May, 2018

# NOIBAI CATERING SERVICES JSC (NCS - UPCOM)

## Growth Opportunity in the Vietnam Aviation Industry

*Noi Bai Catering Services JSC (NCS – UPCOM) is a leading player in flight catering and related services at NoiBai international airport. Due to its monopoly status in providing catering service for Vietnam Airlines, as well as its extensive experience in the catering services industry, its business activities have been growing up over the years. During 2013-2017, NCS's net revenues and NPAT have recorded an impressive CAGR of 13% and 27% respectively. Gross profit margins have improved for years.*

*For the period 2018-2022, flight catering services are estimated to keep growing based on: (1) the strong growth of the number of airline passengers, (2) the increasing demand for business travel and tourism, (3) the expansion project of NoiBai international airport, and (4) NCS's new catering factory project that will enhance its capacity.*

*We use a FCFF method to value NCS and estimate the fair value at **VND 60,000**. Adding VND 2,600 in cash dividend, the total return should be **43%** compared to the market price as of 21/05/2018. Therefore, we have a **BUY** on the stock.*

**Investment Rationale:**

- A leading player in flight catering services at NoiBai international airport.
- A positive outlook for the new factory project.
- An attractive cash dividend ratio compared to the current market price.

**Risk:**

- Lowering of prices to compete with new rivals.
- Much dependence on its parent company – Vietnam Airlines.

## Key financial ratios

| Y/E Dec (VND Bn) | FY2016 | FY2017 | FY2018F | FY2019F |
|---|---|---|---|---|
| Net revenue | 533 | 614 | 679 | 774 |
| *%change* | 14% | 15% | 10% | 14% |
| PAT | 68 | 83 | 71 | 87 |
| *% change* | 11% | 23% | -14% | 22% |
| Net margin (%) | 13% | 14% | 10% | 11% |
| ROA (%) | 29% | 18% | 13% | 16% |
| ROE (%) | 41% | 35% | 27% | 31% |
| EPS (VND) | 4,057 | 4,589 | 3,585 | 4,365 |
| Adjusted EPS (VND) | 3,768 | 4,589 | 3,585 | 4,365 |
| Book value (VND) | 13,722 | 13,295 | 14,880 | 15,744 |
| Cash dividend (VND) | 6,000 | 4,600 | 2,000 | 3,500 |
| P/E (x) | 15 | 11 | 12 | 10 |
| P/BV (x) | 5 | 4 | 3 | 3 |

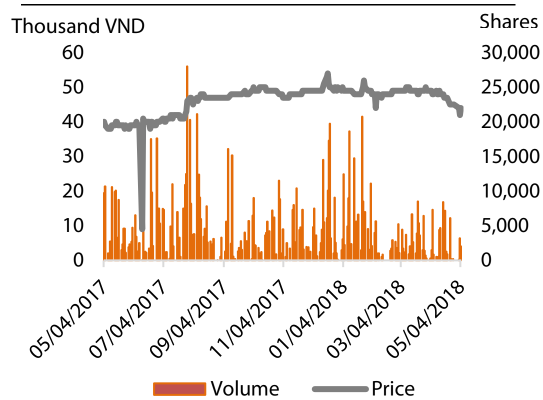
*Source: NCS, RongViet Securities*

| BUY | +43% |
|---|---|
| CMP (VND) | 43,800 |
| Target Price (VND) | 60,000 |
| Cash Dividend (VND)* | 2,600 |

** Expected in the next 12 months*

**Stock Info**

| | |
|---|---|
| Sector | Food & Beverage |
| Market Cap (VND Bn) | 789.2 |
| Share O/S (Mn) | 17.95 |
| Beta | N/A |
| Free Float (%) | 47.4 |
| 52 weeks high | 53,507 |
| 52 weeks low | 8,939 |
| Average trading volume (20 sessions) | 5,375 |




**Performance (%)**

| | 3T | 1N | 3N |
|---|---|---|---|
| NCS | -1% | 9% | 491% |
| Food & Beverage | -9% | 26% | 200% |
| VN30 Index | 0% | 48% | 86% |
| VN-Index | -1% | 44% | 96% |

**Major shareholders (%)**

| | |
|---|---|
| Vietnam Airlines | 60.2% |
| SASCO | 10.0% |
| Pham Ngoc Long | 0.1% |
| *Foreigner Investor Room (%)* | *47.4%* |

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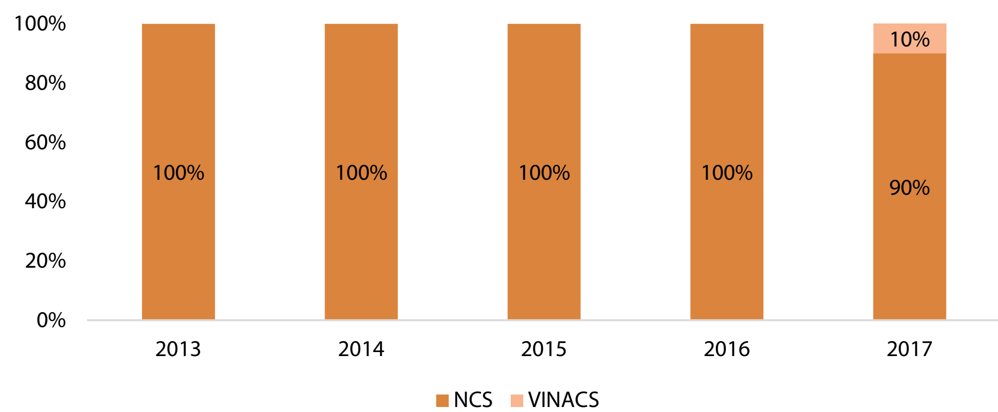
## INVESTMENT RATIONALES

### The leading player in flight catering services at NoiBai international airport

The aviation industry is still an oligopoly industry in Vietnam, dominated by State-owned enterprises. Therefore, most of the market share for related services is usually associated with these companies; only few private companies are involved in this sector. There are now two companies in the flight catering services at NoiBai airport: (1) NoiBai Catering Services JSC (NCS) and (2) Vietnam Air Catering Services Company (VINACS).

NCS is the leading player at NoiBai international airport, with a market share of over 90%. Meanwhile, VINACS just came into this industry in March 2017, so its market share is limited, around 10%. We consider that the barriers to entry into flight catering services come from the huge initial CAPEX to build up the facilities while meeting high quality standards. In addition, it is not easy for new entrants to survive in this industry as it also depends on how to build up and maintain the relationship with domestic and international airlines. For NCS, the in-flight meal services come mainly from Vietnam Airlines (accounting for over 70% of in-flight meals revenue). We believe that the leading position of NCS will be maintained in the coming years, especially since the company is developing its new catering factory. Phase 1 of its new factory is expected to be in operation in June 2018.

