

AVIATION

Turnaround year



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What is the report about?

- 2H24F outlook for the aviation sector
- Aircraft shortage insights
- HVN and VJC would exceed their earnings guidance

I. Executive summary

Turnaround year

In 1Q24, VJC and HVN's transportation revenue went up 29% YoY, but air passengers decreased 5% YoY while air traffic increased 13% YoY, which resulted from (1) Vietnamese airlines' expansion to the international market and (2) higher fares due to eased competition and capacity shortage. However, our estimate shows that VJC and HVN's aircraft's flown distance has reached historical height, suggesting that these airlines could barely carry more passengers.

In 2H24F, with the shift to the growing international segment of airlines due to limited capacity, we expect the domestic market to weaken but with increasing demand for international travel. Therefore, we forecast a 1% YoY increase in air passengers and air traffic to increase by 13% YoY.

The higher-fare environment continues

In this report, we mentioned that the demand for aircraft renewal is surging, and manufacturers are struggling to catch up with the increasing demand. However, the broken supply chain caused Airbus and Boeing's deliveries to fall far from pre-pandemic levels, resulting in aircraft shortages. Boeing and Airbus' recent production problems aggravated the situation and led to worldwide increases in airfares and lease rates. Along with high demand from international travel in 2H24F and stable fuel prices at high levels, the high-fare environment continues.

Stable fuel prices favor airlines

Stable fuel prices and a high airfare environment are catalysts supporting HVN and VJC's core operating margins in 2024F, however, we believe their core OP margins couldn't recover to pre-pandemic level yet as fuel prices are much higher compared to that period.

Risks to consider: (1) geopolitical tensions, (2) early overhaul

Geopolitical tensions in the world may cause oil prices to fluctuate significantly and disrupt international flight operations, which will negatively impact airlines' cost control and the economics of international flights in 2H24. HVN and VJC's fleet utilization has reached historical heights, tighter flight schedules may result in early overhauls, more jets out of service, and mess up their operations.

Although optimistic for the 2H 2024, stock valuations are no longer attractive

Although there is a generally optimistic view for the second half of 2024, according to the consensus, we believe that the value of HVN (-26.9%) is not particularly appealing. However, VJC still has the potential to increase prices by 20%.

Table 1. Coverage valuation

Recommendation & TP			Earning & Valuation										
Company			Sales	OP	NP	EPS	BPS	ROE	ROA	PE	PB	EV/EBITD A	
			(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(%)	(%)	(x)	(x)	(x)	
Vietnam Airlines JSC (HVN)	TP	N/A	2019A	98,228	1.5	2,450	2,537	12,795	12.9	8.7	26.3	2.4	8.2
	Price	32,400	2020A	40,538	(58.7)	(11,898)	(11,178)	4,464	(89.3)	0.1	(3.0)	5.1	(8.1)
	Market cap (VND bn)	75,732	2021A	27,911	(31.1)	(13,231)	(13,279)	680	(329.4)	0.2	(2.5)	21.5	(5.9)
			2022A	70,410	152.3	(11,218)	(11,223)	(5,222)	224.7	(3.8)	(2.4)	(2.4)	(12.5)
			2023A	91,540	30.0	(5,978)	(5,632)	(7,910)	40.8	0.3	(12.1)	(4.1)	28.6
Vietjet Air JSC (VJC)	TP	N/A	2019A	50,603	3,848	3,807	6,326	27,511	26.3	8.7	20.7	4.8	17.7
	Price	101,200	2020A	18,220	(2,018)	69	127	27,654	0.5	0.1	983.1	4.5	(31.5)
	Market cap (VND bn)	54,811	2021A	12,875	172	80	138	31,082	0.5	0.2	782.1	3.8	(24.7)
			2022A	40,142	(3,701)	(2,262)	(4,177)	27,470	(14.3)	(3.8)	(25.3)	3.8	(21.9)
			2023A	58,341	184	231	426	28,123	1.5	0.3	244.3	3.7	(711.3)

Source: Company Data, KISVN

Table 2: 2H24 business results

(VNDbn, %, %p)

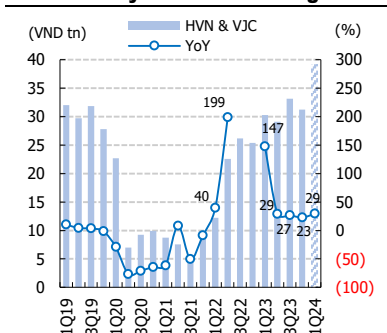
	Revenue			NPAT		
	2H24F	YoY	QoQ	2H24F	YoY	QoQ
HVN	49,188	4	(0)	1,055	back to be positive	(43)
VJC	32,418	(2)	(2)	2,155	509	199
KIS coverage list	81,607	1	(1)	3,210	back to be positive	(22)

