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Question 1

A successful commencement in 2024

The air transport industry has seen a positive prognosis in the first months of 2024, as air cargo volume has increased by 36.5% year over year, in stark contrast to the stagnation of the previous year. Similar to this, SCS transported a total of 15,343 tonnes of cargo in 2Q24, which represents an 8.1% year-over-year increase. Particularly noteworthy was the 12.7% year-over-year increase in international cargo, which amounted to 11,355 tonnes. SCS's total air cargo volume increased by 26.7% year-over-year to 34,496 tonnes in 2T24, demonstrating impressive performance despite a minor decrease in domestic cargo volume as a result of the Lunar New Year. Strong e-commerce demand between South Asia and Europe, as well as a rapid recovery from the Lunar New Year shipping slowdown, were the drivers of this growth.

Furthermore, the ongoing unrest in the Red Sea region has resulted in substantial disruptions to shipping, which has prompted a transition to aviation freight. Nevertheless, we are of the opinion that the long-term development in air freight demand is not primarily driven by the impact of shipping disruptions.

Rather, we are of the opinion that the increase in air freight volumes will be facilitated by the recovery in orders from key markets. The Purchasing Managers' Index (PMI) for export orders, a critical metric for assessing the health of international trade, has demonstrated consistent growth since it reached a low of 47 on August 23. This implies that export demand has experienced a positive recovery in the latter part of the previous year. The PMI had slightly increased to 48.8 by January 24, when it approached the critical threshold of 50 points. This increase was indicative of the recession's decline in global export demand and established the foundation for future growth potential.

Furthermore, the manufacturing PMI index eclipsed the 50-point threshold for the first time since June 23, which is a positive indicator of a modest increase in manufacturing output. Some positive factors can counteract the challenges posed by constrained labour markets and supply chain disruptions, as per the International Air Transport Association (IATA). The global manufacturing industry is encouraged by the anticipated 4-5% increase in global aviation output compared to 2023.

New cooperation activities are anticipated to enhance air cargo throughput in 2024.

Qatar Airways will transfer its cooperation activities from Tan Son Nhat Cargo Services Joint Stock Company (TCS), which is presently operating at full capacity, to SCS, as announced by SCS management at the meeting on 2/24. Consequently, we anticipate that this will enable SCS to increase air cargo throughput by 30,000 tonnes in 2024, which is equivalent to approximately 12.5% of our anticipated air cargo throughput. LTIA Vietnam Airports Corporation (ACV) has announced plans to open tendering for significant packages in 1Q and 2Q/24, due to favourable conditions for international cargo transfer. Packages 7 and 8, which encompass the construction, installation of apparatus for Cargo Terminal No. 1, and ancillary works, will be executed. LTIA's cargo terminal No. 1 boasts an exceptional capacity, with the ability to accommodate up to 1.2 million tonnes of cargo, which is six times the current transport capacity of SCS. Construction on ACV is anticipated to commence on June 24 and conclude on May 26. The total investment capital for this phase of the bundle is estimated to be USD 779 million.

It is anticipated that Saigon Port Joint Stock Company (SCS) will secure a portion of the forthcoming package, which will provide the company with significant expansion potential. The capital cost of the project will fall within the range of USD 77.9 million to USD 155.8 million if SCS secures 10% to 20% of the bundle, according to our projections.

SCS is anticipated to progressively transition its resources to this new airport, contingent upon being confirmed as the official operator, in accordance with ACV's strategy of redirecting international flights to LTIA.

Nevertheless, we are unable to integrate this information into our current valuation of the company as a result of the absence of comprehensive information regarding the tender and SCS's specific strategy. Nevertheless, the substantial potential for future development of the business is demonstrated by SCS's participation in this tender.

In 2024-25, we anticipate a 23.6%/9.8% year-over-year increase in net profit. We anticipate that SCS's international air cargo volume will increase by 34.4%/8.6% year over year in 2024-25, reaching 239,617/256,842 tonnes, primarily as a result of international growth, as illustrated in the figure above. Consequently, we anticipate that SCS's revenue in 2024-25 will increase by 31.8%/9.6% year over year to VND929.2/1,018.1 billion. Additionally, we anticipate that the gross profit margin will increase by 1.1 percentage points in 2024 to 77.0%, as a result of the increased proportion resulting from stronger growth in international volume. The net profit is expected to increase by 23.6%/9.8% year over year to VND616.3/VND685.4 billion.

