

Noibai Cargo Terminal Services JSC (NCT: HOSE)



HOLD – 1Y Price Target: VND 107,000

Current price: VND 103,000

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Key figures

Market cap (USD mn)	121
Market cap (VND bn)	2,659
Outstanding shares (mn)	26
52W high/low (VND 1,000)	158/98
Average 3M volume (share)	20,910
Average 3M value (USD mn)	0.10
Average 3M value (VND bn)	2.22
Foreign ownership (%)	13.81
State ownership (%)	62.11
Management ownership (%)	0.5

Stock performance



Source: Bloomberg

Company Snapshot

Noi Bai Cargo Terminal Services (NCTS) is a subsidiary of Vietnam Airlines, and was founded in 2005 with a charter capital of VND 35bn. After several successful charter capital increases, mostly through stock dividends, NCTS's charter capital totaled VND 95.85bn during 2008-2013. In Sept 2014, the company paid stock dividend of 70% and stock bonus of 90% to increase its charter capital to VND 249.21bn.

Oversupply diminishes most growth prospect

We recently met with NCT and the following are highlights from the meeting.

Noi Bai airport cargo industry: slower growth than expected

In 8M2016, total cargo volume at Noi Bai International Airport increased by 14% YoY, in which international cargo growth was much lower, roughly 10% YoY. A large part of the growth of international cargo in recent year can be attributed to Samsung import/export, accounting for about 35-40% of international cargo through Noi Bai. With the advent of Samsung Thai Nguyen in mid-2014, Noi Bai area was able to enjoy 16-18% YoY growth in import/export cargo volume in 2014 and 2015, which was expected to repeat in 2016. However, the recent lower sales growth of Samsung has altered initial expectation. Moreover, after the recent problem of Galaxy Note 7 faulty battery, we expect Samsung mobile phone sales growth might decline further in the future along with the reduction in customer confidence. Overall, this would affect the prospect of air cargo handlers in Noi Bai area, such as NCT, ALSC and ACSV.

In the meantime, competition grows fiercer. Recently, ACSV has broken ground on their new cargo terminal, which is expected to be completed at the end of 2017. With this project, ACSV aims to improve their market share, which at the moment is only 10-15%. As we have noted in our last report, ACV (Airports Corporation of Vietnam) sold 80% of ACSV shares to outside investors. The new cargo terminal capacity will be higher than ALSC's current terminal (300K tons/year), although we are not certain of the exact figure. However, assuming that they have the same capacity with ALSC, total capacity of Noi Bai cargo handlers will reach 1 million tons/year in 2017, while total demand is estimated to reach only 750K tons in 2018, and may reach 1,026K tons in 2020, assuming 17% annual growth rate. Thus, in the next 5 years, oversupply will spur price and quality competition pressure for the 3 players, and as a result, we might see margins getting squeeze and market share getting shuffle around.

Our view

NCT's 2Q16 business results

(bn VND)	2Q16	2Q15	YoY	1Q16	QoQ	% annual target completed	Margin			
							2Q16	2Q15	1Q16	2015
Net sales	168.3	198.5	-15.2%	180.7	-6.9%	48.3%				
Gross profit	95.1	118.5	-19.8%	105.6	-9.9%		56.5%	59.7%	58.4%	56.7%
Operating profit	79.8	108.9	-26.7%	95.7	-16.6%		47.4%	54.9%	52.9%	48.5%
EBIT	83.0	111.3	-25.5%	95.7	-13.3%		49.3%	56.1%	53.0%	50.2%
EBITDA	89.4	116.8	-23.5%	102.3	-12.6%		53.1%	58.8%	56.6%	53.0%
Pretax profit	83.0	111.3	-25.5%	95.7	-13.3%		49.3%	56.1%	53.0%	50.2%
Net income	65.8	86.8	-24.1%	76.6	-14.0%	52.8%	39.1%	43.7%	42.4%	39.2%
NI attributable to shareholders	65.8	86.8	-24.1%	76.6	-14.0%		39.1%	43.7%	42.4%	39.2%

Source: SSI Research

Rising competition has dampened NCT business results in 1H2016, with the loss of Korean Air and Emirates to ALS. In 6M16, total volume of NCT reached 174K tons, -9.3% YoY, in which international volume decreased by 17.6% YoY, while domestic volume increased by 17% YoY. This tightened NCT gross margin from 61% to 57%, and net margin from 44% to 40%. Revenue also declined by 15% YoY, while bottom line dropped by 21% YoY in the first half.

Oversupply in the area in the next 5 years will tighten NCT's margin and growth even further. Currently, NCT is almost at full capacity (350K out of 400K capacity), while its biggest competitor is only at 50% capacity. At the moment, NCT has 60% of market share, while ALS has about 27%. Thus, we expect further customer loss in the near future, especially after ACSV complete their new terminal.

Recently, Samsung SDS, a subsidiary of Samsung, has announced their joint venture with ALS, to provide global and inland transportation, warehousing and customs services in Noi Bai. This is another challenge to NCT to maintain their position, as Samsung cargo currently accounts for 40% of their total international volume. We will update this joint venture and its potential impact on NCT when we have further information.

