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Securities Sector: 9M2024 Update

Large firms led sector profit boost with strong margin lending and investment gains, supported by significant capital raises

Sector return on average assets (ROAA) rose from 4.3% in 2023 to 4.9% in 9M2024, with large firms outperforming their peers in margin lending and fixed-income investment gains. Slower bond defaults and declining bond buyback commitments have reduced the firms' asset risk. Liquidity profiles remained stable despite firms using higher short-term borrowings to support margin lending. In addition, we expect ongoing capital raises from bank-affiliated and large local firms will strengthen their loss absorption buffers and expand further business growth.

Strong margin lending and fixed-income investment gains helped large firms to boost profits and outperform sector peers. Their ROAAs rose to 5.4% as of 9M2024, from 4.3% in the prior year, higher than the sector average. On margin lending, large firms recorded stronger loan growth at higher lending rates compared with sector peers, supported by their large capital base and customer networks. In addition, large firms maintain among the largest fixed-income operations in the sector and benefited from improved corporate bond market conditions with the surge in bond investment gains and custody service fees (e.g. TCBS, VPBANKS, VND). In contrast, ROAA for mid-sized firms (e.g., SHS, BSI, VDS) fell by 2% quarter-on-quarter (QoQ), mainly due to a decline in the valuation of their sizable equity investments. Their growth in margin lending lagged the large firms, constrained by their small capital base and network. Overall, we expect more than half of the 25 firms[1] firms are on track to meet their full-year profit targets. We expect the sector's ROAA for full-year 2024 will improve by 50-70 basis points from prior year to 4.8%-5%.[2]

Sector asset risk has moderated, driven by slower bond defaults and declining bond buyback commitments. TVSI lowered bond buyback commitments by 30% in 9M2024 following the principal repayments of defaulted bond issuers in energy and real estate sector. Over 20% of firms under our analysis have high risk appetite profiles due to sizable corporate bond investments. We view the asset risk stemming from these investments have moderated from a year ago from slowing defaults and improving recovery rates. Meanwhile, margin loans to large, single customers continued to rise in 3Q2024, and increased firms' vulnerability to sizable losses when firms are forced to liquidate loan collaterals during market downturns, such as in 4Q2022.

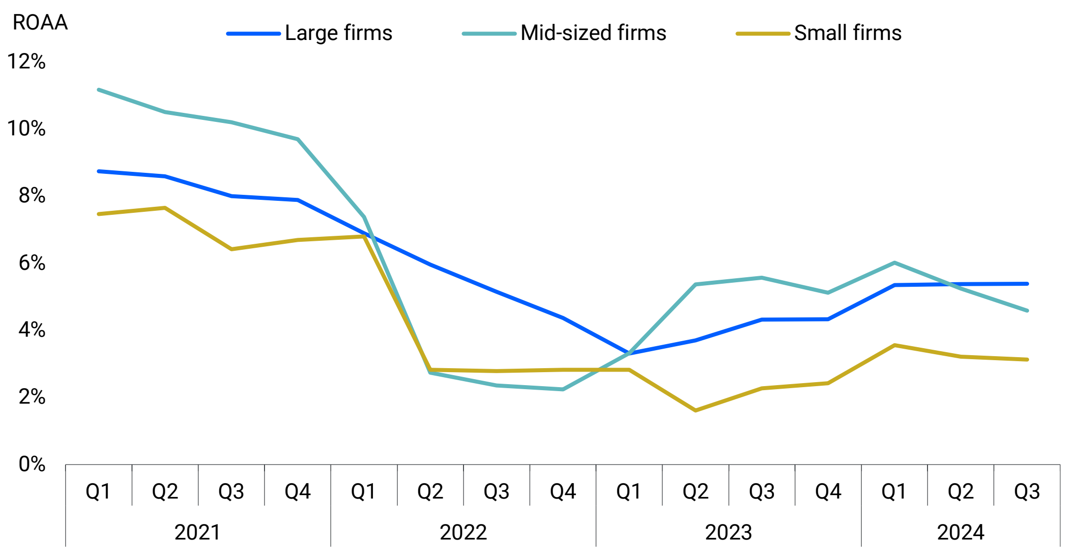
Sector leverage remained low, supported by significant capital raises. Strong capital raising from local firms (VIX, VND, MBS) in 3Q2024 strengthened their loss buffers and kept sector leverage low at 230%. ACBS also proposed additional capital raising and grown into a key contributor to the parent bank's business strategy; for HCM, new capital injections will expand their business and keep margin loan balances below the regulatory limit of 200% total equity. Coupled with ongoing capital raises by local firms (SSI, SHS, VCI), we expect the sector leverage will moderate in the coming quarters. Overall, only 10% of firms have high leverage due to their limited capital injections or sizeable commitments to buyback bonds from customers.

