

NEUTRAL

Target price 60,900 VNĐ
Closing price 55,900 VNĐ
 14/08/2016

Phạm Văn Tuấn
 (+84-8) 5413 5472

Co. profile

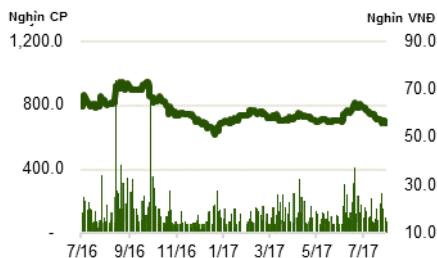
Ticker	VSC
Charter Capital (VND bln)	455
Outstanding shares (mln)	45,557,142
Market Capital (VND bln)	2,645
52W range (VND)	51,200 ~ 73,200
Ave. trading volume 3M	122,095
Beta	0.76
Foreign Ownership	49%
First listing date	09/01/2008

Major shareholders



Price Movement

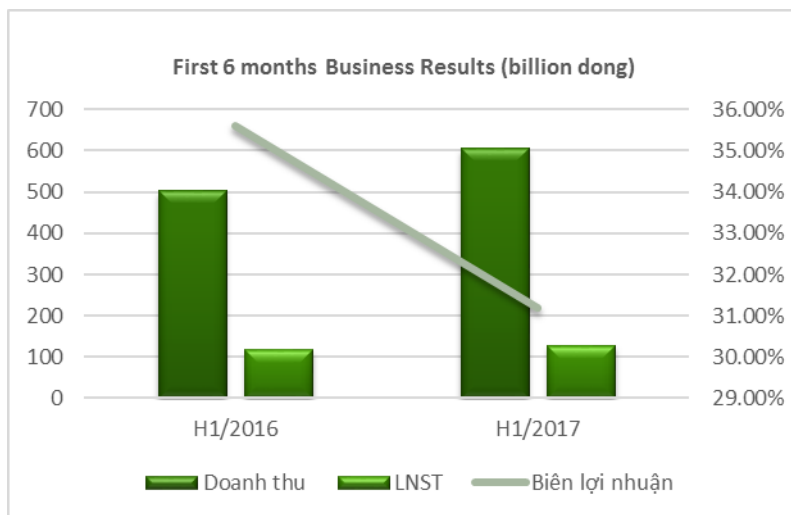
	3 M	6 M	12 M
VSC	-1.93%	-5.76%	-13.06%
VN-INDEX	7.12%	15.86%	22.5%



Not really blooming in short-term

Q2/2017 results and 2017 forecast

Different from expectation, VSC business results in the first half 2017 didn't show much positivity. Revenue saw a growth but EAT dropped. According to that, VSC service supplying revenue was 606 billion (+20.4% YoY) but gross margin dropped from 35.6% to 31.2% along with increasing loan interest and selling expense, so VSC EAT was only 118 billion (-8% YoY).



Source: VSC, PHS summarization

According to VSC, service price dropped and input expense increased so VSC profit margin dropped. In our opinion, the main reason influencing service price is that VSC must lower the price strongly to compete with Dinh Vu and South Dinh Vu ports. Meanwhile, input price didn't improve much so gross margin saw bad influence.

Estimate, currently, GREEN port is in full capacity. Meanwhile, after signing the contract with Maersk Line, VIP Green port might be at about 85% designed capacity. So we think that VSC can hardly see any unexpected profit unless gross margin is improved.

