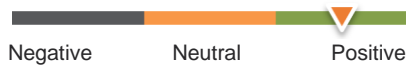


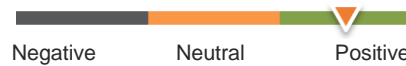
VIETJET AIR JSC (VJC)

Market Price VND187,000	Target Price VND149,400	Dividend Yield 0.5%	Rating REDUCE	Sector AVIATION
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Outlook – Short term



Outlook – Long term



Valuation



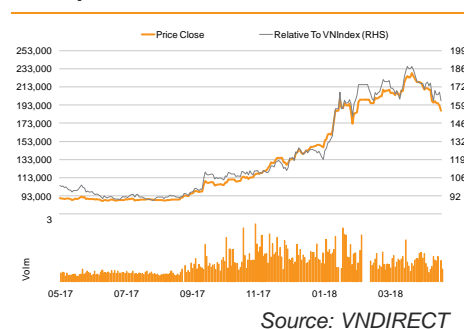
16 May 2018

Quang Nguyen Hong, CFA

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During 1Q2018, VJC continued to expand its fleet by adding four new A321s, increasing its total fleet size to 54 aircraft at the end of Q1. High demand in the Tet holiday peak season appeared to put more pressure on VJC's fleet compared to 1Q17. We expect this elevated demand to be sustained during the year, helping VJC to pass on incremental fuel costs to customers. However, we reduce our TP and re-rate to REDUCE as VJC's premium to regional peers now looks outsized.

Price performance



1Q18 transport revenue reached VND6,035bn (+51.9% yoy) as passenger volume rose to more than 5m (+35.1% yoy). Ancillary revenue increased by 64.3% yoy to VND1,825bn. While 1Q18 average jet fuel price was up 21.7% compared to 1Q17, barely changed transport gross margins imply that VJC was able to almost completely pass through incremental fuel costs to passengers as load factors were relatively unchanged. Vietnam Airlines (UpCOM: HVN) also appears to have effected this pass-through as the company's 1Q18 gross margin expanded by 9.6 percentage points.

Key statistics

52w high (VND)	228,100
52w low (VND)	87,168
3m Avg daily volume (shares)	1,238,909
3m Avg daily value (VNDmn)	250,915
Market cap (VNDbn)	88,012
Outstanding shares (m)	471
Free float (%)	48.6
TTM P/E	12.6
Current P/B	8.4

We expect VJC to be able to pass through FY18F incremental fuel costs thanks to growing demand: 1) Domestic demand is continuing to show robust growth. During the Tet holiday, high demand put pressure on VJC's fleet and the airport infrastructure in general; as a result, VJC's 1Q18 on-time performance decreased to 83.4%, the lowest in its operating history, and compared to 87.3% in 1Q17; 2) foreign tourist arrivals into the country reached 3.4m (+27.9% yoy) in 1Q2018 and are expected to continue to surge.

In 2018, VJC will continue to expand its international network to reach 60 international routes (+36.4% yoy) by the end of 2018. The company will maintain its focus on North East Asian countries to capitalize on growing tourist and business traveler arrivals from South Korea, Japan, Taiwan, and China which are all major sources of FDI investment and tourism into Vietnam.

We reduce our TP and downgrade to REDUCE rating.

Ownership

Sunny Investment Corp	28.6%
Nguyen Thi Phuong Thao	8.8%
Sovico JSC	5.1%
Others	57.5%

Source: VNDIRECT

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	27,532	42,303	46,431	53,378
Revenue growth	38.7%	53.6%	9.8%	15.0%
Gross margin	12.7%	15.5%	16.1%	17.4%
EBITDA margin	8.5%	14.8%	15.6%	16.9%
Net profit (bn)	2,281	5,500	6,439	7,988
Net profit growth	91.5%	141.2%	17.1%	24.1%
Recurring profit growth	56.3%	145.0%	74.9%	32.6%
Basic EPS	15,728	14,890	14,267	17,699
Adjusted EPS	15,728	14,890	14,267	17,699
BVPS	15,085	22,239	35,506	52,205
ROAE	68.4%	75.5%	49.4%	40.4%

