SECTOR OUTLOOK

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Securities Sector

Outlook improving from continued growth in margin lending profits and investment gains supported by stronger market conditions, while asset risks stabilize from slower bond defaults

Following the securities firms' improved profitability in 2023, we expect the sector return on average assets (ROAA) will continue to improve at the same pace in 2024. Stronger stock trading volume and improved market sentiment amid a low-interest rate environment will boost margin lending income and gains from fixed-income investments. As firms expand investment and margin lending, their leverage ratios and reliance on short-term bank loans will gradually increase, with risks offset by new capital raises. Sector asset risk will stabilize from the slower pace of new corporate bond defaults[1], but several bond distributors remain more at risk as they underwrite more corporate bond issuances and commit to buyback bonds from investors.

Sector ROAA will improve by 50-70 basis points from the prior year to 4.8%-5% in 2024, boosted by stronger fixed-income investment gains and margin lending income, particularly for large firms. Large firms - typically have sizable fixed-income operations – are likely to increase their fixed-income investments alongside improving market sentiment. With their large capital base and customer network, the large firms will be able to expand margin lending faster than the industry as stock trading activity accelerates amid low-interest rates. In addition, the regulator's plan to enhance the market exchange infrastructure and remove pre-funding requirements for foreign investors will help to attract new investors over time. Income growth from firms' core brokerage will be modest and dampened by fee competition among firms, especially for foreign firms due to their weak margins.

Asset risk will stabilize as the pace of new corporate bond defaults slows. However, we expect asset risk to remain elevated for several active bond distributors as the firms' holding of higher-risk assets, such as unlisted equities and corporate bonds, will increase amid improved market sentiment. These assets typically are large single-name exposures and expose the firms to event risks. In addition, as firms speed up distribution activities, they may commit more to buying back bonds from investors upon request. Margin lending risks remain well-managed by substantial collateral cover and improving stock valuation.

Sector leverage will rise to support margin lending and investment portfolio expansion, with risks offset by recent capital raises. Local firms will increase borrowings and raise new capital to support their asset growth. Overall, Vietnam's securities sector leverage ratio is among the lowest in the APAC region.

Funding and liquidity profiles will remain steady despite firms raising more short-term funds. The State Securities Commission (SSC) now prohibits firms from borrowing from their customers, so they will need to tap more market funding to support business activity, especially firms that are not affiliated with banks. Bond distributors with sizable bond buyback commitments are more vulnerable to tighter liquidity.

[1] Refer to Corporate Bond Market Perspective: Building market discipline is critical to the sustainable growth of corporate bond issuance and slower defaults in the new development phase (27 February 2024)

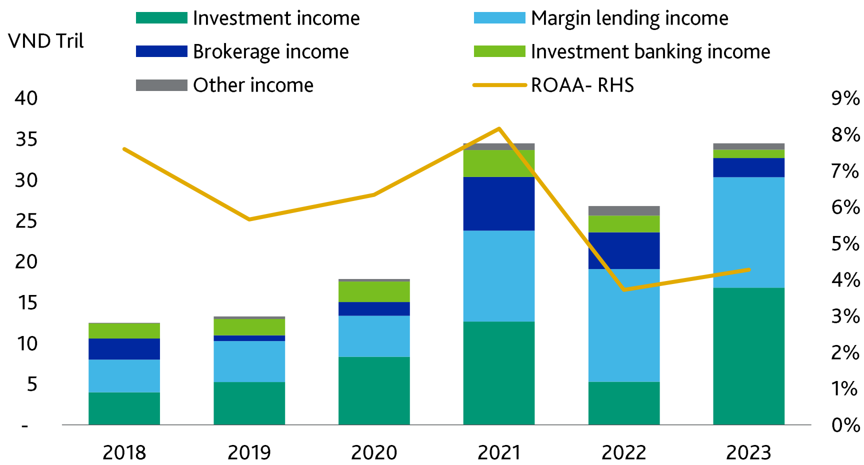
Exhibit 1: Securities Sector – Credit Outlook Improving for 2024 and Key Drivers

Factors	Outlook	Key drivers
Operating environment	Improving	• Low-interest rate environment will encourage investor activity in stock trading • The regulator's plan to enhance the market exchange infrastructure and remove pre-funding requirements for foreign investors will help to attract new investors over time • Improving investor sentiment in the corporate bond and stock markets
Risk appetite	Stable	• Slower pace of new corporate bond defaults • Concentration in large single-name exposures and higher commitments to buy back bonds from retail investors upon request will pose asset risks for several active bond distributors • Margin loan quality is well-managed by substantial collateral cover and improving stock valuation
Profitability	Improving	• Higher investment income from increasing allocation to fixed-income investments, improved corporate bond distribution, and stock market valuation • Rising margin lending income from higher stock trading activity • Modest increase in brokerage income given intensive fee competition among firms
Leverage	Stable	• Rising short-term bank loans to support the expansion of investment portfolio and margin lending • New capital raises from several local firms to support asset growth
Funding & Liquidity	Stable	• New capital raises help to offset the need for short-term borrowings • Firms not affiliated with banks may need more market funding to support business activity following SSC's prohibition of borrowing from customers • Bond distributors with sizable bond buyback commitments are more vulnerable to tighter liquidity

