

Aviation

Competition arises in the international market

The international market continues to support air traffic in 3Q24 but less robust

In 3Q24, the aviation industry revenue (represented by HVN and VJC with 70-80% of total scheduled seats) increased 9% YoY thanks to higher air traffic (+7% YoY), but lower air passengers (-4% YoY). The recovery of Chinese tourists is lagging due to the weak economy and the government's stimulus to encourage domestic tourism, while other markets are resilient in 3Q24. HVN and VJC couldn't maintain their margins like in 1Q24 as people tend to be more flexible on their travel plans for summer, which suggests weak demand.

HVN – Slimmer body, higher profits

In 3Q24, HVN posted revenue of VND26.6tn (+13% YoY) and VND862bn NPAT (vs VND2.2tn NPAT loss in 3Q23). HVN carried 5.7mn passengers in 3Q24 (-12% YoY) despite the 14% YoY smaller fleet thanks to CAAV's increased flight schedules. GPM soared to 10.3% (+5.1%p YoY) and OPM widened to 4.7% (+7.2%p YoY). Unlike the Tet holiday in 1Q24, high airfares discouraged some from traveling by air for the summer holiday, HVN's lower GPM and OPM in 3Q24 vs in 1Q24 suggest weak demand. Thanks to fx gains and lower financial expenses, NPM jumped to 3.2% (+12.6%p YoY).

VJC – Aircraft sales and provision reversal

In 3Q24, VJC's net revenue rose to VND18.2tn (+28% YoY) and NPAT skyrocketed to VND571bn (10x vs 3Q23), but aircraft sales was the main driver of 3Q24 revenue and profits growth. VJC's international & charter segment did not perform well in 3Q24 (-17.4% YoY) due to fierce competition from other airlines in Southeast Asia (SEA). VJC's transport GPM jumped to 10.2% (+3.4%p YoY), we excluded VND295bn the provision reversal and OPM inched up to 3.6% (+0.5%p YoY). Additionally, financial expenses doubled in 3Q24 pulling NPM to stand at 3.1% (+2.8%p YoY). Aircraft sales from new deliveries would be the main driver of VJC's revenue and profit growth in 4Q24F.

Fierce competition in the winter market

Data from OAG indicated an international capacity run in 4Q24, this segment is heating up as tourists from the countries with cold weather in the latter months of the year are heading to SEA to enjoy warmer weather. In Oct-24, VJC received 2 A321neos, adding more seats to the market and bringing the total scheduled seats in Vietnam surpassed 2023. The 3Q24 earnings results of HVN and VJC revealed weaker margins than expected despite the busiest season of the year and 4Q24 would be tougher for both. The recent hike in USDVND rates could also deteriorate airlines' profits in 4Q24.

Non-rated

Company	Rating	TP (VND)
HVN	Non-rated	N/A
VJC	Non-rated	N/A

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Table 1. Coverage valuation

Recommendation & TP			Earning & Valuation										
Company				Sales	OP	NP	EPS	BPS	ROE	ROA	PE	PB	EV/EBI TDA
				(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(%)	(%)	(x)	(x)	(x)
Vietnam Airlines JSC (HVN)	TP	N/A	2019A	98,228	3,690	2,346	1,308	10,119	21	5.1	26.3	11.5	1.5
	Price	25,550	2020A	40,538	(10,954)	(10,927)	(6,094)	3,530	960	4.4	0.5	9.4	3.1
	Market cap (VND bn)	56,578	2021A	27,911	(12,937)	(12,908)	(6,960)	681	870	4.1	0.5	18.8	0.7
			2022A	70,410	(7,840)	(11,298)	(5,102)	(5,222)	956	4.0	(14.3)	-	-
			2023A	91,540	(2,587)	(5,930)	(2,678)	(7,910)	297	3.8	1.3	-	-
Vietjet Air JSC (VJC)	TP	N/A	2019A	50,603	4,184	3,807	7,053	28,445	20	3	13	11	1
	Price	102,000	2020A	18,220	(2,551)	69	130	28,592	-	6	(89)	8	2
	Market cap (VND bn)	55,244	2021A	12,875	(3,012)	75	147	31,082	-	34	(329)	8	3
			2022A	40,142	(3,464)	(2,262)	(4,178)	27,470	-	-	-	-	-
			2023A	58,341	(529)	197	363	28,123	-	-	-	-	-

