

VIETJET AIR JSC (VJC) – EARNINGS UPDATE

Market Price VND117,400	Target Price VND147,000	Dividend Yield 0.17%	Rating ADD	Sector AVIATION
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Outlook – Short term



Outlook – Long term



Valuation



14 November 2017

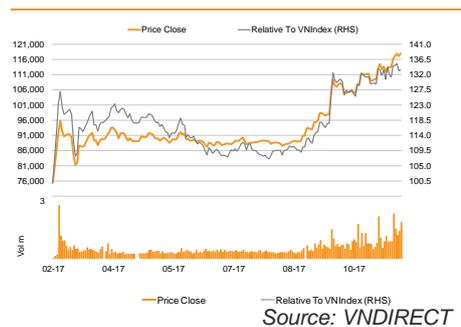
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Key changes in the report

- Increase price by 12%
- Increase ancillary revenue/pax by 4.5%

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	137,700
52w low (VND)	104,400
3m Avg daily volume (shares)	811,172
3m Avg daily value (mn)	95,123
Market cap (VND bn)	53,213
Outstanding shares (m)	453
Free float (%)	53.3

Ownership

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

Source: VNDIRECT

In 3Q2017, VJC's transport revenue grew a bit slower than we expected as there were fewer aircraft operating during the quarter. However the company will soon resume its growth momentum as it expects to receive 12 new aircraft in Q4 of which two have already been delivered in October. We raise our target price for 2018 to VND147,000 as VJC has increased ancillary revenue per passenger to VND331,420 from VND318,231 in Q3.

VJC maintained strong Q3 transport and ancillary revenue growth of 34.4% YoY to touch VND6,185bn. Main growth drivers were: 1) +25% YoY in passenger volume growth to 4.4m; 2) 31% YoY rise in ancillary revenue/passenger to VND331,000 (US\$14.6). Core net profit excluding aircraft sales gains reached VND966bn (+105% YoY). Total revenue fell by -10.3% YoY as VJC reported no aircraft sales during 3Q2017 compared to sale of three A321s in 3Q2016.

Delays in aircraft deliveries proved management's operational mettle, pushing operational efficiency to new heights. The size of the operating fleet fell by five A320s during Q3 on a QoQ basis. Airbus could not make deliveries on time as it encountered disruptions in its supply chain stemming from its engine vendor. VJC could still meet its 2017 target of 17 new aircraft but the deliveries will be back-end loaded toward the end of the year, leading to a lower weighted average operating fleet size for the year. Due to the delivery delay, VJC had to push its fleet to the limit, leading to record-levels of operational efficiency. Q3 load factor touched 89.7%, the highest level in the company's history. Aircraft utilization reached 14.04 block hours per aircraft a day while maintaining on-time performance of 85%.

2018 core net profit could touch VND6,574bn (+92.4% YoY) mainly due to 1) higher ancillary revenue/passenger and 2) increasing fleet size, 3) increasing Chinese tourist arrivals into Vietnam: VJC plans to open five new international routes to cities such as Binhai, Changsha, Nanjin, etc. Aircraft sales revenue could drop by 24% YoY due to a lower number of aircraft deliveries but gain on sale per aircraft should hold at around US\$7.2mn; reported NPAT should still rise 45.3%

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Net revenue (bn)	19,845	27,532	42,654	48,337
Revenue growth	127.9%	38.7%	54.9%	13.3%
Gross margin	10.6%	12.7%	17.8%	22.3%
EBITDA margin	6.5%	9.4%	16.8%	21.2%
Net profit (bn)	1,170	2,292	5,501	7,995
Net profit growth	215.8%	95.8%	140.0%	45.3%
Recurring profit growth	104.0%	56.3%	221.0%	92.4%
Basic EPS	10,135	19,614	14,894	17,713
Adjusted EPS	10,135	19,614	14,894	17,713
BVPS	14,810	15,085	21,550	38,599
ROAE	75.2%	68.7%	77.2%	58.9%

Source: VNDIRECT

VJC faced delivery delays for several A321s, but the problem has been resolved

In Q3 and Q4 of 2017, Airbus encountered several delayed deliveries of the A320neo model. The delay was mainly due to Pratt & Whitney failing to meet on-time deliveries of its new Pratt & Whitney PW1000G engines. Even though these delays were specifically related to the A320neo, VJC confirmed that these postponed deliveries had a cascading impact on VJC’s A321 delivery schedule. Another possible explanation is that Airbus has launched an internal investigation after recent bribery allegations and this could have impacted operations across the company. However, VJC’s deliveries appear to have resumed and the company will receive 10 A321 by the end of 2017. The company’s 2017-end fleet will consist of 25 A320s and 28 A321s.

