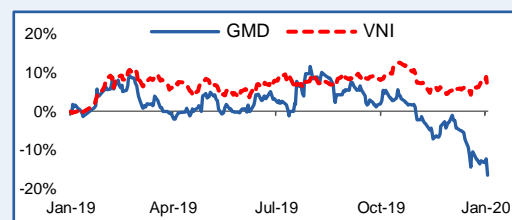




Gemadept (GMD)

Earnings Flash

Industry:	Ports		2018	2019
Report Date:	January 30, 2020			
Current Price:	VND20,500	Rev y/y	-32.6%	-2.5%
Target Price:	VND34,100	EPS y/y	249.8%	-72.1%
Upside to TP:	+66.3%	EPS y/y**	16.8%	1.2%
Dividend Yield:	7.3%	GPM	35.8%	37.7%
TSR:	+73.6%	NPM	68.2%	19.5%
Rating	BUY	EV/EBITDA	8.4x	7.7x
		P/E	12.1x	11.8x



Market Cap:	USD262.6mn	GMD	Peers	VNI
Foreign Room:	USD0	EV/EBITDA* ^	7.7x	9.5x
ADTV30D:	USD670,000	P/E (ttm)**	13.5x	18.1x
State Ownership:	0.0%	P/B (curr)	0.9x	0.9x
Outstanding Shares:	296.9 mn	ROE**	7.4%	10.9%
Fully Diluted Shares:	296.9 mn	ROA**	4.4%	9.2%

^ ttm; * EBITDA includes net income from affiliates
 ** excluding one-off gains/losses

Company Overview

GMD is one of Vietnam's largest port operators and domestic logistics service providers with integrated capabilities across the logistics value chain. In addition to its core business in port operations and logistics services, GMD also has investments in real estate projects and rubber plantations.

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Unexpected drop in margins trails our forecasts

- GMD released its 2019 results in which revenue was down 2.5% YoY to VND2.6tn (USD114mn) and reported NPAT-MI plunged 72% YoY to VND515bn (USD22mn). The strong drop in 2019 NPAT-MI was mainly due to a fall in financial gains as 2018 was a high base when GMD recognized strong financial gains from its logistics and shipping segment divestments.
- Excluding the impact of financial gains from divestments, GMD's 2019 core PBT was up 1.2% YoY to VND610bn (USD26mn; completing 91% of our full-year 2019 forecast).
- In Q4 2019, GMD's port revenue was down 6.7% YoY (9M 2019: +5.9% YoY) and its core PBT fell 28% YoY (9M 2019: +9.2% YoY), which we believe was mainly due to continued increasing competition from the Lach Huyen deep sea port (HICT).
- GMD's 2019 NPAT-MI completed 91% of our full-year forecasts, which we mainly attribute to lower-than-expected GPM in Q4 2019 that was partly offset by lower-than-expected net other losses. As competition continues to intensify in the Hai Phong port cluster and puts pressure on GMD's GPM and top-line growth, we see some potential downside risks to our forecasts.
- We expect GMD to be a major beneficiary of growing manufacturing activity in Vietnam and consider its valuation to be attractive — despite our view that the competitive environment will continue to be challenging due to excess capacity in key port clusters.

Top-line growth trails our forecast, mainly due to the port segment that saw revenue growth of 3.4% YoY in 2019 to VND2.4tn (USD101mn), completing 96% of our full-year forecast. We believe this slower growth was mainly because of intensifying competition as the HICT ramps up its utilization. The average number of vessel calls per week at HICT was up to four calls per week in 2019 vs only 2.4 calls in 2018. Additionally, the average size of vessels coming to the HICT was around 54,000 DWT, which is three times larger than the average size of vessels coming into GMD's downstream ports.

Margin contracted in Q4 and further dragged on earnings. In Q4 2019, the port segment's GPM was only 28.2% vs 37.5% in Q4 2018, which led to GPM of 37.7% in 2019 vs our forecast of 40.3%. We are currently seeking further guidance from the company given the limited information on this unexpected drop in Q4 2019 margin. We believe this decline was contributed by high growth in depreciation and amortization expenses given GMD's strong capex that was disbursed into fixed assets in Q4 2019.

Smaller losses from rubber plantations partly drove up earnings. Net other losses were down 60% YoY to VND31bn (USD1.3mn) in 2019, which was below our full-year forecast of VND71bn (USD3mn). We believe the net other losses were mainly derived from inefficient investments in rubber plantations in Cambodia.

Goodwill increased due to newly acquired subsidiary, Binh Duong Port JSC. GMD's goodwill balance jumped 4.4x YoY to VND296bn (USD13mn) as of the end of Q4 2019 following GMD's 80% stake acquisition in Binh Duong Port JSC. The Binh Duong port is a river port located in the area near the Dong Nai Bridge, which is ~13 km from the Phuoc Long ICD port and ~20 km from the Cat Lat port in HCMC. The increase in goodwill will lead to higher amortization expenses in the next coming years, which are fully recognized in G&A expenses.

GMD's unaudited Q4 2019 and 2019 results

VND bn	Q4 2018	Q4 2019	Q4 2019 vs Q4 2018	2018	2019	2019 vs 2018	2019 % of VCSC's 2019F
Total revenue	687	645	-6.2%	2,708	2,641	-2.5%	96.3%
<i>Ports</i>	639	596	-6.7%	2,279	2,356	3.4%	96.1%
<i>Logistics</i>	48	49	2.1%	429	285	-33.6%	99.4%
Gross profit	207	193	-6.9%	968	997	2.9%	91.4%
<i>Ports</i>	239	168	-29.9%	863	914	6.0%	89.8%
<i>Logistics</i>	-32	25	-177.8%	105	82	-21.8%	119.9%
SG&A expenses	-110	-149	35.9%	-423	-462	9.3%	105.0%
<i>Selling expenses</i>	-15	-37	150.4%	-102	-128	25.8%	119.3%
<i>G&A expenses</i>	-95	-113	18.4%	-321	-333	4.0%	100.4%
Operating profit	97	44	-55.2%	546	529	-3.0%	81.5%
Financial income	66	2	-96.5%	1,625	112	-93.1%	89.6%
Financial expenses	-46	-28	N.M.	-44	-143	227.6%	89.0%
Net income from affiliates	70	65	-7.8%	133	239	80.3%	105.1%
Net other expenses	1	10	657.5%	-78	-31	-59.6%	44.0%
PBT	188	93	-50.8%	2,182	705	-67.7%	91.7%
<i>Core PBT</i>	129	93	-28.4%	603	610	1.2%	90.5%
<i>Financial gains from divestments</i>	59	0	N.M.	1,579	95	-94.0%	100.0%
NPAT	173	66	-61.5%	1,900	614	-67.7%	89.3%
NPAT-MI	155	64	-58.4%	1,847	515	-72.1%	90.8%
 <i>GPM</i>	 30.2%	 29.9%		 35.8%	 37.7%		
<i>Ports</i>	37.5%	28.2%		37.9%	38.8%		
<i>Logistics</i>	N.M.	51.4%		24.6%	29.0%		
<i>OPM</i>	14.2%	6.8%		20.2%	20.0%		
<i>NPM</i>	18.8%	14.4%		22.3%	23.1%		
<i>Underlying NPM *</i>	22.5%	10.0%		68.2%	19.5%		

Source: GMD, VCSC

Note: (*) Excluding estimated impact from divestments.

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SELL	If the projected TSR is -20% or lower
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