

4 Aug 2022

SSI Securities (SSI)

Long experience made difference

Good preparation saved FVTPL performance

Company significantly increased FVTPL balance to VND17,450bn (+42% YTD) at end-1Q22. In which, they decreased sharply their holding stock while increase strongly their investment in deposit certificates. We highly evaluated risk management strategy from the company when 1) decreasing market risk by downsizing stock portfolio and 2) investing in deposit certificates to enjoy deposit rate's increasing rally. The realized profit from FVTPL was VND201.9bn (-51.6% qoq, -26.8% yoy). Unrealized profit booked VND-50.8bn in the adjustment mainly due to the decrease in revaluation of listed shares.

Improved commision rate...but not enough

Brokerage revenue was VND449bn (-25% qoq, -28% yoy) due to slight ADTV. Gross profit margin for brokerage activities dropped to 26% (-9%p qoq). This is the third consecutive quarter from 4Q21 that profitability of brokerage activities have been decreasing. Despite the enhancement in commision rate, expenses were in a higher growth pace which may be claimed to the increase in number of labor force.

Down in 2Q but still good in 1H

Thanks to flourishing 1Q, half-year business result from SSI still stayed in green. 1H22 revenue was VND3,636bn (+11.2% yoy) and net profit was 1,127bn (11.1% yoy), fulfilling 35%/32% of company's guidance, respectively. Net profit margin was 31% (-5%p vs. 2021FY figure) and ROE was 19.1% (-1.4%p vs. 2021FY figure). However, ~30% completion of guidance in 1H made the full-year target look challenging.

Unbelievably cheap

As of Aug 3rd, SSI is trading at price of VND23.550 dong, PE 7.75x and PB 2.3x. This valuation is attractive within SSI history if we compare with average 2-year PE as of 16x in 2020 and 2021. In addition, sector's PE mean and median are 13.2x and 9.5x, respectively while SSI is among the highest profitability players in the sector. Thus, it makes a great buying chance for investors.

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	2,898	1,405	1,161	1,350	9,727	10.4	1.4	6.9	14.7	4.1
2018A	3,673	1,623	1,303	1,487	10,165	9.0	1.3	7.3	14.7	4.2
2019A	3,235	1,106	907	1,018	10,465	9.3	0.9	6.1	9.8	6.0
2020A	4,367	1,558	1,256	1,383	10,818	15.5	2.0	3.6	13.0	3.1
2021A	7,443	3,365	2,695	2,738	14,440	16.4	3.1	6.2	22.4	0.0

Stock Data

VNIndex (03 Aug, pt)	1,250
Stock price (03 Aug, VND)	23,550
Market cap (USD mn)	1,501
Shares outstanding (mn)	1,490
52-Week high/low (VND)	49,669/16,261
6M avg. daily turnover (USD mn)	18.14
Free float / Foreign ownership (%)	91.4/22.2
Major shareholders (%)	
Daiwa Securities Group	10.4
NDH Investment	6.3
Sai Gon Dan Linh Real Estate	3.7

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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Occurrences of the stock market in 2Q22 were unexpectedly unfavorable for securities companies in general with the 20.5% drawdown in market capitalization. Additionally, market liquidity sharply diminished when average daily trading value (ADTV) in 2Q22 cut 34% qoq to VND20,252bn which equals to 1Q21 period. SSI is no exception when remaining a profitable quarter but decreasing yoy and qoq. Particularly, revenue was VND1,629bn (-18.9% qoq, -7.8% yoy) and net profit was VND421bn (-40.4% qoq, -28.7% yoy). All the professions of SSI had negative growths, except IB revenue with solid income.

Improved commission rate...but not enough

Brokerage revenue was VND449bn (-25% qoq, -28% yoy) due to slight ADTV. The expense for this profession was VND332bn (-14.3% qoq, -10.1% yoy). The good point is that commission rate in 2Q22 was estimated around 19% (+3.1%p qoq). Gross profit margin for brokerage activities dropped to 26% (-9%p qoq). This is the third consecutive quarter from 4Q21 that profitability of brokerage activities have been decreasing. Despite the enhancement in commission rate, expenses were in a higher growth pace which may be claimed to the increase in number of labor force. Number of employees reached 1,451 (+6% qoq, +10.8% ytd).

