

Industry: *Postal services and telecommunications* (Latest update report: [Link](#))

Recommendation Neutral

Viettel Post Joint Stock Company (UPCOM: VTP) The stage of corporate restructuring

Current price (VND)	80,500	Date	26/04/2021	Shareholder structure	
Previous target price (VND)	103,600	Outstanding shares	83	Viettel Group	23.9%
Target price (VND)	87,100	Market capitalization (billion VND)	7,250	Japan Asia MB Capital Fund	12.9%
Dividend yield	1.7%	Avg. 10d trading vol (thousand shares)	345,659	Vietnam Holding Ltd	11.3%
Upside	10.2%	% Foreign ownership	19%	Tran Trung Hung	7.4%

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Target price (VND) N/A
Stop-loss price (VND) N/A

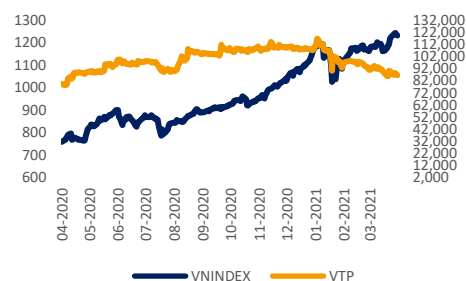
Valuation

- We change our recommendation from **BUY** to **NEUTRAL** for VTP stocks with a 2021 target price of VND87,100 (+ 10.2% upside potential from its closing price on April 28th 2021, including dividends in 2020) after re-evaluating: (i) Company's competitive positioning (ii) Growth potential in 2021 when the competition of the fast delivery service industry is becoming increasingly fierce.

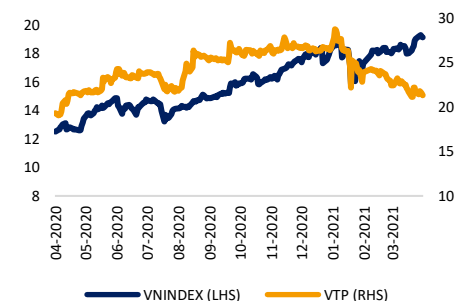
Business plan for 2021

- VTP sets 2021's revenue and profit target of VND21,420 billion (+23.5% YoY) and VND620 billion (+29% YoY), respectively.

Share price & VN index movement



VTP's P/E & VN index movement



Forecast of business performance in 2021

- We forecast that VTP's net revenue and NPAT in 2021 will reach VND20,049 billion (+16.3% YoY) and VND440 billion (+14.6% YoY) respectively, equivalent to 2021F EPS of VND4,557 /share and a forward P/E of 18.8.

Catalyst

- Listing switches to Ho Chi Minh stock exchange (HOSE).

Investment risks

- To attract users, players in the sector compete fiercely by reducing freight rates.

Financial results & Business update

- In 2020, Viettel Post recorded the lowest growth rate since listing** with net revenue and net profit after tax reaching VND17,236 billion (+120.7% YoY) and VND384 billion (+1% YoY) respectively.
- Investment thesis:** BSC supposes that the decrease in Viettel Post's share prices in the recent period reflects the declining growth rate of the corporation when market competition is getting increasingly fierce.

Unit: billion VND

	2019	2020F	Peer	VN-Index		2018	2019	2020E	2021F
PE (x)	23.3	18.8	21.3	14.7	Total revenue	55,836	63,658	88,410	103,867
PB (x)	5.5	4.2	1.8	2.0	Gross profit	11,671	11,185	17,179	21,282
PS (x)	0.3	0.3	0.8	1.5	NPAT	8,573	7,527	11,615	14,133
ROE (%)	35.3%	29.7%	5.2%	14%	EPS	4,037	2,726	3,506	4,266
ROA (%)	9.9%	8.6%	2.4%	2%	Gross profit margin	20.9%	17.6%	19.4%	20.5%