Earnings estimates and valuation

We maintain our estimates for NCT in 2016 and 2017 as in our last report. In 2016, with its market shares reducing from 77% in 2015 to 55% in 2016, we estimate revenue to reach VND 733 bn, -8.2% YoY, while NPAT might reach VND 264 bn, -15% YoY, equivalent to a forward 2016 EPS of VND 10,115. In 2017, we estimate a further 5% market shares loss, reducing NCT market shares to about 50%, while industry growth is expected at 15% YoY. Thus, revenue and NPAT might reach VND 755 bn (+3% YoY) and VND 288 bn (+8% YoY). 2017 EPS is estimated at VND 11,007.

From 2018 onwards, with the new terminal of ACSV, the growth prospect for NCT might become gloomier than before.

At the current market price of VND 103,000, PE 2016 and 2017 is 10x and 9.3x respectively. Based on target PE of 10x, our 1Y TP price for NCT is revised down from VND 127,000 to VND 107,000, as we think growth prospect has been reduced greatly for NCT when ACSV finish their new terminal in 2017. We recommend to HOLD NCT for the moment. Expected dividend for 2016 is VND 10,000, meaning a 9.7% dividend yield.

Clearly, main downside risks come from possible risk of losing more market shares and customers to competitors. Samsung SDS – ALS JV also adds to the uncertainty ahead.

APPENDIX 1: ANNUAL FINANCIAL STATEMENTS

VND Billion	2014	2015	2016F	2017F
Balance Sheet				
+ Cash	138	21	-9	30
+ Short-term investments	141	272	272	272
+ Account receivables	80	53	49	58
+ Inventories	7	5	5	6
+ Other current assets	1	0	0	26
Total Current Assets	367	351	316	392
+ LT Receivables	0	3	2	3
+ Net Fixed Assets	68	97	135	100
+ Investment properties	0	0	0	0
+ LT Assets in progress	0	1	1	1
+ LT Investments	24	24	24	24
+ Other LT Assets	75	43	42	15
Total Long-Term Assets	168	168	204	143
Total Assets	535	519	520	535
+ Current Liabilities	76	80	78	66
<i>In which: ST debt</i>	0	0	0	0
+ Non-current Liabilities	2	2	2	2
<i>In which: LT debt</i>	0	0	0	0
Total Liabilities	78	82	80	69
+ Contributed capital	249	262	262	262
+ Share premium	0	0	0	0
+ Retained earnings	202	175	178	205
+ Other capital/fund	5	0	0	0
Shareholders' Equity	457	437	440	467
Total Liabilities & Equity	535	519	520	535
Cash Flow				
CF from operating activities	207	369	304	301
CF from investing activities	-6	-166	-73	0
CF from financing activities	-96	-320	-262	-262
Net increase in cash	105	-117	-31	39
Beginning cash	33	138	21	-9
Ending cash	138	21	-9	30
Liquidity Ratios				
Current ratio	4.80	4.39	4.04	5.91
Acid-test ratio	4.69	4.33	3.97	5.42
Cash ratio	3.65	3.67	3.35	4.55
Net debt / EBITDA	-0.24	-0.19	-0.02	-0.03
Interest coverage	N.a	N.a	N.a	N.a
Days of receivables	29.8	25.3	21.1	21.1
Days of payables	19.7	18.2	20.2	17.1
Days of inventory	6.9	6.6	5.4	6.2
Capital Structure				
Equity/Total asset	0.85	0.84	0.85	0.87
Liabilities/Total Assets	0.15	0.16	0.15	0.13
Liabilities/Equity	0.17	0.19	0.18	0.15
Debt/Equity	0.00	0.00	0.00	0.00
ST Debt/Equity	0.00	0.00	0.00	0.00

VND Billion	2014	2015	2016F	2017F
Income Statement				
Net Sales	678	799	733	756
COGS	-296	-346	-338	-327
Gross Profit	383	453	395	428
Financial Income	17	14	1	-1
Financial Expense	0	0	0	0
Income from associates	0	0	0	0
Selling Expense	-5	-6	-6	-6
Admin Expense	-53	-63	-60	-62
Income from business operation	342	397	330	359
Net Other Income	0	3	1	1
Profit Before Tax	342	401	331	360
Net Income	274	313	265	288
NI attributable to shareholders	274	313	265	288
Minority interest	0	0	0	0
Basic EPS (VND)	19,202	11,950	10,115	11,007
BVPS (VND)	18,328	16,707	16,823	17,830
Dividend (VND/share)	0	0	10,000	10,000
EBIT	342	401	331	360
EBITDA	357	423	366	395
Growth				
Sales	18.0%	17.8%	-8.2%	3.1%
EBITDA	11.2%	18.6%	-13.5%	8.0%
EBIT	10.4%	17.2%	-17.4%	8.8%
NI	10.5%	14.3%	-15.4%	8.8%
Equity	59.2%	-4.3%	0.7%	6.0%
Chartered Capital	160.0%	5.0%	0.0%	0.0%
Total assets	54.9%	-2.9%	0.2%	2.8%
Valuation				
	0.0	11.6	10.2	9.4
P/B	0.0	8.7	6.1	5.8
P/Sales	0.0	4.6	3.7	3.6
Dividend yield	N.a	0.0%	9.7%	9.7%
EV/EBITDA	-0.8	-0.7	6.7	6.2
EV/Sales	-0.4	-0.4	3.4	3.3
Profitability Ratios				
Gross Margin	56.4%	56.7%	53.8%	56.7%
Operating Margin	48.3%	48.5%	44.8%	47.6%
Net Margin	40.3%	39.2%	36.1%	38.1%
Selling exp./Net sales	0.7%	0.8%	0.8%	0.8%
Admin exp./Net sales	7.9%	8.0%	8.2%	8.2%
ROE	73.6%	70.0%	60.3%	63.5%
ROA	62.2%	59.3%	50.9%	54.6%
ROIC	73.6%	70.0%	60.3%	63.5%

