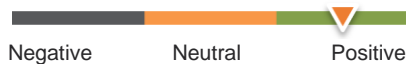


VIETJET AIR JSC (VJC)

Market Price VND208,400	Target Price VND183,400	Dividend Yield 0.5%	Rating HOLD	Sector AVIATION
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Outlook – Short term



Outlook – Long term



Valuation



26 March 2018

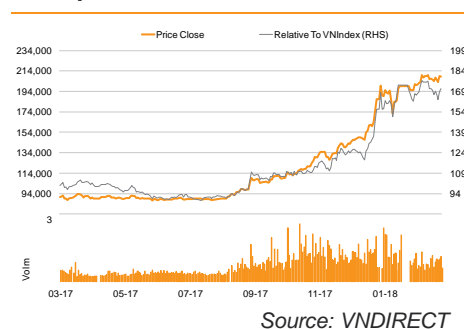
Quang Nguyen Hong, CFA

quang.nguyenhong@vndirect.com.vn

Key changes in the report

- Increase price by 26.5%

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	209,900
52w low (VND)	87,168
3m Avg daily volume (shares)	1,394,686
3m Avg daily value (VNDmn)	162,440
Market cap (VNDbn)	94,286
Outstanding shares (m)	452
Free float (%)	61
TTM P/E	21.7
Current P/B	9.8

Ownership

Sunny Investment Corp	28.6%
Nguyen Thi Phuong Thao	8.8%
GIC	5.1%
Others	57.50%

Source: VNDIRECT

FY17 was a successful year for VJC despite slower than expected fleet growth in 4Q2017. But higher fares due to fuel price pass-through could crimp growth in future years. We increase our target price but maintain our HOLD rating as VJC is already trading at a substantial premium to peers.

2017 transport revenue reached VND17,001bn (+41.6%) and ancillary revenue touched VND5,477bn (+54.3%). Passenger volume grew by 21.8% to 17.1mn; 2) fare/passenger grew by 16.3% to VND993,649. This is likely due to partial pass-through of higher fuel costs and longer average flight duration; 3) ancillary revenue/passenger increased by 12.5% to VND320,093.

Aircraft sales in 2017 reached VND19,783bn, the highest level in history. The company received 17 new aircraft during the year, outnumbering the 2016 fleet addition of 11 aircraft; 2) average spreads on aircraft sales rose by 22.3% to VND148bn (~USD 6.5 million) as the 17 aircraft were all A321 compared to 3 A320s and 8 A321s in 2016. VJC may have to classify leased-back aircraft under financial leases under IFRS norms starting in 2020.

We expect 2018 transport revenue to reach VND21,335bn (+25.5%) due to 1) 18.3% passenger volume growth and 2) 6% passenger yield growth as VJC could still pass on incremental fuel costs to passengers. After-tax profit excluding aircraft sales could reach VND4,407bn (+35.9%). Larger aircraft and new A321Neos could improve transport gross margins by 3 percentage points to 19%. We expect 2018 revenues from aircraft sales to touch VND18,508bn (-6.4% yoy) based on 14 aircraft sold and with unit spreads of VND165bn/aircraft, generating SLB gains of VND2,310bn

We increase our target price by 26.5% as the company achieved superior FY17 business performance compared to peers. Our target price is based on a target FY18 EV/EBITDA of 8.1x, equivalent to a 35% premium to the peer average which we think is justified by VJC's far superior growth profile relative to peers. Higher oil prices on geopolitical tensions and change in accounting treatment of aircraft leases do present downside risks to our valuation.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	27,532	42,291	46,616	53,600
Revenue growth	38.7%	53.6%	10.2%	15.0%
Gross margin	12.7%	14.2%	16.8%	18.1%
EBITDA margin	8.5%	11.7%	15.2%	16.7%
Net profit (bn)	2,281	4,511	6,650	8,342
Net profit growth	91.5%	97.8%	47.4%	25.5%
Recurring profit growth	60.2%	80.7%	36.0%	35.6%
Basic EPS	15,728	12,212	14,733	18,483
Adjusted EPS	15,728	12,212	14,733	18,483
BVPS	15,085	22,239	35,972	53,455
ROAE	68.4%	61.9%	50.6%	41.3%

Source: VNDIRECT

VJC may have to report aircraft leases as financial leases starting in 2020 as Vietnamese listed companies will be required to comply with IFRS accounting standards.

