vinasun App and Vcar. Even though there are unclear prospects of its new strategies, we highly appreciate the reactiveness of VNS when facing this heavy competition.

In the long-term, Rong Viet Research believes that VNS's growth rate could slow down compared to the industry or that VNS could only maintain a stable profit every year. The battle for maintaining its market share will continue in the future until the industry structure is formed. Until that moment, traditional taxi companies have to spend aggressively to protect their own market shares or establish strong boundaries for segments that they want to occupy. It would be strategic for VNS to focus on and invest in the office segment and several critical points that are crowed in the city due to its strong potential.

Regarding stock price valuation, we believe VNS is undervalued compared to other companies with similar performance and the market as a whole. However, under the current circumstance that competition is fierce and going to remain so in the future, we made a **MONITOR** recommendation for VNS's stock.

Year end-Dec (VND B)	**FY2013**	**FY2014**	**FY2015**	**FY2016E**
Revenue	3,158	3,770	4,252	4,625
% growth	16%	19%	12.8%	8.8%
NPAT	224	313	328	325
% growth	48%	39.9%	4.9%	-0.9%
NPAT margin (%)	7.1%	8.3%	7.7%	7.0%
ROA (%)	11.1%	12.9%	11.8%	12.1%
ROE (%)	27.2%	28.5%	24.5%	22.3%
EPS (VND)	5,144	5,535	4,837	4,747
Adjusted EPS (VND)	3,297	4,612	4,837	4,747
BVPS (VND)	18,918	19,390	19,772	21,519
Cash dividend (VND)	4,200	4,000	3,000	3,000
P/E (x)*	5.3	5.9	7.1	7.2
P/BV (x)*	1.0	1.4	1.7	1.6

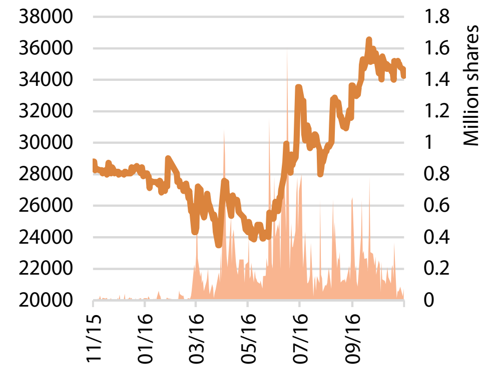
*Source: RongViet Research, *price as of 08/11/2016*

MONITOR

CMP (VND)	34,250
Target Price (VND)	NA
Investment Period	NA

Stock Info

Sector	Transportation
Market Cap (VND bn)	2,354
Current Shares O/S	67,859,192
Beta	0.47
Free float (%)	44.33
52 weeks High	36,600
52 weeks Low	23,500
Avg. Daily Volume (in 20 sessions)	138,000



Performance (%)

	3M	6M	1Y
VNS	16.27	20.83	27.38
Transporation	-7.92	-5.38	-3.98
VN30 Index	4.45	4.50	16.08
VNIndex	7.47	11.70	36.35

Major Shareholders (%)

TAEL Two Partners Ltd.	18.30
Government of Singapore	7.96
SATRA	7.91
Foreigner Investor Room (%)	6.08

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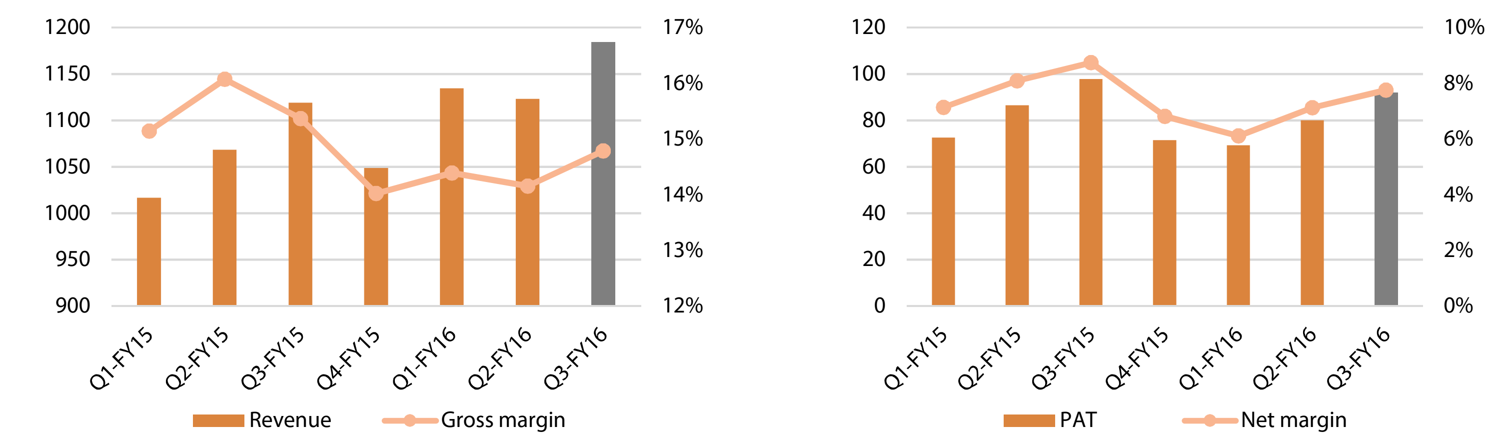
Q3 2016 Earnings Results – An Alarming Stability

