



# Gemadept Corporation (GMD: HSX)



## FULL REPORT

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**GMD is the biggest enterprise in port operation among listed companies**

Founded in 1990, with the ownership of some large ports such as Nam Hai Dinh Vu and Nam Dinh Vu ports, GMD has become one of the leading enterprises in port operation of Vietnam, and had the largest revenue among listed companies.

**Nam Dinh Vu Port is a growth driver for GMD in short and medium terms**

The growth drivers of GMD in short-midterm come from the production at Nam Dinh Vu Port, after the old two ports do not have much room for development left due to operating beyond capacity. After completing three phases, Nam Dinh Vu Port will have a designed capacity of 1.5 million TEU per year, equal to 1.5 times of the capacity of GMD ports in Hai Phong in 2018.

**Gemalink project has a positive outlook and is expected to boost GMD growth in the medium term**

Gemalink deep sea port in the Phase 1 with a capacity of 1.5 million TEU is expected to become effective in the 2H of 2020, and have a positive outlook in the long term, based on: (1) Cai Mep – Thi Vai Ports have the highest development speed in Vietnam; (2) The big shareholder, CMA – CMG, is expected to gain 1 – 1.2 million TEU, equivalent to 80% capacity after the Phase 1 of the project comes into operation.

**The lowest charges of international container handling at Hai Phong – Cai Mep ports increased by 10%.**

According to the Circular No. 54/2018 recently published at the beginning of 2019 by the Ministry of Transport, the lowest of international container handling charges at Hai Phong and Cai Mep ports will increase by about 10%. This is a rare opportunity for businesses to improve their service fees.

### Risks

Business activities of GMD meet some risks as follows: (1) Escalating US-China trade tensions (2) Increasing competition among Hai Phong ports after HICT Port came in to effect; (3) Unimproved infrastructure at Cai Mep – Thi Vai Port; (4) Difficulties in the divestment of core business segments.

## BUY

|  |                                 |
|--|---------------------------------|
| <b>Target price</b>                            | <b>33,100 VND</b>               |
| Up/Down  | 22.6%                           |
| Current price (11/07/2019)                     | 27,000 VND                      |
| Target price                                   | 33,100 VND                      |
| Market cap                                     | 8,016 bill VND<br>(344 mil USD) |
| Exchange rate on 08/07/2019: 1USD = 23,300 VND |                                 |

### Trading data

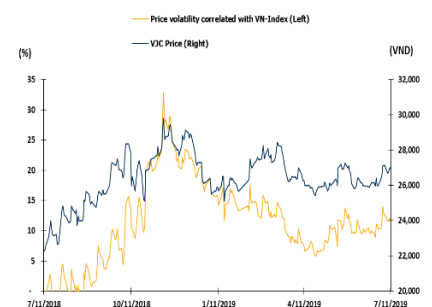
|                            |             |
|----------------------------|-------------|
| Outstanding share number   | 296,924,957 |
| Average trading volume(3M) | 266,179     |
| % foreign ownership        | 49%         |

### % price change

| (%)     | 1M   | 3M   | 6M    | 12M   |
|---------|------|------|-------|-------|
| GMD     | 3.8% | 3.8% | 5.1%  | 21.1% |
| VNINDEX | 3.0% | 0.1% | 10.0% | 9.6%  |

### Forecast business performance

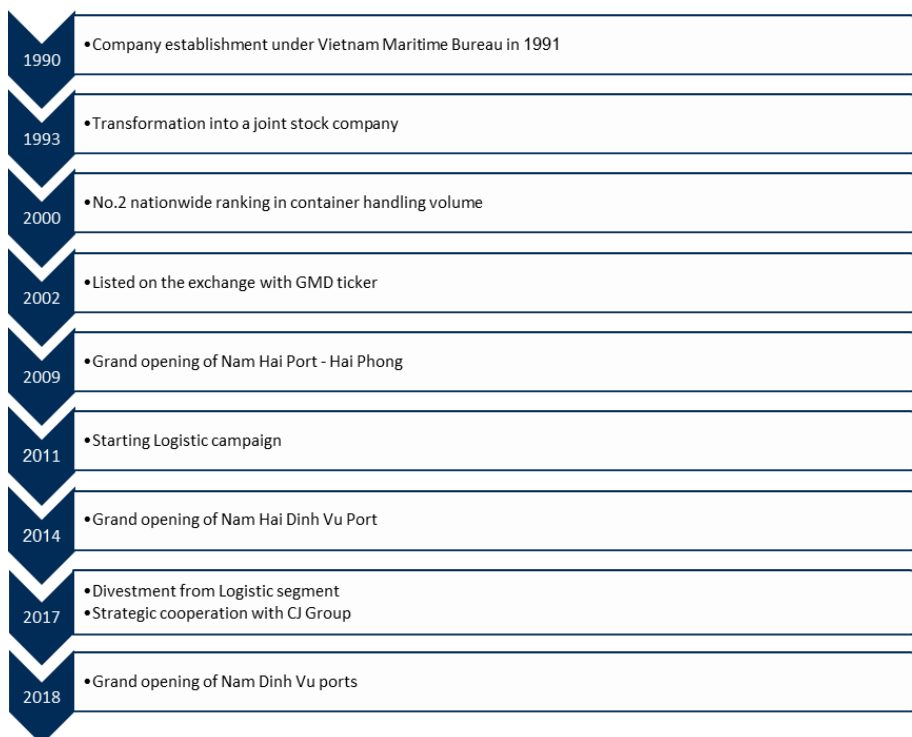
| FY-End                 | 2017A  | 2018A    | 2019F    | 2020F  |
|------------------------|--------|----------|----------|--------|
| Net revenue (Bil VND)  | 3,984  | 2,708    | 2,806    | 3,073  |
| Growth rate (%)        | 6.48%  | -32.04%  | 3.64%    | 9.52%  |
| Gross profit (Bil VND) | 1,029  | 968      | 1,091    | 1,197  |
| GPM (%)                | 25.83% | 35.76%   | 38.88%   | 38.96% |
| Net profit (Bil VND)   | 581    | 1,900    | 588      | 636    |
| Growth rate (%)        | 31.03% | 226.81%  | -69.06%  | 8.08%  |
| EPS (VND)              | 1,762  | 6,222.81 | 1,742.63 | 1,883  |
| EPS growth             | -18.9% | 253.2%   | -72.0%   | 8.1%   |
| P/E                    | 15.10  | 4.27     | 15.26    | 14.12  |



Source: KBSV

## I. OVERVIEW

### HISTORY OF DEVELOPMENT

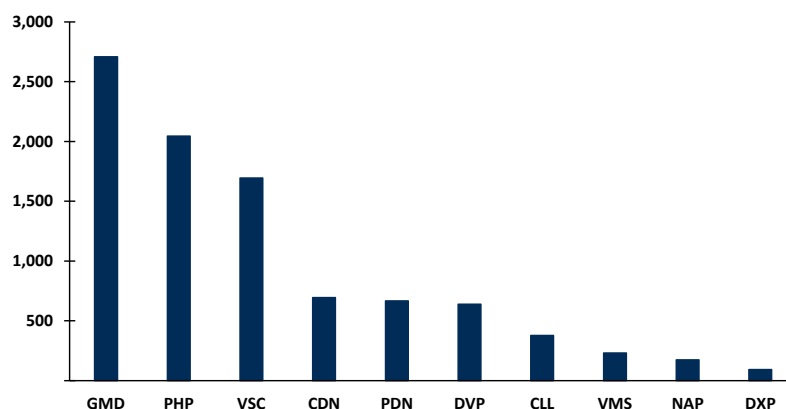


**GMD is the biggest port operators among listed companies**

### POSITION IN THE SECTOR

Established in 1990 under the Vietnam Maritime Bureau, GMD is one of the first to become a corporate company after 30 years of operation. GMD has owned large ports such as Nam Dinh Vu and Dinh Vu, and become one of the leading enterprises in port operation in Vietnam, with the biggest revenue scale in listed companies. (Figure 1).