Table 1. SSI's Brokerage business

(VND bn, %, bps)

	2Q21	3Q21	4Q21	1Q22	2Q22	%qoq	%yoy
Revenue	623	667	792	599	449	(25.0)	(27.9)
Expenses	370	369	498	388	332	(14.3)	(10.1)
Trading value of shares through SSI	330,088	357,652	419,474	324,899	236,271	(27.3)	(28.4)
Market share on HSX (%)	10.97	11.58	11.05	9.66	10.02	3.7	(8.7)
Gross margin ratio (%)	40.67	44.75	37.08	35.25	26.02	(26.2)	(36.0)
Brokerage rate (bps)	18.88	18.65	18.88	18.45	19.02	3.1	0.7

Source: Company data, Korea Investment & Securities

Soft landing for margin balance

In 2Q22, margin balance witnessed the biggest fluctuation in history of company when cutting VND6,000bn margin loan, equivalent to -29.4% qoq. As a result, income from loans was VND483bn (-14.7% qoq, +42.9% yoy) which is not bad as expected. The ratio of margin loan over equity dropped to 101%. There is an on-going plan to issuing shares for existing shareholder with price of VND12,000 and rate 2:1 which will be done in 3Q22, so SSI reserves a spacious room for margin loan when necessary. Same as brokerage profession, we also noticed the enhancement in lending rate of SSI. The lending rate in 2Q22 continuously advanced to 10.5% (+1%p qoq).

Table 1. SSI's margin lending activities

(VND bn, %)

	2Q21	3Q21	4Q21	1Q22	2Q22	%qoq	%yoy
Loan balance	16,159	18,292.9	23,697.9	21,202.9	14,723.8	(30.6)	(8.9)
Margin loan	15,539	18,107.9	22,745.6	20,619.5	14,560.5	(29.4)	(6.3)
Advance selling from customer	613	185.0	952.2	583.4	163.3	(72.0)	(73.4)
Margin loan/Equity (%)	136.3	149.9	160.0	136.8	101.3	(25.9)	(25.6)
Revenue	338	432	556	566	483	(14.7)	42.9
Lending rate (%)	8.3	8.5	9.1	9.5	10.5	9.6	26.0

Source: Company data, Korea Investment & Securities

Solid revenue from IB

Revenue from IB activities sharply increased to VND40bn (+45.6% qoq, +203% yoy). This equals to the peak in 4Q21. Gross profit from IB was VND26.2bn, translating to 64.3% gross profit margin. Main contribution for IB revenue was from advisory service, high probability from capital market when activities in debt market was slowed down during 2Q22. SSI continues to place a high position in peers in IB profession.

Table 3. SSI's IB revenue

(VND bn, %)

	2Q21	3Q21	4Q21	1Q22	2Q22	% qoq	% yoy
Revenue	13.4	38.0	40.0	27.9	40.7	45.6	203.0
Expenses	15.2	12.9	21.2	11.7	14.5	24.1	(4.9)
Gross profit	(1.8)	25.1	18.8	16.3	26.2		n/a

Source: Company data, Korea Investment & Securities

Good preparation saved FVTPL performance

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.

In order to see how good the preparation is from SSI, we have to go through the FVTPL balance's movements from the beginning of the year. In sum, the company significantly increased **FVTPL balance** to VND17,450bn (+42% YTD) at end-1Q22. However, SSI did not increase their holding **stock balance** but decreased it strongly. From VND1,800bn in stock last year, SSI cut to VND668bn with 39%/40% quarter-on-quarter cuts in 1Q22 and 2Q22, respectively. In a contrast direction, they uplifted their **deposit certificates** balance even stronger. From VND6,773bn in deposit certificates last year, it became VND12,489bn with 62%/14% quarter-on-quarter lifts in 1Q22 and 2Q22, respectively.

We highly evaluated risk management strategy from the company when 1) decreasing market risk by downsizing stock portfolio and 2) investing in deposit certificates to enjoy deposit rate's increasing rally. FVTPL balance structure was still dominated by deposit certificates with 70% in weight. But, listed share decreased in value and accounted modestly for 4% (from 15% last year) that would prevent SSI from being affected by unfavorable index movement.

In general, the realized profit from FVTPL was VND201.9bn (-51.6% qoq, -26.8% yoy). Loss from listed shares was VND87bn, this is the first loss from 2021. Profit from unlisted bonds was up significantly to VND101bn (+93.9% qoq, +54.5% yoy). Dividend, interest from FVTPL was VND166bn (-6.6% qoq, +23.2% yoy). Derivatives profession worked efficiently with VND19.5bn profit, after continuously recording big losses in 2021.

