

Sea ports

Hit hard by COVID but positive in the long term

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Neutral

 initial

Recommendations

GMD	Buy
Current price	VND19,150
Target price	VND28,900

VSC	Buy
Current price	VND25,400
Target price	VND32,900

Neutral outlook

The sea port sector has strongly grown and played an important role in Vietnam's international integration for the last decade. The sector is expected to maintain this strength in the coming years given favorable macro factors like stable positive growth of import-export turnover in ten consecutive years, increasing FDI inflows, and many new free trade agreements (FTA). However, the Coronavirus impacts would hit hard on container ports in 2020E, so the sector would have a NEUTRAL outlook in the short term and POSITIVE outlook in the long term.

The development of deep-water ports would strongly affect market share

In the coming time, focal trading areas would be developing deep-water ports such as Cai Mep - Thi Vai port cluster in the South and Lach Huyen-Hai Phong port cluster in the North. As deep-water ports can welcome vessels with large tonnage, they will raise the competitiveness and affect the market share of other ports performance.

Fierce competition in Hai Phong port cluster, downstream ports will remain stable in the medium term

The appearance of Lach Huyen port cluster increases competitiveness in Hai Phong port cluster. The upstream ports have almost no competitive advantage, and are losing market share and have to focus on other activities. Meanwhile, downstream ports may maintain stable operations in the medium term as Lach Huyen port has not reached its full capacity and the infrastructure to transport goods from Lach Huyen to the mainland still has many limits.

Cai Mep - Thi Vai port cluster achieved the highest growth rate in the world, and would maintain strong performance in the future

Cai Mep - Thi Vai port cluster had the highest growth rate in the world with CAGR of 26.2% in 2014-2018, and would maintain this performance in the coming time thanks to: (1) high import and export turnover, (2) the shift of cargo volume from Cat Lai port cluster, and (3) preferential taxes and fees.

2020E tonnage would be affected by the COVID-19 pandemic

If the import-export turnover with China decreased 10% YoY, we estimate that the total import-export turnover of Vietnam will grow by a mere of 3.9% YoY, a sharp fall from 7.6% in the same period of 2019, which will adversely affect the growth of the sector in 2020E.

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Executive Summary

Vietnam's container throughput ranked third among ASEAN countries

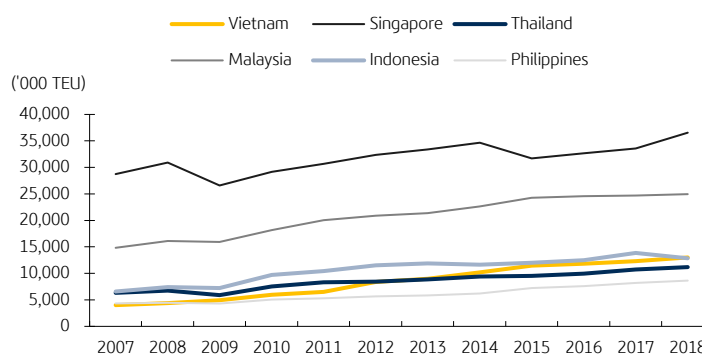
The container port sector has strongly grown and played an important role in Vietnam's international integration for the last decade. The total container throughput in Vietnam's ports in 2018 reached 13 million TEUs, up 5.9% YoY; 10-year CAGR of the throughput hit 12.5%, the highest in the top six Southeast Asian countries with the largest container throughput (Figure 1).

The seaport industry benefits from the strategic location of the South China Sea, but the lack of infrastructure results in only receiving transshipment ships

The South China Sea is strategically located in the maritime route from the Malacca Strait to the Luzon Strait and to the Taiwan Strait (Figure 2). According to the US Energy Agency, a third of crude oil and a half of the liquefied gas are transported through the South China Sea; and 60% of Chinese exports and 29/39 maritime routes also go through the Sea. However, due to the lack of connecting infrastructure, poor loading and unloading facilities, the shallow waters, especially in the Northern provinces, make it difficult for large vessels to enter and exit. Ports can only welcome small ships, reducing business efficiency of transport and port businesses.

Vietnam ranked third in ASEAN in terms of total container throughput, only after Singapore & Malaysia

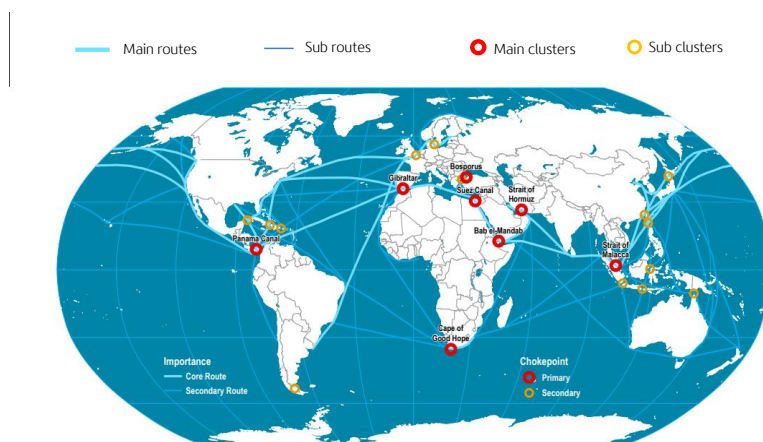
Fig 1. Regional countries – Container throughput



Source: Worldbank, CEIC

Fig 2. The world – Arterial maritime routes

The maritime route from the Malacca Strait to the Luzon Strait and Taiwan Strait is the second busiest route in the world, goods from Europe and Africa must go through this route to China and East Asian countries. The nearest point of this route is only about 38 km from Vietnam.



Source: Transport Geography

Of three main port clusters, ones in the South accounted for the largest proportion and hit the strongest growth

The Vietnamese port system consists of three main port clusters, namely Hai Phong – Cai Lan port cluster in the North, Da Nang & Quy Nhon in the Central region and Cat Lai – Cai Mep in the South. The Southern ports contributed the largest share, reaching 62.7% of total tonnage and 73.5% of total container throughput (Figure 4). These ports also recorded a sharp growth with two-year CAGR of 10% thanks to Cai Mep cluster, while Northern port clusters' two-year CAGR was only 4% as many ports have exceeded their full capacity (Figure 3).

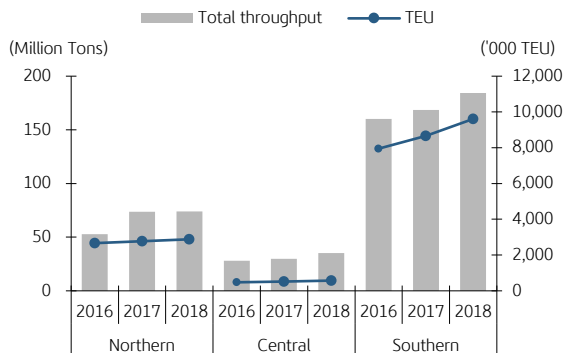
The situation in Hai Phong and Cai Mep – Thi Vai port clusters

In the past decade, there were many new ports while old ports with poor infrastructure were still operating, which led to oversupply in two key port areas, Hai Phong & Cai Mep – Thi Vai port clusters. In Hai Phong port cluster, Lach Huyen and Nam Dinh Vu ports came into operation, making the expected output in 2019 here only 64% of the total design capacity, down in two consecutive years (Figure 5). For the Cai Mep – Thi Vai port cluster, although the ports have been operating stably for many years, the efficiency is still very low at only 47% in 2019 since many ports are located in unfavorable locations and lack of connectivity (Figure 6).

Saigon Newport Corporation is the largest port operator; while Gemadept is the largest listed companies of the sector

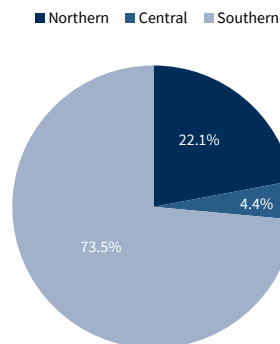
Saigon Newport Corporation (SNP) is the largest port operator with market share 6M2019 reaching 51%. SNP owns 18 ports, seven inland container depots (ICD), and more important ports such as Tan Cang – Cat Lai, TCIT, TCTT and Lach Huyen HICT ports. Meanwhile, Gemadept (GMD) is the largest listed company with total container throughput of 1.03 million TEUs in 2018, or 7.9% of the industry market share. In the coming time, GMD expects to build and operate Nam Dinh Vu Port Phase 2 and Gemalink deep-water port phase 1, increasing the total design capacity by 2.1 million TEU.

