

23 Aug 2022

# Securities

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## In hot water

### Moving along with the market movements

In 2Q22, the financials sector index dropped 24.6%, in which securities companies index was down 44.4% amid low trading conditions and VNINDEX's fall. We collected data of 25 securities companies (including 16 listed companies, 1 Upcom company, and 8 OTC companies) which represent 90% of sector revenue. Sector revenue in 2Q22 stayed flat yoy with 15,878bn (-12.3% qoq, +0.1% yoy) while net profit was unpleasant by a decrease 57% in yoy and 63.4% qoq. There were 7 over 25 securities in our research recording accounting losses. Like sunshine on a rainy day, we saw the improvement in net profit margins in top 10 biggest net profit companies.

### Retracement from the peak

All of business segments established new peaks in revenue at the end of last year which was extraordinary when comparing with previous period as well as created a high base for following time. Brokerage recorded a negative double-digit qoq change in first 2 quarter while loan revenue decreased by 9% in 2Q22, after a 2% growth in 1Q22. Investment revenue through recognizing realized gain and unrealized gain from FVTPL, AFS and HTM was still the revenue driver in 1H22 but the weight in revenue mix decreased below 2021's one.

### There is no booming trading session

Last year story was about new trading accounts increasing in parallel with growing trading value per day. The increasing pace of new accounts was still there but trading value went the opposite way in 2Q22 when going down to VND20,525bn per day which is below average of ADTV in 2021 of VND26,589bn. After increasing steadily from 2020 to end-2021, the margin balance sharply dropped by 24% in 2Q22, backed to the level of 3Q20 which is still a high base. Revenue from loans was not bad as expected when 1Q and 2Q still had 2.1% and -9.4% qoq change, respectively. Brokerage revenue was in significant decline with -17.5% and -24.2% qoq change in the first 2 quarters.

### What's to come in the latter half

We do not expect a dream-like year in 2021 for securities companies with the superior increase in revenue and profit but we are more into scenarios of staying flat or slight decreases in business results in this year. To achieve moderate results in 2H22, the ADTV should stay at VND25,000bn per day and the margin balance should stay above VND90,000bn. Shortened settlement cycle, implementation of new KRX system and the movement of VNINDEX are supporting points for the remaining 2022. The target to uplift Vietnam market to an emerging market this year is uncertain when the new KRX system implementation plan have not been finished yet.

## Non-rated

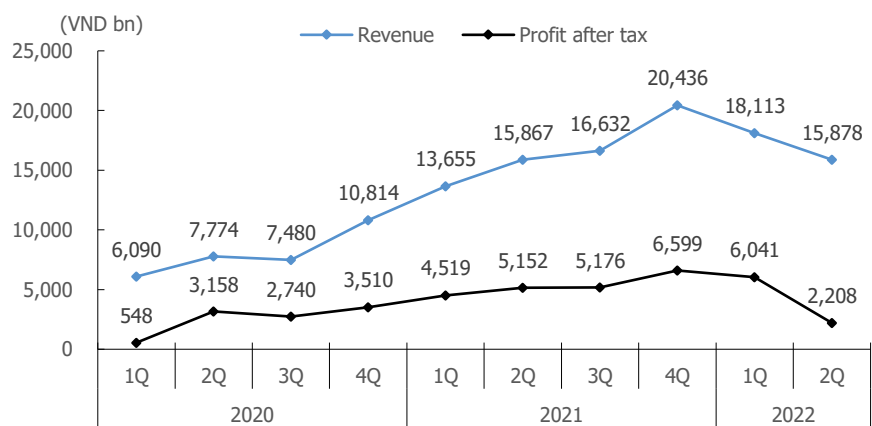
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### 1. Moving along with the market movements

Reminding about the market movements from the beginning of 2Q22, VNINDEX had a free fall of 20% in only one quarter, right from the peak 1,530pts mark and reach 1,200pts at end-quarter. Going with selling pressure, the market liquidity in 2Q22 also decreased sharply to VND20,525bn per day (-34.2% qoq). Such discouraging incidents happened when a series of events occurred in which the Government decided to investigate and prosecute suspects in real estate and stock market. The intention was good when it is aiming to improve the clarity and eliminate poor compliance with the law, but it created an adverse impact in short term. In addition, the global economic growth outlook was also in gloominess making things even worse. As a result, the financials sector index dropped 24.6%, in which securities companies index was down 44.4%.

