

Ho Chi Minh City Securities Corporation (HSX – HCM)

April 17, 2015

AGM NOTE



On April 16 2015, Ho Chi Minh Securities Corporation (HSC) held its Annual General Meeting in Ho Chi Minh City. Attendance: 245 shareholders representing 78.02 percent of charter capital

2014 Business Results

Market position

As of year-end 2014, HSC had lost its top ranking in both HSX and HNX to its biggest competitor, Saigon Securities Inc., achieving 10.6 percent market share in total, off its 2014 target of 11.6 percent and one rank below FY2013.

Market share	2014	Ranking 2014	2013	Ranking 2013	2014 target
Breakdown by Stock Exchange					
HSX	11.7%	2	13.2%	1	
HNX	7.9%	2	9.2%	1	
HSX+HNX	10.6%	2	12.2%	1	11.6%
Breakdown by customers					
Individual customers	7.4%	2	7.5%	1	7.5%
Institutional customers	3.0%	2	4.5%	1	4.1%
Foreign Institutional customers market share in Vietnam					
Foreign Institutional customers market share	28.5%	2	32.1%	1	28%

2014 Earnings Results

HSC's 2014 revenue reached VND831.1 billion (USD38.7 million), up 31 percent compared to last year, and beat its full year target by 12 percent, with interest income, margin lending, and proprietary trading recording the highest growths and brokerage services, margin lending, and proprietary trading contributing the most to total revenues in FY2014.

Brokerage services

- Brokerage has always been the primary focus of HSC, and this year brokerage services continued to contribute the largest portion (36 percent) to total revenue with over VND299 billion (USD13.9 million), increasing 50 percent y-o-y, reaching 97 percent of the full year target. This was partially due to the fact that the total trading volume of the market in the 2014 almost doubled and HSC was not successful in retaining its market share top ranking
- As of year-end 2014, HSC's brokerage market share ranked second on the HSX (11.7 percent) and ranked second on the HNX (7.9 percent).

Margin lending

Similar to brokerage services, margin lending activities are also highly correlated with overall market trading activities. For FY2014, total margin lending revenues achieved over VND249 billion (USD11.6 million), up 60 percent y-o-y, accounting for 30 percent of total revenue and exceeding the full year target of 28 percent.

VND million	2014	2013	% growth	2014 Target	% completed
Revenues	831,135	634,760	31%	744,761	112%
Brokerage services	299,432	199,104	50%	310,246	97%
Margin lending & advances	248,786	155,821	60%	195,000	128%
Proprietary trading	194,425	152,919	27%	167,675	116%
Interest income	67,241	90,727	-26%	36,340	185%
Advisory	12,362	16,399	-25%	19,000	65%
Others	8,889	19,790	-55%	16,500	54%
Operating expenses	349,692	260,049	34%	306,951	114%
Other income	4	718	-99%	-	
Profit before tax	481,447	375,428	28%	437,810	110%
Net profit	376,152	282,174	33%	341,492	110%
EPS	2,956	2,241	32%	2,684	110%
Key Ratios					
ROAA	10.8%	8.9%		10.6%	
ROAE	16.3%	12.8%		15.4%	
P/E	10.6	10.9			
Shareholder Return	32%	51%			
Dividend	VND2,100	VND1,700			

Proprietary trading

Proprietary trading was the third focus of HSC in 2014, recording VND194 billion (USD9 million), up 27 percent y-o-y, exceeding targets by 16 percent, with a contribution to total revenue of 23.4 percent.

Interest Income

In contrast with the uptrend of brokerage, margin lending, and proprietary trading, 2014's interest income reached only VND67.2 billion (USD million), declining 26 percent y-o-y due to a declining deposit interest rate. Interest income accounted for 8.1 percent of total revenue.

Advisory

Corporate finance and advisory services do not appear to be HSC's strength. As of FY2014, HSC recorded over VND12.3 billion (USD3.1 million) of advisory revenue, dropping 25 percent y-o-y, and accounting for only 1.1 percent of total revenue. This revenue mostly came from advisory services offered to Nam Long Company and An Long Food Company. Advisory revenue achieved only 65 percent of full year targets as the actual progress of project implementation was slower than expected.

