SAIGON CARGO SERVICES JSC (HSX: SCS)

COVID-19 Concern Drives the Stock to Attractive Valuation

(VND bn)	Q4-FY19	Q3-FY19	+/- qoq	Q4-FY18	+/- yoy
Net revenue	199	187	7%	188	6%
PAT	136	127	6%	109	24%
EBIT	142	133	7%	120	18%
EBIT margin	71.1%	71.1%	-0.1 pps	63.8%	7.2 pps

Source: SCS, Rong Viet Securities

2019 – NPAT maintained double-digit growth yet at a slower pace

- International cargo came at 166 thousand tons (+6.6% YoY). The growth rate decelerated slightly compared to an annual growth of 8.3% in 2018 due to global trade disputes' negative impacts on the Asia Pacific air cargo demand.
- Solid pricing power, thanks to the favorable duopoly nature of the air cargo terminal industry in Tan Son Nhat Airport helped the company raise its ASP 4.1% YoY.
- Profit margin continued to improve as revenue largely outpaced operating expenses. Gross profit/ EBIT/Net margins rose 1.3/1.9/2.5 pps respectively.
- NPAT hit VND 503 Bn (+15,0% YoY).

FY2020 outlook – COVID-19 will temporarily hit profit growth

Volume growth will be hurt as we expect volume contribution from China and Hong Kong, two markets that account for one third of total flights operated by SCS' airlines partners and 22% of total int'l cargo volume of the company in 2019, to be hit the most as a result of flights cut/reduction. We expect total Int'l cargo volume to modestly grow at 3.1% YoY in 2020 (-3.5 pps YoY). While revenue growth will decelerate in line with volume throughput, we expect operating expenses to rise marginally, as fixed costs account for the major part in the cost structure. Because of this, the company will be able to maintain its profit margins regardless of the COVID-19 pandemic.

We expect 2020F revenue to reach VND 773 Bn (+3.3% YoY) and NPAT to come at VND 525 Bn (+4.4% YoY). 2020F EPS (adjusted for preferred dividend, bonus and welfare fund) to be VND 8,975.

Valuation and recommendation

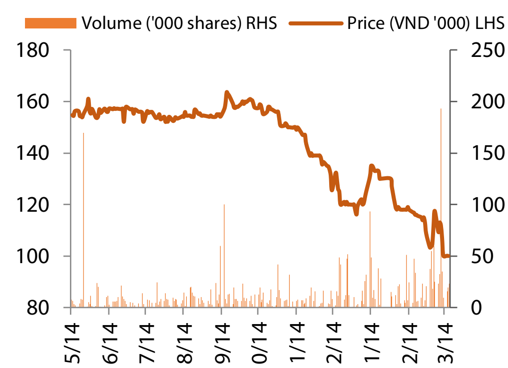
We believe that the coronavirus' impact on business results of SCS should be temporary. In our base case, we expect the pandemic to be contained by the end of Q2/2020, followed by the reinstatement of flights as well as an improvement in the global supply chain in which China plays an integral role. This in turn will help bring the cargo volume back to a healthy growth trajectory going forward. Furthermore, the EVFTA, which is expected to come into force by mid-2020, will also bring opportunity for long-term growth. We expect that the company will benefit from the fact that many goods traded between Vietnam and the EU, including mobile phones, electronic devices, machinery components, pharmaceutical products, are transported via air. Thanks to this positive long-term outlook, we believe the recent crash in the stock price is a good chance to BUY it. It offers a total return of 26% as of March 18th, 2020 based on our FCFE-derived target price of VND122,500 together with an expected cash dividend of VND 8,000 per share.

BUY	+26%
Target price (VND)	122,500
Current market price (VND)	103,500
Cash dividend (VND)	8,000
(*) Expected in the next 12 months	

Stock Info	
Sector	Air Freight
Market Cap (VND billion)	5,182.7
Current Shares O/S	50.4
Avg. Daily Volume (in 20 sessions)	30,737
Free float (%)	49.5
52 weeks High	148,200
52 weeks Low	100,000
Beta	0.82

	FY2019	Current
EPS	8,577	8,577
EPS Growth (%)	15.0	15.0
Diluted EPS	8,577	8,577
P/E	12.0	12.0
P/B	6.0	6.0
EV/EBITDA	10.0	10.0
Cash dividend yield (%)	6.7	6.7
ROE (%)	50.0	50.0

