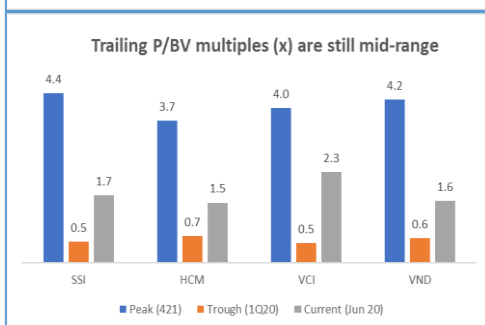
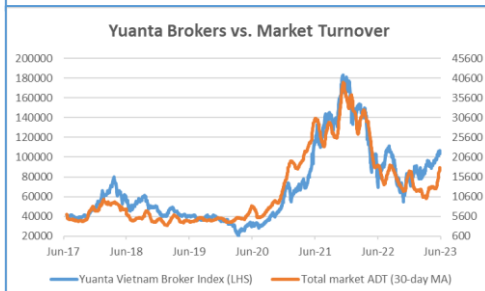
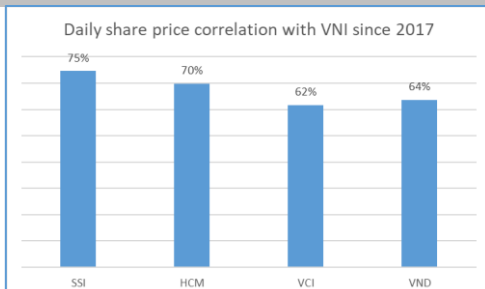

What's new?

- ▶ **Vietnam has re-entered a bull market**, in our opinion.
- ▶ **Brokers are up 53% YTD** and no longer offer deep value, but we still expect another 21-26% upside.
- ▶ **Valuations have rebounded to 1.5-2.3x P/BV** but are still far below peak bull market levels of 3.7-4.4x.
- ▶ **Operational momentum should recover** along with improved market sentiment in 2H23.

Our view

- ▶ **Overweight the brokers** for 2H23.
- ▶ **Sector is a leveraged proxy on our bullish strategy call** – and our confidence in that call has increased in recent days.
- ▶ **We reiterate our BUY ratings** on SSI, VCI, HCM, and – yes – VND.
- ▶ **Financial risk is low (for most)** given strong regulatory capital and liquidity.
- ▶ **Market risk is extreme** due to high stock correlation with volatile factors like ADT.



Source: Bloomberg, FIINPro, Yuanta Vietnam

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Get 'em while they're hot

Brokers are a proxy on continued market momentum in 2H23. The bull market case is supported by [positive technicals](#), [falling discount rates](#), and [surging market liquidity](#) in the past four weeks. The brokers have outperformed the market by a wide margin YTD, but we suggest that investors add some sector exposure anyway as a proxy on continued strong momentum in 2H23.

SSI (BUY): The most “investable” broker in terms of market cap/volume. Broad exposure to retail / institutional broking and asset management. Risk: *Market share seems to be the immediate strategic priority, not ROE.*

VND (BUY): Corporate bond crisis hit particularly hard – *this exposure remains VND's key investment risk*, in our view. Not one for the faint-of-heart: investors might consider waiting for the interim results and the capital raise.

VCI (BUY): Vietnam's pre-eminent investment banking business with solid management and laudable focus on profitability. Risk: *The push into the red ocean of mass market retail broking could impact near-term cost efficiency.*

HCM (BUY): A low Beta idea (for this high-Beta sector). HCM offers a leading HNW and institutional brokerage franchise. Risk: *Financial and operational flexibility is limited by the gov't-linked major shareholder.*

Valuations. The brokers in our coverage have soared by an average +53% YTD, far ahead of the VNI's +12% gain. As such, valuations have increased to a range of 1.5-2.3x 2023 P/B. Admittedly, this is not fundamental deep value; but the stocks are still far below the bull market peak valuations of 3.7-4.4x trailing P/B. We think the strong momentum will continue in 2H23, and our 12-month target prices imply another 21-26% total shareholder returns.

The key risk to our positive call: Brokers' shares are sensitive to market conditions that are both volatile and impossible to forecast with confidence. A sustained reversal of the recent market uptrend would undoubtedly put an end to the sector's rally. But investors should be aware that these are *not* identical businesses, and they thus present various idiosyncratic upside and downside risks. See the individual company notes in this report for details.

Would Buffett buy the brokers? Our fundamental view is that brokerage is a highly cyclical, capital-intensive, and fragmented industry in which the intensity of competition is only set to increase going forward. Regulation requires frequent equity issuance to sustain growth. We expect continued pressure on ROE as balance sheets grow and competition intensifies over the very long term. But it's not all bad: We also anticipate a gradual evolution toward value-added businesses such as personal financial advisory, asset management, and value-added investment banking – areas in which execution capability will be a critical differentiator among the individual firms.

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.

Vietnam Brokers: A proxy on the 2H23 bull market

We reiterate our **Overweight** sector allocation call on the **Vietnam brokers** in line with our positive strategy view for 2H23. The brokers have rallied hard YTD from their multiyear valuation lows following the market panic of 4Q22, but valuations are not even close to peak levels and market liquidity conditions, which are the lifeblood of the brokerage business, have recovered substantially in recent weeks.

The four brokers in our coverage are now trading at 1.5-2.3x forward P/B multiples, which is not exactly trough levels but still well below the peak bull market valuations of 3.5-4.5x P/B in 2021.

Fig 1: Stock recommendations

| Stock | Code | Current Price VND K | Target Price (VND K) | Dif | Rating | P/BV (x) | | PER (x) | | ROE (%) | | Yield (%) | |
|------------------------|--------|------------------------|-------------------------|-----|--------|----------|-------|---------|-------|---------|-------|-----------|-------|
| | | | | | | 2023E | 2024E | 2023E | 2024E | 2023E | 2024E | 2023E | 2024E |
| Saigon Securities | SSI VN | 26.0 | 32.2 | 24% | BUY | 1.5 | 1.4 | 11.5 | 10.8 | 12% | 14% | 2.6% | 1.4% |
| HCM City Securities | HCM VN | 28.7 | 33.8 | 18% | BUY | 1.6 | 1.5 | 16.1 | 15.2 | 10% | 10% | 2.8% | 2.8% |
| Vietcapital Securities | VCI VN | 37.5 | 45.6 | 22% | BUY | 2.3 | 2.1 | 16.0 | 14.1 | 13% | 15% | 0.0% | 2.6% |
| VN Direct Securities | VND VN | 19.7 | 24.0 | 22% | BUY | 1.7 | 1.6 | 14.1 | 14.0 | 10% | 12% | 2.3% | 2.3% |

Source: Company data, Bloomberg, Yuanta Vietnam

Arguably the stocks' fundamentals merit a continued rerating given the sector's still reasonable (albeit declining) ROEs, well-capitalized balance sheets, lack of liquidity risk, and attractive positioning as a proxy on the continued expansion of Vietnam's capital markets in the years ahead.

On the other hand, one *could* submit the contrary argument that the average 53% gains YTD in the shares that we cover has brought them back to fair value, in which case further upside would *not* be justified by the fundamentals.

Our response: we understand that ivory towers are comfortable dwellings in which to await the emergence of market efficiency sometime in the distant textbook-friendly future. But here in Vietnam, we have witnessed these stocks trade up to far above any conception of fair value in the recent past. History does not always repeat, but we think that something similar may be about to happen again if our strategy call for a continued bull market continues in 2H23 is right.

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Our overall view on the long-term prospects of Vietnam's capital markets has not changed substantially since initiating on the sector in 2019. Capital markets are a core component of the overall financial system, which represents the critical circulatory system of Vietnam's rapidly developing economy.

We see the brokers as the best available option for investors seeking a proxy on the development of Vietnam's equity markets, as discussed extensively in our coverage over the past four years:

- 1) Our [sector initiation](#) of February 2019,
- 2) Our closer look at [the competitive crunch](#) in Dec 2019,

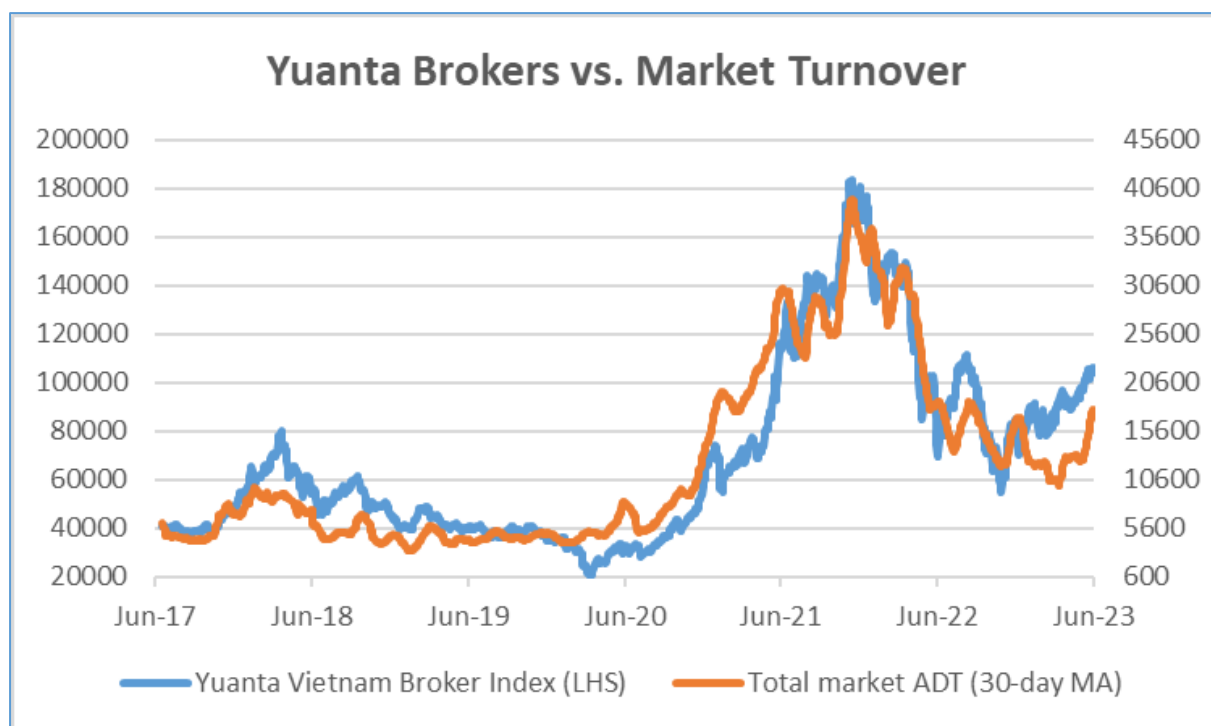
- 3) [Brokers: Geared to the market recovery](#) in May 2020,
- 4) Our early sector downgrade ([Enough is Enough](#)) of July 2021 (far too early – the market peaked in 4Q21), and
- 5) Our early [upgrade](#) of the sector in June 2022 (again, too early – the market troughed in 4Q22).

That view hasn't changed. The brokers fired on all cylinders both operationally and in terms of share price performance during the boom market of 2020-2021. However, even under the sunniest of weather, trees don't grow to the sky – and the bear market that started in January 2022 was a fine time not to own brokers, at least not as buy-and-hold stocks.

However, the situation has now reversed, in our view. Believe it or not, Vietnam stocks have been in a bull market – as defined by a 20% recovery from the most recent market low – since January this year. It may not have felt like a bull market throughout the past six months, but broad share price momentum is now clearly gaining stream with the VNI breaching its 200-day moving average on June 2 and a “Golden Cross” – as defined by a positive breakout of the 50-day moving average above the 200-day moving average – on June 16.

This is occurring under substantially higher trading volumes, which adds to confidence in the uptrend. Reduced interest rates, a more positive earnings growth outlook for 2024E, and cheap valuations are critical fundamental positives underlying our market strategy call. We consider the brokerage sector to be the best proxy on the continuation of the bull market into 2H23.

Fig 2: Brokerage share prices are also highly correlated with market turnover



Source: FiinPro, Bloomberg, Yuanta Vietnam

Admittedly, the brokerage shares have rallied hard YTD and especially in the past several weeks. However, we think that momentum is likely to carry the shares far higher – yes, even beyond their fundamentals-based theoretical fair values – as the market continues to gain steam in 2H23.

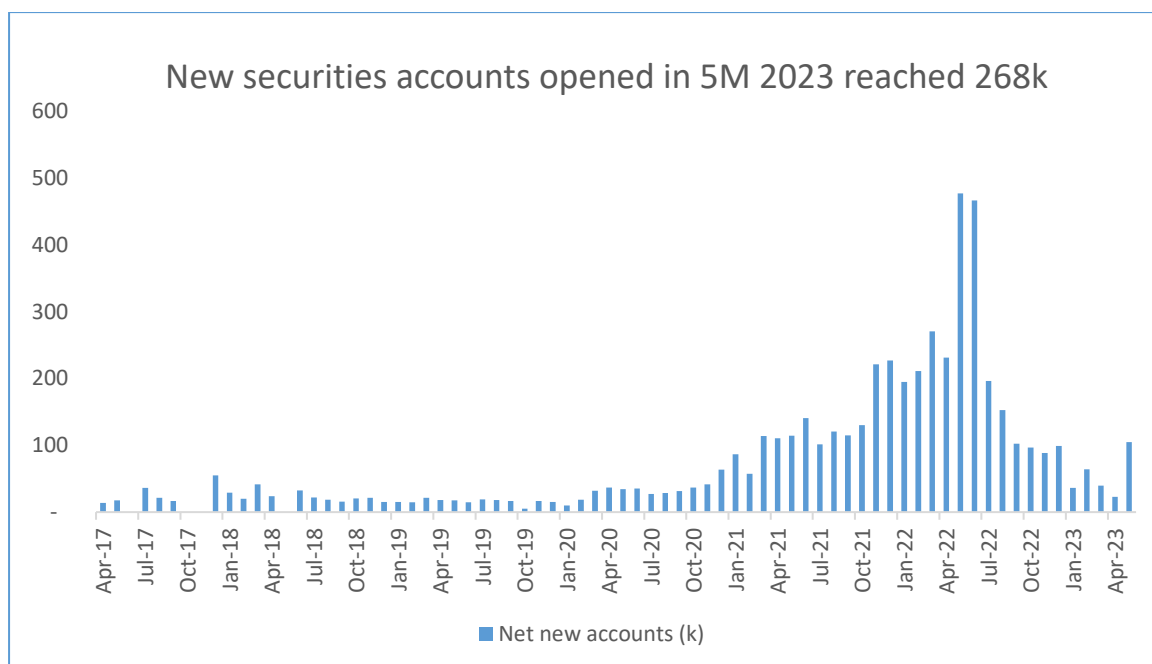
Don't expect too much excitement from the upcoming quarterly

results. 2Q23 preliminary numbers should begin to leach out through the domestic media in the days ahead. For our analysis, the preliminary “revenue” numbers are meaningless because they fail to account for related costs (and, in the case of investment income, the related realized and MTM losses).

By contrast, the preliminary PBT numbers provide some real information value. However, we will have to wait for the full detailed semiannual results due by end-July before we can sink our analytical teeth into the results.

We anticipate a substantial sequential QoQ uptick in net operating revenues in 2Q23 due to the rather punchy markets (so far) in June. But we don't expect too much excitement from 2Q23 earnings, which are likely to remain well below peak levels of 2021 given the relatively tepid market conditions of April-May. We suggest that investors focus on examining the detailed semi-annual balance sheets – particularly margin lending and the breakdown of the proprietary (FVPL) books – as early indicators of earnings in 3Q23 and beyond.

Fig 3: New securities accounts saw a sizeable boost in May 2023



Source: Vietnam Securities Depository, Yuanta Vietnam

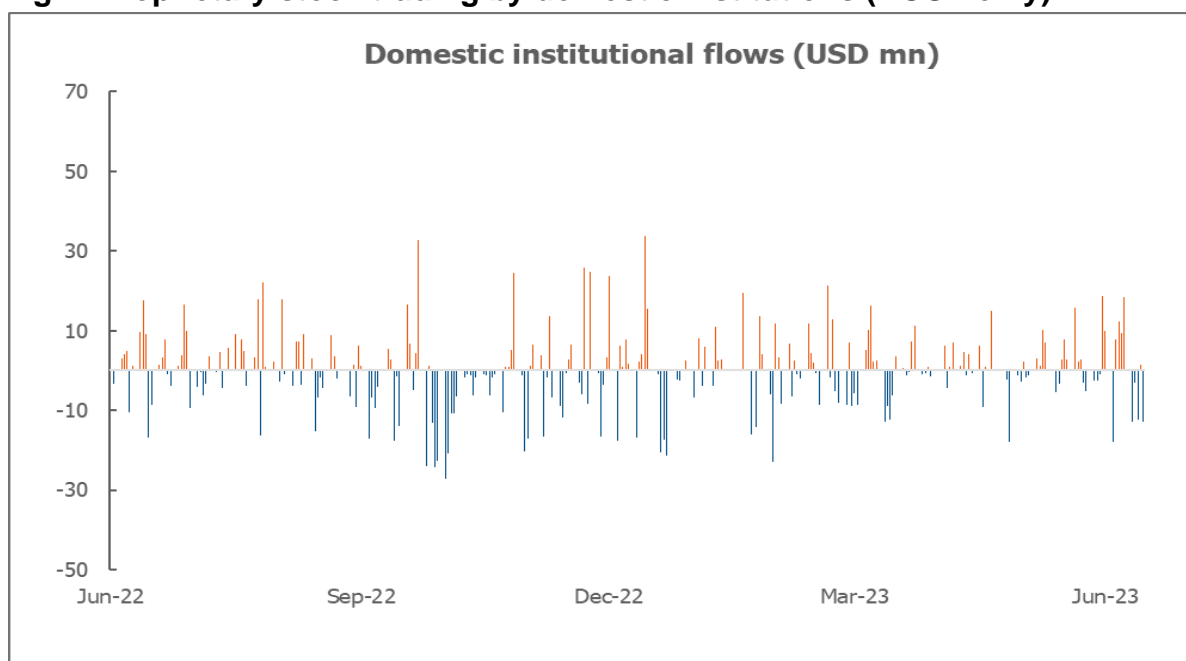
Average daily turnover across the HSX, HNX, and UPCOM platforms has reached US\$655 million so far in 2Q23 (through June 16), up by +37% QoQ but down by -27% YoY. Brokerage earnings will likely reflect these changes – not because of net agency brokerage revenues, which are no longer a major earnings driver, but rather because ADT reflects the overall bullish market conditions that are likely to mean increased margin lending and prop trading gains.

We believe that margin positions are climbing in June after a flattish trend in 5M23, which means that the brokerage P&Ls may not fully reflect the implied interest income that a full quarter of higher margin loans will generate. As such, we believe that 3Q23 will more fully reflect the earnings impact of the (assumed) increase in margin lending.

Prop books should see a boost in 2Q23 given the equities rally. Our view is that securities brokerages in a market in which retail investor money accounts for 85-90% of flows should be very tuned in to overall sentiment. We thus expect a reasonable recovery in prop trading net gains in 2Q23. As a group, domestic institutions have been net buyers of US\$57 million of HOSE-listed stocks so far (Apr 1 to June 23) although they appear to be selling in the past few days – possibly locking in profits for the quarterly P&L.

The key risk to prop “trading” is corporate bonds, which are held at cost despite being on the FVPL book; within our coverage, the risk of possible impairment on corporate bonds is highest for VND by a considerable margin, in our opinion.

Fig 4: Proprietary stock trading by domestic institutions (HOSE only)



Source: FiinPro, Bloomberg, Yuanta Vietnam

All of this suggests a reasonable operating environment for net revenues and profitability of the securities companies in 2Q23, especially on a QoQ comparable basis – but possibly even on a YoY basis especially for the brokers operating mark-to-market FVPL-concentrated balance sheets. That said, we don't expect blowout numbers given the recency of the broad increase in market momentum (i.e., the rally started in June) and our inability to generate any confidence in forecasting prop trading results.

Timing is everything: Given the steady ramp of brokerage stocks, investors should consider building positions gradually or even – for those of you with better skill / luck at timing this market than we have had – waiting for the market to pull back to support levels at 1080-1100 rather than piling in upon receipt of this report.

The headline 2Q23 preliminary results (i.e., the essentially useless gross “revenue” line and more meaningful preliminary PBT numbers, which leach out through the domestic media starting as early as this week) could provide for “sell the news” trading opportunities given how well the stocks have generally performed in recent weeks.

We refuse to attempt to forecast such short-term swings because we have zero faith in our ability to do so accurately. However, if a pullback occurs, it would obviously set up a cheaper entry opportunity.

Of course, an early resurgence of the market could over-ride the negative effect of weak results, so investors who agree with our Overweight call should probably just build positions gradually over the next several weeks rather than trying to time it perfectly.

Would Buffett buy the brokers? Probably not. Brokerage is a highly cyclical and capital-hungry business, which might limit the appeal of even the well-managed companies in our coverage as BRK-style “forever” investments. The high correlation of the share prices with ADT (an operational input for brokerage and a signal for margin lending) and the VNIndex (a share price indicator that has little direct impact on brokerage earnings but matters anyway as a reflection of investor sentiment) indicate the high degree of operational leverage to market ebbs and flows.

These market factors are inherently volatile and impossible to forecast with any confidence. This suggests that the brokers are perhaps not quintessential buy-and-hold stocks, especially given the wide swings in valuations. As such, investors should perhaps consider them as trading vehicles (or, for funds holding large cash and/or low Beta positions, as a hedge against being underweight the overall market).

How about Cathie Wood? Again, probably not – these are not exactly “innovative disruptors”. Laudable efforts at digitization enabled the COVID-era stock market boom via online KYC procedures that did not exist previously – kudos are deserved for the market leaders (which

include VND, but also disruptive bank-linked brokers such as TCBS and VPS) for pulling this off. Within our coverage, VND deserves credit for being very much on the front foot in terms of its technology rollout. However, we do not see any of the brokers as “disruptive innovator”-type firms – there is precious little that is new under the sun in this business.

Ultimately, the brokers survive and thrive primarily from margin lending and (to varying degrees) advisory & investment banking. These are highly regulated, capital-intensive businesses that do not lend themselves to value “compounding” over the long haul.

Having said that, it's crucial to note that the Vietnam brokers are value-creators in the sense that their ROEs typically exceed their capital costs – not always, but on a through-the-cycle basis.

This is somewhat unusual for this industry in the region and globally, as intense competition and industry fragmentation have joined forces with onerous (in our view – but we’re brokers ourselves) regulation to ensure a steady derating of profitability for the traditional business.

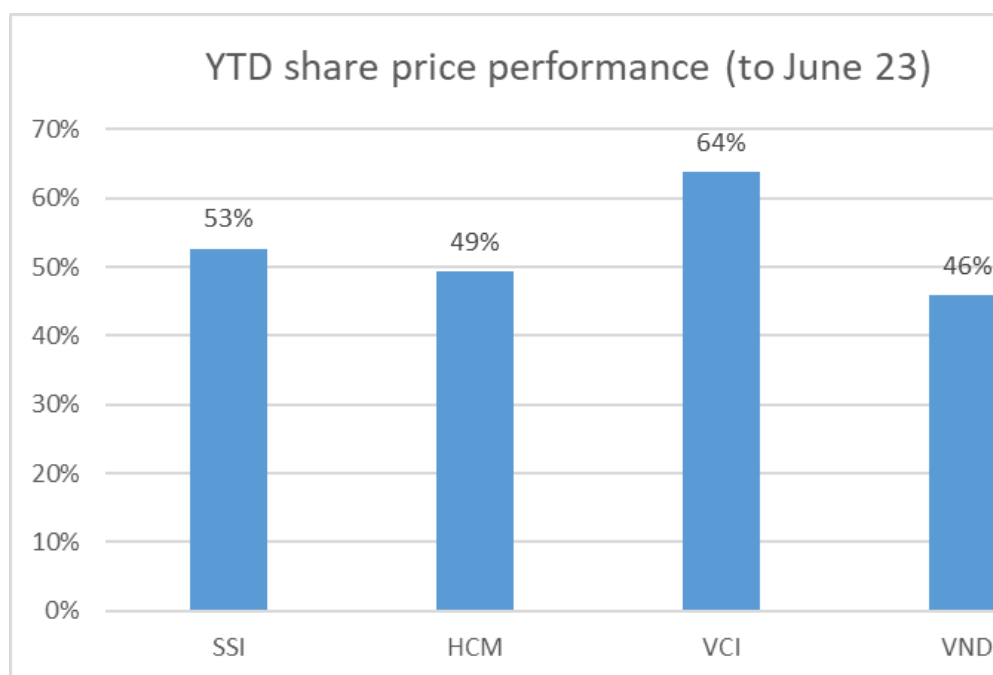
Over the long haul, we believe that the brokers will still find ROE-accretive opportunities from the development of the capital markets, particularly in diversified investment banking (as opposed to just pumping out corporate bonds), wealth management advisory, and private banking services. These are all areas where most brokers have only started to scratch the surface – and they are also likely to face competition from global players.

Ultimately, the competitive crunch is likely to drive returns down to the required rate of return (or, more likely, lower), as it has in other markets. But this process will likely take years, and we expect many happy trading opportunities to occur in the meantime. In our opinion, this is such a time.

We reiterate our Overweight sector call on the brokers.

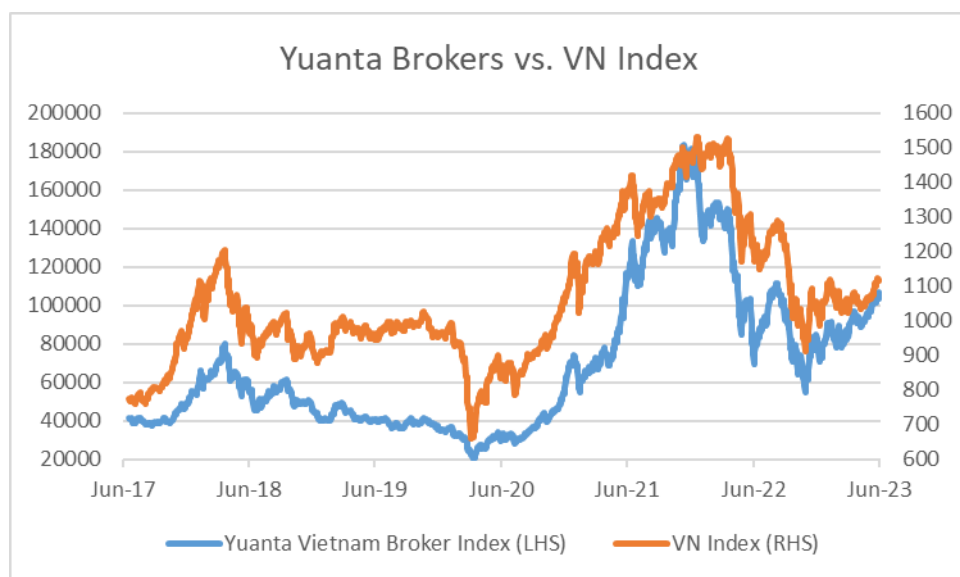
Previous experience is that attempting to differentiate our stock calls in this sector doesn’t really work, as the stocks tend to perform in line directionally with each other – and with the market – over time. This is because they are all highly correlated to market metrics such as ADT and (even more so) stock index levels. We have an overtly positive view on the market in 2H23, and we view the brokers as the best available option for a market proxy in Vietnam. As such, we retain BUY recommendations on all four brokers in our coverage: SSI, HCM, VCI, and VND.

