

Analyst

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RECOMMENDATION:

BUY

COMPANY PROFILE

KEY INDICATORS

Current Price (VND)	25,500
Target Price (VND)	36,600
Upside Potential (%)	43.5
YTD Return (%)	68.9
1-Year Return (%)	68.9
Outperform/(Underperform) (%)	74.7
Market Cap (VND billion)	636.9
Outstanding Shares (million)	25.0
Dividend Yield (%)	4.7
P/E Trailing (x)	8.7
P/B (x)	0.6
P/E VN-Index (x)	12.0

Source: SVC, MSI

Saigon General Service Corporation (Savico) has been setting up and developing the car dealership and motorbike dealership network of reputable manufacturers such as Toyota, Ford, GM ... through the system of 13 subsidiaries and 5 associates across Vietnam. Savico now is the leading car distributor of Vietnam Automotive Manufacturers' Association (VAMA), the market share of Savico system achieved 9.7% of VAMA in 2014 from 6.4% in 2008.

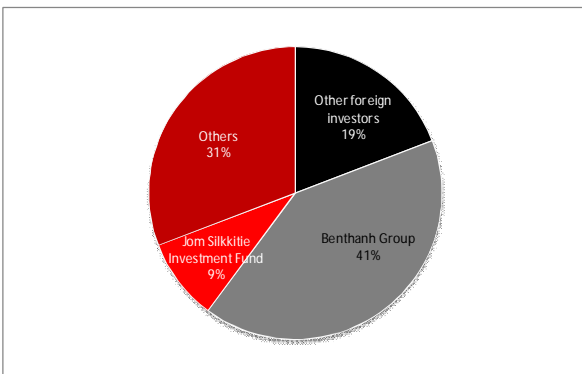
Over 30 years of experience in business operations and the strong brand name, Savico's strategy for 2015-2020 and the vision to 2030 is to continue to develop under the form of investment corporation focused on three essential areas: (1) Trading and Services, (2) Property Services and (3) Financial Services.

Savico's product structure is mainly middle-class cars with competitive price and providing economic benefits. The automotive sales volume of Savico system increases continuously over the years with the average growth rate of over 20% per year. Savico is particularly focusing on the value-added services (repair, warranty, maintenance, paint, car rental).

Savico is currently possessing a huge land bank with many real estate projects, which are very diversified like office building, houses, shopping centers... Besides the core business (trading and services sector), Savico also pays attention to exploit property projects that have high level of efficiency in order to develop a steady and stable property services system.

Financial Services sector is focusing on restructuring operations to improve the investment portfolio's efficiency and to obtain sustainable income in long-term.

Ownership (updated September 2015)



Source: CafeF, SVC, MSI

OWNERSHIP and MANAGEMENT

Savico has a concentrated shareholder structure with primarily major shareholders and insiders. The largest shareholder of Savico is Benthanh Group, who currently holds 41% of stake. The next major shareholder is Jom Silkkitie Investment Fund with around 9% of stake. Other foreign investors hold a total of 19% of stocks. Other shareholders keep about 32% of stake.

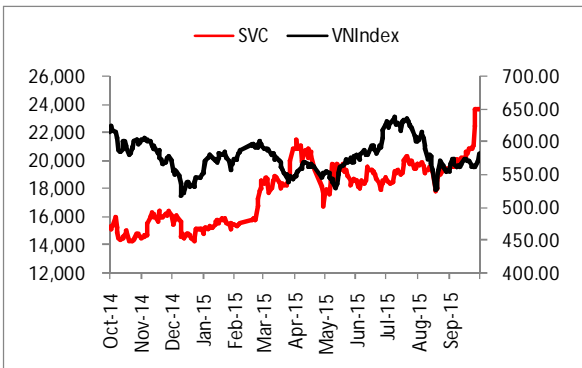
Currently, in the BOD of Savico, excepting two independent members, the remaining members are from the internal of the company.

INVESTMENT HIGHLIGHTS

We recommend to BUY SVC's stock for medium and long term investments as following positive reasons:

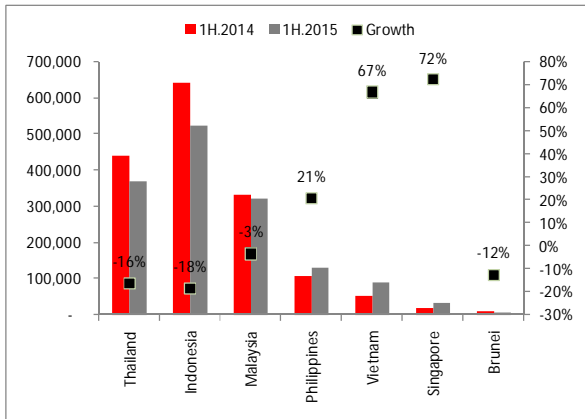
- SVC shares are evaluated by the Free Cash Flow to Firm (FCFF) valuation method with the reasonable value is VND36,600, 43.5% higher than the current price.
- SVC shares are traded cheaper than its actual value with P/B is 0.6 and P/E Trailing is 8.7x, which is 27.5% lower than the P/E of market (12.0x).
- Annual dividend ratio is 12% and dividend yield in 1H.2015 is 4.7%.
- Positive performance in 1H.2015 with VND4,080.7 of net revenue (+20.4% yoy) and VND40.9 billion of net profit (+101.3% yoy). For the whole year results, we expect both revenue and net profit will be higher than the company plan.
- Savico is the leading automotive distributor with more than 30 years of experience and is occupying 10% of VAMA.
- Savico currently owns and exploits office buildings, trade centers, hotels and resorts, land ...
- Potential growth for both car and truck distribution sectors thanks to good conditions of automotive market (growth rate at 20% in 2013, 48% in 2014 and 57% in 8M.2015), supporting policies of the Government and appropriate strategy of the company.
- Benefited from Decree 60 of the government about opening rooms for overseas investors to own up to 100% in listed enterprises.
- The stable increase of business results in recent years and expected average growth rate of 39%/year in the period 2016-2018.

