September, 2018

GEMADEPT JSC (GMD - HSX)

A Mix of Tailwinds and Headwinds

With the 1st phase of the Nam Dinh Vu port's operation, GMD is now the second-biggest port operator in Haiphong with around 1.3 mn TEU per annum in handling capacity. As a near-ocean port, Nam Dinh Vu can improve GMD's competitive position thanks to saving costs and time for shipping lines. We believe this project will also be a long-term growth driver for GMD with total capacity reaching 1.6 mn TEU p.a when the final phase is completed. Meanwhile, Gemalink will not be included in this valuation exercise due to the fact that we aren't able to determine the restarting time of this project.

Besides, GMD will continue its non-core divestment strategy. The success of the divestment will help the company to recognize some value from these inactive assets which aren't efficient so far. In the past, GMD's stock price reacted positively with these kinds of divestments.

*GMD is trading at a core trailing PE ratio of 17.6x, which is quite high compared to core earnings growth and industry norms. However, this is the result of the large proportion of inactive assets to total assets of the company. Thus, we base our valuation on a sum-of-the-parts method, which shows a 2019 EV/EBITDA multiple of 8, reasonable to historical valuation. We recommend **ACCUMULATING** with a price target of **VND 30,800** (+16%). We apply a 50% discount on the book value of non-core inactive assets. If the divestment succeeds, the valuation of GMD could rise.*

Investment rationales:

- Positive prospects with the new port of Nam Dinh Vu.
- Continuing divestment strategy of inactive assets which should be value accretive.

Risks:

- Worse-than-expected throughput due to completion of the deep-water HICT port.
- FDI begins to slow down or escalating trade wars globally.
- Worse-than-expected loss from the rubber segment.

Key financial ratios

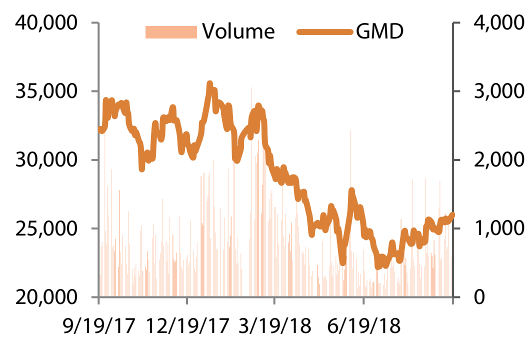
Y/E Dec (VND Bn)	FY2016	FY2017	FY2018F	FY2019F
Net revenue	3,742	3,984	2,413	2,551
%change	4.3%	6.5%	-39.4%	5.7%
PAT	390	508	1,666	445
% change	-3.7%	30.3%	228.0%	-73.3%
Net margin (%)	10.4%	12.7%	69.1%	17.4%
ROA (%)	3.9%	4.5%	14.3%	3.8%
ROE (%)	7.5%	8.0%	28.0%	7.3%
EPS (VND)	1,998	1,621	5,162	1,378
Adjusted EPS (VND)	1,352	1,762	1,239	1,378
Book value (VND)	28,792	22,005	20,041	20,571
Cash dividend (VND)	224	8,020	1,000	1,500
P/E (x)	15.5	17.6	5.1	19.0
P/BV (x)	0.7	1.3	1.3	1.3

*Source: GMD, RongViet Securities, * Based on the price on Sep 19th, 2018.*

ACCUMULATE	**+16%**
CMP (VND)	26,500
Target Price (VND)	30,800
Cash Dividend (VND)*	

** Expected in the next 12 months*

Stock Info	
Sector	Industrials
Market Cap (VND billion)	7,466
Share O/S	288,276,957
Beta	0.86
Free Float (%)	75.1
52 weeks high	35,582
52 weeks low	22,197
Average trading volume (20 sessions)	840,003



Performance (%)

	3M	1Y	3Y
GMD	-2	-20	62
Industrials			
VN 30 Index	-5	20	65
VN Index	-3	22	76

Major shareholders (%)	
VI Fund II, L.P	29.6
Huong Le	7.3
ReCollection Pte. Ltd.	6.1
Foreigner Investor Room (%)	*0%*

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INVESTMENT RATIONALE

Nam Dinh Vu port to capture container growth in Haiphong

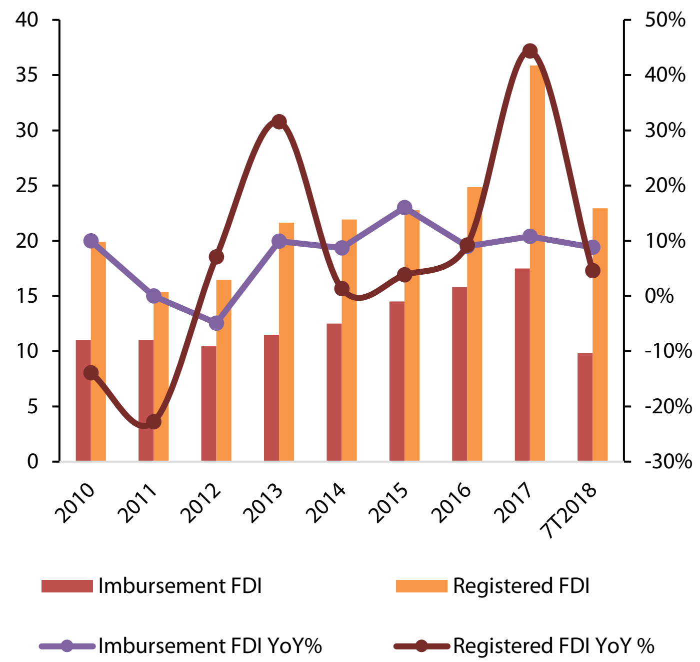
Haiphong's container volume continues to sustain double-digit growth

As an important trading terminal in the North, we see many tailwinds that support the port operation industry:

(1) FDI flows into the manufacturing segment

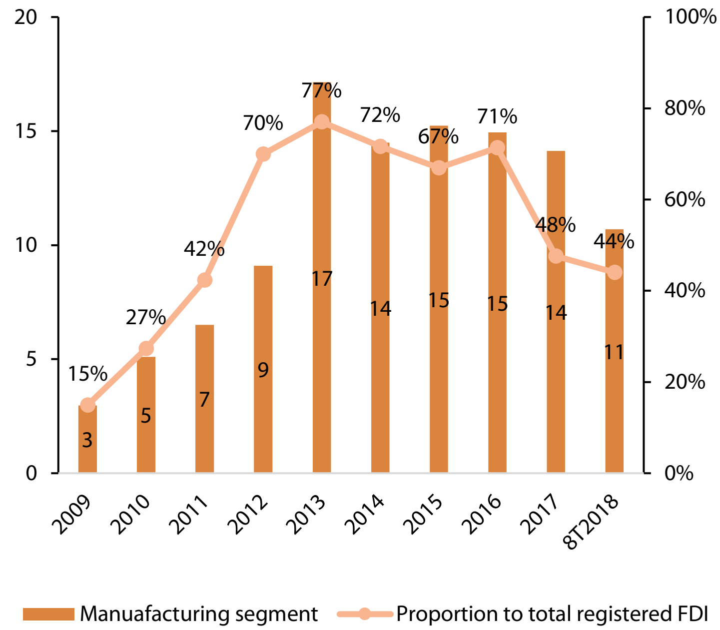
The high level of investment in the manufacturing sector will support the volume of goods through international gateways, including seaports in Haiphong, thanks to the demand to import machinery, raw materials and export finished goods of FDI enterprises.

Figure 1: Imbursement and registered FDI (bn USD)



Source: FIA, RongViet Securities

Figure 2: FDI flow into manufacturing (bn USD)

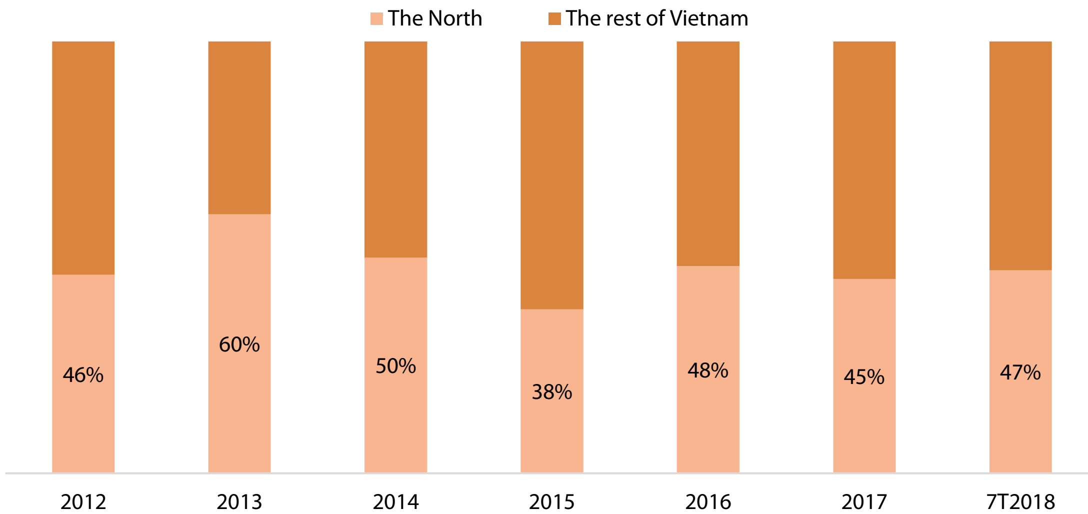


Source: FIA, RongViet Securities

The proportion of registered FDI in the manufacturing sector declined in 2017 and 8M2018 (Figure 2) due to the increasing flow into the real estate sector. However, manufacturing related registered FDI has remained steadily above USD 14 bn since 2014. According to the Foreign Investment Agency (FIA), as of August 20th, 2018, the manufacturing sector remained the leading source of inflow of capital, with 12,967 projects (49%) and registered capital of 190 billion USD (57%).

In addition, FDI registered in the North has been over 40% in recent years.

Figure 3: Proportion of FDI in Northern Vietnam



Source: FIA, RongViet Securities

(2) Expectation on FTAs

This is the driving force for trade growth as Vietnam benefits from reduced technical trade barriers and tariffs. We expect some FTAs to conclude and come into effect in the next 1-2 years, including EVFTA.

