RONG VIET SECURITIES

AUTOMOBILES

APRIL SHOWERS BRING MAY FLOWERS

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AUTOMOBILES - APRIL SHOWERS BRING MAY FLOWERS

Investment Rating

Negative | Neutral | Positive

Following a year marked by significant sales declines, the domestic automotive market is set to rebound the growth in 2024. It is fueled by the recovery the economic and favorable interest rate environment. Car dealers' stock price underperformed the VNIndex in 2023 due to the sector's poor business results. In 2024, given the expectation of macro recovery, we anticipate that sector's earnings results will gradually back to the growth phase from 2024, making its relative valuation becomes attractive. HAX is the stock we like the most, with the new driver from a nascent MG business.

We anticipate the resurgence of both revenue and operating margin for automobile dealers from historical lows

- **Automobile consumption will be subdued in the following quarters before gradually increasing from mid-2024** owing to the expected phase of recovery in both global and local economy, we anticipate the two-digit sales growth from the historic lows last year. We also expect that the decreasing of borrowing interest rate will stimulate the large capital-intensive consumption such as cars.
- After suffering one unprecedented year of difficulty, most automobile dealers leveraged the effective period of the policy of 50% cut in car registration fees to clear up all hard-to-sell inventories and then limited the new goods importing. Combining with the easing of borrowing interest rate, we suppose that **the operating margin will have the flexible room to improve, supporting its earnings to reach triple-digit growth.**

Automobile dealers are in the process of diversifying vehicle class to explore its new growth driver

- Amidst intense competition among auto brands in Vietnam, automobile dealers have diversified their product portfolios by collaborating with other reputable auto brands. We believe that this strategic move will enable them to tap into new growth opportunities in the coming years.

Long-term drivers of Vietnam automotive market remain intact

- Vietnam possesses favorable conditions for long-term growth in automobile sales volume, including a low penetration rate and a rapidly expanding middle and affluent class. However, this potential is hindered by factors such as high selling prices resulting from low localization rates and high tax/fee rates, as well as inadequate traffic.
- Regarding electric vehicles, there are some promising signs with the growth of Vinfast's sales and the introduction of Electric Vehicle (EV) models from other brands in Vietnam. Nonetheless, we believe it is premature to anticipate electric vehicles emerging as a pivotal catalyst for automobile stocks (such as HAX, CTF) as Vietnam's infrastructure is insufficient in both charging capacity and number of charging stations.

Risks to our call

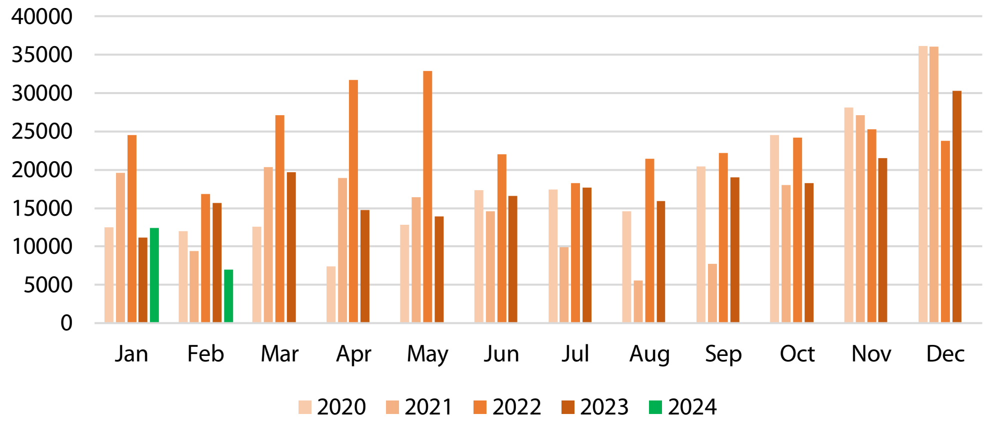
Downside risk. Car dealers' stock price will keep underperform if the economy recover weaker-than-expected.

RESURGENCE OF BOTH REVENUE AND EARNINGS FROM HISTORICAL LOWS

Automobile dealers' earnings will be supported by the expansion of both revenue and operating margin

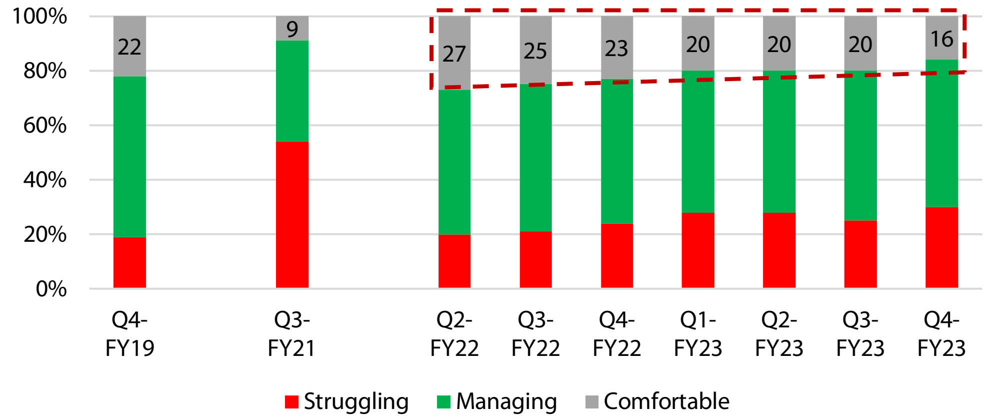
- According to VAMA, in 2M-2024, car sales volume grew by -26.4% YoY as (1) almost demand flock into H2-2023 – the effective period of the decision of 50% cut in car registration fees, (2) consumer sentiment remains stagnant (Figure 2). Nevertheless, we hold the belief that challenges are fleeting, the car consumption will recover in the next months of 2024, summing up of a YoY two-digit growth and in line with the expected recovery phase in both global and local economy.
- For the FY2024, we see the headroom for automobile dealers in flourishing its earnings of three-digit growth, driven by the less pressure in both destocking and high interest rate. (Figure 3)

Figure 1. Monthly VAMA passenger car's sale volume (unit)



