

Sector: Sea Transport | BSC RESEARCH

RECOMMENDATION

BUY

VIETNAM SEA TRANSPORT JSC (HSX: VOS)

Benefiting from continued high freight rates in 2022

Current price:	16,200	Date of writing of the report:	3/6/2022	SHAREHOLDER STRUCTURE	
Previous target price		Outstanding shares (Million)	140	VIETNAM MARITIME TCT	51%
New target price:	19,000	Capitalization (billion dong)	2,324	PYN ELITE FUND	4.9%
Dividend yield		Average liquidity:	1,479,883	ASIA COMMERCIAL JOINT	4.86%
<b>Upside</b>	<b>17%</b>	Foreign ownership	0.96%	STOCK BANK	

Research Analyst:

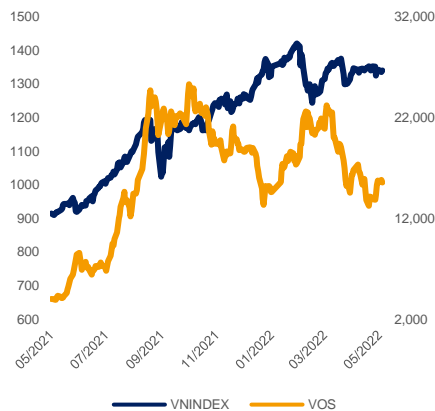
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VALUATION

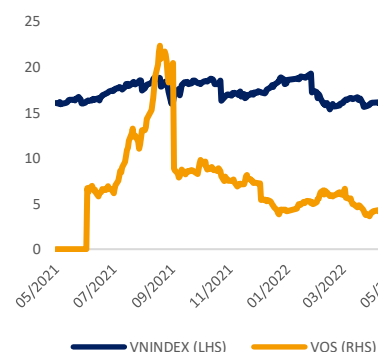
BSC recommend **BUY** for **VOS** shares with a fair value of VND **19,000 per share** in 2022, equivalent to Upside **17%** of the closing price on June 3, 2022, based on the P/E method with the 2022 target P/E = 6.1x.

Although VOS's NPAT in 2022 is forecast to reach 434 billion items(-11% yoy) due to the high base 2021 revenue recognition, however, BSC said that VOS is still being revalued as core business remains positive results thanks to high dry freight rates.

Comparison table of stock prices and VN index



P/E and VN index comparison table



BUSINESS RESULTS FORECAST

For 2022, BSC forecasts VOS to record revenue of VND1,944 billion (+37% yoy), NPAT of VND434 billion (-11% yoy), EPS FW 2022 = 3.103, corresponding to P/E FW 2022 = 5.2, based on the following key assumptions:

1. Average freight rate increased by +30% compared to 2021 due to high global freight rates
2. Tonnage kilometer reached 17,130 megaton.km (+8% yoy) as a result of i) A slight increase in global tonnage kilometer, ii) New contributions from 2 oil tankers;
3. Interest expenses reached VND78 billion (-30% yoy) thanks to a significant decrease in debt (VND 690 billion) in 2021.

INVESTMENT THESIS

- VOS's transport business remained positive as dry freight rates continue to high in 2022

BUSINESS UPDATE

- At the end of Q1/2022, VOS recorded revenue of VND402 billion (+58% yoy), profit after tax reached VND 56 billion, while the same period reached -19 billion thanks to i) Dry freight rates continued to be high in Q1/2022, ii) New contributions from the two oil tankers Dai An and Dai Phu.
- Gross profit margin reached 24%, down sharply from 38% in Q4 2022 due to i) Dry freight rates in Q1 are lower than in Q4/2022, ii) 4/7 ships of VOS were repaired momentum in Q1, therefore, there are 1.5 ships generating revenue out of a total of 3 ships.

RISK

- Risk of freight costs or material costs

Index	2021	2022	Peer	VN-Index
PE (x)	5.3	6.1	10.9	17.2
PB (x)	2.6	1.8	2.1	2.7
ROE (%)	49%	30%	25.9%	15.8%
ROA (%)	18%	14%	14.8%	2.6%

Income statement	2019	2020	2021	2022F
Net sales	1,539	1,277	1,424	1,944
Gross profit	(17)	(34)	453	677
Profit after tax	51	(187)	490	434
EPS	365	(1,338)	3,502	3,103
EPS Growth	0%			-11%

## I. UPDATE BUSINESS RESULTS Q1/2022

At the end of the first quarter of 2022, VOS recorded revenue of VND402 billion (+58% yoy), profit after tax reached VND 56 billion, while the same period NPAT reached -19 billion thanks to i) Dry freight rates continued to be high in Q1/2022, ii) New contributions from the two oil tankers Dai An and Dai Phu.

