

Industry: Airlines

SAIGON GOODS SERVICES JOINT STOCK COMPANY (HSX: SCS)
WAITING FOR NEW OPPORTUNITIES

Recommendation NEUTRAL

| | |
|-----------------|---------------------|
| Current price: | 128,500 |
| Target price TA | <u>155,000</u> |
| Target price FA | 140,000 |
| Dividend yield | 7% |
| Upside | <u>16.0%</u> |

| | |
|-------------------------------------|------------|
| Date: | 04/01/2020 |
| Shares outstanding (Million) | 51 |
| Market capitalization (billion VND) | 6,597 |
| Avg. 6m Trading vol: | 33,643 |
| % Foreign float | 25.06% |

| | |
|------------------------------|------|
| Shareholder structure | |
| SAIGON AVIA INV SER | 7% |
| HARDING LOEVNER LP | 0.3% |
| DAIWA SECURITIES | 0.2% |
| ALLIANZ SE | 0.2% |

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| | |
|-----------------|----------------|
| Target price: | <u>155,000</u> |
| Cut-loss price: | <u>114,830</u> |

Valuation

- We recommend **TRACKING SCS** stock with a target price of **VND 140,000** (+9.0% compared to the price on January 4, 2020), based on FCFE method with discount WACC = 9.0%, g= 1.5%.

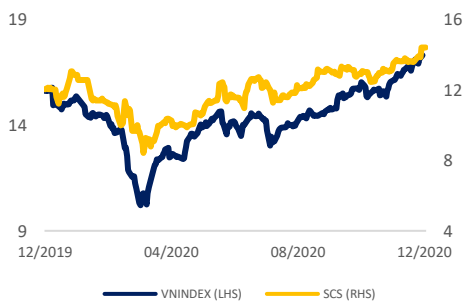
Forecast of business performance

- In 2020, BSC forecasts that SCS's revenue will reach VND 701 billion (-6.3% YoY), EAT will reach VND 478 billion (-4.9% YoY), of which station operating revenue is estimated at VND 656 billion (-5.6% YoY).
- In 2021, BSC forecasts that SCS's revenue will reach VND 760 billion (+8.5% yoy), NPAT will reach VND 528 billion (+10.5% yoy) assuming sales will reach 219,491 tons (+6.5% yoy) – Once it returns to the 2019 level, SCS will sign a new long-term contract with VJC.

Share price & VN index movement



SCS's PE & VN index movement



Investment thesis

- (1) Being the most efficient enterprise in the field of cargo handling services, there is room to expand the cargo terminal at Tan Son Nhat airport.
- (2) High dividend yield, at 7.0% - 8.0% thanks to the debt-free capital structure; cash flow from operating activities is stable.

Financial result & business update

- In 9M/2020, SCS recorded revenue = 495 billion VND (-9.7% yoy), EAT = 336 billion VND (-9.8% yoy). As for the terminal operation, cargo volume is recovering after bottoming from T4. For the aircraft parking lot rental segment, revenue was 0.26 billion dong (-95.1% yoy) due to service fee discount

Other updates

- ACSV M&A is still under review. BSC believes that SCS has a great advantage when ACV is both a shareholder of SCS (12.9%) and ACSV (20%). However, the current difficulty related to the divestment of ACV requires the approval of the Ministry of Transport.
- SCS intends to participate in the tender to provide cargo terminal services at Long Thanh airport.

In the event that SCS M&A or bidding is successful, BSC believes that this will be a new growth engine for the business in the long term.

| Targets | 2019 | 2020F | Peer | VN-Index | IS | 2018 | 2019 | 2020F | 2021F |
|---------|------|-------|------|----------|--------------|------|------|-------|-------|
| PE (x) | 18.7 | 12.0 | 14.6 | 14.3 | Revenue | 675 | 748 | 701 | 760 |
| PB (x) | 8.8 | 6.0 | 6.3 | 6.0 | Gross profit | 528 | 595 | 568 | 619 |

| | | | | | | | | | |
|---------|------|-----|------|-----|------------|-------|-------|-------|-------|
| PS (x) | 11.5 | 8.0 | 10.0 | 9.9 | NPAT | 437 | 502 | 478 | 528 |
| ROE (%) | 49% | 50% | 43% | 42% | EPS | 8,745 | 9,359 | 8,900 | 9,834 |
| ROA (%) | 45% | 47% | 41% | 40% | EPS growth | 23% | 7% | -5% | 11% |

