

REAL ESTATE – ICB 8630  
30 October 2015

## COMPANY REPORT Song Da Urban & Industrial Zone Investment and Development JSC - SJS



TRADING GRAPH



### INVESTMENT RECOMMENDATION

Investment View	BUY
Target price	25,307
Market price (30/10/15)	23,500
Prospects 1M	Increase
Prospects 3M	Increase
Prospects 6M	Increase

### TRADING INFORMATION

Outstanding (mil shares)	99.042
Market Cap (bil)	2,327
Book Value (bil)	1,799
Foreign Ownership (%)	11.2%
Current price (đ/share) on 30 Oct 2015	23,500
Average 10 days (share)	107,647
Lowest Price 52 Wk (VND)	18,600
Highest Price 52 Wk (VND)	28,300
+/- 7 days	+6.33%
+/- 1 month	+16.34%

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### INVESTMENT HIGHLIGHTS

**We recommend to BUY SJS stock with 1-year target price of VND 25,307 (+8% compared to the share price on 30 October 2015)** based on NAV valuation method; SJS owns cleaned land fund of more than 1,200ha, located mainly in Hanoi and the northern provinces. The project absorption rate is positive, with revenues mostly recognised in 2016.

**Restructuring Sudico activities have been implemented strongly, bringing positive results:** (1) Focusing on investing and selling in major projects like Nam An Khanh Urban (2) Restructuring debts borrowing, extending repayment term relaxation by 1, 2 years and reduced the average interest rate from 16% to 11% (3) Withdrawing capital gradually from inefficient financial investments and (4) Dissolving, changing the forms, reorienting the activities of subsidiaries and associated companies.

**The projects has their own competitive advantages:** (1) The projects has good location, located near major roads, in the areas of key planning (2) The selling prices are relatively competitive with the products of middle and high-end segment in same area partly because site clearance compensation and payment of land used had been done for many years before (3) The projects have varied designs, suitable for different customers.

**Nam An Khanh Urban currently is Sudico's major project, with revenues mainly recognized in 2016.** In the first 9 months of 2015, Sudico transferred more than 3 ha in A Area of Nam An Khanh Urban to secondary investors, recognized VND 460 billion revenues. In Q4/2015, Sudico continues to have some transfer contracts which are expected to recognize revenues in Q4/2015 and early 2016. About retail segment, about 100 villas and adjacent houses successfully sold in the first 6 months of 2015, Sudico continues to sell additional 2 ha in the last 2 months of 2015, which can recognize revenues in 2016.

**2015 earnings forecast:** In 9 months of 2015, revenues reached about VND 470 billion (+453% yoy), EBT was about VND 80 billion, 3 times higher than the same period in 2014. We expect 2015EBT may reach VND 270 billion and 2015EPS of VND 2,096 when SJS recognizes revenues from the transfer contracts to secondary investors in Q4/2015.

**We believe that the value of SJS largely depends on prospects land prices in Nam An Khanh Urban Project.** In addition, the main risk is Sudico has large loan balance, always accounted for 2/3 of the total assets, while the total value of cash and short-term liquid assets is relatively low.

Financial Ratios	2011	2012	2013	2014
Net Rev (bil đ)	143	51	631	1226
% y-o-y		(64%)	1,137%	94%
Total Assets (bil đ)	5,196	5,513	5,607	5,420
Equity (bil đ)	1,867	1,560	1,629	1,766
Charter capital (bil đ)	1,000	1,000	1,000	1,000
Shares Outstanding (mil share)	99	99	99	99
EAT (bil đ)	(88)	(305)	71	156
% y-o-y				120%
EPS (đ/share)	(917)	(3,057)	708	1,579
BVPS (đ/share)	18,859	18,675	15,597	16,288
Gross profit margin	20%	(291%)	41%	27%
ROS	(62%)	(601%)	11%	11%
ROE	(5%)	(20%)	4%	8%
ROA	(2%)	(6%)	(1%)	3%

Source: BSC

## ENTERPRISE INTRODUCTION

### General Introduction

Name	Song Da Urban & Industrial Zone Investment and Development JSC
Trading name	Song Da Urban & Industrial Zone Investment and Development JSC
Short name	Sudico
Address	1 <sup>st</sup> & 2 <sup>nd</sup> floor, CT1 building, MyDinh Urban Area, Me Tri, Tu Liem, Hanoi
Tel	(84.4)3768 4503 – 3768 4504 – 3768 4505
Fax	(84.4)3768 4029
Website	<a href="http://www.sudicosd.com.vn">http://www.sudicosd.com.vn</a>
Charter capital	VND 1,000,000,000
Business sector	Real estates
Business scope	Trading house, urban areas and industrial park business; ... Services: consultancy, planning,...

### Milestones

Time	Events
12 Sep 2001	Established, is State Enterprise and a member of Song Da Corporation
08 Jul 2003	Converted into joint stock company
06 Jul 2006	Listed on HOSE with SJS ticker, with 5 million listed shares .
2006	Opening sales of My Dinh, Me Tri urban area
Mar 2013	Open retailing of Nam An Khanh urban area

### Capital Raising History (Bil dong)

Time	Charter capital	Forms of raising capital
Jul 2006	50	Private offerings
Jan 2007	200	Issue for existing shareholders
Aug 2007	400	Issue for existing shareholders
Dec 2009	1000	Issue for existing shareholders

No.	Associated Companies	Ownership rate
1	Song Da – the Central Urban & Industrial Zone Investment and Development JSC	47.5%
2	ITC Thang Long JSC	30%
3	Sudico Consultant JSC	29.3%
4	Sudico Construction JSC	26%
5	Phuc Son Light Brick JSC	22.5%

No.	Subsidiaries	Ownership Rate
1	Sudico Thang Long Ltd Co.	99.97%
2	Sudico the Central JSC	100%
3	Sudico the South JSC	100%
4	Sudico Tien Xuan Ltd Co.	100%
5	Sudico Quang Ninh JSC	51%
6	Sudico Building material & Investment Development JSC	51%
7	Sudico Hoa Binh JSC	65%
8	Sudico Services JSC	51%

(Source: SJS, BSC collected)

