

Industry:	Brokerage		2018	H1/19	2019F
<b>Report Date:</b>	<b>July 24, 2019</b>	Rev Growth	26.7%	-23.5%	4.1%
Current Price:	VND24,700	EPS Growth	10.0%	-45.7%	3.9%
Target Price:	VND29,800	OM	43.4%	40.1%	46.3%
		NPM	35.5%	27.2%	33.6%
Upside to TP:	+20.6%	EPS (VND)	2,428	768	2,523
Dividend Yield:	4.0%	Div/sh (VND)	1,000	N/A	1,000
TSR:	+24.6%	P/E	10.8x	N/A	10.4x



			SSI	Peers	VNI
Market Cap:	USD569mn				
Foreign Room:	USD223mn	P/E (ttm)	11.6x	12.5x	17.0x
ADTV30D:	USD1.5mn	P/B (curr)	1.3x	1.4x	2.5x
State Ownership:	0%	ROE	11.8%	12.7%	14.8%
Outstanding Shares:	509mn	ROA	4.7%	6.1%	2.5%
Fully Diluted Shares:	537mn				

**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 at year-end 2018 employed 1,026 people with offices in five cities across Vietnam.

Trinh Ngo  
Analyst  
[trinh.ngo@vcsc.com.vn](mailto:trinh.ngo@vcsc.com.vn)  
+848 3914 3588 ext. 116

Long Ngo  
Associate Director  
[long.ngo@vcsc.com.vn](mailto:long.ngo@vcsc.com.vn)  
+848 3914 3588 ext. 123

## NPAT declines off high base; brokerage remains weak

SSI's parent company released H1 2019 results, including operating income of VND576.1bn (USD24.7mn, -19.2% YoY) and NPAT of VND391bn (USD16.8mn, -44.7% YoY). A 59.9% YoY drop in brokerage revenue, a 51.2% YoY increase in interest income from HTM assets and 50.7% YoY increase in borrowing cost (all H1 2019 figures) were the major swing factors in the operating income line. The lack of income from the disposal of associate holdings in H1 2019 was the major swing factor on the bottom line. Given that daily turnover on the three trading venues in Vietnam averaged USD200.4mn in H1 2019 vs our current 2019F of USD311.3mn along with the fact that H1 2019 NPAT for the parent company only achieved 30% of our consolidated NPAT 2019F (or 28.2% of AGM 2019 PBT guidance) means there is downside risk to our 2019 earnings projection.

**We estimate SSI's combined market share on the three trading venues dropped from 19.4% in H1 2018 to 13.3% in H1 2019, implying a 61.5% drop in brokerage revenue if commission rates are assumed constant.** Actual brokerage revenue dropped 59.9% over this same period, implying no significant pressure on overall brokerage commission rates if one assumes the difference between the theoretical number and actual number is explained by a slight softening in investment banking related brokerage revenue. For comparison purposes we calculate that HSC's brokerage revenue dropped 48.4% over the same time period.

**SSI builds FVTPL and AFS inventory during H1 2019 with strong growth in listed corporate bonds and positions in MBB and PLX.** The biggest category in the combined mark-to-market classification of FVTPL and AFS are listed securities at 60% as of the end of Q2 2019. SSI sold down the "other" listed equity category, but built up positions in MBB and PLX to bulk up on its overall combined FVTPL and AFS portfolio (up 13.5% YTD when calculated on original cost – the easiest category to track change in holdings). We suspect the growth in listed corporate bonds is an attempt to muscle in on Techcom Securities' strong hold on distributing corporate bonds to retail investors. We also see a build-up of positions in MBB and PLX as a reflection of a bullish view regarding equity capital market prospects.

**Surge in borrowing costs nearly offsets increase of interest income from HTM assets.** SSI maintains a high proportion of HTM assets to total assets that is about 59.4% (+2.9% QoQ). Therefore, we believe the increase in SSI's revenue will be mainly driven by the interest income of assets that are held to maturity (HTM) as we observed that H1 2019 gains from HTM assets rose sharply to VND469bn/USD20.1mn (+51.2% YoY), which accounted for 33.7% of operational revenue in the same period. However, PBT and NPAT will not receive a positive effect from revenue of HTM assets as borrowing costs in H1 2019 increased significantly to approximately VND369bn/USD15.8mn (+50.7% YoY).

