

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

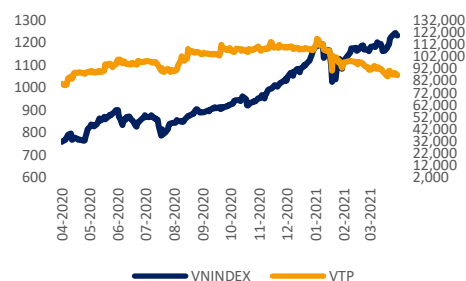
Valuation

- 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.

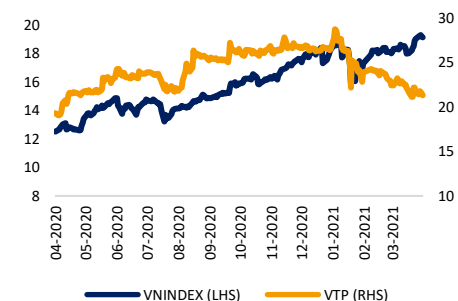
Business plan for 2021

- 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% |

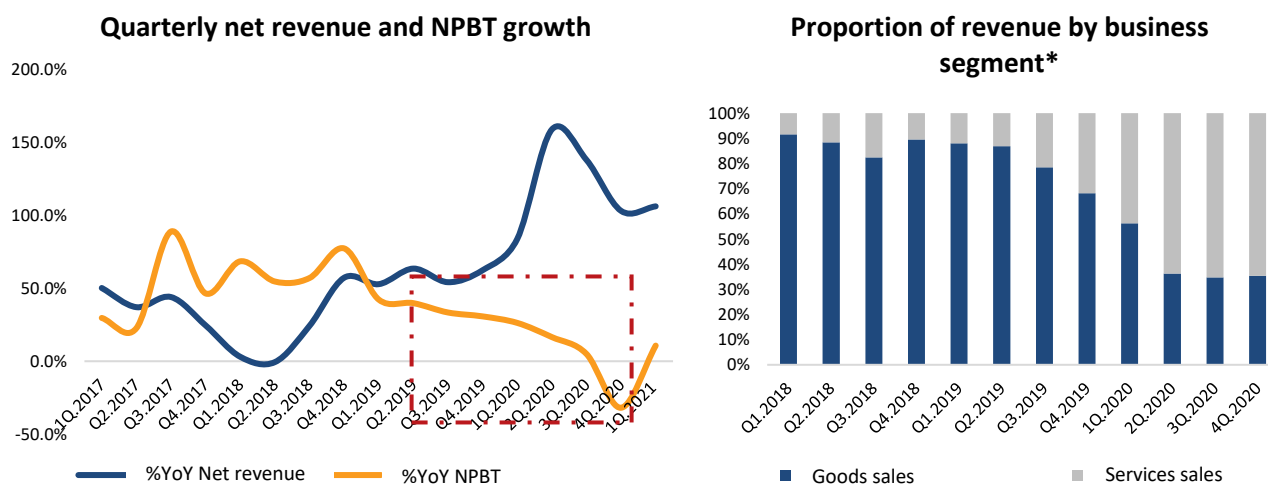
I. FINANCIAL RESULTS & BUSINESS UPDATE 2020

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 |

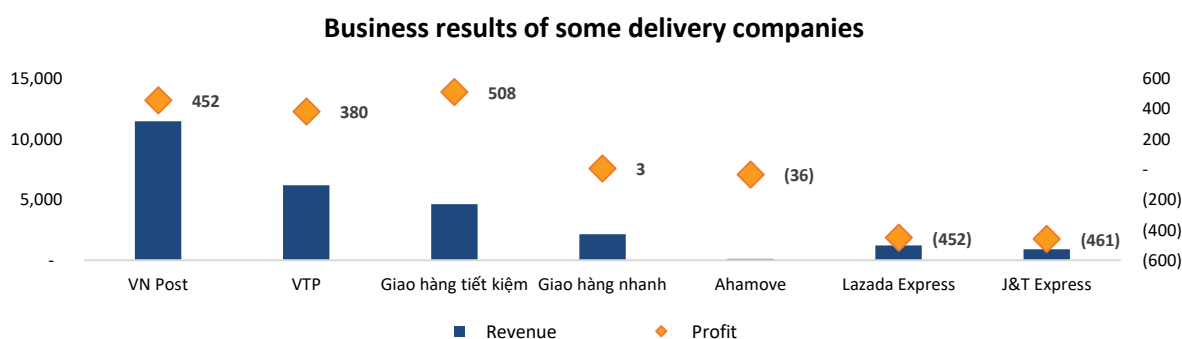
Source: Compiled by BSC

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.

