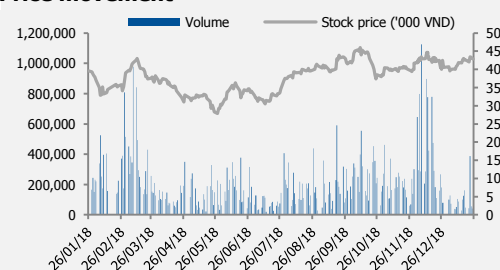


BUY (maintained)**Viconship Corporation (HSX: VSC)**

Report date	Mar. 5, 2019
Current price	VND 44,100
Target price	VND 52,100
Upside	18%
Bloomberg	VSCVN Equity
Market cap	VND 2,210bn USD 94mn
52 weeks movement	VND 27,900 VND 46,000
Average daily value	VND 6bn USD 0.3mn
FOL	6.97%
Current FO	42.03%

Flat outlook but still attractive**Our takeaway**

- Container volume transshipping at Vietnam's ports was 17.8 million TEU, up 24% YoY, underpinned by solid exports growth. In 2018, Haiphong ports handled 5 million TEU, up 12% YoY. In particular, forward oversupply in Haiphong will be widened as the supply increase is faster than demand growth
- VSC's growth will be stalled from 2019 as the company's ports are operating at full capacity utilization rate. VSC planned to invest in a new terminal in Lach Huyen area in the period 2022-2023. However, the plan is relatively far away with no details yet, and thus we do not take it into account for forecasting and valuation. We maintain our BUY call on cheap valuation and decent dividend yield of 5%.

Price movement**What's new**

FY18 net profit increased by 27% YoY, in line with our expectation, thanks to throughput growth of 21% in VSC's ports. In particular, VIP Green Port volume saw a strong growth of 27% while Green Port volume increased by 12% after three years of volume decline. The partner Evergreen suspended investing an additional 5% stake in VIP Green Port. Thus, VSC's holding in VIP Green port was unchanged at 74% in 2018.

Reducing FY19 and FY20 earnings forecast due to full capacity utilization.

- According to the management, VIP Green Port's full capacity utilization is 0.66mn TEU, lower than our previous expectation of 0.75mn TEU. Hence, we adjust VIP Green Port throughput to be 0.68mn TEU (3% higher than capacity) in FY19 and FY20, compared to our previous forecasts of 0.75mn TEU and 0.79mn TEU.
- We expect an unchanged handling fee per move, which is balanced between higher-than-peers operating efficiency of VSC, along with stronger demand in Haiphong, and higher capacity expansion.
- In sum, we reduce our FY19 and FY20 earnings forecasts growth to 6% and 0%, from 15% and 1% previously.

Stock performance	1M	3M	12M
VSC (%)	6%	7%	12%
VN-Index (%)	5%	6%	-10%

Source: Bloomberg

Major Shareholder

KWE Beteiligungen AG	10.0%
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Valuation

We revise our 12-month target price downward from VND56,900 to VND52,100 (18% upside) but maintain our BUY recommendation. VSC is currently trading at forward 2019 P/E of 7.7x, a discount compared with its peers' forward 2019 P/E median of 18.6x. However, small-market-cap issue of VSC should be considered.

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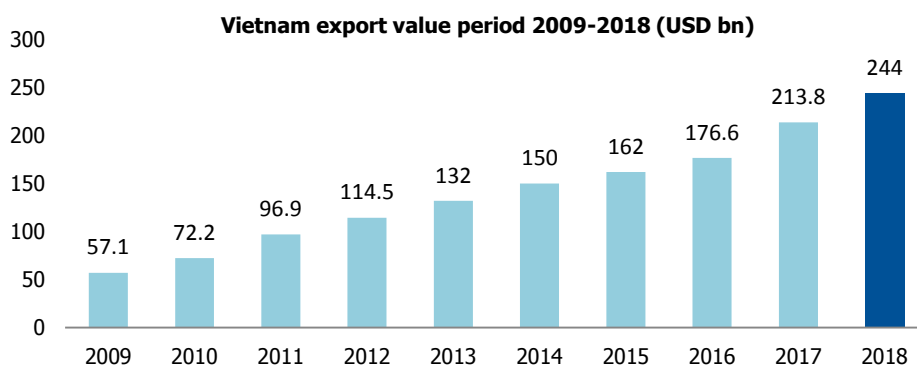
Unit: VND billion	FY17	FY18E	FY19F	FY20F
Revenue	1,303	1,694	1,652	1,619
EBIT	338	413	414	397
Net profit	264	354	370	369
Net profit (basic)	237	300	320	319
EPS (VND)	4,735	5,995	6,380	6,374
EPS growth rate (%)		27%	6%	0%
P/E (x)	9.3	7.4	6.9	6.9
EV/EBITDA (x)	4.8	3.7	3.1	2.6
DPS (VND)	2,000	2,000	2,000	2,500
Dividend yield (%)	4%	4%	4%	5%
P/B (x)	1.3	1.1	1.0	0.9
ROE (%)	14%	15%	14%	13%
Net debt/equity (%)	30%	15%	7%	3%

