

Vietnam: Brokers
21 May 2020
HCM VN
BUY
TP upside (downside) +39%
Close 18 May 2020

Price	VND 19,150
12M Target	VND 26,532
Previous Target	VND 29,931
Target Change	-11%

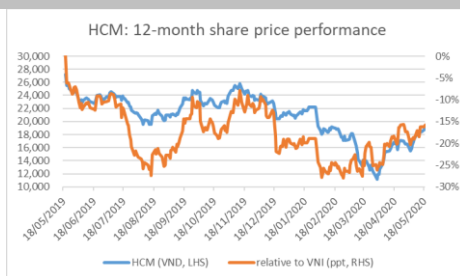
What's new?

- ▶ Targeted client approach should bear fruit going forward.
- ▶ Margin lending spreads may take a beating given the funding cost advantages of foreign players.
- ▶ Earnings forecasts cut by 16% for 2020E and -15% for 2021E.

Our view

- ▶ Stick with the winner. HCM's outperformance vs peers is likely to persist, in our view.
- ▶ Strategic focus on profitability over market share supports confidence.
- ▶ Management bench strength results in lower key man/woman risk than at certain of its peers.

Company profile: In an increasingly competitive market, HCM stands out as best positioned in our coverage to benefit from the long term development of Vietnam's capital markets given its management bench strength, focus on profitability over market share, and solid balance sheet. We also like the shareholder mix, and the stock offers sufficient trading liquidity in our view.



Ho Chi Minh City Securities (HCM VN)

Sensible strategy to drive continued outperformance

HCM remains our top pick given its strengths in institutional brokerage and investment banking. We like the governance structure, which we believe allows for an alignment of interests among minority shareholders and management. Our positive view is bolstered by HCM's willingness to present a better understanding of their overall strategy to the Street—this is common among brokers everywhere else, but extremely rare for Vietnam.

HCM's 1Q20 earnings rose +23.2% YoY, a strong result considering the truly horrible market conditions, especially in March). Brokerage net revenues were in line but service fees and margin income were weaker than expected. For a detailed summary, please see our [results note](#) of April 22.

Targeted approach to client services. Management is moving away from the high-touch mass market strategy and toward a more HNWI-centric operational approach. As such, it has cut its broker headcount by roughly half since early 2019 and plans to close several more physical branches this year as it rolls out a new client-facing trading system in 2H20.

Valuations appear reasonable assuming, as we do, that ROE will rerate to the mid-teen levels after a resurgence of dealflow starting from 2021E. The stock trades at 1.3x 2020E P/B and 8.1x 2021E P/E.

We reiterate BUY but reduce our target price to VND 26,532 based on the median result of our four valuation methodologies. Combined with a liberal dividend payout, this results in 12-m total shareholder returns of 46%.

We view HCM as the best available proxy on the long-term development of Vietnam's capital markets. Relatively high trading liquidity (especially vs VCI's) and lack of FOL restrictions make the stock relevant to institutional shareholders. As such, HCM remains our only BUY among the brokers.

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Market cap	US\$369m
6M avg. daily turnover	US\$1.6m
Outstanding shares	306m
Free float	42%
FINI ownership	54%
Major shareholders	58%
1Q20 Net debt/equity	7%
2020E EV/EBITDA	6.3
2020E P/B	1.3x
Trading platform	HOSE
FOL Room	nmf*

*Note: HCM has no foreign ownership limit

Key metrics	2019A	2020E	2021E
Op rev (YoY)	-42%	13%	61%
Adj PATMI (YoY)	-36%	10%	61%
Cur ratio (x)	2.3	2.4	2.1
Debt/Equity (x)	0.3	0.2	0.4
ROA (x)	6.8%	6.4%	9.6%
ROE (x)	10.8%	10.1%	15.7%
EPS (VND)	1,465	1,462	2,356
EPS (YoY)	-49.0%	-0.3%	61.2%
PE (x)	13.1	13.1	8.1
PB (x)	1.3	1.3	1.2
Dividend yield	4.8%	6.9%	6.5%

