

Recommendation

BUY

**Vietnam Container Shipping Joint Stock Corporation (HSX: VSC)
Opportunity to Change Positions**

Current Price:	63,800	Report date:	10/09/2021	Shareholder Structure	
Previous target price	-	Outstanding shares (Million)	55	SAFI	9.6%
Target price (1 year)	77,000	Market Cap (Billion)	3,527	Sao A D.C Investment Joint Stock Company	7.5%
Dividend yield	2%	Avg. 6M Trading vol:	100,350	Doan Thi T	7.0%
Upside	20%	% Foreign float	6.9%		

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(For short-term investors)
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Target price: 73,000 VND
Cut Loss Price: 61,000 VND

VALUATION PERSPECTIVE

We recommend **BUY** for VSC shares at a target price of **VND 77,000** determined by a combination of FCFE and P/E valuation models to reflect (1) The recovery in post-epidemic loading output and (2) The expectation of being approved for investment in two deep-water port projects.

FORECAST BUSINESS RESULTS

BSC forecasts VSC net revenue and profit after tax & non-controlling interests to reach **VND 1,857 billion (+10% YoY)** and **VND 309 billion (+29% YoY)** **EPS FW2021 = VND 5,181/SHARE** respectively which is equivalent to **P/E FW2021 = 12.3x** with the assumptions that VSC loading and unloading output reaches **1,137,836 TEU (+10% YoY)**.

INVESTMENT THESIS

- Commodity output rises 10% YoY as global economy recovers
- Long-term growth drivers, triple capacity from deep-water port projects

TECHNICAL PERSPECTIVE (For short-term investors)

- Investors should continue to monitor and consider opening positions if they exceed 68, taking profits when the stock nears 73. Cut the loss if the support level is broken at 61.

RISKS

- COVID-19 restricts global trade.
- Deep-water port investment projects are not approved.

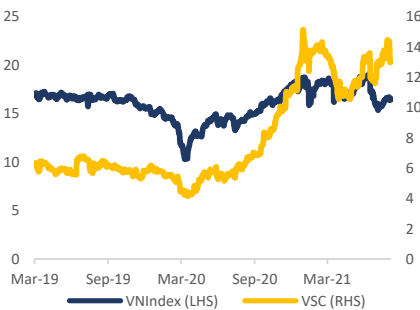
BUSINESS UPDATE

- At 1H2021, VSC recorded net revenue and profit after tax reaching **VND 912 billion (+14% YoY)** and **VND 149 billion (+32% YoY)** respectively thanks to the recovery of cargo output through the VSC Port system and the decrease in depreciation costs.

Price comparison vs VN-index



P/E comparison vs VN-index



	2020	2021F	Peer	VN-Index		2019	2020	2021F	2022F
PE (x)	16.3	12.3	18.6	17.1	Net revenue	1,793	1,689	1,857	1,957
PB (x)	2.0	1.9	2.7	2.7	Gross profit	437	449	533	587
PS (x)	2.0	2.0	2.3	2.1	Profit after tax	234	240	309	330
ROE (%)	14.3	16.0	14.9	16.0	EPS	4,244	4,348	5,181	3,621*
ROA (%)	12.4	14.2	2.4	2.6	EPS growth (%)	-19.3%	3.7%	29.0%	-30.1%
EV/ EBITDA (x)	5.5	5.4	17.5	16.1	Net debt/ equity (%)	3.7%	0.0%	0.0%	0.0%