VNS's Q3 2016 revenue reached VND1,184 billion, slightly increasing by 5.8% YoY. PAT attributable to the parent company attained a negative growth rate of -6.0% YoY, equivalent to VND92 billion. Under the circumstance that most of VNS's expenses have gone up, the modest revenue growth cannot compensate for the increasing costs to help the main businesses' profit improve. Specifically, depreciation (+12.1% YoY), financial expenses (+15.6% YoY) and SG&A expenses (+14.9% YoY) steadily increased recently. These effects have actually influenced the business performance since the beginning of 2016. 9M 2016 revenue and PAT attributable to the parent company reached VND3,441 billion (+7.4% YoY) and VND241 billion (-6.1% YoY) respectively.

However, due to seasonal business cycles, the 3rd quarter is usually the peak season for taxi companies. VNS's PAT attributable to the parent company positively improved by +14.9% QoQ. In Q3 2016, the most effective operating period for VNS in the year, gross margin, broke the recent downtrend by reaching 14.8%, higher than that of Q2 at 14.2%. Moreover, VNS's profit margin was still higher than other peers in the same industry such as Mai Linh (Hanoi, the Central and the South) and Saigon Tourist Taxi, proving that VNS's ability to compete on price in the domestic market is still high.

According to Rong Viet Research, the main reason leading to the decline in VNS's profit margin in recent years came from Uber and Grab. Specifically, VNS has to adjust the profit sharing with drivers to maintain the large fleets of taxi and expansive coverage, avoiding the issues that VNS's drivers transferred to other technological peers. Besides, net profit margin only reached 7.8% compared with that of 8.8% in the same period. Boosting marketing and promotion activities for customers using the Vinasun App along with Vcar operation can be considered a cause for the significant increase in costs recently.

Figure 1: VNS's Quarterly Business Results (Unit: VND Bn)



Source: VNS, RongViet Research

VNS can still maintain a relatively healthy cash flow, which is typical in the service industry. Cash flows from operating activities, which are the sources of business investment activities, are stable. However, we found that VNS had to use debt to balance other cash outflows such as working capital, due to the high demand of investment activities, which ate up most of its cash flow from operating activities. Therefore, increasing debt in the context of modest revenue growth needs to be monitored. However, VNS's financial risk is still assessed to be quite low. In further detail, Q3 2016's long-term debts serving new taxi investment sharply rose to VND 645 billion, +18.4% YoY.

Prospects for Vietnam's Taxi Industry Are Still Optimistic

In Q3 2016, Vietnam's GDP growth rate was estimated at 5.9%, higher than Rong Viet Research's expectation. For the whole year, we believe that the growth rate for 2016 and 2017 could reach 6.1% and 6.5% respectively. Even though such figures demonstrate a slowdown in economic growth, income per capita has maintained constant improvement over the last 5 years. In addition to this, Vietnam's middle income class is rated to have the fastest growth in Southeast Asia with the prospect to increase from 12 million people in 2012 to over 33 million people in 2020. This could be seen as a strong growth momentum for several sectors such as consumption, services, entertainment and transportation, in which, taxi is the essential travelling method and public transportation in Vietnam is relatively limited. Furthermore, with the long-term schedule to decrease the tariffs for automobiles and the infrastructure for parking in Ho Chi Minh City being at a low level, taxi demand is expected to continue increasing in the long-run. In addition to this, the decline in oil prices over the last 2 years eased up the pressure from operation costs for taxi companies. As a result, this improved the gross profit margin, creates "room" to drop the taxi fare and boosts transportation demand.