Source: Company data, KISVN

II. 1H24 - Unfavorable conditions benefit big players

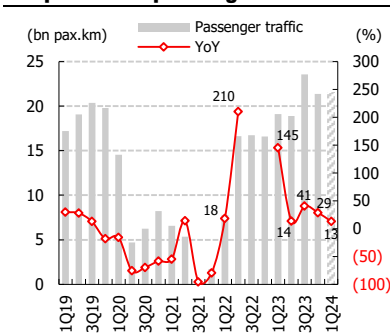
The airline industry revenue in 1Q24 (represented by VJC and HVN with 80-90% of total flights operated by Vietnamese airlines) increased 29% YoY even though 1Q23 revenue was close to the pre-pandemic level thanks to higher traffic from international travel level (Figure 1). Sharply increased airfares result from a less competitive market and aircraft shortage also helped big airlines improve their core operating margins.

Figure 1. HVN & VJC's 1Q24 revenue was lifted by international segment



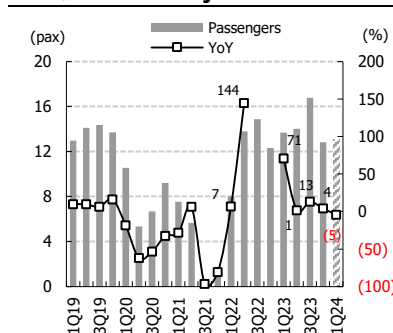
Note: 3Q22 (+471% YoY), 4Q22 (+181% YoY); Revenue from transportation and ancillary
Source: VJC, HVN, KISVN

Figure 2. 1Q24 traffic went up 13% despite lower passengers



Note: 3Q22 (+5,617% YoY), 4Q22 (+868% YoY)
Source: GSO, KISVN

Figure 3. The number of air passengers in 1Q24 declined by 5%



Note: 3Q22 (+6,641% YoY), 4Q22 (+598% YoY)
Source: GSO, KISVN

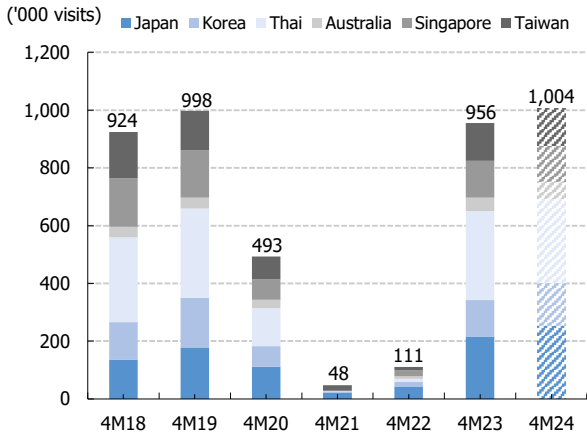
International flights boost air traffic while capacity shortage challenges passenger growth

Vietnam's air transportation recovered in 2023 as air passengers and air traffic numbers surpassed pre-pandemic levels with air traffic showing stronger growth than air passenger growth. The airline industry showed surprising numbers as air traffic increased 13% YoY, while air passengers in 1Q24 declined by 5% YoY (Figure 2, 3). The 1Q24 earnings result of VJC and HVN helps explain these numbers as the international segment revenue of VJC and HVN went up 82% and 30% YoY, respectively.

Vietnamese airlines have been expanding their operations to the international market with new routes opening and higher frequencies. This expansion allowed airlines to capture the growing international travel demand and eased visa policies attracting more inbound tourists (Figure 4, 5). However, the structure of international visitors has changed in 5M24 as the new visa policy attracted more tourists from minor markets, the Korean outbound shows resilience while the Chinese outbound struggles to recover due to the strict Zero-covid policy (Figure 6).

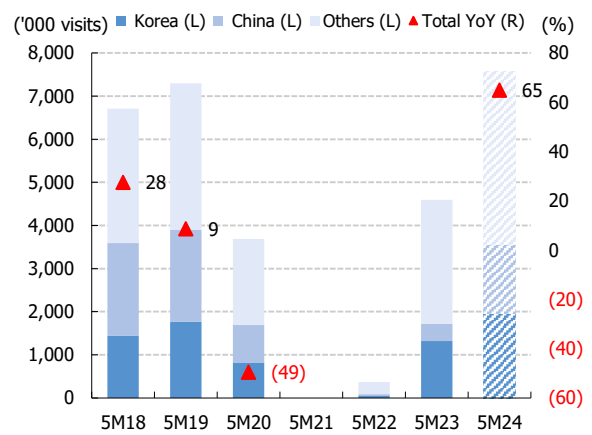
In 2Q24, the number of seat capacity in Vietnam decreased by 2.4mn seats (-12.6% YoY), the seats added according to Vietnam Airlines' announcement will not be enough to offset the lost capacity and we believe that the higher fare environment will continue to mid-2025 (Figure 7).

