

BOLSTERING AND MAINTAINING SUSTAINABLE GROWTH BY CONTINUOUSLY UPHOLDING THE EXPANSION OF THE SHOWROOM NETWORK IN THE SOUTHERN VIETNAM REGION.



UPDATED INCOME STATEMENT (IS)

Industry: Automotive

Items (VND billion)	2021	2022	2023F	2024F	2025F
Revenue	4,509	6,307	8,371	14,649	19,003
COGS	(4,217)	(5,754)	(7,851)	(13,770)	(17,900)
Gross Profit	292	553	521	879	1,103
Finance Income	43	43	78	154	215
Interest Expense	(54)	(62)	(76)	(131)	(149)
Selling Expense	(154)	(266)	(321)	(584)	(760)
SG&A	(82)	(136)	(149)	(220)	(244)
Profit before tax	62	148	127	217	314
Tax expense	(10)	(31)	(26)	(43)	(63)
Profit after tax	52	118	98	174	251
Profit from parent company	49	112	94	168	244
EPS (VND per share)	0,741	1,470	1,199	1,737	2,518

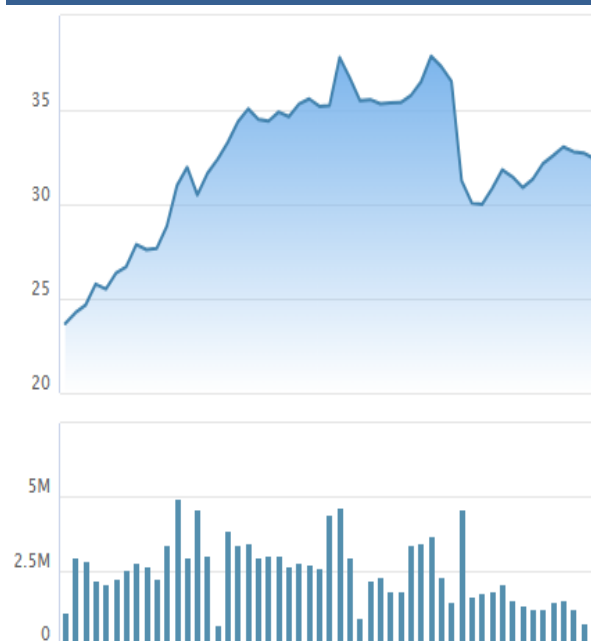
Update stock information (12/10/2023)

Listed shares	76,017,542
Outstanding shares	85,139,647
Market cap (VND billion)	2,537
Adjustment in 52 weeks	50.41%
Average volume in 10 sessions	453,240
% of Foreign investors	2.42%
Remaining room for Foreign investors	46.58%

Major Shareholders (12/10/2023)

Tran Ngoc Dan	8.76%
Tan Thanh Do JSC Ltd	8.42%
Tran Lam	8.02%
Tran Long	7.87%

Price chart (YTD2023)



POTENTIAL CATALYSTS

- Automotive market's **inherent resilience**, coupled with **regulatory measures** promised by management authorities, holds promise for the second half of 2023 with significantly **positive signals that lay the groundwork for a return to a growth trajectory**.
- The **expansion of showroom** system in the South of Vietnam will **facilitate the increase of sales volume**, create a new driver for the long-term development of the company.

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PART I: BUSINESS OVERVIEW

BUSINESS OVERVIEW

City Auto Joint Stock Company (“City Auto”) – a leading Ford and Hyundai dealer with more than 20 years of experience.

Established in the early 2000s, City Auto Joint Stock Company has its roots in Tan Thanh Do City Ford Joint Stock Company, which was among the first Ford car dealerships in Vietnam. Throughout its journey, City Auto has sustained gradual expansion, which built a substantial presence through the development of robust subsidiary companies, affiliated entities, and member organizations (Figure 1). City Auto Joint Stock Company had its shares publicly listed and traded on the Ho Chi Minh Stock Exchange (HSX) under the ticker **CTF** on May 30, 2017. City Auto's main activities encompass a range of segments such as imported cars, domestically assembled vehicles, used vehicles, limousines, automotive spare parts, car rental services, top-tier maintenance and repair services in the Vietnamese market.

