# LOGISTICS: Mixed Picture

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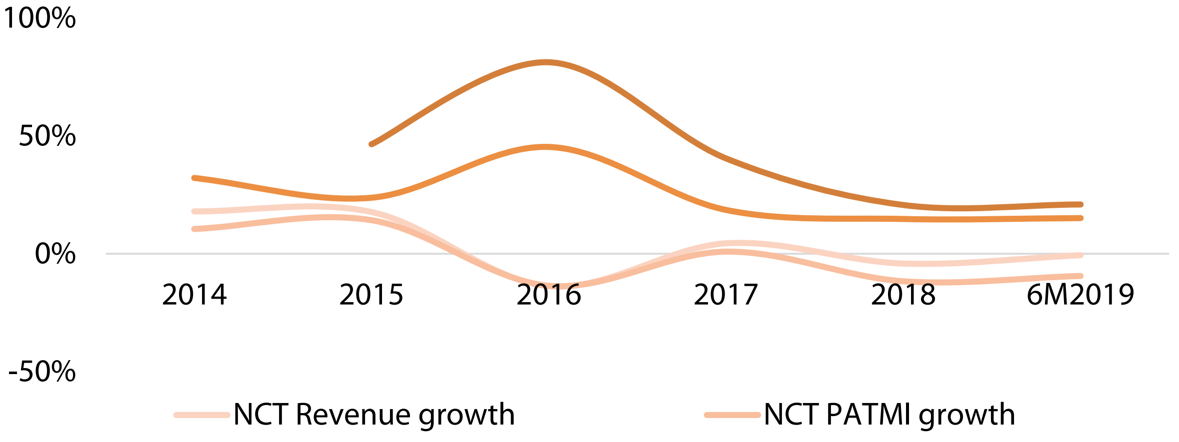
# AIR CARGO TERMINAL SEGMENT

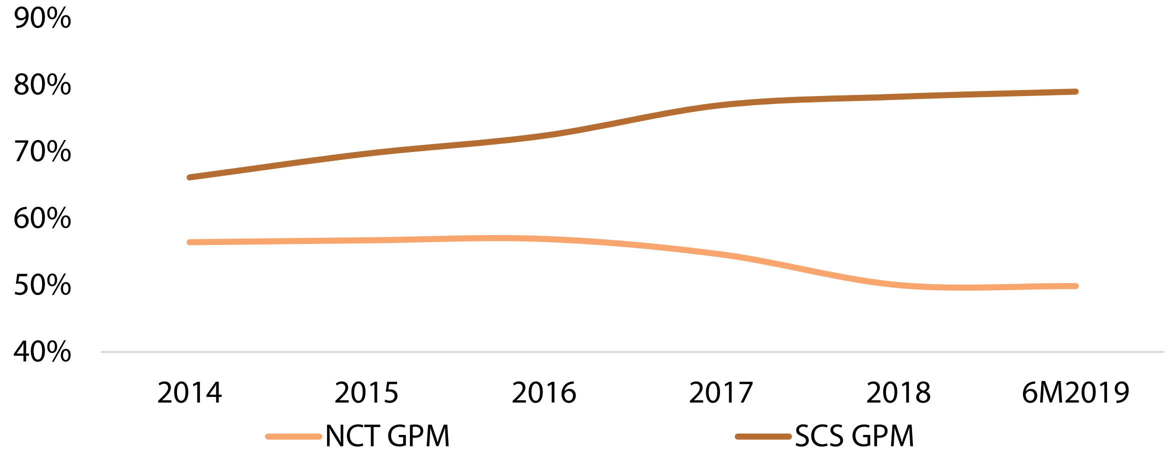
## Different Market Dynamic Led To Strong Divergence In Two Listed Players