Fig 5: Our broker coverage has gained 46-64% YTD



Source: Bloomberg, Yuanta Vietnam

Fig 6: The brokers' share prices have rallied along with the market



Source: Bloomberg, Yuanta Vietnam

Risks

- 1) The stock market will fluctuate.** Brokerage stocks are highly correlated to market activity. If our bullish strategy call for 2H23 turns out to be wrong (and we have been wrong before), the brokerage shares would very likely suffer the consequences. This is probably the most obvious, least value-added insight that we can provide, but a bear market represents the biggest risk to our Overweight call.
- 2) Retail broking is a commoditized service.** Even areas that offer some room for disruptive inroads such as online KYC have easily and quickly been replicated by any or all of the dozens of competitor brokers. Ultimately, profitability is likely to trend down, as it has been in other markets in the region. However, this process is likely to take years.
- 3) Institutional broking, where the competitive moat is arguably wider, is less relevant in a retail investor-driven market.** In addition, Vietnam is increasingly coming onto the radar screen of global and regional investment banks, ready to parachute in their IB teams (CSFB's demise notwithstanding), to take advantage of eventual emerging markets index inclusion by FTSE/MSCI, and eventually (i.e., many, many years from now) to provide asset management services as well.
- 4) The business is capital intensive,** so brokers must frequently issue new shares to fund growth, especially in margin lending. Increasing capital may be the right move in a bull market, but it also dilutes ROE. As the shares are typically issued at par value, minority shareholders are cajoled to pony up the cash to participate or else face dilution; investors can of course raise cash to participate by selling shares prior to the ex-rights date. However, based on our observations, capital calls in Vietnam are frequently preceded by sharply positive share price gains and followed by share price declines as newly issued stock is dumped on the market.
- 5) The industry is becoming even more fragmented and competitive.** Brokerage profitability has improved markedly during the boom, which has alleviated the competitive crunch to some extent. However, we think the industry is likely to become even more competitive going forward – we see no sign of imminent consolidation.
- 6) Compliance is critical** for the highly regulated securities industry. We are confident that the brokers we cover understand the risks and have effective controls in place to ensure full compliance with regulatory standards. But as we have seen, headlines about market shenanigans elsewhere could once again negatively impact investor sentiment for the broader market—and for this sector in particular.
- 7) Proprietary investments likely represent the major balance sheet risk...** The Street tends to focus on stock positions but fixed income accounts for a far greater proportion of the brokers' balance sheets, especially when FVPL, AFS, and HTM positions are considered altogether. Within our

coverage, VND's substantial corporate bond position – most of which it acquired during the bond crisis in 2Q22-4Q22 – is particularly worrisome.

8) .. while margin lending does not keep us up late at night... as it is collateralized credit with substantial regulatory and internal risk management systems in place. The lack of systemic transparency is arguably just as much of a concern for general stock investors as it is for individual brokers lending based on stock collateral given the unknown overhang of highly leveraged shares. However, 4Q22 illustrated the concentration risk that can emerge when essentially all the margin lenders lend to a concentration of borrowers using the same (overpriced) collateral: the market impact of such borrowers failing to meet margin calls can be extreme, and margin lenders can be left holding the bag.

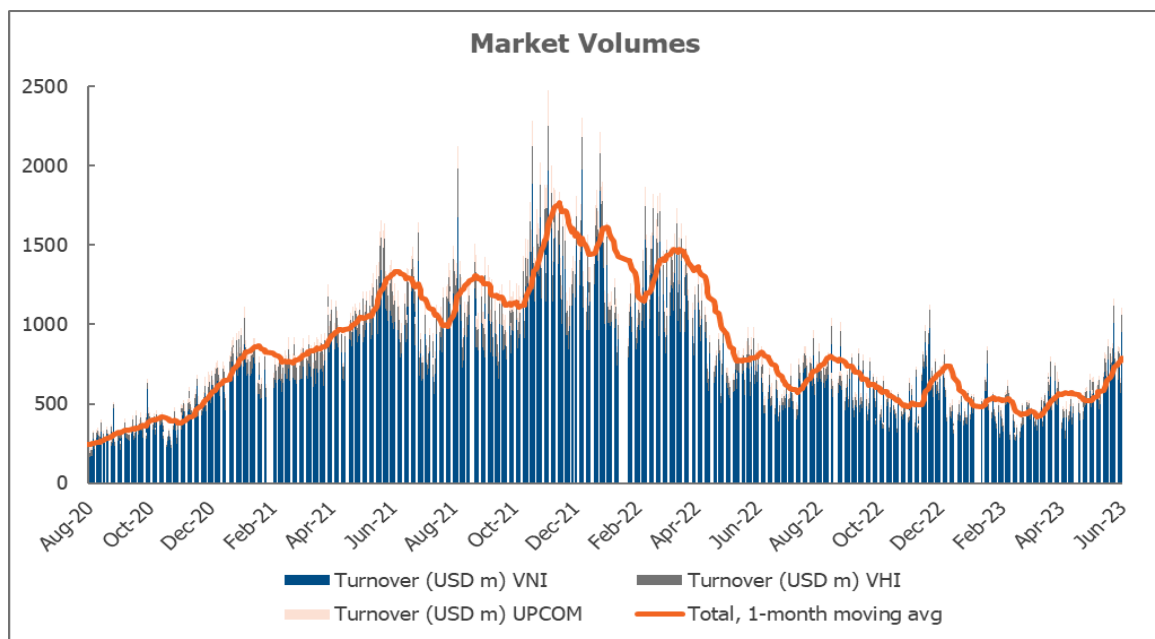
9) ... and liquidity risk is not much of an issue. Funding costs rise and fall, but we have not identified any broad asset-liability mismatches, as both sides of the brokers' balance sheets are almost entirely short term (i.e., 12-months or less) in duration. Even HTM assets, the bane of Silicon Valley Bank, don't really represent substantial duration risk because they are mostly time deposits at banks, and brokers can always ask for their money back prior to maturity (unlike a long-term government bond). Corporate bonds are perhaps more of a concern here, especially if the effective maturity of the asset is indeterminate because the borrower cannot repay... But overall, balance sheet liquidity risk is not a substantial fundamental concern, in our view.

Increased ADT assumptions for 2023-24

We set our 2023 ADT assumption across the HSX, HNX, and UPCoM markets at US\$678 million. This is a bit more than half of the US\$1.3bn assumption that we penciled in a year ago, which should present readers with a good idea of our nonexistent ability to forecast long-term ADT with pinpoint accuracy. Our revised assumption implies a -22% YoY decline in full-year ADT in 2023.

Nevertheless, we believe this to be a modestly bullish assumption: YTD through June 16, ADT in 2023 is running at US\$563 million, so our full year assumption implies ADT of US\$771 million for the rest of the year. This is arguably conservative given that ADT in June is running at US\$866 million, so we think it to be a reasonable assumption.

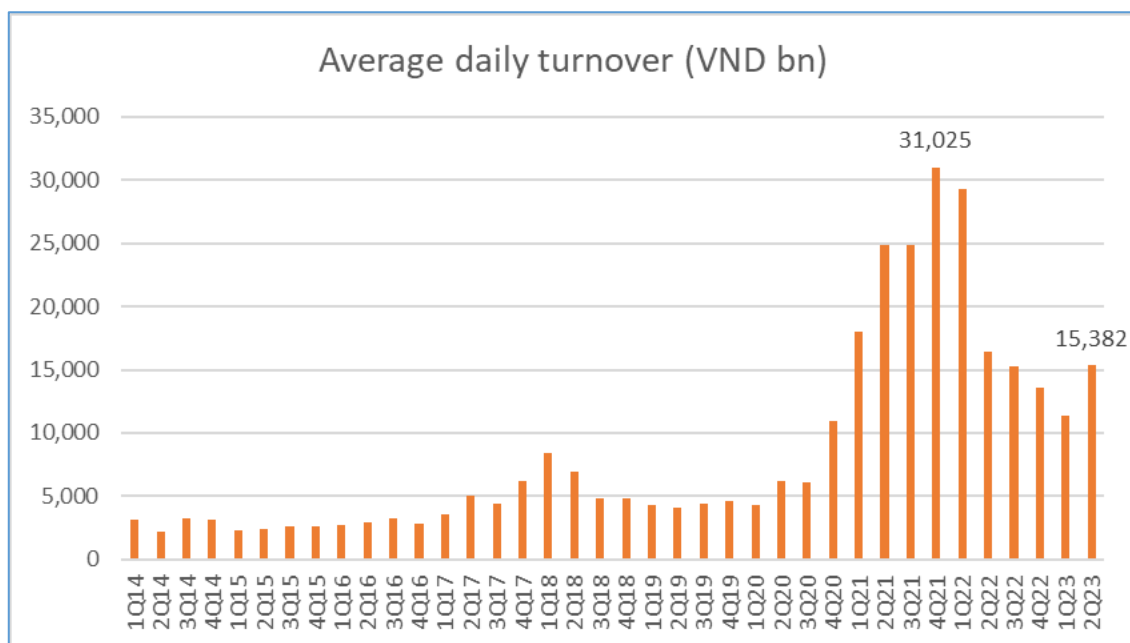
Fig 7: Trading volumes have recovered strongly in June



Source: FiinPro, Bloomberg, Yuanta Vietnam

We hesitate to call this a “forecast” given that trading activity is inherently unpredictable: “assumption” is the more appropriate word. The actual number will be dependent on factors that are difficult to forecast accurately – most notably, a likely rebound in margin lending in 2H23 as demand picks up and brokers put their enlarged balance sheets to use – as well as sentiment factors that are primarily guesswork.

Fig 8: Trading volumes by quarter



Note: 2Q23 represents average daily turnover from April 1 to June 16.
Source: Source: FiinPro, Bloomberg, Yuanta Vietnam

We are brokers ourselves, so we are admittedly biased toward the bullish side of any argument regarding market turnover expectations. However, we suggest that a sensible range of assumptions for 2023E ADT is US\$611mn to US\$746mn, implying rest-of-the-year average daily turnover of roughly US\$650-893mn. We suspect that the actual result will probably be within that range.

The deeper we peer into our turnover-forecasting crystal ball, the weaker our confidence in our ability to foretell the future: This is illustrated by our new ADT assumption for 2023 being roughly half what we had penciled in for 2023 a year ago. However, after covering regional brokers and exchanges for the past two decades, we have learned that this is a game of horseshoes and hand grenades; it is impossible to generate confidence in the pinpoint accuracy of ADT assumptions.

But it doesn't matter for broker share prices -- getting the trend right is what counts for investors in this sector. The table below outlines our base case assumptions for 2023-25E, which we think are reasonable even though our confidence in these figures as accurate forecasts is relatively low.

| Average total daily turnover on HSX, HNX, and UPCOM exchanges (USD mn) | | | | | | | | | |
|--|-------|-------|-------|-------|-------|--------|-------|-------|--|
| | 2018A | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E | Notes |
| Base case projections | 284 | 200 | 318 | 1,159 | 869 | 678 | 857 | 985 | Assumptions: 1) ADT through June 16 is US\$563 million, so our base case implies US\$771mn for the rest of 2023; 2) sustained liquidity in 2H23 on reduced interest rates; 3) ADT remains solid but off-peak levels in 2024-25E. |
| YoY chg | 63% | 28% | -30% | 60% | -25% | -22% | 26% | 15% | |
| Extreme Bear | | | | | 869 | 509 | 642 | 739 | Assumptions: 1) the market crashes and ADT drops to US\$466mn for the rest of 2023, and 2) 2024-25 ADT recovers marginally but far below peak levels. |
| YoY chg | | | | | | -41.4% | 26.3% | 15.0% | |
| Difference from base case | | | | | | -25% | -25% | -25% | |
| Moderate Bear | | | | | 869 | 611 | 771 | 887 | Assumptions: 1) The market slows down substantially with ADT falling to \$649mn in RoY, 2) ADT rebounds back to 2022 levels over the course of 2024-25. |
| YoY chg | | | | | | -29.7% | 26.3% | 15.0% | |
| Difference from base case | | | | | | -10% | -10% | -10% | |
| Moderate Bull | | | | | 869 | 746 | 942 | 1,084 | Assumptions: 1) Market rallies harder than we thought it would and RoY ADT reaches US\$893mn, the highest since 2021; 2) the stock market boom continues and ADT soars back to peak levels in 2024-25. |
| YoY chg | | | | | | -14.1% | 26.3% | 15.0% | |
| Difference from base case | | | | | | 10% | 10% | 10% | |
| Extreme Bull | | | | | 869 | 848 | 1,071 | 1,231 | Assumptions: 1) Stocks are all the rage yet again, and RoY ADT soars to US\$1,076 million; 2) and it's off to the races in 2024-25 as liquidity, fundamentals, and regulation fuel talk of emerging markets inclusion in 2026. |
| YoY chg | | | | | | -2.4% | 26.3% | 15.0% | |
| Difference from base case | | | | | | 25% | 25% | 25% | |

Source: FIINPro, Bloomberg, Yuanta Vietnam

Source: FiinPro, Bloomberg, Yuanta Vietnam

The main point is that overall, we believe that turnover has likely bottomed in 4Q22-1Q23. These assumptions feed through to our P&L forecasts for the brokers, but it's important to realize that net brokerage income – which is driven by market share of total transactions and ever-declining commission rates – is no longer the critical earnings driver for these companies: margin finance, prop trading, and (if you care about ROE) advisory & investment banking results are far more important to shareholder value.

Brokerage commissions remain under pressure

Pro tip: Brokers don't earn the bulk of their earnings from pure brokerage agency services. One of the particularities about covering Vietnam brokers is the dearth of research on the sector. As far as we're aware, we are the only institutional house providing official sector coverage that looks beyond SSI. As such, it is difficult to identify how we differ from the Street in terms of our fundamental outlook.

However, from what we have seen, much of the available sector analysis (mostly comprised of sales notes and media reports) goes awry, in our opinion, by focusing on gross brokerage revenues and gross proprietary gains without considering the associated brokerage costs and prop trading losses, respectively.

Our quite reasonable approach is to disaggregate the relevant costs from gross brokerage fees (and even more obviously, the relevant prop trading losses from gross prop trading gains). This results in a clearer picture of net operating results for brokerage, prop trading, and even advisory and other fees, which we believe provides a superior view of what actually drives brokerage profitability.

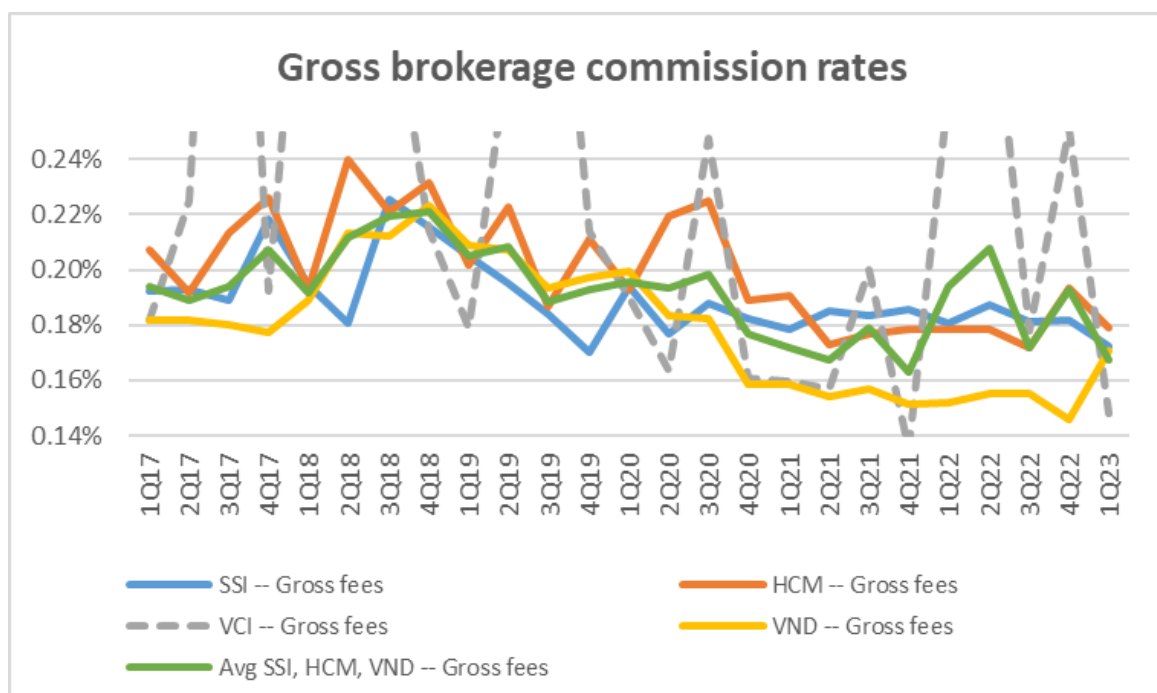
Four years after the elimination of the 15bp floor on trading commissions in February 2019, the profitability of this business remains under pressure. No zero bound exists for net brokerage commissions, and we see continued pressure turning this service into a loss-leader for margin finance and market share bragging rights. Net brokerage fees have stabilized for most of our coverage universe, but the ability to put a floor under commission rates is rather shaky.

Our methodology for estimating brokerage commission rates is imperfect and likely overstates gross commissions by a few basis points. Notably, we calculate the denominator solely from the market share of stock transactions for each broker, as announced by the exchanges; this ignores brokerage income from facilitating transactions in other securities, such as derivatives and bonds. In addition, the exchanges *only* report the top tier brokers' market share, and although our brokers always appear in the HSX's quarterly top-10 rankings, their shares of HNX and UPCom turnover is not always visible to us. The result is that our method likely overstates the gross commission rates, but we think they are more accurate for net commissions because derivative and bond agency brokerage profitability is close to zero.

As illustrated below, the average estimated gross commission rate for our four securities companies in our coverage universe declined from 22bp in 4Q18 (i.e., the last full quarter of the commission floor's existence) to 16bp in 4Q21 (the post-floor removal low) before climbing to 17bp in 1Q23. In light of the discussion on this estimation methodology discussed above, our best guess is that the actual commissions on stock transactions were likely 3-4bp lower, so roughly 13-14bp.

The volatility of calculated rates for VCI is due to investment banking-related revenues that are booked on the brokerage income line. This introduces a level of noise that makes the VCI data effectively useless for our purpose here; the +/-1-2bp sequential changes in average gross commissions in each quarter largely reflects this volatility in VCI's gross and net brokerage income. Additionally, a certain amount of quarter-to-quarter lumpiness in the other three brokers' income statements is probably attributable to the same effect.

Fig 10: Gross brokerage commissions have trended down since the mandatory floor was removed in Feb 2019



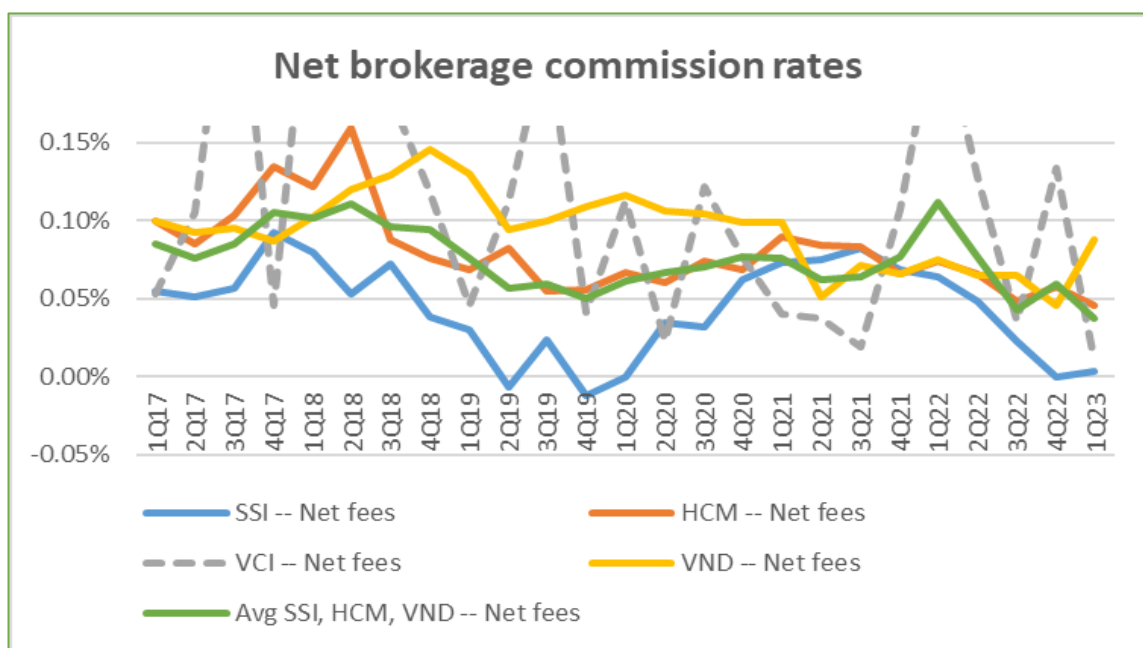
Source: FIINPro, Bloomberg, Yuanta Vietnam

The (low, and falling) profitability of pure agency brokerage becomes more clear when one examines commission rates net of brokerage-related costs. This takes a bit of effort, but not very much, as brokerage costs are also reported on the P&Ls.

The domestic media does a respectably solid job of covering the brokerage industry as journalists, but this is not a well-covered sector by the sell side. However, we are still puzzled as to why so few observers seem to bother doing the work of disaggregating brokerage expenses from brokerage commissions to understand the profitability, or lack thereof. Our view is that this would be akin to focusing solely on an industrial firm's gross revenues while ignoring COGS.

Net of costs, average commissions for our four brokers were 9bp in 4Q18 but have since fallen to as low as 4bp in recent quarters, including in 1Q23. The result for our universe is dragged especially by SSI, where net commissions 1) dipped below the "zero bound" during two quarters of 2019, 2) recovered to the high single digits as management seemingly gave up chasing its previous No.1 market share status and refocused on profitability, and then 3) fell again most recently to zero in 4Q22 and 1Q23.

Fig 11: Average net brokerage commissions have declined to 4-6bps in recent quarters

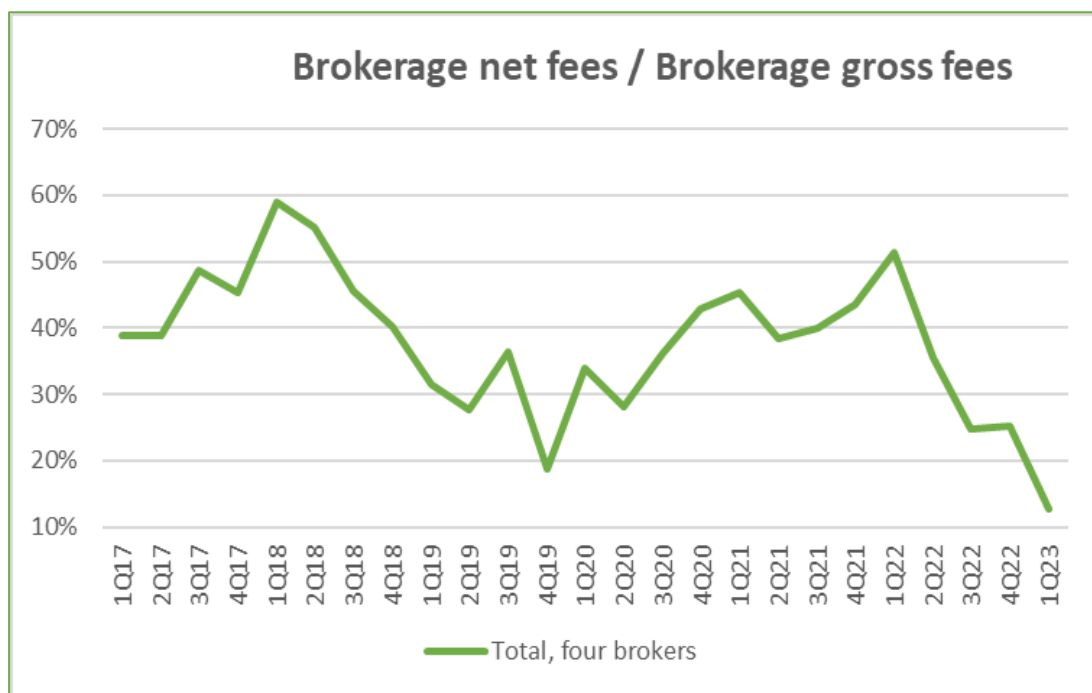


Source: FIINPro, Bloomberg, Yuanta Vietnam

As a result, average net commissions as a percentage of gross commissions (i.e., a measure of gross profit margin for the brokerage segment) for our four brokers have collapsed to the lowest ever result of just 13% in 1Q23, down from 45% at the peak of the market in 1Q21 with SSI providing most of the variance in this period. The same figure was 40% in 4Q18, which coincided with dull markets but was a period in which brokerage commissions were protected by the regulatory floor.

By contrast, VND continues to post the highest sustained brokerage profitability on this “gross margin” calculation, averaging 35% net commissions / gross commissions over 2Q22-1Q23. The same four-quarter historical average is 10% for SSI, 30% for HCM, and 30% for VCI (but VCI is problematic, as discussed above). The TTM gross margin figure for all four brokers was much higher (averaging 44%) in 2Q21-1Q22, which again just indicates the ongoing compression of the profitability of the pure agency business.

Fig 12: Brokerage profitability rose during the 2020-21 boom but has since declined sharply. Will we see a substantial increase in the stock market upcycle? We have our doubts.



