RONG VIET SECURITIES

PRELIMINARY 2H2021 OUTLOOK

SECURITIES

OPPORTUNE ENVIRONMENT

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Active market performance in the context of complicated pandemic development

- The number of total securities holding accounts has grown strongly to reach approximately 3.4 million, resulted from 630,000 cumulative newly opened accounts in 1H2021 (57% higher compared to that of 2020). With more than 90% of newly opened accounts belonging to individuals, retail investors were the main force propelling the index.
- Volume rose. Margin loan increased accordingly to the peak at VND 127 trillion (USD 5.5 bn), contributed to the market liquidity (VND 22.8 trillion or USD 1 bn of the daily average transaction value) as well as market performance (VNIndex, +28% YTD).
- Those factors created a favorable background resulting in dynamic earnings growth of securities firms, which was led by margin lending, securities services and proprietary trading.

Equity market and digitalization drove earnings in the first half

- The securities industry posted resilient growth, which was mainly driven by traditional businesses rather than investment banking services. The pandemic acts as a catalyst which droves the stock market with a higher contribution from retail investors. Favorable conditions facilitated earnings growth.
- Technology has been applied in operation, various products and selling channels to improve profit margins by lowering average operating expenses for brokerage services.
- Medium to small securities firms tended to have three-digit growth.

Figure 1: Transaction volume and change in index (shares, %QoQ)

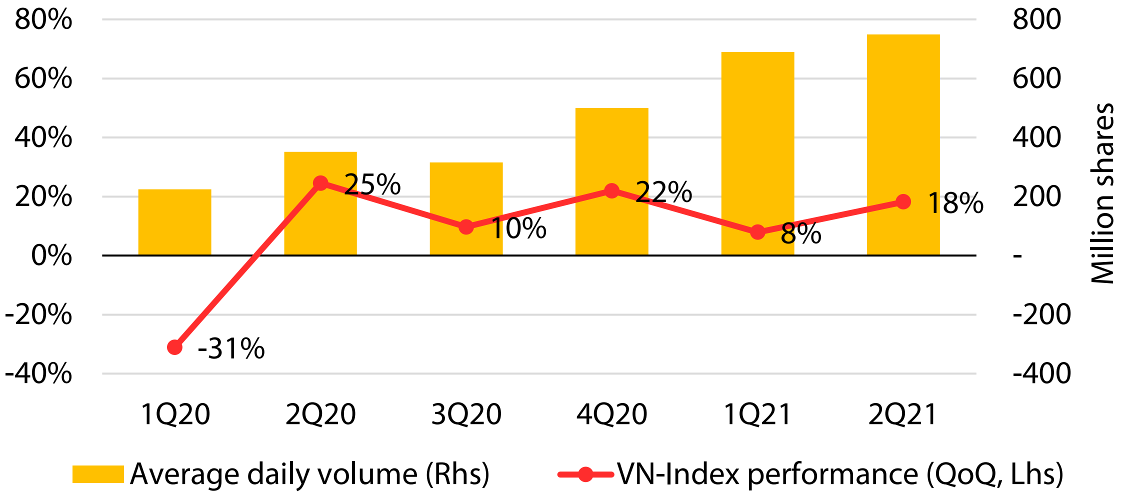
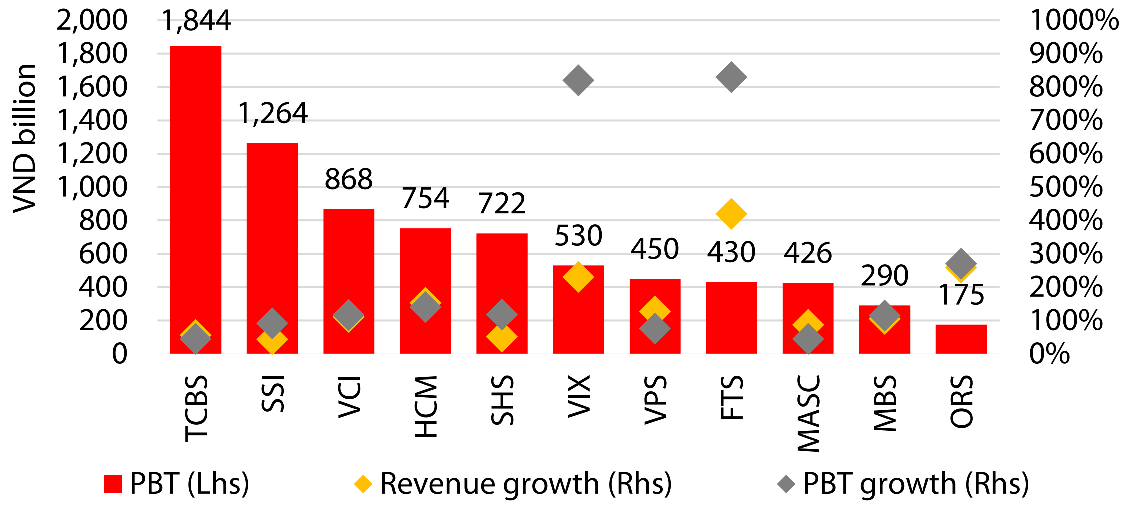