Liquidity risks from higher use of short-term borrowings remained well managed for several foreign-owned and bank-affiliated firms. For example, bank-affiliated firms (CTS, ORS) had a track record of accessing clean credit lines from local banks, while foreign firms (MASVN, KIS) benefited from their parents' funding support. In addition, liquid assets such as cash, and CDs from these firms made up 15-30% of total assets. Refinancing risk from retail and/or corporate clients' borrowings lowered for TCBS given a four-fold increase in long-term bond issuance compared to last year. Overall, 30% of firms have strong liquidity profiles, most are bank-affiliated firms benefiting from recent capital raises and are less reliant on short-term borrowings to grow their core investment activities.

[1] 25 out of 30 firms covered by our analysis announced their business plan for 2024
[2] Refer to securities sector outlook 2024: Outlook improving from continued growth in margin lending profits and investment gains supported by stronger market conditions, while asset risk stabilizes from slower bond defaults

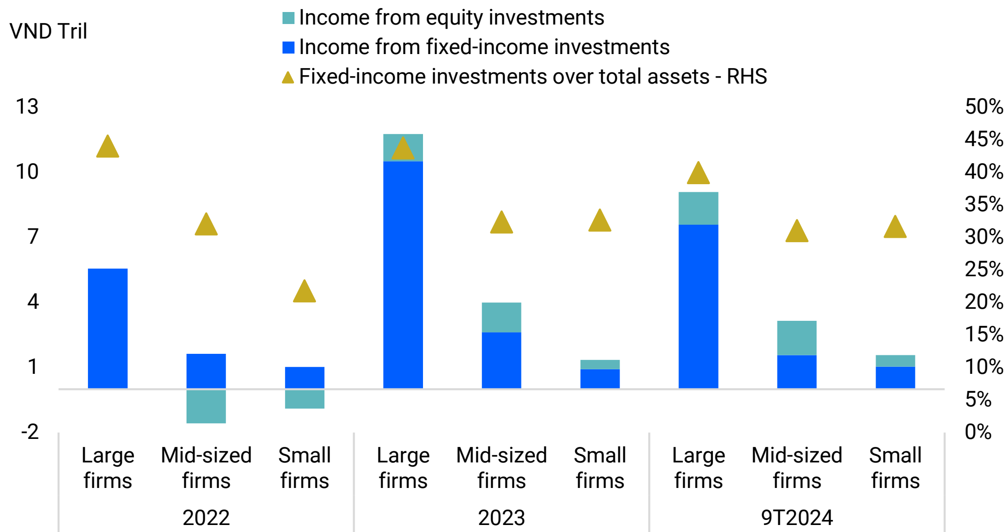
Strong margin lending and fixed-income investment gains helped large firms to boost profits and outperform sector peers

Exhibit 1: Profits for large firms outperformed their peers…



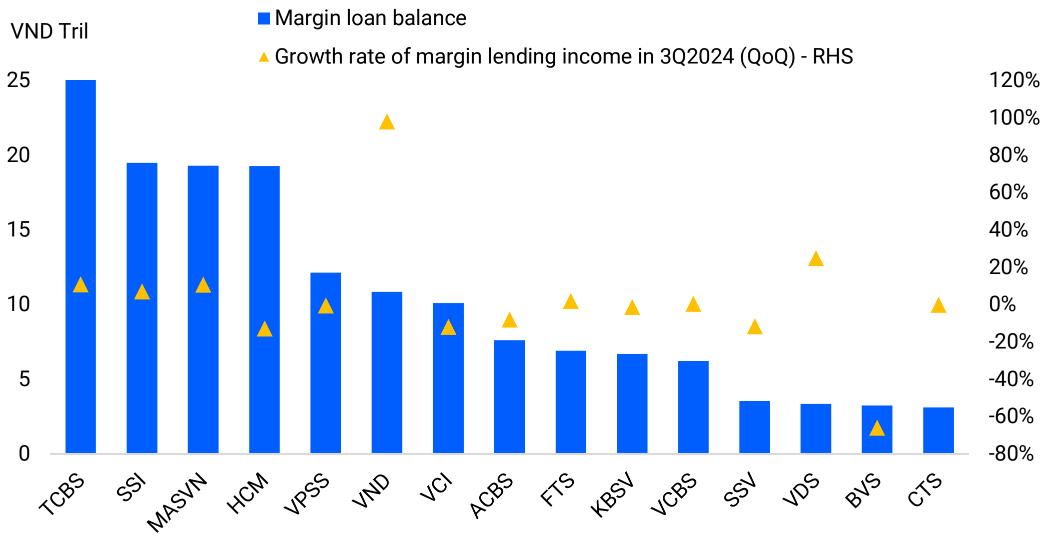
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets
Source: Company data, Vietnam Investors Service

