

9 Feb 2021

Saigon Cargo Services (SCS)

Recovering faster than expected

- 4Q20 results outperforms our estimates.
- Catalysts for 2021: FTA and supply chain diversification.

COVID-19 impact on 2020's business

In 4Q20, reductions in revenue and net income were mitigated to VND197bn and VND128bn, down by 1.0% YoY and 5.9% YoY, better than our estimates. We believe that this recovery is supported by 1) converting passenger aircraft into a freighter by airlines; 2) demand for consumption and manufacturing goods have been facing disruptions since 2Q20; 3) resumption in domestic air travel.

Due to the COVID-19 impact, 2020 revenue and net income declined to VND693bn (-7.4% YoY) and VND464bn (-7.6% YoY). Total cargo volume saw a slight decrease of 3.8% YoY, mainly dragged down by a slump in the international cargo (-7.1% YoY), although domestic cargo recorded 6.7% YoY growth in the year.

Catalysts for 2021 business recovery

Recently-signed FTAs and the shifting of the global supply chain to Vietnam bring tremendous opportunities for Vietnam's export sector, and cargo-service providers like SCS will definitely benefit from this ongoing trend.

Additionally, the development of E-commerce worldwide has pushed global trade further, and air freight is benefited significantly with significantly faster time delivery than other shipping methods. SCS, with a large air cargo terminal and also modern handling service, would stay on the first choice for international and domestic cargo airlines.

Besides, with IATA's CEIV Pharma certificate for qualified covid-19 vaccines cold storage, SCS has a lot of advantages to achieve covid-19 vaccine contract storage from the vaccine distributors in 2021.

Recommend BUY with TP at VND152,600

By applying a pure 5-year DCF method to value SCS with WACC and Terminal growth at 12.8% and 3.0%, we reiterate our BUY rating for SCS and we lift TP to VND152,600 with a strong 2021 outlook.

We forecast 21F/22F EPS to rise by 7.0% YoY/11.5% YoY thanks to 6.2% YoY/6.0% YoY and 3.6% YoY/6.0% YoY international and domestic cargo volume in 2021 and 2022, respectively. Based on our current 2021 forecast, SCS is trading at a 2021F EV/EBITDA of 10.8x and a 2021F P/E of 13.5x.

12M rating **BUY (Maintain)**

12M TP **152,600**

Up/Downside **+21.1%** (incl 5.3% cash dividend)

Stock data

VNIndex (Feb 09, pt)	1,115
Stock price (Feb 09, VND)	132,000
Market cap (USD mn)	292
Shares outstanding (mn)	51
52-Week high/low (VND)	137,500/81,484
6M avg. daily turnover (USD mn)	0.17
Free float / Foreign ownership (%)	98.3/29.2
Major shareholders (%)	
Gemadept Corporation	32.6
Airports Corporation of Vietnam	13.1
41 Aircraft Repairing	12.6
PYN Elite Fund	6.2

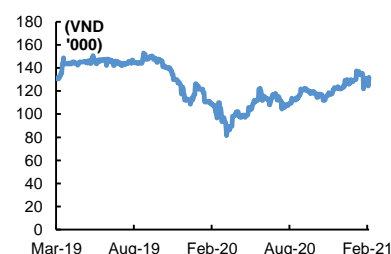
Valuation

	2020A	2021F	2022F
PE (x)	14.4	13.5	12.1
PB (x)	7.1	6.1	5.1
ROE (%)	49.5	48.7	46.0
DY (%)	2.5	5.6	5.6
EV/EBITDA (x)	12.4	10.8	9.4
EPS (VND)	9,150	9,795	10,922
BPS (VND)	18,598	21,640	25,837

Performance

	1M	6M	12M
Absolute (%)	1.8	22.8	19.5
Relative to VNIndex (%p)	6.2	(11.1)	(1.3)

Stock price



Source: Bloomberg

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Table 1. Cargo volume (Quarterly)

(Unit: tonnes, %)

	2019			2020			YoY
	Domestic	International	Total	Domestic	International	Total	
1Q	12,328	38,130	50,458	13,620	40,690	54,310	7.6
2Q	13,073	43,095	56,168	11,201	31,465	42,666	(24.0)
3Q	13,265	41,588	54,853	13,754	38,154	51,908	(5.4)
4Q	13,494	43,453	56,947	17,058	44,179	61,237	7.5
Total	52,160	166,266	218,426	55,633	154,488	210,121	(3.8)

Source: Company data, KIS

Table 2. 2020 earnings and 2021 outlook

(VND bn, VND %, %p)

