

# SAIGON SECURITIES INC. (HSX-SSI)

November 14, 2014

## INITIAL COVERAGE:



Current Price (11/14/2014):	VND	30,600
Target Price:	VND	27,900
Short-term recommendation:	HOLD	
Resistance level:	VND	32,400
Support level:	VND	30,000
Bloomberg ticker: <b>SSI VN</b>	Exchange:	HSX
Industry: Financial		
Adjusted Beta:		1.2
52w High / Low (VND)		32,400/16,600
Outstanding Shares (mn)		353.7
Market Cap (VND bn)		10,826.1
Free Float (%)		68.36
LTM Avg Trading Vol		25,351.32
Foreign-owned Ratio (%)		37.81%

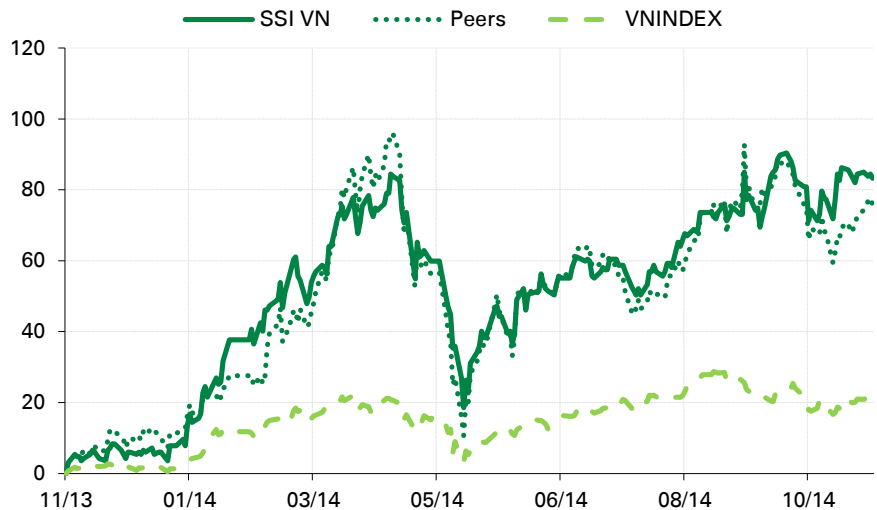
Year	Div. Rate	EPS
2015F	10%	1,889
2014F	10%	1,790
2013	10%	1,192
2012	10%	1,328

	SSI	Peers	VNI
P/E	17.3x	11.25x	14.72x
P/B	2.0x	1.3x	1.97x
ROE	11.9%	12.2%	13.7%

### Company Description:

- Established in December 1999 with initial chartered capital of only VND6 billion, SSI was one of the first three securities companies of the industry.
- SSI is a full brokerage house, providing securities services, asset management, and corporate finance advisory.
- SSI is the largest securities companies in Vietnam with chartered capital of VND 3,538 billion



We initiate coverage of Saigon Securities Inc. (SSI) with a long-term **HOLD** recommendation based on the following:

- ❖ **Securities company stocks should perform well in 2015:** We maintain a positive outlook for the stock market in 2015 thanks to stable macroeconomic conditions and the development of new financial products. Market trading volume and returns are expected to stay strong, providing high brokerage revenues and good returns on proprietary trading.
- ❖ **But SSI shares are already fully valued:** SSI's share price has risen 90% over the last 12 months. This was very much in-line with other securities companies, but it is currently trading at a 62 % premium above its peer group based on P/B ratio. Compared to the historical average premium of 49%, the current share price seems a bit rich.
- ❖ **And SSI shares not likely to outperform the sector:** SSI is a market leader with strong brand name and leadership and the top market share. It is especially strong in institutional brokerage with about 30% market share. But due to the large size of its equity capital and its very low leverage, SSI's ROA and ROE are only in line with its peer group. Furthermore SSI's focus on proprietary trading makes its operating results more unstable.
- ❖ **ANZ divestiture is a positive development:** ANZ recently divested its 17.5% share of SSI's ownership. ANZ was not an active strategic investor. The sale has created room for a new foreign investor, who may bring more strategic value.

Please see important disclosure information at the end of this report.

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## VIETNAM SECURITIES INDUSTRY

### OVERVIEW

#### High market concentration

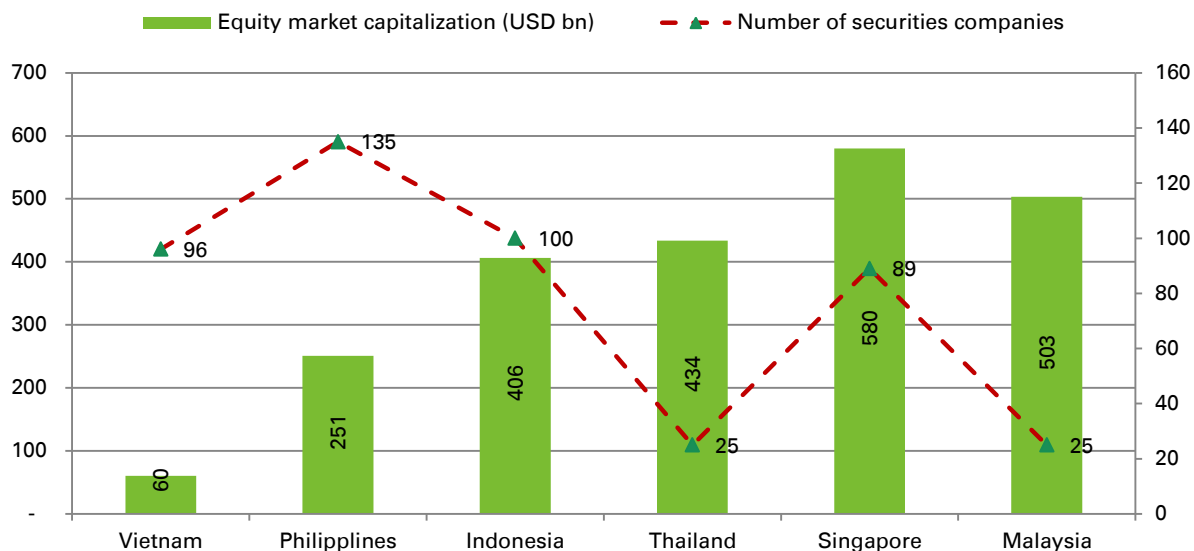
The top 10 companies account for 75% of the total market share, leaving the remaining 86 companies to compete with one another over the remaining 25% of the total. Armed with the heat of the 2006 to 2007 Vietnam stock market bubble, the number of securities companies also increased strongly in this period. Before 2006, there were only 14 securities companies. However, by the end of 2007, the number had increased fivefold, standing at 78 companies. And by the end of 2013, there were 96 securities companies functioning as the intermediaries between corporations and investors. The actual number of securities companies that are operating properly may actually be less than the reported figures provided by SSC. The services provided by the companies are increasingly diversified and have improved in quality despite their limited level of risk management.

Market share of top 10 and top 20 securities companies			
	Brokerage Revenue	Advisory Revenue	Profit before tax
Top 10	62.71%	82.72%	75.39%
Top 20	80.90%	93.76%	94.20%

Source: Companies FS

The number of securities companies in Vietnam is enormous when one considers that Vietnam's markets have the smallest equity market capitalization (EMC) in the region – 96 firms in the market space with only USD60 billion of market capitalization compared to 89 firms in Singapore with a market capitalization nearly 19 times the size.

#### Vietnam markets and its neighbors as at November 10, 2014



Note: The EMC is taken from the combination of all stock exchanges in each country.

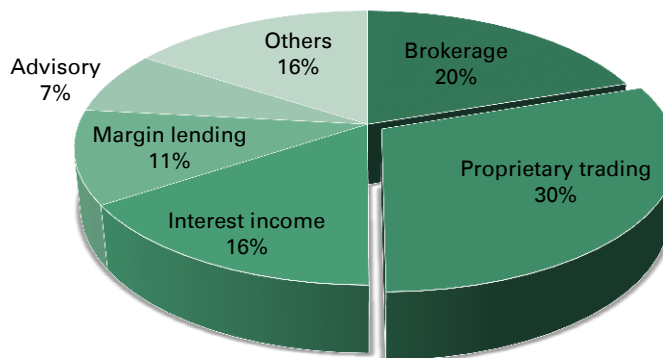
Source: VPBS collected

#### Proprietary trading remains the major source of revenue

The revenue structure of the industry shows profitability in proprietary trading activities (32%), followed by interest income (22%) and brokerage (19%) in 2013 performance results. Although interest income is not a core business activity of

securities companies, this type of revenue is favorable among the industry due to high deposit rates in the past few years. Despite a small contribution to total revenue, corporate finance advisory still has a strategic role in improving the image and reputation of securities companies in the eyes of investors.

#### Revenue structure of the top 20 securities in 2013

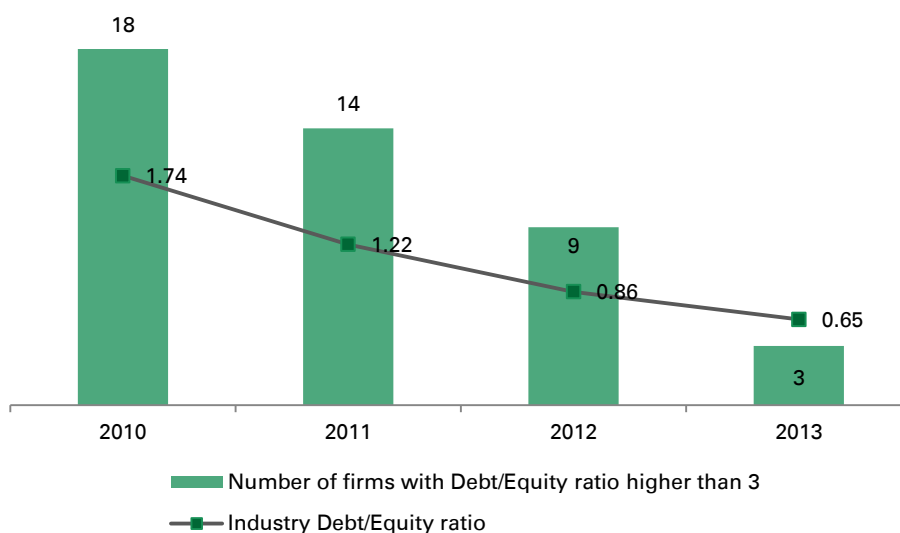


Source: Company data, VPBS collects

#### Lower leverage ratio overtime

The level of financial leverage has been decreasing substantially in the last four years. The reason for this trend is mainly due to the modest trading activity and humble return of the stock market in 2010 and 2011, and also the stricter regulations regarding the financial safety ratio of securities companies, which has yielded the consequences of reducing the level of financing services for customers (margin lending) and the investment scale of the companies themselves.