Source: Vietnam Investors Service

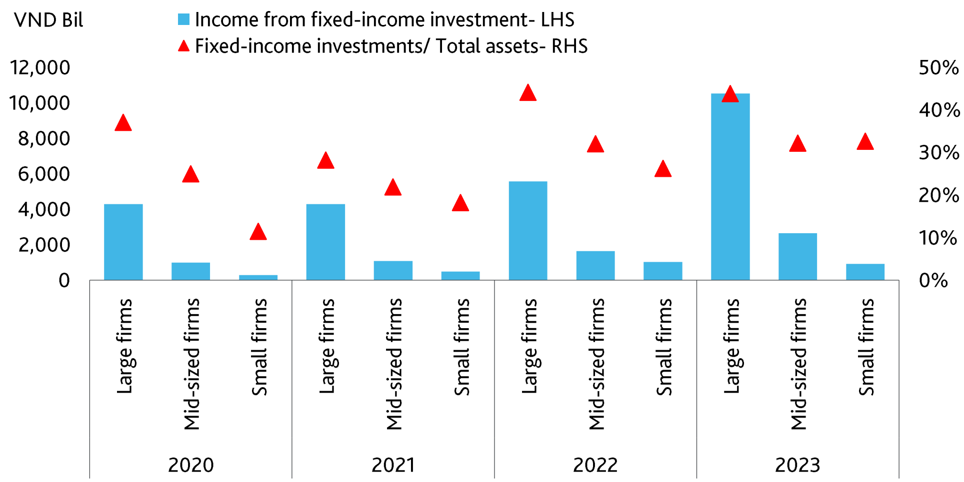
Sector ROAA will improve by 50-70 basis points from the prior year to 4.8%-5% in 2024, boosted by stronger fixed-income investment gains and margin lending income, particularly for large firms

Exhibit 2: Sector's ROAA will improve to 4.8%-5% in 2024, driven by stronger income from margin lending and fixed-income investments



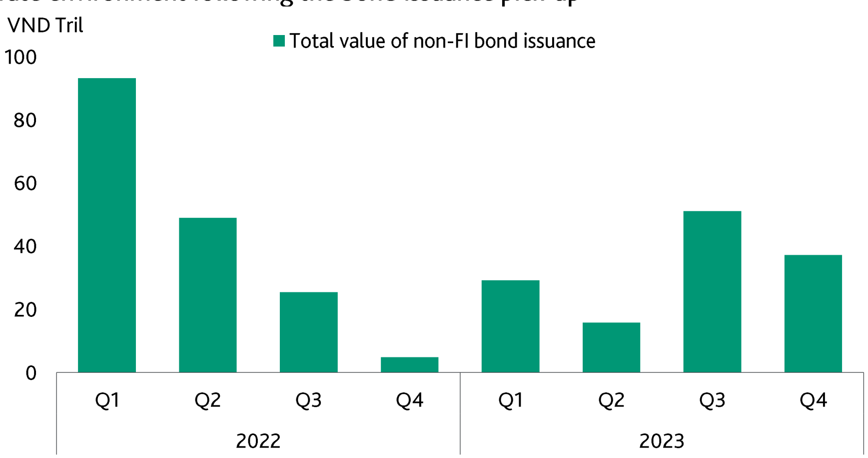
Source: Company data, Vietnam Investors Service
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

Exhibit 3: Large firms will benefit most from improving investment income given their increasing fixed-income investments



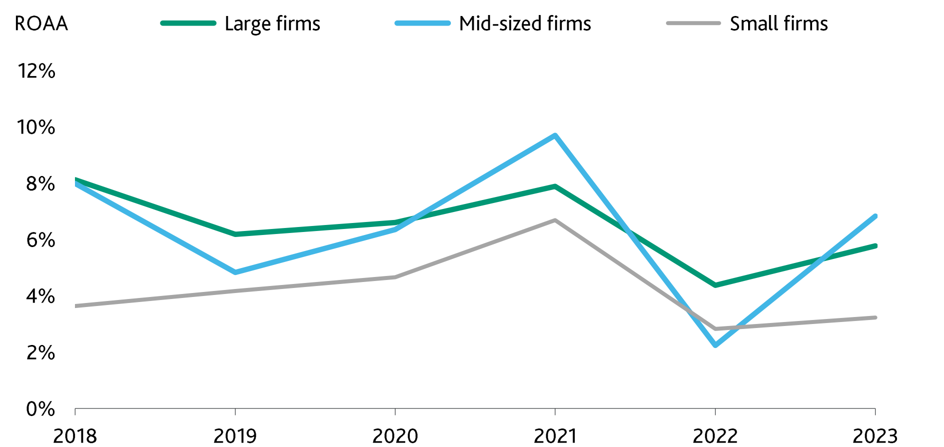
Source: Company data, Vietnam Investors Service
Note: Refer to the Appendix for the full name of securities firms

