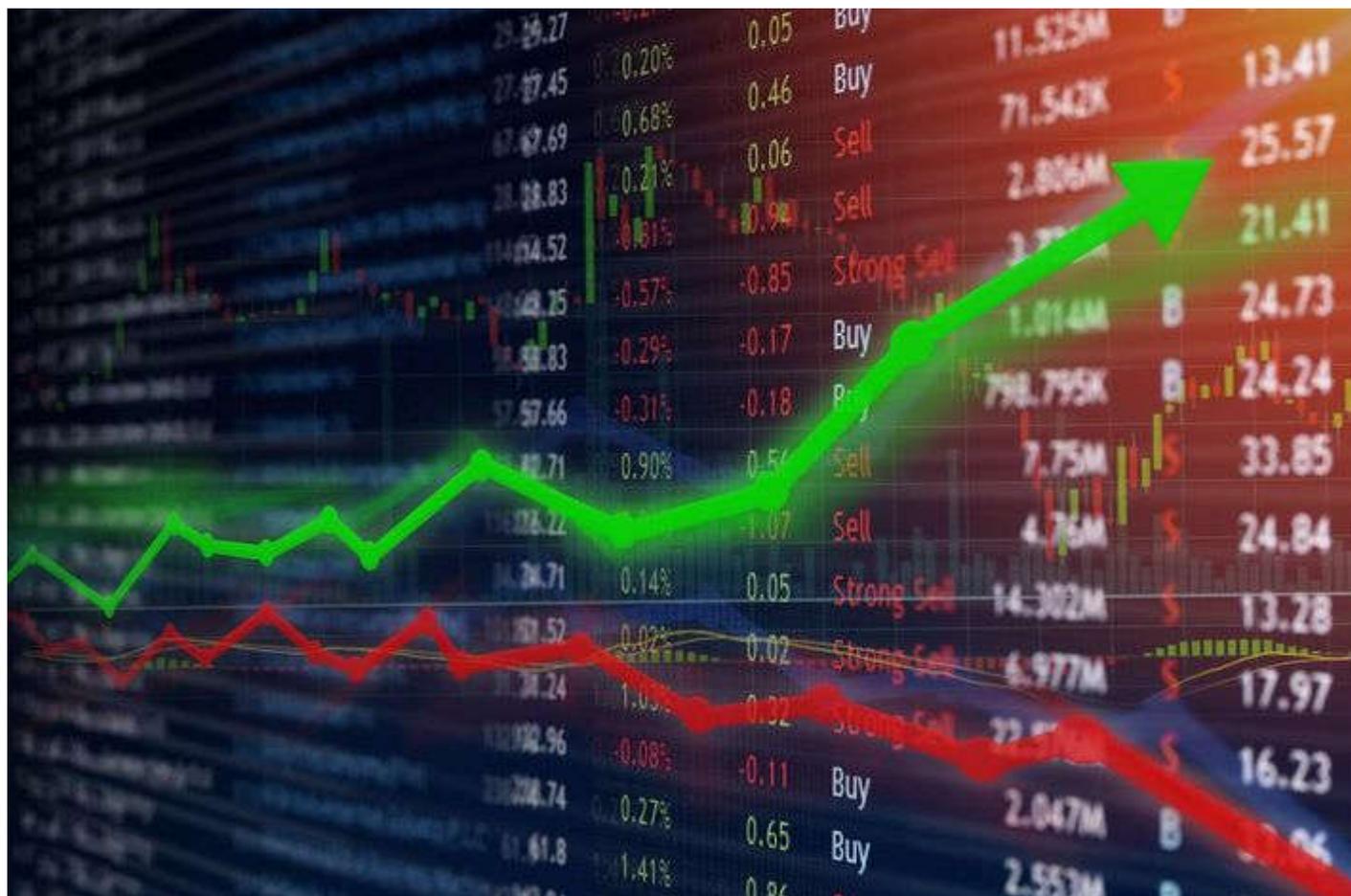


VIETNAM STOCK MARKET OUTLOOK 2Q 2019



Vietnam stock market saw positive performance with a strong growth in most of the 1Q before entering a sideways drift around 1,000 point threshold in the last two trading weeks of the quarter. The growth force of the market in the 1Q comes from the bottom-fishing demand of domestic investors and net-buying cash flow of foreign investors.

Foreign investors have net-bought for two consecutive quarters in Vietnam stock market, which is in line with the trend of global capital flow running into emerging markets in the 1Q.

If in early 2Q, the market receives many news from the AGMs and business performance in the 1Q, there will be less information in the second half of the quarter. Powerful drivers of the market still come from external factors such as the trade war, Brexit, the US yield curve, monetary policies and economic outlook of some major economies... In the basic scenario, external risks do not get worse, VNIndex is forecast to stay in a sideways drift and slightly decrease in early quarter before rebounding towards the end of the quarter. In addition, this index is also expected to stay above 1,000 points by the end of the quarter thanks to stable macro outlook, moderate growth of business performance of companies and demand from foreign investors.

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STOCK MARKET OVERVIEW IN 1Q 2019

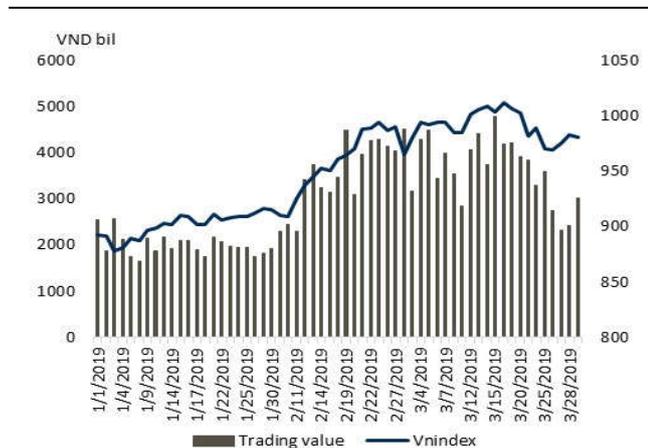
Vietnam stock market strongly recovered in the 1Q.2019 thanks to positive domestic and international moves

Vietnam stock market movements in the 1Q can be divided into two main phases:

- Phase 1 from early year to the middle of March: Vietnam stock market recovered after a plunge in the 4Q.2018 due to supporting information on both macro economy, domestic enterprises and international information such as Fed's more prudent interest rate hikes, temporarily eased risks from the trade war... This increase was supported by the domestic bottom-fishing demand and the continuous net-buying of foreign investors, mostly focused on large cap stocks.
- Phase 2 including the second half of March: The market was in a sideways drift. The resistance zone around 1,000 points was a strong psychological threshold, profit-taking pressure usually increases when VNIndex inches up against this level. Foreign investors also traded more prudently with equal buying and selling volume.