Price performance



Major Shareholders (%)	
Gemadept JSC	36.6
Airport Corporation of Vietnam	14.9
Remaining Foreign Room (%)	*27.8*

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Exhibit 1: Q4/2019 Results

(VND Bn)	Q4-FY19	Q3-FY19	+/- (qoq)	Q4-FY18	+/- (yoy)
Net revenue	199	187	6.7%	188	6.1%
Gross profit	160	149	7.4%	142	12.5%
SG&A	18	16	14.1%	22	-17.3%
Operating income	142	133	6.6%	120	18.0%
EBITDA	156	147	6.0%	134	16.2%
EBIT	142	133	6.6%	120	18.0%
Financial expenses	1	-	n.a	0	645.3%
- Interest Expenses	1	-	n.a	-	n.a
Dep. and amortization	14	14	0.8%	14	0.6%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	146	136	6.9%	123	18.7%
PAT	136	127	6.5%	109	24.2%
(*) Adjusted PAT	136	127	6.5%	109	24.2%

Source: SCS, Rong Viet Securities

Exhibit 2: Q4/2019 Performance Analysis

Particulars	Q4-FY19	Q3-FY19	+/- (qoq)	Q4-FY18	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	80.3	79.7	0.5 pps	75.6	4.6 pps
EBITDA Margin	78.0	78.5	-0.5 pps	71.2	6.8 pps
EBIT Margin	71.1	71.1	-0.1 pps	63.8	7.2 pps
Net Margin	68.0	68.1	-0.1 pps	58.1	9.9 pps
Adjusted Net Margin	68.0	68.1	-0.1 pps	58.1	9.9 pps
Turnover * (x)					
-Inventories	46,902.8	30,569.3	16,333.5	52,039.7	-5,136.9
-Receivables	7.8	9.9	-2.1	4.6	3.2
-Payables	3.4	3.4	0.0	2.3	1.1
Leverage (%)					
Total Liabilities/ Equity	6.3	6.3	-0.1 pps	10.7	-4.4 pps

*Source: Rong Viet Securities, * Annualized*

Exhibit 3: Q1/2020 Performance Forecast

Particulars (VND Bn)	Q1-FY20	+/- qoq	+/- yoy
Revenue	176	-11.9%	1.7%
Gross profit	139	-13.0%	2.1%
EBIT	123	-13.0%	3.4%
NPAT	119	-12.2%	11.8%

Source: Rong Viet Securities

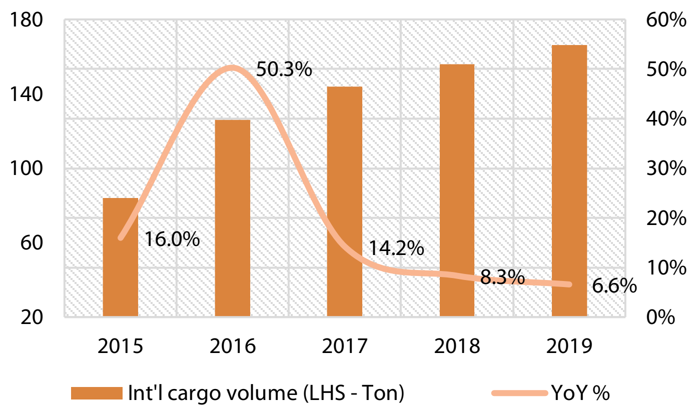
Update

Growth decelerated amidst global trade instability

SCS International cargo volume reached 166,000 ton, rising by 6.6% YoY in 2019, slightly slower compared to the 2018 annual growth rate of 8.3%. We estimate that the company's market share in handling int'l cargo at Tan Son Nhat Airport (SGN) was approximately 34,7%, contracting by 1.2 pps YoY.