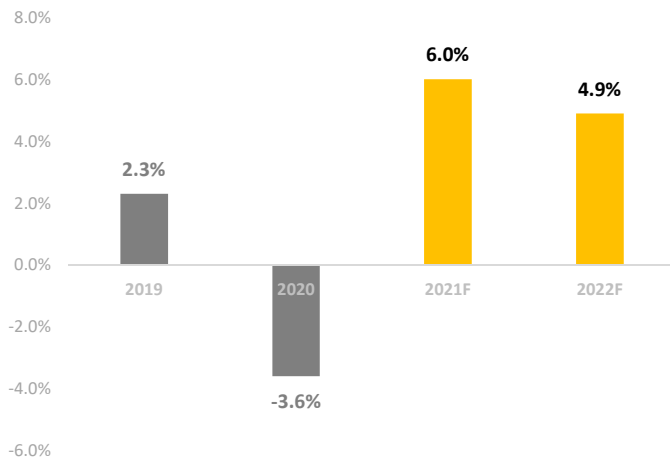
INVESTMENT THESIS

VSC 2021 commodity output up 10% YoY thanks to global economy recovery

In 1H2021, the output of Vietnam seaport system in general and Hai Phong port cluster in particular has recovered well with growth of **7.0% YoY** and **14.7% YoY** respectively due to (1) positive recovery of the global economy in the context of well-controlled epidemics and (2) the rate of vaccinated population increased sharply which help the recovery of production trade. As a result, VSC net revenue also grew again in 1H2021 - reaching **VND 912 billion (+13.8% YoY)**.

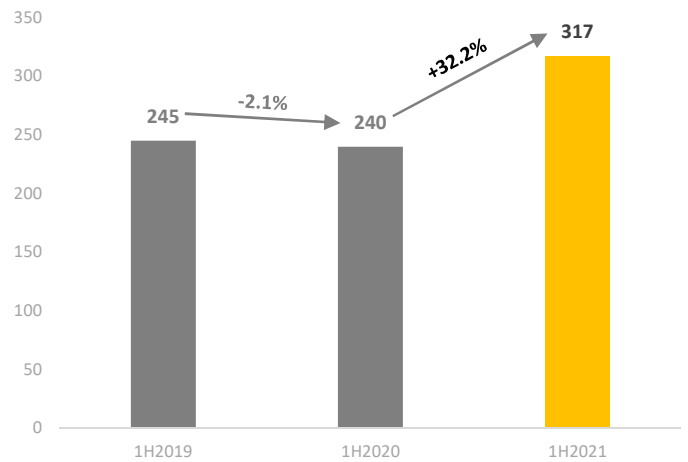
BS contended that the **outlook for 2H2021 will be more positive for Vietnam port industry and VSC since the global economy continues to grow thanks to** (1) The proportion of the global vaccinated population increases rapidly by the goal of community immunity in many countries and (2) The shortage of empty containers improves as container supplies increase, since then **the output of goods transported through VSC port is expected to increase by 10% YoY**.

Figure 1: IMF forecasts strong growth in global GDP in 2021 after epidemic



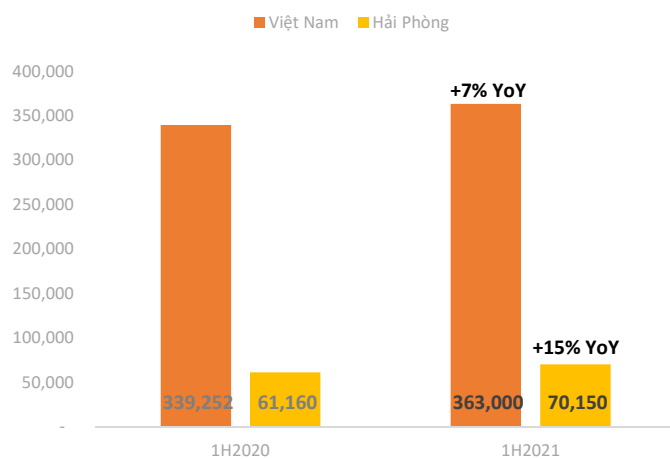
Source: IMF, World Bank, BSC Research

Figure 2: Vietnam's import and export turnover increased sharply by 1H2021 (USD billion)