Exhibit 2: …supported by strong fixed-income investment gains



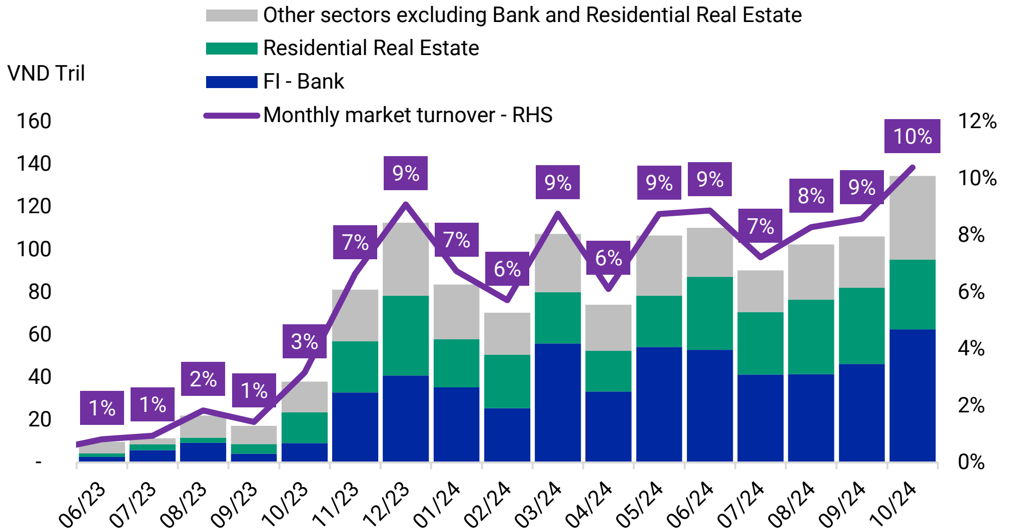
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets
Source: Company data, Vietnam Investors Service

Exhibit 3: Large firms' margin lending income increased significantly



Source: Vietnam Investors Service
Refer to Appendix for full name of securities firms

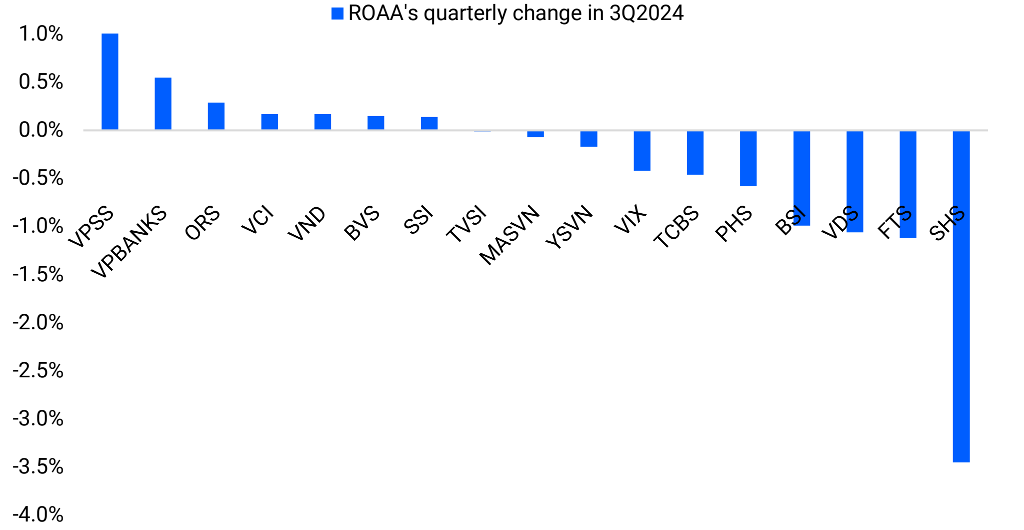
Exhibit 4: Improved bond market conditions support recovery of bond distributors' profits



Source: HNX, Vietnam Investors Service

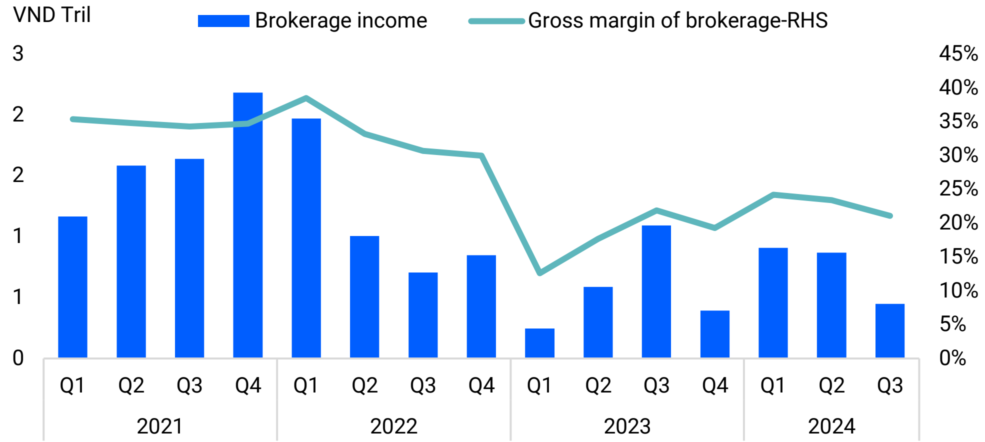
Profits from equity investment and brokerage segments declined given lower stock valuation and limited trading value

