

Financial Sector

Business performance is the prominent investment theme

- Securities companies are shifting their business model towards reducing transaction fees or even offering commission-free transactions in order to sell other products (such as margin lending, wealth management).
- Firms focusing on the wholesale business model are facing difficulties because the corporate bond, M&A and IPO markets still encounter many challenges.
- Favorable demographics and rising disposable income of the Vietnamese people will contribute to support the development of the stock market.

The industry's business model is undergoing changes

Companies focused on retail customers are reducing transaction fees, moving towards completely free transactions and instead generating profits from other products such as margin lending, wealth management, or investment advisory. Successful companies pursuing this model include: SSI, MBS, VND.

Companies focusing on institutional customers are facing difficulties as the corporate bond market and IPOs are still challenging. Companies pursuing this strategy include: VCI and HCM

Investment catalysts are already reflected in the market's price increase

There are numerous factors supporting the market in terms of transparency and becoming a channel for long-term capital mobilization for businesses, such as: 1) Government supporting policies; and 2) Penalties for organizations and individuals engaged in stock price manipulation.

In terms of supporting the increase in the VN Index and the business results of companies in the industry, several factors include: (i) Favorable demographic factors (62.2% of the population in working age); (ii) improved disposable income of the Vietnamese; (iii) Technological advancements like KRX, integrated investment service apps supporting market liquidity.

However, these factors have already been reflected in the increase in the VN-Index as well as stocks price in 2023.

The business performance will be the driving force behind the price increase of securities stocks in 2024

With the Fed's interest rate cut trajectory not meeting expectations, we believe a cautious scenario with the VN Index reaching 1,350 points, corresponding to a P/E ratio of around 15x, is appropriate. Therefore, investors will become more selective in choosing stocks. Specifically, stocks with the best business results will attract investors.

The success of raising capital will create expectations for favorable business results and support stock price increases. Therefore, it is likely that this year will witness a resurgence of private placement activities as the corporate bond market and IPOs have not fully recovered.

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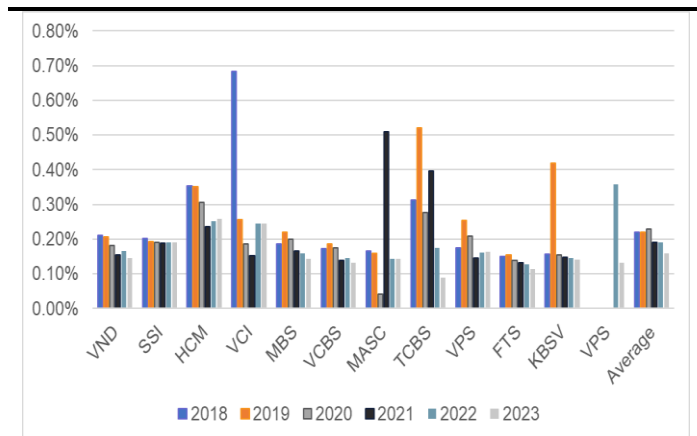
The business model of financial companies is undergoing changes.

VND, MBS, and VPS are good examples of the retail model, while companies like HCM and VCI focus more on corporate client portfolios. SSI, one of the industry's profit leaders, has a balanced business model but still leans more towards the retail segment.

Brokerage services have historically made significant contributions to the industry's profit and revenue structure. However, technological advancements make opening accounts easier, accelerating the penetration rate. It also has enabled companies in the market to develop a wider range of products such as margin lending, online investment advisory, asset management while reducing transaction costs and increasing market liquidity

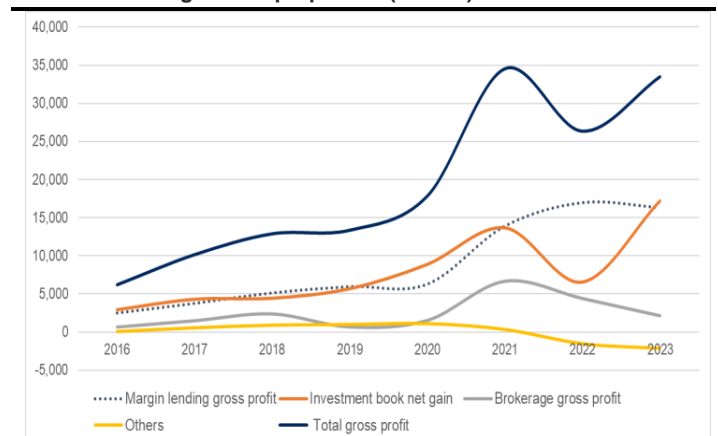
Alongside the competition from many new companies, existing companies in the industry are adopting a mass-market strategy with very low transaction fees, even offering free services to expand their customer base before cross-selling other products.

Figure 1: The industry's brokerage fees are trending downwards



Source: HNX, VNDIRECT RESEARCH

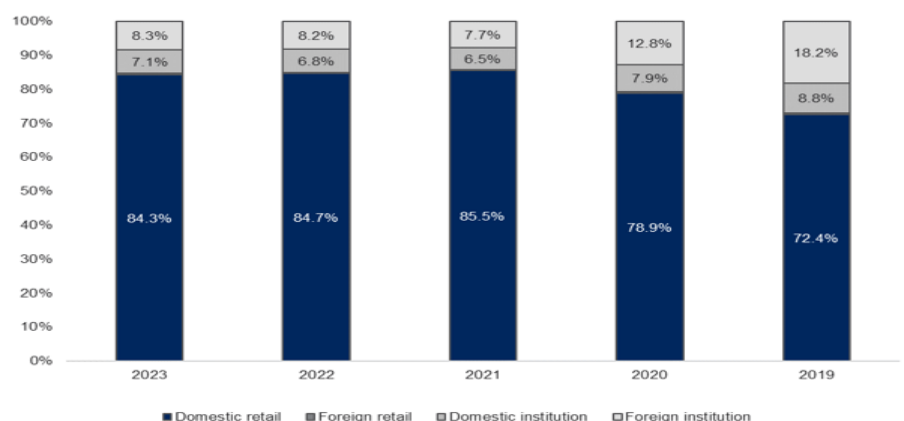
Figure 2: Gross profit from margin leding and proprietary activities accounts for a significant proportion (VNDbn)



Source: HNX, VNDIRECT RESEARCH

Although revenue from investment banking activities such as advisory services and underwriting currently only accounts for a small proportion of the overall industry revenue structure, it is expected to play a significant long-term role as the financial market develops and the increasing role of institutional investors, especially when Vietnam is upgraded to Emerging Market status. This will benefit companies pursuing the wholesale model.

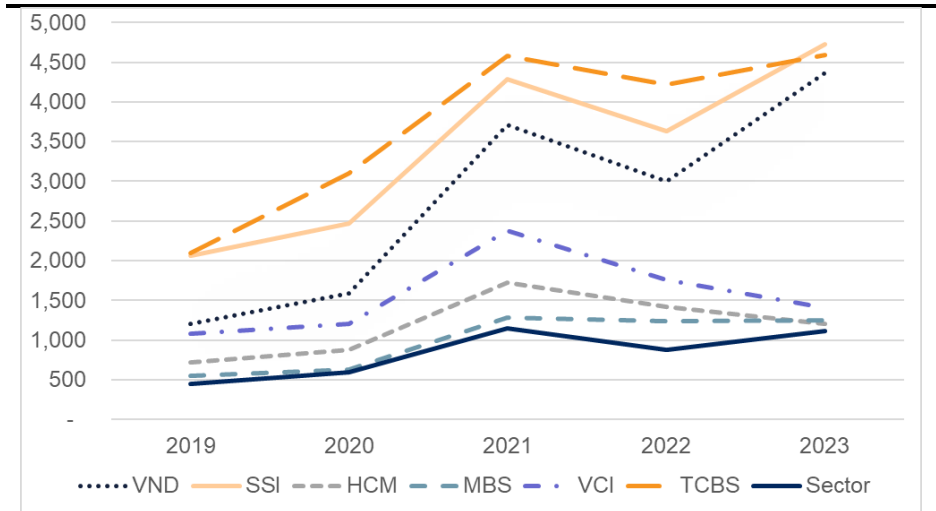
Figure 3: The largest trading volume belong to domestic individual investors



Source: BLOOMBERG, VNDIRECT RESEARCH

However, under current conditions where the Investment banking (IB) activities face difficulties due to market illiquidity as well as some new stricter regulations from the State Securities Commission (SSC), it can be observed from the Figure 4 that companies pursuing the retail model have outperformed the overall industry's gross profits, which have continued to trend downward since 2021.

Figure 4: The resilience of the two business models was reflected in the trend of gross profit (VNDbn)



Source: Fiin Pro, VNDIRECT RESEARCH

Margin lending is a critical growth engine

We believe that securities firms' margin lending activities will be the first to benefit when the low-interest-rate environment is maintained, as this business model depends more on the spread between margin lending rates and cost of funds. Unlike banks - another industry sensitive to interest rates, the securities sector does not face issues related to ethical and legal risks from clients in its lending activities. Therefore, lower lending rates are more advantageous for these activities.

We assess that margin lending along with investments will be the main source of revenue for companies in the industry, and this is a business model that many companies aim for. For most companies, margin lending activities contribute the majority of their gross profit, except for SSI and VND. This is not due to a different business direction, but rather the optimization of the amount of surplus capital after lending at the maximum level.

Therefore, we believe that companies that can develop their retail customer base, have a large brokerage market share and are able to raise large amounts of capital will be able to develop their margin lending business in the future.

This leads to the conclusion that capital raising is the decisive factor in increasing profit margins for this segment. The average industry cost of capital is 6%-7%, resulting in an average margin spread fluctuating at 4%-5% (4.76% in 2023).

Only a few securities firms have costs of capital below the industry average, such as SSI, MBS, BSI, VPBS, and the lowest being AGR at 3.04%. Some securities firms like SHS follow their own strategy to increase margin lending balance. As SHS's cost of capital was around 8.08%, its lending rates reached 15.1% - the highest in the sector. The strategy of this firm is to expand their margin lending portfolios by providing margin loans for stocks with higher risks. SHS's margin

lending portfolio covers 383 stocks on the two main exchanges (HOSE and HNX), while other firms' portfolios covered only about 200-250 stocks in 2023. Some firms do not have access to low-cost capital but accept thin spread margins and compensate by increasing the scale of lending, such as MASC.

We believe that in 2024, as the stock market continues to show growth momentum with the baseline scenario outlined, and the demand for margin lending increases, securities firms will have to choose between: raising lending rates higher to maintain the spread or keeping them low and compensating by increasing the scale of the lending balance.

For the second strategy, accepting a very thin spread margin and compensating for it by increasing the scale of lending will be more suitable for companies that simultaneously have the following two factors: 1) a sufficiently large market share in margin lending; and 2) a well-established product ecosystem to cross-sell to customers to offset the lower margin lending rates.

Brokerage segment: Aims for mass market strategy

The brokerage sector is expected to continue its growth momentum in 2024, in line with the overall recovery of the industry. However, we observe a narrowing trend in revenue from brokerage activities. Considering the importance of the brokerage segment, it may not only be about profit contribution but also about the strategic aspect of mass-market orientation for companies in the industry.

Specifically, firms will utilize their brokerage segment to attract a large number of trading customers, thereby cross-selling products such as margin lending, custodial services, investment advisory, or asset management. This is evidenced by the strategy of reducing trading fees by some companies such as SSI, VND, and VPS.

We believe the zero-transaction fee policy will be one of the key factors in implementing the mass-market strategy for securities firms. However, for this strategy to succeed, several other factors need to occur simultaneously, such as:

- i. Enhanced customer experience through technological advancements such as automatic account opening, AI investment advisors, model investment portfolios recommended by firms, investing in fund certificates, online saving products and top-notch securities system. All of these features are integrated into a single app. It would ensure sustained market share of each company.
- ii. Building brand trust among investors.

Currently, some firms like TCBS, MBS, and BSI are trying to stay ahead of the curve by introducing AI-based products or offering copy trading services that allow investors to replicate trades of other investors, such as TCBS's iCopy or MBS's Copi24.

Both of these trends share a common strength in providing access to the stock market for outsiders with limited time, thereby driving brokerage market share. The strength of AI-based products, in our opinion, lies in resolving conflicts of interest and biases inherent in traditional brokerage models. As for copy trading products, they can help new investors see immediate results, thereby accelerating the market share expansion process.

We believe it will take more time to prove the effectiveness of these approaches considered to be the most advanced due to factors related to: 1) technology costs; 2) customer education costs as financial investment relies heavily on trust built over many years; 3) effectiveness of model accounts; and 4) lack of stringent regulations related to copy trading services, specifically regarding product management, standards for model and copy accounts, compatibility with investors' risk appetites as done in other developed markets.

This suggests that while these models may develop rapidly during the industry's growth cycle, instability during difficult periods could damage the brands of securities firms, especially those in the financial investment sector.

Therefore, we prefer companies that strike a balance between traditional brokerage services (based on brokers) and technological innovation to enhance customer experience and expand market share.

