

Viettel Post (VTP)

Increased share coming from quality improvement

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VTP recorded 1Q23 NPAT of VND76 billion on revenue of VND4,772 billion, fulfilling 20% and 26% of the guided targets, respectively

In 1Q23, Viettel Post (VTP) obtained net revenue of VND4,772 billion (-17% YoY). In particular, the service segment, its core business, generated VND2,100 billion (-6% YoY), and the trading segment contributed VND2,672 billion or 56% of total revenue, but its profit margin was relatively low, less than 0.5%.

VTP expects the margin of the service segment to hit 7.8%

In the midst of an intensified price war as companies continuously charge lower service fees, VTP focused on optimizing cost per order to improve delivery segment's margin. VTP expects the figure to sit at 7 to 8% this year.

Delivery volume should maintain its growth momentum, taking VTP's market share from 18% to 21%

VTP plans to increase its coverage regarding the delivery segment from 18% to 21% this year by enhancing service and workforce quality, investing in high technology and infrastructure to minimize delivery time and defect and error rate.

VTP seeks to attract prospective large customers

In 2022, VTP signed a service provision contract with Oriflame and Guardian. The enterprise would continue its B2B development orientation and is now negotiating with popular e-commerce platforms and cooperating with Vietnam Airlines (HVN) to deliver goods to big businesses.

We recommend BUY for VTP with a target price of VND48,900/share

Based on the business outlook and valuation results, we recommend BUY for VTP with a target price of VND48,900/share, equivalent to a total return of 19% against the closing price on June 22, 2023.

Buy maintain

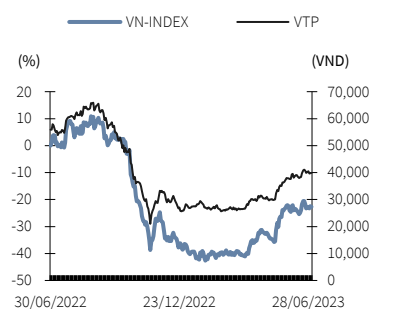
Target price	VND 48,900
Upside	19%
Current price (Jun 22, 2023)	VND 41,100
Consensus target price	VND 45,500
Market cap (VNDbn/USDmn)	4,651/197

Trading data	
Free float	39%
3M avg trading value (VNDbn/USDmn)	25,530/1,080
Foreign ownership	11.33%
Major shareholder	Army Industry-Telecommunications Group (60.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	6	50	47	-29
Relative	3	44	37	-23

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	21,452	21,629	18,154	21,202
EBIT (VNDbn)	365	317	353	562
NPAT of parent company (VNDbn)	296	257	285	451
EPS (VND)	2,251	1,956	2,519	3,985
EPS growth (%)	-23%	-13%	11%	58%
P/E (x)	18.3	21.0	16.3	10.3
P/B (x)	6.4	2.2	2.9	2.4
ROE (%)	22.3%	18.5%	17.6%	22.8%
Dividend yield (%)	3%	3%	0	0



Source: Bloomberg, KB Securities Vietnam

Business performance

Table 1. VTP – 1Q22–1Q23 business results

(VNDbn)	1Q2022	1Q2023	%YoY	Comments
Net revenue	5,772	4,772	-17%	Completed 26% of the revenue target set for 2023 (VND18,464 billion)
-Trading	3,535	2,672	-24%	Driven by a sharp fall in mobile phone card revenue as online payment methods are gaining popularity
-Services	2,237	2,100	-6%	Driven by a decline in service fees
Gross profit	183	177	-3%	
Gross profit margin	3.2%	3.7%	+0.5ppt	Gross margin improved thanks to increased share of high-margin service segment
Financial income	24	30	+25%	
Financial expense	12	16	+33%	
SG&A	66	97	+47%	Driven by offering higher salary for employees to improve service quality
Shared profits from associates	0	0	0	
Profit before tax (PBT)	129	95	-26%	
NPAT	103	76	-26%	Completed 20% of the profit target set for 2023 (VND376 billion)

Source: Viettel Post, KB Securities Vietnam

The fierce price war is forecast to continue throughout 2023, so VTP's delivery rates should decrease slightly this year

Delivery fees have tended to fall over the past few years amid stiff competition in the logistics industry with low entry barriers. Vietnam has over 800 courier companies now. We assess this year's delivery fees to continue to be lower than last year's. However, VTP's should not see significant decreases amid a cooling price war when most local businesses have suffered losses, preventing them from cutting rates any further, which is typical of state-owned enterprises.

