

Securities Sector: 1H2024 Update

Margin lending and investment gains drove strong profits, liquidity remained stable despite higher short-term borrowings

The sector profitability continued to improve in the first six months of 2024, driven by margin lending and investment gains from the recovery in equity market valuation and improving market sentiment amid low interest rates. Sector asset risk stabilized, but several firms active in bond advisory and distribution remained more at risk as they increased their corporate bond investments and committed to buyback bonds from investors. Liquidity profiles remained stable despite firms using higher short-term borrowings to support margin and investment expansion. New capital raising, as announced by some large firms, will enhance their loss-absorption buffers against potential downside risks and support their asset growth.

Margin lending and investment income improved significantly in 6M2024, particularly for large firms. The sector return on average assets (ROAA) increased from 4.3% in 2023 to 5.1% as of 6M2024. Strong market sentiment amid low interest rates and stabilizing defaults boosted stock trading volume, market valuation, and greater use of margin loans for trading. Margin lending income of large firms (SSI, VPSS, HCM, MBS) rose 40-70% year-on-year (YoY) while investment gains rose 25% YoY. Firms active in bond advisory and distribution (TCBS, ORS) recorded sizeable gains from bond distribution, advisory, and custody services by 160% YoY on average. Firms with sizable equity investments (VCI, SHS, VDS) recorded significant investment gains in 3M2024.

Over the course of 2H2024, we expect margin lending and fixed-income gains to drive stable ROAA for the sector despite some moderation in equity market valuation from peak levels in 1Q2024.

Asset risk for active bond distributors remained high. For example, TCBS, VPBANKS, VND increased investments in bonds issued by large corporates and continued to offer commitments to buyback bonds sold to customers. VND reported an increase in overdue receivables in 2Q2024 from a large energy company that recently defaulted on its bond repayment. Margin loans to large, single customers increased; these large loans increase firms' vulnerability to sizable losses if and when firms are forced to liquidate loan collaterals during a market downturn, such as in 4Q2022.

We expect the sector asset risk to stabilize in 2H2024 as new bond defaults remain low. Additional capital raising by large local firms and bank-affiliated firms - announced in 1H2024 - will strengthen their loss-absorption buffers.

The use of short-term borrowings increased to support margin lending and investments, and liquidity risks remained well-managed through sizable liquid asset buffers. Coupled with sizeable liquid asset buffers such as cash and certificate of deposits - made up 30% of total assets, we view the sector liquidity risks from higher leverage are manageable. However, several firms (KAFI, FTS, MBS, VND) - typically have 20-50% of their borrowings from retail and/or corporate clients - might be exposed to refinancing risk as credit negative events to firms could trigger massive withdrawal from these clients and lead to liquidity issues for securities firms.

CONTACTS

Nguyen Manh Tung

Associate Analyst

tung.nguyen@visrating.com

Phan Duy Hung, CFA, MBA

Director – Senior Analyst

hung.phan@visrating.com

Simon Chen, CFA

Head of Ratings & Research

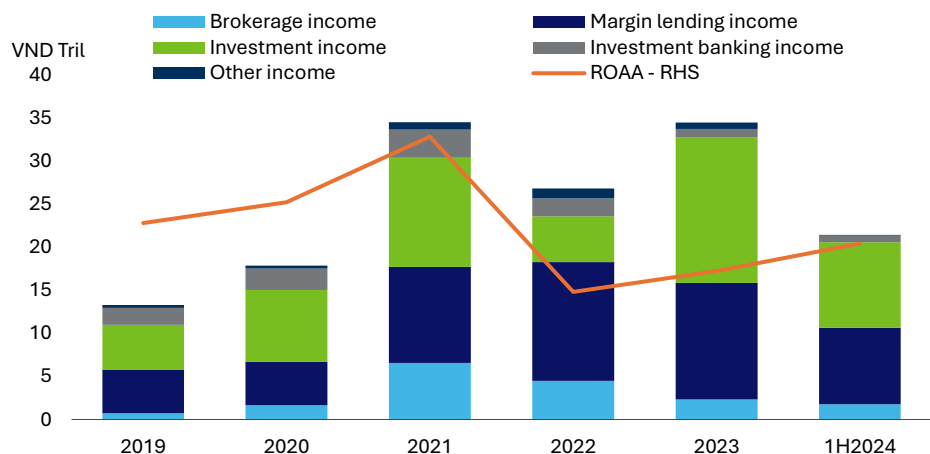
simon.chen@visrating.com



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Margin lending and investment income improved significantly in 6M2024, particularly for large firms.