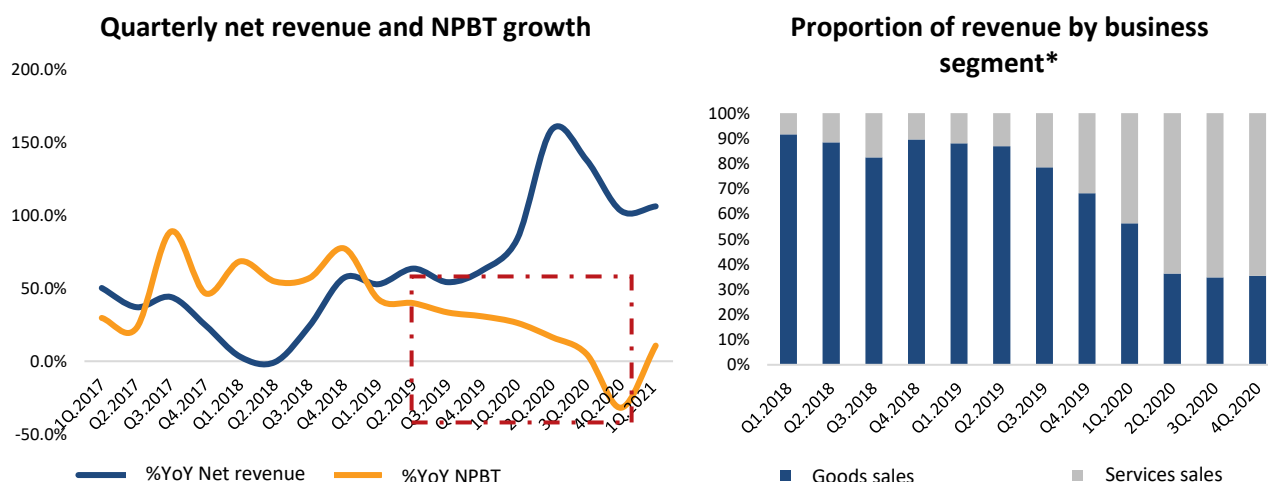
I. FINANCIAL RESULTS & BUSINESS UPDATE 2020

At the end of 2020, recorded the lowest growth rate since listing with net revenue and net profit after tax reaching VND17,236 billion (+120.7% YoY) and VND384 billion (+1% YoY,) respectively. This result is much lower than BSC's forecast, fulfilling 85% of profit forecast.

Strong revenue growth mainly came from Sales segment, which increased 4 times to VND10,617 billion because VTP took over the store system of Viettel Group, making VTP record new revenue and expenses. However, due to the low gross profit margin of this segment (~0.2% in 2020), it did not contribute much to VTP's profit.

Therefore, the main contribution of profit was from delivery services, although this segment only accounted for 38% of the revenue. However, the growth rate of profits from delivery services segment was much lower than in the past due to the negative impact on business activities pandemic and the restructuring of the group during the Covid-19. At the same time, the company still maintains the salary for employees during the epidemic, making expenses remain high (especially recorded in the fourth quarter of 2020).

In the first quarter of 2021, VTP expects net revenue and net profit before tax to reach VND5,060 billion (+106% YoY) and VND134 billion (+11% YoY), respectively. BSC supposes that the sharp increase in revenue will mainly come from the recognition of revenue from the Viettel Post system received from Viettel Group (unrecognized revenue in Q1 of the same period). Profits continued to come from the Delivery services segment – showing a rebound in parcel volume up 16% y/y.



Source: VTP

* Services sales: Sales from express delivery services, logistic

Goods sales: Sales from selling sims, cards, and receiving distribution systems of Viettel Group

Although the e-commerce market in Vietnam in 2020 continued to grow at a high rate of 18% and reached 11.8 billion USD in revenue, Viettel Post showed a flat year of business in the delivery segment. BSC supposes that in 2020 the company had to reduce freight rates at some platforms in response to increasingly fierce competition in the industry.

Table: Parcel delivery prices of some fast delivery services companies

		Shipping price in 2019 (VND)	Shipping price in 2020 (VND)
Viettel Post	Slow delivery	21,300	
	Fast delivery	52,900	40,000
Vietnam Post	Slow delivery	20,000	18,500
	Fast delivery	52,900	53,900
Giaohangtietkiem.	Slow delivery	35,000	35,000
	Fast delivery	43,000	43,000

Source: Compiled by BSC

* Shipping rates on website <https://viettelpost.com.vn/tra-cuoc-va-thoi-gian-van-chuyen/> remain unchanged

II. INVESTMENT THESIS

BSC supposes that the extensive distribution system - strengthened after taking over Viettel's store system- continues to be an advantage that helps VTP benefit from the boom of e-commerce and is the foundation for the company to thrive in the Logistics segment. At the same time, the company focuses on investing in logistics centers to optimize processes and cut operating costs. However, Viettel Post is facing many challenges when competition among rivals increases.

