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Value in Vietnam

Lion Rock Partners
Best Ideas 2018, Hosted by MOI Global

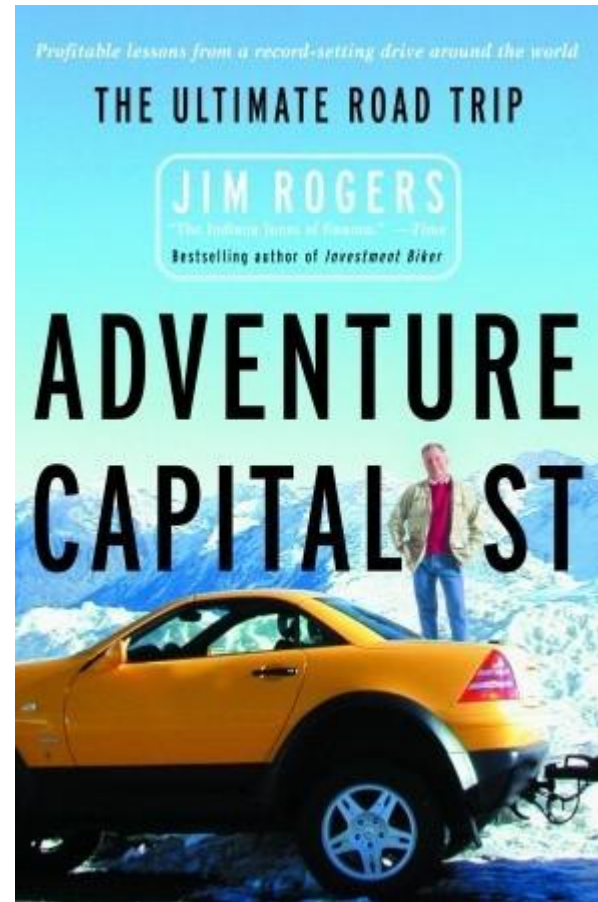