Source: Company Data, KIS Research

Table 2: 3Q24 business results

(VNDbn, %, %p)

	Revenue			NPAT		
	3Q24	yoy	qoq	3Q24	yoy	qoq
HVN	26,600	12.9	8.1	862	-	(16.7)
VJC	18,164	27.6	11.9	571	929.0	93.2

Source: Company data, KIS Research

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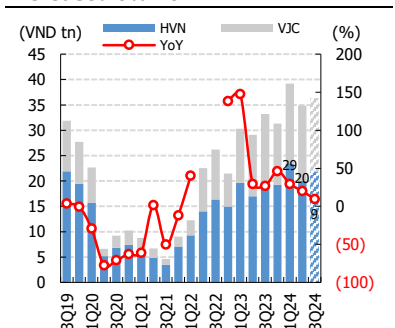
I. 3Q24 aviation overview

The international market continues to support air traffic in 3Q24 but less robust

In 3Q24, the aviation industry revenue (represented by HVN and VJC with 70-80% of total scheduled seats) increased 9% YoY thanks to higher air traffic (+7% YoY), but lower air passengers (-4% YoY). The two numbers diverge as higher airfares and adverse weather have changed passenger travel decisions while the eased visa policy keeps international traffic resilient and maintains traffic growth. As we mentioned in the [2H24 outlook report](#), HVN and VJC's aircraft utilization reached their historical high, and less room for revenue growth has led to international market exploitation. Hence, international traffic growth is tightly correlated with the industry growth in 3Q24 and 4Q24.

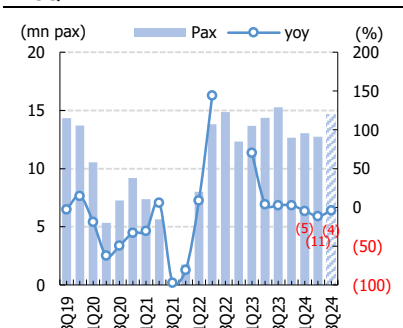
Total overseas arrivals in 3Q24 were 3.86mn (+17% yoy). We saw growth slowing down in 3Q24 from Korea and other countries, contrary to the good momentum in 1H24 due to storms, heavy rains, and competition from other SEA countries. The recovery of Chinese tourists is lagging (historical patterns always show 3Q as the busiest travel time for Chinese tourists) due to the weak economy and the government's stimulus to encourage domestic tourism, making domestic travel more appealing than traveling abroad. Figure 6 articulates the recovery trend, while other markets are resilient, the number of Chinese tourists plunged during 3Q24. Outbound travel posted negative growth in July and August (figure 5).

Figure 1. HVN & VJC's 3Q24 revenue increased 9% YoY



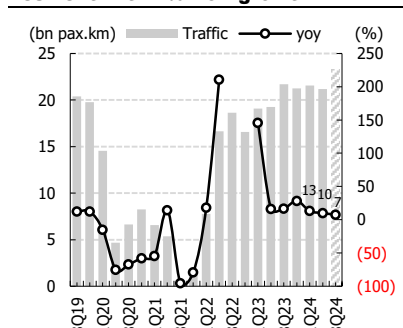
Note: 2Q22 (+236% YoY), 3Q22 (+471% YoY); Revenue from transportation and ancillary
Source: VJC, HVN, KIS Research

Figure 2. Air passengers down 4% YoY in 3Q24



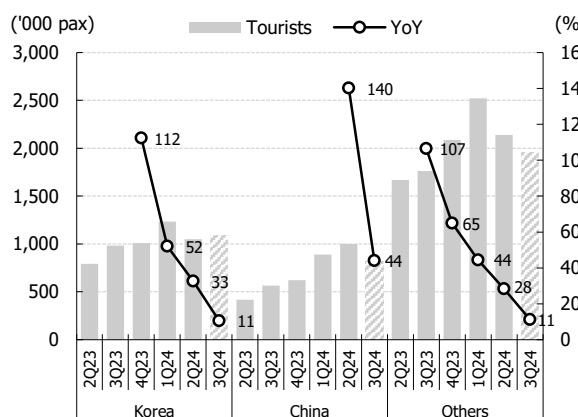
Note: 3Q22 (+6,262% YoY), 4Q22 (+868% YoY)
Source: GSO, KIS Research