(1) The large distribution system continues to be the advantage of Viettel Post and is the foundation for the company to thrive in the Logistics segment. At the same time, the investment in Logistics centers helps to optimize and reduce operating costs.

BSC believes that for the delivery industry, a wide distribution system is a great advantage and can hardly be built overnight. New competitors in the industry will often focus on developing routes with high volume of shipments (e.g., Hanoi – Da Nang – Ho Chi Minh): often routes connecting major cities. Not only that, it will be more difficult to develop the distribution system to communes and districts when (i) the number of orders is insignificant (ii) the long-standing delivery companies have penetrated the market early. Therefore, longtime delivery companies that own distribution infrastructure such as VN Post and Viettel Post have a great advantage when the trend of online shopping will gradually spread to neighboring provinces and cities.

BSC expects that after Viettel Post receives the distribution system of Viettel Group, the advantage of logistics infrastructure will be consolidated and expanded. However, to be able to arrange and perfect the new distribution system for the most optimal, Viettel Post said it takes from 1 to 1.5 years.

	VIETTEL POST			VN POST
	2018	2019	2020	2019
Number of post office	1,300	1,500	2,200	2,600
Number of transaction points	6,000	6,000	6,000	8,600
Number of points of sale			300,000*	

**VTP point of sale received from Viettel Group*

In the 2021 - 2025 strategy, Logistics is expected to account for 50% of revenue, up from 10% of revenue in 2020, equivalent to a growth rate of 200%/year. When the competitors in the logistics industry are still mostly small businesses, owning a small fleet of vehicles and only maintaining a few specific routes, the ownership of a large fleet of vehicles and a distribution system covering all the district will be an advantage for Viettel Post to meet customer needs. Not only that, the company also focuses on investing in logistics centers to cut operating costs. Recently, VTP inaugurated the Southern Logistics Center with a total capacity of 46,000 parcels/hour and can sort goods weighing over 50 kg (used in the Logistics segment). The Logistics Center is expected to reduce sorting costs and sorting time by 60%. The company plans to continue to invest in 17 logistics centers, giving priority to cities with large orders (Hanoi, Ho Chi Minh, Da Nang, Can Tho).

In 2021, Viettel Post will sign a cooperation agreement with Tan Cang to be able to combine advantages between the two sides: road (Viettel Post) and port (Tan Cang) to help customers' shipping process become seamless and unify. Regarding the details of the cooperation, Viettel Post will provide cargo transportation services from port to endpoint for Tan Cang's customers as well as provide warehouse services. In the long term, the group will aim to build a shared infrastructure (for rent warehouses, transport orders for households) for logistics companies and develop a set of customers who need to transport and distribute imported goods come back Vietnam.

(2) VTP is facing many difficulties due to increased competition in the express delivery industry

Realizing the great growth potential of the Express delivery industry in Vietnam, many businesses enter the market, making the industry's competitive level hotter than ever:

	Company	Characteristics
Express delivery startups	GiaoHangNhanh, Lalamove, Ahamove, Ninja Van	Willing to take losses to gain market share
Delivery companies that belong to the e-commerce platform or have the same parent company as the e-commerce platform	Lazada Express, Tiki Express Delivery, GiaoHangTietkiem	Having priority shipping for orders on the main route
Multinational logistics companies	DHL, UPS,	Having a solid financial position and operating experience

