

VIETTEL POST: TRANSFORMING A TRADITIONAL POSTMAN INTO A TECH COMPANY

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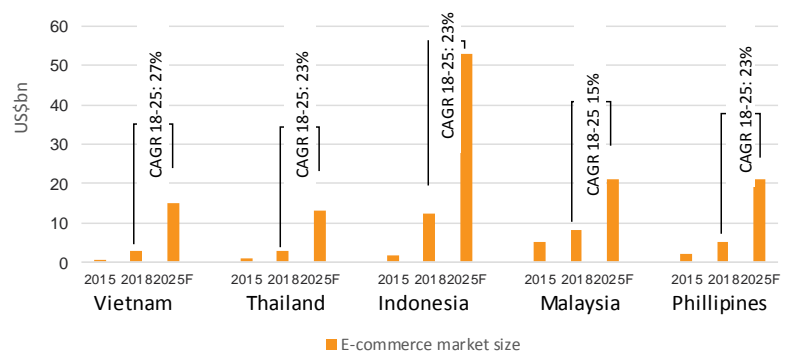
Viettel Post (VTP) has recently announced its ambition of entering e-commerce business and ride-hailing service, the two fast-growing businesses in Vietnam. VTP has launched ride sharing app “MYGO” on Google Plays Store and Apple store, while its marketplace “VOSO” has been online at www.voso.vn.

E-COMMERCE BUSINESS: ENOUGH PIE TO BE SHARED?

Vietnam’s e-commerce is the fastest growing market in South East Asia. The market has experienced robust CAGR of 35% over the period 2015-18 to reach US\$2.8bn (value of Business-to-consumer – B2C), according to Google-Temasek 2018 report. This business is well-poised to witness further growth with forecast CAGR18-25 of 27%, on the backs of the surging internet and smartphone penetration and the emergence of a tech-savvy generation of consumers. With their greater propensity for digital technology, many of the younger consumers are driving the rapid expansion of Vietnam’s e-commerce market, as they spend more time shopping on their digital devices than in physical stores.

Notably, Consumer-to-Consumer (C2C) or social commerce channels are also becoming increasingly popular. Typically hosted on social media platforms such as Facebook, Instagram, and Zalo, these platforms offer buyers the ability to interact directly with their sellers, and to share information, such as photos, reviews or recommendations with one another in real-time.

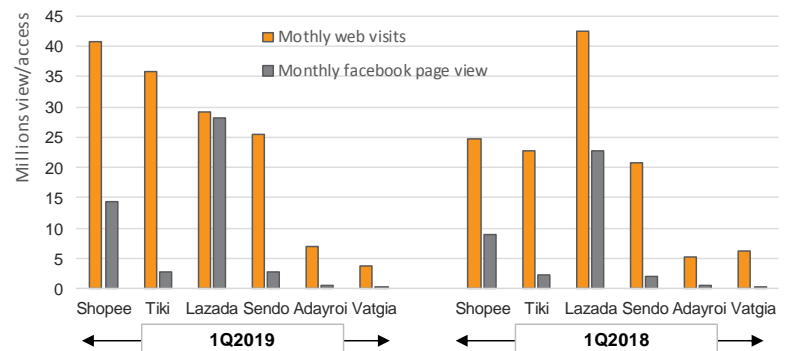
Figure 1: Vietnam’s e-commerce market is forecasted to be the fastest growing market among SEA countries in 2018-25



Source: Google-Temasek

E-marketplace is crowded out by four big names, mostly adopting mix model (B2C/C2C). Lazada and Shopee are international names, while the other players, Tiki and Sendo, are founded by Vietnamese. One year ago, Lazada used to be the No.1 in both terms of monthly website traffic and Facebook page view. Since 1Q19, Shopee and Tiki have stepped up to occupy the 1st and 2nd place with the highest site visits, meanwhile Sendo ranked the 4th with rapid rising site visits. Among those, Shopee is the only one to adopt C2C model, others are running B2C or mix platform. For example, in Mar 2017, Tiki transformed its business model from B2C to a Business-to-business-to-Consumer (B2B2C) platform.

