May, 2020

HANG XANH MOTORS SERVICE JSC (HSX – HAX)

Sales were affected by the Covid-19 epidemic

Particulars (VND bn)	*1Q-FY20*	*4Q-FY19*	*+/- qoq*	*1Q-FY19*	*+/- yoy*
Net revenue	920	1,517	-39.4%	1,085	-15.2%
PAT	3	7	-52.8%	5	-28.2%
EBIT	18	26	-31.7%	18	-2.0%
EBIT margin	1.9%	1.7%	0.22%	1.7%	0.26%

Source: HAX, Rong Viet Securities

1Q2020: Covid-19 is challenging HAX's business

- The net revenue in 1Q2020 was VND 920 billion, down by 15% YoY. Revenue of selling cars dropped by 17% YoY, to VND 824 billion. The negative impact of the slowdown of the economy and consumers' behavior were the main reasons. On the contrary, the revenue of repairing and selling spare parts continued the grow in 1Q2019 (+23% YoY), as climbing by 12% YoY, reaching VND 94 billion.
- Gross profit margin (GPM) of 1Q2020 improved from 3.8% (1Q2019) to 5.3%. While the GPM of selling cars increased from 3.2% (1Q2019) to 4.7%, the GPM of the repairing and selling spare parts segment decreased sharply from 13.1% (1Q2019) to 10.1%. Gross profit in 1Q2020 was VND 49 billion, up by 18% YoY.
- Total costs including interest, selling and G&A expenses did not change much compared to the same period last year. However, other incomes (mostly selling incentive) dropped significantly by 63% YoY, to VND 6 billion. Therefore, net income was only VND 3.2 billion, down by 30% YoY.

2020 Outlook: Revenue and profit will decline

We expect HAX to have a net revenue of VND 4,551 billion (-12% YoY) and VND 63 billion in PBT (-4% YoY) in 2020.

Car sale revenues are expected to decline by 14%, to VND 4,123 billion. We think that HAX will sell 2.158 cars and the selling prices will remain unchanged while the GPM will go up from 2.7% to 3.6%. Thus, the gross profit of this segment will be VND 148 billion, up 14% YoY. In terms of repairing and selling spare parts, the revenue is expected to increase by 14% YoY, to VND 419 billion while gross profit will drop by 12% YoY, to VND 58 billion. Total costs including selling, G&A and interest expenses will be VND 226 billion, unchanged compared to the same period last year. However, other incomes will fall by 15% YoY, to VND 81 billion. Hence, PBT will decline by 4% YoY, to VND 63 billion.

Valuation and recommendation

We believe that 2020 will be a difficult year for HAX due to the negative effect of the Covid-19 epidemic which makes buyers be hesitate on making decisions. That will reduce car sales and the sale incentive in 2020. As a result, the company's profits will be lower compared to 2019. But the dividend rate of 15% is fairly interesting for long-term investors.

*We value HAX's target price at **VND 12,400/share** combining with cash dividend, that is **18%** higher than the closing price on 22/05/2020. We recommend to **ACCUMULATE** this stock.*

ACCUMULATE +18%

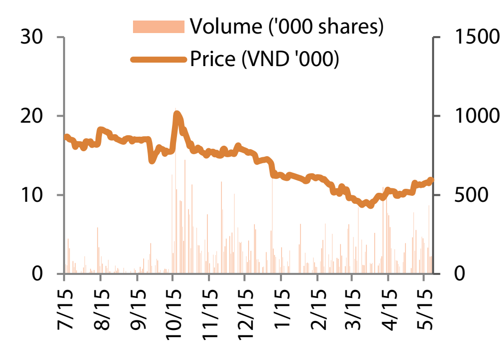
Target price (VND)	12,400
Current market price (VND)	11,750
Cash Dividend (VND)*	1,500

(*) Expected in the next 12 months

Stock Info	
Sector	Automobile & Parts
Market Cap (VND billion)	430
Current Shares O/S	36,610,129
Avg. Daily Volume (in 20 sessions)	172,061
Free float (%)	42
52 weeks High	20,300
52 weeks Low	8,600
Beta	0.82

	FY2019	Current
EPS	1,389	1,374
EPS Growth (%)	-51	-52
Diluted EPS	1,389	1,374
P/E	8.5	8.6
P/B	0.9	0.9
EV/EBITDA	18.4	16.4
Cash dividend yield (%)	10.4	12.8
ROE (%)	11.1	10.9

