



Vietjet Aviation JSC (VJC: HSX)



FULL REPORT

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Vietjet Air has currently been the the second largest aviation company in Vietnam in 2018

Passenger transportation is expected to keep growing with the support from the international market

The ancillary segment will likely maintain a strong growth, which benefits from international market expansion.

VJC will continue to gain a large revenue from selling aircrafts

Risks

Founded in 2007, with the first flight taking off in 2011, after 7 years of operation, VJC has become the second biggest aviation company in Vietnam. In 2018, VJC ranked second in terms of market share (40.1%), after Vietnam Airlines with 43.1%.

Revenue in 2018 of passenger transport reached VND 25,031 billion, up by 48.5% yoy, CAGR in four years hits 44%. VJC's strategy turning to stimulate operation in the international market is very potential with CAGR reaching 138.6% in 2014-2017. Low operating cost can be considered a strong competitive advantage thanks to young fleet age and low labor costs together with high aircraft operating efficiency.

Revenue of the ancillary segment in 2018 hit VND 8,370 billion, gaining 52.8% yoy, four-year CAGR was 63.1%. Focusing on international markets will boost ancillary growth due to higher demand in the international market compared to the domestic market.

2018 revenue gained from aircraft sale was VND 18,512 billion, losing 6.2% yoy, four-year CAGR was 80.1%. In the next years, VJC will still gain revenue from sale and lease back (SLB) as the number of reserved purchase orders of VJC was 270 aircrafts including 200 Boeing 737 aircrafts and 70 Airbus ones.

There are some risks in VJC operation: (1) Risks from fuel price; (2) Financial risks from SLB and the number of ordered aircrafts; (3) Risks from changes of accounting standards; (4) Risks from aircraft providers.

Hold

| | |
|---|--------------------|
| Target price | 121,350 VND |
| Target price | 4.20% |
| Up/Down | 116,500 VND |
| Current price (29/03/2019) | 121,350 VND |
| | 63,098 bn VND |
| Target price | (2,71 bn USD) |
| Exchange rates on 01/04/2019: 1USD = 23,260 VND | |

| Forecast revenue | | | | |
|---------------------------------|---------|--------|--------|---------|
| FY-End | 2017A | 2018A | 2019F | 2020F |
| NII (bil VND) | 42,303 | 52,388 | 66,393 | 111,170 |
| Growth rate (%) | 53.83% | 23.84% | 26.73% | 67.44% |
| Total operating income (VND bn) | 6,549 | 7,536 | 9,462 | 13,607 |
| CIR (%) | 15.48% | 14.39% | 14.25% | 43.81% |
| Net profit (VND bn) | 5,074 | 5,217 | 6,061 | 8,054 |
| Growth rate (%) | 103.27% | 2.82% | 16.18% | 32.88% |
| EPS (VND thousand) | 11,241 | 9,632 | 10,173 | 12,290 |
| BVPS (VND thousand) | 35.1% | -14.3% | 5.6% | 20.8% |
| P/B | 10.66 | 12.44 | 11.78 | 9.75 |

Trading data

| | |
|--------------------------------|-------------|
| Outstanding share volume | 541,611,334 |
| 3-month average trading volume | 686,627 |
| % foreign ownership | 21.65% |
| | 334 VND |

% of price change

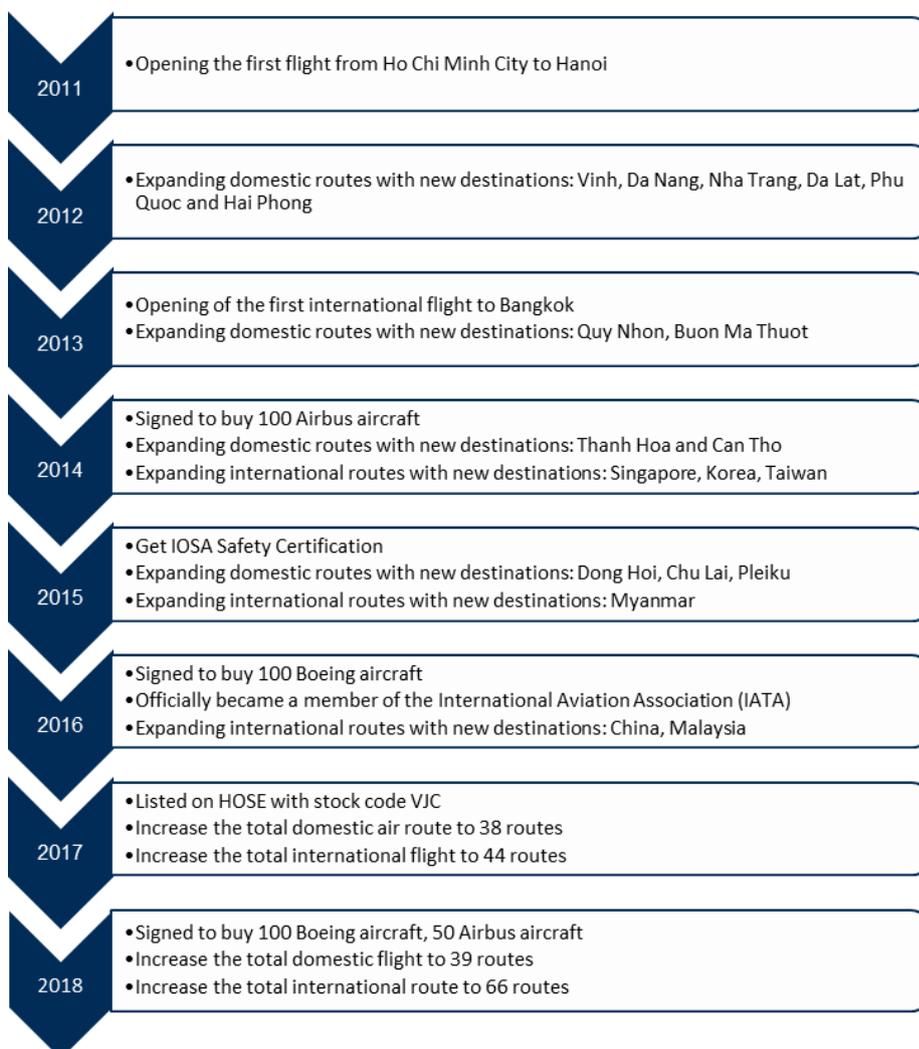
| (%) | 1M | 3M | 6M | 12M |
|---------|-------|------|-------|------|
| VJC | -1.9% | 5.6% | -1.9% | 5.6% |
| VNINDEX | -8.1% | 4.6% | -8.1% | 4.6% |



Source: KBSV

I. OVERVIEW

HISTORY OF DEVELOPMENT



INDUSTRY POSITION

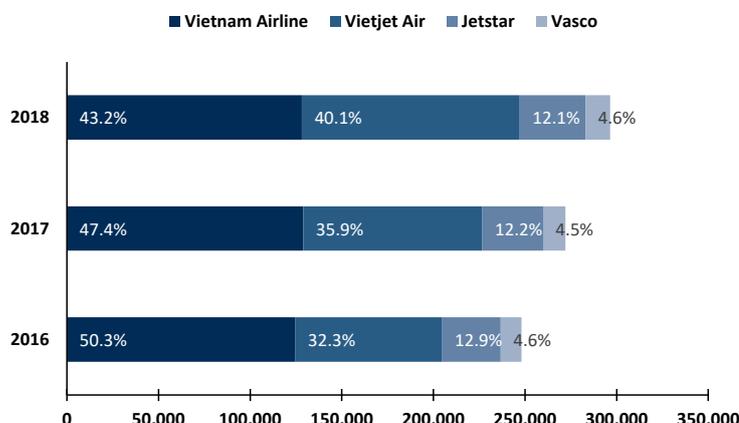
Founded in 2007, with the first flight taking off in 2011, after 7 years of operation and making use of low-cost airline market, VJC has become the second biggest aviation company in Vietnam. According to the data from CAAV, VJC has currently ranked second in terms of market share (40.1%), after Vietnam Airlines with 43.1% and Jetstar Pacific owns 12.1% (Figure 1).

