



AIRPORTS
CORPORATION
OF VIETNAM



AIRPORTS CORPORATION OF VIETNAM

Company report



Investment highlights

Airport Corporation of Vietnam (ACV) exclusively operates and manages all 22 civil airports Vietnam. Therefore, the company is a unique representative of the Vietnam aviation industry. ACV would directly benefit from the potential growth of the industry, driven by economic recovery, global integration, expansion strategies of airlines, and an emerging middle class.

We anticipate that ACV will achieve sustainable growth after equitization due to:

- 1** Investment ability in airport system.
- 2** Operation ability in aeronautical services.
- 3** High potential growth in non-aeronautical services.
- 4** Strong operating cash flow.



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Overview of ACV

General Information

Vietnamese name	Tổng Công ty Cảng Hàng không Việt Nam
English name	Airports Corporation of Vietnam
Abbreviated name	ACV
Headquarter	58 Truong Son st, Ward 2, Tan Binh Dist, Ho Chi Minh city
Telephone	(84.8)38485383
Website	http://www.vietnamairport.vn
Post-IPO charter capital (VND)	22,430,985,040,000
Core business	Airport operator & manager

Company history

11/02/1976	Establishment Civil Aviation Administration of Vietnam
02/04/1993	Foundation of the Northern, Central and Southern Regional Airport Authorities
31/12/1998	The Northern, Central and Southern Regional Airport Authority became State-owned, public-utility enterprises
07/2010	The Northern, Central and Southern Airports Corporation changes into single member limited liability companies, operating under the enterprise law.
08/02/2012	Establishment of Airports Corporation of Vietnam (ACV)

The issuance

Size and structure

Share offered in the IPO	77,804,122 shares
Proportion	3.47%
Par value	VND10,000/share
Offer price	VND11,800/share

Post IPO-ownership structure

Owners	Number of shares	% of ownership
The State	1,682,323,878	75,00%
Employees	31,347,800	1,40%
ACV's Union	3,003,003	0,13%
Strategic investors	448,619,701	20,00%
Public investor in the IPO	77,804,122	3,47%

The airport sector

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Figure 1: The value chain of aviation industry

Service providers:

Insurance providers, ground services, MROs, Caterers

Distribution (Freight):

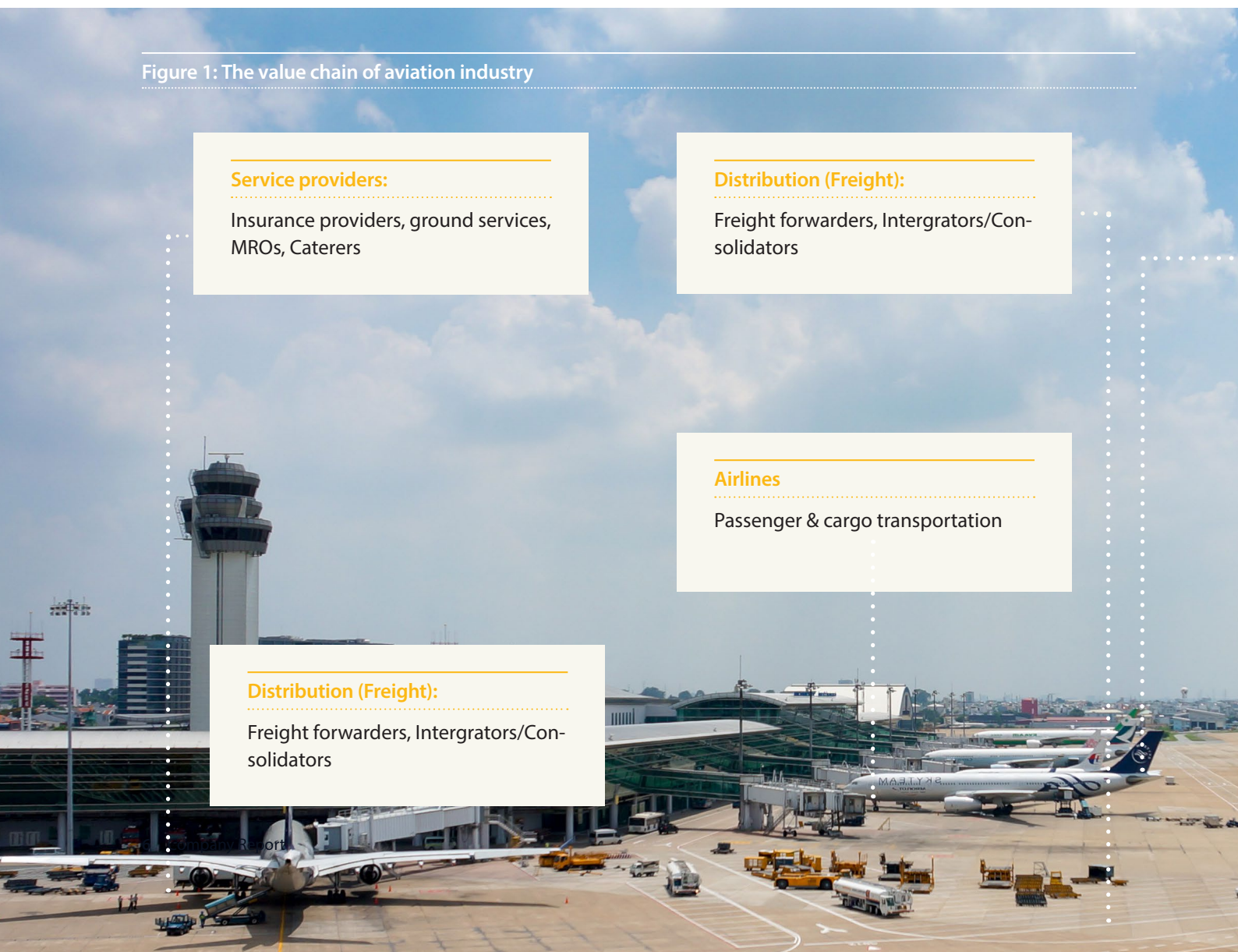
Freight forwarders, Intergrators/Consolidators

Airlines

Passenger & cargo transportation

Distribution (Freight):

Freight forwarders, Intergrators/Consolidators



Overview of the airport sector

The role of airports

Airports are critical contribute to the development of the economy, international trade, tourism, and local labour market.

Airports are upstream businesses in the aviation value chain, being the hub where the national aviation system connects with other mode of transport.

The characteristics of airport sector

Airport infrastructure

The fixed asset of airports are classified into two categories: (1) Assets inside the Maneuvering area (traffic control tower, runway, taxiway, aviation safety and security properties, utilities... and (2) Asset outside the Maneuvering area (terminal, office, car parking, cargo terminal...) in some countries, in order to ensure the national security, maneuvering area assets are managed by the state.

The growth of airport sector

The growth of airport sector is strongly attached to the sustainable growth of the aviation industry: the growth rate of global passenger traffic reached 5.5%/years and iata expects this figure to be at 4.6% per year in the period 2015-2034.ⁱ

Airports are critical infrastructure in the aviation industry.

Manufactures

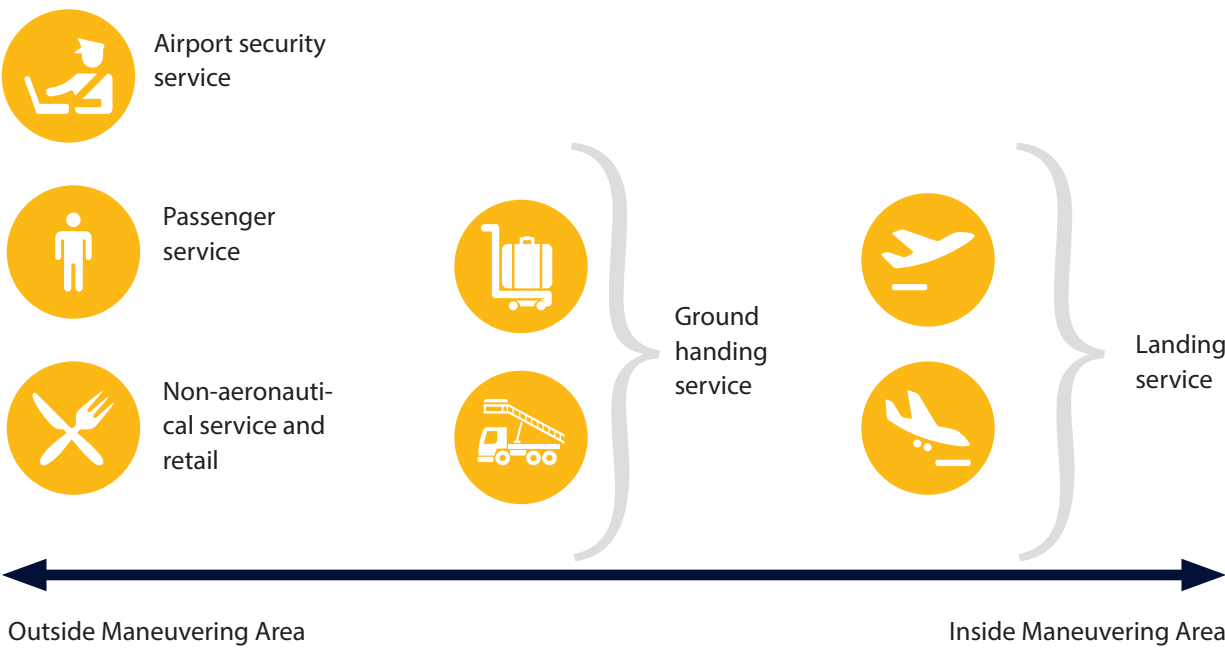
Airframes, Engines, Components.

Distribution (passenger)

Global Distribution Systems(GDSs), Travel agents (physical and OTAs), integrators/tour operators

i IATA

Figure 2: The service chain of airport



The growth of airport sector strongly correlates with the growth of the aviation industry.

Services offered by airports
Services offered by airports consist of (1) Aeronautical Services, (2) Non-Aeronautical Services and (3) Retail. These services are closely correlated with each other due to the usage of unique assets. Non-Aeronautical Services include activities such as the leasing of commercial space, advertising and parking charges. Retail

operation includes sale of duty-free goods, souvenir, shops, restaurants and vendor of utilities (water and electricity). Aeronautical Services are the core operations of airport and primarily depend on (1) The structure and volume of terminal passenger and cargo, and (2) the service charge, which is usually regulated by the government.

Figure 3: List of Aeronautical Services

Aeronautical services	Description	Payment method
Passenger service	Providing infrastructure (airport terminal, lounge...) to passengers.	Indirectly collected on each departing passenger and included in airline fares
Landing service	Providing runway, taxiway, lighting system and other support systems	Directly charged on on a per-flight basis
Ground handling service	Check-in, loading/unloading, transfer of luggage/cargo from aircrafts to the terminals or vice versa with specialized facilities and equipment	Directly charged on a per-flight basis, based on the service requirement for each type of aircraft.
Airport security service	Screening of passenger, luggage and cargo	Indirectly charged on each passenger or each ton of cargo and included in the airline fares.

Airport sector characteristics

Due to the critical role of airports in infrastructure and aviation system, airports' operation share the following characteristics:

- Airports require large investment and are strongly attached to the economic and social development plan of each country.
- Direct customers of airports are airlines.
- Service charges at airports are regulated by state agencies.
- The revenue of airport positively correlates with the volume and structure of passenger and cargo traffic.
- Airport operations are based on fixed asset and thus are can be forecast and controlled.

