

# Factors Influencing the Intrinsic Value of SSI Stocks

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## Abstract

Based on current research on stock analysis and valuation in Vietnam, there are various gaps in research groups studying the analysis and selection of valuation methods that are most suitable for practical application in the domestic stock market, particularly with regard to SSI stocks. Using the Free Cash Flow to Equity (FCFE) and Dividend Discount Method (DDM) approaches, the author identifies the resources of SSI Company for the years 2024 to 2026. However, the intrinsic value of SSI stocks is currently not accurately priced due to both objective and subjective factors outlined in the empirical section. Therefore, the author proposes specific solutions for the company and the state.

**Keywords:** Intrinsic value of SSI stocks

## 1. Introduction

The Vietnamese stock market is experiencing a recovery and is achieving high growth rates compared to other countries in the region. The market has diverse types of commodities and participants, with stocks being the most sought-after securities. Investors consider numerous factors before making investment decisions, and one of them is determining the intrinsic value of stocks. This is also the purpose of stock analysis and valuation. Stock analysis and valuation are increasingly playing a vital role for market participants such as businesses, consultants, and investors. In a relatively young stock market like Vietnam, accurate and practical stock analysis and valuation are crucial to enhance safety and profitability in investments.

Many studies have been conducted on both theoretical and empirical aspects of stock analysis and valuation. Research by foreign authors such as Louis K.C. Chan, Josef Lakonishok, Theodore Sougiannis (1999), Campbell, Shiller (1998), and the work "*Investment Valuation*" by Aswath Damodaran (2002) delve into the analysis of effective valuation models. Particularly noteworthy is the Nobel Prize-winning research "*Empirical Asset Pricing*" by American scientists Eugene Fama, Lars Peter Hansen, and Robert Shille, which demonstrates

the ability to accurately forecast stock prices in the medium and long term. This aligns with the general perspective on stock analysis and valuation. In 2003, Gaurav Golash presented a research topic titled “*Stock Valuation and Stock Price: A Study Based on Equity Analyst Research Report on Indian Companies*”, which provided a fresh perspective on analyzing and valuing company stocks, as well as analyzing stock price fluctuations in the stock market.

In Vietnam, the importance of stock analysis and valuation has not been fully recognized, resulting in a limited number of research works or scholarly projects on this subject. However, in recent years, there have been some notable contributions.

## 2. The Intrinsic Value of SSI Stock

SSI Securities Corporation (SSI - HOSE) was established in December 1999 and is one of the longest-running companies in the Vietnamese stock market. After 20 years of operating in a market-oriented mechanism, the company has developed into the largest financial institution in the market, experiencing the fastest growth rate with its charter capital increasing over 1,000 times. With strong financial resources, internationally standardized corporate governance practices, and a large and professional workforce, SSI consistently provides customers with superior and comprehensive products and services, maximizing shareholder value. Currently, the company has an extensive operational network in major cities across the country, including Hanoi, Ho Chi Minh City, and Hai Phong.

Saigon Securities Incorporation (SSI) operates based on the vision of 'Success Together.' SSI's success is achieved by dedicating ourselves to bringing optimal efficiency to Customers, Associates, Partners, Shareholders, and the Community. We discover new investment opportunities in the financial market and turn these opportunities into profits within reach.

In December 2020, SSI was honored to receive the prestigious title of 'Labor Hero in the Renewal Period' awarded by the State Party, making it the first private securities company to receive this noble title.

In June 2021, SSI had a charter capital of up to 6,573,051,040,000 VND.

Estimating the growth rate  $G$  of FCFE

Predicting the growth rate of net income in 2023:

$$g_{FCFE} = RR \times ROIC = 13,46\%$$

Estimating the cost of equity ( $k$ )

The cost of equity is the required return on investment for investors on the equity capital determined in the DDM model, which is: 11.9%.

Estimating the value of FCFE cash flow in 2023

$FCFE = \text{Net income} + \text{Depreciation} - \text{Capital expenditure} - \Delta\text{Working capital} - \text{Principal repayments} + \text{Issuance of new debt}$

