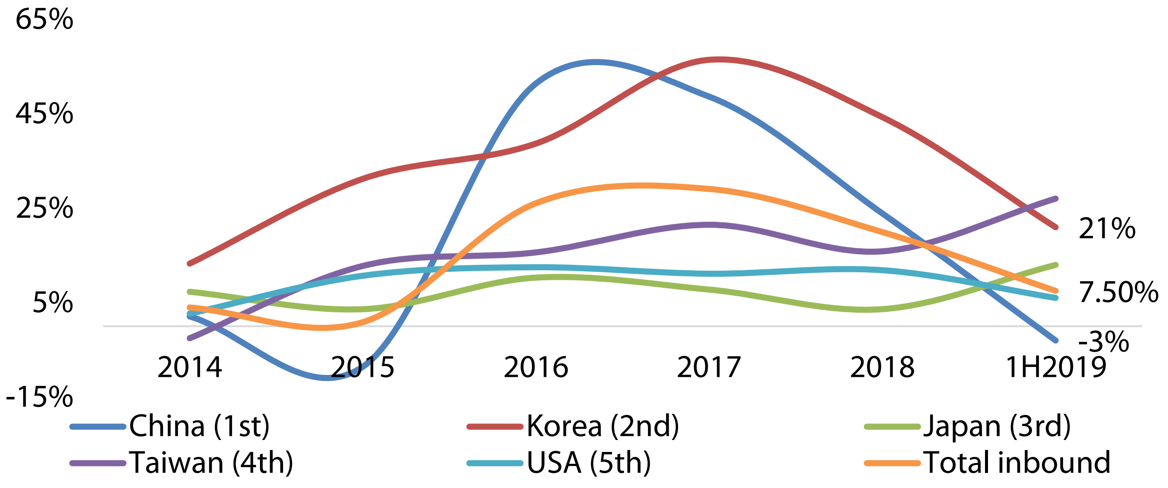
AVIATION INDUSTRY: Slowing Down

Tung Do – tung.dt@vdsc.com.vn

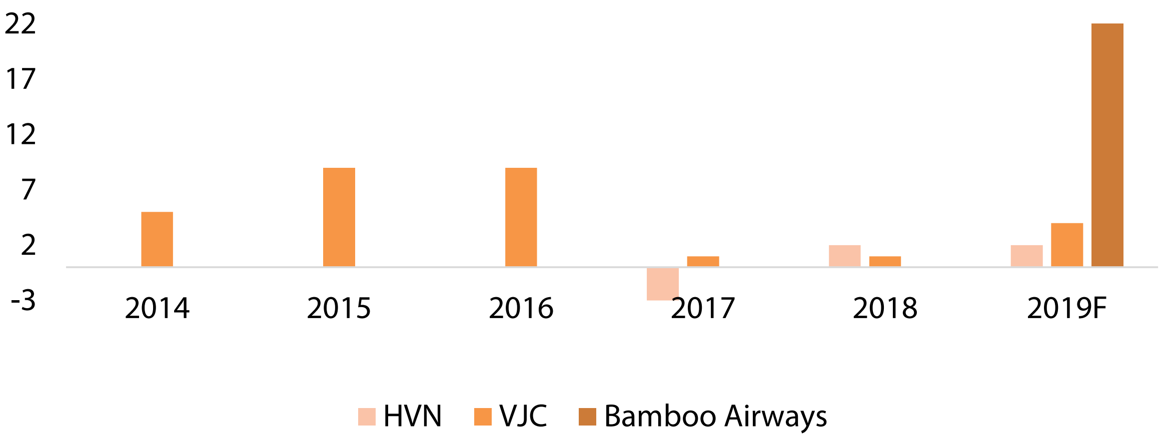
Pleasing Passenger Growth Amid Slowing Tourism Arrivals

Figure 1: Top 5 nations travel to Vietnam growth (YoY %)



