May, 2020

AIRPORTS CORPORATION OF VIETNAM (HSX: ACV)

The Worst Is Yet To Come

(VND Bn)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Net revenue	3,635	4,793	-24%	4,439	-18%
PAT	1,549	2,432	-36%	1,994	-22%
EBIT	1,378	1,985	-31%	1,974	-30%
EBIT margin	37.9%	41.4%	-4%	44.5%	-7%

Source: ACV, Rong Viet Securities

2019 – Earnings remained high

- Net sales was VND 3,635 Bn (-18% YoY) due to a 11% decline in passenger volume in 1Q 2020 (domestic -1%, international -29%) combined with several aeronautical service fees waiver for airlines.
- EBIT dropped by 30% YoY to VND 1,378 Bn while financial revenues increased sharply by 27% YoY to VND 545 Bn owing to the increased amount of short-term deposits.
- PBT remained high at VND 1,927 Bn, though, dropped by 22% YoY.

FY2020 Outlook – Profit is expected to bottom out by 2Q 2020

Almost all flights have ceased operation since the Government issued temporary suspension on foreigner's entries around mid-March as well as reducing the frequency of domestic flights at the beginning of April. Despite the limits on domestic flights' frequency was lifted recently, we believe that passenger volume will still remain at low levels in 2Q 2020 with an anticipated decline of 80% YoY. Thus, net sales is expected to drop by 90% YoY. Since fixed costs account for the majority of the group's cost structure, we estimate that ACV will incur a loss of VND 755 Bn in 2Q 2020.

Thanks to well-organized pandemic control program, we assume that the COVID-19 will be partly contained by the end of 2Q not only in Vietnam but also in some other Asian countries like China, South Korea, followed by other countries in 3Q. Therefore, we expect the Government to gradually relax international flight restrictions from the end of 2Q before the aviation industry enters the peak summer season. Accordingly, the growth rate of passenger volume and, hence, profit will gradually recover from 3Q onward.

Valuation and recommendation

While 2020 earnings will be unprecedentedly low due to the pandemic, 2021 profit growth rate is expected to be robust on the back of upcoming resumptions of international flights. Looking further, as the sole operator of 21 airports in Vietnam, ACV will be the main beneficiary of Vietnam's aviation and tourism industry in the long term.

*The target price is set at **VND 65,000 / share**, revised down 23% from the previous target price in the 2020 Strategy Report as we factor in negative effects of COVID-19 on the group's business operation. ACV stock price has recovered more than 39% since the bottom set in late March 2020 following the positive progress of disease control in Vietnam together with the lift of domestic flights' frequency limits. However, we believe the share price is likely to correct as results of 2Q 2020 are going to be announced. This will bring a good opportunity to **ACCUMULATE** the stock.*

ACCUMULATE +14%

Target price (VND)	65,000
Current market price (VND)	57,700
Cash dividend (VND)	900

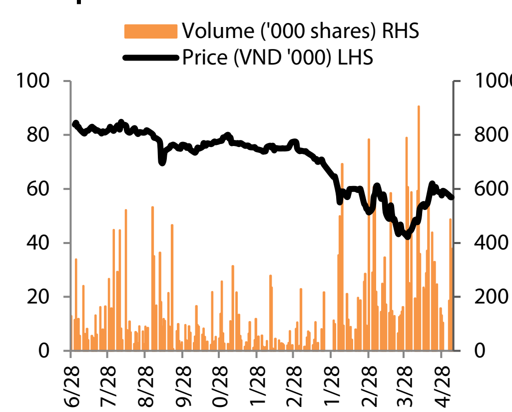
(*) Expected in 12 months

Stock Info

Sector	Industrials
Market Cap (VND Bn)	125,177
Current Shares O/S	2,177
Avg. Daily Volume (in 20 sessions)	327,830
Free float (%)	4.6
52 weeks High	95,879
52 weeks Low	42,200
Beta	1.02

	FY2019	Current
EPS	3,767	3,622
EPS Growth (%)	32.9	9.1
Diluted EPS	3,767	3,622
P/E	19.9	15.7
P/B	4.4	3.3
EV/EBITDA	12.4	9.7
Cash dividend yield (%)	1.2	1.6
ROE (%)	22.3	21.0