Figure 4. Vietnamese tourists' outbound travel demand bounces back quickly



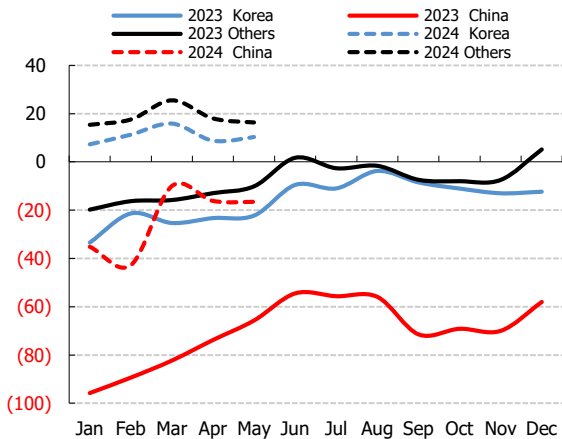
Note: These are selected countries that KISVN can collect
 Source: Japan National Tourism Organization (JNTO), Korea Tourism Organization (KTO), Tourism Authority of Thailand (TAT), Australia Bureau of Statistics (ABS), Singapore Tourism Board (STB), National Statistic of Taiwan, KISVN

Figure 5. 5M24 inbound travel: international arrivals surpass 5M19 as China quadrupled 5M23



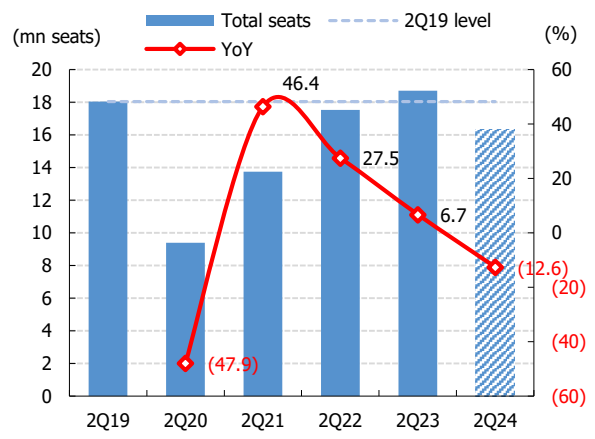
Note: 5M21 declined 100%, 5M22 grew 1,158% due to travel restrictions
 Source: Vietnam National Administration of Tourism (VNAT), KISVN

Figure 6. Korea's resilience, China's bounceback, and the rise of other markets drive inbound growth



Note: Growth vs 2019 levels
 Source: VNAT, KISVN

Figure 7. Vietnam's total seats in 2Q24 drop 12.6% YoY, aircraft shortage challenges capacity growth



Note: Total seats refers to the seats available on flights from/to Vietnam
 Source: OAG, KISVN

Airfare increases are attributed to a shortage of aircraft and the subsequent cost passthrough by airlines

Vietnam's seat supply declines as Bamboo Airways curtails its operation, Pacific Airlines returns all its fleet and 22 Airbus were grounded for maintenance. The lower seat supply while travel demand is coming back has driven airfares up in 1Q24 (Table 1). Not only in Vietnam, airfares are rising around the world due to aircraft shortages (Figure 8).

IBA Group's research pointed out that with the current situation, it is difficult for manufacturers to keep up with the increasing demand for MRO services and new-built aircraft. The supply shortage according to IBA will plateau between 2025-2027. The higher interest rates environment led to higher funding costs for lessors and they were passing these costs to airlines by charging higher lease rates, airlines

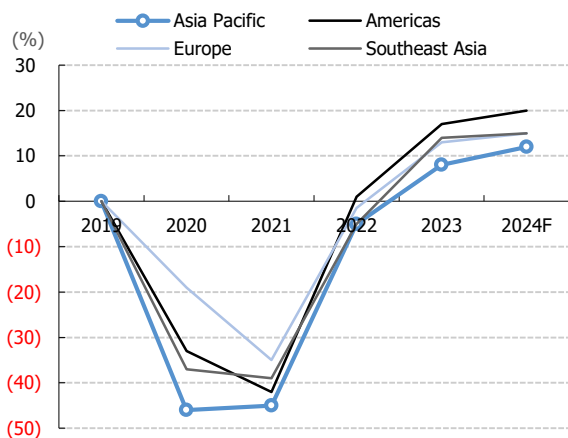
then may pass higher lease rates to passengers by pricing their tickets higher. Lease rates for new technology narrow-body models are forecasted to increase 9.3-15.9% from January to July 2024 (Figure 9).