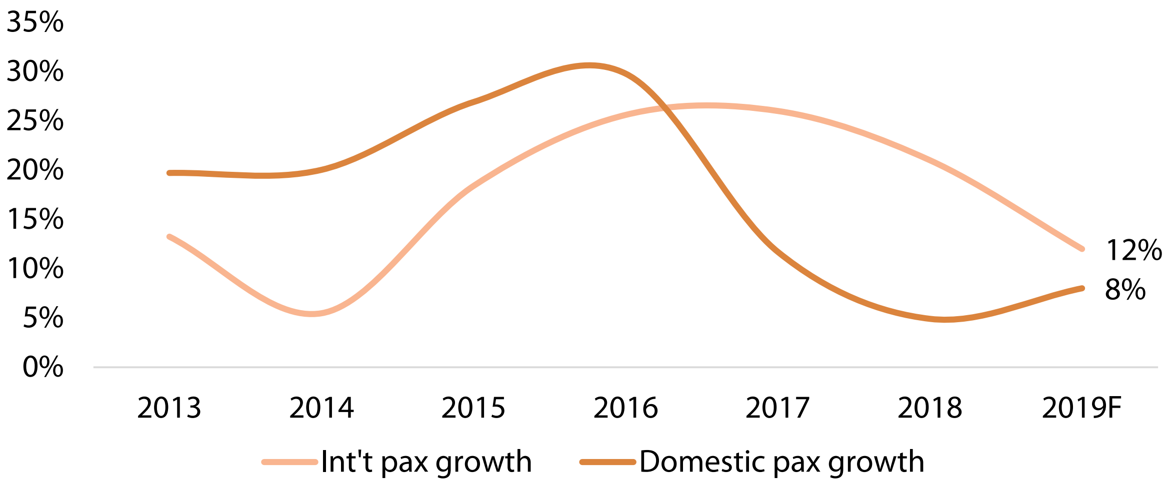
Source: GSO, Rong Viet Securities

Figure 2: Changes in domestic routes each year



Source: Company filing, Rong Viet Securities

Figure 3: Passenger growth (YoY %)



Source: ACV, Rong Viet Securities

In 6M2019, int'l pax growth maintained at around 14.0% YoY while domestic's was 7.6% YoY. Total passenger grew 9.6% YoY.

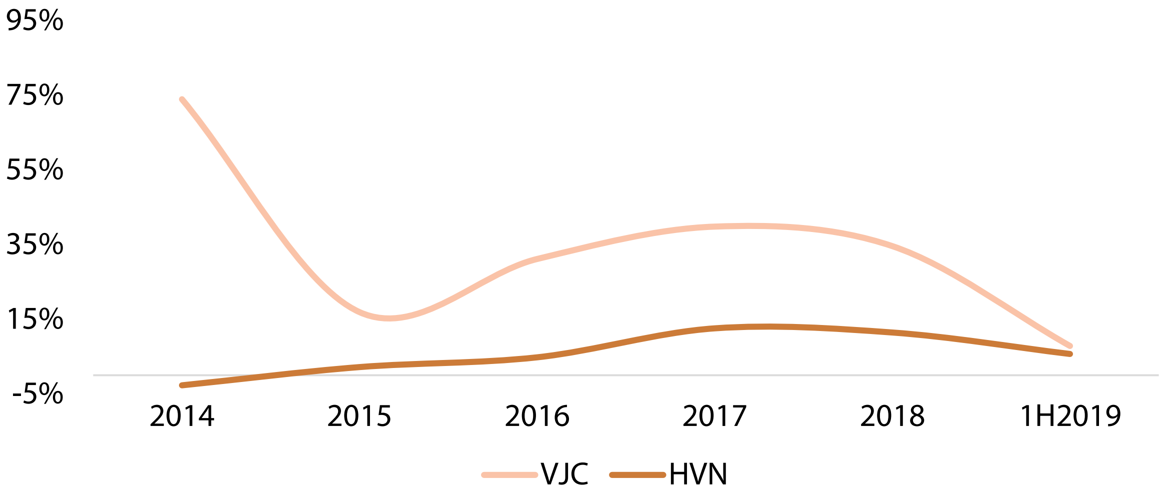
In 1H2019, Chinese travelers dropped 3% YoY but this decline was offset by Korean arrivals (+21% YoY). For 2019, we think that int'l passenger growth is unlikely to recur last year's strength (+21% YoY) due to weaker Chinese arrivals (29% foreign travelers to Vietnam).

