

# Airlines

## Focusing on infrastructure upgrade

Analyst Nguyen Ngoc Anh  
 (+84) 24-7303-5333 anhntrn@kbsec.com.vn

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### International air cargo and passenger traffic in 2024 is more positive than domestic

The total passenger traffic at Vietnam airports in 2024 slightly dipped to 109 million passengers (–3.5% YoY), of which international passengers were 41 million (+24% YoY), and domestic passengers were 68 million (lowering 15% YoY due to aircraft repairs and two domestic airlines cutting fleet size for restructuring). The volume of air cargo through airports in 2024 reached 1.5 million tons (+19% YoY).

### Revenue of airlines all had positive developments in 2024

All airlines recorded positive business results compared to the same period in 2023 with revenue growth of 20 – 50% and a significant increase in GPM mainly thanks to the higher proportion of international passengers and cargo.

### We are positive about airline stocks

Our positive view on airline stocks was based on (1) the potential for sustainable growth of international and domestic passengers and (2) the increasing demand for cargo transportation according to the international trade outlook in 2025. These two factors are ensured by the expansion of the scale and scope of operations of airlines, as well as the steady increase in the capacity of the Vietnam Airport system. We gave positive ratings to SCSC Cargo Service (SCS) and Taseco Air Services (AST) which currently have attractive valuations.

## Positive change

### Recommendations

SCS	<b>BUY</b>
Price target	VND97,400
ACV	<b>NEUTRAL</b>
Price target	VND130,600

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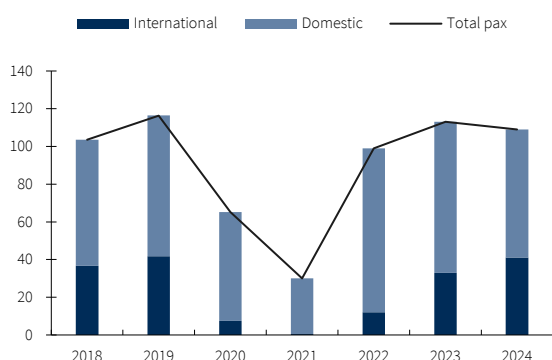
## I. Business performance in 9M24

**International air cargo and passenger traffic in 2024 is more positive than domestic due to the sharp decrease in the number of operating aircraft of domestic airlines compared to 2023**

The number of landings and take-offs in 2024 decreased compared to 2023, reaching 663 thousand (-6% YoY), causing the total number of passengers to fall to 109 million (-3.5% YoY, 41 million international (+24% YoY) and 68 million domestic passengers (-15% YoY), respectively. The sharp decline in the domestic aviation market was because airlines had to lower the supply on domestic routes when (1) nearly 30 aircraft of Vietnam Airlines (HVN) and Vietjet Air (VJC) have been recalled by the manufacturer for engine overhaul, and (2) the fleet size of Bamboo Airways and Pacific Airlines has been halved compared to 2023 (declining by 20 aircraft) due to business restructuring. However, international passenger traffic has strongly rebounded as (1) the comparative numbers in 2023 were still lower than the pre-Covid levels, and (2) airlines continue to buy new aircraft, open new flight routes and increase the frequency of international flights.

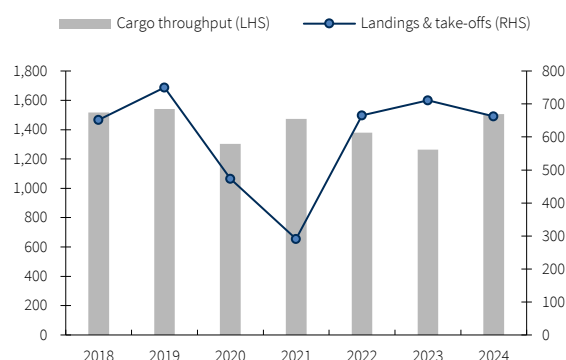
The cargo throughput in 2024 will reach 1.5 million tons (+19% YoY), driven by the growth of international cargo volume amid a strong recovery in import and export activities.

