

# Vietnamese Brokers

## We've only just begun

### Matthew Smith, CFA

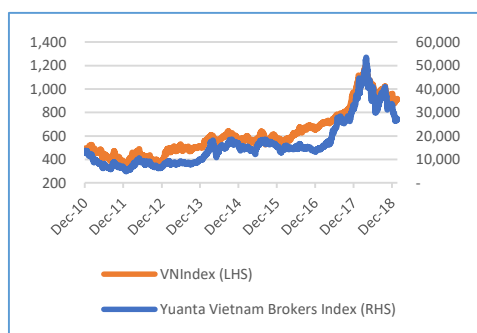
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We initiate coverage on the Vietnam brokers. Despite our [cautious short-term strategy call](#), we think that the long-term outlook for Vietnam's capital markets is highly attractive. Individuals account for c.75% of turnover, but demographic trends suggest that the retail punter story is just getting started. We also expect increased flows from foreign institutional investors in the medium term. Our view on the sector is not complicated: similar to elsewhere, we view Vietnamese brokerage stocks as proxies on this positive market outlook. Our top picks are HCM and VND.

### Brokers vs VNI



### Themes and catalysts

- Market proxies: Stocks are highly correlated with VNIndex and ADT.
- Long-term outlook for retail and institutional investment flows.
- Growth in derivative transactions and breadth of product offerings.
- Eventual MSCI Emerging Markets inclusion (but not this year).

### Risks

- Global CB liquidity: the key driver of equities markets.
- Industry fragmentation, potential new entrants, removal of brokerage fee floor
- Access to and cost of funding to support margin business.
- Pace of market liberalization.

### Yuanta Vietnam Brokers Universe

Stock Code	Price (VND K)	Target (VND K)	Rating	%ge up / downside	Fwd Div Yield
SSI VN	26.9	26.1	HOLD	-3%	4%
HCM VN	48.0	61.6	BUY	28%	4%
VCI VN	35.4	43.8	BUY	24%	3%
VND VN	16.8	21.5	BUY	28%	4%

#### Earnings growth

	2017A	2018P	2019E	2020E	3yr CAGR
SSI	22%	19%	3%	15%	14%
HCM	82%	22%	-5%	46%	33%
VCI	93%	26%	-15%	21%	26%
VND	153%	-21%	-14%	38%	24%

#### ROE

	2017A	2018P	2019E	2020E	Avg
SSI	13.2%	14.6%	13.9%	14.6%	14.1%
HCM	18.9%	20.4%	17.7%	22.5%	19.9%
VCI	30.6%	24.3%	17.7%	18.7%	22.8%
VND	20.5%	13.1%	10.1%	12.9%	14.2%

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Sources: Company data, Bloomberg, Yuanta Securities

**Brokers offer exposure to Vietnam's long-term capital markets development.** We are confident in the outlook for Vietnam's financial markets in the years ahead and see the brokerage stocks as an attractive way for investors to gain exposure to this long-term story. Thematic drivers include increased participation by both retail and institutional investors, ongoing (albeit at an uncertain pace) privatization / equitization, and a nascent but growing derivatives market.

**Brokers are market proxies.** Long-term fundamentals aside, the stocks typically trade in line with market activity, which is similar to brokers and exchanges that we have covered elsewhere. Long term correlations of broker stocks to VNIndex are north of 90% and to ADT are c. 80%. This should inform trading decisions.

**Solid profitability, cheap valuations, no FOL hassles, limited coverage.** Sector ROEs are c. 14-23% with limited leverage, but PERs are in the single digits despite a solid growth outlook for margin finance, derivatives, investment banking, wealth management, and even (despite fee compression) pure brokerage. Foreign ownership limit hassles are refreshingly nonexistent in these names. Despite what we see as a highly positive growth story, sell-side coverage of the sector is sparse.

**Risks.** We have penciled in 14% CAGR for equities ADT and 19% CAGR for margin finance in 2018P-2021E (both c. half the 2016A-2018P CAGR levels). Obviously, weak markets would impact forecasts, valuations, and stock prices. Prop trading is also a swing factor for earnings. Market liberalization is an upside risk on balance, but deregulation is not a one-way street – it can also mean competition and fee compression.

**Top picks: HCM and VND.** In our view, HCM (Yuanta rating: Buy) is optimally positioned for growth in institutional investor participation in the years ahead. VND's (Buy) superior online trading platform should allow for greater operational leverage as retail investor activity grows. SSI's (Hold) relatively low ROE justifies a valuation discount. By contrast, VCI (Buy) has the highest ROE in the sector but faces difficult operational comps in 2019, which we think may constrain its share price performance.

## Summary and trading view: Vietnam brokers

We initiate coverage on the Vietnamese brokerage sector with an **Overweight** call on the sector. Our constructive view on the brokers is meant for patient investors seeking what we view as a relatively low-risk proxy on the longer term development of Vietnam's capital markets.

**Fig 1) Yuanta Vietnam Brokers Coverage**

Stock	Code	Price (VND K)	Target (VND K)	Dif	Rating	P/BV (x)		PER (x)		ROE (%)		Yield (%)	
						2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Saigon Securities	SSI VN	26.9	26.1	-3%	HOLD	1.38	1.26	8.9	7.9	14%	15%	3.7%	3.8%
HCM City Securities	HCM VN	48.0	61.6	28%	BUY	1.83	1.56	10.9	7.5	18%	23%	3.5%	3.8%
Viet Capital Securities	VCI VN	35.4	43.8	24%	BUY	1.40	1.20	6.9	6.1	18%	19%	2.4%	3.5%
VN Direct Securities	VND VN	16.8	21.5	28%	BUY	1.07	0.98	8.0	6.5	10%	13%	6.6%	4.1%

Source: Company data, Bloomberg, Yuanta Securities

### HCM and VND are our top picks in the brokerage space.

**Our top picks** in the sector are Ho Chi Minh City Securities (HCM VN, BUY) and VN Direct (VND VN, BUY). We like HCM for its leading institutional business and management strategy, which we think should support profitability and growth. VND appears best poised to grow retail market share while maintaining cost efficiency given its leading online/mobile trading platform; VND also offers the cheapest valuation multiples among the brokers in our coverage.

We also have a BUY call on Viet Capital Securities (VCI VN), but we see less upside than we believe our top picks will offer. We have a Neutral call on Saigon Securities (SSI VN), which we see as close to its fair value given what we see as structurally lower profitability vs its peers. We took a look at Saigon Hanoi Securities (SHS VN, Not Rated) but ultimately decided not to cover the stock due to its low market cap, thus limiting our brokers universe to just four names.

**Fig 2) Brokerage Sector Stock Data**

	Market Cap (USD m)	Free Float (%)	3m ADT (USD k)	1-yr velocity	Equity Beta	Brokerage market share (HOSE, 2018)
SSI VN	566	75%	2,476	1.1	1.224	18.70%
HCM VN	240	67%	344	0.4	1.292	11.24%
VCI VN	268	66%	256	0.2	1.143	10.95%
VND VN	144	94%	805	1.4	1.321	7.31%
SHS VN	60	95%	607	2.5	1.283	4.02%

Source: Bloomberg, HOSE, Yuanta Securities

Granted, structural frictions to resolving issues of concern to global investors, including settlement issues, foreign investor ownership and market access restrictions, and overall corporate governance are all hurdles that will require time to address.

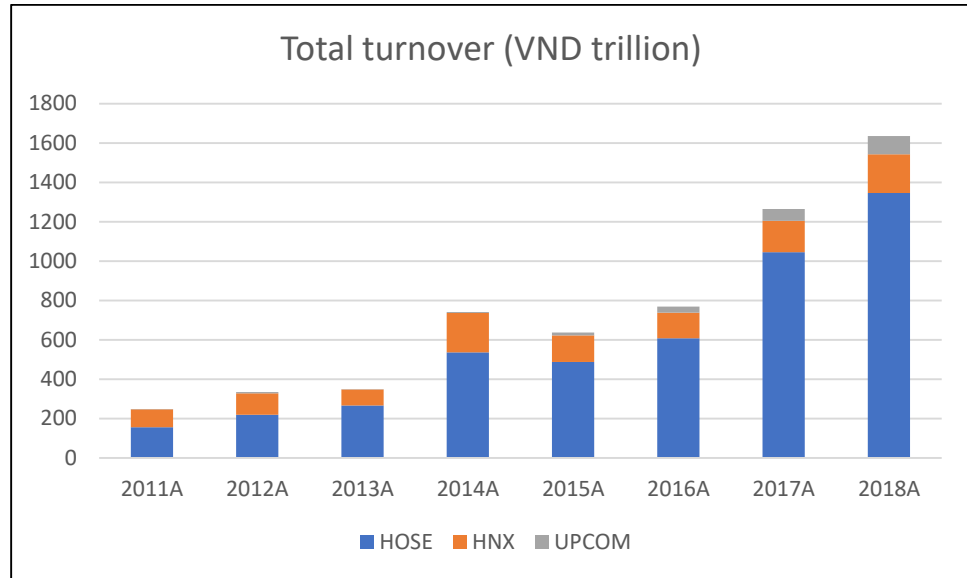
### Attractive entry point.

But investors with sufficiently long time horizons now have the opportunity to build positions in the brokers at low valuations amidst the currently tepid market sentiment. In light of our inability to forecast market sentiment with much confidence, we suggest that periods of market weakness are superior for building positions in sector than when the market has already taken off. Currently the shares trade at single digit PER multiples with mid-teen ROEs. We think that there is value here.

We see several long-term thematic drivers for the brokers that we believe are highly compelling. We go into detail on each of these drivers in the pages below, but the core themes comprise the following:

- **1) Growth in retail investor participation** (yes, that’s right – the Vietnamese retail punter already dominates the market, but he/she is just getting started).
- **2) Growth in institutional investor participation** (both foreign and domestic, with the MSCI decision as a 2-3 year catalyst).
- **3) Growth in derivatives turnover and product breadth** (Index futures are starting to take off, and we expect covered warrants to start up by mid-year).

**Fig 3) Total Equities Turnover Is On The Rise**



Source: Bloomberg

**As implied above, our bullish thesis is not meant as a trading call.** Our short-term outlook for the overall market remains rather conservative given the exogenous global liquidity risks and endogenous near-term hurdles to market liberalization efforts that might spur another round of market exuberance among retail and institutional investors alike. We have pegged our yearend VN Index target at 990 and suggest that investors stay defensive in 1H19 while awaiting clarity on global central bank policy, which we believe will be sufficiently loose by mid-year to provide a market boost in the second half. For details of this strategy view, please see our 2019 outlook piece published on titled [Vietnam Strategy: Stay cautious in 1H19](#).

**Stock prices are highly correlated to index levels and ADT.**

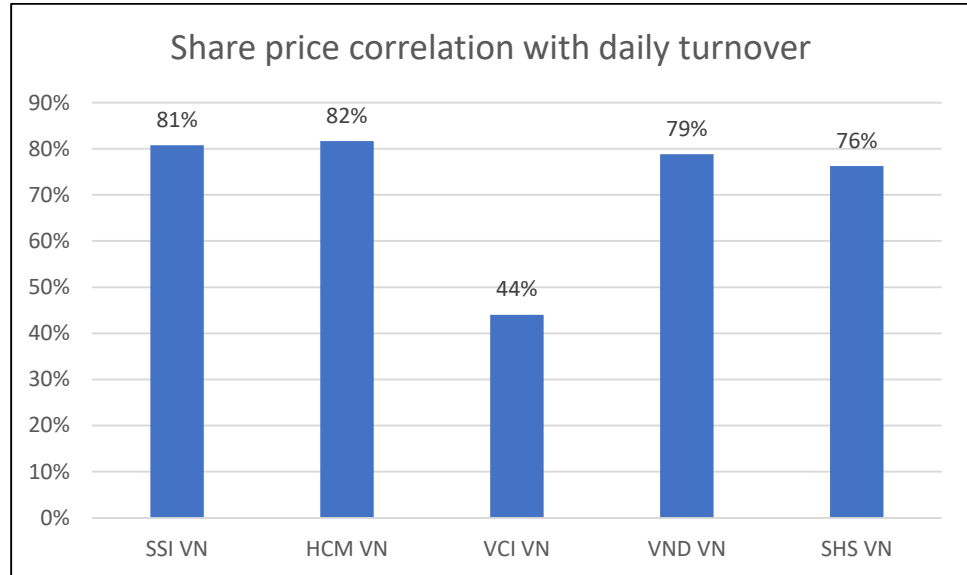
But before moving on to the long-term fundamental business drivers, we have to acknowledge a simple and practical fact: in the short term, in the short term, the stocks are basically a punt on the stock market.

**But if you’re looking to trade...** Telling investors that market sentiment is a risk to share price performance might not seem like incredibly value-additive advice given that the same wise words also apply to long positions in every other asset. But capital markets-facing businesses such as brokers (and also exchanges and even some asset management firms) are solid market proxies in the sense that their underlying business operations are highly leveraged to market activity. This also shows up in the Vietnamese

brokers' very high share price correlation to market metrics such as index levels and average trading value.

...the brokerage stocks are also a punt on short-term shifts in market activity. Thus, the short-term outlook is where the rubber meets the road for traders and, perhaps, for longer term investors trying to determine an optimal entry point. Simply put, and despite what we see as a highly positive longer-term outlook, in any given quarter the brokers are a straightforward punt on market activity.

**Fig 4) Historical Correlations: Broker Stock Prices and ADT**

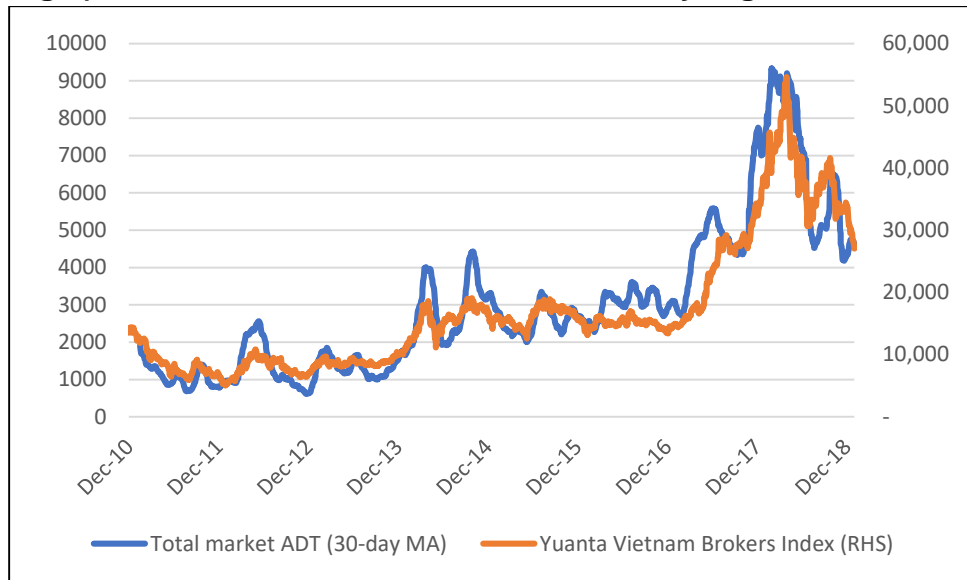


Source: Bloomberg, Yuanta Securities

Although VCI appears to be an exception to this “ADT proxy” rule, we would caution against assuming that this will persist in the longer term. This is because the historical data for the other brokers goes back to 2010, whereas VCI has only been listed since July 2017. When we examine the other brokers' share prices on the same (much shorter) timeframe, the correlation with ADT drops to 41% for SSI, 44% for HCM, and 38% for VND. We see this as a function of the far shorter dataset that included the market boom of 4Q17-1Q18, rather than a structural change in broker stock price behavior.

The charts below illustrate the same share price behavior. We have created a simple equal-weighted Vietnam brokers index by averaging the share prices for the four stocks in our coverage plus SHS. The generally high correlation holds for daily turnover and various measurements of ADT. The chart below uses 30-day ADT to smooth out the noise for a clear presentation of the correlation.

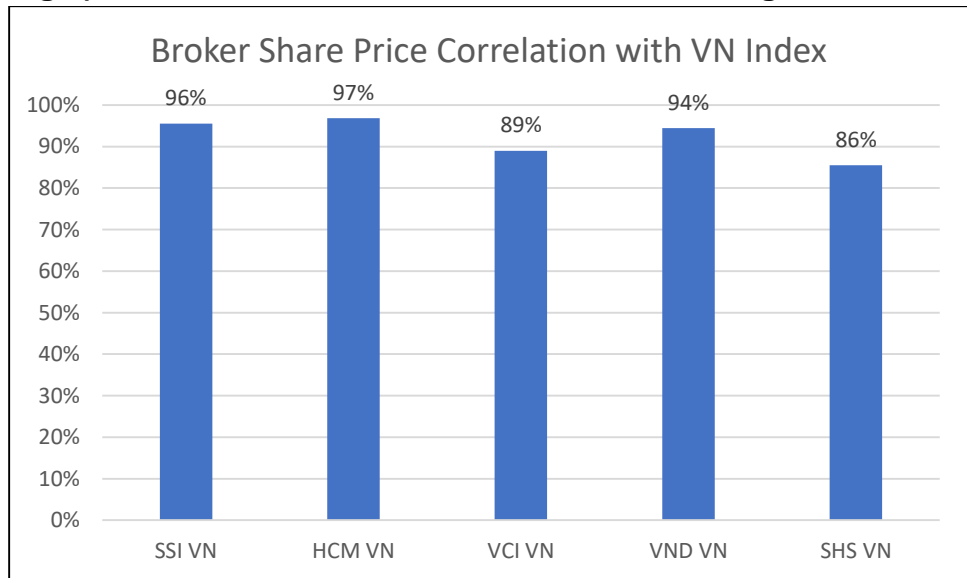
**Fig 5) Correlations With ADT Are Persistently High**



Source: Bloomberg, Yuanta Securities

The relationship of share prices to ADT is easy to understand and explain: brokers make more money when turnover is high and they make less when turnover is low. But as illustrated in the next few charts, the correlation of share prices vs stock market *levels* is even higher than share price correlations with market *turnover*.

