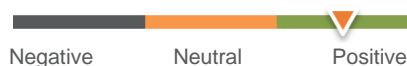


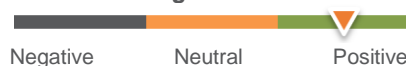
## VIETJET AIR JSC (VJC)

<b>Current Price</b> VND124,900	<b>Target Price</b> VND155,700	<b>Dividend Yield</b> 1.6%	<b>Recommendation</b> Add	<b>Sector</b> INDUSTRIALS
------------------------------------	-----------------------------------	-------------------------------	------------------------------	------------------------------

### Outlook – Short term



### Outlook – Long term



### Valuation



7 August 2017

Quang Nguyễn Hồng, CFA

quang.nguyenhong@vndirect.com.vn

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	137,400
52w low (VND)	108,000
Average daily turnover (3m)	341,649
Market cap (VND) billion	40,299
Outstanding shares (m)	323
Free float (%)	61
Beta	0.41

### Ownership

Shareholder	% Ownership
Sunny Inv Corp	28.6
Nguyen Thi Phuong Thao	8.8
GIC	5.1
Nguyen Thanh Hung	1.0
Dinh Viet Phuong	0.1

Source: VNDIRECT

In 1H2017, VJC has enjoyed its growth momentum as transportation revenue increased by 45.9% yoy. Ancillary revenue grew by 49.9% yoy, meanwhile ex-sale and lease back (SLB) EAT has increased by 48% yoy. VJC has completed one third of 2017 aircraft acquisition schedule by adding 5 A321s. As core-business profitability has improved compared to FY2016, we adjust our recommendation to BUY with target price of VND155,700.

VJC posted 1HFY17 revenue of VND16,355b (+30.2% yoy) and EAT of VND1,790b (+44.5% yoy). Revenue from core business (excluding SLB) has increased by 45.3% yoy to VND10,734b, driven by 1) 20.6% yoy growth of passenger volume to 8.2m; 2) 16.8% yoy growth of fare; 3) 23% yoy growth of ancillary revenue per passenger.

In term of SLB activities, 1HFY17 aircraft sales recorded VND5,621b (+8.8% yoy). In 1H17, VJC has successfully sold and leased back 5 A321s, giving an average net gain of VND165b per aircraft, 67% higher than the average SLB gain in 1H2016.

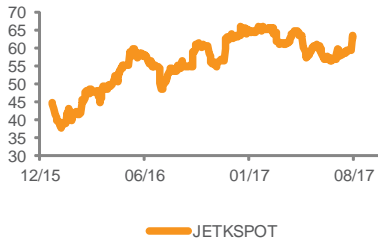
**2017 Outlook:** We adjust our forecasts of revenue to VND44,886b (-1.7% vs previous forecasts) and EAT to VND5,655b (+57.5% vs previous forecasts). Our revised forecasts reflect the higher gain and higher profit margin from aircraft sales in 2017. Noted that there are pending orders of six A321s and five A321Neos for the 2H2017.

**Valuation:** We make upward adjustment of target price to VND155,700 (24.9% upside), equivalent to 2017 adjusted EV/EBITDAR of 7x. VJC currently trades at 2017 adjusted EV/EBITDAR of 6x. The stock has turned from a fair to attractive valuation owing to high expected 2017 EBITDAR growth of 100% yoy.

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Revenue (bn)	19,845	27,532	44,886	52,819
Revenue growth	127.9%	38.7%	63.0%	17.7%
Gross margin	10.6%	12.7%	17.7%	20.8%
Operating EBITDA (bn)	1,589	2,822	7,051	9,893
Net profit (bn)	1,170	2,292	5,682	8,183
Net profit growth	215.8%	95.8%	147.9%	44.0%
Adjusted EPS	10,135	19,614	18,939	27,277
BVPS	14,810	15,085	33,024	59,300
ROAE	75.2%	68.7%	78.7%	59.1%

