

## GEMADEPT CORP (GMD) – UPDATE

<b>Market Price</b> VND40,200	<b>Target Price</b> VND37,500	<b>Dividend Yield</b> 4.7%	<b>Rating</b> HOLD	<b>Sector</b> LOGISTICS
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### Outlook – Short term



### Outlook – Long term



### Valuation



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### Key changes in the report

➤ N/a

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	45,300
52w low (VND)	26,350
3m Avg daily volume (shares)	1,121,804
3m Avg daily value (VNDmn)	47,142
Market cap (VNDbn)	12,295
Outstanding shares (m)	280
Free float (%)	47
P/E TTM	21.3x
P/B	1.9x

### Ownership

VI Fund II	30.4%
Lê Thúy Hương	7.5%
ReCollection Pte	7.5%
Others	54.60%

Source: VNDIRECT

**3Q2017 results fell short of our expectations due to 1) lower throughput and handling charges in Nam Hải Port (NHP), 2) slow revenue growth of Nam Hải Logistics (NHL) as the center is still in a pilot run phase. We maintain our target price and HOLD recommendation as front-running of expected financial gains from recent divestments have driven up the share price.**

**Capacity constraints and tariff pressure due to continued financial pressures in the global shipping industry have led to subdued topline growth so far this year.** 9M2017 revenue inched up to VND2,847bn (+5.2% YoY) and net profit touched VND376bn (+13.9% YoY) thanks to an 8.2% YoY rise in logistics revenue to VND1,586bn as eight out of nine Mekong Logistics' cold storage were filled up. In contrast, container handling revenue grew to VND1,261bn (+1.9% YoY) due to the following: 1) NDP reached full capacity while NHP's throughput dropped, 2) handling rates in NHP came under pressure due to the port's unfavorable upstream location.

**NDP will be the main growth engine for 2018 and beyond as designed capacity skyrockets** from 600,000 TEU pa in 2018 to 1.9mn TEU pa by 2022. The project consists of three phases with total capex of VND5.5tr. Phase 1 will cost VND1.7tr of which more than VND1tr has already been disbursed. GMD plans to borrow up to 40% of the phase 1 capex. We expect NDP to reach 30% capacity utilization on average in 2018 as the port has to go through a test run phase. As a result, we believe GMD could see 10.3% revenue growth and 24.8% earnings growth in 2018.

**GMD is resuming the Gemalink deep water port project.** CGM-CGM, owning 35% of the project, has committed to fill up 80% capacity of the first phase of the project of 1.2mn TEU pa. We are not certain on the exact timing of the completion due to lack of information. According to GMD, it could take one year from recommencement of construction to complete Gemalink phase 1.

**Valuation is more than fair** as the stock trades at a TTM EV/EBITDA of 16.1x, a huge premium to the peer average of 6.7x. We believe this high valuation reflects market expectations on abnormal gains from around VND3,100bn of estimated proceeds from recently announced divestments. Note, however that we do not factor these financial gains into our projections due to a lack of visibility.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Net revenue (bn)	3,586	3,742	4,061	4,479
Revenue growth	19.0%	4.3%	8.5%	10.3%
Gross margin	26.4%	27.2%	22.3%	23.2%
EBITDA margin	25.6%	23.6%	25.4%	27.0%
Net profit (bn)	402	390	410	511
Net profit growth	(20.4%)	(3.1%)	5.1%	24.8%
Recurring profit growth	(24.2%)	(3.1%)	5.1%	24.8%
Basic EPS	3,485	3,336	1,752	1,773
Adjusted EPS	3,659	3,597	1,882	1,773
BVPS	42,543	28,792	21,375	21,391
ROAE	7.8%	7.6%	7.2%	8.3%

**NDP will make GMD the largest port operator in the North**

**Figure 1: Ports in Hải Phòng, capacity TEU**

Nbr	Port	Company	Capacity
1	Hoàng Diệu	PHP	na
2	Nam Hải	GMD	150,000
3	Đoạn Xá	DXP	150,000
4	Transvina		100,000
5	Greenport	VSC	300,000
6	Chùa Vẽ	PHP	na
7	Tân Cảng 128		300,000
8	Hải An	HAH	300,000
<b>Upstream</b>			<b>1,300,000</b>
9	PTSC Đình Vũ	PSP	150,000
10	Đình Vũ	DVP	500,000
11	Tân Vũ	PHP	1,200,000
12	Nam Hải Đình Vũ	GMD	500,000
13	VIP Greenport	VSC	500,000
14	Nam Đình Vũ 1	GMD	na
<b>Downstream</b>			<b>2,850,000</b>
<b>Total</b>			<b>4,150,000</b>

Source: VPA

After completion of all three phases, total designed capacity of GMD’s three ports NHP, Nam Hải Đình Vũ, and NDV will reach 2.7mn TEU pa, the highest of any port operator in the North. GMD will strengthen its competitive advantages as 1) NDP has the best location among ports in Hải Phòng, located at the mouth of the Cấm river; 2) NDP owns the last remaining land slot which is suitable for construction of a port in Hải Phòng, mitigating the risk of a new entrant.

