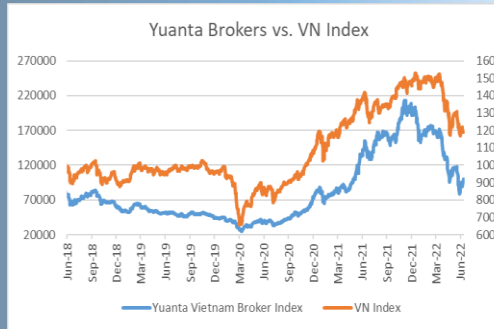


**Vietnam: Brokers**
**5 July 2022**

**What's new?**

- ▶ **2Q22 ADT** (HSX, HNX, & UPCom) was US\$890m (-35% QoQ / -22% YoY).
- ▶ **Weak 2Q22 performance** of VNI (-20% QoQ) and VHI (-38% QoQ) mean a tough environment for prop trading.
- ▶ **We reckon margin loans have declined** by 20% from the 1Q22 peak.
- ▶ **But it's not all bad** -- 1.3 million new securities accounts were opened in 5M21 (+187% YoY).

**Our view**

- ▶ **Revenues & profits likely to weaken** sequentially given the sharp deterioration in market conditions in 2Q22.
- ▶ **Cheap valuations** have more than fully discounted the negatives.
- ▶ **We believe that the 2Q22 bear market represents a trough** and we expect momentum to recover in 2H22.
- ▶ **Overweight the brokers.** We have BUY ratings on HCM, SSI, VND, and VCI.

**2Q22 Results Preview**

**Earnings growth is likely to slow sequentially.** Stock market performance in 2Q22 was horrible, but balance sheet expansion as the result of capital calls mean that earnings should rise anyway, at least on a YoY basis. For example, VND's preliminary 2Q22 earnings of VND859bn implies growth of +12.9% QoQ / 90.9% YoY. However, EPS growth may be less exciting.

**ADT plummeted in 2Q22.** We estimate that ADT across the HSX, HNX, and UPCom markets reached US\$890m in 2Q22, down -35% QoQ and -22% YoY. Brokers don't generate the bulk of their profits from the pure agency business, but the cyclical decline in market activity is (obviously) negative.

**We assume that margin loans declined by c.20% QoQ** across the industry. However, this still implies a substantial YoY increase, which informs our earnings expectations. What we do *not* expect is material credit losses for the brokers. We believe that the brokers, or at least the ones in our coverage, are fully capable of managing the risks of the margin finance business.

**Proprietary trading: As always, it's a wildcard.** Prop trading results are typically the main earnings risk, and 2Q22 was a tough quarter for anyone who was long risk. Intuitively, securities brokerages should be very tuned in to overall sentiment in a market in which retail investors account for c. 85% of trading. As such, the 2Q22 prop trading results may not be as bad as indicated by market performance in 2Q (i.e., VNI -19.7% / VHI -38.2%).

**We reiterate our Overweight call on the Vietnam brokers** after [upgrading](#) the sector on June 27, with BUY recommendations on SSI, HCM, VCI, and VND. Our strategy view is that the market is likely bottoming now and momentum should recover in 2H22. We continue to see the brokerage sector as a leveraged proxy on market momentum given the industry's high operational gearing to market activity.

**Valuations matter!** Trading at sub 2x P/B multiples with c.15-20% long-term ROEs, we think the stocks are still attractive even after the solid performance of the past two weeks. We expect 12-month TSR of 35-44%. However, these are highly cyclical and capital intensive businesses. When and if they manage to trade back up into the stratosphere (i.e., 3-4x P/B or higher), it will once again be time to take profit.

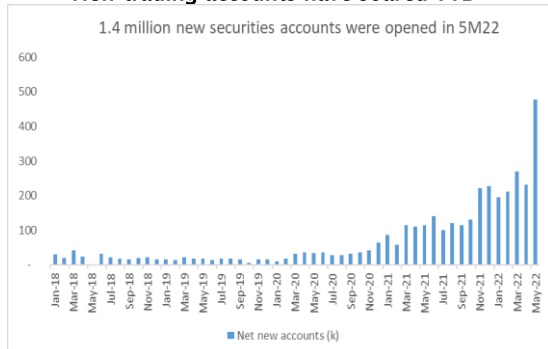
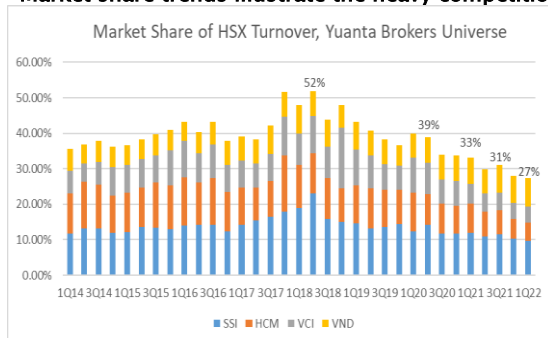
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**Yuanta Vietnam Brokers Coverage**

Stock code	Mkt cap (USDm)	3-month ADT (USDm)	Rating	Current price (VND)	Target price (VND)	Up (down) side	2022E Dividend yield	12-m TSR*
HCM VN	452	4.3	BUY	23,050	29,957	30%	5.4%	35%
SSI VN	1,258	17.9	BUY	19,700	26,092	32%	2.3%	35%
VCI VN	521	6.1	BUY	36,300	47,656	31%	6.1%	37%
VND VN	971	16.3	BUY	18,600	26,539	43%	1.5%	44%

Source: Bloomberg, Yuanta Vietnam

**New trading accounts have soared YTD**

**Market share trends illustrate the heavy competition**


Source: VSD, HSX, Bloomberg, Yuanta Vietnam

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