

VSC – BUY

STOCK'S INFORMATION

(Apr 07th 2021)

Stock Exchange	HOSE
Price (VND)	43.500
10-day average volume	1.082.330
Market value (billion VND)	4.795
Shares outstanding	110.245.596

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TOWARDS THE FORMATION OF A HOLDINGS IN MARITIME LOGISTICS INDUSTRY

- **Positive growth prospect of VIP Green port** when competitive pressure in the around area is reduced and benefits from: (1) Growth of cargo volume in Hai Phong; (2) Shifting the operation purpose of the upstream ports group; (3) Demand from strategic shareholders.
- **Motivation from VIMC Dinh Vu port:** In 2021, VSC completed the acquisition of 36% stake in VIMC Dinh Vu port (Vinalines Dinh Vu). The port will start operating from Q3.2022 and is expected to bring significant momentum to VSC's profit and increase the efficiency of ports system operation in the coming years.
- **Towards forming a holdings in maritime logistics industry:** The company is rapidly implementing M&A deals and moving towards building a large-scale maritime logistics holdings that covers most of the segments of service chain within the next 2-3 years.

Recommendation: In the period of 2022-2024, VSC expects to maintain the growth momentum of business results along with: (1) Positive trend of cargo volume through ports and demand for logistics services in Hai Phong area; (2) Profit contribution from new investments. VCBS highly appreciates VSC's long-term prospects as the company is continuously carrying out M&A deals and gradually upgrading the business to one of the largest maritime logistics holdings in the country, thereby opening up abundant growth potential in the coming period.

VCBS forecasts that VSC's 2022 revenue will reach **VND 2.200 billion (+16,3% yoy)**, profit attributable to parent company shareholders will reach **VND 414 billion (+18,2% yoy)**, equivalent to EPS of **VND 3.759/ share**. We maintain **BUY** recommendation for VSC stock at a fair valuation of **VND 62.965/ share**.

	2020	2021	2022F	2023F
Revenue (billion VND)	1.689	1.892	2.200	2.353
+/- yoy (%)	-5,79%	12,04%	16,28%	6,93%
Net income (billion VND)	240	350	414	482
+/- yoy (%)	2,67%	45,67%	18,20%	16,59%
Gross margin (%)	26,60%	31,84%	32,59%	35,48%
NPAT margin (%)	17,55%	21,87%	22,79%	24,79%
ROA – TTM (%)	4.358	3.174	3.759	4.383

BUSINESS RESULTS

In 2021, net revenue reached VND 1.892 billion (+12,0% yoy) along with: (1) The recovery in growth momentum of cargo volume and logistics demand in Hai Phong; (2) Competitive pressure in the area around VSC's ports (GreenPort and VIP Green) is reduced. In particular, revenue from out-of-port logistics services (depot, transportation, warehousing) recorded a strong growth (+55,1% yoy) as the business continuously increased its capacity and position in full logistics supply chain services.

NPAT in 2021 increased by 39,6% over the same period and reached VND 414 billion. Gross profit margin improved positively thanks to: (1) Characteristics of Port operation industry with most of costs (depreciation, labor, outsourced services,...) does not expand much as revenue increased; (2) Outsourced service costs continue to remain low as the company has significantly improved the efficiency of vessel operation and dispatching to the port, thus limiting transshipment to PTSC Dinh Vu port.

Figure 1: Business results of VSC (VND billion)

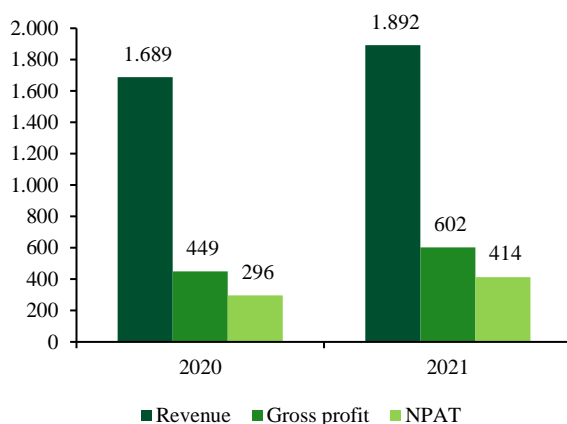


Figure 2: VSC's gross profit margin



Source: VSC, VCBS

BUSINESS OUTLOOK

Positive growth prospect of VIP Green port

With the location in the midstream of Cam River (Hai Phong) and a designed capacity of up to 600.000 TEUs/year, VIP Green Port is the largest port and an important contributor to VSC's business results. In the period of 2018-2020, VIP Green port along with the midstream ports of Cam river (Dinh Vu, Tan Vu, Nam Hai Dinh Vu ports) are under considerable pressure on cargo volume and business efficiency from the trend of displacement of shipping lines to downstream ports and Lach Huyen area.

