



REPORT

2018 ANNUAL GENERAL MEETING

Subject: 2019 Business Plan

A. VIETNAM STOCK MARKET 2019

- Vietnam stock market witnessed high volatility and posted loss in 2018, which were primarily due to external factors such as the trade dispute between the U.S. and China and the interest rate hike of the U.S. Federal Reserve (the Fed). However, Vietnam stock market delivered good growths in market size (+10.6% y-o-y) and liquidity (+29.0%), which are two important aspects of the market. In addition, the listed companies continued to post impressive business performance with an average net profit growth of 20%. The profit growth, along with lower market prices, made the valuation of the stock market -16.2 P/E at the end of 2018 - more attractive to investors.
- In 2019, Vietnam economy is expected to maintain its high- and- stable growth trajectory. The Government particularly set a GDP growth target of 6.6% to 6.8% and an inflation target of below 4% for 2019. In addition to its strong fundamentals, the long-term growth of Vietnam economy will also benefit from the free trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which came into effect in November 2018 and the Vietnam-EU FTA, which is under negotiation. A stable economic growth is the prerequisite factor for the listed companies and the stock market to grow in the long run.
- The stock market in 2019 and in the long term will also benefit from the effort of the Government and the policy makers in providing more investment opportunities and products to investors. Particularly, the Government committed to accelerate the privatizations of state-owned enterprises in 2019. The privatizations and listings of the state-owned-enterprises will not only attract investor's attention and capital but also increase the stock market size. The derivatives market in 2019 will also welcome new products such as the Covered Warrant and Government Bond Futures Contract.

Besides the internal factors, Vietnam stock market will also be challenged by external factors as it was in 2018. After increasing interest rate by four times in 2018, the Fed has become more dovish in 2019. A stable interest rate in the U.S. is expected to reduce the capital outflow pressure that emerging markets including Vietnam have been facing over the last few years. Besides, the U.S. and China have been in talks at an attempt to reach mutual agreements on trades and intellectual properties. Investors will have to monitor this progress closely as an agreement between the nations will benefit global economy and stock markets, and vice versa. On the other hand, the global economy is forecasted to grow slower in 2019 as well as the following years. A lower global economic growth will create more challenges to the growth target of Vietnam, which has been benefiting from exports and foreign-direct-capital inflow. Also, global investors might reduce risky assets including stocks in their portfolios amid a stagnant global growth outlook.

- 2019 will present many challenges yet offer opportunities to HSC as well as other members in the stock market. HSC will focus on strengthening its operations, human resources, IT platform, and capital as well as expanding its service portfolio. With these solid competitive advantages, HSC is confident on maintaining its leading position in the capital markets in Vietnam.



B. KEY ASSUMPTIONS IN THE 2019 BUSINESS PLAN

Based on the above-mentioned market outlook, the Board of Management reached an assumption on stock market trading value and set a target market share for HSC's brokerage business as below.

The trading value and brokerage market share

The Stock Market

Stock brokerage market share	Plan 2019	FY2018	Change
Average trading value (VND million/day)	6,500,000	6,535,000	-1%
Total stock brokerage market share	12.3%	11.4%	
Market share by Clients			
HSC's Retail Client / Local Investors	10.8%	9.7%	
HSC's Institutional Client / Foreign Investors	25.0%	23.1%	

The average trading value is expected to be the same as in 2018. This assumption is considered reasonable on the back of the challenges and opportunities facing the stock market in this year.

To generate higher revenue in the expected no-growth market, HSC targets to increase its brokerage market share to 12.3% in 2019. In detail, HSC expects to achieve 10.8% market share in the local-investor segment and 25% market share in the foreign-investor segment. These are challenging targets given the increased competition in the securities brokerage market as foreign securities companies penetrating to the market.

The Derivatives Market

In 2019, HSC believes that the derivatives market will maintain the growth momentum and post higher trading volume, especially when the new products are launched. On the other hand, the number of members in the derivatives markets will also increase and as in last year, some companies will continue to pursue the unsustainable strategy, reducing or exempting trading fee to attract clients.