City Auto's ongoing expansion is clearly demonstrated by its existing network of 14 showrooms in HCMC, Vung Tau, Nha Trang, Binh Phuoc, etc., (Table 1, Table 2)

Based on CTF's financial results for 2022, over 92% of the company's income originates from vehicle sales. Beyond the automotive sales, CTF also earns revenue through post-sales services, such as car maintenance and the replacement of vehicle parts. (Figure 2)

City Auto's extensive network of dealerships has solidified its position as the top distributor of Ford automobiles in Vietnam, representing 20% of the total Ford sales in the region. Additionally, City Auto's sales of Hyundai cars make up 10% of the market share for that particular brand.

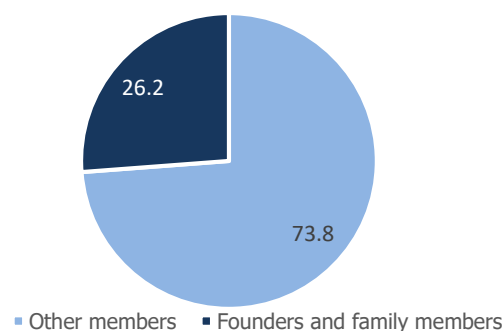


Figure 1: Shareholder structure (Source: CTS summarized)

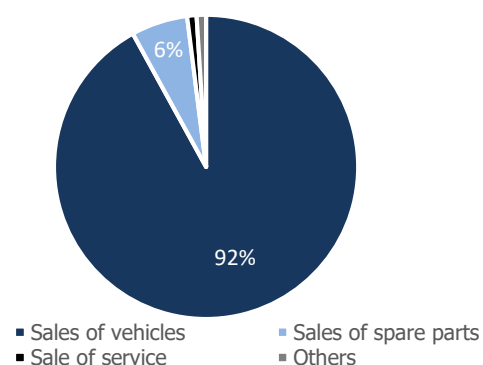


Figure 2: Sales (FY 2022) (Source: CTS summarized)

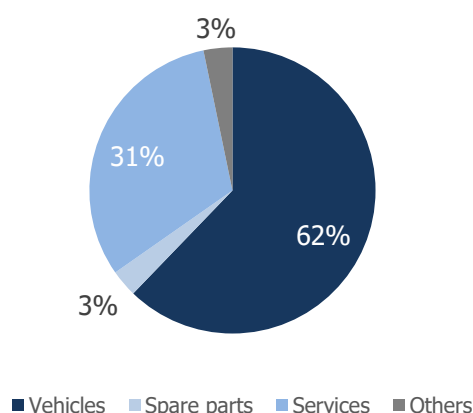


Figure 3: Profit before Tax (FY 2022) (Source: CTS summarized)

Table 1: CTF's Ford Showrooms in the South of Vietnam

Dealers	Ratings	Address	Acreage (m ²)
City Ford	3S	216 – 218 Route 13, Hiep Binh Chanh Ward, Thu Duc City, Ho Chi Minh	6,600
Ford Phu My	3S	Block B1, C2 Street, Cat Lai 2 Industrialized Zone, Thanh My Loi Street, District 2, Ho Chi Minh City	6,288
Ford PM An Phu Branch	2S	596A Ha Noi Highway, An Phu Ward, District 2, Ho Chi Minh City	1,000
City Ford Ba Ria	3S	Highway 51, Phuoc Long Ward, Vung Tau Province	3,500
City Ford Vung Tau	2S	40A 30 Tháng 4 Street, Vung Tau Province	1,000
Ford Nha Trang	3S	51 Le Hong Phong Street, Phuoc Tan Ward, Nha Trang City	7,000
Ford Phu Yen	3S	Nation highway 25, Dong Phuoc, Phu Hoa, Phu Yen	4,000

(Source: CTF's website, CTS summarized)


Table 2: CTF's Hyundai Showrooms in the South of Vietnam

Dealers	Ratings	Address	Acreage (m ²)
Truong Chinh Hyundai	3S	4A Truong Chinh Street, Ward 15, Tan Binh District, Ho Chi Minh City	4,000
Binh Phuoc Hyundai	3S	Block 3, Tan Tra Town, Dong Xoai City, Binh Phuoc Province	3,810
Showroom Truong Chinh Hyundai	1S	Block H3, 384 Hoang Dieu Street, Ward 4, Ho Chi Minh City	1,000