Table 1: Significant FTAs affect Vietnam trading prospects

FTA	Benefit	Benefited industry
Vietnam - Korea (Effective from 2015)	- Tariff will be free or decreased - Attracting investment from Korea, especially in high-technology, manufacturing and processing industries - Two-way trade will rise to US$70 billion by 2020 compared to US$43 billion in 2016	Agro-products, seafood, tropical fruits, garment, mechanical instruments
ASEAN Economic community (founded in 2015)	- Eliminating tariff and non-tariff barriers, harmonizing standards and integrating customs clearance - Unrestricted in the provision of services and establishment of companies across national borders - To achieve "free and open" investment with minimal investment restrictions - To promote the free flow of capital and skilled labor	Food, agro-products and timber
Vietnam - EURASIAN Economic union (Effective from 2016)	- Increasing export to EAEU between 18% - 20% per year - Two-way trade is expected to reach up to US$12 billion in 2020	Agricultural, seafood, garment, footwear and timber
CPTPP (Signed in Mar 2018, expect to be effective from 2019)	- Tariff will be free or decreased - Raising FDI to VN - Increasing exports to members of CPTPP	Textile, footwear, aquatic products, wood furniture, agriculture products
Vietnam - EU (negotiating IPA)	- Reduction in tariff barriers - Expected export from VN to EU will increase by 10 – 20% - Positive impact on FTA reserves for geographical areas of Red River Delta and Mekong River Delta	Textile, clothing and footwear and processed foods (ex: fish)

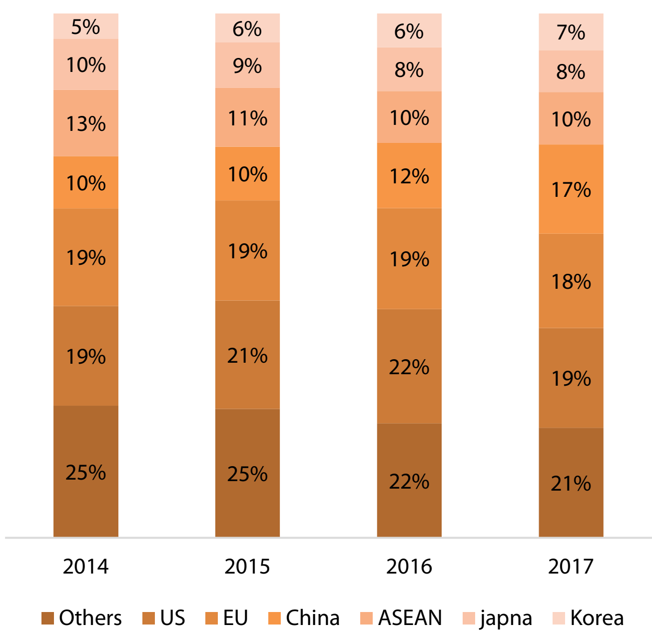
Source: Vietnam Chamber of Commerce and Industry, RongViet Securities

According to the Ministry of Industry and Trade (MoIT), key sea-transported items such as textile and garments, footwear, machinery, furniture, agricultural products and seafood continue to benefit greatly from signed FTAs. Some sectors, especially textiles, leather and footwear have received orders for the whole 2018.

(3) Economic growth of Vietnam's key trading partners

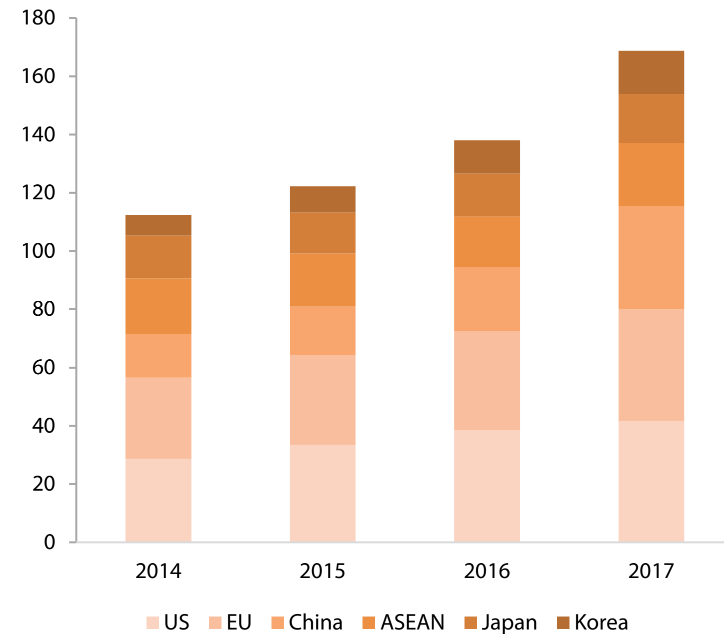
The IMF forecasts that in 2019, the global economy will grow 3.9% from 3.8% in 2018. The highest level in six years. The IMF also raised its forecast for growth in the United States in 2018 to 2.9% (+0.2%), to 2.4% in the EU (+0.2%). China's economy is forecasted to grow 6.6% and 6.4% respectively in 2018 and 2019, unchanged from the previous forecast.

Figure 4: Vietnam's key trading regions



Source: Vietnam Customs

Figure 5: Trading value by regions (bn USD)



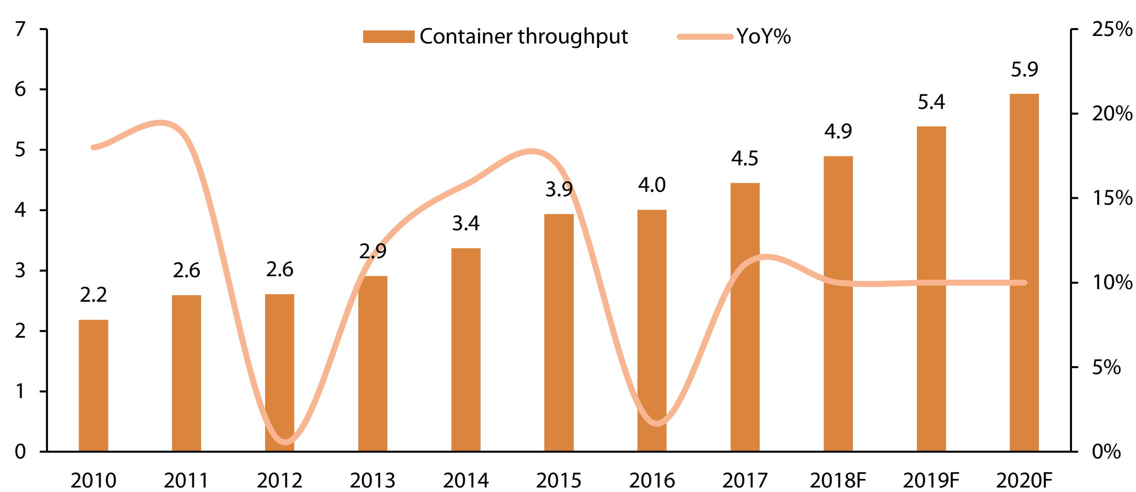
Source: General Statistics Office of Vietnam

(4) Incremental demand from new factories in Haiphong

Factories in the new Nam Dinh Vu industry park, LG Display in Trang Due industry park, Vinfast factory in Cat Hai are also expected to boost trading activities in Haiphong through import demand.

According to the detailed master plan for Northern seaports, the Ministry of Transport (MoT) estimates the box throughput in Haiphong will reach 5.8-6.2 mn TEU by 2020, a CAGR of 9.1%-11.3%. **We believe this volume can sustain 10% growth per annum for the next three years.**

Figure 6: Forecasted container volume in Haiphong (mn TEU)

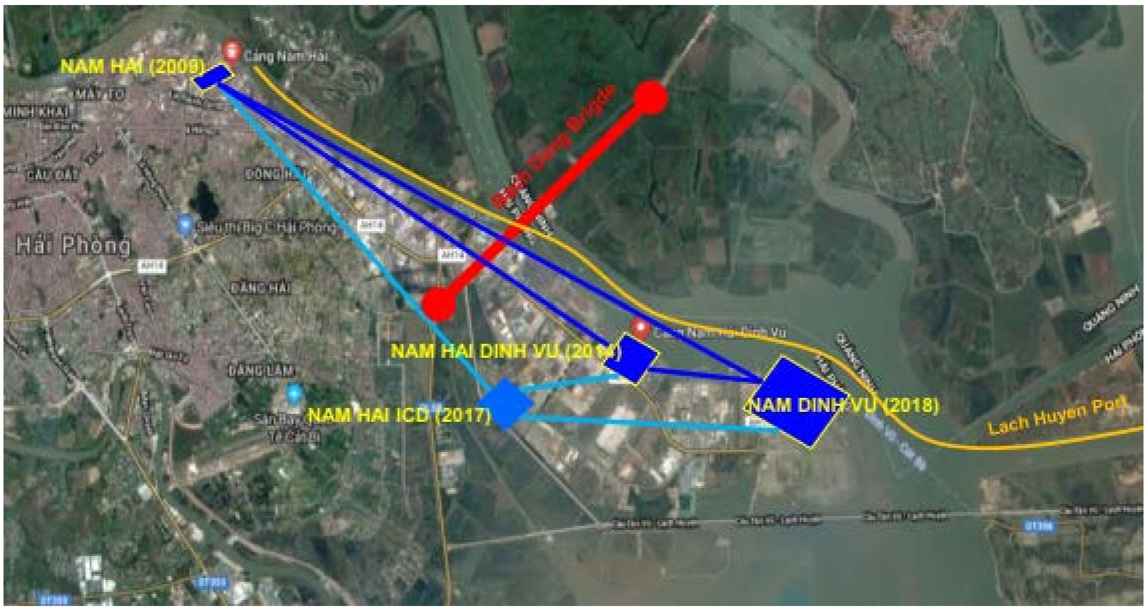


Source: RongViet Securities

Increasing competitive advantage with the Nam Dinh Vu project

Consolidating market share from other players with outstanding location. This is the very first and the only feeder port in the Nam Dinh Vu industrial park located downstream of Cam River, terminal for container flow in and out of Haiphong. This spot has deeper draft and more space in turning basin, thus Nam Dinh Vu is able to accommodate large feeder vessel of up to 30k DWT. Moreover, shipping lines do not have to depend much on the favorable tide, when berthing at this port which saves costs and time for them. We believe GMD could attract many container lines berthing at upstream ports which are limited to accommodate 1,000 TEU ships.

Figure 7 : GMD’s port clusters in Haiphong



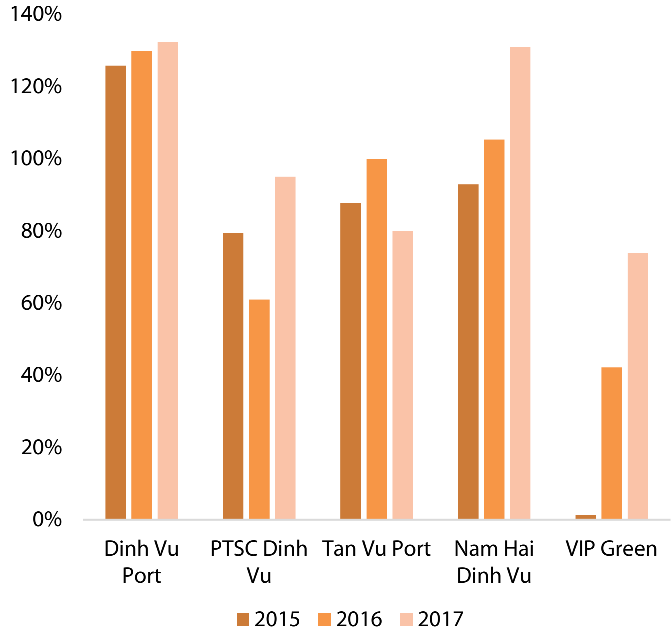
Source: GMD

Ample room in handling capacity is another advantage. Shipping lines have rigid requirement on handling time in one port call to make sure their lines are on schedule. Normally, port operators face congestion risk when utilization reachs 80%. As a result, docking time may increase and affects ports schedule. While other downstream ports are operating at very high utilization rate, Nam Dinh Vu has capacity to make sure handling operations run smoothly.

Moreover, Nam Hai ICD continues to be a strong support in speeding up cargo traffic and expanding storage area for GMD's port cluster in the Dinh Vu area.