Source: NCT, SSI Research

APPENDIX 2: QUARTERLY FINANCIAL STATEMENTS

VND Billion	3Q15	4Q15	1Q16	2Q16
Balance Sheet				
+ Cash	8	21	11	37
+ Short-term investments	195	272	217	220
+ Account receivables	80	50	55	71
+ Inventories	4	5	6	5
+ Other current assets	10	0	24	2
Total Current Assets	296	348	314	334
+ LT Receivables	3	3	3	3
+ Net Fixed Assets	86	97	91	84
+ Investment properties	0	0	0	0
+ LT Assets in progress	1	1	1	8
+ LT Investments	24	24	24	24
+ Other LT Assets	42	43	14	28
Total Long-Term Assets	155	168	132	147
Total Assets	452	516	446	481
+ Current Liabilities	71	79	61	65
<i>In which: ST debt</i>	0	0	0	0
+ Non-current Liabilities	2	2	2	2
<i>In which: LT debt</i>	0	0	0	0
Total Liabilities	73	81	63	68
+ Contributed capital	0	0	0	0
+ Share premium	0	0	0	0
+ Retained earnings	1	1	45	17
+ Other capital/fund	378	434	338	397
Owners' Equity	379	435	383	413
Total Liabilities & Equity	452	516	446	481
Cash Flow				
CF from operating activities	91	106	64	61
CF from investing activities	27	-92	56	-9
CF from financing activities	-130	0	-130	-27
Net increase in cash	-13	13	-10	25
Beginning cash	21	8	21	11
Ending cash	8	21	11	37
Liquidity Ratios				
Current ratio	4.20	4.40	5.14	5.11
Acid-test ratio	4.00	4.34	4.65	5.01
Cash ratio	2.87	3.71	3.75	3.93
Net debt / EBITDA	-0.08	-0.26	-0.11	-0.41
Interest coverage	N.a	N.a	N.a	N.a

VND Billion	3Q15	4Q15	1Q16	2Q16
Income Statement				
Net Sales	189	199	181	168
COGS	-88	-98	-75	-73
Gross Profit	101	101	106	95
Financial Income	7	3	3	3
Financial Expense	0	0	0	0
Income from associates	0	0	0	0
Selling Expense	-2	-3	0	-2
Admin Expense	-12	-26	-13	-13
Income from business operation	94	74	96	83
Net Other Income	0	1	0	0
Profit Before Tax	94	75	96	83
Net Income	74	58	77	66
NI attributable to shareholders	74	58	77	66
Minority interest	0	0	0	0
Basic EPS (VND)	2,832	2,225	2,926	2,516
BVPS (VND)	14,482	16,623	14,634	15,797
EBIT	94	75	96	83
EBITDA	100	82	102	89
Growth (YoY)				
Sales	10.1%	5.3%	-14.6%	-15.2%
EBITDA	16.4%	-12.1%	-18.2%	-23.5%
EBIT	9.6%	-3.2%	-20.2%	-25.5%
NI	7.2%	-6.2%	-18.2%	-24.1%
Equity	-4.0%	-4.7%	-15.0%	-5.1%
Chartered Capital	5.0%	5.0%	5.0%	0.0%
Total assets	-2.1%	-3.5%	-13.9%	-4.3%
Profitability Ratios				
Gross Margin	53.3%	50.6%	58.4%	56.5%
Operating Margin	49.7%	32.4%	52.9%	47.4%
Net Margin	39.2%	29.2%	42.4%	39.1%
Selling exp./Net sales	1.0%	1.5%	0.3%	1.1%
Admin exp./Net sales	6.1%	13.3%	6.9%	7.9%
Capital Structure				
Equity/Total asset	0.84	0.84	0.86	0.86
Liabilities/Total Assets	0.16	0.16	0.14	0.14
Liabilities/Equity	0.19	0.19	0.16	0.16
Debt/Equity	0.00	0.00	0.00	0.00
ST Debt/Equity	0.00	0.00	0.00	0.00

Source: NCT, SSI Research

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