Based on the above industry insights, we form several assumptions and projected income statement as as below:

Table 1: Projected income statement for the next 5 years

REV TARGET 2025	**20.00%**
2022 MARGIN	14.00%

2023 MARGIN	16.00%
TAX 2022	16.00%
TAX 2023	16.00%
WACC	7.79%
TGR	7.00%

Year	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Revenue	839	851	705	916	1,181	1,509	1,911	2,400
COGS	188	153	169	194.81	251.08	320.83	406.38	510.24
Gross Profit	652	698	536					
Marketing&Sales	0	0	0	0	0	0	0	0
G&A	78	57	52	78.38	101.02	129.09	163.51	205.30
Total Operating Expense	78	57	52	78.38	101.02	129.09	163.51	205.30
EBIT	574	641	484	643.05	828.82	1,059.05	1,341.47	1,684.29
Interest Expense	1	0.4	1.3					
Financial income	34.5	58.6	88.3					
Total	33.5	58.2	87	46.31	59.69	76.27	96.61	121.30
EBT	607	699	571	689.36	888.51	1,135.32	1,438.08	1,805.58
Tax	41.7	50.5	70.3	54.24	69.91	89.33	113.15	142.06
Net Income	**565**	**649**	**501**	***635.13***	***818.61***	***1,046.00***	***1,324.93***	***1,663.52***

Question 2

The required rate of return on the stock price of SCS is calculated using CAPM model as below:

$$R_e = R_f + \beta \times \left(R_m - R_f\right) = 2.71 + 0.8 \times (10.5 - 2.71) = 8.94\%$$

In which:

- R_f[1] is the 10-years Vietnamese government bond
- β[2] is the 5-years monthly beta
- R_m[3] is the average growth rate of VN index in the last 5 years

SCS uses an extremely low leverage with most of it is short-term liabilities, thereby resulting in a small cost of debt is:

$$R_d = \frac{Interest\ Expense}{Liabilities} = \frac{1.3}{199} = 0.65\%$$

[1] https://finance.vietstock.vn/SCS/ho-so-doanh-nghiep.htm
[2] https://www.investing.com/rates-bonds/vietnam-10-year-bond-yield
[3] https://www.rbcgam.com/en/ca/article/emerging-markets-outlook-summer-2024/detail

Given the tax rate is 20%, WACC of the firm is: $WACC = \frac{1,338.8}{1,338.8+199} \times 8.84\% + \frac{199}{1,338.8+199} \times 0.65\% \times (1-20\%) = 7.79\%$

Question 3

For the relative valuation approach, I selected 6 comparable companies in the aviation and logistics sectors in Vietnam, including major players like Airports Corporation of Vietnam, Vietjet, and Vietnam Airlines. Using the median multiples, the relative valuation yields:

- EV/Sales multiple: 32,434.66 VND per share
- P/E multiple: 240,066.93 VND per share
- P/B multiple: 45,878.85 VND per share

Applying equal weights to these multiples results in an expected price of 106,126.81 VND per share, representing a 30% upside from the current price of 81,700 VND.

Table 2: Relative models

Competitive Comparison Data					
STT	**Company**	**Market Cap (M)**	**Enterprise Value/Sales**	**PE**	**PB ratio**
1	Airports Corporation of Vietnam (Upcom: ACV)	224,455.70	11.60	29.30	4.23
2	Vietjet Aviation JSC (HOSE: VJC)	53,782.00	1.40	232.20	3.39
3	Vietnam Airlines JSC (HOSE: HVN)	47,498.80	0.80	-8.00	4.19
4	Gemadept Corporation (HOSE: GMD)	23,340.10	6.50	11.00	2.24
5	Dong Nai Port JSC (HOSE: PDN)	4,334.10	3.70	15.70	3.87
6	Hai An Transport & Stevedoring JSC (HOSE: HAH)	4,167.90	2.20	13.40	1.43
		Median	**2.95**	**14.55**	**3.63**
		Mean	**4.37**	**48.93**	**3.23**
		Relative price	**32,434.66**	**240,066.93**	**45,878.85**
		Weights	**0.33**	**0.33**	**0.33**

Expected price	**106,126.81**
Current P	**81,700.00**
Margin of safety	**30%**

For the dividend discount model (DDM) approach, we used the following inputs:

- Required return: 8.94% (calculated using CAPM)
- Dividend growth rate: 3% (conservative estimate)

- 2024 estimated dividend: 5,500 VND per share

The DDM valuation yields an expected price of 98,685.58 VND per share, a 21% upside from the current price.