### Ownership structure as of 31 Dec 2014

No.	Shareholder	Shares	% Holding
1	<b>Domestic</b>	<b>89,607,228</b>	<b>89.60%</b>
	Individuals	49,241,394	49.23%
	Institutions	40,365,834	40.37%
2	<b>Foreign</b>	<b>10,392,772</b>	<b>10.40%</b>
	Individuals	1,866,725	1.87%
	Institutions	8,526,047	8.53%
	<b>Total</b>	<b>100,000,000</b>	<b>100%</b>

(Source: SJS, BSC collected)

### Major shareholders as of 30 June 2015

No.	Shareholder	Share	% Holding
1	Song Da Corporation	36,300,750	36.30%
3	Deutsche Bank AG London + Deutsche Bank AG	9,557,610	9.65%
4	Market Vectors ETF Trust - MarketVectors - Vietnam ETF + Wareham Group Limited	8,860,560	8.94%
	<b>Total</b>	<b>54,718,920</b>	<b>54.89%</b>

- ❖ SJS owns cleaned land fund of over 1,200 ha located near convenient transportation such as Thang Long Avenue, Quang Trung Street- Ha Dong, ..., in the key planning areas, with beautiful landscape like Ha Long – Quang Ninh, Tien Xuan – Thach That - Hanoi, ...
- ❖ Business strategy focused on medium and high-end segment, the high debt ratio caused SJS to have difficulties in the 2011-2012 periods when Vietnam's real estate market declined. After strong restructuring steps, SJS has achieved strong growth in both revenues and profits since 2013.

## OPERATING ACTIVITIES

Sudico's main business activity is investment in developing urban areas, residential and ecological tourist destinations, mainly concentrated in Hanoi and the Northern provinces. Product segment that Sudico oriented is medium and high-end segment. Some major projects may be mentioned such as Nam An Khanh Urban Area and Extension - B Area; Van La - Van Khe Residential; My Dinh - Me Tri Urban Area; Tien Xuan Urban Area; ...

### PROJECTS OF SUDICO

No.	PROJECT	LOCATION	SCALE (ha)	INVESTMENT (BIL VND)	CURRENT STATUS	PLAN
1	<b>Nam An Khanh Urban Area and Extension</b>	An Khanh, An Thuong - Hoai Duc - Hanoi	234.3	6,000	Area A: over 30ha business land remaining. Area B is determined land use fees.	Selling area A until 2018, retail price of VND17-22 million/m2, wholesale price of VND 15.3 million/m2. Selling area B from 2017 to 2018.
2	<b>Van La - Van Khe Housing Area</b>	Van Khe, Ha Dong District, Hanoi	12	1,300	12 ha clean land, being leveling	Selling apartments and plots from 2016
3	<b>Tien Xuan Urban Area, Thach That, Hanoi</b>	Thach That, Hanoi	1,115	20,000	Already paid compensation and land use	Seeking partners for investment cooperation
4	<b>Hoa Hai - Đa Nang</b>	Hoa Hai, Đa Nang	12	n/a	Already paid compensation and land use	Selling from 2016
5	<b>Song Đa - Ha Long Hotel</b>	Yen Ngua Hill - Bai Chay - Ha Long City	2	172	Finished villas around	Looking for partners to build hotels
6	<b>Song Đa - Ngoc Vung Ecotourism area</b>	Ngoc Vung - Van Don - Quang Ninh	39	248	Trading at 6, 7 finished holiday cottages	Constructing 2 remaining cottages and keep trading.
7	<b>SUDICO - SPM Housing Area</b>	Long Truong - District 9 - Ho Chi Minh City	18.8	n/a	n/a	Transferring or divesting in 2016
8	<b>Others</b>	n/a	n/a	n/a	n/a	n/a



#### I. NAM AN KHANH URBAN AREA AND EXTENTION

Nam An Khanh Urban Area and Extension - B Area is one of Sudico's key projects. Revenues from Nam An Khanh project has accounted for almost the entire total revenue since 2013 until now. Project's targeted customers are the good and high income people.

**Nam An Khanh Urban Area located to the West of Hanoi.** North of the project is Thang Long Avenue and East of the area is Le Trong Tan Street.

**The total project area is 288.8ha, in which Urban Area is 234.4 ha (189.7ha of A area and 44.6ha of B area), has been allowed to build since 2004.** A area consists of three zones: 33.6 ha apartment - services with apartments, sport and entertainment area, commercial centers, offices, public facilities, ...; 103.7ha large lake area and 51ha small lake area with nearly 1,800 villas and adjacent houses, area from 130 - 400m2/unit, lake house from the 500-700 m2/unit. Urban Area is expected to provide for more than 35 thousand people.



(Source: Sudico)

### Business activity in Nam An Khanh Project

Two main forms of business in the project are retail of villas, adjacent houses and wholesale for secondary investors. Nam An Khanh is expected to sell until 2018. **A area** has 30 ha business land remaining, with the plan of 50% being the low-rises and 50% being the high-rises. **B area** has completed compensation, is now determined land use fees.

- **Wholesale is the primary business form at Nam An Khanh project.** Before 2013, SJS transferred approximately 49ha. In 2014, nearly 9ha in the project was transferred to Techcomdeveloper, collected VND 1,218 billion (~selling price of VND 13.7 million/m<sup>2</sup>). In 9M2015, Sudico transferred 3 ha, earned VND 460 billion (~selling price of VND 15.3 million/m<sup>2</sup>). In Q4/2015, Sudico is completing transfer procedures to some additional contracts for secondary investors.
- **Retail activity was not really strong but is gradually improving.** Since opening its first sale in March 2013, Sudico sold about 80 units in 2013, 50 units in 2014 and 100 units in the first half of 2015. Each unit has an area of 140-300 m<sup>2</sup>, unit next to lakes has area from 500 -700 m<sup>2</sup>, selling prices ranged from VND 17-22 million/m<sup>2</sup>. Retail activity is paused from June 2015 to invest in constructing technical infrastructures (embankments of large lake, footpaths, trees, ... total investment worth VND 300 billion), in order to increase the selling price further 5-10% in the returned sale in the end of October 2015 ( in Q4, planned to sell 2 ha ~ about 60 units).