Fig 3. Vietnam – Total container throughput by regions



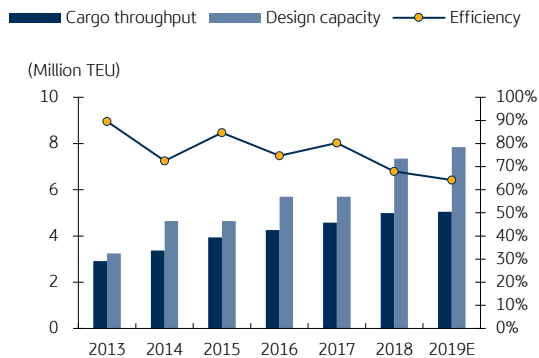
Source: Vietnam Seaports Association

Fig 4. Vietnam – Port operation market share in 2018



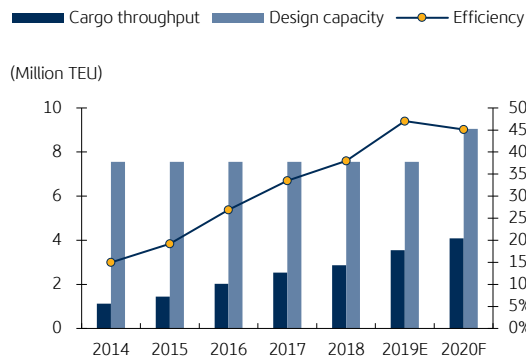
Source: Vietnam Seaports Association

Fig 5. Hai Phong port cluster – 2013–2019E capacity



Source: KB Securities Vietnam

Fig 6. Cai Mep – Thi Vai port cluster – 2014–2020F capacity



Source: KB Securities Vietnam

2020E outlook

Expected average growth of 9.3% per year

Vietnam is one of the countries with the most impressive container traffic growth in the world. According to World Bank, Vietnam's container throughput CAGR was 10.9% in 2010–2017, higher than the world average of 4.3%, 4.5% of East Asia, and 6.0% of South Asia (Figure 12). According to the Decision No.1037/QĐ TTg on the master plan of Vietnam's seaport industry, the total goods through Vietnamese ports would reach 1,542 million tons by 2030, equivalent to a 12-year CAGR of 9.3%. We expect growth of 9.3% per year based on positive macro factors.

Flourishing foreign trading is a powerful growth force for the sector

Vietnam is in the process of strong global integration, reflected in high import–export turnover with CAGR of 16.0% in 2009–2018 (Figure 7). Notably, Vietnam is one of few Asian countries with positive import–export turnover growth for four consecutive years (Figure 9). We believe that this growth should be maintained at 10–12% in 2020E thanks to:

Vietnam is an attractive destination of FDI inflows

(1) Increasing FDI inflows: The total newly registered capital in 2019 dropped 6.8% YoY (if excluding the USD4 billion of the Smart House project in Dong Anh – Hanoi, the growth still reached 19.8%); the total realized capital was up 6.7% YoY; the number of newly licensed projects was 3,094 projects, up 27.5% YoY (Figure 7). Currently, Vietnam Government aim to further attract FDI inflows through tax incentives such as import tax exemption and reduction, corporate income tax exemption or reduction or preferential land lease policies. We believe Vietnam would maintain strong FDI growth thanks to low cost and abundant workforce, stable macro economy and improved business climate.

The US–China trade tensions are expected to bring many benefits to Vietnam

(2) Benefits from the US–China trade war: Although the two sides have reached the GDD1 agreement, there are still many risks of tensions rising again after the US presidential election period. Vietnam may gain more advantages from the reallocation of production facilities from China. The import turnover of the US from Vietnam in 2019 rose 29% YoY, while from China fell 16% (Figure 8), which partly reflected the benefits from the US–China trade tensions.

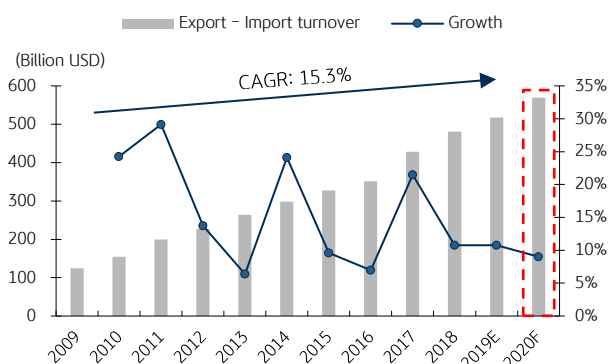
FTAs are expected to boost trading with foreign countries

(3) FTA agreements (Table 11): In 2019, Vietnam signed and put into effect two FTAs, the CPTPP and the AHKFTA, thereby promoting trade activities between Vietnam and member countries like Canada, Australia, Japan Mexico, and so on. In 2020 and 2021, Vietnam expects to have EVFTA with EU countries and the EFTA with four countries, namely Switzerland, Norway, Iceland & Liechtenstein. These agreements are expected to boost Vietnam trade in the near future.

Trading activities in port clusters would be busier thanks to new deep-water ports

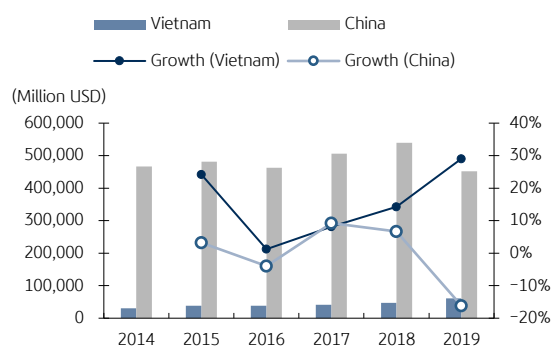
Vietnam would focus on developing deep-water ports in the coming time. Specifically, Lach Huyen deep-water port (including two terminals) came into operation by the end of 2018 with a design capacity of 1.1 million TEU, or 22% of the total output of Hai Phong port cluster in 2018. Hai Phong Port expects to build the third and the fourth terminals in Lach Huyen area with a capacity of 1.1 million TEU, and the Terminal No. 3 should be put into operation by 2022E. In Cai Mep-Thi Vai area, Gemalink deep-water port with a capacity of 1.5 million TEUs or 16.8% market share in this region is expected to come into operation in September 2020. Both Lach Huyen and Gemalink ports have an advantage over other ports since they can accommodate large vessels. With the emergence of deep-water ports, we expect Vietnamese ports to be more bustling as shipping lines can bring in large mother vessel to help reduce vessel operating costs.

Fig 7. Vietnam – Import & export turnovers in 2009–2020F



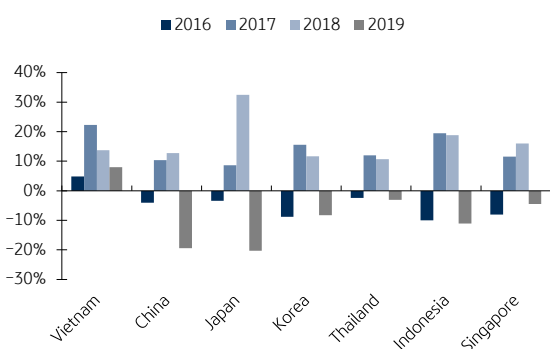
Source: Vietnam Customs

Fig 8. Vietnam & China – Exports to the US



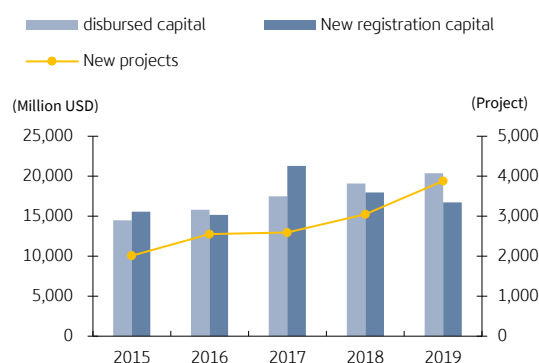
Source: IMF, Vietnam Customs, Trading Economics