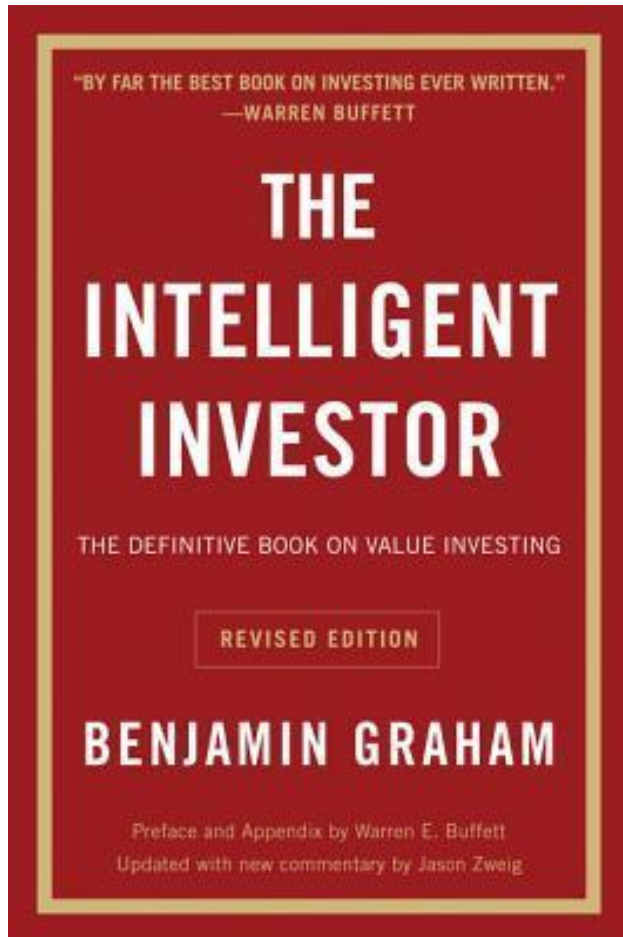
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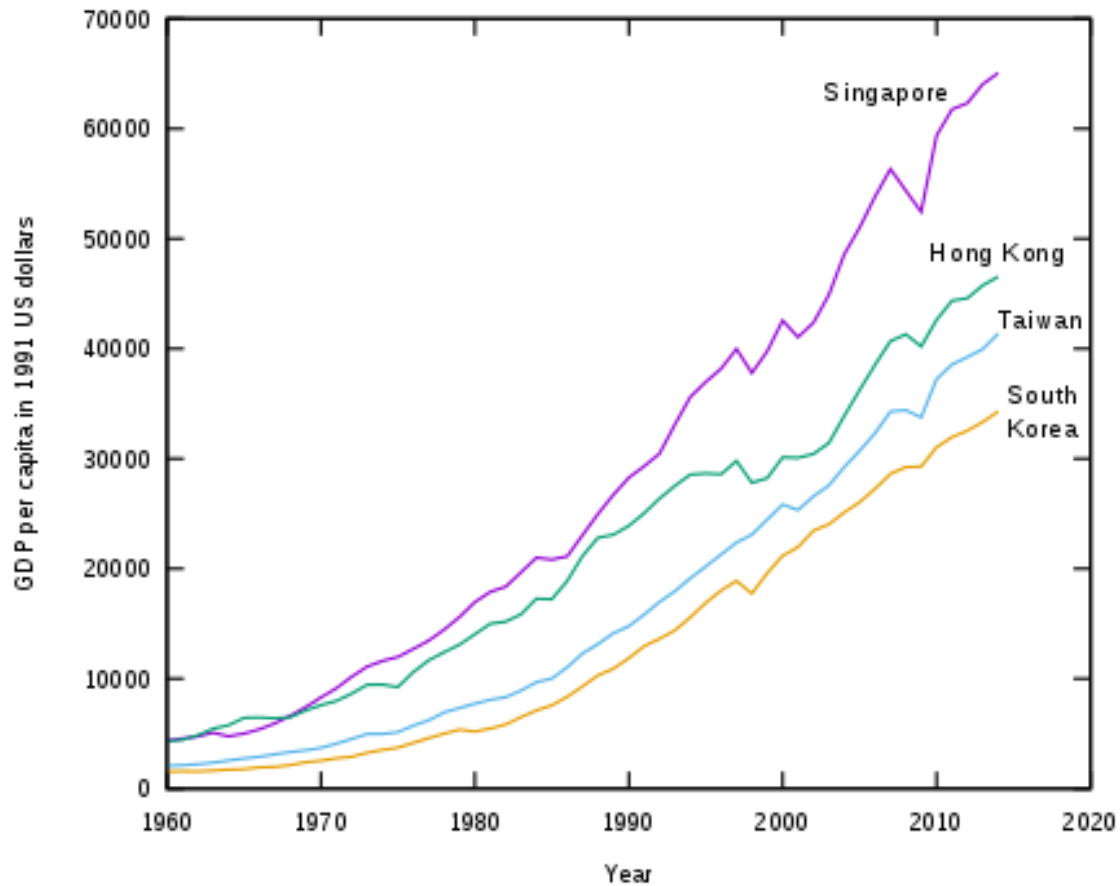
Lion Rock Partners