#### Debt/Equity Ratio of securities companies

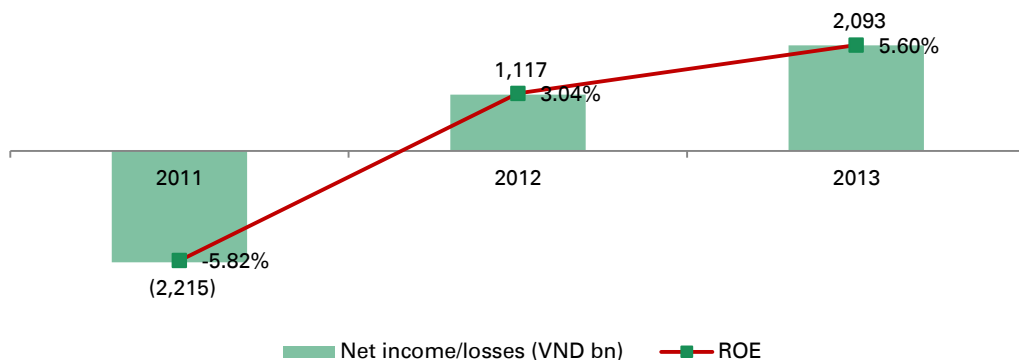


Source: VPBS collected

## Improving profitability in recent years as weak players exited the market

The profitability of the securities industry as a whole has been improving from its trough in 2011. The number of companies that incurred losses in 2013 dropped to 36 from 45 in 2012. The profitability of the industry measured by ROE, however, was still relatively low compared to the market.

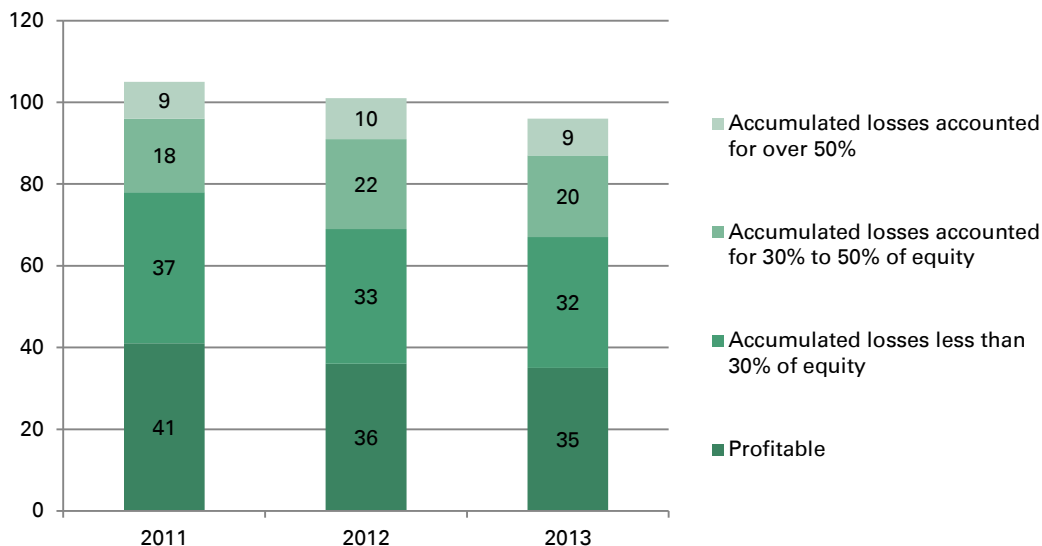
Profitability of securities industry



Source: VPBS collected

Over time, small and weak securities companies have been gradually pushed out from the market as they continuously lose market shares to the bigger players. As of FY2013, the total number of securities firms was 96.

Number of securities companies break down by level of profitability



Source: VPBS collected

## MARKET OUTLOOK

### Stable macroeconomic conditions positively impact the stock market

The third quarter of 2014 was a good one for Vietnam's economy but a volatile one for the stock market. GDP growth was strong, led by exports from the FDI sector. The dong remained relatively stable and, perhaps most importantly,

inflation was lower than expected and as low as it has ever been. The combination of these factors pushed government bond yields down by more than 100 basis points across all tenors. These strong economic results pushed stock prices to the highest levels we have seen since 2010 with the VN-Index reaching 640 and a P/E ratio of 16.2x trailing 12 month earnings. However, the market rose higher than many investors (including us) felt was justified and then corrected during the final month of the quarter back to just below 600 to 599.

Looking ahead to the fourth quarter, we see the macroeconomic stability continuing. Exports should continue to grow, especially due to strong recovery of the US consumer. Lending rates are falling, but bond yields may start to inch up. Although the current momentum in the stock market is edging downward, we believe that the economic conditions will stabilize the market and we should be able to close the year with the VN-Index above the key level of 600. However, if bond yields increase more strongly due to concerns about the amount of government debt this could push stocks lower.

Over the next one to two quarters we feel confident that the VN-Index can rise above its current level. The driver for this comes from bond yields. Our analysis shows a very high negative correlation (nearly 87%) between the 5-year government bond yield and the VN-Index P/E ratio. Of course, it is not surprising that as the risk-free rate falls, the present value of corporate earnings increases. As we stated in our macroeconomic analysis above, government bond yields have fallen significantly throughout the year due to lower than expected inflation and a lack of other investment alternatives for banks. During the fourth quarter we expect that inflation will continue to be low but credit growth may rise. So there will be some conflicting pressures on bond yields. Still we expect them to remain low and P/E ratios to remain high. An average P/E ratio of 15.5 to 16x would be reasonable for the VN-Index through the end of the year based on the expected market conditions.

Although the correlation between P/E ratios and bond yields is quite high, P/E ratios are also a measure of investors' expectations for earnings growth. In that respect recent performance has been quite disappointing, with very little earnings growth. If earnings growth cannot improve then low bond yields will not be sufficient to keep P/E ratios high.

The HSX began the quarter with a lower average P/E ratio than the Bangkok, Jakarta or Philippine Stock Exchanges. It seemed appropriate that Bangkok and Philippines should have higher P/E ratios than the HSX because their risk free rates were much lower. Jakarta seemed overvalued. During the quarter, as the HSX P/E ratio reached 16.2x, we became concerned that it was too close to Bangkok and Philippines but by the end of the quarter it had returned to 14.8x. We note that all four of the exchanges recorded small increases in their P/E ratios. So it would seem that the HSX move was in-line with the peer group.

However, the change in government bond yields indicates that the HSX may actually be poised to outperform its neighbors. During the third quarter the Vietnam 5-year government bond yield declined by 180 basis points, while Thailand's declined by 25 basis points and Indonesia and Philippines both increased. Vietnam began the quarter with yields just below Indonesia but finished with yields much closer to Thailand and Philippines, yet its P/E ratio is

*Bond yields are the key driver of P/E ratios*

*But earnings matter too*

*Vietnam stock prices are good value compared to regional peers*

*The decline in bond yields will maintain stock prices through the end of 2014*

still by far the lowest of the group. This would certainly indicate that the P/E ratio should rise.

For the short-term, over the next quarter, reported earnings may be less important than macroeconomic variables. Low inflation and low bond yields will keep funds flowing into the equity markets and will keep P/E ratios high. Finishing the year at a P/E ratio of 15.5x seems reasonable. At current earnings levels, this would equate to a VN-Index of approximately 600 to 620.

### Market liberalization offers new & promising products

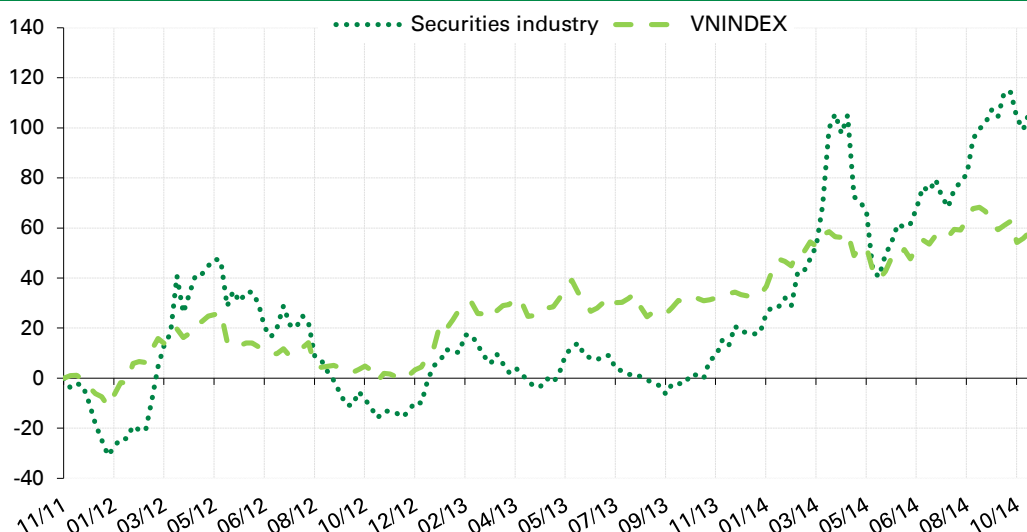
On March 11, 2013, the Prime Minister approved the project to develop a State-controlled centralized derivatives market, which will begin operating in 2016 and follow international standards. This is considered the next step towards completing the financial market structure, supporting the development of bond and stock markets, strengthening the role of the stock market, diversifying product offerings and improving the competitiveness and efficiency of Vietnam stock market.

Seen as the first step to implement the government's plan, the emergence of domestic exchange traded funds (ETF) tracking indices has proved its charm. To date, two open-ended domestic ETFs have been listed: the E1VFN30, which is managed by Vietnam Fund Management Company and tracks the VN30 Index, and the SSIAM HNX30, managed by SSI Asset Management Company and tracks the HNX30 Index. As foreign investment into the ETF will not be counted in the foreign limit calculation, these products appear to be very attractive to foreign investors.

### High Beta stocks, outperformed as the market recovered

The correlation of securities stocks' performance and the VN-Index over a three year period is 1.5, meaning that this group of stocks is riskier than the broad market and will likely outperform the market when market return is positive. It is very clear from the chart below that securities stocks have substantially outperformed the VN-Index, with 125% vs. 50% return y-t-d. As we expected the stock market will perform well in 2014 and 2015, the prospect of leading securities companies seems bright.

