

# 2Q22 Stock Market

## Back to fundamentals

**We downgrade the year-end 2022 target for Vietnam's benchmark VN-Index to 1,680-range** from the previous projection of 1,760. Specifically, we lower our forecast for the index's end-2022 forward P/E from 17.5x to 16.5x and the average EPS growth of HSX-listed companies from 15.7% to 15.1% against the backdrop of rising macro risks.

**The VN-Index may continue to move sideways with alternating ups/downs in 2Q22** when potential risks (the Fed's rate hikes, the Russia-Ukraine crisis, rising inflation, policy rate increases) and favorable factors (domestic economic recovery, the government's stimulus packages, high earnings growth of listed companies) gradually emerge. The market may witness a marked divergence since capital will likely flow into sectors benefiting from positive macroeconomic factors. In general, KBSV takes a conservative stance on the stock market outlook in 2Q22 given the prevalence of risk factors. However, investors may consider 'buying the dip' during corrections and expect rebounds in 2H22.

**Our top picks for our bull basket are businesses in sectors benefiting from public spending and economic recovery (see also Section V), including but not limited to:**

- Retailers, especially non-essential consumer goods (MWG, PNJ).
- Banks (VCB, BID, CTG, MBB, TCB) with high credit growth and recovered bad debts thanks to businesses recovering from COVID-19 in the context that banks have boosted loan loss reserves.
- Residential real estate (VHM, KDH, NLG, DXG) and industrial real estate (KBC, NTC, IDC). These are all businesses that own landbanks near key projects.
- Construction materials (HPG, DHA) and companies with smart infrastructure and smart traffic control systems (LCG, ELC, ITD).
- Textiles and garments (MSH, STK) and fisheries (VHC, FMC, ANV). These enterprises may continue to grow strongly with the resumption of production and business activities and rising consumer demand in the new normal.

In FY22, KBSV's Equity Research is upbeat about the prospects of real estate, retailers, fisheries, banks, oil and gas, information technology, and electric power (*Please refer to Section VI of this report for more details*).

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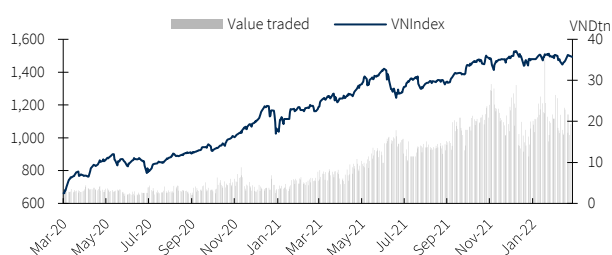
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## I. 2Q22 stock market outlook

**The VN-Index decreased slightly, in contrast to a sharp rise in market liquidity over the same period**

The VN-Index showed a slight downward trend in the first quarter of 2022 due to unfavorable external factors (the FED's move to raise its benchmark federal-funds rate for the first time since 2018, Russia-Ukraine geopolitical tensions) combined with domestic factors (the Thu Thiem land auction scandal and elevated domestic inflation pressures). However, the economic recovery and strong earnings growth of listed companies in 2022 will be the key drivers to keep the market from deep corrections. Over the past quarter, the VN-Index edged down by -0.4%, in contrast to the 1.6x increase in the average daily trading value over the same period.

Fig 1. Vietnam – VN-Index fluctuation

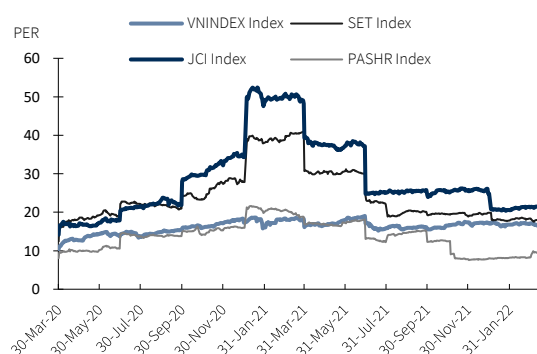


Source: Bloomberg, KB Securities Vietnam

**The cash flow in 2Q22 may go down marginally from end-2021 and early-2022 highs but will be still higher YoY**

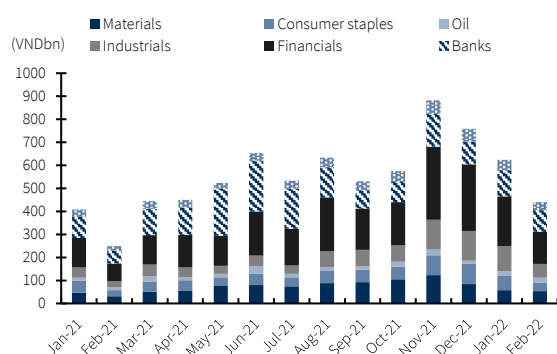
Although the trading value increased QoQ significantly, the cash flow targeted some sectors in the wake of the general market moving sideways with a substantial divergence. It was contrary to an overall upward trend in the 2020–2021 period in which sectors like construction materials, chemicals, and fisheries attracted the highest cash flow thanks to surging commodity prices amid recovering demand and Russia-Ukraine tensions (Figure 3). In our view, the stock market's cash flow may decrease marginally from the high levels in late 2021 and early 2022 due to capital withdrawal for production and business activities after lockdowns. However, it is less likely to fall sharply in 2Q22 and expected to be higher YoY given the low policy rate despite possible modest increases, combined with the attraction of the stock market compared to other investment channels (gold, USD, real estate).

Fig 2. ASEAN4 – P/E movements of stock indices



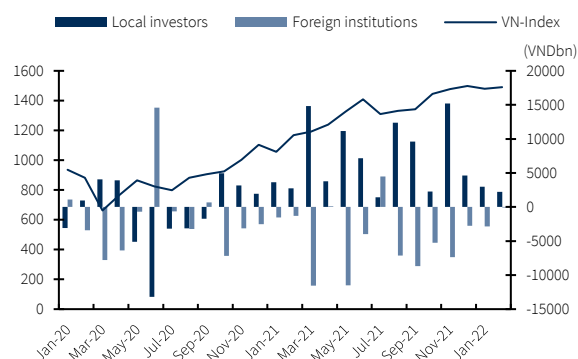
Source: Bloomberg, KB Securities Vietnam

Fig 3. Vietnam – Monthly trading value across sectors (VNDbn)



Source: Fiinpro

Fig 4. Vietnam – VN-Index & cash flow by local & foreign investors (index, VNDbn)



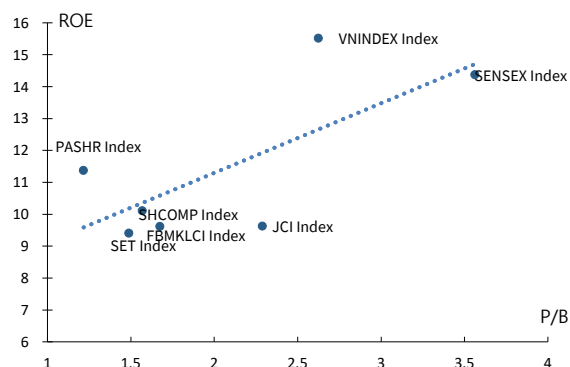
Source: Bloomberg, KB Securities Vietnam

**The VN-Index valuation is reasonable in relation to the past and regional markets**

The VN-Index has moved sideways since early 2022, with the index's P/E staying around 17x as of March 31. Though it is higher than the last two years' average at 16.2x, it is equivalent to the early-2022 level and the average P/E of other regional markets (Figure 2). We believe a P/E of 17x is reasonable considering risk factors (the Fed's rate hikes, the Russia-Ukraine conflict, rising inflation, policy rate increases) and positive macroeconomic factors (economic rebound, strong earnings growth of listed companies, economic stimulus packages).

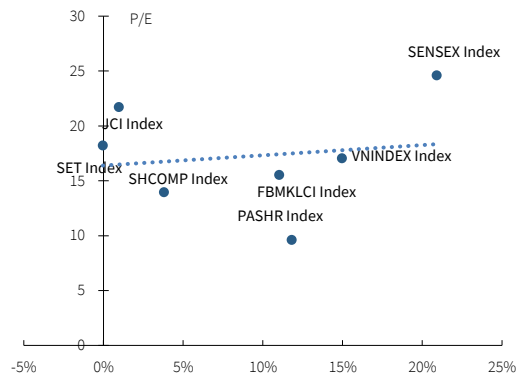
Compared to others in the region, Vietnam's stock market maintains its attraction in the correlation between P/B & ROE (Figure 5) and P/E & average EPS growth during the last three years (Figure 6).

Fig 5. Global – P/B – ROE correlation



Source: Bloomberg, KB Securities Vietnam

Fig 6. Global – P/E – EPS growth correlation



Source: Bloomberg, KB Securities Vietnam

## The reasonable target for VN-Index by the end of 2022 is 1,680

We lower our forecast for the end-2022 average EPS growth of HSX-listed companies to 15.1% (*from 15.7% in the 2022 strategy report*) given rising macro risks (*See also Section II. Production and business activities*).

Besides, we revise the VN-Index's end-2022 forward P/E from 17.5x in the 2022 strategy report to 16.5x due to growing concerns about policy rate increases, surging inflation, and the global stock market fluctuations. We believe the target P/E of 16.5x is reasonable in the wake of post-pandemic economic rebounds, stimulus packages, supportive monetary policy, and enhanced financial health of listed businesses. Therefore, the VN-Index's target by the end of 2022 should be towards 1,680 vs. 1,760 as previously forecast (upside 12.7% from the 1,490-range on March 31, 2022).

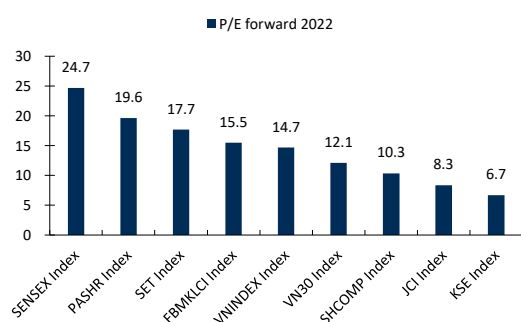
In 2Q22, potential risk factors seem to dominate, namely inflation, policy rate increases, the Russia-Ukraine conflict, and the Fed's rate hikes at its May and June meetings, while the influence of supporting factors appears mild. As a result, the VN-Index will likely move sideways with alternating ups/downs as favorable conditions and risks gradually emerge. The market's corrections in the second quarter could be great opportunities for investors to increase stock volume and expect rebounds in 2H22. Our top picks are stocks in sectors benefiting from positive macro factors and companies with high earnings growth (*Please refer to Section IV*).

