

Strategy: Margin loans hit a supply crunch

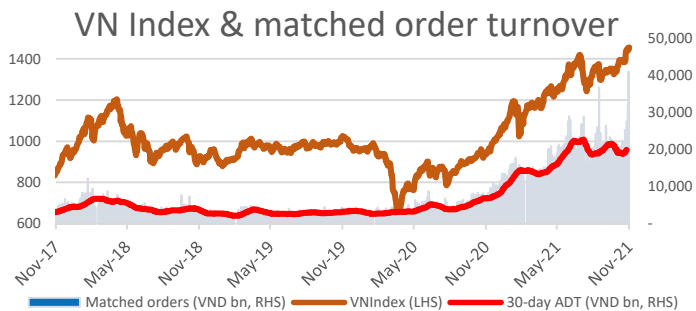
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The bull market got plenty of confirmation last week as the VNI remained in record high territory after the prior week's breakout without seriously testing technical support at 1420-30, the high point of the previous four months, as volumes soared to record daily highs. Meanwhile, the VSD announced that another 130K new accounts were opened in October (the second highest monthly figure ever). The chase for margin finance may be fueling this growth as brokers reach their regulatory limits.

Index, Flows, and FX Performance



- **VNINDEX:** 1457 (+0.8% WoW / +31.9% YTD / +55.3% YoY)
- **VHINDEX:** 428 (+3.8% WoW / +110.5% YTD / +209.2% YoY)
- **UPCOM Index:** 108 (+2.7% WoW / +45.3% YTD / +70.9% YoY)
- **Average daily turnover:** US\$1,713 mn (+21.9% WoW)
- **Foreigners net sold** US\$94mn of three-index constituents
- **VND:USD rate:** 22,698 (+24bp WoW / +176bp YTD / +206bp YoY)

VN30 Components

Ticker	Closing price (VND K)	WoW chg	Cont to VN30 (WoW)	TTM PE (x)
ACB	33.5	1.5%	278%	9
BID	43.6	5.1%	85%	18
BVH	64.0	-1.1%	-12%	26
CTG	32.7	3.8%	214%	9
FPT	97.6	0.7%	130%	22
GAS	122.4	-1.7%	-47%	28
GVR	40.1	0.8%	12%	32
HDB	26.7	5.7%	509%	10
HPG	56.6	-0.9%	-285%	8
KDH	48.2	-5.5%	-263%	26
MBB	28.7	0.5%	75%	10
MSN	147.8	-2.1%	-341%	73
MWG	132.0	0.5%	67%	22
NVL	105.0	-3.9%	-507%	44
PDR	94.9	-1.1%	-50%	29
PLX	53.9	-0.4%	-6%	20
PNJ	108.0	3.8%	180%	25
POW	13.0	2.8%	40%	10
SAB	172.0	7.2%	207%	29
SSI	42.9	5.9%	387%	20
STB	27.7	3.9%	466%	15
TCB	53.0	2.7%	782%	11
TPB	43.5	-3.0%	-219%	10
VCB	97.5	-0.5%	-48%	17
VHM	82.0	-4.1%	-853%	10
VIC	95.0	-0.8%	-206%	76
VJC	130.0	-1.5%	-127%	467
VNM	89.2	-1.7%	-294%	20
VPB	38.0	-0.3%	-69%	14
VRE	31.2	0.0%	0%	33

Source: Bloomberg, Yuanta Vietnam. Pricing date: Nov 05, 2021.

Large caps continue to lag the broader market, which we see as one of the few negative technical signals after the VNI breakout of late October. The VN30 Index was essentially flat (down half a point) last week and remains slightly below (-1.6%) its all-time high set in July. Big cap breadth (14 gainers / 15 losers) was a marked contrast to VNI breadth (238 gainers / 154 losers). A resumption of large cap leadership in the days ahead would ease any residual worries about the strength of the bull market heading into 1Q22.

Global inflation has yet to impact domestic CPI (+1.8% YoY in Oct) but it probably will eventually. Our [view](#) is that the appropriate policy response to what is largely imported cost-push inflation is already on full display: the VND appreciated another +24bp last week after rising 176bp YTD and 206bp YoY. By contrast, we think direct liquidity tightening measures (i.e., rate hikes) are both inappropriate and very unlikely to occur for now given weak consumer spending and the need to bolster COVID-impacted debt sustainability.

Margin loans = 6% of the HSX/HNX free float capitalization at end-3Q21. Brokerage balance sheets indicate that total margin lending reached US\$5.8bn at end-3Q21 (+14% QoQ / +134% YoY), representing a record 6% of the combined exchanges' free float but just 5.8 days of average turnover, which is less than half the 2Q19 peak of 13.0 days (the historical average is 7.1 days). You might not think of early 2019 as an incredibly bullish period, and you would be right. The number of days-to-cover is much lower now because ADT growth has far outstripped that of margin finance.

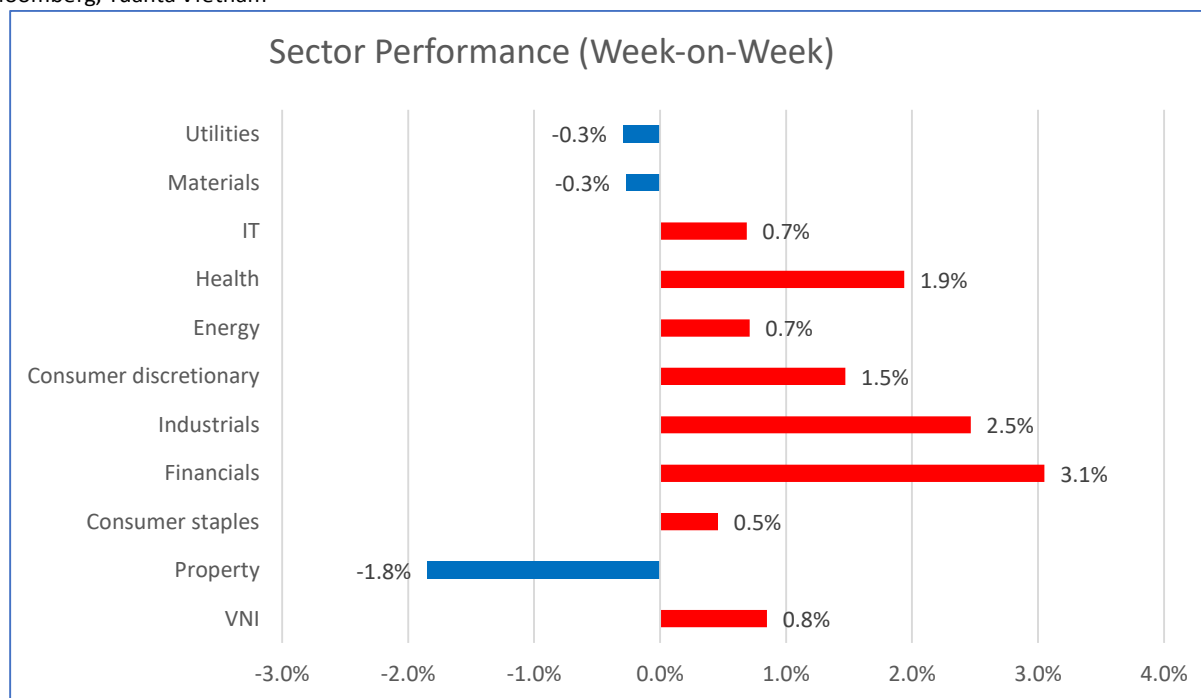
The QoQ slowdown in margin lending likely tells us more about the supply of brokerage capital than it says about demand for margin finance: Brokers had lent out 190% of sector equity as of Sep 30, by far the highest ever. This is basically the regulatory cap, suggesting limited room for extended leverage in 4Q21: Margin loans were 70% of brokerage sector total assets at 3Q21. However, brokers with balance sheet will likely see very strong pricing power for now. [HCM](#) (HOLD-Outperform), which has underperformed peers substantially, is finally doing its rights issue in 4Q21; so HCM may finally see a catch-up rally as it puts this new capital to use.

Yuanta Vietnam Coverage Universe

Sector	Company	Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	Up (down) side	2021 E Dividend yield	12-m TSR*
Banks	Asia Commercial Bank	ACB VN	3,988	10.1	BUY	33,500	30,492	-9%	0.0%	-9%
	BIDV	BID VN	7,726	3.1	SELL	43,600	37,300	-14%	2.9%	-14%
	HD Bank	HDB VN	2,343	3.3	BUY	26,700	25,300	-5%	0.0%	-5%
	MB Bank	MBB VN	4,769	16.8	BUY	28,650	25,358	-11%	1.7%	-11%
	Sacombank	STB VN	2,297	20.1	SELL	27,650	24,000	-13%	0.0%	-13%
	Vietcombank	VCB VN	15,932	4.8	BUY	97,500	114,650	18%	1.2%	18%
	Vietnam Prosperity Bank	VPB VN	7,433	20.9	HOLD-Outperform	37,950	36,667	-3%	0.0%	-3%
Brokers	HCM City Securities	HCM VN	849	11.3	HOLD-Outperform	42,100	31,744	-25%	2.3%	-22%
	Saigon Securities	SSI VN	1,857	27.5	HOLD-Underperform	42,900	28,211	-34%	2.3%	-32%
	Viet Capital Securities	VCI VN	1,052	14.8	SELL	71,700	39,653	-45%	1.6%	-41%
	VNDirect Securities	VND VN	1,217	19.1	SELL	64,400	30,669	-52%	1.3%	-51%
Energy	PV POW	POW VN	1,341	7.4	BUY	13,000	13,137	1%	2.3%	3%
	PV NT2	NT2 VN	293	1.0	SELL	23,100	19,318	-16%	8.7%	-10%
	PCC1	PC1 VN	378	3.8	BUY	37,350	34,864	-7%	0.0%	-7%
Consumer	Masan Group	MSN VN	7,687	7.7	BUY	147,800	84,908	-43%	0.0%	-43%
	Phu Nhuan Jewelry	PNJ VN	1,082	2.6	BUY	108,000	92,085	-15%	2.3%	-13%
	Digiworld	DGW VN	443	2.9	HOLD-Outperform	113,800	31,574	-72%	1.4%	-71%
Oil & GAS	PV Drilling	PVD VN	547	8.3	BUY	29,500	26,598	-10%	0.0%	-10%
Property	Kinh Bac City	KBC VN	1,230	23.8	BUY	49,000	51,600	5%	1.0%	6%
	Khang Dien House	KDH VN	1,365	6.1	BUY	48,200	31,100	-35%	1.0%	-34%
	Nam Long	NLG VN	893	7.8	HOLD-Outperform	58,700	30,517	-48%	0.9%	-47%
	Novaland	NVL VN	6,817	12.4	HOLD-Underperform	105,000	90,100	-14%	0.0%	-14%
	Vinhomes	VHM VN	15,731	39.3	BUY	82,000	108,100	32%	1.8%	32%
Transport	Airports Corp Vietnam	ACV VN	8,344	0.5	HOLD-Underperform	87,000	76,400	-12%	0.6%	-12%
Industrials	Dohaco	DHC VN	296	2.2	BUY	96,100	94,594	-2%	4.7%	3%

*Notes: 1) TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends. 2) 3-month ADT refers to matched orders and does not include put-through blocks. 3) Stock ratings and pricing data is as of close on Nov 05 2021.

