VIETNAM AIRPORT SERVICE INDUSTRY

INITIAL REPORT

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- Vietnam Airport Service Industry Overview
- The Advantage of Vietnam Airport Industry
- The Role of Government
- Huge Investment Capital Demand Ahead

Vietnam Airport Service Industry Overview

Vietnam Airport Service industry is one of the most beneficial sector from the growing of the middle class segment and rising tourists to Vietnam. At present, more people have high chance to access to air travel as previous.

As regards the business, Vietnam airport service providers generate revenue from charging a wide range of fees (e.g., airport security, passenger, landing and take-off fees) as well as leasing retail space within airports. Since the industry is still at early growth phase and mostly dominated by State-owned enterprises, there are not many private companies operating in. Going to detail, Vietnam Airport Corporation (ACV) is a monopoly player in the industry.

The Advantage of Vietnam Airport Industry

The two primary advantages of Vietnam airport industry are a large airport network and high growth opportunity. Vietnam has 23 airports scattering from North to South of the country and divided into two groups. The total designed capacity of 22 airports is 82 mn passengers while the current utilization rate of total airports is only 111%. Therefore, almost the airports in Vietnam are overloaded which creates a condition for the industry to grow in the future. In coming years, there are three main motivaters supporting for the growth of the industry: 1) sustained strong GDP growth; 2)the boom of tourism industry and 3)the growing cargo volume transported by aviation channel. It is believed that Vietnam aviation market saturation remains a way off.

The Role of Government

One of the nature of Vietnam aviation industry is that it is controlled by the Civil Aviation Administration of Vietnam (CAAV), reporting to Ministry of Transport (MoT). In addition, the participation of foreign investors in the industry is also limited. Following the government's policy, the foreign ownership shall not exceed 30% of charter capital of the aviation corporations. Based on this, the industry is heavily depends on the Government decisions and policies.

Huge investment capital demand ahead

Since Vietnam aviation industry is on the way of growing, it is necessary to strongly improve the airport infrastructure.The current total investment need is VND28.1 tn (excluding Long Thanh International Airport) with the three main urgent projects are Noi Bai and Tan Son Nhat international arports expansion projects and Long Thanh international project.

Vietnam Government has started to invest in aviation infrastructure by two main sources: equitization and Private – Public Partnership (PPP) contract. However, the latter is still under the development stage. As a result, equitization will be the highlight to raise the fund to develop the industry in the near future.

Vietnam Airport Service Industry: At the early stage of the growth phase

Vietnam Airport Service, especially companies involved in ground services and catering, is one of the the most beneficial sector since air travel is more accessible to more people. This is because Vietnam consumer habit has changed as a result of the growth of the middle class. As regard the business model, Vietnam Airport companies makes money from charging a range of fees (e.g., airport security, passenger, landing and take-off) as well as leasing retail space within airports. Notably, they earn more from international flights, where airlines and passengers pay far higher fees.

The value chain of the industry can be described as follow:

Figure 1. Value Chain of Airport Service Industry

Value Chain' Stages	Activities	Operating Company in Vietnam
Pre-Security	Parking lot/ Airport infrastructure	ACV
	Retail stores and restaurants	ACV's associates and other services providers
	Check-in, baggage scaning and passenger services	Vietnam Airline's and ACV's associates
After Security Gate	Airport customs	
	Duty-free commerce	Vietnam Airlines (HVN) and ACV's associates
	VIP lounges	Vietnam Airlines (HVN) and ACV's associates
	Retail stores and restaurants	Vietnam Airlines (HVN), Taseco (AST) and ACV's associates
Flight Area	Airlines	Vietjet Air (VJC) and Vietnam Airlines (HVN) (inc. Jestar Pacific, VASCO)
	Landing/Take-off Services	ACV
	Other ground services	ACV and its associates
	Fuel	SKYPEC, NAFSC, TAPETCO, SAPL
	Aircraft leasing	Vietnam Aircraft Leasing Company (VALC)

Source: Shinhan Investment Corp.