Source: FIINPro, Bloomberg, Yuanta Vietnam

The limited profitability of pure brokerage calls into question the rationale for the high correlation between turnover and brokers' share prices. Acolytes of market efficiency can, if they wish, derive support from the notion that total turnover is also a reflection of business lines that are actually profitable, such as margin finance and other forms of lending, investment banking, and perhaps (in the future) asset management.

The rest of us (who perhaps harbor inner doubts about market efficiency) should simply note the correlation, and trade accordingly.

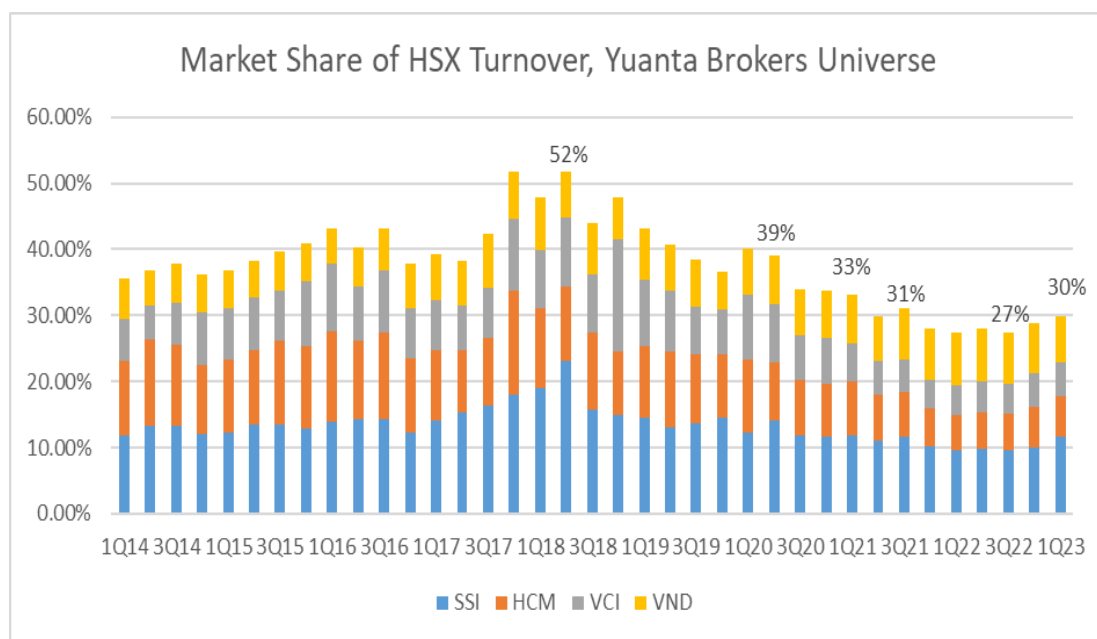
Brokerage industry fragmentation has been a key risk for sector fundamentals for years, a situation that is common across the Asian region. We have highlighted foreign brokerage houses as a key competitive threat to the incumbent domestic brokers in our coverage (see [Brokers: The Competitive Crunch](#)), but domestic bank-linked brokerages have made even greater headway at picking up market share, so the aggregate market share of our four-brokerage coverage universe has been steadily declining.

This is partially a function of the business mix, as VCI, HCM, and SSI remain the pre-eminent providers of brokerage services to institutional investors, almost all of which are foreign funds; we reckon that these three brokers together likely account for two-thirds of foreign/institutional flows. In contrast to official fears, the amplitude of foreign flows is far lower than that of Vietnam’s army of frenetic traders, whose (largely) short-termist approach to investing and lack of benchmark requirements mean that domestic punter flows are far more volatile than those evil “hot money” foreign flows.

The effect is that the relatively steady aggregate transactions by institutions tends to result in greater market share for these three major institutional brokers when the stock market turns down; by contrast, the major brokerages that are almost entirely focused on domestic investors see peak market share results when domestic risk appetites improve, which we think is happening now.

A well-established institutional franchise is a relatively wide moat. However, we would caution against assuming that this is a permanent sustainable competitive advantage as Vietnam gains ground as a viable destination for foreign investors going forward. The ever-anticipated Emerging Markets upgrade “probably three years from now” (a prediction that lends itself to being rolled over on an annual basis) will undoubtedly be extremely positive for the stock market and Vietnam Inc. But foreign brokerages (ahem) are increasingly taking notice, and the major incumbents are unlikely to retain such high levels of foreign market share forever.

Fig 13: Our brokers’ market share of HOSE trading is under pressure



Source: FIINPro, Bloomberg, Yuanta Vietnam

Fig 14: HOSE Quarterly market share

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| VPS | 2.86% | 0.00% | 0.00% | 2.87% | 3.14% | 3.08% | 4.33% | 4.91% | 5.50% | 5.87% | 7.65% | 10.84% | 13.24% | 16.40% | 16.50% | 17.12% | 17.94% | 17.59% | 18.71% | 14.81% | 15.67% |
| SSI | 18.98% | 23.08% | 15.79% | 14.99% | 14.54% | 13.15% | 13.60% | 14.49% | 12.32% | 14.13% | 11.82% | 11.65% | 11.89% | 10.97% | 11.58% | 10.28% | 9.66% | 9.81% | 9.60% | 9.96% | 11.53% |
| VND | 8.02% | 6.92% | 7.71% | 6.36% | 7.75% | 6.86% | 7.16% | 6.95% | 7.25% | 7.12% | 7.28% | 7.46% | 6.92% | 7.72% | 7.67% | 8.01% | 7.99% | 7.72% | 7.51% | 6.80% | |
| HCM | 12.15% | 11.26% | 11.51% | 9.52% | 10.82% | 11.31% | 10.59% | 9.65% | 11.03% | 8.77% | 8.43% | 7.90% | 8.23% | 7.05% | 6.79% | 5.66% | 5.24% | 5.58% | 5.58% | 6.19% | 6.32% |
| MAS | NA | 3.46% | NA | NA | NA | 3.69% | 5.27% | 5.44% | 5.25% | 4.33% | 4.49% | 4.80% | 4.41% | 4.56% | 3.94% | 4.74% | 5.01% | 5.05% | 5.85% | 6.31% | 5.90% |
| VCI | 8.75% | 10.51% | 8.88% | 17.04% | 10.05% | 9.37% | 7.04% | 6.84% | 9.70% | 8.84% | 6.65% | 6.94% | 5.62% | 5.00% | 4.90% | 4.37% | 4.42% | 4.64% | 4.49% | 5.14% | 5.13% |
| MBS | 4.15% | 3.67% | 5.93% | 5.14% | 5.36% | 4.16% | 4.54% | 4.99% | 4.70% | 4.42% | 5.11% | 4.83% | 4.07% | 3.99% | 4.45% | 4.43% | 4.52% | 4.49% | 4.73% | 4.88% | 4.64% |
| TCBS | NA | NA | NA | NA | NA | NA | NA | NA | NA | 3.49% | NA | NA | 3.60% | 4.03% | 4.81% | 5.28% | 5.55% | 5.47% | 5.23% | 3.73% | 4.35% |
| KIS | NA | NA | NA | NA | 3.11% | NA | 3.03% | NA | NA | NA | 3.78% | 3.75% | NA | 2.79% | 2.98% | 2.80% | 3.27% | 3.44% | 2.74% | 3.48% | 3.39% |
| VCBS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 3.03% |
| BIDVS | NA | NA | NA | NA | 3.11% | NA | 3.03% | NA | NA | NA | 3.78% | 3.75% | NA | 2.79% | 2.98% | 2.80% | 3.27% | 3.44% | 2.74% | 3.48% | NA |
| FPTS | 3.63% | 3.09% | 3.25% | 3.30% | NA | NA | NA | NA | 3.48% | 4.01% | 3.75% | 3.73% | 3.46% | 3.33% | 3.38% | 3.39% | 3.24% | 3.29% | 2.99% | NA | NA |

Source: HCMC Stock Exchange

Source: Ho Chi Minh City Stock Exchange (HOSE)

Fig 15: HNX Quarterly market share

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|------|--------|--------|--------|-------|-------|--------|--------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| VPS | 3.42% | NA | NA | 4.02% | 4.35% | 6.01% | 6.33% | 6.16% | 5.48% | 6.75% | 8.20% | 12.05% | 13.01% | 14.10% | 17.02% | 19.50% | 20.98% | 19.39% | 23.01% | 22.20% | 25.00% |
| VNDS | 9.13% | 8.49% | 9.64% | 9.59% | 9.66% | 7.92% | 8.17% | 8.31% | 7.56% | 7.55% | 6.78% | 6.89% | 8.56% | 9.83% | 9.98% | 10.50% | 10.47% | 10.17% | 9.00% | 9.84% | 9.25% |
| SSI | 13.61% | 11.18% | 11.70% | 9.80% | 9.90% | 11.11% | 10.37% | 7.40% | 8.42% | 7.63% | 6.89% | 7.72% | 6.76% | 7.06% | 6.69% | 6.36% | 6.74% | 7.44% | 6.33% | 7.10% | 8.33% |
| TCBS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 5.58% | 4.07% | 4.54% | 5.43% | 6.39% | 6.21% | 5.96% | 4.51% | 5.36% | |
| MBS | 7.90% | 7.38% | 7.51% | 6.72% | 6.38% | 5.97% | 5.68% | 4.96% | 5.83% | 4.77% | 4.57% | 4.35% | 4.16% | 4.18% | 4.68% | 4.47% | 4.21% | 4.22% | 4.84% | 4.98% | 4.90% |
| FPTS | 4.68% | 5.28% | 4.96% | 4.90% | 4.17% | 4.55% | 4.59% | NA | 4.55% | 5.19% | 4.16% | 3.84% | 4.01% | 3.84% | 3.67% | 3.44% | 3.41% | 3.32% | 3.04% | 3.54% | 3.55% |
| MAS | NA | NA | NA | NA | NA | 3.51% | 5.19% | 6.68% | NA | 4.94% | 5.69% | 5.25% | 6.46% | 9.34% | 7.51% | 3.09% | 3.04% | NA | 3.41% | 3.40% | 3.16% |
| BVS | NA | NA | NA | 5.39% | NA | NA | NA | 3.59% | NA | NA | 3.70% | 4.57% | 4.08% | NA | NA | NA | NA | NA | NA | 3.10% | 2.87% |
| HSC | 8.97% | 8.07% | 9.42% | 7.60% | 7.44% | 6.88% | 6.74% | 4.86% | 5.67% | 5.02% | 4.41% | 5.54% | NA | 3.46% | 3.56% | NA | NA | 3.41% | NA | NA | NA |
| VCSC | 4.80% | 4.66% | 4.15% | 4.21% | 3.46% | 3.44% | NA | NA | NA | NA | 3.33% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| SHS | 8.62% | 9.52% | 7.28% | 7.94% | 5.86% | 5.54% | 5.00% | 3.58% | 9.92% | 7.62% | 4.96% | 5.57% | 5.38% | 5.78% | 3.42% | 3.83% | 3.02% | NA | NA | NA | NA |
| KIS | NA | NA | NA | NA | NA | 4.18% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| ACBS | 4.73% | 6.78% | 3.78% | 4.33% | 4.45% | 3.64% | NA | 8.71% | 4.89% | 3.79% | 4.15% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| KBS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 4.38% | 3.75% | NA | NA | NA | NA | NA | 3.83% | 3.67% | NA |

Source: Hanoi Stock Exchange (HNX)

Fig 16: UPCoM Quarterly market share

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|------|--------|--------|--------|--------|--------|-------|-------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| VPS | NA | NA | 4.13% | 6.38% | 7.27% | 6.80% | 8.28% | 11.41% | 9.36% | 8.80% | 10.91% | 11.03% | 16.72% | 18.63% | 23.95% | 24.29% | 24.00% | 23.16% | 24.13% | 19.24% | 25.54% |
| VND | 9.26% | 11.54% | 13.28% | 8.22% | 8.42% | 9.07% | 9.27% | 12.38% | 12.59% | 9.00% | 9.57% | 8.66% | 9.00% | 8.42% | 9.56% | 9.41% | 10.01% | 10.50% | 8.74% | 7.99% | 8.62% |
| SSI | 12.26% | 8.66% | 11.10% | 11.78% | 10.74% | 9.14% | 9.82% | 8.43% | 8.15% | 9.01% | 9.60% | 6.88% | 8.33% | 8.62% | 7.37% | 7.36% | 6.67% | 7.25% | 6.08% | 5.32% | 7.48% |
| MBS | 4.99% | 4.58% | 5.66% | 5.65% | 6.83% | 6.61% | 6.65% | 7.64% | 13.65% | 6.99% | 4.39% | 4.27% | 5.43% | 4.53% | 4.81% | 4.77% | 5.15% | 4.48% | 4.70% | 4.80% | 5.55% |
| TCBS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 4.30% | 4.54% | 5.28% | 5.93% | 6.13% | 4.79% | 4.85% | 5.11% |
| FPTS | NA | NA | NA | NA | NA | NA | NA | NA | 3.12% | 4.54% | 4.85% | NA | 4.48% | 4.24% | 4.21% | 3.86% | 3.75% | 4.07% | 3.67% | 3.94% | 3.91% |
| MAS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 2.80% | NA | 3.39% |
| VCBS | 6.07% | 3.96% | NA | 4.03% | 4.19% | 5.61% | 4.11% | NA | 3.14% | 4.11% | 4.18% | 6.13% | 4.39% | 4.42% | 3.84% | 3.28% | 3.30% | 2.85% | 2.77% | NA | 3.38% |
| KBS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | 3.29% | 3.15% |
| BIDS | 5.64% | 5.14% | 5.82% | 5.49% | 7.25% | 4.33% | 4.36% | 4.12% | 3.55% | 5.64% | 4.14% | 4.01% | 3.82% | 3.62% | 3.17% | 3.18% | 2.88% | 3.23% | 2.99% | 3.24% | 3.05% |
| HCM | 6.39% | 6.30% | 5.51% | 7.59% | 6.15% | 9.20% | 8.99% | 6.28% | 7.11% | 9.18% | 6.16% | 7.57% | 4.08% | 3.55% | 3.10% | NA | NA | 2.78% | NA | NA | NA |
| VCI | 7.08% | 10.51% | 7.50% | 5.82% | 5.29% | NA | NA | 3.50% | 4.59% | 6.62% | 5.32% | NA | NA | NA | NA | 3.48% | NA | NA | NA | 4.44% | NA |

Source: Hanoi Stock Exchange (HNX)

Fig 17: Derivatives Quarterly market share

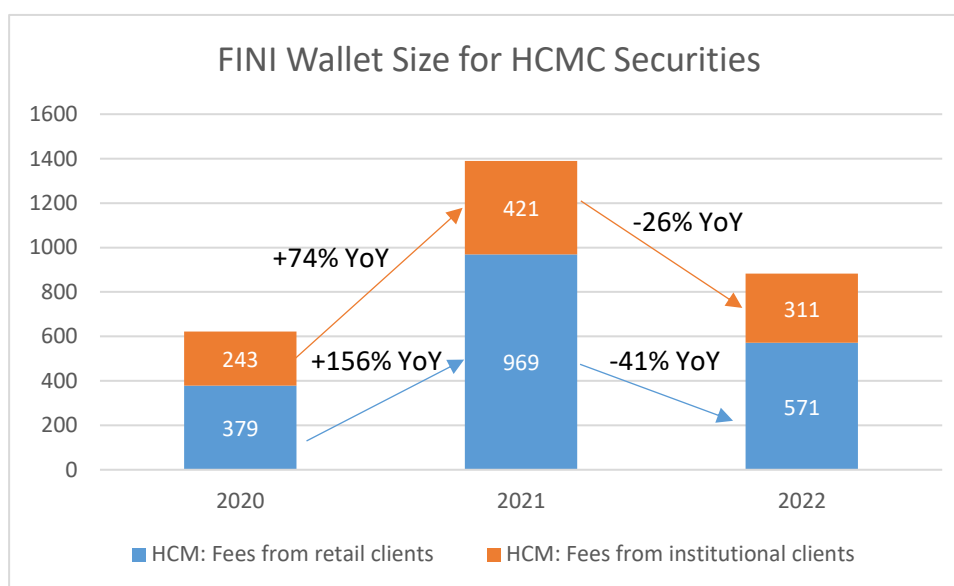
| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| VPS | 8.39% | 6.50% | 9.87% | 21.79% | 37.50% | 51.82% | 55.92% | 59.57% | 55.40% | 51.18% | 52.05% | 56.10% | 53.99% | 54.58% | 56.68% | 56.21% | 53.84% | 56.06% | 60.98% | 58.60% | 61.54% |
| HCM | 20.22% | 25.94% | 25.35% | 18.62% | 13.79% | 7.29% | 7.01% | 5.46% | 7.23% | 10.28% | 12.54% | 11.31% | 15.62% | 15.75% | 14.62% | 12.87% | 13.40% | 12.66% | 9.60% | 12.20% | 11.26% |
| SSI | 21.86% | 16.52% | 15.40% | 11.12% | 9.87% | 6.80% | 5.90% | 5.46% | 6.54% | 6.65% | 6.62% | 6.54% | 5.63% | 5.62% | 5.49% | 7.05% | 6.08% | 5.87% | 5.46% | 5.00% | 4.32% |
| VND | 25.29% | 27.35% | 23.98% | 21.49% | 15.16% | 12.57% | 12.14% | 9.40% | 10.36% | 9.93% | 8.06% | 6.88% | 6.72% | 6.98% | 6.58% | 5.95% | 6.59% | 4.90% | 3.85% | 3.90% | 3.50% |
| MBS | 16.20% | 17.22% | 15.88% | 16.77% | 12.84% | 10.65% | 10.28% | 9.87% | 8.58% | 7.96% | 6.87% | 7.24% | 5.10% | 4.80% | 4.13% | 4.09% | NA | 3.09% | 2.96% | 2.60% | 2.65% |
| MAS | NA | NA | NA | NA | 3.39% | 2.47% | 2.87% | 2.78% | 3.34% | 2.43% | 1.79% | 3.01% | 3.29% | 3.63% | 4.09% | 4.37% | 2.71% | 2.65% | 2.40% | 2.10% | |
| FPTS | 0.00% | 0.00% | 0.00% | NA | 0.00% | 1.01% | 1.42% | 1.40% | 1.44% | 1.85% | 2.17% | 2.00% | 2.63% | 2.68% | 2.39% | 1.57% | NA | 1.99% | 1.76% | 1.80% | 1.43% |
| BIDS | 5.49% | 3.84% | 4.65% | 3.65% | 2.76% | 1.98% | 1.08% | 0.98% | 1.14% | 1.35% | 1.22% | 1.15% | 1.34% | 1.12% | 1.05% | 1.18% | NA | NA | 1.91% | 1.80% | 1.43% |
| VCI | 2.54% | 2.64% | 2.84% | 1.85% | 1.63% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| SHS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| KIS | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| ACBS | NA | NA | NA | 0.64% | 1.24% | 0.93% | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| VCBS | NA | NA | 1.39% | 2.21% | 1.80% | 1.51% | 1.18% | 0.89% | NA | 1.42% | 1.34% | NA | 0.95% | 1.19% | 1.16% | 1.39% | NA | NA | NA | NA | NA |

Source: Hanoi Stock Exchange (HNX)

Market share changes are also impacted by the client base. We reckon that VCI, HCM, and SSI together probably account for 60-70% of total institutional flows. Foreign institutions account for almost the entire population of institutional investors here, as domestic institutionalization remains in its nascency. Foreign flows (in both directions) are less volatile than domestic individual trading, which means that market share for these brokers has a tendency to decline during retail investor-driven bull markets such as the one that occurred in 2020-22. Readers should be aware that the foreign institutional wallet *expanded* in aggregate terms during that period, despite the decline in foreign trading as a percentage of total transactions.

This effect can also be seen in the brokers' operating results for 2020-22. For example, HCM's gross brokerage fees in 2020 were 61% retail and 39% institutional. In 2021, fee revenue from retail clients grew by 156% to reach VND969bn, or 70% of the total. Gross brokerage fees from institutional clients were thus just 30% of HCM's total for 2021, but they were still up +74% YoY in absolute terms at VND421 bn. By contrast, brokerage fees charged to foreigners declined by -26% YoY in the bear market of 2022, while fees attributable to domestic investors fell by a more substantial -41%.

Fig 18: Institutional brokerage fees from institutional investors tend to be less volatile than revenues from individual customers



Source: FIINPro, Bloomberg, Yuanta Vietnam

Prop trading: Always a wildcard for earnings

Brokers mostly posted weak prop trading results in 1Q23, except for SSI which posted solid gains. This was a quarter in which the VNI was volatile but ended up basically flat (the index declined by -0.4% QoQ in 1Q22). Increased stock prices in 2Q23 (the VNI has gained 6.1% in 2Q up to June 23) should offer a stronger platform for stock trading outperformance, but FVPL assets also include a sizeable component of government and corporate bonds, not all of which are marked to market.

In addition, we don't intend to spend an excessive amount of our rapidly waning time on the planet trying to determine who successfully caught the bottoms / tops of the market by buying / selling assets to boost unrealized / realized gains during each quarter. The table below provides the most recent results of 1Q23, which were rather weak for VCI, VND, and HCM, but were surprisingly strong at SSI. The main point is implied by the QoQ and YoY percentage changes: the results tend to be highly volatile.

Fig. 19: Proprietary trading results in 1Q23 (VND bn)

| | <u>SSI</u> | <u>HCM</u> | <u>VCI</u> | <u>VND</u> |
|--|------------|------------|------------|------------|
| Realized returns (VND bn) | 172 | -2 | 54 | 200 |
| <i>Chg QoQ</i> | 168% | -121% | 175% | -179% |
| <i>Chg YoY</i> | -28% | -102% | -55% | 27% |
| Unrealized returns (VND bn) | 69 | 27 | -12 | -41 |
| <i>Chg QoQ</i> | <i>nmf</i> | <i>nmf</i> | <i>nmf</i> | <i>nmf</i> |
| <i>Chg YoY</i> | <i>nmf</i> | <i>nmf</i> | -178% | -116% |
| Total prop trading returns (VND bn) | 241 | 25 | 42 | 159 |
| <i>Chg QoQ</i> | 290% | 317% | <i>nmf</i> | <i>nmf</i> |
| <i>Chg YoY</i> | 91% | -72% | -69% | -61% |

Note: "*nmf*" indicates that returns during the base period were negative (i.e., a loss).

Source: Company data, Yuanta Vietnam

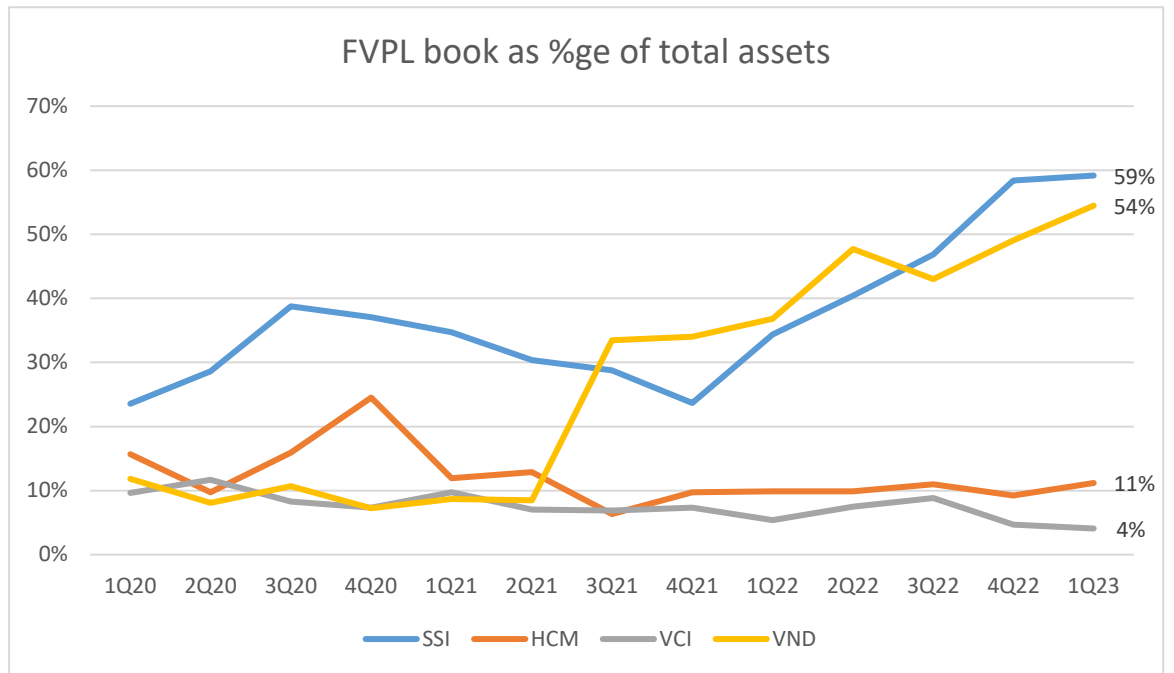
Forecasting proprietary trading results of third-party institutions is the most dismal of pseudo-sciences in existence, in our opinion. That view is based on two decades of experience covering stock brokers, stock exchanges, and various asset management companies across East Asia. In all that time, we haven't come up with a failsafe estimation model for quarterly trading returns; and, we suspect, neither will you.

Modest stock market gains in 2Q23 (the VNI increased by +6.1% from March 31 to June 23) should provide for support for reasonable albeit unexciting equities trading results. However, the decline in interest rates could provide an even greater mark-to-market P&L boost (e.g., the 5-year government bond yield has fallen by c.1ppt to around 2.6% in 2Q23 as of June 20). These recent market moves suggest a solid sequential improvement – and if our bullish strategy call for 2H23 turns out to be right, then 1Q23 prop trading results may have been the trough for this year.

However, brokers prop trading results do not coincide exactly with stock index returns. Brokers are among the most flow-aware traders in the market and should be nimble in reducing risk ahead of bad times while taking advantage of bull markets. In other words, brokers don't simply buy and hold the index or hang on to low-volatility government bonds.

Their quarterly prop trading results are typically lumpy, and they differ from each other by asset allocations, trading strategies, and use of the FVPL book to support investment banking, market-making, and derivatives business risk management. Unfortunately, the latter includes unlisted corporate bonds which is a critical risk for any broker that has engaged in the repurchase of problematic bonds that they previously underwrote and sold to customers.