VJC become the aviation company with the biggest market share in Vietnam thanks to LCC model.

The competition for market share between Vietjet and Vietnam Airline has become fiercer in recent years, and VJC shows significant developing progress compared to the competitors. In 2012, VJC market share in terms of customer was only 8% while Vietnam Airline had 68.7%, but by the end of 2016, VJC market share hit 41%, close to the market share of 42% of Vietnam Airline. VJC market share in terms of flight in 2018 was 40.1%, just insignificantly lower than Vietnam Airline's 43.2%. The important key in VJC's success against other competitors is applying Low cost carrier (LCC) model. Ticket prices of LCC are much lower than those of the traditional model – Full service carrier (FSC), which seems to attract many customers due to its reasonable and suitable prices for the average income

of Vietnamese people.

Figure 1: Market shares in terms of flight number of aviation companies in 2018

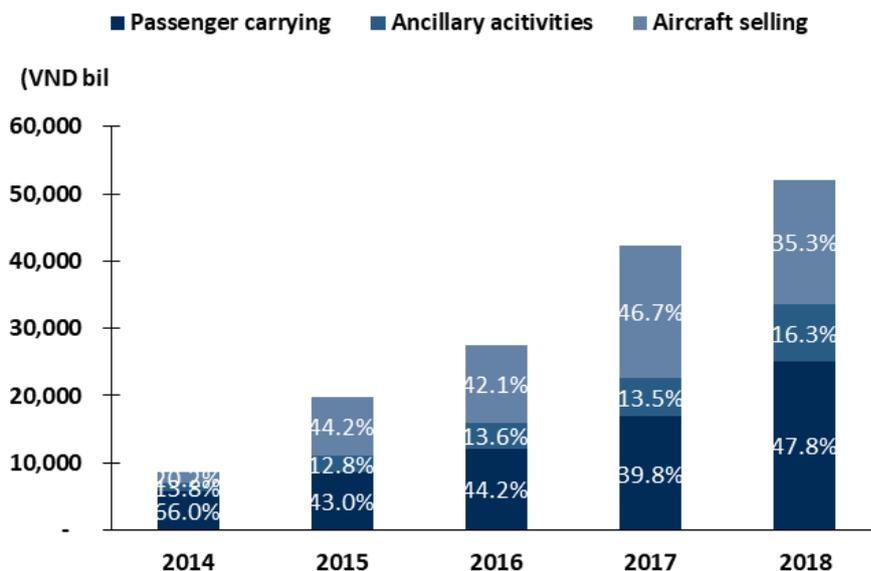


Source: CAAV

REVENUE STRUCTURE

VJC has operated as Low Cost Carrier with revenue coming from: (1) Passenger transport segment (2) Ancillary services segment; (3) Sale and lease back - SLB. In 2018, the customer carrier segment contributed 47.8% of the total revenue; ancillary services brought about 16.3%; Aircraft selling earned 35.3% revenue (Figure 2).

Figure 2: VJC revenue structure in 2014-2018

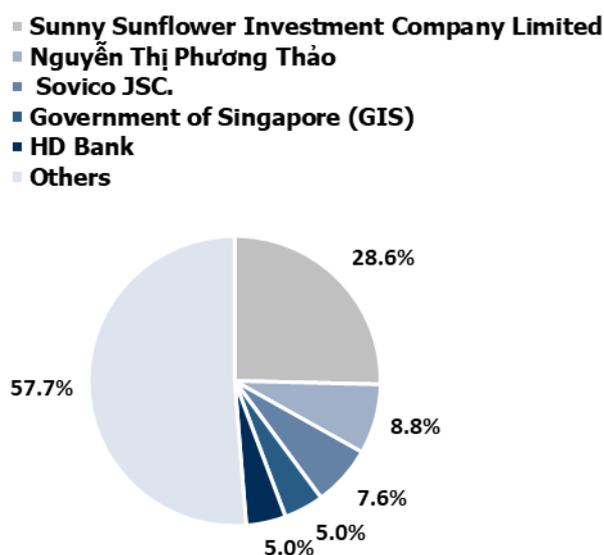


Source: VJC

OWNERSHIP STRUCTURE

VJC has a current charter capital of VND5,416 billion, in which domestic shareholders hold 78.35%, and foreign shareholders have the rest. Sunflower Sunny Investment Ltd is the biggest shareholder with 28.6% shares. Vice chairman of the BoD and CEO Nguyen Thi Phuong Thao owns 8.76% and Sovico JSC holds 7.59%. GIC/Government of Singapore is the biggest foreign shareholder of VJC with 4.97% shares.

Figure 3: Vietjet Air JSC ownership structure



Source: Fiinpro

II. BUSINESS OPERATION

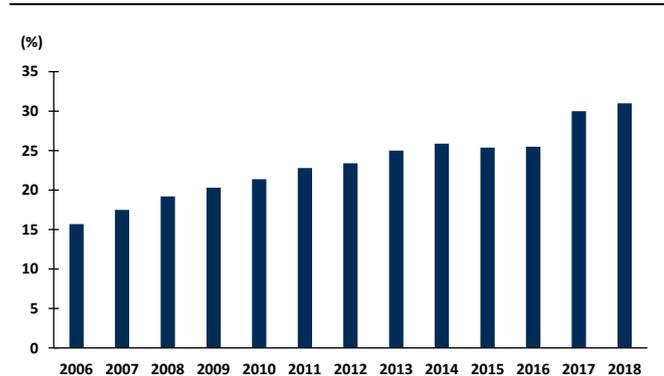
OPERATING MODEL

VJC achieved high growth rates thanks to LCC model, which has many advantages over the traditional model FSC.

LCC in Vietnam in specific and in ASEAN countries in general hit the highest growth rate

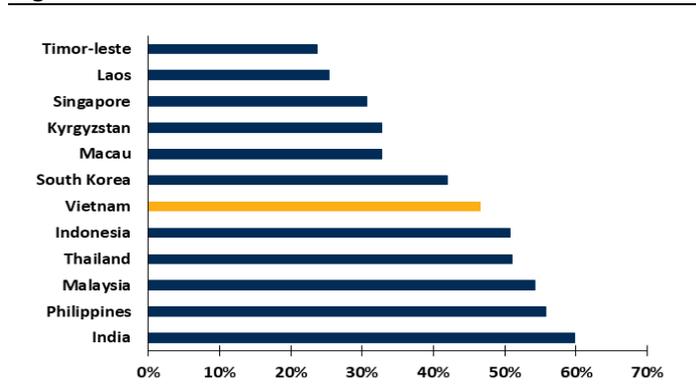
LCC model has become more and more developed in many countries in the world. In 2006, LCC enterprises' market share only reached 15.7%, but in 2018, the market share of LCC industry was 31% (Figure 4). LCC in Vietnam in specific and in ASEAN countries in general hit the highest growth rate. At the moment, ASEAN is the region with highest LCC growth, accounting for 53% of the aviation transportation market share (Figure 5) with many companies of the same sector reaching two-digit growth rate in recent years (Figure 6). The main reason is that ASEAN is highly populated, and a significant part has mid-low income, so the demand for LCC products is higher than that in other regions of the world. According to Airbus forecast, the general growth of the whole aviation sector in Asia-Pacific region in 2016-2026 will still rank second in the world, reaching 6.2% per year, which shows the potential growth of the whole sector and LCC.

