

Noi Bai Cargo (NCT)

High dividend yields

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Information Technology & Logistics Analyst
Nguyen Anh Tung
tungna@kbsec.com.vn

NCT is currently the largest air cargo terminal operator at Noi Bai International Airport

Noi Bai Cargo Terminal Service (HSX: NCT) is the biggest air cargo terminal operator with a 2019 market share of 57% in Noi Bai International Airport. Facing large barriers to entry, cargo terminal operators all have already had familiar customers, so NCT should maintain a high market share in the coming years.

NCT logged a loss to VND54 billion on revenue of VND158.4 billion

1Q net profit were VND54 billion (down 6.9% YoY) on revenue of VND158.4 billion (down 2.6% YoY). The main reason for the company's loss was a decline in gross profit margin to 46.5% from 52% in 2019.

Long-term growth driver comes from the ACSV – CT2 cargo terminal expansion project, anticipating the recovery of cargo volume after the COVID-19 pandemic

ACSV – CT2 cargo terminal is ACSV's cargo terminal expansion project with a total capacity of 200,000 tons each year, including two floors. ACSV will likely let NCT lease the entire first floor and a part of the second floor. Having more space for business operation should be the growth force of NCT the long term when demand for services increases. ACSV – CT2 should come into operation in early 2021.

NCT has a history of paying high dividends

NCT is one of the businesses paying the highest dividends on both exchanges with an average dividend payout ratio of 91% in the last five years. NCT decided to pay an 85% ratio in 2019 (40% in advance and the rest in August 2020).

We recommend to BUY NCT shares

We recommend to BUY NCT shares with the target price of VND87,000 per share, 43.8% higher than the closing price on July 14, 2020.

Rating change

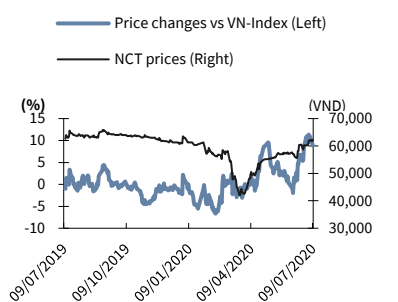
Target price	VND87,000
Upside/downside	43.8%
Current price (July 22, 2020)	VND 60,500
Consensus target price	1,583/67
Mkt capitalization (VNDbn)	87,000

Trading data	
Free float (%)	29.6%
Avg trading value (3M)	1.6/0.1
Foreign available (%)	10.7%
Shareholder ownership	HVN (55.1%)

Share price performance				
(%)	1M	3M	6M	12M
NCT	8.2	12.9	-1.3	-4.6
VN-Index	1.4	9.2	-9.6	-11.6

Forecast earnings & valuation

Fiscal year-end	2018A	2019A	2020F	2021F
Revenue (VNDbn)	690	699	630	692
Earnings/loss (VNDbn)	298	274	228	262
Parent shareholders' profit	241	221	183	210
EPS (VND)	9,210	8,422	6,983	8,032
EPS growth (%)	-11.7%	-8.6%	-17.1%	15%
P/E (x)	6.8	7.4	8.9	7.7
P/B (x)	4.00	3.38	3.66	3.42
ROE (%)	55.5%	42.9%	38.5%	44.2%
Dividend yield (%)	15%	8%	14%	13%



Source: Finpro, KB Securities Vietnam

Overview

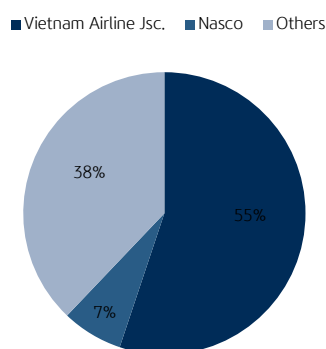
NCT is the leading enterprise in the cargo services industry at Noi Bai International Airport with a market share of 57% in 2019

Airports Corporation of Vietnam (ACV) founded NCT as a subsidiary in 2005, operating in the field of cargo services and related services at Noi Bai International Airport together with Aviation Logistics (ALS) and Air Cargo Services of Vietnam (ACSV). NCT has the largest market share among terminal operators in Noi Bai with 57% of the total cargo volume in 2019.

