

Vietnamese Stock Market: 1H2018 REVIEW AND 2H2018 OUTLOOK

From the Best to the Worst and Still Pain but Gain at the end of the Year

EXECUTIVE SUMMARY

Key economic variables in 1H2018 look good

- **GDP:** In 1H2018, GDP growth reached 7.1%, marked as the highest level since 2011.
- **FDI:** During 1H2018, FDI disbursement reached US\$8.4bn, +8.4% yoy, while FDI commitment accumulated to US\$16.2bn, -4.4% yoy.
- **Inflation rate:** 1H2018 (ending June 2018) inflation advanced 4.7% yoy and up 2.2% YTD.
- **Trade surplus:** The trade balance posted surplus status. In 6 months of 2018, export turnover achieved US\$113.9bn (+16.0% yoy) while import turnover moved up by 10% yoy to US\$111.2bn, brought the surplus amount to US\$2.7bn in 1H2018,
- **Credit growth:** The year-to-date growth of credit was just 6.4%, in compared with 2017's 7.5%
- **Forex market:** The central rate of US dollar exchange rate on July 13th, 2018 was at VND23,100/USD. Forex reserve surged to US\$63.5bn.

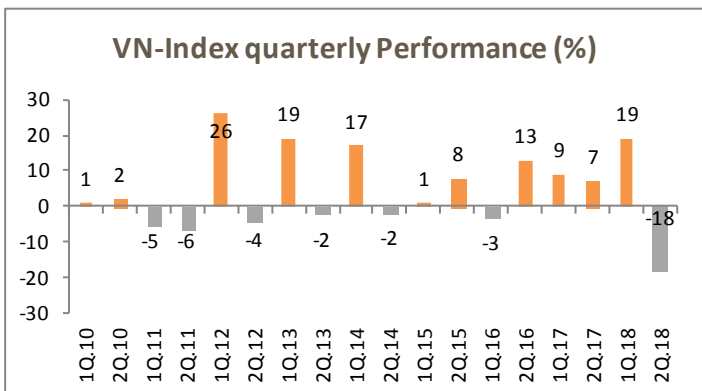
Stock market saw huge volatilities – The stock market started 2018 at a strong note with 19% increase of main index for 1Q2018. However it was sharp correction with 18% drop in 2Q2018 and erased all the gains. Which was made Vietnam stock market from the best in 1Q to the worse performance in 2Q.18 over global equity markets.

Panic market maps out new investment opportunities for 2H2018

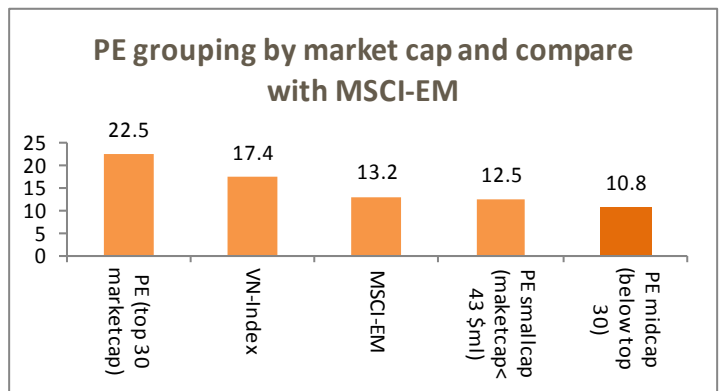
New risks arising and will continue to negative affect the stock market in the coming time: (1) Trade tensions among major economies, (2) Inflation is on the rise due to the impact of rising oil price, and (3) USD/VND exchange rate increases due to stronger USD.

Buying opportunities may occur once the stock market goes into turmoil and PER returns to the attractive level around 14.5 times or as cheap as possible.

Panic market also maps out new investment opportunities for mid cap stocks having PERs below 10x and stocks of Industrial manufacturing sector, retail sector or F&B sector.



