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**1H20 earnings and revenue were down 7.7% YoY and 9.4% YoY respectively**

Saigon Cargo Service (SCS) posted VND221.2 billion in 1H20 earnings, down 7.7% YoY on revenue of VND327.9 billion, down 9.4% YoY. The company's gross profit margin (GPM) was 78.2%, slightly down 0.8% YoY.

**Cargo terminal expansion project was delayed due to the pandemic**

The COVID-19 may cause a delay in SCS's plan to invest in the phase 2 of the cargo terminal to increase capacity from 200,000 tons/year to 350,000 tons/year until throughput growth rebounds. Cargo terminal expansion will ensure SCS will meet additional demand, thereby sustaining long-term growth.

**Mergers & acquisitions plans are still in negotiation phase**

SCS is in the process of negotiating to invest in (1) a cargo terminal operator at Noi Bai International Airport and (2) an enterprise operating in the Southern air logistics chain. The specific information about the other party in negotiation has not been disclosed yet. If the M&A deals are successful, they will become long-term growth drivers for SCS.

**SCS approved the plan to pay 80% cash dividend for 2019**

SCS shareholders approved the plan to pay VND8,000 cash dividends for 2019 earnings, equivalent to the dividend rate of 7.3% on August 5, 2020. Given strong cash flow and no debt incurred in business operations, SCS can maintain a high cash dividend payout ratio in the coming years.

**We recommend to BUY SCS shares**

We recommend to **BUY** SCS shares with the target price of VND148,500, 34.9% higher than the closing price on August 7, 2020.

**Buy** maintain

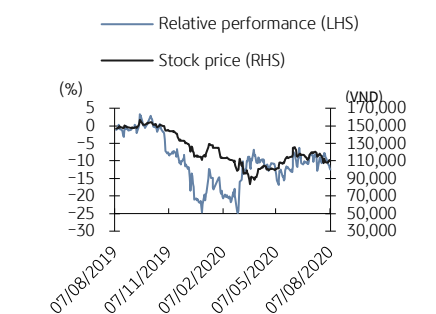
<b>Target price</b>	<b>VND148,500</b>
Total return (%)	34.9%
Current price (Aug 24, 2020)	VND 110,100
Market consensus price	VND 130,500
Mkt capitalization (USDbn)	5,528/1.6

<b>Trading data</b>	
Free float (%)	98.5%
Avg trading value (3M)	3,4/4.1
Foreign ownership (%)	27.3%
Major shareholder	Gemadep - GMD (32.58%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>SCS</b>	-8.1	3.5	-2.6	-25.1
<b>VNIndex</b>	-3.4	0.5	-13.2	-13.6

#### Forecast earnings & valuation

Fiscal year-end	2018A	2019A	2020F	2021F
Revenue (VNDbn)	675	748	647	739
EBIT	469	540	474	540
NP attributable to parent (VNDbn)	437	502	439	501
EPS (VND)	7,645	8,725	7,625	8,702
EPS growth (%)	26.9%	14.1%	-12.6%	14.1%
P/E (x)	14.40	12.62	14.44	12.65
PBR (x)	7.11	6.31	5.80	5.32
ROE (%)	49.40%	50.01%	40.19%	42.01%
Dividend yield (%)	7.2%	6.6%	6.4%	7.2%



Source: Bloomberg, KB Securities Vietnam

## Business performance

**1H20 earnings and revenue were down 7.7% YoY and 9.4% YoY respectively**

SCS's air cargo volume in 2Q20 decreased 24.0% due to the Coronavirus outbreak, resulting in a drop of 22.6% YoY to VND99.7 billion in earnings on revenue of VND144.2 billion (down 23.7% YoY). 1H20 earnings were VND 221.2 billion (down 7.7% YoY) on revenue of VND327.9 billion (9.4% YoY), and GPM was 78.2%, slightly down 0.8% YoY.

