

27 Oct 2021

Saigon Cargo Service (SCS)

Continuing growth with rising cargo yield

- Positive outcomes for 3Q21
- Up in TP with a bright outlook

Sales and NP grow due to higher cargo yield

On October 19, 2021, SCS announced its 3Q21 earnings results with revenue of VND172bn (+2.5% yoy) and PBT of VND130bn (+5.2% yoy). The high increase of average selling price (ASP) when ASP rose +22.5% yoy largely contributed to this gain. In the world, air cargo prices on all routes continuously increased to new highs of the year due to combined with strong consumer demand and strains capacity.

Growth and improve margins to come back in 2022

In contrast to passenger travel, SCS still maintains stable operations in the context of the COVID-19 pandemic because freight transport rarely encounters limitations in human health and safety regulations. Nevertheless, the SCS cargo volume is still decreasing because of various pandemic control strategies across nations. This is offset by an increase in cargo yield. We believe that the high cargo yield will remain as the world recognizes and reshapes the role of air cargo transport in the global supply chain. We are forecasting ASP to rise by 7.0% yoy, this growth is lower than global air cargo yield since CAAV and MoT are proposing policies to cut air services charges to help enterprises, and SCS is expected to decrease prices so that it remains competitive with TCS.

The conclusion of the Ho Chi Minh City lockdown and Vietnam's fast vaccination will result in recovery in production and business in 4Q21. In this case, the cargo volume of SCS will continue to grow as in the pre-pandemic period. Especially, international cargo volume will be the key driver for SCS's growth due to the booming E-commerce. We forecast that SCS's international cargo volume will grow by 10.6%/7.4% in 2021F/2022F, respectively.

For other business segments, we maintain as previous forecasts. Particularly, the office leasing and aircraft parking segments are stable with GP margin of 83.5% and 71.5%, respectively.

Lift TP by 7.9%; Focus on cargo profitability

We maintain BUY rating on SCS but upgrade our TP by 5.0% from VND152,600 to VND160,200. Our TP increase is mainly due to changing in our valuation assumptions and a better outlook for air freight industry. Currently, SCS is trading at TTM PE of 12.7x.

12M rating **BUY (Maintain)**

12M TP **160,200**

Up/Downside **+26.5%** (incl 6.9% cash dividend)

Stock data

VNIndex (Oct 26, pt)	1,392
Stock price (Oct 26, VND)	133,900
Market cap (USD mn)	299
Shares outstanding (mn)	51
52-Week high/low (VND)	142,400/107,968
6M avg. daily turnover (USD mn)	0.11
Free float / Foreign ownership (%)	30.7/30.1
Major shareholders (%)	
GMD	32.6
ACV	13.1
41 Aircraft Repairing	12.6
PYN Elite Fund	6.2

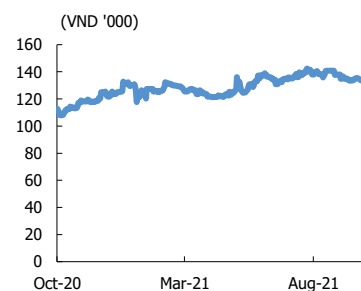
Valuation

	2020A	2021F	2022F
PE (x)	14.6	12.6	11.2
PB (x)	7.2	6.3	5.8
ROE (%)	49.5	53.3	54.3
DY (%)	6.5	7.0	7.6
EV/EBITDA (x)	12.6	10.7	9.4
EPS (VND)	9,152	10,614	11,974
BPS (VND)	18,599	21,193	22,931

Performance

	1M	6M	12M
Absolute (%)	(3.0)	10.1	18.7
Relative to VNIndex (%p)	(6.1)	(5.2)	(29.8)

Stock price



Source: Bloomberg

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Summary 3Q21 earnings results

In 3Q21, total cargo volume saw a decrease of 15.6% yoy, mainly dragged down by a slump in the international cargo (-5.5% yoy) and domestic cargo recorded a massive drop of 43.8% yoy.

