VINCONSHIP JSC (VSC – HSX)

Long-run Outlook Remains Positive

Particulars (VND B)	3Q-FY16	2Q-FY16	+/- QoQ	3Q-FY15	+/-YoY
Net revenue	283	278	2%	244	16%
PAT	58	80	-28%	89	-35%
EBIT	87	104	-16%	110	-22%
EBIT margin	31%	37%		45%	16%

Sources: VSC, RongViet Research

- **Fiercer peer competition and VIP Greenport's expenses presented a short term burden on VSC earnings**
- **VSC's earnings results will be better from Q4 2016, thanks to higher utilization from VIP Greenport**
- **Divergence trend in Hai Phong seaports: Earnings in the Context of Overall Throughput growth**

Outlook and Valuation

VSC's YoY slump in Q3 2016 and 9M2016 earnings was anticipated in our April initial report, given last year's extraordinary profit recognition from refrigerated cargo (reefer) in the same period. In the short run, VSC's earnings growth could be slower than expected. VIP Greenport's higher cargo throughput makes up somewhat for Greenport's projected decline amid rising seaport supply in Hai Phong, and the new cargo source from FDI invested projects will take time to kick in.

In the mid-term and long-term, VIP Greenport's performance should continue to be VSC's main story and growth driver. Cargo via Hai Phong expects to see 10-12% growth going forward, and will look healthier when FDI projects start production. However, the outlook for terminal handling charges (THC) and resulting seaport profitability faces difficulties given the increasing bargaining power of large shipping alliances, rising port supply, and price competition from small ports locally.

Considering that outlook, we revise VSC's 2016 PAT (after minority interest) expectation to 252 billion VND, down 1.6% from our April 2016 report's estimate. We also estimate that the company's PAT will increase by 21% in 2017 to 305 billion VND (1.0% increase compared to our previous estimate).

At today's closing share price, VSC is trading at a 2016 forward P/E of 12.2x and 10.1x for FY2017. Since VSC's long-term outlook remains positive, any volatility in VSC's share price on short-term earnings would be an attractive opportunity for investors to buy. Based on the combined relative valuation (P/E and EV/EBITDA) and the picture of VipGreen becoming clearer, we recommend investors to **"Buy"** VSC share for **"Mid-term"** horizon at the revised target price of **VND71,200** (up from VND68.400/share in our April report).

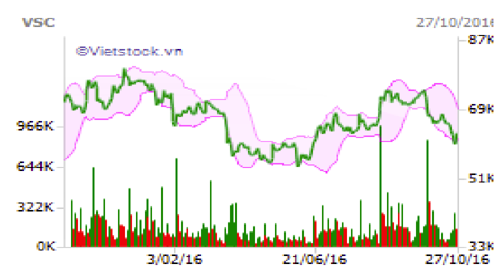
BUY

CMP (VND)	59,000
Target Price (VND)	71,200
Investment Period	Mid-term

Stock Info

Sector	Industrial transportation
Market Cap (VND B)	2,870
Current Shares O/S	45,557,142
Beta	0.8
Free float (%)	65.2
52 weeks High	72,800
52 weeks Low	36,000
Avg. Daily Volume (20 sessions)	180,000

	FY15	Current
EPS	6,068	5,137
EPS Growth	12.5%	-15.3%
Diluted EPS	5,517	4,670
P/E	12.7	12.6
P/B	2.2	1.8
EV/EBITDA	5.7	5.3
Cash dividend (on par)	20%	20%
ROE	19.5%	15.9%



Source: Vietstock

Major Shareholders (%)

Vietnam Holding Limited	6.9
Forum One-VCG Partners Vietnam Fund	4.9
Deutsche Asset Management (Asia) Limited	4.4
Foreign Investor Room (%)	0

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Exhibit 1: 3Q FY2016 Earnings analysis

Particulars (VND B)	3Q-FY16	2Q-FY16	% chg (qoq)	3Q-FY15	% Chg (yoy)
Net Revenues	283	278	2%	244.5	16%
Gross profits	100	105	-4%	113.3	-12%
SG&AC	16	16	-4%	10.7	47%
Operating Income	72	98	-27%	106.8	-33%
EBITDA	210	190	10%	159.7	31%
EBIT	87	104	-16%	110.5	-22%
Financial expenses	15	6	158%	0.4	4098%
- Interest Expenses	15	6	163%	0.1	15631%
Dep. and amortization	123	86	43%	49.0	151%
Non-recurring Items (*)					
Extraordinary Items (*)	0	0	-177%	4	-101%
PBT	72	98	-27%	110	-35%
PAT	58	80	-28%	89	-35%
(*) Adjusted PAT	58	80	-27%	86	-32%