Figure 3. 3Q24 air traffic remains resilient with 7% YoY growth



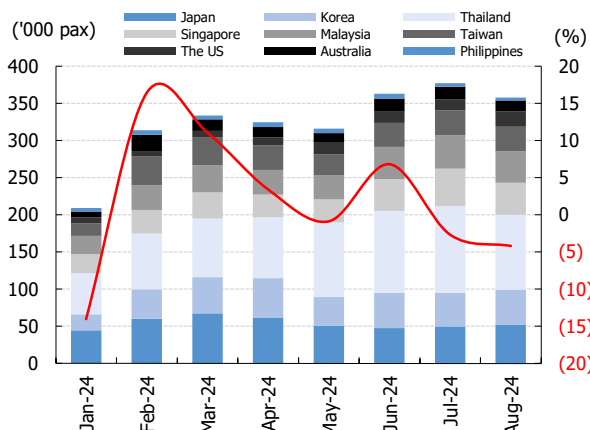
Note: 3Q22 (+6,625% YoY), 4Q22 (+598% YoY)
Source: GSO, KIS Research

Figure 4. China's recovery is lagging due to unusual travel pattern



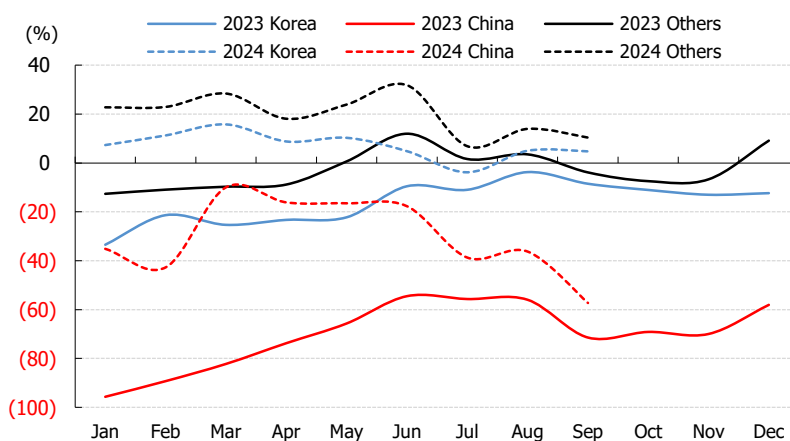
Source: VNAT, KIS Research

Figure 5. Vietnamese outbound travel slowed down in July and August



Note: These are countries that we can collect data
Source: Tourism Board of these countries, KIS Research

Figure 6. China recovery shortlived while other markets remained strong



Note: Growth vs same month in 2019
Source: VNAT, KISVN

Airfares increased but not enough to maintain margins

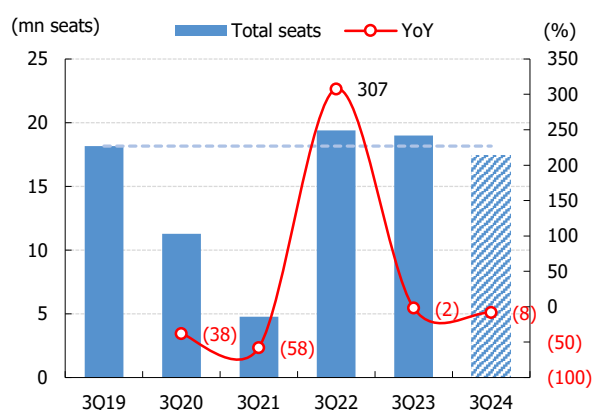
Vietnam's total scheduled seats in 3Q24 are down 8% YoY (figure 7), yet higher than the lowest seat decline of 14% YoY in Jun-24 (figure 15) as CAAV optimized slots and increased night flights. Similar to Vietnam, Asian countries are facing aircraft shortage and airfare hike (figure 9). Budget carriers' growth has made people in Southeast Asia (SEA) familiar with cheap flights, tables turned when aircraft shortage happened incurring weak economic growth, and domestic travel demand dropped. With strong international travel demand, higher yield, and chances to optimize flying time, SEA airlines quickly added more seats (+40% YoY) to meet the international demand. Therefore, heated up competition in this segment while domestic seats plunged 15% YoY in 3Q24 (figure 8).

