

Vietnam Airlines JSC Financial Analysis Report

HVN: Sustainable growth – Potential Investment Opportunity

January 2018

Est. Value per Share	76,300
Value Region	70,000 – 81,000
Current Price	60,000
High – Low (52wks)	18,600 - 60,800

Stock Overview

Ticker	HVN
Market Cap	69,601B
Book Value	13,867
Shares Outstanding	1,227,533,778
Free Float	62.14 Mil
Avg. Vol (10 days)	1,477,748
Beta (52 wks.)	--
EPS	1,427

Financials

P/E	42
P/E Sector	28x
P/B	4.33
ROE	14.48%
ROA	2.21%

Dividends

2017	600
2016	-
2015	-

Company overview:

Vietnam Airlines was founded in 1956 under the name Vietnam Civil Aviation, the airline was established as a state-owned enterprise (SOE) in 1989. Beginning with non-regular domestic services, today HVN operates to 21 cities throughout the country and 28 international destination across Asia, Europe and Australia. Its network extends to 26 countries and territories.

As of the third quarter of 2017, HVN total Asset amounts up to 92,378 billion VND, 3.5 times larger than its rival Vietjet Air (VJC)'s total asset of 26,214 billion. HVN has been sustaining its annual passenger capacity growth at above 15% for over a decade, with this continuation, HVN will soon reach Asean top 4 in mentioned criteria.

South East Asia Aviation Sector overview:

In a brief announcement from the International Air Transport Association (IATA), 2017 was a blooming period for travel distribution across South-East Asia (SEA). Following the 2013-2014's slump of profit shares due to extreme oil prices as a result of complex political affairs across the world, 2015 and 2016 marked a milestone in the Asian sub-region with the support of favorable market condition, major developments in infrastructure and critically, supportive oil price.

Mid 2017, Air travel demand is estimated to grow at 5.7% annually and in the next 20 years Asia-Pacific airlines will reach nearly 40% of worldwide passenger traffic. According to IATA reports, passengers in the Asia-Pacific flew 8.2% farther than they did in 2014, far greater than global average flying distance (6.5%).

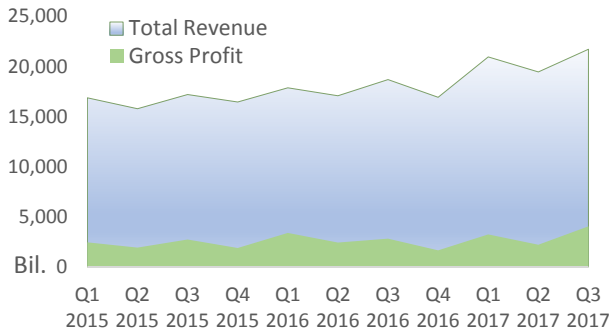
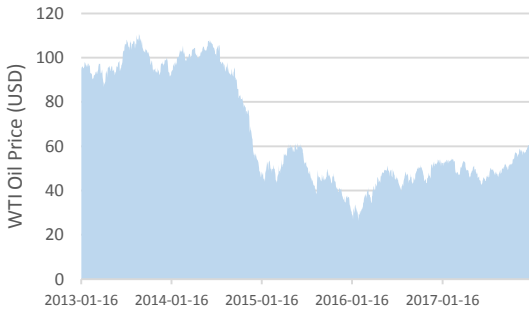
Meanwhile in SEA, despite the region's slow but sure advancement, SEA is backed by a strong tourism support. This sub-region partially owning Asia-Pacific's claim to fame as the fastest growing aviation market in the world today. Moreover, different business models and airline strategies reshaping Asian aviation industry, more specifically, Low-cost carrier (LCC) model – this model has already gained success in increasing accessibility in the region, the business model has been the main driver of traffic growth and change in SEA market, with those biggest names are AirAsia, Lion Air, Tiger Air, Vietjet Air and Cebu Pacific. This particular industry's capacity demand has grown on average by 22%, currently providing the most number of seats in the global LCC market.



Air travel has proven to be a resilient market, and robust growth is expected to continue in the future

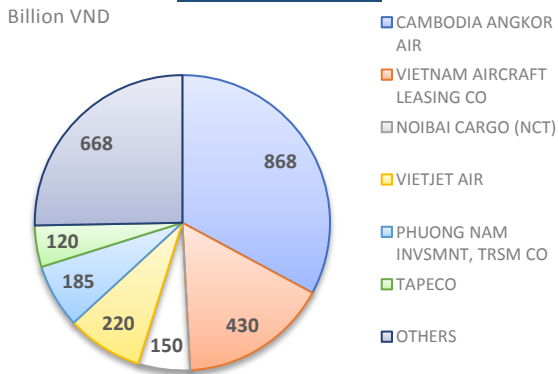
3-Quarter Performance report:

- *Improvement led by higher revenue growth, advantageous oil price and foreign exchange rates.*
- *Higher financial cost due to new "10-A350" sale and lease back project undergoing. 6 out of 10 new A350 Planes ordered by HVN since November 2016 were reported to be delivered fully by the end of 2017.*



3Q2017, HVN reported a total revenue of 61,706 billion VND (15,80% yoy), air transportation contributes 82% of total revenues, otherwise supportive services. Cost of goods sold raised by 16.94%, to 52,190 billion. As a result, gross profit increased by 9.92%, to 9,518 billion. During the period, with respect to a significant increase in revenues, other operating costs and overheads were also affected. Selling expenses increased by 7.93%, to 3,686 billion, account for approximately 6% of total revenue. Administrative Expense raised by 9.65%, to 1,636, account for 2.65% total revenue generated.

