

# VEAM Corporation (VEA VN)

## A good proxy to rising auto penetration in Vietnam

### Initiate with BUY and 35% upside; 9-10% dividend

With more than 80% of operating income derived from auto JVs with Toyota, Honda, and Ford, we see VEA as a good proxy to Vietnam's burgeoning auto component sector. We initiate with a BUY on a DCF-based TP of VND 61,000, translating to 35% upside. Our valuation is underpinned by a 26% ROE and a decent 9-10% pa dividend yield in the next five years, i.e. among the best in the market. The motorbike segment is already a cash cow, while automobiles should become a growth engine on rising consumption and auto penetration. A potential divestment by the Ministry of Finance (MoF) would be a strong catalyst for the stock.

### Auto segment driving growth

We project the automobile segment to effortlessly see 16% profit CAGR in 2022-26 due to under-penetration of autos in Vietnam vs. regional markets and steady projected GDP per capita growth of 10% pa. A rising middle class and booming infrastructure projects should help fuel demand for automobiles. With its leadership in auto JVs, VEA should be a key beneficiary of these trends. We expect the auto segment, which contributed 13% of FY21 operating profit, to post a CAGR of 16% in the next 5 years.

### Stable cashflow from motorbike segment

Honda effectively dominates 80% of Vietnam's motorbike segment. With motorbike penetration close to saturation point, we expect flat sales volume in the next five years. Even so, Honda with the lion's share of the market will keep contributing ample cash flow to VEA.

### Attractive valuation and a solid 9-10% dividend yield

We believe VEA can provide investors with a decent dividend yield of 9-10% annually. Even discounted for legacy issues related to receivables and inventories, we derive a fair value VND61,000/share for VEA, based on a DCF model. Potential growth from automobiles might push earnings towards to an inflection point where it will replace motorbikes and play a key role in driving VEA's profitability.

FYE Jan (VND b)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,667	4,019	4,127	4,286	4,419
EBITDA	5,113	5,537	6,014	6,183	6,233
Core net profit	5,615	5,816	6,403	6,697	6,837
Core EPS (VND)	4,226	4,377	4,818	5,040	5,145
Core EPS growth (%)	(23.5)	3.6	10.1	4.6	2.1
Net DPS (VND)	5,259	5,000	4,000	4,000	4,000
Core P/E (x)	na	na	9.4	8.9	8.8
P/BV (x)	na	na	2.4	2.3	2.2
Net dividend yield (%)	na	na	8.9	8.9	8.9
ROAE (%)	21.7	24.0	26.6	26.4	25.5
ROAA (%)	18.6	22.3	24.9	24.7	23.8
EV/EBITDA (x)	9.1	8.7	7.6	7.1	6.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	6,311	7,163	7,873
MKE vs. Consensus (%)	-	-	1.5	(6.5)	(13.2)

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## BUY

Share Price VND 45,100  
 12m Price Target VND 61,000 (+35%)

### Company Description

VEAM engages in the manufacture and development of industrial and agricultural machinery and equipment.

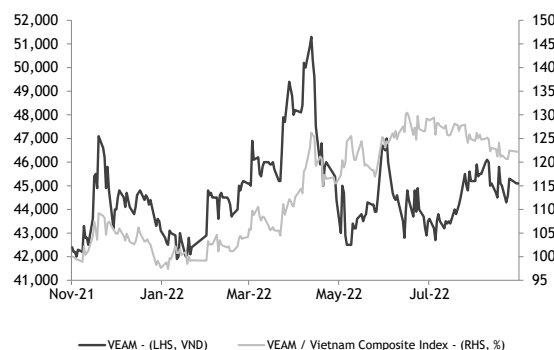
### Statistics

52w high/low (VND)	na/na
3m avg turnover (USDm)	0.2
Free float (%)	12.0
Issued shares (m)	1,329
Market capitalisation	VND59.9T USD2.5B

### Major shareholders:

MOF	88.0%
PYN	3.0%
Others	9.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(3)	na
Relative to index (%)	(2)	(2)	na

Source: FactSet

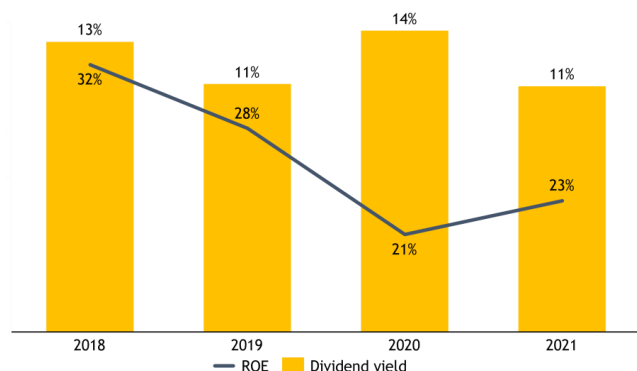
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## Value Proposition

- VEA's core business is producing components for the automobile, motorbike, truck and agricultural machinery segments, which are mostly saturated markets, particularly agriculture and motorbikes. As a result, the core business provides a thin profit margin for the company.
- But more than 80% of its operating income comes from JVs with three leading auto and motor manufacturers (Toyota, Honda, and Ford). The JVs supply more than 35% of the automobile industry with Toyota as a leading player while Honda dominates the motorbike segment with 80% market share.
- A bright outlook from the automobile industry body combined with an upcoming motorbike replacement cycle should underpin profitability in these segments.
- VEA recorded a robust ROE of above 20% and a solid dividend yield of 11-13% pa in the past three years.

### Impressive ROE and dividend yield

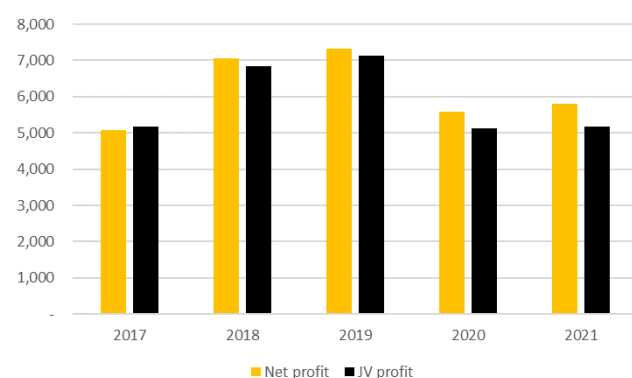


Source: Company, Maybank IBG Research compilation

## Financial Metrics

- JV profits account for most of VEA's earnings, which should be sustained in coming years thanks to (1) leading position in the field and (2) rising consumerism/auto penetration in Vietnam.
- Robust ROE of above 20% combined with a high payout ratio should lead to a solid dividend yield of 9-10%.

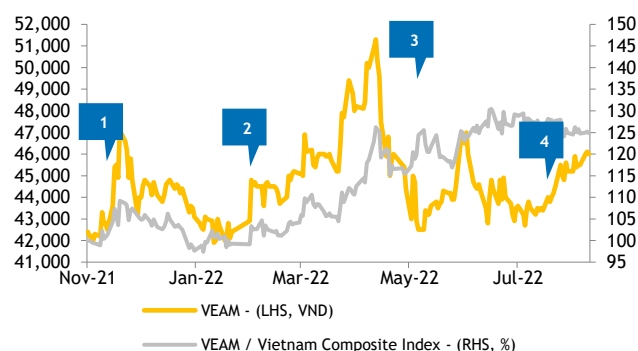
### VEA's net profit vs. JV profits



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. Industry recovery post-Covid 19, sales volume improves MoM.
2. Record automobile segment sales volume for both the industry and VEA thanks to reduction in registration fee following Cir.53 in Vietnam.
3. Announcement of 1Q financial statement, showing impact of chip shortage on margins at VEA's JVs.
4. AGM announcement of 40% cash dividend per share, translating into 9% dividend yield.

## Swing Factors

### Upside

- Aggressively dealing with old receivables related to qualified opinion from auditor ahead of HoSE or HNX listings.
- Successfully dealing with VND917bn old inventories via auction would likely lead to no further valuation discount for the company.
- MOF announcing its divestment plan for its stake in VEA should boost market sentiment and improve stock liquidity.

### Downside

- One-off provision related to inventory might lead to a downswing market reaction.
- Terminating a contract with the three JVs would cause an impact on earnings and dividend yield for the company as they account for the majority of total income.
- Lower-than-expected dividend yield due to significant Capex expansion.

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Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- VEA ensures to bring essential and quality products to the community, while providing income and health safety for over 784 employees. VEA has also maintained its dividend payment policy for shareholders despite the challenging Covid-19 situation.
- VEA's production and business activities are always associated with specific actions to ensure the best responsibility to the environment, society and community, such as: reducing waste water and emissions into the environment. The company has vowed to comply with Euro 5 emission standards even though in the past the company failed to comply with Euro 4.
- In conclusion, VEA's ESG factors are neutral in terms of social and environmental responsibility. However, the governance metric of VEA is creating some concern due to legacy issues of related party transactions.

## Material E issues

- The total direct greenhouse gas emissions (GHG) (through electricity, DO oil, and LPG gas) of the VEAM Foundry is 7,448 tons of CO<sub>2</sub>. Total indirect greenhouse gas emissions (through input materials) are 0.77 tons of CO<sub>2</sub>.
- VEA implemented measures to reduce greenhouse gas emissions in 2019 by installing a solar battery system with a capacity of 32 kW to help reduce greenhouse gas emissions by 19,543 tons of CO<sub>2</sub>.
- The industrial waste of the foundry (mainly sand dust and slag) is reused as unburnt bricks and transferred to a unit that has the function of solidifying into block bricks, minimising environmental emissions. Hazardous waste is collected and treated following the provisions of the law on environmental protection.
- VEA automobile factory strictly implemented energy usage planning and energy usage reporting. During the year, the volume of electricity consumed is about 1.75 kWh. Every year, factories implemented energy use planning, reports on energy usage, and periodically perform energy audits according to regulations.

## Material S issues

- Ensure the welfare of employees, pay attention to workers' lives and quality of life; support workers and organizations with difficult circumstances inside and outside VEA.
- Organize training according to the needs of departments in VEA and support training for units to improve capacity to serve job needs. Employees are encouraged by VEA's leadership to participate in enhancement training courses and facilitate study time.
- VEA is the leading a drive to support flood protection and disease prevention activity. In addition to financial support, VEA also provides support with products manufactured by VEA such as tractors and other agricultural machinery to help people have the means to develop production and escape poverty sustainably.

## Key G metrics and issues

- Organization structure: Board of supervisors supervises the Board of Directors and Board of Management. Besides, BoD directly supervises the BoM. Under BoD, there is an Independent Audit department and Investor Relations department.
- VEA's BoD has six directors, including two independent and two female directors. In addition, it has three executive directors. The remuneration to its BOD and BOS in FY21 was VND 7.2bn and is proposed to be VND 10.1bn in FY22, which is equal to 0.15% of total net profit.
- The total workforce at VEA is 784 people with an average salary of VND11m per month.
- The company has 12 subsidiaries, five in which VEA owns 100% worth VND 2,240bn investment value. Remaining seven subsidiaries worth VND 461.6bn. VEA appointed representatives into these companies.
- Besides, VEA has nine associate companies with investment value worth VND 2,173bn
- UHY (Vietnamese auditor) has been the auditor for the company since 2021. The company recorded qualified opinions related to receivables in the FY21 financial statement, with VND615bn related to those flags. This is related to an interrelated transaction between the company and its subsidiary. Regarding its JVs, we see no related party transactions.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).



