

Vietnam: Brokers
21 May 2020
VND VN
HOLD-Underperform
TP upside +7.4%
Close 18 May 2020

Price	VND 12,250
12M Target	VND 13,150
Previous Target	VND 12,231
Target Change	-1%

What's new?

- ▶ **Weak 1Q20 results** put our earlier full-year forecasts out of reach.
- ▶ **We cut our EPS forecasts** by 30% for 2020 but just 6% for 2021E.
- ▶ **Fairly valued.** VND's valuation is low vs. its peers, but this is justified by low ROA/ROE and is in line with its historical averages.

Our view

- ▶ **VND deserves credit** for maintaining its brokerage profitability.
- ▶ **But technical factors are not attractive.** The stock's low liquidity could be a hurdle to renewed institutional interest.
- ▶ **HOLD-Underperform.** We struggle to identify catalysts for a rerating given the extreme competition in retail broking.

Company profile: VND is the smallest of the brokers in our coverage by both market share and market cap. VND offers reasonable trading liquidity and a superior trading platform that has enabled it to efficiently maintain its market share among retail investors. However, the rapid rise of heavyweight retail brokerage competitors reduces the attractiveness of VND as an investment, in our view.

VNDirect (VND VN)
In search of a catalyst

VND is close to a pure play on retail broking given its superior trading platform vs. peers. Based on our calculations, the company's brokerage fees and margin lending interest rates also have remained persistently strong. Operating leverage is a standout, presumably due to a lower broker/customer ratio than less efficient rivals such as SSI. This also suggests a relatively diversified client base, although we can't verify this.

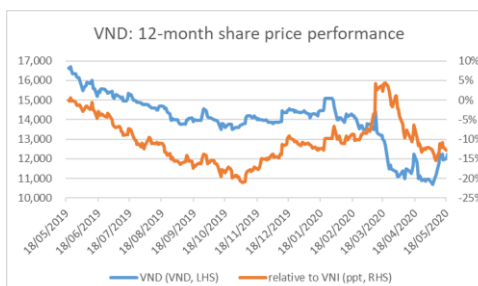
However, retail broking is a red ocean filled with well-funded foreign trawlers. We think that this is one of the reasons for the YTD share price underperformance, and we see few catalysts for a rerating in the near term.

VND's 1Q20 earnings declined -61% QoQ/-35% YoY. The company appears to be holding on to brokerage profitability but its market share of margin lending is under pressure. This conundrum illustrates the competitive challenges facing all brokers, and especially retail-focused houses like VND. For more details, please see our [results note](#) of May 5.

Valuation looks cheap, but it is in line with history. The stock now trades at 0.8x 2020E P/B and 6.9x 2020E PER, which might be optically cheap but is basically in line with VND's historical mean average valuations. Fundamentally, this valuation is appropriate for a low double-digit ROE generating business facing intense competition from new entrants.

Forecast revisions: We reduce our EPS forecast for 2020 by 30% after the tough 1Q20 result put our prior forecast out of reach. However, we see no point in extrapolating weak 1Q results into the future, especially given our positive view on Vietnam capital markets in the next several years.

We reiterate our HOLD-Underperform call on VND. Our target price of VND 13,150, implies 11% total shareholder returns over the next 12 months. Our target implies undemanding valuation multiples of 0.8x 2020E P/B and 7.4x 2021 P/E. Simply put, we struggle to identify catalysts for a rerating. Our top pick is HCM, although SSI could outperform as a short term trade.



Market cap	US\$109m
6M avg. daily turnover	US\$237K
Outstanding shares	209m
Free float	90%
FINI ownership	37%
Major shareholders	40%
Net debt/equity	223%
2020E EV/EBITDA	2.1x
2020E P/B	0.8x
Trading platform	HOSE
FOL Room	12%

Key metrics	2019A	2020E	2021E
Operating income chg (YoY)	53%	-20%	36%
Adj PATMI growth (%)	2%	-36%	60%
Current ratio (x)	1.4	1.4	1.4
Debt/Equity (x)	2.0	2.1	2.1
ROA (x)	3.5%	2.0%	2.8%
ROE (x)	11.7%	7.1%	10.7%
Adj EPS (VND/share)	1,739	1,112	1,773
EPS growth (%)	-4.3%	-36.1%	59.5%
PE (x)	7.0	11.0	6.9
PB (x)	0.8	0.8	0.7
Dividend yield	4.1%	5.7%	3.6%