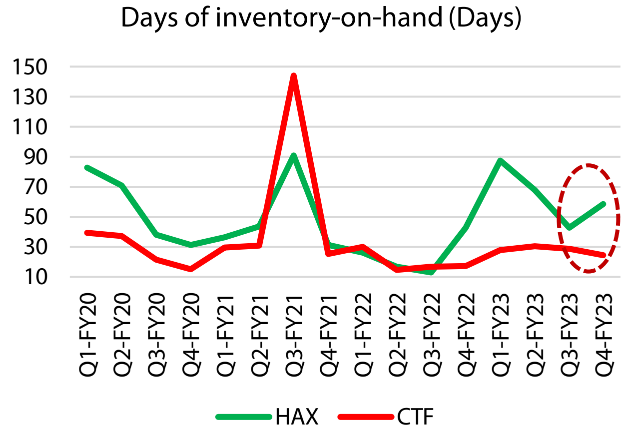
Source: VAMA, RongViet Securities

Figure 2. Q4-FY23 survey about the current financial situation of Vietnam's household

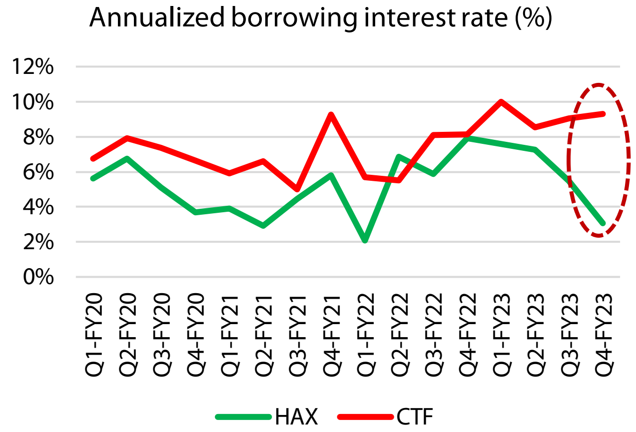


Source: Kantar Worldpannel, RongViet Securities

Figure 3. Listed automobile dealers' state of inventory and interest rate



Source: HAX, CTF, RongViet Securities

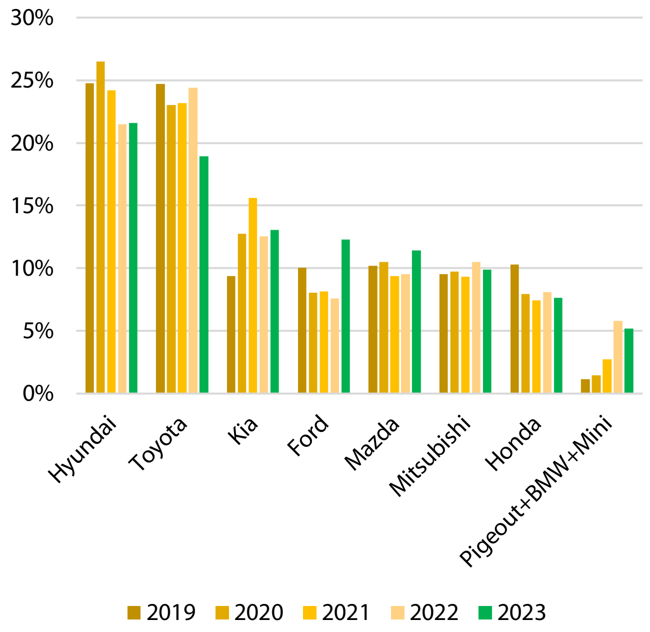


Source: HAX, CTF, RongViet Securities

Automobile dealers are in the process of diversifying vehicle class with electric vehicles or new car brand distribution

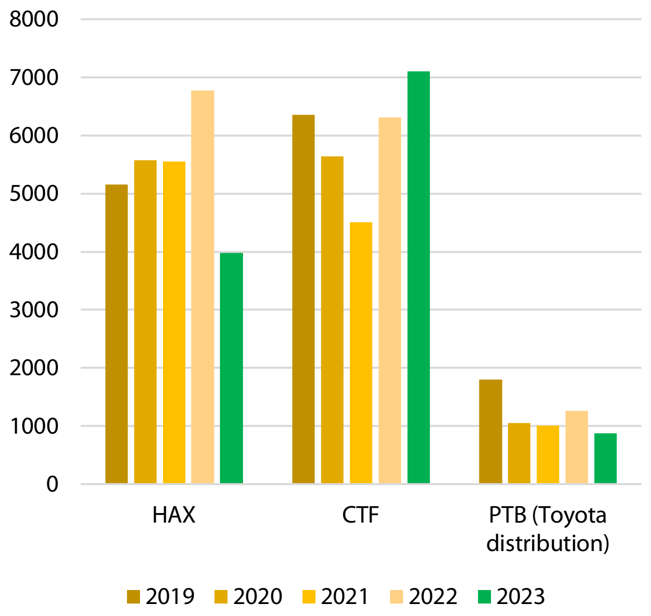
- The macroeconomic difficulties resulted fierce competitive among car brands in 2023. Particularly, leading manufacturing enterprises such as Toyota, Honda, and Hyundai experienced a decline in market share while smaller enterprises like Ford, Kia, Mazda, Mitsubishi saw growth (Figure 4). As a result, 2023 business results of high class automobile dealers were hit heavier than those of affordable class ones. (Figure 5).
- In the context of fiercer competition, automobile dealers have been adding other well-known auto brands (Table 1) to minimize the dependence on only one brands and explore its new growth driver in the upcoming years.

