RONG VIET SECURITIES

Preliminary 2H2020 outlook

August 2020

RONG VIET SECURITIES

LOGISTICS INDUSTRY: Coping with uncertain demand and supply

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Seaport: Weaker Demand And Shipping Capacity Cut Dampened Volume Throughput

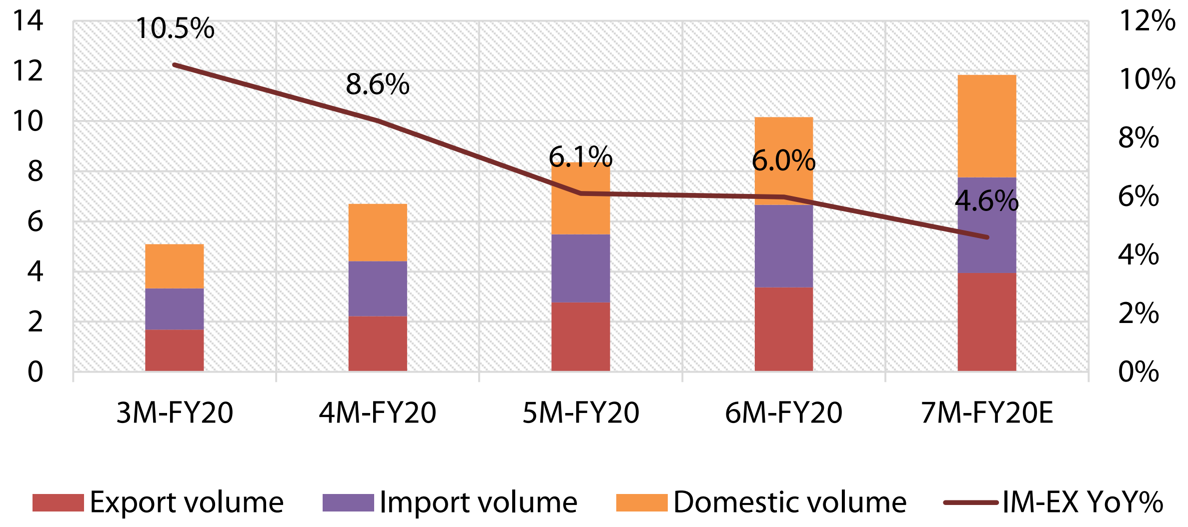
Per Vinamarine's statistics, YTD nationwide Im-Ex container volume growth rate stood at 4.6% YoY.

- Country lockdowns have put huge pressure on global consumption demand, trade flow, and disrupted supply chain, which triggered a massive wave of blank sailings from international container lines in order to stabilize freight rates. All of those factors badly compromised Vietnam trade flow and container volume throughput.

All regions have shown signs of deceleration amid Covid-19 yet volume growth rates between regions largely diverged.

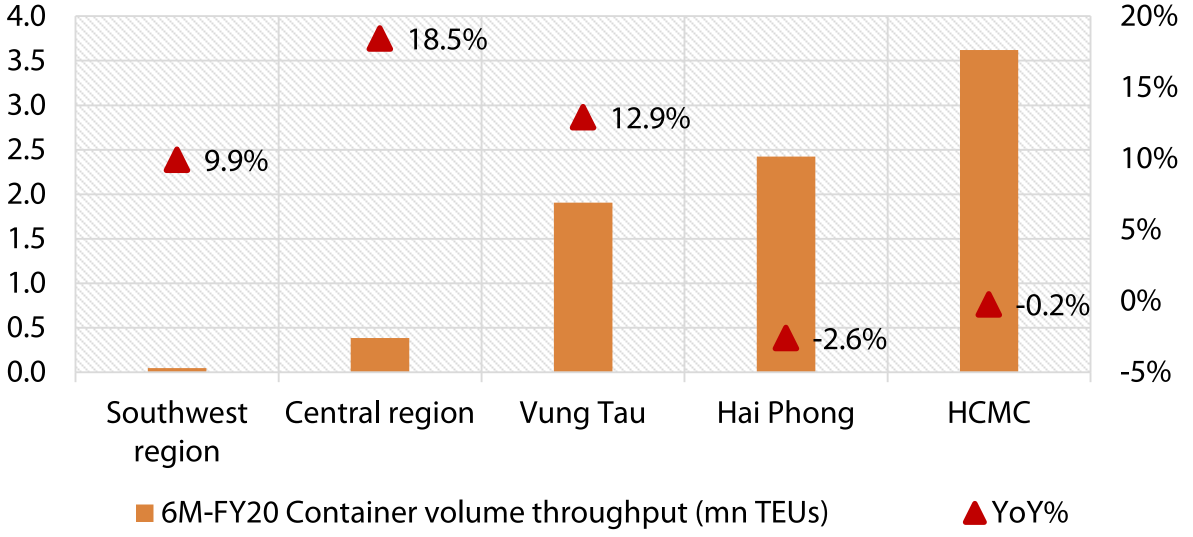
- Port operators in Vung Tau continued enjoying double-digit growth rate in terms of volume throughput thanks to the contribution of many newly established long-haul services from global shipping lines in the past few years, though the growth rate has slowed quite a bit from 29% in 2M-FY20 to 13% by the end of Q2-FY20.
- In the mean time, that of HCMC stayed flat and container demand growth in Hai Phong unprecedentedly stood in negative territory.