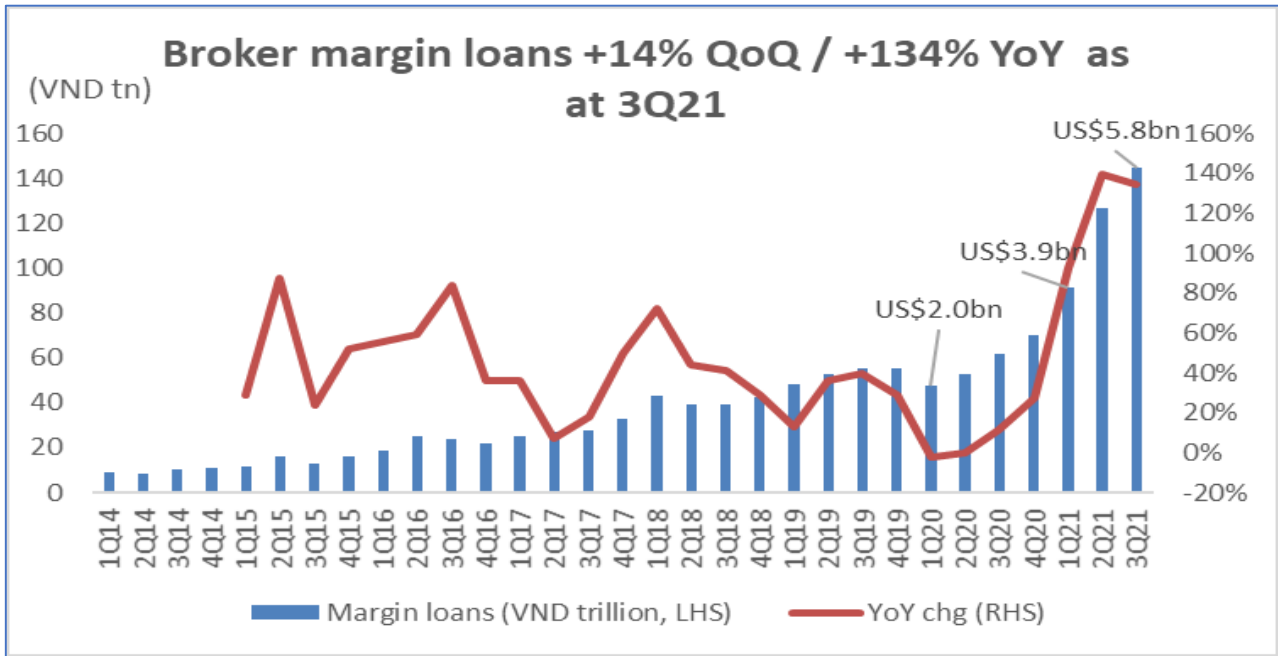
Source: Bloomberg, Yuanta Vietnam



Source: Bloomberg (Nov 05)

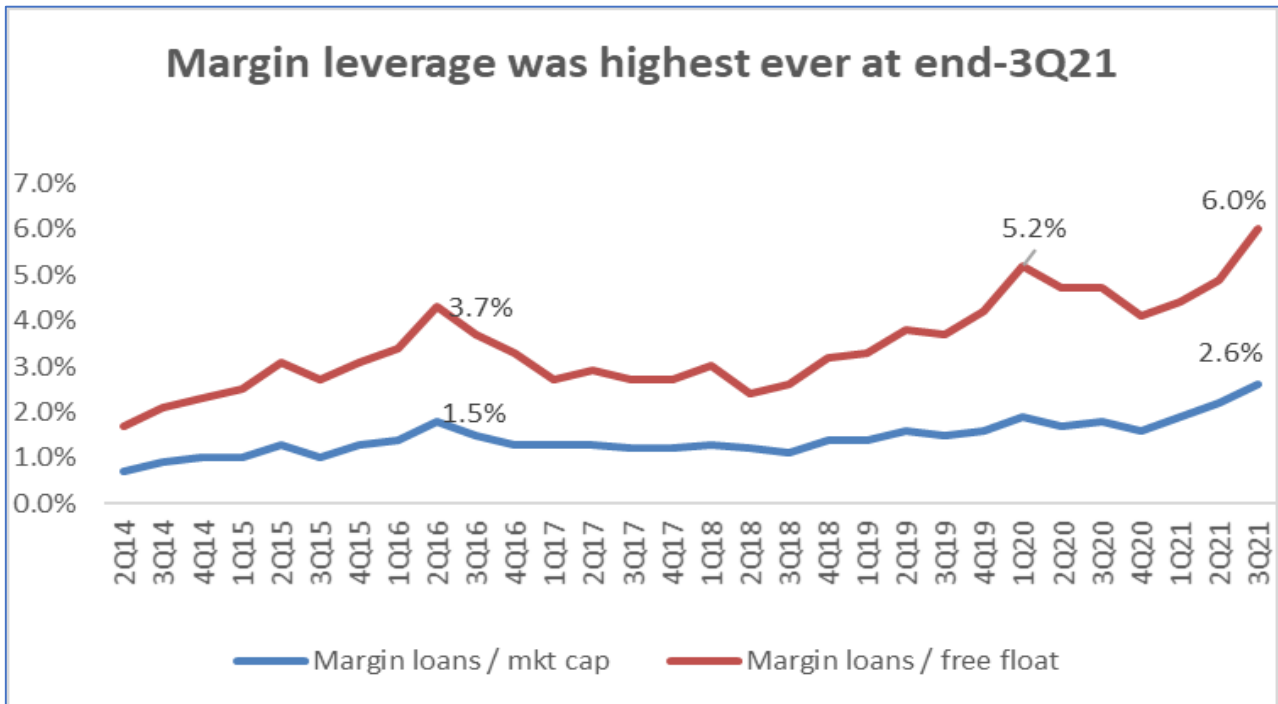
Margin loans continue rising to test brokers' capital constraints

Margin lending soared to reach 6.0% of the combined free float market float capitalization of the Ho Chi Minh City and Hanoi Stock Exchanges as of end-3Q21. Yes, we're talking about a metric from six weeks ago, but this is because we only get the confirmed data after the brokers have reported their quarterly financial statements. Brokerage balance sheets indicate that total margin lending reached VND 144 trillion (US\$5.8bn) at end-3Q21 (+14% QoQ / +134% YoY),



Source: FiinPro, Yuanta Vietnam

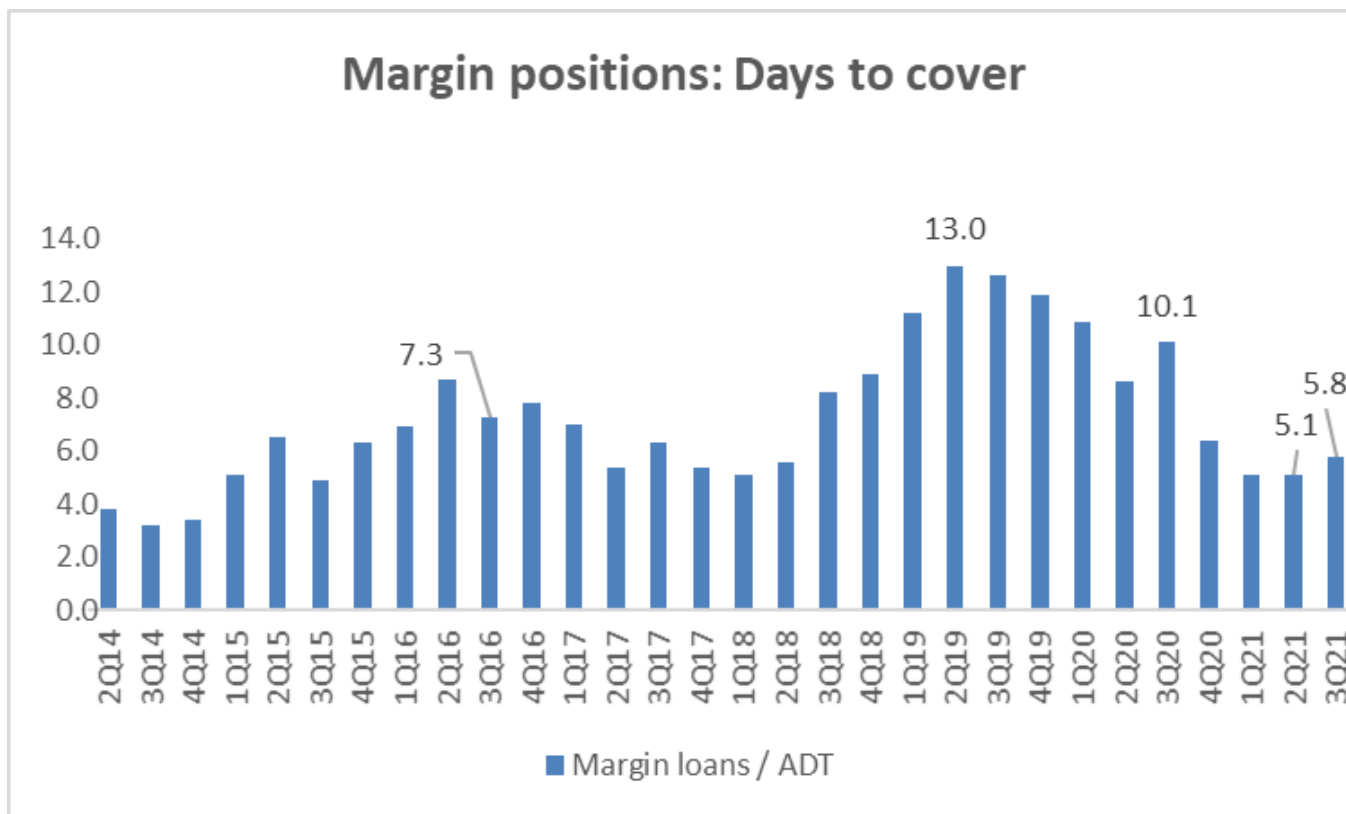
This figure represents 2.6% of the combined exchanges' total market capitalization and 6.0% of the aggregate market free float of the two exchanges. Both ratios are record highs.



Source: FiinPro, Bloomberg, Yuanta Vietnam

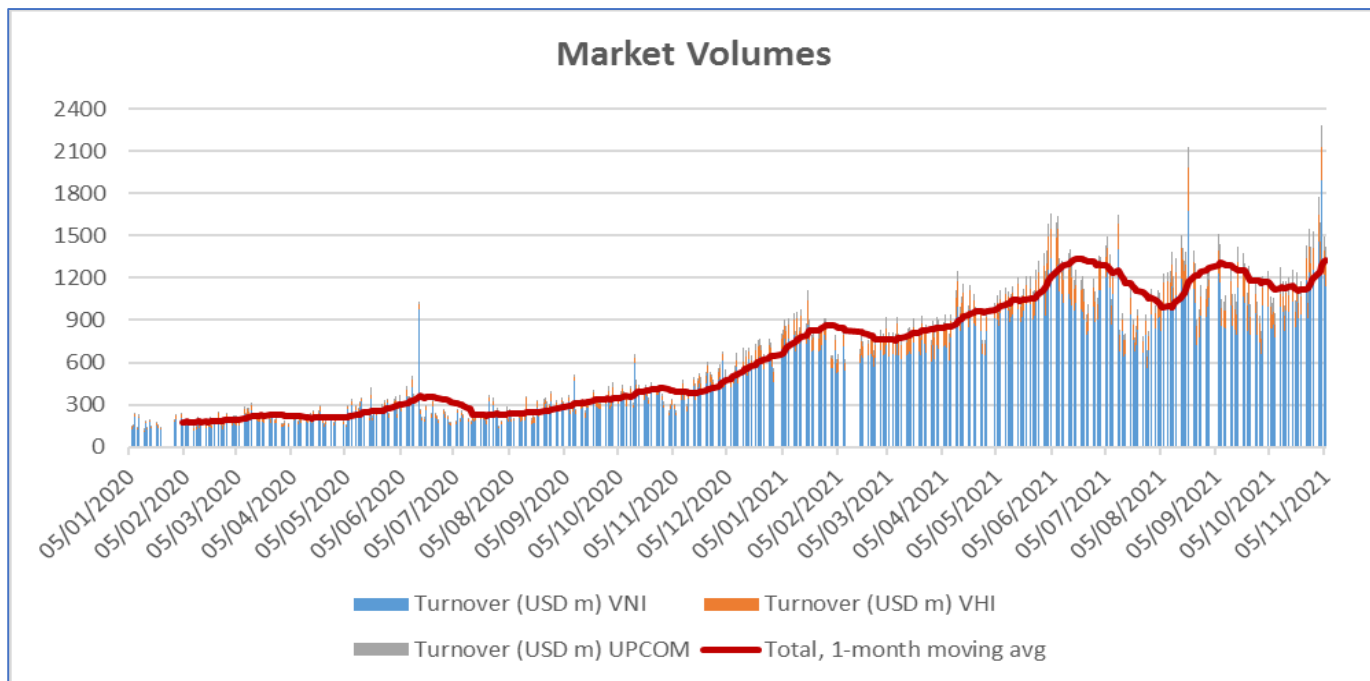
We think the free float metric is a more critical indicator of credit leverage as a risk for share prices because price is set by the incremental buyer and seller, not by (largely government) shareholders who never trade. Whether you think this 6% figure is too high probably depends on your perspective. It is roughly equivalent to where Taiwan was during the late 90s bubble, but only half of where the Chinese stock markets reached in 2015. Anecdotal evidence suggests that Taiwan in the 1980s (a market that Vietnam more clearly resembles, in our view) was likely much higher, and margin finance in the last century's Roaring Twenties US markets likely pushed as high as 20-30% of market cap. Notably, all of these bubbles ended painfully (obviously, some of the post-bubble crashes were worse than others).