ACV is the largest shareholder with a 55.13% stake, followed by Noibai Airport Services (NAS) with a stake of 6.98%

The state ownership in NCT is 65.1% while foreign shareholders own 10.7%. The free float rate is about 29.6%

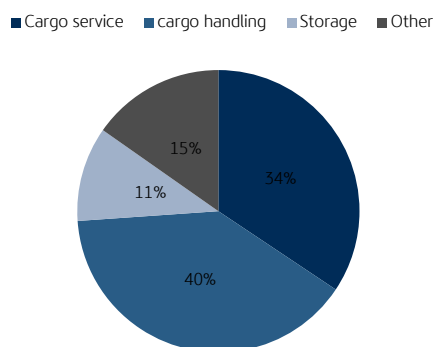
Fig 1. NCT - Ownership structure



Source: Fiiipro

Fig 2. NCT - Revenue structure in 2019

The cargo handling segment contributed the largest proportion in the revenue structure with 40%, followed by the cargo handling segment with 34%



Source: Noi Bai Cargo Terminal Service

Business operations

Total throughput at Noi Bai airport grew with a five-year CAGR of 11.4%

Noi Bai International Airport currently has two cargo terminals including ACSV and ALS cargo terminal, and three cargo terminal service operators NCT, ALS and ACSV, which had a total capacity of 7,000 tons of cargo in 2019. Total port throughput maintained a five-year CAGR of 11.4% (Figure 3), but saw a contraction of 8% YoY in 2019, mainly due to the decrease in the quantity of goods from large enterprises such as Samsung and changes in the supply chain of some products such as salmon.

NCT's operations take place in a land area of 26,662 m² in Noi Bai airport

NCT's cargo handling at Noi Bai cargo terminals was managed by ACSV. NCT leased three-quarters of the area, about, of which 20,747 m² were international warehouses and 5,915 m² for domestic cargo storage, the annual output was maintained at 400,000 tons (Figure 5), which exceeded the capacity of 300,000 tons per year.

NCT earned 75% market share of domestic cargo and 55% international cargo

NCT's share of cargo handling at Noi Bai airport in 2019 is about 57%, followed by ALS at 25% and ACSV at 18% (Figure 4). NCT inherited a large source of goods from the parent company – Vietnam Airlines (HVN) and Jetstar Pacific, which helped NCT to gain 75% market share of domestic goods. For international segment, NCT serves 24 international airlines, including Air Asia, Air China and Qatar Airway. In 2019, NCT signed a new contract with Indigo Airways, opening the first direct flights to India, thereby retaining a high market share of 55% of international cargo. NCT shared that its customers are mainly airlines with high loyalty to one service provider.

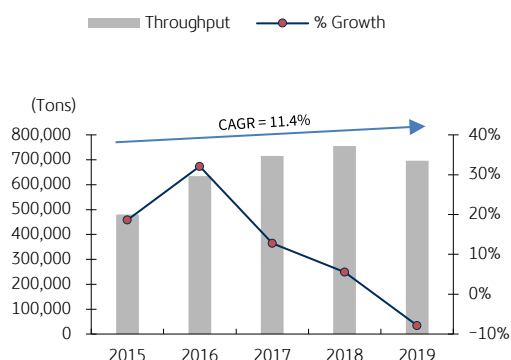
Competitive pressure makes it hard for NCT to stabilize market share and service rates

The increasing competitive pressure after ALS came into operation in 2015 made it difficult for NCT to keep market share and stabilize service rates. NCT's market share decreased from 84% in 2014 to 55% in 2019. Meanwhile, the average service charge dropped in 2017 and 2018, down 5% YoY and 11% YoY respectively. It only began to rebound slightly by 5% YoY in 2019 after the three airlines have gradually stabilized their market share and have their own customer file (Figure 6).