Price Chart



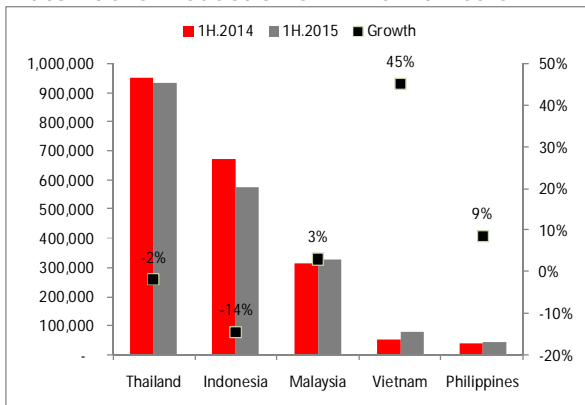
Source: Vietstock, MSI

Automobile Sales of AAF's Members



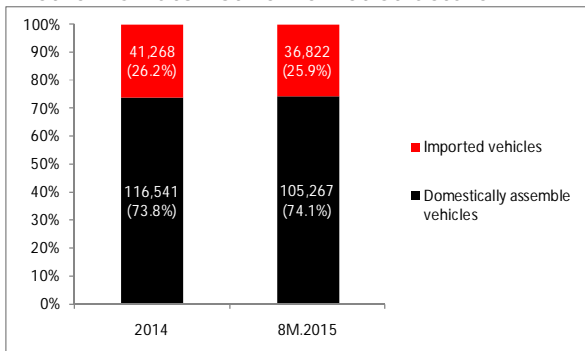
Source: AAF, MSI

Automobile Production of AAF's Members



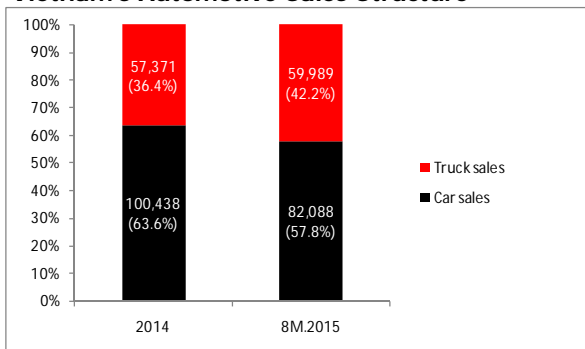
Source: AAF, MSI

Vietnam's Automotive Market Structure



Source: VAMA, MSI

Vietnam's Automotive Sales Structure



Source: VAMA, MSI

OVERVIEW AUTOMOBILE INDUSTRY

Vietnam's automotive industry was born fairly late compared to other member countries in ASEAN. With the Government's supporting policies and businesses' efforts, the modern Vietnam auto market is the playground of many world famous brands like Toyota, Ford, Honda, GM... and also the domestic businesses as Thaco, Vinaxuki...

Vietnam is a country that has large population but very low rate of car ownership (around 33 cars/1,000 persons in 2015 and is expected to rise up 38 cars/1,000 persons in 2025) compared to other countries in ASEAN such as Thailand, Indonesia and Malaysia with the ownership rates are about 100-250 cars/1,000 persons. Thus there is opportunity for strong sales growth of automotive industry in long-term. Besides, the eventual reduction of import tariffs by 2018 due to the integration of AEC also creates chances to increase domestic sales through imports. Moreover, with low and stable interest rates and credit rates for car loans increases will continue to be the factors that enhance the demand for cars. Vietnam is still considered one of the countries with attractive production costs for manufacturers thus the supply of automobile products will become abundant. Accordingly, VAMA has announced that the car sales volume has recorded positive results with growth rate at 20% in 2013, 48% in 2014 and estimated 39% in 2015. In 8M.2015, Vietnam auto market recorded spectacular sales of 140,000 cars (up 82% yoy) while the sales volume of other countries has started to slowdown.

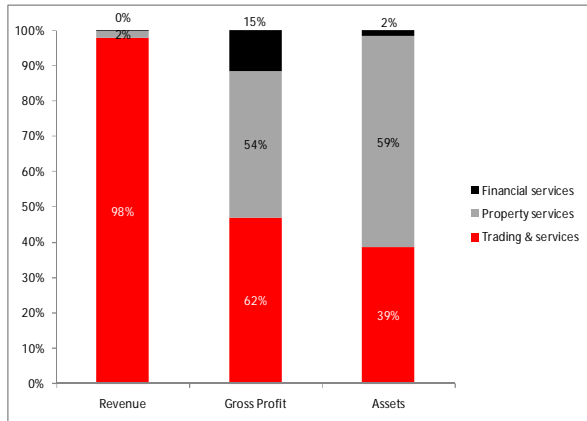
According to VAMA, in 2014, the number of imported cars (CBU) and domestically assemble cars (CKD) were 41,268 units and 116,541 units, which accounted for 26.2% and 73.8% respectively. In 8M.2015, the proportion is slightly different with 25.9% of CBU (36,822 units) and 74.1% of CKD (105,267 units).

VAMA's sales report in 2014 demonstrated the percentage of cars and trucks in the structure of Vietnam's automotive market whereby car sales and truck sales occupied for 63.6% and 36.4% respectively. In 8 months of 2015, the strong demand for truck has lead to a change in the automotive sales structure with truck sales accounted for 42.2% and car sales accounted for 57.8%.

Although the auto industry has much potential to develop, in general, this industry still has some weaknesses: (1) While Thailand and Indonesia are becoming the manufacturing centers and assemblers of many well-know brands, Vietnam automotive businesses are still pure assemblers or distributors in a small-scale market. According to ASEAN Automotive Federation (AAF), the car production of Thailand and Indonesia in 1H.2015 were 935,251 units and 577,507 units respectively while Vietnam's car production was 78,596 units. (2) The localization rate of auto industry in Vietnam is really low compared to other nations due to the humble productivity of local businesses. Accordingly, the localization rate of Toyota in Vietnam is 19-37% depending on model while the rate of Thaco is 15-40%. Meanwhile, the localization rate of Toyota in Thailand is nearly 93% and in India is about 80%, much higher than the rate of Vietnam. (3) The weakness of the manufacturing sector for electrical auxiliary components making local assemblers have to depend heavily on imported components. The main obstacle is the automotive consumption market of Vietnam is still too small to create attractive factors for investors to develop the domestically supporting industries. (4) The average price of cars in Vietnam is still 20% higher than other countries.

In 2015, the import duty on automotive vehicles that are imported from countries in ASEAN area will continue unchanged at 50% as in 2014 before falling to 40% in 2016, 30% in 2017 and around 0% in 2018. Currently, domestically assembled cars are about 5-10% cheaper than imports from Thailand, Indonesia. Thus, when import tariffs continue to fall to around 30%, the imported cars will cost equivalent to domestically assembled vehicles. Without the support from the Government and enterprises' efforts, imported cars may completely defeat the domestic cars. Therefore, from January 2016, the Government will rise the excise tax on advertising expenses, exhibition and warranty of imported cars having under 24 seats as a barrier to protect the domestic cars. Consequently, the price of CBU is expected to increase lately.

The local businesses also concern about the fact that the government's supporting policies are considered not enough to eliminate the differences between production expenses in Vietnam and in other countries in ASEAN as businesses still have to make large investment thus in first stage, companies could not achieved profits to take advantage from tax incentives. Furthermore, cutting down excise taxes for small cylinder capacity cars only helps increasing the scale of automotive market but not really supporting domestic assemblers.