Figure 4: LCC market share in the world in 2006-2018



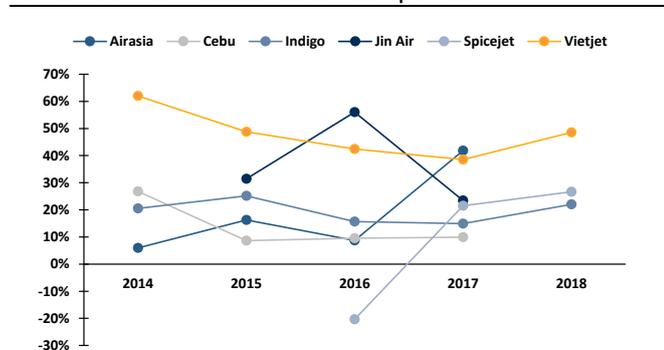
Source: Statistic

Figure 5: Market share by business model in different regions



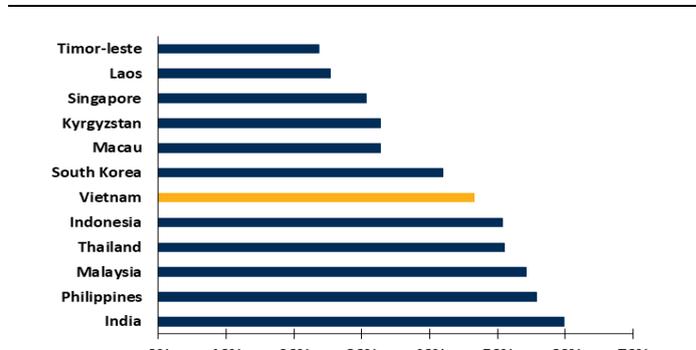
Source: CAPA, Boeing

Figure 6: Revenue growth of customer carrier segment of some Asian low-cost aviation companies



Source: Bloomberg

Figure 7: Asian countries with highest LCC market share

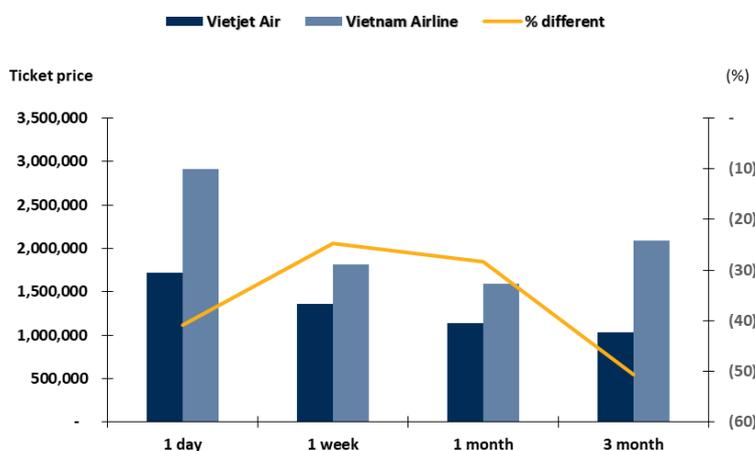


Source: OAG Schedules Analyser

LCC companies focus on cost minimization to provide low price tickets

LLC model focuses on cost minimization via some featured strategies (Table 9) to provide low price tickets instead of using the strategy of product differentiation of the traditional aviation companies. In general, LCC strategy accept to lower service quality to offer customers with low-price tickets and flexibility in service choice. According to our collected data, VJC ticket prices are 30 – 50% cheaper than HVN tickets, depending on booking time (Figure 8).

Figure 8: VJC-HVN ticket prices by booking times



Source: KBSV

Table 9: LCC features

| Features | Impacts |
|--|---|
| For aircrafts of the same size, the number of seats on LCC aircrafts is more than that of FSCs. Reasons: (1) LCCs do not have business class seats, which requires large space and distance between seats; (2) LCC seat size is smaller than FSC's, thus saving more area. | Increase the revenue for each flight. An LCC aircraft has an ASK 30-40% higher than that of a traditional same size aircraft. |
| Mainly operating short routes, point to point, no transit, cargo transfer to increase the rounds of aircraft use per day | Short-range planes have fixed cost/ASK much lower than long-range aircrafts. Besides, the short flight distance helps to accelerate the round raise the number of flight hours/day, thereby reducing fixed cost/ASK. Short-range aircrafts cost less material expenses than long-range aircrafts because the fuel is heavily dependent on aircraft tonnage. Most short-range airplanes are small with a narrow area, the volume of of loaded passengers and accompanied baggage is less than that in long-range aircrafts. |
| Charge on accompanied services | The decrease in revenue from the cheap ticket price selling is partly offset by accompanied service fees such as freight charges, food fees ... The total cost in case customers use all services will be close equal to the total cost when traveling on a traditional flight, however, it will create more flexibility for customers' spending. |
| Only use some certain aircraft types | The use of the same type of aircraft helps LCC airlines: (1) Save the cost of training flight crew; (2) Increase operational flexibility; (3) Preferential selling price from the manufacturer when ordering a large number of aircrafts of the same type. |
| Mainly sell products via online channels | Reducing selling and management expenses without commission costs for sales agents. |

CUSTOMER CARRIER SEGMENT

VJC customer carrier segment showed a dramatic growth since the day of operation. Revenue in 2018 of this segment was VND 25,031 billion, up by 48.5% yoy, CAGR in four years reached 44% (Figure 11).

The number of VJC customers still saw a high growth, 5-year CAGR growth reached 48.9%, and is expected to maintain this growth in the next years

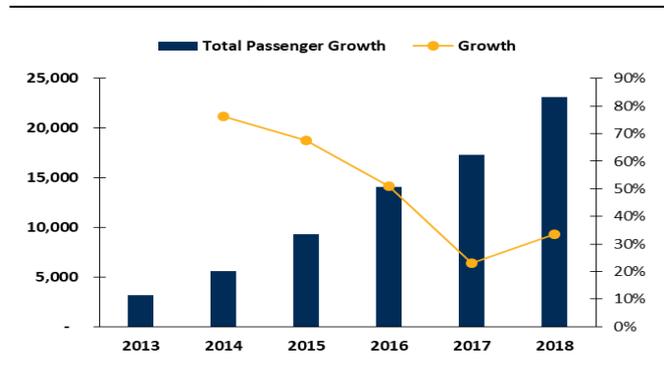
The total number of customers of VJC in 2018 hit 23.1 billion people, up by 34% yoy, CAGR growth in five years was 48.9% (Figure 10). ASK index (Available seat kilometers), is equal to the number of seats available multiplied by the number of kilometers flown, reached 26.2 million units in 2018, gaining 36% compared to that in 2017. Load Factor always stays high at 88%.

