

Vietnam: Brokers
21 May 2020
VCI VN
HOLD-Underperform
TP upside +9.1%
Close 18 May 2020

Price	VND 24,250
12M Target	VND 26,449
Previous Target	VND 32,437
Target Change	-18%

What's new?

- ▶ **Downgrade to HOLD-U/P** in light of the distant catalysts for a rerating.
- ▶ **EPS forecasts cut** by -15% for 2019E and -44%/-46% for 2020/21E.
- ▶ **The stock may rally in line with the market in 1Q20**, but HCM and SSI are superior market proxies given their higher trading liquidity.

Our view

- ▶ **The stock's low liquidity could be a hurdle** to institutional interest.
- ▶ **A resurgence of IPO activity is likely** in 2021, but VCI's ability to maintain its dominance is in question.
- ▶ **We suggest a determined investor relations effort**, which could help turn around sentiment and end the de-rating.

Company profile: VCI is a market leader in Vietnamese investment banking and institutional brokerage. Following a sharp de-rating since the 1Q18 peak, the shares now trade at the lowest P/E multiples in our Vietnam brokers universe. However, the stock also has the lowest daily trading liquidity in our coverage, and this could be a reason for the valuation discount.

Viet Capital Securities (VCI VN)
The de-rating continues

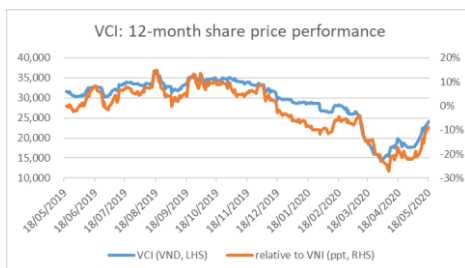
Searching for catalysts. In theory, VCI's investment banking platform should insulate it from the extreme competition in retail broking. Vietnam's ECM/DCM outlook should improve from 2021E. VCI's ability to retain its preeminence in investment banking is thus crucial, but in our view investor confidence appears to be low.

Foreign net selling is most dramatic for VCI, which has seen the sector's highest foreign net selling in relative terms at c.5% of its current market cap. A determined investor relations effort such as HCM's outreach to the Street might help to boost sentiment and the stock's valuation.

VCI is the least correlated stock to market turnover at just 57% historical correlation to 90-day average daily turnover in the VNI (vs c.80% for its peers). We would like to attribute this to due to its IB-focused business model, but the stock's seemingly endless derating over the past 26 months appears to be the actual reason. The catalyst for a turnaround in this trend (i.e., a resumption of large deals) is both distant (2021?) and uncertain.

VCI's 1Q20 earnings declined -40.9% QoQ/-41.5% YoY largely due to unrealized mark-to-market trading losses. Despite the weak headline numbers, it was a reasonable result given that the bulk of the prop book losses were unrealized and may be reversed if the rally of April persists. For a more detailed summary, please see our [results note](#) of April 24.

We reiterate our HOLD-Underperform rating. We reduce our target price to VND 26,449 based on the median result of four fundamental valuation methodologies. Our new target implies 12-month total shareholder returns of 12.5% assuming our dividend payout assumptions hold. Our target price implies an undemanding valuation of 1.0x 2020E P/B and 7.3x P/E, which obviously does not assume a rerating of the stock to its much higher historical average levels.



Market cap	US\$170m
6M avg. daily turnover	US\$ 182K
Outstanding shares	164m
Free float	62%
FINI ownership	30%
Major shareholders	28%
1Q20 Net debt/equity	57%
2020E EV/EBITDA	3.1x
2020E P/B	0.9x
Trading platform	HOSE
FOL Room	nmf*

