

## Securities Sector: 9M2023 Update

# Profitability recovered from trough levels, elevated exposure to higher-risk assets pose downside risk

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Securities firms' profitability recovered in 9M2023 from trough levels in 2022, mainly driven by investment income (+153% yoy) following the recovery in stock market valuations. Other core businesses - margin lending and brokerage - remained weaker than the prior year given limited market trading activity during 6M2023. Several firms increased holdings of risky corporate bonds, and recent capital injections provide buffer against asset risks and potential losses. We expect securities firms' profits will gradually improve primarily from stronger stock trading activity amid improved sentiment around the economic outlook for 2024.

**Sector-average return on average assets (ROAA) for 9M2023 rose to 4.4% from 3.8% a year ago due to higher investment income.** Mid-sized firms (e.g., VIX, ACBS, FTS, and BSI) with sizable equity investment holdings benefited from the recovery in market valuations. Margin lending and brokerage income remained weaker than prior year across most firms; intense competition for the limited market trading activity in 6M2023 drove down brokerage fees and gross margins. Investment banking income declined by nearly 40% yoy from limited new corporate bond issuance. We expect 16 of 23<sup>1</sup> firms covered by our analysis to be on track to meet their profit targets for 12M2023, following the steady recovery in stock trading activity since Q3/2023. Nonetheless, sector-average ROAA will remain weaker than the 5Y average (2018 – 2022) of 6.3%.

**Sector exposure to higher-risk assets remained elevated at 24% of tangible assets, particularly among firms active in bond advisory which increased holdings of risky corporate bonds in 9M2023.** These firms (e.g., TCBS, VPBANKS) on average increased corporate bond investments to 40-50% of total assets at end-September 2023, up from 28-45% at end-December 2022. We view these investments are typically linked to their broader groups' focus to support the liquidity needs of their corporate borrowers. While the pace of new corporate bond defaults is slowing and corporate cash flows are stabilizing<sup>2</sup>, the firms' investments in higher-risk assets including unlisted equities and corporate bond investments have sizable concentration and expose them to event risks. Overdue margin loans declined in general, and risks are well managed by collateral coverage and recovery in stock valuation.

**Leverage and liquidity profiles remained strong but will moderate as firms expand margin lending.** Recent capital increases helped to keep the leverage ratio at a strong 220% for 9M2023. As firms step up on margin lending, we expect leverage ratios and reliance on short-term market funding to gradually increase.

<sup>1</sup> 23 out of 30 firms covered by our analysis announced their business plans for 2023

<sup>2</sup> Refer to our [Corporate Bond Market Perspective: Proactive negotiations will slow down bond defaults in 2024, marking the start of a new development phase and recovery of bond issuance \(issued on 10 October 2023\)](#)

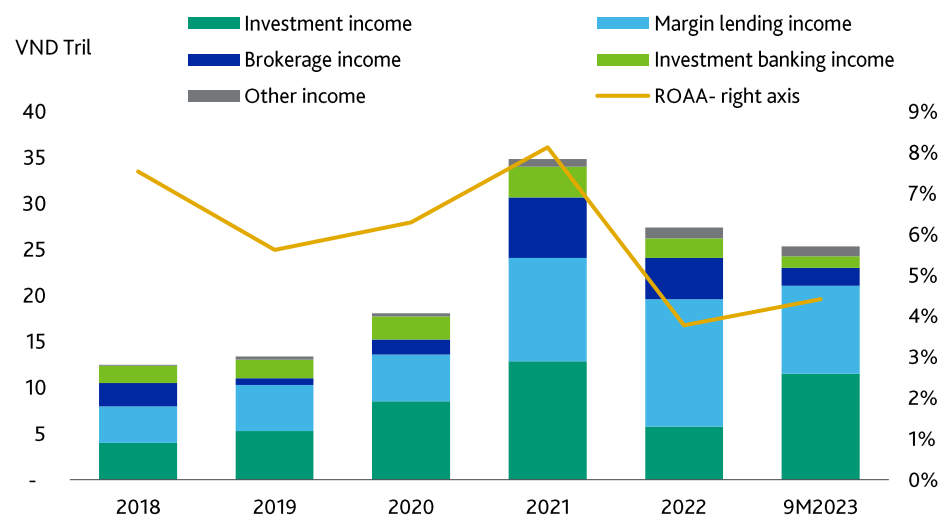
**Profitability 9M2023 slightly recovered from the trough level in 2022 driven by a higher investment income following recovery in stock market valuation**