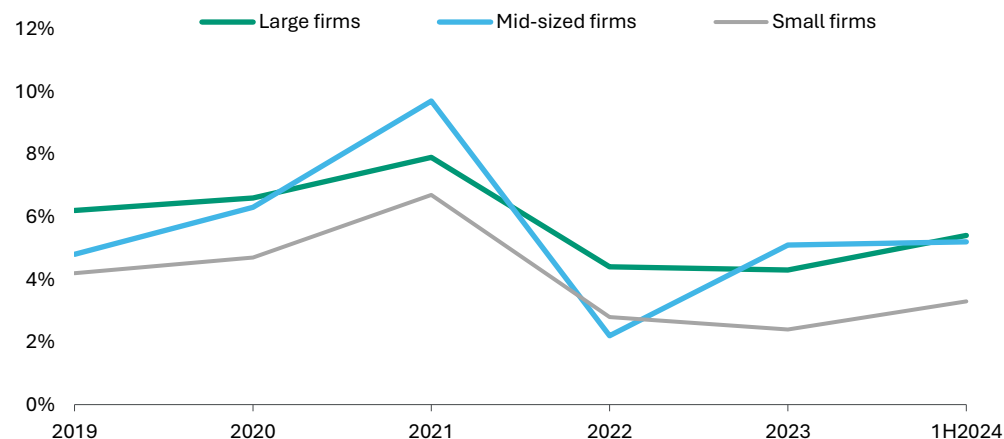
Exhibit 1: Profits improved in 1H 2024 from stronger margin lending and investment income



Source: Company data, Vietnam Investors Service

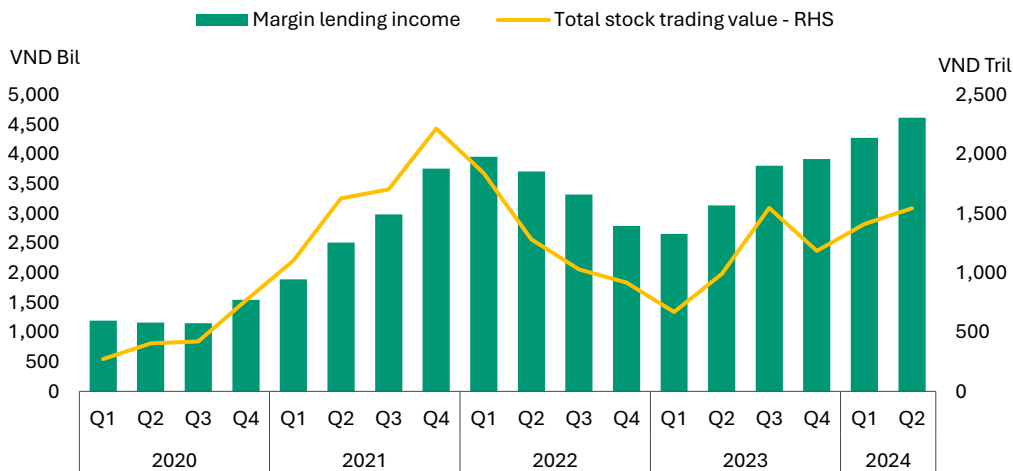
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets

Exhibit 2: ROAA for large firms outperformed their peers



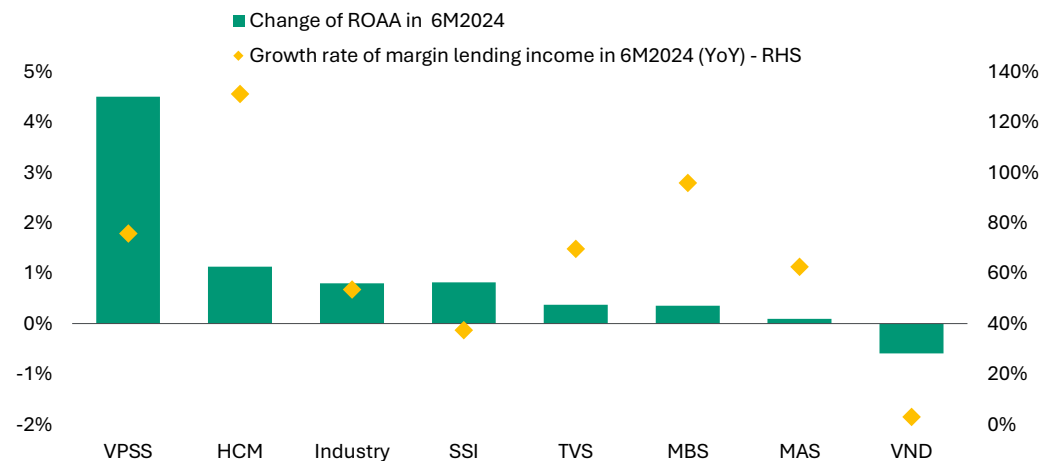
Source: Vietnam Investors Service

Exhibit 3: Stronger stock trading value boosted higher-margin lending income



Source: Vietnam Investors Service

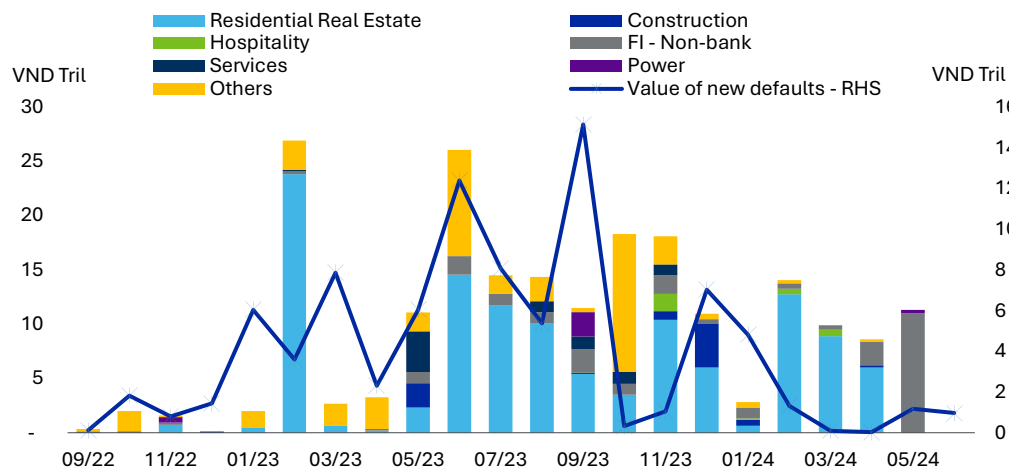
Exhibit 4: Margin lending income of large firms increased significantly supporting the profit growth



Source: Company data, Vietnam Investors Service
Refer to Appendix for the full name of Securities firm

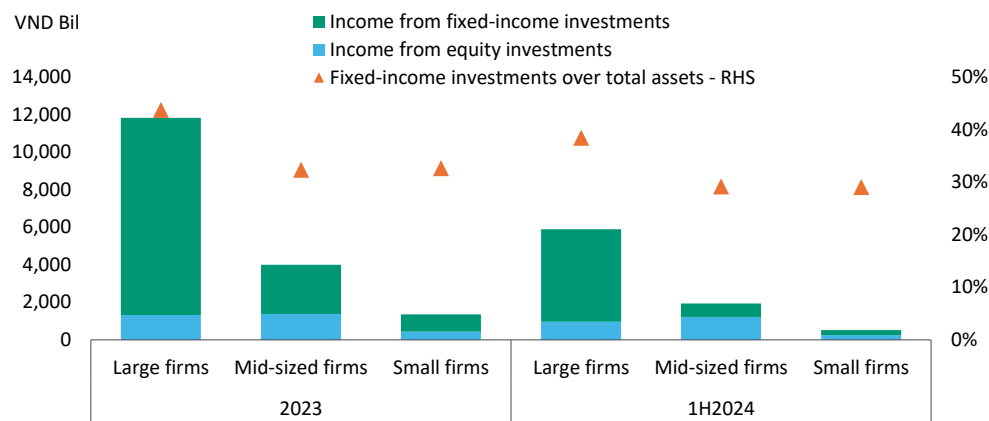
Investment gains rose significantly during 6M2024 from improving market sentiment and rising stock valuation.