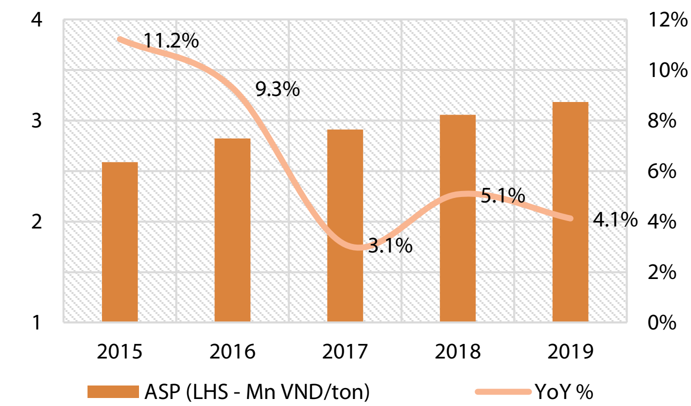
In terms of pricing, the company was still able to increase the fee charged to its customers, airlines and freight forwarders, thanks to the relatively low competition, given the duopoly nature of the air cargo market at SGN (figure 2). While the int'l/domestic cargo mix stayed relatively the same, selling price per ton of cargo rose 4.1% on average in 2019.

Figure 1: SCS' International cargo volume throughput from 2015-2019



Source: SCS, Rong Viet Securities

Figure 2: Average selling price from 2015-2019

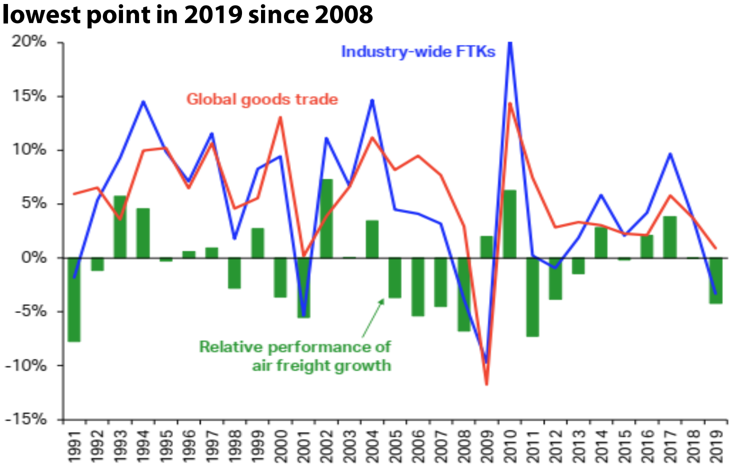


Source: SCS, Rong Viet Securities

The US-China trade dispute has negatively impacted global trade flow, which posted the lowest annual growth of 0.9% since the financial crisis in 2008 (figure 3). The demand for air cargo transportation, measured in FTK*, in all regions, except for Africa, performed poorly in 2019, as opposed to 2018 (figure 4). The Asia Pacific region, one of the world's main manufacturing and distribution regions, suffered the most from weak demand. Accordingly, while the total air freight volume declined by 3.3% YoY globally, Asia Pacific's FTK was down by 6.4% YoY. We believe this was the key factor contributing to the deceleration of the company's int'l cargo volume in 2019, since SGN's int'l cargo volume growth was rather in line with the FTK trend of Asia Pacific Region (appendix 5).

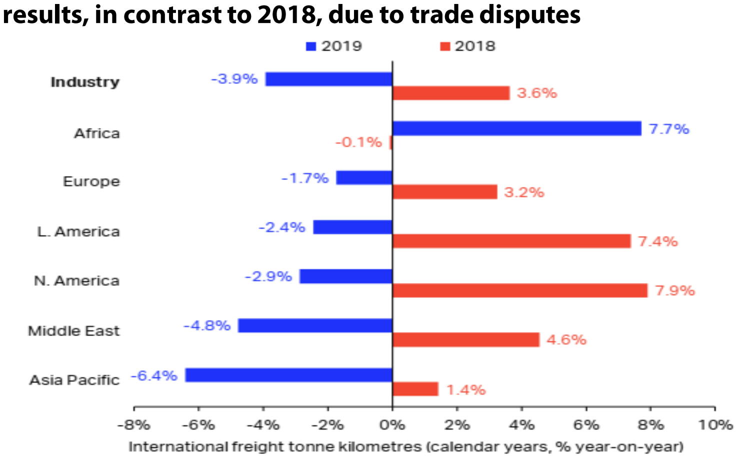
(*) FTK: Freight tonne kilometers

Figure 3: Global trade flow and air cargo demand hit the lowest point in 2019 since 2008



Source: IATA, IMF

Figure 4: FTKs in nearly all regions in 2019 showed poor results, in contrast to 2018, due to trade disputes



Source: IATA

Additionally, we assume that the lack of new high-profile airlines customers in 2019 was another culprit for the slow-down in the growth rate of cargo. Unlike in 2018, when SCS successfully joined hand with three air freight companies and one of Japan's flag legacy carrier (Japan Airlines), SCS only added two low cost carriers (LCCs), namely Nok Air and IndiGo, in 2019. We believe these new partners are unlikely to significantly propel the cargo volume as LCCs typically operate narrow-bodied aircraft which offer limited lower deck cargo capacity (belly capacity) once passengers' checked bags have been taken into account.