Source: MBS Research

Sector Update

Industry-wide growth in volume

- In 2018, Vietnamese exports reached over USD 244bn, increasing by **13.8%** versus 2017. The growth came from most major segments such as smartphone, computer, garments, footwear, machines, furniture, seafood, etc. The Export value/GDP ratio currently exceeded 100%.
- Thanks to export surge, container volume transshipping at Vietnam's ports increased by **24%** YoY to 17.8 million TEU.



Source: Vietnam Maritime Administration, MBS Research

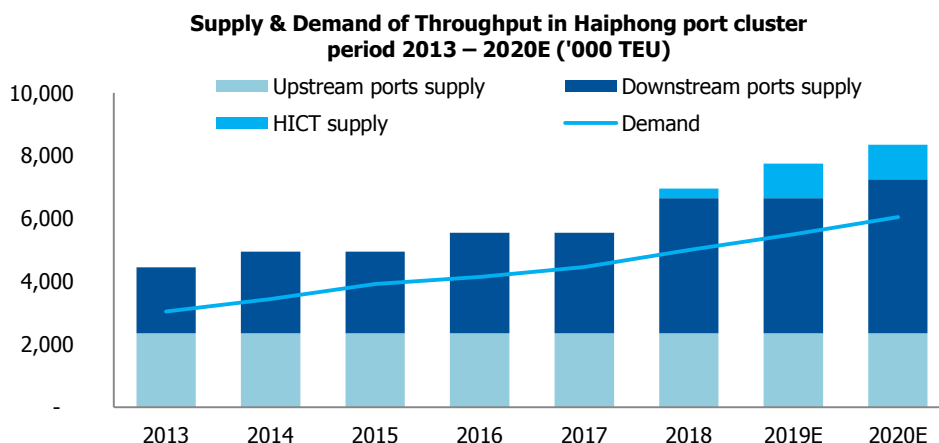
The following two factors have boosted the Vietnamese exports:

- Vietnam has been truly becoming a large manufacturing hub in the world with affordable labor cost, large population and increasingly open economy policies, and
- The US-China trade tension urged several manufacturers to open factories outside of China to dodge the tariffs imposed on Chinese products, and Vietnam has become a perfect alternative for those investments.

Haiphong port system competitive landscape

- **Demand:** In 2018, Haiphong ports handled 5 million TEU, up 12% YoY. The throughput in this port cluster is forecast to increase by ~10-12% per annum in the mid-term.
- **Supply:** 2019-2020 period will see an aggressive capacity expansion by big players GMD (Nam Dinh Vu phase-2: capacity of 0.6mn TEU) and Saigon Newport (HICT: capacity of 1.1 mn TEU). Total capacity for the next 2 years will reach 8.3 million TEU in 2020.

There is no signal that oversupply in Haiphong port cluster will be narrowed. With much higher capacity onwards, the competitive landscape will become fiercer.



Source: Vietnam Maritime Administration, Company data, MBS Research

Financial Update

VSC posted its 4th quarter financial statement with full-year results as follows:

- Revenue increased by 30% versus 2017 thanks to superior throughput growth of 22% (VIP Green Port: up 27% YoY, Green Port: up 12% YoY); handling fee per move unchanged.
- Gross profit grew by 22% YoY, mainly from VIP Green Port, whereas Green Port saw a decline in gross profit even though its revenue and throughput rose.
- SG&A expenses increased by 19% YoY, slightly lower than gross profit growth.
- Net profit rose by 27% YoY, in line with our expectation.
- The partner Evergreen suspended the additional 5% stake investment in VIP Green Port. Thus, VSC's holding in VIP Green port was unchanged at 74% in 2018, versus 69% of our previous expectation.