Source: VNDIRECT

Valuation

We reduce our TP by 18.5% to VND149,400, based on a target FY18 EV/EBITDA of 7.7x, equivalent to a 35% premium to the average TTM EV/EBITDA of peers of 5.7x, excluding Indigo which appears to be a complete outlier in terms of valuation; note that we use a target EV/EBITDA multiple instead of a P/E multiple as VJC has significantly higher financial leverage than its peers. We believe VJC deserves the premium to peers as the company enjoys higher NPAT growth prospects compared to peers owing to fast growing domestic demand and continued rapid growth in foreign tourist arrivals into Vietnam, particularly from North East Asian countries. The premium to regional peers is also justified, in our opinion, by the duopolistic nature of Vietnam's domestic aviation market which is dominated by VJC and HVN. We maintain our FY18F revenue and NPAT forecasts for VJC but our TP falls to reflect the recent contraction in regional aviation peer multiples due to the continued rise in crude oil prices – which will have a lagged impact on aviation fuel prices – as well as due to rising competition in the region on the back of robust seat capacity addition. As international routes grow their contribution in VJC's transport revenue mix, the company will become more exposed to the intensifying regional competition among airlines and the resulting pressure on fares will limit VJC's ability to pass through continued fuel price increases.

Figure 1: Valuation

Valuation method	Amount	Unit
FY18F EBITDA	10,191	VND bn
Target EV/EBITDA multiple	7.7x	
Enterprise value	78,471	VND bn
Net debt	11,050	VND bn
Market value of equity	67,421	VND bn
No of shares outstanding	451,343,284	share
Target price	149,379	VND/share

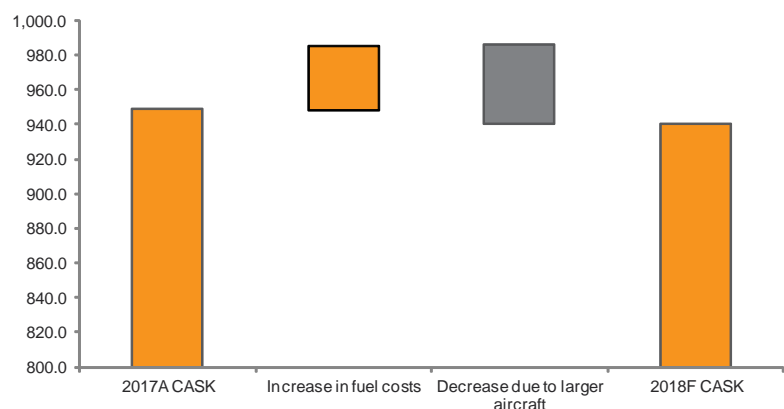
Source: VNDIRECT

Figure 2: Operating metrics

	2017A	2018F	Change
RPK mn	18,276.6	21,636.6	18.4%
ASK mn	20,757.0	24,587.0	18.5%
RASK VND	1,086.3	1,135.5	4.5%
CASK VND	948.3	939.8	-0.9%
Load factor	88.1%	88.0%	0.05% pts
RPK Yield VND	922.2	977.5	6.0%

Source: VNDIRECT

Figure 3: 2018F CASK vs 2017A CASK, VND



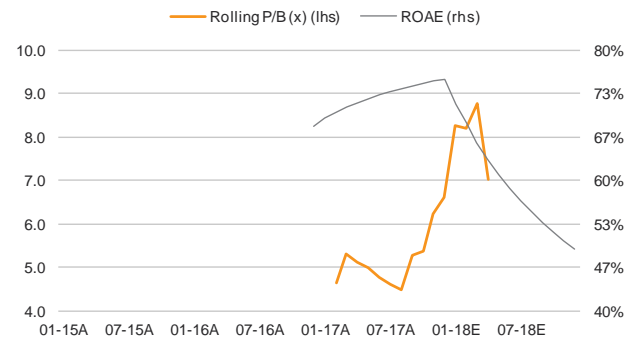
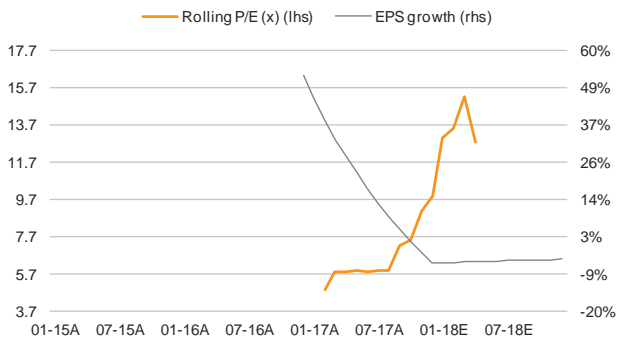
Source: VNDIRECT