Structure of Revenue, Gross Profit & Assets in 1H.2015

Source: Financial statements of SVC, MSI

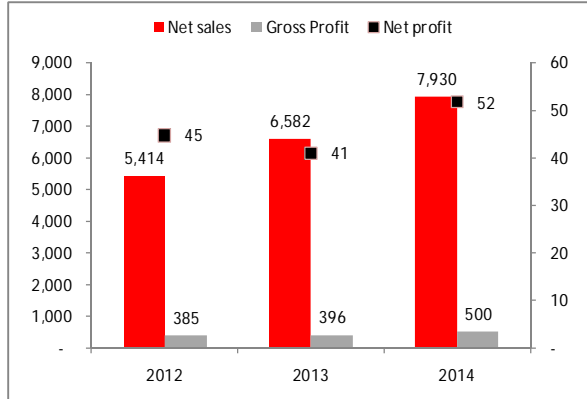
Structure of revenue, gross profit and assets of Savico in 1H.2015

Savico's revenue in 1H.2015 mainly came from three components: (1) trading and services segment with a contribution of VND4,010.7 billion, accounted for 97.8% of total revenue, (2) VND87.4 billion of property services' revenue, which occupied 2.1% and (3) the smallest contributor - financial services - with an amount of around VND3.8 billion that accounted for 0.1%.

Meanwhile, although property services only contributed 2.1% of revenue, this sector accounted up to 54% of the gross profit, equal to VND24.4 billion. The contribution of trading and services sector was about VND45 billion, occupied 62% of the company's gross profit. Lastly, the financial services contributed a small fraction 15% to the gross profit of Savico, equal to VND3.7 billion.

Financial services was also the sector that possessed the smallest fraction (2%, equal to nearly VND43 billion) of Savico's asset allocation. On the other hand, property services occupied the largest percentage of company's total assets (59%) with VND1,517.9 billion. Trading and services segment accounted for 39% of total assets, equal to VND987.7 billion.

Whiles Savico's operation system is based on 3 areas, both property services and financial services are not really effective, only the trading and services emerged as a bright spot in the business performance of the company. All the advantages such as distribution car models with good growth, large and highly qualified showroom system and positive growth rate of automotive industry... are essential factors that ensure the possibility of long-term growth for automotive segment. Thus it is obvious that the trading and services area made the most contribution to revenue and gross profit of the business. In the future when the cash flow from property projects is obtained, the revenue and profit structure of Savico is expected to change with more reasonably eventual contribution from all segments.

FINANCIAL PERFORMANCE**Financial Performance 2012-2014 (VND billion)**

Source: Financial statements of SVC, MSI

Business results from 2012 to 2014

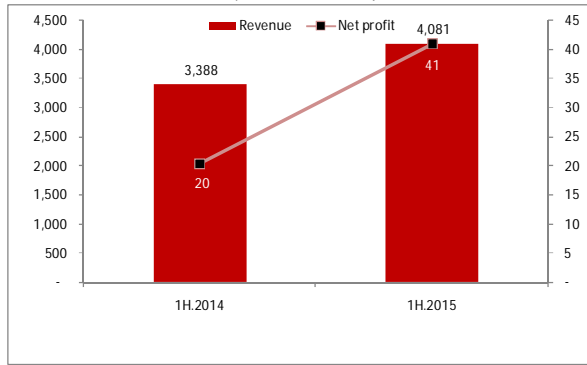
In 2012, SVC reached VND5,414.1 billion in term of revenue and VND45 billion of net profit, exceeding the target set in the year 2012, which was considered to be extremely difficult year for trading and services system of Savico when the macroeconomic policies changed unexpectedly and the domestic economy faced difficulties.

In 2013, Savico continuously got positive business performance with VND6,582.4 billion of revenue (up 21.6% yoy). However, the net profit was only VND41 billion, 8.3% lower than 2012. In this year, Savico's businesses had to face both certain advantages (the purchasing power of automotive market had improved markedly and grown highly compared to 2012) and disadvantages such as the situation of motorcycle market was pretty bad with a strong decrease in sales volume, the real estate and financial market still had no sign of recovery and although the interest rates had reduced but it was difficult to access to funds. Consequently, the net profit of Savico reduced instead of rising as the company's revenue.

In 2014, Savico recorded VND7,930 billion in term of revenue and VND52 billion in term of net profit, 20.5% and 26.1% yoy increased respectively. The improved socio-economic situation, the consumption rate of automotive market continuously increased, the real estate and financial market had improved positively... became important objective factors that had created good conditions and helped Savico obtained outstanding improvements. Moreover, subjective factors also support the growth of Savico's revenue and profit like strengthen car sales activities and provide add-valued services and accessories, dissolve stores and restructure the motorcycles system, making property divestment and focus on ensuring stable revenue that came from office and building for lease, improve the administration activities, etc.

Overview, although Savico obtained stable growth in term of sales volume and revenue, the net profit margins in the period 2012-2014 were still lower than 1%. The low net profit margin means the company's net profit efficiency is below the industry standard and also indicates a low margin of safety - higher risk that a decline in sales will erase profits and result in a net loss - as well as ineffective cost control. Compared with industry average, Savico's management and operation were poorly performing and it was an issue that needed to be concerned by the Board of Savico for the new orientation in the period 2015-2020.

First-half Results (VND billion)



Source: Financial statements of SVC, MSI

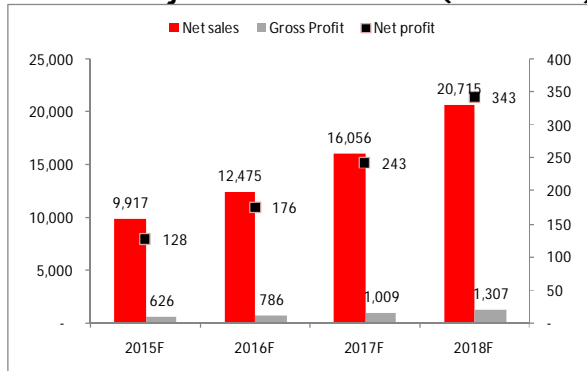
Results of 1H.2015 and forecast Q3.2015 and FY2015

Savico has obtained positive financial results in the first half of 2015 with the total of VND4,080.7 billion in term of net revenue, increased 20.4% compared to first half of 2014 and has fulfilled 48% of the company plan. Similarly, the net profit of the company was VND40.9 billion, 101.3% yoy increase and has fulfilled 68% of company plan. The good business results in 1H.2015 of Savico are thanks to (1) the massive contribution from the huge sales volume and revenue of automotive sector, which accounted for over 90% of the company's total revenue, (2) the increase of income from the support of suppliers to automotive subsidiaries and (3) the increased income that came from financial activities of automotive subsidiaries.