Table 1: Company financial results

VND bn	FY18	FY17	Y/Y chg%	FY18 MBS Estimate	% Diff	4Q18	4Q17	Y/Y chg%
Revenue	1,694	1,303	30.0%	1,523	11.2%	451	344	31.1%
Cost of goods sold	-1,198	-895	33.9%	-1,018	17.7%	-329	-239	37.7%
Gross profit	496	408	21.6%	505	-1.8%	122	105	16.2%
GPM (%)	29.3%	31.3%	-2.0ppts	33.2%	-3.9ppts	27.1%	30.5%	-3.4ppts
Selling expenses	-27	-15	80.0%	-16	68.8%	-6	-4	50.0%
G&A expenses	-56	-55	1.8%	-58	-3.4%	-10	-11	-9.1%
EBIT	413	338	22.2%	431	-4.2%	106	90	17.8%
EBIT margin (%)	24.4%	25.9%	-1.5ppts	28.3%	-3.9ppts	23.5%	26.2%	-2.7ppts
Financial profit/(expenses)	-26	-40	-35.0%	-34	-23.5%	-5	-8	-37.5%
Other profit/(expenses)	2	0		0		0	-1	
Profit Before Tax	388	298	30.2%	397	-2.3%	101	82	23.2%
Income tax expenses	-34	-35	-2.9%	-43	-20.9%	-7	-9	-22.2%
Minority interest	-54	-26	107.7%	-56	-3.6%	-16	-8	100.0%
Net profit for shareholders	300	237	26.6%	298	0.7%	78	65	20.0%
NPM (%)	17.7%	18.2%	-0.5ppts	19.6%	-1.9ppts	17.3%	18.9%	-1.6ppts

Source: Company data, MBS Research

Table 2: Performances by ports

	% Holdings	FY18	FY17	Y/Y chg%	FY18 MBS Estimate	% Diff
Throughput ('000 TEU)		980	805	21.7%	950	3.2%
VIP Green Port	74%	660	520	26.9%	650	1.5%
Green Port	100%	320	285	12.3%	300	6.7%
Revenue (VND bn)		1,694	1,303	30.0%	1,523	11.2%
VIP Green Port	74%	757	539	40.4%	667	13.5%
Green Port	100%	569	486	17.1%	500	13.8%
Gross profit (VND bn)		496	408	21.6%	505	-1.8%
VIP Green Port	74%	214	171	25.1%	246	-13.0%
Green Port	100%	129	137	-5.8%	141	-8.5%

Source: Company data, MBS Research

Earnings Model & Valuation

For FY19 and FY20, we revised our earnings forecasts downward to VND 320bn and VND 320bn, respectively, and earnings growths to 6% and 0%, from 15% and 1% of previous projection (Table 3), due to:

- **Lower-than-expected throughput capacity:** According to the management, VIP Green Port's full capacity utilization is 0.66mn TEU, lower than our previous expectation of 0.75mn TEU. Hence, we adjust VIP Green Port throughput to be 0.68mn TEU (3% higher than capacity) in FY19 and FY20, compared to previous forecast of 0.75mn TEU and 0.79mn TEU.
- **Unchanged handling fee:** We expect an unchanged handling fee per move, which is balanced between higher-than-peers operating efficiency of VSC, along with stronger demand in Haiphong, and higher capacity expansion.
- **Unchanged VSC's stake in VIP Green Port:** The partner Evergreen suspended investing an additional 5% stake in VIP Green Port, leaving VSC's holding in VIP Green port unchanged at 74% in 2018, versus 69% of our previous expectation.

We revise our 12-month target price downward from VND56,900 to VND52,100 (18% upside) but maintain our BUY recommendation (Table 4).

Table 3: Revision In Financial Model							
VND bn	New		Previous		% Diff		Comment
	FY19F	FY20F	FY19F	FY20F	FY19F	FY20F	
Throughput ('000 TEU)	972	952	1,037	1,055	-6%	-10%	VIP Green Port:
VIP Green Port	682	682	747	785	-9%	-13%	Guidance capacity: 0.68mn (New)
Green Port	290	270	290	270	0%	0%	Expected capacity: 0.75mn (Previous)
Revenue	1,652	1,619	1,627	1,586	2%	2%	
Gross profit	491	477	552	551	-11%	-13%	Adjusted according to throughput downgrade
Selling expenses	(16)	(17)	(16)	(17)	0%	0%	
G&A expenses	(61)	(64)	(61)	(64)	0%	0%	
Financial profit	0	26	(14)	9	-100%	189%	
Other profits							
EBT	414	423	461	479	-10%	-12%	
EAT	370	369	415	422	-11%	-13%	
Net profit	320	320	343	345	-7%	-7%	Maintain 74% stake in VIP versus previous 69%
EPS (VND)	6,380	6,374	6,852	6,894	-7%	-8%	

