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Saigon Ground Services JSC (SGN: UPCOM) Paving the way to more profit

Outstanding shares: 24 mil; Market Cap: \$ 147 mil USD; Average 3M value: \$ 0.01 mil USD, Market price: VND 140,000; and Foreign ownership: 27.18%

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Investment case

Thanks to a duopoly position in Tan Son Nhat International Airport (TIA) and expansion to 2 airports: Danang International Airport (DIA) and Cam Ranh International Airport (CRIA), Saigon Ground Service JSC (SGN: UPCOM) is offering full value chain ground services to a wide range of reputable international airlines, as well as VietJet Air (VJC: HOSE) as its only domestic client at the above 3 most crowded airports in Vietnam.

SGN has a good position in Vietnam's growing aviation industry. The company has a simple business model, strong balance sheet with no debt, and potential for growth in the next couple of years by way of capacity expansion and strong tourist arrivals to Vietnam.

Catalysts

- SGN will enjoy strong international flights volume growth in DIA and CRIA thanks to new international terminals in the next few years. DIA's designed capacity increase in 2017 at 67% and CRIA's designed capacity increase in 2018 at 2.6x are expected to attract more international flights to the 2 airports thanks to increased flight frequencies and new routes opening. In the meantime, VJC will boost international expansion to Southeast Asia and Northeast Asia countries given its aggressive fleet expansion from 2018-2022. Therefore, SGN's international flights growth will continue to be strong in the next few years.
- We expect the company to achieve 2018 and 2019 EPS growth of 20% YoY and 16% YoY respectively
- SGN plans to expand business to Phu Quoc International Airport in the coming time. The plan is being reviewed by its major shareholder Airport Corporation of Vietnam (ACV: UPCOM) (48% ownership)
- SGN may move from UPCOM to the Ho Chi Minh Stock Exchange (HOSE) in 2018. The listing plan will be discussed at the upcoming 2018 Annual General Meeting.
- In the long run, SGN may expand to Long Thanh international Airport by 2025

Valuation: At the current price of VND 140,000/share, SGN is trading at 2018 and 2019 PE of 14x and 13x respectively, which is quite low compared to SATS (SATS SP) of around 22x. We recommend to BUY the stock, with a 1-year target price of VND 201,300 (44% upside) based on the P/E method with a 1-year target PE of 20x.

Risks: (1) VJC may not continue to outsource SGN services, and may do their in-house ground handling. (2) Delayed expansion to Phu Quoc International Airport will cause slowdown in growth amid capacity constraints in the 3 major airports.



Ground Handling
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