(Source: CTF's website, CTS summarized)


EXPERIENCES AND KEY PERSONNEL


The CTF's successful journey can be attributed in large part to the experienced and exceptionally motivated leadership team, featuring essential key contributors:

 **Mr. Tran Ngoc Dan**
Chairman, 40 years (yrs) of experience


 **Mr. Nguyen Dang Hoang**
General Director, 20 yrs of experience


 **Mr. Vo Thanh Phong**
Deputy General Director, 20 yrs of experience


 **Ms. Le Thi Phu**
CFO, 20 yrs of experience

 **Mr. Ta Chi Hoai**
Sales Director, 20 yrs of experience

 **Mr. Ton That Thach**
Service Director, 22 yrs of experience


 **Mr. Phan Doan My**
Service Director, 20 yrs of experience.

 **Mr. Huỳnh Anh Tuấn**
Branch Director, 22 yrs of experience.

 **Mr. Tran Quang Tri**
CTF Deputy General Director cum Sub's General Director, 22 yrs of experience

 **Mr. Nguyen Quang Khai**
Sub's General Director, 20 yrs of experience


 **Mr. Le Cong Tam**
Sub's General Director, 23 yrs of experience

 **Ms. Nguyen Lan Huong**
Sub's General Director 20 yrs of experience

 **Mr. Mai Ngoc Hoang**
Sub's General Director, 18 yrs of experience

 **Ms. Phan Thi Thao Nguyen**
Branch Director, 9 yrs of experience

 **Mr. Tran Ngo Quang Phuc**
Service Director, 18 yrs of experience

 **Mr. Nguyễn Sơn Lâm**
Sub's Sales Director, 15 yrs of experience

FINANCIAL PERFORMANCE

As can be shown in *Figure 4*, City Auto had maintained the sustainable growth despite numerous difficulties in the Vietnam economy during the period. Specifically, **total sales increased by nearly 40% in 2022**, compared to 2021. More importantly, in parallel with the growth trend in sales, City Auto's gross profit margin underwent a significant rise by 6% YoY. Such positive results were derived from the special competitive advantage of CTF as a leading authorized dealer of Ford and Hyundai in Vietnam's market.

As of now, CTF holds a **market share of 22-25% in Vietnam's Ford market**, whereas Hyundai Thanh Cong's share exceeds 8%. Notably, CTF has placed significant emphasis on expanding their after-sales distribution channels, resulting in an enhanced customer experience, which is a crucial factor for Vietnamese consumers when making business decisions. Thanks to these efforts, **CTF now commands a 35% market share in the distribution of Ford and Hyundai vehicles in Vietnam**, solidifying its position as the market leader.

In line with significant enhancement in sales, **CTF financial health demonstrated a sharp improvement** in profitability indicators like Gross profit margin (GPM), or Operating Profit Margin (OPM); which were much clearer by diving in DuPont analysis of ROE (*Figure 6*). In particular, ROE rebounded to the pre-COVID two-digit level. Similarly, CTF's net profit margin underwent a bold recovery thanks to the solid improvement in the after-service segment.

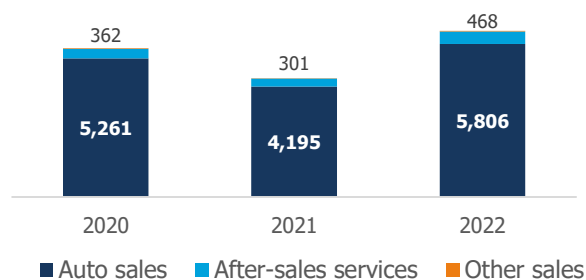


Figure 4: CTF's sales (FY 2020 - 2022)

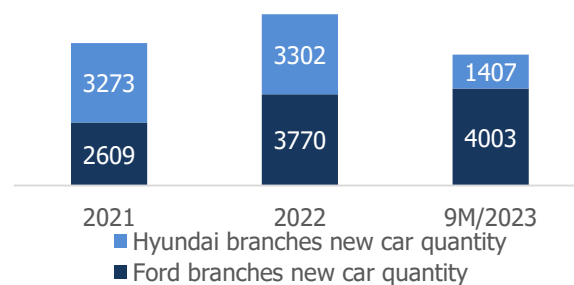


Figure 5a: CTF's new car (FY 2020 - 2022)

