

**Vietnam: Brokers**
**21 May 2020**
**SSI VN**
**BUY**
**TP upside (downside) +29%**
**Close 18 Dec 2019**

Price	VND 14,150
12M Target	VND 18,328
Previous Target	VND 23,525
Target Change	-22%

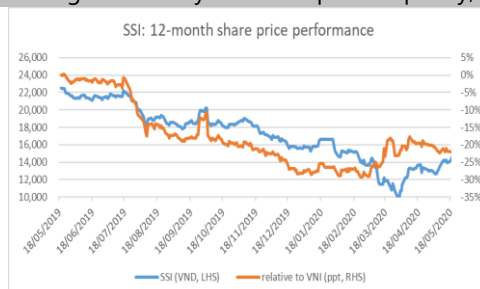
**Company profile:** SSI is the largest domestic securities company by brokerage market share. It is now a distant No.2 in margin lending market share, and recovering its dominant position in this key segment will be difficult given the funding advantages of the very aggressive foreign players. Another key driver of earnings is its HTM book, which we consider to be deposit arbitrage. SSI is a member of the VN30 index and it is the sector's largest stock by market cap and liquidity, making it the most "investable" of the brokers from a technical standpoint.

**What's new?**

- ▶ **Capital raising did not presage a chase** for margin finance business.
- ▶ **Substantial trading gains appear likely in 2Q20** following the buildup of trading positions in 1Q20.
- ▶ **EPS forecasts cut** by -18% for 2020E and -6% for 2021E.

**Our view**

- ▶ **Short term trading idea:** SSI's sequential results in 2Q20 are very likely to turn around substantially on trading gains.
- ▶ **Investability matters.** SSI's market cap and trading liquidity are the sector's highest.
- ▶ **We reiterate HOLD-Outperform.** SSI's shares may outperform peers on strong 2Q results.


**Saigon Securities (SSI VN)**
**Prop trading gains to drive short-term upside**

**Traders take note.** We expect a sharp sequential turnaround in 2Q20 results following the pain of 1Q20. Although we prefer HCM as a long-term pick, SSI's share price performance could outperform the sector over the next few months due to its (probable) substantial trading gains.

**SSI's 1Q20 earnings** declined -96% QoQ and YoY as net brokerage fees were effectively zero, and its proprietary trading losses soared to VND354bn. The company only managed to avoid a bottom line loss by selling AFS assets, presumably to pad earnings during the quarter. For a more detailed summary, please see our [results note](#) of May 4.

**However, 2Q20 results are likely to be substantially better.** Unrealized mark-to-market losses comprised 88% of SSI's 1Q20 trading losses. Far from panic selling, SSI loaded up on its prop book as exhibited by its FVPL assets (+50% QoQ / 203% YoY) which represented 23.6% of total assets as of 1Q20 vs. 10-16% for the other three brokers in our coverage. The 29% rally in the VNI since then suggests that SSI is very likely to post substantial trading gains in the current quarter.

**Valuation is reasonable.** Fundamentally, SSI merits a valuation discount to HCM given that its ROEs are lower. Still, the shares trade at just 0.8x 2020E P/BV and 6.8x 2021E PER, which we believe more than discounts the company's structurally low profitability, especially if our view on the market's extrapolation of very strong earnings in 2Q20 is correct.

**Downward earnings revisions.** We cut our EPS by 18% for 2020E and by 6% for 2021E after factoring in the increased share count and dialing down our earnings assumptions.

**We reiterate our HOLD-Outperform call.** We reckon SSI's sequential earnings will improve substantially in 2Q20, which may allow for considerable outperformance as a short term trade. However, HCM remains our preferred long-term top pick in the sector.