**Figure 1: Revenue, NPAT growth**



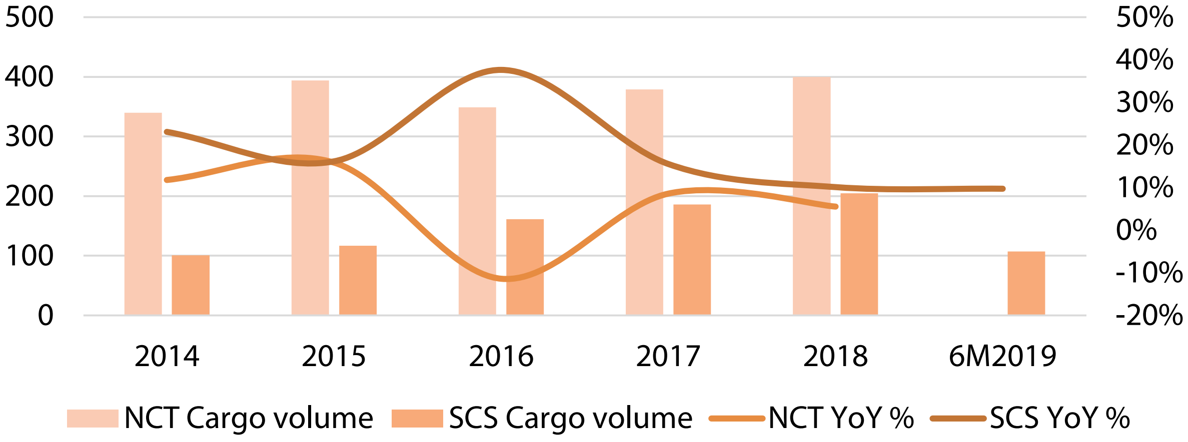

*Source: Company filing, Rong Viet Securities*

**Figure 2: Gross margin**




*Source: Company filing, Rong Viet Securities*

**Figure 3: Cargo volume (Ton)**



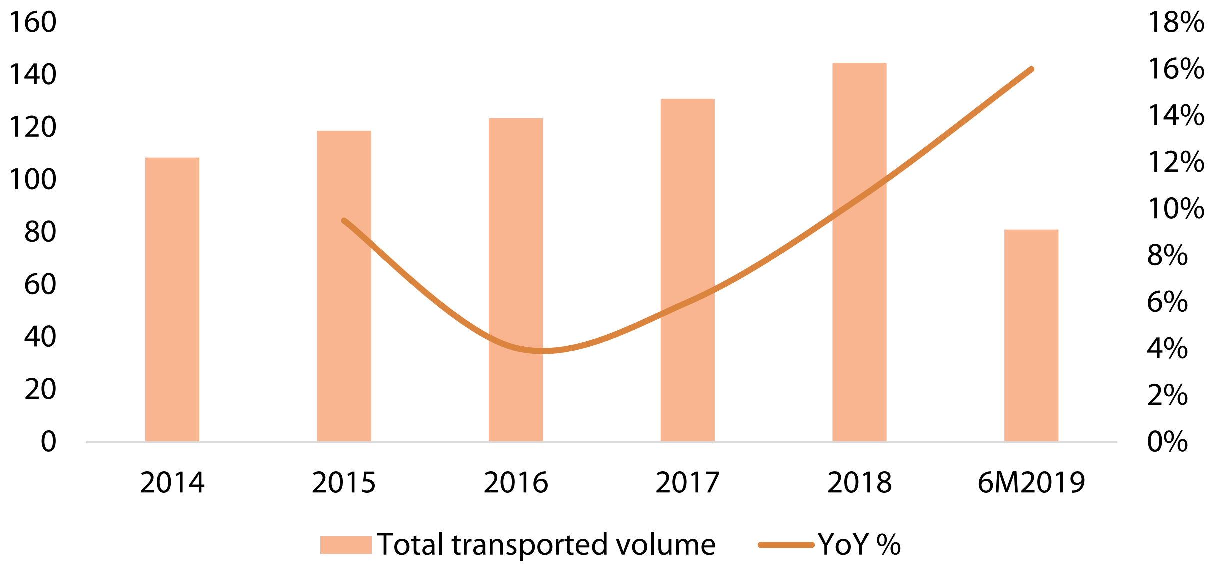

*Source: Company filing, Rong Viet Securities*

- NCT and SCS are strongly diverged in business results as two companies are located in very different competitive landscape. Air cargo market in the North mainly relies on Samsung's demand while it's more diversified in customer base and cargo type as well in the South.
- Located in Noi Bai Airport, NCT's negative revenue growth trend continued in 6M2019 as affected from Samsung demand. GPM lower by 266 bps in 1H2019 as well.
- Meanwhile, SCS sustained its growth in both revenue and net profit thanks to steady increase in cargo volume (10% YoY) and a new client, Japan Airline. However, SCS witnessed a slight GPM reduction of 60 bps YoY.

