

FEBRUARY

03

TUESDAY

**ADVISORY DIARY**

- **TTF – Off with financial burden**
- **Banking stocks again!**

**TTF – Off with financial burden**

Recently, TTF's trading liquidity has increased much more than previous year, with the average trading volume in Jan 2015 up by 50% compared to the average of Dec 2014. Currently, TTF's price was increased by 20% compared to the early year of 2015 and ran against the other peer stocks. Yesterday, TTF held the extraordinary general meeting to share some restructuring information and the 2014 business result.

In recent years, high interest expense "eroded" TTF's profit, and negative working cash flow due to 2 following reasons: (1) High interest rate with this expense of over VND200 bn/year in period 2011 – 2013, accounting for 13.3% of FY 2013 revenue and 14.1% of Q32014; and (2) ineffective working capital management (especially inventory), in which inventory turnover was just around 0.55 in 2013.

In 2014, TTF's financial structure has been restructured:

1. Negotiate with some banks to sell its debts to DATC (i.e. VND543 bn in VCB and VND354 bn in MB), which helps to release TTF's suspended inventory (primarily teak wood), warehouse and factory.
2. Issue 4 million shares to write off its outstanding debt at VIB.
3. Negotiate with Kien Long bank to reschedule loan term from short- to long-term.

The aforementioned solutions have brought initial success with the firm's PAT returning to positive figure of VND110 billion after incurring losses in previous 2 years whereby decreasing interest expense played a big role.

The company's financial restructuring is expected to carry on in 2015. At the latest unusual AGM, the majority of TTF's shareholders have agreed to the company proposal of 40 million shares additional shares issue worth about VND400-600 billion to fund the on-going businesses. TTF's chairman also revealed that Japanese institutional investors are on standby to purchase all remaining share number if the issue turns undersubscribed. With the additional fund, We expect TTF's operating performance to improve and facilitating the inventory reduction process.

However, we remain relatively cautious on the company's ability to return to its previous gold-time even successfully completing the current restructure plan.

1. A large financial liability remains a concern, which could be inflated by interest payments adding to original loan amount: basically this process is to transfer all debts to a single creditor while the ability to generate cash flow from the company's business operation is still a doubt; Another risk stems from the continuing shares issues which would risk the dilution of EPS with EPS 2014 about VND759, equivalently to P/E of 15.3 above average industry level.
2. TTF is also facing the risk of falling inventory market price. Despite having a large inventory amount accumulated over 3 years, the company has insufficiently recorded a provision for decreasing inventory price of only 0.5% (as reported 3Q/2014 figure). Hence, expansion plan in the middle product segment and increase domestic purchases (via several new showrooms) could be a way out to bring down a high inventory amount whose quality is fast deteriorating. We think that TTF would face a trade-off between

*"Banking stocks again!"*

reducing inventory amount and maintaining profit margin.

3. Another concern has been the stagnation state of TTF's main export markets including Europe (25%), Japan (15%). Apart from solving such financial issues, the company still has a lot to do in order to improve the quality of working capital asset as well as earnings result.

### **Banking stocks again!**

In 2015, bank stocks are constantly referred as a pillar to help the market overcome the technical and psychological barriers. Today, the topic is also the bank sector, but in a different color. In the 9 shares listed on two bounces, there were 5 shares closed at floor price and 3 shares closed with significant drop in price including VCB with floor price. The most notable information related to this group is probably about the Central Bank that bought the VNCB for 0 VND. According to some experts in the field of banking, VNCB may be seen as "technical bankruptcy". Some investors in the market remain concerned about the bank has received the pledge of shares from the VNCB shareholders. If the concern of investors is true, the debts, which are secured by VNCB shares, contain a risk because the value of the collateral is 0. Another resulting concern in banking stock's transactions is that this sector stocks are used as collateral in bank loan. Meanwhile, this bailout seem as an alert to weak banks as well as remove the "too big to fail" perception in the banking sector.

Although the market plummeted by nearly 13 points the liquidity still remained quite high, with trading value of over VND 2,000 billion. However, this amount was concentrated mostly when the market dropped below the 560 point. Opposite to the bottom-fishing actions of domestic investors, foreign investors aggressively net-sold over VND184 billion. In particular, the leading banking stock, VCB has been net bought of VND1.2 billion.

