BAOVIET Securities

Industry: Transport & logistics

Investment recommendation report

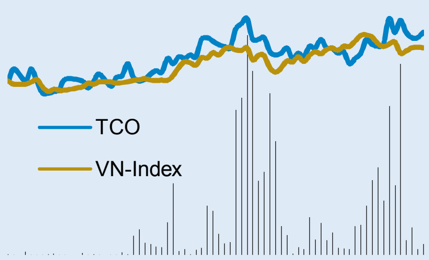
December 16, 2014

Recommendation	**OUTPERFORM**
Target price (VND)	**19,900**
Market price (12/12/2014)	13,300
Expected return	49.6%

STOCK INFORMATION

Exchange	HSX
52-week price range	VND9,260 – 13,780
Capitalization	VND172 billion
Outstanding shares	14,030,000
10-day average volume	112,925
% foreign ownership	2.33%
Foreign ownership limit	49%
Dividend per share	VND1,000
Dividend yield	7.5%
Beta	0.72

PRICE MOVEMENT



	YTD	1M	3M	6M
TCO	16.7%	3.9%	9.9%	16.7%
VN-Index	9.8%	-8.3%	-12.4%	-3.5%

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Duyen Hai Multimodal Transport Joint Stock Company

Ticker: TCO Reuters: TCO.HM Bloomberg: TCO VN

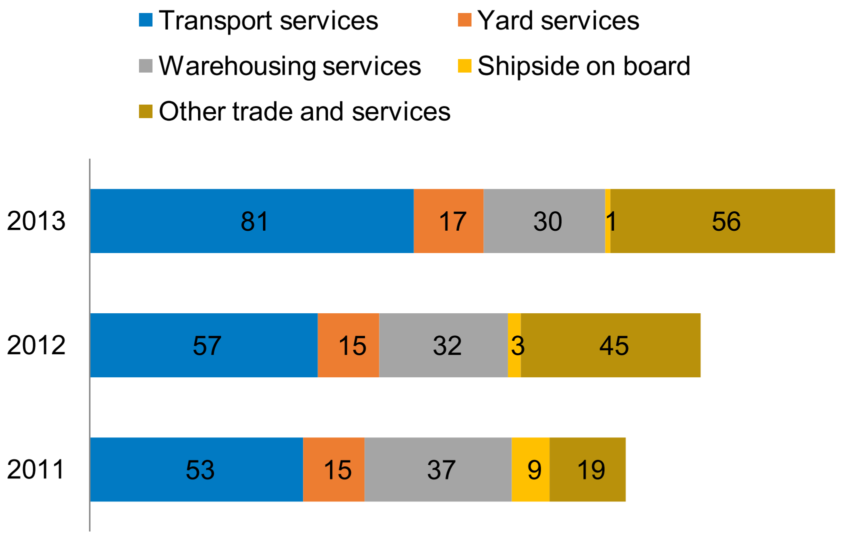
Good prospects in 2015 with construction of the first DC in Haiphong

Duyen Hai Multimodal Transport Joint Stock Company (TCO) specializes in road transport and warehousing business mainly in Haiphong. TCO always maintains stable operation with steady revenue and profit growth thanks to advantages in transportation on a fixed route, a large and stable customer base and cleared land bank for warehouse operations, etc. TCO's plan to build its first distribution center (DC) in Haiphong also promises to support largely its business in the near future.

Diversified and mutual support business fields

Road transport service accounts for the highest proportion of TCO's revenue, followed by trading & services (mainly truck leasing service) and storage services. Despite the diversification, there is not a big difference in the proportion of revenue of the segments because the company's main activities are in a closed service process: reception - collection - storage - transportation. TCO performs multiple tasks simultaneously, based on the existing customer network built up from its core business in warehousing services. As a result, customers can save time and costs and the company can achieve steady revenue and profit growth every year.

