

### BUSINESS PERFORMANCE IN Q2.2019 OVERVIEW

**Q2 business results were more positive than those in Q1, and went beyond market's expectations**

**There was a surge in the revenue growth of large cap companies, which was also the main force of growth for the whole market in Q2**

**The overall profit margin was still at a good level**

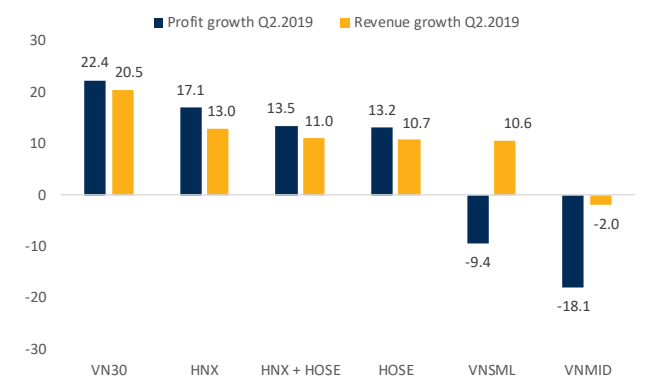
After the disappointing business results in Q1, and slowing business growth in the last two quarters of 2018, listed companies have regained their positive growth in revenue in Q2, and performed beyond expectation of the market. Of 681 companies we follow (accounting for 98.8% market capitalization on the 2 exchanges), there are 356 companies that recorded a positive revenue growth (52%). Total revenue on both exchanges increased by 11%, which also raised earnings by 13.5%.

In terms of companies listed on the HSX only, large cap company group (VN30) was the main growth force for the whole market (+22.4%), while medium and small cap groups (VNSML and VNMID) still faced to a negative growth lasting from last Q1, with decreases of 9.4% and 18.1% respectively. In particular, although small cap companies achieved a positive growth in revenue (+10.6%), their NPAT plunged (-9.4%).

In the first 6 months of the year, NPAT and revenue on both exchanges gained 5.9% and 7.7% respectively (Appendix).

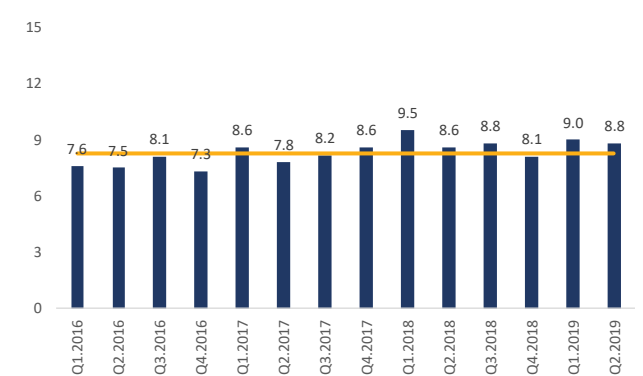
We admitted that there are still adverse impacts of petrol and electricity prices on the profit margin of an enterprise (reflected from the *Consumer goods*), but these impacts are not very obvious. Although profit margin in Q2 decreased slightly compared to that in Q1 and in the same period last year, it was above the average of 3 years.

Figure 1: Profit and revenue growth by stock group in Q2 2019 (%)



Source: Bloomberg, Fiinpro, KBSV Research

Figure 2: Profit margin of the two exchanges by quarter (%)

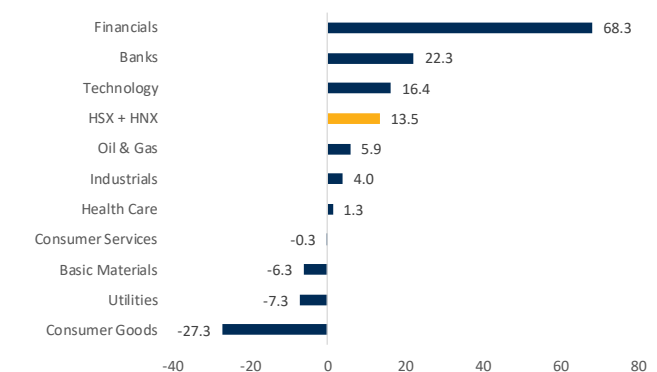


Source: Bloomberg, Fiinpro, KBSV Research

The sectors that saw a positive revenue growth outnumbered the sectors that saw a negative revenue growth

Considering the movements of 10 sectors that we followed, there are 6 sectors that witnessed a positive growth in revenue. *Financials* (+68.3% - mainly contributed by *Real estate*) and *Banking* (+22.3%) are the two leading sectors. Meanwhile, there are 3 sectors recording a fall in revenue YoY, especially *Consumer goods* (-27.3%) and *Utilities* (-7.3%). *Consumer services* stayed flat.