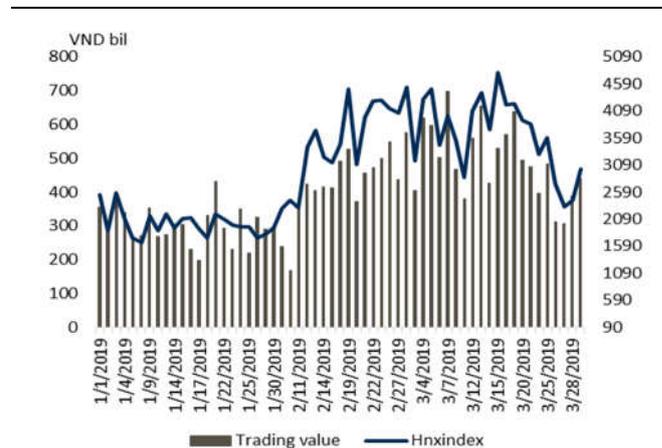
In the whole 1Q.2019, Vnindex and Hnxindex climbed +9.9% and +3.1% respectively, while the average trading values each session shed -49% YoY and -57% YoY respectively.

Figure 1: Vnindex movement



Source: Bloomberg, KBSV

Figure 2: Hnxindex movement



Source: Bloomberg, KBSV

Top sectors saw a good growth, while the lower-ranking sectors had insignificant decreases.

Rubber (+42.9%), textiles (+25%) and petroleum service equipment (+19%) were the industries that witnessed the strongest growth in terms of stock prices. In particular, rubber industry achieved a high growth thanks to the sharp rebound of natural rubber in the first two months, besides expectation of rubber garden liquidation and divestment of the top enterprise PHR at NTC, the textiles industry experienced a growth in most of the stocks in the industry thanks to positive prospects in the trend of shifting textiles orders to the Vietnam market, the oil and gas equipment industry grew thanks to the recovery of oil prices after a sharp decline in the fourth quarter.

Regarding influential stocks to VNIndex (Figure 4), the most positive ones included VHM, VCB, VIC... while the most negative ones were NVL, YEG, ROS...

Figure 3: Sector movements

Most outperformed sectors	Change	Tickers
Rubber	42.90%	PHR, DPR, TRC, HRC...
Clothing & Accessories	25.00%	TCM, STK, FTM, EVE...
Oil Equipment & Services	19.00%	PVS, PVD, PVC, PVB...
Automobiles	17.80%	TCH, SVC, HHS, HAX...
Pharmaceuticals	17.50%	DHG, PME, TRA, DMC...
Most underperformed sectors	Change	Tickers
Investment Services	1.30%	SSI, VCI, HCM, VND...
Technology Hardware & Equipmer	1.30%	SAM, ELC, ST8, POT...
Electronic & Electrical Equipment	-4.50%	GEX, LGC, CAV, PAC...
Brewers	-5.90%	SAB, BHN, THB, HAD...
Fertilizer	-9.50%	DPM, DCM, BFC, LAS...

Source: Bloomberg, Finnpro, KBSV

Figure 4: The most influential stocks

Leaders	On Vnindex
VHM	+18.6
VCB	+15.5
VIC	+13.1
GAS	+8.0
VNM	+6.2
Laggers	On Vnindex
NVL	-2.4
YEG	-1.3
ROS	-0.8
VJC	-0.6

Source: Bloomberg, Finnpro, KBSV

Foreign investors have net-bought for two consecutive quarters

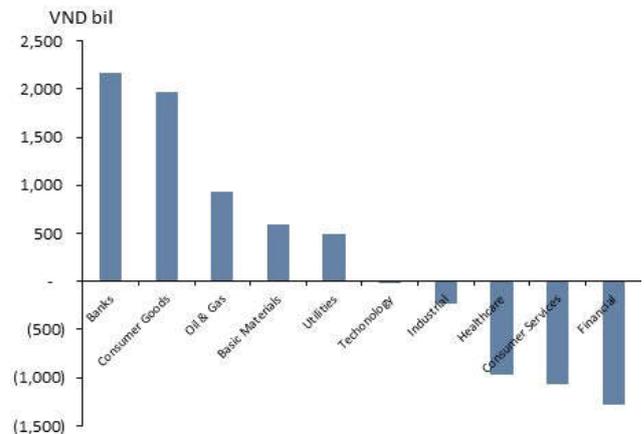
Foreign investors have net-bought for two consecutive quarters in Vietnam stock market (after net-sold at large volume in the 3Q/2018) thanks to the global trend of capital flow running into emerging markets in the 1Q, while global risks such as the trade war, FED rate hikes... have been temporarily reduced, while developed economies seemed to weaken. Foreign investors' buying volume focused on MSB, VCB, POW, HPG, PVS... while VJC, VGC, DHG, VIC, VHM... were sold at a large volume.

Figure 5: Foreign investor trading on the HSX



Source: HSX, KBSV

Figure 6: Foreign investor trading by sectors



Source: Bloomberg, KBSV

Considering sector movements, banking sector, consumption goods, and petroleum were net-bought strongly, while financial sectors (except for banking), consumption services and medicines were net-sold at large volume.



BUSINESS OPERATIONS

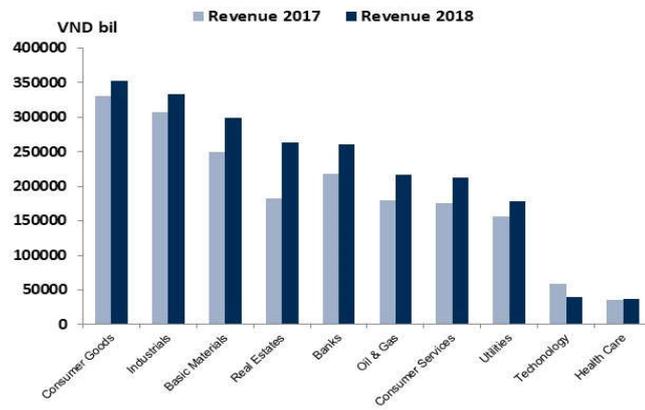
• Overview of business performance in 2018

Business results of listed companies on the two exchanges recorded a sharp increase in 2018.