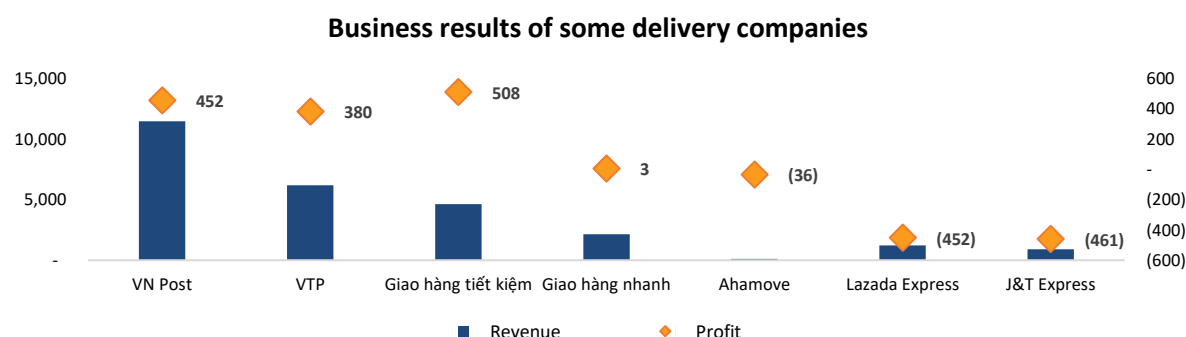
Source: Compiled by BSC

With such fierce competition, a reduction in freight rates is inevitable and this trend is likely to continue in the near future. In that context, if Viettel Post wants to maintain a high growth rate, they will have to (i) increase the number of shipping orders (ii) reduce operating costs in case competitors continue to reduce prices.

As for the growth of order volume, BSC believes that Viettel Post will still benefit from the strong growth of e-commerce, but the company will also face many challenges, such as:

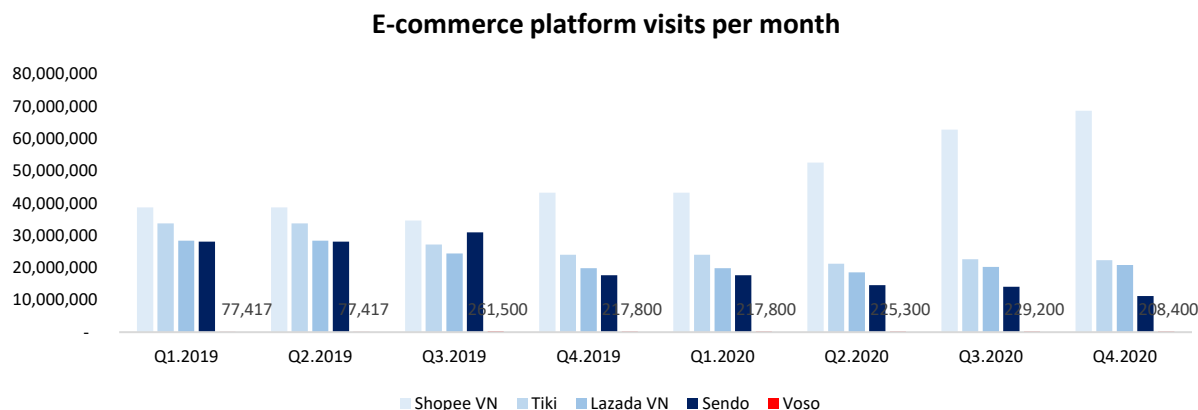
+ For orders from e-commerce platform: BSC believes that orders from e-commerce floors will account for an increasingly large proportion, therefore, delivery companies have close links with exchanges (e.g.: belonging to the same group, under the e-commerce platform) will have a great advantage in receiving shipping orders. Therefore, in this segment, Viettel Post will face fierce competition with competitors with low rates.

+ For orders outside the E-commerce platform (single orders, orders from online stores that do not go through the exchanges This is the segment that Viettel Post has had in the past thanks to its large distribution system. However, with (i) stores switching to selling via e-commerce platform (ii) social platforms such as Facebook that introduce many strict regulations in online sales (risk of reduced interaction), BSC supposes that the proportion of orders outside the e-commerce platform gradually decreased.



Source: Compiled by BSC

Although Viettel Post has an e-commerce platform Voso.vn, BSC believes that Voso is not in a position to be able to create a large number of orders for the Group. The average number of visits to Voso.vn website in Q4.2020 was 208,400 visits, lower than that of leading trading platforms (Shopee: 68 million visits, Tiki: 22 million visits).



Source: iprice.vn

In addition to the goal of increasing the number of shipping orders, the company also shared a number of initiatives to reduce operating costs in case other competitors continue to reduce selling prices. Viettel Post is actively applying technology during operation to cut operating costs (mainly labor costs):

+ Midway costs: The investment in logistics centers helps to cut costs and time by 60%. In the coming time, the company will continue to invest in 17 logistics centers.

+ Cost of the first and last stages: The company applies technology to improve productivity. Viettel Post deploys placing orders directly on the app, thus, reducing the time to enter order slips into the system as in the past. At the same time, the company is testing the system with Viettel Pay to deploy a payment service on receipt, cutting cash flow management costs.