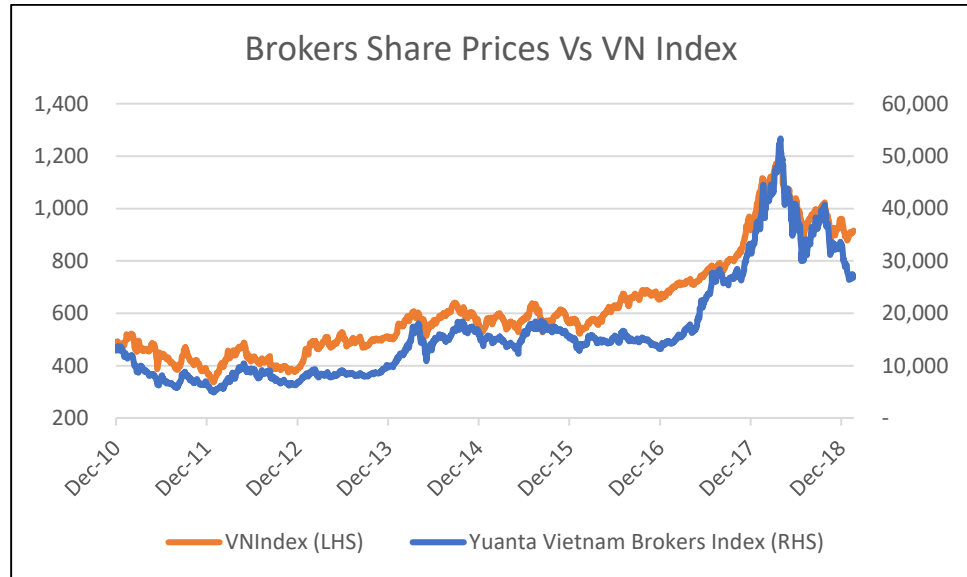
**Fig 6) Correlations With Index Levels Are Even Higher**



Source: Bloomberg, Yuanta Securities

We suppose a higher correlation with Index levels than with could be justifiable by the notion that margin finance (which is a far more profitable business than pure brokerage) tends to rise along with share prices, but the margin business is relatively new in Vietnam. Of course, rising stock prices should be good for brokers' direct proprietary trading as well – but this will depend on actual trading results.

**Fig 7) ...And These Correlations Will Also Persist, In Our View**



Source: Bloomberg, Yuanta Securities

**The market proxy relationship is typical of capital markets-facing businesses elsewhere, too.**

This “market proxy” status is not unusual for capital markets-facing businesses. Stock price sensitivity to ADT and Index levels is also high for brokers that we have covered in China and Taiwan, and the relationship is even stronger for listed stock exchanges in Singapore, Hong Kong, and Malaysia. These are all well-covered names that are widely owned by institutional investors. We have been somewhat surprised by the relatively limited sell-side coverage of the Vietnamese brokers given their lack of FOL (i.e., the brokers have all successfully increased their foreign ownership limit to 100%) and high levels of institutional ownership. We won’t offer conjecture as to the reasons for this, but we expect coverage to broaden as the markets mature in the years ahead.

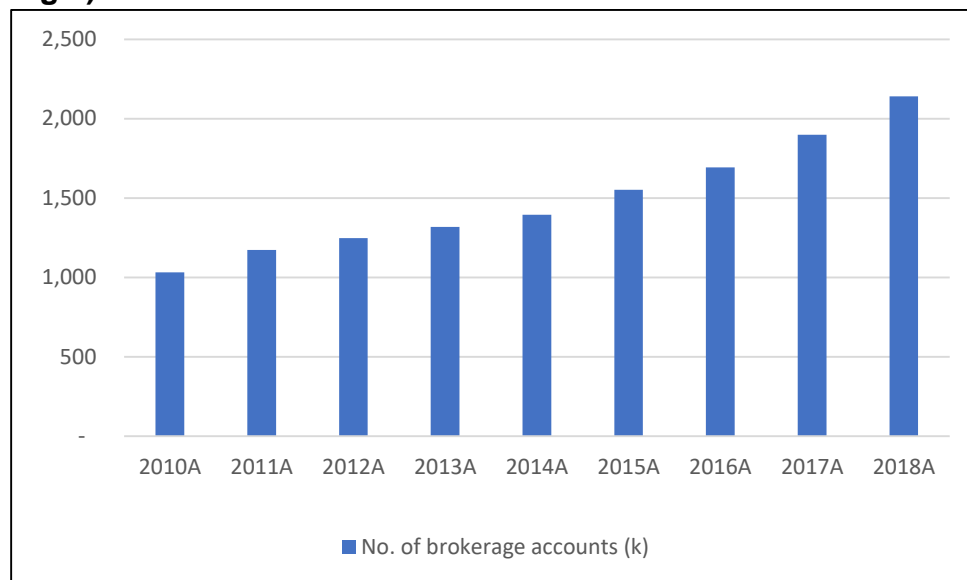
## Three Thematic Drivers of Long-term Growth

**Rise of the retailers – We see plenty of upside for individual investor activity in Vietnam.**

- 1) **Vietnamese retail investors are just getting started.** It might seem strange for us to lead off with a comment on expected growth in the investor segment that already accounts for c. 72% of total stock transactions. It’s no secret that the Vietnam’s frenetic retail investors dominate the market. But hear us out: We think that the currently “unbroke” population base has vast potential as a growth driver for the brokerage business as middle class growth goes parabolic in the years ahead.

The Vietnam Securities Depository reports that total domestic investor accounts reached 2.14 million as of 2018 after doubling since 2010 (i.e., an eight-year CAGR of 8%). Even if we simplistically assume that every account is active and every investor has only one account, this would represent just 2.2% of the national population and perhaps 17% of the “brokeable” population base – those individuals who are already members of the middle class and higher.

**Fig 8) Domestic securities accounts now exceed 2 million**



Source: Vietnam Securities Depository

But even those low penetration estimates are undoubtedly too high. An unknown number of accounts are held by the same individuals, as numerous individual investors are HNWI’s who likely hold several accounts as they seek to manage the plethora of risks that the Vietnam markets present. Another problem is the (also unknown) number of accounts that are dormant. Frustrated punters don’t necessarily bother to close down brokerage accounts that they no longer use. Also, we think that many new accounts have been opened by enterprise employees whose only purpose has been to monetize (i.e., to sell) shares in their companies that they have been granted as compensation.

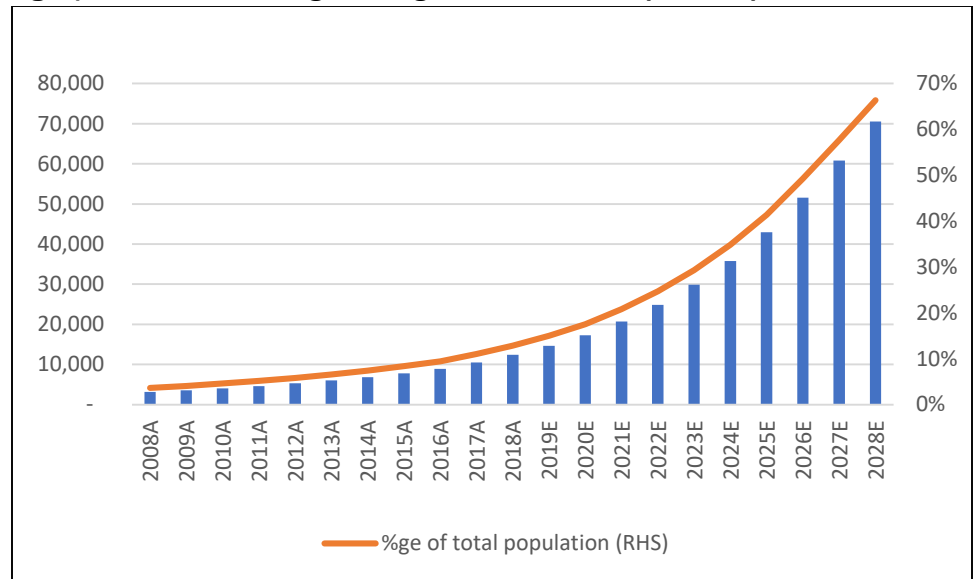
So the actual brokerage penetration numbers could be as low as 1% of the national population and less than 10% of the brokeable population. We think that this alone strongly suggests upside potential for market participation.

Granted, there are abundant structural frictions that are likely to have resulted in this low participation rate. Knowledge of equity markets (and how they function in Vietnam), limited trust in financial services overall, and rather less-than-ideal

corporate governance among some listed firms are likely among these factors. But even assuming that middle class participation in retail trading flattens going forward, the rapid expansion of this segment of the Vietnamese population alone suggests parabolic growth in the investor base over the next decade.

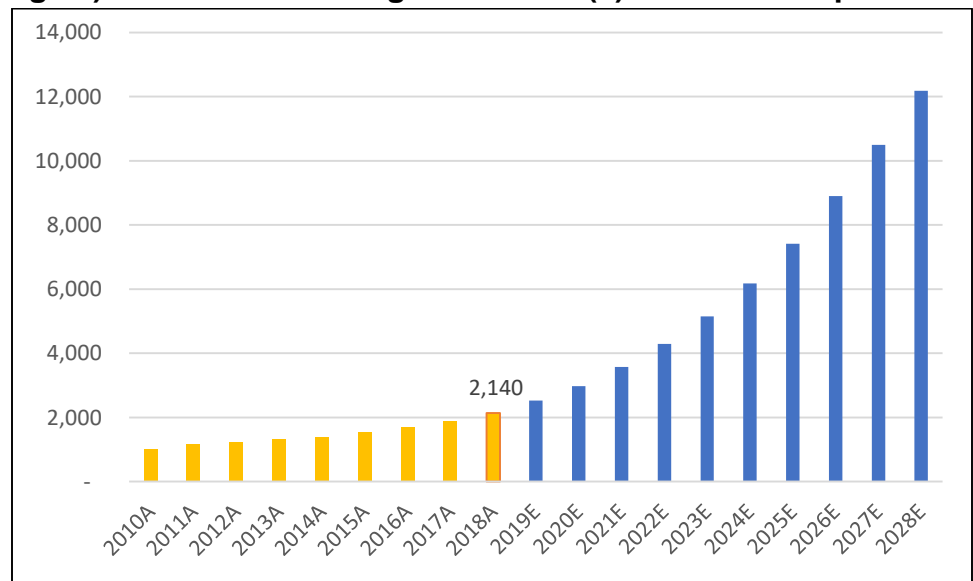
A patchwork of demographic estimates from the World Bank, the GSO of Vietnam, BCG, and the Brookings Institute suggest that brokerage accounts would soar by c.6x to reach 12 million by 2028E (a 10-year CAGR of 19%) – and that is if brokerage penetration of the middle class population remains flat at 17.3%.

**Fig 9) Vietnam’s burgeoning middle class (k, LHS)**



Source: Gov’t Statistics Office (GSO) of Vietnam, World Bank, Brookings, BCG, Yuanta Research

**Fig 10) Domestic Brokerage Accounts (k): Poised to expand**



Source: Vietnam Securities Depository, GSO of Vietnam, World Bank, Brookings, BCG, Yuanta Research



**How accurate are these estimates of retail investor participation likely to be?**

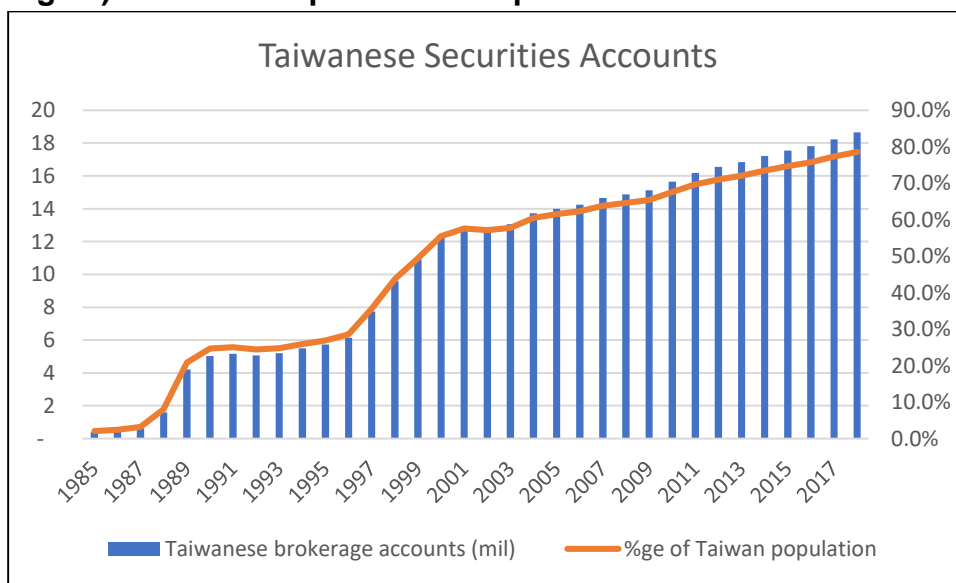
The above charts should be viewed as illustrations of the potential rather than a presentation of pinpoint accuracy. Moreover, our earnings forecasts and stock valuations are based on 2019-21E market estimates, not on what may happen ten years down the road. However, we strongly believe that the middle class is expanding rapidly, that this will continue throughout the next decade, and that this extremely powerful demographic is key to Vietnam as an investment proposition – whether or not you agree with our call on the brokers.

We believe that it’s fair to say that at least some of these folks will enjoy an occasional stock market punt, and many more will require investment services as they look toward retirement.

**Will history rhyme? Taiwan’s market development since the 1980s illustrates the possible upside for retail investor activity in Vietnam.**

The experience of Taiwan in the mid- to late-1980s bubble period could be illustrative. The Taiwan Stock Exchange reported around 400 thousand securities trading accounts as of 1985, equivalent to 2% of the population (roughly where Vietnam is now, assuming one account per investor in both cases). But by the end of the decade, coinciding with the Great Taiwan Bubble, securities trading accounts had soared by 10x to exceed 4 million or 20% of the population. The number of accounts spiked again in the late 1990s (in synch with the MSCI / Technology Bubble). But even in the (mostly) tepid 21<sup>st</sup> Century, the number of accounts has continued rising to reach 18.6 million or 79% of the population today. Granted, a large number of these accounts are inactive and certainly many punters have multiple accounts. But even so, 12% CAGR over the course of 35 years is an impressive example of how a market can develop in this part of the world.

**Fig 11) Taiwan as a possible blueprint**



Source: Taiwan Stock Exchange, ROC National Development Council, Yuanta Research

We certainly aren’t suggesting that Vietnam is destined to repeat Taiwan’s bubbly example, and (as stated previously) none of this is built into our earnings forecasts or valuations for the brokers that we cover. In any case, we know just enough about demographics to be confident that clients seeking to berate us for getting our 2028E brokerage account number “forecast” wrong probably won’t be able to reach us on our Saigon Centre office line a decade hence.

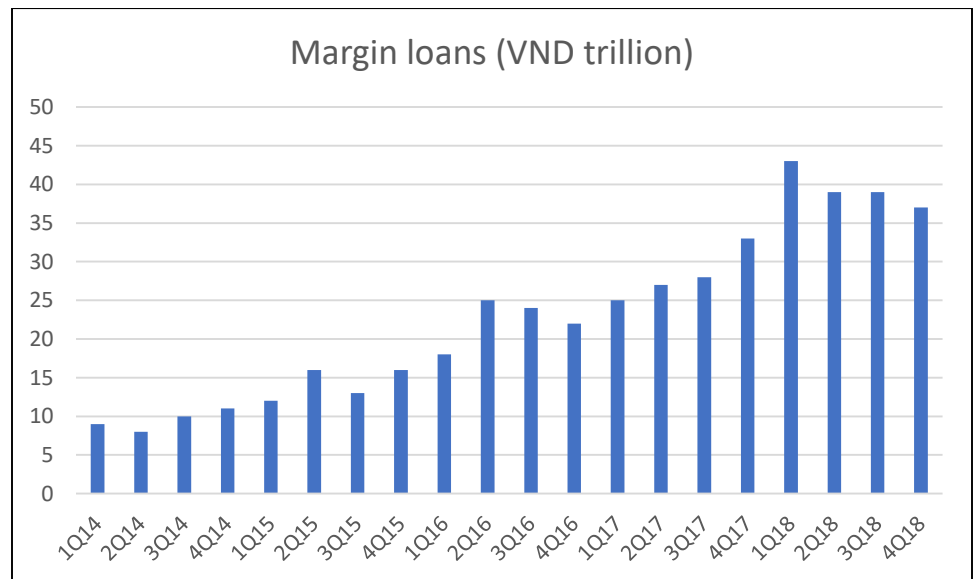
The main point here is simple: demand for brokerage services in Vietnam is set to grow, and this will be a multi-year structural theme. We also believe (and hope) that Vietnam’s overall financial industry a decade from now will be far more sophisticated in terms of products and services that it offers. Incumbent brokers today should be working to develop credible asset management businesses to leverage the need for retirement products from the same population group. The demand will be there, and if they don’t work to meet that demand, others – including insurance providers, standalone asset managers, and incumbent commercial banks – will most certainly do so.

**Retail wallet to be primarily driven by margin finance, given the likely compression in pure brokerage fees.**

**Does any of this matter? Isn’t retail broking at best a breakeven game?** On the contrary, we view the retail investor as a highly lucrative target for the incumbent brokers. Admittedly, pure brokerage alone is not particularly profitable even before the removal of the 15bp regulatory floor in February, which will inevitably result in further fee compression in our view.

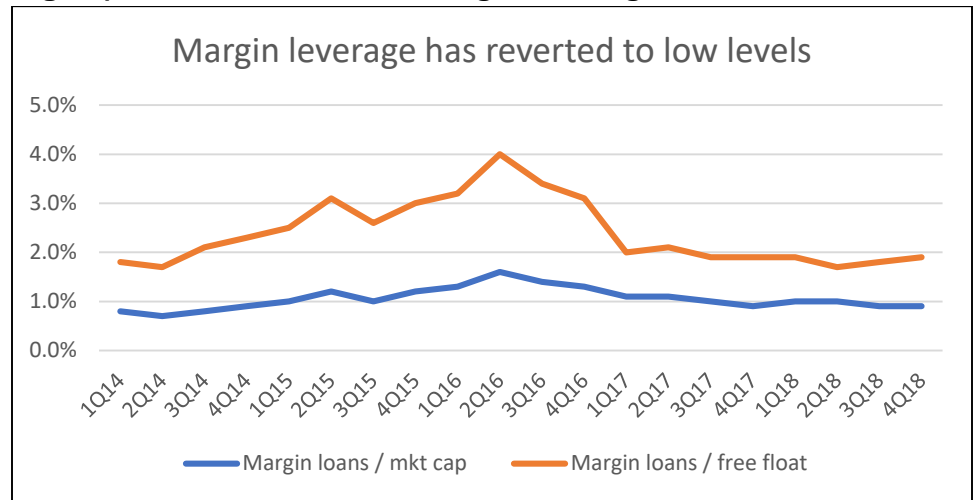
For now, the key value proposition from the retail investor is margin finance – highly profitable short-term collateralized loans – which represents 20-30% of gross operating revenues for the four stocks in our Vietnam brokers universe. Factoring in our estimates of finance costs attributable to the margin business and reported credit costs – which we think is a more accurate way to judge the business’s contribution – we reckon that margin finance makes up 24-33% of the group’s *net* operating revenues.