Another way to think of credit leverage in share prices is how long it would take to unwind margin positions. On this metric, Vietnam does not appear stretched. End 3Q21 margin loans of US\$5.8bn represent just 5.8 days of average turnover during the same quarter. This is less than half the 2Q19 peak of 13.0 days, and it is also below the historical average of 7.1 days since margin finance emerged in 2014.



Source: FiinPro, Yuanta Vietnam

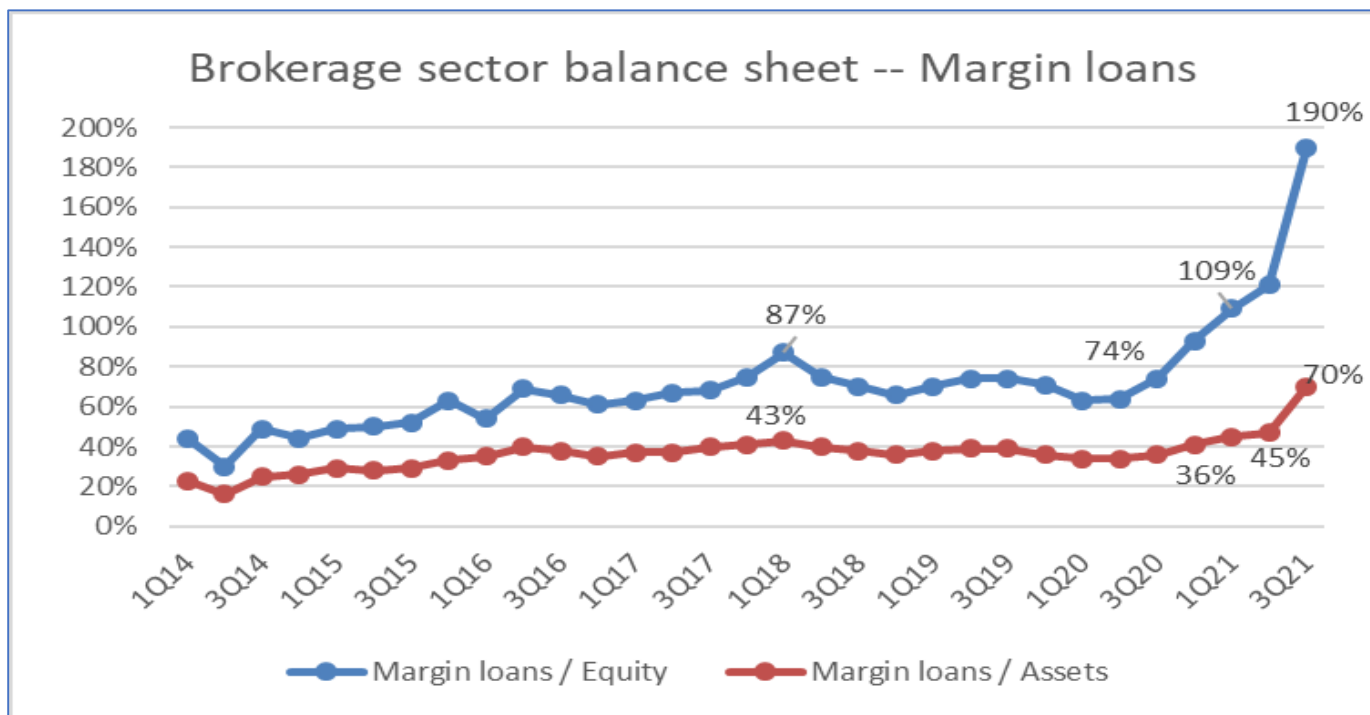
You might not think of early 2019 as an incredibly bullish period, and you would be right. The number of days-to-cover is much lower now because ADT growth has outstripped that of margin finance. The obvious risk here is a potential sharp decline in ADT, which would clearly cause the number of days-to-cover to rise sharply. We can't rule it out, but our sense is that loose liquidity conditions, bullish fundamentals, and extremely positive sentiment among domestic punters suggests that turnover will remain at much higher-than-historical average levels going forward.



Source: FiinPro, Bloomberg, Yuanta Vietnam (Nov 05)

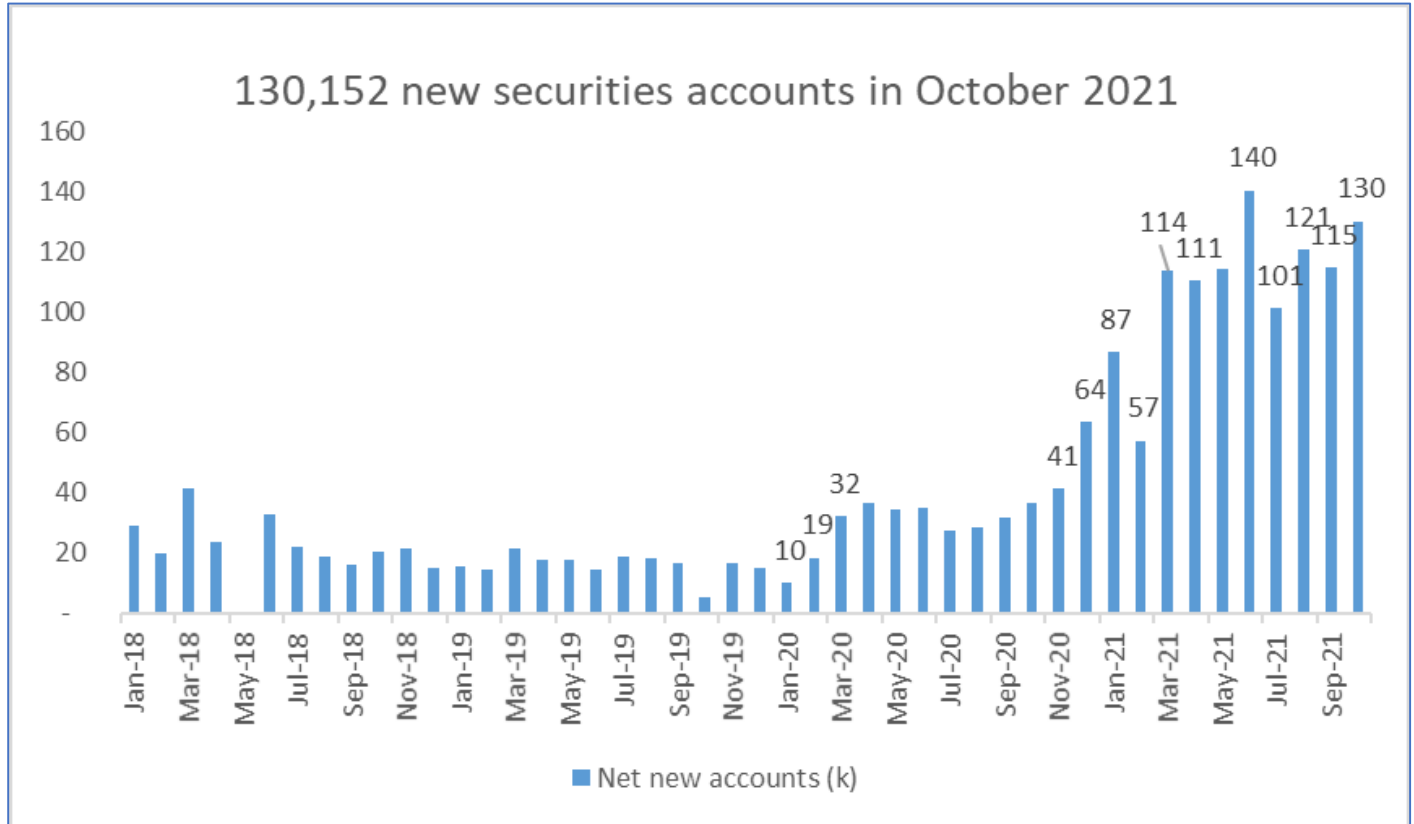
The QoQ slowdown in margin lending likely tells us more about the supply of brokerage capital than it says about demand for margin finance. Brokers had lent out 190% of sector equity as of Sep 30, by far the highest this ratio has ever reached and almost in line with the mandatory regulatory cap of 2x. This suggests limited room for extended margin in 4Q21, with many punters having to tap the grey market to finance their bets.

However, brokers with balance sheet will likely see very strong pricing power for now. [HCM](#) (HOLD-Outperform), our top pick in the overvalued brokerage sector, has underperformed peers substantially YTD. We think the main reason is its delayed rights issue, but it is finally raising capital now: we may see a catch-up rally as it puts this new capital to use.



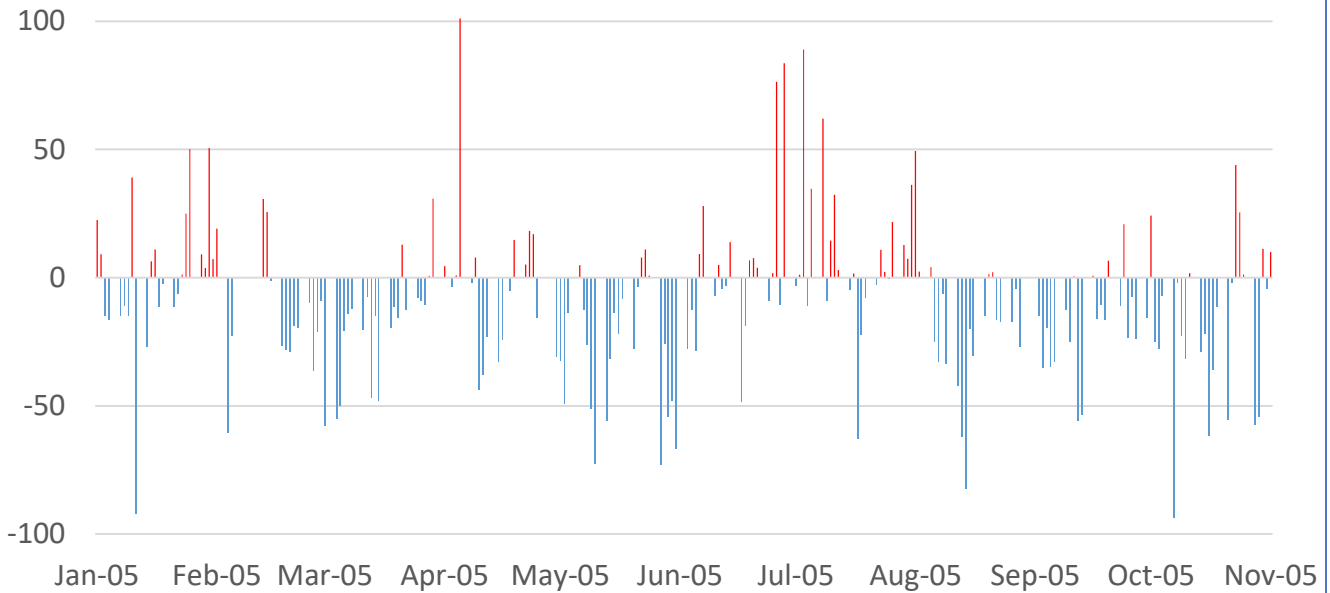
Source: FiinPro, Yuanta Vietnam

The chase for margin borrow may be in part helping to fuel the continued growth in the number of securities trading accounts. The Vietnam Securities Depository announced last week that another 130,152 new accounts were opened in October 2021. How many of these represent F-0 investors and how many were opened by individuals with multiple accounts is a mystery, but there is no rule against punters who can't get margin borrow from a maxed-out broker moving over to one that offers margin lending.