TCO's revenue breakdown (bil VND)



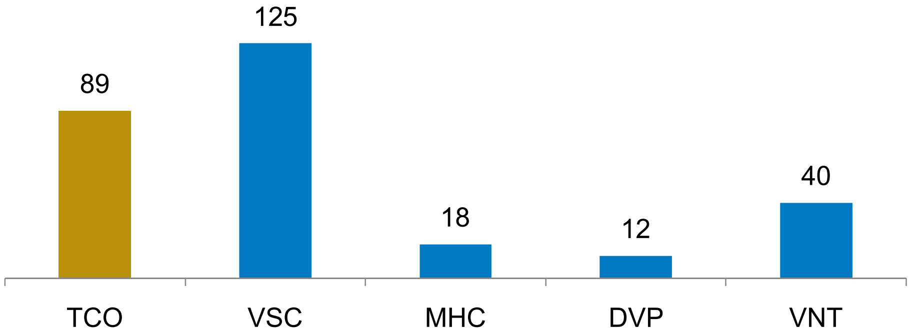
Source: TCO

Road transport segment is favorable given stable customer base and fixed route

Good transport capacity: Compared with transport firms in Haiphong, TCO possesses a big fleet with nearly 90 trailers mostly imported from China and annual freight volume of 300,000 tons. This fleet is sufficient to meet the transport demand of customers in the North, especially in Phu Tho province and Haiphong. TCO also takes advantages of 30% of empty vehicles for two-way freight road transport to save costs.

The Government's recent tightened rules on vehicle weight have also helped increase TCO's transport revenue due to rising freight rates and higher number of transport orders. Ten more trailers imported from the U.S. (with a price at VND1.2-1.3 billion each) will be put into use in Q4/2014 in order to satisfy the rising demand of transport, especially cargo transport during the New Year holiday. With this plan, TCO expects to liquidate a number of low quality used vehicles for drivers to invest in higher quality vehicles.

Number of vehicles & trailers at some transport firms in Haiphong

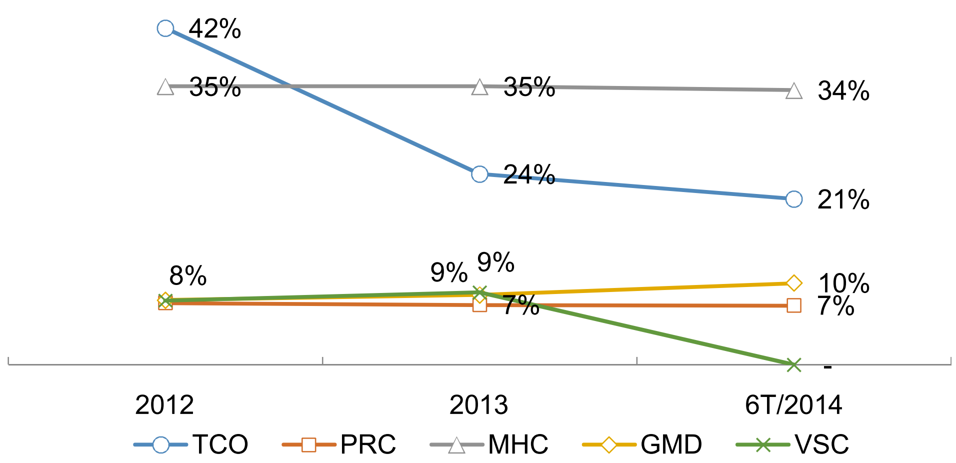


Source: BVSC data

Focus on Haiphong-Phu Tho fixed route: Road transport services of TCO are based on advantages in warehouse and freight yard systems and customs declaration service. TCO transports on a fixed route from Haiphong to Viet Tri, Phu Tho province. Customers are mainly South Korean and Japanese companies in Phu Tho such as Tevina Prime, Sheshin Sung won, etc., using both transport and customs declaration services. At present, TCO has no plan to develop transport services on other routes in the North as it seeks to exploit potential customers on the Haiphong-Phu Tho route.

Gross profit margin is high compared with other transport firms. Compared with other firms operating in the field of road transport, TCO's gross profit margin from transport services is much higher. In 2012, its gross profit margin from transport activity was the highest at 42%, followed by MHC with 35% and the remaining firms relatively low at 6-8%. However, in 2013 and the first half of 2014, its margin remained high compared with other companies but fell significantly from 42% in 2012 to 24% in 2013 and 21% in the first half of 2014. The decline was attributed to the company's changes in vehicle managing mode and income accounting method.

