



Company Report: VN Engine & Agri.Machinery (VEA VN)

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National brands

- VEA's net revenue for 2021 was VND 4,019 bil (+9% yoy), NPAT was VND 5,792 bil (+3% yoy). Profit from Joint venture was VND 5,177 bil, (+1% yoy) but still down 27% compared to pre-covid level .
- VEA hold 30% share outstanding of Honda Vietnam, 20% share outstanding of Toyota Vietnam and 25% share outstanding of Ford Vietnam. Profit from these joint venture account for almost net profit of VEA, especially Honda Vietnam's motorbikes business, which account for 90% of Honda profit
- Sale volume will come back to the trend in 2022 and beyond because the Covid-19 pandemic restriction is now behind us. Sale volume of Honda's motorbike has jump for 5 consecutive months. In 3 months 2022, cumulative sale volume growth 11.2 % yoy. Meanwhile, Honda's auto sale volume and Toyota's sale volume jumped 36% yoy 42% respectively
- There will be a bigger wave of under age 25 group is on the way of growing up to move into the older age group, which is allowed to get driver's license for motorbike, pulling up the demand. This will be the main driver for motorbikes sale growth
- The slow and less developed public infrastructure or public transportation will favor the motorbikes used
- Strong brand will help Honda to remain competitive and raise price to compensate for high inflation
- Registration fee reduce 50% this year will push vehicle sale as Honda and Toyota have highest localization rate in manufacturing

Rating:

Buy
Initial

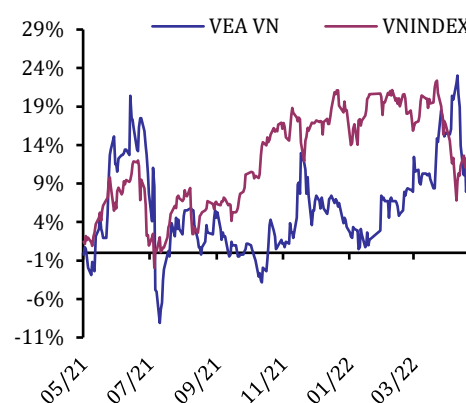
6-18m TP:

57,300

Share price:

VND42,000

Stock performance



Change in Share Price	1 M	3 M	1 Y
Abs. %	-10.8%	-4.0%	2.1%
Rel. % to VNI index	-25.1%	11.4%	0.6%
Avg. share price (VND)	47,145	46,148	44,132

Source: Bloomberg, Guotai Junan Vietnam

Year End	Revenue	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
12/31	(VND bil)	(VND bil)	(VND)	(Δ%)	(x)	(VND)	(x)	(VND)	(%)	(%)
2017A	6,586	5,086	3,797	12%	11	13,836	3.09	370	10%	32
2018A	7,074	7,047	5,229	38%	8	18,543	2.31	3,884	74%	32
2019A	4,497	7,319	5,432	4%	8	20,042	2.14	5,253	97%	28
2020A	3,672	5,594	4,136	-24%	10	18,862	2.27	5,452	132%	21
2021A	4,023	5,792	4,328	5%	10	17,656	2.42	-	0%	23

Shares in issue (m)	1,3287.8	Major shareholder	Ministry of Industry and trade	88.47%
Market cap. (VNĐ m)	56,884,600	Free float (%)		15.0
3-month average vol. ('000)	212.5	FY21 Net gearing (%)		5.0
52 Weeks high/low (VNĐ)	35,406 / 52,500			

Source : the Company, Guotai Junan Vietnam.