Fig 9. Regional countries – Import-export turnover growth



Source: IMF

Fig 10. Vietnam – FDI inflows



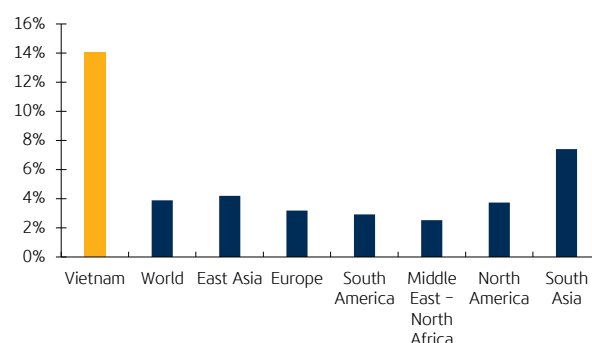
Source: Fiiipro

Fig 11. Vietnam - FTAs

Agreement	Current status	Members
CPTPP	Effective 01/2019	Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia
AHKFTA	Effective 06/2019	ASEAN, Hongkong
EVFTA	End of negotiation	Vietnam, EU (28 members)
RCEP	Negotiating	ASEAN, China, Korea, Japan, India, Australia, New Zealand
EFTA	Negotiating	Vietnam, EFTA (Switzerland, Norway, Iceland, Liechtenstein)
Israel FTA	Negotiating	Vietnam, Israel

Source: Ministry of Industry & Trade

Fig 12. Vietnam - CAGR of container throughput 2010-2018

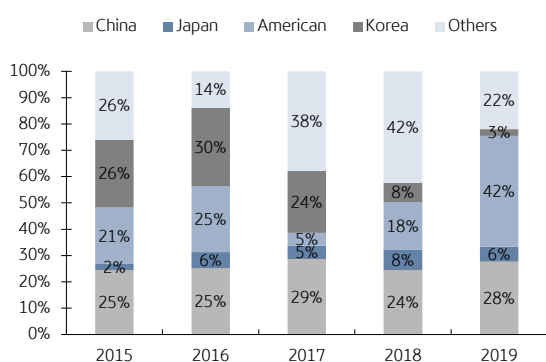


Source: Worldbank

2020E throughput would be affected by the pandemic

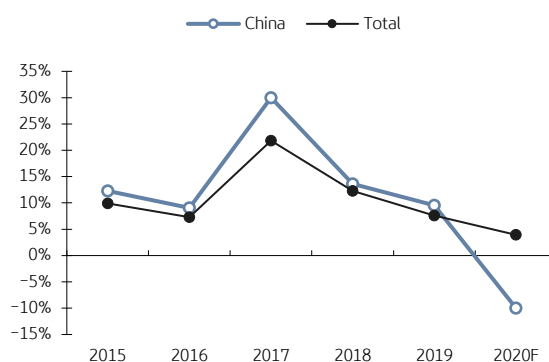
In recent years, import-export turnover with China contributed 26% to the growth of Vietnam's import-export turnover, so the stagnant production in China due to COVID-19 also has adverse impacts on Vietnam trade. Furthermore, if the pandemic in other countries such as Japan and Korea exacerbates, there would be more negative impacts. If the scenario of China import-export turnover decreasing by 10%, we estimate that the total import-export turnover of Vietnam will only maintain an increase of 3.9% YoY, a sharp fall vs 2019 (up 7.6% YoY), hence more difficulties for ports business in 2020.

Fig 13. Vietnam - Im-export turnover by countries



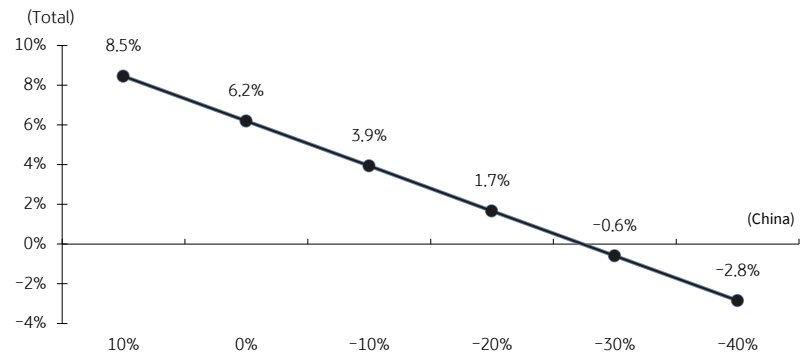
Source: IMF, Trading Economics

Fig 14. Vietnam - 2015-2020F im-export turnover in the base scenario of COVID-19



Source: Vietnam Customs, KB Securities Vietnam

Fig 25. Vietnam – Total im-export turnover vs trading with China



Source: KB Securities Vietnam

Current operations & outlook of Hai Phong cluster

Hai Phong port cluster is the second largest seaport area in Vietnam with a six-year CAGR of 11.38%

Lach Huyen deep-water port area is the growth force of Hai Phong port cluster in the coming time

Hai Phong port cluster is second largest seaport region in the country with total TEU output in 2018 reaching 4.95 million, up 11.2% yoy, and CAGR of 11.38% in 2012–2018 (Figure 17). With favorable macro and geographical factors, we expect Hai Phong port cluster to maintain a CAGR of 10% in the next five years.

Lach Huyen one of the largest deep-water port cluster in Vietnam. It can accommodate vessels with tonnage of 50,000 – 100,000 DWT or container ships of 6,000–8,000 TEU, and is planned to be the growth force of Northern port system. A Vietnam Maritime Administration (AMA) report disclosed that Lach Huyen should have five to six container terminals, two general cargo and two liquid cargo terminals completed by 2025E; and 12–13 more container terminals, five general cargo and four liquid cargo terminals by 2030E. The Prime Minister approved the project to build the Terminal No. 3 and Terminal No. 4 (total length of 750m with capacity of 1.1 million TEU per year) in Lach Huyen port cluster. Port of Hai Phong (PHP) is the developer of the project.

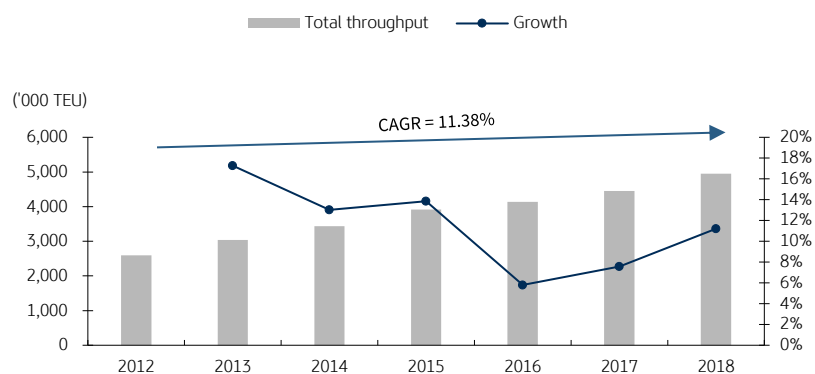
Fig 36. Hai Phong port cluster – Map

Hai Phong port cluster includes three main areas: upstream area of Cam River, downstream area of Cam river (Dinh Vu area) and Lach Huyen terminals. There are 44 terminals in total, including 9 container terminals, 11 specialized cargo & liquefied gas terminals, and 24 general cargo terminals



Source: Google Map, KB Securities Vietnam

Fig 47. Hai Phong port cluster – The growth of container throughput in 2012–2018



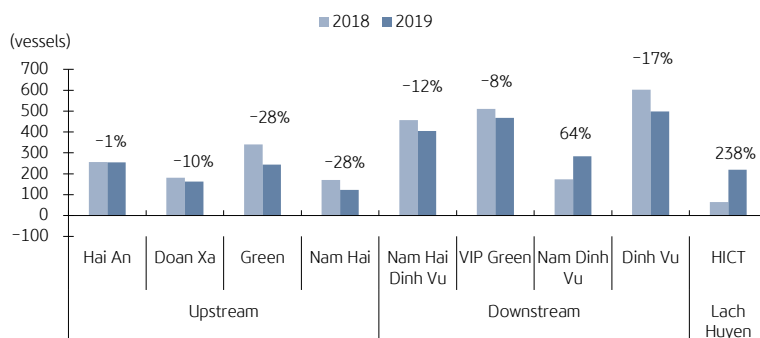
Source: KB Securities Vietnam

Lach Huyen put competitive pressure on other ports, especially upstream ports

Lach Huyen is a deep-water port, so it can handle large vessels, and reduce costs for shipping businesses. This caused a great pressure on other port operators, especially upstream ports. We believe that Lach Huyen would maintain a CAGR of 40% in the next five year, while the remaining ports may only have an overall growth rate of 4.2% (Figure 20).