Exhibit 5: Improving non-FI bond issuance amid slower bond defaults



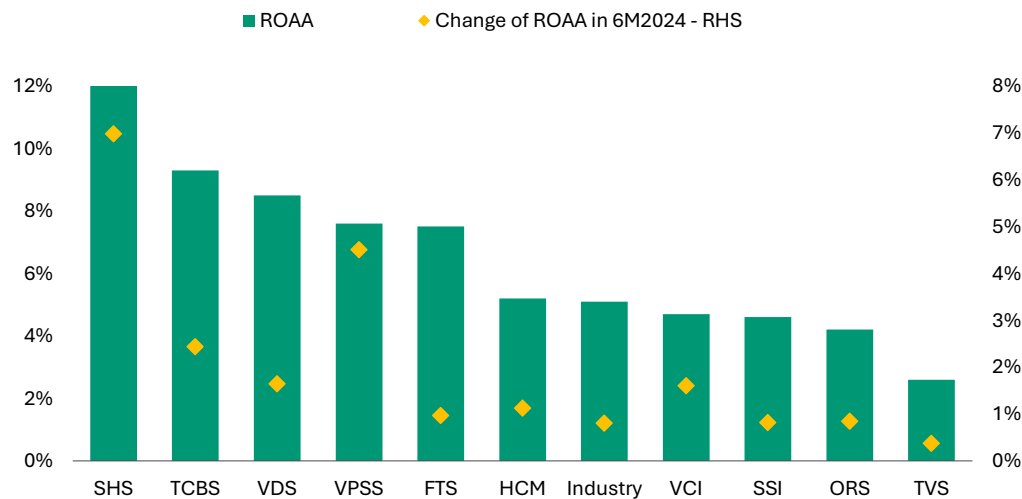
Source: HNX, Vietnam Investors Service

Exhibit 6: Strong investment income from fixed-income and equity portfolios



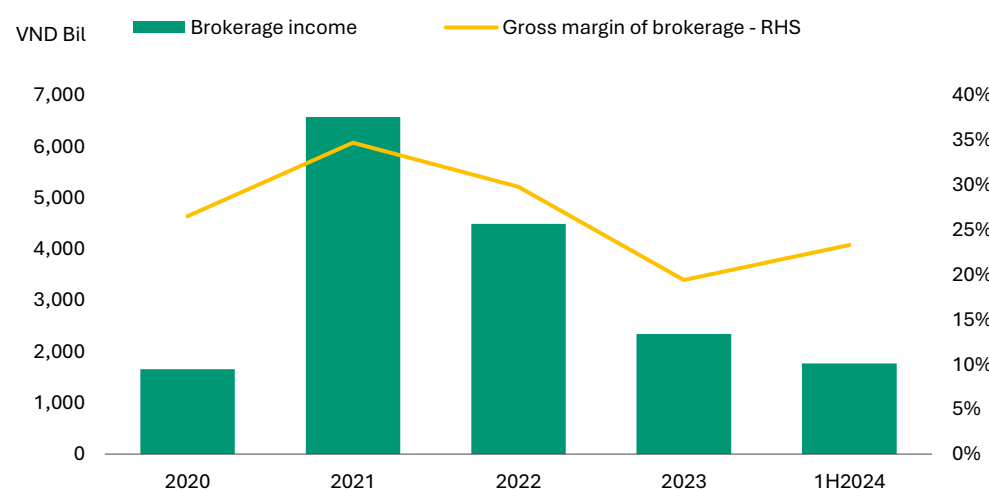
Source: Vietnam Investors Service

Exhibit 7: Firms with sizable equity investment exhibited strongest improvement in profitability



Source: Company data, Vietnam Investors Service

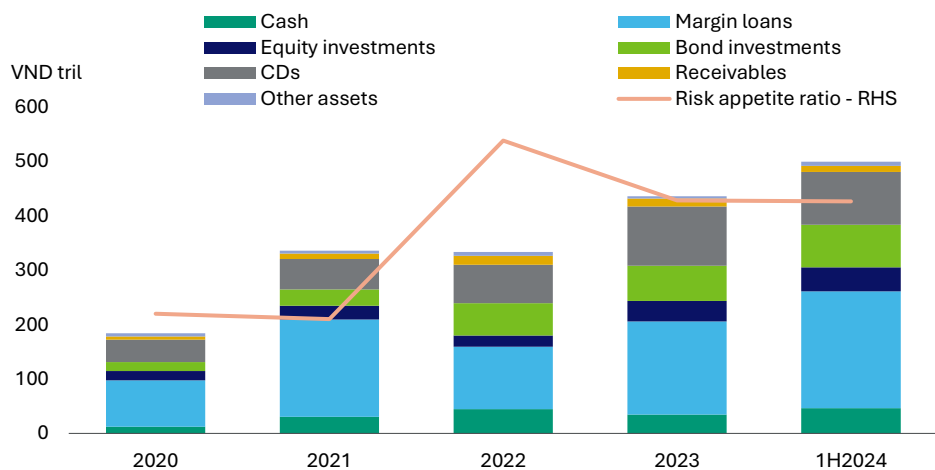
Exhibit 8: Brokerage income improved modestly given the intense fee competition among firms



Source: Company data, Vietnam Investors Service
Note: 1H2024: year-to-date data

Asset risk for active bond distributors remained high.