FY21 results. VEA's net revenue for 2021 was VND 4,019 bil (+9% yoy), NPAT was VND 5,792 bil (+3% yoy). Profit from Joint venture was VND 5,177 bil, (+1% yoy) but still down 27% compared to pre-covid level. VEA hold 30% share outstanding of Honda Vietnam, 20% share outstanding of Toyota Vietnam and 25% share outstanding of Ford Vietnam. Profit from these joint venture account for almost net profit of VEA, especially Honda Vietnam's motorbikes business, which account for 90% of Honda profit. In 2021, Honda's profit attributed to VEA declined by 2.4% yoy, reflecting decline in motorbikes and auto sales. Toyota's profit increased a little bit by 7.5% yoy despite reduction in sale due to Covid-19 outbreak, which hurt retail sale significantly. Ford Vietnam turned profit after loss in 2020, however it accounts for small amount in VEA joint venture profit.

Unit: vehicle	2020	2021	%	LN 2020	LN 2021
Honda				4,530	4370
Motorbikes	2,142,564	1,986,213	-7.3%		
Autos	24,410	21,698	-11.1%		
Toyota	72,136	68,729	-4.7%	676	720
Ford	24,660	23,708	-3.9%	(82)	20

Source: Honda, VAMA, Guotai Junan Vietnam

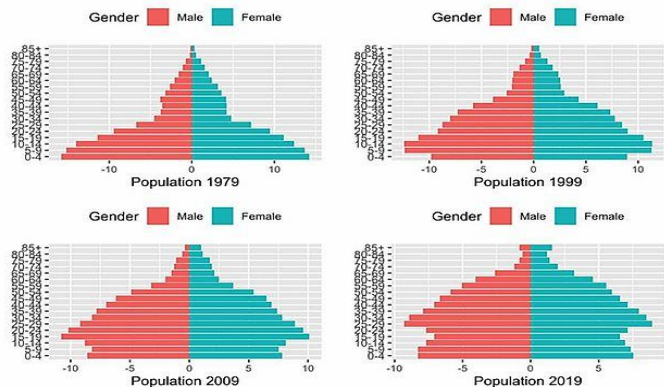
Strong bounce back post Covid-19 pandemic. We believe that sale volume will come back to the trend in 2022 and beyond because the Covid-19 pandemic restriction is now behind us. Sale volume of Honda's motorbike has jump for 5 consecutive months. In 3 months 2022, cumulative sale volume growth 11.2 % yoy. Meanwhile, Honda's auto sale volume and Toyota's sale volume jumped 36% yoy 42% respectively. Auto market has been supported from government via a 50% cut in CKD registration fees.

Favorable demographic. The total population of Vietnam has increased with CAGR of 1.1%, comparing with 0.5% in China and 0.38% in Thailand. Vietnam has now entered the period known as the golden population structure with 69% of total population aged between 15-64 years. This period is estimated to end in about 2040. Since 1979 to 2019, the number of people under 65 and percentage of people from 15-65 have been increasing significantly. This trend expects to be continuing in next decade.

We believe that there will be a bigger wave of under age 25 group is on the way of growing up to move into the older age group, which is allowed to get driver's license for motorbike, pulling up the demand. This will be the main driver for motorbikes sale growth.

Population growth CAGR 2009-2019	
Whole country	1.1%
Hanoi	2.2%
Ho Chi Minh	2.3%

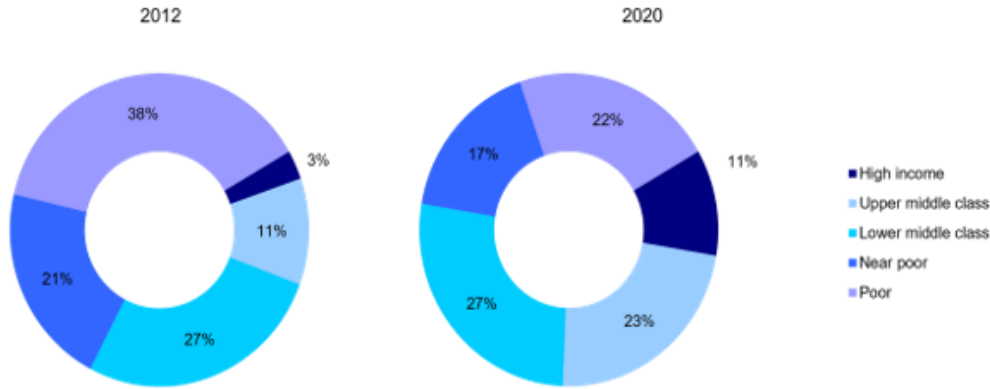
Source: General statistic office of Vietnam



