Hai An Transport & Stevedoring JSC (HAH – HSX)

Effective performance is being undervalued

- Short and mid-term earnings outlook are supported by various factors
- Sustained high operating effectiveness plus high dividend payout policy
- Growing trade prospect brings more demand for transport and port services

Outlook and Valuation:

HAH is relatively a small port in Dinh Vu peninsula – Hai Phong city. HAH posted positive growth in 2015 earnings due to: (1) sustained growth in port throughput and (2) a surge in reefer revenue caused by strained border trade situation in Northern Vietnam during mid-year.

Regarding 2016 outlook, given the current high rate of port utilization, HAH's main growth driver in 2016 would expect to come from container vessel operation supported by low fuel prices and State protection policy for Vietnam flagged ships on domestic routes. In the long-run, we project cargo volume passing through ports in Hai Phong to enjoy a healthy growth rate of 12-14% annually, which is vital for port operators in the locality.

*With the estimated 2016 EPS of VND6,540, HAH share is trading at the comparatively attractive P/E forward of only 6.7x to industry wide. In addition, the share is also suitable for value investors by having an annual payout rate of 30% (on par), which ends up to a yield ~ 7%, higher than current bank deposit rate. Taking all into consideration, HAH shall be fairly valued at **VND 56,000**, higher than the closing price on Jan 08 2015 about 27**%**. So, Investors are recommended to **"BUY"** the share for **"INTERMEDIATE"** horizon.*

Last but not least, HAH currently possesses a quite concentrated shareholding structure where nearly 65% of traded shares are owned by founding investors. In the next several months, concern arises as the planned divestments of some strategic shareholders, after their obligated trading limit timeframe expired from March 01 2016, could result in a short-term oversupply pressure on the share. However, looking at the positive aspect, this action would significantly improve the share trading liquidity in the time to come.

Key financials

Y/E Dec (VND bn)	FY2013	FY2014	9M/FY2015	FY2015E	FY2016F
Net Revenues	224	431	374	737	842
% chg	17%	93%	35%	71%	14%
PAT	83	130	114	155	158
% chg	19%	58%	48%	19%	2%
EBIT margin (%)	37	30	30	21	19
ROA (%)	20	23		21	19
ROE (%)	27	35		32	27
EPS (VND)	4,223	5,899		6,402	6,539
Adjusted EPS (VND)	4,223	5,899		6,402	6,539
Book value (VND)	13,754	18,726		23,295	28,006
Cash dividend (VND)				3,000	3,000
P/E (x)				6.7	
P/BV (x)				1.9	

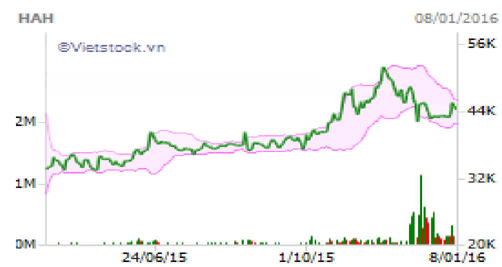
Sources: HAH, RongViet Research estimated. Referenced to stock price on 08 January 2016

BUY

CMP (VND)	44,000
Target Price (VND)	56,000
Investment Period	Intermediate

Stock Info

Sector	Seaport services
Market Cap (VND bn)	991
Current Shares O/S	23,196,232
Beta	0.9
Free float (%)	35.2
52 weeks High	52,000
52 weeks Low	31,400
Avg. Daily Volume (in 20 sessions)	254,000



Source: Vietstock

Performance (%)

	3M	1Y	3Y
HAH	10.9		
Industrial transportation	15.0	24.4	
VN30 Index	0.73	-1.12	
VN Index	1.4	6.1	

Major Shareholders (%)

Transimex – SaiGon JSC	24,6
MHC JSC	14,1
Foreigner Investor Room (%)	43,7

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Leverage on strengths to maximize business operation

Hai An Transport and Stevedoring JSC (HAH-HSX) is the provider of seaport and domestic seaborne container transport services based in Hai Phong, Vietnam. HAH was established in 2009 by strategic shareholders operating in logistics industry namely Maserco (MAC-HNX), MHC JSC (MHC-HSX), Hai Minh JSC (HMH-HNX) and Transimex-Saigon JSC (TMS-HSX). Considered as a young port, the firm has seen its revenue and PAT rising at impressive annual rate of 36.3% and 62.6% during 2011-2014.

