

Gemadept (GMD)

Expecting a rebound in 2H23

September 15, 2023

Analyst Nguyen Thi Ngoc Anh anhntn@kbsec.com.vn

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

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.

2024F

4.448

1.748

1.289

4,277

-46%

15.0

2.1

0%

13.8%



Forecast earnings & valuation

NPAT of parent company (VNDbn)

Net revenue (VNDbn)

FY-end

FBIT (VNDbn)

EPS arowth (%)

Dividend yield (%)

EPS (VND)

P/E (x)

P/B (x)

ROE (%)

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

2021A

3,206

861

612

1,869

63%

24.3

2.0

10.2%

2,2%

2022A

3,916

1.357

3,037

62%

21,1

1.7

14.6%

2,2%

995

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%)

2023F

3,871

3,205

2.403

7.972

162%

8.1

2.3

25.8%

3.1%

(%)	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

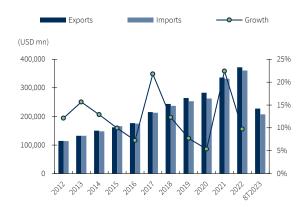
GMD's total port throughput should rise further in 2H23

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) importexport 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 yearend shopping season is approaching.

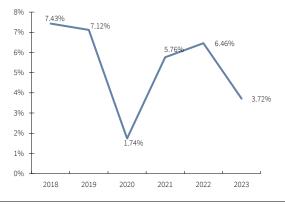
- The fact that Ocean Alliances, with 40 service routes, a large fleet, and high transit frequency, picked out Gemalink as a strategic port will help increase the cargo volume through Gemalink as well as improve the efficiency of port operation.

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



Source: United Nations Conference on Trade and Development

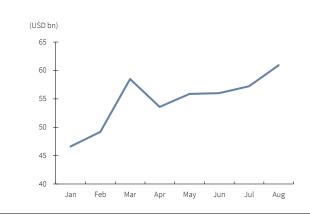
Fig 4. Vietnam - First-half GDP growth in 2018-2023 (%)





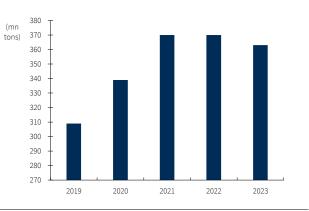
GMD's port service rates remain the same following increases earlier this year; the amendment draft of Circular 54 should boost port service rates from early 2024

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



Source: General Statistics Office

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



Source: Maritime Administration, Gemadept

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%.

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.

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.

Fig 6. GMD - Gemalink 2



Source: Gemadept

Fig 7. GMD - Nam Dinh Vu port



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.

Source: Gemadept

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

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 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.

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, %)

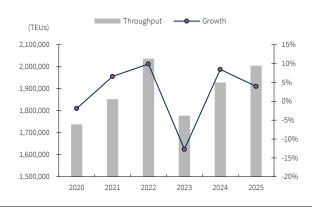
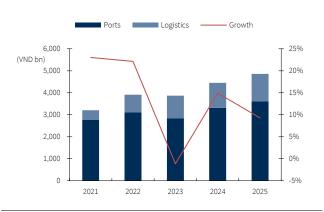


Fig 9. GMD – Revenue forecast for port operation & logistics services (VNDbn, %)



Source: Gemadept, KB Securities Vietnam

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: Gemadept, 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

CFF CFF BV BV	16,818 7,216 1,555 256	100% 65.10% 100%	16,818 4,698 1,555 256
BV	1,555	100%	1,555
BV	256	100%	256
			23,327
			305.90
			76,200
			64,200
			18.7%

2023F

2024F

GMD - 2021A-2024F financials

Income Statement

(VND billion)	2021	2022	2023F	2024F
Net sales	3,206	3,916	3,871	4,448
Cost of sales	2,064	2,271	2,173	2,478
Gross Profit	1,142	1,645	1,698	1,970
Financial income	40	24	1,896	131
Financial expenses	108	178	105	89
of which: interest expenses	119	131	105	89
Gain/(loss) from joint ventures	237	406	262	363
Selling expenses	154	146	155	178
General and admin expenses	295	396	391	449
Operating profit/(loss)	861	1,357	3,205	1,748
Other incomes	50	30	0	0
Other expenses	105	79	0	0
Net other income/(expenses)	-55	-48	-46	-53
Net accounting profit/(loss) before tax	806	1,308	3,158	1,695
Corporate income tax expenses	86	151	581	211
Net profit/(loss) after tax	721	1,157	2,577	1,484
Minority interests	108	162	174	195
Attributable to parent company	612	995	2,403	1,289

Margin ratio				
(%)	2021	2022	2023F	2024F
Gross profit margin	35.6%	42.0%	43.9%	44.3%
EBITDA margin	40.7%	46.3%	92.8%	50.1%
EBIT margin	28.9%	36.8%	84.3%	40.1%
Pre-tax profit margin	25.1%	33.4%	81.6%	38.1%
Operating profit margin	26.9%	34.6%	82.8%	39.3%
Net profit margin	26.6%	31.8%	33.3%	34.4%