Fig 20: Prop books vary substantially in terms of balance sheet allocation



Source: FIINPro, Bloomberg, Yuanta Vietnam

Among the brokers in our coverage, we believe that the potential credit risk from unlisted bond holdings is most acute for VND by a wide margin. However, shareholders of SSI should at least try to understand (to the extent that this is possible) the risks as well, in our opinion.

Total FVPL assets in 1Q23 were slightly higher in relative terms at SSI (59% of total assets) than at VND (54% of total assets).

Both figures are clearly far higher than the relative balance sheet focus of the 1Q23 prop books at HCM (11% of total assets) and VCI (4%).

To put it as clearly as possible, serious blowups on the proprietary trading desks at HCM and VCI should *not* be a major concern for investors in these two securities companies, in our view.

We are aware that this is a sensitive topic, but any proper analysis of the brokers' publicly available financial statements will reveal the heavy balance sheet proportion of unlisted bonds for both VND and SSI – a particularly critical consideration given the ongoing corporate bond crisis.

The back pages of the 2022 financial statements reveal the composition of these “held-for-trading” investment portfolios, but only in the annual and interim (i.e., midyear) detailed financial statements. As such, we think that the interim financial statements available in July should be of particular interest this time around, given the implications of the ongoing corporate bond crisis.

As discussed below, our view is that the risks are highest for VND. However, limited transparency on the composition of their unlisted bond exposure means that we might be overstating the risks. We would be delighted if management wishes to provide more information. In general, we don't think it controversial to classify property developer and energy bonds as most at risk in the current environment. By contrast, we don't view bank-issued bonds as carrying a high level of credit risk.

VND – Prop book breakdown. VND's FVPL assets as at 1Q23 were VND20.2 trillion (up +6% QoQ and +28% YoY). This represents 54% of total assets and 138% of shareholders' equity as of March 31, 2023.

The latest full breakdown of VND's prop book is dated Dec 31, 2022, when the total prop book was smaller, at VND19.1 trillion or 49% of total assets. VND's disclosures indicate that corporate bonds reached VND8.1 trillion as of 4Q22, up by +17% HoH and +365% YoY.

That works out to 42% of the prop book (up from 14% a year earlier), 21% of assets (vs. 5% at 4Q21), and 56% of equity (vs. 18% in Dec 2021).

Most of this expansion in corporate bonds occurred during 1H22, when the corporate bond holdings on the FVPL book increased by 296% to reach VND6.9 trillion, as illustrated in the table below.

| Prop book breakdown -- VND | | | |
|------------------------------------|---------------|---------------|---------------|
| FVPL assets | 2021 | 1H22 | 2022 |
| Corporate bonds | 1,731 | 6,870 | 8,053 |
| Certificates of deposit | 5,829 | 9,647 | 7,314 |
| Listed bonds | 1,025 | 788 | 734 |
| Credit inst bonds | 1,668 | 1,875 | 1,716 |
| Listed shares & funds | 1,889 | 1,685 | 878 |
| Unlisted shares & funds | 349 | 289 | 367 |
| Shares for warrant hedging | 124 | 75 | - |
| Total | 12,616 | 21,229 | 19,062 |
| <i>As %ge of FVPL book</i> | 2021 | 1H22 | 2022 |
| <i>Corporate bonds</i> | 13.7% | 32.4% | 42.2% |
| <i>Certificates of deposit</i> | 46.2% | 45.4% | 38.4% |
| <i>Govt bonds</i> | 8.1% | 3.7% | 3.9% |
| <i>Credit inst bonds</i> | 13.2% | 8.8% | 9.0% |
| <i>Listed shares & funds</i> | 15.0% | 7.9% | 4.6% |
| <i>Unlisted shares & funds</i> | 2.8% | 1.4% | 1.9% |
| <i>Warrant hedging</i> | 1.0% | 0.4% | 0.0% |
| <i>check</i> | 100.0% | 100.0% | 100.0% |

Source: Company data, Yuanta Vietnam

These FVPL securities are “held for trading” in the accounting parlance and thus, in theory, should be marked to market both on the P&L and balance sheet. However, all the brokers in our coverage carry their corporate bonds (or “unlisted bonds”, as described by some of the other brokers) at cost with no adjustment for market pricing despite them being classified under “assets held for trading”.

This may be justified by the fact that a systemic pricing mechanism does not exist for unlisted bonds. However, we struggle to believe that cost basis is an accurate measure for the price that these assets would fetch today.

VND’s disclosures do not reveal the composition of its corporate bond holdings, and we will not engage in speculation in this report. However, the company offers laudable transparency by separately reporting its corporate bonds from its bank-issued bond holdings, which total VND1.7 trillion and are of no real concern to us – but this is separate from the VND8.1 trillion in corporate bonds.

7.4 Change in market values of financial assets

Currency: VND

| Financial assets | Cost | Revaluation difference | | Revaluation value |
|--|---------------------------|------------------------|--------------------------|---------------------------|
| | | Increase | Decrease | |
| As at 31 December 2022 | | | | |
| FVTPL | | | | |
| Listed shares and fund certificates | 664,190,896,310 | 290,514,154,903 | (76,231,181,503) | 878,473,869,710 |
| Unlisted shares and fund certificates | 405,930,554,525 | 26,463,261,216 | (65,322,245,112) | 367,071,570,629 |
| Government bonds | 734,295,000,000 | - | - | 734,295,000,000 |
| Credit institutions bonds | 1,715,565,017,124 | - | - | 1,715,565,017,124 |
| Corporate bonds | 8,053,053,378,628 | - | - | 8,053,053,378,628 |
| Certificates of deposits | 7,313,681,253,465 | - | - | 7,313,681,253,465 |
| Total | 18,886,716,100,052 | 316,977,416,119 | (141,553,426,615) | 19,062,140,089,556 |
| As at 31 December 2021 | | | | |
| FVTPL | | | | |
| Listed shares and fund certificates | 1,154,018,271,325 | 753,402,392,163 | (18,911,943,249) | 1,888,508,720,239 |
| Listed shares used as hedging for covered warrants | 117,102,777,369 | 9,709,007,530 | (2,598,663,108) | 124,213,121,791 |
| Unlisted shares and fund certificates | 299,099,033,271 | 74,958,686,834 | (24,764,663,318) | 349,293,056,787 |
| Government bonds | 1,025,491,500,000 | - | - | 1,025,491,500,000 |
| Credit institutions bonds | 1,667,843,000,682 | - | - | 1,667,843,000,682 |
| Corporate bonds | 1,731,336,850,372 | - | - | 1,731,336,850,372 |
| Certificates of deposits | 5,829,340,315,474 | - | - | 5,829,340,315,474 |
| Total | 11,824,231,748,493 | 838,070,086,527 | (46,275,269,675) | 12,616,026,565,345 |

Source: VNDirect's 2022 audited financial statements

A brief news search (aided perhaps by Google Translate for most of our readers) would allow for an educated guess as to the composition of these corporate bonds. We have no view on Trung Nam Group or VND's relationship with / exposure to the company, but despite the sensitivities involved we can't simply ignore the newsflow that surrounds this topic.

For a thorough example of a third-party media article on this subject, please see [here](#); and for a separate media report regarding VND management's discussion of the issue during their recent June AGM, please see [here](#).

Based on media reports and Trung Nam's disclosures, we estimate that VND may have assisted Trung Nam Dak Lak 1 Wind Power in the issuance (in 2021) of 9 bonds that have yet to mature and that total VND9.8 trillion, and another 2 bonds issued in 2021 and 2022, respectively, by Trung Nam Group that total VND4 trillion.

As noted above, we do not wish to overstate the risks given that --

- 1) Something less than 100% of VND's direct bond holdings are likely attributable to Trung Nam,
- 2) We have no view on Trung Nam's viability or debt sustainability and make no judgements as to the value of its bonds, and
- 3) Perhaps most importantly, this issue has been well known to investors on the ground in Vietnam for over a year now, as evidenced by the stock's massive swings over the past 18 months. By contrast, we are guessing that investors in the numerous offshore ETFs that hold VND as a benchmark component are blissfully unaware.

How then do we justify our BUY call on VND? We believe that management has learned an expensive lesson (as suggested by the AGM report linked above). In addition, we believe that the stock's valuation encapsulates these risks and expect VND to muddle through the problem over time. Meanwhile, our view remains that the stock is the best pure play on retail investor sentiment of any stock in our coverage.

Investors can decide for themselves if we are right in our bullish thesis on VND, or if the bond exposure risks outweigh considerations of potential upside.

The above discussion pertains only to the prop book, but FVPL assets alone do not necessarily encompass all investments by a brokerage firm. For the record, VND reports VND4.3 trillion in HTM securities (24% of total assets) as at 1Q23. Assuming no change in HTM allocations from the 4Q22 full financial statements, these assets are entirely short-term bank deposits, which should be of no real

concern for shareholders. In addition, the company has reported zero AFS assets on its balance sheet for the past seven quarters.

SSI – Prop book breakdown. SSI has a relatively large weighting of investment assets on its balance sheet, including a FVPL asset / total asset ratio that is actually slightly higher than that of VND. This includes a higher level of “unlisted bonds” which appears scary at first glance, but after a bit of digging by intrepid banks analyst Tanh Tran, we now believe that these assets mostly comprise bank-issued bonds that are of basically no concern from a practical credit risk management perspective.

Nevertheless, balance sheet analysis is critical, especially during the ongoing bond crisis, and we eagerly await SSI’s interim 1H23 financial statements at the end of July. The company’s FVPL securities book represented 59% of total assets as at 1Q23, the highest in our brokerage coverage universe, when it reached VND31.2 trillion (up +2% QoQ and +81% YoY).

Looking back at the latest detailed breakdown in the yearend 2022 financials, SSI’s FVPL book totaled a similar level of VND30.5 trillion or 58% of total 4Q22 assets. Unlike VND, SSI does not report unlisted corporate bonds and unlisted bank-issued bonds separately, but perhaps it should. Total “unlisted bonds” as at 4Q22 were VND12.2 trillion (up +187% HoH / +279% YoY) and representing 40% of the total prop book, 23% of total assets, and 55% of total shareholders’ equity.

| Prop book breakdown -- SSI | | | |
|------------------------------------|---------------|---------------|---------------|
| FVPL assets | 2021 | 1H22 | 2022 |
| Unlisted bonds | 3,210 | 4,233 | 12,176 |
| Certificates of deposit | 6,773 | 12,489 | 16,437 |
| Listed bonds | 100 | - | 785 |
| Credit inst bonds | <i>na</i> | <i>na</i> | <i>na</i> |
| Listed shares & funds | 1,102 | 640 | 505 |
| Unlisted shares & funds | 85 | 126 | 559 |
| Shares for warrant hedging | 753 | - | 32 |
| Total | 12,023 | 17,488 | 30,493 |
| As %ge of FVPL book | 2021 | 1H22 | 2022 |
| <i>Unlisted bonds</i> | 26.7% | 24.2% | 39.9% |
| <i>Certificates of deposit</i> | 56.3% | 71.4% | 53.9% |
| <i>Govt bonds</i> | 0.8% | 0.0% | 2.6% |
| <i>Credit inst bonds</i> | <i>na</i> | <i>na</i> | <i>na</i> |
| <i>Listed shares & funds</i> | 9.2% | 3.7% | 1.7% |
| <i>Unlisted shares & funds</i> | 0.7% | 0.7% | 1.8% |
| <i>Warrant hedging</i> | 6.3% | 0.0% | 0.1% |
| <i>check</i> | 100.0% | 100.0% | 100.0% |

Source: Company data, Yuanta Vietnam

Scared yet? Well, perhaps you shouldn’t be, based on the content of [this article](#), which summarizes management’s statements at the AGM (an event to which we have never been invited despite covering the company for over four years). The summary is worth a thorough read for SSI’s shareholders, but the main point for this discussion is that management verbally disclosed that 85% of the unlisted bonds in question are attributable to commercial banks (mostly Big 4 state banks), while the problematic real estate industry accounts for just 0.2%, and another 15% from the energy sector.

Assuming, as we do, that Vietnam banks – and especially the SOE banks – do not represent a major credit risk, then the potentially risky exposure of SSI’s unlisted bonds (energy and property issuers) as at 4Q22 is much smaller at just VND1.8 trillion (6% of the FVPL book, 3.5% of total assets, and 8% of shareholders’ equity).

These exposures are not substantial enough to keep us awake at night, but shareholders should consider these bond holdings and monitor their evolution in SSI’s upcoming interim results anyway.

SSI's AFS portfolio was marked at VND409bn or 1% of assets as at 1Q23, and the AFS book was VND382bn or 1% of assets as at 4Q22. Based on the 4Q22 detailed disclosures, AFS assets were all equities:

- 1) VND122bn in listed shares, including a VND72bn position in the HOSE-listed pharmaceutical company OPC (Not rated); and
- 2) VND237bn in non-listed equities marked at cost.

The unlisted equities quantified above in Item 2 include SSI's residual holdings in PAN (VND53bn) and Concung JSC (VND40bn). These two companies probably account for more focus among SSI shareholders than they should, as SSI's exposure to the firms is no longer substantial: the two companies have not been associate investments of SSI since 2018.

Finally, SSI's HTM assets totaled VND4.6trillion or 9% of assets in 1Q23. Based on the 4Q22 disclosures, these assets are entirely comprised of short-term term deposits and CDs.

We aren't worried about such assets from a credit risk perspective. We also see very low/zero liquidity risk from SSI's HTM portfolio because the term deposit maturities are all less than 12 months; and in the real world, Vietnam bank term deposits inherently have an embedded put option – SSI can always ask for their cash back before the deposits mature, if needed.

HCM – Prop book breakdown. HCM's investment activities are relatively low risk, in our view. FVPL assets as of 1Q23 were just VND1.3 trillion (up +11% QoQ / down -29% YoY), representing 11% of total assets.

As of 4Q22, the largest component of the FVPL book by far was a VND1.2 trillion bond issued by BIDV (BID VN, HOLD-Underperform), representing 85% of the total prop book and 8% of total assets. Although BID is not our favorite stock among the banks, the issuer is a state-owned bank with sizeable capital and we view its credit risk to be the same as that of the sovereign (essentially, zero).

HCM has no corporate bonds in its holdings.

The other c.15% of the prop book comprises blue chip stocks and ETFs. Management states that their prop book does not take directional bets and is used mainly to facilitate their other businesses, including warrants hedging and market making services. This statement is supported by the balance sheet disclosures.

Long experience as investors and employees of brokerage houses suggests a degree of skepticism is warranted about such talk. However, we think the evidence of the company's financial performance supports management's statements, as

- 1) The composition of the equities mix as of the balance sheet dates typically comprises moderate weightings in VN30 components; and
- 2) HCM's mark-to-market and realized quarterly trading results tend (in aggregate) to exhibit relatively low volatility from quarter to quarter, which would not be the case if the prop traders were swinging for the fences in between the balance sheet dates.

This low-Beta profile can be a double-edged sword because HCM's prop book results typically underperform directional trading results during bull market periods, which might result in something other than exaltation among all of HCM's stakeholders. Investors can decide for themselves whether they want to participate in trading risk by holding the more leveraged brokers, or else avoid it by investing in HCM.

Are they hiding the risky stuff in HTM & AFS investments? No, nothing to see here -- HCM has reported zero assets in the HTM and AFS categories since 1Q18, meaning that its investments are all on in the held-for-trading portfolio and are marked to market every quarter on the balance sheet and P&L. From a pure operational perspective, we believe that the risks of balance sheet investments at HCM are the lowest among any of the brokers in our coverage.

VCI – Prop book breakdown. We believe that VCI is engaged in a more strategic approach in leveraging its balance sheet in service to its own hedging and market-making activities, as well as in support of its investment banking franchise, which we think investors agree enjoys a strong leadership position among domestic institutions in Vietnam.

As at 1Q23, VCI's prop trading book was 4% of total assets at VND612 billion (-8% QoQ / -34% YoY), the lowest prop trading position among our brokers. Most (90%) of the prop book was corporate bonds issued by PC1 (BUY – covered by Binh Truong), PDR (Not rated), and MSN (Not rated). Total exposure to PDR bonds in this segment was VND226bn, or just 1.6% of total assets.

VCI's available-for-sale book is much larger than its FVPL assets, at VND5.0 trillion or 33% of total assets as of 1Q23 (+33% QoQ / -8% YoY). Looking back at the detailed financials of 4Q22, these assets largely comprise sizeable positions in well-covered equities such as KDH (BUY), MSN, HDG, and MWG.

However, the largest position on VCI's AFS book by far is the VND1.6 trillion position in International Dairy Products (IDP – Not rated and no, we don't have a view) – which by itself is more than twice the size of VCI's entire prop trading book. This position represents about 11% of assets, 24% of equity, and unrealized gains of VND1.2 trillion.

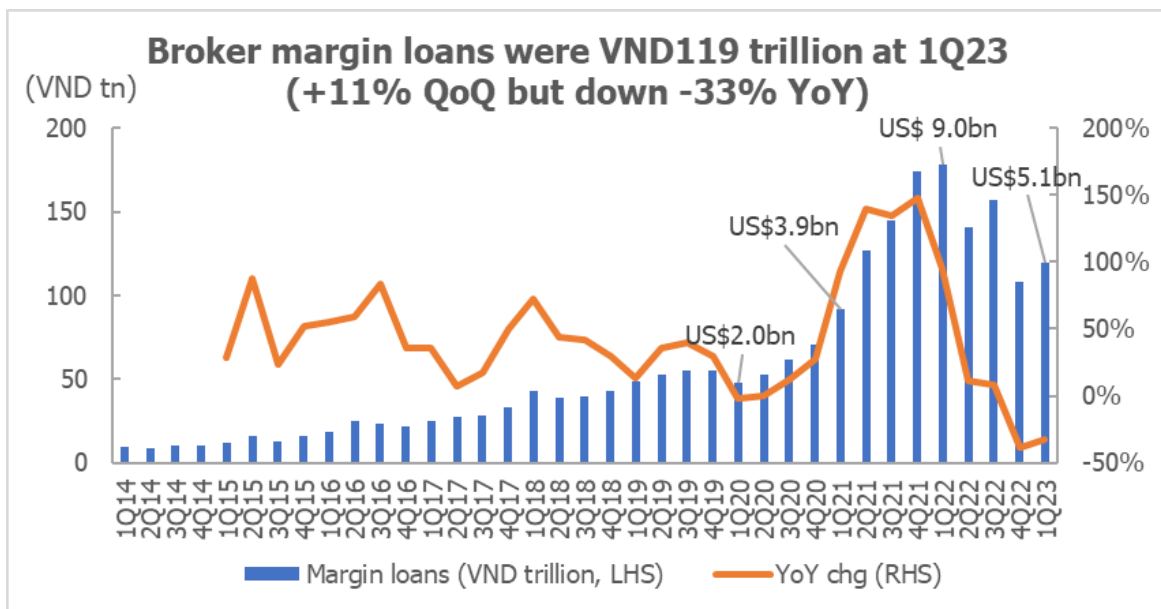
Note that the IDP market gains have been (correctly) marked on VCI's balance sheet but not on its P&L; in other words, crystalizing these gains today would have no effect on the company's equity, but the realized profits would flow through its P&L. Given the degree of domestic focus on this investment, an eventual divestment might be a solid “sell-the-news” trading opportunity for short-term investors.

Last, VCI's HTM assets totaled VND888bn – a suspiciously lucky number – or 6% of total assets as at 1Q23. In 4Q22, when HTM assets were VND886bn (hmmm), 98% of these assets were term deposits with maturity dates in 2023 (again, no real concern to us) and 2% security deposits for covered warrants.

Margin lending: The key earnings driver for retail brokerage

Margin lending, not pure agency brokerage, is the primary profit driver of the retail broking business. Depending on funding costs and within the limits of their own regulatory capital constraints, brokers enjoy c.8-12% gross interest income (through the cycle) on a substantial proportion of their balance sheets. In our view, this represents the key profitability driver for retail brokers and one that both offsets and is enhanced by the competitive crush on pure agency business, which is rapidly turning into a loss-leader for margin lending.

Fig 24: Margin loans have both supported and been supported by Vietnam's booming stock markets.

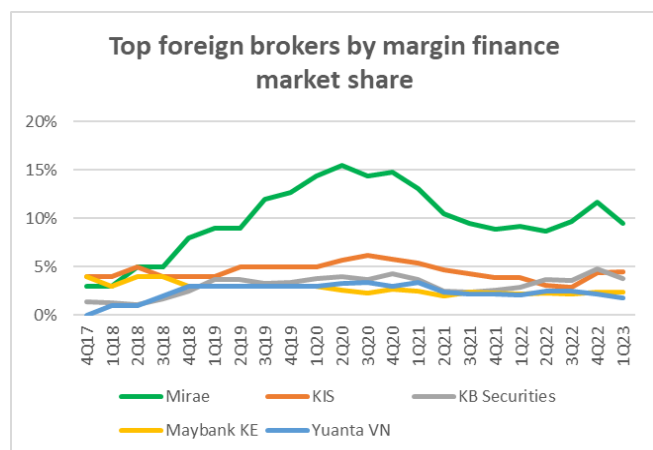


Company data, Yuanta Vietnam

This is a crucial business for most brokers given that it is at least *somewhat* insulated from price competition (unlike agency brokerage) and cyclical swings in stock prices (unlike prop trading). The regulatory structure is such that no single brokerage can dominate margin lending because no single broker has sufficient capital to do so.

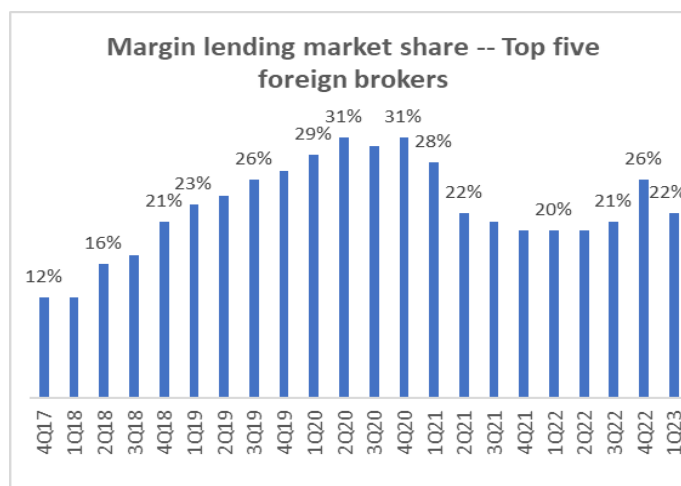
In boom periods such as 2020-21, margin lending allocation becomes a seller's market for the securities firms with available capital, as only brokers with free balance sheet are positioned to provide incremental margin loans to clients.

Fig 25: Foreign brokers continue to play an outsized role in margin lending...



Source: FiinPro, Yuanta Vietnam

Fig 26: ...but their market share has ebbed over the past two years.



Aggregate market share of Mirae, KIS, KB, Yuanta, and Maybank-Kim Eng Securities (KIS's 4Q20 market share is our estimate).
Source: FiinPro, Yuanta Vietnam

Fig 27: Margin Lending Quarterly market share (Top 20 brokers)

| Margin Lending Market Share -- Top 20 brokers | | | | | | | | | | | | |
|---|-------|------|-------|-------|-------|-------|-------|-------|-------|------|-------|------|
| | 4Q17 | 4Q18 | 4Q19 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
| Mirae Asset | 3.0% | 8.0% | 12.7% | 13.1% | 10.5% | 9.5% | 8.9% | 9.2% | 8.7% | 9.7% | 11.7% | 9.5% |
| SSI | 17.0% | n/a | n/a | 11.9% | 12.3% | 12.5% | 13.1% | 11.6% | 10.3% | 9.8% | 10.1% | 9.2% |
| TCBS | n/a | 3.2% | 3.2% | 6.2% | 6.4% | 8.0% | 8.4% | 9.0% | 9.9% | 9.5% | 7.8% | 7.8% |
| VND | 9.1% | 5.8% | 5.0% | 6.6% | 6.7% | 7.6% | 8.3% | 9.0% | 8.0% | 8.1% | 8.1% | 7.0% |
| VPS | n/a | 3.3% | 4.3% | n/a | 5.8% | 4.4% | 5.2% | 5.0% | 6.2% | 5.1% | 5.5% | 5.9% |
| HCM | 13.6% | 7.4% | 8.5% | 9.7% | 7.2% | 6.7% | 7.9% | 8.2% | 8.0% | 7.0% | 6.9% | 5.8% |
| KIS | 4.0% | 4.5% | 5.1% | 5.4% | 4.7% | 4.3% | 3.9% | 3.9% | 3.1% | 2.9% | 4.4% | 4.5% |
| VCI | 10.0% | 6.2% | 5.4% | 5.0% | 4.3% | 4.3% | 4.3% | 4.4% | 4.5% | 4.1% | 4.6% | 4.2% |
| KBS | 1.4% | 2.5% | 3.4% | 3.7% | 2.5% | 2.4% | 2.6% | 2.9% | 3.7% | 3.6% | 4.8% | 3.8% |
| MBS | n/a | 5.4% | 4.7% | 4.5% | 3.4% | 4.2% | 3.5% | 3.6% | 4.0% | 4.2% | n/a | 3.1% |
| BIDVS | 1.8% | 1.7% | 1.8% | 2.3% | 2.2% | 2.0% | 1.5% | 1.8% | 1.7% | 1.6% | 2.8% | 2.8% |
| FPTS | 4.0% | 3.6% | 3.1% | 3.4% | 2.9% | 2.8% | 2.9% | 2.9% | 2.8% | 2.8% | 3.2% | 2.8% |
| VCB | 2.9% | 1.9% | 2.2% | 2.6% | 2.3% | 2.3% | 1.9% | 2.4% | 2.4% | 2.0% | 2.8% | 2.5% |
| Maybank KE | 3.8% | 3.1% | 3.2% | 2.5% | 2.0% | 2.4% | 2.3% | 2.2% | 2.3% | 2.2% | 2.4% | 2.4% |
| SHS | 6.1% | 4.2% | 2.8% | 2.6% | 3.4% | 2.5% | 2.8% | 2.5% | 1.9% | 2.0% | 2.1% | 2.2% |
| Phu Hung | 2.0% | 2.7% | 2.0% | 1.9% | 1.6% | 1.9% | 1.8% | 1.7% | 1.8% | 2.0% | 1.8% | 2.1% |
| Yuanta | 0.4% | 2.8% | 3.0% | 3.4% | 2.4% | 2.2% | 2.2% | 2.1% | 2.5% | 2.5% | n/a | 1.8% |
| Shinhan | n/a | n/a | n/a | n/a | 0.4% | 0.4% | 0.4% | n/a | n/a | 1.3% | 1.4% | 1.7% |
| BVS | 3.3% | 3.4% | 2.3% | 2.4% | 2.2% | 2.0% | 1.5% | 1.6% | 1.6% | 1.5% | 1.7% | 1.7% |
| Viet Dragon | 3.6% | 3.2% | 2.4% | 2.1% | 1.4% | 1.8% | 1.3% | 1.7% | 1.5% | 1.8% | 1.9% | 1.6% |

Source: FiinPro, Yuanta Vietnam

We calculate average gross yields on market finance of about 12.0% in 1Q23 for the four brokers that we follow. We calculate the yields in the table below by dividing the brokers' reported gross income (a flow) from the average margin lending taken from the quarterly balance sheets (two snapshots), resulting in less-than-perfect margin loan yield estimations.