Table 1. Expected FCFE cash flow of SSI company over the years

Year	2024	2025	2026
Earnings Before Interest and Taxes, <i>EBIT</i>	7,165,764,110,359	8,097,313,444,706	8,664,125,385,835
- Interest Cost	1,611,144,117,259	1,734,934,604,575	1,863,206,554,919
Earning before tax, <i>EBT</i>	5,554,619,993,100	6,362,378,840,131	6,800,918,830,916
- Profit tax	1,110,923,998,620	1,272,475,768,026	1,360,183,766,183
Net profit	4,443,695,994,480	5,089,903,072,105	5,440,735,064,733
- Reinvestment	1,809,272,802,810	2,044,478,267,175	1,866,119,313,872
+ New liabilities	1,081,139,627,212	1,120,279,042,306	1,139,078,243,182
Free Cash Flow to Equity, <i>FCFE</i>	3,715,562,818,882	4,165,703,847,236	4,713,693,994,043
Ending Stockholders' Equity		60,995,005,098,896	
Discounted Cash Flow, <i>DCF</i>	2,144,603,039,247	32,782,244,629,874	
Equity value	41,663,006,131,206		
Par value	42,412		
Year	2025	2026	2027
Growth rate, <i>g</i>	13%	13%	7%
Retention ratio, <i>f</i>	31.56%	31.56%	26.9%
Earnings Before Interest and Taxes, <i>EBIT</i>	7,165,764,110,359	8,097,313,444,706	8,664,125,385,835
- Profit tax	1,433,152,822,072	1,619,462,688,941	1,732,825,077,167
<i>EBIT</i> (1 - <i>tC</i> )	5,732,611,288,287	6,477,850,755,765	6,931,300,308,668
- Reinvestment	1,809,272,802,810	2,044,478,267,175	1,866,119,313,872
Free Cash flow for the firm, <i>FCFF</i>	3,923,338,485,478	4,433,372,488,590	5,065,180,994,796
Ending value		77,267,551,430,068	
Discounted Cash Flow, <i>DCF</i>	2,359,526,889,028	43,270,150,762,237	
Enterprise Value	71,948,087,791,386	77,267,551,430,068	82,676,280,030,173
Equity value	41,663,006,131,206		
Debt value	11,115,060,921,247		
Par value	53,727		

(Source: Compiled by the author at SSI company)

Competitive advantages of SSI being the oldest company in the stock market, the largest scale of charter capital, strong in both financial potential and highly qualified personnel, SSI operates on most major financial services sectors, including securities consulting for individual and institutional clients, investment fund management, investment banking, capital and financial trading.

SSI's strength is its quality reports and recommendations, which are now improved in many ways that are close, easy to understand, attractive by video or through social media channels.

Going deeper into each segment, SSI develops product and service packages to suit each customer's core needs. For example, the company quickly developed a policy for customers who actively trade to enjoy a preferential fee of only 0.15% for all transaction values on the underlying market and only from 500 VND/contract for trading on the derivatives market.

Advantages in deploying a variety of financial products, helping investors optimize their portfolios. S-Bond bonds, warrants, ETFs, open-ended funds, etc. of SSI are all financial

products that attract a large number of investors, high profitability, even "in times".

### *2.1 Notable Capital Activities*

Currently, among listed securities companies, there are only 3 companies operating in the field of Capital, most notably SSI and VND, VCSC is involved but with a very small and insignificant scale. With capital activities besides securities companies such as Brokerage, Margin lending, SSI creates a more comprehensive ecosystem than competitors.

In particular, in December 2020, SSI successfully signed an unsecured loan contract worth \$85 million with a group of 9 foreign banks. This is the largest amount of foreign unsecured loans for securities companies in Vietnam.

### *2.2 The Highest Charter Capital in the Industry*

According to current regulations, the ceiling for vat margin of securities companies is 2 times of equity. Thus, for securities companies with relatively modest capital, the room for growth in the margin lending segment will be limited.

Given that the Stock Market is constantly setting new records in terms of both Transaction value and Trading Volume, Low Capital will be a weakness compared to competitors. Currently, SSI is the securities company with the highest charter capital in the industry with more than 6,000 billion VND - far ahead of the second largest man, Mirae Asset with a capital of nearly 5,500 billion VND.

From the above situation, it can be seen that the financial strength of the company is very good, however, the stock value of SSI witnessed a downward trend in 2022 and early 2023 due to the following reasons affecting the intrinsic value of SSI shares:

### *2.3 Lack of Information and Data about the Company and the Industry*

In reality, to be able to analyze in a detailed, deep, and truthful way, analysts need to directly examine the business operations of the company at the place where production activities take place. However, not everyone has the opportunity to do this. Most predictions are based on information published in the market.

For SSI, although the company's information is quite transparently disclosed, the annual reports continuously receive praise from the State Securities Commission for reports that delve into the details and truthfully describe the financial situation of the company, providing investors with an understanding of the company's situation. However, the lack of detailed information about projects, long-term plans, as well as detailed reports of subsidiary and affiliated companies of the group, creates a major obstacle in assuming and valuing the future cash flow of the company.

Additionally, market information on securities is disseminated through various public media without any official report on the industry market situation being published to a large proportion of investors. This phenomenon reduces the accuracy of information about the industry when the industry itself is complex and requires certain specialized knowledge when preparing reports.