Business performance is affected when leasing business floor from ACSV

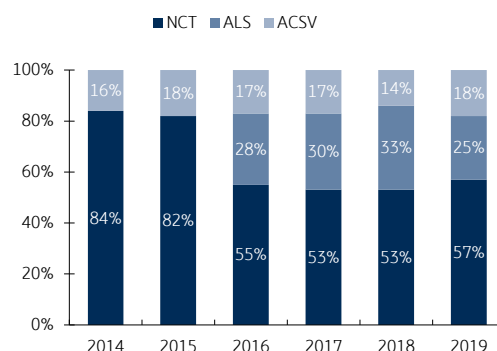
NCT has to rent business floor from ACSV, which costs NCT 17% of the total cost. This lowered gross profit margin to only 48%, lower than other businesses in the industry such as SCS with 79%. ALS gross profit margin is also 48%, but it operates in multiple industries involved in many low gross margin segments. In addition, the lease term usually lasts for about three to five years, and will be renegotiated, putting NCT at risk of paying higher rental prices or being affected by ACSV changes in development plan.

Fig 3. Noi Bai – Cargo throughput in 2015–2019



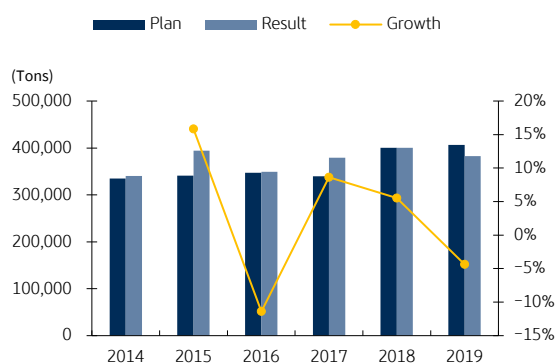
Source: Noi Bai Cargo Terminal Service, KB Securities Vietnam

Fig 4. Noi Bai – Market share of operators in 2014–2019



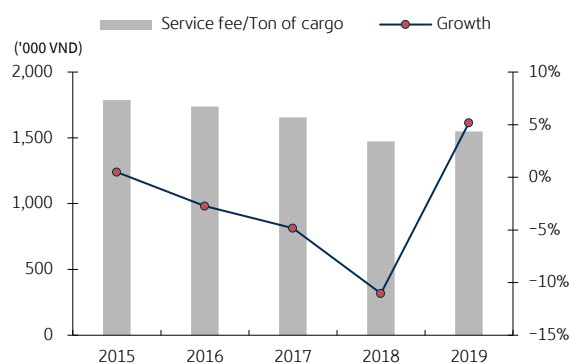
Source: Noi Bai Cargo Terminal Service

Fig 5. NCT – Cargo output in 2014–2019



Source: Noi Bai Cargo Terminal Service

Fig 6. Vietnam – Average service charges in 2015–2019



Source: KB Securities Vietnam estimates

Business performance

2019 earnings were down 8.6% to VND220 billion

Total cargo throughput in 2019 was 382.8 thousand tons, down 4.3% YoY, but offset by the 5% YoY increase in service charges, bringing net revenue to VND699 billion, up 1.4% YoY. 2019 gross profit margin was down 50% YoY to 48.1%, which is the main reason for the 8.6% YoY write-down in net profit to VND220 billion.

1Q20 revenue and earnings were down 2.6% and 6.9% respectively

3M20 net revenue was VND158.4 billion, down 2.6% YoY, and gross profit margin was 46.5%, down 52% YoY, pushing net profit down 6.9% YoY to VND54 billion. 2Q20 performance is expected to go down sharply reeling from the COVID-19 pandemic.

Labor costs accounted for the largest proportion with 33.3%,

Labor costs accounted for the largest proportion in the cost structure of NCT with 33.3%, followed by the rent expense and cost of outside services with 17.0% and 14.8% respectively. In 2019, the total cost climbed 5% due to the depreciation expense of fixed assets as NCT bought many new machinery and equipment, while other costs did not change much.