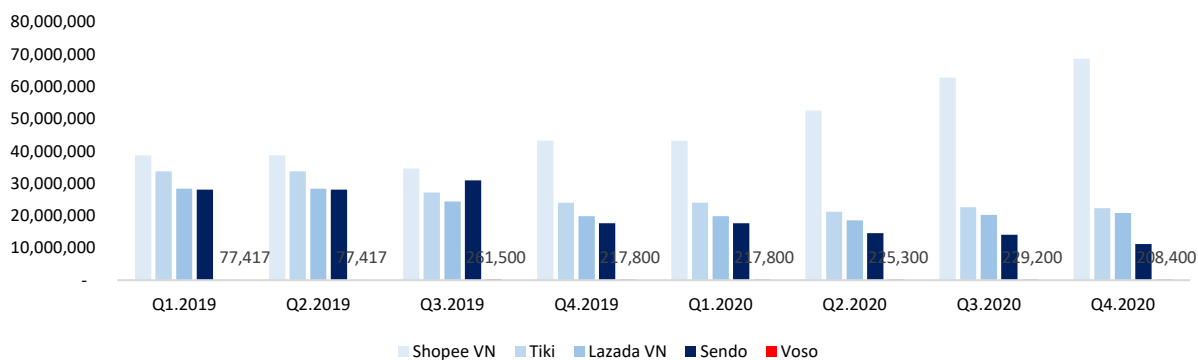
+ For orders outside the E-commerce platform (single orders, orders from online stores that do not go through the exchanges This is the segment that Viettel Post has had in the past thanks to its large distribution system. However, with (i) stores switching to selling via e-commerce platform (ii) social 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).

E-commerce platform visits per month



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) |
| <i>Selling expenses margin</i> | 0.1% | 0.1% | 0.1% |
| Administrative expenses | (243) | (281) | (319) |
| <i>Administrative expenses margin</i> | 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

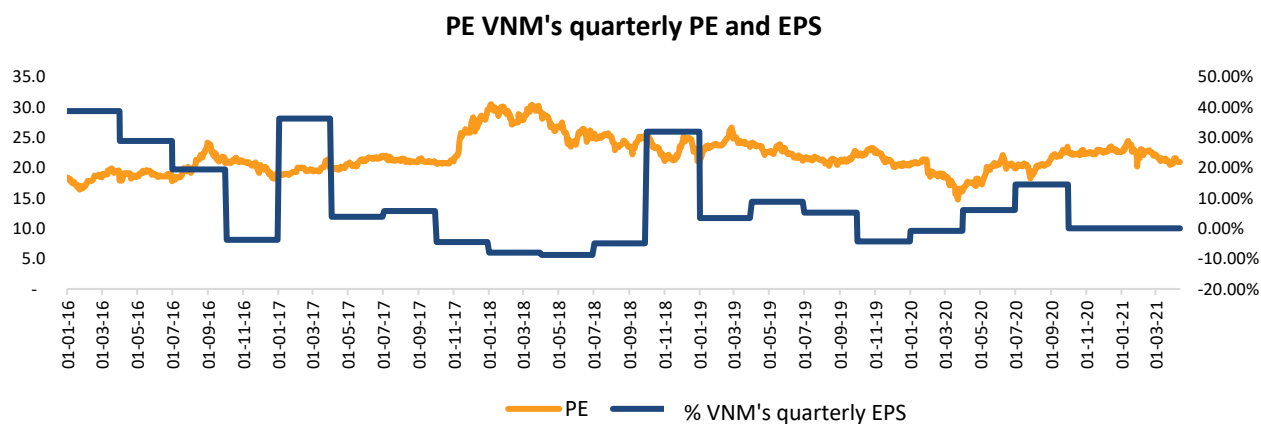
P/E method: BSC uses the P/E ratio method to value VTP stocks. We use a median P/E of 21.8 of regional delivery companies of and we discount 12% (target P/E for VTP is 19) because VTP's operation and products development strategy still contains some constraint. BSC issue a target price for VTP stocks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

