Sai Gon General Services Corporation (HSX- SVC)

Profit driver switches from automobile to services segment

- **2015: Positive earnings result thanks to automobile and real estate segments**
- **2016: Profit driver switches from automobile retail to services segment**
- **Forecasted 2016 Earnings Result**

Outlook:

During 2014-2015, automobile market continuously recorded impressive growth rate; in particular, both commercial vehicle and passenger car achieved two-digit growth rate. From 2016, we expect growth rate of automobile market to remain positive but unable to keep the fast rate as the last two years. Unlike automobile segment, automobile services segment would be benefit from the remarkable growth rate of automobile market in the last two years and aids SVC to maintain its growth. The contribution of services segment in total gross margin would increase in 2016 especially since SVC owns big and potential customer database.

By transferring real estate projects in the last two years, SVC would have sufficient cash flow for enhancing its distribution network. Furthermore, SVC will be more flexible with its financial capital, especially if there is volatility in interest rate. Thus, NPAT growth rate of 2016 is higher than revenue growth rate. By using P/E and FCFF valuation method, the reasonable price for SVC is determined at **VND41,800/share**, higher 19.4% than the closing price on 22/02/2016. Thus, we recommend **ACCUMULATE** this stock in **LONG TERM.**

However, investor should pay attention that until 11/01/2016 Finansia Syrus Securities Public Company Limited is the third biggest shareholders of SVC (8.18%) after constantly buying SVC stock. As Ben Thanh group is restructuring its investment portfolio, there is possibility that this group would continue to accumulate this stock and thus may have dominant rights on SVC operations.

Key financials

EoY (VND bn)	FY2013	FY2014	FY2015E	FY2016F
Net Revenue	6,582.4	7,930.2	9,928.2	10,431.4
% chg	21.6%	20.5%	25.2%	5.1%
NPAT	41.2	51.8	98.9	114.7
% chg	-8.2%	25.8%	90.9%	16.0%
EBIT margin (%)	0.6%	0.7%	1.0%	1.1%
ROA (%)	1.5%	1.7%	3.3%	4.1%
ROE (%)	5.6%	6.9%	12.7%	13.5%
EPS (VND)	1,648	2,074	3,972	4,131
Adjusted EPS (VND)	1,647	2,073	3,957	4,131
Book value (VND)	29,670	30,189	41,513	47,853
Cash dividend (VND)	1,000	1,200	1.200	1.200
P/E (x)	7.6	7.2	10.4	8.7
P/BV (x)	0.4	0.5	1.0	0.7

*Source: SVC, RongViet Securities, * Market price@ 22/02/2016*

ACCUMULATE

Market price (VND)	35,000
Target price (VND)	41,800
Investment period	LONG - TERM

Stock Info

Sector	General Retailers
Market Cap (VND bn)	836
Current Shares O/S	24,975,507
Beta	0,7
Free float (%)	12,9
52 weeks High*	43,900
52 weeks Low*	15,800
Avg. Daily Volume (20 sessions)	100,260

**Adjusted price*

Price performance (%)

	3M	1Y	3Y
SVC	13%	122%	273%
Retail	19%	24%	2%
VNIndex	-11%	-4%	14%
VN30 Index	-10%	-5%	1%

Major Shareholders (%)*

Ben Thanh Group	40.81
Jom Silkkitie Invetsment Fund	9.01
Finasia Cyrus Securities PLC	8.2
Foreigner investor room (%)	13.9

** As of 22/02/2016*

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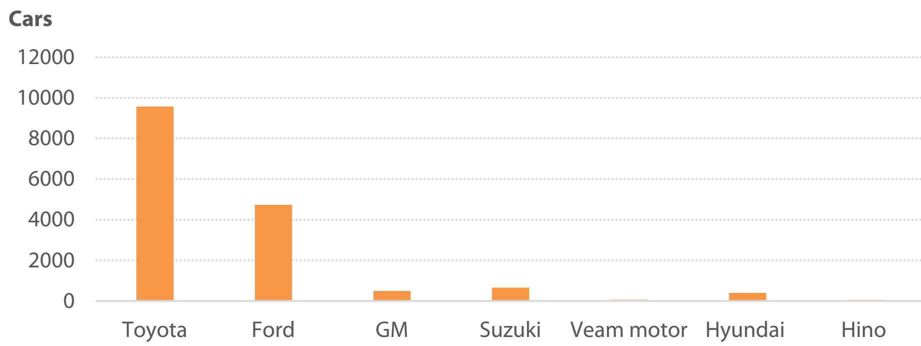
2015 – Positive earnings result thanks to automobile and real estate segments

