

Vietnam

Consensus ratings*:	Buy 2	Hold 3	Sell 0
Current price:	VND88,000		
Target price:	VND112,000		
Up/downside:	27.3%		
CGS-CIMB / Consensus:	-1.1%		
Reuters:	ACV.HM		
Bloomberg:	ACV.VN		
Market cap:	US\$8,320m		
	VND191,587,392m		
Average daily turnover:	US\$0.33m		
	VND7,422m		
Current shares o/s:	2,177m		
Free float:	5.0%		
*Source: Bloomberg			

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.6	-15	72.5
Relative (%)	17.4	8.8	56.2

Major shareholders

	% held
Ministry of Transport	95.0
Others	5.0

Airports Corporation of Vietnam

A play on the world's fastest growing aviation market

- Airports Corporation of Vietnam (ACV) is the country's monopoly airport operator. It now operates 22 airports nationwide.
- The company is riding on the country's buoyant aviation market, which has seen passenger throughput volume expand by a 4-year CAGR of 19.9% (2013-17).
- We prefer ACV to airline stocks as it is less exposed to rising fuel prices, while being a likely beneficiary of intensifying competition between regional airlines, in our view.
- Initiate coverage on ACV with an Add rating and a DCF-based TP of VND112,000.
- We see domestic passenger fee hikes, expected divestment by the MoT and an imminent migration from UPCOM to the main bourse, as key short-term catalysts.

Likely beneficiary of air passenger boom over the next decade

Vietnam is one of the most dynamic aviation markets in the world, with passenger volume rising by a 4-year CAGR (2013-17) of 19.9%. In our view, ACV is well positioned in a highly-favourable market based on the following attributes: 1) a monopolistic market position; 2) a growing middle-class that is spending more on leisure travel; and 3) low air travel penetration relative even to the ASEAN region. Hence, we expect ACV's passenger volume to rise by more than 15% yoy over the next five years (FY18-22F).

Passenger fee hike to boost FY18F pre-tax profit growth to 27.2%

In 2017, the Ministry of Finance (MOF) and the Civil Aviation Authority of Vietnam (CAAV) approved a plan for the adjustment of domestic passenger fees which were artificially low. According to the plan, ACV will charge each passenger on a domestic flight VND100,000 starting in 3Q18, compared to the previous fee of around VND63,000. We expect FY18F blended service fee/passenger to rise to VND106,451 (+22.9%), equivalent to an additional VND1,934bn in pretax profit.

MOT's divestment of ACV stake to be a significant catalyst

The Ministry of Transport (MOT) plans to divest 30% of its current ownership of 95% in ACV by end-2020F. We expect the divestment to help create free float, thus improving the valuation of the company. Moreover, the MOT intends to sell its stake to financial investors rather than strategic investors after declining an offer from Aeroport de Paris (ADP) in 2017. ACV has also announced that it will pursue a HOSE listing, which could happen in 2019F. However, firstly, ACV must reach a consensus with the MOT on the accounting treatment of flight assets, namely runways and taxiways.

Higher return on capital justifies higher valuation

ACV currently trades at a FY19F EV/EBITDA of 13.1x in line with the regional peer average of 13.1x. However, we believe the stock deserves to trade at a significant premium to regional peers because: 1) the company's FY18-19F ROE of 18.1%-20.8% is much higher than the regional peer average of 14.7%-15.1% in FY18-19F; 2) ACV is a monopoly airport operator in Vietnam and the risk of new entrants is limited, in our opinion; and 3) Vietnam's aviation market is the fastest growing in Asia in terms of passenger traffic.

Risks

Political risk should be considered when investing in ACV as the government decides the fee schemes for several services, such as taking off/landing services, general passenger services and security check services. We believe the risk is minimal at the moment as the MOT is still ACV's major shareholder. Furthermore, ACV is highly exposed to FX rate fluctuations, especially the VND-JPY rate, as the company has large JPY-denominated debt, part of official development assistance (ODA) from Japan to Vietnam.

Analyst(s)



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Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (VNDb)	10,691	13,849	17,822	20,766	23,286
Operating EBITDA (VNDb)	5,969	8,736	11,798	13,911	15,593
Net Profit (VNDb)	2,696	4,182	5,257	6,992	7,725
Core EPS (VND)	1,387	1,921	2,415	3,211	3,548
Core EPS Growth	40.2%	38.5%	25.7%	33.0%	10.5%
FD Core P/E (x)	63.43	45.81	36.45	27.40	24.80
DPS (VND)	1,255	600	1,000	1,000	1,000
Dividend Yield	1.43%	0.68%	1.14%	1.14%	1.14%
EV/EBITDA (x)	28.19	21.15	15.65	13.06	11.39
P/FCFE (x)	44.6	NA	109.7	51.2	39.5
Net Gearing	(10.6%)	(16.0%)	(14.3%)	(20.4%)	(27.1%)
P/BV (x)	8.13	7.00	6.14	5.23	4.48
ROE	12.4%	16.4%	18.0%	20.6%	19.5%
% Change In Core EPS Estimates			0.96	1.11	
CIMB/consensus EPS (x)					

SOURCES: VN DIRECT (VND), COMPANY REPORTS

Riding on Vietnam’s aviation boom

INVESTMENT THESIS

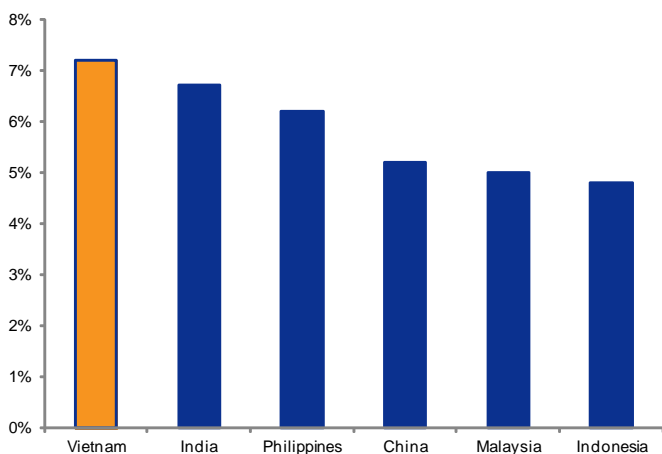
ACV to be a huge beneficiary of Vietnam’s air travel boom over the next decade ➤

Vietnam’s air travel penetration is rising, driven by socio-economic factors

Among all Southeast Asian countries, Vietnam has the lowest air travel penetration, as measured by Revenue Passenger Kilometer (RPK) per capita (source: Vietjet Aviation Corp’s IPO Prospectus 2016). However, Vietnam’s RPK per capita has been rising rapidly over the last five years (2013-17), thanks to the expansion of Low-Cost Carriers (LCCs) and increasing leisure travel spend. As a result, passenger traffic throughput at Vietnamese airports has risen by a 4-year CAGR of 19.9% (2013-17) to 94.1m in 2017. We expect Vietnam passenger traffic to grow by around 15% p.a. over the next five years (2018-22F), based on the following factors:

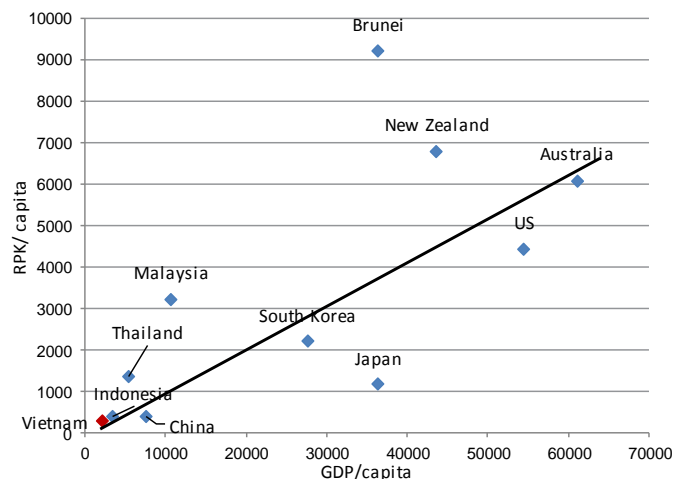
- A growing middle-class population:** According to the Mekong Development Institute, Vietnam’s middle-class population will expand to 33% of the total population by 2020F, compared to the current level of 30%. A survey by the Brookings Institute in Nov 2017 expects Vietnam’s middle-class population growth rate to reach 18% p.a. over 2016-20F, outpacing Malaysia’s and Thailand’s expected growth rates of just 4%. The rise of the middle-class population in Vietnam is likely to lead to several socio-economic changes, especially the gradual transition from an export-driven economy to a more consumer-driven economy. This is likely to lead to a strong increase in demand for quality of life-boosting goods and services, including leisure travel. Currently, Vietnam’s 2017 GDP per capita is estimated at only one-third that of Thailand’s and one-fourth that of Malaysia’s (source: International Monetary Fund, IMF, 2017). As a result, the country’s air travel penetration remains low. However, Vietnam’s 2017 GDP growth rate of 6.8% outpaced Thailand’s 3.9% and Malaysia’s 5.8%. Given that we believe there is a strong correlation between per capita income and air travel penetration, we believe Vietnam’s RPK/capita will rapidly catch up with those of its richer neighbors due to its faster pace of economic growth.