Price performance



Major Shareholders (%)

STATE ENT CAPITAL MG	95.40
Remaining Foreign Room (%)	*4.6*

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Exhibit 1: 1Q 2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/- (qoq)	1Q-FY19	+/- (yoy)
Net revenue	3,635	4,793	-24.2%	4,439	-18.1%
Gross profit	1,623	2,338	-30.6%	2,298	-29.4%
SG&A	245	353	-30.4%	323	-24.2%
Operating income	1,378	1,985	-30.6%	1,974	-30.2%
EBITDA	2,190	2,923	-25.1%	2,980	-26.5%
EBIT	1,378	1,985	-30.6%	1,974	-30.2%
Financial expenses	42	26	60.8%	25	67.1%
- Interest Expenses	23	23	1.4%	23	-0.3%
Dep. and amortization	812	938	-13.4%	1,006	-19.2%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	1,927	3,019	-36.2%	2,473	-22.1%
PAT	1,549	2,432	-36.3%	1,994	-22.3%
(*) Adjusted PAT	1,549	2,432	-36.3%	1,994	-22.3%

Source: ACV, Rong Viet Securities

Exhibit 2: 1Q 2020 Performance Analysis

Particulars	1Q-FY20	4Q-FY19	+/- (qoq)	1Q-FY19	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	44.7%	48.8%	-4.1 pps	51.8%	-7.1 pps
EBITDA Margin	60.3%	61.0%	-0.7 pps	67.1%	-6.9 pps
EBIT Margin	37.9%	41.4%	-3.5 pps	44.5%	-6.6 pps
Net Margin	42.6%	50.7%	-8.1 pps	44.9%	-2.3 pps
Adjusted Net Margin	42.6%	50.7%	-8.1 pps	44.9%	-2.3 pps
Turnover * (x)					
-Inventories	16.4	21.4	-5.0	18.1	-1.7
-Receivables	2.5	3.1	-0.5	2.7	-0.2
-Payables	1.3	1.2	0.1	1.2	0.1
Leverage (%)					
Total Liabilities/ Equity	17.2%	20.4%	-3.2 pps	24.2%	-6.9 pps

*Source: Rong Viet Securities, * Annualized*

Exhibit 3: 2Q 2020 Performance Forecast

Particulars (VND Bn)	2Q-FY20	+/- qoq	+/- yoy
Revenue	450	-88%	-90%
Gross profit	-951	-159%	-142%
EBIT	-1,111	-181%	-156%
NPAT	-755	-149%	-144%

Source: Rong Viet Securities

Update

Earnings remained high despite COVID-19

Table 1: 1Q 2020 Financial results

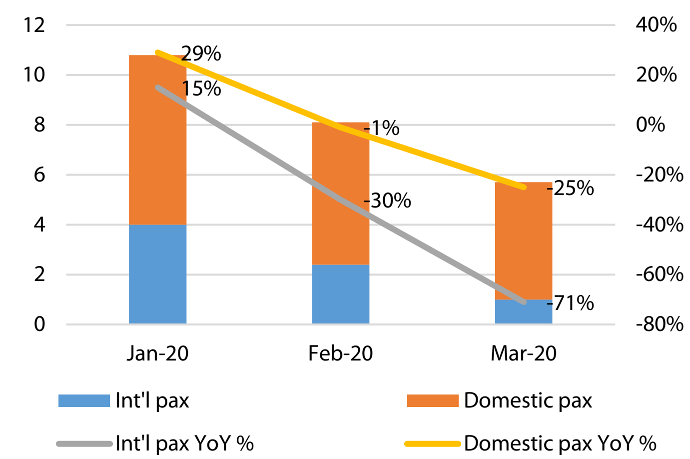
Unit: VND Bn	1Q 2019	1Q 2020	YoY%
Net sales	**4,439**	**3,635**	**-18.1%**
1. Aeronautical services	3,537	2,846	-19.5%
2. Non-aeronautical services	505	511	1.0%
3. Retail	396	278	-29.8%
Gross profit	**2,298**	**1,623**	**-29.4%**
SG&A	-323	-245	-24.2%
EBIT	**1,974**	**1,378**	**-30.2%**
Gain from JVs	93	44	-52.3%
Financial revenue	429	545	27.0%
Financial expenses	-25	-42	67.1%
PBT	2,473	1,927	-22.1%
NPAT-MI	**1,994**	**1,549**	**-22.3%**
GPM	*51.8%*	*44.7%*	*-7.1pps*
EBIT	*44.5%*	*37.9%*	*-6.6pps*
PBT margin	*55.7%*	*53.0%*	*-2.7pps*
Net margin	*44.9%*	*42.6%*	*-2.3pps*