Following the strong growth trend in 2017, business results on both exchanges continued to achieve outstanding growth in 2018. Specifically, of the 739 companies we followed, 406 ones showed positive growth in profit

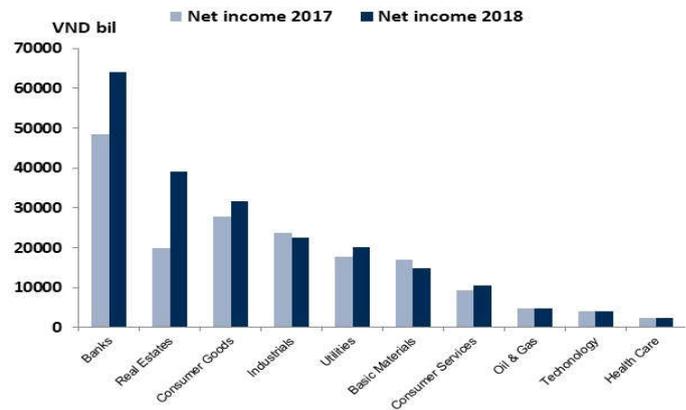
over the same period (accounting for 55%). Total revenue of enterprises on both exchanges in 2018 increased by 16%, while profit rose 22% YoY. Accordingly, the net profit margin of enterprises on both exchanges went up to 9.9% in 2018 compared to 9.4% in 2017. In particular, enterprises with dramatic profit growth included many big names such as VHM, VCB, ACB, GAS...

Figure 7: YoY revenue in 2018 by sectors



Source: KBVS, Bloomberg

Figure 8: YoY profit of sectors in 2018



Source: KBVS, Bloomberg

Banking and real estate sectors experienced the strongest profit growth

In terms of profit fluctuations in the 10 sectors we observed, there are 7 sectors with positive profit growth and 3 sectors with negative growth compared to the same period. In particular, the real estate industry experienced the strongest growth (+96%) with the main contribution coming from a sudden growth in the leading enterprise VHM, in addition to high growth rates in other enterprises such as NVL, DXG, KDH ... Banking industry ranked second with an increase of (+32%) in almost all enterprises in the industry (except for CTG and EIB). Banks which saw a dramatic growth included VCB, ACB, MBB, TCB... The remaining sectors that had high growth rates including consumer goods (+14%), consumer services (+14%) and community utilities (+13%).

On the other hand, sectors with negative growth over the same period included information technology (-5%), pharmaceuticals (-5%) and industrial sector (-4%).

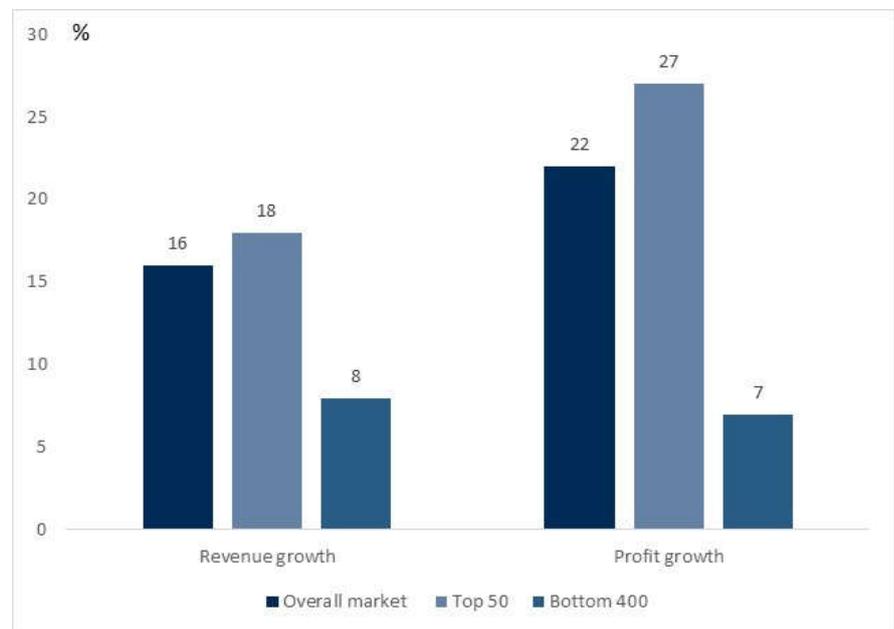
Large-cap companies had an outstanding growth compared to the general market

Large-cap companies (top 50 largest market cap companies) had an outstanding growth compared to the general market. Specifically, revenue and profit of this group in 2018 increased +17.7% and 27% respectively, much higher than +15.7% and +22.3% of the whole market. Accordingly, the net profit margin of large-cap stocks rose from 12.2% in 2017 to 13.3% in 2018; and significantly higher than the increase of 9.9% in the overall market. This shows that large cap companies continued to be the first beneficiary group from the economic growth cycle with a competitive advantage in financial health, dominant market share and supply chain...

Meanwhile, small-cap stocks (500 smallest cap companies on both exchanges) had lower growth rates than the general market, with revenue and profit growth in 2018 (YoY) at 8.1% and 6.6% respectively. Accordingly, net profit margin of these stocks remained unchanged at 2.5%. This has more or less shown that small-cap enterprises still had to face many difficulties and have

not grasped the opportunities created by favorable macro context to develop production and business operations.

Figure 9: Revenue/profit growth of companies by capitalization in the first 9M/2018 YoY



Source: Bloomberg, KBSV

- **Business performance outlook in the 1Q 2019**

Profit growth of businesses in 4Q 2018 declined sharply, but this is not a serious warning signal for the growth of 2019.

