



Saigon Cargo Service Corporation (SCS: HSX)



FULL REPORT

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In 6M/2019, revenue hit VND361.8 billion, gaining 15.1% yoy; NPAT hit VND239.8 billion, rising 20.9% yoy.

The growth force comes from the investment in cargo terminal Phase 2, raising capacity to 350,000 tons/year.

SCS has had a high dividend payout ratio

Risks

SCS is currently the 2nd largest cargo terminal operator in Tan Son International Airport with a market share of 35.3% in 2018. As the available landbank of the company is still large, and TCS has been operated at its full capacity, SCS's potential growth and the possibility to gain market share are still large.

In the 1H 2019, net revenue reached VND361.8 billion, increasing 15.1% yoy thanks to the increase in the number cargo terminal and the improvements in charges. GPM was 79%, slightly decreasing 0.5% YoY. NPAT in the 1H 2019 was VND 239.8 billion, rising 20.9% yoy.

SCS expects to invest in cargo terminal Phase 2, and raise capacity from 200,000 tons/year to 350,000 tons/year. The expansion of cargo terminal ensures the potential increase in demand, thereby maintaining the growth of SCS in the long term.

SCS is a business with a high dividend payout ratio in recent years. The rate of cash dividend payment in 2017 reached 60%. SCS plans to pay a 45% cash dividend for 2018, currently paying 37% of the first installment.

SCS's business operations may face some risks as follows: (1) The risk of US-China trade war; (2) The risk of business disruption due to airstrip repair; (3) Risks of competition from Long Thanh International Airport.

Based on valuation results, business outlook, and the valuation of impacts from potential risks, we recommend to **HOLD** SCS shares. The target price for 2020 is VND171,700/share, 3.8% higher than the prices on September 20, 2019.

HOLD

Target price	171,700 VND
Target price	3.80%
Up/down	165,400 VND
Current price (23/09/2019)	171,700 VND
Target price	7,997 billion (343.2 mil. USD)
Exchange rate on 01/04/2019: 1USD = 23,300 VND	

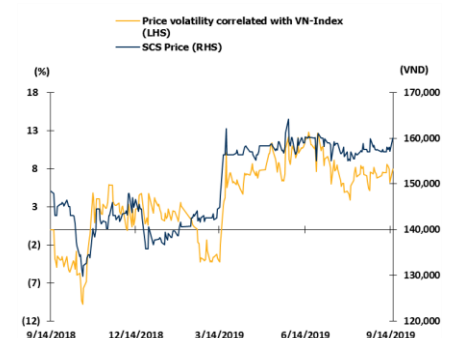
Forecast business result				
FY-End	2017A	2018A	2019F	2020F
Net revenue (Bil VND)	588,317	675,369	752,668	849,118
Net revenue growth rate (%)	18.63%	14.80%	11.45%	12.81%
Gross profit (Bil VND)	452,875	528,380	589,276	657,674
GPM (%)	76.98%	78.24%	78.29%	77.45%
Net profit (Bil VND)	344,461	415,712	469,402	534,768
Net profit growth rate (%)	40.47%	20.68%	12.92%	13.93%
EPS (VND)	6,025	7,271	8,210	9,353
P/E (x)	31.13%	20.68%	12.92%	13.93%
Net revenue (Bil VND)	26.56	22.01	19.49	17.11

Trading data

Number of outstanding shares	49,985,700
Average trading volume (3M)	8,329
% foreign ownership	24.23%