Exhibit 5: ROAA for mid-sized firms declined significantly from lower valuation of their sizable equity investments



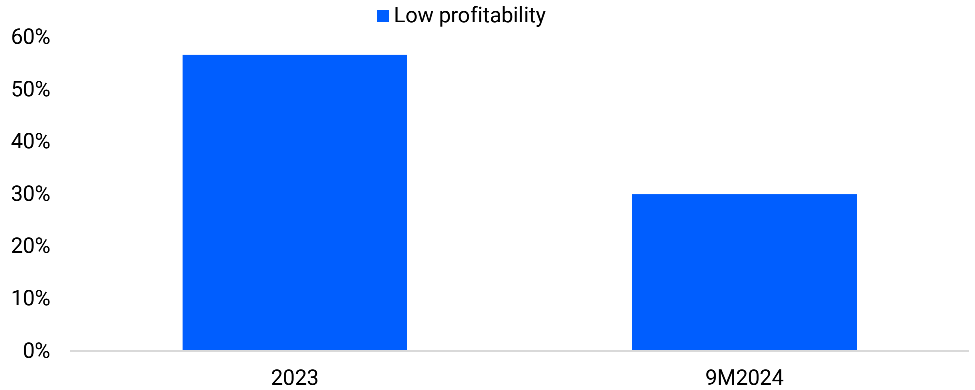
Source: Company data, Vietnam Investors Service

Exhibit 6: Brokerage income remains low driven by fee competition and lower stock trading value



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

Exhibit 7: Declining number of firms with low profitability in 9M2024

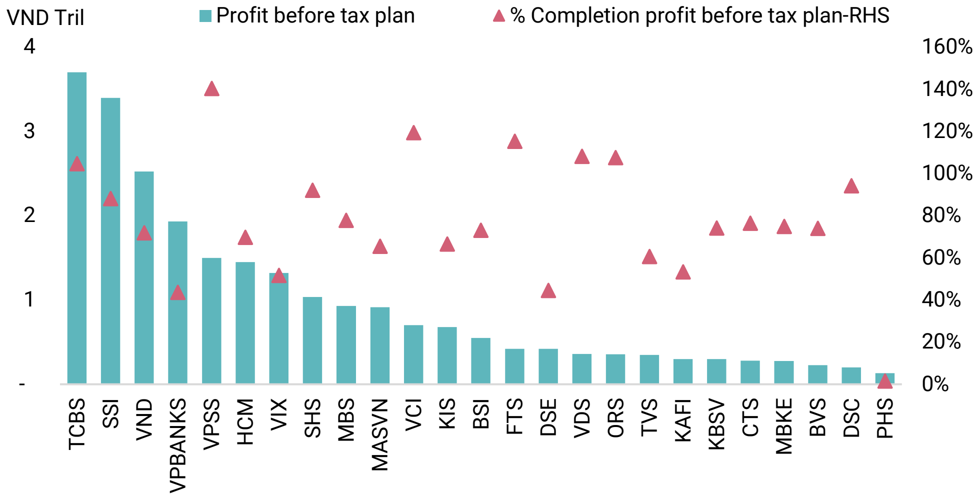


Note: Low profitability is denoted by Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below

Extremely Weak	Very Weak	Weak	Below-Average	Average	Above-Average	Strong	Very Strong

Source: Vietnam Investors Service

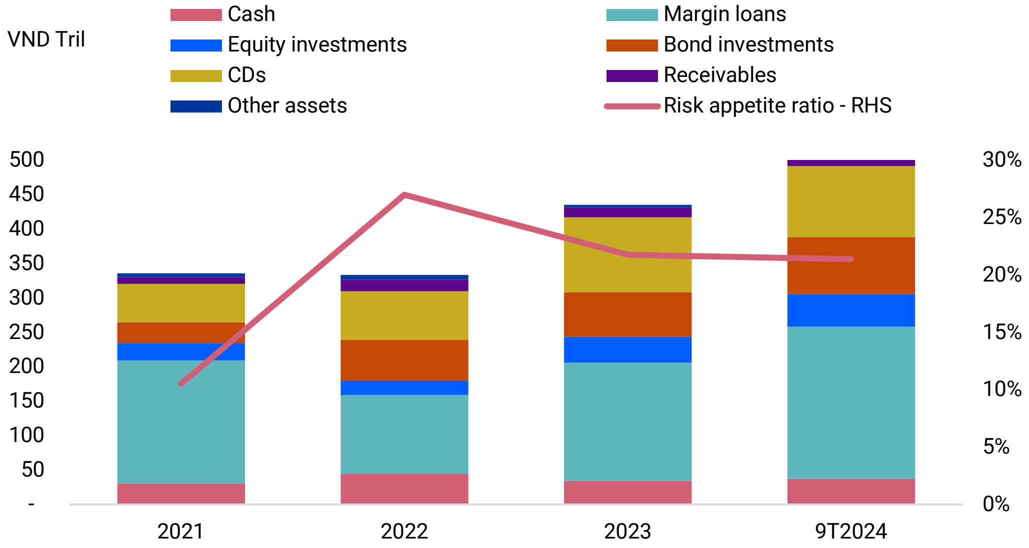
Exhibit 8: More than half of the 25 firms are on track to meet their full-year profit targets