Derivatives brokerage	Plan 2019	FY2018	Change
Average daily number of executed contracts	120,000	78,791	52%
HSC's derivatives brokerage market share	20.0%	22.6%	

a. Margin loans

Margin loans	Plan 2019	FY2018	Change
HSC's average margin loan balance (VND million)	4,000,000	3,932,842	2%

The average margin loan balance in 2019 is expected to be VND4,000 billion on the back of the assumptions on the size and liquidity of the stock market in 2019.

b. Interest expense

Items	Plan 2019	FY2018
Average bank deposit rate (% pa)	5.5%	5.7%
Average borrowings rate (% pa)	8.2%	8.0%

C. HSC'S BUSINESS PLAN IN 2019

BUSINESS PERFORMANCE	Plan 2019	FY2018	% Change
Income statement (VND million)			
Revenue	1,666,107	1,702,011(*)	-2%
Operating expenses	814,716	859,927(*)	-5%
Profit before tax	851,391	842,186	1%
Profit after tax	681,113	675,480	1%
Balance sheet (VND million)			
Total assets	5,600,944	5,256,305 (**)	7%
Total equity	3,873,960	3,060,536 (**)	27%
Financial indicators			
Return on average asset (ROAA)	12.2%	11.3%	
Return on average equity (ROAE)	17.6%	23.1%	
Per share financial indicators			
Outstanding share	309,040,179	129,554,168	139%
Earnings per share (EPS) – VND	2,450	5,214	-53%
Book value per share – VND	12,535	23,624	-47%

(*) In accordance with the accounting policies of securities companies, incomes from proprietary trading activities (when selling prices are higher than costs of securities disposed) are recorded as revenue and losses of the trading activities (when selling prices are lower than costs of securities disposed) are recorded as operating expenses in the income statement. Therefore, the effective performance of the proprietary trading activities should be measured as the net of revenue and operating expenses of the activities. In the 2018 financial statements, there was a VND650 billion loss of the proprietary trading activity. Therefore, for the purpose of comparison, revenue and operating expenses in 2018 were restated by reducing the losses of the proprietary trading activities of VND650 billion.

(**) The number in 2018 was as of the end year end while the number in 2019 is the average number.

In 2019, HSC targets to achieve a total revenue of VND1,666 billion. The target revenue is slightly below the 2018 performance as HSC sets a prudent profit guidance for the proprietary trading activity in 2019; the stock investment portfolio might not generate the same favorable return as it did in last year. The target revenues of other business segments are expected to be the same as those in 2018.

HSC budgets a total expense of VND815 billion in 2019. The total budgeted expense is 5% lower than the number in 2018 mainly due to less interest expense. HSC will reduce bank loan after completing the share issuance plans in the second quarter of 2019.

The net profit after tax in 2019 is VND681 billion, a slight increase y-o-y. The return on average equity ratio (ROAE) in 2019 is estimated to be 17.6%. The number of the outstanding shares will double after the share issuance plans are completed; therefore, in the short-term, the ROAE will be lower than that in 2018.

The 2019 plan is presented by the key businesses and is compared with the 2018 performance as below:

I. REVENUE

REVENUE (VND million)	Plan 2019	FY2018	% Change
1. Brokerage fee	818,697	758,849	8%
2. Income from loans	520,000	523,064	-1%
3. Gains from proprietary investments	209,760	278,344	-25%
4. Financial advisory services	105,000	119,217	-12%
5. Other revenue	12,650	22,536	-44%
Total	1,666,107	1,702,011	-2%
% Total revenue			
Brokerage fee	49%	45%	
Income from loans	31%	31%	
Gains from proprietary investments	13%	16%	
Financial advisory services	6%	7%	
Other revenue	1%	1%	

In the light of the assumptions and targets presented above, the brokerage, margin lending, and proprietary trading businesses are expected to remain the key revenue drivers, contributing 49%, 31% and 13% respectively to the total revenue in 2019. The rest will be contributed by the corporate finance business.

1. Brokerage fee

Brokerage fee (VND million)	Plan 2019	FY2018	% Change
<u>Stock brokerage</u>			
Retail clients	495,207	409,766	21%
Institutional clients	241,679	272,893	-11%
<u>Derivatives brokerage</u>			
Retail clients	81,812	76,190	7%
Total brokerage fee	818,697	758,849	8%

Revenue from brokerage fee in 2019 is expected to increase by 8% y-o-y based on the average trading value assumption and HSC's target market share in 2019.

Stock brokerage

The major assumptions on the revenue of the stock brokerage fee in 2019 are presented below:

Stock brokerage (VND million)	Plan 2019	FY2018	% Change
Average trading value (VND million/day)	6,500,000	6,535,000	-1%
Total market trading value (VND million)	1,631,500,000	1,633,750,000	0%
<u>In which:</u>			
Local clients	1,174,680,000	1,110,659,518	6%
Foreign clients	456,820,000	523,090,482	-13%
% Total foreign market	14.0%	16.0%	
Stock brokerage market share			
HSC's Retail client / Local investors	10.8%	9.7%	
HSC's Institutional client / Foreign investors	25.0%	23.1%	
Revenue from brokerage fees			
Revenue from retail client (VND million)	495,207	409,766	21%
Revenue from institutional client (VND million)	241,679	272,893	-11%

After expanding the transaction office in 2018, the key focuses of the retail clients brokerage business in 2019 are enhancing client service quality and diversifying services. Following this strategy, the retail clients brokerage business is confident on its ability to boost the revenue per existing client and to attract more clients and accordingly increase total revenue as well as market share in 2019. Particularly, the retail client brokerage business expects to capture 10.8% of the total trading value of local private clients in 2019.