OBJECTIVE	<ul style="list-style-type: none"> • Achieve significant absolute returns
PORTFOLIO STRATEGY	<ul style="list-style-type: none"> • World-wide diversification • Long term investment time horizon for core holdings (our favorite holding period is forever) • Opportunistic shorts to decrease market exposure and increase alpha
INVESTMENT STRATEGIES	<ul style="list-style-type: none"> • Value Longs – companies where the intrinsic value greatly exceeds the current market price due to market myopia or short term problems • Relative Value – arbitrage strategies • Shorting companies with busted business models and overvaluation
PRIMARY ASSET CLASSES	<ul style="list-style-type: none"> • Publicly-traded equities • Bonds • Options
EXPERIENCE	<ul style="list-style-type: none"> • Clement Loh – experienced investor based in Toronto and Hong Kong with background in healthcare and finance.
COMMITMENT	<ul style="list-style-type: none"> • Principal and family have almost all net worth invested in the fund

Investment Philosophy



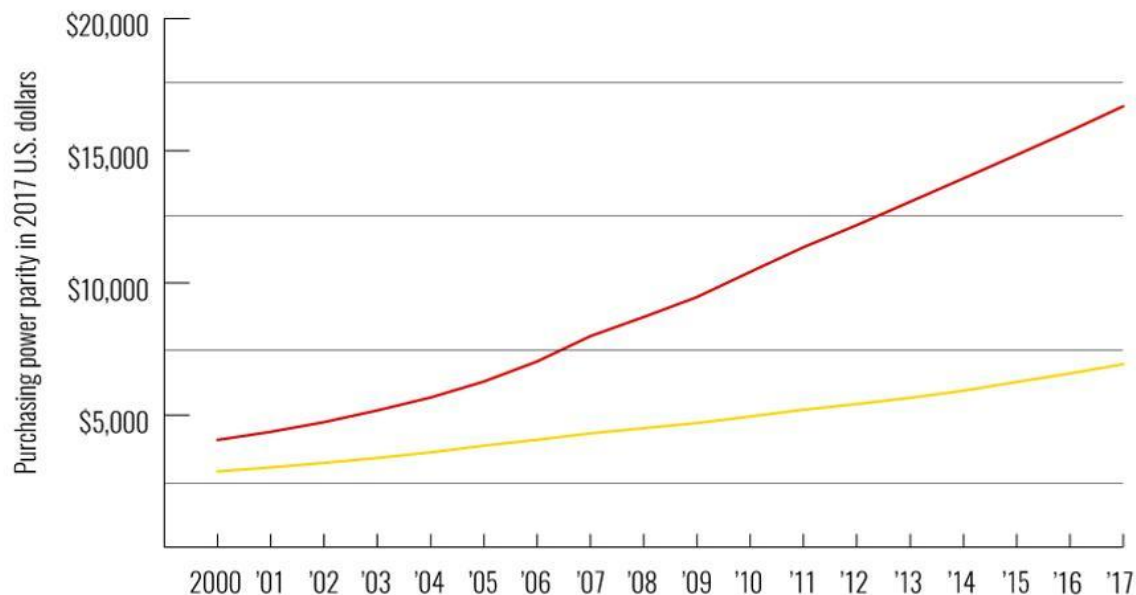
Why Vietnam?



Why Vietnam?

PLAYING CATCH UP

Vietnam is only 11 years behind **China** in terms of GDP per capita.