HVN's Subsidiaries

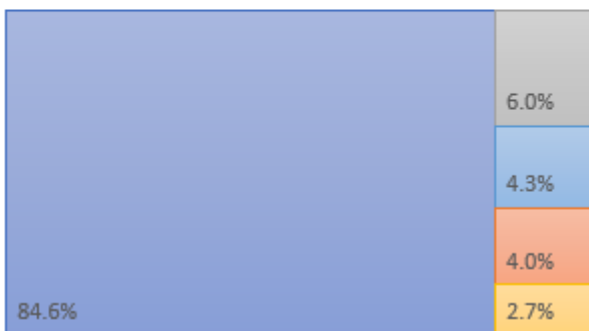


Moreover, net expenses from financial activities raised by 13.55%, to 1,961 billion. Up until now, HVN is holding a total of 27 subsidiaries including non-controlling interests, with total booked value of 2,640 billion, however, only 6 companies account for almost 75% of total investments (see table). These investments contribute 17% total company's financial revenues, approximately 113 billion VND to the total amount of 661 billion for the 3-quarter period accumulatively. The rest is contributed by gains from foreign exchange rates volatilities.

Revenue distributions 3Q2017

*disrepancies due "other gains"

- COGS
- Net Financial Expenses
- Selling Expenses
- Admin Expenses
- Income bf. Tax



Expenses increased dramatically during the 9-month period offsets revenue's growth. Consequentially, Net profit for the period reported decreased by 11% compared to last year, amount to 2,257 billion equivalents to an EPS of 1,839 VND (3Q2017), significantly higher than the whole year 2016 by 9.1%, this due to a net loss of 345 billion reported during the 4th quarter of 2016 caused by sudden increased in Administrative expenses, this item was not specified clearly in 2016 financial report.

It was reported that sales target for the year of 2017 proposed to be 87,900 billion, in which would produce a net profit of 1.637 billion respectively. Therefore, in fact, in just 9-month period, HVN has achieved only 70% of target sale, yet exceeded 61% profit target.

- As at September 2017, HVN’s total asset decreased by 4,000 billion, amount to 92,378 billion. Notably, cash and equivalents surged 51% yoy, total up 8,163 billion. Fixed asset declined by 22%, to 56,007 billion. Current liability increased 5,000 billion while non-current liability decreased by 9,800 billion. Owner’s equity increased by 800 billion.
- Recently, at the 4th quarter 2017, HVN proposed plans to increase its capital by issuing shares to its current shareholders. Issuing proportion will be equivalent to 15.57% of its current capital, surpluses will be booked as government’s share of capital. Also, in the 2nd quarter of 2018, HVN is expecting to be listed on HOSE. It is also setting out plans to dilute the current controlling rights of the Government by issuing more shares to its current non-government shareholders, as Government’s intention.

Valuation.

Forecast	2017	2018F	2019F	2020F	2021F	2022F
Sales	81,620,184	89,782,203	98,760,423	103,698,444	108,883,366	114,327,535
COGS	68,969,056	75,417,050	82,958,755	87,106,693	91,462,028	96,035,129
Gross Profit	12,651,129	14,365,152	15,801,668	16,591,751	17,421,339	18,292,406
Income B.f. Tax	2,877,264	3,789,355	4,572,515	4,651,141	4,938,698	5,035,633
Net Profit	2,201,107	3,031,484	3,658,012	3,720,913	3,950,959	4,028,507
EBIT	4,742,678	5,748,039	6,629,134	6,810,590	7,206,120	7,416,426
EBITDA	9,942,678	11,248,039	12,129,134	12,310,590	12,706,120	12,916,426
No. Outstanding	1,227,533,778	1,417,533,778	1,417,533,778	1,417,533,778	1,417,533,778	1,417,533,778
EPS	1,793	2,139	2,581	2,625	2,787	2,842

Assumption:

- In order to maintain appropriate and effective returns on both Asset and Equity (assuming company’s financial state is well-managed), Sales expected to growth during 2018-2019 by 10% on average due to new capital raised.
- Long-term growth is equivalent to regional Aviation’s growth expectations.
- Other expenses are assumed well-managed and will maintain its current proportion to total projected sales.

Factors affect estimated value, hidden risks.

- Unexpected spikes in oil price and foreign exchange rates.
- Internal/ external business risks.
- Investor’s Irrational behaviours.

Valuation:

Two methods were used to estimate appropriate Value for HVN - PE and DCF methods. Both methods returned an average price of **75,000 VND per share, with sensitivities ranging from 70,000 to 81,000 VND.**

Airline Companies	PE.
Singapore Airlines LTD	28.5
Cathay Pacific	Negative EPS
Vietjet Air	29.59
Thai Airways	Negative EPS
EVA Air	16

As financial reports did not provide sufficient information, therefore we will not provide any trading recommendations. However, base on available information and market’s perceptions, we give HVN a clean opinion, meaning a positive flag.

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