The sector-average ROAA rose in 9M2023 to 4.4% from the trough level of 3.8% in 2022 (Exhibit 1), mainly driven by a significant increase in investment income (+153% yoy) following the recovery in market valuations (Exhibit 2).

Mid-sized firms (including VIX, ACBS, FTS, and BSI) with sizable equity investment holdings outperformed the sector-average with ROAA of 5.4% (Exhibit 3). Meanwhile, firms active in bond advisory and distribution (e.g., ORS, HDBS, and TVSI) recorded ROAA of 1.7% on average, as investment banking income plummeted from subdued corporate bond issuances, and the firms had limited equity investments.

We expect the recovery in profitability that began in Q3/2023 will continue, primarily from stronger stock trading activity amid improved sentiment around the economic outlook for 2024. However, the sector-average ROAA for 12M2023 will remain weaker than the last 5-year average (2018-2022) of 6.3%.

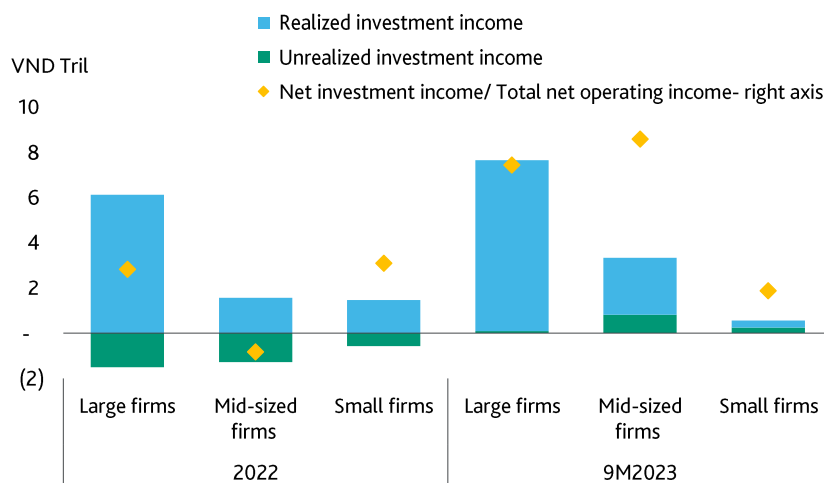
**Exhibit 1: Investment income contributed the majority of the sector's operating income**



Source: Company data, Vietnam Investors Service

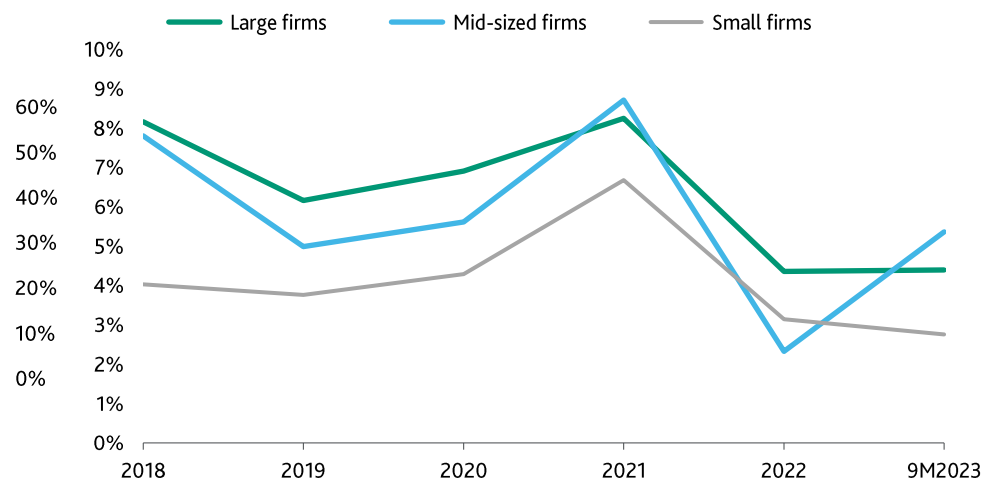
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