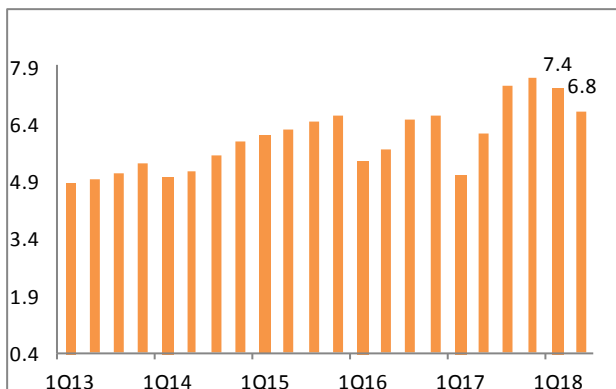
Source: Bloomberg, HOSE, HNX



Source: Bloomberg, trailing latest 4 quarters

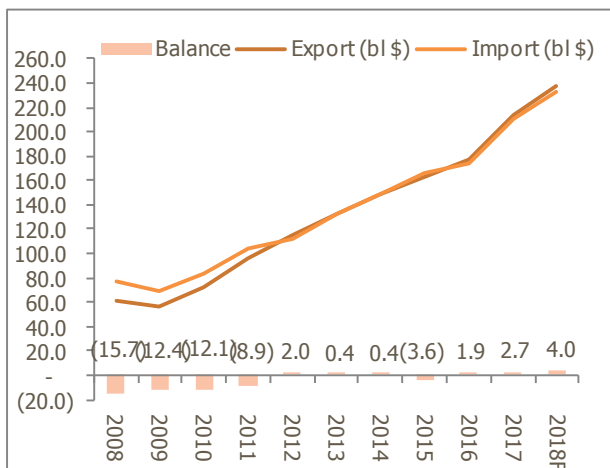


GDP growth quarterly (%)



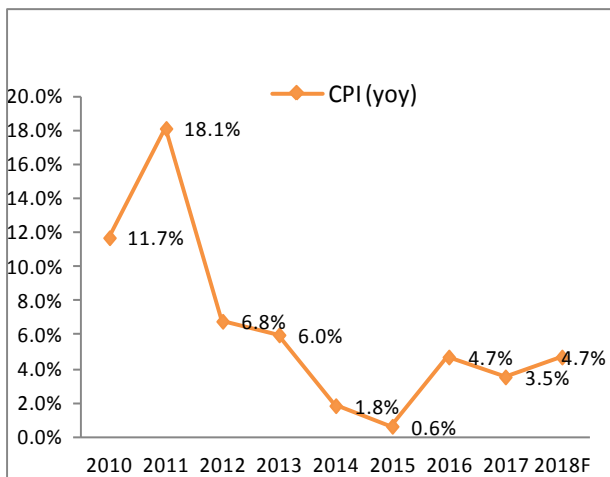
Source: GSO

Trade balance (2008-2018F)



Source: GSO, KBSV forecast

Inflation and lending rate 2010-2018F



Source: GSO, KBSV forecast

Economic Highlights in 1H2018 and Outlook 2H2018

- 1H2018 GDP rose 7.1% yoy, grew at its fastest first-half pace since 2011, easily achievable full year target of 6.7%.
- Vietnam remained an attractive destination for foreign investors with total FDI rose of 8.4% yoy to US\$8.4bn.
- Trade surplus of US\$2.7bn.
- Vietnam's exports maintain upward trend over the past decade.
- Vietnam's foreign exchange reserves grew to a record high of almost US\$63.5bn.
- The forex rates remain volatile on the back of high US bond yields.

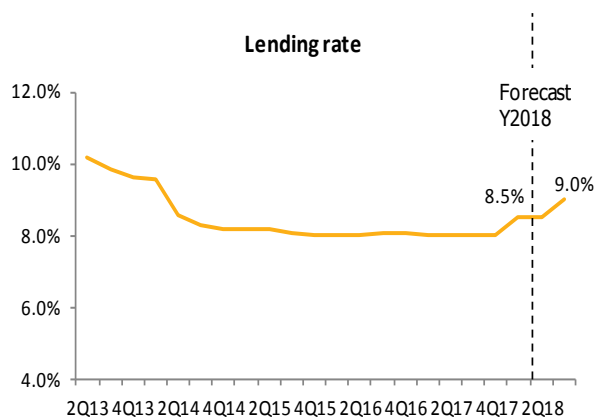
GDP recorded a growth of 7.1% yoy in the first half of 2018. Contributing most to the common growth, industrial production and construction sector posted the highest rate of 9.1% yoy. Meanwhile, service sector expanded 6.9% yoy while agriculture-forestry-aquaculture sector fell by 3.9% yoy. With this result, the full year official growth target of 6.7% seems possible.

