

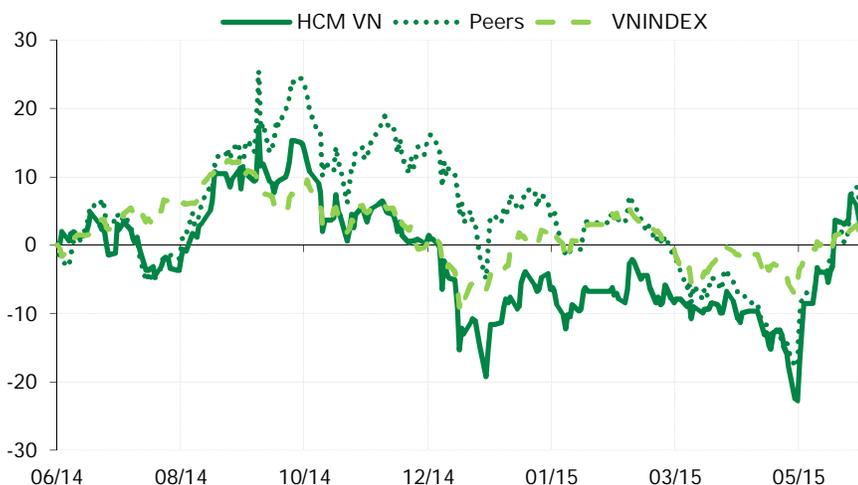
HO CHI MINH SECURITIES CORPORATION (HSX – HCM)

June 18, 2015

UPDATE REPORT: HOLD



Current Price (18/06/2015):	VND	33,700	
Target Price:	VND	33,800	
Short-term recommendation:		HOLD	
Resistance level:	VND	39,800	
Support level:	VND	32,500	
Bloomberg ticker: HCM VN	Exchange:	HSX	
Industry:		Securities	
Adjusted Beta:		1.31	
52w High / Low (VND)		41,900/25,100	
Outstanding Shares (mn)		127.2	
Market Cap (VND bn)		4,286	
Free Float (%)		38	
TLM Avg Trading Vol		684,900	
Foreign-owned Ratio (%)		48.99	
Year	Div (VND)	EPS (VND)	
2016F	1,200	2,942	
2015F	1,200	2,220	
2014	2,100	2,956	
2013	2,000	2,241	
	2009-14 CAGR	2015F (VND bn)	2015-20 CAGR
Revenue	11.09%	671	26.99%
Net Income	6.22%	282	28.10%
	HSC	Peers	VNI
P/E	14.18	1.08	12.52
P/B	1.80	11.75	1.77
ROE (%)	12.80	9.48	14.91



We maintain our recommendation of **HOLD** with a 2015 target price of VND33,800 based on the following:

- ❖ **HSC recorded huge growth in 2014 but Q1/2015 figures are not as positive.** HSC experienced decreasing market share in both exchanges in Q1/2015, with total market share down to 10.0 percent from 10.6 percent in 2014.
- ❖ **However, we expect significant increases in market trading activity over the next five years, given:**
 - Stable macroeconomic conditions
 - Decree 42 and the development of new products
 - Speeding up of SOEs equitization
 - Delay of Circular 210
 - Draft revision of Circular 74
- ❖ **FOL increases for securities firms:** FOL is likely to be fully opened for securities firms by the end of 2015, which will open up more choices for foreign investors and improve market liquidity.
- ❖ **HSC should gain market share as the industry consolidates.** According to the government's restructuring plan, by 2020 the total number of securities firms will be cut from 85 in 2014 to 30 firms. The market will then be playing field for big players like HSC.
- ❖ **Current premium to book value seems justified by historical performance.** HSC shares were trading at 56 percent above peers on a P/B basis, and currently are at a 75 percent premium thanks to positive market activities and the firm leading position in the market.

Please see disclaimer language at the end of this report.

Company Description:

- Officially started operations with an initial capital of VND50 billion in 2003. In 2009, HSC was listed on the HSX.
- By end of Q1/2015, total assets were VND2,914 billion (USD134.5 million), and total equity was VND2,380 billion (USD109.8 million).
- HSC has four main business activities: Brokerage and Sales, Research, Investment Banking, and Treasury activities.

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Industry update & Outlook

Market liquidity decreased in 5M2015 but is expected to bounce back by end of 2015

Market liquidity is expected to bounce back in the second half of 2015 despite starting low.

In the first five months of 2015, total market trading value on both exchanges reached approximately VND209,950 billion (USD9.7 billion), down 34.4 percent y-o-y. This was a reversal from last year's result. The total market trading value of stocks on HSX and HNX combined reached VND732,590 billion (USD33.8 billion) in 2014, an increase of 119 percent y-o-y (HSX increased 109 percent; HNX increased 154 percent). Most securities companies benefited from the liquidity surge, showing vast improvement in brokerage revenue and proprietary trading revenue. It is expected that the market will stay flat in 2015, and market trading value will show positive signals in the second half of the year. Even though the negative impact of Circular 36 has burst in the end of 2014 and continued to restrain the market in the first five months of 2015, there are catalysts expected to move the market in the second half of the year:

- ❖ Issuance of regulations that open up room for foreign investors, which will eventually draw inflows of capital into the Vietnam stock market
- ❖ Completion of 395 SOE equitizations (of which 43 are already completed), that will potentially increase market supply and market liquidity
- ❖ Launch of new financial products
- ❖ Delay of Circular 210