Exhibit 4: Corporate bond distribution is expected to improve amid low-interest rate environment following the bond issuance pick-up



Source: Hanoi Stock Exchange (HNX), Vietnam Investors Service

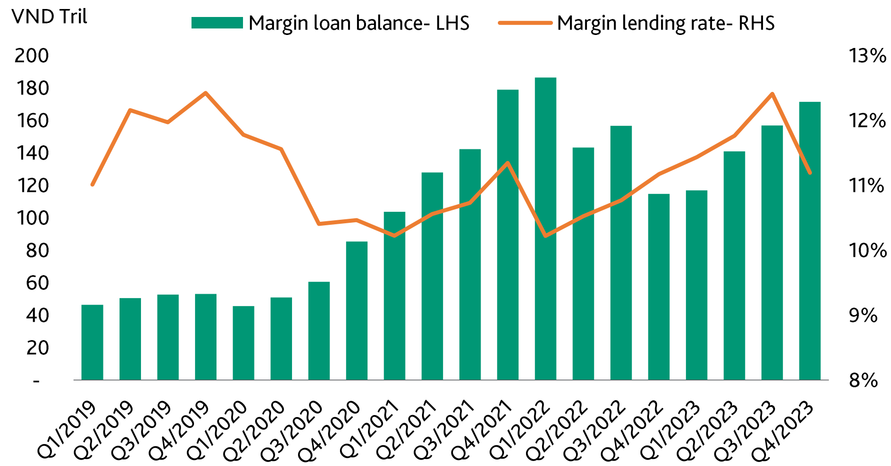
Exhibit 5: Mid-sized firms' ROAA will increase at a slower pace in 2024 given their high base of equity investment income in 2023



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

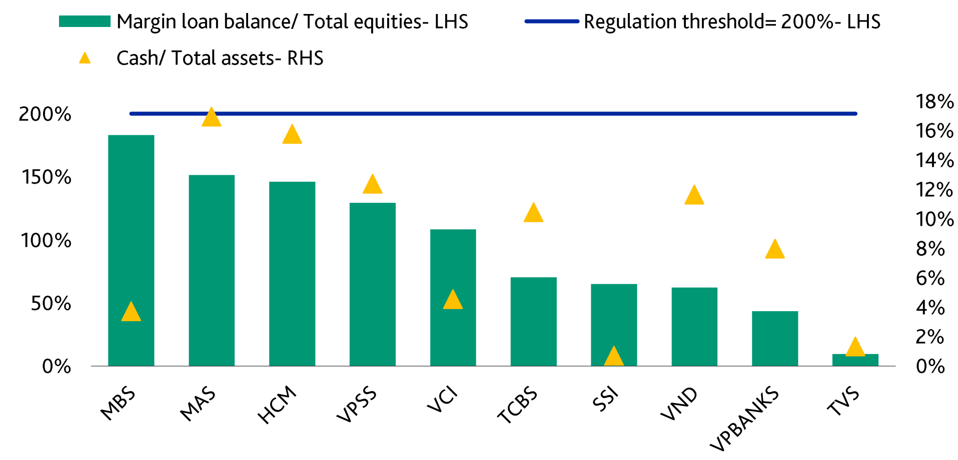
Margin lending income will increase from higher market trading activity amid a low-interest rate environment, while income growth from brokerage will be modest due to fee competition among firms

Exhibit 6: Margin lending income will improve from the expansion of margin lending balance and stable margin lending rate



