

Gemadept (GMD)

1Q falls as COVID-19 adds to competition pressure

Earnings down 16% as weak cargo volumes pressure costs

— 1Q earnings down 16.2% YoY to VND122.5 billion due to the: 1) 17% jump in SG&A expenses as costs rose to retain customers amid falling total cargo volumes; and 2) 27% higher financing costs. Revenue was down 4.4% YoY to VND601 billion and the gross margin remained stable at 39.5% vs the 39.7% seen during the same period last year.

Container volumes declined as competition heats up

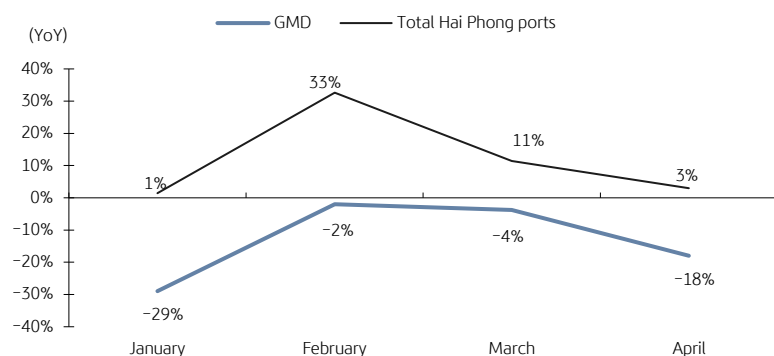
— Vessels docked fell by 4.7% YoY and fell more sharply by 39.3% YoY at the *Nam Dinh Vu* port. Total vessel tonnage decreased by 13.9% YoY in the first four months of 2020 as competition heats up from the *Hai Phong* port cluster, especially the *Lach Huyen* port. GMD was also hit harder because a large number of customers are from China and Hong Kong and were more negatively impacted by the coronavirus. This downward trend in total cargo volume will likely continue in the short- and mid-term as long as: 1) Wharves 1-2 at the *Lach Huyen* port run at full capacity; and 2) the impact of COVID-19 on the container port industry impacts more significantly in 2Q.

Phase 2 of the *Nam Dinh Vu* port project delayed

— GMD pushed back Phase 2 of the *Nam Dinh Vu* port project due to the impact of COVID-19 on the entire shipping industry and will restart the project after cargo volumes improve. Management does not expect any negative financial impact as no bank loans or financing has been raised for the project. The Gemalink project continues on schedule and should be completed and begin operations as planned for 4Q.

GMD's total vessel tonnage dropped in the first four months of the year compared to the same period last year despite continuing positive growth at the Hai Phong port cluster (especially in February when COVID-19 concerns led to a spike up in growth)

Fig 1. Hai Phong Ports – Growth in vessel tonnage, Jan–Apr 2020 (% YoY)



Source: Maritime Administration of Hai Phong

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

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

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(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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