**Fig 12) Margin lending is on the rise...**



Source: FiinPro

**Fig 13) ...But the market's margin leverage is still moderate**

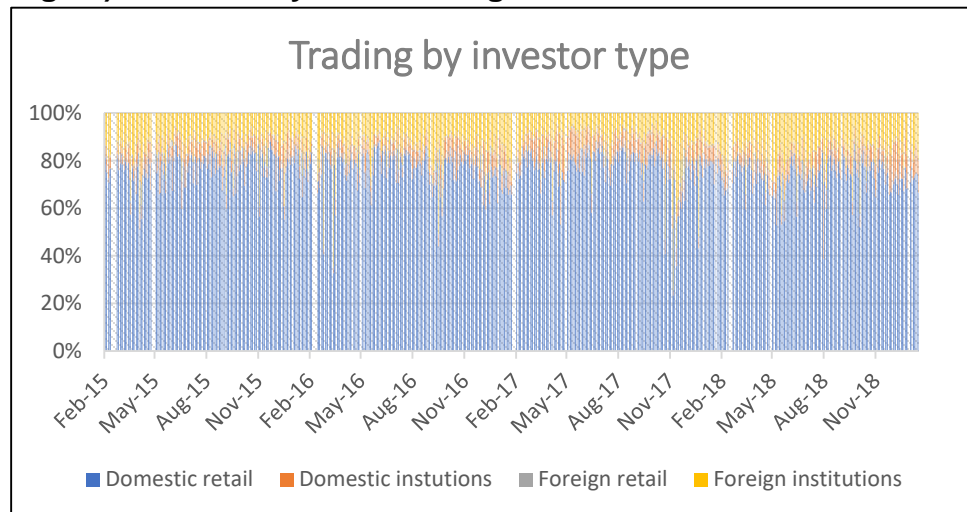


Source: FiinPro, Bloomberg, Yuanta Research

In the longer term, increased product breadth and sophistication of the financial services on offer should result in better profitability and allow for greater maximization of the retail investor dollar, but for now we would view this as a deep out-of-the-money and long-dated call option, rather than a reason to buy brokers today. For now, a combination of cost efficiency in brokerage (via technology, largely), judicious utilization of the balance sheet (i.e., margin finance with an eye on risk management), and ROE-accretive streams from investment banking and other fee revenue streams are the keys to retail brokerage profitability, in our view.

- 2) Institutional investor participation will increase too.** We reckon that most institutional clients with interest in Vietnam already agree with us on this view. Otherwise, you wouldn't be reading this note. And from our personal career perspective, we wouldn't be here if we thought otherwise.

**Fig 14) Turnover by investor segment**



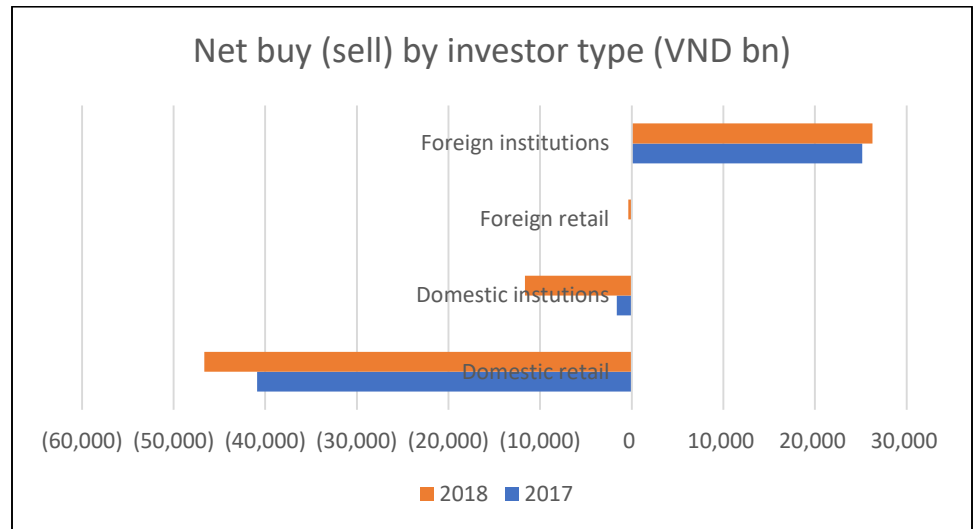
Source: FiinPro, Yuanta Research

Foreign institutions accounted for 17% of total turnover in 2018, up 4ppt from 14% in 2017. Granted, a few major outlier share transfers and equitizations that occurred

**We aren't believers in imminent MSCI inclusion, but we still expect institutional interest to continue growing in the medium term.**

in both years boosted the apparent foreign institutional participation numbers. Some would thus argue that the “real” institutional participation rate was lower than the headline numbers suggest. Indeed, just stripping out a single day – the May 18, 2018 net purchase of US\$1.2bn (presumably related to the VHM listing) – foreign institutions would have been net sellers (just like everybody else) of VND 1.8 trillion worth of stocks during 2018.

**Fig 15) Foreign instos were the lone net buyers in 2017-18**



Source: FiinPro, Yuanta Research

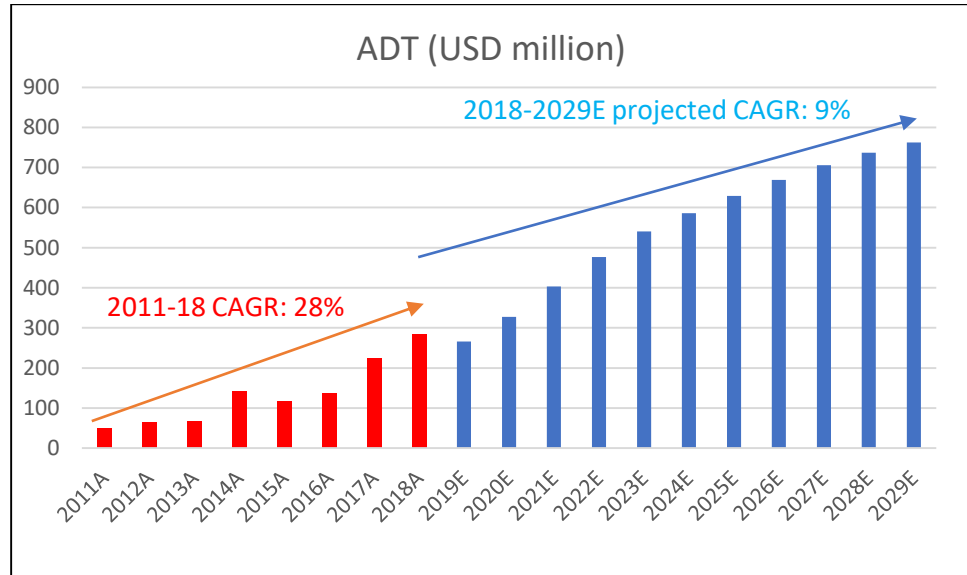
But here’s the thing about these “one-offs”: major deals happen all the time in other markets too. And given Vietnam’s compelling macro story coupled with its appetite for external financial capital, similar events (e.g., SOE equitizations and large stake acquisitions by foreign strategic investors) are very likely to recur frequently in the next several years, in our view. Obviously, the value of this dealflow won’t be entirely captured by the domestic brokers, but such inflows into the financial system add to the overall levels of market liquidity. Moreover, the macro story here is likely to attract additional portfolio flows despite Vietnam’s ongoing frontier market status. Of course, Vietnam’s inclusion in the MSCI Emerging Markets indices would catalyze a rapid acceleration of this process, but in our opinion MSCI inclusion is not imminent – we think of it as a two- to three-year event catalyst.

In the words of former NASDAQ-OMX and SGX CEO Magnus Bocker, “Flow leads to flow.” He was referring to his efforts to encourage high-frequency trading in Singapore, and we are a long way from HFT coming online in Vietnam. But the same maxim applies here. Greater participation by foreign institutional investors will also encourage flows from domestic investors – largely retail investors for now, but over time the institutional (non-prop trading) investment industry will also develop, in our view.

Total ADT grew by 29% YoY to reach VND 6.5 trillion (USD 284 million) in 2018. We forecast a 5% YoY decline in ADT in 2019E to VND 6.2 trillion (US\$266 million) in line with our cautious strategy view. We then pencil in annual increases of 25% for both 2020E and 2021E. Clearly these latter estimates are bullish, and we might be wrong. We don’t have an abundance of confidence in our ability to forecast market metrics with pinpoint accuracy after over a decade of trying in Taiwan,

Singapore, Malaysia, Hong Kong, and China. But again, getting the trend right is perhaps good enough, and we believe that the very powerful structural factors discussed above are likely to drive ADT higher over the long haul.

**Fig 16) ADT: Past, present, and future**



Source: FiinPro, Yuanta Research

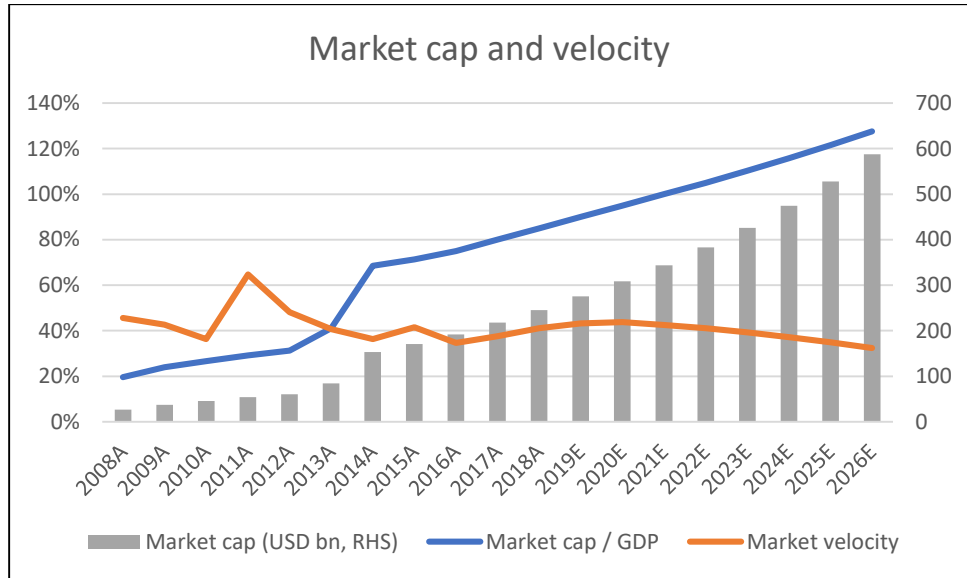
**The dual engines of retail and foreign institutional investor activity should drive cash equities expansion for at least the next decade.**

Actually, even our 25% ADT growth assumptions for 2020-21E would represent a slowdown vs the recent past. Total ADT in Vietnam’s stock markets expanded by 28% CAGR in 2011-18. If that growth rate falls to just 9% over the next decade, ADT would reach US\$762 million by 2029.

This projection is supported by reasonable 2029 assumptions of 32% annual velocity on a market cap of US\$587 billion, representing 128% of GDP in 2029E (vs c.71% of GDP in 2018). These are not frontier market numbers, and it would put Vietnam’s market turnover at a level slightly higher than Malaysia’s (US\$576 million) and slightly lower than Singapore’s (US\$871 million) in 2018 (source: Bloomberg). The implied decline in market velocity doesn’t square with our otherwise bullish outlook, but it might be realistic based on the market’s composition (i.e., a heavier concentration of stodgy SOEs might not be conducive to higher trading activity).

Again, these numbers don’t inform our forecasts or valuation, but rather are presented here simply as a possible outcome.

**Fig 17) Projected market cap and velocity**



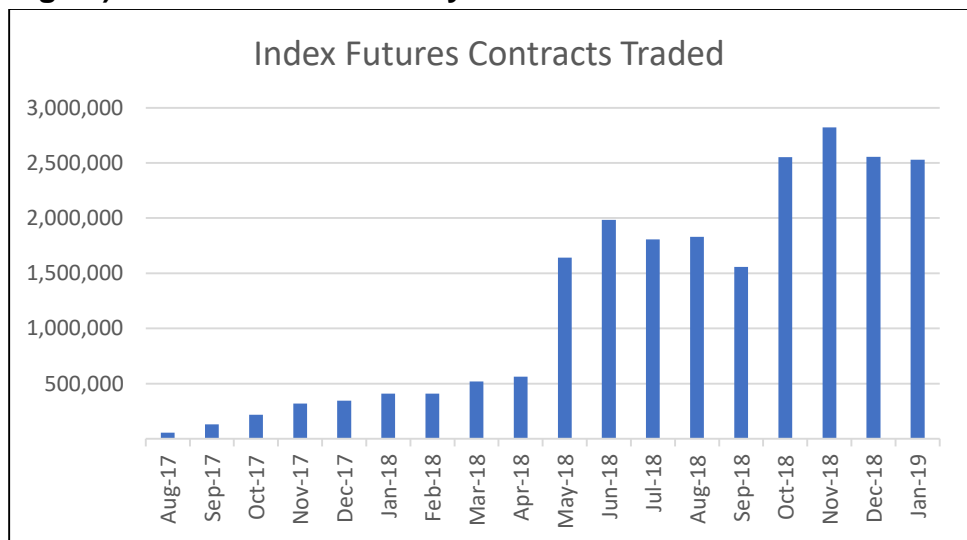
Source: FiinPro, Bloomberg, Yuanta Research

**Equities related derivatives should be another growth driver for the brokers, but we have yet to factor it into our earnings projections.**

**3) Growth of derivatives turnover and product breadth.** Index futures have only been trading for 18 months but have clearly provided a boost to brokerage fee income at the larger securities houses. Brokers with the ability to leverage these products are better positioned to drive revenues and market share.

We think that increased turnover of Index futures and the addition of new products could be another earnings catalyst. Disclosure from the brokers is limited, and the timeline for the regulatory rollout of new products is unclear. Therefore, we haven't started building out derivatives separately in our models and view this segment as a call option (no pun intended) on future growth.

**Fig 18) Index futures: Monthly volumes**

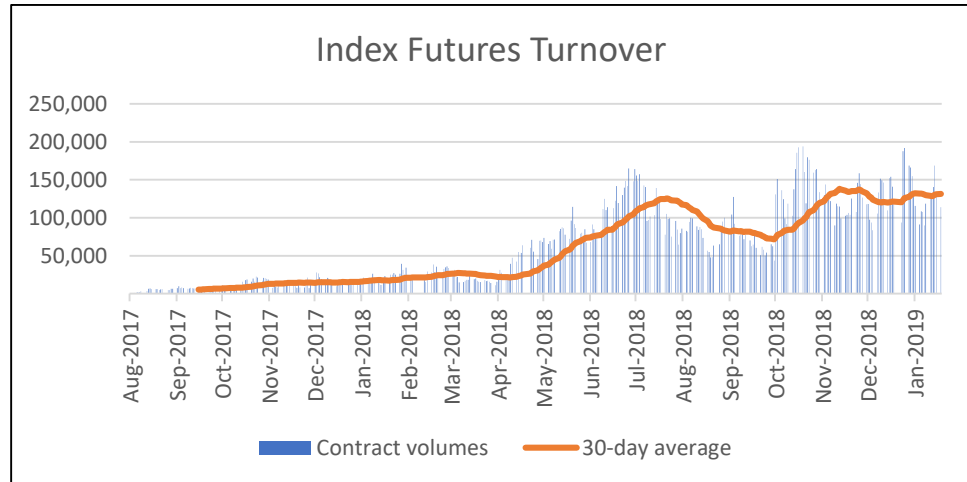


Source: FiinPro, Yuanta Research

Index futures only started trading in August 2017. The number of contracts traded has soared since then, with 2.6m contracts traded in January 2019 alone, a YoY

increase of more than 500%. Put another way, the number of contracts traded in Aug-2018 to Jan-2019 period was over 13x higher than the same period in the previous year. Given the dearth of institutional trading of index futures, we think the contracts are being used primarily for speculation by relatively sophisticated individuals.

**Fig 19) Index futures: Daily volumes**



Source: FiinPro, Yuanta Research

Brokers are the key beneficiaries of equities-linked derivatives, in our view. Our retail team expects the long-delayed introduction of single-stock warrants to come as early as the second quarter of this year, which should also help boost the outlook for the major brokers.

**FIC derivatives will be less of a driver for brokers.** The brokers in our coverage universe are not dominant bond market players: Techcombank Securities leads the pack by a long way. In line with this result, we believe that interest rate derivatives will not be a major earnings driver for our equity-focused brokers. The same is likely to be true for other products used in treasury operations that may emerge, such as FX futures and options or even commodity products (consider Bursa Malaysia’s CPO contract before you scoff). These are all in-the-future/possibly-never category, but even if such products are approved in Vietnam, we think that they are highly likely to be dominated by bank-subsidary securities houses.

**Fig 20) Top 10 HOSE members by 4Q18 bond market share**

Broker	1Q18	2Q18	3Q18	4Q18
TCB Securities	93.22%	70.82%	77.44%	85.18%
VCB Securities	1.23%	3.09%	3.70%	4.95%
SHS	NA	NA	NA	2.86%
Baoviet Securities	2.20%	5.11%	4.56%	2.43%
BIDV Securities	0.68%	1.55%	3.26%	1.95%
VNDS	0.17%	5.49%	0.41%	1.24%
HSC	1.71%	2.27%	1.04%	0.43%
SSI	0.01%	NA	NA	0.36%
IB Securities	0.35%	2.79%	1.45%	0.20%
VP Bank Securities		3.82%	4.61%	0.17%
Petro Vietnam Securities	NA	NA	1.51%	NA
Vietin Bank Securities	0.33%	NA	1.88%	NA
MB Securities	0.09%	4.16%	NA	NA
Viet Dragon Securities		0.37%	NA	NA

Source: HOSE

## Sector valuations

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**Our target prices are based on the median result of four fundamental valuation methodologies...**

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**... of which we think the ROE-based GGM methodology best reflects near-term reality, whereas the DCF approach exhibits the long-term (and starry-eyed) upside.**

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We believe that the brokerage sector, and particularly our top picks HCM and VND, offer value at current market prices.