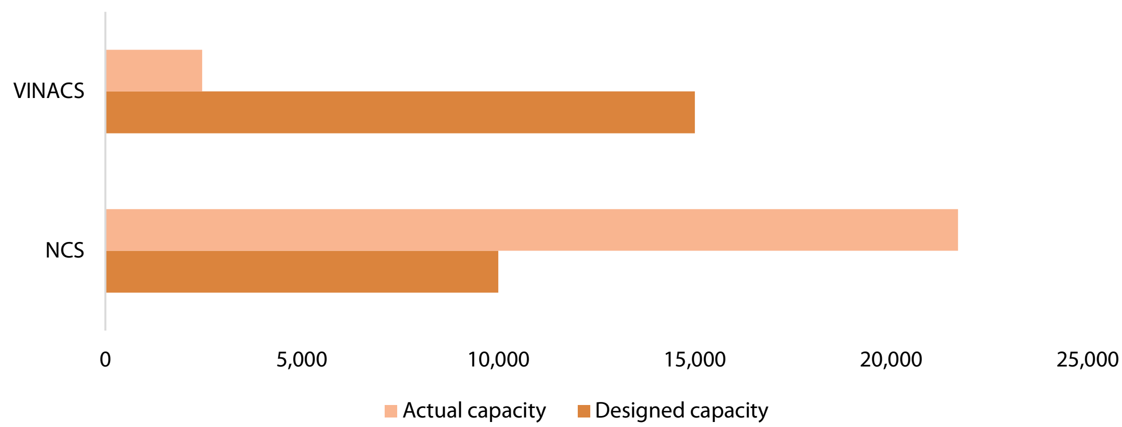
**Figure 1. Market share at NoiBai**




*Source: RongViet Securities*

NCS is looking for new customers to reduce its dependence on Vietnam Airlines. Currently, NCS has served meals to 26 airline companies with a "5-star rating" such as All Nippon Airways, Asiana Airlines, Singapore Airlines, Malaysia Airlines and Japan Airlines. It gets high recommendations from its customers for quality. Recently NCS was honored to be ranked number one among 10 Asian and Oceanian regional caterers from Japan Airlines. Hence, NCS proves that it can compete with its rivals.

**Figure 2. Designed capacity and actual capacity of NCS and VINACS at NoiBai airport (meal/day)**




*Source: RongViet Securities*

In the coming years, the development strategy of NCS will focus on the main activity – catering services. This business segment is expected to keep growing based on:

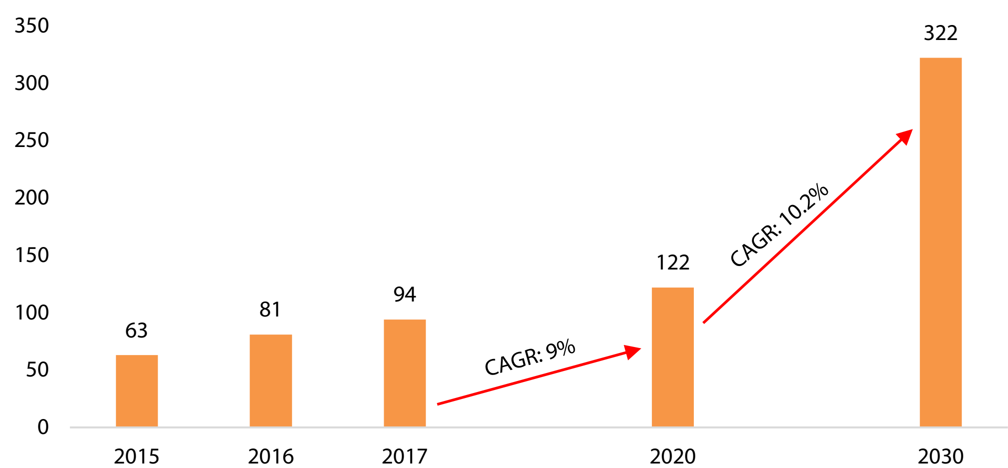
(1) The strong growth in the number of passengers. An average growth rate of 9% for the period 2017-2020 and 10.2% for the period 2020-2030. In addition, Vietnam is seen to be one of the fastest-growing markets in terms of annual additional passengers in South East Asia.

(2) Rising middle class with an increasing demand for business travel.

(3) The expansion project of NoiBai International Airport, which by 2030 is expected to double the total designed capacity (increasing the current capacity from 25 Mn passengers to 50 Mn passengers per year.

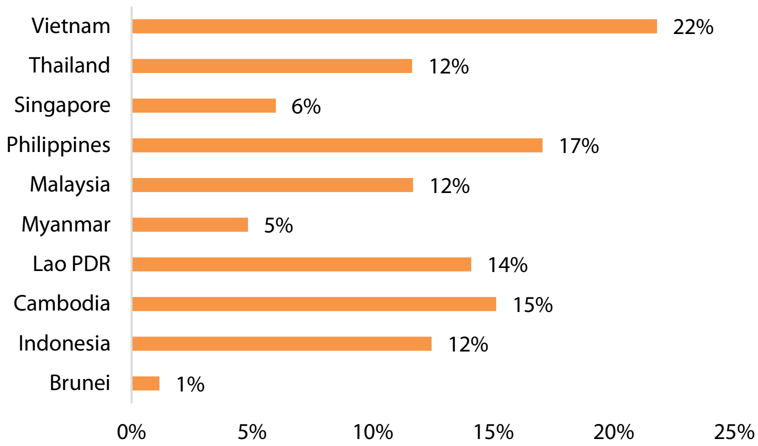
(4) NCS's new catering factory project to enhance capacity.

