October, 2020

HANG XANH MOTORS SERVICE JSC (HSX – HAX)

Strong recovery in the short term due to Decree 70

Particulars (VND bn)	3Q-FY20	2Q-FY20	+/- qoq	3Q-FY19	+/- yoy
Net revenue	1,741	1,089	59.8%	1,325	31.4%
PAT	51	8	514.4%	14	263.5%
EBIT	73	25	195.4%	34	116.7%
EBIT margin	4.2%	2.3%	1.9pps	2.5%	1.7pps

Source: HAX, Rong Viet Securities

9M2020: Profit grew strongly

- 9M2020 revenue reached VND 3,751 billion (+3% YoY), mainly coming from distributing cars. The 50% reduction in registration fee (Decree 70) increased the demand for cars. The repair and selling spare parts segment did not change much.
- GPM improved from 4.2% to 5.4% YoY. The GPM of distributing cars increased from 3.4% to 4.8% YoY and the GPM of repairing and selling spare parts decreased slightly from 12.9% to 12.3% YoY. Gross profit 9M2020 reached VND 203 billion, up by 33% YoY.
- Due to low liquidation pressure, the company did not have to lower prices, helping GPM increase. Eses decreased, as commissions fell sharply. The company still recorded a 43% YoY increase in PAT to VND 62 billion.

2020 and 2021 Outlook

We forecast that distribution car revenue in 2020 will decrease by 1.5% YoY, reaching VND 4,707 billion. The volume will reach 2,434 units and price will increase by 1.4% YoY, GPM will improved from 2.7% to 4.6%. The segment's gross profit will be VND 216 billion, up by 67% YoY. Meanwhile the repairing and selling spare parts revenue will increase by 1% YoY, to VND 371 billion and gross profit will drop by 32% YoY, to VND 45 billion. The rate of commission on revenue is about 1.5%, so the commission will reach VND 69 billion (-5% YoY). Overall, PBT will increase by 123% YoY to VND146 billion.

The recovery of income will help the demand of Mercedes Benz cars to increase by 10.1%. However, HAX will probably reduce the price by 1% to be competitive. The decrease in price will reduce GPM and gross profit the GPM by 1%, total gross profit may decrease by 15-20%. Thus, revenue and PBT in 2021 will reach VND 5,554 billion (+9% YoY) and VND 110 billion (-24% YoY), respectively.

Valuation and recommendation

The influence of Covid-19 on the automobile industry has passed its peak period. However, Decree 70 will stimulate car demand until the end of 2020. From 2021 onwards, Vietnam's economy is forecasted to grow steadily, which will increase the demand for cars. Therefore, as one of the two biggest Mercedes Benz distributors in Vietnam, HAX has a lot of potential to grow.

Using P/E and FCFF, we value HAX's target price at ***VND 16,900/share.*** *Cash dividend of VND 1,500/share (equivalent to a 10.6% dividend yield) is quite attractive in the context of rapidly declining bank deposit interest rates. Total return is* ***30%*** *compared to the closing price on October 28, 2020, we recommend to* ***BUY.***

BUY **+30%**

Target price (VND)	16,900
Current market price (VND)	14,100
Cash Dividend (VND)*	1,500

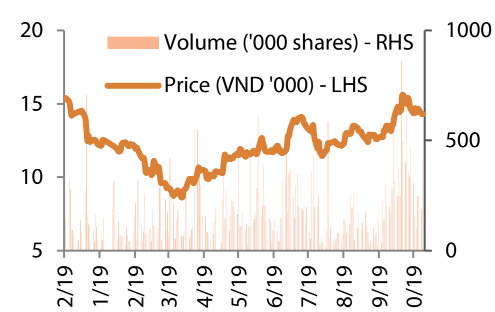
(*) Expected in the next 12 months

Stock Info

Sector	Automobile & Parts
Market Cap (VND billion)	513
Current Shares O/S	36,610,129
Avg. Daily Volume (in 20 sessions)	352,793
Free float (%)	42
52 weeks High	16,265
52 weeks Low	8,640
Beta	0.96

	FY2019	Current
EPS	1,389	1,908
EPS Growth (%)	-51	-15
Diluted EPS	1,389	1,908
P/E	10.2	7.4
P/B	1.1	1.1
EV/EBITDA	19.7	7.8
Cash dividend yield (%)	10.4	10.6
ROE (%)	11.1	15.3

