

SSI SECURITIES (SSI)

HOLD

FINANCIALS

Current Price	34,400 VND
52Wk High/Low	VND39,150/20,300VND
Target Price	VND36,500
Previous TP	N/A
TP vs Consensus	5.9%
Upside	6.1%
Dividend Yield	2.7%
Total stock return	-1.7%

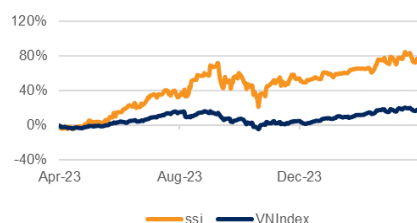
Growth rating	Positive
Value rating	Positive
ST Technical Analysis	Neutral

Market Cap	US\$ 2.25bn
3m Avg daily value	US\$33.5mn
Avail Foreign Room	US\$1,262mn
Outstanding Shares	1,501mn
Fully diluted O/S	1,728mn

	SSI	Peers	VNI
P/E TTM	24.3	24	16.1
P/B Current	2.41	2.4	1.7
ROA	3.78%	4.98%	0.6%
ROE	10.1%	9.42%	1.4%

*as of 11/04/2024

Share Price performance



Share price (%)	1M	3M	12M
Ordinary share	2.2%	9.6%	70.9%
Relative to index	1.8%	8.3%	17.6%

Ownership

Daiwa Securities Group Inc	16.0%
NDH Invest Company limited	6.0%
Others	78%

Business Description

Established in December 1999, SSI one of the longest-standing companies in the Vietnamese stock market. SSI's products span across major financial service areas including Investment Fund Management, Investment Banking Services, Capital Sourcing and Financial Trading, Investment, and Institutional Securities Services and Retail Sales.

Analyst(s):



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Growth factors already priced in

- We initiate coverage with a Hold rating with a target price of VND36,500 and a 2.7% dividend yield.
- SSI is a leading securities firm with a balanced business model. It is particularly strong in the margin lending and prop trading segments.
- The current P/B of 2.46x is higher than its five-year average. However, we target 2.7x, which is 30% higher than the industry's average P/B ratio +1 standard deviation (2.08x) due to the premiums for its business model.

Financial Highlights

- Total Operating Income (TOI) reached VND7,158bn (USD\$292mn) in 2023, up 13% YoY, with an average annual growth rate of about 18.3%.
- Gross profit margin in 2023 reached 66%, equivalent to a gross profit of VND4,723bn (USD\$193mn), the highest in the past five years.
- ROAE in 2023 reached 10.1%, an improvement over the previous year (9.3%) but still lower than the five-year average (13%). We expect ROAE to reach 11.2%/14.9% in 2024/25, respectively.

Investment Thesis

Business performance is a long-term stock price driver

SSI, like most securities companies, has a current P/B at or above the five-year average. This suggests profit growth and profitability metrics improvement in the coming years will make SSI more attractive to investors. SSI's 2023 ROE of 10.1% was higher than the previous year (9.3%) and the industry average (7.9%).

We believe SSI's ROE will continue to increase in 2024/25, reaching 11.8% and 14.6%, respectively, surpassing its five-year average (13.3%). Achieving SSI's 2024 business performance plan is feasible due to: 1) the prospects of upgrading the Vietnamese stock market; and 2) its ability to raise capital to expand scale.

Prospects for capital increase will support stock price in 2024

In addition to its business performance, we expect the early completion of SSI's capital increase plan to support the stock's momentum in 2024. This will create expectations of better business performance for SSI this year and in the coming years, as proprietary trading and margin lending activities will require abundant capital to expand scale during the next market growth phase.

A balanced business model but heavily reliant on proprietary trading

SSI's business model is similar to other companies in the industry, but it has a better balance between retail and institutional clients (leaning more toward retail). SSI can maintain a stable ROE over many years (although not outstanding compared to competitors), despite constantly expanding capital.

Figure 1: SSI's FY23A-28F earnings forecast

Unit: VNDbn	12-23A	12-24E	12-25E	12-26E	12-27E	12-28E
Total Operating Income	7,158	8,127	10,384	13,466	14,509	17,118
TOI growth (%)		13.5%	27.8%	29.7%	7.7%	18.0%
Gross profit margin(%)	66.0%	65.7%	69.2%	78.0%	79.6%	80.2%
PBT	2849	3,432	5,120	8,569	9,409	11,639
PBT growth (%)		20.5%	49.2%	67.4%	9.8%	23.7%
Net profit growth (%)	34.9%	21.2%	48.4%	67.3%	9.9%	23.7%
P/B	2.4	2.4	2.5	2.5	2.2	2.0
ROAE	10.1%	11.2%	14.9%	21.4%	19.8%	20.3%

Source: Fiin Pro, VNDIRECT

FINANCIAL SECTOR OUTLOOK

OUTLOOK FOR THE MARKET

Numerous factors are supporting the market to improve transparency and become a channel for long-term capital mobilization for businesses, such as: 1) supportive government policies; and 2) penalties for organizations and individuals engaged in stock price manipulation.

We see several factors supporting the VN-Index and the business results of companies in the industry, including: 1) favorable demographics (62.2% of the population is working age); 2) improving disposable income of the Vietnamese and; 3) technological advancements like KRX and the prospect of an upgrade to emerging from frontier market.

Given the Fed's interest rate cut trajectory is not meeting previous expectations, we believe that a cautious scenario where the VN-Index reaches 1,300 points, corresponding to a P/E ratio around 13x (with EPS growth rate of approximately 16%-18%), is appropriate.

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 according to MSCI and FTSE Russell ratings a high priority. Many investors believe that such an upgrade holds significant importance for stock markets and that Vietnam's stock market could attract more capital from global investment funds. The investors anticipate that a stock market upgrade will enable large-cap companies to more easily raise capital from foreign investors.

The three most important criteria that Vietnam did not meet in the September 2023 review by FTSE Russell are related to:

- 1) Delivery versus Payment (DvP)
- 2) Complex registration procedures for foreign investors
- 3) Issues related to foreign ownership limits (FOL) and foreign ownership ratios.

These are also the three factors mentioned by MSCI when considering an upgrade for Vietnam. Additionally, MSCI has six other significant criteria. Therefore, we expect an upgrade by FTSE will be easier than by MSCI, and the resources needed to address the two common critical issues mentioned by both organizations are FOL and pre-funding.

On March 20, 2024, regulator State Securities Commission announced a solicitation of opinions on the draft Circular amending and supplementing Circular 120/2020/TT-BTC regarding securities trading regulations. This draft will pave the way for allowing securities companies to provide margin trading services up to 100% for foreign investors, removing one of the two crucial bottlenecks mentioned above.

This also implies that securities companies must ensure sufficient capital sources to settle transactions in case foreign institutional investors lack payment funds, therefore, increasing capital will be an important task for securities companies this year and a key investment focus.

We believe that the prospect of Vietnam's stock market being upgraded by FTSE at the September 2024 assessment period is entirely feasible and could attract

significant investment capital from foreign investors. However, the actual amount of capital depends heavily on the quality of stocks in the market.

OUTLOOK FOR COMPANIES IN THE FINANCIAL INDUSTRY

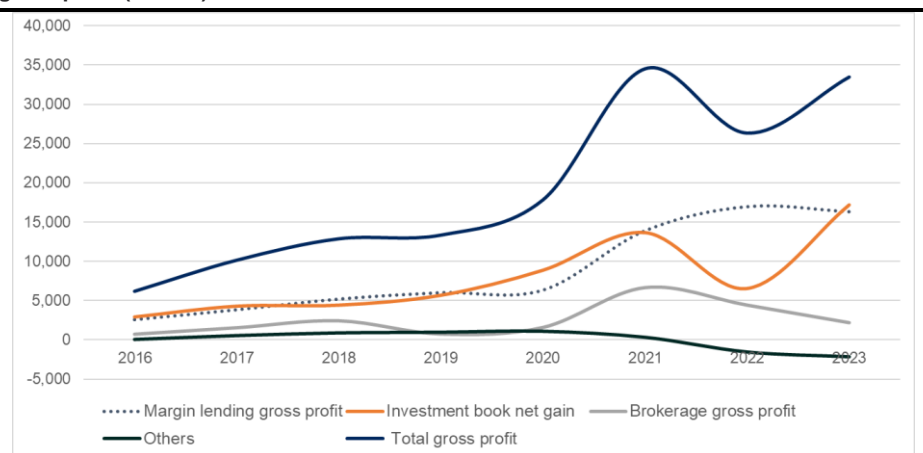
The business model of financial companies is undergoing changes

The business model of the financial industry has rapidly evolved over the past five years due to advancements in technology and competition from securities firms like TCBS, DSC, and MAS with strong financial capabilities and modern technological platforms.

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 and asset management while reducing transaction costs and increasing market liquidity.

Margin lending and proprietary trading are the most profitable activities for companies in the industry. However, each business segment plays different crucial roles in a company's business model. Brokerage services may no longer generate significant gross profits in the context of zero-fee competition, but they play a pivotal role in expanding the customer base for cross-selling other products. Margin lending provides revenue stability, while proprietary trading optimizes profit margins on capital but is quite sensitive to the overall market and other markets (such as bonds).