Source: Bloomberg, Company data, Yuanta Vietnam

Matthew Smith, CFA

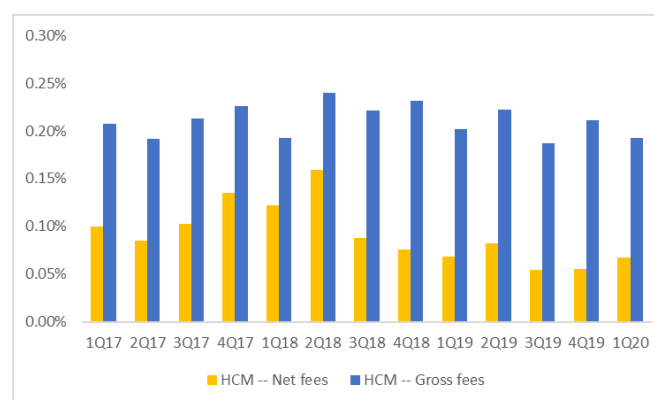
+84 28 82 858 2451 ext 3815

matthew.smith@yuanta.com.vn
Bloomberg code: YUTA

Sensible strategy to drive continued outperformance

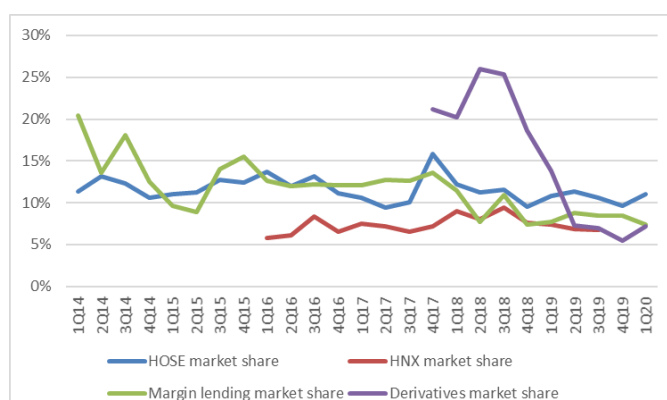
One for the long term. In our opinion, HCM offers long-term investors the best combination of market positioning, confidence in management's execution capabilities and bench strength, and overall investability (i.e., sufficient liquidity and market cap) among the four brokers that we cover. HCM also appears well positioned to benefit from our expectation for increased institutional investor presence—and more importantly, dealflow—in the years ahead. Thus, we rank HCM as our top pick for clients seeking a proxy on the long-term development of the Vietnamese capital markets, and who are willing to ride out the volatility inherent in those markets.

HCM: Brokerage fee commissions



Source: FiinPro, Yuanta Vietnam

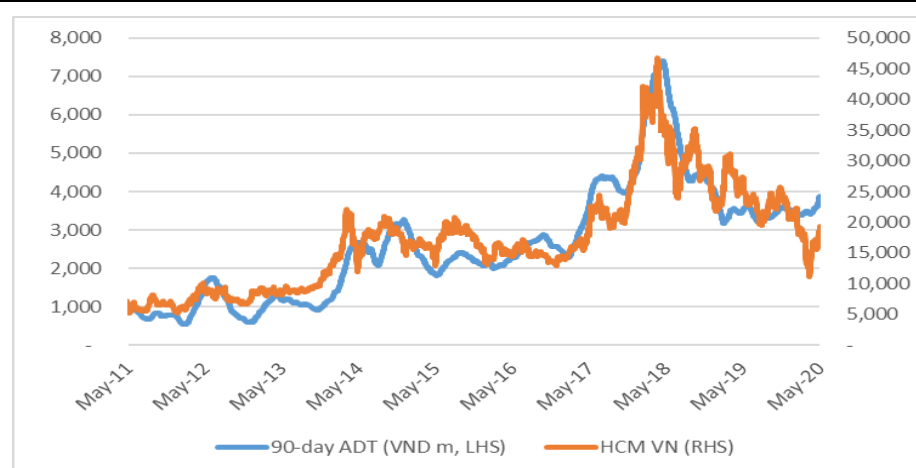
HCM: Quarterly market share



Source: HOSE, HNX, FiinPro, Company data, Yuanta Vietnam

Risks to our view. The stock is highly correlated to the VNIndex (86%) and ADT (85%), 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. Our sense is that 1Q20 and particularly March was likely the trough for the market; as such, an uncontrolled secondary outbreak of COVID-19 is probably the most significant risk to our call.