Vietnam Airport sector

Vietnam airport system currently consists of 22 civil airports all over the country, and exclusively managed and operated by ACV.

On Feb 8th 2012, Airports Corporation of Vietnam (ACV) was established upon the merger of the Northern, Central and Southern airport corporations.

Aviation infrastructure

There are 22 civil airports in Vietnam, with the total designed capacity of 69.40 million departure passengers per year. Vietnam civil airports are classified under three systems:

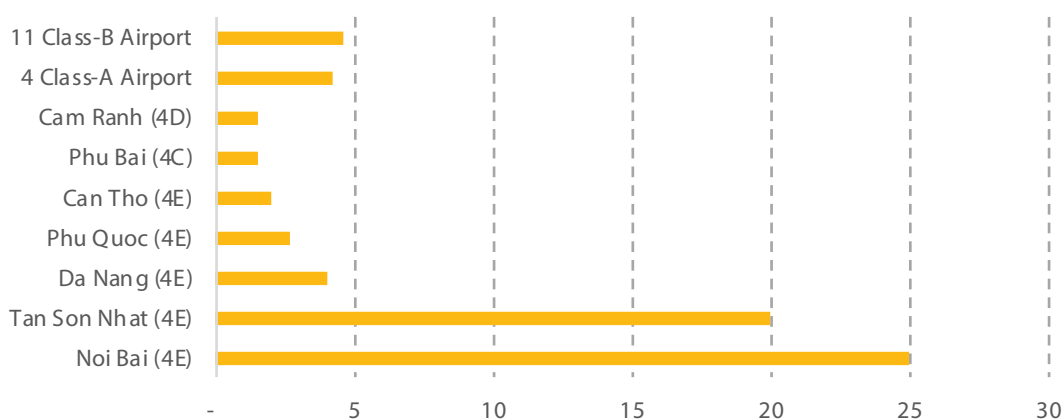
- **ICAO classification:** 5 4E airports, 3 4D airports, 9 4C airports and 4 3C airports.
- **Type of services offered:** 7 international airports, and 15

domestic airports. The services charges for international passengers and flights are from 2 to 8 times higher than that of domestic airports.

- **By service charge policy:** Vietnam airports are divided into A-class and B-class. There are 11 A-class airports, The service charges of A-class airport are 17%-70% higher than of B-class ones.

ACV's maneuvering area assets include office, buildings, runway, taxiway, equipment, and vehicles... These assets will be handed over to the Government of Vietnam after the equitization.

Figure 4: Design Capacity of airports - 2014



Source: ACV

Vietnam airport system is continuing to be upgraded. The number of international airports and A-class airports grows mainly in tourist cities, which supports the revenue growth of aeronautical services on both international passenger volume and service charges rate.

Service charge policy

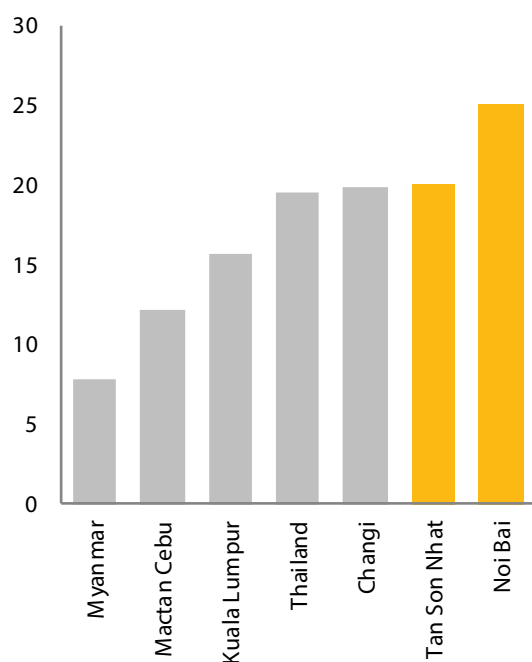
In Vietnam, service charge rate must comply with the regulation of the Ministry of Finance.

- Passenger charge: charged per departure passenger
- Landing charge: charged on aircraft's maximum take-off weight.
- Ground handling charge: charged on aircraft's type
- Airport security charge: charged per departure passenger and ton of cargo.

The calculation method of airport charge rate was changed significant on 01/10/2014. According to the Decision 1992/QD-BTC, most airport charge rates were adjusted to increase as follows:

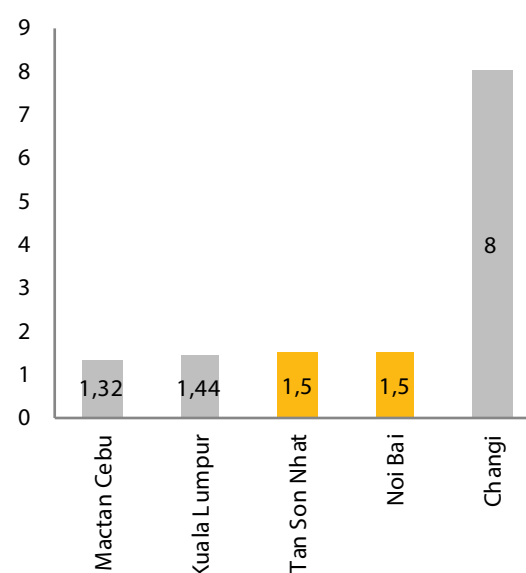
- The passenger charge rate increases by 17% and 20% with the A-class and B-class airports respectively
- Landing charge rate for international flights rises by about 5%
- Airport security charge rate increases by about 5 times for international passengers and 4 times for domestic passengers.

Figure 5: Service charge for international passengers at some SEA airports in 2015 (USD)ⁱ



Source: BSC Consolidation

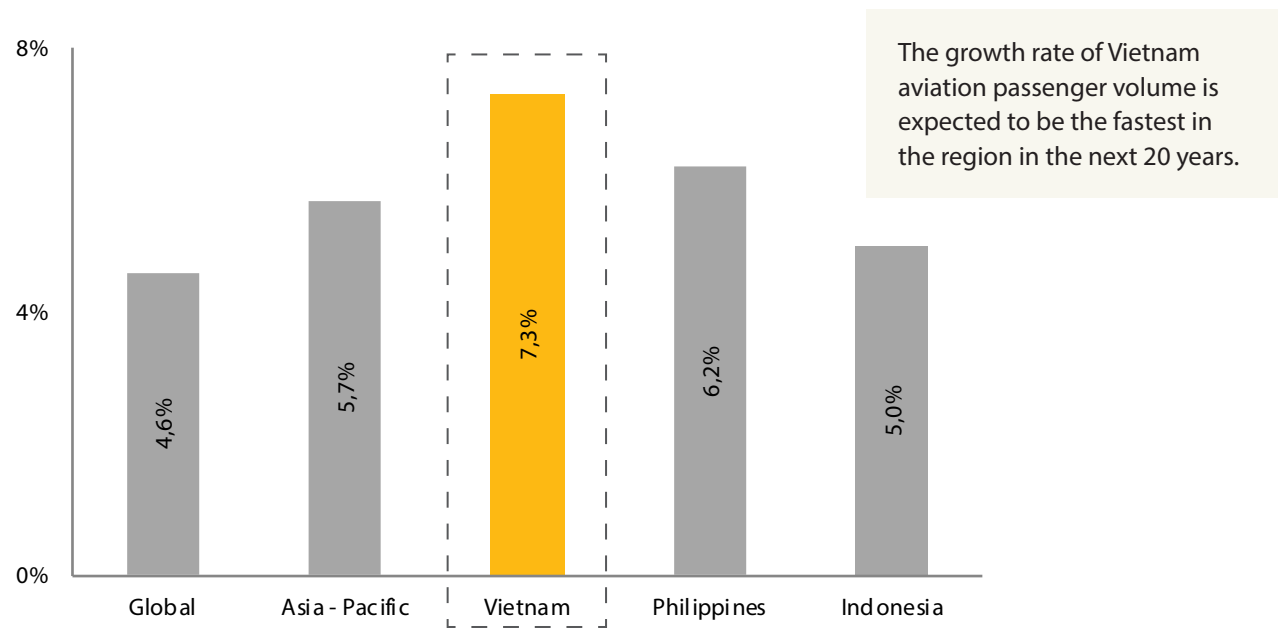
Figure 6: Security service charge rate at some SEA airports 2015 (USD)ⁱ



Source: BSC Consolidation

ⁱ Fee schedule at Tan Son Nhat and Noi Bai International Airports is the maximum allowable charge

Figure 7: Growth forecast for aviation passengers, 2014-2034



Source: IATA, Air Passenger Global Forecast

Prices of aviation services in Vietnam is relatively competitive when compared to other airports in the region.

Sustainable growth

The service charge rate of ACV is regulated by the Ministry of Finance and outside of ACV’s control. Therefore, the growth of ACV directly relies on the traffic growth and structure of passengers and cargo.

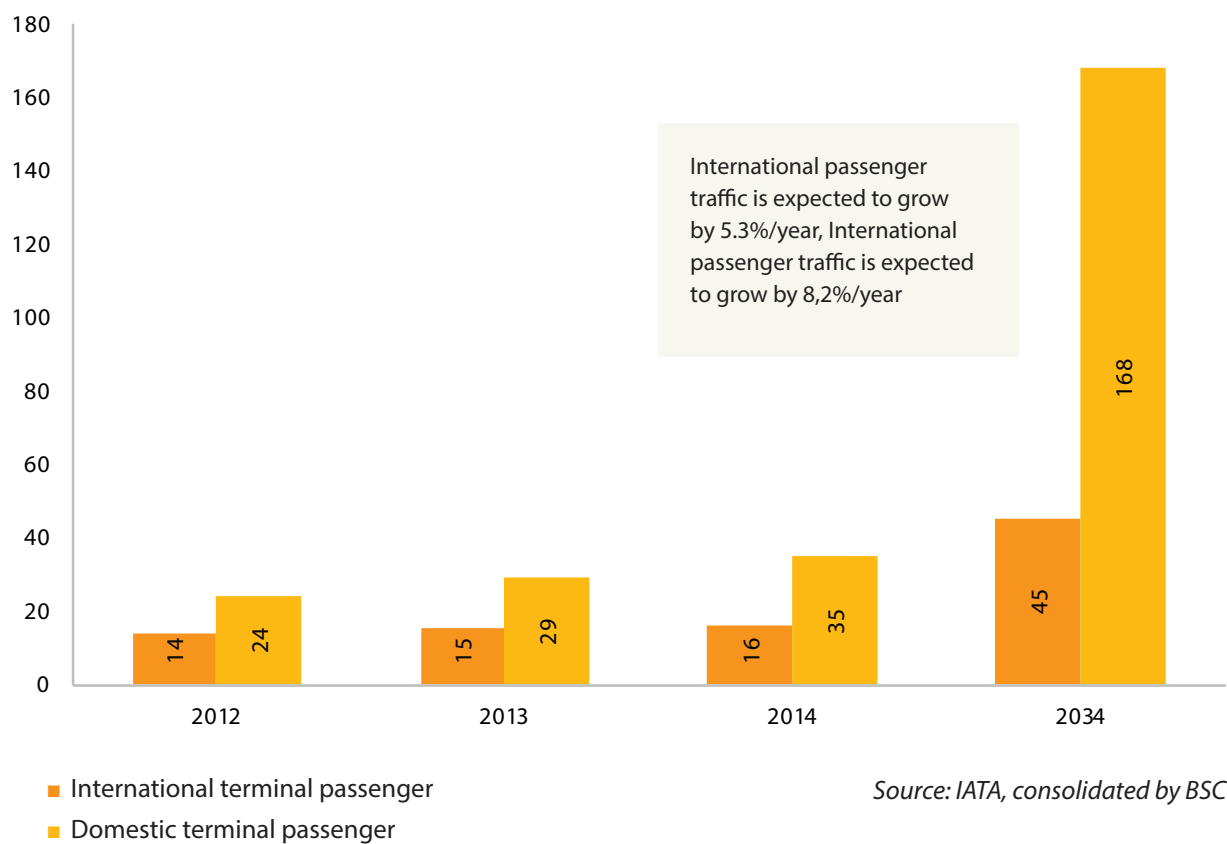
Vietnam aviation industry witnessed a strong growth in 2000-2014 with the number of departure and arrival passengers reach CAGR of 16.60%. The uptrend continues in the first nine months of 2015, with the volume

reached 46.6 million passengers, up 22.3%y.o.y, with specifically 14 million international passengers and 32.6 million domestic passengers .