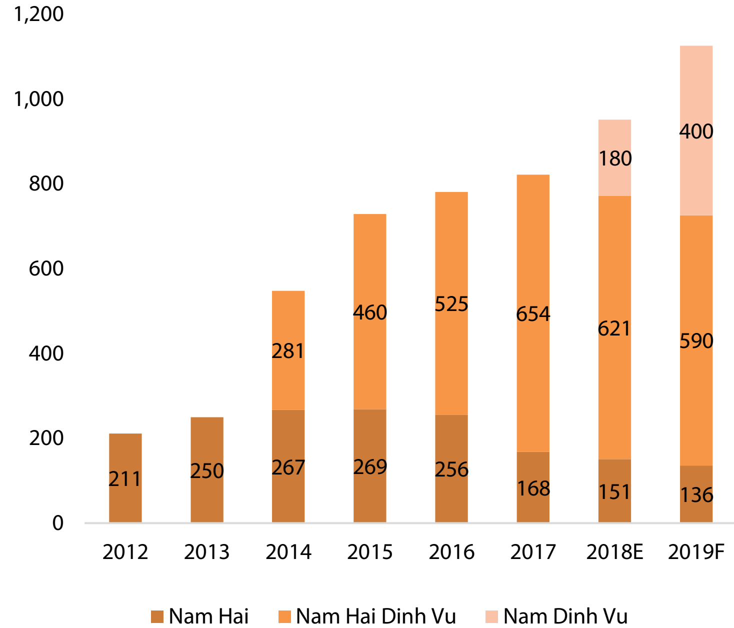
In summary, we expect that the new port of Nam Dinh Vu will be GMD's new growth momentum in the context that Nam Hai Dinh Vu is currently operating at full capacity and the volume of cargo through the Nam Hai port is declining. However, Nam Dinh Vu will not be able to achieve good performance from the first year of operation, such as Nam Hai Dinh Vu (Figure 9), as the supply in the downstream area has increased significantly with the participation of VIP Green and Tan Vu Port. For 2018, we expect that Nam Dinh Vu will receive about 3-4 calls per week, reaching about 180,000 TEUs. In 2019, Nam Dinh Vu can receive about eight voyages per week, ensuring container throughput of about 400-500 thousand TEUs, corresponding to 67% of the first phase capacity.

Figure 8: Estimated utilization rate of downstream ports



Source: RongViet Securities

Figure 9: Forecasted volume through GMD's port cluster in Haiphong (thousand TEU)



Source: GMD, RongViet Securities

Nam Dinh Vu Project

Nam Dinh Vu Port was put into operation in May, after the trial run earlier this year. The 440m-long berth can accommodate two feeder vessels at the same time. The four quay cranes of the port have the capacity to handle 600k TEU per annum (equivalent to 17 moves / hour / crane), increasing the capacity of GMD port cluster in Hai Phong to nearly double, reaching 1.3 mn TEUs per year. With the current design capacity, GMD will become the second largest seaport operator in Hai Phong, after Hai Phong Port JSC (HNX: PHP), with a 20% market share in capacity. The wharf is designed to be offshore to make full use of the deep draft of the Bach Dang deepwater basin (-8.5m). Other upstream basins have about 6m to 7m. As a result, this port can accommodate vessels up to 30 thousand DWT.

Table 2: Nam Đinh Vu project timeline

Phase	*No of berth*	*Capacity (mn TEU)*	*CAPEX (mn USD)*	*Operation year*	*Acreage (ha)*	*Berth length (m)*
1st	*2*	*0.6*	*75*	*2018*	*20*	*440*
2nd	*2*	*0.4*	*75*	*2020*	*20*	*440*
3rd	*3*	*0.5*	*115*	*2022*	*25*	*660*
Total	***7***	***1.5***	***265***		***65***	***1,540***

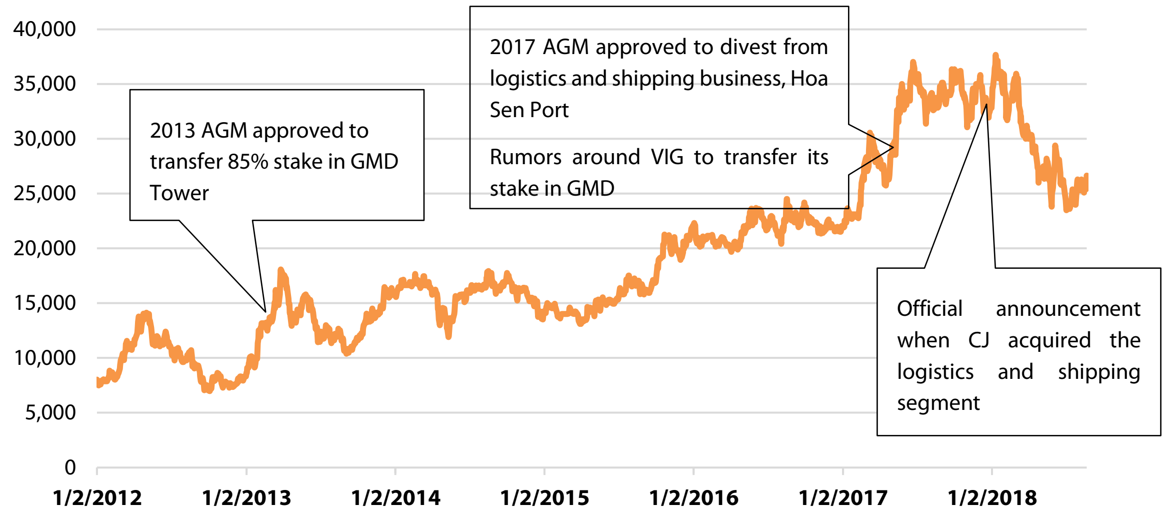
Source: GMD

As of July 2018, Nam Dinh Vu port had about 80,000 TEUs. At present, Nam Dinh Vu is serving TS lines (a move from Nam Hai Dinh Vu), Hasco, SJJ and ASL.

Continuing to divest from non-core segments

Besides its core business, GMD is also known for its large non-performing investments. Therefore, the information of divestment from these areas is always seen very positively by the market. There is a correlation between the movement of GMD's stock in the years when they announced the transfer of GMD Tower (2013, recorded in 2014 profit) or divestments from two logistics companies and shipping (2017, 2018).

Figure 10: GMD stock price (VND)



Source: Bloomberg

Table 3: Total return of GMD

	2013	2014	2015	2016	2017	1H2018
Total return	**99%**	**-2,6%**	**64,5%**	**9,2%**	**48,7%**	**-0,6%**
Price appreciation	91,9%	-10,6%	54,4%	0,2%	48,7%	-23,6%
Dividend yield	7,1%	8%	10,1%	9%	0%	23%
PAT growth	78%	177%*	-18%	-4%	31%	574%*
Core PAT growth	102%	80%	165%	5%	-5%	48%

Source: GMD, RongViet Securities

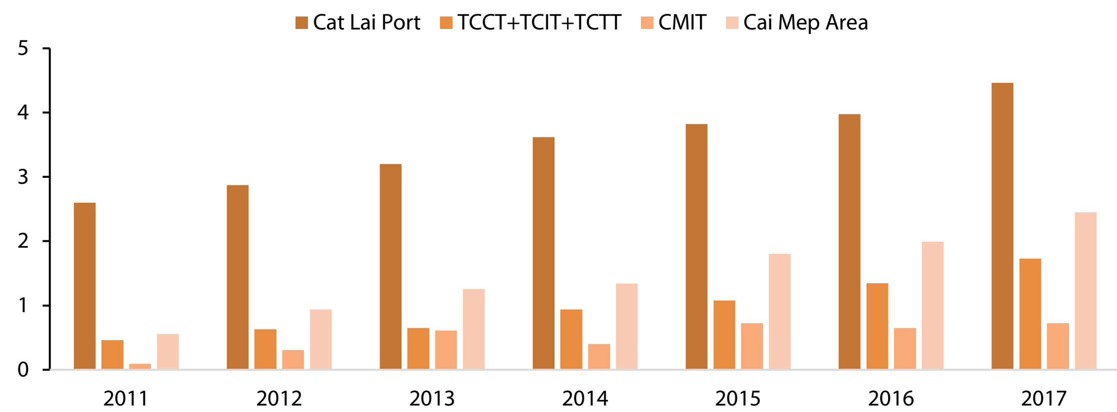
** include financial income from divestment*

GMD plans to divest from rubber and real estate. From 2014, GMD has started to record losses in the rubber segment. Accumulated loss is more than VND 270 bn. If the divestment succeeds, the company not only will be able to avoid more losses, but also increase its cash flow. However, we believe that finding a transfer partner will take time.

Gemalink Project (Cai Mep – Thi Vai area): many things left to be done

Container market in Cai Mep has experienced an impressive 5-year CAGR of 21%, partly due to a low base effect. As the largest deep-water ports area nationwide, we expect growth momentum for this area to continue. Shipping lines will enjoy lower costs for transatlantic and transpacific vessels with final destination located in Southern Vietnam. In addition, the largest port, Cat Lai, has seen overcapacity and faced congestion for years. Therefore, to mitigate this situation, in the detailed master plan for seaports in South East Vietnam (group 5), the MoT has restricted any expansion of Cat Lai but plans to develop the Hiep Phuoc and Cai Mep port cluster.

Figure 11: Box throughput in Cat Lai in HCMC and others in the Cai Mep Area (mn TEU)



Source: SNP, RongViet Securities

Solve the competition problem

Gemalink will have to compete with TCIT and TCTT, belongs to Saigon New Port (SNP), which have a very strong network in the South (Figure 13) and offer very competitive pricing. The nature of containers through Cai Mep is transship containers. That means after being offloaded at Cai Mep, it will be transshipped by barges to other inland ports in Ho Chi Minh city or other places. For example, goods which handled at TCIT and then transshiped to Cat Lai Port (located in Ho Chi Minh City, also belong to SNP's port system) will not incur costs of 44 USD / 20 ft, 66 USD/40 ft at TCIT. Otherwise, goods from ports outside SNP's system will be charged this fee. This explains that up to 40% of cargo arriving at Cat Lai port comes from TCIT.

Therefore, while GMD expects to receive support from CMA-CGM, also a shareholder in the Gemalink project, and other members of the OCEAN marine alliance (including COSCO, OOCL, Evergreen), we are concerned about the fact handling charges may not be as competitive as SNP. Currently, this alliance has two transpacific services to the West Coast of the United States at TCIT (Table 4).

Table 4: OCEAN alliance's services call at TCIT

Service	Port calls	Detail	Average TEU/ship
PVCS/PVC	TCIT – SHK – HKG – YTN – KHH – LGB – KHH – TCIT	6 ports in 19 days 8 vessels, 10.000 – 13.000 TEU each LOA: 325m	3.250
PNW2/CPN	(AWE) – SIN – TCIT – HKG – YTN – SHA – NGB – PRR – VAN – QIN – (AWE)	9 ports in 19 days 16 vessels,10.000 TEU each LOA: 334m	2.900

Source: SNP

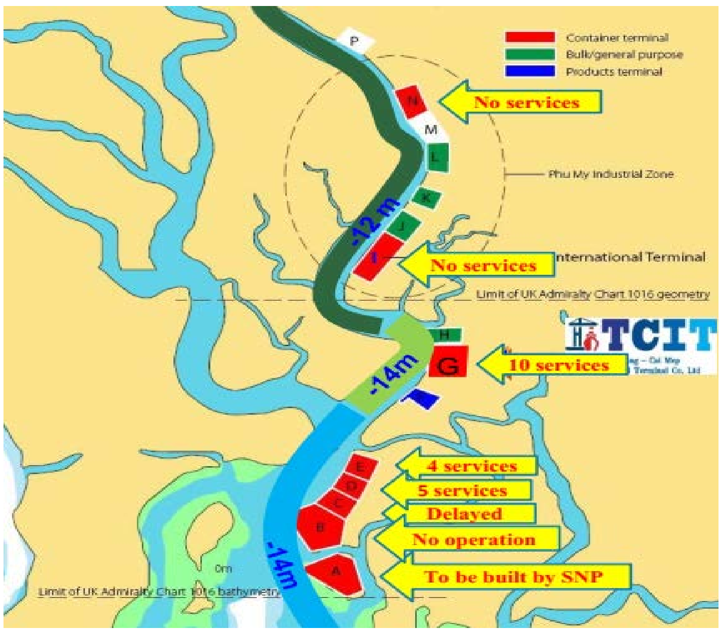
Therefore, to improve the feasibility and effectiveness of the Gemalink project, we believe GMD needs to upgrade and expand its logistics port system. Ports in Cai Mep area are all transshipment port, so the containers after being unloaded here will mainly be transported by barges or feeders to inland ports, as in the case of TCIT and Cat Lai mentioned above. Therefore, owning logistics systems and satellite ports will be a huge advantage. Owing to the dense network of ICDs and inland ports in Ho Chi Minh City and Binh Duong (Figure 12), SNP and Saigon Port JSC' ports in Cai Mep (TCIT, CMIT, TCTT) accounts for 96% of the market (Table 5).