Figure 4. Automobile brand' market share in Vietnam (%)



Source: VAMA, Hyundai Thanh Cong, RongViet Securities

Figure 5. Yearly automobile dealers' net revenue (VND bn)



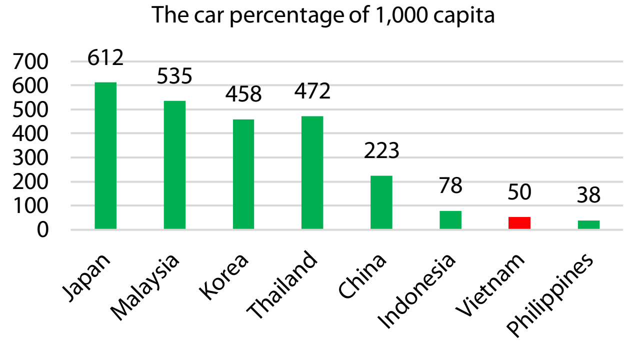
Source: HAX, CTF, PTB, RongViet Securities

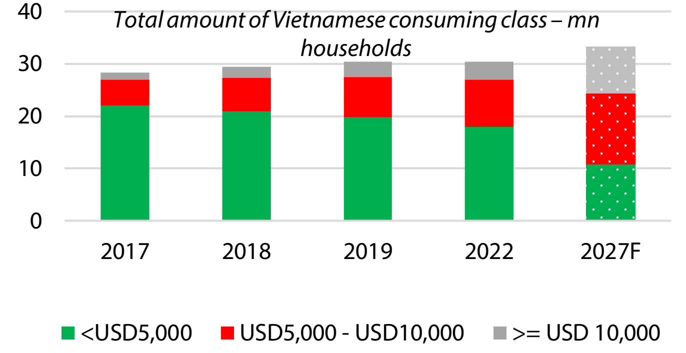
Table 1. Automobile dealers' strategies to diversify its business model

Dealers	Subsidiary	New brands	Beginning year	Progress
HAX	PTM Automobile Manufacturing Trading and Services JSC (HAX owns 98%)	MG	2020-2023 (under Tan Chong) Q3/2023 – now (under SAIC motor)	HAX generated an impressive profit in Q3 and Q4-2023 against the loss in previous quarters (almost supported by MG business)
	Mitaco (HAX owns 62%)	Nissan	2019	
	An Thai (Mitaco owns 52%)	Electric vehicle brands (Vinfast, Mercedes-Benz)	2024	
CTF		N.a	2024	The company is currently investigating new gasoline car brands as well as Chinese electric vehicle brands.

Source: HAX, CTF, RongViet Securities

Figure 6. Long-term driver of Vietnam automotive market remain intact



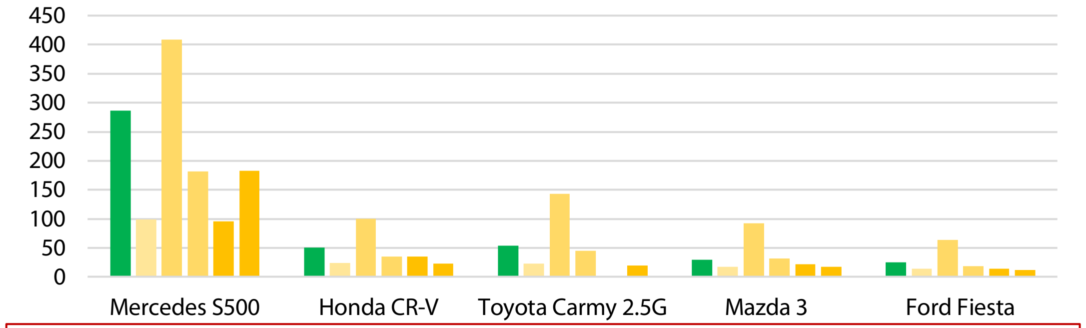


We see VN automobile is well-positioned to boom out in the long-run, driven by (1) fast growing of middle and mass affluent class, (2) the low penetration rate of only 50 cars per 1,000 capita (Figure 4).

Source: OICA, RongViet Securities

Source: : FitchSolutions, RongViet Securities

Figure 7. Some automobile model's selling prices by countries (USD thousand)

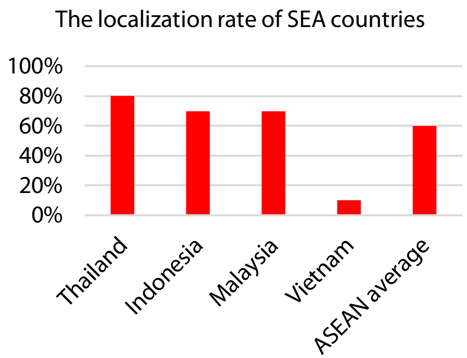


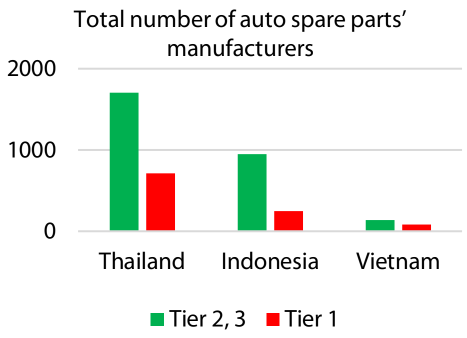
The total cost of a automotive unit on the road is 30-50% higher than in developed countries

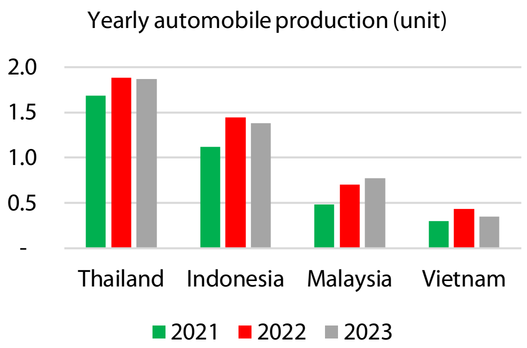
Vietnam US Singapore Thailand Germany Australia

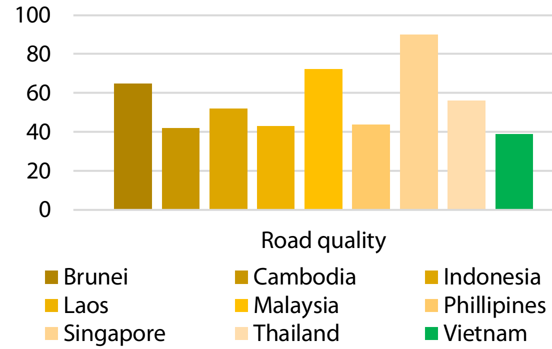
Source: RongViet Securites

Figure 8. However, this potential is hindered by factors such as high selling prices resulting from low localization rates and high tax/fee rates, as well as inadequate traffic.