Figure 1: Annual passenger traffic growth by 2030F, based on IATA estimates



SOURCES: INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA)

Figure 2: RPK per capita vs. GDP per capita (2015)



SOURCES: VND, IATA

- More people are choosing air travel over rail and road travel** as low-cost carriers (LCCs) are reshaping the domestic passenger transport industry. The establishment of Vietjet Aviation JSC (HOSE: VJC, Not Rated) has created cheaper and more convenient travel options compared to other modes of transport. For example, to travel between Hanoi and Ho Chi Minh City (HCMC), a passenger would have to pay around VND900,000 for a coach trip or VND1.3m for a one-way train trip. Furthermore, the passenger would have to incur other expenses along the way for food and drink, for example, as the trip would take a day-and-a-half. Travelling by air would cost a similar amount but the trip duration would be seven times shorter than by train, even after including the wait time before take-off. According to VJC, air transport share as a percentage of Vietnam’s passenger transport market has doubled since 2011 to reach around 0.7% in 2017. Meanwhile the market shares of rail and river transport have dropped over the same period. Road transport is still the dominant medium of travel, accounting for 94% of total passenger transportation volumes in 2017.

Figure 3: Average fare for one-way trip (2017)

Trip	HCMC - Hanoi		HCMC - Danang	
	Time hrs	Fare VND	Time hrs	Fare VND
VJC	2:05	994,000	1:20	693,000
Coach	35:00	861,385	15:30	406,000
Rail	34:00	1,300,000	17:00	892,000

SOURCES: VND., VIETJET AIR

Figure 4: Growth in number of passengers (2011-16)

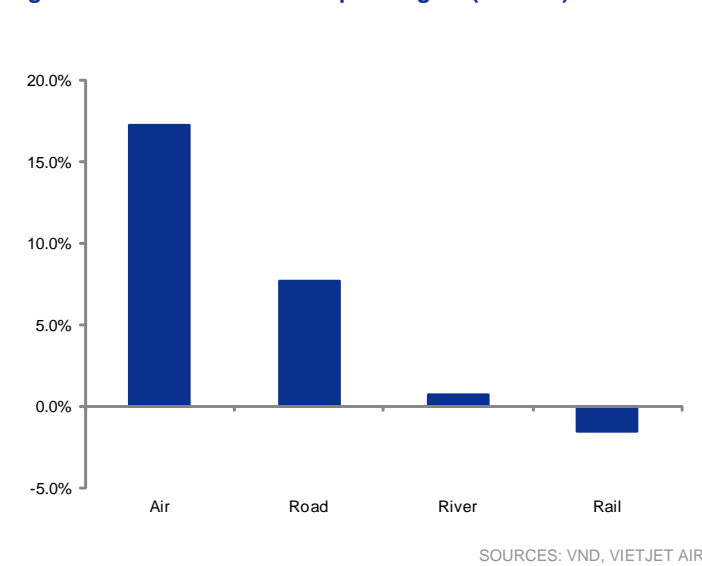
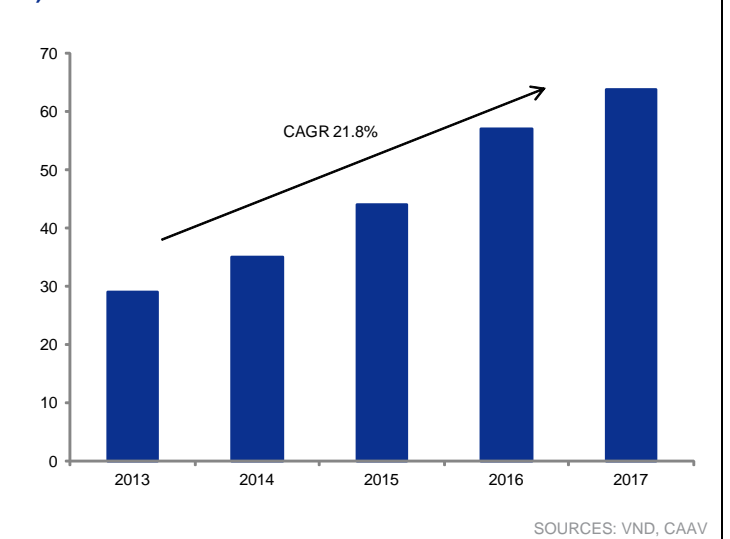


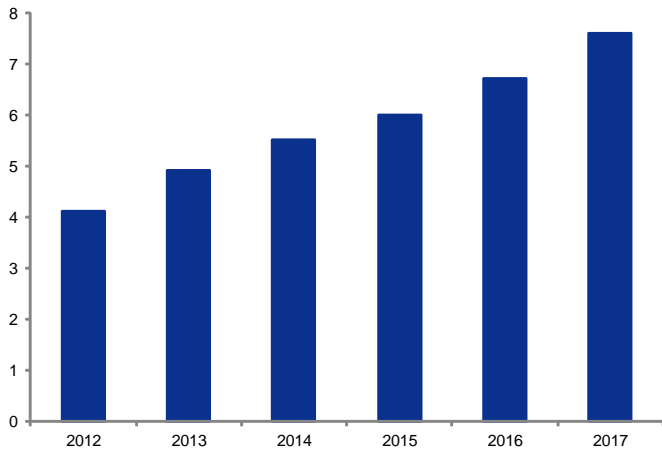
Figure 5: Number of domestic air passengers in millions (2013-17)



Upwardly-mobile Vietnamese now prefer to spend their holidays overseas.

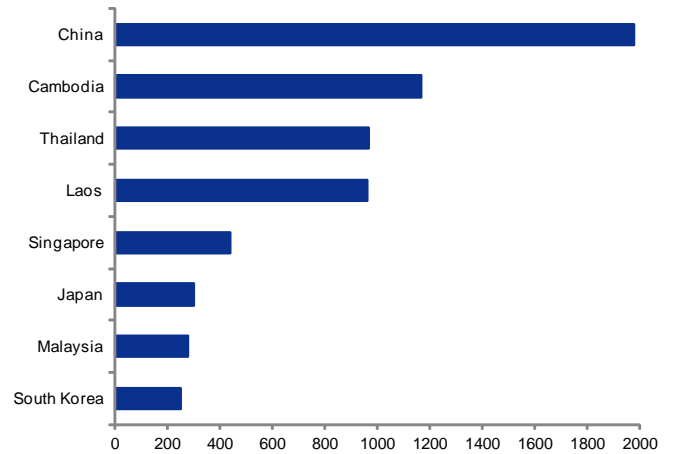
An increasing number of wealthy middle-class and upper-class citizens prefer to take their holidays in foreign countries, even during the Tet holiday that is traditionally the time for family gatherings. These days, many upper-class citizens choose to hold their Tet family gatherings overseas. This is a structural change in the preferences and spending behaviour of the Vietnamese people. According to Euromonitor, Vietnamese outbound tourism has been growing by 10-15% p.a. over the past three years and could maintain double-digit growth rates over the next decade. Top foreign travel destinations for Vietnamese travelers are China, Cambodia and Thailand due to the affordability of these destinations. A small number of wealthy travellers favour the US and Germany. Japan and South Korea are also increasingly becoming destinations of choice for many travellers as they gradually loosen visa policies for Vietnamese tourists. The main reason for this is the strengthening of economic and political relationships between Vietnam and the countries of Japan and South Korea.

