

Gemadept (GMD)

Expecting a rebound in 2H23

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In 2Q23, NPAT reached a historical peak of VND1,646 billion and net revenue recorded VND912 billion (-7% YoY)

2H23 port revenue is expected to recover against 1H23 performance

The amendment draft of Circular 54/2018/TT-BGTVT should boost GMD's port service rates from 2024

Nam Dinh Vu 2, 3 and Gemalink 2 should ensure mid- to long-term growth for GMD

We recommend BUY for GMD with a target price of VND76,200/share

Buy maintain

Target price	VND76,200
Upside	18.7%
Current price (Sep 14, 2023)	VND64,200
Consensus target price	VND61,100
Market cap (VNDtn/USDmn)	19.6/809

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	3,206	3,916	3,871	4,448
EBIT (VNDbn)	861	1,357	3,205	1,748
NPAT of parent company (VNDbn)	612	995	2,403	1,289
EPS (VND)	1,869	3,037	7,972	4,277
EPS growth (%)	63%	62%	162%	-46%
P/E (x)	24.3	21.1	8.1	15.0
P/B (x)	2.0	1.7	2.3	2.1
ROE (%)	10.2%	14.6%	25.8%	13.8%
Dividend yield (%)	2.2%	2.2%	3.1%	0%

Gemadept Corporation (GMD) obtained 2Q23 revenue of VND912 billion (-7% YoY). Shrinking cost of goods sold helped GPM to improve to 47% from 44% in 2Q22. NPAT reached a historical peak of VND1,646 billion, driven by an abnormal financial gain from the Nam Hai Dinh Vu (NHDV) port divestment.

Imports and exports slumped amid challenging market conditions, leading GMD's total port throughput down nearly 18% YoY. Given recent signs of recovery in import-export activities, we expect GMD's business results to enjoy slight improvements in the second half against 1H23 performance.

In August 2023, the Vietnam Maritime Administration issued the amendment Draft of Circular 54/2018/TT-BGTVT. It is expected to raise port service rates once approved, which should benefit GMD as it runs many ports subject to high price increases, namely deep-water and green ports.

Nam Dinh Vu 2 was officially kicked off in May 2023 and should soon reach full capacity thanks to receiving vessels in place of NHDV port. GMD plans to start construction work on Nam Dinh Vu 3 and Gemalink 2 to put them into operation in 2025, ensuring mid- to long-term growth.

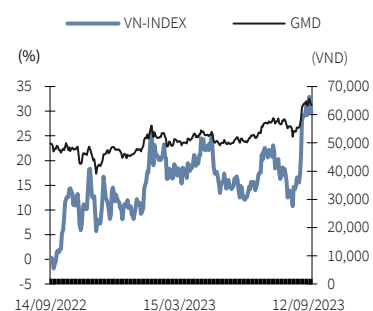
Based on business prospects and valuation results, we recommend BUY for GMD with a target price of VND76,200/share, equivalent to a total return of 18.7% against the closing price on September 14, 2023.

Trading data

Free float	87%
3M avg trading value (VNDbn/USDmn)	84.2/3.47
Foreign ownership	48.3%
Major shareholder	SSJ Consulting Ltd (9.7%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	13	26	25	28
Relative	14	16	10	30



Source: Bloomberg, KB Securities Vietnam

Business performance

In 1H2023, GMD recorded NPAT of VND1,848 billion (+230% YoY), equaling ~83% of the full-year target

Halfway through the year, GMD achieved revenue of VND1,814 billion (-3% YoY). However, 1H23 NPAT surged to VND1,848 billion, 3.3 times YoY, thanks to one-off gains from the NHDV port divestment to Vietnam Container Shipping (VSC) and other partners, causing financial income to increase substantially in 2Q23. However, excluding this amount, GMD's profit in 1H23 would decrease by 11% YoY.