# 1. Investment thesis

## 1.1 Compelling dividend play

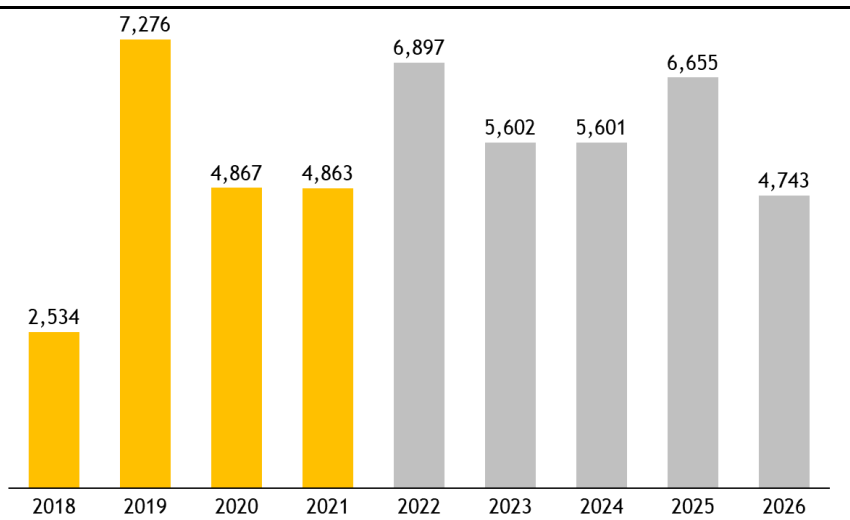
### **Solid 9-10% dividend yield represents an excellent investment opportunity amid market turbulence**

VEA has a proven track record of 11-13% dividend yields. For FY22, management has proposed a cash dividend of VND4,000 per share, translating into a dividend yield of 8.8%, notably among the highest dividend yield plays across the exchange. We forecast VEA to maintain a dividend yield of at least 9%-10% in the next 5 years based on the current price. Our forecast for the company is a bit lower vs. historically as we believe the company should set aside an amount for the purpose of booking provisions against its overdue receivables.

### **Honda, a top-of-mind brand, continues to capture the lion's share of the motorbike segment**

The motorbike segment is approaching its replacement phase, in our view. We expect that the industry will maintain flat annual sales growth for the next few years. Honda, accounting for 80% of Vietnam's motorbike market share, is expected to deliver 5Y CAGR profit growth of 4%. This operation contributes c.77% of VEA's total earnings and should underpin the company's strong cash flow up to 2026.

**Fig 1: Free cashflow projection for VEA**



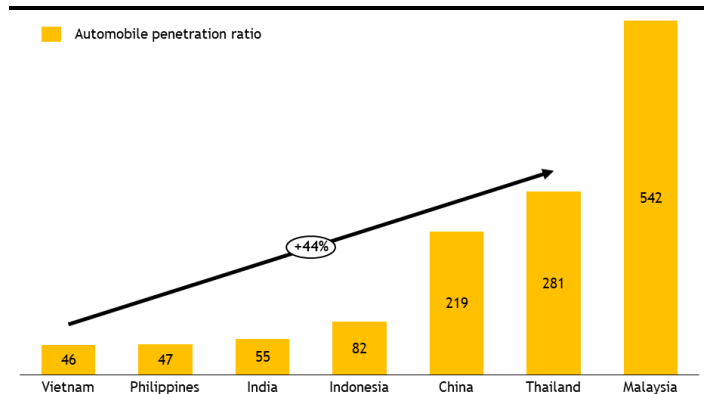
Source: Maybank IBG Research

## 1.2 Also a good growth play via rising automobile penetration in Vietnam

Vietnam remains under-penetrated in terms of car ownership as compared to regional markets. This, coupled with rising per-capita incomes and improved infrastructure, should be a significant growth driver for the automobile industry in the next five years. We forecast automobile sales to see at least a 16% CAGR during 2022-26, catching up with penetration rates in regional markets.

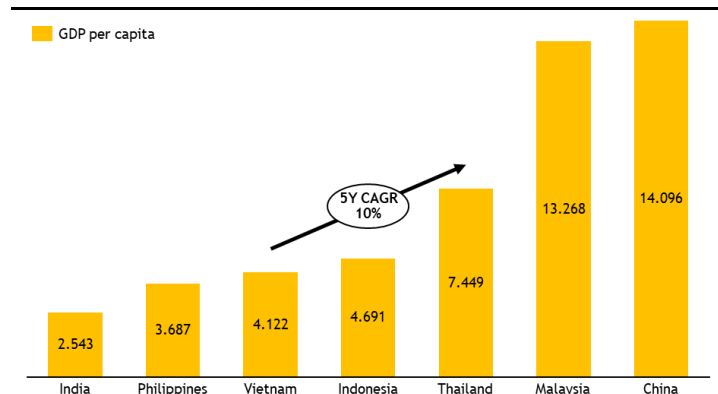


Fig 2: Automobiles per 1,000 people (units)



Source: Maybank IBG Research compilation

Fig 3: GDP per capita (USD)



Source: Maybank IBG Research compilation

By 2026, we forecast the three JVs of VEA will generate c.VND1.6 trillion in profit from the automobile segment for the company, contributing c.23% of VEA's total earnings (vs.13% currently).

### 1.3 Undervalued

The stock is trading at a forward PE of 9.4x, near -1SD its one-year average, due to the impacts of the global chip shortage on its profit margins. As a result, VEA's share price has not caught up with its potential, in our view. We believe this is a good chance for investors to accumulate the shares.

We recommend BUY the stock with a target price of VND61,000 per share, using a FCFF model with a cost of equity of 8.8% and a terminal growth rate of 3%. Our TP already factors in the inventory issue. Also, we note that any one-off provision for receivables should be received favourably by the market, as it would pave the way for VEA to list on HoSE.

Another strong potential catalyst is the government's plan to reduce its ownership from 88.5% to 51.0%. Like most other cases, this event will boost the market sentiment and thus fuel a stock rally.

### 1.4 Key risks

- Longer-than-expected chip shortage. The crisis has impacted the business plan of many automakers, as they might have to cut some electronic features from their car models, and/or delay car delivery to buyers in response to the lack of chips
- Abandonment of motorbike use in future. There is a proposal to ban motorbikes in five central districts after 2025 and in expanded areas after 2030.



## 2. Corporate information

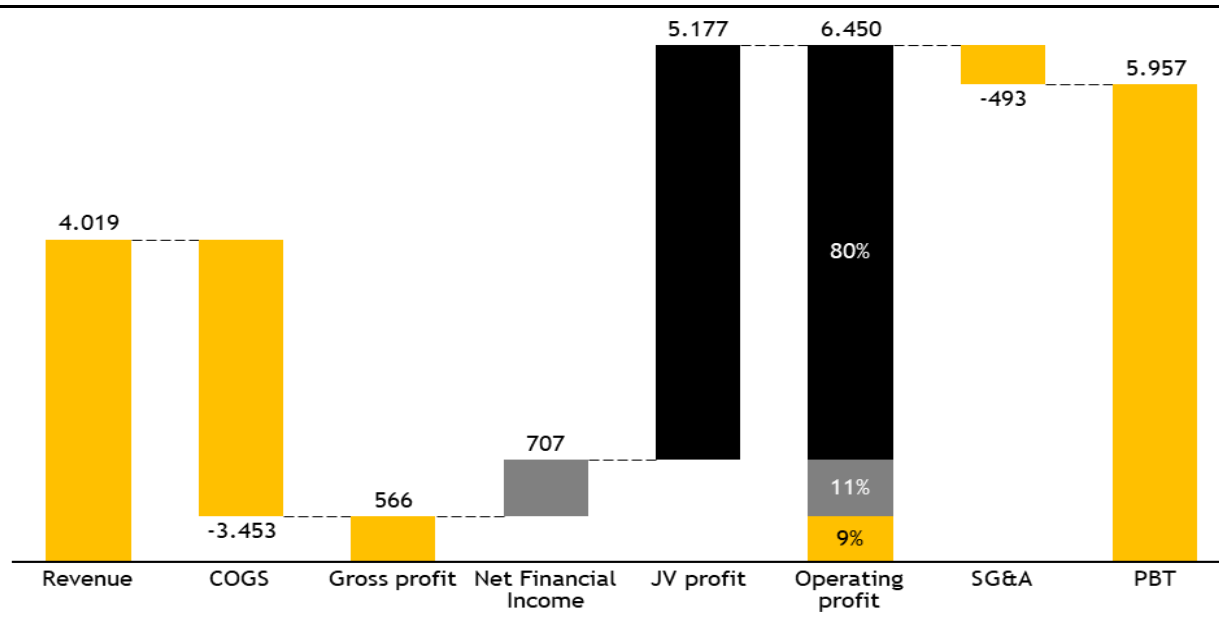
### 2.1 Joint venture entities contribute significantly to total profit

VEA was founded in 1990 with its original business the manufacture of engines and agricultural machinery. It is one of the most prominent domestic players in the industry by revenue, with 12 engine factories. VEA also manufactures and sells trucks; however, its core business accounts for a minor proportion of operating profit of only 9% in FY21.

As in the past, foreign enterprises had to co-operate with SOEs to enter Vietnam's automobile and motorbike industries. As a result, VEA became a shareholder of Toyota Vietnam and Ford Vietnam in 1995, then Honda in 1996. Currently, VEA has a 30% stake in the local Honda venture, 25% in Ford, and 20% in Toyota. These foreign companies were the pioneers of Vietnam's automobile and motorbike markets. They have become the leading companies in their field today, with Honda accounting for c.80% of the market share in motorbikes. The three JVs account for more than 35% market share in the automobile segment.

**The joint ventures proved fruitful, generating c.80% of total company earnings during 2017-2021.** In contrast to VEA's core business, the share of profit from these JVs has brought great profit, and the bulk of profits have been paid out to VEA as a dividend. As a result, VEA has been labelled a cash-generative business with a good track record of high dividend yields in the past three years of 11-13%.

Fig 4: VEA's FY21 consolidated financial statement breakdown

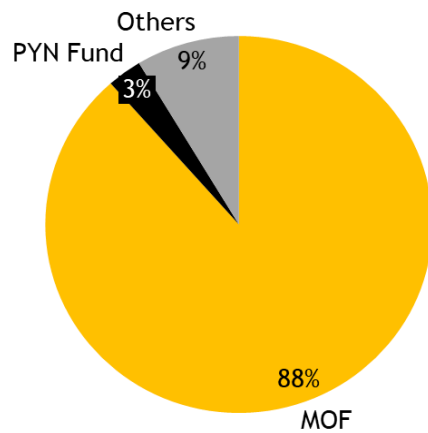


Source: Maybank IBG Research

### 2.2 State ownership accounts for a significant proportion, acting as both pros and cons for the company

The MOF still owns an 88% stake in VEA. There is no explicit instruction on when state divestment will take place. However, VEA will follow instructions by MoIT on further steps regarding the divestment (if any).



**Fig 5: VEA's shareholder structure**

Source: Bloomberg

**A listing on HSX or HNX has been planned for several years but delayed** as VEA has not been able to resolve qualified audit opinions mainly related to Euro 2 truck inventories and overdue receivables.

The issue of inventories was resolved in FY21 - Vinacontrol, an independent appraiser, vetted its valuation and was no longer questioned by the auditor. However, liquidating the trucks remains a problem, as their value will quickly be depleted on VEA's balance sheet.

Transferring to the HoSE could be a good catalyst in the medium term for the stock price. With more transparency, we believe more investors would pay attention to the company; as a result, boosting demand for VEA and fostering more liquidity.