Figure 6: Number of Vietnamese outbound trips (m)



SOURCES: EUROMONITOR

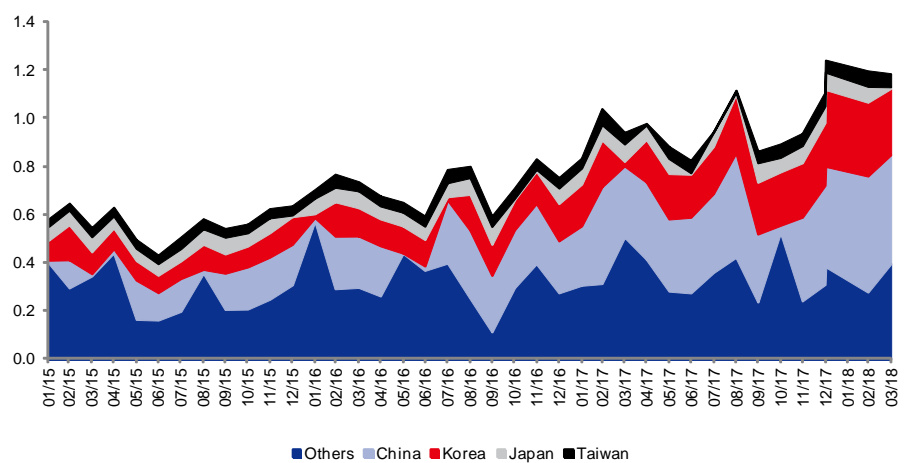
Figure 7: Foreign travel destinations of Vietnamese tourists ('000) in 2017



SOURCES: EUROMONITOR

Foreign passenger traffic is growing twice as fast as domestic passenger traffic owing to Vietnam's rising popularity as a travel destination for outbound tourists from Northeast Asian countries, especially Japan, South Korea, China and Taiwan. These countries are also among the largest sources of foreign direct investment (FDI) in Vietnam. The top three countries in terms of foreign visitors (China, South Korea and Japan) accounted for 58.7% of the total number of foreign visitors to Vietnam in Jan-Mar 2018, up from 32.2% in Jan-Mar 2015. While the rise of Chinese tourists to Vietnam has likely been due to the rise in China's middle-class population, the increasing number of Korean and Japanese tourists could be associated with rising FDI inflows from these countries. South Korea and Japan accounted for 44.7% of Vietnam's total registered FDI of US\$8.1bn over the first four months of 2018. As Vietnam becomes increasingly popular with both tourists and investors from Japan, South Korea and Taiwan, we expect the number of air passengers from these countries to rise.

Figure 8: Monthly number of foreign visitors, by country (m)



SOURCES: VIETNAM ADMINISTRATION OF TOURISM

Competition between airlines to fuel passenger traffic growth

The transport capacity of domestic airlines has grown strongly over the last three years thanks to the expansion of VJC. VJC is the largest and fastest-growing LCC in Vietnam as measured by capacity. Since 2013, VJC's capacity has expanded significantly, as represented by the Available Seat Kilometer (ASK), at a rate of around 49.6% p.a. to touch 20,757m in 2017. The LCC has contributed the most to the booming supply in the Vietnamese aviation industry. Total capacity of Vietnam Airlines (UpCOM: HVN, Not Rated) and VJC, the two largest carriers that have a combined market share of 84% in terms of passengers carried in 2017, has grown by 18% yoy on average over 2013-17. Moreover, VJC plans to increase its fleet size by another 34% over the next three years (2018-20F) thereby boosting system-wide supply and, potentially, reducing fares.

The competition in Vietnam's aviation industry has intensified over the past decade. HVN and Jetstar Pacific (JPA, Unlisted), a subsidiary of HVN, joined the race in 1990. HVN is now rejuvenating its fleet by entering into aircraft purchase contracts to scale up its fleet to 92 aircraft (+29.6%) by 2021F. The company plans to focus on the higher-end, full-service segment by increasing the number of wide-body aircraft, including new-generation models such as the Airbus A350 and Boeing 787 Dreamliner. In 2017, HVN acquired five aircraft, including one B787-9 Dreamliner that was delivered in May 2017 and three A350-900s that were delivered in Jun, Sep and Dec 2017, respectively. These aircraft were deployed on long-haul international routes such as HCMC–London. HVN also launched a new marketing campaign recently that featured: 1) a redesigned logo, and 2) an announcement of upgraded in-flight service quality. HVN and JPA launched a "dual-brand" marketing campaign in 2015 that gives members of HVN's Lotuses miles programme bonus points when they buy a Starter Plus flexible ticket or Starter Max optimal ticket from JPA. This campaign aims to encourage clients to book flights on both HVN and JPA. A customer could book JPA for short-haul flights and use the bonus points received to purchase VNA's 4-star flights. By 2021F, we estimate the total fleet size of VJC, HVN, and JPA could reach 194 aircraft, +32% compared to the current fleet size of 147. This is equivalent to a 9.7% increase in fleet size p.a. on average. The total capacity as measured in ASK could rise even faster as these carriers plan to acquire larger and more wide-body aircraft.

Furthermore, we think there could be new entrants into the domestic air transport market, even though the barriers to entry are high. Bamboo Airways, a subsidiary of FLC Group JSC (HOSE: FLC, Not Rated), plans to launch its air travel services by the end of 2018F, according to the company. Bamboo Airways intends to purchase 24 aircraft to serve tourist hot-spot cities in Vietnam such as Nha Trang and Da Nang, as well as other Asian destinations such as Thailand, Singapore and China. However, we have not seen any orders from Bamboo Airways appear on the order books of either Airbus or Boeing. Given that airlines must place aircraft orders far in advance and often wait years for delivery, we believe the launch of the company could be delayed.

Figure 9: Fleet size and aircraft orders of Vietnam airlines (as of May 2018)

Model	Vietjet Air		Vietnam Airlines		Jetstar Pacific	
	Operating	Unfulfilled orders	Operating	Unfulfilled orders	Operating	Unfulfilled orders
A320ceo	28	0			17	0
A321ceo	30	6	57	0		
A321neo	1	72				
A330-200			6	0		
A350-900			8	10		
737 Max		100				
Total	59	178	71	10	17	0

SOURCES: VND, AIRBUS, BOEING

Expansion of airport capacity to pave the way for ACV's revenue growth

ACV now operates 22 airports nationwide, with the four largest airports accounting for 84% of passenger traffic throughput in 2017. Over the last few years, Tan Son Nhat International Airport (SGN), Noi Bai International Airport (HAN), and Danang International Airport (DAD) have been operating above their designed capacities. Faced with capacity constraints and continued rise in air travel demand, ACV plans to expand the capacity of the major airports and build a new one. ACV expects HAN, SGN, DAD and Cam Ranh International Airport (CXR) to be major hubs in the Vietnamese airlines' networks.