Vietnam's low traffic infrastructure poses a significant obstacle to consumer willingness to purchase automobiles, evident in challenges such as traffic congestion and difficulties in finding parking spaces.

In 2023, Vietnam's automotive production scale accounted for approximately 45% of Malaysia's, 25% of Indonesia's, and 18% of Thailand's. Due to this low localization rate, almost car sold is imported with the high tax rates for both CBU and CKD. It caused the expensive selling price for each automobile unit in Vietnam.

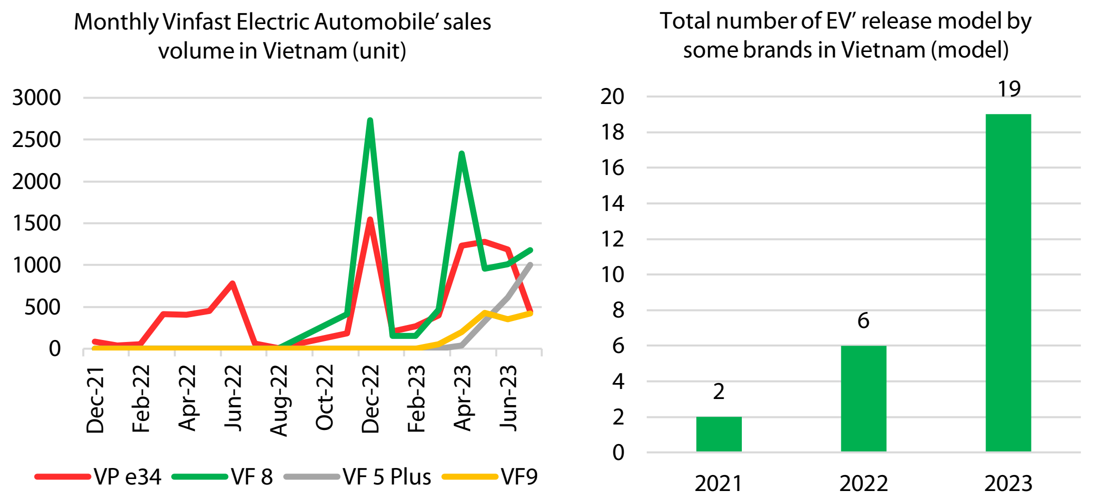
Source: Ministry of Industry and Trade, Vietnam (MOIT), RongViet Securities

Source: Marklines, VAMA, RongViet Securities

Source: UNESCAP based on WEP (2019), RongViet Securities

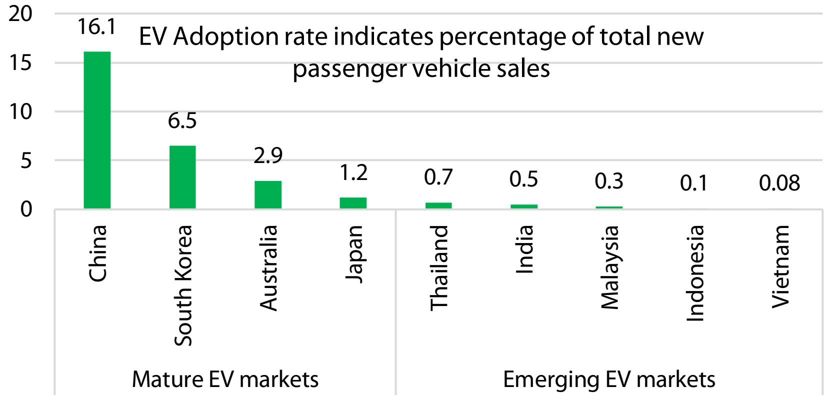
- As per the Vietnam Ministry of Transport, the total number of certified Electric and Hybrid cars in Vietnam reached 28,000 and 3,557 units, respectively, in 2023, a significant increase from just 167 units in 2021. Furthermore, the positive growth of Vinfast and the introduction of more Electric Vehicle (EV) models from other brands (Figure 9) indicate a growing attractiveness of EVs among both automobile brands and consumers.
- However, Vietnam only executed the limited policies for support EV's consumers through the reduction in excise tax rate and registration fees (Table 3). These measures fall short compared to the comprehensive incentives seen in other countries like China and Thailand (Table 2). These nations offer subsidies for car purchases, electric charging costs, installation of personal charging sockets, as well as exemptions or reductions in registration tax, toll tax, value-added tax, and corporate income tax. Moreover, they are actively investing in the development of electric vehicle charging station infrastructure (Figure 10).

Figure 9. The global trend of EVs deployment appeared in Vietnam



Source: Vinfast, Mercedes, Audi, BMW, Wuling, Huyndai, Porsche, RongViet Securites

Figure 10. The EV adoption rate of Vietnam is much lower than that of other Asian peers due to the lacks of supportive polices from Government

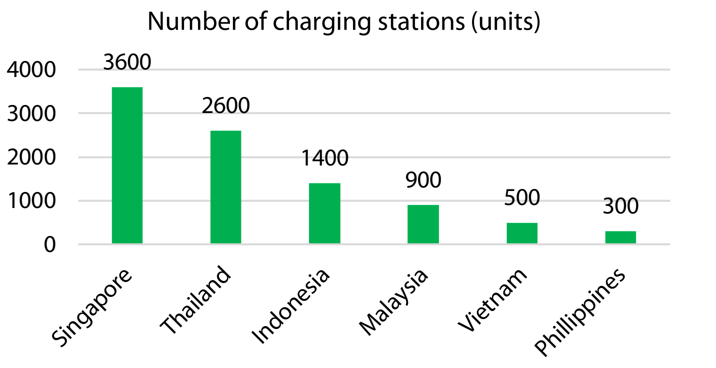


Source: BMI, McKinsey & Company, RongViet Securities, as of Jan 2024

	Countries	Official EV targets	Restrictions on internal combustion engines	Consumer subsidies	EV charging infrastructure support
Mature EV markets	China	High	Medium	High	High
	Japan	High	High	High	High
	South Korea	High	High	High	High
Emerging EV markets	India	High	Low	High	High
	Indonesia	High	High	Medium	Medium
	Thailand	High	High	High	High
	Malaysia	Low	Low	Medium	Medium
	Vietnam	Low	Low	Low	Low