To Vietnam's situation, in the background of a few companies operating in the aviation industry, it is considered as a monopoly market and being at the early growth phase. In detail, the competitive in the industry is not high while the demand of consumer and growth rate are increasing. For example, from the figure 1 above, Vietnam Airport Corporation (ACV) is currently regarded as a monopoly player besides a few of private companies.

The Advantage of Vietnam Airport Industry: A Large Airport Network And High Potential Growths

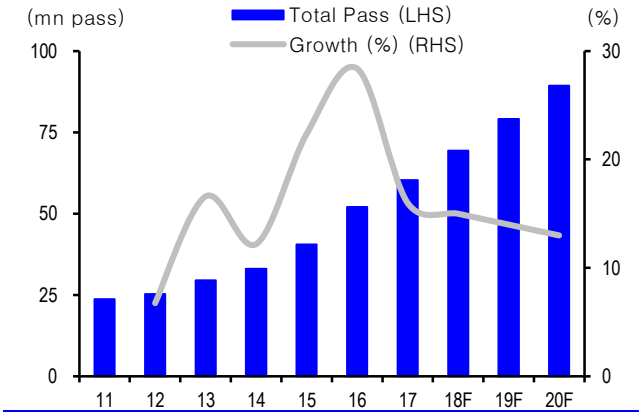
Vietnam airport industry has two key advantages: a large airport network and high potential growth. Compared to developed countries, Vietnam still has space to build airtports, leading to a large airport network which creates an avaiable facility for the industry to upgrade in the future. Moreover, since Vietnam economy is experiencing the growing phase so the public infrastructure projects are the priority for investment, including airport construction projects. Some big airports such as Tan Son Nhat or Noi Bai airports are over capacity, thus the demand is high, confirming the high potential growth of the industry.

Figure 2. Airport Locations in Vietnam



Source: ACV, Shinhan Investment Corp.

Figure 3. Total aviation passenger of Vietnam



Source: IATA, Shinhan Investment Corp.

At present, there are 23 airports, including 10 international airports, operating across the country and divided into 2 groups: A (Noi Bai, Da Nang, Tan Son Nhat, Phu Bai, Cam Ranh and Cat Bi airports) and B (others airport). Among these, Vietnam Airport Corporation (ACV) owns 22 airports and Sungroup owns Van Don international airport (planned to operate in 4Q.2018).

The total designed capacity of the 22 airports (except Van Don) is 82mn passengers per annum. In 2017, the total passengers came to Vietnam via airline was 94 mn so the utilization rate is 111%. As can be seen, almost Vietnam airports were overloaded. Of which, the top three overloaded airports are Cam Ranh, Da Nang and Tan Son Nhat, experienced 2017 utilization rates of 220%, 181% and 144%, respectively.

Together with the data from ICAO (International Civil Aviation Organization) that Vietnam has 25 domestic airways and 34 international airways, the industry has to expand urgently its airport capacity with the huge investment capital by take on additional debt or equity funding in the coming years.

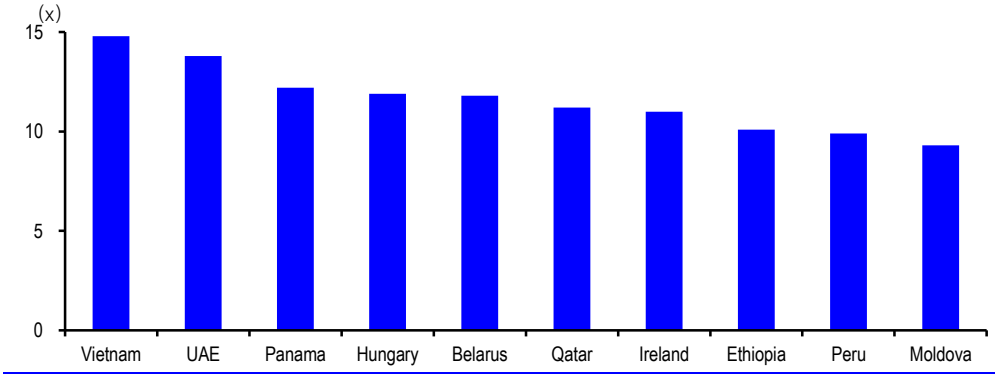
Figure 4. Vietnam Airports' Capacity (2017)

