

Gemadept (GMD)

2022 profit should rise 36.3% thanks to Gemalink

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9M21 PAT and revenue increased by 34.7% YoY and 14% YoY respectively

In the first three quarters of the year, Gemadept (GMD) recorded VND575 billion (+34.7% YoY) in PAT on revenue of VND2,168 billion (+14.1% YoY), of which port operations and logistics brought in VND1,884 billion (+20% YoY) and VND284 billion (-14.2% YoY) in revenue respectively.

Haiphong port system and Gemalink are the main growth drivers

GMD's total docking capacity in 9M21 reached 1,905,000 TEUs (+52% YoY), mainly driven by Haiphong port system with 754,359 TEUs (+13% YoY) and Gemalink with 528,351 TEUs. However, the throughput in Lach Huyen port decreased 21.7% YoY because it could not accommodate large vessels due to alluvial deposits.

2022F profit growth should rise 35.1% YoY thanks to the operation of Gemalink at 90% capacity

We estimate GMD's NPAT in 2022 at VND848 billion (+36.3% YoY), the majority of which came from joint ventures at VND137 billion vs. VND3 billion of 2021, assuming Gemalink's 2022E throughput of 1.35 million TEUs (+50% YoY) and a 10% increase in freight rates.

GMD can record a sudden profit in 2022 thanks to the transfer of 25% stake at Gemalink

GMD plans to transfer 25% stake at Gemalink (effective ownership for GMD is 15%), which may bring a profit of VND343 billion for GMD. However, this isn't included in the valuation due to the need for more details.

We recommend to BUY GMD shares with a target price of VND56,300

By using the sum-of-the-parts (SOTP) valuation method, we recommend to BUY GMD shares with a target price of VND56,300/share, 22.9% higher than the closing price on December 24, 2021.

Buy update

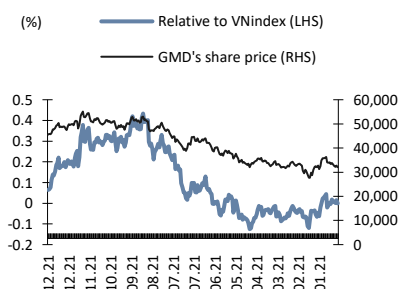
Target price	VND56,300
Upside/Downside	22.9%
Current price (Dec 24, 2021)	VND45,750
Consensus target price	VND50,500
Market cap (VNDbn)	13,803

Trading data	
Free float	80%
3M avg trading value (VNDbn)	151
Foreign ownership	40.8%
Major shareholders	SSJ Consulting (9.85%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	--8	-7	8	43
Relative	4	-2	17	49

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net revenue (VNDbn)	2,643	2,606	2,900	3,226
Earnings/Loss (VNDbn)	1,013	950	1,117	1,253
NPAT (VNDbn)	614	440	622	848
EPS (VND)	1,602	1,149	1,738	2,370
EPS growth (%)	-74.2%	-28.3%	53.6%	38.6%
P/E (x)	13.5	27.9	26.3	19.3
P/B (x)	1.0	1.5	2.0	1.8
ROE (%)	9.4%	6.7%	9.2%	11.3%
Dividend yield (%)	3%	2.6%	2.5%	2.5%



Source: Bloomberg, KB Securities Vietnam

Business performance

In 3Q21, PAT rose 30.6% YoY while revenue increased only 5.3% YoY

GMD posted 3Q21 profit of VND126 billion (+31.3% YoY) and revenue of VND729 billion (+5.5% YoY), of which port operations brought in VND644 billion (+15.2% YoY) in revenue while logistics contributed only VND92 billion (-40.7% YoY) as it was hard hit by restrictive measures on transportation.

Revenue from Haiphong port system starts to rebound

In the first nine months of the year, the total throughput in GMD port system in Haiphong reached 754,359 TEUs (+13% YoY), the main contribution to GMD's revenue while revenue from the Southern ports only improved 5% YoY. The reasons behind the growth are: (1) The less competitiveness of Lach Huyen port due to alluvial deposits with total tonnage and number of ships docked at the port estimated to decrease by 21.7% YoY; (2) The trend of shifting ship traffic downstream as a result of long berths and deeper draft.