*Note: VCI has no foreign ownership limit

Key metrics	2019A	2020E	2021E
Operating income chg (YoY)	-16%	-21%	24%
Adj PATMI growth (%)	-17%	-33%	28%
Current ratio (x)	2.3	2.2	2.2
Debt/Equity (x)	0.2	0.2	0.2
ROA (x)	10.1%	6.1%	7.0%
ROE (x)	17.7%	10.9%	12.8%
Adj EPS (VND/share)	4,163	2,803	3,600
EPS growth (%)	-16.3%	-32.6%	28.4%
PE (x)	5.8	8.6	6.7
PB (x)	1.0	0.9	0.8
Dividend yield	5.8%	3.4%	2.9%

Source: Bloomberg, Company data, Yuanta Vietnam

Matthew Smith, CFA

+84 28 82 858 2451 ext 3815
matthew.smith@yuanta.com.vn

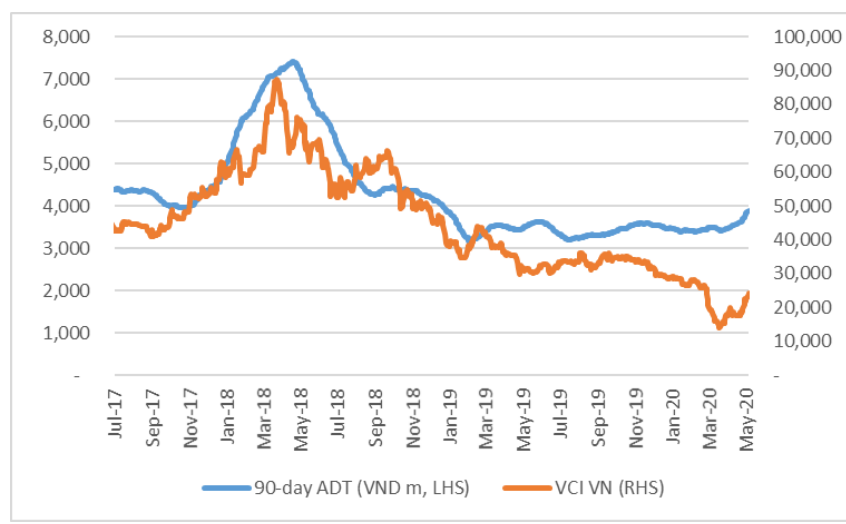
<http://yuanta.com.vn>

Bloomberg code: YUTA

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

Yuanta does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Share price correlation with average daily turnover: 57%



Source: Bloomberg, Yuanta Vietnam

Earnings revisions: The final cut? We reduce our PATMI forecasts for VCI by 23% for 2020E and 17% for 2021E after again marking down assumptions for the major market-related metrics that drive our model (e.g., turnover, margin lending, and service fees). We intend this to be the final cut and believe that the risk to these reduced forecasts is to the upside, especially if dealflow resurges for VCI's investment banking team starting from 2021E. In other words, we think that we have kitchen-sinked our earnings expectations with these revisions. We also introduce our 2022E forecasts with publication of this note.

Earnings and target price revisions

	2020E			2021E			2022E		
	Previous	New	% chg	Previous	New	% chg	Previous	New	% chg
Net income (VND bn)	593	458	-23%	706	588	-17%	na	620	na
EPS (VND)	3,636	2,803	-24%	4,331	3,600	-18%	na	3,795	na
Target price (VND)	32,437	26,449	-18%						

Source: Yuanta Vietnam

Quarterly earnings summary

VCI	1Q20	YoY	QoQ	YTD	YoY	vs our
	(VND bn)			(VND bn)		full-year
Gross brokerage income	86	-2%	-2%	86	-2%	24%
Net brokerage income	51	130%	202%	51	130%	37%
Service fees	-3	38%	-114%	-3	38%	-8%
Gross margin income	87	23%	-7%	87	23%	25%
Prop trading	27	-85%	-42%	27	-85%	6%
Gains from HTM assets	5	<i>nmf</i>	<i>nmf</i>	5	168%	<i>nmf</i>
Net operating income	139	-49%	-52%	139	-49%	14%
PBT	90	-64%	-64%	90	-64%	16%
Reported PATMI	119	-41%	-41%	119	-41%	25%