**Table 1. Vietnam – Factors affecting the stock market in 2022** (*See also Section IV of this report*)

Favorable factors	Impact	Possibility	Risks	Impact	Possibility
Post-Covid economic recovery	Strong	High	Inflation and fund rate increases	Severe	Average
Fiscal stimulus	Average	High	Hawkish monetary policy	Severe	Low
Positive earnings of listed companies	Average	High	Escalating Russia-Ukraine tensions	Mild	Average
			Domestic and global covid resurgence	Severe	Low

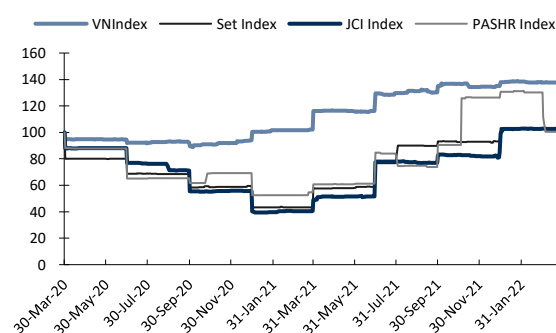
Source: KB Securities Vietnam

**Fig 7. Global – 2022 forward P/E across markets**



Source: Bloomberg, KB Securities Vietnam

**Fig 8. ASEAN4 – EPS movements**



Source: Bloomberg, KB Securities Vietnam

## II. Business activities

Listed companies maintained positive growth momentum in 4Q21 compared to 4Q20 thanks to the post-pandemic economic rebound

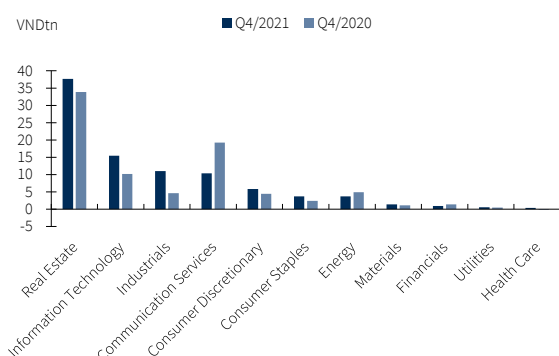
Statistics on the HSX show that enterprises recorded an increase of +10.3% YoY in earnings and +16.9% YoY in revenue. However, excluding the unexpected loss of the Vingroup (VIC), the overall earnings growth was 19.6% YoY. The exceptional growth primarily came from the resumption of economic activities in the fourth quarter thanks to the strategy of "living safely with COVID-19" by the Government in the context of high vaccine coverage rate, following the loss quarter in 3Q21 that was hard hit by the pandemic outbreak.

In particular, earnings growth of essential consumer goods (+139% YoY), raw materials (+53% YoY), non-essential goods (+54% YoY) and finance (+11.1%) came top thanks to a combination of growing consumption plus rising commodity prices. Meanwhile, sectors with negative earnings growth include real estate (-46% YoY) mainly because of the big loss of VIC, energy (-35% YoY) since the demand levels off YoY amid surging prices, and utilities (-26%) due to thermal power enterprises' reduced capacity.

We lower our forecast for average EPS growth of companies on the HSX to 15.1% due to rising macro risks

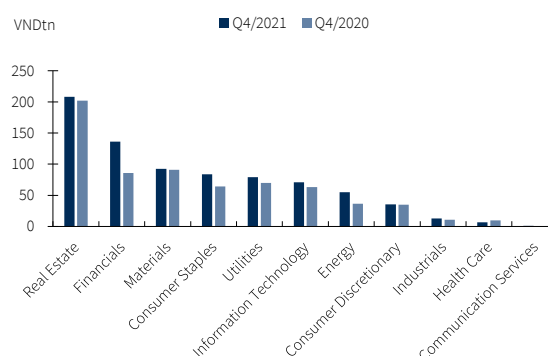
We lower our projection for the average EPS growth to 15.1% vs. 15.7% in the previous forecast due to increased macro risks namely Russia-Ukraine conflict, raw material price spikes, rising inflation, domestic policy rate increases, reduced balance sheet and rate hikes of major central banks around the world. However, it is still a positive growth rate, in our view, since Vietnam's GDP growth is approaching the pre-pandemic levels thanks to: (1) high vaccination rate that helps Vietnam continue its living safely with COVID-19 strategy as disruptions from the pandemic progressively fade; (2) the Government's effectiveness of economic stimulus packages; (3) domestic benchmark borrowing rate expected to remain low thanks to the supportive monetary policy of the State Bank in 1H22 despite possible slight increases in small banks. Non-essential consumer goods (+25.8%), IT (+23.8%), real estate (+18.3%), and finance (+10.9% YoY) should take the lead of the upward trend.

Fig 9. Vietnam – 4Q20–21 earnings across sector (VNDtn)



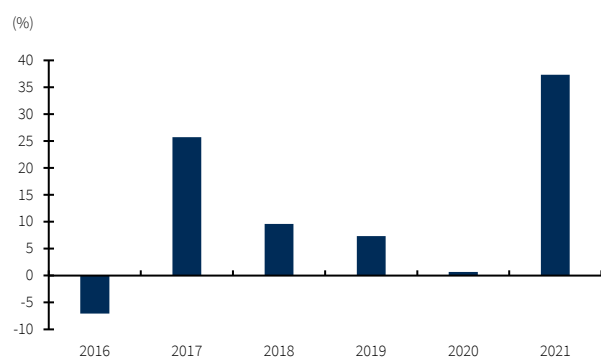
Source: Bloomberg, KB Securities Vietnam  
Note: The Global Industry Classification Standard (GICS)

Fig 10. Vietnam – 4Q20–21 revenue across sectors (VNDtn)



Source: Bloomberg, KB Securities Vietnam  
Note: The Global Industry Classification Standard (GICS)

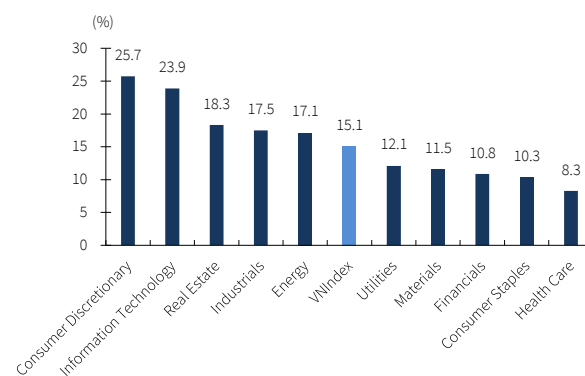
Fig 11. Vietnam – EPS growth (%)



Source: Bloomberg, KB Securities Vietnam

Note: The Global Industry Classification Standard (GICS)

Fig 12. Vietnam – 2022F EPS growth across sectors (%YoY)



Source: KB Securities Vietnam

Note: The Global Industry Classification Standard (GICS)

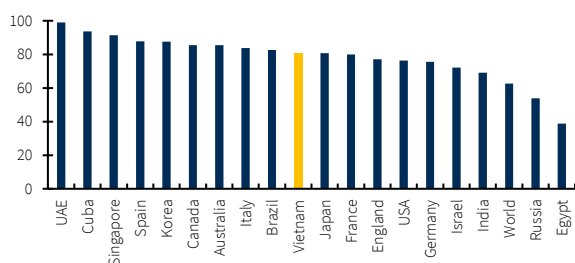
### III. Investment themes & model portfolio

#### 1. Recovery of production and economy

We expect Vietnam's economy to continue its recovery from the 2021 low under the impact of COVID-19 because: (1) Vietnam has injected nearly 200 million COVID-19 vaccines, with 81.14% of the population receiving at least one shot. In particular, 100% of those over 18 years of age received the 1<sup>st</sup> dose, 98.7% got the 2<sup>nd</sup> dose, and 38.4% got the 3<sup>rd</sup> dose; 99% of children aged 12–17 received one shot, and 93.8% got two shots; (2) Vietnam has resumed production and business activities and fully reopened international trade and tourism since March 15 following the "living with COVID-19" campaign; and (3) the government approved an economic stimulus package worth VND350,000 billion to speed up post-pandemic recovery.

We thus forecast Vietnam's GDP in FY22 to grow by 6.3% (*See also the update report on the macroeconomic situation in 1Q22-KBSV*).

Fig 13. Global – Vaccination rate as of March 12, 2022 (%)



Source: Bloomberg, KB Securities Vietnam

Table 2. Vietnam – Economic stimulus packages (VNDbn)

Item	Value (VNDbn)
Health, epidemic prevention	60,000
Social Security and Employment Support	53,150
Support the recovery of businesses, cooperatives, business households	110,000
Infrastructure development, development investment	113,850
Institutional, administrative and business environment reform	10,000
Total	347,000

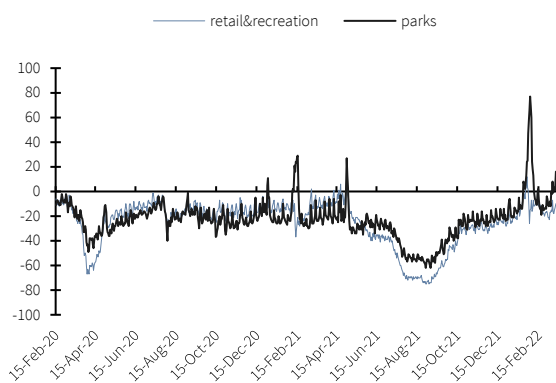
Source: KB Securities Vietnam

Our top picks for our bull basket for 2022 are businesses in five sectors benefiting the most from the abovementioned macroeconomic conditions:

— **Retail industry, especially retailers of non-essential items**, will be underpinned by the lifting of COVID-19 restrictions and growing consumer demand, with 2022F EPS growth expected to be 25% YoY. Statistics from the General Statistics Office and Google Mobility show that total retail sales of goods and mobility to shopping centers and amusement parks recorded a rapid recovery after the lockdowns (Figures 15, 16). We like Mobileworld (MWG) (given its high potential for expanding smartphone market share thanks to the new store model, the rebound in average sales/store of the Bach Hoa Xanh (BHX) chain), and Phu Nhuan Jewelry (PNJ) (given its recovery in retail sales thanks to the growing demand and new store opening).