Figure 10: Airport locations



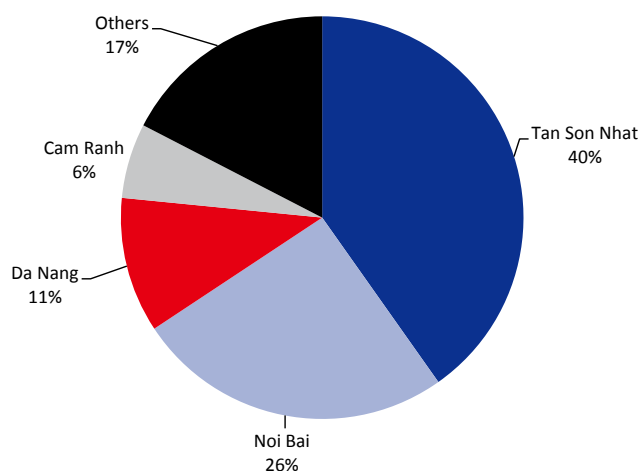
SOURCES: VND, COMPANY REPORTS

Figure 11: ACV's expansion plan – annual passenger traffic capacity

Airport	IATA Code	Designed capacity	2016 throughput	Capacity by 2025F	% increase
Tan Son Nhat	SGN	30,000,000	32,486,537	45,000,000	50.0%
Noi Bai	HAN	25,000,000	20,596,632	50,000,000	100.0%
Danang	DAD	6,000,000	8,783,429	11,000,000	83.3%
Cam Ranh	CXR	1,500,000	4,858,362	6,500,000	333.3%
Phu Quoc	PQC	2,650,000	2,112,542	7,650,000	188.7%
Cat Bi	HPH	4,000,000	1,846,000	10,000,000	150.0%
Vinh	VII	3,000,000	1,682,580	3,000,000	0.0%
Phu Bai	HUI	1,500,000	na	6,500,000	333.3%
Dien Bien Phu	DIN	300,000	na	300,000	0.0%
Buon Ma Thuot	BMV	1,000,000	na	1,000,000	0.0%
Lien Khuong	DLI	2,000,000	1,261,714	2,000,000	0.0%
Can Tho	VCA	3,000,000	471,117	3,000,000	0.0%
Pleiku	PXU	1,000,000	na	1,000,000	0.0%
Chu Lai	VCL	500,000	396,483	5,500,000	1000.0%
Tuy Hoa	TBB	550,000	262,656	550,000	0.0%
Dong Hoi	VDH	500,000	227,323	500,000	0.0%
Phu Cat	UIH	600,000	na	600,000	0.0%
Ca Mau	CAH	200,000	na	200,000	0.0%
Rach Gia	VKG	200,000	na	200,000	0.0%
Tho Xuan	THD	600,000	765,804	600,000	0.0%
Con Dao	VCS	400,000	na	400,000	0.0%
Total		84,500,000	80,798,093	155,500,000	84.0%

*2017 FIGURES ARE NOT AVAILABLE
SOURCES: VND, COMPANY REPORTS

Figure 12: ACV's passenger traffic (m) by airport (2016)



NOTE: *2017 FIGURES ARE NOT AVAILABLE
SOURCES: VND, COMPANY REPORTS

ACV intends to upgrade SGN's capacity to ease the current overload situation. The construction of the new SGN Terminal 3 is slated to begin in 2019F and will

cost VND9,800bn, according to the company. ACV stated that the project will be funded internally and thus, additional borrowings or equity raising is not necessary. We believe this is entirely possible as ACV has abundant cash flow from operations; we estimate ACV's free cash flow to equity (FCFE), excluding capex, to be VND7,000bn-12,000bn p.a. in FY18-22F. The new terminal will have a designed annual capacity of 15m passengers and bring SGN's total annual capacity to 45m passengers, +50% from the current designed annual capacity of 30m passengers. Terminal 3 will be located close to Terminals 1 and 2, while the golf course to the north will be converted to aprons and potentially, another terminal in the future. The target completion date for Terminal 3 is uncertain as the project must go through land clearance, which can be a lengthy process in Vietnam, particularly in densely populated urban areas.



In addition, ACV plans to invest VND5trillion (~US\$217m) to upgrade another three airports (HUI, HPH and VCL) in period 2018-20F.

Long Thanh International Airport (LTI) is another important project in the pipeline for ACV. This project could be a key earnings growth driver for ACV in 10+ years. This mega project was approved in Jun 2015 by the National Assembly. LTI will be located in Dong Nai province, 40km away from Ho Chi Minh City (HCMC). ACV estimates the total capex for LTI would be at least US\$14.8bn. Upon completion, the airport would be able to handle 100m passengers and 5m tonnes of cargo p.a. The construction will be split into three phases. Phase 1 of the construction, which could start in 2020F, requires capex of US\$5.5bn and would be able to accommodate 25m passengers p.a. The construction could take six years (2020-25F). We think the capex for LTI's three phases will be funded by a combination of ACV's internal accruals, possibly ODA borrowings and strategic investors. As the massive capex raises questions about the financial viability of the project, the National Assembly has requested a feasibility study to be released by Jun 2019F. The feasibility report could cost US\$35m and requires 12 months to complete. The feasibility study would include: 1) technical feasibility, 2) financial feasibility and 3) profitability forecasts. As a result, the report's conclusion could alter the planned design and construction process of the airport.

The construction of LTI is a highly controversial topic. According to the Ministry of Transport (MOT), the project is indispensable due to following reasons: 1) as Vietnam's passenger traffic has grown by around 18% yoy over the last five years, SGN (even after future expansion) may not be able to satisfy the sizeable demand in the long term; 2) LTI could become a new transit hub in Southeast Asia,

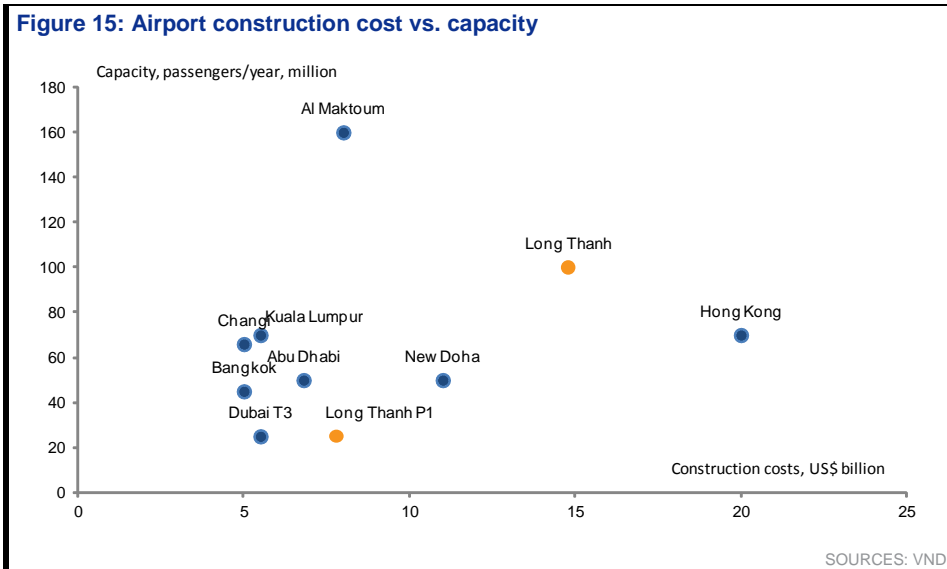
competing with other regional hubs such as Singapore’s Changi Airport, Bangkok’s Suvarnabhumi Airport and Hong Kong International Airport. However, public opinion casts doubt on the future success of the project, in our view.

Figure 14: Long Thanh International Airport (LTI) project

	Phase 1	Phase 2	Phase 3	Total
Capex (US\$ bn)	5.5	5.0	4.3	14.8
Passenger volume (m)	25	25	50	100
Cargo (m tonnes)	1.2	0.3	3.5	5
Year of completion	2025F	2035F	2050F	

SOURCES: CENTRE FOR AVIATION (CAPA)

