

12 Aug 2022

VNDIRECT Securities (VND)

Reliable bond trading

Highlight in bond trading

Bond trading was main contributor for realized profit of FVTPL in 1H22. Profit from bond trading in 1Q and 2Q was VND123.8bn and VND265.8bn, contributing 74.4%/55.7% in realized profit of FVTPL. 2Q22 was the high record for this revenue source. The revenue from bond trading was offsetting the drop of revenue in brokerage and margin lending.

Expenses eroded brokerage profit

Being impacted by dent ADTV in 2Q, brokerage revenue recorded VND330bn (-28.6% qoq, -10.9% yoy). In addition, estimated brokerage rate was improved to 17.21% (+0.53% qoq). Gross profit margin also slumped to 42% (-7%p qoq). The reason of cut profit margin is same as SSI when VNDirect steadily increased their workforce. Therefore, they had a disadvantage when market liquidity did not move in their favor.

Completing 45% profit guidance in first half

1H22 passed with ups and downs for securities companies. But, VNDirect is still on track when completing 66.8%/44.6% of revenue and net profit guidance. The business result looks promising with revenue of VND3,528.4bn (+59.1% yoy) and net profit of VND1,216.3bn (+28.1% yoy). Revenue from FVTPL gain accounted for 41% in revenue structure, following by lending revenue (25%) and brokerage revenue (22%).

Opportunities in second half

Based on VNDirect's company strategy, brokerage for retail investors and bond trading were two main focuses. We see promising mid-term and long-term prospects namely 1) T+1.5 settlement cycles increasing trading liquidity, 2) new opened accounts high record in 1H22, 3) widened margin loan room and 4) corporate bonds trading may improve in the latter of 2022.

Yr to	Net revenue	EBT	NP	EPS	BPS	PE	PB	ROA	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(x)	(x)	(%)	(%)	(%)
2017A	1,220	580	481	3,103	16,231	8.0	1.6	7.3	21.6	3.2
2018A	1,538	438	373	1,693	13,532	8.0	1.0	4.0	13.6	3.0
2019A	1,502	480	383	1,736	14,737	7.3	0.9	3.5	12.3	2.9
2020A	2,135	862	693	3,143	17,326	8.7	1.6	5.2	19.6	1.6
2021A	6,039	2,980	2,383	5,479	22,583	12.9	3.6	9.2	34.9	0.9

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Non-rated

Stock Data

VNIndex (10 Aug, pt)	1,257
Stock price (10 Aug, VND)	22,200
Market cap (USD mn)	1,156
Shares outstanding (mn)	1,218
52-Week high/low (VND)	34,785/15,750
6M avg. daily turnover (USD mn)	16.96
Free float / Foreign ownership (%)	89.1/18.4

Major shareholders (%)

I.P.A Investment	25.84
Yurie Vietnam Securities Investment Trust	4.99
Vietnam Investments Fund I, L.P	4.27

Performance

	1M	6M	12M
Absolute (%)	19.5	(41.4)	(29.3)
Relative to VNIndex (%p)	14.9	(26.7)	(24.5)

Stock price trend



Source: Bloomberg

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Under market condition without much excitement, the picture of a diminishing result of revenue and profit was expected. However, VNDirect pounded the table by a revenue staying flat at VND1,757bn (-0.8% qoq, +55.6% yoy), thanks to excellent performance from bond trading. In the aspect of profit, the company booked a net profit VND456bn (-40.1% qoq, +1.3% yoy) due to increased SG&A and financial expenses, as well as reduced effectiveness of professions.

Expenses eroded brokerage profit

Being impacted by dent ADTV in 2Q, brokerage revenue recorded VND330bn (-28.6% qoq, -10.9% yoy). In relative comparison, VNDirect still maintained their Top 3 positions in brokerage market with 7.99% market share on HSX and 10.17% on HNX. Thus, the competitiveness of VNDirect was still good. In addition, estimated brokerage rate was improved to 17.21% (+0.53% qoq). Gross profit margin also slumped to 42% (-7%p qoq). The reason of cut profit margin is same as SSI when VNDirect steadily increased their workforce. Therefore, they had a disadvantage when market liquidity did not move in their favor.