**Exhibit 2: Sizeable investment income from recovery in stock market valuation**



Source: Company data, Vietnam Investors Service

**Exhibit 3: Mid-sized firms outperformed other peers in terms of ROAA**



Source: Company data, Vietnam Investors Service

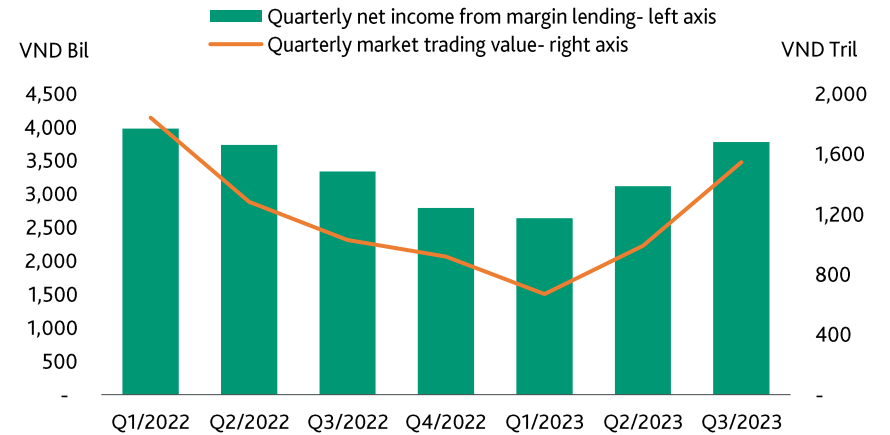
**Other core businesses - margin lending and brokerage - remained weaker than the prior year given limited market trading activity in 6M2023**

Despite a gradual improvement of market trading value in Q3, margin lending and brokerage income in 9M2023 remained weaker than the prior year (declined by 13.7% and 47% respectively) (Exhibit 4), due to a significant drop in market activity in 6M2023.

In addition, intense competition for the limited market trading activity in 6M2023 drove down brokerage fees and gross margins. Foreign firms recorded lower brokerage gross margins than local firms, due to higher commissions to their brokers to grow their customer base (Exhibit 5).

We expect 16 of 23 firms covered by our analysis to be on track to meet their profit targets for 12M2023, following the steady recovery in stock trading activity since Q3/2023 (Exhibit 6). Firms with lower-than-industry margin loan growth or aggressive business plans will fall short of their target.

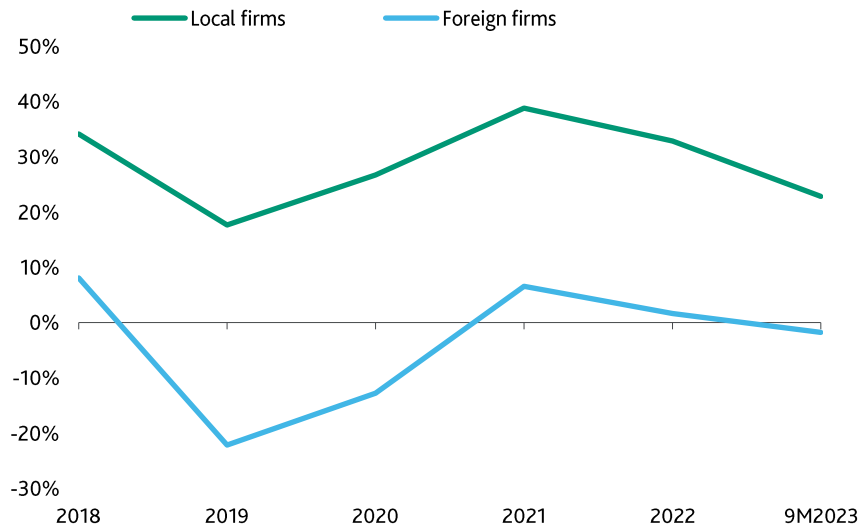
**Exhibit 4: Margin lending income remained weaker than 9M2022 despite improvement in Q3/2023**