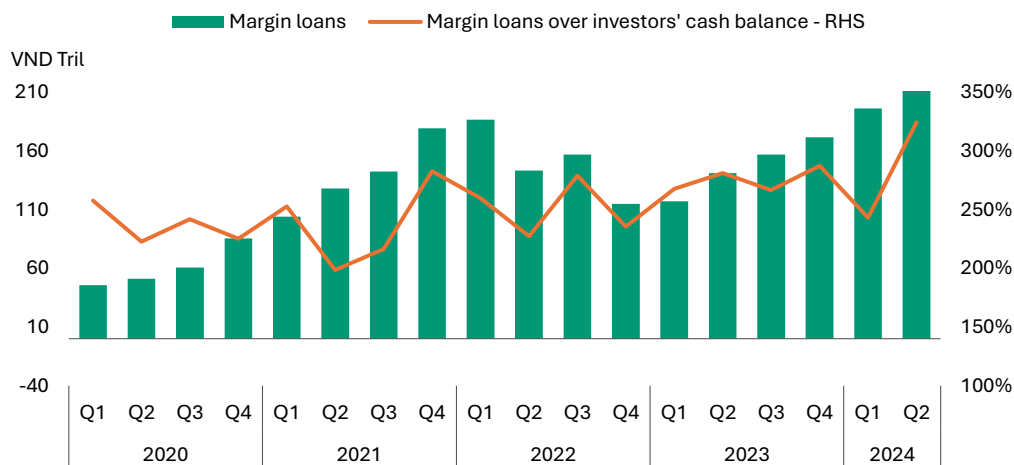
Exhibit 9: The sector's exposure to higher-risk assets stabilized



Source: Company data, Vietnam Investors Service

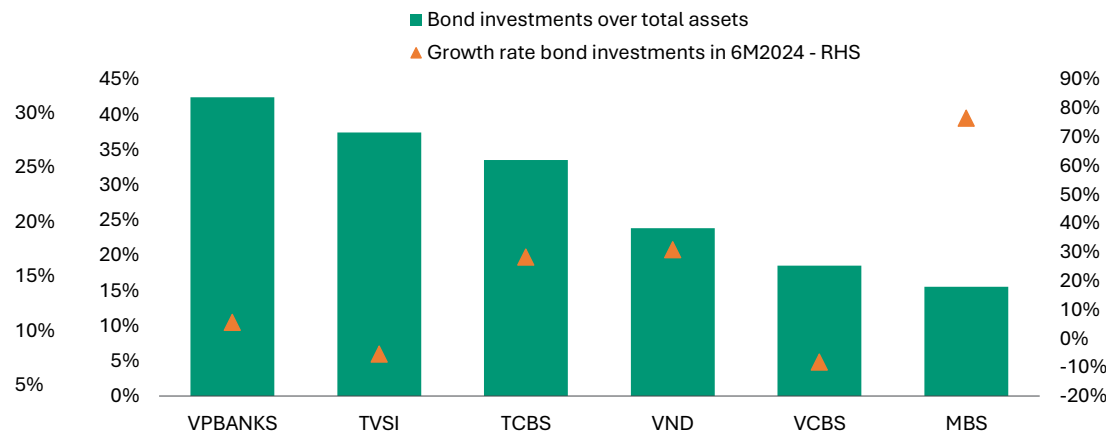
Note: Data includes top 30 securities firms by assets, covering around 90% of total sector assets
Risk appetites ratio is calculated as total higher-risk assets and off-balance-sheet exposure divided by tangible assets

Exhibit 11: Higher margin loans to large, single customers...



Source: Company data, Vietnam Investors Service

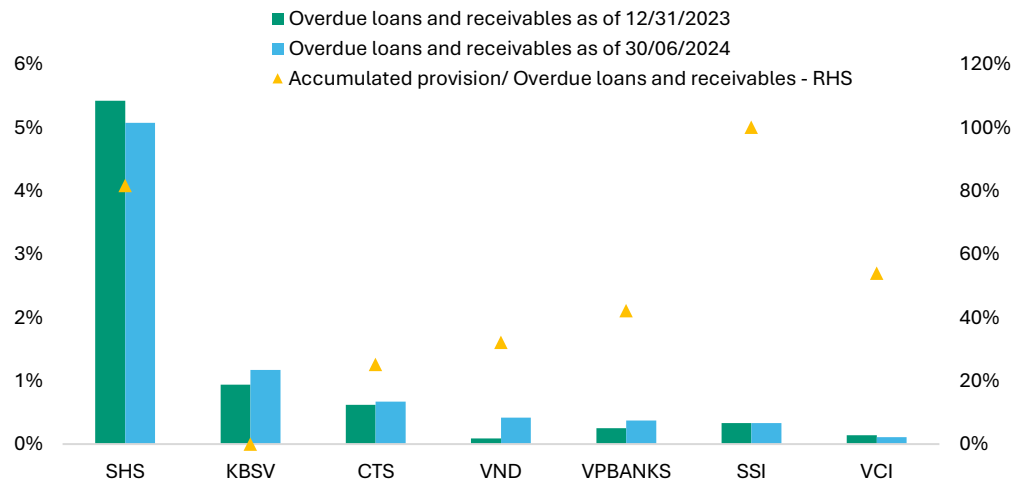
Exhibit 10: Bond distributors increased their exposure to non-FI Bond