Table 4. SSI's FVTPL realized profit

(VND bn, %)

	2Q21	3Q21	4Q21	1Q22	2Q22	%qoq	%yoy
Gain from disposal FVTPL	359.7	155.0	450.3	357.7	216.9	(39.4)	(39.7)
Listed shares	274.4	79.7	232.7	269.4	54.8	(79.7)	(80.0)
<i>Covered Warrants</i>	6.1	39.7	80.1	196.7	8.4	(95.7)	38.0
Unlisted shares & fund certificates	0.1	0.1	83.7	0.3	0.0	(91.4)	(78.9)
Listed bonds	2.2	0.6	0.9	1.8	6.9	275.4	212.9
Unlisted bonds	66.0	64.9	114.6	57.2	106.8	86.6	61.8
Derivatives	17.0	9.7	18.3	28.9	48.5	67.7	184.8
Loss from disposal FVTPL	217.5	143.7	345.6	117.5	180.2	53.3	(17.2)
Listed shares	203.6	65.0	148.6	74.6	141.7	89.9	(30.4)
<i>Covered Warrants</i>	165.3	12.4	52.3	20.5	0.0	(100.0)	(100.0)
Unlisted shares	0.0	0.0	0.7	0.0	0.0	n/a	n/a
Listed bonds	0.7	0.8	1.4	1.3	3.9	195.7	417.4
Unlisted bonds	0.5	5.6	71.7	5.1	5.6	10.7	1,045.7
Derivatives	12.7	72.3	123.2	36.5	29.0	(20.7)	129.0
Realized Profit	276.0	114.9	199.5	417.1	201.9	(51.6)	(26.8)
Listed shares	70.8	14.7	84.2	194.8	(87.0)	(144.6)	(222.8)
<i>Covered Warrants</i>	(159.2)	27.3	27.8	176.3	8.4	(95.2)	(105.3)
Unlisted shares & fund certificates	0.1	0.1	83.1	0.3	0.0	(91.4)	(78.9)
Listed bonds	1.4	(0.2)	(0.5)	0.5	3.0	n/a	n/a
Unlisted bonds	65.5	59.2	42.9	52.2	101.2	93.9	54.5
Derivatives	4.4	(62.6)	(105.0)	(7.6)	19.5	(356.4)	346.6
Dividend, interest from FVTPL financial assets	134.9	104.7	96.9	178.0	166.2	(6.6)	23.2
Dividend from AFS	0.0	0.0	0.0	0.0	0.0	n/a	n/a
Transaction cost	(1.1)	(1.1)	(2.1)	(1.1)	(1.0)	n/a	n/a

Source: Company data, Korea Investment & Securities

Unrealized profit booked VND-50.8bn in the adjustment mainly due to the decrease in revaluation of listed shares. Revaluation for listed shares changed from VND56.5bn in 1Q22 to VND-27.8bn in 2Q22 which caused a VND-84.3bn in net adjustment. Half of the loss was covered by VND36bn plus adjustment in issued CWs of the company. In our view, this is a controlled unrealized loss and it can recover quickly in favorable market movements.

Table 5. SSI's FVTPL revaluation

(VND bn)

	2Q21	3Q21	4Q21	1Q22	2Q22
Revaluation at end of the period	11.7	6.9	175.3	61.3	10.5
Listed shares	32.4	34.2	29.3	56.5	(27.8)
Listed shares for CWs	(0.9)	24.6	(2.6)	(2.7)	0.0
Unlisted shares & Fund certificates	(19.8)	(19.8)	(19.8)	(19.7)	(25.0)
AFS	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)
Covered warrant	4.8	(27.3)	173.1	32.0	68.0
Net adjustment	13.1	(4.8)	168.4	(114.0)	(50.8)
Listed shares	(2.1)	1.8	(4.8)	27.2	(84.3)
Listed shares for CWs	(35.8)	25.6	(27.2)	(0.1)	2.7
Unlisted shares & Fund certificates	(0.0)	(0.1)	0.0	0.1	(5.3)
AFS	0.0	0.0	(0.0)	0.0	0.0
Covered warrant	51.0	(32.1)	200.5	(141.2)	36.1

Source: Company data, Korea Investment & Securities

Worry about financial expenses

Financial activities recorded a loss of VND344bn (+42.8% qoq, +55.7% yoy), the biggest quarterly loss for financial activities. It mainly comes from 1) exchange rate difference and 2) interest expenses.