Source: Company data, Vietnam Investors Service

Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

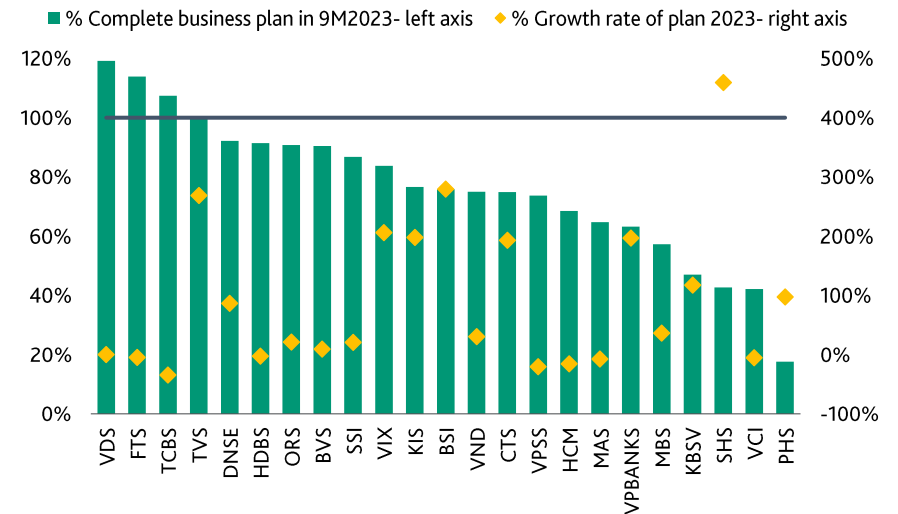
**Exhibit 5: Shrinking brokerage gross margins**



Source: Company data, Vietnam Investors Service

Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

**Exhibit 6: Most firms are on track to achieve business plan for 12M2023**



Source: Company data, Vietnam Investors Service

Note: Refer to the Appendix for the full name of securities firms

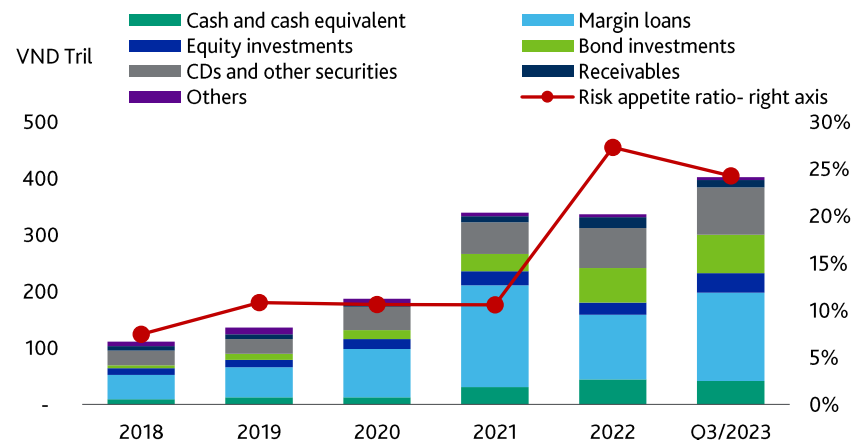
### Sector exposure to higher-risk assets remained elevated, particularly among firms active in bond advisory

The risk appetite ratio<sup>3</sup> remained high at 24% in 9M2023. Corporate bond investments rose to VND 68.3 trillion in 9M2023 (Exhibit 7), particularly among firms active in bond advisory (Exhibit 8). These firms (e.g., TCBS, VPBANKS) on average increased corporate bond investments to 40-50% of total assets at end-September 2023, up from 28-45% at end-December 2022.