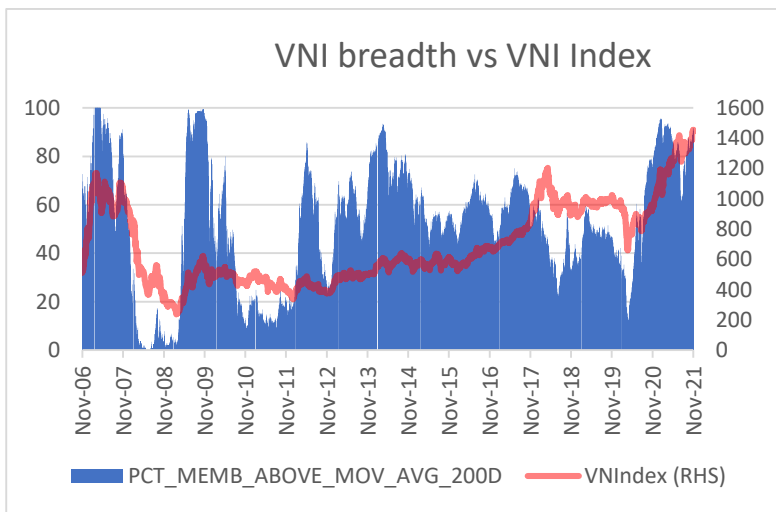
Source: Vietnam Securities Depository, Yuanta Vietnam

Daily foreign flows (USD mn)



Source: FiinPro, Yuanta Vietnam (Nov 05)

Weekly breadth was solidly positive among the large caps and across the wider mainboard



Source: Bloomberg, Yuanta Vietnam (Nov 05)

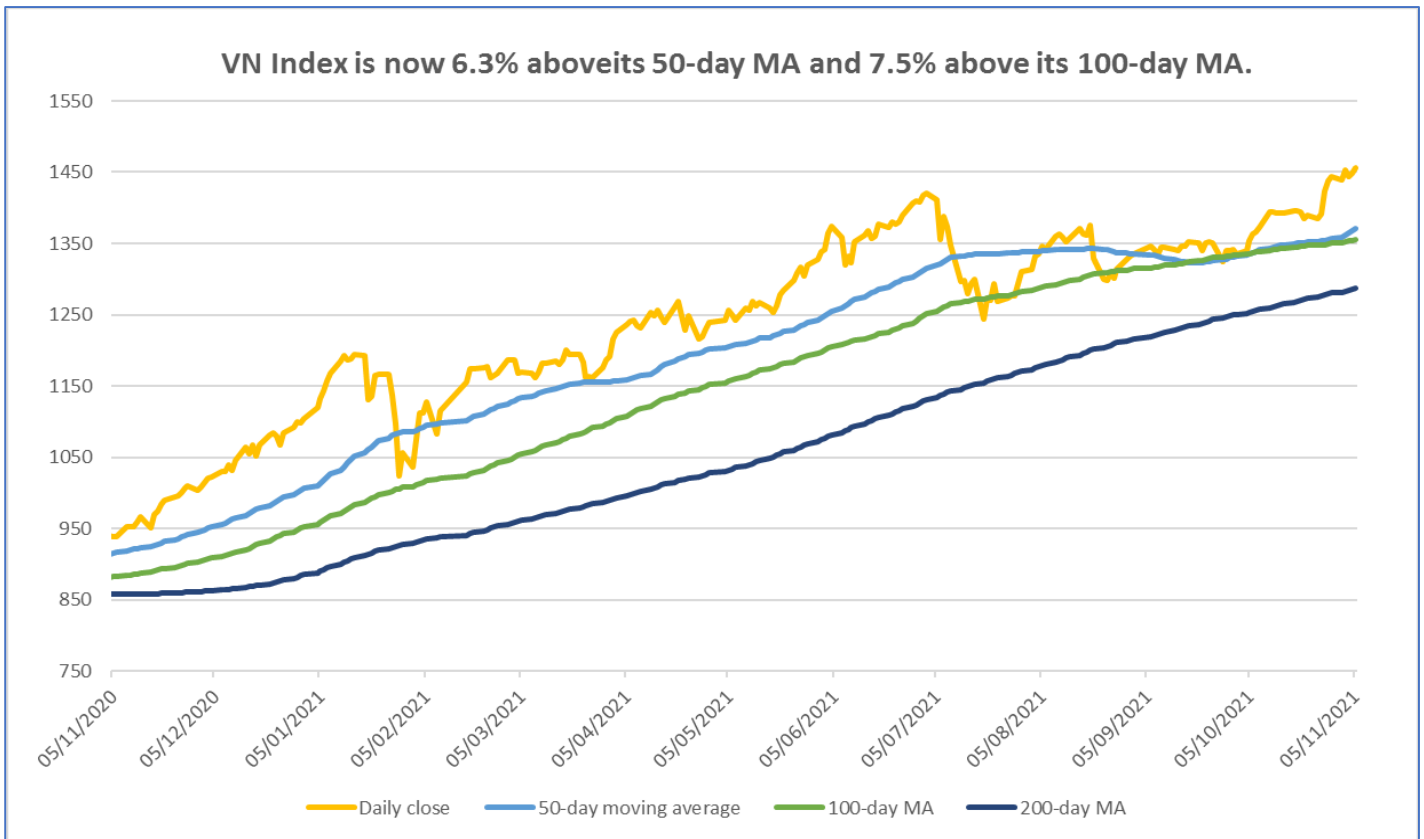
VN 30 breadth			
	WoW	MoM	YTD
Gainers	14	27	22
Losers	15	2	8

Source: Bloomberg (Nov 05)

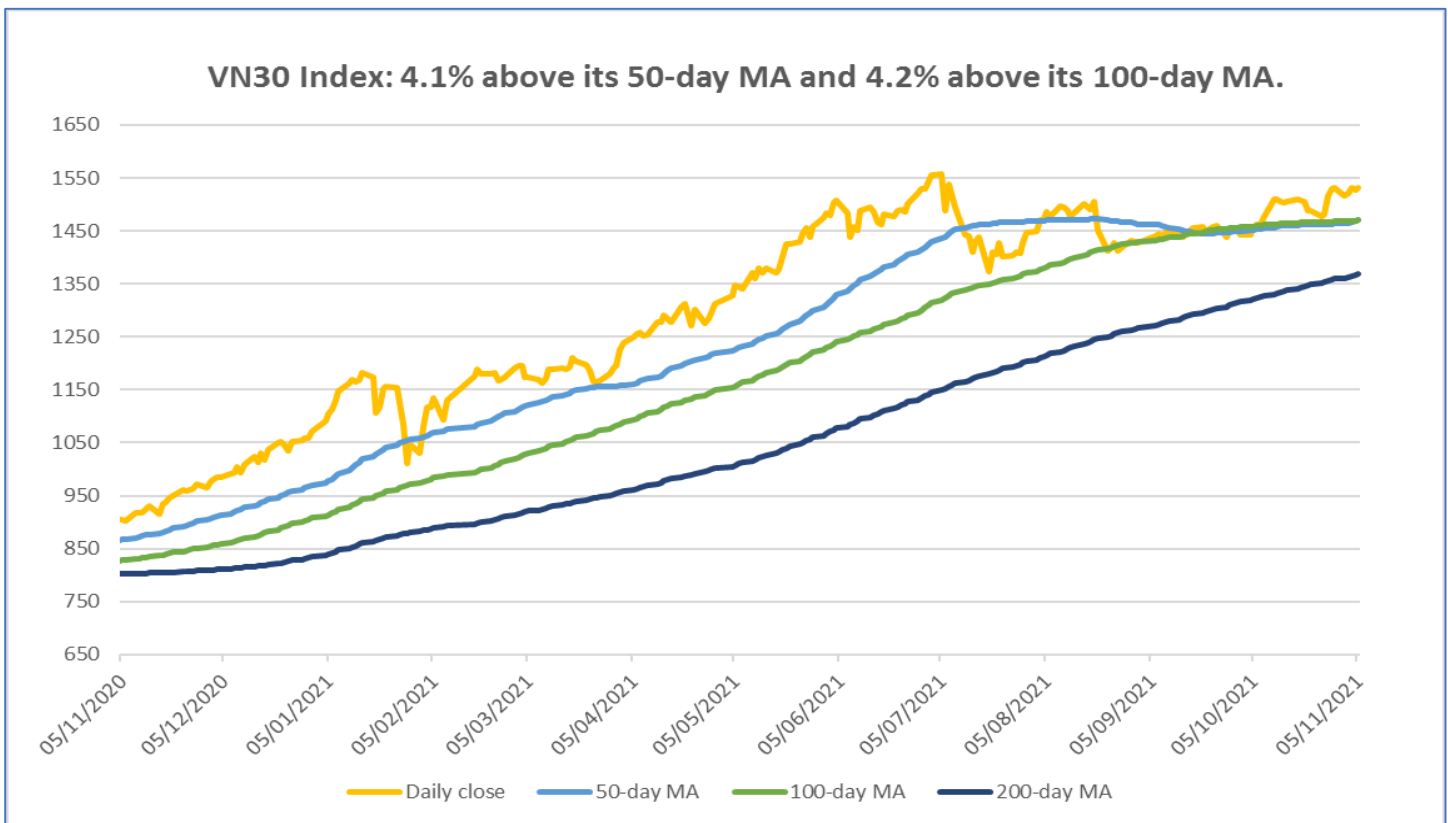
VNI breadth			
	WoW	MoM	YTD
Gainers	238	346	332
Losers	154	52	46

Source: Bloomberg (Nov 05)