**Figure 3. Number of aviation passengers in Vietnam (Mn)**



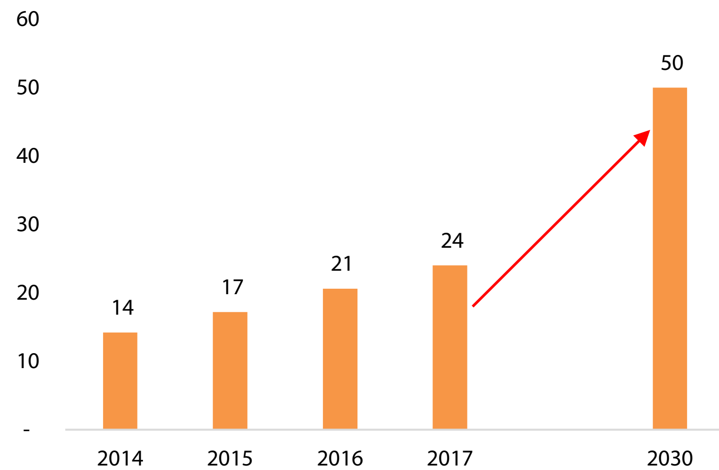

*Source: CAA, RongViet Securities*

**Figure 4. The growth rate of SEA passengers 2006-2016**




*Source: World Bank*

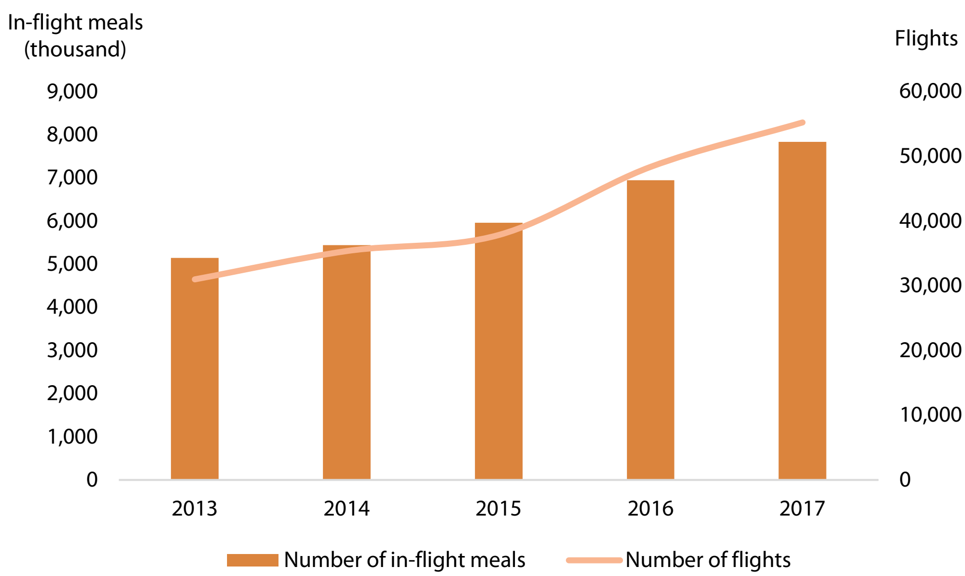
**Figure 5. The expansion project of NoiBai International Airport (Mn passengers)**




*Source: Ha Noi's transportation plan*

The development of NCS depends mostly on the aviation industry. Therefore, its business strategy is associated with the number of flights and in-flight meals. In 2017, the catering demand of the aviation industry was around 120,000 meals/day, whereas the total supply was only 80,000 meals/day. Hence, the flight catering industry is seeing plenty of development opportunities, and it is a great time for current companies to enhance their production.

**Figure 6. Number of flights and in-flight meals**




*Source: NCS, RongViet Securities*

## A positive outlook for the new factory project

At the beginning of operations, NCS's designed capacity was 10,000 meals/day. Then the company enhanced the factory scale, increased its capacity by exploiting and using the land in nearby areas. In 2017, NCS supplied about 21,500 meals/day (~ 7.8 Mn meals/year) for domestic and international airlines with the peak season serving 30,000 meals/day. NCS factory now is running over its capacity, which cannot meet the rising demand in the future. So, the Board of Director has approved to build up a new catering factory with a total investment of VND685 Bn. The factory is expected to be built in two phases: phase 1 will come into operation in June 2018 with a capacity of 35,000 meals/day; phase 2 is estimated to operate by the end of 2025, increasing total capacity to 45,000 meals/day. Once completed, it could be the largest catering factory with modern machinery and equipment, meeting international standards.

Besides, NCS is transferring its machinery from the current factory to the new one.

**Figure 7. The investment project for NCS's new catering factory**


**Table 1. The new project information for the period 2015-2025**

| | Phase 1 | Phase 2 | Total |
|---|---|---|---|
| | **2015-2018** | **2024-2025** | |
| **Investment cost (VND Bn)** | 477 | 208 | 685 |
| **Capacity (meals/day)** | 35,000 | >=10,000 | >=45,000 |
| **Construction period** | Q3/2016-Q2/2018 | N/a | |
| **Area (m2)** | 12,840 | 8,207 | 21,047 |
| **Location** | Land lot no.9 – NoiBai International Airport | | |

*Source: NCS*

Phase 1 is expected to be completed and come into operation in early June 2018, it will be the driving force for the future revenue growth compared to the previous years. However, due to the high investment cost (equivalent to its total current assets), as well as the fact that the new factory is going to be operational in the second half of this year, profitability will be reduced in 2018.

Currently, NCS has raised enough funds for phase 1 of its project. Its debt to equity ratio is 70/30.

**Table 2. The estimated investment cost**

| Investment cost | Value (VND Bn) | | |
|---|---|---|---|
| | Phase 1 | Phase 2 | Total |
| **Construction** | 182 | 127 | 309 |
| **Equipment** | 217 | 63 | 280 |
| **Land clearance** | 20 | 0 | 20 |
| **Management cost** | 5 | 3 | 8 |
| **Investment consulting fee** | 26 | 4 | 30 |
| **Others** | 4 | 1 | 5 |
| **Provision** | 23 | 10 | 33 |
| **Total** | **477** | **208** | **685** |

*Source: NCS*

Regarding its competitor – VINACS, the current capacity of its factory provides 15,000 meals per day at NoiBai Airport. According to VINACS, during the 1st year of operation, the company had served 900,000 meals/year for eight airline customers at both NoiBai and Cam Ranh Airport. However, its NPAT is negative as its revenues have not covered the rate of increase of its expenses yet.

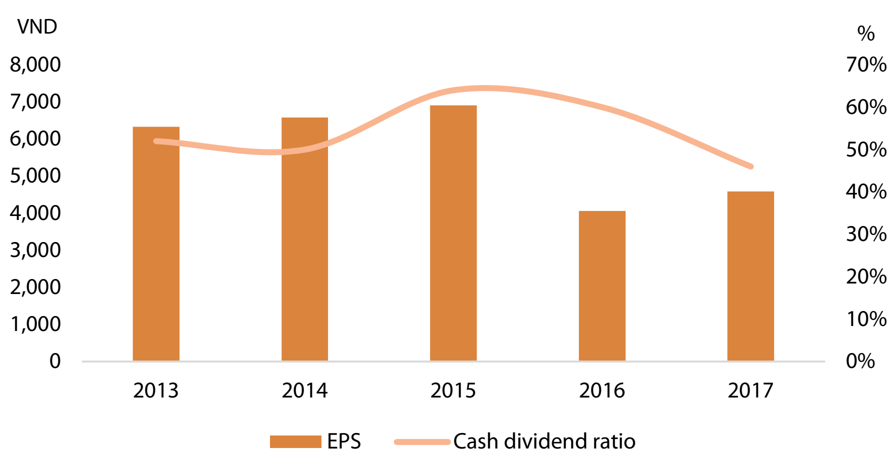
On the other hand, the current factory of VINACS has adapted to international standards, and it has just taken a large customer- Qatar Airways – from NCS. Hence, NCS may have to share its piece of the pie with VINACS if it cannot have a reasonable and efficient business strategy in the next years.