Though domestic aviation market has decelerated in recent years as airlines prioritized international routes, we expect domestic passenger growth to pick up in the 2H thanks to additional capacity from newcomer Bamboo Airways with more new 20 domestic routes opened by May 2019.

AVIATION INDUSTRY - REVIEW

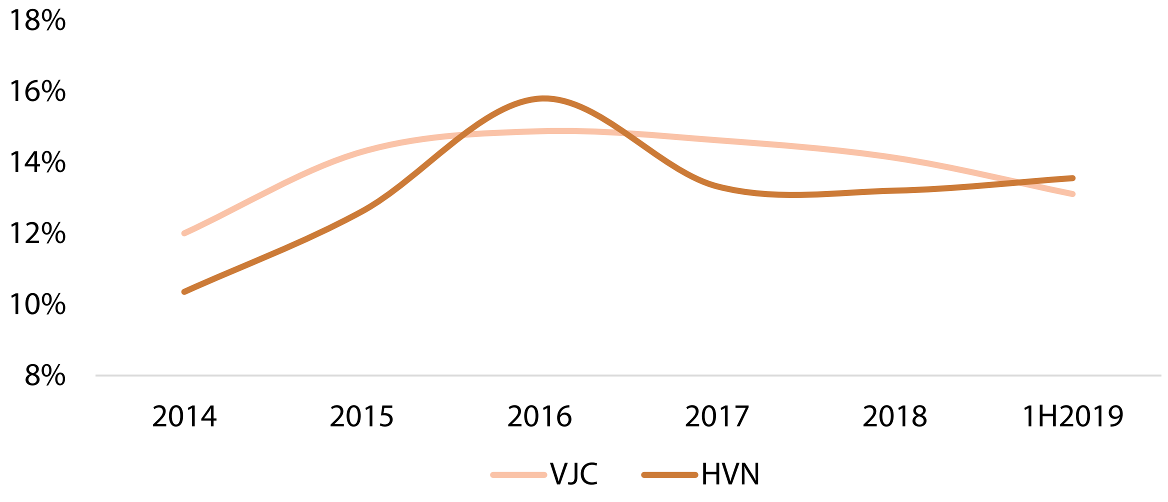
Industry Dynamic Is Changing

Figure 4: Airliners' transport revenue growth (YoY %)



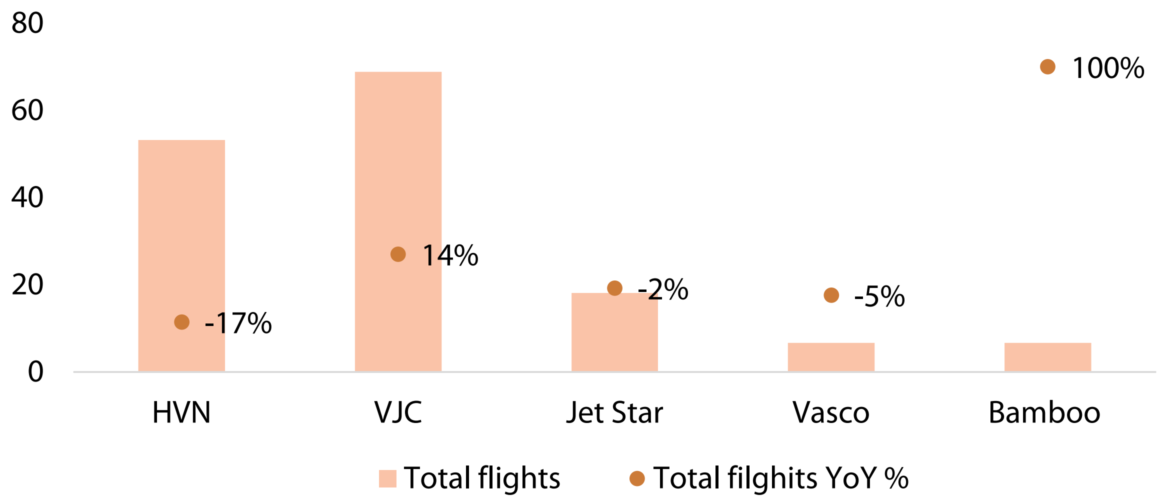
Source: Parent company filing, Rong Viet Securities