# DOMESTIC OCEAN FREIGHT SEGMENT

## Difficulties Will Pass Away

**Figure 4: Domestic container volume (Ton Mn)**




*Source: Vinamarine, Rong Viet Securities*

**Figure 5: HSFO (red) plummeted vs VLSFO (silver) before IMO 2020 (USD/metric ton)**


*Source: Ship and Bunker*

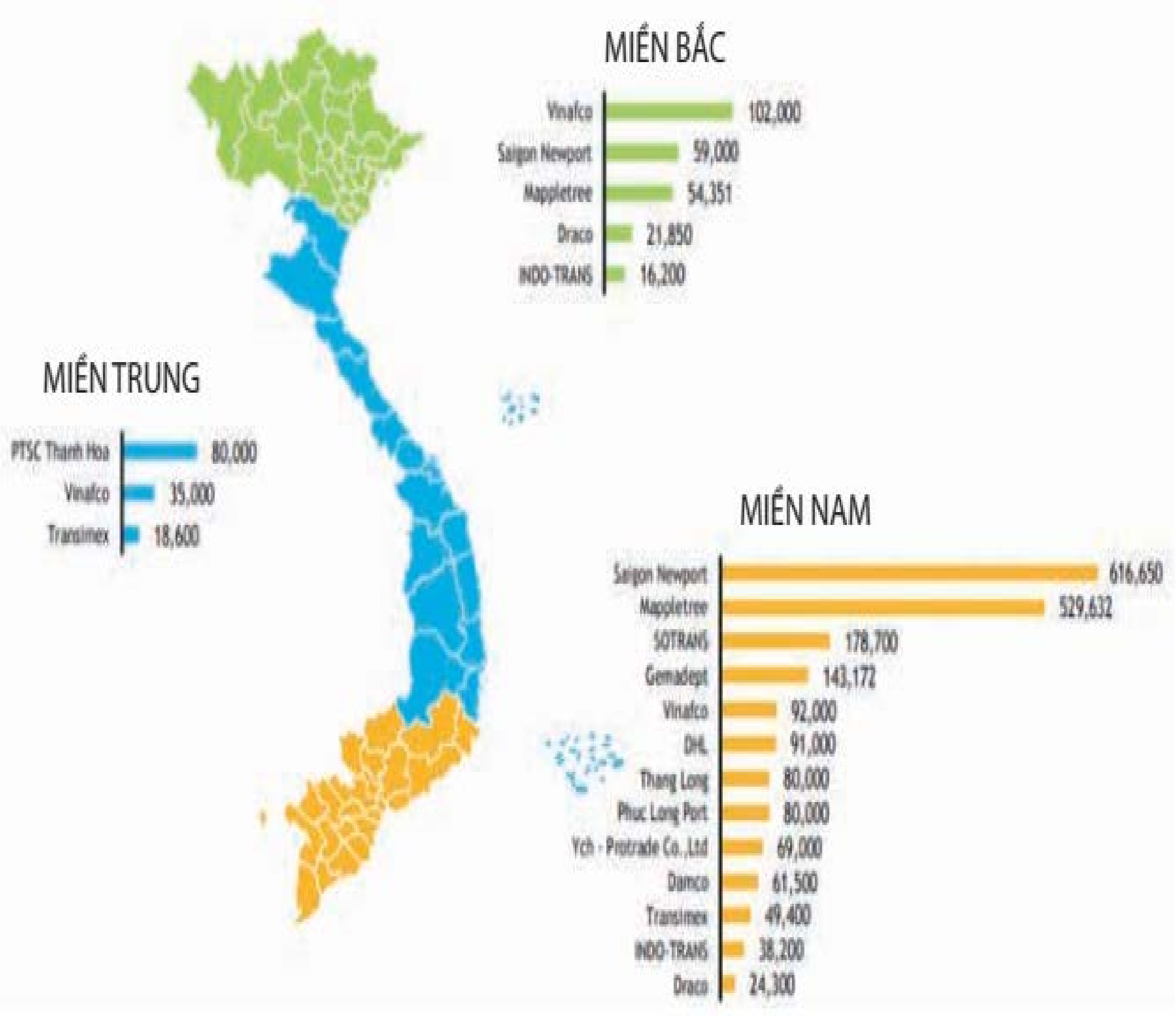
**Supporting factors**

- Containerization of commodities goods in Vietnam, such as coal, agriculture products, leading to sustainable growth in cargo volume.
- Ocean shipping is the cheapest modals in transportation for long-haul route. 70% cargo volume in North<->South route was transported in marine container vessels.
- Lower HSFO price (3.5% sulphur content) as IMO requires international to use VLSO (0.5% sulphur content) from 2020. We expect Vietnam's Marine authority to delay in applying IMO 2020 on domestic ocean shipping routes. Therefore, domestic liners will enjoy favorable profit margin.
- The Government to implement policies to cut costs and CIT rate for marine shipping players.

# WAREHOUSE SEGMENT

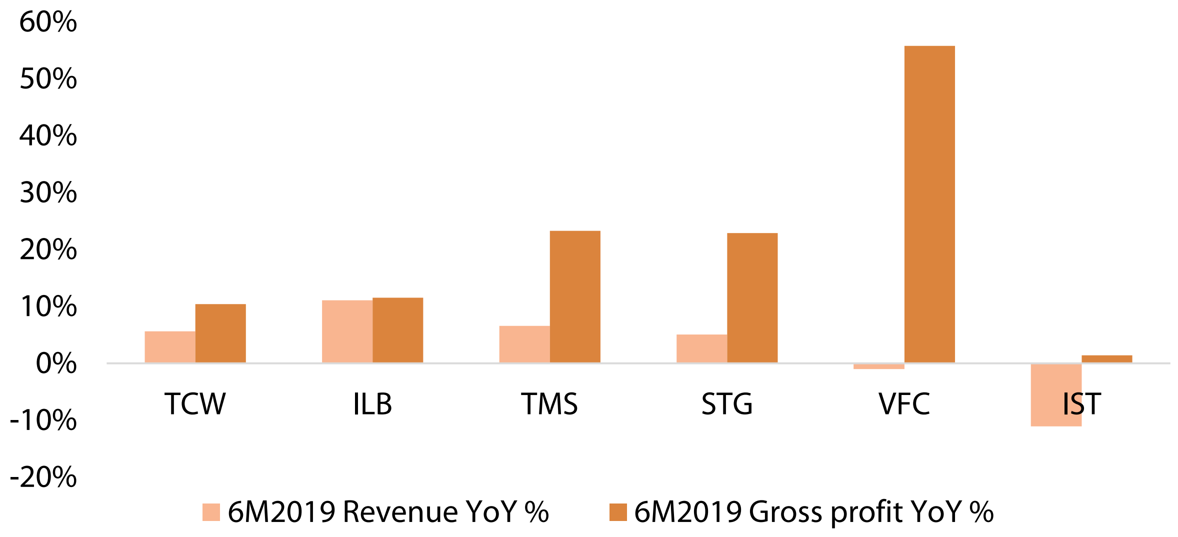
## Benefit From Global Supply Chain Shift And Surging Demand From E-commerce