Share price correlation with average daily turnover: 83%



Source: Bloomberg, Yuanta Vietnam

Perhaps a more cogent risk for HCM specifically is competition for institutional brokerage from incumbent and recent market entrants given that it ranks among the predominant players. We view margin lending and investment banking as the key drivers of brokerage profitability, and the former business is already under severe competition from foreign

players with funding advantages and domestic brokers who are less ROE-focused. Thus, we think that the IB division perhaps offers a wider moat, at least for now.

We reduce our earnings forecasts by 16% for 2020E and by 15% for 2021E, with similar cuts to our EPS assumptions. This comes largely on the back of reduced expectations for the major market-related metrics that drive our model (e.g., turnover, margin finance, and IB fee income in 2020E), and reduced brokerage profitability forecasts. We also introduce our 2022E forecasts, which imply 10% four-year earnings CAGR (using the record numbers from 2018 as the base). In other words, our expectations for 2020 are already curbed; however, we expect dramatically improved market conditions in 2021-22E.

Earnings and target price revisions									
	2020E			2021E			2022E		
	Previous	New	% chg	Previous	New	% chg	Previous	New	% chg
Net income (VND bn)	520	439	-16%	831	707	-15%	N/A	901	nmf
EPS (VND)	1,701	1,462	-15%	2,891	2,356	-19%	N/A	3,005	nmf
Target price (VND)	29,931	26,532	-11%						

Source: Yuanta Vietnam

Quarterly earnings summary						
HCM	1Q20	YoY	QoQ	YTD	YoY	vs our full-year target
	(VND bn)			(VND bn)		
Gross brokerage income	107	-3%	-13%	107	-3%	23%
Net brokerage income	37	-2%	15%	37	-2%	25%
Service fees	-2	35%	-143%	-2	35%	-5%
Gross margin income	116	13%	-13%	116	13%	22%
Prop trading	36	25%	-5%	36	25%	22%
Gains from AFS assets	0	nmf	nmf	0	nmf	nmf
Gains from HTM assets	0	nmf	nmf	0	nmf	nmf
Net operating income	172	19%	-17%	172	19%	31%
PBT	126	23%	-17%	126	23%	22%
Reported PATMI	101	23%	-21%	101	23%	22%

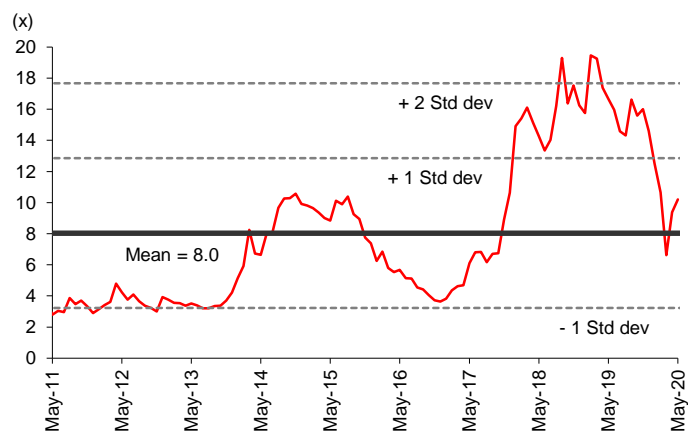
Source: Company data, Yuanta Vietnam

Valuations. Our target price is based on the median of four fair value methodologies and implies 11.3x 2021E P/E, which we view as conservative. This valuation is supported by average 2020-23E ROE of 15.2%, as we expect the 36% YOY decline in attributable income in 2019 to be followed by a modest recovery in 2020 followed by stronger results in 2021-23E. Achieving our forecasts for 2021-23E would require a resurgence in in market activity and especially investment banking dealflow, from which we believe HCM would be well-positioned to benefit. Please note that these ROE figures are adjusted for below-the-line employee welfare payments. The shares currently trade at 1.3x 2020E P/BV and 13x adjusted 2020E PER. Based on the company's 100% dividend payout ratio on 2019E earnings (of which c.60% will be paid in July), we estimate a 2020E dividend yield of 6.9%.