Severe Competition in Vietnam's Taxi Market in the Southern Area

VNS Maintains the Leading Position. VNS possesses huge advantages in the southern markets with the most expansive coverage among traditional taxi companies. In the Southern area the numbers of VNS's taxis added up to 6.141 as of the end of 2015 Excluding cities such as Da Nang, Binh Duong, Vung Tau, and Can Tho, HCMC has over 5.500 VNS's taxi at this moment. On the other hand, despite the total 11.000 units of taxi throughout the country, Mai Linh only operates approximately 3.500-3.700 cars in the Southern of Vietnam, giving it the second position in terms of market share. Additionally, VNS has the most pick-up areas in southern Vietnam, having a total of 1.500 places with the majority covering crucial locations in HCMC.

Nonetheless, VNS is facing fierce competition from both old and new enterprises. First of all, Phuong Trang Taxi, which has a lot of experience in passenger and freight transportation, is participating in the taxi segment. At the end of 2015, the number of Phuong Trang taxis (FuTa taxi) was only at 150 units with the majority of them being Huyndai Grand i10 4-seat, which has low operation costs. The expansion onto the short-route transportation segment helped Phuong Trang complete its transportation value chain. Accordingly, with competitive costs and current expansion schedule, Phuong Trang will achieve third place in HCMC's taxi market in the near future when it plans to invest in up to 2,000 cars. However, with the "crowded" market like HCMC, Rong Viet Research believes that Phuong Trang taxi needs at least 2-3 years to achieve its target.

Moreover, Mai Linh's investment strategy to buy over 10,000 electric cars for the HCM market in the next 10 years could be a competitive issue that VNS needs to have a clear solution for in the long-term. In the short-run and intermediate term, we believe that electric taxis are not an appropriate strategy in Vietnam because (1) the infrastructure to serve electric cars in the Southern area, especially HCMC, is not in a good condition, (2) continuous operating time is low and recharge time is relatively long, which could be troublesome for taxi service and (3) initial investment will be high while Mai Linh is facing a pessimistic financial position. On the other hand, Mai Linh has also been investing in the transportation segment for several of the satellite cities outside of HCMC to focus on the markets that are being untapped. However, it could not significantly affect VNS's businesses because HCMC is still the main contributor for VNS's business results.

At this moment, the most threatening aspect that impacts VNS's market share is coming from the E-hailing applications Uber and Grab. Since 2014, when Uber and Grab started to penetrate Vietnam's market, VNS's gross profit margin has gradually dropped with the stagnation in revenue growth compared to the previous period. Until 2016, Vietnam became the market with 2nd fastest growth for Uber, only behind China (Uber started here a year ago). Uber provided over 1.5 million trips in Hanoi only and surpassed other major cities in the world such as London, Paris, and Singapore. Furthermore, Vietnam is one of the markets that has the highest smartphone penetration rate in Southeast Asia (>50% of phone users use smartphone). With 75% of total users having internet for mobile phones (highest in Southeast Asia), it is not difficult to provide a clear explanation for the excessive growth of Uber and Grab compared with other countries in the region. Therefore, it also demonstrates the obstacles that VNS needs to overcome when Uber and Grab continuously provide promotion programs, discounting taxi rates to attract customers and steal VNS's market share.

Dealing with Competition from E-hailing Applications: Many Challenges

"Mimic" the competitor is one of the solutions. Vcar and Vinasun App are 2 strategies that VNS is applying to negate the risks from applications like Uber and Grab. In 2016, VNS officially published an e-hailing application which is called Vinasun App in order to directly compete with existing applications. According to research from RongViet's analyst, Vinasun App is an application that replaced the calling method for taxi customers and it lacks many functions compared with Uber and Grab at this moment. Accordingly, Vinasun App does not allow customers to pay through cards or estimate taxi fares before booking. It could be seen that this application is only a replacement for any existing taxi catching methods from VNS.