Source: ACV

Net sales in 1Q 2020 decreased by 18% YoY, of which aviation service revenue declined by 20% YoY, as passengers dropped significantly due to COVID-19 and airlines assistance measures through exemption and reduction of aeronautical fees.

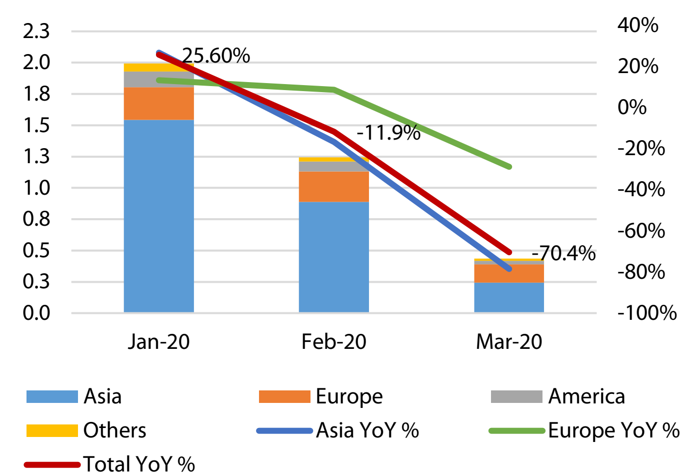
The initial negative impact of COVID-19 was felt since Chinese flights ban was issued in February, followed by bans on flights to/from South Korean and other international markets in March when the pandemic rapidly spread globally. Also, the number of domestic flyers began to drop in February, after a high growth during the peak Lunar New year season in January. Thereby, the total estimated number of air passengers was down 11% YoY to 24.6 million pax in 1Q 2020. In particular, international traffic volume decreased by 29.0% YoY while domestic traffic volume decreased by only 0.5% YoY. Accordingly, the proportion of int'l air passengers in 1Q 2020 is estimated to fall to 30% compared to 38% in the same period of 2019. Given higher passenger service fees on int'l flights, average passenger service revenue (PSC) per pax dropped by 19% YoY.

Figure 1: Passenger volume in 1Q 2020 (million pax)



Source: ACV, Rong Viet Securities, CAAV

Figure 2: International tourism arrivals in 1Q 2020 (million)



Source: GSO, Rong Viet Securities

ACV has implemented airlines assistance measures; reducing several aviation service fees for six months beginning from March. Those services include aircraft navigation, pipes ladder services, carousel rentals, automatic baggage handling, check-in counters, ground services and airlines' office rental fees.

While revenue dropped considerably, cost of goods sold only declined by 6% YoY, mostly driven by a 19% decrease in depreciation expenses since many assets have been fully depreciated. The cost of fully depreciated fixed assets by the end of 1Q 2020 was VND 13,232 Bn, increased by VND 1,737 Bn since the end of 2019. However, labor costs and outside services expenses rose by 26% YoY and 9% YoY, respectively. Thereby, the gross profit margin decreased by 7.1 pps YoY to 44.7%.

ACV's major affiliates were also compromised by the COVID-19 pandemic. Specifically, the net profit of Tan Son Nhat Airport Services Jsc (UpCOM: SAS) - the major retailer at Tan Son Nhat Airport - suffered a 81.1% YoY drop to VND 16 Bn. Meanwhile, net profit of Saigon Ground Service Jsc (HSX: SGN) - a ground services provider at Tan Son Nhat, Da Nang and Cam Ranh airports - decreased by 9.9% YoY to VND 71 Bn. ACV currently holds 49% and 48% of SAS and SGN respectively.

