

Vietnam

August 6, 2018 - 9:15 PM

ADD (no change)

Consensus ratings*: Buy 3 Hold 3 Sell 0

Current price:	VND85,000
Target price:	VND112,000
Previous target:	VND112,000
Up/downside:	31.8%
CGS-CIMB / Consensus:	10.1%
Reuters:	ACV.HM
Bloomberg:	ACV VN
Market cap:	US\$7,941m
	VND185,056,016m
Average daily turnover:	US\$0.28m
	VND6,449m
Current shares o/s	2,177m
Free float:	5.0%

*Source: Bloomberg

Key financial forecasts

	Dec-18F	Dec-19F	Dec-20F
Net Profit (VNDb)	5,257	6,992	7,725
Core EPS (VND)	2,415	3,211	3,548
Core EPS Growth	25.7%	33.0%	10.5%
FD Core P/E (x)	35.20	26.47	23.96
Recurring ROE	18.0%	20.6%	19.5%
P/BV (x)	5.94	5.05	4.33
DPS (VND)	1,000.0	1,000.0	1,000.0
Dividend Yield	1.18%	1.18%	1.18%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.4	-3.6	63.8
Relative (%)	-9.3	2.9	42.1

Major shareholders	% held
Ministry of Transport	95.0

Analyst(s)

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Airports Corporation of Vietnam

Strong fundamentals underscored by 1H18 results

- ACV reported a 2Q18 pre-tax profit growth of 49.3% yoy. After removing a one-off FX gain, 1H18 core net profit was broadly in line at 48.9% of our full-year forecast.
- 1H18 traffic growth slowed vs. 1H17 but was still in line with our expectations.
- We maintain our Add rating with a TP of VND112,000, implying a 31.8% upside.

Steady growth with surprise FX revaluation gain

- ACV's revenue in 1H18 grew 17.4% yoy to VND7,939bn, driven by an 18.8% yoy growth in aeronautical service revenue and 22.3% yoy growth in non-aeronautical service revenue. Meanwhile, commercial business was sluggish with only 1% yoy sales growth.
- Passenger Service Charge (PSC) contributed 72.2% of the aeronautical service income and increased 16% yoy on the back of a 26.9% yoy hike in the domestic passenger handling fee in 1H18. This formed 39.6% of our FY18F forecast as the domestic PSC hike schedule started in 4Q17 and will end in Sep 2018. We believe the impact of the domestic fee hike will be mostly felt in the 2H18 topline.
- A surprise VND474bn FX revaluation gain was recorded in 2Q18, which resulted in the 1H18 pretax profit growing by 64.9% yoy to VND3,788bn and forming 55.8% of our FY18F. If we exclude this one-off item, 1H18 pre-tax profit would have grown by 44.3%, in line with our FY18F forecast. The FX revaluation gain was due to the appreciation of VND against JPY in 2Q18 as the company has a large JPY-denominated debt.
- For the full year 2018, ACV is targeting VND16,029bn and VND5,665bn in revenue and pre-tax profit, respectively.

Traffic growth slowed versus 1H17

- During 1H18, air passenger traffic grew by 14.0% yoy to touch 52.8m (source: Civil Aviation Authority of Vietnam), below the 17.4% expansion seen in 1H17. Over 1H18, domestic passenger traffic volume grew by 6.9% yoy (vs. 14.0% last year). Meanwhile, international passenger traffic volume grew at a brisk 22.2% yoy (vs. 20% last year). Domestic passengers accounted for about 60-70% of total traffic.

Capacity expansion on track

- The new terminal at Phu Cat Airport (Binh Dinh province) opened in May 2018, with capacity for 1.5m passengers per year and a possible capacity expansion up to 2.4m passengers per year. Phu Cat Airport will be the hub of a new start-up carrier, Bamboo Airways, which is expected to launch operations by Oct 2018.