High Medium Low

Source: McKinsey & Company, RongViet Securities, as of May 2022



Source: EY-Parthenon analysis, RongViet Securities, as of Jan 2024

Table 2. Some supportive policies for EV's development in China and Thailand

Countries	Taxes and fees	Charging system
China	- First reduced taxes on electric vehicles in 2009, then **completely exempted vehicle purchase taxes in 2014 until 2027.** - **Most electric vehicle manufacturers are considered high-tech companies**, so they pay **a lower corporate income tax rate of 15% compared to the standard 25% rate.** - **Run a decade-long program to provide electric car buyers with up to 60,000 yuan (approximately 197 VND mn).** Although the nationwide subsidy program expired in 2022, some local governments, such as **Shanghai, continue to provide electric car buyers with up to 10,000 yuan (approximately 32 VND mn).** - **Implemented a 10% tax reduction program for clean energy vehicle purchases priced less than 300,000 yuan (about 1 VND bn) until 2025**, after which it will return to 5% in 2026 and 2027.	- **China requires** all residential construction (apartments, houses) and 10% of public parking to include **electric vehicle charging stations.** - China strongly promotes charging-related technological research, such as fast charging, smart charging, and wireless charging, **China currently leads the world in the number of charging stations (1.8 mn units nationwide), ratio of vehicles to charging stations is 3:1.**
Thailand	- **From 2012, corporate income tax exemption for 8 years for HEV, PHEV, BEV and FCEV battery and motor manufacturers;** Corporate income tax exemption for 5 - 8 years for BEV investment projects. Tax rates for other eco-cars range from 12-17%. **- From 2024-2027, subsidies from 50,000 to 100,000 baht for electric cars** with a retail price of less than 2 million baht and using batteries with a minimum capacity of 10 kWh, - **From 2024-2025, manufacturers will enjoy a 40% import tax reduction on** BEV vehicles under 2 million baht. **- Reduce special consumption tax from 8% to 2%** for imported and domestically assembled BEV vehicles from 2024.	- **Free installation home charging supported by private company, free of home box-charge and electrical meter installations** supported by (MEA) and (PEA)

Source: ICCT, CCAC, RongViet Securities

Table 3. Vietnam' supportive policies applicable for EVs

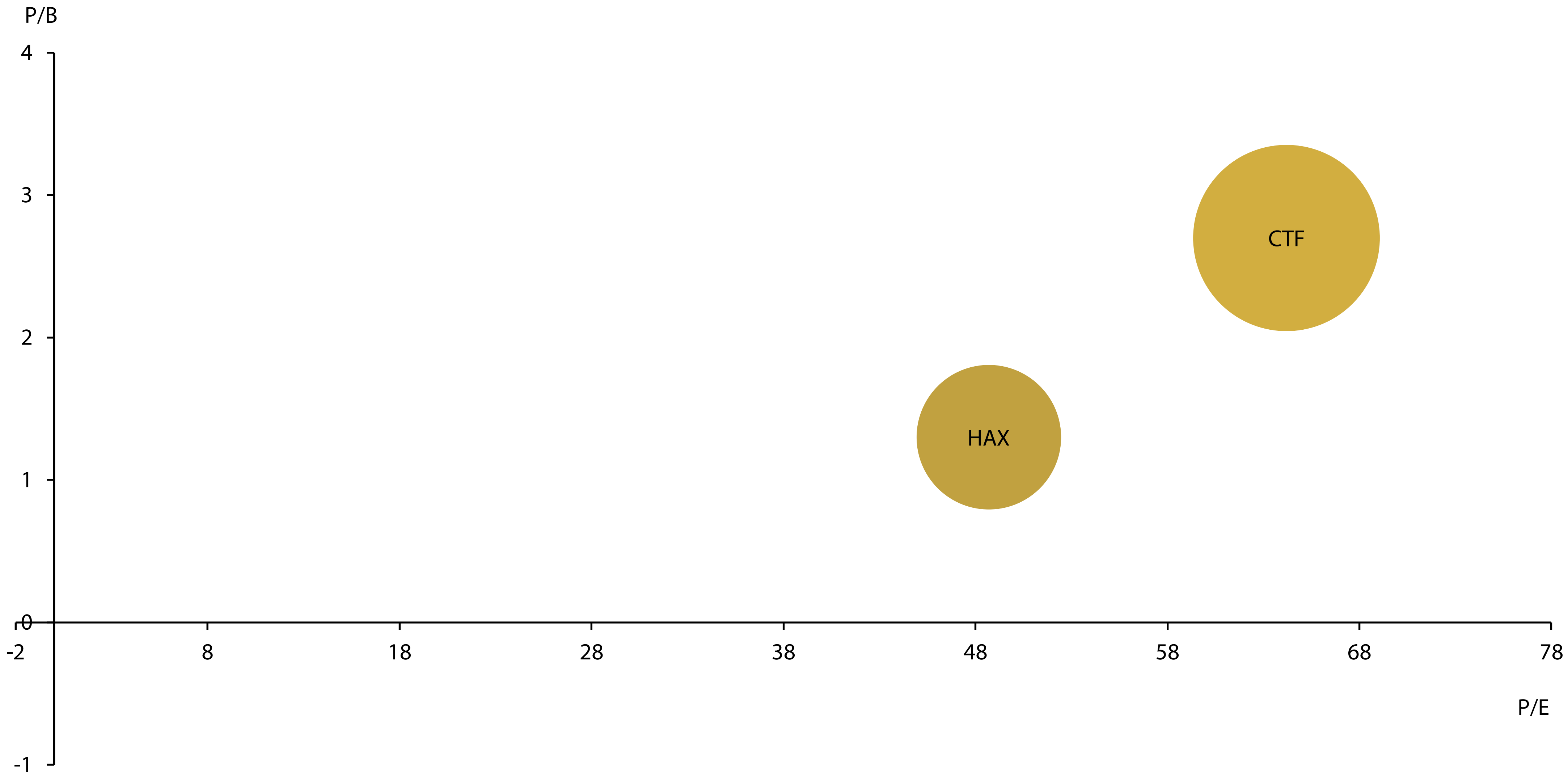
Excise tax rate		
Pure electric cars (BEV, FCEV)	Before	After
9 seats or less	15%	3% (3/1/22-2/28/27 11% (from 3/1/27)
from 10 to under 16 seats	10%	2% (3/1/22-2/28/27 7% (from 3/1/27)
from 16 to 24 seats	5%	1% (3/1/22-2/28/27 4% (from 3/1/27)
carries both people and goods	10%	2% (3/1/22-2/28/27 7% (from 3/1/27)
Hybrid electric vehicles (HEV, PHEV), and bioenergy vehicles	Before	After
Comparison to the tax rate applicable to gasoline and diesel vehicles of the same cylinder capacity	100%	70%
Registration fee		
Electric cars	Before	After
Electric cars	10%	0% (3/1/22-3/1/25) equal to 50% of the fee for gasoline and diesel cars with the same number of seats (from 3/1/25)