This analysis necessarily results in potential distortion due to normal seasonality effects, window dressing behavior, and fluctuations in day-to-day margin lending during periods of high market volatility. A more accurate approach would use the actual average margin loans during the quarter as the denominator, but unfortunately this information is not available to us.

Fig 28: Quarterly margin finance gross yields

| | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| SSI | 12.1% | 12.4% | 10.8% | 10.8% | 8.8% | 9.7% | 9.9% | 10.0% | 10.6% | 10.1% | 10.8% | 10.7% | 10.4% | 12.2% |
| HSC | 11.4% | 11.3% | 10.8% | 10.6% | 10.6% | 10.2% | 12.0% | 13.4% | 12.7% | 10.6% | 10.2% | 11.5% | 11.1% | 12.5% |
| VCSC | 12.5% | 11.8% | 10.6% | 8.8% | 10.3% | 9.2% | 10.5% | 10.5% | 10.3% | 9.9% | 10.0% | 10.4% | 10.9% | 12.0% |
| VND | 18.1% | 15.0% | 13.5% | 11.9% | 12.3% | 12.3% | 12.3% | 12.1% | 13.0% | 11.4% | 11.8% | 12.3% | 12.2% | 11.2% |
| Average | 13.5% | 12.6% | 11.4% | 10.5% | 10.5% | 10.3% | 11.2% | 11.5% | 11.7% | 10.5% | 10.7% | 11.2% | 11.2% | 12.0% |

Source: Company data, Yuanta Vietnam

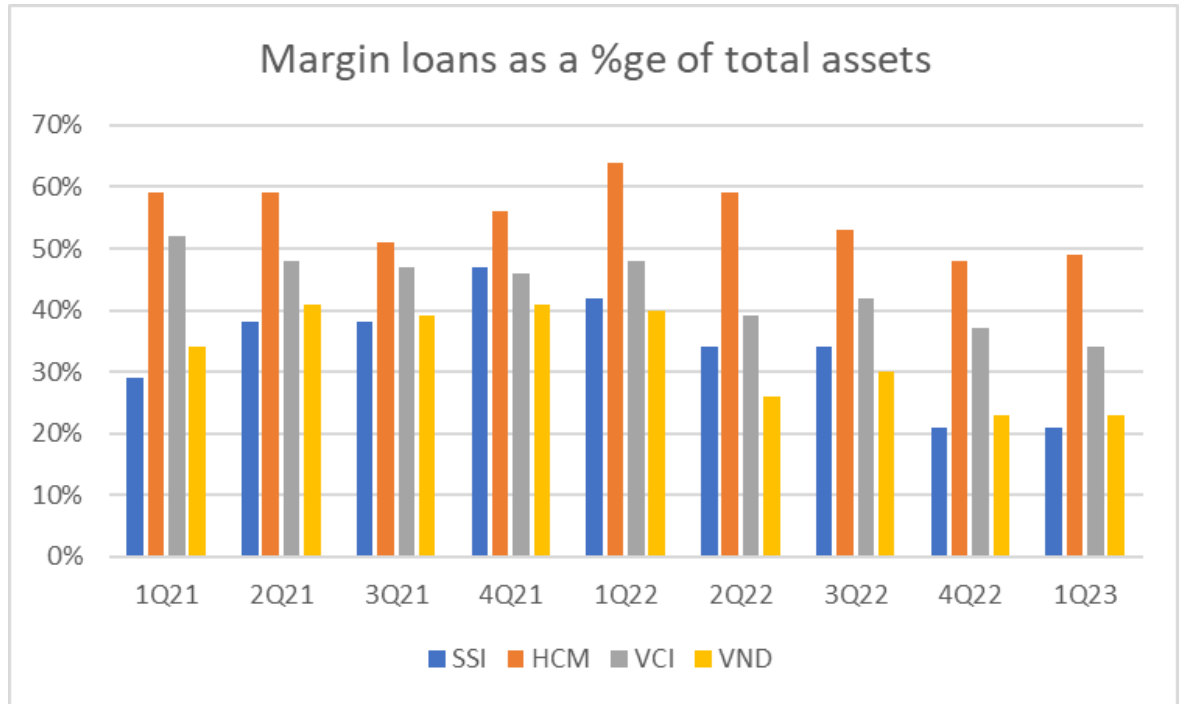
Fig 29: Margin lending interest / gross revenues

| | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
|---------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| SSI | 32% | 54% | 12% | 20% | 22% | 30% | 33% | 39% | 41% | 48% | 52% | 51% | 49% | 31% |
| HSC | 64% | 68% | 45% | 63% | 78% | 49% | 66% | 64% | 102% | 84% | 77% | 108% | 104% | 94% |
| VCSC | 32% | 63% | 18% | 36% | 19% | 25% | 24% | 34% | 25% | 33% | 40% | 67% | 74% | 74% |
| VND | 34% | 37% | 24% | 16% | 21% | 21% | 36% | 35% | 33% | 40% | 48% | 78% | 71% | 38% |
| Average | 41% | 55% | 25% | 34% | 35% | 31% | 40% | 43% | 50% | 51% | 54% | 76% | 74% | 59% |

Source: Company data, Yuanta Vietnam

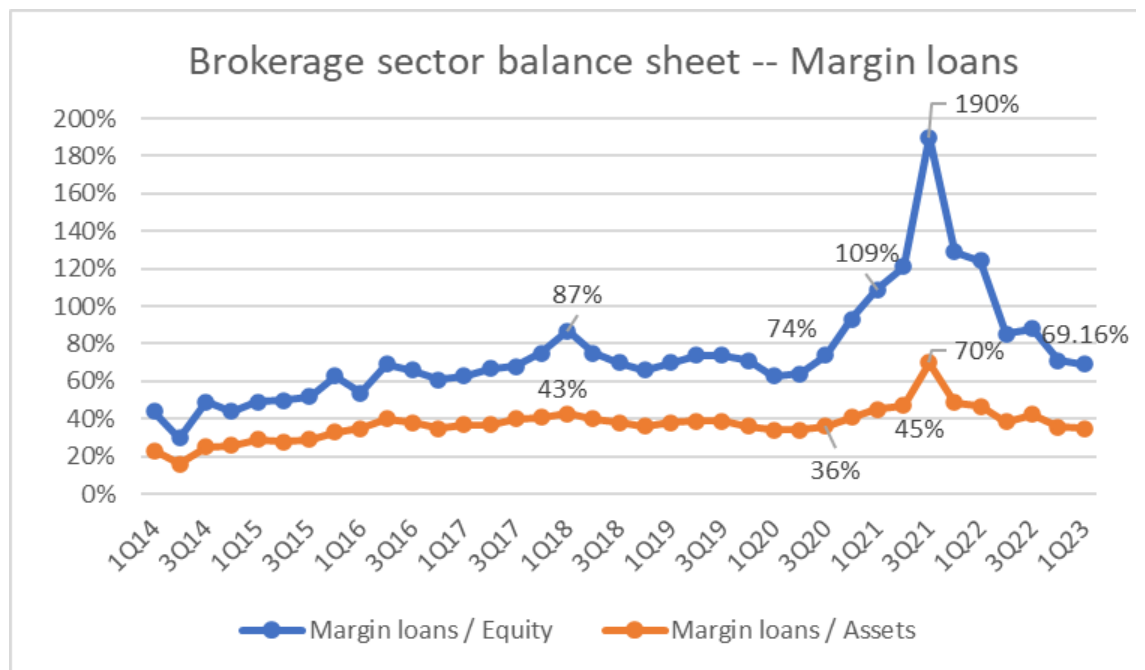
Margin loans account for 32% of simple average assets among our four brokers, but a wide range exists among the individual companies that reflects their disparate business strategies, in our view. For example, SSI's 1Q23 margin lending market share of 9.2% is greater than HCM's 5.8% market share, but HCM's balance sheet asset allocation to margin lending is 49% vs. just 21% at SSI.

Fig 30: HCM and VCI had the highest balance sheet exposure to margin finance as at 1Q22 among our four brokers



Source: FIINPro, Bloomberg, Yuanta Vietnam

Fig 31: 1Q23 Margin loans were just 69% of sector equity



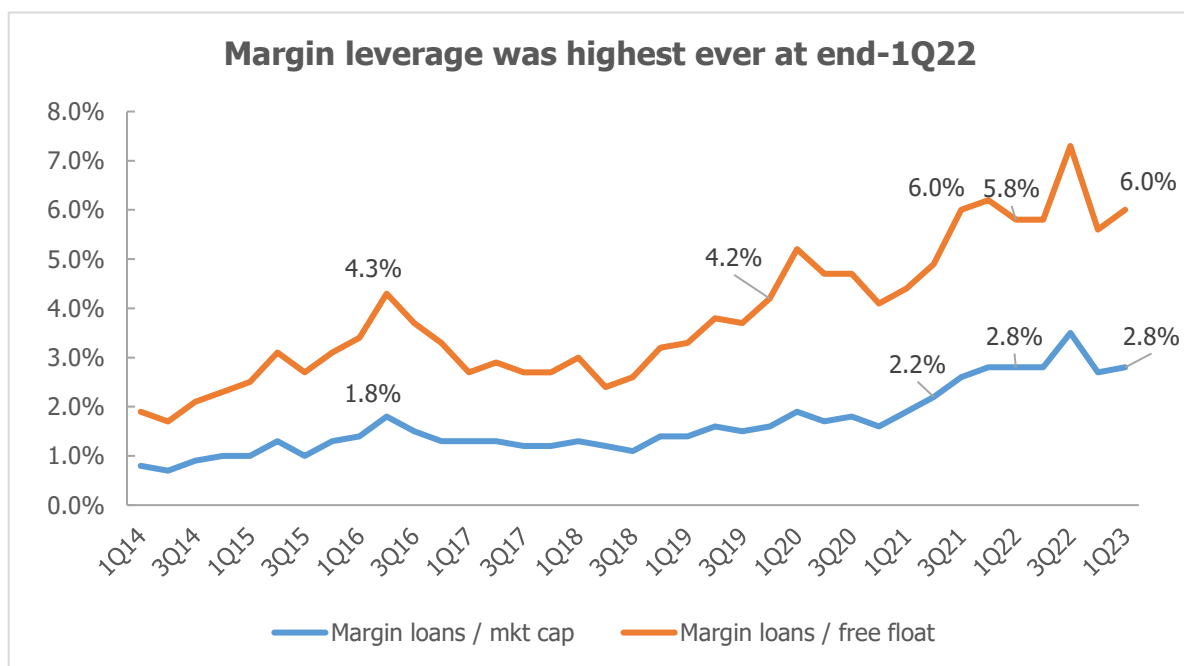
Source: HOSE, HNX, Bloomberg, Company data, Yuanta Research

Margin lending is perhaps best conceptualized as securitized short-term financing at a reasonably high yield and with limited direct downside risk. The broker holds the underlying securities that are used as

collateral and typically is both able and willing to sell those assets if the borrower fails to meet a margin call. For a broker lending to a typical retail customer, this has historically been a low-risk business that has resulted in few credit losses.

That said, the risk management systems in place at an individual broker can – as in 4Q22 – result in hidden concentration risk when a major shareholder of a company pledges price-inflated shares to borrow from multiple brokers. Brokers have regulatory limits on individual borrower risks and internal limits are even tighter, but no centralized mechanism exists for brokers to monitor aggregate borrowing in the system by any individual or indeed, by the overall market, at any given time.

Fig 32: Margin lending as a % of market free float is still relatively high



Company data, Yuanta Vietnam

This concentration risk was painfully apparent in 4Q22. Major shareholders of numerous stocks -- in troubled sectors for which bond issuance was closed and bank credit availability had effectively disappeared -- leveraged their equity holdings to borrow from brokers. At the time, the brokers were the only game in town, as their balance sheets had been bolstered by capital issuance over the previous two years and traditional retail demand for margin borrowing had plummeted along with stock prices.

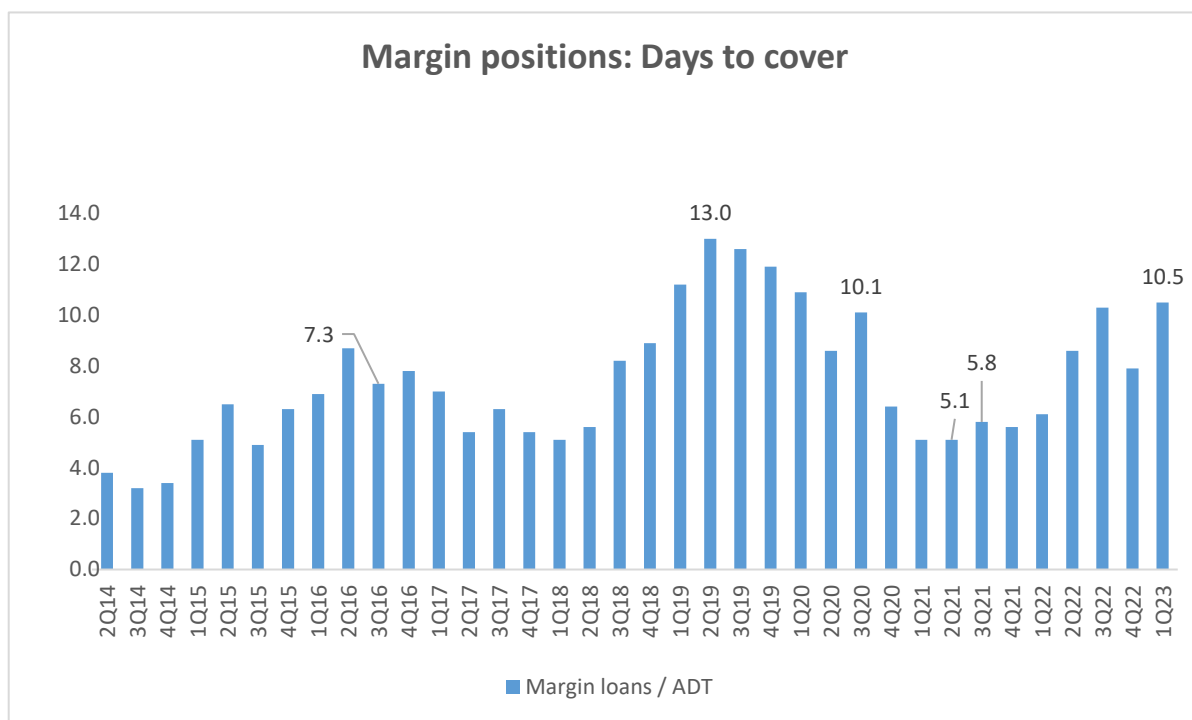
Brokers are limited by regulation and internal compliance from overextending credit to single-party borrowers. This is good, but it also may have led to some complacency regarding the aggregate exposure of the brokerage industry to such borrowers, whose use of the same listed stock as collateral at multiple brokers (i.e., the collateral is different share certificates, but the same stock) may have been overlooked by risk managers – especially given that such information is not available in any centralized publicly available format.

We don't feel the need to name names here, but investors should recall this episode with some level of terror. Share prices of the most leveraged names went limit-down every day for weeks on end as these major shareholders failed to meet their margin calls. Of course, this unwind eventually came to an end.

When we loaded up on popcorn and perused the full-year financial statements of the major margin lending brokers, we were unable to identify visible substantial losses. Brokers under VAS can choose to report their credit losses separately or else jam them into financing costs in their quarterly financial statements. However, any truly substantial losses would be reflected by the balance sheets – and we haven't found any such impact from the financial statements.

Within our coverage, our sense is that VND and SSI are more aggressive in terms of their margin lending business than HCM and VCI. But VND's detailed financial statements again provide more room for concern.

Fig 33: Margin loans / total market ADT remains high, and risk management requires considering the liquidity of the specific stocks used as collateral.



Company data, Yuanta Vietnam

A note on margin lending credit risk: VND posted a high level of overdue loans at 4Q22. VND reported outstanding gross margin loans of VND8.7 trillion at 1Q23, down -4% QoQ / -49% YoY and 24% of total assets. The company’s detailed 2022 disclosures indicate that it held VND1.6tn of past-due-but-not-impaired loans as of 4Q22.

The company reported VND181bn in provisioning against this exposure, implying a loan loss reserve ratio of 12.6% at yearend 2022. Factoring in this provisioning, the *net* NPL figure would be VND1.4 trillion, representing 15.8% of 4Q22 gross margin loans, 3.7% of total assets, and 9.9% of shareholders’ equity. (The figure below presents the gross non-performing-asset data, which does not factor in provisions and thus slightly overstates the balance sheet exposure.)

VND’s overdue loans were just VND162bn in 1H22, leading us to an educated guess that the sharp (10.3x) increase during 2H22 was related to the October-November unmet margin call episode discussed above. This inference is backed up by VND’s disclosure that VND1.3 trillion or 91% of total overdue loans at Dec 2022 were in the less-than-90 days category.

If so, we would expect this number to decline substantially in the interim 1H23 financial statements, as the borrower(s) will have made some progress in addressing their problems by now. To clarify, we don’t believe this credit risk to be a key balance sheet risk for VND given 1) collateralization of margin loans and 2) efforts to address the problems of the borrowers, whose stocks remain listed and have performed relatively well YTD. However, the NPL situation is another factor that merits careful examination of VND’s 2H23 interim financial statements due next month.

Overdue assets

| VND | 2021 | 1H22 | 2022 |
|-------------------|------|------|-------|
| Loans | 138 | 157 | 1,614 |
| Other receivables | 6 | 6 | 6 |
| Total | 143 | 162 | 1,620 |
| % of assets | 0 | 0 | 0 |
| % of equity | 1.0% | 1.1% | 11.2% |
| SSI | 2021 | 1H22 | 2022 |
| Loans | 30 | 30 | 5 |
| Other receivables | 245 | 247 | 234 |
| Total | 275 | 277 | 239 |
| % of assets | 0.5% | 0.6% | 0.5% |
| % of equity | 1.9% | 1.9% | 1.1% |

Source: Company data, Yuanta Vietnam

By contrast, SSI reported close to zero overdue loans as of Dec 2022... As illustrated above, SSI's risk disclosures indicate a *de minimis* VND5bn in overdue loans as of 4Q22, which we believe to be fully provisioned. The company also reported VND234bn in overdue receivables, so its aggregate overdue assets (before provisions) reached VND239bn in 2022, just 0.5% of total assets and 1.1% of shareholders' equity. This is not something that should keep SSI shareholders awake at night.

.. and both HCM and VCI have no on-balance sheet overdue margin loans or other receivables as of Dec 2022, the most recent full disclosures.

VCI reported overdue assets of VND2.2bn in margin loans and 1.9bn in receivables as at year-end-2022. There was no change in these numbers from 2021. In addition, this *de-minimis* exposure is fully covered by provisions.

Likewise, HCM reported zero overdue loans or receivables in its 2022 risk disclosures, which is unchanged from 2021.

Foreigners have been net buyers YTD, believe it or not

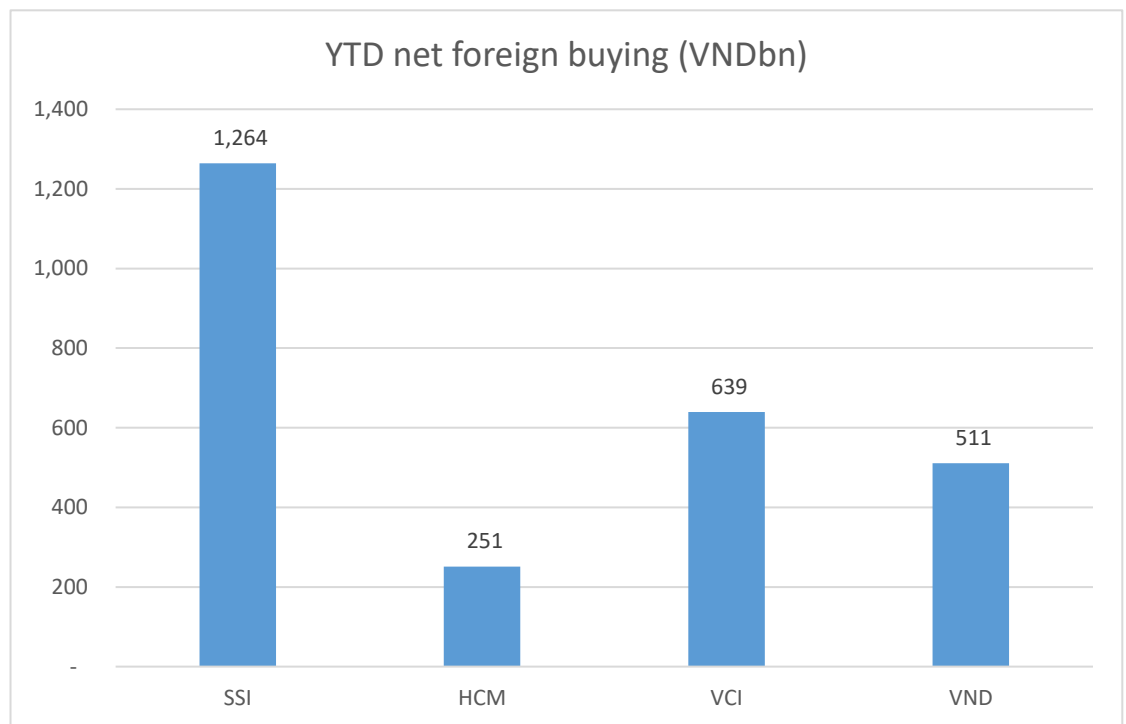
Foreign investors were better buyers of the entire market in 1Q23, when they net bought a total US\$319 million of Vietnamese stocks. However, foreigners reversed course (so far) in 2Q23, net selling US\$205 million in 2Q23 up to June 23.

But perhaps surprisingly, FINIs have been strong and relatively consistent net *buyers* of the brokers in our coverage. This is interesting as it supports the argument that the foreign outflows from the wider market in 2Q23 have not been driven by an overall bearish view on Vietnam's stock markets.

Foreigners have net bought an aggregate VND2.7 trillion (US\$114 million) of our four brokers YTD through Jan 20, with VN30 component SSI accounting for 47% of total inflows into this group.

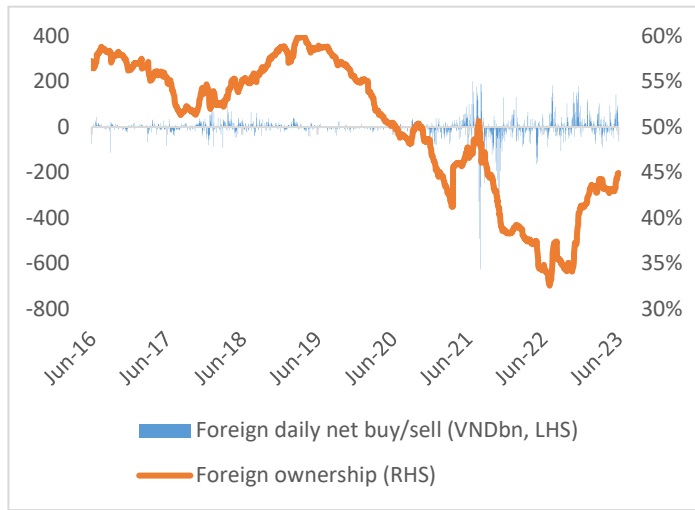
In addition, FINIs appear to have agreed wholeheartedly with our June 2022 sector upgrade to Overweight (a call that we reiterate with publication of this report), as foreign net buying of the sector reached VND5.6 trillion (US\$240 million) over the past 12 months. Again, SSI – the most “investable” brokerage stock given its sizeable market cap and liquidity – accounts for the lion's share (60%) of these 12-month inflows.

