

VICONSHIP JSC (HSX: VSC)

Expecting Profit Margins Expansion

(VND bn)	Q1-FY20	Q4-FY19	+/- qoq	Q1-FY19	+/- yoy
Net revenue	409	437	-6.6%	423	-3.5%
PAT	57	85	-33.0%	40	41.8%
EBIT	80	95	-15.2%	78	3.0%
EBIT margin	19.6%	21.6%	-2.0pps	18.4%	1.2pps

Source: VSC, Rong Viet Securities

Q1-FY20 – Earnings trailed our expectations as volume declined

- **Normalized PBT (excluding non-recurring losses) was VND 81 Bn (+9.3% YoY), completing 23.1% of our full year estimates.** The growth in earnings was attributable to the profit margin expansion, following cost-cutting measures, and a reduction in financial expenses due to accelerated borrowings payback.
- **Container throughput declined 7.2% YoY to 263,000 TEUs, making up 24.1% of our full year estimates.** Green Port's throughput dipped by 23.0% YoY while VIP Green Port's volume decreased by 3.0% YoY. This lower throughput partially drove net sales down by 3.5% YoY.

FY20 Outlook – Expect profit margins improvement to tackle the downturn in the volume throughput

- We forecast that container volume throughput will come at 1,089,000 TEUs (vs FY20 Guidance of 950,000 TEUs), down by 7.3% YoY, amid the subdued trading activities due to Covid-19.
- Forecasted GPM and EBIT margins are expected to increase by 1.7 pps and 1.5 pps respectively. We see scope for margins improvement, following the historic low levels witnessed in FY19, owing to the company's drastic measures to cut operating costs and lesser berthing schedule issues. Besides, we expect new BOD members, with their experience, to strengthen corporate governance, which should further improve operational efficiency.
- Forecasted FY20F NPAT-MI rose by 6.7% YoY despite lower throughput volume to VND 250 Bn, lowered by 3.8% from the previous forecast in the 2020 Strategy report. This is owing to wider profit margins, lower financial expenses, and large one-off tax penalties in Q2-FY19.

Valuation and recommendation

Along with recovery in investor sentiment as the Covid-19 seems to be successfully contained in Vietnam, the share price has rallied more than 40% from its low (vs 28% for the VN Index). This makes the current valuation, FY20F/FY21F P/E of 6.8x/6.3x, rather less rewarding given the impact on earnings brought about by the ongoing Covid-19, unresolved trade disputes and, especially, competition going forward. Hence, we recommend **ACCUMULATE** on VSC. We are revising our target price to VND **28,000** from VND 28,200 previously, in line with our downward adjustment in earnings forecast. Our target price is based on P/E, with a target multiple of 6.5x, and DCF valuation (terminal growth: 0.4%, WACC: 15.0%). Based on its current market price of VND 27,400 as of July 2nd, 2020 and an expected cash dividend of VND 2,000, the potential total return is **9%**.

ACCUMULATE +9%

Target price (VND)	28,000
Current market price (VND)	26,800

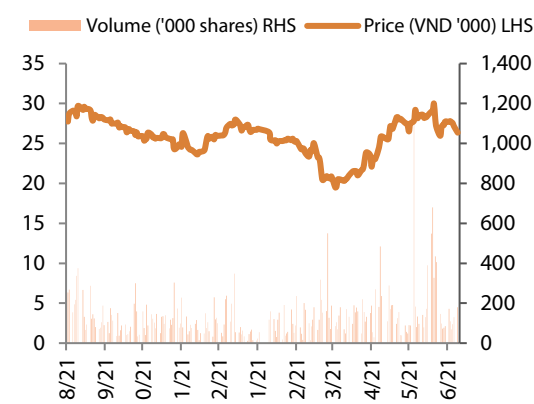
Expected cash dividend (VND)	2,000
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Stock Info

Sector	Seaport
Market Cap (VND billion)	1,472
Current Shares O/S	55.1
Avg. Daily Volume (in 20 sessions)	216,532
Free float (%)	80.4
52 weeks High	31,142
52 weeks Low	19,500
Beta	0.83

	FY2019	Current T12M
EPS	3,778	4,064
EPS Growth (%)	-22.1	-10.7
Diluted EPS	3,778	4,064
P/E	7.2	6.7
P/B	0.7	0.7
EV/EBITDA	2.8	2.8
Cash dividend yield (%)	7.3	7.3
ROE (%)	13.5	11.7

Price performance



Major Shareholders (%)

KWE BETEILIGUNGEN AG	11.1
SEA AND AIR FREIGHT INT'L (SAFI)	6.8
SAO A D.C JSC	5.7
Foreign ownership room remaining (%)	16.2