Table 1. SCS's 3Q21 and 9M21 earnings results

	3Q			9M			9M21 vs KIS's 2021F
	2020	2021	% Growth	2020	2021	% Growth	
Domestic volume (tonnes)	13,754	7,728	-43.8	38,575	41,192	6.8	
International volume (tonnes)	38,154	36,059	-5.5	110,309	120,551	9.3	
Total cargo volume (tonnes)	51,908	43,787	-15.6	148,884	161,743	8.6	
ASP (VND/kg)	2,996	3,670	22.5	3,090	3,341	8.1	
Revenue	167	172	2.5	495	576	16.4	
Air cargo terminal	156	161	3.3	460	540	17.4	
Aircraft parking	0	0	210.1	0	1	250.6	
Office leasing	11	11	-8.2	34	34	1.1	
Other	0	0	-43.7	1	1	-21.1	
COGS	(37)	(35)	-4.4	(108)	(118)	8.9	
Air cargo terminal	34	32	-5.2	98	108	9.5	
Aircraft parking	1	1	0.0	4	4	0.0	
Office leasing	2	2	6.0	5	6	5.3	
Other	-	-	-	-	-	-	
Gross profit	131	137	4.5	387	459	18.4	
Financial income	8	8	2.3	21	24	16.7	
Financial expenses	-	-	-	(0)	(0)	0.0	
Interest expenses	-	-	-	-	-	-	
SG&A expenses	(15)	(14)	-3.1	(45)	(45)	1.6	
Operating profit	124	130	5.2	363	437	20.4	
Net other income	(0)	(0)	-6.3	(2)	(1)	-13.5	
PBT	124	130	5.3	362	436	20.5	
Tax	(9)	(9)	2.0	(26)	(30)	17.6	
NP	115	121	5.5	336	406	20.8	
Gross profit margin (%)	78.1	79.5		78.2	79.6		
NP margin (%)	68.5	70.5		67.8	70.4		

Source: SCS, KIS Vietnam

New forecasts

Table 2. SCS's forecast earnings

	2021F	2022F	2023F	Comment
International volume (tonnes)	169,273	181,791	192,698	We estimate our international cargo volume growth assumption of 9.6%/7.4%/6.0% in 2021F/2022F/2023F. With the growing popularity of air freight, we believe that SCS's international cargo volume will improve in 2021 compared to 2020's low base.
Domestic volume (tonnes)	53,455	54,301	57,559	
Total cargo volume (tonnes)	222,728	236,092	250,257	
ASP (VND/kg)	3,283	3,447	3,619	
Revenue	784	869	964	For aircraft parking segment, we expect that SCS will establish a discount policy for airlines to assist them during the COVID-19 pandemic – causing airlines industry crisis.
Air cargo terminal	731	814	906	
Aircraft parking	5	6	6	We believe that the SCS building's proximity to Tan Son Nhat Airport is particularly advantageous, and this business area has always profited to SCS despite the pandemic.
Office leasing	46	48	51	
Other	-	-	-	
COGS	161	167	174	
Air cargo terminal	148	154	161	
Aircraft parking	5	5	5	
Office leasing	8	8	8	
Other	-	-	-	
Gross profit	623	702	790	
Financial income	33	36	42	
Financial expenses	0	-1	0	
Interest expenses	0	0	0	
SG&A expenses	-74	-83	-92	
Operating profit	581	655	740	
Net other income	-2	-2	-2	
PBT	579	653	738	
Tax	-41	-46	-52	
NP	539	608	687	
Gross profit margin (%)	74.1	75.4	76.8	
NP margin (%)	68.7	69.9	71.2	