Price performance



Major Shareholders (%)	
Do Tien Dung	22.8
Foreign ownership room (%)	42.6

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Exhibit 1: 3Q2020 Results

(VND Bn)	3Q-FY20	2Q-FY20	+/-(qoq)	3Q-FY19	+/-(yoy)
Net revenue	1,741	1,089	59.8%	1,325	31.4%
Gross profit	110	45	146.2%	57	93.7%
SG&A	46	31	49.3%	45	1.8%
Operating income	64	14	362.6%	12	454.2%
EBITDA	82	35	132.2%	44	83.5%
EBIT	73	25	195.4%	34	116.7%
Financial expenses	9	14	-37.0%	15	-43.9%
- Interest Expenses	9	14	-37.0%	15	-43.9%
Dep. and amortization	9	10	-17.9%	11	-20.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	64	11	486.8%	18	252.7%
PAT	51	8	514.4%	14	263.5%
(*) Adjusted PAT	51	8	514.4%	14	263.5%

Source: HAX, Rong Viet Securities

Exhibit 2: 3Q2020 Performance Analysis

Particulars	3Q-FY20	2Q-FY20	+/-(qoq)	3Q-FY19	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	6.3%	4.1%	2.2pps	4.3%	2.0pps
EBITDA Margin	4.7%	3.2%	1.5pps	3.4%	1.3pps
EBIT Margin	4.2%	2.3%	1.9pps	2.5%	1.7pps
Net Margin	2.9%	0.8%	2.2pps	1.1%	1.9pps
Adjusted Net Margin	2.9%	0.8%	2.2pps	1.1%	1.9pps
Turnover *(x)					
-Inventories	10	5	4.5	7	2.6
-Receivables	31.5	22.6	8.9	9.8	21.8
-Payables	28	20	7.9	18	10.4
Leverage (%)					
Total Debt/ Equity	182.8%	227.5%	-44.7pps	299.8%	-117.0pps

Source: HAX, Rong Viet Securities

Exhibit 3: 4Q2020 Performance Forecast

Particulars (VND Bn)	4Q-FY20	+/- qoq	+/- yoy
Revenue	1,335	-23%	-12%
Gross profit	64	-42%	51%
EBIT	82	12%	216%
NPAT	55	7%	694%

Source: Rong Viet Securities

4Q2020 forecast

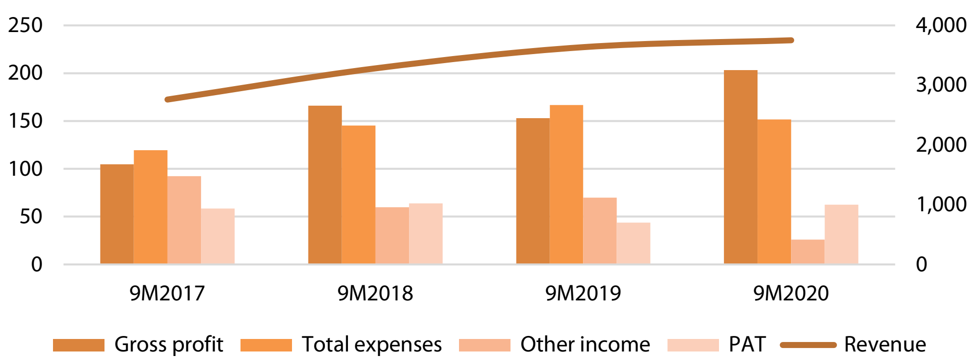
- Distributing cars: revenue and groos profit will reach VND 1,232 billion and VND 49 billion, respectively.
- Repairing and selling spare parts: revenue and gross profit will reach VND 103 billion and VND 12 billion, respectively.
- Commission will be VND 57 billion.

Update

Net revenue in 3Q2020 reached VND 1,741 billion, up by 31% YoY. The distribution car segment recorded revenue of VND 1,651 billion, up by 35% YoY due to an increase in both volume and selling price. Meanwhile, the repairing and selling spare parts revenue decreased by 6% YoY to VND 89 billion. GPM was 6.3%, higher than 4.3% of 3Q2019 because of a sharp increase in GPM of distributing cars. Thus, gross profit reached VND 110 billion, up by 94% YoY.