Market interest rates have shown early signs of increase

Interest income will increase as market interest rates record an uptick across the board, while securities firms will be less active in Government bonds trading

Earlier in 2015, the Governor of the State Bank of Vietnam (SBV) confirmed that SBV will continue to cut interest rates in 2015 if conditions allow. However, it will be challenging to keep interest rates as stable as in 2014 as the economy is recovering. With 2015 GDP growth targeted at 6.0 to 6.2 percent, the pressure to increase interest rates is undeniable. In reality, in the first quarter of 2015, bond yields overall have inched slightly down across all tenors, especially for the medium and long-term. By end of March 2015, however, they all recorded an uptick, with the short-terms even bouncing back to the level held at the beginning of January, while the medium and long-terms tended to be calmer. Bond interest rates are currently:

Tenor	Rate	Change ytd
One year	4.99%	+0.24%
Two year	5.36%	+0.36%
Three year	5.61%	+0.41%
Five year	6.04%	-0.19%
Seven year	6.40%	-0.43%
Ten year	6.74%	-0.54%
Fifteen year	7.65	-0.15%

In 2014 securities companies liquidated their bond investments to record trading gains in the second and third quarters and take advantage of the significant drop in Government bond yields across the board. In 2015, it is expected that

they will be very much less active in this area. On the other hand, interest income for most securities companies should experience a slight improvement.

Upcoming regulation changes

Delay of amendment of Circular 210 and positive impact on securities stocks

Earlier in 2015, the Ministry of Finance released a draft amendment to Circular 210 for consultation with market participants. Included in the draft are changes to tighten up funding mobilization and funding usage activities of securities companies (Please read our Market Outlook Q1/2015 Report for more details). These amendments, if approved, would have a positive long term impact, strengthening the financial capabilities and improving operating efficiency and transparency of securities companies. In the short term, however, they would reduce the ability of securities companies to raise funds, which in turn would limit growth and margin lending capacity to the market.

Delay of Circular 210 to speed up SOEs equitization process, which will eventually increase market liquidity.

The amendment of Circular 210 was recently delayed as the Government wants to support and speed up the SOEs equitization process, and the stock market had yet to show strong positive signals. If Circular 36 and Amendment of Circular 210 are simultaneously applied, the resonance will restrain market improvement. We expect a large number of SOEs to be listed in 2015 (43 SOEs had been equitized by 5M2015), eventually increasing market liquidity and boosting advisory income for securities firms.

Stock market reform - FOL and derivatives markets

Foreign ownership limit (FOL) will be opened up for a number of industries at various rates, with the FOL for securities firms likely to be opened fully by end of this year, though there is no exact timeline attached. With the FOL of 14 of the top 50 stocks by market capitalization closed, there is limited choice for larger foreign funds. A few funds have paid a de facto premium to buy these stocks, however the majority prefer not to do so.

The move of fully opening up FOL may not be supported unless it comes together with the launch of non-voting depository receipts. This is the best vehicle to help solve the foreign access problem without surrendering control of key parts of the economy. HSX has formed a group which has been trying to produce an operating framework and proposal for how NVDRs might be introduced in Vietnam. It is likely that NVDRs will be launched in 2017, thus paving the way for MSCI to upgrade Vietnam from frontier market to emerging market, thereby further increasing market liquidity.

According to Decree 42/2015/ND-CP guiding derivatives securities and markets, a state-controlled centralized derivatives market will begin operating in 2016 following international standards. Derivatives traded on the derivatives market will include futures, options, and forwards contracts based on securities listed on stock exchanges and other listed derivatives, or other transactions based on securities listed on stock exchanges. A number of products will be launched in 2016, including stock index (VN30 and HNX30) futures and options and bond futures. 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

Securities firms are sprinting to raise capital to meet entry requirements for derivatives markets

stock market, diversifying product offerings, improving the competitiveness and efficiency of the Vietnam stock exchanges, attracting more foreign capital inflows as well as solving FOL issues.

To join the derivatives market, securities firms must have charter capital of VND 600 billion (USD27.7 million) or more for proprietary trading activity, and VND800 billion (VND36.9 million) or more for brokerage activities. In addition, firms must meet requirements for profitability, financial safety ratio, and other factors under the guidance of the Ministry of Finance. Securities firms and commercial banks can register as members of the Vietnam Securities Depository. Charter capital and equity requirements for securities firms are VND900 billion (VND41.5 million) or more when signing up as a direct clearing member, and VND1,200 billion (VND55.4 million) or more to register as a general clearing member. With the technical requirements above, SSC expects to have 15 to 20 securities companies eligible to join the derivatives market in the future.

A number of securities firms began to sprint in 2015. Many of them have announced plans to raise charter capital in 2015 to prepare for entrance into the derivatives market, though smaller players may be kept out of of this game. BVS plans to increase charter capital by VND1,000 billion (USD46.1 million), with Vietinbank Securities, VCBS, Techcombank Securities, and SHS also on their way to raising capital in 2015.