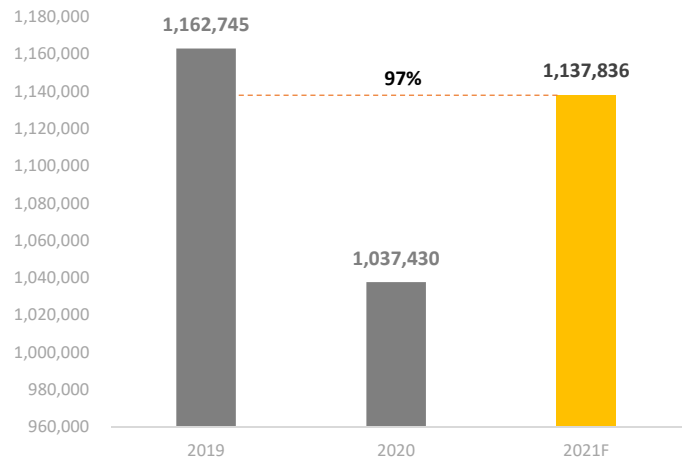
Source: GSO, BSC Research

Figure 3: Cargo output of Vietnam port industry recovered well in 1H2021 (Thousand tons)



Source: Vietnam Maritime Administration, BSC Research

Figure 4: Cargo output through VSC port in 2021 expects to recover close to pre-epidemic levels (TEU)



Source: VSC, BSC Research

Long-term growth drivers comes from the deep-water port project will help VSC triple its capacity

VSC is currently applying for investment licenses for two projects of Cat Hai - Hai Phong deep-water port and Lien Chieu - Da Nang deep-water port, which are likely to be approved for investment by the end of 2021. BSC believed that **these two projects, if approved, will be the long-term growth drivers of VSC** in the context that Green and VIP Green ports do not have much room for growth.

Table 1: Capacity of projects compared to old VSC ports

Port	Green	VIP Green	Cat Hai	Lien Chieu
Capacity (TEU/year)	300,000	800,000	1,100,000	1,100,000

Source: VSC, BSC Research

Table 2: Investment plan for 2 deep-water port projects

Port	Capacity	Total investment	Location	DWT	Construction time
Cat Hai	1.1 million TEU/năm	5,000 billion VND	Hai Phong	100,000 DWT	2022-2023
Lien Chieu	1.1 million TEU/năm	5,000 billion VND	Da Nang	100,000 DWT	2022-2023

Source: VSC, BSC Research

Cat Hai port will operate at maximum capacity from 2028 thanks to (1) The overall growth of Hai Phong port cluster and (2) Cat Hai port is in line with the trend for ships with large tonnage.

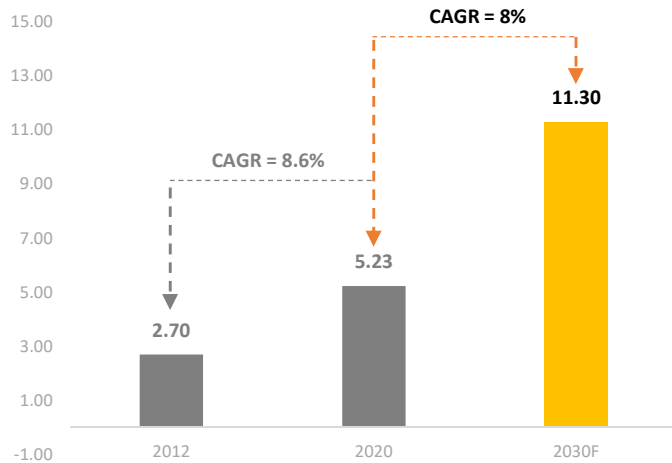
Playing an important role in domestic and international logistics activities, Hai Phong port cluster has continuously increased container cargo production through **CAGR = 8.6%** in the period 2012-2020. However, production at this port cluster is slowing down in recent years because the river port cluster with shallow water levels hinders the reception of ships with large tonnage. Therefore, Lach Huyen port with the appropriate and deep-water is suitable to welcome large tonnage vessels, serves as a regional transshipment port to help Hai Phong have more growth momentum in the future; BSC expects Hai Phong port cluster output to reach **11.3 million TEU** in 2030, corresponding to **CAGR growth = 8%** of 2020-2030.