Income statement	1Q/2021	1Q/2022	%YoY	Comment
<b>Revenue</b>	<b>255</b>	<b>402</b>	<b>58%</b>	▪ <b>Revenue reached VND 402 billion (+58% yoy)</b> thanks to i) Dry freight rates continued to be high in Q1/2022, ii) New contributions from the two oil tankers are Dai An and Dai Phu
Cost of goods sold	(251)	(306)	22%	
<b>Gross profit</b>	<b>4</b>	<b>96</b>	<b>2,506%</b>	▪ <b>Gross profit margin reached 24%, down sharply from 38% in Q4 2022</b> due to i) Dry freight rates in Q1 are lower than in Q4 2021, ii) 4/7 ships of VOS were repaired in Q1, therefore, there are 1.5 ships generating revenue out of a total of 3 ships .
Financial income	25	3	-90%	▪ <b>Financial income reached VND2.6 billion (-90% yoy)</b> due to the high base in 2021 from the sale of investments in MSB (VND 22.5 billion).
Financial expenses	(27)	(19)	-27%	
Interest expenses	(26)	(19)	-28%	▪ <b>Financial expenses reached VND19.4 billion (-27% yoy)</b> due to a decrease in debt of -51% of the same period when VOS has proactively paid long-term loans in 2021.
Profit from affiliate company	-	1		
Sellings expenses	(6)	(13)	107%	
G&A expenses	(15)	(12)	-23%	
Operating profit	(20)	56	-382%	▪ <b>Accordingly, profit before tax reached VND 56 billion</b> , a sharp increase from a loss of VND19 billion in Q1/2021, led by gross profit (VND96 billion).
Other income, net	0	0	-64%	
<b>Profit before tax</b>	<b>(19)</b>	<b>56</b>	<b>-386%</b>	
Coporate income tax	-	-		
<b>Profit after tax</b>	<b>(19)</b>	<b>56</b>	<b>-386%</b>	
Minority shareholder benefits	-	-		
<b>Parent company shareholder profit</b>	<b>(19)</b>	<b>56</b>	<b>-386%</b>	
Gross profit margin	1%	24%		
Net profit margin	-	14%		

Source: VOS Financial Statements

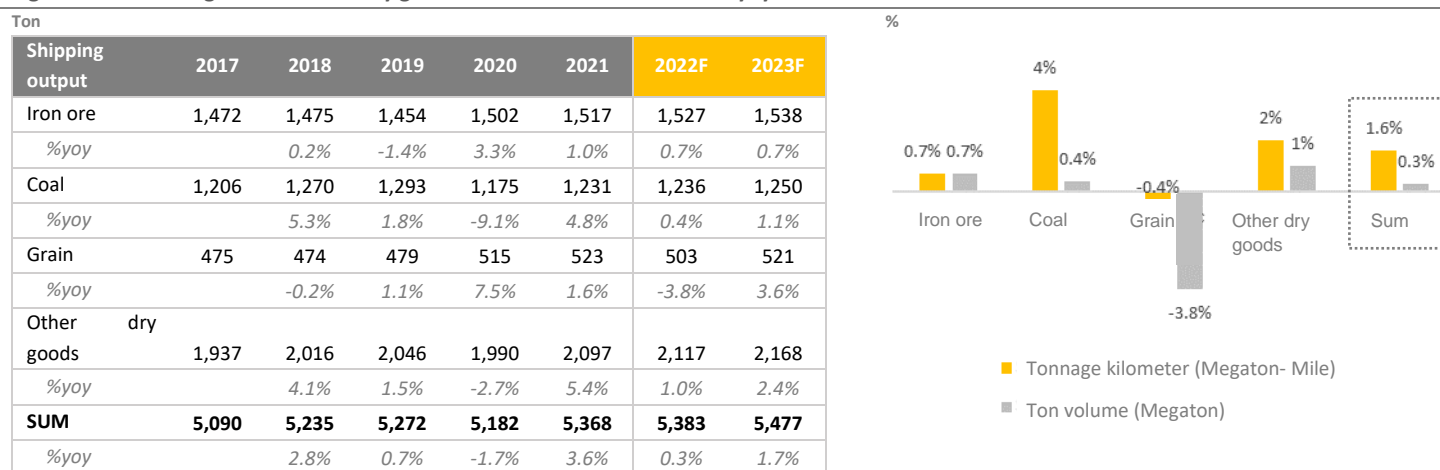
## II. BUSINESS OUTLOOK FOR 2022

### BUSINESS ACTIVITY REMAINS POSITIVE THANKS TO HIGH FREIGHT RATES IN 2022

#### Global tonnage kilometer of dry cargo increases slightly in 2022

The BSC expects dry goods production to increase slightly in 2022, thanks to i) Restructuring of coal and grain supply in EU, ii) The demand for iron ore imports from China recovering in 2Q/2022. Tonnage kilometer is forecast to increase by +1.6% yoy in 2022, while ton volume is expected to be flat (+0.3%) due to slowing import demand in the US, and the EU.