### General assessment of Nam An Khanh Project

#### Advantages

- **The project has a favorable location.** Nam An Khanh is located in the west of Hanoi with the relatively completed infrastructures. The north of project is Thang Long Avenue; the East is Le Trong Tan Street; and the south of project is 423 Provincial Road and the west is expected 4th Ring Road. From Nam An Khanh, the move to the center of Hanoi or to the southern provinces is quite convenient. Around Nam An Khanh, there are many tourist resorts and entertainment areas such as Bao Son Paradise, Dong Mo Golf Course, Suoi Hai ... and urban areas like Bac An Khanh Urban Area, Geleximco Urban Area, Bao Son Paradise Villas Area. ...
- **The selling price of villas land is relatively cheap compared to urban areas in the region.** Part of the reason is Sudico made site clearance



compensation and tax payment relatively soon. The current selling price of Nam An Khanh is VND 17 - 22 million/m<sup>2</sup>, while Geleximco urban area has average selling price of VND 35 - 40 million/m<sup>2</sup>, Bac An Khanh urban area's average selling price is VND 40 - 45 million/m<sup>2</sup>.

### Disadvantages

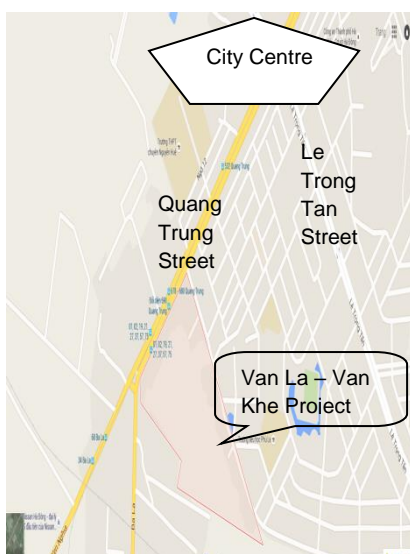
- **The average selling price of each unit is not lower than surrounding urban areas.** Although the average price per m<sup>2</sup> is low, the area of each villa in Nam An Khanh is quite large. Specifically, the average area is 300m<sup>2</sup>/unit, while the average area in other urbans is about 200m<sup>2</sup>/unit. So in order to buy a house in Nam An Khanh, a buyer has to pay about VND 6 billion/unit (for the ground), equivalent to cost of a villas in the region. This reduces project's advantage of cheap land, and the number of homebuyer will be difficult to increase sharply as a result.
- **Technical infrastructure of the urban is less completed than surrounding urban areas.** By the end of Sept 2015, Nam An Khanh has not completed footpaths, lake embankment... no buyer has lived. Meanwhile, Geleximco urban, Bao Son Paradise villas were built, about 15-20% of the areas was inhabited, with area management in full.
- **Construction progress is slow.** The project has slow progress, construction activities in the urban is quite scattered. The goal of completing technical infrastructure that homebuyers can immediately live will be difficult to implement in 2015.
- **Going to Nam An Khanh is not really favorable.** If going from city center along Thang Long Avenue, homebuyers must go through the tunnel under the avenue. From Le Trong Tan Street, buyers have to go additional 2 km from Nam An Khanh Gate to villas around lake. Therefore, if the technical infrastructure is not completed, there is no professional area management ensuring safety, it would be difficult to have homebuyers actually live here.
- **Hard to compete with the red book's land from residential area around the urban.** Land price in the surrounding villages is only VND 7-10 million/m<sup>2</sup>, slightly lower than 2014 (VND 10-13 million/m<sup>2</sup>). Those villages having adequate technical infrastructure are competitive land supply to Nam An Khanh.

**Prospects:** Overall, Nam An Khanh is a potential project because of the favorable location and pretty competitive selling price. Main activity bringing revenues will remain land transfer to secondary investors. Retail will hardly have mutations, and plan of increasing additional 5-10% selling price would be difficult.

### II. VAN LA – VAN KHE HOUSING AREA

The project is expected to implement from 2016 onwards. In 2013, Sudico adjusted the plan from premium segments to affordable segment.

Total project area is 12ha, is waiting for the detailed planning, with expected business land of about 5-6ha. Sudico has paid taxes for land before (VND 368 billion) and currently partially leveled the area. The main products of the project are land plots, villas, adjacent houses and apartments. In the end of 2015, Sudico plans to start building apartments and are carrying out procedures for borrowing of VND 300 billion from bank, in order to keep up open sale in early 2016.



### General assessment of Van La - Van Khe Project

#### Advantages



(Source: SJS)

- **Project's location is quite favorable.** Project located in Ha Dong district which is under urban planning to 2020. The project is located next to Quang Trung Street, which connects with 6 National Highway to go to northwestern provinces; near the the Hanoi - Ha Dong high railway station. The project also located next to Van Phu urban area, near Metro shopping center, administrative center of Ha Dong district, ...
- **The selling price is expected to be lower than the price of surrounding urban areas.** Van Phu urban area has the average selling price of VND 40-60 million/m<sup>2</sup>. Van La Van Khe project is expected to have lower prices partly because tax fees was paid from previous years, partly to fit the subjective buyers with low and average income.
- **Buyers can utilize the technical infrastructure of the surrounding areas.** The project has a relatively small area (12 ha), located next to Van Phu urban area with complete technical infrastructure and public works. The project is also near shopping and entertainment centers, hospitals, schools ... in Ha Dong district. Therefore, homebuyers can use those facilities during Sudico completing technical infrastructure in the project. The surrounding areas are quite crowded, the project is not too big, so the ability that home buyers can live immediately will be more feasible.

#### Disadvantages

- **Project progress is slow.** According to a fieldwork in late Sept 2015, the project is still in the process of leveling with a quite slow speed. Ability of completing the infrastructure, building apartments for sale in early 2016 will be difficult if Sudico does not strengthen construction activities here.

**Prospect:** Van La - Van Khe housing area has good prospects due to favorable location in Ha Dong district and expected relatively competitive selling price with the surrounding urban areas. However, slow progress of construction can make selling plans in early 2016 to be difficult to implement, affects the revenues that this project can bring in 2016.

### III. TIEN XUAN URBAN AREA, THACH THAT, HA NOI

Tien Xuan Urban area is a long term project of Sudico. The project is located near Thang Long Avenue, about 35km from the city center.

The project's size is 1,400 ha, with expected total investment of VND 20,000 billion, built in Tien Xuan commune, Luong Son, Hoa Binh, (now is Thach That, Ha Noi) under the overall planning of Hoa Lac Hi-tech Park. As planned, the project will include downtown entertainment, resort villas, ecological villas, mixed urban, high-rise apartment taking advantages of beautiful natural lanscape here.

