

## AIRPORT CORPORATION OF VIETNAM (ACV) – UPDATE

<b>Market Price</b> VND91,200	<b>Target Price</b> VND106,000	<b>Dividend Yield</b> 0.65%	<b>Rating</b> ADD	<b>Sector</b> AVIATION
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### Outlook – Short term



### Outlook – Long term



### Valuation



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### Key changes in the report

- Increase price by 34.5%

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	119,000
52w low (VND)	47,800
3m Avg daily volume (shares)	229,679
3m Avg daily value (VNDmn)	17,896
Market cap (VNDbn)	195,652
Outstanding shares (m)	2,145
Free float (%)	4.6%
TTM P/E (x)	47.5
Current P/B (x)	7.25

### Ownership

Ministry of Transport	95.4%
Others	4.6%

Source: VNDIRECT

In 2017 ACV recorded passenger throughput of more than 94mn (+16% yoy) almost touching our expected traffic of 95mn. Gross margins expanded by 3.1 percentage points compared to 2016 thanks to the hike in domestic handling rates in 4Q2017. We raise our one year target price due to the imminent improvement in free float and therefore re-rate to ADD rating. We think ACV is a fantastic long-term bet on the structural aviation growth story.

FY17 revenue reached VND13,894bn (+29.5% yoy) and net profit after tax reached VND4,204bn (+47.2% yoy) thanks to 1) 16% yoy increase in total passenger traffic to 94mn and 2) a 20% increase in domestic passenger fees to VND75,000/passenger in 4Q2017 which led to a 6% rise in average handling fee per domestic passenger in 2017. Gross margin of aeronautical and non-aeronautical activities expanded by 5.5 percentage points to 45.5% owing to the hike in domestic passenger fees in 4Q2017 and fast-growing foreign passenger traffic. Foreign passenger traffic grew at 27.3% yoy to 30.3mn versus 11.9% growth in domestic passenger traffic.

A further 33.3% hike in domestic passenger handling rates this year in Q3 plus the full year impact of 2017's rate hike should drive a 42.7% rise in realized handling rates per domestic passenger this year and expand gross margins of aeronautical and non-aeronautical services (excluding commercial services) by 6 percentage points to around 52%. We expect revenue of aeronautical and non-aeronautical services to reach VND16,826bn (+26.9% yoy) on the back of the rate hike and a 15% growth in total passenger traffic..

We raise our target price by 34.5% and re-rate to ADD. Our new TP is equivalent to a FY18 EV/EBITDA of 21.5x, 10% higher than the peer average TTM EV/EBITDA of 19.5x. We believe the stock's valuation deserves a 10% premium to peer average as ACV has higher-than-average EPS growth and ROE and ACV is a monopoly airport operator in a fast-growing market. Moreover, the divestment of another 20% stake by the MoT by the end of 2018 could be a price catalyst and trigger a potential re-rating of the stock.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	10,691	13,849	18,361	20,511
Revenue growth	(18.8%)	29.5%	32.6%	11.7%
Gross margin	38.0%	41.1%	49.9%	49.7%
EBITDA margin	66.1%	69.7%	71.5%	71.8%
Net profit (bn)	2,696	4,182	6,688	7,541
Net profit growth	59.4%	55.1%	59.9%	12.8%
Recurring profit growth	57.4%	55.1%	59.9%	12.8%
Basic EPS	1,238	1,921	3,072	3,464
Adjusted EPS	1,238	1,921	3,072	3,464
BVPS	10,821	12,580	13,662	15,136
ROAE	12.4%	16.4%	23.4%	24.1%

Source: VNDIRECT

**The divestment by the Ministry of Transport (MoT) in 2018 could be a positive price catalyst.**

A further sell-down of the state's ownership to 75.4% from 95.4% by the end of 2018 could boost float which is very limited at the moment. According to media sources, the negotiation between ACV and Aeroport de Paris was terminated in 2017 as the two parties could not agree on valuation. Thus, ACV will turn to financial investors rather than strategic investors. Beyond 2018, The MoT will sell another 10.4% stake by 2020.

**ACV is not yet qualified for HOSE listing as the company has not reached consensus with the government on the accounting treatment of flight-operation assets.**

The accounting treatment will decide how ACV will report take-off and landing-fee revenue from these flight-operation assets which are mainly runways and taxiways. Before the equalization in 2016, ACV reported flight-operation assets and revenue from these assets. In 2015 take-off and landing fee revenue was around VND1,423bn. In 2016 take-off and landing 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. ACV's has now proposed that it report these assets as financial leases in order to allow the company to book revenue from these assets, once again.