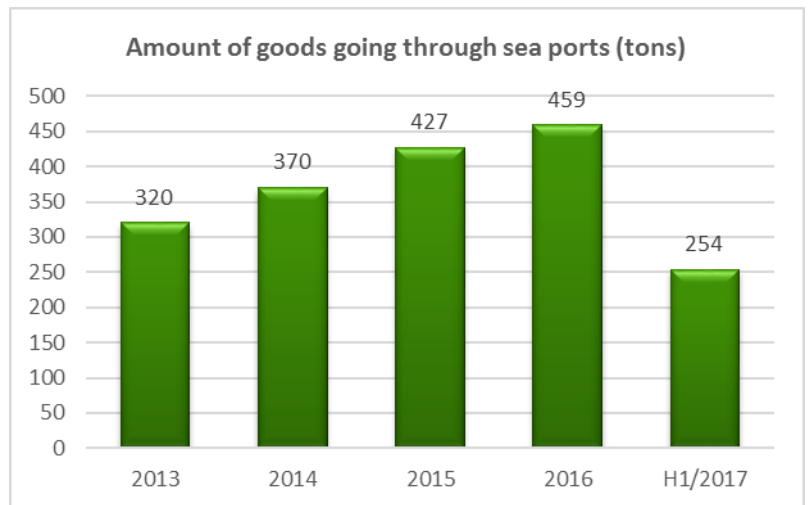
VIP Green port can operate at near maximum capacity of 550,000 TEUs at the end of the year, helping VSC seeing 1,215 billion dong of net revenue (+12.3% YoY). However, gross profit was influenced and expense increased so we think that parent company EAT might only be 216 billion (-15.7% YoY).

Section prospect

At the end of 2015 and early 2016, sea port section experienced a frozen period as oil price dropped and basic goods price dropped, so transporting demand was influenced. Meanwhile, shipping crew redundant severely lowered the fee, seeing influence on sea transport section. In which, many sea transporting crew must file for bankrupt or merging to lower the expense burden.

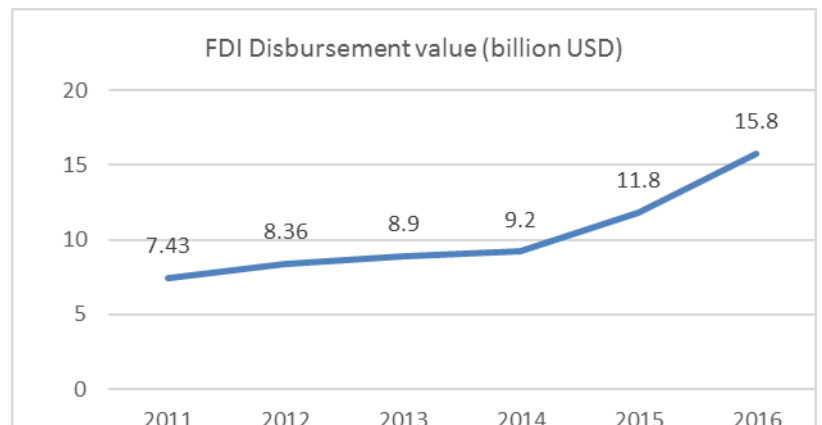
However at the end of 2016, oil price recovered and basic goods returned to the price increasing cycle with stable world economic so

sea transport section got brighter eventhough there were still many challenges.



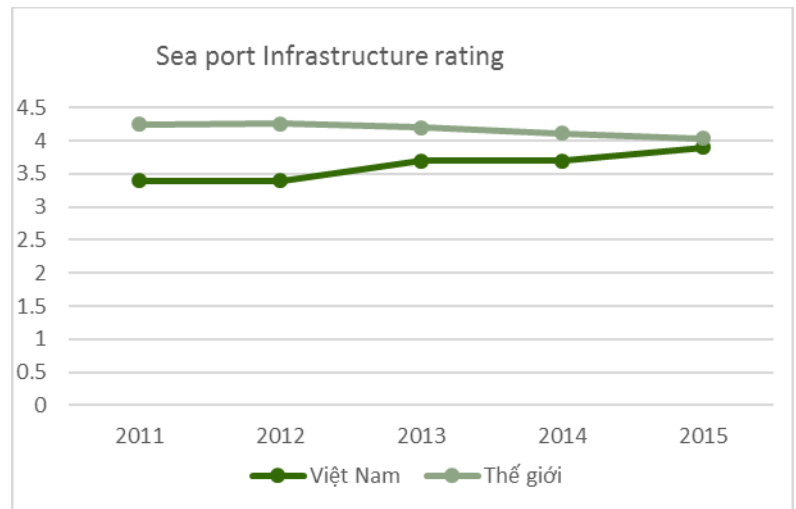
Source: Department of maritime PHS summarization

- According to Department of maritime, the amount of goods going through sea ports in the first 6 months 2017 is 254,000 tons, up by 11% YoY, reaching 54% year target. Through that, we can see that sea port section still have space to grow since the amount of goods going through Vietnam has been increasing thanks to stable economic situation, and FDI cash flow has been increasing year by year.



