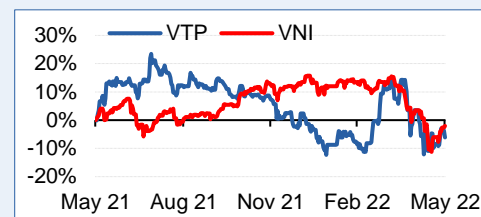


Viettel Post (VTP) [OUTPERFORM +15.5%]

Update Report

Industry:	Delivery Services		<u>2021</u>	<u>2022F</u>	<u>2023F</u>	<u>2024F</u>
Report Date:	May 31, 2022	Rev y/y	24.5%	8.3%	12.4%	12.4%
Current Price:	VND68,500	EPS y/y	-22.8%	17.4%	25.1%	25.8%
Target Price:	VND77,600	GPM	2.8%	3.1%	3.6%	4.1%
Previous Target Price:	VND88,000	NPM	1.4%	1.5%	1.7%	1.9%
Upside to TP:	+13.3%	P/Sales**	1.0x	0.9x	0.7x	0.6x
Dividend Yield:	2.2%	EV/EBITDA	14.8x	12.2x	9.3x	7.2x
TSR:	+15.5%	P/E	27.9x	23.7x	19.0x	15.1x



Market Cap:	USD306mn		<u>VTP</u>	<u>Peers*</u>	<u>VNI</u>
Foreign Room:	USD82mn	P/E (ttm)	28.4x	26.4x	13.9x
ADTV30D:	USD1.3mn	P/S (ttm)**	1.0x	1.3x	1.8x
State Ownership:	61%	Net D/E	-0.6x	0.1x	N/A
Outstanding Shares:	103.6 mn	ROE	21.3%	9.7%	15.9%
Fully Diluted Shares:	103.6 mn	ROA	5.7%	4.1%	2.6%

Company Overview

VTP is one of the largest postal companies in Vietnam. Its current main businesses consist of express delivery and cash-on-delivery collection in which the key growth driver is the delivery of e-commerce parcels.

* Foreign peers; ** Based on core service revenue

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Product shortage, high fuel costs to rein in earnings recovery

- We downgrade our rating from BUY to OUTPERFORM as VTP's outlook has weakened due to a prolonged supply shortage of online products and high fuel costs undermining its profit margins. That said, we remain optimistic on VTP's capability to benefit from Vietnam's rapid e-commerce growth thanks to its wide postal network, investments in technology and strategic fixed assets.
- We cut our target price (TP) by 12% and our aggregate 2022F-2024F NPAT-MI by 22% due to the above headwinds — which are partially offset by rolling our TP forward to mid-2023 from YE2022.
- We project a 23% EPS CAGR in 2021-2024F thanks to (1) strong e-commerce growth in Vietnam that is backed by rising consumer adoption, (2) VTP's structural cost efficiency improvements and (3) a potential normalization of delivery and operating costs as COVID-19 disruptions soften.
- Our TP puts VTP's average 2022F-2023F P/E at 24x vs a 3Y average of peer median TTM P/E of 30x. In our view, a valuation discount is warranted given VTP's lack of transparency.
- Downside risks: Prolonged, intensified price war in the express delivery industry; ineffective investments in new businesses.

Supply disruptions in ecommerce products hurt postal volume growth. Amid China's strict zero-COVID policy, product imports from China via border trade — a source of online products in Vietnam — have been disrupted. Per the Ministry of Information and Communication (MIC), Vietnam's postal revenue and volume respectively edged up 5% YoY and 2% YoY in Q1 2022. Nevertheless, we expect mid-20s volume growth in 2022 as H2 2021 was a low base due to COVID-related disruptions on domestic delivery operations, and we expect the supply issues to soften toward YE2022. Given this backdrop, we project a 27% CAGR in VTP's delivery volume in 2021-2024F (35% previously).