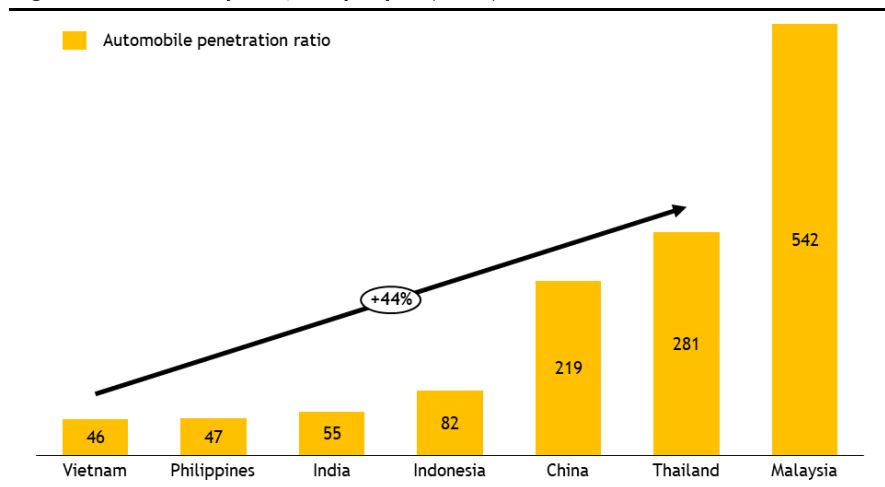
### 3. Competitive landscape and positioning

#### 3.1 Bright automobile industry outlook

##### Nascent market with large potential demand

The penetration rate of automobiles in Vietnam is low, at just 46 units per 1,000 people, the lowest compared to other countries. This is due to the lag in developing the sector compared to other regional countries like Malaysia, Indonesia, and Thailand which focused on manufacturing cars in the 1960s. On the other hand, Vietnam only allocated land for the sector in the 1990s. This led to an underdeveloped automobile industry as the volume produced per car model in Vietnam is still low, leading to a lack of production scale.

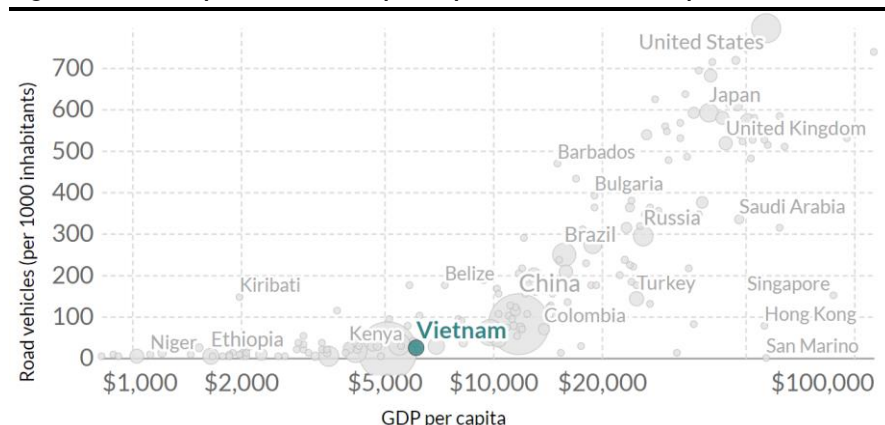
**Fig 6: Automobiles per 1,000 people (units)**



Source: Maybank IBG Research compilation

However, despite having a modest car ownership rate, Vietnamese consumers are highly interested in buying cars. Owning a car is regarded as a significant investment, almost as desirable as owning a house in Vietnam. As a result, while still seen as big-ticket items, cars are increasingly crowding the streets of Vietnamese cities, emerging as one of the main modes of transportation alongside motorbikes for many urban residents. So we believe there is still significant demand for the automobile, primarily in the passenger car market.

**Fig 7: Relationship between GDP per capita and automobile penetration**

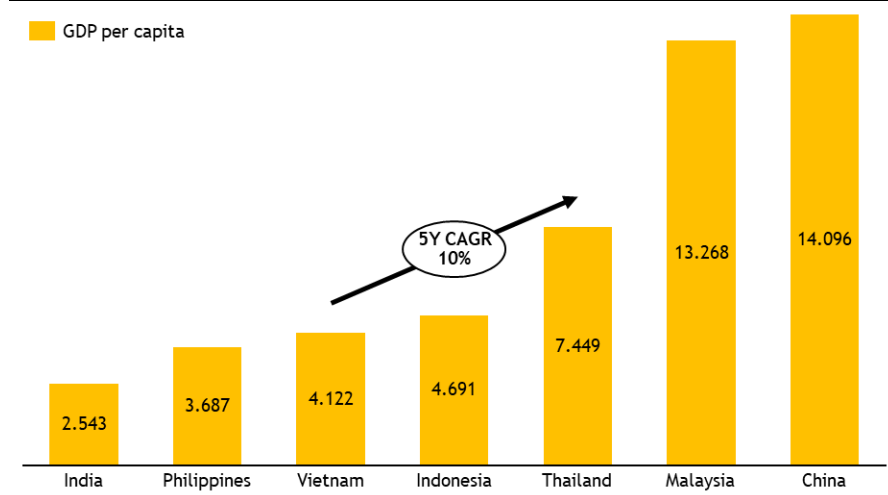


Source: NationMaster, Data compiled from multiple World Bank sources



Rising GDP per capita, at growth rate of 10% per annum, will underpin strong growing demand for passenger cars over the next five years, we believe.

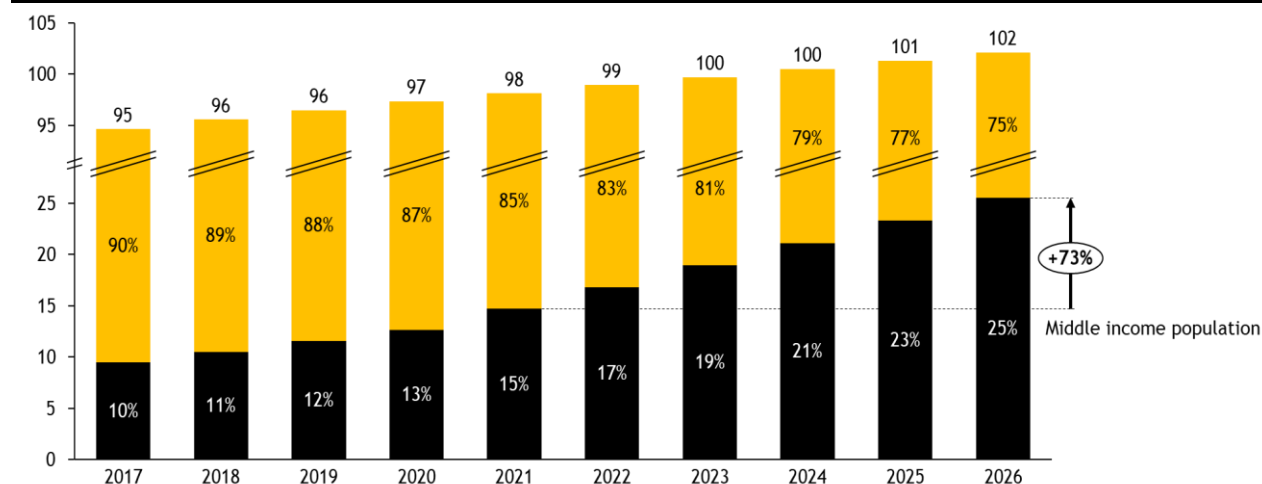
**Fig 8: GDP per capita (USD)**



Source: Maybank IBG Research compilation

A rising middle class with better living standards will play a secular role in fuelling demand for cars and their affordability. This class is characterized as having an income of more than USD10k pa, spending on a modern lifestyle, and acting as rising consumer class for the future Vietnam. Therefore, we expect spending on the purchase of personal transport equipment gap between Vietnam and ASEAN will narrower in the next five years. As a result, automobile sales would at least grow in line.

**Fig 9: Strong middle class growth expected in the next five years (m people)**

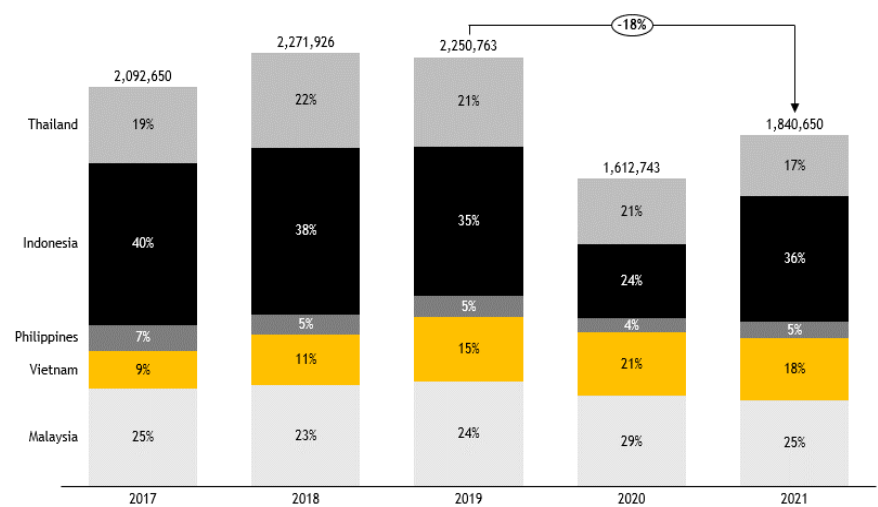


Source: Maybank IBG Research compilation

As indicated by the data, we can see a strong correlation between GDP per capita and automobile ownership rates. Notably, we observe that Vietnam is at an inflection point where higher GDP per capita could translate into a jump in car ownership. Based on that, we estimate that at the current GDP growth rate, our GDP per capita would be approximately at the current Thailand level (FY21) in the next five years, somewhere more than USD 6.6k per capita. In retrospect, if we take the current number of cars per 1,000 people in Thailand vs. Vietnam, there would be a 44% leap in car ownership. As a result, Vietnam's automotive market will be the fastest-growing in Southeast Asia in the future, backed by purchasing power.



Fig 10: Passenger car sales volume in crucial ASEAN countries



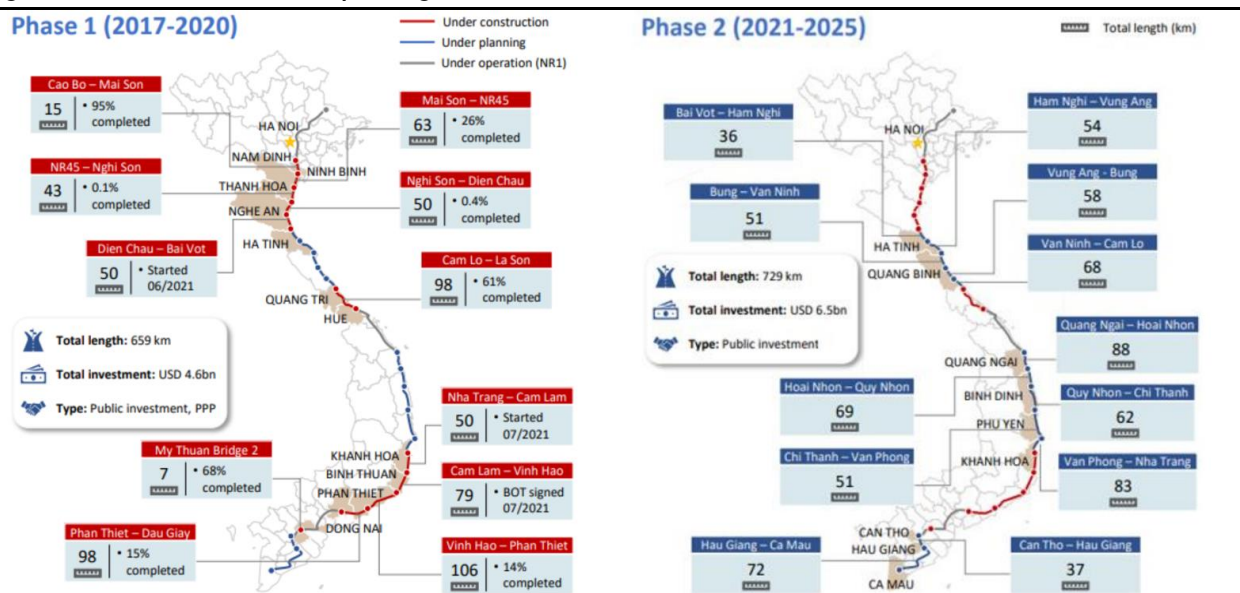
Source: ASEAN Automotive Federation

### The most resilient regional market during the pandemic

The Vietnamese automobile market also revealed itself as the most resilient among ASEAN countries during Covid, with only a flat number of passenger car sales compared to the overall region which registered a decline of 18% from 2019 to 2021 during the pandemic. We attribute this outperformance to 1) better control of the Covid situation in 2020, leading to almost flat passenger car sales, and 2) low penetration ratio as the number of cars per 1,000 population ranks the lowest compared to other ASEAN countries as mentioned above.