Table 1: Comparison Between Popular E-hailing Applications and Vinasun App

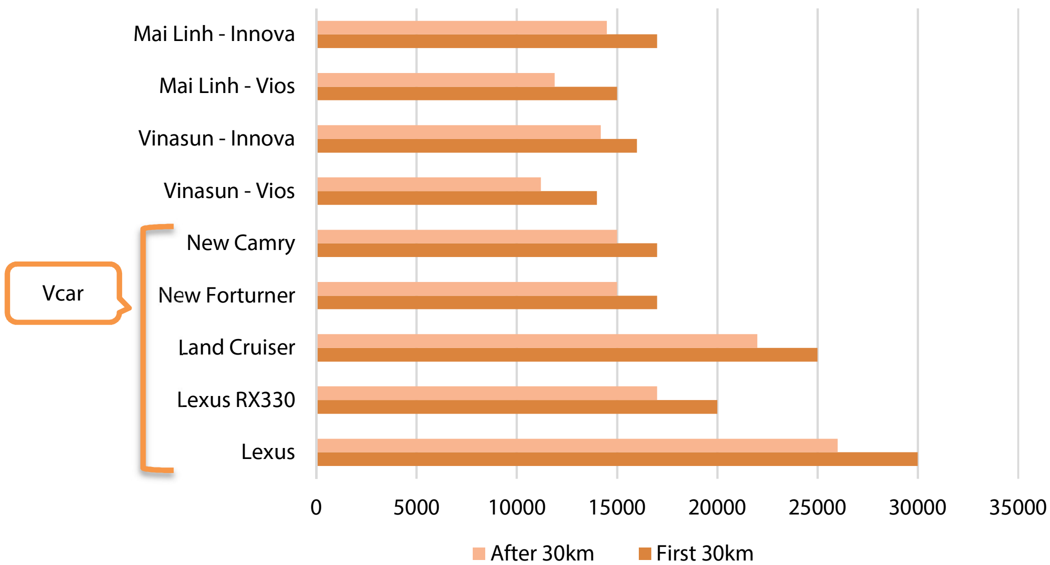
	Vinasun App	Uber	Grab
Payment method	Cash	Cash Cards	Cash Cards
Route	Pre-determined	Pre-determined	Pre-determined
Fare	Cannot pre-determine	Pre-determined	Pre-determined
Pick-up	Confirm through phone call	Confirm through phone call	Confirm through phone call
Rating system	1-way Customers rate drivers	2-way Customers and drivers rate each other	1-way Customers rate drivers
Driver	Hire	Part-time	Hire/Part-time
Vehicles (taxi)	Own	Not own	Not own
Relationship between app and drivers	Employer – employee	Cooperation	Cooperation

Source: RongViet Research

In addition to this, VNS is in the experimental phase for Vcar segment with 150 – 200 taxi – high-end cars including Lexus, Land Cruiser, and Forturner without "taxi color" as traditional taxi. Transportation methods will be seen as contractual form and Vcar is experimentally operated in 8 cities which are HCMC, Da Nang, Can Tho, Binh Duong, Dong Nai, Ba Ria – Vung Tau, Khanh Hoa and Dong Thap. Moreover, Vcar could only be used through Vinasun App or through call center and it has higher fare than normal cabs (Figure 2). On the other hand, Vcar types that have lower fares are usually mid-end automobiles, equivalent with traditional taxis and normal Uber drivers' cars. Therefore, we believe Vinasun App could not bring significant improvement in efficiency or potential segment for VNS in the short or intermediate term, while Uber and Grab are still offering much better travelling methods with lower costs.

However, those strategies demonstrate the reactiveness of VNS in terms of finding solutions for issues from new competitors while other traditional taxi companies have not made any movements yet. In the future, VNS will continue to invest in new taxis and dispose of old cars to maintain taxi quality and coverage in HCMC market.

Figure 2: Fare Comparison Between Tradition Taxis and Vcar



Source: RongViet Research

More Detailed Analysis of Taxi Fares

It should be noted that the fundamental aspect that impacts consumer's decisions is the taxi fare. Accordingly, while Uber applies the floating rates following the demand, Vinasun (with other traditional taxi companies) and Grab have fixed rates (Grab also increases taxi fares during rush hour). Based on RongViet Research's estimation and analysis, Uber, Grab and Vinasun's fares constitute different elements, as mentioned in the table below.