**Fig 1. Vietnam – Passengers through Vietnam airports (million arrivals)**



Source: Airports Corporation of Vietnam

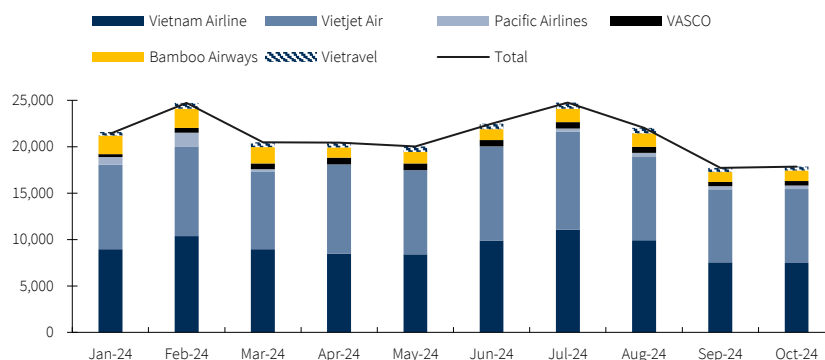
**Fig 2. Vietnam – Cargo throughput, landings and take-offs at Vietnam airports (thousand tons, thousand times)**



Source: Airports Corporation of Vietnam

\* Note: 2024 data are estimated

Fig 3. Vietnam – Flight database &amp; statistics by domestic airlines



Source: Airports Corporation of Vietnam

### The overloading at major airports has become more serious

Overloading at major airports in Vietnam, especially Tan Son Nhat and Noi Bai, has become increasingly serious over the past years. The main reason is the rapid increase in passenger and cargo traffic while projects to upgrade ports and build efficient transport systems are implemented slowly. The delay in upgrading and expanding airport infrastructure could affect the growth momentum of Vietnam's aviation industry in the short and medium term.

Table 4. Vietnam – Some airports operating at high capacity

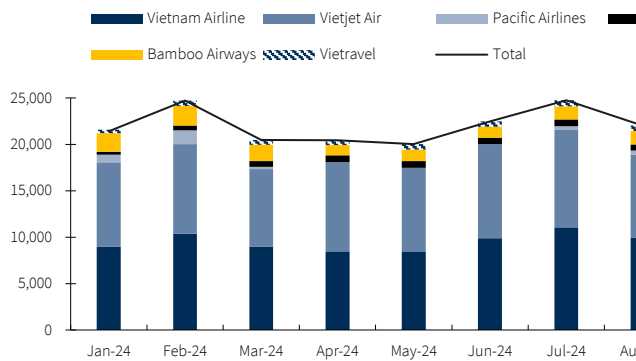
Airport	Location	Design capacity	Capacity utilization
Tan Son Nhat	Ho Chi Minh City	28 million passengers/year	Overloaded, operating more than 41 million passengers/year
Noi Bai	Hanoi	25 million passengers/year	Approaching design capacity
Cam Ranh	Khanh Hoa	8 million passengers/year	Operating close to design capacity
Phu Quoc	Kien Giang	4 million passengers/year	Operating beyond capacity, reaching nearly 5 million passengers/year
Pleiku	Gia Lai	1 million passengers/year	Operating stably, operating close to design capacity