III. BUSINESS RESULTS FORECAST & VALUATION

Business results forecast for 2021: BSC forecasts that VTP's 2021 net revenue and profit before tax will reach VND20,049 billion (+16.3% YoY) and VND550 billion (+14.4% YoY), respectively, equivalent to 2021F EPS of VND4,557 /share (+12.1% YoY).

- Revenue structure:

+ BSC supposes that sales revenue (including sales of sim cards, distribution system transferred by Viettel Group, ...) recorded a growth rate of 13%, a sharp decrease compared to the 5- time increase in 2020 due to Viettel Post has basically received most of Viettel Group's stores.

+ + Revenue from service provision segment (including express delivery, logistics, etc.) continues to grow at a high rate (~21.7%) as VTP expects to still benefit from the explosion of online shopping trend. continue in Vietnam.

Table: MSH's financial results forecast

Unit: billion VND	2020A	2021F	2022F
Net revenue	17,236	20,049	22,763
Delivery services	6,617	8,050	10,765
Goods sales	10,617	11,998	11,998
Cost of goods sold	(16,542)	(19,248)	(21,703)
Gross profit	694	800	1,060
GPM	4.0%	4.0%	4.7%
Selling expenses	(21)	(20)	(22)
Selling expenses margin	0.1%	0.1%	0.1%
Administrative expenses	(243)	(281)	(319)
Administrative expenses margin	1.4%	1.4%	1.4%
Net profit before tax	481	550	740
Net profit after tax	384	440	543
EPS	4,066	4,557	5,216

Source: BSC Research

P/E method: BSC uses the P/E ratio method to value VTP stocks. We use a median P/E of 21.8 of regional delivery companies of and we discount 12% (target P/E for VTP is 19) because VTP's operation and products development strategy still contains some constraint. BSC issue a target price for VTP stocks is VND 87,100 with a NEUTRAL recommendation.

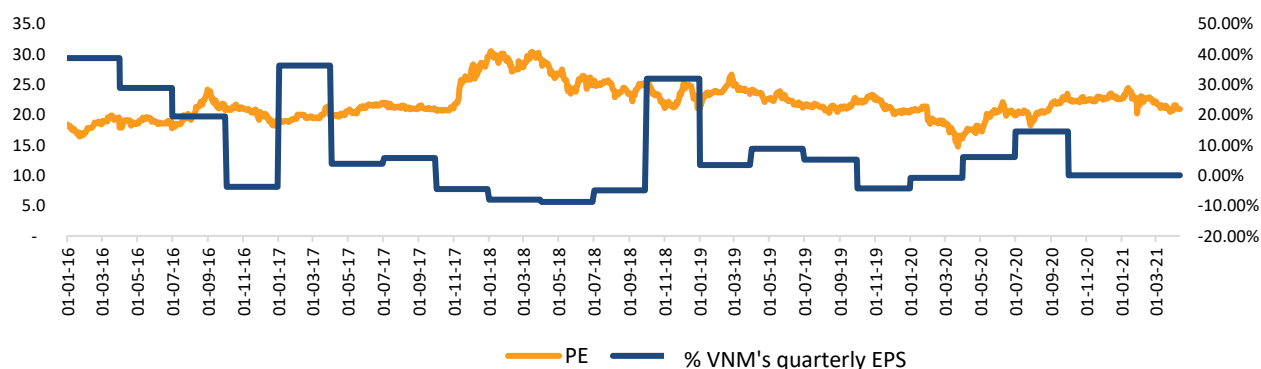
P/E method	2020	2021F	2022F
EPS	4,066	4,557	5,216
P/E		19.1	19.1
Target price		87,100	99,100

Table: Comparison of valuation rates of some businesses in the region

Stock code	Company	Market cap (billion VND)	ROE	NPM	P/E
600233 CH Equity	YTO Express Group	116,98	13,04%	14.5%	19,17
002468 CH Equity	STO Express CO	48,65	3,78	n/a	43,90
LBC PM Equity	LBC Express Holding	11,11	N/A	33.1%	N/A
GTIC IN Equity	Gati LTD	3,92	N/A	28.5%	N/A
Singapore Post LTD	SPOST SP	28,22	6,73%	51.5%	22,63
VTP	VTP	7,12	30,58%	29.6%	21,11
Median					21,87