The disbursement of foreign direct investment (FDI) considerably increased 8.4% yoy to US\$8.4bn in the six months, reported by FIA Vietnam. During 1H2018, foreign investors have registered for 1,366 new projects worth US\$11.8bn. Total newly and additionally registered capital and M&A capital from foreign investors was US\$20.3bn, up 5.7% yoy. Manufacturing and processing sector took the lead with total pledged capital of US\$7.9bn, representing 38.9% of the total pledged investments, followed by real estate with 27.3% and retails with 7.4%. Japan investors stayed at the top position, contributed 31.8% of total investment capital, followed by Korea and Singaporean investors.

Vietnam was estimated trade surplus of US\$2.7bn. The foreign sector posted a US\$15.7bn surplus for the six-month period while the domestic sector registered a US\$12.9bn deficit. Export turnover reached US\$113.9bn, +16.0% yoy, on considerable shipment of telephones and spare parts (US\$22.5.1bn, +15.4%); electronics, computers and components (US\$13.4bn, +15.7%). Meanwhile, import slowed rose 10.0% yoy to generate US\$111.2bn on strong shipments of electronic goods, computers and their parts (US\$19.7bn, +14.3%) during first half of 2018.

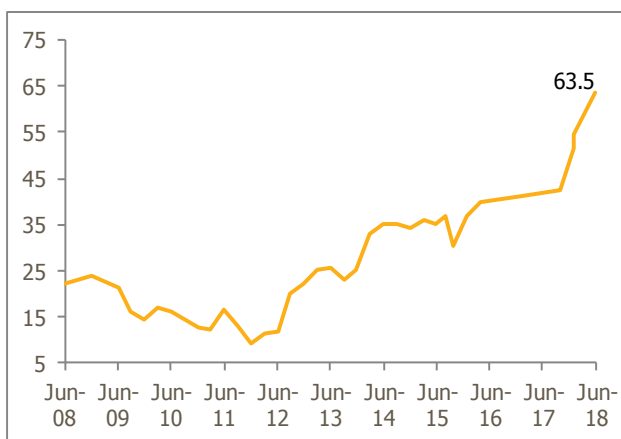
Vietnam's consumer price index (CPI) in June estimates to rise by 0.6% mom, up 4.7% yoy and up 2.2% YTD. The highest June increase recorded over the last seven years. The index hike was significantly driven by medicaments and health service (+19.5%yoy), Education (+7.1%) and transportation (+5.7%). The National Financial Supervisory Commission (NFSC) targeted 2018 inflation projection around 4.0%. However, there will be many factors piling pressure to the target rate such as higher fees of health and education services, natural disasters, poor crops and the volatile exchange rate.

Lending rate 2013-2018F



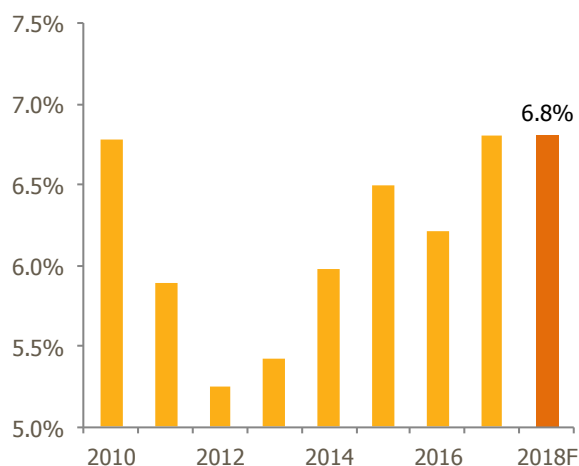
Source: SBV, KBSV forecast

Forex Reserve (US\$ billion)