Recently, Savico has recorded revenue from divesting 25% of capital of Savico Plaza Ho Tung Mau to Vinaland. Besides, Savico has switched from divesting to cooperating with Novaland to exploit 6,500 m2 of Savico Plaza Pho Quang and gained VND40 billion in first stage; along with cooperating with Saigon Ford to exploit the remaining 2,500 m2 and gained VND25 billion. Thus we keep the high expectation that Savico will achieve revenue at VND2,669 billion in Q3.2015 (+32% yoy) and VND41 billion of net profit, up 193% compared to Q3.2014. For the FY2015's results, we expect the Company will achieve VND9,916.7 billion (+25% yoy) of revenue and VND127.6 billion of net profit, up 146.2% compared to 2014.

Through the results of 1H.2015 together with the net margin of 1%, the management and operation of Savico have shown sign of improvement. Despite the fact that it was just a slightly chance, the improvement of net profit margin is an evidence that proves the new development strategy of Savico has started to become effective.

Financial Projections 2015F-2018F (VND billion)



Source: MSI Forecast

FINANCIAL PROJECTIONS FROM 2016 TO 2018

In the coming year, Savico will continue to focus and develop the trading and services segment and taking advantages from the large acreages of land that the company is holding. In detail, the business performance is expected to experience a strong grow due to (1) the prospects of automotive industry is still positive and especially the truck distribution sector, (2) the solid business foundation with the high-standardized system of dealers and showrooms and the development-oriented of retail automotive sector is consistent with the general trend of the market, and (3) the ability to improve the financial position when the company can obtain the cash flow from appropriate disposal of some property projects.

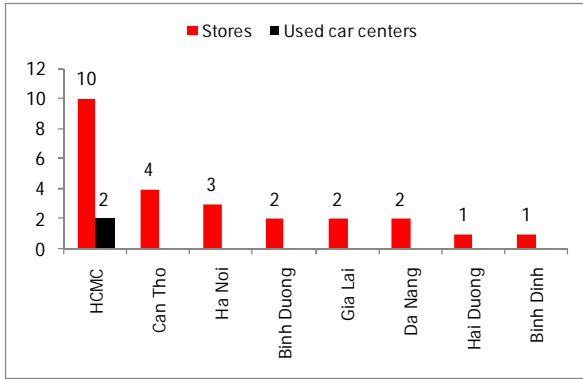
In particular, in 2016 and 2017, there will be a large number of expired trucks that needed to replace. Besides, together with the recovery of the real estate industry, the amount of infrastructure and construction projects will increase strongly pushing the demand for transporting. Lastly, as the current fuel costs are falling down, there will be chance to increase the transport capacity. Therefore, the strategy to expand the truck distribution is an appropriate decision of Savico and may bring great benefits for the company in the next years.

In 2016, the revenue of Savico is forecasted reaching VND11,900 billion and the net profit will be VND176 billion, which lead us to a forward EPS of VND7,034.3 and forward P/E 3.5x. At the end of 2015, Hino Vinh Thinh - a symbol of the collaboration between Savico and Hino - will start to operate and mark the new transition of Savico's truck distribution sector. Consequently, we expect that Savico will achieve 20% of sales growth and 38% of profit growth in 2016. We also expect that the net margin will be higher than 1% in the same year. For the period 2017-2018, we forecast that the revenue of Savico will rise up with an average growth rate of 32%/year and the rate of the net profit will be nearly 40%/year.

FINANCIAL SUMMARY	2012A	2013A	2014A	2015F	Plan 2015	2016F	2017F	2018F	1H.2015
Net Revenue (VND bil.)	5,414.1	6,582.4	7,930.2	9,916.7	8,500.0	11,900.1	16,056.4	20,715.3	4,080.7
Revenue Growth (%)	(12.0)	21.6	20.5	25.0	7.2	20.0	34.9	29.0	20.4
Net Profit (VND bil.)	44.8	41.1	51.8	127.6	60.0	175.7	243.4	342.9	40.9
Net Profit Growth (%)	0.5	(8.3)	26.1	146.2	15.8	37.7	38.5	40.9	101.3
Net Margin (%)	0.8	0.6	0.7	1.3	0.7	1.5	1.5	1.7	1.0
ROE (%)	6.1	5.5	6.9	14.8	N/A	17.4	20.0	22.7	4.1
ROA (%)	1.7	1.5	2.0	4.5	N/A	5.6	6.8	8.4	1.6
EPS (VND)	1,793.5	1,644.7	2,073.1	5,107.5	2,402.4	7,034.3	9,743.7	13,727.8	1,635.9
BVPS (VND)	29,326.3	29,668.7	30,188.8	39,587.6	N/A	40,330.2	48,560.5	60,421.9	39,555.1
Cash Dividend (VND)	1,500.0	1,000.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
P/E (x)	7.6	9.1	7.7	4.8	10.2	3.5	2.5	1.8	11.9
P/B (x)	0.5	0.5	0.5	0.6	N/A	0.6	0.5	0.4	0.5

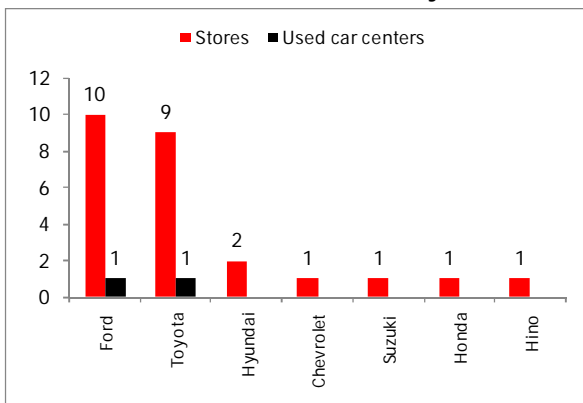
Source: Financial statements of SVC, MSI

Automotive Distribution Channel by Region



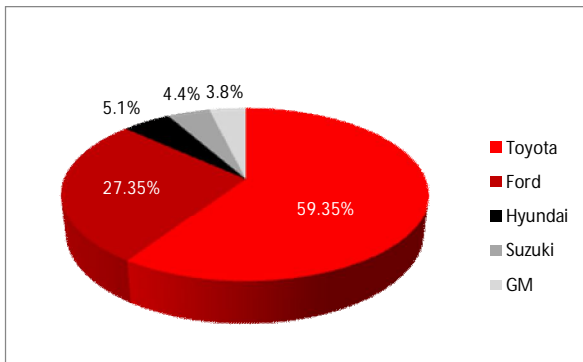
Source: Website of SVC, MSI

Automotive Distribution Channel by Brand



Source: Website of SVC, MSI

The Structure of Sales Volume by Brand Name



Source: Annual report of SVC, MSI

Allocation of Brands in Regions

	Toyota	Ford	Hyundai	Chevrolet	Suzuki	Honda	Hino
HCMC	x	x			x		
Can Tho	x	x		x		x	
Ha Noi	x						
Binh Duong		x					x
Gia Lai		x	x				
Da Nang		x	x				
Hai Duong	x						
Binh Dinh		x					

