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Vietnam Construction and Import-Export JSC (VCG: HNX): Possible SCIC full divestment in 2018

Outstanding shares: 442 mil; Market Cap: \$ 398 mil USD; Average 3M value: \$ 2.36 mil USD, Market price: VND 20,500; and Foreign ownership: 9.26%

Industrials Analyst: Bao Doan, baodv@ssi.com.vn

On 17 April 2018, VCG held its annual general meeting, and the following details are key takeaways from the meeting:

2017 Review

In 2017, VCG started its 2017-2020 corporate restructuring plan. This occurred at the same time that SCIC simultaneously announced that it would start divesting from VCG.

In 2017, consolidated revenue reached VND 10.898 tn, up 27.5% YoY while NPATMI reached VND 1.341 tn, up +168% YoY, Revenue and NPAT at the parent company level reached VND 3.3 tn and VND 1.068 tn, up 7.2% YoY and 192% YoY respectively. NPAT at both the holding level and parent company level increased significantly thanks to non-recurring asset sales in 2017.

VCG 2017 PER is currently at 6.75x while 2017 PBR is 1.15x

Corporate Restructuring in 2017:

According to the 2017-2020 corporate restructuring program, VCG will divest from/restructure over 40 subsidiaries and associate companies. After restructuring, VCG as a holding company will only have ownership in two newly established subsidiaries, Vinaconex CM and Vinaconex Invest. Vinaconex CM will be VCG's construction arm, while Vinaconex Invest will hold VCG's investments. The following transactions were conducted in 2017:

- Established Vinaconex CM and Vinaconex Invest.
- Fully divested from Vinaconex 7, Vinata, VVF, and Viwasupco
- Lowered ownership from ~51% to 36% in Vinaconex 2, Vinaconex 9, and Vinaconex 12
- Lowered ownership in Quang Ninh Thermal power plant and Vinaconex Dung Quat

In addition, VCG's JV Partner POSCO E&C, involved in VCG's largest real estate investment Bac An Khanh JVC, sold its 50% stake to Phu Long Real Estate Corp. Transaction value was not disclosed. Phu Long Corp. is a subsidiary under Sovico Group (HD Bank, Vietjet).

2018 business plan (at parent company level)

	2018P	% YoY growth
Total revenue (incl. financial revenue) (VND bn)	4,491.7	+20.8% *
Net profit after tax	491.0	+7.0% *
Dividend on par	12%	No change

* Normalized revenue and net profit. Adjusted for non-recurring asset sales in 2017

Source: VCG

VCG targets total revenue (which includes financial revenue) and net profit growth at the parent level by 20.8% YoY and 7.0% YoY in 2018, reaching VND 4.4917 tn and VND 491 bn respectively. Growth was adjusted for non-recurring asset sales in 2017, since VCG is undergoing a corporate restructuring event. The 2018 revenue and net profit plan also does not factor in potential asset sales in 2018. VCG did not make public any revenue and profit guidance at consolidated level for 2018, since the company is still currently undergoing its corporate restructuring phase. Any asset sales transactions could alter guidance by a significant degree. The 2018 dividend plan is set at 12% on par, of which 8% on par was already paid out as a cash dividend in February 2018. The 2018 dividend plan at 12% on par is equivalent to the previous 2017 dividend.

VCG expects parent company Q1 2018 revenue and net profit after tax to reach VND 439 bn and VND 138 bn, completing 10% and 28% of the annual plan on a respective basis.

Corporate Restructuring Plan in 2018:

As of 31.12.2017, after divestments and restructuring activity in 2017, VCG has ownership in 37 subsidiaries and associate companies. VCG will continue to restructure its corporate organization according to the 2017-2020 restructuring program. According to the 2018 AGM, VCG intends to carry out the following:

- To fully divest from Quang Ninh Thermal power, Vina-Sanwa, Viglafico, and VCTD.
- To lower ownership to below 51% in Vinaconex 1, Vinaconex 17, Vinaconex 25, Vimeco, Vinahud, Vinasinco, Vinaconex Mec, and Viwaco
- Merge Bohemia into Vinaconex Invest
- Increase equity capital in the two newly formed subsidiaries, Vinaconex Invest and Vinaconex CM

SCIC divestment of VCG in 2018

SCIC has a current stake of 57.71% in VCG. In the 2018 AGM, SCIC announced to have two possible divestment options for VCG in 2018. SCIC will either: (1) divest completely or (2) divest 22% of its ownership in 2018. In November 2017, SCIC once offered 21.79% of its ownership through an public auction at a min. VND 25.600/share, yet it failed to attract major investors.