2020 results brace for short-term hit due to COVID-19

SCS's cargo growth in 2020 will be largely affected by the slump in imports/ exports from/ to Hong Kong and China, two markets accounting for one-third of total flights operated by SCS' airline partners (Appendixes 1 and 2) and about 22% of the company's international freight volume in 2019.

In addition, the vast majority of passenger flights connecting Ho Chi Minh City to Hong Kong and China, besides many other international markets, have been cut, thereby, partly reducing freight carrying capacity. However, we note that freighter flights have not been cut. Therefore, we expect freighter flights to yield a higher load factor, which should compensate for the shortage in belly capacity caused by passenger flights reduction and help the air cargo market at Tan Son Nhat airport to avoid a sharp drop in terms of volume.

Another factor that we think will indirectly affect SCS is Chinese factories' low level of production in response to the pandemic. This not only affects China's manufacturing sector, but also disrupts the global supply chain as many countries, including Vietnam, are still relying on the supply of raw materials from China for production activities. This will lead to a short-term dip in Vietnam's trading volume in all means of transportation, including air.

However, when Chinese factories gradually resume production to normal levels, we expect air cargo demand to rebound for 1-2 months as some manufacturers in Vietnam could be opting for airfreight over sea shipping to compensate for the time lost due to supply disruptions from China as well as guaranteeing on-time delivery to their partners. This may partly be the reason why we witnessed a 10% annual growth of international freight traffic in 2M 2020 through the SCS terminal.

In a nutshell, our base case scenario is that the pandemic will be contained by the end-Q2/2020, followed by a resumption of international flights. With no runways maintenance at Tan Son Nhat airport in 2020, we expect int'l freight volume to rise 3.1% YoY.

Table 1: Scenarios for 2020 international cargo volume growth

2020 International cargo volume YoY %		COVID-19		
		Best case (contained by end-Q1/2020)	Base case (contained by end-Q2/2020)	Worst case (contained by end-Q3/2020)
SGN Runways maintenance in 2020	No	6.2%	3.1%	-0.9%
	Yes	4.5%	1.1%	-3.2%

Source: Rong Viet Securities

Forecast and Valuation

For the base case in 2020, we forecast that SCS's revenue will reach VND 773 billion (+ 3.3% YoY) and net income will reach VND 536 billion (+ 4.4% YoY), equivalent to an adjusted EPS (after paying preferred dividends and funds contribution) of VND 8,795. For the remaining scenarios, SCS's business results are shown in the table below.

Table 2: Scenarios for 2020 business results

2020 Revenue/NPAT YoY %		COVID-19		
		Best case (contained by end-Q1/2020)	Base case (contained by end-Q2/2020)	Worst case (contained by end-Q3/2020)
SGN Runways maintenance in 2020	No	6.0%/7.6%	3.3%/4.4%	-0.3%/0.2%
	Yes	4.5%/5.9%	1.5%/2.3%	-2.3%/-2.2%

Source: Rong Viet Securities

We use the DCF methodology to evaluate the fair value of SCS as the company has relatively solid and stable cash flow. Applying a discount rate of equity of 13.1% and terminal growth rate of 1.0%, **we estimate that the fair value of SCS is VND 122,500 per share**.

Appendix 1: Number of scheduled freighter flights operated by SCS's carrier partners

Destination	Freighter carriers in cooperation with SCS	Number of flights in the next 7 days*	Sub-total	%
China	SF Airlines	10	22	**45%**
	YTO Cargo Airlines	12		
Malaysia	Raya Airways	13	13	**27%**
Hong Kong	AirBridgeCargo	1	10	**20%**
	Cargo Lux	5		
	Hong Kong Air Cargo	4		
Singapore	AirBridgeCargo	1	1	**2%**
Thailand	Cargo Lux	1	1	**2%**
Russia	AirBridgeCargo	1	1	**2%**
Bahrain	Cargo Lux	1	1	**2%**
	Total	**49**	**49**	**100%**