Sources: VSC, RongViet Research

Exhibit 2: 3Q FY2016 Performance analysis

Particulars	3Q-FY16	2Q-FY16	% chg (qoq)	3Q-FY15	% chg (yoy)
Profitability Ratios (%)					
Gross Margin	35	38	-232bps	46	-1108bps
EBITDA Margin	74	68	578bps	65	867bps
EBIT Margin	31	37	-670bps	45	-1463bps
Net Margin	20	29	-831bps	37	-1605bps
Adjusted Net Margin	20	29	-827bps	35	-1460bps
Turnover *(x)					
-Inventories	53	53	0	55	-2
-Receivables	9	9	0	7	2
-Payables	0	0	0	353	-353
Leverage (%)					
Total Debt/ Equity	60	63	-300bps	35	2500bps

Sources: (*) Annualized turnover

Exhibit 3: 4Q FY2016 Estimates

Particulars (VND bn)	Q4 FY2016	% qoq	%yoy
Net Revenues	309	9%	34%
Gross profits	110	10%	36%
EBIT	104	28%	55%
PAT	67	16%	30%

Sources: RongViet Research estimated

Key updates

Fiercer Peer Competition and VipGreen Port's Expense Burdens Hold Back Short-Term Earnings Result

Port throughput in Hai Phong and VSC's port system is projected to recover from the decline experienced during the first half of this year. VSC's ports handled approximately 450,000 Teus (up 66%YoY) in 9M 2016, and its new VIP Greenport operated at 40-45% capacity (designed capacity of 500,000 Teus). In Q3 2016, VSC reported consolidated revenue and PAT (after minority interest) of 283.3 billion VND (up 15.9%YoY) and 58 billion VND (down 35%YoY). In the first 9 months of 2016, despite revenue going up 12.8% YoY, the firm recorded a 18.8% annual fall in its bottom-line.

Falling reefer demand this year has taken a toll on earnings of seaport operators in Hai Phong, including VSC. In fact, the firm only recorded 55-60 billion VND of reefer revenue in 9M 2016, compared to 150-160 billion VND in 9M2015 and 2015. The majority of this revenue came from reefers staying at ports from late 2015(recognized this year) and the figures of new reefer in Q3 2016 remains low. The attributed causes could come from the stricter border trade control regarding import for re-export foods cargo via Vietnam from China, as this country prepares for Party congress meeting in 2017 (stricter tariff control). In addition to this, the implementation of truckload controls from the government since Q2 2014 has caused trucking expenses of this cargo from Vietnam seaport to China mainland to rise as well.

Furthermore, slower than expected cargo growth in 9M 2016 made competition between Hai Phong seaports for cargo even greater. First of all, port supply in Hai Phong's area expanded this year, with added capacity of Nam Hai Dinh Vu port from the inauguration of ICD Nam Hai (in Q2 2016), the new VIP Greenport (started from 11/2015) and the upgrading of handling equipment of Tan Vu and Dinh Vu ports. Upstream seaports (Nam Hai, Transvina, Hai An and Chua Ve), mostly depreciated, which has fueled price competition. In fact, Greenport (first port of VSC) could see 9M2016 throughput decline by 20-25% YoY, impacted by the overall industry trend and the shift of some cargo to VSC's second port (VIP Greenport). Last but not least, seaport operators are likely to make some concession on seaport services fees for shipping lines due to the difficult picture of this industry.

Regarding Q3 2016 results, VSC had to bear additional depreciation and financial expenses coming from phase 2 of VIP Green port project (incremental assets recognized of VND285 bn). However, VSC's port revenue could not catch up as the 4th berth crane (of the total 4 cranes in design) will not be in operation until November 2016. Also, the bankruptcy declaration of Hanjin Shipping (making up 5-6% of VSC's total throughput) could require the firm to make a receivables provision of ~5 billion VND and to look for new customers. Regarding the latter issue, VSC revealed that its current Sinokor shipping client would operate 1 more trip a month to cover the cargo transport demand left by Hanjin.

VSC's Earnings Results Will Fare Better from Q4 2016 Thanks to Higher VIP Greenport Utilization

If the 4th crane is put in use as planned, VIP Greenport could handle 8-9 vessels/week in November 2016, up from 5-6 vessels/week. As a result, VIP Greenport could handle up to 80,000-90,000 Teus in Q4 2016. In this scenario, VIP Greenport's utilization rate is estimated to reach 60% in 2016.