% thay đổi giá

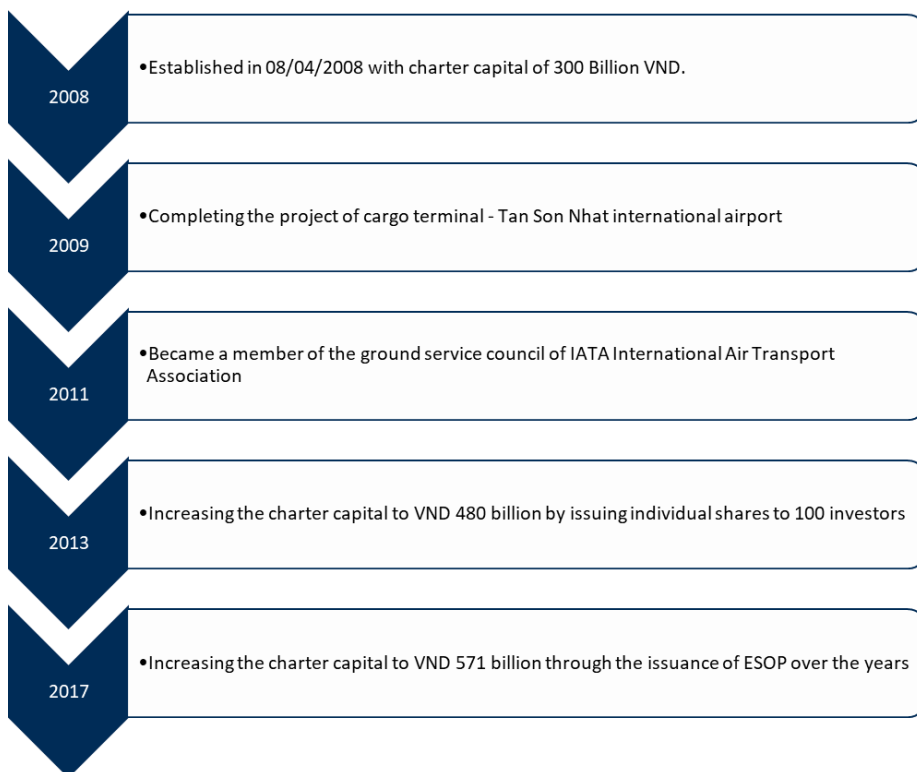
(%)	1M	3M	6M	12M
SCS	1.6%	0.0%	2.4%	7.8%
VNINDEX	1.0%	2.8%	-1.7%	-0.1%



Source: KBSV

I. OVERVIEW

HISTORY OF DEVELOPMENT

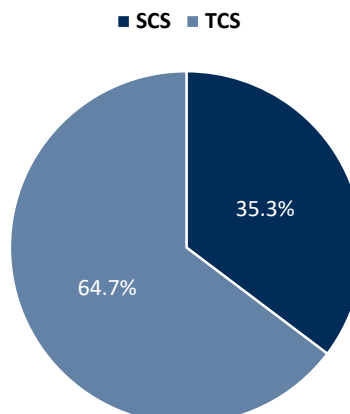


SCS has a market share of 35% in Tan Son Nhat International Airport

POSITION IN THE SECTOR

SCS is currently the 2nd largest cargo terminal operator in Tan Son International Airport with a market share of 35.3% in 2018. At the moment, there are only 2 companies - SCS and TCS that are operating cargo terminal in Tan Son Nhat International Airport because the demand is not too high, and there is a lack of business place as Tan Son Nhat International Airport is located right in the city. However, SCS still has chance to expand as the landbank is still large, and TCS has reached its maximum capacity. This also means that the potential growth and chance to gain market share of SCS are still very big.

Figure 1: Market share of cargo terminal in Tan Son Nhat International Airport



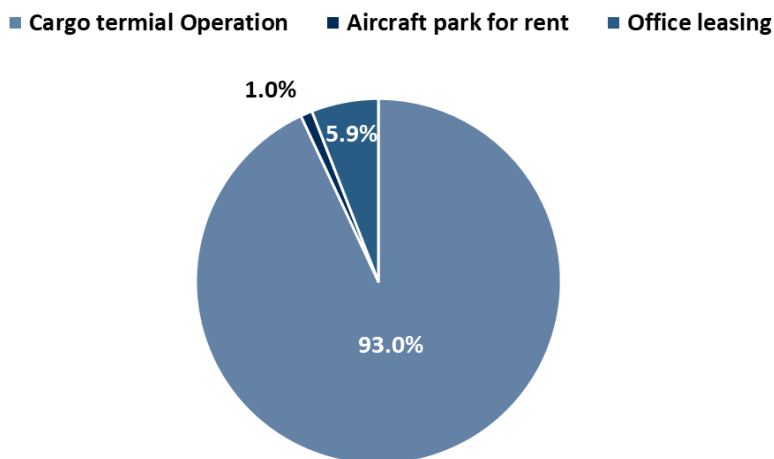
Source: SCS, KBSV

REVENUE STRUCTURE

SCS scope of business has 3 main segments: (1) Cargo terminal operation; 2) Aircraft parking for rent; and (3) Office leasing

The main business segment of SCS is cargo terminal operation with income source from: (1) Cargo terminal operation; (2) Aircraft parking for rent; and (3) Office leasing. In 2018, cargo terminal operation accounted for 93% revenue; aircraft parking for rent added 1%, and office leasing was 5.9% revenue (Figure 2).