Source: Company data, Vietnam Investors Service

Refer to Appendix for the full name of Securities firms

Exhibit 12: ... will increase firms' vulnerability to sizable losses

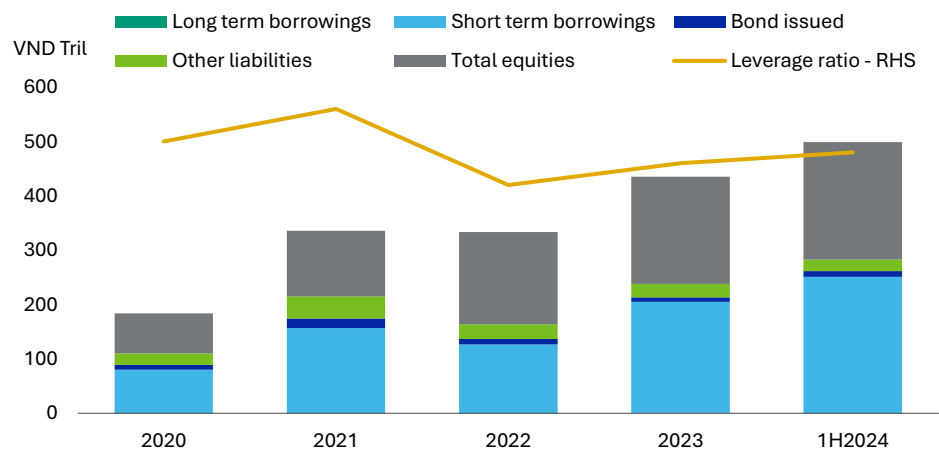


Source: Company data, Vietnam Investors Service

Refer to Appendix for the full name of Securities firm

The risk from increasing use of short-term borrowings is mitigated by the sizable capital raise.

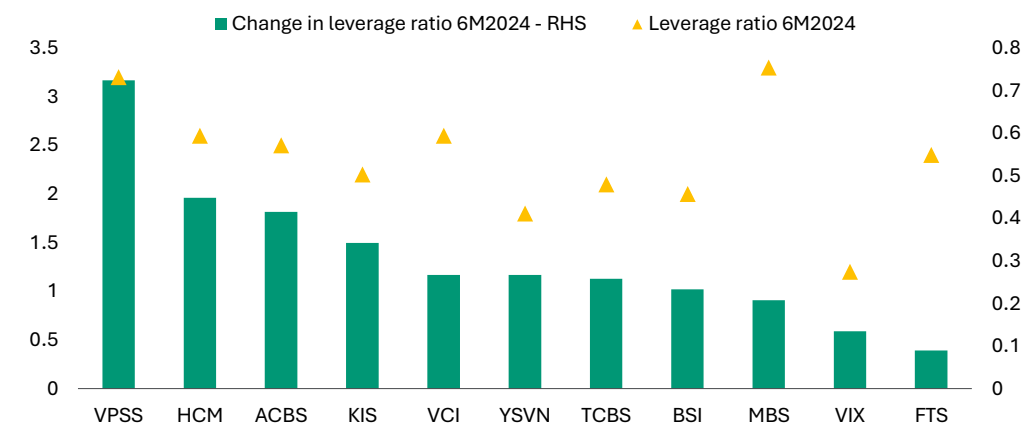
Exhibit 13: Firms increased short-term borrowings to support margin lending and investments



Source: Company data, Vietnam Investors Service

Note: Leverage ratio is calculated by dividing tangible assets and off-balance-sheet exposure over tangible common equities