2020 Outlook

Earnings are likely to bottom out in 2Q 2020

After all int'l passenger flights were banned and lower domestic flights frequency was set since the beginning of April, the total number of flights in April was down drastically by 91.6% YoY to 2,207 flights. Regarding traffic volume, domestic/int'l passenger volume dipped by 97.3% YoY /99.4% YoY. However, as the domestic market flight frequency limit was lifted recently, we believe that domestic passenger volume has reached its bottom in April and is poised to recover from May, though will still remain at a low level since the travel demand may not pick up significantly in the short term. Domestic passenger volume in 2Q 2020 is estimated to decrease by 73% YoY, reaching about 5 million pax. For the international market, we expect passenger volume to remain low in May and June as no international passenger flights will resume during this period. As a result, we estimate **total passenger volume in 2Q 2020 to reach about 5 million (-80% YoY)**. 2Q 2020 revenue, accordingly, is estimated at VND 450 Bn (-90% YoY). Meanwhile, total expenses only decreased by 33% YoY due to large proportion of fixed costs. Thereby, we estimate that ACV will incur a loss of VND 755 Bn in 2Q 2020, prior to an expected slow recovery in 3Q 2020.

International markets to recover in 2H 2020; Total passenger volume in 2020 is estimated to decrease by 34% YoY

The Vietnam National Administration of Tourism (VNAT) has envisaged two scenarios on the recovery of international tourist arrivals to Vietnam.

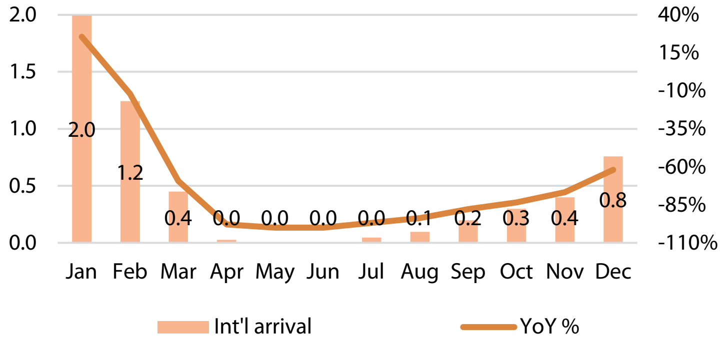
- **Scenario 1: The coronavirus to be contained by June 2020**. Inbound arrivals are expected to be unprecedentedly low from April to June, yet will recover gradually in the following months. In particular, inbound from Asian markets are likely to recover sooner than markets such as Europe, North America, and Australia ... Overall, 2020 international tourist arrivals is set to be reduced by nearly 70% compared to 2019, to approximately 5.5 million.

- **Scenario 2: The coronavirus to be contained by September 2020**. In this more severe case, VNAT estimates that nearly no international tourists will travel to Vietnam from April to September and the tourism market can only begin to recover sluggishly in 4Q 2020 as tourists do not have much time to plan for travelling by this time. Like scenario 1, VNAT expects that Asian countries (such as China, South Korea) will be able to control the pandemic sooner compared to European and North American countries. The number of international tourists for 2020 as a whole will decrease by 75% to 4.6 million.

We think that the first scenario is more likely due to the fact that the number of new COVID-19 cases in countries such as China, South Korea and Taiwan - three leading countries in terms of tourist arrivals to Vietnam - is being currently controlled at a relatively low level. In addition, Australia – another nation that is in the top 10 largest countries in terms of the number of travelers coming to Vietnam - has also shown positive signs in containing the virus' spread with limited new cases. Although the decision to resume international routes is difficult to make due to the uncertain nature of disease controlling situation in several countries, we expect the Government to consider easing flight restrictions to/from countries mentioned above by the end of 2Q 2020, before entering peak season in the summer. Meanwhile, ACV expects that remaining international markets will gradually recover from August 2020.

