

# Securities

## Expecting a market upgrade in 2025

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**Neutral** change

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### **Operating income and NPAT of securities companies in our watch list in 3M24 show strong improvement compared to the same period last year**

In 1Q24, TOI of 21 largest securities companies hit VND9,148 billion (+14.0% QoQ, +66.9% YoY), and PBT reached VND5,309 billion (+34.6% QoQ; +114.3% YoY). The rebound in 1Q profit was attributable to price rallies and higher market liquidity that positively affected the business performance of securities companies.

### **The recovery momentum comes from all business segments, especially the stock brokerage and investment segments**

In 1Q24, the gross profit of the brokerage segment of the securities companies we covered was VND881 billion (+314% YoY) and that of the investment segment reached VND4,395 billion (+120.3% YoY). The margin lending segment brought in VND3,844 billion (+57.3% YoY) with an average yield of 9.5%. 12-month cumulative ROE rose from 8.9% in 2023 to 10.3%, but this is still low compared to previous years due to securities companies promoting capital increases.

### **KBSV expects the stock market to have positive developments in price and liquidity in 2H24**

KBSV maintains a positive view on price and liquidity for the Vietnamese stock market in the second half of the year, based on: (1) The market valuation is reasonable; and (2) market liquidity may remain high thanks to low interest rates.

### **Market upgrading will boost Vietnam's securities sector in the medium and long term**

KBSV believes that the probability for Vietnam market upgrading in this September is not high as issues related to the mechanism and system require a lot of time to resolve. However, with the determination of the Government, we expect that this will be possible in 2025 (upgrade according to FTSE Russell's assessment).

### **The current valuation has partly reflected the positive outlook, there is not much room for short-term growth**

KBSV believes that the current prices of stocks have partly reflected the positive outlook in 2H24. Investors may consider accumulating leading stocks with strong resources and reasonable prices such as SSI Securities (SSI), HCM Securities (HCM), and Vietcap Securities (VCI).

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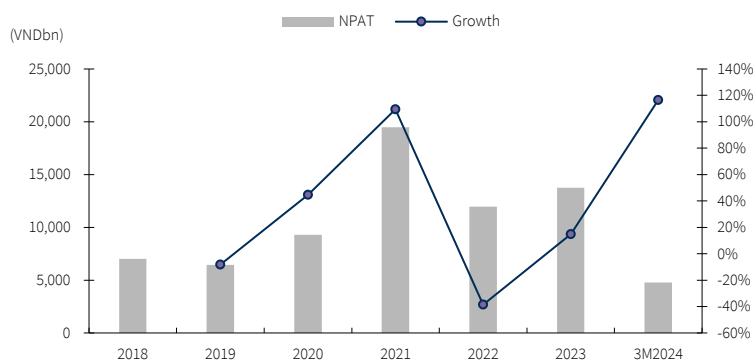
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## I. Business performance in 1H24

### 1Q24 NPAT of the whole securities sector surged 114% YoY

In 1Q24, TOI of 21 largest securities companies hit VND9,148 billion (+14.0% QoQ, +66.9% YoY), and PBT reached VND5,309 billion (+34.6% QoQ; +114.3% YoY). The rebound in 1Q profit was attributable to price rallies and higher market liquidity that positively affected the business performance of securities companies.

**Fig 1. Vietnam – NPAT growth of securities companies in 2018–3M24 (%)**

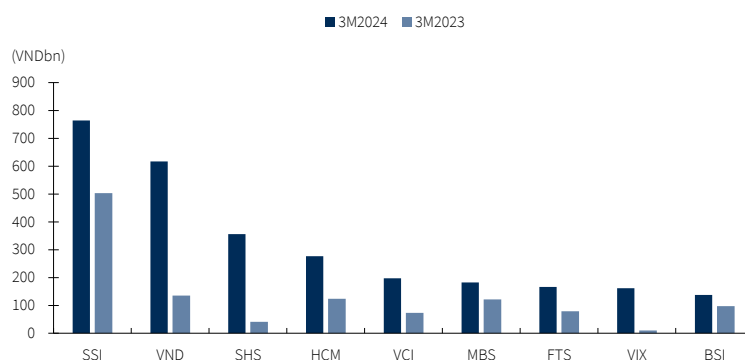


Source: Securities companies, KB Securities Vietnam

Securities companies all posted strong growth in 1Q24 thanks to a low base in 1Q23. Saigon – Hanoi Securities (SHS, +771% YoY), VNDirect (VND, +355% YoY), and VCI (+171% YoY) are outperformers.