**Figure 6: Warehouse acreage by region (m2)**




*Source: StoxPlus*

**Figure 7: Revenue, gross profit growth of some key players**



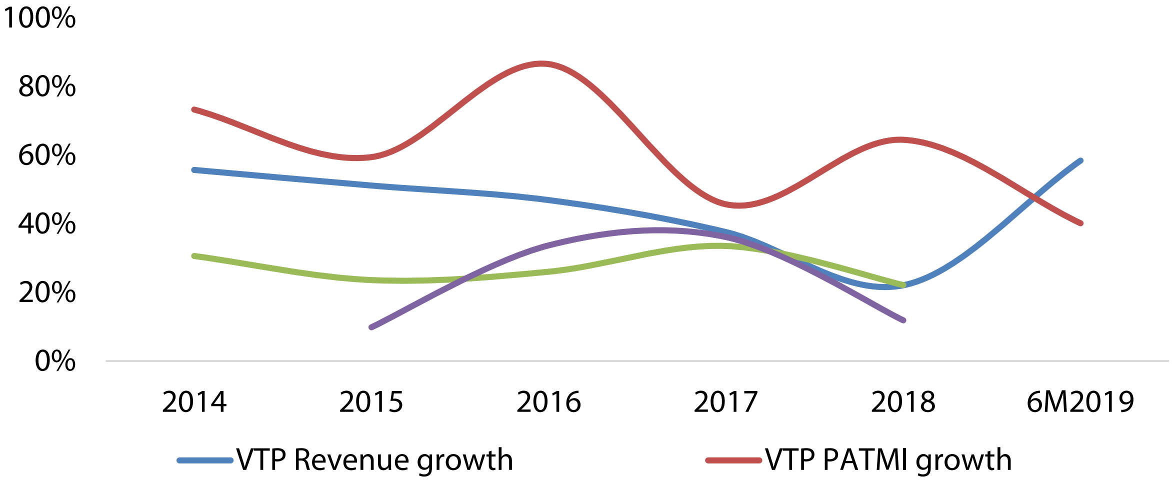

*Source: Company filing, Rong Viet Securities*

- More than 70% warehouse area is located in the South with broadly-offered services from common warehouses, bonded warehouses, distribution centers and cold storages. Hence, the clients type are diversified in nature from retailers, importers/exporters to (FDI) manufacturers.
- We expect the demand for warehousing services to stay strong in the next couple of years as (1) the trend of shifting global supply chain, in which Vietnam is one of the beneficiaries, is expected to continue and (2) booming of e-commerce.
- Companies with competitive advantages in available warehouse spaces, logistics facilities, well-located near the urban zone and industrial parks will be the notable ones, such as ILB, TMS, STG.

# E-LOGISTICS SEGMENT

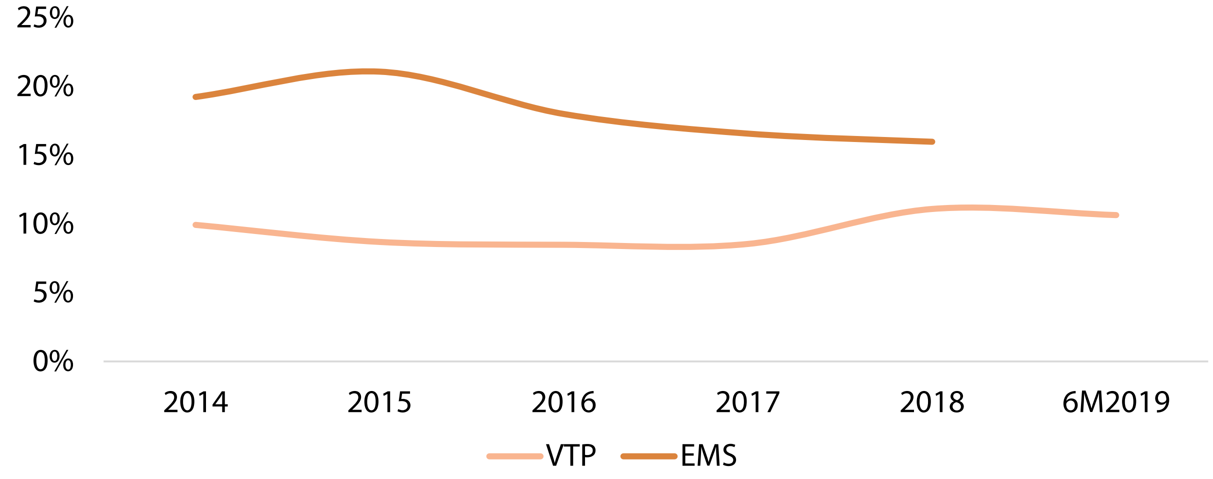
## Booming Of E-commerce To Drive Couriers' Profit Growth