#### Three-year relative performance



Source: Bloomberg

*Domestic ETFs provide diversification for investors, especially for foreign ones as investment into the ETF will not be counted in the foreign limit calculation*



## SAIGON SECURITIES INC.

### OVERVIEW

Saigon Securities Inc. (SSI - HSX) is a leading and reputable financial corporation in Vietnamese market. Founded in December 1999, SSI is one of the first three securities companies in Vietnam. At that time, SSI was the smallest, and also the only one that was private, the other two Bao Viet Securities Company (BVSC, 100% owned by Bao Viet Group) and BIDV Securities Company (BSC, 100% owned by BIDV) were backed by large state-owned financial institutions.

From a humble startup with initial chartered capital of VND6 billion, SSI now has become the market's leading broker, providing full services. The company was first listed on the Hanoi Stock Exchange in December 2006 but was later moved to the Hochiminh Stock Exchange in October 2007. As of June 30, 2014, SSI's chartered capital reached VND3,538 billion, total assets reached VND11.092 billion, ranked first in the securities industry.

### Business activities

SSI's scope of business includes institutional and retail brokerage, advisory and underwriting, treasury, and fund management. The two activities that contribute the most to SSI's revenue over the years has been brokerage services and proprietary trading.

- ❖ *Securities services:* Basic products and services for listed stocks include securities accounts opening, securities services, order trading services, cash transactions, securities depository, OTC transactions consultancy and support. SSI has always been in the top 2 in brokerage market share.
- ❖ *Asset management (SSIAM):* Fund management (on shore and off shore), portfolio management, and investment advisory for domestic and foreign, individual and institutional customers. SSIAM is managing four funds with total assets under management (AUM) of VND3,365 billion as of FY2013.
- ❖ *Advisory:* Provide corporate finance advisory, including: business evaluation, corporate financial restructuring, M&A, business dissolution and division; and capital raising advisory in domestic and foreign capital markets, including both equity and debt capital market. SSI provided IPO and capital raising advisory for many large companies in the stock market, such as SAM, HAG, MPC, Petrolimex, HVG, AGF, VSH. Although advisory service does not contribute a big portion to the revenue growth rate, it still has a strategic role in improving the images and reputation of SSI in the eyes of investors.
- ❖ *Treasury:* Uses its capital base for underwriting activities, margin lending, and proprietary trading. Not focusing too much on margin lending, SSI major treasury activities are proprietary trading, and this division has consistently contributed the most to SSI's revenue.

### Ownership structure

After seven years being a strategic investor, ANZ officially announced its decision to depart from SSI on September 28, 2014, agreeing to sell its shareholding to SSI's chairman and a group of related Vietnamese investors. Before the transaction, ANZ was the largest shareholder of SSI with shareholding of 17.5%, following by Daiwa

*A top brokerage house providing comprehensive services.*

*ANZ's divestment opened up the foreign room*

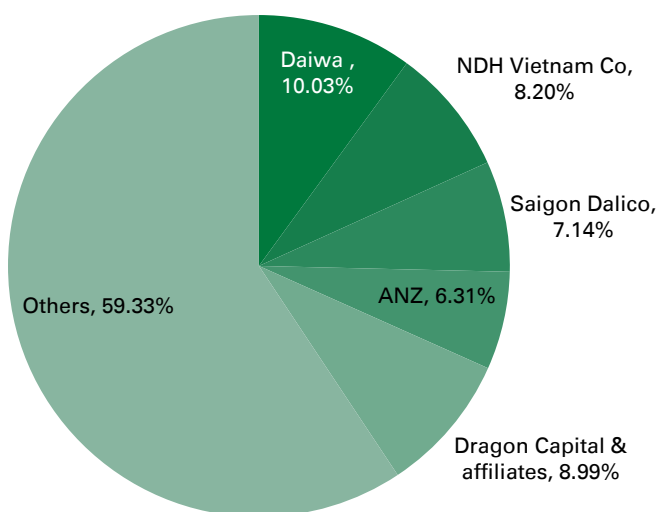


Securities with shareholdings of 10.03%. Mr. Hung and affiliates only owned 13.36% of SSI.

By October 16, 39.6 million of shares (11.19%) have changed hands from ANZ to six domestic investors, all of which are related to Mr. Hung and SSI. The remaining 6.31% of SSI shares will likely be sold to Mr. Hung and Duong Mat Troi JSC before December 05, 2014. If all goes as planned, Mr. Hung and affiliates will increase their ownership of SSI to 30.86% by the end of the year.

All of the transactions have been and will be done via put-through transactions and the term and value of the deal was not disclosed. At market price on the day after the announcement (VND30,700), this deal would have been worth VND1,873 billion (USD89 million). For the last three years, from September 2011, SSI's foreign ownership has always been full at 49%. Post transaction, the foreign room will be lifted up from zero to 17.5%, which is a positive factor for SSI's share price movements. The market seemed to agree and SSI share prices increased almost 10% the week after the deal was announced.

#### **SSI ownership structure as of October 16, 2014**



*Source: Bloomberg, VPBS collected*

We consider ANZ's departure after seven years from SSI to be based on a combination reasons including the following three:

:

- (1) ANZ wants to focus on its commercial banking business. ANZ portfolio investment in Vietnam includes Sacombank and SSI and ANZ already divested Sacombank shares in 2012;
- (2) Given that ANZ invested in SSI at its very high price in 2007, over the last few years, ANZ had to record provisions for diminution of SSI shares. From FY2013 to the September 28, 2014, SSI shares upped 62.2%, which indicates a nice gain for ANZ in FY2014;
- (3) ANZ's role at SSI was insignificant.

After ANZ's divestment from SSI, the two Board members representing ANZ's ownership at SSI also resigned. Currently, SSI's Board has five members.

Name	Position	Notable experience
Mr. Nguyen Duy Hung	Chairman, CEO	Mr. Hung is also the founder of SSI.
Mr. Ngo Van Diem	Non-executive Board member	Mr. Diem has more than 30 years of experience in foreign and domestic investment as a senior expert in government agencies. Mr. Diem graduated from Leipzig University and has a PhD in Economics from Martin Luther University in Germany
Mr. Nguyen Hong Nam	Executive Board member	Mr. Nam is Mr. Hung's brother. He has been a successful executive in various business areas. He graduated from Lugansk University, Ukraine
Mr. Tetsuo Akuzawa	Non-executive Board member	Mr. Akuzawa has 30 years of experiences in securities industry. He represent Daiwa Securities Group Inc.
Mr. Bui Quang Nghiem	Non-executive Board member	Mr. Nghiem is Director of Nghiem & Chinh Law Partnership and Vice Chairman of Hochiminh Law Association. He graduated from Halle University, Germany

*Mr. Hung, the founder, Chairman, and CEO of SSI, is considered the man behind SSI's success*

### **Mr. Hung's leadership**

Going back over 20 years ago, Mr. Hung was a student at Merseburg, Germany. During his student life, with a dream of being rich, he started to do small trades and accidentally got himself into trouble when he was in his final year. As a consequence, he was disciplined and expelled from Germany without a formal degree from his university. After coming back to Vietnam, he continued his incomplete studies by pursuing a Law Degree. After graduating, he worked as an assistant for the former President of the People's Committee of Khanh Hoa Province, a man that Mr. Hung very much respected.

At the end of 1992, Mr. Hung founded Pan Pacific Company, which specialized in foreign investment advisory. In 1996, Mr. Hung was one among some key members of the Vietnam Capital Market Board who went to learn about the stock market in other countries when the idea of establishing the stock market in Vietnam was initiated. In 1997, when the stock market crashed in many Asian countries, Mr. Hung determinedly and curiously stayed in Thailand to learn all about the stock market as he had a very strong passion for it. The fruit from these experiences was the establishment of SSI in December 1999. When the Vietnamese stock market officially launched on July 20, 2000, many people were caught by surprise to see that the most of the major shareholders of REE and SAM, the first two stocks being listed, were not BVSC's and BSC's, but SSI's customers. Since then, SSI has maintained its top position in brokerage with market share peaking at 40% in 2001, as well as being the IPO advisor for many of the largest companies in the market.

Mr. Hung's two well-known philosophies are: (1) Adversity creates opportunity for the ones who endeavor, and (2) The art in management is to find the right person who loves what they do, and the works itself helps them thrive. With that said, together with his team of professionals, SSI has not only survived the crisis (2003 and 2008, 2009), but also outgrown its peers.

His ownership in SSI and other associated companies has made him among the richest men in Vietnam. His net worth, at the peak of the stock market in 2006-2007 ranked forth, which worth VND2,801 billion (USD133 million)

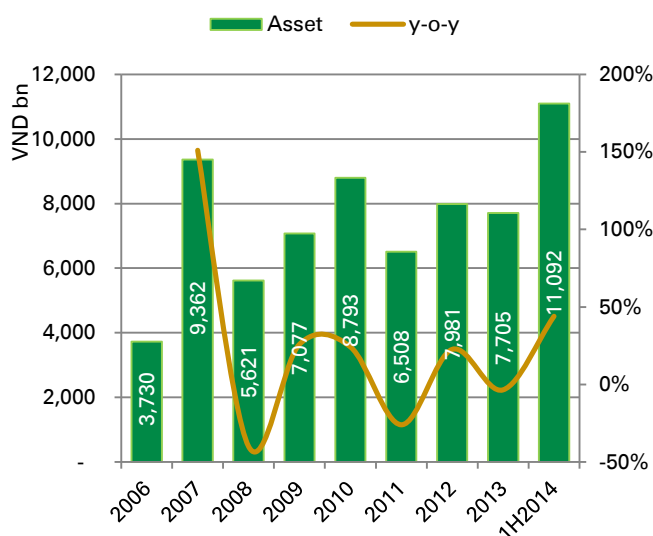
## FINANCIAL ANALYSIS

### Growth

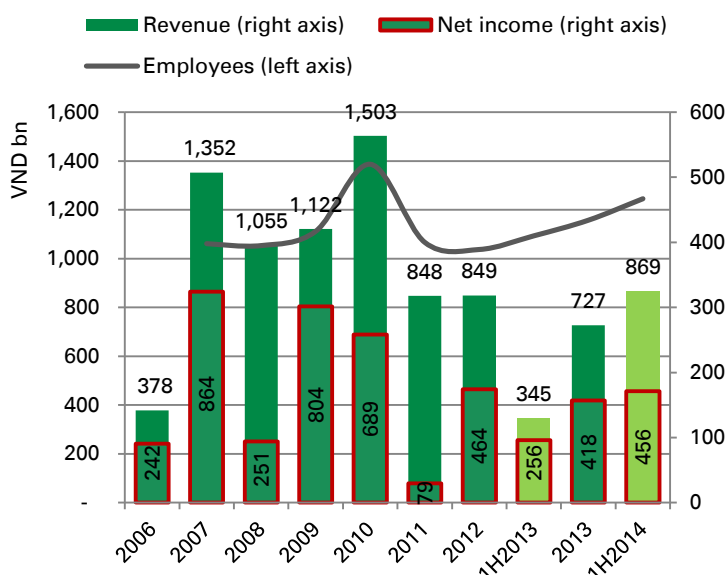
Through 15 years of development, SSI has followed a fluctuating growth pattern, which follows the general market. From its IPO in 2006 till 1H2014, SSI assets grew at CAGR of 15.6%, and from 2006 to 2013, revenue and net income grew at CAGR of 9.8% and 8.1%, respectively.