**SCS had to cut costs amid impacts of the pandemic**

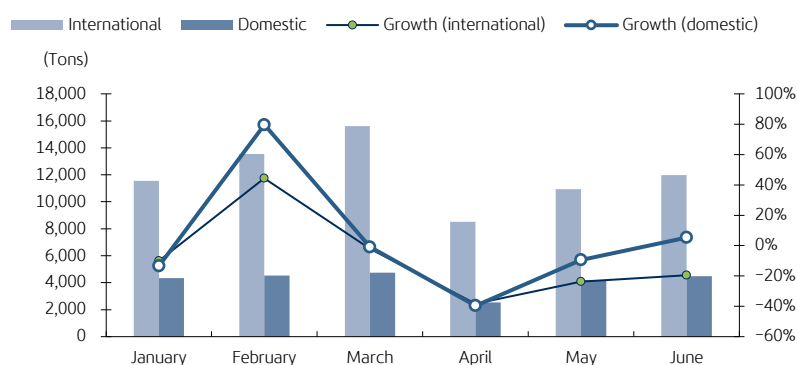
In the first six months of 2020, SCS strongly cut costs to maintain business results. Specifically, labor cost (36% of total cost) lowered 22.3% YoY, and outside services (30% of total cost) also fell 12.2% YoY.

**Liabilities/total assets ratio was only 7.7%**

SCS maintained a safe debt structure with the ratio of liabilities/total assets as of the end of 2Q20 at only 7.7%. It also no bank loans, and all business activities are financed with business cash flows.

April cargo volume dropped sharply due to the nationwide lockdown. Domestic cargo volume recovered strongly in May and posted positive growth again in June 2020. Meanwhile, the international cargo volume recovered slowly

**Fig 1. SCS – Cargo volume growth in 1H20 (YoY)**



Source: Saigon Cargo Service

## Investment highlights

### **The prospect of import-export turnover is the driving force for the aviation industry**

Vietnam's total import-export turnover has maintained a steady growth over the past few years with a five-year CAGR of 11.7% (Figure 2). 1H2020 import-export turnover reached USD242.1 billion, down 0.5% YoY due to the COVID-19, of which exports decreased by 0.9% YoY and imports were almost unchanged. KBSV believe that Vietnam's total import and export turnover will bounce back again after the pandemic ends, based on: (1) Positive effects from EVFTA and other free trade agreements. According to research by the Ministry of Planning and Investment, EVFTA helped Vietnam's export and import turnover rise 42.7% and 33.1% respectively by 2025; and (2) Global supply chain shifts. The trade war and the pandemic led countries to consider relocating their production facilities to minimize bad influence from China, while Vietnam is a promising destination thanks to its abundant and low-cost workforce.

### **Cargo terminal expansion project was delayed due to the pandemic**

The COVID-19 may cause a delay in SCS's plan to invest in the phase 2 of the cargo terminal to increase capacity from 200,000 tons/year to 350,000 tons/year until throughput growth rebounds. Cargo terminal expansion will ensure SCS will meet additional demand, thereby sustaining long-term growth. For the second office area project, SCS is asking for a license to implement the project in 2021-2022E. Estimated investment cost of the project is USD10 million, and should bring VND30-40 billion in earnings each year.

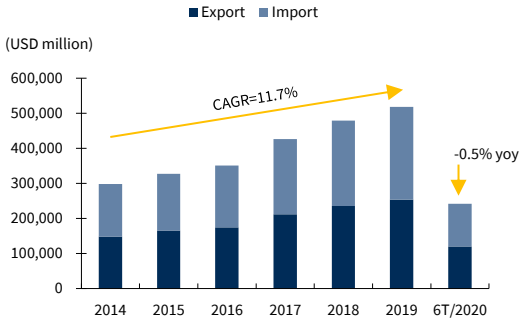
### **Merger & acquisition plans are still in negotiation phase**

SCS is in the process of negotiating to invest in a company operating in cargo terminal operations at Noi Bai International Airport. There are three competitors including: Noi Bai Cargo Services JSC (NCT), Air Cargo Services JSC (ACSV) and Aviation Logistics JSC (ALS). There is currently no specific information about which company is negotiating with SCS. The successful M&A will bring a new long-term growth force for SCS as the potential for logistics in the North is huge with many industrial parks in operation, especially Samsung and its satellite companies. In addition, SCS said that it is also in the process of negotiating with a company operating in the aviation logistics chain in the South to complete the operational value chain.