With today psychological shock from bank stocks and the investor's apprehension after Circular 36 took effect, these market-leading stocks are unlikely to recover soon.

**Tuan Huynh**

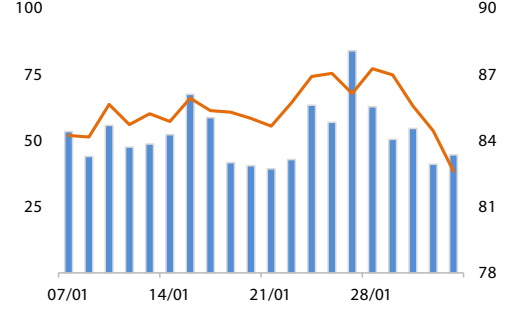
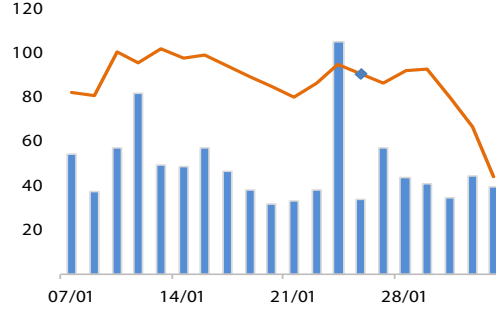
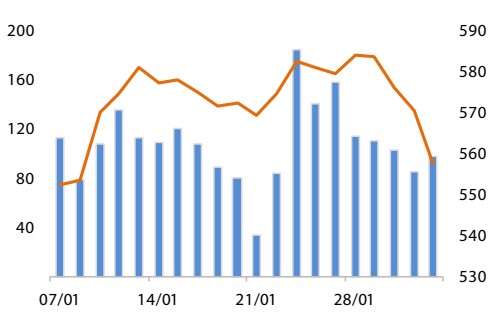
+ 84 8 6299 2006 | Ext: 326

[Tuan.hm@vdsc.com.vn](mailto:Tuan.hm@vdsc.com.vn)

**VNINDEX -2.26% 557.47**

**VN30 -2.17% 585.47**

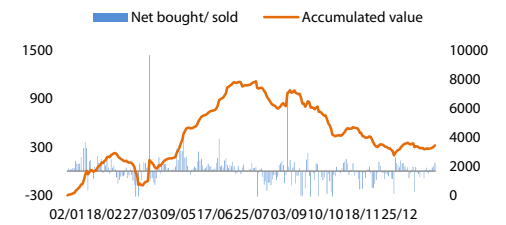
**HNXINDEX -2.20% 82.56**



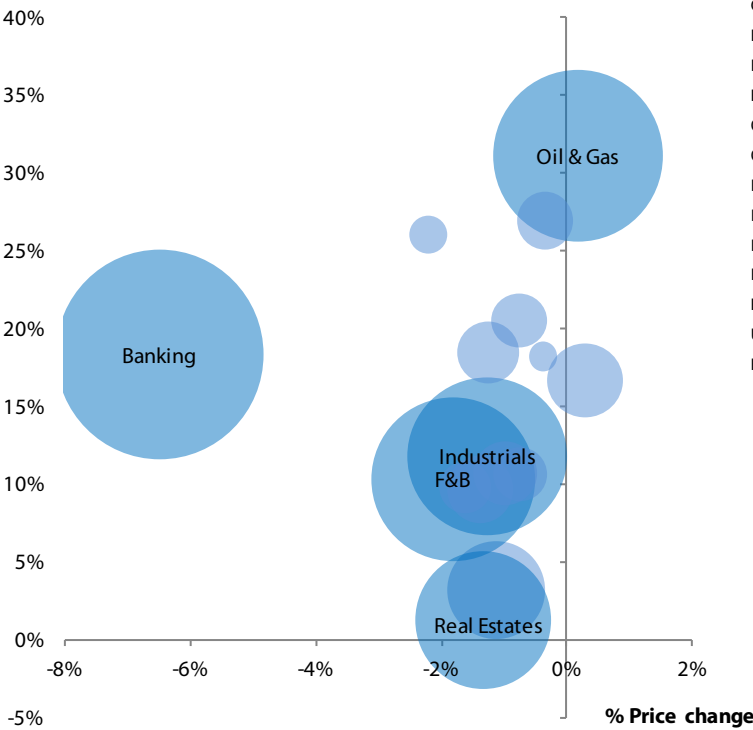
**Industry Movement**

Industry	% change
Technologies	-0.8%
Industrials	-1.3%
Constructions	-1.1%
Oil & Gas	0.2%
Distribution	-0.4%
F&B	-1.8%
Household Goods	-1.6%
Cars & Parts	-2.2%
Chemicals	-1.2%
Resources	-0.3%
Insurances	0.3%
Real Estates	-1.3%
Financials	-1.4%
Banking	-6.5%
Utilities	-1.0%
Healthcare	-0.7%