Source: MSI aggregate

TRADING AND SERVICES

Automobile trading and services system

The automotive dealership and showroom system is setting up spread across the whole country with 08 subsidiaries and 03 associates. Savico automotive system has maintained the leading market share in distribution for each manufacturers such as Toyota Vietnam (22%), Ford Vietnam (24%), Suzuki Vietnam (15%)... Recently, Savico is particularly paying attention to the after-sale services with the strategic objective of focusing on service activities to increase investment efficiency. Savico's automotive services sector has sustained sales at high average growth rate of 50% per year. The revenue from selling cars accounted for nearly 86% of the total revenue of Savico in 2014 and in 1H.2015, this number has increased to more than 90%.

According to Savico, this company intends to upgrade all car outlets from standard 3S to standard 4S with the invested value around VND5-7 billion/outlet. In the period 2015-2020, Savico intends to open more stores, increases the number from 25 to around 35-40 stores. It will cost about VND40-50 billion to build a new store. The company particularly emphasizes about ability of higher sales growth due to the extension of store chains at neighboring provinces such as Can Tho, Binh Duong, Gia Lai ... In March 2016, the first 3S-standardized store that marks the collaboration between Savico and Honda - Honda Can Tho - will go into operation.

In the recent time, the government has tightened regulations on overloaded trucks that caused a boost for demand of medium trucks and heavy trucks. Besides, the number of infrastructure constructions have raised up quickly and required more trucks for materials transport. In order to catch up the new tendency, Savico is going to expand the truck distribution sector with the brand name Hino - a leading truck manufacturer in Vietnam. Savico has begun the construction of a new store (Hino Vinh Thinh) and expected that this store will start operating in November 2015.

We believe that the new trend of truck distribution, the still very attractive potential of automotive market and the supports that come from both the government (the reduction of tariffs and excise tax) and suppliers would bring very large high benefits in next two years for Savico. We estimate that the company's market share will occupy about 10-11% of VAMA in the coming years.

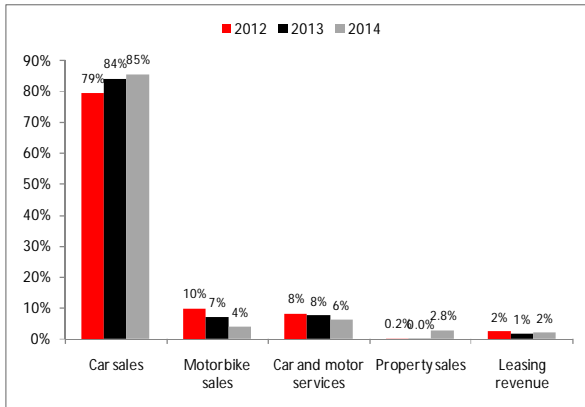
Automotive distribution channels and structure

Savico is the official agency for 5 well-know manufacturers Toyota, Ford, Hyundai, GM and Suzuki. Recently, the number of brands is going to rise up to 7 as Savico has co-operated with Honda and Hino and expected that the businesses with these brands will consolidate the position of Savico in the domestic automotive market. Currently, Savico has a total of 25 stores (including 2 stores are in construction) and 2 used car centers spreading from the North to the South. According to statistics, 40% of stores are located in Ho Chi Minh City, 16% are in the neighboring province Can Tho, and Ha Noi is the third largest region with 12% of stores are located in here. Although Ford brought less revenue to Savico than Toyota, this brand's stores still slightly outnumber Toyota's stores and scatter in many cities and provinces.

Due to differences in consumption habits between the North and the South, it is not difficult to explain why most of Savico's stores are allocated in the South area. In the North, the weather condition and the need of expressing the social position are the two main reasons that cause high demand for small-size and luxury cars (Mercedes, BMW). In particular, the North customers recently tend to switch to Korean cars (Hyundai, Kia ...) instead of Japanese cars. On the contrary, customers in the South prefer large and multi-functions cars for business and family transport purposes, thus Toyota (Innova, Fortuner, Camry, Hilux, Altis, Vios) and Ford (Everest, Ecosport, Ranger, Focus) are favored by the Southerners. These 2 brands are the core factors of automotive business of Savico. In the distribution network of SVC, Toyota is the brand with largest contribution with estimated 59.35% of the total sales volume of retail automotive distribution and in 1H.2015, the growth rate of this manufacturer was 40.6% yoy. The second contributor is Ford that has accounted 27.35% of sales volume and has a growth rate of 70.7% in 1H.2015. The other brands occupied 13.3% of the automotive distribution structure.

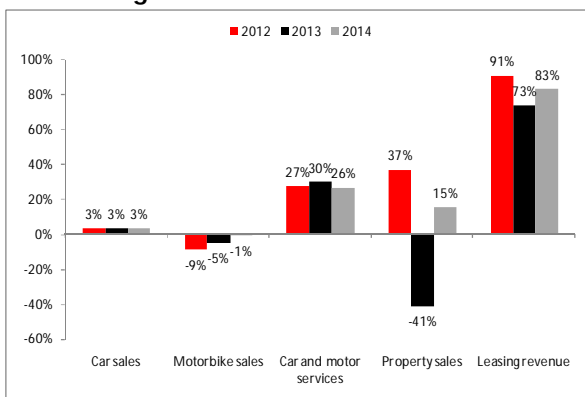
Compared to other companies, Savico's stores are outnumbered and the arrangements of stores are also more appropriate with the allocation of average 1 store per district or area thus reduce the competition between dealers and avoid direct influence from competitors. Savico's automobile distribution system is currently occupying 10/43 stores (23%) of Toyota Vietnam and 11/29 stores (38%) of Ford Vietnam.