No.	Airports	Area	Capacity (mn passenger)	Utilization rate (%)
1	Cam Ranh (International)	Khanh Hoa (Nha Trang)	2.5	220
2	Da Nang (International)	Da Nang	6.0	181
3	Tan Son Nhat (International)	Ho Chi Minh	25.0	144
4	Noi Bai (International)	Ha Noi	19.0	121
5	Phu Bai (International)	Thua Thien – Hue (Hue)	1.5	117
6	Can Tho (International)	Can Tho	5.0	14
7	Phu Quoc (International)	Kien Giang	2.7	111
8	Vinh	Nghe An	3.0	60
9	Chu Lai (International)	Quang Nam	0.5	135
…	14 other airports	Across Vietnam	16.6	60

Source: ACV, Shinhan Investment Corp.

Vietnam aviation sector is ranked at one of the fastest growing aviation markets in the world, mentioned by World Bank (WB). In detail, the growth rate of the industry in 2017 was 14.8 times compared to the figure of the year of 2000, 11.8% and 0.8%, respectively. Therefore, on the same side of Vietnam aviation industry, Vietnam airport service industry also enjoys the growth. In general, the development of the industry will be motivated by three main factors: 1) sustained strong GDP growth of 6.5% in 2017 – 2020 (Source: IMF & Vietnam's government); 2) the boom of tourism industry (positive international visitors); and 3) the growing cargo volume in the background of international trade agreements (FTAs, WTO or CPTPP).

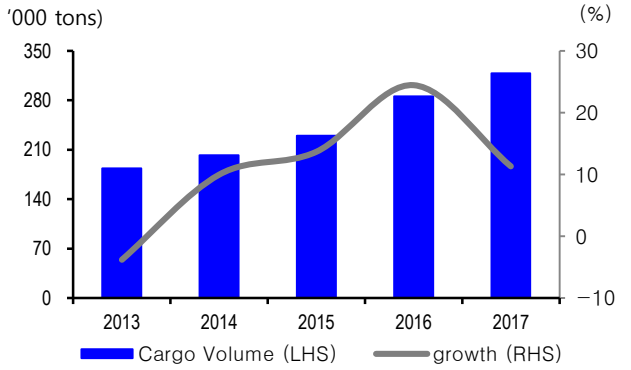
Figure 5. Top 10 Countries Having The Highest Growth in Aviation Industry (2000 – 2017)



Source: World Bank (WB), Shinhan Investment Corp.

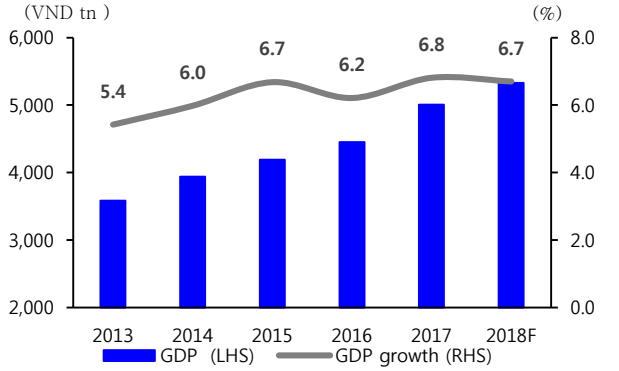
Notably, in term of aviation logistics, during the period of 2011 – 2017, the average growth rate for this segment was 15.6% per annum, mentioned by Ministry of Transportation (MoT). Within 2017, the cargo's volume transferred by aviation road was 318,000 tons (+11.3%YoY). Especially, based on the investments of SamSung in electronic components factories in the North, Noi Bai airport overcame Tan Son Nhat airport to become the largest cargo volume airport in Vietnam. The market share of international cargo to / from Vietnam of Noi Bai and Tan Son Nhat airports is 59% and 40.3%, respectively. As a result, aviation logistics will be the future growing factor for the industry in long-term.