Table 1. Brokerage business

(VND bn, %, bps)

	2Q21	3Q21	4Q21	1Q22	2Q22	%qoq	%yoy
Revenue	370	433	544	461	330	(28.6)	(10.9)
Expenses	248	235	306	234	192	(18.0)	(22.6)
Trading value of shares through VND	233,848	271,306	377,791	276,530	191,516	(30.7)	(18.1)
Market share on HSX (%)	6.92	7.72	7.67	8.01	7.96	(0.6)	15.0
Gross margin ratio (%)	33.07	45.67	43.69	49.33	41.84	(15.2)	26.5
Brokerage rate (bps)	15.82	15.97	14.39	16.68	17.21	3.1	8.8

Source: Company data, Korea Investment & Securities

More room to grow margin income

Margin balance at end-2Q was cut 33% qoq to VND11,229bn. Therefore, the revenue decreased to VND434bn (-8.9% qoq, +73.1% yoy). Lending rate was good at 11.8% (+0.8%p qoq). The decreasing rate of revenue is not concern when the balance dropped heavier.

In 1H22, VND completed their increasing plan through issuing rights for existing shareholders with rate 1:1 and price VND10,000/share. The plan generated VND4,350bn in capital which increased owners' equity. Combining with decreased margin balance, current margin loan/equity of VNDirect shranked significantly to 77% (from 155% in previous quarter). In addition, with additional capital, VNDirect not only can enhance their margin loan room but also decrease the interest expense financing for this profession. Thus, the income from margin loan has more potentials in increasing the balance and effectiveness.

Table 2. Margin lending activities

(VND bn, %)

	2Q21	3Q21	4Q21	1Q22	2Q22	%qoq	%yoy
Loan balance	9,302	11,317.0	15,473.5	17,122.5	11,663.8	(31.9)	25.4
Margin loan	8,534	10,915.9	14,418.2	16,081.4	11,229.3	(30.2)	31.6
Advance selling from customer	769	401.1	1,055.4	1,041.1	434.5	(58.3)	(43.5)
Margin loan/Equity (%)	176.5	127.8	146.8	155.3	77.2	(50.3)	(56.3)
Revenue	244	313	437	464	423	(8.9)	73.1
Lending rate (%)	10.4	10.6	11.0	11.0	11.8	7.5	12.9

Source: Company data, Korea Investment & Securities

Reliable IB activities

According to company strategy, VNDirect will diversify IB activities in both underwriting and issuance consulting and financial advisory. The result of IB in 1H22 is showing the positivity. 2Q22 revenue recorded VND84bn (+35.6% yoy) and 1H22 revenue was VND157bn (+122.3% yoy). The effectiveness of IB activities also showed in good revenue for bond trading that recorded under FVTPL below.

Table 3. IB revenue

(VND bn, %)

	2Q21	3Q21	4Q21	1Q22	2Q22	% qoq	% yoy
Revenue	61.9	150.8	44.5	73.2	83.9	14.6	35.6
Expenses	18.6	17.8	5.9	3.2	8.0	148.0	(57.1)
Gross profit	43.3	132.9	38.5	70.0	75.9	8.4	75.5

Source: Company data, Korea Investment & Securities

Bond trading was main contributor for FVTPL profit

As FVTPL comprises many items, we look at the gross profit of each kind of FVTPL class as well as realized profit and unrealized profit. Realized profit comes from the gain and disposal of FVTPL, including listed and unlisted shares, listed and unlisted bonds, derivatives, dividends, and interest received from holding financial assets. Unrealized profit is the revaluation of mentioned financial assets, updated to the end of the reporting period.

As mentioned above about VNDirect's direction for company strategy, the movement of FVTPL balance and income of FVTPL proved the process. FVTPL balance till end-2Q22 recorded VND21,229bn (+35% qoq, +68% YTD). In which, bonds and deposit certificated accounted for the most with 45% each and listed shares only made up 8% in the balance.

Bond trading was main contributor for realized profit of FVTPL in 1H22. Profit from bond trading in 1Q and 2Q was VND123.8bn and VND265.8bn, contributing 74.4%/55.7% in realized profit of FVTPL. 2Q22 was the high record for this revenue. Next, dividend and interest revenue was flourishing with VND199.5bn, equivalent to 41.8% in realized profit structure.

Other financial assets in FVTPL had insignificant effect in profit, namely VND19.1bn loss in listed shares, VND4.3bn profit in covered warrants and VND11bn in derivatives trading.