Cash Flow Statement

(VND billion)	2021	2022	2023F	2024F
Net profit/(loss) before tax	806	1,308	3,158	1,695
Depreciation and amortisation	380	376	330	443
Profit/loss from investing activities	-194	-420	0	0
Interest expense	119	131	140	154
Operating profit/(loss) before changes in Working Capital	1,211	1,504	3,628	2,292
(Increase)/decrease in receivables	6	-163	-138	-166
(Increase)/decrease in inventories	8	-13	-7	-13
Increase/(decrease) in payables	-31	1,304	-704	842
(Increase)/decrease in prepaid expenses	11	10	96	51
Interest expense	4	-31	0	0
Net cash inflows/(outflows) from operating activities	965	2,333	3,436	2,764
Purchases of fixed assets and other long term assets	-586	-1,395	-966	-1,952
Proceeds from disposal of fixed assets	42	4	0	0
Loans granted, purchases of debt instruments	-95	-86	0	0
Collection of loans, proceeds from sales of debts instruments	105	33	0	0
Investments in other entities	0	0	-1,800	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	0	174	0	0
Net cash inflows/(outflows) from investing activities	-356	-1,269	-2,766	-1,952
Proceeds from issue of shares	0	0	90	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	1,524	1,563	0	0
Repayment of borrowings	-1,446	-1,431	-543	-350
Finance lease principal payments	-49	-41	0	0
Dividends paid	-426	-428	-612	-742
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-398	-338	-1,234	-811
Net increase in cash and cash equivalents	211	726	-564	0
Cash and cash equivalents at the beginning of period	428	637	1,364	800
Cash and cash equivalents at the end of period	637	1,364	800	800

TOTAL ASSETS	10,731	13,190	13,738	15,443
CURRENT ASSETS	1,689	2,724	2,201	2,397
Cash and cash equivalents	637	1,364	800	800
Short-term investments	52	82	82	82
Accounts receivable	842	976	1,114	1,280
Inventories	69	82	89	102
LONG-TERM ASSETS	9,042	10,466	11,537	13,046
Long-term trade receivables	44	45	45	45
Fixed assets	3,146	3,262	3,932	5,441
Long-term incomplete assets	1,747	2,839	1,440	1,440
Long-term investments	2,830	3,070	4,870	4,870
Goodwill	0	0	0	0
LIABILITIES	3,687	5,247	4,727	5,480
Current liabilities	2,263	3,374	3,374	4,336
Trade accounts payable	381	838	134	976
Short-term unrealized revenue	1	1	0	0
Short-term borrowings	860	543	1,317	1,247
Long-term liabilities	1,424	1,873	1,353	1,144
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	276	291	291	291
Long-term borrowings	1,061	1,486	967	757
OWNER'S EQUITY	7,045	7,944	9,999	10,741
Paid-in capital	3,014	3,014	3,059	3,059
Share premium	1,942	1,942	1,987	1,987
Undistributed earnings	661	1,228	3,193	3,935

2021

0

0

0

0

0

0

0

0

2022

Key ratios

Other funds

Minority interests

Balance Sheet (VND billion)

(x,%,VND)	2021	2022	2023F	2024F
Multiple				
P/E	24.3	21,1	8.1	15.0
P/E diluted	24.3	21.1	8.1	15.0
P/B	2.0	1.7	2.3	2,1
P/S	4.4	3.5	5.9	5.2
P/Tangible Book	2.1	1.8	2.4	2.2
P/Cash Flow	14.8	5.9	6.7	8.3
EV/EBITDA	10.9	7.5	6.4	10.3
EV/EBIT	15.4	9.5	7.0	12,9
Operating performance				
ROE	10.2%	14.6%	25.8%	13.8%
ROA	6.7%	8.8%	18.8%	9.69
ROIC	10.6%	16.0%	30.0%	15.49
Financial structure				
Cash Ratio	30.5%	42.9%	26.2%	20.3%
Quick Ratio	41.5%	46.2%	42.2%	39.4%
Current Ratio	67.7%	71.8%	59.2%	49.9%
LT Debt/Equity	15.1%	18.7%	9.7%	7.09
LT Debt/Total Assets	9.9%	11.3%	7.0%	4.9%
ST Debt/Equity	12.2%	6.8%	13.2%	11.6%
ST Debt/Total Assets	8.0%	4.1%	9.6%	8.1%
ST Liabilities/Equity	32.1%	42.5%	33.7%	40.4%
ST Liabilities/Total Assets	21.1%	25.6%	24.6%	28.1%
Total Liabilities/Equity	52.3%	66.0%	47.3%	51.0%
Total Liabilities/Total Assets	34.4%	39.8%	34.4%	35.5%
Activity ratios				
Account Receivable Turnover	3.8	4.0	3.5	3.5
Inventory Turnover	30.0	27.6	24.3	24.3
Account Payable Turnover	5.6	3.7	4.5	4.5

Source: Gemadept, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager tungna@kbsec.com.vn

Pham Phuong Linh – Analyst linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst hieupm@kbsec.com.vn Research Division research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst thanhhd@kbsec.com.vn

Vu Thu Uyen – Analyst uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst congth@kbsec.com.vn

Nghiem Sy Tien – Analyst tienns@kbsec.com.vn

Support team

Nguyen Cam Tho - Assistant thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam Tel: (+84) 24 7303 5333 - Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 - Ext: 2656 Private Customer Care Center: (+84) 24 7303 5333 - Ext: 2276 Email: ccc@kbsec.com.vn Website: www.kbsec.com.vn

Investment ratings & definitions

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				

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.