In 2007, as the stock market boomed, the VNIndex reached its peak of 1,167 points, SSI's asset grew 151% and revenue crested at almost 250%. After that, the VNIndex experienced a severe decline of 80% to trough at 237 points in February 2009. The recovery of the stock market in 2009 was very strong with the VNIndex rising by 56% then staying flat in 2010. In 2011, another downturn occurred as the stock market lost 27.5%. Since 2012 till now, the recovery has been quite strong as well.

#### Asset growth



#### Revenue & Employees

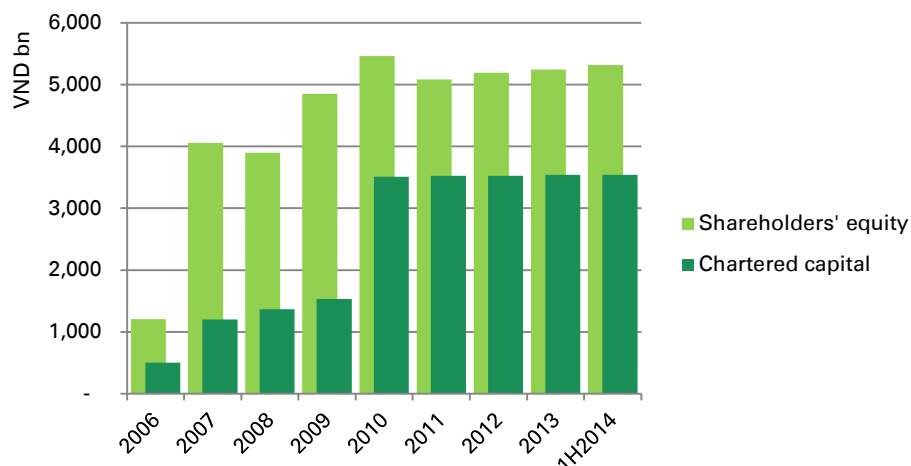


Source: SSI FS

The number of employees also followed the revenue trend in general. In 2011, 120 or almost a quarter of all employees were fired. In 2013, forecasting the stock market on its way to recovery, SSI started to hire again and this trend has continued in 2014.

SSI's chartered capital more than doubled and total equity more than tripled from 2006 to 2007. Also in 2006 and 2007, SSI issued convertible bonds with total value of VND555.56 billion (VND500 billion in 2006 and VND55.56 billion in 2007 for strategic investor ANZ). These bonds were gradually converted to stock in the following three years. In 2010, SSI issued bonus shares from its capital surplus with a ratio of 1:1, raising its chartered capital to over VND3,500 billion to become the largest securities companies in terms of chartered capital.

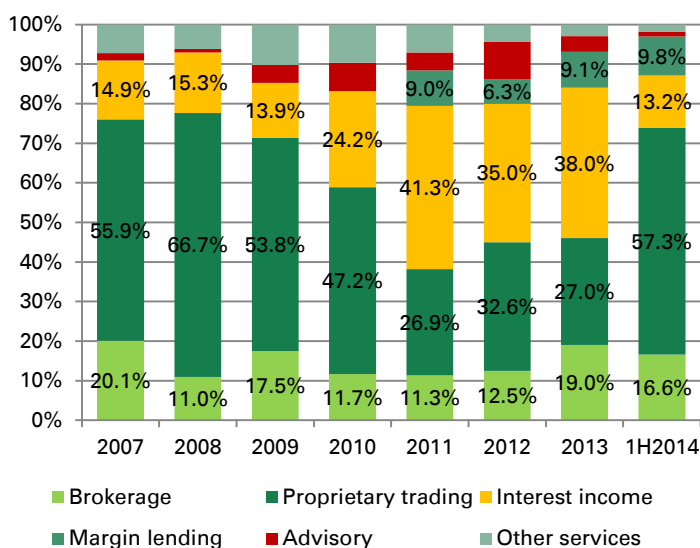
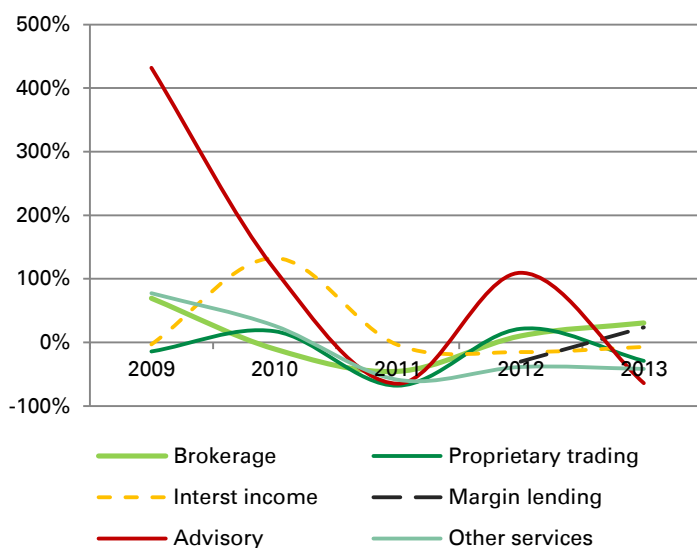
In 2011, total equity of SSI slightly declined as a combined effect of low earnings (VND79 billion) and the purchase of three million Treasury shares.

**Equity & Chartered capital**


Source: SSI FS

**Key revenue drivers**

SSI has a relatively diversified revenue structure. Taking SSI 2013's revenue breakdown and compared to the industry (top 20 securities companies as a proxy for the industry), actually SSI's was quite similar to the industry average. While contribution of brokerage services and margin lending were somewhat stable throughout, contribution of proprietary trading and interest income were generally inversely correlated. This inversed relationship is logical because for the same amount of funding, as the company invests more, its remaining cash balance reduces; consequently, the investment income is likely to weigh more than the interest income. The revenue growth of each segment also showed fluctuated patterns with significant declines in all segments in 2011.

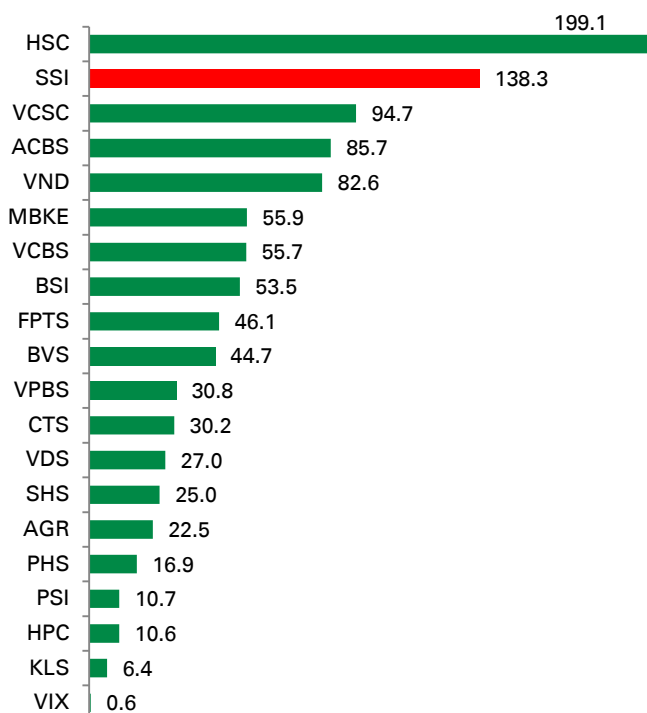
**Revenue Breakdown**

**Revenue growth by divisions**


Source: SSI FS

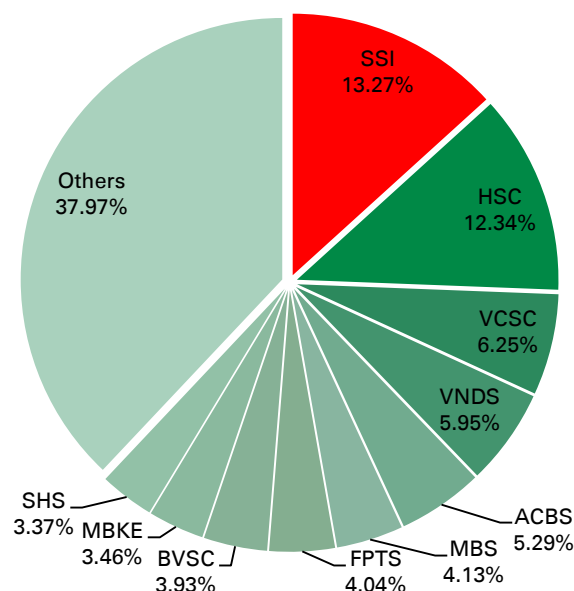
### Brokerage

Being one of the first brokers in the market, SSI has quickly gained market share and has consistently been in the top 2 on the HSX. During the first few years after the establishment of the Hochiminh Stock Exchange, SSI's market share was as high as 40% (2001). As the number of brokerage firms increased, the competition among them became fiercer, SSI market share declined to only 8.26% in 2009. Although SSI lost its first position on the HSX to Thang Long Securities in 2010, and later in 2012 and 2013 to HCM; in 2014, SSI has made an impressive come back to the top.