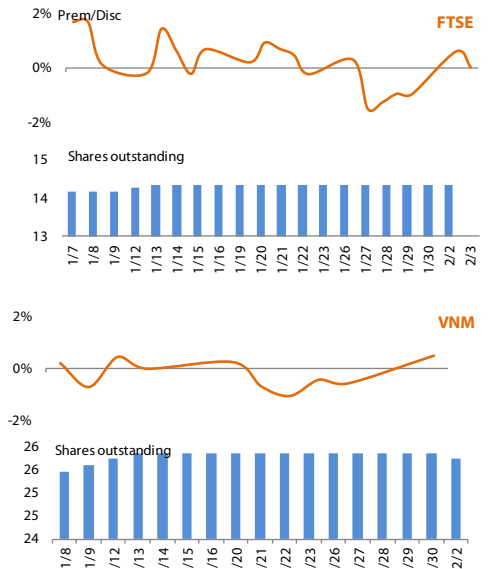
**Foreign Investors Trading**



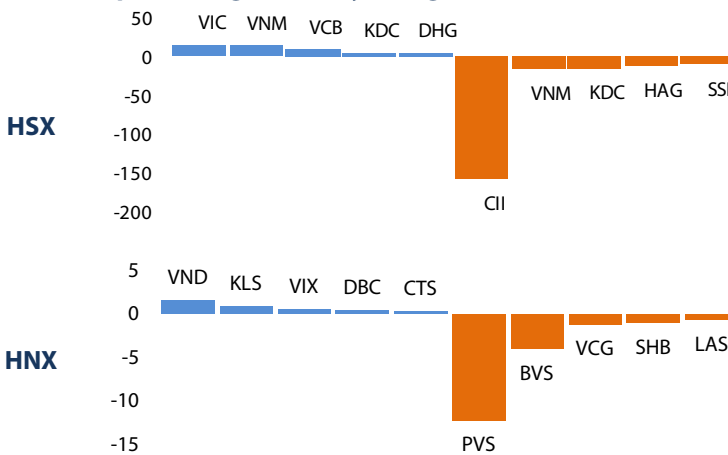
**Industry ROE**



**ETF**



**Top net bought/sold by foreigners (VND bn)**



**Top Active**

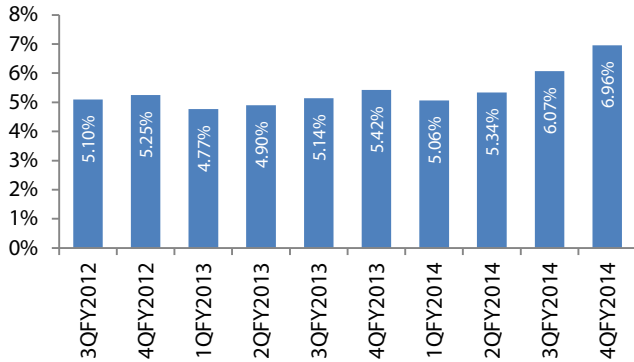
Ticker	Price	Volume	% price change
FLC	10.1	7.09	-1.0%
OGC	5.5	5.75	-3.5%
MBB	13.3	4.79	-5.0%
BID	16.0	4.76	-7.0%
DLG	10.5	4.17	-6.2%

Ticker	Price	Volume	% price change
KLF	10.0	7.69	0.0%
SHB	8.3	6.80	-5.7%
SCR	7.6	3.01	-1.3%
PVX	4.3	2.10	-2.3%
PVS	27.7	1.92	-0.7%