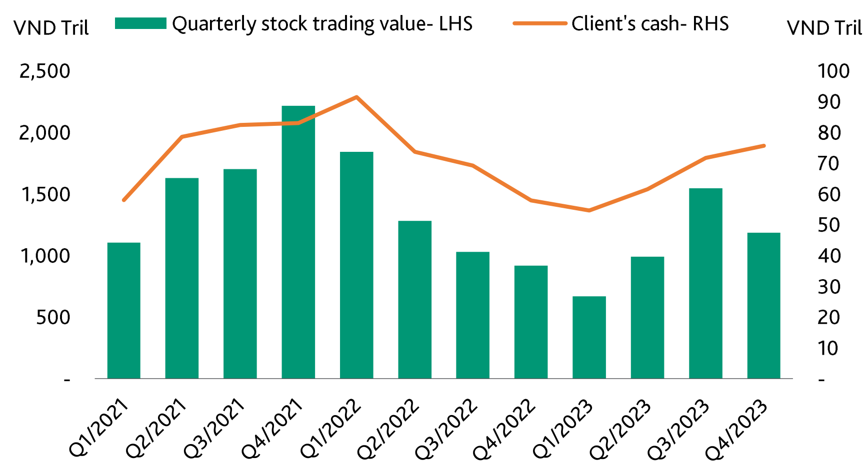
Source: Company data, Vietnam Investors Service
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

Exhibit 7: Large firms have large capital base and customer network to support expansion of margin lending



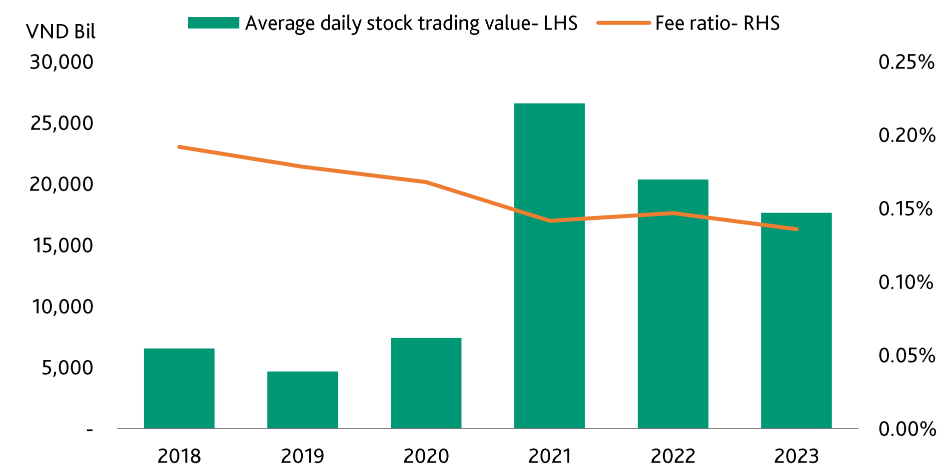
Source: Company data, Vietnam Investors Service
Note: Refer to the Appendix for the full name of securities firms

Exhibit 8: Regulator's plan to enhance the market exchange infrastructure will attract new investors and boost stock trading value



Source: Ho Chi Minh Stock Exchange (HSX), HNX, Vietnam Investors Service
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

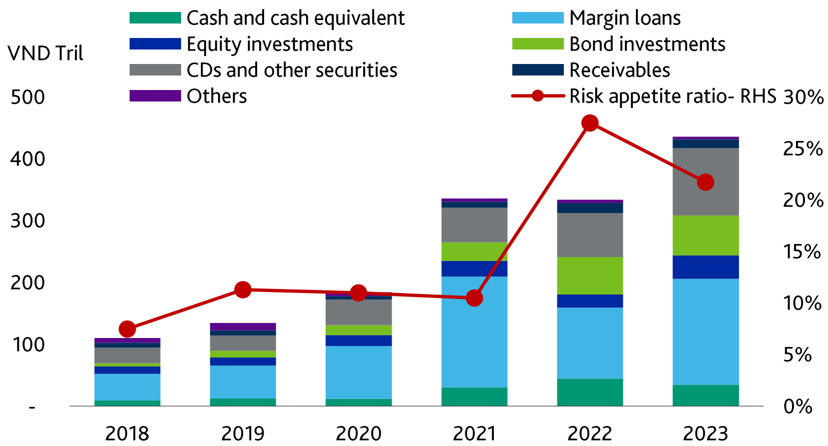
Exhibit 9: Income growth from brokerage services will be modest due to fee competition



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

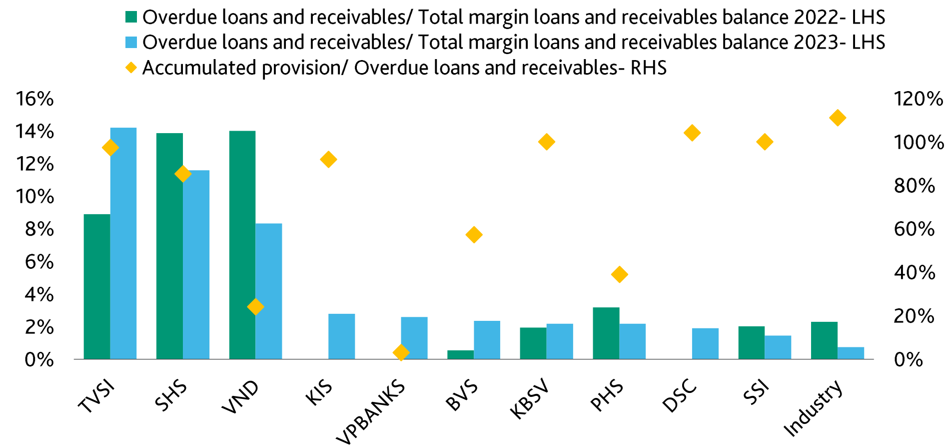
Asset risk will stabilize as the pace of new corporate bond defaults slows