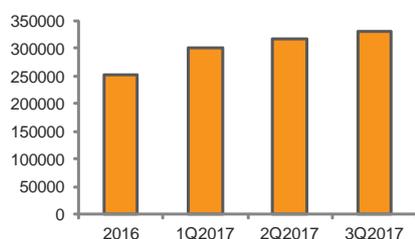
VJC, aircraft on order, to 31 Oct 2017

Model	Current fleet	On order	Future Deliveries			
			4Q2017	2018	2019	Beyond 2019
A320	25	0				0
A321	17	32	8	13	11	0
A320neo		42				42
A321neo		31				31
737 Max		100			4	96
Total	42	205	8	13	15	169

Source: VJC, Airbus, Boeing

2018 core profit will skyrocket thanks to higher ancillary revenue/passenger versus 2017

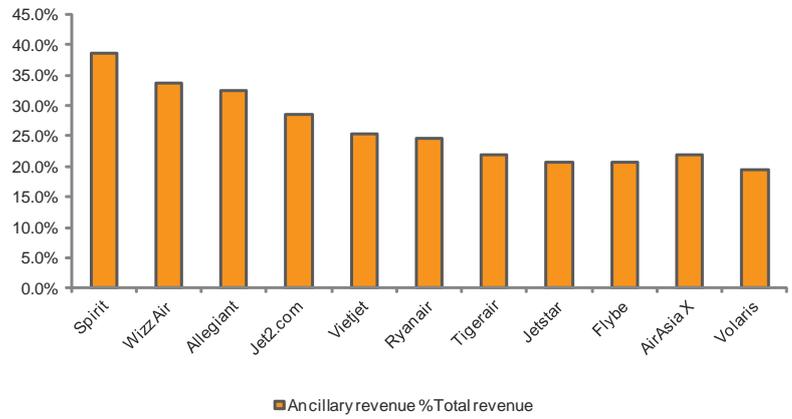
Ancillary revenue/passenger, VND



Source: VJC

Ancillary revenue/passenger touched VND331,420 in 3Q2017 up from VND251,225 in 2016. Even if ancillary revenue/passenger were to level-off at the Q3 figure, 2018 core net income could touch VND6,285bn, 4.5% higher than our previous forecast from 2Q2017. However, ancillary revenue/passenger could still continue to grow as the recent improvement signals a transition in market perceptions and VJC’s client base: VJC is an affordable airline, not just an option for passengers who are unable to afford full service airline fares. This implies that VJC’s passenger mix might be seeing a growing share of middle class passengers who are ready to pay for extra services such as seat selection, check-in luggage or in-flight meals. The ancillary revenue per pax could also continue to rise through improved in-flight merchandizing and training of cabin crew. As shown in the chart below, VJC’s ancillary revenue as % of total revenue (ex-aircraft sales) is no longer that low by global and regional LCC standards and, hence, we assume that 2018 full year ancillary revenue per pax will stay at 3Q2017 levels, implying that any further rises represent an upside to our forecasted earnings and valuation.

Ancillary revenue as % of total revenue (ex-aircraft sales) by LLC, 2016*

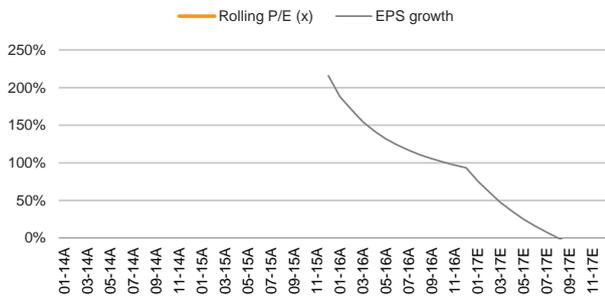


Source: VJC

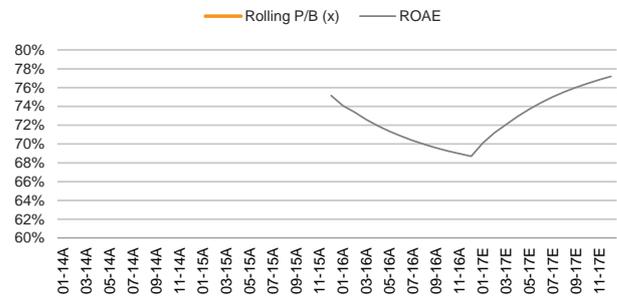
*Note: VJC figure is based on 3Q2017 financial data.

