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4Q miss; hit hard by competition from Bamboo Air and delayed sales/leaseback bookings for Airbus deliveries

Cutting 20E earnings by 14% to reflect nCoV outbreak and rollover to 20E forecasts & change to EV/EBITDAR raises target price to VND131,100; maintain HOLD

Long term benefits coming from the new Long Thanh Airport project

4Q earnings weak on: 1) increased competition from Bamboo Airway that led to an 8.3% YoY drop in passenger traffic; and 2) delayed sales/leaseback bookings that plunged by 49% YoY with only two Airbus deliveries vs nine during the same period last year. 4Q earnings fell by 65% YoY to VND539 billion, while revenue dropped by 25% YoY to VND13,925 billion. Full-year 2019 results were down 21% YoY to VND4,219 billion and revenue dropped by 3% YoY to VND52,049 billion.

Flights to China have stopped since February 1 and we assume disruptions until April/May as seen in past outbreaks (Chinese tourists 32% of international arrivals). We cut our 20E earnings by 14% to reflect lower passenger volumes (including spillover to other domestic & international routes), weaker ticket pricing but some offset from lower fuel costs. Earnings momentum remains attractive at 35% YoY growth in 20E to VND6,066 billion as sales increase by 44% YoY to VND74,964 billion. Rolling over to 20E forecasts, our target price rises to VND130,100 as we base our target price on EV/EBITDAR. Currently, VJC trades at an EV/EBITDAR of 6.0x vs a peer average at low-cost carriers of 6.3x and we maintain our HOLD rating.

The government plans to increase investments in phase 1 (2025–2026) of the new Long Thanh Airport project (located 40km from Ho Chi Minh City) to VND112 trillion in March 2020. The new airport will boost passenger capacity to 25 million per year, allow new routes and help reduce operating costs on lower wait times.

Hold Maintain

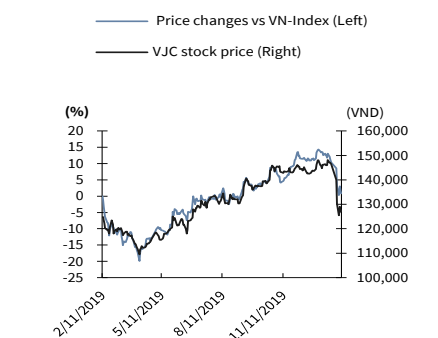
Target price	VND 133,100
Up/down	4.8%
Current price (Feb 06, 2020)	VND127,000
Market capitalization	VND66,527 billion

Trading data	
Outstanding stock volume	523,838,594
3M order-matching volume	441,828
Foreign ownership	19.5%

Share price performance				
(%)	1M	3M	6M	12M
VJC	-13.9	-11.0	-2.6	2.2
VNINDEX	-2.9	-8.3	-2.8	1.3

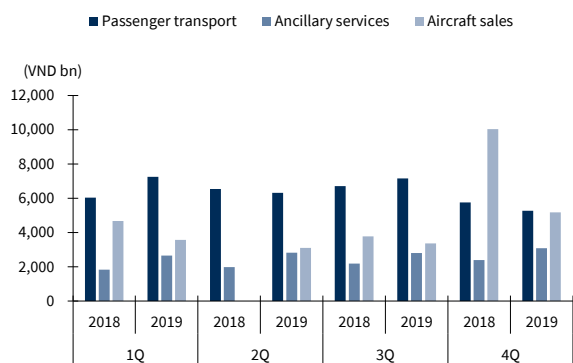
Forecast earnings & valuation

FY-End	2017	2018	2019	2020F
Net revenue (VND bn)	42,303	53,577	52,059	74,964
Growth rate (%)	53.8%	26.6%	-2.8%	44.0%
Gross profit (VND bn)	6,549	7,492	6,754	9,341
Gross profit margin (%)	15.5%	14.0%	13.0%	12.5%
Net profit (VND bn)	5,074	5,335	4,219	5,729
Growth rate (%)	103.27%	5.16%	-20.93%	35.79%
EPS (VND)	11,241	9,851	7,787	10,577
EPS growth (%)	35.1%	-12.4%	-20.9%	35.8%
P/E	11.30	12.89	16.31	12.01



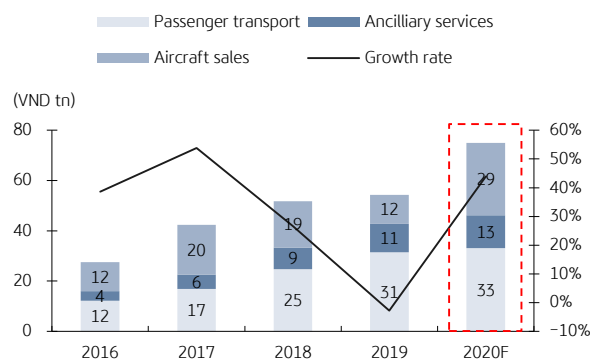
Source: KB Securities Vietnam

Fig 1. VJC – Revenue breakdown, 2018-2019 (VND bn)



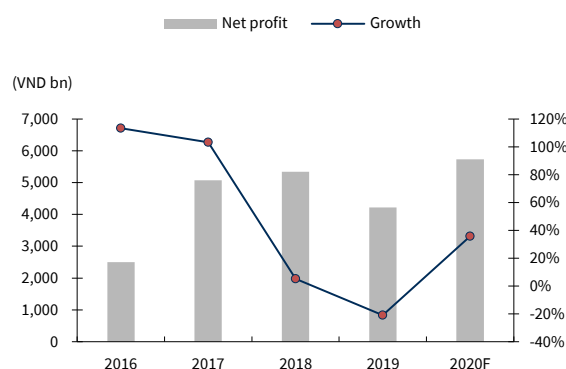
Source: Company reports, KB Securities Vietnam

Fig 2. VJC – Revenue forecasts, 2016-2020E (VND tn)



Source: Company reports, KB Securities Vietnam

Fig 3. VJC 2016-2020F net profit



Source: Vietjet Aviation, KB Securities Vietnam

Table 1. Asia-Pac Airlines – EV/EBITDAR Multiples During SARS Outbreak, 2003 (times)

	3 months earlier	1 month earlier	SARS peak (04/2003)	1 month later	3 months later	6 months later
China Eastern Airline	7.4	7.1	7.2	7.2	6.9	8.3
Cathay Pacific Airline	7.4	7.3	5.8	6.3	7.3	8.7
Ana Holding	24	23.4	23.7	25.2	25.4	29.4
Hainan Airline	76.2	76.4	76.2	76.4	86.7	80.6

Source: Bloomberg, KB Securities Vietnam

Table 2. VJC – Earnings change summary, 2020E (VND tn, VND)

VND tn	Old	New	Change
Revenue	111.2	75.0	-33%
Operating profit	9.0	6.9	-24%
Net profit	6.7	5.7	-14%
Target price (VND)	121,350	133,100	10%

Source: KB Securities Vietnam

Table 3. Low Cost Carriers – Comparative EV/EBITDAR multiples, 2020E (times, percent)

Airlines	Market cap	EV/EBITDAR	Proportion	EV/EBITDAR
AirAsia Group Bhd	966	4.96	5%	0.23
Cebu Air Inc	972	3.50	5%	0.17
Spring Airlines Co Ltd	4,987	8.41	24%	2.05
JetBlue Airway Corp	5,973	3.26	29%	0.95
Interglobe Aviation	7,534	7.91	37%	2.92
Average EV/EBITDAR				6.32

Source: Bloomberg, KB Securities Vietnam

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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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