Figure 2: 1H2021 revenue and PBT of several firms (VND, %YoY)

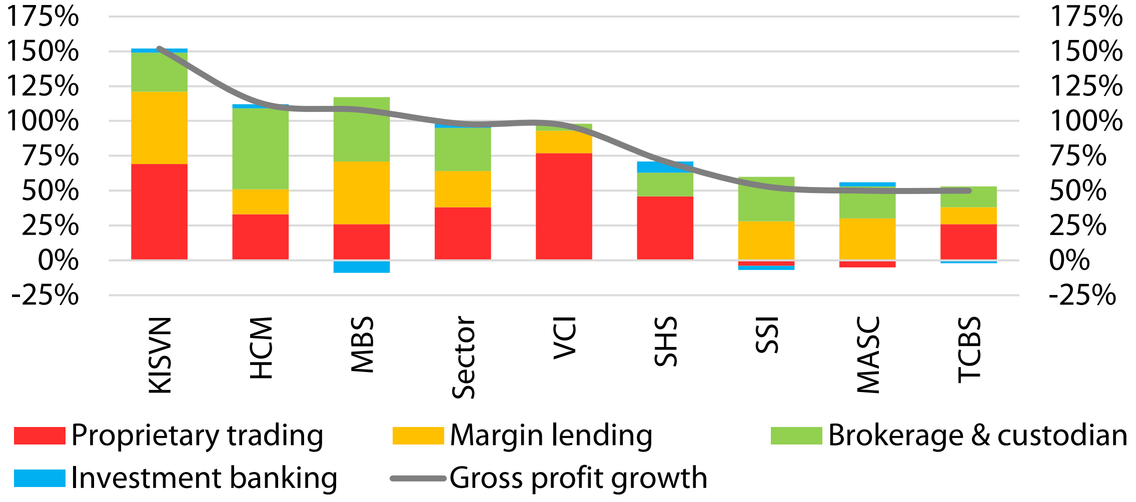


Source: Fiinpro, RongViet Securities

Brokerage-focused firms to benefit from the booming markets

- Key drivers for the 1H21 performance are proprietary trading and securities services. As market-sensitive segments, these income sources continuously produced dynamic results. Proprietary trading thrived dramatically on a low comparison base, recovering to become the largest contributors to earnings.
- Due to the active market, securities services grew robustly. This segment was dominated by several key players. Regarding stock brokerage, the market share of the top six securities firms increased to approximately 51% in 1H2020, due to the scaling advantage, full-service integration, quality products and competitive promotions. The bond brokerage market was more concentrated with TCBS, given the competitive advantage of ecosystem, technology and long-standing player.
- Despite the absolute improvement, competition on the fee and lending rate sides resulted in lower margin lending income than expected. The reduction of average lending income margin hindered earnings growth given the diverged movement of funding cost. The margin lending race is projected to be more severe with additional capital raising plans.

Figure 3: 1H21 gross profit breakdown and growth (%, YoY)



Source: HSX, SSC, RongViet Securities

Figure 4: Total margin loans (VND)

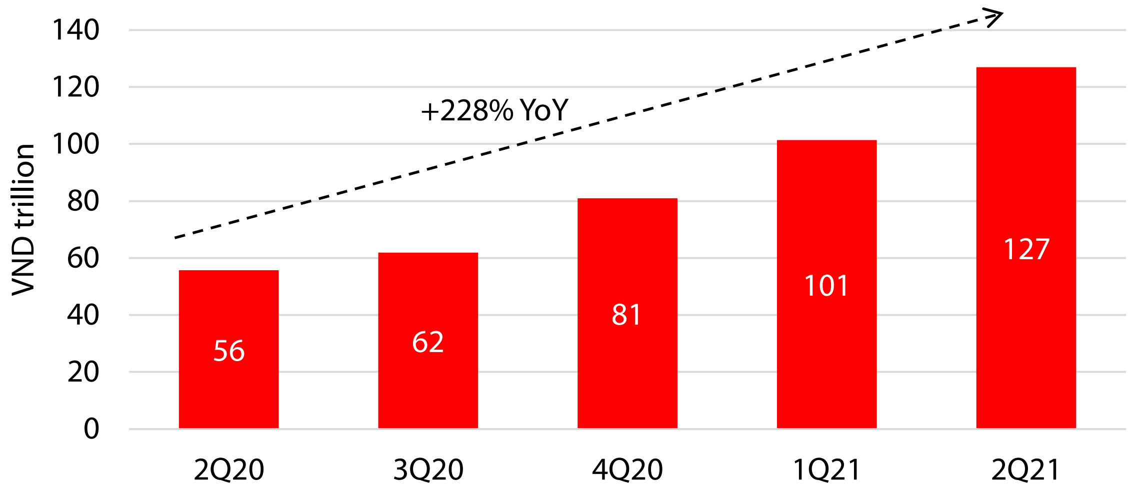


Figure 5: Deposit rate and VN-Index performance (%)