Figure 2: Ranking position of e-marketplaces changed after one year



Source: iPrice Insight

Delivery is a crucial factor to the success of e-marketplaces. We believe this factor is a reason for the emergence of Tiki and Shopee in Vietnam as they offer shorter delivery time than Lazada (Beside a standard delivery that takes five to six days and quick delivery that takes one to two days, Tiki offers two-hours delivery, Shopee offers four hours and Lazada offers 24-hour delivery for some special items). With Cash-on-delivery (COD) as the preferred method of payment, it is crucial for e-marketplace operators to establish a reliable shipping and delivery network. Accordingly, large e-market places have been increasing investment in delivery activities in two ways at the same time: (1) develop an inhouse team for intra-provincial delivery and (2) making joint-venture or owning shares of inter-provincial delivery entities in order to optimise delivery time (for example, Lazada is the first e-commerce company in Vietnam to have its own delivery company named Lazada Express when Shopee has just took over GiaoHangTietKiem - a famous delivery startup) when smaller e-market places are relying on third-party services.

Figure 3: Shorter delivery time is a winning recipe for e-marketplaces

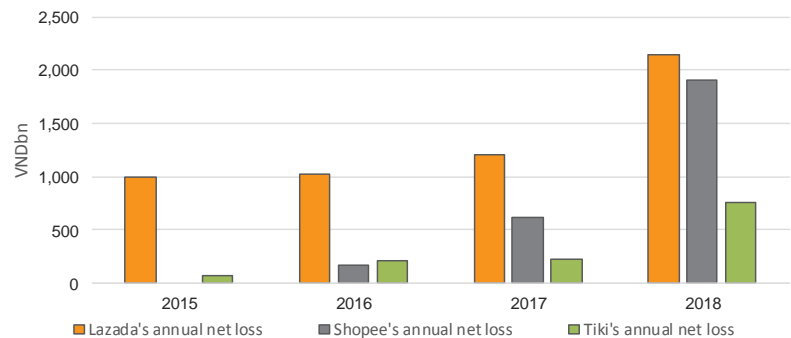
Market places	Business model	Investor	Item source	Product check before delivery	Product check before paid	Q&A handler	Delivery type	Inhouse delivery team	Instant delivery time
Lazada	B2C/C2C	Alibaba	China, Vietnam	moderate	no	Lazada	mix	Lazada Express	24h
Shopee	C2C	SEA	China, Vietnam	low	yes	Shop owner	mix	GiaohangTietKiem	4h
Tiki	B2B2C	JD.com, VNG	China, Vietnam	high	yes	Tiki	mix	TikiNow/GHN/Ahamove	2h
Sendo	B2C/C2C	FPT Group	Vietnam	low	yes	Shop owner	3rd party	No	N/a
Adayroi	B2C	Vingroup	Vietnam	high	yes	None	3rd party	No	2h(*)
Voso	B2C/C2C	VTP	Vietnam	N/a	N/a	Shop Owner	Inhouse	Viettel Post	N/a

Source: Lazada, Shopee, Tiki, Sendo, Adayroi, VnDirect

Most major players are still mired in cash-burning strategy for price competition. It is still at a nascent stage where companies have to invest large amounts of money in advertising, warehousing and human resourcing to position themselves in the market. A typical case to illustrate the fierce competition among e-marketplaces was a promotion race triggered by Lazada on 9 May 2018. Lazada launched a massive promotion with up to 95% discount to celebrate the site's birthday with a message "Birthday super sale". Shopee promptly responded "No need to wait till birthday for super sales" with a similar sale campaign. Then Adayroi quickly joined the race with bigger discount plus free ship programme entitled "Happy birthday to the neighbors". And last but not least, Tiki even launched television commercials (TVC) to introduce their sales programme with a message "Endless sale-happier than birthday celebration".

Consequently, three top e-marketplaces still operate at a loss. The aggregated loss of the three players was estimated about VND9.4tn over the period 2015-18. This characteristic creates a visible entrance barrier for new players who want to capitalise on this opportunity. We roughly estimate that a company has to suffer a net loss of at least VND142bn in order to acquire 1% market share from existing players.

