

# Gemadept (GMD)

## Fierce competitive pressure in Hai Phong cluster

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**1H20 earnings and revenue declined 27.9% YoY and 6.9% YoY respectively**

1H20 earnings of Gemadept (GMD) were VND 250 billion, down 27.9% YoY on revenue of VND 1,208 billion, down 6.9% YoY. Of that revenue from port operations decreased by 13.5% YoY and financial revenue dropped sharply.

**GMD's total docking capacity in Hai Phong has plummeted**

6M20 total tonnage and number of ships docked at ports slowed 12.3% YoY and 3% YoY respectively (Figure 1). The main reasons are the COVID-19 and the loss of trading partners in Nam Dinh Vu port under the competitive pressure of the Lach Huyen port cluster.

**Gemalink project is expected to operate from early 2021, which is the main driver for long-term growth**

The implementation of Gemalink deep-water port project in the Cai Mep – Thi Vai port cluster is still on schedule, and completes 80% of the plan to start operation in early 2021. The project should bring GMD VND550 billion in annual earnings if operated at maximum capacity.

**GMD expects a 10% increase in service charges in deep water port clusters**

It is likely that port service prices at Cai Mep – Thi Vai and Lach Huyen port clusters will increase by 10% from early 2021. This change will underpin Gemalink project's revenue compared to expected, along with improving competitiveness for ports in Hai Phong.

**We recommend to HOLD GMD shares**

We recommend to HOLD GMD shares with the target price of VND25,800, 12.4% higher than the closing price on 19/08/2020.

**Hold** maintain

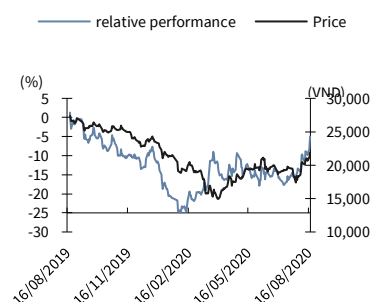
<b>Target price</b>	<b>VND25,800</b>
Total return (%)	12.4%
Current price (Aug 24, 2020)	VND 22,950
Market consensus price	VND 23,500
Mkt capitalization (USDbn)	6,814/292

<b>Trading data</b>	
Free float (%)	80.3%
Avg trading value (3M)	11.2/0.5
Foreign ownership (%)	0.0%
Major shareholder	VN Investment Fund (14.44%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>GMD</b>	12.0	11.7	10.3	-20.0
<b>VNIndex</b>	-1.8	-1.3	-9.4	-14.0

### Forecast earnings & valuation

Fiscal year-end	2018A	2019A	2020A	2021E
Revenue (VNDbn)	2,708	2,643	2,244	2,501
EBIT	2,127	505	349	357
NP attributable to parent (VNDbn)	1,848	517	430	452
EPS (VND)	6,223	1,741	1,221	1,284
EPS growth (%)	253%	-72%	-30%	5%
P/E (x)	3.7	13.2	18.8	17.9
PBR (x)	1.2	1.2	1.1	1.1
ROE (%)	31.4%	8.8%	6.0%	6.2%
Dividend yield (%)	41.7%	7.0%	4.4%	4.6%



Source: Bloomberg, KB Securities Vietnam

## Business performance

**Total tonnage of ships at port in the first six months decreased by 12.3% due to competitive pressure and Covid-19 translation**

**1H20 revenue decreased by 6.9% YoY, profit after tax decreased by 27.9% YoY.**

**In 1H2020, GMD completed 56% of its whole-year plan under the optimistic scenario**

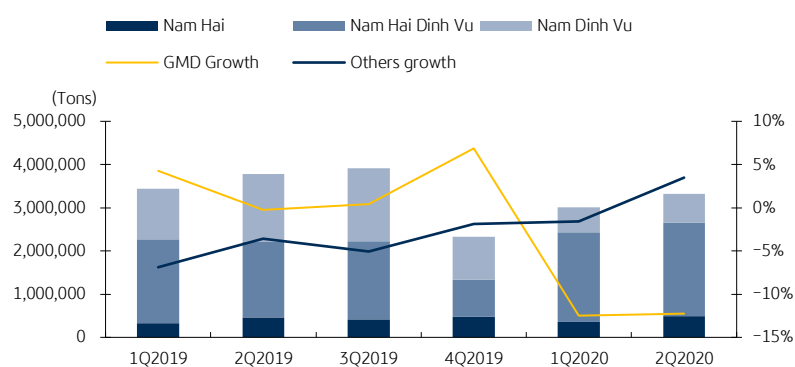
Total throughput began to fall from 2Q19 and strongly declined in the last three quarters of 2020. It became lower than the average of other ports (excluding Lach Huyen port)