Source: MBS Research

Table 4: DCF valuation results						
VND bn	FY19F	FY20F	FY21F	FY22F	FY23F	Terminal year
Net profit	320	319	326	327	330	
Free Cash Flow	386	385	388	390	396	2,618
WACC%	14.9%					16.3%
PV of Free Cash Flow	336	291	256	224	198	1,306
	2,616					
Cash	283					
Debt	(287)					
Enterprise Value	2,612					
Target price per share (VND)	52,100					

Source: MBS Research

We do not apply multiple valuation because VSC is too small compared to any list of peers. Instead, we use it for comparison purpose only. VSC is currently trading at forward 2019 P/E of 7.7x, which is discounted versus its regional peers' forward 2019 P/E median of 18.6x, though its profitability and dividend yield are relatively superior.

Table 5: Regional peers valuation snapshot (Forward FY19)						
Company	Ticker	Market Cap (USD mn)	ROE	Dividend yield	EV/EBITDA	P/E
Asia (excl. China) port operators						
Viconship Corporation	VSC VN	95	17.2%	4.5%	3.1	7.7
Gemadept Corp	GMD VN	350	8.7%	3.0%	9.7	17.4
Hutchison Port Holdings Trust	HPHT SP	2,091	2.0%	8.0%	9.6	26.9
Namyong Terminal	NYT TB	205	12.0%	6.9%	6.2	11.8
Sihanoukille Autonomous Port	PAS KH	69	7.8%			
Bintulu Port	BPH MK	507	8.6%	5.3%	8.5	19.7
Westports	WPRTS MK	3,341	24.4%	3.3%	13.2	21.9
Average			8.7%	4.9%	9.1	18.6
China port operators						
Shanghai International Port Group	600018 CH	19,385	14.1%	3.7%	11.6	12.7
Ningbo Port Co. Ltd	601018 CH	7,281	7.7%	2.1%		17.0
COSCO Pacific	1199 HK	3,344	5.6%	3.5%	17.9	10.8
China Merchants	144 HK	7,076	10.9%	6.5%	18.4	11.0
QHD Port	3369 HK	2,527	5.8%	2.5%		11.2
Dalian Port	2880 HK	2,972	3.1%			21.4
Tianjin Port Development Holdings Ltd	3382 HK	730	5.8%	7.1%	7.4	8.1
Rizhao Port	600017 CH	1,386	5.3%			14.5
Average			5.8%	3.6%	14.7	11.9
Overseas port operators						
DP World Ltd	DPW DU	13,405	10.6%	2.6%	8.6	11.3
Mundra Port and SEZ	ADSEZ IN	9,836	17.1%	0.7%	12.7	18.0
Hamburger Hafen	HHFA GR	1,626	17.7%	4.1%	5.5	14.7
Port of Tauranga	POT NZ	2,447	8.9%	3.2%	23.8	35.6
Average			13.8%	2.9%	10.7	16.4

Source: Bloomberg, MBS Research

Investment highlights

Slowdown before a new expansion

VSC's growth will be stalled from 2019 as the company's ports are operating at full capacity utilization rate. Moreover, Green Port will see a gradual decrease in throughput due to inconvenient location and fiercer competition from players in downstream area and Lach Huyen area.

The company planned to invest in a new terminal in Lach Huyen area in the period 2022-2023. However, the plan is relatively far away with no details yet, and thus we do not take it into account for forecasting and valuation.

Strong cash generating ability

VSC is always considered a strong cash generator and high and stable dividend payer. We expect that VSC will maintain this policy since the company has no expansion project in at least the next three years.

Table 6: VSC's cash generation	2013	2014	2015	2016	2017	2018	2019F	2020F
EBITDA (VND bn)	333	337	390	489	511	593	594	577
CFO (VND bn)	239	273	320	313	427	473	566	547
Dividends per share (VND)	3,500	1,500	1,500	2,000	2,000	2,000	2,000	2,500

Source: Company data, MBS Research

Key risks

Risk of macroeconomics. Global trade and port operating businesses are strictly related to global economic health, and whether a recession may be coming is still under debate. A slump in electronic products and automobiles sales in China in 2018 has raised concern that Chinese economy will suffer a slowdown in growth, badly affecting the global economy. We do not anticipate that Vietnamese throughput will go down in the two next years. However, downside risk should be kept an eye on.