The profit growth of companies on both exchanges dropped sharply in 4Q 2018 to 7% YoY, compared with a corresponding increase of 25% in 4Q 2017. However, after analyzing each enterprise's data, we realized that many listed large-cap enterprises had a dramatic growth in 4Q 2017, creating a high background which made 4Q/2018 profit of these enterprises grow at low rates or decline YoY (VJC, FPT, BID, MSN, FPT, VCG...). In particular, many businesses gained dramatic profits coming from extraordinary profits recorded once in 4Q 2017 like MSN due to selling TCB convertible bonds, FPT divesting from FPT Trading and FPT Retail, VJC increasing their flying fleet by 10 aircrafts and recording revenue from sales & lease back operations, VCG selling its subsidiaries... Excluding these unusual cases, profits of businesses on the two exchanges in 4Q 2018 increased by over 14%, which was a reasonable growth rate and in line with our forecast that corporate profits will slow down but still remain high.

Business results in the first quarter of enterprises are still stable, but are not likely to record such dramatic growth as in the first quarters of 2018

For the forecast of profit growth of businesses on the 2 exchanges in 1Q 2019, in general, the positive growth will still be maintained in the majority of businesses. However, we also emphasize that the strong growth in the banking sector (+65%) in 1Q 2018 YoY mainly came from bad debt reversal, reduced provisions and realized investment bonds. The above earnings will be no longer exist or insignificant in 1Q 2019, causing the industry's profit growth to slow down (12% -15%) although the net interest income growth of banks is forecast to maintain stable.

In general, other sectors still maintained stable growth rates, although there are some signs of a small slowdown in the growth compared to 1Q 2018 such

as interest rates inching up. In addition, economic growth in Vietnam and in the world has slowed down, leading to low consumption demand and tightening credit flow into the real estate sector of the SBV..., however, we assess the effects of these moves are not too strong in 1Q 2019.

Figure 10: Profit growth of listed companies and EPS VNIndex

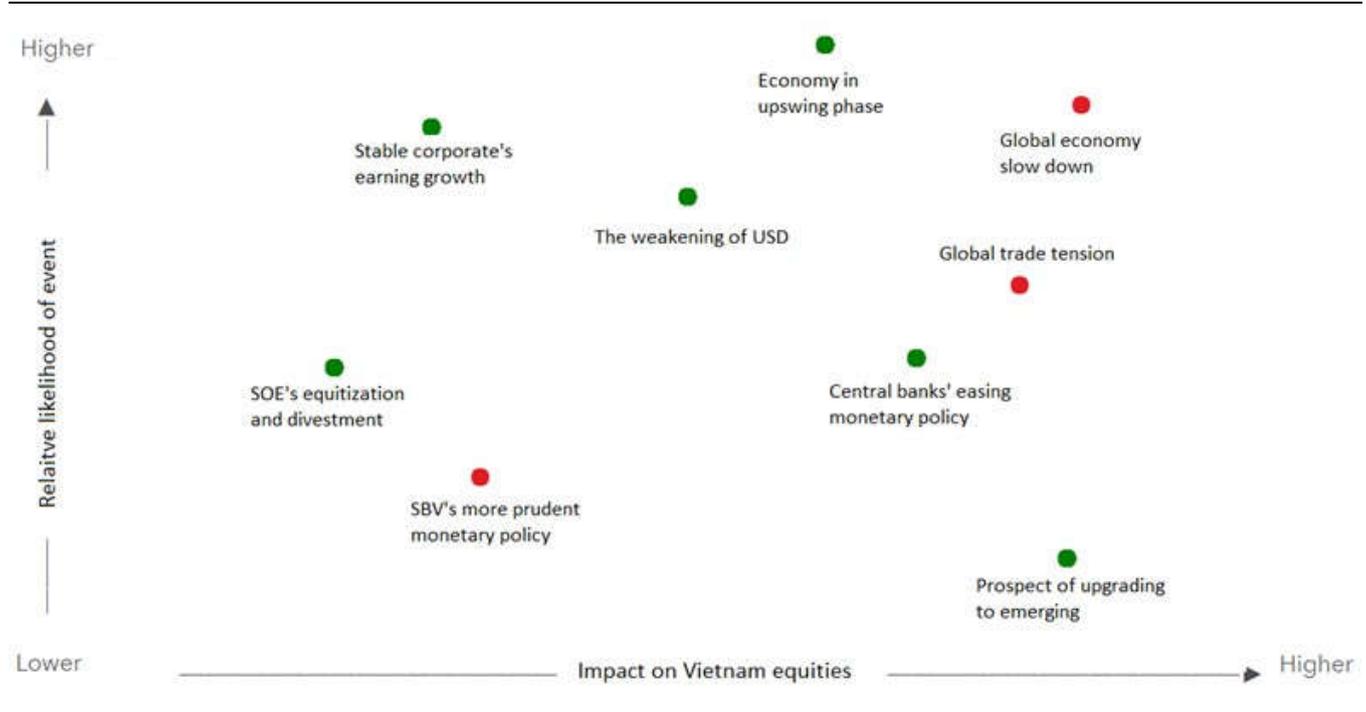


Source: KBVS, Bloomberg



MARKET DRIVERS ASSESSMENT IN 2Q 2019

Figure 11: Market drivers in the 2Q 2019



Source: KBSV

Notes: ● Positive ● Negative

- Potential credit ratings upgrade according to MSCI – the potential factor for the market in the long term

It is not likely that Vietnam will be included in the list for credit upgrading (review list) of MSCI in May this year.

Regarding MSCI's upgrade to emerging markets, according to KBSV, the upgrade prospect of Vietnam stock market is possible. However, after considering the unsolved issues of the market from the last evaluation (June 2018) and the market improvements in the last one year, we think that Vietnam has a very small opportunity to enter the review list of MSCI (list of countries considered for upgrading) this year.