Figure 4: E-marketplaces still operate at a loss

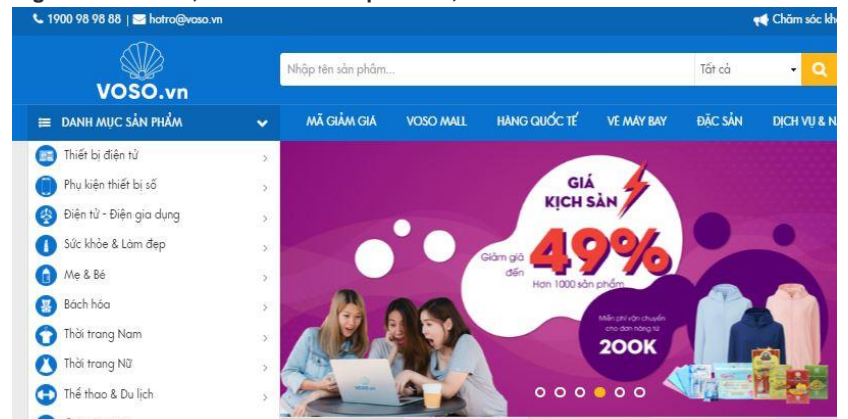


Note: Shopee started business in Vietnam in 2016.

Source: Internet

Viettel Post enters the market with its unique advantage.

Figure 5: Voso.vn, VTP's B2C/C2C platform, has been online



Source: www.voso.vn

Firstly, VTP has a nationwide postal network, and has invested aggressively in both technology and logistics systems, giving it a competitive edge. VTP is the second-largest delivery player with intensive logistic network: 8,300 collection points (post offices included), 500 trucks and a nationwide sorting system with six main hubs and 85 provincial hubs. VTP's system is far larger than that of start-ups like GiaoHangNhanh (GHN Express) and GiaoHangTietKiem, which have about 300 collection points each. Additionally, state-of-the-art technologies have been incorporated to reduce delivery time and bring convenience to customers. Automated sorting technology used in its main Hanoi hub helps reduce sorting time by 80% and reduce by 86% the manpower needed, compared with the traditional system. This technology will be applied throughout VTP's operations from 2019 to ensure the company has the most effective sorting system in the industry.

Secondly, VTP is able to leverage from Viettel ecosystem. VTP lures traders to open shops on its platform with opportunity to access the huge customer base of 60 million of Viettel. Furthermore, VTP can

integrate Viettel Pay, a digital banking platform run by Viettel Telecom, which allows its customers to make digital payment or even to grant loans.

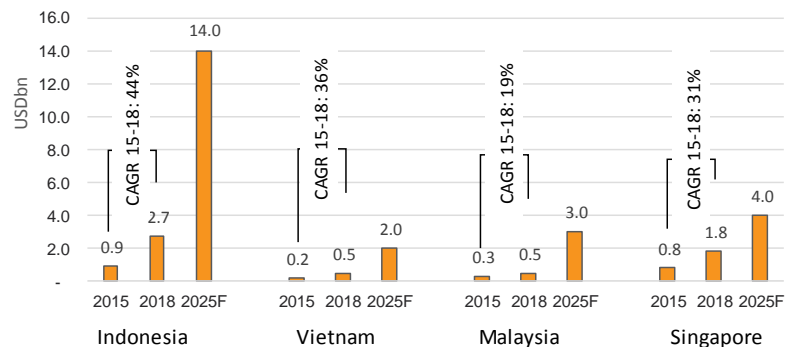
Lastly, we believe VTP will win consumers' trust thanks to its reputation. The main caveat of e-marketplace business in Vietnam is the lack of trust. This attitude discourages people from online trading due to concerns over product quality, data privacy and delivery errors. Viettel, an entity owned by the Ministry of Defence, is one of the nation's most trusted brands and VTP has inherited a corporate culture and core values from its parent, which enables it to offer high standards of service quality.