Source: Company data, Vietnam Investors Service

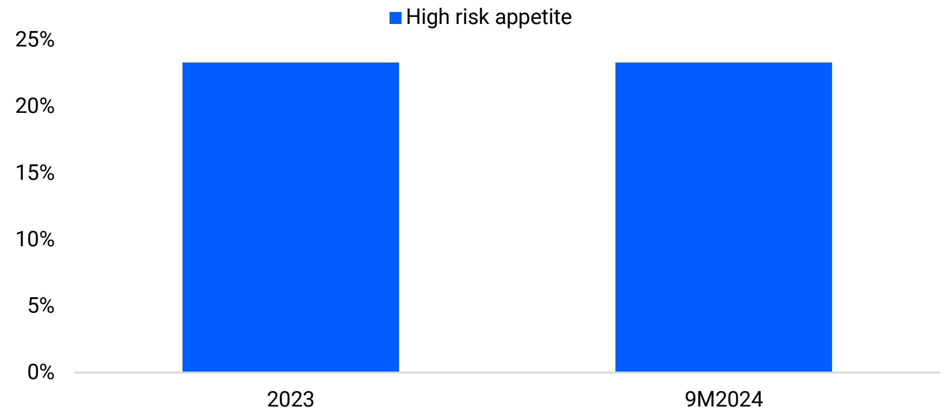
Sector asset risk has moderated, driven by slower bond defaults and declining bond buyback commitments

Exhibit 9: The sector exposure to higher-risk assets remained stable



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

Exhibit 10: Over 20% of firms covered by our analysis have high risk appetite

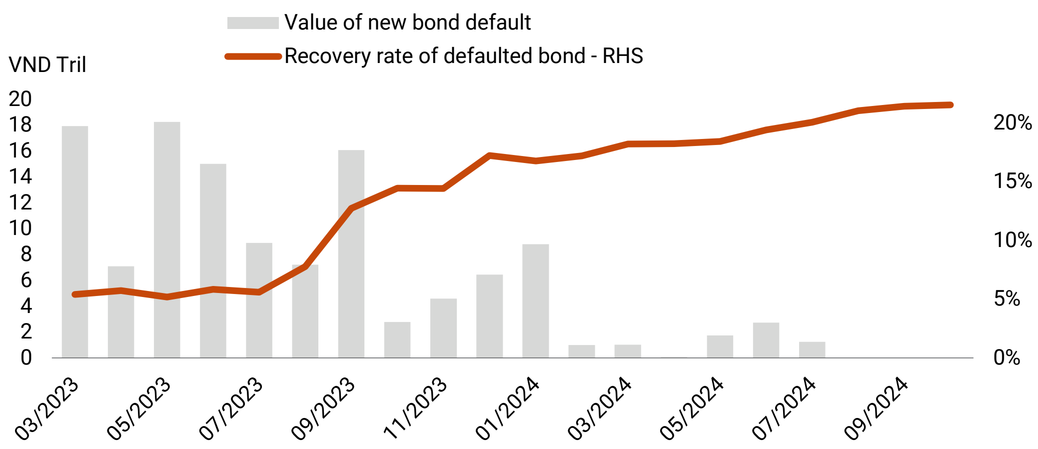


Note: Risk appetite ratio is calculated as total higher-risk assets and off-balance-sheet exposure divided by tangible assets
High risk appetite is denoted by Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below

Extremely Weak	Very Weak	Weak	Below-Average	Average	Above-Average	Strong	Very Strong