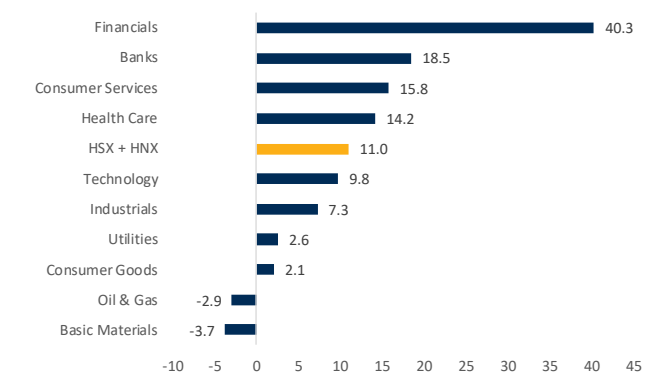
Figure 3: NPAT growth on the 2 exchanges in Q2 2019 (%)



Source: Bloomberg, Fiinpro, KBSV Research; Classification based on ICB

Note: Due to the large scale and influence, for the level 1 classification system, we separated the Banking industry from the Financials sector while retaining the Real estate industry.

Figure 4: Revenue growth on the 2 exchanges in Q2 2019 (%)



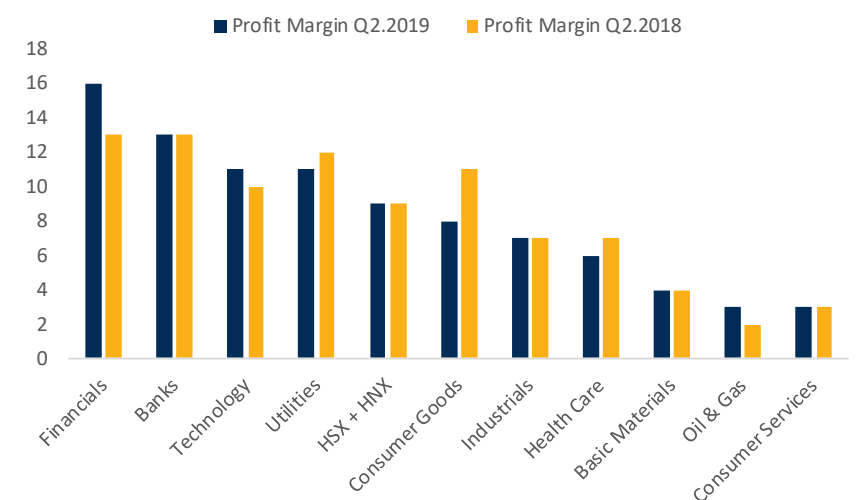
Source: Bloomberg, Fiinpro, KBSV Research; Classification based on ICB

Note: Due to the large scale and influence, for the level 1 classification system, we separated the Banking industry from the Financials sector while retaining the Real estate industry.

**Profit margin of Financials skyrocketed and also witnessed the highest increase among 10 sectors that we follow**

Considering the profit margin of each sector, profit margin on both exchanges saw no significant changes compared to that in Q2 2018. However, there are some remarkable signs such as: *Financials* – the sector that saw the highest profit margin – also recorded a high increase in profit margin compared to Q2/2018. In contrast, it can be seen that there was a decrease in profit margin of *Consumer goods*, *Utilities*, and *Health Care*.

Figure 5: Profit margin by sector (%)



