GEMADEPT JSC (GMD – HSX)

Encouraging result amid short-term cargo low

Particulars (VND B)	3Q-FY16	2Q-FY16	+/- QoQ	3Q-FY15	+/-YoY
Net revenue	907	951	-5%	935	-3%
PAT	96	119	-19%	104	-7%
EBIT	94	123	-23%	100	-5%
EBIT margin	10%	13%	-257bps	11%	-28bps

Sources: GMD, RongViet Research

GMD's 9M 2016 earnings growth was hampered by slower than expected growth in **throughput and additional port supply**. Thanks to good location, Nam Hai Dinh Vu Port (NHDV) managed to handle throughput of ~350,000Teus in 9M 2016, slightly higher than FY2015. This therefore made up for the fall in frozen cargo in 2016 and the weakening performance results of Nam Hai port, where competition on handling charges has been intensifying. The company's logistics services segment is making a greater contribution to its earnings growth. Despite 9M2016 PAT declining by 7% YoY, EBITDA was similar to last year's corresponding period, if abnormal expenses for asset sales was excluded.

Busier trading activity in the final quarter and new expansion projects are expected to continue supporting earnings growth. ICD Nam Hai, began operating in Q3 2016, would add additional room for NHDV port to serve more cargoes (currently run at 90% capacity). Mekong Logistics project, coming online in late 2016, will allow GMD to penetrate into potential Southwestern Vietnam market, regarding logistics services for processed aqua products. Moreover, the completion of Nam Dinh Vu port (initial phase) in late 2017 will help to consolidate GMD's position and put it on a new growth trajectory.

In FY2017, we believe that bilateral and regional trade deals (FTAs Korea, AEC, RCEP) will continue to propel Vietnam's economic and trade growth, regardless of TPP negotiation results. Seaport operators in Hai Phong especially should expect a diverging business outlook, with downstream seaports holding the main advantage. However, greater bargaining power from global shipping alliances (newly formed Cosco-China Shipping, NYK-MOL-K-line, CMA-CGM and NOL) could restrict port operator's profitability.

Recommendation and valuation

Deeper integration of Vietnam economy is a growth catalyst for seaport and logistics sector. GMD's competitiveness comes from its large assets base at strategic location and wide client network. Quickening the process of divesting non-core investment would give the firm resources to expand core business. The expected conversion of VIG bond (worth 40 mil USD) in 2017 could save GMD 50 bn VND in annual interest cost but give rise to great dilution risk in short-term.

Considering the above analyses, we come up with a **"Accumulation"** recommendation for GMD share at the target price of **30,000VND** (4.5% increase from the last recommended target price). In the short term, GMD share price could see positive development as news on divesting 15% stake at Gemadept Tower and recording abnormal profit unfold.

ACCUMULATE

CMP (VND)	27,700
Target Price (VND)	30,000
Investment Period	Mid-term

Stock Info

Sector	Industrial transportation
Market Cap (VND B)	4.880
Current Shares O/S	179.432.281
Beta	0.8
Free float (%)	60%
52 weeks High	30,000
52 weeks Low	23,200
Avg. Daily Volume (20 sessions)	212,000

	FY15	Current
EPS	3,000	1,942
EPS Growth	-29%	-19%
Diluted EPS	1,542	1,450
P/E	17.5x	19.3x
P/B	0.8x	0.9x
EV/EBITDA	5.1	7.8
Cash dividend (on par)	2,000	2,000
ROE	8.0%	7.6%

Source: Vietstock

Major Shareholders (%)

ReCollection Pte. Ltd	11.9
Deutsche Bank Aktiengesellschaf	6.4
PYN Elite Fund	4.7
Foreign Investor Room (%)	0