**A possible approval of ACV's proposal to the MOT to re-classify flight operation assets as leases on its balance sheet presents upside to our current forecasts and target price.**

If this proposal is accepted by the Ministry of Transport, ACV could report more than VND1,500bn in total annual take-off and landing fees, at current run-rate levels. Whether the assets are treated as financial leases or operating leases going forward will have no impact on the bottom line of ACV. However, there could be changes in company valuation as financial leases will be reported as liabilities on the balance sheet. Since there is some uncertainty around this, we do not currently factor in the abovementioned addition to the bottom line resulting from the MOTs approval of ACV's proposal. However, any change to the equity valuation could stem from the following sources: 1) additional lease liabilities and 2) additional depreciation and amortization expenses. These two factors depend on lease terms and the D&A schedule which we are not able to forecast.

**We raise the target price by 34.5% to VND106,000 and re-rate to ADD rating**

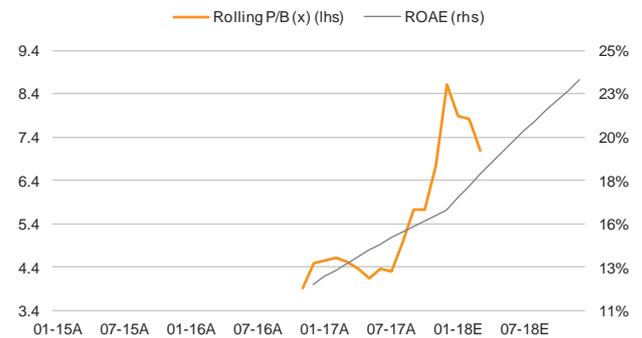
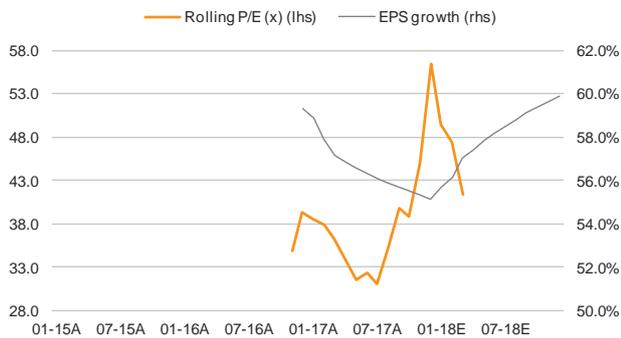
We value the company using a target FY18 EV/EBITDA of 21.5x which reflects a 10% premium to peer average EV/EBITDA of 19.5x. We believe ACV deserves this premium as 1) the company has higher-than-average EPS growth and ROE; and 2) ACV is the monopoly in one of the world's fastest growing aviation markets. Moreover, the divestment of MoT is a potential positive catalyst as it will significantly increase free float of the stock. We apply a trailing target multiple to forward earnings as earnings are expected to surge this year due to the on-off increase in domestic passenger handling fees this year and the full-year impact of the hike in domestic passenger handling fees in the fourth quarter of last year.

Figure 1: Valuation

Name	Country	Market cap, US\$ mn	Net profit growth YoY (%)	EPS growth YoY (%)	ROA (%)	ROE (%)	D/E (x)	TTM PE (x)	P/B (x)	EV/EBITDA (x)
Airport of Thailand	Thailand	31,350.4	22.3	23.6	12.4	16.5	0.2	44.7	7.1	28.1
Shanghai Airports	China	15,491.8	42.7	44.4	12.8	14.8	0.0	28.8	4.1	na
Sydney Airport	Australia	11,418.9	na	na	2.8	40.4	14.0	42.1	23.0	20.2
Malaysia Airports ACV	Malaysia Vietnam	3,763.5 8,708.5	-16.4 55.2	na 55.2	1.1 11.1	1.9 21.8	0.6 0.6	97.6 41.3	1.8 8.2	10.1 26.5
<b>Average</b>		<b>14,146.6</b>	<b>26.0</b>	<b>41.1</b>	<b>8.0</b>	<b>19.1</b>	<b>3.1</b>	<b>50.9</b>	<b>8.8</b>	<b>21.2</b>
<b>Median</b>		<b>11,418.9</b>	<b>32.5</b>	<b>44.4</b>	<b>11.1</b>	<b>16.5</b>	<b>0.6</b>	<b>42.1</b>	<b>7.1</b>	<b>23.4</b>