Source: KB Securities Vietnam

### Revenue of air transport and service enterprises all recorded growth

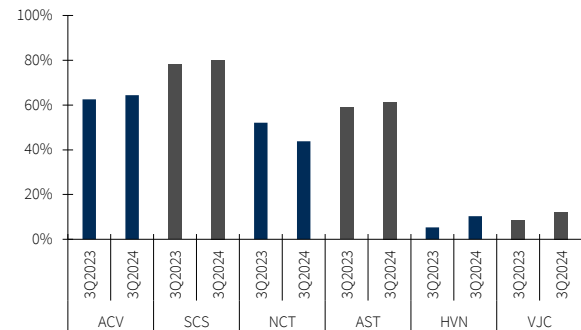
All airlines recorded positive business results compared to the same period in 2023 with revenue growth of 20 – 50% and a significant increase in GPM (except for Noi Bai Cargo Terminal Service – NCT due to fierce competition between cargo service enterprises at Noi Bai International Airport and an increase in the proportion of low-value goods handled) mainly thanks to (1) strong growth in cargo throughput amid rebounding commercial activities, (2) relatively stable service rates with slight increases in some types of services, and (3) the number of international visitors. The number of foreign visitors bring in higher revenue and profit/visitor than domestic visitors, so the higher proportion of international visitors helped improve the profit margin of enterprises.

Fig 5. Vietnam – Revenue growth of air service & transportation companies (VNDbn)



Source: Company reports, KB Securities Vietnam

Fig 6. Vietnam – GPM of air service & transportation companies (%)



Source: Company reports, KB Securities Vietnam

## II. Business outlook for 2025

### The growth momentum of air passengers in 2025 will come from international visitors

The growth in passenger traffic should be attributable to both domestic and international passengers with international passengers seeing a stronger recovery:

- The domestic passenger group should post a slight recovery in 2025 compared to 2024 because a part of the aircraft sent for overhaul will start to return to operation. However, there are still aircraft that have not been repaired and will continue to be sent back to the manufacturer in 2025, so we estimate that the recovery speed in 2025 will be relatively slow and will accelerate sustainably from 2026 with (1) all aircraft completing engine repair and returning to normal operation and (2) the long-term growth momentum of domestic air tourism coming from the characteristics of high population and stable GDP growth over the years of Vietnam.
- International visitors are expected to continue to grow in 2025 thanks to Vietnam's tourism stimulus policy. The number of visitors from Europe, Australia, and the US to Vietnam will continue to climb thanks to the policy of simplifying procedures and granting e-visas for tourists who can enter Vietnam multiple times, which will be applied from the end of 2023.

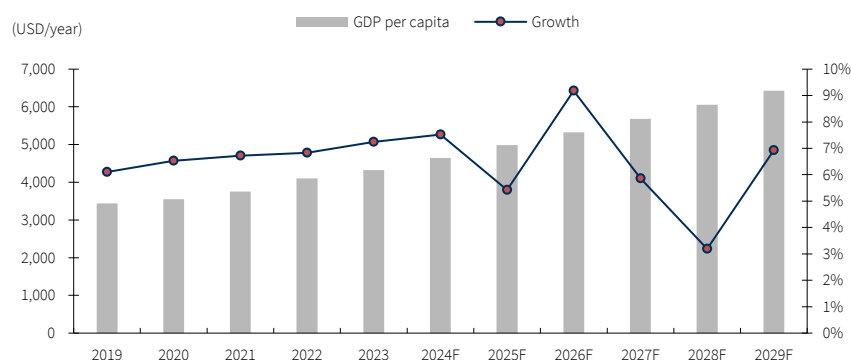
### Cargo throughput through Vietnam's airports is expected to increase by 10–15% YoY

Air cargo throughput may slow down due to the high base level of 2024, but we estimate that it may still increase by 10–15% YoY as (1) import-export activities are boosted, FDI investment grows positively with FTAs and bilateral cooperation that Vietnam has signed with many countries, especially in the context that businesses tend to boost trade activities before the Trump administration's tax policy is officially applied; and (2) sea freight rates are expected to remain high, and transit times on many routes are prolonged (*see also the Sector outlook for Port operations & maritime transportation above*), contributing to improving the competitiveness of air freight compared to sea freight.

Vietnam's GDP in 2023 reached a growth rate of 5.8%, the second highest in Southeast Asia after the Philippines.