Figure 2: Revenue structure of SCS in 2018

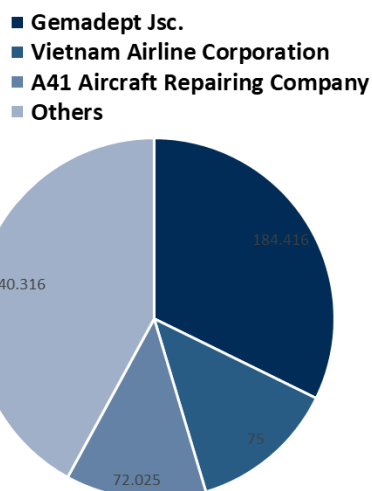


Source: SCS

OWNERSHIP STRUCTURE

The charter capital of Saigon Cargo Service Corporation by Q2/2019 was VND571.76 billion, in which foreign shareholders held 24.14%, state shareholders owned 13.12%, and the rest was owned by other others. Gemadept JSC is the biggest shareholder with 32.3% shares; followed by Airports Corporation of Vietnam with 13.1%. A41 Aircraft Repairing Company held 12.6%, in which there was 7.19 million preferred shares obtained by contributing the right to exploit 14.3 hectares of land.

Figure 3: SCS ownership structure



Source: Fiinpro

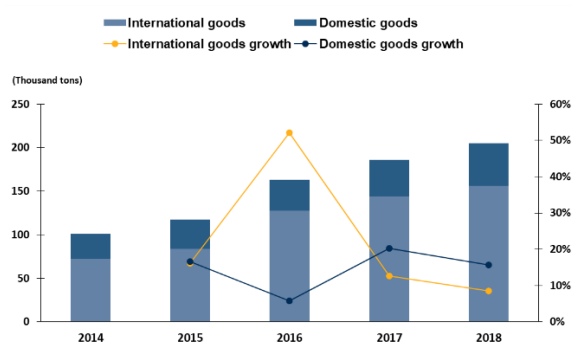
Cargo terminal operation with capacity in Phase 1 reaching 200,000 tons/year, which adds 93% to total revenue.

Cargo terminal operation contributed 93% in total revenue of SCS in 2018. Cargo terminal of SCS has an area of 26,670 m², including 2 main parts – shipping and receiving, to provide transformation services. Designed capacity of cargo terminal is 200,000 tons/year (Phase 1), and 350,000 tons/year (Phase 2). Up to now, SCS has only exploited at Phase 1, and expects to start to invest in Phase 2 in 2020 after reaching full capacity of Phase 1.

Total cargo volume and service charges have increased steadily in recent years

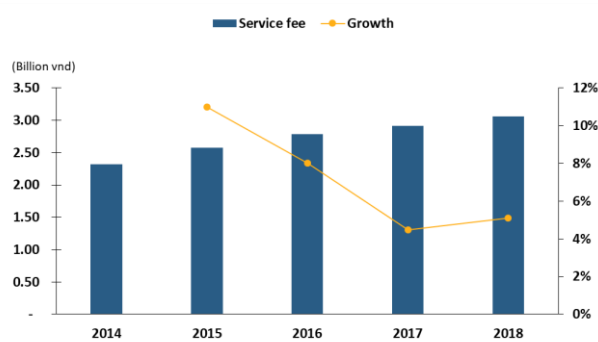
Revenue in 2018 reached VND627 billion, up by 16%, revenue CAGR in 4 years hit 27.9%. The total volume of goods via SCS terminals in 2018 hit 204.9 million tons, increasing 10.1% yoy, while international cargo contributed 156.1 million tons, gaining 8.5% yoy; domestic cargo added 48.8 million tons, up by 15.6% yoy (Figure 5). 4-year CAGR of goods was 19.4%. Average charge/1,000 tons of goods in SCS in 2018 was VND3.06 billion, rising 5% yoy, 4-year CAGR of average charge hit 7.1% (Figure 6). Charges have been increasing over the years thanks to favorable negotiation position as SCS is currently the only company that still has capacity to exploit in Tan Son Nhat International Airport.

Figure 5: Cargo volume growth in 2014-2018



Source: SCS

Figure 6: Charge growth/1,000 tons cargo in 2014-2018



Source: KBSV

SCS offered 52,421 m² land for lease as an aircraft parking area, and gained a stable revenue of VND7 billion/year.

