

Noibai Cargo Terminal Services JSC (NCT: HOSE)



OUTPERFORM – 1Y Price Target: VND 90,500

Current price: VND 73,500

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25 October 2018

INDUSTRIALS- VIETNAM

Key figures

Market cap (USD mn)	82
Market cap (VND bn)	1,923
Outstanding shares (mn)	26
52W high/low (VND 1,000)	116/69.5
Average 3M volume (share)	38,873
Average 3M value (USD mn)	0.13
Average 3M value (VND bn)	2.95
Foreign ownership (%)	14.07
State ownership (%)	65.07
Management ownership (%)	0.5

NCT Price & Trading Volume



Source: Bloomberg

Company Snapshot

Noi Bai Cargo Terminal Services (NCTS) is a subsidiary of Vietnam Airlines, and was founded in 2005 with a charter capital of VND 35bn. After several successful charter capital increases, mostly through stock dividends, NCTS's charter capital totaled VND 95.85bn during 2008-2013. In Sept 2014, the company paid stock dividend of 70% and stock bonus of 90% to increase its charter capital to VND 249.21bn.

EARNINGS UPDATE

Lower ASP driving down margin

(bn VND)	9M2018	9M2017	YoY	% annual target completed	Margin		
					9M2018	9M2017	2017
Net sales	514.9	513.0	0.4%	71.7%	52.9%	56.2%	54.6%
Gross profit	272.4	288.1	-5.4%		45.8%	49.2%	45.3%
Operating profit	235.9	252.6	-6.6%		45.8%	49.7%	47.2%
EBIT	235.9	255.1	-7.5%		49.3%	53.8%	51.1%
EBITDA	254.0	276.1	-8.0%		45.8%	49.7%	47.2%
Pretax profit	235.9	255.1	-7.5%		37.2%	40.1%	37.9%
Net income	191.5	205.7	-6.9%	89.2%			
NI attributable to shareholders	191.5	205.7	-6.9%		37.2%	40.1%	37.9%

Source: SSI Research

NCT just released their 9M 2018 results, posting a flat top line yet with a declining bottom line, which is slightly worse than our expectation. The main reasons come down to slower volume growth in 3Q 2018 compared to the first half of the year, along with a lower than expected ASP.

In 3Q 2018, NCT handled a total of 101K tons of goods, +3% YoY. This is lower than the 1H 2018 growth of 11% YoY. Domestic volume was 32K tons at +3% YoY, and international volume was 69K tons at +3% YoY. The ASP was down by -3% YoY, leading to flat revenue YoY in 3Q 2018 of VND 181 bn.

In total, in 9M 2018, NCT volume reached 295K tons at +8% YoY, which is slower than the 1H growth rate of 11% YoY, but on par with the 9M 2017 growth rate of 7% YoY. Domestic volume this year came to 100K tons so far at +9% YoY, and international volume was 195K tons at +7% YoY. 9M 2018 Revenue reached VND 514 bn at +0.4% YoY, translating to a -7% YoY in the ASP.

Lower ASP, according to the management, is due to a lower proportion of export cargo and higher proportion of import cargo. Due to its nature, export cargo is more process involved regarding the steps necessary to load cargo on the aircraft, leading to higher revenue compared to imported cargo. At the same time, frozen cargo is significantly lower this year. This type of cargo also carries a higher price and margin.

NPAT in 9M2018 was down by -7% YoY, reaching VND 191 bn. Due to a lower ASP and higher labor cost (+20% YoY), the net profit margin was down by -3% percentage points to 37% for 9M2018.

Our view

In light of a lower than expected ASP, we revise downwards our ASP assumption for 2018. Specifically, we expect ASP in 2018 to reach VND 1,766 per kg of goods, -7% YoY on par with the reduction in 9M2018. However, we maintain our assumption that ASP might recover in 2019 by 5% YoY, as we think the imbalance between imports of spare parts and exports of finished mobile phone products cannot be sustainable.

Our new estimates for 2018 is that revenue might reach VND 738 bn, +2.7% YoY. NPAT is estimated to reach VND 245 bn, -10% YoY for the year. In 2019, our assumptions for revenue and NPAT are VND 837 bn at +13% YoY and VND 255 bn at +4.3% YoY, respectively. Net margin is down from 33% in 2018 to 30% in 2019. Such a decrease in the net margin is due to an increase in rent expense when NCT rents out a new terminal from ACSV. This terminal increases NCT capacity as well as service quality. Our detailed report on assumptions can be found [here](#). The EPS 2018 forward is at VND 8,749, and 2019 EPS is VND 9,122.