Table 3. Average economy airfare on major domestic routes 4M24

Route	Average fares (VND mn)	YoY (%)
Ha Noi – HCMC (HAN-SGN)		
Vietnam Airlines	2.64	14
Vietjet Air	1.74	25
Bamboo Airways	2.00	11
Vietravel Airlines	1.50	15
Regulated cap price (Circular 34/2023)	3.40	
Ha Noi/HCMC – Da Nang (HAN/SGN-DAD)		
Vietnam Airlines	1.80	17-26
Vietjet Air	1.30-1.50	32-38
Bamboo Airways	1.30-1.60	13-29
Vietravel Airlines	1.10-1.40	14-20
Regulated cap price (Circular 34/2023)	2.89	

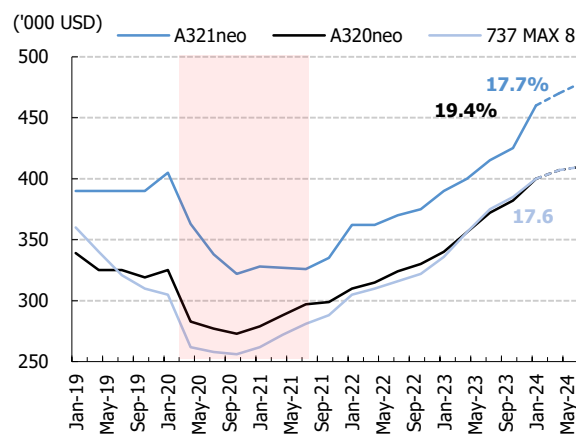
Source: CAAV

Figure 8. Airfares are rising around the world, first from travel demand, now from capacity shortage



Note: Percentage change is benchmarked to 2019 levels
Source: IATA/Tourism Economics, Air Passenger Forecast

Figure 9. Monthly lease rates for new-built narrowbodies are expected to keep rising

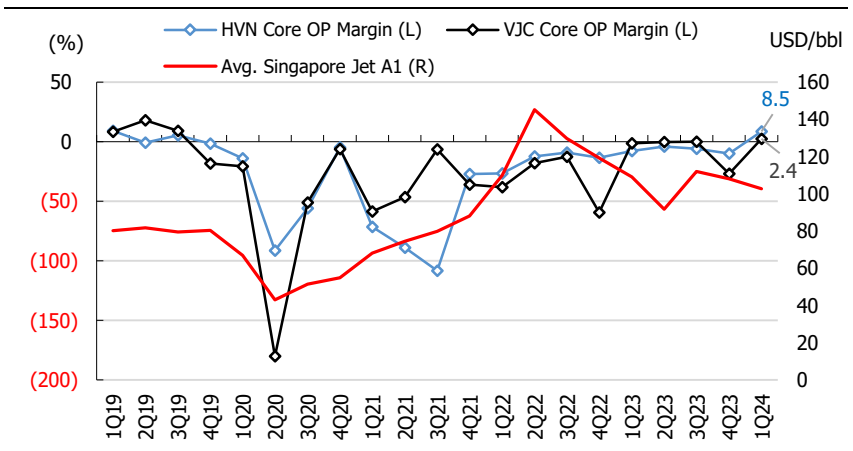


Note: The red area indicates the pandemic period
Source: IBA Group

Eased jet fuel costs favor airlines’ core operating margin

Fuel accounts for the majority of input costs for airlines that largely impact their operations, accounting for 30-40% (Figure 11). The 2020 - 2022 period was difficult for airlines when fuel prices were low during travel restrictions, and when travel demand returned, oil prices hiked due to global political tensions, causing their core OP margins to become negative. From the beginning of 2023, jet fuel prices have been cooling down and remained stable along with the return of travel demand, helping companies' profit margins gradually improve until 1Q24 when they became positive again and started to make a profit (Figure 10). Jet fuel prices in 2Q24 are stable at around USD100/bbl, and we expect VJC and HVN’s core OP margin in 2Q24F to stay in positive territory (Figure 12).