Figure 1: Nationwide Im-Ex container volume throughput (million TEUs) growth has decelerated in accordance with weaker trade flow…



Source: Vinamarine, Rong Viet Securities

Figure 2:…, however, performance largely diverged between key regions



Source: VPA, Rong Viet Securities

Seaport: Deep water Ports Continued To Outperform

Container terminals for feeder vessels in Hai Phong are losing market share as expected.

- Volume at HICT more than doubled in 1H-FY20 as many intra-Asia and long-haul services to North America have been established at the terminal since last year.
- MIPEC Terminal started technical test run in June, followed by a commercial operation in Q3-FY20. Hai Phong market remained oversupplied with an estimated excess capacity of 2.3mn TEU this year.

Deep sea ports at Cai Mep – Thi Vai (Vung Tau) thrived.

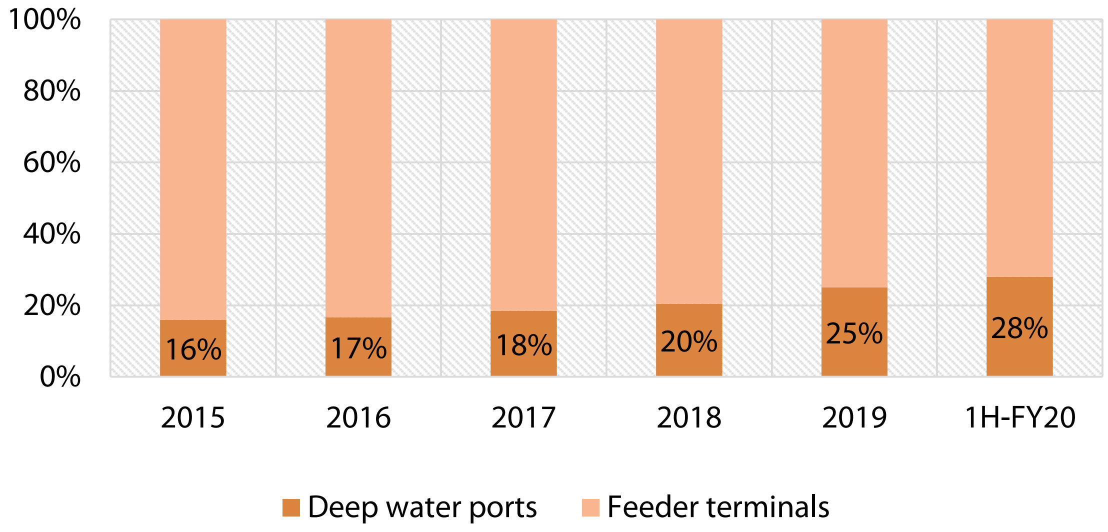
- Estimated utilization rate stood at 75% with SSIT being the only terminal which has available capacity in the region. Opportunities for new player namely Gemalink, planned to commence operation by FY21, to catch the high growth demand.

Table 1: Hai Phong container market saw HICT, the only deep sea terminal in the Northern Vietnam, consolidating market share

Terminal	Estimated volume 6M-FY20 ('000 TEUs)	YoY %	Market share	Change %
Upstream feeder terminals	632	-11.3%	26.1%	-2.6%
Downstream feeder terminals	1,517	-8.1%	62.6%	-3.8%
HICT	275	122.3%	11.4%	+6.4%
Total	**2,424**	**-2.6%**	**100%**	

Source: VPA, Rong Viet Securities estimates

Figure 3: Deep water ports' market share has surged over the past few years



Source: VPA, Rong Viet Securities

Air Freight: Cargo Capacity Crunch Capped The Unusual High Demand Amid Pandemic

In 6M-FY20, accumulated cargo shipped through airports dropped by 19.9% YoY, in which int'l cargo volume throughput declined by -15.6% YoY, much worse than the last annual decrease seen in 2009 of-1.3% YoY following the financial crisis.