There are signs of a slowdown in domestic operation, VJC redirects its activities to the international flight market

There are signs of a slowdown in domestic operation. Revenue growth gained from customer carrier segment in 2013-2015 rose and then gradually slid to 24.7% in 2017 (Figure 11). In 2013-2016, VJC kept raising the number of domestic flights, about 8-9 new flight routes. In two years of 2017, 2018, VJC only added two new airline routes to raise the total number of domestic routes to 39. In other words, the domestic revenue growth force recently comes from the increase in the number of customers. Domestic competition is also becoming fiercer as the airline companies have pushed their full capacity on the main routes causing overload at airports. Realizing that there is not much room for domestic growth,

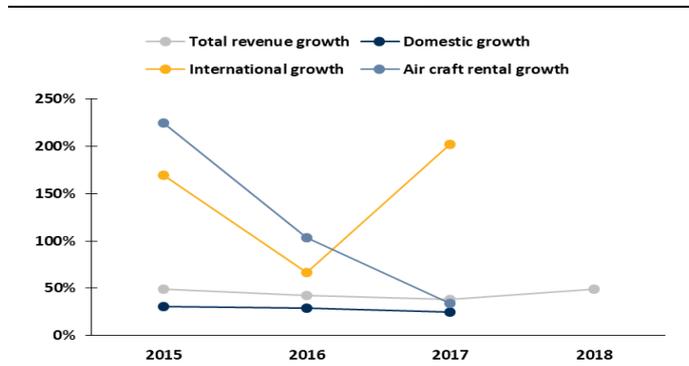
VJC redirects its activities to the international flight market with the new and continuous opening of 21 and 22 new routes in 2017-2018 to Asian countries such as Korea, Japan, China..., increasing the total number of international routes to 66. International passenger transport revenue grew strongly with CAGR growth reaching 138.6% in 2014-2017 (Figure 11).

Figure 10: Customer growth in 2013-2018



Source: VJC

Figure 11: Customer carrier revenue growth in 2014-2018

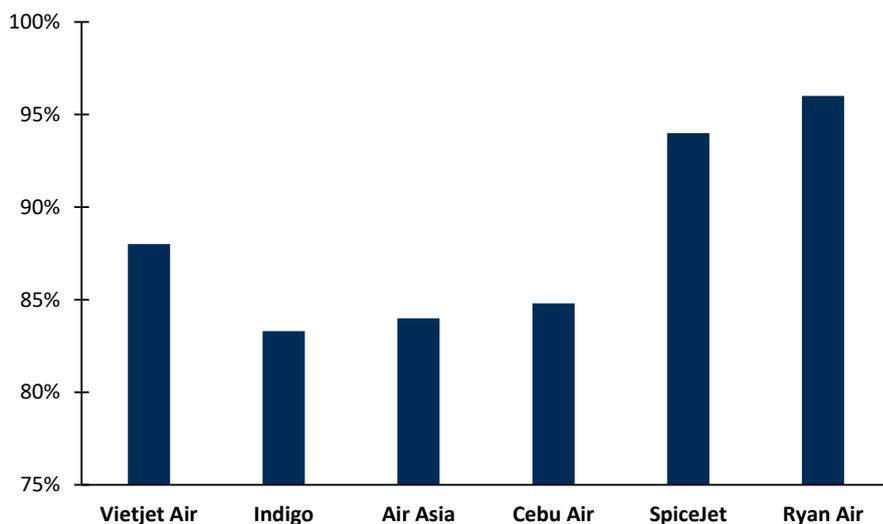


Source: VJC

The growth force will come from raising intensity of available international flight routes and fleet capacity

We supposed that VJC will still raise the number of international routes, but the remaining room for development is not very much because VJC has exploited most of the Asian market, while VJC aircrafts and business determination of LCC are not suitable for flights to Europe and Americas. Instead, the growth force will come from raising intensity of available international flight routes. At the moment, load factor ratio of VJC is 88%, mid-high level compared to other aviation companies, which means VJC still has much room to develop the volume of customers to raise the number of flights.

Figure 12: Load Factor ratio in some LCC companies



Source: VJC

ANCILLARY SERVICES

Ancillary services play an important role in the demand-supply chain of LCC services. Vietjet services include: (1) Food, beverages, souvenirs at the airport and on the airplane; (2) Baggage fees; (3) Travel insurance and other services. Ancillary revenue has surged in recent years. The difference between LCC and LSC is LCC charges for most of the provided services, especially food and baggage fees.

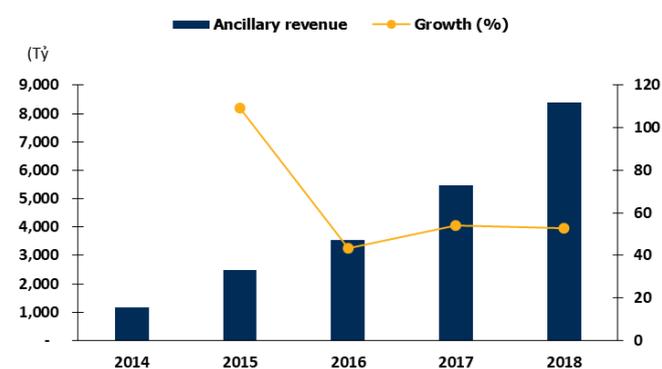
In 2018, revenue was up 52.8% yoy, 4-year CAGR reached 63.1%

2018 revenue reached VND8,370 billion, up by 52.8% yoy, 4-year CAGR was 63.1% (Figure 13). Revenue saw a dramatic increase recently thanks to: (1) The volume of customers, flights increased as mentioned above; (2) The strategy to develop international flights. International routes with long flight times and routes make the demand for luggage and eating services soar. In addition, the price of services for international routes is also about 30-50% higher than that of domestic routes, which also contributes to boosting the revenue of ancillary services.

Ancillary revenue/passenger is USD11.92/PASK, higher than other Asian LCCs.

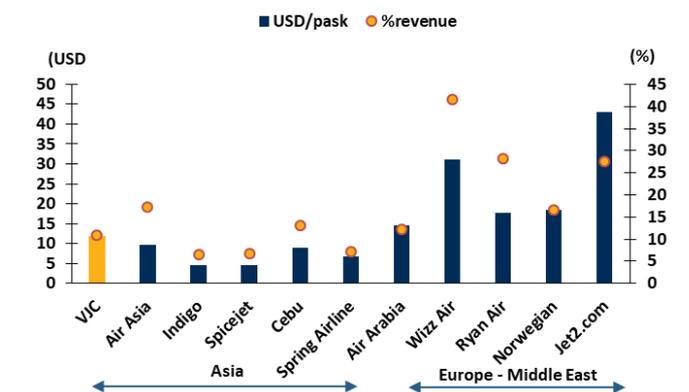
VJC ancillary services has showed high efficiency compared to others in other regional LCC companies. According to the data by IdeaWork, the ancillary revenue/passenger of VJC is USD11.92/pask, lower than that of European and Middle Eastern aviation enterprises, but higher than many Asian ones such as Indigo, Air Asia, Cebu, SpiceJet... (Figure 14). Besides, the proportion of ancillary services revenue/total revenue of VJC is 10.9%, which is equal to the average in the region and higher than Indigo, Cebu, Spring Airline.