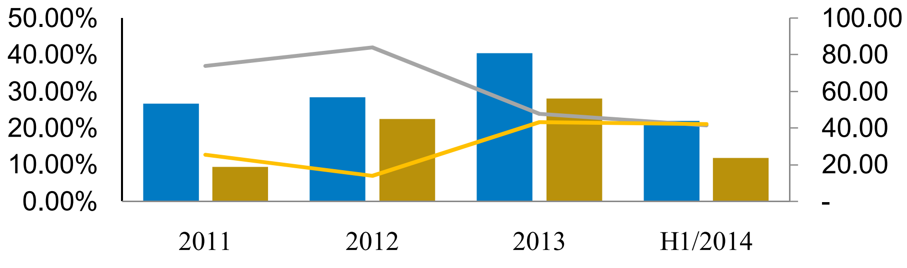
Gross profit margin from transport services of some firms



Source: BVSC data

Since mid-2012, TCO has applied a new mode of management for vehicle fleet. Accordingly, drivers have been authorized to directly manage the fleet. Revenue from transport activity has still grown steadily and customer base has remained unchanged. Transport operating expenses such as fuel, tolls, yards, etc. have been cut due to the shift of management role to drivers, but outsourcing costs (paid to drivers) have been increased. In general, the cost of transport operations has risen dramatically since 2013, making gross profit margin from transport services decrease.

In contrast, revenue from trading & service segment rose sharply in 2013 when TCO completed the transfer of vehicle fleet to the drivers. This revenue mainly comes from principal and interest amounts of the drivers in the period of vehicle depreciation.



In general, the change of fleet management method helped reduce risks arising during the process of transport for TCO (such as petroleum costs, tolls, accident risk, etc.). Overall, TCO's revenue from transport and trading segments has been growing quite steadily.

Storage services benefit from large land bank and favorable location

Favorable location: TCO's storage system is located on Dinh Vu road, one of the biggest roads in Haiphong, with a roadbed width of 68m, connecting the Dinh Vu area to National Highway 5 and Hanoi-Haiphong expressway, nearby Doan Xa and Dinh Vu ports.

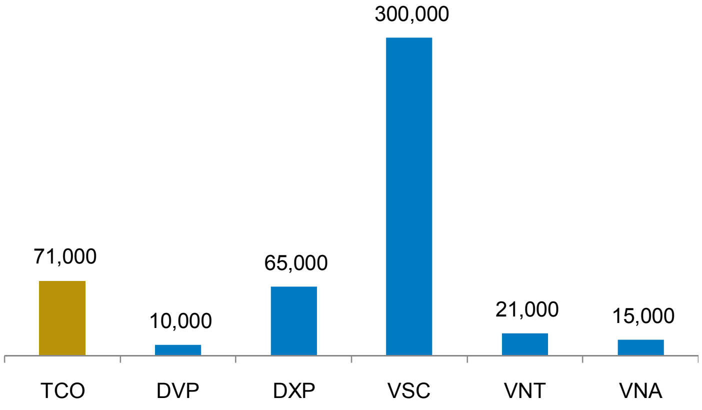
Warehouse & yard system in Haiphong has total area of 10 hectares: TCO's freight yard system in Haiphong has total area of 10ha, including TASA Dong Hai yard 2.3ha, TASA Trading yard 4.8ha. The unexploited area of 2.9ha is for lease. In Phu Tho, TCO owns Thuy Van ICD 2.8ha in Viet Tri.

In terms of warehouse system, TCO operates four warehouses with total area of 0.7ha in Haiphong and two warehouses with total area of 0.3ha in Phu Tho.

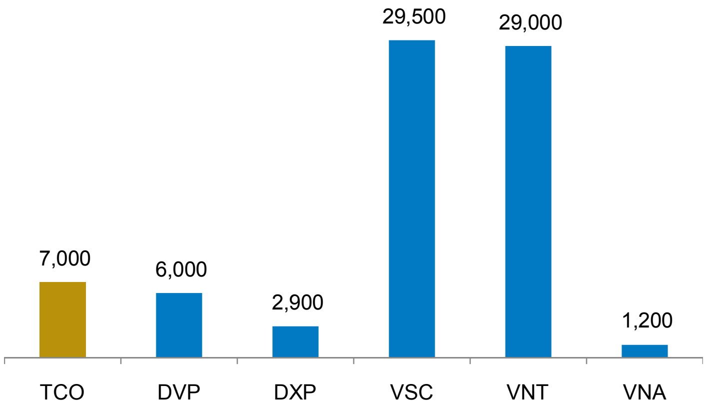
Area	Type	Area (m2)	Total (m2)
Haiphong	TASA Dong Hai yard	23,000	107,000
	TASA Trading yard	48,000	
	CFS warehouse	7,000	
	Unexploited land	**29,000**	
Phu Tho	Thuy Van ICD	28,000	31,000
	CFS warehouse	3,000	

The scale of storage system of TCO is average in Haiphong. Compared with storage service firms in Haiphong, TCO has a small warehouse system and an average-scaled yard system with an exploitation capacity of 85-90%.