Gemalink project started to record positive earnings from 3Q21

In 3Q21, Gemalink recorded a positive profit of VND6.6 billion compared to the loss of VND34.8 billion in 1Q and VND2.4 billion in 2Q. The gain was attributable to an increase of 14.4% QoQ in throughput at Gemalink port. Gemalink showed its attraction to major shipping lines while Ba Ria – Vung Tau port cluster was heavily affected by curfews in the South, causing the docking capacity to decrease 4.2% QoQ.

Profit from joint ventures jumped 101% YoY

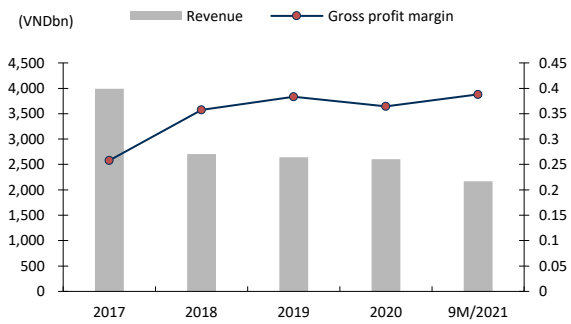
GMD recorded a profit of VND68 billion (+100% YoY) from joint ventures in the third quarter, supported by: (1) Gemalink achieved a profit of VND6.6 billion vs. a loss of VND7 billion in 3Q20; (2) SCSC Cargo Service (SCS) contributed VND41 billion in profit (+5.5% YoY); (3) CJ Gemadept Shipping posted earnings of VND12 billion vs. a loss of VND6.5 billion over the same period a year ago thanks to surging freight rates.

Table 1. GMD – Throughput in port clusters (TEUs)

Throughput at GMD ports	9M2020	9M2021	% YoY	2021F	2022F	% YoY
Hai Phong port cluster (TEU)	667,325	754,359	13.0%	1,050,000	1,145,000	9.0%
Southern port cluster (non-gemalink) (TEU)	587,940	620,836	5.6%	850,000	860,000	1.2%
Gemalink (TEU)		528,861	N/A	900,000	1,350,000	50.0%
Dung Quat port (ton)	1,468,096	1,929,040	N/A	2,300,000	2,400,000	4.3%

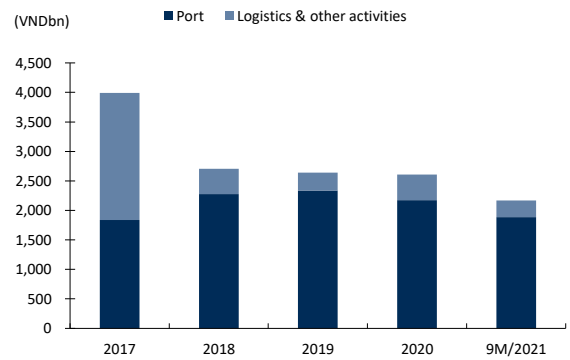
Source: Gemadept

Fig 1. GMD – Revenue and gross profit margin (VNDbn, %)



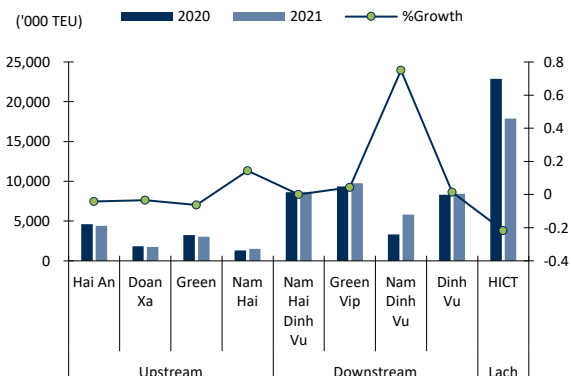
Source: Gemadept, KB Securities Vietnam

Fig 2. GMD – Revenue structure (VNDbn)