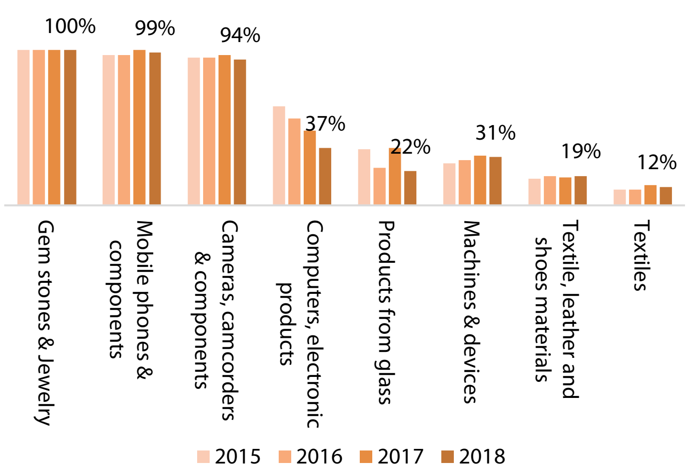
*Source: Flightradar24, SCS, Rong Viet Securities. *Data as of March 9th, 2020.*

Appendix 2: Number of scheduled passenger flights operated by SCS's carrier partners

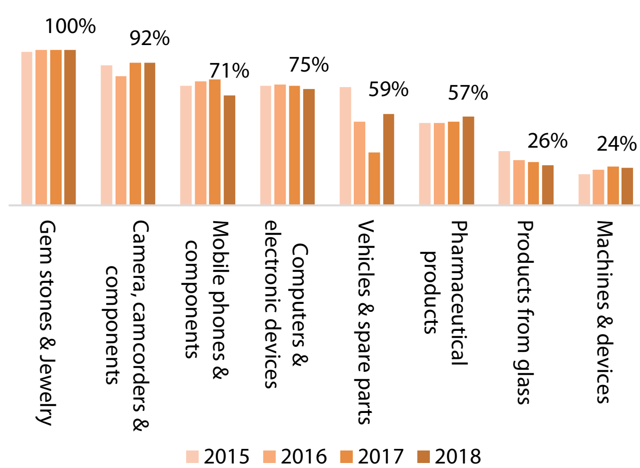
Destination	Passenger carriers in cooperation with SCS	Number of flights in the next 7 days*	Sub-total	%
Hong Kong	Hong Kong Airlines	10	60	**26%**
	Air Hong Kong	14		
	Cathay Pacific	36		
Thailand	Thai Airways	32	54	**24%**
	Nok Air	22		
Japan	Japan Airlines	32	32	**14%**
UAE	Emirates	30	30	**13%**
Turkey	Turkish airlines	13	13	**6%**
Malaysia	Air Hong Kong	14	14	**6%**
	Cathay Pacific	1	1	
Brunei	Royal Brunei	8	8	**4%**
India	IndiGo	7	7	**3%**
South Korea	T'way Air	3	8	**4%**
	Jeju Air	5		
Uzbekistan	Turkish airlines	1	1	**0%**
	Total	**228**	**228**	**100%**