Figure 2: Margin lending and proprietary activities account for a significant proportion of gross profit (VNDbn)



Source: BLOOMBERG, VNDIRECT RESEARCH

Margin lending is a critical growth engine

We believe that the margin lending activities of securities firms will be the first to benefit if a low-interest-rate environment is maintained, as this business model depends on the spread between margin lending rates and cost of funds. Unlike banks, which is 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.

Companies in the market are implementing various strategies to increase their market share in margin lending. Bank-owned securities firms and foreign securities companies with cheap capital sources may offer preferential interest rates for margin lending, accepting thin spread margins and compensating by increasing the scale of lending. Some companies aim to expand their margin lending portfolios by providing margin loans for stocks with higher risk.

We believe that in 2024, as the stock market continues to show growth momentum with the baseline scenario outlined, and as 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.

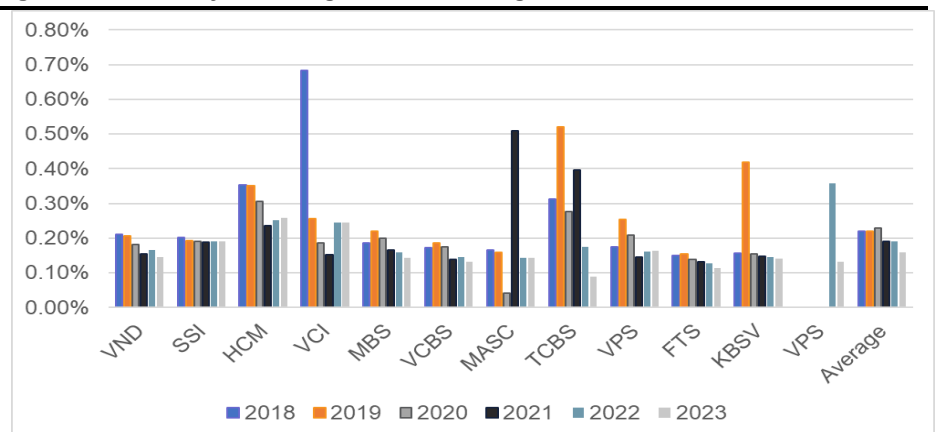
For the latter strategy, accepting a very thin spread margin and compensating for it by increasing the scale of lending will be more suitable for companies that simultaneously have the following two factors: 1) a sufficiently large market share in margin lending and; 2) a well-established product ecosystem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

Brokerage segment: Aiming for a 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.

Figure 3: The industry's brokerage fees are trending downward



Source: BLOOMBERG, VNDIRECT RESEARCH

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, including the following.

- 1) 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, which would ensure the sustained market share of each company.

2) 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 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, and 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.

Proprietary trading: a channel for capital optimization

Proprietary trading is one of the two most important segments of securities firms' business models. We believe that proprietary trading can quickly bring positive business results, especially 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, contrasted with the simplicity of the 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.

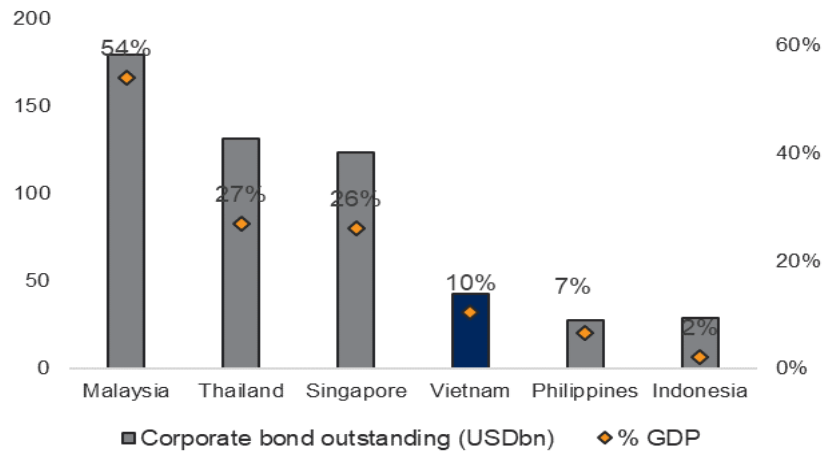
We believe the corporate bond market still plays a crucial role not only for enterprises as a long-term capital mobilization channel but also as a significant investment channel for securities firms when considering the allocation proportion for bonds in their investment portfolios.

The short-term risk for the corporate bond market in 2024 lies in the pressure of bonds maturing, totalling around VND207,000bn (US\$8.6bn), of which 59.3% were issued by real estate enterprises. This is especially significant considering that certain provisions of Circular 65, including regulations on professional

securities investors and mandatory credit ratings, took 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.

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

Figure 5: Market value of outstanding corporate bonds in Vietnam and other countries

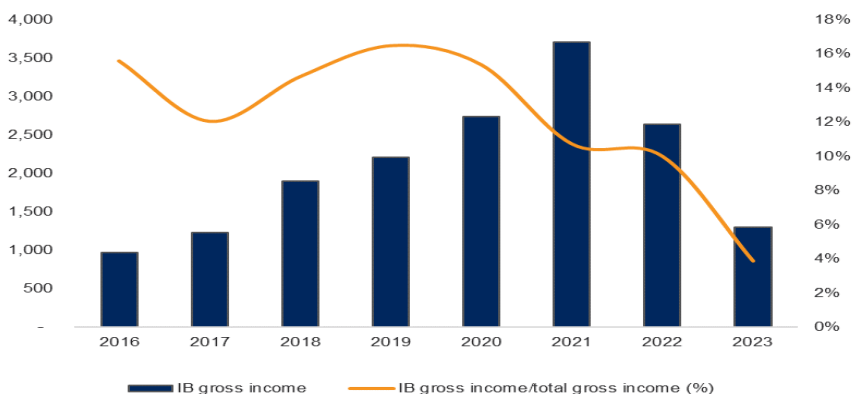


Source: BLOOMBERG, VNDIRECT RESEARCH

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

In 2023, gross profit from IB activities fell 51% yoy to approximately VND1,302bn (US\$543mn), accounting for 3.9% of the total gross profit of the entire industry. Gross profit from IB activities has continued 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\$464mn), representing 86% of the gross profit of the IB segment.

Figure 4: IB gross profit and the ratio to 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 will demonstrate 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

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 investment in Vietnam.

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) Companies that wish to IPO 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 hinders the development of startups, especially in the technology sector, and makes venture capital firms 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.

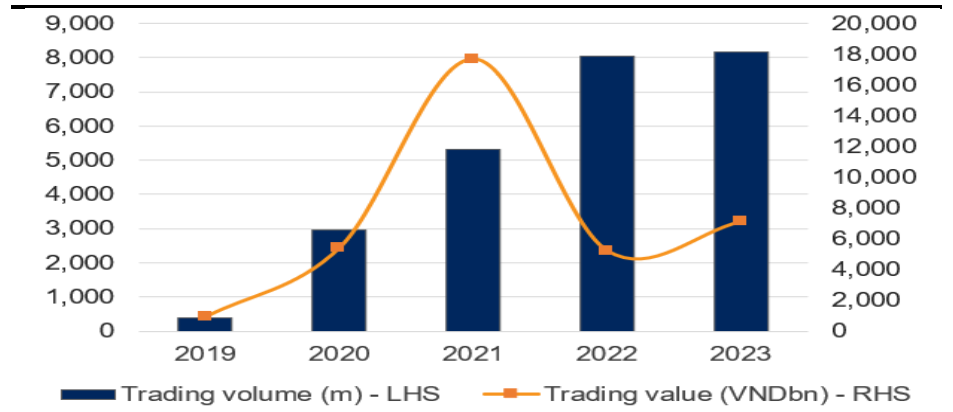
State divestment

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 fiscal policy objectives.

Derivatives market: needs to be developed further

We believe that developing the derivatives market is crucial because it enhances transparency and provides risk management tools for investors. Because of that, the government also set a target of 20%-30% annual growth for the derivatives market during 2021-2030 according to Decision No. 1726/QD-TTg.

Figure 5: Volume and value traded of covered warrants in 2019-23



Source: BLOOMBERG, VNDIRECT RESEARCH

COMPANY PROFILE

SSI Securities Corporation (SSI – HOSE) was established in December 1999 and is one of the longest-standing companies in the Vietnamese stock market. SSI's products span across major financial service areas including Investment Fund Management, Investment Banking Services, Capital Sourcing and Financial Trading, Investment, Institutional Securities Services and Retail Sales.