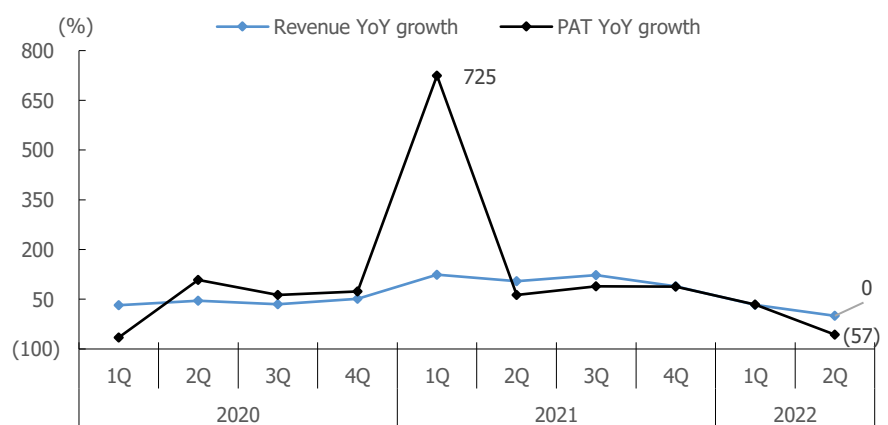
We collected data from 25 securities companies (including 16 listed companies, 1 Upcom company, and 8 OTC companies) which represent 90% of sector revenue. Sector revenue in 2Q22 stayed flat yoy with 15,878bn (-12.3% qoq, +0% yoy) while net profit was unpleasant by a decrease of 57% in yoy and 63.4% qoq. There were 7 over 25 securities in our research recording losses of PBT which can not be found in 2021.

**Figure 1. Quarterly revenue and net profit of the sector**



Source: Company data, Fiinpro, Korea Investment & Securities

**Figure 2. Quarterly revenue and net profit YoY growth**



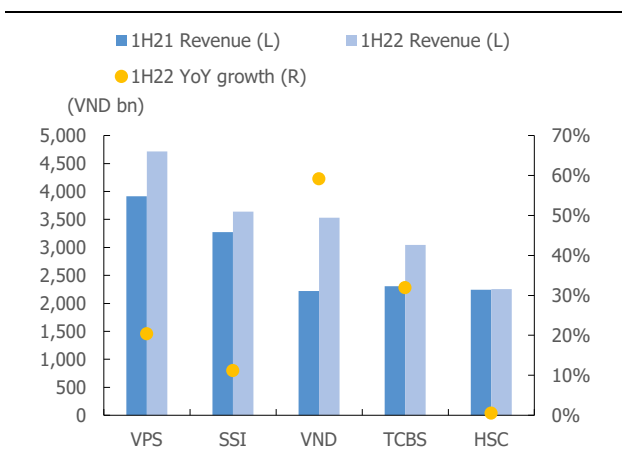
Source: Company data, Fiinpro, Korea Investment & Securities

For 1H22, VPS was the champion in revenue with VND4,712bn (+20% yoy). SSI and VND were next followers with roughly VND3,600bn each. VND was among the top

revenue growers in the sector and 1<sup>st</sup> place in top 10 biggest securities companies with 59% yoy and approached near SSI's revenue performance. TCBS also recorded good growth of 32%.

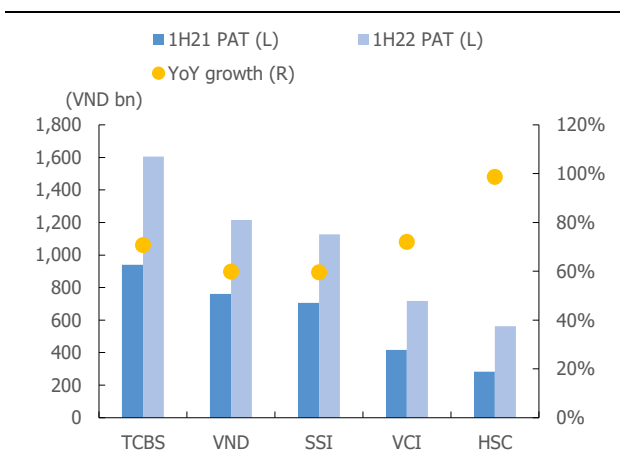
In terms of profit, TCBS with an impressive net profit margin of 53% kept 1<sup>st</sup> position in value and had 71% yoy growth. Despite a flat in revenue, HSC witnessed significant improvement in profit with 100% yoy growth. VND, SSI and VCI were familiar names in top profit with flourishing yoy growth of over 60%. The fulfillment of company guidance is mixed within the sector until end-2Q. SSI completed around 30% their profit guidance while HSC and VCI achieved 57%. Especially, ORS reached 74% of their 2022 revenue guidance but lagged behind with 20% completion in profit guidance due to a forgettable 2Q22.