The factors behind a large increase in operating expenses of 34 percent y-o-y were: (1) the increase in trading value at HSC, (2) the increase of provision for diminution in value of non-listed securities. Net profit reached VND376 billion (USD17.5 million), increasing 33 percent y-o-y and beat the full year target of 10 percent. This was partially due to the drop in corporate tax rate from 25 percent to 22 percent in 2014.

EPS reached VND2,956, up 32 percent in comparison to VND2,241 in 2013, ranking first among securities firms.

ROAE reached 16.3 percent in 2014, ranking second among securities firms, indicating HSC's effective use of capital.

2014 Profit Sharing Plan

During the AGM, HSC's BOD also sought shareholders' approval for its 2014 profit sharing plan. HSC plans to take VND20.7 billion (USD0.96 million) from the VND376.2 billion (USD17.5 million) net profit as bonus and welfare funds for HSC's employees. Consequently, the net profit for shareholders will be VND355.5 billion (USD16.6 million), a decrease of VND94.5 billion (USD4.4 million) over 2013. The remaining profit will be allocated to capitalize the enhancement fund (five percent of net income), financial reserve fund (ten percent of net income), BOD and Supervisory Board operational reserve (one percent of net income), and cash dividend (VND2,100 per share vs. VND1,700 in FY2013), with the remainder of VND46.8 billion (USD2.2 million) being added to undistributed earnings.

FY2015 Business Targets

Market position

HSC projects average daily trading value in 2015 will be VND4,000 billion (USD186.4 million), up 33 percent y-o-y. However, the actual result in Q1/2015 turned out to be lower, only VND2,300 billion (USD107.2 million), down 23 percent compared to the VND3,000 billion (USD139.8 million) in 2013, and equal to 58 percent of the assumption made for 2015. HSC has confirmed that 2015 is a "moment of reestablishment" – the company will strive to bounce back to the top.

Market share	2015 Target	2014	Growth	Q1/2015
Breakdown by customers				
Individual customers	8.0%	7.4%	0.6%	6.5%
Institutional customers	3.1%	3.0%	0.1%	3.4%
Proprietary	-	0.2%	-	0.1%
Overall	11.1%	10.6%	0.5%	10.0%
Foreign Institutional customers market share in Vietnam				
HSC	30%	28.5%	1.5%	27.0%

2015 Earnings Projections

VND million	VPBS forecast	HSC 2015 Target	HSC 2014 Actual	% growth	Q1/2015 Estimates	% Complete
Revenues	894,436	779,171	831,135	-6%	129,082	17%
Brokerage services	310,645	416,027	299,432	39%	51,840	12%
Margin lending & advances	299,222	212,500	248,786	-15%	53,733	25%
Proprietary trading	141,400	65,742	194,425	-66%	5,401	8%
Interest income	95,193	52,395	67,241	-22%	15,509	30%

Advisory	21,647	25,707	12,362	108%	1,723	7%
Others	26,330	6,800	8,889	-23%	876	13%
Operating expenses	375,663	363,519	349,692	4%	68,059	19%
Profit before tax	518,773	415,651	481,447	-14%	61,023	15%
Net profit	404,643	324,208	376,152	-14%	47,656	15%
ROAE	14.7%	13.7%	16.3%		8.1%	
Dividend	VND1,200	VND1,200	VND2,100			

- Declining interest rates will continue in 2015, hence brokerage services and margin lending will continue to be key drivers of HSC's earnings, contributing 81 percent to total revenue.

- Margin lending and advances balance will slightly increase from VND1,656 billion (USD77.2 million) in 2014 to VND1,700 billion (USD79.2 million) in 2015, maintaining its proportion of approximately 47.2 percent of total assets. HSC has revealed that as a leading securities company, HSC was able to maintain its lending from a number of banks that have long been the company's partners. As a result, the impact of Circular 36 on HSC's lending will not be significant. However the huge drop in interest rates from 15 percent per annum in 2014 to 12.5 percent per annum in 2015 will put pressure on margin lending revenue.