GMD's 6M20 total tonnage and number of ships docked at ports slowed 12.3% YoY and 3% YoY respectively (Figure 1). The main reasons are the COVID-19 and the loss of trading partners in Nam Dinh Vu port under the competitive pressure of the Lach Huyen port cluster. Meanwhile, the total tonnage of Nam Hai and Nam Hai Dinh Vu ports improved 8.2% and 14.5% YoY respectively.

Due to the influence of COVID-19, 2Q20 revenue was down 9.1% YoY to VND607 billion (Figure 2). Financial revenue was only VND5 billion, a sharp decrease compared to VND93 billion recorded in the same period because there was no recognition of profits from liquidation. 2Q20 earning declined 36.6% YoY to only VND128 billion (Figure 3). In the first six months, GMD posted VND250 billion in earnings (down 27.9% YoY) on revenue of VND1,208 billion, down 6.9% YoY, of which revenue from port operations decreased by 13.5% YoY and financial revenue dropped sharply.

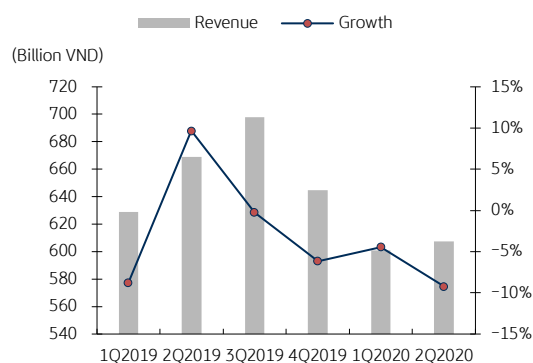
At the annual shareholders' meeting, GMD forecast two scenarios with revenue down 19% YoY or 24% YoY and pre-tax earnings down 29% YoY or 39% YoY, respectively. Accordingly, in the first half of 2020, GMD completed 56% of its revenue and per-tax earnings target under the optimistic scenario.

**Fig 1. Ports – Total tonnage growth (%) (excluding Lach Huyen Port)**



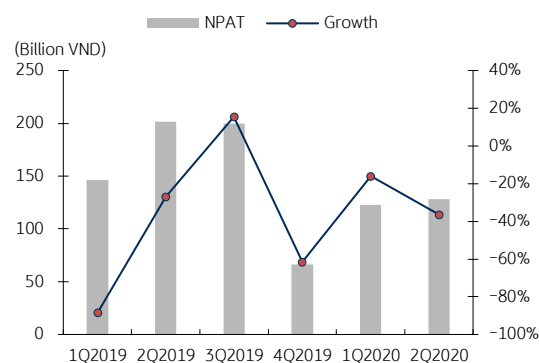
Source: Maritime Administration of Hai Phong, KB Securities Vietnam

Fig 2. GMD – Quarterly revenue growth (YoY)



Source: Gemadept

Fig 3. GMD – Quarterly earnings growth (YoY)



Source: Gemadept

## Investment highlights

### Hai Phong port cluster maintained growth despite the COVID-19

1H2020 total tonnage of Hai Phong port cluster rose 7% to 65.2 million tons despite the pandemic. The number of ships docked at ports reached 5,421, down 3.1% YoY. However, the growth force mostly came from the Lach Huyen port cluster while the tonnage growth at other ports declined or just slightly increased (Figure 4).

### Post-pandemic recovery outlook thanks to: (1) EVFTA and (2) shifting global supply chains

We believe that total throughput in Hai Phong port cluster in general and GMD in particular will recover after the pandemic is controlled based on the following factors: (1) Positive impact from EVFTA and other FTAs. According to research by the Ministry of Planning and Investment, EVFTA helped Vietnam's export and import turnover increase by 42.7% and 33.1% by 2025, respectively; and (2) Global supply chain shifts. The trade war and the COVID-19 pandemic caused countries to consider relocating their production facilities to avoid the great influence of China, while Vietnam is a promising destination thanks to its abundant and low-cost workforce.