Source: Fiinpro, Bloomberg, KBSV Research

## BUSINESS PERFORMANCE IN Q2 IN SOME PARTICULAR SECTORS

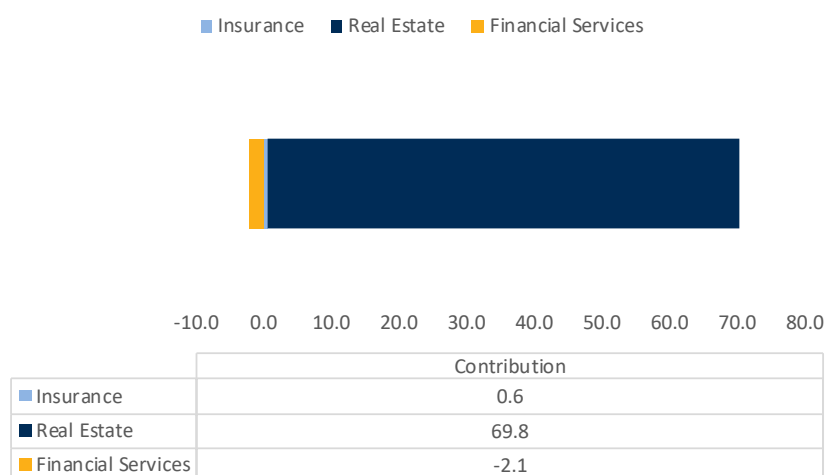
**Real estate was the highlight in the Q2**

1. **Financials** was the leading sector in terms of revenue and profit growth in Q2, with increases of 40.3% and 68.3% respectively. Regarding segments, *Real estate* had an impressive rebound (climbing 84.3% YoY); *Insurance* still maintained a stable growth (+9.5% YoY), while *Financial services* (securities companies and funds) fell -19.5% YoY.

Regarding stock tickers, Vingroup stocks, including VIC and VHM, was the main force for the whole sector's growth. If there were not thanks to these two shares, profit growth of *Real estate* and the whole *Financials* sector would reduce to 31% and 17% respectively.

For *Real estate* industry, the recovery in profit after a decrease of roughly 13% in Q1 mainly came from some leading enterprises in the sector which handed over their products in large projects, and recorded extraordinary profit in Q2 over the same period last year. For *Financial services*, the drop in liquidity of the stock market has a big impact on the revenue from brokerage and margin lending activities of securities companies, thereby negatively affecting the profit of this segment.

Figure 6: Contribution into the growth of Financials sector in Q2 2019 (%)



Source: KBSV Research

## The Banking industry still maintained positive results in Q2, led by VCB shares

2. The picture of **Banking** industry was still positive, with a revenue growth reaching 22.3%, achieved by most of banking stocks (10/14 shares). Meanwhile, VCB was the pioneer – recorded an impressive growth of 48.9%, and added 9.4 percentage points to the overall growth of the Banking industry.

The overall growth of the whole banking industry came from the 7.33% increase of positive credit in the first 6 months of the year, approximately equal to the increase of 2018. Many banks have soon reached the maximum room for credit growth, and are waiting for SBV permission for further room extension. In addition, many banks showed their efficiency in exploiting the service sector - with an average contribution of 15-30% to the bank's total profit.

3. **Information technology** ranked 3<sup>rd</sup> with a growth of +16.4%. Nevertheless, the growth only focused on some separate shares, while most of companies in this industry recorded a negative growth (12/17 shares). Considering each share, FPT shares continued to have a good profit growth (+30% YoY) and became the main force of growth for the whole industry.

## Consumer goods industry witnessed a reversal of profit growth in the Q2

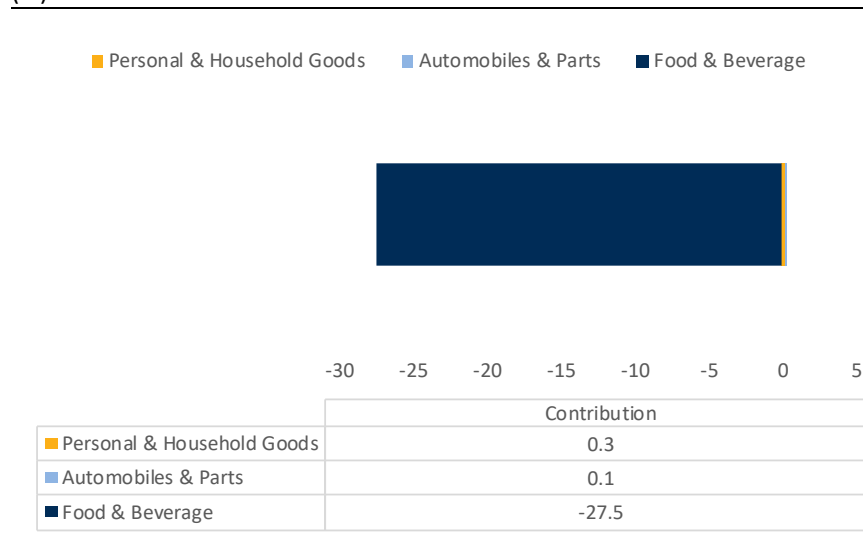
4. In contrast, **Consumer goods** saw a reversal in profit growth – from a positive growth in Q1 to the worst performers in Q2 with a decrease of 27.3%. Considering segments, *Food and beverage* was the main reason with a drop of -31%; *Automobiles and parts* also reduced slightly by -2.1%, while *Personal & household goods* only increased slightly by 2.9%