SSI is the leading enterprise in the industry with NPAT reaching VND764 billion (+52% YoY), following Techcom Securities (TCBS).

**Fig 2. Vietnam – NPAT of listed securities companies in 3M24 (VNDbn)**



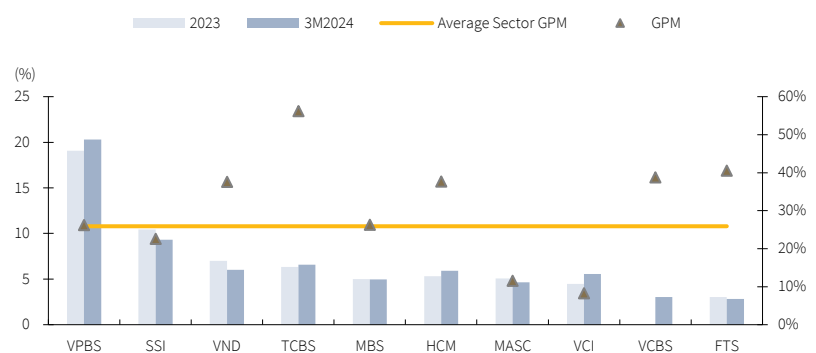
Source: Bloomberg, KB Securities Vietnam

**Profit from securities brokerage spiked 314% YoY**

In 1Q24, the gross profit of the brokerage segment of the securities companies we covered was VND881 billion (+314% YoY, and gross profit margin rose 5.6ppts YTD to 25.9%. In terms of market share, VPS Securities (VPSS) continued to lead and widened the gap with the group behind, reaching 20.3% of the HSX brokerage market share (+1.2ppts YTD). Meanwhile, HCM and VCI had a good recovery in market share, reaching 5.9% and 5.6%, respectively, up +0.6ppts YTD and 1.1ppts YTD. On the contrary, SSI and VND’s market shares decreased by 1.1ppts and 1.0ppts YTD, respectively.

Leading securities companies such as VPBS and SSI all maintained GPMs lower than the industry average.

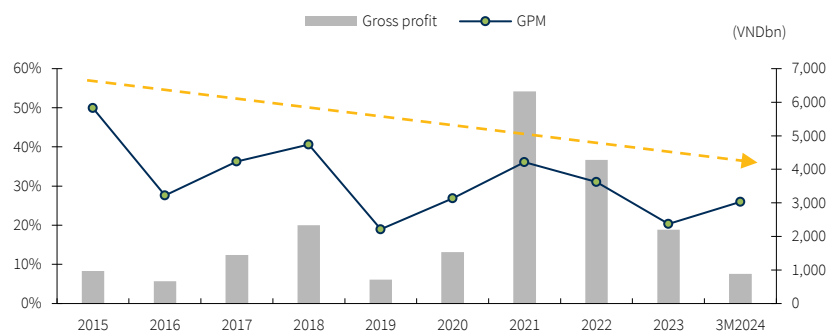
**Fig 3. Vietnam – Market share and GPM of the stock brokerage of the top 10 companies on the HSX (%)**



Source: Securities companies, KB Securities Vietnam

Gross profit improved strongly since (1) market liquidity increased sharply YoY. Total market transaction value in the first three months of the year increased by 10.9% YoY. (2) GPM improved thanks to higher revenue.