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<b>Market cap</b>	<b>US\$369m</b>
<b>6M avg. daily turnover</b>	<b>US\$1.6m</b>
<b>Outstanding shares</b>	<b>590m</b>
<b>Free float</b>	<b>65%</b>
<b>FINI ownership</b>	<b>51%</b>
<b>Major shareholders</b>	<b>35%</b>
<b>Net debt/equity</b>	<b>180%</b>
<b>2020E EV/EBITDA</b>	<b>1.6x</b>
<b>2020E P/B</b>	<b>0.8x</b>
<b>Trading platform</b>	<b>HOSE</b>
<b>FOL Room</b>	<b>nmf*</b>

\*Note: SSI has no foreign ownership limit

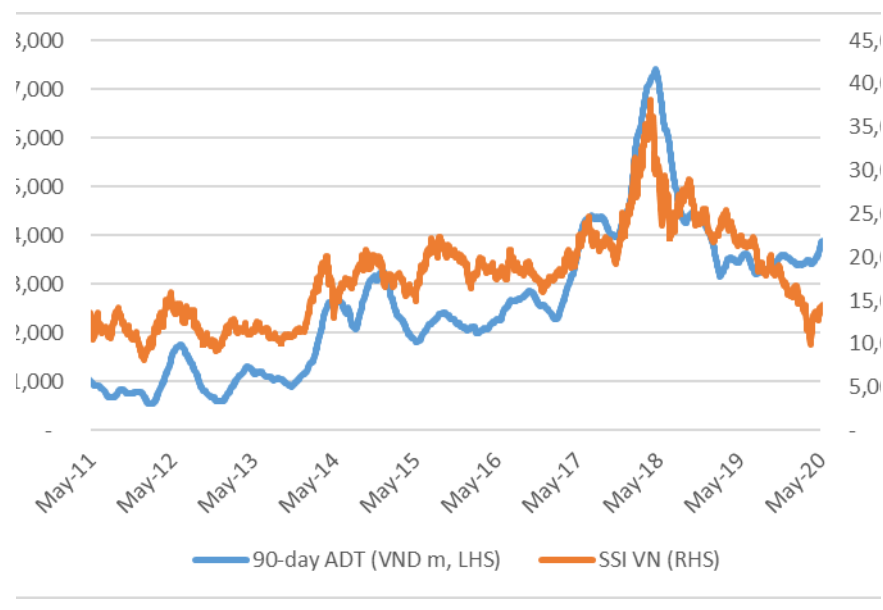
Key metrics	2019A	2020E	2021E
Operating inc growth (YoY)	-3%	4%	31%
Adj PATMI growth (%)	-25%	-8%	39%
Current ratio (x)	1.4	1.3	1.3
Debt/Equity (x)	1.7	1.8	1.8
ROA (x)	3.6%	2.9%	3.6%
ROE (x)	9.9%	8.8%	11.4%
Adj EPS (VND/share)	1,537	1,413	1,971
EPS growth (%)	-32.5%	-8.0%	39.4%
PE (x)	10.1	7.2	6.8
PB (x)	0.9	0.8	0.8
Dividend yield	3.0%	4.3%	4.0%

Source: Bloomberg, Company data, Yuanta Securities

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## Share price correlation with average daily turnover: 79%



Source: Bloomberg, Yuanta Vietnam

**We cut our PATMI forecasts** by 3% for 2020E but increase our estimate by 11% for 2021E, with our EPS forecasts reduced by 18% for 2020E and by 6% for 2021E after adjusting our share count for SSI's capital call. We also introduce our 2022E earnings assumptions with publication of this note. SSI's 1Q20 performance was close to a breakeven result, but we anticipate a sharp turnaround in its proprietary trading results in 2Q20 so we think our forecasts for this year are reasonable.

## Earnings and target price revisions

	2020E			2021E			2022E		
	Previous	New	% chg	Previous	New	% chg	Previous	New	% chg
Net income (VND bn)	864	834	-3%	1,050	1,163	11%	na	1,232	na
EPS (VND)	1,701	1,413	-18%	2,067	1,971	-6%	na	2,088	na
Target price (VND)	23,525	18,328	-22%						

Source: Yuanta Securities

## Quarterly earnings summary

HCM	1Q20 (VND bn)	YoY	QoQ	YTD (VND bn)	YoY	vs our full-year target
Gross brokerage income	123	-20%	-18%	123	-20%	14%
Net brokerage income	0	-101%	-98%	0	-101%	-9%
Service fees	31	345%	115%	31	345%	78%
Gross margin income	145	-7%	-11%	145	-7%	21%
Prop trading	-354	-621%	-202%	-354	-621%	-69%
Gains from AFS assets	159	224233%	303%	159	224233%	161%
Gains from HTM assets	259	21%	2%	259	21%	31%
PBT	195	-48%	-55%	195	-48%	9%
Reported PATMI	8	-97%	-97%	8	-97%	1%