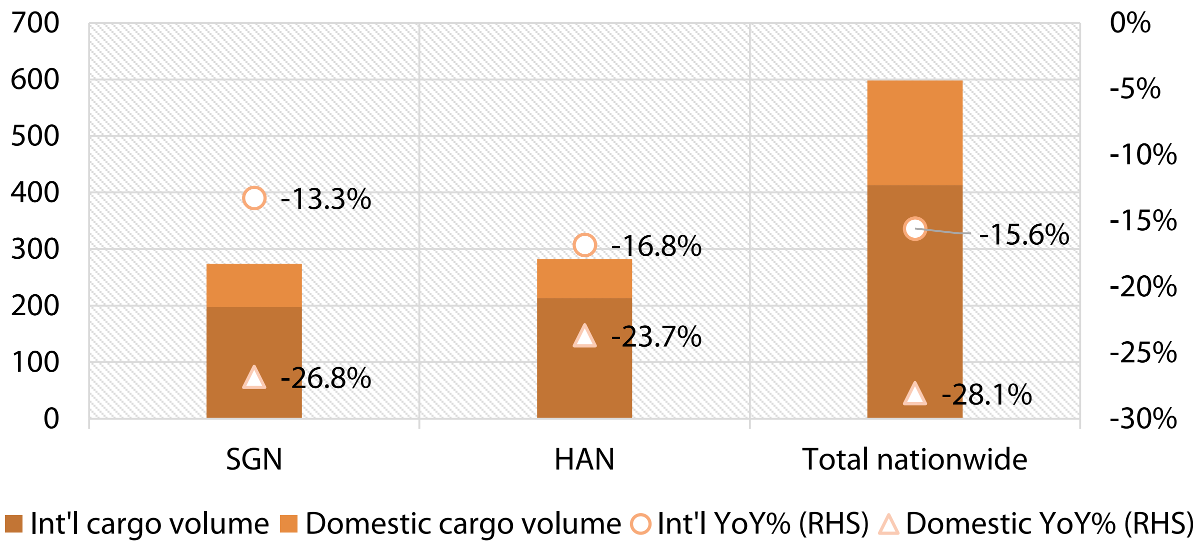
- Demand for air freight suddenly surged since late Feb due to the massive orders of personal protective equipment, medical device as well as "work from home"electronic products. Another reason is that the disrupted ocean shipping operation, following various Chinese seaports' temporary closure and blank sailings, has caused shippers to change the way their cargoes being shipped: from via sea to via air, inspire of much more costly freight rates.
- However, a large chunk of belly capacity, which usually contributes the majority portion to industry's shipping capacity, has vapored since most int'l passenger flights were cancelled due to travel bans. Overall cargo volume has been compromised as a result.

Figure 4: Air cargo capacity on routes connecting Vietnam and major destinations are heavily impacted by the passenger flight cancellations

Destination	% Capacity Impacted by Passenger Flight Cancellations	% Capacity Impacted by Freighter Cancellations
China	40-50% cargo capacity reduction	1-10% capacity reduction
Europe	30-40% cargo capacity reduction	30-40% capacity reduction
Japan	30-40% cargo capacity reduction	40-50% capacity reduction
Malaysia	40-50% cargo capacity reduction	10-20% capacity reduction
Philippines	40-50% cargo capacity reduction	1-10% capacity reduction
Thailand	30-40% cargo capacity reduction	1-10% capacity reduction
US	30-40% cargo capacity reduction	40-50% capacity reduction

Source: Agility, Rong Viet Securities; Data as of July 27, 2020

Figure 5: Air cargoes volume traffic (thousand tons) at key airports faced double-digit decrease in 1H-FY20



Source: ACV, Rong Viet Securities

OUTLOOK

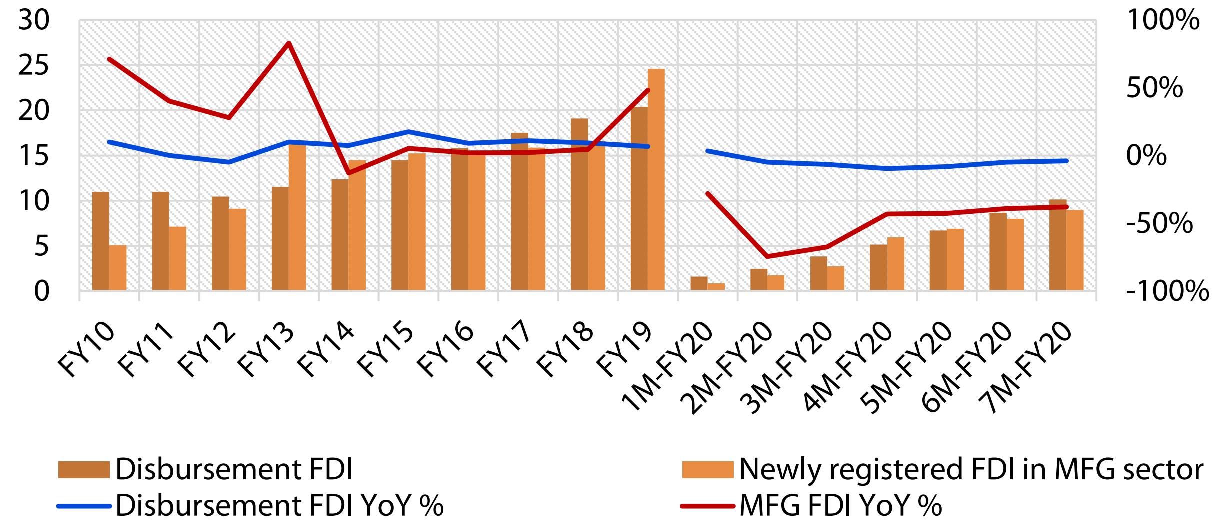
Cargo Flow Recovery Will Be A Bumpy Ride

Leading indicators of the demand for cargo transportation remained negative.

- Accumulated newly registered FDI on manufacturing sector and disbursement FDI in 7M-FY20 were 38.0% and 4.1% lower than last year's figure, respectively. New investments and current projects expansion have been delayed amid the pandemic, deteriorating trading flow of Vietnam going forward.
- Vietnam's new export orders component of the manufacturing PMI extended its decline in July-FY20. Falling demand in Vietnam's export markets, travel restrictions and supply-chain disruptions remained the biggest obstacles undermining the recovery in IM-EX activities. Worse still, Vietnam's Jul-FY20 manufacturing PMI dropped to contractionary zone at 47.6.