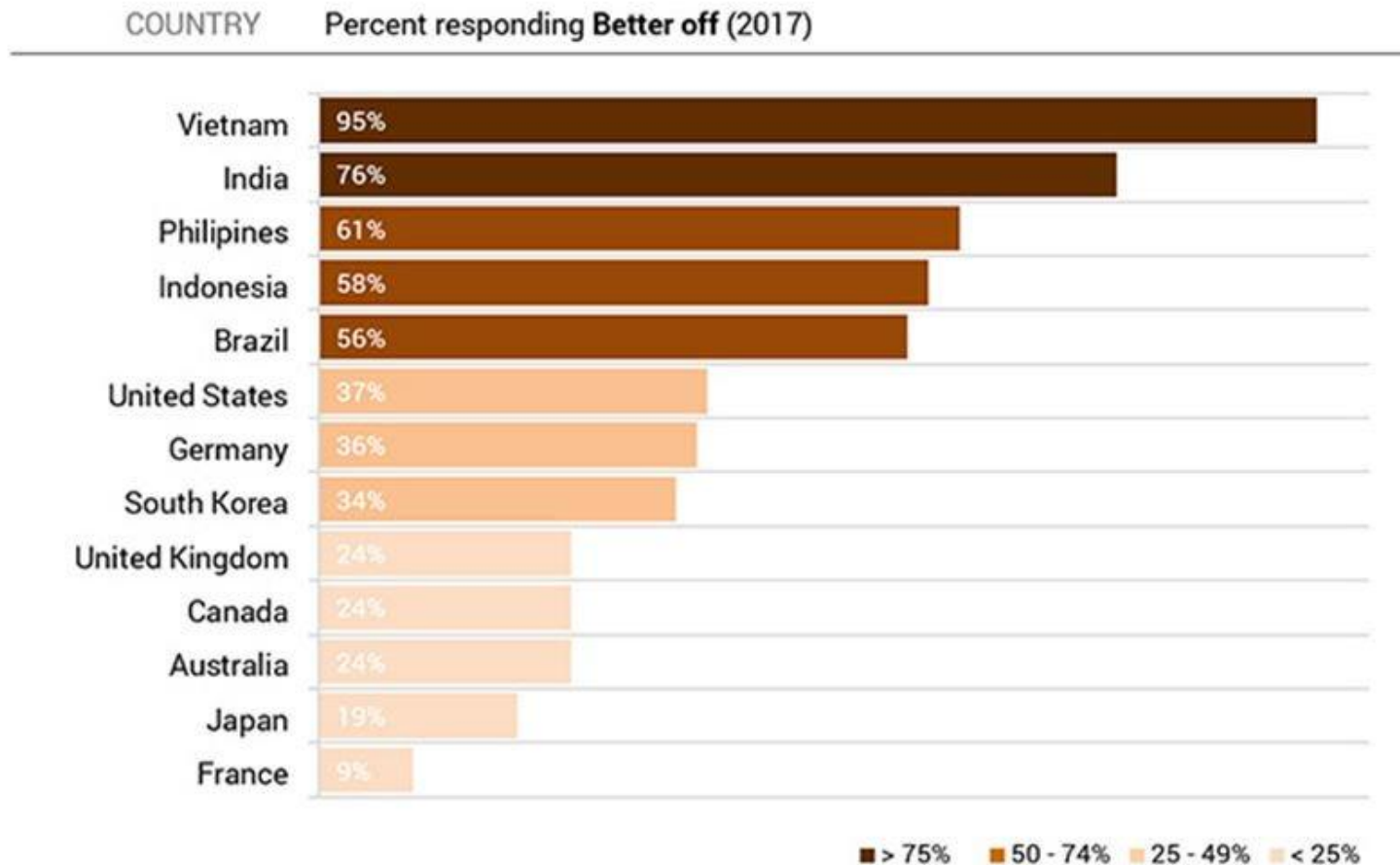
Data: IMF 

The opportunity

- Vietnam GDP growth expected to be over 6% in 2017
- Banking reform under way with resolution for old NPL and access to credit for consumers and small businesses
- Strong FDI inflows and competitive labour costs allow Vietnam to be a higher value added manufacturing destination
- VND – Foreign reserves increased to approx. USD 41b in 2016 from USD 12.5b (2010) and currency expected to remain stable
- Inflation below 5% in 2016 after recent highs of 18.7% in 2011 and 23% in 2008

Capitalism creates wealth

When Children Today Grow Up, Will They Be Better Off Financially than Their Parents?