52,421 m² of land near the airstrips has been provided for lease by SCS as aircraft parking yard, which is enough for 3 B747F aircrafts and 5 A321 aircrafts at the same time. The leasing of this land area has gained SCS a stable revenue of VND7 billion/year in 2015-2019. In 2020, SCS expects to will renew contracts with airlines, increasing revenue to VND17 billion/year.

SCS's office building for lease has reached its maximum occupancy rate, gaining VND42 billion of revenue.

The office building was built on 7,200 m² area of land, and has been leased with maximum occupancy rate in 2017 and 2018. Revenue in 2018 was about VND40 billion, gaining 5% yoy thanks to the increase in leasing area and leasing prices. Specifically, total office area for lease is 6,304 m², up by 0.5% over 2017. Leasing prices have been improved over the years, gaining 12.3% in 2017, and up 4.7% in 2018 since Tan Son Nhat International Airport area has a limited area for office leasing. In addition, the football field and car parking area also brought the company a considerable revenue, of about more than VND1 billion/year. SCS plans to build the Office building No.2 at the end of 2019, early 2020 on the current football field.

Revenue in 2018 was VND675 billion, gaining 14.8% yoy; NPAT in 2018 was VND416 billion, up by 20.7% yoy.

Good management of operational cost, the growth rate of cost increases more slowly than that of revenue.

Revenue 6M/2019 reached 361.8 billion, increasing 15.1% yoy; NPAT 6M/2019 hit VND239.8 billion, up by 20.9% yoy.

SCS owns a large amount of cash equivalent to 16% of total assets.

Total liabilities/total assets ratio is low, reaching 8%. SCS does not have any extra debt with banks.

III. BUSINESS PERFORMANCE & FINANCIAL STATUS

Net revenue in 2018 hit VND675 billion, gaining 14.8% yoy, 4-year revenue CAGR was 25.1% (Figure 7). The growth force comes from cargo terminal operation with revenue increasing 16%, while revenue from office leasing slightly rose 5%; and the revenue from car parking leasing was unchanged. GPM in 2018 hit 78.2%, increasing 1.2%, mainly thanks to the improvement in GPM of cargo terminal operation up from 77.3% to 78.6%. SCS business activities recorded no extra COGS, while SG&A changed insignificantly in the last 3 years, staying around 10% of total revenue (Figure 8). NPAT in 2018 was VND416 billion, jumping 20.7% yoy, 4-year NPAT CAGR was 45.7% (Figure 9).

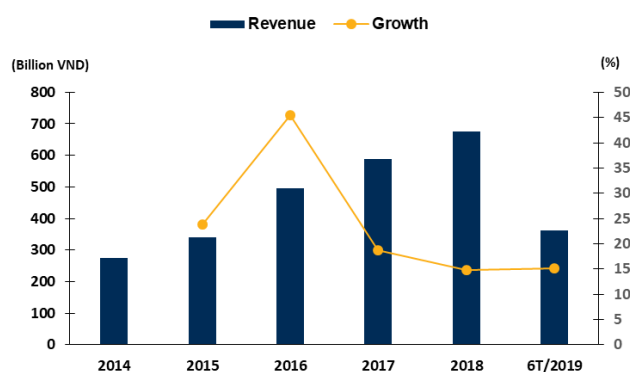
The cost of labour accounted for the largest component, about 41% in the total operational cost of SCS. The second was depreciation cost and external service costs (26%). Operational cost of SCS in the past 3 years increased more slowly than the revenue growth. Depreciation cost remained unchanged in the past years as SCS did not invest more in fixed assets, while other costs increased insignificantly. Good management of operational cost strongly helps to improve business results, and raises GPM for SCS.

In the 1H 2019, net revenue was VND361.8 billion, increasing 15.1% yoy thanks to the increase in cargo terminal operation order and in service fees. GPM hit 79%, insignificantly losing 0.5% YoY. NPAT in the 1H 2019 reached VND239.8 billion, gaining 20.9% yoy.

By the end of Q2/2019, SCS's total assets reached VND946.7 billion, up 3.2% compared to the beginning of the period. Fixed assets account for the largest proportion of total assets, accounting for 54.6%. In particular, SCS currently owns a large amount of money including VND41.8 billion in cash and VND110 billion in term deposits, which will help SCS's financial situation not to fluctuate too much in case of investing in cargo terminal Phase 2 and office building No. 2.