The project has a construction plan in the period 2007 – 2016; however, Sudico paused to focus on key projects. The entire project land has been paid compensation and land use, is waiting for the detailed planning and finding suitable foreign partner to implement the project in parallel with other projects.

#### General assessment of the project

- **Pros:** Project has quite favorable location, which is in the overall planning of Hoa Lac hi-tech park and in the key planning and development of the region, with quite beautiful natural landscape. Compensation and land use payment is implemented from previous years, which also helps Sudico reduce the cost.





- **Cons:** The project needs very large investment (VND 20,000 billion), making it difficult to find suitable partners. Project implementation period will be long before beginning to generate revenues for Sudico.

#### IV. HOA HAI - ĐÀ NẴNG PROJECT

The project was transferred in 2010 by Sudico in its real estate investment expansion plans nationwide that time. The project is a coastal service commercial area, under the Hoa Hai new urban area projects, with a total area of 12 ha, purpose to build hotel, apartments and villas. After initial deployment, the property market freeze caused land prices in Danang dropped sharply. Since then, Sudico try to transfer the project but can not find a suitable partner. Sudico also made provision for the project over VND 100 billion in 2012 and over VND 70 billion in 2014.

In 2015, real estate market recovered, Sudico decided not to transfer the project and will open sale back in 2016 instead, with both retailing and transferring to secondary investors. Currently, Sudico is planning details.

**General assessment of the project:** The project has the potential to bring Sudico revenues in the coming time, when Da Nang real estate market warms up with nationwide real estate market. Provisions previously created can also be reversed if sales performance is positive. (Expected average selling price is about VND 9-10 million/m<sup>2</sup> while current COGS is about 7.8 million/m<sup>2</sup>)

#### V. SONG DA – NGOC VUNG ECOTOURISM AREA & SONG DA - HA LONG HOTEL

These two projects were withdrawn when Sudico dissolved the Sudico Halong subsidiary.

**Songda, Ngoc Vung Ecotourism Area Project:** Project's scale is 39ha, built in Ngoc Vung, Van Don, Quang Ninh. The project includes mini hotel, resort, entertainment area ... Now, the project has run 6 – 7 holiday cottages, and will build 2 additional Bungalow holiday cottages for completion.

**Song Da – Ha Long Hotel Project:** The project is located on Yen Ngua Hill, Bai Chay, Ha Long City with an area of almost 2 ha. Sudico plans to build 5-star hotel includes 1 15-floor building and villas, guesthouses surrounded overlooking to Halong Bay. Currently, the project has built the surrounding villas, is seeking partners jointly building the hotel.

**General assessment of the projects:** Two projects have beautiful location in Ha Long, one of the famous tourist resorts in the North. With better experience than the subsidiary, Sudico is expected to make profits from those under direct management.

#### VI. SUDICO - SPM HOUSING AREA

Sudico contributed VND 168 billion for investment cooperation with SPM JSC to implement in 2010, aimed to expand business operations in the southern market. The project has a total area of 18.8 ha, located in Long Truong Ward, District 9, Ho Chi Minh City. However, the progress was unsatisfactory, so in 2015, Sudico planned to transfer or divest in this project, scheduled for early 2016 will complete negotiations.

**General assessment of the project:** The ability of recovering capital or transferring to other investors is positive. There are many real estate investors in the South have the need to expand the land fund for development, while project located in the east of city - the relatively strongly growing region, so transferability is quite high.

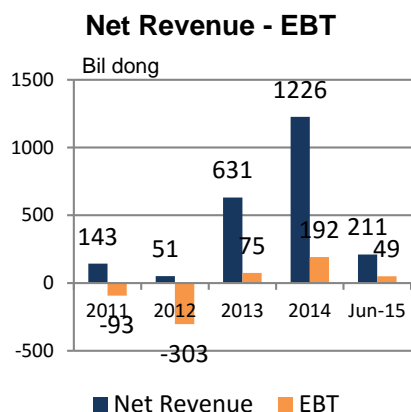


Songda, Ngoc Vung Ecotourism Area  
(Source: SJS)



Song Da – Ha Long Hotel Project  
(Source: SJS)

## RESTRUCTURING BUSINESS ACTIVITIES



Source: SJS, BSC collected

### 2011-2012 DIFFICULT PERIOD

**The business results:** In 2011-2012, the business results of Sudico were not good. Revenue was low with only VND 143 billion in 2011 and plummeted to VND 51 billion in 2012 (-64% yoy). Profits before tax were negative for 2 years with values of VND -93 billion in 2011 and VND -303 billion in 2012 (-226% yoy).

#### Reasons:

- **The real estate market is in a difficult period**, companies operating in medium and premium segment like Sudico was, therefore, difficult to sell products.
- **Large provisions for inventory:** in 2012, total provisioning for inventory 147 billion, of which 103 billion set aside for the project Hai Hoa, Da Nang and 44 billion for projects brick factory.
- **Large liabilities, in which long-term debt due within 1 year was high, created huge principal and interest repayment pressure:** Total liabilities was VND 3,329 billion in 2011 and VND 3,954 billion in 2012, accounting for 65-70% total asset. In which, short-term debt was VND 1,230 billion in 2011, VND 508 billion in 2012, mainly is long-term debt come due.
- **Inefficient financial investment activities:** Total book value of long-term financial investments in 2011 was VND 603 billion, fell to VND 560 billion in 2012, primarily due to losses from those companies. Sudico had to make provisions of VND 26 billion in 2011 and VND 27 billion in 2012.

### RESTRUCTURING ACTIVITIES

- **Changing the orientation of the company business activities:** Focus investment in building technical infrastructure, stepping up sales activities in major projects to generate revenue, typically Nam An Khanh project, instead of spreading investment in various projects.
- **Restructuring debts:** Sudico dealt with banks and funds to extend debts and bond matured, reducing the pressure of repaying principal. Average interest rates were also negotiated to decrease from 16% to about 11%.
- **Gradual withdrawal of ineffective financial investments:** In 2013, Sudico withdrew VND 25 billion investment cooperation in Cam Ranh - Catus Project. In 2014, Sudico made divestments in Vietnam Dynamic Fund (VND 14.7 billion) and Sao Viet Security Corporation (VND 20.7 billion). In 2015, SJS divested from Song Da 19 (VND 2 billion).
- **Restructuring the Sudico:** Since 2013, Sudico has carried out the dissolution procedures of subsidiaries, including Building materials and Development investment Sudico JSC, Sudico Halong JSC, The Central Sudico JSC; newly established Sudico Quang Ninh JSC; transformed Sudico An Khanh, The South Sudico into Limited form to focus on managing projects; reoriented the activities of subsidiaries and associated companies.