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Exhibit 1: Q1-FY20 Results

(VND Bn)	Q1-FY20	Q4-FY19	+/- qoq	Q1-FY19	+/- yoy
Net revenue	409	437	-6.6%	423	-3.5%
Gross profit	102	116	-12.2%	100	1.7%
SG&A	21	21	0.9%	22	-2.7%
Operating income	80	95	-15.2%	78	3.0%
EBITDA	134	153	-12.8%	132	1.6%
EBIT	80	95	-15.2%	78	3.0%
Financial expenses	1	1	53.1%	6	-80.9%
- Interest Expenses	1	1	94.6%	6	-81.1%
Dep. and amortization	54	59	-8.9%	54	-0.3%
Non-recurring items (*)				-14	
Extraordinary items (*)					
PBT	81	111	-26.8%	61	34.2%
PAT	57	85	-33.0%	40	41.8%
(*) Adjusted PBT	81	111	-26.8%	74	9.3%

Source: VSC, Rong Viet Securities

Exhibit 2: Q1-FY20 Performance Analysis

Particulars	Q1-FY20	Q4-FY19	+/- qoq	Q1-FY19	+/- yoy
Profitability Ratios (%)					
Gross Margin	24.9%	26.5%	-1.6 pps	23.6%	1.3 pps
EBITDA Margin	32.8%	35.1%	-2.3 pps	31.1%	1.7 pps
EBIT Margin	19.6%	21.6%	-2.0 pps	18.4%	1.2 pps
Net Margin	14.0%	19.5%	-5.5 pps	9.5%	4.5 pps
Adjusted PBT Margin	19.9%	25.4%	-5.5 pps	17.6%	2.3 pps
Turnover *(x)					
-Inventories	49	49	0.4	63	-13.6
-Receivables	6.3	8.3	-2.0	7.3	-1.0
-Payables	1.4	1.4	0.1	1.4	0.1
Leverage (%)					
Total Debt/ Equity	10.6%	12.5%	-1.9 pps	14.7%	-4.2 pps

Source: Rong Viet Securities, * Annualized

Exhibit 3: Q2-FY20 Performance Forecast

(VND Bn)	Q2-FY20	+/- qoq	+/- yoy	Comments
Revenue	399	-2.3%	-15.7%	<ul style="list-style-type: none"> Estimated Q2-FY20 container throughput: 258,000 TEUs (-17.4% YoY), translating to a decline of 15.7% in revenue. We expect the company will barely record any financial expenses thanks to the repayment of all outstanding borrowings in Q2-FY20. Low base earnings in Q2-FY19 due to large amount of non-recurring tax penalties will significantly affect this year's Q2 NPAT-MI annual growth.
Gross profit	109	6.8%	4.1%	
EBIT	85	6.4%	4.3%	
NPAT-MI	67	17.3%	55.3%	

Source: Rong Viet Securities

Q1-FY20 Update

Q1-FY20 total container throughput of the group declined by 7% YoY to 263,000 TEUs. The VIP Green Port handled 147,000 TEUs (-3% YoY) while throughput at Green Port dropped by 23% to 50,000 TEU. Outsourcing volume was maintained at 66,000 TEUs. On average, estimated weekly calls in Q1-FY20 at both Green Port and VIP Green Port were reduced to barely one call per week. We believe this decrease was the result of blank sailing implemented by international shipping lines as Chinese ports halted their operations in February and lower demand in the market in the wake of the Covid-19 pandemic. In spite of the fact that container handling revenue fell in line with container volume, the healthy growth in transportation revenue helped total revenue decline by only 3.5% YoY.

Meanwhile, NPAT-MI soared by 41.8% YoY on the back of (1) low base in last year's Q1 results caused by other losses, (2) wider profit margins owing to better costs management and (3) lower interest expenses as VSC has repaid the majority of its outstanding borrowings.

Table 1: Q1-FY20 Financial results

Unit: VND Bn	Q1-FY19	Q1-FY20	YoY %	Q1-FY20/FY20G	Q1-FY20/FY20E
Net sales	423	409	-3.5%	26.4%	24.9%
Gross profit	100	102	1.7%		
SG&A expenses	-22	-21	-2.7%		
EBIT	78	80	3.0%		23.9%
Financial income	2	2	2.6%		
Financial expenses	-6	-1	-80.9%		
Net other income/expenses	-14	0			
PBT	61	81	34.2%	30.6%	23.1%
NPAT-MI	40	57	41.8%		22.9%
GPM	23.6%	24.9%	1.3 pps		
EBIT margin	18.4%	19.6%	1.2 pps		
PBT margin	14.3%	19.9%	5.6 pps		
Net margin	9.5%	14.0%	4.5 pps		