Source: Company data, Yuanta Vietnam

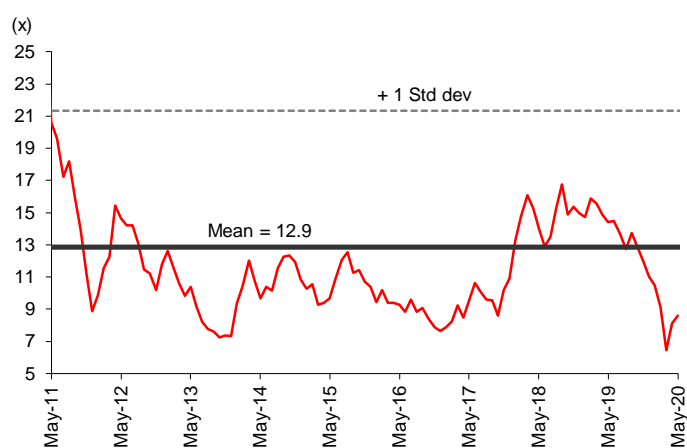
**Valuations.** Our target price is based on the median of four fair value methodologies and implies just 1.1x 2020E P/B and 9.3x 2021E P/E. This valuation is reasonably conservative for a capital markets-facing business with a strong (albeit not unassailable) market position. On a net basis, the company has generated

essentially zero operating income from brokerage over the past four quarters, suggesting a relatively inefficient high-touch and mass market client servicing model. This appears to be essentially a loss leader for its margin finance and treasury businesses. The latter business appears to be essentially deposit arbitrage (i.e., borrowing short and lending long) but given the realities of Vietnam banking, the duration mismatch is probably less risky than it sounds. The vagaries of the company's trading results are another key factor; generally, markets do not apply high valuation multiples to risky trading strategies. SSI's shares tend to trade at a discount to its major peers, and we don't expect this to change.

Our target price implies 1.1x 2020E P/BV and 9.3 adjusted 2021E PER. In the absence of guidance on a dividend policy, we are assuming a 40% dividend payout ratio on 2020E earnings, which translates into a 4.0% dividend yield.

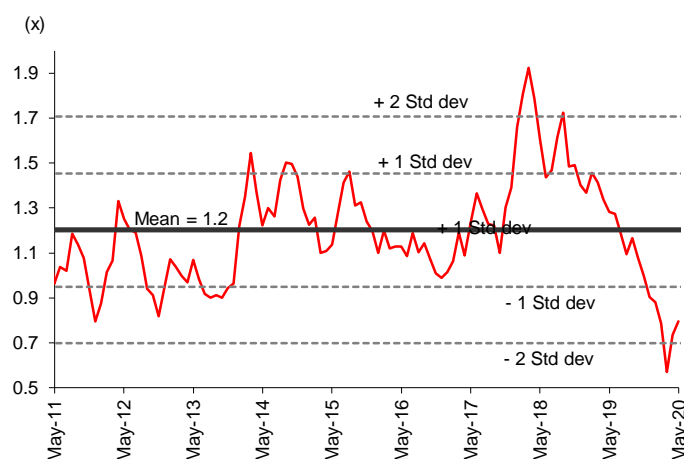
Price multiples: SSI					
(x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	9.2	10.0	7.2	6.8	7.6
Adjusted P/E	9.3	10.1	7.2	6.8	7.6
Reported P/B	0.8	0.9	0.8	0.8	0.7
Tangible P/B	0.8	0.9	0.8	0.8	0.7
EV / EBITDA	1.5	1.7	1.6	1.3	1.2
Dividend Yield	7.0%	3.0%	4.3%	4.0%	5.5%

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



Source: Company data, Bloomberg, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