Figure 1: The tonnage kilometer of dry goods forecast to increase +1.6% yoy in 2022



Source: Clarksons Research

The BSC's comments are based on the view of three main dry commodities: coal, grain and iron ore:

1. **Coal /grain rotations will increase by +4%/-0.4% in 2022** as supply restructuring forces countries to look for alternative sources further.

i) The sanctions, which ban coal imports from Russia, have forced EU countries to seek alternative supplies in the US, Australia, Colombia, Africa and Indonesia. In 3M/2022, coal imports by sea from non-Russian countries to Europe reached 15.2 million inches(+45% yoy), of which, the US (up +63% yoy), Colombia (up +48% yoy). BSC thinks this shift will last until the end of 2022 when i) Russia supplies up to 38% of coal production to Europe, ii) Russia-Ukraine tensions continue.

Figure 2: Coal imports by sea in the EU (Jan- Mar)

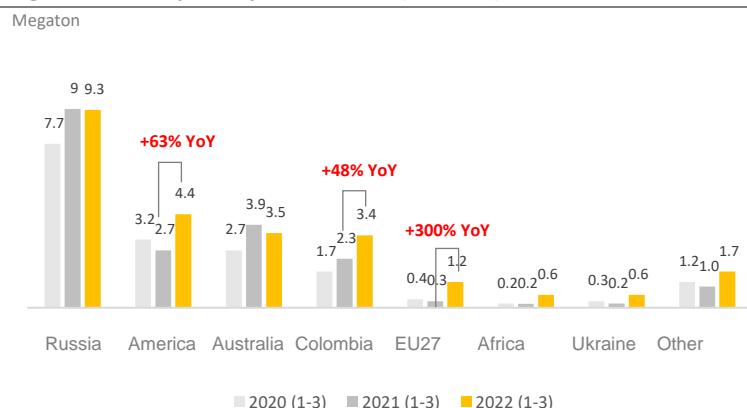
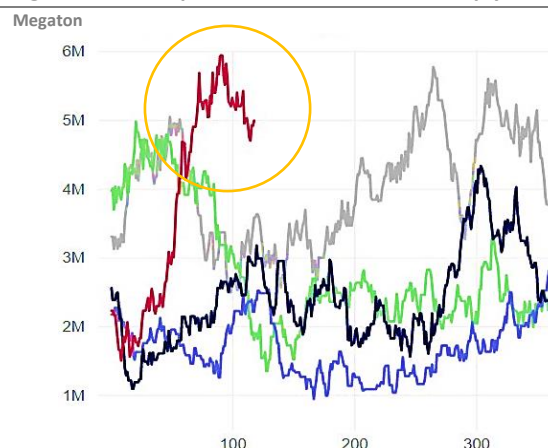


Figure 3: Coal imports in the EU increased sharply in Q1/2022



Source: Banchemo Costa, Refinitiv

- i) Similar to coal, many of the world's major grain importers, such as China and Europe, also have to look for alternative supplies due to i) Ukraine-Russia tensions that disrupt supply, ii) and food export bans in many countries to control inflation. BSC thinks this trend will last until the end of 2022 when i) Russia and Ukraine supply up to 25% of global grain production ii) emergency export bans end at the end of the year.

TT	Country	Types of goods banned from export	Market share	End date
1	Argentina	Soybean oil, soy flour	Soybeans: 3.6%	31/12/2022
2	Algeria	Pasta, derived from wheat, vegetable oil, sugar		31/12/2022
3	Egypt	Vegetable oil, corn		12/6/2022
4	India	Wheat	Wheat: 3.1%	10/6/2022
5	Kazakhstan	Wheat, flour	Wheat: 1.9%	15/6/2022
6	Kosovo	Wheat, corn, flour, vegetable oil, sugar salt.		31/12/2022
7	Ukraine	Wheat, oats, millet, sugar	Wheat: 8.5%	31/12/2022
8	Russia	Sugar, sunflower seeds		31/8/2022
		Wheat, flour, barley, corn	Wheat: 13.1%	31/12/2022
9	Serbia	Wheat, corn, flour, oil	Corn: 1.2%	31/12/2022

Source: BSC Research

- ii) Shifting supply will slightly increase coal/grain rotations across the country. Because trade routes will be rerouted according to the changed supply. In addition, shipping time from new suppliers such as the US, Australia, Colombia, Africa and Indonesia will be 2-4 times longer than from Russia and Europe due to the longer shipping distance.