According to VAMA, in 2015, total car sale volume reached 244,914 units (+53% y-o-y), exceeded annual plan target (210,000 cars). In particular, passenger cars recorded up over 70% y-o-y while commercial vehicle growth rate increased 70% y-o-y. As automobile market is under high demand, total car sale volume of SVC is expected to keep its momentum. Based on our calculation, total car sale volume in 4Q2015 and 2015 of SVC would be equal to 4,000 and 16,000 cars respectively.

Exhibit: SVC's expected sale volume by brands in 2015



Source: RongViet Research

Apart from core business, the real estate segment also pays a positive contribution to SVC earning results. Based on their restructuring plan, SVC successfully transferred Boulevard 13 and Savico Plaza Ho Tung Mau projects. In term of Boulevard 13 project, its book value is equal to VND 212 bn whereas its selling price is only equal to VND 162 bn. Thus, the company recorded VND 50 bn loss from this deal. Base on 3Q2015 earning result, we believed that SVC had recorded this transaction. In contrast, Savico Plaza Ho Tung Mau was sold at a relatively good value. Based on Q4 financial statement, SVC recorded VND 80bn profit by transferring Savico Plaza Ho Tung Mau. In 4Q20125, SVC recorded revenue and NPBT equivalent to VND 3,126 bn (up 23% y-o-y) and 51.9 (up 31% y-o-y) respectively.

Thus, for FY2015, revenue and NPAT for major shareholders could reach VND 9.928 bn and VND 98.9 bn, equivalent to EPS 2015 at VND3,959 per share. The above forecast has a significant difference from the latest result update since (1) SVC booked revenue and NPAT of two real estate projects in 2015 and (2) we cautiously projected a lower rate of automobile growth compared to the real figure announced by VAMA recently.

2016: Profit driver switches from automobile retail to services segment

2016: Automobile market growth rate may slow down

Automobile market in the 2014-2015 period recorded impressive annual growth rates; in which passenger cars and commercial vehicles achieved double-digit rates. From 2016, the automobile market may suffer from a dull prospect, especially when (1) Vietnam government requires the two biggest cities (i.e. Ho Chi Minh City and Hanoi) to limit personal vehicle consumption; (2) Adjusted calculation method in import duties and raised excise tax on cars with high capacity (above 2.0L) and (3) Unlike the last two years, tightening truckload policy would not have a significant impact on both automobile and commercial vehicle market.

According to the company's updates, big name such as Toyota and Ford both set a cautious sale growth rate for this year (up 10% y-o-y) as concern that market may cool down. Similarly, we believe that SVC automobile segment would have to face hard time ahead. In particular, sale growth rate could remain two-digit growth rate and is estimated at 10% y-o-y. In 2016, this segment would contribute 4% to total gross margin; down 0.5% compared with the same period last year.

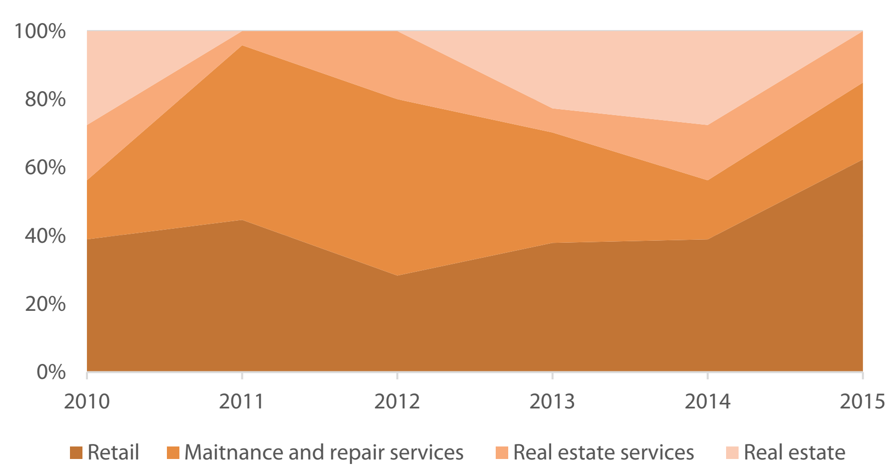
Unlike the last two years, automobile segment would not be able to remain two-digit growth rate as automobile market, which holds 90% total revenue, "cool down". On the other hand, net profit growth rate (%) is expected to remain its uptrend thanks to services segment, especially automobile services segment.

