Vietnam consumer finance market

THEMATIC REPORT

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Market outlook

Although growth rate of consumer finance is slowdown due to harsh competition and stricter regulation by the authorities, we think that consumer finance companies are shifting their strategy to improve quality (higher risk management) and taking care to old customers rather than strong growth at all cost and expanding client base. Moreover, Vietnam consumer finance market is still at the early stage due to lower penertration ratio (consumer finance/GDP), so there is strong demand for new type products.

The market size of finance company has grown significantly to VN105 trillion in 2018 from VND23 trillion in 2014, presenting CAGR 31% YoY. The sector's development experienced a slowdown at 15.3% YoY growth in 2018, due to the market maturing, heightened competition and tightened supervision on consumer credit activities by the SBV.

With this market size, consumer finance penetration in Vietnam remains the lowest level (~53%) compared to its neighbor countries. The levels of household debts is currently behind peers including Thailand, Philippines, Malaysia and Indonesia. This is sign for investors that there are still room available for CF Market's growth.

In the near term, we could expect more FinCos moving to online and mobile platforms. In 2018, FE Credit, the leading FinCo in Vietnam, debuted its mobile app, which could assess and approve loans up to VND50mn within 15 minutes.

Key players

Mirae Assets and Mcredit came out strong for both near and medium-term, while FE Credit, Home Credit, HD Saison and JACCS had slowed growth after 30-40% growth for three years. FE Credit still hold its leading position with 47.3% market share in 2018, followed by Home Credit 16.9% and HD Saison 10.1%.

Consumer finance products

At the end 2018, vehicles segment accounted largest proportion 25%, followed by home appliances 20% and housing/home improvement 18%.

Housing and home improvement loans took up an extra 13% of the total loan portfolio of FinCos, taking from the percentage of Loans for other purposes categories. However, since housing and home improvement loans at FinCos are actually cash loans disbursed directly to consumers, the change does not signify a big shift in the market.

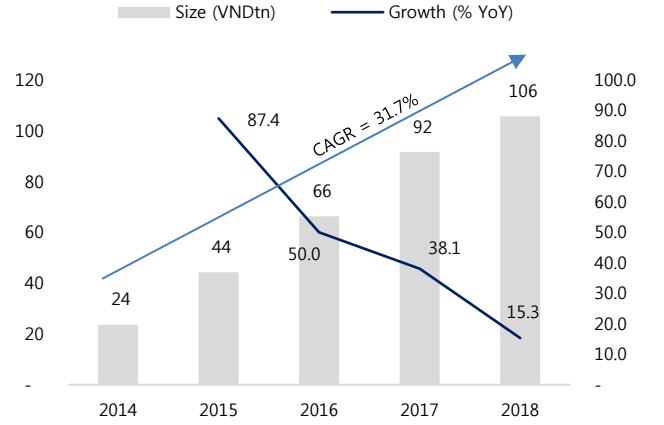
Vehicles loans increased in proportion by 6%, mostly thanks to the increase in motorbike sales. New brands appeared in all segments from both foreign and local manufacturers, in physical stores and on e-commerce platforms, incentivizing the motorbike sales.

Market outlook

One step back for two step forward

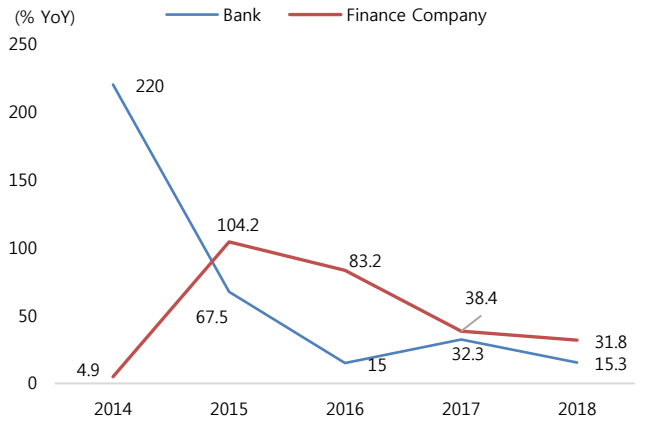
Although growth rate of consumer finance is slowdown due to harsh competition and stricter regulation by the authorities, we think that consumer finance companies are shifting their strategy to improve quality (higher risk management) and taking care to old customers rather than strong growth at all cost and expanding client base. Moreover, Vietnam consumer finance market is still at the early stage due to lower penetration ratio (consumer finance/GDP), so there is strong demand for new type products. We think that the CF market will maintain a healthy growth of 15-20% over the next 5 upcoming years.

