

Securities

Rebound alongside the overall market

9M23 operating income and NPAT of securities companies under our coverage rose slightly YoY

In 3Q23, the group of 21 securities companies with the largest equity achieved total operating revenue of VND8,655 billion (+15% QoQ, +61% YoY) and NPAT of VND4,803 billion (+37% QoQ, +97% YoY). For 9M23, the figures are VND21,618 billion (+9.9% QoQ) and VND10,722 billion (+2.7% YoY), respectively.

Business segments were mixed while return on equity (ROE) declined due to rapid capital growth and market volatility

In 9M23, securities firms under our coverage delivered VND1,800 billion (-48.9% YoY) and VND8,618 billion (-13.7% YoY) in gross profit of brokerage service and margin lending, respectively. Meanwhile, investment gross profit surged 229.9% from the low base in 2022 to VND10,702 billion. The average ROE in 9M23 was 7.7%, much lower than in the 2020–2021 period due to the rapid capital growth as well as market volatility.

In 2024, the Vietnamese stock market is set to recover well in both absolute value and liquidity

Although the local stock market may still experience corrections in 2024, we anticipate that it will recover compared to the 2022–2023 period, backed by: (1) attractive market valuation at a low P/E and P/B when benchmarking historical figures and (2) rising liquidity thanks to low interest rates and the future operation of the KRX stock trading system.

KRX is expected to become operational in 2024, helping to improve liquidity and paving the wave for the domestic stock market to be upgraded

Once all features of the KRX system are fully implemented, it will bring about significant changes: (1) improving order quantity and matching speed; (2) shortening the standard settlement cycle via T+1 transactions; and (3) significantly improving market liquidity. Along with that, KRX coming into operation will pave the way for the Vietnamese stock market to be upgraded from frontier to emerging status.

Current valuations somewhat reflect short-term expectations regarding the KRX system yet remain attractive in the medium to long term

With the expectation of the recovery of the stock market in 2024 and the positive impacts of the KRX system, investors are encouraged to disburse when the securities stocks retreat to a more attractive price range with a P/B equal to or below the average P/B of the entire industry to enjoy higher returns.

January 4, 2024

Positive initiate

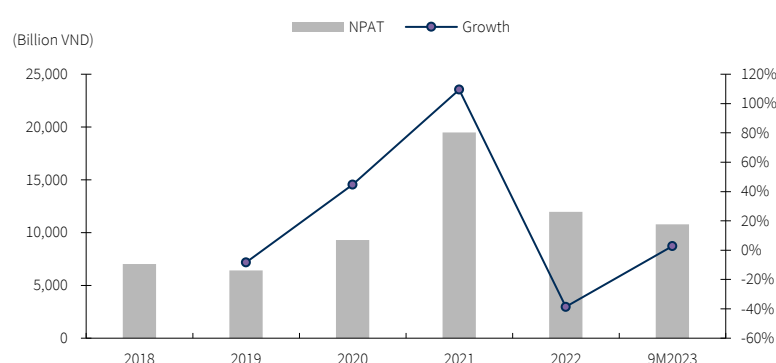
9M23 business performance

9M23 NPAT of securities companies grew by 2.7% YoY

The whole industry's earnings rose slightly in 9M23 thanks to rising liquidity following the market's upward trend in 2Q and 3Q23, positively boosting revenue from brokerage, proprietary trading, and margin lending.

In 3Q23, the group of 21 securities companies with the largest equity (data from these 21 companies are used to represent the entire securities industry in this report) achieved total operating revenue of VND8,655 billion (+15% QoQ, +61% YoY) and NPAT of VND4,803 billion (+37% QoQ, +97% YoY). For 9M23, the figures are VND21,618 billion (+9.9% QoQ) and VND10,722 billion (+2.7% YoY), respectively.