Figure 5: Airliners' GPM



Source: Parent company filing, Rong Viet Securities

Figure 6: Total flights exploited by airliners in 6M2019 (thousand)



The new entrant, Bamboo Airways, has started to heat up the competition by offering the lowest price domestic for domestic routes.

The two current key players have experienced slower growth in transportation revenue.

VJC's and HVN's GPM contracted by 28 bps YoY and 93 bps YoY despite of lower average jet fuel in 1H2019 compared to last year (-5% YoY).

Bamboo Airways, is operating 10 aircrafts (approved fleet size of 30 aircrafts) in 24 domestic routes. The company is ordering 24 A321-Neo and 20 B787-9. It is expected that Bamboo will open international routes by the end of 2019.

AIRPORT RETAILING SEGMENT - REVIEW

Mixed results

Figure 7: 6M2019 Revenue, gross profit and PATMI growth

Source: Company filing, Rong Viet Securities

- **AST:** Retail segment (selling general goods, fastfood and restaurants at airports) grew well and better than our expectation. This segment's revenue and gross profit surged 33% YoY and 52% YoY, respectively. This was mainly thanks to some Point-of-Sales (POS) were renovated in 2Q2018. Besides, newly-acquired high margin segment, duty-free shops, started to contribute profit to the company. These two segments mitigated the depreciation in A la Carte Da Nang Hotel (-61% YoY in gross profit) as the hotel industry in Da Nang gets more competitive.

- **SAS** (main businesses are duty-free and CIP lounges at Tan Son Nhat and Cam Ranh Airport): CIP Lounge segment lifted business results with a growth +25% YoY in gross profit as the new CIP Lounge in Cam Ranh Airport (since July 2018) began to contribute profit to the company. Duty-free segment's gross profit also experienced positive growth of 11%.