Sales Structure



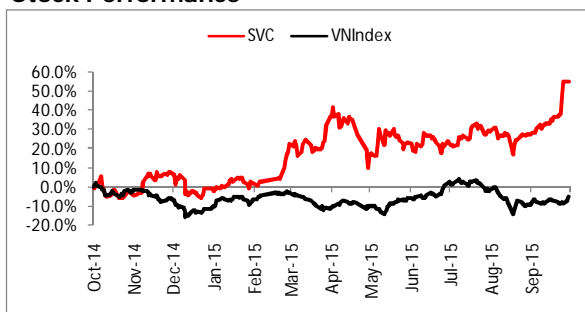
Source: Financial statements of SVC, MSI

Gross Margin Structure



Source: Financial statements of SVC, MSI

Stock Performance



Source: MSI

Motorcycles trading and services system

In recent years, the motorcycle market is becoming saturated thus Savico had experienced loss for two continuous years 2013 and 2014. The company was forced to dissolve a few motorcycle dealers and limited the wholesale. Thus the decreased sales volume caused the revenue of motorcycle sector fell about 20% each year. In 2015, as the situation has not improved, Savico has to restructured the motorcycle distribution sector. Savico has arranged and ceased the business with SYM and Yamaha while enhanced the effectiveness of business with Suzuki and Honda. The company has also merged 2 subsidiaries to improve the administration activity and sales volume. For new orientation, the company has chosen to focus more on developing motorcycle services along with value-added services to customers with the purpose of maintaining the sales growth rate of 20-30%/year from motorcycle services.

PROPERTY SERVICES

The property services of Savico are very diversified with building complex, trading centers, hotels and resorts, houses, apartments ... In previous period of economic downturn, the tight credit policy of the Government had a strong impact to the operation of the businesses, thus Savico had drastically cut investments in the field of real estate to reduce the pressure on its cost of capital, and focused on highly efficient projects to enhance and develop the property services sector. According to the projects list of Savico, there are still more than 10 projects are in construction or in deployment process. Due to large land bank of Savico, the divestment process are still facing some difficulties so the company has not obtained certain results. We believe that the financial situation of Savico could be significantly improved if the company successfully liquidates some stand-out property projects and gains profit to implement the business activities. Savico is exploiting some projects (Savico Megamal, Savico Trade Center in Da Nang, ...) and looking for investment partners for some property projects (Nam Cam Le, Bai Trem resort, 66-68 Nam Ky Khoi Nghia Tower, etc.).

Most major property projects (Ho Tram - Xuyen Moc, Long Hoa - Can Gio ...) have completed the legal procedures and can be deployed at suitable time. Savico are focusing on real estate projects of retail, trading centers, office for lease and the trading volume is quite good and stable. In fact from 2012 to 2014, although the property leasing sector only occupied a small segment in the sales structure of Savico (1-2%), this sector was the largest piece in the gross margin structure (73-91%). For the upcoming orientation, Savico will develop commercial property projects, which will support the development of trading chain for the company.

(The property projects list is on page 9 of this report).

FINANCIAL SERVICES

Activities of the financial services sector are focused on the effective management of capital investment and cash flow in investing activities of the company, building appropriate and safe financing structures to move towards sustainable development. However, this sector has not worked well so that both the investments in financial services sector and the number of units involved in investments have been significantly cut down. Typically, Savico had made full divestment at OCB. Regarding short-term financial investments, the company only holds a small amount of stock in a few companies like BTT, VTH. According to the new strategy of Savico, the financial services will account for about 5% of the total assets of the company.

COMPARE WITH OTHER COMPANIES IN THE SAME INDUSTRY

Stock Performance

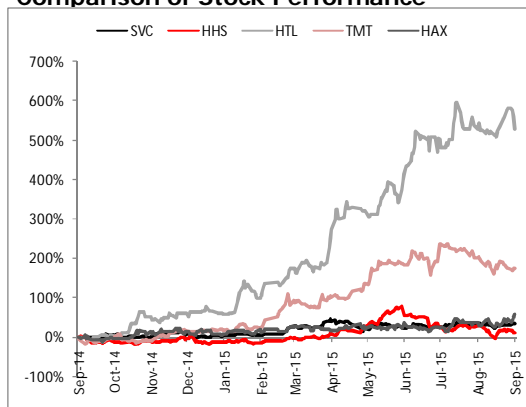
The current share price of Savico has increased 68.9% since the beginning of 2015 and 68.9% higher than the price at the same period in 2014. The growth rate of Savico's shares is lots higher than the growth rate of VN-Index, which has the YTD growth rate of 3.5%. The objective and subjective conditions from the Government's policies, market circumstance and development strategy of Savico are on a path that will keep the growth of the company's stock stable in long term. In detail, the supporting policies of government for automotive market (cut down tariffs, corporate income tax and excise tax for small cylinder capacity vehicles...), and the increased demand and high consumption rate for both passenger vehicles and commercial vehicles are making the market become more and more attractive with really large potential. Furthermore, the company's business strategy that focuses on automotive sector (upgrade and open new stores, and cooperate with some well-known manufacturers like Honda and Hino) as well as adjusting structure of property projects will improve the performance of Savico in the coming years. Those factors are essential components that will consolidate and enhance Savico's stock growth rate in the near future.

Peer Companies

The automotive product segment of Savico still focuses on common range - the largest market in Vietnam with huge consumption rate. However, in order to prepare for the future and increase competitiveness, Savico is aiming to bring high-class cars into the business to enhance growth (main competitor is HAX). Simultaneously, the company will invest more to the distribution of trucks, which are operated very well by businesses like HHS, TMT and HTL.

- HHS:** currently holds 5 heavy-duty truck brands (especially the exclusive brand Dongfeng) and 1 tractor brand from USA. The consolidation with Hoang Giang JSC helped HHS approach to the distribution of Howo sinotrucks (specialized vehicles for difficult terrain) and Freightliner tractors so that the company could expand product portfolio and distribution network.
 Advantages: A system of nearly 40 dealers on 30 provinces; strategic products are mid-size truck & heavy truck with almost no competition in the country, mainly competitive with other imported cars; strategic customers are the carriers and logistics; joined the bluechips group with high liquidation and large capital.
 Limitation: The Ministry of Finance has determined to raise the import tariffs on CBU-typed trucks, especially the range 5-10 tons and 20-45 tons thus HHS is likely affected the most by the changing tariffs.
- TMT:** holds 6 commercial vehicle segments, which include some types of trucks: cargo deck trucks, heavy-loaded vans, large dump trucks, etc. with cheap prices.
 Advantages: 2 potential projects: (1) Project TMT powder coating plant and (2) The cheap car project that TMT ventured with TATA Motors (India). TMT will assemble and be the exclusive distributor of commercial vehicles of Tata Motors. TMT will also be transmitted the technologies of vehicle assembling from Tata. In Q3.2015, TMT will start the construction of a new factory for assembling bus - TMT BUS - with the designed productivity of 3,000 buses/year. TMT's Board has also approved the issuance of VND1,500 billion bonds to repurchase shares of Vinamotor.
 Limitations: Administration is a weak point of TMT. TMT prospects depend more on the recovery of the economy than the improved production and business of the company.
- HTL:** HTL has the advantage in the distribution of transport vehicles and special vehicles such as cranes, concrete mixer trucks, dumpsters, refrigerated trucks. Currently, HTL is the agent for Hino Motors Vietnam and Tadano crane.
 Advantages: The company almost has no debt, the interest expense/revenue of the business is at a very low level. Thus the company has the chance to rise ROE using more debt in the expanded process. In 2015, HTL will expand the distribution network by setting up a branch in Da Nang. As HTL focuses on specialized vehicles like dumpsters, concrete mixer trucks, etc., the company avoids major competitors as Thaco, HHS, and TMT.
 Limitation: The brand Hino does not have much specialized vehicles with large capacity and no tractors, which is one of the most important market in the current situation.
- HAX:** HAX is one of the three exclusive agents of Mercedes Benz Vietnam (MBV).
 Advantages: Specialized about repair activities and supply of spare parts and is now providing the best services in the automotive dealers of Mercedes Benz. These activities are expected to bring steady cash flow in the next years. Besides, the strong demand for luxury cars from consumers and the ambition to dominate the market of Mercedes Benz create opportunities for HAX's production and business activities to be improved in the future.
 Limitation: The need for improvement in both management and the profitability of business operations.

