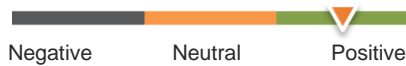


VIET NAM CONTAINER SHIPPING JSC (VSC)

Market Price VND32,600	Target Price VND53,400	Dividend Yield 4.3%	Rating ADD	Sector LOGISTICS
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Outlook – Short term



Outlook – Long term



Valuation



4 June 2018

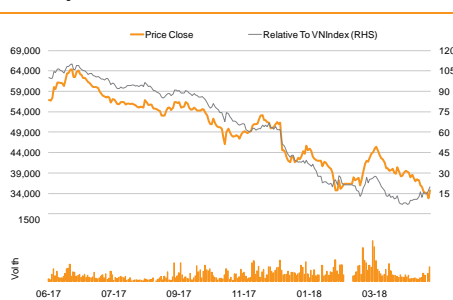
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Key changes in the report

- Reduce TP by 14.3%

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	64,400
52w low (VND)	32,800
3m Avg daily volume (mn shares)	0.30
3m Avg daily value (VNDmn)	9,074
Market cap (VNDbn)	1,709
Outstanding shares (m)	49.1
Free float (%)	61.1
TTM P/E	5.9
Current P/B	1.0

Ownership

KWE Beteiligungen AG	5.1%
Vietnam Holding Limited	4.4%
Forum One - VCG Partners Vietnam Fund	4.1%
Others	86.4%

Source: VNDIRECT

We expect FY18F NPAT growth of 19.1% as VIP Greenport (VGR) will average 100% utilization rate, equivalent to 600,000 TEU during the year. 1Q18 NPAT growth rate of 53.0% yoy supports our bullish earnings forecast for this year. We reduce our TP to VND53,400 from VND62,300 to reflect the bearish market sentiment but reiterate our ADD rating given that 1Q18 business results were in-line with our expectations.

1Q18 Revenue reached VND366.6bn (+35.9% yoy) and NPAT surged to VND73.9bn (+53.0% yoy) as VIP Greenport reached 100% utilization rate compared to 83.3% average utilization rate in FY17. 1Q18 net margin increased by 2.2% pts yoy to 20.2% as interest expense fell 26.9% yoy to VND10.6bn, compensating for a sharp contraction in gross margin on the back of additional depreciation expenses and lower handling rates at Greenport.

We expect FY18F revenue to reach VND1,407bn (+8.0%) and NPAT to reach VND314bn (+19.1%) thanks to: 1) Container throughput growth rate of 6.3% to 850,000 TEU. VIP Greenport is serving 10 calls/week compared to 8 calls/week at the end of 1Q17. We expect VIP Greenport to serve at least 12 calls/week by the end of FY18; 2) Interest expense to drop by 26.0% to VND37bn as VSC pays down VND86bn borrowings in FY18; 3) GIC, established in FY17 and specializing in container depot services, will generate around VND20bn of net profit.

Valuation: We value VSC's shares at VND53,400 each using a blended valuation method of DCF analysis and a target P/E multiple. VSC currently trades at a TTM P/E of 5.9x which is a substantial discount to the peer average of 8.8x.

Risks: Competition could get fiercer as Nam Dinh Vu Port (NDVP) and Lach Huyen port have entered the market in May. NDVP is a bigger threat as it targets the feeder ship segment (20,000-30,000 DWT) which is also VIP Greenport's target segment. Lach Huyen port, on the other hand, targets the mother ship segment.

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	928	1,082	1,303	1,407
Revenue growth		16.6%	20.4%	8.0%
Gross margin	39.9%	36.6%	31.3%	32.5%
EBITDA margin	27.7%	16.4%	11.6%	14.2%
Net profit (bn)	279	251	237	283
Net profit growth		(10.0%)	(5.6%)	19.1%
Recurring profit growth		(5.3%)	0.7%	19.1%
Basic EPS	8,085	6,067	5,208	5,638
Adjusted EPS	8,085	6,067	5,208	5,638
BVPS	34,556	29,602	29,307	33,146
ROAE		18.1%	16.8%	18.1%