### 3.1.2 Improving infrastructure also fuels auto demand

Fig 11: Planned infrastructure spending certain to boost automobile demand



Source: Maybank IBG Research

### Enormous infrastructure spending pushed by the government

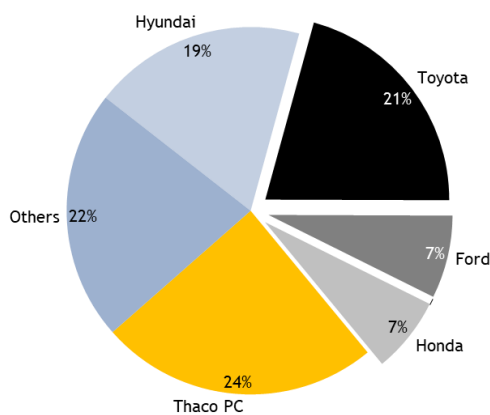
The National Assembly approved a new public investment package worth VND 113,050bn, focusing on intra-city highways. Regarding the authorities'



recent efforts, public investment is expected to accelerate in coming months, especially as building material prices retreat from recent highs. Notably, the North-South Expressway Stage 2 will act as both a short-term and long-term catalyst for creating a well-connected public transport network, which will shorten time traveling. As a result, Vietnam consumer sentiment should gain a boost from a safer, more convenient, and comfortable transportation network. Therefore, we firmly believe infrastructure will be a buffer for car demand in the next five years.

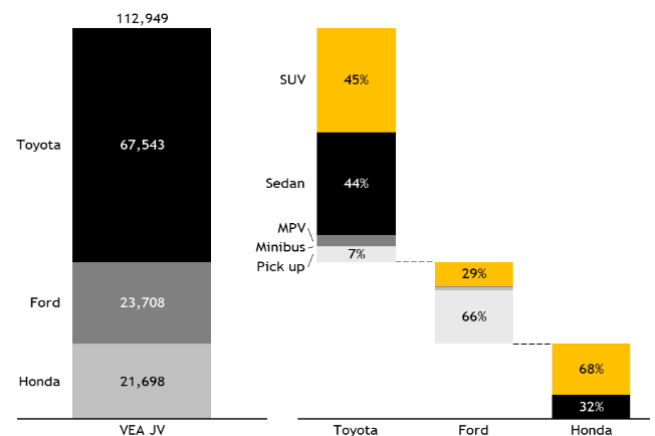
### 3.1.3 Leading car makers maintain their grip

Fig 12: Passenger car market share FY21



Source: VAMA, Maybank IBG Research compilation

Fig 13: VEA's automobile segment JV breakdown



Source: VAMA, Maybank IBG Research compilation

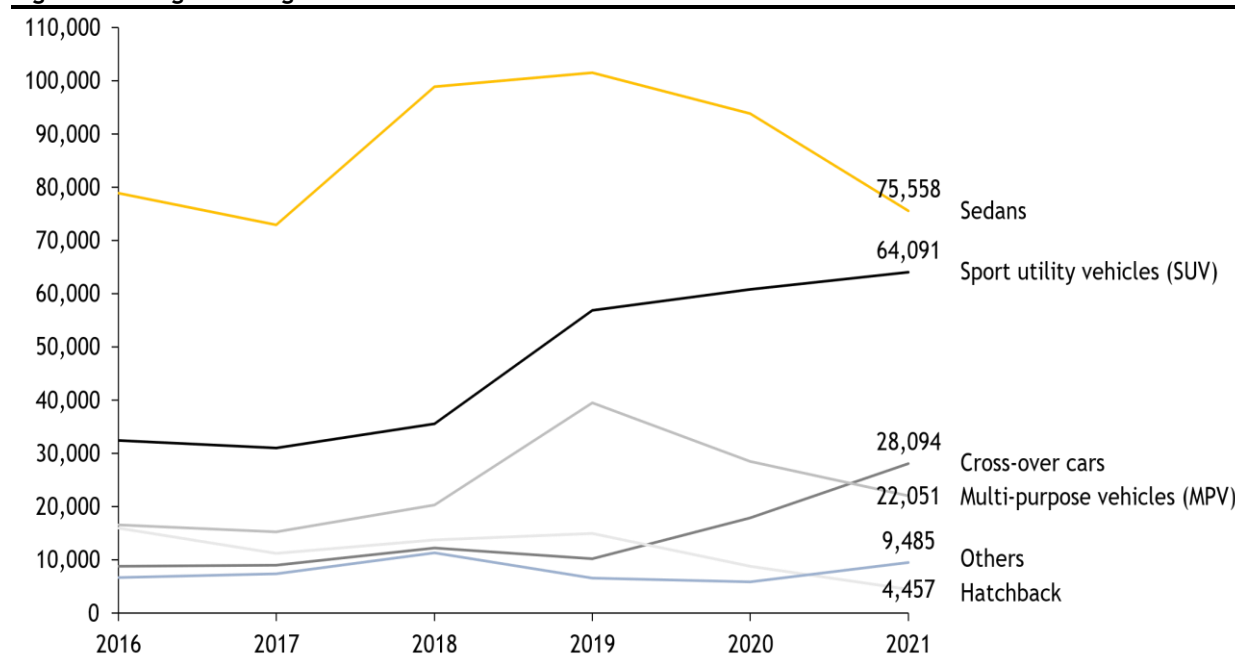
#### Dominant market share by well-known names, total JV accounts for 35% of the market

In terms of market share, we note that Toyota, Honda and Ford account for 35% of Vietnam's market by sales volume. Toyota's proven quality track record globally, combined with Vietnamese customers' perception that owning a car is almost as desirable as owning a house, has led to Toyota's leading market position given its proven quality among Vietnamese. Moreover, Toyota's vehicle offering is the most diverse across the sector, which further solidifies its market share.

We observe that SUVs and sedans account for most of Toyota's product portfolio, meaning Toyota is a perfect fit for the tastes of Vietnam's consumers. In comparison, most of Ford's sales volume is in pick-up products (Ford Ranger). And Honda focuses on SUVs.



Fig 14: Passenger car segments

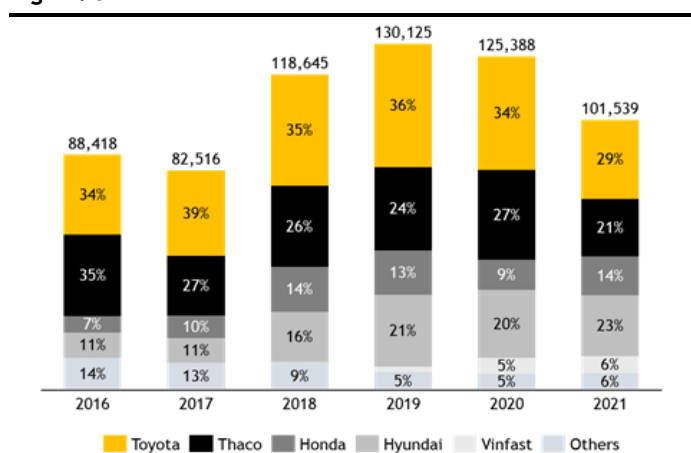


Source: VAMA, Maybank IBG Research compilation

### SUV and cross-over driving the trend, while sedans are slowing

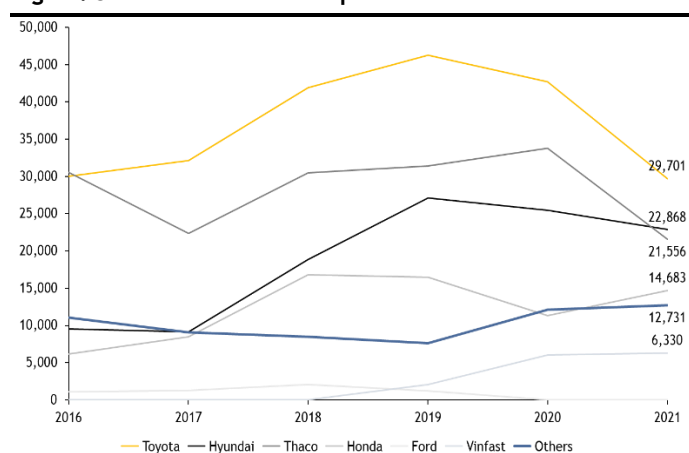
Sedans used to be the critical driver of the sector, while the trend is now shifting toward SUVs and crossover even though sedans still account for a large proportion of sales volume. We believe that SUVs and crossovers are now more popular among Vietnamese thanks to their larger space and suitability for family outings. Combined with infrastructure improvements, we firmly believe SUVs and crossovers will be the drivers of the sector.

Fig 15: Sedan market share 2016-2021



Source: VAMA, Maybank IBG Research compilation

Fig 16: Sedan market landscape 2016-2021



Source: VAMA, Maybank IBG Research compilation

### Sedan - satisfying the needs of the middle class in Vietnam.

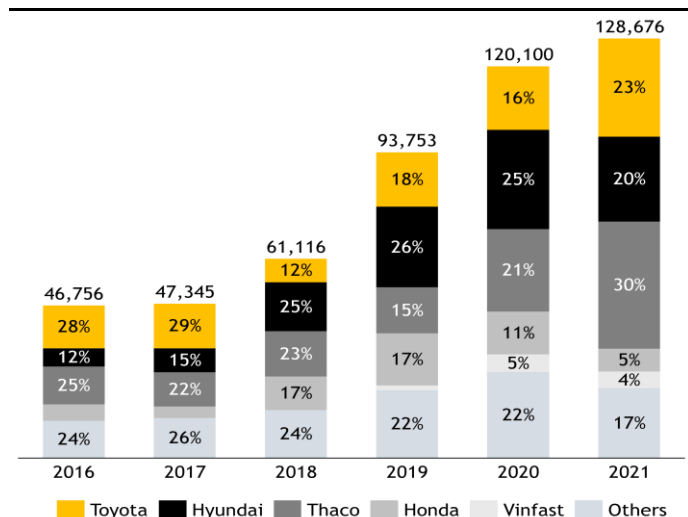
Even though trending down, we note sedans still rank 1st in terms of sales volume. We believe that sedan B and sedan C models have the best price, function, and design to satisfy Vietnam's consumers who want to upgrade from motorbikes to the car. In addition, sedans are a reasonable choice for companies providing transportation services due to their affordability and high utility. Therefore, we still believe sedans will maintain their attraction for the time being, despite the market share taken by SUVs.