Figure 1: Revenue of listed port operating companies in 2018



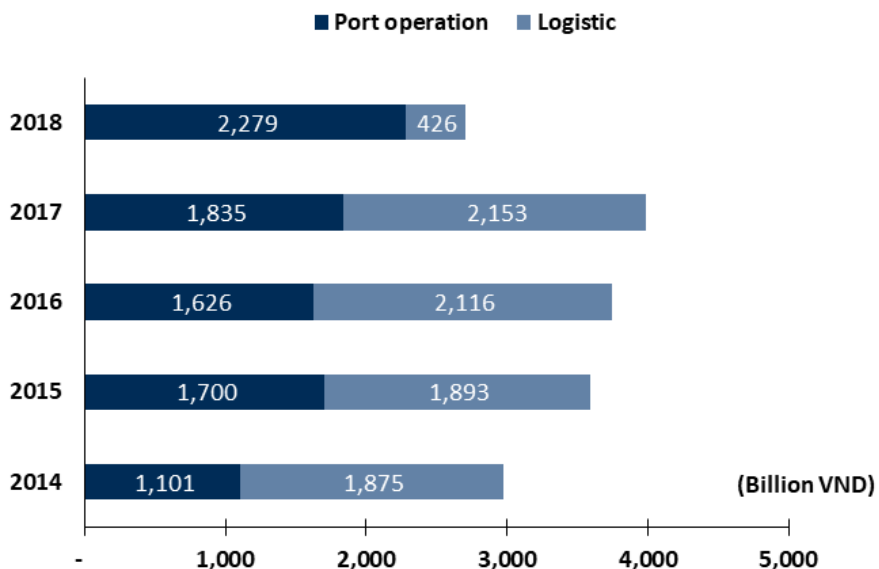
Source: Financial statements of these companies

### REVENUE STRUCTURE

GMD has been operating with two main business fields which are Port operation and Logistics. In 2018, Port operation segment contributed 84% to the total revenue; Logistics added 16% to the total revenue (Figure 2). The revenue

structure changed significantly compared to that in 2017, after GMD divested of Logistics and shipping in Q1/2018.

Figure 2: GMD’s revenue structure in 2014-2018

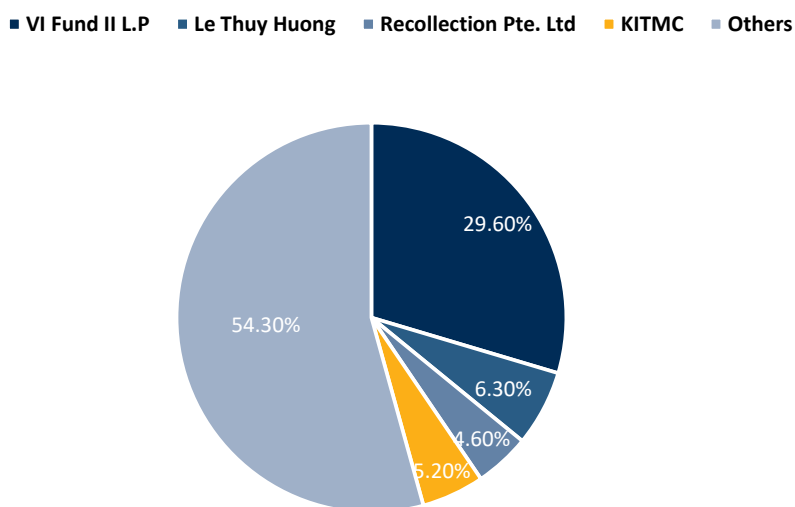


Source: GMD

**OWNERSHIP STRUCTURE**

Gemadep Corporation has a charter capital of VND 6,528 billion, in which 51% is owned by domestic shareholders, the rest is owned by foreigners. VI Fund II L.P is the biggest shareholder, holding 29.6%. Ms Le Thuy Huong is holding 6.3%, and KITMC Fund holds 5.2%. The rest are other small shareholders.

Figure 3: Revenue structure of Gemadep Corp



Source: Fiinpro

## II. BUSINESS ACTIVITIES

### BUSINESS MODEL

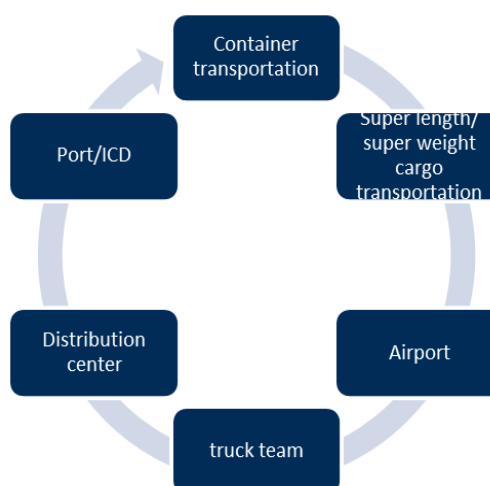
**GMD runs by managing of 18 subsidiaries, and 17 affiliated companies**

**GMD is one of few enterprises in Vietnam that can provide closed logistic service chain**

GMD runs by managing of 18 subsidiaries, and 17 affiliated companies. Port operation segment takes for a large component in total revenue, while Logistics just adds a part in the total revenue via interests from affiliates. Rubber and Real estate's operations are not very effective, so GMD is considering to find a partner to divest of these two segments.

Joining both port operation and logistics, owning sea ports, Inland Container Depot (ICD), airports, vehicles and distribution centers, GMD is one of few enterprises in Vietnam that can provide closed logistic service chain (Figure 4). The proactive operation of full range of services in the chain helps GMD to reduce outsourcing costs, and ensure the quality of services provided to customers compared to other competitors.

Figure 4: Closed Logistic service chain of GMD



Source: KBSV

### PORT OPERATION

GMD has currently owned and run 3 container ports, 2 ICDs with the total designed capacity by the end of 2018 reaching 2.25 million TEU/year, and 1 bulk cargo port with a capacity of 2,400 tons; total production in 2018 hitting 2,06 million TEU, equal to 91.6% capacity (Table 5).

Table 5: Production capacity of GMD ports

| Cảng            | Loại hình               | Địa điểm   | Công suất thiết kế (nghìn TEU) | Sản lượng 2018 (Nghìn TEU) | Hiệu suất 2018 |
|-----------------|-------------------------|------------|--------------------------------|----------------------------|----------------|
| Nam Hải         | Cảng Container          | Hải Phòng  | 150                            | 180                        | 120%           |
| Nam Hải Đình Vũ | Cảng Container          | Hải Phòng  | 500                            | 660                        | 132%           |
| Nam Đình Vũ     | Cảng Container          | Hải Phòng  | 500                            | 190                        | 38%            |
| Gemalink        | Cảng Container nước sâu | Cái Mép    | 1,500                          | -                          | 0%             |
| Phước Long      | ICD                     | TP.HCM     | 600                            | 750                        | 125%           |
| Nam Hải         | ICD                     | Hải Phòng  | 500                            | 280                        | 56%            |
| Dung Quất       | Cảng hàng rời           | Quảng Ngãi | 2,400 (tấn)                    | 2,120 (tấn)                | 88%            |

Source: GMD

**The total container production of containers at GMD's ports in Hai Phong reached 1,030 thousand TEU in 2018, equal to 25% total number of containers arriving at Hai Phong ports**

GMD has currently run 3 container ports in Hai Phong, including Nam Hai, Nam Hai Dinh Vu and Nam Dinh Vu ports with a designed capital of 1,150 thousand TEU/year and the production in 2018 hitting 1,030 thousand TEU (Figure 7). In 2018, it is estimated that GMD's production accounted for 25% total number of containers arriving at Hai Phong ports.

Table 6: Some important ports in Hai Phong

| Port             | Berth draft (m) | Maximum Vessel size (DWT) | No. of berth | Berth length (m) | Design capacity (TEUs) | % capacity 2018 |
|------------------|-----------------|---------------------------|--------------|------------------|------------------------|-----------------|
| Nam Đình Vũ GĐ 1 | 11.5            | 40,000                    | 2            | 440              | 500,000                | 38%             |
| Nam Hải Đình Vũ  | 11.5            | 30,000                    | 2            | 500              | 500,000                | 132%            |
| Đình Vũ          | 8.7             | 20,000                    | 2            | 425              | 600,000                | 120%            |
| Tân Vũ           | 9.4             | 20,000                    | 5            | 980              | 1,000,000              | 118%            |
| Vip Green        | 9.5             | 30,000                    | 2            | 400              | 500,000                | 110%            |
| Lạch Huyện       | 16              | 160,000                   | 2            | 750              | 1,100,000              | 0%              |

Source: KBSV

**After six months of operation, the total container production of Nam Dinh Vu Port reached 190 thousand TEU, equal to 38% capacity of the Phase 1.**

The growth force in the short and medium term of GMD comes from the increase in the production of Nam Dinh Vu Port, after the old two ports do not have much room for development left due to operating beyond capacity. Nam Dinh Vu Port is located at an ideal location, at the downstream of Cam River, close to the estuary, has deep draft which is acceptable for 40,000 DWT ship to dock. After completing three phases, Nam Dinh Vu Port will have a designed capacity of 1.5 million TEU per year, equal to 1.5 times of the capacity of GMD ports in Hai Phong in 2018.