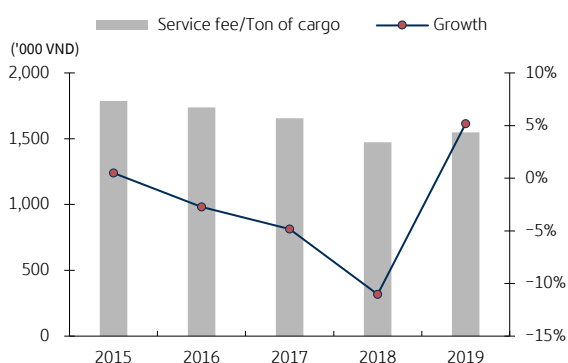
NCT owns a large amount of cash & short-term financial investment, accounting for 55.7% of total assets

Total assets of NCT as of 1Q2020 was VND616 billion, up 5.2% vs early year. In particular, the current amount of cash and short-term financial investment was VND343 billion, or 55.7% of total assets. NCT also held VND65 billion in convertible bonds and shares of the rival company ALS. This investment yields VND5-15 billion dividends and bonds each year.

The ratio of payables/total assets is low, no bank debt arises

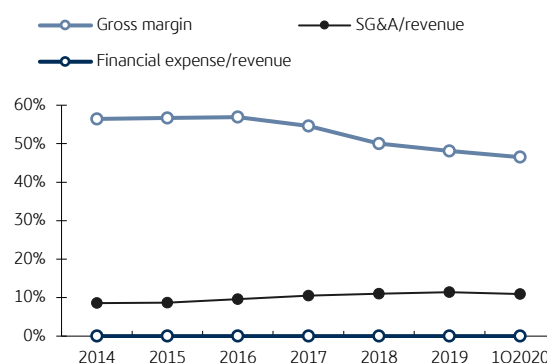
NCT has a safe debt structure with the ratio of liabilities/total assets as of the end of 1Q2020 at only 7.7%. The company has no bank loans, and all business activities are financed with the cash flow from operating activities.

Fig 7. NCT – Revenue growth in 2014–2020



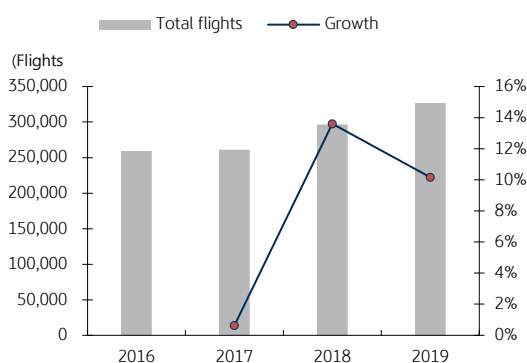
Source: Noi Bai Cargo Terminal Service

Fig 8. NCT – Gross profit margin & expenses in 2014–2020



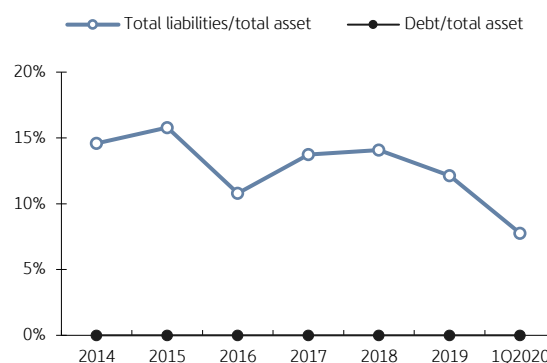
Source: Noi Bai Cargo Terminal Service

Fig 9. NCT – Earnings growth in 2014–2020



Source: Noi Bai Cargo Terminal Service

Fig 10. NCT – Debt structure in 2014–2020



Source: Noi Bai Cargo Terminal Service

Investment viewpoint

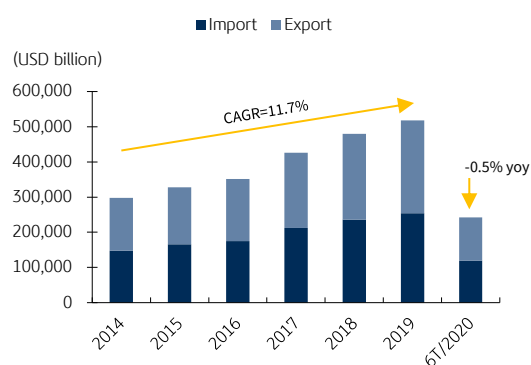
The prospect of import-export turnover is the driving force for the air transportation industry