Table 3: DDM pricing

Year		Dividend	Growth rate
2024	3,000.00		
2024	2,500.00	5,500.00	-8%
2023	3,500.00		
2023	2,500.00	6,000.00	-25%
2022	3,000.00		
2022	5,000.00	8,000.00	0%
2021	3,000.00		
2021	5,000.00	8,000.00	19%
2020	3,000.00		
2020	3,700.00	6,700.00	3%
2019	3,500.00		
2019	3,000.00	6,500.00	30%
2018	3,000.00		
2018	2,000.00	5,000.00	

Average growth rate	3%
Required return	8.94%
Expected price	**98,685.58**
Current P	**81,700.00**
Margin of safety	**21%**

As we allocate an equal weight to DDM and relative models, the expected price of SCS is: $0.5 \times 106{,}121 + 0.5 \times 98{,}685 = 102{,}406.19$

Combining the two approaches with equal weights, the final expected price for SCS is 102,406.19 VND per share, suggesting the stock is currently undervalued.

Question 4

A risk-return analysis of an investment in Saigon Cargo Service Corporation (SCS) reveals a compelling opportunity with significant upside potential, balanced against several key risks. Based on our valuation models, SCS appears undervalued:

- Relative Valuation: Suggests a 30% upside from the current price.
- Dividend Discount Model: Indicates a 21% upside potential.

- Combined Valuation: Points to an expected price of 102,406.19 VND, representing a 25.3% upside from the current price of 81,700 VND.

Additionally, SCS has demonstrated strong financial performance:

- Revenue CAGR (2019-2023): 7.8%
- Net Income CAGR (2019-2023): 5.9%
- Consistently high profit margins (2023 Net Profit Margin: 70.7%)

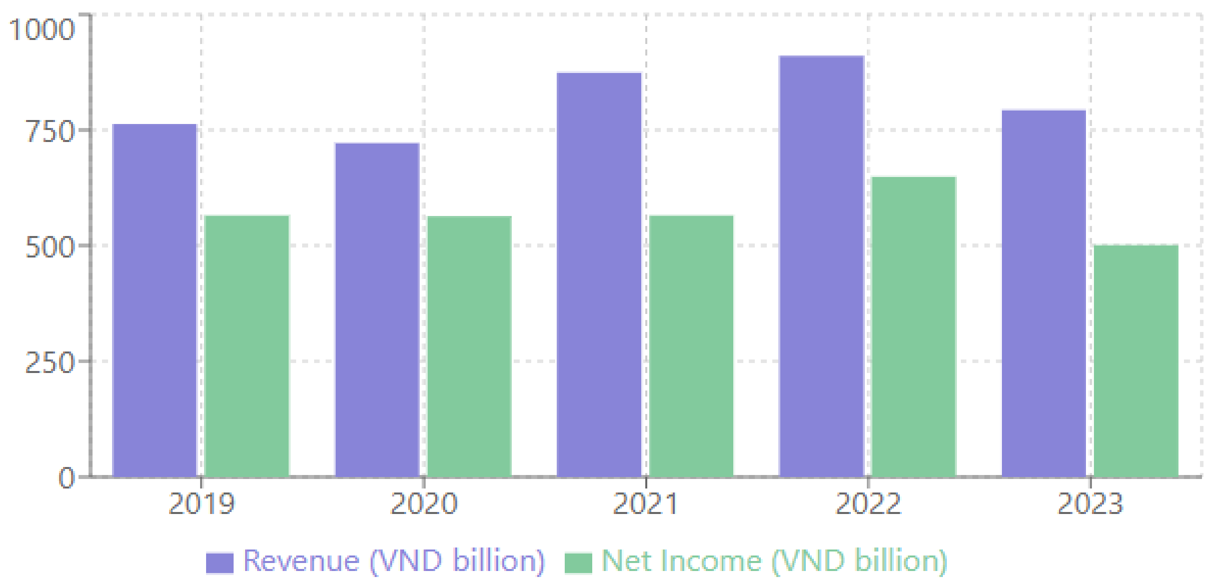

Figure 1: Revenue/income contributions

The chart above illustrates SCS's consistent revenue and net income performance over the past five years.

