RONGVIET SECURITIES

July, 2016

Noi Bai Cargo Terminal Services JSC (NCT – HSX)

Benefit from solid growth in air freight

- **Industry leader position and continuing support from Vietnam Airlines**
- **Growing trade in Northern Vietnam promises higher air logistics demand**
- **NCT's earnings growth expects to gain back momentum from FY2017**
- **Solid and stable cash flow allows high cash dividend policy to carry on**

Outlook and Valuation:

Noi Bai Cargo Terminal Services JSC (NCT-HSX) *is the leading provider of air cargo services at Noi Bai Airport. The firm has leveraged on its established services quality and Vietnam Airlines support to set up a wide network of clients making up 60% market share at Noi Bai. The expansion of current MNCs projects (Samsung, LG display, Canon, Nokia) and new FDI inflow expect to sustain the 12-15% annual growth in air cargo in Northern Vietnam going to FY2020. However, NCT's earnings outlook in short term would face headwinds with new joiner ALS in 2015.*

*In the long run, the forecast strong growth in air cargo volume supported by continuing MNCs' investments in the area would be sufficient for the 3 firms (NCT, ALS and ACS) to have sustainable growth looking forwards. NCT is running at 80% of the designed capacity and is able to accommodate additional demand by speeding up cargo handling process with new warehousing space and machinery investments. In 2017, NCT could have one new client ANA (Japan) after the airlines becomes Vietnam Airline's strategic shareholder. Considering the strong air freight growth outlook, share price already discounted the market share redistribution, limit of listed choices in this sector and a high cash dividend policy ~ VND10,000/share, we come up with the "**Accumulate**" recommendation for NCT share in the "**Long-term**" at the target price of **VND140,000/share** (upside potential ~27%).*

Key financials

Y/E Dec (VND bn)	FY2014	FY2015	FY2016F	FY2017F
Net Revenues	678	799	725	841
% chg	18%	18%	-9%	16%
PAT	274	313	275	315
% chg	11%	14%	-12%	14%
PAT margin (%)	40	39	38	37
ROA (%)	62	59	53	59
ROE (%)	74	70	63	70
EPS (VND)	10,649	11,639	10,208	11,662
Adjusted EPS (VND)	10,142	11,337	10,208	11,662
Book value (VND)	18,328	16,707	16,631	17,654
Cash dividend (VND)		11,000	10,600	
P/E forward (x)		12.5	10.7	9.4
P/B forward (x)		8.7	6.6	6.2

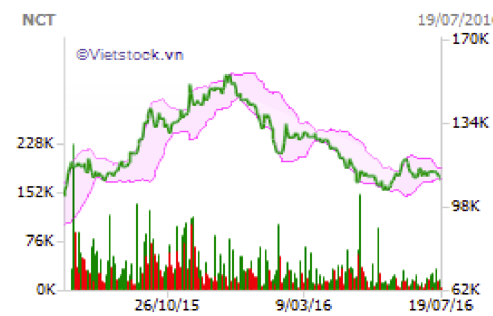
*Sources: TCL, RongViet Research estimated. * Accounted for welfare provision expense and computed based on total share number on 19 July 2016.*

ACCUMULATE

CMP (VND)	110,000
Target Price (VND)	140,000
Investment Period	**Long-term**

Stock Info

Sector	Logistics
Market Cap (VND bn)	2,956
Current Shares O/S	26,165,732
Beta	0.8
Free float (%)	34
52 weeks High	147,500
52 weeks Low	93,800
Avg. Daily Volume (in 20 sessions)	24,000



Source: Vietstock

Performance (%)

	3M	1Y	3Y
NCT	-5.8	19.3	
Industrial	1.1	28.4	138.0
VN30 Index	7.1	3.5	11.1
VN Index	9.2	7.0	23.2

Major Shareholders (%)

Vietnam Airlines	55.0
Air Services at Noi Bai airport	7.0
Foreigner Investor Room (%)	34.5