Maintain Add rating with VND112,000 target price

- We maintain our Add rating with a DCF-based TP of VND112,000 (RFR: 10.1%; LTG: 7%). Our TP translates to a 16.6x FY19F EV/EBITDA.
- Downside risks include a sudden change in aviation policy and further VND depreciation against the JPY which would lead to forex losses on debt revaluation.
- Re-rating catalysts include higher-than-expected passenger traffic growth and the Ministry of Transport (MOT) lowering its stake in ACV from 95% to 65% in a bid to increase free float and potentially improve the company's valuation.

Figure 1: Results comparison

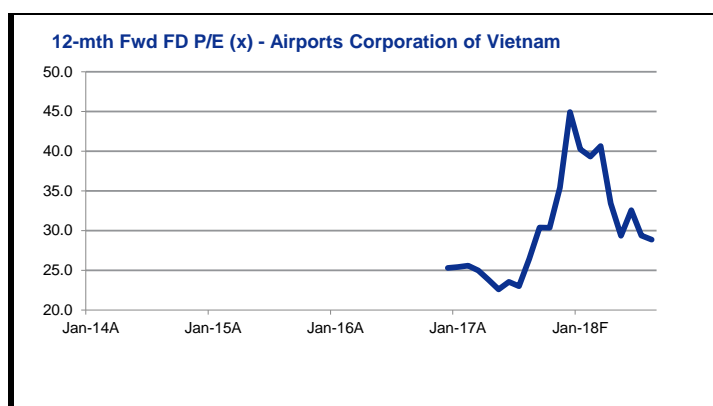
FYE (VNDbn)	2QFY18	yoy chg	1HFY18	yoy chg	FY18F	Comments
Revenue	4,007	20.3%	7,939	17.4%	17,822	Slightly below our expectation, forming 44.5% of our FY18F as the domestic PSC was raised gradually
Aeronautical	3,209	22.0%	6,346	18.8%	14,518	from 4Q17 and completed in Sep FY18. The impact of fee hike will be mainly factored in 2HFY18
Passenger service	2,318	19.2%	4,589	16.0%	11,586	inline with our expectation
Others	891	29.7%	1,757	26.9%	2,932	inline with our expectation
Non-aeronautical	470	23.0%	910	22.3%	1,826	inline with our expectation
Commercial	328	3.1%	683	1.0%	1,478	inline with our expectation
Financial income	966	123.6%	1,303	97.4%	1,108	
Financial expenses	29	46.5%	930	43.5%	796	
Net financial income/(expenses)			373		312	double our expectations as ACV recorded a surprise earnings of VND474 (+657% yoy) in FX revaluation in 2QFY18
Operating profit	2,657	49.3%	3,770	64.8%	6,933	slightly higher than our expectations, forming 54.4% of our FY18F
Operating margin	66.3%		47.5%		38.9%	
Pre-tax profit	2,676	49.3%	3,788	64.9%	6,793	slightly higher than our expectations, forming 55.8% of our FY18F
Net profit	2,165	48.5%	3,061	64.4%	5,287	slightly higher than our expectations, forming 57.9% of our FY18F
EPS (sen)(VND/share)	994		1,406		2,415	slightly higher than our expectations, forming 58.2% of our FY18F

SOURCES: VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS

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

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



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

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

Key Drivers				
	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Int'l Passenger Traffic Growth (%)	27.3%	26.0%	24.0%	22.0%
Domestic Pax Traffic Growth (%)	10.0%	9.0%	9.0%	8.0%
International Flight Traffic Growth (%)	N/A	N/A	N/A	N/A
Domestic Flight Traffic Growth (%)	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
Dom Pax Serv Charge	91,250.0	100,000.0	100,000.0	100,000.0
Unit Meals Produced (% Change)	N/A	N/A	N/A	N/A

SOURCES: VND RESEARCH, COMPANY REPORTS

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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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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.

Country Ratings**Definition:**

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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