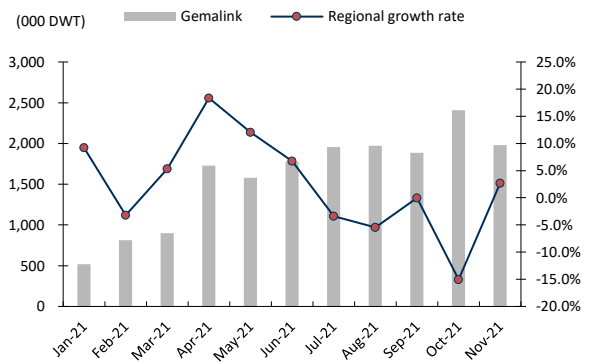
Source: Gemadept, KB Securities Vietnam

Fig 3. GMD – Total tonnage in Haiphong port system (DWT)



Source: Marine Administration of Vung Tau, KB Securities Vietnam

Fig 4. GMD – Total tonnage at Gemalink and growth in Ba Ria – Vung Tau (DWT, %)



Source: Marine Administration of Vung Tau, KB Securities Vietnam

Investment highlights

Total docking capacity in Haiphong port system is expected to grow 14% YoY during 2021–2027

With the expectation that Nam Dinh Vu Port in phase 2 (capacity of 500,000 TEUs) and phase 3 (capacity of 500,000 TEUs) will be put into operation in 2023 and 2025, the capacity of Haiphong port cluster should double from 1.15 million TEUs to 2.15 million TEUs. In our estimates, Nam Dinh Vu Port in phase 2 & 3 can reach full capacity by 2027 thanks to the strategic cooperation of GMD as well as the Haiphong port system: (1) The majority of capacity as well as revenue of GMD can be guaranteed in the coming time thanks to cooperating with strategic partners in top 20 shipping lines around the world namely CMA–CGM & Ocean Alliance; (2) Effective free trade agreements like EVFTA (2020) & RCEP (2022) created a huge demand for port system in Haiphong; (3) A series of large enterprises such as LG, Foxconn, Luxshare have moved their manufacturing bases to Vietnam, especially to the Northern provinces; and (4) The capacity of Lach Huyen port will stay unchanged until 2025.

Gemalink port should contribute VND141 billion to GMD's profit in 2022

Gemalink port is expected to reach over 90% of capacity from 2022 thanks to the cooperation with CMA–CGM as well as the great competitive advantage of being the largest deep–water port in Vietnam which can accommodate ships of 250,000 DWT. Along with that, we also revise the freight rate up 7% to VND1.39/ million TEUs.

GMD is supposed to record a sudden profit thanks to the transfer of stake at Gemalink & non–core business segment

GMD said that it is currently cooperating with partners in top 20 shipping lines in the world to transfer 25% stake at Gemalink, thereby reducing the ownership ratio at Gemalink to only 50%. With the expectation that the transfer agreement will be signed before Gemalink phase 2 goes into operation to ensure the docking capacity, we believe that this transfer will probably be carried out in 2022 and create a sudden profit for GMD.

GMD also intends to divest all of its capital from other non–core businesses, including: 30,000 ha of rubber land in Cambodia with a total investment of VND2,325 billion and equity of VND1,376 billion; 3640 m² at the intersection of Nam Ky Khoi Nghia and Le Loi, District 1, Ho Chi Minh City; 6715 m² at Lane Xang Boulevard, the capital of Laos.

Table 2. GMD – Forecast revenue from stake transfer (VNDbn)

Divestments	% ownership	GMD's capital	Valuation	Revenue	Profit for GMD
Rubber	100%	1,376	1,101	1,101	-275
Real estate	32%	171	662	2,073	491
15% of Gemalink 1&2	65%	2,273	4,556	1,051	343

Source: KB Securities Vietnam

Forecast and valuation

2021F performance

We expect GMD's profit after tax to reach VND622 billion (+41.3% YoY) on revenue of VND2,900 billion (+11.3% YoY) in 2021 on the assumptions that:

- Throughput in Haiphong port system, the Southern port clusters (except Gemalink), Gemalink and Dung Quat port should reach 1,050,000 TEUs (+18.7% YoY), 850,000 TEUs (+0.83% YoY), 900,000 TEUs and 2.3 million tons (+4.5% YoY) respectively.
- Revenue from the logistics segment is estimated to decrease 11% YoY to VND385 billion owing to the domestic restrictive measures that heavily impacted GMD's operations.
- Joint ventures, excluding Gemalink, may record VND232 billion (+22.4% YoY) in profit (up strongly from a loss of VND16.1 billion), mainly from 6% increase in profit of SCS and VND18 billion in profit of CJ Gemadept Shipping thanks to higher freight rates.