### Gemalink project is expected to come into operation in early 2021, which will be the main driver for long-term growth

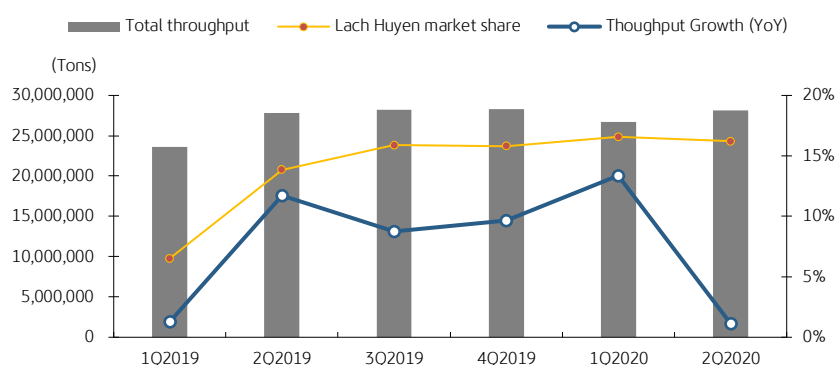
The Gemalink deep-water port project at Cai Mep – Thi Vai port cluster is still being implemented on schedule, and completed 80%. It is expected to start operating from 1Q21. Currently, the project has disbursed about 38% of the total debt, equivalent to 1,800 billion VND. According to KBSV's estimate, if running at full capacity, Gemalink will bring GMD about VND550 billion profit per year. With high service demand in the Cai Mep Thi Vai area and continuous improvement in infrastructure, we expect Gemalink to run at full capacity by 2023.

**Service charges in deep water port clusters are expected to rise 10%**

It is likely that seaport service prices at Cai Mep – Thi Vai and Lach Huyen port clusters will increase by 10% from in early 2021, given the following reasons: (1) the freight charges at a deep-sea port of Vietnam are much lower than that of other countries; (2) shipping lines charge high terminal handling charges but only pay 40–45% to the port. GMD should benefit at the same time in two areas: (1) Increasing fees will help increase business efficiency when Gemalink port comes into operation; (2) Higher fees at Lach Huyen port cluster will improve competitiveness for downstream and upstream ports, including GMD’s.

Total tonnage at Hai Phong port cluster maintained a stable growth in recent quarters, but slowed down in 2Q20 due to the impact of the pandemic

**Fig 4. Hai Phong port cluster – Total tonnage**



Source: Maritime Administration of Hai Phong, KB Securities Vietnam

## Forecast business performance and valuation

**Revenue and profit after tax in 2020 should decrease by 15.1% YoY and 30.0% YoY, respectively**

In 2020, we estimate that net revenue and profit after tax will reach VND 2,244 billion (-15.1% YoY) and VND 430 billion (-30.0% YoY), down 21.5% and 33.2% respectively compared to the previous report because the business activities were strongly affected by the COVID-19 and the competitive pressure from Lach Huyen port on the operation of GMD's ports in Hai Phong was larger than expected (Table 5-9).

**Target price for 2021 is VND25,800/share**

We use GMD's gross partial valuation method, including: (1) Core business + profits from joint ventures; (2) Gemalink project; and (3) Non-core assets.

We use the FCF method for core businesses and Gemalink project as these are both predictable and stable cash flow segments.

For the rubber segment, our valuation is based on book value of investment and a 30% discount given GMD's negative outlook on rubber and its ability to divest rubber segment in the medium term.

For the real estate segment, we assess the current land plot value of Saigon Gem project as we do not know the details of the project and legal issues that are hindering the project implementation process.

GMD is the leading company in Vietnam's seaport operation industry. We assess that GMD's growth potential is still large, based on the general prospects of the seaport industry along with the expansion of capacity in Hai Phong port and Cai Mep Thi Vai area. Based on valuation results, business prospects as well as possible risk impact assessment, we recommend to **HOLD** GMD shares. The target price for 2021 is VND25,800 VND per share, 12.4% higher than the price on August 19, 2020.