In terms of stock tickers, MSN-50% unexpected drop was the main reason

leading to the general decline of the whole industry. Masan explained the decrease by more than a half in net profit in the Q2/2019. The reason is that in the second quarter of 2018, this enterprise had a financial income of VND 1,472 billion from assuming a partial sale of the Bank's ownership in Techcombank (TCB) when TCB issued treasury shares at higher prices than the book value Masan owned. If the above one-off financial income were excluded, the company still recorded an increase in net profit in Q2/2019, up by 29% YoY because of increased profits in its subsidiaries.

However, some large enterprises operating in *Food & beverage* still announced a positive profit growth like VNM with +8% profit growth and SAB with +19% profit growth. In addition, although pangasius export turnover of Vietnam has continuously declined in the first 6 months, thanks to increasing export volume and diversifying business activities, many listed pangasius enterprises also reached a positive profit growth, such as VHC and AVN with 19% and 30% increase respectively.

Figure 7: Contribution to the profit growth of Consumer goods in Q2 2019 (%)



Source: KBSV Research

**5. Utilities** recorded a negative growth when profit growth fell 7.3%. In terms of shares, PCC, GAS, and VSH brought the profit of the whole sector down.

**6. Materials** still had difficulties in business activities as profit growth of this sector went down by -6.3%. Considering segments, *Chemicals* tumbled -19%, and *Basic resources* lost -1.1%.

In terms of shares, POM, DPM, and HPG were the main reason leading to the plunge in profit growth of the whole sector.

The small segment *Steel and steel products* may be the subject to the strongest pressure from domestic competition and increasing export and production costs.



## 2019 BUSINESS RESULT OUTLOOK

Although there are improvements noted, we still assess the business performance in 2019 in a prudent way. In particular, we have found some potential risks as follows:

- (i) *Real estate segment* may still face many obstacles due to tightened real estate credit at many banks (short and mid-term loan capital decreased from 45% to 40%, and credit risk ratio for real estate loans increased from 150% to 200%), which triggered some difficulties in financing of real estate companies. Therefore, we keep a neutral viewpoint on the growth of this segment in the 2H of this year.
- (ii) Production cost will be under a great pressure from the surge in prices of petrol, oil, and coal this year. In addition, the increase of electricity in Q1 will also add more pressure on enterprises, especially ones that use a large volume of electricity power such as steel, garment and cement companies.
- (iii) The target of banking credit growth is lower than those in previous years – at 14%, and the tightening of credit for risky areas will create obstacles for banks to achieve a high growth rate, although we are still positive about the business performance of the whole sector.

We have noted difficulties in increasing credit at some large state-owned banks, including Agribank, BIDV, and Vietinbank, because of obstacles in increasing capital to meet CAR requirements.

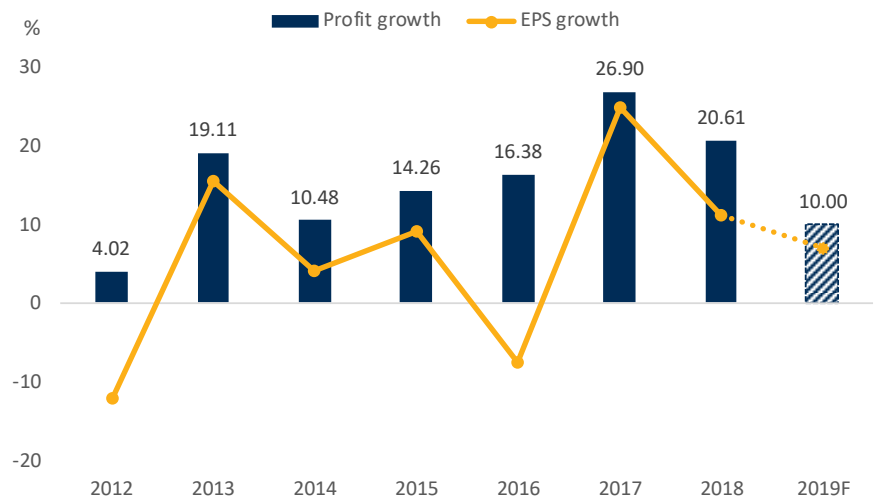
Furthermore, the correction of lending interest rates down by 0.5% per year for enterprises in priority business areas in some large banks (Vietcombank, BIDV, Vietinbank, Agribank, and Techcombank) will somewhat affect NIM of these banks in the last 6 months of the years.