Consumer Finance loan growth



Source: FinnPro, Shinhan Investment Corp.

Consumer loan of FinCos vs. bank growth



Source: FinnPro, Bloomberg, Shinhan Investment Corp.

Consumer finance market, which is one of the strongest driver for high credit growth in recent years, has been maturing after several years of exponential growth. In 2018, finance company loan increased its contribution to the national consumer finance book at 7.4% from 8.4% in 2017. Market size of finance company has grown significantly to VN105 trillion in 2018 from VND23 trillion in 2014, presenting a CAGR of 31% YoY.

Although the FinCos experienced strong growth in early years, finance companies could not sustain such high growth rate in 2018. The growth rate lowered to only 15.3% YoY in 2018 from 38.5% YoY in 2017, signaling a slowdown for the market players, which was mainly due to following reasons:

1) The market has maturing as it grows from a larger base, compared to very small base in the beginning.

2) The CF market is becoming much more crowded. There were only a handful of FinCos active in the consumer credit segment in 2015 while the rest were active in trade finance. By end-2018, there were 16 active and licensed FinCos, not mentioning to the rise of alternative lending and pay day loan platforms.

3) The CF players are also being constrained with SBV's tightened supervision and lack of new products. installment products have started to reach saturation, whereas cash loans are facing the SBV's restrictions. New products based on online platforms require Intermediary Payment Services licenses, which motivated partnerships between FinCos and fintech companies (such as Home Credit and Momo, the leading e-wallet service provider).

Moreover, in 2018 the SBV also limited the credit growth of 3 leading FinCo (FE, HD Saison, and Home Credit), which hold around 88% market share, for the first time. In 2019, SBV will apply the growth

rate for credit of these 3 companies at 12% YoY.

In the near-term view, we expect more FinCos moving to online and mobile platforms. In 2018, FE Credit, the leading FinCo in Vietnam, debuted its mobile app, which could assess and approve loans up to VND50mn within 15 minutes.

For production, we think that cash loan and credit card will be the key growth driver for the CF, which is similar with other regional markets.

SBV propose to tighten CF business

SBV is seeking for opinion for the new draft amending Circular No. 43/2016/TT-NHNN on regulation of CF business. The new draft is classifying the loan in FinCos in to direct and indirect loans.

For indirect loan, FinCo must disburse to sellers not to borrowers.

For in direct loan, FinCos will be able to disburse directly to borrowers. However, this cash loan must be applied to their current borrowers, who have good credit history and have not any bad debt in Credit Information Center (CIC). This also means that new borrowers, who don't have any credit information, will not be included in cash loan. Moreover, the new draft also limits the weight of cash loan total outstanding loan book at 30%.

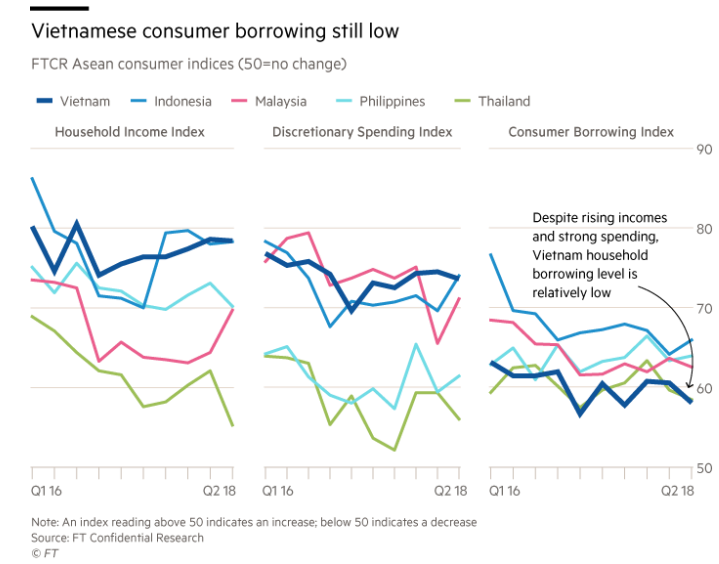
We think that the SBV shows their efforts in improving the CF business after a long-time without any strict regulation. Moreover, recently SBV also sends their messages to lower the underground credit in the market, which has a lot of issues to overall economy. The large FinCos will have to focus in improving their risk management rather than strong growth.