Fig 1. Vietnam – NPAT & NPAT growth of stockbrokers in 2018–9M23 (VNDbn, %)



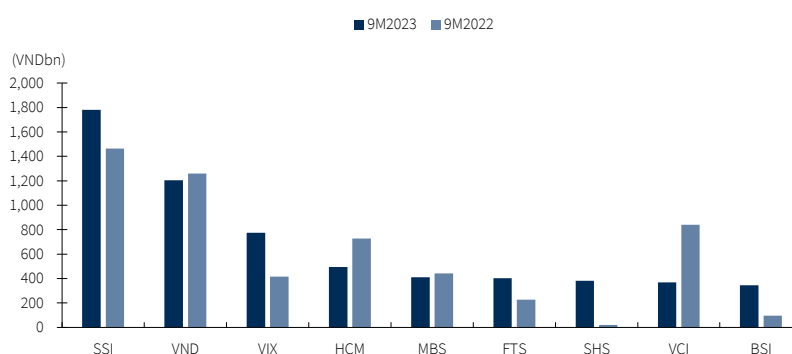
Source: Vietnamese securities companies, KB Securities Vietnam

By the end of 3Q23, SSI Securities (SSI), as a leading stockbroker, still maintained NPAT growth of 21.6% YTD.

VNDirect Securities (VND), Ho Chi Minh City Securities (HCM), and Vietcap Securities (VCI) witnessed a decrease in NPAT due to rising competitive pressure from VPS Securities (VPBS) and new competitors such as Techcombank Securities (TCBS), VPBank Securities (VPBankS)...

Meanwhile, the group of medium-sized companies with a large proportion of proprietary trading such as VIX Securities (VIX), Saigon – Hanoi Securities (SHS), BIDV Securities (BSI) enjoyed high growth in 9M23 thanks to the market recovery.

Fig 2. Vietnam – 9M23 NPAT of listed stockbrokers (VNDbn)



Source: Vietnamese securities companies, KB Securities Vietnam

The capital raising race is still going on

Despite a slowdown, the race to increase capital among local stockbrokers is still going strong. As of 9M23, the total equity of the observed securities firms reached VND172,702 billion (up 12.8% YTD), with average growth in the 2019–9M23 period of 30.8%/year. Some notable capital raising deals in 2023 include: (1) TCBS issued private shares worth VND10,000 billion in 2Q23. As of 3Q23, the equity of TCBS was the highest in the industry, reaching VND22,960 billion. (2) ACBS increased its charter capital from VND1,500 billion to VND4,000 billion, thereby reaching the top 11 in equity capital.

In 2024, the capital increase story will continue as ACB Securities (ACBS) and Hacinco (HSC) both aim to increase capital to over VND7,000 billion or LPBank Securities (LPBS) targets to raise capital from VND250 billion to VND3,888 billion in early 2024.

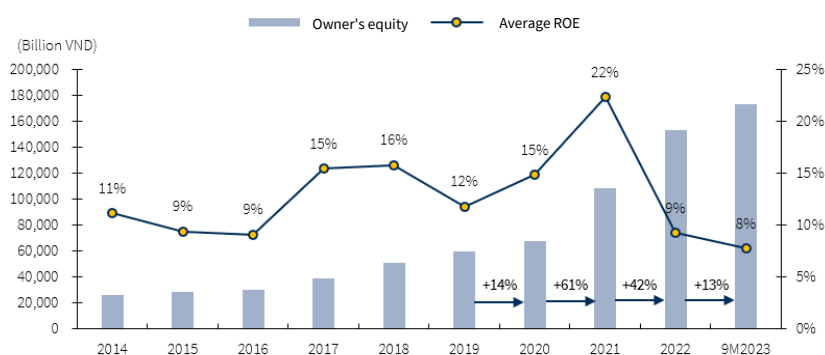
The purposes of continuously increasing capital of securities companies in the recent period are: (1) Increasing the scale of margin lending (According to Decision 87/QĐ-UBCK, total margin loan cannot exceed 200% of equity; and margin lending for one ticker cannot exceed 10% of equity of the securities company); (2) Diversifying approaches to capital sources, especially foreign banks; and (3) adding more resources to invest in digitization.

Rapid capital growth and market volatility negatively impacted ROE of stockbrokers

However, stock market wobbles in 2022 (VN-Index fell by 32.7%) and slow recovery in 2023 (VN-Index increases by 9.7% YTD) coupled with continuous capital increases somewhat affected the ROE of securities companies. In particular, the average ROE as of 9M23 only reached 7.7%, the lowest since 2014 and much worse than in the 2020–2021 period. In KBSV's view, it may take two to three years for stockbrokers to achieve the previously high ROE thanks to rising market liquidity and stockbrokers diversifying business segments and leveraging the additional capital.

