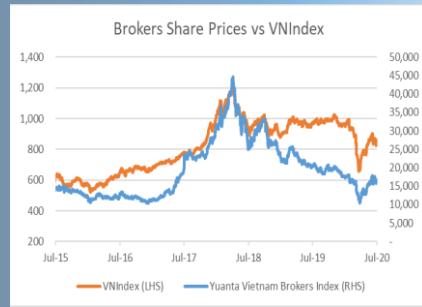


Vietnam: Brokers

7 July 2020



What's new?

- ▶ The sector is almost uniquely positioned for strong sequential and YoY growth in 2Q20 earnings.
- ▶ Proprietary trading losses in 1Q20 likely gave way to substantial gains in 2Q20.
- ▶ Stock trading accounts have been increasing at the fastest rate since 1Q18 (>30K per month since March).
- ▶ This has probably been accompanied by a surge in margin finance in 2Q20.

Our view

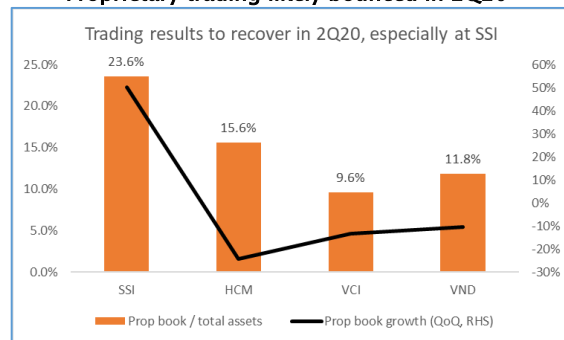
- ▶ Brokers are a proxy on the capital markets' [positive long term outlook](#).
- ▶ To be sure, profitability is under pressure from [intense competition](#).
- ▶ But the sector may be an outlier as [earnings should recover in 2Q20](#).
- ▶ [HCM](#) remains our top pick and only BUY in the sector.
- ▶ [SSI](#) appears to be most geared to a recovery in 2Q20 prop trading results.

Broker Coverage

Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND k')	Target price (VND k)	2020E Div yield	12-m TSR
HCM VN	256	1.9	BUY	19.5	26.5	6.8%	43%
SSI VN	404	3.0	HOLD-OPF	15.6	18.3	3.9%	21%
VCI VN	162	0.7	HOLD-UPF	22.9	26.4	3.6%	19%
VND VN	119	0.4	HOLD-UPF	13.2	13.2	5.3%	5%

Stock ratings and pricing data is as of close on July 6, 2020.

Proprietary trading likely bounced in 2Q20



Number of trading accounts soared in March-June



Source: Vietnam Securities Depository, Company data, Bloomberg, Yuanta Vietnam

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Bloomberg code: YUTA

Sector earnings to bounce sharply in 2Q20

**That rarest of things – an earnings recovery story in 2Q20.** Brokers may be uniquely positioned for a strong bounce in earnings given 1) a low QoQ and YoY basis for comparison, 2) a recovery in proprietary trading results (in particular at SSI) given the VNI's +25% increase in 2Q20, and 3) evidence of a strong increase in retail investor activity during the quarter, including the sharp increase in the number of securities trading accounts in March-June, which implies continued growth in margin lending.

**1Q20 trading losses are likely to revert to substantial gains in 2Q20.** We think this is broadly true for all the brokers, but SSI stands out given that 1) most of its 1Q20 trading losses were unrealized, and 2) its FVPL assets expanded by 50% QoQ to reach 24% of the balance sheet at 1Q20, despite the substantial MTM losses in the Jan-March quarter. This was the largest aggregate and relative prop book position in our universe, suggesting that SSI may have traded opportunistically ahead of the strong market in 2Q20.

**Robinhood effect?** A fascinating and (to us) unexpected aspect of the various shutdowns across the world is the rapid increase in retail investor activity that has accompanied it. Whether this is for rational investing or entertainment purposes is an open question, but in any case Vietnam does not appear to be an exception. The Vietnam Securities Depository reports a total of 2.5 million securities trading accounts at the end of June, indicating a net addition of 167k accounts in 1H20. April saw the peak net addition in new accounts (+37k) but the pace continued in May (+34k) and, surprisingly, June (+35k).

**Margin finance likely recovered too.** We see margin lending as the key profit driver of retail broking. Lending overall is likely to have received a decent boost from all of this investor activity in 2Q20, although an individual broker's ability to benefit from this depends on whether it can retain market share without taking on undue collateral risk amidst the ongoing competitive crunch.

**Top pick: HCM (BUY) for the long term, SSI (HOLD-OPF) for a possible short-term earnings surprise.** We reiterate HOLD-UPF on [VCI](#) and [VND](#). The brokers all trade at discounts to their historical mean P/BV multiples. This is arguably justified by the competitive landscape and pressure on profitability, but we believe that the stocks could head higher in July ahead of the 2Q20 results announcements.

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