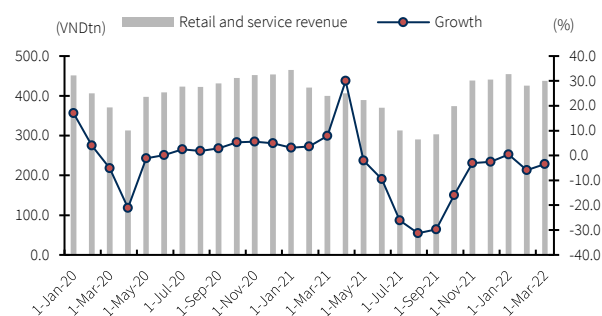


Fig 15. Vietnam – Google Mobility (index)



Source: Google, KB Securities Vietnam

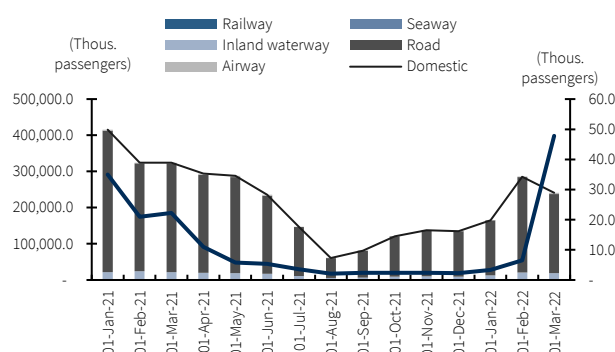
Fig 16. Vietnam – Total retail sales (VNDtn)



Source: General Statistics Office, KB Securities Vietnam

— **Tourism and aviation industries** would recover after two years of closure thanks to the government's guidelines to fully reopen tourism from mid-March, reduce entry requirements, and promote tourism (Figure 17). In the first two months of the year, the tourism industry has shown significant improvement with 17.6 million domestic arrivals, helping total revenue climb over 300% YoY. It drove stocks like Vietnam Airlines (HVN), Vietjet Aviation (VJC), Taseco Air Services (AST), and SCSC Cargo Service (SCS). However, investors should only consider increasing volume from corrections for better upside compared to the target prices, given recent steep rises in prices of these stocks.

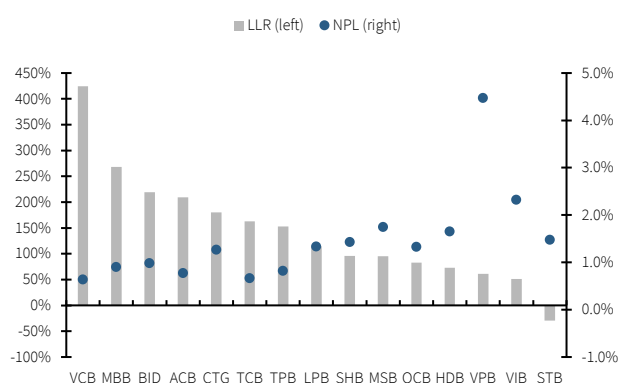
Fig 17. Vietnam – Passenger transport



Source: KB Securities Vietnam

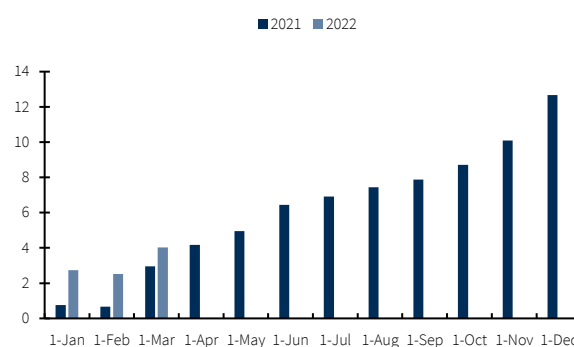
— **Banks** like Vietcombank (VCB), BIDV (BID), Vietinbank (CTG), Techcombank (TCB), Military Commercial Bank (MBB), and Sacombank (STB) are expected to bounce back with strong credit growth of around 14% this year. It is primarily thanks to the supportive policy of the State Bank and recovered bad debts as businesses' financial health improves in the context that banks have made higher-than-required provisions in 2021 (Figure 18). In the first two months of the year, credit growth reached 2.52% YTD vs. 0.66% YTD over the same period a year earlier. Besides, capital raising may boost profits in 2022 (Figure 19).

Fig 18. Vietnam – NPL & LLR of banks in 2021 (%)



Source: Vietnamese banks, KB Securities

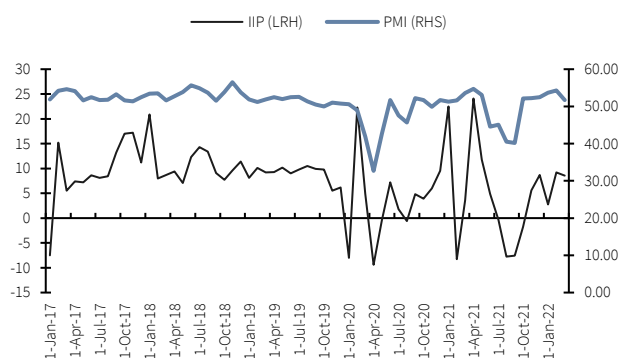
Fig 19. Vietnam – 2021A–2022E credit growth (%YTD)



Source: State Bank, KB Securities Vietnam

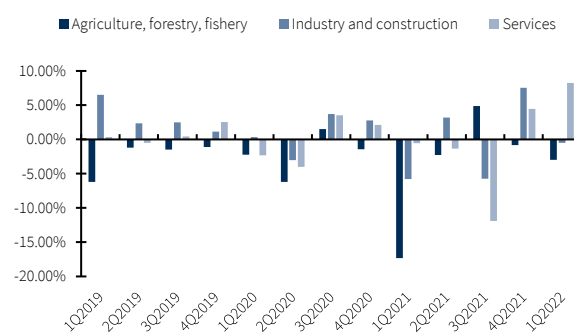
— **Industrial real estate** would benefit from the recovery of the industrial sector in 2022 as large industrial zones gradually resume production with workers returning to work and foreign experts entering Vietnam to research and sign contracts after the lockdown removal and international flight resumption, combined with the shifting of the supply chain in recent years. Businesses with large leasable landbanks such as Kinh Bac City Development (KBC), Long Hau Corporation (LHG), and IDICO Corporation (IDC) still have a lot of room for growth.

Fig 20. Vietnam – IIP, PMI as of January 2022 (index)



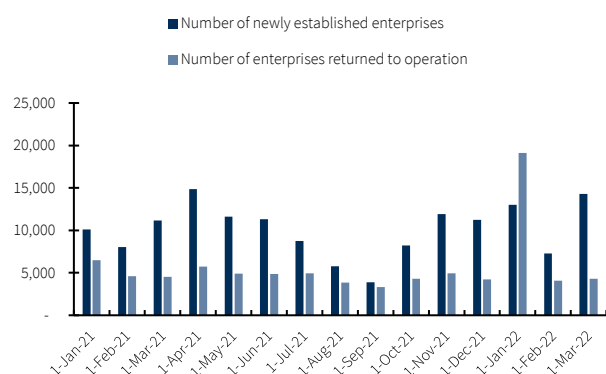
Source: IHS Markit, General Statistics Office, KB Securities Vietnam

Fig 21. Vietnam – Job-to-job transitions (%QoQ)



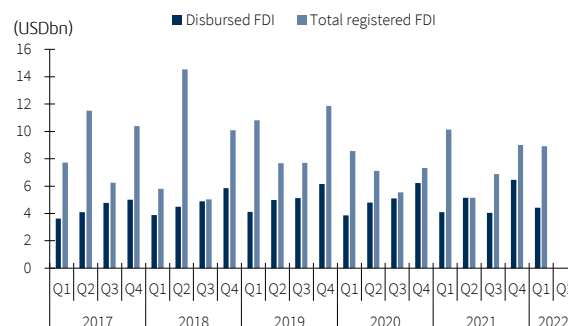
Source: General Statistics Office, KB Securities Vietnam

Fig 22. Vietnam – Newly established enterprises & enterprises returning to work



Source: Bloomberg, KB Securities Vietnam

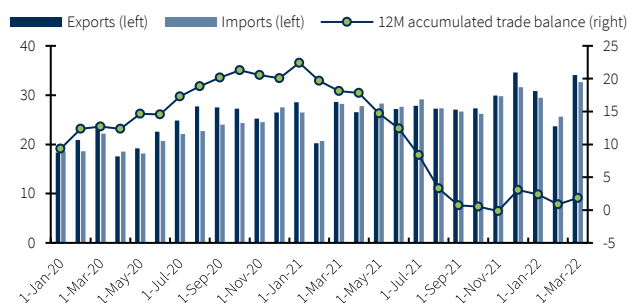
Fig 23. Vietnam – Disbursed and registered FDI (USDbn)



Source: Bloomberg, KB Securities Vietnam

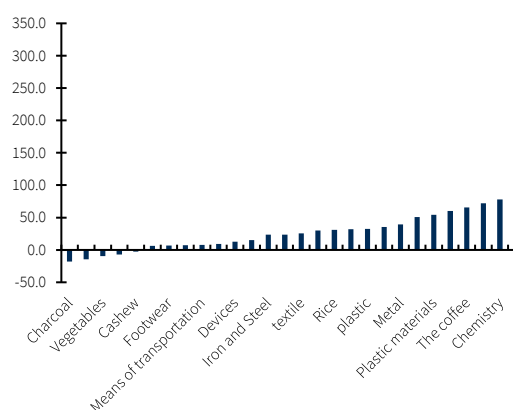
— **Export processing enterprises** in the textiles & garments and seafood sectors would continue to benefit from resumed production and recovering demand from major trading partners. In the first two months of the year, export value jumped by 10.2% YoY to about USD53.8 billion, helped by the resumption of international trade. Traditional exports recorded positive growth in 2M22, including seafood (+50.7% YoY), textile fibers (+30% YoY), textiles & garments (+25.7% YoY), and wood & wood products (+6.4% YoY). Regarding the textiles & garments industry, we like enterprises with competitive advantages and capacity expansion such as Song Hong Garment (MSH) and Century Synthetic Fiber (STK). Concerning the seafood industry, Vinh Hoan Corporation (VHC), Sao Ta Foods (FMC), and Nam Viet Corporation (ANV) should grow strongly in FY22 thanks to increased output and selling prices.

Fig 24. Vietnam – Imports and exports as of January 2022 (USDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 25. Vietnam – Export growth of key products (%YoY)

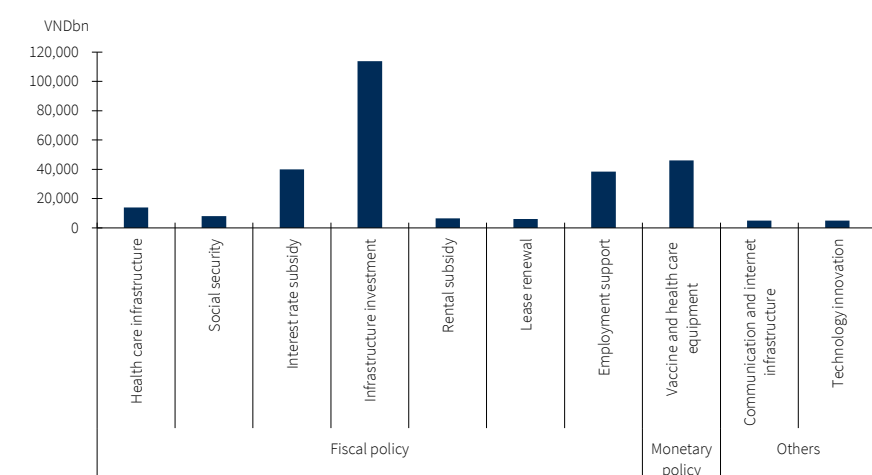


Source: General Department of Vietnam Customs, KB Securities Vietnam

## 2. Public spending

At the extraordinary session of the 15th National Assembly, the Government submitted to the National Assembly a fiscal stimulus package worth VND350,000 billion to stimulate socio-economic recovery and development (Figure 26) in 2022–2023, 42% of which should be disbursed this year.