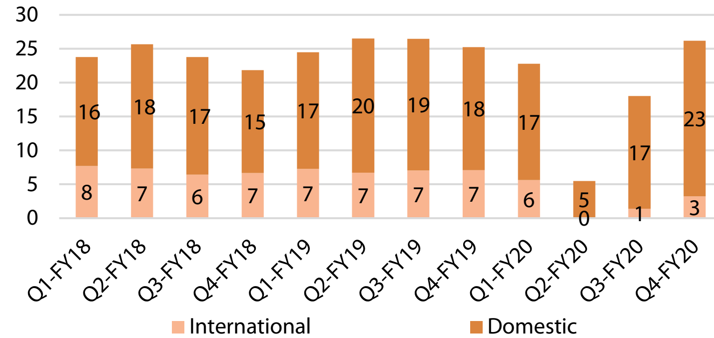
With these assumptions, we project that international air traffic (excluding int'l pax volume at Da Nang and Cam Ranh Terminals) will reach 10 million pax (-63% YoY); Combined with an expected domestic passenger volume of 55 million (-26% YoY), 2020 total passenger volume is estimated at 65 million pax (-36% YoY).

Figure 3: Int'l tourist arrival projection in 2020 was the COVID-19 contained by June 2020 (million)



Source: Vietnam National Administration of Tourism

Figure 4: Quarterly traffic volume projection (million pax)



Source: ACV, Rong Viet Securities

The runways upgrade project at Tan Son Nhat and Noi Bai airports is expected to commence this year

The Government has ultimately decided to allocate capital for the runways renovating project at Tan Son Nhat and Noi Bai Airport. This project will be carried out by two enterprises under the Ministry of Transport, namely Thang Long PMU and Cuu Long CIPM, and is expected to commence this July.

Once the project are approved, one runway at each airport will be closed for around six months, leaving the other runway to function for both landing and take-off. While this will drag on the number of flights that ACV can operate per day in normal circumstance, we believe that the project will have minor impact on ACV's operations as the frequency of flights has plummeted since the coronavirus outbreak. In fact, given the current domestic-flight-only situation, we estimate the average number of landing/take-offs per hour during peak hours at Tan Son Nhat and Noi Bai at around 14 and 12 respectively. Even in the scenario that some international routes will be gradually reinstated in 2H 2020, we estimate that the average number of landing/takeoffs per hour still remain within the capability of one runway which is about 30 turns per hour. Therefore, our financial projections are not significantly affected by this runways rehabilitation project.

Valuation

Based on the DCF method (WACC: 11.2%, terminal growth rate: 3.0%), we arrive at a **one year target price for ACV of 65,000 VND per share**. Valuation metrics for ACV, along with peers, in 2020 and 2021 are shown in Table 3.

Table 2: DCF Summary

Unit: VND Bn			
Risk-free rate	2.8%	Enterprise Value	122,667
Equity risk premium	11.2%	Less: Total Debt	14,890
Adjusted Beta	1.0	Plus: Cash and Cash Equivalents	32,914
Cost of Equity	**14.0%**	Less: Minority interest	55
After-tax Cost of Debt	**2.8%**	**Implied Equity Value**	**140,636**
% Market value of Equity / Total assets	74%		
% Total Debt / Total assets	26%	Number of outstanding shares (million)	2,177
WACC	**11.2%**	**Target price (VND)**	**64,596**