HVN and VJC's OPM historically peak in 1Q (Tet holiday) or 3Q (summer break) thanks to the busy travel seasons. Passengers had no bargaining power returning home, but high airfare discouraged some people who wanted to travel by air during summertime (especially budget travelers). Both HVN and VJC

couldn't maintain high OPM as they had in 1Q24 due to weak domestic demand and increasing competition in the international market. With a less price-sensitive customer base, HVN's OPM in 3Q24 was slightly lower than pre-pandemic OPM. Focus on budget travelers and its strategy towards the international market, VJC's OPM in 3Q24 was lower than the pre-pandemic level (Figure 10).

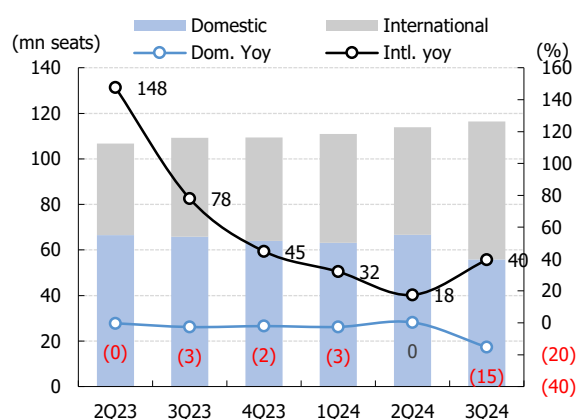
The weak economy of China put downward pressure on global oil demand and jet fuel prices fell close to pre-pandemic levels (figure 10). In the context of weak domestic air travel demand and increasing competition in the international market, eased jet fuel doesn't help airlines improve their profit margins, otherwise, allowing more aggressive pricing to get a slice of international traffic.

Figure 7. Vietnam scheduled seats in 3Q24 downed 8% YoY



Note: Seats available on flights from/to Vietnam
Source: OAG, KIS Research

Figure 8. Airlines have been adding international seats due to weak domestic market



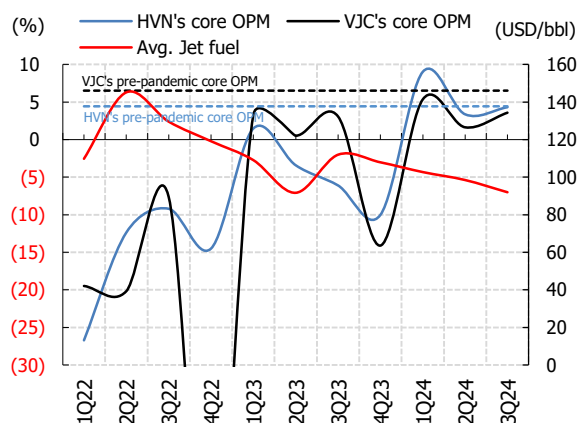
Source: OAG, KIS Research

Figure 9. Significant airfares rise across APAC due to aircraft shortage

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
0	19%	28%	30%	21%	22%	22%	17%	22%	27%
1	19%	27%	31%	18%	19%	22%	15%	20%	28%
2	20%	27%	35%	22%	22%	25%	16%	20%	28%
3	21%	27%	35%	24%	22%	26%	18%	19%	29%
4	19%	26%	33%	24%	20%	25%	19%	17%	27%
5	19%	27%	33%	23%	22%	26%	20%	18%	27%
6	18%	27%	31%	24%	24%	27%	23%	18%	26%
7	18%	27%	31%	23%	25%	26%	23%	19%	25%
8	19%	26%	32%	25%	26%	25%	23%	20%	24%