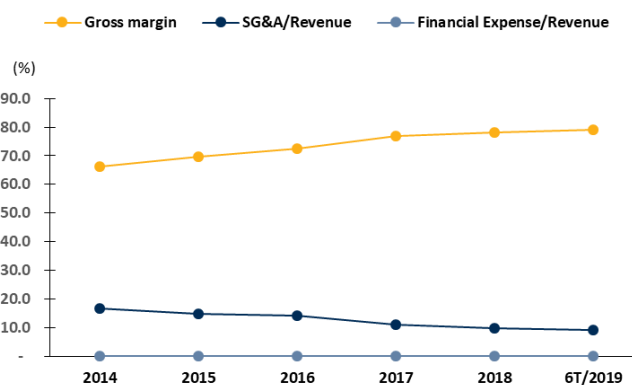
SCS has a very safe debt structure, the total liabilities/total asset ratio as of the end of Q2/2019 is only 8%, which is mainly due to accounts payable to sellers, employees and funds, especially when SCS does not have any extra long-term or short-term debt. SCS operates entirely on equity and cash flow from operating activities (Figure 10).

Figure 7: Revenue growth in 2014-2019



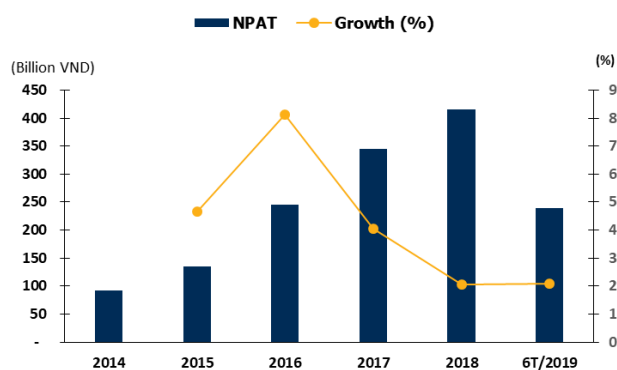
Source: SCS

Figure 8: GPM & Cost in 2014-2019



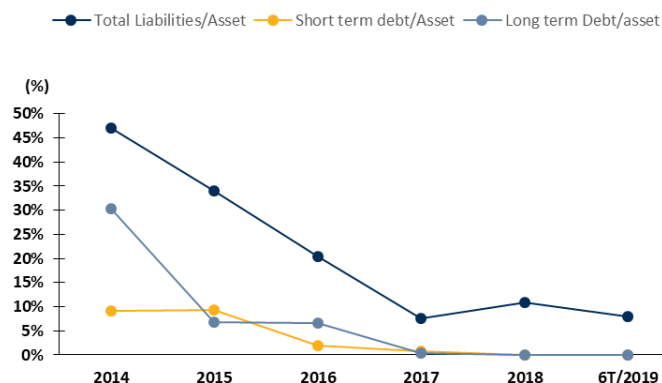
Source: SCS

Figure 9: NPAT growth in 2014-2019



Source: SCS, HVN

Figure 10: Debt structure in 2014-2019



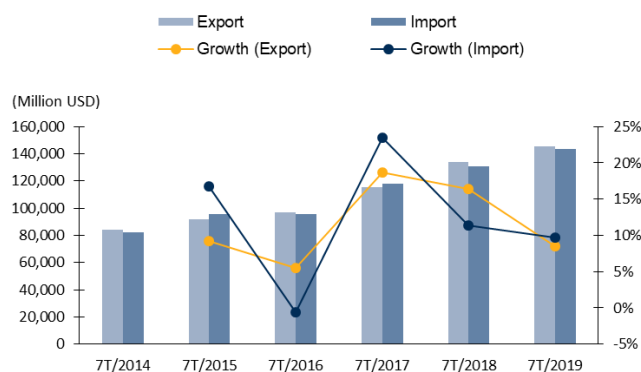
Source: SCS

IV. INVESTMENT HIGHLIGHT

Triển vọng growth kim ngạch xuất nhập khẩu là động lực cho ngành vận tải hàng không.