## An attractive cash dividend ratio compared to the current market price

The dividend policy of NCS has been stable with a cash dividend of VND4,500 – VND6,000 per share. Most of its profit is paid to shareholders. It helps the company to attract middle and long-term investors who seek a stable income.

We expect that the earning per share in 2018 will decrease to VND3,500/share. The cash dividend ratio is VND2,000/share due to the impact of its new project leading to the profit reduction. From 2019 onwards, EPS should be around VND 4,300 – VND 7,000 per share.

**Figure 8. Cash dividend ratio of NCS for years**




*Source: NCS, RongViet Securities*

## RISKS

**Lowering of prices to compete with new rivals.**

VINACS has the competitive advantage based on its new factory with its modern equipment from Europe, meeting higher quality standards compared to other State-owned enterprises. In addition, VINACS's business activities are not concentrated on a specific area such as NCS, MAS or VACS but across the country. On the other hand, NCS is on the process to establishing a new factory with high quality standards, expected to operate in the middle of 2018. This could help NCS rise its production capacity. We think that in the future these two competitors will mainly compete on the selling price and the number of flight served.

Currently, they offer similar selling prices. But VINACS, with the ambition to gain more market shares, is going to decrease its selling price to gain NCS's customers. The expiration agreement of NCS with some international airlines in the near future might be the opportunity for VINACS to attract its competitor's customers. We consider that NCS may reduce its selling price to avoid this.

**Much dependence on Vietnam Airlines**

Vietnam Airlines is still a large and stable customer of NCS. In 2017, Vietnam Airlines' revenue accounted for over 70% of its core business activity, and 55% of its total revenues.

We think that NCS must have the proper development strategy, attract more customers to decrease its dependence on the parent company. In case Vietnam Airlines changes its catering policy through cutting down the traditional meals and switching to the dry snacks, NCS still has regular customers to offset the decrease of its revenues by such a changing policy of Vietnam Airlines.

## INVESTMENT OUTLOOK

Noi Bai Catering Services JSC (NCS – UPCOM) is a leading player in flight catering and related services at NoiBai international airport. Due to its monopoly status in providing catering service for Vietnam Airlines, as well as its extensive experience in the catering services industry, its business activities have been growing up over the years. During 2013-2017, NCS's net revenues and NPAT have recorded an impressive CAGR of 13% and 27% respectively. Gross profit margins have improved for years.

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We use the FCFF method to valuate NCS ticker, and estimate the fair value at **VND 60,000**. Adding VND 2,600 in cash dividend, total return should be **43%** compared to the market price as of 21/05/2018. Therefore, we have a **BUY** on the stock.

## COMPANY OVERVIEW

NoiBai Catering Services JSC (NCS) was equitized from NoiBai Catering Services Enterprise in 2004. Its main business activities include: (1) catering for airline passengers (2) providing cleaning tools, laundry, storage services, and preservable.

**Figure 9. The main activities of NCS**

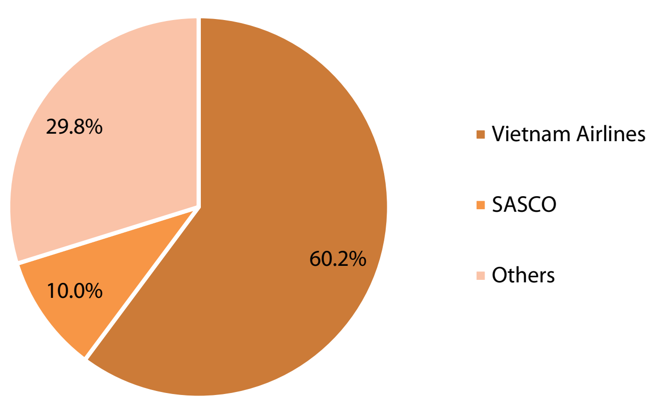
*Source: NCS*

## Shareholder structure

By the end of 2017, NCS had two major shareholders owning more than 70% of its total outstanding shares. The largest shareholder was Vietnam Airlines, owning 60% while SASCO owned 10%. The remaining were small individual investors, which were mainly NCS's employees. Hence, NCS ticker has low liquidity. This is a risk.

The foreign ownership was 1.2% of total outstanding shares. Room for foreign investors was 47.4%.

**Figure 10. Shareholder structure**



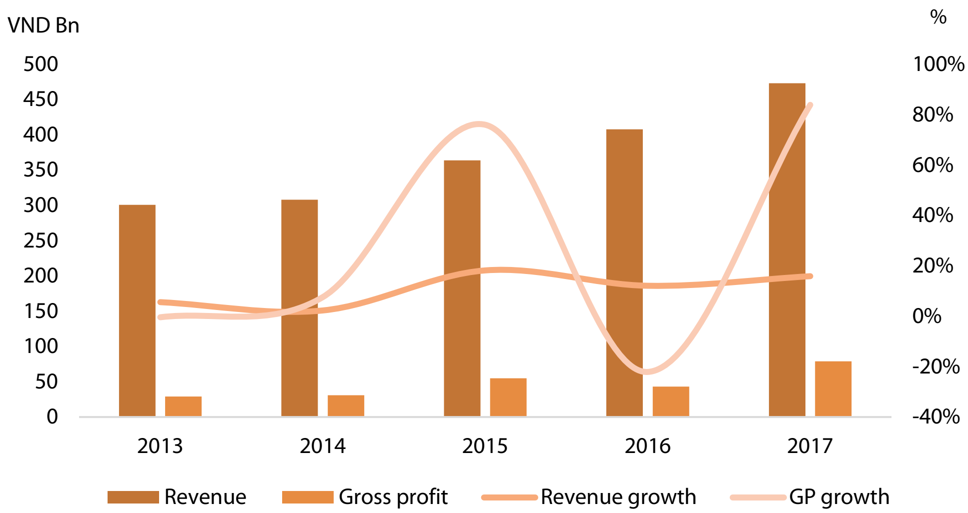

*Source: NCS's Financial Statement*

## Business activities

### *The flight catering service is the core business*

The flight catering service contributed to 77% of total revenues and 60% of gross profit, with an average revenue growth rate of 12% for the period 2013-2017. Thanks to the efficient control of its COGS, the gross profit's growth was often higher than its revenues for years, but the growth rate of gross profit has been unstable. In 2017, its gross margin reached 17%.