9M2020 BUSINESS RESULT UPDATE – WAITING FOR M&A STRATEGY

In 9M/2020, SCS recorded revenue = 495 billion VND (-9.7% yoy), EAT = 336 billion VND (-9.8% yoy), of which:

- Terminal operation: Revenue reached 460 billion dong (-9.8% yoy).
- Airplane parking lot rental: revenue of 0.26 billion dong (-95.1% yoy)

| IS (billion VND) | Q3/2019 | Q3/2020 | % Change | 9M/2019 | 9M/2020 | % Change |
|--|------------|------------|---------------|------------|------------|---------------|
| REVENUE | 187 | 167 | -10.4% | 549 | 495 | -9.7% |
| - Station exploitation | 174 | 156 | -10.5% | 510 | 460 | -9.8% |
| - Parking lot rental | 2 | 0 | -95.1% | 5 | 0.26 | -95.1% |
| - Office, parking rent | 11 | 11 | 2.9% | 33 | 33.86 | 3.7% |
| - Others | 0 | 0 | | 1 | 1.2 | |
| Cost of Goods sold | (38) | (37) | -3.0% | (114) | (108) | -4.9% |
| GROSS PROFIT | 149 | 131 | -12.2% | 435 | 387 | -11.0% |
| Financial income | 4 | 8 | 105.4% | 9 | 21 | 137.5% |
| Financial expense | - | - | | (0) | (0) | |
| Administrative expense | (16) | (15) | -8.6% | (50) | (45) | -10.1% |
| PROFIT FROM BUSINESS ACTIVITIES | 137 | 124 | -9.4% | 394 | 363 | -7.8% |
| Other revenues | 0 | 0 | 62.8% | 0 | 0 | -58.3% |
| Other expenses | (1) | (0) | -22.3% | (2) | (2) | -12.0% |
| Net other incomes | (1) | (0) | -23.7% | (2) | (2) | -10.4% |
| EBT | 136 | 124 | -9.3% | 392 | 362 | -7.8% |
| Corporate income tax | (9) | (9) | -0.2% | (20) | (26) | 31.2% |
| LNST | 127 | 115 | -9.9% | 373 | 336 | -9.8% |

Source: SCSC, BSC Research

SERIES MINING SERVICES – OUTPUT RECOVERY

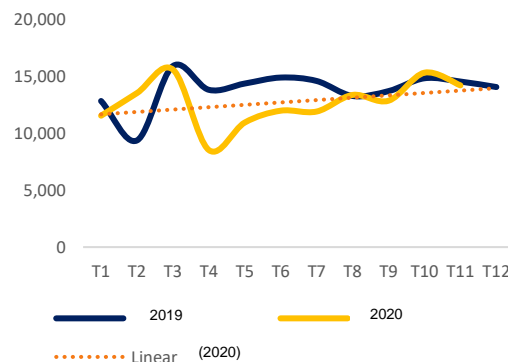
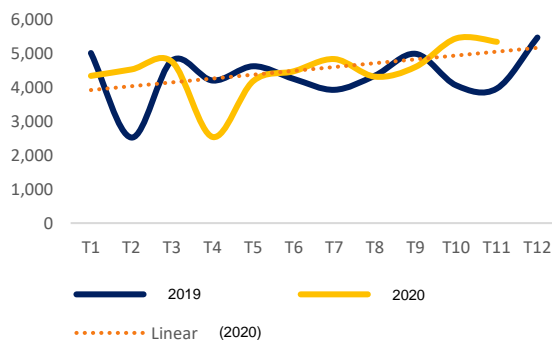
Commodity output is on a positive recovery track after bottoming in April. In 10M/2020, the total volume of goods served reached 169,658 tons (-5.9% YoY). BSC believes that SLHH will maintain a recovery momentum in Q4, expecting to reach 206,141 tons (-6%yoy) in 2020 thanks to (1) Transportation demand has returned compared to before the epidemic, and at the same time, Q4 also is peak time. (2) Airlines continue to promote the operation of cargo aircraft and convert passenger aircraft to cargo aircraft.