Valuation

P/E (x) vs EPS growth



P/B (x) vs ROE



Income statement

(VNDbn)	12-16A	12-17E	12-18E
Net revenue	27,532	42,654	48,337
Cost of sales	(24,033)	(35,043)	(37,565)
Gen & admin expenses	(185)	(210)	(293)
Selling expenses	(492)	(566)	(789)
Operating profit	2,822	6,834	9,690
Operating EBIT	2,822	6,834	9,690
Interest income	175	323	581
Financial expense	(624)	(262)	(257)
Net other income	32	0	0
Income from associates & JVs	(9)	(9)	(9)
Pre-tax profit	2,395	6,885	10,005
Taxation	(105)	(1,384)	(2,010)
Minority interests	2	0	0
Net profit	2,292	5,501	7,995
Adj. net profit to ordinary	2,292	5,501	7,995
Ordinary dividends	0	(300)	(300)
Retained earnings	2,292	5,201	7,695

Balance sheet

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	2,740	7,376	10,838
Short term investments	0	0	0
Accounts receivables	7,638	8,694	10,071
Inventories	127	175	234
Other current assets	141	209	300
Total current assets	10,645	16,455	21,443
Fixed assets	1,221	2,205	3,469
Total investments	68	68	68
Other long-term assets	7,982	11,877	17,013
Total assets	19,916	30,605	41,993
Short-term debt	6,036	5,333	4,266
Accounts payable	407	561	752
Other current liabilities	4,608	6,809	9,694
Total current liabilities	11,051	12,703	14,712
Total long-term debt	761	2,850	2,231
Other liabilities	3,579	5,326	7,629
Share capital	3,000	3,000	3,000
Retained earnings reserve	1,525	6,727	14,421
Shareholders' equity	4,525	9,727	17,421
Minority interests	(1)	(1)	(1)
Total liabilities & equity	19,916	30,605	41,993

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Pretax profit	2,395	6,885	10,005
Depreciation & amortisation	41	119	222
Tax paid	(40)	(1,384)	(2,010)
Other adjustments	(2,701)	(313)	(571)
Change in working capital	964	1,182	1,549
Cash flow from operations	659	6,489	9,194
Capex	(2,194)	(1,102)	(1,485)
Proceeds from assets sales	0	0	0
Others	2,685	313	571
Other non-current assets changes	(2,370)	(3,895)	(5,136)
Cash flow from investing activities	(1,879)	(4,684)	(6,050)
New share issuance	72	0	0
Shares buyback	0	0	0
Net borrowings	3,266	1,385	(1,685)
Other financing cash flow	(300)	1,747	2,303
Dividends paid	0	(300)	(300)
Cash flow from financing activities	3,037	2,832	318
Cash and equivalents at beginning of period	924	2,740	7,376
Total cash generated	1,816	4,637	3,462
Cash and equivalents at the end of period	2,740	7,376	10,838

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	8.3%	12.9%	16.5%
Asset turnover	1.72	1.69	1.33
ROAA	14.3%	21.8%	22.0%
Avg assets/avg equity	4.79	3.54	2.67
ROAE	68.7%	77.2%	58.9%
Efficiency			
Days account receivable	23.5	22.5	28.4
Days inventory	1.94	1.82	2.27
Days creditor	6.20	5.84	7.30
Fixed asset turnover	39.7	24.9	17.0
ROIC	20.2%	30.7%	33.4%
Liquidity			
Current ratio	0.96	1.30	1.46
Quick ratio	0.95	1.28	1.44
Cash ratio	0.25	0.58	0.74
Cash cycle	19.2	18.5	23.4
Growth rate (yoy)			
Revenue growth	38.7%	54.9%	13.3%
Operating profit growth	77.6%	142.2%	41.8%
Net profit growth	95.8%	140.0%	45.3%
EPS growth	93.5%	(24.1%)	18.9%
Share value			
Basic EPS (VND)	19,614	14,894	17,713
BVPS (VND)	15,085	21,550	38,599

Source: VNDIRECT

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RECOMMENDATION FRAMEWORK

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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