According to IATA , in 2014-2034, CAGR of passenger volume (departure and arrival) is forecast to reach 7.3% per year, higher than the figure of global (4.6%/year) and of Asia-Pacific region (5.7%/year). The growth drivers are:

- In term of domestic passenger and cargo volume: (1) The economic recovery; (2) The growth in population of middle class; (3) High potential for low-cost carriers in both number of aircrafts and flight network.
- In term of international passenger and cargo volume: (1) the growth of tourism and (2) the economic integration.

Figure 8: Growth forecast for aviation passengers 2014-2034



Source: IATA, consolidated by BSC



Notable projects, 2012 – 2016

- Jan, 2016 – Tho Xuan Airport
- Feb, 2015 – Vinh Airport
- December, 2014 – T2 Terminal, Noi Bai International Airport
- December, 2013 – Hall E T1, Noi Bai International Airport
- August, 2013 – Civil aviation area, Tuy Hoa Airport
- Dec. 2012 – Phu Quoc international airport

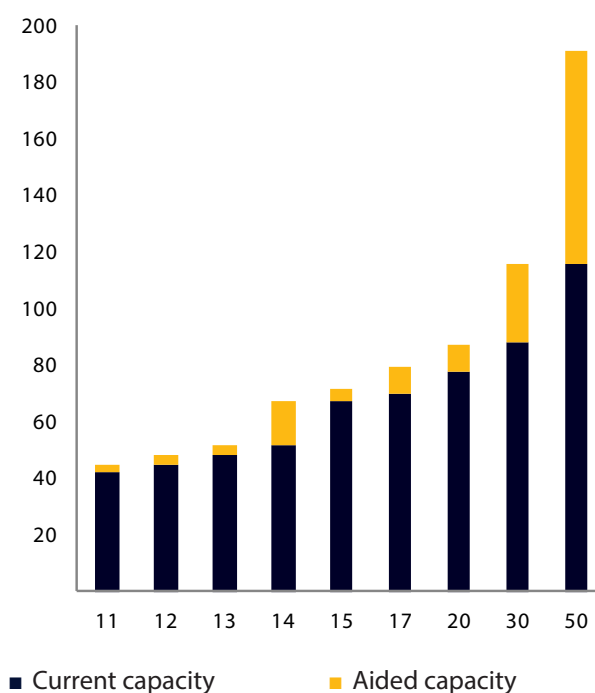
Business operation

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Continuous expansion in capacity

Figure 9: ACV's total expected design capacity 2011-2050 (million passenger)



Source: ACV

ACV has been expanding its capacity, thereby increasing its capability and service quality.

ACV's strong investment ability

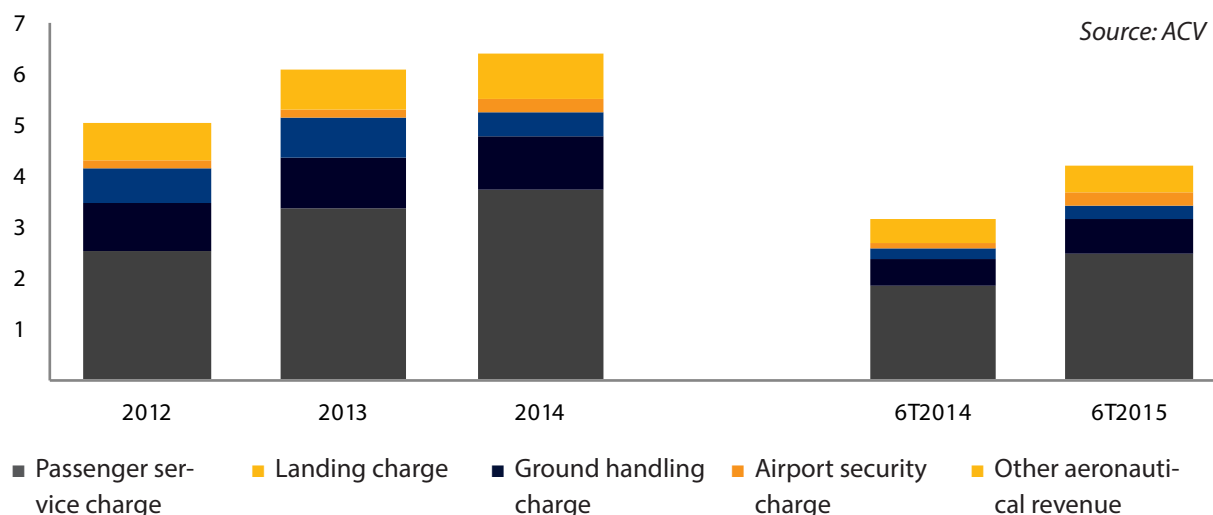
In the period 2012-1H 2015, after merging 3 airport corporations, ACV completed 5 airport projects, raising the total capacity by 54% from 45.15 million in 2011 to 69.40 million passengers (departure and arrival) in 30/6/2015. ACV has proven their ability in management and implementation of investment airport projects.

The capacity of Vietnam's airport system is upgraded to 90.8 million passengers by 2020.

ACV airport system has been completed, however, the utilization capacity diverse among ACV airports. The investment in airport expansion is urgent to ensure the capacity and the service quality of Viet Nam airports. In the period 2015 – 2020, ACV has plans to invest VND 19 trillion in projects focusing on the outside of maneuvering areas to improve the capacity of international terminals, which bring the most sales for ACV. Concurrently, in the period 2018 – 2025, ACV will conduct the phase 1 construction of Long Thanh International Airport, which increases its capacity to 100 million passengers/year.

Efficiency of aeronautical services business

Figure 10: ACV Aeronautical revenues 2012-1H 2015



On the basis of the constant improvement of Vietnam's airport system, ACV continues to utilize its assets effectively for aviation service. Aviation service is the key segment of ACV, contributing an average of 81% of total revenue in the period 2012-1H 2015. In the period 2012-2014, revenue of aviation services reached 13% CAGR. The first 6 months of 2015, aviation service sales reached VND 4,212 billion, up 35% y.o.y. Growth drivers of this segment come from the following factors:

- The number of passengers grows at CAGR of 16% in 2012-2014 and 21% in 1H 2015. Specifically, for 1H 2015, the number of international passenger increases by 16% and domestic passenger went up 24%, totaling 30 million passengers.
- The number of cargo grows on average 15%/ year in 2012-2014

and 17% in 1H 2015, reaching 467 thousand tons

- The number of landings increases by an average of 10% / year in 2012-2014 and by 18% in 1H 2015, reaching 216 thousand landings.
- Charge rates are revised up since October 1st 2014
- The discount policy for domestic airlines expired on 31/12/2014.

ACV's aeronautical services including 5 main service groups: (1) passenger services; (2) landing & takeoff service; (3) ground handling services; (4) Security screening service and (5) Some other services.

Passenger service charges

Passenger service charges contribute the largest proportion of ACV aeronautical revenues, with average proportion of 56% in 2012-1H 2015. This segment is a key growth driver of ACV, with the compound annual growth rate (CAGR) of 21% from 2012-2014. For 1H 2015, passenger service charges were VND 2,463 billion, up by 34% y.o.y. We assess that this segment will maintain its rapid growth in the period of 2015-2020 due to the increase in passenger traffic, especially the rise of international passengers. Charges rate is predicted to stay stable during the period.

Figure 11: Passenger service revenue (VND trillion) and number of passengers (million) of ACV 2012-1H 2015

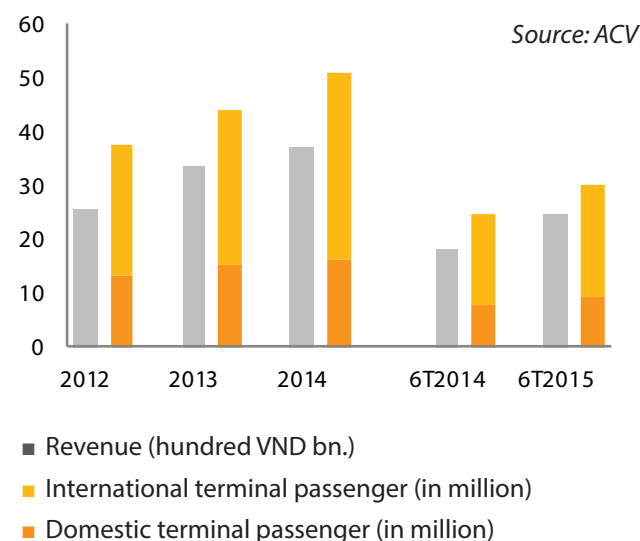


Figure 12: Passenger charge schedule

	Effective since Dec 1st 2012	Effective since Oct 1st 2014	
	Charge rate	Min	Max
International flight (USD/ passenger)			
Tan Son Nhat	20	10	20
Phu Quoc	18	9	18
Da Nang, Can Tho	16	8	16
Noi Bai			
T1	16	8	16
T2		13	25
Lien Khuong; Cam Ranh	14	7	14
Other airports	8	4	8
Domestic flights			
A-class airports	54.545	31.818	63.636
B-class airports	45.455	27.272	54.545

Landing service

Landing service is the second important segment, contributing on average 17% of ACV aeronautical revenues from 2012-1H 2015. Revenue from landing service sharply rose by 28% y.o.y in 1H 2015 to VND 671 billion after a period of relatively stable rate with CAGR of 6% from 2012 to 2014. We expect landing charges will continue to accelerate in the last 6 months of 2015, before growing stably since the price reduction's policy of all three domestic airlines has been expired on Dec 31st 2014.

Ground handling charge

Ground handling charge accounted for on average 10% of ACV aeronautical revenues from 2012-1H 2015. Before 2014, this segment grew relatively quickly but in 2014, the revenue was decreased by 38% on the financial statement of parent company. The reason lays on the fact that some ACV's affiliates was transformed to subsidiaries and/or equitized in 2014, which eliminates the changes on financial statement of the parent companyⁱ. This change, however, will not apply to the consolidated financial statements. Due to the transformation of ACV's affiliates, we assess that the ground handling charges will be relatively stable in the near future.

ⁱ In 2014 Sai Gon Ground Service Company changed its business status to a single member limited liability company. Hanoi Ground Service Company and Danang Ground Service Department would be transferred to SAGS in Q2 and Q3/2015.