We view these investments are typically linked to their broader groups' focus to support the liquidity needs of their corporate borrowers. While the pace of corporate bond defaults is slowing and corporate cash flows are stabilizing, the firms' investment in higher risk assets including unlisted equities and corporate bond investments have sizable concentration and expose them to event risks.

While margin loan balances reached peak levels of 2.5% of market capitalization in Q3/2023, overdue margin loans declined in general and risks remain well managed by collateral coverage and recovery in stock valuation (Exhibit 9).

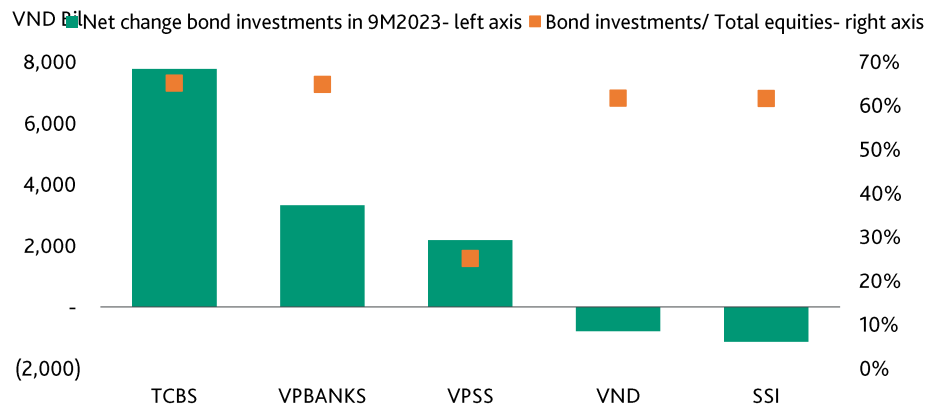
Exhibit 7: Risk appetite remained elevated



Source: Company data, Vietnam Investors Service

Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

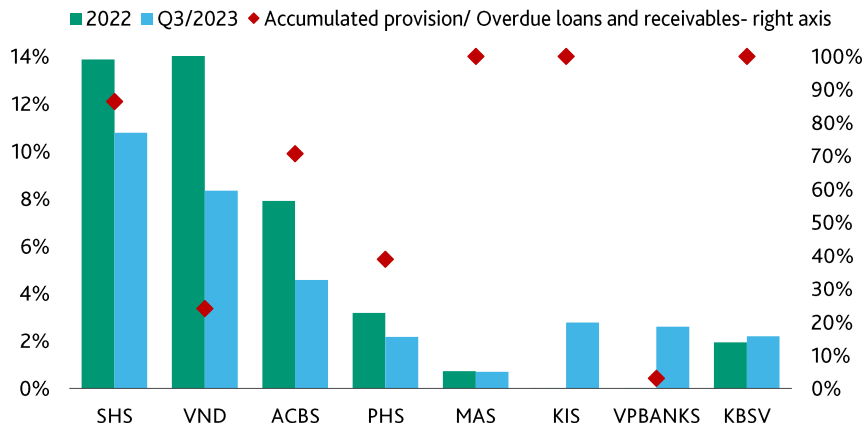
Exhibit 8: Several firms continued to increase corporate bond exposure



Source: Company data, Vietnam Investors Service

Note: Refer to the Appendix for the full name of securities firms

Exhibit 9: Overdue loans and receivables/ Gross loans and receivables declined for most firms in 9M2023



Source: Company data, Vietnam Investors Service

Note: Refer to the Appendix for the full name of securities firms. Data for VND, ACBS, VPBANKS, KIS, PHS and MAS as of Q2/2023.