**Figure 11. Performance of flight catering service 2013-2017**




*Source: NCS's financial statement*

Currently, NCS provides about 21,500 meals/day (~7.8 Mn meals/year) for domestic and international airlines with an average selling price of VND 62,400/meal. Once the new factory comes into operation, NCS's capacity will go up to 35,000 meals/day.

NCS now is using the abundant agricultural materials across the country. Only a small proportion of its material is imported from overseas to serve special meals. Thus, NCS could control efficiently its material costs, which account for the highest proportion (58%) of COGS.

Food hygiene and safety is quite important in the catering industry. NCS has applied the ISO 22000, HACCP, HALAL quality management systems to its production in order to strictly manage the quality of catering service. The application of quality management methods such as Lean Six-Sigma, 5S helps NCS optimize its business activities.

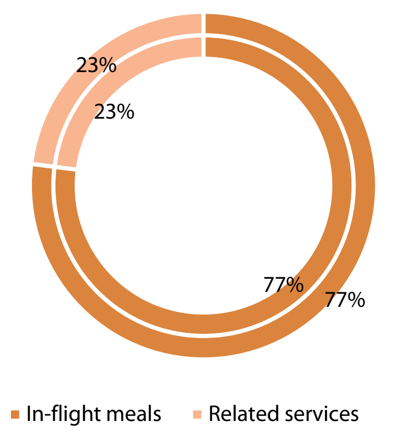
**The related services have the excess of gross margin**

The related services for flight catering industry accounted for 23% of total revenues and recorded an average growth rate of 16% for the period 2013-2017. Although contributing a small proportion in total revenues, related services generated a high gross margin of over 38%, contributing significantly to NCS's total gross profit in 2017 (40% of total gross profit).

NCS is providing related services for flight catering such as: (1) cleaning tools, laundry; (2) inventory management - bonded store operation; (3) warehouse management, tool management and (4) custom procedure support. The current inventory management system not only serves the dry stores, cold stores for its catering service, but also provides it to other airlines. Due to the characteristic of the flight catering industry, it is necessary to refrigerate fresh food 24h before serving to customers. Hence, other airlines which do not use the flight catering service of NCS, still have the demand to cool and heat the catering before taking off.

In general, the growth of gross profit was higher than the revenue growth because of the efficient control in COGS. In 2017 NCS increased its gross profit to 22%, the highest in five years. The main reason came from the control of input materials. Hence, the COGS to revenues had decreased over the years, from 90% (2013) to only 83% (2017).

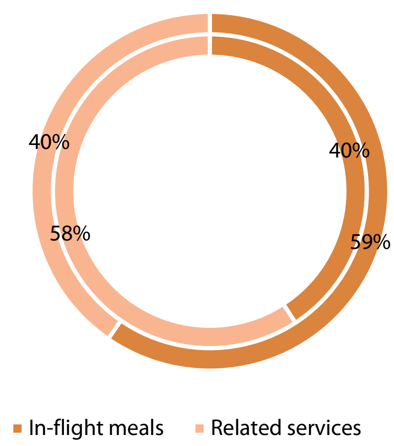
**Figure 12. Revenue structure**




*Inside: 2016, Outside: 2017*

*Source: NCS's financial statement*

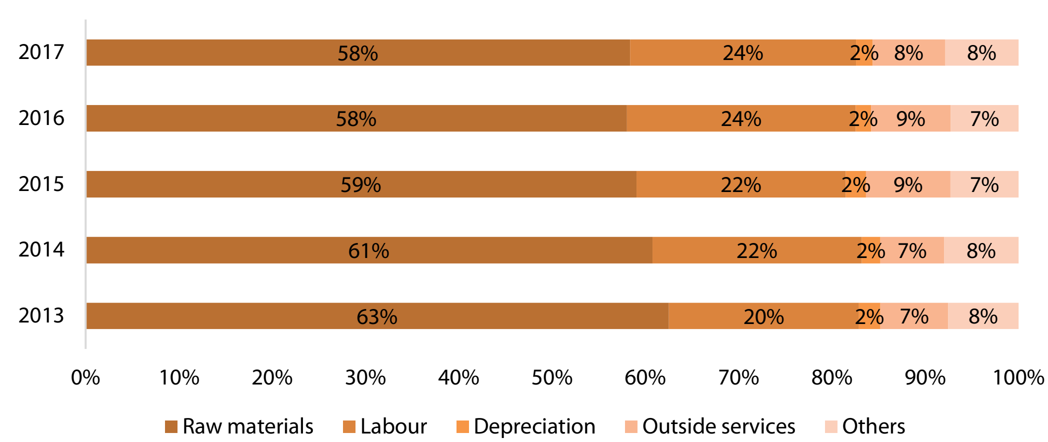
**Figure 13. Gross profit structure**




*Inside: 2016, Outside: 2017*

*Source: NCS's financial statement*

**Figure 14. COGS structure**



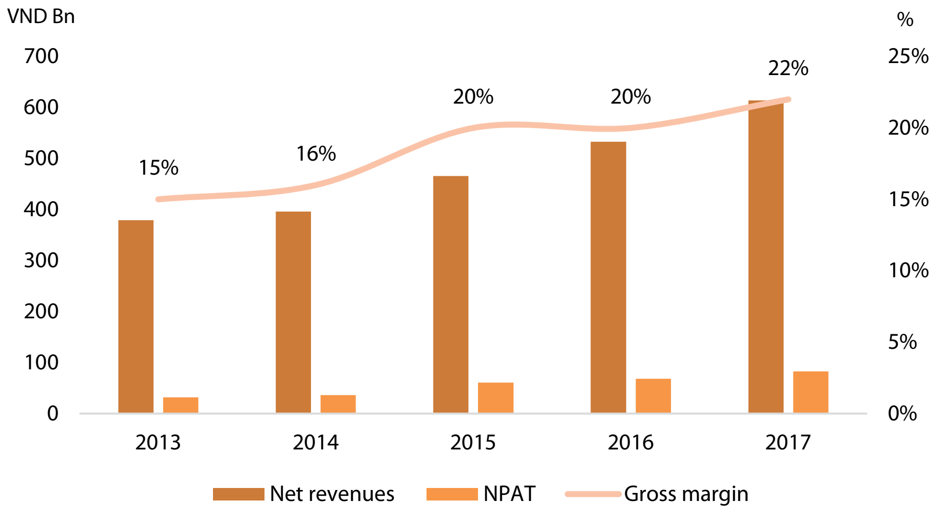

*Source: NCS, RongViet Securities*

## FINANCIAL ANALYSIS

**Total net revenues and its NPAT have an impressive growth**

Total net revenues and NPAT of NCS grew by 13% and 27% during the previous five years. In which, the growth of NPAT was higher than the revenue growth because of the efficient control in COGS. In 2017, NCS rised its NPAT to 23% thanks to the increase of its gross profit margin.