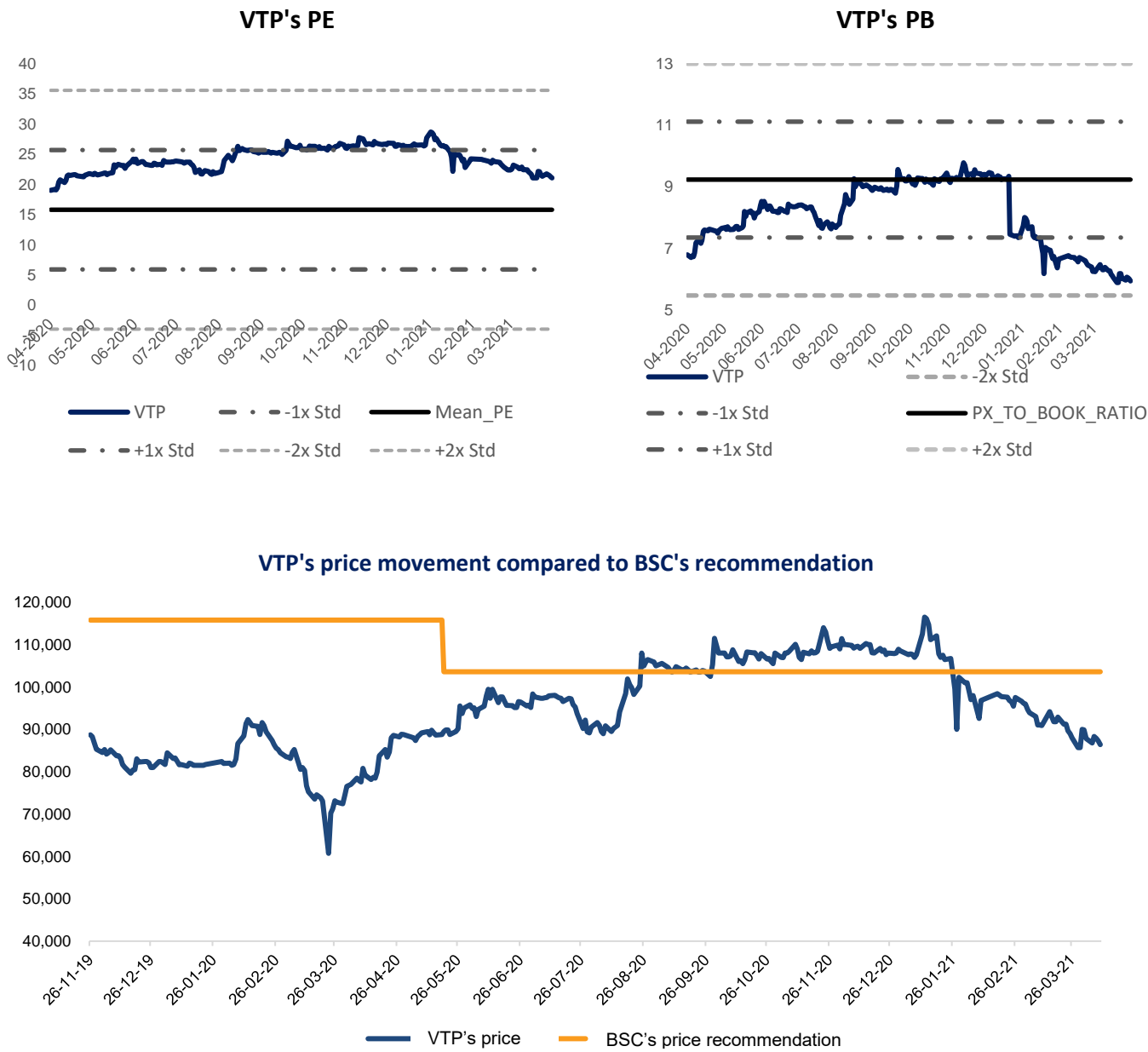
BSC supposes that the decline in Viettel Post's stock price in the recent period reflects the Group's declining growth rate when competition is increasing. In the Vietnamese stock market, many stocks in the high valuation (high PE) and high growth groups are having difficulty maintaining the high growth rates in the past. Most stock prices respond to this change with an average drop of 32% to 38%. BSC has statistics on some indicators of two codes VNM (Vietnam Dairy Products Joint Stock Company) and PNJ (Phu Nhuan Jewelry Joint Stock Company).