Figure 6. Cargo Volume Transported by Aviation



Source: GSO, Shinhan Investment Corp.

Figure 7. Vietnam GDP (2013FY – 2018F)



Source: GSO, Shinhan Investment Corp.

The role of Government

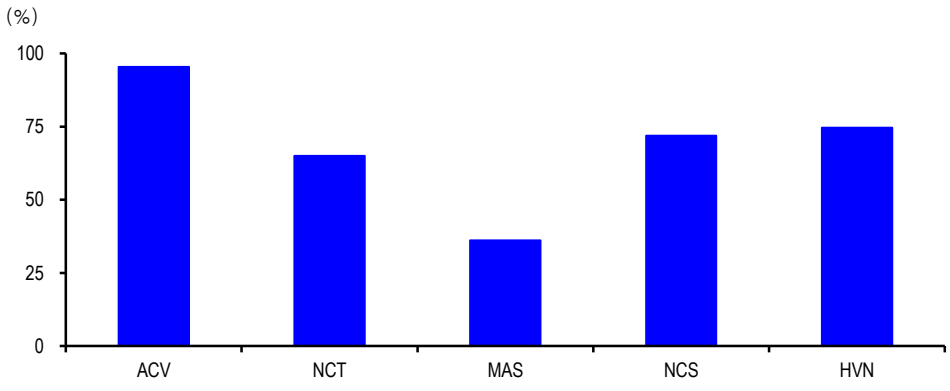
The biggest disadvantage of Vietnam aviation industry is that it heavily depends on the Government decisions and policies. In Vietnam, the aviation industry, including airline and airport, is overseen and controlled by the Civil Aviation Administration of Vietnam (CAAV), which reports to Vietnam's Ministry of Transport (MoT). In term of equity, for example, the MoT hold 95.4% of total charter capital of Vietnam Airport Corporation (ACV) and 74.6% of total charter capital of Vietnam Airlines (HVN).

The airport companies have to experience the pricing policies set by Government, noted in the Decree No. 1992/QD-BTC 2014. From October 2017, the Government has raised the aviation fees around 5-10% that is going to improve the revenue of aviation service companies. This is a good news for the

industry. Though, the prices fixed by the Government made aviation companies bearing the pressure about effectively control its cost structure.

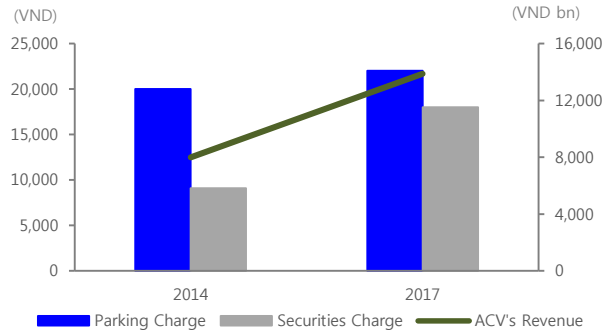
Moreover, the participation of foreign investors in Vietnam aviation industry is also limited by the policy that foreign ownership shall not exceed 30% of charter capital in aviation enterprises managing passenger terminals, cargo terminals, as well as ground commercial technical services. This limitation leads to the difficulty in raising capital of the industry.