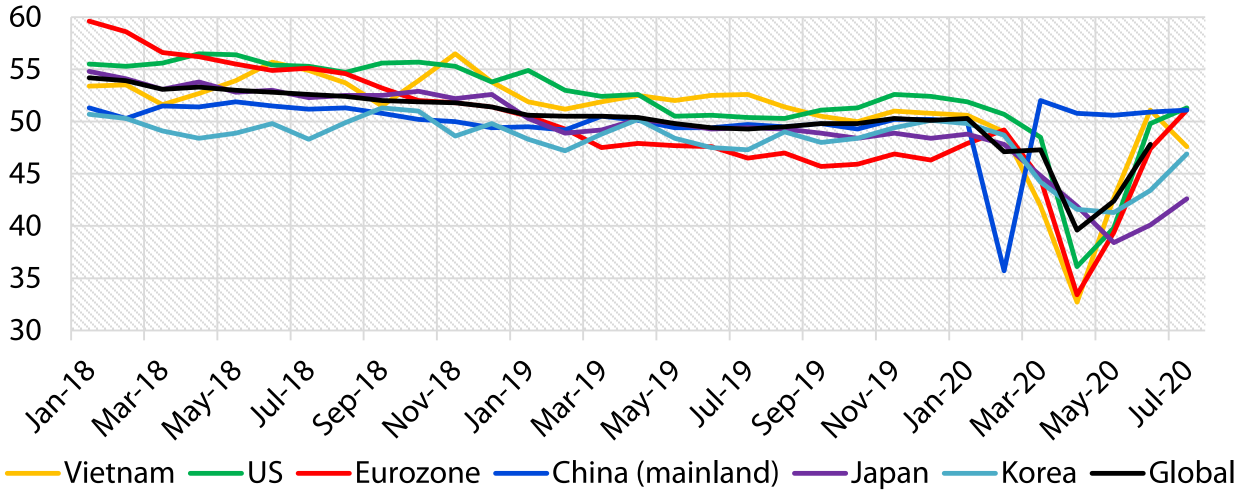
Cargo volume are picking up as more developed countries ease strict lockdowns, resume manufacturing activities, and restore logistics services, but a significant upturn could remain elusive. The recovery was widespread across numerous key economies, including the US and the EU, as evident in July PMI). However, the sustainability of this trend is still in question as these economies may re-implement the restrictive measures to cope with the second wave of the coronavirus.

Figure 6: Covid-19 have taken a large toll on newly registered FDI influx to manufacturing (MFG) sector (USD Bn)



Source: MPI, Rong Viet Securities

Figure 7: Mixed results in developed markets' PMI after some restrictions were eased, underscoring the uncertain economic environment



Source: Markit, JP Morgan, Jibun Bank, Rong Viet Securities

OUTLOOK

Soft Air Freight Volume As Cargo Spaces Remain Tight Throughout The Pandemic

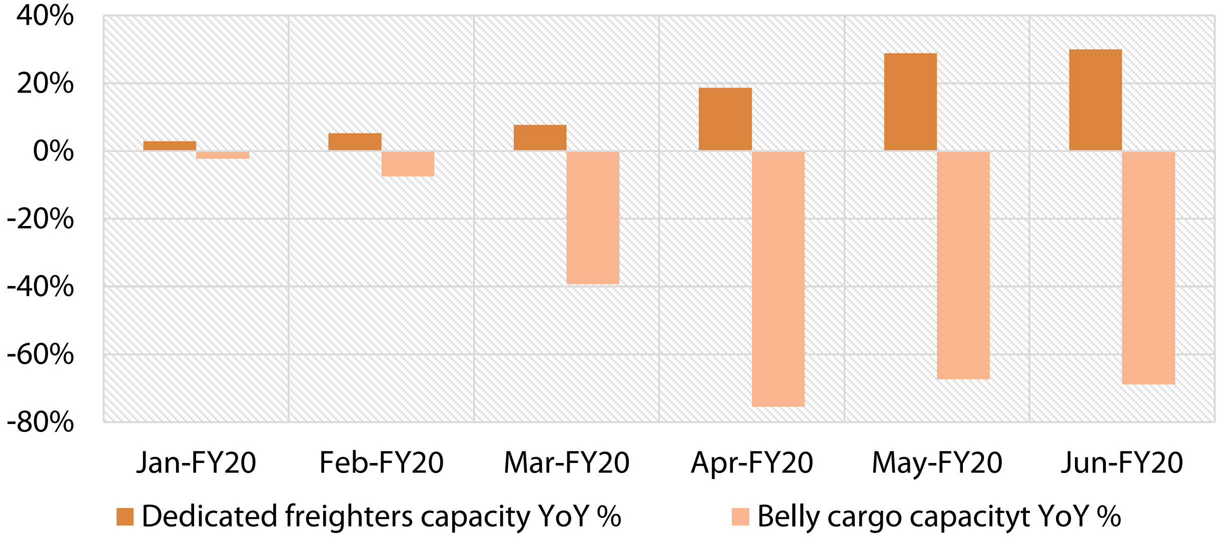
Restrictions on scheduled international passenger flights are still in place, and are unlikely to be lifted soon especially due to recent wave of covid-19 outbreak.