Yard scale of some firms in Haiphong (m2)



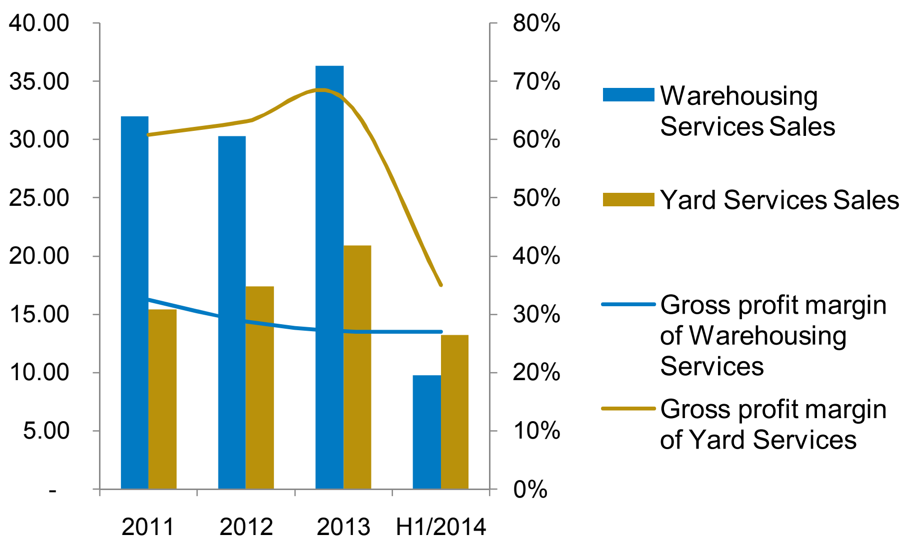
Warehouse scale of some firms in Haiphong (m2)



Thanks to the advantages in location and land bank, TCO's yard service revenue recorded steady growth over the years, but profit was almost unchanged, making its gross profit margin decline. TCO used yards mainly to receive and control cargos; although this activity does not generate much added value, it is required for logistics companies to support other activities.

In contrast, profit margin from warehousing services was high, but revenue from this activity tended to decline. Most of its CFS warehouses have been degrading, thereby decouraging customers to use services. To solve this problem, TCO has planned to build a distribution center to increase profit margin from this potential warehousing activity.

TCO's revenue & gross profit margin from storage services



Cheap land costs. Warehouse & freight yard systems of TCO in Haiphong all have red books or land use rights in 35-40 years. As a result, TCO has more advantages than other firms that have to rent warehouses and yards. TCO invested in its storage system before 2005, with land price at VND2.5 million/m2, and the company has still been exempted from paying annual land rental as receiving site clearance compensation money for the investment before. The price of land used for storage purposes on Dinh Vu Road - Haiphong is currently at around VND8 million/m2. The value of land assets of TCO according to market value is about VND800 billion; if calculated at VND2.5 million/m2, the value is about VND250 billion, still higher than its current market capitalization.

Advantage in customs declaration: In the storage system of TCO, one yard in Haiphong has been granted with customs license. At present, Haiphong stops giving customs declaration licenses to new warehouses. TCO's container yard in Phu Tho operates as an ICD in a closed process from Haiphong to Viet Tri. TCO is also the sole company licensed to operate an inland container depot in Phu Tho. All of its warehouses and yards are located near the headquarters of customs units, thereby saving time and customs procedure costs for customers.

Prospects in 2015 and coming years based on the construction of DC& CFS warehouses

Realizing its existing advantages in land bank, prospects from warehousing activities with high profit and its warehouse system degrading, TCO has planned to build DC & CFS warehouses in the near future.

DC (Distribution Center) is a warehouse for processing and completing an order, from packing and inspecting to delivering cargos to customers. Most of the cargos at DC are fast moving consumer goods (FCMG) due to the high speed of order treatment (fast distribution, short time of storage and flexible transport to requested locations). Demand for developing DCs in Vietnam is growing after the presence and continued growth of the multinational corporations, which require a preeminent distribution center permitting continuous flows of cargo. There are some DCs in Vietnam such as Unilever's DC at VSIP 1 industrial zone, P&G's DC at Song Than ICD, Gemadept's DC; and some multinational corporations are also studying to develop DCs as Masan, Saigon Co-op, etc. DC is a more modern model than CFS warehouse in the supply chain of goods. While CFS is merely a warehouse (difficult to control the volume of cargos in the warehouse and the delivery location, inflexible shipping time leading to lower quality of warehoused cargos), a DC can overcome all the above disadvantages. Once operational, the distribution center of TCO will be the first one in Haiphong.