Service GPM to recover thanks to business normalization and cost efficiency initiatives, partially offset by high fuel costs. In Q1 2022, VTP's service GPM rebounded by 1.8 ppts QoQ thanks to softer COVID-19 disruptions but contracted by 4.1 ppts YoY to 7.3% due to lower labor productivity as a result of COVID-related employee absences. However, we expect these disruptions to continue to subside in future quarters. In addition, VTP's initiatives such as converting traditional post offices to digital post offices (i.e., lower headcount per post office), applying a "control tower" system to optimize delivery routes and adopting artificial intelligence tools (e.g., callouts and chatbots) should bolster its cost structure. However, we expect these margin improvements will be eroded by high fuel costs. According to the MIC, postal profits could decrease 10%-20% if fuel prices surge 30%-40%. Overall, we project service GPM will strengthen from 7.5% in 2021 to 8.0% and 8.8% in 2022F and 2024F (vs 8.7% and 9.1% as previously), respectively.

Q1 2022: Low productivity dampens NPAT-MI despite solid service revenue

Figure 1: VTP's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	VCSC comments on Q1 2022
Revenue	5,158	5,772	12%	
Services	1,606	2,237	39%	VTP's delivery volume continued to recover after Vietnam relaxed social distancing measures in early Q4 2021.
Trading	3,552	3,535	0%	Primarily phone card revenue.
Gross profit	193	183	-5%	
Services	184	164	-11%	
Trading	9	19	116%	
SG&A expenses	-68	-66	-3%	
EBIT	124	117	-6%	
Non-operating income	12	12	7%	Mainly net interest income.
PBT	136	129	-5%	
NPAT-MI	109	103	-5%	
GPM	3.7%	3.2%		
Services	11.4%	7.3%		Lower labor productivity as a result of COVID-related employee absences, which led to lower delivery profit margins.
Trading	0.2%	0.5%		Phone card sales generate a thin GPM of less than 1%.
SG&A/revenue	1.3%	1.1%		
EBIT margin	2.4%	2.0%		
NPM	2.1%	1.8%		

Source: VTP, VCSC

2022F: We cut our NPAT-MI forecast by 21% due to online product shortages, high fuel costs

Figure 2: VCSC's 2022 forecasts

VND bn	2021	Old 2022F	New 2022F	YoY	VCSC comments on New 2022F
Revenue	21,423	24,493	23,222	8%	We forecast delivery volume (83% of 2022F service revenue) to grow to 23% YoY in 2022.
Services	7,204	9,563	8,266	15%	We project delivery ASP to slide 9% due to competition. Meanwhile, we project non-delivery revenue (17% of 2022F revenue) such as e-fulfillment to jump 30% YoY thanks to expanding capacity.
Trading	14,219	14,930	14,956	5%	We cut our projection due to a prolonged shortage of e-commerce products imported from China via border trade. Given Vietnam's high penetration of wireless telecom (more than 100% of the population in 2019, per the MIC) and conversion from physical phone cards to online top-up (i.e., direct top-up) in Vietnam, we expect organic trading revenue — most of which comes from phone cards — will grow at a single-digit rate per annum.
Gross profit	634	923	721	20%	
Services	546	830	660	22%	
Trading	88	92	61	5%	
SG&A expenses	-313	-435	-341	21%	
EBIT	322	488	380	20%	
Non-operating income	50	62	55	4%	Mainly consists of interest income.
PBT	372	550	435	17%	
NPAT-MI	297	439	347	17%	
GPM	3.0%	3.8%	3.1%		
Services	7.6%	8.7%	8.0%		Per our estimate, the normalization of delivery and operating costs from COVID-19 disruptions along with VTP's cost efficiency initiatives will overcome an expected drop in ASP and higher fuel prices in 2022. Nevertheless, we cut our forecast due higher-than-expected fuel costs.
Trading	0.6%	0.6%	0.4%		
SG&A/revenue	1.5%	1.8%	1.5%		
EBIT margin	1.5%	2.0%	1.6%		
Net margin	1.4%	1.8%	1.5%		

Source: VTP, VCSC

Valuation

In this Update Report, we roll our TP forward to mid-2023 vs YE2022 as previously.