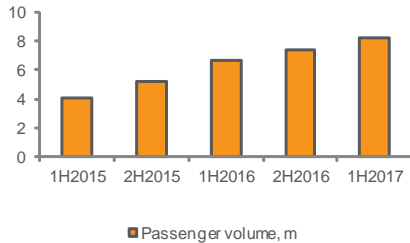
Source: VNDIRECT

Jet kerosene Singapore price



Source: Bloomberg

VJC's passenger volume



Source: VJC

**Improvements of core business**

1H2017 ex-SLB business has raised its gross profit margin by 0.4% pts to 15.6% despite mounting fuel costs. This could be due two main reasons: (1) higher ancillary revenue per passenger. Compared to 2016, average ancillary revenue per passenger has grown by 23.1% yoy to VND309,242. We expect this improvement could raise 2017 ex-SLB gross margin by 6.1% pts yoy to 19.8% as ancillary services bear almost zero cost.

(2) VJC has transferred most of incremental fuel costs into higher fares. During 1H2017, ex-ancillary fare per passenger was around VND1m, +17% compared to the average level of 2016. As a result, gross profit margin of flight operation decreased by only 1.5% pts to 11.1% compared to 1H2016. We expect VJC could continue to raise fare gradually to offset higher fuel costs. We expect fuel price to stabilize at around US\$65 per gallon for the foreseeable future. Moreover, more A321s and A320Neos joining the fleet in 2017 will help cutting fuel consumption per ASK.

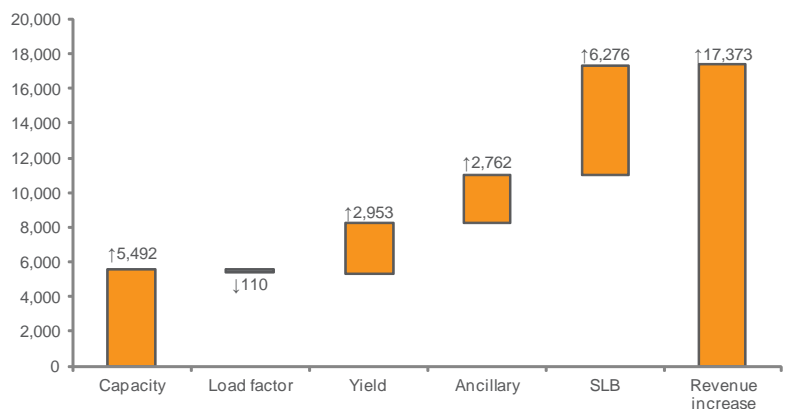
We expect VJC could reach 20.3m passenger for 2017 (+44.8% yoy) as Q3 and the end of Q4 are peak season for holiday. During 1H2017, VJC has extended its network by 13 new routes (12 international routes, 1 domestic route). At the end of Jun 2017, the company's network consists of 38 domestic routes and 35 international routes.

VJC's on-time performance (OTP) of 2Q2017 has improved to 85.7% compared to 83.6% of 2016, thanks to new aircrafts. VJC's OTP is a bit better than Jetstar Pacific (82%) but is still behind Vietnam Airlines (91%).

**Higher aircraft sale gains**

During 1H2017, VJC has received and sold five A321s. The average selling price is likely higher than 1H2016's. We expect the average selling price of five A321s during 1H2017 was round VND1,124b, 5% higher than 2016's level. During 1H2016, the company has sold only two A321s and three A320s whose selling prices are lower than A320s. 1H2017 average aircraft cost was VND960b, 1.7% higher than 2016's level. As a result, 1H2017 gain per aircraft sold was around VND164b, 35.6% higher compared to 2016. VJC could achieve similar gain for the remaining transactions of 2017. We expect 2017 gross profit margin of aircraft sales could reach 14.6%, 3% pts higher than 2016. There are pending orders of six A321s and five A321Neos for the second half of 2017.