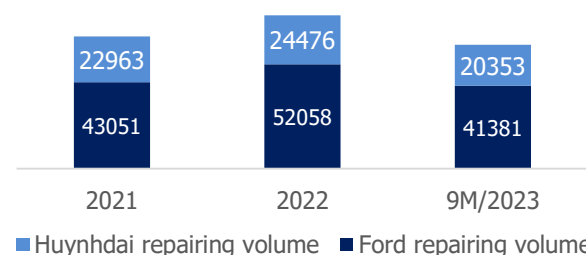


Figure 5b: CTF's repairing quantity (FY 2020 - 2022)

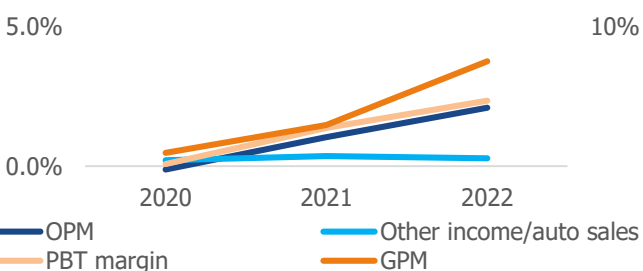


Figure 6: CTF's profitability margins (FY 2020 - 2022)

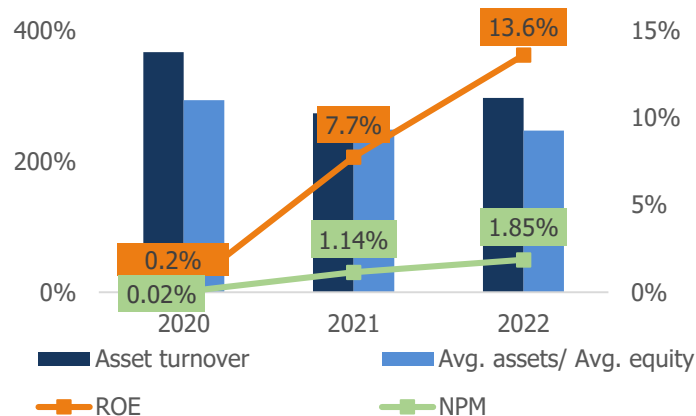


Figure 7: CTF's Dupont analysis of ROE (FY 2020 - 2022)

PART II: MARKET OVERVIEW

MARKET SITUATION 1H2023 & OUTLOOK ON 2H2023

In general, over the last five years, Vietnam's automotive sector had experienced a robust expansion, with an average growth rate of approximately 15-20%. Meanwhile, statistical data reveals that Vietnam's car ownership is quite low (just about 44 vehicles per 1,000 individuals). Given Vietnam's per capita GDP had surpassed USD4,000, it is anticipated that the rate of car ownership will further accelerate in the upcoming years.

However, the automotive market in 2023 has been quite sluggish from the beginning of 2023 until now. The foremost challenge stemmed from an economic downturn, resulting in decreased demand for vehicle purchases. The second obstacle was the high-interest rate environment, which limited access to capital for buying cars. The third aspect was the surge in car supply resulted in a substantial increase in inventory compared to the prior year.

Still, under these circumstances, there are observable signs that indicate the continued strength of the market's internal growth drivers. This is evident through the steady expansion in specific market segments, along with the market's positive reception of business initiatives aimed at boosting demand, the introduction of practical and market-adapted vehicle models, and government support through policy measures.