**Figure 15. Business performance of NCS for the period 2013-2017**




*Source: NCS, RongViet Securities*

**Table 3. Profitability and liquidity**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Profitability ratio (%)** | | | | | |
| Gross profit margin | 15.4 | 16.2 | 20.1 | 20.1 | 21.9 |
| EBITDA margin | 12.2 | 13.5 | 17.9 | 17.2 | 19.2 |
| EBIT margin | 9.5 | 11.1 | 15.5 | 15.3 | 16.9 |
| Net profit margin | 8.3 | 9.2 | 13.0 | 12.7 | 13.5 |
| **Activity ratio (x)** | | | | | |
| Inventories turnover | 31.7 | 36.6 | 42.0 | 44.5 | 47.0 |
| Receivables turnover | 6.7 | 8.9 | 8.8 | 7.3 | 5.7 |
| Payable turnover | 9.0 | 8.4 | 7.4 | 7.4 | 7.5 |
| Cash conversion cycle (day) | 26.0 | 7.2 | 1.0 | 8.6 | 23.6 |
| **Dupont analysis** | | | | | |
| EBIT/Sales (%) | 8.3 | 9.2 | 13.0 | 12.7 | 13.5 |
| Sales/Total Asset (x) | 2.5 | 2.6 | 2.4 | 2.3 | 1.3 |
| Total Asset/Equity (x) | 1.4 | 1.4 | 1.5 | 1.4 | 1.9 |
| ROE (%) | 29.1 | 33.5 | 46.8 | 40.9 | 33.3 |

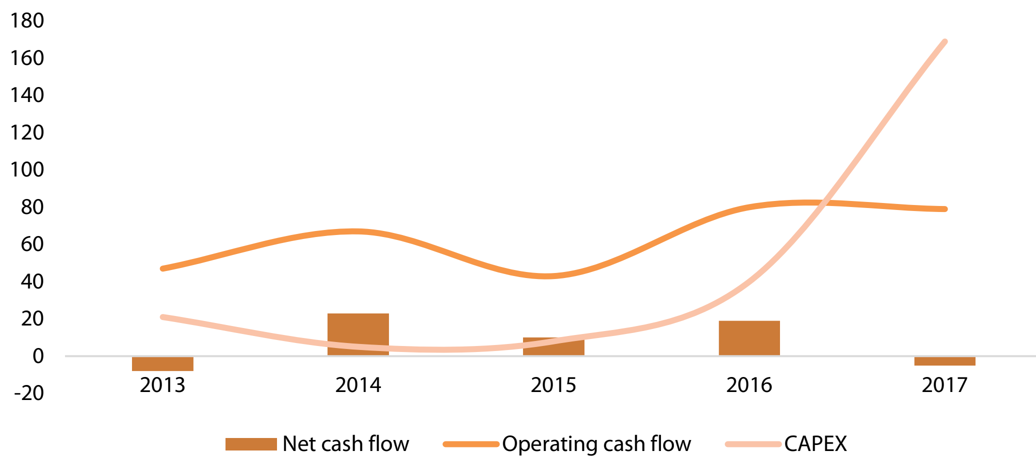
*Source: RongViet Securities*

Inventory turnover was high and tended to increase. As food has to be served within 24 hours, inventories should be low since most of those are the raw material for production. The high inventory turnover comes from an increase in raw material inventories. It proves the efficiency in the sales activities of the company because most of the raw materials are consumed immediately.

Since most of the company's customers are reputable airlines, the risk of not getting paid is small. Although its receivable turnover in recent years has tended to decrease, the primary cause of that is due to the increase of its suppliers' prepayment for the new factory. Excluding these extraordinary receivables, its trade receivables grew lower than its revenues, proving its receivable collection policy has been stable and efficient over the years.

In general, ROE kept going up during the period 2013-2015 thanks to high EBIT margin and asset turnover ratios. This was the positive catalyst for the profitability and liquidity enhancement. ROE has been slowing down during 2016 and 2017 due to the decrease of its assets turnover ratio. Most of its assets came from the construction in progress (CIP) of the new factory. Additionally, the raising of its long term debt helped NCS improve its ROE in 2017.

**Figure 16. NCS's cash flow over the years (VND Bn)**




*Source: NCS, RongViet Securities*

NCS's operating cash flow continuously rose from VND 43 Bn (2013) to VND 79 Bn (2017) due to its stable operational activities as well as its monopoly position.

For 2017, NCS withdrew VND 34 Bn long-term debt with a tenor of 10 years, used floating rates to meet the capital needs from the new factory. NCS also invested in fixed assets making CAPEX increase, affecting investing cash flow. As a result, NCS suffered a negative net cash flow.

## FORECAST

**Table 4. NCS's performance forecast**

| | FY2016 | FY2017 | FY2018E | FY2019F |
|---|---|---|---|---|
| **Net revenue** | **533** | **614** | **679** | **774** |
| COGS | 426 | 480 | 541 | 606 |
| **Gross profit** | **107** | **135** | **138** | **167** |
| Selling expense | 6 | 7 | 9 | 10 |
| G&A expense | 19 | 24 | 32 | 35 |
| Financial income | 3 | 2 | 2 | 2 |
| Financial expense | 0 | 0 | 10 | 15 |
| Other income (loss) | 0 | 0 | 0 | 0 |
| **PBT** | **85** | **105** | **89** | **109** |
| Tax expense | 17 | 22 | 18 | 22 |
| Minority interest | 0 | 0 | 0 | 0 |
| **PAT** | **68** | **83** | **71** | **87** |
| EBIT | 82 | 104 | 98 | 122 |
| EBITDA | 92 | 118 | 131 | 158 |

*Source: RongViet Securities*

### The flight catering services

For 2018, the operation of its new factory may push up the increase of its flight catering output. We forecast NCS may serve 24,800 meals/day (+16% yoy). From 2019 onwards, the average growth rate should be 8% per year, slightly down compared to the growth of the aviation industry due to competition. We expect that the new factory is going to operate at full capacity in 2022.