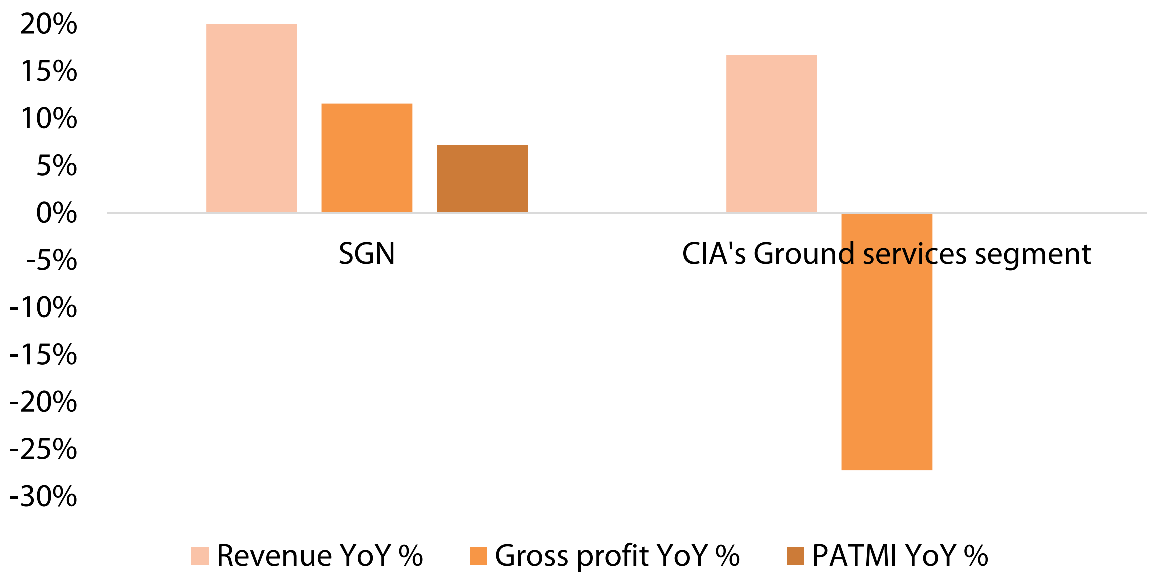
- **MAS** (operates airlines catering services and retailing in Da Nang and Cam Ranh Airport) Revenue growth stayed nearly flat of 5% YoY but SG&A expenses climbed 11% YoY (additional costs from Da Nang air meals production plant upgrade) led to a drop of 8% in PAT.

- **CIA** (Airport retailer at Cam Ranh Airport) is no longer record duty-free sales, the former largest profit generating segment, from June 2018. This segment was ceased to operate due to CIA wasn't able to lease selling space in the new international terminal at Cam Ranh Airport (which is operated by the company under the same group with SAS above). Its 2 other segments are restaurants and ground handling also declined 1% YoY and 27% YoY in gross profit, respectively. These downturn in business led to a plummet of 66% in PATMI for 1H2019.

GROUND HANDLING SEGMENT - REVIEW

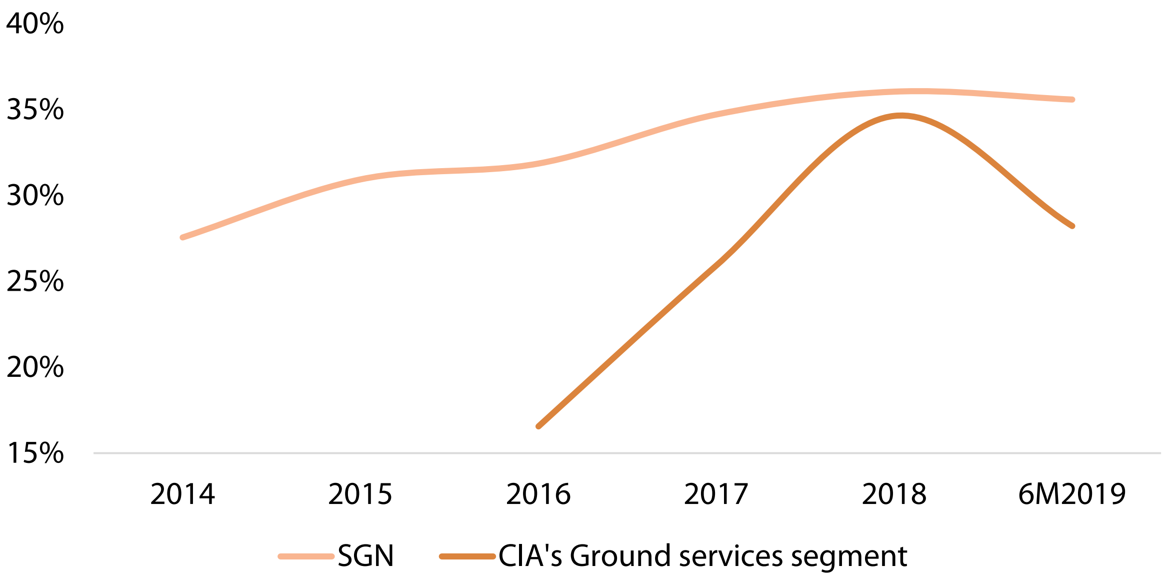
Revenue maintained strong growth, but profit did not