The institutional client brokerage business targets to achieve a 25% share in the total trading value of foreign investors in 2019. The target is set based on the assumption that the trading value of foreign investors accounts for 14% of the total trading value of the market, a decrease over the 16% in 2018. The target revenue from institutional client brokerage fee in 2019 is lower than that in 2018 as the total trading value of HSC's foreign clients and the successful brokerage fee are expected to be lower.

Derivatives brokerage

Based on the performance in 2018 and the 2019 outlook of the derivatives market, the expected trading value of the market and HSC's market share in 2019 are presented below:

Derivatives brokerage (VND million)	Plan 2019	FY2018	% Change
Average daily number of executed contracts	120,000	78,791	52%
HSC's market share	20.0%	22.6%	
Revenue from derivatives brokerage fee	81,312	75,982	7%

HSC expects that the derivatives market will continue to post higher a higher number of executed contracts in 2019. However, HSC's market share and brokerage fee revenue are expected to reduce in the short-term due to the on-going competition on fee from other securities companies.

2. Income from loans

Income from loans (VND million)	Plan 2019	FY2018	% Change
Margin loans balance	4,000,000	3,932,842	2%
Revenue from margin loans	520,000	523,064	-1%

The target average margin loan balance in 2019 is VND4,000 billion, which is flat y-o-y and is built on the expected trading value of the stock market in this year.

3. Gains from proprietary investments

Gains from proprietary investment (VND million)	Plan 2019	FY2018	% Change
Listed equity	60,568	125,285	-52%
ETFs	10,000	4,085	145%
Derivatives	60,000	49,270	22%
Deposits income	69,510	91,251	-24%
Bond	4,682	8,453	-45%
Covered Warrant	5,000	-	n/a
Income from proprietary investments	209,760	278,344	-25%

The proprietary investment activity in 2019 expects to post a profit of VND210 billion, a 25% decrease y-o-y as HSC set a prudent target return on the equity investment portfolio. This target is aligned with HSC's view about the stock market outlook in 2019 and the prudent investment approach the Company has been pursuing.

In addition to the expected profit of the existing portfolios, revenue in 2019 will also be contributed by the covered warrant portfolio as the derivatives product is scheduled to be available in the third quarter of 2019.

4. Financial advisory services

Financial advisory services (VND million)	Plan 2019	FY2018	% Change
Advisory fees	101,000	117,196	-14%
Other services	4,000	2,020	98%
Total	105,000	119,217	-12%

Financial advisory services expect to generate VND105 billion of revenue in 2019, a 12% decrease y-o-y. The revenue will still be contributed by the capital raising advisory service, the initial public offering and listing advisory services, and other client support services.

As in 2018, revenue of financial advisory services in 2019 will primarily come from the M&A and other advisory transactions in the consumer goods, real estate, consumer electronics, and pharmaceutical industries. These industries are considered highly potential for the advisory business on the back of several reasons including the size of the industries, the number of companies in the industries, the attention of foreign investors, and the state-owned company privatization plans of the Government in 2019.

In addition to the services above, in 2019, the financial advisory services will further develop its Investor Relation service, in which HSC helps listed companies strengthen their investor relation activity. The service will not only generate revenue but also be beneficial to the brokerage business of HSC both in terms of client and transaction.

5. Other revenue

Other revenue in 2019 is estimated at VND12.6 billion and will be contributed by other services that HSC provides to its clients including the securities depository service, securities transfer service, shareholder management service, stock distribution service and client account management service.

In the third quarter of 2018, HSC introduced a new service, E-Broking, which is an online trading channel and is available for trading activities in both the stock market and the derivatives market. Using E-Broking, HSC's clients can open trading accounts, participate in investment and trading training courses, and access to HSC's investment advisory service. As all these services are provided online, HSC's clients will not have to the transaction offices to execute orders.

Online trading is considered a potential business in the current technological era. The online trading has become the first choice of investors in other stock markets around the world. Therefore, HSC's online brokerage division is focusing on developing this service and offering it to the existing clients as well as prospective clients in the future.