The whole industry's profit recovered slightly in 9M23 thanks to the market's increase in 2Q – 3Q23. This also helped liquidity increase and improve brokerage revenue and margin lending.

Fig 3. Vietnam – Equity, ROE of stockbrokers in 2014–9M23 (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

9M23 gross profit of brokerage service plummeted 48.9% YoY

In 9M23, the brokerage service of the securities firms under our coverage Passed gross profit of VND1,800 billion (–48.9% YoY) and gross profit margin (GPM) of 22.9% (–8.1 pts YTD). In terms of brokerage market share, VPS Securities (VPBS) continues to take the lead and leaves others far behind, reaching 19.92% of the HSX brokerage market share (+2.54pts YTD). Meanwhile, the top securities companies in the previous period, such as VNDirect Securities (VND), Ho Chi Minh City Securities (HCM), and Vietcap Securities (VCI), lost their market share to others due to intense competitive pressure.

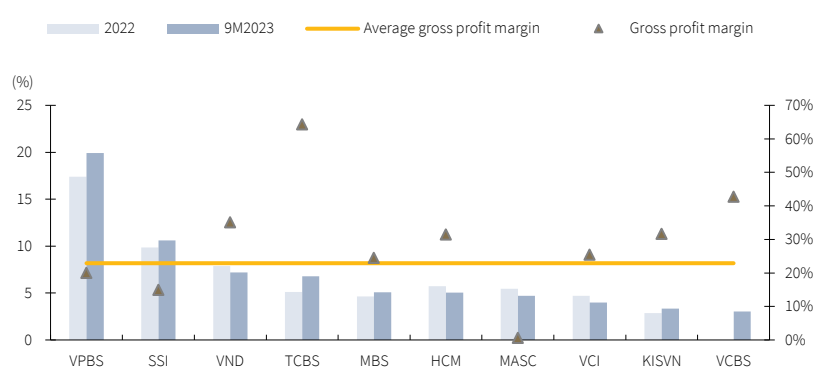
Brokerage margin is following a downward trend due to competitive pressure

Overall, it is clear that brokerage firms are narrowing brokerage margins to increase market share in the context of businesses continuously expanding their scale and market liquidity has not experienced a significant boom. The average gross profit margin in 9M23 was only 22.9% vs. 41% in 9M2018 while 9M23 gross profit equals 9M2018's. Stockbrokers will remain competitive by (1) lowering transaction fees. Currently, most companies have reduced transaction fees to 0.15%, of which the payment to the stock exchange is 0.027% and the securities company portion is 0.123%. Some packages for new customers may not include transaction fees, and they will only have to pay the portion to the stock exchange. (2) increasing commissions for brokers to expand their client base. Current commission fees at securities companies are quite different, fluctuating from 40%–60% of the total transaction fees from customers. Some securities companies want to boost market share and retain employees whose commission rates can exceed 70%.

The trend of narrowing the profit contribution of the brokerage segment may continue in the context of stiff competition. Businesses will sacrifice brokerage earnings to maintain market share and optimize profits from margin lending.

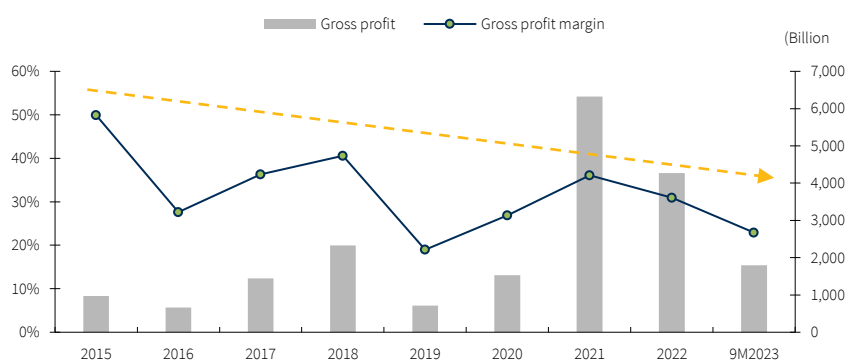
Securities companies with high brokerage market shares and rising coverage such as VPBS and SSI all maintained gross profit margins lower than the industry average.