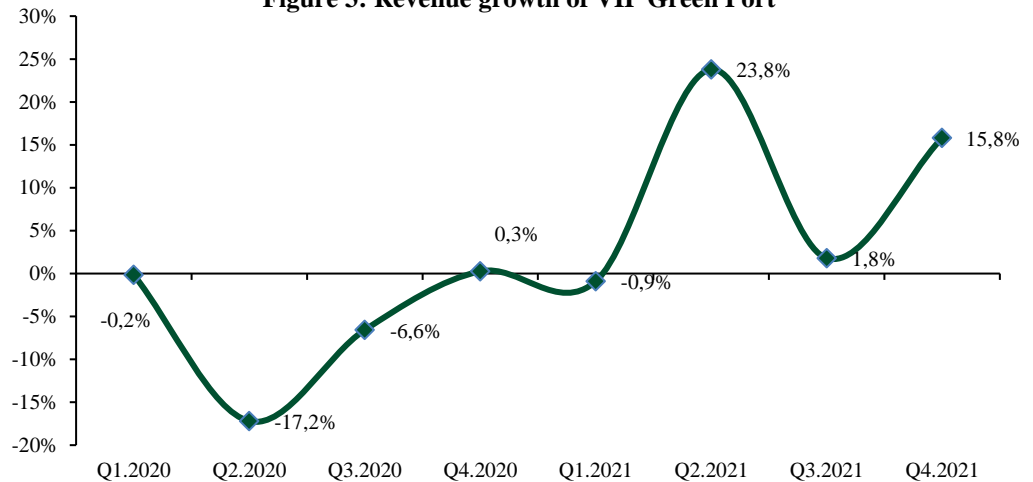
However, the above trend has basically ended since mid-2020 and the midstream port group, including VIP Green, has recorded growth trend in volume and revenue. VCBS assesses that cargo volume through VIP Green port will maintain a positive growth momentum in the next few years, considering the following factors:

- The volume of goods through the seaport system in Hai Phong is expected to grow by double digits when: (1) Production activities and FDI attraction recover positively after the pandemic period; (2) Many large industrial parks in the North have entered the stage of completing

infrastructure investment and starting to receive tenants in 2022-2023.

- Along with the trend of promoting public investment, Hai Phong City People's Committee has accelerated the clearance of the inner city ports to serve traffic projects. Thereby, the midstream ports of the Cam River, including VIP Green, will benefit from the source of container cargo moving from the upstream area when the above regional container ports switch to serving bulk cargo - replacing inner city ports.
- VIP Green owns the advantage of cargo demand from strategic shareholder Evergreen - a shipping company with a large volume of cargo in Hai Phong area.