Source: Company data, Yuanta Vietnam

Valuations. Our target price is based on the median of four fair value methodologies and implies an undemanding 1.0x 2020E P/B and 7.3x 2021E P/E. This is optically cheap given the company's historical sector-high ROEs and predominance in institutional broking and investment banking. However, we think

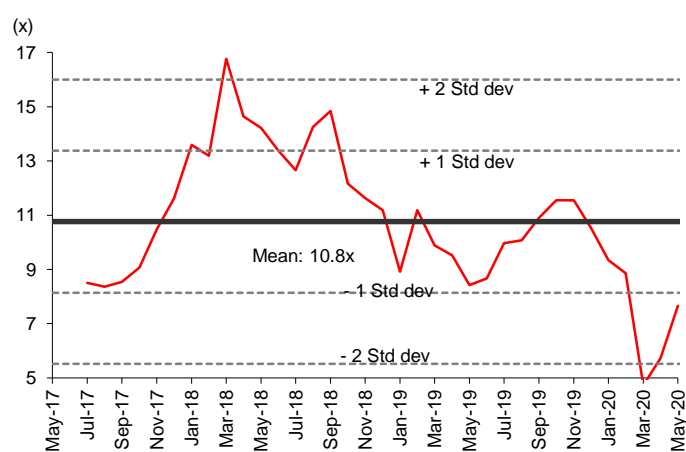
the upside catalysts for operations are not likely to emerge until 2021E at the earliest, and the stock's low liquidity merits a discount.

We are assuming a 20% dividend payout ratio on 2020E earnings, which translates into a 3.4% dividend yield and 12.5% expected total shareholder returns over the next 12 months.

Price multiples: VCI						
(x)	2017A	2018A	2019A	2020E	2021E	2022E
Reported P/E	4.8	4.8	5.7	8.5	6.6	6.3
Adjusted P/E	4.9	4.9	5.8	8.6	6.7	6.4
Reported P/B	1.0	1.1	1.0	0.9	0.8	0.7
Tangible P/B	1.0	1.1	1.0	0.9	0.8	0.7
EV / EBITDA	3.0	2.3	2.9	3.1	2.6	2.4
Dividend Yield	2.3%	3.0%	5.8%	3.4%	2.9%	3.7%

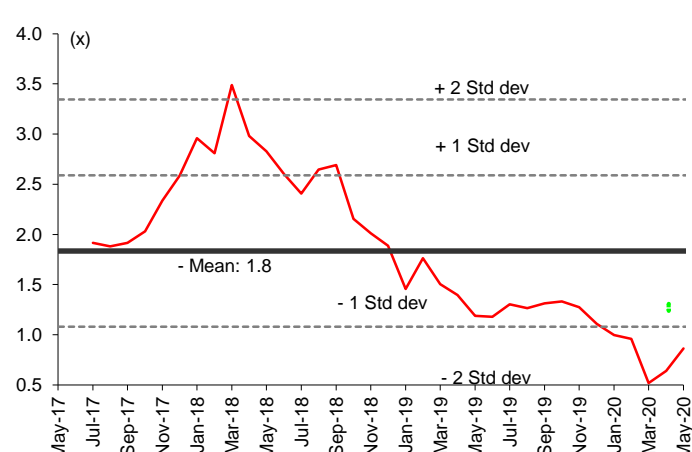
Source: Company data, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: VCI

	VND per share	de / downside	2020E PB (x)	Implied 2021E
Current price	24,250		0.9	6.7
DCF valuation	27,590	13.8%	1.0	7.7
Gordon growth valuation	26,157	7.9%	1.0	7.3
DDM	26,586	9.6%	1.0	7.4
SoTP	26,311	8.5%	1.0	7.3
Mean fair value	26,661	9.9%	1.0	7.4
Median fair value	26,449	9.1%	1.0	7.3