Fig 4. Vietnam – Brokerage market share and GPM of top 10 HSX-listed stockbrokers (%)



Source: Ho Chi Minh Stock Exchange, Vietnamese securities companies, KB Securities Vietnam

Fig 5. Vietnam – Gross profit, GPM of the brokerage segment in 2015–9M23 (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Gross profit of the brokerage segment of entire industry has decreased recently alongside the development of the VN-Index and market liquidity. Besides, fierce competition makes GPM increasingly narrow.

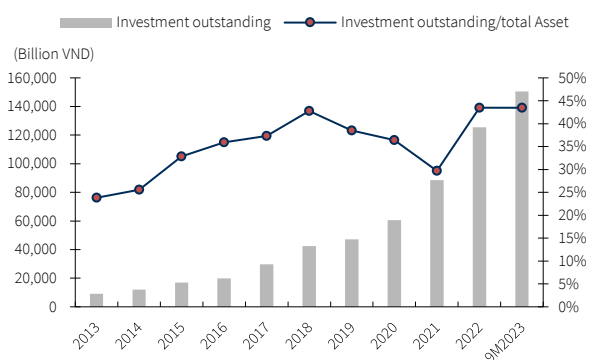
The investment segment eyed a strong recovery due to a low base in 2022

In 9M23, gross profit of the investment segment of the securities enterprises under our coverage surged 229.9% from the low base in 2022 to VND10,702 billion. The average ROE in 9M23 was 7.1% vs. 2.8% in the corresponding period of 2022. It can be seen that with a high proportion of listed stocks in the investment portfolio, the investment rates of securities companies tend to be in phase with the fluctuations of VNIndex (Figure 7). However, the level of investment rate stability is higher thanks to good capital management and investment asset diversity.

The total investment continued to rise, with outstanding investment in FVTPL, HTM, and AFS up 20.1% YTD to VND150,587 billion and a 5-year CAGR of 28.8%. Investment outstanding to total assets in 9M23 maintained the highest level in many years, reaching 43.5%. The main reason is that equity increased sharply but market liquidity was weak, making it difficult for new sources to disburse for margin lending, leading to securities companies to balance their sources to investment assets.

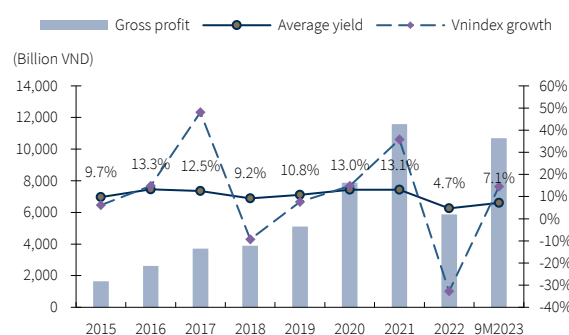
With the expectation that the Vietnamese market will recover well in 2024, KBSV believes the securities industry will continue to see good performance in the investment segment with an average yield of over 9%.

Fig 6. Vietnam – Investment outstanding, investment outstanding/total assets of stockbrokers in 2013–9M23 (VNDbn, %)



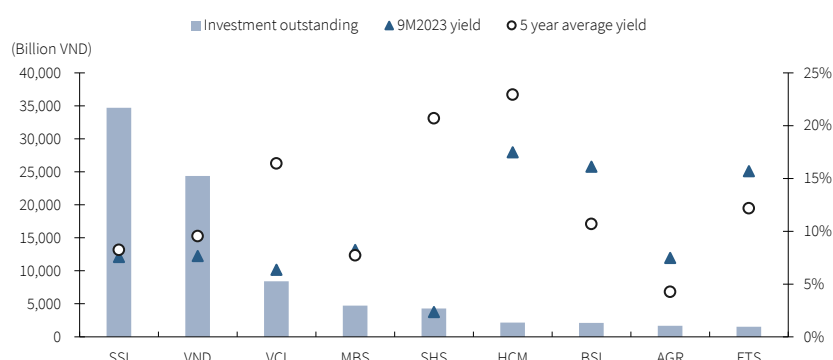
Source: Vietnamese securities companies, KB Securities Vietnam

Fig 7. Vietnam – Gross profit, average yield of the investment segment of stockbrokers, VN-Index growth (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Fig 8. Vietnam – Investment outstanding, yield on investments of some listed stockbrokers in 9M23 (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Although there has been a good recovery compared to 2022, market volatility caused the effective yield in 9M23 of the investment segment of large-cap companies such as SSI, VND, HCM, VCI to be lower than the five-year average.