Source: VSC, Rong Viet Securities

FY20 AGM Update

The AGM approved a new BOD for the FY20-25 period. Four new directors were voted in, two of which are external directors and holding CEO position at SAFI JSC (owns 6.8% stake in VSC) Sao A D.C JSC (owns 5.1% stake in VSC). While Sao A D.C JSC operates a 14 ha depot yard in Dinh Vu Industrial Park, Hai Phong, SAFI JSC is well-known for its sea/air freight forwarding services. Additionally, SAFI currently acts as a shipping/boarding agency for COSCO Group – 3rd largest ocean carrier in the world in terms of shipping capacity. Both companies' core business can potentially support VSC's port operation, in our view. Furthermore, we expect that the valuable experience of the new directors can make a positive impact on current operation efficiency through better cost control. This, coupled with drastic actions to cut costs as seen in the Q1-FY20, we expect FY20 GPM and EBIT margins to increase by 1.7 pps and 1.5 pps respectively, easing the burden of expected volume contraction on earnings.

Conservative targets for FY20 were set on expectations of depressed volume throughput. FY20 total throughput volume plan was set for a collapse of 19.1% YoY, translating into cautious FY20 financial guidance with revenue of VND 1,550 (-13.5% YoY) and PBT of VND 266 (-22.3% YoY). While FY20 sales target is relatively in line with our expectations, the profit plan was pretty conservative, in our view, as 5M-FY20 PBT came at VND 135 Bn and fulfilled 50.8% of the full year target. Meanwhile, our forecasted PBT is 27.8% higher than the company's guidance.

Table 2: FY20 Plan

Indicators	FY20G	YoY %	VDSC FY20E	YoY %
Container volume throughput ('000 TEU)	950	-19.1%	1,089	-7.3%
Net sales (VND Bn)	1,550	-13.5%	1,640	-8.5%
PBT (VND Bn)	266	-22.3%	352	2.9%

Source: VSC, Rong Viet Securities

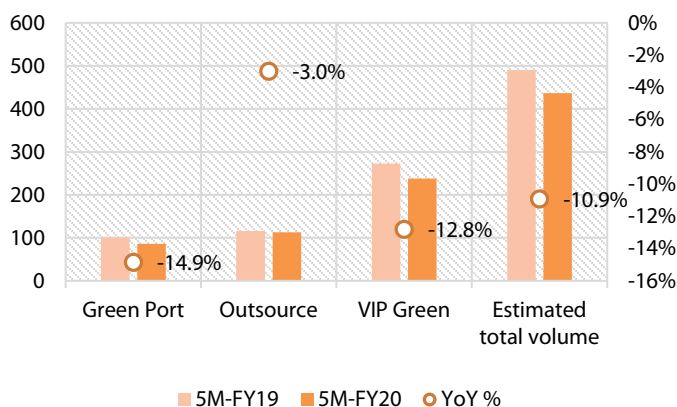
FY20 dividend rate maintained. The AGM approved a FY20 dividend distribution policy that equals last year's rate – 20% on par value. The dividend yield should be 7.3% based on the share price as of July 2nd, 2020.

FY20 outlook

Container volume throughput to face strong headwinds

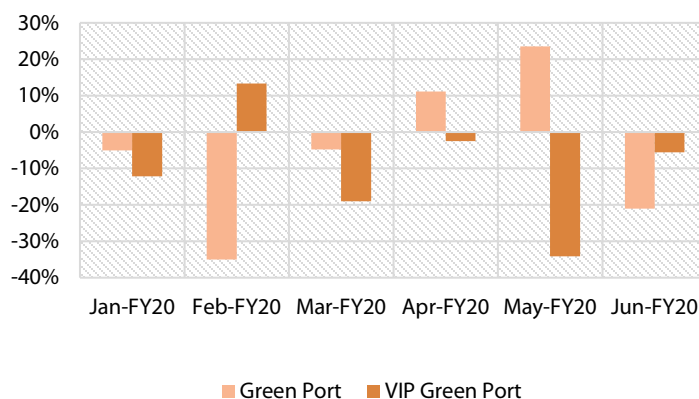
The Covid-19's impact on container volume to be fully felt in Q2-FY20. Accordingly, the number of container ships calling at VSC's port seems weak in Q2 (Green port +3.7% YoY, VIP Green Port -15.0% YoY). We estimate that container volume handled directly at VSC's ports dropped by 7.3% YoY and 30.1% YoY in Apr and May, respectively. For 5M-FY20, estimated total box volume, including outsourcing volume, reached 437,000 TEUs (-10.9% YoY), completing 40.1% of our full year forecast.

