

STOCK PITCH REPORT

Buy

February 5, 2021

Target price VND16,300

Upside (%) 24.3%

Current price (Feb 5, 2022) VND13,100

Market cap (VNDbn) 2833

Trading data

Free float (%) 24.7

3M avg trading value (VNDbn) 2.9/0.1

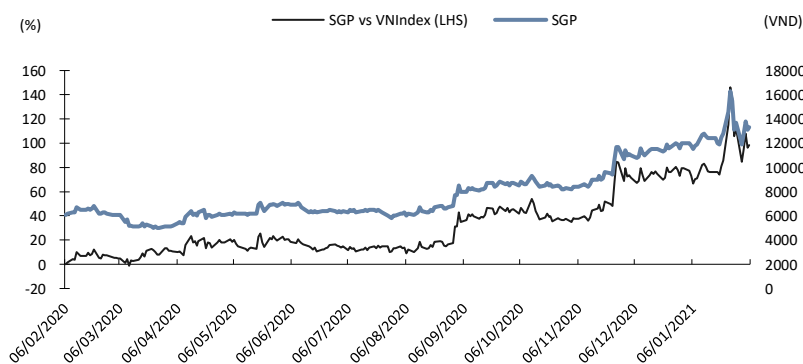
Foreign ownership (%) 48.9

Major shareholder Vinalines 65.45%

Forecast earnings & valuation

FY-end	2017A	2018A	2019A	2020A
Net sales (VNDbn)	1,161	1,079	1,121	936
Earnings/loss (VNDbn)	441	240	279	275
Profit attributable to parent (VNDbn)	411	163	203	229
EPS (VND)	1,871	722	939	1063
EPS growth (%)	2075.6	-61.4	30.1	13.2
P/E (x)	6.9	16.1	13.9	12.3
P/B (x)	1.7	1.6	1.5	1.3
ROE (%)	26.2	9.7	10.3	10.7
Dividend yield (%)	0.0	0.0	0.0	0.0

Fig 1. Share price performance



Source: Bloomberg, KB Securities Vietnam

Sai Gon Port (SGP)

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INVESTMENT VIEWPOINT

We recommend BUYING shares of Sai Gon Port (SGP), a port operator in the South. The target price is VND16,300 per share for 12-month outlook.

INVESTMENT CATALYSTS

Sai Gon – Hiep Phuoc Port is in the progress of completing, which is the long-term growth driver for SGP. The port should become the main port of Ho Chi Minh City (HCMC) thanks to its convenient location and ability to handle large vessels.

Cai Mep Thi Vai – the prospects are getting brighter. SGP owns three affiliates and invests in Cai Mep – Thi Vai port cluster. The port cluster should become an international port center in the South, and the affiliates may grow well thanks to surging cargo throughput.

Nha Rong – Khanh Hoi is ideally located in the center of Saigon. Maintaining the capital contribution at Diamond of Asia Group will support SGP in operating passenger ships at the terminal, one of the real estate projects with the most convenient location in HCMC.

Accumulated loss is likely to be removed from the balance sheet right in 2021. We are positive that SGP will erase accumulated loss right in 1H21 thanks to its efforts, opening the opportunity to pay dividends.

RISKS

The competition may increase when Gemalink Port comes into operation.

Nha Rong – Khanh Hoi still has many unsolved problems.