Figure 8. Government Ownership at Aviation Companies



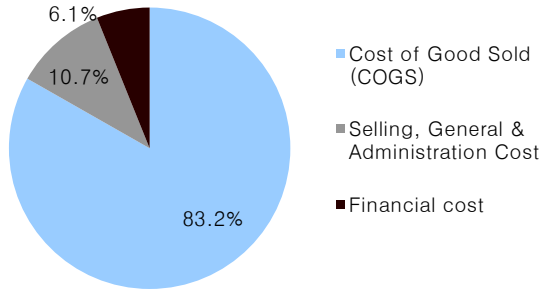
Source: Fiinpro, Shinhan Investment Corp.

Figure 9. Aviation Charge Comparison (2014 & 2017)



Source: ACV, Shinhan Investment Corp.

Figure 10. ACV's Cost Structure (2017FY)



Source: ACV, Shinhan Investment Corp.

Huge investment capital demand ahead

Aviation is still a young industry in Vietnam, and it is expected to show a solid growth for the foreseeable future. Therefore, it forces the airport infrastructure have to improve. In fact, Vietnam government has started to invest in aviation infrastructure but more needs to be done in terms of capital and investment regulations, including raising funds by equitization or Private-Public Partnership (PPP) contracts, to achieve a sustainable growth. Particularly, it needs about VND28.1 tn of capital to expand infrastructure at current airports (excluding Long Thanh International Airport) in the next 3 years until 2020.

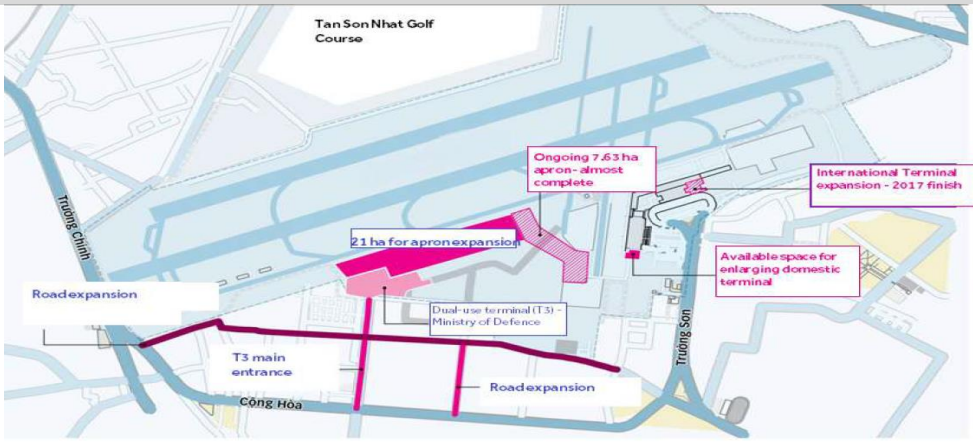
For the long-term strategy, the Ministry of Transport plans to spend USD15.4 bn (VND350.5 tn) to develop the aviation sector by 2030. It plans to develop 23 airports with an annual air traffic of 144 mn passengers by 2020, and 28 airports with an annual air traffic of 308 mn passengers by 2030. Some of the airports to be developed include Long Thanh, Tan Son Nhat, Can Tho, Noi Bai, Van Don, Cat Bi, Da Nang and Phu Quoc. The plan also includes developing logistic centers in Noi Bai, Da Nang, and Tan Son Nhat international airports.

Figure 12. Investment Need Airports

No.	Projects	Amount of Funding (VND tn)
1	New Terminal 3 - Tan Son Nhat Airport	9.8
2	Phu Bai Airport Infrastructure	2.9
3	Cat Bi Airport Infrastructure	2.9
4	Chu Lai Airport Infrastructure	2.9
5	Terminal 2 - Vinh Airport	2.9
6	Sa Pa Airport	5.7
7	Improving current airports (11 projects)	5.2
8	Purchasing new equipment	1.5
	Total	28.1

Source: ACV, Shinhan Investment Corp.