### **SCS has high dividend payout for 2019, which is expected to continue in the next years**

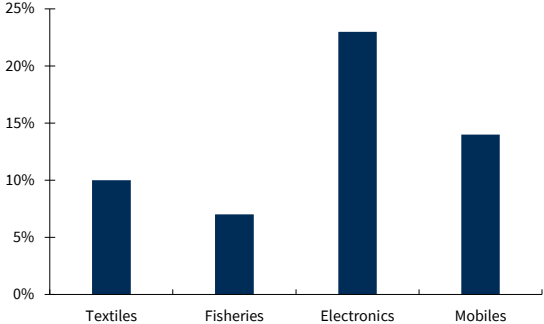
SCS has a history of paying high dividends for the past few years. SCS shareholders approved the plan to pay VND8,000 cash dividends for 2019 earnings, equivalent to the dividend rate of 7.3% on August 5, 2020. Given strong cash flow and no debt incurred in business operations, SCS can maintain a high cash dividend payout ratio in the coming years.

Fig 2. Vietnam – Export turnover growth (%)



Source: General Statistics Office

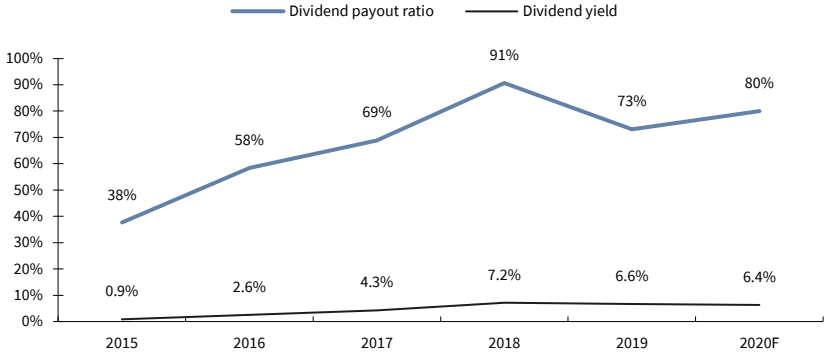
Fig 3. Vietnam – 4Y CAGR of export turnover of major industries using air logistics services



Source: General Statistics Office

Because there are no new investment projects, SCS has maintained a dividend payout ratio of over 70% in the past 3 years.

Fig 4. SCS – Cash dividend payout in 2014–2020F



Source: Saigon Cargo Service, KB Securities Vietnam

## 2020E business performance

**2020F earnings and revenue would decline 22% YoY and 21% YoY respectively**

KBSV estimate SCS's 2020E earnings at VND392 billion (-22% YoY) on revenue of VND591 billion (-21% YoY), respectively 34.6% and 30.3% lower than forecast in the previous report due to the Coronavirus-induced damage.

**The target price for the year 2021 is VNDVND148,500 per share**

We use two valuation methods: Equity Cash Flow Discount (FCFE) and Discount Corporate Cash Flow (FCFF) to value SCS shares. The fair price of SCS in 2021 is VND148,500 apiece, lower than the previous valuation of VND171,700/share because: (1) COVID-19 hit hard on business performance; and (2) SCS will put two investment projects of cargo terminal and office building phase 2 into valuation.

We think that SCS's growth potential is still large given the prospect of Vietnam's import-export activities along with SCS's increase in design capacity for cargo terminals. However, attention should be paid to the risks associated with the Coronavirus outbreak in the short term and the appearance of Long Thanh airport in the long term. Based on the valuation of business performance and prospects, and possible risks, we recommend to BUY SCS shares. The target price for 2021 is VND148,500 per share, 34.8% higher than the price on August 7, 2020.