2022F performance

In 2022, we forecast that GMD may record VND848 billion (+36.3% YoY) in profit and VND3,226 billion (+11.2% YoY) in revenue with the following assumptions:

- The throughput at ports of GMD (except Gemalink) should reach 2,005,000 TEUs (+5.5% YoY), of which the throughput in the North is supposed to be 1,145,000 TEUs (+9% YoY) and in the South is 860,000 TEUs (+1.2% YoY). The increase is not profound because current capacity of GMD's ports nearly reached maximum capacity.
- Throughput at Gemalink port is expected to be 1.35 million TEUs (+50% YoY), equivalent to 90% of Gemalink's designed capacity. Gemalink can easily reach this capacity next year because 60-70% of the capacity can be guaranteed by its strategic partner CMA-CGM along with the competitive advantage of being the largest deep-water port in Vietnam with the deepest draft at -17m.
- Freight rates may be revised up at the Northern, Southern and Gemalink port clusters by 5%, 7% and 9% respectively according to VISABA's proposal to the Government (increasing loading and unloading rates by 10%/year for the next three years from 2021). The freight rates in Gemalink deep-water port should be adjusted higher because the current rates for deep-water ports in Vietnam is only 45-80% of those in Southeast Asia, which is still very attractive to shipping lines around the world.

Table 3. GMD – 2021F–2023F financials

VNDbn	2020A	2021E	2022E	2023E
Throughput (TEU)	2,627,679	3,250,000	4,045,000	4,380,000
Hai Phong	884,679	1,050,000	1,145,000	1,300,000
Phuoc Long & Binh Duong	843,000	850,000	860,000	860,000
Gemalink	900,000	1,350,000	2,040,000	2,220,000
Revenue (VNDbn)	2,606	2,900	3,226	3,630
Port	2,172	2,514	2,794	3,159
Logistics & other activities	411	385	431	470
Cost of goods sold	1,656	1,783	1,973	2,218
Gross profit	950	1,117	1,253	1,412
SG&A cost	-479	-493	-532	-581
Profit from operating	471	624	721	831
Financial income	28	19	12	21
Financial expenses	-159	-150	-173	-182
Profit/ loss from joint ventures & associates	157	235	428	607
Gemalink	-33	3	137	283
Profit before tax	513	711	970	1,277
Profit after tax	440	622	848	1,085
% NPM	16.90%	21.50%	26.30%	29.90%
NPAT of shareholders of parent company	371	524	714	914

Source: KB Securities Vietnam

We recommend to BUY GMD shares with a target price of VND56,300 apiece

Basing on the SOTP method of valuation, we find a reasonable target price for GMD shares at VND56,300 apiece, representing a potential upside of 22.9% compared to the closing price on December 24, 2021.

Table 4. GMD – Share price according to valuation methods (VND)

Valuation	Method	Ownership	Valuation	Value for GMD	Note
Port & logistics	DCF	81%	9,003	7,293	
Gemalink	DCF	65%	7,010	4,556	
Real estate	RNAV	32%	2,073	662	
SCS	DCF	35%	7,961	2,748	
CJ Gemadept Logistics & Shipping	P/E	50%	1,200	600	Target P/E 15x (industry average)
Rubber	P/B	100%	1,101	1101	Target P/B 0.8x
Equity value				16,960	
Circulating shares				301,377,957	
Valuation value per share				56,300	
Current share price				45,750	
Potential upside				22.90%	