Price performance



Major Shareholders (%)	
Do Tien Dung	22.8
Foreign ownership room (%)	41.7

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Exhibit 1: 1Q2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/-(qoq)	1Q-FY19	+/-(yoy)
Net revenue	920	1,517	-39.4%	1,085	-15.2%
Gross profit	49	42	15.0%	41	17.9%
SG&A	39	43	-9.2%	39	-0.5%
Operating income	9	-1	-1,270.6%	2	398.0%
EBITDA	28	36	-23.7%	29	-3.6%
EBIT	18	26	-31.7%	18	-2.0%
Financial expenses	13	16	-20.2%	12	10.8%
- Interest Expenses	13	16	-20.7%	12	10.2%
Dep. and amortization	10	11	-3.8%	11	-6.2%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	5	10	-50.7%	6	-24.9%
PAT	3	7	-52.8%	5	-28.2%
(*) Adjusted PAT	3	7	-52.8%	5	-28.2%

Source: HAX, Rong Viet Securities

Exhibit 2: 1Q2020 Performance Analysis

Particulars	1Q-FY20	4Q-FY19	+/-(qoq)	1Q-FY19	+/-(yoy)
Profitability Ratios (%)					
Gross Margin	5.3%	2.8%	250.18	3.8%	148.71
EBITDA Margin	3.0%	2.4%	62.14	2.7%	36.42
EBIT Margin	1.9%	1.7%	21.60	1.7%	25.94
Net Margin	0.4%	0.5%	-10.35	0.4%	-6.58
Adjusted Net Margin	0.4%	0.5%	-10.35	0.4%	-6.58
Turnover *(x)					
-Inventories	4	8	-3.9	7	-2.9
-Receivables	13.0	12.3	0.7	7.4	5.7
-Payables	18	24	-5.7	12	6.3
Leverage (%)					
Total Debt/ Equity	230.5%	249.7%	-1,919.32	237.0%	-646.64

Source: HAX, Rong Viet Securities

Exhibit 3: 2Q2020 Performance Forecast

Particulars (VND Bn)	2Q-FY20	+/- qoq	+/- yoy
Revenue	1,065	16%	-13%
Gross profit	46	-5%	-16%
EBIT	23	28%	-49%
NPAT	7.9	150%	-69%

Source: Rong Viet Securities

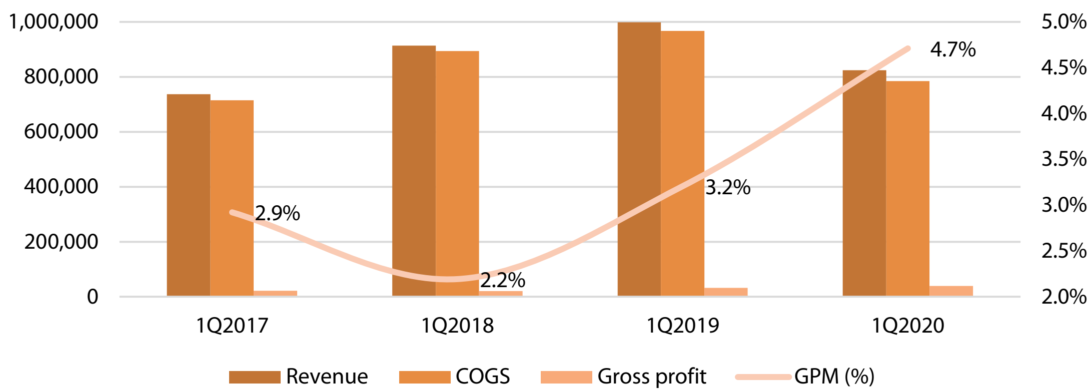
Update

Car selling encountered difficulties as Covid-19 had an impact on consumer spending

The revenue in 1Q2020 plummeted by 17% YoY, to VND 824 billion. There are three main reasons for the decline in quantities sold, including (1) due to the Covid-19 epidemic, consumers tended to save money instead of buying a car, (2) the disease made people avoid to go to crowded places such as car showrooms and (3) buyers were waiting for luxury car brands to lower their prices as middle-class brands have done since the end of 2019.

In contrary to sale volume, selling prices were almost unchanged in 1Q2020 as there were only six out of 49 models that increased their price slightly compared to 2019 (by 1.2% – 3.1%). The selling price did not decrease due to the policy of Mercedes Benz Vietnam (MBV) when it actively kept prices steady instead of reducing it like other mid-class brands to maintain its position in the luxury segment. In addition, current prices of its cars were strongly competitive compared to its rivals in the same segment such as BMW, Audi or Lexus. In 2Q2020, we believe that HAX's selling prices will remain competitive in order to liquidate inventories (2018 and 2019 models) before storing new models of 2020 – this year is the time when Mercedes changes the product designs as part of its 5-year circle strategy.