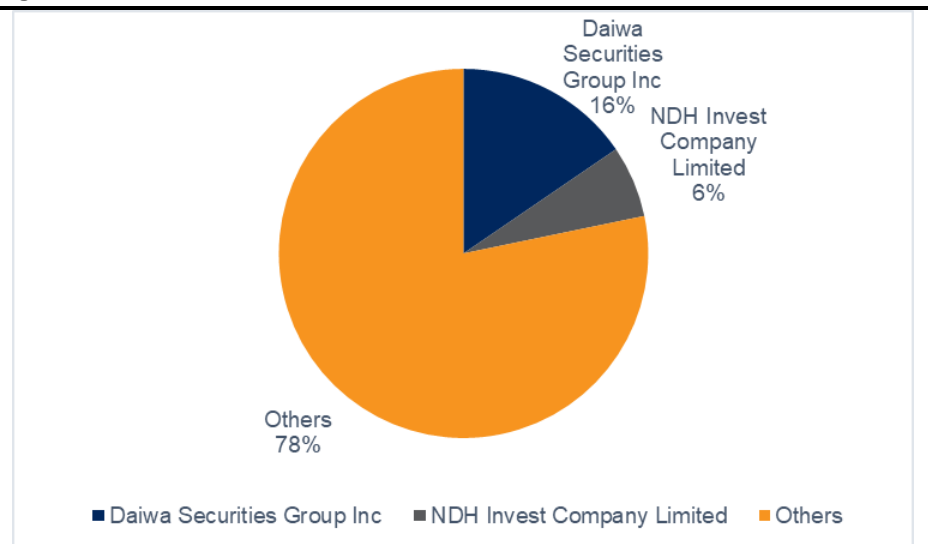
SSI's revenue sources over the years have relied on three main segments: capital sourcing and financial trading, margin lending activity and brokerage services. However, due to its ability to provide professional services to institutional clients and continuously build partnerships with major financial institutions in developed stock markets such as the United States, Japan, and South Korea, SSI can raise inexpensive capital to support retail business operations.

At the end of 2023, the company held the second-largest brokerage market share on HOSE and ranked fourth on HNX. Simultaneously, it held the second position in margin lending market share and possessed the largest investment portfolio in the industry, doubling the value of the portfolio of the second-ranked company in the market in 2023.

The company currently employs up to 800 full-time staff, with a headquarters, four branches, nine transaction offices, and a representative office concentrated in major cities such as Hanoi, Hai Phong, Nha Trang and Ho Chi Minh City, with coverage slightly higher than other companies in the same industry.

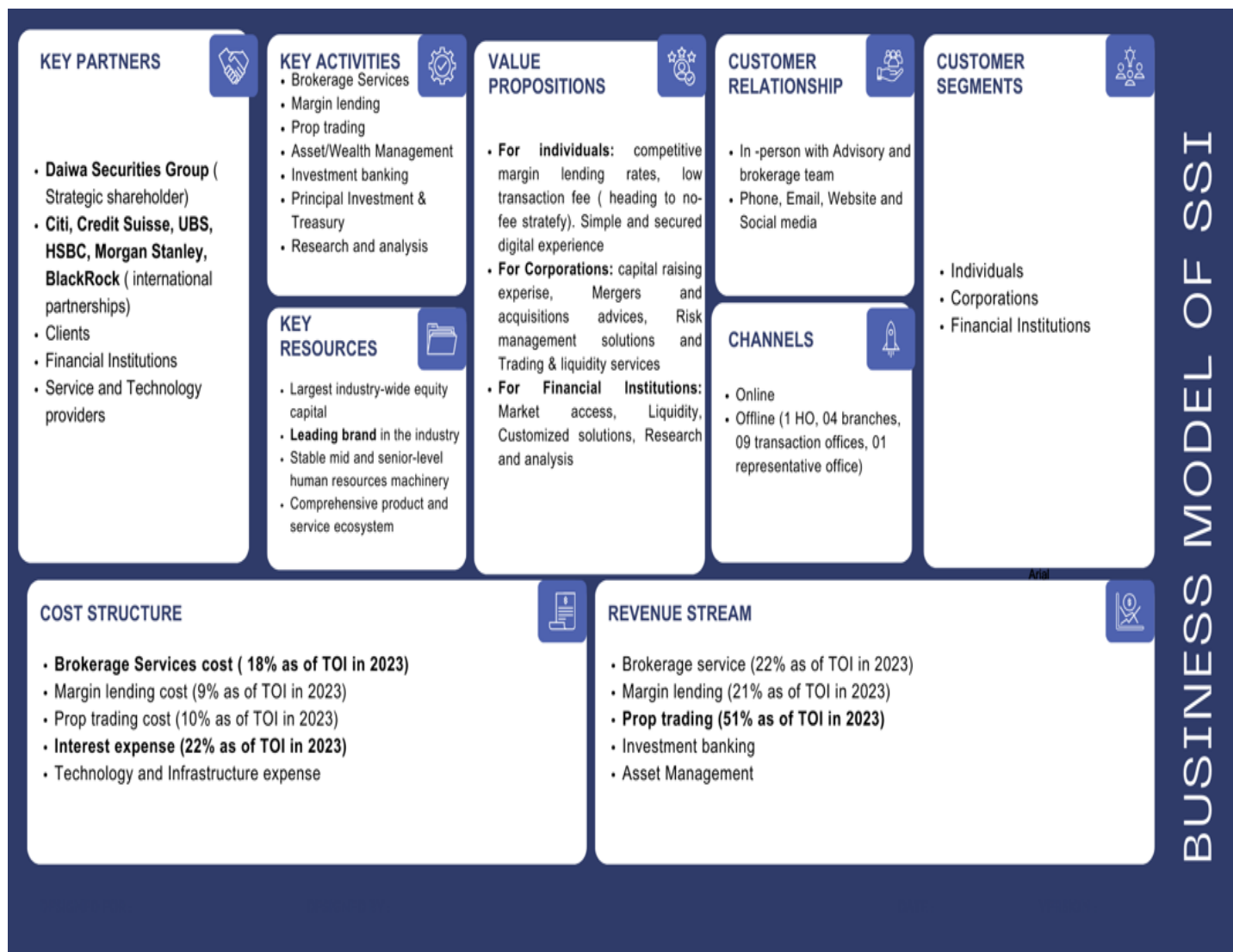
The largest strategic shareholder of SSI at present is Daiwa Securities Group Inc, holding 15.5% of shares, followed by NDH Invest Limited Company, holding 6.3% of shares. Mr. Nguyen Duy Hung currently serves as the Chairman of the Board of Directors of SSI and is also the owner of NDH Invest Limited Company.

Figure 6: The SSI's shareholder structure



Source: Fiin Pro, VNDIRECT RESEARCH

Figure 7: The SSI business model

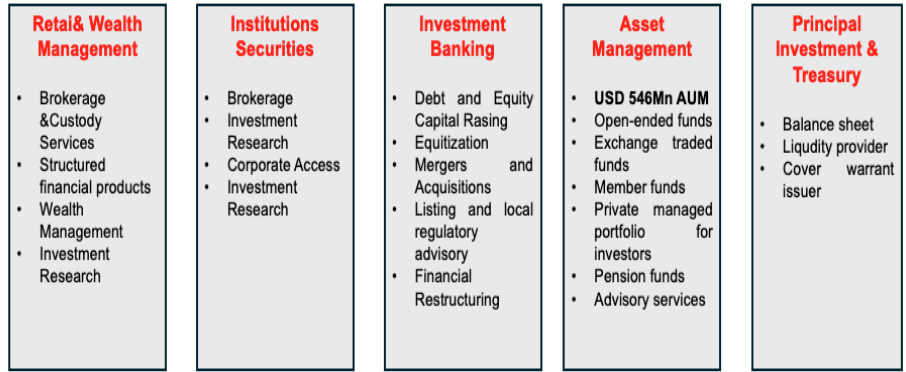


Source: Fiin Pro, SSI, VNDIRECT

SSI's business model relies heavily on proprietary trading activities. In other words, market fluctuations have a significant impact on SSI's business results compared to other companies in the same industry. This is a consequence of SSI's large scale after years of rising capital. Market share is affected by competition from other companies, thus, demand for margin lending is not sufficient to absorb the amount of capital raised, and proprietary trading is the method to maximize the utilization of raised funds.

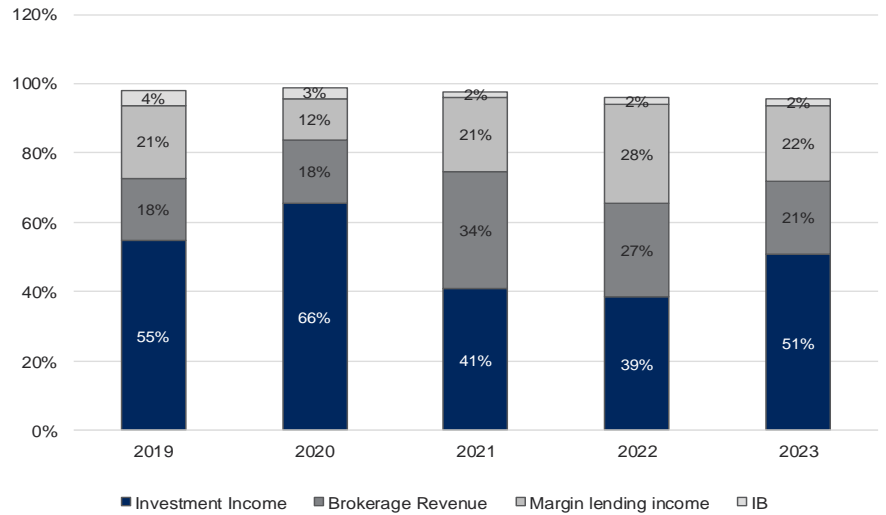
Most of SSI's investment portfolio in recent years has been primarily allocated to deposit contracts/certificates of deposit and bonds. The main reason is SSI's strategy in the past has been to ensure a stable ROI over the years amid market fluctuations, combined with the large scale of SSI's portfolio. However, the quantity of quality stocks on the market has not increased significantly.