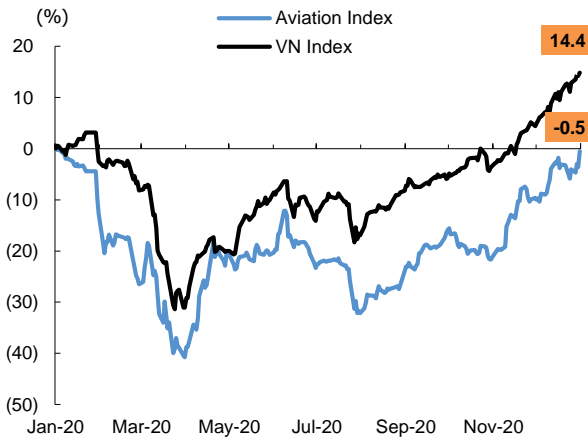
	2019				2020				2019	2020	2021F	19vs20	20vs21F
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Net sales	173	189	187	199	184	144	167	197	748	693	765	(7.4)	10.4
COGS	36	39	38	39	37	34	37	47	153	155	160	1.3	3.2
Gross Profit	136	150	149	160	146	110	131	151	595	538	604	(9.6)	12.2
Financial income	1	4	4	6	0	13	8	8	14	29	26	107.1	(10.3)
Financial expense	0	0	0	1	0	0	0	0	1	1	1	-	-
o/w: interest expense	-	-	-	1	-	-	-	-	1	-	1	-	-
Net financial income	1	4	4	5	0	12	8	7	13	28	25	115.4	(10.7)
Income from sub	0	0	0	0	0	0	0	0	0	0	0	-	-
Selling expense	0	0	0	0	0	0	0	0	0	0	0	-	-
Admin expense	17	17	16	18	16	14	15	20	68	64	73	(5.9)	14.1
Income operation	120	137	137	146	130	109	124	138	540	501	557	(7.2)	11.2
Other income	0	0	0	0	0	0	0	0	0	0	0	-	-
Other expense	1	0	1	1	1	0	0	1	2	2	0	-	-
Net other income	1	0	1	1	1	0	0	1	2	2	0	-	-
Profit before tax	119	137	136	146	129	109	124	138	538	499	557	(7.2)	11.6
Tax	7	3	9	10	8	9	9	9	35	35	39	0	11.4
Net profit	112	133	127	136	121	100	115	128	502	464	518	(7.6)	11.6
Net profit excl MI	112	133	127	136	121	100	115	128	502	464	518	(7.6)	11.6
Operating profit	120	133	133	141	130	96	116	130	527	473	584	(10.2)	23.5
OP margin (%)	69.5	70.4	71.1	71.0	70.8	66.7	69.3	66.1	70.4	68.2	76.3	(2.2)	8.1
EBIT	119	137	136	145	129	109	124	138	539	499	558	(7.4)	11.8
EBIT margin (%)	69.1	72.3	72.9	72.5	70.5	75.3	73.7	69.7	72.0	72.1	72.9	0.1	0.8
EBITDA	133	150	150	159	143	122	137	151	594	553	610	(6.9)	10.3
EBITDA margin (%)	77.0	79.6	80.3	79.5	77.7	84.5	81.7	76.5	79.4	79.8	79.7	0.4	(0.1)

Source: Company data, KIS

■ Company overview

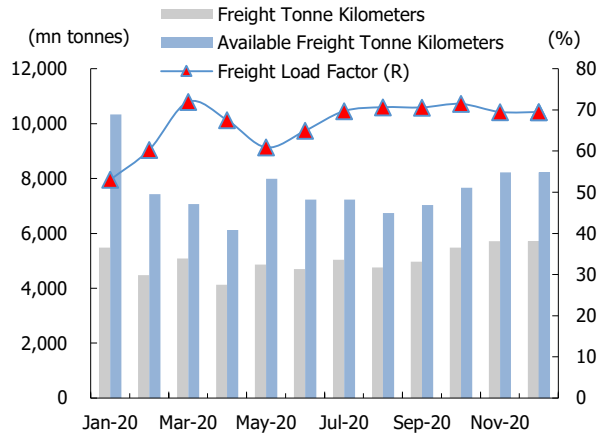
Saigon Service Cargo (SCS) is one of two air cargo terminal operators located in the Tan Son Nhat Airport. Management has adopted a transparent culture and intelligent capital allocation policy, with a majority of cash flow returned as dividends. The business also has potential options for further revenue streams by developing unused real estate at their prime site next to the airport and expanding capacity air cargo through M&A or scaling up the terminal.

