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Company Update

VSC – Vietnam Container Shipping JSC,. (HOSE)

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We are still confident about VSC's core business performance despite the disappointing results in 9M2016, basing on Vip-Green Port's strategical location, high growth in container throughout Hai Phong region and VSC's high loyalty.
In 2016, we forecast that VSC might record NPAT of 272 bil, equivalent EPS 2016 of 6.257 dong/share, P/E fw 9.6x
2017 and afterward will be brighter for VSC when Vip-green port in full operation. We expect in 2017 VSC may record NPAT of 311 bil, translating to EPS 2017 of 6.412 dong/share, P/E fw 9.35x
Currently, the seaport industry is trading at average P/E of 12.53x

This report must be read with the Disclosure, located at the end of this report.

Forget the disappointing business performance in 9M2016, VSC's good growth story is expected to be unfold in 2017 and afterward.

9M2016 review. Business performance stood lower than market's expectation but in line with our forecasts.

- In 9M2016, VSC recorded significantly growth in revenue of 13% standing at 786 bil. This is quite understandable as the first phase of VIP Green Port has been in operation since Jan 2016, dramatically raising VSC's total capacity to 600.000 TEUs/year from just 350.000 TEUs/year. In 9M2016, VSC handled total 490.000 TEUs, in which volume realized in Green Port stood at 250.000 TEUs (71% designed capacity and decreased by about 15% on year-on-year basis) and Vip-Green Port handled 240.000 TEUs (almost running at full capacity of first berth).
- NPAT reached 189 bil only, downed by 15.6% over the same period in 2015. Serveral factors were at play here: (1) reefer volume downed significantly as a result of Vietnam-China border clearance. In Q3/2015, VSC stored about 700-800 reefer containers per day but rarely in Q3/2016. (2) In 9M2016, Vip-green port recorded profit of 17 bil. The depreciation cost surged from 49 bil to over 123 bil in Q3/2016 and interest expense rocketed to 34 bil as interest paid for loan used to fund Vip-green port is no longer capitalized.

Hence, with this result, VSC's performance is still in line with our forecast. For the whole year 2016, we conservatively believe that VSC may record revenue of 1.100 bil, NPAT decreases slightly 1.5% staying at 272 bil translating to EPS 2016 of 6.257, based on assumptions: (1) container through out VIP green port and green port will be 300.000 TEUs each. (2) Price per container handling at berth will be down 10% in Green port and 5% only in VIP green port thanks to its strategic location. (3) Depreciation and interest expenses will be 134 bil and 48 bil respectively.

2017 and afterward outlook.

As being affected by Bach Dang bridge construction, in 9M2016 most of ports in upstream of Cam river such as Nam Hai (about -12%yoy), Green port (-15%yoy), Chua Ve (has to change product mix of 60% container cargo and 40% bulk cargo), Doan Xa witnessed downward in container throughout. On the other hand, ports in Dinh Vu peninsula such as Dinh Vu, Tan Vu, Nam Hai Dinh Vu, Vip-green port enjoy stable volume.

2017 outlook, we reckon that ports in Dinh Vu Peninsula will still be advantageous due to: (1) the Bach Dang Bridge will continue to discourage shipping lines to handle in upstream ports. (2) Hai Phong has climbed to be the province who attracts the largest FDI inflow. (3) the upside trend of international vessels make it beneficial for ports in Dinh Vu peninsula with large turning bay and channel depth.

Now there are total 5 shipping lines per week handling in the port, including Evergreen (4 lines) and OOCL (1 lines). The fourth crane will be assembled in Nov 2016, getting the second berth to be in operation at the same time. Hence, we still have a faith that Vip-green port- main growth driver of VSC- will witness strong growth in 2017 and afterward. In 2017 we forecast that container throughout the Vip green port will be about 400.000 TEUs (80% of designed capacity) while volume in Green Port continue downtrend to 280.000 TEUs. Total revenue may be 1.400 bil, NPAT 311 bil, equivalent to EPS 2017 of 6.412 dong/share.

Disclosure

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