In 2019, except for Nam Dinh Vu port and Lach Huyen port with positive growth (64% YoY and 238% YoY respectively), all ports saw lower throughput, typically in Green and Nam Hai ports (both down 28% YoY)

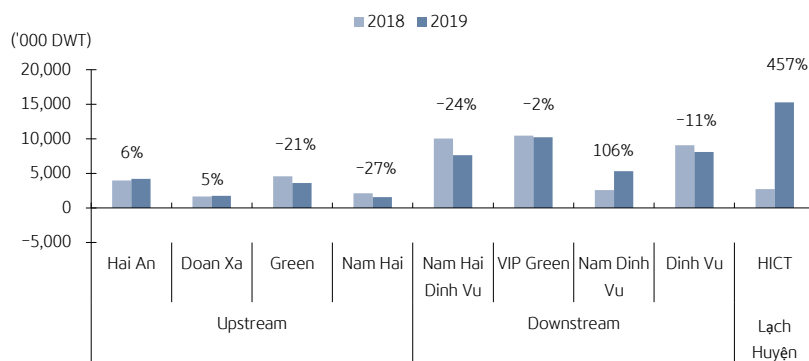
Fig 58. Hai Phong port cluster – Container throughput of some key ports



Source: Hai Phong Maritime Administration, KB Securities Vietnam

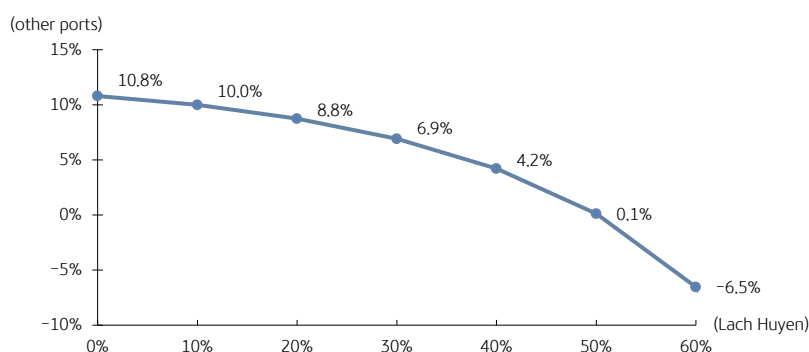
Fig 69. Hai Phong port cluster – Vessel tonnage growth

Vessel tonnage growth outpaced throughput growth, showing that shipping companies tend to switch to large vessels – an opportunity for downstream ports, especially Lach Huyen deep water port



Source: Hai Phong Maritime Administration, KB Securities Vietnam

Fig 20. Hai Phong port cluster – Five-year CAGR of Lach Huyen port



Source: KB Securities Vietnam

The minimum rate for handling international containers in Hai Phong rose 10%

According to the Circular 54/2018 issued by the Ministry of Transport in early 2019, the minimum rate for handling international containers in Hai Phong and Cai Mep port clusters would rise 10%. This is a rare opportunity for businesses to raise service prices amid high competition in the industry due to the oversupply and weaker negotiating position with international shipping lines. In addition, the price increases do not affect the competitiveness of Vietnam's ports as Vietnam's loading and unloading service prices are much lower than other countries. Specifically, the new rate in Hai Phong is about USD33/20 feet container while in Cambodia, Malaysia, and the Philippines are USD65, USD52, and USD130/20 feet container respectively. Meanwhile, the average freight rate in the North would increase by 5%.

KBSV expects downstream ports to remain stable in the medium term, and upstream ports will change their use purposes

Upstream ports have almost no competitive advantage over downstream ports, especially the Lach Huyen area, so they may gradually change their use purposes. We believe that most downstream ports would perform well in the medium term thanks to: (1) limited infrastructure system to transport goods from Lach Huyen to the mainland. Currently, goods can only be transported via Tan Vu bridge, causing frequent congestion; and (2) the change in shipping lines' orientation (move containers from upstream ports to downstream ports to fill the capacity).

Current operations & outlook of Cai Mep–Thi Vai port cluster

Cai Mep – Thi Vai deep-water port cluster is the fastest growing port group in the world, with a four-year CAGR of 26.2%

Cai Mep–Thi Vai port cluster include deep-water ports in Ba Ria–Vung Tau province, near the estuary of the Thi Vai and Cai Mep rivers. The cluster consists of seven ports with a total designed capacity of 7,420,000 TEUs, and should reach 8,920,000 TEUs in the near future after Gemalink port comes into operation. Business operations in the port group have shown some promising results. According to the AMA, the CAGR of Cai Mep – Thi Vai region reached 25.7% in 2014–2019 (Figure 21). The shift in cargo volume from the traditional ports in Ho Chi Minh City to the Cai Mep – Thi Vai port cluster is happening, with the proportion of goods going through Vung Tau rising to 34.1% in 2018 from 30.6% in 2013. The proportions of throughput in Ho Chi Minh City, Dong Nai, and Cai Mep/Thi Vai were 63.6%, 6.3% and 30% vs 82%, 0.2% and 17.8%.

We forecast that the volume of cargo to the Cai Mep–Thi Vai port cluster would continue to increase in the coming years based on:

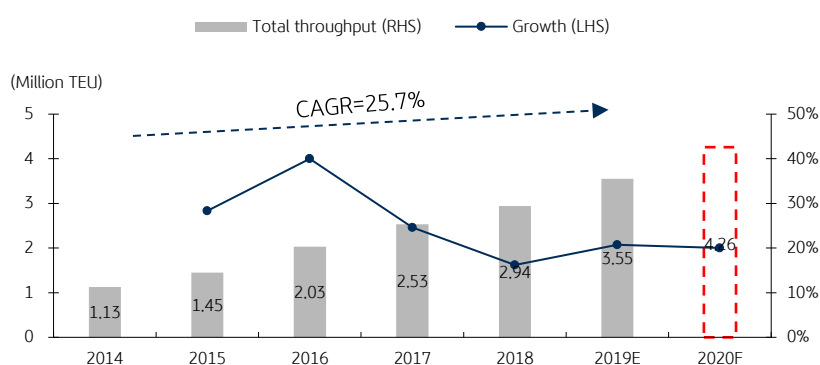
There was a shift of cargo from Cat Lai port cluster in Ho Chi Minh City due to overload

The overload and congestion of goods in Ho Chi Minh City in recent years has reduced business efficiency of enterprises. The AMA predict if the city applies the volume limit, goods transported through the Cai Mep–Thi Vai area will jump by five million TEUs by 2025E, increasing the total capacity to 7.9 million TEUs, equivalent to 88.3% of design capacity, and seven-year CAGR reaching 15.4%.

Cai Mep–Thi Vai area is supported with tax and fee incentives

Vessels with tonnage of over 50,000 DWT entering Cai Mep – Thi Vai area have currently enjoyed preferential maritime fees, and been charged with only 60% of the normal rates, applicable until December 31, 2020. This mechanism is to promote and encourage shipping lines to dock at Cai Mep – Thi Vai port. In addition, Vung Tau Maritime Administration has proposed to the authorities to apply preferential policies for ships under 50,000 DWT to attract more ships to Cai Mep–Thi Vai cluster. If these incentives are applied, they will expedite the movement of goods flows from Ho Chi Minh City to this area.

