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INDUSTRIALS - VIETNAM

Key figures

Market cap (USD mn)	48
Market cap (VND bn)	1,124
Outstanding shares (mn)	25
52W high/low (VND 1,000)	57/39
Average 3M volume (share)	8,768
Average 3M value (USD mn)	0.02
Average 3M value (VND bn)	0.38
Foreign ownership (%)	48.60
State ownership (%)	40.78
Management ownership (%)	N.a

SVC Price & Trading Volume



Source: Bloomberg

Company Snapshot

Saigon General Service Corporation (SAVICO) was established in 1982 as an SOE and officially operated as a JSC since 2005, with its business activities including motor vehicles distribution as well as real estate services. SVC organizes a dealer system to distribute automobiles, motorcycles from domestic and foreign manufacturers. The company also provides repair services for brands like Toyota, Ford, Volvo, Chevrolet, Hyundai, Honda, Hino, and Yamaha. In the real estate business, SVC runs and leases office buildings and trade centers.

ANALYST MEETING

Benefit from the temporary shortfall in imported cars

Company background

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SAVICO listed its shares on the HOSE under the ticker SVC in Jun 2009. Current outstanding shares are 25mil, and Ben Thanh Group (State shareholder) owns a 40.78% stake.

In 2017, sales from motor vehicles distribution and services accounted for 91.9% and 6.6% of total sales, meanwhile revenue from offices and retail space for lease accounted for a minor proportion, at 1.2%.

What's new

Recently, SAVICO held an analyst meeting to discuss its business results and strategy and below are the key takeaways:

1H 2018 results

In 1H 2018, SVC has recorded VND 6.141 tn in net sales, which has decreased by -8.6% YoY but posted a remarkable growth at +53% YoY in net income of VND 112.4 bn. According to SVC, the automobile market in the year is quite favorable. In 1H 2017, its PBT mainly came from manufacturer incentives. This year, Decree 116 caused a visible supply shortfall in imported cars, so the Company no longer reduced selling prices as they did in 2017. While CBU supply dropped in 1H 2018, CKD demand was really positive in the period. We should note that CKD sales volume of Toyota and Ford in 1H 2018 increased by 30% YoY and 5% YoY respectively according to our calculations. Meanwhile, Hyundai, a sizable local car assembler but a non-member of VAMA, revealed that its CKD sales volume account for about 99% of its total volume up to 6M 2018. Hyundai sold 27,400 units in 1H 2018, while the figure for full year 2017 was 30,300 units. Given the impressive demand for Hyundai car models, SVC also has pushed to set up more Hyundai agents.

8M 2018 results

- Automobile segment:
 - ✓ Total automobile sale volume reached 17,440 units (-3% YoY) from Jan to Aug 2018. SVC market share inched up to 10.3%, higher than that of 9.9% in 2017 in the context that overall auto market sales declined 5% YoY in 8M2018. SVC sold over 27,000 cars in 2017, and the Toyota, Ford, and Hyundai brands respectively accounted for 53%, 27% and 7% of total sales, equivalent to a nationwide market share of 23.2%, 24.1% and 9.1% in each brand respectively.
 - ✓ The company has 4 additional sales agents (1 dedicated to the Toyota brand, with 2 assigned to Hyundai and 1 to Ford) that have launched into operation since the beginning of the year, bringing the total number of agents to 44 in the automobile segment. In the near future, the company will put into operation 2 sales agents dedicated to Ford brand vehicles, and 3 agencies selling commercial vehicles for Hyundai.
- Motorcycle segment:
 - ✓ Total sales volume amounted to 5,937 units (+3% YoY) up to 8M 2018. In 2017, sales volume in aggregate totaled 8,681 units (-5% YoY), in which 5,126 units (-13% YoY) came from the Yamaha brand and 3,555 units (+8% YoY) were from Honda brand motorcycles. Meanwhile, total motorcycle market size reached 3.27 mn units (+4.8% YoY) in 2017.
 - ✓ Currently, SVC's motorcycle dealer system consists of 5 sales agents.
- Real estate segment:
 - ✓ Revenue from the segment is quite stable because the Company maintains high occupancy rate in office buildings and warehouses.
 - ✓ For the 104 Pho Quang project, the Company has received land use rights in Ho Chi Minh City. SVC is in process to complete other procedures in order to transfer the project to Novaland. In the most favorable outcome, SVC can record this one-off profit with a value of about VND50 billion this year. Otherwise, profit from this transfer will be booked in 2019.

Projects	Implementation progress
No.104 Pho Quang	The company is implementing the legal procedures to transfer the project.
Residential project at Hiep Binh Phuoc - Tam Binh	This project is expected to be completed by 2018, then to be handed over to local authorities
Residential project at Long Hoa - Can Gio	The company has adjusted its 1/500 planning design
Mercure Son Tra	The project is awaiting the government's conclusion on planning projects in Son Tra
No 66-68 Nam Ky Khoi Nghia	The project is expected to be completed and put into operation in 1Q 2020

3Q 2018 prelim results: Total sales in the first 9 months of 2018 is estimated at VND 9.816 tn (-3.7% YoY), and net income might reach VND 160 bn (+69.9% YoY).

What's the impact?

SVC revises upward its 2018 plan: Given the impressive results in the 3rd quarter, the Company has decided to increase the 2018 target. Accordingly, net income was revised up at VND 200 bn, increasing by 46.3% compared to the previous plan at the 2018 AGM (or 47.4% YoY growth). Total sales however was still targeted at the same level of VND 14.2 tn originally set for 2018. Given favorable domestic prospects in the automobile

market, we think the Company might achieve its 2018 targets. SVC has respectively accomplished 69% and 80% of its sales and net income given the above prelim results.

Unit: VND bn	2017A	2018 Initial Plan	2018 revised plan	% Change	% YoY
Total sales	13,818	14,200	14,200	0%	2.8%
PBT	174	175	250	42.9%	44.1%
Net income	139	140	200	42.9%	44.1%
Net income attribution to the parents	81	82 ^(*)	120 ^(*)	46.3%	47.4%

Note: (*) Not including the profit from partial proceeds from the 104 Pho Quang project.

Source: SVC, SSI Research

Lower margin expected in 4Q 2018: The advantage of the temporary shortfall in imported cars will cease soon. Most automakers such as Toyota and Ford have just started importing CBU in July 2018, while Honda Vietnam was the first company to import cars from Thailand in March. Therefore, the supply of imported vehicles is expected to increase in the last quarter of the year. As a result, sales in 4Q 2018 will be relatively smooth, even though the underlying dynamic behind the sales may change. The gross margin maybe reduced slightly due to the competition posed between CKD and CBU-type cars. According to the company, automobile manufacturers tend to boost CKD car supply in the 4th quarter in order to increase market share, and this might cause a higher inventory, offering a lower ticker price to consumers for the last quarter of the year.

Our view

Assuming that SVC will complete the new business plan, net income attributable to shareholders might reach VND 120 bn. Hence, 2018 EPS arrives at VND 4,321 after excluding 10% from the welfare and bonus fund. At a current price of VND 45,000/share, SVC is trading at PER levels of 10.4x, and we consider this valuation to be quite reasonable for the Company at current given its low liquidity.

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Buy: Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

Outperform: Expected to provide price gains of up to 10 percentage points greater than the market over next 12 months.

Neutral: Expected to provide price gains similar to the market over next 12 months.

Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

Sell: Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

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