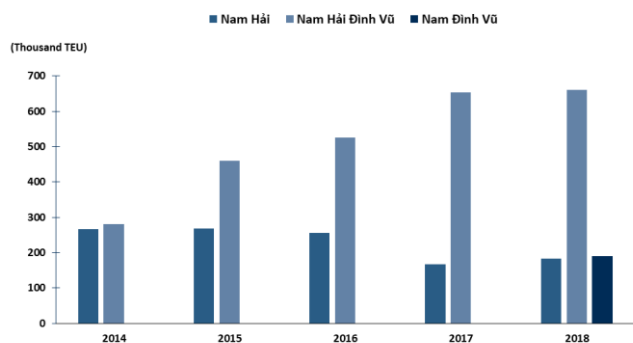
**ICD and Dung Quat's operation was stable, which helps to complete the demand-supply chain**

GMD owns 2 ICDs which are Phuoc Long and Nam Hai ports, and a bulk cargo port – Dung Quat. Phuoc Long ICD is the first inland port of GMD as well as of Vietnam, which provides truck, customs clearance and barge transport services while Nam Hai Port is the largest ICD in Hai Phong with a total area of 21ha, of which 7ha is used for container yard, the rest is distribution area, providing service packages for industrial parks in Hai Phong. Dung Quat, which is an inland port located in the Middle area, mainly received wood commodities and the volume of cargo throughput is quite stable in the past years. In 2018, business results of these ports exceeded the customs clearance plan set in 2017.

**Gemalink deep-water port phase 1 with a capacity of 1.5 million TEU is expected to come into operation in the second half of 2020**

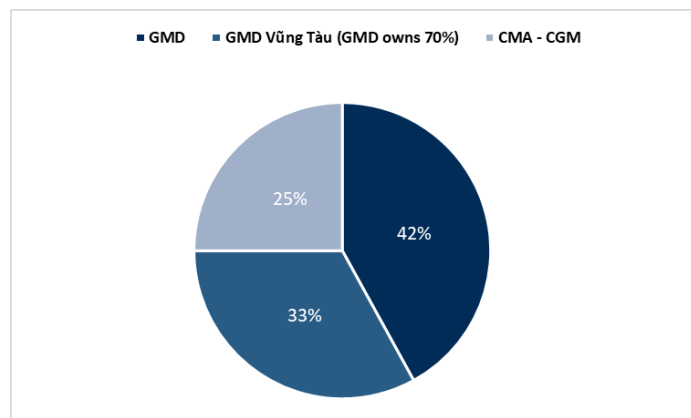
Gemalink is the largest port project in Cai Mep, Thi Vai with a total area of 72 ha. Gemalink is the only deep-water port in this area with the capacity to receive up to 3 mother ships to handle cargo, which can handle vessels with the largest payload up to 200,000 DWT in the world. After a temporary halt of project implementation due to unfavorable sector movements, Gemadept (65%) and its partners (35%) (Figure 8) have resumed the Gemalink project with a total investment of USD 330 million for phase 1, of which USD 110 million was invested from the previous period, the rest is financed by loan capital. The phase 1 is expected to start operating in the second half of 2020 with a design capacity of 1.5 million TEU.

Figure 7: Port production of GMD 2014-2018



Source: GMD

Figure 8: Gemalink’s ownership structure



Source: GMD

**LOGISTICS**

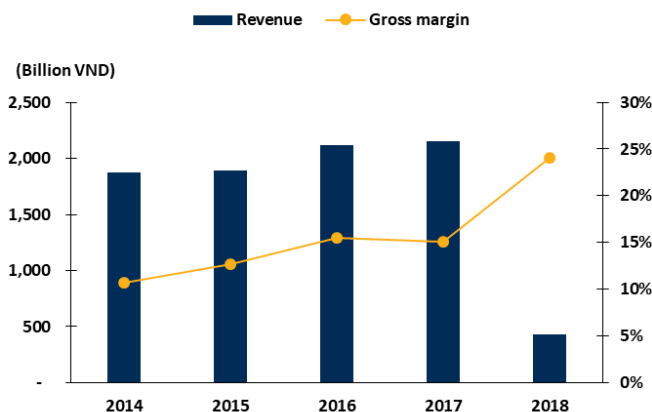
**The revenue from Logistics plummeted due to divestment**

In Q1/2018, GMD divested 51% shares of Gemadept Logistics Co.,Ltd, which is a company operating in Logistic; and 49% shares of Gemadept Shipping to accumulate resources for port operation segment with better gross profit margin (GPM). Besides, via the sale of Logistic segment to CJ Group from Korea, which is an experienced corporation in logistics, GMD’s closed logistic service chain has been improved. The sale of capital made the earnings from Logistics plunge 80% yoy in 2018 (Figure 9). At the moment, GMD records business results from the two companies through profits from associates and only consolidating profits from marine shipping services.

**SCS (GMD holds 36.4%) has an impressive growth with profit CAGR in 4 years hitting 32.4%.**

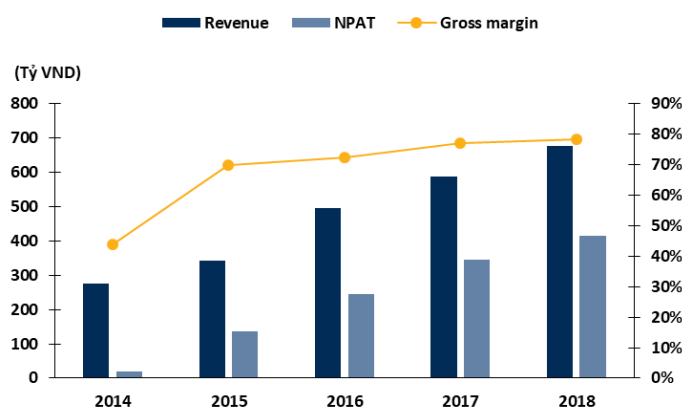
GMD has currently owned 36.4% shares of Saigon Cargo Service Corp (SCS), which is one of the only two companies specializing in airport operation in Tan Son Nhat Airport. SCS has been maintaining an impressive business growth since previous years with CAGR of 4-year revenue reaching 52.2% and CAGR of profit reaching 32.4%. In 2018, NPAT of SCS was VND415.7 billion, gaining 20.7% yoy, mainly supporting the profit for affiliated companies of GMD (Figure 10).

Figure 9: Figure 9: Business performance of Logistic segment in 2014-2018



Source: GMD

Figure 10: SCS business results in 2014-2018



Source: SCS

**RUBBER & REAL ESTATE**

**Rubber segment has seen ineffective business results, so**

Rubber segment, which has a book value of VND1,600 billion, equal to 16% of the total assets of GMD, was in the planned list for divestment in 2018. However,

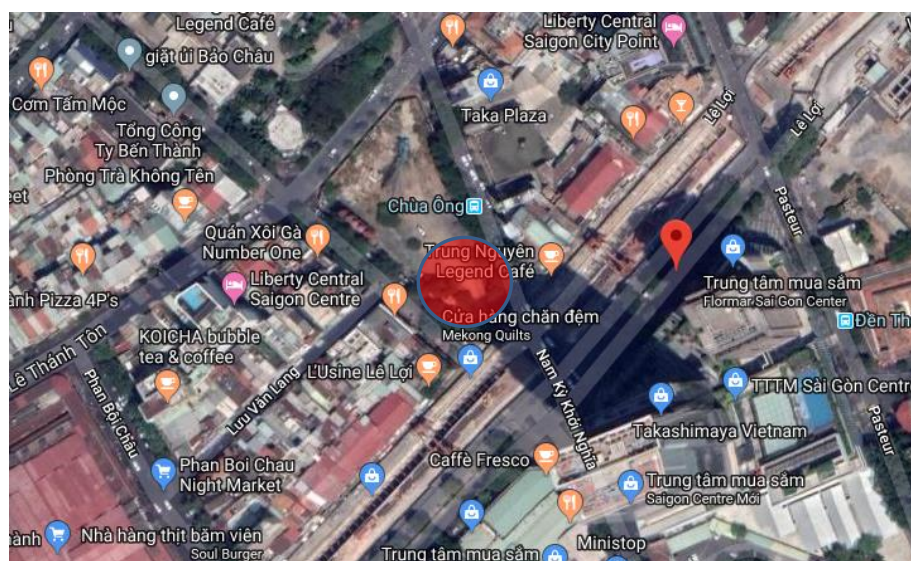
## GMD is finding a partner for divestment

**GMD owns 3,640 m2 of “golden land” in HCMC, and 6,715 m2 of land in Vientiane, currently looking for partners to divest.**

there are many difficulties for the company to find a divesting partner due to low rubber prices. In previous years, the rubber segment had not gained profit for GMD, but still cost operational expenses. GMD has stopped to growth new rubber trees and only taken care of the existing ones. It is expected that the company will try exploiting rubber trees in 2019, and will imply this massively when rubber prices see some improvements.