A number of market reforms will boost market liquidity as well as increase capital inflows to the Vietnam stock market

Revision of Circular 74: T+2 and T+0 for stock in VN30 and HNX30

The draft Circular to replace Circular 74 will increase liquidity for the stock market by reducing the settlement period for certain stocks. Stock allowed to be both bought and sold on the same day must be under VN30 or HNX30. Securities firms must meet a number of requirements to be eligible to provide this service, including a minimum charter capital of VND800 billion (VND36.9 million); set full required provisions, and post no losses in the latest two consecutive years; financial safety ratio has been continuously higher than or equal to 220% in the 12 months preceding the month of submission of intra-day brokerage registration application and not be in the process of consolidation, merger, dissolution, or under supervision, special supervision or suspension by the authority. The market is expecting this Circular to be issued by end of 2015. If the regulation comes into effect, there could be twelve securities companies qualified for that service, consisting of VPBS, TCBS, MBS, HCM, ACBS, VND, KLS, AGRISECO, SHS, SBS and SSI.

Equitization of SOEs

The total number of State-owned enterprises (SOEs) has been reduced from 12,000 in the 1990s to 5,600 due to the aggressive government restructuring program. Nearly 800 SOEs were wholly owned by the Government, with the rest equitized to differing degrees. More recently the process of equitization has increasingly involved large SOEs such as Vietnam Airlines, PetroVietnam, and Vietnam Textile and Garment Group (Vinatex).

In 5M2015, 43 SOEs were equitized and a number will be listed by end of 2015. By the end of 2015, 395 SOEs are required to complete their equitization process.

In 2015, 395 SOEs should complete their equitization process, with 109 enterprises also approved for equitization during 2016-2020 by the Prime Minister. In the first five months of 2015, 43 SOEs were equitized and a number of them will be listed by the

end of 2015, including large players such as Vietnam Airlines and Mobiphone. According to Notice 123/TB-OG, 82 enterprises that have established a steering committee for equitization must urgently determine enterprise value in Q2/2015 and announce enterprise value in Q3/2015 to complete the equitization process in Q4/2015. Currently there are 126 enterprises evaluating enterprise value and working to complete the equitization process in Q3/2015, with 52 enterprises that have announced their business valuation and are aiming to complete equitization in Q2/2015.

HSC 2014 and Q1/2015 Business Results

Market position

As of year-end 2014, HSC had lost its top ranking on both HSX and HNX to its biggest competitor, Saigon Securities Inc. (SSI), achieving 10.6 percent market share in total, off its 2014 target of 11.6 percent and one rank below FY2013. The fierce brokerage market share war in 2014 was primarily about which brokerage got the best brokers in the market. HSC has always been the leader in terms of foreign institutional customer market share in Vietnam, accounting for approximately one third of this segment. In 2014, however, its market share dropped to 28.5 percent from 32.1 percent in 2013 due to the aggressive race between players in the industry.

Market share	2013	2014	Q1/2015	2015 Target
Breakdown by Stock Exchange				
HSX	13.2%	11.7%	11.04%	
HNX	9.2%	7.9%	7.29%	
HSX+HNX	12.2%	10.6%	10.0%	11.1%
Breakdown by customers				
Individual customers	7.5%	7.4%	6.5%	8.0%
Institutional customers	4.5%	3.0%	3.4%	3.1%
Foreign Institutional customers market share in Vietnam				
Foreign Institutional customers market share	32.1%	28.5%	27%	30%

In Q1/2015, HSC market share contracted on both exchanges to 10 percent overall, maintained its second ranking on HSX, and dropped to third place on HNX. HSC's individual customer brokerage market share also continues to drop significantly. This can be explained by:

- The beginning of 2015 was quite tough for HSC as total market trading value contracted while competitors in the Top 5 set aggressive targets for this year.
 - ✓ VNDS set a brokerage market share target of 6.5 percent and is increasing its total number of brokers to 500 employees. VNDS will privately issue non-convertible bonds with total value of VND500 billion (VND23.1 million) to focus on its margin lending activities.
 - ✓ MBS also set a higher target of 6.5 percent for brokerage market share (up from 4.86 percent last year) to join the Top 5 in the market. MBS will also issue VND1,000 billion (USD46.1 million) of bonds in 2015.

- ✓ To compete for market share, a number of securities firms have surpassed the margin lending ceiling of 50 percent, which will make this competition particularly difficult.
- Although HSC announced in the AGM that it will cut its margin interest rate from 15 percent in 2014 to 12.5 percent in 2015, the actual rate listed on the website was 14.4 percent, higher than SSI at 14 percent and other competitors such as VPBS and VCBS at 13.5 percent.

We expect HSC to meet its market share target in favorable conditions, maintain its determination to invest in its brokers, and implement the policy regarding margin lending.

Earnings Results

In line with most securities firms, HSC recorded strong results in 2014. Revenue reached VND831.1 billion (USD38.3 million), up 31 percent compared to last year, and beating its full year target by 12 percent. Interest income, margin lending, and proprietary trading recorded the highest growths, while brokerage services, margin lending, and proprietary trading contributed the most to total revenues in FY2014.

However, as total market liquidity declined, so too did HSC's Q1/2015 revenue. In Q1/2015, total revenue reached VND130.4 billion, accomplishing only 17 percent of the full year target. The contraction of 42 percent y-o-y in HSC's revenue was due to negative growth in most components, while expenses declined only slightly by 2.2 percent. Hence net profit fell even further by 61 percent y-o-y.