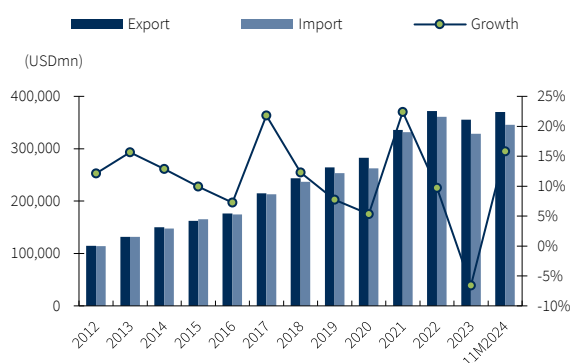
According to the IMF, Vietnam's GDP is forecast to reach about USD4.65 thousand in 2024 and increase by more than USD300 to 4.99 thousand in 2025, with a CAGR of 6.8%/year in the period 2024–2030.

Fig 7. Vietnam – GDP (USD/year)



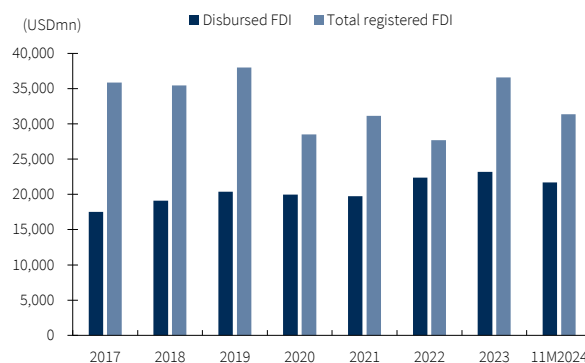
Source: Bloomberg, IMF

Fig 8. Vietnam – Import-export turnover (USDmn)



Source: UNCTAD

Fig 9. Vietnam – Registered &amp; disbursed FDI (USDmn)



Source: General Statistics Office of Vietnam

### Domestic airlines are expanding their fleets and new routes, creating growth momentum for the entire industry

Domestic airlines are continuously opening new routes and planning to add more large aircraft, significantly increasing their fleet size. In 2024, HVN and VJC have increased the number of new routes, mainly international routes, increasing the frequency of routes to Australia, Korea, and Japan. As of October, both airlines have increased their fleet size by three aircraft and planned to add about 16 aircraft by 2030 (HVN) and receive 20 more A330neo wide-body aircraft under a contract signed with Airbus (VJC). In addition, Bamboo Airways has just received new aircraft at the end of this year, planning to expand its fleet back to its original size in the next two years (to 18 aircraft compared to the current nine aircraft).

The expansion of domestic airlines' fleets and routes will partly offset the shortage of aircraft due to engine recalls and repairs in 2025 and meet the increasing demand for transportation from international passengers and cargo, while reducing outsourcing costs for the airlines themselves. In addition to increasing capacity, contributing to increasing overall output, new international routes will help change the passenger and cargo structure towards increasing the proportion of international revenue, boosting the business results of air transport and service enterprises.

### Airport upgrade and expansion projects are being accelerated

According to Decision No. 648/QĐ-TTg on the master plan for the development of airports and airport systems for the period 2021–2030, with a vision to 2050, the Government has approved a plan to increase the total number of airports to 30 by 2030 and 33 by 2050. As many key airports are overloaded and operating beyond their design capacity, leading to increased operating costs as at present, upgrading, expanding and building new airports is necessary and urgent. In addition to improving the operational capacity and service quality for aviation service enterprises, the expansion of infrastructure also creates conditions for airlines to increase the number of flights and aircraft operating, positively affecting the flow of passengers and cargo throughput. The two largest projects currently being implemented include Terminal T3 – Tan Son Nhat International Airport and Long Thanh International Airport Phase 1.

The construction of Terminal T3 Tan Son Nhat is two months ahead of schedule, and Long Thanh International Airport is planning to speed up the progress to put into operation from the beginning of 2026 instead of the end of 2026 as previously planned.