- Air freight will continue to be transshipped by dedicated freighters and charter cargo flights, along with some outbound volume on international passenger flights which several international carriers have reinstated since Jun-FY20. Overall available cargo spaces on international routes, nevertheless, are expected to remain depressed towards end-FY20 without belly capacity on regular scheduled passenger flights.
- We expect volume throughput at key cargo terminals in SGN and HAN airports to be lower by 10-20% YoY in 2H-FY20 as a result of this shipping capacity crunch.

Shippers are returning to cheaper but slower shipping modal, resulting in air freight losing market share of total world trade in recent months.

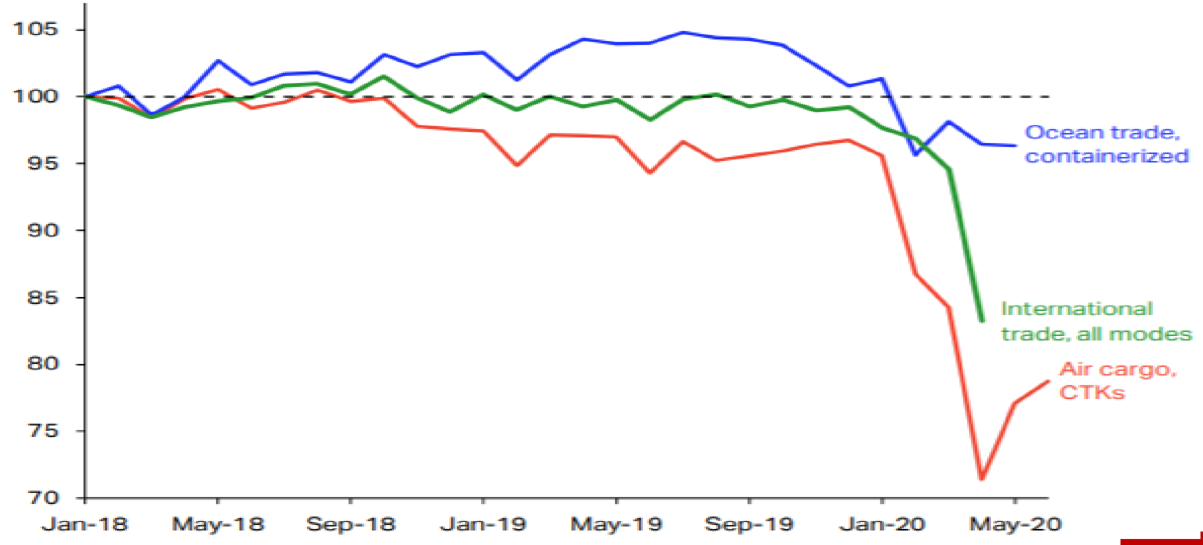
- Importers have generally turned to ocean and rail transport, following an initial rush towards air freight for urgent PPE, medical shipments seen in late Feb-Apr.
- Per Alphaliner, the inactive containership fleet reached a peak in end-May and the rising trend has now been reversed. The downward trend is expected to continue as maritime alliances have announced reinstatements on previously suspended voyages. An anticipated increase in ocean freight capacity may support the trend of shifting towards sea shipping from air freight in the coming months.

Figure 8: International belly cargo and freighter capacity growth



Source: IATA, Rong Viet Securities

Figure 9: Market share of air transport in world trade



Source: IATA, Rong Viet Securities, indexed to equal 100 in Jan-FY18

OUTLOOK

Seaports Throughput Volume May Struggle To Rise In The Foreseeable Future

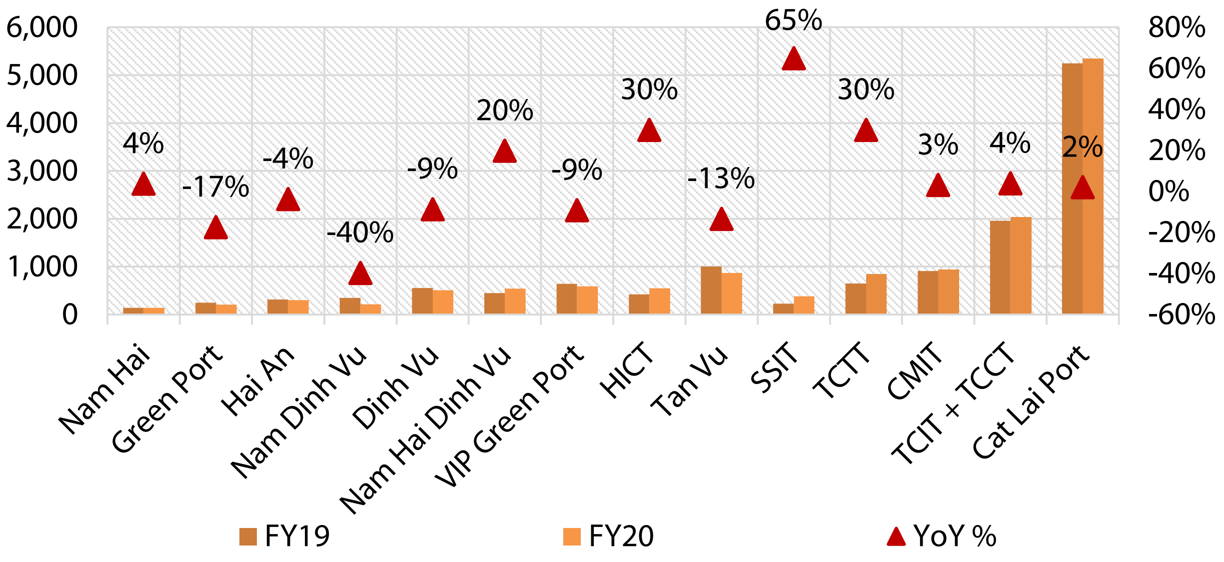
EVFTA may have little positive effect on Vietnam trade flow in the near-term.