GMD has currently owned the Saigon Gem Project with the total area of 3,640 m2 at a favorable location in Le Loi - Nam Ky Khoi Nghia (Figure 11). This project is expected to have 49 stories, including shopping malls, offices and hotels. At the moment, the legal procedures of the project have not been completed yet, the construction is planned to be started by 2020. In addition, GMD has currently owned 6,715 m2 area of land in Vientiane – Laos with 7 floors and 1 basement, with a total floor area of 21,329 m2. The project has now completed the work of testing piles, expected to build piles and basements in 2019. According to the Board of Managers, GMD is willing to divest from these 2 projects when the partner pays a reasonable price.

Figure 11: The location of Saigon GEM



Source: KBSV

**Revenue in 2018 decreased by 32.2% yoy due to divestment of Logistic segment, NPAT rose by 263.8% yoy**

**In Q1/2019, revenue dropped 8.9% yoy, NPAT went down by 90.6% yoy.**

### III. BUSINESS PERFORMANCE & FIANCIAL STATUS

Net revenue in 2018 reached VND 2,707 billion, down 32.2% yoy as the company no longer recorded revenue from logistics which contributed a large proportion of revenue in previous years (Figure 12). Revenue CAGR for the period 2012-2017 reached 9.1%. Port revenue in 2018 was VND 2,278 billion, up 24% yoy; CAGR of port operation in 5 years reached 16%. GPM in 2018 was 35.76%, increasing nearly 10% against that in 2017 due to divestment of Logistics segment with low GPM (Figure 13). NPAT in 2018 was VND 1,848 billion, surging 263.8% yoy thanks to the revenue from divestment activities.

In Q1/2019, GMD continued to maintain growth in its core business with port operation revenue of VND 560.6 billion, up 12.3% yoy while net revenue decreased by 8.9% yoy due to Q1/2018 still recorded earnings from Logistics

segment. Q1/2019 net profit reached VND 119.6 billion, down 90.6% yoy as Q1/2018 recorded an extraordinary financial income from divestment of Logistics.

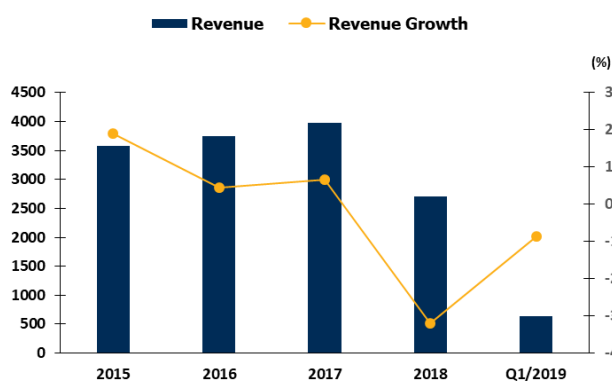
**Low profitability because of the large proportion of assets from non-core business**

ROE and ROA of GMD accumulated in the last 4 quarters were 10.4% and 6.8%, respectively, lower than those of other competitors in the sector such as VSC, DVP or HAH (Figure 14). The main reason for lower profitability ratios is that GMD has a lot of capital in 2 unprofitable business segments including rubber and real estate. Up to now, the book value of these two segments accounts for about 16.9% of GMD's total assets.

**Debt/total asset ratio reached 35% in 2018, it is likely that GMD will increase leverage ratio in the future.**

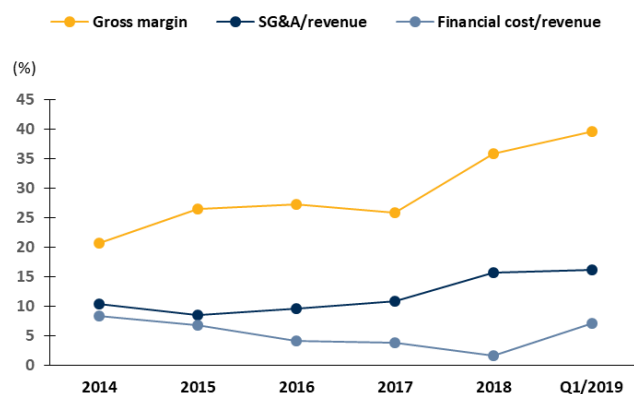
GMD's debt/total asset ratio reached 35% in 2018 and tends to decrease in the last 2 years (Figure 15). In the coming time, with the plan to boost investment in increasing capacity, especially in Nam Dinh Vu port project phase 2 and phase 3 and Gemalink project, we positive that GMD will have to increase the leverage for financing. However, the payment pressure on GMD in the coming time will not be too large as most of them are long-term debts, and GMD has a strong and stable business operation cash flow which has been positive in for many recent years.

Figure 12: Revenue of GMD in 2015-2019



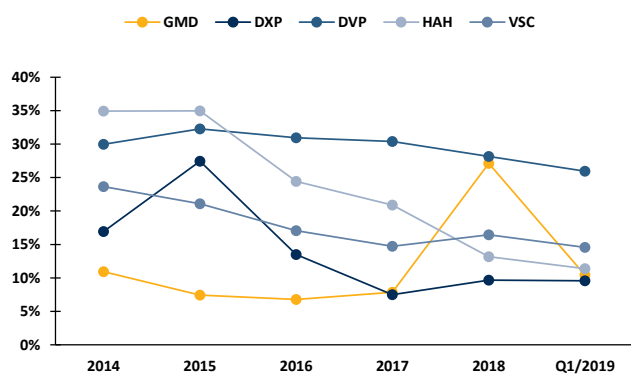
Source: GMD, KBSV

Figure 13: GPM & cost structure in 2014-2019



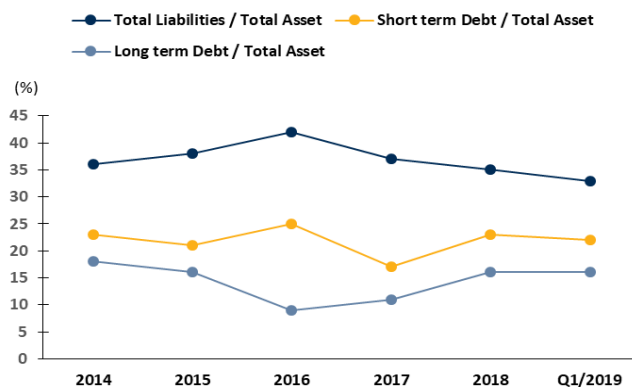
Source: GMD, KBSV

Figure 14: ROE of port operating companies



Source: KBSV

Figure 15: GMD financial structure in 2014-2019



Source: GMD



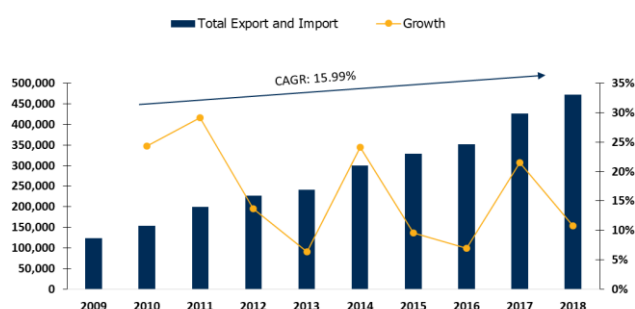
**Vietnam is in the process of strong and deep integration into global trade**

**IV. INVESTMENT HIGHLIGHT**

Vietnam is in the process of strong and deep integration into global trade reflected in the growth of trading activities. Specifically, import and export turnovers have continuously increased for the last 10 years with CAGR of 15.99% in 2009-2018 (Figure 16). Notably, in the last 3 months, Vietnam is one of few Asian countries with a positive growth in import-export turnover (Figure 17). We believe that the total import-export turnover will continue to increase by 10-12% in 2019 based on:

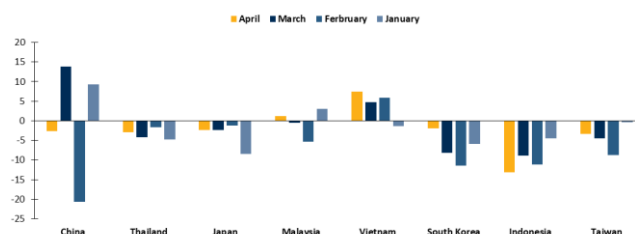
- (1) FDI inflows continue to flow to Vietnam. In the first 4 months of 2019, total realized FDI increased by 11.7% yoy, newly registered capital increased by 50.4% yoy, new project number reached 1,082, gaining by 22.5% yoy (Figure 18);
- (2) Benefit from the US-China trade war. With trade tensions not showing signs of cooling down, Vietnam will be a beneficiary country when multinational companies change their supply chains and move manufacturing facilities from China to other countries;
- (3) Influence of FTAs. CPTPP will officially come into effect from January 14, 2019, with agreements signed or under negotiation (Figure 19), which is expected to be a growth driver for Vietnamese trade in the upcoming period.