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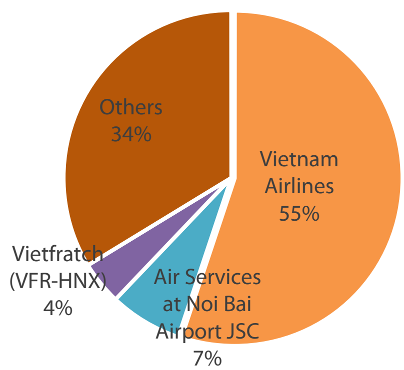
Established quality and Vietnam Airlines' continuing support build NCT solid foothold at Noi Bai

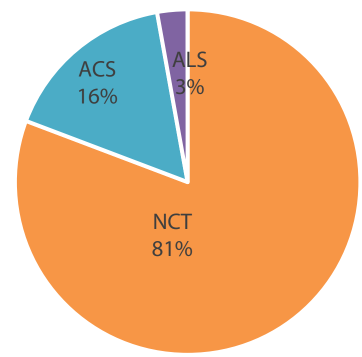
Noi Bai Cargo Terminal Services JSC (NCT-HSX) specializes in air freight services at Noi Bai international airport. Apart from being the exclusive provider of air freight services for Vietnam Airlines, NCT also possesses a diversified portfolio of more than 30 international airlines clients. NCT together with Air Cargo services of Vietnam (ACVS) and ALS cargo services are the three air freight services provider at Noi Bai with market share distributed at 81%,16% and 3% respectively as of the end of FY2015.

Graph 01: NCT's shareholders structure



Source: RongViet Research compiled

Graph 02: Airfreight market share at Noi Bai (2015 year-end)



Source: RongViet Research compiled

According to IATA, Vietnam is considered among the world's fastest growing aviation markets in the next 5 years at the annual rate of 6.6% both in passengers and freights. Currently, Noi Bai and Tan Son Nhat airport are the country's main gateways handling more than 90% of total passengers and freight each year. Noi Bai airport, located in the capital Ha Noi, handles ~50% of total air freight in Vietnam. In terms of freights origin, international goods accounts for more than 70% of cargo passing through here made up of electronics products (~40%), apparel (30-35%) and others. After China, Vietnam has come under the eyes of global MNCs to be the second manufacturing and consumer hub thanks to young demographics (2/3 of population in working age) and competitive operating expense. As a result, air freight volume passing through Noi Bai Airport has experienced strong growth rate of 18% a year on average in the 5 years to 2015 and projected to carry that momentum forwards supported by continuing strong influx of FDI into Northern Vietnam area.

NCT has captured really well those rising demand resulting in revenue and bottom-line profit achieving CAGR of respective 23% and 19% during 2011-2015 period. In the short-run, the participation of ALS from 2Q2015 will certainly bring additional supply to the market and negatively impact on NCT's current market share. NCT's short-term growth solution would be to find means to speed up its handing services to accommodate more demand by leasing additional warehousing and machinery. In the long-run, the firm has plan to build a freight terminal at Cat Bi international airport in adjacent Hai Phong city. This strategic move, if successful, would allow the firm to gain access to the source of cargo at Hai Phong and plays as a long-term growth driver for NCT.

Table 01: Capability

	NCT	ACS	ALS
Major shareholder	Vietnam Airlines	Airport Corporation of Vietnam (ACV)	Vietnam Airlines and NCT
Warehousing capacity	Total 24,600m2 warehouse (at Noi Bai freight terminal and other locations)	10,800m2 warehouse (at Noi Bai freight terminal)	15,000m2 (ALS freight terminal) and extended warehousing capability of ~70,000m2 in Thai Nguyen and Bac Ninh IZs
Designed capacity	400,000-500,000 tons	100,000 tons	200,000 tons
Market share in 2015	81%	16%	3%
Utilization	80%	100%	5%
Competitive advantages	Dominating market share, established brand		Ample room of capacity, state-of-the art facility and handling capability
Limitation	Fragmented facility increases operating cost and high utilization rate	Optimized utilization rate	
Expansion plan	Freight terminal at Hai Phong Cat Bi Airport		

