

VietJet's Impending IPO Underscores Company's Success, but Regional Consolidation Probably Necessary

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VietJet's impending initial public offering (IPO) highlights the airline's quick success in Vietnam—it began service in late 2011—but the saturation of low-cost airlines throughout Southeast Asia will challenge the company's continued growth, suggesting VietJet and other carriers eventually will need to consolidate to remain profitable. At the end of 2016, there were 21 low cost carriers (LCCs) in Southeast Asia, operating 623 aircraft, [according to the Centre for Aviation](#).

- On 7 February, the Ho Chi Minh City Stock Exchange (HOSE) approved VietJet's IPO proposal to list 300 million shares, which could begin trading later this month, [according to Deal Street Asia](#). People close to the deal estimate the IPO will value Vietnam's only private airline at approximately USD 1.2 billion, or around USD 4 per share, [according to Reuters](#).
- [Reuters](#) in May reported that VietJet operated 36 aircraft, and it has pending orders with [Boeing](#) and [Airbus](#) that are expected to bring the company's total fleet to more than 200. The airline primarily has served Vietnam's domestic market, but its growth plans extend

throughout the region, [according to Reuters](#), and probably beyond.

VietJet's IPO and growth plans come at a time of rapid expansion in LCCs throughout Southeast Asia. VietJet's ambitious expansion most closely mirrors that of Air Asia and Lion Air, two of the region's largest LCCs.

- Airline seat capacity in Southeast Asia has increased more than 300% since about 2004, with 75% of this increase coming from LCCs, [according to Airline Leader](#).
- Air Asia began service in 2001 and operates more than 175 aircraft, serving destinations throughout Asia, Oceania, the Middle East, and, soon, probably the [United States](#). Lion Air commenced service in 2000 and operates more than 112 aircraft, mostly in Southeast Asia, and as of mid-2015 it had orders for almost 800 additional aircraft, according to [The Jakarta Post](#).

VietJet's success and upcoming IPO is another indicator of Vietnam's improving economy and investment climate. [According to Bloomberg](#), Hanoi is targeting GDP growth of 7% through 2020, and it continues to divest its stake in various state owned enterprises to encourage private ownership.

- Analysts expect the VN Index to reach 745 by year end, a gain of about 12%. Since 2012, the VN has increased 89%, which is the third largest gain during this period for an Asian index, [according to Bloomberg](#).

LCCs in Southeast Asia probably will experience depressed margins and profitability over time, and they almost certainly will need to consolidate in order to

maintain their profitability and increase shareholder value.

- [According to Air Asia's 2015 Annual Report](#), from 2011 through 2015, the company's passenger revenue per kilometer gained 43%, while the company's market capitalization declined over 65%, from 10.473 billion Malaysian Ringgit to 3.59 billion. This suggests investors might be discounting the company's ability to maintain its past profitability.