High expectation in services segment as automobile market may cool down

Could services segment become SVC new profit driver?

Looking back at historical data, demand for automobile once dropped significantly in 2012 (-12.5% y-o-y). At the time, services segment became SVC's "lifesaver" as it boosts total profit up 0.5% y-o-y. In particular, services segment contributed to 31% total gross profit and increased 20% y-o-y. Based on our study, services segment will only manifest when automobile segment struggle. In fact, services segment recorded an unimpressive growth rate in 2014 (+10%y-o-y) and 2015 (-3% y-o-y) respectively since car dealers wholly concentrate on trading automobile to meet market demand.

Exhibit: Gross profit margin structure during 2010-2015



Source: RongViet Research

As SVC may face the trough of automobile distribution cycle, we are now concerning more on services segment, which has stable source of revenue and profit. The BoD of SVC also shows the unanimity on this segment and bets on growth for five more years.

Being one of the top automobile distributors in the market and having a wide distribution network from North to South with over 30 showrooms (include both showrooms and service centers), SVC shows considerable potential on services segment. Based on our survey, most of SVC's showrooms operate at full capacity in 2015, which mean 100 times /day/showroom. Using the sale data in past 7 years, we estimate current capacity only meets one third of the total customer demand.

Thus, it seems like SVC has yet fully exploited the maintenance services even though it owns various competitive advantages against its competitors such as (1) Huge customer database with average sale volume around 10,000 cars per year, (2) SVC showrooms are genuine and operate with official license so customers are provided top quality services, (3) Distributed brands offer attractive promotion scheme such as Hino guaranteeing 2-year after sale services; thus, a number of customers are attracted to SVC for trading and after sale services.

With the above advantages, boosting services segment greatly depends on (1) Opening new showroom, which holds 3S standards, provides both sale and after sale services and (2) Further concentrate on automobile part segment with 40% gross margin instead of repair segment with 30% gross margin. By opening about four showrooms per year, mostly are rented one, we estimated that SVC can reach 1.8 million turns of repairing in 2019. At the time, through opening new showroom and enhancing total capacity, services segment could contribute about 37.8% to total gross margin in 2019. With such big contribution, net margin of SVC could be improved from average 0.7% (2011-2014) to 1.1.

Noticeably, our calculation does not include the assumption of increasing density automobile part sub segment due to lack of information. With the above plan, revenue of automobile services segment could up 40% y-o-y, equivalent to VND x bn. Gross margin is estimated at VND 180 bn and contributes 25.6% to total gross margin.

Real estate segment – Unlikely to record an abnormal profit through transferring

After the restructuring process in the last two years, SVC now holds about 5 projects. Most of them are wide-area projects; hence, require large investment funds. Therefore, in short term, we think SVC could hardly find a business partner to transfer these ones to record an abnormal profit in 2016.

Long Hoa- Can Gio Project. This project would have a brighter prospect when High Way Ben Luc – Long Thanh project finish. Based on the expected plan, highway project would complete in June 2018. Thus, in 2016, SVC would not be able to record profit from transferring Long Hoa- Can Gio project.

Mercure Son Tra Project. SVC has not managed to transfer this project due to its vast size and inconvenient location (distant from central Da Nang). The BoD is showing more effort to accelerate transfer progress in 2016. However, we do not expect that SVC could record a significant profit from transfer this project. Instead, the liquidation of the project could aid to reduce SVC debt burden as it is relatively huge (the current long-term debt balance is about 560 billion). It would be more reasonable to recognize the liquidation of this project as an aid to reduce SVC current huge debt burden rather than to expect the company could book an abnormal profit from such process.