Source: RongViet Research compiled

Bright trade outlook in Northern Vietnam would boost demand for air freight services

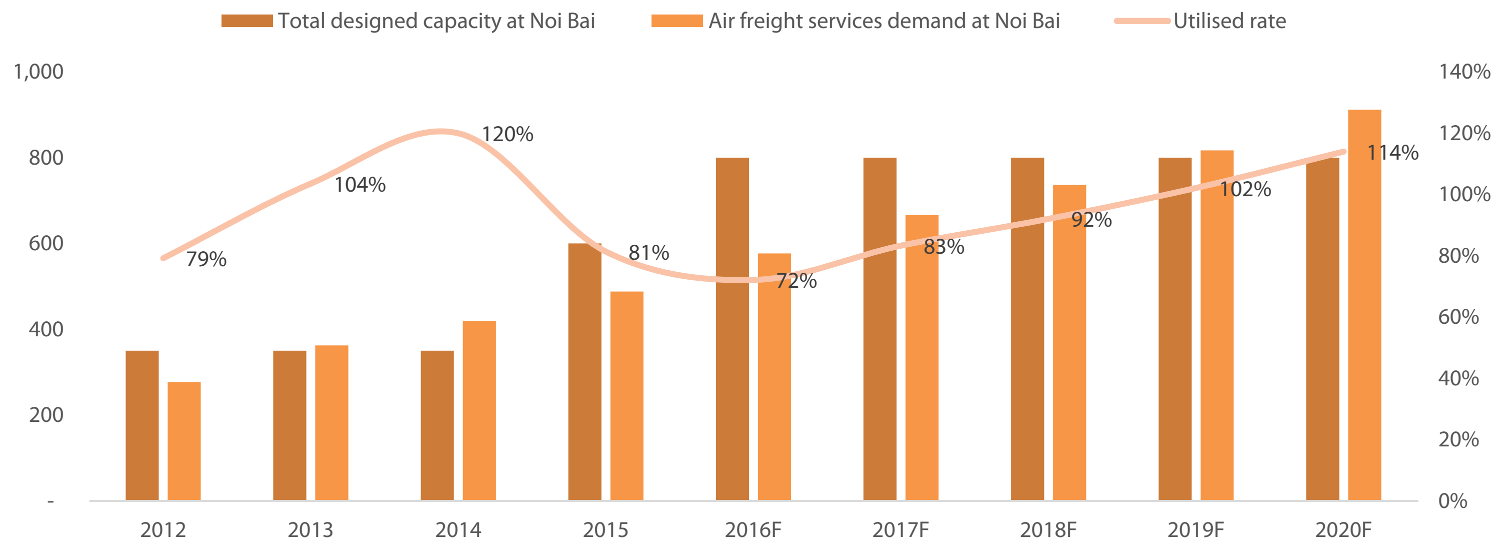
Increasing FDI influx to Northern Vietnam provinces is creating higher demand for logistics services by propelling trade activity. Statistics from Vietnam Foreign Investment Agency (FIA) showed the FDI flow to Vietnam is undertaking a gradual geographical shift to Northern provinces especially in Bac Ninh, Hai Phong, Thai Nguyen, Hai Duong province, to exploit preferential in land leasing fee, corporate taxes and relatively low worker wages. In addition, massive improvement in infrastructure developments (seaports, Highway Ha Noi-Hai Phong-Quang Ninh, regional roads 5B,10…) and its geographical location nearing major Asian countries (China, Japan, Koreas, Taiwan) are luring investors to come. According to the FIA statistics, FDI flowing to this area accounts for more than 50% of the country's since 2014 from about 30% before 2012.