In addition, selling prices is estimated to drop by 6% in order to compete with VINACS and adapt to changes coming from Vietnam Airlines.

The gross margin may decrease slightly in 2018 to 16%. In the following years, the gross margin could go up to 17-19% per year because of economics of scales.

For Q1 2018 net revenues increased by 12% compared to the same period the previous year. Gross margin was 16%.

### Related service activities

For 2018, we assume that the related service activities will keep growing by 11%, gross margin may achieve 32%. In the coming years, this service has the positive outlook as the increase of flights along with the increasing crew from airlines companies. The gross margin could remain stable at 36%.

For Q1 2018, the net revenue went up slightly by 2% while the gross profit decreased by 62%. Main reason came from the significant reduction of gross margin. Since NCS's related service activities often remain stable with its impressive contribution to its total gross profit, we expect for the strong growth of its service for the remaining three quarters of 2018.

### Summary on NCS's forecast for 2018

RongViet Securities forecasts revenue growth of 10%, to VND 679 Bn in 2018. On the other hand, due to the effect of increasing cost when establishing the new factory, COGS is assumed to rise by 13%, SG&A increases by 4.7%. NPAT will drop by 14% at VND 71 Bn.

## VALUATION

Based on our forecast about the increase of flight catering input of 16% in 2018, and the slight reduction of selling prices of 7% affected by the catering changeable policy from Vietnam Airlines, NCS's revenue gains VND 679 Bn (+10% yoy) and EPS is estimated at VND3,585/share.

RongViet Securities uses the FCFF method to evaluate the fair value of NCS with the below assumption:

(1) WACC of 12%, and (2) Long term growth rate of 1.4%.

**Cash flow forecast**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| FCFF | 3 | 86 | 103 | 114 | 148 |
| Discount factor | 0.93 | 0.83 | 0.74 | 0.66 | 0.59 |
| PV of FCFF | 3 | 72 | 76 | 76 | 88 |
| Cumulative PV of FCFF | 315 | | | | |

**Valuation results**

| FCFF method | |
|---|---|
| Enterprise value (VND Bn) | 1,126 |
| (-) Total debt | 135 |
| (+) Cash & cash equivalent | 87 |
| Equity value (VND Bn) | 1,078 |
| Outstanding share (Mn shares) | 17.9 |
| **Price (VND/share)** | **60,091** |

The fair value of NCS is valuated at ***VND 60,000***. *Adding* ***VND 2,600*** *in cash dividend, total return should be* ***43%*** *compared to the market price as of 21/05/2018. Therefore, we have a* ***BUY*** *on the stock.*

## OVERVIEW OF THE FLIGHT CATERING INDUSTRY

### The companies in-flight catering industry

The significant growth of the aviation industry in recent years has created a driving force to the other related services, including the flight catering services. There are now four companies participating in the flight catering industry which are NCS, VINACS, MAS and VACS. Three of its companies are governed by the state-owned enterprises (NCS, MAS, and VACS) with the strategy to develop in the specific region to avoid the direct competition. VINACS now is the sole private company in the catering industry with its different competitive strategy, creating the catering supply chain across the airports which enhance the catering supply market nationwide.

- MAS is the affiliate company of Vietnam Airlines with 36% of ownership. Moreover, Vietnam Airlines is also the main shareholder controlling all business activities of MAS. The flight catering service is the core business activity of the company, account for 60% of its total revenue. In addition, MAS has expanded its business activities to trading, passenger transportation by car, taxi, construction and reparation of facilities in the aviation industry. In 2017, MAS was a monopoly company providing the in-flight meals to the domestic and international customers at Da Nang and Phu Bai airport. On the other hand, MAS had to share most of its market shares in Cam Ranh Airport with its new rival – VINACS, so MAS only gained 60% of catering market shares in Cam Ranh.
- VINACS just entered into the flight catering service last year, but it has made the current companies in the catering industry to be afraid of its nationwide development strategy. Currently, its competitive advantage is the modern catering equipment meeting the high-quality standards, with its productivity exceeding the other competitors (25,000 – 30,000 meals/day). Moreover, VINACS successfully signed a catering service agreement with Vietjet Air. This will be the key factor helping VINACS to gain more market share in the future.
- VACS is a monopoly company in-flight catering services at Tan Son Nhat international airport. With the largest market share in the catering industry, and the advantage of supplying for the related services at Tan Son Nhat airport – the key gateway for the tourism in Vietnam, VACS's business scale is much larger than the remaining companies.

**Table 6. The companies in-flight catering industry**

| | NCS | VINACS | MAS | VACS |
|---|---|---|---|---|
| Year | 1978 | 2017 | 1991 | 1995 |
| Area | Noi Bai | Noi Bai, Da Nang<br>Cam Ranh, Phu Quoc | Da Nang, Phu Bai<br>Cam Ranh | Tan Son Nhat |
| Main shareholder | Vietnam Airlines (60%) | Taseco (27%) | Vietnam Airlines (36%) | Vietnam Airlines (100%) |

*Source: RongViet Securities compiled*

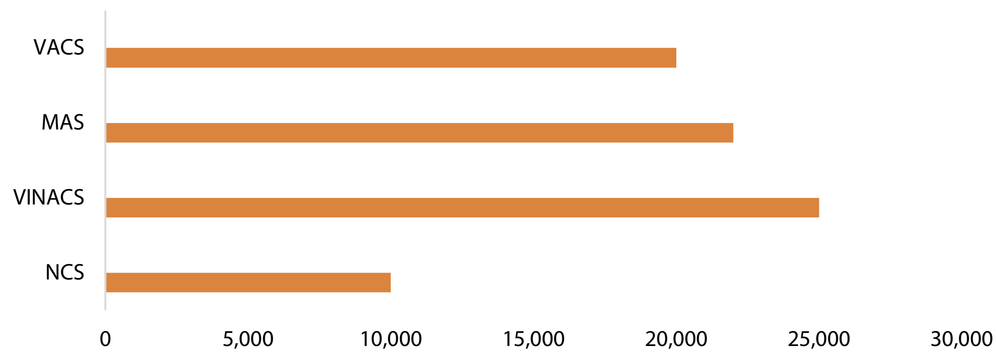
### The production processes


Source: *RongViet Securities*

**The supply capacity**

By the end of 2017, the total catering supply was 80,000 meals/day. In which, VINACS's designed capacity was superior to the other competitors, with the designed capacity of around 25,000 meals/day (peak day ~ 30,000 meals/day) thanks to the nationwide operation. NCS had the lowest capacity but it already ran over its capacity. Thanks to the operation of its new factory in the middle of 2018, NCS will become the leading company in the catering industry with highest capacity as well as the most modern equipment and machinery meeting the customer's need.