As outlined in the individual company notes below, our approach for determining fair value for each stock comprises four valuation techniques: a discounted cash flow (free cash flow to the firm) model, a dividend discount methodology (DDM), our version of the Gordon Growth methodology (which determines a fair value P/B multiple through the formula  $ROE-g / COE-g$ ), and a sum-of-the-parts method. We base our target prices on the median result of the above four methodologies, as the average result is upwardly skewed (too high, in our view) by the DCF model.

Of the four methodologies, we think that the  $ROE-g / COE-g$  approach is most robust given that it relies on expected ROEs (which are reflective of historical ROEs) rather than the “what if” factors reflected in DDM/DCF (i.e., long-term future cash flows).

The DCF and DDM methods are perhaps superior fundamental approaches in theory, as they reflect the classic Graham and Dodd approach: sum of the expected future cash flows discounted back at the appropriate interest rate. However, DCF in particular results in what we see as excessively high valuations across our coverage.

We would argue that this reflects the potential upside if market activity ramps up exponentially, as indeed it might. But it would be tough to have high confidence in the long-term cash flow forecasts (proxied by EBITDA in our models) for the Vietnam brokers. This is the case for any capital markets-related business, where earnings are inherently volatile. Assuming that the market’s potential as outlined in the charts above is a done deal would obviously be too optimistic. Thus, we prefer to exhibit DCF-based valuations as an illustration of what could be, rather than what investors should reasonably expect. That said, the stocks could certainly attain these high valuation levels in an eventual (inevitable?) resurgent market.

We include a sum-of-the-parts valuation based on PER multipliers of the brokers’ segments but give it limited credibility in light of obvious differences between the four brokers’ segment accounting and our inability to reconcile each broker’s individual segment accounting with its consolidated results.



## Investment Risks

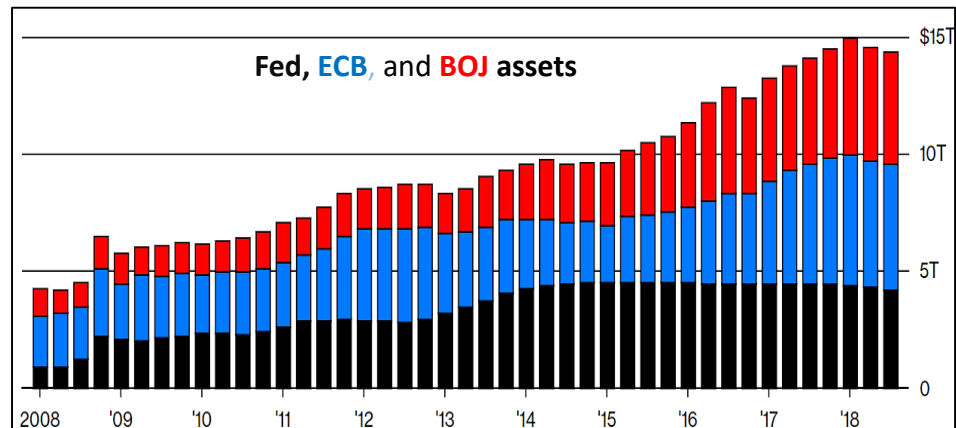
### Risk 1: Market Activity is inherently volatile and difficult to forecast

Weak markets = Bad.  
Strong markets = Good.

By definition, any listed stock presents some degree of stock market risk. But this risk is especially acute for securities brokers given the nature of their underlying business.

As such, we think that global central bank actions are the main exogenous swing factor for Vietnam’s stock markets. Thus, the same actions – loosening, tightening, or signaling one way or the other – are likely to be the key driver of sector performance in 2019.

Fig 21) Global CBs: From QE to QT, now back again?



Source: Bloomberg

### Risk 2: Competition is fierce and will remain so.

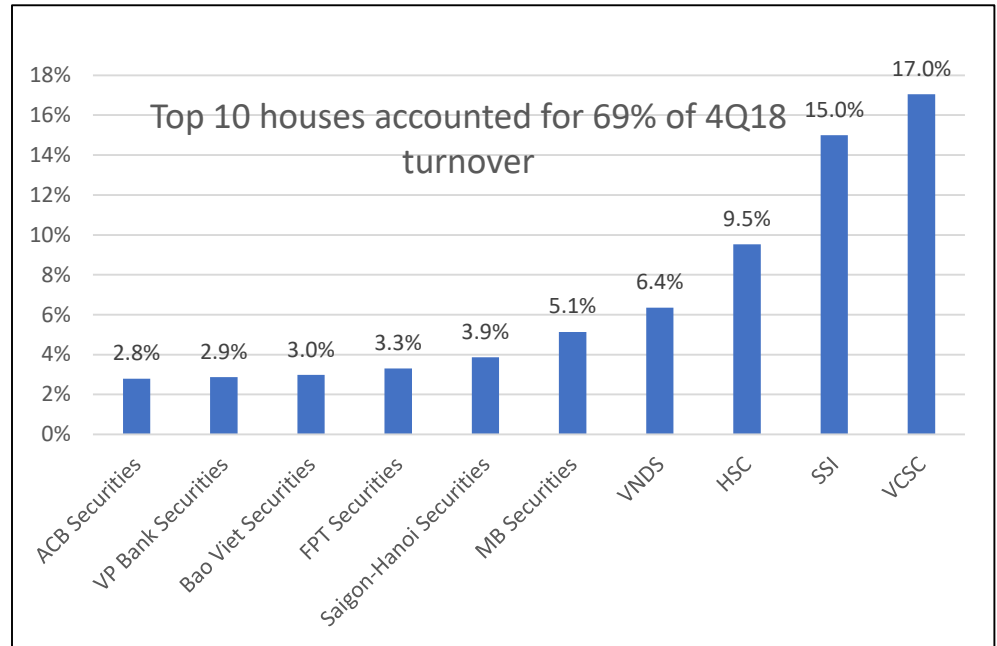
The industry is fragmented in terms of the number of players...

Although we are highly optimistic about the market potential, the ability of each broker to capture value from this opportunity depends on its level of competitive strength. According to VNS, 72 brokers were engaged in active operations as of Oct 2018, and our margin finance spreadsheet (source: FiinPro) indicates that 52 brokers are engaging in at least some margin lending activity as at the end of 2018. And there may be more brokers out there (we haven’t found an exact number). This rather fragmented market structure indicates the potential for hyper-competitive pricing, especially with the mid-February removal of the 15bp trading fee floor.

However, we are not very concerned about the hordes of Tier 3 / Tier 4 brokers for three main reasons. First, fragmentation is not new. We have found earlier estimates of the total number of Vietnam brokers that are even higher, suggesting that at least some brokers have exited the market, which could remain a trend given the predominance of the biggest players. Second, we don’t see how Tier 3 brokers can be operationally profitable given their evident lack of scale and marginal revenues. Market share is more concentrated than the high number of brokers would suggest. Presumably brokers with near-zero market share have weak operating revenues, but are likely to face high fixed costs, including the inescapable regulatory compliance costs. Third, limited earnings power implies low levels of capital, which further

compounds the Tier 3 / Tier 4 brokers' ability to engage in the more profitable retail business segments, especially margin finance and derivatives.

**Fig 22) A horde of brokers exists, but it's not exactly a free-for-all**



Source: HOSE

Determining a reason for such brokerage houses to exist leaves us scratching our heads. It's possible that such houses might remain in the game as platforms for the PA trading of their owners, a phenomenon that we have seen in other markets.

**...and the potential for disruptive new entrants (including, ahem, those from abroad) could be a long-term challenge for the incumbent players.**

But more ominously for the major domestic securities houses, the owners of some marginal brokerages may be holding out for M&A. According to our understanding, the fragmented state of the industry means that the issuance of new brokerage licenses has more-or-less dried up. Thus, the core value of these apparently dormant businesses could be their licenses. To be sure, we see zero reason for a wave of acquisitions from the major incumbent players. But global and/or regional houses might see such brokerages as means of gaining market entry. This would probably be a net positive for the incumbent major brokers to the extent that it underlines the market's increasing attractiveness going forward. But it also foreshadows the potential for much tougher competition from well-funded, globally experienced cash equities and derivatives players. We may be biased, but in our opinion the major incumbents should consider preparing themselves for such an outcome.

**Risk 3: Removal of the brokerage commission floor**

**Brokerage fees: Stay tuned in after Feb 15, when the mandatory floor disappears.**

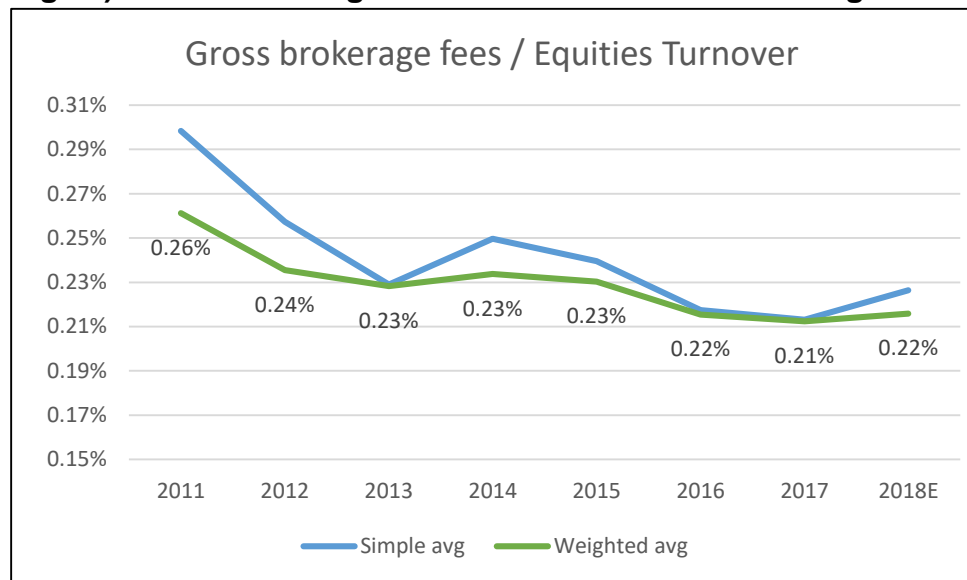
The removal of the 15bp floor on brokerage commissions is a form of deregulation that was not particularly welcome among most Vietnamese brokerage shareholders. This has raised concerns among investors that fees will inexorably and substantially compress toward zero. This is a reasonable concern given what has happened to the industry elsewhere. We have adopted a middle-road approach in our forecasts, with moderate compression out over the next decade.

**We have factored in moderate brokerage fee compression going forward, but the competition could turn out to be fiercer than we expect.**

Our calculation of brokerage fees is based on disclosed gross brokerage income divided by share of equities turnover as reported by the stock exchanges. This tends to skew the gross commission fees to the upside because the numerator includes fees from bond trading (a de minimis figure for our universe) and more importantly, fees from derivatives brokerage. We have not tried to adjust the denominator, which only includes the estimated equities turnover from data disclosures of the exchanges. In any case, we calculate that brokerage fees have fallen steadily from an average 30bp in 2011 to 21bp in 2017. The average fee then increased by 2bp in 2018, based on the brokers' preliminary full-year income statements. Again, the bounce in our calculation here is probably due to the onset of the derivatives business, which only began making a substantial contribution to brokerage income in 2018. Moreover, this is a gross figure: brokerage income net of allocated operating expenses averaged around 10bps in 2018.

In any case, we are very confident that the overall direction of brokerage fees is likely to be down. Thus, we have penciled in gross brokerage commissions to fall from a straight average of 23bps in 2018P to 20bps in 2019E (i.e., compression of 3bps), and subsequent 1bp annual declines in 2020E to reach 19bp and 2021E to reach 18bp. We think the compression will continue thereafter, reaching 14bps in 2029E – at which point the brokers might be earning 3-4bp net of brokerage costs.

**Fig 23) Gross Brokerage Commissions For Our Coverage**



Source: Company data, HOSE, Yuanta Research

We agree that fees will fall, but we think the compression will be gradual and spread out over several years, for three main reasons. We also point out one of the many vagaries of the Vietnam market that in theory should result in higher fees, but that in reality does the opposite.

**Supportive factors include 1) the fact that many brokers were already undercutting the floor,**

First, discussions with our colleagues here (who, unlike ourselves, have been in the market for many years) indicate that many brokers were skirting the rules via rebates and effectively charging less than the erstwhile 15bp floor anyway. If so, the removal of the regulation would represent the legalization of reality rather than a sea change in competitive forces.

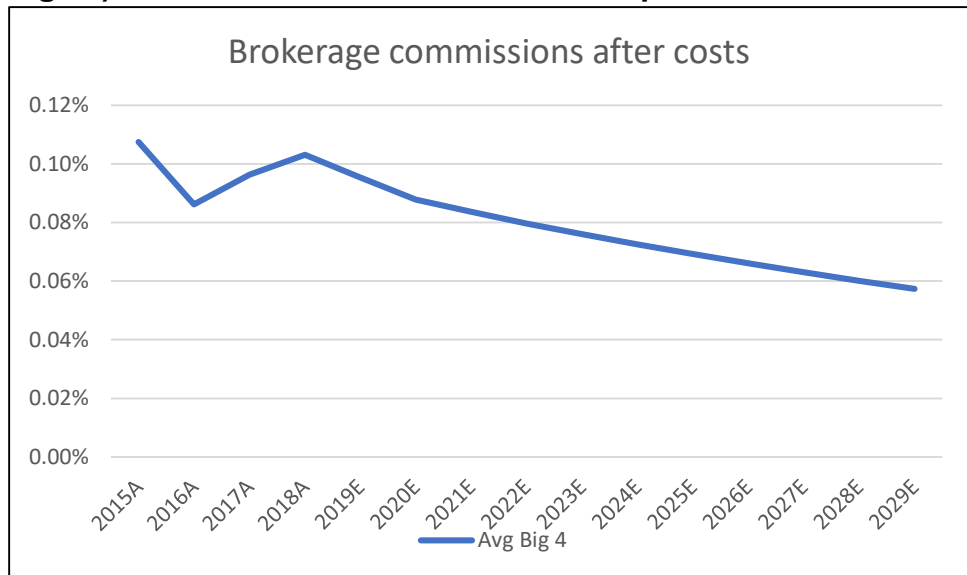
2) at least some level of market scale, and

3) the fact that commissions net of costs are only around 10bps.

Second, as illustrated in Fig 21 above, the largest players dominate the market, giving them at least some level of pricing power. We wouldn't call this a wide competitive moat, but at least it's a windbreak.

Third, the operating margin of pure brokerage is roughly half of gross fees, which reduces the amount that gross fees can fall in the very short term. Our focus in analyzing the brokers is the operating profitability of their various business lines, rather than gross revenues. We see this as the right way to understand a business line's performance, although the brokers tend to emphasize their topline (gross) results and lump the allocated costs into a single line. In any case, as illustrated below, net commissions after brokerage expenses were closer to 10bps in 2018. This should reduce the pace of gross fee compression in our view, although we agree that net commissions will also come down in the years ahead.

Fig 24) Net Commissions Are Around 10bps



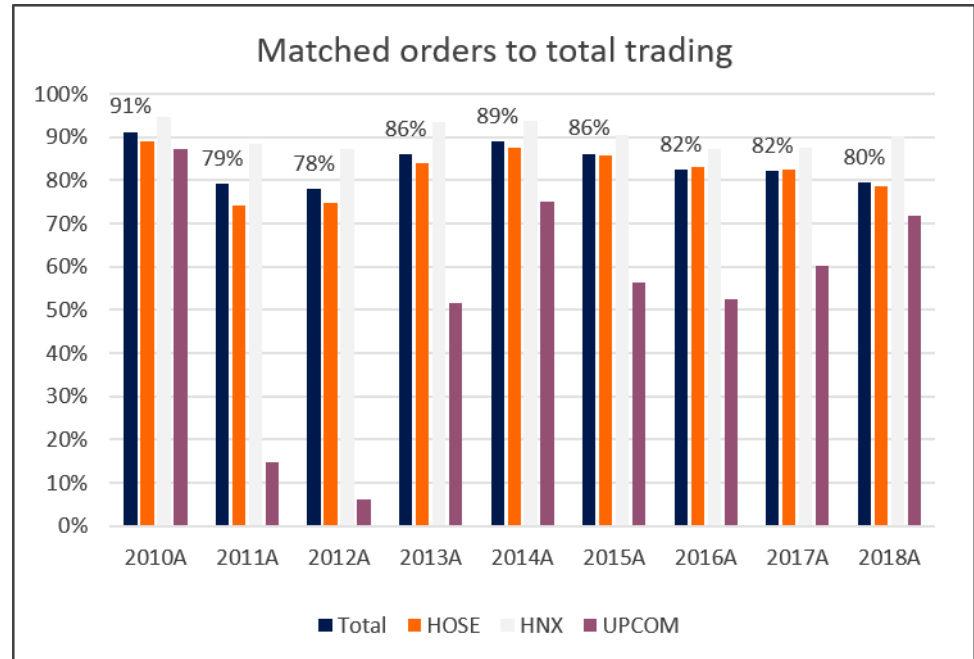
Source: Company data, HOSE, Yuanta Research

But the predominance of block trading, which we originally thought might be a supportive factor for brokerage fees, probably won't be.

Lastly, we should point out a feature of Vietnam's markets that we initially thought should justify sustainably higher fees vs. the rest of the world, but that we have come to see as more likely to be subject to competition.

This is the wonderful world of block trading or "matched trades," which dominates the markets here. In theory, the network of connected human beings that is required for this service and those human beings' presumed desire to be compensated for their efforts should justify relatively high fees. However, discussions with traders here have led us to the opposite view – in reality, competition for large blocks is even higher, and thus the predominance of block trading only leads to even greater overall fee compression than would be the case if the put-through market were more liquid.

**Fig 25) It's all about blocks, but that doesn't help fees**



Source: FiinPro, Yuanta Research

**Risk 4: The pace of market liberalization**

This is the main endogenous wild card, in our view. Based on our discussions here, the Street view on liberalization appears to be relatively skeptical given the various structural frictions that impede reform efforts.

Given these skeptical (if not outright pessimistic) expectations among professional market participants, we think the pace of liberalization presents more of an upside risk: when expectations are low, exceeding those expectations is easier than when expectations are high. We aren't forecasting it, but a more aggressive-than-expected pace of liberalization that includes efforts to address the FOL issues would very likely result in a sustained market rally long before a prospective MSCI decision on E/M status for Vietnam. In such a rally, the brokerage shares, which we see as cheap at current levels, would likely outperform our expectations and rally back toward peak levels.

