



# Dinh Vu Port Investment and Development SJC (DVP:HSX) Vietnam Container Shipping Corp (VSC:HSX)



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## UPDATED INFORMATION ABOUT SEAPORT SECTOR IN HAI PHONG

**The total number of ship arrivals at Hai Phong ports in 6M 2019 decreased by 1.76% yoy.**

In the first 6 months of 2019, the total number of ship arrivals at Hai Phong ports was 4,793, down by 1.76% yoy. The reason for it mainly results from the appearance of Lach Huyen Port, so ship companies have switched to accumulate commodities to ship in big vessels to optimize operational efficiency instead of using small ships. Apart from Lach Huyen Port with an increase of 718% yoy, and Nam Dinh Vu Port with an increase of 126% yoy in ship arrivals in the first 6M, others showed an obvious decline in this field, especially some upstream ports such as Green Port (-31% yoy), and Nam Hai Port (-27% yoy.)

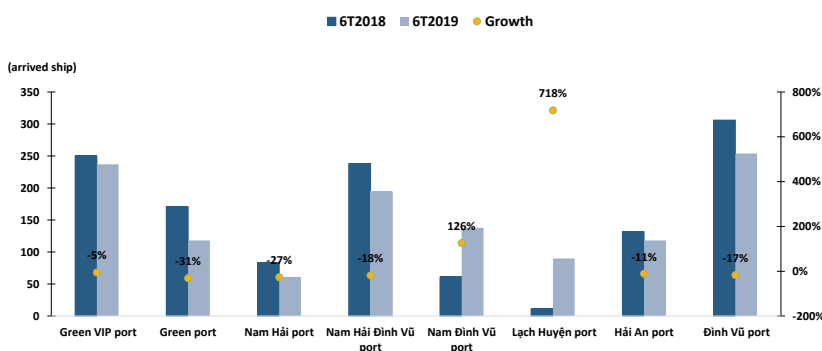
**The competition among Hai Phong ports become fiercer**

The opening of Nam Dinh Vu and especially Lach Huyen Port made the competition among Hai Phong ports become fiercer. Recently, according to the Circular No.54/2018 published in early 2019, the lowest charges for international container handling at Hai Phong Ports will increase by 10%, but under the pressure of competition and high negotiating position of customers, sea ports did increase their charges, but also increased the discount rates for customers in many forms, leading to the total charge just change insignificantly. In the coming time, Mipec Dinh Vu Port with a capacity of 300,000 TEU/year will come into operation, which will increase the competition in this port area.

**In the long-term, Lach Huyen will be the focus of development in Hai Phong port area**

According to the BOM of enterprises, the shift of goods volume from upstream and downstream ports to deep-water ports such as Lach Huyen is an inevitable trend. Ship companies can use big vessels, save operational cost and time of shipping. With big advantages, Lach Huyen area can afford to build over 30 wharves, and meet the demands in Hai Phong.

Figure 1: The growth of ship arrivals in Hai Phong ports



## BUSINESS ACTIVITIES OF DINH VU PORT INVESTMENT AND DEVELOPMENT SJC (DVP)

Revenue in 1H2019 was down by 6.9% yoy. NPAT was VND140.8 billion, up 5% yoy.

In Q2/2019, DVP recorded an extraordinary revenue from an affiliate.

Dividends payable in 2019 are expected to reach 40% - 50%, equal to 10% - 12% of dividend yield.

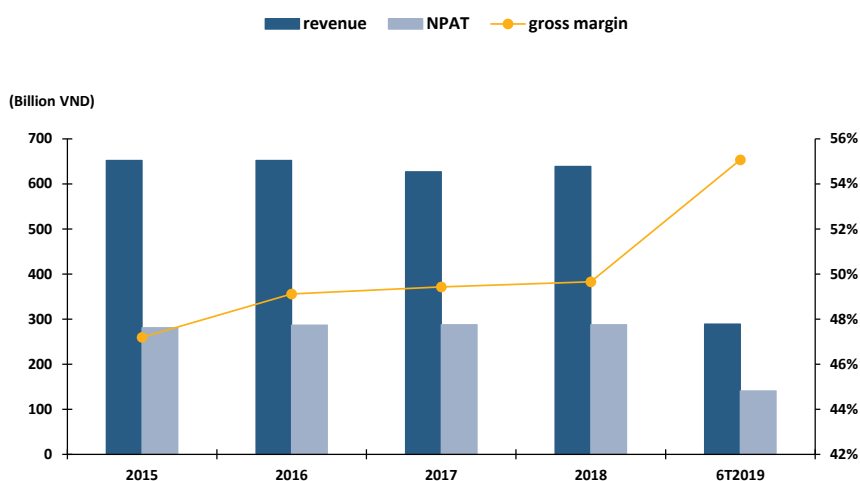
Revenue hit VND157.9 billion, down by 10.2% yoy in Q2/2019; revenue was VND288.8 billion, down by 6.9% yoy in 6M2019. The total of container production in these 6M was about 285 thousand TEU, completing 51.8% of the year's plan. The number of ship arrivals in 1H2019 was 257, reducing 16% yoy because Mitsui OSK Line was no longer DVP's partner after this company and the two others, K Line and NYK merged into ONE (Ocean Network Express). NPAT in 1H2019 achieved VND140.8 billion, up by 5% yoy.