Table 1. GMD – 1H22–1H23 business results

(VNDbn)	1H2022	1H2023	+/-%YoY	Comments
Net revenue	1,858	1,814	-2%	Completed 46.3% of the target of VND3,920 billion set for 2023
-Port	1,536	1,338	-13%	Although 2Q23 port throughput increased by 28% YoY, the figure for 1H23 was 17.5% lower than the same period last year, reaching more than 1.3 million TEUs, due to: (1) global economic slowdown, heavily impacting global demand for goods and trade and (2) a sharp YoY fall in Vietnam's imports and exports and GDP growth reduced in half YoY, causing domestic port throughput to plummet.
-Logistics & others	322	476	48%	
Gross profit	788	886	12%	
Gross profit margin (GPM)	42.4%	48.8%	+6.4ppts	Port margin improved as port service rates were higher compared to 2022. Transportation margin decreased, but this segment only accounts for a small share of the revenue structure. GMD has been focusing on cost optimization since early 2023.
Financial income	8.5	1,884	22,065%	Driven by VND1,844 billion in extraordinary profit from the stake sale at Nam Hai Dinh Vu and bank deposit interest up VND18 billion compared to 1H22
Financial expense	90	93	3%	Interest expenses decreased from VND62 billion to VND56 billion, but the exchange loss recorded an increase of more than VND14 billion compared to the same period in 2022.
SG&A	230	283	23%	
Shared profits from associates	227	80	-65%	Gemalink recorded a loss of VND49 billion (mainly because Gemalink depends heavily on routes to the US market), and SCSC Cargo Service Corporation (SCS) also lost nearly VND50 billion. CJ Gemadept Logistics and Shipping Holdings contributed VND25 billion and VND15 billion in profits.
Profit before tax (PBT)	720	2,493	246%	
NPAT	562	1,853	230%	

Source: Gemadept, KB Securities Vietnam

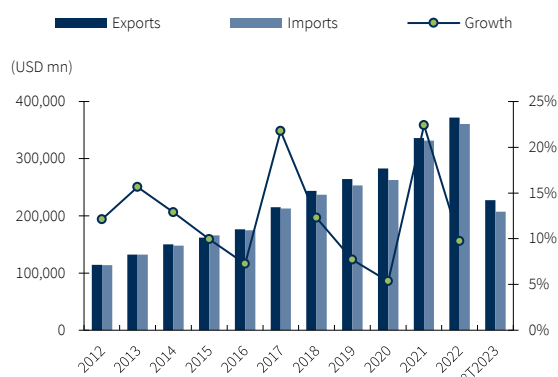
GMD's total port throughput should rise further in 2H23

Despite the challenges faced by the commodity market, GMD's total port throughput in 2Q23 showed signs of recovery, up 28% QoQ to 746,000 TEUs. We expect GMD's port throughput to improve further in the second half of this year against 1H23 performance, though it will less likely reach the level achieved in 2022.

- GMD's total port throughput continued to rise over the past two months and is expected to maintain positive growth towards the end of 2023 as (1) import-export turnover growth is forecast to go into 2H23, with a rate unchanged from 1H23, especially when import and export activities with China, the country that has a vital role to play in intra-Asia trade, are dynamic again and (2) the year-end shopping season is approaching.

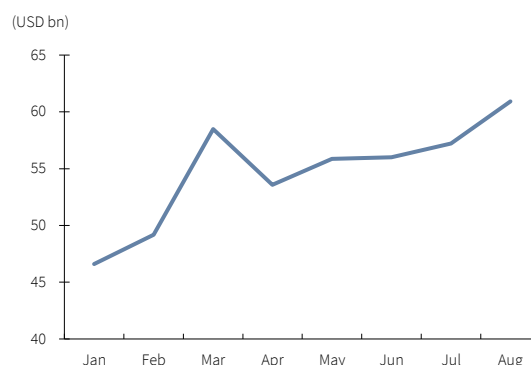
- The fact that Ocean Alliances, with 40 service routes, a large fleet, and high transit frequency, picked out Gemalink as a strategic port will help increase the cargo volume through Gemalink as well as improve the efficiency of port operation.

Fig 2. Vietnam – Import–Export turnover in 2012–2023 (USDmn)



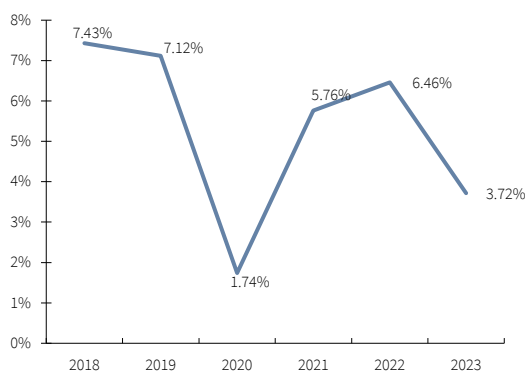
Source: United Nations Conference on Trade and Development

Fig 3. Vietnam – Import–Export turnover in 2023 (USDbn)