Of course, liberalization can be a double-edged sword. As we will (probably) begin to see with the removal of the 15bp brokerage fee floor starting next week, it also implies higher levels of competition – again, both from incumbents and possible new market entrants.

**Risk 5: Operational risks**

**Credit risk:** Lending activities primarily consist of margin finance, and other loans (typically less than 10% of credit assets) should likewise be collateralized by stock. The margin business is remarkably profitable given its relatively secure nature, and this is largely due to investor short-termism. Brokers charge by the day, not by the year, but annualized gross interest yields of 12-13% are highly attractive. The downside risk of this business relates to the ability to realize collateral values, which

**Liberalization expectations are low, implying potential upside if the pace and extent of deregulation exceeds those expectations.**

**But market liberalization is not a one-way street (e.g., elimination of the brokerage fee floor).**

**Operational risks are permanent features of financial services. The appropriate degree of concern is a matter of confidence in management, in our view.**

are a function of stock prices and liquidity. Although borrowers are still on the hook for loans where collateral value evaporates, when such borrowers are also wiped out by their leveraged bets, collections/recovery can be a difficult task. Brokerage lending is therefore not just a source of credit risk, but also operational risk.

**Liquidity risk:** Our brokers appear to be positioned here given their liquidity coverage ratios of 2-3x the 180% regulatory minimum. Additionally, we view broker's debt financing mainly as supporting margin finance loans; so both debt and the assets that this debt supports are short term in nature, leaving limited duration risk in our view. That said, a policy-led contraction of bank credit to brokers would clearly curtail expansion of the margin finance business, which would thus impact the bottom line.

**Regulatory risk** is always a concern for brokers given the fiduciary nature of the business and the need to provide protection for mom and pop investors. This could potentially lead to the curtailment of targeted business activities, and it also ties in with liquidity and legal risks. In our view, this should be less of an issue for the brokers more focused on institutional business, but none of them are exempt. Brokers in other Asian markets are occasionally corralled into lending their balance sheets for government-led "plunge protection" activities – if not actively called on to support stocks (as they are in China). However, given the relatively small size of domestic brokers' prop books, this is not an overwhelming concern for us.

# Ho Chi Minh City Securities (HCM VN)

## One For The Long Term

### BUY

Current price (11-02-19): VND 48,000

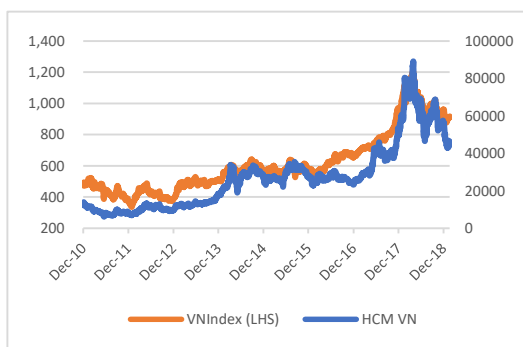
**Target price: VND 61,600**

**Upside: 28.4%**

**Our view:** We believe that HCM's dominant institutional investment franchise, solid balance sheet, and forward-thinking management are highly attractive for investors seeking a solid proxy on the long-term development of Vietnam's capital markets. We initiate coverage on HCM with a BUY rating and rank it among our top picks.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (%ge)	ADTV-3month
VND 42,200–93,300	USD 244 mn	3.8%	No limit	67%	USD 520K

#### Price performance



#### Event catalysts

- Increased market activity as investors return from the doldrums of Dec-Jan.
- Market-leading institutional broking product.
- Growth in derivatives turnover and depth of derivatives products.
- Confidence in management's ability to execute while managing the operational risks.

#### Risks to our call

- Operations are highly geared to market activity.
- The stock would perform poorly in a bear market.
- Tightened liquidity could pressure margin spreads.
- Proprietary trading is always a wild card with brokers.

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**Company profile:** Ho Chi Minh City Securities is Vietnam's second largest brokerage by equities turnover market share. In a market dominated by retail investors, HCM stands out as best positioned in our coverage to benefit from increased institutional participation in the years ahead.

Key metrics	2018P	2019E
Op rev (YoY)	22%	-15%
Adj profit (YoY)	22%	-5%
Cur ratio (x)	2.3	2.2
Debt/Equity (x)	0.5	0.5
ROA (x)	11.3%	11.5%
ROE (x)	20.6%	17.8%
EPS (VND)	4,614	4,394
EPS (YoY)	21.5%	-4.8%
PE (x)	10.4	10.9
PB (x)	2.0	1.8

Source: Bloomberg

**Market proxy.** In our view, HCM offers long-term investors an attractive combination of strong market position and confidence in management. The company's dominant position should make it a beneficiary of increased institutional investor activity in Vietnam in the years ahead. It may not be a "sleep well at night" stock given the volatile nature of the business, but we think that it's as close as investors will find in the brokerage sector. We thus rank HCM as our top pick for clients seeking a proxy on the long-term development of the Vietnamese capital markets.

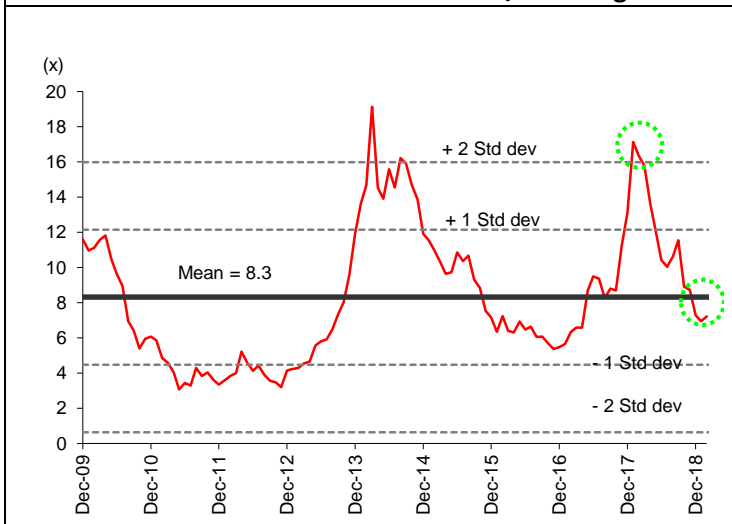
**Valuation is attractive.** Our target price is based on the median of four fair value methodologies, and implies 14x 2019E P/E and 10x 2020E P/E. This valuation is supported by average 2018P-21E ROE of 21% based on a moderate 5% YOY dip in attributable income in 2019E followed by a recovery in 2020-21E. Admittedly, HCM has only averaged c. 14% ROE over the past decade, and achieving our forecasts would require continued growth in market activity in 2020-21E. These ROE figures are adjusted for below-the-line employee welfare payments, which are quite clearly an operating cost.

**Risks to our view.** The stock is highly correlated to the VNIndex (97%) and ADT (82%), implying downside risk for both operations and the share price whenever the market tanks. Of course, the opposite is also true. This is a reality of life for investors in capital markets-facing businesses: the stocks, like the markets, are highly volatile. Perhaps a more cogent risk for HCM specifically is competition for institutional brokerage from incumbent and future market entrants given that it ranks among the predominant players in this space.

<b>Price multiples: HCM VN</b>					
(x)	2016A	2017A	2018E	2019E	2020E
Reported P/E	20.0	11.2	9.2	9.7	6.6
Adjusted P/E	22.6	12.6	10.4	10.9	7.5
Reported P/B	2.6	2.2	2.0	1.8	1.6
Tangible P/B	2.6	2.2	2.0	1.8	1.6
EV / EBITDA	15.9	8.2	7.0	7.6	5.3
Dividend Yield	3.0%	3.8%	3.5%	3.8%	3.7%

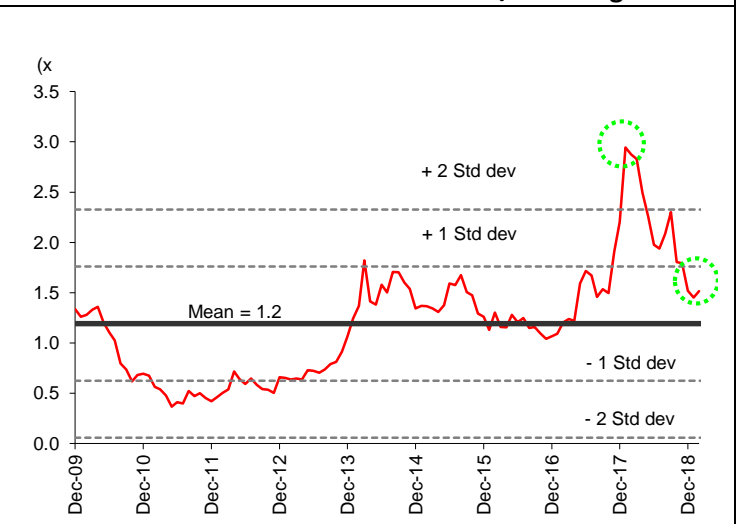
Source: Company data, Yuanta Research

**HCM VN: Historical 12-month forward P/E trading band**



Source: Company data, Bloomberg, Yuanta Research

**HCM VN: Historical 12-month forward P/B trading band**



Source: Company data, Bloomberg, Yuanta Research

<b>HCM VN Valuations and Target Price</b>				
	VND per share	Upside / downside	Rating	Implied 2019E PE (x)
Current price	48,000			10.9
DCF valuation	71,087	48.1%	BUY	16.2
Gordon growth valuation	62,473	30.2%	BUY	14.2
DDM	59,958	24.9%	BUY	13.6
SoTP	60,772	26.6%	BUY	13.8
Mean fair value	63,573	32.4%	BUY	14.5
<b>Median fair value / Target price</b>	<b>61,623</b>	<b>28.4%</b>	<b>BUY</b>	<b>14.0</b>

Source: Yuanta Research

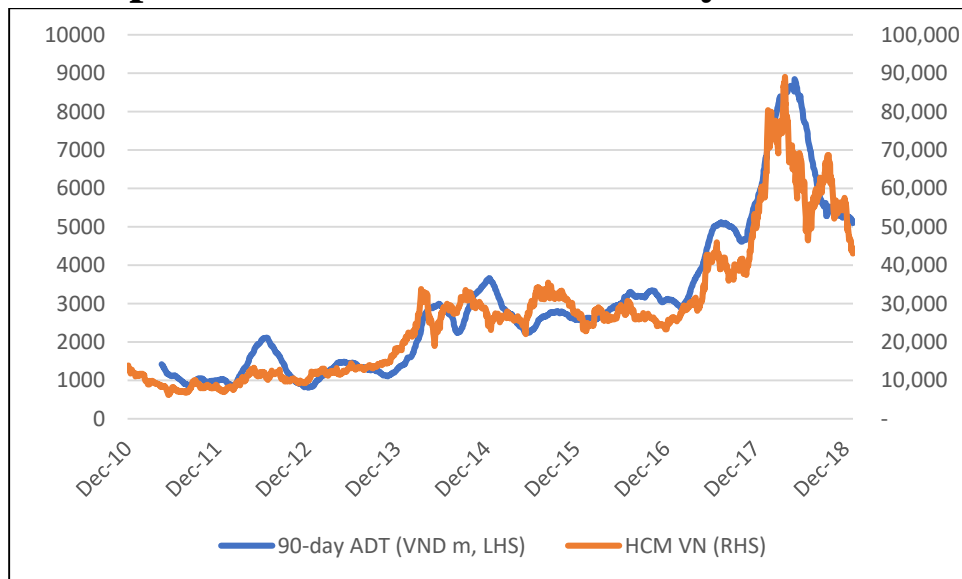


## HCM: Income Statement

(VND bn)	2016A	2017A	2018P	2019E	2020E	2021E
<b>Brokerage net revenues</b>	142	317	344	306	388	469
<b>Margin lending net revenues</b>	202	242	319	355	441	556
Gains on trading assets	49	210	173	66	191	170
Gains on AFS & HTM assets	-	-	-	-	-	-
Other investment	8	(40)	30	31	33	37
<b>Total investment revenues</b>	58	170	203	97	224	207
Net fee income	15	36	96	115	173	234
Other operating net revenues	(17)	7	11	12	13	14
<b>Net operating revenues</b>	399	772	973	886	1,239	1,481
SG&A expenses	(92)	(123)	(181)	(212)	(237)	(257)
<b>Operating profit</b>	307	649	791	673	1,002	1,224
Associates	0	0	0	0	0	0
Non-operating revenues	2	3	2	3	3	3
Interest expense (ex margin)	76	41	49	128	169	201
<b>Pretax profit</b>	385	693	842	804	1,174	1,428
Tax	(81)	(139)	(167)	(161)	(235)	(286)
Minorities	-	-	-	-	-	-
<b>Reported PATMI</b>	305	554	675	643	939	1,143
PATMI plus OCI	305	554	675	643	939	1,143
<b>Adjusted PATMI</b>	270	490	598	569	831	1,011
Reported EPS (VND)	2,395	4,289	5,213	4,965	7,248	8,819
<b>Adjusted EPS (VND)</b>	2,119	3,796	4,614	4,394	6,415	7,805

Source: Company data, Yuanta Securities

## Share price correlation with 90-day ADT: 81%



Source: Bloomberg, Yuanta Research

<b>HCM: Balance sheet</b>						
<b>(VND bn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Cash & equivalents	60	196	117	129	141	152
Net margin loans	2,731	4,468	3,238	3,724	4,469	5,139
FVPL assets	306	861	852	809	931	1,070
AFS assets	-	399	-	-	-	-
S/T HTM assets	-	-	-	-	-	-
Other current assets	375	582	858	1,096	1,257	1,322
<b>Current assets</b>	<b>3,473</b>	<b>6,506</b>	<b>5,065</b>	<b>5,759</b>	<b>6,797</b>	<b>7,683</b>
L/T HTM assets	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Other L/T assets	144	175	191	206	221	235
<b>Total L-T assets</b>	<b>144</b>	<b>175</b>	<b>191</b>	<b>206</b>	<b>221</b>	<b>235</b>
<b>Total assets</b>	<b>3,617</b>	<b>6,681</b>	<b>5,256</b>	<b>5,965</b>	<b>7,018</b>	<b>7,918</b>
S/T borrowings	1,000	2,480	1,554	1,865	2,107	2,234
S/T bonds	-	800	150	173	302	377
Other S/T liabilities	225	595	492	537	615	634
<b>Current liabilities</b>	<b>1,225</b>	<b>3,874</b>	<b>2,196</b>	<b>2,574</b>	<b>3,024</b>	<b>3,246</b>
Long-term bonds	-	-	-	-	-	-
Other L/T liabilities	-	15	-	-	-	-
<b>Long-term liabilities</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Shareholder equity	1,271	1,295	1,295	1,295	1,295	1,295
Reserves	548	664	594	594	594	594
Retained earnings	572	832	1,172	1,502	2,106	2,784
Minority interests	-	-	-	-	-	-
Total equity	2,392	2,791	3,061	3,391	3,994	4,673
<b>Attributable equity</b>	<b>2,392</b>	<b>2,791</b>	<b>3,061</b>	<b>3,391</b>	<b>3,994</b>	<b>4,673</b>
BVPS (VND)	18,811	21,542	23,621	26,169	30,826	36,065

Source: Company data, Yuanta Securities

<b>HCM: Selected ratios</b>						
<b>Liquidity &amp; leverage</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Current ratio (x)	2.8	1.7	2.3	2.2	2.2	2.4
Net debt / equity	39%	82%	47%	51%	49%	45%
Interest coverage ratio (x)	16.9	6.8	6.1	12.0	12.7	12.7
Equity / Assets	66.1%	41.8%	58.2%	56.8%	56.9%	59.0%
Tangible Equity / Assets	66.1%	41.6%	58.0%	56.7%	56.7%	58.9%
<b>Asset yields</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Margin loans (net)	7.7%	6.9%	7.6%	7.3%	7.3%	8.0%
FVPL realized	21.7%	31.4%	22.8%	10.0%	20.0%	15.0%
FVPL revaluation	0.8%	4.5%	-2.6%	-2.0%	2.0%	2.0%
Dividends / Interest on FVPL	14.5%	10.3%	12.3%	12.5%	12.5%	12.5%
Total trading book	26.3%	29.1%	23.7%	11.7%	25.7%	20.7%
Fee income / Assets	0.4%	0.7%	1.6%	2.1%	2.7%	3.1%
<b>Profitability</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage GPM	40.7%	52.6%	45.4%	44.9%	44.4%	44.0%
Margin lending GPM	58.8%	55.2%	60.9%	59.1%	58.7%	61.1%
Brokerage / net op inc	35.6%	41.0%	35.4%	34.6%	31.3%	31.7%
Margin / net op inc	50.6%	31.4%	32.8%	40.1%	35.6%	37.6%
Fees / net op inc	3.6%	4.7%	9.9%	13.0%	14.0%	15.8%
Investments / net op inc	14.4%	22.0%	20.9%	11.0%	18.1%	14.0%
Staff comp ratio	20.4%	19.1%	0.0%	21.0%	22.0%	23.0%
Bonus & welfare / NPAT	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Adj ROA	8.0%	10.8%	11.3%	11.5%	14.5%	15.3%
Adj ROE	11.6%	19.0%	20.6%	17.8%	22.7%	23.5%
<b>Growth (YoY)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage revenues	51.8%	122.8%	8.7%	-11.0%	26.7%	20.9%
Margin lending net revenues	-6.3%	20.1%	31.4%	11.6%	24.1%	26.1%
Investment revenues	11.3%	194.3%	19.8%	-52.1%	129.7%	-7.3%
Fee income	958.5%	147.4%	166.2%	20.0%	50.4%	35.5%
Net operating revenues	11.0%	93.4%	26.0%	-8.9%	39.8%	19.5%
SG&A expenses	3.5%	33.7%	47.5%	17.1%	11.5%	8.4%
Operating profit	13.4%	111.2%	21.9%	-14.9%	48.8%	22.2%
Reported PATMI	42.8%	81.9%	21.9%	-4.8%	46.0%	21.7%
Adjusted PATMI	32.6%	81.9%	21.9%	-4.8%	46.0%	21.7%
Reported EPS	42.8%	79.1%	21.5%	-4.8%	46.0%	21.7%
Adjusted EPS	32.6%	79.1%	21.5%	-4.8%	46.0%	21.7%
Avg margin loans	56.9%	24.6%	21.5%	15.0%	25.0%	15.0%
FVPL assets	131.8%	180.9%	-1.0%	-5.0%	15.0%	15.0%
AFS assets	nmf	nmf	-100.0%	nmf	nmf	nmf
Short-term HTM assets	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Total current assets	16.9%	87.3%	-22.1%	13.7%	18.0%	13.0%
Total assets	16.5%	84.7%	-21.3%	13.5%	17.7%	12.8%
Attributable equity	5.0%	16.0%	9.6%	10.8%	17.9%	17.0%
BVPS	5.0%	14.5%	9.7%	10.8%	17.8%	17.0%

Source: Company data, Yuanta Securities

# Saigon Securities (SSI VN)

## One For The Traders

### Hold

Current price (11-02-19): VND 26,900

**Target price: VND 25,100**

**Upside: -2.9%**

**Our view:** SSI's market share accretion has been impressive. But our focus is on profitability, an area where SSI scores less attractively on shareholder returns vs its peers. Fundamentals aside, SSI's market cap and daily trading liquidity are the highest in the sector, and the shares are also highly sensitive to market pricing and ADT. Thus, despite mediocre profitability, SSI could be an interesting vehicle for short-term traders looking for a market proxy.

