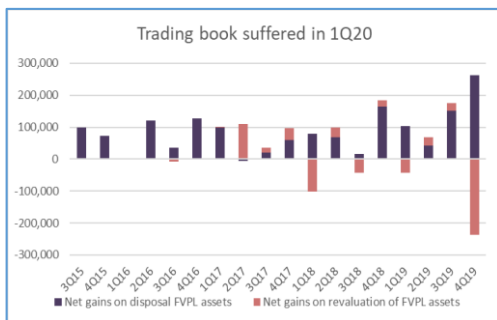
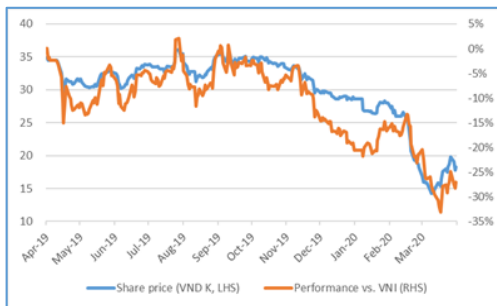


## Vietnam: Brokers

24 April 2020

**HOLD-Underperform**
**Target Price upside +73%**
**Close 23 Apr 2019**

 Price VND 18,800  
 12M Target VND 32,437

**Share price performance relative to VNI**


Market cap	US\$131m
6M avg. daily turnover	US\$123k
Outstanding shares	164m
Free float	42%
FINI ownership	34%
Major shareholders	58%
Net debt/equity	57%
2020E EV/EBITDA	2.0x
2020E P/B	0.7x
2020E Dividend yield	5.7%
Trading platform	HOSE
FOL Room	nmf*

\*Note: VCI has no foreign ownership limit

**Source: Bloomberg, Yuanta Vietnam**
**Research Analyst:**

Matthew Smith, CFA

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**Bloomberg code: YUTA**
**Vietcapital Securities (VCI VN)**
**Prop book drags 1Q earnings**
**Event**

HCM's 1Q20 earnings declined  $-40.9\%$  QoQ/  $-41.5\%$  YoY, largely due to unrealized mark-to-market proprietary trading losses. As a result, HCM has achieved 20% of our full-year earnings forecast.

**Details**

**Net brokerage income** came in at VND51bn ( $+202\%$  QoQ /  $130\%$  YoY) as brokerage expenses fell by half. We estimate gross commissions of 19bps and net commissions of 11bps during the quarter, based on index volumes and HCM's market share of 9.7% on the HOSE and 12.6% on UPCOM. VCI was not among the top ten brokers on HNX.

**Net service fees** were slightly negative during the quarter. Such fees are lumpy in nature, and given the market rout in 1Q20, this is neither a surprise nor a major concern for shareholders.

**Prop trading gains of VND26bn ( $-42\%$  QoQ /  $-85\%$  YoY) drove the earnings miss.** Specifically, VCI reported VND263bn in realized gains but VND236bn in unrealized mark-to-market losses. VCI's FVPL assets totaled VND689bn as of 1Q20 (9.6% of total assets).

**Margin lending gross revenues ( $-7\%$  QoQ /  $+23\%$  YoY) cushioned the negative impact of the prop book.** We estimate VCI's gross lending yields reached 11.8% in 1Q20.

HCM: 1Q20 Results round-up	1Q20 (VND bn)	YoY	QoQ
Gross brokerage income	86	-2%	-2%
Net brokerage income	51	130%	202%
Service fees	-3	38%	-114%
Gross margin income	87	23%	-7%
Prop trading	27	-85%	-42%
Gains from AFS assets	0	nmf	nmf
Gains from HTM assets	5	168%	-35%
<b>Net operating income</b>	<b>139</b>	<b>-49%</b>	<b>-52%</b>
PBT	90	-64%	-64%
<b>Reported PATMI</b>	<b>119</b>	<b>-41.5%</b>	<b>-40.9%</b>

**Source: Company data**

**Not as bad as the headlines make it seem.** VCI has delivered 20% of our full year forecast what we think will be the worst quarter of the year. It does not appear to be engaged in irrational competition in terms of brokerage commissions or margin lending. The unrealized proprietary trading losses could turn back into gains in 2Q20 if the market rally persists. VCI's investment banking franchise could make it an interesting proxy on a resurgence of capital markets activity in 2021. However, the stock's low liquidity reduces its investability. VCI is trading on a 2020 PB multiple of 0.7x and 4.2x 2020E PE.

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