Proprietary trading activity: The channel for capital optimization

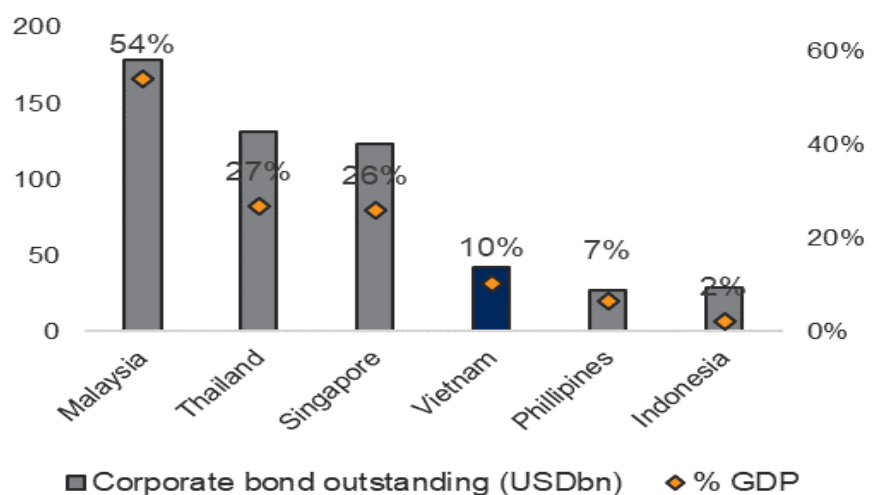
The proprietary trading activity is one of the two most important segments of securities firms' business models. We believe that the proprietary trading activity will quickly bring positive effects to their business results, especially suitable during periods of market growth.

However, due to the unstable nature of this segment and the complexity of analyzing prospects and risks for investment opportunities, contrasting with the simplicity of margin lending model, we believe securities firms should view this as a capital optimization option after meeting all the margin lending needs of clients.

We believe the growth prospects of the proprietary trading sector in 2024 depend on three main factors: 1) capital sources and investment capabilities of the proprietary trading division; 2) the potential upward trend of the VN Index; and 3) the recovery of the corporate bond market.

We believe the corporate bond market still plays a crucial role not only for enterprises as a long-term capital mobilization channel but also as a significant investment channel for securities firms when considering the allocation proportion for bonds in their investment portfolios.

Figure 5: Market value of Corporate bonds outstanding of Viet Nam and other countries



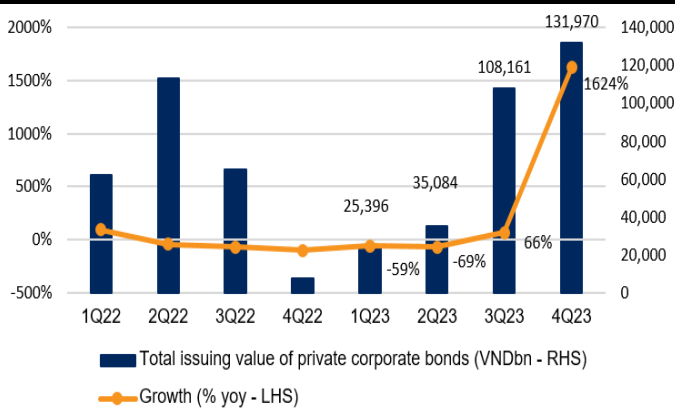
Source: BLOOMBERG, VNDIRECT RESEARCH

By the end of 2023, the scale of the corporate bond market in Vietnam was around VND1,200,000bn (US\$50bn), equivalent to 11.8% of the GDP in 2023. This figure is relatively small compared to other countries in the region. This implies that much effort is still needed to promote the scale of the corporate bond market.

The short-term risk for the corporate bond market in 2024 lies in the pressure of bonds maturing, totaling around VND207,000bn (US\$8.6bn), of which 59.3% was issued by real estate enterprises. This is especially significant considering that 2024 is also the year when certain provisions of Circular 65, including regulations on professional securities investors and mandatory credit ratings, will take effect from January 1, 2024. If there is a significant default in corporate bonds, it will take many years to restore investor confidence, which has already declined.

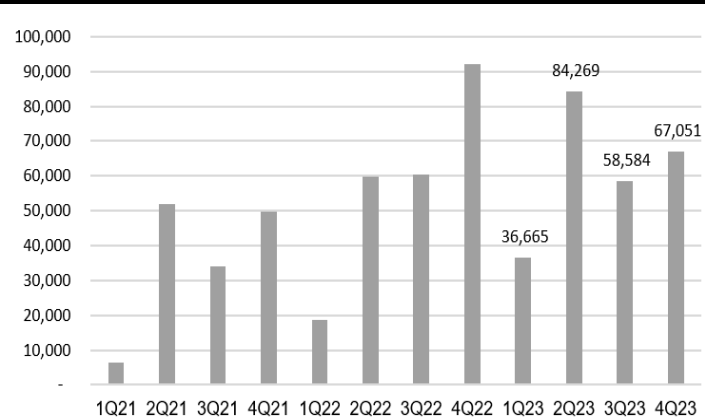
Throughout 2023, the total value of issued corporate bonds reached around VND335,721bn (US\$13.9bn), a 25.6% increase year-on-year. Specifically, the total value of private placements reached about VND300,610bn (US\$12.5bn), while the total value of prematurely bought-back bonds reached VND246,569bn (US\$10.2bn) (accounting for 73.4% of the total issuance value).

Figure 5: Total private corporate bonds issued



Source: HNX, VNDIRECT RESEARCH

Figure 6: Values of redeemed bonds before maturity (VNDbn)



Source: HNX, VNDIRECT RESEARCH

Banks accounted for the largest proportion, with bond issuance value reaching VND151,080bn (US\$6.2bn), equivalent to about 56.3% of the total bond issuance value in 2023, followed by real estate enterprises (26.2%). This indicates that the vibrancy of the corporate bond market in the previous year was not only related to debt restructuring activities but also to the necessity for credit institutions to increase long-term capital to meet the maximum short-to-medium-term loan-to-deposit ratio according to Circular 08/2020/TT-NHNN of the State Bank of Vietnam (SBV).

Comparing the current average issuance interest rate of corporate bonds at 8% per year, real estate corporate bonds have an interest rate of about 11% per year. This is higher than other investment channels such as the average 12-month savings deposit interest rate (about 5.5%) and the general increase of VN-Index in 2023 (10.23%). However, the current interest rate of corporate bonds is not attractive enough considering the payment risk of real estate enterprises.

Therefore, in the short term, to revive the corporate bond market, bond investors will need a higher interest rate to compensate for payment risks, or it will take time for factors related to the ability of real estate enterprises to repay bonds at maturity to become clearer—this is also related to the issue of asymmetric information existing in the corporate bond market at this time.

It may take until the second half of 2024 for the corporate bond market to gradually regain vitality as information about the business performance and

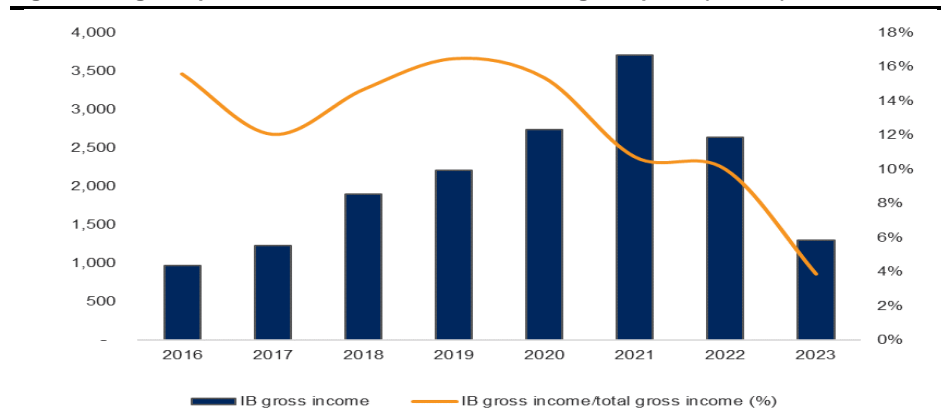
repayment capabilities of real estate enterprises becomes clearer, coinciding with a more pronounced recovery in the real estate market.

The government should also study and enact some alternative support policies to replace Circular 08, which expired on January 1, 2024, to support and promote the market recovery process. Specifically, this could involve granting real estate enterprises additional time to address legal obstacles for projects.

Investment Banking (IB) Segment: It will take more time to recover

In 2023, the gross profit from IB activities fell 51% yoy to approximately VND1,302bn (US\$543bn), accounting for 3.9% of the total gross profit of the entire industry. The gross profit from IB activities continues its downward trend and shows no signs of recovery from 2021 due to poor market liquidity. Gross profit from underwriting and issuance activities amounted to VND1,113bn (-38.1% yoy) (US\$464m), representing 86% of the gross profit of the IB segment.

Figure 7: IB gross profit and the ratio to the total sector gross profit (VNDbn)



Source: BLOOMBERG, VNDIRECT RESEARCH

However, its role will gradually become more important as the stock market matures, becoming more professional with institutional investors accounting for a larger share of trading volume and value. The stock market demonstrates its role as a primary source of long-term capital for businesses in the economy, similar to developed markets.

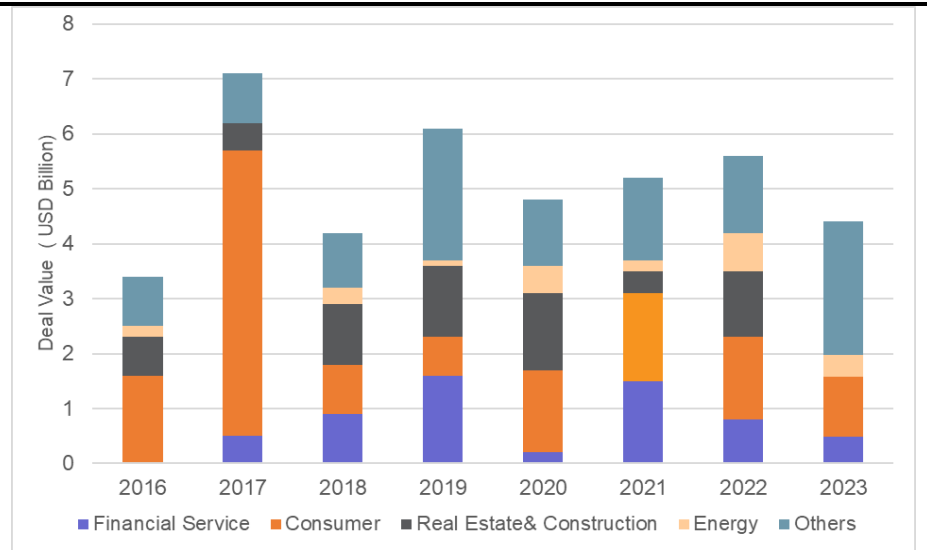
Mergers and Acquisitions (M&A) market

The M&A activities in the Vietnamese market consistently grew in both quantity and value of each deal during the period 2016-2022, reaching a peak of 791 deals in 2022, with the highest average value achieved at US\$7.1bn per deal in 2017. However, by 2023, the quantity and average value per deal decreased by 66.5% yoy and 20% yoy, respectively.

A multitude of deals lasting several years concluded in 2023, primarily in the financial sector. SMBC invested over US\$1.5bn in VPBank, making it the largest M&A deal in Vietnam's history. Following that, UOB completed the acquisition deal of Citigroup's consumer banking segment in four major Southeast Asian markets (including Vietnam) with a total value of US\$3.7bn.

The consumer sector always accounts for a significant portion of the total value of M&A deals. In 2023, the largest deal ever occurred in the healthcare segment with FV Hospital acquired by Thompson Medical Centre for ~US\$380m.

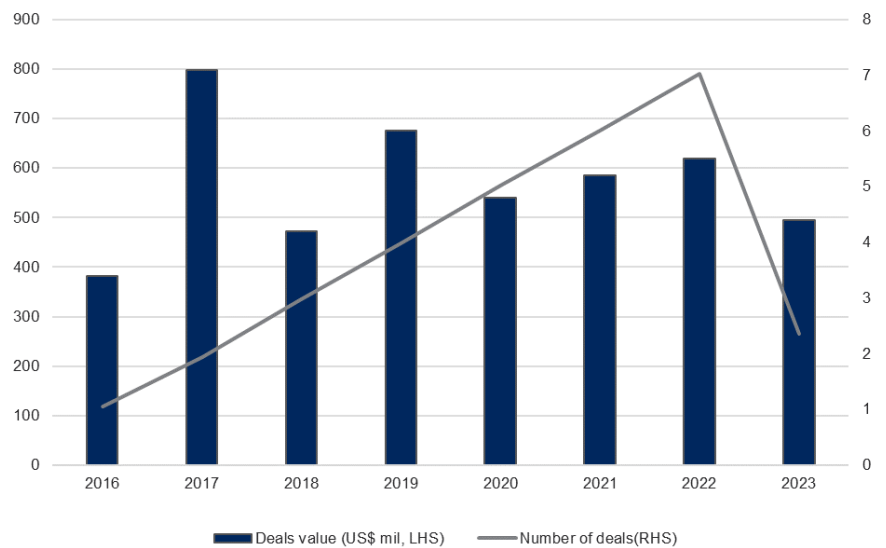
Figure 8: Value of M&A Deals by sector



Source: BLOOMBERG, VNDIRECT RESEARCH

However, there are still many challenges for the M&A market, specifically procedural and legal issues such as regulations aimed at preventing the avoidance of capital gains tax by addressing the transfer of shares in a Vietnamese company through the sale of an offshore entity holding those shares. As a result, Vietnamese tax authorities exercise strict control and legal actions to prevent loss of tax revenue, potentially hindering foreign investments in Vietnam

Figure 9: The figures for deals and value of M&A deals decreased in 2023



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 10: Specific M&A deals in 2023