While there are many players in e-marketplace space, we believe the pie is still enough for newcomers, as long as they adapt to the barriers outlined above. And VTP is well-equipped with some weapons when embarking on this endeavour.

RIDE-HAILING BUSINESS: CHALLENGING THE GIANT'S MONOPOLY

Grab is dominating the market amid rising competition. Vietnam is a vibrant ride-hailing market, posting an impressive CAGR 2014-18 of 36%. The market value is estimated at about US\$0.5bn by end-2018 (online transport and food delivery only) and is expected to grow at CAGR of 22% in the next seven years, rising to US\$2.0bn by 2025.

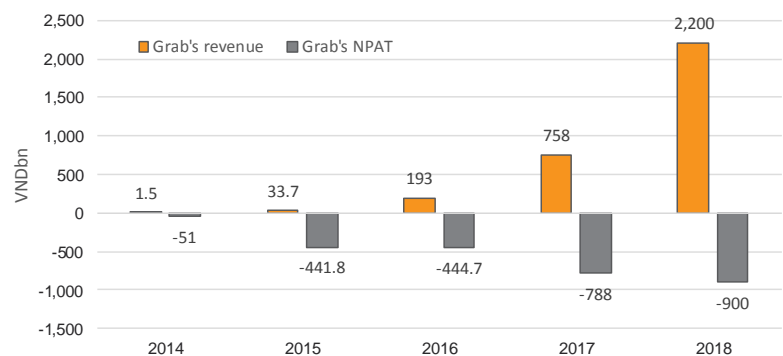
Figure 6: Vietnam's ride-hailing market size could reach USD2bn by 2025



Source: Google-Temasek

Since 2018, the handover from Uber made Grab the monopoly player with an estimated 92% of the market share in Vietnam. Grab is now offering a full set of services including taxies, cars, motorbikes, express delivery and food delivery across 36 cities and provinces. The company posted VND2.2tr in FY18 revenue and a loss of VND900bn in FY18 net profit.

Figure 7: Grab's revenue and net profit over 2014-18



Source: VNDIRECT

However, the departure of Uber left room for other start-ups to get into the market. Go-Viet (backed by Go-Jek, the rival of Grab in Indonesia), and Be (backed by Vietnamese developer BeGroup) have jumped on the band wagon since Sep and Dec 2018, respectively. Go-Viet posted a net loss of VND550bn in 2018, after a four-month operation.

Figure 8: Ride-hailing motorbike drivers in a popular pick up spot



Source: Internet

Figure 9: From left to right: Be driver, Grab driver and Go-Viet driver



Source: Internet

Figure 10: Grab is dominating the ride hailing market; MYGO is expected to offer four services when launched

Ride hailing service	Launched	Services providing						Number of provices operating	Parent company	Accumulate lost 2018 (VNDbn)
		Car 4 seats	Car 7 seats	Bike	Delivery	Food	Truck			
Grab	Feb 2014	x	x	x	x	x	x	36	Grab	2,600
Go-Viet	Sep 2018			x	x	x		2	Go-Jek	550
Be	Dec 2018	x	x	x				6	BeGroup	88
Mygo	July 2019	x		x	x		x	N/a	Viettel Post	N/a