After 9M2020, revenue reached VND 3,751 billion, up by 3% YoY. GPM increased from 4.2% (9M2019) to 5.4%. Gross profit increased by 33% YoY, to VND 203 billion. Besides, total expenses (including financial, selling and G&A expenses) decreased by 9% YoY, to VND 152 billion. Other income (mainly from commissions) decreased by 63% YoY, to VND 26 billion. In total, PAT was VND 62 billion, up by 43% YoY.

Figure 1: Results (VND billion)



Source: HAX, Rong Viet Securities

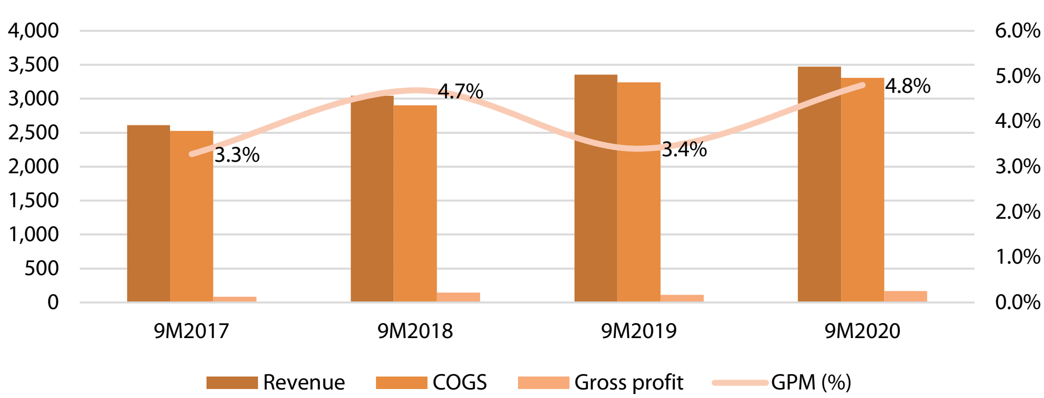
Distributing cars segment: Improved results because of Decree 70

Revenue in 3Q2020 increased strongly by 35% YoY, to VND 1,651 billion due to higher volume and higher price compared to the same period in 2019. Specifically, sales volume increased due to Decree 70/2020/ ND-CP (reducing registration fee by 50%) helping reduce the cost of buying a car by about 4%, hence the demand of buying a car went up. In addition, the selling price was higher than the price in 3Q2019 because the company did not have to reduce prices to liquidate inventories.

The increase in the selling price helped GPM improve significantly year on year, up from 2.2% to 5.7%. Therefore, gross profit reached VND 94 billion, up by 3.4x.

Good results in 3Q2020 offset the decline of results in the first half of this year. Accordingly, after 9M2020, revenue reached VND 3,475 billion, up by 4% YoY, GPM increased from 3.4% (9M2019) to 4.8% and gross profit reached VND167 billion, up by 46% YoY.

Figure 2: Distributing cars results (VND billion)

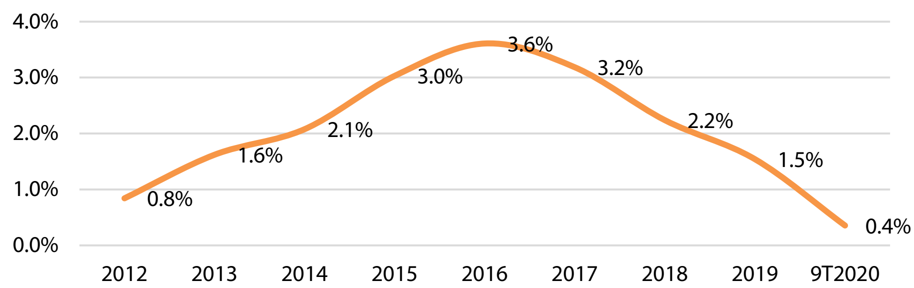


Source: HAX, Rong Viet Securities

Commissions fell sharply

Other income dropped sharply by 63% YoY (to VND 26 billion), mainly due to the decrease in booking of commissions. The commission rate on revenue in 9M2020 was around 0.4%, much lower than the rate of 1.5% in 2019. The reason is that HAX kept part of the previous quarter's commission to be booked later. Sale volume has been good in 2020, so we expect the commission rate on revenue will remain at the same level of 2019 rate which was 1.5%. Therefore, it is likely that the company will book VND 57 billion of commissions in 4Q2020, bringing the total booked commission for this year to about VND 69 billion.