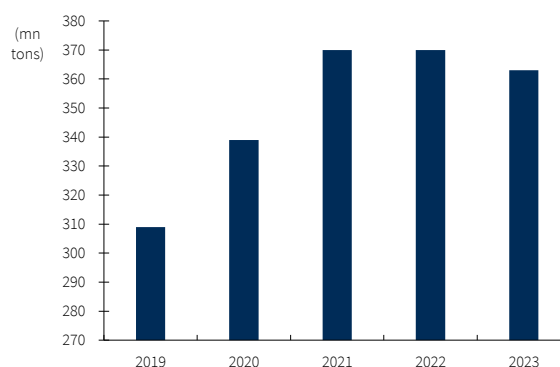
Source: General Statistics Office

Fig 4. Vietnam – First-half GDP growth in 2018–2023 (%)



Source: General Statistics Office, Gemadept

Fig 5. Vietnam – First-half total port throughput in 2019–2023 (million tons)



Source: Maritime Administration, Gemadept

GMD’s port service rates remain the same following increases earlier this year; the amendment draft of Circular 54 should boost port service rates from early 2024

Earlier this year, GMD announced to raise port service fees by 2–10%, with higher increase rates for handling domestic containers than import/export containers. Local charges are now far below those in regional countries. However, fierce competition among special seaports in the Hai Phong port cluster caused port service rates to remain low. Therefore, the recent amendment draft of Circular 54 would stimulate port service prices.

Specifically, this past August, the Vietnam Maritime Administration issued the amendment Draft of Circular 54/2018/TT-BGTVT on the pricing framework for pilotage service, utilization of wharves, docks and mooring buoys, container handling services, and towage service. Accordingly, the draft proposes to increase container handling charges from January 1, 2024, with services fees for domestic container handling up 8–10% and for import/export container handling up 10%. Notably, deep-sea ports are subject to a separate price mechanism for container handling service fees. For bridges and ports receiving 160 DWT or more ships, businesses can apply a container handling rate equaling 110% of the prescribed price.

If approved, the draft will benefit GMD as (1) all GMD's ports are subject to price increases and (2) Gemalink deep seaport in the Cai Mep – Thi Vai port cluster will enjoy an increase of more than 20%.

Nam Dinh Vu 2 began operation in 2Q23 and has been receiving ships from NHDV, maintaining GMD's position in the Hai Phong seaport system

In 2Q23, Nam Dinh Vu 2 was officially kicked off with an area of 44 ha and a wharf length of 880m, taking the Nam Dinh Vu port cluster's total capacity to 1.2 million TEUs/year and enabling it to accommodate 3–4 large ships at the same time. After the NHDV port divestment, GMD focused on developing Nam Dinh Vu, ensuring cargo volume for Nam Dinh Vu 2 and maintaining GMD's position in the Hai Phong seaport system. The utilization rate of the Nam Dinh Vu port cluster following Phase 2's operation is constantly increasing and is expected to reach 100% of the designed capacity of Phase 1 and Phase 2 this year.

Future operation of Gemalink 2 and Nam Dinh Vu 3 should be a growth driver for GMD in the medium and long term

GMD is working on legal procedures and raising capital to start constructing two major projects, Nam Dinh Vu 3 and Gemalink 2, perfecting its large-scale logistics ecosystem. The scheduled operation for Nam Dinh Vu 3 is in 2025. Once completed, it will become the largest river port cluster in the North, enabling it to accommodate feeder ships, the largest intra-Asian vessel in the river port area.

GMD is applying for a license to expand the scale and extend the wharf to 1.5km. The firm is raising funds to finance this project and expects to put phase 2 into operation from 2024 & 2025.

Total investment for phase 2 is about USD300 million.

Fig 6. GMD – Gemalink 2



Source: Gemadept

Fig 7. GMD – Nam Dinh Vu port



Source: Gemadept

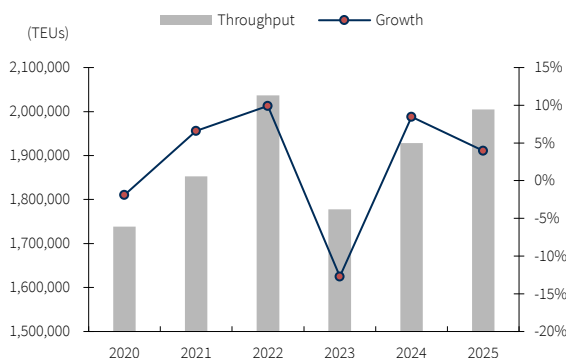
Nam Dinh Vu 1 and 2 have an area of 22 and 44 ha, a wharf length of 440m and 1,100m, and a capacity ranging from 900,000 to 1.2 million TEUs. Nam Dinh Vu 2 started commercial operation in May 2023.