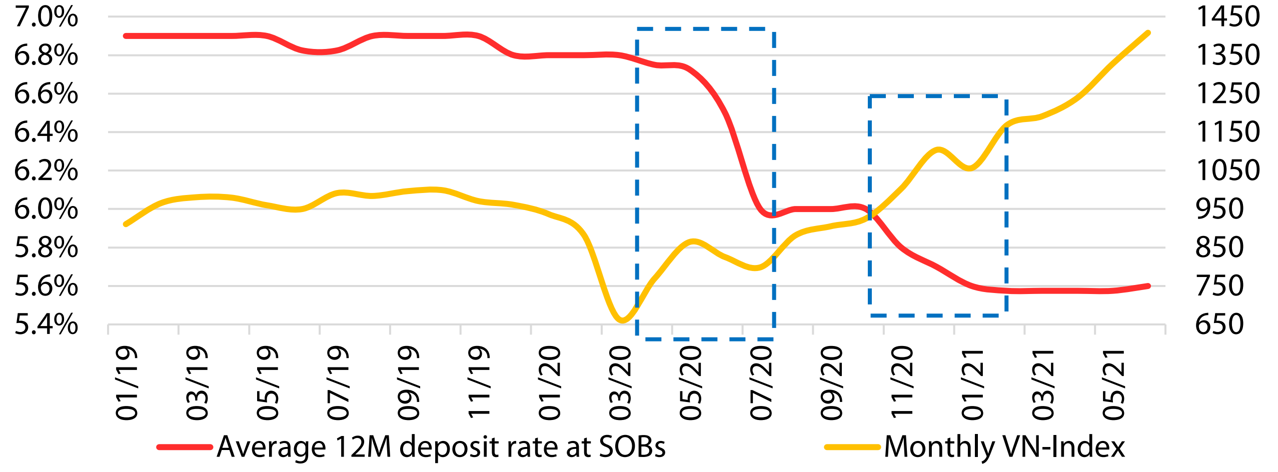
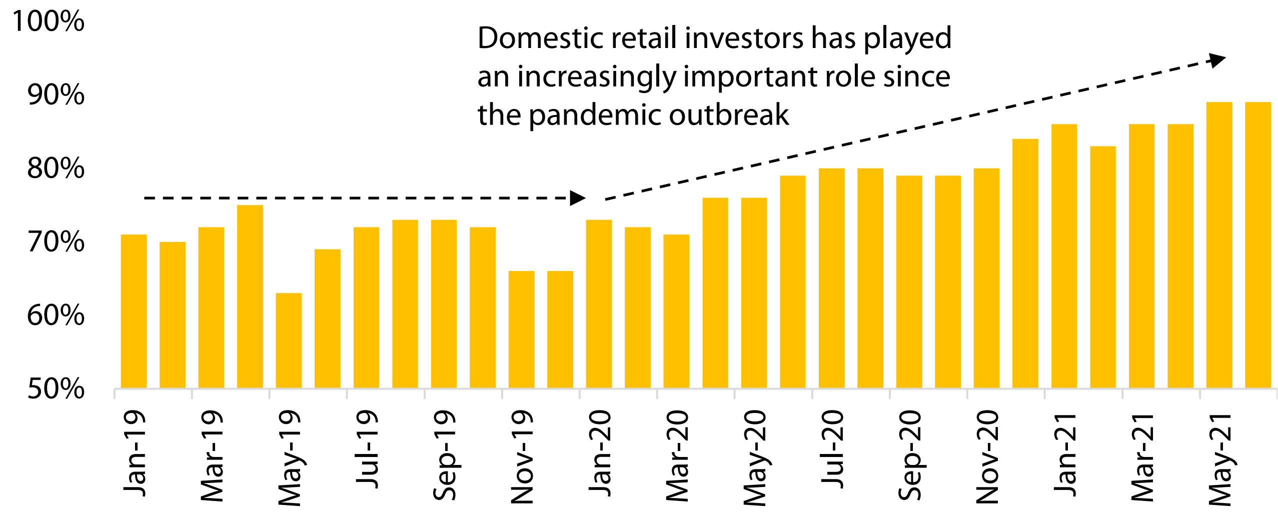


Figure 6: Contribution of domestic retail investor to trading value (%)



Source: Banks, Fiinpro, RongViet Securities

A new level of transaction volume driven by retail investors

- The number of retail investors witnessed a massive growth since the beginning of 2020, due to low deposit rate environment and the impact of the pandemic.
- The retail participation is still relatively low (less than 4% of the population), compared to comparable markets such as Thailand (25-30%), Singapore (32%), Malaysia (18%).