Margin lending earnings dropped by 13.7% YoY

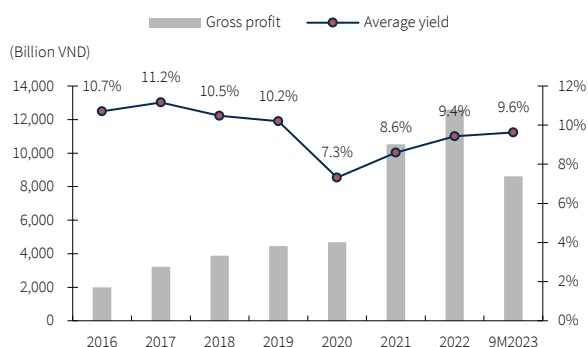
In 9M23, the margin lending segment of securities firms under our coverage generated VND8,618 billion (-13.7% YoY) in gross profit and achieved an average yield of 9.6% (+91bps YoY). The main reason for the decline in gross profit is lower outstanding margin loans following weaker market liquidity in the first half of 2023. The average transaction value in 2023 reached VND17,452 billion, down 16.6% YoY.

Margin lending outstanding/equity was much lower than the maximum level

Outstanding margin loans by the end of September 2023 amounted to VND137,359 billion, up 35.3% YTD due to the low base level at the end of 2022. The ratio of outstanding margin loans/equity in 9M23 reached 79.5%. 2021 is the time when the market has a “liquidity boom” with the average transaction value/session reaching VND25,915 billion. The ratio of outstanding margin loans/equity is at its peak compared to industry history, reaching 153.8%. During this period, many times, some securities companies ran out of lending capacity because the ratio of margin debt/equity reached the limit of 200% according to Decision 87/QĐ-UBCK. However, in the period 2022 – 2023, capital increase deals are taking place continuously, increasing the total equity of the group of securities companies under our coverage to VND172,702 billion, an increase of 60.4% compared to 2021. This helps securities companies ensure the ability to anticipate customer loan needs for the upcoming boom period of the market in the medium and long term.

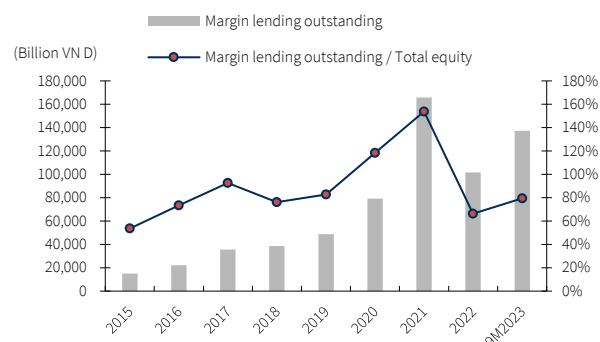
The margin lending segment in recent years has always contributed more than 30% to the gross profit. Along with the capital raising race among securities enterprises, KBSV expects this segment to continue to be the main growth driver for the securities industry in 2024. However, given moderate market liquidity, we assess that competitive pressure will increase, causing businesses to cut margin interest to boost lending.

Fig 9. Vietnam – Margin lending gross profit, margin lending yield of the securities sector (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

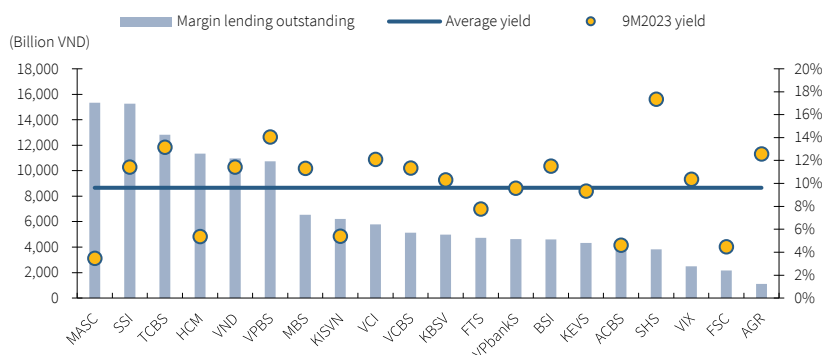
Fig 10. Vietnam – Margin lending outstanding, margin lending outstanding/equity (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Fig 11. Vietnam – Margin lending outstanding, average yield of margin lending of listed stockbrokers in 9M23 (VNDbn, %)

In general, the group of long-standing securities companies with a large proportion of individual customers still maintains high margin lending yields such as SSI, VND, VPS... Meanwhile, the group focuses on institutional customers, especially foreign securities companies with the advantage of cheap mobilized capital and low average yields such as MASC and KISVN.