Figure 8: The specific products of each segment



Source: SSI, VNDIRECT

Figure 9: The structure of SSI's TOI over the years



Source: Fiin Pro, VNDIRECT

FINANCIAL ANALYSIS AND BUSINESS STRATEGY

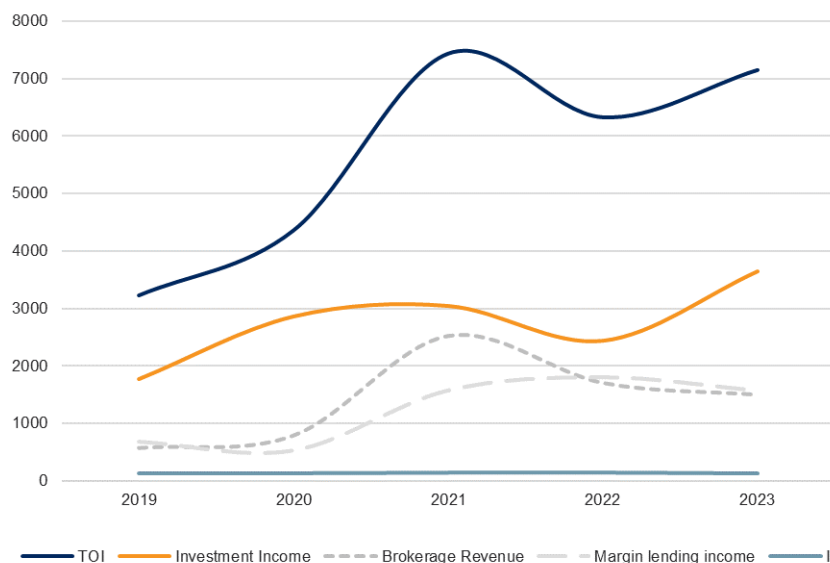
Figure 10: SSI key historical financial ratios

	2019	2020	2021	2022	2023
Total Operating Income	3,235	4,367	7,443	6,336	7,158
%yoy		35.0%	70.4%	-14.9%	13.0%
Investment income	1,773	2,862	3,046	2,440	3,647
% yoy		61.4%	6.4%	-19.9%	49.4%
FVTPL	699	1,779	2,325	2,020	3,167
HTM	991	850	720	417	474
AFS	83	233	1	3	6
Margin lending	678	525	1,571	1,801	1,568
%yoy		-22.5%	199.1%	14.7%	-12.9%
Brokerage Service	582	797	2,519	1,707	1,502
%yoy		37.0%	215.9%	-32.2%	-12.0%
Investment banking	134	135	143	144	132
%yoy		0.9%	6.3%	0.8%	-8.4%
Cost of sales	1,171	1,902	3,155	2,705	2,435
%yoy		62.4%	65.9%	-14.3%	-10.0%
Investment	383	1,016	1,343	962	682
FVTPL	383	1,003	1,342	962	656
HTM	-	-	-	-	-
AFS	0	13	1	-	26
Brokerage Service	555	626	1,494	1,337	1,316
Others expense	129	137	199	234	293
Investment banking	82	99	106	124	111
Gross profit	2,064	2,465	4,289	3,631	4,723
%yoy		19.4%	74.0%	-15.3%	30.1%
Investment	1,391	1,846	1,703	1,479	2,965
%yoy		33%	-8%	-13%	100%
Brokerage Service	27	172	1,025	370	186
%yoy		545.7%	497.6%	-63.9%	-49.8%
Margin lending	678	525	1,571	1,801	1,568
%yoy		-22.5%	199.1%	14.7%	-12.9%
Investment banking	52	36	37	20	21
%yoy		-31.2%	2.7%	-45.7%	4.7%
Operating profit/Loss	1,099	1,552	3,252	2,100	2,847
PBT	1,106	1,558	3,365	2,110	2,849
%yoy		40.9%	116.0%	-37.3%	35.0%
Net profit	909	1,257	2,696	1,699	2,293
%yoy		38.3%	114.4%	-37.0%	34.9%

Source: Fiin Pro, VNDIRECT

SSI's TOI achieved a CAGR of 17.2% over the past five years, somewhat lower than the industry average (19.8%). The reason is attributed to SSI's large revenue scale, reaching VND7,158 billion, which is 1.1 times the revenue scale of the second-ranked company (VNDS) and 3.7 times that of the company with the highest CAGR in the industry (VPBS). Investment income typically constitutes the largest proportion of TOI, ranging from 50% to 65%. Meanwhile, brokerage service revenue and margin lending income usually have equal shares in the TOI structure, ranging from 18% to 20% over the past five years

Figure 11: SSI's TOI continues to trend upward due to investment income (VNDbn)



Source: Fiin Pro, VNDIRECT

SSI's gross profit margin has improved from 63.8% in 2019 to 66% in 2023, as expenses increased at a slower rate. This also reflects the improved efficiency of SSI's prop trading activities, as over the past five years, the quality of listed stocks on the market has improved and the bond market has developed significantly, enabling SSI to implement a capital allocation strategy into fixed-income assets, avoiding volatility from listed stocks.

Operation profit and net profit have continued to trend upward over the past five years, with respective CAGRs reaching 21% and 20.3%. Net profit margin has improved from 28.1% to 32%. The reasons lie in: 1) improvement in gross profit margin as analyzed above and; 2) SSI continuously decreasing borrowing interest rates from 5.5% in 2019 to 4.4% in 2023, primarily due to the impact of a low-interest rate environment to support the economy and industry-leading credibility enabling SSI to arrange favorable capital sources.

SSI's ROAE has improved slightly over the past five years, from 9.9% in 2019 to 10.1% in 2023. SSI is facing challenges in improving its ROAE due to the company's scale becoming too large.

Proprietary trading: greatest contribution to TOI, perseverance amid a cautious strategy

The annual CAGR of SSI's investment book from 2019 to 2023 was about 21.8% and reached VND51,632bn (US\$2.1bn) in 2023, up 41.3% yoy. Assets classified as fair value through profit and loss asset (FVTPL), held to maturity asset (HTM), and available for sale asset (AFS) accounted for 85%, 14%, and 1% of the total investment portfolio, respectively.

Gross profit from SSI's proprietary trading activities in 2023 reached VND2,965bn (US\$121mn), accounting for 62.8% of total gross profit and has gradually increased over the years.

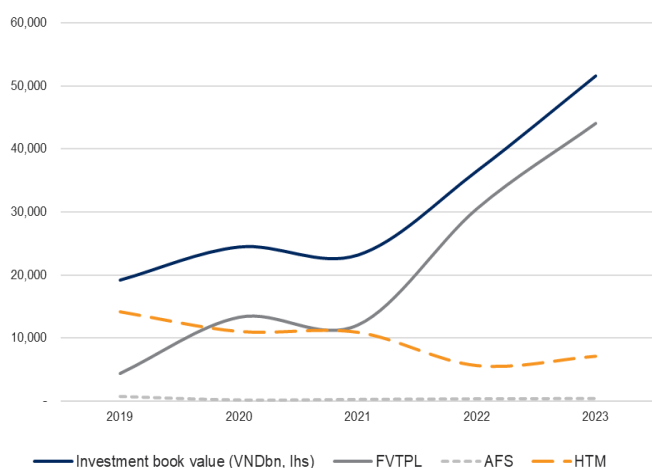
SSI's ROI in 2023 reached 6.7%, an increase of 170 bsp compared to the previous year (5%). Although still lower than SSI's most recent five-year average ROI (7.1%), it remains equivalent to the average ROI of the VN-INDEX over the past five years (6.6%).

The investment yield of HTM assets in 2023 was 7.4%. The HTM portfolio mainly consists of CDs and deposit contracts (69.6%), with the remainder being bonds (30.4%).

The investment yield of FVTPL assets in 2023 was 6.7%. The FVTPL asset portfolio mainly consists of deposit contracts and CDs (68%), followed by bonds (28%). Listed stocks only accounted for 3.4%

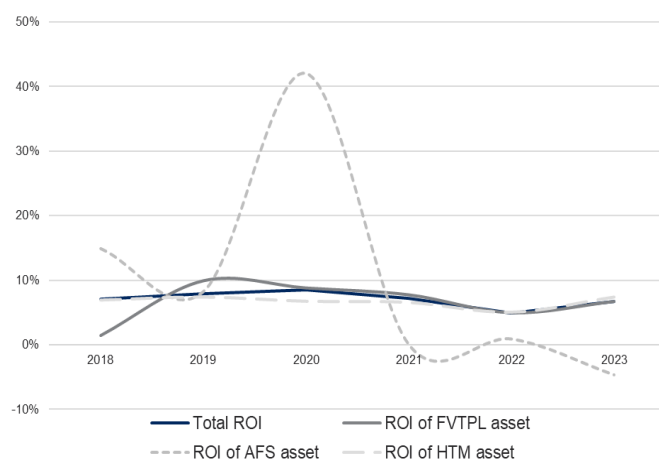
The ROI of AFS assets had the highest volatility and reached its peak in 2023 due to the majority of unlisted shares (91%).

