KB Securities VIETNAM

4Q22 Stock Market

Expecting a mid-term trough

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We downgrade our projection for the VN-Index by the end of this year to the 1,330-range on the assumption that the average EPS growth of companies listed on the Ho Chi Minh Stock Exchange (HSX) will reach 18.3% YoY for the whole year of 2022. At the same time, we lower the target P/E to 13x to reflect growing risks arising from external factors coupled with the increase in domestic interest rates.

Entering the last quarter of 2022, we are cautious about short-term market movements in light of existential risk factors. The VN-Index will likely face a bumpy ride, tumble, and pierce the June-bottom. However, we expect the market then to bounce back as risks like the ongoing Russia-Ukraine war, soaring inflation, US recession, and uncertainties in the EU somewhat eased off and have reflected in the stock prices as evidenced by deep corrections. Furthermore, the domestic economy's resilience through increasing external pressures combined with the acceleration of the disbursement of economic stimulus packages and public spending would further lift the market out of the bearish trend.

In the context that macroeconomic uncertainties would deliver a blow to various listed companies, we believe the market will witness a split among sectors. As a result, investors should pick out stocks of businesses with clear investment catalysts and solid inner strength to power the portfolio in the second half of 2022.

From a macroeconomic perspective, some prominent investment themes in 4Q22 comprise boosted public spending, supply chain chaos due to conflicts and climate crisis, and efforts to stabilize China's housing market. Accordingly, beneficiaries should be **building materials, infrastructure construction, electrical construction, industrial real estate, agriculture, livestock, and chemicals** *(See also Section III).*

From an industry perspective, KBSV's Equity Research is upbeat about the prospects of industrial real estate, power, oil and gas, IT, logistics, retailers, and fishery in 4Q22 *(Please refer to Section VI of this report for further details).*

Based on the abovementioned views, our top picks for our bull basket in 4Q22 are FPT, GMD, MWG, PNJ, QTP, IDC, PVT, DHA, GAS, and DXG.

KBSV top pick

Ticker	Target price	Closing price as of Sep 23	Expected upside
FPT	112,500	82,400	37%
IDC	77,400	52,900	46%
MWG	84,912	68,400	24%
PNJ	140,000	113,900	23%
QTP	23,000	16,300	41%
DHA	55,800	38,000	47%
PVT	29,200	21,300	37%
GMD	71,500	48,700	47%
GAS	151,100	112,500	34%
DXG	52,600	24,800	112%

"Please refer to Section V of this report for investment catalysts"

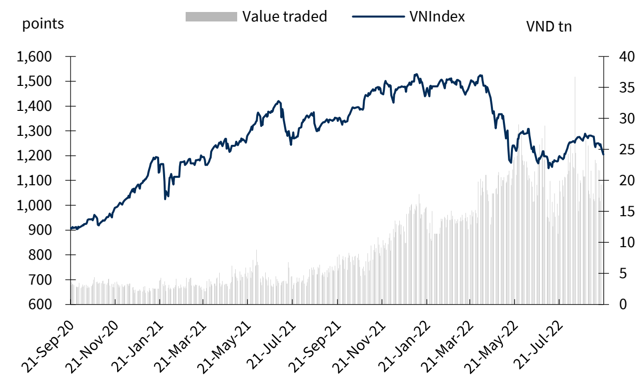
Contents

I. 4Q22 stock market outlook

Vietnam's stock market has gone through the third quarter with alternating ups and downs

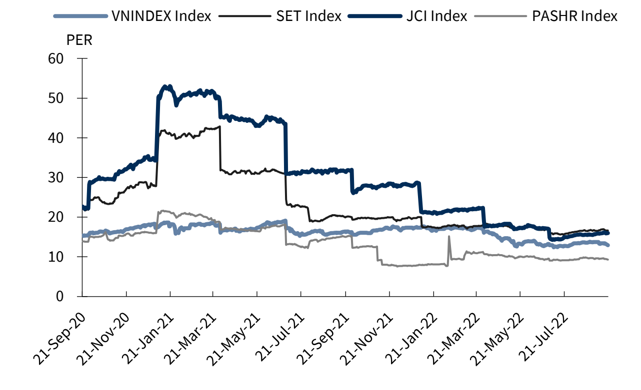
Halfway through the third quarter of 2022, Vietnam's stock market enjoyed a recovery following deep slumps with multiple stocks plummeting to attractive prices in light of easing commodity prices and positive movements of the world stock markets on the expectation that the Fed will slow down on rate hikes. Entering the second half, the VN-Index retreated in line with the global stock markets amid growing worries about high inflation, recession, interest rate hikes, geopolitical tensions, and domestic exchange rate pressure. Between July and September, the VN-Index edged up 0.86% while liquidity contracted by 27% over the same period.