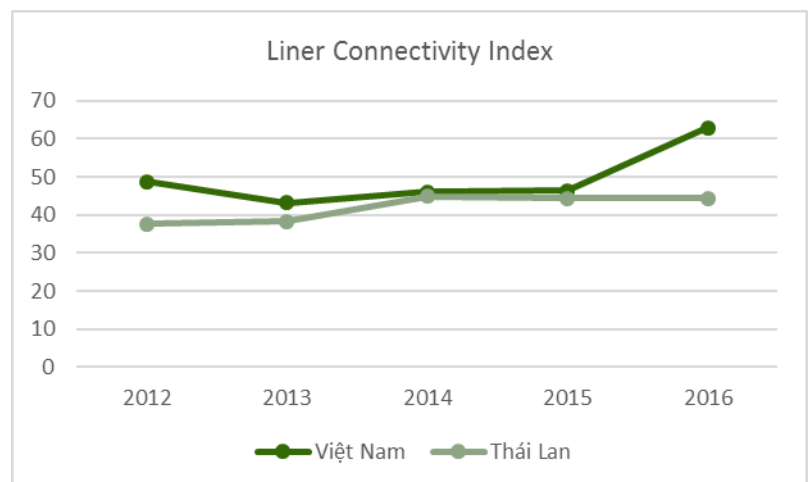
Source: World Bank

- Sea port infrastructure is improving to ensure the section development. According to World Bank ranking in 2015, the World sea port infrastructure quality index is 4.039 points while Vietnam is 3.9 points. Sea port infrastructure improves and comes close to world average is a sign showing the development of sea port section in the effort of integrating with the world.



Source: World Bank

- Vietnam sea port trading ability has improved. Liner connectivity index calculated by UNCTAD weights the ability of connecting the national shipping transportation network. In 2016, Vietnam saw remarkable improvement, showing that Vietnam's connecting ability is showing positive signs that help strengthening the trading progress with the world.



Source: UNCTAD, PHS Summarization

- Baltic Exchange Dry (BED) – dry ship renting fee index dropped to the bottom of 230 points in early 2016, and it has stabilized at about 900 points now. The amount of dry goods transporting through the ports is always about 3 times of liquid goods. So the recovery of sea transport, and especially dry products, will see positive influence on sea port section. We must also note that with BED of about 600 points, sea transport enterprises have reached equal point and might operate stably.