Source: SBV, MPI, GSO

GDP growth and forecast 2010A-2018F



Source: GSO, KBSV forecast

Retail sales of goods and services recorded to VND2,121trn (US\$92.2bln) in 1H2018, an increase of 11.7% yoy or 8.3% in real-term. Trade sector, accounting for 75.3% of total revenues, surged 11.3% yoy to VND1,597.3trn (US\$69.4bln). Hotel and restaurant industry stepped up 9.6% yoy and services reported 9.2% yoy expansion while tourism segment saw a rise of 7.3% yoy.

Vietnam's index of industrial production (IIP) was estimated to increase by 10.5% yoy in 1H2018. In which, processing and manufacturing sector reported a be the spotlight growth by 12.7% yoy; production and distribution of electricity sector jumped 10.4% yoy; water supply, sewage, waste management rose by 6.7% yoy but the mining sector failed 1.3% yoy.

Interest Rates and Forex Update

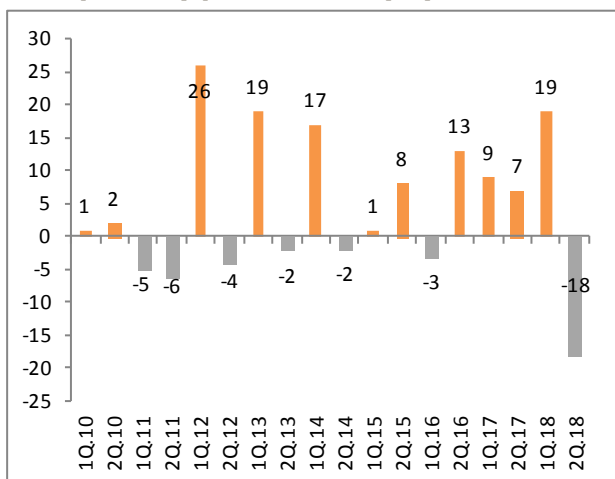
As of June 20, 2018, total means of payment increased 8.0% YTD and deposits gained 7.8% YTD. In 1H2018, refinancing rate and discount rate maintained at 6.3% and 4.3%, respectively. Lending interest rates slightly declined by 0.5% YTD. Credit growth has gone up by 6.4% YTD, on track with 2018 target of 17%. The credit structure continues to focus on priority areas, and tight controls real estate loans, consumer loans from financial firms to ensure the safety of banking operations.

Since June 2018, the exchange rates have been on an upward trend. By July 11, it was 1.8% higher than that of the end of 2017, due to 1) the USD interest rate in the inter-bank market was up in line with the upward trend of the interest rate in the international market, while the VND interest rates in the inter-bank market were still at a low level. 2) factors such as sharp decreases in the stock market indexes in some sessions and the appreciation of the USD in the world market. The average central rate was around VND23,100 per US dollar. As the end of June 2018, the national foreign exchange reserves hit a record US\$63.5bln, thanks to the favorable factors in the domestic and international markets, such as surplus trade balance, the FDI disbursement.