US Dollar Index (DXY) rocketted from beginning of the year and it created loss for exchange rate. The total loss from exchange rate difference (incl. realized and unrealized loss) in 2Q22 was VND58.6bn. The exchange rate difference usually profitted SSI below VND10bn each quarter.

In addition, interest expenses also increased to VND278bn (+5.6% qoq, +21.4% yoy) due to high balance of liabilities. Liabilities of SSI stayed at around VND35,000bn for 3 quarters before decreasing to VND28,905bn (-17.5% qoq) at end-2Q22. The pressure from paying interest expenses in next quarter will decrease accordingly due to slighter liabilities balance.

Down in 2Q but still good in 1H

Thanks to flourishing 1Q, half-year business result from SSI still stayed in green. 1H22 revenue was VND3,636bn (+11.2% yoy) and net profit was 1,127bn (11.1% yoy), fulfilling 35%/32% of company's guidance, respectively. Net profit margin was 31% (-5%p vs. 2021FY figure) and ROE was 19.1% (-1.4%p vs. 2021FY figure). In our view, profitability decrease arised mostly from a systematic risk of sector not from internal factors. If market occurrences reverse to a brighter look, company may bring the pace back. However, ~30% completion of guidance in 1H made the full-year target looks challenging.

Unbelievably cheap

Stock price has just created a bottom after earning season. Year-to-date drawdown for SSI is 49.1%, from all-time high peak. As of Aug 3rd, SSI is trading at price of VND23.550 dong, PE 7.75x and PB 2.3x. This valuation is attractive within SSI history if we compare with average 2-year PE as of 16x in 2020 and 2021. In addition, sector's PE mean and median are 13.2x and 9.5x,

respectively while SSI is among the highest profitability players in the sector. Thus, it makes a great buying chance for investors.

Prospect for second half

The prediction of movement of index or market liquidity in short-term is impossible. But, we include the prospect of market condition improvement due to the seriousness and activeness of regulators and management bodies in clearing and promoting stock market. Prospect for second half of SSI can be listed as below:

- 1) Generating VND7,500bn from issuing shares for existing shareholders with rate 2:1 and price of VND15,000/share. The plan delayed due to unfavorable market condition. SSI keeps strengthen their 1st place in capital.
- 2) 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.
- 3) 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%. With position of top tier securities company and crowded broker force, we believe SSI can take benefits when these accounts come in the markets.
- 4) Margin balance is still cash cow for sector in general and for SSI in particular. With 100% margin loan/equity ratio and addition VND7,500bn for equity, SSI have competitive advantage over peers.

Table 6. Quarterly earnings

(VND bn, %)

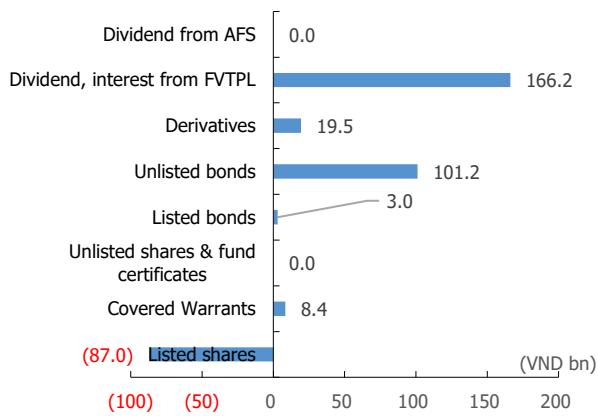
	2Q21	2Q22	YoY	1H21	1H22	YoY
Revenue	1,766.2	1,629.1	(7.8)	3,271.8	3,636.6	11.2
FVTPL gain	594.6	427.4	(28.1)	1,194.7	1,052.8	(11.9)
HTM income	157.5	123.4	(21.7)	329.0	253.9	(22.8)
AFS income	0.0	2.6	n.a	0.0	2.6	n.a
Loans and receivables	338.0	483.0	42.9	583.5	1,049.4	79.8
Brokerage	623.3	449.4	(27.9)	1,059.8	1,048.9	(1.0)
IB	13.4	40.7	203.0	28.8	68.6	138.6
Others (inc. custody services)	39.4	102.6	160.4	75.9	160.5	111.5
Expenses	745.6	695.2	(6.8)	1,441.2	1,511.5	4.9
FVTPL loss	305.5	276.2	n.a	689.7	598.6	(13.2)
AFS loss and revaluation	0.0	0.0	n/a	0.9	0.0	(100.0)
Prop trading expenses	7.6	7.9	4.0	14.2	27.4	92.7
Provision and interest expenses	0.5	(1.2)	n.a	(9.5)	(1.2)	n/a
Brokerage expenses	369.8	332.5	(10.1)	627.1	720.6	14.9
IB expenses	15.2	14.5	(4.9)	30.9	26.2	(15.2)
Others (inc. custody services)	46.9	65.3	39.1	87.9	139.8	59.1
Gross Profit	1,020.6	933.9	(8.5)	1,830.6	2,125.2	16.1
Financial activities	(221.0)	(344.2)	55.7	(452.0)	(585.3)	29.5
Revenue	19.3	(1.8)	n.a	31.3	58.7	87.6
Expenses	240.3	342.4	42.5	483.3	644.0	33.3
SG&A expenses	67.1	69.1	3.0	116.9	136.3	16.6
Operating profit	732.5	520.6	(28.9)	1,261.7	1,403.6	11.2
Other income	1.0	1.9	98.6	1.8	2.2	20.6
Earnings before tax	733.5	522.5	(28.8)	1,263.5	1,405.8	11.3
Earning after tax	590.8	421.2	(28.7)	1,014.5	1,127.4	11.1