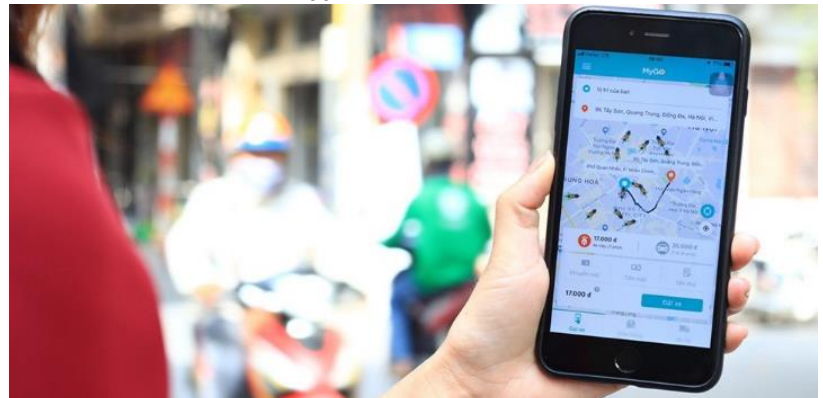
Source: VNDIRECT

Ride-hailing service providers are expanding business to online financial services and even express delivery. Go-Jek and Grab already offer digital payment solutions, GoPay and GrabPay, which are gaining users' hearts thanks to convenience, benefits, and rewards. On top of those, they have announced plans to offer a broad range of online financial services, which include money transfers, personal lending, investment products, and even insurance services. Grab is even showing its ambition of reaching to express delivery when invested in NinjaVan – a Vietnam-based express delivery startup, which will directly compete with VTP.

How will VTP's Mygo jump on the ride-hailing bandwagon?

So far VTP disclosed limited information on this new business except some hiring ads to look for motorbike drivers. We believe MYGO might opt for a different approach with other players.

Figure 11: MYGO app will be officially launched in July but users can already order a ride now via its beta app.



Source: Viettel Post

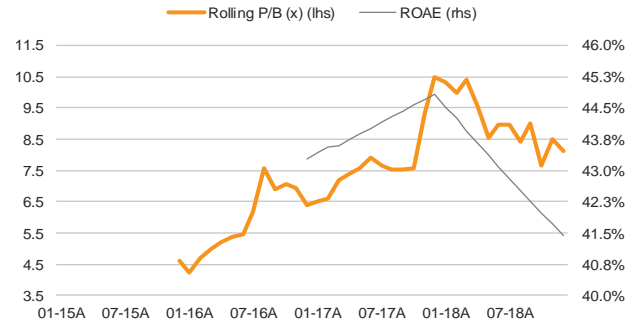
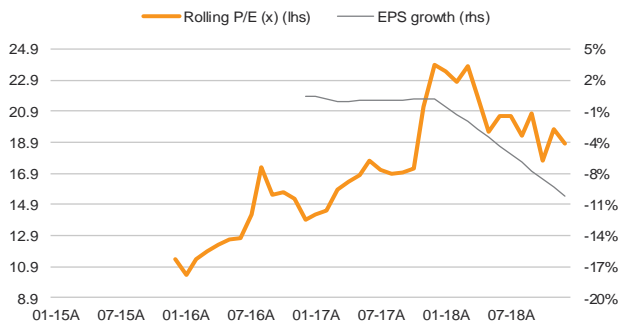
Firstly, Mygo will be a real challenger in express delivery. As we mentioned above, VTP's experience and technology in delivery will make a significant dent in other players' business. For example, Grab or Go-Viet does not provide COD services due to the lack of trust between shop owners and drivers, and VTP has its own advantage in this space. Secondly, VTP was favoured by 60m clients who use Viettel Telecom. This could make all the difference from the first approach. Lastly, we think they might focus on the two-wheel ride-hailing segment and yet to foray for four-wheel ride-hailing segment. Thus, Mygo might not still be a real threat to Grab in near future, but likely to fill the gap of express delivery and non-major cities ride-hailing demand.

CAN VTP BE TRADED AS A TECH COMPANY?

There is no doubt that entering ride hailing and e-commerce requires investment which will influence on VTP's balance sheet and P&L statements. We believe the new two business segments will boost VTP's revenue in near future but profit growth is unlikely to keep pace due to huge capital expense.

We like VTP as a pure play on Vietnam's domestic surging e-commerce and explosive sharing economy. VTP is no more than just a traditional postman after the launch of VOSO and MYGO. It embarked on transforming itself to a hybrid company, resulting in a higher valuation thanks to higher multiples of technology startup companies, compared with that applied for a traditional postal company.