Table 5: Market share at Cai Mep

Port	Container volume from 01/20111-8/2018 (TEU)	Market share
TCIT	6,676,370	60%
CMIT	2,958,736	27%
TCTT	1,015,146	9%
Others	469,626	4%
Total	**9,088,505**	**100%**

Source: SNP

Figure 12: Port cluster in Cai Mep



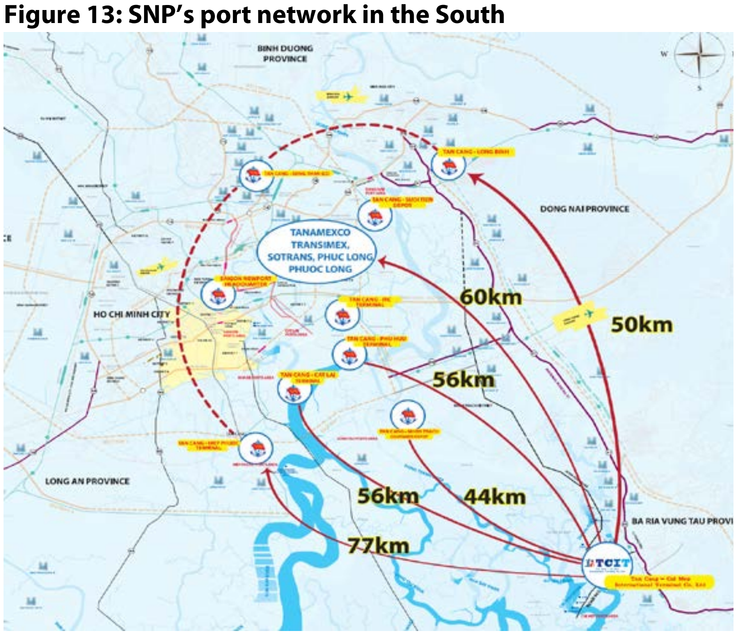
Source: SNP

Table 6: Container ports in Cai Mep

Ref	Name	Berth length	Draft	Share-holder	Status
I	SP-PSA	600m	12m	Vinalines, SGP, PSA	Operating since May 2009 No services (Bulk vessel only)
G	TCIT	890m	14m	SNP, MOL, HJT, WHL	Opened in 2011 10 weekly services
E	CMIT	600m	14m	Vinalines, SGP, APM	Opened in 2011 4 weekly services
D	TCTT	600m	15m	SNP	Operating since Jan 2014 6 weekly services
C	SSIT	600m	16.5m	Vinlines, SGP, SSA	Operened in 2014 Bulk only until 2018 2 weekly services
B	Gemalink	800m	16m	GMD, CMA-CGM	Expected to operate in 2020
A	Cai Mep Down-stream	1,200m	17.5	SNP	To be built by SNP

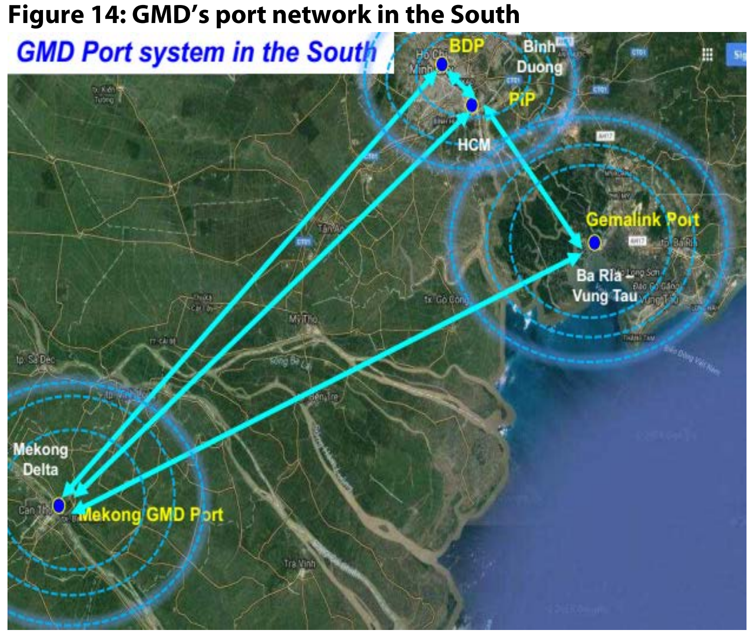
Source: RongViet Securities

Figure 13: SNP's port network in the South



Source: SNP

Figure 14: GMD's port network in the South



Source: GMD

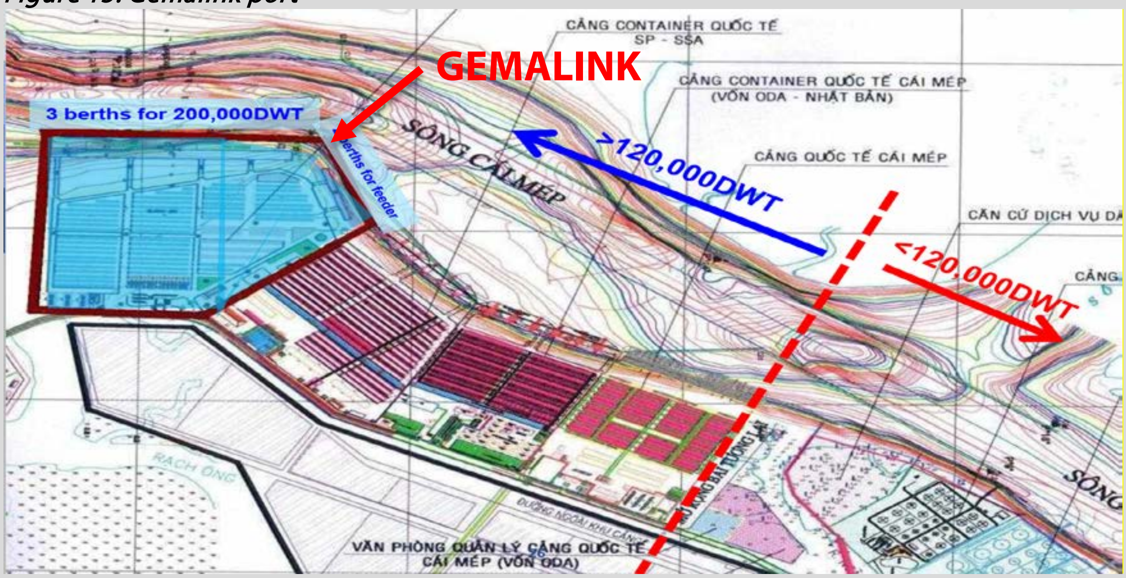
Gemalink project

Gemalink deep-water port is a joint venture between GMD (75%) and CMA-CGM (25%) with a total chartered capital of USD 120 million, which has been delayed since 2012 due to economic reasons. Investors have contributed capital since the establishment. The above amount has been used for land lease and site clearance. This joint venture still has more than unused USD 10 mn, and is lending to GMD.

This project is expected to borrow about USD 200 mn, which is huge compare to current GMD's total assets. However, the interest expense will be capitalized, so the consolidated profit will not be affected.

Gemalink's land use right value of VND 284 bn is allocated over 48 years. Thus, GMD recorded about VND 6 billion profit in other income.

Figure 15: Gemalink port



Source: GMD

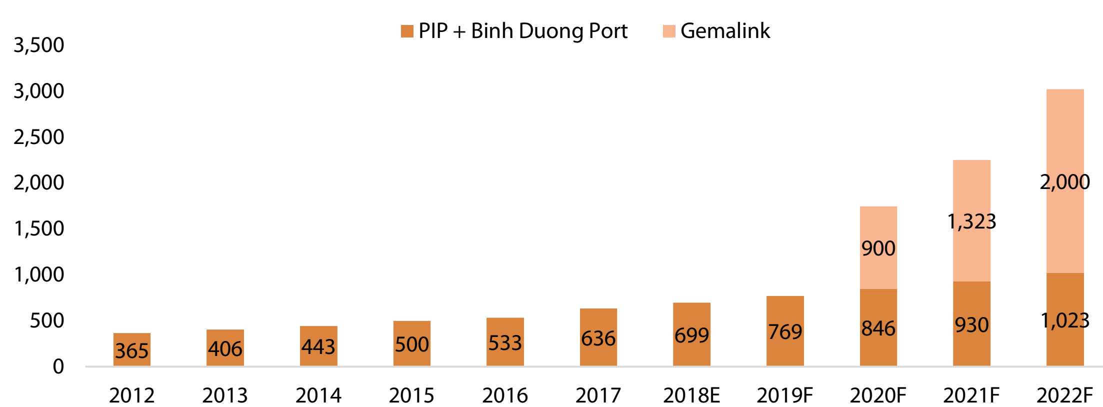
Gemalink can accommodate maximum vessel size of up to 200 thousand DWT due to the deep draft near the ocean.

Table 7: Gemalink project

Phase	*No of berth*	*Capacity (mn TEU)*	*CAPEX (mn USD)*	*Expected operation year*	*Acreage (ha)*	*Berth length (m)*
1st	*2*	*1.5*	*330*	*2020*	*33*	*800m*
2nd	*1*	*0.9*	*n/a*	*n/a*	*39*	*350m*
Total	***3***	***2.4***	***330***		***72***	***1,150***

Source: GMD

Figure 16: GMD expects that Gemalink will contribute significantly from 2020 onwards (thousand TEU)



Source: GMD

KEY RISKS AND CATALYSTS

Key catalysts	Downside risks	Upside risks
- Capture double-digit container growth in Haiphong with Nam Dinh Vu - Increase FOL - MoT to approve the new higher price range of international container handling service for seaports in Northern Vietnam - Successfully divest from non-core segments	- Competition from Lach Huyen HICT - Escalating trade war - FDI flows to slow down - Worse-than-expected loss from rubber segment - Dilution risk: from 2009, AGM approved ESPP which will issue 1.5% current outstanding shares each year until 2018.	-Better- than-expected throughput - Reefer container to surge: Food and goods from US may circumvent the technical trading barriers on China by going through Haiphong as in 2015

(+) MoT is gathering comments for the draft of a Circular which regulates container handling services tariffs to replace Decision 3863/QD-BGTVT. Handling tariffs for international containers in northern Vietnam seaports will increase 10%. In contrast, tariffs for domestic ones will decrease 18% and 7% for 20 ft and 40 ft, respectively. Such changes will benefit ports which serve international customers, especially those located downstream.