Fig 27. Cai Mep–Thi Vai – Container throughput growth



Source: Vung Tau Maritime Administration

Fig 22. Cai Mep–Thi Vai – Parameters of included ports

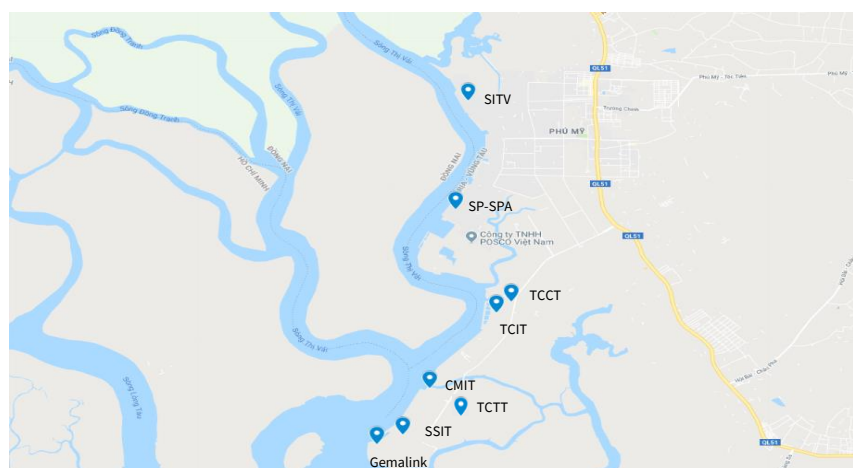
Port	Depth of water	Berths	berth length	Vessel size max (DWT)	Design capacity (TEU/year)	Time of lauch	Investor
SITV	12	3	730	80,000	1,100	08/2010	Saigon Investment Construction, HPH
SP-PSA	15	1	600	120,000	1,100	08/2009	Saigon Port, Vinalines, PSA Vietnam
TCIT-TCCT	17	3	890	110,000	1,500	2009-2011	SNP, MOL, HJT, WHL
CMIT	17	2	600	160,000	1,150	04/2011	Vinalines,Saigon Port, APM
TCTT	14	2	600	160,000	1,000	Q1/2014	SNP
SSIT	17	1	600	160,000	1,570	06/2018	Saigon Port, Vinalines, SSA Marine
Gemalink(Phase1)	17	3	1,150	200,000	1,500	Q3/2020	GMD, CMA

Source: Vung Tau Maritime Administration

Fig 23. Cai Mep–Thi Vai – Map

A large proportion of container throughput focused on TCIT-TCCT, CMIT, and TCTT ports thanks to their favorable location, modern equipment, and the ability to handle large vessels

SITV, SP-PSA, & SSIT ports mainly handle bulk cargoes due to their unfavorable location and outdated equipment (built since 2010), which is not suitable for current ships. The developer of these ports, Vinaline, is facing financial difficulties, so the company's ability to boost investment in the coming time is not high



Source: Google Map, KB Securities Vietnam

Business performance of Cai Mep – Thi Vai ports was strongly diverged

TCIT ports alone accounted for 59% market share, while the other ports in the region has almost zero throughput, mainly handling bulk and general cargo to maintain operations. The total operating efficiency of the whole cluster was low, at only 39% by the end of 2018, and the occupancy rate was low because:

The connecting transportation system and ancillary services have not developed

Transport system connecting Cai Mep – Thi Vai with the surrounding area has not been developed. Specifically, the construction of Phuoc An Bridge, Bien Hoa – Vung Tau railway, Bien Hoa – Dong Nai expressway or local routes such as Phuoc Hoa Cai Mep and 991B are all delayed or behind the schedule. Furthermore, the number of empty CFS, ICD, & container warehouses in this area have not met the connection needs of businesses.

Cai Mep – Thi Vai has no Center for specialized inspection

Cai Mep – Thi Vai area regularly receives more than 20 types of cargo with a large total import and export value such as wheat, corn, wood, steel, fertilizer, and so on, which needs specialized inspection. However, there is no Center for specialized inspection, so businesses still have to send samples to Ho Chi Minh City for inspection, then wait 10–30 days for the results to get clearance, which takes time for both customers & port operator.

Large vessels have to reduce their load when entering ports due to shallow waterways

The waterways (with average depth of only 11–14m) leading ships into Cai Mep–Thi Vai port cluster are too shallow, so it takes time for ships to wait for the high tide to dock in. Large vessels that want to go into the ports also have to reduce the load, making the container throughput only reach 45–50% of the vessel's capacity. The Maritime Administration proposed to the Ministry of Transport to expand and increase the depth of the channel to 15.5m to accommodate 160,000 DWT container ships with a capacity of 14,000 TEU, but the detailed plan has not been announced yet.

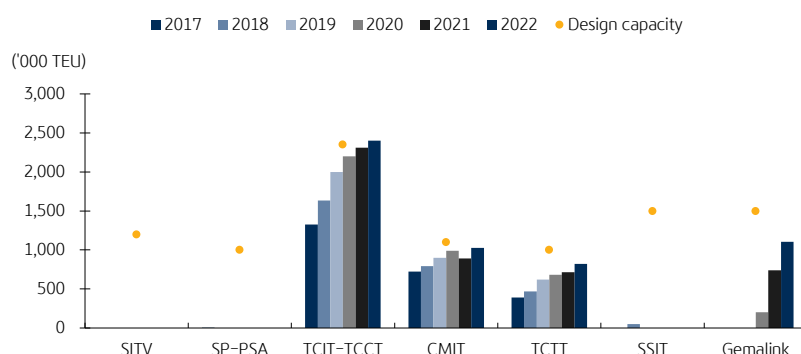
Cai Mep – Thi Vai port cluster would grow by 15–20% annually in the next three to five years after the Gemalink deep-water port phase 1 comes into operation

We believe that the Cai Mep – Thi Vai port cluster would grow by 15–20% annually in the next three to five years after the Gemalink deep-water port phase 1 developed by GMD comes into operation at a maximum capacity of 1.5 million TEUs in a favorable location that is suitable to accommodate mother ships with a maximum capacity of 20,000 TEUs. In addition, the improvement of the transport system and the completion of administrative procedures would help to facilitate the growth of this area.

TCIT – TCCT is the port with the best business results with total output in 2019 reaching 2 million TEU, equivalent to 85% of the total design capacity, accounting for 56.3% market share (Figure 25). It is followed by CMIT and TCTT ports with 2019 output of 900 thousand TEU and 620 thousand TEU, equivalent to 25% and 17% of the market share.

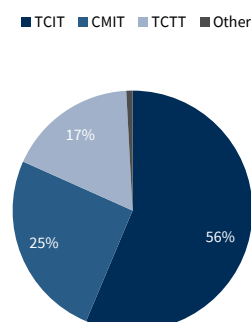
With the assumption that the Cai Mep port cluster maintains growth of 20%, TCIT–TCCT and CMIT ports will run at full design capacity by 2020 and will be a great opportunity for the remaining ports including Gemalink, which is expected to reach full capacity by 2023

Fig 24. Cai Mep – Thi Vai – 2017–2022F output of included ports



Source: Vung Tau Maritime Administration, KB Securities Vietnam

Fig 25. Cai Mep – Thi Vai – Market shares of included ports



Source: TCIT

Business performance of listed companies

Earnings of listed companies are all affected by Lach Huyen port

Most listed companies are focused in Hai Phong port cluster. Given healthy macro and the increases in the minimum handling fees, some businesses have successfully improved their performance (Figure 26). However, the actual picture of earnings was not as good as expected, and DXP (Doan Xa Port) was the only port to record positive earnings growth. Profit margins of businesses are all affected by increasing external costs to increase competitiveness under the pressure from Lach Huyen port.

Port operators are currently trading at an attractive average dividend yield

Although the growth prospect in the coming time is not clear, port operators are currently trading at a quite high average dividend yield, all over 7% (Figure 31). We believe that downstream port companies would still maintain high dividend payout ratios in the coming years based on the overall positive outlook of the industry.