<sup>3</sup> Risk appetite ratio is measured as dividing total higher-risk assets and off-balance-sheet exposure by tangible assets

### Leverage and liquidity profiles remained strong but will moderate as firms expand margin lending

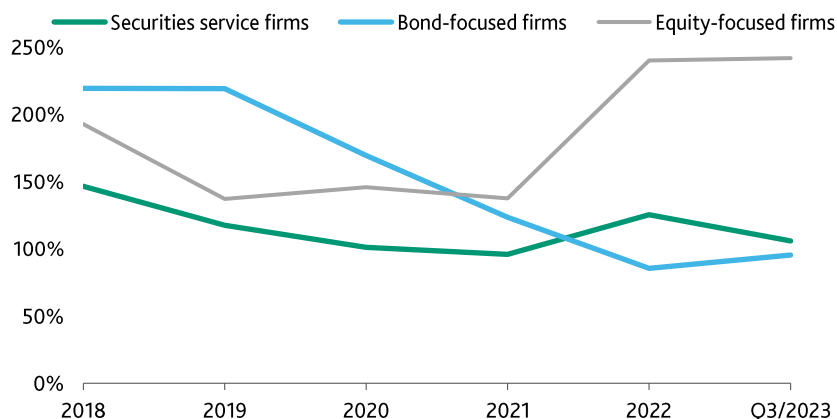
The sector leverage ratio<sup>4</sup> remained strong at 220% as of Q3/2023, improving slightly from end-2022 due to capital raise of VND 10.8 trillion mainly by TCBS and YSVN (Exhibit 10).

We expect most securities service firms, focusing on margin lending and brokerage services, to gradually expand their short-term borrowing to support margin lending activities, which will reduce their liquidity ratio<sup>5</sup> (Exhibit 11).

Meanwhile, most bond-focused firms increased their liquidity position compared to 2022 (Exhibit 12), driven by the cash collected from bond-related receivables, coupled with new capital injection in 2023.

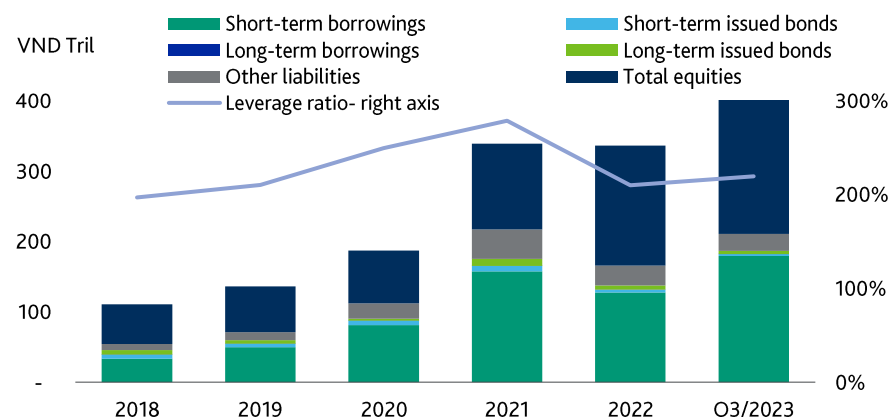
A couple of firms including HDBS, ORS, and SSI announced plans to raise new equity capital over the next 12 months. We view additional capital raising will be credit positive to support balance sheet growth, maintain steady leverage profiles, and enhance loss-absorption buffers.