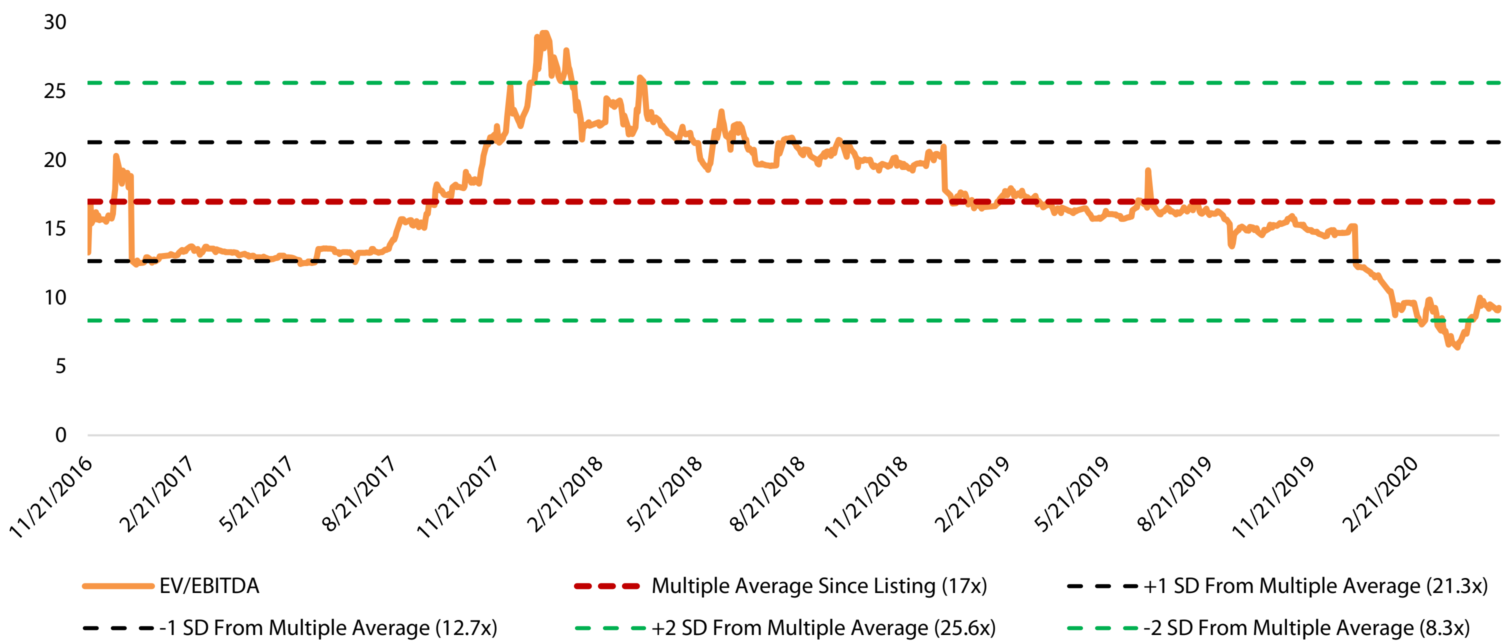
Source: Rong Viet Securities

Table 3: Peers comparison

Company	Ticker	Market Cap (USD Mn)	FY20 EV/EBITDA* (x)	FY21 EV/EBITDA* (x)	FY20 P/E* (x)	FY21 P/E* (x)	P/B (x)
Airports Of Thailand Pcl	AOT TB	26,236	41.0	25.0	83.5	44.6	5.3
ADP	ADP FP	8,738	21.5	9.2	N/A	23.0	1.6
Sydney Airport	SYD AU	7,915	32.9	20.0	N/A	68.6	N/A
Frankfurt Airport	FRA GR	3,547	17.2	8.1	N/A	11.7	0.8
Auckland Intl Airport Ltd	AIA NZ	5,080	24.7	32.0	39.3	69.5	1.1
Japan Airport Terminal Co	9706 JP	3,050	12.1	11.7	44.0	40.4	1.9
Malaysia Airports Hldgs Bhd	MAHB MK	1,880	7.7	6.3	50.5	18.4	1.0
Xiamen International Airport	600897 CH	739	6.9	4.8	18.0	9.3	1.4
Guangzhou Baiyun Int'l Airport	600004 CH	4,094	13.6	8.3	43.0	21.8	1.8
Beijing Capital Int'l Airport	694 HK	3,031	9.9	7.8	31.9	18.7	0.9
Shenzhen Airport	000089 CH	2,293	19.2	10.1	51.8	23.4	1.4
Average		**6,055**	**18.8**	**13.0**	**45.2**	**31.8**	**1.7**
ACV (@*May 7th 2020*)	ACV VN	5,390	16.2	11.1	37.0	22.9	3.3
ACV (@ Target price)	ACV VN	5,390	18.5	12.7	41.5	25.7	3.3

*Source: Bloomberg, Rong Viet Securities, Data as of May 7th 2020 * Bloomberg Estimate.*