Source: Bloomberg, Company data, Yuanta Vietnam

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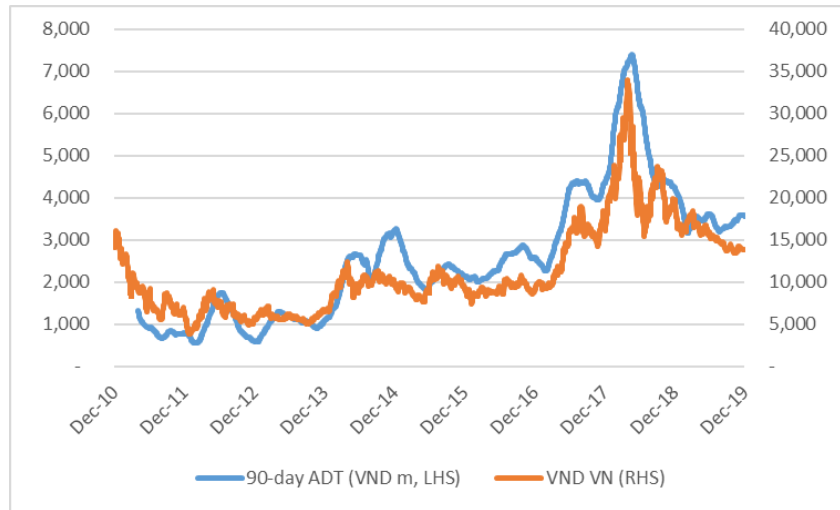
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Bloomberg code: YUTA

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Share price correlation with average daily turnover: 82%



Source: Bloomberg, Yuanta Vietnam

We slash our earnings forecasts by -29% for 2020E after the 1Q20 results, which we think put our prior numbers out of reach. We expect improvements in 2021-22E despite or 5% cut to 2021E earnings. We also introducing our 2022E forecasts with publication of this note. The earnings cuts are the result of a combination of marking down our forecasts for the major market-related metrics that drive our model (e.g., turnover and margin lending), and retained modest assumptions for brokerage profitability in light of the intensity of competition in the industry.

As with all the brokers, the main risks to our view are related to unpredictable market factors (e.g., turnover, margin lending, and the degree of irrationality in the competitive environment). However, VND could also surprise on the upside by continuing to grow its market share of the retail wallet and by successfully growing its I/B business. We believe that the competitive moat for investment banking is likely wider than that of retail broking.

Earnings and target price revisions

	2020E			2021E			2022E		
	Previous	New	% chg	Previous	New	% chg	Previous	New	% chg
Net income (VND bn)	326	232	-29%	390	370	-5%	na	473	na
EPS (VND)	1,558	1,112	-30%	1,865	1,773	-6%	na	2,263	na
Target price (VND)	13,231	13,150	-1%						

Source: Yuanta Vietnam

Quarterly earnings summary

VND	1Q20 (VND bn)	YoY	QoQ	YTD (VND bn)	YoY	vs our full-year target
Gross brokerage income	80	-12%	1%	80	-12%	36%
Net brokerage income	47	-17%	7%	47	-17%	40%
Service fees	0	-98%	-100%	0	-98%	0%
Gross margin income	95	9%	-30%	95	9%	22%
Prop trading	-40	-218%	-135%	-40	-218%	-26%
Gains from AFS assets	45	n/m	3393%	45	6%	129%
Gains from HTM assets	106	76%	-1%	106	76%	43%
Net operating income	216	-13%	-35%	216	-13%	21%
PBT	72	-36%	-63%	72	-36%	23%
Reported PATMI	58	-35%	-61%	58	-35%	24%

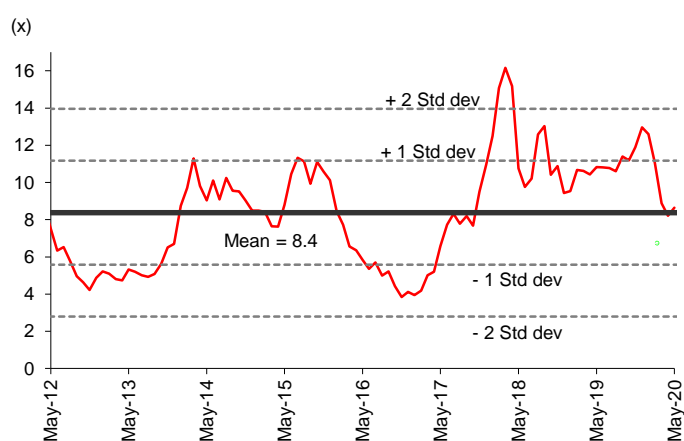
Source: FiinPro

Valuations. Our target price is based on the median of four fair value methodologies and implies undemanding valuation multiples of 0.82x 2020E P/B and 7.4x 2021E P/E. Our forecast ROEs are slightly below the theoretical cost of equity, implying that a sub-1.0x P/BV multiple is appropriate if our ROE forecasts hold water. As with all the brokers, achieving our reduced forecasts would require continued growth in market activity in 2021-22E. VND's shares currently trade at 0.77x 2020E P/BV and 6.9x 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 3.6% dividend yield on 2020 earnings. This implies 11% total shareholder returns over the next 12 months.