Currently, HAH has 02 subsidiaries and 02 affiliates under its rank (Table 01). In specifics, Hai An container transport Co., Lt has been formed lately in November 2015 to facilitate the consolidation of vessel operation earnings to HAH's consolidated financial statement instead of distributing revenue and expense from this business to relevant parties as previously.

Hai An is a deep sea port in Dinh Vu peninsula. Sitting at Song Cam river downstream with deeper water-line (-8.7m) enables it to serve vessels weighed up to 20,000 DWT (reduced loads). The Port is built with 01 berth of 150 meter long on the area of 20ha capable of servicing 250,000 Teu/ year. Port capacity wise, HAH remains humble to peers namely Nam Hai Dinh Vu (GMD-HSX), Tan Vu (PHP-HNX), Dinh Vu (DVP-HSX) and Vip-Greenport (VSC-HSX) all capable of handling more than 500,000 Teu/year. To shorter vessel handling duration, HAH invested a crane in Q4/2014 and therefore increased total throughput by 25% to 310,000Teu in 2014, equivalent to 10% port handling market share in Hai Phong.

Table 01: HAH's subsidiary and affiliate firms

	Chartered capital	Ownership	Main businesses
	Subsidiaries		
Hai An Port JSC (HAP)	VND 10 billion	HAH contributed 100%	Port operation services
Hai An container transport Co., Ltd	VND 200 billion	HAH contributed 50.5%	Seaborne container transport
	Affiliates		
HAAL Co., Ltd	VND 10 billion	HAP contributed 50%	Seaborne container transport
HAGS JSC	VND 5 billion	HAP contributed 36%	Trucking, shipping agent services

Source: RongViet Research compiled

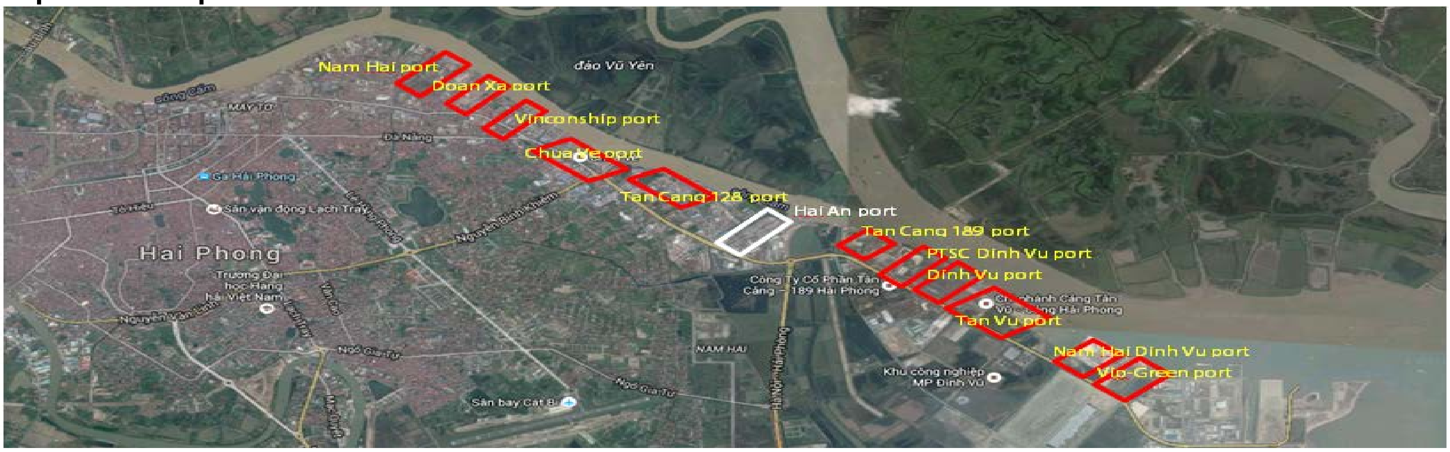
To create a long-term stable source of cargoes, HAH and its business partners (BCC) introduced the domestic seaborne container transport services since 2Q2014. In September 2015, HAH and its partners added one more vessels namely Hai An Time (1,032 Teu) worth VND133 billion. Hence, the fleet now comprises of 03 vessels with total capacity of 2,940 Teu (or 49,000DWT), up 54% yoy. Currently, HAH is servicing mainly Hai Phong-HCMC-Hai Phong domestic route and participates in some short feeder voyages to Hong-Kong and Singapore. This move is more regarded to provide HAH's port operation a stable source of cargoes given the expected rising competition among port operators in Hai Phong. Also, the presence of strategic shareholders operating in the logistics industry would act as a source of cargoes accumulators for HAH container transport business.