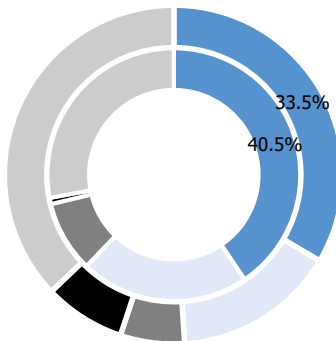
Figure 10. Core OP Margin: Eased jet fuel enhanced OP Margin



Note: We use HVN parent company data since HVN group includes many subsidiaries that may distort its core OPM
Source: Bloomberg, Company data, KISVN

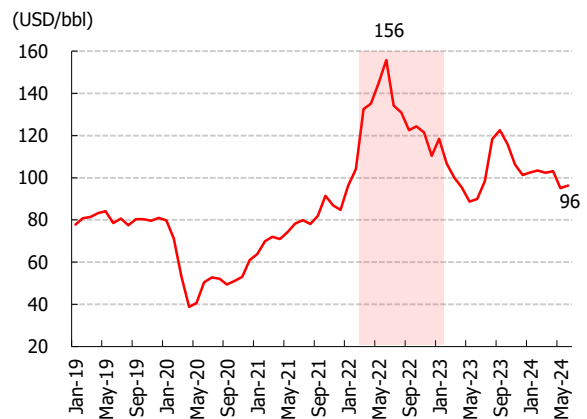
Figure 11. Fuel accounts for lots of operating costs

■ Fuel ■ Leases ■ Labor ■ Depreciation ■ Outside services



Note: Outside round represents HVN, inside round represents VJC
Source: Company 2023 data, KISVN

Figure 12. Jet fuel prices cool down and stable



Note: The red area represents the oil spike after the Russia-Ukraine war
Source: Bloomberg, KISVN

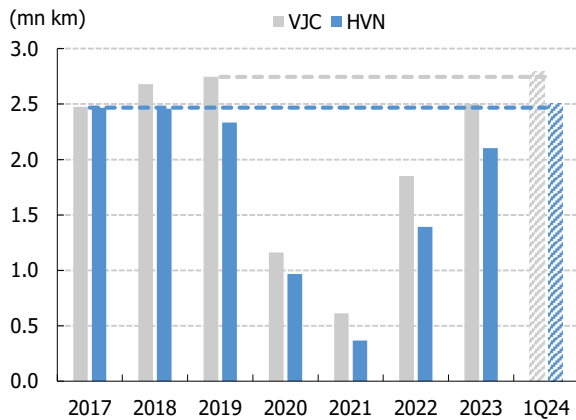
III. The high-fare environment continues in 2H24

Momentum from international travel demand continues while capacity shortage challenges passenger growth

Despite aircraft shortage, Vietnamese airlines still managed to keep passengers carried decline at a shallow rate (-1.5% YoY in 5M24). Our estimate of average aircraft flown distance per year shows that VJC and HVN have pushed their fleets beyond historical heights, which indicates that these airlines could barely carry many more passengers without larger fleets (Figure 13).

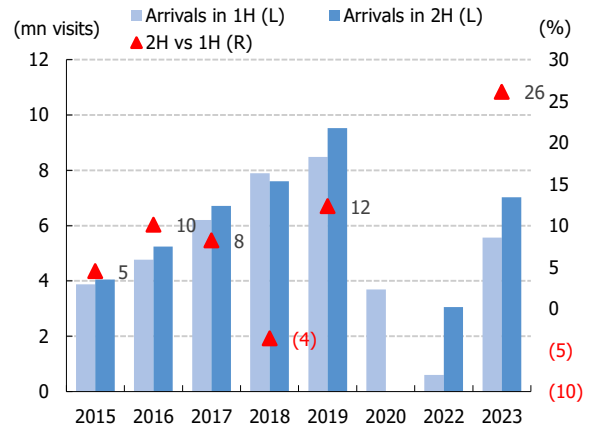
However, with the higher travel demand from the international market and China during summer vacation, we forecast 1% YoY air passenger growth for 2H24 (Figure 16). We expect airlines may have higher load factors and lease temporary aircraft to meet higher demand as they can pass higher costs to international passengers. For the same reasons, we forecast air traffic in 2H24 to increase 13% YoY (Figure 15).

Figure 13. Vietnamese airlines are pushing aircraft's flown distance



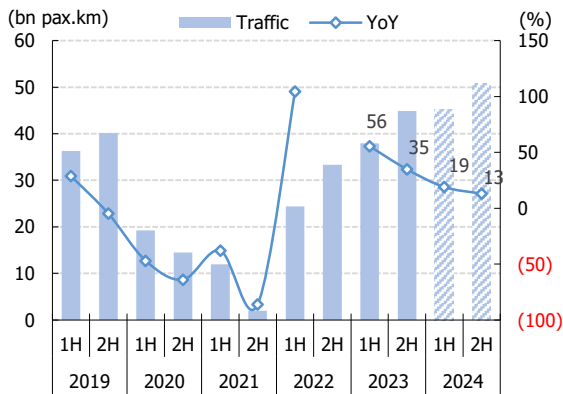
Note: Airfare increase in 1Q24 is excluded from our calculation for better estimate
Source: Company data, KISVN