Economic Outlook 2H2018

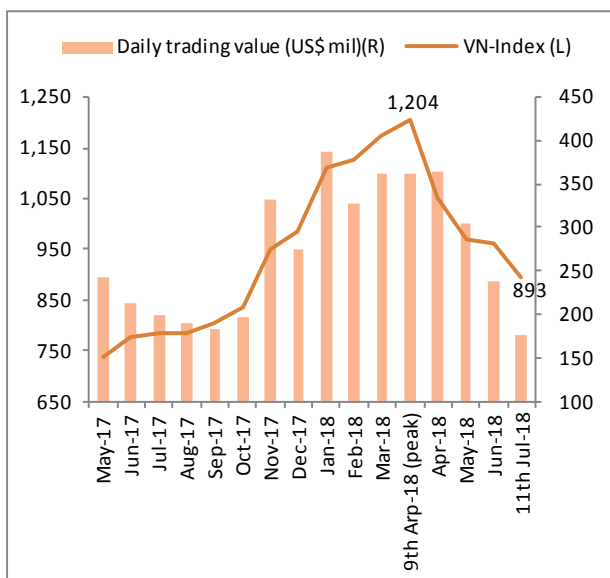
- **Vietnam economy is expected to continue in 2018 with pace around 6.7%-6.8%**, mainly attributed by these factors: (1) the stronger momentum from private sector; (2) more creative and qualitative reforms from domestic companies, (3) the rise of quality-intensified management style; (4) refocusing the capital flow to manufacturing and valued-added sectors.
- **We forecast that export and import value will continue to grow at 10.8% YoY in 2018 with a surplus**, including an increase of 11% YoY for export to US\$237.3bn and 10.5% YoY for import to US\$233.3bn.
- **We expect 2018 FDI disbursement value targeted at US\$18.5bn, increases 5.0% YoY.**

VNI quarterly performance (%)



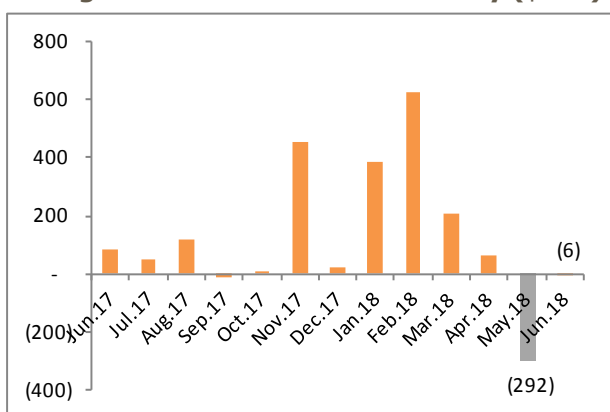
Source: Bloomberg, HOSE, HNX

Average daily trading value vs VN-index



Source: HOSE, HNX

Foreign investors' cash flow monthly (\$ mn)



Source: Bloomberg, HOSE, HNX

STOCK MARKET– FROM THE BEST TO THE WORST

Vietnamese stock market witnessed a stellar 2017 and 1Q2018 where the VN Index rallied 48% and 19.3% respectively. Stock market in 1Q2018 maintained the bull trend with the main index posting a rise of 19.3% compared to end of 2017. Liquidity reached high in January when the average daily trading value recorded at US\$387mn per session, Market liquidity in February and March cooled somewhat but maintained strong with US\$327mn and US\$361mn per session, respectively.

Boosted by strong performance of financial stocks, April kicked off 2Q2018 with excited sentiment and healthy liquidity, VN Index set its all-time high at 1,204 points in April 09, 2018 while liquidity remained at US\$364mn per session. However, the rest of 2Q2018 marked the largest equity market declines since 2011. In shorter than 2 months, all fruits of 2018 were wiped out from the market as the main index deeply corrected. Obviously correlated with index, average trading value on HOSE slumped deeply in May and June to US\$305mn and US\$238mn, respectively. Worse, the bull-trap sessions repeatedly happened in the market, luring more investors to buy and creating more chaos when the index continued to be lower afterwards.

Foreign investors burdened the whole market's sentiment by their unfavorable trading activity. In fact, they acted as the net sellers in the market late April, May and June with the net selling value of US\$232mn in Q2.2018 (excluding put-through transaction of VHM). Under those circumstances, Vietnamese market shared the same situation with other emerging markets in suffering the foreign capital outflows.