**Table 10. Vietnam – Key projects to be implemented from now to 2030**

Projects	Total investment (VNDbn)	Current capacity (million passengers)	Added capacity (million passengers)	Construction term	Progress
Long Thanh Phase 1	109,000	0	25	2023–2026	Construction started from the end of October 2023, and the construction policy of the runway 2 has just been approved. Component projects 1, 2, and 3 are being accelerated, expected to be completed before December 31, 2025. However, the component project 3 is meeting some obstacles related to equipment that is mainly imported from abroad.
Long Thanh Phase 2	76,600	25	25	2027–2030	The project has not yet been implemented.
Tan Son Nhat Terminal T3	10,990	30	20	2023–2025	The construction started in December 2022. About 80% of the work has been completed, expected to be put into operation from May 2025.
Noi Bai Terminal T2 Expansion	4,983	25	5	2023–2025	Construction started in May 2024.
Cat Bi Terminal T2 – Hai Phong	3,147	2	5	2024–2026	Cargo terminal project started in November 2024.
Dong Hoi Terminal T2	1,750	0.5	2.5	2024–2026	Investment policy has been approved.

Source: Airports Corporation of Vietnam, KB Securities Vietnam

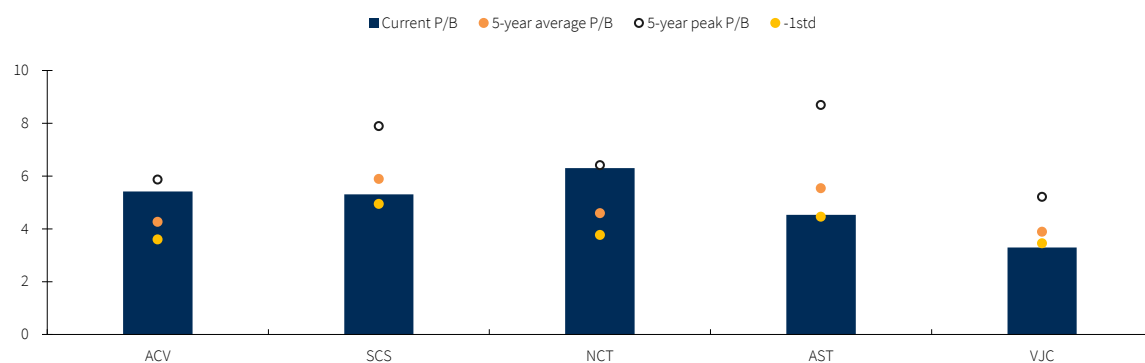
### **We are positive about the group of air transport and service stocks**

We have positive view on the group of air transport and service stocks, based on two factors: (1) the potential for sustainable growth of international and domestic passengers, and (2) the increasing demand for cargo transportation along with the potential for international trade growth in 2025, guaranteed by the expansion of the scale and scope of operations of airlines and the steady increase in the capacity of the Vietnam airport system.

The growth in passenger and cargo volume ensures growth in the business results of aviation service enterprises such as ACV, AST, and SCS. The business performance of air transport companies will also improve significantly when the two items that account for a large proportion in the cost structure, outsourcing costs and fuel prices, may witness a decrease in price (Brent oil prices are expected to fall to USD75/barrel in 2025 due to oversupply concerns). Investors can consider stocks with healthy financial structures and clear growth catalysts such as ACV, SCS, and AST. SCS and AST are two stocks with attractive prices compared to history when the current P/B is at the five-year level –1std.



Fig 11. Vietnam – P/V of air transport and service stocks (x)



Source: Bloomberg



# Companies

SCSC Cargo Service (SCS)  
Airports Corporation of  
Vietnam (ACV)

# SCSC Cargo Service (SCS)

## Big growth potential from new partners

Analyst Nguyen Ngoc Anh

anhntn@kbsec.com.vn

(+84) 24-7303-5333

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**1H24 revenue hit VND477billion  
(+43% YoY) with a GPM of 80%**

In 1H24, SCSC Cargo Service (SCS) recorded VND477 billion in revenue (+43% YoY), equal to 40% of the full-year revenue target. This was attributable to strong growth in cargo throughput (128,730 tons, +43% YoY) with (1) strong recovery of commercial activities from a low base in 1H23 and (2) new contracts with major customers signed from February 2024. GPM improved from 77% in 1H23 to 80% with larger proportion of international cargo (from 70% to 74%).