Price multiples: VNDirect						
(x)	2017A	2018A	2019A	2020E	2021E	2022E
Reported P/E	4.8	6.4	6.7	10.5	6.6	5.1
Adjusted P/E	5.1	6.7	7.0	11.0	6.9	5.4
Reported P/B	0.7	0.9	0.8	0.8	0.7	0.6
Tangible P/B	0.7	0.9	0.8	0.8	0.7	0.7
EV / EBITDA	2.0	2.1	1.7	2.1	1.6	1.3
Dividend Yield	6.5%	9.1%	4.1%	5.7%	3.6%	5.8%

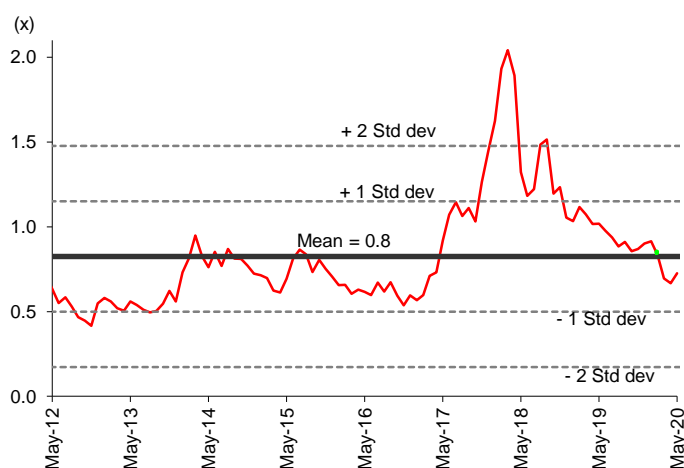
Source: Company data, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: VNDirect

	VND per share	Upside / downside	Implied 2020E PB (x)	Implied 2021E PE
Current price	12,250		0.8	6.9
DCF valuation	14,785	20.7%	0.9	8.3
Gordon growth valuation	13,044	6.5%	0.8	7.4
DDM	12,788	4.4%	0.8	7.2
SoTP	13,257	8.2%	0.8	7.5
Mean fair value	13,468	9.9%	0.8	7.6
Median fair value	13,150	7.4%	0.8	7.4

Source: Company data, Yuanta Vietnam

Income Statement: VNDirect						
(VND bn)	2018A	2019A	2020E	2021E	2022E	2023E
Brokerage net revenues	304	180	117	0	0	0
Margin lending net revenues	285	205	278	340	425	468
Gains on trading assets	(144)	154	155	401	448	385
Gains on AFS & HTM assets	294	412	281	318	331	365
Other investment	12	25	31	33	35	38
Total investment revenues	162	592	467	752	815	788
Net fee income	18	61	72	87	104	114
Other operating net revenues	6	(8)	(9)	(11)	(12)	(13)
Net operating revenues	775	1,029	926	1,168	1,333	1,357
SG&A expenses	(305)	(309)	(347)	(383)	(416)	(448)
Operating profit	469	720	579	785	916	909
Associates	89	0	0	0	0	0
Non-operating revenues	13	0	0	1	1	1
Interest expense	(133)	(241)	(272)	(296)	(292)	(305)
Pretax profit	438	480	307	490	625	606
Tax	(65)	(97)	(62)	(99)	(127)	(123)
Minorities	-	-	-	-	-	-
Reported PATMI	373	382	245	390	498	483
PATMI plus OCI	373	382	245	390	498	483
Adjusted PATMI	354	363	232	370	473	458
Reported EPS (VND)	1,915	1,833	1,172	1,869	2,385	2,312
Adjusted EPS (VND)	1,817	1,739	1,112	1,773	2,263	2,193