Hoang Nguyen

(084) 08- 6299 2006 – Ext 1319

hoang.nh@vdsc.com.vn

Exhibit 1: 3Q FY2016 Earnings analysis

Particulars (VND B)	3Q-FY16	2Q-FY16	*% chg (qoq)*	3Q-FY15	*% Chg (yoy)*	9M2016	*+/- (yoy)*
Net Revenues	907	951	-5%	935	-3%	2,706	2%
Gross profits	234	302	-23%	274	-15%	757	3%
SG&AC	-81	-82	-2%	-82	-1%	-242	-614%
Operating Income	315	385	-18%	356	-12%	999	165%
EBITDA	223	245	-9%	221	1%	656	-2%
EBIT	154	175	-12%	166	-7%	449	-4%
Financial expenses	-52	-48	8%	-84	-38%	-127	-419%
- Interest Expenses	-30	-26	17%	-33	-10%	-83	-504%
Dep. and amortization	68	70	-3%	55	25%	208	3%
Non-recurring Items (*)							
Extraordinary Items (*)							
PBT	124	149	-16%	133	-7%	366	-4%
PAT	96	119	-19%	104	-7%	284	-8%
(*) Adjusted PAT	96	119	-19%	104	-7%	284	-8%

Sources: GMD, RongViet Research

Exhibit 2: 3Q FY2016 Performance analysis

Particulars	3Q-FY16	2Q-FY16	*% chg (qoq)*	3Q-FY15	*% chg (yoy)*
Profitability Ratios (%)					
Gross Margin	26%	32%	-598bps	29%	-356bps
EBITDA Margin	25%	26%	-122bps	24%	92bps
EBIT Margin	17%	18%	-135bps	18%	-77bps
Net Margin	11%	13%	-196bps	11%	-47bps
Adjusted Net Margin	11%	13%	-196bps	11%	-47bps
Turnover *(x)					
-Inventories	20	20	0	29	-8
-Receivables	4	4	0	3	1
-Payables	2	2	0	2	0
Leverage (%)					
Total Debt/ Equity	74%	74%	50bps	70%	430bps

Sources: (*) Annualized turnover

Exhibit 3: 4Q FY2016 Estimates

Particulars (VND bn)	Q4 FY2016	% qoq	*%yoy*
Net Revenues	1,080	19.0%	16.3%
Gross profits	248	5.9%	15.3%
EBIT	181	17.3%	29.9%
PAT	108	12.4%	14.3%

Sources: RongViet Research estimated

Key updates

Continue the Strategy of Expanding Seaport and Logistics Capability

ICD Nam Hai project (20ha in total) has offered half of the 7ha depot from Q3 2016. GMD plans to replicate the model of the logistics center built in Song Than (Binh Duong) for Nam Hai ICD, regarding its distribution center and door to door services. More importantly, this ICD would provide NHDV port with additional room to boost its designed throughput capacity by 25-30%, up to 650,000Teus/year. Moreover, the strategic location of ICD Nam Hai makes it a favorable and cost effective collection and distribution point for cargoes passing by the future Lach Huyen deep seaport.

Recently, GMD has announced that it will add **Nam Dinh Vu Seaport** in Hai Phong to its seaport portfolio. The project has estimated investment of VND6,000 billion. The seaport is located in the Special economic zone of Dinh Vu – Cat Hai (Hai Phong), and it will have 6 berths in an area of 65ha. GMD plans to build 2 berths at an estimated cost of VND1,700 billion in the first phase. Nam Dinh Vu seaport, when developed entirely, will be able to serve 1.2 million Teus/year and increase GMD's seaport capacity in Hai Phong to 2 million Teus/year (equivalent to Hai Phong's largest seaport PHP at the moment). Apart from its favorable downstream location and ample behind-port room, the port is projected to receive high cargo demand given its location in special manufacturing zones with preferential tax regimes.

Map: Seaports in Hai Phong

Source: RongViet Research compiled

Mekong logistics, which is dedicated to providing refrigerated warehousing and river port services, will begin operating in late 2016. GMD's approach of partnering with Vietnam's leading shrimp processor not only gives it local knowledge to penetrate the new Southwestern market, but also guarantee the project's effectiveness in the first years.

Being Vietnam's largest aqua products processing region for export, demand for frozen storage, multi model transport and packaging services of these products is ample. Apart from that, GMD attempts to help local processors cut logistics costs by offering collecting, handling and ferrying services for finished products from the Southwestern region to point of export (CatLai and Cai Mep seaport).