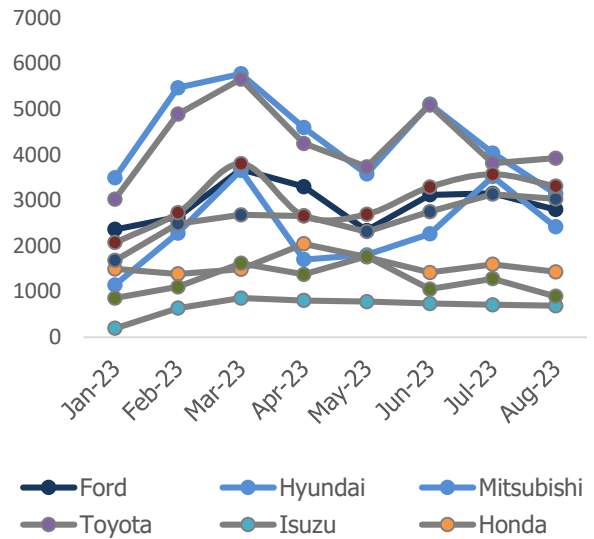


Figure 8: Monthly sales by brands 8M2023 (Source: VAMA)



Figure 9: Best seller models during 1H2023 (Source: VAMA)

General picture of Vietnam automotive outlook for second half of 2023

Anticipated car sales may reach their lowest level in the third quarter of 2023, primarily because of the ongoing decrease in interest rates, which is expected to stimulate the demand for luxury items. The State Bank of Vietnam has recently carried out four successive interest rate cuts, substantially moderating the interest rate environment for deposits and loans in the market. Currently, commercial banks are offering a 12-month term deposit rate of less than 8% per annum. This development is a positive sign that bolsters the demand for discretionary consumer products like automobiles. Government incentives will play a pivotal role in propelling the revival of the automotive sector in the latter half of 2023. In particular, the government has issued Decree 36, which extends the deadline for paying exercise duty on domestically manufactured and assembled cars. Another policy-driven boost is the government's endorsement of a 50% reduction in registration fees for domestically manufactured cars, effective from July 1 until the end of 2023, which means that the price per unit sold will reduce by approximately 5 to 6 percent. In a nutshell, despite the current challenges, the market's inherent resilience, coupled with regulatory measures promised by management authorities, holds promise for the second half of 2023 with significantly positive signals that lay the groundwork for a return to a growth trajectory in the coming years

Huge potential for automotive market penetration for upcoming years

Automotive ownership rate of Vietnam remains still very low in comparison with other countries in the region

Statistical data reveals that Vietnam's car ownership by December 2022 stood at just about 44 vehicles per 1,000 individuals, significantly lower than countries such as Indonesia (87), Laos (120), Singapore (148 cars), Thailand (290), among others. It can be indicated that there is an extremely large room for the market penetration.

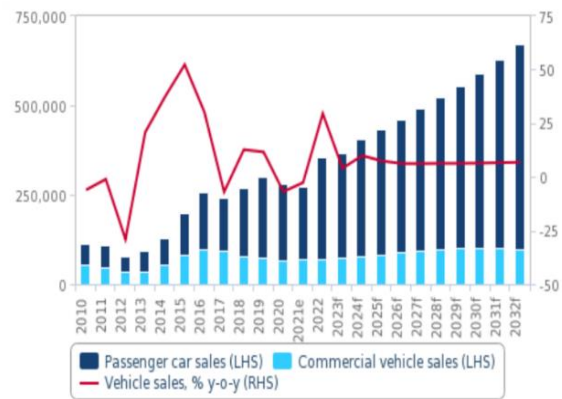


Figure 10: Projected Vehicle sales by segment (Source: VAMA, BMI - A Fitch Solutions Company)

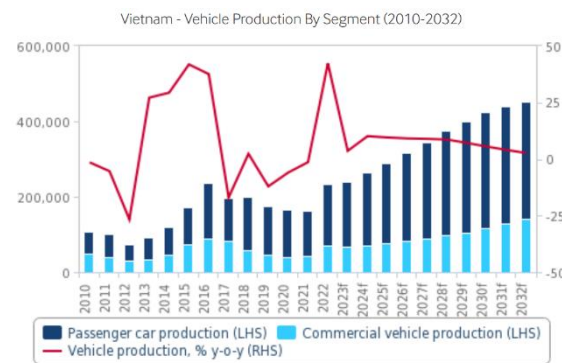


Figure 11: Projected Vehicle production by segment (Source: VAMA, BMI - A Fitch Solutions Company)