Figure 8: 6M2019 Revenue, gross profit, PATMI growth



Source: Company filing, Rong Viet Securities

Figure 9: 6M2019 Revenue, gross profit and PATMI growth



Source: Company filing, Rong Viet Securities

- SGN and CIA share Cam Ranh market. SGN's market is more diversified with the presence in Tan Son Nhat and Da Nang Airport.
- Contrary to a looming picture of int'l tourist arrivals, attractive tourism market like Cam Ranh, Da Nang still saw a pleasing growth in int'l flights and passengers growth of 13-15% YoY. This explained the hike in the top line of these two players.
- CIA's ground services witnessed a 27% drop in gross profit mostly due to higher of input costs (facilities leasing) in new international terminal (since July 2018).
- Thanks to a broader market exposure, SGN still saw a positive growth in earnings but at lower pace than previous years' results (PATMI's 2Y CAGR of 23%).

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
ACV	16.3	21.1	65.6	40.9	50.3	38.1	12.6	12.2	12.0	19.7
VJC	26.7	13.5	12.4	12.1	4.9	9.9	1.5	30.8	15.0	43.2
HVN	16.7	14.3	10.2	5.0	-29.2	1.7	1.1	5.1	1.9	9.5
AST	27.7	23.6	25.3	22.2	33.6	19.5	4.1	30.4	26.4	36.5
SAS	12.2	20.4	11.5	9.7	11.1	12.3	2.1	11.8	14.9	18.7
MAS	0.4	3.9	15.2	8.2	14.5	5.7	7.0	16.2	9.7	20.3
CIA	-42.5	-61.7	13.8	7.4	-75.5	5.4	8.3	5.0	3.5	5.3
NAS	9.0	14.4	7.2	3.3	20.0	4.7	3.3	6.8	8.0	18.5
SGN	15.4	22.7	33.5	28.1	26.3	20.6	5.4	47.0	31.7	47.4
NCS	3.2	-23.7	14.2	10.3	-44.2	7.3	21.3	12.1	8.2	17.7

Source: Bloomberg, RongViet Securities

AST – THE MOST OUTPERFORMING AIRPORT RETAILER

INVESTMENT RATIONALES

- **All-rounder player in the market with an expanding profit margin**
  - Business network spans across 7 airports throughout Vietnam with a system of general goods, souvenir stores; F&B point-of-sales; restaurants; duty-free shops. Though its JV, AST also participate in air meals production.
  - Dominant airport retailer in Da Nang with support from mother group as an operator of Da Nang International terminal.
  - We expect the GPM to rise in 2019-2020 thanks to (1) the new source of profit from duty-free segment, (2) higher utilization of current sale points backed by resilient pax growth.
- **New Point-of-Sales to maintain long-term growth track**
  - 2 POSs in Tan Son Nhat, 4 more POSs in Phu Quoc in 3Q2019.
  - One business lounge in Noi Bai domestic terminal and another one in Da Nang Int'l Terminal in 4Q2019.
- **Airlines catering JV, VinaCS, is now a profit contributor**
  - Thanks to new clients in 2019 (VJC, Bamboo airways, Philippines Airlines), this entity turned profitable in 2Q2019, after 2 years of operation.

RISKS TO OUR CALLS

- Lower-than-expected retail sales growth.
- Low efficiency from non-relating business investment.