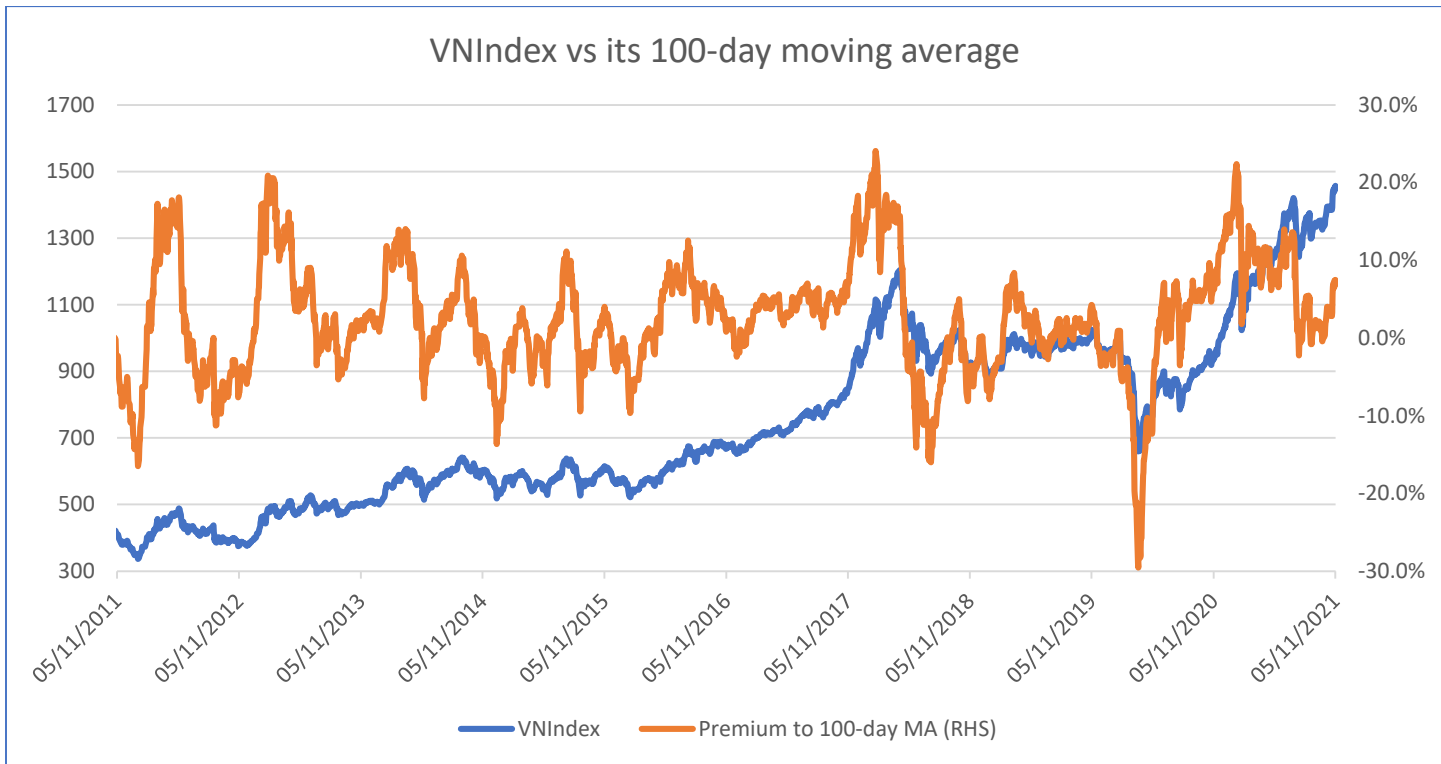
Source: Bloomberg, Yuanta Vietnam



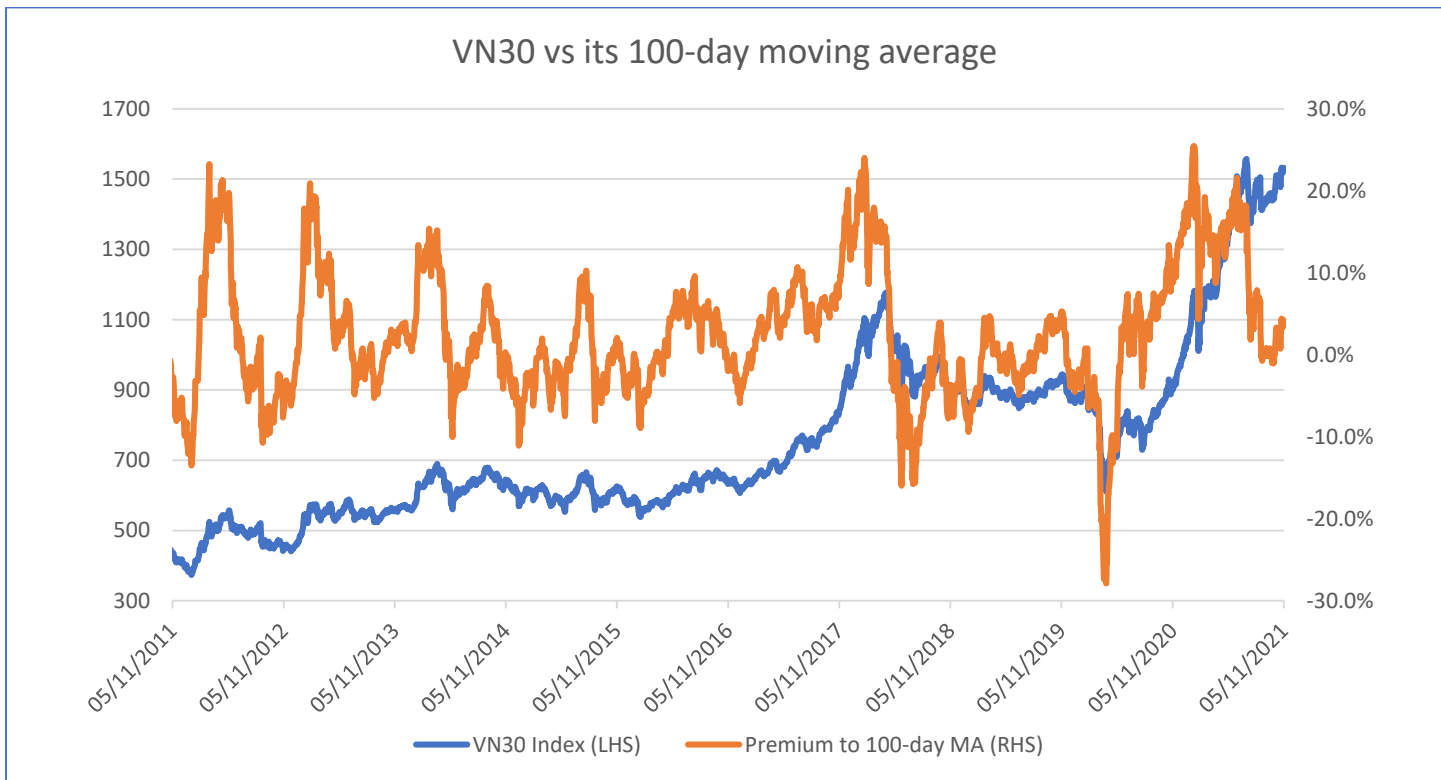
Source: Bloomberg, Yuanta Vietnam



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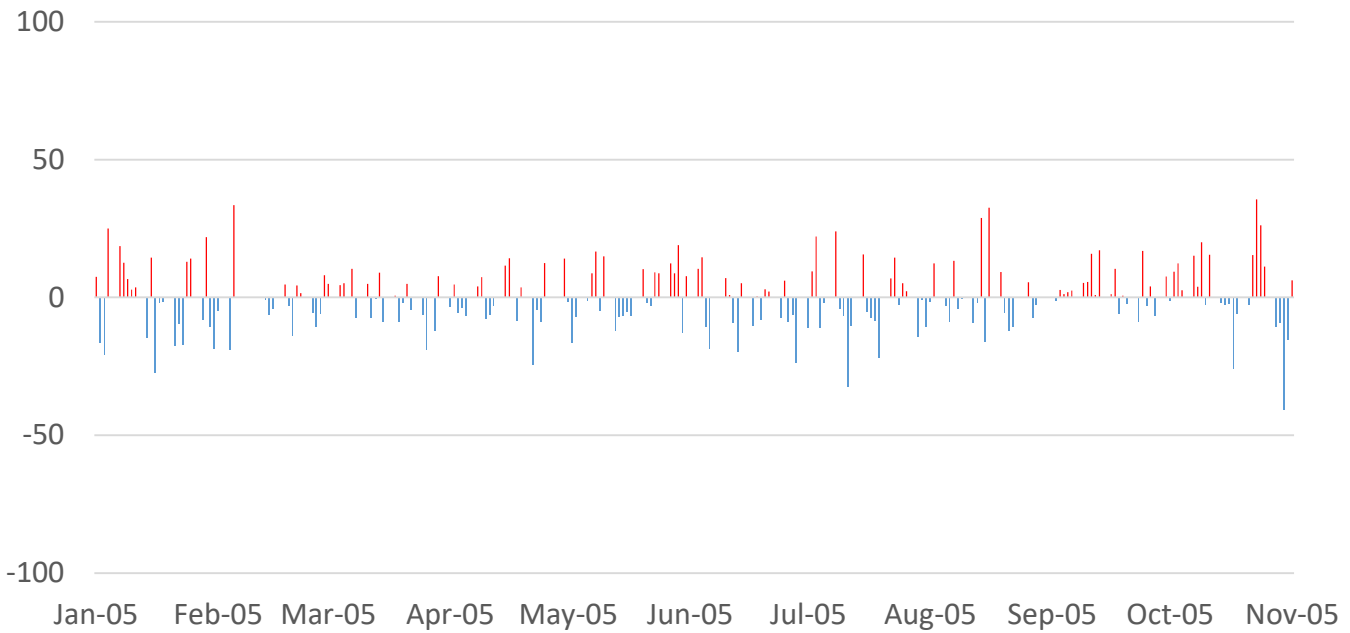


Source: Bloomberg, Yuanta Vietnam



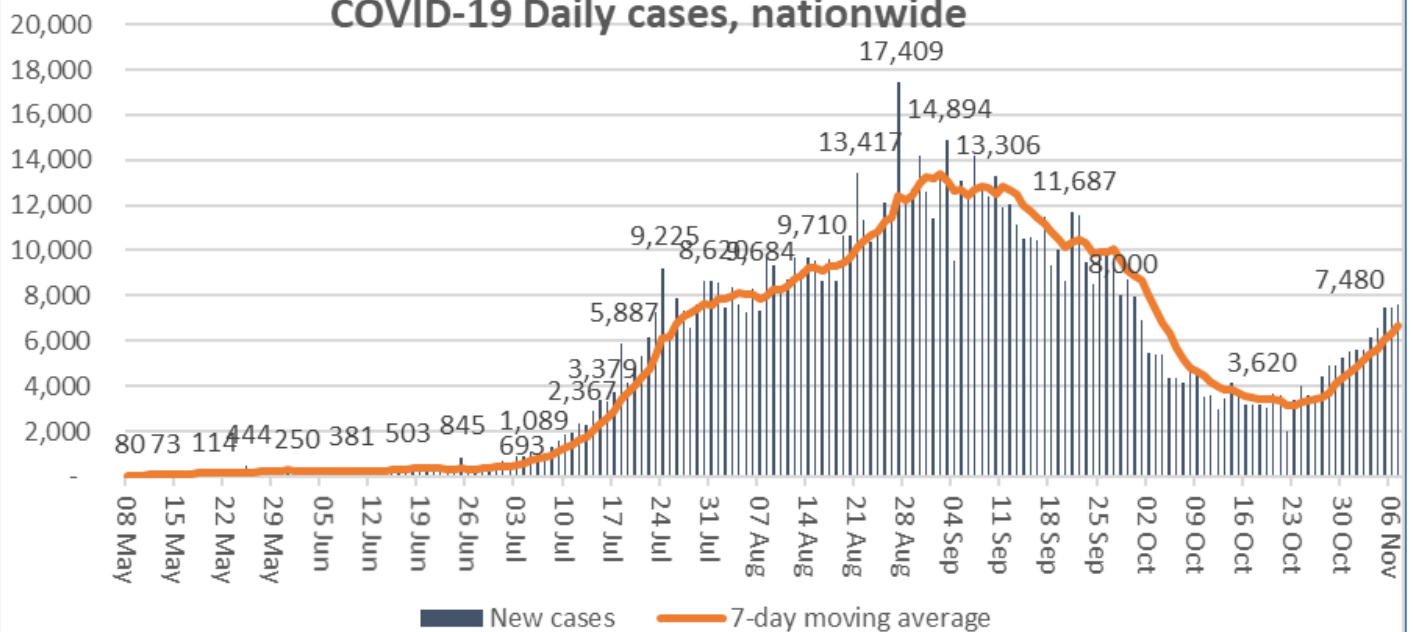
Source: Bloomberg, Yuanta Vietnam

Domestic institutional flows (USD mn)



Source: FiinPro, Yuanta Vietnam (data updated to Nov 05)

COVID-19 Daily cases, nationwide



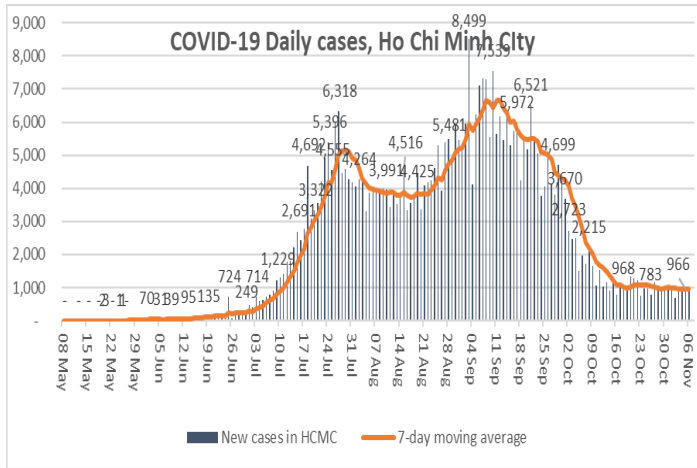
Source: Vnexpress (Updated to November 7)

The number of COVID-19 infections is back on the rise nationwide, with the main change being that the curve in HCMC has basically been flattened. The bulk of new cases are thus occurring elsewhere, with Mekong Delta and Central Highlands provinces seeing sharp increases. This is in line with what we have been saying – the large scale

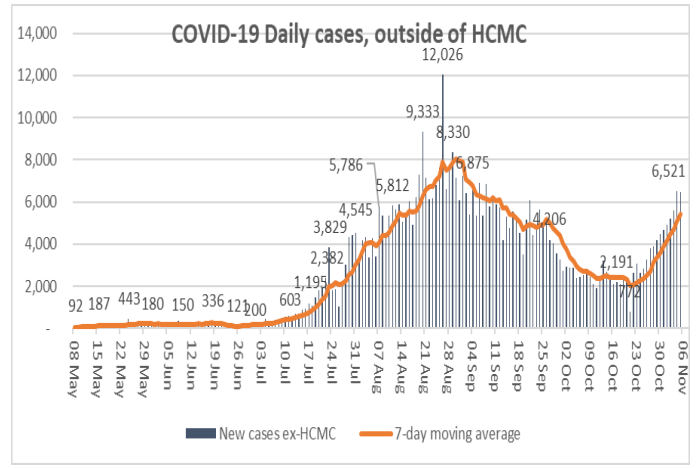
out-migration of workers from HCMC, Binh Duong, Dong Nai, etc. that occurred after lockdowns were lifted in October has resulted in a geographic dispersion of the virus. This is to be expected given that HCMC residents are largely fully-vaccinated, but vaccination rates in the provinces are much lower. Fortunately, the number of severe cases and deaths remains low, but obviously this represents a risk.