**Figure 17. The designed capacity of flight catering companies**




*Source: RongViet Securities*

**The demand of flight catering industry**

According to NCS, in 2017 the total revenues of flight catering industry achieved of over VND 2,000 Bn, with the PBT of VND 400 Bn. The aviation industry had the catering demand of about 120,000 meals/day, but the actual supply was 80,000 meals/day. So, the expansion of the catering factories is quite necessary to meet the rising demand.

**The entry barriers and the competition in the industry**

The barriers for new companies which wish to enter the industry are the large initial capital investment needed and the fact that the market is dominated by Vietnam Airlines

For the flight catering industry, Noi Bai airport is the competition between two companies VINACS and NCS. At Cam Ranh airport, it is a competition between MAS and VINACS. In the coming years, based on the government's policy to enhance the aviation industry, it will have more rivals to enter into the market. However, we believe that the space for the catering industry is quite high, NCS under the support from Vietnam Airlines will continuously grow up and dominant the catering market at NoiBai international airport.

Unit: VND billion

| PROFIT & LOSS STATEMENT | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|
| Revenue | 533 | 614 | 679 | 774 |
| COGS | 426 | 480 | 541 | 606 |
| **Gross profit** | **107** | **135** | **138** | **167** |
| Selling expenses | 6 | 7 | 9 | 10 |
| G&A expenses | 19 | 24 | 32 | 35 |
| Financial income | 3 | 2 | 2 | 2 |
| Financial expense | - | - | 10 | 15 |
| Other income/loss | - | - | - | - |
| Gain/(loss) from joint | - | - | - | - |
| **Profit Before Tax** | **85** | **105** | **89** | **109** |
| Tax expense | 17 | 22 | 18 | 22 |
| Minority interests | - | - | - | - |
| **Profit After Tax** | **68** | **83** | **71** | **87** |
| EBIT | 82 | 104 | 98 | 122 |
| EBITDA | 92 | 118 | 131 | 158 |

| Percentile changes | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|
| **Growth** | | | | |
| Revenue | 14.3% | 15.3% | 10.5% | 14.0% |
| EBITDA | 9.9% | 28.5% | 11.6% | 20.3% |
| EBIT | 12.8% | 27.3% | -6.2% | 25.1% |
| PAT | 11.4% | 22.8% | -14.0% | 21.8% |
| Total assets | 20.6% | 96.2% | 17.9% | 0.9% |
| Total equity | 29.4% | 45.2% | 11.9% | 5.8% |
| **Profitability** | | | | |
| Gross margin | 20.1% | 21.9% | 20.3% | 21.6% |
| EBITDA margin | 17.2% | 19.2% | 19.4% | 20.4% |
| EBIT margin | 15.3% | 16.9% | 14.4% | 15.8% |
| Net margin | 12.7% | 13.5% | 10.5% | 11.3% |
| ROA | 29.1% | 18.2% | 13.3% | 16.2% |
| ROIC | 46.6% | 26.9% | 21.6% | 27.0% |
| ROE | 41.1% | 34.8% | 26.8% | 30.8% |
| **Efficiency** | | | | |
| Receivables turnover | 7.3 | 4.3 | 10.0 | 9.1 |
| Inventories turnover | 40.6 | 48.5 | 50.0 | 50.0 |
| Payables turnover | 7.4 | 6.9 | 6.3 | 7.1 |
| **Liquidity** | | | | |
| Current | 3.1 | 3.5 | 1.9 | 2.0 |
| Quick | 2.9 | 3.4 | 1.7 | 1.9 |
| **Finance Structure** | | | | |
| Total debt/equity | 0.0% | 56.4% | 64.0% | 55.2% |
| ST debt/equity | 0.0% | 0.0% | 0.0% | 0.0% |
| LT debt/equity | 0.0% | 56.4% | 64.0% | 55.2% |

Unit: VND billion

| BALANCE SHEET | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|
| Cash and cash equivalents | 92 | 87 | 81 | 70 |
| Short-term investments | - | - | - | - |
| Accounts receivable | 73 | 142 | 68 | 85 |
| Inventories | 11 | 10 | 11 | 12 |
| Other current assets (inc. non-trade receivables) | - | 5 | 2 | 2 |
| Property, plant & equipment | 54 | 207 | 371 | 362 |
| Acquired intangible assets (Inc. Goodwill) | - | 2 | 2 | 2 |
| Long term investments | - | - | - | - |
| Other non-current assets | 2 | 2 | 2 | 3 |
| **Total assets** | **232** | **456** | **537** | **536** |
| Accounts payable | 57 | 70 | 87 | 85 |
| Short-term borrowings | - | - | - | - |
| Long-term borrowings | - | 135 | 171 | 156 |
| Other non-current liabilities | - | - | - | - |
| Bonus and Welfare fund | 11 | 13 | 13 | 13 |
| Technology-science development fund | - | - | - | - |
| **Total liabilities** | **68** | **217** | **270** | **254** |
| Common stock and APIC (additional paid in capital) | 120 | 179 | 179 | 179 |
| Treasury stock (enter as -) | - | - | - | - |
| Retained earnings / accumulated deficit | 45 | 59 | 85 | 103 |
| Other comprehensive income / (loss) | - | - | - | - |
| Investment and Development Fund | - | - | - | - |
| **Total equity** | **164** | **239** | **267** | **283** |
| **Minority Interest** | - | - | - | - |

| CASH FLOW STATEMENT | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|
| ***Profit before tax*** | **85** | **105** | **89** | **109** |
| Depreciation | 10 | 13 | 34 | 36 |
| *Adjustments* | (2) | - | - | - |
| Change in Working capital | (13) | (39) | 76 | (42) |
| **Net Operating CFs** | **80** | **79** | **199** | **103** |
| Change in Fixed Asset | - | (24) | (292) | (17) |
| Change in Deposit, equity investment | (38) | (195) | - | - |
| Interest, dividend, cash profit | - | - | - | - |
| **Net Investing CFs** | **(38)** | **(219)** | **(292)** | **(17)** |
| Change in Capital | 40 | 60 | - | - |
| Change in Debt | - | 135 | (36) | 15 |
| Dividend paid & other | (63) | (60) | 118 | (111) |
| **Net Financing CFs** | **(23)** | **134** | **82** | **(96)** |
| **Beginning cash & equivalents** | **73** | **92** | **91** | **81** |
| Change in cash & equivalents | 19 | (5) | (10) | (10) |
| **Ending cash & equivalents** | **95** | **91** | **81** | **70** |

## Initial Coverage

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.

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| 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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