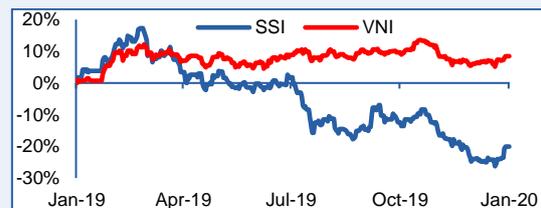


Industry:	Brokerage		2018	2019
Report Date:	January 30, 2020	Revenue y/y	26.7%	-11.9%
Current Price:	VND18,500	NPAT (VND bn)	1,303	907
Current Target Price:	VND22,500	NPAT y/y	12.2%	-30.4%
Upside:	21.6%	GPM	55.0%	63.8%
Dividend yield:	5.4%	NPM	35.5%	28.0%
TSR:	27.0%	P/E	7.2x	10.4x
Rating:	OUTPERFORM	P/B	1.0x	1.0x



			SSI	Peers	VNI
Market Cap:	USD403mn	P/E (ttm)	10.4x	9.4x	15.3x
Foreign Room:	USD181mn	P/B (curr)	1.0x	1.1x	2.2x
ADTV30D:	USD1.1mn	ROE (ttm)	9.8%	11.2%	14.8%
State Ownership:	0%	ROA (ttm)	3.6%	5.2%	2.5%
Outstanding Shares:	508 mn	Net debt/MCap (ttm)	163%	101%	N/A
Fully Diluted Shares:	508 mn				

### Company overview

SSI has consistently been a leading stockbroker over the last five years with operations spanning brokerage, principal investments, asset management and investment banking. SSI was established in 1999 and as of YE2019 employed 966 people with offices in five cities across Vietnam.

## Earnings meet revised guidance

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SSI released consolidated results for FY2019 with the bottom line totalling VND907bn (USD39mn, -30.4% YoY), which achieved 98% our forecast. 2019 revenue/net income achieved 110%/101% of the company's revised guidance. 2019 ROE and ROA stood at 9.8% (-4.9 ppts YoY) and 3.6% (-2.5 ppts YoY), respectively, underscoring sector difficulties that remained in H2 2019. We do not anticipate material changes to our earnings forecasts and/or target price, pending a fuller review.

- 2019 operating income stood at VND3.2tn (USD139mn, -11.9% YoY), which surpassed our forecast by 9%. The beat was mainly due to 38%/7% higher-than-expected gains from financial assets at fair value through profit and loss (FVTPL)/margin lending revenue.
- Gains from HTM securities continued to support operating income with 38.4% YoY growth in 2019, which was thanks to SSI's large HTM balance. However, the 52.6% YoY surge in borrowing costs, equivalent to 83% of gains from HTM securities, materially offset the positive effect and allowed weakness from the brokerage arm (-48.5% YoY) to flow to the bottom line.
- Our estimate of the FY2019 commission rate stands at 19 bps (-1 bp YoY), based on SSI's published client's trading value. We observed five consecutive quarters of downward pressure on average brokerage commissions at SSI from 23 bps in Q3 2018 to 18 bps in Q4 2019.
- Our estimate of SSI's market share in the three combined trading venues dropped from 16.8% in 2018 to 12.5% in 2019. However, we saw a tick-up in market share of SSI's clients from 12.0% in Q2 2019 to 12.3%/12.8% in Q3/Q4 2019. This, coupled with the continuous decline in commission rate, signalled that SSI is willing to sacrifice its commissions to lift market share — though this view still needs validation the coming quarter.

**SSI's margin lending book stabilized against Q3 2019, but its ability to expand was hemmed in by increasing competition.** As mentioned, SSI's 2019 margin lending revenue surpassed our forecast by 7%, which was mainly because its margin lending book was relatively stable against Q3 and also higher than our forecast by 7% (in which we did not model a drop in effective yield). Currently, we do not see signs of a drop in margin lending yield. However, we also see pressure in this segment due to aggressive growth at foreign-funded companies with lower cost of funds like Mirae Asset, which experienced margin loan growth of 106% YoY in FY2019 and 6.9% QoQ in Q4.