**Figure 1: SSI's H1 2019 parent company results**

VND bn	H1 2018	H1 2019	YoY
<b>Operational revenue</b>	<b>1,877.0</b>	<b>1,435.2</b>	<b>-23.5%</b>
Gains from FVTPL	373.8	277.3	-25.8%
Gains from HTM	310.1	468.8	51.2%
Margin lending revenue	381.3	334.9	-12.2%
Brokerage revenue	710.1	284.8	-59.9%
Other income	101.7	69.4	-31.8%
<b>Operational expenses</b>	<b>919.2</b>	<b>490.0</b>	<b>-46.7%</b>
Loss from FVTPL	361.9	142.0	-60.8%
Expenses for brokerage	456.8	266.3	-41.7%
Other expenses	100.4	81.8	-18.5%
Borrowing costs	244.8	368.9	50.7%
<b>Operating income*</b>	<b>713.0</b>	<b>576.1</b>	<b>-19.2%</b>
<b>OM</b>	<b>38.0%</b>	<b>40.1%</b>	<b>2.1 ppts</b>
<b>PBT</b>	<b>871.9</b>	<b>479.1</b>	<b>-45.1%</b>
<b>NPAT</b>	<b>707.5</b>	<b>391.1</b>	<b>-44.7%</b>
<b>NPM %</b>	<b>37.7%</b>	<b>27.2%</b>	<b>-10.5 ppts</b>

Source: Company data, VCSC (\*) We include borrowing cost in the operating income line as we assume most of the borrowing is used to finance the margin lending activities of SSI.

**Figure 2: SSI's Q2 2019 parent company results**

VND bn	Q2 2018	Q2 2019	YoY
<b>Operational revenue</b>	<b>870.9</b>	<b>738.3</b>	<b>-15.2%</b>
Gains from FVTPL	117.3	131.8	12.3%
Gains from HTM	163.5	254.1	55.4%
Margin lending revenue	201.0	178.2	-11.4%
Brokerage revenue	340.3	131.0	-61.5%
Other income	48.7	43.2	-11.3%
<b>Operational expenses</b>	<b>480.4</b>	<b>245.5</b>	<b>-48.9%</b>
Loss from FVTPL	210.1	64.7	-69.2%
Expenses for brokerage	240.0	135.2	-43.7%
Other expenses	30.3	45.5	50.2%
Borrowing costs	128.8	203.9	58.3%
<b>Operating income*</b>	<b>261.7</b>	<b>288.9</b>	<b>10.4%</b>
<b>OM</b>	<b>30.0%</b>	<b>39.1%</b>	<b>9.1 ppts</b>
<b>PBT</b>	<b>392.7</b>	<b>239.2</b>	<b>-39.1%</b>
<b>NPAT</b>	<b>320.2</b>	<b>198.8</b>	<b>-37.9%</b>
<b>NPM %</b>	<b>36.8%</b>	<b>26.9%</b>	<b>-9.9 ppts</b>

Source: Company data, VCSC (\*) We include borrowing cost in the operating income line as we assume most of the borrowing is used to finance the margin lending activities of SSI.

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OUTPERFORM	If the projected TSR is between 10% and 20%
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## Contacts

### Corporate

[www.vcsc.com.vn](http://www.vcsc.com.vn)

#### Head Office

Bitexco Financial Tower, 2 Hai Trieu Street  
District 1, HCMC  
+84 28 3914 3588

#### Transaction Office

10 Nguyen Hue Street  
District 1, HCMC  
+84 28 3914 3588

### Research

**Research Team:** +84 28 3914 3588  
[research@vcsc.com.vn](mailto:research@vcsc.com.vn)

#### Banks and Securities

##### Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Trinh Ngo, Analyst, ext 116

#### Consumer and Pharma

##### Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Nghia Le, Analyst, ext 181

#### Real Estate, Construction and Materials

##### Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

#### Retail Client Research

##### Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Trung Nguyen, Analyst, ext 129

### Institutional Sales and Brokerage

& Foreign Individuals

#### Dung Nguyen

+84 28 3914 3588 ext 136  
[dung.nguyen@vcsc.com.vn](mailto:dung.nguyen@vcsc.com.vn)

### Retail & Corporate Brokerage

#### Ho Chi Minh City

Quynh Chau  
+84 28 3914 3588, ext 222  
[quynh.chau@vcsc.com.vn](mailto:quynh.chau@vcsc.com.vn)

#### Hanoi Branch

109 Tran Hung Dao  
Hoan Kiem District, Hanoi  
+84 24 6262 6999

#### Transaction Office

236-238 Nguyen Cong Tru Street  
District 1, HCMC  
+84 28 3914 3588

#### Alastair Macdonald, Head of Research, ext 105

[alastair.macdonald@vcsc.com.vn](mailto:alastair.macdonald@vcsc.com.vn)

#### Macro and Insurance

- Cameron Joyce, Manager, ext 163

#### Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

#### Oil & Gas and Power

##### Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Duc Le, Analyst, ext 196

#### Industrials and Transportation

##### Lucy Huynh, Senior Manager, ext 130

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

#### Hanoi

Quang Nguyen  
+84 24 6262 6999, ext 312  
[quang.nguyen@vcsc.com.vn](mailto:quang.nguyen@vcsc.com.vn)