Source: KB Securities Vietnam

GMD – 2019A–2021E financials

Income statement					Balance sheet			
(VNDbn)	2019	2020	2021F	2022F	(VNDbn)	2019	2020	2021E
Net sales	2,643	2,606	2,900	3,226	TOTAL ASSETS	10,120	9,835	10,120
Cost of sales	-1,630	-1,656	-1,783	-1,973	CURRENT ASSETS	1,188	1,356	1,188
Gross profit	1,013	950	1,117	1,253	Cash and cash equivalents	186	428	186
Financial income	107	28	19	12	Short-term investments	44	23	44
Financial expenses	-147	-159	-150	-173	Account receivables	787	748	787
Of which: Interest expenses	-145	-147	-132	-155	Inventories, net	78	73	78
Gain/(loss) from joint ventures (since 2015)	236	157	235	428	LONG-TERM ASSETS	8,932	8,478	8,932
Selling expenses	-138	-137	-145	-161	Long-term receivables	35	56	35
General & administrative expenses	-331	-341	-348	-371	Fixed assets	5,145	4,900	5,145
Operating profit/(loss)	741	496	728	988	Construction in progress	1,800	1,757	1,800
Other incomes	19	80	48	17	Long-term investments	2,684	2,531	2,684
Other expenses	-56	-64	-65	-35	Goodwill			
Net other income/ (expenses)	-37	16	-17	-18	LIABILITIES	3,553	3,240	3,553
Profit from investment in other entities	0	0	0	0	CURRENT LIABILITIES	1,828	1,745	1,828
Net accounting profit/ (loss) before tax	705	513	711	970	Account payables	423	358	423
Corporate income tax expenses	-91	-72	-89	-121	Advances from customers	131	20	131
Net profit/ (loss) after tax	614	440	622	848	Short-term borrowings	652	763	652
Minority interests	97	70	98	134	LONG-TERM LIABILITIES	1,724	1,494	1,724
Attributable to parent company	517	371	524	714	Long-term trade payables	0	0	0
					Long-term advances from cust	0	0	0
					Unrealized revenue	224	275	224
					Long-term borrowings	1,426	1,138	1,426
					OWNER'S EQUITY	6,567	6,595	6,567
					Paid-in capital	2,969	3,014	2,969
					Share premium	1,942	1,942	1,942
					Retained earnings	505	435	505
					State budget capital and other	138	140	138
					Minority interest	691	693	691
Activity index					Key ratios			
	2019	2020	2021F	2022F	(VNDbn)	2019	2020	2021E
Gross profit margin	38.3%	36.4%	38.5%	38.8%	Valuation ratios			
EBITDA ratio	46.1%	41.4%	42.9%	48.7%	P/E	13.5	27.9	13.5
EBIT ratio	20.6%	18.1%	21.5%	22.3%	P/E diluted	13.5	27.9	13.5
Pre-tax profit margin	26.7%	19.7%	24.5%	30.1%	P/B	1.0	1.5	1.0
Operating profit margin	20.6%	18.1%	21.5%	22.3%	P/S	2.4	3.7	2.4
Net profit margin	23.2%	16.9%	21.5%	26.3%	P/Tangible Book	1.0	1.5	1.0
					P/Cash Flow	485	40	485
					EV/EBITDA	6.8	10.2	6.8
					EV/EBIT	11.8	21.5	11.8
					Operating ratios			
					ROE%	9.3%	6.7%	9.3%
					ROA%	6.1%	4.5%	6.1%
					ROIC%	8.8%	6.4%	8.8%
					Financial structure ratios			
					Cash ratio	0.1	0.3	0.1
					Quick ratio	0.6	0.7	0.6
					Current ratio	0.6	0.8	0.6
					LT debt/ equity	0.2	0.2	0.2
					LT debt/ total assets	0.1	0.1	0.1
					Debt/equity	0.1	0.1	0.1
					Debt/ total assets	0.1	0.1	0.1
					ST debt/ equity	0.3	0.3	0.3
					ST debt/ total assets	0.2	0.2	0.2
					Total liabilities/ equity	0.5	0.5	0.5
					Total liabilities/ total assets	0.4	0.3	0.4
					Activity ratios			
					Account receivables turnover	3.4	3.5	3.4
					Inventory turnover	20.8	22.7	20.8
					Account payable turnover	3.9	4.6	3.9

Source: Finpro

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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

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