Figure 12: SSI's investment book value has been growing rapidly over the past five years (VNDbn)



Source: VNDIRECT, FIIN PRO

Figure 13: The ROI of financial assets



Source: VNDIRECT, FIIN PRO

Proprietary trading has contributed significantly to SSI's total revenue and profit in recent years. However, it is also the riskiest activity in SSI's business model due to its dependence on: 1) overall market conditions; 2) quality of investment goods and; 3) the excessively large investment capital scale of SSI making it difficult to allocate into quality assets.

The first factor may not be a significant issue for SSI in 2024 or in the coming years as the prospects for the Vietnam's stock market reclassification are very high. However, for factors 2) and 3), over the past five years, SSI has been trying to maintain a balanced investment yield with risk by allocating mostly to corporate bonds and deposit contracts.

However, in 2024, with the domestic market not showing clear signs of recovery yet, real estate businesses are still facing difficulties, and with the low interest rate environment making deposit products less attractive, SSI will have to choose between: 1) allocating assets into listed stocks with volatile ROI along with the VN-INDEX or; 2) continuing its cautious strategy, investing in CDs and deposit contracts.

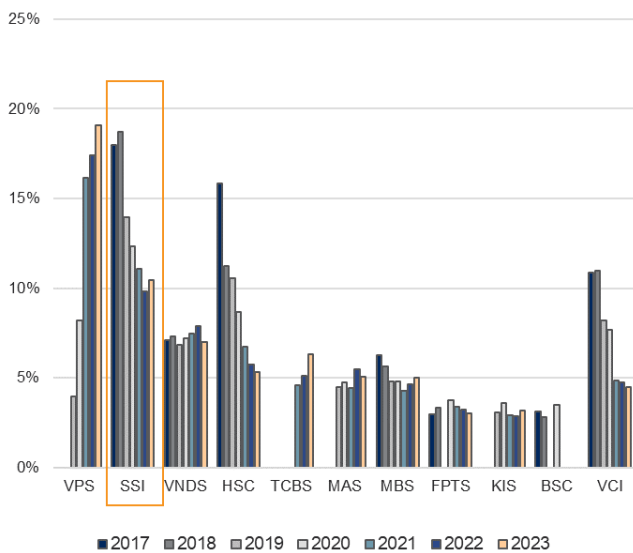
We expect SSI to pursue a cautious strategy, not allocating much to listed stocks, but rather, engaging in repo securities transactions, purchasing bank bonds, and even bonds of real estate enterprises.

Brokerage Segment: Maintaining revenue serves the mass strategy

SSI is also following the general trend of companies in the industry by continuously reducing transaction and commission costs to expand its customer base and cross-sell other products such as financial advisory, wealth management and margin lending. However, brokerage fees at SSI reached approximately 0.19%-0.2% in 2023, still ranking fifth highest in the industry.

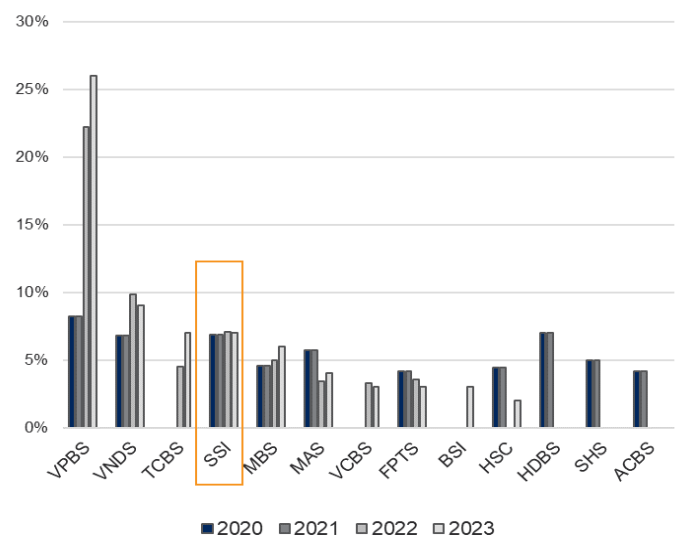
This is due to the difference in SSI's approach. Instead of significantly reducing transaction fees like some other brokerage firms, SSI is trying to expand its customer base by offering high commissions to advisory staff and brokerage departments. Over the past five years, SSI has consistently lost market share in the brokerage sector. SSI's brokerage market share on the HOSE and HNX in 2023 stood at 10.4% and 7.02%, respectively, ranking second on the HOSE and fourth on the HNX

Figure 14: SSI brokerage market share (HOSE)



Source: Fiin Pro, VNDIRECT

Figure 15: SSI brokerage market share (HNX)

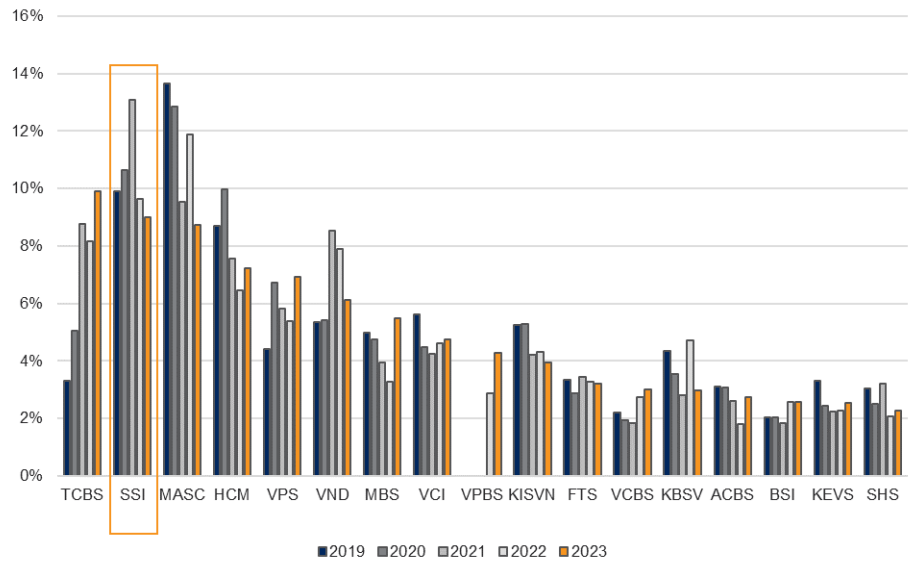


Source: Fiin Pro, VNDIRECT

The margin lending segment: low capital costs the distinguishing factor

The market share of SSI in margin lending has been gradually decreasing from 13.08% in 2021 to 9.02% in 2023, lower than the five-year average of 10.46%. This is attributable to competitive pressures from new securities firms, particularly those with access to cheap capital such as foreign securities firms or those backed by commercial banks.

Figure 16: SSI's market share in margin lending ranks second in the industry

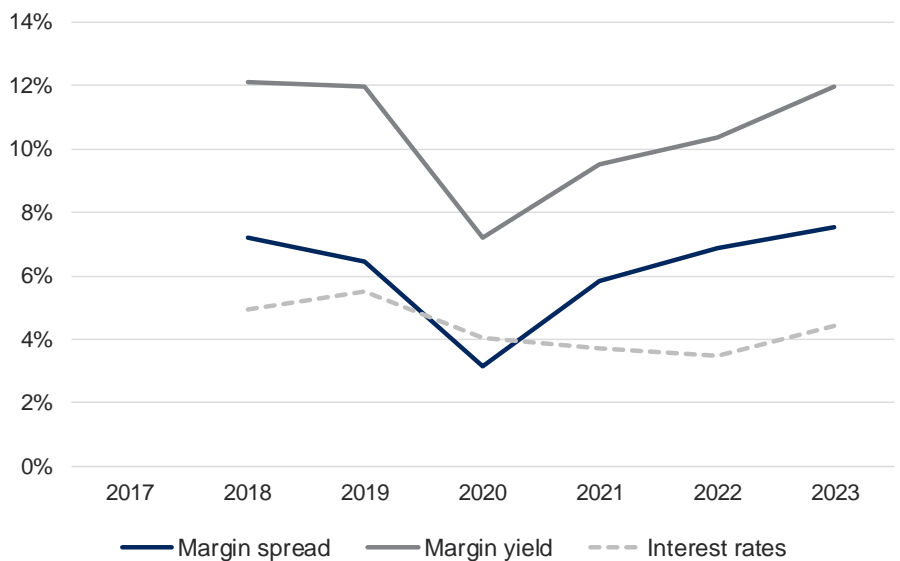


Source : Fiin Pro, VNDIRECT

Nevertheless, SSI's margin lending market share still maintains the second position in the market (after TCBS) thanks to the advantage of competitive margin lending interest for customers. The margin spread of SSI increased to 7.6% at 2023 from 6.9% in 2022, which was driven by the faster pace of the increase in margin lending yield (up by 160 bps) compared to the increase in borrowing interest rate (up by 90 bps) in the past year.

Gross profit from SSI's margin lending activities has continued to increase over the last five years, from VND678bn (approximately US\$28mn) in 2019 to VND1,568bn (approximately US\$64mn) in 2023, with a compound annual growth rate of around 18%.