**Figure 3. Top 5 biggest revenue in 1H22**



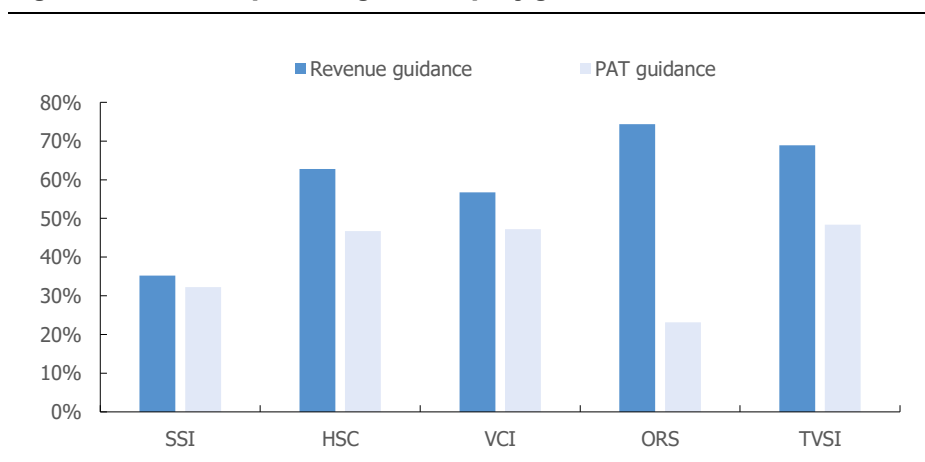
Source: Fiinpro, Korea Investment & Securities

**Figure 4. Top 5 biggest profit after tax in 1H22**



Source: Fiinpro, Korea Investment & Securities

**Figure 5. Fulfillment percentage of company guidance in 1H22**

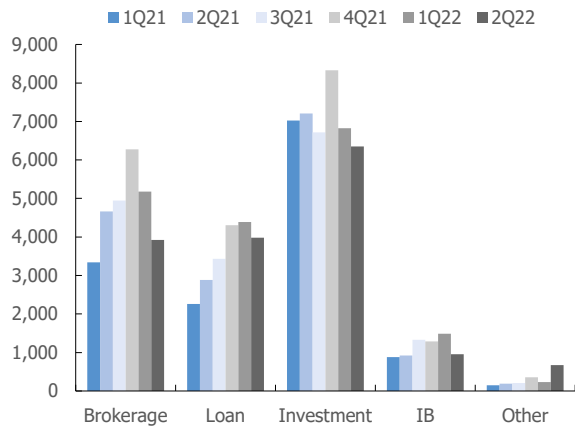


Source: Company data, Fiinpro, Korea Investment & Securities

## 2. Retracement from the peak

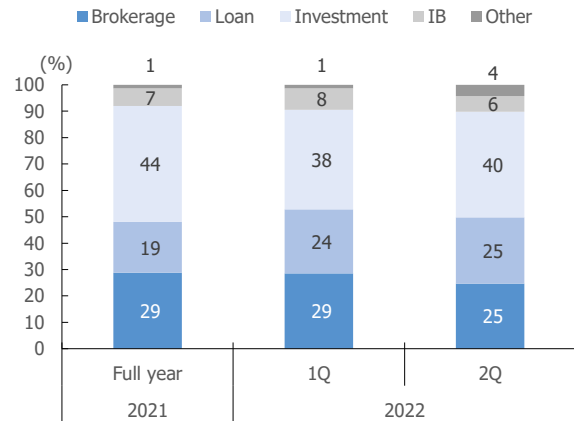
All of the business segments established new peaks in revenue at the end of last year which was extraordinary when compared with the previous periods as well as creating a high base for the following time. The brokerage segment recorded a negative double-digit qoq change in the first 2 quarters while loan revenue decreased by 9% qoq in 2Q22, after a 2% qoq growth in 1Q22. Investment revenue through recognizing realized gain and unrealized gain from FVTPL, AFS and HTM was still the revenue driver for securities in 1H22 but the weight in revenue mix decreased below 2021's one.