Figure 1: Total container volume Thousand TEU) at VSC's ports declined by 10.9% in 5M-FY20



Source: VPA, Rong Viet Securities

Figure 2: Annual growth in vessel calls at VSC's VIP Green Port seems to have bottomed out in May



Source: Hai Phong Maritime Administration, Rong Viet Securities

Going forward, although we expect the volume to bottom out by May, followed by a sluggish recovery in 2H-FY20 as countries reopen economies, competition risk will linger on the company's long-term prospect. Accordingly, the deep-water port HICT has successfully attracted some clients that have direct services at the company's ports, including Maersk-Sealand, Yang Ming and Evergreen Lines – strategic investor and anchor client at VSC's VIP-Green Port. While management indicated that these container lines will maintain their shipping services at VSC's ports in the foreseeable future, we expect a portion of cargo to be shared with HICT. Hence, the volume throughput for the rest of this year should be lower when compared with FY19. **We now forecast FY20F volume throughput to drop by -7.3% YoY to 1.09 mn TEU.**

	VND Billion			
INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	1,694	1,793	1,640	1,564
COGS	1,198	1,356	1,213	1,134
Gross profit	496	437	427	430
Selling Expense	27	31	31	30
G&A Expense	63	66	60	60
Finance Income	9	9	8	19
Finance Expense	35	16	4	0
Other profits	1	-3	0	0
PBT	388	342	352	371
Prov. of Tax	34	56	44	44
Minority's Interest	54	52	58	54
PAT to Equity S/H	300	234	250	273
EBIT	406	340	337	340
EBITDA	633	572	577	601

%

FINANCIAL RATIO	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	30.1	5.8	-8.5	-4.7
Operating Income	19.6	-9.6	0.8	4.1
EBITDA	22.3	-16.2	-1.1	1.1
PAT	26.6	-22.1	6.7	9.4
Total Assets	0.4	-3.9	3.3	8.3
Equity	11.9	5.3	8.0	8.7
Profitability (%)				
Gross margin	29.3	24.4	26.1	27.5
EBITDA margin	37.4	31.9	35.2	38.4
EBIT margin	24.0	19.0	20.5	21.8
Net margin	17.7	13.1	15.2	17.5
ROA	12.1	9.8	10.1	10.2
ROE	18.3	13.5	14.7	13.6
Efficiency				(times)
Receivable Turnover	8.4	8.5	8.3	8.3
Inventory Turnover	58.4	51.3	100.0	100.0
Payable Turnover	5.4	6.2	6.7	6.7
Liquidity				(times)
Current	2.5	2.8	4.3	6.4
Quick	2.5	2.6	4.3	6.3
Finance Structure (%)				
Total Debt/Equity	17.5	4.4	0.0	0.0
Current Debt/Equity	0.9	0.7	0.0	0.0
Long-term Debt/Equity	16.6	3.7	0.0	0.0

	VND Billion			
BALANCE SHEET	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	279	297	337	446
Short-term investments	3	3	150	350
Accounts receivable	201	211	197	188
Inventories	21	26	12	11
Other current assets	99	98	90	85
Property, plant & equipment	1,186	1,074	1,033	972
Acquired intangible assets	11	9	9	10
Long-term investments	112	117	117	117
Other non-current assets	577	558	528	498
Total assets	2,489	2,393	2,473	2,678
Accounts payable	223	219	182	170
Short-term borrowings	14	12	0	0
Long-term borrowings	273	64	0	0
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	34	29	27	30
Technology-science, dev. fund	0	0	0	0
Total liabilities	545	323	209	200
Common stock and APIC	537	587	587	587
Treasury stock (enter as -)	0	0	0	0
Retained earnings	382	378	518	680
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	725	766	766	766
Total equity	1,644	1,731	1,870	2,033
Minority Interest	300	339	393	445

VALUATION RATIO (*)	FY2018	FY2019	FY2020F	FY2021F
EPS (dong)	4,850	3,778	4,029	4,407
P/E (x)	7.1	7.2	6.7	6.1
BV (dong)	32,808	31,405	33,933	36,884
P/B (x)	0.9	0.7	0.8	0.7
DPS (dong/cp)	2,500	2,000	2,000	2,000
Dividend yield (%)	7.3%	7.3%	7.3%	7.3%

VALUATION MODEL	Price	Weight	Average
DCF (Terminal growth 0.5%, WACC 15%)	29,800	50%	14,900
P/E @ 6.5x FY20F EPS	26,200	50%	13,100
Target price (VND)			28,000

VALUATION HISTORY	Price	Recommendation	Period
Dec 2019	28,200	BUY	Long-term
Dec 2018	40,600	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%

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