Source: General statistic office of Vietnam. Red: shown as percentage of total males. Green: shown as percentage of total females

In addition to the demographic structure, the slow and less developed public infrastructure or public transportation will favor the motorbikes used. Although there have been some substitute vehicles in recent years such as electric motorbike, sky train, metro, express bus, but they all are failed to replace the convenience of motorbike and private car for medium distance. Therefore, we think that there is very high probability that motorbikes and private car will be still dominant city vehicle in the future.

Upper and high-income classes will lead car sales. According to the World Data Lab, Vietnam will have an additional 23.2 million middle-class people by 2030 (per capita spending of \$11-110 per day), bringing the total number of middle-class people to 56 million. Accordingly, Vietnam will rank third in Southeast Asia in terms of the number of middle-class people, after Indonesia with 75.8 million and the Philippines with 37.5 million



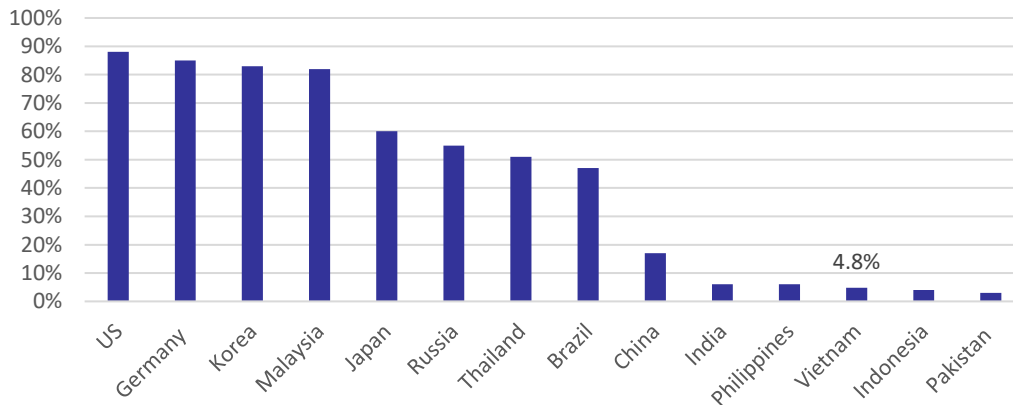
Sources: BMI, BCG, Guotai Junan Vietnam

Vietnam is ranked last in the region in terms of car ownership rate (about 23 per 1000 inhabitants) while the proportion of people owning personal cars in Singapore and Hong Kong is 12-14 cars per 100 people (14%).

Car buying trend of households. According to the Vietnam General Statistics Office’s survey in 2020, there was only 4.8% of all households owning cars, among the lowest rate in the world.

Currently, the car demand of young family is increasing, adding a significant number of potential customers in the market. Easier intercity transport connections partly promote the trend of self-driving by private car.

Household car ownership



Sources: World Data Lab, Guotai Junan Vietnam

Registration fee reduce 50% this year will push vehicle sale as Honda and Toyota have highest localization rate in manufacturing. In long term, lower imported tax for component, spare part, and even completely built-up imported car will reduce the selling price and boost the demand

Decree No 103/2021/NĐ-CP stimulates consumer demand for domestically manufactured and assembled automobiles. According to that, the registration fee rate for domestically manufactured and assembled cars will be 50 per cent compared to the previous one, applicable from 12/2021 to 5/2022.

Decree 57/2020/ND-CP to impose the incentive duty rate of 0% for many imported components for automobile assemble. The roadmap to reduce the auto imported duty to 0% according to FTAs and CPTPP.