Exhibit 10: Sector asset risk will stabilize from slower bond defaults



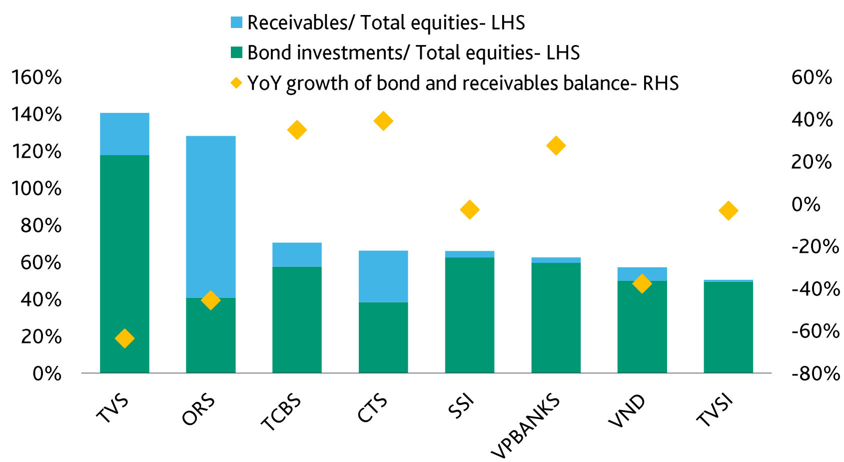
Source: Company data, Vietnam Investors Service
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets
Risk appetite ratio is calculated as total higher-risk assets and off-balance-sheet exposure divided by tangible assets

Exhibit 11: Adequate provisions for overdue loans, except for a few firms



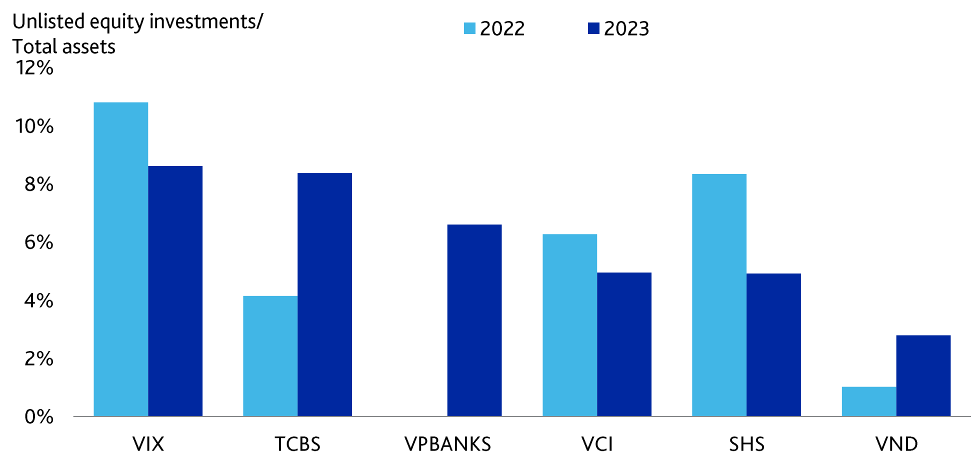
Source: Company data, Vietnam Investors Service
Note: Refer to the Appendix for the full name of securities firms.
Data for VND, KIS, VPBANKS, BVS, and PHS are as of Q2/2023.

Exhibit 12: Several active bond distributors will increase bond exposures…



Source: Company data, Vietnam Investors Service
Note: Refer to the Appendix for the full name of securities firms
Data excludes TVSI's off-balance-sheet exposure (530% of total equities as of 1H2023)