Table 02: HAH's vessel fleet

Vessel	DWT	Building year	Age
Hai An Park	12,649	2000	16
Hai An Song	18,409	2001	15
Hai An Time	18,055	2001	15

Source: RongViet Research compiled

Graph 01: Hai An port location



Source: Rongviet Research

HAH's 2015 and 2016 earnings performance are to receive several tailwinds

Unexpected rise in refrigerated container services (Reefer) caused by strained China-Vietnam border trade led to a surge in port services earnings

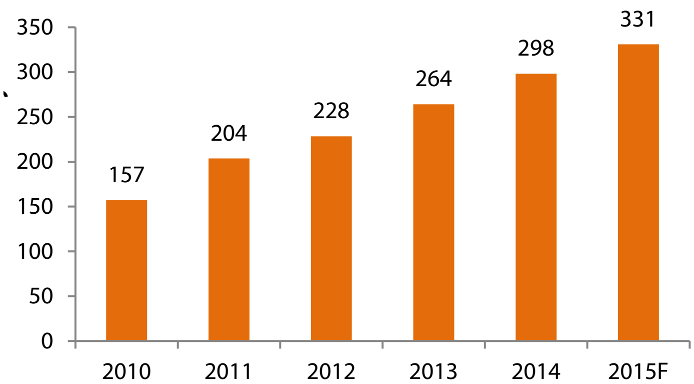
HAH's 2015 business performance continued to benefit from Vietnam economic recovery and growing trade. Port operation wise, HAH's total throughput in 2015 recorded an annualized growth of 14.8% reaching 355,000Teu. In particulars, the strained border trade situation in the North of Vietnam during 2Q and 3Q2015 caused thousands of reefers to congest in Hai Phong and hence HAH as well as other ports here ripped the benefit of rising demand for reefer services whose major expense is power bill. So, this service possesses a high PBT margin up to ~40%. As trade situation going back to normalcy, we estimate HAH to record about VND80 billion from reefer activity for 2015. So, total port related revenue in 2015 expects to be VND369,2 billion (+ 27% yoy) and gross profit to expectedly achieve VND166 billion (+13% yoy)

After two years in operation, the firm's container transport segment has achieved very encouraging results amid still difficult industry condition. In 2015, HAH's fleet is estimated to transport 94,000 Teu (+116.2% yoy). Hence, this segment revenue and gross profit are projected to be about VND364.5 billion (+164% yoy) and VND62.2 billion (+416% yoy). There are several factors leading to this encouraging results being: (1) the whole year operation in 2015 for the fleet (Hai An Park and Hai An Song operated respectively only 06 and 02 months in 2014), (2) truckload control policy introduced in 2Q204 shifts encourages cargo owner to switch to waterborne transport mode, (3) falling fuel prices of 26% this year compared to average 2014 saves fleet operating expense a lot (fuel cost makes up 35-40% vessel freight). Given the above analysis, HAH is estimated to achieve VND736 billion (+71% yoy) in revenue and VND172 billion (+31.2% yoy) in consolidated PAT.

Growth catalyst for 2016 would come from vessel operation and enhanced core-operation effectiveness

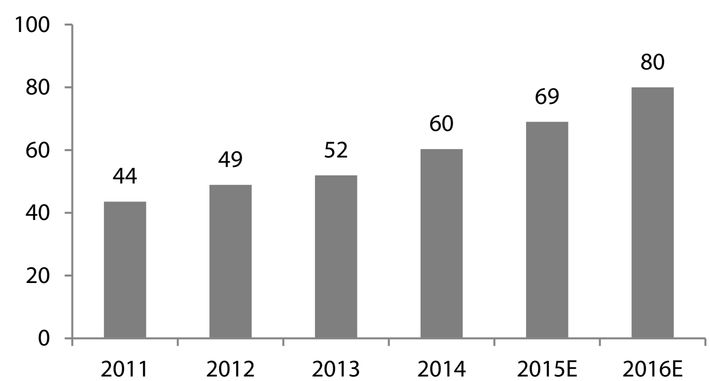
Given the prospects of FTAs and TPP, 2016 is promised to be a starting year of rapid growth in trade in Vietnam as a result of increasing FDI. Hence, cargo volume and demand for logistics services are expected to benefit strongly. Hai Phong People Committee expects the provincial throughput to continue to grow 16% to 80 million tons from the estimated 70 million tons in 2015.