Source: Company data, Yuanta Vietnam

Income Statement: VCI					
(VND bn)	2018A	2019A	2020E	2021E	2022E
Brokerage net revenues	700	168	137	181	256
Margin lending net revenues	268	233	113	163	204
Gains on trading assets	149	490	424	473	453
Gains on AFS & HTM assets	-	16	-	-	-
Other investment	66	44	88	121	85
Total investment revenues	215	550	512	594	538
Net fee income	10	33	35	44	57
Other operating net revenues	(17)	(4)	(4)	(5)	(5)
Net operating revenues	1,176	979	792	978	1,048
SG&A expenses	(94)	(67)	(74)	(85)	(102)
Operating profit	1,082	912	718	893	946
Associates	0	0	0	0	0
Non-operating revenues	16	9	10	11	11
Interest expense	(75)	(66)	(152)	(164)	(178)
Pretax profit	1,023	855	576	740	780
Tax	(189)	(162)	(110)	(141)	(148)
Minorities	-	-	-	-	-
Reported PATMI	835	693	467	599	632
PATMI plus OCI	835	693	467	599	632
Adjusted PATMI	819	680	458	588	620
Reported EPS (VND)	5,067	4,240	2,856	3,667	3,865
Adjusted EPS (VND)	4,974	4,163	2,803	3,600	3,795

Source: Company data, Yuanta Vietnam

Balance sheet: VCI					
(VND bn)	2018A	2019A	2020E	2021E	2022E
Cash & equivalents	1,144	795	874	944	991
Net margin loans	2,789	3,030	3,454	3,903	4,371
FVPL assets	425	795	835	918	1,010
AFS assets	2,039	1,731	2,060	2,286	2,469
S/T HTM assets	-	262	262	262	262
Other current assets	33	561	617	648	681
Current assets	6,430	7,173	8,101	8,961	9,784
L/T HTM assets	-	-	-	-	-
Associates	-	-	-	-	-
Other L/T assets	80	70	73	77	81
Total L-T assets	80	70	73	77	81
Total assets	6,510	7,243	8,175	9,038	9,865
S/T borrowings	985	1,451	1,741	1,863	2,049
S/T bonds	1,335	1,082	1,298	1,389	1,528
Other S/T liabilities	433	557	655	826	849
Current liabilities	2,753	3,089	3,694	4,078	4,426
Long-term bonds	-	-	-	-	-
Other L/T liabilities	114	102	107	113	118
Long-term liabilities	114	102	107	113	118
Shareholder equity	1,630	1,643	1,643	1,643	1,643
Reserves	1,148	1,145	1,145	1,145	1,145
Retained earnings	865	1,263	1,585	2,059	2,533
Minority interests	-	-	-	-	-
Total equity	3,643	4,052	4,374	4,848	5,321
Attributable equity	3,643	4,052	4,374	4,848	5,321
BVPS (VND)	22,350	24,652	26,613	29,496	32,376