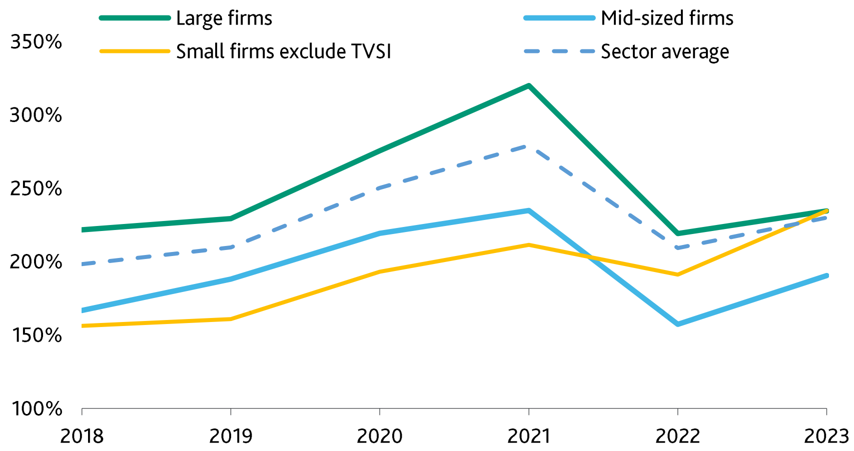
Exhibit 13: …as well as sizeable unlisted equity investments



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

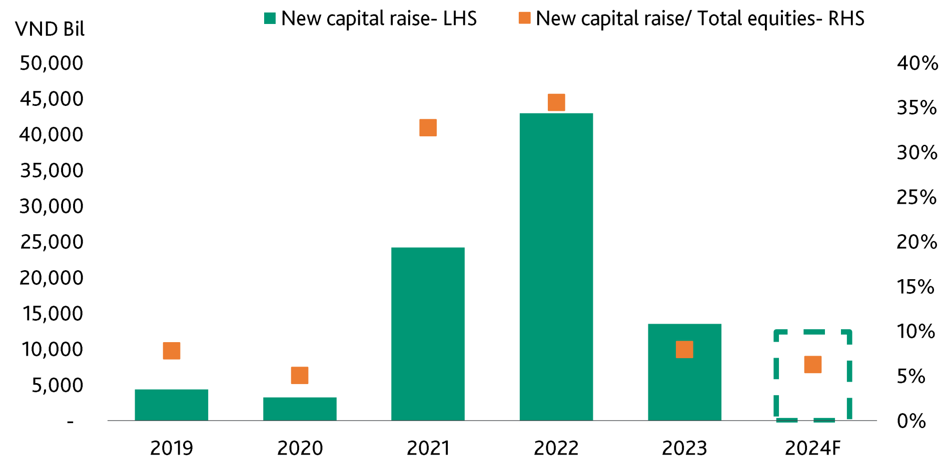
Sector leverage will rise to support margin lending and investment portfolio expansion, with risks offset by recent capital raises

Exhibit 14: Leverage will gradually increase as firms expand margin lending and investment activities amid low interest rates



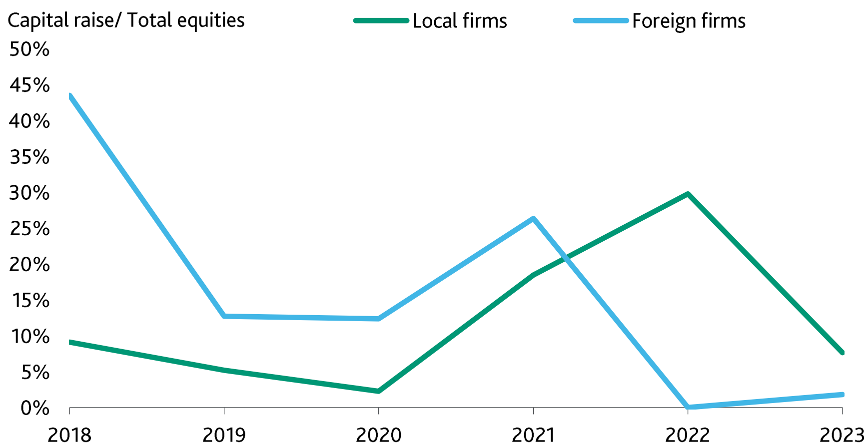
Source: Company data, Vietnam Investors Service
Note: Refer to the Appendix for the full name of securities firms

Exhibit 15: Local firms will actively raise new capital to support asset growth



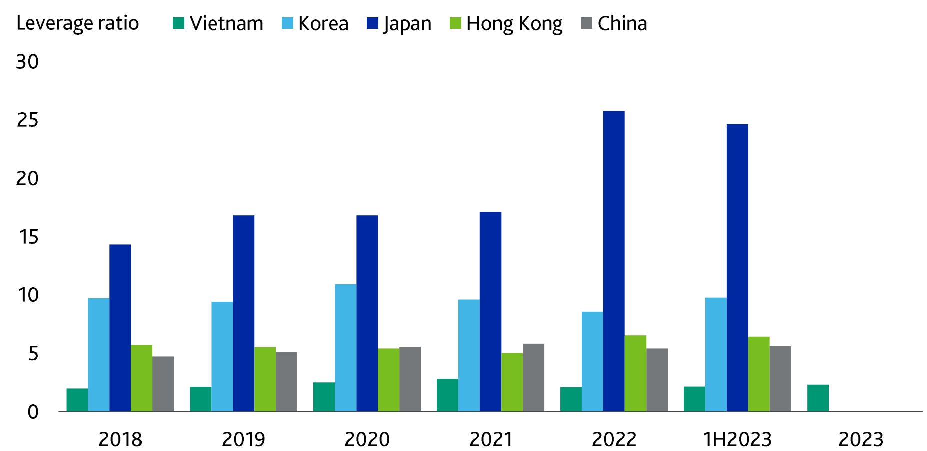
Source: Company data, Vietnam Investors Service
Note: Data includes published capital-raising plans among the top 30 securities firms as of Mar 2024