Countries	Investors	Investors	Target Company	Sector	Deal value (US\$ Bn)
Singapore		United Overseas Bank	Citi Group	Financial Services (Bank)	3.71
Japan		Sumitomo Mitsui Banking Corporation	VP Bank	Financial Services (Bank)	1.5
Hong Kong		Swire Pacific	Coca-Coca Viet Nam & Combodia	Food and Retail Services- Packaging & Distribution	1.02
Hong Kong		ESR	BW Industrial Development	Industrial Real Estate	0.45
Singapore		Thomson Medical Group	FV Hospital	Healthcare	0.381

Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 11: Expected M&A deals and Private Placements in 2024

Countries	Investors	Investors	Target Company	Sector	Deal value (US\$ Bn)
Private Placement					
			BIDV	Financial Services (Bank)	0.6
			VCB	Financial Services (Bank)	1.5
			MBB	Financial Services (Bank)	0.03
M&A					
Vietnam		CTD	Sinh Nam Metal	Construction	NA
Vietnam		BAF	Thanh Dat Gia lai CNC Livestock JSC	Consumer	NA
Vietnam		DIG	Thien Quang Trading Development JSC	Construction	NA
US		Warburg Pincus	Xuyen A Hospital	Consumer (healthcare)	0.1
Japan		AEON Group	Post and Telecommunication Finance	Financial Services	0.18
Vietnam		BCG Energy JSC	Tam Sinh Nghia Investment Development JSC	Finance	NA

Source: BLOOMBERG, VNDIRECT RESEARCH

IPO Market

We believe that the prospects of the IPO market will remain dim in the near future not only due to market illiquidity but also because of stricter regulations from the State Securities Commission of Vietnam (SSC). Specifically, these regulations include:

- (i) IPO companies must have operated profitably for two consecutive years prior to the IPO year (previously only one year was required), and must not have accumulated losses. While this helps select companies with stable growth and strong financial capacity to participate in the stock market, thereby improving the market's product quality, it also invisibly hinders the development of startups, especially in the technology sector, and makes venture capital flows hesitant to invest in startups in Vietnam unless they plan to list overseas;
- (ii) IPO companies must clarify the purpose of capital usage from the time of establishment until submitting the IPO application, which poses challenges for companies that have been established for decades;
- (iii) The prolonged processing time for IPO applications makes foreign investors hesitant.

In 2023, only three companies successfully conducted IPOs, raising a total of VND173bn (~US\$7m) capital, decreasing 90% yoy.

In 2024, DNSE became the first successful IPO company of the year, raising approximately VND900bn (US\$36m). Other successful listings included Hua Na

Hydropower JSC (HNA), Quy Nhon Port JSC (QNP), and Taseco Land Investment JSC (TAL). We anticipate that 2024 will witness a resurgence in IPO activities

Figure 12: IPO deals in 2023

Codes	Company names	Sector	Issue type	Issue Value (USD mil)	Date
RYG	Dong Duong Construction and Trading Jsc	Construction	Book built Issue	0.84	16/10/2023
THM	Tu Hai Ha Nam JSC	Garment	Book built Issue	0.77	24/04/2023
DDB	Royal Manufacture and investment JSC	Construction	Book built Issue	5.5	23/03/2023

Source: Source: BLOOMBERG, VNDIRECT RESEARCH

State Divestment

Due to the overall liquidity situation in the market, the pace of state divestment by the State Capital Investment Corporation (SCIC) is significantly slower than outlined in Decision No. 1479/QĐ-TTg dated November 29, 2022. The number of companies divested by SCIC has only reached 12% of the plan set for the period of 2022-2025.

We believe that the pace of state divestment will accelerate starting from this year as market liquidity improves, as well as the urgency to divest in order to achieve the fiscal policy objectives.

Figure 13: The expected State Divestment in 2024

Code	Company names	Sector	Govt Stake Sale
VGC	Vietnam Construction and Import Export JSC	Construction & materials	38.58%
TCK	Construction Machinery Corporation JSC	Construction & materials	98.76%
LLM	Vietnam Machinery Installation Corporation JSC	Construction & materials	46.88%
CAB	Vietnam Television Cable JSC	Media	47.55%
QTC	Quang Nam Transportation Construction JSC	Construction & materials	54%
FIC	FICO Corporation	Construction & materials	40%
TTL	Thang Long JSC	Construction & materials	25%
QTP	Quang Ninh Thermal Power JSC	Power	11%
LIC	Licogi Corporation	Construction & materials	41%
HND	Hai Phong Thermal Power	Power	9%
AGF	An Giang Fisheries Import Export	Consumer goods	8%
VNP	Vietnam Plastic Corporation	Chemicals	66%
SEA	Vietnam Seaproducts	Consumer goods	63%
VTG	Ba Ria Vung Tau Tourist	Travel & Leisure	58.88%
UPC	Vung Tau Urban and Parks Development	Support Services	36%
GTD	Thuong Dinh Footware	Textile & Garment	68.66%
VNC	Vinacontrol Group Corporation	Support Services	30%
CHP	Central Hydropower	Power	23.01%

Source: FIINPRO, VNDIRECT RESEARCH

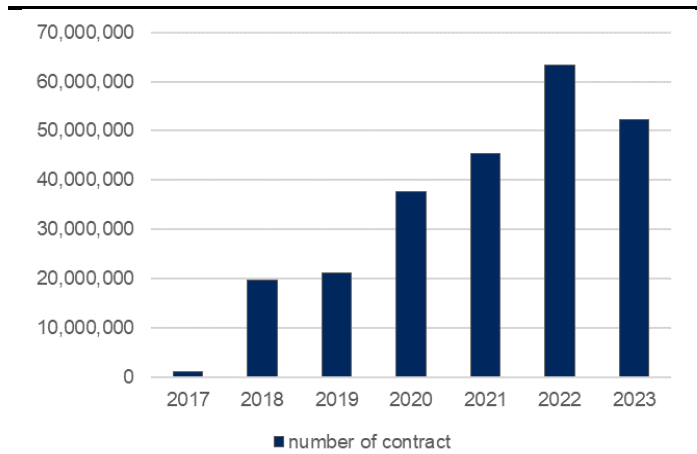
Derivatives market: Needs to be developed further

In developed markets, there are four common types of derivatives: forward contracts, futures contracts, options contracts, and swaps contracts. The derivatives stock market in Vietnam started operating in August 2017 and currently only offers two products:

- I. Options contracts: These include covered warrants, where investors can purchase call options for an underlying asset at a predetermined price. However, the market is limited as it currently only offers call options and does not include put options.

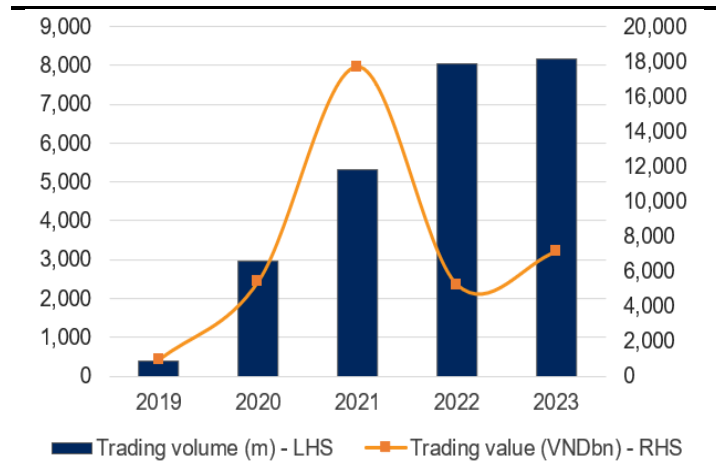
Futures contracts: This category includes futures contracts for the VN30-Index and futures contracts for government bonds with a 5-year maturity. However, the latter are only available to institutional investors.

Figure 14: Number of futures contracts in 2017 -2023



Source: HNX, VNDIRECT RESEARCH

Figure 15: Volume & value traded of covered warrants in 2019-23



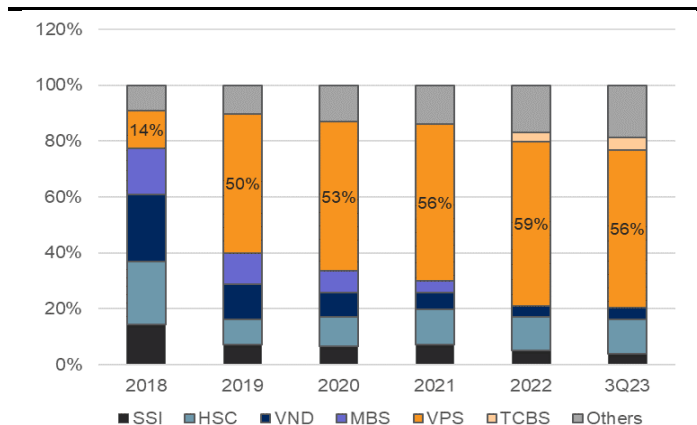
Source: HNX, VNDIRECT RESEARCH

We believe that developing the derivatives market is crucial because it enhances transparency and provides risk management tools for investors. However, currently, the number of products in the Vietnamese market is very limited, with only one VN30 futures contract, leading to a high demand for speculation. The government also set a target of 20%-30% annual growth for the derivatives market during the period 2021-2030 according to Decision No. 1726/QĐ-TTg

One of the attractive features for investors participating in the derivatives market is the T+0 trading, which is not available in the stock market. Therefore, the majority of trading accounts in the derivatives market are held by domestic individual investors. As of 3Q23, VPS has the largest market share in the derivative market.

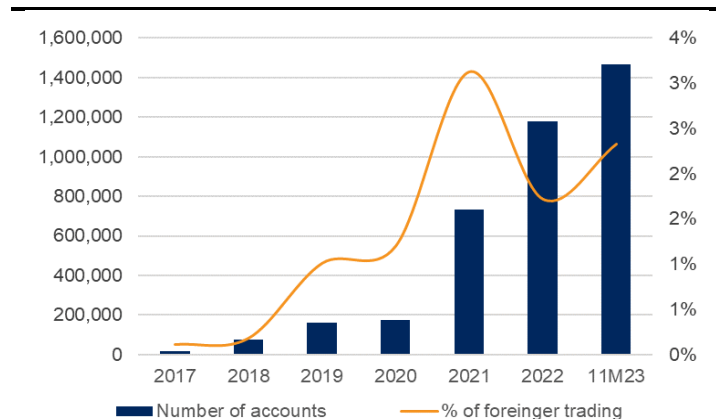
Futures contracts are only implemented on the underlying asset of the VN30 index and have not yet traded on other indices that may have better representative. The reason is that the market is still in its early stages and undergoing experimentation.

Figure 16: VPS has 50%+ market share in derivative market



Source: HNX, VNDIRECT RESEARCH

Figure 17: Most of newly-opened derivative trading accounts came from domestic investors



Source: HNX, VNDIRECT RESEARCH

Factors contributing to the long-term development of the stock market and short-term increases in the VN-Index

Government efforts and support to develop the stock market

Since its formation, the stock market has been oriented to become a capital mobilization channel, especially for medium and long-term capital for businesses, with the purpose of reducing the pressure on the commercial banking system. Commercial banks often encounter difficulty in medium and long-term capital mobilization, and have to use short-term capital for long-term lending, which has high liquidity risks.

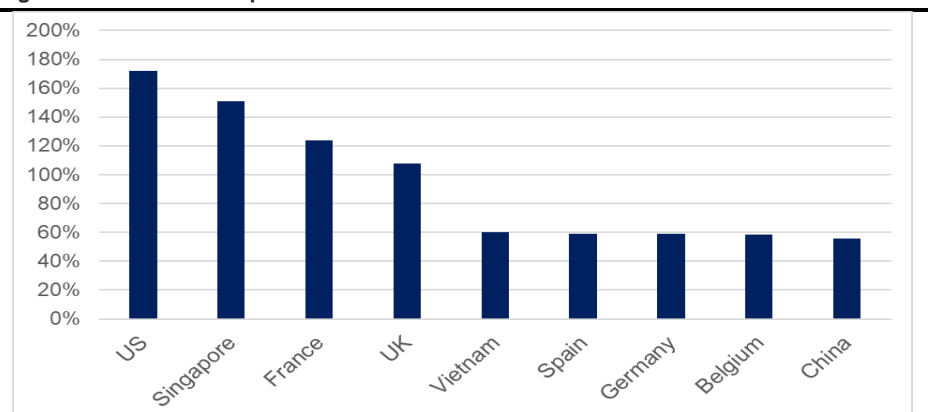
The stock market plays a huge role in creating liquidity, helping strategic investors investing and divesting capital more easily, thereby Vietnamese businesses easily attract foreign capital. At the same time, it helps the State divest capital more easily and have resources for boosting public investment. State divestment will help enterprise to diversify shareholders and attract strategic shareholders who improve management capabilities.

On December 29, 2023, the Prime Minister issued Decision No. 1726/QĐ-TTg on approving the Stock Market Development Strategy until 2030 with goals of:

- The stock market capitalization to GDP reaching 100% by 2025 and 120% by 2030. Bond market debt to GDP reaching a minimum of 47%/58%, in which corporate bond debt to GDP reaches a minimum of 20%/25% by 2025/2030, respectively. The derivatives market growing an average of about 20%-30% per year during 2021-2030.
- The number of securities trading accounts on the stock market reaching 9 million by 2025 and 11 million by 2030. The proportion of government bonds held by non-bank institutional investors increasing to 55% in 2025 and 60% in 2030.
- Upgrading Vietnam's stock market from frontier market to emerging market status by 2025.