### Top players continue to gain steady market share and dominate sedan segment

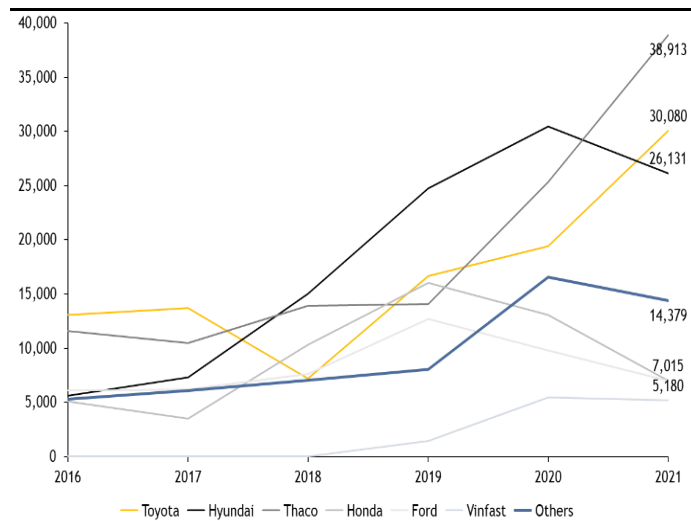
Within the sedan segment, Toyota, Honda, Hyundai, and Thaco maintained substantial combined market share of 87%. Toyota's models in Vietnam are famous for their value and durability, especially when the Japanese brand has become the most popular with Vietnamese customers in terms of quality. The well-known Vios model is still in hot demand given sales volume as a top unit in 2021 despite being hit by Covid-19. However, compared to the past, sales are slowing, a proxy for the whole sedan segment, in our view.

Fig 17: SUV and crossover market share 2016-2021



Source: VAMA, Maybank IBG Research compilation

Fig 18: SUV and crossover market landscape 2016-2021



Source: VAMA, Maybank IBG Research compilation

### SUV - a rising star, taking market share from sedan and other segments

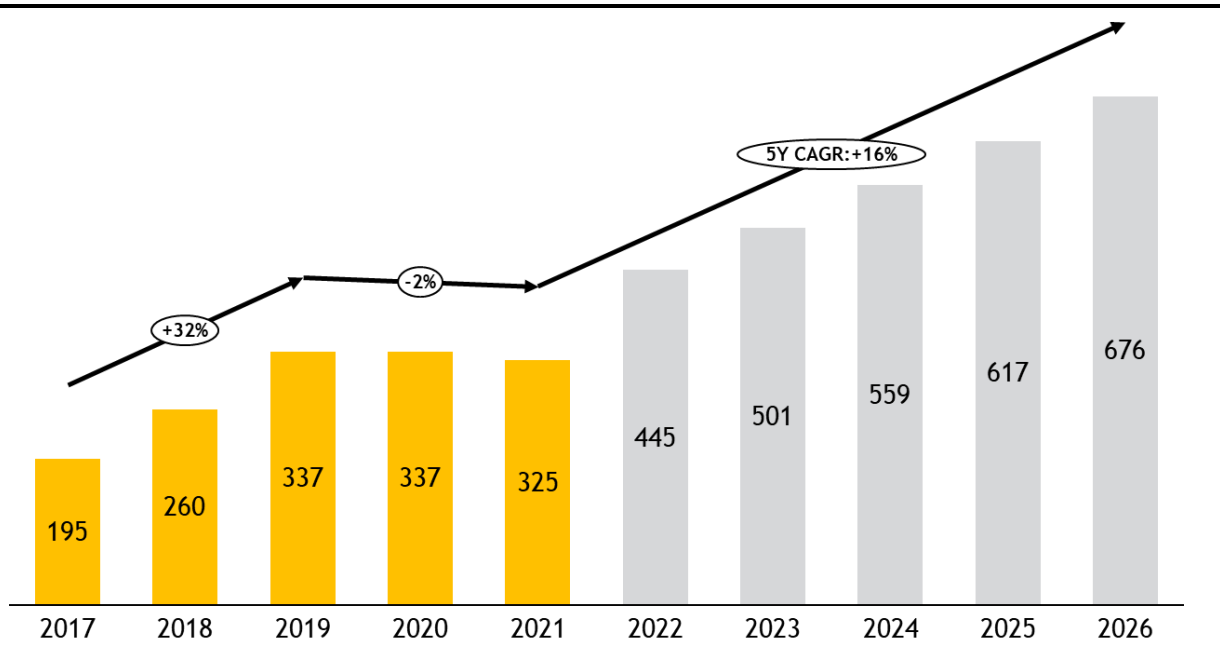
Since 2017, SUVs kept growing to outpace the sector with many names introduced like Honda CRV, Honda HRV, Vinfast, and Toyota Corolla Cross. Toyota Corolla Cross, introduced in 2020, achieved record high sales volume in 2021, and ranks 2nd in Toyota's product portfolio in terms of sales volume (just below Vios). Looking beyond 2022, we still see significant demand for the model given its youthful design, dynamic, and sporty demeanour despite a compact look outside, making it suitable for urban streets.

**FY18 was an exceptional year for Toyota, as SUV sales slowed.** The key reason here is that Toyota decided to import directly instead of build-up domestically Toyota Fortuner, a hot model in 2017, to benefit from the ATIGA import tax. However, simultaneously, the Vietnamese government decided to implement stricter quality control on imports, creating challenges for the whole automobile import industry. As a result, Toyota was hit hard that year. Elsewhere, we can see a clear uptrend of SUV sales for both Toyota and Thaco (Kia and Mazda). Within the segment, Toyota is now famous for its Corolla cross model; at the same time, its competitor, Thaco, announced Kia Seltos as a counterweight, both of which recorded good sales volume in 2021 of 18k and 16k units, respectively, even though they were only introduced within 2020.

**Therefore, we expect SUVs to gradually take market share from sedan,** especially the D segment, as consumers in this price segment tend to look for models with a larger size. These factors, coupled with automakers launching more SUV models in the lower price segment, will further strengthen the market share for SUVs.



Fig 19: Passenger car sales volume forecast next 5Y (thousands)



Source: Maybank IBG Research

As a result, with a higher absorption rate by expanding demand capacity, SUVs will bolster the trend, driving automobile sales volume to our projected 5Y CAGR of 16% in the next five years

Passenger car sales enjoyed an impressive 32% unit CAGR during 2017-2019 and suffered only a 2% drop during 2019-2021. However, we expect in the next five years, passenger cars sales volume will quickly reach a CAGR of 16%, assuming (1) robust demand thanks to under-penetration, (2) a rising middle class, and (3) booming infrastructure spending, connecting large and tourist cities.

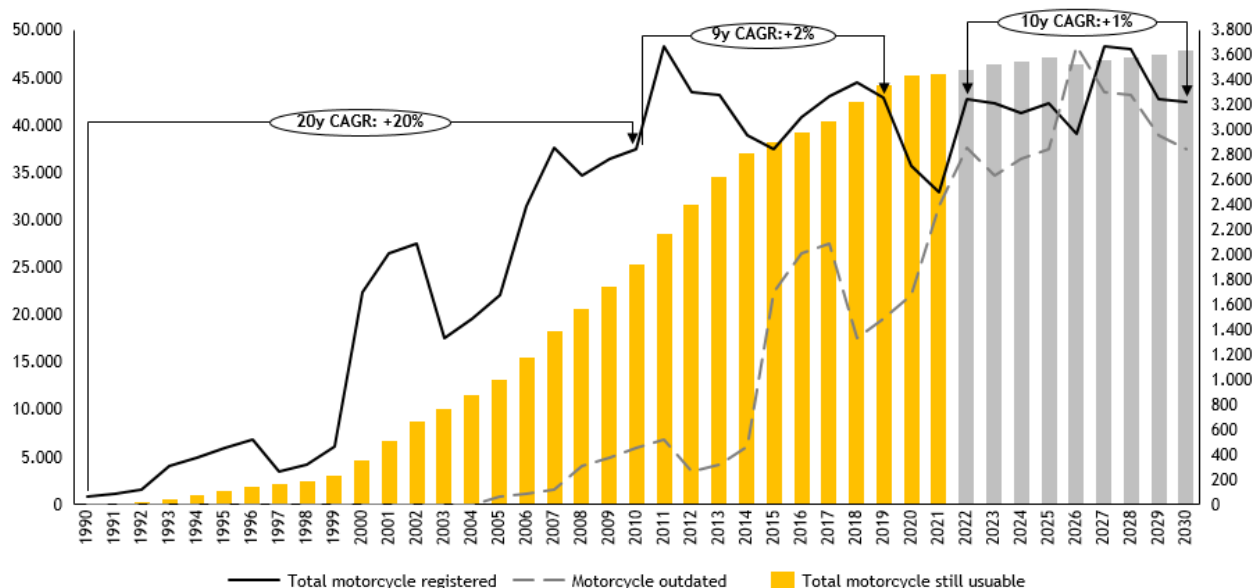
## 3.2 Motorbike industry enters replacement cycle

### 3.2.1 An overcrowded market

The motorbike market increased from 1990-2010 at 20y CAGR of 20%. Motorbike sales, however, have grown slowly over the past decade due to a saturated market, while cars are becoming more and more popular. As a result, motorbike sales during 2010-2019 only reached a CAGR of 2% before Covid-19 impacted the sector.

As annual vehicle sales slow, the Vietnamese motorbike market is said to have reached saturation. Theoretically, with a population of about 100 million people, the Vietnamese motorbike market is considered saturated when the number of motorbikes in circulation comes to about 33 million. According to the government's road transport development plan, by 2020, Vietnam will have 36 million motorbikes in circulation. But by the end of 2021, this number had reached 45 million vehicles, far exceeding the saturation point of theory and government planning.



**Fig 20: Saturation of motorcycle market with three stages of growth and market forecast for next 5Y**


Source: Maybank IBG Research

### The replacement phase will partly offset the impact of saturation

Although demand is slowing down, Vietnam is still ranked 4th in the world in terms of motorbike consumption, after India, China, and Indonesia. The reason is that the convenience of motorbikes is still superior to cars, and it is a fact that even when owning a vehicle, every Vietnamese family still needs to have at least one motorbike to serve their needs, the need to travel short distances. Therefore, Vietnam's motorbike market, with a scale of 3 million units/year, will remain for a long time.

Moreover, after 15 years of use (starting in 1990), consumers tend to change their bikes. And we expect the next five years will mark a replacement phase for the segment.

**All in all, we believe the motorbike sector can maintain at least flat to moderate growth in sales**

Our projections leads us to believe the market, even saturated, can maintain at least flat to moderate growth. Our crucial assumption is that the life of a motorbike would be 15 years (starting in 1990) while keeping motorbike ownership at more than two people a motorbike. As a result, we project the market will grow by 1% by 2030, and the number of motorbikes in circulation will reach 47.8 million vehicles by 2030.