Risk Factors:

SCS faces several key risks. The company's business is heavily dependent on air cargo volume, making it vulnerable to industry-specific shocks. Geopolitical risks and international trade tensions can significantly impact air cargo demand. Competition is another concern, as the potential entry of new players or expansion of existing competitors could pressure market share and margins. Regulatory changes in the aviation industry can impact operational costs and growth potential. Additionally, air cargo demand is closely tied to global economic conditions, exposing SCS to economic cycle risks.

Risk Mitigation:

SCS has demonstrated resilience through its strong market position at Tan Son Nhat International Airport and consistent dividend payments (2023 dividend yield: 6.7%). The company maintains low leverage, with a debt-to-equity ratio of 27.2% in 2023. The potential growth from the Long Thanh International Airport project also provides a positive outlook for SCS's future expansion.

Investment Recommendation:

Despite the identified risks, the potential returns from investing in SCS appear attractive. The company's strong financial performance, market position, and growth prospects outweigh the risks. The current undervaluation provides a margin of safety for investors. In conclusion, SCS presents an attractive risk-return profile for investors seeking exposure to Vietnam's growing air cargo market, with substantial upside potential and manageable risks.

Question 5

Saigon Cargo Service Corporation (SCS) faces a dynamic and challenging business environment in the coming years. To maintain its competitive edge and drive growth, the Board and senior management should focus on several key strategic directions and business initiatives.

Expansion and capacity enhancement should be a top priority for SCS. The company's involvement in the Long Thanh International Airport project presents a significant opportunity. Management should actively pursue the tender for air cargo terminal operations at this new airport and develop a comprehensive transition plan to gradually shift resources there. Simultaneously, investing in upgrading existing facilities at Tan Son Nhat International Airport will maximize efficiency. This aligns with the global trend of airport expansion to meet increasing air cargo demand, as highlighted in the International Air Transport Association's (IATA) 20-Year Air Passenger Forecast (IATA, 2023).

To mitigate risks associated with industry concentration, SCS should consider expanding into value-added services such as specialized handling for pharmaceuticals and perishables. Exploring opportunities in e-commerce fulfillment and last-mile delivery services, as well as developing partnerships with logistics providers to offer end-to-end supply chain solutions, will diversify the company's revenue streams. The McKinsey & Company report on "The Future of Air Freight" supports this trend towards diversification in the air cargo industry (McKinsey & Company, 2022).

In line with global trends towards sustainability, SCS should invest in energy-efficient equipment and explore renewable energy options for its facilities. Implementing a comprehensive environmental management system to reduce carbon footprint and developing green logistics solutions will meet growing customer demand for sustainable supply chains. The United Nations Sustainable Development Goals provide a framework for such initiatives (United Nations, 2023).

To strengthen its market position and expand capabilities, SCS should pursue strategic partnerships with international air cargo operators to enhance global reach. Exploring merger and acquisition opportunities with complementary businesses in the logistics sector and collaborating with technology startups will accelerate innovation in cargo handling and tracking systems. The Deloitte report on "2023 Aviation and Defense Industry Outlook" highlights the importance of such strategic collaborations (Deloitte, 2023).

Lastly, SCS should focus on talent development and organizational culture. Implementing comprehensive training programs to upskill employees in digital technologies and data analytics, fostering a culture of innovation and continuous improvement, and attracting and retaining top talent through competitive compensation and career development opportunities will be essential. The World Economic Forum's "Future of Jobs Report 2023" underscores the importance of these initiatives in the rapidly evolving logistics industry (World Economic Forum, 2023).

Question 6

Saigon Cargo Service Corporation (SCS) has demonstrated a commitment to environmental, social, and governance (ESG) principles, as evidenced by its 2023 Annual Report. However, there is room for improvement in several areas. This assessment will evaluate SCS's current ESG efforts and provide recommendations for enhancement.

In terms of environmental efforts, SCS has implemented several initiatives to reduce its environmental impact. The company's utilization of solar power, contributing to a 43% reduction in grid electricity consumption in 2023, is commendable. This aligns with the global trend towards renewable energy adoption in the logistics sector, as highlighted in the International Energy Agency's "Net Zero by 2050" report (IEA, 2023). SCS has also implemented energy-saving technologies, including inverter air conditioning systems and LED lighting, which are recognized best practices in the industry according to the Energy Star Guidelines for Energy Management (EPA, 2023).