Noticeably, electronics and cell phone manufacturing projects are major contributors of these changes. Samsung Corporation, in particulars, has been investing nearly USD 13 billion to Viet Nam since 2008 with massive projects namely Samsung Electronics Vietnam (SEV) in Bac Ninh (2010), Samsung Electronics Thai Nguyen (SEVT) in 2014, Samsung Display Bac Ninh in 2015 and plan to open a research center Samsung R&D in Ha Noi. Besides, other big global names are seen to increase their business capacity or start to have plants in Viet Nam as well namely Cannon, Nokia and multi-billion-dollar project LG Display breaking ground lately in Hai Phong (coming online in 2017). In recent years, Samsung Vietnam export has constituted 30% of Vietnam's total electronics and cell phone export turnover at the impressive growth rate of 30-40% per annum. The story of Viet Nam being the second alternative manufacturing hub expects to continue to lure more FDI and hence the forecasted 15-20% annual growth in export turnover would likely to materialize. The market timing characteristics of hi-tech electronics products means air transport is the most suited way of logistics. Given its status as a gateway in Northern Vietnam, freight services providers at Noi Bai Airport would therefore benefit from the growing demand in the long-term.

Air freight market share at NoiBai would see major changes with the presence of ALS

Supply of freight services would be sufficient to accommodate rising demand

Graph 03: Supply and demand of air freight services at Noi Bai (thousand tons)

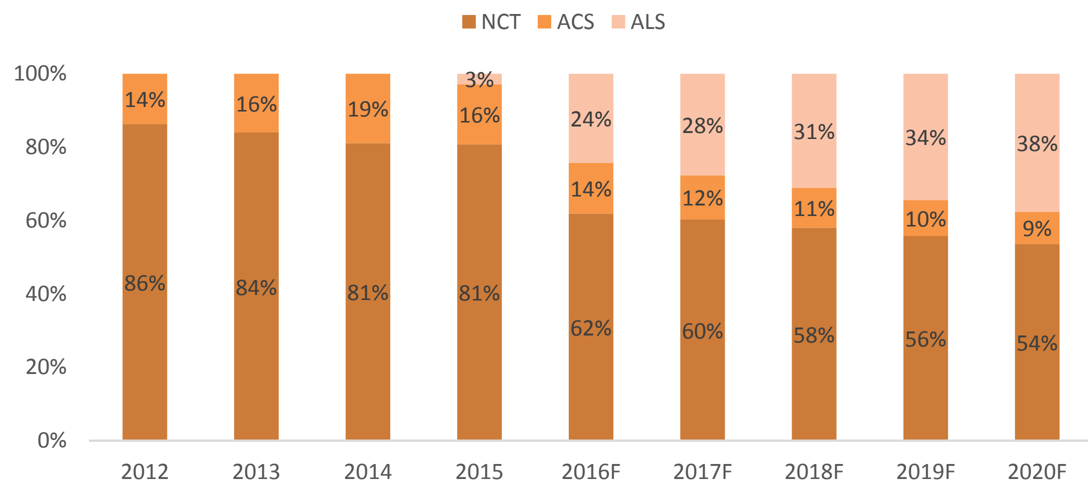


Source: RongViet Research compiled

Tan Son Nhat and Noi Bai airport are Vietnam's two largest air freight hubs. The statistics collected by us showed that Noi Bai handled 50% of Vietnam's total air freight last year (~980,000 tons). At the forecast average 12%-15% annual growth rate of freight. Noi Bai airport is expected to process 576,000 tons of freight in 2016 and 910,000 tons in 2020. On the supply side, the participation of ALS added 200,000tons of processing capacity each year which means a 33% increase in overall handling capacity compared to 2015. As a consequence, utilization rate would fall to 72% in 2016 then bounce back to 92% in 2018 and undergo supply shortage from 2019 onwards as land fund for expansion at Noi Bai and surroundings getting more restricted.