BUSINESS PERFORMANCE

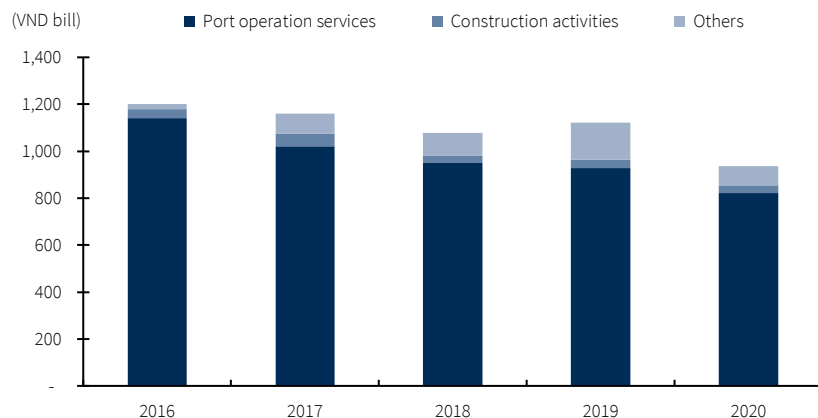
2020 performance was strong thanks to positive earnings from the parent and affiliates

SGP's 2020 earnings were VND232.8 billion (+12.9% YoY) on revenue of VND935.9 billion (-16.5% YoY). The profit growth was positive despite a decrease in revenue as Hiep Phuoc Port was in investment progress, and Nha Rong-Khanh Hoi could not reach its full capacity while waiting for relocation. Profit from joint ventures and associates surged VND88 billion YoY, and accumulated losses were gradually eliminated.

4Q20 profit grew impressively over the same period

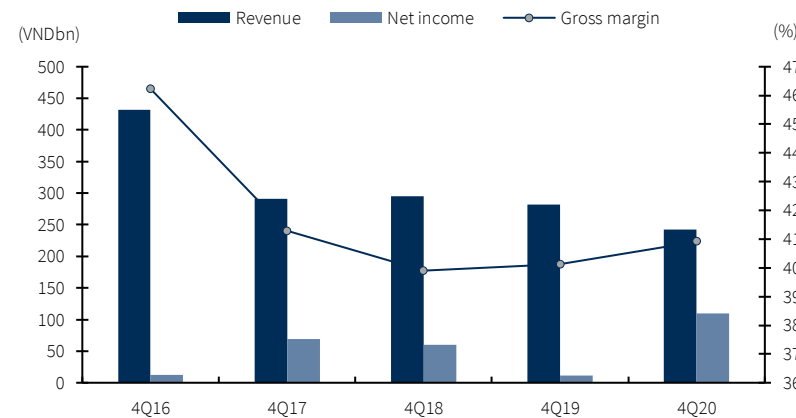
4Q20 profit was VND110.0 billion (9.7 times higher than 4Q19) and revenue reached VND242.1 billion (-14% YoY). Thanks to the improved business situation, affiliated companies' profit turned positive after being negative in many consecutive years. Other incomes gained VND73.8 billion YoY mainly because SGP raised other costs in 4Q19 to supplement land rental payment in HCMC.

Fig 2. SGP – Revenue structure in 2016–2020 (VNDbn)



Source: Sai Gon Port, KB Securities Vietnam

Fig 3. SGP – Business performance in 4Q16 – 4Q20 (VNDbn, %)



Source: Sai Gon Port, KB Securities Vietnam

INVESTMENT CATALYSTS

SGP's main business is to provide port services in HCMC and Ba Ria – Vung Tau. Its annual cargo throughput reaches 10 million. With a bright outlook, SGP has many favorable conditions for further development.

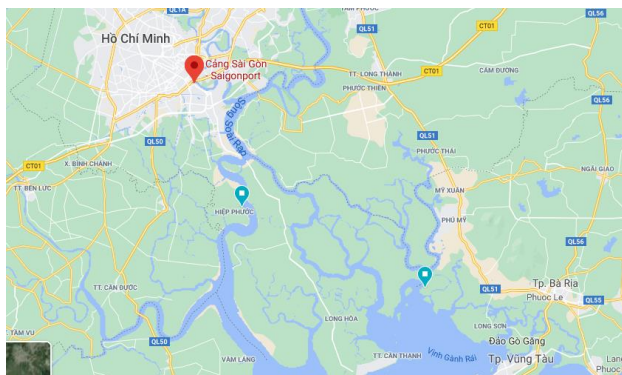
1. Sai Gon – Hiep Phuoc Port is in the progress of completing, which is the long-term growth driver for SGP

Hiep Phuoc Port is oriented to become the main port area of HCMC in the future. Previously, SGP's business activities were mainly port operating services at the Nha Rong – Khanh Hoi Port. However, according to the Prime Minister's decision, the wharf area on the Saigon River had to be relocated and change its functions to reduce traffic pressure in the inner city, so SGP invested in building Saigon – Hiep Phuoc Port. Notably, in the detailed planning for seaports in the Southeast region, the Ministry of Transport confirmed that Hiep Phuoc Port should be the main port area of HCMC.