Comparison of Stock Performance



Source: Vietstock, MSI

- HHS:** In 1H.2015, this company experienced an outstanding growth rate in the results of all indexes compared to those in 1H.2014, all thanks to the tight regulations on over-loaded trucks and the strong transport demand have facilitated HHS to get the impressive business performance. The net margin in 1H.2015 of HHS was 16.4%.
- HTL:** HTL share price has increased with the growth rate of 562.2% yoy that lead to the highest EPS VND14,291 compared to other companies in the same industry. The company also has the largest of ROE (35.7%). The net margin in 1H.2015 of HTL was 7.9%.
- TMT:** Similar to HHS, TMT also experienced a great increase in the company's results with an increase 296% of sales growth and 622% of net profit growth. The net margin in 1H.2015 of TMT was 7.1%.
- SVC:** Compared to others, Savico's growth was much smaller with some lowest indexes. This was due to the business strategy and management were slowly effective. The net margin in 1H.2015 of SVC was 1%.
- HAX:** Since 2013, HAX has begun to be free from losses and started to get profits as well as experienced quick growth in both revenue (+33% yoy) and net profit (+179% yoy). The net margin in 1H.2015 of HAX was 2.1%.

Company name	Code	Market Capitalization (VND billion)	Price (VND)	Growth of sales 1H.2015	Growth of profits 1H.2015	Growth of EPS (Trailing)	P/E Trailing(x)	BVPS (VND)	P/B (x)	Cash Dividend (VND)	EPS (VND)	ROE 2014	ROA 2014	Net margin 1H.2015
Hoang Huy Investment Services JSC	HHS	3,449.7	15,600	532%	1077%	528%	7.8	16,450	0.9	1,000	1,896	18.2%	9.4%	16.4%
Truong Long Engineering and Auto JSC	HTL	744.0	96,500	246%	471%	377%	6.5	21,800	4.3	2,000	14,291	42.4%	18.2%	7.9%
TMT Motor Corporation	TMT	1,089.4	37,900	296%	622%	423%	6.0	15,080	2.4	3,850	5,966	20.0%	5.1%	7.1%
Saigon General Service Corporation	SVC	509.5	21,000	20%	108%	66%	8.7	39,555	0.6	1,200	2,598	6.9%	2.0%	1.0%
Hang Xanh Motors Service JSC	HAX	140.1	12,600	33%	179%	270%	0.9	10,470	1.2	600	2,434	16.5%	6.9%	2.1%

Source: MSI Statistics

WACC

COE	18.9%
COD	10.5%
Tax Rate	20.0%
WACC	14.7%
Growth	2.0%

VALUATION and RECOMMENDATION

Savico is a company with long operating history that had experienced many different businesses. For the new orientation, Savico has determined to operate in 3 main sectors: (1) Trading and services, (2) Property services and (3) Financial services. However, both the financial services and property services are not working well. In order to strengthen the growth prospects, Savico is divesting from other segments such as real estate, retail motorcycle and financial services and focusing more on the core business - trading and services - to ameliorate the financial situation. In fact, with the newly adjusted development strategy, the cash flow of Savico has experienced significant reformation. However, Savico still needs to improve profits as the business performance is not equivalent with the current potential and position of the company.

The recently expanded ownership limits and voting rights for foreign investors within listed enterprises of Vietnam's securities market are expected to open up new opportunities for foreign investors. At present, the ownership rate 9.01% of Jom Silkkitie Investment Fund - the only overseas major shareholder of Savico - is quite low. Thus as there are still rooms for foreign investors, Savico is expected to attract more investors and has chances to raise the capital up. In reality, from the begin of 2015 to the present time, foreign investors have bought SVC shares continuously and increase the ownership rate from 14.61% to 28.21%. This has proved that SVC stocks are gotten attention from foreign investors.

Valuation Methods	Weighting	Share Value	Market Price	Potential growth
Free Cash Flow to Firm (FCFF)	100%	36,610		
Weighted Average Share Value		36,600	25,500	44%

Valuation

In order to evaluate SVC share, we have used the Free Cash Flow to Firm (FCFF) valuation method. The valuation process included cash flow from trading and services activities and property leasing activities. Accordingly, we did not revalue Savico's real estate projects as well as add the total value of all property projects into the process of valuating SVC shares. However, we still count the revenue from property leasing sector into the valuation process. Consequently, the reasonable value of SVC shares should be VND36,600.

Recommendation

Based on the results of analysis and valuation process, we recommend to BUY SVC's stock for medium and long term investments as following positive reasons:

- SVC shares are evaluated by the Free Cash Flow to Firm (FCFF) valuation method with the reasonable value is VND36,600, 43.5% higher than the current price.
- SVC shares are traded cheaper than its actual value with P/B is 0.6 and P/E Trailing is 8.7x, which is 27.5% lower than the P/E of market (12.0x).
- Annual dividend ratio is 12% and dividend yield in 1H.2015 is 4.7%.
- Positive performance in 1H.2015 with VND4,080.7 of net revenue (+20.4% yoy) and VND40.9 billion of net profit (+101.3% yoy). For the whole year results, we expect both revenue and net profit will be higher than the company plan.
- Savico is the leading automotive distributor with more than 30 years of experience and is occupying 10% of VAMA.
- Savico currently owns and exploits office buildings, trade centers, hotels and resorts, land ...
- Potential growth for both car and truck distribution sectors thanks to good conditions of automotive market (growth rate at 20% in 2013, 48% in 2014 and 57% in 8M.2015), supporting policies of the Government and appropriate strategy of the company.
- Benefited from Decree 60 of the government about opening rooms for overseas investors to own up to 100% in listed enterprises.
- The stable increase of business results in recent years and expected average growth rate of 39%/year in the period 2016-2018.