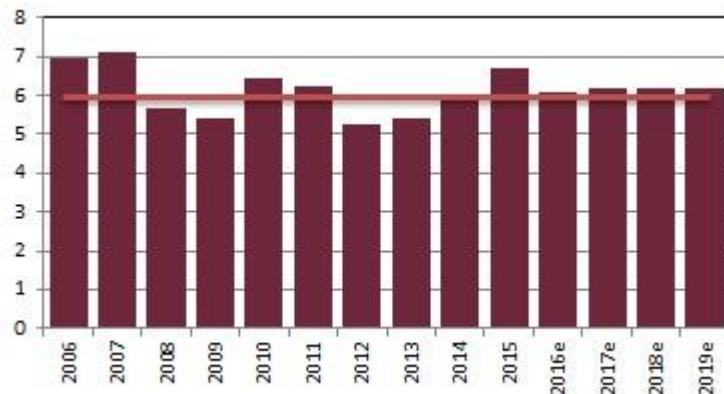


Source: *Pew Global Survey*

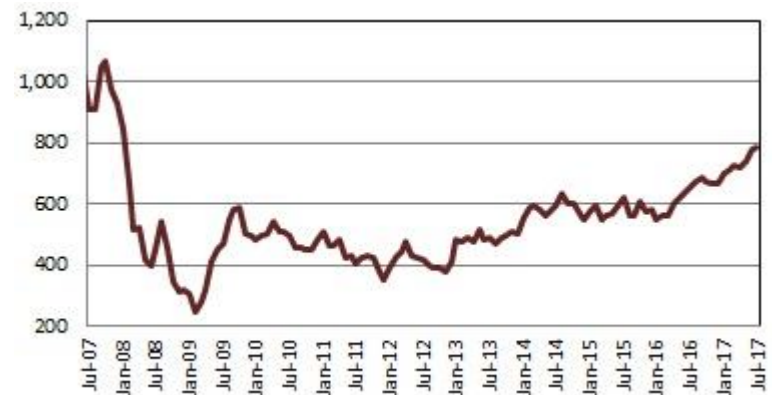
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Stable economic growth and recovering stock market

Vietnam GDP Growth Rate %



Vietnam HCM VN Index



Saigon Cargo Services (SCS)

Price	USD \$5.14	VND 117,000
Market Capitalization	\$255m	VND 5786b
Cash	\$36m	
Debt	\$0.5m	
Enterprise Value	\$219.5	VND 4985b

SCS is one of two air cargo terminal operator located in Tan Son Nhat (TSN) airport, the only airport in Ho Chi Minh City and the company holds 33% market share of cargo throughput. SCS also leases apron, offices, soccer fields and parking lots all located on the same plot of land.



Source of Moat



Source of Moat



Source: VCSC

Strong Management and Ownership

- Major Shareholders
 - A41 (The Air Force) which provided the land for SCS's terminal
 - ACV (Airports Corporation of Vietnam) assists with securing licenses and daily operations
 - GMD (Gemadept) supports SCS with logistics expertise
- Management has long experience in logistics industry.
 - CEO Nguyen Quoc Khanh at company for 10 years (since inception) and at GMD for 15 years
 - VP Nguyen Thai Son has 20 years experience with Lufthansa Cargo

Financial Performance

VND bn	2016	2017F	YoY
Revenue	496	582	17%
- Air Cargo Terminal	455	540	19%
- Apron	7	7	0%
- Office for lease, football field	33	35	4%
- Others	0	1	100%
Gross Profit	359	454	26%
Selling expenses	0	0	N/A
G&A expenses	70	73	3%
Operating profit	289	381	32%
Financial income	2	3	67%
Financial expenses	13	1	-92%
Other income/(expenses)	-2	-2	0%
Profit before tax	275	381	38%
NPAT	245	342	40%
EBITDA	342	437	28%
GPM blended %	72.4%	78.0%	
Selling exp as % of sales	0.0%	0.0%	
G&A as % of sales	14.2%	12.5%	
OPM %	58.2%	65.5%	
EBITDA margin %	69.0%	75.2%	
NPAT margin %	49.4%	58.8%	
Effective tax rate %	10.9%	10.2%	

Valuation

- Revenue expected to be VND 580b and expected to compound at close to 20% a year (15% traffic growth and 3-5% price increase) until capacity is reached sometime around 2023
- EBIT margin at 66% currently and can climb to 80%+ as majority of costs fixed
- Currently trading at 19x current earnings and 17x 2018 earnings
- Reasonable price for a cash cow earning 40% ROE....

Valuation

Discounted Cash Flows	FY17	FY18	FY19	FY20	FY21	FY22
EBIT	386	480	594	754	929	1,141
- Tax	-39	-53	-65	-83	-102	-126
+ Depreciation	55	58	60	61	59	57
- Capex	-14	-34	-35	-36	-37	-37
- Working cap increase	-7	-8	-12	-8	-9	-10
- Pref Payment	-30	-31	-31	-32	-32	-33
Free Cash Flow	350	412	511	656	807	992
PV of FCF	359	377	420	474	520	571
Cumulative PV of FCF	359	736	1,156	1,630	2,150	2,720

Terminal value	
Terminal g	3%
FCFF 2023	588
Terminal Val	6,706
PV of Ter Val	3,779
Enterprise Val	6,499
CASH	83
DEBT	12
EQUITY	6,571
Shares	495
Target Price (VND)	132,867