Vietnam consumer market is still under penertration

With this market size, consumer finance penetration in Vietnam remains the lowest level (~53%) compared to its neighbor countries. The levels of household debts is currently behind peers including Thailand, Philippines, Malaysia and Indonesia. This is sign for investors that there are still room available for CF Market's growth. Moreover, Vietnam consumer finance market is also attractive with foreign player with many M&A deals over recent years. The State Bank of Vietnam suspends to grant new licienses for CF business.

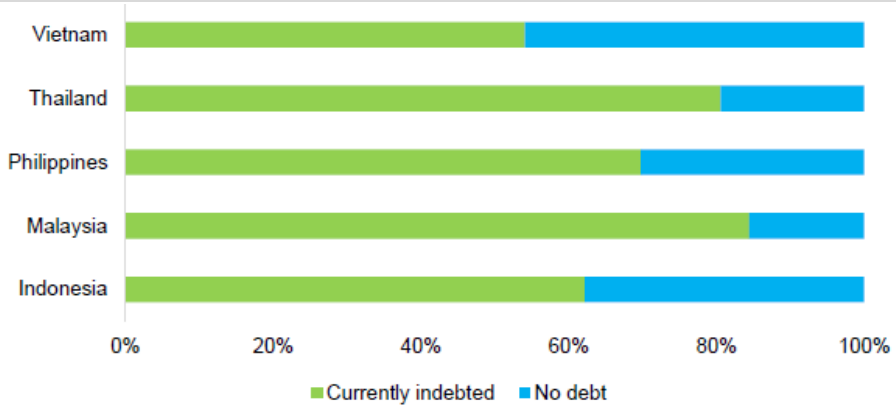
In February 2019, Srisawad Corporation Ltd. (SAWAD), one of the leading pawnshop operators in Thailand, was willing to acquire Agribank Leasing Company I (ALC I) at VND523bn. In fact, SAWAD already penertrate to Vietnam market since 2015 with 6 branches, and the company plan to restructure ALC I as its orginal business – pawnshop.

FTCR Asean Consumer Index



Source: FTCR, Bloomberg, Shinhan Investment Corp.

Consumer Loan/GDP in Asian countries, 2017



Source: FiinGroup

Key players

Mirae Assets and Mcredit came out strong for both near and medium-term due to their low base. Meanwhile, the rest old players (including FE Credit, Home Credit, HD Saison, and JACCS) had slowed growth after 30-40% growth for three years. FE Credit still hold its leading position with 47.3% market share in 2018, followed by Home Credit 16.9% and HD Saison 10.1%.

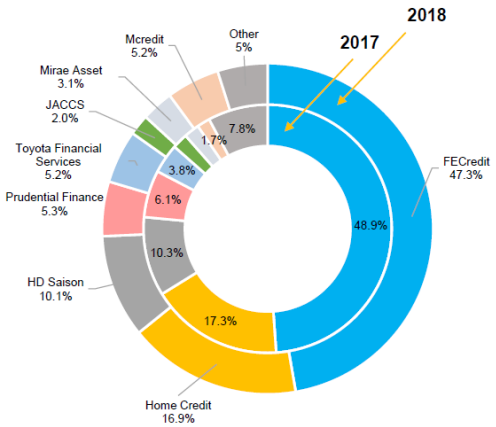
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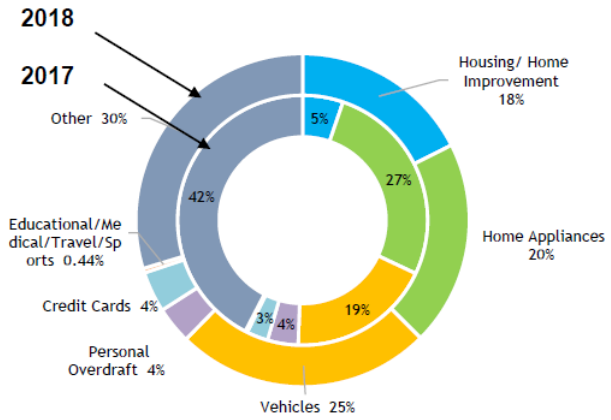
brands appeared in all segments from both foreign and local manufacturers, in physical stores and on e-commerce platforms, incentivizing the motorbike sales.