However, comparing to developed countries such as Germany, China, Belgium, and Spain, the market capitalization to GDP rate by the end of 2023 is only at 58.81%; 55.96%; 58.62% and 59.22%, respectively similar to Vietnam's current level of 60%. Some other developed countries with high rate are the US, UK, Singapore, and France reaching 172%; 108%; 151% and 124%, respectively.

Figure 18: The market capitalization to GDP rate of some countries



Source: COMPANY REPORT; VNDIRECT RESEARCH

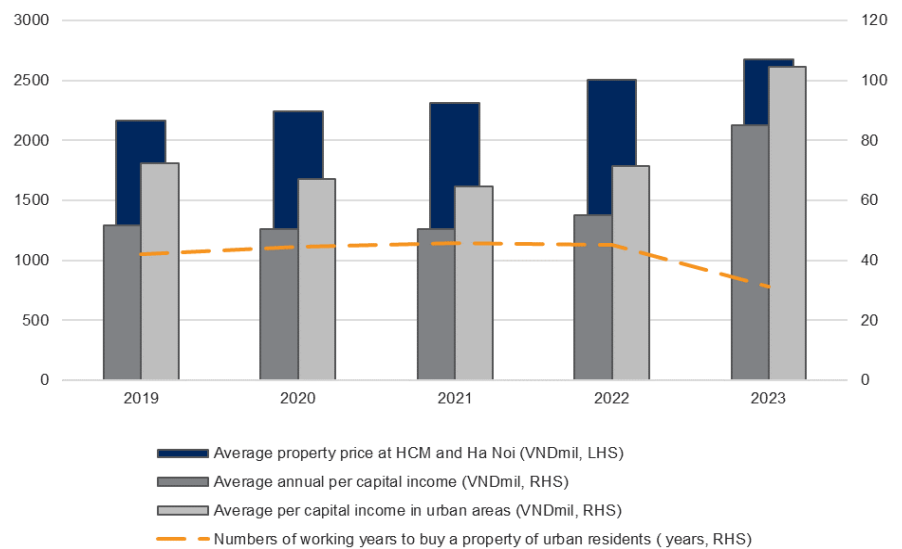
In our perspective, the will of increasing this rate is rather to push for large enterprises to list on the stock exchange, which will lead to the transparency of the market, and to have a measurement to compare with other countries.

Additionally, regulatory agencies have made significant efforts over the past few years to enhance market transparency, including imposing fines and prosecuting numerous companies and individuals engaged in insider trading and market manipulation, such as FLC Group and Tan Viet Securities Company.

One of the most attractive investment channels

Certain factors are poised to make the stock market one of the most appealing investment avenues in the coming years: 1) Accessibility compared to traditional real estate investment channels; 2) favorable demographic trends; 3) the increasing disposable income of the Vietnamese; and 4) higher returns than the real estate sector over the past five years.

Figure 19: Real estate is becoming increasingly inaccessible to the public



**property price including various products such as condos, landed property, and apartments*

Source: COMPANY REPORT; VNDIRECT RESEARCH

Considering the accessibility factor, the stock market is a more accessible investment channel for the public, especially the younger generation. Specifically, the average price of a real estate product in the market in 2023 was around VND2.677bn (US\$0.11m), equivalent to 31 years of average annual income per capita in Vietnam and 25 years of average income for urban residents currently.

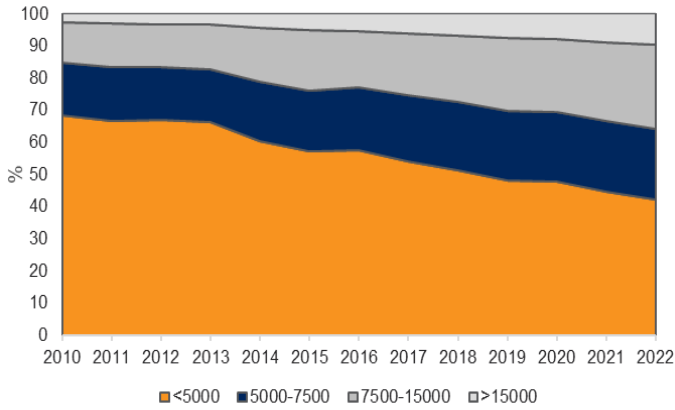
Furthermore, demographic factors play a crucial role in the development of the stock market in terms of prioritizing the allocation of available income. With 62.2% of the population in the working age group, people's current priority is allocating investments to serve future spending and retirement goals.

Combined with the improving available income figures, with nearly 60% of households earning over US\$5,000 per year—double the figure from 10 years ago—this will enhance market liquidity and capitalization.

Considering investment efficiency, over the past five years, the annual compounded growth rate of the stock market has been approximately 6.6% per year, higher than that of the real estate investment channel (6.3% per year).

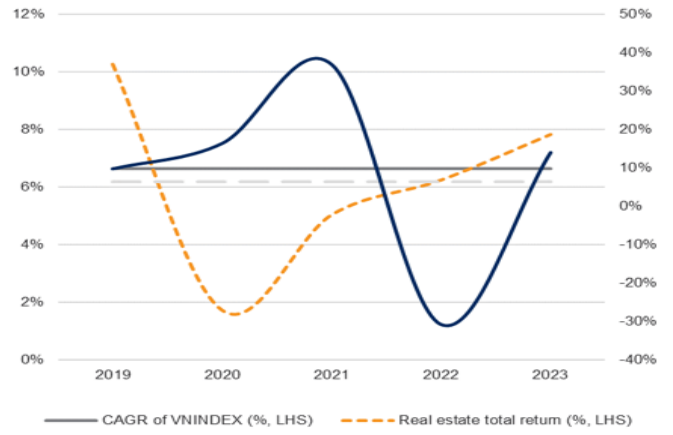
In summary, in the coming years, with increased accessibility, better profit potential compared to other investment channels, along with demographic and income improvements, the stock market will become more popular and attractive to domestic individual investors.

Figure 20: Structure of Vietnam household disposable income (Unit: US\$/year)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 21: ROI of real estate sector and VN-Index

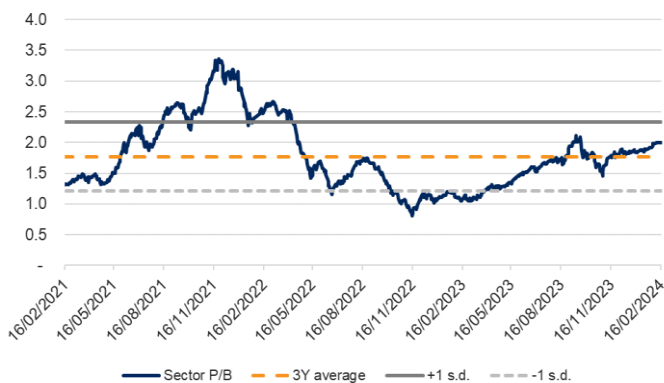


Source: FIINPRO, VNDIRECT RESEARCH

General prospects have been reflected securities sector in prices; business results will create differentiation

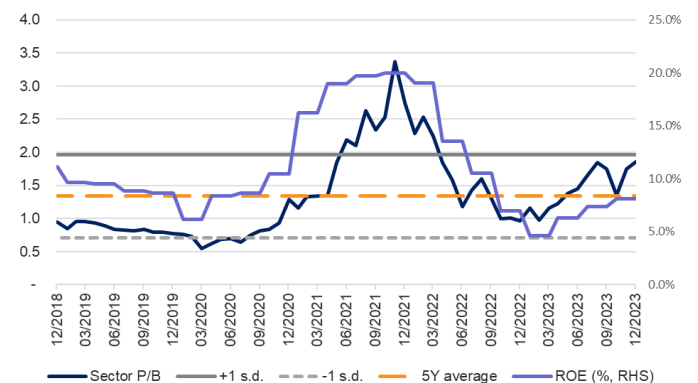
The current sector average P/B is approximately 2x, higher than the 3-year average and even 5-year average. This relatively shows that long-term bullish prospects have been reflected in the current prices of securities stock. Therefore, the spike in price will come from short and medium-term drivers.

Figure 22: Current sector P/B is at 2.0x, higher than 3-year average...



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 23: ...and higher than the 5-year average



Source: BLOOMBERG, VNDIRECT RESEARCH

There will be differentiation among stocks within the industry. Stocks with low or reasonable valuations, expected to deliver strong business results, and possessing business models favored by foreign investors, will have better prospects for price growth compared to others. Companies with business performance exceeding expectations will have more attractive P/B ratios than at present and vs peers.

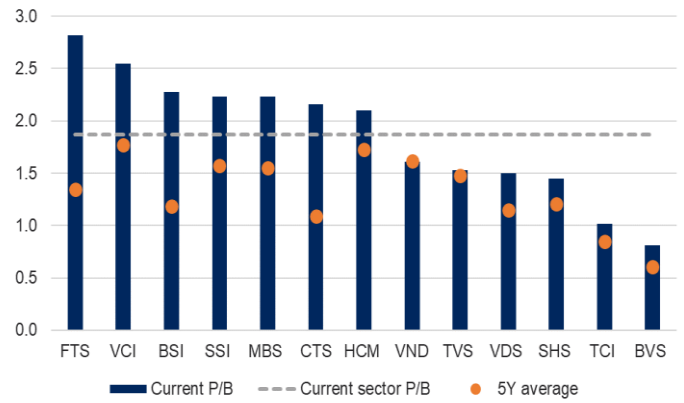
Figure 24: The current P/B of financials stocks is mostly higher or equal to 3-year average, except for VND and TVS...



Data as of 16/02/2024

Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: ...but none of them is lower than their 5-year average P/B



Data as of 16/02/2024

Source: BLOOMBERG, VNDIRECT RESEARCH

2023 securities sector performance recap

The SBV implemented four interest rate cuts in 2023, bringing the discount rate and refinancing rates to 3% and 4.5% respectively in June 2023 - lower than pre-Covid-19 pandemic levels to support the economy. Securities companies with interest-sensitive business models benefited first from the loosening monetary policy and low interest rates environment.

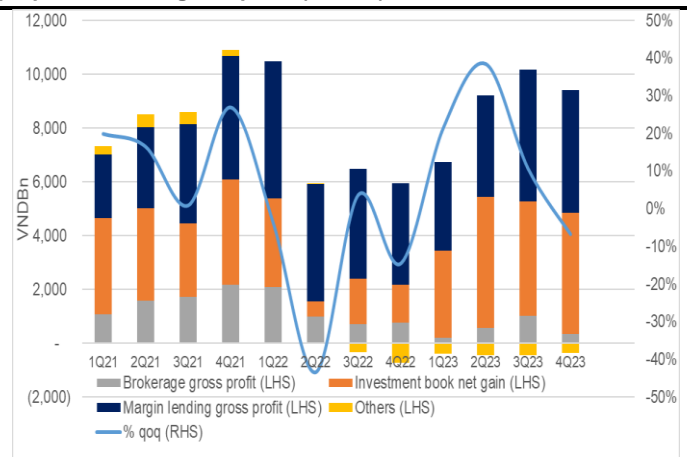
Moreover, amid the economic difficulties lingering and the stagnant real estate market, lower interest rates has diverted some capital into the stock market, boosting liquidity and thus facilitating the recovery of brokerage segment.

The sector's gross profit saw improvement

The sector's gross profit continued to show growth momentum, despite a sharp decline from 2Q22 due to SBV's tightening monetary policy to curb inflation. Total gross profit of the industry improved, reached VND33,399bn (US\$1.36bn) in 2023, a 26.8% yoy increase - equivalent to the average increase over the last five years (2017-2022). Gross profit from the brokerage segment accounted for only a small portion of the industry's gross profit structure (7%), while margin lending and investment contributed 48.4% and 49.3% respectively to the total gross profit.

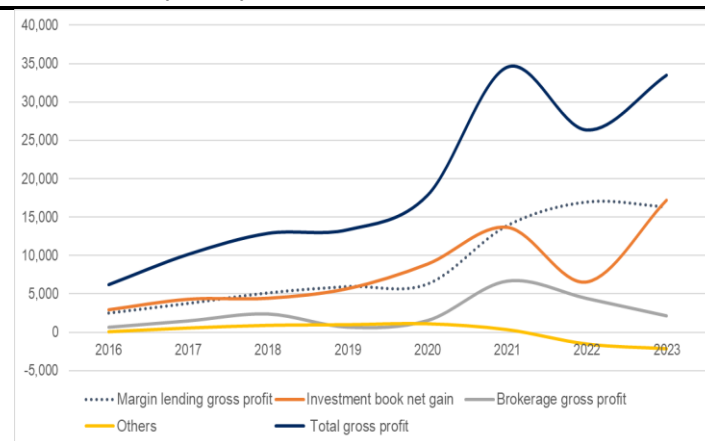
Gross profit from the brokerage segment, margin lending, and investment in 2023 reached VND2,168bn (US\$0.09bn), VND16,303bn (US\$0.67bn), and VND17,197bn (US\$0.7bn), with a year-on-year change of -51%/-4%/162% respectively. The significant profit growth in investment segment was due to the low base of last year. Meanwhile, margin lending segment provided a more stable profitability for securities firms despite the growth or decline stage of the market. It was contrary to the high volatility of investment and brokerage segment. Therefore, we consider securities firms having a large market share in margin lending and significant margin spread should be highly evaluated.