**Figure 8: Revenue, NPAT growth**



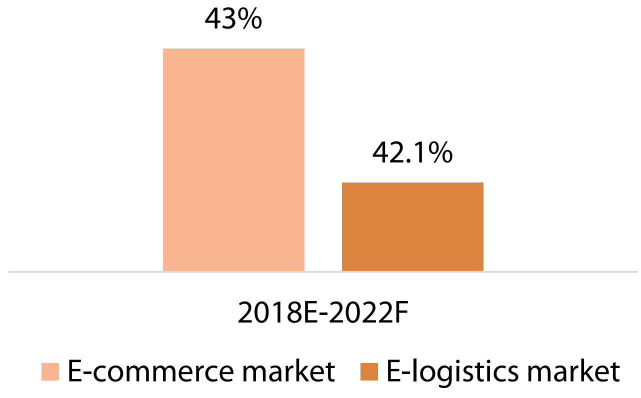

*Source: Company filing, Rong Viet Securities*

**Figure 9: Gross margin**




*Source: Company filing, Rong Viet Securities*

**Figure 10: CAGR of e-commerce and e-logistics market**



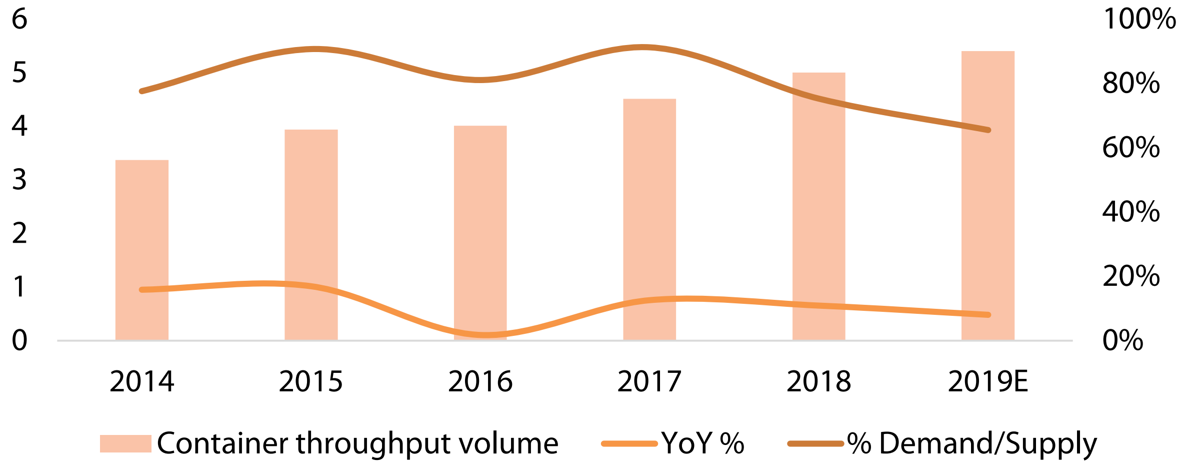

*Source: Google, TEMASEK, Ken Research, Ipsos Business Consulting analysis*

- Driving force of the industry's demand is gigantic, easing the heat from the competition. The competitive logistics landscape is crowded though, with over 50 providers as of 2017, from traditional express services (e.g., Viettel, EMS, and VNPost) to start-ups (e.g., GHN, GHTK, Nhat Tin Logistics) and international players (e.g., DHL eCommerce, Grab Express, and Lazada Express).
- However, we still see a strong divergence in business results of the two listed companies (EMS and VTP) due to its different corporate culture (relating to execution process speed), customer base and strategy.
- VTP continued to post strong bottom line growth while EMS have been much more sluggish in its NPAT growth.
- The big question now is will the industry growth continue to materialize in VTP's profit growth and justify its high valuation metrics ( Trailing 12M P/E of 25x)?

# SEAPORT SEGMENT IN HAI PHONG

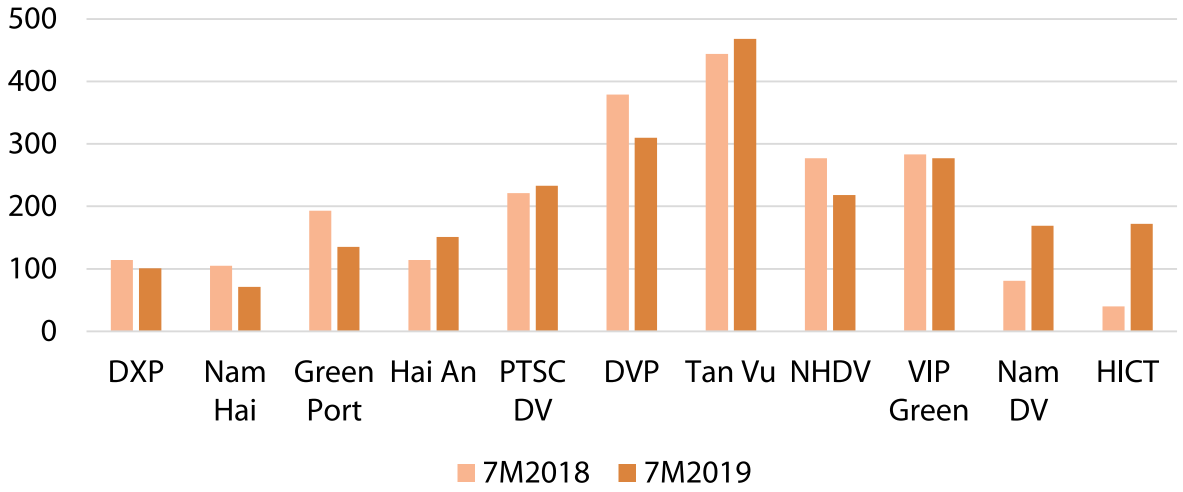
## Handling Supply To Surge Amid Slower Demand Growth

**Figure 11: Container throughput growth to decelarate (TEU Mn)**




*Source: Comanies filing, Rong Viet Securities*

**Figure 12: Vessel calls number at some key ports in Hai Phong**




*Source: Hai Phong Matitime Administration, Rong Viet Securities*

**Figure 13: Direct route to the US West Coast from HICT port, the main disruptive factor**

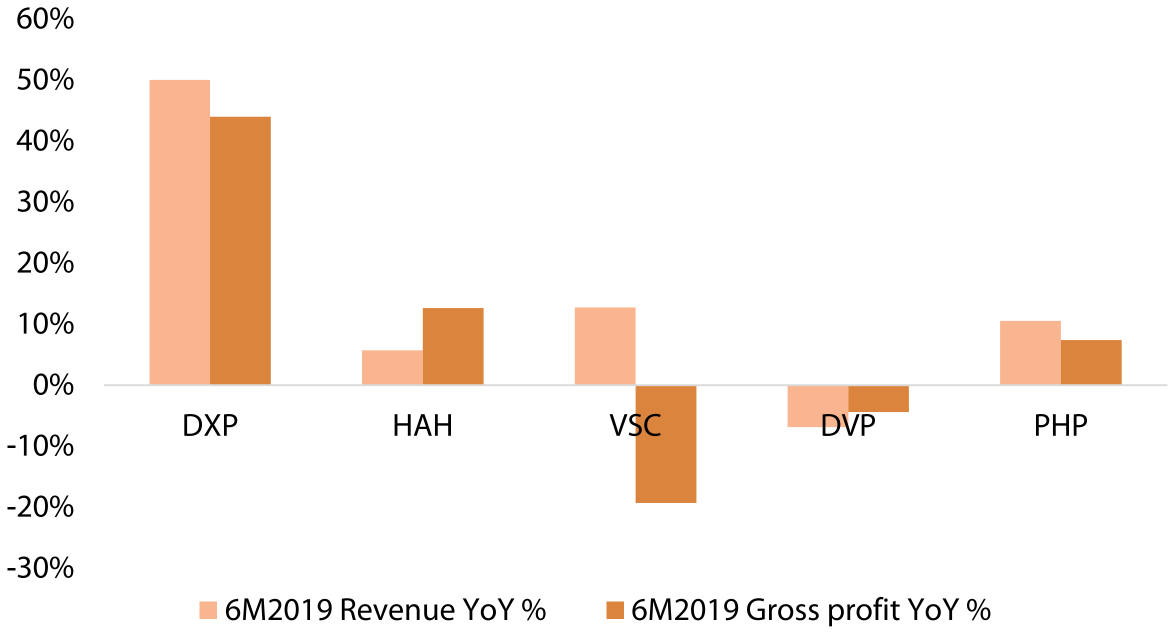

*Source: Wan Hai Line*

- In 1H2019, total throughput decline by 1% YoY, according to the Vinamarine
- Import-export container market will be tougher than ever as (1) deep seaport HICT had offered long-haul service to the US directly, (2) Two more downstream ports will operate by the end of 2019 and add more nearly 1 Mn TEU handling capacity, worsen the overacapacity issue in Hai Phong.
- Domestic container market to be the savior of upstream ports as these players had losed favor of international shipping lines due to technical reasons (lower draft, longer docking time, longer sailling time).
- Upstream ports who have in-house source of domestic cargo volume will be the winners