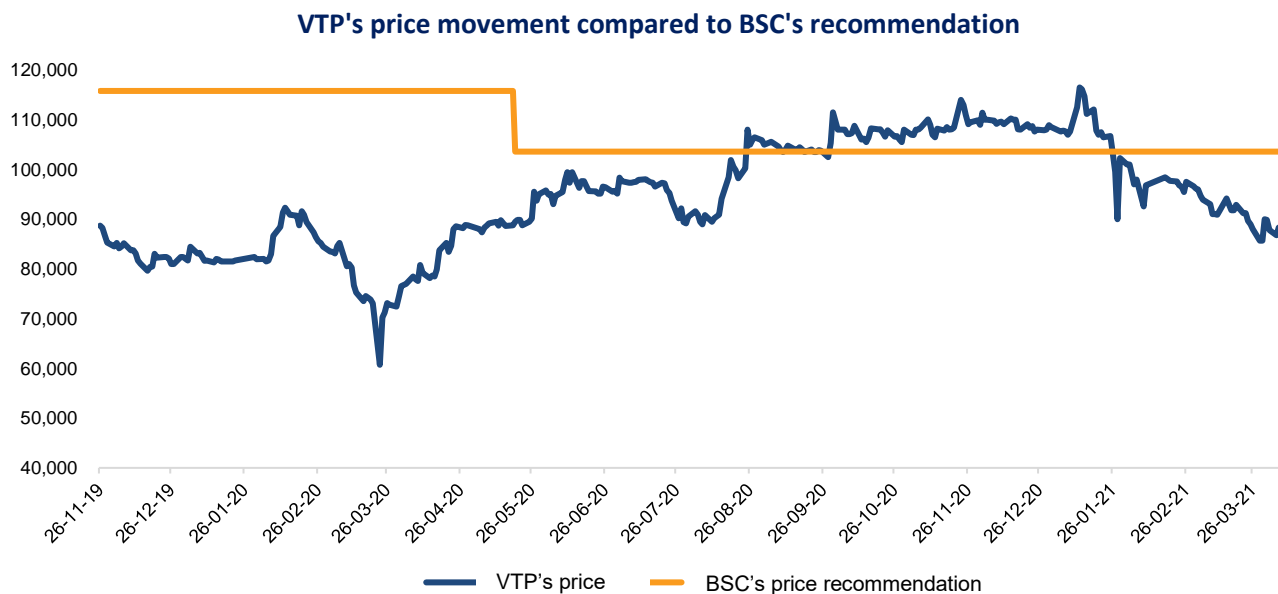
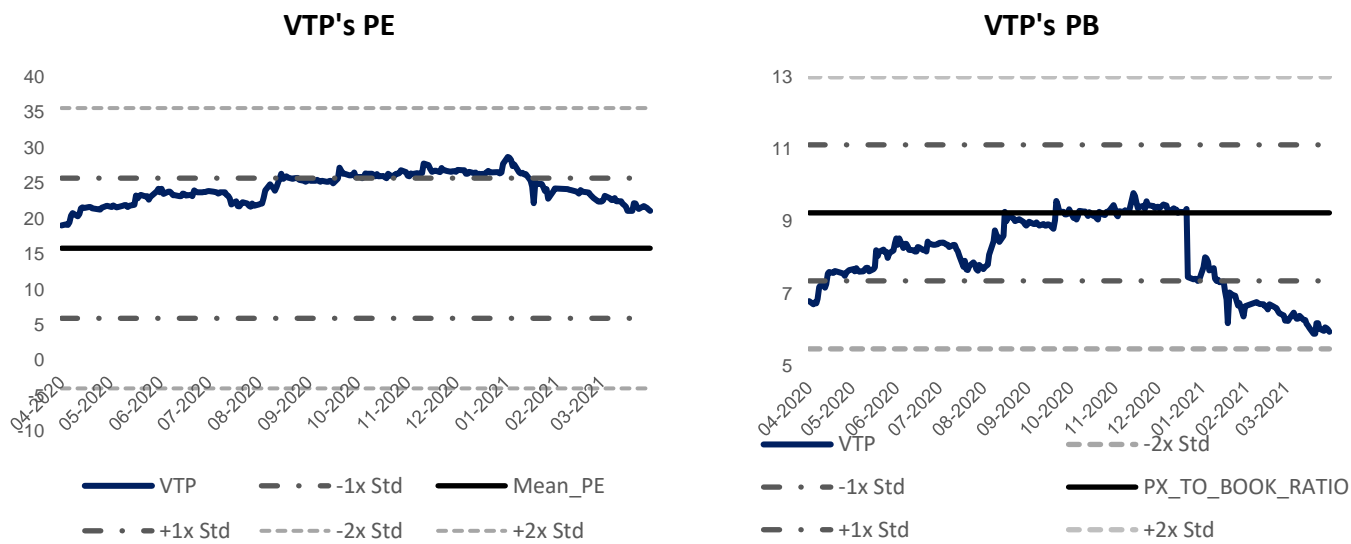
| Stock code | Company | Market cap (billion VND) | ROE | NPM | P/E |
|--------------------|---------------------|--------------------------|---------------|--------------|--------------|
| 600233 CH Equity | YTO Express Group | 116,98 | 13,04% | 14.5% | 19,17 |
| 002468 CH Equity | STO Express CO | 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).



| | 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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