Figure 16: Import turnover growth of Vietnam in 2009-2018



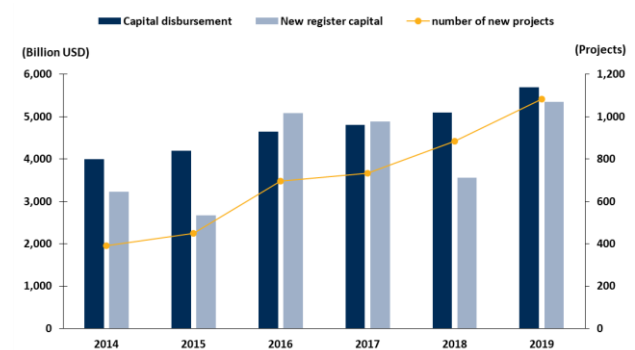
Source: Vietnam Customs, KBSV

Figure 17: Export turnover growth in the first 4 months of some regional countries



Source: KBSV

Figure 18: Total FDI flowing into Vietnam in 2014-2019



Source: FIA

Figure 19: FTAs in Vietnam

| Agreement  | Status               | Partner   |
|------------|----------------------|---|
| CPTPP      | valid from 01/2019   | Việt Nam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia |
| AHKFTA     | Valid from 11/06/201 | ASEAN, Hongkong   |
| EVFTA      | Signed               | Việt Nam, EU (28 members)   |
| RCEP       | Negotiating          | ASEAN, China, Korea, Japan, India, Australia, New Zealand   |
| EFTA       | Negotiating          | Việt Nam, EFTA (Swiss, Norway, Iceland, Liechtenstein)  |
| Israel FTA | Negotiating          | Việt Nam, Israel  |

Source: Ministry of Industry and Trade

**CAGR of container capacity going through Vietnam ports reached**

Vietnam is one of the countries that achieved the most impressive container capacity growth in the world. According to World Bank, Vietnam's container capacity has a CAGR of 10.9% in the period of 2010-2017, higher than the world

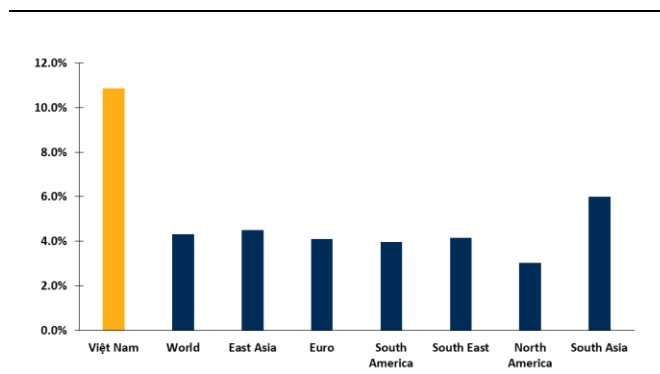
10.9% in 2010 – 2017.

**The charges of international container handling in Hai Phong and Cai Mep ports gained 10%**

average of 4.3%, 4.5% of East Asia and 6.0% of South Asia (Figure 20). According to the Decision No. 1037/QĐ TTg on the master plan of Vietnam's seaport sector, the total output of goods going through Vietnam ports will reach 1,542 million tons in 2030, equivalent to CAGR in 12 years reaching 9.3%. We expect a growth of 9.3%/year can be achieved based on the above positive macro factors.

According to the Ministry of Transport's new Circular 54/2018, the lowest charges for international container handling at Hai Phong and Cai Mep ports will increase by about 10% (Figure 21). This is a rare opportunity for businesses to improve service prices amid high competition in the sector due to oversupply and weakening negotiating position and prices compared to other international shipping companies. In addition, the above increase does not affect the competitiveness of Vietnam ports because the current charges of Vietnam's handling services are much lower than those in other countries. Specifically, in Hai Phong, the new charge is about USD 33/20 feet container, while in Cambodia it is USD65/20 feet container, in Malaysia is USD52/20 feet container, in the Philippines is about USD130/20 feet container.

Figure 20: CAGR of container capacity at ports in 2010-2017



Source: World Bank

Figure 21: Listed charges of container handling according to Circular 54/2018

|                   |         | =< 20 feet |     | =< 40 feet |     | > 40 feet |     |
|-------------------|---------|------------|-----|------------|-----|-----------|-----|
|                   |         | Old        | New | Old        | New | Old       | New |
| Zone 1 (North)    | Lowest  | 30         | 33  | 45         | 50  | 52        | 57  |
|                   | Highest | 53         | 53  | 81         | 81  | 98        | 98  |
| Lạch Huyện        | Lowest  | 46         | 46  | 68         | 68  | 75        | 75  |
|                   | Highest | 60         | 60  | 88         | 88  | 98        | 98  |
| Zone 2 (Middle)   | Lowest  | 45         | 45  | 68         | 68  | 102       | 102 |
|                   | Highest | 59         | 59  | 89         | 89  | 132       | 132 |
| Zone 3 (South)    | Lowest  | 41         | 41  | 62         | 62  | 75        | 75  |
|                   | Highest | 53         | 53  | 81         | 81  | 98        | 98  |
| Cái Mép - Thị Vải | Lowest  | 46         | 52  | 68         | 77  | 75        | 85  |
|                   | Highest | 60         | 60  | 88         | 88  | 98        | 98  |

Source: Ministry of Transport

**Nam Dinh Vu Port expects to achieve a large production thanks to its favorable location and excess capacity**

Nam Dinh Vu Port is located at the downstream of Cam River, close to the estuary, has deep draft which is acceptable to dock for 40,000 DWT ships. Nam Dinh Vu Port is expected to attract large container volume because downstream ports have a competitive advantage over upstream ports thanks to more deep draft, capable of accommodating large vessels, reducing fuel costs and time to move and release ships for customers because ships do not have to go deep into Cam River area. According to data from enterprises, upstream ports such as Nam Hai and Hai An ports have shown signs of declining output in recent years, while most of downstream ports such as Tan Vu, Dinh Vu, and Nam Hai Dinh Vu ports have exceeded its capacity and not had an expansion plan (Figure 22). Currently, Nam Dinh Vu Port only competes with Green Vip Port and Lach Huyen Deep-water Port (HICT) in the downstream area. In addition, Nam Dinh Vu is the closest port to the sea estuary among downstream ports and the only port in the Nam Dinh Vu non-tariff industrial zone, so this port will be the main focal point to receive large quantities of goods into the industrial zone. It should be noted that commodities coming to the industrial zone will prioritize near ports to save transportation costs.

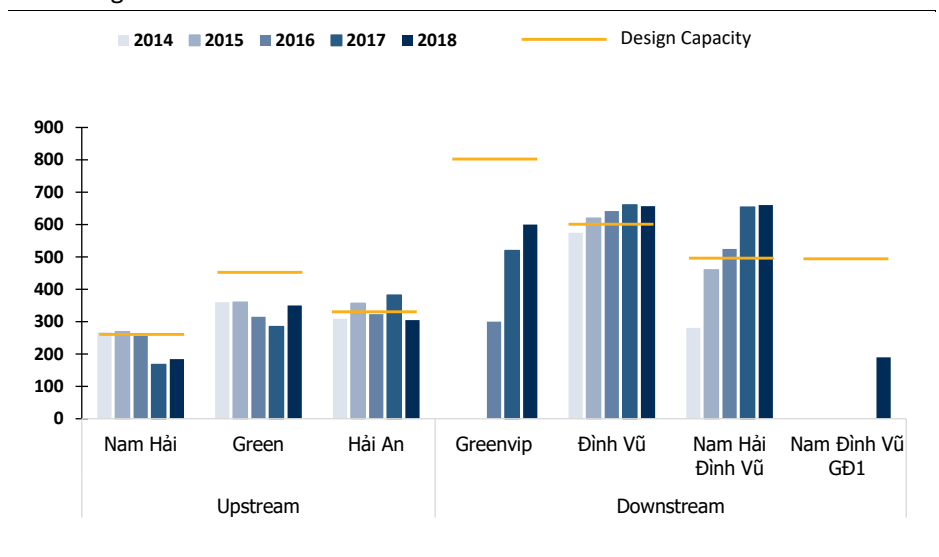
**GMD plans to complete Phase 2**

Currently, Nam Dinh Vu and Lach Huyen are of the few ports that plan to expand

and Phase 3 of Nam Dinh Vu Port, raising the total capacity to 1.75 million TEU.