VSC Cat Hai port project is located next to Lach Huyen port with the same advantages in terms of flow conditions, can receive ships with a tonnage of up to 100,000 DWT, if approved is expected to be put into operation at the end of 2023 – one of the first ports to come into operation in this group of deep-water ports. **Cat Hai port, if approved for investment, will benefit and quickly bring profit to VSC by (1) Overall CAGR growth of Hai Phong port cluster reaches 8%, (2) Is one of the first deep-water ports to come into operation after HICT port is expected to operate at maximum capacity in 2022 and (3) Port capacity supply is drafted to adjust the number of berths by reducing the number of investment container terminals to 10-12 berths instead of 16 as planned in 2014; since then, BSC expects Cat Hai port to operate at maximum capacity by 2028.**

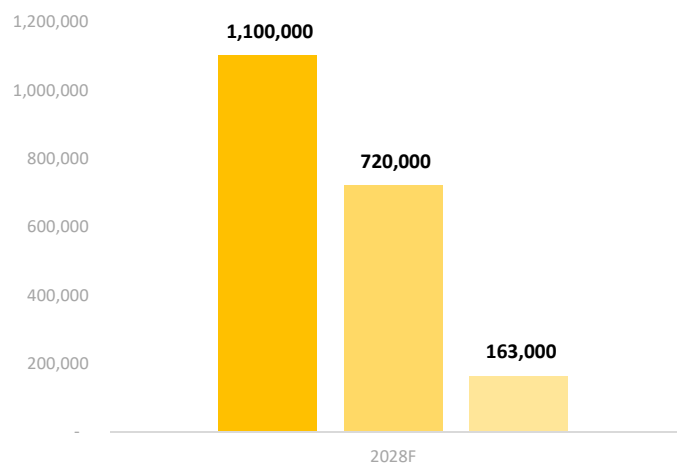
According to BSC estimation, Cat Hai port when operating at maximum capacity with an output of **1.1 million TEU per year** can generate **VND 1,900 billion of revenue** and **VND 350 billion of profit after tax** each year. Assuming VSC holds **36%** of Cat Hai port, the port will contribute about **VND 130 billion** in profit per year to VSC (**=45% of profit after tax in 2020**).

However, the investment and exploitation of Lach Huyen port and Cat Hai port will have a negative impact partly on ports in the Cam river area in general and Green Port, VIP Green port of VSC in particular. With VIP Green, the port will gradually move to serve domestic Asian goods and operate at an average capacity of **80%**. Green Port will be more negatively affected when being in a less favorable location, the port will serve domestic goods with an average capacity of **55%**.

Figure 5: Cargo output through Hai Phong port cluster is expected to continue to grow high (TEU Million) Figure 6: Expected output of VSC ports in Hai Phong in 2028 (TEU)



Source: 2367/QĐ-BGTVT, BSC Research



Source: BSC Research

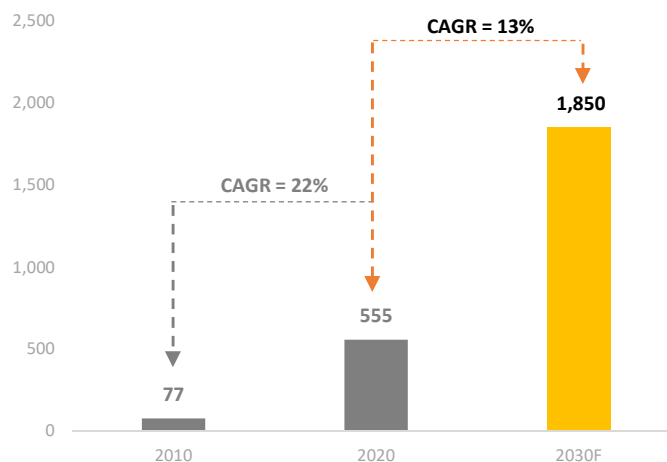
Lien Chieu Port will operate at maximum capacity from 2030 thanks to (1) The overall growth of Da Nang port cluster and (2) Cargo transfer from Tien Sa port