**Table 5. GMD – 2018–2021F business performance**

VND billion	2018A	2019A	2020F	2021F
Revenue	2,708	2,643	2,244	2,501
COGS	1,739	1,630	1,380	1,563
Gross profit	968	1,013	864	938
Selling expense	102	138	117	131
Administration expense	321	331	278	308
Interest expense	129	145	153	157
Net profit before tax	2,182	705	494	519
NPAT of parent company	1,848	517	363	381

Source: KB Securities Vietnam

Table 6. GMD – FCFF

Assumption	Value
WACC	11.50%
Risk free rate	2.90%
Risk premium	11.00%
Beta	0.9
Perpetual growth	1%
Forecast period	6 years

Source: KB Securities Vietnam

Table 7. FCFF 2020–2026

	2020	2021	2022	2023	2024	2025	2026
<b>Core business</b>							
CFO	645	899	991	1,070	1,126	1,209	1,266
CAPEX	(337)	(380)	(1,346)	(754)	(475)	(497)	(524)
Interest expense * (1-tax rate)	(81)	(78)	(90)	(106)	(104)	(96)	(86)
FCFF	227	441	(445)	210	548	616	655
<b>Gemalink</b>							
CFO	199	342	280	332	390	440	460
CAPEX	(2,556)	-	-	-	-	-	-
Interest expense * (1-tax rate)	156	312	312	312	312	281	281
FCFF	(2,009)	304	435	571	646	580	580

Source: KB Securities Vietnam

Table 8. GMD – Valuation

	Method	Equity value
<b>Core business</b>	FCFF	12,782
<b>Rubber</b>	Book value	2,704
<b>Gemalink</b>	FCFF	4,770
<b>Real Estates</b>	RNAV	5,517
<b>Target price</b>		<b>VND25,800</b>

Source: KB Securities Vietnam

Table 9. GMD – Revised performance in 2020–2021

	New				Old	
	2020	2021	2020	2021	2020	2021
(Billion VND, %)						
Revenue	2,244	2,501	2,857	3,158	-21.5	-19.7
Gross profit	864	938	1,093	1,197	-24	-21.6
NPAT	430	452	644	696	-33.2	-35

Source: KB Securities Vietnam

## GMD – Financials

## Income statement

(VND billion)	2017A	2018A	2019A	2020F
	VN GAAP	VN GAAP	VN GAAP	
Net sales	3,984	2,708	2,643	2,244
Cost of sales	2,955	1,739	1,630	1,380
Gross Profit	1,029	968	1,013	864
Financial income	173	1,625	107	34
Financial expenses	146	44	147	153
of which: interest expenses	144	129	145	153
Income from investments in other entities	109	133	236	186
Selling expenses	87	102	138	117
General and admin expenses	344	321	331	278
Operating profit/(loss)	625	2,127	505	349
Other incomes	61	29	19	20
Other expenses	143	107	56	60
Net other income/(expenses)	-83	-78	-37	-40
Net accounting profit/(loss) before tax	650	2,182	705	494
Corporate income tax expenses	89	290	219	64
Net profit/(loss) after tax	581	1,900	614	430
Minority interests	74	53	97	68
Attributable to parent company	508	1,848	517	363

## Margin Ratios

(%)	2017A	2018A	2019A	2020F
Gross profit margin	25.8%	35.8%	38.3%	38.5%
EBITDA margin	27.7%	97.7%	46.0%	44.6%
EBIT margin	19.9%	85.4%	32.2%	28.9%
Pre-tax profit margin	16.3%	80.6%	26.7%	22.0%
Operating profit margin	15.7%	78.6%	19.1%	15.6%
Net profit margin	14.6%	70.2%	23.2%	19.2%