### 3.2.2 Honda - A top-of-mind brand in customer perception

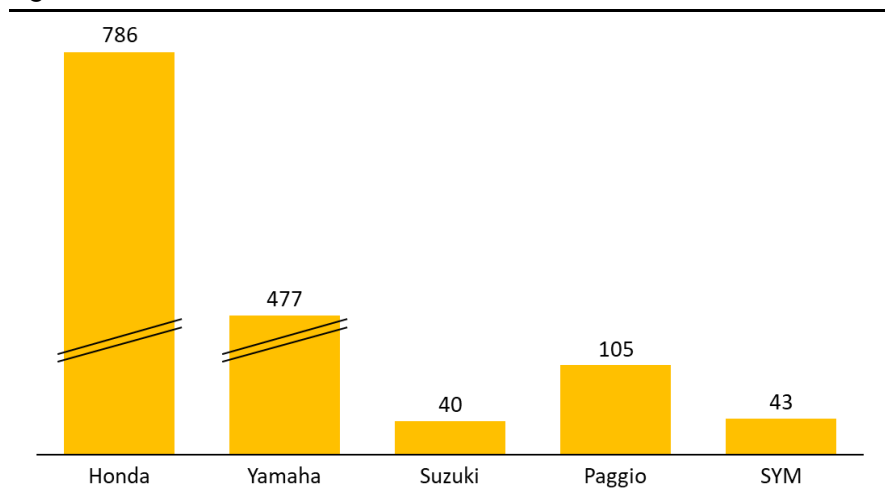
**Honda is the most extended present motorcycle brand in Vietnam.** The brand had been famous in Vietnam even before it officially opened its factory in 1996, thanks to imported models like Super Cub 50, or Honda 67. In addition to a firm brand name, Honda has the most diversified product portfolio and substantial distribution network. Last but not least, Honda is perceived by customers as having the advantage of durability and efficient fuel consumption.



**Fig 21: Diversification of Honda product portfolio vs. others**

Company	Type of products
Honda Vietnam Co., Ltd.	Wave Alpha 110cc, Blade 110cc, Wave RSX FI 110cc, Future 125cc, Super Cub C125, VISION 110cc, LEAD 125cc, Air Blade 125cc/150cc, SH Mode 125cc, PCX 150cc, PCX HYBRID, SH 125i/150i, SH300i, WINNER X 150cc, MSX 125cc, Monkey, CBR150R, CB150R The Streetster, Rebel 300/500, CB300R, CB500F, CB500X, CBR500R, CB650R, CBR650R, CB1000R, CBR1000RR-R Fireblade/Fireblade SP, Gold Wing, Africa Twin
Piaggio Vietnam Co., Ltd.	Vespa Primavera, Vespa Sprint, Vespa GTS series, Vespa Sei Giorni, Piaggio Liberty series, Piaggio Liberty S, Piaggio Medley, Piaggio Medley S, Piaggio Zip, Piaggio Fly.
Vietnam Suzuki Corporation	Thunder S, Revo 110, Sky Drive 125, Axelo 125, Viva 115 FI, Hayate 125 FI, UA125, Impuse 125 FI, Address 110 FI, Raider R150 FI, SATRIA F150, GZ150, GD110, GSX-R150, GSX-S150, BANDIT150, GSX-S1000, V-Strom 1000, V-Strom 1050, Intruder150, Burgman Street, Gixxer 250
SYM Vietnam Company	Elegant 50cc, Galaxy 50cc, Angela 50cc, Elegant 110cc, Galaxy 125cc, Angel 125cc, Star SR 125cc, Star SR 170cc, Passing 50cc, Elite 50cc, Atila 50cc, Attila 125cc
Yamaha Motor Vietnam Co., Ltd.	Sirius 110cc, Jupiter FI GP/RC 115cc, Grande 125cc, Grande Hybrid 125cc, Janus 125cc, FreeGo 125cc, Latte 125cc, Exciter 150cc, Exciter VVA 155cc, NVX 155cc, YZF-R3 321cc, MT-03 321cc, YZF-R15 155cc, XSR900 847cc, MT09 847cc, MT15 155cc.

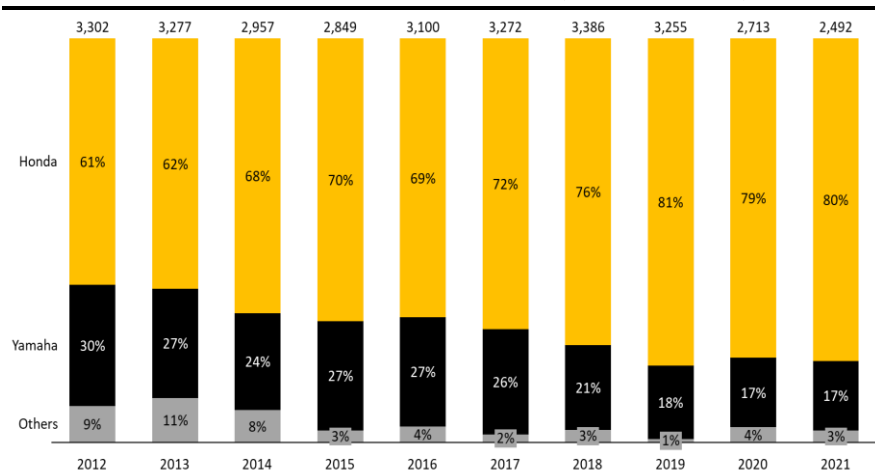
Source: VAMM

**Fig 22: Honda's branch network vs. others**

Source: Maybank IBG Research compilation

Honda Vietnam's market share of the two-wheeler segment in 2021 is 80%, more than three times higher than all other players combined (Yamaha, Suzuki, SYM, Piaggio). Moreover, spare parts are available with the advantage of durability and fuel efficiency; Honda motorbikes are seeing almost no rival in the segment.



**Fig 23: Honda dominant motorbike market share (thousands units)**


Source: Maybank IBG Research compilation

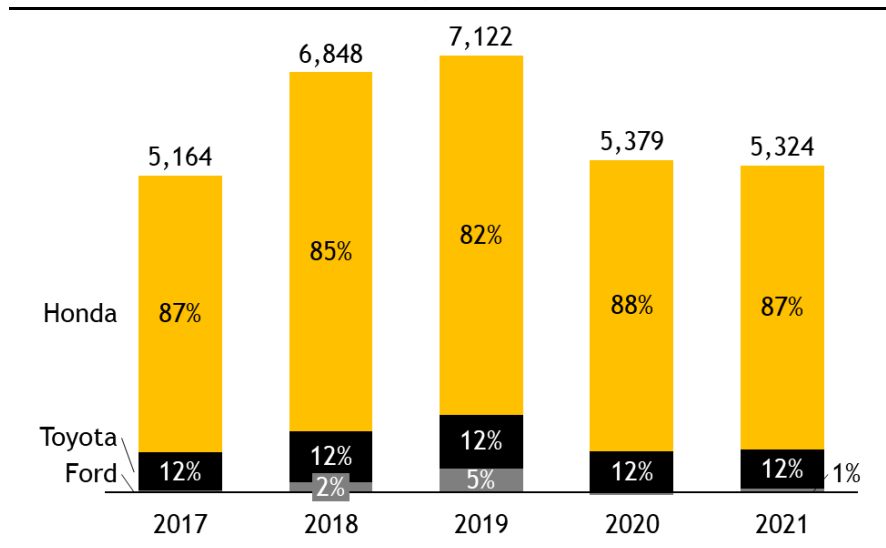
**Switching to Automatic transmission (AT) motorbike instead of manual transmission (MT) will bring further share to Honda**, given its dominant position in the AT segment. We believe this trend will benefit Honda thanks to a solid brand name with a diversified product portfolio and a growing distribution network. The total number of Honda showrooms are now at 786, far exceeding other combined players. As a result, Honda's market share should be stable at 80% in the next five years.



## 4. Financial analysis

### Profitability driven by JV

Fig 24: JV profits during 2017-2021 (VND bn.)



Source: VEA FS, Maybank IBG Research compilation

**VEA's core operation is producing agricultural machines and components for the motor and car industry.** Five subsidiaries produce diesel engines and agriculture machines, and four focus on providing mechanical products to major partners, including Honda, Yamaha, and Piaggio. Besides, VEA has set up a factory focusing on manufacturing trucks of under 1 ton up to 30 tons and other specialised vehicles. However, its core earnings are still suffering, especially the agricultural machinery segment. There are more than VND900bn of old inventory related to this segment that VEA is dealing with currently. In the past, the company did not have an actual inventory value and got a qualified opinion. However, it is now valued by Vinacontrol in 2021 and was directly removed from audit opinion. In FY21, VEA organized two biddings, both of which failed to attract any bidders. Therefore, we estimate a VND200bn inventory provision booked per annum for the company in the next five years.

**In FY21, despite being impacted by Covid-19, profit from JVs only declined by 1% YoY to VND5,324bn. In which:**

- Honda's profit attributed to VEA declined by 2.7% YoY to VND 4.6bn, reflecting an 8% YoY drop in motorbike sales and an 11% YoY drop in auto sales. Honda accounted for 87% of total JV profit. We estimate that profit from the motorbike segment accounted for 98% of Honda's profit or 86% of total JV profit attributed to VEA.
- Toyota's profit attributed to VEA declined by 5% YoY to VND635bn due to a 4.2% drop in sales volume. We also note the JVs benefited from a depreciation of the Thai Baht against the VND so far, as they imported parts and vehicles from Thailand, so we could expect profit from the JVs to benefit from favourable exchange rates.
- Ford's profit is estimated at VND64bn (attribution to VEA) in FY21 versus a loss of VND42bn in FY20. In addition, we note that Ford has started to assemble the Ford Ranger domestically since Jul-21. Ford Ranger is a pick-up truck that accounted for 66% of Ford's sales in FY21. Previously, this model was imported from Thailand, like other pick-up trucks in Vietnam. Therefore, we attribute the production reallocation of Ford to the positive change in the automaker's bottom line in FY22.

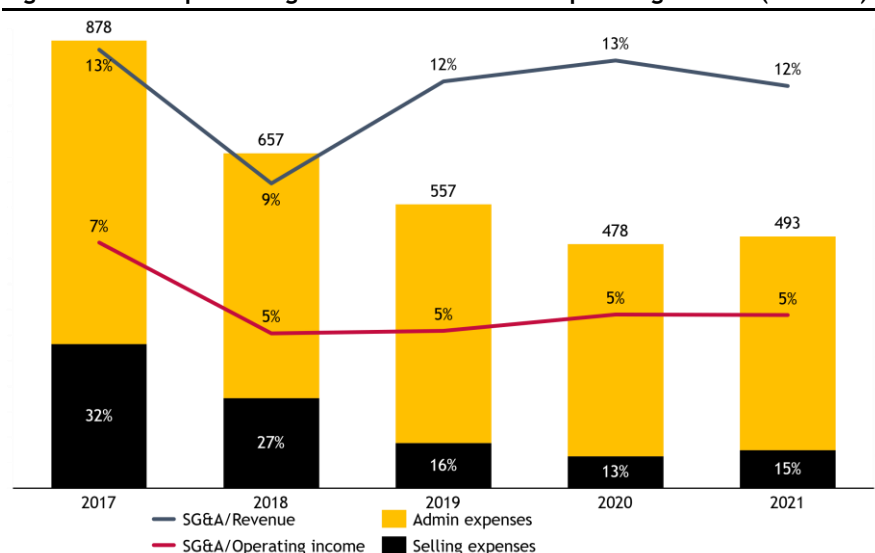


**Analysing FY21, auto sales of VEA's JVs fell by 5.1% YoY versus a 3.4% YoY drop in the entire segment.** This is due to the JV's underperformance in 1H21, which was in turn partly caused by intense competition from Vinfast. Vinfast heavily subsidised its vehicles to even below costs, making their cars prices competitive. However, we expect competition from Vinfast to subside from FY22 onwards as the company shifts its focus to EV and will withdraw entirely from ICE production by end-FY22. As a result, there would not be any ICE Vinfast sold to the market from FY23 onwards (from a 11% market share in FY21 per our estimates). This is obviously a strong catalyst for ICE incumbents.