Chart 01: Vietnam's annual trade value (USD bil)



Source: RongViet Research

Chart 02: Total cargo throughput in Hai Phong (mil tons)



Source: RongViet Research

However, we project a slight growth in port throughput for HAH in 2016 due to: (10 Hai An port is operating 25% over its capacity leaving it with limited room for growth, (2) the firm's port operation could be impacted at some extent by the construction of Bach Dang bridge, (3) 2016 reefer revenue may not be as much as in 2015. Under normal border trade situation with China assumption, 2016 reefer revenue is forecasted to be about VND42 billion or half of that in 2015. In addition, port handling fees which are pegged in USD currency could go up as the same extent of possible VND depreciation against USD. Taking all into consideration, HAH's 2016 port services revenue is forecast to fall slightly by 2% yoy and relevant gross profit down 5.4% yoy in consequent.

Regarding Bach Dang bridge project, in short-term, we believe that port operators situated from the bridge point going upstream would likely face issues in dealing with vessel calling time during the bridge construction phase. However, HAH, given its one berth design and Hai Phong's tidal regime, is normally able to serve one vessel a day or 6-7 vessels per week. So, HAH's port operation activity is therefore less impacted than large ports sitting up the Cam river such as Greenport of VSC, Nam Hai of GMD and Doan Xa of DXP. With a flexible port calling time, HAH would certainly be able to maintain its daily handling capacity of 1 vessel (7 a week) or co-operate with partner ports in servicing overlapping schedule. Over the long-term, concern on the constructed bridge could limit the size of ships going to upstream ports is not as serious as initially thought given the bridge's clearance design is safe for vessel of 10,000DWT or 20,000DWT (reduced load) to pass through. So, HAH's total handling container volume is estimated to go up slightly 2.2% yoy in 2016, reaching 364,000Teus based on enhanced efficiency of cargoes handling time and higher vessel utilization rate.

In 2016, HAH's earnings growth would expectedly be driven by the firm's vessel operation due to: (1) the addition of HaiAn Time vessel brings stability and higher profit margin by reducing chartered vessel expense, (2) fuel prices (estimate to make up to 40% of freight) is likely to remain low at least until the end of 2Q2016, (3) higher vessel fleet utilization overall as HAH takes part in more intra-Asian feeder voyages. According to Vietnam Maritime Administration, Vietnam's domestic container vessel fleet consists of 39 vessels with total capacity of ~368,000DWT. So, HAH is currently making up 13% of the domestic container fleet by capacity. The supporting policies including truckload control and domestic route protection for Vietnam flagged vessels are creating opportunities for domestic shipping firms and HAH to receive more orders. With HaiAn Time in the rank, HAH's fleet is projected to carry 117,000Teu in 2016 (+24,5%yoy). Assuming vessel freight remains unchanged, vessel operation could contribute VND475.9 billion (+31%yoy) in total revenue and VND80.7 billion (+30%yoy) in consolidated gross profit. ***So, HAH's 2016 consolidated revenue and gross profit are projected to achieve VND841 billion***

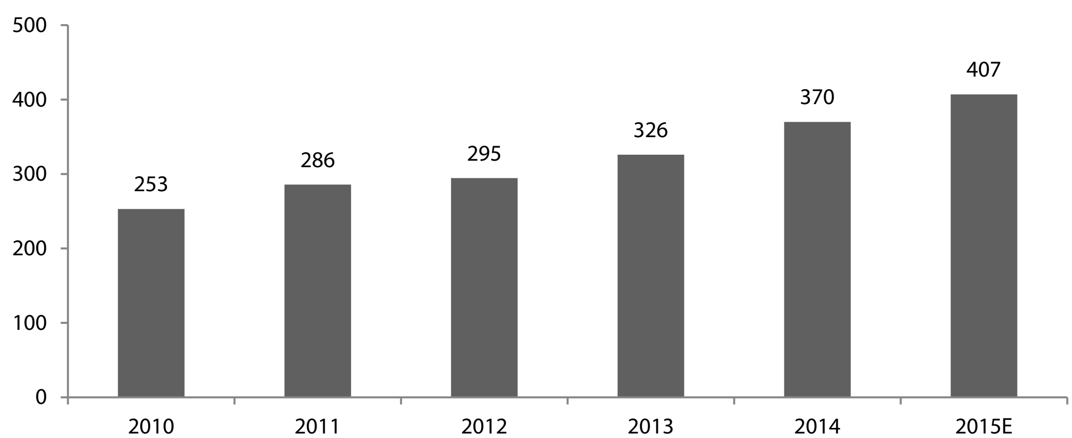
(+14.3% yoy) and VND238.1billion (+4.3% yoy) respectively under normal reefer services demand assumption.