Market share by FinCos



Source: FinnPro, Shinhan Investment Corp.

Consumer Finance breakdown by products



Source: FinnPro, Shinhan Investment Corp.

Case study of regional players

According to a survey, pawnshop business is accounting for 70% of consumer finance market share in Vietnam due to low accessibility of local residence. And it may take quite a long time to get a lend from other CF in order to meet borrowers' urgent spending. Thus, many Vietnamese households without credit history and verificable are still using pawnshop and other underground lending as their main way of credit.

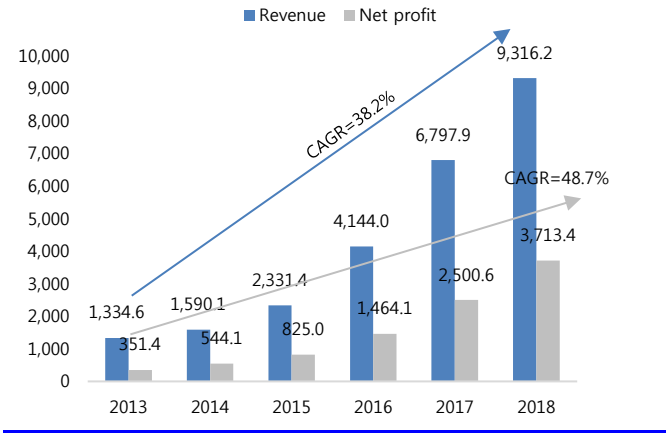
Faced with rising living costs and unable to wait until pay day, growing numbers of Southeast Asians are putting their gold jewelry and designer watches in hock, creating a boom in pawnshops across Singapore, Malaysia, Thailand and Vietnam.

Pawnshop businesses are also in flavor with investors. The share price for Singapore's MoneyMax Financial Services Ltd stands around 30% higher than its initial public offering in 2013.

The pawnshop businesses is not really deveoping in Indonesia and Malaysia due to the restriction of Muslim law. However, in Thailand the pawnshop business also exhibited stronger growth rather than other regional countries. Thailand's largest private pawnshop operator, Easy Money, has seen a 15-20 % rise in the number of customers in recent months, especially in areas near Bangkok. The company has posted an annual average growth rate of 50-60 % in the value of pawned assets since it opened in 2005. It has also more than doubled its outlets to 27 nation-wide from 12 last year, and plans to open two more next year. We see that the more branches to be opened, the higher earnings pawnshop gains.

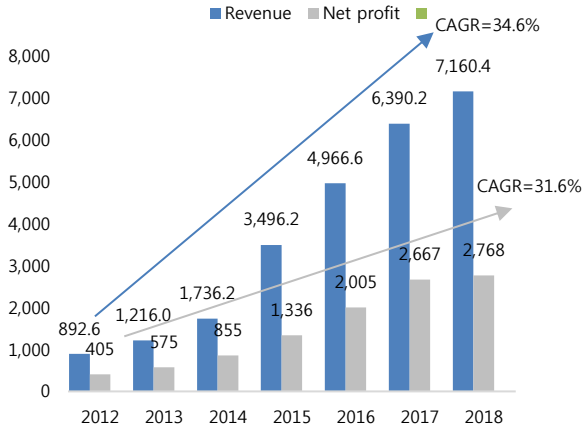
	Mkt Cap (THB bn)	5-yrs sales growth (%)	5-yrs EPS growth (%)	5-yrs Operating margin (%)	5-yr avg. ROE (%)	NPL (%)
Muangthai Capital PCL	75.79	46.49	39.9	47.89	19.13	1.4
Srisawad Corp. Plc.	65.9	57.11	14.90	51.55	38.09	4.9

Muangthai Capital PCL's earnings performance



Source: Bloomberg, Shinhan Investment Corp.

Srisawad Corp. Plc.'s earnings performance



Source: Bloomberg, Shinhan Investment Corp.

Srisawad Corp. Plc.'s share price



Source: Bloomberg, Shinhan Investment Corp.