Fig 35: FINIs have net purchased US\$114m of our 4 brokers YTD



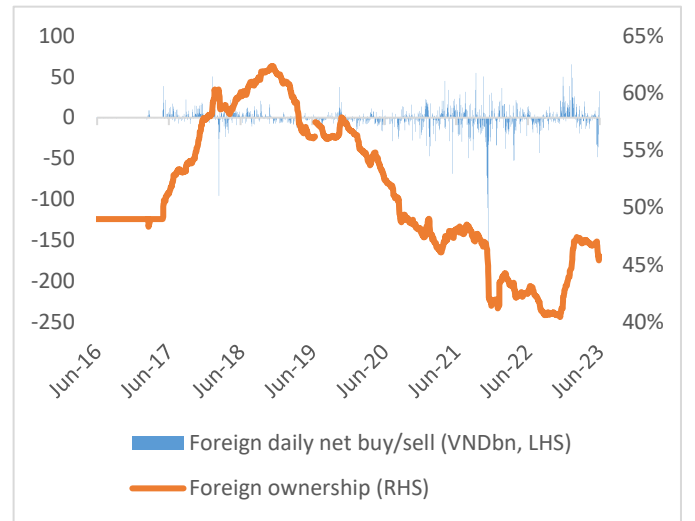
Source: FiinPro, Yuanta Research (as of 22 June 2022)

Fig 36: SSI – Foreign net buy/sell



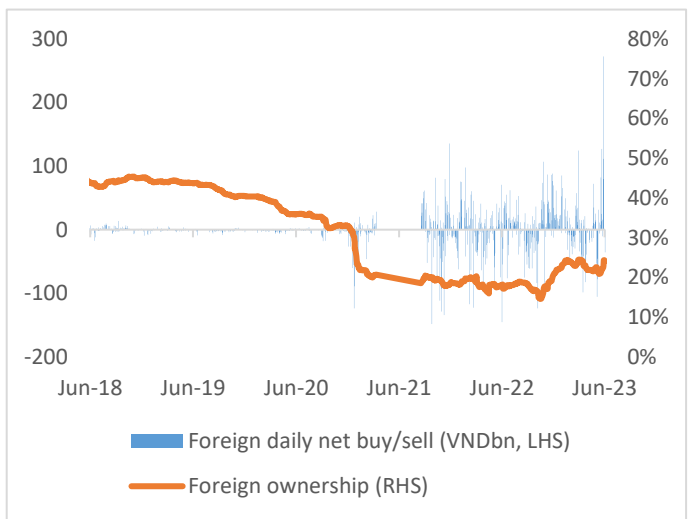
Source: FiinPro, Yuanta Vietnam

Fig 37: HCM – Foreign net buy/sell



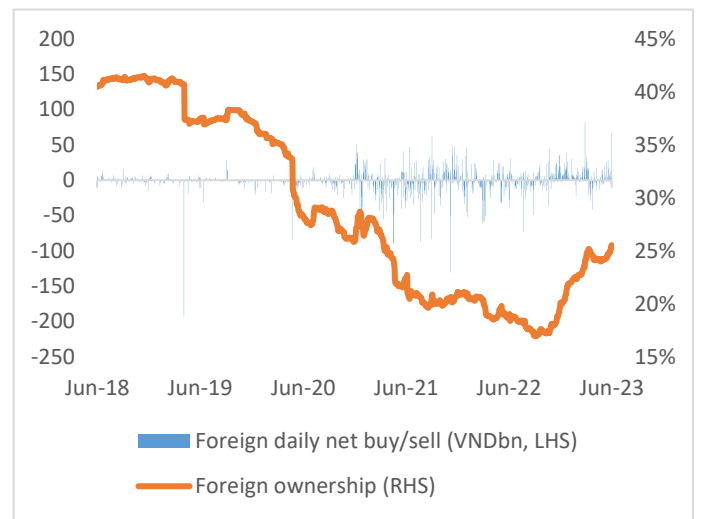
Source: FiinPro, Bloomberg, Yuanta Vietnam

Fig 38: VCI – Foreign net buy/sell



Source: FiinPro, Yuanta Vietnam

Fig 39: VND – Foreign net buy/sell



Source: FiinPro, Bloomberg, Yuanta Vietnam

The table below presents a summary of the most recent quarterly results (1Q23) for the four brokers in our coverage universe. Suffice to say that it was a broadly weak set of results for all of them except SSI, where prop trading results saved the bottom line. We think the more stable operating income lines should all improve sequentially in the 2Q23 results, and more importantly we expect earnings momentum to pick up in 3Q23-4Q23.

Please see the breakout notes on the individual companies in the subsequent pages for more granular details on our expectations for 2H23 and beyond.

Fig 40: Yuanta Vietnam's Brokerage Sector Universe: 1Q23 results recap

| Quarterly earnings summary | | | | | | |
|----------------------------|--------------|-------------|--------------|--------------|-------------|-------------------------|
| SSI | 1Q23 | | | YTD | | vs our full-year target |
| | (VND bn) | YoY | QoQ | (VND bn) | YoY | |
| Gross brokerage income | 257 | -57% | -19% | 257 | -85% | 19% |
| Net brokerage income | 5 | -98% | -3578% | 5 | -99% | 8% |
| Service fees | 11 | -24% | -153% | 11 | -42% | 48% |
| Gross margin income | 338 | -40% | -2% | 338 | -67% | 17% |
| Prop trading | 241 | 91% | 290% | 241 | -6% | 15% |
| Gains from AFS assets | 0 | <i>nmf</i> | -56% | 0 | -87% | 2% |
| Gains from HTM assets | 112 | -14% | 37% | 112 | -79% | 27% |
| Net operating income | 1,097 | -8% | 54% | 1,097 | -63% | 21% |
| PBT | 1,311 | 48% | 100% | 1,311 | -38% | 31% |
| Reported PATMI | 1,196 | 69% | 99% | 1,196 | -29% | 36% |
| HCM | 1Q23 | | | YTD | | vs our full-year target |
| | (VND bn) | YoY | QoQ | (VND bn) | YoY | |
| Gross brokerage income | 132 | -53% | -32% | 132 | -53% | 33% |
| Net brokerage income | 34 | -71% | -42% | 34 | -71% | 25% |
| Service fees | -4 | 403% | 278% | -4 | 403% | -11% |
| Gross margin income | 223 | -40% | -12% | 223 | -40% | 18% |
| Prop trading | 25 | -72% | 317% | 25 | -72% | 8% |
| Gains from AFS assets | 0 | <i>nmf</i> | <i>nmf</i> | 0 | <i>nmf</i> | <i>nmf</i> |
| Gains from HTM assets | 0 | <i>nmf</i> | <i>bmf</i> | 0 | <i>nmf</i> | <i>nmf</i> |
| Net operating income | 238 | -47% | -3% | 238 | -47% | 12% |
| PBT | 154 | -56% | -3% | 154 | -56% | 14% |
| Reported PATMI | 124 | -56% | -1% | 124 | -56% | 14% |
| VCI | 1Q23 | | | YTD | | vs our full-year target |
| | (VND bn) | YoY | QoQ | (VND bn) | YoY | |
| Gross brokerage income | 89 | -75% | -58% | 89 | -75% | 0% |
| Net brokerage income | 7 | -98% | -94% | 7 | -98% | 2% |
| Service fees | -20 | -38985% | -2698% | -20 | -38985% | -135% |
| Gross margin income | 155 | -21% | -4% | 155 | -21% | 20% |
| Prop trading | 42 | -69% | -164% | 42 | -69% | 7% |
| Gains from AFS assets | 43 | <i>nmf</i> | <i>nmf</i> | 43 | <i>nmf</i> | <i>nmf</i> |
| Gains from HTM assets | 34 | <i>nmf</i> | <i>nmf</i> | 0 | -100% | <i>nmf</i> |
| Net operating income | 210 | -64% | -5% | 0 | -100% | 0% |
| PBT | 81 | -84% | 150% | 0 | -100% | 0% |
| Reported PATMI | 73 | -82% | 157% | 73 | -82% | 7% |
| VND | 1Q23 | | | YTD | | vs our full-year target |
| | (VND bn) | YoY | QoQ | (VND bn) | YoY | |
| Gross brokerage income | 146 | -68% | -29% | 146 | -68% | 15% |
| Net brokerage income | 34 | -85% | -47% | 34 | -85% | 8% |
| Service fees | -3 | -104% | -105% | -3 | -104% | -3% |
| Gross margin income | 249 | -46% | -26% | 249 | -46% | 17% |
| Prop trading | 159 | -61% | -151% | 159 | -61% | 14% |
| Gains from AFS assets | 0 | <i>nmf</i> | <i>nmf</i> | 0 | <i>nmf</i> | <i>nmf</i> |
| Gains from HTM assets | 99 | 3% | 52% | 99 | 3% | 24% |
| Net operating income | 658 | -43% | 40% | 658 | -43% | 16% |
| PBT | 172 | -82% | -625% | 172 | -82% | 7% |
| Reported PATMI | 136 | -82% | -454% | 136 | -82% | 7% |

Source: Company data, Yuanta Vietnam

Vietnam: Brokers
27 June 2023
HCM VN
BUY
TP upside +18%
Close 23 June 2022

| | |
|-----------------|------------|
| Price | VND 28,700 |
| 12M Target | VND 33,805 |
| Previous Target | VND 29,957 |
| Target Change | +13% |

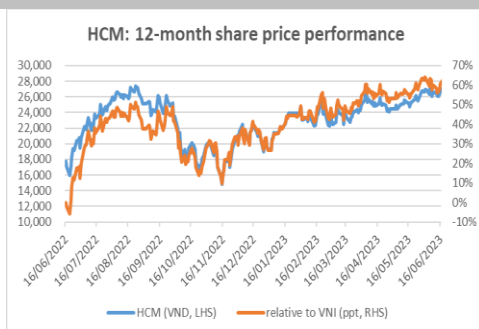
What's new?

- ▶ **Targeted client approach** should continue to bear fruit going forward.
- ▶ **Our new 2023 earnings forecast** is 21% higher than guidance.
- ▶ **The stock has rallied +49% YTD** and is approaching our prior target price.
- ▶ **We increase our target price** to VND33,805, implying 2.0x 2023E P/B and well below peak valuations.

Our view

- ▶ **Strategic focus on profitability & institutional franchise** are key positives.
- ▶ **Limited balance sheet risk.** Relatively stable trading results. Zero corporate bond exposure and no overdue assets.
- ▶ **Specific risk:** Operational flexibility is limited due to the board composition.
- ▶ **Resolving this problem** is likely to require a divestment by the company's second major shareholder.

Company profile: HCM stands out as among the best-positioned brokers for the long-term development of Vietnam's capital markets given its solid balance sheet, focus on profitability over market share, and institutional brokerage franchise. As a market proxy, the stock's relatively low Beta (for this high-volatility sector) means limited downside risk but also less upside in bull markets.



Ho Chi Minh City Securities (HCM VN)

Relatively low Beta (in a high-Beta sector)

Strength in institutional brokerage is a competitive advantage, although Vietnam is clearly a retail-driven market. HCM also benefits from the latter given its solid HNWI franchise, but investors should not expect the company to emerge as a leader in mass-retail brokerage.

We believe the company should be a primary beneficiary from a potential resurgence of foreign interest in Vietnam that may emerge if the market continues to surge in 2H23 in line with our bullish view. An emerging markets upgrade would be a major operational catalyst for this business; our sense is that most observers have thrown in the towel on this theme (and we are among them), so a surprise upgrade in the next few years would likely provide a dramatic boost.

Operational risk is lowest in our coverage, in our view. HCM reports zero AFS or HTM assets, no NPAs, and no corporate bonds. Management says HCM does not make directional bets with the prop trading book (11% of 1Q23 assets), instead using it to facilitate derivative hedging and market-making services. This statement is supported by relatively low volatility of HCM's prop trading results, which some investors might prefer. But it can also be a double-edged sword, as prop trading gains in a bull market might underperform the brokers engaged in directional bets.

Specific risk: The shareholder structure limits HCM's capital flexibility, which – based on discussions with investors – we believe to be a key reason for the stock's underperformance during the remarkable bull market of 2020-22. As such, we would view a potential solution of this issue (i.e., a divestment by the government shareholder) as a highly positive catalyst for the stock. However, we lack visibility and refuse to engage in guesswork about when that event might occur.

Reiterate BUY and raise our target price by +13% to VND33,805 based on a weighted approach combining a free cash flow DCF, DDM, GGM, and SoTP based on the company's segment disclosures. This target price implies 2.0x 2023E PB and 19x 2024E PE, which is arguably higher than fair value based on c.16% average ROE but is well below peak bull market valuations (c.3.6x P/B).

| | |
|-------------------------------|-----------------|
| Market cap | US\$558m |
| 6M avg. daily turnover | US\$6.0m |
| Outstanding shares | 536m |
| Free float | 46% |
| FINI ownership | 46% |
| Major shareholders | 54% |
| 1Q23 Net debt/equity | 9% |
| 2023E EV/EBITDA | 5.2x |
| 2023E P/B | 1.7x |
| Trading platform | HOSE |
| FOL Room | 3% |

*Note: HCM reinstated its 49% FOL limit in 1H21.

| Key metrics | 2022A | 2023E | 2024E |
|-----------------|--------|--------|-------|
| Op rev (YoY) | -17% | -12% | 11% |
| Adj PATMI (YoY) | -26% | 2% | 10% |
| Cur ratio (x) | 2.0 | 2.0 | 2.0 |
| Debt/Equity (x) | 0.2 | 0.3 | 0.3 |
| ROA (x) | 4.3% | 5.2% | 5.1% |
| ROE (x) | 11.2% | 10.3% | 10.2% |
| EPS (VND) | 1,865 | 1,628 | 1,783 |
| EPS (YoY) | -32.8% | -12.7% | 9.5% |
| PE (x) | 15.4 | 17.6 | 16.1 |
| PB (x) | 1.7 | 1.7 | 1.6 |
| Dividend yield | 1.2% | 2.8% | 2.8% |

Source: Bloomberg, Company data, Yuanta Vietnam

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ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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HCM -- Quarterly earnings summary

| HCM | 1Q23 (VND bn) | YoY | QoQ | YTD | | vs our full-year target |
|------------------------|---------------|-------------|------------|------------|-------------|-------------------------|
| | | | | (VND bn) | YoY | |
| Gross brokerage income | 132 | -53% | -32% | 132 | -53% | 33% |
| Net brokerage income | 34 | -71% | -42% | 34 | -71% | 25% |
| Service fees | -4 | 403% | 278% | -4 | 403% | -11% |
| Gross margin income | 223 | -40% | -12% | 223 | -40% | 18% |
| Prop trading | 25 | -72% | 317% | 25 | -72% | 8% |
| Gains from AFS assets | 0 | <i>nmf</i> | <i>nmf</i> | 0 | <i>nmf</i> | <i>nmf</i> |
| Gains from HTM assets | 0 | <i>nmf</i> | <i>bmf</i> | 0 | <i>nmf</i> | <i>nmf</i> |
| Net operating income | 238 | -47% | -3% | 238 | -47% | 12% |
| PBT | 154 | -56% | -3% | 154 | -56% | 14% |
| Reported PATMI | 124 | -56% | -1% | 124 | -56% | 14% |

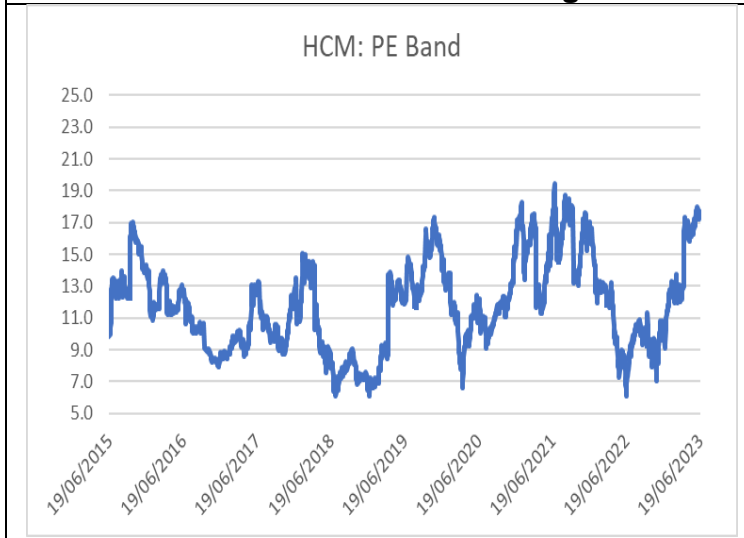
Source: Company data, Yuanta Vietnam

Price multiples

| (x) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------|-------|-------|-------|-------|-------|
| Reported P/E | 10.3 | 15.4 | 17.6 | 16.1 | 15.2 |
| Adjusted P/E | 10.3 | 15.4 | 17.6 | 16.1 | 15.2 |
| Reported P/B | 1.7 | 1.7 | 1.7 | 1.6 | 1.5 |
| Tangible P/B | 1.7 | 1.6 | 1.6 | 1.6 | 1.5 |
| EV / EBITDA | 4.1 | 4.9 | 5.5 | 4.9 | 4.6 |
| Dividend Yield | 3.1% | 1.2% | 2.8% | 2.8% | 3.1% |

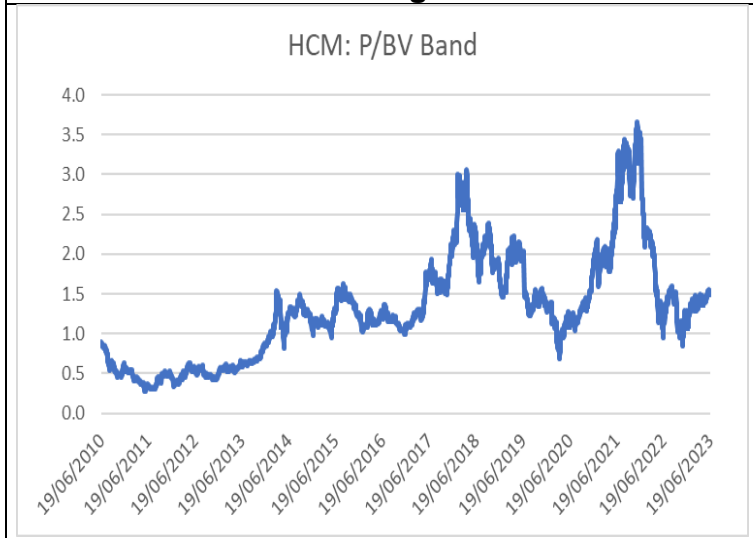
Source: Company data, Yuanta Vietnam

HCM VN: Historical 12-month trailing P/E band



Source: Company data, Bloomberg, Yuanta Vietnam

HCM VN: Historical trailing P/B band



Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: HCM

| | VND per share | Upside / downside | Implied 2023E PB (x) | Implied 2023E PE (x) | Implied 2024E PE (x) |
|----------------------------|---------------|-------------------|----------------------|----------------------|----------------------|
| Current price | 28,700 | | 1.7 | 17.6 | 16.1 |
| DCF valuation | 34,517 | 20.3% | 2.0 | 21.2 | 19.4 |
| Gordon growth valuation | 31,491 | 9.7% | 1.9 | 19.3 | 17.7 |
| DDM | 33,530 | 16.8% | 2.0 | 20.6 | 18.8 |
| SoTP | 33,458 | 16.6% | 2.0 | 20.5 | 18.8 |
| Mean fair value | 33,249 | 15.9% | 2.0 | 20.4 | 18.6 |
| Weighted fair value | 33,805 | 17.8% | 2.0 | 20.8 | 19.0 |

Source: Company data, Yuanta Vietnam

| Income Statement: HCM | | | | | |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage net revenues | 624 | 309 | 134 | 167 | 206 |
| Margin lending net revenues | 1,179 | 1,273 | 1,223 | 1,345 | 1,480 |
| Gains on trading assets | 420 | 169 | 329 | 331 | 282 |
| Gains on AFS & HTM assets | - | - | - | - | - |
| Other investment | 210 | 382 | 254 | 298 | 326 |
| Total investment revenues | 630 | 551 | 583 | 628 | 609 |
| Net fee income | 24 | 27 | 34 | 38 | 41 |
| Other operating net revenues | 15 | 5 | 6 | 6 | 7 |
| Net operating revenues | 2,472 | 2,166 | 1,980 | 2,185 | 2,342 |
| SG&A expenses | (297) | (351) | (375) | (401) | (429) |
| Operating profit | 2,175 | 1,815 | 1,605 | 1,784 | 1,914 |
| Associates | 0 | 0 | 0 | 0 | 0 |
| Non-operating revenues | 2 | 3 | 4 | 4 | 4 |
| Interest expense (ex margin) | (747) | (751) | (517) | (593) | (656) |
| Pretax profit | 1,430 | 1,068 | 1,091 | 1,195 | 1,261 |
| Tax | (283) | (215) | (218) | (239) | (252) |
| Minorities | - | - | - | - | - |
| Reported PATMI | 1,147 | 852 | 873 | 956 | 1,009 |
| PATMI plus OCI | 1,147 | 852 | 873 | 956 | 1,009 |
| Adjusted PATMI | 1,147 | 852 | 873 | 956 | 1,009 |
| Reported EPS (VND) | 2,776 | 1,865 | 1,628 | 1,783 | 1,882 |
| Adjusted EPS (VND) | 2,776 | 1,865 | 1,628 | 1,783 | 1,882 |

Source: Company data, Yuanta Vietnam

| Balance sheet: HCM | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Cash & equivalents | 7,199 | 5,641 | 5,923 | 6,219 | 6,530 |
| Net margin loans | 13,690 | 7,379 | 9,224 | 10,146 | 11,161 |
| FVPL assets | 2,372 | 1,424 | 1,709 | 1,966 | 2,064 |
| AFS assets | - | - | - | - | - |
| S/T HTM assets | - | - | - | - | - |
| Other current assets | 926 | 818 | 860 | 903 | 949 |
| Current assets | 24,187 | 15,262 | 17,716 | 19,234 | 20,703 |
| L/T HTM assets | - | - | - | - | - |
| Associates | - | - | - | - | - |
| Other L/T assets | 184 | 187 | 199 | 212 | 226 |
| Total L-T assets | 184 | 187 | 199 | 212 | 226 |
| Total assets | 24,371 | 15,449 | 17,915 | 19,446 | 20,929 |
| S/T borrowings | 15,040 | 6,938 | 8,208 | 9,152 | 10,067 |
| S/T bonds | - | - | - | - | - |
| Other S/T liabilities | 2,004 | 617 | 588 | 656 | 693 |
| Current liabilities | 17,044 | 7,555 | 8,796 | 9,808 | 10,760 |
| Long-term bonds | - | - | - | - | - |
| Other L/T liabilities | - | - | - | - | - |
| Long-term liabilities | - | - | - | - | - |
| Shareholder equity | 4,568 | 4,568 | 5,349 | 5,349 | 5,349 |
| Reserves | 1,527 | 1,527 | 1,527 | 1,527 | 1,527 |
| Retained earnings | 1,230 | 1,797 | 2,243 | 2,763 | 3,294 |
| Minority interests | - | - | - | - | - |
| Total equity | 7,325 | 7,892 | 9,119 | 9,638 | 10,169 |
| Attributable equity | 7,325 | 7,892 | 9,119 | 9,638 | 10,169 |
| BVPS (VND) | 16,444 | 17,233 | 17,013 | 17,982 | 18,973 |

Source: Company data, Yuanta Vietnam

| Selected ratios: HCM | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Liquidity & leverage | 2021A | 2022A | 2023E | 2024E | 2025E |
| Current ratio (x) | 1.4 | 2.0 | 2.0 | 2.0 | 1.9 |
| Net debt / equity | 107% | 16% | 25% | 30% | 35% |
| Interest coverage ratio (x) | 2.9 | 2.4 | 3.1 | 3.0 | 2.9 |
| Equity / Assets | 30.1% | 51.1% | 50.9% | 49.6% | 48.6% |
| Tangible Equity / Assets | 30.0% | 51.1% | 50.9% | 49.5% | 48.6% |
| Asset yields | 2021A | 2022A | 2023E | 2024E | 2025E |
| Margin loans (net) | 3.7% | 5.3% | 6.1% | 6.1% | 6.1% |
| FVPL realized | 12.9% | 13.3% | 17.0% | 14.0% | 10.0% |
| FVPL revaluation | 2.6% | -4.4% | 4.0% | 4.0% | 4.0% |
| Dividends / Interest on FVPL | 11.1% | 23.9% | 20.0% | 20.0% | 20.0% |
| Total trading book | 23.2% | 29.0% | 37.2% | 34.2% | 30.2% |
| Fee income / Assets | 0.1% | 0.1% | 0.2% | 0.2% | 0.2% |
| Profitability | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage GPM | 44.9% | 35.0% | 33.3% | 33.3% | 33.3% |
| Margin lending GPM | | | | | |
| Brokerage / net op inc | 25.2% | 14.3% | 6.8% | 7.7% | 8.8% |
| Margin / net op inc | 47.7% | 58.8% | 61.8% | 61.6% | 63.2% |
| Fees / net op inc | 1.0% | 1.3% | 1.7% | 1.7% | 1.8% |
| Investments / net op inc | 25.5% | 25.4% | 29.4% | 28.8% | 26.0% |
| Staff comp ratio | 13.2% | 0.0% | 25.0% | 25.0% | 25.0% |
| Bonus & welfare / NPAT | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Adj ROA | 6.2% | 4.3% | 5.2% | 5.1% | 5.0% |
| Adj ROE | 19.5% | 11.2% | 10.3% | 10.2% | 10.2% |
| Growth (YoY) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage revenues | 209.8% | -50.5% | -56.7% | 25.0% | 22.9% |
| Margin lending net revenues | 114.3% | 8.0% | -4.0% | 10.0% | 10.0% |
| Investment revenues | 101.3% | -12.5% | 5.8% | 7.8% | -3.2% |
| Fee income | 42.4% | 11.5% | 25.3% | 10.1% | 10.1% |
| Net operating revenues | 128.5% | -12.4% | -8.6% | 10.4% | 7.2% |
| SG&A expenses | 37.2% | 18.2% | 6.9% | 6.9% | 6.9% |
| Operating profit | 151.3% | -16.5% | -11.6% | 11.2% | 7.3% |
| Reported PATMI | 116.2% | -25.7% | 2.4% | 9.5% | 5.5% |
| Adjusted PATMI | 116.2% | -25.7% | 2.4% | 9.5% | 5.5% |
| Reported EPS | 109.5% | -32.8% | -12.7% | 9.5% | 5.5% |
| Adjusted EPS | 109.5% | -32.8% | -12.7% | 9.5% | 5.5% |
| Avg margin loans | 67.7% | -5.6% | -10.0% | 10.0% | 10.0% |
| FVPL assets | -22.5% | -39.9% | 20.0% | 15.0% | 5.0% |
| AFS assets | - | - | - | - | - |
| Short-term HTM assets | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Total current assets | 96.5% | -36.9% | 16.1% | 8.6% | 7.6% |
| Total assets | 95.1% | -36.6% | 16.0% | 8.5% | 7.6% |
| Attributable equity | 65.4% | 7.8% | 15.6% | 5.7% | 5.5% |
| BVPS | 13.0% | 4.8% | -1.3% | 5.7% | 5.5% |

Source: Company data, Yuanta Vietnam

SSI VN
BUY
TP upside +24%
Close 23 June 2022

| | |
|-----------------|------------|
| Price | VND 26,000 |
| 12M Target | VND 32,187 |
| Previous Target | VND 26,092 |
| Target Change | +23% |

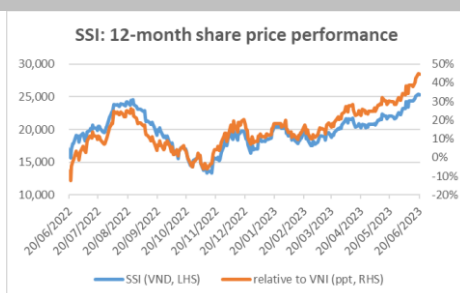
What's new?

- ▶ **SSI has rallied by +53% YTD** and has reached our previous target price.
- ▶ **2022E Guidance: 30% YoY PBT growth.** Our forecast is slightly higher as we have penciled in +34% YoY growth in PATMI.
- ▶ **Ready for the 2H23 rally.** SSI's leading position in agency brokerage and margin lending make it an attractive proxy on continued market momentum in 2H23.