Figure 14. Overseas arrivals are usually higher in the second half of the year



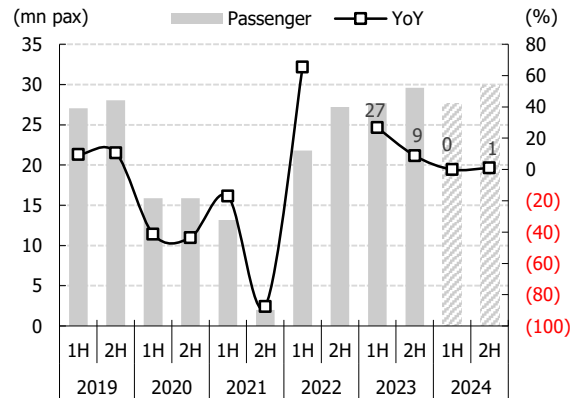
Note: Pleasant weather and summer vacation are reasons for more overseas arrivals
Source: GSO, KISVN

Figure 15. Momentum from international travel demand keeps air traffic growing but at a lower rate



Note: Air traffic in 2H22 increases 1,562% YoY due to 2H21 low base
Source: GSO, KISVN

Figure 16. We forecast weak passenger growth due to a capacity shortage



Note: Air passengers in 2H22 increases 1,270% YoY due to 2H21 low base
Source: GSO, KISVN

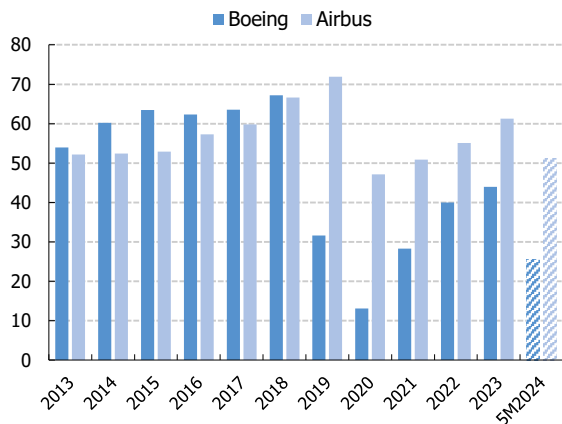
The aircraft shortage is a long-term problem and the capacity shortage in Vietnam continues

We believe the FAA's halt on production of Boeing 737 Max will last at least 1 year since the 737 Max was banned for nearly 2 years from March 2019 to November 2020 due to quality issues. The disruptive supply chain causes longer inspection and maintenance time for PW1000G engines despite RTX's ramp-up in MRO capacity expansion plans. Boeing and Airbus's lower production rates since the pandemic

now encounter additional problems, causing the supply of new aircraft to the market to decrease (Figure 14). The emergence of LCCs around the world requires younger fleets (10-15 years old), which led to increasing demand for new-built aircraft over the last decade. The share of the young fleet plateaued in 2009, and 15 years later, the beginning of fleet renewal demand now worsens the supply shortage (Figure 16), and the rising airfares around the world. However, the number of grounded GTF-powered jets peaked in March 2024, suggesting that some of those grounded jets will return to service this year (Figure 15).

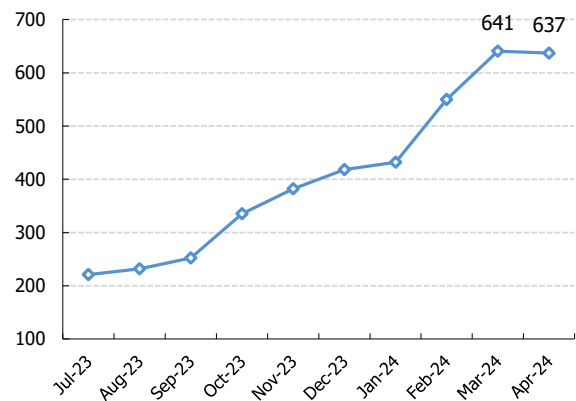
According to CAAV, VJC will not receive additional aircraft, while HVN will receive 2 Boeing 787s and 3 leased Airbus for 2H24. We believe the added seats from the new aircraft won't be able to offset the lost capacity and the high-fare environment could last until mid-2025.

Figure 14. Boeing and Airbus' average deliveries a month fall far from pre-pandemic years



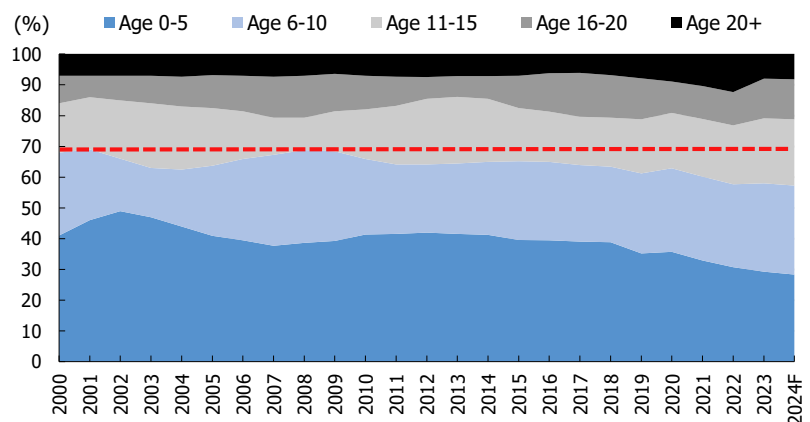
Note: Deliveries for all models
Source: Boeing, Airbus, KISVN