Source: Bloomberg

**Valuation**



**Income statement**

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	13,849	18,361	20,511
Cost of sales	(8,157)	(9,208)	(10,320)
Gen & admin expenses	(824)	(1,077)	(1,207)
Selling expenses	(295)	(391)	(437)
<b>Operating profit</b>	<b>4,574</b>	<b>7,685</b>	<b>8,547</b>
Operating EBITDA	8,736	12,310	13,694
<b>Depreciation and amortisation</b>	<b>(4,162)</b>	<b>(4,625)</b>	<b>(5,147)</b>
<b>Operating EBIT</b>	<b>4,574</b>	<b>7,685</b>	<b>8,547</b>
Interest income	1,219	1,275	1,406
Financial expense	(701)	(796)	(716)
Net other income	61	0	0
Income from associates & JVs	249	249	249
<b>Pre-tax profit</b>	<b>5,402</b>	<b>8,413</b>	<b>9,485</b>
Taxation	(1,198)	(1,691)	(1,906)
Minority interests	(21)	(34)	(38)
<b>Net profit</b>	<b>4,182</b>	<b>6,688</b>	<b>7,541</b>
Adj. net profit to ordinary	4,182	6,688	7,541
Ordinary dividends	(1,306)	(4,354)	(4,354)
<b>Retained earnings</b>	<b>2,876</b>	<b>2,333</b>	<b>3,187</b>

**Balance sheet**

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	914	1,774	3,811
Short term investments	17,963	17,963	17,963
Accounts receivables	7,300	6,959	7,301
Inventories	402	696	780
Other current assets	88	550	614
<b>Total current assets</b>	<b>26,667</b>	<b>27,942</b>	<b>30,469</b>
Fixed assets	19,618	20,592	20,680
Total investments	2,691	2,691	2,691
Other long-term assets	186	247	276
<b>Total assets</b>	<b>49,161</b>	<b>51,472</b>	<b>54,115</b>
Short-term debt	148	119	95
Accounts payable	1,133	1,374	1,505
Other current liabilities	6,033	6,170	6,901
<b>Total current liabilities</b>	<b>7,315</b>	<b>7,663</b>	<b>8,501</b>
Total long-term debt	14,328	13,895	12,462
Other liabilities	84	111	124
Share capital	21,772	21,772	21,772
Retained earnings reserve	5,602	7,957	11,166
<b>Shareholders' equity</b>	<b>27,388</b>	<b>29,744</b>	<b>32,953</b>
Minority interests	47	59	76
<b>Total liabilities &amp; equity</b>	<b>49,161</b>	<b>51,472</b>	<b>54,115</b>

**Cash flow statement**

(VNDbn)	12-17A	12-18E	12-19E
<b>Pretax profit</b>	<b>5,402</b>	<b>8,413</b>	<b>9,485</b>
Depreciation & amortisation	4,162	4,625	5,147
Tax paid	(1,726)	(1,691)	(1,906)
Other adjustments	(836)	(1,523)	(1,655)
<b>Change in working capital</b>	<b>(1,432)</b>	<b>(36)</b>	<b>371</b>
<b>Cash flow from operations</b>	<b>5,570</b>	<b>9,787</b>	<b>11,443</b>
Capex	(2,578)	(5,600)	(5,234)
Proceeds from assets sales	17	0	0
Others	(4,315)	1,523	1,655
Other non-current assets changes	475	(61)	(29)
<b>Cash flow from investing activities</b>	<b>(6,402)</b>	<b>(4,137)</b>	<b>(3,608)</b>
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	249	(462)	(1,456)
Other financing cash flow	(652)	27	13
Dividends paid	(1,306)	(4,354)	(4,354)
<b>Cash flow from financing activities</b>	<b>(1,709)</b>	<b>(4,789)</b>	<b>(5,798)</b>
Cash and equivalents at beginning of period	3,166	914	1,774
<b>Total cash generated</b>	<b>(2,541)</b>	<b>860</b>	<b>2,037</b>
Cash and equivalents at the end of period	625	1,774	3,811

**Key ratios**

	12-17A	12-18E	12-19E
<b>Dupont</b>			
Net profit margin	30.2%	36.4%	36.8%
Asset turnover	0.29	0.36	0.39
ROAA	8.7%	13.3%	14.3%
Avg assets/avg equity	1.89	1.76	1.68
ROAE	16.4%	23.4%	24.1%
<b>Efficiency</b>			
Days account receivable	53.9	44.2	44.2
Days inventory	18.0	27.6	27.6
Days creditor	50.7	54.5	53.2
Fixed asset turnover	0.65	0.91	0.99
ROIC	10.0%	15.3%	16.5%
<b>Liquidity</b>			
Current ratio	3.65	3.65	3.58
Quick ratio	3.59	3.56	3.49
Cash ratio	2.58	2.58	2.56
Cash cycle	21.1	17.3	18.5
<b>Growth rate (yoy)</b>			
Revenue growth	29.5%	32.6%	11.7%
Operating profit growth	73.4%	68.0%	11.2%
Net profit growth	55.1%	59.9%	12.8%
EPS growth	55.1%	59.9%	12.8%
<b>Share value</b>			
Basic EPS (VND)	1,921	3,072	3,464
BVPS (VND)	12,580	13,662	15,136

Source: VNDIRECT

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- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:

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

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Definition:

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- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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