Expecting post-pandemic sustainable growth

- In 2H2021 as well as a part of 2022, given the latest interest rate package, supportive monetary policy and uncertain conclusion of the pandemic, we expect the money flow from the newcomers to stay in the market as equity might deliver a good return compared to savings. New money resulted from the portfolio rebalancing effect of savings is expected to continue flowing into the market at a lower pace.
- In a higher deposit rate environment, weak retail outflows might occur due to rebalancing, expanded wealth, higher financial literacy and better awareness of the stock market.
- Due to good money flow prospect, we expect the liquidity to stay at high level in the upcoming period. This delivers securities firms and related industries such as wealth management a favorable macro background to grow.

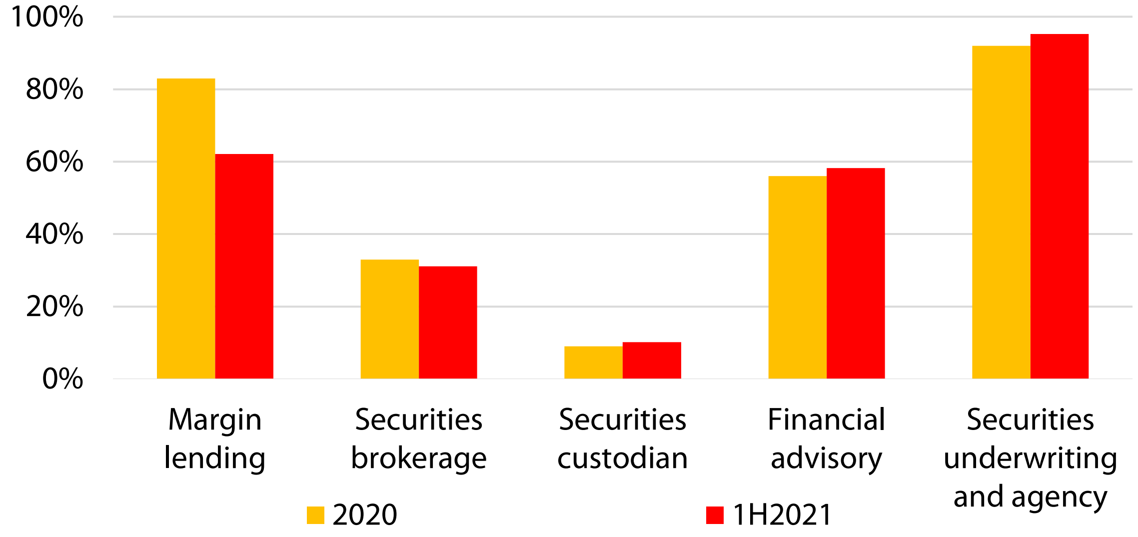
Investment banking: long-term upside with short-term cooling down growth momentum

- The favorable market conditions in 2020 set up a wave of capital raising in 2021. However, bond underwriting activities slowed down at the largest bond underwriter in 1H2021. Equity issuance deals were also closed with small deal values compared to the annual plan.
- The projection of restarting IPO and M&A activities will raise the proportion of income from investment banking services, instead of solely over-depending on market-related segments. We expect the on-off social distancing to have moderate impact on the deal closures.

Downside risk and market volatility might cause notable concern to the proprietary trading

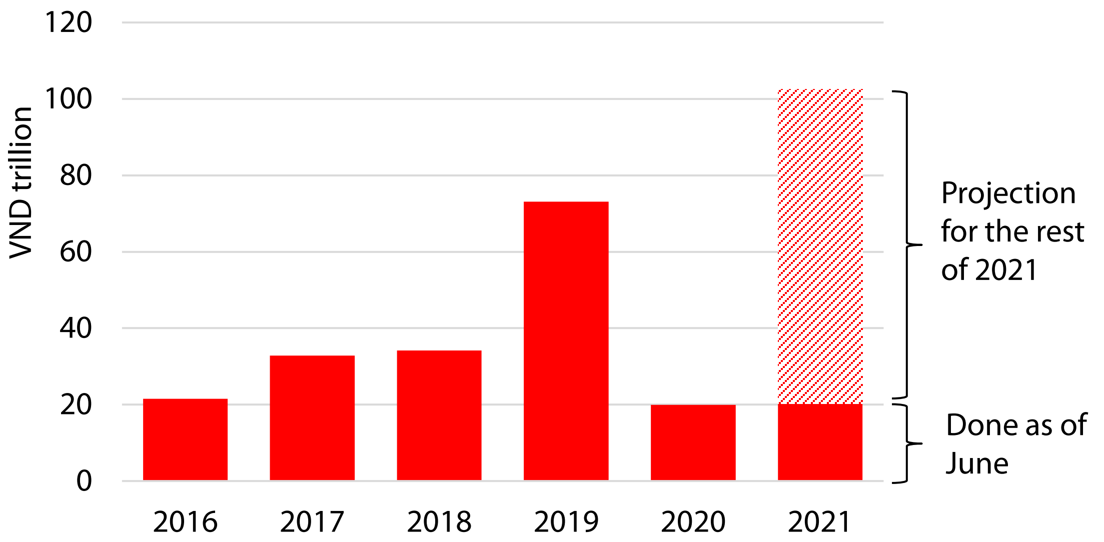
- Taking-profit pressure after a historic rally since the beginning of 2021 led to the recent market downside. This high volatility is likely to occur in the second half due to the severe impact of lockdowns on market sentiment and high base of valuation, thus, affecting proprietary trading.