We maintain a 20/80 mix of DCF and P/E methods to value VTP. We believe DCF is appropriate to capture VTP's long-term growth potential. Nonetheless, we attribute a larger weighting to the P/E method because a lack of information disclosure from VTP amid the rapidly evolving e-logistics and e-commerce markets could challenge our long-term growth forecasts. We also maintain a 10% discount to our valuation under both methods to factor in VTP's limited information disclosure.

For the P/E method, we keep our target P/E of 25x, which is broadly in line with the three-year average of peer median TTM P/Es of 30x. Our selected peer group for VTP is comprised of express delivery companies with large exposure to e-commerce in emerging Asian countries.

Figure 3: Summary of VCSC's valuation for VTP

Method	Weighting	Fair value per share (VND)	Value contribution per share (VND)
DCF	20.0%	106,332	21,266
P/E @ 25.0x avg 2022/23F EPS	80.0%	81,179	64,943
Total			86,210
Valuation discount			10.0%
Target price			77,600
2022F/2023F PERs at TP			26.9x/21.5x

Source: VCSC

Figure 4: DCF valuation for VTP

Cost of capital	Previous	Current	FCFF (10 years)	VND bn
Beta	1.2	1.2	PV of Free Cash Flows	2,551
Market risk premium	7.0%	7.0%	PV of Terminal Val (5% g)	7,890
Risk-free rate	5.5%	5.5%	PV of FCF and TV	10,442
Cost of Equity	13.9%	13.9%	+ Cash ⁽¹⁾	1,896
Cost of Debt	7.0%	7.0%	- Debt	-1,326
Debt %	37.9%	37.9%	- Minority Interest	0
Equity %	62.1%	62.1%	Equity Value	11,012
Corporate Tax%	20.0%	20.0%	Shares (million)	103.6
WACC %	10.7%	10.7%	Value per share, VND	106,332

Source: VCSC. ⁽¹⁾ Adjusted for cash temporarily held on behalf of clients and receivables from drivers in cash-on-delivery services.

Figure 5: Cash flow projections for VTP

VND bn	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Earnings before interest and tax	435	532	660	782	921	1,076	1,236	1,394	1,514	1,616
less: tax	-88	-107	-133	-158	-186	-217	-249	-281	-305	-326
add: depreciation	113	154	202	252	311	381	466	555	692	831
less: net capex	-288	-331	-364	-385	-474	-572	-676	-781	-881	-972
(increase) / decrease in NWC ⁽¹⁾	-218	-171	-251	-340	-260	55	52	40	19	-11
Free cash flow	-46	78	114	151	312	723	829	927	1,038	1,138
PV of FCF	-44	67	88	105	197	412	427	431	436	431
Cumulative PV of FCF	-44	23	111	217	414	826	1,253	1,684	2,120	2,551

Source: VCSC. ⁽¹⁾ Adjusted for cash temporarily held on behalf of clients and receivables from drivers in cash-on-delivery services.

Figure 6: Sensitivity analysis of our target price for VTP in relation to WACC and terminal growth rate in our DCF valuation, ceteris paribus