BALTIC EXCHANGE DRY INDEX

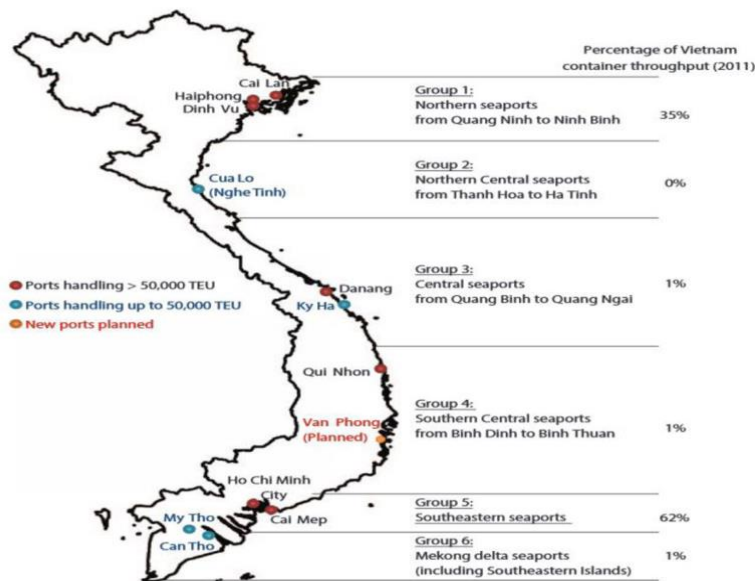


SOURCE: TRADINGECONOMICS.COM | OTC

Enterprise prospect

We can see that the goods transporting through sea ports focusing mainly on 2 port groups: the group from Quang Ninh to Ninh Binh (35%), and the one in South East region (62%). So VSC is expected to have developing space in the future since the amount of goods always increases throughout the years.

Figure 6: Distribution of Vietnam's seaport system



Source: World bank

According to world maritime transporting association, Hai Phong port is ranked 38 with 3.87 million TEUs transported via the port every year, still much lower than HCMC region port (ranked 26 – 5.31 million TEUs a year) and it is still low comparing to the ports in the world. The reason is that sea ports in Vietnam are small ones, incapable of receiving big ships. So we think that if it is favorable, VSC can grow thanks to the sea port expanding in the future.

As our observation, VIP Green port has favorable location since it is right at the sea gate next to Cam river. With this location, the port can receive bigger ships than Green port.

Besides, since Green port has been at its maximum capacity, VSC is turning to logistics. VSC has planned to buy 10ha of land use rights in Dinh Vu IP this year, in which, 5ha will be used for building storages for containers to improve the service quality and compete directly with competitors.

Index (billion dong)	2017F	2018F	2019F	2020F	2021F
EAT	216,288	230,958	243,954	262,231	280,326
Loan interest after tax	49,570	55,488	50,245	44,929	38,398
Depreciation	114,587	110,074	123,674	115,873	116,308
Chartered capital change	-19,118	-2,656	21,215	-1,000	4,739
Fixed Asset expense	60,786	51,546	40,979	28,959	30,696
FCFF	338,777	347,630	355,678	395,075	399,597
WACC	0	0	0	0	0
Depreciating period	1	2	3	4	5
Depreciating ratio	0.88	0.78	0.69	0.61	0.54
PV CF	299,594	271,866	245,988	241,632	216,130
PV final value	1,867,596				
Enterprise value	3,141,868				
Debt	-643,029				
Cash	331,452				
Market cap	2,830,291				
Outstanding shares	46,457,142				
Stock price (VND)	60,923				

Evaluation and investment point of view

With Free Cash flow to firm FCFF method, after deducting the investment and development fund and dividend payment, we think that VSC reasonable price is 60,900 dong/share, equivalent to P/E forward 2017 of 13x. VSC is currently traded at 55,900 dong/share, or P/E trailing of 10x. Current price is quite reasonable with VSC situation since sea port section as well as the enterprise hasn't shown clear signs of improvement. So we recommend **NEUTRAL** on VSC.

However, we still need to observe VSC in long-term, sea port expanding prospect is still there to meet the demand of receiving bigger ships as well as improve the competing ability since Green and VIP Green are nearly at maximum capacity. Since VSC hasn't had any specific plan on this issue so we didn't account it in the valuation, if VSC plans to expand in the future, we will mention the details in next reports.

Risks

Sea port section depends much on world merchandise growing circle. When world merchandise increases, transporting demand also increases. World Bank forecasted that basic goods price will see a stable growth of 10% in 2017 but with USD currency getting stronger and world economic being unstable, basic good price might not be as expected and will see bad influence on sea port section.

Vietnam sea port section is still developing, but the infrastructure is still under-developed and inconsistent which sees bad influence on the section.

The competition from other ports like Dinh Vu and South Dinh Vu makes VSC lowering the service price which saw influence on the enterprise's profit margin.

Company profile

On July 27, 1985, the company was established, the initial name was “Vietnam Container Company”.

Opening a branch in HCMC, later on splitting out to as an independent company under Vinalines (Viconship Saigon) and Vietnam Container changed the name to “North Vietnam Container” (Vicoship Hai Phong).