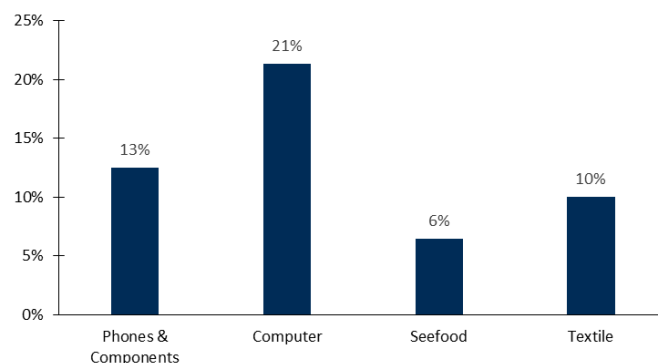
The growth of import-export turnovers of Vietnam has been steady in recent years with 4-year CAGR of exportation reaching 12.9%, and 4-year CAGR of importation of 12.36%. In 7M/2019, the total value of exports reached USD145.5 billion, up 8.5% yoy; The total value of imported goods reached USD143.7 billion, up 9.7% yoy (Table 11). Some products are often transported by air with high import and export growth rates, including high-value, vulnerable products such as mobile phones, electronic computers, etc. In addition, there are some require quick transportation time to ensure quality, market trends such as seafood, and textiles (Figure 12). In the coming time, positive macro factors such as the signing of FTA agreements will be an important factor promoting import and export growth, a great motivation for the development of the air transportation industry in general and aviation cargo terminal operation industry in particular.

Figure 11: Growth of export turnover in 2014-2019



Source: GSO

Figure 12: 4-year CAGR of export volume of some sectors using air transportation



Source: GSO, KBSV

SCS có lợi thế độc quyền khai thác cargo terminal tại khu vực cảng Hàng không Tan Son Nhất.

SCS and TCS are the only 2 companies that major in cargo terminal operation in Tan Son Nhat International Airport. TCS has currently operated at its full capacity, so it mainly receive new orders from old customers; and SCS will have chance to sign contracts with new customers who need to use services at Tan Son Nhat International Airport. Furthermore, unlike Noi Bai International Airport with a large available land area to open cargo terminals, the lack of land in Tan Son Nhat International Airport decreases the opportunity for an SCS's competitor to appear.

Growth force comes from the investment of Phase 2 cargo terminal, raising capacity to 350,000 tons/year.

SCS expects to invest in cargo terminal Phase 2, and raise capacity from 200,000 tons/year to 350,000 tons/year. The investment cost is estimated at VND230 billion, which is financed by business operations. The expansion of cargo terminal ensures to meet the further demand from customers, thereby maintaining long-term growth for SCS. Additionally, in 2020, SCS plans to build the office building No. 2 on the current football field. Currently, the company is asking for permission to start the project, and there has been no specific information about this, but in case the project is implemented, and has the same scale as the office building No. 1, SCS will record a profit of about 30 – 40 billion from this project annually.

SCS is planning to acquire and merge with a cargo terminal operation company at Noi Bai Airport.

SCS is in negotiation progress to acquire and merge with a cargo terminal operation company at Noi Bai International Airport. There are 3 competitors in this airport area including: Noi Bai Cargo Terminal Service JSC (NCST), Air Cargo Services of Vietnam (ACSV), and Aviation Logistics Corporation (ALS). There has been no specific information about which company is negotiating with SCS, but we think that it is ACSV because both ACS and ACSV have a close relationship with ACV (ACV currently holds 20% shares of ACSV and 15% shares of SCS). If this M&A is successful, it will bring a new growth force for SCS in long term, while the potential growth of Logistics in the North is very big with many operating industrial parks, especially Samsung and its satellites.

SCS has a high dividend payout ratio in recent years, which will be maintained in the coming years

SCS SCS is a business with a high dividend payout ratio in recent years. The rate of cash dividend payment in 2017 reached 60%, equal to the dividend/NPAT of 87%. SCS plans to pay a 45% cash dividend for 2018, currently paying 37% of the first installment. With a strong cash flow and no debt incurred in business activities, we believe that SCS will continue to maintain a high cash dividend payout ratio in the coming years.

V. RISKS

The development of US-China trade tensions is unfavorable to import-export activities

SCS business activities may face some main risks:

The US-China trade tensions are increasingly complicated. On August 23, 2019, the US imposes import taxes of 15% on USD110 billion Chinese commodities, raising total goods value to USD550 billion. From a positive viewpoint, Vietnam will benefit from the diversifying US supply chains, and multi-national companies moved their factories from China to Vietnam. However in the long term, the US-China trade war will cause bad effects on the world economy, and Vietnam can hardly avoid the negative effects. If the world economic recession takes place, the import-export turnover will be affected and will have a direct negative impact on the logistics industry in general and SCS's business activities in particular.

The overload in Tan Son Nhat International Airport adversely affects the growth rate of flight number and revenue growth of SCS.