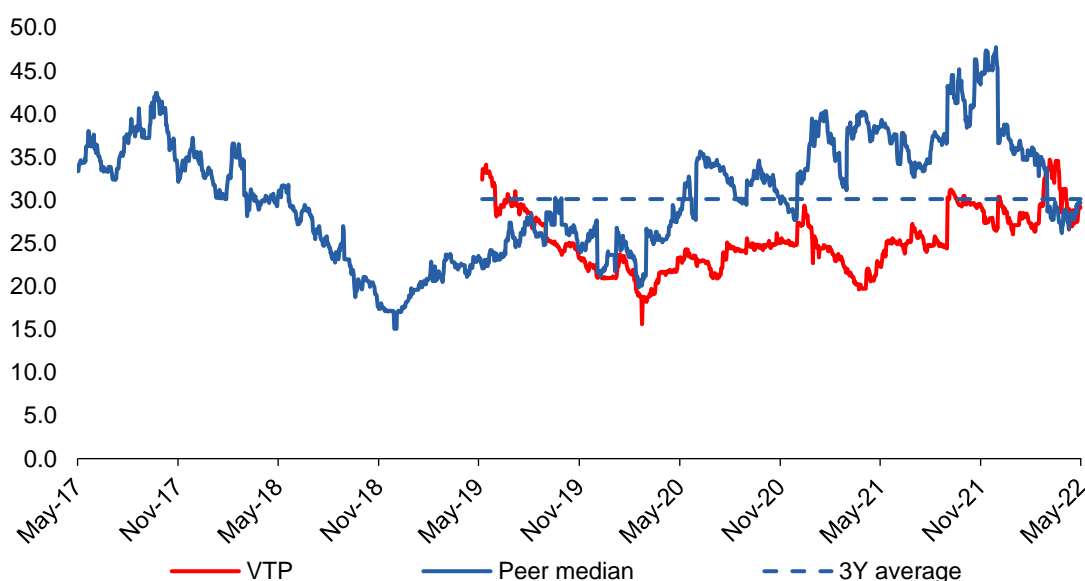
Target price (VND)		WACC				
		9.7%	10.2%	10.7%	11.2%	11.7%
Terminal growth (g)	3%	75,000	74,400	73,900	73,300	72,800
	4%	76,800	76,100	75,400	74,800	74,200
	5%	79,100	78,300	77,600	76,900	76,200
	6%	82,400	81,500	80,600	79,800	79,000
	7%	87,500	86,400	85,300	84,300	83,300

Source: VCSC

Figure 7: Comparable universe

Name	Country	Market Cap (USD mn)	TTM Sales Growth	TTM EPS Growth	ROE	Net D/E	NPM	TTM P/S	TTM P/E	FY22 P/E
ZTO EXPRESS	China	20,057	15%	15%	10.6%	-0.2x	16.1%	4.2x	26.4x	21.6x
YTO EXPRESS	China	10,517	25%	39%	12.7%	-0.2x	5.4%	1.4x	25.4x	22.0x
STO EXPRESS	China	2,572	17%	-540%	-8.6%	0.2x	-2.6%	0.6x	N/A	36.9x
YUNDA HOLDING	China	7,921	24%	23%	10.4%	0.3x	3.5%	1.2x	33.1x	23.1x
SF HOLDING	China	38,178	40%	16%	9.1%	0.2x	2.8%	1.1x	38.7x	36.0x
BEST INC	China	95	-26%	NA	13.7%	-0.0x	1.1%	0.0x	N/A	N/A
SING POST	Singapore	1,117	19%	75%	5.4%	0.3x	5.0%	0.9x	22.0x	19.4x
BLUE DART	India	2,287	34%	275%	52.2%	0.8x	8.7%	4.0x	46.5x	62.8x
GD EXPRESS	Malaysia	236	12%	12%	5.8%	-0.4x	6.7%	2.4x	37.0x	61.7x
POS MALAYSIA	Malaysia	108	-12%	-4%	-34.0%	0.7x	-15.3%	0.2x	N/A	N/A
LBC EXPRESS	Philippines	680	8%	NA	-36.3%	1.3x	-6.0%	2.2x	N/A	N/A
SATRIA ANTARAN	Indonesia	78	29%	74%	27.0%	-0.4x	7.1%	1.9x	26.2x	N/A
KERRY LOGISTICS	Thailand	1,202	4%	NA	-7.5%	-0.1x	-3.9%	2.2x	N/A	N/A
EMS	Vietnam	30	31%	18%	26.7%	-0.9x	2.7%	0.3x	10.4x	N/A
Median		1,160	18%	18%	9.7%	0.1x	3.2%	1.3x	26.4x	29.6x
Mean		6,077	16%	0%	6.2%	0.1x	2.2%	1.6x	29.5x	30.6x
VIETTEL POST	Vietnam	306	28%	-26%	21.3%	-0.6x	1.3%	1.0x	28.4x	23.7x