Figure 13: Number of air traffic movement, and landing charges revenue of ACV, 2012-1H 2015

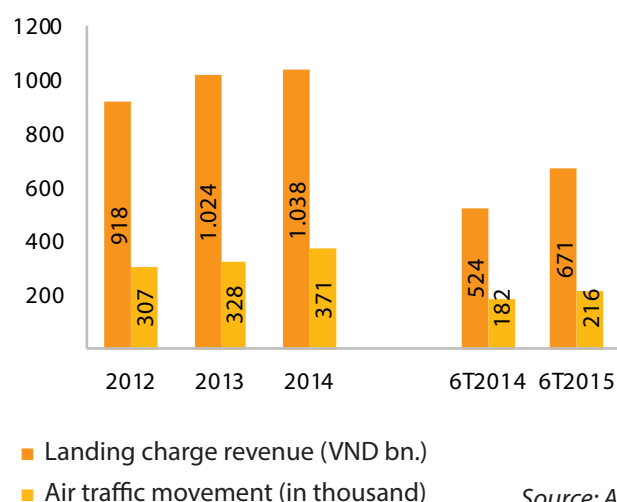
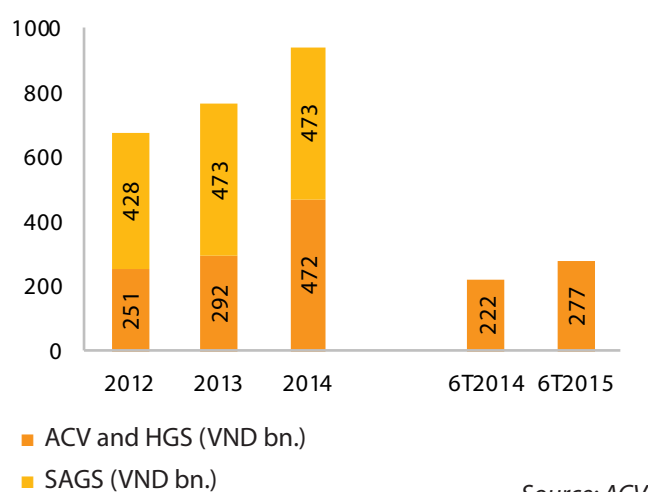


Figure 14: ACV ground handling service 2012-1H 2015



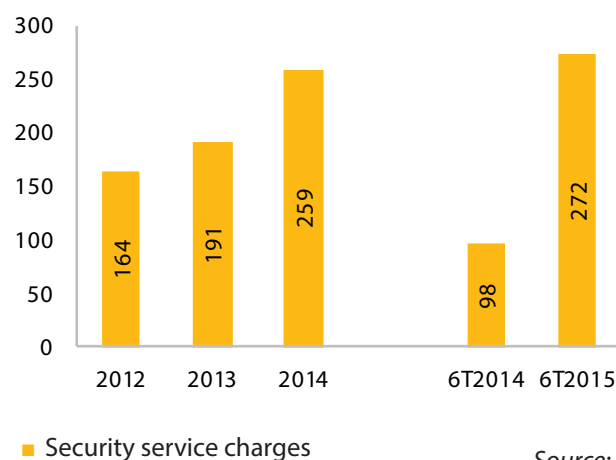
Airport security charges

Airport security charges represented on average 4% of ACV's aeronautical revenues from 2012-1H 2015. This charges soared by 179% y.o.y during 1H 2015 to VND 272 billion due to a rise in charge rate regimeⁱⁱ. We expect airport security charges will increase in line with the growth of passenger and cargo traffic.

Other aeronautical services

Other aeronautical services contributed on average 13% of ACV revenue in the period 2012 – 1H 2015. The services include, but not limited to: airport apron charges, aircraft marshalling, leasing of check-in counters and air bridge, aircraft guarding and patrolling, the use of towing vehicle, etc, Generally, these revenues highly correlate with the performance of ACV's core services.

Figure 16: ACV Security service charges 2012-1H 2015 (VND bn.)



Source: ACV

BSC's Analysis

ACV has proved its ability in effectively investing, operating, and managing its assets. ACV has managed to reach a higher growth rate for its core business compared with the growth of aviation sector, by improving the utilization efficiency and take advantage of the fast growth of Vietnam Aviation industry in the coming period.

ⁱⁱ For more information, see Vietnam Airport Sector section.

High growth potential for non-aeronautical activities

With the commercial advantages at 21 out of 22 airports of Vietnam, ACV offers non-aeronautical services and retail (or non-aeronautical activities). Non-aeronautical services represented on average 19% of ACV's revenues from 2012-1H 2015.

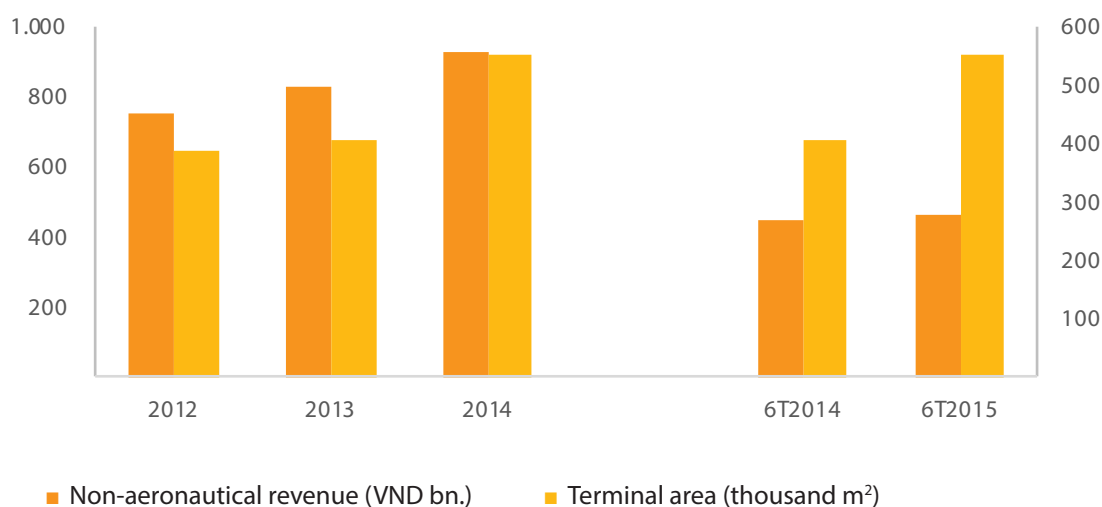
- **Non-aeronautical services:**
Accounted for 11% on average of ACV's total revenue from 2012 to 1H 2015. ACV's non-aeronautical services include: parking charge, advertising, leasing of space for commercial and office tenants... The key growth driver for non-aeronautical revenue is ACV's ability to expand the commercial area.
- **Retails:** accounted for 8% of ACV's total revenues in the period of 2012 -1H 2015 on average. ACV offer direct retails at 11 out of its 22 airports. Revenues growth rate was 28% y.o.y on average from 2012-2014,

and was 64% in 1H 2015 to reach VND 551 billion). Retail services gross margin was 28.54%, higher than the growth rate in 2014 of 27.45%, due to business partnership model offers higher gross profit margin than traditional retails.

High growth potential

Compared with other airports globally, ACV's non-aeronautical revenue has high growth potential, due to its low contribution to the total revenue, and the low average revenue generated from each passenger. The contribution of non-aeronautical revenue in the region in 2013 ranged from 27,59% to 49,43%. In term average revenue per passenger, the average figure for world-wide was USD 6.22 and for the Asia-Pacific region was USD 6.35, while for ACV was USD 1.33. We believe Non-aeronautical revenue will grow strongly due to:

Figure 17: Non-aeronautical revenue and terminal area



Boost up non-aeronautical activities

Non-aeronautical revenue in Noi Bai International airport will increase due to the expansion of terminal T2 Noi Bai and the implementation of new business partnership model. Growth in international passenger traffic in airports such as Phu Quoc, Noi Bai, Cam Ranh... will improve ACV's non-aeronautical revenue.

Charge rate for space leasing is likely to increase

Compared with rental price for shopping center in 2 big cities, Hanoi and Ho Chi Minh, the charge for airport space leasing is low.

Privatization of some non-aeronautical service.

The participation of private parties will help diversify products and services, and improve quality and efficiency. Some current airport privatization projects include:

We believe that ACV's non-aeronautical services will grow in both scale and efficiency level. Non-aeronautical revenue generated per passenger and proportion of non-aeronautical revenue will increase closer to the level of other airports in the region and world-wide.

- Investment of International terminal in Da Nang international airport
- Investment of international terminal in Cam Ranh international airport
- Investment of garage Tan Son Nhat domestic and international airport

Robust financial situation

As of Dec 31st 2014, Airports Corporation of Vietnam has 04 subsidiaries and 03 associates. We believe that, in the scope of financial analysis, valuation of an equitized enterprise requires analysis of both the financial statements of the parent company and consolidated financial statements.

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Parent company's finance

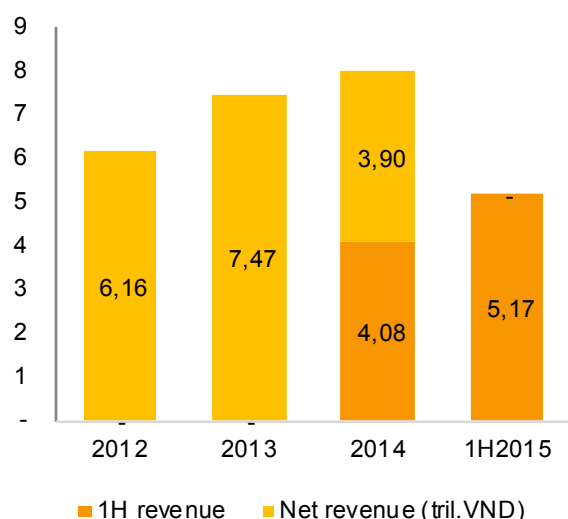
We assess that the parent company has a robust financial situation, with growing core business, large cash flow from operating activities, reasonable capital structure, and high liquidity

Rapid growth in core business activities

Revenue & Profit

CAGR of revenue from 2012-2014 was 14%. Net sales reached VND 5,173 billion in 1H 2015, (+32.72% y.o.y. The profit before tax and excluding FX gain/loss of ACV had CARG of 15% for the period 2012-2014 and reach VND1,693 billion in 2014.

Figure 18: Net revenue of ACV, 2012 – 2015



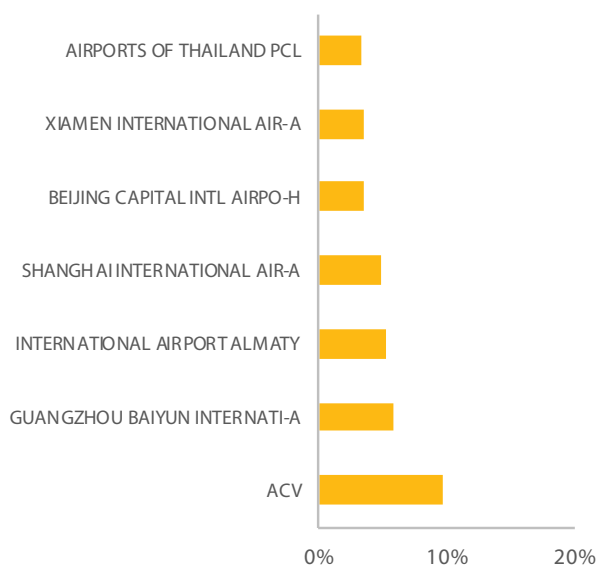
Cost structure

Airport service is operated on a regular basis, based on high value asset system, which requires periodic upgrades and maintenance. Accordingly, depreciation and asset repair costs are critical to ACV. In 2013 and 2014, the average contribution of depreciation and repair cost in the total cost of

sales was respectively 33%, and 23%. Specifically in 2014:

- **Depreciation cost:**ⁱ ACV uses double accelerated depreciation method for machinery, equipment and vehicles . The rate of depreciation expense / historical cost of fixed assets of ACV is about 10% ⁱⁱ. After equitization, ACV will no longer depreciate the assets in the maneuvering area, since these assets will be handed over to the Ministry of Transportation. At the time, all assets will be depreciated at normal rate in pursuant to relevant regulation.