Figure 13. Tan Son Nhat Airport expansion

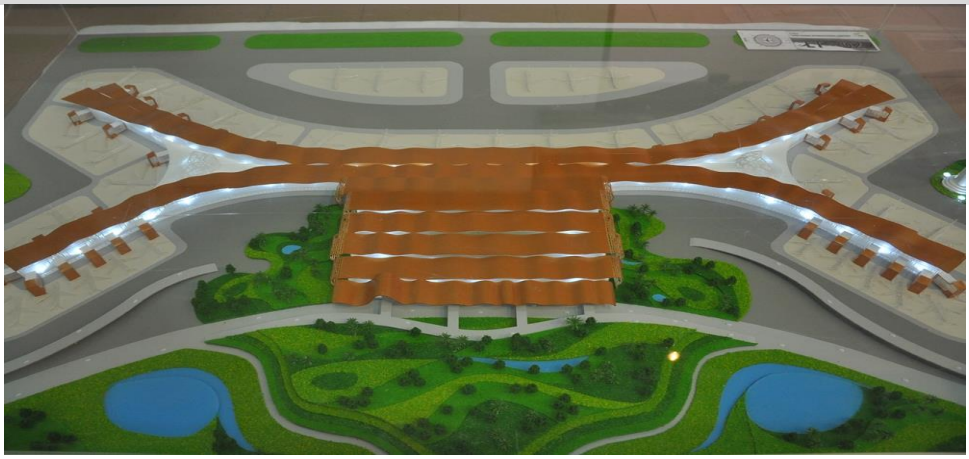


Source: Shinhan Investment Corp.

Long Thanh International Airport

Long Thanh International Airport project is the key project of the industry in the next 3 years. The project is located ~40km northeast Ho Chi Minh city, and is proposed to replace Tan Son Nhat airport to become the gateway for international passengers in future. The total area is 5,000 ha with the expected capacity of 100 mn passengers per year. The total investment amount for the project is ~VND336trn (USD16bn) with the first phase (25 million passengers) requiring ~VND114trn (USD5.1bn). Said by the Ministry of Transport, the construction is scheduled to start in 2019 and is expected to fully completed by 2035.

Figure 14. Long Thanh International Airport Project



Source: Shinhan Investment Corp.

Ticker	Name	Current P/E	Revenue (2017FY) (VND mn)	Net Profit (2017FY) (VND mn)	EPS (2017FY)	Market Cap (VND mn)	Average Target Price (2018FY)(VND)
Listed Airlines Carriers							
VJC VN Equity	VIETJET AVIATION JSC	13.7	42,302,573	5,073,364	9,463	70,301,151	166,650
HVN VN Equity	VIETNAM AIRLINES JSC	19.1	82,950,970	2,370,501	1,727	41,067,792	38,350
Listed Airports Corp.							
ACV VN Equity	AIRPORTS CORP OF VIETNAM JSC	43.6	13,830,215	4,100,501	1,883	178,742,335	96,000
NCT VN Equity	NOIBAI CARGO TERMINAL SER JS	7.7	719,520	272,817	9,683	1,904,865	92,300
ACS VN Equity	ARCHITECTS & CONSTRUCTION	7.8	301,474	7,001	1,793	55,600	-
SCS VN Equity	SAIGON CARGO SERVICE CORP	22.8	588,317	344,461	6,515	7,432,874	190,567
Listed Airlines Services Corp.							
NCS VN Equity	NOIBAI CATERING SERVICES JSC	8.0	614,285	83,095	4,589	655,110	-
AST VN Equity	TASECO AIR SERVICES JSC	16.2	659,026	147,350	4,039	2,354,400	84,600
MAS VN Equity	DANANG AIRPORT SERVICES JSC	18.0	292,992	39,650	9,455	221,493	-
SGN VN Equity	SAI GON GROUND JSC	15.1	1,105,950	208,327	8,596	3,117,996	196,000
SAS VN Equity	SOUTHERN AIRPORTS SERVICES J	12.1	2,369,395	290,322	1,957	3,150,159	-

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