	2014	2013	% growth	Q1/2015	% Completed
Revenues	831,135	634,760	31%	130,378	17%
Brokerage services	299,432	199,104	50%	51,528	12%
Margin lending & advances	248,786	155,821	60%	5,867	3%
Proprietary trading	194,425	152,919	27%	16,422	25%
Interest income	67,241	90,727	-26%	51,475	98%
Advisory	12,362	16,399	-25%	2,856	11%
Others	8,889	19,790	-55%	2,229	33%
Operating expenses	349,692	260,049	34%	70,748	19%
Other income	4	718	-99%	-	
Profit before tax	481,447	375,428	28%	59,647	14%
Net profit	376,152	282,174	33%	46,584	14%
EPS	2,956	2,241	32%	366	

Brokerage services

Brokerage has always been the primary focus of HSC, and in 2014 brokerage services continued to contribute the largest portion (36 percent) to total revenue with over VND299 billion (USD13.8 million), increasing 50 percent y-o-y, and reaching 97 percent of the full year target. This was partially due to the fact that the total trading volume of the market in 2014 almost doubled, even though 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).

In 2015, the result was much less positive due to the decline of market liquidity overall, with total trading volume of the market in Q1/2015 decreasing by 27 percent y-o-y. Consequently, brokerage revenue dropped by 25 percent to VND51.5 billion (USD2.4 million) in Q1/2015, accomplishing 12.4 percent of the full year target. This component continued to contribute the largest share (32.4 percent) to total revenue. In comparison to its closest competitor, SSI, with brokerage revenue of VND61.7 billion (USD2.8 million), the HSC result seems rather humble. As mentioned earlier, the current margin lending rate at HSC is still relatively expensive, which would make it less attractive to existing, as well as new, customers.

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 (USD11.5 million), up 60 percent y-o-y, accounting for 30 percent of total revenue, and exceeding the full year target of 28 percent. Margin lending in 2014 was VND1,645 billion (USD 75.9 million) on average, up 85 percent y-o-y due to increased margin demand from investors as market trading value doubled y-o-y. Average interest rate was down to 15 percent per annum versus 16.9 percent per annum in 2013 as overall interest rates in the market dropped, as did the margin interest rates within the industry.

According to the SSC's Decision 637 (Article 13), which regulates margin lending activities of securities companies, the ratio of total margin lending balance to total equity capital must be less than 200 percent. By end of Q1/2015, HSC advances to customers and margin lending balances were worth over VND1,172 billion (USD54.1 million), down 15 percent YTD, and equivalent to 98.5 percent of its total equity capital, meaning HSC still has plenty of room for margin lending.

HSC has revealed that as a leading securities company it has been 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 was not significant. In Q1/2015, margin lending revenue only slightly decreased by 5.0 percent, to VND51.5 billion (USD2.4 million), contributing 27.4 percent to total revenue.

On October 9, 2014, HSC disclosed contents of board decisions to secure a total credit limit of VND1,400 billion (USD64.6 million) from four banks: HDBank, BIDV, VCB, and Maritime Bank, in order to raise working capital if necessary. However, by the end of Q1/2015, it had not yet used this source of funds as the firm recorded no short term or long term borrowings. It is expected that HSC will likely use this credit limit in the second half of the year to expand its margin lending activities when the market warms up.

Proprietary trading

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

In 1Q/2015, proprietary trading revenue dropped 93 percent, from VND81.4 billion (USD3.8 million) in Q1/2014 to VND5.9 billion (USD0.3 million) in Q1/2015. This was due to the company realizing gains in Q1/2014 from the selling of fund certificates bought in 2011, and selling large quantities of government bonds in Q1/2014 and

3Q2014 when bond yields were at their lowest. Bond yields will likely bounce back this year, and so there will be limited bond selling activities. In Q1/2015, proprietary trading revenue mainly came from stock trading.

Interest Income

In contrast with the uptrend of brokerage, margin lending, and proprietary trading, 2014's interest income reached only VND67.2 billion (USD3.1 million), declining 26 percent y-o-y due to a declining deposit interest rate from 7.5 percent per annum to 5.8 percent per annum. Interest income accounted for 8.1 percent of total revenue due to the declining deposit interest rate.

As the interest rate remained low in Q1/2015, interest income dropped slightly by 8.0 percent y-o-y.

Advisory

Corporate finance and advisory services do not appear to be HSC's strength. As of FY2014, HSC recorded over VND12.3 billion (USD0.6 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.

In Q1/2015, advisory revenue increased seven-fold, to VND2.9 billion (USD0.1 million) as a number of contracts that were supposed to generate income in 2014 had been pushed back to 2015.

Key regulation changes and their positive impact on HSC

Draft Revision to Decree 58: the opening up of FOL will greatly impact HSC's attractiveness in the eyes of foreign investors as HSC's foreign ownership has already reached 49 percent. As one of the market leaders, it will have advantages in gaining more brokerage and margin lending revenue as well as market share.

Draft Circular to replace Circular 74 (T+2, and T+0 for stock in VN30 and HNX30) will increase liquidity for the stock market. HSC is currently eligible to provide this service as it has charter capital of VND1,273 billion (USD58.7 million) (minimum VND800 billion), no net loss recorded for the past two years, its financial safety ratio was 798 percent in 2014 and has consistently stayed well above 220 percent, and the company has set full provisions as required. As this new Circular comes into play, in combination with HSC's advantage as a founding member of ETF VN30, HSC's trading volume will increase accordingly and its brokerage revenue as well as margin lending revenue growths will improve.