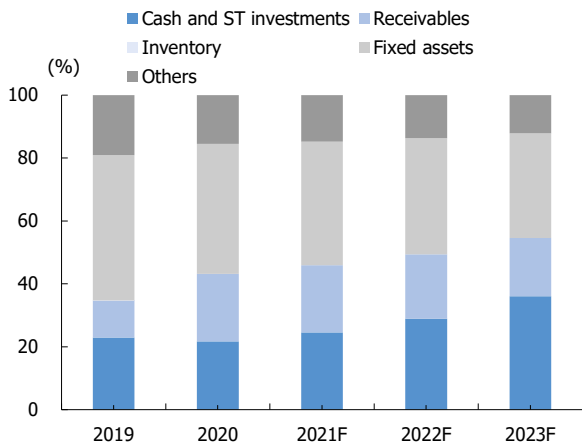
Source: SCS, KIS Vietnam

Table 3. Cargo terminal assumptions, SCS

	2018A	2019A	2020A	2021F	2022F	2023F	2024F	2025F
International cargo volume (tonnes)	156,127	166,266	154,488	169,273	181,791	192,698	204,260	208,345
Growth (% yoy)	8.5	6.5	-7.1	9.6	7.4	6.0	6.0	2.0
Domestic cargo volume (tonnes)	48,816	52,160	55,633	53,455	54,301	57,559	61,013	62,233
Growth (% yoy)	15.6	6.9	6.7	-3.9	1.6	6.0	6.0	2.0
Total cargo volume (tonnes)	204,943	218,426	210,121	222,728	236,092	250,257	265,273	270,578
Growth (% yoy)	10.1	6.6	-3.8	6.0	6.0	6.0	6.0	2.0
Designed capacity	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Utilization rate (%)	102.5	109.2	105.1	111.4	118.0	125.1	132.6	135.3
Estimated ASP	3,060	3,184	3,068	3,283	3,414	3,551	3,728	3,914
Growth (% yoy)	5.1	4.1	-3.7	7.0	5.0	5.0	4.0	4.0