52-week Price Range (VND)

**VND 25,026-42,972**

Market Capitalization

**USD 593 mn**

FY19E Dividend Yield

**3.8%**

Remaining Foreign Room

**No limit**

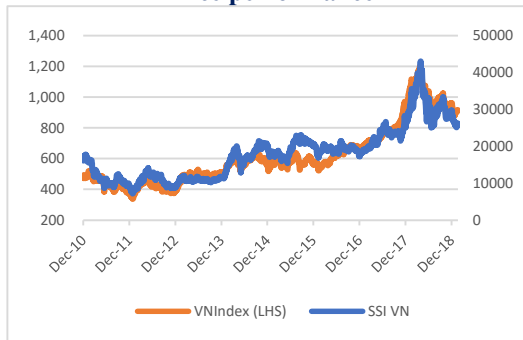
Free-float (%ge)

**64%**

ADTV-3month

**USD 2.6 mn**

### Price performance



### Event catalysts

- SSI's low ROE justify a valuation discount to peers that persistently deliver greater shareholder value.
- The shares are trading near a one-year low, but are back to their long-term mean on a PER / PBV basis.
- The stock is large and liquid (for a Vietnamese broker), which could be an attractive feature for short-term traders looking for a market punt.

### Risks to our call

- Operations are highly geared to market activity.
- Like the other brokers, the stock's high correlation to VNIndex and ADT puts our Neutral call at risk.
- Tightening liquidity could impact margin finance.
- Prop trading is a wild card.

### Matthew Smith, CFA

Head of Research

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**Company profile:** SSI is the sector's largest stock by both market cap and trading liquidity. It is Vietnam's largest securities company by brokerage market share, a position that it is likely to maintain going forward in our view. This appears to come at the cost of relatively low ROEs.

Key metrics	2018P	2019E
Op rev (YoY)	15%	23%
Adj profit (YoY)	19%	3%
Cur ratio (x)	1.7	1.8
Debt/Equity (x)	1.3	1.4
ROA (x)	5.7%	4.9%
ROE (x)	14.8%	14.0%
EPS (VND)	2,553	2,620
EPS (YoY)	15.6%	2.6%
PE (x)	10.3	8.9
PB (x)	1.5	1.4

Sources: Company data, Bloomberg, Yuanta Securities Research

**Market share rolls on, but at the price of shareholder returns.** SSI is the market share leader in the Vietnamese brokerage space, but its ROEs are low vs peers – and we do not expect this to change going forward. SSI accounted for c. 17% share of total equities brokerage turnover in 2018P, more than double its market share six years before. Its share of yearend margin lending was c.16%. Both of these metrics rank SSI as No. 1 among all Vietnamese brokers, which is an impressive achievement. However, operating leverage appears low, as costs offset topline brokerage gains. Additionally, margin finance, prop trading, and strategic investments are all capital-hungry businesses, resulting in relatively low (c.14-15%) ROEs.

**Valuations are back at historical mean levels.** The share price has fallen 37% since peaking out at VND 43K in April 2018. However, the P/E ratios of 8.9x 2019E and 7.9x 2020E are second highest in our coverage despite a tepid c.14-15% ROE outlook, and are only in line with the stock's historical mean. Our target price is based on the median of four fair value methodologies and implies 10.0x 2019E P/E / 8.7x 2020E P/E. In other words, we reckon that the shares are now trading at fair value, and long term investors should wait for a discount.

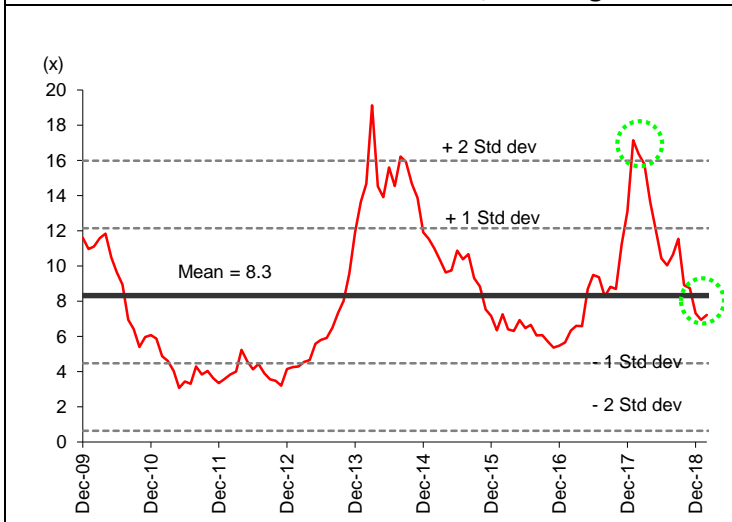
**Risks to our view.** Our Neutral call is based on the fundamental view that SSI is only returning its cost of capital and thus deserves to trade at close to current valuations. However, at the end of the day, it's a brokerage stock. Realistically, SSI might rebound back into overvalued territory if the market rallies, given historical correlations of 96% vs the VNIndex and 81% vs equity market ADT. However, we think the risk of an ROE rerating is low, as (from what we can see) market share growth appears to be the key KPI, not profitability.

## Price multiples: SSI VN

(x)	2016A	2017A	2018P	2019E	2020E
Reported P/E	14.7	11.0	10.7	9.3	8.3
Adjusted P/E	14.6	10.5	10.3	8.9	7.9
Reported P/B	1.7	1.6	1.5	1.4	1.3
Tangible P/B	1.7	1.6	1.5	1.4	1.3
EV / EBITDA	6.2	5.0	4.1	3.7	3.1
Dividend Yield	3.7%	3.7%	3.7%	3.8%	3.9%

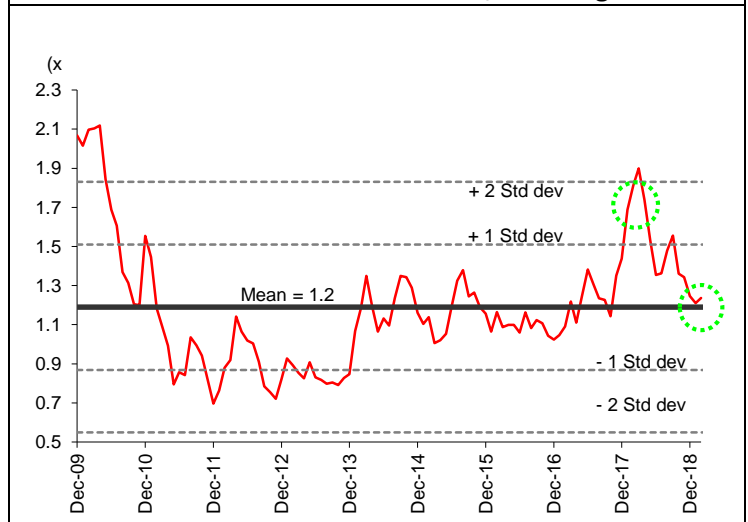
Source: Company data, Yuanta Research

### SSI VN: Historical 12-month forward P/E trading band



Source: Company data, Bloomberg, Yuanta Research

### SSI VN: Historical 12-month forward P/B trading band



Source: Company data, Bloomberg, Yuanta Research

## SSI: Valuations and Target Price

	VND per share	Upside / downside	Rating	Implied 2019E PE (x)
Current price	26,900			10.3
DCF valuation	44,672	66.1%	BUY	17.1
Gordon growth valuation	25,500	-5.2%	HOLD	9.7
DDM	22,826	-15.1%	HOLD	8.7
SoTP	26,749	-0.6%	HOLD	10.2
Mean fair value	29,937	11.3%	HOLD	11.4
<b>Median fair value / Target price</b>	<b>26,125</b>	<b>-2.9%</b>	<b>HOLD</b>	<b>10.0</b>

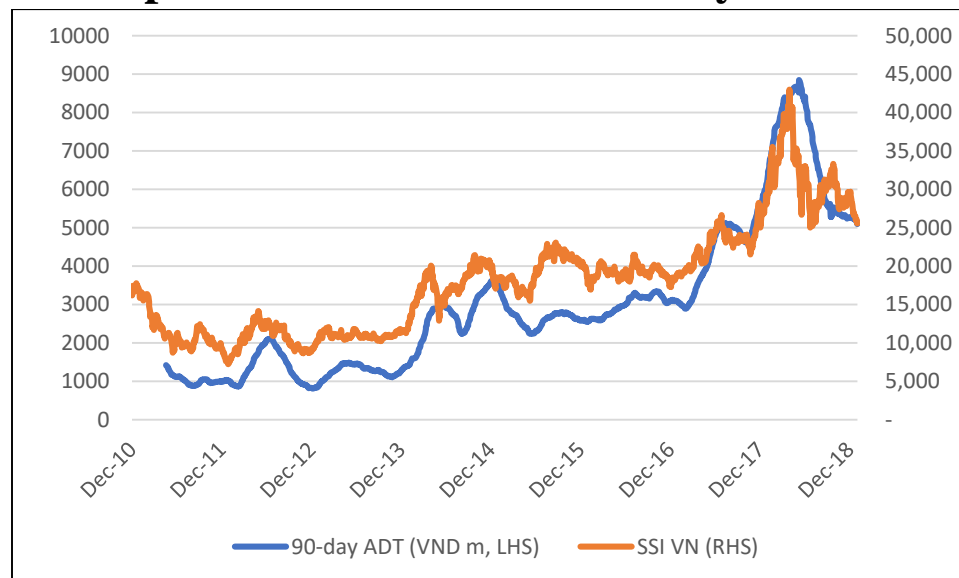
Source: Yuanta Research

## SSI: Income Statement

(VND bn)	2016A	2017A	2018P	2019E	2020E	2021E
<b>Brokerage net revenues</b>	79	264	358	310	368	449
<b>Margin lending net revenues</b>	250	331	436	491	618	706
Gains on trading assets	276	136	(62)	232	280	415
Gains on AFS & HTM assets	686	709	925	1,075	1,247	1,391
Other investment	(112)	85	76	0	(9)	(11)
<b>Total investment revenues</b>	<b>850</b>	<b>929</b>	<b>938</b>	<b>1,307</b>	<b>1,519</b>	<b>1,795</b>
Net fee income	95	51	75	83	91	101
Other operating net revenues	32	(8)	(24)	(26)	(29)	(32)
<b>Net operating revenues</b>	<b>1,306</b>	<b>1,566</b>	<b>1,784</b>	<b>2,164</b>	<b>2,567</b>	<b>3,020</b>
SG&A expenses	(141)	(168)	(174)	(191)	(213)	(237)
<b>Operating profit</b>	<b>1,165</b>	<b>1,398</b>	<b>1,610</b>	<b>1,973</b>	<b>2,354</b>	<b>2,783</b>
Associates	73	106	239	53	76	57
Non-operating revenues	24	50	73	80	84	88
Interest expense (ex margin)	(118)	(149)	(299)	(442)	(602)	(767)
<b>Pretax profit</b>	<b>1,144</b>	<b>1,405</b>	<b>1,623</b>	<b>1,664</b>	<b>1,913</b>	<b>2,162</b>
Tax	(199)	(244)	(320)	(328)	(377)	(426)
Minorities	2	1	2	2	2	2
<b>Reported PATMI</b>	<b>947</b>	<b>1,162</b>	<b>1,305</b>	<b>1,339</b>	<b>1,538</b>	<b>1,738</b>
PATMI plus OCI	879	1,097	1,232	1,264	1,453	1,641
<b>Adjusted PATMI</b>	<b>885</b>	<b>1,082</b>	<b>1,288</b>	<b>1,322</b>	<b>1,519</b>	<b>1,716</b>
Reported EPS (VND)	1,830	2,239	2,442	2,505	2,879	3,253
<b>Adjusted EPS (VND)</b>	<b>1,843</b>	<b>2,208</b>	<b>2,553</b>	<b>2,620</b>	<b>3,010</b>	<b>3,402</b>

Source: Company data, Yuanta Securities

## Share price correlation with 90-day ADT: 81%



Source: Bloomberg, Yuanta Research

<b>SSI: Balance sheet</b>						
<b>(VND bn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Cash & equivalents	309	346	613	674	708	736
Net margin loans	3,751	5,741	5,937	6,828	8,193	9,115
FVPL assets	1,549	1,431	2,040	2,142	2,249	2,362
AFS assets	1,615	1,535	1,265	1,202	1,298	1,389
S/T HTM assets	5,244	7,882	12,326	14,175	17,010	18,924
Other current assets	196	293	89	93	96	100
<b>Current assets</b>	<b>12,664</b>	<b>17,228</b>	<b>22,270</b>	<b>25,113</b>	<b>29,555</b>	<b>32,625</b>
L/T HTM assets	41	130	302	347	416	463
Associates	709	813	764	764	764	764
Other L/T assets	593	593	489	503	514	525
<b>Total L-T assets</b>	<b>1,343</b>	<b>1,536</b>	<b>1,555</b>	<b>1,615</b>	<b>1,694</b>	<b>1,752</b>
<b>Total assets</b>	<b>14,007</b>	<b>18,764</b>	<b>23,826</b>	<b>26,728</b>	<b>31,249</b>	<b>34,377</b>
S/T borrowings	4,819	8,504	11,193	11,977	13,234	14,458
S/T bonds	376	200	255	357	518	621
Other S/T liabilities	647	651	2,021	1,936	2,394	2,478
<b>Current liabilities</b>	<b>5,842</b>	<b>9,354</b>	<b>13,469</b>	<b>14,269</b>	<b>16,146</b>	<b>17,558</b>
Long-term bonds	200	569	1,068	2,350	3,996	4,595
Other L/T liabilities	58	225	132	145	152	160
<b>Long-term liabilities</b>	<b>258</b>	<b>794</b>	<b>1,201</b>	<b>2,495</b>	<b>4,148</b>	<b>4,755</b>
Shareholder equity	4,927	5,028	5,235	5,235	5,235	5,235
Reserves	1,225	1,297	1,058	1,058	1,058	1,058
Retained earnings	1,675	2,213	2,795	3,601	4,591	5,700
Minority interests	79	78	67	68	70	71
Total equity	7,907	8,616	9,156	9,963	10,955	12,065
<b>Attributable equity</b>	<b>7,828</b>	<b>8,538</b>	<b>9,089</b>	<b>9,895</b>	<b>10,885</b>	<b>11,994</b>
BVPS (VND)	15,981	17,081	17,850	19,434	21,378	23,555

Source: Company data, Yuanta Securities

<b>SSI: Selected ratios</b>						
<b>Liquidity &amp; leverage</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Current ratio (x)	2.2	1.8	1.7	1.8	1.8	1.9
Net debt / equity	0.60	1.01	1.27	1.37	1.51	1.52
Interest coverage ratio (x)	4.6	3.4	3.1	2.9	2.8	2.7
Equity / Assets	56.4%	45.9%	38.4%	37.3%	35.1%	35.1%
Tangible Equity / Assets	56.1%	45.5%	38.3%	37.2%	35.0%	35.0%
<b>Asset yields</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Margin loans (net)	7.6%	7.8%	7.6%	7.5%	7.5%	7.5%
FVPL realized	11.6%	6.7%	11.4%	9.1%	10.3%	10.0%
FVPL revaluation	9.3%	2.4%	-15.0%	2.0%	2.5%	8.0%
Dividends / Interest on FVPL	28.3%	16.5%	15.0%	12.0%	12.5%	10.0%
Total trading book	7.1%	6.8%	6.9%	7.0%	7.0%	7.0%
Fee income / Assets	10.9%	13.9%	30.3%	7.0%	10.0%	7.5%
<b>Profitability</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage GPM	20.6%	33.9%	31.7%	29.2%	26.8%	26.7%
Margin lending GPM	58.3%	63.6%	61.3%	60.0%	63.0%	65.2%
Brokerage / net op inc	6.0%	16.9%	20.1%	14.3%	14.4%	14.9%
Margin / net op inc	19.2%	21.1%	24.4%	22.7%	24.1%	23.4%
Fees / net op inc	7.3%	3.2%	4.2%	3.8%	3.6%	3.3%
Investments / net op inc	65.1%	59.3%	52.6%	60.4%	59.2%	59.5%
	10.6%	12.9%	13.0%	13.0%	13.0%	13.0%
Bonus & welfare / NPAT	6.8%	6.6%	5.7%	4.9%	4.9%	4.9%
Adj ROA	12.4%	13.4%	14.8%	14.0%	14.7%	15.1%
Adj ROE						
<b>Growth (YoY)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage revenues	22.4%	236.1%	35.7%	-13.5%	18.9%	21.9%
Margin lending net revenues	34.4%	32.2%	31.9%	12.5%	25.9%	14.3%
Investment revenues	27.8%	9.4%	1.0%	39.3%	16.2%	18.2%
Fee income	256.8%	-46.8%	48.1%	10.4%	10.4%	10.4%
Net operating revenues	38.6%	20.0%	13.9%	21.3%	18.6%	17.6%
SG&A expenses	5.0%	19.5%	3.4%	10.0%	11.7%	10.8%
Operating profit	44.2%	20.0%	15.2%	22.5%	19.3%	18.2%
Reported PATMI	12.5%	22.7%	12.3%	2.6%	14.9%	13.0%
Adjusted PATMI	13.2%	22.2%	19.0%	2.6%	14.9%	13.0%
Reported EPS	9.7%	22.3%	9.1%	2.6%	14.9%	13.0%
Adjusted EPS	11.2%	19.8%	15.6%	2.6%	14.9%	13.0%
Avg margin loans	22.0%	26.0%	37.0%	15.0%	20.0%	15.0%
FVPL assets	42.3%	-7.6%	42.5%	5.0%	5.0%	5.0%
AFS assets	101.1%	-5.0%	-17.6%	-5.0%	8.0%	7.0%
Short-term HTM assets	18.3%	50.3%	56.4%	15.0%	20.0%	11.3%
Total current assets	15.4%	36.0%	29.3%	12.8%	17.7%	10.4%
Total assets	15.3%	34.0%	27.0%	12.2%	16.9%	10.0%
Attributable equity	18.1%	9.1%	7.7%	8.9%	10.0%	10.2%
BVPS	15.4%	6.9%	4.5%	8.9%	10.0%	10.2%

Source: Company data, Yuanta Securities



# Viet Capital Securities (VCI VN)

## Derating Is Overdone

### BUY

Current price (11-02-19): VND 35,400

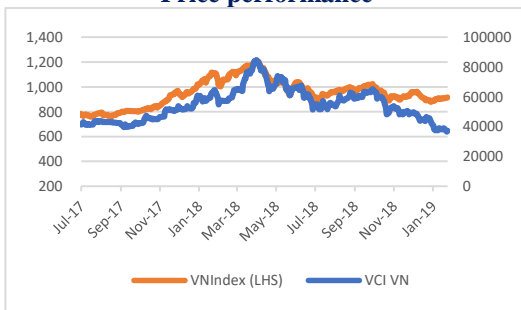
**Target price: VND 43,850**

**Upside: 23.9%**

**Our view:** We initiate coverage on VCI with a BUY rating. Although we do not expect the firm's extremely high historical ROEs to be sustained going forward, we think that the stock's sharp valuation de-rating over the past 12 months has fully discounted the negatives. However, a combination of relatively limited upside to our target price and low trading liquidity for the stock keeps it off our top picks list.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (%ge)	ADTV-3month
<b>VND 34,800–84,729</b>	<b>USD 258 mn</b>	<b>3.5%</b>	<b>No limit</b>	<b>66%</b>	<b>USD 276K</b>

### Price performance



### Event catalysts

- Increased market activity as investors return from the doldrums of December-January.
- Investment banking skill and experience remains best in class.
- VCI's market price has been fully de-rated over the past 12 months, in our view. The stock offers value here.