**MACRO WATCH**

**Graph 1: GDP Growth**



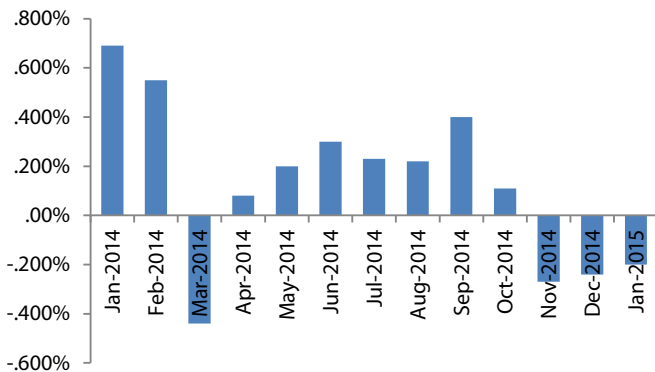
Sources: GSO. Rongviet Securities database  
(\* ) Comparision price in 1994

**Graph 2: IIP**



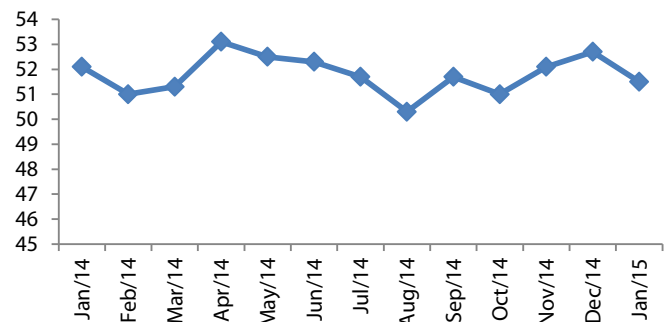
Sources: GSO. Rongviet Securities database

**Graph 3: Monthly CPI**



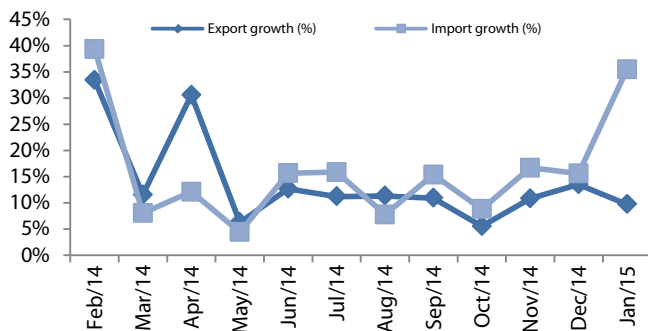
Sources: GSO. Rongviet Securities database

**Graph 4: HSBC - PMI**



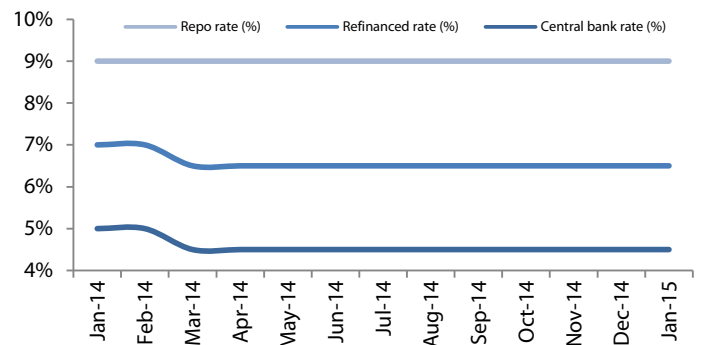
Sources: GSO. Rongviet Securities database

**Graph 5: Trade Growth**



Sources: GSO. Rongviet Securities database

**Graph 6: Interest**



Sources: SBV. Rongviet Securities database

**RONG VIET NEWS**

COMPANY REPORTS	Issued Date	Recommend	Target Price
PAC-Opportunities along with challenges	Jan 14 <sup>th</sup> , 2015	Accumulate – Intermediate term	27,500
HMH - Positive outlook from various supporting factors	Jan 06 <sup>th</sup> , 2015	Accumulate – Long term	33,800
DPM - Tail wind from crude oil	Dec 26 <sup>th</sup> , 2014	Buy – Intermediate term	36,100
VNM - 2014 - At the pit stop	Dec 19 <sup>th</sup> , 2014	Accumulate – Long term	110,000
PCT – Restructuring	Dec 11 <sup>th</sup> , 2014	Monitor	