We do not believe that NHP will create massive overcapacity in the region as some industry-observers fear as each phase will be launched gradually to match the throughput growth of the region. Even when Lạch Huyện phase 1 is launched as expected in 2019, we do not see a big impact on existing ports. The main reason is that a) Lạch Huyện will carry higher transportation/access costs. Truckers will have to incur additional bridge toll as they travel to Lạch Huyện via the Tân Vũ – Lạch Huyện bridge, which was completed recently and is 5.4 km long making it one of the longest cross-sea bridge in Southeast Asia. Also, this port will be playing in a different segment, altogether from existing ports.

Lạch Huyện port is likely to be underutilized for a few years post commissioning following the experience of deep water ports in Cái Mép port zone in the South. The main reason is that cargo flow is not strong enough and 50,000 DWT ships could have to wait longer to collect sufficient cargo to reach breakeven loads. This will increase operating costs for carriers. Lạch Huyện port could be completed by the end of 2019. Upon completion, the port will have two berths and could serve 100,000 DWT vessels.

**Figure 2: Nam Đình Vũ port**

	Commissioning by	Capex, VND b	Capacity, TEU pa
Phase 1	4Q2017	1,700	600,000
Phase 2	2019 - 2020	1,500	600,000
Phase 3	2021 - 2022	2,300	700,000
Total		5,500	1,900,000

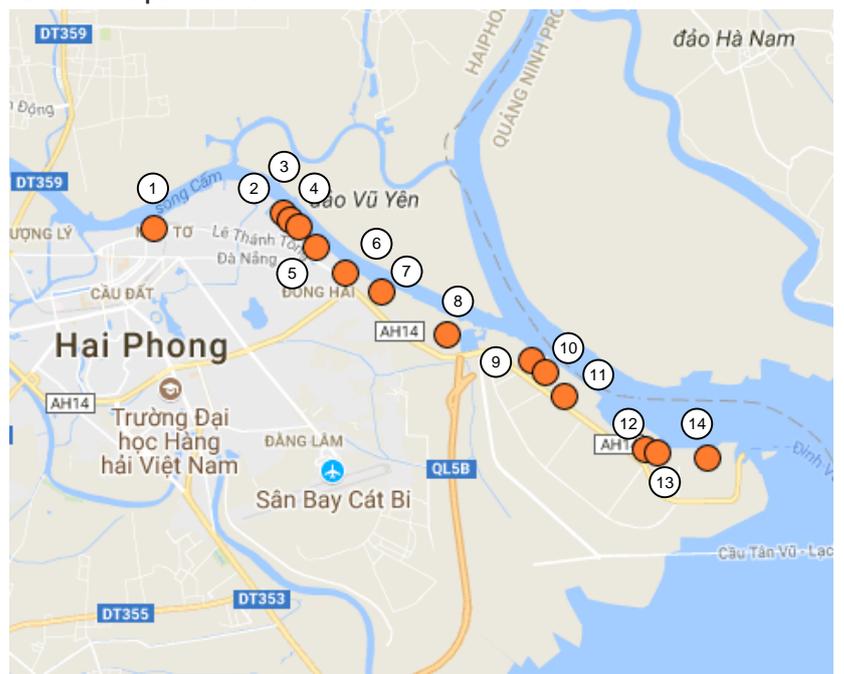
Source: GMD

**Figure 3: Port in Hải Phòng, 2016 throughput TEU**

Nbr	Port	Company	Throughput
1	Hoàng Diệu	PHP	na
2	Nam Hải	GMD	250,000
3	Đoạn Xá	DXP	120,761
4	Transvina		70,761
5	Greenport	VSC	260,000
6	Chùa Vẽ	PHP	na
7	Tân Cảng 128		209,394
8	Hải An	HAH	325,000
<b>Upstream</b>			<b>1,235,916</b>
9	PTSC Đình Vũ	PSP	265,357
10	Đình Vũ	DVP	649,224
11	Tân Vũ	PHP	1,086,630
12	Nam Hải Đình Vũ	GMD	526,202
13	VIP Greenport	VSC	350,000
14	Nam Đình Vũ 1	GMD	na
<b>Downstream</b>			<b>2,877,413</b>
<b>Total</b>			<b>4,113,329</b>