Saigon Ground Services JSC (SGN: UPCOM): Expansion to Phu Quoc International Airport in 3Q 2018

Outstanding shares: 24 mil; Market Cap: \$ 147 mil USD; Average 3M value: \$ 0.01 mil USD, Market price: VND 140,000; and Foreign ownership: 27.21%

Industrials Analyst: Kim Nguyen, kimntt@ssi.com.vn

On 19 April 2018, SGN held its annual general meeting, and the following are key takeaways from the meeting:

2018 business plan

	2018P	% YoY growth
Total revenue	1,211	+9%
Net profit attributable to parent company	223.7	+7.38%
CAPEX	131.5	-28%
Bonus and Welfare fund	6%	+1pt
Dividend on par	30%	-20pts

Source: SGN

- SGN targets revenue and net profit attributable to parent company to grow by 9% YoY and 7.4% YoY in 2018, reaching VND 1.211 tn and VND 223.7bn respectively. Topline growth is based on an assumption of 8% YoY growth in international flight volume, mainly thanks to increased international flight volume in the 3 main airports, especially the 2 new international terminals in Danang International Airport and Cam Ranh International Airport. Domestic flight volume is expected to increase modestly by 2.5% YoY despite dealing with a capacity constraint in Tan Son Nhat International Airport. Normally, SGN always has beat its annual business targets, as 2016 and 2017 actual NPATMI had surpassed 51% and 7% of its business targets.
- SGN plans to spend VND 131.5 bn in CAPEX in 2018. In which, VND 81 bn will be used for purchasing ground service equipment, of which VND 10bn is contributed to Saigon-Cam Ranh Ground services SJC, and VND 25 bn is invested in warehouse construction in Danang International Airport.
- SGN targets to pay out a 2018 dividend at a 30% cash dividend on par value. At the same time, the AGM has proposed to pay out the remaining 30% for 2017, including 15% in cash dividend and 15% in stock dividend. The 2017 AGM has approved to pay out a 50% dividend for 2017, in which 20% in cash dividends has been pre-paid in 2017; the remaining 30% will continue to be paid out in 2018.
- SGN delayed its HOSE listing in 2017. The 2018 AGM has approved a delisting in the UPCOM, and SGN will continue to move to the HOSE in 2Q2018
- According to SGN management, the company's expansion plan to Phu Quoc International Airport has been approved by Airport Corporation of Vietnam, and expected to start its expansion process from 3Q 2018.

Estimate and valuation: 1 year TP of VND 203,500/share (+41% upside)

We still maintain our 2018 revenue and NPAT estimates, in which SGN is to reach VND 1.3 trillion (+17% YoY) and VND 275.6 bn (+19.8% YoY) respectively. 2018 EPS is estimated at VND 9,691 (+12.7% YoY) based on a 6% bonus and welfare fund, 1% lower than our previous forecast based on a 5% bonus and welfare fund.

For 2019, we project the company's net revenue and NPAT to grow by 14% YoY and 16% YoY, achieving VND 1.48 tn and VND 400.9 bn respectively. 2019 EPS may reach VND 11,201 (+15.6% YoY) based on a 6% bonus and welfare fund (higher than that of our previous assumption of 5%).

At the current price of VND 144,000/share, SGN is trading at 2018 and 2019 PE levels of 14.9x and 13x respectively. When we apply a 1 year target P/E of 20x, we arrive at a 1 year target price for SGN of VND 203,500/share (41% upside). We thus reiterate a BUY recommendation for the stock.

PVI Holdings (PVI: HNX)

Outstanding shares: 229 mil; Market Cap: \$387 mil USD; Average trading value 3M: \$ 1.54 mil USD, Market price: VND 38,800; and Foreign ownership: 49%

Associate Director: Giang Nguyen (Ms.), ACCA, giangntt@ssi.com.vn

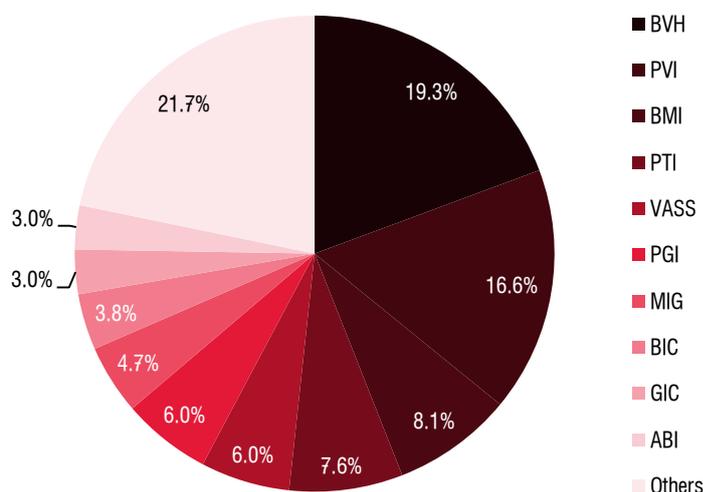
PVI's 2017 review: Improved performance in both insurance and investment

VND bn	2017A	2016A	% YoY
Gross written premium	6,688	6,528	+2.5%
Net insurance premium	4,789	4,786	+0.0%
PBT, in which:	683.5	714.2	-4.3%
PBT from insurance business & other	94.1	58.4	+61.1%
PBT from financial investment	589.4	655.8	-10.1%
EPS (VND)	2,067	2,207	-6.3%
Cash dividend (VND)	2,800	2,000	+40%

Source: PVI, SSI Research

Insurance: PVI achieved encouraging results, in which insurance PBT added 50% and reported VND 88.8 bn. According to management, the insurance segment of PVI has been in the restructuring process, with a concentration on profitability rather than growth. Its gross written premiums marginally increased 2.5% YoY as compared with the industry average of 10-11%. Its combined ratio improved from ~97% in 2016 to 95.2% in 2017, which we believe is one of the lowest ratios in the market. BVH clawed back its No. 1 position from PVI in terms of gross written premium market share.