NCT's dominating position at Noi Bai airport is going to wane as new player ALS's operation gets a full run. In specifics, NCT's market share is projected to decrease from 81% to around 60% in 2016 as the firm shared some of its clients to ALS in 2015. Handling volume wise, NCT processed 395,000tons of freight last year. By observing actual capacity of similar industry, we are convinced that the firm's room to accommodate additional demand is feasible. In other words, NCT, by investing in additional warehousing space and machinery, would be able to bring the actual capacity a lot higher than the designed capacity figure. Therefore, we strongly believe that NCT 's capacity is absolutely sufficient to serve the industry 's growing freight volume in the next 2-3 years. The participation of ALS, from the top-down view, on the one hand provides needed additional supply to the market and on the other hand help maintain the services quality provided to international freighters and enhance Vietnam's image to the eyes of international investors.

Graph 04: Air freight market share at Noi Bai

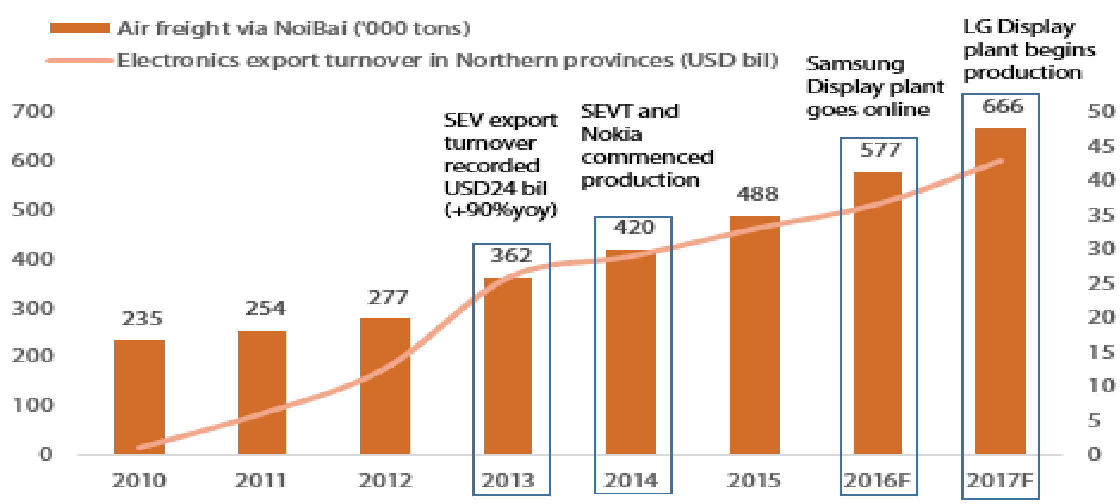


Source: RongViet Research estimates

NCT's earnings result would continue to be supported by solid freight growth

In 2015, NCT handled 394,000 tons of freight (+16%yoy) which international freight made up 2/3. Rising international freight at the same rate, commanding far higher services charge than domestic freight, was the main earnings driver for the year. Going to 2016, the sharing of 3 clients to ALS including Turkish Airlines (May 2015), Cathay Pacific and Korean air (October 2015) with the total annual freight of ~100,000tons would decrease NCT's international freight market share. As that, NCT's international freight volume is estimated to fall to 252,000 tons (-16% yoy) or equates 57% of this category market share (2015: 82%) at Noi Bai. Hence, total volume handle (including domestic freight) expects to achieve 356,000 tons (down 9.5% yoy).

Graph 05: Air freight via Noi Bai airport and Vietnam electronics export turnover (USD bil)



Source: RongViet Research estimates

In the long-run, the presence of ALS could be a positive factor that fosters a healthy competition in this industry. This would create motivation for the trio (NCT, ALS and ACS) to improve processes, client services quality which in the end lifts up the competitiveness of all players instead of competing on prices. Therefore, we stay positive that impact of market share loss on NCT's earnings only lasts in the short-term and NCT's earnings growth would bounce back from 2017 in line with organic freight growth through Noi Bai. So, supported by upcoming projects (Samsung and LG), NCT's freight volume is expected to (assuming NCT wont' lose anymore airlines) achieve 400,000 tons (up 17%yoy), of which international freight to grow at similar rate to 295,000 tons. Also, NCT could have one new client ANA (Japan) in 2017 after this airline officially becomes Vietnam Airline's strategic shareholder.