Figure 13: Ancillary revenue growth in 2014-2018



Source: VJC

Figure 14: Ancillary revenue/passenger

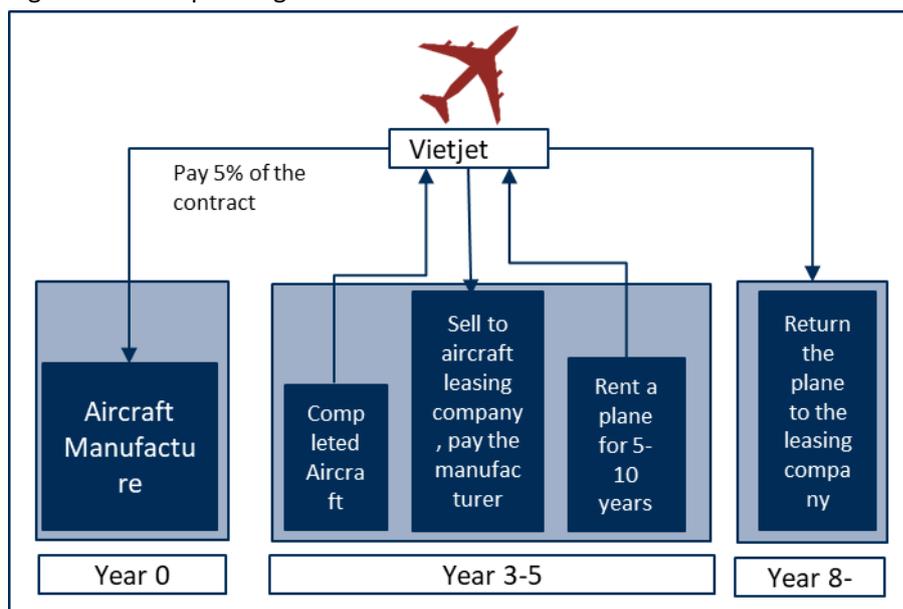


Source: VJC, Idealwork

SALE AND LEASE BACK (SLB)

In recent years, Vietjet has continuously recorded large profits from aircraft sale to the third partner and leasing back. 2018 revenue came aircraft sale was VND 18,512 billion, down by 6.2% yoy, 4-year CAGR was 80.1% (Figure 16). Gross profit from aircraft sale in 2018 was VND 2,880 billion, down by 15.2% yoy.

Figure 15: SLB operating model



Source: KBSV

SLB operations have many preminent features: (1) Buying airplanes at discounted prices; (2) Improving business indicators; (3) Providing a solution to increase the number of aircrafts; (4) Maintaining a young fleet

SLB operations have many preminent features for airlines, especially low-cost airlines including: (1) Buying airplanes at discounted prices. With the purchase of large quantity of 50-250 aircrafts, airlines will enjoy discounted prices ranging from 40-60%. These aircrafts will then be sold to a third party at higher prices, gaining 10-20% interests depending on the agreement in the contract and in line with the level of annual rental costs. (2) Leasing operations do not need to be recorded in the balance sheet, thereby improving the debt structure ratio. Besides, enterprises only need to record rental expenses, avoid having to record interest expenses and depreciation expenses of the aircraft, thereby improving business results. (3) Normally, the cost of buying an airplane is very high, especially for low-cost airlines. The SLB operation is a 3rd party financing solution for airlines that can increase the number of aircrafts quickly to meet the growing demand for flight number. (4) SLB operations help VJC maintain the young flight fleet. Due to the leasing term of only 5-10 years and then returning the aircraft to a third party and renting new aircraft, VJC can maintain the young flight fleet, reducing maintenance costs.

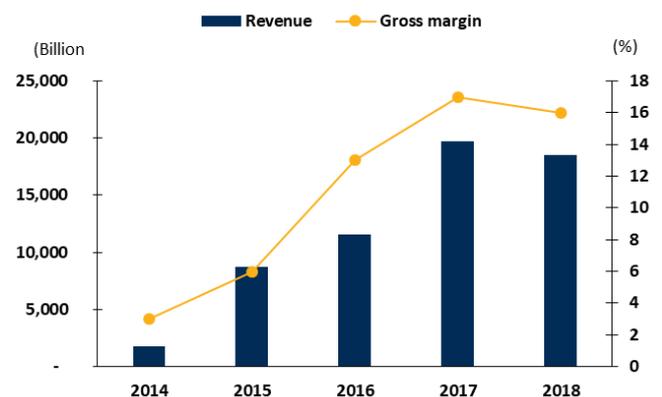
SLB is expected to keep strongly contributing to the total profit with contracts on buying 250 new aircrafts by 2025.

VJC has just signed a new contract to buy 100 Boeing 737 Max aircrafts and 50 Airbus A321 Neo aircrafts, bringing the total number of newly ordered aircrafts to 250 and the total number of ordered to 270 aircraft. On an average, VJC will receive about 35 new planes a year, which will likely bring large profits from SLB activities as in the previous period.

The fleet growth progress is still reasonable, by 2025 the number of aircraft in operation is expected be 165

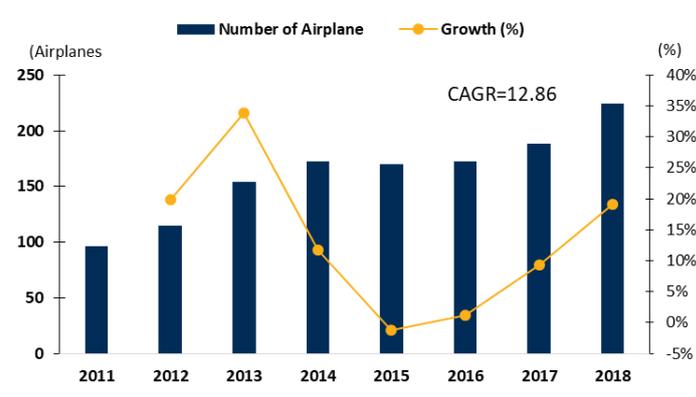
By 2025, the total number of aircraft in operation of VJC will have reached about 165 units, assuming a rental period of 5 years. In order to maintain the current level of efficiency, the number of customers must increase corresponding to the number of aircrafts, equivalent to 7-year CAGR of 14.5%, which is a reasonable level compared to the customer growth. Customer CAGR and airplane CAGR of the last 7 years in Air Asia are at 13.9% and 12.86% (Figure 17).

Figure 16: Business performance of aircraft selling segment in 2014-2018



Source: VJC, KBSV

Figure 17: AirAsia aircraft number growth in 2011-2018



Source: AirAsia, KBSV

Revenue in 2018 rose 23.8% yoy, NPAT increased 2.8% yoy, 5-year CAGR reached 176.6%.

Total assets reached VND 39,222 billion, gaining 23.9% compared to the beginning of the period with more than VND7,000 billion in cash.

The debt/asset ratio of VJC was 64.5%. The off-balance sheet items related to the total liabilities of aircraft leasing is VND49,682 billion, and the payables in the next 5 years are VND25,600 billion

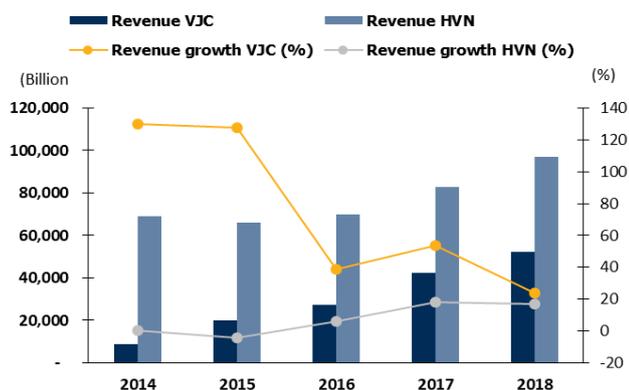
III. BUSINESS PERFORMANCE & FINANCIAL STATUS

2018 net revenue was VND52,388 billion, gaining 23.8% yoy, which is the sixth consecutive growth since the first flight in 2012. Revenue CAGR in five years reached 69% (Figure 18). Revenue growth in 2018 seemed to slow down due to a decrease of 6% yoy in aircraft selling segment, while aviation carrier and ancillary services gained 48.5% and 52.8% yoy. 2018 gross profit hit 14.4%, losing 1% over 2017, resulting from a decrease in the gross revenue from selling aircrafts. Financial and management expenses are maintained at 2% of total revenue (Figure 19). NPAT in 2018 reached VND 5.217 billion, climbing by 2.8% yoy, 5-year CAGR of NPAT was 176.6% (Figure 20).