Source: RongViet Securities

Ticker	Market cap (USD Mn)	3m ave. matching order value (USD'k)	Cur. PER (x)	Cur. PBR (x)	4Q TTM ROE (%)	Target price (VND)	Market price (VND)	Expect return (%)	2023E			2024			Revenue growth (%)		NPAT growth (%)	
									Revenue (USD mn)	NPAT (USD mn)	EPS (VND)	Revenue (USD mn)	NPAT (USD mn)	EPS (VND)	2023E	2024F	2023E	2024F
HAX	58	241	44.0	1.3	3.1	18,300	15,450	20.4	167	1.5	375	219	5.0	1,275	-41.2	31.5	-85.6	159.1
CTF	112	436	68.0	3.2	4.1	n.a	29,050	n.a	297	1.8	490	n.a	n.a	n.a	12.6	n.a	-60.8	n.a

Source: Fiinpro, RongViet Securities. Share price as of 4th April 2024.

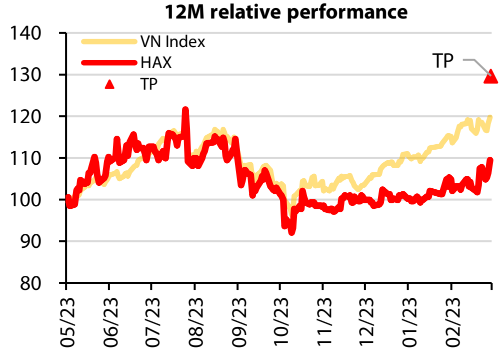
PE, PB AND ROE (TTM)

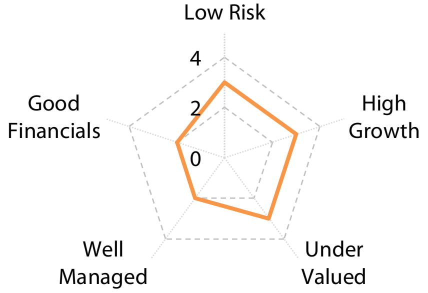


Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 20th Mar 2024. Excluding SGB and NVB due to outliers.

GROWING FROM THE LOW BASE

BUY: +20.4% **MP: 15,450** **TP: 18,300**





STOCK INFO

Sector	Automobiles
Market Cap ($ mn)	57
Current Shares O/S (mn shares)	93
3M Avg. Volume (K)	362
3M Avg. Trading Value (VND Bn)	5
Remaining foreign room (%)	34.3
52-week range ('000 VND)	12.65 – 17.2

FINANCIALS	2023A	2024F	2025F
Revenue (VND bn)	3,982	5,612	6,737
NPATMI (VND bn)	35	124	173
ROA (%)	1.7	5.9	7.8
ROE (%)	3.1	10.5	13.0
EPS (VND)	375	1,329	1,847
Book Value (VND)	12,777	14,102	15,693
Cash dividend (VND)	300	500	500
P/E (x)	44.0	11.4	8.2
P/B (x)	1.3	1.0	0.9

INVESTMENT RATIONALES

Projected 2024F/25F EBIT to jump by 120% YoY/37% YoY, driven by the industry-wide recovery and the strong progress of the nascent MG business.

- We expect Mercedes-Benz's selling cars to recover in both sales volume and unit price by 30% YoY/10% YoY and 1.5% YoY/0.5% YoY in 2024F/25F, respectively. It is driven by improving middle-class consumer confidence from the low base of 2023. In addition, Mercedes-Benz and HAX will not expand showrooms in 2024F-30F, instead focusing on the existing network to level up its profit margin through major repair services and resort services (such as Meliá Ho Tram for Mercedes-Benz car buyers), supporting the earnings from Repairing & component part selling and other services with 16 YoY/11% YoY and 50% YoY/20% YoY in 2024F/25F, respectively.
- We expect HAX to bolster the selling of MG cars with the earnings growth of 60% YoY/65% YoY, equivalent to the revenue contribution for HAX of 10%/13% YoY in 2024F-25F. It is attributed to the aggressive expansion of its MG showroom count to reach 10 in Q2-2024 with 8 premium class with higher margin (6-7% compared to 2-3% of mini showroom).
- The easing of borrowing interest rate and the reduction in SG&A exp/net sales after intense destocking in 2023, which are other factors to support HAX's earnings in 2024F-25F.