The growth of the number of flights of airlines has direct impact on the total volume of goods transported via air. If the numbers of aircrafts and flights increase, transportation charge/ton of goods will decrease due to increasing supply, thereby stimulating air transportation. Positive performance of SCS in the last years has significant contribution, from surging growth of flight teams and flights (In 2018, total flight number on the market was 181.1, increasing 9.1% yoy, +11.3% yoy in 2017). However, Tan Son Nhat International Airport has currently overloaded, so the increase of flights in the 1H 2019 met many difficulties, only gaining 2.4% yoy despite gaining support from Bamboo Airline. We see the expansion of Tan Son Nhat International Airport in the medium term is practical, as the offered solutions all require a great resource and time. This will adversely affects the growth of flight number of the airport sector, and revenue growth of SCS.

The plan to fix airstrips at Tan Son Nhat International Airport disrupts SCS's business activities

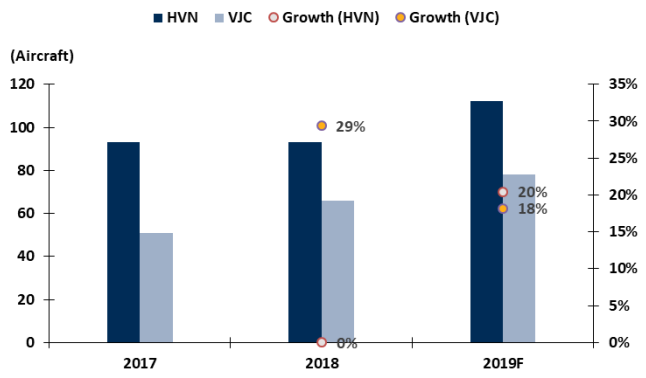
Tan Son Nhat International Airport's 25R/07L airstrip has been severely degraded in recent years due to over-exploitation and over-use of aircrafts with larger load and wheel pressure than the designed capacity of the airstrip. The Ministry of Transport proposed the Ministry of Finance to allow ACV to use its financial resources to carry out the maintenance first. If this progress is conducted, it is likely that part of the aircraft route will be halted for repair, thereby reducing the number of flights taking off/landing at Tan Son Nhat Airport, directly affecting the total volume of goods exploited of SCS. There are no plans to fix the airstrips at this moment. We will update this as new information is available.

In the long term, SCS is under competitive pressure from cargo terminal operators at Long Thanh airport.

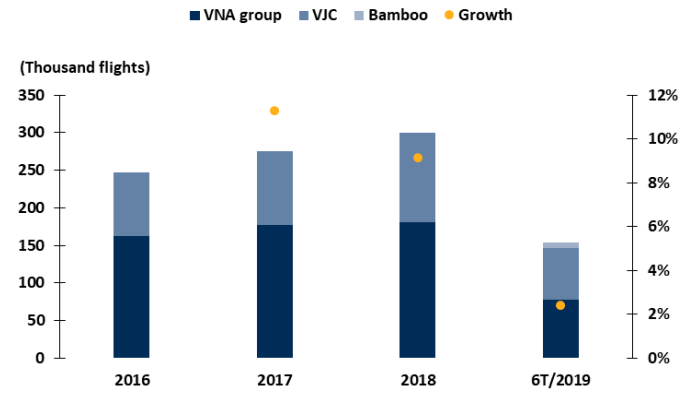
In the long term, Long Thanh Airport will come into operation, which leads to a partial transfer of cargo from Tan Son Nhat International Airport. The major drawbacks of the Tan Son Nhat cargo terminals are the high traffic density, frequent congestion, old design, which is not convenient for cargo transportation. The operation of Long Thanh Airport with Phase 1 capacity estimated at 1.2 million tons of cargo/year, modern design will attract large quantities, especially goods to industrial parks in Dong Nai, Vung Tau, and will decrease revenue of SCS. However, we assess that SCS operation will not be affected immediately because contracts with international firms usually last 3 years. In addition, SCS may still succeed in obtaining a license to operate in the Long Thanh Airport area due to its experience and good business history at Tan Son Nhat International Airport.

Figure 13: The growth of flight number of Vietnam in 2016-2019

Figure 14: The flight team growth of HVN and VJC 2017 – 2019F



Source: CAAV



Source: VJC, HVN, KBSV

VI. VALUATION

FORECAST BUSINESS PERFORMANCE IN 2019-2020

NPAT of SCS in 2019 is expected to reach VND6,061 billion, up 16.2% yoy, and the EPS forward is VND10,173/share.