**Figure 6. Revenue according to business segments**



Source: Fiinpro, Korea Investment & Securities  
 Note: Brokerage includes brokerage and depository revenue. Loan includes income from margin lending and advance payment for customer. Investment includes revenue from FVTPL, AFS and HTM.

**Figure 7. Revenue mix of securities sector**

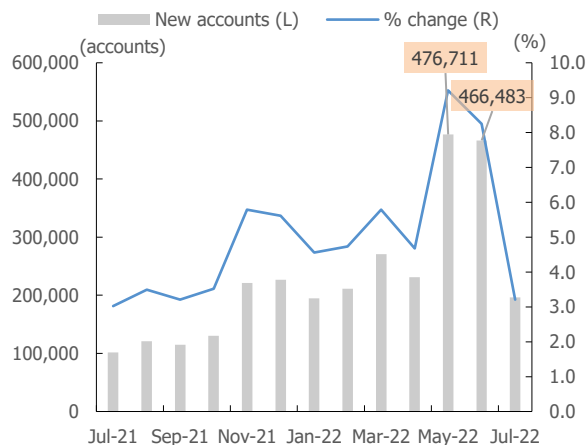


Source: Fiinpro, Korea Investment & Securities  
 Note: Brokerage includes brokerage and depository revenue. Loan includes income from margin lending and advance payment for customer. Investment includes revenue from FVTPL, AFS and HTM.

### 2.1 There is no booming trading session

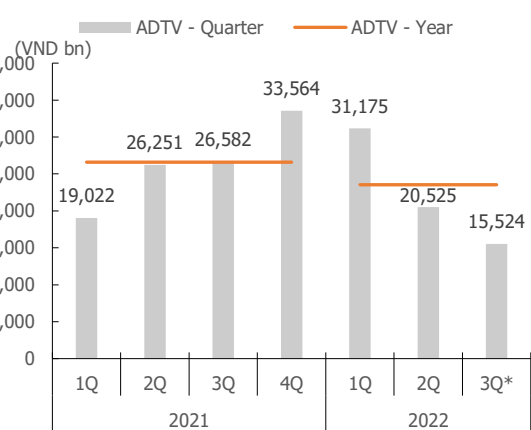
Last year's story was about new trading accounts increasing in parallel with growing trading value per day. The increasing pace of new accounts was still there when creating new high of 476,711 accounts in May (+76% vs. nearest peak) and topping with 466,483 accounts in the following month. Unfortunately, trading value went the opposite way in 2Q22 when going down to VND20,525bn per day which was below the average of ADTV in 2021 of VND26,589bn. Updated as of Aug 15, 2022's ADTV was VND23,536bn. Currently, we see the recovery of VNINDEX after touching the bottom as well as the trading value is being supported with a brighter outlook of Vietnam economy in relative comparison with other regions. Therefore, we still hold the 2022F trading value forecast at around VND 24tn~26tn per day.

**Figure 8. Trading value and number of accounts**



Source: Fiinpro, Korea Investment & Securities

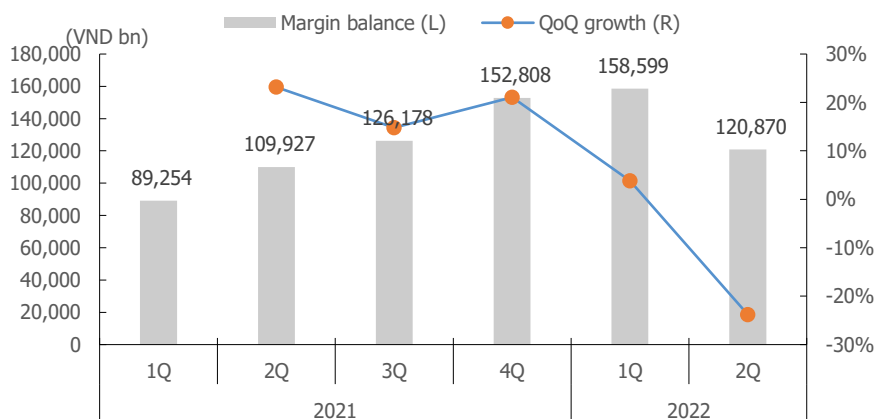
**Figure 9. Average daily trading value – Quarterly and Yearly**



Source: Fiinpro, Korea Investment & Securities  
 Note: 3Q22\* was calculated till Aug 18, nearly half of the quarter.