**2017 revenue growth drivers**



Source: VNDIRECT

### Valuation

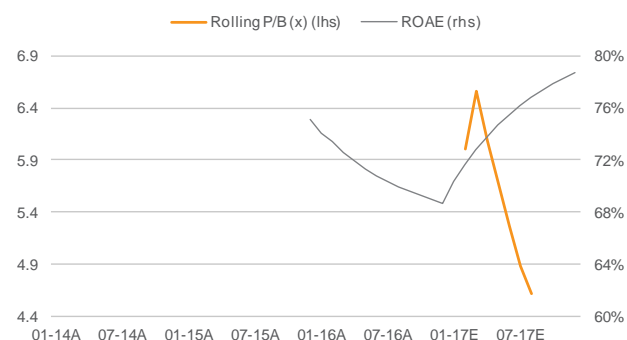
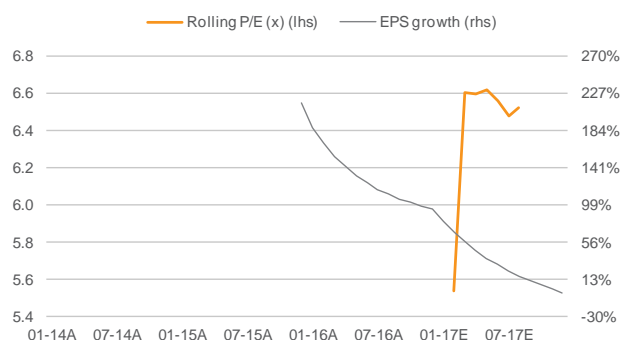
Based on our previous forecast, VJC 2017 EV/EBITDAR was around 9.1x. As our revised 2017 EBITDAR is 34% higher than the previous forecast level, the stock valuation has fallen to the attractive range of 2017 EV/EBITDAR 6x. The target price of VND155,700 implies a target valuation of 2017 EV/EBITDAR of 7x. The target valuation is within the range of 4x to 7x EV/EBITDAR of peer companies.

### Valuation

Companies	Mkt cap, USD mn	Adj EV/EBITDAR 12M	P/B 12M	1-yr R growth	ROE %	Fleet size	Passengers 2016, mn
VietjetAir	1,771	12.3	8.5	38.7	68.7	46	14.1
AirAsia Bhd	2,570	6.3	1.4	8.7	22.9	80	56.6
Cebu Pacific	1,232	4.2	1.9	9.6	21.9	59	14.1
Indigo	6,263	7.8	21.4	15.8	59.1	133	41.0
Spicejet Ltd	1,090	5.9	na	21.5	na	49	15.4

Source: VNDIRECT, Bloomberg

Valuation



Income statements

(VNDtrm)	12-16A	12-17E	12-18E
Revenue	27.5	44.9	52.8
Cost of sales	(24.0)	(36.9)	(41.8)
Gen & admin expenses	(0.2)	(0.2)	(0.3)
Selling expenses	(0.5)	(0.7)	(0.8)
<b>Operating profit</b>	<b>2.8</b>	<b>7.1</b>	<b>9.9</b>
Operating EBITDA	2.8	7.1	9.9
<b>Depreciation and amortisation</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Operating EBIT</b>	<b>2.8</b>	<b>7.1</b>	<b>9.9</b>
Interest income	0.2	0.4	0.7
Financial expense	(0.6)	(0.3)	(0.3)
Net other income	0.0	0.0	0.0
Income from associates & JVs	(0.0)	(0.0)	(0.0)
<b>Pre-tax profit</b>	<b>2.4</b>	<b>7.1</b>	<b>10.2</b>
Taxation	(0.1)	(1.4)	(2.1)
Minority interests	0.0	0.0	0.0
<b>Net profit</b>	<b>2.3</b>	<b>5.7</b>	<b>8.2</b>
Adj. net profit to ordinary	2.3	5.7	8.2
Ordinary dividends	0.0	(0.3)	(0.3)
<b>Retained earnings</b>	<b>2.3</b>	<b>5.4</b>	<b>7.9</b>