Table: Updated news about SVC real estate projects

Project	Add	Ownership	Area	Updated information
SAVICO PLAZA*	104 Pho Quang	100%	9.028,3 m2	Cooperated with Novaland Estimated profit could be about VND 80 bn if SVC successfully transfer the project
Nam Cam Le	Pham Hung Avenue, Da Nang	100%	21.822 m2	Completed preliminary infrastructure 60% of the townhouse have been sold Looking for business partner
Ho Tram – Xuyen Moc	Vung Tau	100	96.300 m2	Collaborating with local government for land clearance compensation
Residential in Binh An, District 2	Binh An Ward, District 2	12,5%	N/a	Completed preliminary infrastructure
Long Hoa – Can Gio Villas	Can gio	50%		Land use tax paid (VND 50-60bn) Brighter prospect if Ben Luc – Long Thanh Highway project finish
Resort Mercure Son Tra	Son Tra peninsula, Da Nang	100%	57.650 m2	Completed villas model Looking for business partner

Source: SVC, Rong Viet Research

In addition, real estate service business branch may remain positive. Apart from ongoing projects, the office building located at 277-279 Ly Tu Trong can entirely operate since 1Q2016 and is expected to operate in full capacity (100%). Furthermore, levelled up head office Nam Ki Khoi Nghia is scheduled to complete in 2017. Adding the contribution of Ly Tu Trong project, we estimate revenue from this segment could increase 10%, equivalent to VND 170 bn.

Forecasted 2016 Earnings Result

Based on the above analysis, we believe that SVC 2016 earnings result of SVC would be balanced between automobile cycle, office renting and automobile services segment. In the long term, SVC would rely on the stability of automobile services segment. By owning big customer's database yet fully utilized, SVC shows considerable potential on services segment. Opening new showroom from 2016 is the first step that boosts total capacity and prepares to deal with hard challenge ahead. If concentrate on services segment, gross margin of SVC can up from 6.95% to 7.01% in 2016.

We forecast that revenue and NPAT of majority shareholders in 2016 would be about VND 10,413.3 bn and VND 114.7bn respectively, equivalent to EPS at 4,100 dong.

Outlook and valuation

During 2014-2015, automobile market continuously recorded impressive growth rate; in particular, both commercial vehicle and passenger car achieved two-digit growth rate. From 2016, we expect growth rate of automobile market to remain positive but unable to keep the fast rate as the last two years. Unlike automobile segment, automobile services segment would be benefit from the remarkable growth rate of automobile market in the last two years and aids SVC to maintain its growth. The contribution of services segment in total gross margin would increase in 2016 especially since SVC owns big and potential customer database.

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Unit: billion VND

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INCOME STATEMENT	FY2013	FY2014	FY2015F	FY2016F
Revenue	6,582.4	7,930.2	9,928.2	10,431.4
COGS	6,186.7	7,430.0	9,437.8	9,765.9
Gross profit	**395.7**	**500.3**	**490.4**	**665.5**
Selling Expense	169.5	187.3	232.1	238.9
G&A Expense	147.3	165.2	181.5	190.9
Finance Income	44.5	11.4	124.7	12.5
Finance Expense	84.8	67.6	53.7	65.0
Other profits	42.2	32.8	37.5	43.3
PBT	**84.7**	**118.6**	**199.4**	**239.0**
Prov. of Tax	23.6	30.9	42.0	47.8
Minority's Interest	19.9	36.0	58.5	76.5
NPAT	**41.2**	**51.8**	**98.9**	**114.7**
EBIT	**172.9**	**182.8**	**264.4**	**300.8**
EBITDA	299.6	283.2	264.4	401.4