#### Abundant savings benefit from the rising interest rate environment

One additional plus for the company during a higher interest rate environment is higher financial income comprising VND709bn of interest income, resulting from allocating most of its financial investment into savings amounting to VND11.8tn. This is exceptionally good for a company amid a rising interest rate environment as significant cash savings will lift interest income in coming years.

**Fig 25: SG&A as percentage of revenue and total operating income (VND bn.)**



Source: VEA FS

#### SG&A might show some inefficient as an SOE characteristic

As of 2021, SG&A accounts for 12% VEA revenue, which led us to believe there is still an inefficiency in VEA operation, especially when admin costs account for a more significant proportion of 10% vs. only 2% in selling expenses. However, on the positive side, if we account for JV profit in total operating income, SG&A only accounts for 5%, a minimal figure. As a result, we believe this is a good point for VEA to improve further in the future, especially when state-owned stake divestment happens.

#### Balance sheet mixed on low leverage while old legacy items still receive qualified opinions from the auditor.

Regarding the balance sheet structure, by the end of FY21, the company's total assets reached VND 25tn, of which cash and deposits were VND 11.8tn (accounting for 47% of total assets). Short-term receivables are VND 3.6tn, accounting for 14.4% of total assets, primarily receivables from dividends of related JV companies that have been effective but not yet received is VND 2.3tn. VEAM's short-term and long-term debt by the end of FY21

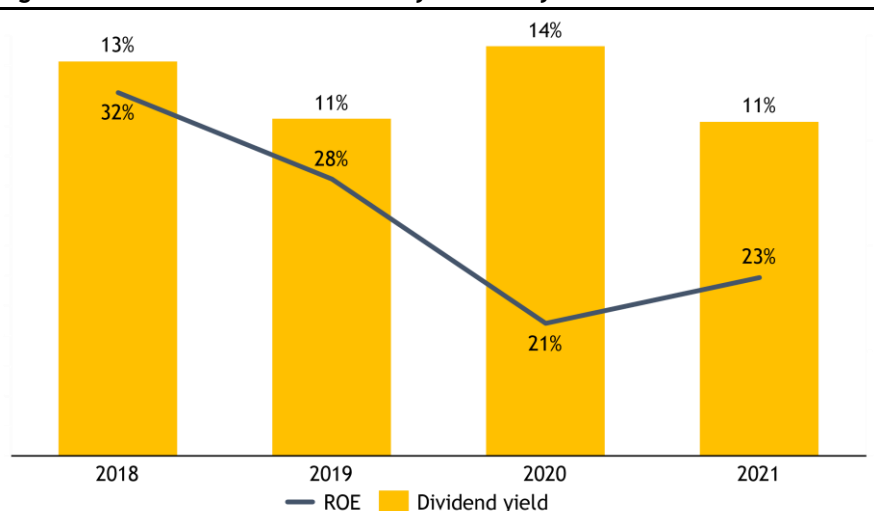


reached VND 247bn. Accordingly, the company's leverage is very low, with a D/E ratio of 0.01 times.

#### Provision against overdue receivables would be viewed positively

VEA has several qualified audit opinions on its financial statements, which is the main barrier to its plan to move to a mainboard stock exchange. Among the qualified audit opinions, the main issue is the VND615bn overdue receivables for which the company has not been able to collect sufficient proof to make a provision. VEA has not made any provision against this. If VEA could make the provision this year, the impact on net profit would be approx. 10%. However, we expect a successful provision would be taken positively by the market, as it could clear the way for VEA to list on the HoSE and offset any impact from a one-off booking.

**Fig 26: Proven track record of healthy dividend yield**



Source: VEA FS, Maybank IBG Research compilation

#### Long track record of high dividend yields of 11-13%

Management has proposed a cash dividend of 40% of earnings for 2022, translating to a dividend yield of 9.0%, notably among the highest dividend yields on the exchange in this market capitalisation range. VEA also has a proven track record of dividend yields of 11-13%, representing an excellent opportunity for investors in a turbulent market amid higher interest rates. Our dividend forecast for the company is a bit lower as we believe VEA will set aside part of earnings for the purpose of booking provisions against its overdue receivable.



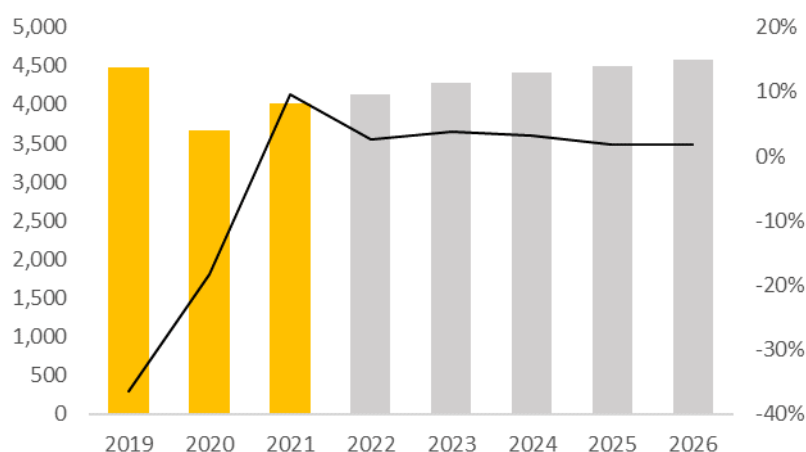
## 5. Forecasts and valuations

### 5.1 Key assumptions

We forecast a 5Y CAGR of 4% for VEA's net profit. This is a conservative forecast given a tepid motorbike market reaching replacement cycle (86% of JVs' earnings), while we have not factored in a potential boom in the automobile segment (14% of JV's earnings) leading to expansion of its JVs in Vietnam market. We forecast FY22 net profit of VND6,421bn (+11.6% YoY), driven by recovery of JV profit to VND 5,843bn (+12.8% YoY) while offset by an assumption of provisions booked against inventory of VND200bn pa in the next five years. Our key assumptions are below:

- For the next five years, we believe VEA's revenue will maintain a CAGR of 2.6%, given our critical assumptions that (1) motorbike part sales grow at 1% pa in a saturated market and (2) agricultural machinery also grows at 3% pa, in line with the agriculture segment in Vietnam while (3) truck market share of VEAM will hover around 1% as we have not seen any clear advantage of VEAM compared to others.

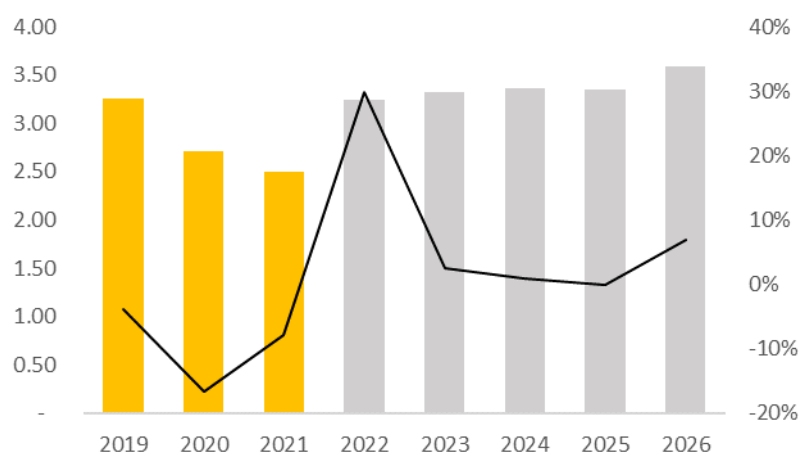
Fig 27: Revenue growth forecasts 2022-26



Source: Maybank IBG Research

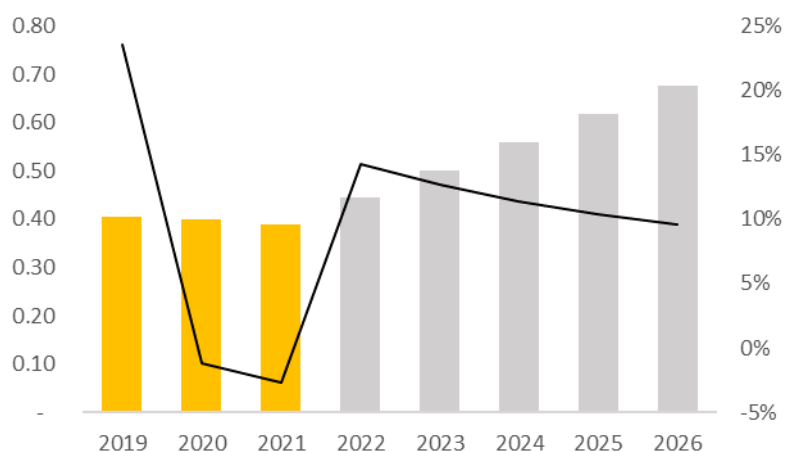
- Regarding the motorbike segment, we expect the market, even though saturated, will sustain flat sales volume of more than 3.2m units pa thanks to its replacement cycle. Given our critical assumption of (1) replacing motorbikes every 15 years, and (2) the number of motorbikes per capita will remain at more than two people per motorbike unit due to good demand for less-developed infrastructure. As a result, as a top-of-mind brand, Honda should maintain a dominant position in the field and successfully earn a premium margin as a price-setter. Thanks to this favourable market, we believe Honda sales will make a net profit margin of around 15%, while gradually reducing to 11% as in Thailand. Therefore, we forecast motorbike contribution of 85% for VEA's JV in the next five years, translating to a CAGR of 1%.



**Fig 28: Motorbike sales volume forecasts and growth 2022-26**

Source: Maybank IBG Research

- For the passenger car segment, we believe car sales will try to keep pace with the growth of the middle class. As a result, in the next five years, we expect car sales will grow at a 5Y CAGR of 9%. Furthermore, with clear brand recognition, we believe Toyota will gradually increase its market share to 25% by further penetrating the SUV segment. On the other hand, Honda will successfully maintain its current share while Ford might struggle to maintain its current position. As a result, total profit from automobiles should reach VND1.6tn in the next five years, translating to a CAGR of 16%.

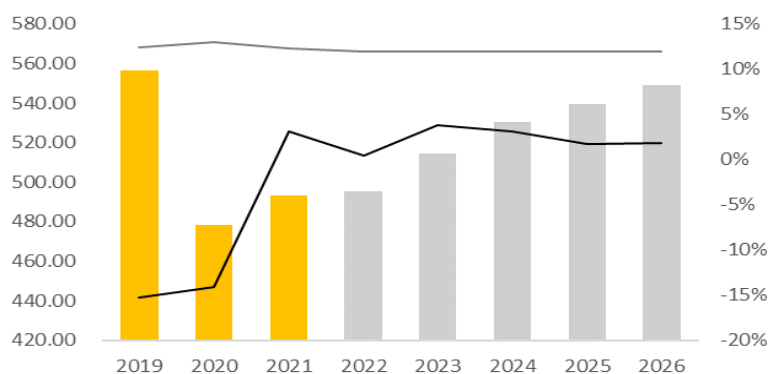
**Fig 29: Passenger car sales volume and growth forecasts 2022-26**

Source: Maybank IBG Research

- SG&A is unlikely to show any improvement until further ownership restructure. We believe VEA should maintain its current ratio of 12% over total revenue until further major divestment from the state-owned stake. As a result, net profit for the company should come to VND7tn in the next five years, translating to a CAGR of 4%.