Hiep Phuoc Port has a convenient location and can handle large tonnage ships. The port is a gateway which allows import and export goods to connect to ports in HCMC and Southern provinces and forward exports to Cai Mep – Thi Vai area. Compared with Nha Rong – Khanh Hoi, Saigon – Hiep Phuoc port can handle larger vessels with tonnage up to 50,000 DWT in phase 1 and 75,000 DWT in phase 2.

We expect SGP will soon complete the production chain and operate more effectively after receiving the volume of goods from Nha Rong – Khanh Hoi Port and inner-city ports. In addition, the company can benefit from developing wharf infrastructure and traffic network after the phase 1 of the Saigon – Hiep Phuoc Port project is completed. By the end of 2019, SGP operated flexibly in Nha Rong – Khanh Hoi area and exploit 600m/800m of wharf length and completed the remaining 200m at Hiep Phuoc port area. However, the goods will gradually move to the new port when the relocation is completed to convert the function of the Saigon River port area.

Fig 4. HCM-Vung Tau – Location of port clusters



Source: Google Map, KB Securities Vietnam

Table 1. Nha Rong-Khanh Hoi and Saigon-Hiep Phuoc port information

	Saigon – Hiep Phuoc		Nha Rong – Khanh Hoi
Number of terminals	3		NA
Berth length	Phase 1: 800m	Phase 2: 1,000m	1,165m
Capacity	Phase 1: 8.7 million tons	Phase 2: 9.3 million tons	10 million tons
Area	Phase 1: 54 ha	Phase 2: 46 ha	45 ha
Deadweight tonnage	Phase 1: 50,000 DWT	Phase 2: 75,000 DWT	30000 DWT
Length	9.5m		8.5m

Source: Sai Gon Port, KB Securities Vietnam

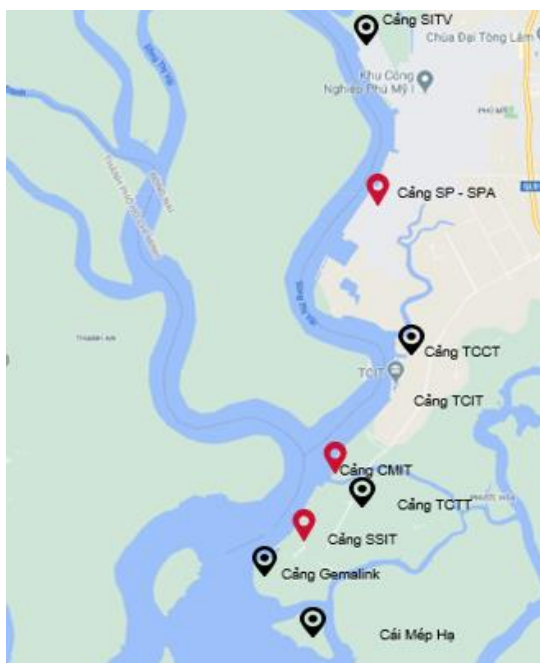
2. Cai Mep Thi Vai – the prospects are getting brighter

Cai Mep – Thi Vai has the potential to become an international port hub in the South, which should help to ease congestion at Cat Lai – HCMC with the tendency of capacity shift from upstream ports to deep water downstream ports which can accommodate vessels with the size of up to 200,000 DWT. The infrastructure system in the downstream ports is being completed, and the distance between regions is shortened thanks to developed national highways and expressways.