Figure 7: Gross margin by segments (%)



Source: Fiinpro, RongViet Securities

Figure 8: Value of public equity issuance (VND)



The opportune environment is projected to sustain, supporting the rapid growth of the industry

- Brokerage fee income is expeced to grow in proportion to the transaction value of the stock and bond markets, which are not projected to be impacted by the pandemic but benefiting from increasing retail penetration.
- Margin lending balance is expected to increase disproportionately due to limited lending room at many large securities firms. Capital raising plan is online. In any case, we expect the income from margin lending to be robust based on low comparison base, current margin headroom and promotional lending interest.
- We expect proprietary trading revenue to be lower in 2H2021. Income from investment banking and other related services will be polarized among securities firms. Overall, we forecast 2H2021 earnings to sustain robust growth, but at a lower pace than 1H2021. Securities services including margin lending and brokerage will be the key drivers.

Figure 9: Number of newly opened accounts per month

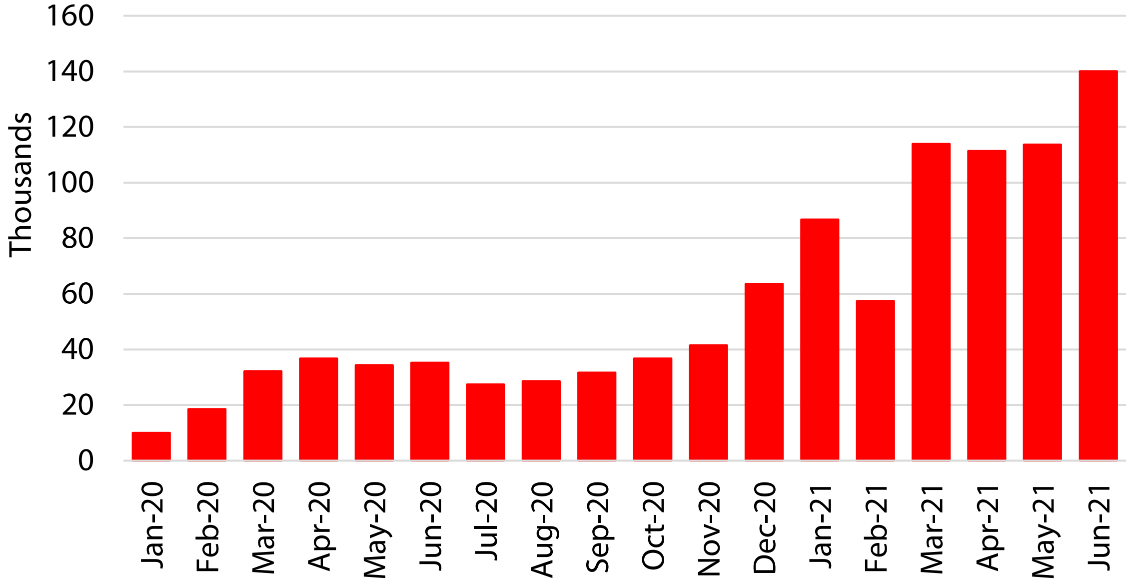
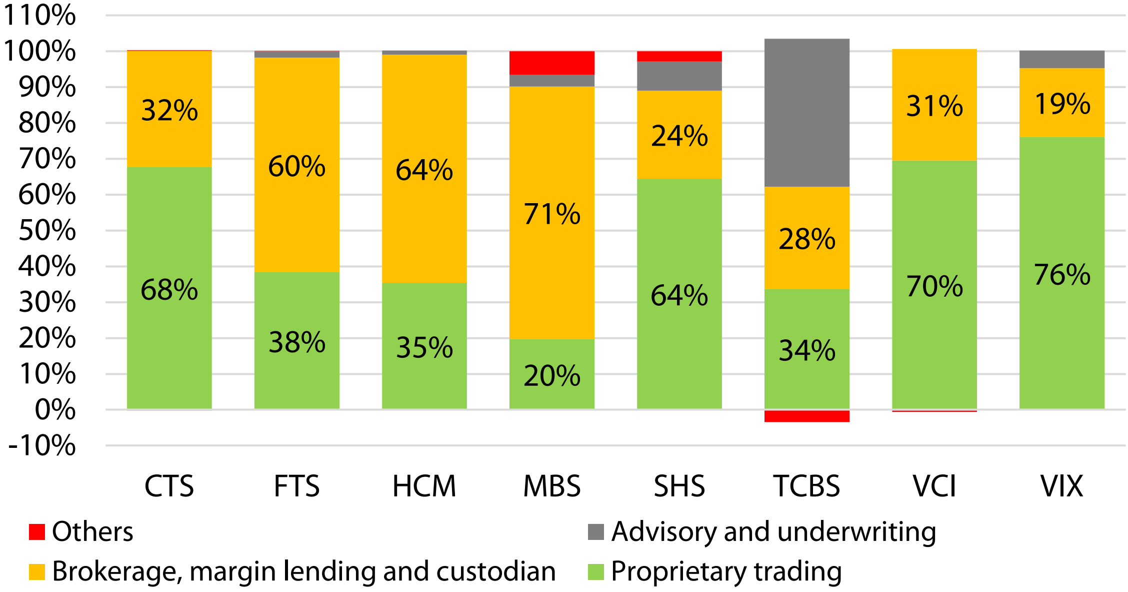