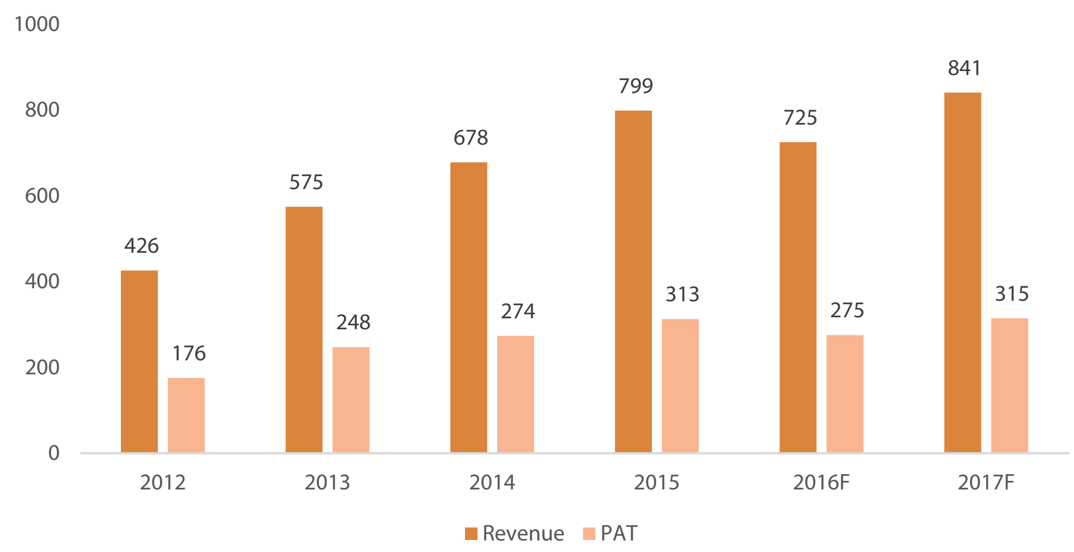
Table 02: international airfreight market share at Noi Bai airport

Companies	2012	2013	2014	2015	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**
NCT	85%	85%	83%	82%	57%	57%	57%	57%	57%
ACS	14%	14%	17%	14%	7%	6%	5%	5%	4%
ALS	2%	0%	0%	3%	36%	37%	37%	38%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: RongViet Research estimates

Considering the above analyses, we expect NCT to record VND725 billion revenue (down 9.2%yoy) and VND275 billion in PAT (down 12%yoy). The strong increase in international freight demand from 2017 as major projects Samsung and LG Display coming online would lift up total freight demand and hence benefit NCT's earnings result. Hence, revenue and earnings after tax in 2017 would expect to be VND840 billion (+16% yoy) and VND 315 billion (+14%yoy).