### Risks to our call

- Operations are highly geared to market activity.
- Tightened liquidity & prop trading could weaken ROA.
- Key employee risk could be a concern.
- Sentiment on VCI could remain weak on newsflow.

### Matthew Smith, CFA

Head of Research

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**Company profile:** VCI is a market leader in Vietnamese investment banking and institutional brokerage. Following a sharp derating since the 1Q18 peak, the shares now trade at just slightly higher than the one-year low and at the lowest P/E multiples in our Vietnam brokers universe.

Key metrics	2018P	2019E
Op rev (YoY)	26%	-9%
Adj profit (YoY)	26%	-15%
Cur ratio (x)	2.3	3.1
Debt/Equity (x)	0.0	0.1
ROA (x)	12.7%	9.6%
ROE (x)	24.3%	17.7%
EPS (VND)	5,719	4,221
EPS (YoY)	-1.2%	-26.2%
PE (x)	8.4	6.9
PB (x)	1.6	1.4

Sources: Company data, Bloomberg, Yuanta Research

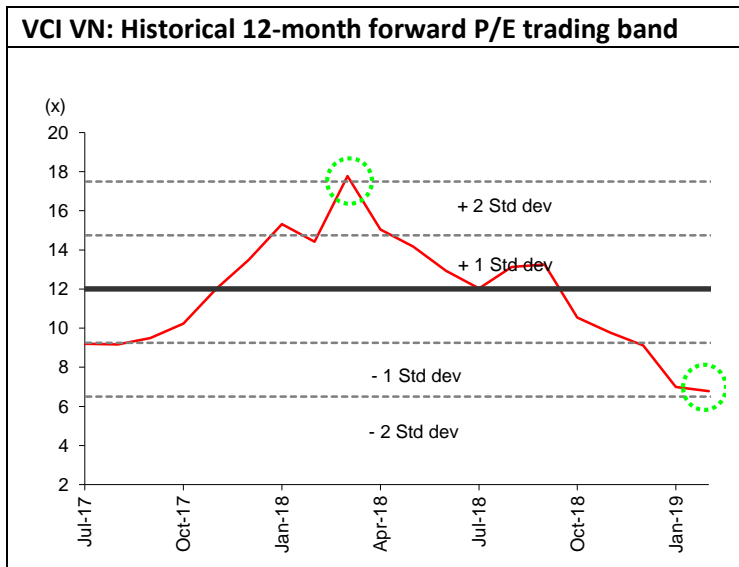
**Tough act to repeat.** VCI's 30%+ ROEs of previous years are not likely to be sustainable, in our view. A combination of reduced leverage and investment banking revenues (a product of conservative expectations for dealflow and, more importantly, increased competition) should preclude such an outcome. That said, VCI still enjoys a dominant position in institutional broking and should continue to benefit from IPO/equitization-related revenues. Our forecasts imply forward ROE of 18-19%, based a 15% YoY decline in 2019E earnings followed by a 25% recovery in 2020E. These forecasts could prove to be overly conservative.

**Valuation has fully de-rated,** in our view. Even after the post-Tet share price rally, VCI is trading only slightly higher than its 52-week low. The P/E ratio of 6.9x 2019E and 6.0x 2020E represent historical lows for VCI (admittedly, the stock has only been listed for 1.5 years). Our target price is based on the median of four fair value methodologies, and implies 10.4x 2019E P/E / 8.6x 2020E P/E. This valuation is reasonable given average 2018P-21E attributable shareholder ROE of 18-19%.

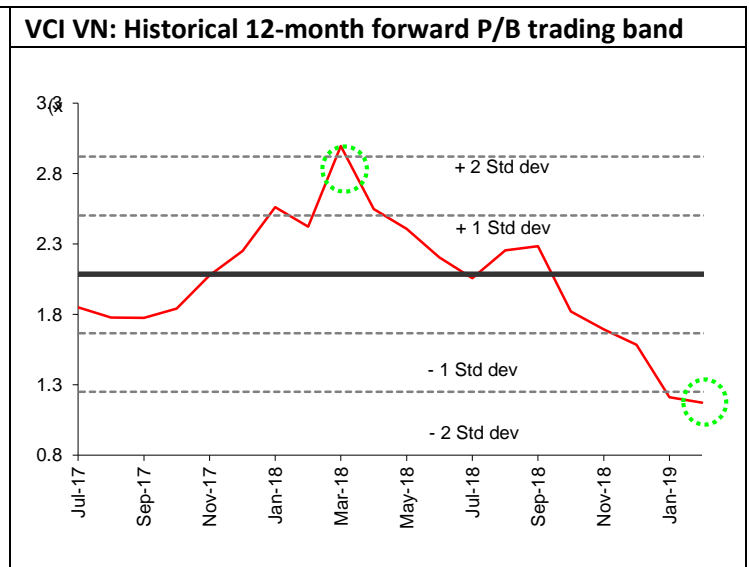
**Risks to our view.** The stock is less correlated than peers to ADT (44%), but this is likely a function of its limited trading history and sector-low trading liquidity. The correlation with VNIndex levels (89%) is right up there with the other brokers' long-term correlations, which supports the intuition that VCI is likewise a proxy on market performance. It is possible that the shares' tepid performance reflects concerns about key employee risks, which may prove to be sustainable. That said, we think the risk to our earnings projections is very likely to be on the upside, as we have dialed down our forecasts for IB-related fee income, which is the most ROE-accretive operating revenue stream in the brokerage business.

<b>Price multiples: VCI VN</b>					
(x)	2016A	2017A	2018P	2019E	2020E
Reported P/E	9.2	6.1	8.2	6.8	6.0
Adjusted P/E	9.2	6.2	8.4	6.9	6.1
Reported P/B	3.0	1.4	1.6	1.4	1.2
Tangible P/B	3.0	1.4	1.6	1.4	1.2
EV / EBITDA	6.7	3.7	2.9	3.1	2.5
Dividend Yield	2.6%	1.6%	2.4%	3.5%	3.0%

Source: Company data, Yuanta Research



Source: Company data, Bloomberg, Yuanta Research



Source: Company data, Bloomberg, Yuanta Research

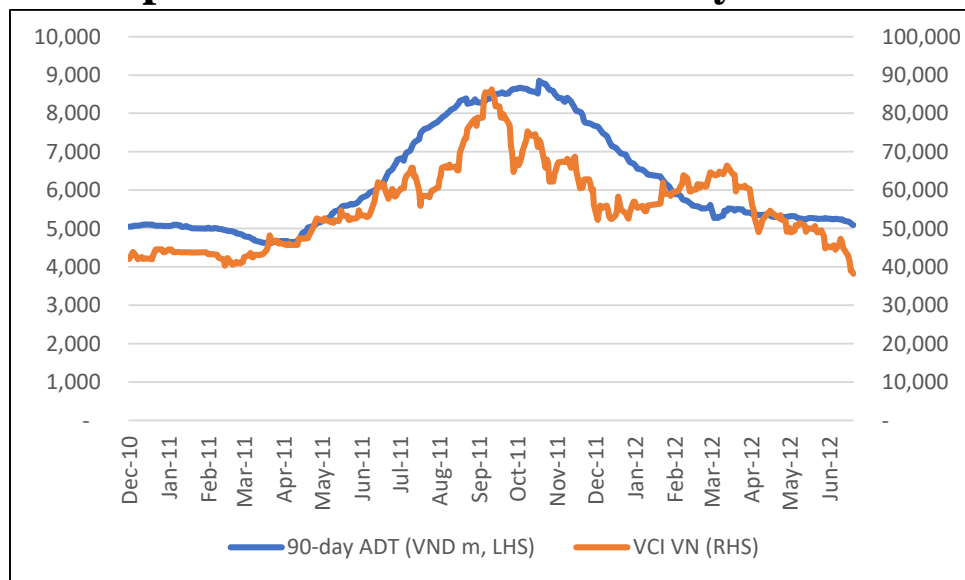
<b>VCI: Valuations and Target Price</b>				
	VND per share	Upside / downside	Rating	Implied 2019E PE (x)
Current price	35,400			8.4
DCF valuation	47,184	33.3%	BUY	11.2
Gordon growth valuation	48,847	38.0%	BUY	11.6
DDM	39,207	10.8%	HOLD	9.3
SoTP	40,516	14.5%	HOLD	9.6
Mean fair value	43,938	24.1%	BUY	10.4
<b>Median fair value / Target price</b>	<b>43,850</b>	<b>23.9%</b>	<b>BUY</b>	<b>10.4</b>

Source: Yuanta Research

<b>VCI: Income Statement</b>						
<b>(VND bn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
<b>Brokerage net revenues</b>	181	317	344	306	388	469
<b>Margin lending net revenues</b>	87	242	319	355	441	556
Gains on trading assets	223	210	173	66	191	170
Gains on AFS & HTM assets	-	-	-	-	-	-
Other investment	17	(40)	30	31	33	37
<b>Total investment revenues</b>	<b>240</b>	<b>170</b>	<b>203</b>	<b>97</b>	<b>224</b>	<b>207</b>
Net fee income	42	36	96	115	173	234
Other operating net revenues	(7)	7	11	12	13	14
<b>Net operating revenues</b>	<b>542</b>	<b>772</b>	<b>973</b>	<b>886</b>	<b>1,239</b>	<b>1,481</b>
SG&A expenses	(75)	(123)	(181)	(212)	(237)	(257)
<b>Operating profit</b>	<b>467</b>	<b>649</b>	<b>791</b>	<b>673</b>	<b>1,002</b>	<b>1,224</b>
Associates	0	0	0	0	0	0
Non-operating revenues	4	3	2	3	3	3
Interest expense (ex margin)	(60)	41	49	128	169	201
<b>Pretax profit</b>	<b>411</b>	<b>693</b>	<b>842</b>	<b>804</b>	<b>1,174</b>	<b>1,428</b>
Tax	(78)	(139)	(167)	(161)	(235)	(286)
Minorities	-	-	-	-	-	-
<b>Reported PATMI</b>	<b>333</b>	<b>554</b>	<b>675</b>	<b>643</b>	<b>939</b>	<b>1,143</b>
PATMI plus OCI	333	554	675	643	939	1,143
<b>Adjusted PATMI</b>	<b>333</b>	<b>490</b>	<b>598</b>	<b>569</b>	<b>831</b>	<b>1,011</b>
Reported EPS (VND)	3,832	4,289	5,213	4,965	7,248	8,819
<b>Adjusted EPS (VND)</b>	<b>3,832</b>	<b>3,796</b>	<b>4,614</b>	<b>4,394</b>	<b>6,415</b>	<b>7,805</b>

Source: Company data, Yuanta Securities

### Share price correlation with 90-day ADT: 44%



Source: Bloomberg, Yuanta Research

<b>VCI: Balance sheet</b>						
<b>(VND bn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Cash & equivalents	524	487	1,144	1,430	1,573	1,699
Net margin loans	1,372	3,433	2,789	3,124	3,561	4,024
FVPL assets	635	452	425	519	545	599
AFS assets	350	1,825	2,039	2,854	3,396	3,770
S/T HTM assets	-	-	-	-	-	-
Other current assets	36	147	33	36	40	42
<b>Current assets</b>	<b>2,917</b>	<b>6,343</b>	<b>6,430</b>	<b>7,964</b>	<b>9,116</b>	<b>10,135</b>
L/T HTM assets	-	-	-	-	-	-
Associates	80	-	-	-	-	-
Other L/T assets	33	59	80	87	92	96
<b>Total L-T assets</b>	<b>113</b>	<b>59</b>	<b>80</b>	<b>87</b>	<b>92</b>	<b>96</b>
<b>Total assets</b>	<b>3,030</b>	<b>6,402</b>	<b>6,510</b>	<b>8,051</b>	<b>9,208</b>	<b>10,231</b>
S/T borrowings	628	1,434	985	640	679	692
S/T bonds	467	906	1,335	1,536	1,843	1,935
Other S/T liabilities	736	900	433	427	391	358
<b>Current liabilities</b>	<b>1,830</b>	<b>3,240</b>	<b>2,753</b>	<b>2,602</b>	<b>2,912</b>	<b>2,985</b>
Long-term bonds	-	-	-	1,200	1,380	1,587
Other L/T liabilities	-	142	114	119	125	132
<b>Long-term liabilities</b>	<b>-</b>	<b>142</b>	<b>114</b>	<b>1,319</b>	<b>1,505</b>	<b>1,719</b>
Shareholder equity	1,032	1,200	1,630	1,630	1,630	1,630
Reserves	67	1,193	1,148	1,148	1,148	1,148
Retained earnings	101	626	865	1,351	2,012	2,750
Minority interests	-	-	-	-	-	-
Total equity	1,200	3,019	3,643	4,129	4,790	5,527
<b>Attributable equity</b>	<b>1,200</b>	<b>3,019</b>	<b>3,643</b>	<b>4,129</b>	<b>4,790</b>	<b>5,527</b>
BVPS (VND)	11,630	25,288	22,350	25,332	29,385	33,911

Source: Company data, Yuanta Securities

<b>VCI: Selected ratios</b>						
<b>Liquidity &amp; leverage</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Current ratio (x)	1.6	2.0	2.3	3.1	3.1	3.4
Net debt / equity	0.09	0.31	-0.04	0.10	0.10	0.10
Interest coverage ratio (x)	6.9	6.6	4.6	4.1	3.7	3.6
Equity / Assets	39.6%	47.2%	56.0%	51.3%	52.0%	54.0%
Tangible Equity / Assets	39.6%	47.0%	55.9%	51.2%	52.0%	54.0%
<b>Asset yields</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Margin loans (net)	-4.9%	0.8%	1.1%	5.8%	5.8%	5.8%
FVPL realized	39.0%	44.6%	51.3%	45.0%	45.0%	35.0%
FVPL revaluation	-1.6%	22.7%	-17.3%	2.0%	2.0%	4.0%
Dividends / Interest on FVPL	4.3%	12.7%	16.7%	12.0%	12.0%	10.0%
Total trading book	40.3%	76.1%	49.0%	54.3%	54.1%	43.7%
Fee income / Assets	1.5%	4.4%	0.2%	0.2%	0.2%	0.2%
<b>Profitability</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage GPM	50.8%	43.6%	68.9%	68.9%	68.9%	68.9%
Margin lending GPM	54.3%	56.4%	60.4%	59.8%	58.9%	60.1%
Brokerage / net op inc	33.3%	22.2%	59.6%	49.2%	50.7%	54.6%
Margin / net op inc	16.0%	15.4%	22.8%	27.9%	28.1%	29.2%
Fees / net op inc	7.7%	21.5%	0.8%	1.1%	1.1%	1.2%
Investments / net op inc	44.4%	42.3%	18.3%	23.5%	21.6%	16.5%
Bonus & welfare / NPAT	0.0%	1.8%	1.8%	1.8%	1.8%	1.8%
Adj ROA	12.1%	13.9%	12.7%	9.6%	9.8%	9.9%
Adj ROE	31.9%	30.6%	24.3%	17.7%	18.7%	18.4%
<b>Growth (YoY)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage revenues	0.3%	20.2%	222.4%	-23.2%	25.7%	22.0%
Margin lending net revenues	-20.9%	73.7%	78.0%	13.7%	23.1%	17.4%
Investment revenues	67.3%	72.0%	-48.0%	19.4%	12.2%	-13.2%
Fee income	393.1%	405.0%	-95.3%	19.2%	30.6%	15.9%
Net operating revenues	24.7%	80.4%	20.3%	-7.1%	22.1%	13.3%
SG&A expenses	-12.8%	72.8%	-18.3%	7.2%	18.6%	12.1%
Operating profit	34.0%	81.7%	26.2%	-8.5%	22.6%	13.4%
Reported PATMI	40.4%	96.7%	25.6%	-14.8%	21.0%	13.6%
Adjusted PATMI	40.4%	93.1%	25.6%	-14.8%	21.0%	13.6%
Reported EPS	-19.2%	53.9%	-1.2%	-26.2%	21.0%	13.6%
Adjusted EPS	-19.2%	51.1%	-1.2%	-26.2%	21.0%	13.6%
Avg margin loans	3.1%	69.0%	58.0%	15.0%	25.0%	15.0%
FVPL assets	13.7%	-28.9%	-5.8%	22.0%	5.0%	10.0%
AFS assets	93.3%	421.3%	11.7%	40.0%	19.0%	11.0%
Short-term HTM assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total current assets	20.4%	117.4%	1.4%	23.8%	14.5%	11.2%
Total assets	23.0%	111.3%	1.7%	23.7%	14.4%	11.1%
Attributable equity	34.1%	150.9%	20.9%	13.4%	16.0%	15.4%
BVPS	521.7%	117.4%	-11.6%	13.3%	16.0%	15.4%

Source: Company data, Yuanta Securities

# VNDirect Securities (VND VN)

## Rise Of The Retailers

### BUY

Current price (11-02-19): VND 16,800

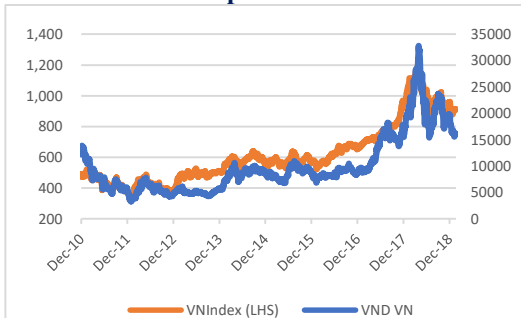
**Target price: VND 21,500**

**Upside: 27.9%**

**Our view:** We initiate coverage on VND with a BUY rating and make it our second top pick in the sector. Our view is based largely on VND's market-leading online investment platform, which should allow it to expand market share of Vietnam's expanding retail investor base more efficiently than brokers with less user-friendly trading platforms. The stock also offers relatively low valuations and solid liquidity.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (%ge)	ADTV-3month
VND 15,400–32,800	USD 152 mn	4.1%	No limit	95%	USD 860K

### Price performance



### Event catalysts

- Increased market activity as investors return from the doldrums of Dec-Jan.
- Market-leading online retail broking platform should provide for solid operating leverage and ability to grow market share efficiently.
- Valuation is attractive.