Fig 30: SG&amp;A forecast, percentage of revenue and growth 2022-26



Source: Maybank IBG Research

## 5.2 Valuation

Fig 31: Key DCF assumptions

	2020	2021	2022F	2023F	2024F	2025F	2026F
EBIT	4,833	5,250	5,729	5,888	5,928	5,940	5,876
Taxes	(168)	(130)	(142)	(146)	(147)	(147)	(146)
EBIAT	4,665	5,120	5,587	5,742	5,781	5,792	5,730
(+) Depreciation & amortization	288	304	285	295	305	312	318
(-) Capital expenditures	(127)	(80)	(222)	(225)	(134)	(114)	(127)
(-) Increase in net working capital	41	(481)	1,247	(210)	(351)	664	(1,177)
FCFF	4,867	4,863	6,897	5,602	5,601	6,655	4,743
WACC			10.7%	10.0%	9.4%	8.9%	8.9%
Beta			1.0	1.0	1.0	1.0	1.0
Risk premium			7.8%	7.0%	6.5%	6.0%	6.0%
Cost of equity			10.800%	10.0%	9.5%	9.0%	9.0%
PV of future cash flow			6,667	4,933	4,539	5,003	3,274
Terminal value			56,847				
Enterprise value			81,264				
Total debt			(331)				
Equity value			80,932				
Total share outstanding			1,328,800,000				
Implied price			61,000				

Source: Maybank IBG Research

**We set a target price of VND61,000, implying 37% upside, including dividend yield**

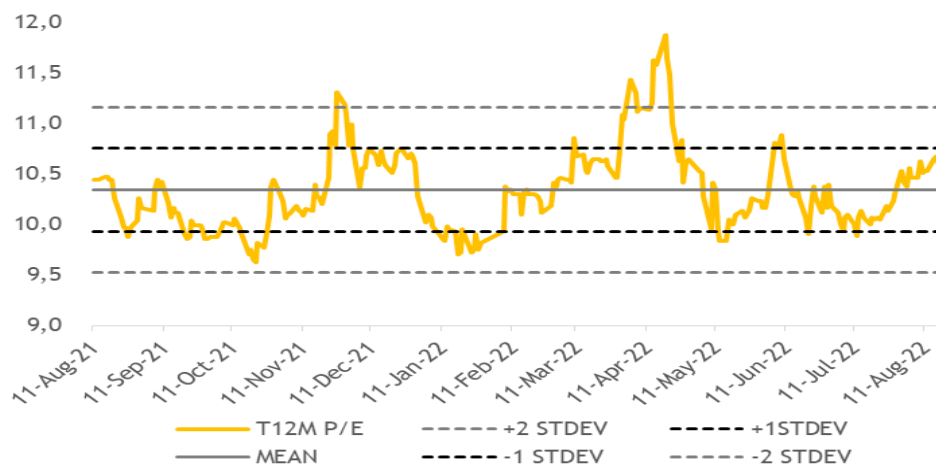
We estimate VEA's FY22E EPS should reach VND4,832 per share (+12% YoY) and an ROE of 26%. Our TP of VND61,000 is based on the DCF of VEA's consolidated free cash flow, translating to a PE of 12.7x in FY22 and 12.2x in FY23. The key assumptions in our valuation include:

- A sliding WACC from 10.7% currently to 8.9% base on a risk-free rate of 3% and improving market risk premium from 7.8% to 6.0% in FY26. We have taken into account the brighter outlook for the whole Vietnam economy, as (1) equity markets move toward emerging market status from currently frontier, and (2) the recent upgrade to BB+ by S&P - one notch from investment grade.
- A beta for the stock is equal to 1 as we think beta as a correlation between the share price and stock market is not efficiently demonstrated due to low liquidity. In VEA case, the asset risk exposure likely lie in VEA's agri/auto/motorbike business. A beta of 1 means it will likely perform in tandem with VN's economic performance.
- Pretax cost of debt of 5% and D/E ratio at 1.3x throughout the valuation period. We would like to remind investors that the company is mostly equity funded.



- A terminal growth rate of 3%, as we believe the company would grow in line with Vietnam's economy in the long run.

**Fig 32: VEA's one-year historical valuation**



Source: Maybank IBG Research

The stock is now trading at P/E of 9.5x (FY22E) and 9.1x (FY23E), below its average trailing P/E of 10.4x and near its one year -1SD of 10x.

We note that any one-off provision for receivables should be received favourably by the market, as it would pave the way for VEA to list on the HoSE.



## 6. Risks

### **Longer-than-expected chip shortage**

The shortage of chips (or semiconductors) was caused by the COVID-19 pandemic which pushed up demand for online working and entertainment equipment while supply was disrupted. Automakers were the first to be impacted by this shortage. This might last until FY23, as predicted by the CEO of Intel, as the gap between supply and demand is still significant.

The chip shortage has impacted the business plan of many automakers, as they might have to cut some electronic features from their car models in response to the lack of chips. That said, the impact on the premium segment is more significant than on the lower-end part. This is because premium cars have features with many electronic options, and customers of this segment rarely wish to compromise on any missing choices due to the vehicles' significant expense. Meanwhile, lower-end cars have fewer electronic options, and removing some options is more likely to be accepted, thanks to a lower price, which is also a critical consideration of customers in this segment.

### **Abandoning of motorbike use in future?**

Some local authorities might abandon motorbikes as a solution to traffic congestion. On Dec-21, Hanoi's transportation department proposed a draft plan on motorbike restrictions. Accordingly, motorbikes could be banned in five central districts after 2025 and in other areas after 2030. However, this proposal is controversial as it would be unfair to lower-income people and create inconvenience as public transportation currently only serves 17% of commuter needs.



FYE 7 Jan	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	na	na	9.4	8.9	8.8
Core P/E (x)	na	na	9.4	8.9	8.8
P/BV (x)	na	na	2.4	2.3	2.2
P/NTA (x)	na	na	2.4	2.3	2.2
Net dividend yield (%)	na	na	8.9	8.9	8.9
FCF yield (%)	na	na	10.8	8.7	8.7
EV/EBITDA (x)	9.1	8.7	7.6	7.1	6.8
EV/EBIT (x)	9.7	9.2	7.9	7.4	7.1

**INCOME STATEMENT (VND b)**

Revenue	3,666.9	4,019.2	4,127.3	4,286.0	4,418.8
EBITDA	5,113.3	5,536.8	6,014.0	6,183.0	6,232.6
Depreciation	(288.1)	(303.9)	(285.2)	(294.6)	(304.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4,825.3	5,233.0	5,728.7	5,888.4	5,927.8
Net interest income / (exp)	970.2	706.7	809.2	948.6	1,049.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	5,795.4	5,939.7	6,537.9	6,837.0	6,977.3
Income tax	(191.9)	(146.8)	(161.6)	(168.9)	(172.4)
Minorities	7.0	8.0	9.0	10.0	11.0
Perpetual securities	7.0	8.0	9.0	10.0	11.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	5,615.2	5,816.2	6,402.6	6,697.3	6,837.1
Core net profit	5,615.2	5,816.2	6,402.6	6,697.3	6,837.1

**BALANCE SHEET (VND b)**

Cash & Short Term Investments	13,570.7	12,079.6	15,061.9	16,779.8	18,480.8
Accounts receivable	4,277.6	3,598.4	2,063.6	2,143.0	2,209.4
Inventory	1,308.6	1,477.5	1,620.4	1,640.9	1,811.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,045.1	1,829.3	1,685.5	1,598.0	1,466.8
Intangible assets	76.5	74.6	76.1	77.7	79.3
Investment in Associates & JVs	5,302.9	5,244.9	4,982.6	4,733.5	4,496.8
Other assets	642.3	701.4	843.9	919.5	941.6
<b>Total assets</b>	<b>27,223.8</b>	<b>25,005.5</b>	<b>26,334.2</b>	<b>27,892.4</b>	<b>29,486.1</b>
ST interest bearing debt	163.8	247.6	331.5	415.3	499.1
Accounts payable	278.4	331.3	359.4	392.4	423.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.1	0.0	0.0	0.0	0.0
Other liabilities	1,500.0	743.0	748.0	753.0	759.0
<b>Total Liabilities</b>	<b>1,942.2</b>	<b>1,322.3</b>	<b>1,439.1</b>	<b>1,561.1</b>	<b>1,682.0</b>
Shareholders Equity	25,068.1	23,468.6	24,680.5	26,116.6	27,589.4
Minority Interest	213.5	214.6	214.6	214.6	214.6
<b>Total shareholder equity</b>	<b>25,281.6</b>	<b>23,683.3</b>	<b>24,895.1</b>	<b>26,331.3</b>	<b>27,804.1</b>
<b>Total liabilities and equity</b>	<b>27,223.8</b>	<b>25,005.5</b>	<b>26,334.2</b>	<b>27,892.4</b>	<b>29,486.1</b>

**CASH FLOW (VND b)**

Pretax profit	5,795.4	5,939.7	6,537.9	6,837.0	6,977.3
Depreciation & amortisation	288.1	303.9	285.2	294.6	304.8
Adj net interest (income)/exp	(5,842.7)	(5,949.1)	(8,018.6)	(8,623.0)	(9,080.0)
Change in working capital	200.0	(319.2)	1,409.7	(40.3)	(178.1)
Cash taxes paid	(159.1)	(161.9)	(162.3)	(169.7)	(173.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	281.6	(186.6)	52.0	(1,701.4)	(2,149.2)
Capex	(127.1)	(79.7)	(221.8)	(224.9)	(133.5)
Free cash flow	8,173.6	6,488.3	6,491.3	5,240.1	5,235.7
Dividends paid	(11,354.8)	(8,069.0)	(5,315.2)	(5,315.2)	(5,315.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(94.7)	83.7	83.8	83.8	83.8
Other invest/financing cash flow	6,023.6	8,227.9	7,207.0	6,283.2	7,661.1
Effect of exch rate changes	0.7	(1.8)	(3.4)	(3.5)	(3.6)
<b>Net cash flow</b>	<b>(5,270.7)</b>	<b>(25.5)</b>	<b>1,802.4</b>	<b>(878.0)</b>	<b>143.4</b>



FYE 7 Jan	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(18.3)	9.6	2.7	3.8	3.1
EBITDA growth	(25.5)	8.3	8.6	2.8	0.8
EBIT growth	(26.1)	8.4	9.5	2.8	0.7
Pretax growth	(21.8)	2.5	10.1	4.6	2.1
Reported net profit growth	(23.5)	3.6	10.1	4.6	2.1
Core net profit growth	(23.5)	3.6	10.1	4.6	2.1
<b>Profitability ratios (%)</b>					
EBITDA margin	nm	nm	nm	nm	nm
EBIT margin	nm	nm	nm	nm	nm
Pretax profit margin	nm	nm	nm	nm	nm
Payout ratio	124.5	114.2	83.0	79.4	77.7
<b>DuPont analysis</b>					
Net profit margin (%)	153.1	144.7	155.1	156.3	154.7
Revenue/Assets (x)	0.1	0.2	0.2	0.2	0.1
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	21.7	24.0	26.6	26.4	25.5
ROAA (%)	18.6	22.3	24.9	24.7	23.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	542.0	466.2	362.6	287.1	284.7
Days receivable outstanding	415.5	352.7	246.9	176.7	177.3
Days inventory outstanding	162.1	145.2	148.9	143.5	140.7
Days payables outstanding	35.6	31.8	33.2	33.1	33.3
Dividend cover (x)	0.8	0.9	1.2	1.3	1.3
Current ratio (x)	10.2	13.7	13.7	13.9	14.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	nm	nm	nm	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.1	0.1	0.1
Capex/revenue (%)	3.5	2.0	5.4	5.2	3.0
Net debt/ (net cash)	(13,406.8)	(11,831.9)	(14,730.5)	(16,364.6)	(17,981.7)

Source: Company; Maybank IBG Research



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