Establishing a joint venture with 5 Japan brands (Kanematsu Corp. - Honda Trading Corp. - Suzue Corp. - Meiko Trans Corp. - Kamigumi Corp.) “Vietnam-Japan Joint venture” (VIJACO).

April 1996, establishing member company in Hai Phong “International Container delivery service”.

Opening new branch in HCMC under the name “Viconship Ho Chi Minh”.

Establishing member company in Da Nang “Middle region Container Limited company”.

April 2002, Viconship Hai Phong equitized and become joint stock company “Vietnam Container JSC”.

Establishing member company in HCMC “MSC Agent Company”.

March 2004, establishing “TS route Lintied Company”.

September 2004, bringing Viconship’s port (Green Port) into operation.

March 2006, bringing number 2 port bridge into exploiting, upgrading Green Port’s exploiting ability.

August 2006, establishing “Green Global Transportation Limited Company”.

October 2007, changed the name “International Container transporting delivery” to “Green star Sea transport Limited company”.

January 2008, officially traded on HOSE.

February 2008, bringing 51.5 meter long barge bridge next to number 1 and 2 port bridges into operation.

Investing in “Future Logistics JSC”.

April 2009, opening new branch in Quang Ninh.

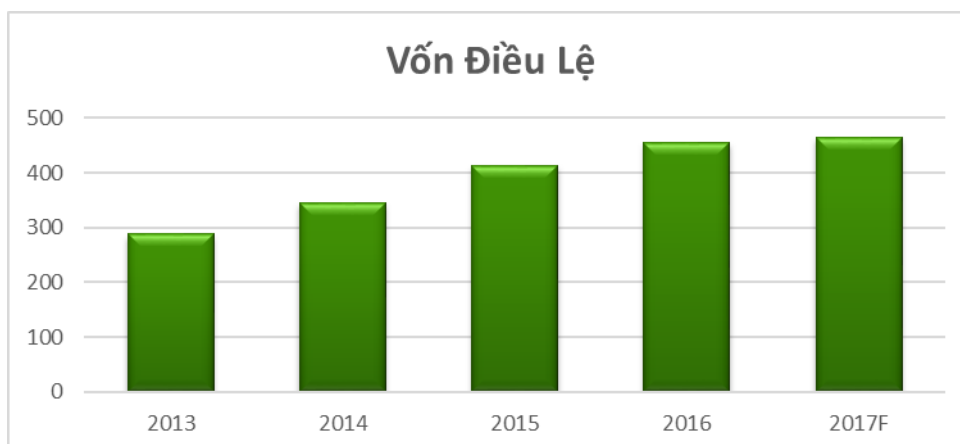
January 2012, bringing the first GS05 72 TEUs barge into operation, and bring GS11 same capacity into operation in March 2012.

September 2012, establishing Green Depot one member Limited company.

September 2012, establishing Green Logistics Centre one member limited company.

January 2014, establishing VIP Green Port JSC.

Capital increasing progress (billion dong)



Source: VSC, PHS estimation

Financial ratio (VND bln)

Income statement	2014	2015	2016	2017F
Revenue	891	928	1,082	1,216
Cost of goods sold	579	557	686	827
Gross profit	312	371	396	389
Selling Expenses	3	8	11	12
Managing Expenses	45	41	53	59
Operating profit	264	321	331	318
Non operating profit	16	14	17	5
Interest expense	0.4	0.9	43.5	58.9
Total profit before tax	302	532	494	468
Profit after Tax	352	352	352	352
Profit after Tax of parent company	248	279	251	216
Balance sheet	2014	2015	2016	2017F
Current Assets	480	586	605	778
Cash and Cash Equivalents	216	332	331	425
Short term Financial Investment	52	79	32	61
Short term Account Receivables	155	94	131	167
Inventory	7	10	9	12
Other Current Assets	51	72	102	114
Non-current Assets	1,015	1,638	1,792	1,796
Long term Account Receivables	-	0	-	-
Fixed assets	415	959	1,215	1,101
Real estate investments	-	-	-	-
Capital Construction in Process	6	83	11	72
Long term Financial Investments	100	109	105	105
Other long term assets	493	487	461	518
Good Will	-	-	-	-
Total Assets	1,495	2,224	2,397	2,573
Liabilities	279	793	882	946
Short term Liabilities	270	375	297	434
Long term Liabilities	10	418	585	512
Owners equity	1,058	1,263	1,349	1,455
Common stocks	345	414	456	465
Minority Interest	158	168	167	172
Total Equity	1,495	2,224	2,397	2,573