Please find more information at <http://vdsc.com.vn/tabid/149/language/vi-VN/default.aspx>

**FUND CERTIFICATION INFORMATION**

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	27/01/2015	0%-0.75%	0%-2.5%	11,583	11,454	1.13%
VEOF	27/01/2015	0%-0.75%	0%-2.5%	9,627	9,567	0.63%
VF1	30/01/2015	0.2% - 1%	0.5%-1.5%	21,515	21,452	0.29%
VF4	28/01/2015	0.2% - 1%	0%-1.5%	9,337	9,218	1.29%
VFA	30/01/2015	0.2% - 1%	0%-1.5%	7,415	7,371	0.58%
VFB	30/01/2015	0.3% - 0.6%	0%-1%	12,015	11,912	0.86%
ENF	23/01/2015	0% - 3%	0%	10,481	10,790	-2.86%
MBVF	22/01/2015	1%	0%-1%	11,115	11,176	-0.54%
MBBF	21/01/2015	0%-0.5%	0%-1%	11,880	11,921	-0.34%

**ANALYSTS**
**Truc Doan – Head of Research**

+ 84 8 6299 2006 | Ext: 355

[truc.dtt@vdsc.com.vn](mailto:truc.dtt@vdsc.com.vn)

**Hoang Nguyen**

+ 84 8 6299 2006 | Ext: 328

[Hoang.nh@vdsc.com.vn](mailto:Hoang.nh@vdsc.com.vn)

**Lam Nguyen**

+ 84 8 6299 2006 | Ext: 323

[lam.ntp@vdsc.com.vn](mailto:lam.ntp@vdsc.com.vn)

**Tuan Huynh**

+ 84 8 6299 2006 | Ext: 326

[Tuan.hm@vdsc.com.vn](mailto:Tuan.hm@vdsc.com.vn)

**Ha My Tran**

+ 84 8 6299 2006 | Ext: 319

[my.tth@vdsc.com.vn](mailto:my.tth@vdsc.com.vn)

**Tai Nguyen**

+ 84 8 6299 2006 | Ext: 319

[tai.ntp@vdsc.com.vn](mailto:tai.ntp@vdsc.com.vn)

**Diem My Tran**

+ 84 8 6299 2006 | Ext: 321

[my.ttd@vdsc.com.vn](mailto:my.ttd@vdsc.com.vn)

**Van Binh**

+ 84 8 6299 2006 | Ext: 324

[Van.btt@vdsc.com.vn](mailto:Van.btt@vdsc.com.vn)

**Trien Le**

+ 84 8 6299 2006 | Ext: 325

[trien.lh@vdsc.com.vn](mailto:trien.lh@vdsc.com.vn)

**Tam Bui**

+ 84 8 6299 2006 | Ext: 324

[tam.bt@vdsc.com.vn](mailto:tam.bt@vdsc.com.vn)

**Huong Pham**

+ 84 8 6299 2006 | Ext: 323

[huong.pt@vdsc.com.vn](mailto:huong.pt@vdsc.com.vn)

**Nam Huynh**

+ 84 8 6299 2006 | Ext: 321

[Nam.hk@vdsc.com.vn](mailto:Nam.hk@vdsc.com.vn)

### HỘI SỞ TẠI TP.HCM

Tầng 1-2-3-4, tòa nhà Viet Dragon  
141 Nguyễn Du, P.Bến Thành, Q.1, TP.HCM

- T +84 8 6299 2006
- F +84 8 6291 7986
- E info@vdsc.com.vn
- W www.vdsc.com.vn

### CHI NHÁNH HÀ NỘI

2C Thái Phiên, Q.Hai Bà Trưng, Hà Nội

- T +84 4 6288 2006
- F +84 4 6288 2008
- E info@vdsc.com.vn
- W www.vdsc.com.vn

### CHI NHÁNH NHA TRANG

50 Bis Yersin, TP.Nha Trang, Khánh Hòa

- T +84 058 3820 006
- F +84 058 3820 008
- E info@vdsc.com.vn
- W www.vdsc.com.vn

### CHI NHÁNH CẦN THƠ

08 Phan Đình Phùng, Q.Ninh Kiều, TP.Cần Thơ

- T +84 0710 381 7578
- F +84 0710 381 7789
- E info@vdsc.com.vn
- W www.vdsc.com.vn



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