Automobile Ownership Rate

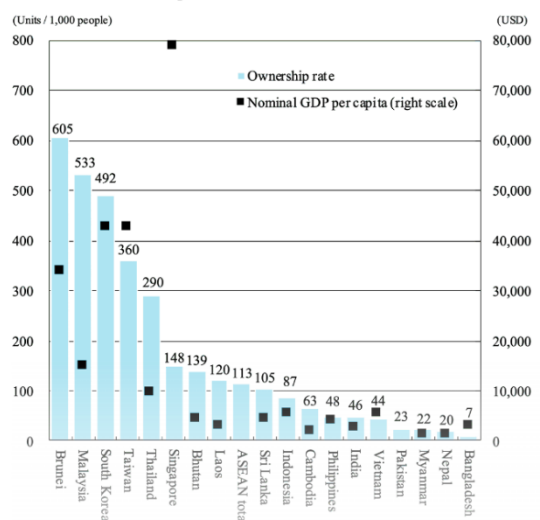


Figure 10: Vietnam Automobile ownership rate (Source: Fourin)

Expansion in the middle class accompanying economic growth

GDP per capita has been undergoing a rising trend

Vietnam's remarkable progress in development can be attributed to a combination of economic transformations and favorable international factors. These factors have enabled Vietnam to transition from one of the world's most impoverished countries to a middle-income economy in just a single generation. Over the course of 2002 to 2022, the per capita GDP surged by a factor of 3.6, reaching nearly USD3,700.

Moreover, as an integral component of Vietnam's governmental strategy for the period between 2021 and 2030, with an outlook extending to 2050, **Vietnamese Government aimed to achieve a per capita GDP of USD7,500 by 2030**, with the aspiration for an even greater figure by 2050.

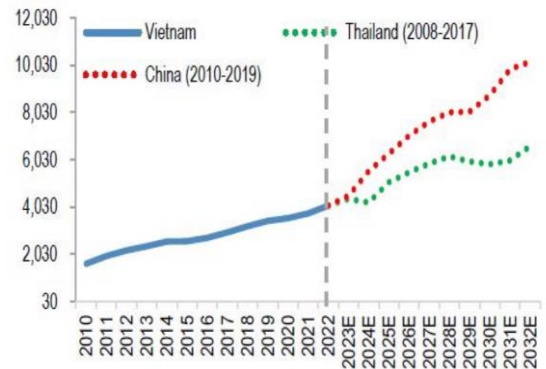


Figure 13: Regional GDP per capita (Source: IMF)

Higher daily income, more spending

By 2030, it is projected that Vietnam will have approximately 48 million individuals, which is nearly half of its population, with a daily income surpassing USD20 when adjusted for 2011 purchasing power parity (PPP). This would **position Vietnam as one of the world's top 10 largest consumer markets by 2030**, as indicated in the recent report by HSBC titled "Asia's Shoppers in 2030."

2021 vs 2030, population (Mn) with daily income of more than USD20 (2011 PPP)

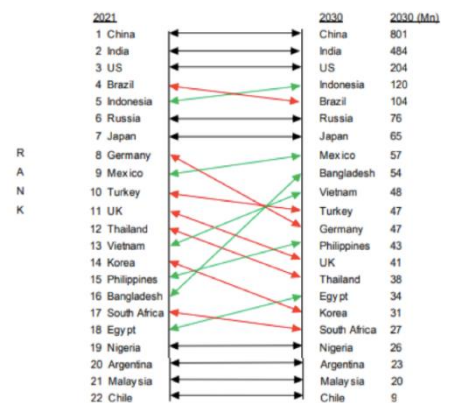


Figure 14: Daily income of more than USD20 (Source: HSBC estimates)

Expansion in the middle class

According to a report published by the United Kingdom-based analytical non-governmental organization and data analysis company, World Data Lab, Indonesia is projected to have the world's most rapidly expanding middle-class population, reaching 75.8 million people. Following Indonesia, Pakistan is expected to have 59.5 million middle-class individuals, and Bangladesh is estimated to have 52.4 million. The middle class is defined as households with per-capita spending ranging from USD11 to USD110 per day. **Vietnam is anticipated to have a total of 56 million middle-class individuals by 2030**, which would result in **a significant leap from its current 26th position to the 18th place in the global ranking** of 30 economies with the largest middle-class populations.