Unit:%

FINANCIAL RATIO	FY2013	FY2014	FY2015F	FY2016F
Growth				
Revenue	21.6%	20.5%	25.2%	5.1%
Operating Income	25.6%	87.4%	-48.0%	206.9%
EBITDA	-20.2%	-5.5%	-6.7%	51.8%
EBIT	-18.4%	5.7%	44.6%	13.8%
PAT	-8.2%	25.8%	90.9%	16.0%
Total Assets	4.6%	9.5%	-7.8%	-4.7%
Equity	1.2%	1.8%	7.1%	10.4%
Internal growth rate	0.5%	3.6%	8.8%	10.0%
Profitability				
Gross profit/Revenue	6.0%	6.3%	4.9%	6.4%
Operating profit/ Revenue	1.2%	1.9%	0.8%	2.3%
EBITDA/ Revenue	4.6%	3.6%	2.7%	3.8%
EBITDA/ Revenue	2.6%	2.3%	2.7%	2.9%
Net margin	0.6%	0.7%	1.0%	1.1%
ROAA	1.5%	1.7%	3.3%	4.1%
ROIC or RONA	9.3%	9.1%	13.9%	18.3%
ROAE	5.6%	6.9%	12.7%	13.5%
Efficiency (x)				
Receivable Turnover	23.9	28.1	31.4	27.6
Inventory Turnover	21.4	22.1	20.0	19.4
Payable Turnover	13.5	14.3	15.5	15.4
Liquidity (x)				
Current	1.0	0.9	1.1	0.9
Quick	0.6	0.5	0.6	0.6
Solvency				
Total Debt/Equity	238.7%	227.3%	210.5%	180.4%
Current Debt/Equity	64.5%	54.7%	66.6%	56.1%
Long-term Debt/ Equity	67.7%	52.6%	31.2%	19.8%

BALANCE SHEET	FY2013	FY2014	FY2015F	FY2016F
Cash and equivalents	187	180	204	175
Short-term investment	43	54	47	52
Receivables	322	242	390	365
Inventories	327	346	597	410
Other current assets	25	29	44	48
Total Current Asset	**904**	**850**	**1,282**	**1,050**
Tangible Fixed Assets	120	182	198	189
Intangible Fixed Assets	44	51	71	85
Construction in Progress	617	455	171	211
Investment Property	766	748	738	762
Long-term Investment	274	748	274	277
Other long-term assets	88	73	133	156
Goodwill	26	0	0	0
Long-term Asset	**1,935**	**2,258**	**1,584**	**1,681**
Total Asset	**2,839**	**3,108**	**2,865**	**2,731**
Payables	221	325	228	293
Other current liabilities	230	260	407	343
Current Debt	478	413	538	501
Long-term Debt	502	397	252	176
Other long-term liabilities	339	320	276	296
Total Liability	**1,770**	**1,715**	**1,701**	**1,609**
Owner's Equity	**742**	**755**	**808**	**892**
Capital	250	250	250	250
Retained Earnings	133	142	192	273
Funds & Reverses	38	41	44	48
Others	**0**	**0**	**0**	**0**
Total Equity	**742**	**755**	**808**	**892**
Minority's Interest	176	217	254	230
TOTAL RESOURCES	**2,688**	**2,686**	**2,763**	**2,731**

CASHFLOWSTATEMENT	FY2013	FY2014	FY2015F	FY2016F
Pretax Income	84.7	118.6	199.4	239.0
-Depreciation	46.7	46.3	58.6	100.6
-Adjustments	*60.7*	*49.4*	*33.5*	*28.4*
+/- Working capital	-85.2	117.3	-383.0	149.3
Net Operating CF	**106.9**	**331.7**	**-91.6**	**517.4**
+/- Fixed Asset	-110.2	-107.0	18.1	-57.5
+/- Deposit, equity investment	13.1	-44.2	158.8	126.2
Interest, cash dividend, shared profits received	8.8	5.4	10.5	9.3
Net Investing CF	**-82.3**	**-145.7**	**187.3**	**78.1**
+/- Capital	3.2	29.1	-2.3	29.1
+/- Debt	-23.7	-170.3	-20.1	-20.1
Dividend paid + Other exp. from retained profits	-35.4	-44.9	-48.9	-633.7
Net Financing CF	**-55.9**	**-186.1**	**-71.3**	**-624.7**
+/- cash & equivalents	-31.3	-0.1	24.4	-29.3
Beginning cash & equivalents	**222.1**	**187.2**	**179.9**	**204.2**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**187.2**	**179.9**	**204.2**	**175.0**

COMPANY REPORT

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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