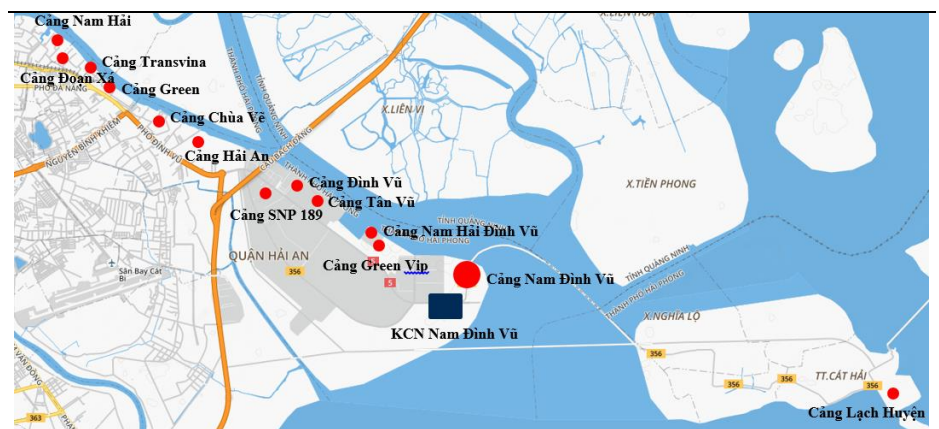
capacity in the period 2020-2025. Specifically, GMD plans to continue investing in Nam Dinh Vu Phase 2 in 2020 and the 3-year phase 2022-2023 to increase the total capacity at this port to 1.75 million TEU, ensuring long-term growth of GMD in the near future.

Figure 22: A comparison of capacity between upstream and downstream ports in Hai Phong in 2014-2018



Source: Data from companies, KBSV

Figure 23: Location of ports in Hai Phong



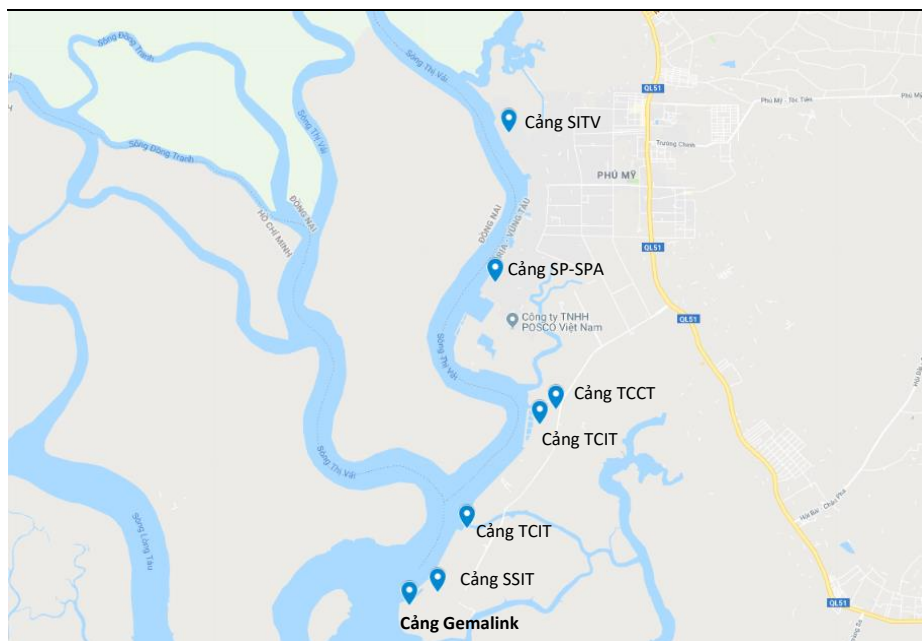
Source: KBSV

**Positive outlook of Gemalink is predicted based on: (1) Potential growth of Cai Mep – Thi Vai Port; (2) support from a large shareholder CMA – CGM.**

Gemalink Port has a positive outlook because Cai Mep – Thi Vai Port currently has the fastest growth rate in Vietnam. According to the Maritime Bureau of Vietnam, CAGR in 2012-2017 of this region reached 22.7%. The shift of goods from traditional ports in HCMC to Cai Mep – Thi Vai ports is happening; the proportion of commodities moved through Vung Tau was 34.1% in 2018, higher than 30.6% in 2013. Thanks to its favorable location, Cai Mep – Thi Vai ports may become an international transit station which can accommodate mother ships weighing up to 200,000 DWT. In 2018, Cai Mep – Thi Vai ports accommodated up to 28 ships per week, including 22 international transporting ships and 6 domestic transporting ships. These figures are much more than the figure of 8 ships in 2013. According to the latest data, in the first six months of 2019, the

total number of accommodated containers was 1.6 million TEU, gaining 24% yoy. In addition, Gemalink Port expects to be supported by the large shareholder CMA-CGM, one of the largest container transportation providers in the world. Specifically, CMA – CGM expects to bring Gemalink Port 1 – 1.2 million TEU per year, equal to 70%-80% capacity in the Phase 1.

Figure 24: Ports at Cai Mep – Thi Vai area



Source: KBSV

Figure 25: List of ports at Cai Mep – Thi Vai area

| Port        | Berth draft (m) | No. of berth | Berth length (m) | Maximum Vessel size (DWT) | Design capacity (thousand TEUs) |
|-------------|-----------------|--------------|------------------|---------------------------|---------------------------------|
| SITV        | 12              | 3            | 727              | 80,000                    | 1,100                           |
| SP-PSA      | 15              | 1            | 600              | 120,000                   | 1,500                           |
| TCCT - TCIT | 17              | 3            | 890              | 80,000                    | 1,500                           |
| CMIT        | 17              | 2            | 600              | 160,000                   | 1,150                           |
| SSIT        | 17              | 1            | 600              | 160,000                   | 1,570                           |
| Gemalink    | 17              | 3            | 1,150            | 200,000                   | 1,500                           |

Source: KBSV

### **GMD has paid 15% - 20% dividends regularly over the years**

In recent years, GMD has paid cash dividends regularly, averaging about 15% - 20% per year, equivalent to 5.6 - 7.7% dividend yield at the current price. Especially, in 2018, after successfully divesting from Logistic segment, GMD paid 80% cash dividend. With stable business growth, positive cash flow from operating activities, we believe that GMD will continue to maintain a cash dividend policy in the coming years, and this company will most likely to pay dividends if it GMD successfully divests of rubber and real estate.

### **Expects to gain extraordinary profits from extra business**

The two extra segments of GMD are rubber and real estate, which are all of great value, and account for a high proportion of total assets. GMD is planning to divest from these two segments, but each segment is facing its own difficulties.

**segments**

**GMD canceled some business lines to remove the limit of foreign investment ownership under 49%.**

In case of successful divestment, GMD can record extraordinary profits, and have more capital to serve production and business activities and improve financial indicators.

At the Annual General Meeting, GMD has approved the cancellation of some business lines to eliminate the limit of foreign investment ownership under 49%. On July 2, 2019, SSJ Consulting Co., Ltd, a subsidiary of Japan's large multidisciplinary group Sumitomo Corporation, registered to buy 29.7 million GMD shares, equivalent to 10% of charter capital. GMD's expansion of foreign room will be a positive supportive factor for GMD when foreign cash flow will improve liquidity and raise stock prices to the reasonable value of the company. At the same time, the interest of foreign investors to GMD will enhance the potential development of GMD.

## V. RISKS

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**Unpredictable moves from the trade war**

We assess that GMD's business operations may face some main risks as follows:

On October 10, 2019, the US decided to raise taxes from 10% to 25% for USD200 billion of Chinese goods, bringing the total number of goods taxed 25% to USD250 billion. Vietnam is considered as one of the beneficiaries in the short term with many industries which will replace Chinese goods on the US market. However, in the long term, the US-China trade war affects the global supply chain and global economic growth, thereby negatively affecting Vietnam's export activities. As estimated by the NCIF, if the US imposes a tax on USD34 billion of Chinese goods, Vietnam's GDP will decrease by 0.09% in 2019 and decrease by 0.12% in 2020-2021. In addition, Vietnam is currently on the watch list by the US because there is a large trade surplus with the US, and an amount of Chinese goods are being labeled as Made in Vietnam to avoid taxes when exported to the US. GMD in particular and seaport enterprises in general will be unpredictably affected when Vietnam's and world trade activities are negatively impacted by trade war.

