

Corporate News Flash

15/11/2011

HODECO

NEWS:

HODECO announced yesterday to privately issue VND200 bn bonds with the option to buy house/land products funded by these bonds at a discount equivalent to 15% bond value. From 15th November 2011 to 15th January 2012, the 3-year non-secured bonds will be offered at par value of VND100 m, carrying a 15% fixed coupon in the first year and floating rate pegged on 12-month deposit rate of Vietcombank plus 1% margin in the remaining two year. Interests will be paid yearly in arrears. In addition, HODECO offers bondholders the privilege of buying its residential products in three projects funded by the bonds: the western of 3/2 Street, Thi Sach Apartment and Ngoc Tuoc II Hill, at a discount equivalent to 15% bond value. Bonds are not allowed to be redeemed before maturity except for options to use as settlement for HODECO's residential products purchase.

Lately, HODECO has released that it has got principal approval to develop a new resort project in Ward 11, Vung Tau City, with 7.5 hectare of development area. The company is supposed to conduct a feasibility study for the project.

OUR TAKES

- **Bond linked with privilege to buy property at discount, an emerging trend.** With continuing pressure on the commercial bank market, developers have increasingly looked at many types of bonds to fund future projects and refinance existing projects. HDC is the 2nd listed property developer, after Sacomreal that opens this type of bonds to the market.
- **Is the bond attractive?** Prima facie, we reckon that those bonds do not look so attractive (i) if we compare the 15% yield offered by HODECO's bonds to other project bonds issued recently (i.e. Sacomreal 17%), (ii) depositors can easily take 14% interest on deposit at a more flexible term (minimum one month term) at any banks, (iii) the market is well-aware of the reality that residential products are under immense pressure of being sold off under margin call from banks, thus a house price correction is largely expected. However, after taking into account the 15% discount of bond value on some of HDC's projects, the return is in fact much better. In addition, selling bonds with a par value of VND100m (instead of VND1bn as usually observed) is giving investors some more flexibility and could easily draw their attentions.
- **Insignificant impact in case of issuance failure.** We had an interview with management on the phone yesterday and gathered that the bond issuance is an option that HODECO tries to reduce its reliance on banks loans. However, in case of failure, the impact is expected to be insignificant since HODECO still has available committed credit lines from banks to fund its ongoing projects.
- **Maintain NEUTRAL.** We believe that it is too early to value the contribution of new project as it is still under the feasibility study stage. Our target price is unchanged at VND24,800 upon a 40% discount on our NAV estimates of VND41,300/share. However, the way to target price is quite hard due to the imminent SCIC's divestment that we have mentioned in our last issue.

HOLD	
Price	VND 16,100
Target price	VND 24,800

SHARE SUMMARY

Price	
52 week high	VND36,700
52 week low	VND 16,100
Average 3M volume	13,800
Stock data	
Issue shares	24,000,000
Par value	VND10,000
Market capitalisation	VND 376 bn
Foreign limit	49.00%
Foreign ownership	27.39%
State owned	11.58 %
<i>Source: SBS</i>	

Major Shareholder

SCIC	11.58%
Red River Holding	10.00%
BoD, BoM, BoC	14.55%
<i>Source: SBS</i>	

6M Share Price Performance (000')

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Disclaimers

Report tracking

Reports issued	Date	Recommendation	12M Target price	Market price at issuing date
Company Note	01/04/2011	UNRATED	N/A	VND29,500
Initiation of coverage	11/07/2011	BUY	VND26,800	VND19,600
Company Update	16/08/2011	BUY	VND24,800	VND16,800
Company Update	04/11/2011	HOLD	VND24,800	VND18,000

SBS Research Guide to Investment Ratings

Buy: Share price may exceed 15% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 15% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 15% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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