The investment into **SCSC (Saigon Cargo Services Corporation)**, which provides air freight services at Tan Son Nhat Airport, has yielded a higher return for GMD year after year. GMD currently holds a 24.46% stake in the firm, after it raising chartered capital to VND533 billion from VND300 billion in 2016 for expansion. SCSC's 9M2016 bottom-line showed impressive growth of 93% YoY, rising to VND185 billion due to its additional capability. At its current capacity, SCSC could contribute VND62 billion to GMD's profit from associates each year.

Individual Seaport in Hai Phong to Expect Diverging Outlook

Hai Phong seaport sector's long-term future looks much clearer following the **Ministry of Transport's Northern Vietnam Seaport Development Master Plan** issued in July 2016. Hai Phong city has been selected as the main international trading gateway for Northern Vietnam. In particular, Dinh Vu peninsula (consisting of Dinh Vu, Tan Vu, VipGreen, NHDV) and Lach Huyen deep seaport in Hai Phong are the two strategic seaports in the master plan. The plan also states that upstream ports in Cam river (Nam Hai, Greenport, Transvina, and Chua Ve) have to convert its normal uses to fit the development and construction of new Lach Huyen deep seaports. As a result, seaport operators owning seaports located in these two hot spots "Dinh Vu" and "Lach Huyen" consequently hold a competitive edge in the long-run. Given the limited land bank that also has water surface to operate seaports, GMD's move to add Nam Dinh Vu port, which is located in Dinh Vu peninsula, to its seaport portfolio will be responsible for giving itself an edge on economies of scale and long-term competition.

Northern provinces such as Hai Phong, Hai Duong, Bac Ninh and Quang Ninh are becoming more **attractive places for FDI**, due to competitive labor costs, preferential FDI policies, and fast improving public infrastructure. Newly registered FDI during 10M2016 in these 4 provinces was $4.2 billion, accounting for 23.8% of the entire country's FDI. Notably, Hai Phong has received on average $1 billion of FDI over the past 5 years.

Real container volume growth in 9M2016 has been slower than last year's same period due to sluggish growth in regional and world trade, although total throughput growth was 13.9% YoY according to Hai Phong Committee. In the long-run, we do believe that such changes in government policies such as increasing labor productivity, restructuring state owned enterprises and simplified business procedures will be fundamental to attract FDI investment and support economic growth regardless of the TPP results.

The Planned Divestment of Non-Core Business Provides Positive Signals

GMD's total investment in its **rubber business** is nearly VND1,400 billion by book value as of the end of Q3 2016. The firm is believed to have planted 10,000ha of rubber plantations on a total granted area of 30,000ha in Cambodia. The initial 500ha could start yielding latex in 2017. The dip in rubber prices has made this investment a burden on GMD's effectiveness over the years. However, the recent recovery in global rubber prices (~30% from the beginning of 2016) will increase the chances of GMD divesting this investment at a good price. However, we do have concerns regarding the exact timeline of this divestment and the profit from this sale in the short-term.

Regarding property investments, GMD should be able to complete divesting the remaining 15% stake at the firm managing Gemadept Tower in Q4 2016 or early 2017. If divested at the same initial price, GMD could receive VND140 billion in total and record VND100 billion in financial income. If this happens, GMD could add 445 VND per share at current shares outstanding or 300 VND/share (diluted for convertible bond), which would be positive for its stock market valuation.

Regarding GMD's Saigon Gem project, the firm currently holds 45% ownership at Qua Cau Vang Trading Ltd Co., which owns a 70% stake at the firm set up to develop this project. Therefore, GMD's direct ownership in Saigon Gem project is 31.5%. Given GMD's need to allocate capital for a list of core logistics projects (Nam Dinh Vu is the highest priority) and Saigon Gem's complicated legal state, we would need more information to actually give a true value of this investment on GMD's enterprise value.