Graph 06: NCT's earnings forecast



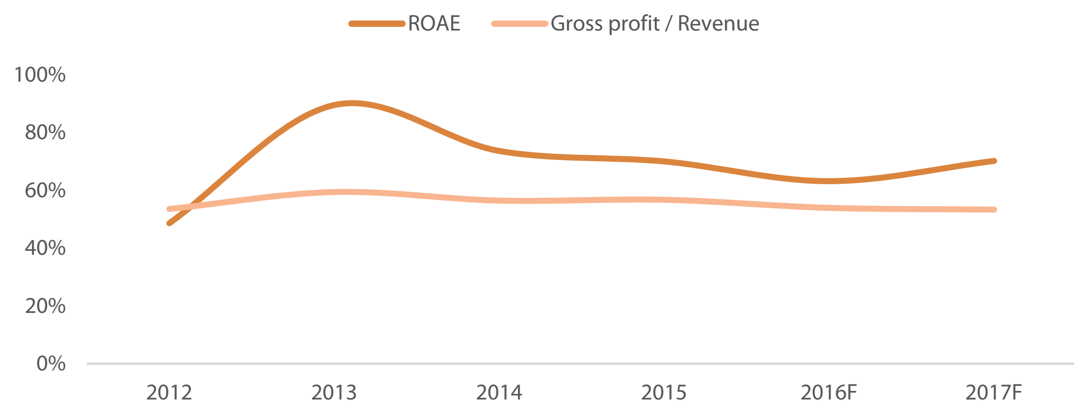
Source: RongViet Research estimates

Solid financial foundation, stable operation allows NCT to maintain high cash dividend policy

NCT's established position at Noi Bai and the nature of this services help NCT to achieve relatively high return on capital over the years. Regarding entry barrier, foreign logistics firms are allowed to participate in this particular air freight industry since the WTO commitment having effect from January 2014. However, the limited ability to lease facility and warehousing capability at and near Noi Bai airport (exploited by domestic firms) largely restrict foreign player from the game.

Currently, facility leasing and variable expenses (wages, fuel and power) account for nearly 80% of COGS. The low fuel prices environment would save the firm in the short-term. However, the dependence on leasing facility and upward trend in wages and reducing international freight market share (having services fee 2.5-3 times higher than domestic ones) from 2015 would make COGS increase faster than revenue in the upcoming year. This, in turn, would see NCT's GPM to slide slightly to 53% in 2016 (2015: 56.7%) and remain that level to 2017 after sitting at 50% in 2020. Comparatively, profitability in the long-run is rate positive to other sectors and in fact stay at the high level (seaport only 35-40%). ROE is expected to recover in 2017 with the increasing business from Samsung Display and LG display.

Graph 07: NCT profitability



Source: RongViet Research estimates

Apart from that, the strong operating cashflow of VND300 billion would expect to maintain given NCT's clients made up of mainly international freighters and fast growing cargo prospect. In addition, NCT has little need for capex which is only for replacements (~VND 50 bil/year). So, the firm possesses a healthy financial structure without debt. For long-term prospect, the firm's plan to build freight terminal at Cat Bi remains to be seen as Noi Bai capacity is projected to be sufficient to accommodate cargo growth to 2020. So, NCT is financially capable of maintaining the high dividend cash dividend of VND10,000 a share.

Outlook and Valuation:

Noi Bai Cargo Terminal Services JSC (NCT-HSX) is the leading provider of air cargo services at Noi Bai Airport. The firm has leveraged on its established services quality and Vietnam Airlines support to set up a wide network of clients making up 60% market share at Noi Bai. The expansion of current MNCs projects (Samsung, LG display, Canon, Nokia) and new FDI inflow expect to sustain the 12-15% annual growth in air cargo in Northern Vietnam going to FY2020. However, NCT's earnings outlook in short term would face headwinds with new joiner ALS in 2015.

In the long-run, the forecast strong growth in air cargo volume supported by continuing MNCs' investments in the area would be sufficient for the 3 firms (NCT, ALS and ACS) to have sustainable growth looking forwards. NCT is running at 80% of the designed capacity and is able to accommodate additional demand by speeding up cargo handling process with new warehousing space and machinery investments. In 2017, NCT could have one new client ANA (Japan) after the airlines becomes Vietnam Airline's strategic shareholder. Considering the strong air freight growth outlook, share price already discounted the market share redistribution, limit of listed choices in this sector and a high cash dividend policy ~ VND10,000/share, we come up with the "**Accumulate**" recommendation for NCT share in the "**Long-term**" at the target price of **VND140,000/share** (upside potential ~27%).