Amendment to Circular 210: Even though the draft amendment to Circular 210 will be delayed, once it is implemented it will be advantageous to those securities firms that are not bank subsidiaries, including HSC. A number of HSC competitors are bank subsidiaries, which were restricted from borrowing and raising capital from banks. They had previously been able to secure trilateral cooperation contracts between their parent banks, their customers, and themselves. If the firms had already reached

Overall, the open up of FOL, derivatives markets, tightening of fund mobilization activities as well as the allowance of trading stock on the same day will assist HSC in gaining more market share as well as brokerage and margin lending revenues.

their margin lending limits, their customers could borrow through their parent banks under this type of contract and these loans were not counted as the firm's borrowings. It was assumed that those securities firms that have parent banks benefited the most and were most active in these activities. However, according to the Amendment to Circular 210, fund mobilization activities of securities firms are limited to three major approaches: (1) bank borrowings, (2) securities issuance through both private and public issuance, and (3) subordinate debt (convertible bonds) issuance. Hence, any other kind of 'contracts' will be considered illegal. Numerous competitors to HSC will be affected, especially those that have reached their limit for margin lending.

Decree 42 regulating derivatives securities and market: HSC is among 15 to 20 securities firms eligible for derivatives brokerage and proprietary trading. It is also eligible to be both a direct and general clearing member. Beside other requirements, HSC has met a key prerequisite of having charter capital of over VND1,200 billion (USD55.4 million) as its current charter capital is approximately VND1,273 billion (USD58.7 million). As we mentioned earlier, a number of products will be launched in 2016, including stock index (VN30 and HNX30) derivatives and bond derivatives. With HSC's market position as a founding member of ETF VN30 and a member of the Top 3 securities firms with largest bonds brokerage market share, HSC is well prepared to lead competitors in the derivatives market. Additionally, the demand of using derivative instruments mainly rests with institutional investors, therefore, the companies with high institutional brokerage market share like HSC will certainly have advantages in this field.

2015 Business targets and VPBS Forecasts

HSC projects average daily trading value in 2015 will be VND4,000 billion (USD184.6 million), an increase of 33 percent compared to the 2014 level of VND3,000 billion (USD138.4 million). However, the actual results in Q1/2015 have turned out to be lower, at only VND2,300 billion (USD106.1 million), down 23 percent compared to the 2014 level, and equal to 58 percent of the assumption made for 2015. Based on HSC's actual business performance, its modest full year target, and the actual market total trading value in Q1/2015, we make the following revisions to our model:

	VPBS forecast	HSC 2015 Target	VPBS revision
Revenues	894,436	779,171	670,681
Brokerage services	310,645	416,027	309,002
Margin lending & advances	299,222	212,500	203,840
Proprietary trading	141,400	65,742	67,959
Interest income	95,193	52,395	56,809
Advisory	21,647	25,707	25,961
Others	26,330	6,800	7,111
Operating expenses	375,663	363,519	308,513
Profit before tax	518,773	415,651	362,168
Net profit	404,643	324,208	282,491
HSC brokerage market share	12.3%	11.10%	11.10%

Unit: VND million

Market trading volume:

We forecast total market trading value will remain relatively stable in 2015. Total market trading value in 5M2015 was approximately VND210 trillion (USD9.7 billion). However, as noted earlier, we do expect it to rise from June 2015 to reach last year's level by end of the year. From 2016 onwards, we expect total market trading value to grow at 25 percent per annum due to the upcoming changes in regulations.

Market share is projected to reach 16 percent by 2020

HSC's market share has dropped slightly in Q1/2015 to 10 percent, from 10.6 percent in 2014. However, we expect the firm to bounce back for the following reasons: (1) positive market activities that will favor large players like HSC, (2) market share gains from the shutdown of other securities companies, as the 102 companies in 2013 is cut to 30 companies by 2020 in accordance with the government's restructuring program, and (3) a high likelihood of attracting new customers with a proven track record of good brokerage services.

Brokerage revenue:

Brokerage revenue will experience only slight growth from HSC increasing market share from 10.6 percent to 11.10 percent. However, this is still off HSC's target as we do not expect average daily trading value to reach VND4,000 billion (USD184.6 million) as forecast by HSC.

According to HSC's estimates, average brokerage commission rate will stay around 19 percent for individual customers and 16 percent for institutional investors. Total market trading value of foreign investors is expected to account for 10 percent of total market value. HSC's foreign Institutional customer market share is expected to bounce back to 30 percent, from 28.5 percent in 2014.

As we mentioned earlier, the competition will be fiercer this year, in order to increase brokerage revenue, and we think that HSC might have to trade off its margin lending revenue or take on more risk, as the margin lending ratio is also a very powerful weapon.

Margin lending revenue:

Based on actual results in 2014, and HSC's assumption that there will be no margin demand from institutional investors in 2015, total margin lending and advances to customers will reach, on average, VND1,700 billion (USD78.4 million), up three percent y-o-y.

However, we expect margin lending revenue to slightly decrease in comparison to 2014's results and to be less than HSC's target as 2015 average daily trading value will stay flat rather than rise by 33 percent as forecast by HSC. As HSC has announced in its AGM that margin interest rates will be cut from 15 percent to 12.5 percent in 2015, given tough competition in the market and lower interest rates, we do expect HSC's margin lending revenue to contract, but only to a minor extent as interest rates have shown recent signs of improvement.