After increasing steadily from 2020 to end-2021, the margin balance sharply dropped by 24% in 2Q22, backed to the level of 3Q20 which was still a high base.

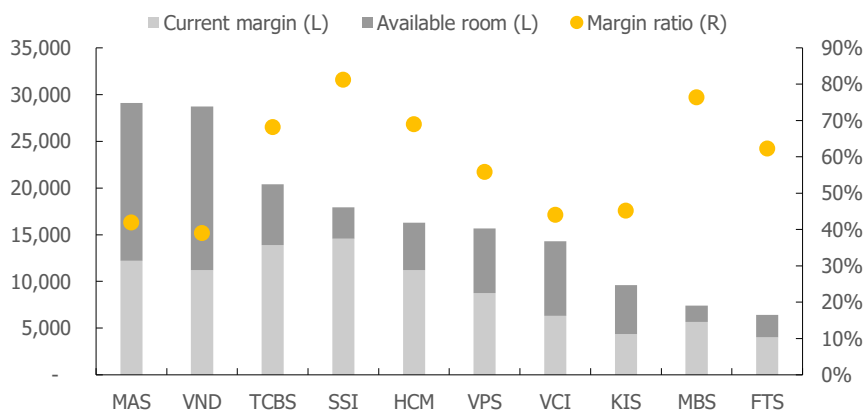
**Figure 10. Sector margin balance and its growth QoQ from 2021**



Source: Company data, Fiinpro, Korea Investment & Securities

In addition to the decreasing margin balance, many securities companies executed their capital increase plan in 1H22 and it led to a significant decrease in margin ratio. 200% margin ratio had been a difficult problem to solve for many securities in 2021 but it was easier for this year. At end-2Q22, top 10 companies with the biggest margin balance owned margin ratios equal to or less than 80%. SSI was still the biggest in terms of margin balance with VND14,560bn, although its margin balance decreased 41.2% qoq in 2Q22. VND and MAS stayed at 3<sup>rd</sup> and 4<sup>th</sup> place in margin map but they could sharpen their competitive edges thanks to a plentiful room of margin ready-for-use and afforded a competitive-lending-rate strategy.

**Figure 11. Margin balance and margin ratio at end-2021, top 10 biggest**

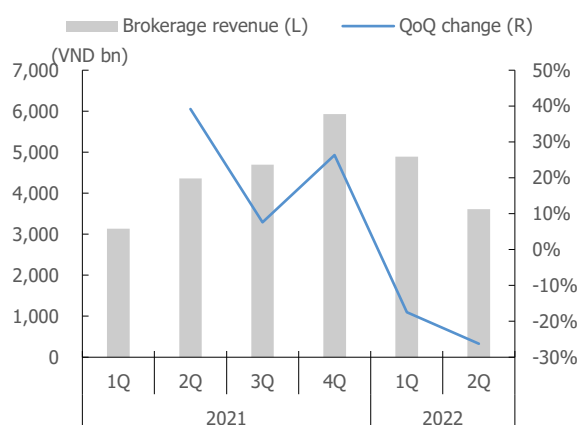


Source: Company data, Fiinpro, Korea Investment & Securities

Note: Margin ratio is calculated by margin balance divided by owners' equity of the company. As regulated by Securities Law, the maximum margin ratio is 200%.

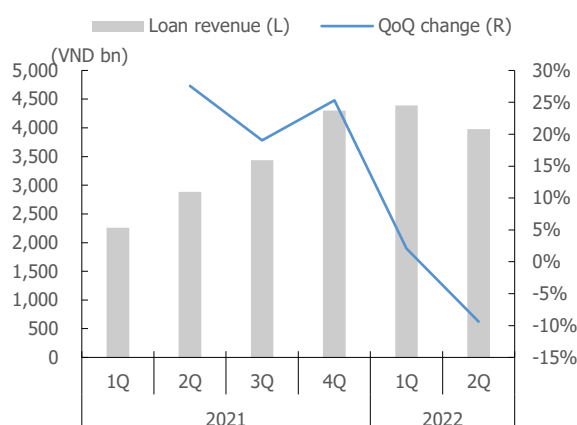
Brokerage and loans are usually the two revenue sources tied to market liquidity, so it was affected first amid low trading value. However, revenue from loans was not bad as expected when 1Q and 2Q still had 2.1% and -9.4% qoq change, respectively. Brokerage revenue was in significant decline trend from Jan with -17.5% and -24.2% qoq change in the first 2 quarters