**Fiercer competition among Hai Phong ports after HICT comes into operation**

HICT Port Phase 1 has been operated since Q2/2018 with a capacity of 1.1 million TEU, capable of accommodating large vessels with a capacity of 160,000 DWT. We assess the competitiveness of HICT Port against Nam Dinh Vu Port in particular and downstream ports in general is insignificant in the medium term based on: (1) Different customer groups. The target customers of HICT port are the large mother ships, while the downstream ports' customers are feeder vessels. (2) Cost of handling at HICT Port is higher than other ports. Specifically, the lowest handling charge at the HICT Port for 20 feet container is USD46, 39.4% higher than in other ports. (3) HICT port is located far from Nam Dinh Vu industrial zone. Businesses will have to spend more to transport goods to the industrial zone.

**Infrastructure in Cai Mep – Thi Vai has not been improved, the prices are not reasonable**

Gemalink Port has highly positive development prospect because it is located in the area of Cai Mep which has a convenient location and is capable of accommodating large vessels of 200,000 DWT. However, the major disadvantage of this area is that the surrounding road system has not been developed in line with the relatively shallow water connection routes, which increases the cost of transporting and handling containers. In addition, clearance charges are VND 1 to

1.25 million higher than the charges in HCMC, and empty Container ports are lacking, which also creates barriers for shipping lines to dock. The above reasons lead to high growth rates, but the ports in Cai Mep-Thi Vai area have not yet operated at 50% capacity. Specifically, in 2018, total cargo volume reached 2.87 million TEU, equivalent to 42% of the total port capacity of 6.82 million TEU. If not improved soon, this situation will affect the progress of goods transporting from Ho Chi Minh ports to Cai Mep ports.

### Difficulties in divesting from secondary business segments

At the moment, GMD is planning to divest of the secondary businesses such as Real Estate, Rubber to focus resources on main business activities. In case of unfavorable divestment activities, it will negatively affect GMD in two aspects: (1) lack of capital to serve new port projects; (2) there is no extraordinary turnover, which leads to a reduction in profits, and exerts negative impacts on stock prices in the short term.

## VI. VALUATION

### FORECAST BUSINESS PERFORMANCE IN 2019

**NPAT of GMD in 2019 is forecast to reach VND525 billion, down to 71.6% yoy, EPS forward will reach 1,766 VND per share.**

In 2019, we estimate GMD's revenue reached VND 2,980 billion, up 10.06% yoy based on the following factors:

Port operation revenue may reach VND 2,589 billion, up 14% yoy thanks to: (1) total container port throughput will hit 1.97 million TEU, up 11% yoy, assuming that Nam Dinh Vu Port output will reach 466,360 TEU, up 225% yoy to offset for the decline in output in Nam Hai and Nam Hai Dinh Vu ports, 20% yoy and 10% yoy respectively. (2) The lowest handling charge in Hai Phong port area increased by 10%.

Logistic revenue will reach VND261 billion, losing 39% yoy as Q1/2018 still recorded revenue from Gemadept Logistics Holding and Gemadept Shipping Holding.

Profit from associates may hit VND181 billion, assuming SCS's profit from 6% yoy growth, profit from CJ Gemadept Logistic and Shipping is supposed to go up 5% yoy.

EBT is expected to reach VND 685 billion, down 68.63% yoy. NPAT of the parent company is expected to reach VND 525 billion, down 71.6% yoy, forward EPS is VND 1,766 per share.

Table 26: Forecast business results in 2019

| Billion VND                      | 2016  | 2017  | 2018  | 2019F | 2020F |
|----------------------------------|-------|-------|-------|-------|-------|
| Revenue                          | 3,742 | 3,984 | 2,708 | 2,851 | 3,158 |
| Cost of good sold                | 2,723 | 2,955 | 1,739 | 1,742 | 1,927 |
| Gross margin                     | 1,018 | 1,029 | 968   | 1,109 | 1,231 |
| Selling Expense                  | 63    | 87    | 102   | 107   | 119   |
| Administrator Expense            | 297   | 344   | 321   | 337   | 374   |
| Financial Expense/profit         | (112) | 27    | 1,582 | (103) | (125) |
| Profit from affiliated companies | 50    | 109   | 133   | 181   | 197   |
| Net profit before tax            | 481   | 650   | 2,182 | 685   | 747   |
| NPAT of parent company           | 390   | 508   | 1,848 | 525   | 572   |

Source: KBSV

## VALUATION

We apply Sum-of-the-part Valuation method for GMD including: (1) Core business activities + profits from associates; (2) Gemalink project; (3) Non-core assets.

We use FCFF method for core business activities and profit from associates as these segments have stable and predictable business results and cash flow.

For Gemalink project, we make a separate valuation using FCFF due to the lack of understanding about the financial structure and consolidation time into core business activities.

For rubber, we make a valuation based on book value of investment and discount 30% due to the negative outlook of rubber industry and the possibility of divesting rubber in medium term of GMD is very low.

For real estate, we make the valuation according to the value of the current land area of Saigon Gem project due to the lack of detailed information about the project along with legal issues that are hindering the progress of project implementation.

GMD is the leading enterprise in Vietnam's seaport sector. We assess the potential growth of GMD is based on the medium prospect of the seaport sector along with the expansion of capacity exploitation in Hai Phong and Cai Mep Thi Vai port area. Based on valuation results and business prospects, we recommend to **BUY** for GMD shares. The target price is VND 33,100 per share, 22.6% higher than the price on July 11, 2019.

Table 27: FCFF assumption

| Assumption            | Value  |
|-----------------------|--------|
| WACC                  | 10.77% |
| Risk free rate        | 4.70%  |
| Market risk premium   | 9.20%  |
| Beta                  | 0.89   |
| Long term growth rate | 1%     |
| Time forecast         | 7 year |

Source: KBSV

Table 28: FCFF 2019-2025

|                               | 2019           | 2020           | 2021       | 2022         | 2023         | 2024         | 2025         |
|-------------------------------|----------------|----------------|------------|--------------|--------------|--------------|--------------|
| <b>Main business</b>          |                |                |            |              |              |              |              |
| CFO                           | 920            | 1,096          | 1,275      | 1,478        | 1,574        | 1,676        | 1,584        |
| CAPEX                         | (114)          | (1,333)        | (743)      | (1,562)      | (1,575)      | (179)        | (211)        |
| Interest expense*(1-tax rate) | (128)          | (147)          | (184)      | (223)        | (263)        | (304)        | (347)        |
| <b>FCFF</b>                   | <b>678</b>     | <b>(384)</b>   | <b>349</b> | <b>(307)</b> | <b>(264)</b> | <b>1,192</b> | <b>1,026</b> |
| <b>Gemalink</b>               |                |                |            |              |              |              |              |
| CFO                           | 0              | 199            | 342        | 280          | 332          | 390          | 440          |
| CAPEX                         | (2,478)        | (2,556)        | -          | -            | -            | -            | -            |
| Interest expense*(1-tax rate) |                | 156            | 312        | 312          | 312          | 312          | 280.8        |
| <b>FCFF</b>                   | <b>(2,478)</b> | <b>(2,314)</b> | <b>541</b> | <b>559</b>   | <b>605</b>   | <b>658</b>   | <b>669</b>   |

Source: KBSV

Table 29: GMD valuation

|                     | Method     | Equity value  |
|---------------------|------------|---------------|
| Main business       | FCFF       | 19,109        |
| Rubber              | Book value | 3,786         |
| Gemalink            | FCFF       | 4,680         |
| Real estate         | RNAV       | 5,517         |
| <b>Target price</b> |            | <b>33,091</b> |