Figure 26: Margin lending and investment contributed a major proportion to the gross profit (VNDbn) structure of the sector



Source: Companies reports, VNDIRECT RESEARCH

Figure 27: Investment had the highest gain, while margin lending was the most stable (VNDbn)

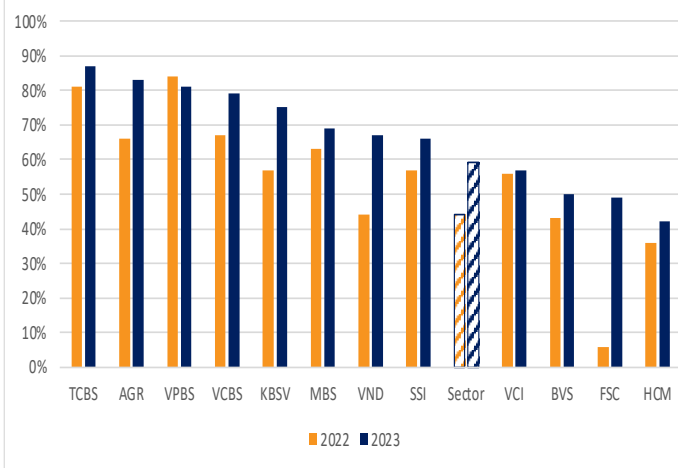


Source: Companies reports, VNDIRECT RESEARCH

The companies with the largest gross profit growth rates in 2023 were ACBS, VIX, and DNSE, reaching 192.2%, 184.4%, and 157.9%, respectively. Conversely, HCM, VCI, and MAS maintained negative gross profit growth rates from the previous year, reaching -14.7%, -19.8%, and -19.2% respectively.

The gross profit structure of each brokerage firm is quite similar, with the largest proportion being profit from margin lending and investment activities. Specifically, gross profit from investment accounted for the largest proportion in SSI and VND. The main reason was that these companies have an abundance of capital; therefore, the remaining capital after maximizing margin lending was used for investment activities to optimize the profit on capital.

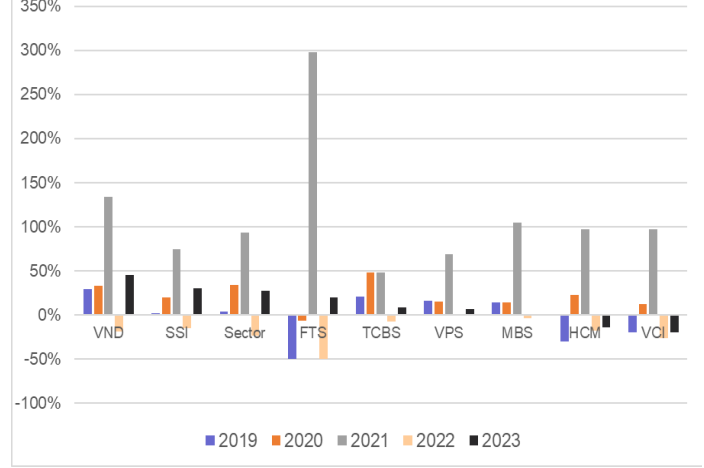
Figure 28: Most companies improved gross profit vs last year



Sector: top 30 largest securities firms

Source: Companies reports, VNDIRECT RESEARCH

Figure 29: The gross profit growth of the securities sector



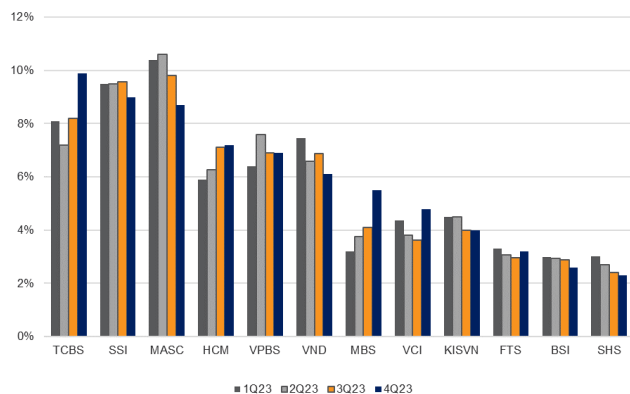
Source: Companies reports, VNDIRECT RESEARCH

Margin lending was the most stable segment in terms of profitability

In 2023, the margin lending of the total sector (consisting of 30 securities firms having the largest assets) reached VND16,303bn (US\$0.67bn), only decreasing slightly by 4% yoy. The stable growth momentum has been maintained over the past 5 years. TCBS, SSI, and MASC were the top 3 companies with the largest margin lending book, accounted for 9.9%, 9.0%, and 8.7% of the total margin lending market at the end of 2023, respectively.

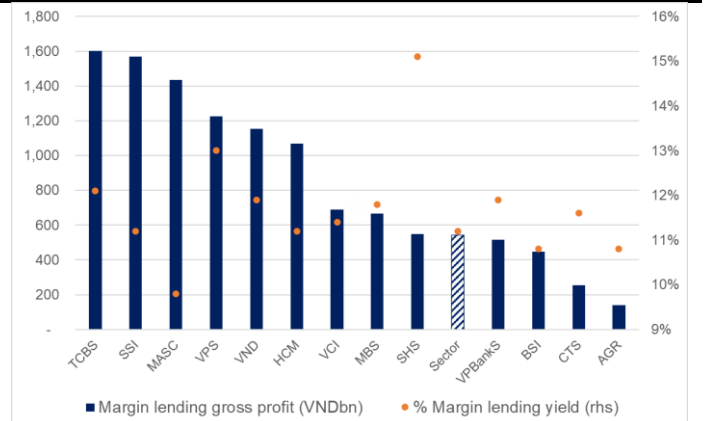
There haven't been many changes in the market share of most securities firms over the past year, demonstrating the high stability of this segment in the profit structure of securities firms - an important factor in shaping strategies for the future. In the past year, TCBS, MBS, HCM, and VCI were the companies that could expand their market share in lending the most.

Figure 30: Margin lending market shares of brokerages firms



Source: Companies reports, VNDIRECT RESEARCH

Figure 31: Gross profit and lending yields in 2023

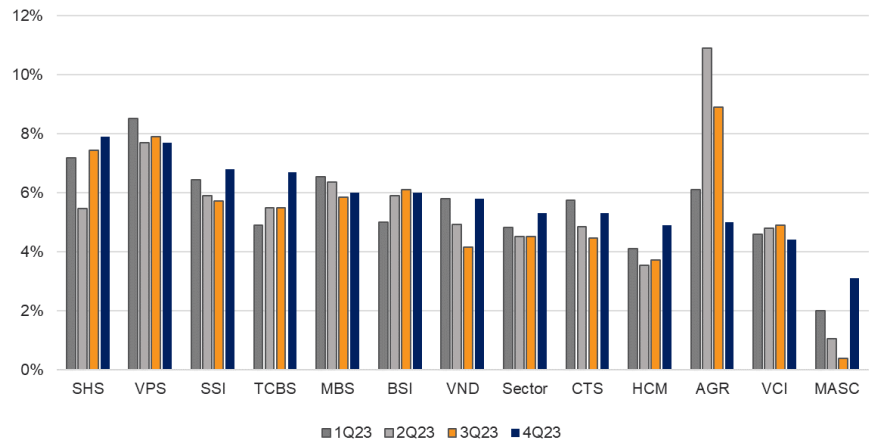


Source: Companies reports, VNDIRECT RESEARCH

The average lending rate in the industry was around 11%-12% per year. The securities firms had the lowest lending rates including MASC, KISVN, ACBS, and AGR; while those with the highest lending rates in the industry were SHS, VPS, VDS, and TCBS.

Noticeably, companies with the highest margin spread in the lending segment were VPBS, AGR, SHS, and SSI. This was because: 1) Some securities firms have banks as their major shareholder or are the brokerage branches of foreign enterprises, giving them advantages in accessing low-cost capital; and/or 2) Some securities firms implement strategies to expand their margin lending portfolio, and/or increase the margin lending ratio on each stock to attract clients and expand profit margins.

Figure 32: The margin spread of securities firms in 2023

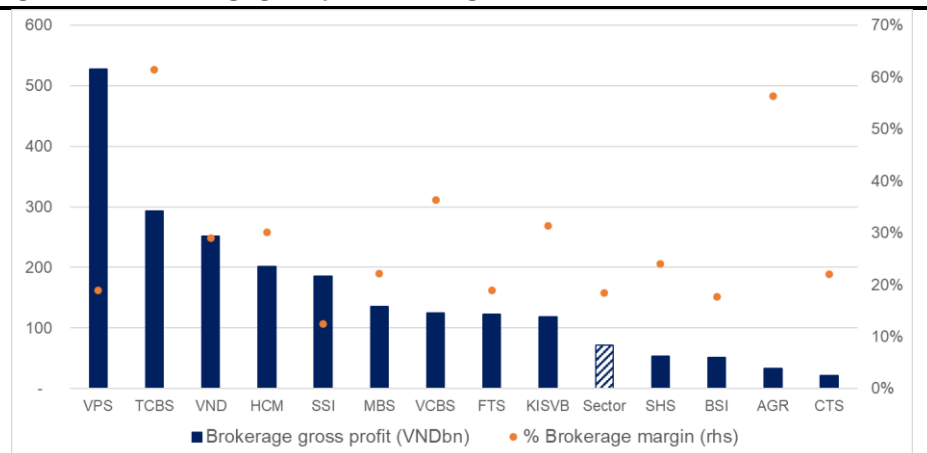


Source: Companies reports, VNDIRECT RESEARCH

The brokerage segment contributes modestly to the total gross profit

The top 3 firms by market share in the brokerage segment (on HOSE and HNX) in 2023 were VPS, SSI, and VND, and these were also the companies with the largest brokerage gross profit. Although there has been improvement in the gross profit margin of this segment since the beginning of 2023, it only reached 18.4% for the whole year, lower than the average of the past 3 years (30.1%).

Figure 33: The brokerage gross profit and margin of firms in 2023

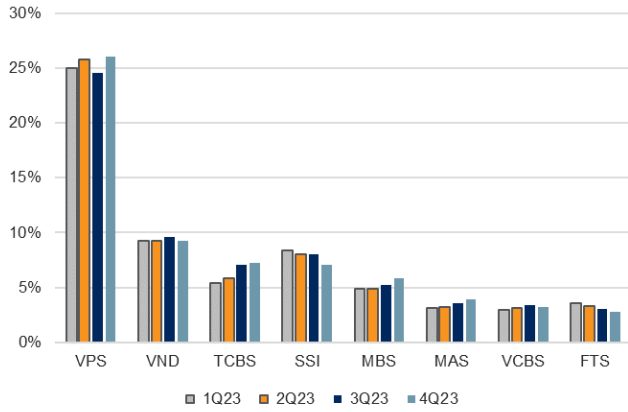


Source: Companies reports, VNDIRECT RESEARCH

The companies with the highest gross profit margins in the sector were TCBS, AGR, and VCBS, reaching 61.5%, 56.3%, and 36.3% respectively in 2023. The common characteristics among them was having banks as a major shareholders, leading to the ability to significantly reduce brokerage commission costs, as a

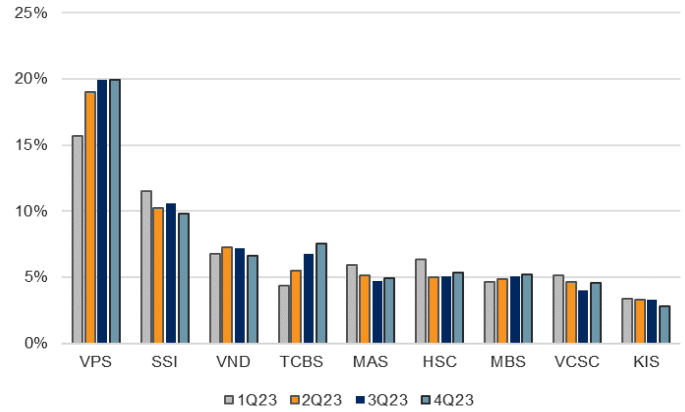
considerable portion of clients come from the existing customer base of the banks. In the case of TCBS, the company pursued a non-brokerage model, relying on technology platforms to potentially cut intermediary costs.