Positive trade outlook would expectedly trigger higher demand for transport and port services.

In the long run, Vietnam is earmarked for a rapid growth in trade driven by solid economic recovery and removals of tariffs from joining many FTAs. As of the end of 2015, Vietnam has basically finished negotiations of various FTAs including the Vietnam-Korean FTA (VKFTA) in May 2015, FTA EU-Vietnam (Dec 2015), TPP, Vietnam-Eurasia FTAs, and most recently the AEC. The signing of VKFTA alone is expected to boost trade between two countries to USD70 billion from USD29 billion as at the end of 2014 (or growth of 16%/year) and the execution of TPP would enable Vietnamese goods to penetrate into more overseas markets such as the US, Japan, New Zealand, Canada,…

In fact, Vietnam's total trade value and national port throughput have grown at good pace of 10-12% annually during 2010-2014. Of which, ports in Hai Phong handled about 17% total throughput but up to a thirds of nationwide containers volume. From our estimated figure, total port capacity in Hai Phong is 5 million Teus (including VIP-Green port of VSC) at the end of 2016. Given the 2016 forecast of 14.2% growth in cargo volume, we estimate the average port utilization rate at Hai Phong would reach 80%. Looking forwards, with this healthy growth pace in the coming years, demand for port services is projected to surpass port supply in 2018.

Chart 03: Total port throughput in Vietnam (million tons)



Source: RongViet Research compiled

Apart from that, being one of Vietnam's most important trade gateways, Hai Phong port area is to benefit from the relocation of manufacturing FDI to industrial zones in the North of Vietnam such as Dinh Vu IZ, VSIP Hai Duong IZ, Hai Phong and Bac Ninh IZ with a portfolio of large multinational corporations like Samsung, LG, Bridgestone…This would potentially bring up demand for machinery, raw materials imports and on the other side export for finished goods. Seconds, the simultaneous investment in public infrastructure (Ha Noi- Hai phong highway, Avenue 5 maintenance, establishing new sea transport route: Quang Ninh-Kien Giang…) and after port facilities (depot and warehousing) help facilitate goods movements and act as goods collection points. Thirds, strategic location of Hai Phong, deemed to be a transit port for goods heading to Southwest China and sitting on important North East Asia (China-Korea-Japan) transport link. Finally, the recovery of domestic manufacturing firms would play a crucial role in creating a sustainable source of cargoes in the long-run especially from Vietnam spearhead industries like garment, foods, footwear and agricultural products.

With the nearly exploited port capacity, HAH's port throughput would have limited room for growth in the future. Ironically, the underlying theme now in Hai Phong is "short" of container handling deep sea ports and "surplus" in capacity from general ports sitting upstream. In addition, ports locating inside the city would have to convert exploitation purposes or being relocated in the future under locality's urban development master plan. Eventually, to benefit from expected high growth in cargoes, port operators in Hai Phong area could consider the following business plan: (1) increase port handling capacity by M/A activities, as the hidden consolidating theme taken place now between ports, to utilize economy of scales, (2) expanding container vessel fleet to engage deeper into Asian feeder routes, (3) expanding after-port Depot to reduce pressure at forefront facilities and increase operating effectiveness or (4) investing Distribution center systems (DC) making use of an integrated asset chain (vessel-port-warehouse) to take part in the quite undersupply of 3PL services from adjacent industrial zones. So, given the industry pick-up trend, HAH is laid out with numerous business opportunities to solve the long-term growth concern.