**Fig 26. Vietnam – VND350,000bn economic stimulus package (VNDbn)**

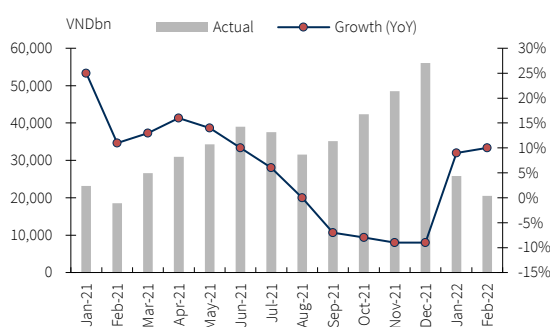


Source: KB Securities Vietnam

Thus, apart from the disbursement in the 2021–2025 medium-term public investment plan, the Government would disburse another VND103,000 trillion for expressway construction projects, road projects connecting to gateways, seaports, and industrial zones.

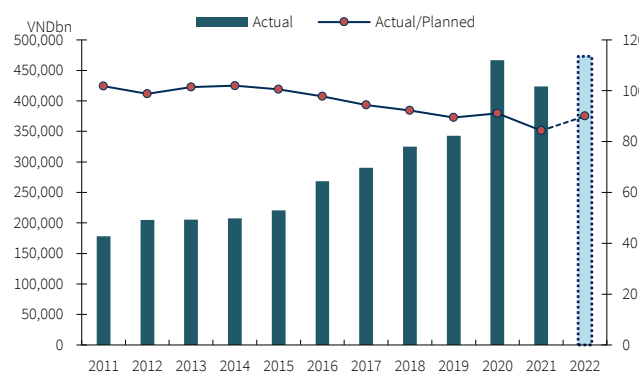
The disbursement of investment capital from the state budget was estimated at VND46.3 trillion (+10.4% YoY) in the first two months of this year, with VND20,517 trillion (+9.9% YoY) in February alone.

**Fig 27. Vietnam – Disbursement of public spending (%YoY)**



Source: General Statistics Office

**Fig 28. Vietnam – Disbursement of public spending (VNDbn)**



Source: General Statistics Office, KB Securities Vietnam

## Public investment disbursement should be speeded up in 2022

With the government's high determination and drastic measures combined with positive macro factors, we believe public spending will be promoted this year from the 2021 low following the economic reopening. In 2022, we estimate a total disbursement of VND473 trillion (+11.7% YoY, fulfilling 90% of the plan).

Sectors and businesses benefiting from public spending in 2022 (Figure 29):

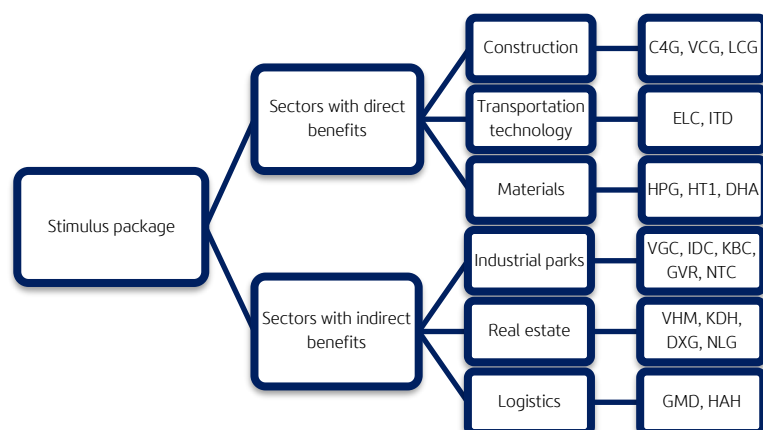
- Infrastructure and construction enterprises, especially ones experienced in public investment projects, namely CIENCO4 Group (C4G), Vietnam Construction And Import-Export (VCG), Licogi 16 (LCG), and companies with electronic toll collection (ETC) & smart traffic control systems like Electronics Communications Technology Investment Development (ELC), Innovative Technology Development (ITD).
- Businesses in residential real estate that own large landbanks near key projects such as Vinhomes (VHM), Khang Dien House Trading and Investment (KDH), Nam Long Group (NLG), Dat Xanh Group (DXG), and industrial real estate Viglacera Corporation (VGC), Kinh Bac City Development (KBC), Phuoc Hoa Rubber (PHR), Nam Tan Uyen JSC (NTC), IDICO Corporation (IDC).
- Building materials enterprises like Hoa Phat Group (HPG), Hoa An JSC (DHA).

**Table 3. Vietnam – Key projects**

Project	Scale	Investment (VNDbn)	Notes
Long Thanh International Airport Phase 1	1180 ha	114,000	50% site clearance and start of phase 1
11 component projects of North-South Expressway	654 km	112,000	98% delivered
Expansion of Tan Son Nhat and Noi Bai International Airport		9,000	Noi Bai is being repaired, Tan Son Nhat is partially put into operation
Trung Luong – My Thuan – Can Tho Expressway	81 km	21,000	Completed a part
Thai Binh Thermal Power Plant 2	600 MW	41,000	Achieved 86% of the plan
Long Phu Thermal Power 1	1200 MW	29,500	Unit 1 will operate in 2Q21, unit 2 will operate in 3Q21
Song Hau Thermal Power 1	2120 MW	72,000	Unit 1 will operate in October 2021, unit 2 will operate in December 2021
Cai Mep – Thi Vai Interport Road		2,605	Phase 1 completed in 4Q20 Phase 2 – Construction of Phuoc An Bridge over Thi Vai River kicked start in 2021
Bien Hoa – Vung Tau Expressway Phase 1	53.7 km	19,600	Preparation for 2021-2022, investor selection 2022 – 2023, site clearance, resettlement 2022 – 2024, construction work 2024 – 2026
Expansion of Long Thanh – Dau Giay expressway	24 km	11,505	Started construction in 2021
Ben Luc – Long Thanh expressway	57.8 km	31,320	98.9% of site clearance completed
Ring Road No. 4 – Hanoi	110 km	90,400	The Deputy Prime Minister approved to establish the State Appraisal Council to appraise the prefeasibility study reports of the project

Source: KB Securities Vietnam

Fig 29. Vietnam – Sectors benefiting from public spending



Source: KB Securities Vietnam

### 3. Russia-Ukraine crisis & inflation

#### Stocks of listed companies benefiting from surging commodity prices outperformed in the first quarter

Data from the International Trade Center (ITC) show that the total export value of Russia and Ukraine in 2020 was USD337.1 billion and USD49.4 billion, respectively, equivalent to 2% of the total global export value. Russia's main exports are oil and natural gas, iron and steel, fertilizers, wood, and grains, and those of Ukraine are cereals, nuts, and animal/vegetable fats and oils. The war in Ukraine led to supply chain disruptions, causing the prices of oil, natural gas, fertilizer, and rice to climb, which helped stocks in these sectors outperform in 1Q22.

Table 4. Russia & Ukraine – Main exports

No.	Items	Export value in 2020	Global export value in 2020	Weight	Rank in 2020
<b>Russia</b>					
1	Oil & natural gas	141,918.22	1,622,542.72	8.75%	3
2	Precious metals	30,360.38	716,683.60	4.24%	6
3	Steel	16,006.09	329,699.22	4.85%	5
4	Cereal	9,340.48	119,378.89	7.82%	3
5	Lumber	8,196.11	134,090.92	6.11%	4
6	Fertilizers	6,995.41	55,560.71	12.59%	1
<b>Total</b>		<b>337,105.35</b>	<b>17,503,376.18</b>	<b>1.93%</b>	
<b>Ukraine</b>					
1	Cereal	9,417.29	119,378.89	7.89%	2
2	Steel	7,690.48	329,699.22	2.33%	15
3	Animal fat and plant-based oil	5,759.57	102,150.89	5.64%	3
4	Clinker	4,420.74	254,624.28	1.74%	9
5	Seeds and oil	1,842.44	109,983.45	1.68%	9
<b>Total</b>		<b>49,388.09</b>	<b>17,503,376.18</b>	<b>0.28%</b>	

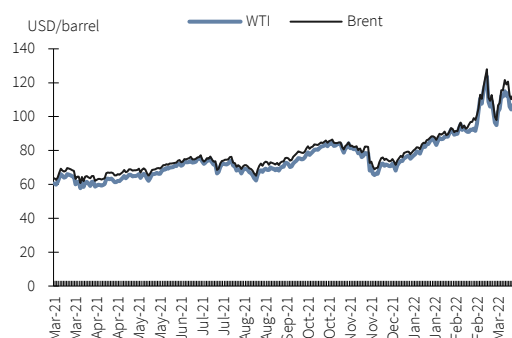
Source: International Trade Centre, KB Securities Vietnam

In our base case scenario, despite some progress in the recent round of negotiations, Russia-Ukraine tensions may persist until at least the end of 1H22 and create upward momentum for stocks in the following sectors:

#### The supply shortage has led to oil price surges over the past months

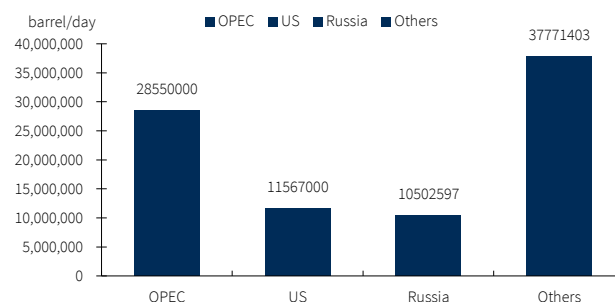
— **Oil & Gas:** Russia is the world's third largest oil exporter with an export turnover of USD142 billion or 9% of the total global export value. The fact that the US and its allies banned the import of Russian fossil fuels would further tighten global oil supplies. Meanwhile, the post-pandemic recovery in travel, transportation, and trade may boost oil consumption in 2022. Besides, with large oil exporters suffering from a lack of investment and OPEC's oil production not fully recovering to pre-pandemic levels, along with geopolitical tensions and prolonged sanctions, oil price rallies will likely continue in the short term.