Cash flow	2014	2015	2016	2017F
Net operating	-39	320	314	355
Net Investing	-4	-580	-444	-146
Net Financing	-22	376	129	-115
Net during the period	-66	116	-1	94
Cash at beginning	282	216	332	331
Cash at end of year	216	332	331	425
Valuation	2014	2015	2016	2017F
EPS (VND)	7,182	6,743	5,516	4,656
BVPS (VND)	30,641	30,488	29,602	30,685
P/E				13
P/B				2
Financial ratios	2014	2015	2016	2017F
Capital Structure				
Current assets/ Total assets	0.32	0.26	0.25	0.47
Non-Current assets/Total assets	0.68	0.74	0.75	0.53
Debt/Equity	0.01	0.34	0.48	0.20
Debt/Total assets	0.01	0.19	0.27	0.12
Interest coverage ratio	637.05	351.88	7.61	10.94
Liquidity				
Current ratio	1.78	1.56	2.04	3.54
Quick ratio	1.75	1.54	2.01	0.57
Efficiency				
Inventory Days	5.56	5.66	5.11	5.44
Receivables Days	56.82	49.04	37.98	50.04
Payables Days	52.92	95.40	71.05	73.12
Current assets turnover	1.83	1.74	1.82	0.83
Fixed assets turnover	1.30	0.85	0.93	1.16
Total assets turnover	0.68	0.50	0.47	0.49
Profitability				
Gross margin	35%	40%	37%	32%
Operating margin	34%	37%	29%	22%
Net profit margin	28%	30%	23%	18%
ROE	19%	15%	11%	9%
ROA	26%	24%	19%	16%

Source: DPR and PHS estimation

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Neutral (N) = Expected to in line with the local market by +10%~ -10%

Underweight (UW) = Expected to underperform the local market by >10%.

Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends).

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F3, CR3-03A Building, 109 Ton Dat Tien, Tan Phu Ward, District 7, Ho Chi Minh City

Phone number: (84-28) 5 413 5479 **E-mail:** info@phs.vn

Call Center:(84-28) 39 33 99 66

Ho Chi Minh City branches

Phu My Hung trading floor

Ground Floor, CR2-08, 107 Ton Dat Tien St.,
Tan Phu Ward, District 7, HCMC

Phone: (84-28) 5 413 5478

Fax: (84-28) 5 413 5473

Tan Binh Branch

E-Town 2 Building, Ground Floor, Room G.4A,
364 Cong Hoa St., Ward 13, Tan Binh Dist., HCMC

Phone: (84-28) 3 813 2401

Fax: (84-28) 3 813 2415

District 3 Branch

Floor 2, Phuong Nam Building.
157 Vo Thi Sau St., District 3, HCMC

Phone: (84-28) 3 820 8068

Fax: (84-28) 3 820 8206

Hanoi branches

Hanoi branch

Floor 3, Naforimex Building, 19 Ba Trieu,
Hoan Kiem Dist., Hanoi

Phone: (84-44) 3 933 4566

Fax: (84-24) 3 933 4820

Thanh Xuan Branch

Floor 5, UDIC Complex Building N04 Hoang Dao
Thuy, Trung Hoa, Cau Giay Dist., HaNoi

Phone: (84-24) 6 250 9999

Fax: (84-24) 6 250 6666

Hai Phong Branch

Floor 2, Eliteco Building, 18 Tran Hung Dao St.,
Hong Bang District, Hai Phong

Phone: (84-225) 384 1810

Fax: (84-225) 384 1801