Sound financial position and high operating cash flow support a policy of high dividend payout

Similar to other port operators, HAH possesses a strong balance sheet. Regarding leverage matter, the firm's total borrowings at September 30 2015 was VND221.8 billion whereby 60% is used to finance vessel purchases and the remainder for port services expenditure. However, the firm's leverage started to go up as HAH added high capital intensity shipping services to its line since 2Q2014. In particulars, D/E ratio jumped to 44% at the end of 2014 from the average industry 18-25%. Relative to the start of 2015, total borrowings added 31.8 billion (up 16.7%) from the purchase of Hai An Time vessel in September 2015.

Nevertheless, we estimate total debt amount to fall from VND217 billion in 2015 to ~VND157billion at the end of 2016. Given the firm's high vessel utilization rate and stable operating cash flow supported by port services (VND200 billion per year), HAH is well capable of servicing its debt liability. Assuming no large capital expenditure coming up, the firm's D/E ratio is projected to go down to 24.6% at the end of 2016 and 13.3% in 2017.

Table 04: Total borrowings and estimated interest expense (Unit: VND million)

	2015E	2016F	2017F	2018F	2019F
Total borrowings	217,256	157,855	98,926	40,767	15,503
Estimated interest expense	7,736	6,936	6,384	3,751	1,776

Source: RongViet Research estimated

However, as the majority of debt amount is USD denominated, HAH's financial performance could be impacted at some extent by the depreciation of VND against USD causing an unrealized loss when revaluing such liability at year-end. In case VND **losing 5%** against USD in 2016, we estimate the firm's total unrealized FX loss is insignificantly ~ VND6 billion.

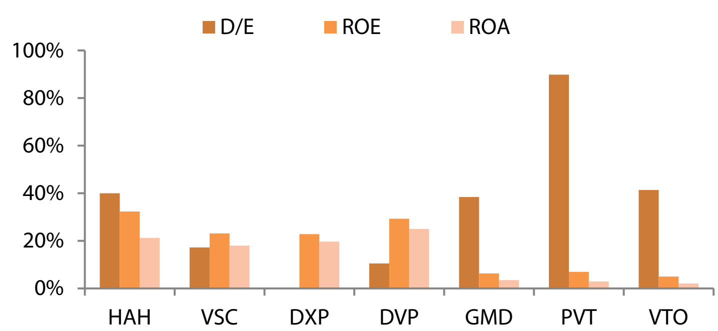
Table 05: FX sensitivity analysis

Assumed VND/USD rate	**23,216**	**23,441**	**23,666**	**23,892**
Change	*3%*	*4%*	*5%*	*6%*
Unrealised FX losses in 2016	**3,642**	**4,860**	**6,081**	**7,304**

Source: RongViet Research estimated

In addition, HAH has been among the most effective listed port operators around. In specifics, ROE posted the highest among industry peers at 32% and the second best ROA of 21% after DVP. This particular high performance ratio could not materialize without an appropriate leverage structure. After period of high growth, HAH's performance indicators are supporting a transition to a stable growth phase given the fully exploited port capacity currently. Therefore, the firm's growth matter is solely up to the firm management's plan regarding it to add capacity to current core business. For the time being, HAH is maintaining a relatively high annual payout policy of 30% (at par price) or ~7% yield in equivalent (higher than current deposit rate). If it stays on with current state of operation in the coming years, HAH could increase the payout rate which highly suits long-term value investors.

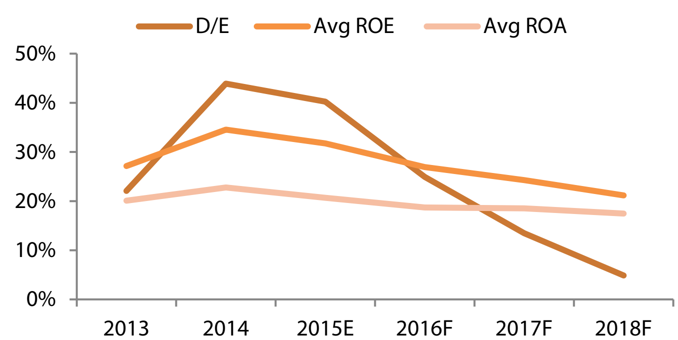
Chart 04: Financial indicators in relative



Source: RongViet Research

ROE & ROA trailing at 3Q2015

Chart 05: HAH's financial ratio (estimated)