SGP currently owns three affiliates and operates Cai Mep – Thi Vai port cluster, including three container ports CMIT, SSIT and SP – PSA. High depreciation and interest expenses increased SGP's operating losses and lowered the earnings. As a result, SGP had to make financial provisions for investments in three affiliated companies. SGP fully made provisions for SP-PSA and CMIT in 2019 and completed provision for SSIT in 2020 according to the decision of the Ministry of Finance.

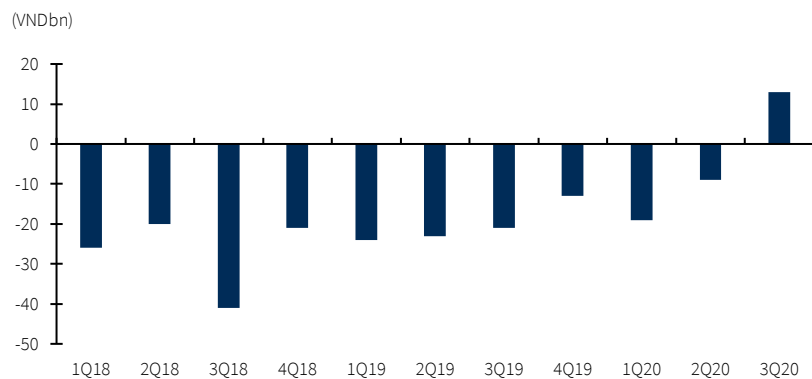
We believe that SGP will likely record a positive profit growth from its joint ventures in the coming years thanks to a surge in container throughput, based on: (1) In December 2020, the tonnage of motherships accommodated in SSIT hit a record of 500,000 TEUs. 11M20 tonnage of motherships reached 475,831 TEUs (+134% YoY) on high demand for empty containers and the port's credibility among major global shipping lines like MSC and The Alliance; (2) CMIT can accommodate 214,121 DWT large container ships, which can attract motherships to Vietnam instead of transshipment hub ports like Singapore and Hong Kong; and (3) SP-PSA located deep in the upstream area currently handles bulk cargo, but it can benefit later from goods moved from SSIT.

Fig 5. Cai Mep-Thi Vai – Included ports



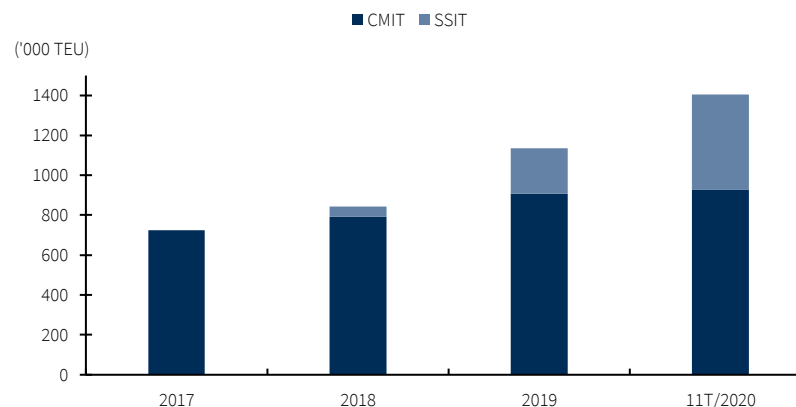
Source: Google Map, KB Securities Vietnam

Fig 6. SGP – Earnings/loss from affiliated companies (VNDbn)



Source: Sai Gon Port, KB Securities Vietnam

Fig 7. SGP – Container throughput (thousand TEUs)