Economies with fastest-growing middle class population 2020-2030

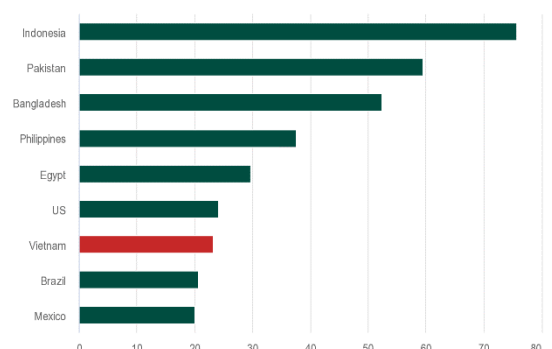


Figure 15: Projected middle class population by 2030 (Source: World Data Lab)

PART III: CTF IN THE FUTURE: STRATEGIC MOVES AND 2023-2025 FINANCIAL FORECASTS

CITY AUTO’S STRATEGIC MOVE IN 2023 AND AFTERWARDS

With a captivating narrative for the future of the Vietnam Automobile Market, City Auto's dedicated leadership team, among others, has outlined essential strategic steps in its expansion strategy to seize the significant opportunities ahead.

Strong growth in upcoming years by acquiring new showrooms and rapid expansion, welcoming new members into its product portfolio.

So far, City Auto actively looks for opportunities to acquire new dealers under new brands to diversify its product portfolio. As a matter of fact, it has a well-prepared plan to acquire new showrooms of Volkswagen and Mitsubishi in prime locations.

To harness the robust growth potential of the market, City Auto has established strategic objectives aiming to increase its dealer network from 12 showrooms in 2022 to 24 by 2025, a two-fold expansion. Of paramount importance, the Company's strategy for the upcoming years places a strong emphasis on elevating dealer standards and shifting towards a more comprehensive approach to service delivery.

With an aspiration to participate in the assembly phase, City Auto is actively seeking the chance to collaborate with well-established foreign brands.

City Auto believes that being a manufacturing and assembly partner of international car companies will help the Company to strengthen its footprint in automobile industry. This move will promisingly enable the Company to diversify its business operation, significantly broaden its showroom network, and most importantly, capitalize on a valuable opportunity to grow its market share.

As an integral component of the Company's development strategy, City Auto is concentrating on key foundation elements, including (i) *prioritizing human resource enhancement*, (ii) *modernizing business processes and management mechanisms*, and (iii) *optimizing financial activities*. In summary, City Auto’s meticulously crafted strategy is comprehensively reasonable based on the fact that the Vietnamese automobile still has great residual space to develop in the future.

