

VINASUN CORP. (VNS VN): AGM Takeaways

A U-turn for the competitive environment?

Not Rated

Current price: VND 14,550

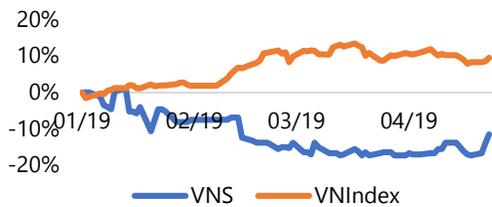
Target price: N/A

Upside: N/A

We attended VNS's AGM on April 26. We came away from the meeting with the sense that potential regulatory headwinds for Grab and other car-hailing apps might level the playing field for taxi operators such as VNS. Management discussed its operational headway in catching up with Grab through franchising and in-house mobile app development. It is possible that 2019 could be a turning point for VNS's operations.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
12,600-19,300	USD 42.4mn	6.9%	24.4%	40%	USD 5.9K

Price performance



Key Takeaways

- Amended Decree 86 to turn the competitive roadmap around?
- Profit from liquidating old cars will decelerate in 2019.
- Restructuring initiatives are on management's dashboard.

Risks

- Possible delays to the implementation of the amended Decree 86.
- Extremely low trading liquidity could limit the stock's appeal to investors.

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Company profile: VNS, with a current fleet of 5,809 taxis, is the second largest taxi operator in Vietnam after Mai Linh. Like elsewhere, Vietnam's taxi operators have been under heavy pressure from app-based car-hailing services, notably Grab. Along with the taxicab ownership model, VNS has been operating a franchise model since 2017. The company has developed its own car-hailing app, but most of its customers (c. 85%) still come from call centers and staff-enabled street hailing.

VNS's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
Total revenue	2,279	2,230	-2.2%
Core taxi operation	2,073	2,140	+3.2%
Others (including liquidating old cars)	206	91	-56.1%
PBT	115	124	+8%
Core taxi operation	10	77	+669%
Others (including liquidating old cars)	105	47	-55%
ROA	3.2%		
ROE	5.3%		
EPS growth	-53.5%		
P/E	13.8		
P/BV	0.8		

Source: VNS

Amended Decree 86 to push Grab into the slow lane? VNS believes that the amended Decree 86 will apply to app-based car-hailing services (including Grab) and not only to traditional operators. Although VNS does not expect any direct benefits for its business from the amended regulation, it believes this will at least level the playing field. VNS expressed its belief that Grab drivers will have to terminate their current electronic contracts with Grab by October 2019 and that they will have to sign new contracts that are compliant with the regulations on taxi operators.

Profit from old car liquidation is gearing down in 2019 as a result of fewer liquidated taxis. VNS plans to sell only 295 cars (vs. 786 cars in 2018). In addition, management also expects a weak price environment due to a glut in the used car market (which is due to a surge in supply).

Management expects turbocharged FY19 core net income growth of 7.7x YoY despite rather pedestrian core top-line growth of just +3% YoY. Management expressed confidence in this aggressive target for core net income, stating that it should be supported by an additional 300 cars operating as franchisees, along with a targeted c. 20K mobile-app orders per day.

Grab remains in the pole position, but VNS is keen to catch up through franchising and its own apps. Faced with the existential threat from app-based car-hailing services, VNS started experimenting with a franchising model in 2017 and it has also accelerated the rollout of its self-developed Vinasun mobile apps. VNS said that 286 cars were operating on the franchise model and c. 12K orders per day were sourced via its mobile apps in 2018. These efforts helped to drive PBT of VND 18.6 bn in VNS's core operations in 1Q19, compared to a core operating loss of VND 16.8 bn in 1Q18.

Our view: We don't cover VNS and have no investment view on the stock. However, if management's take on the amended decree 86 is correct, it could cause notable headwinds for Grab, and therefore indirectly benefit Vietnam's traditional taxi operators including VNS. With the current positive trends in core earnings and the company's ongoing business model restructuring, the FY19 guidance could be achievable. The stock has been in stall mode for quite some time, but it could be time for a U-Turn if the authorities extend their regulatory reach to the ride-hailing apps. Additionally, based on management's DPS guidance of VND1,000 per share, VNS offers a 2019E cash-dividend yield of 6.9%.

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Ratings	Expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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