## Summary: Valuations

	VND per share	Upside / downside	2020E PB (x)	Implied 2021E PE (x)
Current price	14,250		0.8	7.2
DCF valuation	19,452	36.5%	1.1	9.9
Gordon growth valuation	18,612	30.6%	1.1	9.4
DDM	18,044	26.6%	1.0	9.2
SoTP	16,012	12.4%	0.9	8.1
Mean fair value	18,030	26.5%	1.0	9.1
<b>Median fair value</b>	<b>18,328</b>	<b>28.6%</b>	<b>1.1</b>	<b>9.3</b>

Source: Company data, Yuanta Vietnam

<b>Income Statement: SSI</b>					
<b>(VND bn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Brokerage net revenues	358	27	2	3	4
Margin lending net revenues	427	316	348	400	471
Gains on trading assets	(62)	236	510	836	854
Gains on AFS & HTM assets	925	1,074	924	1,036	1,152
Other investment	46	69	53	51	24
<b>Total investment revenues</b>	<b>908</b>	<b>1,380</b>	<b>1,487</b>	<b>1,924</b>	<b>2,030</b>
Net fee income	75	52	40	68	77
Other operating net revenues	(24)	(61)	(73)	(80)	(88)
<b>Net operating revenues</b>	<b>1,744</b>	<b>1,713</b>	<b>1,804</b>	<b>2,315</b>	<b>2,494</b>
SG&A expenses	(174)	(193)	(217)	(242)	(261)
<b>Operating profit</b>	<b>1,571</b>	<b>1,520</b>	<b>1,587</b>	<b>2,073</b>	<b>2,234</b>
Associates	239	0	79	60	60
Non-operating revenues	73	39	41	43	45
Interest expense	(259)	(453)	(666)	(724)	(800)
<b>Pretax profit</b>	<b>1,623</b>	<b>1,106</b>	<b>1,041</b>	<b>1,452</b>	<b>1,538</b>
Tax	(320)	(198)	(205)	(286)	(303)
Minorities	2	-	-	-	-
<b>Reported PATMI</b>	<b>1,305</b>	<b>907</b>	<b>836</b>	<b>1,166</b>	<b>1,235</b>
PATMI plus OCI	1,214	909	838	1,168	1,238
<b>Adjusted PATMI</b>	<b>1,214</b>	<b>907</b>	<b>834</b>	<b>1,163</b>	<b>1,232</b>
Reported EPS (VND)	2,428	1,541	1,420	1,980	2,098
<b>Adjusted EPS (VND)</b>	<b>2,277</b>	<b>1,537</b>	<b>1,413</b>	<b>1,971</b>	<b>2,088</b>

Source: Company data, Yuanta Securities

<b>Balance Sheet: SSI</b>					
<b>(VND bn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Cash & equivalents	613	1,041	1,093	1,137	1,193
Net margin loans	5,937	5,318	6,382	7,100	7,632
FVPL assets	2,040	4,315	4,531	4,758	4,995
AFS assets	1,265	760	821	878	922
S/T HTM assets	12,326	10,722	12,866	14,314	15,387
Other current assets	89	135	141	148	155
<b>Current assets</b>	<b>22,270</b>	<b>22,291</b>	<b>25,834</b>	<b>28,334</b>	<b>30,285</b>
L/T HTM assets	302	3,445	4,133	4,598	4,943
Associates	764	794	794	794	794
Other L/T assets	489	514	524	534	545
<b>Total L-T assets</b>	<b>1,555</b>	<b>4,753</b>	<b>5,452</b>	<b>5,927</b>	<b>6,283</b>
<b>Total assets</b>	<b>23,826</b>	<b>27,044</b>	<b>31,286</b>	<b>34,261</b>	<b>36,569</b>
S/T borrowings	11,193	15,550	17,183	18,772	19,711
S/T bonds	255	-	-	-	-
Other S/T liabilities	2,021	859	2,215	2,481	2,967
<b>Current liabilities</b>	<b>13,469</b>	<b>16,410</b>	<b>19,398</b>	<b>21,254</b>	<b>22,678</b>
Long-term bonds	1,068	1,106	1,880	2,162	2,270
Other L/T liabilities	132	128	134	141	148
<b>Long-term liabilities</b>	<b>1,201</b>	<b>1,234</b>	<b>2,014</b>	<b>2,303</b>	<b>2,418</b>
Shareholder equity	5,235	5,225	5,225	5,225	5,225
Reserves	1,058	1,170	1,170	1,170	1,170
Retained earnings	2,795	2,941	3,413	4,242	5,009
Minority interests	67	65	66	67	69
Total equity	9,156	9,401	9,874	10,704	11,473
<b>Attributable equity</b>	<b>9,089</b>	<b>9,336</b>	<b>9,808</b>	<b>10,637</b>	<b>11,404</b>
BVPS (VND)	17,850	16,373	17,200	18,654	20,000