II. OPERATING EXPENSES IN 2019

Operating expenses (VND million)	Plan 2019	FY2018	% Change
Normal operating expenses	612,101	547,506	12%
Brokerage expenses	134,714	158,121	-15%
Interest expenses	64,033	164,358	-61%
General provision/ (reversal) for margin loans	3,869	(10,058)	n/a
Total operating expenses	814,716	859,927	-5%
% Total expenses			
Normal operating expenses	75%	64%	
Brokerage expenses	17%	18%	
Interest expenses	8%	19%	
Provision/ reversal of general provision for margin loans	0%	-1%	
Total	100%	100%	

The total operating expenses in 2019 are expected at VND815 billion, a 5% y-o-y decrease. The normal operating expenses, the brokerage expenses, and the interest expense will remain the major items.

1. The normal operating expenses will account for approximately 75% of the total budgeted operating expenses in 2019 and include salary and employee-related expenses, office leasing expense, and information technology expenses.
 - a. The salary and employee-related expenses are expected to increase by 8% y-o-y as the expenses of the senior managers who joined HSC in 2018 will incur on a full-year basis in 2019. Besides, the salary and employee-related expenses in 2019 will also increase following the expected expansion of businesses and departments such as the Private Client Brokerage Department, the Institutional Client Department, and other back-office departments.
 - b. The office leasing expense is estimated to increase by 42% y-o-y as the rent for the additional office spaces in 2018 will incur on a full-year basis in 2019.
 - c. The expenses for IT are expected to increase by 20% y-o-y as HSC will continue to upgrade its IT platform, which is critical to the operations of securities companies in general and HSC in specific.
2. The brokerage expenses primarily include the expenses payable to the stock exchanges and to external brokers. The brokerage expenses in 2019 are expected to reduce by 15% y-o-y as the expenses payable to the external brokers are estimated to decrease by 30% y-o-y due to lower trading value and fee competition. The brokerage fee payable to the stock exchanges is estimated to increase by 8% y-o-y following the expected increase in trading value via HSC in 2019.
3. The interest expense is expected to decrease significantly in 2019 as HSC will reduce its bank loan balance and use the proceeds from the share issuances in the second quarter of 2019 to finance for its operations.
4. General provision for margin loans: This general provision is made by applying a ratio of 0.75% on the expected margin loan balance of VND4,000 billion at the end of 2019.



III. 2019 PROJECTED BALANCE SHEET

Balance sheet (VND million)	(%)	Average Balance 2019	(%)	Average Balance 2018	% Change
A. CURRENT ASSETS & SHORT-TERM INVESTMENT		5,393,944		5,489,433	-2%
I. Financial assets	95%	5,321,464	95%	5,416,953	-2%
1. Cash		107,858		471,551	-77%
2. Financial assets	14%	767,048	10%	566,061	36%
3. Lendings	71%	4,000,000	69%	3,932,783	2%
4. Other receivables		446,557		446,557	0%
II. Other current assets		72,481		72,481	0%
B. FIXED ASSETS & LONG-TERM INVESTMENT	4%	207,000	3%	189,519	9%
I. Fixed assets		62,000		45,000	38%
II. Construction in progress		5,000		4,611	8%
III. Other long-term assets		140,000		139,908	0%
TOTAL ASSETS		5,600,944		5,678,953	-1%
A. LIABILITIES		1,726,984		2,753,104	-37%
I. Short-term liabilities	31%	1,726,984	48%	2,753,104	-37%
1. Short-term borrowings		790,000		1,112,462	-29%
2. HSC's bond		-		858,781	-100%
3. Other liabilities		936,984		781,861	20%
B. OWNER'S EQUITY	69%	3,873,960	52%	2,925,849	32%
I. Owner's equity		3,873,960		2,925,849	32%
TOTAL LIABILITIES AND OWNER'S EQUITY		5,600,944		5,678,953	-1%

The total assets of HSC in 2019 will continue to be allocated to the margin lendings and the financial assets; the two items collectively account for approximately 85% of HSC's estimated total assets in 2019. The short-term bank loan and HSC's bond will reduce significantly as these sources of finance will be replaced by the proceeds from the share issuances in the second quarter of 2019.

The share issuances in 2019 will not only help HSC further strengthen its financial capability but also enhance its competitive advantage in offering new services to its clients as well as pursuing businesses that require capital adequacy. On the other hand, the share issuance will also require HSC to deliver higher financial performance to ensure and enhance the return on capital for shareholders.

Above is the business plan of HSC in 2019 for the consideration and approval of the shareholders at the 2019 Annual General Meeting.



Chief Executive Officer
Johan Nyvene