Figure 4: Comparison of shipping times from countries to Europe

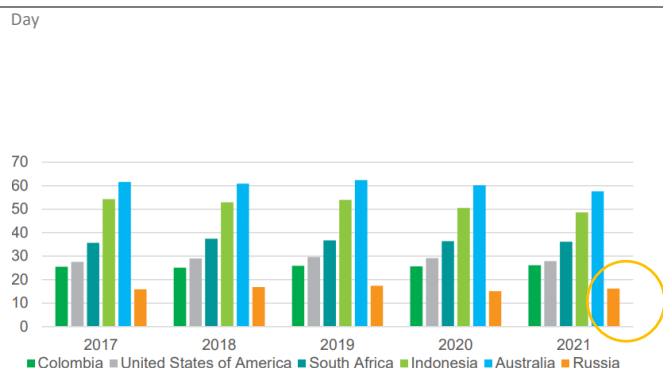
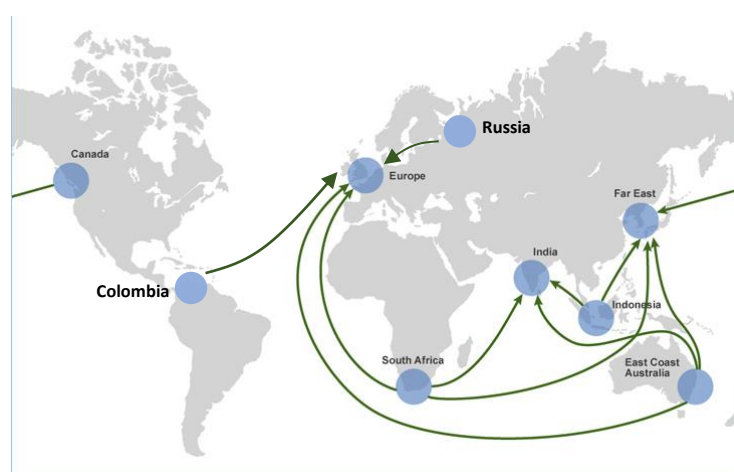


Figure 5: Location of coal trade recruiters in the world



Source: IHS Market

2. **Iron ore rotations will increase by +0.7% in 2022** thanks to i) China implementing policies to re-stimulate the real estate industry, ii) well-controlled epidemics in China, enabling construction projects to restart. Accordingly, BSC expects steel demand to gradually return in 2H/2022, stimulating the demand for iron ore transport globally.

Figure 6: Rebar production in China begins to recover from Mar/2022

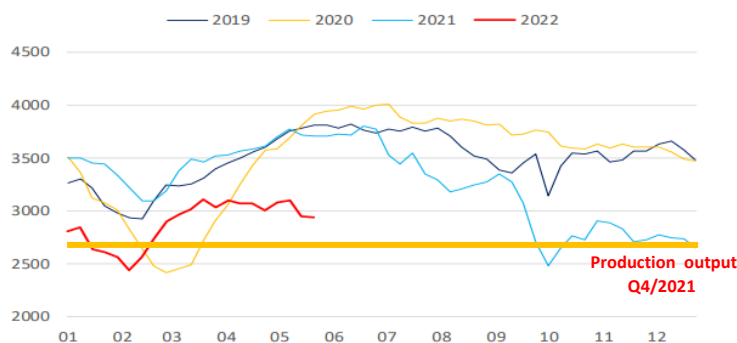
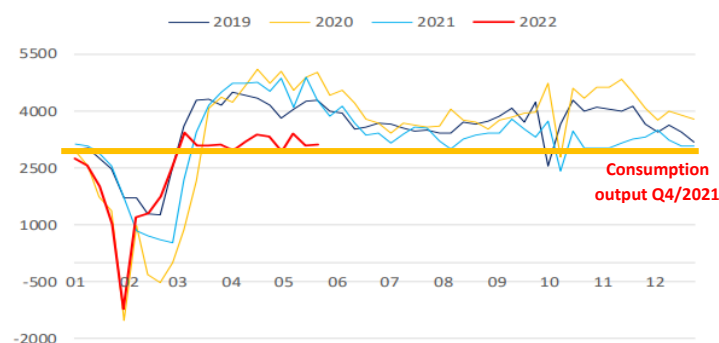


Figure 7: Steel consumption in China remains low compared to the same period in 2019-2021



Source: mmiprices.com

Meanwhile, supply will remain low in 2022-2023.