## Cash Flow Statement

(VND billion)	2017A	2018A	2019A	2020F
Net profit/(loss) before tax	650	2,182	705	494
Depreciation and amortisation	311	335	366	354
Profit/loss from investing activities	-118	-1,524	-278	0
Interest expense	144	129	145	153
Operating profit/(loss) before changes in Working Capital	955	1,017	914	1,001
(Increase)/decrease in receivables	124	12	134	-11
(Increase)/decrease in inventories	-21	16	-13	19
Increase/(decrease) in payables	-226	-17	212	-99
(Increase)/decrease in prepaid expenses	6	-49	30	-14
Interest paid	-102	-131	-87	-153
Net cash inflows/(outflows) from operating activities	633	545	1,057	418
Purchases of fixed assets and other long term assets	-1,148	-876	-379	-337
Proceeds from disposal of fixed assets	22	24	13	0
Loans granted, purchases of debt instruments	-50	-181	-21	0
Collection of loans, proceeds from sales of debts instruments	77	187	14	0
Investments in other entities	-25	-238	-300	0
Proceeds from divestment in other entities	155	1,875	152	0
Dividends and interest received	128	217	145	0
Net cash inflows/(outflows) from investing activities	-841	1,008	-377	-337
Proceeds from issue of shares	0	86	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	853	1,245	826	0
Repayment of borrowings	-529	-619	-959	-652
Finance lease principal payments	-20	-32	-56	0
Dividends paid	-40	-2,841	-478	-301
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	264	-2,160	-668	-74
Net increase in cash and cash equivalents	56	-607	13	7
Cash and cash equivalents at the beginning of period	724	780	173	186
Cash and cash equivalents at the end of period	780	173	186	193

Source: Gemadept, KB Securities Vietnam

## Balance sheet

(VND billion)	2017A	2018A	2019A	2020F
	VN GAAP	VN GAAP	VN GAAP	
TOTAL ASSETS	11,291	9,984	10,120	10,088
CURRENT ASSETS	2,223	1,391	1,188	1,173
Cash and cash equivalents	780	173	186	193
Short-term investments	113	112	44	44
Accounts receivable	1,128	949	787	799
Inventories	108	66	78	59
LONG-TERM ASSETS	9,068	8,593	8,932	8,915
Long-term trade receivables	127	55	35	35
Fixed assets	5,666	5,112	5,145	5,128
Long-term incomplete assets	2,458	1,708	1,800	1,800
Long-term investments	2,310	2,632	2,684	2,684
Goodwill	93	55	297	297
LIABILITIES	4,197	3,455	3,553	3,392
Current liabilities	2,676	1,564	1,828	1,668
Trade accounts payable	761	404	423	324
Short-term unrealized revenue	0	0	5	0
Short-term borrowings	715	675	652	879
Long-term liabilities	1,520	1,891	1,724	1,724
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	62	68	75	75
Long-term borrowings	1,221	1,592	1,426	1,425
OWNER'S EQUITY	7,095	6,529	6,567	6,696
Paid-in capital	2,883	2,969	2,969	2,969
Share premium	1,942	1,942	1,942	1,942
Undistributed earnings	1,113	542	505	0
Funds	269	268	291	0
Minority interests	751	649	692	692

## Key ratios

(x, %, VND)	2017A	2018A	2019A	2020F
Multiple				
P/E	13.0	3.7	13.2	18.8
P/E diluted	13.0	3.7	13.2	18.8
P/B	1.0	1.2	1.2	1.1
P/S	1.7	2.5	2.6	3.0
P/Tangible Book	0.6	0.7	0.7	0.7
P/Cash Flow	10.5	12.5	6.4	16.3
EV/EBITDA	6.2	2.6	5.6	6.8
EV/EBIT	8.6	2.9	8.0	10.5
Operating performance				
ROE	8.0%	31.4%	8.8%	6.0%
ROA	4.5%	18.5%	5.1%	3.6%
ROIC	7.0%	22.0%	7.3%	4.9%
Financial structure				
Cash Ratio	33%	18%	13%	14%
Quick Ratio	48%	36%	29%	31%
Current Ratio	83%	89%	65%	70%
LT Debt/Equity	17.2%	24.4%	21.7%	21.3%
LT Debt/Total Assets	10.8%	15.9%	14.1%	14.1%
ST Debt/Equity	10.1%	10.3%	9.9%	13.1%
ST Debt/Total Assets	6.3%	6.8%	6.4%	8.7%
ST Liabilities/Equity	37.7%	24.0%	27.8%	24.9%
ST Liabilities/Total Assets	23.7%	15.7%	18.1%	16.5%
Total Liabilities/Equity	59.2%	52.9%	54.1%	50.6%
Total Liabilities/Total Assets	37.2%	34.6%	35.1%	33.6%
Activity ratios				
Account Receivable Turnover	3.5	2.6	3.0	2.8
Inventory Turnover	30.3	20.1	22.7	20.1
Account Payable Turnover	4.6	4.5	3.9	4.2

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## Investment ratings & definitions

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### 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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