Fig 30. Global – WTI, Brent prices (USD/barrel)



Source: Bloomberg

Fig 31. Global – Crude oil production/annum (bpd)



Source: Bloomberg, KB Securities Vietnam

**Supply chain disruptions due to Russia-Ukraine geopolitical tensions have sent food prices to their highest ever**

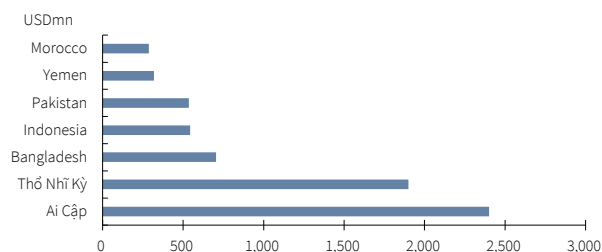
— **Rice and fertilizers:** exports of cereals (wheat, corn) from Russia and Ukraine combined account for more than 15% of the total export value worldwide. The food supply disruptions from these two countries have had a detrimental impact on global food security, especially in Egypt and Turkey. Wheat prices have picked up by nearly 10% last month and more than 72% within a year, leading to increases in prices of others such as rice, oats, as well as pork, chicken.

Besides, Russia is the leading fertilizer exporter, accounting for 13% of the total global exports, with the main exports being ammonia gas (20% of total global exports), urea (15%), and potash fertilizer (17%). The export bans of Russia, China, and Egypt until the end of 2Q22 to meet domestic demand have put global fertilizer supplies under enormous pressure, the war in Ukraine even aggravated fertilizer shortages and further pushed up food prices.

As a result, if commodity prices continue to stay high, we believe much upside is left for oil and gas stocks like PV Gas (GAS), PV Drilling & Well Services (PVD), PV Technical Services (PVS), chemicals and fertilizer stocks namely PV Fertilizer & Chemicals (DPM), PV Ca Mau Fertilizer (DCM), Duc Giang Chemicals (DGC), and rice stocks such as Loc Troi Group (LTG) thanks to high earnings growth in 2Q22 as compared to 2Q21. The downside risks primarily come from the sooner-than-expected de-escalation of the Russia-Ukraine conflict and decreasing commodity prices.

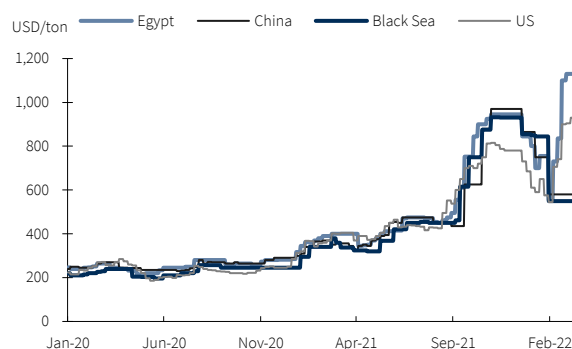


Fig 32. Russia, Ukraine – Export value (USDmn)



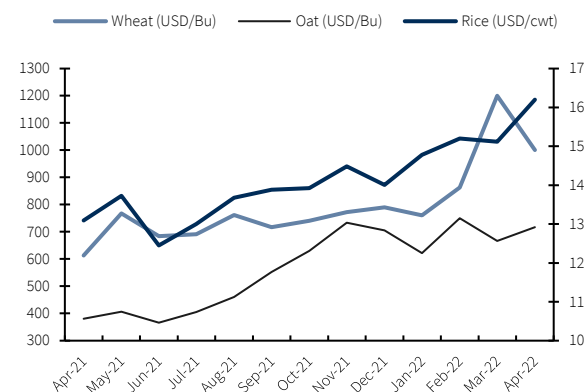
Source: International Trade Center, KB Securities Vietnam

Fig 33. Global – Fertilizer prices (USD/ton)



Source: Bloomberg

Fig 34. Global – Cereal prices



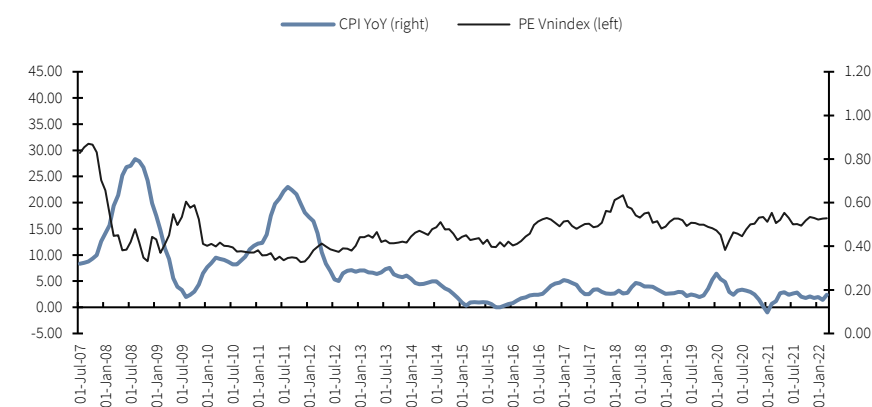
Source: Bloomberg

On the other hand, the Russia-Ukraine conflict has hurt the stock market for the following reasons: (1) the conflict has contributed to increasing inflation, policy rates, as well as less room left for loosening fiscal and monetary policies by the Government and the State Bank, thereby restraining the economic recovery; (2) the global supply chain of commodities, agricultural products, and energy has been disrupted, causing operating costs to surge, especially those in sectors like textiles, seafood, coal, livestock, transportation, and air; (3) consumer demand in the US and EU, Vietnam's main trading partners, tends to decline due to the war in Ukraine, which may level off the export revenue of enterprises with a high market share in these nations.

Historical statistics also show the inverse correlation between inflation (measured by CPI YoY) and the VN-Index's P/E (Figure 35). Vietnam's stock market tends to rise during periods of low inflation such as in 2007, 2009, and 2021, and correct during times of high inflation like in 2008, 2011, and 2020.

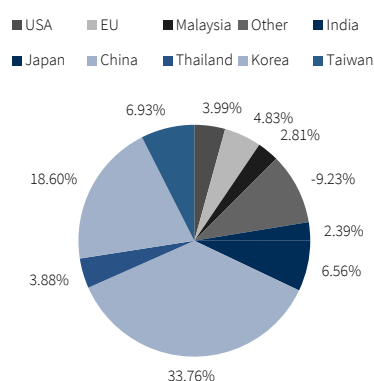
In the base case scenario where the Russia-Ukraine conflict cools down in the second half of 2Q22, core inflation may increase by 3.8% YoY. As a result, we lowered our projection for the end-2022 forward P/E of the VN-Index from 17.5x in the annual report to 16.5x.

Fig 35. Vietnam – P/E, CPI (x, %YoY)



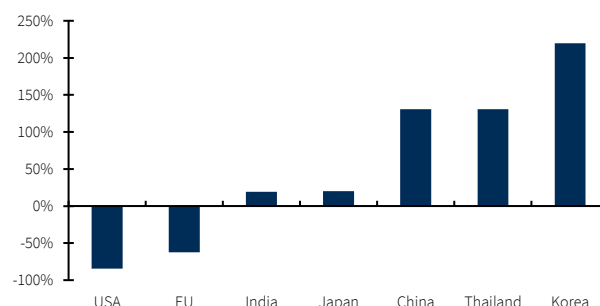
Source: General Department of Customs, KB Securities Vietnam

Fig 36. Vietnam – 2M22 exports to foreign markets (%)



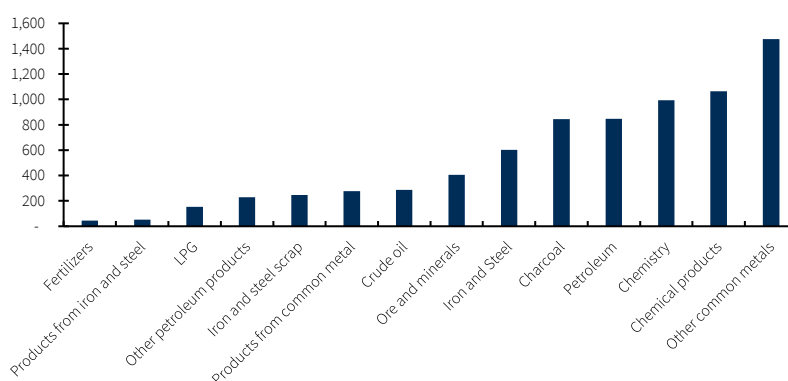
Source: General Department of Customs, KB Securities Vietnam

Fig 37. Vietnam – 2M22 export growth to foreign markets (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 38. Vietnam – Exports of energy and commodities in 2M22 (USDmn)



Source: General Department of Customs, KB Securities Vietnam

## IV. Risk factors

### The Fed's interest rate hikes

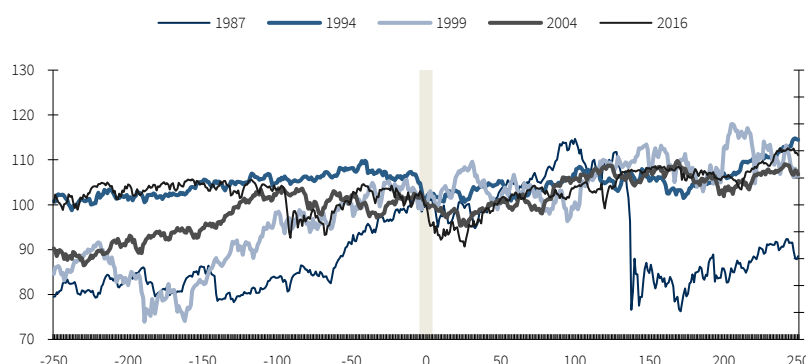
A more hawkish Fed after two years of ultra-easy policy to support the economy hard hit by COVID-19 had a profound impact on the Vietnamese and world stock markets:

**The US stock market tends to increase in the first year of interest rate hikes**

#### — Indirect impacts via the US economy and stock market performance:

In the optimistic scenario, history shows that the US stock market could weather the previous four rate hike cycles with an average increase of 12% in the first year the Fed raised rates (Figure 39), and this hiking cycle is likely no exception. It can be explained by the US's high GDP growth after the Fed raises interest rates. Accordingly, the strong earnings growth of listed companies can offset the negative impacts of rising interest rates.