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VND Billion

INCOME STATEMENT	2013A	2014A	2015E	2016F
Revenue	224	431	737	842
COGS	124	271	508	604
Gross profit	**100**	**159**	**228**	**238**
Selling Expense	0	0	0	0
G&A Expense	18	27	35	37
Finance Income	4	7	8	5
Finance Expense	7	8	14	13
Other profits	0	-1	-4	-2
PBT	**83**	**135**	**188**	**196**
Prov. of Tax	1	3	16	17
Minority's Interest	0	1	18	20
PAT to Equity Shareholder	**83**	**130**	**155**	**158**
EBIT	**89**	**141**	**196**	**203**
EBITDA	55	99	135	122

%

FINANCIAL RATIO	2013A	2014A	2015E	2016F
Growth				
Revenue	17.2	92.6	71.0	14.3
Operating Income	13.6	60.4	47.0	3.8
EBITDA	13.6	77.9	36.8	-9.5
EBIT	14.2	58.3	39.5	3.4
PAT	19.1	57.7	18.9	2.1
Total Assets	-7.7	82.3	9.8	4.7
Equity	10.3	36.2	24.4	17.2
Internal growth rate	18.0	27.2	17.5	11.1
Profitability				
Gross profit/Revenue	44.6	37.0	31.0	28.3
Operating profit/ Revenue	36.8	30.6	26.3	23.9
EBITDA/ Revenue	24.8	22.9	18.3	14.5
EBITDA/ Revenue	39.7	32.6	26.6	24.1
Net margin	36.9	30.2	21.0	18.8
ROAA	20.1	22.8	20.7	18.7
ROIC or RONA	22.9	26.2	25.4	23.2
ROAE	27.1	34.5	31.7	26.9
Efficiency				
Receivable Turnover	7.0	9.1	13.4	15.2
Inventory Turnover	45.2	20.7	24.1	27.1
Payable Turnover	5.6	6.7	8.1	7.5
Liquidity				
Current	2.5	2.0	2.5	2.4
Quick	2.4	1.8	2.4	2.3
Solvency				
Total Debt/Equity	31.0	69.7	53.9	38.5
Current Debt/Equity	5.8	10.0	10.7	9.3
Long-term Debt/ Equity	16.2	33.9	29.5	15.7

VND Billion

BALANCE SHEET	2013A	2014A	2015E	2016F
Cash and equivalents	64	77	248	252
Short-term investment	9	9	0	0
Receivables	36	58	52	59
Inventories	4	22	20	24
Other current assets	6	28	13	15
Total Current Asset	**119**	**193**	**333**	**350**
Tangible Fixed Assets	282	503	561	584
Intangible Fixed Assets	4	4	3	3
Construction in Progress	1	14	5	7
Investment Property	0	0	0	0
Long-term Invest ment	11	19	22	26
Other long-term assets	0	4	6	6
Long-term Asset	**298**	**544**	**598**	**626**
Total Asset	**418**	**737**	**931**	**976**
Payables	15	30	41	48
Other current liabilities	14	22	33	38
Current Debt	19	43	58	59
Long-term Debt	52	147	160	99
Other long-term liabilities	0	60	0	0
Total Liability	**99**	**303**	**291**	**244**
Owner's Equity	**319**	**434**	**540**	**633**
Capital	232	232	232	232
Retained Earnings	63	100	160	205
Funds & Reverses	22	46	92	140
Others	**0**	**0**	**0**	**0**
Total Equity	**319**	**434**	**540**	**633**
Minority's Interest	0	0	99	99
TOTAL RESOURCES	**418**	**737**	**931**	**976**

CASH FLOW STATEMENT	2013A	2014A	2015E	2016F
Profit before tax	83	135	188	196
-Depreciation	33	42	61	81
-Adjustments	*-11*	*-67*	*2*	*3*
+/- Working capital	-11	-1	-35	-21
Net Operating CFs	**94**	**109**	**217**	**258**
+/- Fixed Asset	-2	-276	-129	-113
+/- Deposit, equity investment	-14	-3	-5	-5
Interest, dividend, cash profit	4	6	4	3
Net Investing CFs	**-14**	**-14**	**-130**	**-114**
+/- Capital	0	54	0	0
+/- Debt	-28	118	-22	-119
Dividend paid & other	-49	-65	20	-113
Net Financing CFs	**-77**	**108**	**-2**	**-232**
+/- cash & equivalents	3	202	85	-88
Beginning cash & equivalents	**46**	**64**	**30**	**248**
Impact of exchange rate	0	0	0	0
Ending cash & equivalents	**64**	**30**	**248**	**252**

Company Report

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.

RATING GUIDANCE

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

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