Our view

- ▶ **Not rocket science.** SSI is arguably investors' best option for a market proxy given its leading market cap and trading liquidity.
- ▶ **Flows matter.** The stock may continue to benefit from its position as an index constituent.
- ▶ **We increase our target price** by +23% to VND32,187 based on a mixed-model approach of DCF, DDM, RoE-g/COE-g, and SOTP.
- ▶ **Reiterate BUY** with +25% 12-month TSR.

Company profile: SSI is Vietnam's largest securities firm by brokerage market share and equity capital. It has recovered its leading position in margin lending market share, a solid result given the funding advantages of the very foreign players, who appear to have reined in their aggressiveness in 2022. SSI is only brokerage component of the VN30 Index and has the sector's highest weighting in most ETF benchmarks.



SSI Securities (SSI VN)

Best option for a market proxy

Liquidity flow beneficiary. SSI's scale and openness to foreign investment (it has no FOL limit) positions it well from a liquidity perspective. The ticker is the most "investable" brokerage stock based on market cap (\$1.7bn) and stock trading liquidity (US\$17mn per day), which makes it the key go-to market proxy for Vietnam, in our view.

The stock is also included in various country benchmarks (i.e., FTSE and MSCI Vietnam) and is thus the sector's most sizeable representative in the main offshore ETFs, the various HOSE-listed VN30 ETFs, and the Financial Leaders ETF (the latter of which is managed by its subsidiary, SSI A/M).

Apparent focus on market share over profitability admittedly may not appeal to all shareholders. Average 2018-22 ROE of 14.6% is the lowest among the four brokers. Our upgrade last year featured a heartfelt encomium of SSI's apparent refocus on profitability as illustrated by the increase in its net brokerage commissions from previously negative to sector-average levels leading up to 2Q22. Alas, this situation did not persist very long, as SSI's net commissions subsequently fell and were effectively zero in 4Q22-1Q23.

Valuation is fair, but likely to get fairer. The shares are trading on 1.5x 2023 P/BV as of June 22, a level that we believe should represent a floor, while the PE ratio of 5x is at a five-year historical low (source: Bloomberg). The selloff appears to be vastly overdone if we're right in our view of the market recovery, and the shares could continue to rally after going ex-dividend and ex-rights on June 22. If our strategy view is wrong, the valuations are already priced for a bear market so the downside risks should be limited, in our view.

We reiterate BUY on SSI. Our target price of VND32,187 implies 1.9x 2023E P/B and 13x 2024E PE, a reasonable bull-market valuation for the shares, in our view. However, trees don't grow to the sky: We suggest taking profit if market exuberance carries the valuation substantially higher than 2x P/B, as such peak valuations are not justified by the business fundamentals, in our opinion.

| | |
|-------------------------------|------------------|
| Market cap | US\$1.7bn |
| 6M avg. daily turnover | US\$17m |
| Outstanding shares | 1,490m |
| Free float | 65% |
| FINI ownership | 45% |
| Major shareholders | 35% |
| 1Q23 Net debt/equity | 123% |
| 2023 P/E | 11.5x |
| 2023E EV/EBITDA | 5.2x |
| 2023E P/B | 1.5x |
| Trading platform | HOSE |
| FOL Room | nmf* |

*Note: SSI has no foreign ownership limit

| Key metrics | 2022A | 2023E | 2024E |
|----------------------------|--------|-------|-------|
| Operating inc growth (YoY) | -17% | 48% | 6% |
| Adj PATMI growth (%) | -18% | 51% | 7% |
| Current ratio (x) | 1.6 | 1.7 | 1.8 |
| Debt/Equity (x) | 1.2 | 1.1 | 1.0 |
| ROA (x) | 4.3% | 6.3% | 6.3% |
| ROE (x) | 12.2% | 14.3% | 13.6% |
| Adj EPS (VND/share) | 1,489 | 2,253 | 2,404 |
| EPS growth (%) | -56.1% | 51.3% | 6.7% |
| PE (x) | 17.5 | 11.5 | 10.8 |
| PB (x) | 1.7 | 1.5 | 1.4 |
| Dividend yield | 2.6% | 1.4% | 2.2% |

Source: Bloomberg, Company data, Yuanta Vietnam

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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.

SSI -- Quarterly earnings summary

| SSI | 1Q23 | | YTD | | vs our full-year target | |
|------------------------|--------------|------------|------------|--------------|-------------------------|------------|
| | (VND bn) | YoY | QoQ | (VND bn) | YoY | |
| Gross brokerage income | 257 | -57% | -19% | 257 | -85% | 19% |
| Net brokerage income | 5 | -98% | -3578% | 5 | -99% | 8% |
| Service fees | 11 | -24% | -153% | 11 | -42% | 48% |
| Gross margin income | 338 | -40% | -2% | 338 | -67% | 17% |
| Prop trading | 241 | 91% | 290% | 241 | -6% | 15% |
| Gains from AFS assets | 0 | <i>nmf</i> | -56% | 0 | -87% | 2% |
| Gains from HTM assets | 112 | -14% | 37% | 112 | -79% | 27% |
| Net operating income | 1,097 | -8% | 54% | 1,097 | -63% | 21% |
| PBT | 1,311 | 48% | 100% | 1,311 | -38% | 31% |
| Reported PATMI | 1,196 | 69% | 99% | 1,196 | -29% | 36% |

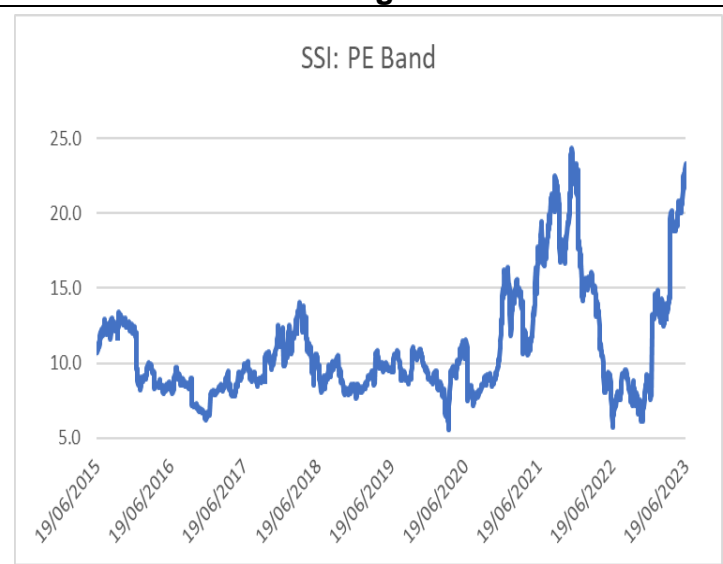
Source: Company data, Yuanta Vietnam

Price multiples: SSI

| (x) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------|-------|-------|-------|-------|-------|
| Reported P/E | 7.7 | 17.4 | 11.5 | 10.8 | 8.2 |
| Adjusted P/E | 7.7 | 17.5 | 11.5 | 10.8 | 8.2 |
| Reported P/B | 1.8 | 1.7 | 1.5 | 1.4 | 1.3 |
| Tangible P/B | 1.8 | 1.7 | 1.6 | 1.4 | 1.3 |
| EV / EBITDA | 6.2 | 7.3 | 5.2 | 4.9 | 3.9 |
| Dividend Yield | 3.1% | 2.6% | 1.4% | 2.2% | 4.2% |

Source: Company data, Yuanta Vietnam

SSI VN: Historical trailing 12-month P/E band



Source: Company data, Bloomberg, Yuanta Vietnam

SSI VN: Historical trailing P/B band



Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: SSI

| | VND per share | Upside / downside | Implied 2023E PB (x) | Implied 2023E PE (x) | Implied 2024E PE (x) |
|----------------------------|---------------|-------------------|----------------------|----------------------|----------------------|
| Current price | 26,000 | | 1.5 | 11.5 | 10.8 |
| DCF valuation | 33,029 | 27.0% | 2.0 | 14.7 | 13.7 |
| Gordon growth valuation | 24,019 | -7.6% | 1.4 | 10.7 | 10.0 |
| DDM | 34,650 | 33.3% | 2.1 | 15.4 | 14.4 |
| SoTP | 31,998 | 23.1% | 1.9 | 14.2 | 13.3 |
| Mean fair value | 30,924 | 18.9% | 1.8 | 13.7 | 12.9 |
| Weighted fair value | 32,187 | 23.8% | 1.9 | 14.3 | 13.4 |

Source: Company data, Yuanta Vietnam

| Income Statement: SSI | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage net revenues | 1,025 | 370 | 58 | 76 | 87 |
| Margin lending net revenues | 1,614 | 1,803 | 1,979 | 2,177 | 2,351 |
| Gains on trading assets | 530 | 221 | 1,563 | 1,641 | 2,757 |
| Gains on AFS & HTM assets | 720 | 420 | 416 | 447 | 536 |
| Other investment | 398 | 787 | 1,180 | 1,187 | 1,274 |
| Total investment revenues | 1,648 | 1,428 | 3,158 | 3,275 | 4,567 |
| Net fee income | 37 | 20 | 24 | 27 | 30 |
| Other operating net revenues | (35) | 10 | 11 | 11 | 12 |
| Net operating revenues | 4,289 | 3,631 | 5,230 | 5,566 | 7,047 |
| SG&A expenses | (265) | (296) | (311) | (334) | (359) |
| Operating profit | 4,024 | 3,335 | 4,919 | 5,232 | 6,688 |
| Associates | 314 | 117 | 46 | 46 | 46 |
| Non-operating revenues | 58 | 211 | 217 | 228 | 239 |
| Interest expense | (1,030) | (1,031) | (999) | (1,041) | (1,069) |
| Pretax profit | 3,365 | 2,632 | 4,183 | 4,465 | 5,904 |
| Tax | (670) | (412) | (824) | (880) | (1,163) |
| Minorities | - | - | - | - | - |
| Reported PATMI | 2,695 | 2,220 | 3,359 | 3,585 | 4,741 |
| PATMI plus OCI | 2,696 | 2,221 | 3,362 | 3,588 | 4,745 |
| Adjusted PATMI | 2,694 | 2,218 | 3,357 | 3,583 | 4,738 |
| Reported EPS (VND) | 3,396 | 1,491 | 2,256 | 2,408 | 3,184 |
| Adjusted EPS (VND) | 3,394 | 1,489 | 2,253 | 2,404 | 3,179 |

Source: Company data, Yuanta Vietnam

| Balance Sheet: SSI | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Cash & equivalents | 1,114 | 1,418 | 1,489 | 1,563 | 1,641 |
| Net margin loans | 23,636 | 11,020 | 11,736 | 12,558 | 13,311 |
| FVPL assets | 12,023 | 30,493 | 32,018 | 33,619 | 35,300 |
| AFS assets | 272 | 382 | 401 | 421 | 442 |
| S/T HTM assets | 7,834 | 3,508 | 3,735 | 3,997 | 4,237 |
| Other current assets | 1,661 | 1,912 | 1,965 | 2,020 | 2,077 |
| Current assets | 46,540 | 48,732 | 51,344 | 54,177 | 57,008 |
| L/T HTM assets | 3,087 | 2,156 | 2,372 | 2,538 | 2,690 |
| Associates | 602 | 617 | 617 | 617 | 617 |
| Other L/T assets | 564 | 721 | 737 | 754 | 773 |
| Total L-T assets | 4,253 | 3,494 | 3,726 | 3,909 | 4,080 |
| Total assets | 50,793 | 52,226 | 55,070 | 58,087 | 61,088 |
| S/T borrowings | 31,121 | 27,892 | 29,287 | 30,312 | 30,918 |
| S/T bonds | - | - | - | - | - |
| Other S/T liabilities | 5,358 | 1,896 | 538 | (220) | (956) |
| Current liabilities | 36,479 | 29,789 | 29,825 | 30,092 | 29,962 |
| Long-term bonds | - | - | - | - | - |
| Other L/T liabilities | 94 | 54 | 56 | 59 | 62 |
| Long-term liabilities | 94 | 54 | 56 | 59 | 62 |
| Shareholder equity | 10,643 | 18,191 | 18,191 | 18,191 | 18,191 |
| Reserves | 587 | 100 | 100 | 100 | 100 |
| Retained earnings | 2,928 | 3,954 | 6,756 | 9,499 | 12,625 |
| Minority interests | 63 | 139 | 142 | 144 | 147 |
| Total equity | 14,220 | 22,384 | 25,189 | 27,935 | 31,063 |
| Attributable equity | 14,158 | 22,245 | 25,047 | 27,791 | 30,916 |
| BVPS (VND) | 14,412 | 14,928 | 16,809 | 18,650 | 20,747 |

Source: Company data, Yuanta Vietnam

| Select ratios: SSI | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Liquidity & leverage | 2021A | 2022A | 2023E | 2024E | 2025E |
| Current ratio | 1.3 | 1.6 | 1.7 | 1.8 | 1.9 |
| Net debt / equity | 2.11 | 1.18 | 1.10 | 1.03 | 0.94 |
| Interest coverage ratio | 3.9 | 3.2 | 4.9 | 5.0 | 6.3 |
| Equity / Assets | 28.0% | 42.9% | 45.7% | 48.1% | 50.9% |
| Tangible Equity / Assets | 27.9% | 42.7% | 45.6% | 48.0% | 50.8% |
| Asset yields | 2021A | 2022A | 2023E | 2024E | 2025E |
| Margin loans (net) | 7.2% | 8.1% | 7.0% | 7.5% | 7.5% |
| FVPL realized | 2.9% | 2.2% | 3.0% | 2.5% | 4.0% |
| FVPL revaluation | 1.3% | -1.1% | 2.0% | 2.5% | 4.0% |
| AFS securities | 0.4% | 0.9% | 1.0% | 1.0% | 15.0% |
| S/T HTM securities | 6.6% | 5.0% | 7.0% | 7.0% | 7.0% |
| Associates | 45.2% | 19.1% | 7.5% | 7.5% | 7.5% |
| Profitability | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage GPM | 40.7% | 21.7% | 4.3% | 4.4% | 4.4% |
| Brokerage / net op inc | 23.9% | 10.2% | 1.1% | 1.4% | 1.2% |
| Margin / net op inc | 37.6% | 49.6% | 37.8% | 39.1% | 33.4% |
| Fees / net op inc | 0.9% | 0.5% | 0.5% | 0.5% | 0.4% |
| Investments / net op inc | 38.4% | 39.3% | 60.4% | 58.8% | 64.8% |
| Staff comp ratio | 0.0% | 0.0% | 13.0% | 13.0% | 13.0% |
| ROA | 6.2% | 4.3% | 6.3% | 6.3% | 8.0% |
| ROE | 22.6% | 12.2% | 14.3% | 13.6% | 16.2% |
| Growth (YoY) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage revenues | 497.6% | -63.9% | -84.4% | 31.6% | 15.0% |
| Margin lending net revenues | 207.6% | 11.7% | 9.8% | 10.0% | 8.0% |
| Investment revenues | -9.6% | -13.4% | 121.2% | 3.7% | 39.5% |
| Fee income | 2.7% | -45.7% | 20.0% | 11.1% | 11.0% |
| Net operating revenues | 74.0% | -15.3% | 44.0% | 6.4% | 26.6% |
| SG&A expenses | 43.9% | 11.8% | 5.0% | 7.3% | 7.3% |
| Operating profit | 76.4% | -17.1% | 47.5% | 6.4% | 27.8% |
| Reported PATMI | 114.6% | -17.6% | 51.3% | 6.7% | 32.2% |
| Adjusted PATMI | 114.8% | -17.7% | 51.3% | 6.7% | 32.2% |
| Reported EPS | 49.5% | -56.1% | 51.3% | 6.7% | 32.2% |
| Adjusted EPS | 49.8% | -56.1% | 51.3% | 6.7% | 32.2% |
| Avg margin loans | 2.6% | 2.7% | 20.0% | 10.0% | 8.0% |
| FVPL assets | -9.3% | 153.6% | 5.0% | 5.0% | 5.0% |
| AFS assets | 46.3% | 40.6% | 5.0% | 5.0% | 5.0% |
| Short-term HTM assets | 40.1% | -55.2% | 6.5% | 7.0% | 6.0% |
| Total current assets | 60.3% | 4.7% | 5.4% | 5.5% | 5.2% |
| Total assets | 42.0% | 2.8% | 5.4% | 5.5% | 5.2% |
| Attributable equity | 44.5% | 57.0% | 12.6% | 11.0% | 11.3% |
| BVPS | -12.0% | 3.6% | 12.6% | 11.0% | 11.2% |

Source: Company data, Yuanta Vietnam

Vietnam: Brokers
27 June 2023
VCI VN
BUY
TP upside: +22%
Close 23 June 2022

| | |
|-----------------|------------|
| Price | VND 37,500 |
| 12M Target | VND 45,580 |
| Previous Target | VND 47,656 |
| Target Change | -4.4% |

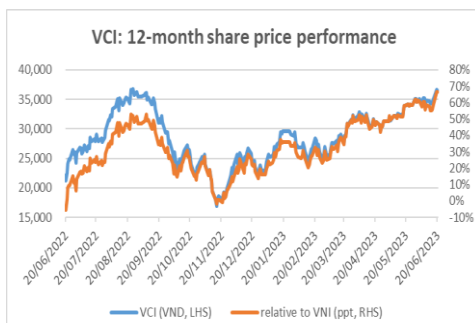
What's new?

- ▶ **VCI's shares have gained by a sector leading +64% YTD**, outperforming the VNI by a whopping 42ppt.
- ▶ **Our 2023E PBT forecast is 27% above guidance** for a -6% YoY decline.
- ▶ **VCI is not a serial issuer of new capital**, so EPS and ROE dilution are not major factors for investors.
- ▶ **Foreign investors have net bought US\$28mn** of the stock YTD, the second highest such figure in our coverage.

Our view

- ▶ **Competitive moat is wide for investment banking, wider for institutional broking.** VCI is a top-2 institutional broker and the predominant domestic investment bank.
- ▶ **Profitability appears to be management's key focus.** Average ROE of 18.9% in 2018-22 is the highest in our coverage.
- ▶ **Specific risk:** Costs related to the push into IT-enabled mass retail broking, an extremely competitive area in which disruptors such as VPS & TCBS are formidable competitors.

Company profile: VCI is inarguably a market leader in institutional brokerage and, in our opinion, *the* leader in investment banking among all domestic brokers. The managerial focus on return on capital rather than market share is refreshing, and its core business lines enable the company to support a relatively wide competitive moat in this very fragmented industry.



Vietcap Securities (VCI VN)

Highest sustainable ROE in our coverage

Investment banking: A wide competitive moat. VCI's investment banking platform should insulate it from the extreme competition that is evident in retail broking. Admittedly, the ECM and especially DCM activities of 2022-23 will not be remembered fondly in many business school case studies, but the industry will turn around eventually if Vietnam is to have a functional capital market over the long haul. As such, VCI's ability to retain its preeminence in investment banking is a crucial positive, as capital raising is likely to pick up in the years ahead.

| | |
|-------------------------------|-----------------|
| Market cap | US\$697m |
| 6M avg. daily turnover | US\$7m |
| Outstanding shares | 435m |
| Free float | 62% |
| FINI ownership | 25.5% |
| Major shareholders | 38% |
| 1Q23 Net debt/equity | 63% |
| 2022E EV/EBITDA | 7.2x |
| 2022E P/B | 2.3x |
| Trading platform | HOSE |
| FOL Room | nmf* |

*Note: VCI has no foreign investor limit

VCI's share price correlation with the VNI Index is the lowest in our coverage, although the gap has admittedly narrowed substantially in the past three years. In theory, VCI should have relatively low correlations given its relatively broad array of revenue drivers, especially in terms of investments and investment banking, which enables particularly strong performance during capital raising booms.

Valuation reflects the high ROE. Following the stock's +63% YTD rally out of the 4Q22 trough, VCI is now trading at 2.3x our estimated 2023E P/BV, the highest such valuation multiple in our coverage. But this is arguably justified given the quality of the balance sheet and sector-high 2018-22 average ROE of 18.9%.

Risks: 1) IT-enabled mass retail broking is tough and highly competitive, with numerous other well-funded disruptors (e.g., TCBS, VPS). But we aren't overly worried given VCI's solid implementation capabilities and willingness to pull the plug if it doesn't work. **2) Upside from the IDP (Not rated) stake**, which was 11% of total assets and VND1.2trillion of unrealized gains at 4Q22. This asset could be marked up (but only on the balance sheet – it's AFS) by around +40% in 1H23.

We reiterate BUY with target price of VND45,580 implying 25% TSR. The shares have solidly outperformed YTD; but we think the upside momentum should continue in 2H23, assuming that our bullish strategy call is right. But don't forget to take profit if and when the shares trade back up to c. 3-4x P/B. As stock market proxies, even the highest quality brokers are trees that don't grow to the sky.

| Key metrics | 2021A | 2022A | 2023E |
|----------------------------|-------|--------|-------|
| Operating income chg (YoY) | 108% | -31% | 25% |
| Adj PATMI growth (%) | 115% | -42% | 20% |
| Current ratio (x) | 1.7 | 1.9 | 1.9 |
| Debt/Equity (x) | 0.8 | 0.4 | 0.5 |
| ROA (x) | 12.0% | 5.6% | 7.0% |
| ROE (x) | 26.6% | 13.1% | 15.0% |
| Adj EPS (VND/share) | 4,418 | 1,959 | 2,341 |
| EPS growth (%) | 7.0% | -55.7% | 19.5% |
| PE (x) | 8.5 | 19.1 | 16.0 |
| PB (x) | 1.9 | 2.5 | 2.3 |
| Dividend yield | 5.8% | 0.0% | 2.6% |

Source: Bloomberg, Company data, Yuanta Vietnam

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Bloomberg code: YUTA

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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VCI -- Quarterly earnings summary

| VCI | 1Q23 (VND bn) | YoY | QoQ | YTD (VND bn) | YoY | vs our full- year target |
|------------------------|------------------|-------------|-------------|-----------------|-------------|-----------------------------|
| Gross brokerage income | 89 | -75% | -58% | 89 | -75% | 0% |
| Net brokerage income | 7 | -98% | -94% | 7 | -98% | 2% |
| Service fees | -20 | -38985% | -2698% | -20 | -38985% | -135% |
| Gross margin income | 155 | -21% | -4% | 155 | -21% | 20% |
| Prop trading | 42 | -69% | -164% | 42 | -69% | 7% |
| Gains from AFS assets | 43 | <i>nmf</i> | <i>nmf</i> | 43 | <i>nmf</i> | <i>nmf</i> |
| Gains from HTM assets | 34 | <i>nmf</i> | <i>nmf</i> | 0 | -100% | <i>nmf</i> |
| Net operating income | 210 | -64% | -5% | 0 | -100% | 0% |
| PBT | 81 | -84% | 150% | 0 | -100% | 0% |
| Reported PATMI | 73 | -82% | 157% | 73 | -82% | 7% |

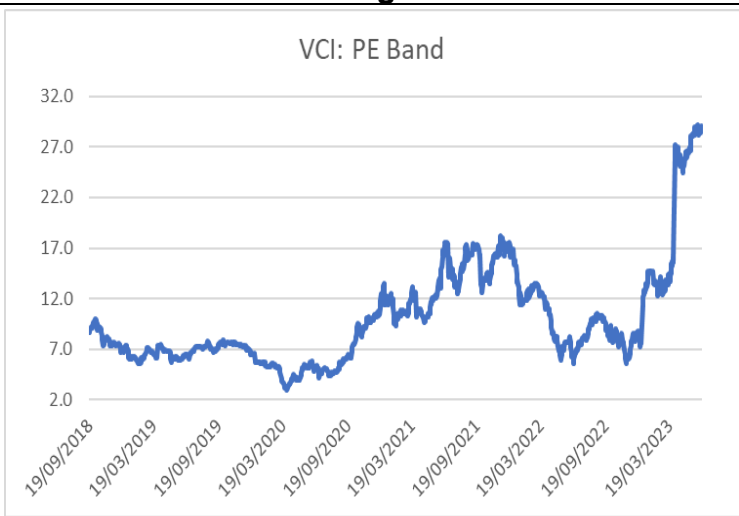
Source: Company data, Yuanta Vietnam

Price multiples: VCI

| (x) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------|-------|-------|-------|-------|-------|
| Reported P/E | 8.3 | 18.8 | 15.7 | 13.9 | 12.6 |
| Adjusted P/E | 8.5 | 19.1 | 16.0 | 14.1 | 12.8 |
| Reported P/B | 1.9 | 2.5 | 2.3 | 2.1 | 1.9 |
| Tangible P/B | 1.9 | 2.5 | 2.3 | 2.1 | 1.9 |
| EV / EBITDA | 6.6 | 9.3 | 7.2 | 6.5 | 6.0 |
| Dividend Yield | 5.8% | 0.0% | 2.6% | 3.1% | 3.5% |

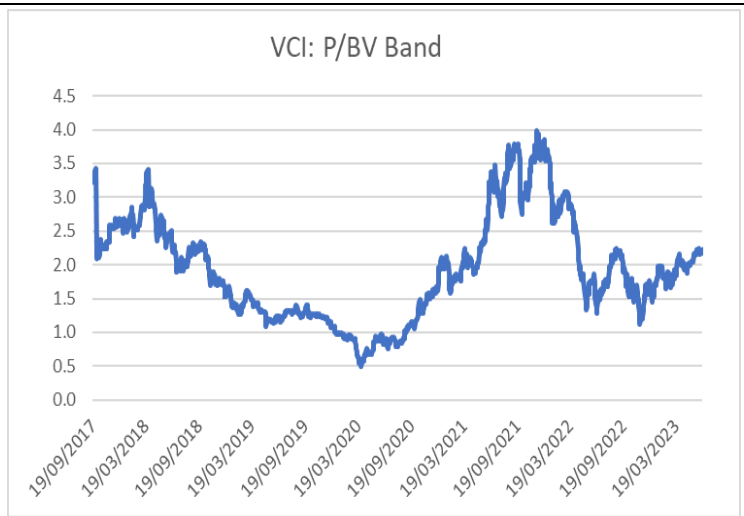
Source: Company data, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

VCI VN: Historical P/B band



Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: VCI

| | VND per share | Upside / downside | Implied 2023E PB (x) | Implied 2023E PE (x) | Implied 2024E PE (x) |
|----------------------------|---------------|-------------------|----------------------|----------------------|----------------------|
| Current price | 37,500 | | 2.3 | 16.0 | 14.1 |
| DCF valuation | 48,362 | 29.0% | 3.0 | 20.7 | 18.2 |
| Gordon growth valuation | 36,192 | -3.5% | 2.2 | 15.5 | 13.7 |
| DDM | 40,692 | 8.5% | 2.5 | 17.4 | 15.4 |
| SoTP | 40,380 | 7.7% | 2.5 | 17.2 | 15.2 |
| Mean fair value | 41,407 | 10.4% | 2.5 | 17.7 | 15.6 |
| Weighted fair value | 45,580 | 21.5% | 2.8 | 19.5 | 17.2 |

