SCS Update - BUY

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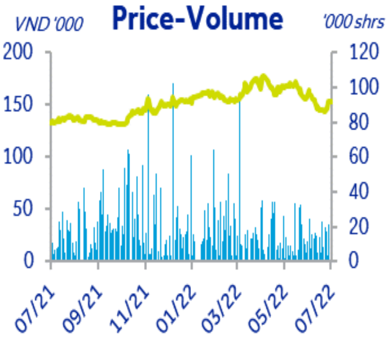
Company Update

Recommendation	**BUY**
	HOSE: SCS
	Transportation infrastructure
Current price (VND)	**152,400**
Target price (VND)	**191,000**
Expected share price return	25.3%
Expected dividend yield	2.4%
Expected total return	**27.7%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	3.4	-2.4	-9.0	19.8
Relative	21.9	-1.9	2.3	25.1

Source: Bloomberg



Ownership

Gemadept Corporation (GMD)	31.8%
Airport Corporation of Vietnam (ACV)	12.9%
A41 Aircraft repairing company – preferred shareholder	12.4%

Stock Statistics	**28-Jul-21**
Bloomberg code	**SCS VN**
52-week range (VND)	126,100-181,500
Shares O/S (m)	51
Mkt cap (VND bn)	8,246
Mkt cap (USD m)	352
Foreign room left (%)	3.4
Est. free float (m)	30.7
3m avg daily vol (shrs)	13,603
VND/USD	23,415
Index: VNIndex / HNX	1,209.77/291.76

Saigon Cargo Services Corporation (SCS VN)

Subdued 3Q2022 on the horizon before the peak season in 4Q2022 amid the holiday season. We reiterate our BUY recommendation with a TP of 191,000, equivalent to a total expected return of 27.7%

Events: SCS ended 2Q2022 with a negative 1.5% YoY revenue growth to VND208.8bn and an increase in net profit by 1.7% YoY to VND153.0bn, equivalent to 22.4% and 25.9% of our FY2022 forecasts, respectively. As contract renewal is effective from 4Q2021, SCS's ASP increased by 9.5% YoY in 2Q2022. However, cargo volume through SCS' terminal declined by 10.2% YoY in 2Q2022, resulting in a declining top line. In details, international tonnage declined by 2.1% YoY while domestic tonnage continue its sharp drop by 31.9% YoY in 2Q2022.

Thanks to a strong 1Q2022, international tonnage via SCS's terminal kept its green shade with 18.0% YoY growth in 1H2022 while domestic tonnage enters the declining trend for 6 consecutive months. Overall, SCS's 1H2022 international tonnage fulfilled 54.0% of our FY2022 forecast while domestic tonnage is only equivalent to 38.0%.

According to management, cargo volume will continue to drop in 3Q2022 given the seasonality of the business and as air freight is now less favourable compared to sea freight (sea freight rates softened by nearly 25% since the beginning of the year). In 4Q2022, cargo volume is expected to peak up again as the holidays and festivity period comes. Other businesses are almost flat.

	2Q2022	*YoY growth*	1H2022	*YoY growth*
Revenue	208.8	-1.5%	454.7	+11.4%
Avg. selling price (VND mn)	3.5	+9.5%	3.5	+8.2%
Tonnage (tonnes)	55,435	-10.2%	122,039	+3.5%
Gross Margin	79.8%	-0.5 ppts	81.8%	+2.0 ppts
Net Profit	153.0	+1.7%	340.5	+18.3%
Net Margin	73.3%	+2.3 ppts	74.9%	+4.4 ppts

Source: Company data, ACBS

Forecast changes: We slightly increase international tonnage forecast by 3.7% to 191,962.2 tonnes in FY2022 while adjust down our FY2022 volume forecast for the domestic segment by 32.0% to 40,028.5 tonnes. We note that our new forecasts are now 104.3% and 71.5% of company's full year targets, respectively. We also revise our expect ASP to VND3.7mn/tonne (+6.0% YoY) to reflect higher 2Q2022 ASP than expectation.