	CPTPP	EVFTA
Current imported tax	70%	67%-70.9%
Road map	Reduce 4%-6%/year	Reduce 6.8%-7.4%/year
Time (tax=0%)	From 2026-2032 (depend on partners)	2030

Brand and pricing power. Honda motorbike now account for almost 80% market share in Vietnam, while Toyota takes 22%. Their brand mark deeply inside customer mind for 26 years. In Vietnam if we mention

motorbike or auto brand, Honda and Toyota must be the number one. So, we think in case of Honda and their dominant market share, pricing power is strong. We have examined some of operating matrices and we found that Honda keep raising price catching up with inflation. In 2021. They continue raising price without hurting sale to compensate for high production input inflation.

Honda VN	2016	2017	2018	2019	2020
Price growth		2.2%	2.9%	-3.4%	5.0%
Vehicle growth		9.5%	9.0%	0.2%	-16.7%
Revenue growth		11.4%	24.5%	1.8%	-14.9%
Operating margin	29.3%	30.1%	30.2%	30.3%	30.5%
NPM	17.3%	17.5%	18.2%	18.6%	16.4%

Source: Honda, Guotai Junan Vietnam

This is not the case for Toyota since auto market is more competitive and more sensitive to price. We have seen many price wars between brands, especially since Vinfast entered the market in 2019 with very competitive price car model. Although they suffer huge loss for those discount promotion, this still affected the sale of other brands as Vinfast take 9% market in 2020 and 12% share in 2021, just 2 years since it started.

Toyota VN	2016	2017	2018	2019	2020
Price growth		-19%	13%	-11%	-1%
Vehicle growth		5.7%	10.2%	21.7%	-10.8%
Revenue growth		-14.0%	24.8%	8.0%	-11.7%
Operating margin	23.1%	16.8%	16.7%	16.2%	14.2%
Net profit margin	15.8%	10.1%	11.0%	10.6%	9.2%

Source: Toyota, Guotai Junan Vietnam

This is, however, another tail wind for Toyota and Honda auto when in 2022 Vinfast decided to completely withdraw from ICE (internal combustion engine) production by the end of 2022 to go all electric. On the other hand, although electric car is the trending for next decade, we think that it will not be successful in Vietnam to replace ICE car. Charging system and infrastructure in Vietnam is poor, and it will require huge investment into infrastructure such as parking lot with charging facilities (lack of parking lot is big issue in Hanoi and HCMC), the fast-charging system technology which it must be proven fast enough to persuade consumer to switch from just 5 minutes of fueling their car with gasoline. Therefore, getting out of ICE market and leaving market share for other auto makers in segment A and B, which will benefit Toyota and Honda, in our opinion.

Valuation and Recommendation.

With strong brand name and favorable business condition, in long term, we are quite confident about Honda and Toyota competitive advantage and pricing power. We predict that 10% growth per year for Honda's motorbikes and 15%-20% growth per year for Honda's auto and Toyota. We value VEA's stock at **VND 57,300/share**. We note that because VEA's profit mostly come from Honda and Toyota as dividend payment, therefore, as investing's perspective, VEA stock may not increase in price more than fair value. Instead, return from VEA stock will mostly be dividend. VEA will pay out more dividend in the future, instead of 66% on average in the last 5 years, as we think the new management will change dividend policy. This will increase value of stock.

We recommend Buy for VEA stock.