Source: KBSV



## APPENDIX

## Financial Statement

| Income Statement                            |           |           |           |         | Balance Sheet                     |           |           |          |          |
|---|-----------|-----------|-----------|---------|-----------------------------------|-----------|-----------|----------|----------|
| (VND billion)                               | 2016      | 2017      | 2018      | Q1/2019 | (VND billion)                     | 2016      | 2017      | 2018     | Q1/2019  |
| Net sales                                   | 3,741.67  | 3,983.96  | 2,707.56  | 628.99  | CURRENT ASSETS                    | 2,140.25  | 2,223.12  | 1,391.48 | 1,454.63 |
| Cost of sales                               | -2,723.43 | -2,954.82 | -1,739.45 | -379.05 | Cash and cash equivalents         | 724.47    | 779.80    | 172.57   | 135.89   |
| Gross Profit                                | 1,018.24  | 1,029.15  | 968.11    | 249.94  | Short-term investments            | 88.72     | 113.00    | 112.26   | 114.04   |
| Financial income                            | 39.24     | 173.08    | 1,625.36  | 11.54   | Accounts receivable               | 1,128.06  | 1,127.69  | 948.72   | 1,064.01 |
| Financial expenses                          | -150.97   | -145.90   | -43.70    | -44.08  | Inventories                       | 87.03     | 107.80    | 65.55    | 64.55    |
| of which: interest expenses                 | -121.20   | -143.86   | -128.80   | -35.85  | LONG-TERM ASSETS                  | 7,977.67  | 9,068.10  | 8,592.59 | 8,527.98 |
| Gain/(loss) from joint ventures (from 2015) | 50.13     | 108.69    | 132.54    | 42.92   | Long-term trade receivables       | 151.38    | 127.49    | 54.55    | 30.78    |
| Selling expenses                            | -62.64    | -87.24    | -102.01   | -29.06  | Fixed assets                      | 2,697.54  | 3,208.46  | 3,404.11 | 3,357.76 |
| General and admin expenses                  | -296.97   | -344.48   | -320.53   | -73.04  | Investment properties             | 0.00      | 0.00      | 0.00     | 0.00     |
| Operating profit/(loss)                     | 597.02    | 733.29    | 2,259.78  | 158.22  | Long-term incomplete assets       | 1,823.66  | 2,457.81  | 1,707.55 | 1,689.78 |
| Other incomes                               | 19.42     | 60.61     | 29.31     | 3.78    | Long-term investments             | 2,308.32  | 2,310.19  | 2,631.53 | 2,674.44 |
| Other expenses                              | -135.72   | -143.45   | -106.95   | -0.90   | TOTAL ASSETS                      | 10,117.92 | 11,291.22 | 9,984.06 | 9,982.62 |
| Net other income/(expenses)                 | -116.30   | -82.83    | -77.64    | 2.89    | LIABILITIES                       | 4,251.30  | 4,196.68  | 3,455.08 | 3,312.32 |
| Income from investments in other entities   | 0.00      | 0.00      | 0.00      | 0.00    | Current liabilities               | 2,961.15  | 2,676.23  | 1,564.16 | 1,392.41 |
| Net accounting profit/(loss) before tax     | 480.73    | 650.45    | 2,182.14  | 161.10  | Trade accounts payable            | 595.04    | 761.27    | 403.58   | 357.42   |
| Corporate income tax expenses               | -36.99    | -69.02    | -281.89   | -14.93  | Advances from customers           | 14.93     | 44.83     | 4.78     | 11.18    |
| Net profit/(loss) after tax                 | 443.73    | 581.44    | 1,900.25  | 146.17  | Short-term unrealized revenue     | 2.37      | 0.01      | 0.00     | 0.00     |
| Minority interests                          | 53.99     | 73.55     | 52.53     | 26.57   | Short-term borrowings             | 1,578.67  | 714.51    | 675.01   | 584.60   |
| Attributable to parent company              | 389.74    | 507.88    | 1,847.72  | 119.60  | Long-term liabilities             | 1,290.15  | 1,520.45  | 1,890.92 | 1,919.91 |
|   |           |           |           |         | Long-term trade payables          | 0.00      | 0.00      | 0.00     | 0.00     |
|   |           |           |           |         | Long-term advances from customers | 0.00      | 0.00      | 0.00     | 0.00     |
|   |           |           |           |         | Unrealized revenue                | 237.93    | 231.68    | 230.49   | 228.93   |
|   |           |           |           |         | Long-term borrowings              | 927.56    | 1,220.61  | 1,591.98 | 1,620.70 |
|   |           |           |           |         | OWNER'S EQUITY                    | 5,866.62  | 7,094.54  | 6,528.98 | 6,670.30 |
|   |           |           |           |         | Paid-in capital                   | 1,794.32  | 2,882.77  | 2,969.25 | 2,969.25 |
|   |           |           |           |         | Share premium                     | 1,872.17  | 1,941.83  | 1,941.83 | 1,941.83 |
|   |           |           |           |         | Undistributed earnings            | 1,130.83  | 1,113.09  | 541.64   | 661.24   |
|   |           |           |           |         | Minority interests                | 700.48    | 750.97    | 648.71   | 675.28   |
|   |           |           |           |         |                                   |           |           |          |          |
| Margin ratio                                |           |           |           |         | Key ratios                        |           |           |          |          |
|   | 2016      | 2017      | 2018      | 2018    |                                   | 2016      | 2017      | 2018     | Q1/2019  |
| Gross profit margin                         | 27.21%    | 25.83%    | 35.76%    | 38.50%  | Multiple                          |           |           |          |          |
| EBITDA margin                               | 25.08%    | 22.81%    | 32.53%    | 35.27%  | P/E                               | 12.60     | 15.53     | 4.15     | 11.11    |
| EBIT margin                                 | 17.60%    | 15.00%    | 20.15%    | 22.20%  | P/E diluted                       | 11.88     | 14.64     | 4.15     | 11.11    |
| Pre-tax profit margin                       | 12.85%    | 16.33%    | 80.59%    | 31.84%  | P/B                               | 0.90      | 1.17      | 1.30     | 1.28     |
| Operating profit margin                     | 15.96%    | 18.41%    | 83.46%    | 34.83%  | P/S                               | 1.24      | 1.87      | 2.83     | 2.92     |
| Net profit margin                           | 11.86%    | 14.59%    | 70.18%    | 29.23%  | P/Tangible Book                   | 0.84      | 1.10      | 1.23     | 1.20     |
|   |           |           |           |         | P/Cash Flow                       | 6.08      | 11.75     | 14.05    | 15.23    |
|   |           |           |           |         | EV/EBITDA                         | 6.83      | 9.46      | 11.08    | 11.24    |
|   |           |           |           |         | EV/EBIT                           | 9.73      | 14.38     | 17.88    | 17.85    |
|   |           |           |           |         | Operating performance             |           |           |          |          |
|   |           |           |           |         | ROE%                              | 0.07      | 0.08      | 0.27     | 0.10     |
|   |           |           |           |         | ROA%                              | 0.04      | 0.05      | 0.17     | 0.07     |
|   |           |           |           |         | ROIC%                             | 0.08      | 0.07      | 0.06     | 0.07     |
|   |           |           |           |         | Financial structure               |           |           |          |          |
|   |           |           |           |         | Cash Ratio                        | 0.29      | 0.34      | 0.20     | 0.20     |
|   |           |           |           |         | Quick Ratio                       | 0.67      | 0.77      | 0.81     | 1.00     |
|   |           |           |           |         | Current Ratio                     | 0.72      | 0.83      | 0.89     | 1.04     |
|   |           |           |           |         | LT Debt/Equity                    | 0.16      | 0.17      | 0.24     | 0.24     |
|   |           |           |           |         | LT Debt/Total Assets              | 0.09      | 0.11      | 0.16     | 0.16     |
|   |           |           |           |         | Debt/Equity                       | 0.43      | 0.27      | 0.35     | 0.33     |
|   |           |           |           |         | Debt/Total Assets                 | 0.25      | 0.17      | 0.23     | 0.22     |
|   |           |           |           |         | ST Liabilities/Equity             | 0.50      | 0.38      | 0.24     | 0.21     |
|   |           |           |           |         | ST Liabilities/Total Assets       | 0.29      | 0.24      | 0.16     | 0.14     |
|   |           |           |           |         | Total Liabilities/Equity          | 0.72      | 0.59      | 0.53     | 0.50     |
|   |           |           |           |         | Total Liabilities/Total Assets    | 0.42      | 0.37      | 0.35     | 0.33     |
|   |           |           |           |         | Activity ratios                   |           |           |          |          |
|   |           |           |           |         | Account Receivable Turnover       | 7.83      | 6.92      | 5.23     | 6.99     |
|   |           |           |           |         | Inventory Turnover                | 27.61     | 29.41     | 19.38    | 25.06    |
|   |           |           |           |         | Account Payable Turnover          | 4.64      | 4.36      | 2.99     | 4.93     |

Source: Fiipro

## Investment portfolio recommendations

**Buy:** +15% or more

**Hold:** between +15% and -15%

**Sell:** -15% or less

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