Figure 15: Airport construction cost vs. capacity



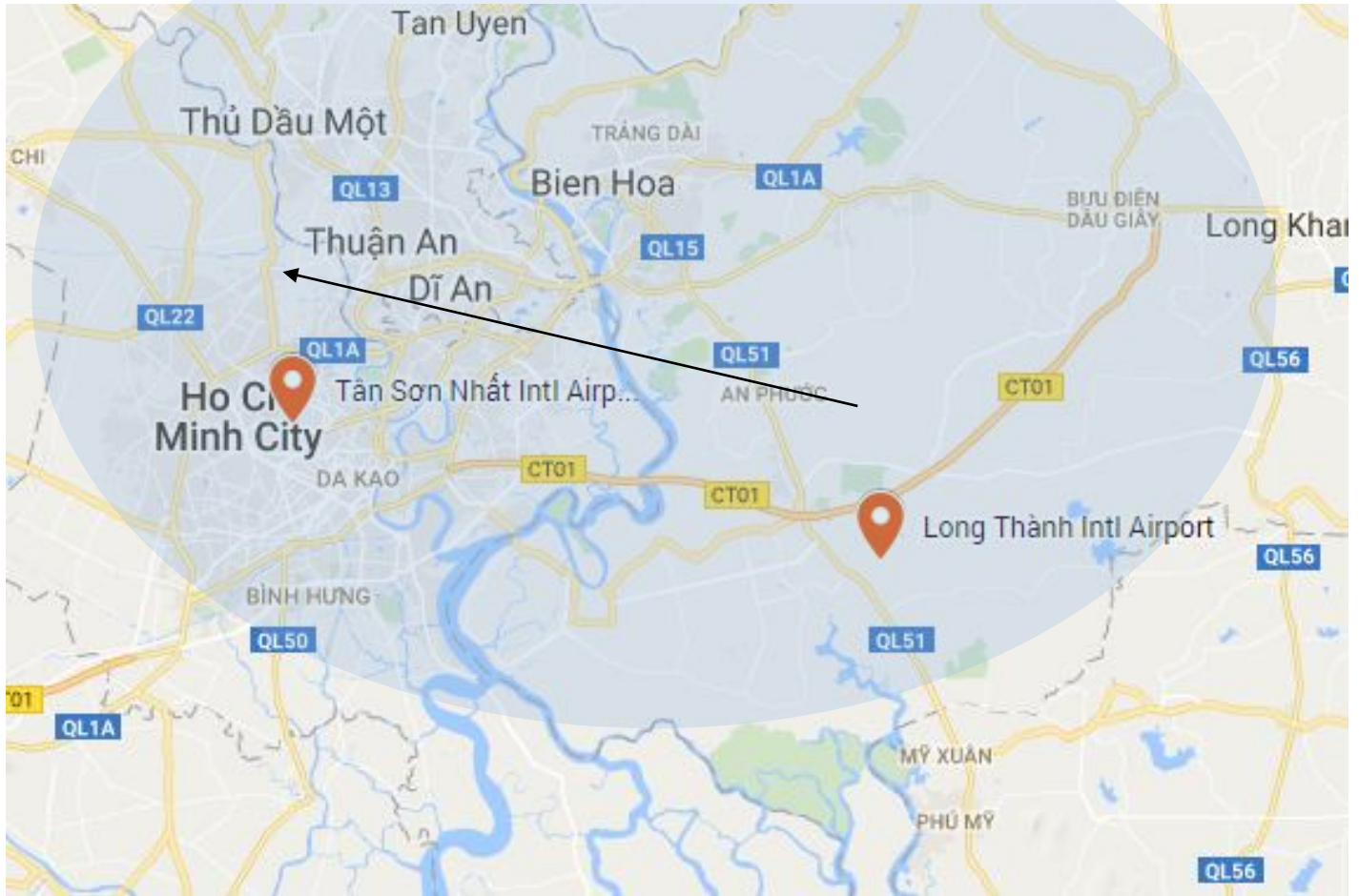
SOURCES: VND

Compared to other regional airports, we think LTI’s total cost/capacity is at an acceptable level. However, LTI Phase 1 appears expensive, in our view. This could be due to the huge upfront cost for site clearance and infrastructure. It is very difficult to compare the construction costs of different airports because component costs such as site clearance compensation, raw materials and labour may vary significantly from country to country.

We believe it is necessary for Vietnam to build another southern airport in the future due to the following reasons: 1) given that we expect SGN’s passenger traffic to grow by around 15% yoy for the next five years (2017-21F), on average, SGN would struggle to cope even after the expansion to 45m passengers p.a.; 2) as the road traffic around SGN is fairly congested, building another airport far away from HCMC could alleviate the traffic problems and enable terminal expansion without costly road expansion. However, we are not confident on the financial viability of LTI because: 1) the MOT may be overestimating transit passenger traffic growth in Vietnam over the long term, given that large hub airports such as Changi International Airport and Hong Kong International Airport register passenger traffic growth of only 3-4% p.a. (in 2014-16); 2) the significant capex for LTI, even just for Phase 1, may face funding issues; 3) LTI, as a public project, is highly susceptible to budget overruns, similar to what a number of public projects in Vietnam have experienced in the past, and this could further dent its financial viability, in our view.

Figure 16: Location of Long Thanh International Airport (LTI) is in fairly close proximity to Tan Son Nhat International Airport (SGN)

LTI will be located around 40km from SGN and serve an area population of of more than 15 million people



SOURCES: VND, GOOGLE MAPS

Domestic passenger fee hike to boost ACV's FY18F pre-tax profit growth to 27.2% ➤

In 2016, ACV proposed an increase in passenger service fees for domestic flights. The MOF and the CAAV agreed to the proposal. Current passenger fees, as defined by decision 1992/QĐ-BTC that was released in Aug 2014, show a wide discrepancy between passenger fees for domestic and international flights. The floor fees for international flights are fixed at around US\$8/pax applied for Group A airports (airports that operate 24 hours a day), more than twice the ceiling fees for domestic flights. According to the regulators, domestic passenger fees could be adjusted gradually from VND63,000/pax (~US\$2.8/pax) to VND100,000/pax (~US\$4.4/pax) by the end of 2018F.

Figure 17: Passenger fees (2016, before adjustments in 2017)

Airport	Minimum	Maximum
International flights USD/pax		
Tan Son Nhat (SGN)	10	20
Phu Quoc (PQC)	9	18
Danang (DAD), Can Tho (VCA)	8	16
Noi Bai (HAN)		
T1	8	16
T2	13	25
Lien Khuong (DLI), Cam Ranh (CXR)	7	14
Others	4	8
Domestic flights VND/pax		
Group A	31,818	63,636
Group B	27,272	54,545

Note: Group A comprises most airports that operate 24/7. Group B consists of a few airports like Tho Xuan (THD), Dong Hoi (VDH), Chu Lai (VCL), Phu Cat (UIH), Tuy Hoa (TBB), Pleiku (PXU), Vinh (VII). SOURCES: VND, MOF

Figure 18: Domestic passenger charge benchmarking – ASEAN as of August 2017

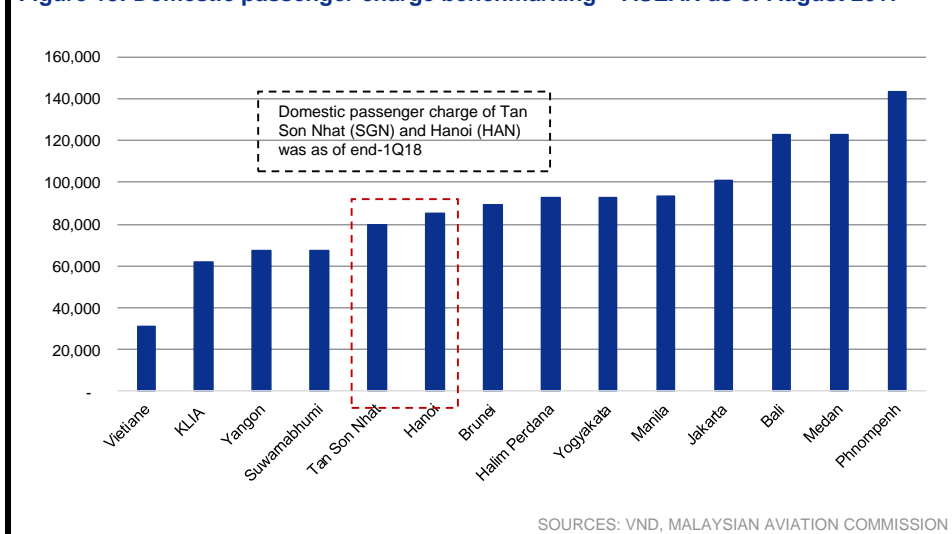


Figure 19: Passenger ceiling fees for domestic flights (VND/pax)

Period	Group A	Group B
4Q17	75,000	70,000
1Q18	80,000	75,000
2Q18	85,000	75,000
2H18	100,000	80,000

SOURCES: VND, COMPANY REPORTS

We expect ACV's FY18F revenue to reach VND17,880 (+29.1%) and pretax profit to touch VND6,869 (+27.2%), supported by the following factors:

- A 15.8% increase in passenger traffic throughput to 108.9m in FY18F. We estimate that domestic passenger traffic will grow by 11.0% yoy in FY18, while the international passenger traffic growth rate will come in at 26.0%, based on our estimates.

- A 22.9% increase in average passenger service fees to VND106,451/pax in FY18F. This would be driven by a 42.7% yoy increase in domestic passenger service fees to VND91,250/pax, while international passenger service fees remain stable at around VND134,208/pax.
- In our FY18F base case, we forecast that the company will not book any revenue from landing charges.
- We forecast non-aeronautical revenue will stay relatively flat with a slight increase of 3.8% in FY18F.