Figure 5: Historical trailing EV/EBITDA Multiple



Source: Bloomberg, Rong Viet Securities, Data as of May 7th 2020

VND Bn

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	16,123	18,329	10,150	14,531
COGS	8,296	8,995	6,858	8,635
Gross profit	7,828	9,334	3,292	5,897
Selling Expense	340	379	203	291
G&A Expense	878	1,006	457	727
Finance Income	1,363	1,920	1,938	2,136
Finance Expense	756	104	578	582
Other profits	65	9	0	0
PBT	**7,618**	**10,156**	**4,184**	**6,739**
Prov. of Tax	1,433	1,942	761	1,225
Minority's Interest	13	13	10	10
PAT to Equity S/H	**6,173**	**8,201**	**3,414**	**5,504**
EBIT	6,609	7,948	2,633	4,879
EBITDA	10,490	11,868	6,714	9,870

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	10.1	13.7	-44.6	43.2
Operating Income	30.1	13.1	-43.4	47.0
EBITDA	71.9	20.3	-66.9	85.3
PAT	20.9	32.9	-58.4	61.2
Total Assets	21.4	8.5	0.8	8.5
Equity	30.4	19.4	4.0	8.4
Profitability (%)				
Gross margin	48.5	50.9	32.4	40.6
EBITDA margin	65.1	64.8	66.1	67.9
EBIT margin	41.0	43.4	25.9	33.6
Net margin	38.3	44.7	33.6	37.9
ROA	11.5	14.1	5.8	8.7
ROE	20.1	22.3	8.9	13.3
Efficiency				
Receivable Turnover	2.6	3.4	2.0	2.6
Inventory Turnover	17.7	18.2	20.0	20.0
Payable Turnover	1.2	1.4	1.4	1.4
Liquidity				
Current	4.3	5.7	7.6	6.1
Quick	4.2	5.7	7.5	6.0
Finance Structure (%)				
Total Debt/Equity	49.4	40.9	40.8	38.1
Current Debt/Equity	0.5	0.7	0.7	0.6
Long-term Debt/Equity	48.9	40.2	40.1	37.5

VND Bn

BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	638	350	697	710
Short-term investments	23,730	30,922	32,468	31,494
Accounts receivable	6,156	5,361	5,092	5,602
Inventories	469	493	343	432
Other current assets	287	166	175	183
Property, plant & equipment	19,036	17,206	16,014	21,024
Acquired intangible assets	3	5	5	4
Long-term investments	2,806	2,963	3,154	3,460
Other non-current assets	499	711	711	711
Total assets	**53,625**	**58,176**	**58,659**	**63,621**
Accounts payable	7,102	6,267	4,872	6,077
Short-term borrowings	151	240	255	262
Long-term borrowings	15,043	14,760	15,301	15,497
Other non-current liabilities	111	141	0	0
Bonus and Welfare fund	432	11	352	902
Technology-science, dev. Fund	0	0	0	0
Total liabilities	**22,839**	**21,419**	**20,779**	**22,739**
Common stock and APIC	21,786	21,786	21,786	21,786
Treasury stock (enter as -)	0	-2	-2	-2
Retained earnings	6,397	8,885	4,098	7,299
Other comprehensive income	-1	0	0	0
Inv. and Dev. Fund	2,551	6,035	12,275	12,275
Total equity	**30,734**	**36,704**	**38,157**	**41,358**
Minority Interest	**53**	**53**	**53**	**53**

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (VND)	2,835	3,767	1,568	2,528
P/E (x)	31.4	19.9	37.0	22.9
BV (VND/share)	14,116	16,859	17,526	18,996
P/B (x)	6.3	4.4	3.3	3.1
DPS (VND/share)	900	900	900	900
Dividend yield (%)	1%	1%	1%	1%

VALUATION MODEL	Price	Weight	Average
DCF	65,000	100%	65,000
Target price (VND)			**65,000**

VALUATION HISTORY	Price	Recommendation	Period
Jan 2017	66,100	BUY	Long-term
Sep 2019	77,100	ACCUMULATE	Long-term
Dec 2019	85,000	ACCUMULATE	Long-term

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 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%

ABOUT US

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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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