Source: Company data, Yuanta Vietnam

| Income Statement: VCI | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage net revenues | 287 | 582 | 326 | 397 | 499 |
| Margin lending net revenues | 378 | 398 | 324 | 409 | 513 |
| Gains on trading assets | 1,159 | 233 | 594 | 730 | 718 |
| Gains on AFS & HTM assets | 98 | 172 | 454 | 346 | 313 |
| Other investment | 25 | 47 | 76 | 84 | 92 |
| Total investment revenues | 1,282 | 452 | 1,124 | 1,160 | 1,124 |
| Net fee income | 227 | 14 | 14 | 18 | 23 |
| Other operating net revenues | 9 | 0 | 0 | 0 | 1 |
| Net operating revenues | 2,182 | 1,446 | 1,789 | 1,984 | 2,159 |
| SG&A expenses | (188) | (77) | (83) | (85) | (86) |
| Operating profit | 1,995 | 1,370 | 1,706 | 1,900 | 2,073 |
| Associates | 0 | 0 | 0 | 0 | 0 |
| Non-operating revenues | -12 | -144 | -150 | -156 | -164 |
| Interest expense | (132) | (167) | (291) | (311) | (329) |
| Pretax profit | 1,851 | 1,059 | 1,265 | 1,433 | 1,581 |
| Tax | (352) | (191) | (228) | (258) | (285) |
| Minorities | - | - | - | - | - |
| Reported PATMI | 1,499 | 868 | 1,037 | 1,174 | 1,296 |
| PATMI plus OCI | 1,499 | 868 | 1,037 | 1,174 | 1,296 |
| Adjusted PATMI | 1,471 | 852 | 1,018 | 1,153 | 1,272 |
| Reported EPS (VND) | 4,501 | 1,995 | 2,385 | 2,700 | 2,979 |
| Adjusted EPS (VND) | 4,418 | 1,959 | 2,341 | 2,650 | 2,924 |

Source: Company data, Yuanta Vietnam

| Balance sheet: VCI | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Cash & equivalents | 1,132 | 3,424 | 3,595 | 3,774 | 3,963 |
| Net margin loans | 7,699 | 5,277 | 5,805 | 6,385 | 7,024 |
| FVPL assets | 1,222 | 665 | 732 | 805 | 885 |
| AFS assets | 5,324 | 3,734 | 4,070 | 4,355 | 4,660 |
| S/T HTM assets | 754 | 886 | 886 | 886 | 886 |
| Other current assets | 439 | 172 | 181 | 186 | 195 |
| Current assets | 16,569 | 14,158 | 15,268 | 16,391 | 17,613 |
| L/T HTM assets | - | - | - | - | - |
| Associates | - | - | - | - | - |
| Other L/T assets | 67 | 85 | 89 | 94 | 98 |
| Total L-T assets | 67 | 85 | 89 | 94 | 98 |
| Total assets | 16,636 | 14,243 | 15,357 | 16,485 | 17,712 |
| S/T borrowings | 6,363 | 6,326 | 6,832 | 7,242 | 7,677 |
| S/T bonds | 1,964 | 547 | 569 | 592 | 621 |
| Other S/T liabilities | 1,289 | 614 | 595 | 633 | 686 |
| Current liabilities | 9,615 | 7,487 | 7,997 | 8,467 | 8,984 |
| Long-term bonds | - | - | - | - | - |
| Other L/T liabilities | 479 | 260 | 273 | 286 | 301 |
| Long-term liabilities | 479 | 260 | 273 | 286 | 301 |
| Shareholder equity | 3,330 | 4,355 | 4,355 | 4,355 | 4,355 |
| Reserves | 1,971 | 1,340 | 1,340 | 1,340 | 1,340 |
| Retained earnings | 1,241 | 800 | 1,393 | 2,036 | 2,732 |
| Minority interests | - | - | - | - | - |
| Total equity | 6,542 | 6,495 | 7,088 | 7,732 | 8,427 |
| Attributable equity | 6,542 | 6,495 | 7,088 | 7,732 | 8,427 |
| BVPS (VND) | 19,645 | 14,932 | 16,294 | 17,774 | 19,373 |

Source: Company data, Yuanta Vietnam

Select ratios: VCI

| Liquidity & leverage | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Current ratio | 1.7 | 1.9 | 1.9 | 1.9 | 2.0 |
| Net debt / equity | 80% | 45% | 46% | 45% | 44% |
| Interest coverage ratio | 6.6 | 3.5 | 2.9 | 3.0 | 3.1 |
| Equity / Assets | 39.3% | 45.6% | 46.2% | 46.9% | 47.6% |
| Tangible Equity / Assets | 39.3% | 45.6% | 46.1% | 46.9% | 47.6% |
| Asset yields | 2021A | 2022A | 2023E | 2024E | 2025E |
| Margin loans (net) | 4.3% | 4.5% | 4.5% | 4.5% | 4.5% |
| FVPL realized | 106.0% | 52.5% | 60.0% | 70.0% | 75.0% |
| FVPL revaluation | 20.3% | -27.8% | 25.0% | 25.0% | 10.0% |
| Dividends / Interest on FVPL | 6.0% | 7.1% | 13.0% | 13.0% | 13.0% |
| Total trading book | 139.6% | 48.0% | 160.9% | 150.9% | 133.0% |
| Fee income / Assets | 1.8% | 0.1% | 0.1% | 0.1% | 0.1% |
| Profitability | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage GPM | 33.4% | 57.5% | 0.6% | 0.6% | 0.6% |
| Margin lending GPM | 65.6% | 56.2% | 42.6% | 46.7% | 51.0% |
| Brokerage / net op inc | 13.1% | 40.2% | 18.2% | 20.0% | 23.1% |
| Margin / net op inc | 17.3% | 27.5% | 18.1% | 20.6% | 23.8% |
| Fees / net op inc | 10.4% | 1.0% | 0.8% | 0.9% | 1.1% |
| Investments / net op inc | 58.7% | 31.3% | 62.8% | 58.4% | 52.1% |
| Staff comp ratio | 0.0% | 0.0% | 22.0% | 22.0% | 22.0% |
| Bonus & welfare / NPAT | 1.8% | 1.8% | 1.8% | 1.8% | 1.8% |
| Adj ROA | 12.0% | 5.6% | 7.0% | 7.4% | 7.6% |
| Adj ROE | 26.6% | 13.1% | 15.0% | 15.6% | 15.7% |
| Growth (YoY) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage revenues | 44.3% | 103.1% | -44.0% | 21.9% | 25.5% |
| Margin lending net revenues | 97.9% | 5.1% | -18.5% | 26.1% | 25.4% |
| Investment revenues | 106.2% | -64.7% | 148.4% | 3.2% | -3.1% |
| Fee income | 1013.5% | -93.9% | 5.0% | 22.7% | 30.0% |
| Net operating revenues | 111.7% | -33.7% | 23.7% | 10.9% | 8.8% |
| SG&A expenses | 159.5% | -59.1% | 8.0% | 2.0% | 2.0% |
| Operating profit | 108.1% | -31.3% | 24.6% | 11.3% | 9.1% |
| Reported PATMI | 115.2% | -42.1% | 19.5% | 13.2% | 10.3% |
| Adjusted PATMI | 115.2% | -42.1% | 19.5% | 13.2% | 10.3% |
| Reported EPS | 7.0% | -55.7% | 19.5% | 13.2% | 10.3% |
| Adjusted EPS | 7.0% | -55.7% | 19.5% | 13.2% | 10.3% |
| Avg margin loans | 92.5% | 20.0% | 7.5% | 15.0% | 15.0% |
| FVPL assets | 98.7% | -45.5% | 10.0% | 10.0% | 10.0% |
| AFS assets | 96.3% | -29.9% | 9.0% | 7.0% | 7.0% |
| Short-term HTM assets | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% |
| Total current assets | 99.3% | -14.6% | 7.8% | 7.4% | 7.5% |
| Total assets | 98.5% | -14.4% | 7.8% | 7.3% | 7.4% |
| Attributable equity | 44.8% | -0.7% | 9.1% | 9.1% | 9.0% |
| BVPS | -28.0% | -24.0% | 9.1% | 9.1% | 9.0% |

Source: Company data, Yuanta Vietnam

Vietnam: Brokers
27 June 2023
VND VN
BUY
TP upside +22%
Close 23 June 2023

| | |
|-----------------|------------|
| Price | VND 19,700 |
| 12M Target | VND 24,019 |
| Previous Target | VND 26,539 |
| Target Change | -9.5% |

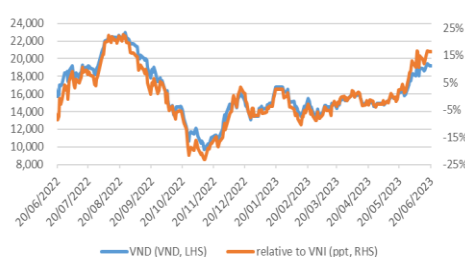
What's new?

- ▶ **VND's valuation has returned from orbit** and now offers value at 1.7x P/B and 6.9x forward P/E.
- ▶ **Guidance is for 2022 PBT growth of +32%**. This is certainly achievable, but we have penciled in slightly lower PATMI growth of +25% YoY.
- ▶ **We reduce our target price by 13%** after factoring in the additional shares.

Our view

- ▶ **Upgrade to BUY** (previously: SELL). The market has provided a solid opportunity to shift back to the long side of the trade.
- ▶ **Optimal proxy on the retail investor:** The stock has very high correlations with ADT and VN Index fluctuations.
- ▶ **Key risk to our call** is a continued / prolonged bear market. Our advice: if it trades back up to 4x P/B, take profit.

Company profile: VND is a top-four broker by market share and No.2 in our coverage by equity capital. Its industry-leading IT platform has enabled it to efficiently retain market share in the fragmented mass retail sector. Vietnam's bond market crisis hit VND particularly hard in 2022, and its balance sheet exposure to corporate bonds is both the highest in our coverage and a key investment risk.

VND: 12-month share price performance

VNDirect (VND VN)
Corporate bond exposure the key risk

VND should be the closest pure play on retail broking in our coverage... given the superior customer-facing IT of its trading platform. As an early adopter of effective technology solutions, VND was among the first movers in online KYC and a clear beneficiary of the surge of new investors in 2021-22, when its HOSE market share surged to nearly 8% despite the aggressive push into the same space by foreign and domestic disruptors such as MASC, TCBS, and especially VPS.

... but the corporate bond crisis hit VND especially hard as evidenced by the dramatic share price movements over the past year, most notably the -50% share price crash in the two months leading up to mid-November. The stock has rallied by +46% YTD, but based on our discussions with investors, exposure to corporate bonds remains the critical sentiment headwind. We will thus be very keen to examine the interim 1H23 financial statements, which should provide an updated indication of the relevant risks, which we discuss below.

Corporate bonds accounted for 21% of total 4Q22 assets and 56% of equity according to the company's audited financial statements. Corporate bonds reached VND8.1 trillion as of 4Q22, up by +17% HoH and +365% YoY, with most of this expansion occurring in 1H22 (likely in 2Q22, although we can't be certain), which coincides with an earlier phase of Vietnam's corporate bond crisis.

We reiterate BUY but with caveats. More risk-averse investors might consider waiting 1) to see how the stock reacts up to and following the planned [capital raise](#) (which we have not factored into our model), and 2) to examine the details of the detailed interim financial statements in late July. For a deeper dive into the concerns regarding VND's on-balance sheet exposure to CBs and 4Q22 overdue loans, please see pages 19-22 of this sector report.

| | |
|-------------------------------|-----------------|
| Market cap | US\$697m |
| 6M avg. daily turnover | US\$16m |
| Outstanding shares | 1,321m |
| Free float | 60% |
| FINI ownership | 23.8% |
| Major shareholders | 40% |
| 1Q22 Net debt/equity | 131% |
| 2023E EV/EBITDA | 5.3x |
| 2023E P/B | 1.7x |
| Trading platform | HOSE |
| FOL Room | nmf* |

| Key metrics | 2021 A | 2022E | 2023E |
|----------------------------|--------|-------|-------|
| Operating income chg (YoY) | 177% | 27% | 16% |
| Adj PATMI growth (%) | 242% | 25% | 18% |
| Current ratio (x) | 1.4 | 1.5 | 1.6 |
| Debt/Equity (x) | 1.9 | 1.6 | 1.3 |
| ROA (x) | 9.2% | 7.7% | 8.5% |
| ROE (x) | 33.2% | 25.7% | 24.3% |
| Adj EPS (VND/share) | 2,514 | 2,327 | 2,745 |
| EPS growth (%) | 212.3% | -7.4% | 17.9% |
| PE (x) | 6.8 | 7.3 | 6.2 |
| PB (x) | 1.9 | 1.7 | 1.4 |
| Dividend yield | 0.7% | 1.6% | 2.1% |

Source: Bloomberg, Company data, Yuanta Vietnam

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VND -- Quarterly earnings summary

| VND | 1Q23 | | YTD | | vs our full-year target | |
|------------------------|------------|-------------|--------------|------------|-------------------------|------------|
| | (VND bn) | YoY | QoQ | (VND bn) | YoY | |
| Gross brokerage income | 146 | -68% | -29% | 146 | -68% | 15% |
| Net brokerage income | 34 | -85% | -47% | 34 | -85% | 8% |
| Service fees | -3 | -104% | -105% | -3 | -104% | -3% |
| Gross margin income | 249 | -46% | -26% | 249 | -46% | 17% |
| Prop trading | 159 | -61% | -151% | 159 | -61% | 14% |
| Gains from AFS assets | 0 | <i>nmf</i> | <i>nmf</i> | 0 | <i>nmf</i> | <i>nmf</i> |
| Gains from HTM assets | 99 | 3% | 52% | 99 | 3% | 24% |
| Net operating income | 658 | -43% | 40% | 658 | -43% | 16% |
| PBT | 172 | -82% | -625% | 172 | -82% | 7% |
| Reported PATMI | 136 | -82% | -454% | 136 | -82% | 7% |

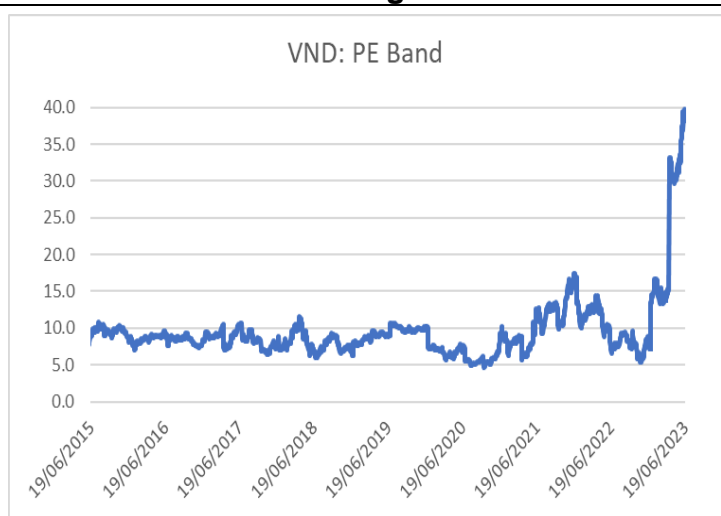
Source: Company data, Yuanta Vietnam

Price multiples: VNDirect

| (x) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------|-------|-------|-------|-------|-------|
| Reported P/E | 7.4 | 21.3 | 13.4 | 13.3 | 12.3 |
| Adjusted P/E | 7.8 | 22.5 | 14.1 | 14.0 | 12.9 |
| Reported P/B | 2.2 | 1.8 | 1.7 | 1.6 | 1.5 |
| Tangible P/B | 2.2 | 1.8 | 1.7 | 1.6 | 1.5 |
| EV / EBITDA | 5.6 | 7.6 | 5.3 | 5.2 | 4.9 |
| Dividend Yield | 0.6% | 2.3% | 2.3% | 3.7% | 3.8% |

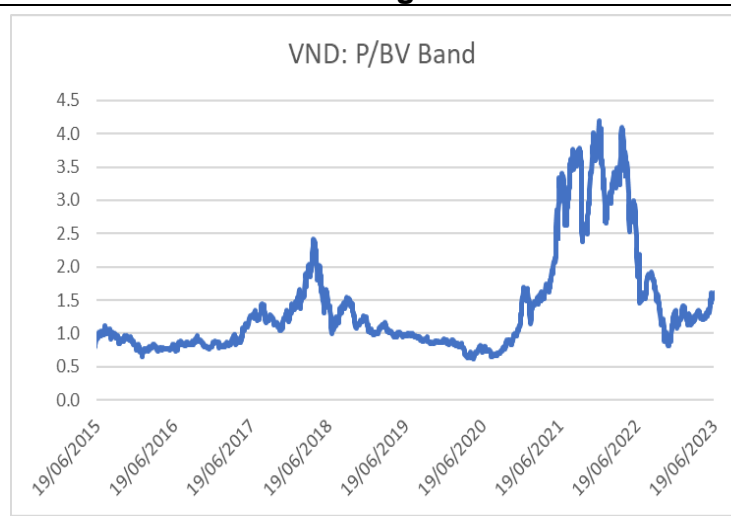
Source: Company data, Yuanta Vietnam

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



Source: Company data, Bloomberg, Yuanta Vietnam

VND VN: Historical trailing P/B band



Source: Company data, Bloomberg, Yuanta Vietnam

Valuation Summary: VNDirect

| | VND per share | Upside / downside | Implied 2023E PB (x) | Implied 2023E PE (x) | Implied 2024E PE (x) |
|----------------------------|---------------|-------------------|----------------------|----------------------|----------------------|
| Current price | 19,700 | | 1.7 | 14.1 | 14.0 |
| DCF valuation | 25,808 | 31.0% | 2.2 | 18.5 | 18.3 |
| Gordon growth valuation | 19,747 | 0.2% | 1.7 | 14.1 | 14.0 |
| DDM | 22,912 | 16.3% | 1.9 | 16.4 | 16.3 |
| SoTP | 25,832 | 31.1% | 2.2 | 18.5 | 18.3 |
| Mean fair value | 23,575 | 19.7% | 2.0 | 16.9 | 16.7 |
| Weighted fair value | 24,019 | 21.9% | 2.2 | 17.2 | 17.0 |

Source: Company data, Yuanta Vietnam

| Income Statement: VNDirect | | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage net revenues | 725 | 536 | 437 | 535 | 567 |
| Margin lending net revenues | 1,093 | 1,510 | 1,382 | 1,482 | 1,600 |
| Gains on trading assets | 1,183 | (117) | 1,167 | 1,011 | 1,070 |
| Gains on AFS & HTM assets | 483 | 399 | 415 | 440 | 467 |
| Other investment | 176 | 751 | 922 | 959 | 1,015 |
| Total investment revenues | 1,842 | 1,033 | 2,503 | 2,410 | 2,551 |
| Net fee income | 220 | 203 | 117 | 128 | 140 |
| Other operating net revenues | (166) | (279) | (301) | (325) | (358) |
| Net operating revenues | 3,715 | 3,003 | 4,138 | 4,229 | 4,500 |
| SG&A expenses | (300) | (379) | (407) | (438) | (470) |
| Operating profit | 3,414 | 2,624 | 3,731 | 3,791 | 4,030 |
| Associates | 0 | 0 | 0 | 0 | 0 |
| Non-operating revenues | -20 | -130 | -131 | -132 | -133 |
| Interest expense | (414) | (959) | (1,170) | (1,205) | (1,241) |
| Pretax profit | 2,980 | 1,535 | 2,429 | 2,454 | 2,655 |
| Tax | (597) | (315) | (486) | (491) | (531) |
| Minorities | - | - | - | - | - |
| Reported PATMI | 2,383 | 1,220 | 1,944 | 1,963 | 2,124 |
| PATMI plus OCI | 2,383 | 1,220 | 1,944 | 1,963 | 2,124 |
| Adjusted PATMI | 2,261 | 1,158 | 1,844 | 1,863 | 2,015 |
| Reported EPS (VND) | 2,650 | 924 | 1,471 | 1,486 | 1,608 |
| Adjusted EPS (VND) | 2,514 | 876 | 1,396 | 1,410 | 1,525 |

Source: Company data, Yuanta Vietnam

| Balance Sheet: VNDirect | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| (VND bn) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Cash & equivalents | 2,702 | 2,557 | 2,685 | 2,819 | 2,960 |
| Net margin loans | 15,328 | 8,830 | 9,449 | 10,110 | 10,818 |
| FVPL assets | 12,616 | 19,062 | 19,825 | 20,618 | 22,164 |
| AFS assets | - | - | - | - | - |
| S/T HTM assets | 5,312 | 5,618 | 5,899 | 6,318 | 6,643 |
| Other current assets | 590 | 2,603 | 2,733 | 2,869 | 3,013 |
| Current assets | 36,548 | 38,670 | 40,590 | 42,734 | 45,597 |
| L/T HTM assets | 342 | 30 | 32 | 34 | 35 |
| Associates | - | - | - | - | - |
| Other L/T assets | 205 | 171 | 180 | 189 | 198 |
| Total L-T assets | 547 | 201 | 211 | 222 | 233 |
| Total assets | 37,095 | 38,871 | 40,801 | 42,956 | 45,831 |
| S/T borrowings | 20,449 | 19,312 | 19,891 | 20,488 | 21,103 |
| S/T bonds | 500 | 850 | 978 | 1,109 | 1,220 |
| Other S/T liabilities | 5,419 | 3,367 | 3,438 | 4,045 | 5,225 |
| Current liabilities | 26,368 | 23,529 | 24,307 | 25,643 | 27,548 |
| Long-term bonds | 750 | 800 | 716 | 641 | 574 |
| Other L/T liabilities | 155 | 27 | 28 | 30 | 31 |
| Long-term liabilities | 905 | 827 | 744 | 670 | 605 |
| Shareholder equity | 4,349 | 12,178 | 12,178 | 12,178 | 12,178 |
| Reserves | 1,917 | 2 | 2 | 2 | 2 |
| Retained earnings | 3,556 | 2,335 | 3,570 | 4,463 | 5,498 |
| Minority interests | - | - | - | - | - |
| Total equity | 9,822 | 14,515 | 15,750 | 16,642 | 17,678 |
| Attributable equity | 9,822 | 14,515 | 15,750 | 16,642 | 17,678 |
| BVPS (VND) | 9,163 | 10,985 | 11,920 | 12,596 | 13,380 |

Source: Company data, Yuanta Vietnam

| Select ratios: VNDirect | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Liquidity & leverage | 2021A | 2022A | 2023E | 2024E | 2025E |
| Current ratio | 1.4 | 1.6 | 1.7 | 1.7 | 1.7 |
| Net debt / equity | 1.88 | 1.21 | 1.14 | 1.10 | 1.06 |
| Interest coverage ratio | 6.3 | 3.9 | 3.2 | 3.3 | 3.5 |
| Equity / Assets | 26.5% | 37.3% | 38.6% | 38.7% | 38.6% |
| Tangible Equity / Assets | 26.4% | 37.3% | 38.6% | 38.7% | 38.5% |
| Asset yields | 2021A | 2022A | 2023E | 2024E | 2025E |
| Margin loans (net) | 8.4% | 8.1% | 7.3% | 7.1% | 7.1% |
| FVPL realized | 4.5% | 3.2% | 3.5% | 3.0% | 3.0% |
| FVPL revaluation | 12.8% | -4.0% | 2.5% | 2.0% | 2.0% |
| Dividends / Interest on FVPL | 3.0% | 4.9% | 4.9% | 4.9% | 4.9% |
| Total trading book | 27.0% | 6.5% | 12.9% | 11.9% | 11.9% |
| Fee income / Assets | 0.8% | 0.5% | 0.3% | 0.3% | 0.3% |
| Profitability | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage GPM | 44.9% | 42.9% | 44.2% | 44.2% | 44.2% |
| Margin lending GPM | | | | | |
| Brokerage / net op inc | 19.5% | 17.8% | 10.6% | 12.7% | 12.6% |
| Margin / net op inc | 29.4% | 50.3% | 33.4% | 35.0% | 35.6% |
| Fees / net op inc | 5.9% | 6.7% | 2.8% | 3.0% | 3.1% |
| Investments / net op inc | 49.6% | 34.4% | 60.5% | 57.0% | 56.7% |
| 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 | 9.2% | 3.2% | 4.9% | 4.7% | 4.8% |
| Adj ROE | 33.2% | 9.5% | 12.2% | 11.5% | 11.8% |
| Growth (YoY) | 2021A | 2022A | 2023E | 2024E | 2025E |
| Brokerage revenues | 155.5% | -26.1% | -18.5% | 22.5% | 6.1% |
| Margin lending net revenues | 218.8% | 38.2% | -8.5% | 7.2% | 8.0% |
| Investment revenues | 96.1% | -43.9% | 142.3% | -3.7% | 5.8% |
| Fee income | 287.2% | -7.9% | -42.4% | 9.4% | 9.4% |
| Net operating revenues | 133.5% | -19.1% | 37.8% | 2.2% | 6.4% |
| SG&A expenses | -16.2% | 26.3% | 7.4% | 7.4% | 7.4% |
| Operating profit | 177.0% | -23.1% | 42.2% | 1.6% | 6.3% |
| Reported PATMI | 242.1% | -48.8% | 59.3% | 1.0% | 8.2% |
| Adjusted PATMI | 242.1% | -48.8% | 59.3% | 1.0% | 8.2% |
| Reported EPS | 212.3% | -65.1% | 59.3% | 1.0% | 8.2% |
| Adjusted EPS | 212.3% | -65.1% | 59.3% | 1.0% | 8.2% |
| Avg margin loans | 256.6% | 19.2% | -10.0% | 9.0% | 8.0% |
| FVPL assets | 1097.3% | 51.1% | 4.0% | 4.0% | 7.5% |
| AFS assets | -100.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Short-term HTM assets | 62.6% | 5.8% | 5.0% | 7.1% | 5.2% |
| Total current assets | 176.5% | 5.8% | 5.0% | 5.3% | 6.7% |
| Total assets | 147.7% | 4.8% | 5.0% | 5.3% | 6.7% |
| Attributable equity | 157.2% | 47.9% | 8.5% | 5.7% | 6.2% |
| BVPS | 97.0% | 19.9% | 8.5% | 5.7% | 6.2% |

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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