Figure 1. Sector vs VN Index



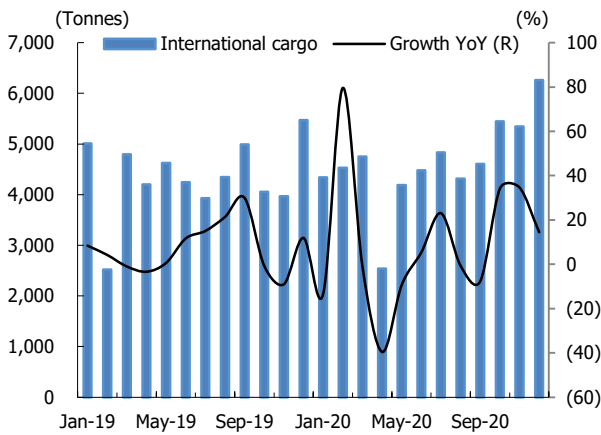
Source: Bloomberg, KIS calculation
Aviation Index include ACV, HVN, VJC, SCS, AST by market capitalization weighted

Figure 2. FTK, AFTK and Load Factor of Air Cargo



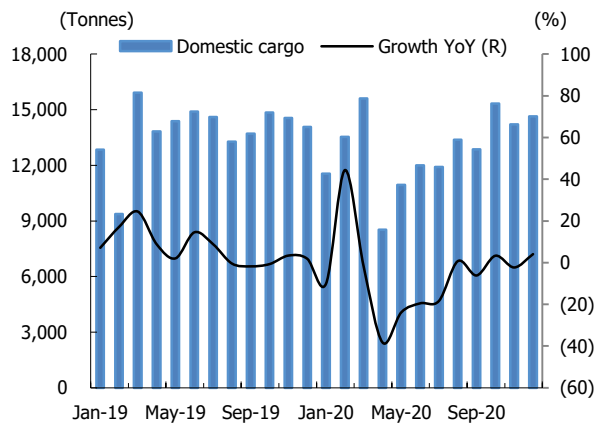
Source: Bloomberg, KIS

Figure 3. International cargo volume (monthly)



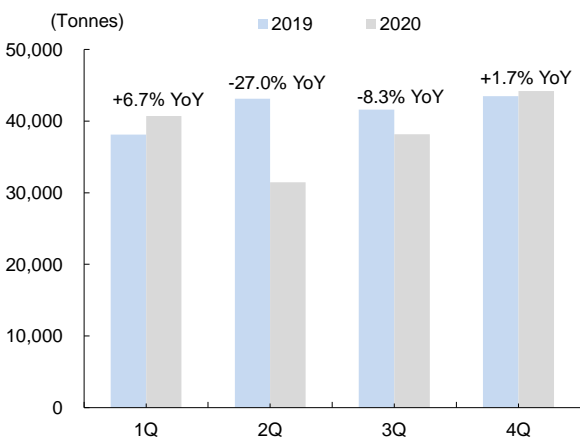
Source: Company data, KIS

Figure 4. Domestic cargo volume (monthly)



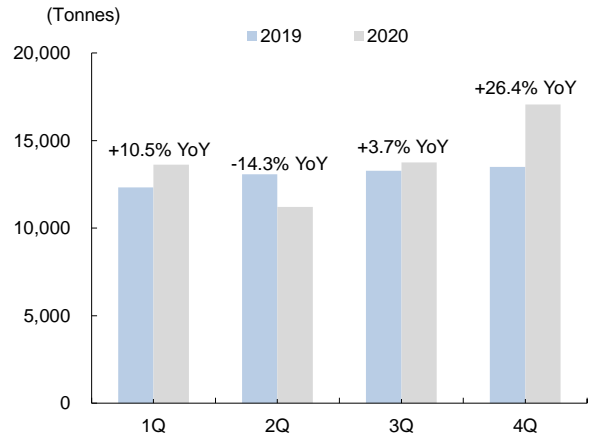
Source: Company data, KIS

Figure 5. International cargo – YoY change



Source: Company data, KIS

Figure 6. Domestic cargo – YoY change



Source: Company data, KIS

Balance sheet

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021F	2022F
Current assets	157	317	308	551	778
Cash & cash equivalents	77	246	237	467	688
Accounts & other receivables	79	71	71	84	90
Inventory	0	0	0	0	0
Non-current assets	637	591	545	492	440
Fixed assets	637	591	545	492	440
Investment assets	0	0	0	0	0
Others	178	165	241	219	258
Total assets	971	1,073	1,094	1,262	1,476
Advances from customers	0	1	1	0	1
Unearned revenue	7	0	0	4	3
Trade payables	5	4	5	5	5
Others	73	65	73	82	85
ST debt & due bonds	0	0	0	0	0
LT debt & bonds	0	0	0	0	0
Total liabilities	86	69	79	92	93
Controlling interest	885	1,004	1,016	1,170	1,383
Capital stock	572	576	579	579	579
Capital surplus	21	35	43	43	43
Other reserves	9	9	9	9	9
Retained earnings	284	385	384	539	752
Minority interest	0	0	0	0	0
Shareholders' equity	885	1,004	1,016	1,170	1,383