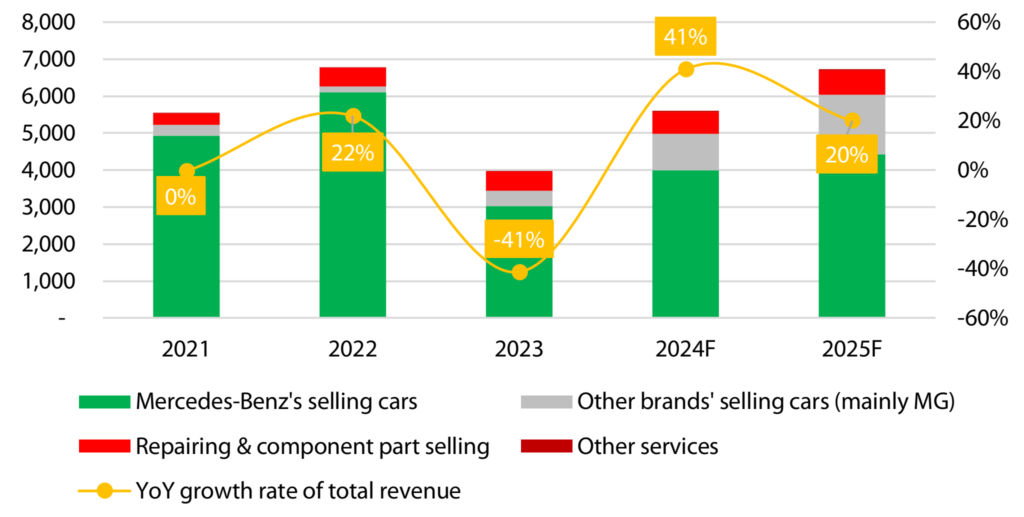
We believe HAX's valuation will be rerated on robust earnings growth outlook

- Current 2024F/25F P/E of 11.5x/8.3x respectively presents a 8%/34% discount to the mean level in 2020-2022 of 12.5x while we project that 's core PBT will recover to 2020 level in this year, before surpassing 2020 figure by 47% in 2025F.

RISKS TO OUR CALL

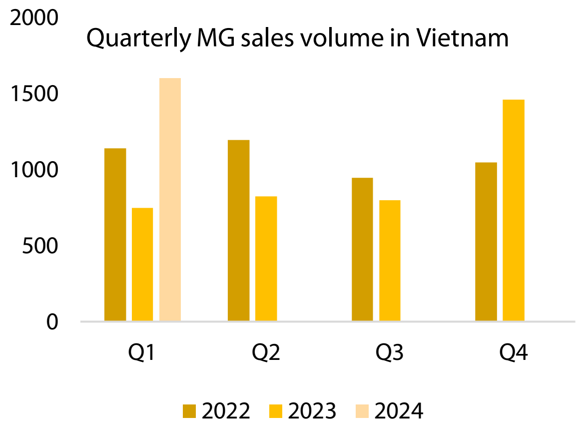
The losing of market share, specifically for Mercedes-Benz to other car brands/HAX to other Mercedes-Benz dealers, can reduce HAX's sales in 2024.

Figure 1. HAX net sales by brands (VND bn)

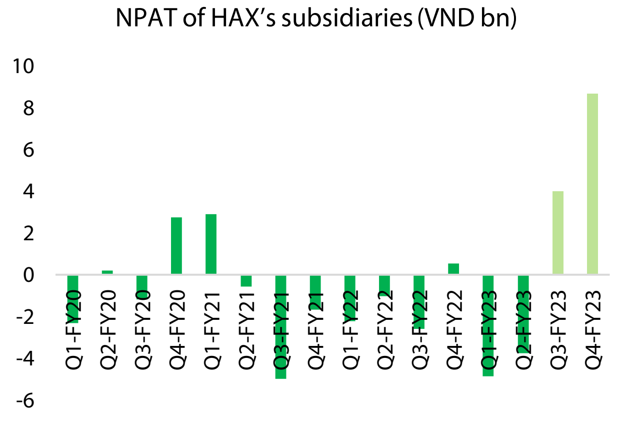


Source: HAX, RongViet Securities

Figure 2. The sales volume of MG auto brands in Vietnam recorded the strong growth in Q4/2023-Q1/2024 after SAIC ended the partnership with Tan Chong in Jul-2023 and became the exclusive distributor for MG itself since.

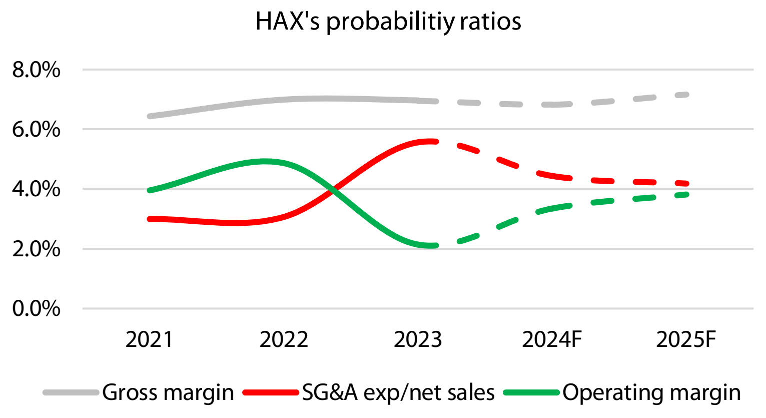


Source: RongViet Securities

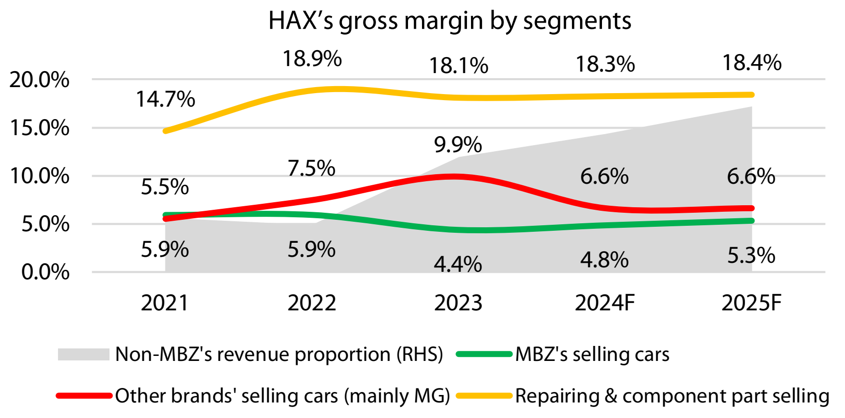


Source: HAX, RongViet Securities

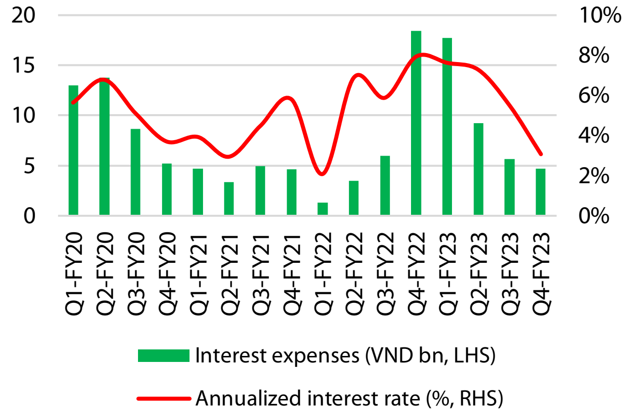
Figure 3. Higher revenue contribution from non-Mercedes-Benz segments, the easing of borrowing interest rate and the reduction in SG&A exp/net sales after intense destocking in 2023, which are factors to support HAX's earnings in 2024F-25F.