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	2019	2020	2021	2022E	2023E
Net Sales (VNDbn)	748	693	839	908	1,026
Growth (%)	*10.8*	*-7.4*	*21.1*	*8.2*	*13.1*
EBITDA (VNDbn)	582	525	628	688	786
Growth (%)	*12.8*	*-9.8*	*19.6*	*9.6*	*14.2*
Net Profit (VNDbn)	466	430	529	589	696
Growth (%)	*20.9*	*-7.7*	*22.9*	*11.3*	*18.2*
EPS (bonus-adjusted, VND)	9,307	8,510	10,425	11,604	13,713
Growth (%)	*20.6*	*-8.6*	*22.5*	*11.3*	*18.2*
ROE (%)	49.4	42.6	46.7	40.1	35.8
ROA (%)	45.6	39.7	42.2	36.0	32.8
Net debt/EBITDA (x)	-0.4	-0.5	-0.9	-1.8	-2.1
EV/EBITDA (x)	13.0	14.6	12.2	10.1	7.6
PER (x)	16.4	17.9	14.6	13.1	11.1
PBR (x)	7.6	7.6	6.2	4.6	3.5
DPS (VND)	8,000	8,000	3,000	3,600	3,600
Dividend Yield (%)	5.2	5.2	2.0	2.4	2.4

We update our FY2022 revenue forecast of VND907.5bn (+8.2% YoY and 2.6% lower than our previous forecast). As SCS has not yet expanded its capacity to 350,000 tonnes, we delay the company's investment plan which drives SCS's to hold higher cash and to deliver higher financial income (+46.1% vs. previous forecast). This result in an expected VND588.9bn of net profit (+64.9% YoY and -0.5% vs. previous forecast).

	New forecast	Previous forecast	% change
Revenue	907.5	931.8	-2.6%
Avg. selling price (VND mn)	3.7	3.6	+2.2%
Tonnage (tonnes)	231,990.7	243,883.7	-4.9%
Financial income	40.3	27.6	+46.1%
Net Profit	588.9	591.6	-0.5%
Net Margin	64.9%	63.5%	+1.4 ppts

Source: Company data, ACBS

Valuation: Applying a DCF model, we derive a TP of **VND191,000/sh** for SCS, down slightly by -3.9% vs. previous TP and equivalent to **27.7% TSR**, inclusive of 2.4% dividend yield. We continue to like SCS stock as a debt free company and as the current only cargo company in HCMC able to absorb new volume expansion. With a high cash position of over VND1.0tn and an expected avg. operating cashflow of above VND800bn annually, we believe SCS capacity to participate into the Long Thanh airport project when needed even with the upcoming capacity expansion to 350,000 tonnes estimated at approx. USD6.0mn.