Figure: Accumulated 10M/2020, Domestic cargo volume reached 44,020 tons (+3.0% YoY)

Output of goods, thousand tons

Figure: Accumulated 10M/2020, international cargo volume reached 125,638 tons (-8.7% YoY)

Output of goods, tons



Source: SCSC, BSC Research

AIRPORT LEASE SERVICE SERIES – NEW LONG-TERM CONTRACT WITH VJC

In 9M/2020, airport rental service revenue reached 0.26 billion dong (-95.1% yoy) due to service fee discount. BSC notes that the previous contract for ACV to lease the aircraft parking lot expired in February 2020. SCS has signed a new contract with VJC until Feb 2021, and is expected to sign a long-term contract after that. In 2021, revenue from airport parking is expected to reach VND 10 billion.

OTHER UPDATE – WAITING FOR M&A STRATEGY

(1) **ACSV M&A is still under review.** BSC believes that SCS has a great advantage when ACV is both a shareholder of SCS (13%) and ACSV (20%). However, the current difficulty related to the divestment of ACV requires the approval of the Ministry of Transport. In the event that SCS M&A is successful, BSC believes that this will be a new growth engine for SCS in the long term. Information about the detailed plan is expected to be announced around the second quarter of 2021.

(2) **SCS intends to participate in the tender to provide cargo terminal services at Long Thanh airport.** BSC assesses that SCS has sufficient capacity to deploy, however, there are concerns about competition because VJC may also participate in the bidding. Currently, there is no information about this bidding package, the bidding time will depend on the progress of the Ministry of Transport.

FORECAST 2020 BUSINESS RESULTS

2020 – Q4 SUSTAINABLE RECOVERY

BSC forecasts that SCS's revenue will be 701 billion dong (-6.3% yoy), NPAT will be 478 billion dong (-4.9% yoy), of which terminal operating revenue is estimated at 656 billion dong (-5.6% yoy). ; revenue from aircraft parking lot rental reached VND 0.35 billion (-95% yoy). Assumption of BSC: the volume of service goods is estimated at 206,141 (-5.6% yoy).

2021 – OUTPUT BACKS TO 2019 LEVEL, SIGNING NEW CONTRACT WITH VJC

BSC forecasts revenue = 760 billion dong (+8.5% yoy), NPAT = 528 billion dong (+10.5% yoy). We note that the plan to expand the terminal in phase 2 and build a new office building has not been reflected in the 2021 forecast due to insufficient information. We, BSC, expect that if the plan is implemented, the expanded terminal will be a new growth engine for SCS when the current station has exceeded 3% of capacity, and revenue from office leasing is expected to increase by 40- 45 billion dong.

Other assumptions are updated below.

| IS | 2018 | 2019 | 2020E | 2021F | Assumption |
|---|------------|---------------|----------------|---------------|--|
| REVENUE | 675 | 748 | 701 | 758 | - In 2021, BSC expects the commodity output will recover back to the 2019 output level. In which, international commodity output will not be affected much on the progress of reopening commercial routes. - Revenue from aircraft parking lot leasing in 2021 is expected to reach VND 10 billion based on a new contract with VJC. - Average office rent is estimated to increase +1% YoY. |
| Station exploitation | 627 | 696 | 656 | 706 | |
| Parking lot rental | 7 | 7 | 0 | 10 | |
| Office, parking rent | 40 | 44 | 44 | 44 | |
| Others | 1 | 1 | 1 | 1 | |
| GROSS PROFIT | 528 | 595 | 568 | 619 | |
| Financial income | 8 | 14 | 14 | 21 | |
| Financial expense - of which: Interest expense | (0) | (1) | (1) | (2) | |
| | (0) | (1) | (1) | (1) | |
| Administrative expense | (67) | (68) | (65) | (69) | |
| OPERATING INCOME | 469 | 540 | 516 | 570 | |
| Net other incomes | (2) | (2) | (2) | (2) | |
| EBT | 467 | 538 | 513 | 566 | |
| NPAT | 437 | 502 | 478 | 528 | |
| <i>Goods output % YoY</i> | 204,943 | 218,450 7% | 206,141 -6% | 219,491 6% | |
| <i>- International % YoY</i> | 156,127 | 166,290 7% | 152,155 -9% | 162,806 7% | |
| <i>- Domestic % YoY</i> | 48,816 | 52,160 7% | 53,986 3% | 56,685 5% | |

VALUATION

We recommend **TRACKING SCS** stock with a target price of **VND 140,000/share** (+9.0% yoy compared to the closing price on 04/01/2020), based on FCFE method with WACC = 9% discount, g = 1.5%. We note that this forecast does not include the plan to expand terminal phase 2 and build a new office building, due to incomplete information.