Figure 19: The rate of depreciation expense/ historical cost of fixed asset



- **Accrued repair costs:** These costs are charged in advance for major repairs of assets with

ⁱ ACV depreciation time applied for machinery and equipment is 5-10 years, for transportation equipment is 4-8 years, and for equipment, management tools is 4-6 years

ⁱⁱ Data of 2013. In Dec/2014, ACV puts T2 in operation, which increase the asset value while not generating depreciation cost for the first 11 months

long usage life (from 7-10 years) in order to avoid mutations in business results. Total annual accrued cost for asset repairs are VND 995 billion, which is in pursuant to current regulation.

Assets

Asset structure is maintained relatively stable. The average ratio of long-term assets / total assets was 51% from 2012 - 1H 2015. In 1H 2015, total long-term assets was valued at VND 24 trillion, accounting for 56% of ACV's total assets.

Short-term assets

A key contribution to ACV's current assets is cash and cash equivalents and short-term financial investments (in the form of deposits with terms from 3 months to 1 year), with proportion of 75% of total assets and was valued at VND 14 trillion as of 1H 2015. These assets have high liquidity, low risk and provides stable financial income for ACV.

Long-term assets

At the end of 1H 2015, long-term assets increased by 49% compared with 2013 due to the investment in T2 Noi Bai, with the total investment of \$900

million (equivalent to VND 18 trillion). After equitization, assets in the maneuvering area with residual value of VND 1,915 billion as of 2014H1, will be transferred to the Ministry of Transportation.

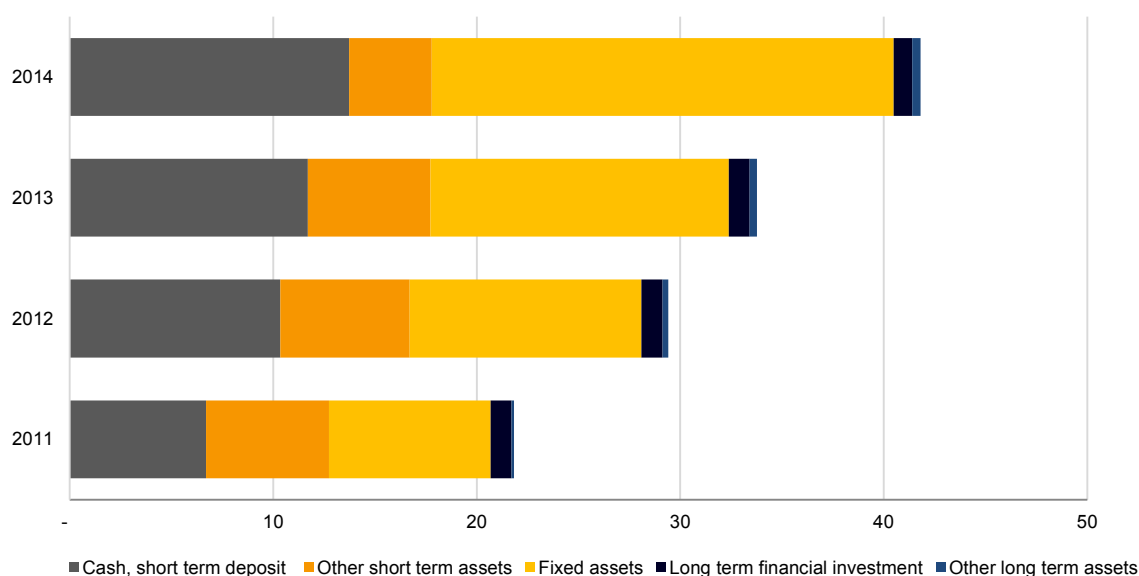
Capital structure

Despite owning vast amount of assets with continuous expansion, ACV maintains a low and stable financial leverage. As of 1H 2015, the debt / total assets of ACV was 0,52x. The most important source of ACV debt is from ODA, which is long-term loans with low interest rates. ODA loans are for 02 key projects: (1) Tan Son Nhat International (19 billion JPY) and (2) Noi Bai International Terminal T2 (51.62 billion JPY). This brings the following advantages:

Low annual principal payments

The ODA loan term extends to 40 years, with 10 years of grace period, longer than the average depreciation period of 25 years. We estimate the principal payments in the years from 2015 - 2020 ACV's parent company

Figure 20: The asset structure of ACV in 2011 – 2014 (trillion VND)



Source: ACV

are approximately JPY 731 million (VND 136 billionⁱ).

Low interest expense

Interest rate is 0.2% for the ODA loan used for T2 Noi Bai project, and 1.6% for ODA loans used for Tan Son Nhat project. The estimated annual interest expense ranges from JPY 465 million to JPY 512 million (equivalent to from VND 87 billion to VND 95 billion).

Influenced by exchange rate fluctuations

The total value of the loan in JPY is JPY 68 billion at Dec 31st 2014. During 2014 and 1H 2015, JPY/VND increased by 11.8% y.o.y and 1.78% respectively, which generated foreign exchange gains of VND 1,483 billion and VND 189 billion respectively for ACV's parent company.

i Currency exchange rate used of VCB as of Oct 30th 2015, 1JPY = 185.94 VND.

Operating ratios

Due to strong cash flow advantages, fast cash conversion cycle, ACV has a high ratio of liquidity. The profitability indicators of ACV fell since ACV began to depreciate T2 Noi Bai in October/2014.

Cash conversion cycle

For the period 2012-2014, the average collection period and the average number of days of inventory are respectively 47 days, 16 days, while the average number of days of payable is 399 days.

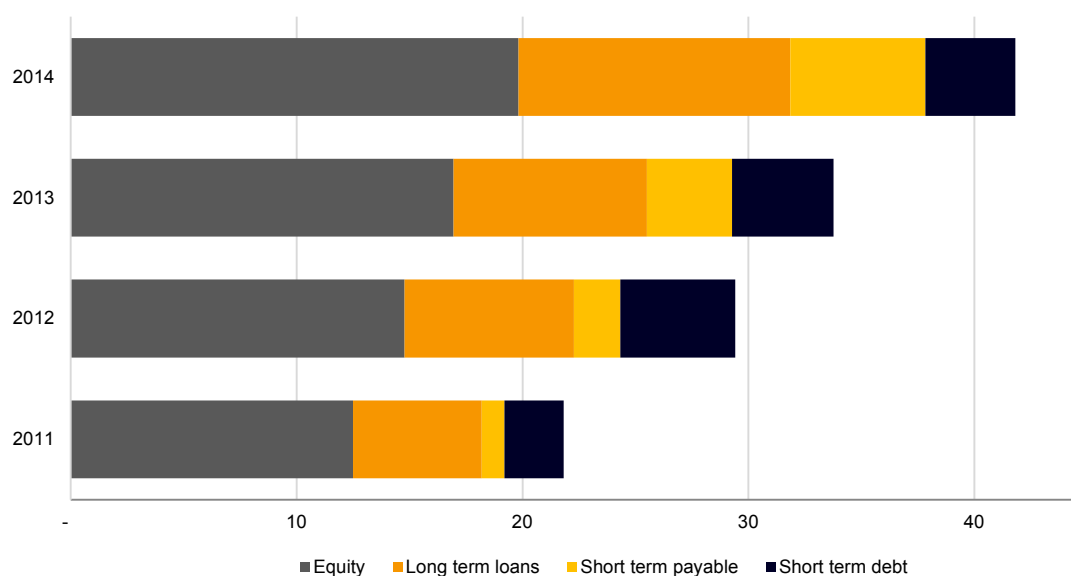
Quick ratio

Due to high amount of cash, cash equivalents, and bank deposits. As of 1H 2015, the quick ratio and current ratio of ACV was 3,45x and 3,32x respectively.

Profitability ratios

For 1H 2015, gross profit margin decreased due to the investment value in T2 Noi Bai in Dec/2014 has increased the total assets value as well as

Figure 21: The capital structure of ACV in 2011 – 2014 (trillion VND)



Source: ACV

depreciation expenses, which outrun the revenue growth. Gross profit margin reached 11.26% in 1H 2015. If currency exchange gains/losses is eliminated, ROA and ROE trailing 12 months to June 2015 are respectively 2.8% and 5.77%.

ACV possesses solid financial resources and strong cash flow. Net cash flow from operating activities from 2012 to 2014 ranged from VND 2,096 billion to VND 3,779 billion and reach VND 1,455 billion in 1H 2015. This stems from (1) the core business growth; (2) long loan term, and low interest; (3) high depreciation and high accrued repair costs.

Figure 22: Performance indicators of aviation companies, trailing 12 months to June/2015

Company	Gross profit	Net profit	ROA TTM	ROE TTM
XIAMEN INTERNATIONAL AIR-A	47.45%	30.89%	10.98%	13.70%
SHANGHAI INTERNATIONAL AIRPORT	44.09%	39.74%	10.50%	12.97%
GUANGZHOU BAIYUN INTERNATIONAL	39.88%	21.82%	11.41%	14.68%
SHENZHEN AIRPORT CO-A	25.47%	16.58%	3.27%	4.60%
INTERNATIONAL AIRPORT ALMATY	24.51%	10.47%	8.73%	11.56%
AIRPORTS OF THAILAND PCL	N/A	37.54%	9.85%	15.31%
BEIJING CAPITAL INTL AIRPO-H	N/A	19.89%	4.67%	9.00%
MALAYSIA AIRPORTS HLDGS BHD	N/A	6.73%	4.27%	9.45%
Average	36.28%	20.87%	7.69%	10.85%
ACV	11.26%	10.30%	7.09%	14.62%
ACV (excluding FX gain/loss)	11.26%	7.57%	2.80%	5.77%

Source: ACV, Bloomberg, BSC

Analysis of the Consolidated Financial Statement

The consolidated financial report reflects the integrated production of the parent company - Airports Corporation of Vietnam and its subsidiaries after eliminating intercompany transactions. Investments in associated companies are stated using equity method.

In the business model of the consolidated company, the parent company of ACV operates the airport service, which is the core activity. Subsidiaries' activities are based on ACV's properties, and benefited from the large asset system and the customer base of the parent company. In terms of assets, capital and revenue, profit, the consolidated financial statements do not have much difference from the financial statements of parent company.

Assets

The majority of assets and capital of the consolidated business have been reflected in the financial statements of the parent company. Specifically, the parent company contributes 97.08% of the total long-term assets value and 81.05% of the current assets of the consolidated company.

Capital

The total debt of the parent company represents 97.88% of total consolidated debts, and the parent company's liability accounts for 95.44% of the liabilities of the consolidated company. ACV subsidiaries are SASCO, CRAC and SATSCO, which primarily financed by equity and capital employed from suppliers. Among these three, SASCO is the only company that has outstanding short-term bank loans (worth VND 156 billion at June 30th 2015, representing 8.11% of total debt and equity).

Revenue and profit

The average growth rate of net sales is 14.79% per year per year from 2012-2014. In 2014, net sales reached VND 7,973 billion (+ 10.54% y.o.y), profit before tax and before currency exchange rate gain / loss reached VND 1,860 billion. The parent company contributes 75.54% of net sales and 91% of EBT excluding currency exchange gains/losses.