## **RESULT**

Thanks to strongly restructuring activities, combined with the recovery of real estate market, the business results of Sudico in the period 2013-6M2015 has improved:

- **Net sales increased over time, mainly from Nam An Khanh Project.** Revenues reached VND 631 billion in 2013 and VND 1,226 billion in 2014 (+94% yoy), mainly from wholesale activities. In 9M/2015, sales reached VND 471 billion, 5.6 times higher than the same period in 2014.
- **Profit before tax during this period also increased.** EBT was VND 75 billion in 2013, VND 192 billion in 2014 (+156% yoy) and 9M/2015 49.5 billion (+200% yoy).

## **Notes:**

- **A portion of the profits derived from the irregular activities:** In 2014, the profit before tax was VND 192 billion, of which VND 50 billion from contract violations in Hai Hoa Project. In 2015, SJS is expected to reverse more than VND 67 billion provision from investments in Ha Long Cement.
- **The provision value for inventories is still quite high:** In 2014, Sudico made additional provision of over VND 70 billion for Hoa Hai project.
- **Divestment activities from non-core investments were not implemented strongly:** financial portfolio still has about 19 units, ~ book value of about VND 410 billion. The reason is Sudico can not sell at expected prices and a major shareholder of Sudico is State shareholder (representing 36.3%).

## **REAL ESTATE SECTOR OUTLOOK**

### **Real estate market is in a sustainable recovery cycle:**

- **Number of successful transactions increased, gradually shifting into the medium and high-end segment, inventory levels declined.** In 6M2015, around 14,000 successful transactions, in which transaction volume increased 2.5 times in Ha Noi and 2.8 times in HCM City compared to the same period in 2014. By the end of May 2015, inventories decreased 47.5% compared to 2013.
- **Price is stable at all segments;** particularly for projects with favorable position, prices increased about 5%.
- **The demand mainly is living demand and investment demand.** Speculation has also appeared but accounted for a small portion..
- **Credit for the real estate is primarily for home buyers, credit growth is also more stable.** Credit for real estate in 6M2015 increased by 11% yoy, actively supported for home buyers in real demand. Interest rates on home loans are about 7-8%/year in the early stage of disbursement and 10-12%/year at later stages.
- **Supporting from law.** 2013 Land Law, 2014 Housing Law, 2014 Real Estate Trading Law with stricter rules, notably the provisions on the guarantee of housing formed in the future, foreigners owning houses in Vietnam, allowing partial transfer project, ... helped real estate activities more active and healthy.
- **There are no signs of the real estate bubble yet.** The signs of bubble such as inventories soaring, sales speed falling fast, price and interest rate increasing,... have not appeared yet in the moment.

**In Hanoi, villa and adjacent house market began showing signs of warming since early 2015:**

- **Large supply of villas and adjacent houses:** As of Q3/2015, the total supply of about 30,400 units (1,200 units from primary supply and 29,200 units from secondary supply) from 114 projects (+1% qoq and +3% yoy). From Q4/2015 onwards, there will be about 80 villas and adjacent house projects in 17 districts of Hanoi, ~ about 8,600 ha provided.
- **Selling prices increased slightly by 1% in the completing infrastructures projects:** The projects completing infrastructures in Cau Giay, Tu Liem, Hoai Duc, Ha Dong, Hoang Mai, Tay Ho ... are selling at slightly higher prices. Some areas such as Gia Lam, Long Bien, Thach That, Me Linh, ... have average selling prices fell 1-2%. The average secondary price for villa is VND 48.7 million/m<sup>2</sup>, for the adjacent is VND 61 million/m<sup>2</sup>.
- **Demand for villas and adjacent houses rises for infrastructure completing projects, with reputable contractors.** Projects that was completed correctly to planning and have utilities like Aqua Bay Villas Project, Ecopark Urban Area, Gamuda Gardens Project, Vinhomes Riverside (Long Bien), ParkCity Project... constantly have hundreds of successful transactions in 2014- 2015. These projects may not have convenient positions as other regions, but with completed technical infrastructure that buyers can live immediately, the projects attracted strong buying for both living and sublet purposes.

**In Danang, land plot market is recovering gradually:**

- **Da Nang real estate market has great potential with important elements for the development of real estate:** Danang has synchronized planning with Da Nang International Airport, the center of entertainment Ba Na Hills, beautiful beaches like My Khe, Non Nuoc, My An, ... and near many Central heritage such as Hoi An, Ngu Hanh Son, ...
- **Demand for land in Danang increased** due to reasonable price, suitable for middle-income customers with living and investing demand. Housing Law 2014 allows foreigners to own real estate in Vietnam also expected to increase demand for real estate in Danang.
- **Land price in many areas increased from 30-40% compared to 2011, mainly with the urban area having good location, synchronized infrastructure plan** with schools, hospitals, shopping malls and associated services, reputable and potential contractors. A number of key projects of the city is expected to use also make land prices rise and more actively trading.

## SUDICO OUTLOOK

### SHORT-TERM OUTLOOK

**Nam An Khanh continues to be the key project of Sudico with revenues falling in 2016.** The speed consumption in Nam An Khanh continue to grow at positive rate. Sudico sold 100 villas in the first half of 2015, and is expected to sell additional 60 units in the last 2 months. Entire retail sales will be recorded in 2016 when Sudico finishes the rough and handovers villas to buyers. In late 2015, Sudico is also negotiating to transfer to secondary investors, including 3ha in area B to the Ministry of Planning and Investment, and small parts in area A to other partners. These contracts will generate revenue for Q4/2015 and first months of 2016.

**Other projects also begin to generate revenue from 2016.** Van La, Van Khe Project and Hoa Hai - Da Nang Project are expected to be sold from 2016. The



divestment activity from Sudico - SPM Housing Project may also bring money for Sudico.

**The ability to make additional provision for inventory is quite low.** Hoa Hai - Da Nang Project is a project with large provisions (total provision of VND 174 billion). The project is likely to be sell at good rate when Danang real estate market is warming, so the risk of additional provision is quite low. If sales activities here become positive, Sudico may reverse the provision made before.