Source: Source: Vietnamese securities companies, KB Securities Vietnam

2024 outlook

The stock market in 2024 is set to recover well in both absolute value and liquidity

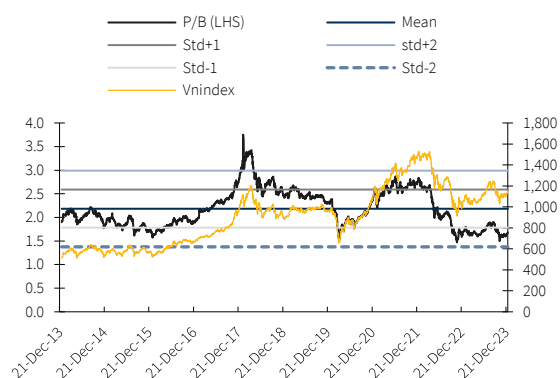
Although the local stock market may still experience corrections in 2024, we assess that it will recover compared to the 2022–2023 period, backed by:

(1) **Market valuation is currently at a low level.** The PE index as of December 22, 2023 reached 14.7x, lower than VNindex's 10-year average PE of 16.6x. With the expected earnings growth of the whole market of ~15% in 2024, driven by consumer goods, materials, and finance groups, 2024 forward P/E of the market should touch 12.8x, below the -1 Std deviation of the 10-year average P/E of 13.5x. Meanwhile, VN-Index's P/B index as of December 22, 2023 was 1.6x, lower than the -1 Std deviation of the 10-year average P/B of 1.8x. VN-Index's P/B of 1.5x–1.6x is also the lowest over the last decade.

(2) **Market liquidity should improve in 2024 thanks to interest rates staying low and the operation of the KRX system.** At the end of 2022 and early 2023, the market tumbled and troughed due to negative international macroeconomic data combined with the bond market crisis and the incident associated with Van Thinh Phat. Trading value during this period fluctuated around VND10,000 – 12,000 billion/session, which we believe will be the bottom in the years to come and will improve in 2024 thanks to (1) the expected market uptrend, attracting cash flow from foreign investors, (2) deposit and lending interest rates remaining low, and (3) the operation of the KRX stock trading system.

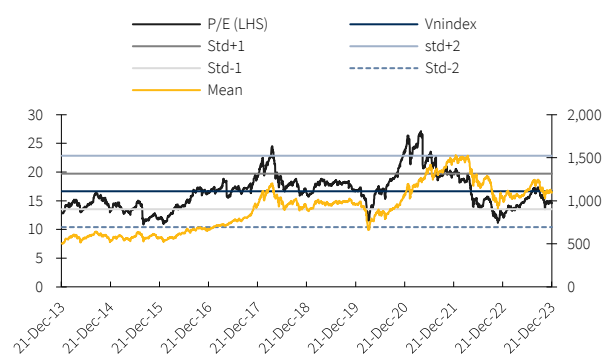
The stock market's recovery will help core businesses of securities companies to record better results, including investment, stock brokerage, and margin lending.

Fig 12. Vietnam – Historical P/B of the VN-Index in 2013–2023 (x)



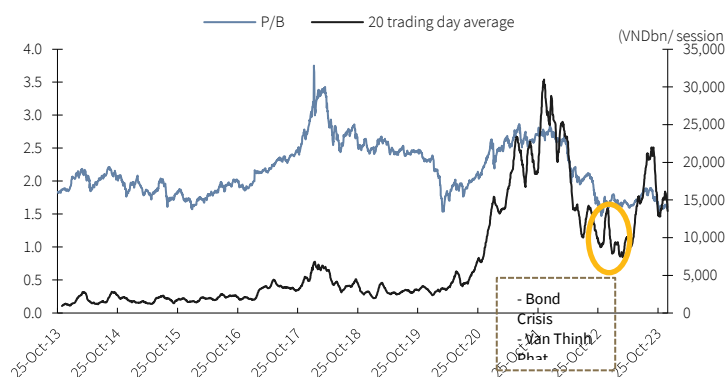
Source: Bloomberg

Fig 13. Vietnam – Historical P/E of the VN-Index in 2013–2023 (x)