Vietnam's total import-export turnover has maintained a steady growth in recent years with a 5-year CAGR of 11.7% (chart 11). 6M20 total import-export turnover reached USD242.1 billion, down 0.5% YoY due to the Coronavirus outbreak, (export turnover down 0.9% YoY and import almost unchanged). KBSV believe that Vietnam's total import and export turnover would rebound strongly after the pandemic given: (1) benefits from the EVFTA and other trade agreements. The Ministry of Planning and Investment endorsed the treaty may increase domestic export-import turnover by 42.7% and 33.1% respectively by 2025; (2) the relocation of global supply chain. The Sino-US trade war and the COVID-19 made countries consider to change the location of their production facilities to minimize bad effects in China while Vietnam is a promising destination thanks to its abundant and low-cost workforce.

5-year air freight CAGR of 17%

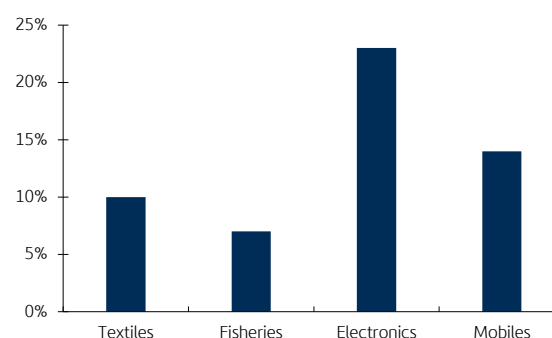
Air cargo volume maintained a 5-year CAGR of 17% (Figure 13). Some products that are usually shipped by air include highly valued and vulnerable products such as mobile phones, computers, or need fast transit times to ensure quality and market trend such as seafood and textiles with high import and export growth (Figure 12). In addition, the increase in the number of flights operated by airlines (Figure 14) will help reduce service rates, thereby ensuring growth in freight transport by air.

Fig 11. Vietnam – Import-export turnover in 2014–2020



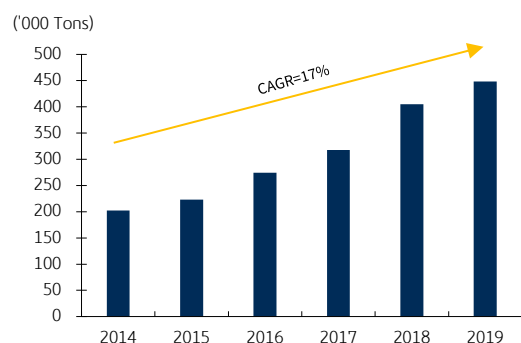
Source: General Statistics Office

Fig 12. Vietnam – 4-year CAGR of some industries using air transportation services



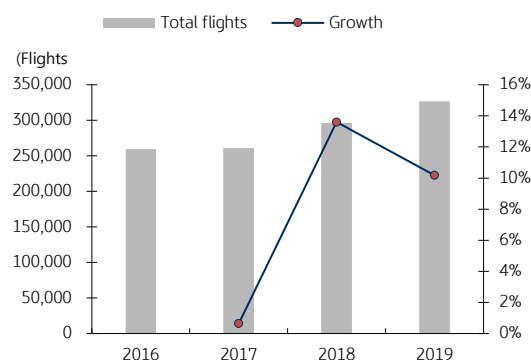
Source: General Statistics Office

Fig13. Vietnam – Air cargo volume in 2014–2020



Source: General Statistics Office

Fig 14. Vietnam – The number of flights operated by domestic airlines in 2016–2020



Source: Civil Aviation Authority of Vietnam

NCT has the advantages of exclusively providing cargo services in Noi Bai airport and large barriers to entry

Although there are three cargo terminal operators at Noi Bai airport, we the relationship among the three is not only competitors but also cooperators. ACSV and NCT both have major state shareholders (HVN and ACV, respectively) and have their own functions. ACSV was assigned the site and leased most of the space to NCT while NCT owns 10.1% of ALS's charter capital and recently became a member of the board of directors of ALS, thereby creating influence and benefit sharing links between the two companies. Meanwhile, the area next to the airport terminals at Noi Bai airport is very limited, so the likelihood of emerging more competitors against NCT and the other two is not high.