Figure 17: Margin lending spread has recovered



Source: Fiin Pro, VNDIRECT

Several factors could help SSI expand the scale of its margin lending balance in coming years including 1) **the large equity**. SSI still has a lot of room for lending as the margin lending to equity ratio reached only 0.7 in 2023, much lower than the requirement of 5. We expect this ratio to remain unchanged in 2024 and slightly increase in 2025 (0.8). 2) the stock market may be upgraded to frontier market by FTSE and improved investment income for individuals due to the economic recovery and 3) SSI can gradually lower the margin lending interest rate from an average of 12% in 2023 to 8.9% in 2024, accepting a lower margin spread of 5.4% (220 bps lower than the figure for 2022) to attract new customers and retain existing ones.

The main reasons SSI accepts a lower margin lending spread are because: 1) it aims to maintain its 9% market share in margin lending as in the previous year and; 2) SSI allocates funds into stable-yield assets given its very large capital scale.

Furthermore, maintaining the attractiveness of the brand and reputation of the company to investors is essential, allowing the company to access cheaper capital than other companies in the industry. Therefore, one of the events that could support SSI's stock price is capital increase activities in the near future.

The IB sector helps complete the product ecosystem

The IB sector contributes relatively little to SSI's overall revenue. With the IPO and M&A market still showing no strong signs of recovery (see details on page 7 in the Financial Industry Report), we expect IB sector revenue to increase slightly by 4.1% yoy, reaching VND138bn (US\$5.63mn), with a gross profit of about VND33bn (US\$1.4mn) (+58% yoy).

In reality, the contribution of the IB sector is to complete the business model for SSI, enhancing SSI's reputation in the eyes of investors by being able to provide all products in the industry. Consequently, it can help SSI mobilize capital at lower costs due to its reputation. Therefore, this is also a competitive advantage for SSI as the number of institutional clients will likely increase as the Vietnamese stock market develops further in the future.

Outlook: FY24-28 earnings forecast

Figure 18: SSI's FY24-28F earning forecasts

Unit: VNDbn	2023	2024F	2025F	2026F	2027F	2028F
Total Operating Income	7,158	8,127	10,384	13,466	14,509	17,118
Investment income	3,647	4,515	6,199	8,436	9,050	11,290
FVTPL	3167	4,308	5,928	7,587	7,821	9,671
HTM	474	202	265	839	1,202	1,578
AFS	6	5	7	11	27	42
Margin lending	1,568	1,556	1,777	2,331	2,592	2,660
Brokerage Service	1,502	1,495	1,709	1,803	1,719	1,675
Others	308	425	561	757	1,010	1,356
Investment banking (IB)	132	138	138	139	138	137
Gross profit	4,723	5,340	7,187	10,497	11,549	13,726
Gross profit margin(%)	66.0%	65.7%	69.2%	78.0%	79.6%	80.2%
Interest expense	1,570	1,619	1,640	1,592	1,741	1,789
% interest expense /TOI	21.9%	19.9%	15.8%	11.8%	12.0%	10.4%
General and administrative expenses	3,621	406	571	539	580	514
% GA/TOI	5.0%	5.0%	5.5%	4.0%	4.0%	3.0%
Operating profit/loss	2847	3,398	5,066	8,466	9,338	11,545
PBT	2849	3,432	5,120	8,569	9,409	11,639
Net profit	2293	2,778	4,124	6,900	7,584	9,385
Net profit margin (%)	32.0%	34.2%	39.7%	51.2%	52.3%	54.8%
TOI growth yoy (%)	13.0%	13.5%	27.8%	29.7%	7.7%	18.0%
Investment income	49.4%	23.8%	37.3%	36.1%	7.3%	24.8%
Margin lending	-12.9%	-0.8%	14.2%	31.2%	11.2%	2.6%
Brokerage service	-12.0%	-0.5%	14.3%	5.5%	-4.6%	-2.5%
IB	-8.4%	4.1%	0.6%	0.5%	-0.6%	-0.9%
Net profit growth yoy(%)	34.9%	21.2%	48.4%	67.3%	9.9%	23.7%
ROAA	3.8%	3.6%	4.5%	6.3%	5.9%	6.5%
ROAE	10.1%	11.2%	14.9%	21.4%	19.8%	20.3%

Source: Fiin Pro, VNDIRECT

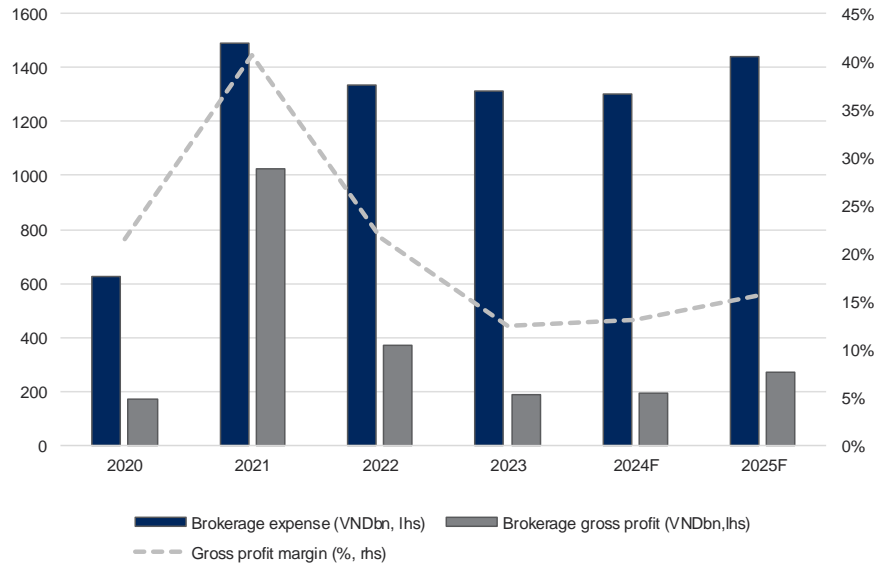
In 4Q23, SSI's TOI reached VND2,047bn (~US\$84mn), up 51% yoy, and the upward trend continued with a 5% increase from the previous quarter. Overall in 2023, SSI's TOI reached VND7,158bn (~US\$292mn), a 13% yoy increase. We anticipate that SSI's TOI will reach VND8,127bn (~US\$331mn) in 2024, a 13.5% yoy increase, achieving 100% of SSI's business plan for the year and achieving a CAGR of 16.1% for the FY24-28 period.

The primary driving force behind this growth trajectory is:

- (i) The VN-Index is expected to fluctuate around our base scenario of 1,350 points, corresponding to around 14x current EPS;
- (ii) The Vietnamese stock market is expected to be upgraded to an emerging market by FTSE in the September 2024 evaluation;
- (iii) SSI's capital increase will be completed by 2Q24, specifically through the issuance of an additional 453.3 million new shares, including 302.2 million bonus shares to increase charter capital at a ratio of 100:20. The offer to existing shareholders will be 151 million shares at a price of VND15,000 per share, with a subscription ratio of 100:10. Additionally, we expect SSI to distribute a cash dividend at a rate of 10% as usual;
- (iv) The **long-term after-tax profit growth rate** reaches the equivalent of VN-Index ROI over the past five years, which is 6.6% per year.

Brokerage segment: In 2024, we expect SSI's brokerage market share to remain unchanged from the current level, with brokerage service revenue reaching VND1,495bn (US\$61mn) (-0.5% yoy) and a gross profit margin of 13%, slightly higher than the previous year (12.4%).

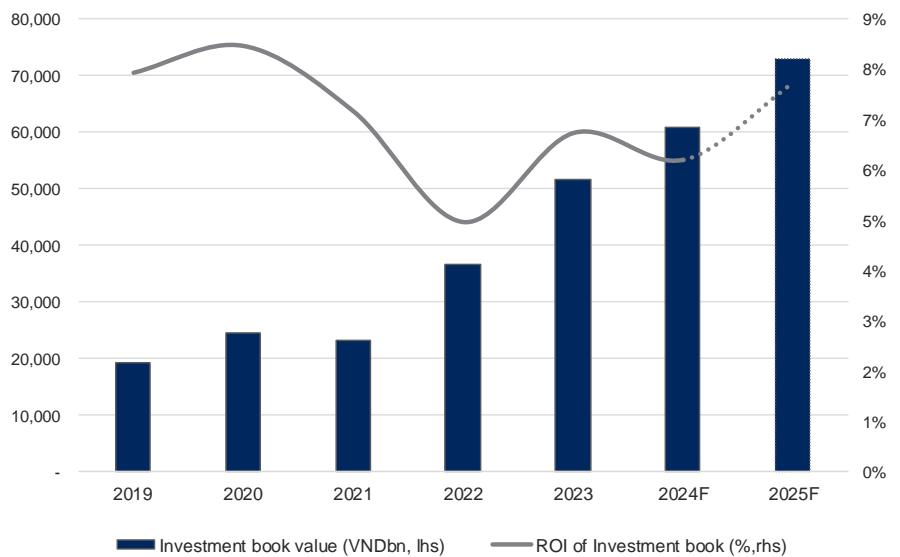
Figure 19: The profit margin of the brokerage segment is expected to recover from 2024 onward



Source: VNDIRECT; Fiin Pro

Proprietary trading: SSI's investment portfolio is expected to reach VND60,629bn (US\$2.47bn), a 18% increase compared to expectations, with the majority being FVTPL assets valued at approximately VND58,489bn (US\$2.38bn) (96% of the total).