Solid and sustainable cash flow is a major strength of ACV

Due to strong cash flow, accumulated annually from revenue growth, depreciation and used accrued repair costs, along with ODA loans, ACV has the resources to continue to invest and expand if needed. Annual operating cash flow is large and equivalent to a medium-sized airport in the region. The total value of cash, cash equivalents and bank deposits of ACV reached VND 14 trillion, larger than the total long-term debt. We believe that operating cash flow of ACV will continue to grow, providing a strong support for ACV's investment projects, while remaining a source for stable profit and ensuring the rights of shareholders.

SWOT analysis

SWOT STRENGTH

- ACV exclusively manages and operates the entire system of 22 civil airports of Vietnam.
- A system of parent company along with subsidiaries and associates provides full chain of services at airports.
- ACV owns a large and unique asset block, with high value and continuous expansion. The increase in the number of A-class airport helps improve operating efficiency.
- ACV has strong financial resources, with low rate, long-term funds

SWOT WEAKNESS

- The majority of service charges by ACV are decided by the state regulation.
- Operating efficiency levels diverse among airports: major international airports overloaded while domestic airports operated with low utilization capacity.
- Operation efficiency is not up to the growth potential.
- High value loans in JPY create fluctuations to financial income and expenses.

SWOT OPPORTUNITY

- Economic recovery and growth of middle class in Vietnam
- Strong growth in Vietnam's travelling sector, averaging 21% / year.
- Free trade is promoted
- Low-cost Carriers have large room for growth since the proportion of passengers using aviation transportation in Vietnam is still low.
- Airlines to/from Vietnam are expanding their aircraft crew and their flight network.
- Infrastructure connected to the airports is improved.

SWOT THREAT

- The upheaval of the economic and political environment.
- Uncontrollable weather changes affected by climate change.
- Investment activities according to the State plans.
- Risk of epidemic outbreak

Investment risks

Similar to other airports, ACV business is based on a large scale of fixed assets, and depends heavily on the development of economy, society and tourism. Therefore, while the cost of sales is relatively stable, revenue could be affected by the uncontrollable risks related to macro and operation.

Economic risk

Aviation business is sensitive to economic developments internationally, as well as domestically. Particularly, the economic crisis will reduce the average income of the passengers, which lowers the demand for travelling and tourism as well as the average spending of customer.

Politic risk

Uncontrollable global events may negatively impact ACV's operation. Notably, the recent territorial dispute in Asia can continue to affect the ACV operation.

Medical risk

The epidemic outbreak in Vietnam and in the region will affect ACV's aviation business. The reduction in demand for travelling on international routes can reduce the flight frequency

Investment risk

Associating with the national development plans for each region, ACV must invest in pursuant to the state policy, therefore, cannot inefficient investment projects, which affects general operation of the airport systems.

Other uncontrollable risks

Such as fires, floods, storms, natural disasters, strikes, riots and technical problems such as power outages... We assess these risks are not critical thanks the contingency plans, emergency plans prepared and rehearsed by ACV regularly.

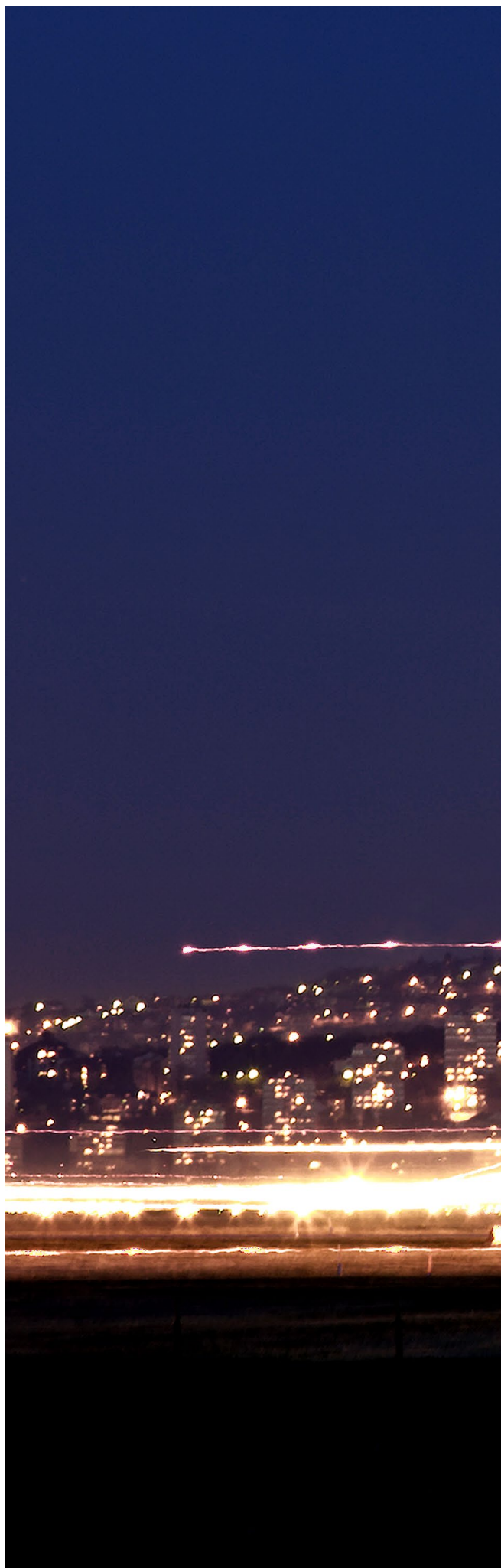


Operating result forecast

We forecast ACV's earnings for the period 2015 - 2020 based on forecast data of passenger and cargo traffic, service charge rate, and the investment plan, financial plan of the enterprise. We note that our forecasts are based on prudent assumptions about demand for Vietnam's air transportation. However, we believe that the actual growth of demand for air transportation may be stronger than our forecast, which brings actual results higher than our cautious forecasts.

Business results forecast 2015 – 2020

32





10,130
billion VND

Net revenue 2015

7%
/year

CAGR of revenue in 2015-2020

7.3%
/year

CAGR of passengers according to
iATA

1,719
billion VND

Net profit after tax 2015

9%
/year

CAGR of profit from core business in
2015-2020

Business results forecast

2015 – 2020

We forecast revenues on each of the three core segments of the parent company: (1) Aeronautical revenue, (2) Non-Aeronautical revenue and (3) Retail sales. In terms of traffic, we use IATA's forecasts, which expect the number of passengers using Vietnam airports to rise on average of 7.3% per year, in which international passengers grow by 5.3% per year, and domestic passengers by 8.2% per year. The service rates, after the year end 2014 adjustments, are prudently expected to remain stable in the next period from 2015 to 2020.

Aeronautical revenue

Aeronautical revenue is forecast to reach VND 8,204 billion in 2015 (+ 28% y.o.y) and reached VND 11,122 billion in 2020, equivalent to CAGR of 8%. Specifically:

Passenger service charge

(The number of passengers x service charge rates per passenger for each airport)

We forecast passenger services revenue to reach VND 5,081 billion in 2015 (+ 36%) and to maintain a sustainable growth of 11% per year over the period 2015 – 2020, due to the acceleration in the passenger traffic at A-Class international airports.

Landing charge

(Number of landings x aircraft's gross weight x charge rates)

Revenue from landing charges is forecasted to be stable over the period 2015-2020, with VND 1,245 billion in 2015 and VND 1,309 billion in 2020. Landing charge rates have been revised up by about 5% for international flights since October 1st 2014 and is forecasted to stabilize in the period 2015-2020. For major airports, the limit in number of flight slots will constrain the increase in the number of landings.

Ground handling charge

(Number of landings x Maximum Take-off Weight (MTOW) x service charge rates)

Revenue from ground handling services is forecasted to stabilize in the period 2015-2020, at VND 471 billion in 2015, VND 453 billion in 2016, then, gradually grow to VND 472 billion in 2020 due to SAGS (TSN), HGS (Noi Bai), and Ground handling Da Nang have been converted into joint stock companies and will no longer contribute to the revenue of the parent company (ACV).

Airport security charge

(The number of departure passengers x security charge rate)

Revenue from airport security charge is predicted to grow strongly in 2015, reaching VND 572 billion (+120% y.o.y), before maintaining an average growth of 11% per year over the period 2015-2020 as a result of the rapid growth in departure passenger and cargo traffics.

Other aeronautical service charges

Revenue from other aeronautical services is forecasted to grow along with the growth of landing charge.

Non-Aeronautical revenue and Retail Sales

Revenue from non- aeronautical services is predicted to reach VND 979 billion in 2015 (+ 6% y.o.y) and VND 1,209 billion in 2019, equivalent to a CAGR of 7% from 2015 to 2020. Specifically:

- Revenue from non- aeronautical services at Noi Bai International airport is expected to grow by 9% to reach VND 351 billion in 2015 due to T2 Noi Bai station going into operation. In 2015-2020, the revenue of non-aeronautical services is forecast to grow at an average rate of 5% per year.
- Non-aeronautical revenue generated from Tan Son Nhat international airport is forecast to increase by an average 4.8% per year from 2015 to 2020.
- Non-aeronautical revenue from the remaining airports grows at an average rate of 6.5% from 2015 to 2020

Retail revenue is forecast to reach VND 998 billion in 2015 (+ 50% y.o.y) and VND 1,662 billion in 2020, equivalent to a CAGR of 14% per year. Specifically:

- The operation of Noi Bai T2, along with the implementation of business partnership form in some terminals such as T2 Noi Bai, Phu Quoc, Da Nang will accelerate commercial activities within the airport area.
- The number of international passengers at such airports as Phu Quoc, Noi Bai soared with the 2014-2020 CAGR of 16.95% and 7.6% respectively.

Please be noted that our forecast does not include the assumption that after equitization, ACV will restructure non- aeronautical activities towards a more modern way, to increase its efficiency and to bring its scale closer to the average level of the region.

Cost

Cost of sales is forecast to reach VND 8,131 billion in 2015, with gross profit margin of 20%, primarily due to the high depreciation rate applied for T2 Noi Bai station. After that, the gross profit margin will gradually increase to reach 30% in 2020, equivalent to cost of sales of VND 9,790 billion. Other charges, taxes, fees will stabilize. Specifically:

- Labor expense is forecasted to reach VND 1,981 billion in 2015 (+22% y.o.y) due to the increase in headcount to support Noi Bai Terminal 2. Subsequently, labor expense is expected to increase along with the growth of revenues and airports investment.
- Depreciation and amortization are expected to increase by 59% in 2015, reaching VND 3,279 billion due to the high depreciation expense of Noi Bai Terminal 2, estimated at VND 1,300 billion. After that, from 2016, depreciation expense is expected to decline due to: (1) After equitization, depreciation cost of assets in the maneuvering area will no longer be expense of ACV; (2) except for the terminals, all other fixed asset will use normal depreciation rate, which is a half of the current rate; (3) the residual value of these assets is estimated to increase to VND 4,792 billion (+70% compared with the value as of June 30th 2014).
- Repair expense is to be maintained at current level to ensure the continuous operations of the airports.
- Leasing costs for assets in maneuvering area: according to the government's approval for equitization plans, the State will lease out the assets of maneuvering area to ACV to ensure the continuous operation of the airports.

Financial revenues and expenses

Financial revenue is forecast to reach VND 823 billion in 2015 and VND 987 billion in 2020.

- Interest income is predicted to be VND 737 billion in 2015 and VND 877 billion in 2020 due to the stable level of short -term investments, which mainly are bank deposits with terms from 3 months to less than 1 year. Interest rates will remain stable.
- Dividend revenue is forecast to reach VND 67 billion in 2015 and VND 109 billion in 2020 since the subsidiaries and associates' operation is relatively stable.