VTP is maintaining service margin higher than the industry median and expects delivery and logistics margin to hit 7–8% this year

In addition to e-commerce and logistics corporations from China like Alibaba, J&T, Ninjavan... flooding into Vietnam and rolling out promotions to penetrate the market, domestic China-backed firms like GHTK, GHN also launched free delivery promotions, pulling the industry median down to only 3–5%. Last year, VTP still maintained a margin of 6.5%, which we expect to rise to 7.8% this year thanks to its restructuring and cost optimization on each order.

Table 2. VTP – Interprovincial delivery rates

VND	GHN	GHTK	VNPost	J&T	Viettel Post
Interprovincial rate (<0.5kg)	29,000	31,000	30,000	33,500	32,000
Fee for each following 500gr	5,000	5,000	10,000	9,900	4,500

Source: KB Securities Vietnam

Table 3. VTP – Inner-city delivery rates

VND	GHN	GHTK	VNPost	J&T	Viettel Post
<500g	21,000	22,000	23,000	23,800	22,000
<1000g	23,500	22,000	23,000	27,500	22,000
<1500g	26,000	22,000	23,000	31,800	22,000
<2000g	28,500	22,000	23,000	35,800	22,000
Fee for each following 500gr	2,500	2,500	2,500	5,500	2,500

Source: KB Securities Vietnam

Delivery volume should maintain its growth momentum, taking VTP's market share from 18% to 21%

At the 2023 Annual General Meeting, VTP's management expressed its delivery volume had increased constantly over the past 12 months after VTP focused on organizational restructuring and service and workforce quality improvement. We believe VTP can regain previously lost market share, considering recent reforms.

- In terms of service quality, VTP is investing in high technologies as well as improving infrastructure system, thus cutting the average delivery time from 62 hours to 48 hours and reducing the error and defect rate down to 0.01% at the same time. VTP also enhances the number of deliveries and limits stops to increase shipping rate.

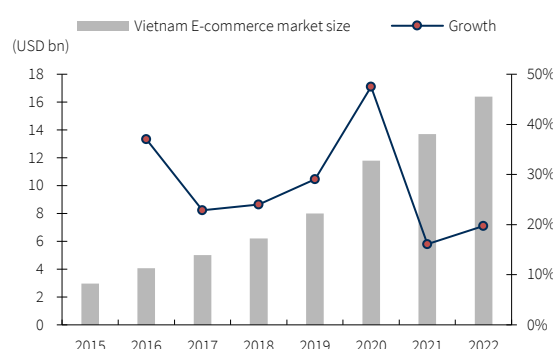
- To improve the workforce quality, the company conducts training sessions and offers wage gains for employees as an encouragement. Simultaneously, VTP turns to staff members for last mile delivery instead of outsourcing to ensure service quality.

Fig 4. Global – Retail sales of e-commerce (USDbn)



Source: Statista

Fig 5. Vietnam – E-commerce market size (USDbn)



Source: Statista

The company focuses on optimizing cost on each order to improve profit margin

In light of a fierce price competition as well as VTP's significant spending on quality improvement, the firm focuses on optimizing costs on each order to improve the profit margin:

- VTP invests in new technologies, thus improving the quality and capacity of the sorting centers, minimizing delivery time and errors, and saving staff cost.
- Accelerating the expansion of high-margin businesses, namely express delivery services (in cooperation with HVN), cold & fresh delivery, public administration, B2B, logistics services, 3PL logistics.

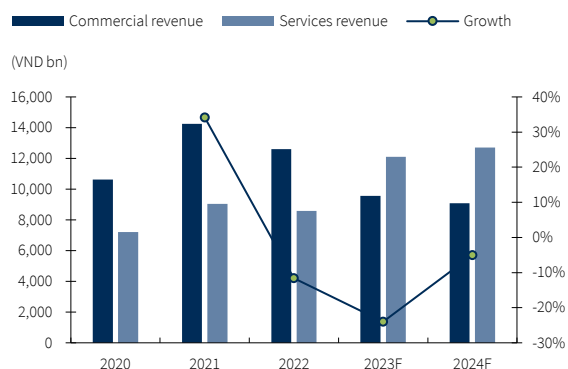
VTP seeks to attract prospective large customers