- Technical barriers including "rules of origin"may hinder certain products to qualify for tariff reductions, not to mention a major portion of trading value of goods, which are expected to benefit from the trade pact, is not subject to immediate customs duty exemption.
- Possibility of another round of restrictive measures in several European nations will compromising the consumption demand and trade flow with Vietnam.

We forecast that overall throughput at Vietnam Seaports will stay flat this year mainly on the back of double-digit growth in Vung Tau while Hai Phong and HCMC to brace for low single-digit declines. Recovery towards pre-Covid 19 will start in FY21.

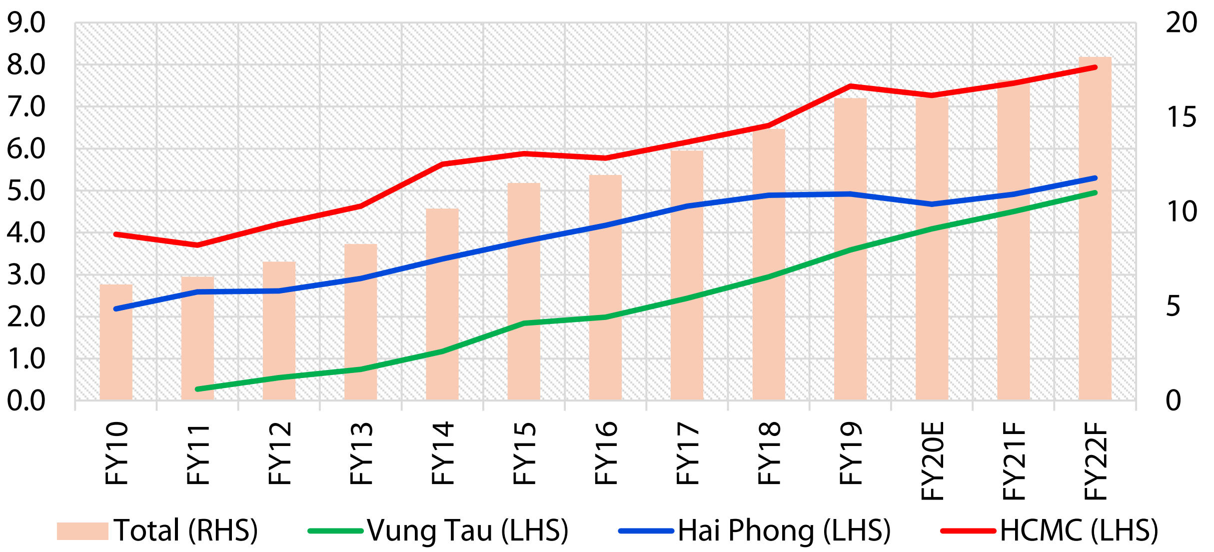
- Some players will be hit harder than others. Domestic cargo oriented terminals are likely to fare better through the covid-19 woes than international ports. Throughput at terminals serving domestic shipping, such as Hai An, Nam Hai in Hai Phong, will be more resilient owing to their low exposure to international trade.
- Feeder international container terminals are poised to see double-digit drop this year, except for deep-water ports.