Table 2: Fare Comparison between Vinasun, Grab and Uber*

**RongViet Research calculates based on the assumption that (1) the travelling distance is 7km (from 141 Nguyen Du to Tan Son Nhat airport), (2) the travelling time is g between 20 – 25m, (3) no other costs, (4) no promotion and (5) not during rush hour. Uber's price is taken from its main website on 08/11/2016.*

Components	Basic charge	Km charge	Minute charge	Total
Vinasun – 4 seat	11,000/500m	14,500 * 6,5	0	105,250
Vinasun – 7 seat	12,000/500m	16,500 * 6,5	0	119,250
GrabCar – 4 seat	24,000/2km	11,700 * 5	0	82,500
GrabCar – 7 seat	28,000/2km	14,000 * 5	0	98,000
UberX	4,500	7000 * 7	450	79,000 – 104,000
UberBlack	6,500	11,500 * 7	600	125,000 – 164,000
Uber – 7 seat	6,500	11,500 * 7	600	125,000 – 164,000

Nguồn: RongViet Reseach

From these estimations, Grab's fare is 15 – 20% and Uber's fare (UberX – using average number) is 10 – 15% lower than VNS. In addition to this, analyzing further into fare components, E-hailing applications could bring more benefit in shorter routes. For the first 2 km, Grab's fare is only 12,000 VND/share and Uber's could be around 10,000 – 12,000 VND/share while VNS's could reach over 16,000 VND/share.

Moreover, customers of Uber only have to pay the basic rates and minimum fare at 15,000 VND/trip without the initial fee.

For Grab, because the company already registered to do transportation businesses and pay taxes during its operations in Vietnam, the price competitiveness of Grab has declined relatively without a promotion program. However, it cannot be inferred that Grab could totally maintain the current fare level without legal obstacles.

At this moment, Grab has penetrated other transportation segments with new products such as GrabBike (passenger transportation by motorbikes), Grab for Work (transportation service for enterprises) or GrabExpress (Freight transportation). We believe that such movements from Grab are serving to improve brand awareness and will not significantly affect VNS. The reasons are that (1) GrabBike and GrabExpress are not among the same businesses with VNS, and Grab for Work will have a lot of things to do to catch up with VNS if it is not able to provide more attractive discounts in the future. To be specific, card customers of VNS will receive an accumulated discount of 3% - 21% and Mai Linh's will benefit 2% - 8% monthly discount.

With the official decision from the Ministry of Finance about the tax on Uber, it will narrow the fare difference between Uber and other traditional taxi companies. Moreover, Uber's business results are demonstrating several problems that technology companies are dealing with. They are (1) high costs, which leads to low profit margin, (2) companies have to continuously raise capital in order to satisfy the required growth and (3) business results could not improve when the coverage of application reaches the saturation level. Furthermore, Uber and Grab's advantages such as low fares, and convenience in booking and payment could not help them to avoid several critical downsides. First of all, there is a sudden surge in fares based on demand during rush hours. In addition to this, weather conditions could also affect the prices and for longer routes, paying for minutes could be a factor that leads to the increase in fares. Therefore, based on the conditions HCMC's infrastructure, these are the disadvantages for Uber.

While VNS is leading in terms of brand awareness and costs, the probability that VNS will increase taxi fares in the future is relatively limited, even if oil prices increase. Therefore, the decline in its profit margin is inevitable. We believe that VNS still has significant advantages in several segments such as point of focus (office, shopping malls/centers, hotels, and restaurants), enterprise customers, and customers catching on the road or to the airports with baggage and coming in groups. Furthermore, RongViet Research believes that the balance in the industry between traditional taxi companies and e-hailing applications could not happen in the short and intermediate term. As a result, choosing the appropriate segments containing comparative advantages and accepting the decline in market shares could be better strategies rather than directly competiting with technology companies. RongViet Research's analyst pointed out that VNS has the ability and financial strength to maintain the current taxi fares in order to stand out from Uber and Grab's segments. Moreover, VNS will also have distinctive businesses to directly compete with Uber and Grab as mentioned above, which are Vcar and Vinasun App.

Outlook

With great penetration from Uber and Grab over the last 2 years, VNS and other taxi companies are facing fierce competition and receiving negative impacts on their business results and efficiency. The efficiency, convenience, and competitive costs from technology companies force traditional taxi companies to adjust and transform. VNS is the leading company in this issue with Vinasun App and Vcar. Even though there are unclear prospects of new strategies, we highly appreciate the reactiveness of VNS when facing heavy completion.