VND billion

INCOME STATEMENT	2014A	2015A	2016E	2017F
Revenue	3,013	3,586	3,788	4,164
COGS	2,388	2,640	2,782	3,086
Gross profit	**625**	**947**	**1,006**	**1,078**
Selling Expense	32	45	49	54
G&A Expense	280	261	284	312
Finance Income	665	56	20	22
Finance Expense	251	243	152	118
Other profits	-51	15	-98	0
PBT	**701**	**506**	**498**	**675**
Prov. of Tax	111	43	48	76
Minority's Interest	34	58	57	61
PAT to Equity Shareholder	**531**	**402**	**393**	**538**
EBIT	**814**	**624**	**629**	**766**
EBITDA	1,081	919	934	1,098

%

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth				
Revenue	19%	19%	6%	10%
Operating Income	66%	105%	5%	6%
EBITDA	90%	-15%	2%	18%
PAT	154%	-23%	1%	22%
Total Assets	176%	-24%	-2%	37%
Equity	13%	4%	-2%	2%
Internal growth rate	9%	4%	2%	15%
Profitability				
Gross profit/Revenue	21%	26%	27%	26%
Operating profit/ Revenue	10%	18%	18%	17%
EBITDA/ Revenue	27%	17%	17%	18%
Net margin	18%	11%	10%	13%
ROAA	7%	5%	4%	6%
ROAE	11%	8%	8%	10%
Efficiency				
Receivable Turnover	3	3	3	4
Inventory Turnover	23	27	23	21
Payable Turnover	4	3	3	4
Liquidity				
Current	2	2	2	2
Quick	2	2	2	2
Solvency				
Total Debt/Equity	61%	67%	59%	41%
Current Debt/Equity	8%	8%	6%	5%
Long-term Debt/ Equity	30%	29%	33%	18%

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	1,540	996	624	630
Receivables	1,071	1,515	1,098	1,207
Inventories	91	107	139	154
Other current assets	150	60	60	60
Total Current Asset				
Fixed Assets	2,447	2,405	2,299	2,506
Construction in Progress	799	1,086	1,857	1,696
Long-term Investment	1,945	2,010	2,010	2,010
Other long-term assets	591	820	731	704
Long-term Asset	**5,783**	**6,321**	**6,897**	**6,915**
Total Asset	**8,635**	**8,999**	**8,818**	**8,967**
Payables	376	596	334	370
Current Debt	407	424	327	311
Long-term Debt	1,480	1,455	1,714	1,046
Other long-term liabilities	697	910	680	718
Total Liability	**2,961**	**3,385**	**3,055**	**2,446**
Owner's Equity	**4,878**	**5,086**	**5,188**	**5,939**
Capital	1,161	1,196	1,794	2,400
Retained Earnings	1,031	1,153	1,238	1,361
Funds & Reverses	176	230	246	268
Others	**0**	**0**	**20**	**27**
Total Equity	**4,878**	**5,086**	**5,208**	**5,966**
Minority's Interest	341	529	555	555
TOTAL RESOURCES	**8,180**	**8,999**	**8,818**	**8,967**

VALUATION RATIO	2014A	2015A	2016E	2017F
EPS (VND - diluted	2,035	1,542	1,508	2,061
P/E (x)	4,1	11,2	18,6	13,5
BV (dong)	42,002	42,514	28,915	24,743
P/B (x)	0.4	0.8	0.9	1.1
DPS (dong/cp)			2,000	2,000
Dividend yield (%)			7.1	7.1

VALUATION MODEL	Price
EV/EBITDA (profit derived assets)	17,540
NAV (inactive assets)	12,460
Target price (dong/share)	**30,000**

VALUATION HISTORY	Price	Recommendation	Period
Nov 2014 (adj 50% treasury stock & 3% ESOP)	28.700	Accumulate	Long-term
Nov 2016	30,000	Accumulate	Mid-Term

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York, NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through VDSC. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

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 which 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 / 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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

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

Network

Headquarter

Address: Floor 1-2-3-4-5, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

Floor 08, 95-97-99 Vo Van Tan, Ninh Kieu District, Can Tho