Table:

WACC calculation

| Assumption | |
|---------------------|-----------|
| Long-term growth | 1.5% |
| Risk-free rate | 2.7% |
| Beta | 0.6 |
| Market risk premium | 10.5% |
| Cost of equity | 9% |
| WACC | 9% |

Source: BSC forecast

Table:

FCFE method

| Tính toán FCFE | |
|--|----------------|
| Present value of cash flow from 2021F-2023F | 2,172 |
| Present value of final value | 4,986 |
| + Cash, cash equivalents, short-term financial investments | 397 |
| - Preferred shares | (72) |
| - Minority interest | 0 |
| Equity | 7555 |
| Shares outstanding (million) | 0.054 |
| Giá cổ phiếu | 140,000 |

*GHTH: Present value

Source: BSC forecast

APPENDIX

| | 2018 | 2019 | 2020F | 2021F | CF (billion VND) | 2018 | 2019 | 2020F | 2021F |
|-----------------------------------|------------|------------|------------|------------|--|-------|-------|-------|-------|
| Net revenue | 675 | 748 | 701 | 760 | Profit after tax | 437 | 502 | 478 | 528 |
| Cost of goods sold | (147) | (153) | (133) | (141) | Depreciation | 55 | 55 | 55 | 55 |
| Gross profit | 528 | 595 | 568 | 619 | Change in networking capital | (28) | 2 | (0) | (5) |
| Selling expense | - | - | - | - | Other adjustments | (15) | (12) | (15) | (21) |
| Administrative expense | (67) | (68) | (65) | (69) | CF from operating activities | 424 | 562 | 516 | 556 |
| Operating income | 461 | 527 | 503 | 550 | Fixed asset investment | (3) | (13) | (8) | (8) |
| Financial income | 8 | 14 | 14 | 21 | Other investments | (15) | (181) | 14 | (79) |
| Financial expense | (0) | (1) | (1) | (2) | CF from investing activities | (18) | (194) | 7 | (87) |
| Interest expense | (0) | (1) | (1) | (1) | Dividend paid | (396) | (367) | (372) | (372) |
| Profits/ losses from affiliates | - | - | - | - | Cash from net borrowing | - | - | - | - |
| Other profits/ losses | (2) | (2) | (2) | (2) | Other revenue | (10) | 18 | - | - |
| Profit before tax | 467 | 538 | 513 | 567 | CF from financing activities | (406) | (349) | (372) | (372) |
| Tax payment | (30) | (35) | (36) | (40) | Cash & cash equivalents, beginning of the year | 47 | 47 | 66 | 217 |
| Profit after tax | 437 | 502 | 478 | 528 | CF during the year | 0 | 19 | 151 | 97 |
| NPAT – Minority interest | - | - | - | - | Cash & cash equivalents, end of the year | 47 | 66 | 217 | 315 |
| NPAT – Parent company shareholder | 437 | 502 | 478 | 528 | | | | | |
| EPS | 8,745 | 9,359 | 8,900 | 9,834 | | | | | |