(-) Trade tensions may slow down the growth rate of shipping to and from the US and China, the two largest trading partners of Vietnam. This may indirectly affect the import and export activities of goods through Hai Phong. However, we think that the impact is negligible. In the short-term and worst case, Drewry calculates that about 1.8 million TEUs (source in the footnote), and nearly 1% of world container traffic can be lost. However, if the tension escalates, the numbers may be much larger.

(-) Shipping lines to set up more vessels' routes to HICT faster-than-expected, reducing the number of feeder vessels to Hai Phong. Currently, Maersk Line is offering three weekly routes to HICT. However, we also note that these are double calls, which means they docked at other ports in Haiphong after HICT due to deeper draft.

Figure 17: Ports in Haiphong

Source: RongViet Securities

In the near future, we believe that the impact of HICT on GMD is negligible, due to:

- Cost / TEU at HICT is currently higher relative to the feeder ports inland, including: (1) 50% higher handling charges (Table 8), (2) Trucking costs is also higher because HICT is about 20km further than the ports in the Dinh Vu area. Not to mention the possibility, in the future, that the government may charge fees on the Tan Vu - Lach Huyen bridge.

Table 8: Floor price of container handling service for seaports in Northern (Decision no 3863/QG-BGTVT)

Unit: USD		Other ports	HICT
International container			
	20 feet	30	46
	40 feet	45	68
	> 40 feet	52	75
Transship container			
	20 feet	23	34
	40 feet	34	51
	> 40 feet	39	56

Source: Ministry of Transport

- In order to achieve economic efficiency when handling cargo at Lach Huyen, either one shipping line will have to collect enough containers for one mother vessel (3,500 - 4,000 TEUs) or multiple smaller carriers will have to share slots on one mother vessel call. Meanwhile, the volume of goods in Hai Phong is relatively small compared to other hubs in Asia. Therefore, in the near future, we believe that the demand for shipping by mother vessels will not be large. Moreover, shipping lines will take longer time to collect goods for mother ships than for a feeder.

- The amount of goods that Nam Dinh Vu could capture from upstream ports can offset the competitive risk from HICT. Upstream ports currently serve about 1.2-1.5 mn TEUs each year, which is larger than HICT's designed capacity (1.1 million TEUs per year). We believe that the trend of downstream container movement will occur faster than HICT's fill rate.

(-) Worse-than-expected loss from the rubber segment

Since 2014, GMD has started to record losses due to an inefficient investment in the rubber segment. The reason is the maintaining costs of 10 thousand ha rubber plant which has not generated any revenue. Accumulate losses for the first half of 2018 is about VND 270 bn.

Table 9: Loss incurred from the rubber segment

Unit: mn VND	2014	2015	2016	2017	1H2018
Loss	55,362	0	53,549	60,275	100,866
Accumulated	**55,362**	**55,362**	**108,911**	**169,186**	**270,052**

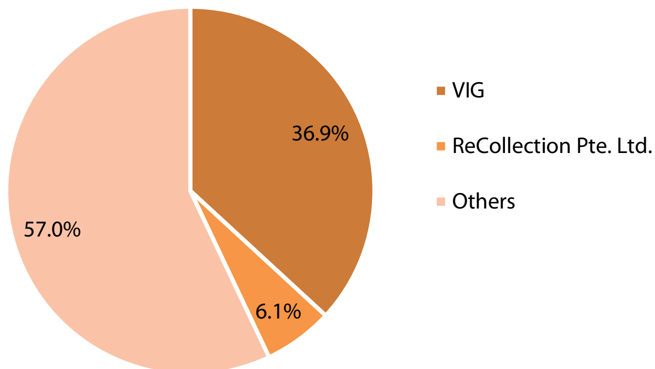
Source: GMD

COMPANY OVERVIEW

Gemadept is a leading private enterprise in the port and logistics industry with nearly 30 years of experience. In addition, GMD also invested in rubber (from 2011) and real estate.

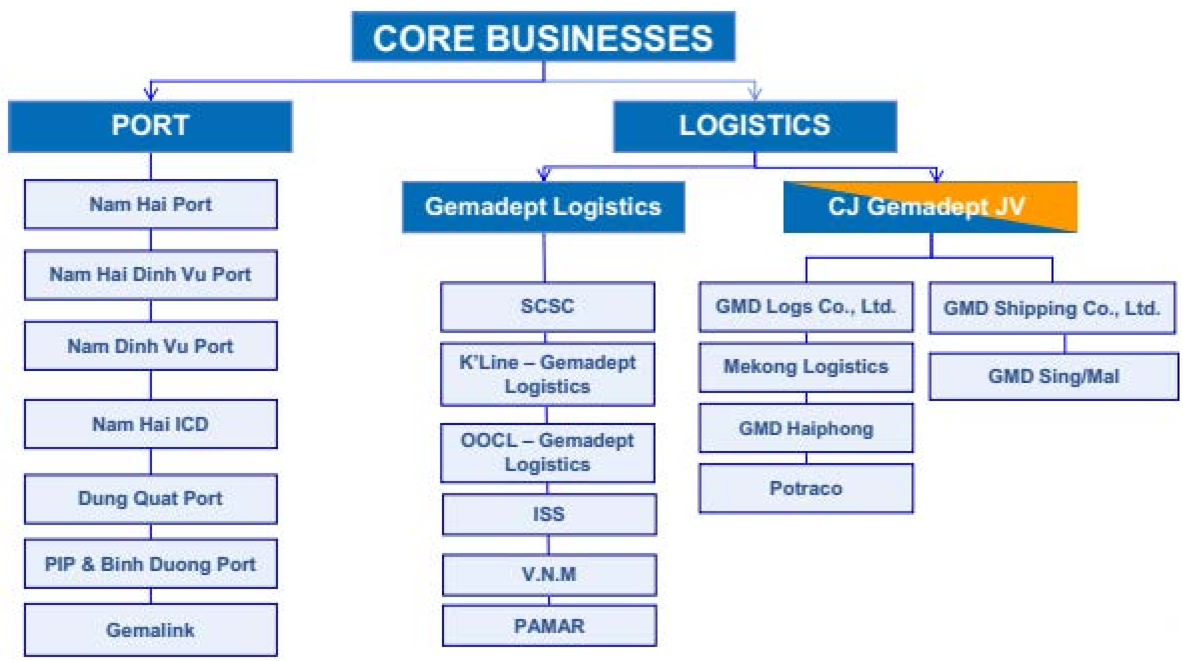
After converting bonds into stocks in 2017, VIG is currently the largest shareholder of GMD with a 37% stake. Foreign ownership limit has been locked at 21% since 2014. However, at present, foreign ownership accounts for around 44-45%. GMD is up for approval by the HSX to raise this limit to 49%. Room for foreign investors of GMD may be available at around 4-5%.

Figure 12: Shareholders of GMD



Source: GMD

Figure 13: GMD core business



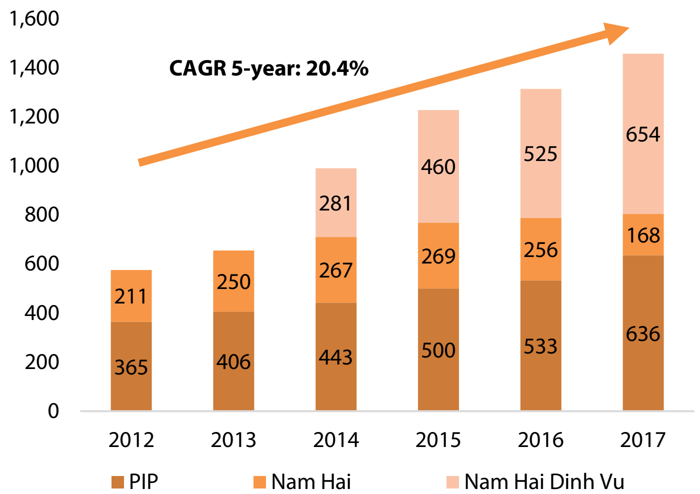
Source: GMD

Port operation is key

After selling the logistics segment to CJ Corp, the seaport will be the main business of GMD. Currently, the company is exploiting five ports distributed in three regions with a total capacity of 2 million TEU per year. Ports in the North include Nam Hai, Nam Hai Dinh Vu and recently Nam Dinh Vu with a total capacity of 1.3 million TEU / year. Stage 2 of Nam Dinh Vu, scheduled to start in the third quarter of this year, will increase the total capacity of GMD in Hai Phong to 2 million TEU per year by 2020.

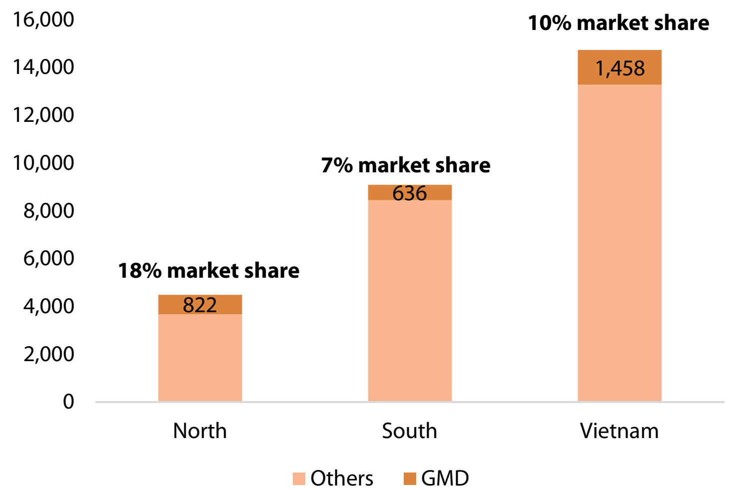
The southern port cluster, including Phuoc Long ICD (PIP) and Binh Duong port, has capacity of about 650 thousand TEU / year. In the central region, Dung Quat port handles mainly bulk cargo and wood chips with an annual capacity of about 3.2 million tons.

Figure 14: Container volume through GMD's ports (thousand TEU)



Source: GMD

Figure 15: Container volume (thousand TEU) and market share of GMD in 2017



Source: GMD, RongViet Securities

Logistics activities: take advantage of CJ

GMD is one of the few logistics companies in Vietnam that can provide a wide range of logistic services by owning seaports, warehouses, and transportation facilities nationwide.

After selling 51% in GMD Logistics Holding and 49% in GMD Shipping Holding, GMD will profit from a distribution center, project cargo, shipping through associates. Only revenues from marine agency services are consolidated. In addition, we expect that GMD will benefit from its customer acquisition and support from CJ Logistics' specialists.

Rubber segment

GMD started rubber plantations in 2011. Long-term investment in rubber at the end of 2Q2018 accounts for about VND1,600 bn, equivalent to 16% of GMD's total assets. GMD's policy is to focus on maintaining the plant, not expanding, and seeking partners to divest.

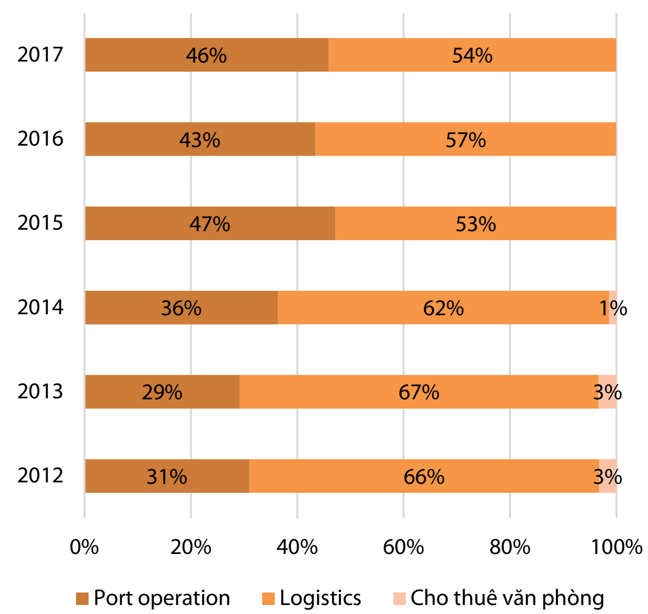
Real estate

GMD owns two real estate projects through its affiliates, including: Saigon Gem (the intersection of Le Loi and Nam Ky Khoi Nghia in District 1, Ho Chi Minh City) and Viantiane Complex (Sibunhuong, Chanthabouly District, Vientiane, Laos). GMD is completing the legal procedures for these projects and also looking for potential investors to divest.