Figure 3: Revenue growth of VIP Green Port



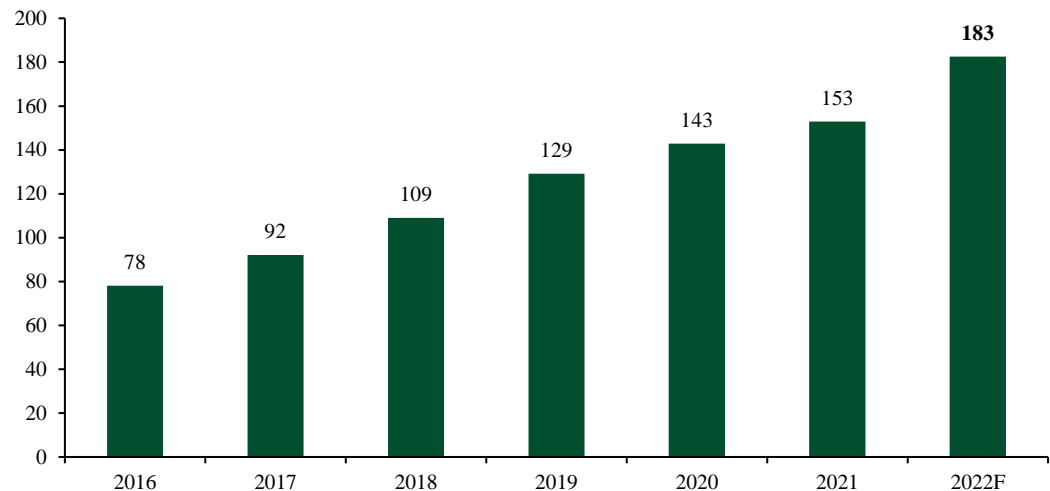
Source: VGR, VCBS

Motivation from VIMC Dinh Vu port

In 2021, VSC completed the acquisition of 36% stake in VIMC Dinh Vu port (Vinalines Dinh Vu) and officially became the second largest shareholder in this port after Vinalines. With a designed capacity of about 500.000 TEU/year and expected to start operating from Q3.2022, VMIC Dinh Vu port is expected to start contributing to VSC's profit from 2023 and significantly increase the operating efficiency of VSC's ports system in the coming years. In particular:

- As a container port located downstream of the Cam River, close to the sea mouth with a large water depth, VIMC Dinh Vu port has many advantages in attracting cargo sources when most shipping lines tend to gradually increase the tonnage of the fleet.
- Competitive pressure in the downstream area of Cam River is expected to decrease sharply from 2022 since: (1) Adjusting the planning of Lach Huyen port help limit competition between deep-water ports and river ports; (2) Due to most of the shipping traffic in the Hai Phong area moves on relatively short maritime routes, connecting to East Asian countries, shipping lines often use medium-sized container ships and bring high demand for river ports system; (3) Many midstream ports are approaching the design capacity limit.
- Owning an associate share in a downstream port gives VSC the ability to transship when the main ports cannot receive ships, thereby increasing the competitive advantage of the port group in maneuvering ships.

Figure 4: Cargo output through ports in Hai Phong (million tons)



Source: Hai Phong Maritime Administration, VCBS

Towards forming a holdings in maritime logistics industry

VSC is currently one of the few enterprises that owns a fully interchanged maritime logistics chain with a system of logistics infrastructure (container yards - transportation – seaports) with high operating efficiency through subsidiaries and affiliates companies, concentrated mainly in Hai Phong area. The company is rapidly implementing M&A and moving towards building a large-scale maritime logistics holdings and covering most links of the service chain within the next 2-3 years. In particular:

- In 2022, VSC plans to increase capital contribution at GLC (Green Logistics Center) to acquire Quang Binh - Dinh Vu inland port (Hai Phong). The company is expected to complete the acquisition and start consolidating business results as soon as Q3.2022. Owning an additional depot will significantly improve the efficiency of goods movement between VSC's member units and relieve a part of the capacity since GreenPort and VIP Green ports are approaching the design capacity limit.
- Along with the process of increasing cooperation and participation in the governance of major shareholders who are logistics enterprises in Hai Phong, Vinconship aims to strongly develop logistics infrastructure in the area to promote the full logistics chain advantages.
- Besides acquiring 36% stake in VIMC Dinh Vu port, VSC maintains its ambition to contribute capital to invest in a deep-water port in Lach Huyen area with the ownership rate of at least 36%.

After completing the investment plan, VSC will basically complete the leading maritime logistics system in the country besides Gemadept, Saigon Newport and Vinalines. The strategy of concentrating investment in Hai Phong helps VSC: (1) Effectively exploit complementary services from member units and strategic partners; (2) Increasing local advantages, thereby enhancing the negotiating position, the ability to win the right to develop new projects and acquire businesses in the area.

Table 1: Logistics infrastructures portfolio of VSC in Hai Phong

Segment	Unit company	VSC's ownership
Forwarder, customs declaration, transportation	GS Lines (Green Star Lines)	100%
Transportation, warehouse	GLC (Green Logistics Center)	100%
Depot	GIC (Green ICD)	66%
Seaport	GreenPort	100%
Seaport	VIP Green	74%
Seaport	PTSC Dinh Vu	22%
Seaport	VIMC Dinh Vu	36%

Source: VSC, VCBS

In addition, the expansion of the member company system and service capacity across many segment in maritime logistics chain opens up opportunities for VSC to gradually IPO business segments of the group, thereby improving the ability to raise capital for investment projects and the potential for revaluation of assets when businesses listed in stock exchange.

RECOMMENDATION

In the period of 2022-2024, VSC expects to maintain the growth momentum of business results along with: (1) Positive trend of cargo volume through ports and demand for logistics services in Hai Phong area; (2) Profit contribution from new investments. VCBS highly appreciates VSC's long-term prospects as the company is continuously carrying out M&A deals and gradually upgrading the business to one of the largest maritime logistics holdings in the country, thereby opening up abundant growth potential in the coming period.

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