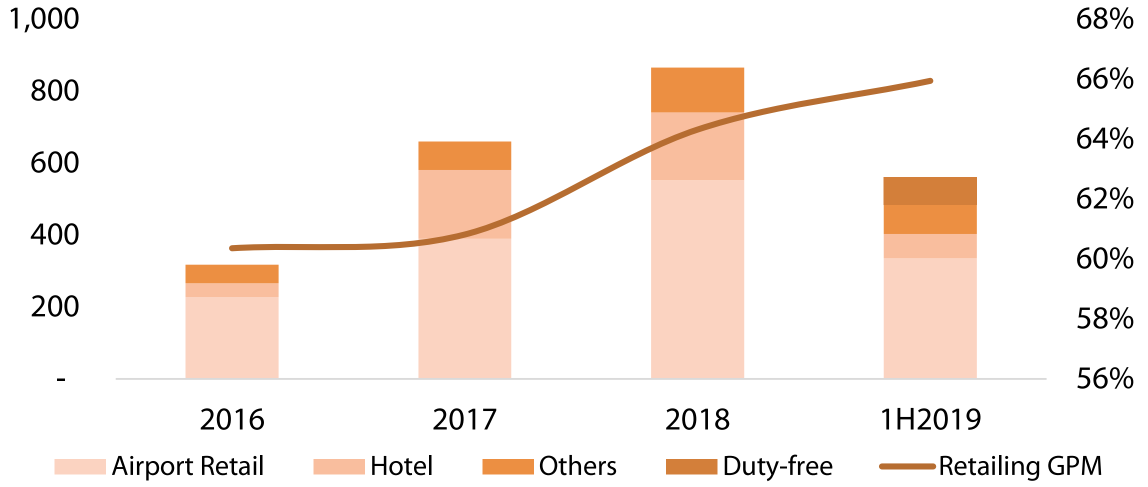
ACCUMULATE +17%

CMP (VND)	**65,600**
Target price (VND)	**75,000**
Cash dividend in 12 months	*2,000*

STOCK INFO	
Sector	Industrial Goods & Services
Market Cap ($ mn)	127
Current Shares O/S (mn shares)	45
3M Avg. Volume (K)	113
3M Avg. Trading Value (VND Bn)	7.2
Foreign Ownership (%)	34.3
State Ownership (%)	0.0

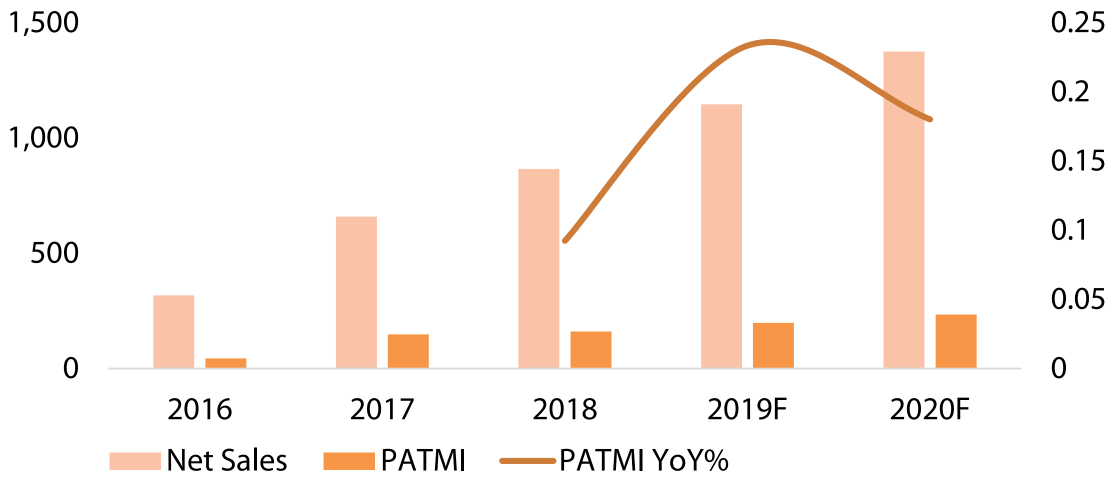
FORECAST	2017A	2018A	2019F	2020F
Revenue	659	865	1,146	1,375
Growth (%)	*108.0*	*31.2*	*32.5*	*20.0*
NPATMI	147	161	198	234
Growth (%)	*236.1*	*9.2*	*23.3*	*18.1*
ROA (%)	29.6	24.9	21.2	21.5
ROE (%)	43.9	31.4	25.9	26.7
EPS (VND)	3,970	1,525	4,411	5,211
Book Value (VND)	12,924	15,253	17,013	20,468
Cash dividend (VND)	2,500	1,500	2,000	2,000
P/E (x)	16.6	15.2	14.9	12.6
P/B (x)	5.1	4.3	4.4	3.7