Cash flow

(VND bn)

FY-ending Dec.	2018A	2019A	2020A	2021F	2022F
C/F from operations	497	549	525	570	624
Net profit	437	502	464	518	576
Dep'n & Amort'n	55	55	52	52	52
Net incr. in W/C	5	(8)	9	0	(5)
C/F from investing	(48)	7	(104)	(53)	39
Capex	6	10	5	(7)	(7)
Incr. in investment	(53)	(3)	(109)	(45)	46
C/F from financing	(386)	(349)	(158)	(375)	(375)
Incr. in equity	0	18	12	0	0
Incr. in debt	10	0	0	0	0
Dividends	(396)	(367)	(170)	(375)	(375)
C/F from others	(157)	(39)	(273)	88	(66)
Increase in cash	(94)	169	(9)	230	221

Income statement

(VND bn)

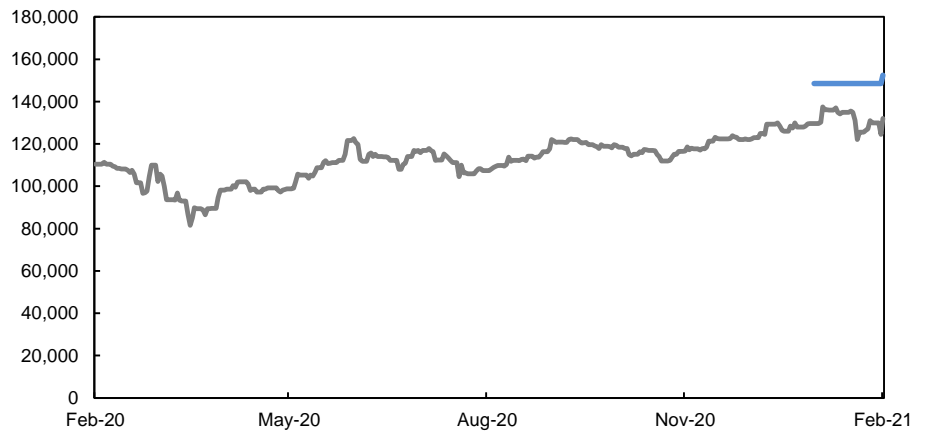
FY-ending Dec.	2018A	2019A	2020A	2021F	2022F
Sales	675	748	693	765	839
COGS	147	153	155	160	167
Gross profit	822	901	538	604	673
SG&A expenses	67	68	64	73	80
Operating profit	755	833	473	532	593
Financial income	8	14	29	26	28
Interest income	7	14	29	26	28
Financial expenses	0	1	1	1	1
Interest expenses	0	1	0	1	1
Other non-operating profit	(2)	(2)	(2)	0	0
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	467	538	499	557	620
Income taxes	(30)	(35)	(35)	(39)	(43)
Net profit	437	502	464	518	576
Net profit of controlling interest	437	502	464	518	576
EBITDA	516	594	553	610	645

Key financial data

FY-ending Dec.	2018A	2019A	2020A	2021F	2022F
Per-share data (VND, adj.)					
EPS	8,614	9,896	9,150	9,795	10,922
BPS	16,022	18,373	18,598	21,640	25,837
DPS	7,806	7,229	3,344	7,399	7,399
Growth (%)					
Sales growth	14.8	10.8	(7.4)	10.4	9.8
OP growth	19.1	14.2	(10.1)	12.3	11.5
NP growth	26.9	14.9	(7.5)	11.5	11.3
EPS growth	26.9	14.9	(7.5)	7.0	11.5
EBITDA growth	16.4	12.8	(9.8)	11.3	10.5
Profitability (%)					
OP margin	68.3	70.4	68.3	69.5	70.6
NP margin	64.7	67.1	67.0	67.7	68.7
EBITDA margin	76.4	77.8	75.8	76.4	76.9
ROA	44.6	49.1	42.8	42.2	40.5
ROE	52.8	57.5	49.5	48.7	46.0
Dividend yield	6.0	5.6	2.6	5.7	5.7
Dividend payout ratio	0.9	0.7	0.4	0.8	0.7
Stability					
Net debt (VND bn)	(77)	(246)	(237)	(467)	(688)
Net debt/equity (%)	(8.7)	(24.5)	(23.3)	(39.9)	(49.7)
Valuation (x)					
PE	15.3	13.3	14.4	13.5	12.1
PB	8.2	7.2	7.1	6.1	5.1
EV/EBITDA	12.8	11.1	12.4	10.8	9.4

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Saigon Cargo Services (SCS)	25-12-20	BUY	VND148,500		
	04-02-21	BUY	VND152,600		



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