**Figure 12. Brokerage revenue**



Source: Fiinpro, Korea Investment & Securities

**Figure 13. Loan revenue**



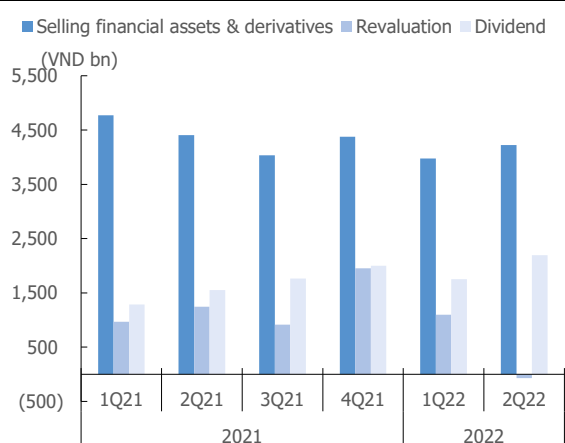
Source: Fiinpro, Korea Investment & Securities

## 2.2 Less realized profit and more unrealized loss

Investment revenue in 1Q22 and 2Q22 was VND6,827bn (-18% qoq, -11.9% yoy) and VND6,352bn (-7% qoq, -2.8% yoy), respectively. It reflected the difficulty to achieve gain in such unfavorable stock market movements. Securities companies still made good amount of revenue from selling financial assets (taking profit from stock portfolios or selling/redistributing bonds...). In addition, revenue from dividends and interests increased in 2Q22 when companies increased their deposit certificates holding balance. Revaluation of financial assets' revenue disappeared in 2Q22. This was the main reason for the decrease in sector revenue.

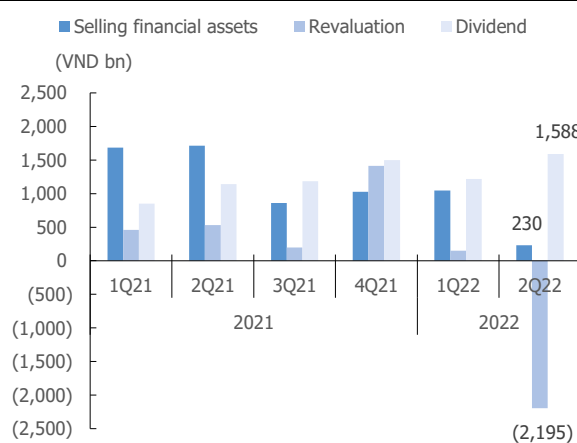
Selling FVTPL which often brought at least 900bn in quarterly profit for the sector was VND230bn in 2Q22. In the meantime, gross profit from revaluation changed to gross loss of VND2,195bn. As a result, the increase in dividend from holding financial assets did not help to save sector from a loss of VND377bn in FVTPL performance.

**Figure 14. Sector's investment revenue by category**



Source: Fiinpro, Korea Investment & Securities

**Figure 15. Sector's gross profit from FVTPL**



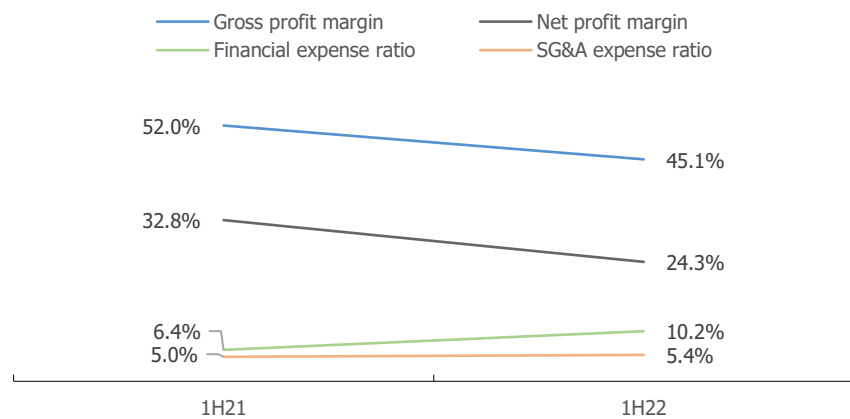
Source: Fiinpro, Korea Investment & Securities