#### Market position – Brokerage revenue 2013



#### Top 10 brokerage market share on HSX – 3Q2014



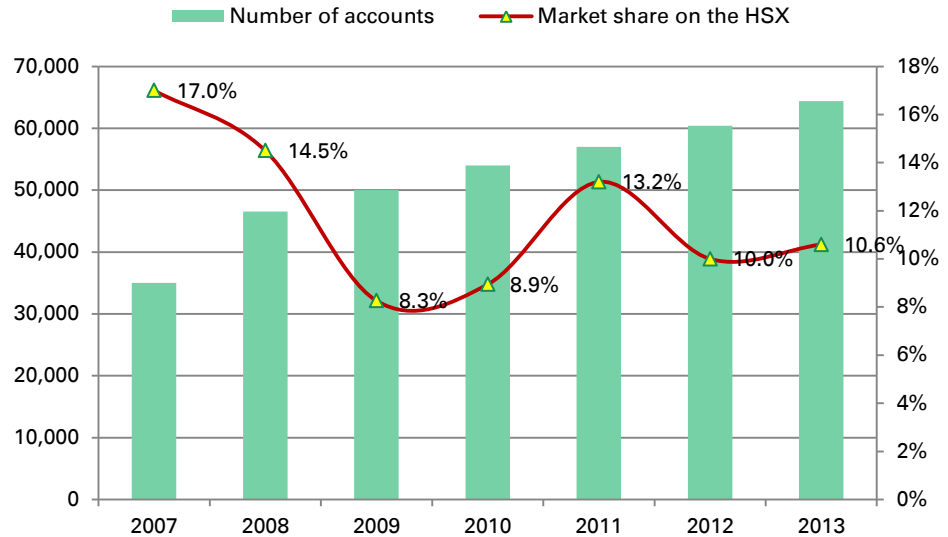
Source: VPBS collected

SSI also has about 30% to 40% of total foreign investors' brokerage market share. Thanks to a large number of institutional investors, both domestic and foreign, SSI can maintain their brokerage market share and trading value at a stable level while its peers' fluctuated quite significantly during this period.

The market share war following the boom of the stock market has led securities companies to compete brutally, especially by lowering margin interest rates, raising margin lending ratios, and lowering commission rates to gain market share. SSI, however, seems to focus more on improving supporting services, and its IT platform rather than aggressively increasing in margin lending activities and cutting fees like many of its competitors. The supporting services are mainly research and investment advisory. SSI has built a professional research team and provided research reports covering investment portfolio, strategy note, daily call in conjunction with intraday updates on market movement and company visit note. These reports received high attention and appreciation from foreign institutional investors. The list of companies covered by SSI Research and Investment Advisory was at the top of the market (60 listed companies by the end of 2013). Other client support services, such as corporate access, "Gateway to Vietnam" conference was held frequently. Although many other

securities firms are now also providing quality research reports, one advantage of SSI is that its asset management and other related companies (NDH Company, Duong Mat Troi Company, among others) also directly invest in many of the companies on its coverage list. Therefore, SSI has more insight and a certain level of influence in these companies, making it easier for SSI to connect institutional clients to target companies.

### SSI Brokerage Market share



Source: SSI Annual reports

### Margin lending

The margin lending activities at SSI are also considered relatively more conservative compared to other players in the field. The list below provides examples of margin lending ratio at various securities companies. As can be seen, SSI generally offers lower margin lending ratios compared to its peer group.

Margin lending ratio comparison					
Ticker	SSI	HCM	VNDS	ACBS	VCBS
AGF	30%	40%		50%	
BGM	10%		20%	50%	
BIC	30%	30%	30%	50%	
CLG	20%		30%	39%	50%
CMS	20%			45%	50%
CNG	30%	40%	20%	50%	50%
DCL	30%			50%	
DHP	30%			50%	
DLG	30%		50%	50%	50%
DMC	40%	50%	40%	50%	50%
SEC	20%				50%
SHI	0%			50%	
TDH	40%	40%	40%	50%	
TRC	30%	50%		50%	50%
VNS	20%	40%		50%	50%

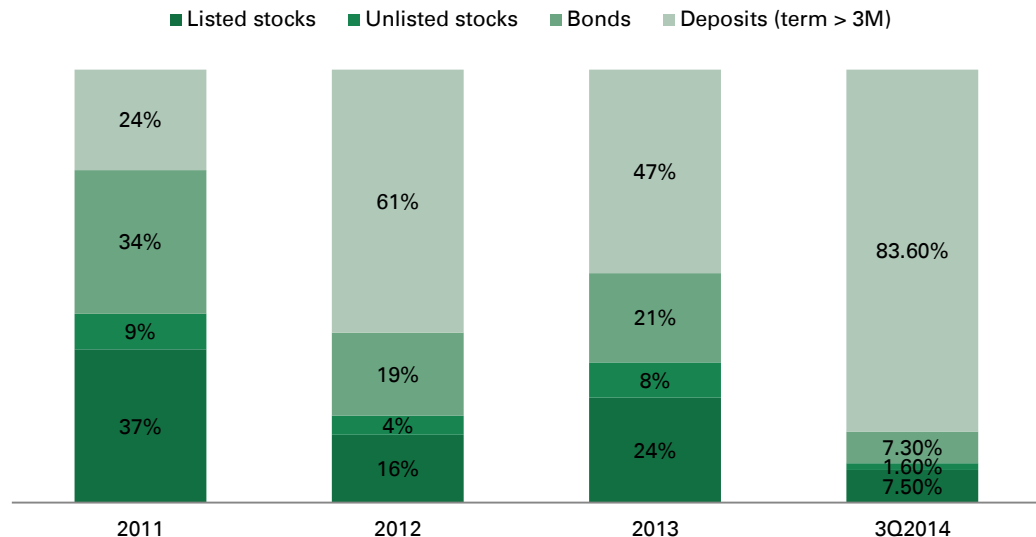
As a result, margin lending only accounted for 9.1% of total revenue as of FY2013, which was much lower than its competitors HSC (20%), VNDS (20%), ACBS (21%), VCSC (12%). However, in 2013 and 1H2014 the growth of the advance to customers and margin lending balance was 134% and 56%, respectively, which was much higher than that of total assets.

Moreover, as a common practice of the industry, securities companies can increase their deposits at commercial banks, and in return, the commercial banks will extend loans to these companies' customers. Since 2012, SSI has increased its deposits at banks (which are recorded as other short-term investment) substantially. Therefore it is likely that SSI will expand its margin lending activities in the next few years to support its brokerage business and maintain its top market share.

### **Investment**

SSI has maintained a relatively high balance of investment, which accounted for over 56% of total assets on average from 2008 to 2013. As of FY2013, SSI has 32% of its investment in stocks, 21% in bonds, and 47% in bank deposits with terms longer than three months. 2014 so far has been a relatively good year for the Vietnam stock market and securities industry with the VNIndex increasing 19.9% YTD (as of November 10, 2014). The price of bonds has also increased substantially given that the market interest dropped across all tenors (5Y Government bond yields dropped 315 basis point YTD). As a result, SSI has liquidated the majority of its holdings of stocks and bonds and recorded a total of VND705 billion revenue in proprietary trading by the end of 3Q2014.

### **Investment Allocation**



*Source: SSI Annual reports*

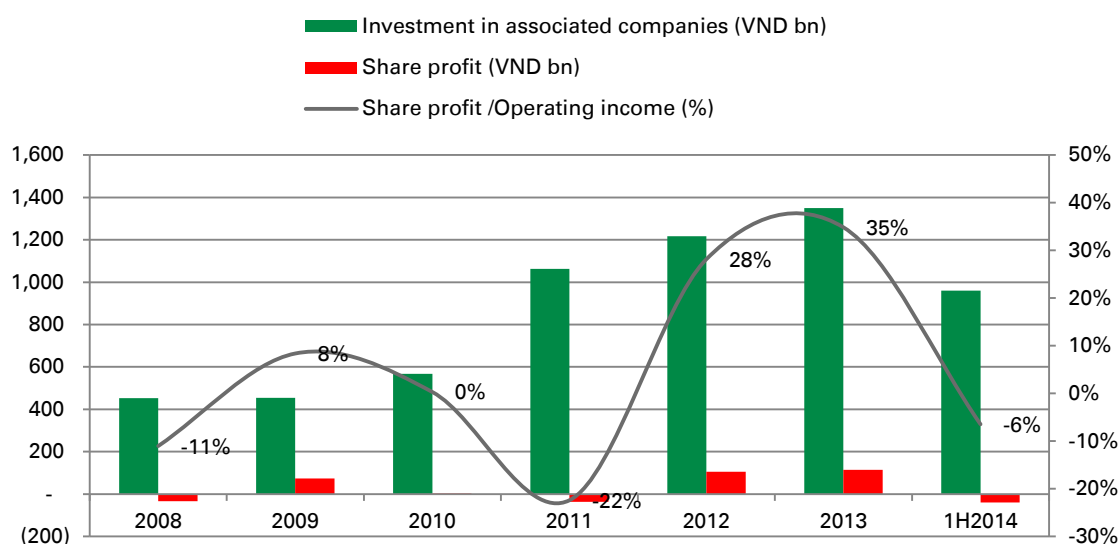
Another defining component of investment approach, which differentiates SSI from its peers, is their investment in associated companies. SSI has made investments in ten associated companies with a total book value of VND1,349.8.



#	Company	Business sector	Chartered capital (VND bn)	SSI's holding
1	Vinaseed (NSC)	Agricultural products trading and processing	100.3	20.00%
2	Southern Seed Company (SSC)	Agricultural products trading and processing	149.9	20.13%
3	Hung Vuong JSC (HVG)	Aquaculture, fishery, processing	1,191.0	20.01%
4	Lafooco (LAF)	Agricultural products trading and processing	147.3	20.02%
5	Pan Pacific (PAN)	Utilities services, trade, financial investment	200.5	20.22%
6	ELCOM (ELC)	Technology	373.4	20.01%
7	Transimex - Saigon (TMS)	Logistics	230.7	20.00%
8	Gilimex (GIL)	Textiles, consumers	139.2	25.69%
9	Vietnam Fumigation JSC (VFG)	Agrochemical, fumigation products	132.8	20.06%
10	Bibica (BBC)	Food & Beverages	15.4	20.00%

SSI employs a long-term view and its investment philosophy is “Accompanying and developing with associated companies”. Most of SSI’s associated companies operate within the food value chain, and they are leading companies in their sector, characterized by stable revenue and profit margin, high dividend rates, and competitive products in their respective markets. SSI has assigned representatives to most of these companies’ Board of Directors or Board of Supervisors with the aim of helping them develop, improve corporate governance, reduce operating costs and find suitable strategic partners. The share profit SSI recognized from these associated companies, fluctuated yet was still quite substantial. In 2012 and 2013, the share profit accounted for 28% and 35%, respectively, of SSI’s operating profit.