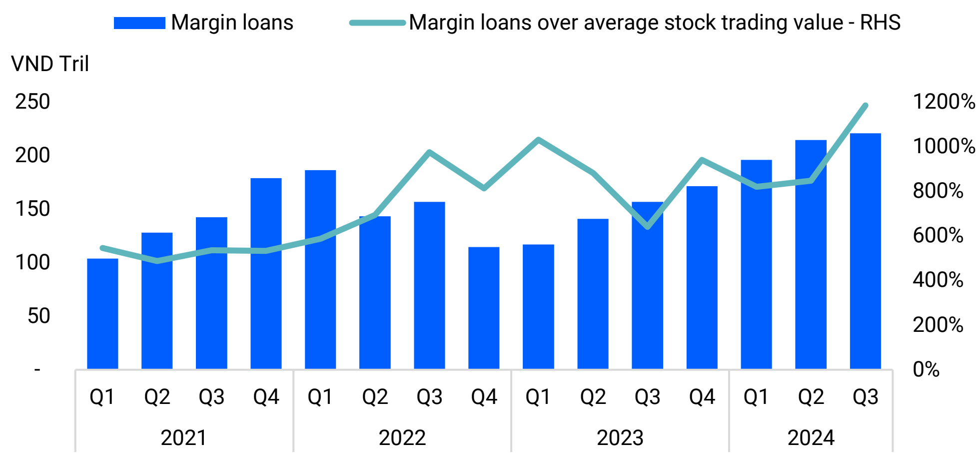
Source: Vietnam Investors Service

Exhibit 11: Asset risk from bond holdings stabilized given slower new bond defaults and improving recovery rates



Source: Vietnam Investors Service

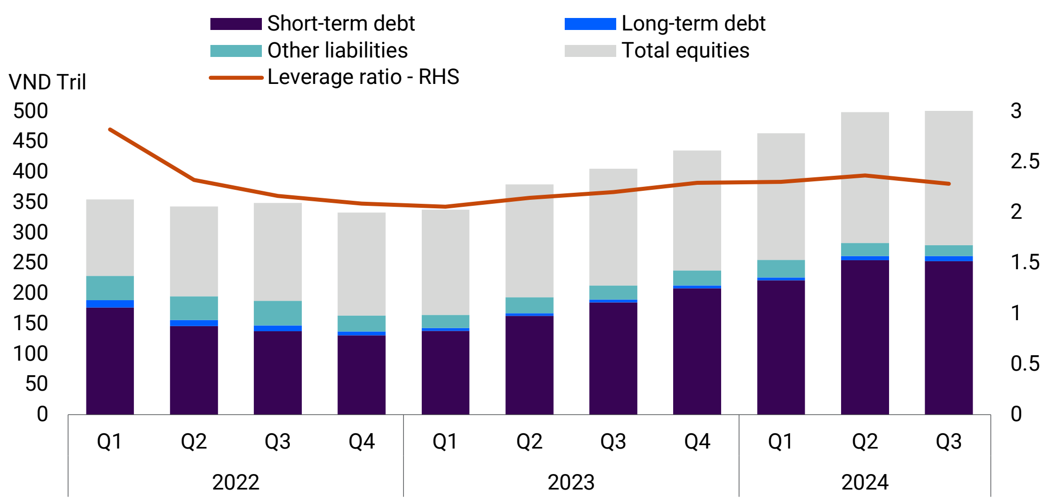
Exhibit 12: Margin loans to large, single customers will increase firms' vulnerability to sizable losses



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

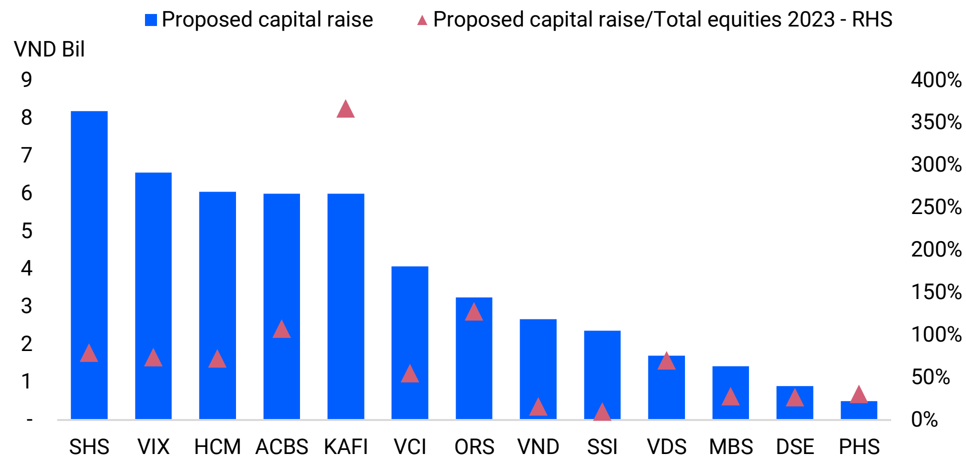
Sector leverage remained low, supported by significant capital raises