Exhibit 16: A slowdown in capital injection will stagnate the foreign firms' business growth



Source: Company data, Vietnam Investors Service

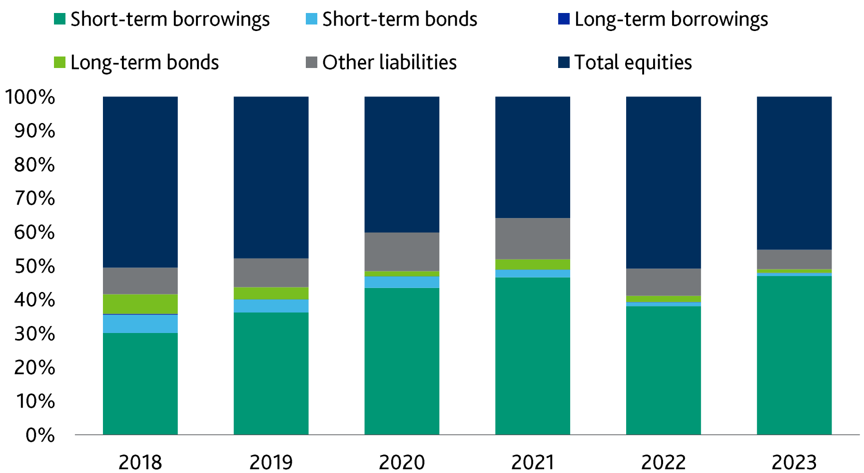
Exhibit 17: Vietnam's securities sector leverage ratio is among the lowest in the APAC region



Source: Moody's Ratings, Company data, Vietnam Investors Service
Note: Leverage ratio is calculated by dividing tangible assets and off-balance-sheet exposure over tangible common equities

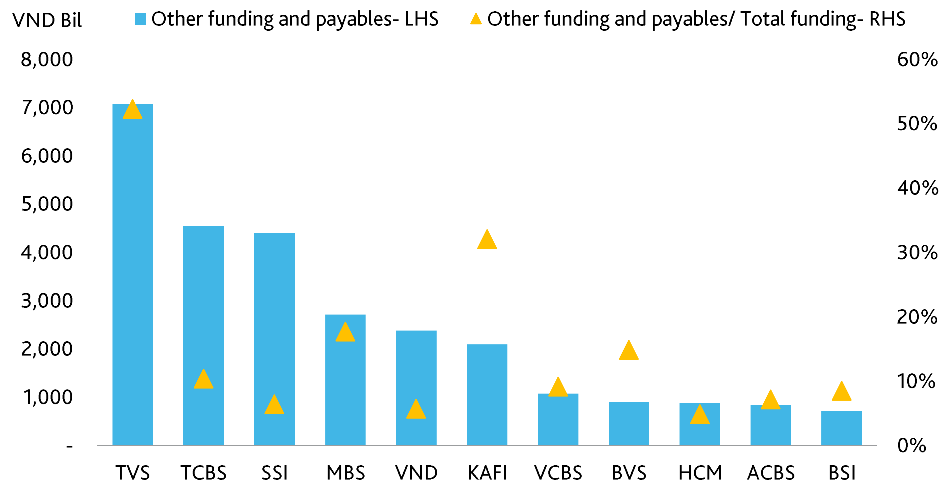
Funding and liquidity profiles will remain steady despite firms raising more short-term funds