Source: Bloomberg

Fig 14. Vietnam – Correlation between P/B & trading value in 2013–2023 (x, VNDbn/session)



Source: Bloomberg

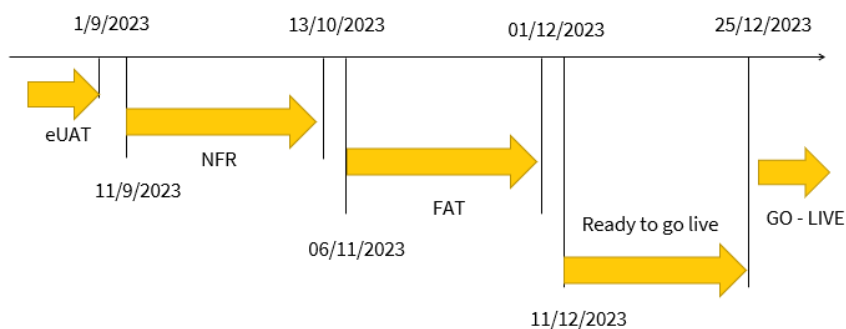
The KRX system is a crucial catalyst for the upward momentum of the securities stocks in 2024

In 2024, information regarding the operation of the KRX system after a 10-year delay is a significant driver for the upward movement of securities stocks. KRX is an information technology system that operates and manages transactions on the Korean stock market. The Ho Chi Minh City Stock Exchange (HOSE) signed an agreement to transfer technology with the Korean Stock Exchange (KRX) in December 2012. The system is expected to go into operation in 2024 after eight years of delay (expected to be completed in 1Q15). When the KRX system is fully operational and utilizes all its features, it will bring about major changes, including: (1) improvement in order quantity and matching speed, (2) shortening the standard settlement cycle via T+1 transactions, and (3) diversification of features and investment forms such as short selling, options contracts, etc. However, in the short to medium term, the KRX system is likely to focus only on basic operations to ensure the stability of the system.

The Go-live time for the KRX system does not align with the original plan of HSX

According to HOSE's original plan, the KRX system will officially go-live on December 25, 2023. However, on December 21, HOSE continued to issue a written notice to member securities companies about conducting final testing in three days from December 22 to December 24 and reporting results to the exchange on December 25. Currently, the likelihood of Go-live in 2023, as per the original plan of HSX, is hard to achieve. In KBSV's view, the implementation time for Go-live could extend to 2Q24 to ensure system perfection and smooth transactions. Fundamentally, the delayed Go-live does not significantly impact trading activities on the market, as liquidity during this period remains moderate. However, there might be psychological effects in the short term, especially for the securities industry group.

Fig 15. Vietnam – KRX go-live plan of the HOSE

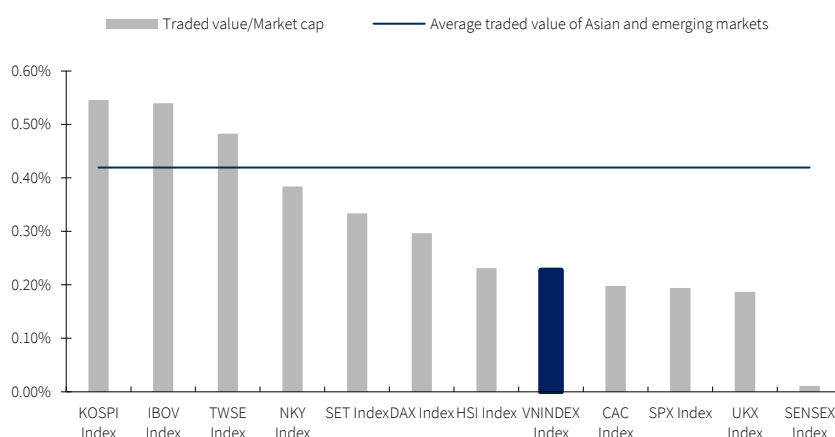


Source: KB Securities Vietnam

Market liquidity should improve well after the stable operation of the KRX system