Risk of competition. The race of capacity expansion in Haiphong port cluster seems non-stop, and thus the competition landscape will not be mild in the mid-term. VSC is having high operating efficiency and superior profitability. Nevertheless, without expansion plan in the mid-term, VSC will find it difficult to protect its market share.

Financials and Valuation Summary

Income statement (VND bn)	FY17	FY18E	FY19F	FY20F	FY21F
Revenue	1,303	1,694	1,652	1,619	1,585
Cost of goods sold	895	1,198	1,161	1,141	1,121
Gross profit	408	496	491	478	464
Financial income	10	9	14	35	54
Financial expenses	50	35	14	8	0
SG&A expenses	70	83	77	81	85
	298	387	414	424	433
Profit before tax	298	388	414	424	433
Profit after tax	264	354	370	369	378
Profit after tax for parent company	237	300	320	319	326
Not-controlling interest	27	54	50	50	52

Balance sheet	FY17	FY18E	FY19F	FY20F	FY21F
Current assets	492	603	856	1,104	1,358
I. Cash & cash equivalents	261	283	522	775	1,035
II. Short-term investments	0	0	0	0	0
III. Current accounts receivable	155	201	212	207	202
IV. Inventories	9	13	21	23	23
V. Other current assets	102	62	99	99	99
Non-current assets	1,987	1,886	1,801	1,714	1,624
I. Long-term receivables	-	-	-	-	-
II. Fixed assets	1,202	1,189	1,121	1,051	979
1. Tangible fixed assets	1,186	1,171	1,103	1,033	961
2. Intangible fixed assets	16	18	18	18	18
III. Investment properties	0	0	0	0	0
IV. Long-term assets in progress	75	8	8	8	8
V. Long-term investments	112	112	112	112	112
VI. Other long-term assets	598	577	560	543	526
Total assets	2,479	2,489	2,657	2,818	2,983
Liabilities	769	545	442	360	272
I. Current liabilities	369	271	286	279	272
1. Short-term payables	250	257	286	279	272
2. Short-term loans	120	14	0	0	0
II. Non-current liabilities	400	273	156	80	0
1. Long-term payables	0	1	2	3	4
2. Long-term loans	400	273	156	80	0
Equity	1,710	1,945	2,214	2,458	2,711
1. Charter capital	501	501	501	501	501
2. Surplus	36	36	36	36	36
3. Retained earnings	931	1,107	1,326	1,521	1,721
4. Foreign exchange differences	241	300	351	400	452
5. Minorities interests	0	0	0	0	0
Total liabilities & equity	2,479	2,489	2,657	2,818	2,983

Key ratios	FY18E	FY19F	FY20F
Valuation			
EPS	5,995	6,380	6,374
Book value per share (BVPS)	38,804	44,190	49,052
P/E	7.4	6.9	6.9
P/B	1.1	1.0	0.9
P/S	1.3	1.3	1.4
Dividend yield	5.4%	5.4%	6.7%
Profitability			
Gross profit margin	29%	30%	30%
EBITDA margin	35%	36%	36%
Net profit margin	18%	19%	20%
ROE	15%	14%	13%
ROA	12%	12%	11%
Growth			
Revenue growth	30%	-2%	-2%
Profit before tax growth	30%	7%	2%
Profit after tax growth	27%	6%	0%
EPS	27%	6%	0%
Total Asset	0%	7%	6%
Equity	14%	14%	11%
Liquidity			
Current ratio	2.22	2.99	3.95
Quick ratio	1.78	2.56	3.52
Debt/Total assets	22%	17%	13%
Debt/Equity	28%	20%	15%
Interest coverage	11.84	29.29	48.67
Operating efficiency			
Receivables turnover	8	8	8
Days sales outstanding	43	47	47
Inventory turnover	67	67	67
Days sales of Inventory	5	5	5
Payables turnover	4	4	4
Days payables outstanding	102	102	102

Cashflow Statement	FY18E	FY19F	FY20F
CFO	511	566	547
CFI	-116	-95	-93
CFF	-327	-232	-201
Cash flow for year	67	239	254
Cash & cash equivalents at the beginning of the year	215	283	522
Cash & cash equivalents at the end of the year	282	522	775

Source: MBS Research

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STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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