Figure 20: The ROI of proprietary trading activities is on a path of recovery



Source: VNDIRECT

The ROI ratio in 2024 is expected to reach about 6.2%, down 50 bps compared to the previous year, reflecting lower deposit interest rates than last year, as the majority of the investment portfolio consists of CDs and deposit contracts.

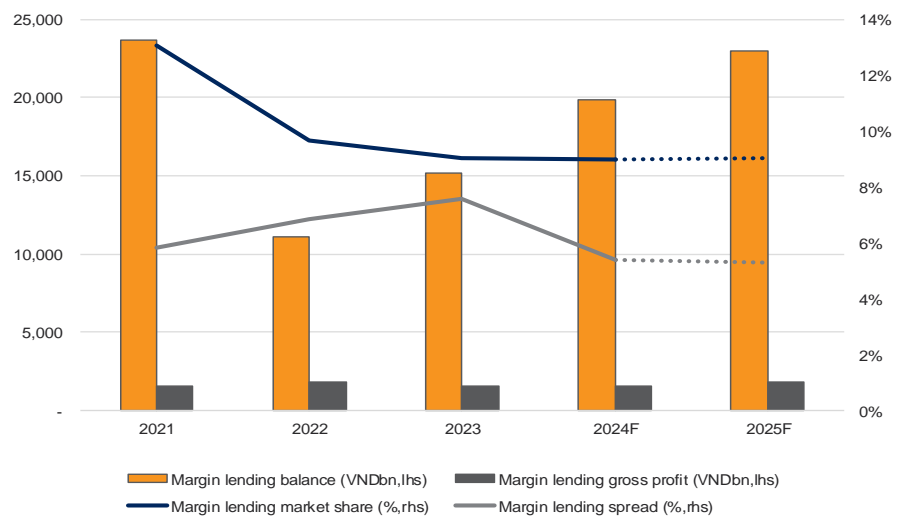
However, it is expected to increase significantly to 7.4% in 2025 as the domestic market gradually recovers and interest rates rise as economic activity return.

Margin lending segment:

We believe that in 2024, SSI will maintain its market share of margin lending at the same level as in 2023, which is 9%. The total margin lending balance will reach VND19,826bn (US\$809mn), up 31% yoy, and margin lending income will reach VND1,556bn (US\$64mn), slightly decreasing by 0.8% yoy in 2024.

To maintain the same market share, we believe that SSI's margin spread will need to decrease to 5.4% in 2024 from 7.6% in 2023.

Figure 21: To maintain market share, SSI will have to accept thinner profit margins



Source: Fiin Pro, VNDIRECT

In 4Q23, SSI's pre-tax profit (PTB) reached VN 644bn (~US\$26mn), a 123% yoy increase, but a 27% qoq decrease, indicating a weakening upward trend due to the market slowdown, leading to investment costs rising by over 154% compared to the previous quarter.

The PTB for full-year 2023 reached VND2,849bn (~US\$116mn), a 35% yoy increase. We expect SSI's PBT for FY24/25 to reach VND3,432bn/VND5,120bn (~US\$140mn/209mn), with an annual CAGR of approximately 28% for the FY24-28 period.

SSI's ROAE in 2023 reached 10.1%, higher than the previous year (9.3%) but lower than the five-year average growth rate (13%). We forecast ROAE for FY24/25 to reach 11.2%/14.9% and achieve a long-term growth rate of 14.8% per year.

Valuation: We initiate with a HOLD rating and a target price of VND36,500

We combine P/B valuation and the residual income approach with an equal weight of 50% to deliver a target price of VND36,500 per share for SSI, based on the following assumptions:

- The **risk-free interest rate is 2.24%** (10-year government bond yield), and the [market risk premium](#) is 9%.
- **SSI's target P/B ratio is 2.7x**, 30% higher than the industry's P/B ratio of +1 standard deviation, which is 2.08. We believe SSI's P/B ratio is appropriate because investors have historically been willing to pay premiums of 20-30% for SSI compared to the industry average due to preference for its business model (See figure 29).

Key Investment Thesis Sensitivities

The significant risks that could prevent SSI's stock price from meeting expectations are: 1) Vietnam's stock market not being upgraded in 2024, leading to investment capital allocation for the Vietnamese market falling short of expectations, and 2) an increase in the risk-free interest rate and market risk premium due to SBV raising interest rates to alleviate exchange rate pressure.

If 1) occurs, we lower the assumption for SSI's long-term after-tax profit growth to 6%, equivalent to the average GDP growth scenario. Keeping other assumptions unchanged, SSI would be revalued to a fair value of **VND35,900 per share**.

Similarly, if (2) occurs, with other assumptions unchanged, the cost of equity is expected to increase to 14.6%, and SSI's fair value would be around **VND34,400 per share**.

In the event that both significant risks occur simultaneously, the target price for SSI would be VND34,200 per share, equivalent to a 6.3% decrease from the initial target price.

Figure 22: General Assumptions

General assumptions	2021	2022	2023	2024F	2025F	2026F	2027F	2028F	Terminal Year
Risk free rate	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%	2.24%
Equity risk premium	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Beta (source: BB, 1-y adj.beta)	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Cost of equity	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
Long-term growth rate									6.6%
Long-run ROE									14.8%
ROE terminal (%)									19.4%

Source: Fiin Pro, VNDIRECT

Figure 23: Residual income model

Residual Income Model (in VND bn)	2024F	2025F	2026F	2027F	2028F	Terminal Year
Residual Income	(130)	765	3,273	3,083	4,236	3,506
Discount factor	0.89	0.79	0.70	0.62	0.55	
PV of RI	(116)	604	2,293	1,918	2,341	42,956
<i>(in VND bn)</i>						
Opening shareholders' equity	23,100					
PV of residual income (5 years)	7,041					
PV of terminal value	23,742					
Implied EV	53,884					
No. of o/s shares (m shares)	1,728					
Implied value per share (VND/share)	31,189					

Source: Fiin Pro; VNDIRECT

Figure 24: Target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income (P/B of 1.0x)	50%	31,189	15,595
P/B multiple (at 2.7x FY24F BVPS)	50%	41,755	20,877
Target price (VND/share)			36,472
Target price (VND/share, rounded)			36,500

Source: VNDIRECT

Figure 25: Sensitivity analysis on how long-term growth rate change affects target price

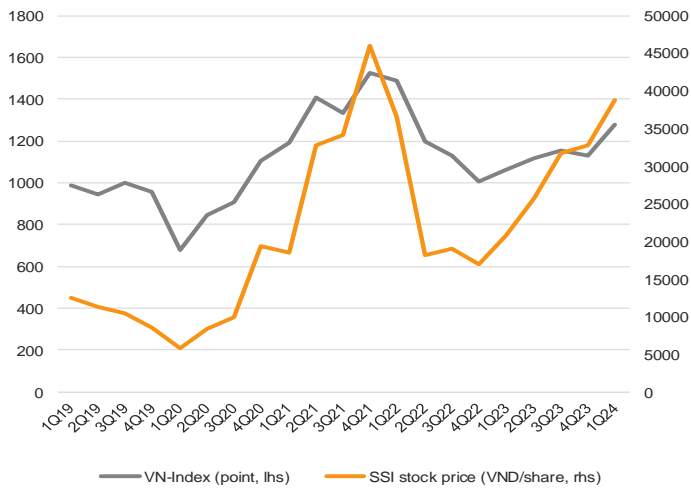
Cost of equity	Long term growth rate					
		6%	6.30%	6.60%	6.90%	7.20%
10.60%	37,800	38,100	38,500	38,900	39,300	
11.60%	36,800	37,100	37,500	37,800	38,200	
12.60%	35,900	36,200	36,500	36,800	37,100	
13.60%	34,900	35,200	35,500	35,700	36,000	
14.60%	34,000	34,200	34,400	34,700	34,900	

Source: VNDIRECT

The correlation between SSI stock price and the VN-Index and ROE

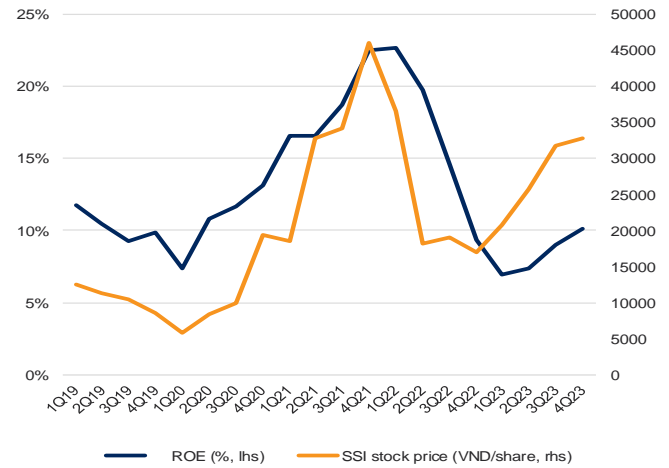
SSI's stock price tends to move ahead of changes in ROE. In other words, the SSI stock price moves before its business results. SSI's stock price also tends to move ahead of VN-Index trends.