Figure 1: HAX's performance in selling cars (VND million)

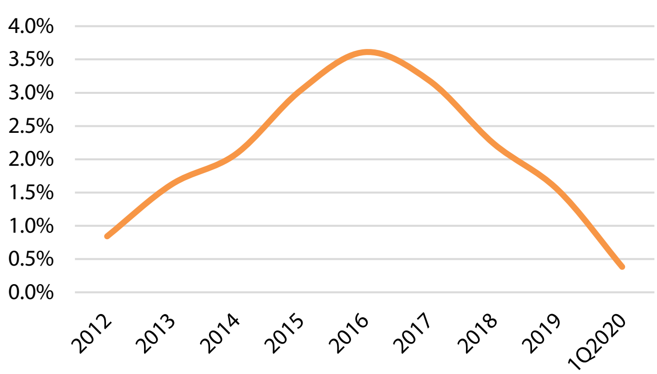


Source: HAX, Rong Viet Securities

Gross profit margin (GPM) improved compared to the same period last year, from 3.2% to 4.7% due to lower input prices of car supplied by MBV. MBV wanted to support its partners under the situation of Covid-19 pandemic and liquidate all old models before selling new models of 2020. As a result, MBV lowered the selling price to its distributors. Gross profit from selling cars was VND 39 billion, up by 21% YoY.

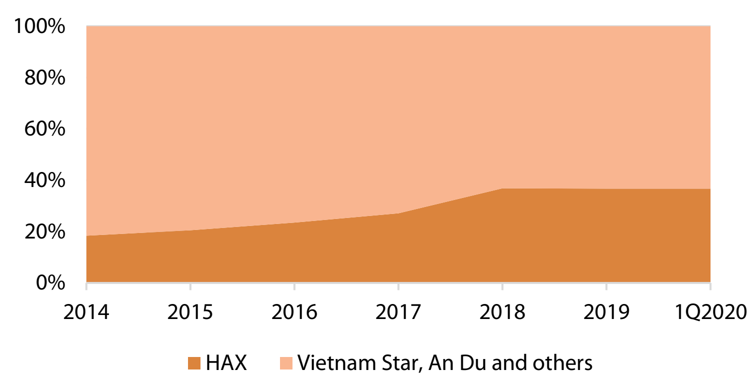
Incentives from MBV fell down

Figure 2: The ratio of incentive to revenue



Source: HAX, Rong Viet Securities

Figure 3: HAX's market share in Mercedes distribution



Source: HAX, Rong Viet Securities

The ratio of incentive in revenue received from Mercedes Benz Vietnam declined in 1Q2020 and is estimated at around 0.4% while the average incentive rate in 2019 was 1.5%.

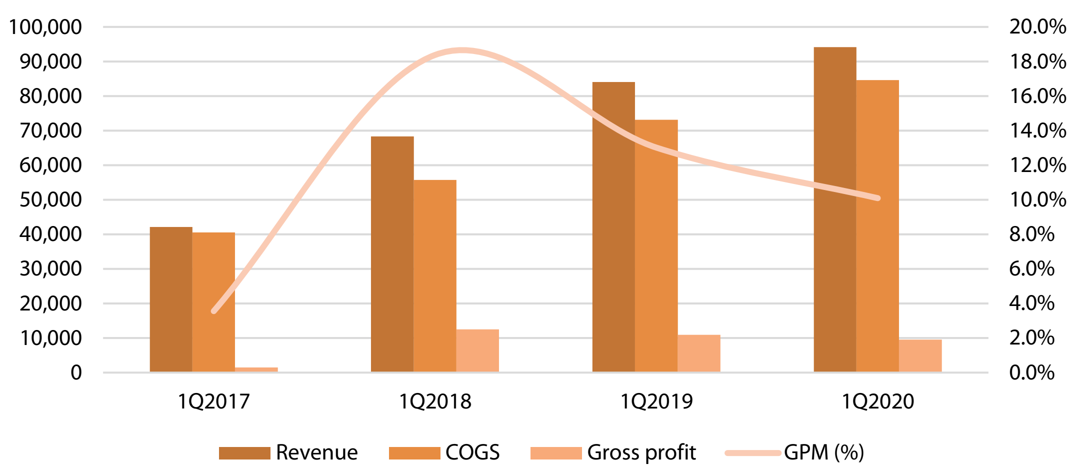
The reason is that HAX intended to keep part of its 1Q incentive to book in the 2Q as they were afraid that Covid-19 may last long. In addition, we believe that HAX's car sold this year have faced more competition as the market is no longer as favorable as before. In fact, in 2017 and 2018, BMW could not reach buyers due to the legal troubles of its main distributor - Euro Auto while other luxury car companies found it difficult to import their cars into Vietnam as Decree No.116/2017/ND-CP was issued. Therefore, Mercedes- Benz was the most approachable option at that time. Selling cars turned to be easier in 2017 and 2018. HAX's market share was increasing, so the company had received better policy from MBV with a higher incentive ratio (2.2-3.2%). However, the incentive ratio has declined since 2019. In our opinion this is a sign of a more competitive market as BMW cars have been distributed by Truong Hai Auto Joint Stock Company (Thaco) and the arrival of new brands such as Volvo, Porsche and Audi.