The total assets by the 4Q/2018 was VND 39,222 billion, rising 23.9% compared to previous year. Receivables took the largest proportion in the total assets, mainly of which were deposits to buy aircrafts and aircraft maintenance fund. In 2018, there was VND990 billion added to short-term investment items to invest in PV Oil. VJC has currently owned a large amount of cash + deposits of more than VND7,000 billion, equal to 17.8% of the total assets, which ensures the ability to finance business activities when necessary.

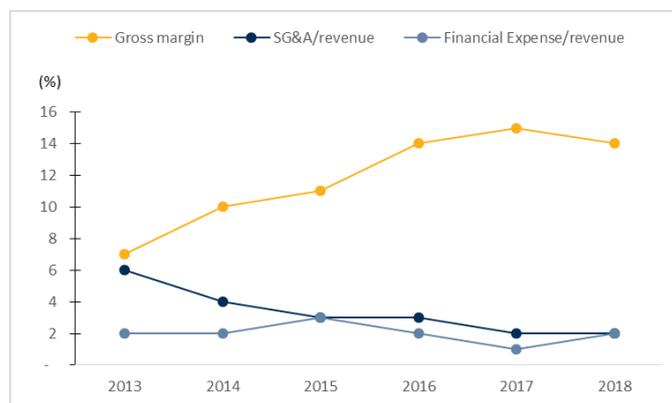
By the end of 2018, debt/asset ratio of VJC was 64.5%, down by 2% compared to that in 2017 and down by 11.9% compared to that in 2016. The main reason is that the undistributed profits increased sharply during this period, which also raised the total equity. VJC's current payment ratio and quick payment ratio hit 1.24 and 1.2 respectively, which indicated that VJC is capable of paying due debts. The off-balance sheet items related to the total liabilities of aircraft leasing is VND 49,682 billion, increasing by 9% compared to that in 2017 and up by 176% compared to that in 2016. VJC has to pay VND25,600 billion in the next 5 years, equal to VND 5,000 billion a year on average (Figure 21). These are all non-cancelable debt contracts, the cost is included in the cost price, which requires VJC to maintain high revenue so as not to affect gross profit margin.

Figure 18: VJC – HVN revenue growth



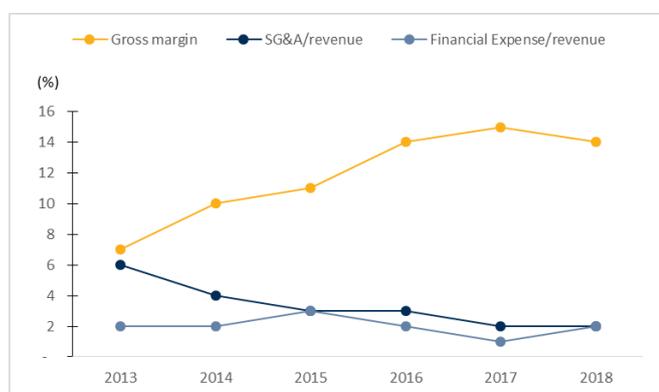
Source: VJC, HVN

Figure 19: Gross profit margin & Cost in 2013-2018



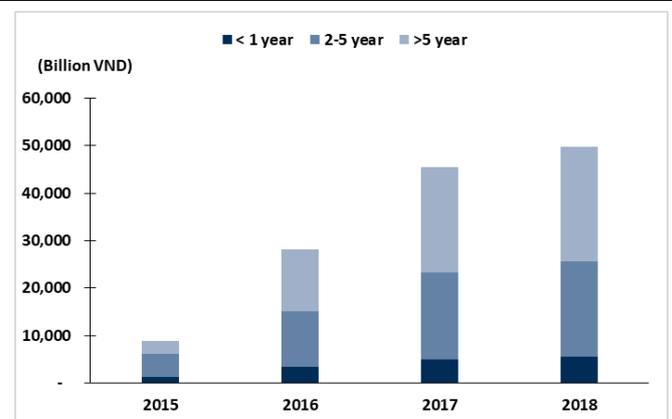
Source: VJC

Figure 20: VJC - HVN NPAT growth



Source: VJC, HVN

Figure 21: Payables of leasing aircrafts in 2014-2018



Source: VJC

Barriers for domestic firms to enter the industry are supporting factors for VJC to maintain growth

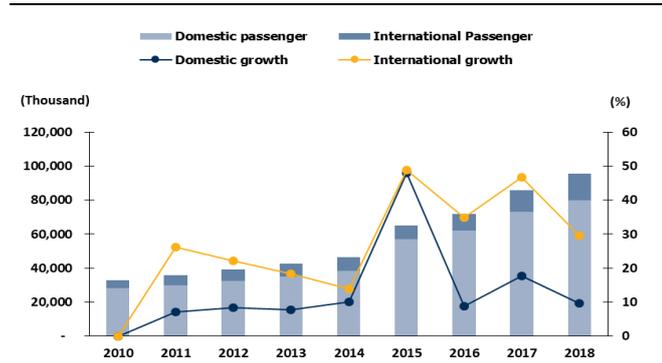
Passenger transport segment is expected to maintain growth momentum in the next 2-3 years

IV. INVESTMENT VIEWPOINT

Vietnam's air transport market is highly concentrated with only 5 active airlines including the new airline named Bamboo Airline, much less than that in other regional countries. Although the industry outlook is very positive, the lack of infrastructure is a barrier for domestic enterprises to enter the industry. For example, Vietstar business license was postponed until Tan Son Nhat airport completed the expansion. Barriers for domestic firms to enter the industry are the basis for VJC and HVN to maintain growth.

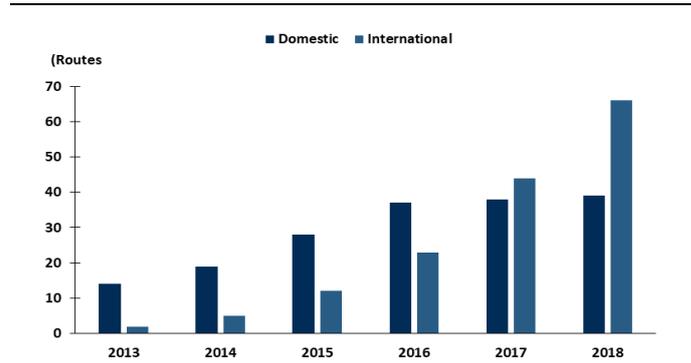
We suppose that VJC will continue grow sustainably and improve its passenger transport market share in the next 2-3 years, based on: (1) Low-cost aviation suits Vietnamese consumption habits; (2) Vietnam's domestic and international tourists are in a strong growth phase. According to the Vietnam National Administration of Tourism, in 2018, the number of domestic tourists gained 9.6% yoy, 5-year CAGR reached 18% while the volume of international visitors rose 19.9% yoy, 5-year CAGR reached 15.4% (Figure 22); (3) The market share of LCCs in Vietnam has surged in recent years but is still lower than that in many countries in the region such as India, Malaysia, Philippines, Thailand... (Figure 7); (4) The competition is not very fierce in the short term. Currently, VJC has only 2 competitors in the LCC segment: Jetstar Pacific and Bamboo Airline. Meanwhile Jetstar does not show great efficiency and competitiveness, Bamboo Airline has just joined the industry and needs time to develop its network and fleet.