In order to turn Da Nang seaport into the key international gateway port in the Central region (type IA), Lien Chieu port is determined to become the main port of the international gateway port in the Central region and Tien Sa port will gradually turn into a tourist port. With the investment of Lien Chieu deep-water container port, BSC expects the amount of goods through Da Nang port will reach **1.85 million TEU**, equivalent to **CAGR = 13%** during the period of 2020-2030.

VSC expects to be the first unit to invest in two berths in Lien Chieu, so it will benefit soon from the overall growth of Da Nang port cluster and goods moving from Tien Sa port, from then Lien Chieu port expects to operate at maximum capacity by 2030 with output through reaching **1,100,000 TEU**.

According to BSC, when operating at maximum capacity, Lien Chieu port can generate **VND 1,400 billion in revenue** and **VND 190 billion in profit after tax** each year. Assuming VSC holds 36% of Lien Chieu port, the port will contribute **VND 70 billion in profit per year to VSC (=30% of profit after tax in 2020)**.

Figure 7: Cargo output through Da Nang port cluster continues to grow (Thousand TEU)



Source: 2369/QĐ-BGTVT, BSC Research

BUSINESS UPDATE

Table 3: VSC update 1H2021

Billion VND	1H2020	1H2021	%YoY	Comment
Net revenue	801	912	14%	Net revenue 1H2021 reached VND 912 billion (+14% YoY) thanks to an increase in cargo output through the Port as the global economy recovered from the epidemic:
COGS	(605)	(640)	6%	
Gross profit	197	272	38%	- Vietnam import and export turnover in 1H2021 reached USD 317 billion (+32.2% YoY) .
Gross margin	24.5%	29.8%		
Financial revenue	6	6	3%	- Cargo output through Hai Phong seaport 1H2021 reached 70 million tons (+14.7% YoY) .
Financial expenses	(2)	(1)	-70%	
Including: Interest expenses	(1.71)	(0.16)	-91%	Gross margin of 1H2021 reached 29.8% increasing sharply compared to 24.5% in the same period due to:
Profit/(loss) from joint venture company	2	2	24%	
Selling expenses	(19)	(34)	75%	- Increase in cargo output through the port helps reduce fixed costs on unit of output.
Administration expenses	(27)	(35)	29%	- Depreciation expense decreased to VND 96 billion (-17.9% YoY) thanks to ending depreciation of some transportation vehicles .
Operating profit/(loss)	150	202	35%	
Net other profit	(0)	(2)	684%	
Pre-tax profit/(loss)	155	208	34%	Interest expense decreased to VND 160 million (-91% YoY) as VSC sharply reduced its outstanding loans compared to the amount of VND 32 billion in the same previous period.
Corporate tax	(14)	(28)	99%	
Profit/(loss) after tax	141	181	28%	
Non-controlling interests	28	31	12%	
Profit to shareholders of the parent company	113	149	32%	Business results plan in 2021: - Net revenue reaches VND 1,700 billion (+0.7% YoY) . - Pre-tax profit reaches VND 355 billion (-0.3% YoY) .