Note: Compared to the same departure month and weeks pre-book in 2019
Source: Infare, KIS Research

Figure 10. Jet fuel in 3Q24 declined 7% QoQ, but margins didn't expand due to fierce competition

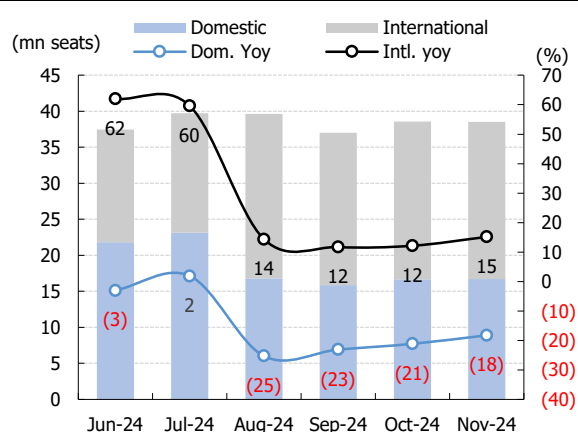


Note: We use HVN parent company data for better comparison
Source: Bloomberg, Company data, KIS Research

II. Fierce competition in the winter market

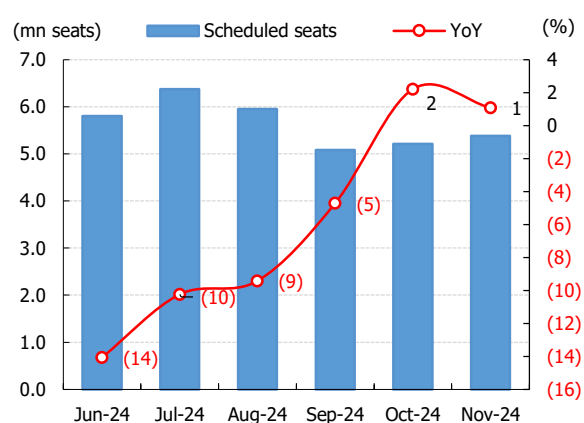
Data from OAG indicated an international capacity run in 4Q24 (figure 10), this segment is heating up as tourists from the countries with cold weather in the latter months of the year are heading to SEA to enjoy warmer weather. In Oct-24, VJC received 2 A321neos, adding more seats to the market and bringing the total scheduled seats in Vietnam to surpass the same months in 2023 (figure 11). The 3Q24 earnings results of HVN and VJC revealed weaker margins than expected despite the year's busiest season and high airfare. Yields were not increasing for both, VJC is also facing a decline in its international revenue as SEA airlines increased supply and VJC couldn't enjoy high yield as it did in 1H24. 4Q24 would be tougher for both, but at least for HVN as a legacy carrier with a less price-sensitive customer base HVN could still do well, VJC faced a harder truth that yields are lower as new supply is coming into the market. Another risk regarding USDVND rates is that as the two airlines are heavily financing and leasing under USD, the significant rise in USDVND rates recently could deteriorate profit growth in 4Q24 for both.

Figure 10. SEA airlines added more international seats in 4Q24



Source: OAG, KIS Research

Figure 11. Vietnam's total seats have recovered for 2 months



Source: OAG, KIS Research

III. 3Q24 business results of listed enterprises

HVN – Slimmer body, bigger profits

In 3Q24, HVN posted revenue of VND26.6tn (+13% YoY) and VND862bn NPAT (vs VND2.2tn NPAT loss in 3Q23). HVN carried 5.7mn passengers in 3Q24 (-12% YoY) despite the 14% YoY smaller fleet thanks to CAAV's increased flight schedules. See the earnings breakdown in Table 3:

Table 3. HVN's 3Q24 earnings breakdown (VND bn, %)