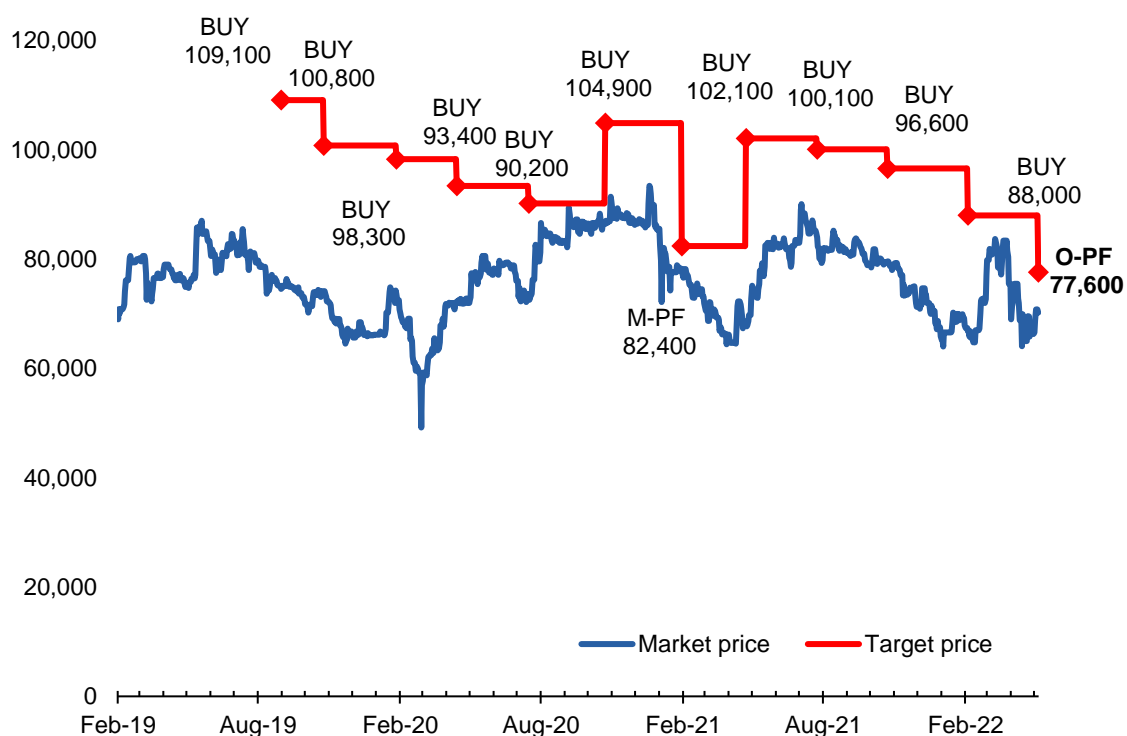
Source: Bloomberg, VCSC (*based on core service revenue); data as at May 31, 2022

Figure 8: VTP's TTM P/E vs peers (x)


Source: Bloomberg, VCSC

Recommendation History

Figure 9: Recommendation history; share prices (VND) adjusted for share splits



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Revenue	21,452	23,222	26,098	29,336
COGS	-20,852	-22,501	-25,161	-28,137
Gross profit	600	721	936	1,198
Selling expenses	-40	-46	-59	-75
G&A expenses	-242	-294	-381	-483
Operating profit	318	380	496	640
Financial income	94	97	90	90
Financial expenses	-48	-49	-49	-52
- o/w, interest expense	-48	-49	-49	-52
Associates	0	0	0	0
Net other income/(loss)	6	6	6	6
Profit before Tax	371	435	544	685
Income Tax	-75	-88	-110	-138
NPAT before MI	296	347	435	547
Minority interests	0	0	0	0
NPAT less MI, reported	296	347	435	547
NPAT less MI, adjusted ⁽¹⁾	296	347	435	547
EBITDA	406	493	651	842
EPS basic reported, VND	2,457	2,886	3,609	4,541
EPS basic adjusted ⁽¹⁾ , VND	2,457	2,886	3,609	4,541
EPS fully diluted ⁽¹⁾ , VND	2,457	2,886	3,609	4,541
DPS, VND	1,500	1,500	1,500	1,500
DPS/EPS (%)	61.0%	52.0%	41.6%	33.0%