Figure 1: 1H2019 Results (VND Bn)



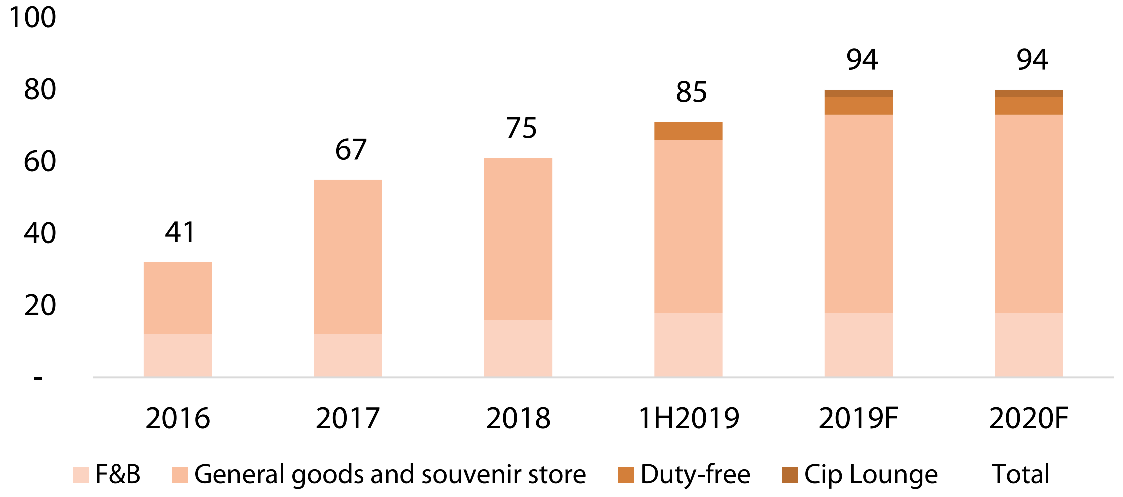
Source: AST, Rong Viet Securities

Figure 2: Forecasted results (VND Bn)



Source: AST, Rong Viet Securities

Figure 3: Total point-of-sales by type



Source: AST, Rong Viet Securities

- 2020 NPATMI of VND 234 Bn (+18% YoY), 2020 EPS: VND 5,211.
- 2Y Core NPATMI annualized growth rate of 20 %. Target P/E multiple of 14x, equivalent to PEG ratio of 0.7.
- **Target price: VND 75,000/share.**

DISCLAIMER:

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. (“VDSC”), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Rong Viet Securities Corporation (Rong Viet), with headquarters in Ho Chi Minh City, Vietnam. Rong Viet is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Rong Viet has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Rong Viet.

Rong Viet is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” and other “U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

DISCLAIMER:

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at 575 Fifth Avenue, 27th Floor, New York, NY 10017. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Rong Viet. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.. None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Rong Viet is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Tellimer") provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer's conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law. This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Deputy Manager
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Market Strategy

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Steel
- Construction

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Market Strategy
- Consumer discretionary
- Pharmaceuticals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Thu Pham
Analyst
thu.pa@vdsc.com.vn
+ 84 28 6299 2006 (1520)
- Industrial Real Estate
- Infrastructure & BOT

Thao Dang
Analyst
thao.dtp@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Food & Beverage
- Textiles

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance
- Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Vy Nguyen
Analyst
vy.ntk@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Automobile & Parts

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)