Figure 12: Updated assessment of the number of markets meeting the qualitative criteria of MSCI (June 2018). And MSCI evaluation for Pakistan (2015) and Vietnam (2018)

	Emerging market			Frontier market			Pakistan (2015)	Vietnam
	++	+	-/?	++	+	-/?		
Openess to foreign ownership								
- Investor qualification requirement	23	3	1	21	2	0	++	++
- Foreign ownership limit level	13	3	11	19	0	4	++	-/?
- Foreign room level	20	1	6	22	0	1	++	-/?
- Equal rights to foreign investors	3	20	4	8	14	1	++	-/?
Ease of capital inflows / outflows								
- Capital flow restriction level	23	3	1	18	4	1	++	++
- Foreign exchange market liberalization level	12	7	8	9	6	8	+	-/?
Efficiency of the operational framework								
- Investor registration & account set up	9	11	7	9	9	5	+	+
- Market regulations	12	15	0	13	10	0	+	+
- Information flow	10	15	2	9	5	9	++	-/?
- Clearing and Settlement	5	14	8	4	10	9	-	-/?
- Custody	23	4	0	17	3	3	++	+
- Registry / Depository	22	5	0	17	5	1	++	+
- Trading	22	5	0	8	6	9	++	+
- Transferability	9	9	9	4	3	16	++	-/?
- Stock lending	7	9	11	0	0	23	-/?	-/?
- Short selling	4	11	12	0	0	23	-/?	-/?
Competitiveness landscape	19	1	6	10	-	-	-	-
Stability of institutional framework	4	17	6	0	20	3	-/?	+

Source: MSCI, KBSV

Notes: ++: No issues +: No major issues, improvements possible -/? : Improvments needed/Extent to be assessed -: Not assessed

The number of unsatisfactory qualitative criteria of the Vietnam stock market is quite large compared to the countries listed in the list of upgrade review in the past

MSCI has 2 sets of criteria framework for market classification which are quantitative and qualitative criteria. While Vietnam stock market have met the requirements of the quantitative criteria (market size, capitalization, trading value...), there are many issues we need to improve to meet the qualitative criteria.

Specifically, according to statistics from 27 emerging markets classified by MSCI, with 18 qualitative criteria, emerging markets average have 9 "++" criteria, 6 "+" criteria, and only 3 "-/?" criteria. Meanwhile, for Vietnam stock market, we only have 2 "++" criteria, 6 "+" criteria, and 9 "-/?" criteria.

Most recently, in June 2017, MSCI officially upgraded Pakistani stock market from a frontier market to an emerging market. Previously, this market was included in the list of upgraded review from June 2015. When Pakistan stock market was included in the upgraded list, among 18 qualitative criteria of MSCI, this market achieved 10 "++" criteria, 3 "+" criteria, and only 3 "-/?" criteria (2 non-assessed criteria.)

Thus, Vietnam stock market needs to improve 4-6 criteria being classified "-/?" to be considered to be put into the upgrade list by MSCI.

Figure 13: MSCI evaluation for issues needed to be improved by Vietnam stock market (June 2017 - June 2018)

	2017 assessment	2018 assessment	2017	2018
-Foreign ownership limit	Ownership in some sectors with conditions and sensitive sectors is restricted to foreign ownership	Ownership in some sectors with conditions and sensitive sectors is restricted to foreign ownership	-/?	-/?
-Foreign room level	The stock market is heavily influenced by foreign room issues	The stock market is heavily influenced by foreign room issues	-/?	-/?
-Equal rights to foreign investors	There is more and more information on stock exchanges and VSD published in English. Foreign investors' rights are limited due to strict foreign ownership regulations which are applied to foreign ownership in general and the ownership of each investor in particular.	There is more and more information on stock exchanges and VSD published in English. Foreign investors' rights are limited due to strict foreign ownership regulations which are applied to foreign ownership in general and the ownership of each investor in particular.	-/?	-/?
-Foreign exchange market liberalization level	There has been no foreign currency trading market and the domestic market is still limited (foreign currency transactions must be related to securities transactions) and liquidity is quite low	There has been no foreign currency trading market and the domestic market is still limited (foreign currency transactions must be related to securities transactions).	-/?	-/?
-Investor registration & account set up	Foreign investors are required to complete the transaction registration procedures and account opening needs to be approved by VSD. The launch of online registration services and the reduction of the time to issue transaction codes are positively evaluated. However, many documents still need to be translated into English	The use of online registration services has been simplified and the time for providing transaction codes has been shortened. Registration is required and account setup requires approval from VSD.	-/?	+
-Information flow	Information on the market usually does not have an English version or if there is, not enough information included	Information on the market usually does not have an English version or if there is, not enough information included	-/?	-/?
-Clearing and Settlement	There is no formal clearing organization and VSD acts as a stock clearing agency. In addition, there are no overdraft lending instruments and transactions need to be advanced	There is no formal clearing organization and VSD acts as a stock clearing agency. In addition, there are no overdraft lending instruments and transactions need to be advanced	-/?	-/?
-Transferability	Off-floor transactions and object transfers should be approved by the SSC	Off-floor transactions and object transfers should be approved by the SSC	-/?	-/?

Source: MSCI, KBSV

In addition to the two criteria of "stock lending" and "short selling", the remaining " - /?" criteria of Vietnam are evaluated in details by MSCI as shown in Figure 13. Overall, according to us, in the past one year, Vietnam stock market has not changed significantly. Criteria such as "information flow", "equal rights to foreign investors", despite improvements, are not good enough to be recognized by MSCI. While the criteria such as "level of liberalization in the foreign exchange market", "transferability", "stock lending" and "short selling" have not been improved.

In the coming time, if the amended securities law with more open foreign room is issued, we expect the criteria of "foreign ownership limit", "foreign room level" and "equal rights to foreign investors" may be more positively evaluated by MSCI. However, the amended securities law will not be issued in 2019, it cannot affect MSCI's assessment in the next May evaluation.

The result of this MSCI evaluation for Vietnam stock market in general will not create so many negative impacts because the result has been forecast by the market before

In general, we assess that Vietnam is not likely to be included in the MSCI review list in May 2019. However, this has been forecast by investment funds and the results would not have too negative impacts on the market moves, although investors' sentiment may be influenced in a short term. This is considered a potential factor to the market in mid-long term as the possibility of Vietnam stock market being upgraded is still high. Especially when the market size, capitalization, and liquidity of Vietnam stock market have surpassed some emerging markets classified by MSCI.

With Argentina and Kuwait likely to be upgraded in the next two years, the proportion of Vietnam stocks in the MSCI Frontier Markets Index will increase sharply.

In another scenario, it is likely that in the upcoming market classification report, MSCI will upgrade Argentina to emerging markets and Kuwait will be included in the review list for next year's upgrade. According to MSCI, the fact that these two countries are upgraded from frontier to emerging markets will help the proportion of Vietnam stocks in the MSCI Frontier Markets Index increase from 16.47% to 25.8%, equivalent to an estimated capital up to USD500 million, which can be poured into Vietnam stock market in the next two years.