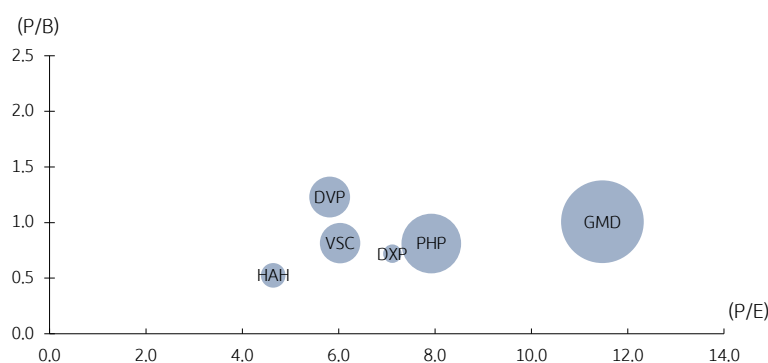
Table 26. Vietnam – Financial indices of listed port operators

	Market capitalization	Revenue growth (Yoy)	Gross margin	NPAT growth (Yoy)	ROIC	ROA	ROE
GMD	5,908	-2%	38%	-68%	6%	5%	8%
VSC	1,411	6%	24%	-19%	16%	10%	12%
DXP	294	28%	27%	22%	4%	10%	11%
DVP	1,440	-12%	52%	-14%	19%	20%	22%
PHP	3,073	3%	34%	-3%	10%	7%	9%
HAH	523	6%	20%	-17%	10%	7%	10%

Source: KB Securities Vietnam

Fig 27. Vietnam – P/B & P/E of port operators

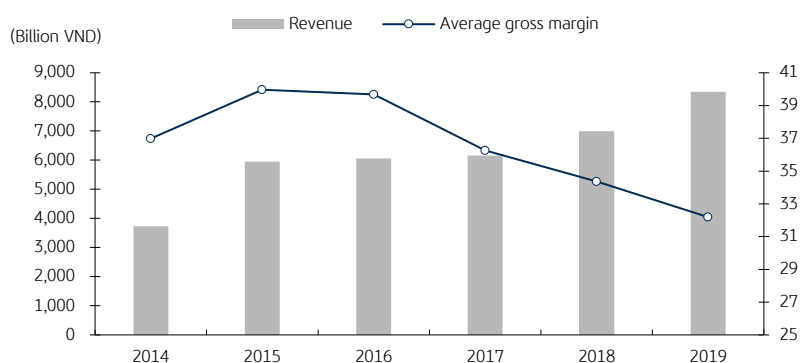
Most operators have P/E<10 & P/B<1.5



Source: KB Securities Vietnam

Fig 28. Vietnam – Average gross revenue & gross profit margin of listed operators

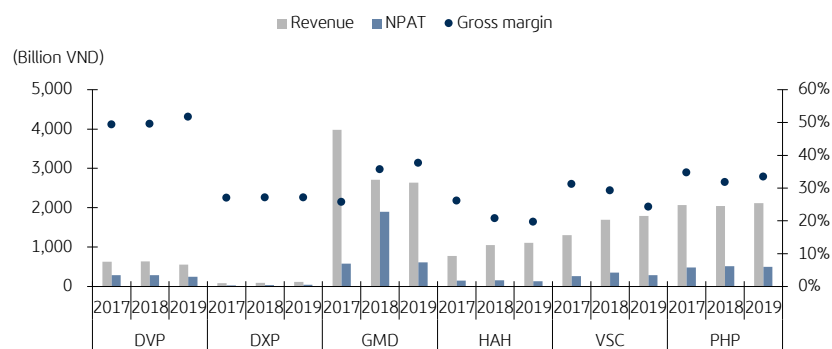
Average gross profit margin decreased in the last four years due to increasing competitiveness, which made businesses lower service prices to fill capacity



Source: KB Securities Vietnam

Fig 29. Vietnam – 2017-2019 performance of port operators

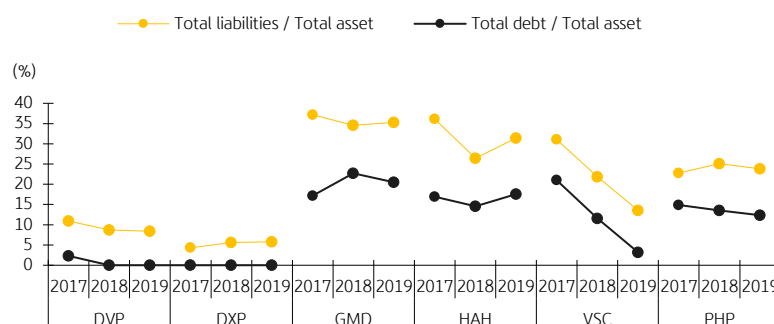
In general, revenue of businesses still maintained positive growth in 2019, but earnings went flat or declined due to high competitive pressure



Source: KB Securities Vietnam

Fig 30. Vietnam – Debt structure of port operators

Port operators have safe debt structure with liabilities/total assets <40% and debt/total assets <30%, many of which have no debt

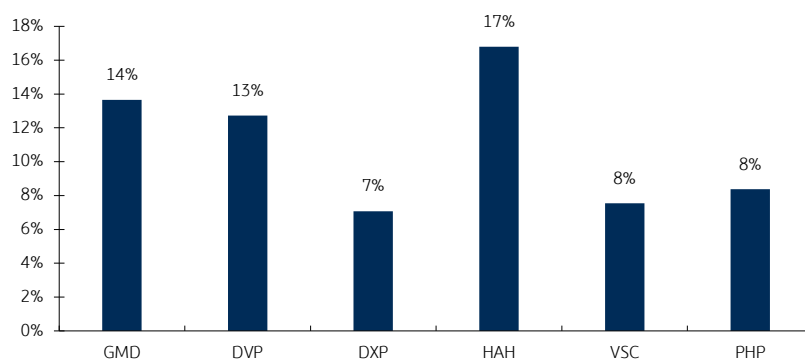


Source: KB Securities Vietnam

Figure 31. Vietnam - 2015-2019 average dividend yield of port operators

Port operators are trading at attractive dividend yields

We expect downstream ports like VSC, DVP & GMD to maintain their positive levels



Nguồn: KB Securities Vietnam



Companies

Gemadept (GMD)

Visconship (VSC)

February 25, 2020

Information Technology & Logistics Analyst
Nguyen Anh Tung
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KBSV maintain our BUY recommendation for GMD shares; target price VND28,900, upside 51%

Earnings and revenue in 2020E are expected to gain 8.8% yoy & 7.8% yoy

#KBCompanyBulletSidebar

Buy maintain

Target price	28,900 VND
Total return	51%
Current price	19,150 VND
Consensus target price	28,900 VND
Mkt capitalization (VNDbn)	5,611 bn VND

Forecast earnings & valuation

Fiscal year-end	2017A	2018A	2019F	2020F
Revenue (VNDbn)	3,984	2,708	2,641	2,857
Growth rate (%)	6.4%	-32.0%	-2.5%	7.8%
Gross profit (VNDbn)	1,029	968	997	1,093
Gross profit margin (%)	25.8%	35.7%	37.8%	38.3%
Net profit (VNDbn)	581	1,900	613	644
Growth rate (%)	31.0%	226.8%	-67.7%	4.9%
EPS (VND)	1,762	6,223	1,733	1,908
EPS growth (%)	-18.9%	253.2%	-72.1%	10.0%
P/E (x)	10.87	3.08	11.05	10.04
P/B (x)	0.87	0.97	0.87	0.88

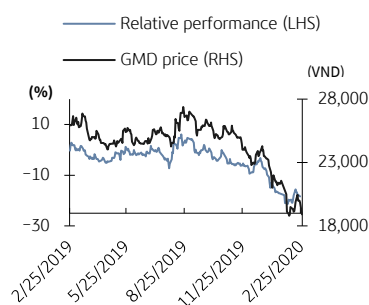
We assess that GMD's long-term growth potential may be better than the general prospect of the seaport industry thanks to the expansion of operations in Hai Phong and Cai Mep – Thi Vai clusters. Based on the company's valuation results and business outlook, we recommend to BUY GMD shares with the target price of VND28,900, 51% higher than the current price and 13% lower than our previous recommendation due to adverse impacts of Coronavirus and rising competition in the Lach Huyen area.

We forecast GMD's total output in 2020E to reach 2.13 million TEUs (up 14% yoy) thanks to the overall growth in Hai Phong port cluster and the contribution of newly operated Gemalink deep-water port. The revenue may hit VND 2,857 billion (+8.2% yoy) of which operating ports adds VND2,551 billion (+8.3% yoy) and logistic segment earns VND153 billion (+2.0% yoy), and profit from joint ventures and associated companies may reach VND153 billion. Total earnings may reach VND644 billion (+4.9% yoy).

In Q4 / 2019, GMD started construction of Nam Dinh Vu Port project phase 2 with a designed capacity of 500,000 TEU / year, equivalent to 50% of GMD's total capacity in Hai Phong port cluster in 2018. Expected The project will be completed and put into operation in Q1-Q2 / 2021, thereby ensuring the growth of GMD in Hai Phong port cluster in the near future.