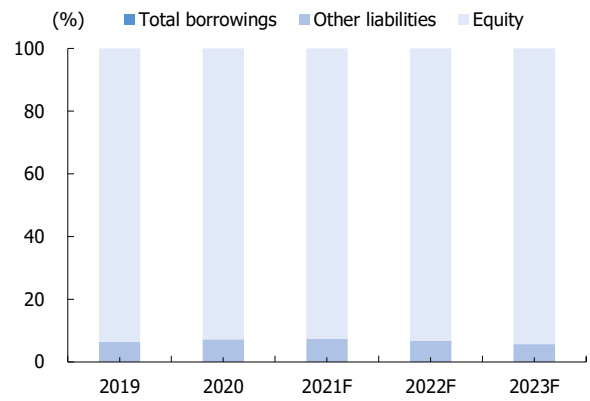
Source: KIS Vietnam

Figure 1. Total assets breakdown



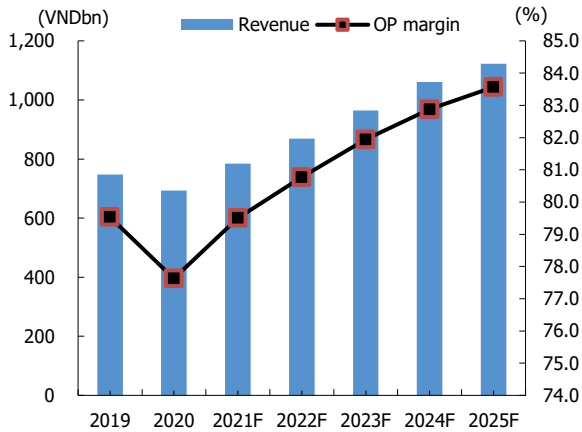
Source: Company data, KIS Vietnam

Figure 2. Total liabilities breakdown



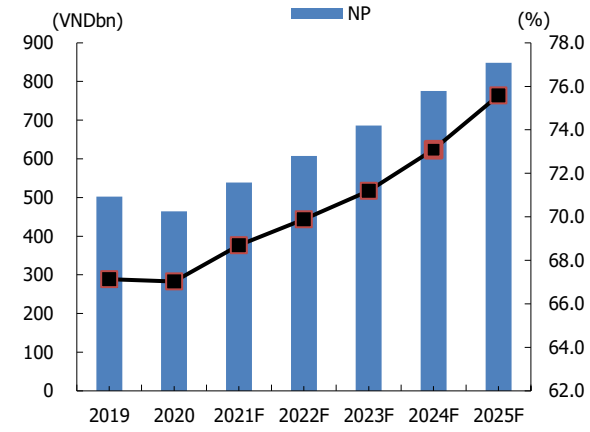
Source: Company data, KIS Vietnam

Figure 3. Revenue and GP margin



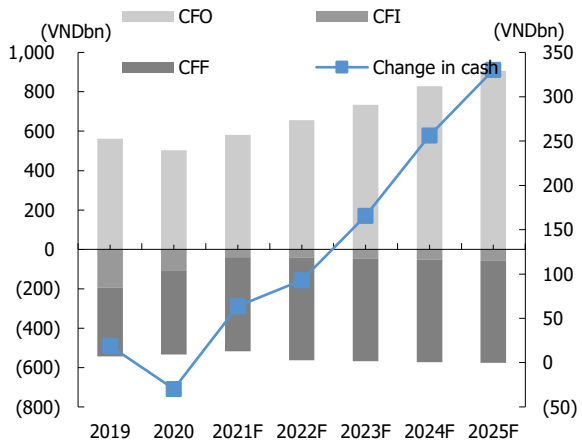
Source: Company data, KIS Vietnam

Figure 4. NP and NP margin



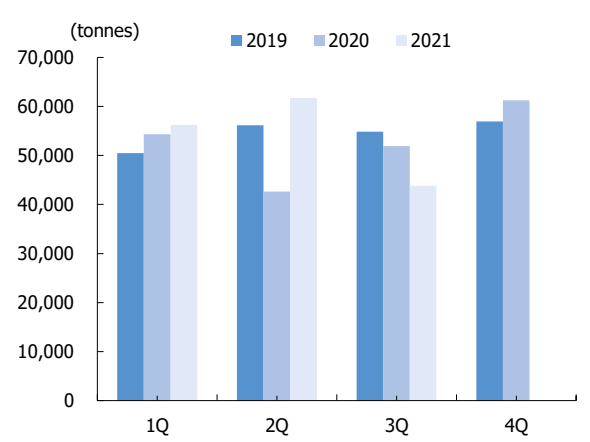
Source: Company data, KIS Vietnam

Figure 5. Cash flow statement



Source: Company data, KIS Vietnam

Figure 6. Total cargo volumes (tonne)



Source: Company data, KIS Vietnam

Confirmed V-shaped recovery

Global air cargo and outlook

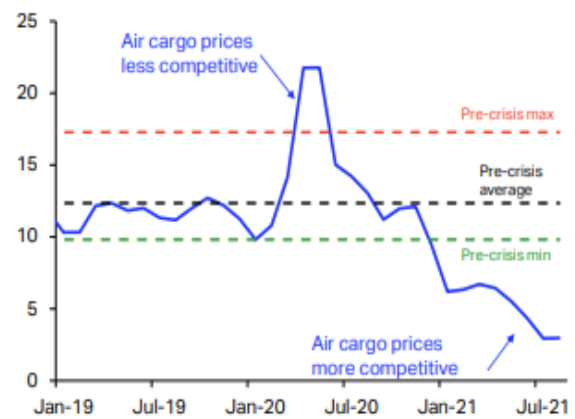
The demand for air freight has stabilized far beyond the pre-pandemic ear throughout the previous four months. According to the newest data of IATA, August 2021 compared with August 2019, industrial-wide cargo tonne-kilometers (CTKs) increased by 7.7%, which was somewhat below July's (8.8%) and significantly above the long-lasting monthly average of 4.7%. The worldwide freight volume continued to trend sideways when seasonality was removed from data.

Figure 7. CTK levels, actual and seasonally adjusted



Source: IATA Economics, KIS Vietnam

Figure 8. Ratio of Air Cargo to Container Rates



Source: IATA Economics, KIS Vietnam

Outlook is still excellent, but obstacles remain

The low inventory level for companies as seen in the inventory-to-sales ratio is one of the major indicators of continued good for short-term demand for cargo. Another reason that supports the expansion of air cargo is that the manufacturing production continues to expand globally, indicating that global demand for products remains robust and that air cargo shipments are to gain. But the lengthier delivery times for airlines indicate increased demand for air freight since air transport providers are using air cargo to speed up their shipping process. However, delay and cancellation of flights at airports and schedule uncertainty have further placed pressure on already limited freight capacity.