### Investment in Associated Companies



Source: SSI Annual reports

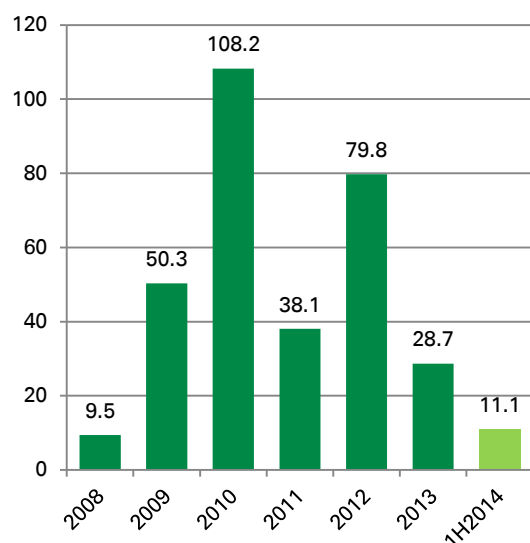
In addition, SSI also made indirect acquisitions through its associated companies PAN and related companies. Therefore, the influence of SSI in these associated companies are likely to be much higher than SSI's direct holding, making SSI's actual earnings from investment very hard to estimate.

SSI's related companies	Target	% holdings
PAN	NSC	54.91%
	LAF	23.03%
Duong Mat Troi	BBC	13.49%
	NSC	3.86%
SSI REIT	BBC	7.17%
	NSC	7.44%
NDH	PAN	100%

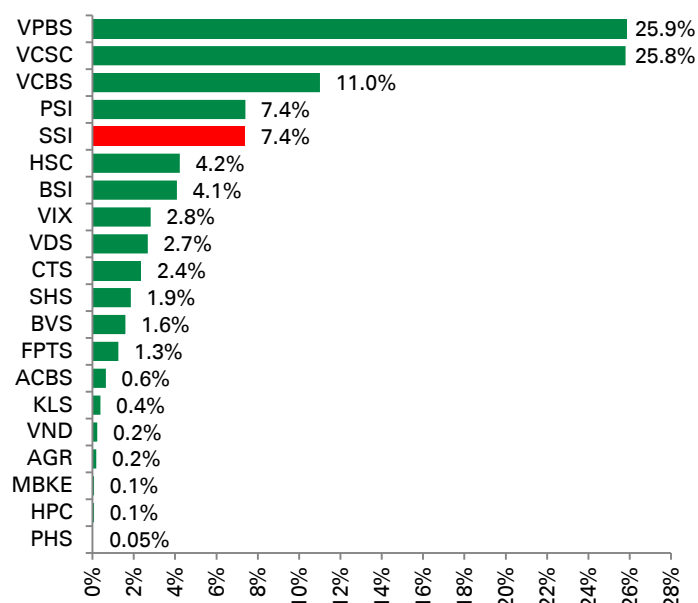
### **Investment banking services**

SSI is well-positioned for its investment banking services, receiving many prestigious awards. SSI provides a comprehensive range of investment banking services, including equitization advisory, listing advisory, bond issuance advisory, securities issuance and public offering and M&A advisory. We have noted many big names in SSI's client portfolio over time. Investment banking revenue, however, has fluctuated considerably. The soaring ascent in 2010 came from the completion of IPO services of VND2,873 billion for GAS, QGC, DBC, ITC, share issuances of over VND7,000 billion, convertible bond issuance of VND4,603 billion for HAG, HUT, TMS, DTL, and M&A deal between HVG and AGF.

### **SSI's Investment Banking Revenues**



### **Market position 2013 - Advisory**



Source: VPBS collected

The competition in investment banking also became more fierce in recent years. Not only competing with other domestic peers, SSI also has to compete with leading international investment banks such as JP Morgan, Goldman Sachs and Credit Suisse while the size of the Vietnam capital market is still quite small.

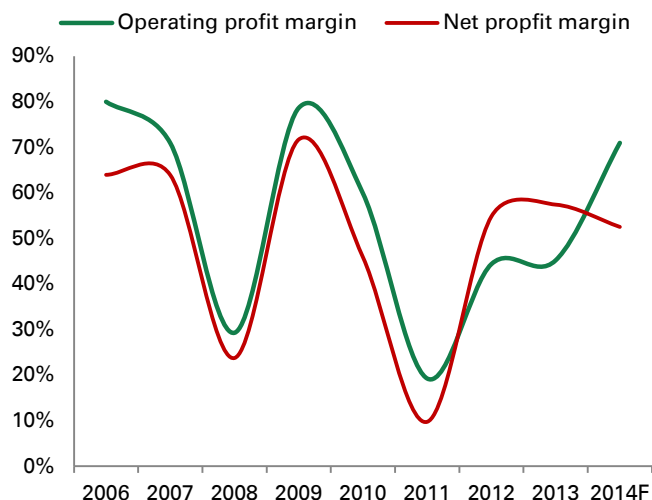
When we look at advisory revenues across the 20 largest securities firms, SSI, with VND28.7 billion, accounted for only 7.4% of total advisory revenue of the industry. It is

also worth noting that the three leaders in advisory revenue in 2013 VPBS, VCSC, and VCBS are three securities firms operating under the umbrella of commercial banks. It is likely that these companies received bond issuance deal from the parent banks and their major clients.

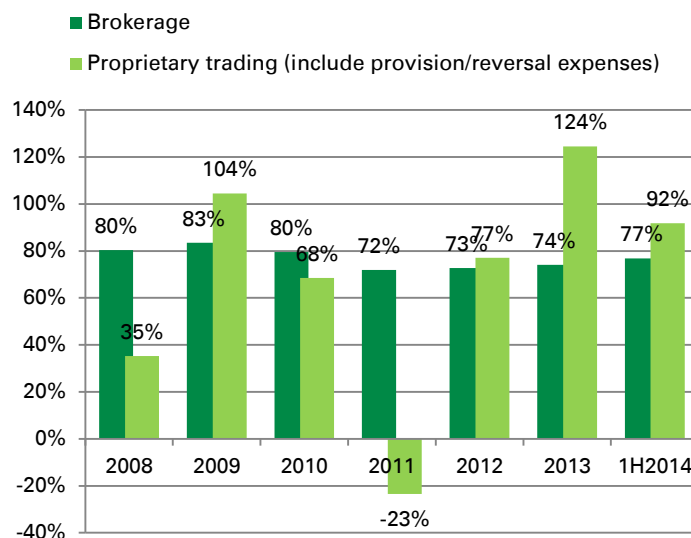
### Profitability & Efficiency

SSI's profit margins follow a roller coaster, peaking at 70 to 80% in 2006-2007 and 2009 while bottoming out at 20 to 30% in 2008 and 2011. Although this trend applied to most of the securities companies, however, we note that change in SSI's margins were more adverse compared to HCM's. Since 2011, SSI's profitability seemed to have been on the recovery road. Looking at the two major divisions brokerage services and proprietary trading, we also note that while brokerage services has maintained its margin at a fairly constant and average level of 77%, proprietary trading varied widely from -23% to 124%.

#### Profit margin



#### Major divisions margin



Source: SSI FS

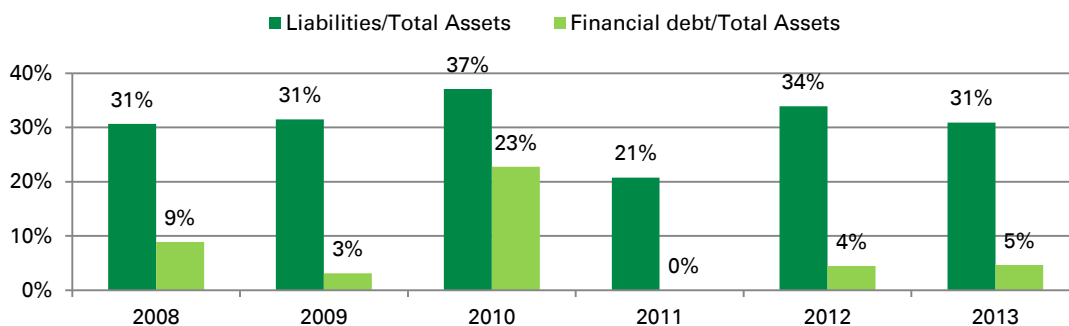
Being the largest in the industry, however, SSI is not the most profitable with ROA and ROE slightly lower than its peer group average.

Efficiency Comparison						
Ticker	5Yr Avg ROA	3Yr Avg ROA	ROA 1H2014	5Yr Avg ROE	3Yr Avg ROE	ROE 1H2014
BVS	5.0	4.4	5.1	7.3	6.2	7.7
KLS	6.2	4.4	6.6	6.5	4.5	6.9
HCM	9.7	9.6	12.5	14.7	14.0	18.7
SHS	3.1	2.2	4.1	9.2	7.4	17.5
VNDS	6.1	4.3	5.4	10.7	7.0	10.1
<b>Peers average</b>	<b>6.0</b>	<b>5.0</b>	<b>6.8</b>	<b>9.7</b>	<b>7.8</b>	<b>12.2</b>
<b>SSI</b>	<b>5.6</b>	<b>5.8</b>	<b>6.1</b>	<b>9.5</b>	<b>10.0</b>	<b>11.9</b>

## Leverage & Liquidity

There is little use of financial debt in SSI's capital structure. Although the ratio Total liabilities to Total Assets has been around 31%, however, most of the liabilities are operating payables and rather short term. SSI's long term debts were convertible bonds issued in 2006 and 2007 with a total value of VND555.6 billion and these bonds were gradually converted into common stocks from 2008 to 2010, helping the company increase its chartered capital. In 2010, SSI issued VND2,000 billion of convertible bonds with one year term and coupon rate of 4%. However, these bonds were not successfully converted given the conversion price was higher than the SSI market price at that time. Since 2010, SSI has not had long-term debt in its capital structure. Recently, SSI announced their intention to issue VND1,000 billion to VND1,500 billion of straight bonds with terms from one to three year. We believe that the additional funds will help boost SSI's growth over the next few years.