Trading data	
Free float (%)	296,924,957
Avg trading value (3M)	324,754
Foreign available (%)	49%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-11.3	-21.3	-29.0	-27.2
Relative	-7.7	-7.5	-9.0	-9.2



Source: Bloomberg, KB Securities Vietnam

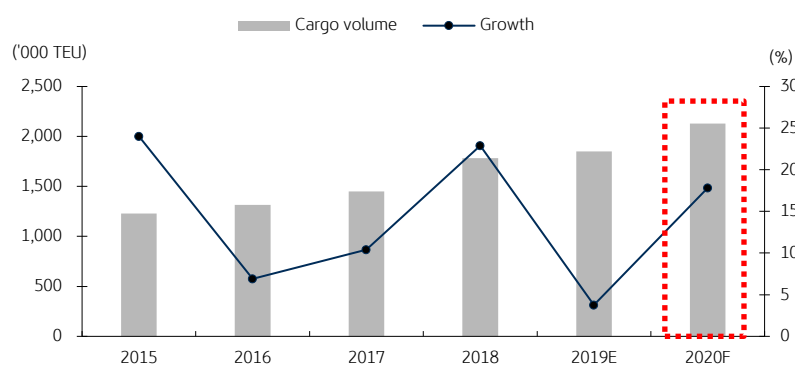
Gemalink port phase 1 should go into operation by October 2020

GMD expects to complete & run the Gemalink at a capacity of 1.5 million TEUs/year from October 2020E. Gemalink port will be GMD's major growth driver in the medium to long term based on: (1) Cai Mep – Thi Vai port cluster has the fastest growth rate in Vietnam; (2) major shareholder CMA – CMG plans to add 1 – 1.2 million TEUs, or 80% of capacity, expected time to transfer all ships to this port is about two years; and (3) The two largest ports, TCIT – TCCT and CMIT should reach full capacity by 2021–2022, opening up great opportunities for the remaining ports, especially Gemalink in the following years. KBSV forecast that Gemalink will reach full capacity in phase 1 in 2023. Main risks in 2020 include: (1) Coronavirus impacts, (2) more adverse impacts from Lach Huyen port, (3) the progress of Gemalink project; and (4) the volume of shipments of CMA–CGM partner to Gemalink slower than expected.

Risks

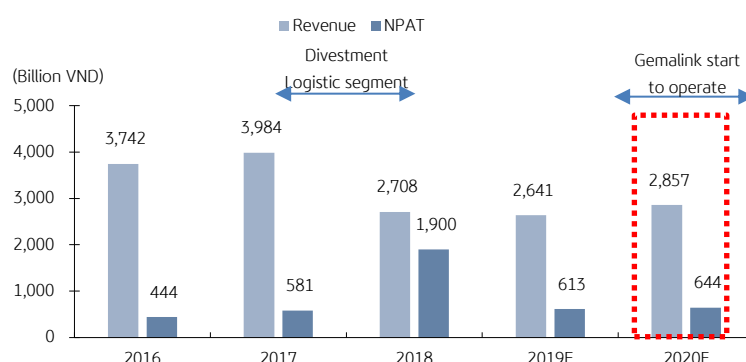
2020E total tonnage should rise 17.8% YoY thanks to the contribution of new Gemalink

Fig 38. Gemadept – Container tonnage in 2015–2020F



Source: KB Securities Vietnam

Fig 33. Gemadept – Earnings and revenue in 2016–2020F



Source: KB Securities Vietnam

In the first phase of operation, Gemalink deep-water port has not contributed to GMD's earnings as it has not reached high capacity and is subject to high interest and depreciation expenses

Table 34. Gemadept – 2020E performance & target price

'000 Billion VND	Old	New	Change
Revenue	3,158	2,857	-10%
PBT	747	739	-1%
NPAT	636	644	1%
Target price (VND)	33,100	28,900	-13%

Source: KB Securities Vietnam

Gemadep (GMD) – Summarized financials & forecasts, 2017–2020F

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2017	2018	2019F	2020F		2017	2018	2019F	2020F
Net sales	3,984	2,708	2,641	2,857	CURRENT ASSETS	2,223	1,391	1,196	1,158
Cost of sales	-2,955	-1,739	-1,644	-1,764	Cash and cash equivalents	780	173	186	69
Gross Profit	1,029	968	997	1,093	Short-term investments	113	112	44	44
Financial income	173	1,625	108	108	Accounts receivable	1,128	949	796	861
Financial expenses	-146	-44	-146	-113	Inventories	108	66	80	86
of which: interest expenses	-144	-129	-145	-113	LONG-TERM ASSETS	9,068	8,593	8,935	9,563
Gain/(loss) from joint ventures (from 2015)	109	133	239	0	Long-term trade receivables	127	55	35	35
Selling expenses	-87	-102	-128	-108	Fixed assets	3,208	3,404	3,343	5,730
General and admin expenses	-344	-321	-333	-338	Investment properties	0	0	0	0
Operating profit/(loss)	733	2,260	736	643	Long-term incomplete assets	2,458	1,708	1,793	1,793
Other incomes	61	29	23	0	Long-term investments	2,310	2,632	2,688	2,723
Other expenses	-143	-107	-54	0	TOTAL ASSETS	11,291	9,984	10,131	10,721
Net other income/(expenses)	-83	-78	-31	-57	LIABILITIES	4,197	3,455	3,573	3,542
Income from investments in other entities	0	0	0	153	Current liabilities	2,676	1,564	1,829	2,138
Net accounting profit/(loss) before tax	650	2,182	705	739	Trade accounts payable	761	404	401	0
Corporate income tax expenses	-69	-282	-91	95	Advances from customers	45	5	133	0
Net profit/(loss) after tax	581	1,900	614	644	Short-term unrealized revenue	0	0	5	0
Minority interests	74	53	99	77	Short-term borrowings	715	675	632	857
Attributable to parent company	508	1,848	515	566	Long-term liabilities	1,520	1,891	1,744	1,404
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	232	250	224	172
					Long-term borrowings	1,221	1,592	1,446	1,188
					OWNER'S EQUITY	7,095	6,529	6,558	6,485
					Paid-in capital	2,883	2,969	2,969	2,969
					Share premium	1,942	1,942	1,942	1,942
					Undistributed earnings	1,113	542	508	453
					Minority interests	751	649	694	694

Margin ratio				
	2017	2018	2019F	2020F
Gross profit margin	25.8%	35.8%	37.8%	38.3%
EBITDA margin	22.8%	32.5%	34.1%	38.5%
EBIT margin	15.0%	20.2%	20.3%	29.8%
Pre-tax profit margin	16.3%	80.6%	26.7%	25.9%
Operating profit margin	18.4%	83.5%	27.9%	22.5%
Net profit margin	14.6%	70.2%	23.2%	22.5%