Figure 4: Valuation

Name	Country	Market cap (US\$ mn)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM PE (x)	P/B (x)	TTM EV/EBITDA (x)
EasyJet	UK	9,087.5	11.2	10.9	5.3	11.1	0.3	21.9	2.4	7.2
Indigo	India	6,548.2	35.1	27.0	12.3	41.3	0.3	19.6	6.2	13.2
AirAsia	Malaysia	3,419.9	-21.8	-34.6	7.4	21.1	0.1	8.4	1.6	5.4
Spirit Airlines	US	2,450.2	na	na	8.5	21.8	0.1	10.9	1.4	6.6
WestJet	Canada	1,758.4	-20.4	-17.5	4.2	12.4	0.9	8.6	1.0	4.0
Cebu Airline	Philippines	1,037.9	33.0	33.0	7.5	21.6	0.1	6.8	1.4	5.1
Average		3,550.8	0.5	-2.0	6.6	17.6	0.3	11.3	1.5	5.7
Median		2,935.1	0.5	-2.0	7.0	19.4	0.2	9.7	1.5	5.5
Vietjet Air	Vietnam	3,808.6	121.4	82.2	19.7	67.1	0.7	12.6	8.4	11.5

*Mean and median exclude Indigo
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
Tax expense	(218)	(322)	(547)
Minority interest	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	10,143	15,492
Short term investments	14	0	0
Accounts receivables	12,142	11,959	12,328
Inventories	243	218	256
Other current assets	267	244	293
Total current assets	19,522	22,564	28,370
Fixed assets	1,744	2,577	3,100
Total investments	68	68	68
Other long-term assets	10,574	9,650	11,593
Total assets	31,908	34,858	43,131
Short-term debt	6,905	5,705	4,091
Accounts payable	477	426	502
Other current liabilities	7,758	6,625	7,938
Total current liabilities	15,140	12,756	12,530
Total long-term debt	625	505	344
Other liabilities	6,106	5,572	6,694
Share capital	4,513	4,513	4,513
Retained earnings reserve	5,278	11,266	18,803
Shareholders' equity	10,037	16,025	23,562
Minority interest	0	0	0
Total liabilities & equity	31,908	34,858	43,131

Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
Pretax profit	6,220	7,283	9,122
Depreciation & amortisation	33	97	127
Tax paid	(129)	(844)	(1,133)
Other adjustments	(2,305)	(121)	(186)
Change in working capital	3,216	(953)	932
Cash flow from operations	7,036	5,463	8,862
Capex	(407)	(930)	(650)
Proceeds from assets sales	0	0	0
Others	849	135	186
Other non-current assets changes	(2,592)	925	(1,944)
Cash flow from investing activities	(2,150)	130	(2,408)
New share issuance	47	0	0
Shares buyback	0	0	0
Net borrowings	12	(1,320)	(1,776)
Other financing cash flow	72	(534)	1,122
Dividends paid	0	(451)	(451)
Cash flow from financing activities	131	(2,305)	(1,105)
Cash and equivalents at beginning of period	2,740	6,856	10,143
Total cash generated	5,017	3,288	5,349
Cash and equivalents at the end of period	7,756	10,143	15,492

Key ratios

	12-17A	12-18E	12-19E
Dupont			
Net profit margin	13.0%	13.9%	15.0%
Asset turnover	1.63	1.39	1.37
ROAA	21.2%	19.3%	20.5%
Avg assets/avg equity	3.56	2.56	1.97
ROAE	75.5%	49.4%	40.4%
Efficiency			
Days account receivable	15.5	12.9	13.5
Days inventory	2.48	2.04	2.12
Days creditor	4.87	3.99	4.15
Fixed asset turnover	28.5	21.5	18.8
ROIC	31.3%	29.0%	28.5%
Liquidity			
Current ratio	1.29	1.77	2.26
Quick ratio	1.27	1.75	2.24
Cash ratio	0.45	0.80	1.24
Cash cycle	13.1	11.0	11.5
Growth rate (yoy)			
Revenue growth	53.6%	9.8%	15.0%
Operating profit growth	124.0%	14.1%	24.4%
Net profit growth	141.2%	17.1%	24.1%
EPS growth	(5.3%)	(4.2%)	24.1%
Share value			
Basic EPS (VND)	14,890	14,267	17,699
BVPS (VND)	22,239	35,506	52,205

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.

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