- The significant drop in proprietary trading in 2015 is due to the fact that, in 2014, the company was able to realize gains from the selling of fund certificates (bought in 2011) in Q1/2014, and to sell large quantities of government bonds in 1Q2014 and 3Q2014 when bond yield was at its lowest. Bond yield will likely bounce back this year, and so there will be limited bond selling activities.

- As mentioned earlier, bond yields had already reached their lowest point so bond investment will no longer be dominant, with bond investment balance increasing slightly, by 13.6 percent y-o-y. HSC has consequently targeted to more than double its investment in listed equity securities and fund certificates from VND104 billion (USD4.8 million) in 2014 to VND214 billion (USD10 million) in 2015.

- HSC confirmed that the firm currently has no capital raising plans despite the implementation of Circular 36 and Circular 210. However, given the advantage of low interest rates in 2015, HSC can consider the possibility of raising capital through long term bond issuance rather than new share issuance, depending on the company's capital needs during the year.

- Q1/2015's result was quite modest, with revenue reaching only 17 percent of the full year target. This is expected as the first quarter is usually the "warm up" quarter of the year.

- Mr. Hoang Dinh Thang, a Board member has resigned, replaced by Mr Le Thang Can.

HSC's 2015 earnings targets are lower than the projection we made in our update report for HSC issued in December 2014. Based on HSC's Q1/2015 actual business performance and its modest full year target, we will reconsider our valuation of HCM's share price in our next update report.

Today, the stock price has increased by 2.2 percent, closing at VND32,400, trading at P/E of 10.96x, P/B of 1.75x.

CONTACT INFORMATION

For further information regarding this report, please contact the following members of the VPBS research department:

Barry David Weisblatt

Head of Research
barryw@vpbs.com.vn

Nguyen Thi Thuy Linh

Director – Macro and Financials
linhntt@vpbs.com.vn

Pham Lien Ha, CFA

Senior Analyst
hapl@vpbs.com.vn

Chu Le Anh Ngoc

Research Assistant
ngoccla@vpbs.com.vn

For any questions regarding your account, please contact the following:

Marc Djandji, CFA

Head of Institutional Sales and Brokerage
& Foreign Individuals
marcdjandji@vpbs.com.vn
+848 3823 8608 Ext: 158

Ly Dac Dung

Head of Retail Sales and Brokerage
dungld@vpbs.com.vn
+844 3974 3655 Ext: 335

Vo Van Phuong

Director of Retail Sales and Brokerage
Nguyen Chi Thanh 1 - Ho Chi Minh City
phuongvv@vpbs.com.vn
+848 6296 4210 Ext: 130

Domalux

Director of Retail Sales and Brokerage
Nguyen Chi Thanh 2 - Ho Chi Minh City
domalux@vpbs.com.vn
+848 6296 4210 Ext: 128

Tran Duc Vinh

Director of Retail Sales and Brokerage
Lang Ha - Ha Noi
vinhtd@vpbs.com.vn
+844 3835 6688 Ext: 369

Nguyen Danh Vinh

Associate Director of Retail Sales and Brokerage
Le Lai - Ho Chi Minh City
vinhnd@vpbs.com.vn
+848 3823 8608 Ext: 146



Hanoi Head Office

362 Hue Street,
Hai Ba Trung District, Hanoi
T - +84 (0) 4 3974 3655
F - +84 (0) 4 3974 3656

Ho Chi Minh City Branch

76 Le Lai Street,
District 1, Ho Chi Minh City
T - +84 (0) 8 3823 8608
F - +84 (0) 8 3823 8609

Danang Branch

112 Phan Chau Trinh Street,
Hai Chau District, Danang
T - +84 (0) 511 356 5419
F - +84 (0) 511 356 5418



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