Cash Flow Statement (VND billion)					Key ratios				
	2017	2018	2019F	2020F		2017	2018	2019F	2020F
Net profit/(loss) before tax	650	2,182	705	739	Multiple				
Depreciation and amortisation	311	335	365	458	P/E	10.87	3.08	11.05	10.04
Profit/loss from investing activities	-118	-1,524	-210	0	P/E diluted	10.87	3.08	11.05	10.04
Interest expense	144	129	145	113	P/B	0.87	0.97	0.87	0.88
Operating profit/(loss) before changes in Working Capital	955	1,017	969	1,310	P/S	1.39	2.10	2.15	1.99
(Increase)/decrease in receivables	124	12	-206	-65	P/Tangible Book	0.50	0.59	0.58	0.53
(Increase)/decrease in inventories	-21	16	-14	-6	P/Cash Flow	8.72	10.43	16.45	5.13
Increase/(decrease) in payables	-226	-17	-226	27	EV/EBITDA	6.64	3.31	6.60	5.16
(Increase)/decrease in prepaid expenses	6	-49	30	14	EV/EBIT	7.16	2.46	6.69	6.68
Net cash inflows/(outflows) from operating activities	633	545	346	1,108	Operating performance				
Purchases of fixed assets and other long term assets	-1,148	-876	-358	-1,321	ROE	7.84	27.13	7.87	8.73
Proceeds from disposal of fixed assets	22	24	7	0	ROA	4.74	17.37	5.12	5.28
Loans granted, purchases of debt instruments	-50	-181	-131	0	ROIC	6.62	6.20	6.19	7.61
Collection of loans, proceeds from sales of debts instruments	77	187	125	0	Financial structure				
Investments in other entities	-25	-238	-9	0	Cash Ratio	0.34	0.20	0.15	0.54
Proceeds from divestment in other entities	155	1,875	152	0	Quick Ratio	0.77	0.81	0.58	0.28
Dividends and interest received	128	217	108	0	Current Ratio	0.83	0.89	0.65	0.05
Net cash inflows/(outflows) from investing activities	-841	1,008	-108	-1,321	LT Debt/Equity	0.17	0.24	0.22	0.18
Proceeds from issue of shares	0	86	0	0	LT Debt/Total Assets	0.11	0.16	0.14	0.11
Payments for share returns and repurchases	0	0	0	0	Debt/Equity	0.27	0.35	0.32	0.13
Proceeds from borrowings	853	1,245	745	225	Debt/Total Assets	0.17	0.23	0.21	0.08
Repayment of borrowings	-529	-619	-876	0	ST Liabilities/Equity	0.38	0.24	0.28	0.33
Finance lease principal payments	-20	-32	-58	0	ST Liabilities/Total Assets	0.24	0.16	0.18	0.20
Dividends paid	-40	-2,841	-36	-129	Total Liabilities/Equity	0.59	0.53	0.54	0.55
Interests, dividends, profits received	0	0	0	0	Total Liabilities/Total Assets	0.37	0.35	0.35	0.33
Net cash inflows/(outflows) from financing activities	264	-2,160	-225	96	Activity ratios				
Net increase in cash and cash equivalents	56	-607	14	-117	Account Receivable Turnover	6.9	5.2	6.8	3.4
Cash and cash equivalents at the beginning of period	724	780	173	186	Inventory Turnover	29.4	19.4	21.7	21.3
Cash and cash equivalents at the end of period	780	173	186	69	Account Payable Turnover	4.4	3.0	4.1	4.1

Source: Gemadep, KB Securities Vietnam

Visconship (VSC)

Potential growth from two Lach Huyen berths

February 25, 2020

Information Technology & Logistics Analyst
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NPAT in 2019 decreased by 19.5% yoy; Expectations for 2020 improve thanks to the cost reduction strategy.

In 2019, VSC recorded revenue of 1,792 billion VND, up 5% yoy; Profit after tax was VND 285.8 billion, down 19.5% yoy (Chart 35). KBSV expects that NPAT in 2020 will be improved, forecasted to increase by 12.7% yoy thanks to the strategy of cost reduction and no longer recognizing one-time expenses.

VSC is in the tender stage of two berths in the Lach Huyen port cluster.

VSC is in the tender stage for two berths in the Lach Huyen deep-water port cluster with the expectation to start implementation in 2022. In case of successful bidding, these two berths will be the new growth engine for VSC and will be a good price support factor.

Stable corporate operations, paying steady dividends at 8% dividend at current stock prices.

In recent years, VSC has paid a cash dividend of over 20% / year, equivalent to a dividend yield of 8% at the current price, quite attractive for stocks with stable business activities, creating cash flow is as steady as VSC. Without new investment, we expect VSC will pay a higher dividend rate in the coming years.

Recommend BUY, target price is 32,900 VND / share; Upside 29.5%.

Currently, VSC is trading at a forward P / E of 2020 of 5.32x, lower than the average of port operators in Hai Phong at 8.64x. We recommend BUY for VSC shares with a target price of 32,900 VND / share, equivalent to a forward P / E of 6.9x, a 20% discount compared to industry average due to the low long-term growth potential of VSC in the market. The contract failed to successfully bid for 2 berths in Lach Huyen as GreenVip is currently running at nearly full capacity.

Buy

Target price

Total return	
Current price	
Consensus target price	

Trading data

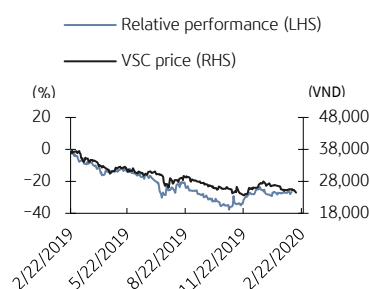
Free float (%)	55,122,798
Avg trading value (3M)	92,049
Foreign available (%)	37.32%

Share price performance

(%)	1M	3M	6M	12M
Absolute	-8.4	-2.6	-14.8	-35.8
Relative	-7.7	-7.5	-9.0	-9.2

Forecast earnings & valuation

Fiscal year-end	2017	2018	2019	2020F
Revenue (VNDbn)	1,303	1,694	1,793	1,860
Growth rate (%)	20.4%	30.1%	5.8%	3.8%
Gross profit (VNDbn)	408	496	437	484
Gross profit margin (%)	31.3%	29.3%	24.4%	26.0%
Net profit (VNDbn)	264	354	285	321
Growth rate (%)	0.7%	34.3%	-19.5%	12.7%
EPS (VND)	4,735	5,995	4,236	4,772
EPS growth (%)	-14.2%	26.6%	-29.3%	12.7%
P/E (x)	5.12	4.05	5.72	5.08

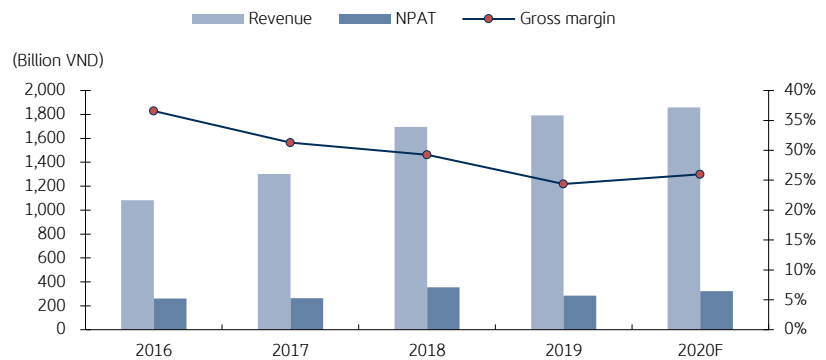


Source: Bloomberg, KB Securities Vietnam

2019 earnings were down 19.5% yoy as gross profit margin decreased due to increasing discounts to keep customers

GMD's 2020E earnings may reach VND321 billion (up 12.6%) on revenue of VND1,860 billion (up 3.75%) because GreenVip has almost reached the maximum room for growth amid Coronavirus impacts

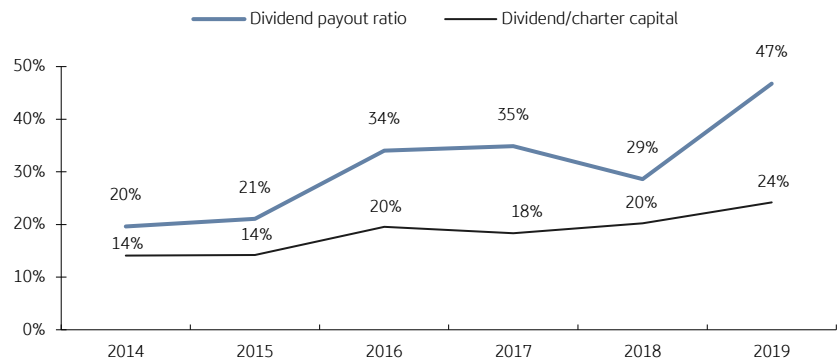
Fig 35. Visconship – Performance in 2016–2020F



Source: Visconship, KB Securities Vietnam

The dividend payout ratios of VSC have been up in recent years. KBSV expects VSC to raise its dividend payout in the coming years with the assumption of unsuccessful bidding for two terminals at Lach Huyen port cluster

Fig 36. Visconship – Dividend payment in 2014–2019



Source: WorldBank, CEIC

Table 37. Hai Phong port cluster – P/Es of port operators

	Charter capital	Proportion	P/E	P/E followed proportion
GMD	2,969	37%	11.02	4.1
DXP	260	3%	7.24	0.2
DVP	400	5%	5.83	0.3
HAH	488	6%	4.49	0.3
VSC	551	7%	5.98	0.4
PHP	3,270	41%	8.01	3.3
Average P/E				8.6

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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