In Q2/2019, DVP recorded VND36.4 billion of financial revenue, 4.3 times higher than the figure in the same period last year. This is the dividend amount gained from SITC-DINHVU Logistics Ltd, Co. Normally, DVP will receive this dividend amount in Q3, but this year, the company recorded it in Q2, which resulted in an extraordinary amount in financial revenue.

Despite difficulties when the number of ship arrivals fell, DVP still expects to complete the plan set in earlier this year with a total output of 550 thousand TEU. The dividends payable for 2019 are expected to stay at 40% - 50%, equivalent to a dividend yield of about 10% - 12% compared to the current stock price.

**Assessment:** For DVP, we are **POSITIVE** about these shares in the medium term based on 2 factors: (1) Dividend yield is high, reaching 10% - 12%/year; (2) Business operations have been maintained, despite fierce competition, but with a stable customer base, especially a large customer - HITC, which contributed about 40% of revenue.

Figure 2: DVP business performance in 2015 – 2019



Source: DVP

## BUSINESS ACTIVITIES OF VIETNAM CONTAINER SHIPPING CORPORATION (VSC)

Revenue in 1H2019 climbed 12.7% yoy, NPAT was VND105.4 billion, down by 40.4% yoy.

Revenue in Q2/2019 reached VND473.8 billion, gaining 10.3% yoy; GPM reached 22%, decreasing from 33% in 2018 to 22%. This also pulled GPM down by 27.6% yoy, and net profit reached VND54.9 billion, losing 46.7% yoy. In 1H2019, net

revenue was VND897.3 billion, up by 12.7% yoy, GPM was VND204 billion, decreasing 19.2% yoy do as GPM reduced from 31.8% to 22.7%. The plunge in GPM resulted from: (1) Green Port experienced a sharp decline in capacity, resulting in an increase in cost/revenue; In 1H2019, the number of ships arriving at Green port was only 118, down 31% yoy. (2) Increased cost of electricity and fuel prices; (3) Many orders supposed to arrive GreenVip had schedules coinciding with each other, so the company had to hire ports and yards of other companies, resulting in transportation and outsourcing costs. 1H2019 net profit reached VND105.4 billion, dropping 40.4% yoy.

**The production in GreenVIP went up 6% YoY, and the production in Green Port plunged 20% yoy.**

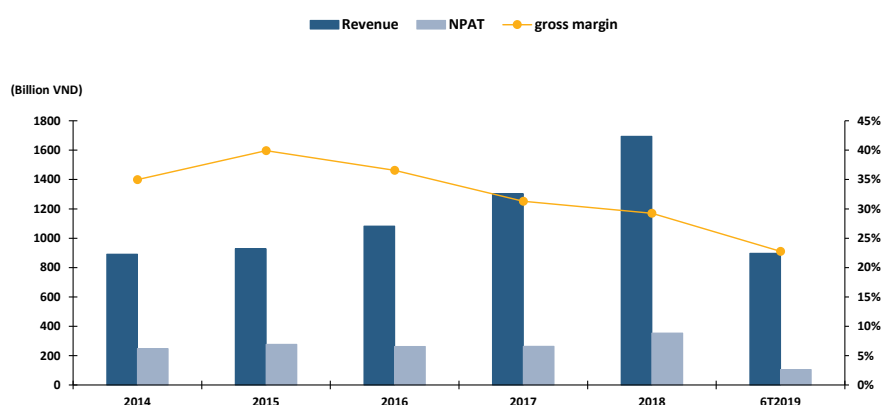
According to VSC, the production in GreenVIP went up 6%, while the production in Green Port tumbled 20% as ships preferred to arrive Lach Huyen and other downstream ports than upstream ones. However, VSC have not had any detailed plan about the transfer of function at Green Port because there are still customers and profitability. In 2019, the company expects to pay 20% dividends, equal to a dividend yield of 6.7%.

**A detailed investment plan on a new port in Lach Huyen**

The new port investment plan in Lach Huyen area in 2022 - 2023 is only in the form of long-term strategic orientation, and is much dependent on the decision to choose investors from the State. In case VSC is licensed to be the developer, the total investment for the two wharves in Lach Huyen is estimated at VND7,500 billion.

**Assessment:** For VSC, we are **NEUTRAL** in the medium to long term based on the following factors: (1) The company currently lacks the growth motivation due to running out of room to increase capacity and output. Green Port is declining sharply due to increasing competition and unfavorable location; (2) The plan to build a new port in Lach Huyen area in the period of 2023 - 2024 is still questionable about feasibility.

Figure 3: VSC business performance in 2015 – 2019



Source: VSC

## Investment portfolio recommendations

**Buy:** +15% or more

**Hold:** between +15% and -15%

**Sell:** -15% or less

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