- **Slowing global economic growth led to many potential risks**

Global economic growth is forecast to decrease slightly in 2019, led by a decline in major economies such as the US, Europe, Britain and China (according to OECD, IMF and WB). The cause of slowing economic growth stems from many factors, of which the main reasons are policy uncertainty, trade barriers set up by the influence of protectionism to block the flow of goods, the confidence of businesses and consumers is adversely impacted ... The main unrevealed factors influencing economic growth in 2019 and the following years include downward growth rates in China, the risk of US economic crisis, US-China trade war and Brexit.

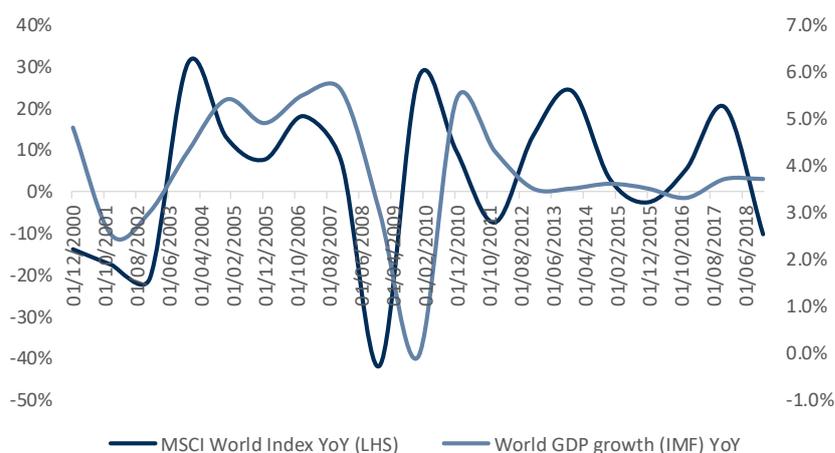
Figure 14: Forecast global economic growth by OECD, IMF and WB

Global economic growth forecast (%)	2018 (OECD)	2019F (OECD)	Up/Down compared to the latest report	2019F (IMF)	Up/Down compared to the latest report	2019F (WB)	Up/Down compared to the latest report
World	3.6	3.3	-0.2	3.5	-0.2	2.9	-0.1
European countries	1.8	1	-0.8	1.6	-0.3	1.6	-0.1
Germany	1.4	0.7	-0.9	1.3	-0.6		
France	1.5	1.3	-0.3	1.5	-0.1		
Italy	0.8	-0.2	-1.1	0.6	-0.4		
United Kingdom	1.4	0.8	-0.6	1.5	0		
Korea	2.7	2.6	-0.2				
Japan	0.7	0.8	-0.2	1.1	0.2	0.9	0.1
United States	2.9	2.6	-0.1	2.5	0	2.5	0
Brazil	1.1	1.9	-0.2	2.5	-0.1	2.2	-0.3
China	6.6	6.2	-0.1	6.2	0	6.2	-0.1
India	7	7.2	-0.1	7.5	0.1	7.5	0

Source: IMF, WB, OECD

If the slowdown in the global economy is inevitable, investors also need to be more cautious of fluctuations in the stock market, while the macroeconomic context is not favorable, which will reduce profit growth in companies and adversely affect the stock market.

Figure 15: The relation between global economic growth and stock market



Source: IMF, MSCI

Global stock market volatility has a relatively close relationship with global economic growth with stock market fluctuations a year ahead.

When we analyzed the relation between the fluctuations of the stock market of each country and its economic growth, we did not see any clear correlation. However, from a global perspective (Figure 15), it is possible to see a close relation between the world economic growth and the MSCI World Index volatility (index of mid-large cap stocks in 23 developed economies), with the MSCI World Index one year ahead (because fluctuations in the stock market show the market's expectation of future economic fluctuations.)

Statistics show that from 2000 to 2018, there were five years of global economic growth lower than 3.5% and four out of five years that MSCI World Index decreased in the previous year.

Figure 16: Global GDP growth and MSCI World Index growth

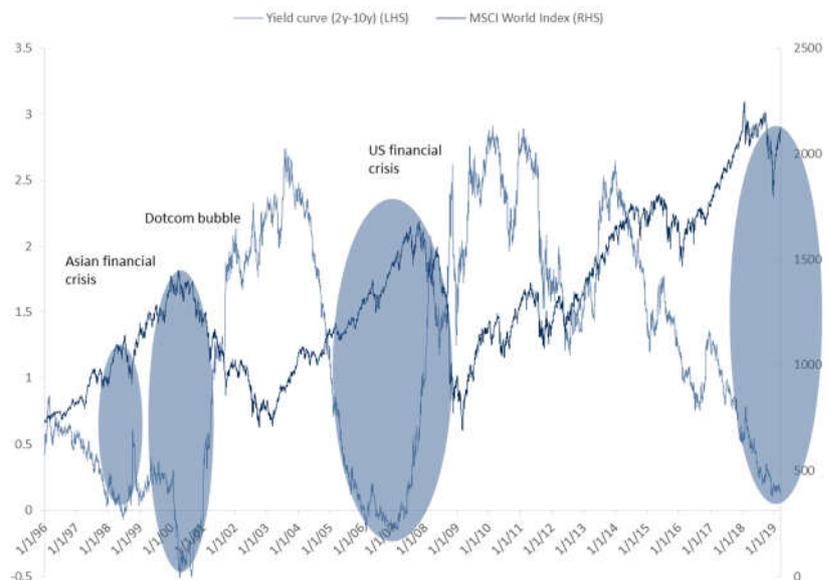
Date	World GDP growth YoY	MSCI World Index YoY
12/31/2018	3.7%	-10%
12/29/2017	3.7%	20%
12/30/2016	3.3%	5%
12/31/2015	3.5%	-3%
12/31/2014	3.6%	3%
12/31/2013	3.5%	24%
12/31/2012	3.5%	13%
12/30/2011	4.3%	-8%
12/31/2010	5.4%	10%
12/31/2009	-0.1%	27%
12/31/2008	3.0%	-42%
12/31/2007	5.6%	7%
12/29/2006	5.5%	18%
12/30/2005	4.9%	8%
12/31/2004	5.4%	13%
12/31/2003	4.3%	31%
12/31/2002	3.0%	-21%
12/31/2001	2.5%	-18%
12/29/2000	4.8%	-14%

Source: IMF, MSCI, KBSV

The forecast by WB, IMF, and OECD shows that the world economic growth prospects continue to slow down in 2020, adversely impacting the global stock market moves in 2019

Global economic growth is forecast to decline in 2019 (reflected in the volatility of the MSCI World Index in 2018), and is unlikely to rebound strongly in 2020 (WB, IMF and OECD forecast global economic growth in 2020 at 2.8%, 3.6% and 3.4% respectively.) This partly shows the negative prospect of the MSCI World Index, or the development of the stock market in developed countries in 2019. With the close relation to the global stock market, this is a factor which may negatively affect Vietnam stock market.