Source: VPA

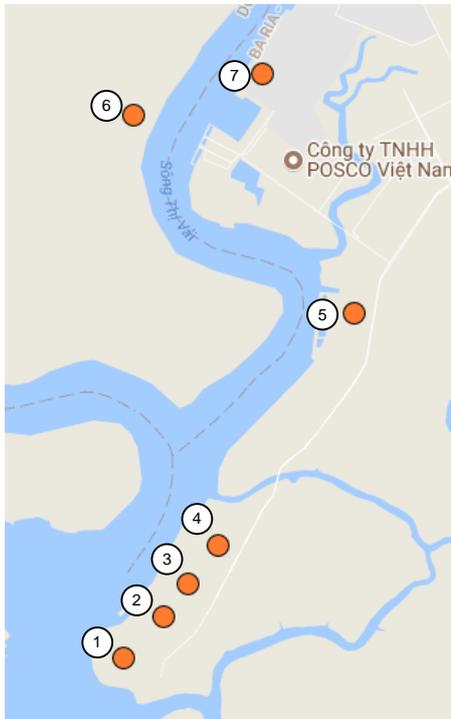
**Nam Đình Vũ port location**



Source: GMD

**Ports in Cái Mép are facing overcapacity in general, however some port operators are still turning a profit**

Figure 4: Ports in Cái Mép



Source: VNDIRECT

Among ports in Cái Mép, the best performing operators are CMIT and TCCT. CMIT is an alliance of Vinalines, Sài Gòn Port and APL Terminal. TCCT is a subsidiary of Sài Gòn Newport, the largest port operator in Vietnam. The main reason for the success of these two terminals is their modern equipment. Most ports in Cái Mép were built around 10 years ago. As a result, a lot of ports have outdated facilities and cannot meet the currently high standards of container liners. Moreover, as these underperforming ports lack capital to fund upgrades due to prolonged periods of losses over their operating history, they cannot compete with CMIT and TCCT.

The completion of Gemalink phase 1 may not exacerbate the oversupply situation as CMA-CGM has committed to fill up 80% of phase 1 capacity equivalent to 1m TEU pa. According to GMD, CMA-CGM intends to redirect part of its traffic from the Philippines, its current regional hub, to Cái Mép. As a result, Gemalink will not need to fight for market share from current ports, negating the risk of a price war. So far, around VND1,300bn has been disbursed into Gemalink’s infrastructure and a similar amount is needed, hereon, for the port to be completed. The remaining capex will be funded by equity.

Figure 5: Ports in Cái Mép

Nbr	Vessel size, TEU	Capacity, TEU	2016 Throughput, TEU
1 Gemalink phase 1	20,000	1,200,000	
Gemalink phase 2	20,000	2,400,000	
2 SSIT	14,000	1,000,000	0
3 TCOT	14,000	1,000,000	224,609
4 CMIT	14,000	1,000,000	651,537
5 TCCT	10,000	1,750,000	1,112,279
6 SITV	5,000	1,000,000	0
7 SP-PSA	7,000	1,100,000	67
<b>Total</b>		<b>10,450,000</b>	<b>1,988,492</b>

Source: GMD

**GMD has divested several assets and could report huge one-time financial gains in the near future**

In Q2 and Q3 2017, the company liquidated several assets including its 15% ownership in CJ Tower, its 50.9% ownership in GMD Shipping Holding and GMD Logistic Holding to CJ Group of South Korea, and also a 51% ownership in Hoa Sen Port. As disclosed in the 2017 AGM in May, the CJ Tower sale could generate VND100b gain and the Hoa Sen Port divestment could fetch around VND170bn in gain. Moreover, the logistics and shipping assets that were acquired by CJ group were reportedly valued at US\$250m, translating into sale proceeds of VND2,889bn for GMD. As for its rubber plantation assets in Cambodia, GMD is still looking for a buyer. It could take more time to sell these assets as rubber prices remain low even though prices have recovered since 2016’s trough levels.