In this update, we revised down the total investment cost of VIP Greenport to 1,350 billion VND, from 1,565 billion VND, to reflect the actual disbursement on the ground until now. This results in financing and depreciation expenses of VIP Greenport project being lower than our April 2016 forecast. Moreover, we believe it is rational to include the forecast of reefer services this time based on the fact that services demand for reefers will always be present, although it can decrease since it mainly comprises food items (pig organs, chicken feet) necessary for the Vietnamese and Chinese populations.

Table 3: Main estimates of VipGreen port project

	FY2016 forecast		FY2017 forecast	
	April 2016 report	This update	April 2016 report	This update
Total investment cost (VND B)	1,565	1,350	1,565	1,350
Throughput	300,000 Teus	300,000 Teus	450,000 Teus	450,000 Teus
Utilization rate	60%	60%	90%	90%
Reefer storage contribution (VND B)	0	13	0	22
Estimated revenue (VND B)	403	374	649	561
Profit before tax	36	57	106	137

Source: RongViet Research estimated

Despite VSC's enterprise value staying unchanged, any changes in depreciation policy of VIP Greenport could significantly determine short-term bottom line of this port and VSC in general. In our initial report, we actually used the depreciation ratio of 6.5% (Scenario 1) which led to VIP Greenport's estimated depreciation expense of VND88 bn/year on average. This time, assuming the firm will increase that ratio to 10% (Scenario 2) to pay off VIP Greenport's borrowings quickly, the depreciation expenses would rise to VND134bn/year on average. For Scenario 2, 2016 and 2017 PBT of VIP Greenport would be brought down to 11 billion VND and 91 billion VND (Table 4). Despite the high possibility for Scenario 1, our demonstration attempts to bring to investors' attention the possible impact of depreciation policy changes on short-term earnings of Vip Greenport in its first few years.

Table 4: VIP Greenport's depreciation policy scenario

	Scenario 1	Scenario 2
Depreciation rate	6,5%	10%
Average annual depreciation expenditure (est)	88	134
Resulting 2016 Profit before tax	57	11
Resulting 2017 Profit before tax	137	91

Source: RongViet Research estimated

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Because of Greenport's unfavorable location (suited only for 10,000DWT vessels), and VSC deciding to convert it into a logistics center, the throughput for this port is consequently projected to decline. Therefore, the outlook for organic cargo growth could be slower than our previous expectation given the fact that rising cargo at VIP Greenport has to make up for the expected gradual fall in throughput at Greenport (upstream) as analyzed.

Therefore, Greenport's 2016 throughput is estimated to reach 300,000 Teus (-17%-18% YoY) and to contract gradually in the following years. This means VSC's port system could handle 600,000Teus in 2016 (up 66.7%YoY). Hence, 2016 Revenue and PAT (after minority interest) are forecast to reach 1,096 billion VND (up 18.2% YoY) and 252 billion VND (down 10% YoY) respectively.

Examining 2017, forecasted container throughput via Hai Phong is expected to grow by 10-12%, and VIP Greenport's utilization rate expects to reach 90% (based on designed capacity of 500,000Teus/year). This would result in VSC's port throughput reaching 750,000Teus of cargo in 2017 (up 25% YoY). Hence, 2017 revenue and PAT (after minority interest) are expected to reach 1,280 billion VND (+17% YoY) and 305 billion VND(+21% YoY).

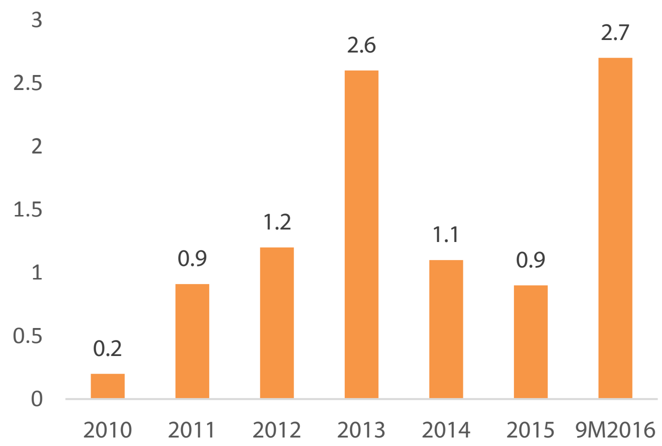
	FY2016 forecast		FY2017 forecast	
	In April 2016 report	In this update	In April 2016 report	In this update
Revenue (VND B)	1,205	1,096	1,383	1,279
PAT (after minority interest) (VND B)	256	252	302	305
Earnings per share	5,057	4,982	5,966	6,039
Based on outstanding share number of 45,557,142				