Figure 34: Margin lending market shares on HNX in 2023



Source: HNX, VNDIRECT RESEARCH

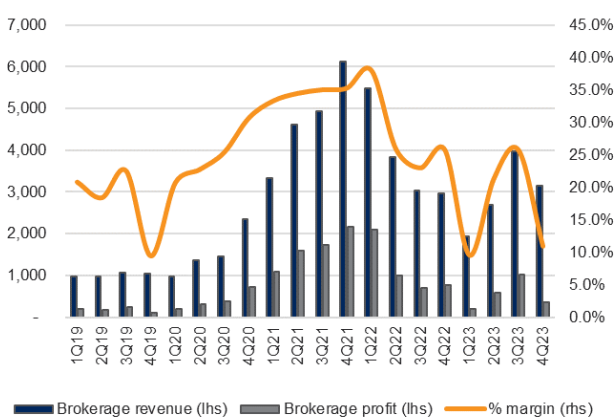
Figure 35: Margin lending market shares on HOSE in 2023



Source: HOSE, VNDIRECT RESEARCH

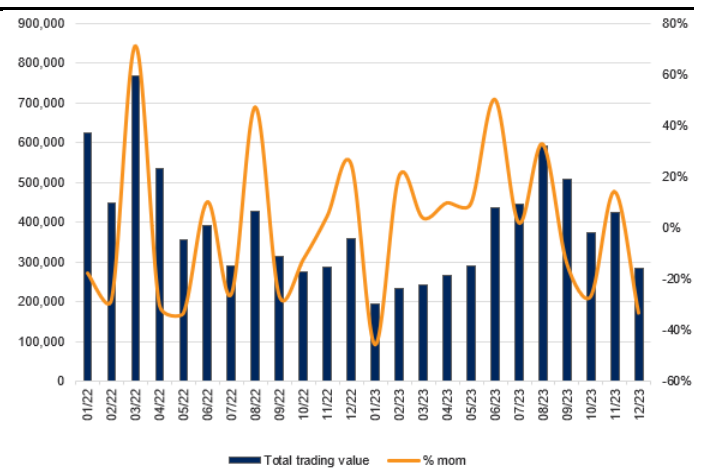
Although SSI holds the second-largest brokerage market share on HOSE (after VPS) and the fourth-largest on HNX (after VPS, VND and TCBS), its profit margin is significantly lower than the industry average (12.4% vs. 18.4%). Unlike other securities firms with customer bases from banks, SSI has to reduce transaction costs and increase brokerage commissions to expand its market share. Afterwards, it boosts profits by cross-selling other products such as margin lending, investment advisory, asset management, etc. This is also the general business model for many other securities firms like VND, MBS, and VPS.

Figure 36: Brokerage revenue (VNDbn) and profit margin...



Source: Companies reports, VNDIRECT RESEARCH

Figure 37: ...correlated positively with the trading value (VNDbn) of the market



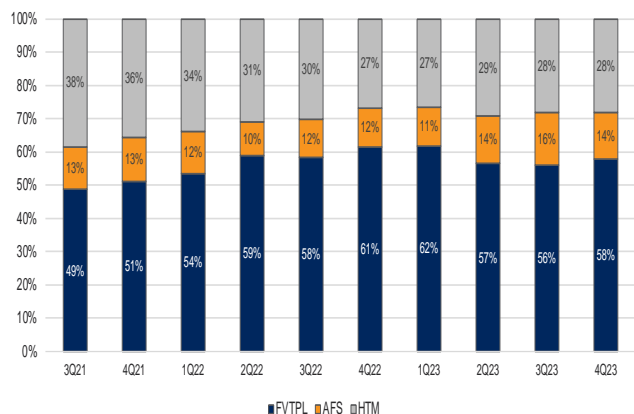
Source: FIINPRO, VNDIRECT RESEARCH

Based on figure 37 and 38, it seemed that the gross profit margin of the brokerage segment improves in the growth phase of the market with enhanced liquidity. The fluctuation range of the profit margin during 2019-2023 was between 10% and 35% per year, reflecting the instability of this segment compared to the margin lending segment.

Investment activities recovered, yet were a highly volatile segment

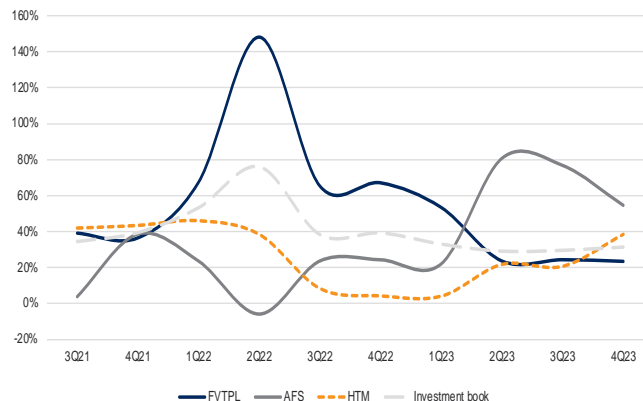
The total investment book of the sector reached VND199,604bn (US\$8.15bn) in 2023, increasing by 32.6% yoy. The majority of the investment portfolio was financial assets measured at a fair value through profit/loss (FVTPL), reaching VND115,751bn (US\$4.72bn), accounting for 51% of the investment book. Following that were VND55,826bn (US\$2.28bn) of held to maturity (HTM) assets and VND28,027bn(US\$1.14bn) of available-for-sale (AFS) financial assets, accounting for 28% and 14% of the total investment book, respectively.

Figure 38: FVTPL assets usually accounted for more than 50% of the investment book



Source: Companies reports, VNDIRECT RESEARCH

Figure 39: AFS assets rose recently amid the volatility of the market last year



Source: Companies reports, VNDIRECT RESEARCH

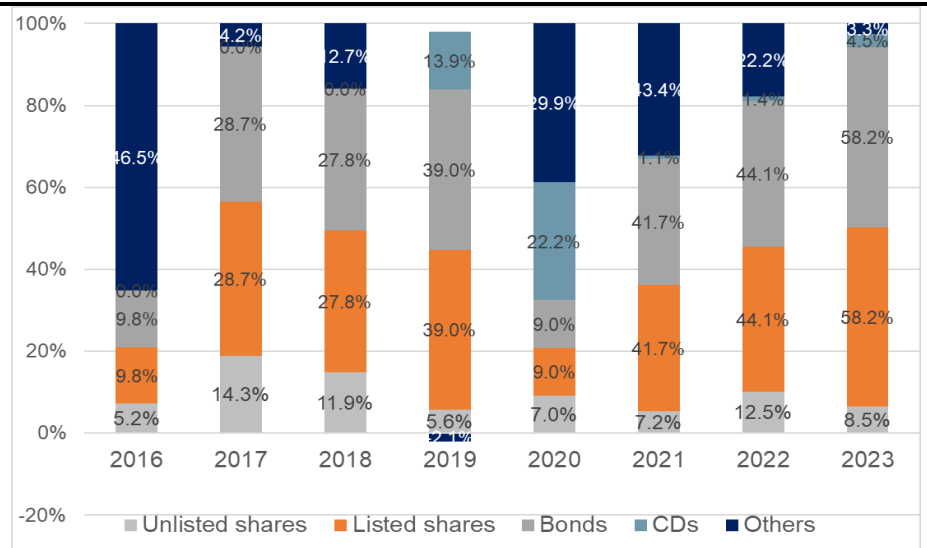
However, the structure of the investment book was changing rapidly, with AFS assets increasing by 55.9% yoy in 2023. This could be due to proprietary trading activities to minimize risks from stocks price fluctuations. AFS assets allows them to hold investment portfolios until prices recover without causing fluctuation in the business results.

Taking a closer look at the structure of AFS assets, bonds accounted for the majority of the asset portfolio (58.2%), and the proportion of bonds has been increasing since the 3Q22 – a period of high interest rates, indicating that the bond investment had a good yield. At the end of 2023, 26% of AFS assets was stocks, with little change compared to the beginning of the year.

This reflects two points: (i) securities portfolios in AFS assets have shown good profits, with promising business results that may not yet be fully reflected in the financial statements, and (ii) the cautious appetite of proprietary trading activities throughout the past year, especially regarding corporate bonds - which constitute a large proportion of the AFS portfolio.

Noted that gains or losses from AFS portfolios are only realized in the financial statements when companies sell those assets, this could lead to significant fluctuations in the business results of securities firms.

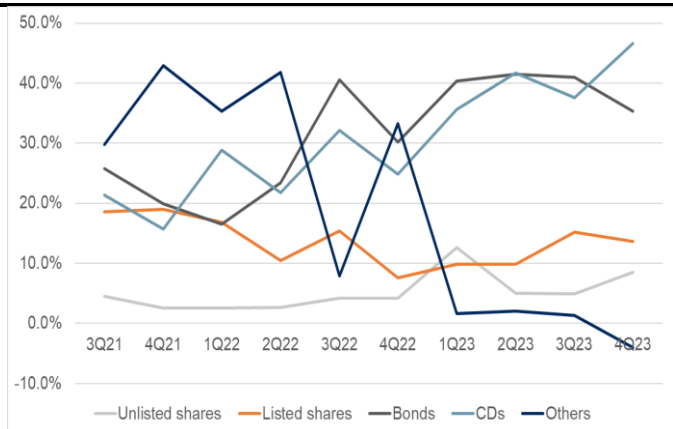
Figure 40: Structure of AFS book in 2023 of the sector.



Source: Companies reports, VNDIRECT RESEARCH

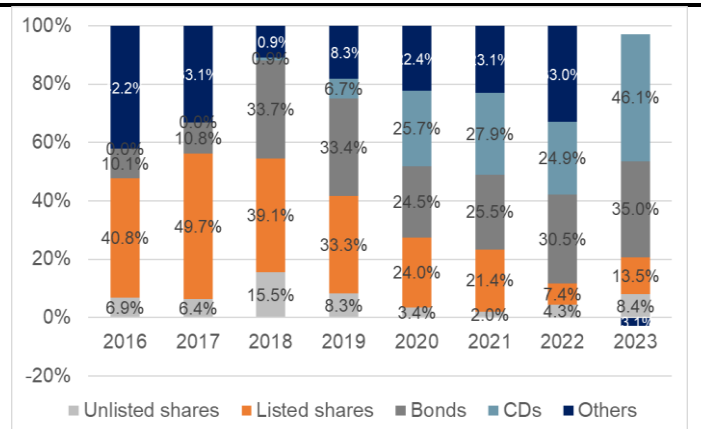
For the FVTPL portfolio, which directly impacts the business results, the majority consists of bonds and certificates of deposit (81.1% of the total FVTPL portfolio in 2023). Security firms in the industry prioritize investing in fixed-income securities (specifically bonds), and only began increasing the proportion of listed securities starting in 2Q23. This reflects a positive outlook on securities markets by securities firms in the industry but their investment appetite remains relatively cautious throughout 2023.

Figure 41: Bonds and CDs book increased sharply in 1Q23, while securities only increase since 2Q23



Source: Companies reports, VNDIRECT RESEARCH

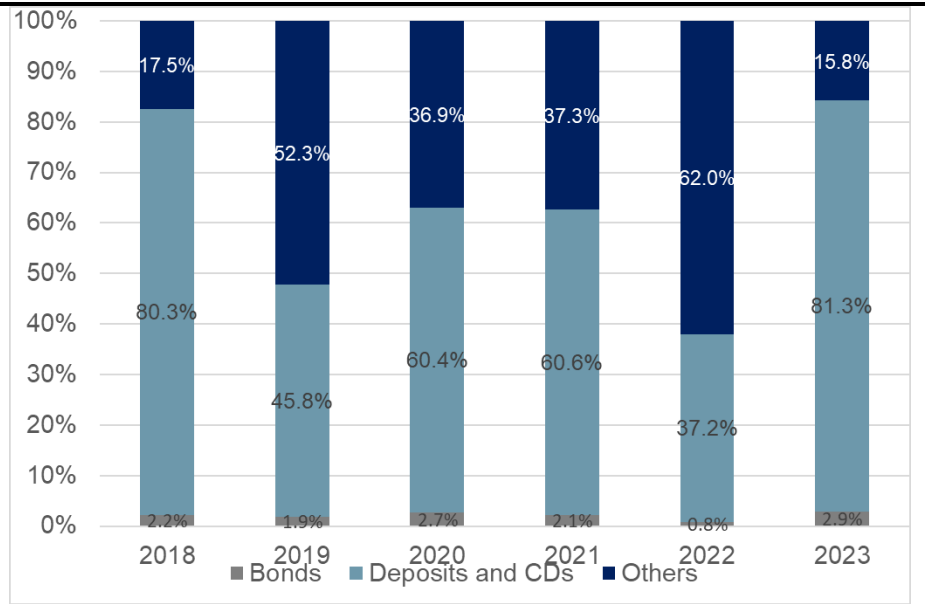
Figure 42: Bonds and CDs accounted for majority of the investment book



Source: Companies reports, VNDIRECT RESEARCH

By the end of 2023, the value of assets held to maturity (HTM) reached VND55,826bn (US\$2.28bn), representing the second largest proportion in the investment portfolio and achieving a 28% yoy increase. Of particular note was the increase in the proportion of deposits and CDs in the portfolio from 37.2% to 81.3% during 2022-2023, combined with the proportion of CDs in the FVTPL portfolio (46.1%). This reflects the cautious stance of the proprietary trading segment of securities firms throughout the past year, aiming to take advantage of the attractive deposit interest rates.

Figure 43: Structure of HTM book in 2023



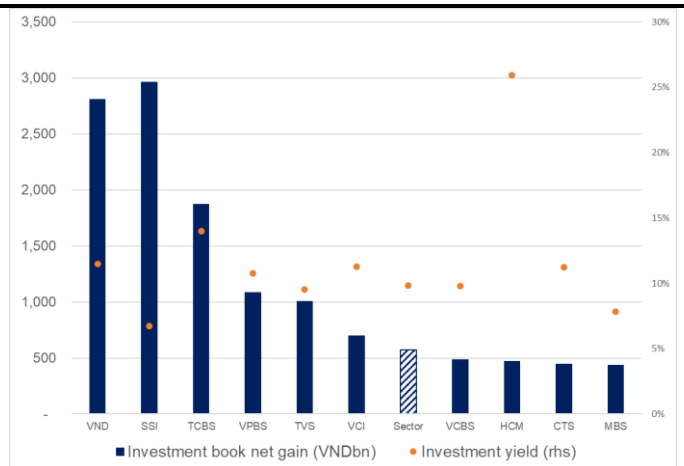
Source: Companies reports, VNDIRECT RESEARCH

In terms of investment efficiency, the gross profit from proprietary trading in 2023 reached VND17,197bn (US\$ 0.7bn), increasing by 162.9% yoy. SSI, VND, and TCBS were the top three companies with the largest gross profits from investment activities in the entire industry.