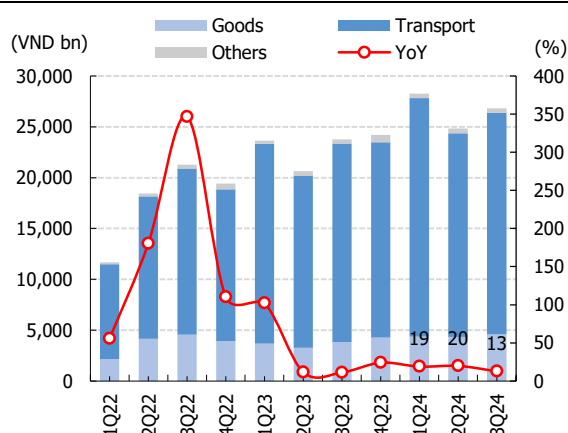
	3Q24	3Q23	YoY
Revenue	26,600	23,569	12.9
Transport	20,565	18,779	9.5
Sales of goods	4,575	3,847	18.9
Auxiliaries	1,224	715	71.1
Others	466	412	13.1
Gross profit	2,744	1,240	121.3
Operating profits	1,167	(674)	-
NPAT	862	(2,203)	-

Around 83 aircraft were operated during 3Q24 (-14% YoY), HVN carried 5.7mn pax (-12% YoY)

Source: Company Data, KIS Research

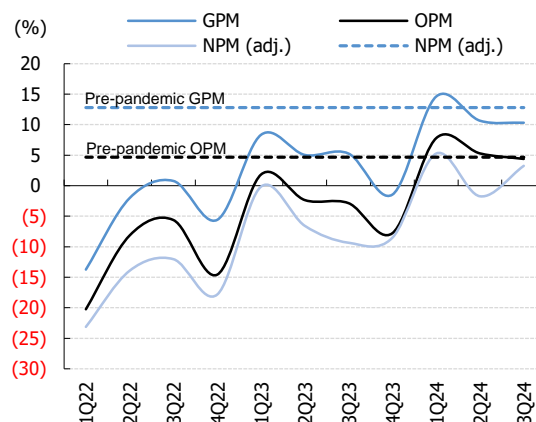
HVN's margins in 3Q24 all improved compared to 3Q23. GPM soared to 10.3% (-0.3%p QoQ, +5.1%p YoY) as international traffic remained strong. SG&A expenses shrank to VND1.6tn (vs VND1.9bn in 3Q23) yet higher than VND1.58tn in 2Q24, OPM widen on YoY basis (+7.2%p) yet lower on QoQ basis (-0.9%p). As people are more flexible on their summer travel than during the Tet holiday, higher airfares discourage some people from air traveling, HVN's lower GPM and OPM in 3Q24 vs in 1Q24 suggest weaker demand. Large write-off in debt and financial obligations resulted in lower financial expenses, HVN also recorded VND387bn fx gains (vs VND936bn fx loss in 3Q23) as USD/VND rate cooled down, NPM jumped to 3.2% (+5.0%p QoQ, +12.6%p YoY).

Figure 12. HVN's 3Q24 net revenue up 13% YoY



Source: Company Data, KIS Research

Figure 13. GPM and OPM declined but NPM turned positive thanks to fx gains



Note: We excluded debt write-off gains
Source: Company Data, KIS Research

VJC – Aircraft sales and provision reversal

In 3Q24, VJC's net revenue rose to VND18.2tn (+28% YoY) and NPAT skyrocketed to VND571bn, but aircraft sales was the main driver of 3Q24 revenue and profits growth. Despite having a 9% YoY smaller fleet, VJC still carried 6.5mn passengers (-4% YoY) thanks to CAAV's increased flight schedule. See the earnings breakdown in Table 4:

Table 4. VJC's 3Q24 earnings breakdown

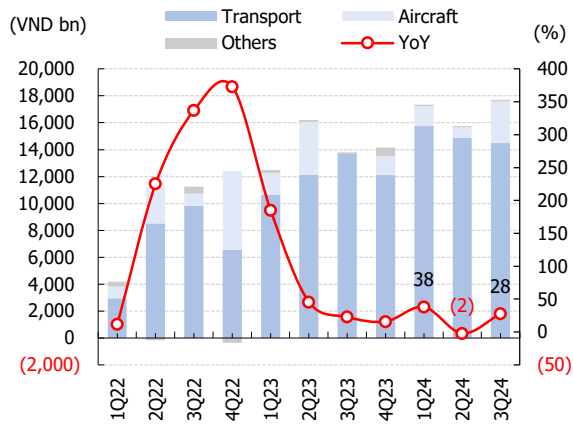
(VND bn, %)