BSC assume supply of ships would remain limited in 2022-20 23 as (i) The rate of bookings of new ships/existing fleets remained at its lowest level since 1996 – reaching 6.6% in May/2022; ii) The delivery of new construction vessels is expected in 2024-2025. Total ship capacity is forecast to increase by 2.7%/2.2% in 2022-2023, respectively. This growth is even lower than the 2020-21 which is 3.4% yoy.

Figure 8: The proportion of new ships/fleet reached 6.6% - the lowest in 25 years

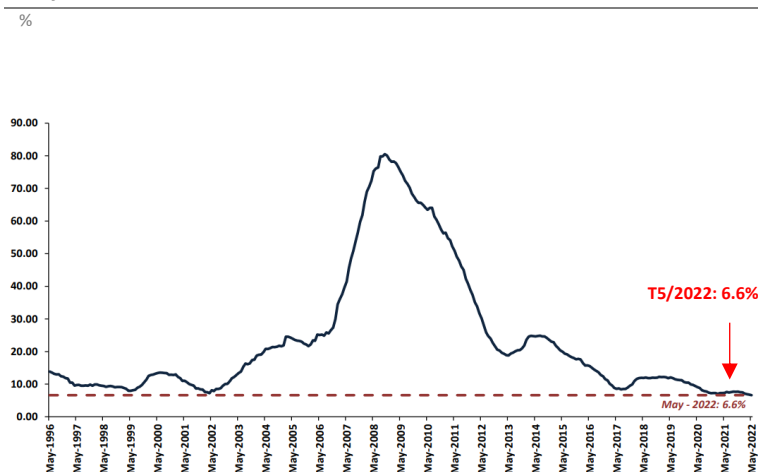
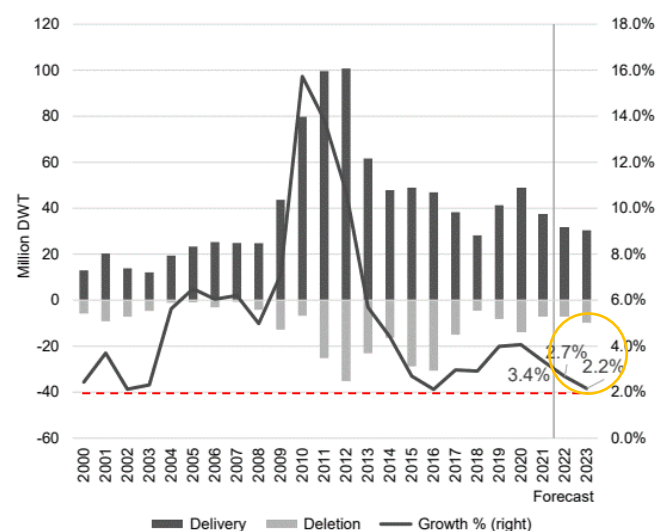


Figure 9: Expected ship capacity to increase +2.7%/2.2% by 2022 23



Source: Clarksons Research, IHS Markit

The BSC said that the tonnage kilometer increased slightly, while the capacity of the train remained low -which will be a factor to help the price continue to anchor high in the near future. Therefore, dry goods transport enterprises such as VOS will continue to benefit from high freight rate in 2022. BSC makes a forecast of VOS's business results based on the baseline scenario: The Baltic Handysize Index averages 1.750 points in 2022, 30% higher than the 2021 average.