Figure 20: Key drivers of ACV's income statement for FY18-20F, based on our estimates

		2016A	2017A	2018F	2019F	2020F
Aeronautical		10.3%	3.6%	43.7%	19.3%	13.7%
Passenger volume	<i>growth yoy</i>	28.0%	16.5%	15.8%	14.9%	13.9%
International passenger	<i>growth yoy</i>	24.5%	27.3%	26.0%	24.0%	22.0%
Domestic passenger	<i>growth yoy</i>	29.5%	11.9%	11.0%	10.0%	9.0%
Flights	<i>number of flights/year</i>	557,000	605,000	660,582	715,660	792,591
International	<i>number of pax</i>	164,058	194,809	231,382	270,518	320,865
	<i>growth yoy</i>	20.7%	18.7%	18.8%	16.9%	18.6%
Domestic	<i>number of pax</i>	392,942	410,191	429,200	445,142	471,727
	<i>growth yoy</i>	25.5%	4.4%	4.6%	3.7%	6.0%
Traffic/flight	<i>number of pax/flight</i>	145	156	165	175	180
Passenger handling fees	<i>VND/pax</i>	83,081	78,607	106,297	112,931	113,848
Int'l pax handling fee	<i>VND/pax</i>	134,208	134,208	134,208	134,208	134,208
Domestic pax handling fee	<i>VND/pax</i>	60,254	63,941	91,250	100,000	100,000
Non aeronautical	<i>growth yoy</i>	15.8%	10.7%	3.8%	3.8%	4.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ACV share divestment by the MOT to be value-accretive to shareholders ►

The MOT is planning to divest 30% of its current 95% ownership in ACV by the end of 2020F. We expect the divestment to create larger free float and hence, boost ACV's share price when it happens. The MOT intends to sell its stake to financial investors, instead of to strategic investors, after failing to reach agreement with Aeroports de Paris (ADP FP, Not Rated) in 2017 for a strategic 20% stake sale.

Furthermore, ACV is preparing for a HOSE listing that could materialise in 2019F, according to the company. ACV must first reach agreement with the MOT on the accounting treatment of the flight-operation assets, namely runways and taxiways. The MOT plans to submit a draft proposal by the end of 2018F. The draft proposal will decide on the accounting treatment for ACV's take-off and landing-charge assets as well as revenue from these flight-operation assets. Before the equitisation in 2016, ACV reported the flight-operation assets on its balance sheet and recognised revenue from these assets on its P&L. In 2015, ACV's landing fee revenue was around VND1,423bn. In 2016, its take-off and landing charge revenue decreased by 66% yoy to VND482bn. The reduction was due to the removal of a large chunk of flight-operation assets from ACV's balance sheet. The removal was due to the confusing ownership structure of flight-operation assets – as the runways and taxiways belong to the Ministry of Defense (MOD), the MOD could expropriate these assets and use them as military airfields when needed. However, ACV pays for most of the maintenance and expansion capex relating to these assets. In FY17, ACV excluded revenue from landing charges and reported both these revenues and expenses under the receivable and payable account on the balance sheet. We estimated FY17 landing charge revenue and expenses were about VND1,992bn and VND912bn, respectively.

ACV has now proposed two plans to resolve this issue before moving to the main bourse. According to Plan A, the MOT could lease these assets to ACV to exploit and operate and then the company will be allowed to resume booking revenue from these assets. In the base case, we did not take into account the revenue from landing charges in our FY18 net profit forecast. In our upside case, if ACV were allowed to resume booking landing charge revenue, we estimate an additional VND800bn would be added into the bottom line.

In Plan B, ACV suggests increasing its charter capital by contributing capital of these flight assets which were revalued at nearly VND8,000bn as of end-FY17. In this case, ACV will be able to book landing charge revenue without any cost from leasing expense. We estimate the annual leasing cost is about ~VND270bn, which enabled ACV to record VND1,070bn in FY17 pretax profit. However, we estimate that FY18F EPS may be diluted by 36.7% in this scenario. We think plan B is the least likely of the two as MOT is planning to reduce its ownership in ACV.

SWOT ANALYSIS

Figure 21: SWOT analysis for ACV

Strengths

- Monopoly airport operator of Vietnam, running a network of 22 airports nationwide.
- Owns valuable assets such as terminals.
- Strong financial health and access to low-cost borrowings.

Opportunities

- Ride on growth of middle-class population in Vietnam.
- Vietnam's integration into the global economy is boosting growth in number of inbound foreign visitors.
- The expansion of LCCs is making air travel increasingly affordable for the general populace.
- Competition between regional airlines to fuel passenger traffic growth could improve ACV's pricing power.
- Rising urbanisation and expansion of smaller urban centres creates the opportunity to build new airports in Tier 3 and smaller cities and towns.

Weaknesses

- Service fee schemes determined by the Vietnam government.
- Major airports in the country are overcrowded, constraining near-term passenger throughput growth
- Significant State ownership provides low motivation to streamline and optimise operations.
- High exposure to VND depreciation against the JPY due to large JPY borrowings.

Threats

- Investment / expansion activities depend on government policy and budgeting
- Potential privatisation of airport operations in the long-term or government efforts to break up the current monopoly.

SOURCES: VND

VALUATION & RECOMMENDATION

ACV's current valuation is attractive, in our view ►

In our opinion, ACV's current valuation is attractive as we expect the company to report double-digit net profit growth for at least the next five years. We initiate coverage on ACV with an Add rating and DCF-based target price of VND112,000 for the end of 2018F, implying 27.3% upside from the current share price. We assume a terminal growth rate of 7% based on continued strong passenger volume growth and a rise in non-aeronautical revenue from the current low base assuming that royalties received from duty free and other retail operators converges to international levels of 15-30% until 2030F.

ACV currently trades at a FY19F EV/EBITDA of 13.1x, in line with the regional peer average of 13.1x. However, we believe the stock deserves to trade at a significant premium to regional peers because: 1) the company's FY18-19F ROE of 18.1%-20.8% is much higher than the regional peer average of 14.7%-15.1% in FY18-19F; 2) ACV is a monopoly airport operator in Vietnam and the risk of new entrants is limited, in our opinion; and 3) Vietnam's aviation market is the fastest growing in Asia in terms of passenger traffic.

Figure 22: DCF model, based on our key assumptions and inputs

General assumptions	2016A	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	Terminal
Risk free rate (10-year VGB yield)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Beta (source: BB, adj. beta)	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88
ROE (%)														
Terminal growth														7%
(in VND bn)														
PV of FCFF (50 years)			256,970											
Debts			12,557											
No. of o/s shares (mn shares)			2,177											
Implied value per share (VND)			112,262											
Target price (rounded)			112,000											

SOURCES: VND

Figure 23: Sector comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY18F	CY19F		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F		
Airports Corp of Vietnam	ACV VN	ADD	88,000	112,400	8,975	36.5	27.4	22.9%	6.10	5.20	18.0%	20.6%	15.7	13.1	1.1%	1.1%
Malaysia Airports Hld	MAHB MK	HOLD	8.85	8.25	3,613	18.8	15.7	54.2%	1.41	1.37	7.3%	8.8%	7.6	6.7	6.2%	4.4%
Airports of Thailand	AOT TB	ADD	64.00	83.00	27,741	37.6	34.1	13.2%	6.74	6.13	18.8%	18.8%	23.8	22.0	1.5%	1.8%
Shanghai Intl Airport	600009 CH	NOT RATED	58.50	N/A	16,706	22.6	21.8	15.0%	3.87	3.44	16.3%	16.7%	19.4	15.9	1.2%	1.4%
Xiamen Intl Airport	600897 CH	NOT RATED	20.80	N/A	938	14.4	13.0	6.0%	1.36	1.28	12.8%	13.1%	8.4	7.9	5.5%	4.0%
Average (all)					11,595	26.0	22.4	22.3%	3.90	3.48	14.6%	15.6%	15.0	13.1	3.1%	2.5%
Average (excluding ACV)					12,250	23.4	21.2	22.1%	3.34	3.06	13.8%	14.4%	14.8	13.1	3.6%	2.9%

Note: Forecasts for non-rated companies are based on Bloomberg consensus estimates
 SOURCES: VND, BLOOMBERG (AS OF 04 JUL 2018)

RISKS

As many aviation service fee schemes are controlled by the Vietnamese government, ACV is exposed to policy risk. However, we think the policy risk is minimal at the moment as the MOT is likely to maintain controlling interest of above 51% in ACV, in our opinion. As a result, aviation asset leasing and rental fees such as runway rental fees are not likely to increase in the near term, in our view.