Figure 15. The number of grounded GTF-powered aircraft plateaued at 641 in March



Note: Aircraft are grounded for various reasons
Source: Cirium

Figure 16. Airbus and Boeing's narrowbody fleet's age is getting older



Source: Cirium, SMBC Aviation Capital

Jet fuel prices remain stable around USD100/bbl and airlines' OP margin can stay in the positive territory

EIA lowered the oil prices outlook in 2024 for Brent oil to USD84/bbl and WTI to USD79.7/bbl, the stable trend would remain in 2025 with Brent prices averaging at USD85.38/bbl and WTI prices average at USD80.88/bbl. This means that jet fuel prices can remain stable during 2H24 and 2025. The stable fuel prices favor airlines by allowing better budgeting and business planning, however, the prices are higher than pre-pandemic levels suggesting the increasing core OP margins but lower than pre-pandemic levels.

IV. Risks to be considered

Geopolitical tensions in the world may cause oil prices to fluctuate significantly compared to our expectation of stable fuel prices and disrupt international flight operations, which will negatively impact airlines' cost control and the economics of international flights in 2H24. As we mentioned, HVN and VJC's fleet utilization has reached historical heights, tighter flight schedules may result in early overhauls, more jets out of service and mess up their operations.

Company Analysis

Vietnam Airlines JSC

HVN

Vietjet Air JSC

VJC

Vietnam Airlines JSC (HVN)

NON-RATED

Stock price (Jul 4, VND)	34,200	Yr to	Sales	OP	NP	EPS	% chg	BPS	PE	P/B	ROA	ROE	DY
Market cap (USD mn)	2,975	Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(yoy)	(VND)	(x)	(x)	(x)	(%)	(%)
Shares outstanding (mn)	2,214	2019A	98,228	1.5	2,450	2,537	1,172	12,795	26.3	2.4	8.7	12.9	0.0
52-Week high/low (VND)	35,450/10,200	2020A	40,538	(58.7)	(11,898)	(11,178)	(7,704)	4,464	(3.0)	5.1	0.1	(89.3)	0.0
6M avg. daily turnover (USD mn)	2.45	2021A	27,911	(31.1)	(13,231)	(13,279)	-	680	(2.5)	21.5	0.2	(329.4)	0.0
Free float / Foreign ownership (%)	8.0/7.1	2022A	70,410	152.3	(11,218)	(11,223)	-	(5,222)	(2.4)	(2.4)	(3.8)	224.7	0.0
Major shareholders (%)		2023A	91,540	30.0	(5,978)	(5,632)	-	(7,910)	(12.1)	(4.1)	0.3	40.8	0.0
Commission for State Capital (CMSC)	55.2												
State Capital Investment Corp (SCIC)	31.1												

Source: Company data, KIS Research

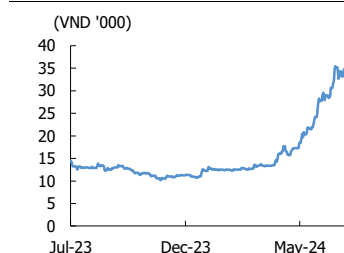
Note: NP and EPS attributed to controlling interest

Core business can generate profits again

Performance

	1M	6M	12M
Absolute (%)	15.7	162.1	136.7
Rel. to VNI (%p)	15.9	150.0	121.5

Stock price



Source: Bloomberg

Record NPAT thanks to debt write-off. In 1Q24, HVN reported VND28.0tn net revenue (+20% YoY), VND4.4tn NPAT (turnaround), and a positive core OP margin. The improvement in HVN's business results was mainly thanks to higher air traffic (from international travel demand) and better yields (results from eased competition and aircraft shortage).