New cases in HCMC have flattened...

...but are increasing rapidly outside the city.



Source: Vnexpress (Updated to November 7)



Source: Vnexpress (Updated to November 7)

October PMI returns to expansion territory despite trade bottlenecks

The Vietnam Purchasing Manager Index recovered from 40.2 in September and August, the second lowest ever, to 52.1 in October. It was the first monthly datapoint showing expansionary expectations in the past five months. The result came on the back of the official easing of extremely strict lockdowns that had been implemented in 3Q21 the key industrial provinces of southern Vietnam: HCMC, Binh Duong, and Dong Nai.

Vietnam Manufacturing PMI
sa, >50 = improvement since previous month



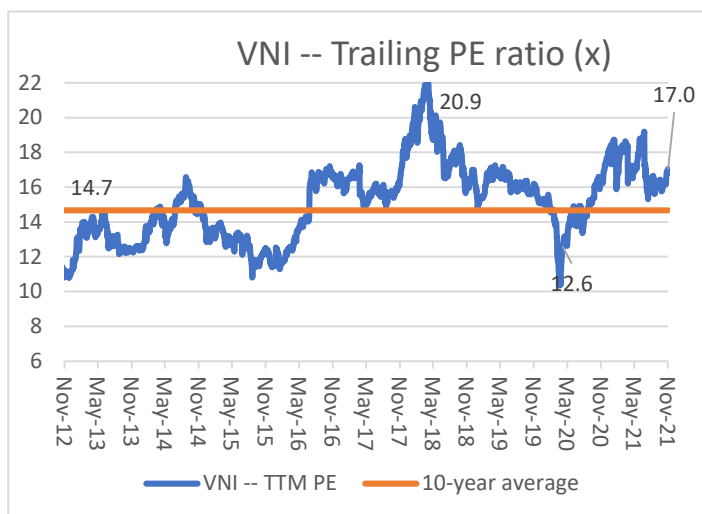
Source: IHS Markit.

Supply chain disruptions continue to cause problems both for input and output. Price pressures remain acute, with Markit reporting that input costs are rising at among the sharpest rates in their database, although survey respondents broadly indicate that they are able to pass higher costs down to their buyers, with export prices increasing faster than they did in September. So much for “transitory” inflation pressures (of course, in the long run we’re all transitory).

Vietnam manufacturers are also experiencing a shortage of staff, as the outmigration of employees during and after the lockdown period has yet to reverse course. This has led to a continuation of order backlogs, although the rate of growth in backlogged orders slowed in October relative to that of September. The obvious solution to the human resources conundrum (i.e., financial incentives) is likely to be the only effective tool to entice wary workers back from the farm, but we reckon that it will take a certain period of lockdown policy stability before workers are sufficiently confident to return to the industrial areas.

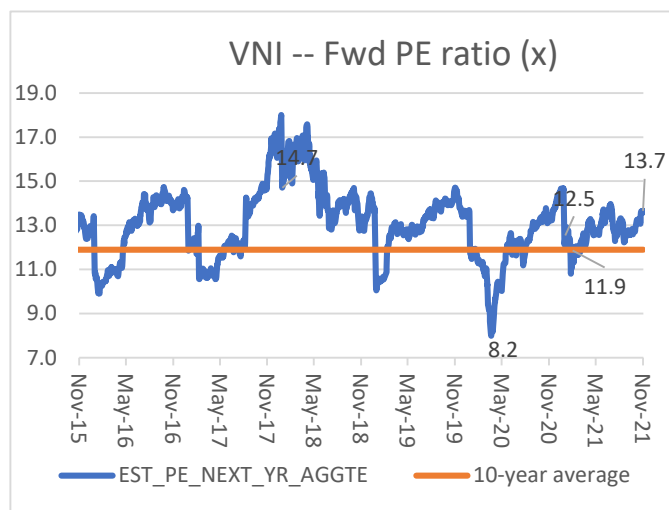
On a positive note, purchasing activity and new orders overall have increased, and business confidence of survey respondents is also on the rise now that COVID restrictions have been eased. IHS Markit reports that business optimism in October was at the highest level in 29 months.

The VNI's trailing PE ratio as of Friday's close was 17.0x.



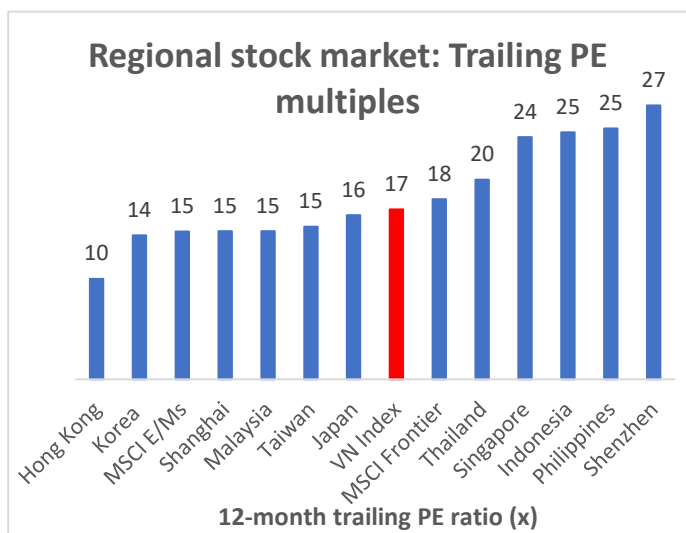
Source: Bloomberg, Yuanta Vietnam

The mainboard's forward (2022E) PE is now 13.7x, based on Bloomberg consensus.



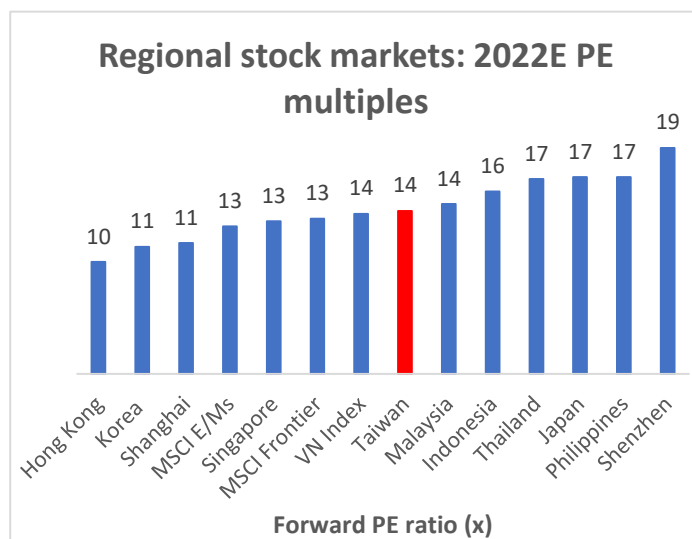
Source: Bloomberg (2022E consensus PE), Yuanta Vietnam

Vietnam stocks are now basically in line with the region on a trailing P/E basis...



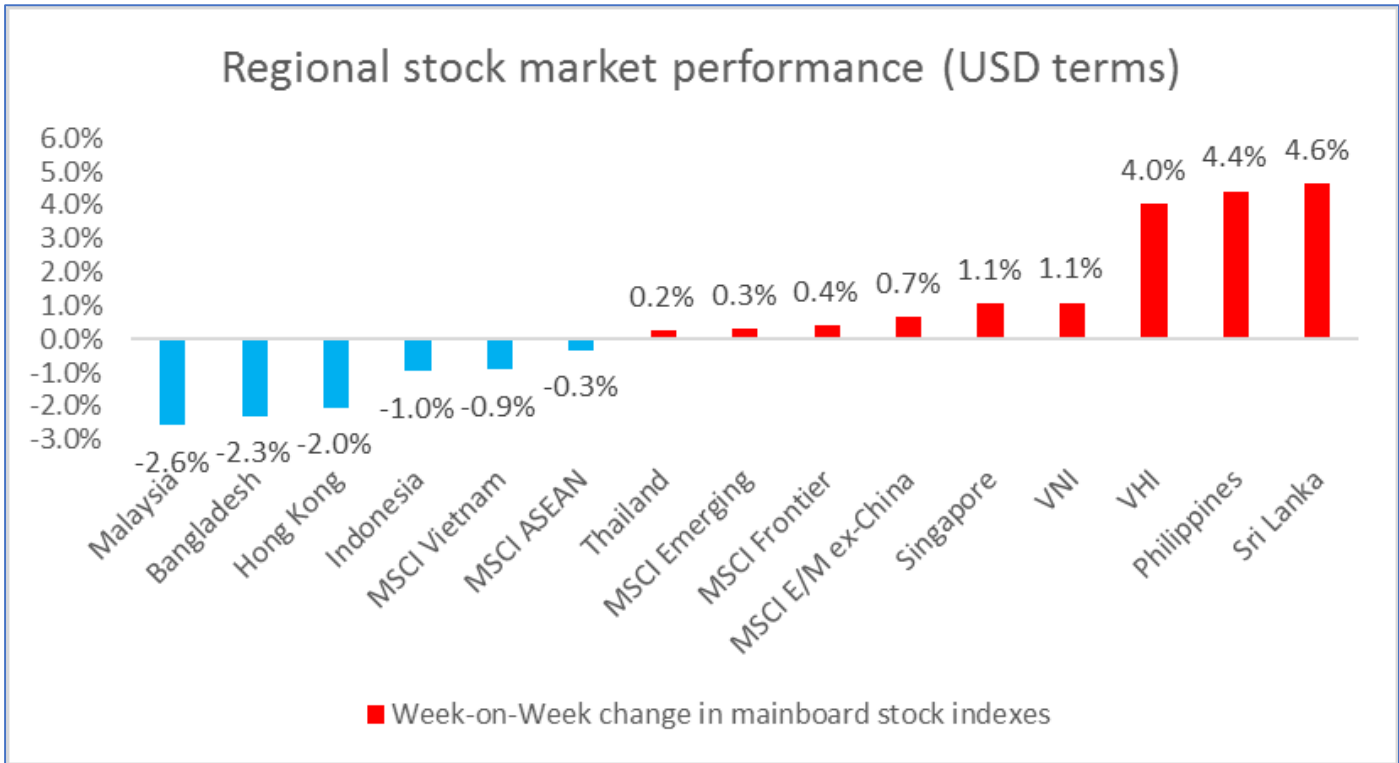
Source: Bloomberg, Yuanta Vietnam (Nov 05)

...Forward P/E looks cheap, especially relative to most other ASEAN markets.