VND Billion

INCOME STATEMENT	2014	2015	2016F	2017F
Revenue	678	799	725	841
COGS	-296	-346	-334	-393
Gross profit	**383**	**453**	**391**	**448**
Selling Expense	-5	-6	-6	-7
G&A Expense	-53	-63	-57	-66
Finance Income	17	14	15	17
Finance Expense	0	0	0	0
Other profits	0	3	1	2
PBT	**342**	**401**	**344**	**393**
Prov. of Tax	-68	-88	-69	-79
Minority's Interest	0	0	0	0
PAT to Equity Shareholder	**274**	**313**	**275**	**315**
EBIT	**342**	**401**	**344**	**393**
EBITDA	357	423	371	425

FINANCIAL RATIO	2014	2015	2016F	2017F
Growth				
Revenue	18%	18%	-9%	16%
Operating Income	14%	18%	-14%	14%
EBITDA	11%	19%	-12%	15%
EBIT	10%	17%	-14%	14%
PAT	11%	14%	-12%	14%
Total Assets	55%	-3%	-1%	8%
Equity	59%	-4%	0%	6%
Internal growth rate	74%	6%	0%	6%
Profitability				
Gross profit/Revenue	56%	57%	54%	53%
Operating profit/ Revenue	48%	48%	45%	45%
EBITDA/ Revenue	53%	53%	51%	51%
EBITDA/ Revenue	50%	50%	47%	47%
Net margin	40%	39%	38%	37%
ROAA	62%	59%	53%	59%
ROIC or RONA	92%	89%	79%	87%
ROAE	74%	70%	63%	70%
Efficiency				
Receivable Turnover	879%	1205%	1308%	1342%
Inventory Turnover	-5255%	-5546%	-6370%	-6884%
Payable Turnover	-443%	-442%	-430%	-482%
Liquidity				
Current	4.8	4.4	4.5	4.2
Quick	4.7	4.3	4.4	4.2
Solvency				
Total Debt/Equity	17.1%	18.7%	17.7%	19.4%
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	2014	2015	2016F	2017F
Cash and equivalents	138	21	7	59
Short-term investment	141	272	266	239
Receivables	80	53	58	67
Inventories	7	5	5	6
Other current assets	1	0	0	0
Total Current Asset	**367**	**351**	**337**	**371**
Tangible Fixed Assets	66	95	118	137
Intangible Fixed Assets	2	2	2	1
Construction in Progress	0	1	0	0
Investment Property	0	0	0	0
Long-term Investment	24	24	24	24
Other long-term assets	75	45	32	18
Long-term Asset	**168**	**168**	**175**	**180**
Total Asset	**535**	**519**	**512**	**551**
Payables	16	19	19	22
Other current liabilities	61	61	57	66
Current Debt	0	0	0	0
Long-term Debt	0	0	0	0
Other long-term liabilities	2	2	2	2
Total Liability	**78**	**82**	**77**	**89**
Owner's Equity	**457**	**437**	**435**	**462**
Capital	249	262	262	262
Retained Earnings	202	175	173	200
Funds & Reverses	5	0	0	0
Others	**0**	**0**	**0**	**0**
Total Equity	**457**	**437**	**435**	**462**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**535**	**519**	**512**	**551**

CASH FLOW STATEMENT	2014	2015	2016F	2017F
Profit before tax	342	401	344	393
-Depreciation	15	23	27	32
-Adjustments	*-17*	*-17*	*-15*	*-17*
+/- Working capital	-133	-37	-67	-64
Net Operating CFs	**207**	**369**	**289**	**345**
+/- Fixed Asset	-49	-48	-47	-49
+/- Deposit, equity investment	27	-132	6	27
Interest, dividend, cash profit	16	14	15	17
Net Investing CFs	**-6**	**-166**	**-26**	**-5**
+/- Capital	0	0	0	0
+/- Debt	0	0	0	0
Dividend paid & other	-96	-320	-277	-288
Net Financing CFs	**-96**	**-320**	**-277**	**-288**
+/- cash & equivalents	105	-117	-14	52
Beginning cash & equivalents	**33**	**138**	**21**	**7**
Impact of exchange rate	0	0	0	0
Ending cash & equivalents	**138**	**21**	**7**	**59**

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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%

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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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