Fig 39. US – S&P 500 (index)



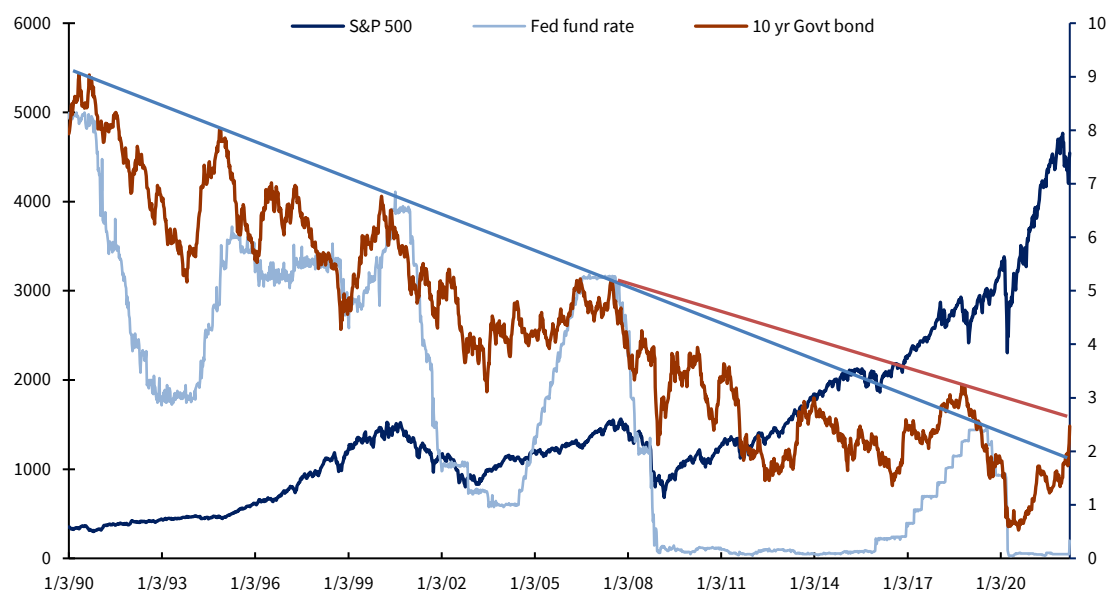
Source: Bloomberg, KB Securities Vietnam

Note: T = 0 is the time when the Fed first raised interest rate

**The stock market may witness strong corrections in case the Fed aggressively raises interest rates**

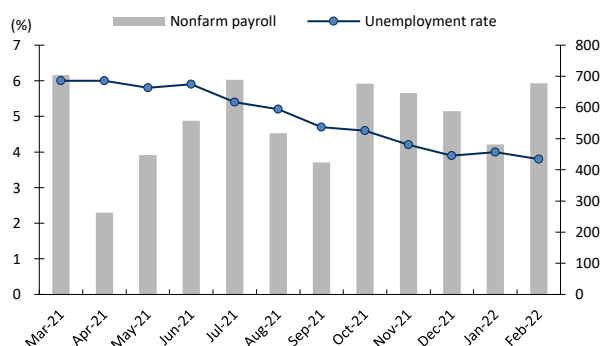
In the conservative scenario, there are growing concerns that the Fed's aggressive rate hikes to tame inflation may drag the economy into a recession since the US has been struggling with the widespread Omicron mutation and multidecade high gasoline prices. Statistically, whenever the US 10-year government bond yield line hits a long-term downtrend line, S&P 500 tends to correct afterward due to concerns about economic growth (such as in 2000, 2008, 2018) (Figure 40). In the mid-1Q22, the US stock market also experienced a 10% correction from the short-term peak when the 10-year treasury yield surpassed 1.9%. The 10-year bond yield line is continuing its uptrend due to the Fed signaling more aggressive rate hikes in the future. We believe the market may witness deep corrections as interest rates approach 2.8–3%.

Fig 40. US – 10Y Government bond yield, policy rate and S&amp;P500



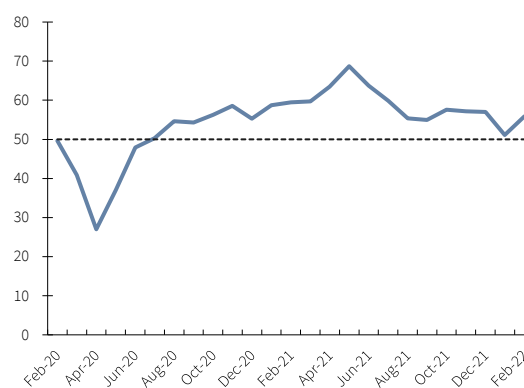
Source: Bloomberg, KB Securities Vietnam

Fig 41. US – Nonfarm payrolls, unemployment rate (%)



Source: Bloomberg, KB Securities Vietnam

Fig 42. US – PMI (index)



Source: IHS Markit

**However, we incline towards the optimistic scenario on the rapid growth of the labor market as well as improved business environment**

For the time being, we incline towards the optimistic scenario given the recovery of the US economy. Data from the US Bureau of Labor Statistics showed that the total nonfarm payroll employment in February 2022 increased by 678,000, higher than forecast. The unemployment rate dropping to the bottom of 3.8% since the outbreak of COVID-19 combined with a salary increase of 5.8% YoY reflected the optimism of enterprises in the business prospects. The IHS Markit survey showed that increased orders and solved supply chain problems helped the US Purchasing Managers' Index (PMI) rise to 57.3 in February. Bloomberg Economic Insight forecast the US's GDP growth rate in 1Q21 at 3.4% YoY.

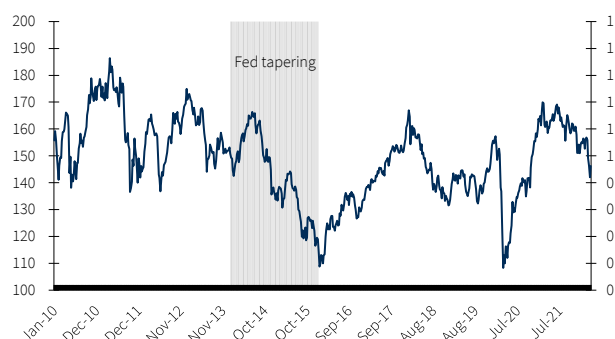
**The impact of the USD appreciation on Vietnam's macroeconomic conditions is limited**

**— Direct impacts on Vietnam's economy and FDI inflows via USD/VND exchange rate fluctuations:**

In the past, the Fed's monetary policy tightening often made the USD stronger and local currencies of emerging markets depreciate, leading to capital withdrawal and rising external debt repayment obligations. However, Vietnam can withstand the stronger USD thanks to ample USD supplies from FDI and remittances. Meanwhile, the trade surplus in February will reverse soon as enterprises are boosting raw material imports for business operations. Besides, domestic foreign exchange reserves remain relatively high (Figure 45). In fact, despite the appreciation of the USD since mid-2021, the USD/VND exchange rate remains stable (Figure 46) and under the State Bank's control.

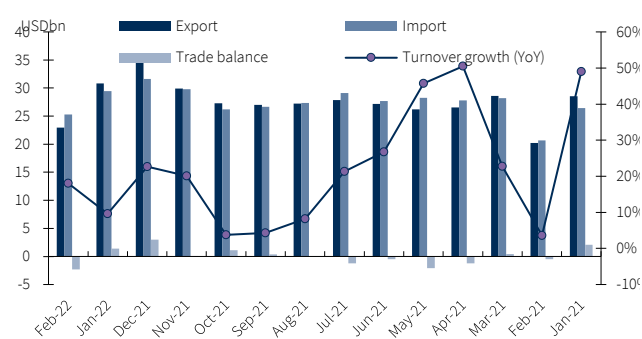
The stronger USD reflected the expectations for a more hawkish policy and less volatile market. Along with that, Vietnam's macroeconomic stability would mitigate the risk of a sharp increase of over 2% in the USD/VND exchange rate until the end of 2022 (*See also the 2Q22 Macro Report – KBSV*). Thus, it limits the impacts on macroeconomic conditions as well as capital flows into the stock market.

**Fig 43. Emerging markets – Money Flow Index**



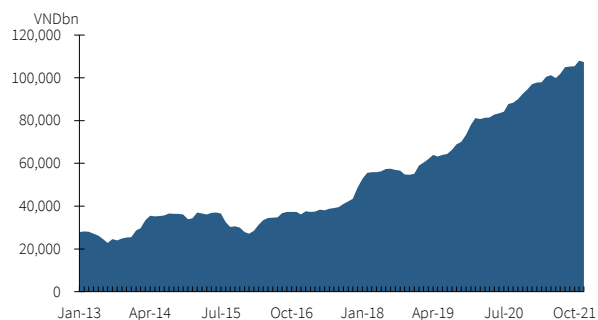
Source: Bloomberg, KB Securities Vietnam

**Fig 44. Vietnam – Imports & exports (USDbn, %)**



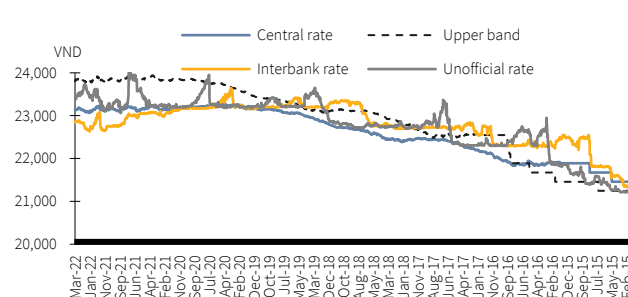
Source: General Statistics Office, KB Securities Vietnam

**Fig 45. Vietnam – Foreign exchange reserves (USDbn)**



Source: Bloomberg, KB Securities Vietnam

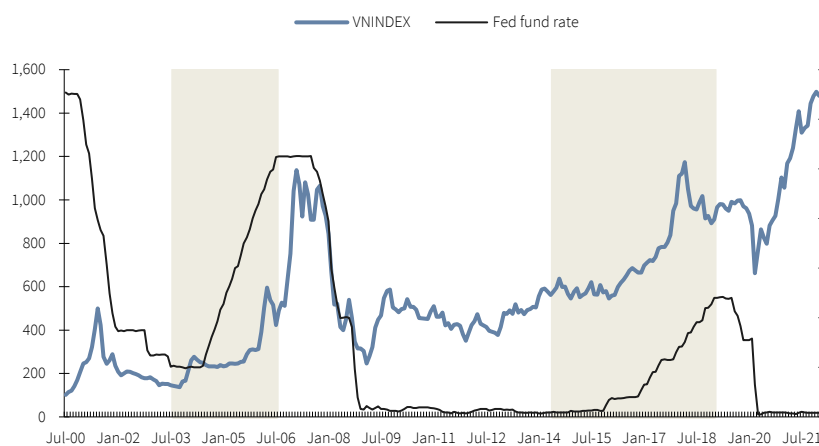
**Fig 46. Vietnam – USD/VND exchange rate**



Source: Fiinpro, KB Securities Vietnam

After assessing direct and indirect impacts, we believe that the Fed's rate hikes' impact on Vietnam's stock market is negligible unless they make the US economy collapse and cause global stock markets to stumble. Statistically, the VN-Index posted gains following the Fed's rate hikes. To be more specific, the index increased by +218% in the 2003–2006 period and +57% in the 2014–2018 period (Figure 47).