Source: HAX, RongViet Securities

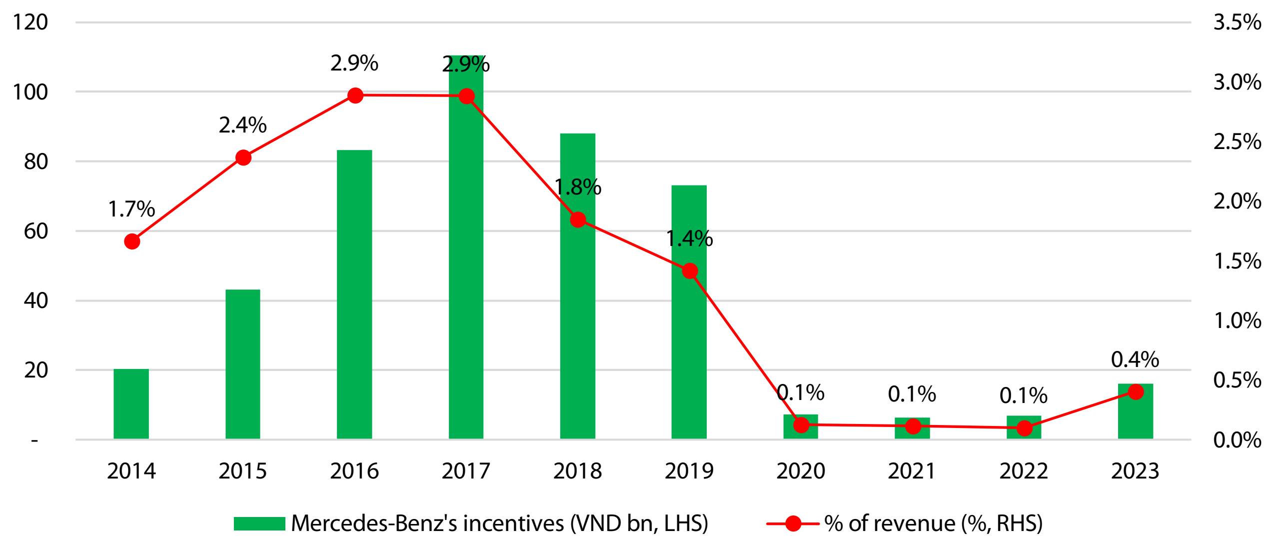


Source: HAX, RongViet Securities



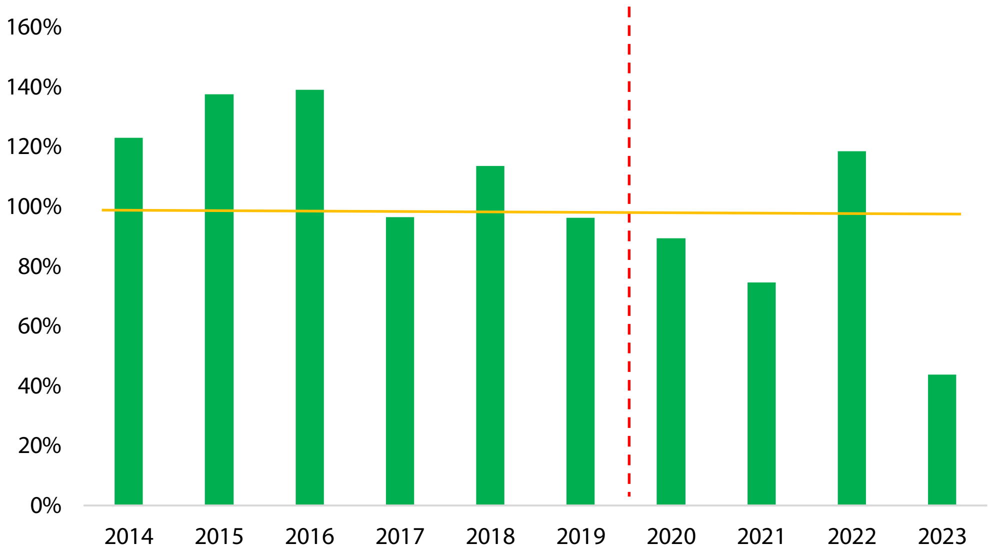
Source: HAX, RongViet Securities

Figure 4. HAX recorded the modest commission fee from Mercedes-Benz (0.4% of revenue) after 2020 no matter what HAX's percentage of completing brand KPI (VND bn)



Source: HAX, RongViet Securities estimation

Figure 5. HAX's percentage of completing Mercedes-Benz's KPI (%)



Source: HAX, RongViet Securities estimation

HAX stock price has been less positive from Jul to Dec-2023, fully reflecting its worse-than-expected sales volume despite government support in H2-2023 and the investor pessimism about the purchasing power of luxury cars in H1-2024.

However, we believe that HAX is a potential long-term stock based on a 2023-28 CAGR of NPAT of 45%. We recommend that investors constantly follow the recovery of luxury car consumption as well as the progress of its MG business to make a reasonable decision.

Table 1. HAX's valuation summary

Method	% Contribution	Value per share
5Y FCFF (WACC: 12.5%, EV/EBITDA 7.3x)	50%	**19,779**
P/E @ 12.5x 2024F EPS	50%	16,893
Target price (VND)	**100%**	**18,300**
12M expected cash dividend (VND)		300
Current market price (VND) (04/01/2024)		15,450
Total stock return		**20.4%**
TP / 2024F EPS		13.5
TP / 2025F EPS		9.7

Source: RongViet Securities

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