Figure 6: Divestments: recent and in the pipeline

Project	Current ownership	Divestment plan	Book value (VND bn)	Note
Rubber plantation	100%	51% - 100%	1564	Not sold yet
CJ Vietnam Ltd	0%	15%	38	Sold 15% to CJ in Oct 2017
Hoa Sen Port	0%	0%	23.3	Sold 51% to a Korean investor
GMD Shipping Hld*	49%	0%	140.8	Sold 50.9% to CJ Group, proceeds used to pay dividend of VND8,500/share
GMD Shipping Ltd*	100%	na	63.3	
GMD Logistics Hld*	49%	0%	1.6	Sold 50.9% to CJ Group, proceeds used to pay dividend of VND8,500/share

Source: GMD

\* Book value is based on the charter capital of these companies, not asset values

### Valuation is no longer attractive

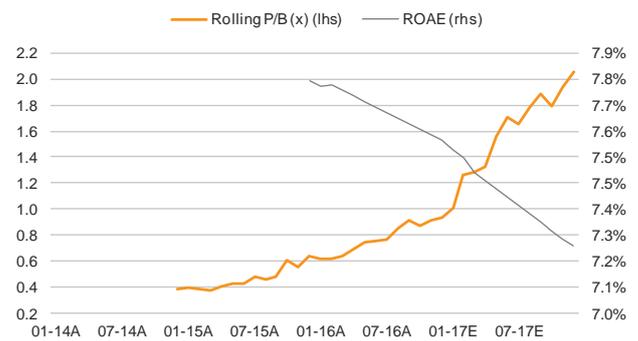
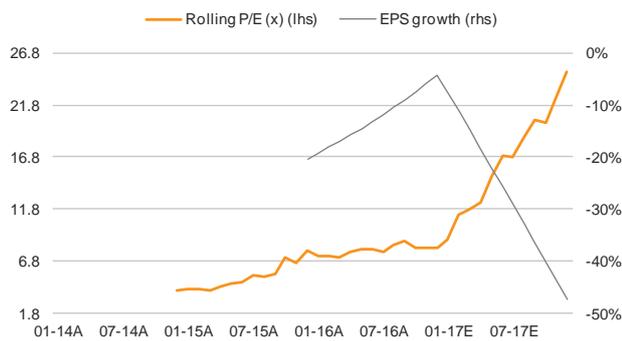
As the stock has rallied since early 2017, the valuation has shot past the level we deem to be fair. At the moment, GMD trades at a TTM EV/EBITDA of 16.1x, higher than the peer average multiple of 6.7x. This high valuation cannot be justified by growth prospects of the core businesses of logistics and container handling. We believe the valuation reflects market expectations on 1) asset disposal gains and 2) a special dividend of VND8,500/share equivalent to a current dividend yield of around 20% which is very high. If these port and logistics assets are actually sold at around VND3,100bn as reported by GMD in 2017 AGM, the hype around the stock could be justified.

Figure 7: Peer comparison

Company	Country	Market Cap (mn US\$)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)	EV/EBITDA
PHP	Vietnam	184.4	-14.8%	-14.8%	8.0%	12.1%	0.2	10.2	1.2	4.4
DVP	Vietnam	117.0	-0.5%	-0.5%	26.4%	30.0%	0.0	9.1	2.7	6.7
VSC	Vietnam	100.3	9.2%	9.2%	9.7%	17.4%	0.4	9.5	1.6	5.6
DNP	Vietnam	53.9	33.7%	33.8%	10.9%	21.0%	0.8	15.0	3.0	8.3
CLL	Vietnam	39.7	15.1%	15.1%	12.2%	13.5%	0.0	11.8	1.6	5.2
HAH	Vietnam	30.0	52.5%	57.5%	12.9%	22.1%	0.3	4.9	1.0	4.1
DXP	Vietnam	14.8	-9.5%	-9.3%	7.5%	8.0%	0.0	13.3	1.0	3.4
<b>GMD</b>	<b>Vietnam</b>	<b>510.5</b>	<b>23.5%</b>	<b>-35.1%</b>	<b>4.1%</b>	<b>7.0%</b>	<b>0.3</b>	<b>21.3</b>	<b>1.9</b>	<b>16.1</b>
Peer Average		131.3	13.7%	7.0%	11.5%	16.4%	0.2	11.9	1.7	6.7
Peer Median		77.1	12.1%	4.4%	10.3%	15.4%	0.2	11.0	1.6	5.4