**Fig 47. Vietnam – VN-Index & Fed funds rate**



Source: Bloomberg, KB Securities Vietnam

## V. 2Q22 top picks & model portfolio

Table 5. KBSV Top picks

No.	Ticker	Target price	Current price	Upside	Earnings growth			ROE			P/E	
		VND	VND		2020	2021	2022F	2020	2021	2022F	2021	2022F
1	HLD	68,300	48,500	40.8%	-2.1%	-79.5%	-55.8%	16.6%	3.4%	34.4%	63.7	138.6
2	VHM	105,600	75,800	39.3%	16.0%	38.1%	12.0%	35.6%	35.2%	2.0%	8.4	7.5
3	THG	119,500	88,000	35.8%	56.6%	-23.0%	64.6%	37.6%	25.3%	28.9%	10.8	6.6
4	PVT	34,400	25,700	33.9%	1.2%	0.5%	30.4%	11.2%	10.0%	13.5%	12.6	7.6
5	CTG	43,100	32,450	32.8%	45.2%	3.3%	48.9%	16.9%	15.9%	22.7%	11.1	7.4
6	TCB	65,600	49,550	32.4%	23.0%	46.4%	18.2%	18.4%	22.0%	20.6%	9.6	8.7
7	DPR	112,700	85,100	32.4%	10.7%	123.2%	-24.0%	7.7%	17.0%	13.1%	8.2	10.1
8	VNM	105,700	80,900	30.7%	6.5%	-5.4%	3.6%	35.0%	30.3%	32.0%	16	15.3
9	HPG	56,700	45,100	25.7%	78.2%	155.6%	-11.5%	25.1%	46.0%	25.0%	5.9	6.6
10	VPB	44,700	37,200	20.2%	26.1%	10.2%	38.6%	21.9%	16.5%	16.8%	14.1	10.2
11	DHA	66,200	55,500	19.3%	44.7%	-8.2%	-1.3%	24.1%	20.1%	17.9%	9.1	9.2
12	PNJ	129,100	110,500	16.8%	-10.4%	-3.8%	38.9%	21.8%	18.3%	22.0%	24.4	17.5
13	GAS	125,000	108,300	15.4%	-34.0%	11.0%	19.8%	15.9%	17.1%	21.5%	23.9	18.3
14	MWG	168,200	145,800	15.4%	2.2%	25.0%	38.7%	28.4%	27.3%	31.0%	21.2	15.2
15	FPT	122,000	107,000	14.0%	13.1%	20.9%	19.7%	20.0%	21.7%	24.1%	22.4	18.7
16	DXG	52,600	46,600	12.9%	-109.2%	-	28.6%	-5.4%	10.3%	14.0%	23.9	13.5
17	NLG	63,200	56,400	12.1%	-15.6%	73.8%	19.7%	12.9%	10.6%	12.0%	17.5	8.5
18	BID	48,000	43,500	10.3%	-15.5%	50.1%	36.2%	9.2%	13.1%	16.2%	20.9	14.8

Source: KB Securities Vietnam

Table 6. Model portfolio

Ticker	Target price	Expected earnings	2022 forward P/E	2022F earnings growth	Investment catalysts	Update report
FPT	122,000	14%	16.00	20%	<ul style="list-style-type: none"> <li>- FPT continues to set an ambitious growth plan for FY22 in all foreign markets North Asia (+20%), America (+33%), Europe (+25%), and Southeast Asia (+25%)</li> <li>- FPT expects a 3-year CAGR of no less than 30% with 2022F PBT expected to grow by 50% thanks to digital transformation.</li> <li>- Education &amp; investment segment witnessed impressive growth in 2021 with revenue increasing by +93.3% YoY despite the COVID-19 pandemic.</li> </ul>	<a href="#">FPT</a>
MWG	168,800	16%	12.70	11%	<ul style="list-style-type: none"> <li>- TGDD/DMX achieved positive growth in 2021 despite the negative impact of COVID-19 in 3Q, expected to gain the market share from retail stores after lockdowns.</li> <li>- BHX achieved a positive EBITDA - fulfilling the target in FY21. The BOD aims toward a sustainable profit by the end of the year.</li> <li>- MWG plans to sell a 20% stake in BHX to the partner in FY22.</li> </ul>	<a href="#">MWG</a>
TCB	65,600	32%	n.a	n.a	<ul style="list-style-type: none"> <li>- Asset quality ranks first in the banking system with the lowest NPL ratio and the fourth highest loan loss coverage ratio, thus reducing provisioning pressure in FY22.</li> <li>- High credit growth is expected this year thanks to economic recovery from the pandemic.</li> <li>- The IPO of Techcombank Securities (TCBS) is expected in the medium and long term</li> </ul>	<a href="#">TCB</a>
PNJ	129,100	17%	17.90	42%	<ul style="list-style-type: none"> <li>- Business results rebounded strongly after the lost quarter in 3Q21.</li> <li>- Business results in FY22 should continue to recover, especially in the retail sales thanks to the store opening.</li> <li>- The number of new PNJ Gold stores in 2022 should be 20-40, depending on the COVID-19 pandemic. We, therefore, expect retail sales to grow by 30-35% YoY from a low base.</li> </ul>	<a href="#">PNJ</a>
VHM	107,800	42%	7.59	22%	<ul style="list-style-type: none"> <li>- VHM continues to maintain its leading position in the residential real estate segment targeting both the mid- and high-end markets with market share of up to 25% during 2016-2Q21, 3% higher than the second-ranked company. VHM currently owns a landbank of up to 164 million m2 of floor area.</li> <li>- VHM may complete sales at three projects this year and launch three new projects in 2022, the majority of which are low-rise products with high potential for price appreciation. The total value of newly signed contracts in FY22-23 is about VND88 trillion (+11%YoY)/VND 98 trillion (+11%YoY).</li> <li>- Business results should maintain growth momentum in the coming years. We estimate NPAT in FY22 to reach VND43,466 billion (+11% YoY).</li> </ul>	<a href="#">VHM</a>
HLD	68,300	41%	143.90	-53%	<ul style="list-style-type: none"> <li>- Hudland project in Binh Giang covers an area of 44 ha with a total investment of more than VND900 billion, expected to be launched in 2022.</li> <li>- HLD plans to invest in three urban areas (60ha) in Yen Bai, with a new urban area in Hop Minh Ward (24.5 ha), one in Dong Tam Ward (3.93 ha), and one in Yen Ninh Ward (32 ha).</li> <li>- We believe that HLD will pay a high dividend yield in the period of 2023-2026 when the Hudland project realizes profits.</li> </ul>	<a href="#">HLD</a>
KBC	75,000	41%	24.40	309%	<ul style="list-style-type: none"> <li>- KBC plans to lease 50 ha in 2022 at VND20 million/m2. With infrastructure investment estimated at VND5,000 billion, we believe that KBC can record a gross profit of VND7,000 billion.</li> <li>- KBC pushed back the accounting plan for 6 ha of Phuc Ninh Urban Area that it had received deposits in FY22, and in the meantime, opens for sale 10 ha of the next phase in 2023.</li> <li>- KBC is getting the investment permit for 300 ha in Hung Yen and over 1,000 ha in Hai Duong.</li> </ul>	<a href="#">KBC</a>
CTG	43,100	33%	5.52	50%	<ul style="list-style-type: none"> <li>- CASA should improve, supporting maintaining NIM with the zero-fee policy for customers using Vietinbank iPay.</li> <li>- The provisioning pressure is reduced significantly in FY22 due to accelerated provisioning in 2021, of which 90% of restructured debts were made provision instead of being spread over three years, the loan loss coverage ratio was 180.4%, the fifth highest in the banking system.</li> <li>- CTG may record USD5 million of upfront fee in 1Q22 from the exclusive 16-year agreement with Manulife.</li> </ul>	<a href="#">CTG</a>
NLG	63,200	12%	16.65	16%	<ul style="list-style-type: none"> <li>- The Akari City project, one of the key projects of NLG, was carried out breaking ground ceremony on February 2, 2022, and will be opened for sale on March 22. The project may bring in VND4,900 billion in sales in 2022-2023.</li> <li>- In FY22, NLG should continue to open for sale Mizuki, Akari (phase 2), Southgate, Can Tho, and Izumi City projects. In our estimates, the company sold 3,712 units (+68% YoY) for VND13.753 billion (+56% YoY).</li> <li>- Earnings in FY22 are driven by VND360 billion from the sale of 50% of the Paragon project in Dai Phuoc.</li> </ul>	<a href="#">NLG</a>
DXG	51,200	10%	21.51	19%	<ul style="list-style-type: none"> <li>- DXG will re-open for sale its key project Gem Riverside in 2Q22 or 3Q22 at the latest at about VND80 million/m2 vs. VND30-32 million/m2 in 2018.</li> <li>- DXG is working on detailed planning 1/500 for the Gem Premium project in Thu Duc District, HCMC, and may open for sale the project in the coming time.</li> <li>- DXG has been aggressively expanding its landbank with a total area of 4,200 ha currently, of which 30-40% is clean and clear landbank available for sale.</li> </ul>	<a href="#">DXG</a>

Source: KB Securities Vietnam



## VI. Sectors' prospect

# Residential real estate

**Outlook: Positive**

**Tickers: VHM, KDH, NLG, DXG**

The COVID-19 pandemic and licensing challenges have negatively affected the residential real estate market in megacities like Hanoi and Ho Chi Minh City (HCMC). The number of apartments launched and sold over the past year was only half of that during 2015–2019. However, the absorption rate remained high at about 74% in HCMC and 47% in Hanoi. Besides, prices in Hanoi recorded the highest increase in the past five years (+12% YoY), and it is about 3%YoY in HCMC. Districts like Gia Lam, Thu Duc, and some neighboring provinces such as Hung Yen, Quang Ninh, Dong Nai, Binh Duong, and Vung Tau recorded housing price surges with high absorption rates. Townhouse/villa sales stayed high with a price increase of 12% YoY in Hanoi and 18% YoY in HCMC on growing demand.

From 4Q21 until the end of 1Q22, real estate companies boosted sales at many projects, namely Mizuki Park (NLG), Celesta Heights (Keppel Land and Phu Long), Metropole Thu Thiem (SonKim Land). Besides, inner-city projects, such as Gem Riverside (DXG), have been reopened for sale.

The investment catalysts for the real estate sector in the 2Q22 include: (1) Public spending promotion of some crucial projects like the North–South expressway, Long Thanh airport, traffic axes connecting HCMC with neighboring provinces and cities, and suburban planning projects, which can promote housing prices and boost the real estate investment; (2) reopened-for-sale projects in the inner city of HCMC; (3) relatively low interest rates and signs of intensified inflation, promoting the demand for home loans or loans for real estate investment.

Stocks of enterprises with high earnings growth, large clean and clear landbanks that are legally eligible, and positive sales should be invested in, notably Vinhomes (VHM), Khang Dien House Trading and Investment (KDH), Nam Long Group (NLG), Dat Xanh Group (DXG).

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# Industrial real estate

**Outlook: Positive**

**Tickers: KBC, PHR, NTC,  
IDC**

In the first two months of the year, FDI inflow returned to Vietnam, with disbursed FDI reaching USD4.42 billion (+7.8% YoY). We expect FDI to continue to recover as Vietnam is now among six countries with the highest vaccination rate worldwide. Furthermore, the Vietnamese Government approved the resumption of international flights from February 2022 and recognized vaccine passports of some countries, which facilitates the travel of foreign experts and investors to Vietnam.