**The debts have been extended and interest rate borrowing is reduced:** The debt due is negotiated to extend additional 1 and 2 years. Interest rate was also reduced from 16% to 11%. The pressure of principal and interest repayment therefore was mitigated.

#### **POTENTIAL DEVELOPMENT IN THE LONG TERM**

**Sudico has relatively large clean land fund.** Sudico owns more than 1,200 ha of cleared land in Hanoi and other provinces such as Da Nang, Quang Ninh, ..

**The projects are well located with convenient transportation or beautiful natural landscape.** Those projects' locations are quite favorable, located on main roads such as Thang Long Avenue, Quang Trung - Ha Dong, ... in the key planning area of the local, or in areas with beautiful natural landscapes such as Ha Long, Da Nang, ...

**Selling prices of Sudico's products are relatively competitive compared to peers.** Partly because Sudico made compensation, clearance and paid land use from many years ago, when there is no regulations governing land use prices closed to the market prices.

#### **INVESTMENT RISK**

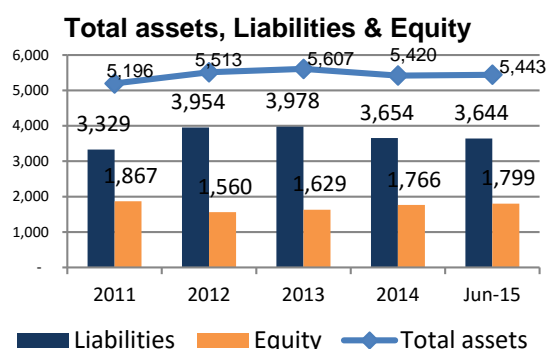
**The risk of liabilities:** Total liabilities consistently accounts for 2/3 of the total assets, while total value of cash and short-term liquid assets is relatively low. In case of bad business activities, the repayment capacity of the company will be affected.

**Risk of project progress:** projects of urban area, industrial park often take a long time to complete. During construction, the difficulty of licensing issues, ability to raise capital ... will make the company face risks of completing project on schedule. This risk will directly impact on revenue, profit and share price of the company.

**Competitive risk:** Currently, the supply of urban area, residential, resort, .. in Hanoi and other cities is plentiful and expected to continue to rise in the coming period, while demand for these products are not too large. Therefore, Sudico always faces competition, revenues and profits are affected as a result.

**Risk of input costs:** Input costs for Sudico mainly are compensation for site clearance and construction material prices. Fluctuations in the price of land clearance compensation, particularly tends to increases closed to market prices, or price fluctuations in raw materials such as cement, steel, sand, gravel ... will directly impact the profitability of the company.

## CORPORATE FINANCE



General information	2012	2013	2014	6M2015
Net Rev (bil đ)	51	631	1,226	211
% y-o-y	-64%	1,137%	94%	349%
Total assets (bil đ)	5,513	5,607	5,420	5,443
Liability (bil đ)	1,799	2,022	2,135	2,415
Charter capital (bil đ)	1,000	1,000	1,000	1,000
No. of shares (mil shares)	100	100	100	100
EAT (bil đ)	-305	71	156	34
% y-o-y			120%	113%
Basic EPS (đ/share)	-3057	708	1579	354
BVPS (đ/share)	15,597	16,288	17,659	17,993

Basic indicators	2012	2013	2014
<b>Capital structures</b>			
Debts/Equity	1.41	1.29	0.79
Total assets/Equity	3.53	3.44	3.07
<b>Asset structures</b>			
Current assets/ Total assets	56%	59%	59%
Long-lived assets/Total assets	44%	41%	41%
<b>Solvency</b>			
Current ratio	1.38	1.01	1.11
Quick ratio	0.22	0.15	0.18
<b>Efficiency (days)</b>			
Days' inventory	4,360	2,633	1,124
Days' receivables	1,894	169	97
<b>Profitability (%)</b>			
Gross margin	-291%	41%	27%
ROS	-601%	11%	11%
ROE	-20%	4 %	8%
ROA	-6%	1%	3%

(Source: BSC)

**Total assets and equity increased slightly over the years.** Particularly in 2012, equity decrease 16% due to negative EAT (VND -305 billion). Total assets in 2014 decreased 3% because liabilities decreased 8% (~ VND 294 billion).

**Asset structure:** Current assets accounted for high portion and slightly increased, accounting for about 59% Total assets as of June 2015. In which, inventories accounted for about 83% short-term assets (~ VND 2,700 billion).

**The total value of inventories and long-term work in progress is high, averaging VND 4,300 billion (~ 80% of total assets), with high provision value.** Two projects accounted for the highest proportion in is Nam An Khanh (~ VND 2,200 billion) and Hoa Hai - Danang (~ VND 1.100 billion). Provision value is mainly from Brick factory Project (VND 44 billion) and Hoa Hai - Da Nang Project (~ 174 billion). Days of inventories were high but have fallen sharply from 4,360 days in 2012 to 1,124 days in 2014.

**Capital structure: high debts, mainly is long-term debt due being extended several times.** Total liabilities are relatively high, fell slightly from 2014 until now, but remains 67% of total assets. Short-term liabilities accounted for about 80% of total liabilities, in which liabilities mainly are long-term loans come due. As of June 2015, long-term debts come due were VND 763 billion, short-term bonds was VND 16.5 trillion and short-term bank loans was VND 104 billion. Those debts were overdue and have renewed few times. As of Sept 2015, Sudico negotiated to reduce the interest rate from 16% to 10-11%/year and extended debt payment to 2016-2017. Long-term debt remaining was low, only account for about 20% of total liabilities.

**Low payment capability but tends to be improved.** Current ratio was not high but still greater than 1 and tent to be improved gradually from 1.01 in 2013 to 1.16 in Sept 2015. Quick ratio and cash ratio were relatively low, respectively 0.15 and 0.03 in 2013; however, there were signs of gradual increase to 0.2 and 0.08 respectively in June 2015.

**Positive collection ability:** The number of days' receivables significantly reduced from 1,894 days in 2012 to 169 days in 2013 and 97 days in 2014.

**The profitability indicators improved.** ROE and ROA increased positively to 8% and 3% respectively in 2014. ROS was same as in 2013 at 11%. Particularly, gross margin decreased from 41% in 2013 to 27%.