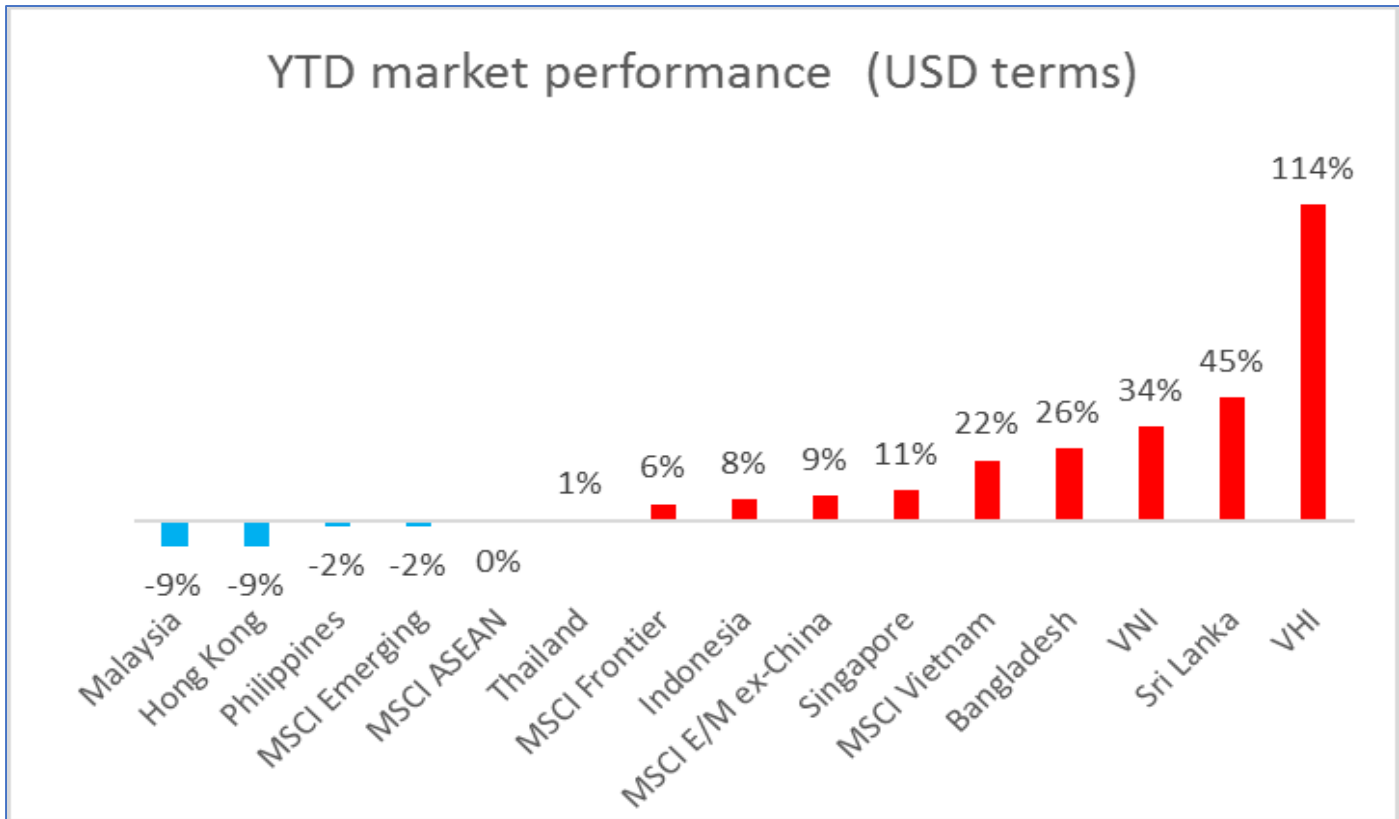


Source: Bloomberg (2022E consensus PE), Yuanta Vietnam (Nov 05)

Vietnam stocks remained in the regional breakout group last week

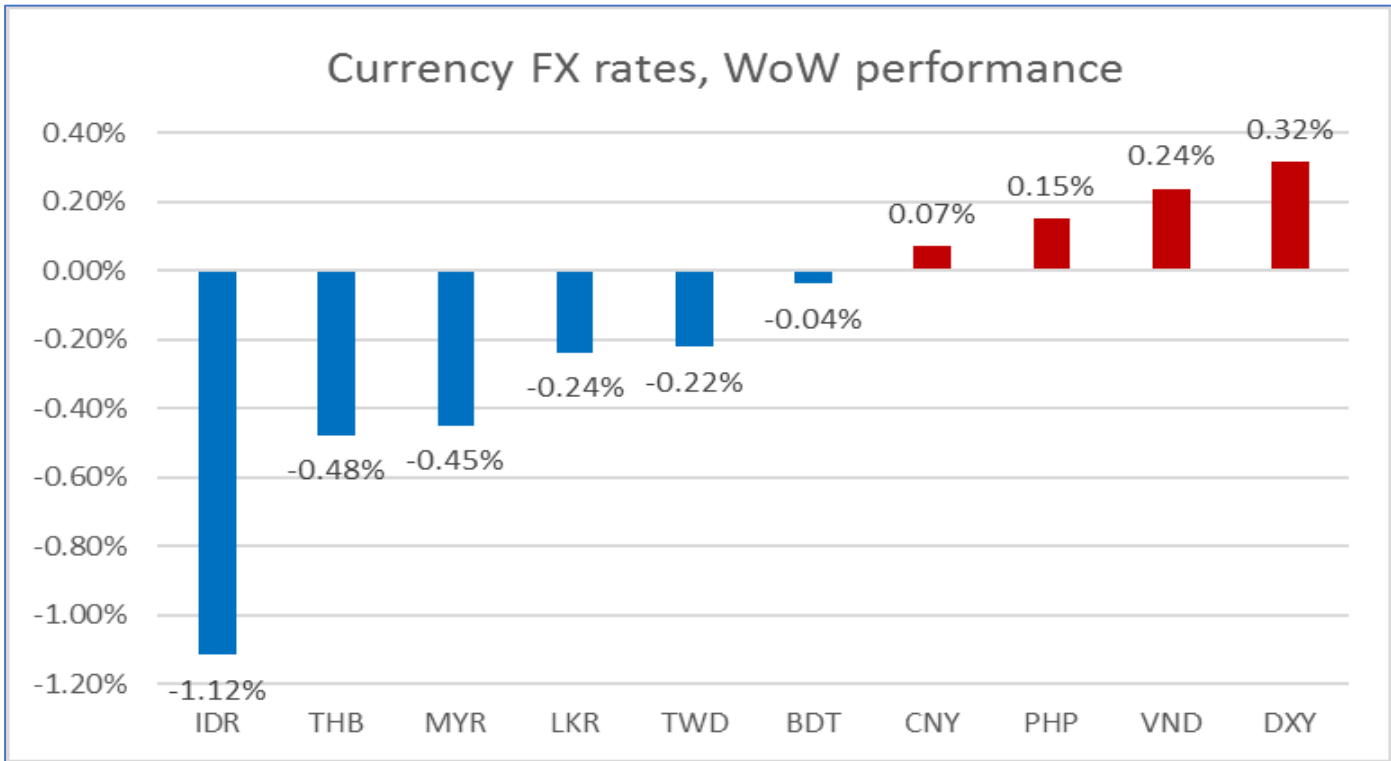


Source: Bloomberg, Yuanta Vietnam (Nov 05)

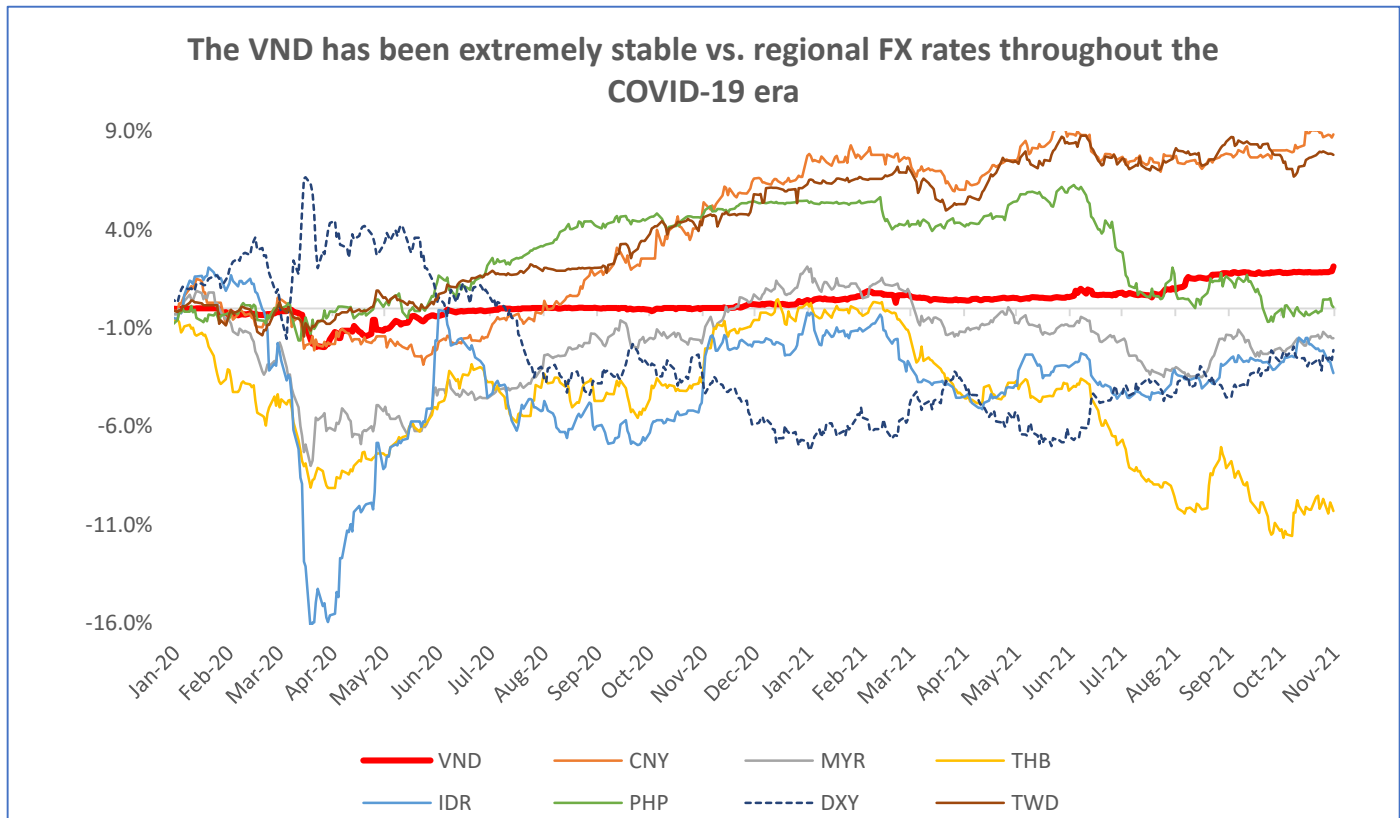


Source: Bloomberg, Yuanta Vietnam Nov 05)

Regional currencies: VND picked up the pace last week

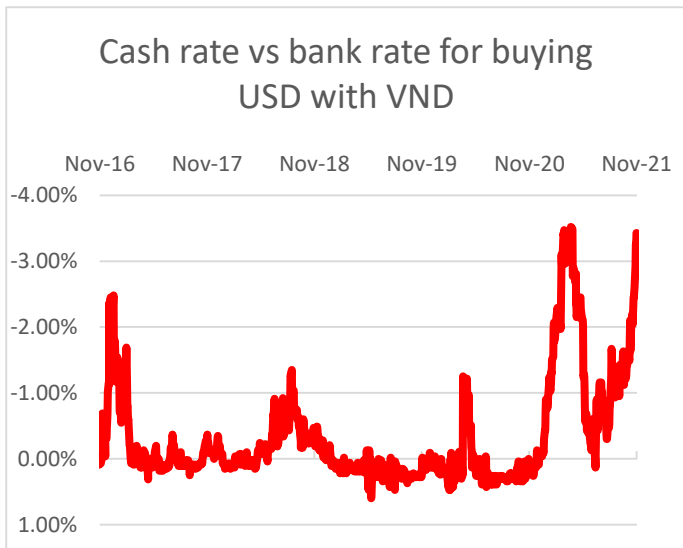


Source: Bloomberg (Nov 05)



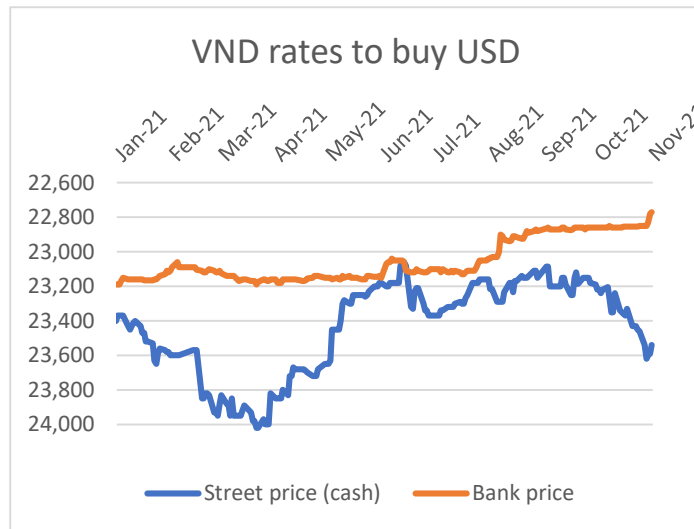
Source: Bloomberg (Nov 05)

US dollar cash premium has bounced.