Figure 10: Gross profit structure of several firms (%)



Source: VSD, Fiinpro, RongViet Securities

Figure 11: 1H21 margin loans market share and growth (%, YoY)

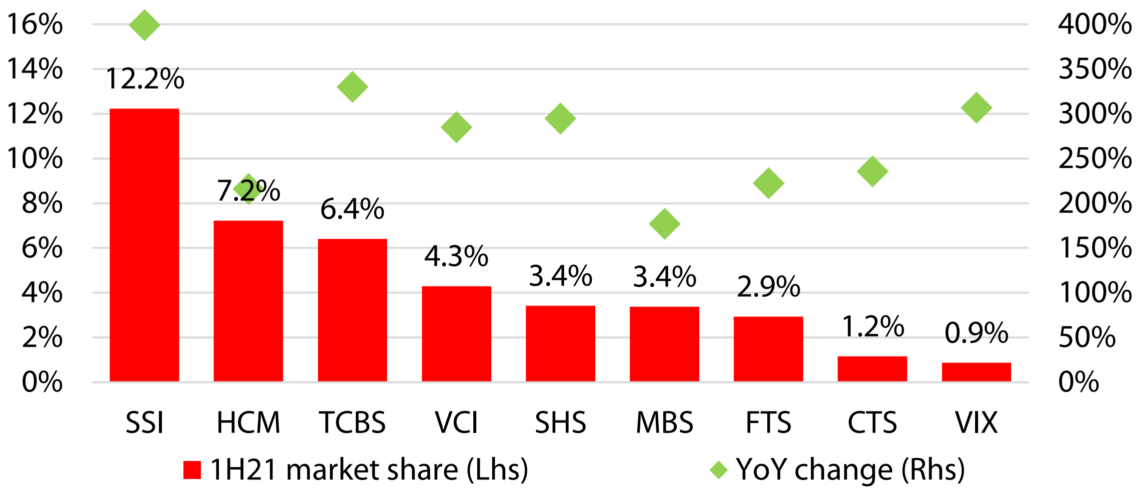
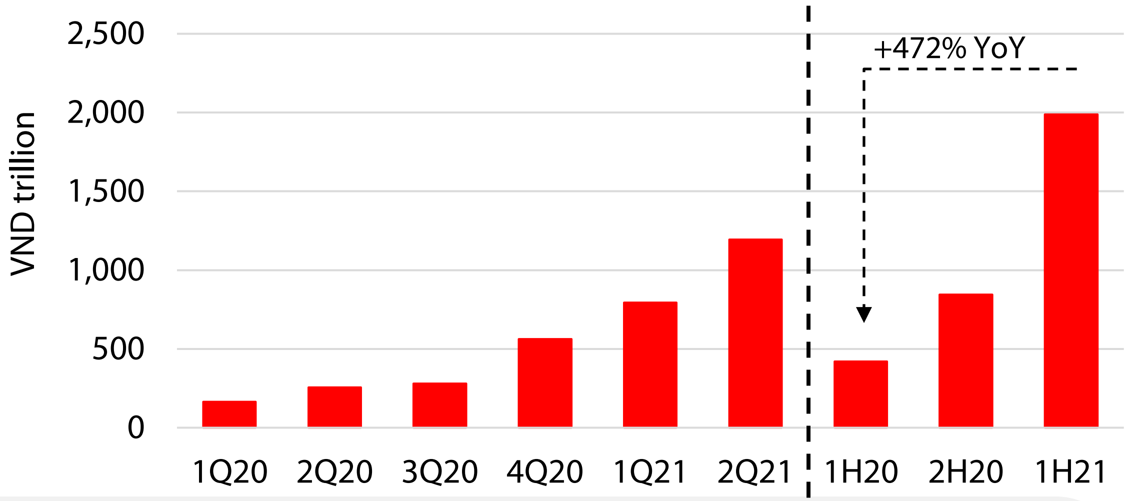


Figure 12: Total matching value VN-Index (VND)



Brokerage services: secured dynamic growth

- Given the momentum backed by retail penetration, market volume will improve. Even with an unfavorable market condition such a prolonged market downturn, liquidity is expected to increase at two-to-three-digit rate, based on the quarterly volume in 1H2021. Total matching value of 1Q21 was approximate to that of 2H20. Combined with the low base of transaction fees, we expect brokerage services to sustain strong growth.