Starting 2020, public companies in Vietnam may have to strictly follow IFRS norms. Companies which utilize operating leases such as VJC may have to change to financial leases, which means: 1) fully reporting financial lease obligations; 2) separately reporting depreciation expenses and interest expenses instead of reporting a lump sum under operating lease expenses. The change of accounting treatment will have no impact on the bottom line of VJC's core business which is transport and ancillary services. We appreciate the change as it will improve transparency on leverage ratios and core operating earnings. The change will not have any material impact on our valuation methodology as we have already factored this imminent re-classification into our valuation.

Figure 1: Changes in the new International Accounting Standard (IAS) 16

The new IAS 16 will replace the IAS 17 starting 1 Jan 2019. The IAS 16 makes several changes in the reporting of lease assets:

- Lessees have to report an asset and a liabilities at the inception of a lease, except for short term leases and low value assets. There will be no distinction between operating and financial lease for lessees;
- Lease liabilities must be based on the present value of lease payment (IAS 16) instead of the lower of the asset's fair value and the present value of lease payments;
- Contingent and variable lease payments must be incorporated in the calculation of lease assets and liabilities;
- The lease term must be reassessed only upon the occurrence of a significant change in circumstances that are within the control of the lessee.

Source: PwC

We increase our one-year target price to reflect continued strong growth, despite partial pass-through of higher oil prices.

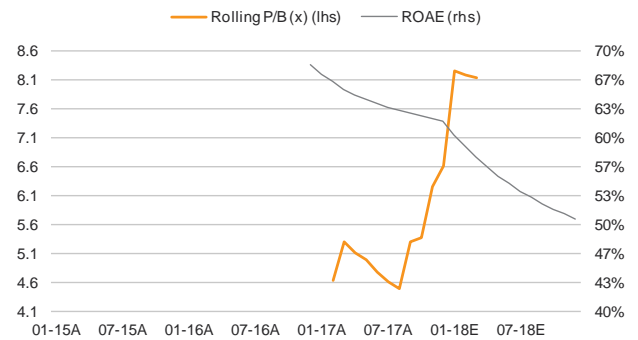
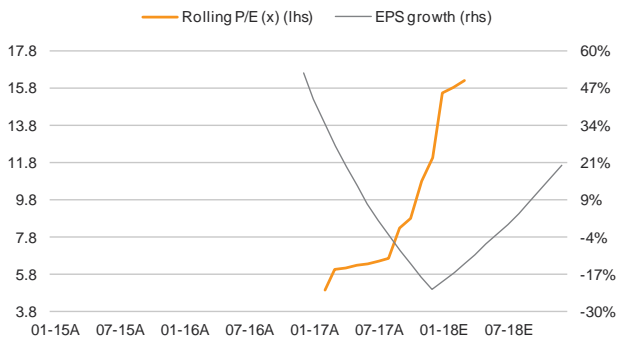
Our target price of VND183,400 is based on a target FY18 EV/EBITDA of 8.1x, equivalent to a 35% premium to the average TTM EV/EBITDA of peers, excluding Indigo which appears to be a complete outlier in terms of valuation. In our opinion, the premium is appropriate as the company saw FY17 net profit growth of 86% yoy (excluding gains from aircraft sales) while several peers saw net profit declines due to rising fuel costs. However, we think VJC's passenger volume will grow slower over the next 3 years than previously expected due to pass through of sustained higher oil prices and intensifying regional competition. During FY14-16 passenger traffic grew at a CAGR of 58.1%. In 2017, passenger volume growth decelerated to 21.4% yoy. Even though we think the deceleration will continue to play out over the foreseeable future, double-digit passenger volume growth rate is viable for the next 3-5 years.

Figure 2: 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)
EasyJet	UK	8,733.3	na	na	5.3	11.1	0.3	20.3	2.2	7.2
Indigo	India	7,342.7	-16.4	na	11.9	51.0	0.7	27.0	11.9	15.0
AirAsia	Malaysia	3,419.9	-21.8	-34.6	7.4	21.1	1.5	8.4	1.6	5.4
Spirit Airlines	US	2,815.2	416.2	420.0	11.5	26.5	0.8	12.4	1.6	6.7
WestJet	Canada	2,065.6	-12.2	-10.6	4.5	13.3	0.9	9.8	1.2	4.4
Cebu Airline	Philippines	1,086.0	-38.3	na	7.0	21.0	1.2	8.1	1.6	6.1
Average*		3,624.0	86.0	124.9	7.1	18.6	1.0	11.8	1.6	6.0
Median*		3,117.5	-12.2	57.1	7.1	19.8	0.9	10.8	1.6	6.0
Vietjet Air	Vietnam	4,128.2	80.7	22.7	14.3	68.7	1.5	21.7	9.8	18.1