**Fig 4. Vietnam – Gross profit of brokerage segment in 2015–3M24**

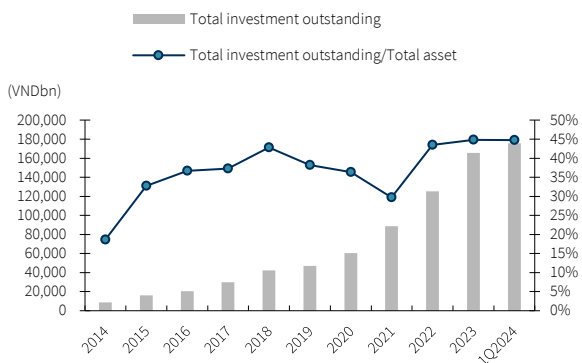


Source: Securities companies, KB Securities Vietnam

**Profit from securities investment segment surged 120% YoY thanks to price rallies**

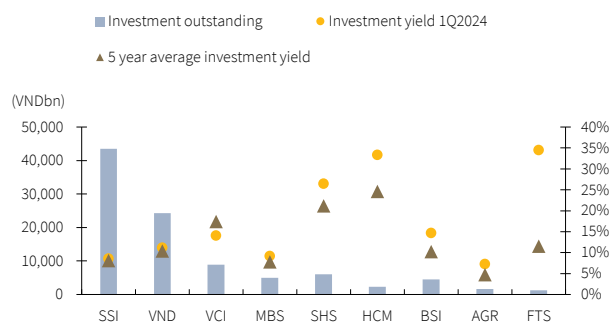
In 1Q24, the gross profit of the investment segment of the covered securities companies hit VND4,395 billion, surging 120% YoY because: (1) Comparative levels in 1Q23 are low, the VNindex index gained 13.6% YTD; and the average yield in 3M24 reached 11.1%/year, much higher than 3M23’s 6.0%/year. (2) High-yield investments were held in the early stages of 2023. Regarding investment scale, as of 1Q24, the total investment balance including FVTPL, HTM, and AFS reached VND175,488 billion, up 6.0% YTD. Investment/total assets in 1Q24 has been the highest for many years, reaching 45% (Figure 5) as companies accelerated raising capital recently while the disbursement for margin loans is still quite limited.

**Fig 5. Vietnam – Investment segment of securities companies in 2014-1Q24 (VNDbn)**



Source: Securities companies, KB Securities Vietnam

**Fig 6. Vietnam – Investment segment & average yield of securities companies in 3M24 (VNDbn, %)**

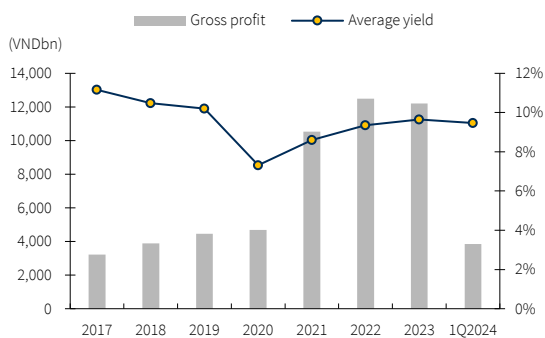


Source: Securities companies, KB Securities Vietnam

**The margin lending segment increased by 57.3% thanks to improved market liquidity**

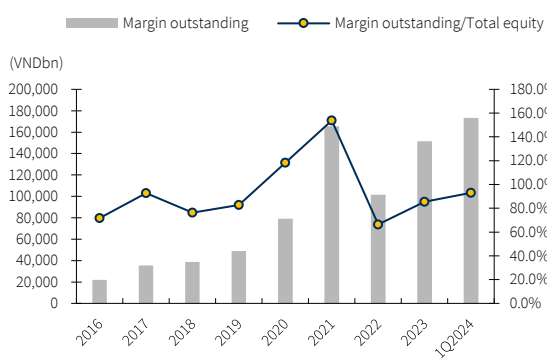
In 3M24, the gross profit of the margin lending segment of the covered securities companies rose 57% YoY to VND3,844 billion with an average yield of 9.5%, lower than the average yield of 9.7% for the whole year 2023 (Figure 7). The main supportive factor is the recovery of market liquidity, leading to the need for margin loans. Outstanding margin loans in 1Q24 reached VND173,390 billion, the highest level ever. However, the scale of margin lending/equity is quite low at 93% (Figure 8), implying that the segment still has a lot of room to develop when market liquidity improves.

**Fig 7. Vietnam – Gross profit & average yield of margin lending segment of the whole industry in 2016-1Q24 (VNDbn, %)**



Source: Securities Companies, KB Securities Vietnam

**Fig 8. Vietnam – Total margin loans of the whole industry in 2015-1Q24 (VNDbn)**



Source: Securities Companies, KB Securities Vietnam

## II. Business outlook for 2H24

### The market prices and liquidity should remain positive in 2H24

KBSV maintains a positive view on price and liquidity for the Vietnamese stock market in 2H24, based on the following assumption:

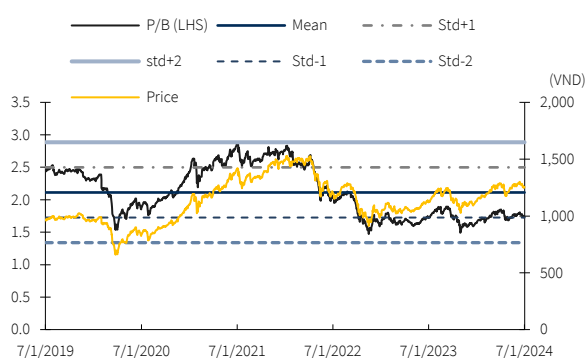
(1) **Market valuation is still at a reasonable level.** KBSV lowered its forecast for market-wide profit growth to 10% in 2024 after considering a modest gain in 1Q24 (up 7% YoY). 2024 forward PE is expected to reach 14.6x, 12% lower than VNIndex's 10-year average PE of 16.6x (Figure 9).

Meanwhile, the VNIndex's P/B as of June 24, 2024 reached 1.74x, lower than the -1Std of the 10-year average P/B of 1.78x (Figure 10).

(2) **Market liquidity will remain high in 2H24 thanks to low interest rates.**

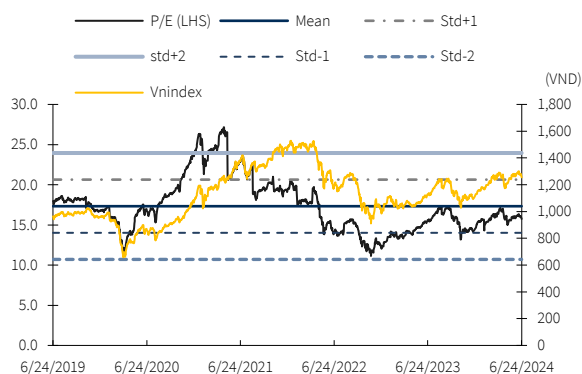
Although exchange rate pressure at the present makes banks appreciate the possibility that deposit interest rates will increase by about 100–150bps from the low level at the beginning of the year. The base interest rate after the increase is only 30–50bps higher than the 2021–2022 period's (Figure 11), thereby stimulating demand for stock investment when the deposit channel does not bring attractive profits. In addition, the expected moves to reduce interest rates from major central banks such as the ECB, Fed, and BOJ in 2H24 and 2025 will narrow the interest rate gap with Vietnam, potentially changing the trend of foreign net sell from 1H24.

Fig 9. Vietnam – PB of VNIndex in 2014–2024 (x)



Source: Bloomberg, KB Securities Vietnam

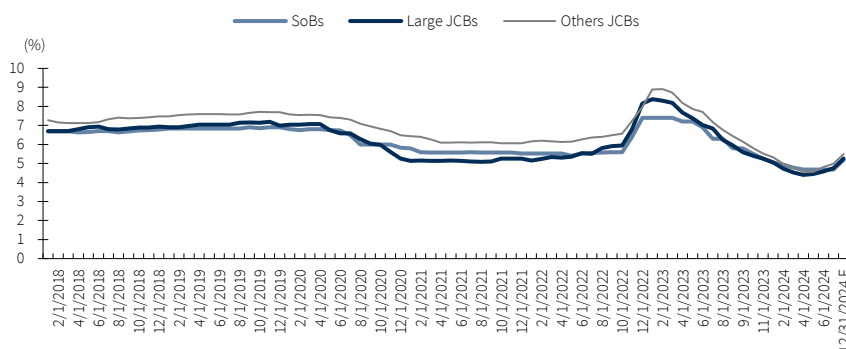
Fig 3. Vietnam – PE of VNIndex in 2014–2024 (x)



Source: Bloomberg, KB Securities Vietnam

**Fig 21. Vietnam – Customer deposit interest rates in 2018 – 2024 (%)**

Customer deposit interest rates show signs of increasing again after bottoming out in 3Q23. With an increase of about 50–100bps from now until the end of the year, the deposit interest rate will be equivalent to the low average in the period 2021 – 2022.



Source: Wichart

**Vietnam market upgrade will be a driving force for the securities sector in the medium and long term**

In March 2024, 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. On February 28, 2024, Prime Minister Pham Minh Chinh committed to amending relevant legal regulations and removing barriers for foreign investors so that Vietnam market can be upgraded. KBSV believes that the probability for Vietnam market upgrading in this September is not high as issues related to the mechanism and system require a lot of time to resolve. Authorities need to focus time and resources and prepare risk-management plans to build a mechanism that will not require pre-funding. However, with the determination of the Government, we expect that the market may receive the decision for upgrade in 2025 and officially become an emerging market under the FTSE review in 2025–2026.