Cash flow statement

(VNDtrm)	12-16A	12-17E	12-18E
<b>Pretax profit</b>	<b>2.39</b>	<b>7.11</b>	<b>10.24</b>
Depreciation & amortisation	0.04	0.16	0.23
Other non cash gains/(losses)	0.00	0.00	0.00
Other non operating gains/(losses)	(0.20)	(0.36)	(0.65)
Tax paid	(0.04)	(1.43)	(2.06)
Other operating cash flow	(2.50)	0.00	0.00
<b>Change in working capital</b>	<b>0.96</b>	<b>1.71</b>	<b>1.03</b>
<b>Cash flow from operations</b>	<b>0.66</b>	<b>7.19</b>	<b>8.79</b>
Capex	(2.19)	(1.52)	(1.18)
Proceeds from assets sales	0.00	0.00	0.00
Others	2.68	0.36	0.65
Other non-current assets changes	(2.37)	(5.59)	(3.43)
<b>Cash flow from investing activities</b>	<b>(1.88)</b>	<b>(6.75)</b>	<b>(3.96)</b>
New share issuance	0.07	0.00	0.00
Shares buyback	0.00	0.00	0.00
Net borrowings	3.27	3.31	(2.64)
Other financing cash flow	(0.30)	2.51	1.54
Dividends paid	0.00	(0.30)	(0.30)
<b>Cash flow from financing activities</b>	<b>3.04</b>	<b>5.52</b>	<b>(1.40)</b>
Cash and equivalents at beginning of period	0.92	2.74	8.69
<b>Total cash generated</b>	<b>1.82</b>	<b>5.95</b>	<b>3.42</b>
Cash and equivalents at the end of period	2.74	8.69	12.12

Balance sheets

(VNDtrm)	12-16A	12-17E	12-18E
Cash and equivalents	2.7	8.7	12.1
Short term investments	0.0	0.0	0.0
Accounts receivables	7.6	9.2	10.1
Inventories	0.1	0.2	0.2
Other current assets	0.1	0.2	0.3
<b>Total current assets</b>	<b>10.6</b>	<b>18.3</b>	<b>22.7</b>
Fixed assets	1.2	2.6	3.5
Total investments	0.1	0.1	0.1
Other long-term assets	8.0	13.6	17.0
<b>Total assets</b>	<b>19.9</b>	<b>34.5</b>	<b>43.4</b>
Short-term debt	6.0	5.3	3.9
Accounts payable	0.4	0.6	0.8
Other current liabilities	4.6	7.8	9.7
<b>Total current liabilities</b>	<b>11.1</b>	<b>13.7</b>	<b>14.4</b>
Total long-term debt	0.8	4.8	3.5
Other liabilities	3.6	6.1	7.6
<b>Shareholders' equity</b>	<b>4.5</b>	<b>9.9</b>	<b>17.8</b>
Minority interests	(0.0)	(0.0)	(0.0)
<b>Total liabilities &amp; equity</b>	<b>19.9</b>	<b>34.5</b>	<b>43.4</b>

Key ratios

	12-16A	12-17E	12-18E
<b>Dupont</b>			
Net profit margin	8.3%	12.7%	15.5%
Asset turnover	1.72	1.65	1.36
ROAA	14.3%	20.9%	21.0%
Avg assets/avg equity	4.79	3.77	2.81
ROAE	68.7%	78.7%	59.1%
<b>Efficiency</b>			
Days account receivable	23.5	24.4	26.0
Days inventory	1.94	1.99	2.08
Days creditor	6.20	6.39	6.66
Fixed asset turnover	39.7	23.6	17.3
ROIC	20.2%	28.4%	32.4%
<b>Liquidity</b>			
Current ratio	0.96	1.34	1.58
Quick ratio	0.95	1.32	1.56
Cash ratio	0.25	0.63	0.84
Cash cycle	19.2	20.0	21.4
<b>Growth rate (yoy)</b>			
Revenue growth	38.7%	63.0%	17.7%
Operating profit growth	77.6%	149.9%	40.3%
Net profit growth	95.8%	147.9%	44.0%
EPS growth	93.5%	(3.4%)	44.0%
<b>Share value</b>			
EPS (VND)	19,614	18,939	27,277
BVPS (VND)	15,085	33,024	59,300
DPS (VND)	0	1,000	1,000

Source: VNDIRECT

**DISCLAIMER**

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

---

**Phường Nguyễn Mai, CFA – Director**

Email: [phuong.nguyenmai@vndirect.com.vn](mailto:phuong.nguyenmai@vndirect.com.vn)

**Quang Nguyễn Hồng, CFA – Senior Analyst**

Email: [quang.nguyenhong@vndirect.com.vn](mailto:quang.nguyenhong@vndirect.com.vn)

**VNDIRECT Securities Corporation**

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

Tel: +84 439724568

Email: [research@vndirect.com.vn](mailto:research@vndirect.com.vn)

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