# SEAPORT SEGMENT IN HAI PHONG

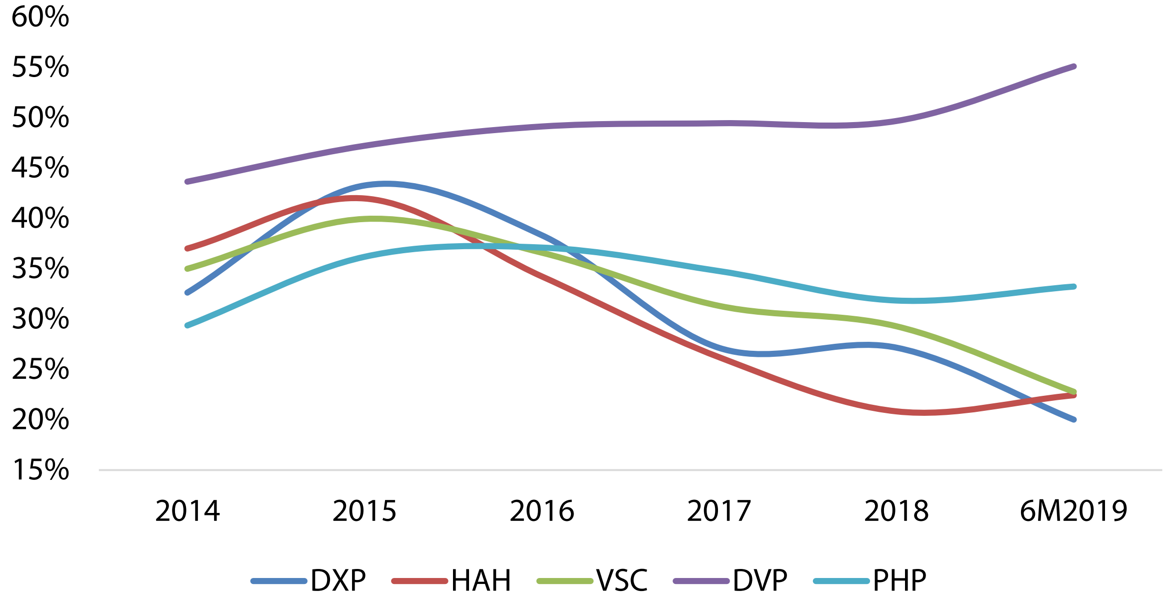
## Handling Supply To Surge Amid Slower Demand Growth

**Figure 14: Revenue, gross profit growth of some key players**




*Source: Company filing, Rong Viet Securities*

**Figure 15: Gross margins**




*Source: Company filing, Rong Viet Securities*

- Upstream ports like DXP saw a positive growth in business results mainly due to low base in 1H2018. we believe its domestic container volume growth outpaced bulk cargoes' growth in the 1H2019.
- We expect HAH to continue to outperform and post a higher growth in profit for the rest of 2019 as this company will have additional source of profit from leasing container vessels (newly-contributed from Dec 2018) and higher growth from container shipping segment besides its current port operation.
- VSC and DVP will struggle in 2019 as they are losing vessels calls from international shipping lines to another downstream ports, including Tan Vu Port (PHP).

# LOGISTICS INDUSTRY - REVIEW

## Industry comparables (%, TTM)

| Ticker | Sales Growth | EBITDA Growth | EBITDA Margin | Operating Income Margin | Net Income Growth | Net Profit Margin | Capex/Sales | Return on Invested Capital | Return on Assets | Return on Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **SCS** | 8.3 | 9.0 | 32.5 | 23.5 | 10.5 | 20.2 | 12.9 | 19.0 | 15.4 | 23.6 |
| **NCT** | 14.8 | 16.7 | 75.5 | 68.3 | 20.6 | 61.5 | 0.5 | 46.1 | 43.6 | 48.6 |
| **VTP** | -4.6 | -11.4 | 42.4 | 38.7 | -17.3 | 33.3 | 9.4 | 49.5 | 47.0 | 55.0 |
| **EMS** | 22.1 | 58.2 | 7.5 | 6.4 | 64.2 | 5.6 | 0.7 | 26.8 | 12.1 | 43.8 |
| **HAH** | 22.1 | 0.9 | 4.7 | 3.7 | -9.1 | 3.0 | 1.2 | 20.6 | 9.0 | 21.8 |
| **STG** | 10.1 | 8.3 | 25.6 | 16.3 | 0.7 | 11.9 | 29.9 | 10.6 | 8.1 | 12.9 |
| **TCW** | 15.3 | 22.5 | 12.2 | 7.8 | 74.3 | 7.7 | 9.3 | 6.5 | 6.1 | 10.4 |
| **ILB** | -2.9 | -3.3 | 23.7 | 12.7 | -1.8 | 8.7 | 2.4 | 12.4 | 8.9 | 15.4 |
| **GMD** | 12.8 | 5.0 | 35.7 | 25.2 | 8.2 | 15.0 | 17.6 | 11.9 | 5.5 | 15.7 |
| **DVP** | -20.8 | 10.0 | 35.5 | 21.8 | -15.8 | 19.2 | 32.4 | 4.8 | 5.2 | 7.9 |
| **PHP** | 0.3 | 0.1 | 52.4 | 39.0 | 8.0 | 47.8 | 25.9 | 19.2 | 23.8 | 27.6 |
| **VSC** | 9.5 | 3.9 | 41.7 | 21.9 | 10.0 | 15.7 | 15.8 | 6.8 | 6.1 | 9.5 |