Source: RongViet Research estimated

Divergence Trend in Hai Phong Seaports: Earnings in the Context of Overall Throughput Growth

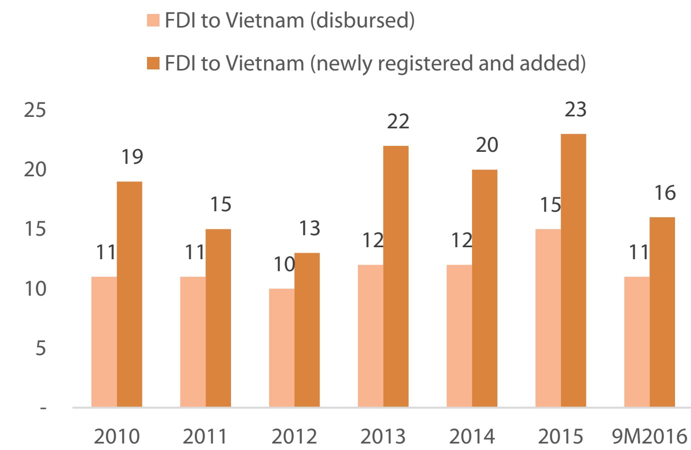
According to Hai Phong Committee Statistics, the city recorded an annual average of 1 billion USD worth of FDI over the past 5 years. Out of all of this FDI, the majority of registered funds has flowed into the manufacturing sector (auxiliary products, electronics, and parts) which promises to create a large source of cargo upon commencing production. Some of the notable investments should be mentioned such as Bridgestone tyre in Dinh Vu IZ, LG Display and SL Electronics Ltd in Trang Due IZ. In addition to this, the fast developed and more connected public infrastructure (Ha Noi – Hai Phong – Quang Ninh expressway, Tan Vu – Lach Huyen road, and Highway 10 upgrade) between Northern provinces (Hung Yen, Hai Duong, Bac Ninh) will clear the way for more cargo demand to Hai Phong.

Graph 1: FDI (newly registered and increase) in Hai Phong (USD B)



Source: RongViet Research compiled

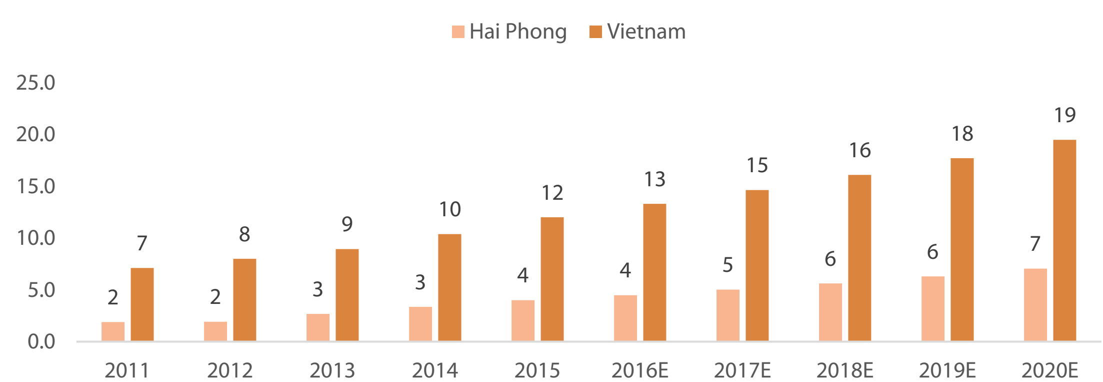
Graph 2: FDI in Vietnam (USD B)



Source: RongViet Research compiled

The above factors are fundamentally important to support the positive cargo growth outlook in Northern Vietnam in years ahead. In fact, Hai Phong city has seen a 13.86% growth in port throughput in 9M2016 and projects to achieve 80 million tons for the whole year (up 16% YoY). Regarding containerized goods, we predict that the annual growth rate of this category will slow down somewhat in 2016 given sluggish regional trade activities and reefer situation moving back to normalcy this year. For the medium and long term outlook, we remain positive on the organic growth of cargo via Hai Phong thanks to the healthy source of cargo from new FDI projects and the strategic location of Hai Phong's ports in the Northern Asian shipping route (China-Koreas-Japan).