Proprietary trading:

HSC estimates that total investment in stocks, funds certificates, and bonds will reach approximately VND414 billion (USD19.1 million), up 48.4 percent y-o-y, with expected

return of 16 percent per annum for stocks and funds certificates (49 percent in 2014) and only eight percent for bonds (27 percent in 2014). Expected return will therefore stay around 13 percent in 2015 versus approximately 38 percent in 2014.

As mentioned earlier, the company was able to realize gains in Q1/2014 from selling fund certificates bought in 2011, and selling large quantities of government bonds in Q1/2014 and Q3/2014 when bond yields were at their lowest. Bond yields will likely bounce back this year, and so there will be limited bond selling activities. Instead, HSC will invest in bonds to earn coupons and considers this as a prerequisite for reverse repo activities. Proprietary trading revenue will therefore contract considerably in 2015, down by approximately 60 percent.

Interest income:

Interest income from deposits is expected to decrease in 2015 despite the recent rise in interest rates as HSC plans to channel a large proportion of its fund to investments rather than deposits at banks.

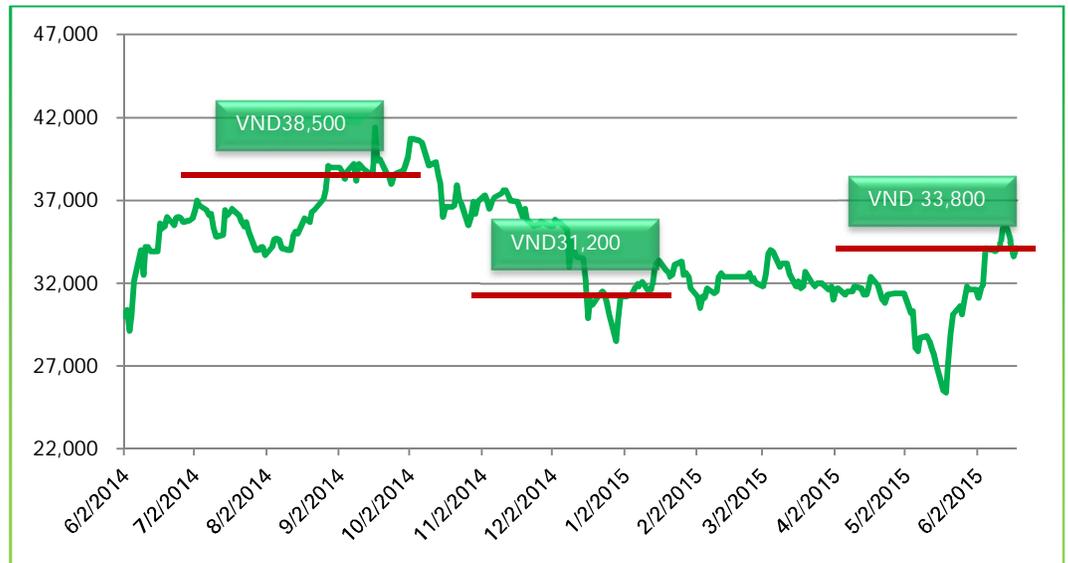
Net income expected to grow stronger from 2016 onwards

We expect the company's profits to move in accordance with the market growth rate of 25 to 30 percent as previously. Additionally, as mentioned earlier, there are a number of key changes in regulations that will very positively affect HSC.

Valuation and Recommendation

Recent performance

On September 17, 2014, the stock price reached its six-month peak of VND41,400, then steadily traded in the range of VND36,000 to VND39,000. Due to the negative impacts of Circular 36 and the steep decline of oil and gas prices on the stock market, HSC had fallen to VND30,700 by end of 2014. In 2015 however, HSC has gradually picked up due to the rumor regarding opening up room for foreign investors, as foreign ownership at HSC has almost reached its maximum at 48.99 percent. This rumor has therefore extensively and positively affected HSC's stock price, moving it to VND31,000 to VND34,000. The downtrend of the market in May pulled HSC down to a trough at VND25,400, but the stock has quickly bounced back to its previous high, closing at VND33,700 on June 18, 2015.



Valuation

Based on HSC’s Q1/2015 results, our revised assumptions regarding market trading activities, and our addition of P/B valuation approach, we adjust the target price for HSC from VND31,200 to VND33,800. Combined with an expected dividend of VND1,200, the total one year expected return for HCM is 3.75 percent. Therefore our recommendation for HSC stock at the time of issuing this update report is to HOLD.

Combined valuation		
Method	Target price	Weight
Residual income	30,346	40%
P/E	25,253	20%
P/B	41,306	40%
Weighted average target price	33,765	

Residual income

We use the residual income method to value HSC’s share price, and this model suggests a fair price of VND30,346 per share for HSC, incorporating the following inputs:

- The risk-free rate is taken from the recent one-month average yield of 5-year local currency Government bond yields, which is equivalent to 6.04 percent.
- The expected market risk premium is 8.47 percent.
- HSC’s adjusted beta is estimated to be 1.31.
- HSC’s long-term growth rate of residual income is estimated to be 7 percent.