The growth force was the expansion of ACSV-CT2 cargo terminal in advance of the market recovery trend in 2021

ACSV Cargo Terminal – CT2 is ACSV's cargo terminal expansion project licensed by the Ministry of Transport and ACV. The total capacity of the new terminal is 200,000 tons per year, and the terminal would have two floors, of which the first floor is planned for international cargo and the second floor is for domestic cargo. It is likely that ACSV will let NCT lease the entire first floor and a part of the second floor. Currently, the construction of ACSV – CT2 has completed, but NCT has not yet leased it due to the influence of Coronavirus. ACSV – CT2 is expected to come into operation in 1H21, anticipating market demand after the pandemic ends. According to IMF forecasts, global GDP growth in 2021 will reach 5.4% after a sharp fall of 4.9% in 2020. In general, the addition of business space after exceeding capacity at the current premises would be the growth driver for NCT in the long term.

NCT has high dividend payout and should maintain the status in the coming year

NCT is one of the businesses paying the highest dividends on the Vietnamese stock exchange with an average dividend payout ratio of 91% in the last five years. Recently at the shareholders' meeting, NCT agreed that the dividend payout ratio for 2019 is 85%, of which 40% has been advanced and the remaining 45% should be paid in August 2020. NCT plans to pay dividends in 2020 at the rate of 75% of charter capital. With strong cash flow, no debt incurred in business activities and currently no major investment plan, we think that NCT will continue to maintain a high rate of cash dividend payment over the next years.

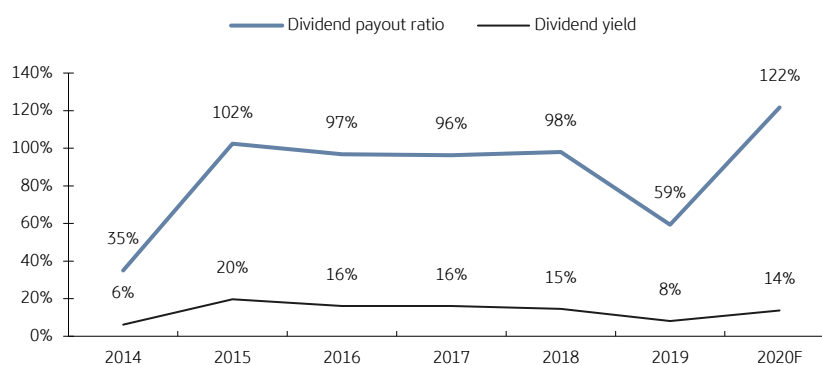
2020E earnings target is VND191.3 billion down 13% YoY

Despite the immense impacts of the pandemic on the airline industry, NCT's Management still sets a positive 2020E guidance. The specific targets include 350,000 tons in total throughput (down 8.4% YoY), VND191.3 billion in earnings (down 13% YoY) on revenue of VND699.5 billion (flat YoY).

Given no new projects, NCT often pays dividends for almost the entire profit generated in the year.

At the current price of VND62,200 per share, NCT has an average seven-year dividend yield of 13.5%.