Figure 17: The US bond yield curve (2 years – 10 years) and MSCI World Index



Source: Bloomberg, MSCI, KBSV

Concerns about a global economic slowdown or a recession have also caused the short term bond yields to surpass the long term (the reversed yield curve) at the end of March in 3-month and 10-year terms. However, we prefer to use a 2 - 10-year yield curve pair which is still positive (as close to 0 as shown in Figure 17.) Statistics in the past showed that when 2-year yield stays higher than over 10-year yield in several consecutive months, global stock market often creates a mid-term peak right after that and plunged (latency may be only at 2 months as the Dotcom bubble crisis in 2000 or up to 18 months as the 2008 financial crisis). The pair of yield curve after peaking in mid-2014 has dropped sharply, and is likely to reach a negative value in mid-2019 if the market confidence in US economic growth is not improved. This is considered a remarkable signal and should be closely followed to forecast the global stock market trend.

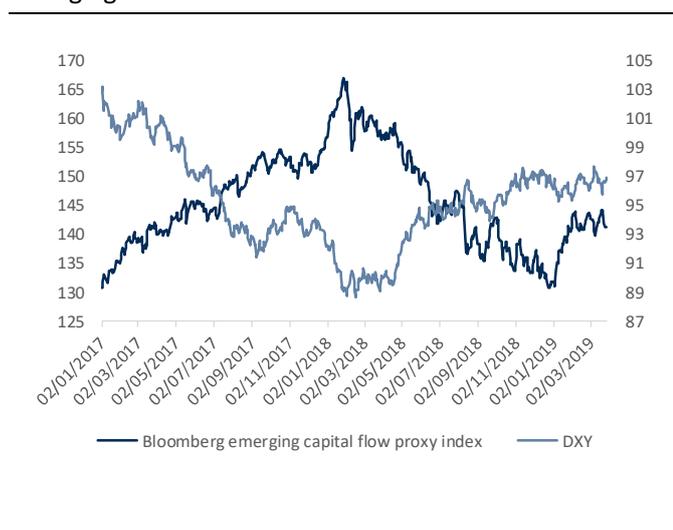
- **A weakening USD – a supportive factor to emerging markets**

The USD is forecast to become weaker in 2019, which will support emerging stock markets

We still hold our view about the weakening trend of the US dollar in 2019 (because the US economy no longer surpasses other economies; FED has a moderate view in operating policies; double deficits of the US government and a strong increase in the US dollar in 2018 make this currency relatively high evaluated), which will be a supportive factor for cash flow running into emerging markets. Statistics in the past also showed that when the USD goes down, emerging stock markets are often more positive than the US stock market and vice versa.

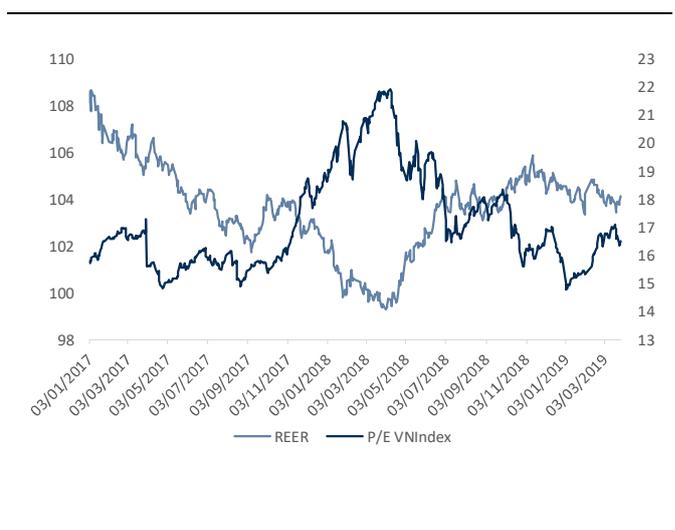
In fact, with the slowdown in the value of USD in 1Q 2019, exchange rates in regional emerging countries saw favorable moves, enabling central banks to loosen their monetary policies and helping these countries' stock market attract large capital inflows in the first three months of the year (Figure 18).

Figure 18: Movements of DXY and capital in-outflows in emerging markets



Source: Bloomberg, KBVS

Figure 19: Movements of REER and P/E VNIndex



Source: Bloomberg, KBVS

Vietnam stock market has a close relation to exchange rate volatility

For Vietnam stock market only, Figure 19 shows a close correlation between REER (Real Effective Exchange Rate) and P/E of Vnindex from the 2H.2017 to now. The appreciation of the USD in 2018, the pressure of inflation and

exchange rates, and net-selling of foreign investors were the main reasons for P/E of Vnindex falling from 22 at the end of 1Q to around 16 by the end of the year.

As the USD is forecast to weaken in 2019, REER goes downward (as the USD accounts for a large proportion in REER calculation basket of the VND, and the VND tends to be anchored on the USD), help inflation and exchange rate to be under control, SBV will have more room to offer economic stimulus policies. In addition, the foreign cash flow is expected to be traded more positively. These are the strong supportive forces for Vietnam stock market in 2019.

- **SBV monetary policy – stays prudent and correspondent to inflation movements**

The SBV maintains a neutral monetary policy in 2Q, closely observing inflation movements to make adjustments in the last two quarters

The SBV monetary policy still focuses on stabilizing macro stability and support economy growth. In particular, the macro stability target is always attached to the two main missions, which are inflation curb and exchange rate control. With the expected weakening USD in 2019 and abundant USD supply sources thanks to the trade surplus and FDI, we suppose that exchange rates will be quite stable in 2019.