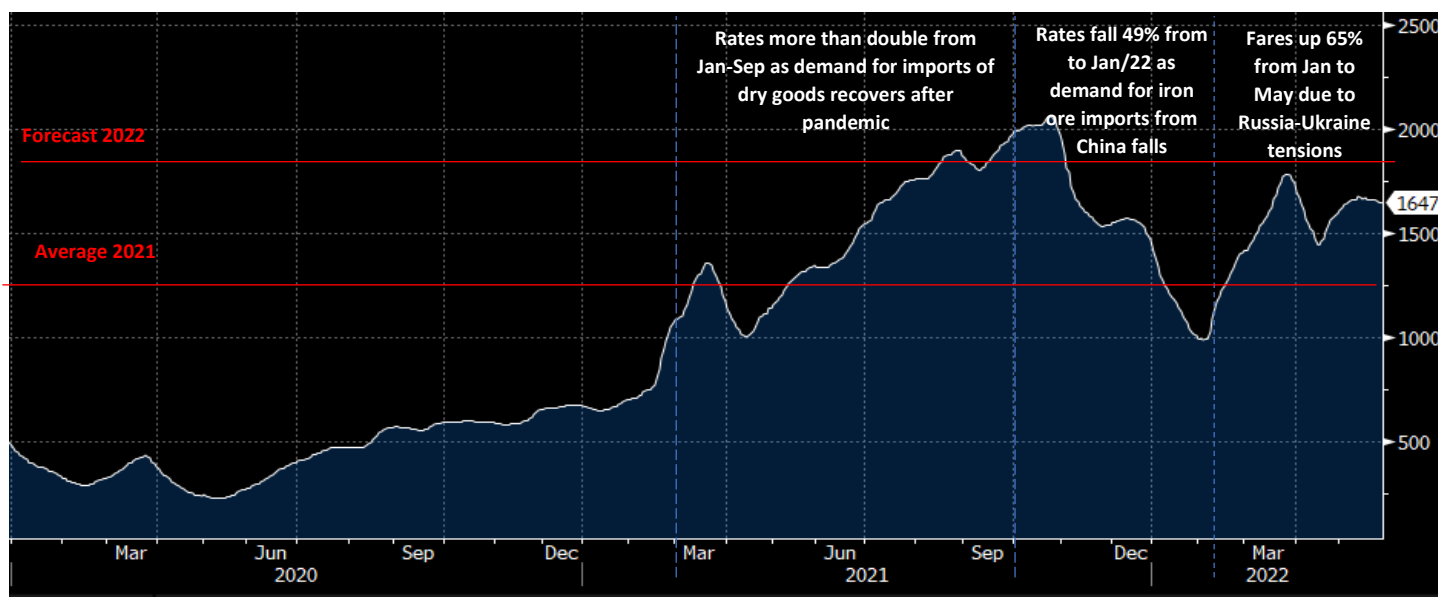
For 2022, BSC forecasts that VOS's revenue will reach VND1,944 billion (+37% yoy), NPAT of VND434 billion(-11% yoy), based on the following assumptions:

- i) Average freight rates increased by +30% compared to 2021 thanks to the benefit of global dry freight rate remaining high due to a slight increase in demand for tonnage, while ship capacity remained limited.

- ii) **Tonnage kilometer of 16,100 megaton .km of nitrogen (+8% yoy)** thanks to i) Benefited from dry freight from further journeys from Europe, ii) New contributions from 2 oil tankers Dai An and Dai Phu.

**BSC forecast gross profit of VOS reach 35% in 2022** based on the scenario where the average Brent oil price will reach 118 USD/bbl, 75-80% higher than the 2021 average oil price (\$65-70/bbl).

Figure 10: Baltic Handysize Index 2020 – May/2022



Source: Bloomberg

**Overall, BSC assesses that VOS's core business will remain positive in 2022.** BSC forecasts gross profit of VND 677 billion (+49% yoy), thanks to i) The high-cost dry goods transport segment, and ii) the transport segment oil: contributed by 2 new ships. However, EBT only reached VND448 billion (-11% yoy) due to the high base level of 2021. If eliminating the revenues recorded once in 2021 including (i) Profit from liquidation of MSB investment (VND 138 billion). iii) Ship liquidation (VND 94 billion), the profit from VOS' core business activities in 2022 still increased + 64% compared to 2021.

Figure 11: Profit from VOS' core business activities (eliminating financial income, financial expenses, other profit)

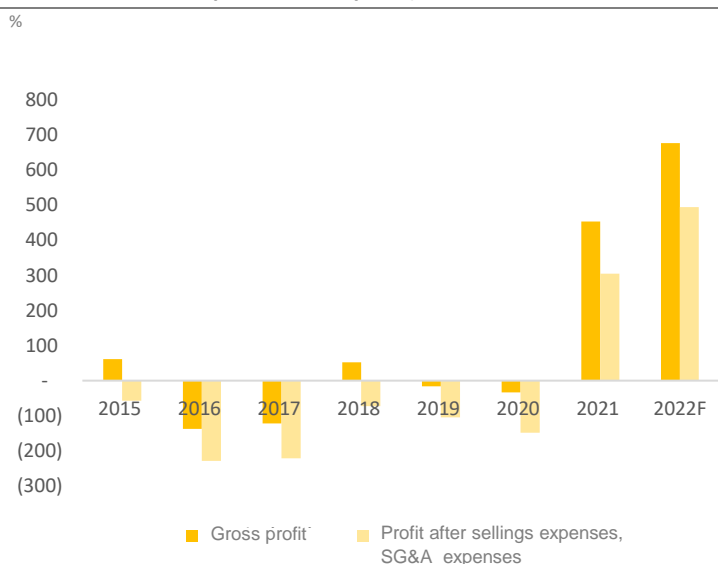
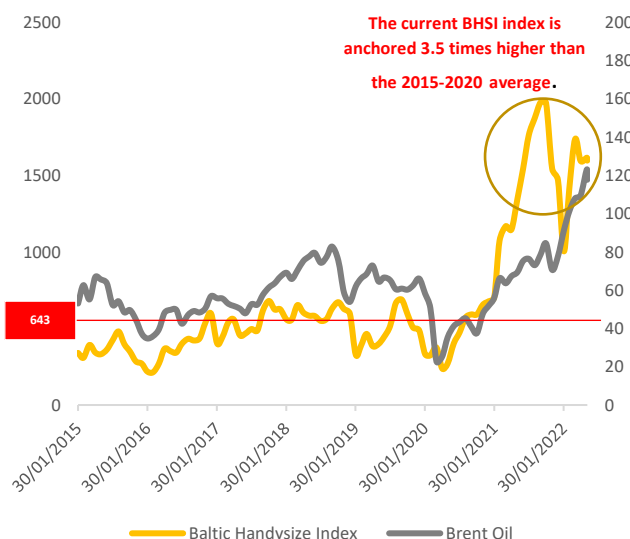