**SCS cargo volume benefits from the  
overall growth of the industry**

Cargo throughput of SCS and air cargo service businesses will benefit from (1) stable growth of Vietnam's import-export turnover and (2) the trend of shifting to air freight when sea freight rates remain high for a long time.

**Qatar Airways will positively  
contribute to SCS's business results  
in the coming years**

SCS won a contract to provide services to Qatar Airways from February 2024, increasing SCS's market share at Tan Son Nhat airport's cargo terminal to 49%. Qatar Airways is expected to contribute about 40,000 tons/year to the cargo throughput through SCS, boosting SCS's revenue and profit growth from this year.

**Tan Son Nhat T3 terminal project  
has promising long-term growth  
potential for SCS**

Tan Son Nhat International Airport's T3 passenger terminal should be put into operation from mid-2025. Once completed, it will raise Tan Son Nhat airport's operating capacity by 60%, expected to boost cargo throughput through SCS and optimize costs for the business in the cargo handling process.

**Valuation: BUY rating – Target price  
VND97,400**

Based on the valuation results, we recommend BUY for SCS shares with a target price of VND97,400/share.

**Buy** maintain

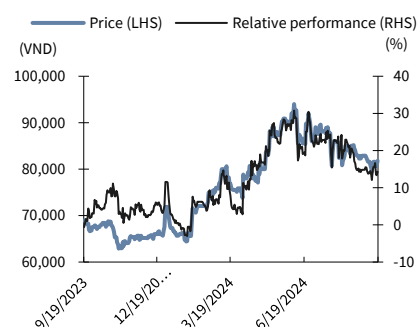
<b>Target price</b>	<b>VND97,400</b>
Upside	19.1%
Current price (Sep 18, 2024)	VND81,800
Consensus target price	VND101,400
Market cap (VNDtn/USDbn)	7.8/0.3

<b>Trading data</b>	
Free float	38.2%
3M avg trading value (VNDbn/USDmn)	12.9/0.5
Foreign ownership	26%
Major shareholder	Gemadept (33.6%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-4.0	-4.9	6.5	18.6
<b>Relative</b>	-4.3	-3.7	4.7	14.1

### Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	851	705	1,068	1,193
Operating income/loss (VNDbn)	699	571	861	984
NPAT-MI (VNDbn)	646	498	729	834
EPS (VND)	6,505	4,638	7,142	8,166
EPS growth (%)	-38%	-29%	54%	14%
P/E (x)	13	18	11	10
P/B (x)	6	6	5	4
ROE (%)	45%	37%	47%	44%
Dividend yield (%)	5%	4%	6%	6%



Source: Bloomberg, KB Securities Vietnam

## KB SECURITIES VIETNAM RESEARCH

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### Research Division

research@kbsec.com.vn

### Nguyen Xuan Binh – Head of research

binhnx@kbsec.com.vn

### Financials

#### Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

#### Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

### Consumer

#### Nguyen Duc Quan – Analyst

quannd@kbsec.com.vn

#### Nguyen Hoang Duy Anh – Analyst

anhnhd@kbsec.com.vn

### Real Estate

#### Pham Hoang Bao Nga – Manager

ngaphb@kbsec.com.vn

#### Nguyen Thi Trang – Analyst

trangnt6@kbsec.com.vn

### Industrials & Materials

#### Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

#### Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

### Macro & Strategy

#### Tran Duc Anh – Head of macro & strategy

anhtd@kbsec.com.vn

#### Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

#### Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

### Energy, Utilities & IT

#### Pham Minh Hieu – Analyst

hieupm@kbsec.com.vn

#### Nguyen Viet Anh – Analyst

anhnv3@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)**

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**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](mailto:ccc@kbsec.com.vn)

Website: [www.kbsec.com.vn](http://www.kbsec.com.vn)

**Investment ratings & definitions**

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**Investment Ratings for Stocks**

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

Buy:	Neutral:	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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