**Exhibit 11: Securities service firms' liquidity ratio declined from margin loan expansion**



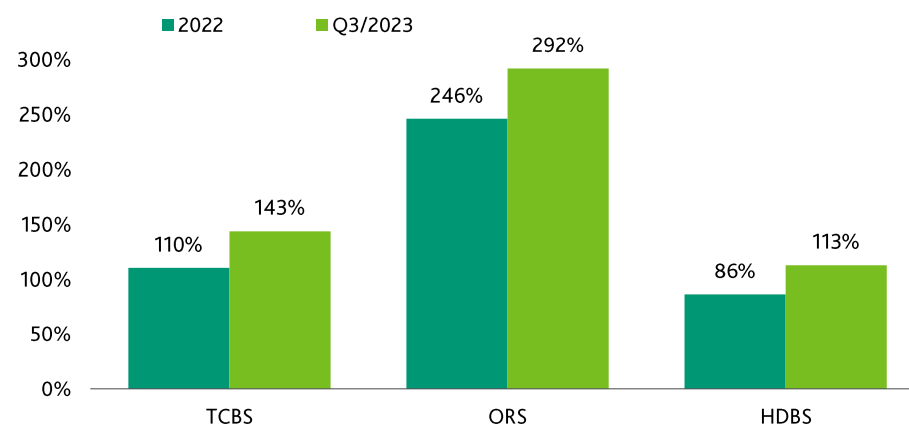
Source: Company data, Vietnam Investors Service  
 Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

**Exhibit 10: Leverage ratio remained at a strong level in Q3/2023**



Source: Company data, Vietnam Investors Service  
 Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

**Exhibit 12: Several bond-focused firms improved liquidity ratios from cash collected from bond-related receivables and new capital raised**



Source: Company data, Vietnam Investors Service  
 Note: Refer to the Appendix for the full name of securities firms

<sup>4</sup> Leverage ratio is calculated by total tangible assets and off-balance-sheet exposure over tangible common equities

<sup>5</sup> Liquidity ratio is measured as dividing liquidity inflows by liquidity outflows

## APPENDIX

## List of top 30 securities firms by total assets

The firms included in our analysis are as follows (in order of total assets at end-2022):

	Short name	Full name	Classification
1	SSI	SSI Securities Corporation	Large firm
2	VND	VNDIRECT Securities Corporation	Large firm
3	TCBS	Techcom Securities Joint Stock Company	Large firm
4	VPSS	VPS Securities Joint Stock Company	Large firm
5	MAS	Mirae Asset Securities (Vietnam) Joint Stock Company	Large firm
6	VPBANKS	VPBANK Securities Joint Stock Company	Large firm
7	HCM	Ho Chi Minh City Securities Corporation	Large firm
8	VCI	Vietcap Securities Joint Stock Company	Large firm
9	SHS	Saigon - Hanoi Securities Joint Stock Company	Large firm
10	MBS	MB Securities Joint Stock Company	Large firm
11	KBSV	KB Securities Vietnam Joint Stock Company	Mid-sized firm
12	TVS	Thien Viet Securities Joint Stock Company	Mid-sized firm
13	KIS	KIS Vietnam Securities Joint Stock Company	Mid-sized firm
14	VIX	VIX Securities Joint Stock Company	Mid-sized firm
15	VCBS	Vietcombank Securities Co., Ltd	Mid-sized firm
16	ORS	Tien Phong Securities Corporation	Mid-sized firm
17	DNSE	DNSE Securities Joint Stock Company	Mid-sized firm
18	ACBS	ACB Securities Co., Ltd	Mid-sized firm
19	BSI	BIDV Securities Joint Stock Company	Mid-sized firm
20	FTS	FPT Securities Joint Stock Company	Mid-sized firm
21	CTS	Vietnam Bank for Industry and Trade Securities Joint Stock Company	Small firm
22	TVSI	Tan Viet Securities Joint Stock Company	Small firm
23	VDS	Viet Dragon Securities Corporation	Small firm
24	SSV	Shinhan Securities Vietnam Co., Ltd	Small firm
25	HDBS	HD Securities Corporation	Small firm
26	YSVN	Yuanta Securities Vietnam Co., Ltd	Small firm
27	BVS	Bao Viet Securities Joint Stock Company	Small firm
28	PHS	Phu Hung Securities Corporation	Small firm
29	NHSV	NH Securities Vietnam Co., Ltd	Small firm
30	MBKE	Maybank Securities Co., Ltd	Small firm

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