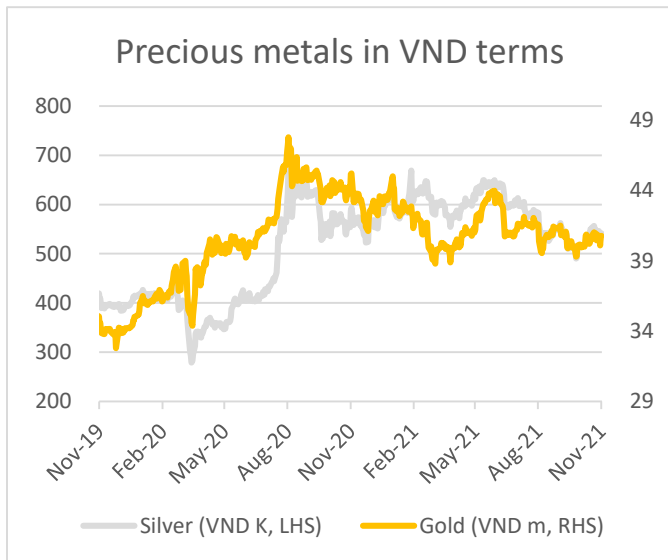
Source: FiinPro, Yuanta Vietnam. Bank data refers to VCB's published electronic selling price vs. the "free market" price for USD notes.

The cash premium remains well below the peak.



Source: FiinPro, Yuanta Vietnam

Global precious metals prices have been on a modest downtrend since May...

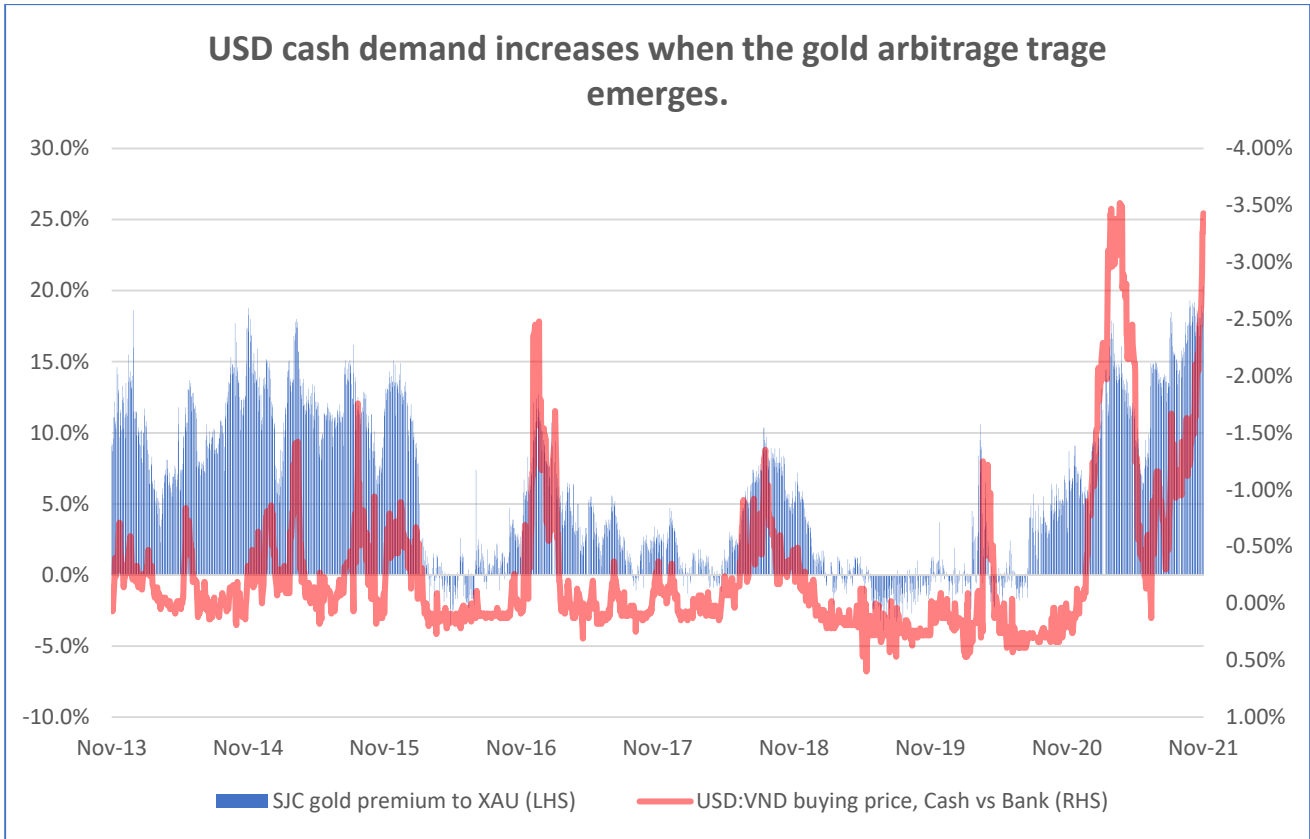


Source: FiinPro, Yuanta Vietnam. Bank data refers to VCB's published electronic selling price vs. the "free market" price for USD notes.

...but SJC's official gold price has only moved up, leading to a high-teens premium.



Source: FiinPro, Yuanta Vietnam



Source: FiinPro, Bloomberg, Yuanta Vietnam (Nov 05)

Yuanta Universe: Valuations and ratings

Sector	Stock Code	PER (x)			EPS Growth (%)			PEG (x)			PBV (x)			ROE (%)			ROA (%)		
		2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E	2020A	2021E	2022E
Banks	ACB VN	9.5	8.9	8.1	(3.3)	6.9	6.9	n/a	1.3	0.8	2.0	2.0	1.7	24.0	22.8	22.6	1.9	1.9	2.1
	BID VN	21.0	17.3	14.7	16.5	21.4	21.4	1.3	0.8	0.8	2.1	2.0	1.9	10.9	12.4	13.7	0.7	0.7	0.7
	HDB VN	10.0	9.0	8.3	19.4	10.9	8.2	0.5	0.8	1.0	1.9	1.6	1.4	18.8	17.9	17.0	1.7	1.7	1.8
	MBB VN	9.6	8.6	8.1	8.5	11.7	5.6	1.1	0.7	1.4	1.7	1.6	1.4	18.4	18.4	17.9	1.9	2.2	2.3
	STB VN	22.2	18.9	15.6	10.6	17.3	21.4	2.1	1.1	0.7	1.7	1.5	1.4	8.1	8.5	9.2	0.6	0.6	0.7
	VCB VN	21.9	16.7	12.9	(0.6)	31.4	29.4	n/a	0.5	0.4	3.8	3.2	2.7	18.8	21.0	22.9	1.4	1.7	1.9
	VPB VN	8.9	11.1	12.3	26.1	(19.6)	(10.2)	0.3	n/a	n/a	1.8	2.1	1.8	21.9	17.5	15.5	2.6	3.1	3.1
	Brokers	HCM VN	24.2	14.5	12.8	18.7	66.9	13.3	1.3	0.2	1.0	2.9	2.8	2.6	12.1	23.8	21.4	5.3	8.2
	SSI VN	18.9	27.3	23.8	21.0	(30.7)	14.8	0.9	n/a	1.6	2.6	3.1	2.9	13.1	13.9	12.7	4.0	4.2	4.2
	VCI VN	15.7	21.9	17.2	9.5	(28.2)	27.5	1.7	n/a	0.6	2.6	4.7	4.0	17.0	23.2	25.8	9.0	11.5	12.5
	VND VN	20.3	14.1	23.9	75.7	44.1	(40.9)	0.3	0.3	n/a	3.5	4.7	4.3	19.7	31.7	19.8	5.1	9.0	6.2
Energy	PVD VN	70.2	112.2	20.8	(1.3)	(40.6)	438.5	n/a	n/a	0.0	0.9	0.9	0.8	1.3	0.8	4.2	0.9	0.5	2.9
	NT2 VN	10.9	14.5	11.3	(17.1)	(25.3)	28.7	n/a	n/a	0.4	1.5	1.8	1.8	11.6	15.9	17.5	9.0	7.4	9.6
	PC1 VN	12.4	14.0	11.1	34.7	(11.3)	25.6	0.4	n/a	0.4	1.2	1.1	1.0	11.9	9.0	10.3	5.3	3.6	4.1
Consumer	MSN VN	34.2	27.8		(9.6)	22.9	20.9	n/a	1.2		4.3	3.8	3.3	13.5	14.5	15.2	7.0	8.0	8.9
	PNJ VN	26.6	20.3	15.2	(5.8)	31.1	33.5	n/a	0.7	0.5	6.7	4.6	3.7	25.9	20.7	23.4	12.0	14.8	16.9
	DGW VN	27.2	25.1	21.3	23.3	8.5	17.8	1.2	2.9	1.2	4.9	4.4	4.4	18.9	18.4	18.4	7.1	7.1	7.1
Oil & GAS	POW VN	15.4	13.5	12.6	(18.0)	14.1	7.5	n/a	1.0	1.7	0.9	0.9	0.9	6.8	7.4	7.6	3.9	4.5	4.5
Property	KBC VN	15.9	12.4	8.7	(54.0)	230.0	91.0	n/a	0.4	0.1	2.6	2.1	1.9	3.0	14.0	22.0	1.0	6.0	10.0
	KDH VN	24.0	24.5	18.3	19.0	(2.0)	34.0	1.3	n/a	0.5	3.6	3.6	3.2	15.0	15.0	19.0	9.0	9.0	12.0
	NLG VN	20.3	23.2	18.1	(35.0)	(13.0)	28.0	n/a	n/a	0.6	2.9	2.9	2.8	13.0	13.0	15.0	7.0	6.0	7.0
	NVL VN	26.6	44.8	37.9	12.0	(41.7)	18.3	2.2	n/a	2.1	4.1	3.1	2.8	14.0	10.0	10.6	3.0	2.3	2.4
	VHM VN	10.0	9.3	7.8	25.8	8.5	19.0	0.4	1.1	0.4	3.2	2.4	1.9	37.0	31.0	28.0	14.0	14.0	14.0
Transport	ACV VN	28.3	22.0		8.3	28.8		3.4	0.8	n/a	4.5	3.8	3.6	18.8	20.2	11.0	11.4	11.3	5.2

Stock ratings and pricing data is as of close on Nov 05 2021.

Source: Bloomberg, Yuanta Vietnam



Appendix A: Important Disclosures

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