*Source: Bloomberg, RongViet Securities*

# HAH – TURNAROUND YEAR

## INVESTMENT RATIONALES

- **Back to the growth track with the container shipping segment to be the propeller**
  - o **Port segment's earnings to bottom out.**
  - o **Container shipping to drive earnings** with new source of profit from vessels leasing activities and steady of domestic ocean freight cargo volume. HAH is the market leader in domestic ocean freight industry thanks to highly competitive advantaged fleet: (1) Highest average Dead Weight Tonnage, (2) simultaneously owns international and Vietnam registration class, (3) fully upgraded fuel tanks to comply IMO 2020.
  - o **Supportive policies** are expected to take place in 2020, including: (1) reduce operating costs (port services charges, maritime fees, registration costs, etc…); (2) reduce CIT to preferential rate of 10% from current rate of 20%. These policies will further increase consolidated NPAT.
  - o **Two major categories of customers:** (1) Transshipping for Int'l shipping lines, namely Hapag Lloyd, ONE, Yang Ming, Hyundai; (2) Domestic manufacturers, (3) importers and exporters.
- **Depot and CFS services to fulfil logistics services chain and sustain the competitive edge**
  - o Services chain: Shipping <–> Seaport <–> (Depot for empty containers and CFS) <–> Shipping.
  - o Major customers of depot yard (since 2018) are also the clients of shipping segment, including above-mentioned int'l shipping lines.
  - o Global-industry-standard CFS warehouses to commence in 2020. Promising demand from FDI manufacturers in Hai Phong.

## RISKS TO OUR CALLS

- SM Line to stop calling at Hai An Port.
- HAH can't pass the increasing fuel oil price to its clients.

## BUY +28%

| | |
|---|---|
| CMP (VND) | **14,900** |
| Target price (VND) | **18,000** |
| *Cash dividend in 12 months* | *1,000* |

| STOCK INFO | |
|---|---|
| Sector | Industrial Goods & Services |
| Market Cap ($ mn) | 31 |
| Current Shares O/S (mn shares) | 48 |
| 3M Avg. Volume (K) | 339 |
| 3M Avg. Trading Value (VND Bn) | 4.6 |
| Foreign Ownership (%) | 19.1 |
| State Ownership (%) | 0.0 |

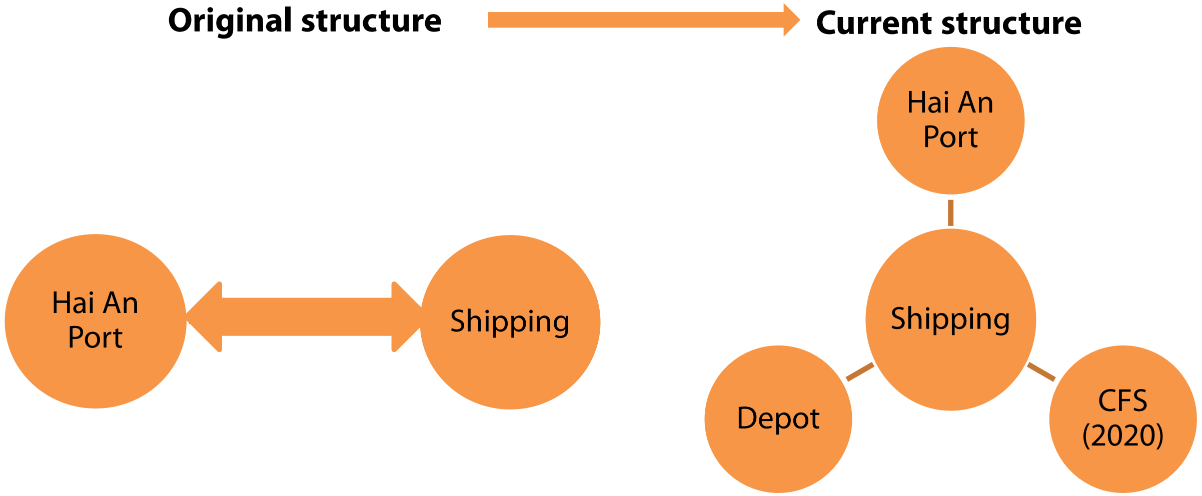
| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---|---|---|---|
| **Revenue** | 778 | 1,054 | 1,093 | 1,198 |
| *Growth (%)* | *59.5* | *35.5* | *4* | *10* |
| **NPATMI** | 147 | 135 | 128 | 141 |
| *Growth (%)* | *10.1* | *-8.2* | *-5.4* | *10.5* |
| ROA (%) | 12.9 | 9.1 | 6.6 | 7.0 |
| ROE (%) | 20.9 | 13.2 | 12.3 | 12.2 |
| EPS (VND) | 4,108 | 2,768 | 2,619 | 2,900 |
| Book Value (VND) | 19,278 | 19,606 | 21,210 | 23,271 |
| Cash dividend (VND) | 1,000 | 1,500 | 1,000 | 1,000 |
| P/E (x) | 3.8 | 4.3 | 5.7 | 5.1 |
| P/B (x) | 0.7 | 0.5 | 0.7 | 0.6 |