Financial Statements and Ratios

Income Statement					
Year end Dec (VND bil)	2017A	2018A	2019A	2020A	2021A
Revenue	6,586	7,074	4,497	3,672	4,023
yoy(%)	4.1%	7.4%	-36.4%	-18.3%	9.6%
Cost of services	(5943)	(6467)	(4422)	(3480)	(3453)
Gross profit	620	603	65	187	566
yoy(%)	-2.8%	-2.8%	-89.1%	186.4%	202.0%
SGA expenses	(878)	(657)	(557)	(478)	(493)
Other (losses) / gains, net	(3)	(9)	(101)	(8)	(17)
Financial income	254	416	903	977	713
Finance costs	(42)	(79)	(22)	(7)	(7)
Share of profits of associates and JCEs	5170	6852	7126	5124	5177
Profit before income tax	5122	7126	7415	5795	5940
yoy(%)	13.51%	39.13%	4.05%	21.84%	2.49%
Income tax expense	(36)	(79)	(96)	(201)	(147)
Profit after tax	5086	7047	7319	5594	5792
yoy(%)	13.2%	38.6%	3.9%	-23.6%	3.5%
Minority interest	40	37	39	42	42
Net profit	5046	7010	7280	5552	5751
yoy(%)	12.0%	38.9%	3.8%	-23.7%	3.6%
EPS(VND)	3,797	5,276	5,479	4,178	4,328
yoy(%)	12.0%	38.9%	3.8%	-23.7%	3.6%

Cash Flow Statement					
Year end Dec (VND bil)	2017A	2018A	2019A	2020A	2021A
Profit before income tax	5122	7126	7415	5795	5940
Adjustments change in WC	(4838)	(6971)	(7490)	(5555)	(5645)
Cash from operations	(541)	(4129)	508	282	(187)
Capital expenditure	(462)	(196)	(185)	(127)	(80)
Cash from investing	3125	2504	4991	5896	8148
Common stock (purchase) or sale	0	0	0	0	0
Other	(3894)	(521)	(263)	(11450)	(7985)
Cash from financing	(3894)	(521)	(263)	(11450)	(7985)
Cash & cash equivalents at 1st January	3799	2488	342	5576	306
Net change in cash	(1311)	(2146)	5236	(5271)	(24)
Cash & cash equivalents at 31st December	2488	342	5576	306	280

Balance Sheet					
Year end Dec (VND bil)	2017A	2018A	2019A	2020A	2021A
Current assets	10,987	16,408	22,987	19,269	17,287
Cash & equivalents	2,488	342	5,576	306	280
Short term investment	2,152	9,650	11,265	13,265	11,799
Receivable	2,610	4,011	4,186	4,278	3,598
Inventory	3,503	2,306	1,826	1,309	1,477
Non-current assets	12,374	9,998	10,302	7,955	7,719
Property plant & equipment	2,287	2,302	2,077	2,045	1,829
Intangible assets	46	46	76	77	75
Work in progress	301	113	320	90	86
Prepayment and other receivables	317	373	385	429	473
Investment in an associated co.	9,244	6,970	7,432	5,303	5,245
Other investment	21	21	21	66	66
Total assets	51,304	119,689	197,241	215,326	230,418
Current liabilities	4,563	1,399	6,300	1,887	1,263
Account payable	24	35	24	29	49
Short-term borrowing	285	384	180	164	248
Non-current liabilities	223	158	151	55	60
Long-term borrowings	175	116	78	0	-
Total liabilities	4,786	1,556	6,451	1,942	1,322
Minority interest	169	195	198	213	215
Share capital	13,288	13,288	13,288	13,288	13,288
Other reserves and retained earnings	5,118	11,366	13,352	11,780	10,181
Total equity	18,575	24,850	26,838	25,282	23,683
yoy (%)	39.6%	33.8%	8.0%	-5.8%	-6.3%

Financial Ratio					
	2017A	2018A	2019A	2020A	2021A
Gross margin (%)	9	9	1	5	14
Operating margin (%)	78	101	165	158	148
Net margin (%)	76.6	99.1	161.9	151.2	142.9
ROA (%)	9.8	5.9	3.7	2.6	2.5
ROE (%)	27.4	28.4	27.3	22.1	24.5
Net gearing ratio (%)	2.5	2.0	1.0	0.6	1.0
Current ratio(x)	2.4	11.7	3.6	10.2	13.7

Source: the Company, Guotai Junan (Vietnam).

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% Or The Fundamental outlook of the sector is unfavorable

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