The repairing segment saw a growth in revenue

HAX's market share of distributing Mercedes has grown and that has indirectly supported its repairing and selling spare parts services. The company has also offered lots of promotions such as discounts to attract more customers. As a result, the number of repaired cars increased compared to the same period last year.

However, due to a decrease in price to boost the competitiveness and unchanged input costs, so that the revenue only went up 12% YoY, to VND 94 billion while COGS increased at 16% YoY, to VND 85 billion. Thus, GPM declined from 13.1% (1Q2019) to 10.1%. The gross profit was VND 9.5 billion, down by 14% YoY.

Figure 4: Performance of the repairing and selling spare parts segment (VND million)



Source: HAX, Rong Viet Securities

The auto industry benefits from new policies

Sales of the automobile industry have been seriously affected by the Covid-19 epidemic. Therefore, VAMA sent a request to the Government, the Ministry of Industry and Trade, the Ministry of Finance and the Ministry of Transport about the current difficult situation. As well it is proposing a 50% reduction for the registration fees for cars which are domestically assembly until the end of 2020. On May 14, the Government approved the proposal, but it has not been clear about the date the policy will officially take place. In our opinion, the new policy will support Haxaco's car sales and the company may withdraw some of the previous promotion programs to improve its profit margin. We expect the sale volume of HAX will decrease by 13.8% YoY (reaching 2,158 cars), instead of 15.3% YoY.

In addition, some of HAX's cars are imported from Germany, so the company will benefit when the EVFTA officially takes effect on July 1, 2020. This will help the company reduce import taxes and selling prices.

Table 1: Types of taxes and fees levied on imported cars

	Types of taxes and fees	Charges
1	Import Tax	+ 70% (vehicles imported from Europe and the US) + 30% (vehicles imported from ASEAN countries with the localization rate below 40%) + 0% (vehicles imported from ASEAN countries with the localization rate of more than 40%)
2	Special consumption tax	35-150% * depending on cylinder capacity * calculated on the sum of the original vehicle price and import tax
3	VAT	10% - after calculating the Special consumption tax
4	Corporate income tax	22%
5	Registration fee	10-15%
6	License plate issuance fee	VND 2-20 million
7	Registration fee	VND 240.000/year
8	Fee for granting technical safety assurance certificate	VND 100.000/issued time
9	Road use fee (not including BOT)	VND 130.000/month
10	Civil liability insurance premium	+ Vehicles with under 6 seats: VND 436,700 + Car from 7-11 seats: VND 873,400 + Pickup and Minivan cars: VND 1,026,300
11	Physical insurance premium	Optional
12	Emission test fee	
13	Fuel consumption test fee.	Optional
14	Fee for granting energy labeling certificates	Optional
15	Environmental protection tax on petroleum	

Source: Rong Viet Securities

Other updates

Haxaco and Vinfast used to discuss about HAX distributing Vinfast's cars. However, up to now, they have not reached any agreement.

Hyosung wanted to buy 51% of HAX. According to media, they firstly offered a price of VND 45,500/share but HAX expected a price higher than VND 50,000/share. Later, Hyosung changed their management team and the new CEO offered a new price which was much lower than HAX's expectations. Thus, the negotiation has been delayed.

Valuation

In 2020, we expect HAX will generate a net revenue of VND 4,551 billion (-12% YoY) and PBT of VND 63 billion (-4% YoY). PAT and EPS will be VND 50.6 billion and VND 1,382, respectively. This forecast is based on:

- Car sale volume dropping by 13.8% YoY, reaching only 2,158 units due in part to the negative impact of the Covid-19 epidemic on buyers' behavior and the increased competition from rivals.
- Revenue for repairing and selling spare parts increases by 14% YoY, to VND 419 billion. The main reason is the fact that HAX is constantly increasing its market share in of the Mercedes car repairing market.
- The incentive is estimated at VND 67 billion, down 8% YoY.
- GPM is 4.5%.