Figure 10: Key container terminals' throughput ('000 TEUs): FY20 forecast



Source: Rong Viet Securities estimate

Figure 11: Vietnam seaports throughput ('000 TEUs)forecast by region



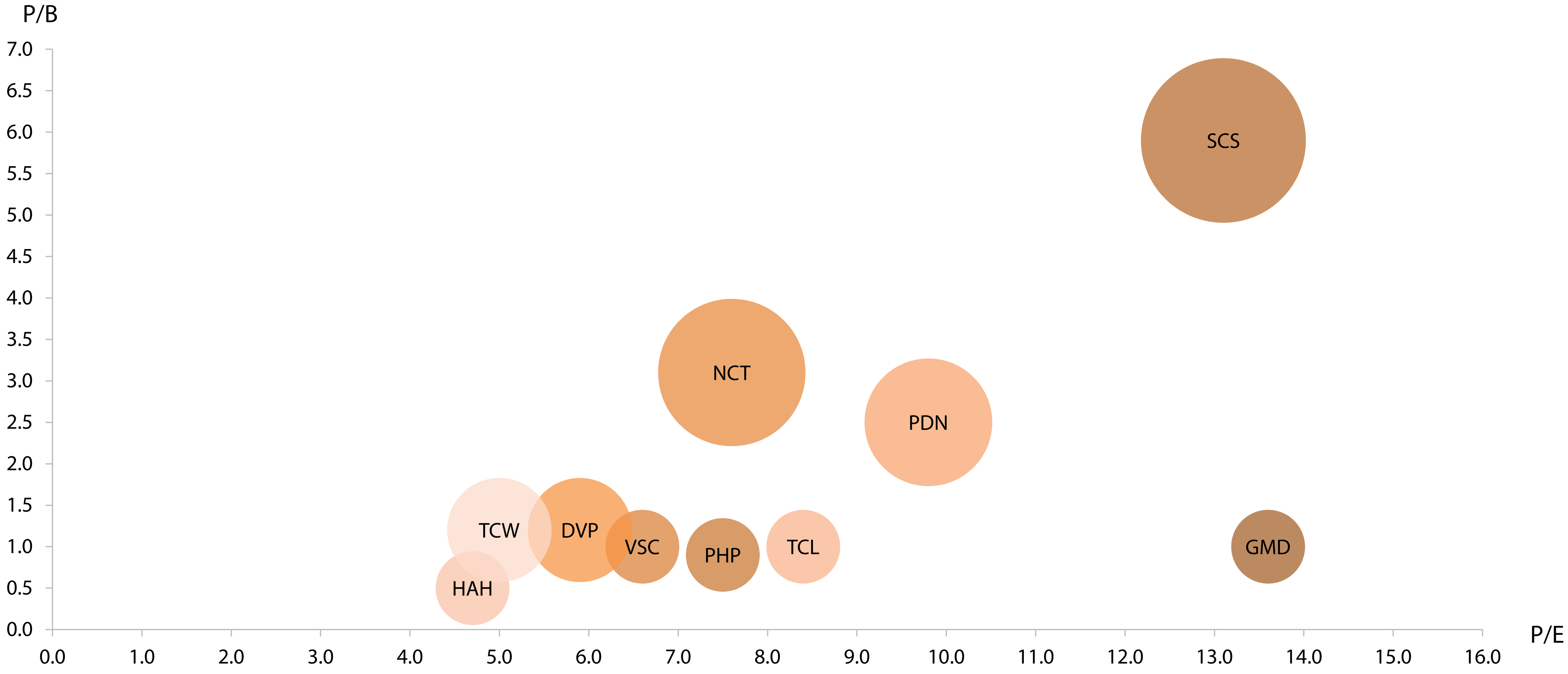
Source: VPA, companie filing, Rong Viet Securities estimates

Industry comparables: 1H2020 financials

Ticker	Market cap (USD mn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
GMD	259.5	22,000	-6.9	-1.7	39.5	22.8	-25.1	17.9	4.4	6.6	0.0	13.6	1.0
SCS	241.2	130,000	-9.4	-19.1	69.1	69.1	-9.8	67.5	41.6	47.1	0.0	13.1	5.9
PHP	136.9	N/A	-11.6	-17.9	41.1	29.0	18.9	23.1	7.4	9.6	0.0	7.5	0.9
VSC	75.7	30,000	-10.7	-2.9	33.3	18.7	35.6	14.1	10.9	12.6	0.0	6.6	1.0
NCT	67.3	N/A	-8.9	-13.4	41.5	36.1	-13.6	32.9	35.4	40.1	0.0	7.6	3.1
DVP	62.7	N/A	-17.9	-11.6	62.5	48.1	-1.0	58.8	18.9	20.7	0.0	5.9	1.2
PDN	59.4	N/A	-1.7	-25.4	22.9	22.9	5.1	20.0	15.1	25.3	0.0	9.8	2.5
TCL	32.3	N/A	14.0	10.9	14.7	8.5	-9.8	8.2	8.3	11.9	0.0	8.4	1.0
HAH	22.1	N/A	3.3	0.4	26.5	14.9	-2.1	11.9	6.4	9.5	0.0	4.7	0.5
ILB	16.4	N/A	6.9	8.4	39.3	25.6	0.1	13.2	4.1	14.3	0.0	6.3	1.0
TCW	16.0	N/A	10.1	10.5	23.2	14.1	32.9	10.4	12.0	21.1	0.0	5.0	1.2

Source: Bloomberg, Rong Viet Securities. Share price as of 07 Aug 2020.

Industry comparable



Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 07 Aug 2020.

SCS – A BRIGHTER FUTURE

INVESTMENT RATIONALE

Hardest times are behind.

- After the sudden drop in cargo capacity in April, which made the int'l cargo volume throughput hit rock-bottom, SCS's int'l monthly volume has recovered since then. July inbound/outbound int'l freight volume stood at 4.8/7.2 thousand tons, up by 22%/55% from April, though still lower than last year's monthly average of 6.0/7.8 thousand tons.
- Towards the end of FY20, we expect average monthly throughput for int'l cargo to be maintained at recent levels of approximately 12 thousand tons. This is based on the assumption that shipping capacity from freighters will remain unscathed while belly capacity may see a gradual recovery going forward thanks to easing of some international travel bans.

Stronger volume in coming years on the back of expanding international cargo market share and healthy air cargo demand.