In 2019 and 2020, we estimate revenue of SCS will reach VND754 billion and VND849 billion, gaining 11.6% yoy and 12.8% yoy respectively, based on:

Revenue from cargo terminal operation will likely maintain a growth of 12%/year with production increasing 10%/year, and service charges gaining 2%/year.

Revenue from parking area for lease will remain unchanged in 2019, and may gain about VND10 billion/year in 2020 thanks to the newly signed contracts.

Revenue from office leasing will climb 2%/year due to high demand for office leasing amid lacking land area in Tan Son Nhat International Airport, and potential new contracts signed by SCS each year.

At the moment, there has been no specific plan about the investment in project Office building No.2, so we do not include this project in this part.

EBT is forecast to be VND527 billion in 2019, and VND600 billion in 2020. NPAT of the parent company is expected to reach VND469 billion in 2019, and VND535 billion in 2020, gaining 12.9% yoy and 13.9% yoy respectively.

Table 15: Forecast business results in 2019-2020

Billion VND	2016	2017	2018	2019F	2020F
Net Revenue	496	588	675	753	849
COGS	137	135	147	163	191
Gross profit	359	453	528	589	658
Selling Expense	-	-	-	-	-
Administration Expense	70	66	67	68	69
Financial Expense/profit	15	10	8	8	15
Gain/Loss from affiliates	-	-	-	-	-
Net profit before tax	275	384	467	527	600
NPAT	245	344	416	469	535

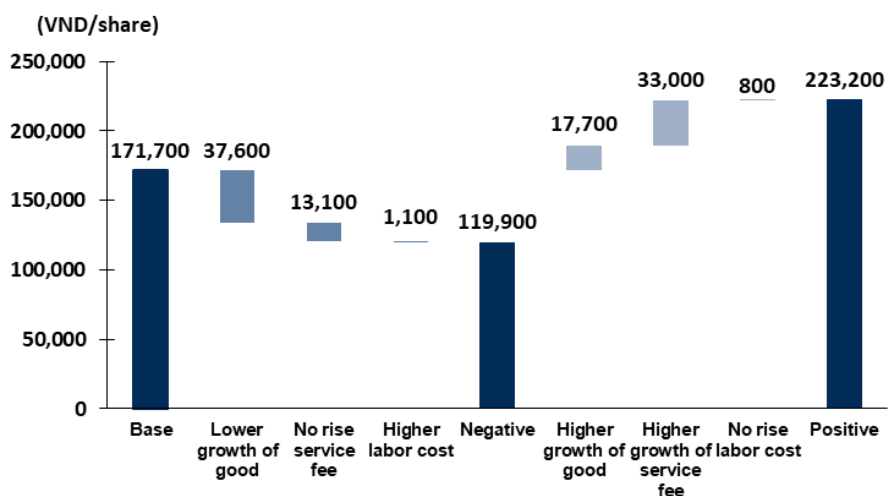
Source: KBSV

VALUATION

We use FCFE and FCFF to evaluate SCS share prices. The business performance and the true value of stock prices are strongly influenced by the output production and service charges. The reasonable price for SCS shares in 2020 is VND171,700/share in base assumption, VND119,900/share in negative assumption, and VND223,200/share in positive assumption (Figure 16).

We evaluate the potential growth of SCS is still large with the development prospect of Vietnam's import and export activities along with SCS's enhanced design capacity for cargo terminals. However, many risks related to Tan Son Nhat International Airport overload and the operation of Long Thanh Airport will cause many obstacles for SCS's operation. Based on valuation results, business prospects as well as a balance of potential risks, we recommend to **HOLD** SCS shares. The target price for 2020 is VND171,700/share, 3.8% higher than the price on September 20, 2019.

Figure 16: Forecast prices for SCS shares by assumptions



Source: KBSV

Table 17: FCFE-FCFF assumption

Assumption	Value
Cost of Equity	11.38%
WACC	11.05%
Risk free rate	4.70%
Risk premium	9.20%
Beta	0.73
Perpetual Growth	1%
Forecast term	7 years

Source: KBSV

Table 18: SCS valuation

Methods	Forecast price	Proportion	Price by Proportion
FCFF	167,774	50%	83,887
FCFE	175,708	50%	87,854
Target price			171,700

Source: KBSV

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

DISCLAIMER

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