Some concerns about SVC shares

- Comparing to other companies in the same industry, the ROE and ROA of Savico are pretty lower with an average rate of 6.2% and 1.7% respectively. The main reason is the pressure of interest expenses that come from financing needs of unfinished real estate projects.
- Some property projects are facing difficulties about capital, legal issues or still in the process looking for strategic partners to make investment and development cooperation thus the effectiveness and efficiency of the property services are pretty small.
- Although the net margin ratio has increased from 0.7% in 2014 to 1% in 1H.2015, in general, Savico's net margin is still very low. The management of Savico is looking for methods that will help improve and enhance the ratio of net margin.
- The fiercely competitive automotive market will require more efforts from Savico, not only uphold the company position but also broaden the product catalogue, distribution network and market share. In particular, the truck distribution sector of Savico is much weaker comparing to HHS and TMT with professional experience in many years.
- The corporate governance nature of Savico is dominated by Benthanh Group (State - Owned Enterprise).

PROPERTY PROJECT LIST	Location	Project's type	Ownership rate	Acreage (m2)	Capex	Status
Office building 95B-97-99 Tran Hung Dao	95B - 97 - 99 Tran Hung Dao St, District 1, HCMC	Office building	100%			Exploited from 01/2006 (lessee: Canon Corporation)
Savico Trade Center	66 Vo Van Tan St, Thanh Khé District, Đà Nẵng	Trade center	100%	4,739		Exploited from 01/2007 (productivity: 95%)
Savico Trade Center	101 Tran Van Kheo St, Ninh Kiều District, Cần Thơ	Trade center	100%			Exploited from 2007
Office building 555 Tran Hung Dao	555 Tran Hung Dao St, District 1, HCMC	Office building	100%			Exploited from 06/2008
Office Building 35 Đông Khoi	35 Đông Khoi St, District 1, HCMC	Office building	100%			Exploited from 03/2009 (lessee: Rado)
HMTC - SAVICO	91 Pasteur St, District 1, HCMC	Office building	51%	1,604		Exploited from 09/2010
Tropicana Beach Resort	Bà Rịa - Vũng Tàu	Resort and hotel		25,000		Operated from 2008
Sandy Beach	Đà Nẵng	Resort, hotel, beach villas		17,000		Operated
Savico Megamall	Nguyễn Văn Linh, Hà Nội	Block A: supermarket, trading center Block B: office for lease, car showroom		46,400		Exploited from 12/2011
Melisa Center	1014B Thới Ngọc Hậu, Tân Phú District, HCMC	Convention and wedding center	30%	10,814		Exploited from 10/2014
Savico Plaza	115-117 Hồ Tùng Mậu St, District 1, HCMC	Hotel and apartment	25%	3,023	USD 60 million	Savico has recorded revenue from divesting 25% of capital of Savico Plaza Hồ Tùng Mậu to Vinaland
Savico Plaza	104 Phó Quang, Tân Bình District, HCMC	Trading and services, high-class apartments	100%	9,028	VND 860.07 billion	Savico has switched from divesting to cooperating with Novaland to exploit 6,500 m2 of Savico Plaza Phó Quang and gained VND40 billion in first stage; along with cooperating with Saigon Ford to exploit the remaining 2,500 m2 and gained VND25 billion
Nam Cam Le	Cam Hưng Avenue, Đà Nẵng	Trading center, houses, car showroom.	100%	21,822		Completing the internal roads, Savico is looking for investment partners for the trade center. Successful divestment of 60% of the townhouses' floor.
Office building 277-279 Lý Thường Kiệt	277-279 Lý Thường Kiệt St, District 1, HCMC	Office building	20%	450		Completing the foundation, basement, preparing the body construction, Savico is selecting M&E contractor. Finished adjustment of design and bidding documents of the body and preparing for phase 2 of the construction.
Savico Residence (Hiệp Bình Phước - Tân Bình)	Go Dưa St & Number 12 St, Thủ Đức District, HCMC	Apartment, house, trade center	100%	55,340		Collected capital of 46 grounds and continuing to collect the remainings. 8 townhouse's grounds are open for sale. Financing the divestment to DXG
Resort Mercure Sơn Trà	Đà Nẵng	Luxury beach villas and hotel	100%	57,650	USD 20 million	Accor (France) is the operator that manages the project Mercure's exploitation. Testing infrastructure and modeled villas. Completing the hotel design and villa, continuing to promote and market.
CN 4-3 Nam Sài Gòn	Nam Sài Gòn Area					Completed the divestment to partner with VND76.4 billion in revenue and VND21.4 billion in profit.
Residence Bình An	Trần Náo, Bình An Ward, District 2, HCMC	Luxury villas	12.5%	64,978	VND 320 billion	Completed building of infrastructure, subdividing land and sharing for partners involved in the project. Savico owns 28 grounds with total acreage 4,812.9 m2, sold 11 grounds to claim a part of invested capital.
66-68 NKKF Tower	66-68 Nam Kỳ Khởi Nghĩa St, District 1, HCMC	Apartments and office for lease	100%	582		Completed financial obligations and looking for investment partners.
Hồ Tràm Beach Villas - Xuyên Mộc	Bà Rịa - Vũng Tàu	Beach villas		96,300		Ongoing land clearance and compensation.
Long Hoa Can Gio Eco marine villas	Long Hoa - Cần Giuộc	Luxury eco marine villas, garden villas, townhouse garden	50%	30,000	VND 640 billion	Expecting to start construction after completed legal processes. Already paid for land use.
Residence Route 13	570 Route 13, Thủ Đức District, HCMC	Apartments		18,000	VND 200 billion	Intending to divest land use rights to recover capital and focus on key projects.
9-15 Lê Minh Xuân	9-15 Lê Minh Xuân St, Tân Bình District, HCMC	Office building	30%	993	VND 60 billion	N/A
Boutique Hotel	54-56 Đông Khoi St, District 1, HCMC	Hotel		214	VND 40 billion	Completed legal procedures.
Bãi Trẹm Resort	Thới Quang Ward, Sơn Trà District, Đà Nẵng	Luxury hotel, villas, resort		57,651	USD 15 million	Completing legal procedures and payment of land use; seeking strategic partners.
Nam Song Hậu JSC (Honda Cần Thơ)	E1-1 Võ Nguyên Giáp St, Thanh Lôi, Phú Thu Ward, Cần Thơ	3S store		2,778		Ongoing construction and will start operation in 03/2016
Vinh Thinh Automobile JSC (Hino Vinh Thinh)	55/5 Bình Giã, Thuận Giao Ward, Thuận An, Bình Dương	3S store		5,600		Ongoing construction and will start operation in 11/2015

Source: MSI aggregated from multiple

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