Tracking to the historical statistics, Vietnamese stock market has never experienced such the huge fluctuations as in the past 3 months. We believed that these volatilities were driven by emerging risk factors in global markets as well as risks originating from local macro economy:

- Trade tension among big economies
- Inflation is on the rise due to the impact of recovering oil price
- USD/VND exchange rate increases due to stronger USD
- Shrinking liquidity
- Net foreign investors cash outflows
- Slow state's divestment activities
- Lower leverage of domestic investors as brokerage firms have tightened lending rate

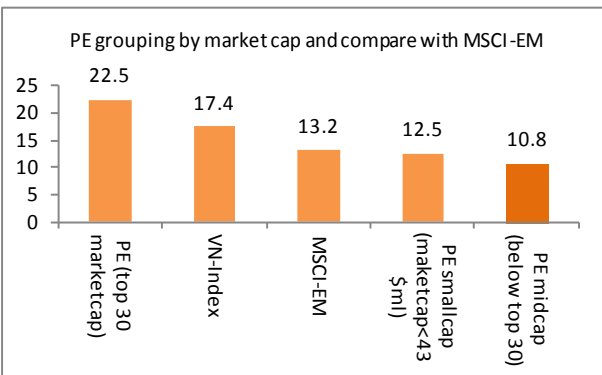
Weighed down by above factors, we forecast the VN Index continuing downwards to below 900 points or corresponding to the P/E level of around 14-15 times.

Valuations are fair but expectation of higher profits growth are maintained.

PE ratio of VN-Index at 9th April 2018 has increased to 23 times, this is the highest level in statistics over the past 10 years of this index and is trending toward the all-time high of 2007 when the PE reached 24 times.

Currently, PE trailing four latest quarter of the VN-Index fluctuated around 18 times, after peaked to the record high at 23 times in mid-April. In less than 3 months, the main index quickly lost 25% of value and its P/E ratio dropped to 17x.

At this valuation in term PER around 17 times (yellow line), it is at an average level relative to that of other similarly equity marketed countries but is still more expensive than MSCI-EM's PER at 13 times (violet line). (source Bloomberg)

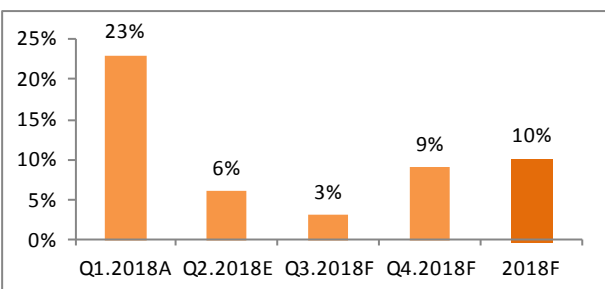


Source: Bloomberg, trailing latest 4 quarters

Although the overall market is trading at P/E of 17x, some mid-cap stocks PER is around 11 times, even some stocks are trading at PERs of lower 8 times, which are very cheap.

- The group of 30 largest market cap stocks represented 80% of market capitalization, with an average PE of 23x, while the valuation of mid cap stocks (which from US\$43 mn to US\$560mn) is only 11x, less than half of the common valuation of the market and large cap stocks. Hence, we believe that the mid cap stocks are still cheap and investors are expected to gain good profit from these groups of stocks.
- In addition, as our forecasting the earning of these mid cap stocks may increase by 20% -30% in 2018.

Earning growth by quarterly and forecast whole year 2018



Source: Bloomberg, KBSV forecast

Listed companies' earning outlook 2018

Thanks mainly to the banking sector, the Q12018 earnings of listed companies posted positive growth of 23% y/y.

We forecast Q2.18 earnings will be around 6% thanks to a major contribution from manufacturing, retail and also banking sector.