Table 4. FVTPL realized profit

(VND bn, %)

	2Q21	3Q21	4Q21	1Q22	2Q22	%qoq	%yoy
Gain from disposal FVTPL	187.3	290.4	255.0	215.4	535.2	148.4	185.7
Listed shares	92.4	146.4	107.0	18.1	96.4	433.3	4.3
Covered Warrants	0.8	18.8	7.6	30.9	20.9	(32.2)	2,402.2
Unlisted shares & fund certificates	0.7	5.5	2.7	0.0	0.0	75.6	(97.8)
Listed bonds	2.6	2.4	13.7	8.5	24.0	183.3	831.2
Unlisted bonds	85.1	94.2	118.8	154.5	369.5	139.2	334.3
Derivatives	5.7	23.1	5.3	3.5	24.4	594.1	326.4
Loss from disposal FVTPL	96.9	208.2	246.6	58.1	257.2	342.9	165.4
Listed shares	16.1	59.9	14.9	13.2	115.5	772.7	617.6
Covered Warrants	49.0	82.7	3.1	4.1	16.6	307.6	(66.0)
Unlisted shares	1.0	(0.5)	2.1	0.4	0.4	7.8	(55.6)
Listed bonds	3.3	3.2	2.8	2.9	7.6	167.8	128.1
Unlisted bonds	21.2	52.9	216.9	30.7	103.7	237.8	388.6
Derivatives	6.3	9.9	6.8	6.8	13.3	96.0	112.9
Realized Profit	95.0	134.0	154.2	166.3	477.3	186.9	402.3
Listed shares	76.3	86.4	92.1	4.8	(19.1)	n/a	n/a
<i>Covered Warrants</i>	(48.2)	(63.9)	4.5	26.8	4.3	(83.9)	n/a
Unlisted shares & fund certificates	(0.3)	5.9	0.6	(0.4)	(0.4)	6.3	42.9
Listed bonds	(0.8)	(0.8)	10.9	5.6	16.4	191.1	(2,219.5)
Unlisted bonds	63.9	41.3	(98.2)	123.8	265.8	114.7	316.2
Derivatives	(0.5)	13.2	(1.6)	(3.3)	11.0	n/a	n/a
Dividend, interest from FVTPL financial assets	4.6	53.8	146.3	9.1	199.5	2,097.2	4,259.6
Dividend from AFS	0.0	0.0	0.0	0.0	0.0	n/a	n/a
Transaction cost	0.0	(2.0)	(0.5)	(0.1)	(0.2)	n/a	n/a

Source: Company data, Korea Investment & Securities

For the unrealized profit/loss in 2Q, VNDirect recorded a decreasing VND284bn net adjustment in FVTPL revaluation, by VND55bn up revaluation and VND339bn down revaluation. Increasing revaluations were from covered warrants and listed shares using for hedging covered warrants. Decreasing revaluation was mainly from listed shares with VND270.8bn and the rest was from unlisted shares.

Decreasing liabilities to relieve interest expense

Financial expenses were really high in 2Q22 with VND209bn (+55.5% qoq, +137.6% yoy) because of high liabilities balance. Liabilities in 2Q22 were VND29,945bn (-7.3% qoq, +9.7% ytd). Short-term borrowings account for the most with 69%. Liabilities over total assets ratio is 67.5% which decreased 8.4% qoq due to additional VND4,350bn capital from issuing shares for existing shareholders and a slight reduction in liabilities. Leverage ratio also reduced from 312% in 1Q22 to 205.8% in 2Q22.

Completing 45% profit guidance in first half

1H22 passed with ups and downs for securities companies. But, VNDirect is still on track when completing 66.8%/44.6% of revenue and net profit guidance, respectively. The business result looks promising with revenue of VND3,528.4bn (+59.1% yoy) and net profit of VND1,216.3bn (+28.1% yoy). Revenue from FVTPL gain accounted for 41% in revenue structure, followed by lending revenue (25%) and brokerage revenue (22%).

Profitability ratios were narrowed in this quarter. Net profit margin was 25.9% (17%p qoq). ROE ratio was 21.3% (-4.9%p qoq). However, we do not consider this as a threat because the company may get back the pace easily when a downtrend passes.