However, SCS could further improve its environmental performance by setting specific, measurable targets for greenhouse gas emissions reduction. The Science Based Targets initiative provides a framework for companies to set such goals (SBTi, 2023). Expanding the use of renewable energy sources beyond solar power and implementing a comprehensive sustainability reporting framework, such as the Global Reporting Initiative (GRI) standards, would also enhance SCS's environmental profile.

SCS demonstrates a commitment to employee welfare and community engagement through its social initiatives. The provision of comprehensive benefits, including health insurance, social insurance, and accident insurance, aligns with best practices in employee welfare as outlined in the International Labour Organization's "Decent Work Agenda" (ILO, 2023). The implementation of training programs for employee development is also crucial, as emphasized in the World Economic Forum's "Future of Jobs Report 2023" (World Economic Forum, 2023).

To strengthen its social impact, SCS should consider establishing more structured and long-term community development programs. The United Nations Global Compact provides guidance on developing such initiatives (UN Global Compact, 2023). Enhancing diversity and inclusion initiatives within the workforce and implementing a comprehensive occupational health and safety management system, in line with ISO 45001 standards, would further improve SCS's social performance.

SCS's governance structure includes a Board of Management, Supervisory Board, and Board of Directors, which is a solid foundation for corporate governance. The company's regular board meetings and transparent decision-making processes align with the OECD Principles of Corporate Governance (OECD, 2023). Compliance with environmental regulations and laws, as well as the implementation of risk management practices, are also positive aspects of SCS's governance.

To further improve its governance, SCS should increase the number of independent board members to enhance oversight and diversity of perspectives, as recommended by the Asian Corporate Governance Association (ACGA, 2023). Developing and publishing a comprehensive code of ethics and business conduct, and implementing a more robust risk management framework, including regular assessments of ESG-related risks, would strengthen SCS's governance practices. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management framework provides guidance for such improvements (COSO, 2023).

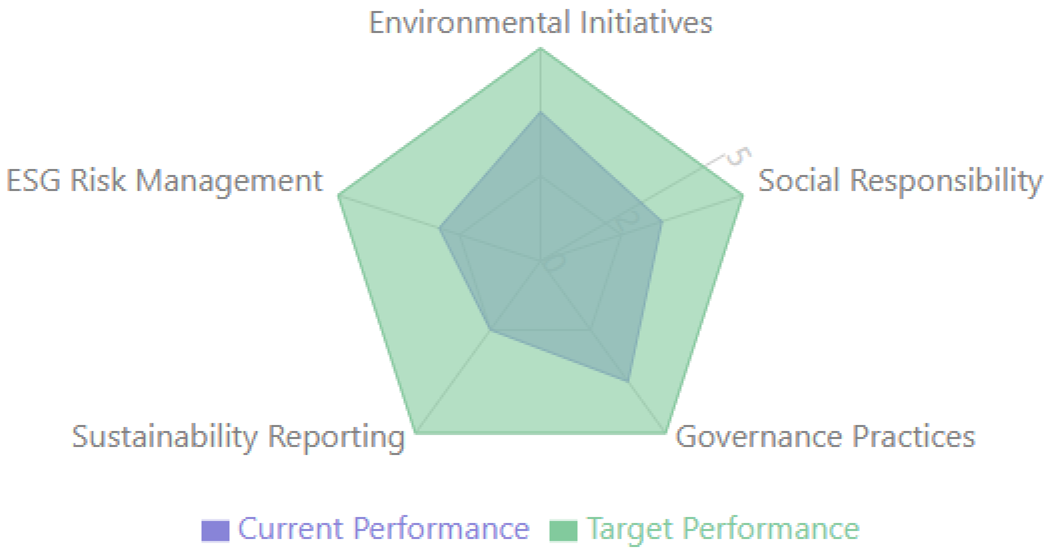

Figure 2: ESG performance

The radar chart above illustrates SCS's current ESG performance compared to target levels, highlighting areas for improvement. In conclusion, while SCS has made commendable efforts in ESG practices, there is significant room for improvement. By addressing the identified gaps and implementing the suggested enhancements, SCS can strengthen its ESG profile, mitigate risks, and create long-term value for all stakeholders, in line with global best practices and standards in the logistics and air cargo industry.

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