Margin lending: ready to capture the booming liquidity

- With on-going capital raising plan, we expect the margin capacity of securities firms to be expanded in 2H2021. Large firms will have the advantage of funding costs and capital resources to provide affordable lending rates.
- Securities companies with large proportion of these service segments in income structure are forecasted to outperform others, as well as delivering strong performance.

Source: Fiinpro, RongViet Securities

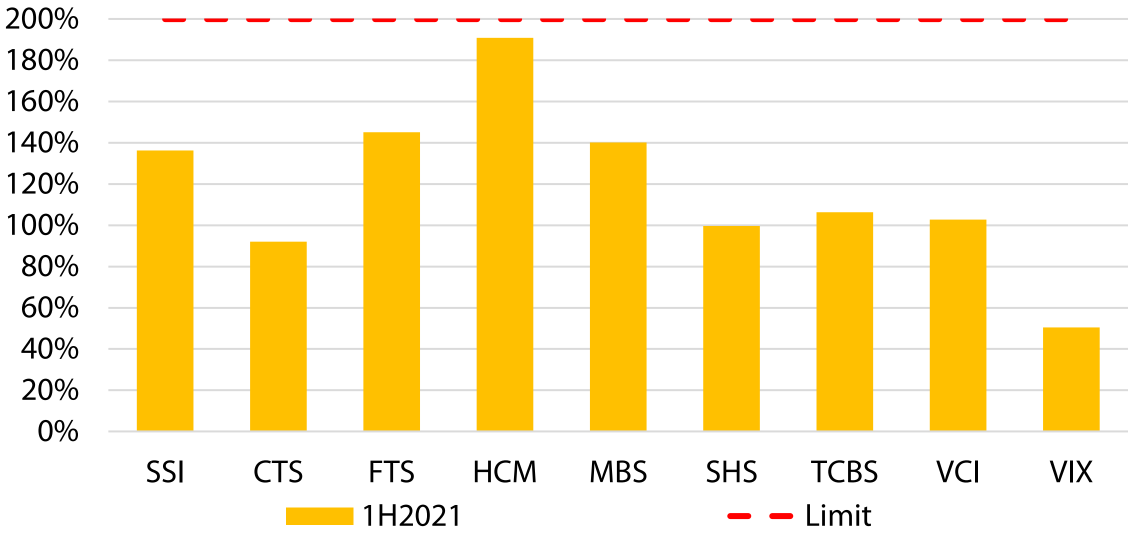
Equity issuance: critical solution to strengthen the buffer

- The total margin loan growth of listed securities corporations was reported to reach 240% YoY at the end of 1H2021. With the limit of the lending room, the lack of ability to provide loans partially hindered the equity market progress due to frequent capital tensions.
- After the completion of raising capital, the industry especially the margin lending segment is expected to meet the rising market demand to support the market rally as well as alleviate pressure on the ratio of margin loan to shareholders equity. The corporate bond segment is also restricted by the total investment limit to 70% of shareholder's equity. To capture potential customers in this opportune environment with large retail newcomers, this is a critical initiative to leverage profitability.
- Those issuances and dividends also act as price catalyst for firms in 2H2021.

Table 1: Capital raising plan of several listed firms in 2021

Ticker	Share dividend	Share issuance	ESOP
SSI	33.33%	43.2%	1.7%
CTS	29.1%		
FPTS	10%		1.56%
HCM		50%	
MBS	15%	42.8%	5%
SHS	5%	50%	1.93%
VCI	100%		0.5%
VND		100%	

Figure 13: Margin loans to shareholder's equity 1H2021 (%)