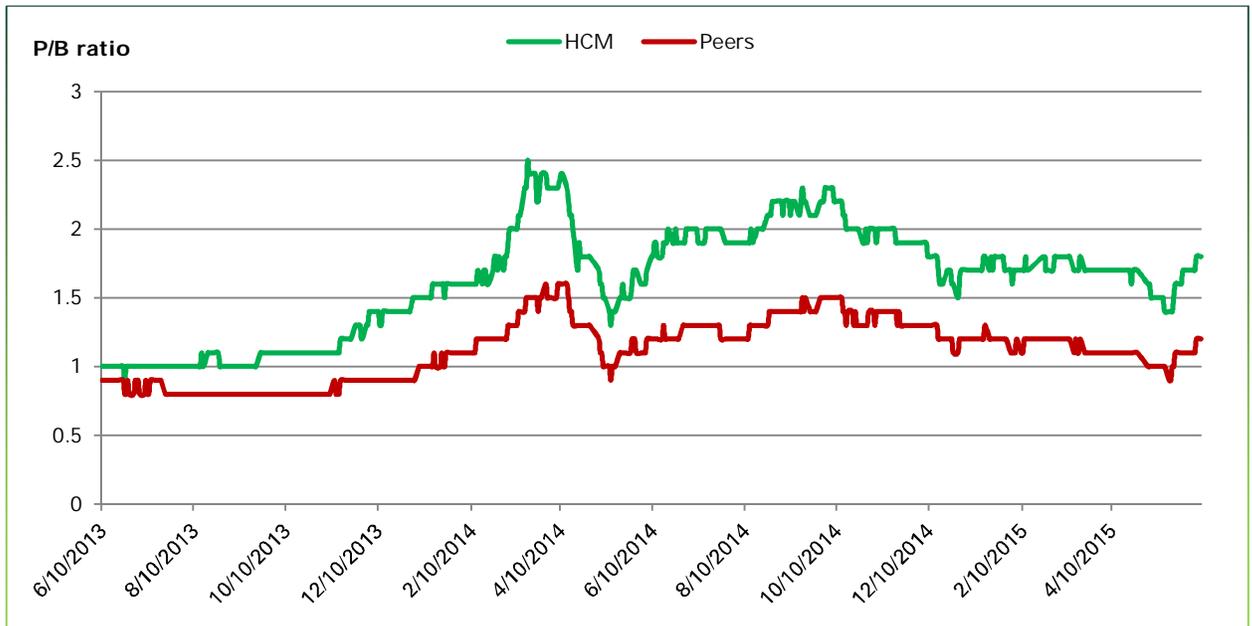
Residual Income	2015F	2016F	2017F	2018F	2019F	2020F
Net Income	276,322	367,745	477,601	607,630	759,433	961,664
Shareholders' Investment	2,358,231	2,436,582	2,552,763	2,878,387	3,175,784	3,729,420
Capital Charge	404,099	417,525	437,434	493,232	544,193	639,062
Residual Income	(127,777)	(49,781)	40,167	114,398	215,240	322,601
						3,405,620
Present Value Factor	0.85	0.73	0.62	0.53	0.45	0.39
PV Residual Net Income	(109,085)	(36,281)	24,992	60,766	97,606	1,443,331
Total Projected EVA	1,481,330					
Current Book Value Equity	2,380,363					
Value of Equity	3,861,693					
Number of Shares	127,256,758					
Share Value (VND)	30,346					

Market-based valuation

At the moment, HSC is one of the leading securities firms with a large base of institutional investors and favored by foreign investors, along with SSI. From the table below, it is apparent that these two stand out with both P/E and P/B traded at extended premiums. This explains why HSC is trading at a premium based on the P/B ratio compared to its peer group.

Ticker	Mkt Cap (VND bn)	Last price	P/B	P/E	ROE (%)	ROA (%)
BVS	1,083	15,000	0.79	8.16	10.12%	6.69%
KLS	1,750	9,600	0.71	124.08	0.58%	0.53%
SSI	10,170	23,800	1.79	14.76	12.07%	6.94%
SHS	870	8,700	0.94	14.07	6.94%	1.85%
VNDS	2,181	13,800	1.17	10.02	9.70%	4.27%
Peers average			1.08	11.75	7.88%	4.06%
HSC	4,286	33,700	1.80	14.18	12.80%	9.48%

We also tracked the historical P/B ratio of HSC and its peer group to see whether the current 67 percent premium is justifiable. What we observe is that over the past two years HSC has consistently been traded at a premium over its peer group, and the premium is getting wider. Based on the trend and the historical statistics premium, in the P/B valuation approach we apply a 100 percent premium for HSC's P/B.



For the P/E valuation, we use forward EPS to evaluate HSC, despite the lower EPS in 2015. We expect the company to improve in 2016 once the stock market brightens. We therefore consider the peers' average to be justifiable for valuing HSC's shares.

P/E valuation	
HSC's EPS 2015	2,171
HSC's P/E (x)	14.18
Peers' PE	11.75
Forward P/E	11.75
Target price	25,523

P/B valuation	
HSC's 2015 BVPS	19,147
HSC's P/B	1.80
Peers' PB	1.08
Forward P/B	2.16
Target price	41,306

Technical Analysis

We observed mid-term uptrend of HCM from middle of May, 2015 since it crossed the MA50 resistance level at VND30,500. This uptrend was consolidated as it crossed the MA200 resistance level at VND32,500 at the beginning of June.

However, the price of HCM adjusted recently as investors start to realize profit. It is now accumulating in a range from VND33,500 to VND36,500.