The average investment yield of the sector reached 9.8%. HCM, TCBS, and VND have the highest investment yield, reaching 25.9%, 14% and 11.5%, respectively. Conversely, SSI and MBS had lower yield at 6.7% and 7.8% respectively.

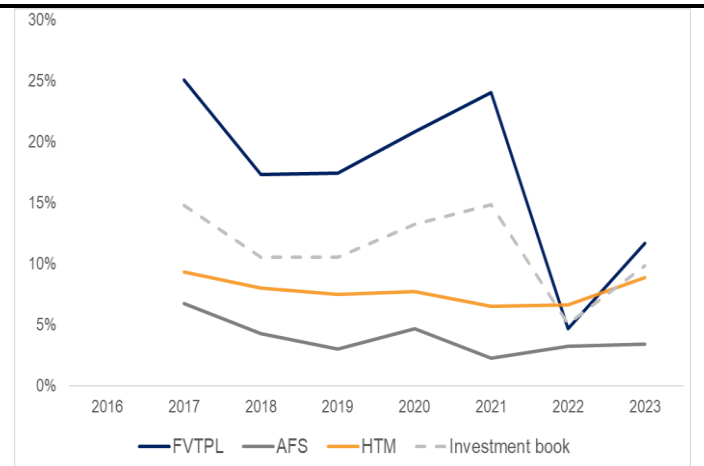
The significant divergence in investment performance among companies was not only due to investment capabilities but also due to differences in the scale of investment capital. SSI was the company with the largest investment book in the industry, reaching VND51,632bn (US\$ 2.11bn) at the end of 2023, accounting for 25.9% of the total investment book of the sector, which was twice as high as the second-ranked company, VNDIRECT with VND24,364bn (US\$0.99bn).

Figure 44: Investment book net gain and investment yield of securities firms in 2023



Source: Companies reports, VNDIRECT RESEARCH

Figure 45: In terms of each asset types, FVTPL brought the highest investment yield



Source: Companies reports, VNDIRECT RESEARCH

When considering investment efficiency by asset type, the largest contribution comes from FVTPL, reaching VND12,184bn (US\$ 0.5bn) (accounting for 71% of the total profit), followed by HTM, reaching VND4,231bn (US\$0.17bn), accounting for 25%. The two largest FVTPL investment portfolios in 2023 were from SSI and VND, reaching VND44,072bn (US\$1.8bn) and VND16,730bn (US\$0.68bn), respectively. These two companies hardly hold AFS assets, whereas TCBS, in contrast, holds an AFS portfolio of VND15,041bn (US\$0.61bn), which mostly consisted of bonds.

The average investment yield for the total sector reached 9.8% in 2023, equivalent to the average yield of this segment in the last three years. FVTPL provides the highest yield, reaching 11.7%, followed by HTM with 8.9%. While the yield of HTM was relatively stable, maintaining an average of 8% over the past five years, the volatility of FVTPL was very high, with an average of 15.7% over the past five years. The yield of AFS was quite modest, averaging around 3.4%.

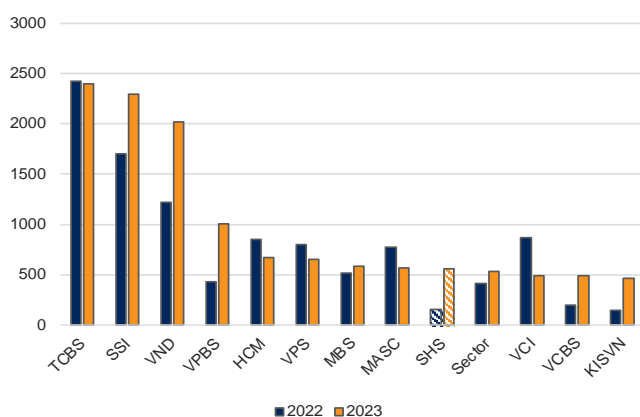
The reason for this lies in the significant value of listed stock holdings in the structure of FVTPL, while AFS mainly consists of bonds. HTM provides the most stability as its structure is primarily composed of deposit contracts and CDs, which are less affected by market fluctuations.

Net profit and ROE

Most securities firms experienced a significant increase in net profit in 2023 due to the low base from 2022 and the resurgence of the stock market. The total net profit of the sector reached VND16,175bn (US\$0.66bn) at the end of 2023 (+30% yoy).

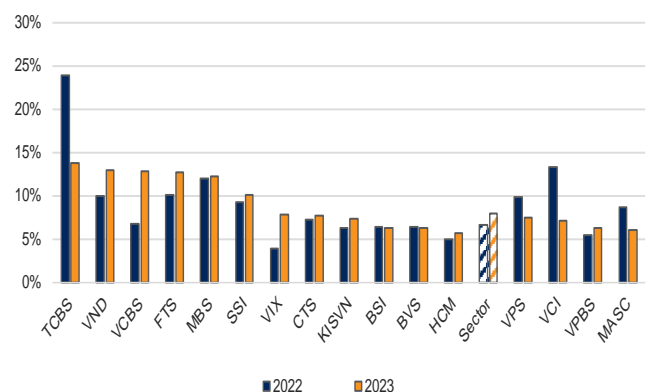
We also witnessed an improvement in the ROE of the sector in 2023. The companies with the most attractive ROE in the industry last year were TCBS, VND, and VCBS. However, the most stable ones were MBS, SSI, BSI, BVS, HCM, and CTS.

Figure 46: Net profit (VNDbn) of securities firms in 2023



Source: Companies reports, VNDIRECT RESEARCH

Figure 47: ROE of securities firms in 2023



Source: Companies reports, VNDIRECT RESEARCH

Share price performance in 2023

Set against the backdrop of a sluggish economy, low deposit interest rates, and a frozen real estate market, the capital flows into the stock market. Most securities stock outperformed the general market, with growth rates exceeding 50%.

Of particular note was the early and robust acceleration from the group of mid-cap and small-cap stocks such as VIX, BSI, and FTS, with growth rates of 202%, 200%, and 166% respectively compared to the beginning of 2023. This reflects investors' demand for trading during the accumulation phase of the market.

We believe that large-cap stocks will have more price appreciation opportunities (compared to other stocks in the industry), because of two main drivers: 1) the business performance of this group will be relatively better than that of mid-cap and small-cap companies - this is an attractive factor for investor inflows this year; and 2) there is still significant upside potential as price increases were not overly strong in 2023 compared to mid-cap and small-cap stock.

Figure 48: Stock price performances of securities sector as of 31/12/ 2023

	1-month			3-month			6-month			9-month			12-month		
	Price change (%)	Dividend yield (12M)	Price to book	Price change (%)	Dividend yield (12M)	Price to book	Price change (%)	Dividend yield (12M)	Price to book	Price change (%)	Dividend yield (12M)	Price to book	Price change (%)	Dividend yield (12M)	Price to book
VNINDEX	3.3%	1.9%	1.59	-2.1%	1.6%	1.76	0.9%	1.9%	1.72	6.1%	1.8%	1.68	12.2%	2.0%	1.63
VND	6.2%	2.6%	1.62	6.0%	2.6%	1.63	17.7%	2.6%	1.53	43.5%	3.2%	1.29	64.8%	3.7%	1.13
SSI	4.8%	3.2%	2.08	3.1%	3.1%	2.11	27.1%	3.9%	1.77	58.6%	4.5%	1.36	92.6%	5.5%	1.14
HCM	16.9%	3.4%	1.64	11.9%	3.3%	1.72	21.5%	3.6%	1.63	36.6%	2.0%	1.43	77.9%	2.6%	1.11
VCI	3.0%	2.9%	2.49	3.6%	2.9%	2.48	16.8%	3.3%	2.17	35.2%	2.2%	2.00	86.7%	3.1%	1.54
MBS	6.1%	3.0%	1.92	-0.4%	3.0%	2.05	41.1%	3.0%	1.50	65.2%	3.0%	1.31	112.2%	3.0%	1.04
CTS	4.6%	14.0%	2.01	-2.1%	14.0%	2.14	31.6%	14.0%	1.65	69.0%	14.0%	1.33	123.7%	14.0%	1.01
TVS	3.9%	1.7%	1.51	-8.5%	1.7%	1.72	-9.8%	1.7%	1.80	32.9%	1.7%	1.30	17.0%	1.7%	1.51
VDS	9.3%	0.7%	1.42	8.9%	0.7%	1.43	25.3%	0.7%	1.29	117.6%	0.7%	0.78	133.3%	0.7%	0.75
BSI	6.1%	1.0%	1.97	15.9%	1.1%	1.80	60.0%	2.2%	1.31	125.0%	3.1%	0.96	199.3%	4.1%	0.74
SHS	4.4%	4.3%	1.46	9.9%	4.3%	1.38	43.2%	4.3%	1.09	105.4%	4.3%	0.79	125.0%	4.3%	0.72
TCI	8.7%	N/A	0.96	23.4%	N/A	0.85	34.3%	N/A	0.80	73.4%	N/A	0.65	95.7%	N/A	NA
BVS	2.8%	4.0%	0.76	1.5%	3.2%	0.77	12.3%	3.5%	0.71	38.2%	4.4%	0.60	28.1%	4.0%	0.66
FTS	5.6%	1.1%	2.52	2.6%	1.0%	2.59	53.7%	1.6%	1.82	95.8%	1.5%	1.45	164.7%	2.1%	1.08
ORS	3.7%	N/A	1.32	-8.1%	N/A	1.49	12.2%	N/A	1.25	67.5%	N/A	0.86	96.1%	N/A	0.75
VIX	4.3%	2.5%	1.27	8.6%	2.5%	1.22	58.3%	4.6%	0.86	155.4%	7.4%	0.57	202.5%	8.7%	0.48

Source: FIINPRO, VNDIRECT RESEARCH

Factors supporting the VN-Index in 2024

The loosened monetary policy has supported the price increase of securities sector stocks in 2023, particularly mid-cap and small-cap stocks. We believe that in 2024, with the government's target economic growth of 6%-6.5%, monetary policy will remain loosened to support the economy.

Some factors contributing to the increases in the VN-Index and stocks within the financial sectors include: 1) successful capital increases by individual securities firms; 2) the expected operation of the KRX system and the prospect of upgrading to emerging market status boosting market liquidity; and 3) the return of foreign investor inflows.

Success in capital raising is the prominent engine

Increasing capital is a crucial driver in a business model that relies on lending activities and proprietary trading, as well as having sufficient resources to invest in information technology systems, enhancing user experience, and pursuing the zero-fee strategy to expand brokerage market share.

We believe that companies pursuing a retail business model will leverage capital more effectively to improve business results thanks to the stability of the margin lending segment and cross-selling other products. When a brokerage firm can maintain market share, its brand becomes familiar to customers.

They do not need to spend too much on advertising to attract new customers but rather focus on allocating resources more effectively to develop products within their ecosystem. This provides a clear competitive advantage when the stock market is in a downturn phase - not relying on a few customers, as well as leveraging economies of scale.

The strategy of pursuing a retail business model also differs, with the two main prevailing trends being: 1) expanding the customer base rapidly, capturing market share through pricing strategies, thereby leveraging economies of scale; and/or 2) increasing customer loyalty by diversifying and personalizing products such as wealth management and investment advisory services.

We believe that the first strategy is suitable for periods of rapid market growth, and applying the second strategy will make the business model more resilient during market downturns.

Figure 49: Capital raising plan of brokerage firms in 2023-2024

Company	Capital raising plan in 2023-2024	%proceeds from the issuance of shares to existing shareholders on equity	Potential diluted shares (million)
SSI	On 22/12/2023: 302m bonus shares issuance at VND 10,000/share. 151m shares issuance for current shareholder at VND 15,000/share	10%	1954
VCI	In June 2023: 2m ESOP at VND 12,000/share	-	460
VND	- private issuance of 20% for 1-5 investors (243.5m shares) - 2% ESOP at VND10,000/share (24.35m shares) - 1% bonus shares for employees (12.1m shares) - 20% new shares issuance to existing shareholders (243.5m shares) with the ratio of 5:1 at 10,000 VND per share - 61m shares for stock dividend	34%	1800
HCM	- Issued 69m shares for dividend payment with the ratio of 100:15 - Issued 228.6m shares to existing shareholders at VND 10,000 /share with the ratio of 2:1	29%	755

Source: Company reports, VNDIRECT RESEARCH

Improvement in liquidity thanks to KRX system and the prospect of upgrading to emerging market.

Recently the Government has made upgrading Vietnam's stock market from a frontier market to an emerging market a high priority. Many investors believe that upgrading holds significant importance for stock markets and that Vietnam's stock market could attract more capital from global investment funds. Furthermore, the investors expect that market stock upgrades enable large-cap companies to more easily raise capital from foreign investors with significant funding sources.

In the latest assessment, Vietnam has met 9 out of 18 criteria by MSCI and achieved a total of 11 out of 24 criteria by FTSE (including 22 market quality criteria and two economic position criteria). It's noteworthy that the criteria not met are not significantly different from previous assessments by these organizations, indicating little improvement over the past three years.