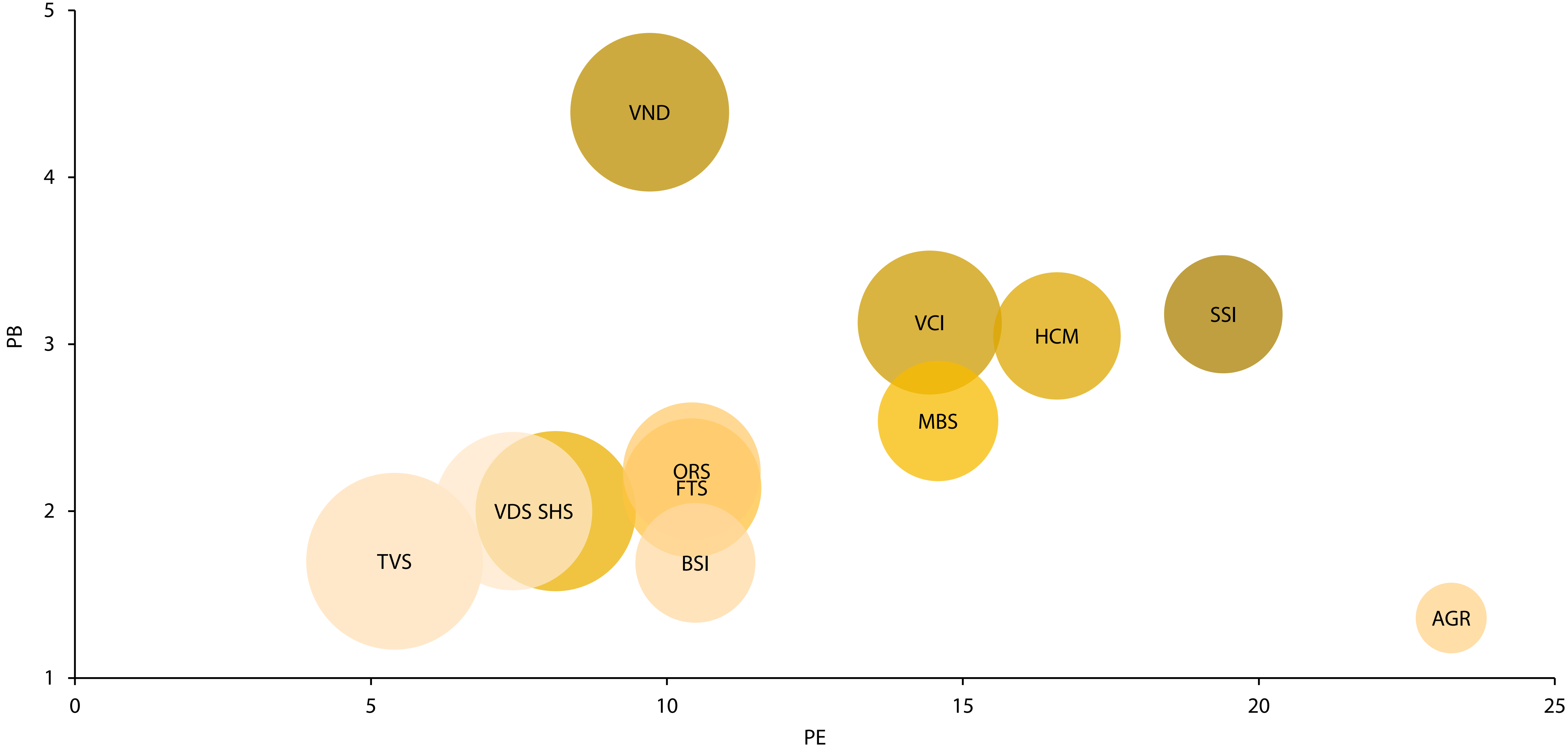


Source: Fiinpro, RongViet Securities

Ticker	Market cap (USD mn)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
SSI	1,566	33.2%	39.5%	55.4%	54.3%	70.4%	32.4%	4.9%	16.5%	0.0%	19.4	3.2
VND	858	107.3%	113.0%	62.3%	61.8%	216.0%	41.0%	8.2%	34.3%	0.0%	9.7	4.4
VCI	722	67.2%	54.4%	62.6%	62.3%	70.1%	44.2%	12.7%	24.5%	0.0%	14.4	3.1
HCM	638	114.3%	77.9%	31.2%	30.4%	80.1%	24.5%	6.7%	19.2%	0.0%	16.6	3.1
SHS	378	66.2%	112.6%	67.8%	67.7%	163.3%	48.5%	14.1%	30.3%	0.0%	8.1	2.0
MBS	337	62.9%	54.3%	43.9%	43.7%	86.1%	23.9%	5.4%	17.0%	0.0%	14.6	2.5
FTS	241	304.1%	n/a	69.7%	67.7%	1562.3%	59.6%	12.9%	22.7%	0.0%	10.4	2.1
ORS	205	164.8%	277.9%	41.7%	41.6%	143.4%	24.8%	8.1%	22.3%	0.0%	10.4	2.2
AGR	122	42.8%	137.1%	76.0%	73.8%	171.5%	68.4%	9.3%	10.2%	0.0%	23.2	1.4
BSI	114	34.4%	191.8%	40.0%	39.4%	197.2%	25.7%	7.9%	17.7%	0.0%	10.5	1.7
TVS	109	98.4%	248.5%	77.2%	76.9%	445.8%	53.2%	11.3%	36.4%	0.0%	5.4	1.7
VDS	109	155.6%	1822.9%	58.3%	57.5%	1632.3%	47.1%	13.7%	31.0%	0.0%	7.4	2.0

Source: Fiinpro, RongViet Securities. Share price as of 02 Aug 2021.

PE, PB AND ROE (TTM)



Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 02 Aug 2021.

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