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- In 2022, Oriflame signed a contract to use VTP's delivery services. VTP also won the bid to provide E-fulfillment services for Guardian, a business distributing over 10,000 product units of more than 500 prestigious brands in beauty care with a chain of more than 105 stores in Vietnam.
- VTP partnered with HVN to reach businesses in industrial parks in Bac Ninh, expecting to be able to provide delivery services for these businesses in Vietnam and even shipping services to the international market.
- VTP is also negotiating cooperation with e-commerce giants like JD.com

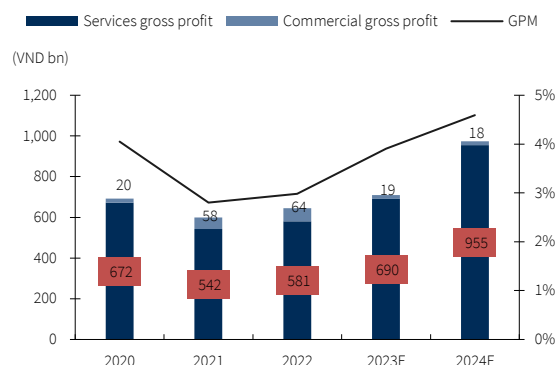
- The company devotes a lot of resources and offer good policies to increase market share for Tiktok, the only e-commerce platform that does not have its own delivery service among the four largest ones in Vietnam up to present, with an aim to become Tiktok’s courier partner.

Fig 6. VTP - 2020A-2024F revenue (VNDbn, %)



Source: Viettel Post, KB Securities Vietnam

Fig 7. VTP - 2020A-2024F profit (VNDbn, %)



Source: Viettel Post, KB Securities Vietnam

Forecast & Valuation

Table 8. VTP – 2022A–2023F business results

(VNDbn)	2022A	2023F	+/-%YoY	Comments
Net revenue	21,629	18,154	-16%	Completed 98% of the target set for 2023
-Trading	12,594	9,571	-24%	Driven by a sharp drop in mobile phone card revenue
-Services	9,035	8,583	-5%	Delivery rates dropped due to fierce price competition in the industry
Gross profit	646	709	+10%	
Gross profit margin	3%	4%	+1ppt	VTP focused on organizational restructuring and optimized costs on each order. The contribution of high-margin segments increased.
Financial income	105	114	+9%	
Financial expense	56	75	+34%	
SG&A	337	363	+8%	Driven by the restructuring of the entire organization and wage gains for employees
Shared profit from associates	0	0	0	
Profit before tax (PBT)	323	353	+9%	
NPAT	257	285	+11%	Completed 76% of the target set for 2023

Source: Viettel Post, KB Securities Vietnam

We recommend BUY for VTP with a target price of VND48,900/share

We forecast VTP's revenue in 2023 to hit VND18,154 billion, of which delivery and logistics revenue will narrow by 5% to VND8,583 billion (gross margin of delivery and logistics is estimated at 8% and 30%, respectively), sales revenue should plummet as online payment methods are gaining popularity, leading to a sharp drop in mobile phone card sales in stores.

We combine two valuation methods, free cash flow to equity (FCFE) and P/E comparable (comparing P/E ratios of delivery and logistics companies) with a ratio of 50:50, to value VTP. We give VTP a target PE of 17.6x. With advantages of nation-wide coverage and high technology applied, we expect VTP to regain market share following its efforts to reform and improve services quality. Based on valuation results, business prospects as well as possible risks, we recommend BUY for VTP with a target price of VND48,900/share, equivalent to a return of 19% compared to the closing price of VND41,100/share on June 22, 2022.

Table 9. VTP – Model assumptions

Model assumptions	Value
Required rate of return	13.9%
Risk-free rate	5%
Market risk premium	8%
Beta	1.1
Terminal growth	3.4%

Source: Viettel Post, KB Securities Vietnam

Table 10. VTP – Valuation result

Model assumptions	Estimated price (VND)	Weight	Weighted price (VND)
FCFE	53,600	50%	26,800
P/E	44,200	50%	22,100
Target price (VND)			48,900
Current price (Jun 22, 2023)			41,100
Total shareholder return			19.0%

Source: Viettel Post, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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