## 2015 EARNINGS FORECAST

## 2015 BUSINESS RESULTS FORECAST

We predicted POSITIVE business results for **SJS** in 2015:

CRITERIA	VALUE
<b>REVENUES</b>	<b>VND 955 billion (-22% yoy)</b> , including VND 918 billion from land transfer contracts to secondary investors at Nam An Khanh Project, VND 37 billion from other business activities such as services, consulting, ... In 9M2015, revenues reached VND 460 billion from the wholesale activities in Nam An Khanh Project. In the last 3 months, Sudico is expected to transfer in A Area of Nam An Khanh, recording about VND 458 billion.
<b>GROSS MARGIN</b>	<b>From sales ~35%</b> , increases slightly compare to 30% in 2014. 2015 revenue is recognized only from wholesales activities. Assuming gross margin 2015 is same as gross margin of wholesales in 9M2015 (~ 35%). In 2015 the wholesale price was VND 15.3 million/m2, increased slightly from VND 13.7 million/m2 in 2014, making profit margin slightly higher than in 2014. <b>From consulting, leasing, others ~ 20%</b> , equivalent to gross margin in recent years
<b>SELLING EXPENSE</b>	<b>VND 4.6 billion</b> . Selling expenses mainly arises from retail activities. In 6M2015, selling expenses was about VND 3.6 billion while selling 100 villas. SJS plans to sell in last 2 months, incurring selling costs of about VND 1 billion.
<b>GENERAL AND ADMINISTRATIVE EXPENSE</b>	<b>VND 74 billion (-50% yoy)</b> . General and administrative expenses in 6M2015 was VND 15.6 billion (-63% yoy) as a result of restructuring.
<b>EARNING BEFORE TAX</b>	<b>VND 270 billion (+41% yoy)</b> . In addition to profit from core operations, in 2015, SJS is expected to record VND 67.1 billion to EAT from the reversal of investment provisions in Ha Long Cement JSC after completion of transferring to Song Da Corporation.
<b>DEBTS</b>	<b>VND 300 billion</b> is expected to borrow to finance Van La - Van Khe Project.

Source: BSC forecast

## VALUATION AND RECOMMENDATION

**Net asset value method (NAV)** is used to value SJS's share. For real estate businesses like SJS, asset value of the company focused primarily in real estate projects. Real estate trading is mainly under cycle of real estate market and depends on each project; there is no long-term stable growth for the whole company. Therefore, using NAV valuation method would be more suitable than the discounted cash flow method such as FCFF, FCFE, DDM, ...

Weighted average cost of capital (WACC)	
Rm	11.75%
Rf	6.00%
beta	0.8
ke	10.60%
kd	11.00%
E/A	33.06%
D/A	66.94%
Tax rate	22%
<b>WACC</b>	<b>9.25%</b>

(Source: BSC collected)

The basic principle of this method is:

Enterprise value = Total assets (market value) - Total debt (market value)

For real estate companies, the calculation of market value of total assets primarily implemented by calculating the value of real estate projects.

**For Sudico:**

- Nam An Khanh Urban Area Project (Area A):** revaluation according to discounted cash flow method (DCF) because the project has specific business plans, price and COGS was determined.
- Hoa Hai - Da Nang Project:** revaluation according to market value method (MV) because determined market value of the project is quite difference from

the book value.

- **Other projects:** using book value (BV) because Sudico do not have specific business plan or we fail to determine the market value.

Whereby:

→ **Nam An Khanh Project - Area A:** Using the **DCF** method, assuming:

**Assumed proportion of sales:** based on current consumption rates and that market forecasts in the future will continue to stabilize. Area A is expected to be sold until 2018.

Remaining: 370,000 m2	2015	2016	2017	2018
<b>Wholesale</b>	16%	19%	11%	11%
<b>Retail</b>	11%	11%	11%	10%
<b>Total</b> 100%	27%	30%	22%	21%

(Source: BSC forecast)

**Assumed revenue recognition:**

- **Wholesale:** immediately recognized in the year incurred.
- **Retail:** recognized in the year after when they finished the construction and handover of houses to the buyers.

**Assumed price:** Prices of VND 15.3 million/m2 for wholesaling and VND 20 million/m2 for retailing, based on the most recent price in 9M2015. Wholesale prices have increased slightly, while the retail price is quite stable during the last 3 years. Selling prices are relatively cheap compared to the price of surrounding villas (average of VND 35-40 million/m2). Assumed 3% price increase for inflation from 2017.

**Assumed gross margin:** ~35% for wholesales and ~40% to retails. Wholesale margin is taken from the margin in 9M2015, of which revenues was only from wholesales. Retail margin is taken from margin in 2013, of which revenues 2013 was only from retails.

→ **Hoa Hai - Da Nang Project:** recorded at market value (MV)

Area (m2)	BV initial (bil đ)	Initial COGS (mil đ /m2)	Market prices (mil đ /m2)	Provision (bil dong)	Provision may be reversed (bil dong)	MV (bil đ)
120,000	1,108.5	9. 2	9	(174.7)	146.3	1080

(Source: BSC collected)

→ **Projects having no plans:** recorded at book value

(Unit: VND)

	Book Value	Revaluation	Differences	Method
Nam An Khanh	2,323,569,860,197	2,896,836,383,967	573,263,097,528	DCF
Hoa Hai	933,863,760,885	1,080,000,000,000	146,136,239,115	MV
Other inventories	358,113,603,877	358,113,603,877	-	BV
Other assets	1,827,275,405,226	1,827,275,405,226	-	BV
Total assets	5,442,822,630,185	6,162,221,966,827	719,399,336,643	
Total liabilities	3,643,528,923,656	3,643,528,923,656	-	
Minority interest	12,269,731,079	12,269,731,079	-	
Net asset value	1,787,023,975,450	2,506,423,312,092	719,399,336,643	
Shares outstanding (shares)	99,042,000	99,042,000	-	
NAV/share (VND)	18,043	25,307	7,264	

(Source: BSC forecast)

**We recommend to BUY SJS's share with expected price in the next 12 months is VND 25.307 per share (upside of 8%)** under NAV method. SJS is trading at P/E of 12.2x, relatively attractive compared to average P/E of the real estate companies with similar size of total assets such as NLG (15.9x), DIG (51.8x), KDH (12.9x). SJS owns more than 1,200 ha of cleared land, concentrated mainly in Hanoi and northern provinces. Absorption rate in Nam An Khanh project is quite positive, with revenue falling mainly in 2016.