Source: VSC, BSC Research

Forecast business results

BSC forecasts that VSC net revenue and profit after tax&non-controlling interests in 2021 will reach **VND 1,857 billion (+10% YoY)** and **VND 309 billion (+29% YoY)**, **EPS FW2021 = VND 5,181/SHARE** respectively, which is equivalent to **FW2021 P/E = 12.3x**, based on the following assumptions:

- Hoạt động giao thương xuất nhập khẩu quốc tế diễn biến tích cực nhờ nền kinh tế toàn cầu hồi phục, kỳ vọng đạt **6.0%** vì (1) Tỷ lệ dân số tiêm vaccine tăng nhanh bởi chiến lược miễn dịch cộng đồng tại nhiều quốc gia và (2) Tình trạng thiếu hụt container giảm nhờ nguồn cung container mới. International import and export trade has been positive thanks to the global economy recovery, it is expected to reach **6.0%** due to (1) The proportion of the vaccinated population increased rapidly by the goal of creating community immunity in many countries and (2) The shortage of containers situation lightened thanks to the supply of new containers.

- Loading and unloading output at VSC ports reached **1,137,836 TEU (+10% YoY)**, including:

+ VIP Green Port reached **685,554 TEU (+13% YoY)**

+ Green Port reached **241,096 TEU (+5% YoY)**

+ PTSC port leasing reached **211,187 (+5% YoY)**

Table 4: VSC Business Results Forecast (VND billion)

	2019	2020	2021F	2022F
Net revenue	1,793	1,689	1,857	1,957
COGS	(1,356)	(1,240)	(1,324)	(1,370)
Gross profit	437	449	533	587
Financial revenue	9	11	19	18
Financial expenses	(16)	(2)	(1)	(22)
Including: Interest expenses	(15)	(0)	0	(21)
Profit/(loss) from joint venture company	12	2	4	6
Selling expenses	(31)	(56)	(61)	(65)
Administration expenses	(66)	(73)	(76)	(80)
Operating profit/(loss)	340	320	395	442
Other revenue	11	5	6	6
Other expenses	(14)	(1)	(1)	(1)
Net other profit	(3)	5	5	5
Pre-tax profit/(loss)	342	336	422	450
Corporate tax	(56)	(39)	(57)	(61)
Profit/(loss) after tax	286	296	365	389
Non-controlling interests	52	57	57	60
Profit to shareholders of the parent company	234	240	309	329
EPS (VND)	4,244	4,348	5,181	3,621*

Source: BSC Research

*EPS 2022 adjusted according to the stock issuance plan in 2021

VALUATION AND RECOMMENDATION

We recommend **BUY** for VSC shares at a target price of **VND 77,000/SHARE**. This price is equivalent to an **upside 20%** (according to the opening price of 10/09/2021 at 63,800 VND)

Valuation model

We use a combination of P/E and DCF models with a weight component of 50-50:

(1) P/E: Using the **target 2021 P/E level of 8x** – equivalent to the 3-year average of VSC to determine the reasonable value, BSC contended that this is a suitable level reflecting the short-term expectations of production recovery and the approval of investment in two deep-water port projects of VSC.

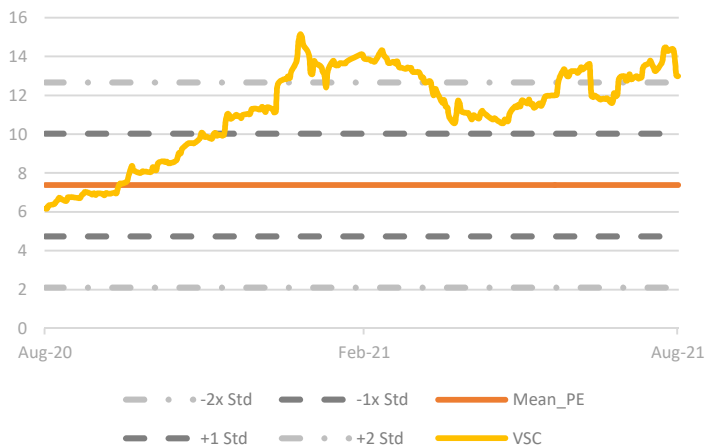
P/E model	Value
EPSFW2021	VND 5,182/share
Target P/E	8x
Market value	VND 41,500/share

(2) FCFE: The model is based on following assumptions:

- VSC is licensed to invest in two deep-water port projects in Cat Hai and Lien Chieu, investment details:
- + The project is funded by 60% equity and 40% debt.
- + VSC holds 36% of each project and is recorded as a joint venture company.
- + The two ports will be in operation from 2024 and operate at maximum capacity from 2028 for Cat Hai and 2030 for Lien Chieu.