**Table 12. Vietnam – Market rating according to FTSE benchmark**

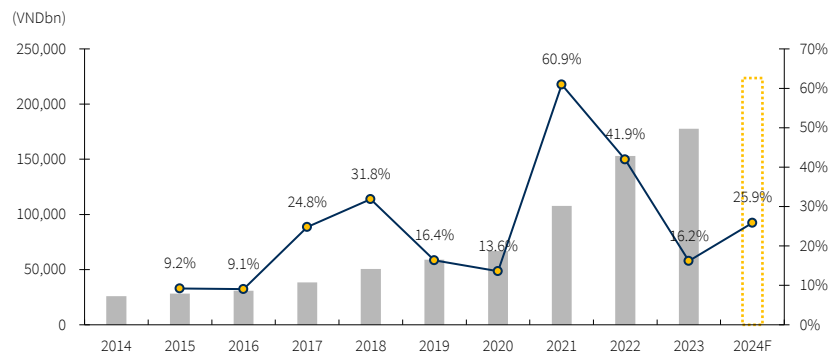
Criteria	Vietnam stock market rating
Legal and regulatory environment	
Formal stock market regulatory authority to monitor the market	Pass
No objection to or significant restrictions or penalties applied to the investment of capital or repatriation of capital & income	Pass
Developed foreign exchange 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

**Securities companies will further raise charter capital in 2H24**

Securities companies will continue to promote capital increases for the rest of 2024. According to KBSV's summary, the group of observed securities companies is expected to increase a total of more than VND26 trillion in charter capital, equivalent to an increase of 23% compared to 1Q24 through issuance to existing shareholders, private placement and ESOP. Some notable cases include VND (expected to issue 511.5 million new shares) and SHS (expected to issue 818.2 million shares) or VIX (issue 655.97 million shares). The newly added capital will boost the business activities of securities companies by (1) increasing margin lending resources; (2) supplementing resources for investment; and (3) raising investment in systems, technology, and personnel.

**Fig 33. Vietnam – 2014–2024F equity size (VNDbn)**



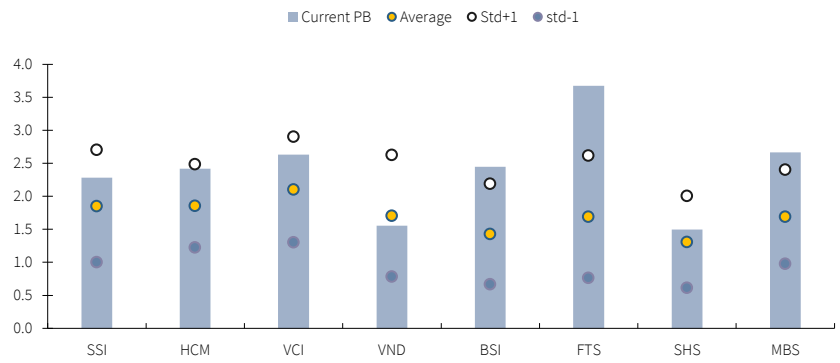
Source: Securities companies, KB Securities Vietnam

**The current valuation has partly reflected positive prospects with less room for short-term growth**

In the first four months of 2024, securities stocks witnessed strong rallies in price compared to the general market, reflecting the market's expectations for the increase in VNindex as well as the operation of the KRX system at the end of the year. Currently, stocks in the industry are trading above or close to the std+1 area of the five-year average P/B. We think that the current price level has partly reflected the positive outlook in 2H24, which, when combined with the lack of information related to the KRX rollout, may trigger short-term corrections. Investors can consider and choose to invest in corrections in the industry's leading stocks which have diversified their business activities, had strong resources and reasonable price ranges such as SSI, HCM, and VCI. For the group of stocks of mid-sized securities companies that have had strong increases such as FTS, MBS and BSI, investors prioritize disbursement at deep adjustment periods and need to closely monitor the investment portfolio performance of these companies.



Fig 44. Vietnam – P/B of listed securities companies (x)



Source: Bloomberg, KB Securities Vietnam

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## Investment ratings & definitions

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### Investment Ratings for Stocks

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

Buy:	Neutral:	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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