Table 5. SCS – 2018–2021F business performance

VNDbn	2018A	2019A	2020F	2021F
Revenue	675	748	647	739
Cost of goods sold	147	153	139	151
Gross profit	528	595	508	588
Selling expense	-	-	-	-
Administration expense	67	68	58	66
Interest expense	0	1	-	-
Profit before tax	467	538	470	536
Profit after tax of parent company	437	502	439	501

Source: KB Securities Vietnam

Table 6. SCS – FCFE valuation

Model assumption	Value
WACC	10.6%
Risk free rate	2.9%
Risk premium	11.0%
Beta	0.73
Perpetual growth	1%
Forecasted period	6 years

Source: KB Securities Vietnam

Table 7. SCS – Two method results – target price

Method	Estimated price	Proportion	Price followed proportion
FCFE	155,140	50%	77,550
FCFF	141,851	50%	70,925
<b>Target price</b>			<b>148,500</b>

Source: KB Securities Vietnam

Table 8. SCS – Changes in 2020 forecasts – target price

	New		Old		Change	
	2020	2021	2020	2021	2020	2021
(Billion VND, %)						
Revenue	647	739	849	946	-23.8	-21.9
Gross profit	508	588	658	734	-22.8	-24.8
NPAT	439	501	535	610	-17.9	-17.9

Source: KB Securities Vietnam

## SCS – Financial data

## Income Statement

(VND billion)	2017A	2018A	2019A	2020F
	VN GAAP	VN GAAP	VN GAAP	
Net sales	588	675	748	647
Cost of sales	135	147	153	139
Gross Profit	453	528	595	508
Financial income	5	8	14	24
Financial expenses	5	0	1	0
of which: interest expenses	4	0	1	0
Gain/(loss) from joint ventures	0	0	0	0
Selling expenses	0	0	0	0
General and admin expenses	66	67	68	58
Operating profit/(loss)	387	469	540	474
Other incomes	1	0	0	0
Other expenses	4	2	2	4
Net other income/(expenses)	-3	-2	-2	-4
Net accounting profit/(loss) before tax	384	467	538	470
Corporate income tax expenses	40	30	35	31
Net profit/(loss) after tax	344	437	502	439
Minority interests	0	0	0	0
Attributable to parent company	344	437	502	439
Margin ratio (%)	2017A	2018A	2019A	2020F
<b>Gross profit margin</b>	<b>0.7697796</b>	<b>0.7823577</b>	<b>0.7953614</b>	<b>0.784849</b>
EBITDA margin	75.5%	77.3%	79.4%	81.3%
EBIT margin	66.0%	69.1%	72.0%	72.7%
Pre-tax profit margin	65.3%	69.1%	71.9%	72.7%
Operating profit margin	65.8%	69.4%	72.2%	73.2%
Net profit margin	58.6%	64.7%	67.1%	67.9%

## Cash Flow Statement

(VND billion)	2017A	2018A	2019A	2020F
<b>Net profit/(loss) before tax</b>	<b>384.43876</b>	<b>466.71027</b>	<b>537.67919</b>	<b>469.9007</b>
Depreciation and amortisation	56	55	55	56
Profit/loss from investing activities	-5	-8	-14	0
Interest expense	4	0	1	0
Operating profit/(loss) before changes in Working Capital	439	515	582	526
(Increase)/decrease in receivables	1	-74	31	24
(Increase)/decrease in inventories	0	0	0	0
Increase/(decrease) in payables	-26	47	-29	0
(Increase)/decrease in prepaid expenses	1	-1	0	-1
Net cash inflows/(outflows) from operating activities	375	424	562	518
Purchases of fixed assets and other long term assets	-4	-3	-14	-9
Proceeds from disposal of fixed assets	0	0	0	0
Loans granted, purchases of debt instruments	-242	-618	-416	0
Collection of loans, proceeds from sales of debts instruments	128	594	227	0
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	3	9	8	0
Net cash inflows/(outflows) from investing activities	-115	-18	-194	-9
Proceeds from issue of shares	5	0	18	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	0	0	93	0
Repayment of borrowings	-48	0	-93	0
Finance lease principal payments	-24	-10	0	0
Dividends paid	-237	-396	-367	-351
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-304	-406	-349	-351
Net increase in cash and cash equivalents	-44	0	19	158
Cash and cash equivalents at the beginning of period	92	47	47	66
Cash and cash equivalents at the end of period	47	47	66	224