Table 4. HVN earnings forecast

(VNDbn, %)

	2H23A	1H24F	2H24F	2024F		Consensus			
				YoY	QoQ	YoY	1H24F	2024F	
Revenue	47,400	49,320	49,188	4	0	98,508	8	-	111,431
Air transport	38,732	41,100	40,652	5	(1)	81,751	9	-	-
Goods and others	8,668	8,220	8,537	(2)	4	16,757	4	-	-
NPAT	(4,186)	3,771	2,155	-	(43)	5,927	-	-	7,904

Note: We use effective tax rate in 1Q24 to project 2024F NPAT; USD/VND = 25,000; Jet fuel price = USD103/bbl
Source: Company data, Bloomberg, KISVN estimate

Airfares remain high and increasing international demand. Revenue and NPAT in 2024F could reach VND98.5tn (+8% YoY) and VND5.9tn (turnaround), respectively.

- *High airfare and international travel demand save HVN's growth:* international travel demand and high airfare environment support growth despite PA's curtailed operation.
- *Subsidiaries' goods and services:* HVN's subsidiaries rely solely on air passenger growth (we forecast weak growth in 2H24), however, HVN can take market share from weak players.

HVN is currently trading at 21 EV/EBITDA, which is close to +2.9 all-time standard deviation and its current market price is higher than the consensus target price VND25,000 (Bloomberg) by 36.8%.

Risks: Escalated geopolitical events may lead to higher USD/VND rates, fuel prices and flight rescheduling, which will largely impact airlines' revenue and profits.

Vietjet Air JSC (VJC)

NON-RATED

Stock price (Jul 4, VND)	101,200
Market cap (USD mn)	2,153
Shares outstanding (mn)	542
52-Week high/low (VND)	118,800/93,800
6M avg. daily turnover (USD mn)	3.46
Free float / Foreign ownership (%)	51.6/16.5
Major shareholders (%)	
Sunny Huong Duong Investment	28.6
Nguyen Thi Phuong Thao	8.8

Yr to	Sales	OP	NP	EPS	% chg	BPS	PE	P/B	ROA	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(yoy)	(VND)	(x)	(x)	(x)	(%)	(%)
2019A	50,603	3,848	3,807	6,326	(36)	27,511	20.7	4.8	8.7	26.3	0.7
2020A	18,220	(2,018)	69	127	(98)	27,654	983.1	4.5	0.1	0.5	0.0
2021A	12,875	172	80	138	9	31,082	782.1	3.8	0.2	0.5	0.0
2022A	40,142	(3,701)	(2,262)	(4,177)	(3,133)	27,470	(25.3)	3.8	(3.8)	(14.3)	0.0
2023A	58,341	184	231	426	-	28,123	244.3	3.7	0.3	1.5	0.0

Source: Company data, KIS Research

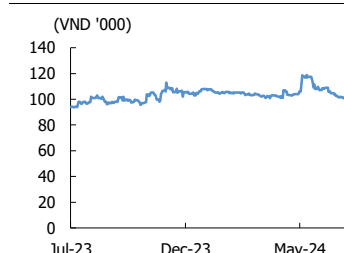
Note: NP and EPS attributed to controlling interest

The international expansion has brought VJC success

Performance

	1M	6M	12M
Absolute (%)	(6.6)	(6.1)	7.5
Rel. to VNI (%p)	(6.5)	(18.2)	(7.6)

Stock price



Source: Bloomberg

International segment lifted air core revenue. In 1Q24, VJC reported VND17.8tn revenue (+38% YoY), VND539bn NPAT (+212% YoY) and positive core OP margin. VJC's impressive business results was contributed by strong growth from its international segment (+82% YoY).

Table 5. VJC earnings forecast

(VNDbn, %)

	2H23A	1H24F	2H24F		2024F		Consensus	
			YoY	QoQ		YoY	2H24F	2024F
Revenue	33,032	33,137	32,418	(2)	(2)	65,556	5	75,462
Air transport	25,670	30,538	31,317	22	3	61,855	28	-
Sales & leaseback and others	7,362	2,599	1,101	(85)	(58)	3,701	(74)	-
NPAT	207	353	1,055	410	199	1,408	310	1,690

Note: We use effective tax rate in 1Q24 to project 2024F NPAT; USD/VND = 25,000; Jet fuel price = USD103/bbl
Source: Company data, Bloomberg, KISVN estimate

Higher yield from international segment. Revenue and NPAT in 2024F are forecasted to reach VND65.6tn (+5% yoy) and VND1.4tn (+310% yoy) respectively.

- *International segment:* international segment with higher yield and increasing demand drives VJC's revenue growth and higher core OP margin in 2H24F.
- *No SLB in last 3 quarters:* according to CAAV, VJC is not receiving additional aircraft, so revenue and profits from SLB transactions are not in our projection for 2Q24F and 2H24F.

VJC is currently trading at 35 EV/EBITDA, which is close to +3.0 all-time standard deviation. The consensus target price is VND122,150, which implies an upside of 20.7% from the current market price.

Risks: Escalated geopolitical events may lead to higher USD/VND rates, fuel prices and flight rescheduling, which will largely impact airlines' revenue and profits.

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