Price multiples					
(x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	7.7	12.0	12.0	7.5	5.9
Adjusted P/E	8.4	13.1	13.1	8.1	6.4
Reported P/B	1.0	1.3	1.3	1.2	1.1
Tangible P/B	1.0	1.3	1.3	1.2	1.1
EV / EBITDA	5.1	7.6	6.3	4.1	3.2
Dividend Yield	6.7%	4.8%	6.9%	6.5%	8.0%

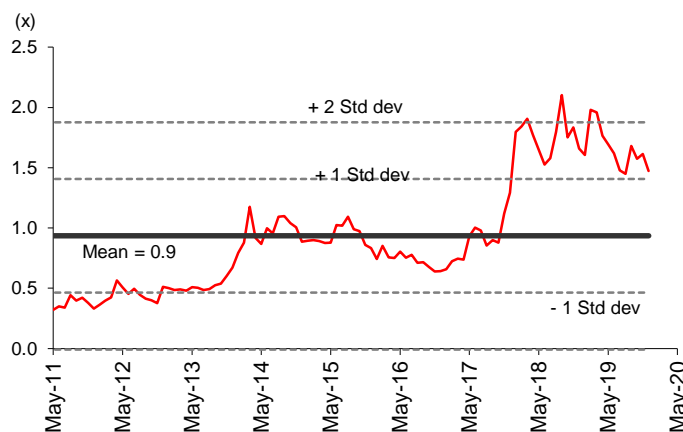
Source: Company data, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

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



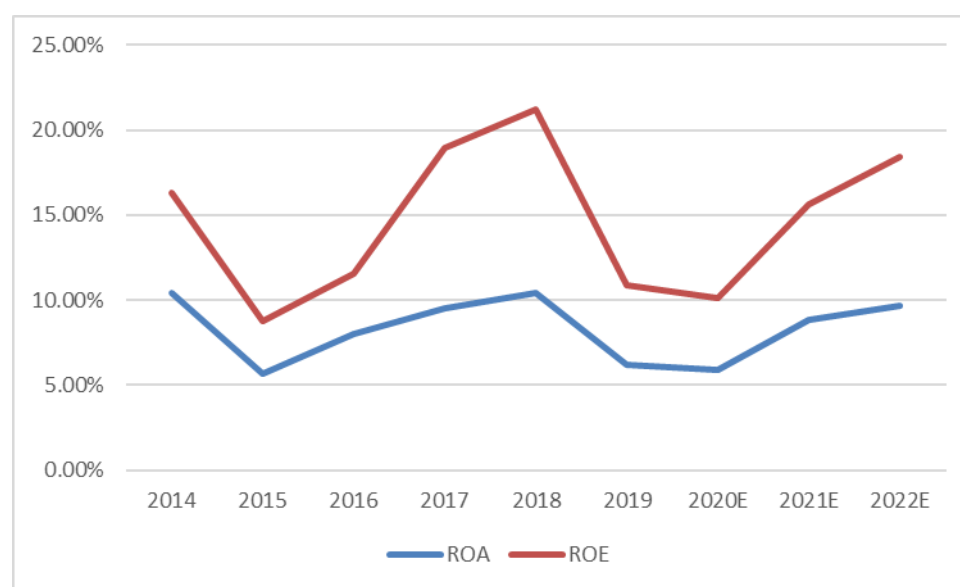
Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: HCM

	VND per share	Upside / downside	Implied 2020E PB (x)	Implied 2021E PE (x)
Current price	19,150		1.3	8.1
DCF valuation	27,243	42.3%	1.9	11.6
Gordon growth valuation	28,808	50.4%	2.0	12.2
DDM	25,313	32.2%	1.7	10.7
SoTP	25,821	34.8%	1.8	11.0
Mean fair value	26,796	39.9%	1.8	11.4
Median fair value	26,532	38.5%	1.8	11.3

Source: Company data, Yuanta Vietnam

HCM's focus on profitability is a key attraction. ROE should revert to the high teens once investment banking flows pick up.