SCS FINANCIALS MODEL	Price (VND):	152,400	Target (VND):	191,000	Mkt cap (VND bn):	8,246
(VND bn except where stated)	2019	2020	2021	2022E	2023E	2024E
Total Net Sales	748	693	839	908	1,026	1,173
Sales growth (%)	*10.8%*	*-7.4%*	*21.1%*	*8.2%*	*13.1%*	*14.3%*
CoGS ex-dep'n	105	110	140	151	165	182
SG&A	68	65	78	76	82	90
SG&A as % of sales	*9.1%*	*9.3%*	*9.3%*	*8.3%*	*8.0%*	*7.7%*
EBITDA	582	525	628	688	786	908
EBITDA margin (%)	*77.8%*	*75.8%*	*74.8%*	*75.8%*	*76.6%*	*77.4%*
Depreciation	48	45	47	47	48	50
Operating profit	527	473	574	634	731	851
Operating profit margin (%)	*70.4%*	*68.3%*	*68.4%*	*69.8%*	*71.2%*	*72.5%*
Net interest expense	-14	-29	-35	-40	-67	-121
as % of avg, net debt	*5.5%*	*12.1%*	*6.4%*	*3.3%*	*4.1%*	*5.2%*
Tax	36	35	42	47	64	97
Effective tax rate (%)	*6.6%*	*7.0%*	*6.9%*	*7.0%*	*8.0%*	*10.0%*
Minorities	-	-	-	-	-	-
Net profit	466	430	529	589	696	837
Net profit margin (%)	*62.3%*	*62.1%*	*63.0%*	*64.9%*	*67.8%*	*71.3%*
Cash earnings	521	482	584	643	751	894
Number of shares (m)	50.4	50.7	50.7	50.7	50.7	50.7
EPS (VND)	9,307	8,510	10,425	11,604	13,713	16,486
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0	1.0
Adjusted EPS (VND)	9,307	8,510	10,425	11,604	13,713	16,486
EPS growth (%)	*20.6%*	*-8.6%*	*22.5%*	*11.3%*	*18.2%*	*20.2%*

KEY CASHFLOW AND BS ITEMS	2019	2020	2021	2022E	2023E	2024E
Increase in working capital	2	-12	5	211	-122	40
Capex	14	4	6	12	29	56
Change in investment in affiliates	-	-	-	-	-	-
Other cashflow items	203	114	334	45	35	14
Free cash flow	539	469	585	843	577	807
Share issues (m)	0.4	-	-	-	-	-
Dividends paid	367	439	271	152	183	183
Increase in net debt	-169	9	-301	-690	-418	-695
Net debt, end of year	-246	-237	-538	-1,228	-1,646	-2,341
Enterprise value	7,430	7,497	7,196	6,506	6,088	5,393
Shareholders' equity	1,004	1,016	1,249	1,686	2,199	2,853
BVPS (VND)	19,939	20,016	24,619	33,224	43,337	56,223
Net debt / equity (%)	*-24.5%*	*-23.3%*	*-43.1%*	*-72.8%*	*-74.8%*	*-82.0%*
Net debt / EBITDA (x)	*-0.4*	*-0.5*	*-0.9*	*-1.8*	*-2.1*	*-2.6*
Total assets	1,073	1,094	1,416	1,860	2,386	3,056

KEY RETURN AND VALUATION RATIOS	2019	2020	2021	2022E	2023E	2024E
ROE (%)	*49.4%*	*42.6%*	*46.7%*	*40.1%*	*35.8%*	*33.1%*
ROA (%)	*45.6%*	*39.7%*	*42.2%*	*36.0%*	*32.8%*	*30.7%*
ROIC (%)	*44.6%*	*37.6%*	*40.0%*	*34.0%*	*30.3%*	*27.2%*
WACC (%)	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*
EVA (%)	*32.8%*	*25.9%*	*28.2%*	*22.2%*	*18.5%*	*15.4%*
PER (x)	*16.4*	*17.9*	*14.6*	*13.1*	*11.1*	*9.2*
EV/EBITDA (x)	*13.0*	*14.6*	*12.2*	*10.2*	*8.4*	*6.5*
EV/FCF (x)	*13.8*	*16.0*	*12.3*	*7.7*	*10.6*	*6.7*
PBR (x)	*7.6*	*7.6*	*6.2*	*4.6*	*3.5*	*2.7*
PSR (x)	*10.3*	*11.2*	*9.2*	*8.5*	*7.5*	*6.6*
EV/sales (x)	*9.9*	*10.8*	*8.6*	*7.2*	*5.9*	*4.6*
Dividend yield (%)	*5.2%*	*5.2%*	*2.0%*	*2.4%*	*2.4%*	*2.4%*

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DISCLAIMER

Our Recommendation System

BUY:where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD:where we believe it will be -15% to 15%.

SELL:where we believe it will be lower than -15%.

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