Table 4. World Scheduled Cargo Traffic, 2020

Scheduled Cargo Traffic	All Cargo Operations		Mixed Operations		Total	
	2020	% Change	2020	% Change	2020	% Change
Cargo Tonnes Carried (thousands)	40,054	16.4	17,475	-39.0	57,529	-8.7
Cargo Tonnes-Kilometers (millions)	159,586	20.4	71,756	-42.0	231,342	-9.7
Available Cargo Tonne Kilometers (millions)	251,410	20.3	178,606	-47.2	430,016	-21.4
Cargo Load Factor (%)	63.5	0.0	40.2	3.6	53.8	7.0

Note: All cargo operations
Source: IATA Statistics, KIS Vietnam

Change in assumptions

Change in Capital Asset Pricing Model

Due to the evil influence of the Delta variant on Vietnam's economy, we have had changes in the factors of the CAPM model. Particularly, we applied a new risk-free rate of 2.5%. These changes create a firm's lower cost of capital. Therefore, we also put lower our WACC by 0.3 pts to 12.5% - the unchanged beta is 0.9 and SCS's capital structure has no debt.

Table 5. Cost of Capital

WACC	Previously	Revised
Cost of Equity		
Beta	0.9	0.9
Risk-Free Rate (%)	3.9	2.5
Equity Risk Premium (%)	10.5	10.5
Cost of Equity (%)	12.8	12.5
Cost of Debt		
Cost of Debt before tax (%)	6.0	6.0
Tax rate (%)	20.0	20.0
Cost of Debt after tax (%)	4.8	4.8
% Equity	100.0	100.0
% Debt	0.0	0.0
WACC %	12.8	12.5

Table 6. FCFF Summary

FCFF	
PV of FCFF	2,799
Terminal growth (%)	3.0
PV of Terminal Value	4,962
% of Enterprise Value	68.5
PV of FCFF and Terminal Value	7,761
+ Cash and ST investments	439
- Debt	0
- Preferred Share	72
- Minority Interest	0
Equity Value	8,128
Number of shares (mn shares)	51
Value per share (VND)	160,167

Table 7. Discounted Cash Flow

Cash Flow	2021F	2022F	2023F	2024F	2025F
EBIT	620	698	778	832	888
- Tax	-46	-52	-58	-64	-70
+ Depreciation	61	63	66	69	72
- Capex	-43	-48	-53	-56	-59
- Working Capital increase	-9	-10	-3	-4	-9
FCFF	582	652	730	777	822
PV of FCFF	582	580	577	546	513
Cumulative PV of FCFF	582	1,162	1,739	2,285	2,799

Table 8. Valuation Summary

Saigon Cargo Service	Method	Weight (%)	Equity value (VNDbn)	Target price (VND/share)
Business operations	DCF	100.0	8,128	160,167
TTM P/E at TP				15.2x
2021F P/E at TP				15.1x
2022F P/E at TP				13.4x
2023F PE at TP				11.8x
Last Q PB at TP				6.6x
2021F PB at TP				8.6x
2022F PB at TP				8.0x
2022F PB at TP				7.0x

Office building project and M&A plan

Potential beyond our forecasts

We note that have not included SCS's second office building project in the forecast model because of information limitations. However, we foresee an upside in TP if this project is put into operation. SCS has also revealed a possibility that undertaking an M&A with a company in the same industry – air cargo terminal to expand its business area.