Valuation



Income statement

(VNDbn)	12-17A	12-18A	12-19E
Net revenue	51,041	52,562	56,170
Cost of sales	(26,807)	(27,951)	(29,951)
Gen & admin expenses	(1,268)	(1,133)	(1,211)
Selling expenses	(11,537)	(12,266)	(12,954)
Operating profit	11,430	11,212	12,053
Operating EBITDA	10,130	9,586	10,338
Depreciation and amortisation	1,300	1,627	1,715
Operating EBIT	11,430	11,212	12,053
Interest income	743	666	621
Financial expense	(87)	(118)	(134)
Net other income	76	269	352
Income from associates & JVs	67	22	30
Pre-tax profit	12,229	12,052	12,921
Tax expense	(1,951)	(1,846)	(1,979)
Minority interest	(17)	(22)	(23)
Net profit	10,261	10,184	10,919
Adj. net profit to ordinary	10,261	10,184	10,919
Ordinary dividends	(7,257)	(7,838)	(7,838)
Retained earnings	3,003	2,346	3,081

Balance sheet

(VNDbn)	12-17A	12-18A	12-19E
Cash and equivalents	963	1,523	4,095
Short term investments	10,562	8,674	9,269
Accounts receivables	4,592	4,621	4,939
Inventories	4,021	5,526	5,394
Other current assets	223	304	212
Total current assets	20,361	20,648	23,908
Fixed assets	12,538	14,234	15,248
Total investments	556	1,069	2,812
Other long-term assets	1,213	1,416	1,404
Total assets	34,667	37,366	43,371
Short-term debt	268	1,060	1,611
Accounts payable	3,966	3,991	4,691
Other current liabilities	5,962	5,588	5,482
Total current liabilities	10,196	10,640	11,785
Total long-term debt	275	216	1,813
Other liabilities	324	239	1,461
Share capital	14,515	17,417	17,417
Retained earnings reserve	5,737	7,155	8,155
Shareholders' equity	23,375	25,781	27,821
Minority interest	498	490	490
Total liabilities & equity	34,667	37,366	43,371

Cash flow statement

(VNDbn)	12-17A	12-18A	12-19E
Pretax profit	12,229	12,052	12,921
Depreciation & amortisation	1,324	1,684	1,772
Tax paid	(1,934)	(1,880)	(1,979)
Other adjustments	(783)	(675)	811
Change in working capital	(1,235)	(3,040)	317
Cash flow from operations	9,602	8,140	13,842
Capex	(2,673)	(3,186)	(3,275)
Proceeds from assets sales	121	94	87
Others	26	1,398	(2,339)
Other non-current assets changes	755	648	(54)
Cash flow from investing activities	(1,771)	(1,045)	(5,581)
New share issuance	0	0	0
Shares buyback	(282)	(3)	0
Net borrowings	(1,447)	724	2,149
Other financing cash flow	13	(1)	0
Dividends paid	(5,806)	(7,256)	(7,838)
Cash flow from financing activities	(7,523)	(6,536)	(5,689)
Cash and equivalents at beginning of period	655	963	1,523
Total cash generated	308	559	2,572
Cash and equivalents at the end of period	963	1,523	4,095

Key ratios

	12-17A	12-18A	12-19E
Dupont			
Net profit margin	20.1%	19.4%	19.4%
Asset turnover	1.59	1.46	1.39
ROAA	32.0%	28.3%	27.0%
Avg assets/avg equity	1.40	1.47	1.51
ROAE	44.8%	41.4%	40.7%
Efficiency			
Days account receivable	25.8	23.5	23.5
Days inventory	54.8	72.2	65.7
Days creditor	54.0	52.1	57.2
Fixed asset turnover	4.67	3.93	3.81
ROIC	42.0%	37.0%	34.4%
Liquidity			
Current ratio	2.00	1.94	2.03
Quick ratio	1.60	1.42	1.57
Cash ratio	1.13	0.96	1.13
Cash cycle	26.6	43.5	32.0
Growth rate (yoy)			
Revenue growth	9.1%	3.0%	6.9%
Operating profit growth	8.6%	(1.9%)	7.5%
Net profit growth	9.4%	(0.7%)	7.2%
EPS growth	9.4%	(0.7%)	7.2%
Share value			
Basic EPS (VND)	5,911	5,910	6,269
BVPS (VND)	13,561	15,084	16,255

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- 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.

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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.

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Definition:

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- 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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