- (iv) Fierce competition with exported goods from China due to a strong depreciation of CNY and Chinese goods seeking alternative market when taxed by the US.

**We estimate that profit growth of enterprises on the VN-Index and EPS growth will go down to 10% and 7% respectively**

About the profit growth forecast of companies on the 2 exchanges in 2019, we have a cautious but not too pessimistic viewpoint. Domestic and international macroeconomic conditions are not as favorable as in previous years for the expansion of production and business activities of enterprises. However, with the forecast that Vietnam economic growth in 2019 will remain at a high level (6.6% -6.8%), the macro indicators will remain stable (average inflation falls below 4%; the exchange rates lose 2% - 2.5%), combined with the forecast of growth of VN30, profit growth of businesses on 2 exchanges is forecast to go up 11% for 2019 (lower than 13% - 15% in 2015 - 2016). For HSX, we estimate profit growth will decrease to **10%** and EPS growth went down to **7%** YoY.

Figure 8: Profit growth on the HSX and EPS growth of VN-Index



Source: Bloomberg; KBSV Research

## BUSINESS PERFORMANCE HIGHLIGHTS: BANKING INDUSTRY

### **Profit growth slowed in 2019 due to the absence of extraordinary profits:**

In 2018, the Banking industry record a surge in profit growth due to the significant contribution from irregular activities: 1) Interest from one-off insurance contracts; 2) Recognition of bond interests, take advantage of low interest rate conditions; 3) Recognition of divestment interests from the regulations on cross-ownership reduction in the banking system. In 6M2019, 6M2019's EBT of 17 listed banks grew by 18% Yoy, much lower than the growth rate of over 50% in the same period last year.

### **Credit growth was tightened in some state-owned commercial joint stock banks (CJSB), private CJSBs still recorded a stable credit growth:**

Customer credit growth in 1H 2018 reached 8.22%, lower than the 9.2% increase of the same period last year. This is also suitable to the target credit growth at 14% set by the SBV. Customer deposit growth also slowed, just gained 7.42%, lower than 10.2% in the same period last year. However, if there were no influence from the three state-owned CJSBs (BID, CTG, and VCB), the group of remaining 14 banks reached a credit and deposit growth at 10.5% and 9.01% respectively, higher than the relevant figures recorded in 2018.

### **The pressure from mobilization capital and terms resulted in a surge in the mobilization proportion from valuable papers:**

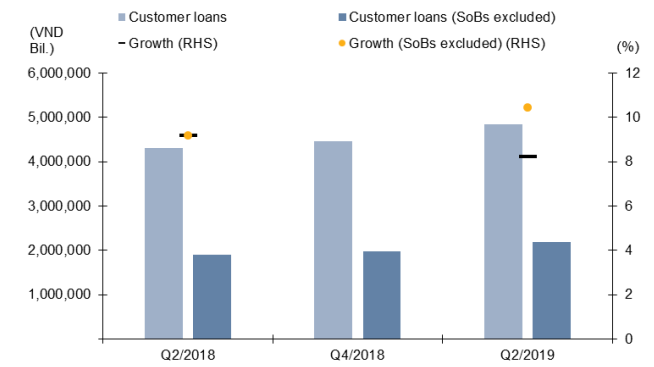
Additionally, in terms of mobilization, there was a shift to bonds, with an increase of 26.4% YTD and 21.4% YoY. This trend showed the pressure of Circular No.06 regulations on reducing the proportion of short and mid-term lending capital from 45% to 40% since the beginning of 2019, and raising mobilization of secondary capital to meet requirements about CARs which are quite low in some banks.