Source: Company data, Yuanta Vietnam

Select ratios: VCI					
Liquidity & leverage	2018A	2019A	2020E	2021E	2022E
Current ratio	2.3	2.3	2.2	2.2	2.2
Net debt / equity	-4%	16%	20%	19%	20%
Interest coverage ratio	4.3	4.9	3.0	2.9	2.7
Equity / Assets	56.0%	55.9%	53.5%	53.6%	53.9%
Tangible Equity / Assets	55.9%	55.9%	53.5%	53.6%	53.9%
Asset yields	2018A	2019A	2020E	2021E	2022E
Margin loans (net)	1.1%	5.0%	4.5%	4.5%	4.5%
FVPL realized	51.3%	75.7%	50.0%	50.0%	45.0%
FVPL revaluation	-17.3%	4.7%	2.0%	4.0%	2.0%
Dividends / Interest on FVPL	16.7%	8.3%	12.0%	15.0%	10.0%
Total trading book	49.0%	90.1%	62.8%	67.8%	55.8%
Fee income / Assets	0.2%	0.5%	0.5%	0.5%	0.6%
Profitability	2018A	2019A	2020E	2021E	2022E
Brokerage GPM	68.9%	38.7%	37.6%	37.6%	37.6%
Margin lending GPM	60.4%	70.1%	33.1%	39.9%	43.3%
Brokerage / net op inc	59.6%	17.1%	17.3%	18.5%	24.4%
Margin / net op inc	22.8%	23.7%	14.2%	16.7%	19.4%
Fees / net op inc	0.8%	3.4%	4.4%	4.5%	5.4%
Investments / net op inc	18.3%	56.1%	64.6%	60.7%	51.3%
Staff comp ratio	0.0%	0.0%	22.0%	23.0%	22.0%
Bonus & welfare / NPAT	1.8%	1.8%	1.8%	1.8%	1.8%
Adj ROA	12.9%	10.1%	6.1%	7.0%	6.7%
Adj ROE	24.7%	17.7%	10.9%	12.8%	12.2%
Growth (YoY)	2018A	2019A	2020E	2021E	2022E
Brokerage revenues	222.4%	-76.0%	-18.1%	31.7%	41.3%
Margin lending net revenues	78.0%	-13.2%	-51.5%	44.8%	24.7%
Investment revenues	-48.0%	155.9%	-6.9%	16.1%	-9.5%
Fee income	-95.3%	239.0%	4.8%	27.6%	27.4%
Net operating revenues	20.3%	-16.7%	-19.1%	23.5%	7.2%
SG&A expenses	-27.6%	-28.3%	10.0%	15.0%	20.0%
Operating profit	27.6%	-15.7%	-21.2%	24.3%	6.0%
Reported PATMI	27.4%	-16.9%	-32.6%	28.4%	5.4%
Adjusted PATMI	27.4%	-16.9%	-32.6%	28.4%	5.4%
Reported EPS	-14.1%	-16.3%	-32.6%	28.4%	5.4%
Adjusted EPS	-14.1%	-16.3%	-32.6%	28.4%	5.4%
Avg margin loans	58.0%	-24.9%	5.0%	20.0%	15.0%
FVPL assets	-5.8%	86.9%	5.0%	10.0%	10.0%
AFS assets	11.7%	-15.1%	19.0%	11.0%	8.0%
Short-term HTM assets	0.0%	0.0%	0.0%	0.0%	0.0%
Total current assets	1.4%	11.5%	12.9%	10.6%	9.2%
Total assets	1.7%	11.3%	12.9%	10.6%	9.1%
Attributable equity	20.9%	11.3%	8.0%	10.8%	9.8%
BVPS	-11.6%	10.3%	8.0%	10.8%	9.8%

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Ratings Definitions

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.

HOLD–Underperform: In our view, the stock's fundamentals are relatively less 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.

SELL: We have a negative 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 reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

Global Disclaimer

© 2020 Yuanta. All rights reserved. The information in this report has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

This report provides general information only. Neither the information nor any opinion expressed herein constitutes an offer or invitation to make an offer to buy or sell securities or other investments. This material is prepared for general circulation to clients and is not intended to provide tailored investment advice and does not take into account the individual financial situation and objectives of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, investments or investment strategies discussed or recommended in this report. The information contained in this report has been compiled from sources believed to be reliable but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. This report is not (and should not be construed as) a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on such business in that jurisdiction.

Yuanta research is distributed in the United States only to Major U.S. Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended and SEC staff interpretations thereof). All transactions by a US person in the securities mentioned in this report must be effected through a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934, as amended. Yuanta research is distributed in Taiwan by Yuanta Securities Investment Consulting. Yuanta research is distributed in Hong Kong by Yuanta Securities (Hong Kong) Co. Limited, which is licensed in Hong Kong by the Securities and Futures Commission for regulated activities, including Type 4 regulated activity (advising on securities). In Hong Kong, this research report may not be redistributed, retransmitted or disclosed, in whole or in part or and any form or manner, without the express written consent of Yuanta Securities (Hong Kong) Co. Limited.

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