Figure 26: SSI stock price is always more sensitive than the VN-Index



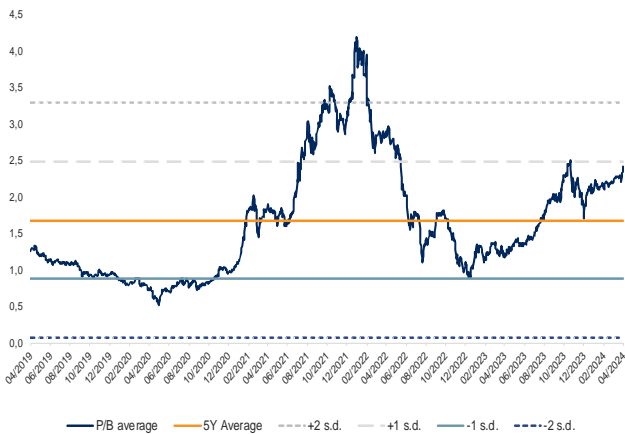
Source: Fiin Pro, VNDIRECT

Figure 27: The SSI stock price always reflects expectations regarding ROE in advance



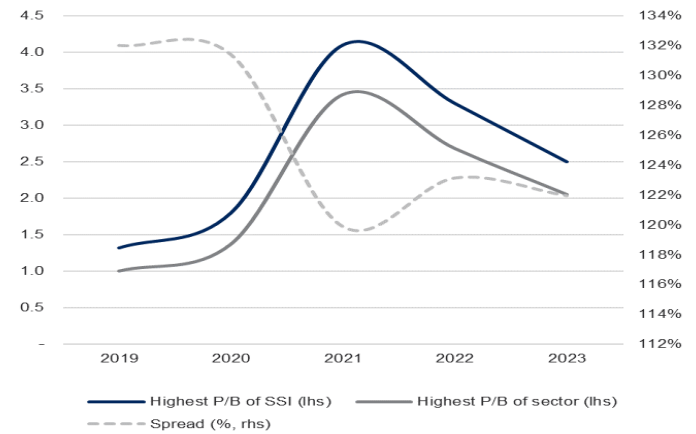
Source: Fiin Pro, VNDIRECT

Figure 28: The current P/B of SSI



Sources: Bloomberg, VNDIRECT RESEARCH

Figure 29: The spread between P/B of SSI and sector P/B



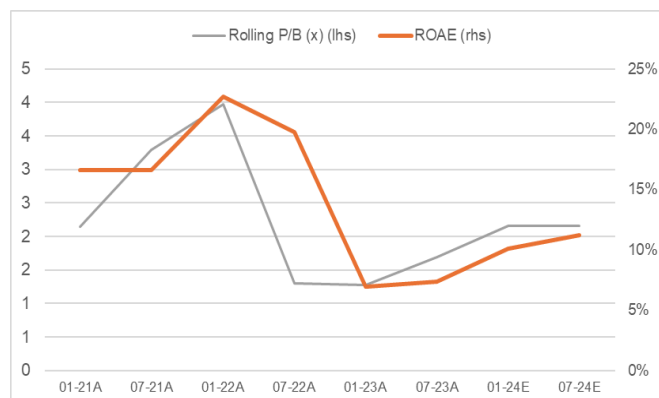
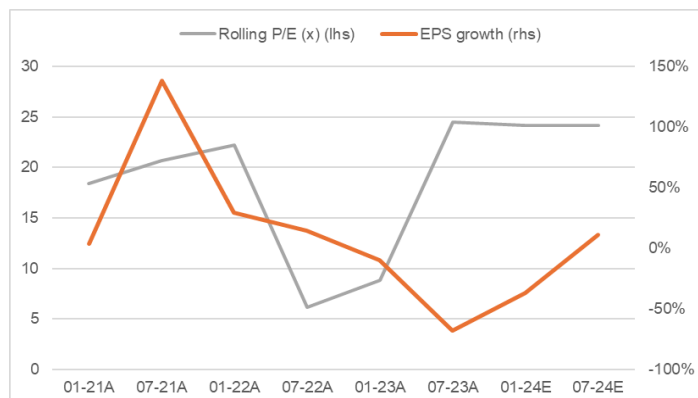
Sources: Bloomberg, VNDIRECT RESEARCH

Figure 30: Securities firm comparison in FY24

Bloomberg Code	Company name	Mkt cap (US\$m)	P/BV (x)	P/E (x)	ROE (%)	ROA (%)	Net profit growth yoy (%)	Total operation income yoy (%)			
HCM VN	Ho Chi Minh City Securities Corp	882	2.3	2.1	28.2	16.4	8.30% 12.60%	4.00% 4.40%	-20.9% 97.2%	-25.6%	49.3%
VCI VN	Vietcap Securities JSC	859	2.9	2.8	43.1	29.6	7.10% 9.50%	3.90% 3.90%	-43.4% 45.7%	-21.7%	11.7%
VND VN	VNDirect Securities Corp	1,137	1.7	N/A	13.9	N/A	13.10% N/A	5.00% N/A	65.90% N/A	N/A	N/A
MBS VN	MB Securities JSC	2,268	2.6	N/A	22.8	N/A	11.90% N/A	4.50% N/A	13.60% N/A	N/A	N/A
SHS VN	Sai Gon-Ha Noi Securities JSC	143	1.4	N/A	26.2	N/A	5.70% N/A	5.00% N/A	244.80% N/A	N/A	N/A
Avg.			2.2	2.5	26.8	23.0	9.2% 11.1%	4.5% 4.2%	52.0% 71.5%	-23.7%	30.5%
Median			2.2	2.5	26.5	23.0	9% 11%	4% 4.2%	32.8% 71.5%	-23.7%	30.5%
SSI VN	SSI Securities Corp	2,268	2.4	2.4	24.4	23.2	10.1% 11.2%	3.8% 3.6%	35.0% 21.2%	13.0%	13.5%

Source: Bloomberg; VNDIRECT

Valuation



Income statement

(VNDbn)	12-23A	12-24E	12-25E
TOI	7,157	8,127	10,384
Investment Income	3,647	4,515	6,199
Margin lending	1,568	1,556	1,777
Brokerage Service	1,502	1,495	1,709
Investment Banking	132	138	138
Cost of sales	(2,434)	(2,787)	(3,197)
Gen & admin expwings	(362)	(406)	(571)
Operating profit	2,847	3,398	5,066
Interest expense	(1,570)	(1,619)	(1,640)
Pre-tax profit	2,849	3,432	5,120
Tax expense	(554)	(653)	(996)
Minority interest	2	0	0
Net profit	2,295	2,778	4,124

Balance sheet

(VNDbn)	12-23A	12-24E	12-25E
Financial Assets at fair value through profit or loss (FVTPL)	51,632	19,826	22,994
Held to maturity investment (HTM)	7,145	1,828	6,580
Available for sale financial assets (AFS)	416	609	731
Loans	15,134	19,826	22,994
Total current assets	65,755	80,583	96,115
Long-term financial assets	2,812	2,812	2,812
Total assets	69,241	83,395	98,927
Short-term borrowings	43,169	49,319	60,036
Accounts payable	920	2,843	4,610
Other current liabilities	500	488	1,905
Total current liabilities	45,939	52,650	66,551
Total long-term liability	62	4,067	3,571
Share capital	1,501	5,563	5,563
Retained earnings reserve	4,696	1,786	2,832
Shareholders' equity	23,240	26,678	28,805
Minority interest	141	207	176
Total liabilities & equity	69,241	83,395	98,927

Key ratios

	12-23A	12-24E	12-25E
Growth ratios			
Gross profit growth	30.1%	13.1%	34.6%
Net profit growth	32.0%	34.2%	39.7%
Total Asset	32.6%	20.4%	18.6%
Shareholder's equity	3.8%	15.5%	8.0%
EPS growth	34.0%	5.3%	31.2%
Profitability			
Gross profit margin	66.0%	65.7%	69.2%
ROI of prop trading	6.7%	6.2%	7.7%
ROI of FVTPL	6.7%	6.4%	7.4%
ROI of AFS	-4.7%	0.5%	0.8%
ROI of HTM	7.4%	4.5%	6.3%
Margin lending yield	12.0%	8.9%	8.3%
Brokerage gross margin	12.4%	13.0%	15.7%
ROAE	10.1%	11.2%	14.9%
ROAA	3.8%	3.6%	4.5%
Solvency ratios			
Debt/Equity	1.9	1.9	2.1
Margin lending/Equity	0.7	0.7	0.8

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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.

Growth Ratings Definition:

Positive	We forecast the company to have stronger earnings growth than peers over the investment horizon.
Neutral	We forecast the company's earnings growth to be in line with peers over the investment horizon.
Negative	We forecast the company to have weaker earnings growth than peers over the investment horizon.

Value Ratings Definition:

Positive	The current share price is lower than peers on the basis of historical P/E, P/B or another ratio specified.
Neutral	The current share price is in-line with peers on the basis of historical P/E, P/B or another ratio specified.
Negative	The current share price is higher than peers on the basis of historical P/E, P/B or another ratio specified.

Sector Ratings Definition:

Overweight	Stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	Stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	Stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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