Exhibit 13: Sector leverage remained at low level…



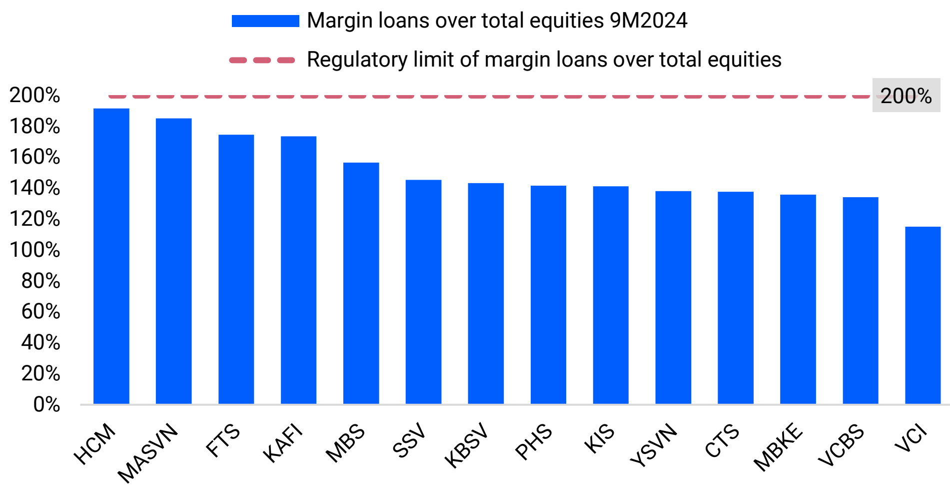
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets
Source: Company data, Vietnam Investors Service

Exhibit 14: …driven by significant capital raising from bank-affiliated and large local firms



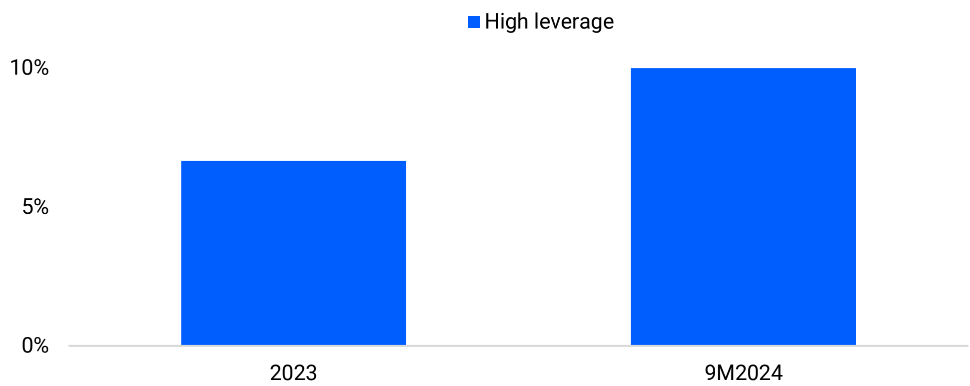
Source: Company data, Vietnam Investors Service

Exhibit 15: Several firms need to raise new capital to keep margin loan balances below regulatory limit



Source: Company data, Vietnam Investors Service

Exhibit 16: Only 10% of firms use high leverage to expand their businesses



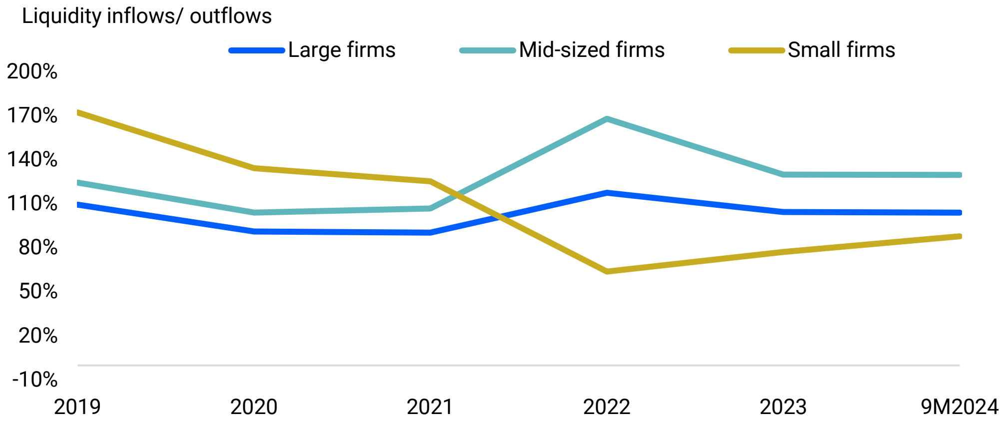
Note: Leverage ratio is calculated by dividing tangible assets and off-balance-sheet exposure over tangible common equities
High leverage is denoted by Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below

Extremely Weak	Very Weak	Weak	Below-Average	Average	Above-Average	Strong	Very Strong