FINANCIAL ANALYSIS

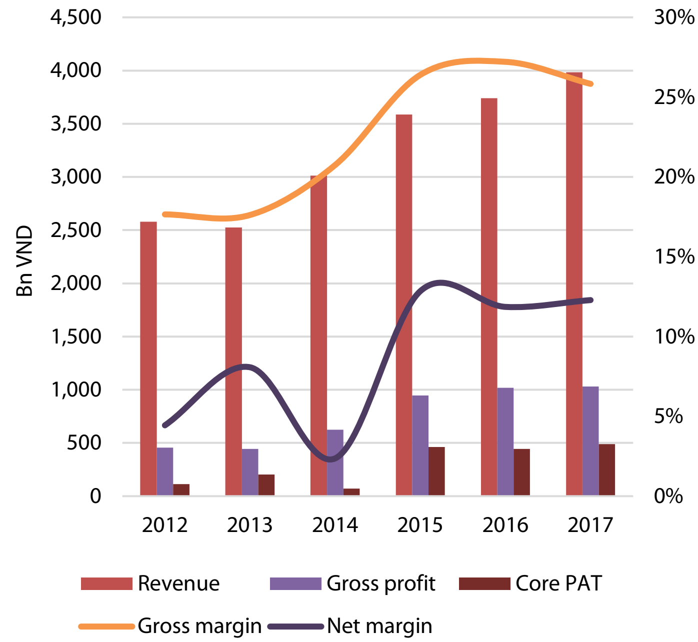
Revenue growth and margins improved from 2014

Figure 16: Revenue breakdown



Source: GMD

Figure 17: GMD's improved margin

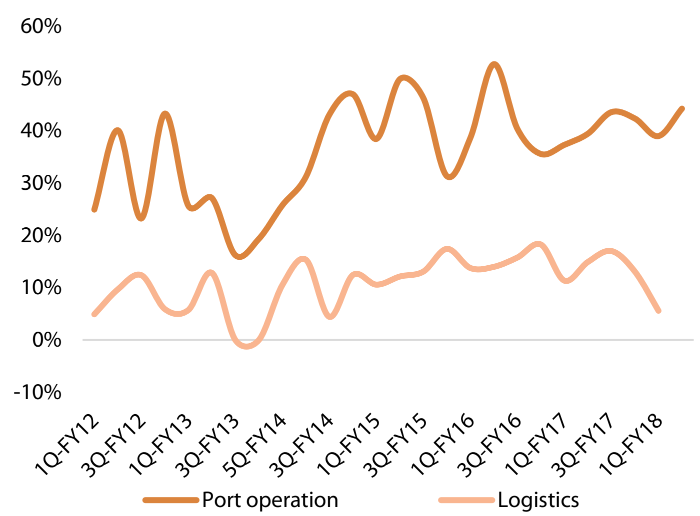


Source: GMD

GMD's revenues and gross profits have been growing well since 2014 due to: (1) the proportion of port revenue, which has higher margins than logistics and has increased significantly due to the contribution of the port Nam Hai Dinh Vu, (2) reefer containers, which brings higher margins for port operators.

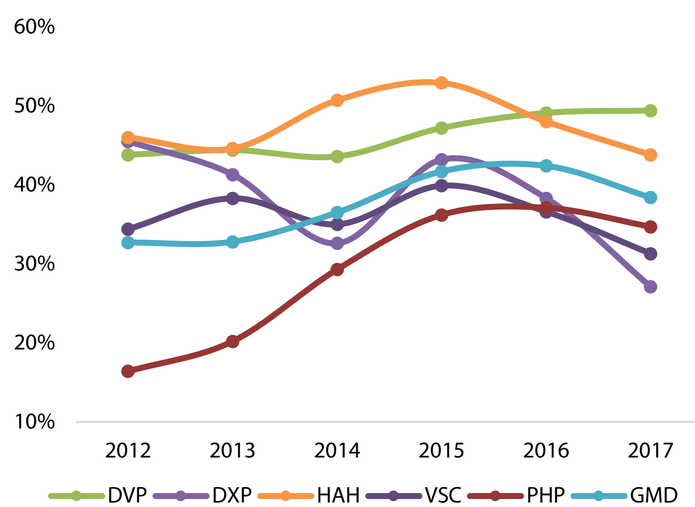
Gross margin is lower than that of HAH and DVP since these two companies in recent years have not invested in expanding new ports so they do not incur additional depreciation expenses like GMD.

Figure 18: GMD's gross margin by quarter



Source: GMD

Figure 19: Gross margin of ports in Haiphong

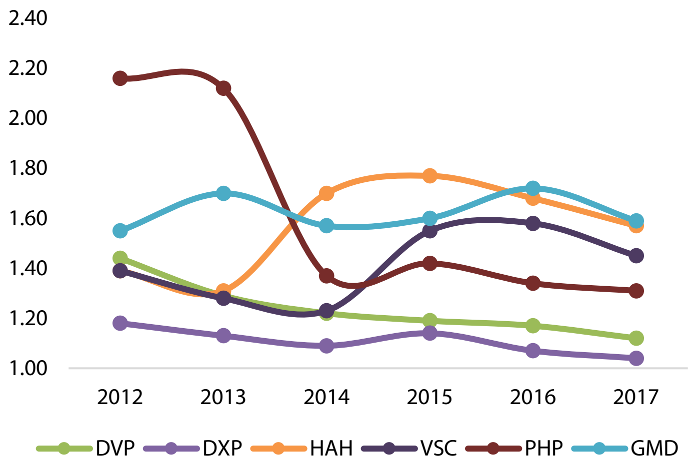


Source: RongViet Securities

ROE is low due to outward investment

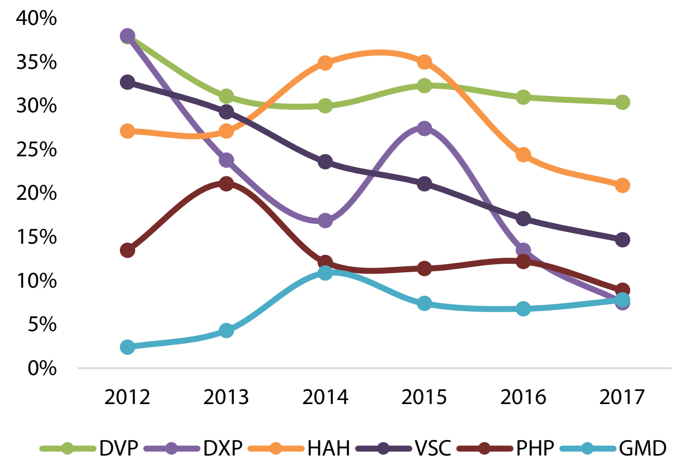
Despite the high financial leverage, GMD has a very low ROE compared to its peers because a portion of capital used to invest in rubber and real estate has not yet generated profit. GMD is still in the process of implementing a divestment strategy from these segments to focus its resources on its core business. Therefore, if GMD succeeds in divesting from these two segments, it will have a positive impact on the company's performance and stock price.

Figure 20: Financial leverage (Total assets / Equity)



Source: RongViet Securities

Figure 21: ROE of port operators

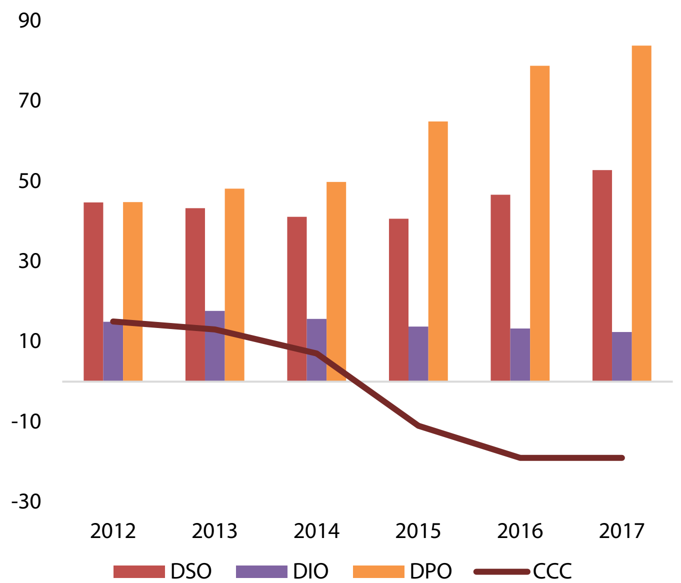


Source: RongViet Securities

The ratio of total debt/total assets reached 33% by the end of 2Q / 2018. Short-term debt declined over time and only accounted for 15% of total assets at the end of Q2 / 2018.

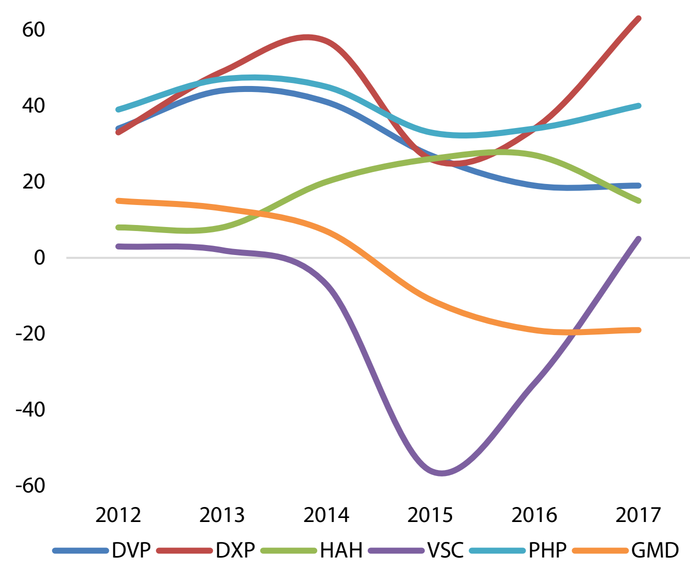
GMD's cash conversion cycle has improved in recent years and is better than its peers. GMD's receivables days are quite similar to those of its competitors. However, due to the difference in the contribution ratio of logistics services, the repayment period for GMD's partners / customers is extended compared to the sector. This also helps cash flow from operations to remain quite stable and grow steadily over the years. We believe that GMD's cash conversion period will be longer than previously because most of the revenue will come from port operations.