Figure 3: Commission rate on revenue

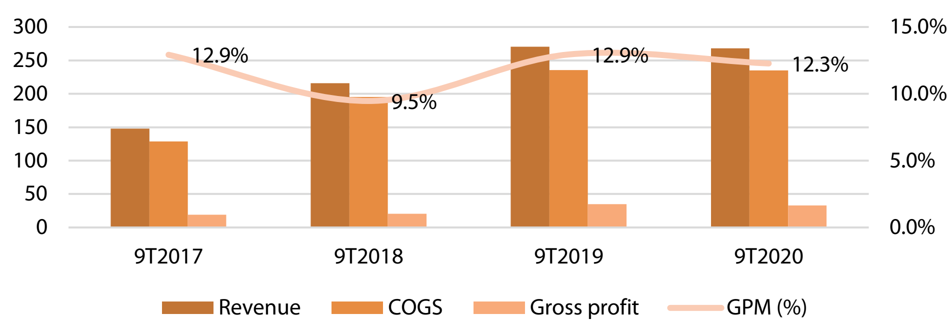


Source: HAX, Rong Viet Securities

The repairing and selling spare part segments have not changed much

9M2020's revenue was only VND 268 billion, down by 1% YoY. GPM did not change much as it was12.3%. Thus, gross profit reached VND 33 billion, down by 6% YoY.

Figure 4: Repairing and selling spare parts segment's results (VND billion)



Source: HAX, Rong Viet Securities

Other updates

In order to expand its business, HAX uses its subsidies company - PTM – to distribute Morris Garages (MG) cars in Long Bien showroom since the beginning of 3Q2020. Since MG is not a popular car brand in Vietnam, the company is promoting the brand with a small budget. In the short term, distributing MG cars cannot bring significant revenue and profit to HAX. However, diversifying its distributing segment with other brands such as Nissan or Morris Garages will provide the growth in the future.

Valuation

The pressure of liquidating inventory at the end of 2019 was huge, forcing HAX to boost its sales as much as possible. Hence, the sales volume were relatively large, while the selling price dropped to a low level. In 4Q2020, the pressure of liquidating inventory is low, so we expect that the selling price will be higher and the sales volume will be lower than the results in 4Q2019. We expect revenue to reach VND 1,232 billion (-13% YoY) and GPM will fluctuate around 4.0%. Gross profit will reach VND 49 billion, up by 215% YoY.

In 2020, we forecast revenue of VND 5,086 billion (-1% YoY) and gross profit of VND 267 billion (+37% YoY). Meanwhile, PAT and EPS will be VND 117 billion and VND 3,204, respectively. The forecasts are based on the following assumptions:

- Vehicle revenue decreasing by 2.8% to 2,434 units. Revenue decreasing by 1.5% YoY, to VND 4,707 billion.
- Revenue of repairing and selling spare parts rising by 1%, reaching VND 371 billion.
- Commission is estimated at VND 69 billion, down by 5% YoY.

	Revenue (VND billion)	GPM (%)
Distributing cars	4,707	4.6
Repairing and selling spare parts	371	12.1
Others	8	71.1

Source: Rong Viet Securities

Results in 2020 will be much better than expectations, so the company is considering to raise the cash dividend from VND 1,500/share to VND 3,000/share. However, the 3-year average cash dividend/PAT rate was 61% and our estimated PAT in 2020 will be VND 117 billion, hence we think that the cash dividend of VND 2,000/share is more feasible than VND 3,000/share.

In 2021, even though Decree 70 will be no longer takes effect, the demand for cars will still grow as people's incomes recover (GDP is expected to increase by 6.5-7%). We estimate that the distributing cars volume will grow by 10.1% YoY, to 2,679 units. The selling price will decrease slightly due to increase competitiveness in the luxury car market. Therefore, revenue is expected to reach VND 5,554 billion (+9% YoY) and GPM will decrease to 4.2%. Gross profit will reach VND 235 billion (-12% YoY). Commission rate on revenue will be around 1.5%, so the commission will reach VND 77 billion, up by 11% YoY. Overall, PBT will be VND 110 billion, down by 24.5% YoY.