At the current market price, NCT is trading at P/E 2018 and 2019 of 8.4x and 8x respectively. We put out an OUTPERFORM recommendation for NCT, with a revised target price of VND 90,500/share (+23% upside) with a target P/E of 10x, which is the NCT average historical P/E. The dividend yield of 12.2% for this stock is attractive at this price level, based on the assumption that it can pay VND 9,000/share cash dividend in the long-term. Despite the short-term decline in earnings, this stock is suitable for investors looking for a stable dividend payment. In the longer term, the demand for air cargo transportation should grow along with FDI-sector manufacturing, as well as domestic consumption of imported goods.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2016	2017	2018F	2019F
Balance Sheet				
+ Cash	17	28	-40	-93
+ Short-term investments	275	236	236	236
+ Account receivables	53	54	56	63
+ Inventories	3	3	3	4
+ Other current assets	1	4	4	5
Total Current Assets	350	325	258	215
+ LT Receivables	2	2	2	3
+ Net Fixed Assets	97	81	119	146
+ Investment properties	0	0	0	0
+ LT Assets in progress	0	0	0	0
+ LT Investments	24	65	65	65
+ Other LT Assets	15	35	39	47
Total Long-Term Assets	139	184	225	261
Total Assets	489	509	484	475
+ Current Liabilities	50	65	72	85
<i>In which: ST debt</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
+ Non-current Liabilities	3	5	6	7
<i>In which: LT debt</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total Liabilities	53	70	77	92
+ Contributed capital	262	262	262	262
+ Share premium	0	0	0	0
+ Retained earnings	175	177	145	122
+ Other capital/fund	0	0	0	0
Shareholders' Equity	437	439	406	383
Total Liabilities & Equity	489	509	484	475
Cash Flow				
CF from operating activities	271	268	268	284
CF from investing activities	-14	6	-75	-75
CF from financing activities	-262	-263	-262	-262
Net increase in cash	-4	11	-69	-53
Beginning cash	21	17	28	-40
Ending cash	17	28	-40	-93
Liquidity Ratios				
Current ratio	7.01	5.02	3.60	2.52
Acid-test ratio	6.92	4.91	3.50	2.42
Cash ratio	5.85	4.08	2.73	1.68
Net debt / EBITDA	-0.05	-0.06	0.02	0.18
Interest coverage	N.a	N.a	N.a	N.a
Days of receivables	24.2	24.5	24.6	23.5
Days of payables	15.8	11.8	15.2	14.7
Days of inventory	5.2	3.6	3.2	3.1
Capital Structure				
Equity/Total asset	0.89	0.86	0.84	0.81
Liabilities/Total Assets	0.11	0.14	0.16	0.19
Liabilities/Equity	0.12	0.16	0.19	0.24
Debt/Equity	0.00	0.00	0.00	0.00
ST Debt/Equity	0.00	0.00	0.00	0.00

VND Billion	2016	2017	2018F	2019F
Income Statement				
Net Sales	689	720	739	838
COGS	-297	-327	-362	-429
Gross Profit	392	393	377	409
Financial Income	13	23	13	10
Financial Expense	0	0	0	0
Income from associates	0	0	0	0
Selling Expense	-5	-8	-9	-11
Admin Expense	-61	-67	-75	-88
Income from business operation	338	339	306	319
Net Other Income	1	0	0	0
Profit Before Tax	339	340	306	319
Net Income	270	273	245	256
NI attributable to shareholders	270	273	245	256
Minority interest	0	0	0	0
Growth				
Sales	-13.7%	4.5%	2.7%	13.4%
EBITDA	-13.8%	0.8%	-6.4%	6.7%
EBIT	-15.4%	0.2%	-9.8%	4.3%
NI	-13.6%	0.9%	-10.2%	4.3%
Equity	-0.1%	0.6%	-7.5%	-5.7%
Chartered Capital	0.0%	0.0%	0.0%	0.0%
Total assets	-5.7%	4.0%	-5.0%	-1.8%
Valuation				
P/E	0.0	9.0	8.4	8.1
P/B	0.0	5.2	4.7	5.0
P/Sales	0.0	3.2	2.6	2.3
Dividend yield	N.a	10.3%	13.6%	13.6%
EV/EBITDA	-0.8	-0.7	4.8	4.5
EV/Sales	-0.4	-0.4	2.2	2.0
Profitability Ratios				
Gross Margin	56.9%	54.6%	51.0%	48.8%
Operating Margin	47.3%	45.3%	39.7%	37.0%
Net Margin	39.2%	37.9%	33.2%	30.5%
Selling exp./Net sales	0.7%	1.2%	1.3%	1.3%
Admin exp./Net sales	8.9%	9.4%	10.1%	10.6%
ROE	61.9%	62.3%	58.0%	64.7%
ROA	53.6%	54.7%	49.4%	53.3%
ROIC	61.9%	62.3%	58.0%	64.7%

Source: NCT, SSI Research

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Buy: Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

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