Capital Allocation and Future Optionality

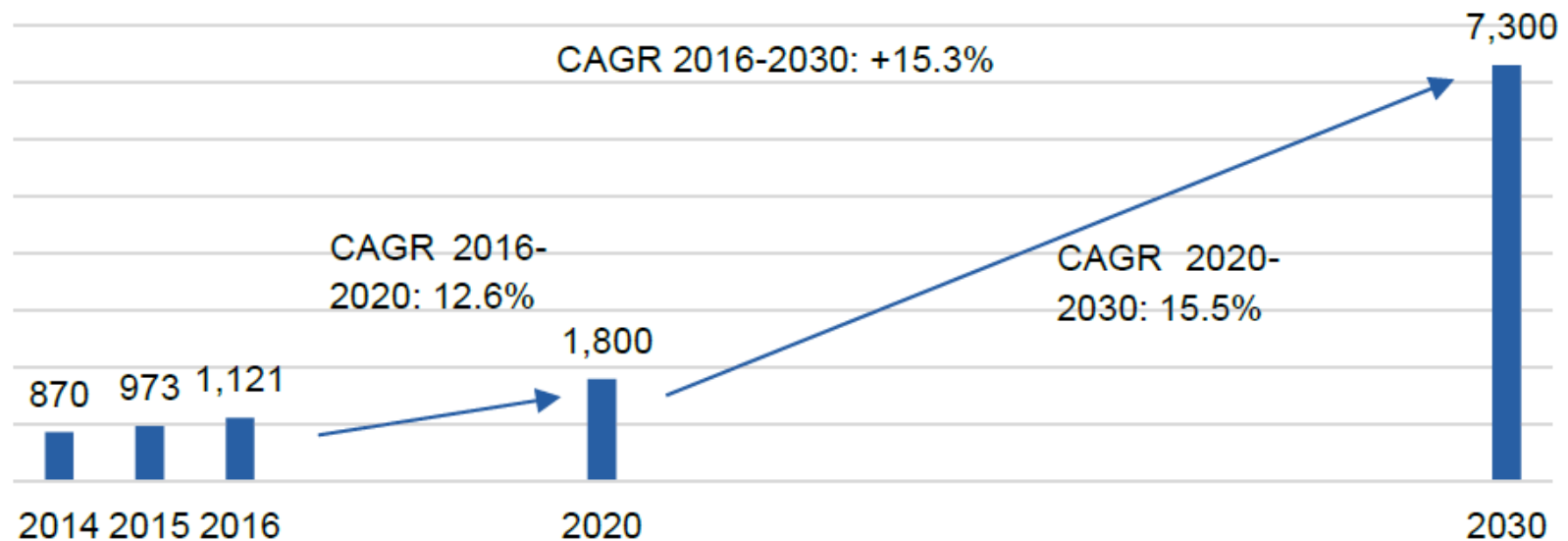
- Currently pay out 70% of operating cash flow as dividend for a yield of 5%
- Management has plans to build new office building with potential for VND 72b rental income a year
- In discussions with JV partners to operate catering center to compete against Vietnam Airlines (currently the only player)
- Management continue to look for ways to increase income from current space – e.g. Add on floor above technical building for 600 sqm of space for around US \$240k

Risks and Outlook beyond 2024

- Plans are in place for a new international airport in Long Thanh (40km east of HCMC) to be operational in 2025
- SCSC will get a slot but unknown how many other players will be allowed
- Plans are also underway to expand TSN Airport with 4th passenger terminal
- Natural disaster/ flooding

Future business demand

Figure 11: Forecast of Vietnamese volume cargo throughput for the next 15 years ('000 tons)



Source: CAAV

Frontier Market Risks

- Lack of transparency and Western style due process around executive decisions regarding infrastructure development
- The VND has historically been volatile and is heavily influenced by the RMB
- A global recession will mean less export volume out of Vietnam
- English financial statements not yet available

Summary

- A strong moat company trading for 5x peak cash flow (when it reaches 100% capacity in 2023)
- No debt and intelligent capital allocation by open and able management
- Various optionalities that can enhance value (new building, operations at new airport, catering operation, capacity expansion)
- **Transparent business with high margin of safety in a fast growing economy**

Questions?

- Clement Loh, Lion Rock Partners
 - clement@lionrockfund.com