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Regarding stock price valuation, we believe VNS is undervalued compared to other companies with similar performance or the market as a whole. However, under the current circumstance that competition is fierce and going to remain in the future, we made a **MONITOR** recommendation for VNS's stock.

Appendix – Is VNS's Stock Undervalued?

Table 3: VNS's Peers and Several Financial indicators

Countries	Company name	Ticker	Market Cap (VND B)	P/E	Current EV/EBITDA	P/B
Vietnam	**Vietnam Sun Corp**	**VNS VN**	**2,307**	**7.89**	**4,06**	**1,40**
Taiwan	Taiwan Taxi Co Ltd	2640 TT	1,481	14.88	-	1,86
Indonesia	Express Transindo Utama Tbk	TAXI IJ	647	-	4,60	0,43
Indonesia	Steady Safe Tbk Pt	SAFE IJ	100	34.91	-	-
Indonesia	Blue Bird Tbk Pt	BIRD IJ	12,815	9.09	5,61	1,76
Average (Proportion based on market capital)			**3.445**	**9,15**	**4,85**	**1.65**

Source: Bloomberg, RongViet Research

It could be seen that compared with other companies, especially Blue Bird which is similar to VNS in terms of core business and current strategies to deal with the penetration of E-hailing application, VNS is receiving a discount regarding stock valuation (~12 – 15% less than industry average).

Table 4: VNS's Peers and Several Financial Indicators

Company name	Market Cap (VND bn)	Gross margin – Q	Gross margin – Y	ROA – 12 months	ROE – 12 months	Debt/Capital
Vietnam Sun Corp	**2,307**	**14.79**	**15.16**	**10.45**	**18.42**	**66.41%**
Taiwan Taxi Co Ltd	1,481	40.88	48.42	5.50	12.49	71.70%
Express Transindo Utama Tbk	647	19.62	35.16	(1.50)	(4.79)	172.43%
Steady Safe Tbk Pt	100	-	85.80	8.85	-	-
Blue Bird Tbk Pt	12,815	26.73	30.55	11.51	21.13	45.50%

Source: Bloomberg, RongViet Research

However, analyzing the business efficiency demonstrates the contradicting pictures. VNS's profit margin is at a low level in the industry and on a downtrend. This trend could be seen as a common scenario for taxis companies amid the penetration of Uber and Grab over the last 2-3 years. However, VNS has several advantages with the ROA and ROE ratios which are above 10%, while other companies have much lower figures. Furthermore, Debt/Chartered capital of VNS is about 66%, relatively safe.

Table 5: Revenue Growth of Several Taxi Companies

	2015	2014	2013	2012	2011
Vietnam Sun Corp	12.78%	19.38%	16.39%	19.30%	38.37%
Taiwan Taxi Co Ltd	10.62%	32.98%	27.53%	12.25%	28.78%
Express Transindo Utama Tbk	9.03%	29.52%	31.88%	53.94%	54.32%
Steady Safe Tbk Pt	-27.11%	-22.00%	-23.32%	-29.98%	-12.59%
Blue Bird Tbk Pt	14.99%	21.37%	26.51%	20.88%	-

Source: Bloomberg, RongViet Research

Table 6: Profit after tax growth of several taxi companies

	2015	2014	2013	2012	2011
Vietnam Sun Corp	4.9%	39.9%	48.0%	13.7%	-25.9%
Taiwan Taxi Co Ltd	-28.5%	17.2%	51.4%	20.6%	34.9%
Express Transindo Utama Tbk	-75.1%	-21.0%	52.4%	24.3%	89.7%
Steady Safe Tbk Pt	-73.6%	-16.5%	-167.6%	-27.7%	-381.6%
Blue Bird Tbk Pt	2.8%	-8.5%	446.8%	87.1%	0.0%

Source: Bloomberg, RongViet Research

In addition to this, VNS, along with Blue Bird, maintains the positive growth rate in revenue even though it is decreasing. While other companies are facing significant declines in profit, VNS also achieved a positive growth compared to the same period last year. This is evidence that VNS's "resistance" level is relatively high with flexible and responsive business strategies. However, we believe that VNS still has many things to do to improve the business model, and that its stock valuation does not have a huge difference compared with other companies in the industry. Therefore, Rongviet Research maintains the assessment for VNS is to **MONITOR** this stock.

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Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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