Fig 25. NCT – Dividend payout in 2014–2020F



Source: Noi Bai Cargo Terminal Service, KB Securities Vietnam

Risks

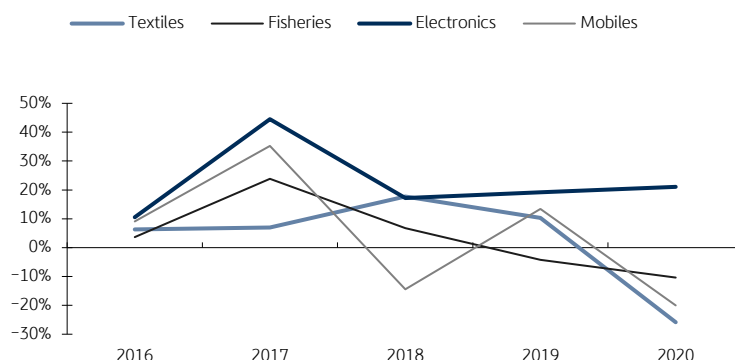
Protracted COVID-19 would adversely affected NCT's dividend payout ability in the short and medium term

The Coronavirus pandemic hit hard on the global supply chain since early February 2020, is causing a decline in global supply chains. Data from the General Statistics Office indicated the export turnover of key products transported by air declined dramatically in 2Q2020, except for electronics (Figure 16). The volume of exported goods and imported components of large FDI enterprises such as Samsung or LG both witness two-digit falls. If the pandemic does not get better, NCT's business results are likely to decline, making it difficult for the company to maintain high dividend payouts in the short to medium term.

Risks from ACSV's changes in business strategy

Current and future business premises (ACSV –CT2) of NCT are completely leased from ACSV. If ACSV changes its business strategy, focusing on self-exploiting goods services instead of leasing space, this will strongly affect NCT's business. However, we supposed that the risk is not high as these changes will affect the interests of many state-owned organizations, especially HVN, the parent company of NCT.

Fig 36. Vietnam – 2Q export turnover growth of some industries using air transportation services (YoY)



Source: Fiiipro

Forecast & valuation

2020E earnings are expected to reach VND183 billion, down 17.1% YoY, and EPS forward is VND6,993 per share

We project that NCT's business results will decline slightly due to the impact of the Coronavirus. Specifically, 2020 revenue is expected to reach VND630 billion, down 10% YoY, 9.9% lower than the plan proposed by the Board of Directors, gross profit margin may reach 45.2% vs 48.1% YoY in 2019 because fixed costs accounted for a large proportion in the cost structure of NCT, after-tax earnings should be VND183 billion, down 17.1% YoY and 4.1% lower than the target. Business performance is expected to recover in 2021 after the pandemic ends with expected earnings of VND263 billion, up 15.0% YoY on revenue of VND692 billion, up 10% YoY.

We used two valuation methods: Free cash flow to equity (FCFE) and dividend discount model (DDM) to value NCT's stock. The fair value of NCT share in 2020 is VND87,000 apiece.

Despite the risks from COVID-19, we still appreciate the growth potential of NCT based on the development of Vietnam's import and export activities and NCT's improved capacity thanks to ACSV – CT2 cargo terminal. Plus, NCT has a safe financial structure, high dividend payment rate, and is suitable for long-term investment. Based on valuation results, business prospects and history of high dividend payment, we recommend to BUY NCT shares. The target price is VND87,000, 43.8% higher than the closing price on July 14, 2020.

Table 17. NCT – Forecast business performance in 2020–2021

VND billions	2018A	2019A	2020F	2021F
Revenue	690	699	630	692
Cost of goods sold	345	363	345	364
Gross margin	345	337	285	329
Selling expenses	9	8	8	9
Administration expenses	67	71	66	75
Interest expenses	0	0	0	0
Net profit before tax	298	276	229	263
NPAT of parent company	241	220	183	210

Source: KB Securities Vietnam

Table 18. NCT – Free cash flow to equity

Assumption	Value
WACC	10.80%
Kf	2.90%
Risk premium	11.00%
Beta	0.77
Perpetual growth rate	1%
Forecasted period	6 years

Source: KB Securities Vietnam

Table 29. NCT – Dividend discount model

Method	Forecast price	Proportion	Price followed proportion
FCFE	92,173	50%	46,087
DDM	81,887	50%	40,944
Target price			87,030

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhhd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity analyst – Tran Thi Phuong Anh

anhhttp@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Nguyen Ngoc Hieu

hieunn@kbsec.com.vn

Equity (Ho Chi Minh)

Head of International Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Oil & Gas & Fisheries Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

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

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

Investment Ratings for Sectors

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

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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