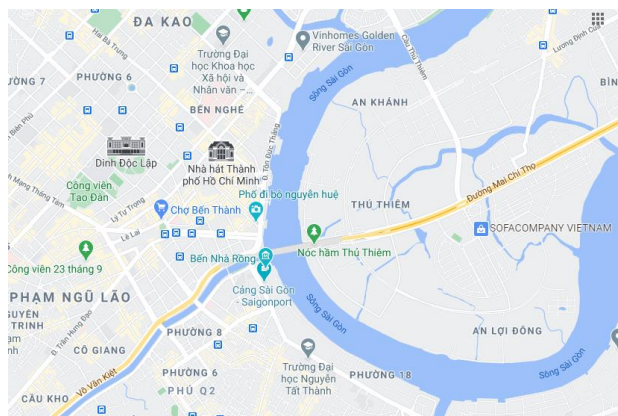
Source: Sai Gon Port, KB Securities Vietnam

Table 2. Cai Mep-Thi Vai – Port information

	Ownership	Berth length (m)	Terminal number	Capacity (Million TEUs)	Area (ha)	Deadweight tonnage (DWT)	Depth (m)	Operated since
SP-PSA	36.00%	600	2	1.1	27	120000	15	2009
CMIT	15.00%	600	2	1.115	48	194000	14	2011
SSIT	38.93%	600	2	1.2	60.5	200000	17	2014
Gemalink – GD1	0.00%	1150	3	1.5	33	200000	17	2021
TCTT	0.00%	600	2	1.1	48	160000	14	2016
TCIT	0.00%	890	3	1.7	55	160000	17	2011
SITV	0.00%	730	3	1.2	33.7	80000	12	2010

Source: Sai Gon Port, KB Securities Vietnam

Fig 8. Nha Rong-Khanh Hoi – Location



Source: Google Map, KB Securities Vietnam

3. Nha Rong – Khanh Hoi is ideally located in the center of Saigon

Maintaining the capital contribution at Diamond of Asia Group will facilitate SGP's operating passenger ships at Nha Rong – Khanh Hoi Port and help SGP maintain its presence in one of the most ideally located real estate projects in HCMC.

Nha Rong – Khanh Hoi Port has a prime location in District 4, HCMC. It is located on the inner-city arterial route and has an important role in the development of passenger transport and water tourism. Nha Rong – Khanh Hoi covers an area of 45 ha, of which 13 ha from the edge of the berth will become a terminal for passenger ships and waterways tourism, and the remaining 31 ha of land next to Nguyen Tat Thanh Street will be Nha Rong – Khanh Hoi Complex. HCMC authorities allowed Diamond of Asia to develop the project with a total investment of up to VND17,000 billion. Nha Rong – Khanh Hoi Complex project includes a shopping center, apartments (3,116 units), villas (32 units) and a system of utility services.

SGP "changed its mind" and maintain the capital contribution from Diamond of Asia. In May 2017, SGP sent an official letter proposing to divest from Ngoc Vien Dong due to capital difficulties, but in January 2019 and proposed to stop the divestment at Diamond of Asia as the financial situation improved.

Table 3. Diamond of Asia – Shareholder structure

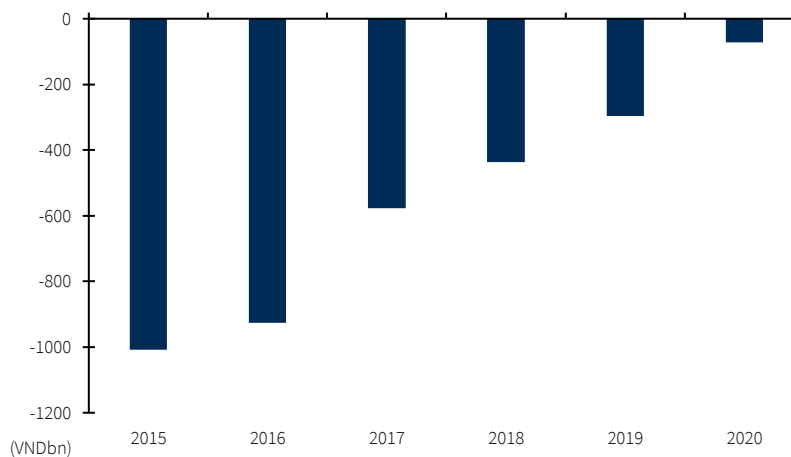
	2005	3Q20
Charter capital (VNDbn)	1153.85	5400
SGP	26.0%	5.6%
VIC	45.0%	9.6%
Ben Nghe Infrastructure Development	29.0%	84.8%