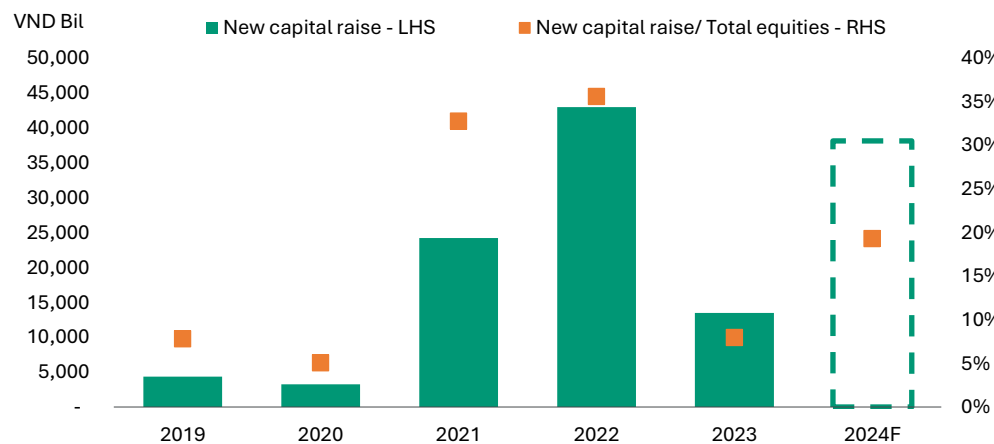
Exhibit 14: Several large firms and bank-affiliated firms raised short-term borrowings amid low interest rates



Source: Company data, Vietnam Investors Service

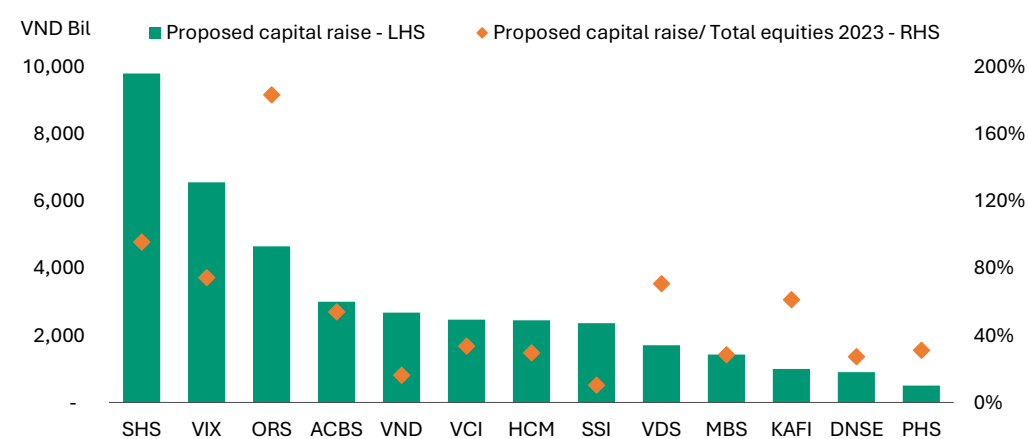
Refer to Appendix for the full name of Securities firms

Exhibit 15: Sizeable capital raising to mitigate risks from higher use of short-term borrowings and support higher asset growth



Source: Company data, Vietnam Investors Service

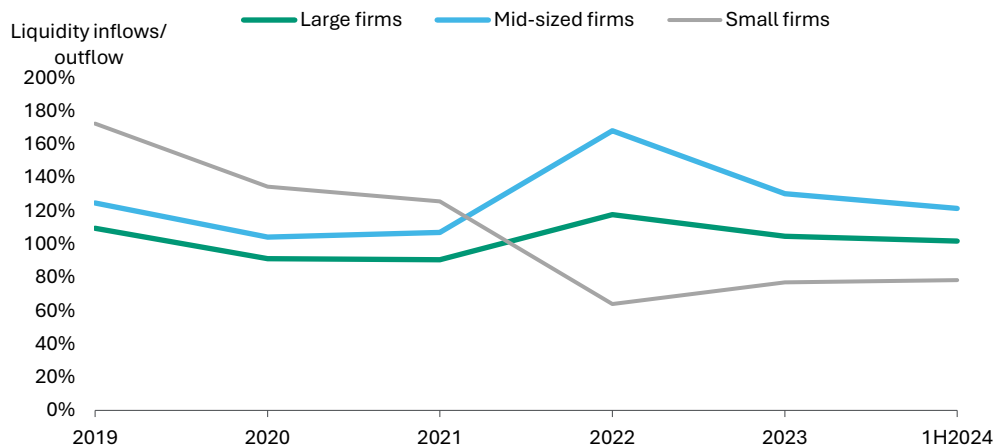
Exhibit 16: Proposed capital raises mostly come from large local firms and bank-affiliated firms