The financial expense is projected to be VND 92 billion in 2015 and VND 83 billion in 2020. Financial expenses primarily include interest expenses and will decrease over the years as value of debt reduces.

We note that our forecast ignores the effect of gains / losses from currency exchange arising from the JPY loans.

BSC forecasts are presented in details in Appendix 05.

Valuation

We used a combination of two valuation methods (1) FCFF- discounted Free Cash flow to Firm and (2) Multiples of EV / EBITDA and P/B - price book value. These methods take into consideration the value of business assets, potential future profits and the level of market acceptance for similar businesses.

FCFF method	36
Multiples method	37

FCFF method

This valuation method is generally applicable to enterprises with stable business cycles. The valuation result is 12,068 VND/share.

Assumptions

We use growth model for 2 phases:

- 1st phase from 2016 to 2020: equivalent to the rapid growing stage of ACV due to (1) the high growth of airport industry, and (2) the increase in service charge as of Oct 1st 2014.
- 2nd phase (after 2020): long-term growth with the rate of 2.00% per year

Assumptions		Value
Risk-free Rate Rf on 30/10/2015	Rf	7.1%
Credit Rate of Vietnam (by Moody)		B1
Country risk premium for B1 rated countries	Country risk premium	6.75%
US market premium	Mature market return	5.00%
Median of 1 year beta of airport stocks in the region	Beta	0.83
Required rate for Equity	Re	10.97%
Debt rate expected for 2016-2020	Rd	0.74%
Equity/Debt ratio for 2016-2020	We/Wd	67/33
Weighted Average Cost of Capital	WACC	7.49%
Tax rate 2016-2020		20%
Long term growth after 2020	g	2,00%

Valuation result

Price per share (VND)	12,068
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Multiples method

EV/EBITDA multiple method

EV/EBITDA multiple method is used to eliminate the difference between depreciation policy, funding policy and tariff environment. The median of EV/EBITDA of companies in airport industry in the region is used as a basis of valuation for ACV. The valuation result is VND 14,606/share.

	Value (VND)
After tax Profit	1,718,642,110,074
(+) Tax expense	484,745,210,534
(-) deferred tax expense	-
(+) Interest expense	91,700,858,395
(+) Depreciation expense	3,296,679,332,978
ACV EBITDA	5,591,767,511,980
(×) Median EV/EBITDA	9.91
EV	55,414,416,043,721
(+) Cash and cash equivalent	3,602,909,755,641
(-) Net debt	26,255,511,763,317
Number of outstanding shares	2,243,098,504
Price per share	14,606

P/B multiple method

P/B is a common method, which considers the stock market and the acceptable price level relative to book value. Also, P/B is appropriate with enterprises which have high value of fixed assets like ACV. The method use the median value of P/B multiple of other airport companies in the region as the basis to value ACV share. The price per share is VND 14,766.

P/B method

Book value per share 2015	10,000
Median P/B	1.48
Price per share	14,766

Valuation result

Combining 3 valuation methods above, we conclude that each share of ACV will be reasonably priced in the range of 12,068 VND to 14,766 VND.

Valuation method	Results
FCFF	12,068
EV/EBITDA	14,606
P/B	14,766

Appendix

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Appendix 01: Financial statement of ACV in 2015-2020

BALANCE SHEET	2015F	2016F	2017F	2018F	2019F	2020F
Current assets	19,259	18,116	19,137	17,957	22,343	25,439
Cash and cash equivalents	3,603	2,721	3,139	1,362	3,337	2,435
Current financial Investments	10,523	10,000	10,200	10,404	12,404	15,954
Accounts receivable	4,256	4,476	4,819	5,166	5,519	5,906
Inventories	372	386	409	417	433	448
Other current asset	504	533	569	608	650	696
Long term assets	29,468	31,844	30,764	29,462	27,233	24,817
Fixed Assets	28,051	30,399	29,283	27,943	25,672	23,211
Long term investments	922	922	922	922	922	922
Other long-term assets	495	523	559	597	639	684
Total assets	48,727	49,960	49,901	47,419	49,576	50,256
Liabilities	26,256	26,671	25,622	21,640	21,782	19,988
Current liabilities	13,725	14,276	13,364	9,517	9,795	8,214
Long-term liabilities	12,531	12,395	12,259	12,123	11,987	11,774
Equity	22,471	23,289	24,279	25,779	27,794	30,268
Owners' Capital	22,471	23,289	24,279	25,779	27,794	30,268
Total capital	48,727	49,960	49,901	47,419	49,576	50,256
INCOME STATEMENT	2015F	2016F	2017F	2018F	2019F	2020F
Net revenue from sales and services	10,130	10,710	11,439	12,222	13,073	13,993
Cost of sales	8,131	8,418	8,935	9,096	9,450	9,790
Gross profit from sales and services	1,999	2,292	2,504	3,126	3,623	4,203
Financial Income	823	792	813	832	975	987
Financial expense	92	91	89	87	85	83
Of which: interest expense	92	91	89	87	85	83
Sales expense	56	61	64	69	74	79
General and Administration Expense	620	657	700	747	797	851
Net profit	2,055	2,275	2,463	3,056	3,642	4,177
Other income	200	87	108	123	152	165
Other expenses	52	53	57	58	60	62
Other gain/losses	148	34	51	65	92	103
Total profit (loss) before taxes	2,203	2,308	2,514	3,120	3,735	4,280
Profit (loss) after tax	1,719	1,847	2,011	2,496	2,988	3,424

Appendix 02: Price sensitivity in FCFF method

Price per share	WACC							
	g	5.88%	6.38%	6.88%	7.38%	7.88%	8.38%	8.88%
	-0.5%	11,414	10,709	10,088	9,537	9,045	8,603	8,203
	0.0%	12,013	11,220	10,528	9,920	9,380	8,897	8,464
	0.5%	12,708	11,807	11,030	10,352	9,755	9,226	8,753
	1.0%	13,526	12,490	11,607	10,844	10,180	9,595	9,075
	1.5%	14,501	13,292	12,276	11,410	10,663	10,011	9,437
	2.0%	15,684	14,249	13,064	12,068	11,218	10,486	9,846
	2.5%	17,149	15,410	14,003	12,841	11,864	11,031	10,312
	3.0%	19,011	16,848	15,142	13,762	12,622	11,664	10,847
	3.5%	21,457	18,675	16,553	14,881	13,527	12,409	11,469
	4.0%	24,812	21,075	18,347	16,266	14,625	13,297	12,200
4.5%	29,697	24,367	20,702	18,026	15,984	14,375	13,072	

Appendix 03: List of peer companies

Ticker	Revenue T12M	D&A T12M	Bk Val Per Sh	EPS T12M	P/B	P/E	EV/ EBITDA T12M	Beta 1Y
005430 KS	416,351,065	11,876,686	79.50	8.70	0.35	3.28	3.59	1,22
NAHCO NL	49,320,639	5,175,054	0.02	0.00	1.16	11.99	4.41	0,25
AWK NZ	115,515,989	18,748,066	1.54	0.25	1.48	10.81	6.20	0,85
357 HK	157,896,539	9,406,172	1.04	0.14	1.13	8.66	7.04	0,83
MMAN IT	191,481,839	7,283,520	2.26	0.17	0.86	11.59	7.39	0,65
AIRSERVI NL	21,556,047	1,414,146	0.02	0.00	0.53	6.82	7.83	0,01
AERO SG	83,952,426	9,267,380	7.26	1.13	1.63	11.89	8.59	0,80
FLU AV	767,174,446	157,874,482	51.29	4.92	1.86	20.83	8.81	0,50
BAFS TB	95,697,830	14,892,821	0.24	0.04	3.28	21.28	9.84	0,69
TAVHL TI	1,140,526,818	100,541,924	2.24	0.67	3.98	15.14	9.91	0,82
FRA GR	3,026,190,638	386,299,209	39.13	3.27	1.44	21.71	11.02	0,98
WAIR US	1,536,128,000	27,024,000	10.73	0.86	1.19	13.65	11.15	1,21
694 HK	1,311,313,958	129,633,815	0.66	0.06	1.73	19.79	11.72	0,59
MAHB MK	962,231,137	188,214,119	1.12	0.14	1.09	11.56	11.78	0,96
44 HK	1,589,426,673	82,927,497	4.72	0.42	1.69	18.86	11.93	0,59
ADB IM	100,834,906	9,308,716	5.14	0.31	1.38	25.28	12.12	0,95
ADP FP	3,446,248,463	562,104,011	44.16	4.75	2.86	28.93	12.82	0,90
AOT TB	1,286,711,934	180,035,171	2.13	0.32	4.27	28.99	17.33	0,96
AIA NZ	374,724,705	50,243,666	1.73	0.14	2.17	29.55	22.68	1,14
Median				1.48	15.14	9.91	0.83	0,83

Appendix 04: Financial ratios of ACV

	Financial Report			
	2010	2012	2013	2014
1. Capital Structure				
Debt / Total Assets	0.43	0.50	0.50	0.53
Debt / Equity	0.75	0.99	0.99	1.11
Self-financing rate	0.57	0.50	0.50	0.47
Loans / Equity	0.47	0.52	0.51	0.61
Total assets / Equity	1.75	1.99	1.99	2.11
2. Asset structure				
Current Assets / Total Assets	0.58	0.57	0.52	0.43
Long-term assets / total assets	0.42	0.43	0.48	0.57
3. Solvency Ratios				
Quick ratio	3.44	2.30	2.11	1.76
Short-term liquidity ratios	3.50	2.34	2.14	1.79
4. Operation Ratios				
Total assets turnover	0.24	0.21	0.22	0.19
Fixed assets turnover	0.66	0.54	0.51	0.35
Working capital turnover	0.57	0.64	0.79	1.02
Payable turnover (days)	139	230	135	88
Accounts receivable turnover (days)	231	341	255	148
Inventory turnover (days)	22	17	15	18
5. Profitability Ratios				
Cost of sales/ Net sales	69%	83%	80%	72%
Gross profit margin	31%	17%	20%	28%
(Sales expense + General Admin Expense) / Net sales	0%	0%	1%	1%
Profit margins from core activities	21%	31%	41%	40%
EAT / net sales	16%	24%	30%	31%
ROE	7%	10%	13%	12%
ROA	4%	5%	7%	6%

Consolidated Financial Report

	2010	2012	2013	2014
1. Capital Structure				
Debt / Total Assets	0.45	0.51	0.51	0.53
Debt / Equity	0.80	1.03	1.03	1.11
Self-financing rate	0.55	0.49	0.49	0.47
Loans / Equity	0.48	0.52	0.52	0.61
Total assets / Equity	1.80	2.03	2.03	2.11
2. Asset structure				
Current Assets / Total Assets	0.60	0.59	0.54	0.43
Long-term assets / total assets	0.40	0.41	0.46	0.57
3. Solvency Ratios				
Quick ratio	3.06	2.22	2.06	1.71
Short-term liquidity ratios	3.17	2.29	2.12	1.76
4. Operation Ratios				
Total assets turnover	0.31	0.27	0.28	0.24
Fixed assets turnover	0.87	0.69	0.63	0.45
Working capital turnover	1	1	1	1
Payable turnover (days)	132	206	126	83
Accounts receivable turnover (days)	170	268	204	113
Inventory turnover (days)	37	30	24	26
5. Profitability Ratios				
Cost of sales/ Net sales	68.90%	79.82%	78.04%	71.49%
Gross profit margin	31.10%	20.18%	21.96%	28.51%
(Sales expense + General Admin Expense) / Net sales	9.67%	12.83%	12.77%	12.26%
Profit margins from core activities	15.94%	24.38%	32.74%	31.01%
EAT / net sales	12.50%	19.11%	24.10%	23.79%
ROE	7.06%	10.29%	13.48%	12.15%
ROA	3.92%	5.07%	6.64%	5.75%