Source: Sai Gon Port, KB Securities Vietnam

4. Accumulated loss is likely to be removed from the balance sheet right in 2021

With the effort to narrow the accumulated loss in the past time and improve the business prospects, SGP should erase the accumulated loss in the balance sheet right in 1H21. Undistributed earnings improved over the years, reached only -VND72.1 billion by the end of 2020. According to SGP equitization regulations, the company is not allowed to pay dividends during the period of 2015–2020, so this and the benefit from removing losses will create opportunities to pay dividends, especially when major shareholder Vinalines is still facing financial difficulties. The elimination of accumulated losses and the ability to pay dividends will be positive factors for the market to re-evaluate SGP's value.

Fig 9. GGP – Accumulated losses in 2015–2020 (VNDbn)



Source: Sai Gon Port, KB Securities Vietnam

RISKS

The risk of increasing competition may emerge when Gemalink Port comes into operation. Located near the SMIT and SSIT ports, Gemalink Port has a large berth length and should operate from 1Q21. According to our assessment, Gemalink is currently the port with the most favorable location and the potential for development in the Cai Mep – Thi Vai port cluster. Being under competitive pressure from Gemalink is inevitable. However, the development potential of this entire port cluster is still very large with the volume of goods arriving at ports growing rapidly over the years, so SGP's ports will still benefit.

There is a risk from unsolved problems in Nha Rong – Khanh Hoi Complex project. Currently, the conversion of land use purposes for the area at the old port location has not been completed. In addition, SGP's capital contribution ratio in Diamond of Asia is only 5.56%, which does not meet the requirement saying that the relocated company must have a contributed capital of not less than 26% of the joint venture's charter (attached with the Decision No. 46/2010/QĐ-TTg). Although we expect the above problems will be gradually resolved after the Ministry of Finance submits solutions to the Prime Minister, there are still unexpected risks. In addition, Ben Nghe Infrastructure Development, which holds 84.8% of the charter capital at Diamond of Asia, has undergone a rather complicated process of changing major shareholders between many parties before being transferred to Khanh Hoi Sugar JSC.

VALUATION

2021F BUSINESS PERFORMANCE

We forecast 2021 earnings of SGP may reach VND308.4 billion (+34.1% YoY) on revenue of VND1119.9 billion (+19.7% YoY), and gross margin should be 39.4%. Revenue from port operations will account for 87.1% of total revenue (or VND 975.8 billion, +18.8% YoY). Positive profit is attributable to improved revenue from increasing import and export demand, which is reflected in a series of signed agreements and the increasingly strong flow of manufacturing investment to Vietnam and surging profit from affiliates. Accordingly, FY21 EPS = VND1,426, up 34% YoY.

It should be noted that we did not include Nha Rong – Khanh Hoi Complex project in the valuation model because the conversion of land use purposes for the area of the old port location has not been completed. However, the Ministry of Finance proposed to the Prime Minister many solutions to continue implementing this project. We expect that when the project is implemented, it will enhance the position and bring extra profit for SGP. Besides, we also do not exclude the possibility that SGP may divest from Ngoc Vien Dong. If this deal is done, it will bring a significant amount of money to SGP because the Nha Rong – Khanh Hoi port area is a large-scale golden land in HCMC that has a great potential for both tourism and real estate.

VALUATION

We recommend BUYING SGP shares with the target price of VND16,300 apiece, upside 24.3% from the closing price on February 1, 2020, based on DCF method with key assumptions including a WACC of 15% to reflect the risk of the pandemic on business operations as well as the risks mentioned above and a long-term growth rate of 1%. SGP shares are currently being traded at FY21 P/E of 9.3x.

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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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