- SCS' competitive advantages of ample headroom in cargo handling capacity and cutting-edge logistics facilities have materialized in recent new customer acquisitions even amid the pandemic. While some of them are charter cargo airlines stemming from the sudden shock in belly-hold capacity, SCS has signed contract with UPS Air Cargo, the fourth-largest cargo airline worldwide. As a result, SCS's market share for IM-EX freight rose by 1.7% over 6M-FY20.
- Post Covid, we expect that booming E-commerce and the EVFTA will give a long-term boost to air cargo demand, which will help SCS maintain double-digit growth in freight throughput and NPAT from FY20-24F.

Solid financial health to cope with uncertainty with a net cash position of VND393bn (~USD17mn) while liquid assets accounted for 30.5% total assets at the end of Q2-FY20.

RISKS TO OUR CALL

- Weaker-than-expected global consumption demand.
- SCS's passenger airline customers go bankrupt.

BUY 24.4%

CMP (VND)	**110,100**
Target price (VND)	**130,000**
Cash dividend in 12 months	*7,000*

STOCK INFO	
Sector	Industrials
Market Cap ($ mn)	241
Current Shares O/S (mn shares)	51
3M Avg. Volume (K)	34
3M Avg. Trading Value ($ mn)	0.2
Remaining foreign room (%)	23.9
52-week range ('000 VND)	82.7-159.6

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**675**	**748**	**668**	**731**
Growth (%)	*14.8*	*10.8*	*-10.7*	*9.4*
NPATMI (VND bn)	**437**	**503**	**458**	**505**
Growth (%)	*26.9*	*15.1*	*-8.9*	*10.3*
ROA (%)	44.6	46.8	43.3	46
ROE (%)	48.6	50.0	46.3	49.4
EPS (VND)	7,282	9,979	7,681	8,538
Book Value (VND)	15,478	19,947	19,470	20,132
Cash dividend (VND)	3,500	8,000	7,000	7,000
P/E (x) (*)	15.1	13.3	14.3	12.9
P/B (x) (*)	7.1	6.3	5.7	5.5

(*) Share price as of Aug 7th, 2020.

GMD – LONG-TERM PLAY ON VIETNAM'S TRADE FLOWS

INVESTMENT RATIONALE

GMD will benefit from trade flows as one of the leading private logistics operators that has a integrated logistics system and nationwide port network.

- GMD operates six ports spanning across Vietnam's key trading gateways. It is now developing Gemalink (GML), which is one of the largest deep-sea container ports and about to go online by early FY21. By the time GML commences operation, the total container handling capacity of GMD's ports will reach approximately 3.4 million TEUs per annum, jumping by 77% compared to the current capabilities, creating ample capacity headroom to address the growing demand for many years to come.
- The group, through its JVs, operates a comprehensive system of logistics facilities located in key economic areas,including air cargo terminals, distribution centers, out-of-gauge cargo transport, ocean freight ships, cold chains logistics and automotive logistics.

All eyes on the Gemalink project in Cai Mep, the fastest growing port cluster in Vietnam.

- Cai Mep has emerged as the hot spot for handling IM-EX containers, with its unique competitive advantage of accommodating mother container carriers, with a 5Y CAGR in container volume throughput of 25.1% from FY14-19.
- GML will likely bring in the opportunities to cooperate with new major shipping lines, besides the terminal's shareholder CMA-CGM, due to the fact that the Group will tap into a whole new market segment of serving mother vessels.
- We project that GML will be profitable after two years of commercial operations (FY23), and its PAT will grow at a 3Y CAGR of 21.2% over FY23-26F.

We expect GMD revenue to posta 5.1% CAGR in FY20-23F, mainly driven by port operation, while PBT is expected to achieve a robust 20.0% CAGR over the same period thanks to the profit from GML.

RISKS TO OUR CALL

- Divestment of profitable JV or non-core assets.
- Higher-than-expected losses from non-core assets and/or GML.

ACCUMULATE 18.5%

CMP (VND)	**20,250**
Target price (VND)	**23,000**
Cash dividend in 12 months	*1,000*

STOCK INFO	
Sector	Industrials
Market Cap ($ mn)	260
Current Shares O/S (mn shares)	297
3M Avg. Volume (K)	537
3M Avg. Trading Value ($ mn)	0.4
Remaining foreign room (%)	0.0
52-week range ('000 VND)	14.1-27.5

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**2,708**	**2,641**	**2,377**	**2,631**
Growth (%)	*-32.0*	*-2.5*	*-10.0*	*10.7*
NPATMI (VND bn)	**1,848**	**515**	**464**	**408**
Growth (%)	*263.8*	*-72.1*	*-9.9*	*-12.1*
ROA (%)	17.4	5.1	4.6	4.0
ROE (%)	27.1	8.8	7.7	6.6
EPS (VND)	5,929	1,734	1,439	1,266
Book Value (VND)	19,804	22,088	20,404	20,835
Cash dividend (VND)	6,500	1,500	1,000	1,000
P/E (x) (*)	3.4	12.4	14.1	16.0
P/B (x) (*)	1.0	1.0	1.0	1.0

(*) Share price as of Aug 7th, 2020.

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