Unfavourable VND/JPY exchange rate swing could have dire impact on the company's earnings ➤

As a monopoly airport operator, ACV faces no risk from competitors. In our view, the largest risk to its earnings growth is foreign exchange rate fluctuations. At the end of 1Q18, ACV's JPY borrowings balance stood at VND15,563bn, equivalent to 99% of its long-term and short-term borrowings. JPY borrowings are likely the main source of ACV's realised and unrealised FX losses.

Over the last three years, the VND has depreciated against JPY by around 17.6%. As a result, FY15-17 total FX losses reported by ACV amounted to VND2,199bn, equivalent to 21.1% of FY15-17 total pretax profit. We expect the VND to continue to depreciate against the JPY in the future, translating into effective borrowing cost of around 5-6% p.a. for ACV. Without FX losses, we estimate FY18F net margin could be around 38.6%, 3.2% pts higher than the expected level of 35.4% (including FX losses). Currently, ACV does not use any hedging instruments to manage its FX rate risks.

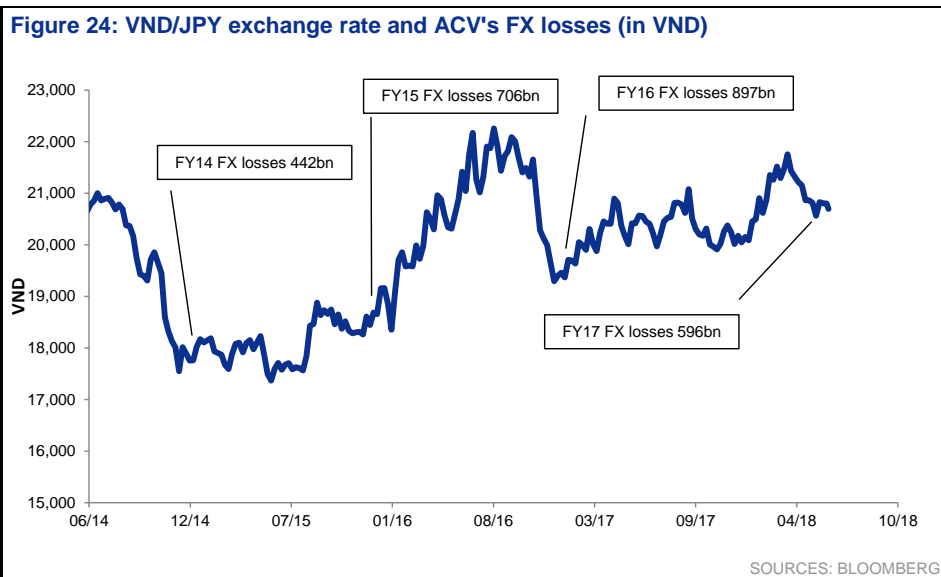


Figure 25: ACV's JPY borrowings (1Q18)

Debtor	Project funded	O/s balance (VND bn)	Remaining term (years)	Interest rate
JBIC*	Tan Son Nhat Int Airport	3,707	24	1.60%
	Current portion	158		
Japan government	Noi Bai Intl Airport T2	11,855		
	Borrowing 1	2,668	32	0.21% - 0.40%
	Borrowing 2	4,414	34	0.21% - 0.40%
	Borrowing 3	4,773	35	0.21% - 0.40%

SOURCES: COMPANY REPORTS

APENDICES

Company overview ►

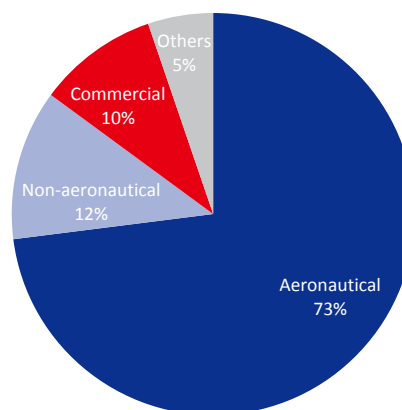
The history of ACV dates back to 1975. After the liberation of Saigon, the Civil Aviation Authority of Vietnam (CAA) was established to control all airports of Vietnam. These airports in Vietnam operated as state-owned divisions until 2007. In 2007, these divisions were consolidated into three state-owned companies – Airport Corporation of the North, Airport Corporation of the Central, Airport Corporation of the South. In Feb 2012, these three companies were restructured into the Airports Corporation of Vietnam. On 1 Apr 2016, ACV was converted into a joint stock company and listed on the Unlisted Public Company Market (UpCOM) on the Hanoi Stock Exchange (HNX). ACV now operates 22 airports nationwide, comprising 13 international airports and 9 domestic airports.

The ownership structure of ACV is highly condensed, with the MOT holding 95% of the shares outstanding (as of end-May 2018). The MOT intends to reduce its ownership by 30% over 2018-20F. In 2017, ACV reached out to Aeroports de Paris (ADP) with the intention of the MOT selling a 20% stake in the company. However, as the two parties could not agree on terms, the deal was not finalised. According to ACV, the company would prefer to have an airport operator, such as Changi Airport Group (Singapore) Pte Ltd (Unlisted) and Incheon International Airport Corporation (Unlisted), as a major shareholder because these companies have greater expertise in running airports in this region than ADP. ACV has now turned to financial investors, instead of strategic investors, in seeking buyers for the MOT's ACV shares.

ACV's core activities are aeronautical and non-aeronautical services ►

ACV's comes from two main activities – aeronautical services and non-aeronautical services. These two activities accounted for 89.5% of total revenue in FY17. The remaining is generated by commercial and other activities. Aeronautical services and non-aeronautical services generated FY17 gross margin of around 41.9%. Commercial activities were also quite profitable with 34.7% gross margin in FY17. Other activities generated gross margins of up to 75% but contributed very little to the company's total gross profit in FY17.

Figure 26: ACV's revenue breakdown by division (FY17)



SOURCES: VND, COMPANY REPORTS

Aeronautical service revenue stems from the handling of passengers and aircraft traffic. Aeronautical services include:

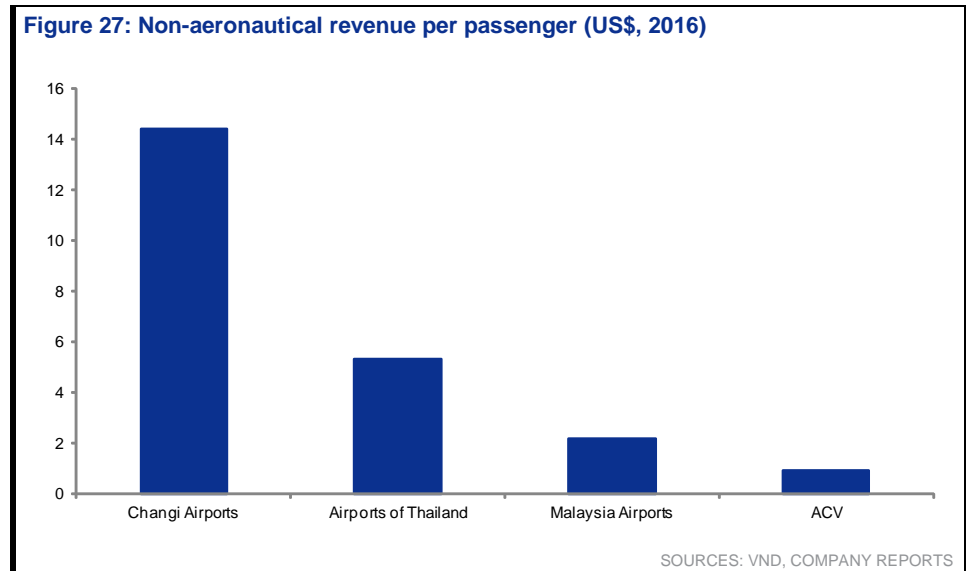
- Passenger services: Revenue here comes from providing basic facilities for the handling of passenger traffic, including terminals and waiting rooms. Passenger traffic contributed 69.6% of ACV's aeronautical revenue in FY17. Indeed, it appears to be the biggest and most important source of revenue for the company. ACV indirectly charges passengers through airlines. In 2017, ACV handled more than 94.1m passengers (+16.4% yoy), making it the

fastest-growing airport operator in Southeast Asia, in terms of passenger traffic.