Source: Company data, Vietnam Investors Service

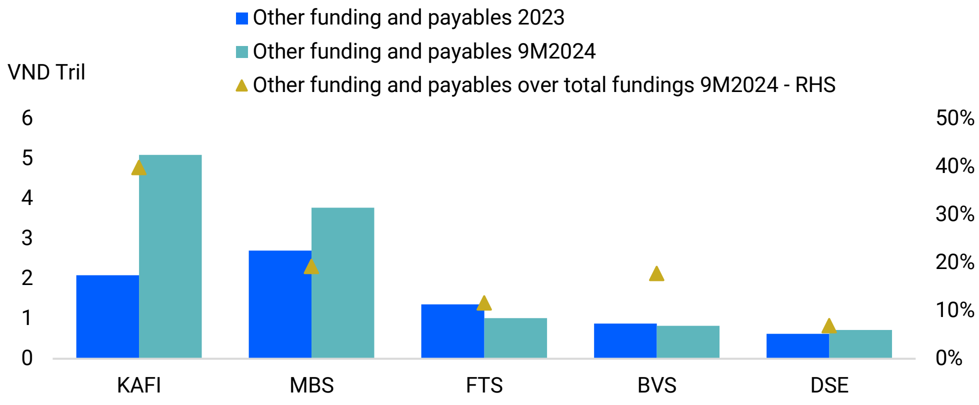
Liquidity risks from higher use short-term borrowings are well managed for several foreign-owned and bank-affiliated firms

Exhibit 17: Liquidity profiles remained stable in 9M2024



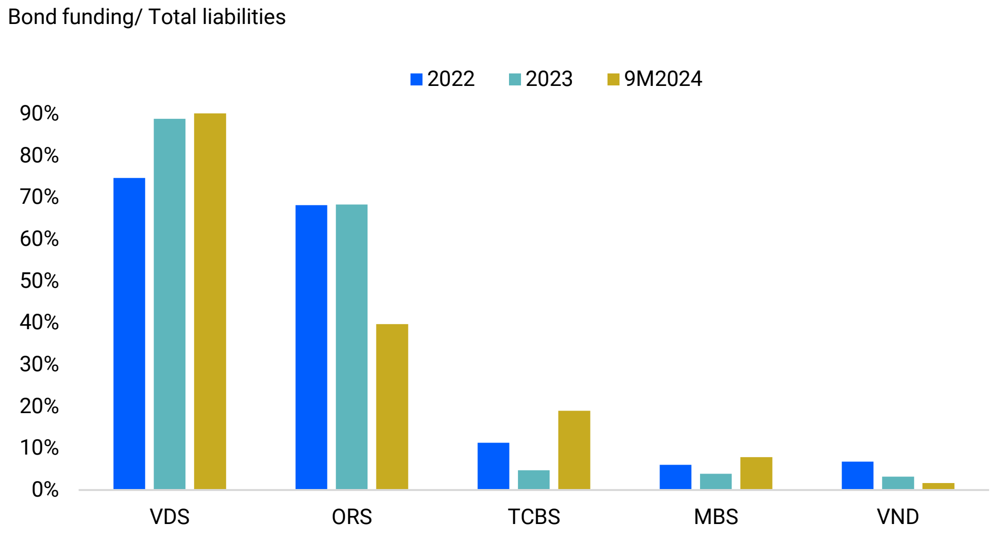
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets
Source: Company data, Vietnam Investors Service

Exhibit 18: Several firms might be exposed to event risks due to higher borrowings from customers



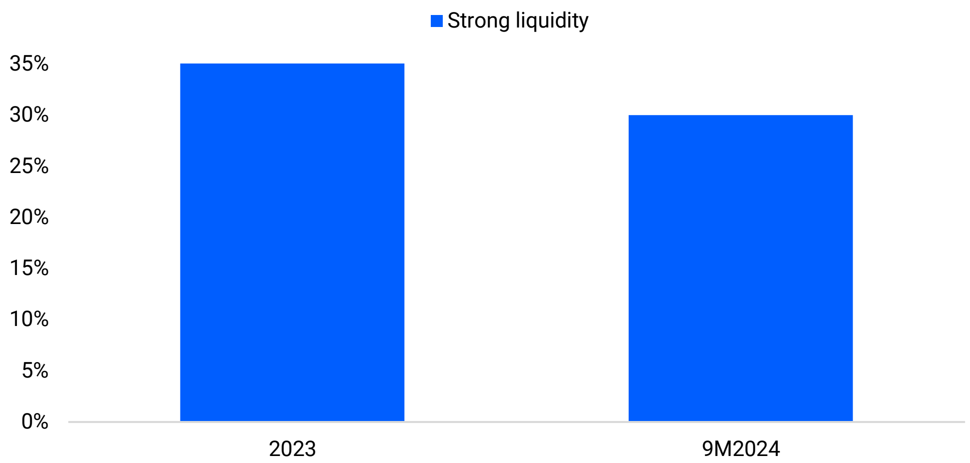
Source: Company data, Vietnam Investors Service

Exhibit 19: Refinancing risk lowered for TCBS given increasing long-term bond issuance



Source: Company data, Vietnam Investors Service

Exhibit 20: Around 30% have strong liquidity profiles



Note: Liquidity is calculated by dividing liquidity inflows by liquidity outflows
Strong liquidity is denoted by Above-Average, Strong, and Very Strong categories based on our eight-category assessment scale, as illustrated below

Extremely Weak	Very Weak	Weak	Below-Average	Average	Above-Average	Strong	Very Strong

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

	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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