What we are more concerned about is the movement of inflation when EVN raised electricity prices by 8.36% last 1Q 2019. If considered in the 5-year period from 2014 to 2018, electricity prices only climb by approximately 14% (equivalent to approximately 2.8% per year), the recent increase of EVN is quite large. Studies by the Ministry of Industry and Trade has recently evaluated the recent increase in electricity price, which will make Vietnam CPI in 2019 go up by 0.29%. However, as the electricity prices are related to operating costs of most economic sectors, the impact of this hike, both directly and indirectly, will need more time for further assessment. Besides, the world oil prices have been more complicated and unpredictable, while for domestic petroleum market, the Inter-Ministry of Industry and Trade decided to spend the gasoline stabilization fund more in the middle of March so as the prices of gasoline not to surge. These are also potential risks affecting inflation. Although this inflationary pressure results from the increase in costs (electricity and petrol prices) instead of the cause of money supply-demand balance in the economy, the SBV will still have to bear certain pressures in terms of monetary policy and money supply expansion.

In general, with the Government's aim of loosening monetary policy to support economic growth, the SBV will not provide strong measures to tighten/loosen the monetary policy in the 2nd Quarter. Instead, it will maintain a neutral policy as in present (interest rates will be in a sideways drift and credit growth will stay in mid-low level.) Inflation moves in the next months will serve as a background for the SBV to make considerable adjustments in the second half of the year.

MARKET ASSESSMENT AND FORECAST

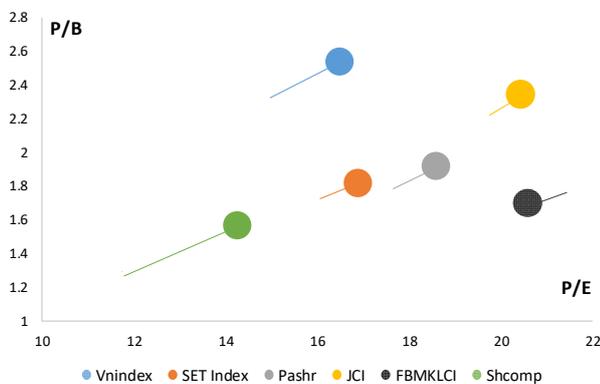
- **A comparison between Vietnam stock market and others in the same region**

P/E of the Vietnam stock market is currently at average level, while ROE is the highest compared to other markets in the region because of using more financial leverages

In the 1Q 2019, Vietnam stock market showed the second largest growth in six regional markets we observed (only after China market). Before that, in the 4Q 2018, Vietnam stock market is also one of the markets which experienced the sharpest plunge. This showed the strong volatility of VNIndex as Vietnam stock market has a large proportion of retail investors (about 70%-80% trading value), which makes the market affected by investor sentiment and strongly react to news.

After gaining in the 1Q, P/E of the Vietnam stock market is currently at average level, while ROE is the highest compared to other markets in the region, leading to high P/B. Particularly, ROE of Vietnamese enterprises is high because of using much financial leverages.

Figure 20: Movements of P/E and P/B in regional emerging markets



Source: Bloomberg, KBSV

Notes: present ● last 2018

Vietnam stock market is still more attractive than regional stock markets

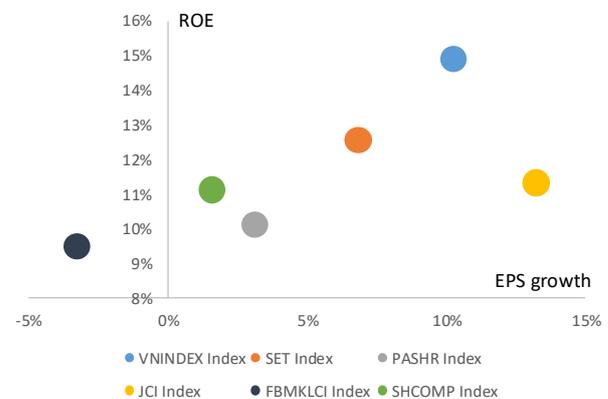
Overall, we assess that Vietnam stock market is still more attractive than regional stock markets thanks to high EPS growth, along with high performance (high ROE). However, the high dependence on bank credit makes business performance highly affected by fluctuations in interest rates, which is largest risk to be closely watched.

- **Market forecast in the 2Q 2019**

There is not much information in the domestic market

The first quarter is highlighted with many domestic information affecting the stock market, including the information related to the macro targets achieved last year as well as the targets for the new year, last year's business results,

Figure 21: ROE and 5-year EPS growth in regional emerging markets



Source: Bloomberg, KBSV

business plans and other information released in AGMs..., the second quarter is usually quiet in terms of information. For SBV policies, the 2Q is a period of analyzing and evaluation for adjustments in the last two quarters. Regarding enterprises, AGMs and 1Q business results will also create certain highlights and wobbles in the market in April, especially in banking stocks. However, we believe that the positive impact of this year's AGM season on the market will be limited because the 2019 prospects of businesses will generally slow down after two years of dramatic growth. In May and June, there will be less information from businesses.

External factors continued to have strong impacts on the market

On the other hand, the market is expected to be influenced by external factors. In particular, the main information related to issues such as US-China trade talks, US yield curve moves, monetary policy as well as forecasts of US economic prospects, Brexit, China economic growth, and oil price fluctuations... These are relatively unpredictable factors in both trend and influence level.

MSCI's assessment and classification for Vietnam stock market have been forecast in advance, and most likely will not create any noticeable surprises. The proportion of Vietnamese stocks in the MSCI Frontier Markets Index climbed from 16.47% to 25.8% (if both Argentina and Kuwait are upgraded together) to help attract foreign investment, especially in large cap stocks. The cash flow from passive investment funds may not have noticeable changes right in the 2Q, but the cash flow from active investment funds will be disbursed early to seek opportunities.

In the basic scenario, if the external factors do not become worse, the VNIndex is expected to be in a sideways drift at the beginning of the quarter before rebounding at the end of the session. VNIndex may stay above 1,000 points by the end of the quarter thanks to the support of foreign net-buying trend, macro stability and a moderate growth of business operations in listed companies.

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