Figure 22: Cash conversion cycle (days)



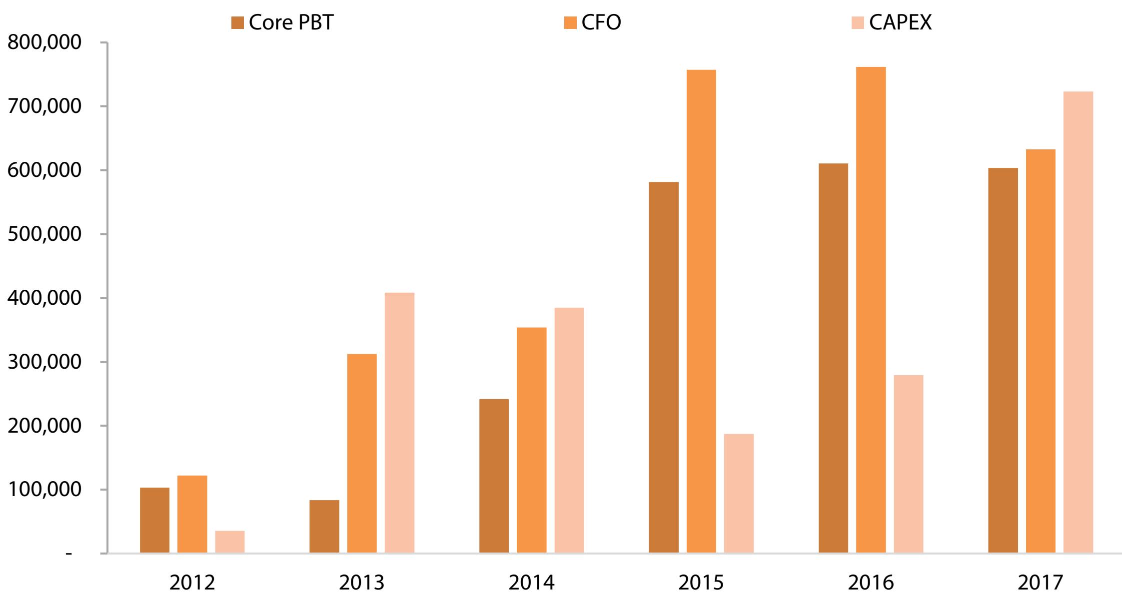
Source: Fiinpro

Figure 23: Ports' cash conversion cycle



Source: Fiinpro

Figure 24: Core PBT, CFO and CAPEX (bn VND)



Source: GMD

FORECAST

Table 10: Forecasted revenue and gross profit

Unit: bn VND	2015	2016	2017	2018F	2019F
Revenue					
Port operation	*1.692*	*1.624*	*1.829*	*1.991*	*2.274*
Logistics	*1.893*	*2.116*	*2.153*	*365*	*233*
Gross profit					
Port operation	*706*	*688*	*703*	*753*	*868*
Logistics	*240*	*329*	*324*	*91*	*70*

Source: RongViet Securities

Table 11: Throughput assumptions

Port	2018F (thousand TEU)	YoY %	2019F (thousand TEU)	YoY %	Notes
Nam Hai	151	-10%	144	-5%	*Shipping lines will move downstream of GMD's port. In the future, we expect this port will only serve domestic routes of CJ GMD Shipping*
Nam Hai Dinh Vu	622	-5%	591	-5%	*Operated at full capacity in 2017, for optimal efficiency, we believe that NH-DV will not grow strongly in container volume. The incremental volume of cargo will be distributed to Nam Dinh Vu.*
Nam Đinh Vu	180	n/a	400	122%	
PIP+Binh Duong	693	+10%	728	+5%	*We expect this port will be expanded to increase capacity and meet increased cargo volumes*
Total	**1,646**	**13%**	**1,870**	**14%**	

Source: RongViet Securities

We expect gross margins of the port segment in 2018 will be slightly lower. With a total investment of VND1.6 trillion, the depreciation expense in the first phase of Nam Dinh Vu Port is not small, especially since it is not fully operational. As a result, we estimate gross margins for the port operations this year will come to VND 765 bn, corresponding to a gross margin of 37.3%, down 110 basis points YoY.

Contribution from affiliates

Our key assumptions are as follow:

SCSC (GMD owns a 33% stake)

- 2018 PAT's growth to reach 20%
- Contributes VND 143 bn to PAT.

CJ-GMD Logistics Holding (GMD owns a 49% stake)

- CAGR 3-year of PAT is 10%, due to cooperation with CJ.
- Contributes VND 32 bn to PAT.

CJ-GMD Shipping Holding (GMD owns a 51% stake)

- CAGR 3-year of PAT is 8%.
- Contributes VND 12 bn to PAT

Financial income

As of 2Q2018, the company recorded a gain of VND1,516 billion from the transfer of investment: (1) a 49% stake in Gemadept Shipping Holding, (2) 50.9% Gemadept Logistics Holding, (3) a 51% stake in Hoa Sen-Gemadept Port.

We assume GMD will not record any financial gains for the rest of 2018.

VALUATION

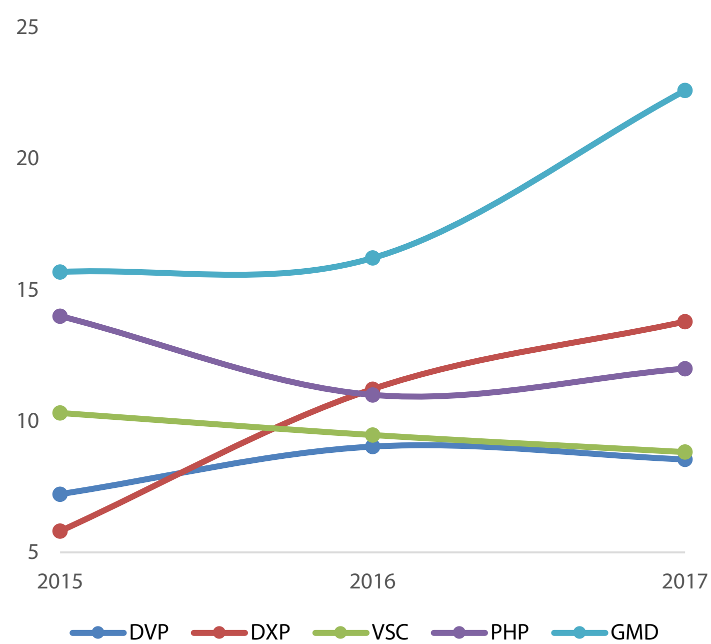
GMD is trading at a high 2019 PE and PB. This premium to the industry is due to the fact that GMD has some assets not contributing to the company's profit but account for a large proportion of total assets such as rubber, real estate and the Gemalink project. Therefore, we use a sum-of-the-parts (SOTP) valuation with the following assumptions:

Table 12: SOTP summary

Segment	Method	Equity value (bn VND)
Port operation	EV/EBITDA target of 5x	3.906
Logistics JV	P/E	3.293
Inactive assets	Book value: discount 50%	1.950
Total		**9,149**
1-year price target		**30.800**

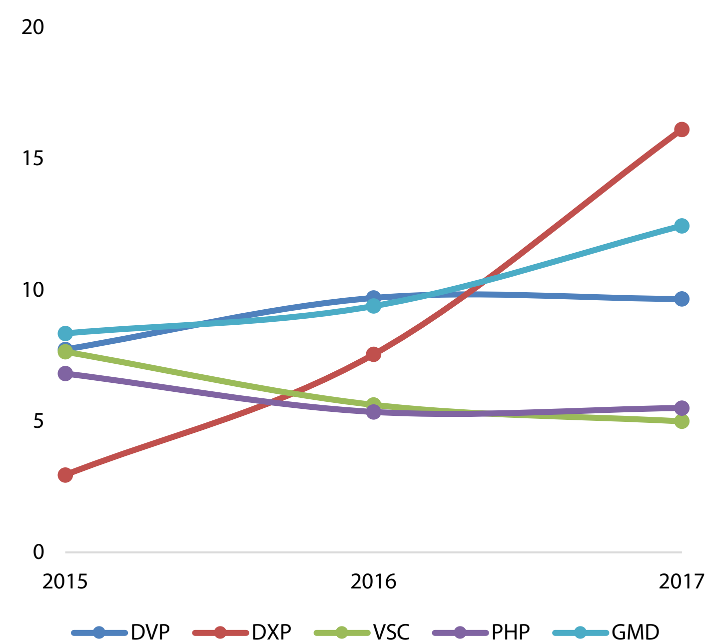
At the price target of VND 30,800, 2019 PE, PB and EV/EBITDA are 22x,1.5x and 8.1x,respectively.

Figure 25: GMD's premium P/E



Source: RongViet Securities

Figure 26: GMD's premium EV/EBITDA



Source: RongViet Securities

INDUSTRY OVERVIEW

Downstream ports continue to gain market share

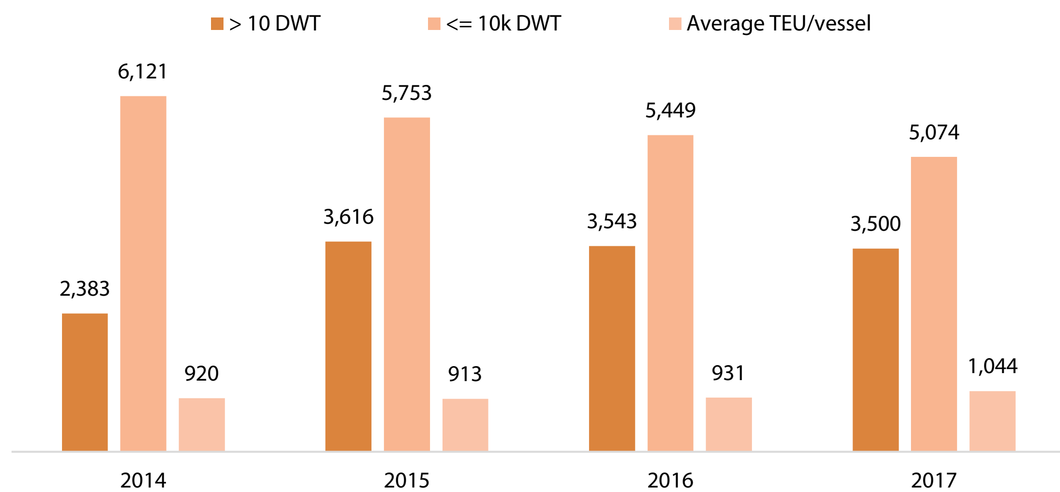
In addition to saving time and money for shipping lines, the trend of increasing vessel size is also a factor driving the movement of cargo to downstream ports. The reason is that most upstream ports can only accommodate vessels with a maximum payload of 1,000 TEUs due to limited depth of the channel. Meanwhile, the average load of feeder vessels in Hai Phong has been increasing from around 900 TEUs five years ago to more than 1,000 TEU by the end of 2017.