Source: Company data, Korea Investment & Securities

■ Company overview

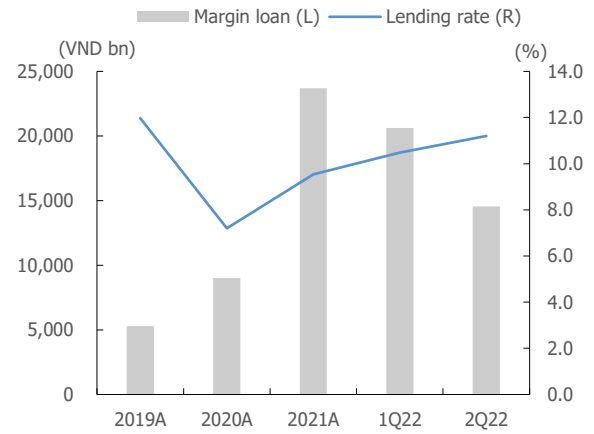
Founded in 1999, Saigon Securities Incorporated is one of the first companies to provide brokerage and investment advisory services in Vietnam. Currently, SSI Securities is the largest broker dealer firm and developing into an investment bank by aggressively expanding into the corporate bond market and asset management. SSI owns SSIAM as an arm for its asset management business.

Figure 1. FVTPL realized profit in 2Q22



Source: Company data, Korea Investment & Securities
 Note: Updated as of 2Q22.

Figure 2. Loan balance and Lending rate



Source: Company data, Korea Investment & Securities
 Note: Updated as of 2Q22.

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Total assets	18,764	23,826	27,044	35,770	50,793
Cash and Cash equivalent	346	613	1,041	363	1,114
Loans	5,764	5,967	5,359	9,226	23,698
FVTPL (incl. provision)	1,408	2,010	4,274	13,204	11,961
HTM	7,882	12,326	10,722	5,592	7,834
AFS	1,535	1,265	760	186	272
Accounts receivable (incl. provision)	157	57	100	318	1,586
Other current assets	136	32	35	151	75
Investments in associates	813	764	794	785	602
Long-term securities investment	130	302	3,445	5,465	3,087
Other long-term assets	593	489	514	480	564
Total liabilities	10,148	14,670	17,643	25,897	36,573
Borrowings	8,504	11,193	15,550	23,351	31,121
Bonds	769	1,323	1,106	1,147	0
Other liabilities	225	132	128	73	94
Owners' Equity	8,616	9,156	9,401	9,873	14,220
Common shares	5,001	5,101	5,101	6,029	9,848
Capital surplus	29	29	29	29	817
Conversion options on convertible bonds	0	114	114	114	0
Treasury shares	(2)	(9)	(19)	(35)	(22)
Charter reserve	355	412	477	522	61
Financial reserve funds	271	328	393	438	496
Capital adjustment	671	319	300	35	30
Undistributed earnings	2,213	2,795	2,941	2,677	2,928
Minority interests	78	67	65	63	63