## APPENDIX

BALANCE SHEET	2014 (31/12/2014)	2015F	2016F	2017F	2018F
<b>ASSET</b>					
<b>A. CURRENT ASSETS</b>	3,216,846,427,107	3,439,308,988,173	3,109,641,699,352	2,954,942,421,442	2,587,929,291,540
I. Cash & equivalents	143,378,027,914	181,007,561,909	124,587,330,554	234,443,362,914	238,961,405,538
II. Short-term financial investments	52,209,600,000	43,220,000,000	39,458,000,000	211,872,200,000	305,000,000,000
III. Short-term receivables	242,442,214,879	261,254,951,242	286,374,523,985	306,160,483,126	326,101,723,091
IV. Inventories	2,694,862,591,388	2,868,961,866,081	2,573,629,557,417	2,116,327,989,849	1,632,334,402,282
<b>B. Long-term assets</b>	2,202,980,566,808	2,203,563,331,531	2,491,087,892,657	2,312,161,622,673	2,301,076,529,807
I. Long-term receivables	34,971,263,535	34,971,263,535	34,971,263,535	34,971,263,535	34,971,263,535
II. Fixed assets	70,033,600,595	63,398,966,057	54,507,669,701	45,616,373,345	36,725,076,989
III. Real estate investments	3,279,017,794	3,106,437,910	2,933,858,026	2,761,278,142	2,588,698,258
IV. Long-term WIP	1,717,308,322,974	1,729,301,673,224	2,029,301,673,224	2,029,301,673,224	2,029,301,673,224
V. Long-term financial investments	366,323,186,122	359,495,433,617	357,295,433,617	187,095,433,617	184,895,433,617
VI. Others	11,065,175,788	13,289,557,188	12,077,994,554	12,415,600,810	12,594,384,184
<b>TOTAL ASSETS</b>	5,419,826,993,915	5,642,872,319,704	5,600,729,592,009	5,267,104,044,115	4,889,005,821,347
<b>LIABILITIES</b>					
<b>A. Liabilities</b>	3,653,905,916,589	3,637,304,544,463	3,298,445,547,846	2,794,240,105,001	2,245,135,834,077
I. Short-term liabilities	2,893,241,922,834	2,837,486,434,193	2,312,518,996,779	1,922,318,587,749	1,487,162,613,334
II. Long-term liabilities	760,663,993,755	799,818,110,270	985,926,551,067	871,921,517,252	757,973,220,743
<b>B. Equity</b>	1,765,921,077,326	2,005,567,775,242	2,302,284,044,163	2,472,863,939,114	2,643,869,987,270
I. Equity	1,752,006,122,712	1,994,573,190,095	2,289,890,953,883	2,460,978,136,945	2,632,112,161,405
II. Budget sources and other funds	-	-	-	-	-
III. Minority interest	13,914,954,614	10,994,585,147	12,393,090,280	11,885,802,169	11,757,825,865
<b>TOTAL LIABILITIES</b>	5,419,826,993,915	5,642,872,319,704	5,600,729,592,009	5,267,104,044,115	4,889,005,821,347

(Source: BSC forecast)



INCOME STATEMENT	2014 (31/12/2014)	2015F	2016F	2017F	2018F
1. Revenues	1,226,571,930,946	954,741,829,352	1,875,302,577,016	1,467,101,829,352	1,510,012,629,352
2. Deductible items	(510,167,988)	(300,000,000)	(300,000,000)	(300,000,000)	(300,000,000)
3. Net revenues	1,226,061,762,958	954,441,829,352	1,875,002,577,016	1,466,801,829,352	1,509,712,629,352
4. COGS	(892,866,767,001)	(626,518,534,024)	(1,184,710,440,12)	(919,379,954,140)	(946,071,974,140)
5. Gross profit	333,194,995,957	327,923,295,328	690,292,136,894	547,421,875,212	563,640,655,212
6. Financial Revenues	12,170,477,828	3,330,000,000	8,107,059,999	5,890,263,902	5,860,299,648
7. Financial Costs	(32,932,512,346)	(33,676,666,667)	(37,975,555,556)	(32,975,740,741)	(35,818,487,654)
- Interest expense	(12,784,123,833)	(5,260,000,000)	(9,030,000,000)	(7,145,000,000)	(8,087,500,000)
8. Profit/(loss) from joint ventures	(21,859,992,487)	(15,465,460,121)	(15,099,343,880)	(17,474,932,163)	(16,013,245,388)
9. Selling expenses	(1,121,110,538)	(4,649,184,209)	(4,768,394,060)	(4,768,394,060)	(4,768,394,060)
10. General and administrative expenses	(148,700,227,960)	(74,350,113,980)	(85,502,631,077)	(98,328,025,739)	(113,077,229,599)
11. Profit/(loss) from operating activities	140,751,630,454	203,111,870,352	555,053,272,321	399,765,046,412	399,823,598,159
12. Other income	55,626,360,829	67,100,000,000	-	-	-
13. Other expense	(4,743,823,688)	(407,160,706)	-	-	-
14. Other profit	50,882,537,141	66,692,839,294	-	-	-
15. EBT	191,634,167,595	269,804,709,646	555,053,272,321	399,765,046,412	399,823,598,159
16. Income tax expense	(53,150,429,670)	(63,530,640,933)	(111,010,654,464)	(79,953,009,282)	(79,964,719,632)
17. EAT	138,483,737,925	206,274,068,714	444,042,617,857	319,812,037,130	319,858,878,527
18. Minority interest	(17,911,345,214)	(1,275,145,932)	(1,275,145,932)	(1,275,145,932)	(1,275,145,932)
19. Parent's interest	156,395,083,139	207,549,214,646	445,317,763,789	321,087,183,062	321,134,024,459
20. EPS (VND/share)	1,579	2,096	4,496	3,242	3,242

(Source: BSC forecast)

**Valuation Methodology:** The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
<b>STRONG BUY</b>	If the target price is 20% higher than the market price
<b>BUY</b>	If the target price is 5% to 20% higher than the market price
<b>HOLD</b>	If the target price is 5% higher or lower than the market price
<b>SELL</b>	If the target price is more than 5% lower than the market price
<b>NOT RATED</b>	The investment rating and target price have been removed pursuant to BSC policy when BSC is acting in an advisory capacity, in a merger or strategic transaction involving this company, and in case BSC do not have enough material to perform valuation.

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