Opportunities in second half

Based on VNDirect's company strategy, brokerage for retail investors and bond trading were two main focuses. We see promising mid-term and long-term prospects as below:

- 1) T+1.5 settlement cycle (refer [here](#)) will be implemented from Aug 29. This will help improve the trading activities when investors need shorter time to cycle their capital.
- 2) Tsunami of new accounts opening in 1H22 is a good signal. Having to be mentioned that number of 1H22 new accounts exceeded full-year 2021 by 20%. The competitiveness was ensured and VNDirect can benefit from a more exciting trading liquidity.
- 3) Margin balance is still a cash cow for VNDirect. VNDirect was one of the first securities companies to make the move in increasing capital in 2022. Therefore, they can utilize the capital instead of opening short-term borrowings. Then, the company can reduce the interest expense while opening more room for margin loan balance.
- 4) Corporate bond trading activities were evaluated as slowing down in 2Q22. But, we still see a flourishing result from VNDirect. When the bond market becomes stable and trading activities are more exciting, this will be a promising profit source and significant for the company.

Table 5. Quarterly earnings

(VND bn, %)

	2Q21	2Q22	YoY	1H21	1H22	YoY
Revenue	1,129.4	1,757.2	55.6	2,217.7	3,528.4	59.1
FVTPL gain	362.5	789.4	117.7	809.4	1,455.8	79.9
HTM income	102.5	118.2	15.3	211.3	214.6	1.6
AFS income	(20.0)	0.0	n.a	55.9	0.0	n.a
Loans and receivables	244.4	423.0	73.1	417.3	887.3	112.6
Brokerage	369.9	329.5	(10.9)	638.1	790.8	23.9
IB	61.9	83.9	35.6	70.7	157.1	122.3
Others (inc. custody services)	8.2	13.3	61.4	15.0	22.8	51.7
Expenses	451.2	872.0	93.3	716.1	1,479.5	106.6
FVTPL loss	117.3	596.3	n.a	264.9	849.5	220.7
AFS loss and revaluation	0.0	0.0	n/a	0.0	0.0	#DIV/0!
Prop trading expenses	13.2	4.9	(62.6)	13.2	8.3	(36.7)
Provision and interest expenses	15.4	(29.6)	n.a	23.0	(15.1)	n/a
Brokerage expenses	247.6	191.7	(22.6)	348.5	425.4	22.1
IB expenses	18.6	8.0	(57.1)	18.6	11.2	(39.7)
Others (inc. custody services)	39.2	100.8	157.3	48.0	200.2	317.4
Gross Profit	678.2	885.2	30.5	1,501.6	2,048.9	36.5
Financial activities	(87.8)	(208.5)	137.6	(175.0)	(342.6)	95.8
Revenue	6.2	34.5	n.a	8.5	38.3	353.2
Expenses	93.9	243.1	158.7	183.4	380.9	107.7
SG&A expenses	43.0	115.2	167.9	134.5	190.1	41.4
Operating profit	547.4	561.5	2.6	1,192.1	1,516.2	27.2
Other income	(0.1)	0.1	(209.3)	(0.2)	0.1	(139.4)
Earnings before tax	547.6	561.5	2.5	1,191.9	1,516.2	27.2
Earning after tax	449.9	455.6	1.3	949.8	1,216.3	28.1

Source: Company data, Korea Investment & Securities

■ Company overview

VNDirect has been in top 5 biggest brokers in term of trading value on both HSX and HNX for many years. Since 2021, VNDirect has strongly increased their owners' equity in order to lift up competitive capability. As of 2Q22, VNDirect was placed 2nd in this metric, just behind SSI. VNDirect owns a diversified ecosystem covering wide range of financial sectors.