**We maintain our expectation of a gradual recovery in market turnover in 2020.** 2019 combined average daily trading turnover (ADTV) was USD207mn vs our forecast at USD206mn. The three newest ETFs are a catalyst for increasing inflows in 2020, in our view, which coupled with a sound macro backdrop and attractive market valuation gives us a base case for single-digit growth in

market turnover in 2020. The tick-up in SSI's market share in H2 2019 is an early positive signal for brokerage revenue to stop dropping in 2020 after 2019's sharp decline. However, we need to monitor the balance of SSI's average commission rate and market share for at least one more quarter to solidify this view.

#### SSI's consolidated 2019 results

	2019	2018	Growth	Q4 2019	Q3 2019	Growth
<b>Operating income</b>	<b>3,235.0</b>	<b>3,672.9</b>	<b>-11.9%</b>	<b>903.6</b>	<b>850.9</b>	<b>6.2%</b>
Gains from FVTPL	699.0	646.8	8.1%	237.4	181.2	31.0%
Gains from HTM	991.2	716.1	38.4%	253.0	269.2	-6.0%
Gains from AFS	83.3	209.5	-60.2%	39.5	13.2	199.9%
Margin lending revenue	677.9	710.9	-4.6%	162.7	180.3	-9.7%
Brokerage revenue	582.1	1,131.0	-48.5%	149.4	148.0	0.9%
Commission rate	19 bps	20 bps	-1 bp	18 bps	19 bps	-1 bp
IB revenue	99.9	154.7	-35.4%	31.0	40.6	-23.5%
Others	101.6	104.0	-2.3%	30.5	18.5	65.2%
<b>Operating expenses</b>	<b>1,171.0</b>	<b>1,651.0</b>	<b>-29.1%</b>	<b>388.4</b>	<b>274.7</b>	<b>41.4%</b>
Loss from FVTPL	382.5	622.0	-38.5%	145.1	93.3	55.6%
Expenses for brokerage	555.5	772.7	-28.1%	160.1	129.1	24.0%
Others	233.0	256.4	-9.1%	83.2	52.3	59.0%
<b>Financial income</b>	<b>66.5</b>	<b>265.8</b>	<b>-75.0%</b>	<b>27.2</b>	<b>19.9</b>	<b>36.7%</b>
Gains from divestments	45.7	238.7	-80.8%	20.5	15.4	33.5%
<b>Financial expenses</b>	<b>838.6</b>	<b>546.9</b>	<b>53.3%</b>	<b>235.6</b>	<b>221.3</b>	<b>6.5%</b>
Borrowing costs	819.0	536.5	52.6%	230.5	215.8	6.8%
G&A expenses	193.2	173.7	11.3%	45.6	44.9	1.5%
<b>Gross operating profit</b>	<b>2,064.0</b>	<b>2,021.8</b>	<b>2.1%</b>	<b>515.2</b>	<b>576.2</b>	<b>-10.6%</b>
<b>PBT</b>	<b>1,105.5</b>	<b>1,623.2</b>	<b>-31.9%</b>	<b>263.0</b>	<b>332.3</b>	<b>-20.9%</b>
<b>NPAT</b>	<b>907.1</b>	<b>1,302.9</b>	<b>-30.4%</b>	<b>220.0</b>	<b>268.9</b>	<b>-18.2%</b>
Margin lending book	5,359.3	5,966.7	-10.2%	5,359.3	5,365.6	-0.1%
GPM %	63.8%	55.0%	8.8 ppts	57.0%	67.7%	-10.7 ppts
NPM %	28.0%	35.5%	-7.5 ppts	24.4%	31.6%	-7.2 ppts

Source: SSI & VCSC, units are in VND bn unless otherwise stated.

## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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