## 2.3 Net profit margin improved in top companies

Sector's gross profit margin and net profit margin in 1H22 decreased to 45.1% (-6.9%p yoy) and 24.3% (-8.5%p yoy), respectively. The financial expenses ratio increased to 10.2% (+3.8%p yoy), SG&A expense rose to 5.4% (+0.4%p yoy). Like sunshine on a rainy day, we saw improvements in net profit margins

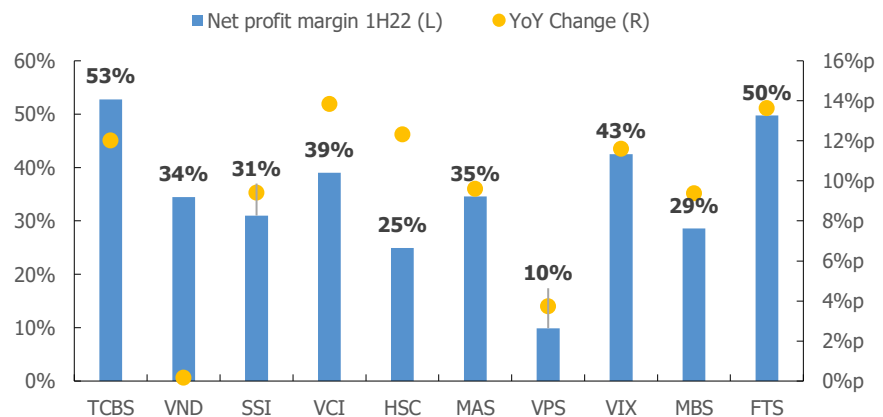
in top 10 biggest net profit companies. There was only VND who stayed flat in yoy change of net profit margin but they were excellent in increasing their revenue. The most effective companies in enhancing profitability were VCI (+14%p yoy), FTS (+14%p yoy), and HSC (+12%p yoy). The underlying cause for a decrease in sector profit margin but increases in top 10 profitable companies is claimed to the difference in business models. When smaller companies tend to have significant revenue from investment activities, top companies diversify their income sources to other financial services. Under unfavorable market conditions, the profitability from investment activities can not provide positive figures or even record losses.

**Figure 16. Slope graph for profitability and expense ratios**



Source: Fiinpro, Korea Investment & Securities

**Figure 17. 1H22 net profit margin at top 10 securities companies increased**



Source: Fiinpro, Korea Investment & Securities

### 3. What's to come in the latter half

As mentioned above, stock market experienced a significant drawdown in 2Q22 and the consequence was the low trading value due to investors' sentiment towards an uptrend reverse. We do not expect a year in dream like 2021 for securities companies with the superior increase but we are more into a flat or slight decrease in business results in this year. When it comes to the latter half, business results when compared in yoy basis will look negative due to a high base last year. 3Q21 and 4Q21 were the two historically high business results of securities companies. To achieve moderate results in 2H22F, the ADTV should stay at VND25,000bn per day and margin balance should stay above VND90,000bn.

The securities market is looking forward to the implementation of KRX system. Management bodies emphasized the mission to finish tests and put them into operation at the end of this year. When the KRX system is launched, the handling ability will be better, and new financial products can be studied and developed. In the shorter term, VSD cut the settlement circle by half day from T+2 to T+1.5 and implemented from end-Aug. This is a solution to improve trading activities when customers receive their stock and cash sooner. It may positively affect trading value while we wait for the new KRX system.

Another supporting point for the securities sector is placed at bond market. There is a rising trend of securities companies benefiting from redistributing bonds and this market is promising if Vietnam's financial market develops in the future. Regulators are working on a revision of Decree 153 which regulates the requirements and processes for operating corporate bonds. In addition, bond market will be centralized to HNX and deposited on VSD. Both of the plans have a timeline at end of this year. If the execution is on track, bond market is expected to pick up in issuing value and trading value from next year. Thus, securities companies that develop bond trading platforms and are making profit in this business segment will be one step ahead to recognize good results.

The target to uplift Vietnam market to an emerging market this year is uncertain. Vietnam stock market will have a number of things that needs performing to satisfy the emerging market's qualifications after the KRX system goes into operation. We are still required to unlock the barriers towards foreign capital, prepare short sale solutions and develop derivatives market. Therefore, in our view, this story is an outlook for the future and is not expected to happen soon.



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