Figure 22: Vietnamese tourist growth 2010-2018



Source: Administration of Tourism, KBSV

Figure 23: The number of domestic and international flight routes of VJC in 2013 - 2018



Source: VJC

VJC is competitive in the international market due to its relatively lower operating costs compared to its competitors thanks to the advantage of having a young fleet and low labor costs

At the moment, VJC has a low operating cost compared to other LCCs, CASK of VJC hit USD4, higher than that of AirAsia and Ryan Air (Figure 24). We believe that VJC has two main competitive advantages to secure low operating cost: (1) Young fleet helps to reduce the cost of maintenance. VJC is currently at the top airlines with youngest fleet of 2.82 years in 2018, lower than the average level in Asian - 5.78 years and 5.46 years in Europe and Middle East (Figure 25). In the next few years, VJC will continue to replace old aircrafts with new ones via new purchase orders, which helps to maintain the young age of the fleet as in present. (2) VJC's personnel costs are relatively low compared to other businesses. VJC's personnel cost/revenue ratio reached 0.07, just higher than that of Cebu Pacific and much lower than other brands (Figure 26). In addition, VJC's turnaround efficiency is better, one VJC aircraft generates USD22.8 million/ year on average, which is higher than the figures of other industry peers (Figure 27).

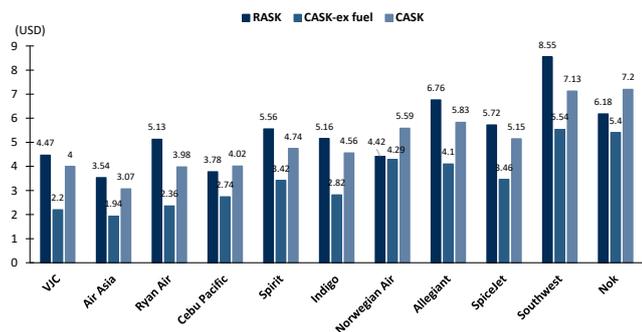
Ancillary services will maintain a high growth thanks to stimulated international flights.

In our opinion, ancillary services will maintain a high growth as VJC will keep focusing on international routes. As mentioned above, the room for development of domestic business is not much and international routes exploitation will be the main force of VJC. Therefore, ancillary services will be stimulated as the demand for services of foreign passengers is much higher compared to domestic passengers'.

SLB operations are expected to earn profits for the company via newly signed agreements to buy 250 aircrafts by 2025

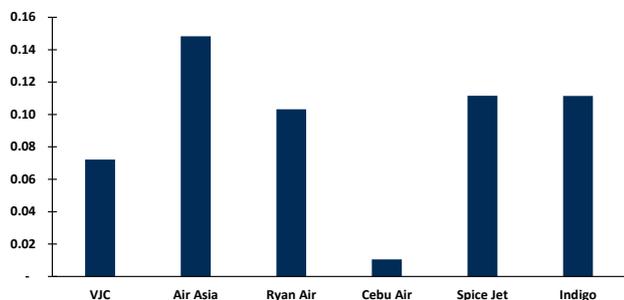
VJC has just signed agreements to buy 100 new Boeing 737 Max aircrafts and 50 Airbus A321 Neo aircrafts, raising the number of new aircrafts to 250 and the number of ordered aircrafts to 270. VJC will receive about 35 aircrafts annually, which will earn more profit from SLB operations as in the previous period.

Figure 24: RASK-CASK of LCCs



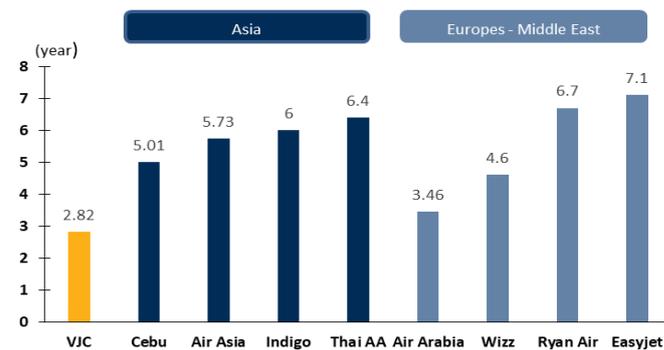
Source: VJC

Figure 26: Personnel cost/revenue



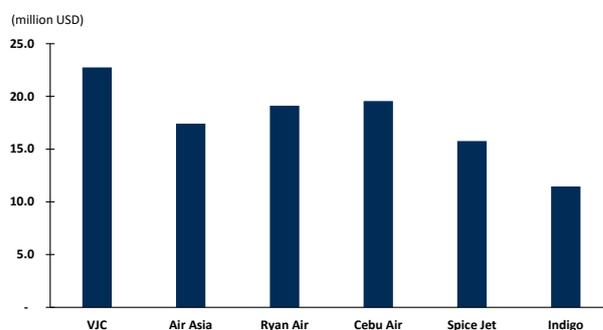
Source: Bloomberg, KBSV

Figure 25: Fleet ages of some LCCs in the world



Source: VJC

Figure 27: Revenue/number of aircrafts



Source: Bloomberg, KBSV

V. RISKS

We assess that VJC's business will face some main risks as follows:

Risks from oil price fluctuation

The main fuel, which is oil, accounts for the largest proportion, about 42% of VJC's operating cost structure (Figure 28). The current average oil prices is at USD65.3 per barrel. Unstable supply - demand balance in the world, OPEC's decisions on supply cuts and sanctions against Iran may lead to an upward trend in oil prices in 2019. We assess the impact of oil prices on VJC's business activities at the average level. The reason is that VJC's fares are quite low compared to other low-cost airlines. VJC's RASK in 2018 reached 4.47, higher than that in Air Asia and Cebu Pacific but lower than many others such as Ryan Air, Spice Jet, and Nok. Low ticket prices help VJC to flexibly adjust prices to balance the fluctuation in fuel prices. However, price adjustment needs to be carefully considered when VJC boosts its operations in the international market. In addition, fuel cost/ASK for international routes will be lower due to no import taxes and environmental fees imposed. At present, VJC has to pay fuel taxes when buying domestically including 10% import tax on fuel and an environmental tax of VND 3,000/liter equivalent to 25.6%.

SLB operations with high renting costs and new aircraft orders will create a large financial pressure on VJC business.

From our viewpoint, the prevailing number of VJC orders by 2025 reaching 250 aircrafts is reasonable, which requires VJC to maintain an average customer growth of more than 14.5% in the next seven years. However, given that many international experienced LCCs with strong distribution system like Air Asia have been trying to penetrate into Vietnam market, and the launch of Bamboo Airway will also create a large pressure on VJC passenger growth in the mid-term. Furthermore, if the economy becomes weaker, the number of passengers using

air transportation services will decrease, leading to a decrease in the occupancy rate as well as a decrease in the number of flights while VJC still has to bear the high cost of renting aircrafts, causing the financial burden more serious, and strongly affecting business results as well as cash flow of the company.

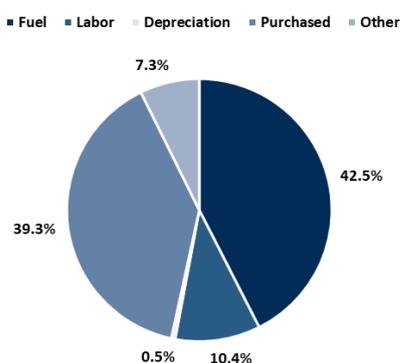
The risks from changing accounting standard to IFRS 16 may affect VJC debt and revenue structure.