Improved liquidity due to resolving order congestion, accelerating order processing speed, and implementing T+1 transactions will be the key highlights of the KRX system operation. According to information from HSX, the KRX system will allow securities selling transactions to settle on a T+1 basis right from the initial stage, facilitating a quicker turnover of capital in the trading activities of investors in the market. In markets that have applied permission to stock pending settlement such as the US, Korea, Japan, and Thailand, the average trading value of one session in these markets in the past five years has reached approximately 0.3% of the total market capitalization (Figure 16). This number is even higher for Asian countries and emerging markets, reaching 0.42% (with the transaction value of individual investors accounting for a large proportion) while the average trading value to Vietnam's capitalization is 0.23%. KBSV anticipates that when the KRX system operates stably, it could help the average daily trading value of the VN-Index gradually approach the range of 0.3- 0.4% of the market capitalization, similar to markets that allow T+1 settlement, equivalent to an increase of 30- 70% compared to the average daily trading value of the past five years.

Fig 16. Global – Trading value to average market capitalization (%)



Source: KB Securities Vietnam

The rollout of the KRX system will pave the way for a market upgrade

In September 2023, Vietnam remained on the watchlist for potential reclassification by FTSE Russell, but it has not yet met all the criteria to officially become an emerging market. According to a report from FTSE, Vietnam currently falls short on two out of nine conditions for an upgrade, including: (1) Vietnam failed to meet the ‘settlement cycle (DvP)’ criterion, which is currently rated as restricted due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution and (2) the ‘settlement – costs associated with failed trades’ criterion is unrated since the market does not experience failed trades. The KRX, after being operational, is expected to address both of these issues, but initially, it is likely to apply only to foreign investors and may not be applicable to individual investors. We believe that the opportunity for market reclassification in the FTSE review at the end of 2024 or later, possibly extending into 2025, is plausible.

Table 17. Vietnam – Market rating according to FTSE benchmark

Criteria	Vietnam stock market rating
Legal and regulatory environment	
Formal stock market regulatory authority to monitor the market	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or repatriation of capital & income	Pass
Developed foreign exchange market	
Equity market	
Brokerage – Sufficient competition to ensure high quality broker services	Pass
Transaction costs – Implicit and explicit costs to be reasonable and competitive	Pass
Transparency – Market insights/ visibility and timely trade reporting process	Pass
Clearing, settlement and custody	
Settlement cycle (DvP)	Restricted
Cost of processing failed transactions	No grading
Securities depository center	Pass
Custody – Sufficient competition to ensure high quality custodian services	Pass

Source: FTSE Russell, KB Securities Vietnam

Table 18. Vietnam – Market rating according to MSCI

Criteria	Vietnam stock market rating
Openness to foreign investors	
Requirements on investor qualification	++
Foreign ownership limits	-
Remaining “room” for foreign ownership	-
Equal rights for foreign investors	-
Ease of capital inflow/outflow	
Capital flow limits	++
Degree of freedom of the foreign exchange market	-
Effectiveness of the operational framework	
Investment registry and trading account opening	+
Market regulations	+
Information flow	-
Clearing	-
Depository	++
Registration/depository agency	++
Brokerage	++
Ability to transfer without going through the exchange	-
Margin lending	-
Short sale	-
Diversity of investment tools	++
Stability of the institutional framework	+

Source: MSCI, KB Securities Vietnam

Valuations somewhat reflect short-term expectations regarding the KRX system yet remain attractive in the medium to long term

In 2023, securities stock prices have shown relatively strong upward trends compared to the overall market, reflecting market expectations regarding the operation of the KRX system towards the end of the year. Currently, most stocks in the industry are trading above or near the 5-year average P/B. With the market's expectation for a robust recovery in both absolute value and liquidity in the securities market in 2024, coupled with the positive impact of the KRX system's operation, investors are encouraged to disburse when the securities stocks retreat to a more attractive price range with a P/B equal to or below the average P/B of the entire industry to enjoy higher returns.

Fig 19. Vietnam – P/B of listed stockbrokers (x)



Source: Bloomberg, KB Securities Vietnam

Fig 20. Vietnam – P/B of the securities sector in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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