Source: Company data, Yuanta Vietnam

Balance Sheet: VNDirect						
(VND bn)	2018A	2019A	2020E	2021E	2022E	2023E
Cash & equivalents	915	614	644	676	710	746
Net margin loans	2,294	2,565	2,930	3,370	3,606	3,858
FVPL assets	1,089	1,495	1,614	1,727	1,857	1,996
AFS assets	387	682	703	738	775	814
S/T HTM assets	5,371	5,649	6,665	7,425	8,390	9,062
Other current assets	174	235	247	259	272	286
Current assets	10,231	11,239	12,804	14,196	15,611	16,761
L/T HTM assets	100	105	116	121	131	140
Associates	-	-	-	-	-	-
Other L/T assets	204	233	243	254	266	279
Total L-T assets	304	338	359	376	397	419
Total assets	10,535	11,577	13,163	14,572	16,008	17,180
S/T borrowings	6,012	6,554	7,209	7,605	7,986	8,385
S/T bonds	727	700	1,019	1,370	1,712	1,969
Other S/T liabilities	311	669	1,053	1,300	1,586	1,916
Current liabilities	7,050	7,923	9,280	10,276	11,285	12,270
Long-term bonds	500	404	545	681	783	701
Other L/T liabilities	2	2	2	2	3	3
Long-term liabilities	502	406	547	684	786	704
Shareholder equity	2,003	2,003	2,003	2,003	2,003	2,003
Reserves	273	313	313	313	313	313
Retained earnings	707	932	1,019	1,297	1,621	1,890
Minority interests	-	-	-	-	-	-
Total equity	2,983	3,248	3,335	3,613	3,937	4,206
Attributable equity	2,983	3,248	3,335	3,613	3,937	4,206
BVPS (VND)	13,779	15,549	15,966	17,294	18,848	20,136

Source: Company data, Yuanta Vietnam

Select ratios: VNDirect					
Liquidity & leverage	2018A	2019A	2020E	2021E	2022E
Current ratio	1.5	1.4	1.4	1.4	1.4
Net debt / equity	1.88	1.95	2.13	2.11	2.05
Interest coverage ratio	3.0	1.8	2.2	2.2	2.1
Equity / Assets	28.3%	28.1%	25.3%	24.8%	24.6%
Tangible Equity / Assets	28.2%	28.0%	25.3%	24.7%	24.5%
Asset yields	2018A	2019A	2020E	2021E	2022E
Margin loans (net)	8.8%	7.1%	7.3%	7.1%	7.1%
FVPL realized	6.1%	11.9%	5.0%	20.0%	20.0%
FVPL revaluation	-21.9%	0.0%	5.0%	4.0%	5.0%
Dividends / Interest on FVPL	1.5%	2.1%	2.1%	2.1%	2.1%
Total trading book	17.7%	45.8%	30.0%	45.0%	45.5%
Fee income / Assets	0.2%	0.6%	0.6%	0.6%	0.7%
Profitability	2018A	2019A	2020E	2021E	2022E
Brokerage GPM	58.4%	53.8%	52.6%	52.6%	52.6%
Margin lending GPM	65.5%	47.3%	63.4%	62.1%	62.1%
Brokerage / net op inc	39.2%	17.5%	12.7%	0.0%	0.0%
Margin / net op inc	36.8%	19.9%	30.1%	29.1%	31.9%
Fees / net op inc	2.3%	5.9%	7.8%	7.4%	7.8%
Investments / net op inc	20.9%	57.5%	50.4%	64.3%	61.1%
Staff comp ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Bonus & welfare / NPAT	5.1%	5.1%	5.1%	5.1%	5.1%
Adj ROA	4.0%	3.5%	2.0%	2.8%	3.3%
Adj ROE	13.0%	11.7%	7.1%	10.7%	12.6%
Growth (YoY)	2018A	2019A	2020E	2021E	2022E
Brokerage revenues	72.0%	-40.6%	-35.0%	-100.0%	-5.0%
Margin lending net revenues	41.7%	-28.1%	35.9%	22.3%	25.0%
Investment revenues	-62.1%	265.5%	-21.1%	61.0%	8.4%
Fee income	-27.0%	243.2%	18.9%	20.0%	20.0%
Net operating revenues	-6.8%	32.9%	-10.1%	26.2%	14.1%
SG&A expenses	17.1%	1.4%	12.1%	10.4%	8.8%
Operating profit	-17.7%	53.3%	-19.6%	35.7%	16.7%
Reported PATMI	-22.4%	2.5%	-36.0%	59.5%	27.6%
Adjusted PATMI	-22.4%	2.5%	-36.0%	59.5%	27.6%
Reported EPS	-24.2%	-4.3%	-36.1%	59.5%	27.6%
Adjusted EPS	-24.2%	-4.3%	-36.1%	59.5%	27.6%
Avg margin loans	24.4%	4.6%	5.0%	25.0%	25.0%
FVPL assets	48.2%	37.2%	8.0%	7.0%	7.5%
AFS assets	-48.3%	76.3%	3.0%	5.0%	5.0%
Short-term HTM assets	137.9%	5.2%	18.0%	11.4%	13.0%
Total current assets	42.6%	9.9%	13.9%	10.9%	10.0%
Total assets	30.8%	9.9%	13.7%	10.7%	9.9%
Attributable equity	20.1%	9.1%	2.7%	8.3%	9.0%
BVPS	-17.0%	12.8%	2.7%	8.3%	9.0%

Source: Company data, Yuanta Vietnam

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