Table 13: Vessel building orderbook

Current		Orderbook	
Vessel size	**Proportion**	**Vessel size**	**Proportion**
≤2.000 TEU	12%	≤2.000 TEU	5%
2.000 – 10.000 TEU	58%	2.000 – 10.000 TEU	12%
10.000 – 21.000 TEU	30%	10.000 – 21.000 TEU	83%

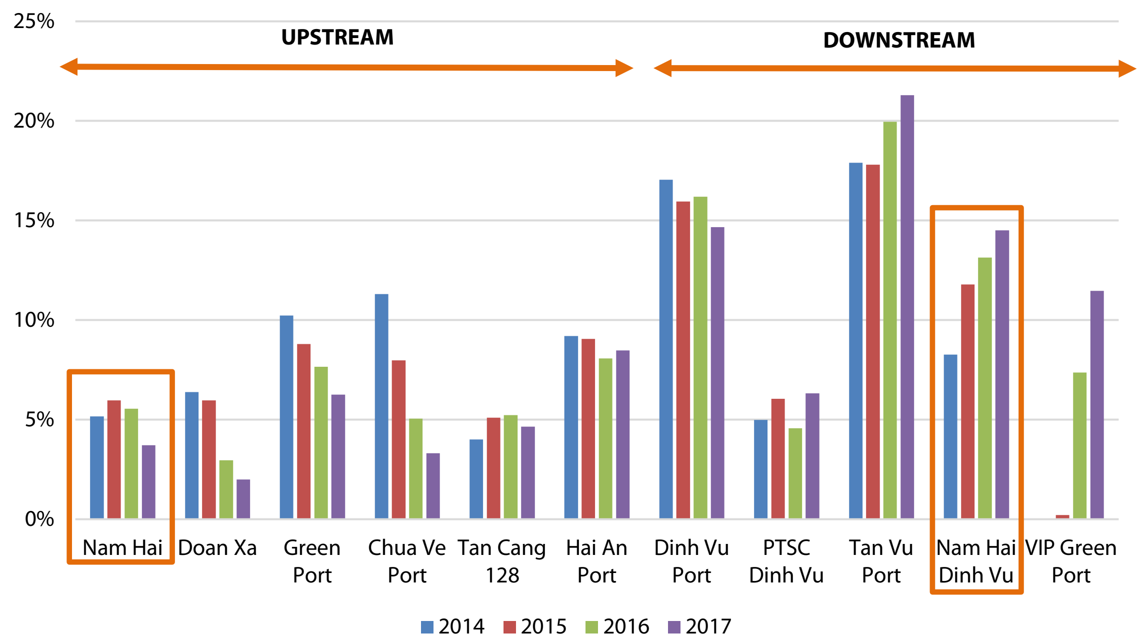
Source: Alphaliner

Figure 27: Vessel calls at Haiphong by size and TEU per call



Source: Maritime administration of Haiphong, RongViet Securities

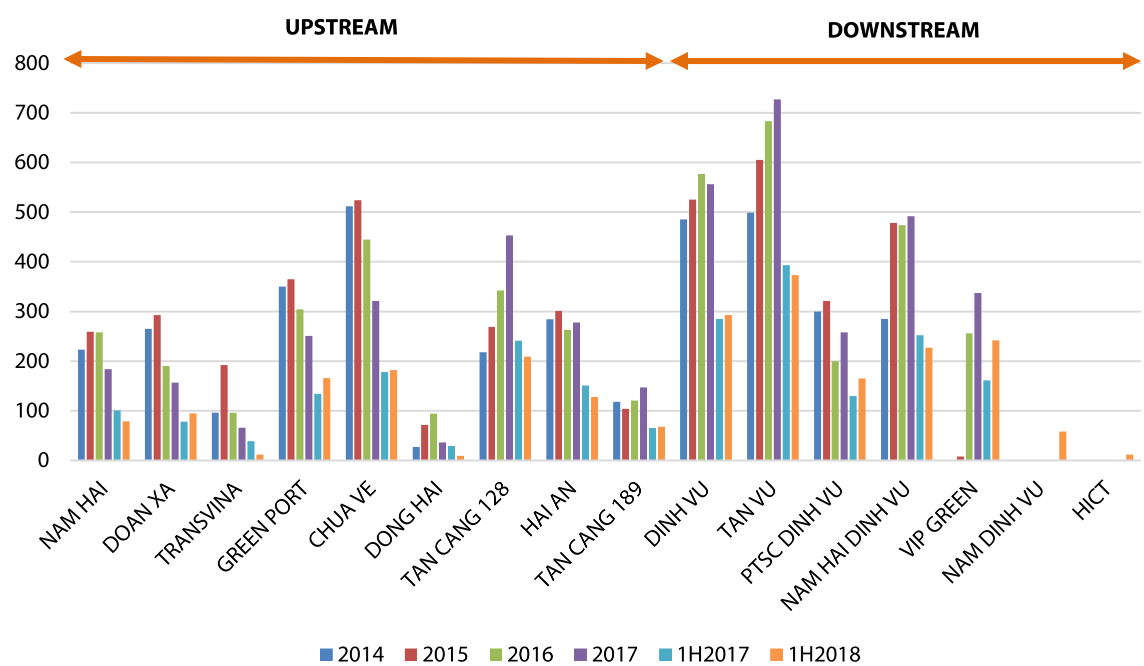
Figure 28: Estimated market share by players



**2 GMD ports are in borderlined*

Source: Maritime administration of Haiphong, RongViet Securities

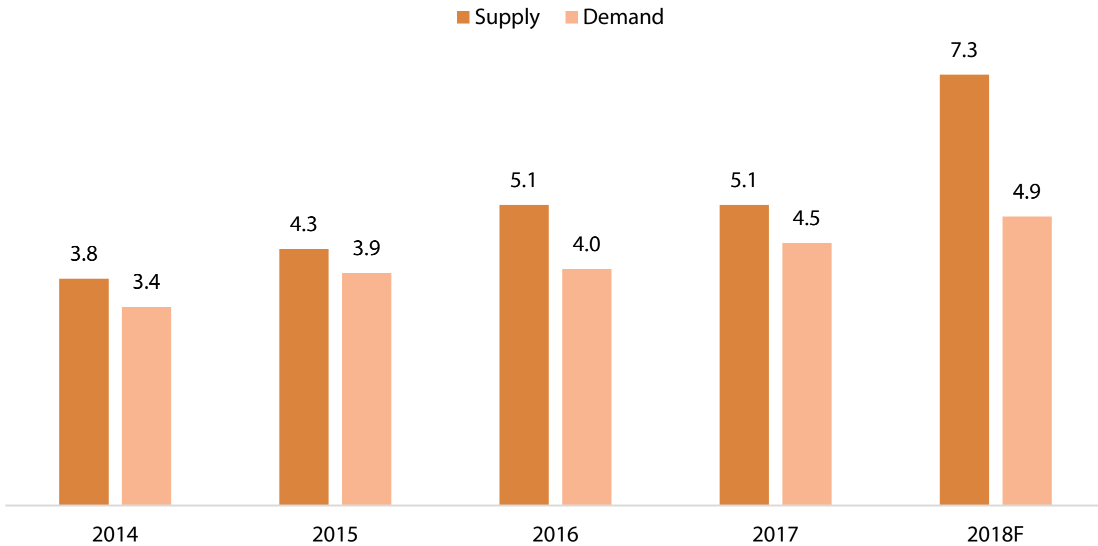
Figure 29: Vessel calls at Haiphong ports



Source: Maritime administration of Haiphong, RongViet Securities

Oversupply condition. Total container handling capacity in Hai Phong has reached 7.3 million TEUs a year, of which the capacity of downstream and upstream ports is 5 million TEUs and 2.3 million TEU respectively. So, assuming an average growth of 10% in two years and no new ports, by 2020, the market will still be oversupplied by 19% (7.3 million compared to 5.9 million). Therefore, besides complying with the regulations on the floor price of container handling services by the Ministry of Transport, ports are quite competitive in terms of other related service charges (lift, container, storage). Therefore, we think that a favorable position will be a great advantage in negotiating with shipping lines.

Figure 30: Haiphong demand and supply in container handling (mn TEU)



Source: RongViet Securities

Unit: VND billion

INCOME STATEMENT	2015A	2016A	2017F	2018F
Revenue	3,742	3,984	2,356	2,507
COGS	2,723	2,955	1,512	1,569
Gross profit	**1,018**	**1,029**	**844**	**938**
Selling expense	63	87	122	171
G&A expense	297	344	236	227
Financial income	39	173	1,560	36
Financial expense	151	146	107	167
Other income/loss	-116	-83	-60	-60
Gain/(loss) from JV	50	109	175	198
PBT	**481**	**650**	**2,053**	**547**
Tax expense	37	69	349	38
Minority interests	54	74	43	65
PAT	**390**	**508**	**1,661**	**445**
EBIT	659	597	486	540
EBITDA	938	909	931	1,135

Unit: %

FINANCIAL RATIO	2015A	2016A	2017F	2018F
Growth				
Revenue	4.3%	6.5%	-40.9%	6.4%
EBITDA	0.3%	-3.2%	2.5%	21.8%
EBIT	2.7%	-9.3%	-18.6%	11.1%
PAT	-3.1%	30.3%	227.1%	-73.2%
Total Asset	19.5%	11.6%	2.8%	0.6%
Total Equity	1.6%	22.8%	-6.3%	2.6%
Profitability				
Gross profit margin	27.2%	25.8%	35.8%	37.4%
EBITDA margin	25.1%	22.8%	39.5%	45.3%
EBIT margin	17.6%	15.0%	20.6%	21.5%
Net profit margin	10.4%	12.7%	70.5%	17.7%
ROA	3.9%	4.5%	14.3%	3.8%
ROCE	9.1%	6.9%	5.6%	6.4%
ROE	7.5%	8.0%	27.9%	7.3%
Efficiency (x)				
Receivables turnover	3.3	3.5	1.4	1.4
Inventories turnover	31.3	27.4	14.3	14.3
Payables turnover	2.1	1.5	0.7	0.7
Liquidity (x)				
Current	0.7	0.8	0.9	0.8
Quick	0.7	0.8	0.9	0.7
Financial Structure				
Total debt/ Equity	48.5%	30.5%	37.9%	33.4%
ST debt / Equity	30.6%	11.3%	11.3%	14.4%
LT debt/ Equity	18.0%	19.2%	26.6%	19.0%

Unit: VND billion

BALANCE SHEET	2015A	2016A	2017F	2018F
Cash and cash equivalents	724	780	688	301
Short term investments	89	113	124	137
Accounts receivable	1,128	1,128	1,692	1,800
Inventories	87	108	106	110
Other current assets	112	95	100	105
Tangible Fixed Assets	4,190	5,350	5,147	5,434
Intangible Fixed Assets	458	409	341	238
Long term investment	2,308	2,310	2,593	2,724
Other non-current assets	1,021	998	820	833
Total Asset	**10,118**	**11,291**	**11,611**	**11,681**
Account Payable	1,326	1,915	2,268	2,353
Short term borrowings	1,579	715	673	877
Long term borrowings	928	1,221	1,582	1,160
Other non-current liabilities	363	300	294	288
Bonus and Welfare fund	57	47	73	80
Technology – Science dev fund	0	0	0	0
Total Liabilities	**4,251**	**4,197**	**4,891**	**4,759**
Common stock and APIC				
Treasury stock	3,666	4,825	4,825	4,825
Retained Earnings	0	0	0	0
Other comprehensive income / (loss)	1,131	1,113	662	810
Investment and Development Fund	238	265	318	328
Total Equity	131	141	141	141
Minority Interest	**5,166**	**6,344**	**5,946**	**6,103**
Total Resources	**10,118**	**11,291**	**11,611**	**11,681**

CASH FLOW STATEMENT	2015A	2016A	2017F	2018F
Profit before tax	481	650	2,053	547
Depreciation	143	247	351	413
Adjustment	246	58	(1,621)	-
Working capital	(153)	(322)	(562)	(70)
Net Operating CFs	**716**	**633**	**222**	**890**
Fixed Asset	(409)	(758)	(474)	(733)
Deposit, equity investment	(878)	(306)	1,756	(143)
Interest, dividend, cash profit received	50	223	(20)	(20)
Net Investing CFs	**(1,237)**	**(841)**	**1,262**	**(896)**
Capital	598	1,088	-	-
Debt	627,302	(571)	320	(218)
Dividend paid & other	(627,605)	(253)	(1,896)	(163)
Net Financing CFs	294	264	(1,577)	(381)
Net Cash flow	(226)	56	(93)	(387)
Beginning cash & equivalents	**905**	**724**	**781**	**688**
Effect of exchange rate	0	0	0	0
Ending cash & equivalents	**724**	**781**	**688**	**301**

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.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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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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