*Source: Flightradar24, SCS, Rong Viet Securities. *Data as of March 9th, 2020.*

Appendix 3: Percentage of Vietnam goods exported by air from 2015-2018

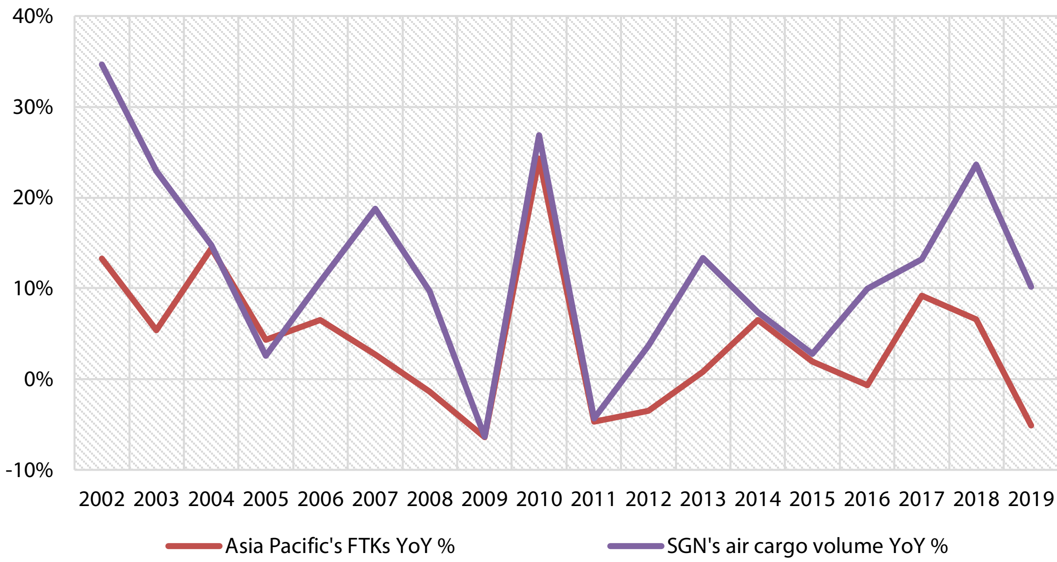


Appendix 4: Percentage of Vietnam goods imported by air from 2015-2018



Source: Vietnam Customs, Rong Viet Securities

Appendix 5: Tan Son Nhat Airport (SGN) air cargo volume growth vs Asia Pacific's FTKs growth



Source: AAPA, ACV, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	675	748	773	862
COGS	147	153	159	170
Gross profit	**528**	**595**	**614**	**692**
Selling Expense	0	0	0	0
G&A Expense	67	68	70	78
Finance Income	8	14	18	25
Finance Expense	0	1	0	0
Other profits	-2	-2	0	0
PBT	**467**	**538**	**561**	**639**
Prov. of Tax	30	35	36	42
Minority's Interest	0	0	0	0
PAT to Equity S/H	**437**	**503**	**525**	**597**
EBIT	461	527	543	613
EBITDA	516	582	594	665

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	14.8	10.8	3.3	11.6
Operating Income	16.5	12.7	2.0	11.9
EBITDA	19.1	14.2	3.2	12.9
PAT	21.4	15.0	4.4	13.8
Total Assets	-7.4	17.1	5.5	11.2
Equity	-10.6	22.9	5.0	11.5
Profitability (%)				
Gross margin	78.2	79.5	79.4	80.2
EBITDA margin	76.5	77.8	76.9	77.1
EBIT margin	68.3	70.4	70.3	71.1
Net margin	64.7	67.2	67.9	69.2
ROA	47.7	46.8	46.3	47.4
ROE	53.5	50.0	49.7	50.7
Efficiency				
Receivable Turnover	5.1	5.9	6.7	6.7
Inventory Turnover	60,422.5	54,723.5	-	-
Payable Turnover	1.7	3.0	2.2	2.2
Liquidity				
Current	2.4	8.2	7.1	8.7
Quick	2.4	8.2	7.1	8.7
Finance Structure (%)				
Total Debt/Equity	0.0	0.0	0.0	0.0
Current Debt/Equity	0.0	0.0	0.0	0.0
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	47	66	53	52
Short-term investments	30	180	330	480
Accounts receivable	133	127	116	129
Inventories	0	0	0	0
Other current assets	3	42	6	2
Property, plant & equipment	631	588	558	526
Acquired intangible assets	5	3	3	2
Long-term investments	0	0	0	0
Other non-current assets	67	68	68	68
Total assets	**917**	**1,074**	**1,133**	**1,259**
Accounts payable	87	50	72	77
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	12	6	6	6
Bonus and Welfare fund	0	13	0	0
Technology-science, dev. fund	0	0	0	0
Total liabilities	**99**	**69**	**78**	**83**
Common stock and APIC	592	611	611	611
Treasury stock (enter as -)	0	0	0	0
Retained earnings	216	385	436	557
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	9	9	9	9
Total equity	**817**	**1,005**	**1,055**	**1,177**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	8,745	9,979	8,975	11,025
P/E (x)	15.8	12.0	11.1	9.1
BV (dong)	16,349	19,947	20,953	23,363
P/B (x)	8.4	6.0	4.8	4.3
DPS (dong/share)	7,200	8,000	8,000	9,000
Dividend yield (%)	5.2	6.7	8.0	9.0

VALUATION MODEL	Price	Weight	Average
FCFE	122,500	100%	122,500
Target price (VND)			**122,500**

VALUATION HISTORY	Price	Recommendation	Period
Nov 9th, 2018	147,000	Accumulate	Long-term

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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