	3Q24	3Q23	YoY	
Revenue	18,164	14,235	27.6	
Transport	14,499	13,684	6.0	<i>Around 75 aircraft were operated during 3Q24 (-9% YoY), VJC carried 6.5mn pax (-4% YoY)</i>
Domestic	3,553	2,718	30.7	<i>Carried 4mn pax (-12% YoY)</i>
International & charter	4,825	5,842	(17.4)	<i>Carried 2.5mn pax (+10% YoY). International revenue up 3% YoY, however, charter flights plummet dragged this segment to drop 17.4% YoY as competition increased</i>
Cargo & Ancillary	6,121	5,125	19.4	
Aircraft	3,081	-	-	<i>VJC received 1 A321neo in Sep-24</i>
Dry lease	470	446	5.4	
Others	115	104	9.8	
Gross profit	2,202	1,241	77.5	
Transport	1,529	1,225	24.8	
Aircraft	653	-	-	
Others	21	15	35.0	
Operating profits	1,490	440	237.7	
NPAT	571	55	929.0	

Source: Company Data, KIS Research

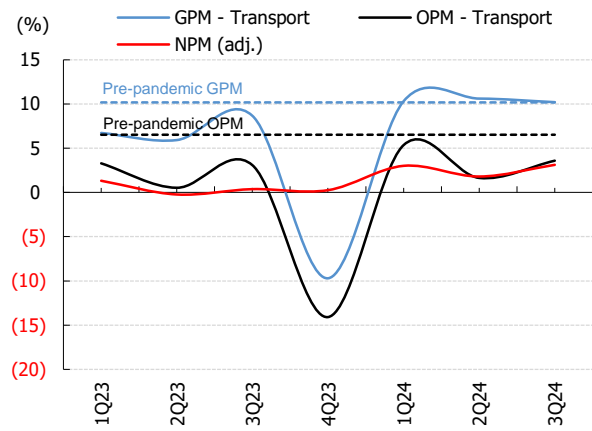
VJC's transport GPM jumped to 10.2% (-0.2%p QoQ, +3.4%p YoY) thanks to higher fares and better aircraft utilization in the context of increased flight schedules. SG&A expenses were reduced to VND713bn (vs VND801bn in 3Q23) as VJC reversed a VND295bn provision, which overstated VJC's transport operating profits and OPM. We excluded the provision reversal and OPM inched up to 3.6% (+1.9%p QoQ, +0.5%p YoY) in 3Q24. VJC's GPM and OPM in 3Q24 are lower than in 1Q24, suggesting weaker demand. Moreover, VJC's international & charter segment did not perform well in 3Q24 (-17.4% YoY) due to fierce competition from SEA airlines, low-cost business model now made it harder for VJC as other low-cost carriers also wanted a bigger piece of the international market. Late payment fines caused financial expenses to double in 3Q24 to VND1.1tn (vs VND548bn in 3Q23) but thanks to gains from aircraft sales, NPM increased to 3.1% (+1.3%p QoQ, +2.8%p YoY). According to Planespotters, at least 3 more A321neos are ready to deliver to VJC, new supply from VJC would drive fares down and increase competition. We find this an action to prepare for the Tet holiday but with weak domestic demand and fierce competition in the international market currently, gains from aircraft sales would be the main driver of 4Q24F profits, not its transportation segment.

Figure 14. VJC's revenue up 28% YoY, mostly from aircraft sales



Note: Large aircraft sales in 2Q23 led to negative growth in 2Q24
 Source: Company Data, KIS Research

Figure 15. VJC couldn't maintain high margin it had in 1Q24



Note: We added back the VND295bn provision reversal in calculation
 Source: Company Data, KIS Research

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