Source: Bloomberg

**Valuation**



**Income statement**

(VNDbn)	12-16A	12-17E	12-18E
Net revenue	3,742	4,061	4,479
Cost of sales	(2,723)	(3,155)	(3,439)
Gen & admin expenses	(297)	(296)	(327)
Selling expenses	(63)	(49)	(54)
<b>Operating profit</b>	<b>659</b>	<b>561</b>	<b>659</b>
Operating EBITDA	938	940	1,104
<b>Depreciation and amortisation</b>	<b>(280)</b>	<b>(379)</b>	<b>(445)</b>
<b>Operating EBIT</b>	<b>659</b>	<b>561</b>	<b>659</b>
Interest income	39	12	12
Financial expense	(151)	(139)	(112)
Net other income	(116)	16	18
Income from associates & JVs	50	63	75
<b>Pre-tax profit</b>	<b>481</b>	<b>513</b>	<b>651</b>
Taxation	(37)	(47)	(69)
Minority interests	(54)	(57)	(71)
<b>Net profit</b>	<b>390</b>	<b>410</b>	<b>511</b>
Adj. net profit to ordinary	390	410	511
Ordinary dividends	0	(358)	(577)
<b>Retained earnings</b>	<b>390</b>	<b>51</b>	<b>(65)</b>

**Balance sheet**

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	724	476	166
Short term investments	89	51	51
Accounts receivables	1,128	1,104	1,184
Inventories	87	131	143
Other current assets	112	192	212
<b>Total current assets</b>	<b>2,140</b>	<b>1,955</b>	<b>1,756</b>
Fixed assets	4,641	5,743	6,284
Total investments	2,308	2,308	2,308
Other long-term assets	1,029	1,013	1,104
<b>Total assets</b>	<b>10,118</b>	<b>11,020</b>	<b>11,452</b>
Short-term debt	1,579	1,541	1,811
Accounts payable	595	523	564
Other current liabilities	787	681	747
<b>Total current liabilities</b>	<b>2,961</b>	<b>2,745</b>	<b>3,123</b>
Total long-term debt	928	928	928
Other liabilities	363	473	521
Share capital	1,794	2,883	2,883
Retained earnings reserve	1,500	1,595	1,599
<b>Shareholders' equity</b>	<b>5,166</b>	<b>6,162</b>	<b>6,167</b>
Minority interests	700	714	714
<b>Total liabilities &amp; equity</b>	<b>10,118</b>	<b>11,020</b>	<b>11,452</b>

**Cash flow statement**

(VNDbn)	12-16A	12-17E	12-18E
<b>Pretax profit</b>	<b>481</b>	<b>513</b>	<b>651</b>
Depreciation & amortisation	280	379	445
Tax paid	(76)	(47)	(69)
Other adjustments	56	(91)	(104)
<b>Change in working capital</b>	<b>21</b>	<b>(280)</b>	<b>(3)</b>
<b>Cash flow from operations</b>	<b>762</b>	<b>474</b>	<b>920</b>
Capex	(1,018)	(1,482)	(986)
Proceeds from assets sales	73	0	0
Others	(23)	129	104
Other non-current assets changes	(269)	15	(91)
<b>Cash flow from investing activities</b>	<b>(1,237)</b>	<b>(1,337)</b>	<b>(972)</b>
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	627	863	270
Other financing cash flow	(61)	110	49
Dividends paid	(271)	(358)	(577)
<b>Cash flow from financing activities</b>	<b>294</b>	<b>615</b>	<b>(258)</b>
Cash and equivalents at beginning of period	905	724	476
<b>Total cash generated</b>	<b>(181)</b>	<b>(248)</b>	<b>(310)</b>
Cash and equivalents at the end of period	724	476	166

**Key ratios**

	12-16A	12-17E	12-18E
<b>Dupont</b>			
Net profit margin	10.4%	10.1%	11.4%
Asset turnover	0.39	0.38	0.40
ROAA	4.1%	3.9%	4.6%
Avg assets/avg equity	1.86	1.87	1.82
ROAE	7.6%	7.2%	8.3%
<b>Efficiency</b>			
Days account receivable	51.9	46.2	46.2
Days inventory	11.7	15.2	15.2
Days creditor	80.0	60.5	59.9
Fixed asset turnover	0.92	0.78	0.74
ROIC	4.7%	4.4%	5.3%
<b>Liquidity</b>			
Current ratio	0.72	0.71	0.56
Quick ratio	0.69	0.66	0.52
Cash ratio	0.27	0.19	0.07
Cash cycle	(16.3)	0.9	1.5
<b>Growth rate (yoy)</b>			
Revenue growth	4.3%	8.5%	10.3%
Operating profit growth	2.7%	(14.8%)	17.4%
Net profit growth	(3.1%)	5.1%	24.8%
EPS growth	(4.3%)	(47.5%)	1.3%
<b>Share value</b>			
Basic EPS (VND)	3,336	1,752	1,773
BVPS (VND)	28,792	21,375	21,391

Source: VNDIRECT

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Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
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.*

#### Sector Ratings

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.

#### 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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