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Coronavirus impact on Vietnam's Airlines

2020 international tourist arrivals strongly affected

Government suspends flights to and from infected areas amid the rapid outbreak

— As of February 3, suspected nCoV cases reached 17,297 in 27 affected countries and a death toll of 362. Vietnam joined other countries in implementing travel bans, with the Ministry of Transport announcing the suspension of flights to and from infected areas in China; Hanoi stopping the issue of visas to Chinese visitors; and some localities even blocking Chinese tourists. Importantly, Vietnam's two-largest carriers – Vietnam Airlines (HVN) and Vietjet (VJC) – have halted flights to and from China for February.

Similar to the SARS outbreak in 2003, we expect nCoV to impact the whole tourism sector

— Similar to the SARS experience between November 2002 and July 2003, we expect the spread of nCoV to materially impact the business performance of Vietnam's airline and tourist industry. Prior to the SARS outbreak, air travel in the Asia-Pacific region was flourishing, with passenger traffic growing at a compound annual growth rate of 9.9% between 1999–2002. But SARS caused growth to slow sharply to 0.7% in 2003 (Vietnam fell 1.7%) and only posted a strong rebound of 39% in 2004 (Figure 1). However, we expect the impact of nCoV to be larger than SARS due to: 1) larger exposure to China after being granted additional routes; and 2) this year's surge in Chinese tourists (up 32% from 2019).

We expect subdued growth in international arrivals to Vietnam in 2020.

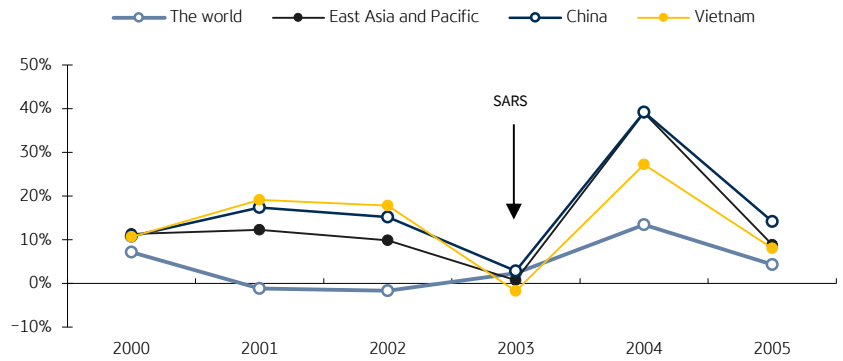
— Our worst case assumes a 75% fall in Chinese tourists and flat to negative growth in tourists from other countries during a prolonged nCoV outbreak (more than six months), while our best case scenario assumes the nCoV outbreak comes under control within six months given timely measures taken by China and the international community. Following the outbreak, we estimate growth in total foreign arrivals at 15% (at par with 2019's growth rate). Our base case assumes the outbreak lasts for three to four months, with growth in total foreign arrivals ranging between -1% to 2% or a sharp decrease from 15% seen in 2019 (Figure 2).

Inevitable hit to 2020 performance for the airlines

— Sales for international flights were 66% for VJC and 65% for HVN in 2019 and have been the main growth driver for both carriers in recent years as they added international routes to combat intense competition for domestic routes. In addition to lower passenger traffic volumes, we expect the nCoV outbreak to add competition to ticket pricing as emerging airlines also vie for fewer travelers, with both factors negatively impact the revenue momentum for passengers and ancillary services in 2020.



Fig 1. Vietnam - SARS impact on Vietnam's international tourist arrivals



Source: World Bank, KB Securities Vietnam

Fig 2. Estimated nCoV impact on Vietnam international tourist arrivals, 2020 (%YoY)



Source: KB Securities Vietnam

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(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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