PE VNM's quarterly PE and EPS



	VNM	VTP*
The decrease in stock price	-32%	-26%
The decrease in PE	-27%	-23%
Average PE 1 year ago	23.5	23.7
Average PE 1 year later	22.6	
Average profit growth 1 year ago	10%	36%
Average profit growth 1 year later	-1%	

* Viettel Post's data up to now



Source: Bloomberg, BSC Research

APPENDIX

IS (billion VND)	2018	2019	2020	2021F
Net revenue	4,911	7,812	17,236	20,048
Cost of goods sold	-4,376	-7,036	-16,543	-19,248
Gross profit	547	775	694	801
Selling expenses	-30	-49	-21	-20
Administrative expenses	-200	-285	-243	-281
Operating income	347	486	474	542
Financial income	49	94	99	99
Financial expenses	-19	-49	-54	-57
Interest expenses	-19	-49	-54	-57
Profit/ Loss from affiliates	0	0	0	0
Other gains/losses	3	-9	7	0
Profit before tax	350	477	481	550
Tax payment	-71	-97	-97	-110
Profit after tax	279	380	384	440
Minority interest	0	0	0	0
NPAT- minority interest	279	380	384	440
EPS	6,216	5,718	4,066	4,557

BS (billion VND)	2018	2019	2020	2021F
Cash & cash equivalent	411	347	288	280
Short-term investment	1,060	1,276	1,572	1,572
Account receivables	832	1,073	1,335	1,708
Inventory	120	48	605	714
Other current assets	67	114	119	133
Total current assets	2,491	2,858	3,919	4,407
Tangible fassets	214	332	314	457
Long-term assets in progress	14	11	58	80
Long-term investments	0	84	0	0
Other non-current assets	112	105	69	81
Total non-current assets	344	536	444	618
TOTAL ASSETS	2,834	3,394	4,363	5,025
Account payable	1,010	929	1,071	3,437
Short-term debt	399	815	1,085	1,158
Other short-term debt	744	682	987	981
Current liabilities	2,154	2,426	3,143	3,424
Long-term debt	0	0	11	11
Other long-term debt	0	0	0	0
Non- current liabilities	0	0	0	0
Total Liabilities	2,154	2,426	3,154	3,435
Paid-in capital	414	596	830	830
Capital surplus	0	0	0	0
Retained earnings	262	344	350	752
Other equity	0	0	0	0
Minority interest	0	0	0	0
Owner's equity	680	968	1,209	1,588
TOTAL RESOURCES	2,834	3,394	4,363	5,025
Number of shares outstanding (million)	41	59	83	83

CF (billion VND)	2018	2019	2020	2021F
Profit after tax	350	477	480	550
Depreciation	0	0	0	0
Change in net working capital	19	23	30	17
CF from operating activities	427	-22	-46	-80
Fixed assets investment	-33	-203	-103	-120
CF from investing activities	-655	-428	-205	-120
Dividend paid	-46	-62	-88	-88
Cash from net borrowing	207	415	280	280
Other revenue	0	0	0	0
CF from financing activities	162	387	192	192
Cash & cash equivalent, beginning of the year	477	411	347	288
CF during the year	-66	-64	-59	-8
Cash & cash equivalent, end of the year	411	347	288	280

Ratios (%)	2018	2019	2020	2021F
Liquidity ratios				
Current ratio	1.16	1.18	1.25	1.21
Quick ratio	1.07	1.11	1.02	0.97
Solvency ratios				
Debt/ Total assets	0.76	0.71	0.72	0.68
Debt/ Equity	3.17	2.51	2.61	2.16

Efficiency ratios				
Days of inventories	5.8	4.4	7.2	12.2
Days of receivable	35.4	33.3	16.8	15.1
Days of payable	13.3	11.7	6.0	7.1
CCC	27.8	25.9	18.0	20.5

Profitability ratios				
Gross profit margin	11.1%	9.9%	4.0%	4.0%
Net profit margin	5.7%	4.9%	2.2%	2.2%
ROE	47.7%	46.1%	35.3%	28.3%
ROA	12.2%	12.2%	9.9%	9.9%

Valuation				
PE	20.6	20.1	23.3	17.8
PB	7.8	7.1	5.5	4.3

Growth				
Net revenue growth	22.1%	58.7%	120.7%	16.3%
NPAT growth	63.9%	36.3%	0.8%	14.5%
EPS growth	8.5%	-8.0%	-28.9%	12.1%

Disclosure

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