Appendix 05: Some representative airports of ACV

	Terminal passenger traffic			Design capacity	% current capacity	Revenue
	Domestic	International	Total	2014		
Tan Son Nhat-SGN	13.02	9.13	22.15	20.00	111%	3,576.07
Noi Bai-HAN	8.67	5.52	14.19	25.00	57%	2,458.64
Da Nang-DAD	4.10	0.89	4.99	6.00	83%	679.42
Cam Ranh-CXR	1.48	0.59	2.06	1.50	137%	285.70
Vinh-VII	1.21	0.01	1.22	2.00	61%	52.79
Phu Bai-HUI	1.16	-	1.16	1.50	77%	86.09
Phu Quoc-PQC	0.99	0.02	1.00	2.65	38%	99.55
Cat Bi-HPH	0.93	0.00	0.93	1.20	77%	56.86
Buon Ma Thuot-BMV	0.70	-	0.70	2.00	34%	49.42
Lien Khuong-DLI	0.68	-	0.68	2.00	34%	53.53
Phu Cat-UIH	0.42	-	0.42	0.75	56%	35.10
Can Tho-VCA	0.31	-	0.31	2.00	15%	33.78
Pleiku-PXU	0.30	-	0.30	2.00	15%	25.83
Con Dao-VCS	0.19	-	0.19	0.40	47%	11.81
Tho Xuan-THD	0.16	-	0.16	0.60	27%	7.38
Dong Hoi-VDH	0.12	-	0.12	0.50	24%	7.00
Dien Bien-DIN	0.08	-	0.08	0.25	33%	6.08
Tuy Hoa-TBB	0.06	-	0.06	0.55	12%	4.53
Chu Lai-VCL	0.04	-	0.04	0.50	8%	3.57
Rach Gia-VKG	0.03	-	0.03	0.20	17%	2.30
Ca Mau-CAH	0.03	-	0.03	0.20	15%	2.43
Na San-SQH	-	-	-	-	-	-

Tan Son Nhat International Airport

The largest airport in Vietnam with a design capacity of 20 million passengers per year. With the location as the gateway of the southern economy, Tan Son Nhat airports provide services to 46 airlines, 54 destination points worldwide (17 domestic destinations and 34 international destinations). Tan Son Nhat accounts for 44% of total passenger traffic nationwide and 56% total international visitors to Vietnam, and is being operated with 111% design capacity.

In 2014, revenue of the airport reached VND 3,576 billion, up 11% compared with 2013, largest revenue contributor for ACV with 40% of total sales. The airport of Tan Son Nhat International will be renovated and upgraded to reach the capacity of 23.5 million passenger per year and 600,000 tons of cargo per year in 2015, and 30 million passengers per year by 2030.

Noi Bai International Airport

With the location as the gateway of the North, the Noi Bai international airport accounts for 28% of all passenger traffic of ACV in 2014 and have been increased its capacity from 9 million passengers per year to 19 million passengers per year. Currently, the airport serves 35 airlines, offers routes to 46 destination points including 14 domestic and 32 international.

High growth rates: in 2012-2014, the number of passengers of Noi Bai airport grew by an average rate of 12% per year, in which international passengers contributed a large proportion (34% in 2014). Thus, sales of Noi Bai rose an average of 17%/year over the period 2012-2014. We forecast the figure to continue the strong growth in the coming period, due to the airport's advantages, including: (1) new airports being upgraded, unused capacity; (2) Increase in service fee; (3) Synchronous infrastructure (4) Service charges at the international terminals have been revised up from 16 USD per international passengers to 25 USD per international passengers.

Da Nang International Airport

Ranking the third in ACV airport system: with the central location of the Mien Trung region, Da Nang airport contributes 10% of passengers of ACV in 2014. There are 11 airlines operating at the airport, offering routes to 25 destination points, 8 domestic and 17 international in Asia Pacific region. Serving 4.99 million passengers in 2014, Da Nang airport is operated at 125% design capacity.

High passenger growth rates, especially international visitors. In 2014, total passenger volume increased by 14% compared to 2013, in which number of international passengers increased by 61% and domestic ones increased by 7%. In the period 2016-2018, Danang international airports will continue to expand stations, invest in equipment, and increase capacity from 4 million passengers per year to 8 million visitors per year over the period 2015-2017.

Appendix 06: Some representative of ACV subsidiaries

Southern Aviation Service Company (SASCO)

SASCO provides non-aeronautical services in Tan Son Nhat airports and some other domestic airports. Examples of major business activities are duty-free business, department stores, fine art stores, restaurant, bar,

SASCO has growth potential in the long term:

- **Industry outlook.** At most airports in the world, commercial business contributes a high proportion of non-aeronautical revenues and profits. In 2014, Net sales and before tax profit of SASCO respectively reached 2,040 billion (+ 1.58% y.o.y) and 146 billion (+ 19.04% y.o.y).
- **Expand international terminal at Tan Son Nhat airport.** This will increase the capacity of the International Terminal from 8-10 million per year currently to 13 million passengers per year. Meanwhile, SASCO will expand duty-free operation area of about 500 m2, revenue estimated to increase of VND 67 billion.

Saigon Ground Services JSC (SAGS)

Jan 2014, SAGS was converted from a dependent accounting unit to a Saigon Ground Services LLC and completed the equitization to become a joint stock company in Dec 2014.

SAGS provides commercial services under a contract ground of IATA standards at Tan Son Nhat airports and some other port. In 2014, revenue reached VND 473 billion. SAGS are providing full service to more than 20 carriers in international airports Tan Son Nhat and representing 43.48% of the firms operating here. Many airlines have regular contracts with SAGS as: Asian Airlines, Emirates Airlines, Unites Airlines, Turkish Airlines, Vietjet Air ... Frequency of service is up to 70 flights / day.

Sags have a competitive advantage in the industry. (1) Large barriers to entry; (2) Dominant at Tan Son Nhat; (3) Expansion to Noi Bai International Airport.

Appendix 07: Sustainable growth of Vietnam aviation

Vietnam Aviation expects the fastest growth in the region in the next 20 years.

According to IATA forecasts for the period of 2014 - 2034, Vietnam will yield one of the fastest growth rates in the Asia Pacific, which is an active area of aviation. The number of passengers increases by an average 7.3% per year, adding 96.5 million in 2014-2034. In long term, Vietnam aviation industry is expected to grow on both international and domestic segment, on the basis that infrastructure investment is expanded and improved.

Growth drivers of domestic passenger and cargo

IATA forecasts annual domestic passenger traffic will increase from 34.68 million to 94.22 million passengers in the period from 2014 to 2034, yielding an average annual increase of 8.2%; due to a combination of factors (1) economic recovery; (2) the rapid growth in middle class (3) high potential for low-cost carriers. Specifically:

- Economic recovery and the acceleration in income per capita. First 9 months of 2015, Vietnam GDP increased by 6.5% compared to 2014, the highest rate since 2010 and the 3rd highest growth in Asia. The global economic institutions such as ADB, IMF gave optimistic assessments and raised their forecasts of Vietnam growth. According to IMF, income per capita of Vietnam was \$2,028 in 2014 and is forecast to grow at an average rate of 7.64% in the period 2015 to 2020.
- Vietnam has a large population and rapidly rising middle class: Vietnam population ranks the 3rd highest in the region with 92.5 million people (as of July 2014), after the Philippines and Indonesia, and continues to grow at an average rate of 1.05% in the next 5 years. According to the World Labor Organization ILO, the middle class in Vietnam will reach about 14.7 million people, representing 27% of the workforce in 2015 and will rise to 17.7 million by 2018, accounting for 30% of the workforce.
- High growth potential for low-cost carriers (LCC). The development of the low-cost carrier has expanded the customer base of the aviation industry and replaced the transportation by rail or road due to the competitive charge and time saving advantage. In Vietnam, proportion of low-cost flights is quite low (24%), less than half the region average (58.5%), which prove the growth potential of Vietnam's low-cost carriers.

Growth drivers for international passengers and cargo

IATA forecasts that the demand for international transportation to and from Vietnam will continue to grow with the annual rate of 5.3% in the period 2014-2034, due to (1) Growth in tourism and (2) the promotion of international integration. Specifically:

- Vietnam tourism continues to grow. According to Vietnam's National Administration of Tourism, in 2015, revenue from tourism will reach about VND 270 trillion, up 17% y.o.y. In the long term, according to the master plan for tourism development Vietnam to 2020, with vision to 2030, Vietnam's total revenues generated from tourism will reach VND 523 trillion by 2025, corresponding to average annual growth of 21%. In addition, the Ministry of Culture, Sports and Tourism predicts that in 2020 Vietnam will welcome 10-10.5 million international passengers and the number will grow to 18 million by 2030.
- International integration: In the near future, along with the TPP, Vietnam will continue to participate in a series of trade agreements such as RCEP, FTA, and customs union ... , in which Vietnam gains huge benefits from the economic integration. The free trade agreement boosted the growth of the import-export activities and foreign investment to Vietnam. Thereby, the needs for air transportation of both international passengers and cargo are expected to rise along with the level of integration. In the first 9 months of 2015, Vietnam exports and imports grew by 9.6% y.o.y and 15.9% y.o.y respectively, while total registered FDI capital increased by 53% y.o.y.

Vietnam aviation infrastructure is also expected to grow, in parallel with domestic and international transportation needs on the basis of (1) The domestic airlines continue to invest in their aircrafts, and (2) airports' capacity is expanded. Specifically:

- Rapid growth of domestic airlines. Three domestic airlines including Vietnam Airlines, Jetstar Pacific and Vietjet Air represent 73% market share of Vietnam's aviation industry. All 3 companies are planning to expand their flight network and increase the number of their aircrafts from 113 to 201 aircrafts by the year 2018. Particularly, Vietnam Airlines plans to grow from 83 to 116 aircrafts; Vietjet Air from 20 to 70 aircraft, Jetstar Pacific from 10 to 15 aircraft. Besides, in addition to 43 international airlines currently having routes to or from Vietnam, Vietnam may welcome some new airlines such as Nok Air, NokScoot, Kenya Airways, ...
- Airport infrastructure investment will continue to expand to meet the growing transportation needs. The number of commercial airports per million people in Vietnam is 0.24, which is low compared to 0.39 of Asia emerging countries, and 0.51 of Asia's developed countries. With the completion of the T2 Noi Bai and the expansion of other airports like Tan Son Nhat, Da Nang, Cam Ranh, and Pleiku, ..., the capacity for all Vietnam's airports will increase from approximately 64.75 million passengers to 84.25 million passengers per year by 2020. Concurrently, traffic connections to the airports are also upgraded by the construction of highways and bridges such as Long Thanh – Cau Day, Nhat Tan Bridge, the metro lines and railways.

ABOUT US

BIDV Securities Company (BSC) is the first securities arm of a commercial bank in Vietnam, and one of the first two securities firm in Vietnam.

After 16 years, we have become one of the top three bond issuance advisory in Vietnam. We are the top bond brokerage firm, and one of the top 10 equity brokerage firm in Vietnam at both the Hanoi and Ho Chi Minh exchanges. Among our clients are prestigious industry leaders of Vietnam economy such as Vietnam Airlines, Vinacomin, and Vinatex...

Our mission is to connect the investors with the right investment. We are with our clients toward success.

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