Exhibit 18: Firms will raise more short-term borrowings amid low interest rates



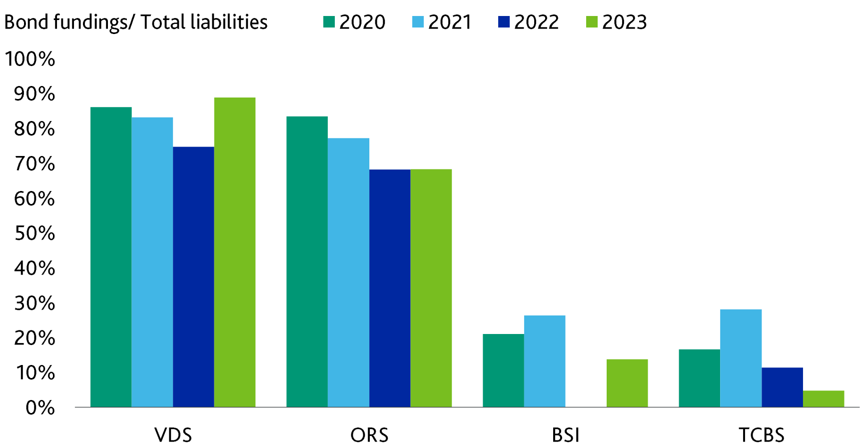
Source: Company data, Vietnam Investors Service
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

Exhibit 19: Firms not affiliated to banks will tap more market funding to support business activity given SSC prohibits borrowing from customers



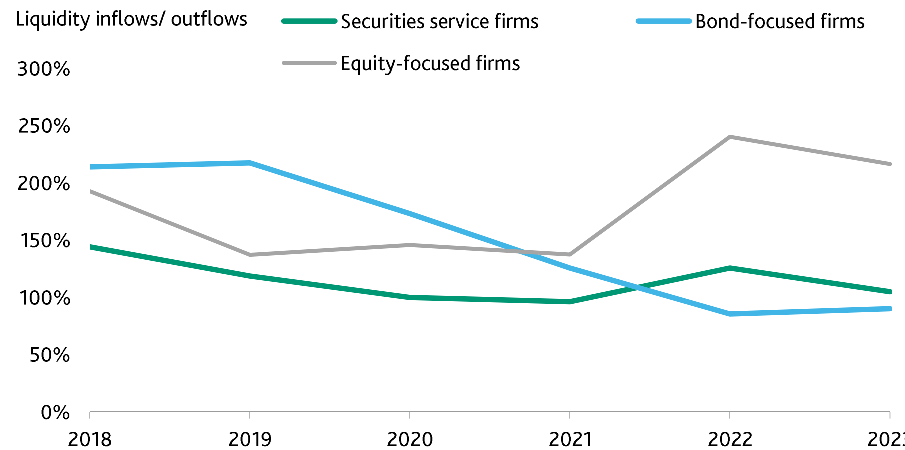
Source: Company data as of end-2023, Vietnam Investors Service
Note: Refer to the Appendix for the full name of securities firms

Exhibit 20: Refinancing risks for firms focusing on bond funding will be manageable given the improving sentiment in the corporate bond market



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

Exhibit 21: Active bond distributors with increasing bond exposure and bond buyback commitment are vulnerable to tighter liquidity



Source: Company data, Vietnam Investors Service

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-2023):

	Short name	Full name	Classification
1	SSI	SSI Securities Corporation	Large firm
2	TCBS	Techcom Securities Joint Stock Company	Large firm
3	VND	VNDirect Securities Corporation	Large firm
4	VPBANKS	VPBank Securities Joint Stock Company	Large firm
5	VPSS	VPS Securities Joint Stock Company	Large firm
6	MAS	Mirae Asset 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	MBS	MB Securities Joint Stock Company	Large firm
10	TVS	Thien Viet Securities Joint Stock Company	Large firm
11	KBSV	KB Securities Vietnam Joint Stock Company	Mid-sized firm
12	ACBS	ACB Securities Ltd., Co	Mid-sized firm
13	VCBS	Vietcombank Securities Company, Ltd.	Mid-sized firm
14	SHS	Saigon - Hanoi Securities Joint Stock Company	Mid-sized firm
15	KIS	KIS Vietnam Securities Corporation	Mid-sized firm
16	VIX	VIX Securities Joint Stock Company	Mid-sized firm
17	CTS	Vietnam Bank For Industry & Trade Securities Joint Stock Company	Mid-sized firm
18	BSI	BIDV Securities Joint Stock Company	Mid-sized firm
19	FTS	FPT Securities Joint Stock Company	Mid-sized firm
20	DNSE	DNSE Securities Joint Stock Company	Mid-sized firm
21	ORS	Tien Phong Securities Corporation	Small firm
22	SSV	Shinhan Securities Vietnam Co., Ltd.	Small firm
23	KAFI	KAFI Securities Joint Stock Company	Small firm
24	BVS	Baoviet Securities Company	Small firm
25	VDS	Viet Dragon Securities Corporation	Small firm
26	MBKE	Maybank Securities Limited	Small firm
27	YSVN	Yuanta Securities Vietnam Limited Company	Small firm
28	DSC	DSC Securities Corporation	Small firm
29	PHS	Phu Hung Securities Corporation	Small firm
30	TVSI	Tan Viet Securities Joint Stock Company	Small firm

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