Figure 50: Derivatives market share of securities firms

	FTSE assessment in Sep 2023	MSCI assessment in June 2023
Fulfilled conditions	<ul style="list-style-type: none"> Gross national income per capita Credit worthiness rating Active supervision of the market by regulatory authorities. Absence of opposition or significant restrictions, penalties applied to transferring capital investment and repatriation of income to other countries. Sufficient competition among securities firms to ensure high-quality brokerage services. Clear and competitive transaction costs. Taxation: Taxes must be reasonable and comparable between domestic and foreign investors. Market transparency. Securities depository center. Depository services: Competitive enough to ensure the quality of depository services. 	<ul style="list-style-type: none"> Investor standards requirements Level of restrictions on capital flows Investor registration and account setup Market regulations Depository system Registration system Convertibility capability. Availability of investment tools. Stability of regulatory frameworks
Unmet requirements	<ul style="list-style-type: none"> Fair treatment to minority shareholders Absence or selective level of restrictions on foreign ownership limit (FOL) Absence of a simple registration process for foreign investors Development of the foreign exchange market Securities lending Short selling Development of derivatives market Over-the-counter (OTC) trading Efficient trading mechanisms Absence of costs related to failed transactions Central counterparty clearing partner Securities self-transfer mechanism Operational account structure at the depository center 	<ul style="list-style-type: none"> Restriction on the foreign ownership limit Fair treatment to foreign investors Level of market liberalization in the foreign exchange market Information issue Trading issues Clearing and settlement system Securities lending Short selling

Source: VNDIRECT RESEARCH

Although there are still 13 criteria that have not been met, FTSE's classification explicitly states that it is not necessary to fulfill all criteria to upgrade from a frontier market to an emerging market. The three most important criteria that Vietnam has not met in the September 2023 review by FTSE Russell are related to:

- "Delivery versus Payment (DvP)" - ranked as restricted because market practice requires for available funds before transactions are executed. Since the "pre-funding" factor leads to no failed transactions, the criterion "Settlement - Costs related to failed transactions" is not ranked.
- Complex registration procedures for foreign investors.
- Issues related to foreign ownership limits and foreign ownership ratios.

These are also the three factors mentioned by MSCI when considering the upgrade for Vietnam. Additionally, MSCI has six other significant criteria. Therefore, it can be seen that being upgraded by FTSE is generally simpler than by MSCI, and the resources needed to address the two common critical issues mentioned by both organizations are FOL and pre-funding.

Regarding the DvP issue, the long-term and fundamentally solutions include implementing the KRX system and Central Counterparty (CCP). In addition to these, short-term measures that can be implemented immediately include:

- Allowing investors to partially pre-funding or requiring only a sufficient cash balance or securities at a point in time before executing transaction
- Using collateral assets (stocks, bonds, cash) for transactions, as long as the collateral value is sufficient to offset the executed transaction by applying discount ratios.

We believe it will be very difficult to prepare for the 2024 assessment to be upgraded to emerging market, but it is still possible if the Government is truly determined. The most optimistic time may be the September 2024 assessment by FTSE Russell. For the KRX system, regulatory authorities are making significant efforts to implement it early this year. The specific schedule from March 4th to March 8th, HOSE will be switching systems. Securities companies will conduct system checks and cutover tests on March 7th, 2024.

Technology breakthroughs will boost the domestic penetration of stock market

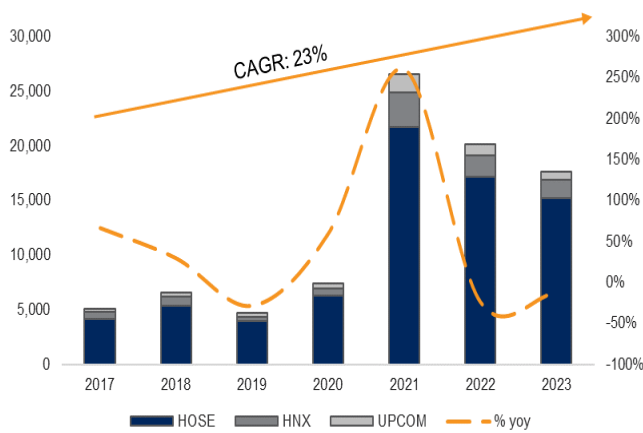
By the end of 2023, the proportion of investors to the total population in Vietnam was only about 7%, much lower than other frontier markets in the region such as Thailand and Malaysia, which are 7.5% and 12.5% respectively, as it requires knowledge to participate in the market. However, the of integration of investment consulting and trading services on a technology platform and favorable demographic condition will help securities companies to expand their market share rapidly.

The average daily trading value (ADTV) on all three major stock exchanges of Vietnam achieved a CAGR of about 23% in 2017-2023, with the peak ADTV of over VND26,500bn (US\$1.08bn). It was thanks to the new trading accounts of domestic investors increased with a CAGR of 25% in the same period, peaking at 4.2 million accounts in 2022.

The significant increase in ADTV during the 2020-2021 period was primarily driven by the combined impact of loose monetary policies to support the economy during the Covid-19 pandemic and social distancing lockdown measures, which led to a flow of cheap money into the stock market. These were unprecedented times for the market, driven by unpredictable factors. Therefore, we are not using the ADTV of 2021 to forecast this year's ADTV growth

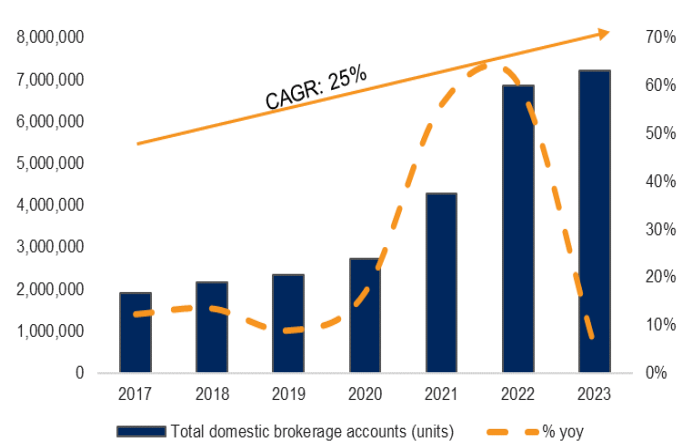
We expect the ADTV to increase by 25-30% yoy in 2024 thanks to the development of the KRX system, along with the additional cash flow from new investors when the market condition is going to be favorable.

Figure 51: The ADTV (VNDbn) on three main houses has grew at a CAGR of 23% in 2017-23



Source: Companies reports, VNDIRECT RESEARCH

Figure 52: The brokerage account number has also increased at a CAGR of 25% in 2017-23

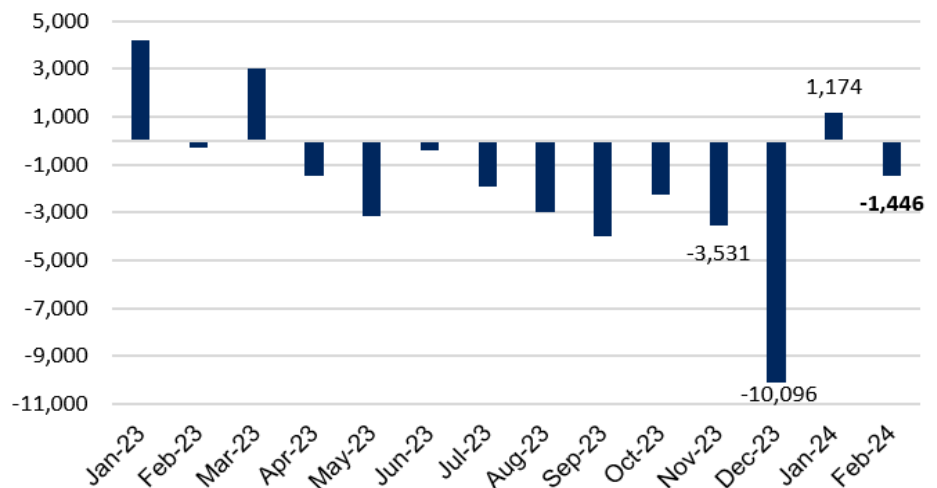


Source: Companies reports, VNDIRECT RESEARCH

The return of foreign investor inflows

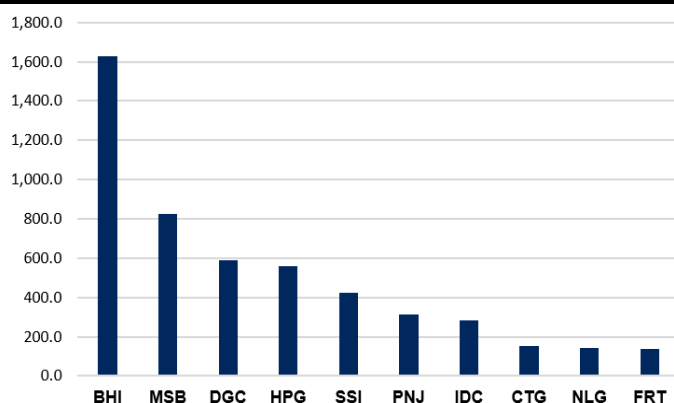
Foreign investors have been net sellers of around VND24.8tr (US\$1.01bn) in 2023 due to the interest rate differential between the US and Vietnam. However, the trend of net selling is not unique to Vietnam but also observed in other developing countries. This implies that once the interest rate differential narrows, we may witness a return of foreign capital inflows to emerging markets (including Vietnam) based on prospects for economic recovery.

Figure 53: Net buying value of foreign investors (VNDbn)



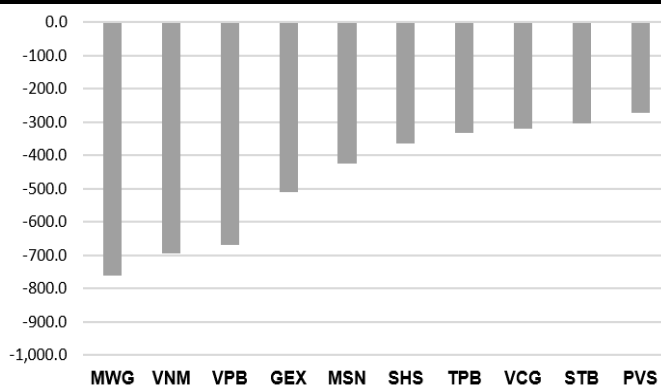
Sources: VNDIRECT RESEARCH, Fiin Pro

Figure 54 : Top 10 stocks net buying by foreign investors in Jan 2024 (VNDbn)



Sources: VNDIRECT RESEARCH, Fiin Pro

Figure 55: Top 10 stocks net selling by foreign investors in Jan 2024 (VNDbn)



Sources: VNDIRECT RESEARCH, Fiin Pro

We expect the net profits of companies in the industry to continue their upward trajectory in 2024. Specifically, the net profits of SSI, HCM, and VCI are projected to increase by 29.1%, 27.5%, and 45.7% respectively. The outstanding growth of VCI is mainly due to the low base effect.

The industry's ROE (Return on Equity) index is also expected to improve this year. The ROE of SSI, HCM, and VCI are forecasted to reach 5%, 4.4%, and 3.95% respectively

Figure 55: Securities firms comparison in FY23-24

Bloomberg Code	Company name	Mkt cap (US\$m)		P/BV (x)		P/E (x)		ROE (%)		ROA (%)		Net profit growth yoy (%)		Total operation income yoy (%)	
		2023	FY24F	2023	FY24F	2023	FY24F	2023	FY24F	2023	FY24F	2023	FY24F	2023	FY24F
SSIVN	SSI Securities Corp	2,268		2.4	2.9	24.4	26.2	10.1%	14.7%	3.8%	5.0%	35.0%	73.4%	13.0%	39.2%
HCMVN	Ho Chi Minh City Securities Corp	882		2.3	2.1	28.2	16.4	8.3%	12.6%	4.0%	4.4%	-20.9%	97.2%	-25.6%	49.3%
VCI VN	Vietcap Securities JSC	859		2.9	2.8	43.1	29.6	7.1%	9.5%	3.9%	3.9%	-43.4%	45.7%	-21.7%	11.7%
VNDVN	VNDirect Securities Corp	1,137		1.7	N/A	13.9	N/A	13.1%	N/A	5.0%	N/A	65.9%	N/A	N/A	N/A
MBSVN	MB Securities JSC	2,268		2.6	N/A	22.8	N/A	11.9%	N/A	4.5%	N/A	13.6%	N/A	N/A	N/A
CTSVN	VietinBank Securities JSC	882		2.7	N/A	29.7	N/A	9.6%	N/A	2.8%	N/A	163.9%	N/A	N/A	N/A
TVSVN	Thien Viet Securities JSC	859		1.7	N/A	14.0	N/A	13.2%	N/A	2.2%	N/A	841.6%	N/A	N/A	N/A
VDSVN	Viet Dragon Securities Corp	521		1.8	N/A	13.2	N/A	14.8%	N/A	6.8%	N/A	N/A	N/A	N/A	N/A
BSIVN	BIDV Securities JSC	226		2.5	N/A	29.0	N/A	9.0%	N/A	5.9%	N/A	263.4%	N/A	N/A	N/A
SHSVN	Sai Gon-Ha Noi Securities JSC	143		1.4	N/A	26.2	N/A	5.7%	N/A	5.0%	N/A	244.8%	N/A	N/A	N/A
Avg.				2.5	2.6	31.9	24.1	8.5%	12.3%	3.9%		-9.8%	72.1%	-11.4%	33.4%

Source: BLOOMBERG, VNDIRECT RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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