- **Time for construction:** The DC is scheduled to be built in 8 months from January 2015 on expectations the warehouse will be put into operation when

Road 5 is connected and transport activities will largely support warehousing activities.

- **Investment cost:** Total investment capital for the DC phase I is VND20 billion, 100% from its equity. TCO will also issue additional shares to raise fund for business activities in late 2014.
- **Scale:** Total land area for the phase I is 9,000 m2, including 4,000 m2 for CFS warehouse and 5,000 m2 for DC. This land area will be revoked from the leasing partners in Haiphong.
- **Competitive edge:** Once operational, the distribution center of TCO will be the first one in Haiphong. The DC targets multi-national companies operating in the Fast Moving Consumer Goods (FMCG) sector such as Nestle, DutchLady, etc. which require fast distribution and short time of warehousing (3 hours). This is also a huge advantage of the DC against a CFS warehouse.
- **Competition risk:** As the first DC in Haiphong, it will not incur competition risks, even when Lach Huyen port is put into use as the port is on island, requiring long process of transport.

Operating results: In the first year of operation (scheduled in Q4/2015), the DC will be operating at 60% capacity, generating VND4.8 billion revenue and VND1.76 billion net profit. Revenue and profit in the following years are expected to grow steadily 11.4%/year. When operating at full capacity in 2020, revenue and net profit are forecast to reach VND32 billion and VND14 billion respectively.

Forecast on revenue and profit from the DC (bil VND)

Norm	2015f	2016f	2017f	2018f	2019f	2020f
Capacity	60%	65%	75%	80%	95%	100%
Revenue	4.80	20.80	24.00	25.60	30.40	32.00
Net profit	1.76	7.28	9.28	9.92	13.12	14.00

From 2016 onwards, the first DC of TCO in Haiphong will make great contribution to its growth. We have forecasts on TCO's operating results in the coming years as follows:

Operating results of TCO

Norm	2013	2014f	2015f	2016f	2017f
Revenue	**185,819**	**210,897**	**238,358**	**275,582**	**296,200**
Road transport	*80,755*	*96,905*	*111,441*	*124,814*	*134,799*
Storage services	*47,690*	*50,944*	*58,865*	*77,982*	*84,262*
Trading & services	*56,081*	*61,689*	*66,624*	*71,288*	*75,565*
Transportation of ships	*1,294*	*1,359*	*1,427*	*1,498*	*1,573*
Revenue growth	22,0%	13,5%	13,0%	15,6%	7,5%
Gross profit margin	25,1%	23,3%	23,7%	24,8%	25,2%
Net profit	**24,213**	**23,682**	**27,322**	**33,961**	**37,365**

Valuation

On assumption that TCO's core business remains stable and its first DC warehouse put into operation in 2015, we value TCO at **VND19,900/share**.

VALUATION RESULT

Method	Target price	Weight	Average price
- FCFE	20,368	50%	10,200
- FCFF	19,303	50%	9,700
Average price			**19,900**

Investment recommendation

In the short term in 2014, given its stable performance thanks to competitive advantages in transport and storage segments (fixed transport route, stable customer base, large storage system, customs declaration services, etc.), we forecast TCO can fulfil its revenue and profit targets this year.

From 2015 onwards, the operation of its first DC will bring huge potential to TCO in the storage segment as its DC is the first one in Haiphong with more advantages against CFS warehouses. Currently, TCO is traded at VND13,300/share, equivalent to an attractive P/E at 7.88x. The current price is also lower than its long-term target price at **VND19,900/share** under our DCF valuation model. Therefore, we rate **OUTPERFORM** on this stock.

REPORT COMMENTARY

Target price: is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE. FCFF. DDM); NAV-based valuation; comparative indicators (P/E. P/B. EV/EBIT. EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

RECOMMENDATION SYSTEM

BVSC's recommendation system is based on the increase/decrease of the share price to the target price. There are three levels of recommendation with the corresponding difference in magnitude from low to high. Investors should be noticed that investment recommendations can be changed at the end of each quarter after BVSC's corporate reappraisal.

Recommendation levels

Recommendation	Explanation
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price

DISCLAIMER

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