Source: VNDIRECT, Bloomberg

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	42,291	46,616	53,600
Cost of sales	(36,290)	(38,776)	(43,872)
Gen & admin expenses	(207)	(226)	(269)
Selling expenses	(588)	(644)	(765)
Operating profit	5,206	6,970	8,695
Operating EBITDA	5,174	6,872	8,566
Depreciation and amortisation	33	98	129
Operating EBIT	5,206	6,970	8,695
Interest income	212	266	407
Financial expense	(657)	(228)	(175)
Net other income	4	0	0
Income from associates & JVs	(37)	(37)	(37)
Pre-tax profit	4,729	6,971	8,889
Taxation	(218)	(322)	(547)
Minority interests	0	0	0
Net profit	4,511	6,650	8,342
Adj. net profit to ordinary	4,511	6,650	8,342
Ordinary dividends	0	(451)	(451)
Retained earnings	4,511	6,198	7,891

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	6,856	10,308	15,948
Short term investments	14	0	0
Accounts receivables	12,142	11,964	12,335
Inventories	243	212	249
Other current assets	267	246	295
Total current assets	19,522	22,729	28,826
Fixed assets	1,744	2,591	3,118
Total investments	68	68	68
Other long-term assets	10,574	9,717	11,675
Total assets	31,908	35,106	43,687
Short-term debt	6,905	5,691	4,026
Accounts payable	477	414	487
Other current liabilities	7,758	6,651	7,969
Total current liabilities	15,140	12,755	12,482
Total long-term debt	625	504	337
Other liabilities	6,106	5,611	6,741
Share capital	4,513	4,513	4,513
Retained earnings reserve	5,278	11,476	19,367
Shareholders' equity	10,037	16,236	24,126
Minority interests	0	0	0
Total liabilities & equity	31,908	35,106	43,687

Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
Pretax profit	4,729	6,971	8,889
Depreciation & amortisation	33	98	129
Tax paid	(129)	(322)	(547)
Other adjustments	(813)	(229)	(370)
Change in working capital	3,216	(940)	935
Cash flow from operations	7,036	5,579	9,036
Capex	(407)	(945)	(655)
Proceeds from assets sales	0	0	0
Others	849	243	370
Other non-current assets changes	(2,592)	857	(1,958)
Cash flow from investing activities	(2,150)	155	(2,244)
New share issuance	47	0	0
Shares buyback	0	0	0
Net borrowings	12	(1,335)	(1,831)
Other financing cash flow	72	(495)	1,130
Dividends paid	0	(451)	(451)
Cash flow from financing activities	131	(2,281)	(1,152)
Cash and equivalents at beginning of period	2,740	6,856	10,308
Total cash generated	5,017	3,453	5,640
Cash and equivalents at the end of period	7,756	10,308	15,948

Key ratios

	12-17A	12-18E	12-19E
Dupont			
Net profit margin	10.7%	14.3%	15.6%
Asset turnover	1.63	1.39	1.36
ROAA	17.4%	19.8%	21.2%
Avg assets/avg equity	3.56	2.55	1.95
ROAE	61.9%	50.6%	41.3%
Efficiency			
Days account receivable	15.5	13.0	13.5
Days inventory	2.44	1.99	2.07
Days creditor	4.80	3.89	4.05
Fixed asset turnover	28.5	21.5	18.8
ROIC	25.7%	29.6%	29.3%
Liquidity			
Current ratio	1.29	1.78	2.31
Quick ratio	1.27	1.77	2.29
Cash ratio	0.45	0.81	1.28
Cash cycle	13.2	11.1	11.6
Growth rate (yoy)			
Revenue growth	53.6%	10.2%	15.0%
Operating profit growth	84.5%	33.9%	24.7%
Net profit growth	97.8%	47.4%	25.5%
EPS growth	(22.4%)	20.6%	25.5%
Share value			
Basic EPS (VND)	12,212	14,733	18,483
BVPS (VND)	22,239	35,972	53,455

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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Stock Ratings

Definition:

- 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.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Quang Nguyen Hong, CFA – Senior Analyst

Email: quang.nguyenhong@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>