Combining P/E valuation and FCFF leads to a target price of **VND 16,900/share**, based on the following parameters:

We see that the potential growth of HAX is not much different from the industry. The industry's average P/E - 5.8x - would be the appropriate P/E to HAX.

WACC is 10.76% and the growth of FCFF cash flow after 2024 is 0.5%.

Table 4: HAX Valuation

Valuation model	Weight (%)	Price (VND)
P/E	50%	18,550
FCFF	50%	15,350
Target price		**16,900**

Source: Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	4,756	5,153	5,086	5,554
COGS	4,526	4,957	4,819	5,319
Gross profit	230	195	267	235
Selling Expense	109	117	106	114
G&A Expense	52	53	52	56
Finance Income	0	0	1	1
Finance Expense	43	57	51	53
Other profits	98	96	88	97
PBT	125	65	146	110
Prov. of Tax	26	15	29	22
Minority's Interest	0	0	0	0
PAT to Equity S/H	99	51	117	89
EBIT	167	122	197	164
EBITDA	207	165	221	187

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	24.1	8.3	-1.3	9.2
Operating Income	18.3	-20.3	34.2	-15.3
EBITDA	-4.3	-27.0	61.6	-17.2
PAT	17.0	-48.2	129.8	-24.4
Total Assets	30.8	-10.2	-22.2	10.0
Equity	16.5	2.6	13.5	5.7
Profitability (%)				
Gross margin	4.8	3.8	5.2	4.2
EBITDA margin	4.3	3.2	4.3	3.4
EBIT margin	3.5	2.4	3.9	2.9
Net margin	2.1	1.0	2.3	1.6
ROA	5.4	3.1	9.2	6.4
ROE	21.9	11.1	22.4	16.0
Efficiency				(times)
Receivable Turnover	7.2	13.1	19.6	17.7
Inventory Turnover	7.7	6.9	8.3	7.9
Payable Turnover	12.5	23.1	21.3	18.0
Liquidity				(times)
Current	1.0	1.1	1.3	1.4
Quick	0.6	0.5	0.5	0.6
Finance Structure (%)				
Total Debt/Equity	222.2	205.6	97.8	97.4
Current Debt/Equity	222.2	205.6	97.8	97.4
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	121	110	126	137
Short-term investments	0	0	0	0
Accounts receivable	663	394	259	313
Inventories	590	721	581	672
Other current assets	24	22	20	19
Property, plant & equipment	345	317	223	201
Acquired intangible assets	63	56	48	41
Long-term investments	0	0	0	0
Other non-current assets	10	13	12	13
Total assets	**1,817**	**1,632**	**1,269**	**1,396**
Accounts payable	363	214	226	296
Short-term borrowings	998	948	512	539
Long-term borrowings	0	0	0	0
Other non-current liabilities	4	4	4	4
Bonus and Welfare fund	0	0	0	0
Technology-science, dev. fund	0	0	0	0
Total liabilities	**1,364**	**1,167**	**742**	**839**
Common stock and APIC	350	367	367	367
Treasury stock (enter as -)	0	-2	-2	-2
Retained earnings	99	96	158	188
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	**449**	**461**	**523**	**553**
Minority Interest	**3**	**4**	**4**	**4**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	2,683	1,389	3,204	2,423
P/E (x)	6.3	12.2	3.2	4.3
BV (dong)	12,832	12,273	14,295	15,112
P/B (x)	1.3	1.3	0.7	0.7
DPS (dong/cp)	1,500	1,500	1,500	1,600
Dividend yield (%)	12	10.4	10.6	11.3

VALUATION MODEL	Price	Weight	Average
FCFF	15,350	50%	7,675
PE	18,550	50%	9,275
Target price (VND)			**16,900**

VALUATION HISTORY	Price	Recommendation	Period
2020/05/25	12,400	Accumulate	Intermediate
2018/12/25	19,600	Buy	Intermediate
2018/04/16	29,500	Buy	Intermediate

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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