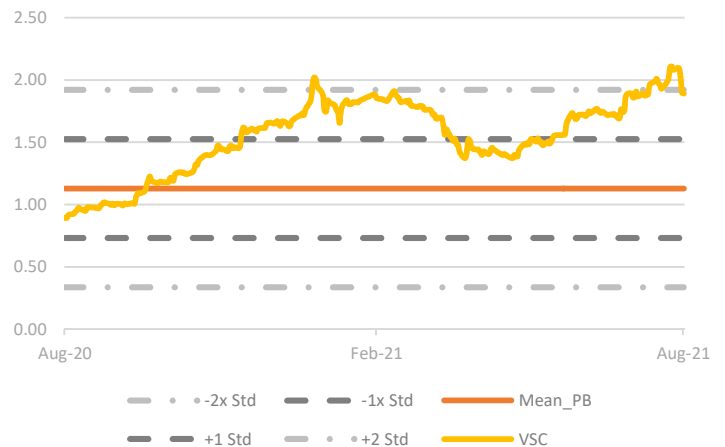
FCFE model		FCFE (Billion VND)	
Cost of equity		g	2%
Adjusted beta	0.9	Total present value of FCFE	6,187
Risk-free rate	3%	Number of outstanding shares (million)	55
Market premium	8.5%		
Ke	10.7%	Market value	VND 112,300/share

Figure 9: P/E VSC



Source: BSC Research

Figure 10: P/B VSC



Source: BSC Research

**Lưu ý: Quan điểm định giá của chúng tôi dựa trên giả định quan trọng là VSC được chấp thuận đầu tư hai dự án Cảng nước sâu Cát Hải và Liên Chiểu, nếu việc xin phê duyệt diễn ra không thuận lợi sẽ ảnh hưởng đáng kể đến định giá của chúng tôi. Note: Our valuation perspective is based on the important assumption that VSC is approved to invest in two deep-water port projects in Cat Hai and Lien Chieu, if the application for approval taking place unfavorably will significantly affect our valuation.*

Technical perspective

VSC – Vietnam Container Shipping Joint Stock Corporation

Target price 73,000

Cut loss price 61,000

Technical highlights:

- Current trend: short-term cumulative movement
- MACD trend indicator: MACD is below the signal line, spreads decrease.
- RSI indicator: operating in neutral zones.

Comment: VSC is recovering positively from a decline to support at 63. VSC liquidity decreased somewhat as VSC approaching to the price zone 67, this shows a cumulative signal, waits for a breakout session, and confirm a recovery. MACD line reduces the difference with the signal line, the ability to create a gold crossing. RSI approaches the buy zone, indicating that the possibility of short-term bullish movement is ongoing. At the same time, the price line also returns above the MA50 and approaches the MA20, indicating that the movement increases the likelihood of being held, if the VSC exceeds the price of 68.

Recommendation: Investors should continue to monitor and consider opening positions if price exceeds 68, take profits when the stock approaches 73 and cut loss if the support level at 61 is broken through.