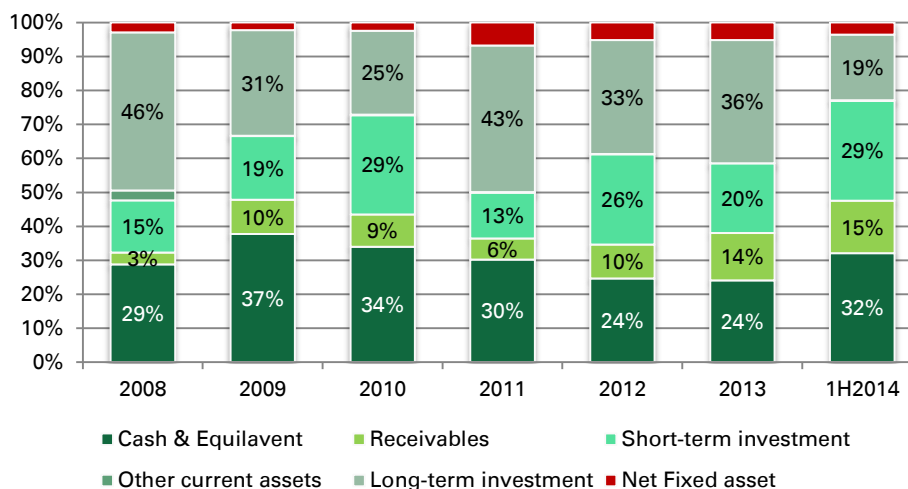
### Leverage



Source: SSI Annual reports

The asset structure of a securities firm typically includes a large portion of current assets. This also applies in SSI's case with current assets accounting for at least 50% of total assets with cash balance accounting for 30% on average.

### Asset Structure



Source: SSI Annual reports

The portion of receivables, which mainly includes trade receivables and margin lending balance, although on an increasing trend, is still rather modest compared to the industry average (29.4% as of FY2013).

### Dividend Policy

SSI paid cash dividend generously in the past, especially in 2008, with a dividend payout rate of 30%, which came from 2007's outstanding performance. However, since 2009 till now, except for 2010 when SSI paid 5% cash dividend and 1:1 share bonus, SSI consistently paid a 10% cash dividend. From 2008 to 2010, due to the conversion of VND555.6 billion convertible bonds, SSI stock was diluted by 46.3% in total.

### OUTLOOK & FORECAST

For SSI, we expect that proprietary trading will continue to contribute the most significant portion to total revenue (35% on average) and the brokerage division will grow in importance overall. The details of these assumptions are as follows:

#### **Brokerage:**

- *Brokerage market share:* After gaining back its number one position from HCM, SSI is now riding its momentum to grow its brokerage market share, taking market share from the weaker and smaller players. In addition, as we mentioned earlier in the industry outlook, the advent of new financial products, the continuing equitization process of SOEs, and the stability of macroeconomics will likely give the stock market a boost in the next few years.

Brokerage market share								
Company	2013	2014F	2015F	2016F	2017F	2018F	2019F	2020F
SSI	9.61%	11.50%	12.25%	13.00%	13.75%	14.50%	15.25%	16.00%
Number of securities companies	102	92	82	72	62	52	32	30

Source: VPBS estimates

- *Brokerage fees* for stock transaction are expected to gradually decline from 0.18% to 0.16% in our forecasted horizon due to more fierce competition among brokers.
- *Market trading value:* We estimate market trading value will increase 125% in 2014 based on the trading value of 9M2014, which already grew 115% y-o-y. We forecast the trading value of the market will increase 40% in 2015 and a more conservative growth of 20% is applied for the remaining years of our forecast horizon.

#### **Margin lending:**

- *Margin lending interest rate:* will generally follow the trend of market interest rates. As the market interest rates in 2014 have declined remarkably, 2014's margin lending interest rate is estimated at 14%. We forecast it will further decline to 13.8% in 2015, and gradually inch its way up to 15% in 2020.
- *Margin lending balance:* Aiming to retain its top position in the overall brokerage market share, we believe that SSI will enlarge its advances to the customer and margin lending balance. Given SSI's reasonably prudent risk management practice, we forecast that this balance will grow at a rate equal to 80% of the growth of market trading volume.

**Investment:**

- *Investment portfolio:* SSI has a relatively balanced portfolio with 32% in stocks, 21% in bonds, and 47% in bank deposits as of year-end 2013. Although the portfolio components may differ in the future edging toward a smaller portion of bank deposits and a larger portion of equity investment, we still think SSI will keep a relatively conservative portfolio structure. Therefore, we only apply an expected return of 10 to 12% to SSI's portfolio investment.
- *Investment in associated companies:* We forecast that SSI will continue to make investments in their associated companies at a y-o-y growth rate of 20%, which is lower than the average growth in the last three years of 29%. We expect a return of 10% per year for these investments, which is higher than the historical average of 6.1% over the last five years as we believe that these companies are in the food and agriculture industry, which is forecasted to have a stable growth. However, we have to admit that it is very difficult to forecast both investment balance and return as SSI will invest flexibly and it also has certain impact on the performance of these associated companies

**Interest income:**

- *Cash & Equivalents* balance currently accounted for 32% of total assets. We forecast that it will gradually decrease to account for about 24% of total assets in our forecasted horizon as SSI increase its margin lending activities.
- *Earning interest rates:* will follow the market interest trend and are estimated to stay at 7% in 2014 and 2015, then gradually ascend to 8% by 2020.

**Advisory and other financial services:**

Corporate finance, advisory service and other revenues such as cash advances to customers do not account for a major proportion of total revenues. So we would project these types of revenues on relative basis to other main activities (brokerage, proprietary trading, and interest income). Historically, corporate finance advisory and other revenues account for 3% to 4% of the total revenues.

**Cost of services:**

- *Brokerage expenses:* are estimated at 25% of brokerage revenue, similar to the current level.
- *Proprietary trading expenses:* are estimated at 30% of proprietary trading revenue, slightly lower than the last three-year-average of 36%.
- *Staff costs:* are estimated at 16% of total revenue, which is equal to the last three-year average.
- *Depreciation expenses:* are estimated at 6% of gross fixed assets, which is equal to the last three-year-average.

**G&A Expenses:** include staff costs and depreciation expenses, which are not classified in cost of services. G&A expenses are very minimal.

**Tax expenses:** We apply corporate income tax of 22% for 2014 and 2015, and 20% thereafter.

Target margins	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Operating profit margin	71.0%	50.1%	53.3%	50.2%	54.7%	55.2%	59.3%
Net profit margin	52.5%	43.9%	46.8%	45.8%	49.3%	49.5%	52.7%

Source: VPBS estimation

## VALUATION

### Residual income

We use the multi stage residual income (RI) model to value SSI given that the business nature of SSI in particular, and financial services in general, is quite different from ordinary companies that we can value using the normal discounted cash flow (DCF) model. Residual income is calculated based on net income and a charge for the cost of equity capital. A company that is generating more income than its cost of obtaining capital – that is, one with positive residual income – is creating value. Therefore, higher residual income should be associated with higher valuations. The residual income model is as follows:

$$V_e = B_o + \sum_{i=1}^t \frac{(NI_i - R_e \cdot B_{(i-1)})}{(1 + r)^i}$$

In which:

$V_e$  = Value of equity

$B_i$  = Book value of equity at time i

$NI_i$  = Net income at time i

Other inputs of the model are as follows:

- The *risk-free rate* is taken from the yield of 5-year local currency Government bond yields, which is equivalent to 5.0%.
- The *expected market return* is expected to be 15%.
- SSI *adjusted beta* is estimated to be 1.2.
- Cost of equity is estimated to be 17% by using the capital asset pricing model (CAPM).
- SSI's *terminal growth rate* is estimated to be 5% after 2020.

Residual Income Valuation	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Net Income	832,434	876,058	1,016,735	1,165,512	1,368,866	1,669,740	1,925,864
Shareholders Equity	5,242,182	5,720,820	6,136,944	6,601,759	7,215,351	8,032,297	9,012,138
Capital Charge	886,977	967,963	1,038,371	1,117,018	1,220,837	1,359,065	1,524,854
Residual Income	(54,544)	(91,905)	(21,636)	48,494	148,029	310,675	401,010
Terminal value of RI							3,933,398
Present Value Factor	0.97	0.83	0.71	0.61	0.52	0.44	0.38
PV Residual Net Income	(52,865)	(76,186)	(15,340)	29,407	76,774	137,811	1,644,445
Total Projected EVA	1,744,046						
Curent Book Value Equity	5,242,182						
Value of Equity	6,986,228						
Number of Shares	353,794,942						
Share Value	19,747						

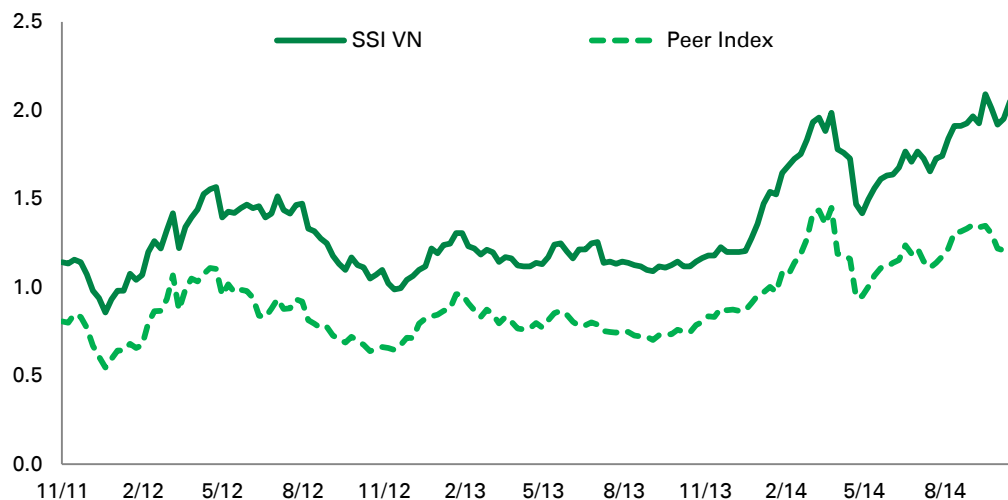
Due to SSI's high amount of equity and resulting modest ROE, our residual income model yields a fair value of VND19,747 for each SSI share, which is 36% lower than SSI's current price.



### Price multiples

SSI is currently trading at P/E of 17.3x, 62% premium over its peer group, and P/B of 2.0, 67% premium over its peer group although its ROA and ROE do not really justify the market valuation. Historically (three year horizon, daily prices) SSI has been trading at about 49% premium. Therefore at the current price of VND30,600, SSI is trading at 2.7 times the standard deviation of the average premium.