Source: Saigon Cargo Service, KB Securities Vietnam

## Balance Sheet

(VND billion)	2017A	2018A	2019A	2020F
	VN GAAP	VN GAAP	VN GAAP	
<b>CURRENT ASSETS</b>	<b>236</b>	<b>268</b>	<b>414</b>	<b>543</b>
Cash and cash equivalents	47	47	66	224
Short-term investments	124	30	180	180
Accounts receivable	63	133	127	103
Inventories	0	0	0	0
<b>LONG-TERM ASSETS</b>	<b>753</b>	<b>703</b>	<b>659</b>	<b>612</b>
Long-term trade receivables	0	0	0	0
Fixed assets	585	536	497	457
Investment properties	0	0	0	0
Long-term incomplete assets	7	1	1	1
Long-term investments	0	0	0	0
<b>TOTAL ASSETS</b>	<b>990</b>	<b>971</b>	<b>1,073</b>	<b>1,155</b>
<b>LIABILITIES</b>	<b>75</b>	<b>86</b>	<b>69</b>	<b>63</b>
Current liabilities	54	74	65	59
Trade accounts payable	3	5	4	4
Short-term unrealized revenue	7	7	0	0
Short-term borrowings	7	0	0	0
Long-term liabilities	21	12	4	4
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	10	12	4	4
Long-term borrowings	3	0	0	0
<b>OWNER'S EQUITY</b>	<b>914</b>	<b>885</b>	<b>1,004</b>	<b>1,092</b>
Paid-in capital	572	572	576	576
Share premium	21	21	35	35
Undistributed earnings	320	284	385	0
Minority interests	0	0	0	0

## Key ratios

(x,% ,VND)	2017A	2018A	2019A	2020F
<b>Multiple</b>				
<b>P/E</b>	<b>18.27505</b>	<b>14.40079</b>	<b>12.61874</b>	<b>14.43887</b>
P/E diluted	18.275049	14.400787	12.618743	14.43887
P/B	6.9	7.1	6.3	5.8
P/S	10.7	9.3	8.5	9.8
P/Tangible Book	6.4	6.5	5.9	5.5
P/Cash Flow	16.8	14.8	11.3	12.2
EV/EBITDA	12.5	10.6	9.3	10.5
EV/EBIT	14.2	11.8	10.3	11.8
<b>Operating performance</b>				
ROE	0.4	0.5	0.5	0.4
ROA	0.3	0.5	0.5	0.4
ROIC	39.3%	52.2%	53.5%	50.6%
<b>Financial structure</b>				
Cash Ratio	314.9%	104.8%	381.0%	688.2%
Quick Ratio	3.1	2.4	5.4	8.0
Current Ratio	434.2%	362.7%	641.4%	924.6%
LT Debt/Equity	0.4%	0.0%	0.0%	0.0%
LT Debt/Total Assets	0.3%	0.0%	0.0%	0.0%
ST Debt/Equity	0.7%	0.0%	0.0%	0.0%
ST Debt/Total Assets	0.7%	0.0%	0.0%	0.0%
ST Liabilities/Equity	6.0%	8.3%	6.4%	5.4%
ST Liabilities/Total Assets	5.5%	7.6%	6.0%	5.1%
Total Liabilities/Equity	8.2%	9.7%	6.9%	5.8%
Total Liabilities/Total Assets	7.6%	8.8%	6.4%	5.5%
<b>Activity ratios</b>				
Account Receivable Turnover	955.6%	689.2%	577.1%	563.6%
Inventory Turnover	32,573.5	43,163.0	58,536.3	53,313.0
Account Payable Turnover	22.0	16.0	38.8	27.0

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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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