In an information-scarce market with many abnormal fluctuations and the company undergoing a restructuring phase with a varying degree of concentration in different business areas currently, the discounted cash flow method contains certain risks that cause a deviation between the estimated value and the actual value of the group.

#### *2.4 Lack of a Long-term Business Planning Habit*

Up to now, SSI has not developed a habit of long-term financial planning. In its disclosure and annual reports, the company only has financial plans for a maximum of 3 years ahead.

#### *2.5 The Lack of Knowledge among Investors, Listed Companies, and the Weak Market Management*

The decline of the stock market, besides objective reasons such as the impact of the global economy on Vietnam, economic and political conditions domestically and internationally, is also due to the limited knowledge of investors, listed companies, and weak market management, as well as inadequate forecasting by the government. Among them, the lack of investment knowledge is a major concern for a large portion of individual investors in the market. Although this issue has been significantly improved in recent years, it still exists and has a certain impact on the valuation of companies' stocks. The psychology of investors often leads them to invest in a herd mentality, following the trend of the masses and the actions of foreign investors or large organizations. Although this psychology can be explained through technical analysis methods, the fundamental analysis methods that most valuation methods are based on can distort the value of the company.

### **3. Solutions to Impact the Intrinsic Value of SSI Stock**

#### *3.1 The Company Implements Accounting Based on Market Value Principles*

In reality, the most clear and accurate determination of a company's value is when the company implements an accounting system based on market value principles. By using the net asset value method, the value of the company and the stock price can be easily calculated. For short-term assets, the evaluation on the balance sheet based on the original cost principle, but re-evaluated at the net realizable value, can somewhat reflect the market value of short-term assets. However, this activity still has a delay as the evaluation time for assets is usually the end of the year and the financial statements are typically announced three months later. For long-term assets, especially fixed assets, the value is depreciated using the straight-line method and there is usually no information about market value.

For a company with a large asset scale like SSI Corporation, the valuation process can be difficult, time-consuming, and require a lot of effort. However, the company can perform schedules, put assets into groups based on their time of utilization, and disclose the original value so that investors can adjust for inflation and determine the closest net asset value of the corporation.

#### *3.2 Enhancing the Disclosure Responsibility of SSI Corporation*

Information regarding the general business operations of SSI Corporation is mainly collected

through information from the consolidated financial statements, notes to the financial statements, and annual reports of the company. However, the amount of information in the consolidated financial statements and notes to the financial statements often does not provide sufficient information about the specific operations of the subsidiary companies. This makes it difficult to evaluate the stock value of the business based solely on the debt ratio, revenue, interest expense, net profit, pre-tax income, and after-tax income, without evaluating the asset status, inventory turnover. In addition, the basis for offsetting in consolidation has not been clearly defined. Therefore, to have a better view, the company should provide separate financial statements of its subsidiaries and branch offices attached to the consolidated financial statements of the company.

### *3.3 Building Indicators for Industries*

The Vietnamese stock market has been developed for over 20 years, however, industry indicators have not been uniformly established. The first reason is that there is no legal document guiding the division of industries specifically. Although on the websites of securities companies, or financial service providers as well as SSI itself, there are indicators for industries provided, but the calculation formula and the determination of companies in the industry are not yet standardized, or the calculation still left out some information, leading to inconsistent and inaccurate results. An investor or an independent analyst when choosing industry indicators must face many different references and predictions, which can be confusing and difficult to determine the true value of the industry without doing the calculations themselves.

This is a big obstacle to analyzing and valuing the company's shares. Determining industry indexes, especially large companies like SSI, when lacking industry information is a huge obstacle for analysts to value. To calculate the value of the industry in the most accurate way, industries should develop parameters for each specific sector. The more specific the division is, the easier it is for investors to determine the value of shares.

### *3.4 Make Recommendations to Relevant Authorities and Organizations*

It is necessary to build a clear legal framework for the information disclosure of enterprises.

First, the immediate measure to build a transparent and sustainable securities market is to strengthen the mechanism of management and supervision of information disclosure in the market. Creating a transparent market will help investors make decisions based on complete, systematic, and accurate information.

On October 6, 2015, the Ministry of Finance issued Circular No. 155/2015/TT-BTC (Circular No. 155) on guidelines for information disclosure on securities market, replacing Circular No. 52/2012/TT-BTC (Circular No. 52). On the basis of summarizing practical problems and accepting the opinions of market members, many contents have been amended and supplemented compared to Circular No.52. This is a very positive move from the regulatory agencies to further improve the disclosure responsibility of market participants and investors, improve the legal framework governing information disclosure on the securities market and also improve market transparency.

More transparency of the information disclosure and closer monitoring of the governing bodies will enable the stock valuation to be more effective.

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