(1) Adjusted for one-offs

RATIOS	2021	2022F	2023F	2024F
Growth				
Revenue growth	24.5%	8.3%	12.4%	12.4%
Op profit growth	-25.9%	19.6%	30.5%	29.1%
PBT growth	-22.8%	17.4%	25.1%	25.8%
EPS growth, adjusted	-22.8%	17.4%	25.1%	25.8%

Profitability ratios

Gross Profit Margin	2.8%	3.1%	3.6%	4.1%
Operating Profit, (EBIT) Margin	1.5%	1.6%	1.9%	2.2%
EBITDA Margin	1.9%	2.1%	2.5%	2.9%
NPAT-MI Margin	1.4%	1.5%	1.7%	1.9%
ROE	23.4%	24.9%	27.5%	29.6%
ROA	6.0%	6.1%	6.8%	7.4%

Efficiency ratios

Days Inventory On Hand	8.7	7.1	7.9	8.5
Days Accts, Receivable	18.8	23.7	24.7	26.2
Days Accts, Payable	7.3	7.4	7.3	7.3
Cash Conversion Days	20.2	23.4	25.3	27.4

Liquidity/Solvency (x)

Current Ratio	1.2	1.2	1.2	1.2
Quick Ratio	1.1	1.1	1.1	1.0
Cash Ratio	0.1	0.1	0.1	0.1
Debt /Assets	0.2	0.2	0.2	0.2
Debt /Capital	0.5	0.4	0.4	0.4
Net Debt /Equity	-0.8	-0.6	-0.4	-0.3
Interest Coverage	6.7	7.8	10.2	12.4

Source: Company data, VCSC

B/S (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	337	365	410	461
ST investments	1,902	1,645	1,511	1,525
Accounts receivable	1,404	1,615	1,923	2,282
Inventories	384	487	597	717
Other current assets	928	1,147	1,546	2,040
Total Current Assets	4,955	5,259	5,986	7,025
Fixed assets, gross	692	980	1,311	1,675
- Depreciation	-363	-476	-630	-832
Fixed assets, net	329	505	681	843
LT investments	34	34	34	34
LT assets other	116	116	116	116
Total LT assets	479	655	831	993
Total Assets	5,434	5,914	6,817	8,018
Accounts payable	441	476	532	595
Short-term debt	1,166	1,183	1,199	1,348
Other ST liabilities	2,501	2,786	3,399	4,073
Total current liabilities	4,109	4,445	5,130	6,015
Long-term debt	0	0	0	0
Other LT liabilities	1	1	1	1
Total Liabilities	4,109	4,445	5,131	6,016
Preferred Equity	0	0	0	0
Share premium	22	22	22	22
Paid in capital	1,036	1,036	1,036	1,036
Retained earnings	266	410	628	943
Other equity	1	1	1	1
Minority interest	0	0	0	0
Total equity	1,325	1,468	1,687	2,002
Total liabilities & equity	5,434	5,914	6,817	8,018

Y/E shares out, mn	103.6	103.6	103.6	103.6
Y/E treasury shares, mn	0.0	0.0	0.0	0.0

CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Beginning Cash Balance	317	337	365	410
Net Income	296	347	435	547
Dep, & amortization	89	113	154	202
Change in Working Capital	191	-214	-147	-236
Other adjustments	-41	-49	-61	-77
Cash from Operations	431	198	381	436

Capital Expenditures, net	-97	-288	-331	-364
Investments, net	-406	257	134	-14
Cash from Investing	-359	-31	-196	-378

Dividends paid	-123	-155	-155	-155
Δ in Share Capital	0	0	0	0
Δ in ST debt	71	16	16	149
Δ in LT debt	-7	0	0	0
Other financing cash flows	7	0	0	0
Cash from Financing	-52	-139	-139	-7

Net changes in cash	20	28	45	51
Ending Cash Balance	337	365	410	461

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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