Source: VNDIRECT

Figure 1: 1Q18 vs 1Q17 business results

VND bn	1Q18	1Q17	% Growth	Comment
Revenue	367	270	36.0%	Lower handling rates in Greenport.
COGS	258	184	39.7%	
Depreciation expense	55	47	18.0%	Additional fixed assets in GIC which launched in 2017.
Gross profit	109	85	27.9%	
SG&A	19	15	20.3%	
Financial income	2	2	-13.4%	
Financial expense	11	15	-27.3%	Borrowings at beginning of 1Q18 dropped by 19.2% yoy.
Net other incomes	0	0	na	
Gain/(loss) fr affiliates	0	0	na	
EBT	82	57	43.5%	
Income tax expense	8	9	-10.2%	VIP Greenport is tax-exempt for the first 4 years of operation.
NPAT	74	48	53.1%	

Source: VSC

Valuation

We value VSC's shares at VND53,400 each using a blended valuation methodology of DCF analysis (30%) and target P/E multiple (70%). We use a target TTM FY18 P/E of 8.8x, equivalent to the peer average P/E. VSC currently trades at a TTM P/E of 5.9x which is a substantial discount to the peer average of 8.8x. Our valuation new target price reflects the current bearish market sentiment.

The biggest risk factor at the moment is additional handling capacity coming from NDVP and Lach Huyen port which have entered the market since May. We believe NDVP could be a bigger threat as the port mainly focuses on the feeder ship segment while Lach Huyen port targets the mother ship segment. As cargo flow in the North is not sufficient to fill up mother ships in a short period of time of one to two days, feeder ships remain ship brokers' choices as these ships are small enough to be filled up in less than a day, thereby reducing turnaround time.

Figure 2: DCF model - key assumptions and inputs, based on our estimates

General assumptions	2016A	2017A	2018F	2019F	2020F	2021F	2022F	Terminal
Risk free rate (10-year VGB yield)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Beta (source: BB, adj. beta)	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76
ROE (%)								15.0%
(in VND bn)								
PV of FCFF	3,379							
No. of o/s shares (mn shares)	50.1							
Implied value per share (VND)	62,264							

Source: VNDIRECT

Figure 3: Blended valuation method

Method	Target price	Weight
DCF	62,264	30%
P/E multiple	49,614	70%
Target price	53,409	

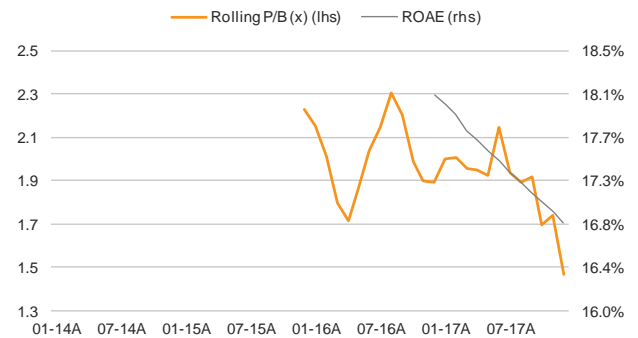
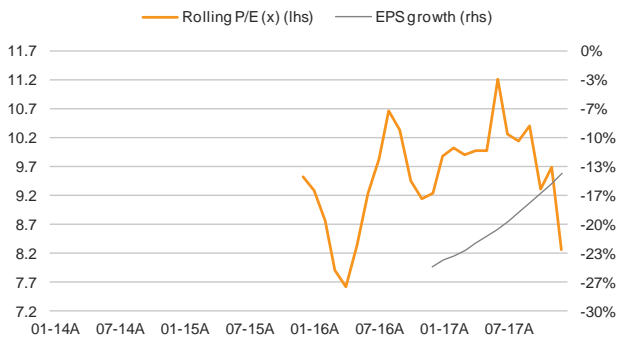
Source: VNDIRECT