	Net revenue (VND billion)	GPM (%)
Selling cars	4,123	3.6
Repairing and selling spare parts	419	13.9
Others	9	-1.1

In terms of valuation, we combine the P/E and FCFF methods with a proportion of 50% each in order to get a fair value for HAX.

P/E method: we took the average P/E of the sector - 8x and the EPS 2020 which is VND 1,382/share. Hence, the appropriate price using this method is VND 11,037/share.

FCFF method: we use the following assumptions: (1) WACC at 11.3% and (2) the growth of FCFF from 2024 is 0.4%.

Thereby, the fair value of HAX is **VND 12,400/share**. The expected dividend is VND 1,500/share, so that **the profitability ratio** compared to the closing price on May 22, 2020 is **18%.**

Table 2: HAX valuation

Valuation model	Weight (%)	Price (VND)
P/E	50%	11,037
FCFF	50%	13,814
Target price		**12,400**

Source: Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	4,756	5,153	4,551	4,758
COGS	4,526	4,957	4,345	4,537
Gross profit	230	195	206	221
Selling Expense	109	117	115	119
G&A Expense	52	53	59	61
Finance Income	0	0	1	1
Finance Expense	43	57	51	53
Other profits	98	96	82	84
PBT	125	65	63	73
Prov. of Tax	26	15	13	15
Minority's Interest	0	0	0	0
PAT to Equity S/H	99	51	51	58
EBIT	167	122	114	126
EBITDA	207	165	144	155

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	24.1%	8.3%	-11.7%	4.5%
Operating Income	18.3%	-20.3%	-12.9%	8.1%
EBITDA	-4.3%	-27.0%	-6.6%	10.2%
PAT	17.0%	-48.2%	-0.9%	15.5%
Total Assets	30.8%	-10.2%	0.1%	2.1%
Equity	16.5%	2.6%	-1.0%	0.7%
Profitability (%)				
Gross margin	4.8%	3.8%	4.5%	4.7%
EBITDA margin	4.3%	3.2%	3.2%	3.3%
EBIT margin	3.5%	2.4%	2.5%	2.6%
Net margin	2.1%	1.0%	1.1%	1.2%
ROA	5.4%	3.1%	3.1%	3.5%
ROE	21.9%	11.1%	11.1%	12.7%
Efficiency				(times)
Receivable Turnover	7.2	13.1	12.6	11.4
Inventory Turnover	7.7	6.9	5.6	5.8
Payable Turnover	12.5	23.1	22.8	21.5
Liquidity				(times)
Current	1.0	1.1	1.1	1.1
Quick	0.6	0.5	0.4	0.5
Finance Structure (%)				
Total Debt/Equity	222.2%	205.6%	214.5%	215.1%
Current Debt/Equity	222.2%	205.6%	214.5%	215.1%
Long-term Debt/Equity	0.0%	0.0%	0.0%	0.0%

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	121	110	113	119
Short-term investments	0	0	0	0
Accounts receivable	663	394	362	417
Inventories	590	721	774	783
Other current assets	24	22	20	19
Property, plant & equipment	345	317	305	277
Acquired intangible assets	63	56	48	41
Long-term investments	0	0	0	0
Other non-current assets	10	13	12	13
Total assets	**1,817**	**1,632**	**1,634**	**1,668**
Accounts payable	363	214	190	211
Short-term borrowings	998	948	980	989
Long-term borrowings	0	0	0	0
Other non-current liabilities	4	4	4	4
Bonus and Welfare fund	0	0	0	0
Technology-science, dev. fund	0	0	0	0
Total liabilities	**1,364**	**1,167**	**1,174**	**1,205**
Common stock and APIC	350	367	367	367
Treasury stock (enter as -)	0	-2	-2	-2
Retained earnings	99	96	91	95
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	0	0	0	0
Total equity	**449**	**461**	**457**	**460**
Minority Interest	**3**	**4**	**4**	**4**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	2,683	1,389	1,382	1,596
P/E (x)	6.3	12.2	7.5	6.5
BV (dong)	12,832	12,273	12,473	12,564
P/B (x)	1.3	1.3	0.8	0.8
DPS (dong/cp)	1,500	1,500	1,500	1,500
Dividend yield (%)	12	10.4	12.8	12.8

VALUATION MODEL	Price	Weight	Average
FCFF	13,846	50%	6,923
PE	11,037	50%	5,518
Target price (VND)			**12,400**

VALUATION HISTORY	Price	Recommendation	Period
2018/12/25	19,600	Buy	Intermediate
2018/04/16	29,500	Buy	Intermediate
2018/02/05	29,000	Neutral	Intermediate

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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