Figure 12: Evolution of oil prices and freight rates in the period of 2015 - 2021



Source: Clarksons Research, IHS Markit

### III. BUSINESS RESULTS FORECAST

#### For 2022

For 2022, BSC forecasts VOS to record revenue of VND1,944 billion (+37% yoy), profit after tax of VND434 billion(-11% yoy), EPS FW 2022 = 3,103, corresponding to P/E FW 2022 = 5.2, based on the following key assumptions :

- **Average freight rates increased by +30% compared to 2021** thanks to the benefit of dry goods rates in the world remaining high due to a slight increase in demand for tonnage, while train capacity remained limited.
- **The tonnage kilometer of 16,100 megaton.km(+8% yoy)** thanks to i) Benefiting from dry cargo shipments from longer journeys, ii) New contributions from the two oil tankers Dai An and Dai Phu.
- **Interest expense reached VND78 billion (-30% yoy)** thanks to VOS having paid VND690 billion in 2Q/2021, accordingly, the value of loans in early 2022 reached VND637 billion (-52% of compared with the same period last year).

BSC noted that the profit from business activities reached VND 443 billion (+25% yoy), while NPAT only reached VND434 billion (-11% yoy) due to the same period recording a surge in revenue from i) Interest exemption (VND 56 billion), ii) Profit from liquidation of MSB investment (VND 138 billion). iii) Ship liquidation (VND 94 billion).

Business results Forecast	2019	2020	2021	2022F
<b>Net sales</b>	<b>1,539</b>	<b>1,277</b>	<b>1,424</b>	<b>1,944</b>
<i>Tonnage kilometer</i>	20,143	21,698	15,269	16,032
% yoy	9%	8%	-30%	8%
<i>Selling price</i>	76	59	93	121
% yoy	-16%	-23%	58%	30%
Cost of goods sold	(1,555)	(1,311)	(971)	(1,267)
<b>Gross profit</b>	<b>(17)</b>	<b>(34)</b>	<b>453</b>	<b>677</b>
<i>Gross margin</i>	-1%	-3%	32%	35%
Financial income	14	12	158	25
Financial expenses	(94)	(123)	(110)	(78)
Interest expenses	(92)	(122)	(102)	(78)
Profit/(loss) from the joint venture company	2	-	2	2
Sellings expenses	(43)	(27)	(43)	(49)
G&A expenses	(45)	(88)	(105)	(134)
Operating profit	(183)	(260)	354	443
Other income, net	235	73	151	5
<b>Profit before tax</b>	<b>51</b>	<b>(187)</b>	<b>505</b>	<b>448</b>
Corporate income tax	(0)	0	(15)	(13)
<b>Profit after tax</b>	<b>51</b>	<b>(187)</b>	<b>490</b>	<b>434</b>
Profit non-controlling shareholders	-	-	-	-
Parent Company's NPAT	51	(187)	490	434
EPS	365	(1,338)	3,502	3,103
Net profit margin	3%	-15%	34%	22%

Source: BSC Research forecast



#### IV. VALUATION AND RECOMMENDATIONS

We recommend **BUY** VOS shares with a fair value in 2022 of **VND 19,000/share**, equivalent to Upside **16%** (compared to the closing price a dated June 3, 2022), based on the P/E method with the 2022 target P/E = 6.1x. Although VOS' NPAT in 2022 is forecasted to reach 434 billions of ng(-11% yoy), but BSC thinks VOS shares will still be revalued as the core business remains positive when dry freight rates are high.