### Risks to our call

- Operations are highly geared to market activity.
- The stock would perform poorly in a bear market.
- Tightened liquidity & prop trading could weaken ROA.
- Sentiment on VND could remain weak on newsflow.

### Matthew Smith, CFA

Head of Research

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**Company profile:** The smallest of the brokers in our coverage by both market share and market cap, VND's stock nevertheless trades more than the other brokers (except SSI). The company's market-leading trading platform should allow it to efficiently build market share among retail investors.

Key metrics	2018P	2019E
Op rev (YoY)	-2%	0%
Adj profit (YoY)	-21%	-14%
Cur ratio (x)	1.5	1.4
Debt/Equity (x)	1.9	2.0
ROA (x)	4.0%	2.9%
ROE (x)	13.1%	10.1%
EPS (VND)	1,827	1,471
EPS (YoY)	-22.4%	-19.5%
PE (x)	11.4	8.0
PB (x)	1.2	1.1

Sources: Company data, Bloomberg, Yuanta Securities Research

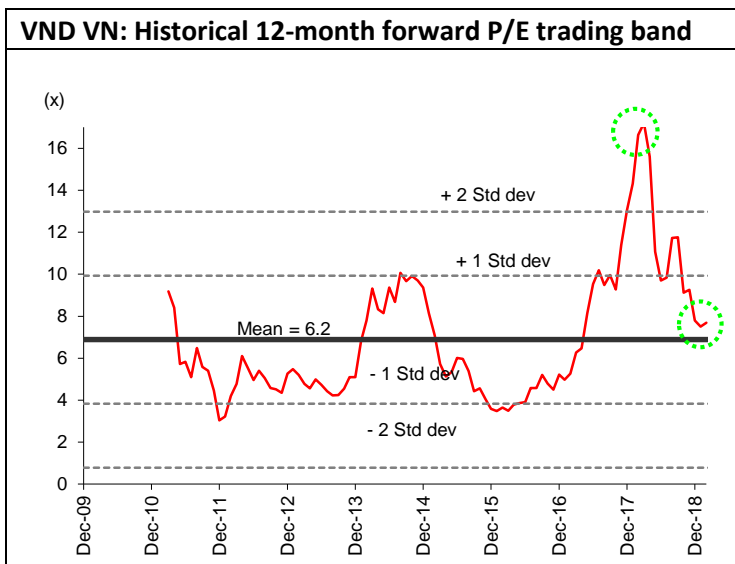
**Operating leverage on the retail investor.** In our view, VND should offer a high level operating efficiency going forward. This is due to its solid trading platform, which should allow it to build market share among Vietnamese retail investors more efficiently than peers with less user-friendly trading platforms. Thus, the company could be a challenger for SSI's dominance in mass market retail broking as new investors come online. We reckon the stock is less of a quality play than HCM, but nevertheless rank it as our other top pick on a trading basis.

**Valuation is attractive.** Our target price is based on the median of four fair value methodologies, and implies 8.014x 2019E P/E / 6.5x 2020E P/E. This valuation is supported by average 2018P-21E ROE of 13%, which include a relatively steep 14% expected YOY dip in attributable income in 2019E followed by a recovery in 2020-21E. VND has averaged c. 12.5% ROE since 2013, so our forecasts do not factor in a rerating for profitability in 2019-21E given the relatively capital-intensive business model. As with all the brokers, our ROE figures are adjusted down for below-the-line employee welfare payments.

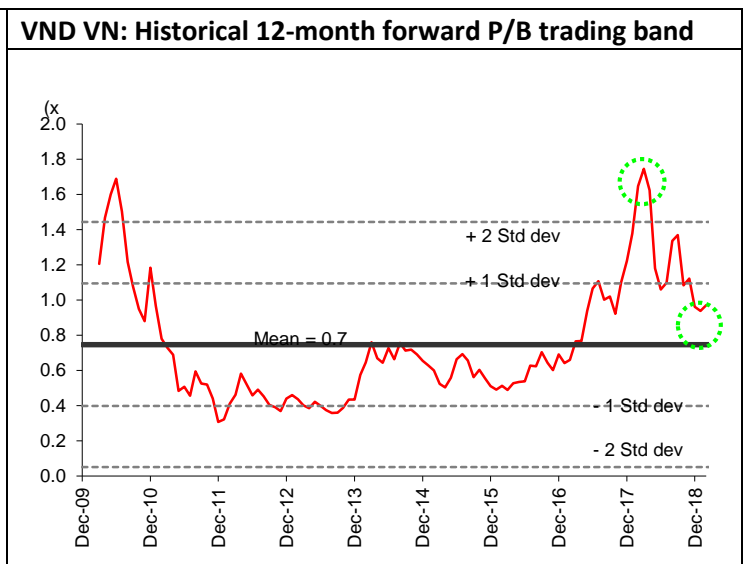
**Risks to our view.** The stock is highly correlated to the VNIndex (95%) and ADT (80%), implying downside risk for both operations and the share price whenever the market tanks. Of course, the opposite is also true. This is a reality of life for investors in capital markets-facing businesses: the stocks, like the markets, are highly volatile. Perhaps a more cogent risk for VND specifically is the risk of new entrants offering similarly innovative trading platforms and competing on price now that the brokerage fee floor is history. We believe that these factors will limit the upside to profitability for retail-focused brokers.

<b>Price multiples: VND VN</b>					
(x)	2016A	2017A	2018P	2019E	2020E
Reported P/E	17.7	8.7	10.8	7.6	6.2
Adjusted P/E	18.6	9.2	11.4	8.0	6.5
Reported P/B	1.3	1.0	1.2	1.1	1.0
Tangible P/B	1.3	1.0	1.2	1.1	1.0
EV / EBITDA	7.5	3.6	3.6	3.5	2.7
Dividend Yield	0.0%	4.7%	6.6%	4.1%	4.6%

Source: Company data, Yuanta Research



Source: Company data, Bloomberg, Yuanta Research



Source: Company data, Bloomberg, Yuanta Research

<b>VND: Valuations and Target Price</b>				
	VND per share	Upside / downside	Rating	Implied 2019E PE (x)
Current price	16,800			11.4
DCF valuation	26,611	58.4%	BUY	18.1
Gordon growth valuation	21,192	26.1%	BUY	14.4
DDM	21,210	26.2%	BUY	14.4
SoTP	21,750	29.5%	BUY	14.8
Mean fair value	22,691	35.1%	BUY	15.4
<b>Median fair value / Target price</b>	<b>21,480</b>	<b>27.9%</b>	<b>BUY</b>	<b>14.6</b>

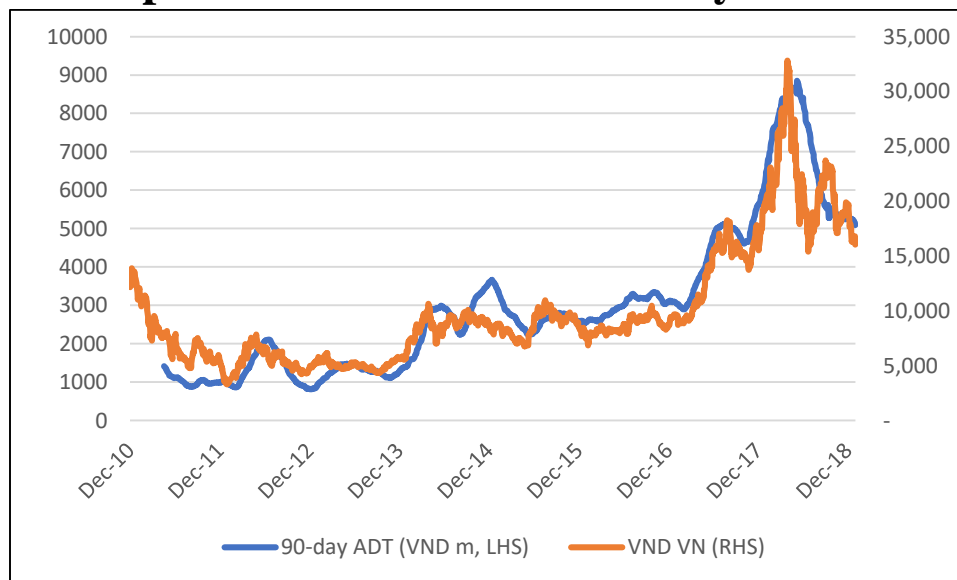
Source: Yuanta Research

## VND: Income Statement

(VND bn)	2016A	2017A	2018P	2019E	2020E	2021E
<b>Brokerage net revenues</b>	76	177	304	249	306	384
<b>Margin lending net revenues</b>	110	201	286	340	419	491
Gains on trading assets	76	192	(32)	94	111	107
Gains on AFS & HTM assets	135	210	292	200	244	282
Other investment	35	46	12	29	31	33
<b>Total investment revenues</b>	<b>246</b>	<b>447</b>	<b>272</b>	<b>323</b>	<b>386</b>	<b>422</b>
Net fee income	16	24	18	20	25	29
Other operating net revenues	4	2	6	7	8	9
<b>Net operating revenues</b>	<b>451</b>	<b>851</b>	<b>886</b>	<b>939</b>	<b>1,144</b>	<b>1,334</b>
SG&A expenses	(205)	(260)	(305)	(356)	(401)	(444)
<b>Operating profit</b>	<b>247</b>	<b>592</b>	<b>581</b>	<b>583</b>	<b>743</b>	<b>890</b>
Associates	0	34	9	0	0	0
Non-operating revenues	16	4	6	7	7	7
Interest expense (ex margin)	(35)	(58)	(134)	(191)	(201)	(225)
<b>Pretax profit</b>	<b>227</b>	<b>571</b>	<b>462</b>	<b>399</b>	<b>549</b>	<b>673</b>
Tax	(41)	(99)	(87)	(76)	(104)	(128)
Minorities	-	-	-	-	-	-
<b>Reported PATMI</b>	<b>186</b>	<b>472</b>	<b>375</b>	<b>323</b>	<b>444</b>	<b>545</b>
PATMI plus OCI	186	472	375	323	444	545
<b>Adjusted PATMI</b>	<b>177</b>	<b>448</b>	<b>356</b>	<b>307</b>	<b>422</b>	<b>517</b>
Reported EPS (VND)	950	2,481	1,926	1,550	2,219	2,721
<b>Adjusted EPS (VND)</b>	<b>901</b>	<b>2,353</b>	<b>1,827</b>	<b>1,471</b>	<b>2,105</b>	<b>2,582</b>

Source: Company data, Yuanta Securities

## Share price correlation with 90-day ADT: 81%



Source: Bloomberg, Yuanta Research



<b>VND: Balance sheet</b>						
<b>(VND bn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Cash & equivalents	257	342	915	961	1,009	1,060
Net margin loans	1,723	2,936	2,393	2,728	3,117	3,584
FVPL assets	629	735	1,017	1,068	1,153	1,234
AFS assets	531	748	387	414	427	448
S/T HTM assets	1,631	2,258	5,371	6,123	7,305	8,255
Other current assets	202	156	172	190	209	219
<b>Current assets</b>	<b>4,972</b>	<b>7,176</b>	<b>10,256</b>	<b>11,484</b>	<b>13,220</b>	<b>14,800</b>
L/T HTM assets	80	300	100	110	121	127
Associates	-	412	-	-	-	-
Other L/T assets	122	164	188	207	217	228
<b>Total L-T assets</b>	<b>202</b>	<b>876</b>	<b>288</b>	<b>317</b>	<b>338</b>	<b>355</b>
<b>Total assets</b>	<b>5,174</b>	<b>8,051</b>	<b>10,544</b>	<b>11,801</b>	<b>13,558</b>	<b>15,155</b>
S/T borrowings	2,614	4,352	6,013	6,431	7,074	7,463
S/T bonds	94	-	727	1,195	1,739	2,339
Other S/T liabilities	518	866	311	341	407	480
<b>Current liabilities</b>	<b>3,226</b>	<b>5,218</b>	<b>7,050</b>	<b>7,968</b>	<b>9,220</b>	<b>10,282</b>
Long-term bonds	-	320	500	675	911	1,139
Other L/T liabilities	-	7	9	9	9	10
<b>Long-term liabilities</b>	<b>-</b>	<b>327</b>	<b>509</b>	<b>684</b>	<b>921</b>	<b>1,149</b>
Shareholder equity	1,460	1,500	2,003	2,003	2,003	2,003
Reserves	134	230	272	272	272	272
Retained earnings	355	776	709	873	1,142	1,448
Minority interests	-	-	-	-	-	-
Total equity	1,948	2,507	2,985	3,149	3,418	3,724
<b>Attributable equity</b>	<b>1,948</b>	<b>2,507</b>	<b>2,985</b>	<b>3,149</b>	<b>3,418</b>	<b>3,724</b>
BVPS (VND)	12,903	16,602	13,789	15,719	17,059	18,588

Source: Company data, Yuanta Securities

<b>VND: Selected ratios</b>						
<b>Liquidity &amp; leverage</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Current ratio (x)	1.5	1.4	1.5	1.4	1.4	1.4
Net debt / equity	1.21	1.73	1.88	1.95	2.04	2.03
Interest coverage ratio (x)	5.7	3.7	2.6	2.4	2.5	2.5
Equity / Assets	37.7%	31.1%	28.3%	26.7%	25.2%	24.6%
Tangible Equity / Assets	37.0%	30.8%	28.2%	26.6%	25.1%	24.5%
<b>Asset yields</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Margin loans (net)	6.0%	8.2%	6.9%	6.7%	6.3%	6.1%
FVPL realized	2.8%	22.7%	5.8%	5.0%	5.0%	5.0%
FVPL revaluation	4.8%	5.5%	-9.5%	4.0%	5.0%	4.0%
Dividends / Interest on FVPL	3.7%	6.7%	1.6%	3.0%	3.0%	3.0%
Total trading book	24.4%	65.6%	31.0%	31.0%	34.8%	35.4%
Fee income / Assets	0.3%	0.4%	0.2%	0.2%	0.2%	0.2%
<b>Profitability</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage GPM	40.3%	51.4%	58.4%	57.1%	54.5%	54.5%
Margin lending GPM	52.7%	58.4%	65.8%	62.4%	60.3%	58.8%
Brokerage / net op inc	16.9%	20.8%	34.3%	26.5%	26.7%	28.8%
Margin / net op inc	24.4%	23.6%	32.3%	36.2%	36.7%	36.8%
Fees / net op inc	3.5%	2.9%	2.0%	2.2%	2.2%	2.1%
Investments / net op inc	54.5%	52.5%	30.7%	34.4%	33.8%	31.6%
Staff comp ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bonus & welfare / NPAT	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Adj ROA	3.6%	7.1%	4.0%	2.9%	3.5%	3.8%
Adj ROE	9.3%	20.5%	13.1%	10.1%	12.9%	14.6%
<b>Growth (YoY)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018P</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
Brokerage revenues	-23.0%	132.2%	72.0%	-18.2%	23.0%	25.5%
Margin lending net revenues	-17.6%	82.7%	42.4%	18.7%	23.4%	17.1%
Investment revenues	163.6%	81.8%	-39.3%	18.9%	19.6%	9.3%
Fee income	117.0%	54.7%	-27.9%	16.1%	21.1%	16.0%
Net operating revenues	35.2%	88.6%	4.0%	6.0%	21.9%	16.6%
SG&A expenses	22.1%	26.9%	17.4%	16.7%	12.7%	10.7%
Operating profit	48.4%	139.7%	-1.8%	0.4%	27.5%	19.9%
Reported PATMI	2.5%	153.4%	-20.5%	-13.9%	37.6%	22.7%
Adjusted PATMI	1.8%	153.4%	-20.5%	-13.9%	37.6%	22.7%
Reported EPS	-19.0%	161.2%	-22.4%	-19.5%	43.1%	22.7%
Adjusted EPS	-19.6%	161.2%	-22.4%	-19.5%	43.1%	22.7%
Avg margin loans	109.6%	40.5%	45.0%	25.0%	30.0%	20.0%
FVPL assets	-54.6%	16.8%	38.4%	5.0%	8.0%	7.0%
AFS assets	1961.9%	40.9%	-48.3%	7.0%	3.0%	5.0%
Short-term HTM assets	#DIV/0!	38.5%	137.9%	14.0%	19.3%	13.0%
Total current assets	9.6%	44.3%	42.9%	12.0%	15.1%	12.0%
Total assets	10.9%	55.6%	31.0%	11.9%	14.9%	11.8%
Attributable equity	-0.7%	30.2%	20.2%	5.5%	8.5%	9.0%
BVPS	-1.6%	28.7%	-16.9%	14.0%	8.5%	9.0%

Source: Company data, Yuanta Securities

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<b>Ratings</b>	<b>Total expected return within the next 12 months</b>
<b>BUY</b>	Above 20%
<b>HOLD</b>	Between -20% to +20%
<b>SELL</b>	Below 20%

**BUY:** We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

**HOLD-Underperform:** In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

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