Figure 4: Peer comparison

Company	Country	Market cap (VND bn)	NPAT growth yoy (%)	EPS growth yoy (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)	TTM EV/EBITDA (x)
GMD	Vietnam	319.3	30.3	-1.5	16.8	29.8	0.3	4.4	1.3	12.1
PHP	Vietnam	176.0	-24.3	-24.3	6.7	10.1	0.2	14.0	1.1	4.3
DVP	Vietnam	84.0	0.2	0.2	26.5	30.4	0.0	6.9	2.0	5.8
PDN	Vietnam	41.8	-3.5	-18.4	2.6	14.9	2.1	9.7	1.4	na
CLL	Vietnam	40.3	2.7	2.7	13.0	14.3	0.0	10.8	1.6	5.3
HAH	Vietnam	31.2	10.1	10.9	12.9	22.4	0.3	3.4	0.7	3.8
DXP	Vietnam	13.5	-38.9	-38.9	7.1	7.5	0.0	12.0	0.9	3.5
Mean		100.9	-3.3	-9.9	12.2	18.5	0.4	8.8	1.3	5.8
Median		41.8	0.2	-1.5	12.9	14.9	0.2	9.7	1.3	4.8
VSC	Vietnam	65.8	0.7	0.7	9.7	16.8	0.3	5.9	1.0	5.0

Source: Bloomberg

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18E
Net revenue	1,082	1,303	1,407
Cost of sales	(686)	(895)	(949)
Gen & admin expenses	(53)	(61)	(66)
Selling expenses	(11)	(15)	(16)
Operating profit	331	332	376
Operating EBITDA	154	135	178
Depreciation and amortisation	177	197	198
Operating EBIT	331	332	376
Interest income	17	10	15
Financial expense	(44)	(50)	(37)
Net other income	1	0	0
Income from associates & JVs	6	6	6
Pre-tax profit	311	298	361
Tax expense	(49)	(35)	(47)
Minority interest	(11)	(27)	(32)
Net profit	251	237	283
Adj. net profit to ordinary	251	237	283
Ordinary dividends	(89)	(91)	(100)
Retained earnings	162	146	182

Balance sheet

(VNDbn)	12-16A	12-17A	12-18E
Cash and equivalents	331	212	565
Short term investments	32	49	49
Accounts receivables	130	156	204
Inventories	9	13	17
Other current assets	102	61	69
Total current assets	605	492	905
Fixed assets	1,226	1,278	1,129
Total investments	105	112	112
Other long-term assets	461	597	644
Total assets	2,397	2,479	2,791
Short-term debt	58	120	108
Accounts payable	63	101	165
Other current liabilities	176	148	266
Total current liabilities	297	369	539
Total long-term debt	585	400	326
Other liabilities	0	0	2
Share capital	456	501	501
Retained earnings reserve	857	931	1,124
Shareholders' equity	1,349	1,469	1,661
Minority interest	167	241	262
Total liabilities & equity	2,397	2,479	2,791

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18E
Pretax profit	311	298	361
Depreciation & amortisation	177	197	198
Tax paid	(50)	(41)	(47)
Other adjustments	70	(57)	(22)
Change in working capital	(191)	30	123
Cash flow from operations	317	428	613
Capex	(461)	(385)	(49)
Proceeds from assets sales	0	13	0
Others	(14)	127	22
Other non-current assets changes	26	(135)	(48)
Cash flow from investing activities	(448)	(381)	(75)
New share issuance	0	49	0
Shares buyback	0	0	0
Net borrowings	218	(123)	(86)
Other financing cash flow	0	(1)	2
Dividends paid	(89)	(91)	(100)
Cash flow from financing activities	129	(167)	(185)
Cash and equivalents at beginning of period	332	331	212
Total cash generated	(1)	(119)	353
Cash and equivalents at the end of period	331	212	565

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	23.2%	18.2%	20.1%
Asset turnover	0.47	0.53	0.53
ROAA	10.9%	9.7%	10.7%
Avg assets/avg equity	1.66	1.73	1.68
ROAE	18.1%	16.8%	18.1%
Efficiency			
Days account receivable	38.2	35.7	41.4
Days inventory	4.94	5.45	6.69
Days creditor	33.4	41.4	63.5
Fixed asset turnover	0.95	1.04	1.17
ROIC	11.6%	10.6%	12.0%
Liquidity			
Current ratio	2.04	1.33	1.68
Quick ratio	2.01	1.30	1.65
Cash ratio	1.23	0.71	1.14
Cash cycle	9.7	(0.2)	(15.4)
Growth rate (yoy)			
Revenue growth	16.6%	20.4%	8.0%
Operating profit growth	3.1%	0.2%	13.3%
Net profit growth	(10.0%)	(5.6%)	19.1%
EPS growth	(25.0%)	(14.2%)	8.2%
Share value			
Basic EPS (VND)	6,067	5,208	5,638
BVPS (VND)	29,602	29,307	33,146

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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