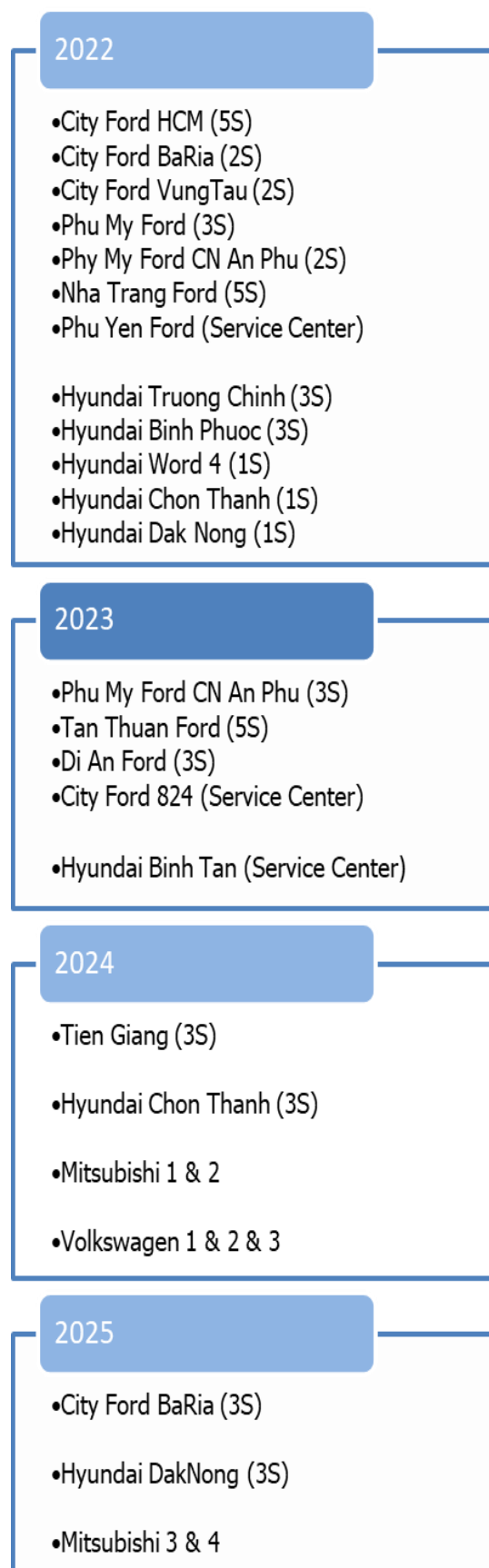


Figure 14: CTF's strategic plan

FINANCIAL FORECASTS

Regarding the overview and future outlook of the macroeconomic, automotive industry, CTF's financial position and strategic moves, forecasts on CTF's future performance will be formed to conclude the target price:

Some key assumptions in estimating CTF's financial performance

Sales is expected grow from VND6,307 billion (2022A) to VND19,000 billion (2025F) with CAGR of 44% in 2022-2025, thanks to: (1) Showrooms expansion; (2) Acquiring new established dealers under new brands – incl Volkswagen, EPS is expected to increase from VND1,470 (2022A) to roughly VND2,500 (2025F); and (3) In 2024, CTF plans to raise funds through private placement of shares.

VALUATION

Based on its long-term growth potential and relative to similar companies in Vietnam and abroad, we value a target price of **VND 43,000/share** (with a 20% discount from our forecast) for one year, **or 43% upside from** the closing price dated October 12, 2023.

TICKER	NAME	COUNTRY	MARKETCAP	TTM P/E
002627 CH	Hubeiyichang Transportation Group Co Ltd	China	489	76.57
1771 HK	Sunfonda Group Holdings Ltd	China	70	46.91
HAX	Hang Xanh Motors Service Joint Stock Company	Vietnam	56	12.38
SVC	Saigon General Service Corporation	Vietnam	101	12.94
MEDIAN				29.93
MEAN				37.20

YEAR	2022	2023F	2024F	2025F
EPS	1,470	1,199	1,737	2,518
Price ranges				
PE = 31	45,570	37,169	53,847	78,058
PE = 33	48,510	39,567	57,321	83,094
PE = 37	54,390	44,363	64,269	93,166
PE = 40	58,800	47,960	69,480	100,720

INVESTMENT RISKS

- (1) Vietnamese consumer spending has still been undergoing significant reduction although different actions have been made by SBV and the government to support the automotive industry, resulting in lower-than-expectation actual business performance of CTF for the year 2023.
- (2) The monetary policy of leading central banks, especially Fed, is still complicated to predict the next action, meaning that the residual space for SBV to continue the loose monetary policy is lower, affecting the demand of customers towards luxury products like car.
- (3) At the end of quarter II/2023, CTF's financial borrowings are VND 1,819 billion. With the loan interest rate still remains at a high level, this can be an unavoidable impact factor to the financial performance of CTF for the year 2023

VIETINBANK SECURITIES' ADVISORY RECOMMENDATION SYSTEM

VietinBank Securities' Advisory Recommendation System is built based on the absolute increase/decrease of the stock price on the date the report is published compared to its figure in different holding periods.

3-Months Holding Period

Recommendation	Explanation
BUY	If the difference between the target and market price is higher than 5%
IN WATCH LIST	If the difference between the target and market price is from 3% to 5%
HOLD	If the difference between the target and market price is from -4% to 3%
SELL	If the difference between the target and market price is less than -5%

1-Year Holding Period

Recommendation	Explanation
BUY	If the difference between the target and market price is higher than 5%
IN WATCH LIST	If the difference between the target and market price is from 3% to 5%
HOLD	If the difference between the target and market price is from -4% to 3%
SELL	If the difference between the target and market price is less than -5%

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