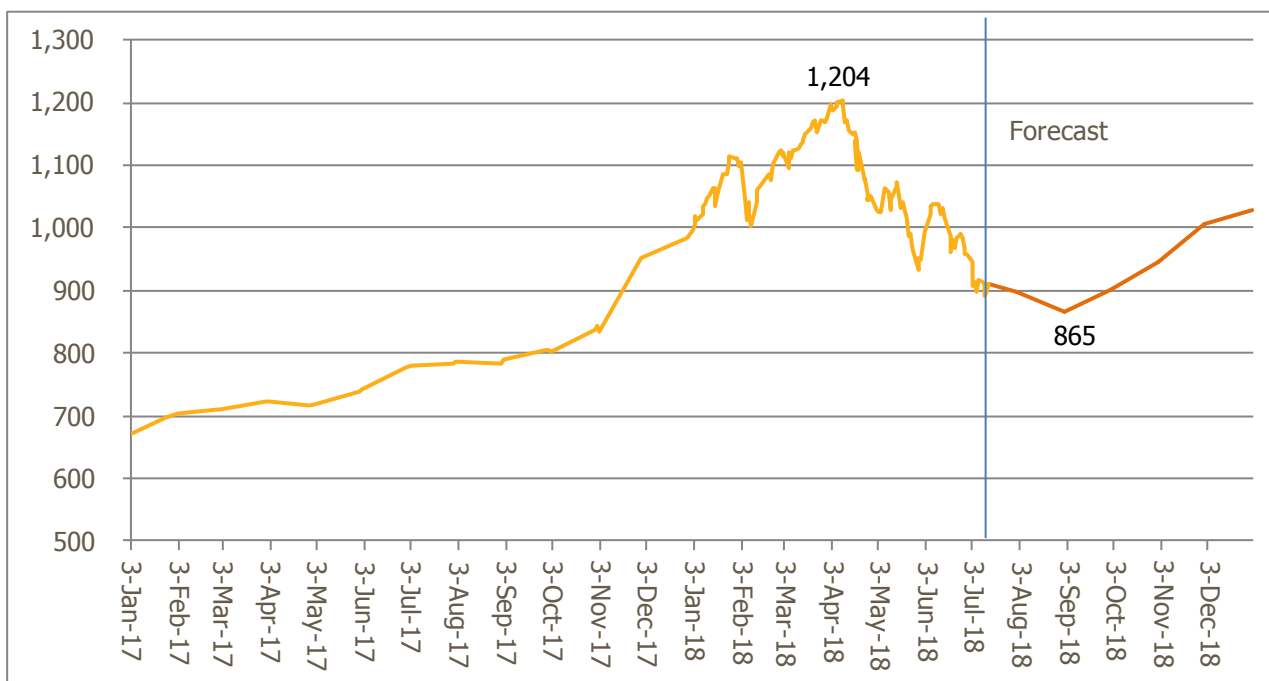
Although forecast for 2018 earnings of listed companies may increase by 10% y/y, but the growth rate by quarterly may fall gradually in Q2 and Q3 due to the impact of rising input costs driven by the increasing price of oil and fuel and transportation costs affect.

Although some of materials input price increasing, but for whole year 2018 we expect the bottom lines grow around 10% y/y thanks to contribution from banking sector, manufacturing and retails.

For 2H2018, we see the stock market still in danger and keeping downtrend in short term but basing on the strong fundamental, the market may be positive for long term and gain at the end of the year 2018.

- According to statistics after the financial crisis in 2007-2008, **Vietnam stock market has never had huge fluctuations during 1H2018, especially as in the past two months.** We judge that these fluctuations were adversely affected by the emerging risk factors in the international financial market and had the strong impact on the Vietnamese market, which has grown sharply from 2017 to Q1. 2018. With the remarkable growth of the market in 2017, the VN Index for the first time exceeded 900 points in the past 10 years and ongoing to the record level of 1,171 points that the VN-Index achieved in March 2007 and then peaked of 1,204 points at 9th April. After that, the stock market sharply dropped 25% from the peak, and currently it is ups and downs at 900 points.
- **New risks arising and will continue to negative affect the stock market in the coming time:**
 - (1) Trade tensions among major economies may have a long-term hurt on Vietnam's exports,
 - (2) Inflation is on the rise due to the impact of rising oil price,
 - (3) USD/VND exchange rate increases due to stronger USD and depreciated regional currencies,
 - (4) Liquidity significant decreases,
 - (5) Net foreign investors' cash outflows, Therefore, we forecast the market will develop under the bad scenarios in Q3.2018.
- **Given these risks and adverse effects, we forecast the VN-Index will correct below 900 points or the lowest at 865 points in the worst case, corresponding to the PE of around 14-15 times.**
- Thanks to strong fundamental both in macro economy and corporate, once the market corrects for a low and cheap valuation at PER below 14.5 times, while no new risks arise, we expect the market to trigger buying opportunities and help the market stay stable and growing again in Q4 or late 2018.
- Under this scenario, **we expect the VN Index could reverse for uptrend late 2018, then closes above 1,000 points at the end of this year, higher than its ending of the year 2017 at 984 points.**