Source: Company data, Yuanta Securities

<b>Select ratios: SSI</b>						
<b>Liquidity &amp; leverage</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	
Current ratio	1.7	1.4	1.3	1.3	1.3	
Net debt / equity	1.27	1.66	1.82	1.85	1.81	
Interest coverage ratio	2.3	1.9	2.2	2.2	2.1	
Equity / Assets	38.4%	34.8%	31.6%	31.2%	31.4%	
Tangible Equity / Assets	38.3%	34.6%	31.4%	31.1%	31.3%	
<b>Asset yields</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	
Margin loans (net)	7.7%	5.1%	4.5%	4.5%	5.0%	
FVPL realized	11.4%	6.6%	9.0%	10.0%	9.5%	
FVPL revaluation	-15.0%	0.8%	2.5%	8.0%	8.0%	
AFS securities	15.0%	8.2%	12.5%	10.0%	12.5%	
S/T HTM securities	6.9%	7.4%	7.0%	7.0%	7.0%	
Associates	30.3%	0.0%	10.0%	7.5%	7.5%	
<b>Profitability</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	
Brokerage GPM	31.7%	4.6%	0.3%	0.3%	0.3%	
Margin lending GPM	60.0%	46.6%	51.2%	52.3%	56.0%	
Brokerage / net op inc	20.5%	1.6%	0.1%	0.1%	0.2%	
Margin / net op inc	24.5%	18.4%	19.3%	17.3%	18.9%	
Fees / net op inc	4.3%	3.0%	2.2%	2.9%	3.1%	
Investments / net op inc	52.1%	80.5%	82.4%	83.1%	81.4%	
Staff comp ratio	13.1%	0.0%	13.0%	13.0%	13.0%	
ROA	5.7%	3.6%	2.9%	3.6%	3.5%	
ROE	13.9%	9.9%	8.8%	11.4%	11.2%	
<b>Growth (YoY)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	
Brokerage revenues	35.7%	-92.6%	-91.0%	30.0%	36.5%	
Margin lending net revenues	29.1%	-26.0%	10.2%	15.0%	17.8%	
Investment revenues	-2.2%	51.9%	7.8%	29.4%	5.5%	
Fee income	47.5%	-30.3%	-23.1%	69.9%	12.9%	
Net operating revenues	11.4%	-1.8%	5.3%	28.3%	7.8%	
SG&A expenses	3.4%	11.3%	12.2%	11.4%	7.9%	
Operating profit	12.3%	-3.2%	4.4%	30.6%	7.7%	
Reported PATMI	12.3%	-30.5%	-7.8%	39.4%	6.0%	
Adjusted PATMI	12.1%	-25.3%	-8.0%	39.4%	6.0%	
Reported EPS	9.9%	-36.5%	-7.8%	39.4%	6.0%	
Adjusted EPS	3.1%	-32.5%	-8.0%	39.4%	6.0%	
Avg margin loans	35.7%	14.9%	5.0%	12.5%	10.0%	
FVPL assets	42.5%	111.5%	5.0%	5.0%	5.0%	
AFS assets	-17.6%	-39.9%	8.0%	7.0%	5.0%	
Short-term HTM assets	56.4%	-13.0%	20.0%	11.3%	7.5%	
Total current assets	29.3%	0.1%	15.9%	9.7%	6.9%	
Total assets	27.0%	13.5%	15.7%	9.5%	6.7%	
Attributable equity	7.7%	2.6%	5.0%	8.5%	7.2%	
BVPS	4.5%	-8.3%	5.0%	8.5%	7.2%	

Source: Company data, Yuanta Securities

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