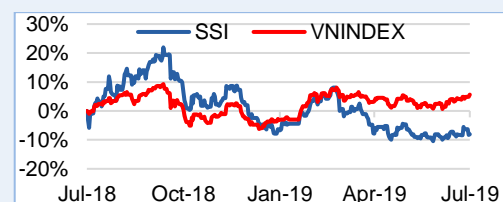


Saigon Securities Corporation (SSI)

Earnings Flash

Industry:	Brokerage		<u>2018</u>	<u>H1/19</u>	<u>2019F</u>
Report Date:	July 24, 2019	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

Market Cap:	USD569mn		<u>SSI</u>	<u>Peers</u>	<u>VNI</u>
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.

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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
Operational revenue	1,877.0	1,435.2	-23.5%
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%
Operational expenses	919.2	490.0	-46.7%
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%
Operating income*	713.0	576.1	-19.2%
OM	38.0%	40.1%	2.1 ppts
PBT	871.9	479.1	-45.1%
NPAT	707.5	391.1	-44.7%
NPM %	37.7%	27.2%	-10.5 ppts

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
Operational revenue	870.9	738.3	-15.2%
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%
Operational expenses	480.4	245.5	-48.9%
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%
Operating income*	261.7	288.9	10.4%
OM	30.0%	39.1%	9.1 ppts
PBT	392.7	239.2	-39.1%
NPAT	320.2	198.8	-37.9%
NPM %	36.8%	26.9%	-9.9 ppts

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%
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
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