In the medium term, the outlook for Vietnam's industrial real estate is bright, coming from: (1) signed free trade agreements (FTAs); (2) Vietnam's attraction as a destination for companies looking to leave China thanks to lower labor costs and land rental prices compared to the region; and (3) public investment promotion for many key infrastructure projects to help boost connectivity between regions and nations, thereby attracting FDI inflow in the future.

Some notable industrial real estate enterprises are Kinh Bac City Development (KBC), Phuoc Hoa Rubber (PHR), Nam Tan Uyen JSC (NTC), and IDICO Corporation (IDC). These are ones owning large leasable landbanks near key projects in the neighboring provinces of Hanoi and HCMC.

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# Electric power

**Outlook: Positive**

**Tickers: POW, NT2, REE,  
QTP, GEG, PC1**

In the first two months of this year, electricity consumption recorded a positive growth of 6.1% YoY nationwide. We expect commercial electricity consumption to continue to recover in the wake of Vietnam's high vaccine coverage rate, helping GDP growth return to pre-pandemic levels. We forecast electricity output in 2022 to grow by 10.5% YoY, the highest over the past five years.

We are positive about the prospect of the electric power industry in 2022. However, there will be divergence among plants using different sources of energy for the following reasons: (1) The fadeaway of La Nina in the second half of 2022 will make the hydrological situation less favorable for hydroelectric power plants; (2) wind power plants starting commercial generation before November 1, 2021 may enjoy positive revenue growth in 2022 thanks to high electricity prices, namely wind power projects of PC1 Group (PC1), Gia Lai Electricity (GEG), Refrigeration Electrical Engineering (REE); (3) thermal power plants will bounce back from the 2021 low thanks to increased mobilization in 2022 since the unfavorable hydrological situation affects the production of hydroelectric power plants, thereby boosting prices in the competitive generation market (CGM); (4) coal power plants will have a competitive advantage over gas power plants because coal prices are more stable than gas prices amid spiking world oil prices. Enterprises such as PV Power (POW), PV Power Nhon Trach 2 (NT2), and Quang Ninh Thermal Power (QTP) will benefit from the change in mobilization structure.

*Equity Research – KB Securities Vietnam*

# Information technology

Outlook: Positive  
Tickers: FPT, CMG

In 2021, the ICT industry revenue was USD136.15 billion (+9.2% YoY), of which the hardware sector contributed USD121 billion. The Ministry of Information and Communications expects digital transformation to drive the ICT industry's CAGR to reach 15.22% over the next four years. The Ministry also targets 100,000 digital technology enterprises in Vietnam by 2025, up 56.25% vs. 64,000 enterprises in 2021.

The outsourcing segment still maintained positive growth with an increase in newly signed contracts. It was attributable to the rising demand for software solutions and digital transformation globally as enterprises seek to improve their services and save costs during the pandemic for better business performance. Regarding FPT, by the end of February 2022, foreign IT services revenue gained by 32.6% YoY, and newly signed contracts rose by 52.0% YoY.

The telecommunications segment should maintain its growth, helped by the broadband segment with an 8–10% increase in subscribers and the OTT Video segment thanks to its increasing popularity in Vietnam. Besides, the development of mobile broadband services like 4G and 5G would help telecommunications businesses make breakthroughs.

We believe that IT enterprises will continue their double-digit growth in 2022. Investors should invest in stocks with robust growth in the outsourcing segment and powerful digital transformation like FPT Corporation (FPT) and CMC Corporation (CMG).

*Equity Research – KB Securities Vietnam*

# Banks

**Outlook: Positive**

**Tickers: VCB, BID, MBB, TCB**

According to statistics from the State Bank, credit growth in 2M22 reached 1.82% YTD, down from +2.74% YTD in January since the Lunar New Year took place in early February. However, it is still much higher than the 2021 level (+1.2% YTD as of March 17, 2021). With credit growth of 13.53% in 2021 and expected to be higher in 2022 to accelerate post-pandemic recovery, KBSV forecasts FY22 credit growth to reach 14–15%.

In 4Q21, the average earnings yield was 6.85%, down –19bps QoQ since banks continued to cut lending interest rates to aid pandemic-hit businesses while the average cost of funds was 3.33%, down –10bps, making NIM in 4Q21 reach only 3.73%, down –9bps QoQ. We believe that banks may face higher pressure on NIM this year amid rising commodity prices in the wake of surging inflation caused by the war in Ukraine. Besides, the acceleration in credit growth may also mean banks offer higher deposit rates to raise capital.

In 4Q21, the NPL ratio of banks under our coverage was 1.29% (–29bps QoQ), special mention loans hit 1.14% (–26bps QoQ) thanks to banks' boosted provisioning and writing off bad debts. The loan loss coverage ratio reached 157.6% (+34.7 percentage points QoQ). In particular Vietcombank (VCB, +424.4%), Military Commercial Bank (MBB, +268.0%), BIDV (BID, +219.4%) and Asia Commercial Bank (ACB, 209.4 %) were banks with the highest loan loss reserve ratio. In 4Q21, restructured debts of banks under our coverage were down by VND2,400 billion QoQ. Apart from that, many banks have accelerated provisioning for most of the restructured debts instead of spreading them over three years, alleviating provisioning pressures in 2022.

We stay POSITIVE about the banking sector in 2Q22. Our top picks are banks with good asset quality and high provisions, namely Vietcombank (VCB), BIDV (BID), Techcombank (TCB), and Military Commercial Bank (MBB).

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# Retailers

**Outlook: Positive**

**Tickers: MWG, PNJ**

Shortly after the relaxation of social distancing measures, the retail industry witnessed a strong recovery in 4Q21 and the first two months of 2022. In particular, retail sales of goods in 2M22 hit VND876 trillion (+1.7% YoY) after the government lifted lockdowns and resumed production and business activities in megacities like Hanoi and HCMC.

In the medium term, we believe the economic reopening would boost services, tourism, and leisure activities, driving revenue and earnings of retail businesses. In the long run, Vietnam's youth population and relatively high GDP growth rate are the key drivers for the retail sector to maintain good growth momentum.

Mobileworld (MWG) and Phu Nhuan Jewelry (PNJ) are our top picks in the retail sector. As for MWG, despite the saturation of the smartphone and consumer electronics markets, thanks to the effective strategy, MWG could still gain more Apple iPhone market share from retail stores specializing in hand-carried products that used to dominate the market. In addition, we also expect the Bach Hoa Xanh (BHX) chain to record better business results thanks to costs optimization and strategy to attract more consumers. For PNJ, it posted impressive results in the first two months of the year, with revenue and NPAT up +41.1% and +36.7% YoY. We assess the demand for jewelry (non-essential consumer goods) will gradually recover with improved employment income after the pandemic. However, we also note higher consumer spending for necessities in response to soaring inflation can make the growth momentum fall short of expectations for these two enterprises.

We are optimistic about the outlook of the retail sector in 2Q22 thanks to the 'Living with COVID-19' campaign despite a large number of new daily cases. Therefore, there may be hardly stringent social distancing measures in the coming time.

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# Fisheries

**Outlook: Positive**

**Tickers: FMC, VHC, ANV**

Vietnam's seafood industry generally recorded a strong recovery in the first two months of this year, with export turnover reaching USD1.5 billion (+51% YoY), of which USD384 million (+93% YoY) was pangasius exports and USD550 million (+46% YoY) was shrimp exports.

The Vietnam Association of Seafood Exporters and Producers (VASEP) expects export growth of shrimp and pangasius in 2022 to reach 10% YoY and 7% YoY, respectively. Besides, despite the adverse impacts of soaring inflation, the shrimp market size in the US is further expected to grow this year. In 2M22, shrimp exports to this market jumped by 51% YoY. For the EU market, we believe that the EU-Vietnam Free Trade Agreement (EVFTA) will help Vietnamese seafood gain more export market share in 2022. Specifically, Vietnam's black tiger shrimps will be exempt from import tax in the EU market, and tariffs on Vannamei (7% currently) and frozen pangasius fillet (5.5% at present) will be reduced to 0% by 2025 and 2023, respectively.

Despite higher export prices, input costs have also surged over the past few months. Export prices of pangasius and shrimp continued to rise in January and February 2022 (In February, export prices of pangasius were up 43% YoY and shrimp up 5-10%). Seafood export prices will likely continue to pick up in the time ahead given the growing demand in major markets, fostering Vietnamese seafood exports amid the West's sanctions against Russia, a major seafood exporter to the EU and the US (pollocks). However, we also note that while the demand is stable, raw fish and shrimp stocks have been declining amid surging prices, of which shrimp prices rose by 5% YoY in February 2022.

We take a positive stance on the seafood industry in the second quarter on the post-pandemic recovery of major import markets and export price rallies over the past few months. Vinh Hoan Corporation (VHC) and Sao Ta Foods (FMC) are our top picks.

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# Oil & gas

**Outlook: Positive**

**Tickers: GAS, BSR, PLX,  
PVT**

In 1Q22, Brent crude oil prices touched fresh all-time highs due to geopolitical tensions between Russia and Ukraine and concerns over Western sanctions against Russia – the world's third largest oil exporter with output accounting for 10% of the total supply. Besides, OPEC+ output rise in March fell short of its target, negatively impacting global oil supplies and prices. From our observations, Brent crude will likely stay around USD90–100/barrel until the end of this year due to: (1) escalating Russia-Ukraine conflict; (2) rising oil demand to accelerate economic recovery amid limited production.

PV Gas (GAS) is our top pick since Vietnam is shifting to natural gas and imported LNG for power generation to make up for the electricity shortages. GAS's earnings in FY22 should rebound thanks to high world oil prices, assuming USD90/barrel compared to the average of USD70/barrel in 2021.

Petrolimex's (PLX) business results will continue to recover given rising gasoline demand and surging prices in 1Q22, supported by the regulation to reduce the number of required days in inventory for petroleum businesses from 30 to 20 days and adjust oil and petrol prices every 10 days instead of 15.

Binh Son Refinery (BSR) would continue to benefit from the crack spreads in line with oil price rallies and increased operating capacity to make up for Nghi Son Refinery's reduced capacity as a result of financial distress.

PV Transportation's (PVT) business performance should be underpinned by soaring tanker freight rates in the context of the Russia-Ukraine conflict and an ambitious fleet expansion plan promising high efficiency.

Besides, the outlook for two upstream enterprises PV Drilling & Well Services (PVD) & PV Technical Services (PVS) is bright, backed by high oil prices above the USD55/barrel breakeven point. For PVD, high oil prices may boost investment in oil production, helping the day rate to be higher. In addition, the TAD rig should start a long-term drilling contract in Brunei, which will be a driving force for PVD. For PVS, it is bidding for Engineering, procurement, and construction (EPC) projects with encouraging progress. Also, we expect spiraling oil prices to drive profits of FPSO/FSO joint ventures.



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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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