Table 9. Sensitivity analysis of our TP for SCS

		WACC						
		11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%
Terminal growth rate	1s.5%	166,900	159,100	152,000	145,600	139,700	134,400	129,500
	2.0%	173,200	164,600	156,900	150,000	143,700	137,900	132,700
	2.5%	180,200	170,800	162,400	154,800	148,000	141,800	136,200
	3.0%	188,100	177,700	168,400	160,200	152,800	146,100	140,000
	3.5%	197,000	185,400	175,200	166,100	158,000	150,700	144,200
	4.0%	207,300	194,200	182,800	172,800	163,900	155,900	148,800
	4.5%	219,100	204,300	191,400	180,300	170,400	161,700	153,800

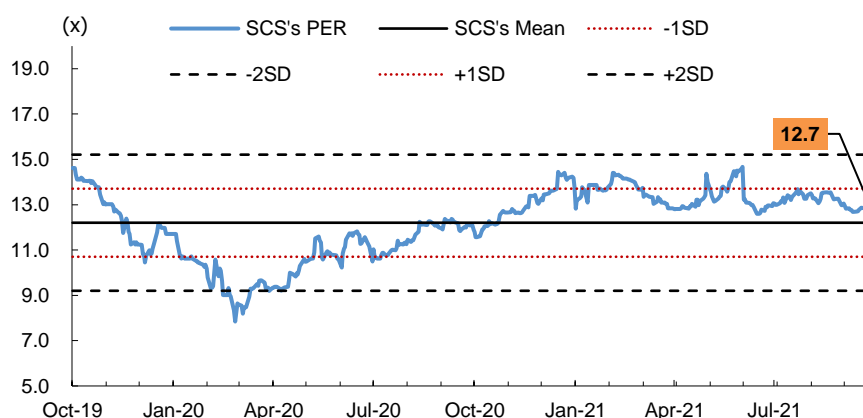
Source: KIS Vietnam

Table 10. Peer comparison

Company	Country	Market cap (USDmn)	NP (USDmn)	% yoy NP (%)	Net D/E (%)	TTM PE (x)	LQ PB (x)	ROE (%)	ROA (%)
Yto Express Holdings Ltd	Hong Kong	190	33	118.0	-37.7	5.8	1.6	31.6	15.7
Xiamen International Air-A	China	744	46	10.7	-28.4	15.7	1.2	8.1	6.4
Macroasia Corporation	Philippines	202	-34		46.8		2.6	-32.8	-15.2
Noibai Cargo Terminal	Vietnam	100	10	10.0	(62.8)	10.3	5.7	52.8	43.2
Saigon Cargo Services	Vietnam	299	23	13.4	(23.3)	12.7	6.6	52.8	44.8

Source: Bloomberg, KIS Vietnam

Figure 9. SCS's historical TTM PE



Source: Bloomberg, KIS

■ Company overview

Saigon Cargo Services (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.

Balance sheet

(VND bn)

FY-ending Dec.	2019A	2020A	2021F	2022F	2023F
Current assets	317	308	530	625	787
Cash & cash equivalents	246	237	283	371	527
Accounts & other receivables	71	71	247	255	260
Inventory	0	0	0	0	0
Non-current assets	591	545	440	430	422
Fixed assets	591	545	440	430	422
Investment assets	0	0	0	0	0
Others	165	241	189	193	202
Total assets	1,073	1,094	1,160	1,248	1,411
Advances from customers	1	1	1	1	1
Unearned revenue	0	0	0	0	1
Trade payables	4	5	11	13	9
Others	65	73	72	71	70
ST debt & due bonds	0	0	0	0	0
LT debt & bonds	0	0	0	0	0
Total liabilities	69	79	84	85	80
Controlling interest	1,004	1,016	1,075	1,164	1,331
Capital stock	576	579	579	579	579
Capital surplus	35	43	43	43	43
Other reserves	9	9	9	9	9
Retained earnings	385	384	444	532	699
Minority interest	0	0	0	0	0
Shareholders' equity	1,004	1,016	1,075	1,164	1,331

Cash flow

(VND bn)

FY-ending Dec.	2019A	2020A	2021F	2022F	2023F
C/F from operations	549	525	582	656	733
Net profit	502	464	539	608	687
Dep'n & Amort'n	55	52	58	61	63
Net incr. in W/C	(8)	9	(15)	(13)	(17)
C/F from investing	7	(104)	(39)	(43)	(48)
Capex	10	5	(39)	(43)	(48)
Incr. in investment	(3)	(109)	0	0	0
C/F from financing	(349)	(427)	(479)	(519)	(519)
Incr. in equity	18	12	0	0	0
Incr. in debt	0	0	0	0	0
Dividends	(367)	(439)	(479)	(519)	(519)
C/F from others	(39)	(4)	0	0	0
Increase in cash	169	(9)	64	93	166