| BS (billion VND) | 2018 | 2019 | 2020F | 2021F | Ratios (%) | 2018 | 2019 | 2020F | 2021F |
|------------------------------------|------------|--------------|--------------|--------------|-----------------------------|------|------|-------|-------|
| Cash & cash equivalents | 47 | 66 | 217 | 315 | Liquidity ratios | | | | |
| Short-term investment | 30 | 180 | 180 | 280 | Current ratio | 3.6 | 6.4 | 9.9 | 12.7 |
| Account receivables | 133 | 127 | 135 | 142 | Quick ratio | 3.6 | 6.4 | 9.9 | 12.7 |
| Inventory | 0 | 0 | 0 | 0 | Solvency ratios | | | | |
| Other non-current assets | 58 | 42 | 26 | 28 | Debt/ Total asset | 9% | 6% | 5% | 5% |
| Current asset | 268 | 414 | 558 | 765 | Debt/ equity | 10% | 7% | 5% | 5% |
| Account payable | 0 | 0 | 0 | 0 | Efficiency ratios | | | | |
| Tangible asset | 536 | 496 | 455 | 415 | Days of inventory | 0 | 0 | 0 | 0 |
| Long-term asset in progress | 1 | 1 | 1 | 1 | Days of receivables | 39 | 29 | 35 | 35 |
| Long-term investments | 100 | 94 | 88 | 81 | Profitability ratios | | | | |
| Other non-current assets | 67 | 68 | 68 | 68 | Gross profit | 78% | 80% | 81% | 81% |
| Non-current asset | 703 | 659 | 612 | 565 | NPAT | 65% | 67% | 68% | 69% |
| Total asset | 971 | 1,073 | 1,170 | 1,330 | ROE | 49% | 50% | 43% | 42% |
| Short-term debt | - | - | - | - | ROA | 45% | 47% | 41% | 40% |
| Other non-current liabilities | 74 | 65 | 56 | 60 | Growth | | | | |
| Current liabilities | 74 | 65 | 56 | 60 | Net revenue growth | 15% | 11% | -6% | 8% |
| Long-term debt | - | - | - | - | EBIT growth | 20% | 15% | -5% | 10% |
| Other long-term debts | 12 | 4 | 4 | 4 | Profit before tax growth | 21% | 15% | -5% | 10% |
| Non-current liabilities | 12 | 4 | 4 | 4 | | | | | |
| Total liabilities | 86 | 69 | 61 | 64 | | | | | |
| Paid-in capital | 572 | 576 | 576 | 576 | | | | | |
| Capital surplus | 21 | 35 | 35 | 35 | | | | | |
| Retained earnings | 284 | 385 | 486 | 636 | | | | | |

| | | | | |
|-------------------------------|-----|-------|-------|-------|
| Minority interest | - | - | - | - |
| Owner's equity | 885 | 1,004 | 1,110 | 1,265 |
| Total resources | 971 | 1,073 | 1,170 | 1,330 |
| Shares outstanding (millions) | 54 | 54 | 54 | 54 |

Source: BSC Research.

Khuyến cáo sử dụng

Bản báo cáo này của Công ty Cổ phần Chứng khoán Ngân hàng Đầu tư và phát triển Việt Nam (BSC), chỉ cung cấp những thông tin chung và phân tích về doanh nghiệp. Báo cáo này không được xây dựng để cung cấp theo yêu cầu của bất kỳ tổ chức hay cá nhân riêng lẻ nào hoặc các quyết định mua bán, nắm giữ chứng khoán. Nhà đầu tư chỉ nên sử dụng các thông tin, phân tích, bình luận của Bản báo cáo như là nguồn tham khảo trước khi đưa ra những quyết định đầu tư cho riêng mình. Mọi thông tin, nhận định và dự báo và quan điểm trong báo cáo này được dựa trên những nguồn dữ liệu đáng tin cậy. Tuy nhiên Công ty Cổ phần Chứng khoán Ngân hàng đầu tư và phát triển Việt Nam (BSC) không đảm bảo rằng các nguồn thông tin này là hoàn toàn chính xác và không chịu bất kỳ một trách nhiệm nào đối với tính chính xác của những thông tin được đề cập đến trong báo cáo này, cũng như không chịu trách nhiệm về những thiệt hại đối với việc sử dụng toàn bộ hay một phần nội dung của bản báo cáo này. Mọi quan điểm cũng như nhận định được đề cập trong báo cáo này dựa trên sự cân nhắc cẩn trọng, công minh và hợp lý nhất trong hiện tại. Tuy nhiên những quan điểm, nhận định này có thể thay đổi mà không cần báo trước. Bản báo cáo này có bản quyền và là tài sản của Công ty Cổ phần Chứng khoán Ngân hàng Đầu tư và Phát triển Việt Nam (BSC). Mọi hành vi sao chép, sửa đổi, in ấn mà không có sự đồng ý của BSC đều trái luật. Bất kỳ nội dung nào của tài liệu này cũng không được (i) sao chụp hay nhân bản ở bất kỳ hình thức hay phương thức nào hoặc (ii) được cung cấp nếu không được sự chấp thuận của Công ty Cổ phần Chứng khoán BIDV.

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