Graph 3: Container Throughput via Hai Phong and Vietnam (forecast)



Source: RongViet Research estimated

Nevertheless, we reiterate our point back in the April report regarding the strong performance divergence between port operators in Hai Phong in the coming years. Vietnam Government's master plan back in July 2016 that focuses on the development of Northern Vietnam seaports actually helps make the future clearer. Dinh Vu and Lach Huyen have been selected as the two strategic cargo processing points here thanks to strong geographical locations that are more suited to global shipping lines trend of using large vessels. As a result, upstream ports in Cam River (such as Hoang Dieu, Chua Ve, Nam Hai, Greenport) would gradually lose their competitiveness to downstream competitors in Dinh Vu (for the time being). Given its shallower water depth, narrow water surface, and older facility, these upstream ports could only handle container vessels ~ 10,000DWT or small bulk vessels at the same size. Therefore, ports in Dinh Vu and Lach Huyen (in the future) would benefit both from the cargo shifted from upstream ports and the new cargoes from FDI projects as analyzed.

VND billion

INCOME STATEMENT	2014A	2015A	2016E	2017F
Revenue	891	928	1,096	1,280
COGS	579	557	706	799
Gross profit	**312**	**371**	**390**	**481**
Selling Expense	3	8	10	12
G&A Expense	45	41	49	58
Finance Income	16	14	15	15
Finance Expense	-8	2	46	55
Other profits	1	2	1	2
PBT	**302**	**346**	**316**	**388**
Prov. of Tax	54	69	49	47
Minority's Interest	0	-3	15	35
PAT to Equity Shareholder	**248**	**279**	**252**	**306**
EBIT	**303**	**347**	**362**	**444**
EBITDA	376	437	516	620

%

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth				
Revenue	13	4	18	17
Operating Income	-2	22	3	25
EBITDA	2	16	18	20
PAT	-1	15	4	23
Total Assets	3	13	-10	21
Equity	32	49	20	-2
Internal growth rate	38	18	18	4
Profitability				
Gross profit/Revenue	35	40	36	38
Operating profit/ Revenue	30	35	30	32
EBITDA/ Revenue	42	47	47	48
Net margin	34	37	33	35
ROAA	28	30	23	24
ROAE	19	15	10	12
Efficiency				
Receivable Turnover	647	751	1082	1077
Inventory Turnover	6562	6443	6871	7077
Payable Turnover	229	176	219	280
Liquidity				
Current	178	156	215	163
Quick				
Solvency	23	55	58	49
Total Debt/Equity	0	0	8	8
Current Debt/Equity	1	29	33	24
Long-term Debt/ Equity	13	4	18	17

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	216	332	605	374
Receivables	52	79	94	113
Inventories	154	93	110	128
Other current assets	7	10	11	12
Total Current Asset	51	72	76	79
Fixed Assets	**480**	**586**	**895**	**706**
Construction in Progress	405	945	1.195	1.332
Long-term Investment	11	14	14	13
Other long-term assets	6	83	0	0
Long-term Asset	**1.015**	**1.638**	**1.767**	**1.895**
Total Asset	**1.495**	**2.224**	**2.662**	**2.601**
Payables	266	368	276	294
Current Debt	4	7	140	140
Long-term Debt	9	418	560	420
Other long-term liabilities	0	0	1	0
Total Liability	**279**	**793**	**976**	**855**
Owner's Equity	**1.216**	**1.431**	**1.685**	**1.746**
Capital	345	414	456	456
Retained Earnings	251	275	265	372
Funds & Reverses	593	706	929	882
Others	**0**	**0**	**0**	**0**
Total Equity	**1,216**	**1,431**	**1,685**	**1,746**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**1,495**	**2,224**	**2,662**	**2,601**

VALUATION RATIO	2014A	2015A	2016E	2017F
EPS (dong)	4.901	5.517	4.982	6.039
P/E (x)	6,2	12,7	12,2	10,1
BV (dong)	35,201	34,556	36,993	38,329
P/B (x)	1.1	2.2	1.6	1.5
DPS (dong/cp)	2,000	2,000	2,000	2,000
Dividend yield (%)			3.3	3.3

VALUATION MODEL	*Price*	*Weight*	*Average*
EV/EBITDA	69.800	50%	34,900
P/E	72.500	50%	36,300
Target price (dong/share)			**71,200**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
April 2016 (adjusted for 10% treasury stock)	68,400	Accumulate	Long term
October 2016	71,200	Accumulate	Mid term

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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 which 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.

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Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
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%

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