Source: Company data, Yuanta Vietnam

Income Statement: HCM						
(VND bn)	2018A	2019A	2020E	2021E	2022E	2023E
Brokerage net revenues	344	151	158	166	263	399
Margin lending net revenues	470	403	327	487	666	732
Gains on trading assets	173	94	221	429	398	244
Gains on AFS & HTM assets	-	-	-	-	-	-
Other investment	30	50	71	82	93	54
Total investment revenues	203	144	292	511	491	298
Net fee income	96	37	42	64	83	104
Other operating net revenues	11	2	2	2	2	2
Net operating revenues	1,124	737	822	1,230	1,504	1,536
SG&A expenses	(181)	(187)	(201)	(229)	(246)	(263)
Operating profit	943	550	621	1,001	1,259	1,273
Associates	0	0	0	0	0	0
Non-operating revenues	2	2	2	3	3	3
Interest expense (ex margin)	(103)	(21)	(26)	(41)	(34)	(74)
Pretax profit	842	531	597	963	1,228	1,202
Tax	(167)	(99)	(119)	(193)	(246)	(240)
Minorities	-	-	-	-	-	-
Reported PATMI	675	433	478	770	982	962
PATMI plus OCI	675	433	478	770	982	962
Adjusted PATMI	620	397	439	707	901	883
Reported EPS (VND)	3,128	1,596	1,592	2,567	3,273	3,206
Adjusted EPS (VND)	2,872	1,465	1,462	2,356	3,005	2,943

Source: Company data, Yuanta Vietnam

Balance sheet: HCM						
(VND bn)	2018A	2019A	2020E	2021E	2022E	2023E
Cash & equivalents	117	907	988	1,067	1,153	1,210
Net margin loans	3,238	4,697	4,227	5,284	6,076	7,292
FVPL assets	852	1,287	1,480	1,702	1,914	2,154
AFS assets	-	-	-	-	-	-
S/T HTM assets	-	-	-	-	-	-
Other current assets	858	406	429	452	477	504
Current assets	5,065	7,296	7,123	8,505	9,621	11,159
L/T HTM assets	-	-	-	-	-	-
Associates	-	-	-	-	-	-
Other L/T assets	191	193	207	220	234	250
Total L-T assets	191	193	207	220	234	250
Total assets	5,256	7,489	7,330	8,725	9,855	11,409
S/T borrowings	1,554	2,394	1,963	2,709	3,250	3,901
S/T bonds	150	-	-	-	-	-
Other S/T liabilities	492	791	1,022	1,337	1,483	1,954
Current liabilities	2,196	3,185	2,985	4,045	4,733	5,855
Long-term bonds	-	-	-	-	-	-
Other L/T liabilities	-	-	-	-	-	-
Long-term liabilities	-	-	-	-	-	-
Shareholder equity	1,295	3,053	3,053	3,053	3,053	3,053
Reserves	594	666	666	666	666	666
Retained earnings	1,172	585	627	961	1,403	1,835
Minority interests	-	-	-	-	-	-
Total equity	3,061	4,304	4,346	4,680	5,122	5,554
Attributable equity	3,061	4,304	4,346	4,680	5,122	5,554
BVPS (VND)	23,621	14,362	14,501	15,616	17,091	18,533

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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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–Outperform: 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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Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities Investment Consulting
4F, 225,
Section 3 Nanking East Road, Taipei 104
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities (Hong Kong) Co. Ltd
23/F, Tower 1, Admiralty Centre
18 Harcourt Road,
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office
Yuanta Securities Building
Euljiro 76 Jung-gu
Seoul, Korea 100-845
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
PT YUANTA SECURITIES INDONESIA
(A member of the Yuanta Group)
Equity Tower, 10th Floor Unit EFGH
SCBD Lot 9
Jl. Jend. Sudirman Kav. 52-53
Tel: (6221) - 5153608 (General)

Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Thailand)
127 Gaysorn Tower, 16th floor
Ratchadamri Road, Pathumwan
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Vietnam)
4th Floor, Saigon Centre
Tower 1, 65 Le Loi Boulevard,
Ben Nghe Ward, District 1,
HCMC, Vietnam

YUANTA SECURITIES



NETWORK

YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA

Head of Research

Tel: +84 28 3622 6868 (ext. 3815)

matthew.smith@yuanta.com.vn

Tam Nguyen

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen

Head of Institutional sales

Tel: +84 28 3622 6868 (3808)

Huy.nguyen@yuanta.com.vn

Binh Truong

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

binh.truong@yuanta.com.vn

Tanh Tran

Analyst (Banks)

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

Duyen Nguyen

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890)

duyen.nguyen@yuanta.com.vn