9M17 non-life market share in Vietnam



Source: IAV, SSI Research

Financial: Even without ~VND 500 bn from selling a 25% stake in PVI Sun-Life, its financial income only slid -10% YoY to VND 589 bn. Further losses were thankfully staved off, as stocks investment performed well regardless, and the reversal of provision across some investments was a beneficial factor as well.

The cash dividend was raised from the initial plan of VND 1,200/share to VND 2,800/share (dividend yield of ~7.2%), which is considered quite attractive. In the last 3 years, PVI usually set the ex-rights rate for cash dividends to be around September.

2018 plan

VND bn	2018P	2017A	% YoY
Charter capital	2,342	2,342	0%
Total revenue	9,069	9,029	0%
PBT	587.2	683.5	-14.1%
Net profit	458.1	539.6	-15.1%
Dividend on par (%)	12%	28%	

Source: PVI, SSI Research

As a common practice, PVI has traditionally set a low target in which the management said that it is likely to exceed in 2018. For insurance, it expects gross written premiums to increase up to VND 7 trillion (+4.7% YoY, lower than the expected industry average growth of ~10% YoY). The combined ratio will be maintained at 2017 levels of around 95%-96%.

In 2017, PVI did not complete some plans that it announced in the 2017 AGM, including increasing the FOL from 49% to 100%, moving to HOSE, and listing PVI Reinsurance. PVI did not remove the FOL as planned, because it still has the property business as one of its business lines in its business license. According to PVI management, PVN is holding a 35% stake, and will complete its divestment from PVI in 2018. Regarding PVI Re, the Company is currently looking for a strategic investor. After establishing suitability with a strategic investor, it will sell its shares to the public and then list in 2018.

The representative of HDI Global SE delivered a speech at the AGM. Key highlights include (1) the precise ownership of HDI Global SE at the time of the AGM is 47.31% after it bought an ~11% stake from Funderburk Lighthouse Limited (OIF); (2) A high commitment from HDI Global SE because it seems that HDI Global SE plans to take control over PVI in the long term. HDI plans to develop PVI not only in the Vietnam market, but also in Asean markets. When HDI Global SE has a controlling stake in PVI, it is considered an optimal situation for PVI because its rating can rise up to HDI's rating at the moment (A) rather than Vietnam's rating at the maximum (B2+), and (3) HDI Global SE is optimistic about the possibility that PVI can remove its FOL outright entirely in 2018.

Valuation & Investment view

At the current price of VND 38,800/share, PVI is trading at 2017 PB metrics of 1.33x, which is lower than the industry average of 1.6x (including BVH) and equivalent to the adjusted industry average of 1.38x (excluding BVH). We see that Vietnamese non-life insurers' valuation (excluding BVH) is comparable to regional peers' PBR of 1.27x.

We think that the FOL removal and PVN's divestment plan may be a short-term catalyst for PVI stock, particularly if these plans can be conducted in 2018. The Company's 7.2% dividend yield is also considered quite attractive for long-term investors.

1. ANALYST CERTIFICATION

The research analyst(s) on this report certifies that (1) the views expressed in this research report accurately reflect his/her/our own personal views about the securities and/or the issuers and (2) no part of the research analyst(s)' compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

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Within 12-month horizon, SSIResearch rates stocks as either BUY, HOLD or SELL determined by the stock's expected return relative to the market required rate of return, which is 18% (*). A BUY rating is given when the security is expected to deliver absolute returns of 18% or greater. A SELL rating is given when the security is expected to deliver returns below or equal to -9%, while a HOLD rating implies returns between -9% and 18%.

Besides, SSIResearch also provides Short-term rating where stock price is expected to rise/reduce within *three* months because of a stock catalyst or event. Short-term rating may be different from 12-month rating.

Industry Rating: We provide the analyst' industry rating as follows:

- ❖ **Overweight:** The analyst expects the performance of the industry over the next 6-12 months to be attractive vs. the relevant broad market
- ❖ **Neutral:** The analyst expects the performance of the industry over the next 6-12 months to be in line with the relevant broad market
- ❖ **Underweight:** The analyst expects the performance of the industry over the next 6-12 months with caution vs. the relevant broad market.

**The market required rate of return is calculated based on 5-year Vietnam government bond yield and market risk premium derived from using Relative Equity Market Standard Deviations method. Our rating bands are subject to changes at the time of any significant changes in the above two constituents.*

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