GMD continues its market research to start construction of phase 3 as soon as possible. After completing the Nam Dinh Vu port cluster, it will have a total wharf length of up to 1,500m and an area of 70 ha, becoming the largest river port cluster in Hai Phong.

GMD plans to pay 20% cash dividend for FY22

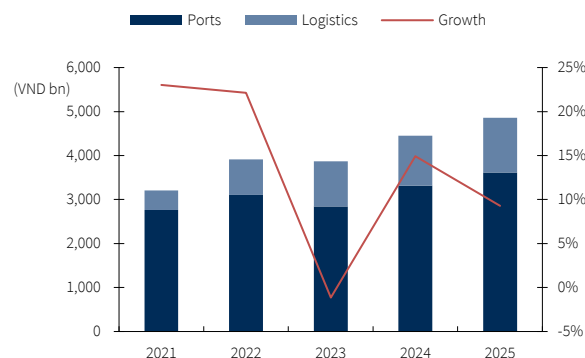
GMD announced the finalization of the list of shareholders entitled to 20% cash dividend payment for FY22, equivalent to VND2,000/share, on September 22. With nearly 306 million outstanding shares, GMD should spend VND612 billion for this.

Fig 8. GMD – Container throughput and container throughput growth (TEUs, %)



Source: Gemadept, KB Securities Vietnam

Fig 9. GMD – Revenue forecast for port operation & logistics services (VNDbn, %)



Source: Gemadept, KB Securities Vietnam

Forecast & Valuation

Table 10. GMD – 2022A–2023F business results

(VND bn)	2022A	2023F	+/-%YoY	Comments
Net revenue	3,916	3,871	-1%	Completed 99% of target of VND3,920 billion set for 2023
-Port	3,104	2,840	-9%	We anticipate GMD's total port throughput for 2023F to decrease by 14% YoY, and service fees should increase slightly by 5% YoY.
-Logistics & others	812	1,031	+27%	Logistics revenue grew on long-term transportation contracts and increased revenue from warehouse services. Cold storage warehousing generates a stable source of income. New services were also added.
Gross profit	1,645	1,698	+3%	
Gross profit margin	42%	44%	+2ppts	Gross margin improved on rising port service fees and higher contribution from high-margin logistics services such as cold storage warehousing and land transport.
Financial income	24	1,896	+7,800%	Driven by abnormal gains from the NHDV port divestment
Financial expense	178	105	-41%	After divesting from NHDV, GMD restructured borrowing costs, thus cutting financial expenses.
SG&A	542	546	+1%	
Other income	-48	-46	-4%	
Profit before tax (PBT)	1,308	3,158	+141%	
NPAT	1,157	2,577	+123%	

Source: Gemadep, KB Securities Vietnam

We recommend BUY for GMD with a target price of VND76,200/share

We use the Sum-of-the-Parts Valuation (SOTP) to value GMD: (1) core businesses + shared profits from associates, (2) Gemalink, and (3) rubber plantations and real estate projects. We recommend BUY for GMD with a target price of VND76,200/share, 18.7% higher than the closing price of VND64,200/share on September 14, 2023, assuming:

- Nam Dinh Vu 2 will start commercial operation and replace NHDV, expected to reach maximum capacity by 2025. Gemalink's throughput should shrink by 20% in 2023 and start recovering next year. GMD can expect revenue contributions from Gemalink 2 and Nam Dinh Vu 3 from 2025 and 2026, respectively.
- Port service rates are forecast to increase slightly by 5% this year and may increase by 8-10% YoY in 2024.

Table 11. GMD – Valuation result

	Valuation method	Value	GMD's ownership	Equity value attributed to GMD
Core businesses	FCFF	16,818	100%	16,818
Gemalink	FCFF	7,216	65.10%	4,698
Rubber plantations	BV	1,555	100%	1,555
Real estate projects	BV	256	100%	256
Equity value				23,327
Outstanding shares (million shares)				305.90
Value per share				76,200
Current price (VND)				64,200
TSR				18.7%

Source: Gemadep, 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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