# HAH – TURNAROUND YEAR

**Figure 1: HAH Fleet is operating 4 weekly services, including 3 domestic and 1 international to Hong Kong.**

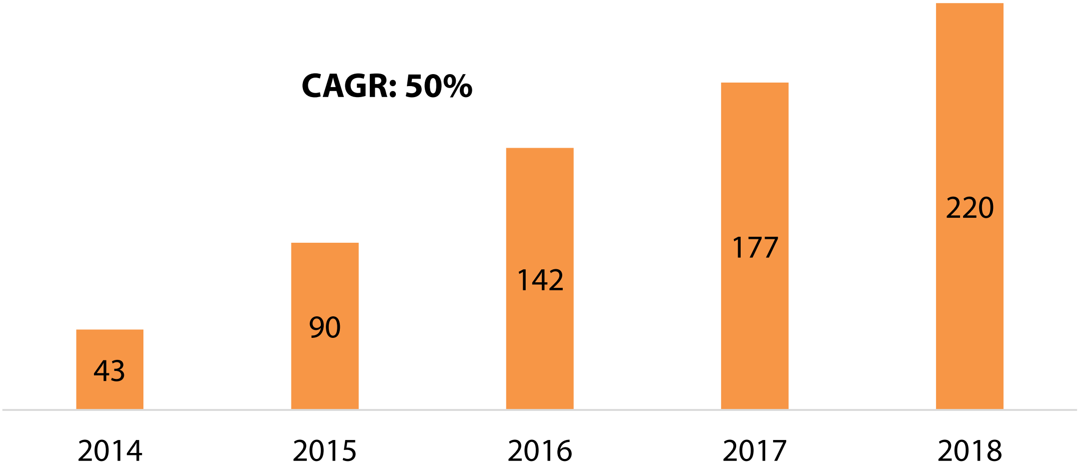

*Source: HAH, Rong Viet Securities*

**Figure 2: Strategic business shift with shipping is the new core**



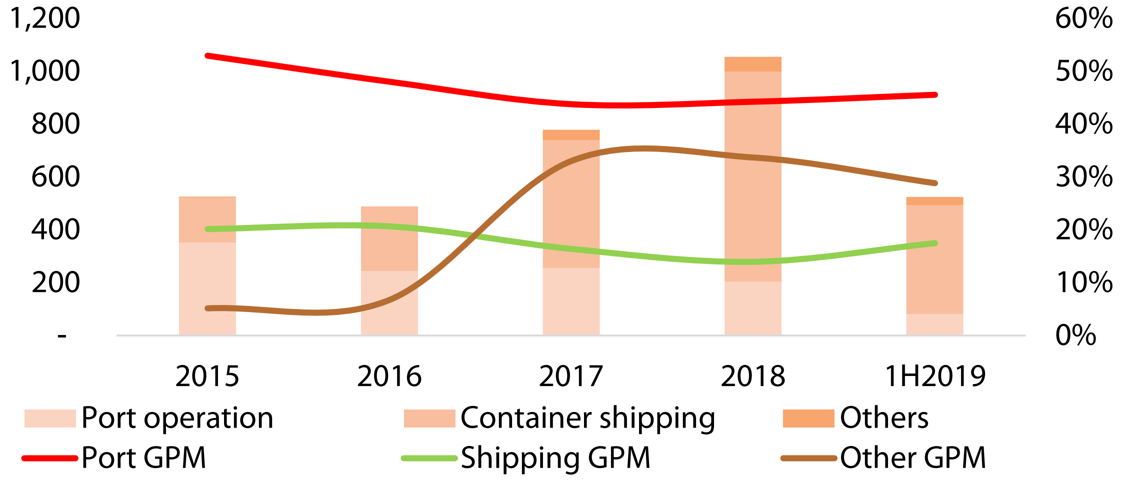

*Source: Rong Viet Securities*

**Figure 3: Shipping volume has shown steady growth (Thousand TEU)**



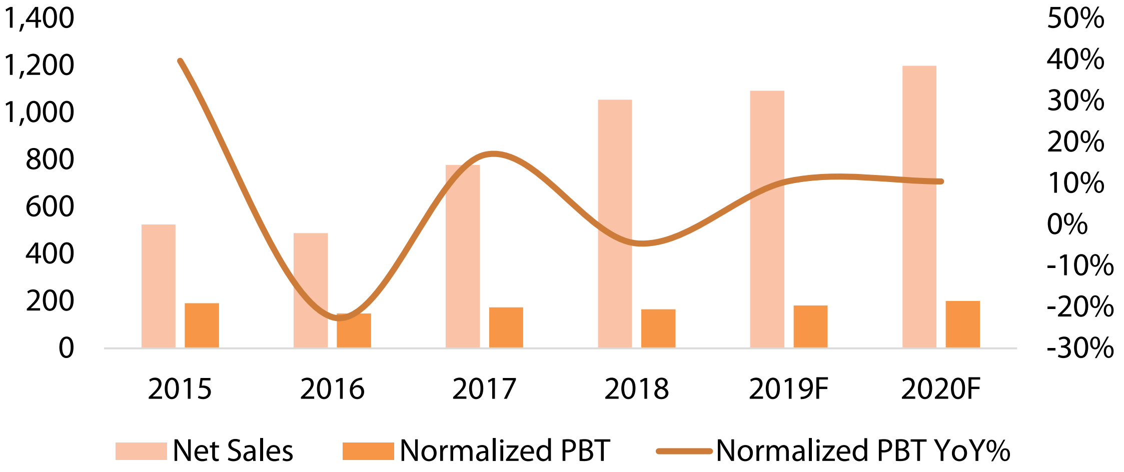

*Source: HAH, Rong Viet Securities*

**Figure 4: Revenue breakdown and GPM by segment (VND bn)**




*Source: HAH, Rong Viet Securities*

**Figure 5: Forecasted results (VND Bn)**




*Source: HAH, Rong Viet Securities*

- 2019 NPATMI of VND 128 Bn (+7% YoY normalized net earnings), 2020 NPATMI of VND 141 Bn (+11% YoY).
- 2020 EPS: VND 2,900.
- 2Y Core NPATMI annualized growth rate of 10%. Target P/E multiple of 7x, equivalent to PEG ratio of only 0.7.

**Target price: VND 20,000/share.**

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