We expect after this accumulation phase, HCM can continue to climb up, heading to its midterm resistance level at VND39,800, formed by the 2014's peak.

Ticker	HSC
Horizon analytic	3 to 6 months
3-month highest price	35,700
3-month lowest price	25,100
Current MA100 days	30,500
Current MA300 days	32,500
Mid-term resistance level	39,800
Mid-term support level	32,500
Recommendation	HOLD

HSC price performance



Source: VPBS

Appendix – VPBS projections

BALANCE SHEET	2012	2013	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Cash & Equivalents	1,794	1,008	1,507	1,200	1,061	1,035	792	781	776
Receivables	635	1,402	2,021	2,224	2,660	3,190	3,838	4,512	5,210
Short term investment	152	352	197	371	390	368	404	445	489
Other current asset	4	6	4	9	10	11	12	13	14
Total current asset	2,585	2,768	3,729	3,804	4,120	4,603	5,045	5,751	6,489
Fixed asset	12	7	8	13	14	18	19	24	26
Long term investment	475	229	-	93	167	245	270	296	326
Other non current asset	127	123	122	128	153	184	221	265	318
Total long term asset	614	360	130	234	334	447	509	585	669
TOTAL ASSET	3,199	3,128	3,859	4,038	4,454	5,050	5,555	6,336	7,159
Current liabilities	926	880	1,501	1,601	1,901	2,172	2,379	2,607	2,857
Non current liabilities	110	-	-	-	-	-	-	-	-
Total liabilities	1,036	880	1,501	1,601	1,901	2,172	2,379	2,607	2,857
Equity capital	1,564	1,583	1,583	1,583	1,583	1,710	1,710	1,850	1,850
Financial reserves	120	149	186	214	251	298	359	435	531
Retained earnings	478	516	589	640	719	870	1,106	1,444	1,920
Total shareholders equity	2,163	2,247	2,358	2,437	2,553	2,878	3,176	3,729	4,301
LIABILITIES & EQUITY	3,199	3,128	3,859	4,038	4,454	5,050	5,555	6,336	7,159

INCOME STATEMENT	2012	2013	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Brokerage	145	199	299	309	425	581	791	1,029	1,368
<i>% of total</i>	26%	31%	36%	47%	51%	54%	57%	60%	63%
Proprietary trading	30	153	194	68	94	108	123	135	149
<i>% of total</i>	5%	24%	23%	10%	11%	10%	9%	8%	7%
Interest income	139	91	67	42	37	51	40	40	40
<i>% of total</i>	25%	14%	8%	6%	4%	5%	3%	2%	2%
Margin lending	185	156	249	204	243	305	384	473	576
<i>% of total</i>	33%	25%	30%	31%	29%	28%	28%	27%	26%
Advisory	13	16	12	26	29	31	35	38	42
<i>% of total</i>	2%	3%	1%	4%	3%	3%	3%	2%	2%
Other services	51	20	9	7	8	9	9	10	11
<i>% of total</i>	9%	3%	1%	1%	1%	1%	1%	1%	1%
Total revenues	562	635	831	656	836	1,085	1,381	1,726	2,186
<i>y-o-y growth</i>		13%	31%	-21%	27%	30%	27%	25%	27%
Cost of services	(166)	(177)	(262)	(203)	(251)	(326)	(414)	(518)	(656)
G&A Expenses	(90)	(83)	(87)	(98)	(125)	(163)	(207)	(259)	(328)
Operating profit	307	375	481	354	460	597	760	949	1,202
Net non-operating income	0	1	0	-	-	-	-	-	-
Profit before tax	307	375	481	354	460	597	760	949	1,202
Income tax	(60)	(93)	(105)	(78)	(92)	(119)	(152)	(190)	(240)
Net Income	246	282	376	276	368	478	608	759	962
<i>y-o-y growth</i>		15%	33%	-27%	33%	30%	27%	25%	27%
EPS	2,443	2,241	2,956	2,171	2,890	3,412	4,341	4,932	6,245

HO CHI MINH SECURITIES CORPORATION

Ratio Analysis	2012	2013	2014F	2015F	2016F	2017F	2018F	2019F	2020F
<u>Profitability</u>									
Operating Margin	54.5%	59.0%	57.9%	54.0%	55.0%	55.0%	55.0%	55.0%	55.0%
Net Profit Margin	43.8%	44.5%	45.3%	42.1%	44.0%	44.0%	44.0%	44.0%	44.0%
ROA	7.7%	9.0%	9.7%	6.8%	8.3%	9.5%	10.9%	12.0%	13.4%
ROE	11.4%	12.6%	16.0%	11.3%	14.4%	16.6%	19.1%	20.4%	22.4%
EPS growth		-8%	32%	-27%	33%	18%	27%	14%	27%
<u>Leverage</u>									
Liabilities/Asset	32%	28%	39%	40%	43%	43%	43%	41%	40%
Financial debt/Asset	3%	0%	0%	2%	2%	2%	2%	2%	1%
<u>Liquidity</u>									
Asset Turnover	0.18	0.20	0.22	0.16	0.19	0.21	0.25	0.27	0.31
Current Ratio	2.79	3.14	2.48	2.38	2.17	2.12	2.12	2.21	2.27

GUIDE TO RATINGS DEFINITION

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Hold: Expected return, including dividends, over the next 12 months is from -10% to +15%.

Sell: Expected return, including dividends, over the next 12 months is below -10%.

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