Income statement

(VND bn)

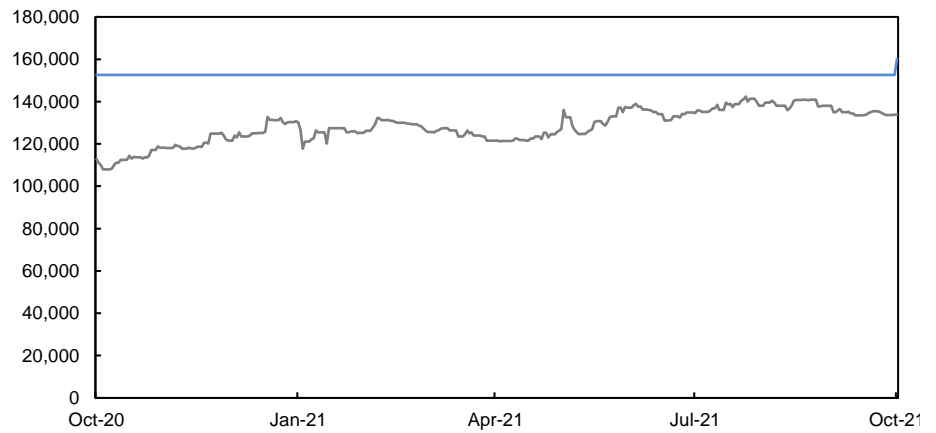
FY-ending Dec.	2019A	2020A	2021F	2022F	2023F
Sales	748	693	784	869	964
COGS	153	155	161	167	174
Gross profit	595	538	623	702	790
SG&A expenses	68	65	74	83	92
Operating profit	527	473	549	620	698
Financial income	14	29	33	36	42
Interest income	14	29	33	36	42
Financial expenses	1	1	0	1	0
Interest expenses	1	0	0	0	0
Other non-operating profit	(2)	(2)	(2)	(2)	(2)
Gains (Losses) in associates, subsidiaries, and JV	0	0	0	0	0
Earnings before tax	538	499	579	653	738
Income taxes	(35)	(35)	(41)	(46)	(52)
Net profit	502	464	539	608	687
Net profit of controlling interest	502	464	539	608	687
EBITDA	582	525	607	680	762

Key financial data

FY-ending Dec.	2019A	2020A	2021F	2022F	2023F
Per-share data (VND, adj.)					
EPS	9,896	9,152	10,614	11,974	13,528
BPS	18,373	18,599	21,193	22,931	26,223
DPS	7,229	8,648	9,436	10,236	10,236
Growth (%)					
Sales growth	10.8	(7.4)	13.2	10.9	10.9
OP growth	14.2	(10.2)	16.0	12.9	12.7
NP growth	14.9	(7.5)	16.0	12.8	13.0
EPS growth	14.9	(7.5)	16.0	12.8	13.0
EBITDA growth	12.8	(9.8)	15.7	12.1	12.0
Profitability (%)					
OP margin	70.4	68.3	70.0	71.3	72.4
NP margin	67.1	67.0	68.7	69.9	71.2
EBITDA margin	77.8	75.8	77.5	78.3	79.0
ROA	49.1	42.9	47.8	50.5	51.6
ROE	57.5	49.5	53.3	54.3	55.0
Dividend yield	5.4	6.5	7.1	7.7	7.7
Dividend payout ratio	0.7	0.9	0.9	0.9	0.8
Stability					
Net debt (VND bn)	(246)	(237)	(283)	(371)	(527)
Net debt/equity (%)	(24.5)	(23.3)	(26.3)	(31.9)	(39.6)
Valuation (x)					
PE	13.5	14.6	12.6	11.2	9.9
PB	7.3	7.2	6.3	5.8	5.1
EV/EBITDA	11.3	12.6	10.7	9.4	8.2

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Saigon Cargo Service (SCS)	09-02-21	BUY	VND152,600		
	26-10-21	BUY	VND160,200		



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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