- Other services: These include ground-handling services and security-scanning services. These services accounted for 30.1% of ACV's aeronautical revenue in FY17.

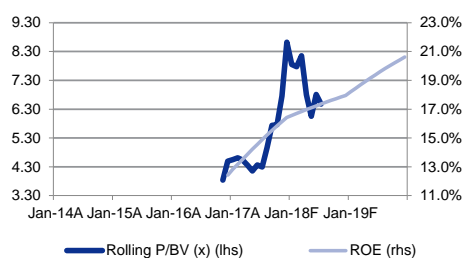
Non-aeronautical services include surface rental, parking lot and billboard rental. ACV's non-aeronautical revenue per passenger in 2016 (US\$0.9) was the lowest of all its regional peers (average US\$5.7).

Figure 27: Non-aeronautical revenue per passenger (US\$, 2016)

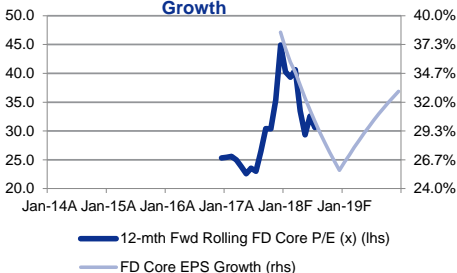


BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



We forecast ACV FY18F revenue growth of 33.2%, thanks to estimated 15.8% increase in passenger traffic and 22.9% increase in average passenger fees/pax.

Profit & Loss

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	10,691	13,849	17,822	20,766	23,286
Gross Profit	7,394	9,855	13,230	15,583	17,472
Operating EBITDA	5,969	8,736	11,798	13,911	15,593
Depreciation And Amortisation	(3,332)	(4,162)	(4,865)	(5,690)	(6,600)
Operating EBIT	2,637	4,574	6,933	8,220	8,992
Financial Income/(Expense)	1,003	1,114	313	1,115	1,172
Pretax Income/(Loss) from Assoc.	51	249	249	249	249
Non-Operating Income/(Expense)	(932)	(534)	(701)	(628)	(555)
Profit Before Tax (pre-EI)	2,760	5,402	6,793	8,956	9,858
Exceptional Items					
Pre-tax Profit	2,760	5,402	6,793	8,956	9,858
Taxation	95	(1,198)	(1,506)	(1,925)	(2,091)
Exceptional Income - post-tax					
Profit After Tax	2,855	4,204	5,287	7,030	7,767
Minority Interests	(159)	(21)	(30)	(39)	(42)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,696	4,182	5,257	6,992	7,725
Recurring Net Profit	2,696	4,182	5,257	6,992	7,725
Fully Diluted Recurring Net Profit	2,696	4,182	5,257	6,992	7,725

FY19F capex largely for the building of SGN Terminal 3.

Cash Flow

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	5,969	8,736	11,798	13,911	15,593
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(839)	1,432	590	(156)	(510)
(Incr)/Decr in Total Provisions	(1,159)	(1,529)	(1,357)	(1,452)	(1,499)
Other Non-Cash (Income)/Expense	(0)	0	0	0	0
Other Operating Cashflow	3,045	(1,247)	(524)	1,765	2,519
Net Interest (Paid)/Received	(76)	(96)	(95)	(89)	(79)
Tax Paid	(1,352)	(1,726)	(1,506)	(1,925)	(2,091)
Cashflow From Operations	5,588	5,570	8,906	12,053	13,933
Capex	(2,207)	(2,578)	(8,000)	(8,266)	(9,099)
Disposals Of FAs/subsidiaries	3	17	0	0	0
Acq. Of Subsidiaries/investments	(1,391)	(4,315)	1,357	1,452	1,499
Other Investing Cashflow	1,039	475	(53)	(40)	(34)
Cash Flow From Investing	(2,556)	(6,402)	(6,696)	(6,853)	(7,633)
Debt Raised/(repaid)	800	249	(462)	(1,456)	(1,452)
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(2,733)	(1,306)	(2,177)	(2,177)	(2,177)
Preferred Dividends					
Other Financing Cashflow	2,147	(652)	24	18	15
Cash Flow From Financing	215	(1,709)	(2,616)	(3,616)	(3,614)
Total Cash Generated	3,247	(2,541)	(406)	1,584	2,686
Free Cashflow To Equity	3,832	(583)	1,747	3,743	4,848
Free Cashflow To Firm	3,108	(736)	2,304	5,288	6,378

SOURCES: VND, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	16,806	18,877	18,470	20,054	22,740
Total Debtors	4,499	7,300	7,502	8,299	8,739
Inventories	721	402	715	822	939
Total Other Current Assets	289	88	533	622	697
Total Current Assets	22,315	26,667	27,221	29,797	33,115
Fixed Assets	22,686	19,616	22,752	25,328	27,826
Total Investments	1,229	2,692	2,692	2,692	2,692
Intangible Assets	30	1	0	0	0
Total Other Non-Current Assets	677	185	238	278	312
Total Non-current Assets	24,623	22,494	25,682	28,297	30,830
Short-term Debt	263	148	119	95	76
Current Portion of Long-Term Debt					
Total Creditors	3,769	3,138	3,878	4,422	5,047
Other Current Liabilities	4,549	4,028	3,658	4,262	4,779
Total Current Liabilities	8,581	7,315	7,654	8,779	9,902
Total Long-term Debt	13,964	14,328	13,895	12,462	11,029
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	64	84	108	126	141
Total Non-current Liabilities	14,028	14,411	14,003	12,588	11,170
Total Provisions	0	0	0	0	0
Total Liabilities	22,609	21,726	21,657	21,367	21,073
Shareholders' Equity	23,560	27,388	31,180	36,633	42,747
Minority Interests	772	47	67	94	125
Total Equity	24,333	27,436	31,246	36,727	42,872

Impact of Long Thanh Airport is not factored into our debt forecasts

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	(18.8%)	29.5%	28.7%	16.5%	12.1%
Operating EBITDA Growth	8.6%	46.3%	35.1%	17.9%	12.1%
Operating EBITDA Margin	55.8%	63.1%	66.2%	67.0%	67.0%
Net Cash Per Share (VND)	1,185	2,021	2,047	3,444	5,344
BVPS (VND)	10,821	12,580	14,321	16,826	19,634
Gross Interest Cover	34.5	47.8	73.0	92.8	114.0
Effective Tax Rate	0.0%	22.2%	22.2%	21.5%	21.2%
Net Dividend Payout Ratio	101%	31%	41%	31%	28%
Accounts Receivables Days	96.25	79.78	72.25	70.78	73.02
Inventory Days	79.55	51.34	44.41	54.14	55.43
Accounts Payables Days	144.0	111.9	102.7	108.4	109.8
ROIC (%)	13.9%	22.2%	33.9%	34.0%	33.7%
ROCE (%)	10.4%	14.4%	18.4%	19.9%	19.8%
Return On Average Assets	4.0%	6.4%	9.7%	10.7%	10.8%

We project EBITDA margin expansion in FY18F thanks to passenger fee hike.

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Int'l Passenger Traffic Growth (%)	24.5%	27.3%	26.0%	24.0%	22.0%
Domestic Pax Traffic Growth (%)	11.0%	10.0%	9.0%	9.0%	8.0%
International Flight Traffic Growth (%)	N/A	N/A	N/A	N/A	N/A
Domestic Flight Traffic Growth (%)	N/A	N/A	N/A	N/A	N/A
Int'l Pax Service Charge	134,208.1	134,208.1	134,208.1	134,208.1	134,208.1
Dom Pax Serv Charge	60,254.3	63,940.7	91,250.0	100,000.0	100,000.0
Unit Meals Produced (% Change)	N/A	N/A	N/A	N/A	N/A

Rising number of foreign visitors to Vietnam, based on our estimates.

SOURCES: VND, COMPANY REPORTS

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Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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