P/E method	Value
EPS FW 2022	3,103
Target P/E	6.1x
Fair value	19,000

Source: BSC Research forecast

#### V. RISK

- **Freight risks:** Supply disruptions caused by i) Russia-Ukraine war and ii) Bans on coal imports, food exports, were resolved earlier, resulting in prices adjusting earlier than expected.
- **Material cost risks:** Oil prices fluctuated more than expected, affecting VOS profit margin forecasts.



## APPENDIX

IS ( DONG Billion )	2019	2020	2021	2022F
Net sales	1,539	1,277	1,424	1,944
Cost of goods sold	(1,555)	(1,311)	(971)	(1,267)
Gross profit	(17)	(34)	453	677
Sellings expenses	14	12	158	25
G&A expenses	(94)	(123)	(110)	(78)
Profit/loss operating	(92)	(122)	(102)	(78)
Financial revenue	2	-	2	2
Financial expenses	(43)	(27)	(43)	(49)
Interest expense	(45)	(88)	(105)	(134)
Profit of affiliate company	(183)	(260)	354	443
Other gains/losses	235	73	151	5
Profit before tax	51	(187)	505	448
Corporate income tax	(0)	0	(15)	(13)
Profit after tax	51	(187)	490	434
Minority interest	-	-	-	-
NPATMI	51	(187)	490	434
EPS	365	(1,338)	3,502	3,103

CF ( DONG Billion )	2019	2020	2021	2022F
(Loss)/EBT	51	-	505	448
Depreciation	338	314	309	290
Change of working capital	(234)	-	(22)	(117)
Other adjustments	88	-	(84)	76
CF from operating activitie	243	35	709	698
Cash for purchase of fixed assets	(7)	59	81	(78)
Other investments	38	19	(53)	(70)
CF from investment activities	31	78	28	(148)
Dividend payments	-	(0)	(0)	-
Money from net borrowing	(367)	(121)	(686)	(210)
Other receipts	-	-	-	-
CF from financing activities	(367)	(121)	(686)	(210)
Beginning of year CF	171	61	53	103
CF in the year	(93)	(8)	50	339
Ending of year CF	78	53	103	442

BS(DONG Billion)	2019	2020	2021	2022F
Cash and cash equivalents	78	53	103	442
Short-term investment	87	87	350	420
Short-term receivables	548	579	503	583
Inventory	91	75	90	92
Other short-term asset	38	36	46	58
Short-term asset	843	829	1,092	1,596
Tangible asset	6,227	5,997	5,241	5,319
Depreciation	(4,122)	(4,195)	(3,741)	(4,032)
Investment asset	-	-	-	-
Depreciation	-	-	-	-
Long-term unfinished asset	-	-	-	-
Long-term investment	96	86	25	27
Other long-term asset	67	73	103	103
Long-term asset	2,277	1,967	1,655	1,445
Total asset	3,120	2,796	2,747	3,040
Liabilities	445	441	582	651
Short-term loans	732	471	145	110
Total short-term debt	1,176	912	727	761
Long-term loans	717	857	492	317
Other long-term debt	519	519	519	519
Total long-term debt	1,236	1,376	1,011	836
Total liabilities	2,413	2,287	1,738	1,597
Capital contributions	1,400	1,400	1,400	1,400
Equityl surplus	2	2	2	2
Other equity	28	28	28	28
Undistributed profit	(722)	(921)	(421)	14
Minority shareholder	-	-	-	-
Total equity	708	508	1,009	1,444
Total capital	3,120	2,796	2,747	3,040

Ratio(%)	2019	2020	2021	2022F
<b>Solvency</b>				
Current ratio	0.7	0.9	1.5	2.1
Quick ration	0.6	0.8	1.3	1.9
<b>Capital structure</b>				
Debt/Total Asset	77%	82%	63%	53%
Debt/Equity	341%	450%	172%	111%
<b>Operational capacity</b>				
Days Sales of Inventory	21	21	34	26
Days Sales Outstanding	130	165	129	110
<b>Profit margin</b>				
Gross profit	-1%	-3%	32%	35%
NPAT	3%	-15%	34%	22%
ROE	7%	-37%	49%	30%
ROA	2%	-7%	18%	14%
<b>Growth</b>				
Net revenue growth	-9%	-17%	11%	37%
EBIT growth	28%	-146%	-1026%	-13%
EBT growth	0%	-464%	-370%	-11%
EPS Growth	0%	-467%	-362%	-11%
<b>Number outstanding shares (million)</b>				
	140	140	140	140

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