Source: BSC, PTKT iTrade

PHỤ LỤC

Income statement (Billion VND)					Cash flow statement (Billion VND)				
	2019	2020	2021F	2022F		2019	2020	2021 F	2022F
Net revenue	1,793	1,689	1,857	1,957	(Loss)/Profit	286	296	365	389
COGS	(1,356)	(1,240)	(1,324)	(1,370)	Depreciation and amortization	232	233	202	206
Gross profit	437	449	533	587	Working capital changes	(72)	(0)	(99)	(44)
Selling expenses	(31)	(56)	(61)	(65)	Other adjustments	446	529	469	551
Administration expenses	(66)	(73)	(76)	(80)	Net cash flow from operating activities	(102)	(95)	(80)	(95)
Operating profit	340	320	395	442	Purchase and construction of fixed assets	17	9	(0)	(2,160)
Financial revenue	9	11	19	18	Other investment	(85)	(86)	(80)	(2,255)
Financial expenses	(16)	(2)	(1)	(22)	Net cash flow from investment activities	(133)	(171)	(110)	0
Interest expenses	(15)	(0)	0	(21)	Dividends paid	(211)	(76)	0	642
Profit from joint ventures/associations	12	2	4	6	Net borrowing fund	1	0	0	551
Other profit/loss	(3)	5	5	5	Other charges	(344)	(247)	(110)	1,193
Pre-tax profit	342	336	422	450	Net cash flow from financing activities	279	297	493	824
Tax	(56)	(39)	(57)	(61)	Beginning of year cash flow	17	197	278	(511)
Profit after tax	286	296	365	389	Cash flow in the year	297	493	772	313
Non-controlling interests	52	57	57	60	Ending of year cash flow				
Profit after tax - Non-controlling interests	234	240	309	330					
EPS	3,972	3,931	5,181	3,621					

Balance sheet (Billion VND)					Ratio (%)				
	2019	2020	2021F	2022F		2019	2020	2021 F	2022F
Cash and cash equivalents	297	493	772	313	Liquidity				
Short-term investments	3	8	8	8	Current ratio	2.5	3.1	4.2	1.3
Current account receivables	211	268	285	301	Quick ratio	2.4	3.0	4.1	1.2
Inventories	26	24	27	28	Capital structure				
Other current assets	98	102	112	119	Debt/Total Asset	3%	0%	0%	15%
Current assets	636	896	1,204	768	Debt/Equity	4%	0%	0%	19%
Tangible fixed assets	2,207	2,247	0	0	Efficiency				
Accumulated depreciation	(1,134)	(1,333)	0	0	Days Sales of Inventory	6	7	7	7
Long-term assets in progress	0	0	0	0	Days Sales Outstanding	36	40	39	39
Long-term investments	117	118	122	2,288	Days Payable Outstanding	25	28	29	28
Other long-term assets	567	531	1,375	1,212	CCC	18	19	18	19
Long-term assets	1,758	1,562	1,497	3,500	Profit margin				
Total assets	2,393	2,458	2,701	4,269	Gross margin	24.4%	26.6%	28.7%	28.7%
Short-term debt	12	0	0	292	Profit after tax margin	19.1%	19.9%	22.7%	23.2%
Other current liabilities	247	287	298	314	ROE	14.2%	14.0%	16.0%	15.5%
Total current liabilities	259	287	298	606	ROA	11.7%	12.2%	14.2%	13.8%
Long-term debt	64	0	0	350	Valuation				
Other long-term liabilities	0	0	0	0	PE	16.7	16.5	12.3	11.9
Total long-term liabilities	64	0	0	350	PB	2.0	2.0	1.8	1.7
Total Liabilities	323	287	298	956	Growth				
Share capital	551	551	551	1,102	Net revenue growth	5.8%	-5.8%	9.9%	5.0%
Share premium	36	36	36	36	EBIT growth	-	-6.0%	23.5%	5.1%
Undistributed earnings	378	413	557	826	Pre-tax growth	11.8%	-1.8%	25.7%	7.2%
Other capital	766	797	828	859	EPS growth	-	-1.0%	31.8%	5.8%
Non-controlling interests	339	374	431	490		19.0%			
Total Owners' equity	2,070	2,171	2,403	3,313					
Total Liabilities and owners' equity	2,393	2,458	2,701	4,269					
Number of outstanding shares	55	55	55	110					

Nguồn: BSC Research

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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