VN-Index is forecasted movement 2H2018



Source: HOSE, KBSV forecast

Ticker (market cap grouping) Sector	PE Trailing (Fwd) (x)	Entry price (VND)(as cheap as possible)	Target price (VND)	Highlights
VNM (Top 30) F&B sector	24.5 (25)	160,000	195,000	<p>The leading and pioneer company in dairy industry with domestic market share of 56%.</p> <p>Revenue and Profit are expected to increase at a rate of 5% and 1%, respectively in 2018.</p> <p>VNM is always a favorable stock for investors as the company always shows a stable growth and a efficient and transparent management ability.</p>
PLX (Top 30) Retail sector	18.5 (18)	54,000	70,000	<p>PLX is the largest company in the field of petroleum distribution, accounting for over 50% of the country market share</p> <p>PLX is at an advantages of nationwide distribution system in convenient locations for vehicles, which is easily expandable.</p> <p>As plan, the state is likely to reduce the ownership capital, which will positively affect the share price in 2018.</p> <p>Forecasted revenue and profit in 2018 will maintain stable growth of 20% and 2%. Valuations are also attractive compared to other large cap stocks.</p>
HPG (Top 30) Industrial Manufacturing- steel sector	9.1 (8.5)	34,000	50,000	<p>The steelmaker had the largest market share, with construction steel's market share of 24% and steel pipes of 27% as of the end of Q12018.</p> <p>Dung Quat project is expected to be put into operation by the end of 2019, raising the capacity from 2 tons / year to 7 tons / year.</p> <p>Revenue and net profit in 2018 is forecasted to increase by 32% and 20%, but relatively cheap to invest.</p>
PNJ (mid cap) Retail sector	16.5 (13.5)	80,000	110,000	<p>The largest company in the field of gold and gold jewelry distribution, with the advantage of more than 270 distribution channels and continues to expand and distribute new product lines.</p> <p>Thanks to continuing expansion of stores and distribution of new products, revenue and profit projections for 2018 rose 35% and 40%.</p> <p>With the outlook for outperforming growth, foreign investors, especially foreign ones who viewed PNJ as a preferred stock, always keep the maximum ownership proportion of 49%</p>
CTD (mid cap) Construction sector	6.7 (6.5)	140,000	190,000	<p>The largest construction company with the construction experience of a 81-floor building, top 10 world's tallest buildings.</p> <p>The cash/ capitalization ratio was 60%, no debt, cheap, able to maintain high revenue and profit growth of 20% and 15%, respectively.</p> <p>Internal conflicts among the group of shareholders may be solved soon after the General Meeting of Shareholders approves the CTD to consider increasing the ownership in its subsidiaries.</p>
PHR (mid cap) Rubber sector	7.7 (6.5)	20,000	30,000	<p>PHR benefits from natural rubber prices soaring from the beginning of the year, prices are expected to remain stable and increase in the end of 2018, helping the company to improve gross profit margins and revenue growth.</p> <p>Forest clearing and divestment at the NTC subsidiary will also contribute to the company's remarkable 2018 profit growth, which is estimated at a rate of 40% YoY.</p>
GMD (mid cap) Logistic & transportation sector	3.8 (5)	24,000	32,000	<p>The leading company in the field of seaports and logistics with a closed value chain helps the company always have advantages in providing transportation and logistics services to customers.</p> <p>It is expected that GMD will continue divesting its subsidiaries so that the company maintains a remarkable profit growth of 200% YoY.</p>

Note: Recommendation might vary due to price fluctuation based on closed price as of Jul-13-18

RATING

BUY - Expected return for 1-year is 15% or greater
HOLD - Expected return for 1-year is between -15% and 15%
SELL - Expected return for 1-year is below or equal to -15%

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