### **NPLs are still under control, but the pressure will increase in the near future, especially when interest rates are under pressure of increasing:**

NPLs tended to increase slightly compared to the end of 2018 when NPLs rose from 1.61% to 1.68%, group 2 debt/customer loans increased from 1.4% to 1.49%. The strong shift to retail lending is still the main reason for this increase. The structure of interest-earning assets of the bank has been

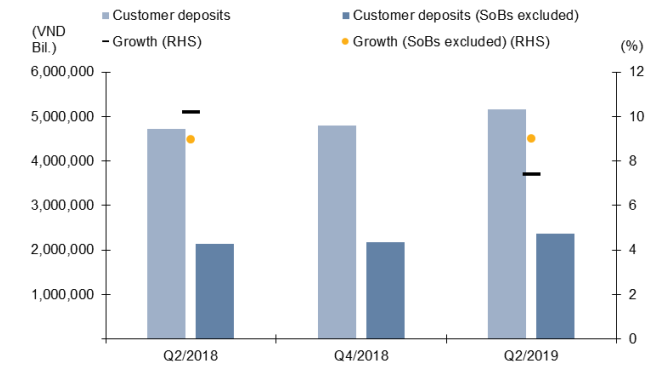
strongly shifted in the last 3 years with 2 main trends: 1) Increasing the proportion of retail lending, increasing the average interest rate and term; 2) Increase the proportion of bonds of credit institutions and corporate bonds. This is an important force for the bank's profit growth over the past time, but it will also create pressure on the quality of the entire system in the coming time, especially in the increasing interest rate environment.

Figure 9: Customer credit



Source: KBSV Research

Figure 10: Customer deposits



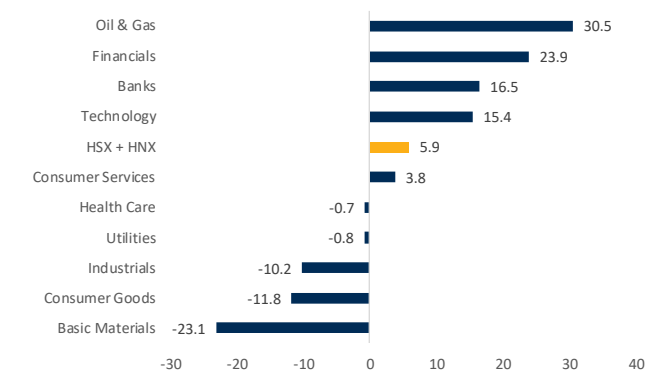
Source: KBSV Research

Nguyen Manh Dung – Banking Analyst

dungnm@kbsec.com.vn

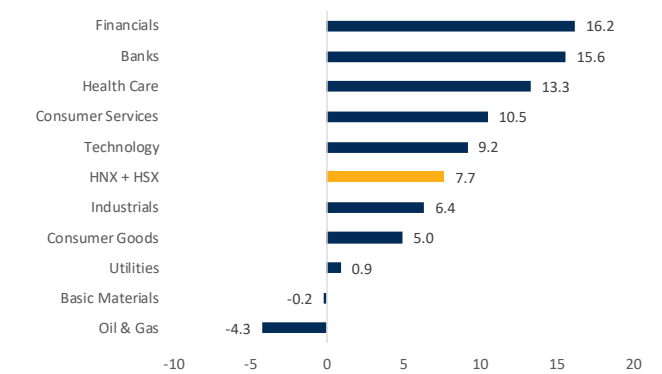
## APPENDIX

Figure 11: NPAT growth on the 2 exchanges in 1H 2019 (%)



Source: Bloomberg, Fiinpro, KBSV Research

Figure 12: Revenue growth on the 2 exchanges in 1H 2019 (%)



Source: Bloomberg, Fiinpro, KBSV Research

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**KB SECURITIES VIETNAM (KBSV)****Head Office:**

Floor G, 2&7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam.  
Tel: (+84) 24 7303 5333 - Fax: (+84) 24 3776 5928

**Hanoi Branch**

Floor 1, VP Tower, 5 Dien Bien Phu Street, Ba Dinh District, Hanoi, Vietnam  
Tel: (+84) 24 3776 5929 - Fax: (+84) 24 3822 3131

**Saigon Branch**

Floor 1, Saigon Trade Center, 37 Ton Duc Thang Street, Ben Nghe Ward, District 1, HCMC, Vietnam  
Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

**Ho Chi Minh Branch**

Floor 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam  
Tel: (+84) 28 7303 5333 - Fax: (+84) 28 3914 1969

**CONTACT INFORMATION**

**Institutional Client Center:** (+84) 28 7303 5333 - Ext: 2656

**Private Customer Care Center:** (+84) 24 7303 5333 - Ext: 2276

**Hotmail:** [ccc@kbsec.com.vn](mailto:ccc@kbsec.com.vn)

**Website:** [www.kbsec.com.vn](http://www.kbsec.com.vn)