Key financial data

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Operating base					
No. of employees	n/a	n/a	966	909	1,310
Stock trading value (VND tn)	n/a	n/a	302	419	1,344
Margin loan balance (VND bn)	5,633	5,888	5,286	9,012	23,698
Financial Ratios (%)					
Margin loan/Equity ratio	65.4	64.3	56.2	91.3	166.7
Leverage ratio	117.8	160.2	187.7	262.3	257.2
Gross profit margin	60.8	55.0	63.8	56.4	57.6
Net profit margin	39.5	40.1	35.5	28.0	36.2
Growth (%)					
Total assets	41.9	27.0	13.5	32.3	42.0
Owners' equity	20.5	6.3	2.7	5.0	44.0
Net revenue	30.7	26.7	(11.9)	35.0	70.4
Net profit	32.7	12.2	(30.4)	38.5	114.6

Income statement

(VND bn)

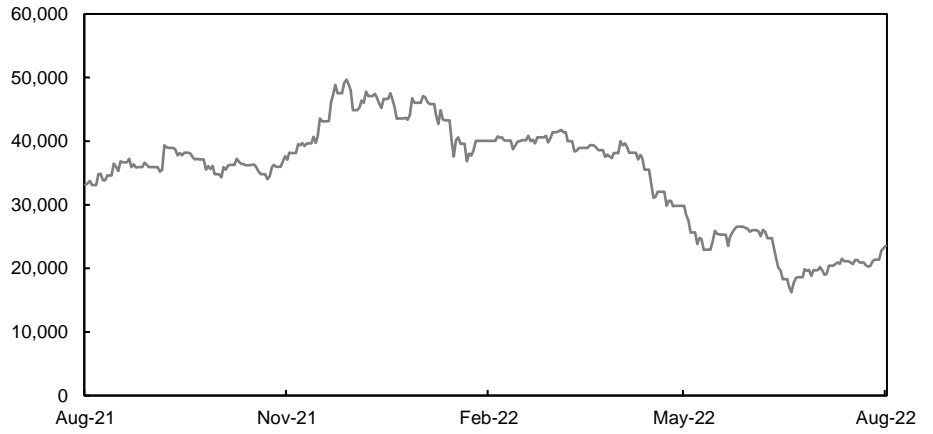
	2017A	2018A	2019A	2020A	2021A
Operating income	2,898	3,673	3,235	4,367	7,443
FVTPL gain	668	647	699	1,779	2,325
HTM income	451	716	991	850	720
AFS income	259	210	83	233	1
Loans and receivables	520	711	678	525	1,571
Brokerage	780	1,131	582	797	2,519
IB	136	155	100	98	107
Others (inc. custody services)	84	104	102	84	200
Operating expenses	1,137	1,651	1,171	1,902	3,155
FVTPL loss	486	622	383	1,003	1,342
AFS loss and revaluation	1	1	0	13	1
Prop trading expenses	7	8	11	24	55
Provision and interest expenses	(51)	40	12	0	(43)
Brokerage expenses	516	773	555	626	1,494
IB expenses	81	74	54	66	65
Others (inc. custody services)	97	134	156	169	241
Gross Profit	1,761	2,022	2,064	2,465	4,289
Financial activities	(174)	(200)	(281)	(772)	(728)
Revenue	95	145	266	67	209
Expenses	269	345	547	839	937
SG&A expenses	168	174	193	184	265
Operating profit	1,392	1,567	1,099	1,552	3,252
Other income	13	56	7	5	113
Earning before tax	1,405	1,623	1,106	1,558	3,365
Earning after tax	1,161	1,303	907	1,256	2,695

Valuation

	2017A	2018A	2019A	2020A	2021A
Per-share (VND)					
BPS	9,727	10,165	10,465	10,818	14,440
EPS	1,350	1,487	1,018	1,383	2,738
DPS	569	569	569	661	n/a
Valuation (x)					
PB	1.4	1.3	0.9	2.0	3.1
PE	10.4	9.0	9.3	15.5	16.4
Dividend yield (%)	4.1	4.2	6.0	3.1	0.0
Payout ratio (%)	46.2	42.0	55.9	51.0	0.0
Profitability (%)					
ROE	14.7	14.7	9.8	13.0	22.4
ROA	7.3	6.1	3.6	4.0	6.2
Commission rate (bp)	n/a	n/a	19.3	19.0	18.7
Lending ratio	10.9	12.1	12.0	7.2	9.5

Changes to recommendation and price target

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



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

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