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Total assets	8,069	10,535	11,577	14,976	37,095
Cash and Cash equivalent	342	915	614	974	2,702
Loans	3,131	2,582	2,887	4,706	15,474
FVTPL (incl. provision)	540	800	1,172	982	12,471
HTM	2,258	5,371	5,548	3,266	5,312
AFS	748	387	783	2,963	0
Accounts receivable (incl. provision)	144	158	219	314	566
Other current assets	13	17	17	14	103
Investments in associates	422	0	0	0	0
Long-term securities investment	300	100	105	1,530	318
Other long-term assets	171	204	221	214	125
Total liabilities	5,553	7,552	8,329	11,157	27,272
Borrowings	4,352	6,012	6,554	9,458	20,449
Bonds	320	1,227	1,104	704	1,250
Other liabilities	15	2	2	13	161
Owners' Equity	2,516	2,983	3,249	3,819	9,822
Common shares	1,550	2,204	2,204	2,204	4,349
Capital surplus	121	121	121	121	1,504
Conversion options on convertible bonds	0	0	0	0	0
Treasury shares	(50)	(201)	(201)	(201)	(0)
Charter reserve	69	90	110	136	222
Financial reserve funds	40	61	81	107	192
Capital adjustment	0	0	0	0	0
Undistributed earnings	785	707	932	1,452	3,556
Minority interests	0	0	0	0	0

Income statement

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Operating income	1,220	1,538	1,502	2,135	6,039
FVTPL gain	283	250	280	776	2,478
HTM income	180	289	391	381	427
AFS income	29	5	20	55	56
Loans and receivables	344	435	408	361	1,167
Brokerage	344	520	335	478	1,615
IB	30	22	48	59	266
Others (inc. custody services)	10	18	19	23	30
Operating expenses	256	610	302	543	2,325
FVTPL loss	65	382	99	290	1,092
AFS loss and revaluation	0	0	0	0	0
Prop trading expenses	0	0	0	0	26
Provision and interest expenses	10	(4)	34	18	74
Brokerage expenses	167	216	155	194	890
IB expenses	3	0	0	0	42
Others (inc. custody services)	11	15	14	41	200
Gross Profit	964	928	1,200	1,591	3,715
Financial activities	(104)	(158)	(186)	(435)	(369)
Revenue	15	4	95	5	3
Expenses	119	162	281	439	372
SG&A expenses	261	305	309	358	300
Operating profit	546	437	456	864	2,981
Other income	35	1	24	(1)	(0)
Earning before tax	580	438	480	862	2,980
Earning after tax	481	373	383	693	2,383

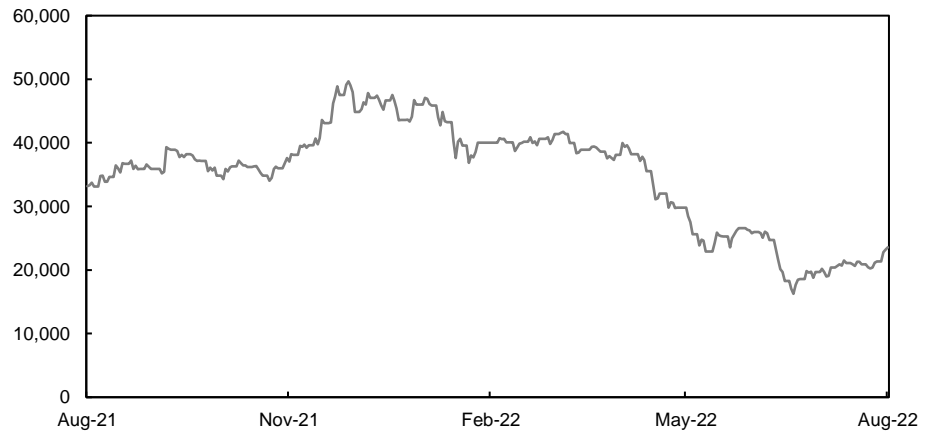
Key financial data

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Operating base					
No. of employees	n/a	n/a	884	931	1,521
Stock trading value (VND tn)	n/a	n/a	136	264	1,046
Margin loan balance (VND bn)	2,995	2,456	2,777	4,304	15,474
Financial Ratios (%)					
Margin loan/Equity ratio	119.1	82.3	85.5	112.7	157.5
Leverage ratio	220.7	253.2	256.4	292.1	277.7
Gross profit margin	79.0	60.3	79.9	74.5	61.5
Net profit margin	25.5	39.4	24.3	25.5	39.5
Growth (%)					
Total assets	55.9	30.6	9.9	29.4	147.7
Owners' equity	29.1	18.6	8.9	17.6	157.2
Net revenue	66.8	26.1	(2.4)	42.1	182.9
Net profit	158.2	(22.4)	2.6	81.0	244.0

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
VNDIRECT Securities (VND)					



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Prepared by: Tri Duong

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