#### P/B comparison



Source: Bloomberg

Ticker	P/B	P/E	ROA LTM (%)	ROE LTM (%)
BVS	0.8	11.57	5.1	7.7
KLS	0.8	12.68	6.6	6.9
HCM	1.9	11.13	12.5	18.7
SHS	1.2	8.35	4.1	17.5
VNDS	1.3	12.52	5.4	10.1
<b>Peers average</b>	<b>1.2</b>	<b>11.25</b>	<b>6.8</b>	<b>12.2</b>
<b>SSI</b>	<b>2.0</b>	<b>17.3</b>	<b>6.1</b>	<b>11.9</b>

Using P/E and P/B multiple, apply a 60% premium as we believe that the room available for foreign investors makes SSI stock become more desirable, and SSI's 2014 EPS and current BVPS, we value SSI share at VND30,604 and VND28,847, respectively.

P/E valuation		P/B valuation	
Justified P/E	17.09	Justified P/B	1.92
2014 EPS	1,810	Current BVPS	15,025
Target price	30,937	Target price	28,847

### Valuation summary

Taking the two valuation approaches above into consideration, we consider the fair price of SSI share to be VND27,900, which is 8.9% lower than its current trading price. Combined with an expected dividend yield of 3.25%, the one year total expected return for SSI is -5.7%. SSI share price has nearly doubled over the past 12 months (increased 90%), with the P/E rising from 14.26x to 17.43x (22%). Meanwhile the VN Index rose 20% and the market P/E rose from 12.54x to 14.81x (18%). So, it is certainly

conceivable that SSI's share price has already risen too much. Therefore, at the time of issuing this report, we put a HOLD recommendation on SSI.

Combined valuation	Target price	Weight
Residual Income	19,747	20%
P/E	30,937	40%
P/B	28,847	40%
Average target price	27,863	

### Technical Analysis

The technical chart of SSI shows a correction phase from the peak of 32.400 down to the support level of the MA50 at 28.500. The price of SSI rebounded with increasing volume from this threshold and is now trading in the accumulation phase of 30.000 – 31.500, which is above the support level of the MA20. Its trading volume in that time was low to support the phase for this ticker.

We are waiting for the possibility of SSI to rise up to reach the previous peak at about 32.400. Therefore, we recommend to HOLD SSI at the time of this issuing report.

Ticker	SSI
Horizon analytic	3 to 6 months
3 months highest price	32,400
3 months lowest price	25,500
Current MA50 days	29,800
Current MA100 days	27,800
Mid-term resistance level	32,400
Mid-term support level	30,000
<b>Recommendation</b>	<b>HOLD</b>

Unit: VND per share



**APPENDIX**

<b>BALANCE SHEET</b>	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Cash & Equivalents	1,947	1,839	3,229	3,517	4,111	3,467	3,862	4,152	4,868
Receivables	785	1,064	2,034	2,736	3,117	3,710	4,135	4,839	5,357
Short term investment	2,098	1,561	3,094	3,713	4,084	4,493	4,942	5,436	5,980
Other current asset	8	4	6	7	7	8	9	10	11
<b>Total current asset</b>	<b>4,837</b>	<b>4,467</b>	<b>8,364</b>	<b>9,973</b>	<b>11,319</b>	<b>11,679</b>	<b>12,949</b>	<b>14,437</b>	<b>16,216</b>
Fixed asset	415	396	403	400	410	408	418	416	427
Long term investment	2,647	2,767	2,532	3,038	3,342	3,676	4,044	4,448	4,893
Other non current asset	83	75	90	108	129	155	186	224	268
<b>Total long term asset</b>	<b>3,144</b>	<b>3,238</b>	<b>3,024</b>	<b>3,546</b>	<b>3,881</b>	<b>4,239</b>	<b>4,648</b>	<b>5,087</b>	<b>5,588</b>
<b>TOTAL ASSET</b>	<b>7,981</b>	<b>7,705</b>	<b>11,388</b>	<b>13,519</b>	<b>15,201</b>	<b>15,918</b>	<b>17,597</b>	<b>19,525</b>	<b>21,804</b>
Current liabilities	2,678	2,354	4,584	6,300	7,516	8,619	9,481	10,430	11,473
Non current liabilities	28	26	1,000	1,000	1,000	-	-	-	-
<b>Total liabilities</b>	<b>2,706</b>	<b>2,380</b>	<b>5,584</b>	<b>7,300</b>	<b>8,516</b>	<b>8,619</b>	<b>9,481</b>	<b>10,430</b>	<b>11,473</b>
Equity capital	3,775	3,788	4,850	4,850	4,850	4,850	4,850	4,850	4,850
Financial reserves	289	336	419	507	608	725	862	1,029	1,221
Retained earnings	1,127	1,118	452	781	1,144	1,641	2,321	3,134	4,177
<b>Total shareholders equity</b>	<b>5,192</b>	<b>5,242</b>	<b>5,721</b>	<b>6,137</b>	<b>6,602</b>	<b>7,215</b>	<b>8,032</b>	<b>9,012</b>	<b>10,248</b>
Minority shareholders equity	84	83	83	83	83	83	83	83	83
<b>LIABILITIES &amp; EQUITY</b>	<b>7,981</b>	<b>7,705</b>	<b>11,388</b>	<b>13,519</b>	<b>15,201</b>	<b>15,918</b>	<b>17,597</b>	<b>19,525</b>	<b>21,804</b>

<b>INCOME STATEMENT</b>	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Brokerage	106	138	311	455	592	737	915	1,113	1,349
<i>y-o-y growth</i>	<i>10%</i>	<i>31%</i>	<i>125%</i>	<i>46%</i>	<i>30%</i>	<i>24%</i>	<i>24%</i>	<i>22%</i>	<i>21%</i>
Proprietary trading	277	196	955	639	762	724	826	909	1,000
<i>y-o-y growth</i>	<i>21%</i>	<i>-29%</i>	<i>386%</i>	<i>-33%</i>	<i>19%</i>	<i>-5%</i>	<i>14%</i>	<i>10%</i>	<i>10%</i>
Interest income	297	276	419	408	442	390	431	461	522
<i>y-o-y growth</i>	<i>-15%</i>	<i>-7%</i>	<i>52%</i>	<i>-3%</i>	<i>8%</i>	<i>-12%</i>	<i>11%</i>	<i>7%</i>	<i>13%</i>
Margin lending	53	66	191	291	370	444	523	613	712
<i>y-o-y growth</i>	<i>-30%</i>	<i>24%</i>	<i>190%</i>	<i>52%</i>	<i>27%</i>	<i>20%</i>	<i>18%</i>	<i>17%</i>	<i>16%</i>
Advisory	80	29	34	38	42	46	50	55	61
<i>y-o-y growth</i>	<i>110%</i>	<i>-64%</i>	<i>20%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>
Other services	37	22	15	26	28	31	34	38	42
<i>y-o-y growth</i>	<i>-39%</i>	<i>-42%</i>	<i>20%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>
<b>Total revenues</b>	<b>849</b>	<b>727</b>	<b>1,936</b>	<b>1,859</b>	<b>2,239</b>	<b>2,376</b>	<b>2,784</b>	<b>3,192</b>	<b>3,690</b>
<i>y-o-y growth</i>	<i>0%</i>	<i>-14%</i>	<i>166%</i>	<i>-4%</i>	<i>20%</i>	<i>6%</i>	<i>17%</i>	<i>15%</i>	<i>16%</i>
Cost of services	(455)	(386)	(965)	(856)	(1,098)	(1,062)	(1,229)	(1,275)	(1,467)
<i>Staffing cost</i>	<i>(118)</i>	<i>(151)</i>	<i>(310)</i>	<i>(297)</i>	<i>(358)</i>	<i>(380)</i>	<i>(445)</i>	<i>(511)</i>	<i>(590)</i>
<i>Funding cost</i>	<i>(123)</i>	<i>(136)</i>	<i>(193)</i>	<i>(196)</i>	<i>(302)</i>	<i>(216)</i>	<i>(236)</i>	<i>(139)</i>	<i>(160)</i>
G&A Expenses	(18)	(12)	(20)	(20)	(24)	(25)	(29)	(33)	(38)
<b>Operating profit</b>	<b>377</b>	<b>328</b>	<b>950</b>	<b>983</b>	<b>1,117</b>	<b>1,289</b>	<b>1,526</b>	<b>1,884</b>	<b>2,185</b>
Net non-operating income	4	63	5	5	5	5	5	5	5
Share profit from associated companies	106	114	113	135	149	163	180	198	217
<b>Profit before tax</b>	<b>487</b>	<b>506</b>	<b>1,067</b>	<b>1,123</b>	<b>1,271</b>	<b>1,457</b>	<b>1,711</b>	<b>2,087</b>	<b>2,407</b>
Income tax	(22)	(88)	(235)	(247)	(254)	(291)	(342)	(417)	(481)
<b>Net Income</b>	<b>465</b>	<b>417</b>	<b>832</b>	<b>876</b>	<b>1,017</b>	<b>1,166</b>	<b>1,369</b>	<b>1,670</b>	<b>1,926</b>
<i>y-o-y growth</i>	<i>463%</i>	<i>-10%</i>	<i>99%</i>	<i>5%</i>	<i>16%</i>	<i>15%</i>	<i>17%</i>	<i>22%</i>	<i>15%</i>

## SAIGON SECURITIES INC. (HSX - SSI)

Ratio Analysis	2012	2013	2014F	2015F	2016F	2017F	2018F	2019F	2020F
<b><u>Profitability</u></b>									
Operating Margin	44.4%	45.2%	49.1%	52.9%	49.9%	54.2%	54.8%	59.0%	59.2%
Net Profit Margin	54.8%	57.4%	43.0%	47.1%	45.4%	49.1%	49.2%	52.3%	52.2%
ROA	6.4%	5.3%	10.8%	7.7%	7.5%	7.7%	8.6%	9.5%	9.9%
ROE	9.1%	8.0%	15.9%	14.8%	16.0%	16.9%	18.0%	19.6%	20.0%
EPS growth	485%	-10%	52%	5%	16%	15%	17%	22%	15%
<b><u>Leverage</u></b>									
Liabilities/Asset	34%	31%	51%	49%	54%	56%	54%	54%	53%
Financial debt/Asset	4%	5%	5%	12%	11%	10%	3%	3%	3%
<b><u>Liquidity</u></b>									
Asset Turnover	0.11	0.09	0.17	0.14	0.15	0.15	0.16	0.16	0.17
Current Ratio	1.81	1.90	1.82	1.82	1.58	1.51	1.35	1.37	1.38
Quick ratio	0.73	0.78	0.70	0.70	0.56	0.55	0.40	0.41	0.40

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