Regulations of IFRS 16, effective from January 01, 2019, clarified that SLB activities, regardless of form, must be accounted for in the form of financial leasing. Decision No.480/QĐ-TTg by the Ministry of Finance, Vietnam Accounting Standards (VAS) will partially apply IFRS (about 30 criteria) in 2020-2023 before applying all criteria in 2023-2025. If IFRS are applied, VJC's debt structure will change drastically because VJC's current off-balance-sheet debt is VND49,682 billion (calculated data by the end of 2Q/2018). The ratio of liabilities/total assets after the adjustment reached 84.7%, much higher than the current rate of 64.5%. In addition, according to IFRS 16 criteria, earnings from the sale of aircraft in SLB operations will be recorded as a loan, not recorded as revenue, thereby making VJC unable to record profits from SLB operations.

VJC's fleet increasing progress may be heavily affected by Boeing air crashes.

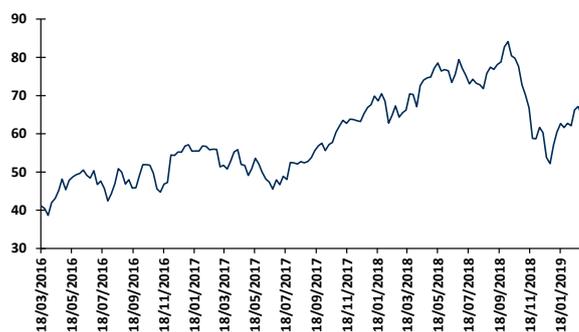
In the past six months, there have been two serious air crashes of Lion Air and Ethiopian Air, which killed nearly 350 people. In particular, the two accidents took place with the same aircraft type, Boeing 737 MAX. This is the type that VJC has ordered 100 aircrafts with Boeing, and they are expected to be received in October 2019. Currently, some countries such as the US, China, Singapore, Indonesia, and Vietnam have issued a temporary order to ban all Boeing 737 Max aircrafts from flying in their airspace until specific causes of the accidents are found. In a negative case, the Boeing 737 aircraft actually had a technical error and needs time to be fixed, VJC will not be able to receive new Boeing aircrafts at the end of the year. Instead, the company may hire aircrafts from other sources to meet the fleet needs, but must pay higher rental rates due to rising rental demand as a series of other airlines have to stop using Boeing 737 MAX aircrafts.

Figure 28: VJC cost structure in the 2Q/2018



Source: VJC

Figure 29: Brent oil fluctuation in 2016 - 2019



Source: Bloomberg

VI. VALUATION

2019 FORECAST BUSINESS PERFORMANCE

NPAT of VJC in 2019 is expected to be VND 6,061 billion, up 16.2% yoy, EPS forward is 10,173 VND per share.

In 2019, we estimate VJC to reach VND66,393 billion, up by 26.73% yoy, based on:

The revenue gained from passenger carrier will continue to achieve high growth rates of 40% based on the assumption: (1) The number of airplanes goes up from 64 to 78; (2) and the efficiency of international flight routes is improved.

The revenue from ancillary segment will hit VND 12,839 billion, up by 50% thanks to increased passenger volume and stimulated operations in international markets for higher ancillary service cost/ASK.

Revenue from airplane selling may reach VND 18,512 billion, unchanged compared to that in 2018 if the gross margin from aircraft selling is unchanged and VJC receives 14 new aircrafts in 2019, equal to the relevant number in 2018.

EBT is expected to be VND 6,773 billion, gaining 16.18% yoy. NPAT of the parent company is about VND 6,061 billion, climbing 16.2% yoy, EPS is projected to reach VND 10,173 per share.

Table 30: Forecast business performance in 2019

| Billion VND | 2015 | 2016 | 2017 | 2018 | 2019F |
|----------------------------------|--------|--------|--------|--------|---------|
| Revenue | 19,845 | 27,499 | 42,303 | 52,388 | 66,393 |
| Cost of good sold | 17,736 | 23,597 | 35,753 | 44,852 | 56,932 |
| Gross margin | 2,110 | 3,902 | 6,549 | 7,536 | 9,462 |
| Selling Expense | 318 | 518 | 579 | 714 | 1,110 |
| Administrator Expense | 203 | 189 | 226 | 330 | 410 |
| Financial Expense/profit | (408) | (509) | (402) | (589) | (1,136) |
| Profit from affiliated companies | (21) | (15) | (44) | (81) | (34) |
| Net profit before tax | 1,168 | 2,703 | 5,303 | 5,829 | 6,773 |
| NPAT of parent company | 1,170 | 2,496 | 5,073 | 5,217 | 6,061 |

Source: KBSV

VALUATION

We used two valuation methods which are FCFE and EV/EBITDA comparison among LLCs in the world.

FCFE

We used the discounted cash flow method - FCFE, thereby eliminating the impact of the increased profit from SLB operations on the free cash flow of the business. The price is estimated at VND 138,201/share. Cost of equity is 14.2% based on the assumption: The risk-free rate is 4.8%, equivalent to 10-year government bond rate; The expected return of the market is 13.9%, equivalent to the market average rate in 8 years; VJC's beta is 1.03; the long-term growth rate is 3%.

EV/EBITDA comparison

VJC shares are currently traded at EV/EBITDA of 10.6x and expected EV/EBITDA forward in 2019 at 8.76x, which are higher than that in other peers (7.75x.)

VJC is the leading enterprise in air transportation of Vietnam. We believe that the room for development of VJC is still very large as the potential growth of tourism in Vietnam is high, and VJC changed to stimulate international flight routes. Based on the valuation, business outlook and the potential risk assessment, we

recommend to **HOLD** VJC shares with the target price of VND 121,300 per share, 4.2% higher than that in 29/03/2019.

Table 31: FCFE assumption

| Assumption | Value |
|-----------------------|--------|
| Cost of Equity | 14.2% |
| Risk free rate | 4.8% |
| Market risk premium | 9.10% |
| Beta | 1.03 |
| Long term growth rate | 3% |
| Time forecast | 7 year |

Table 32: A relative comparison of EV/EBITDA in different LLCs

| Airline | Market capitalization (Billion VND) | EV/EBITDA | Proportion | EV/EBITDA based on proportion |
|---------------------------|-------------------------------------|-----------|------------|-------------------------------|
| AirAsia Group Bhd | 52,899 | 3.91 | 5% | 0.201 |
| easyJet PLC | 143,646 | 4.86 | 14% | 0.677 |
| Jeju Air Co Ltd | 20,259 | 3.15 | 2% | 0.062 |
| Cebu Air Inc | 21,915 | 4.39 | 2% | 0.093 |
| Spring Airlines Co Ltd | 111,563 | 10.14 | 11% | 1.098 |
| Norwegian Air Shuttle ASA | 14,152 | 7.79 | 1% | 0.107 |
| SpiceJet Ltd | 15,801 | 8.81 | 2% | 0.135 |
| JetBlue Airways Corp | 119,688 | 4.05 | 12% | 0.470 |
| Ryanair Holdings PLC | 361,919 | 7.84 | 35% | 2.754 |
| InterGlobe Aviation Ltd | 168,838 | 13.14 | 16% | 2.153 |
| EV/EBITDA average | | | | 7.749 |

Source: Bloomberg, KBSV

Table 33: VJC valuation

| Method | Estimated price | Proportion | Proportion price |
|---------------------|-----------------|------------|------------------|
| EV/EBITDA | 104,500 | 50% | 52,250 |
| FCFE | 138,201 | 50% | 69,101 |
| Target price | | | 121,351 |

Source: KBSV

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

DISCLAIMER

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