Source: Company data, Vietnam Investors Service

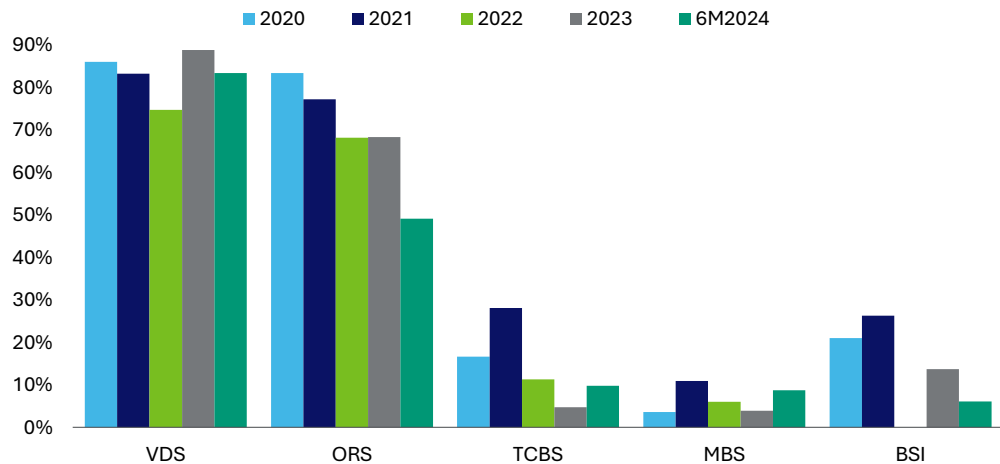
Liquidity risks remained well-managed through sizable liquid asset buffers.

Exhibit 17: Liquidity remains stable



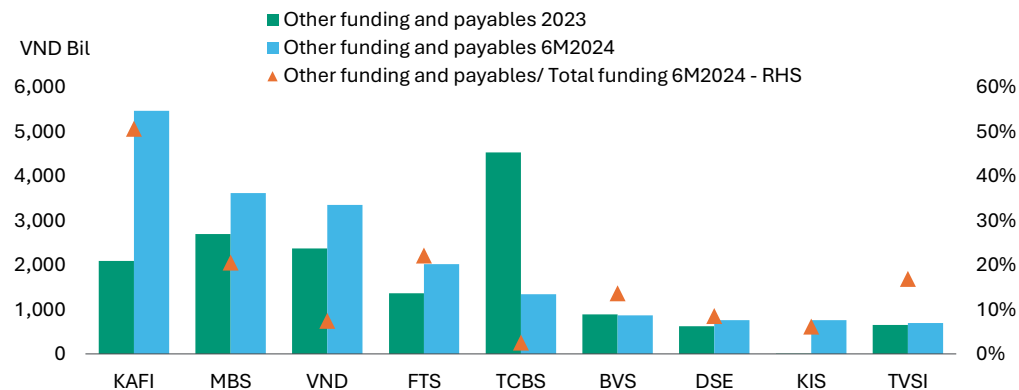
Source: Company data, Vietnam Investors Service

Exhibit 19: Lower refinancing risks for firms focusing on bond funding amid improving sentiment in bond market



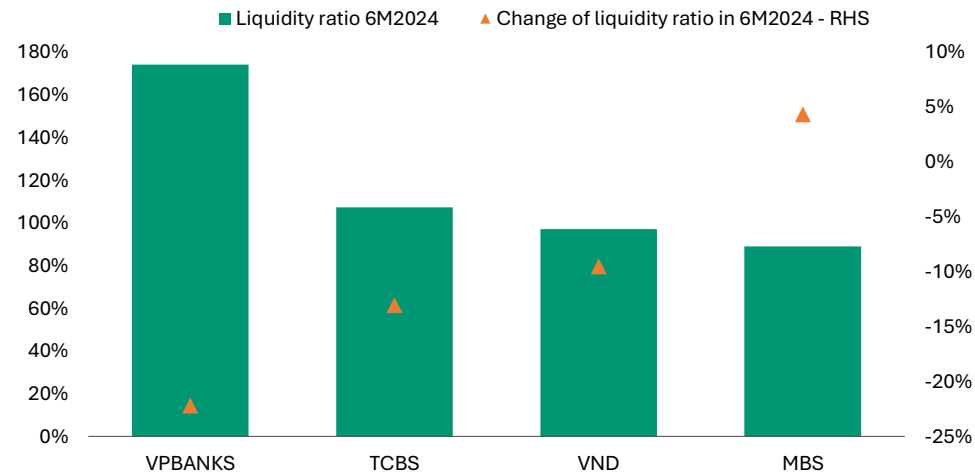
Source: Company data, Vietnam Investors Service
Refer to Appendix for the full name of Securities firms

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



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

Exhibit 20: Bond distributors not affiliated with banks will be more vulnerable to tighter liquidity



Company data, Vietnam Investors Service
Refer to Appendix for the full name of Securities firms

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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