Fig 1. Vietnam – VN-Index movement



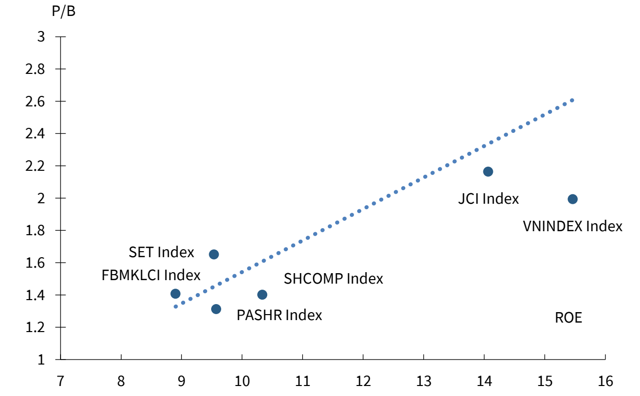
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN-4 – P/E movements of main indices



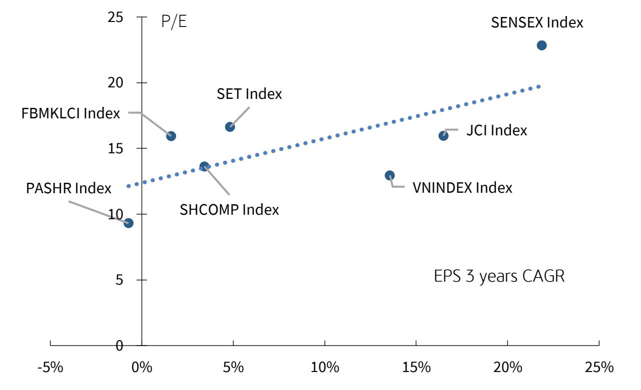
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – P/B & ROE correlation



Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – P/E & EPS growth correlation

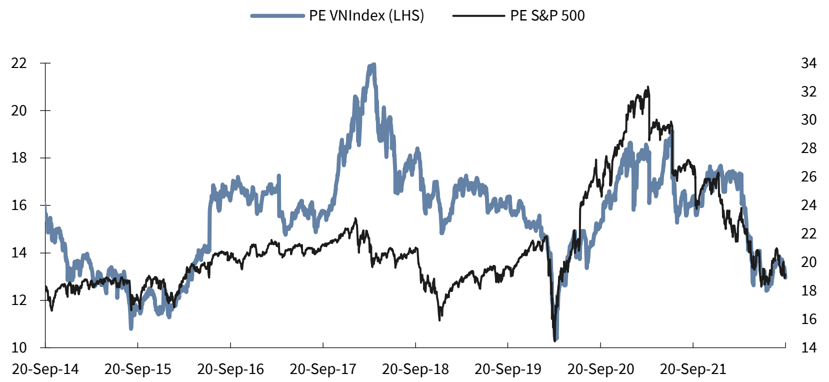


Source: Bloomberg, KB Securities Vietnam

The Vietnamese stock market remains attractive in relation to other regional peers

When compared to other regional peers (Figure 2), the local stock market has endured its attractiveness given low P/B (Figure 3) and relatively low P/E (Figure 4). Notably, foreign investors were net buyers during free fall sessions of the VN-Index, while regional markets saw a strong selling force.

Fig 5. P/E of VN-Index and S&P 500 correlation



Source: Bloomberg, KB Securities Vietnam

Vietnam's stock market is shaped by external factors at the current stage

During the pandemic crisis, the local stock market followed the movement of the US stock market, as proven by the close correlation between the VN-Index's P/E and the S&P 500 (Figure 5). It was growing worries about the consequences of the Covid-19 pandemic, China's zero-Covid policy, surging inflation in developed countries, economic downturn in the US and EU, aggressive rate hikes among central banks, etc that plagued the global stock markets over the past two years.

Although Vietnam's economy shows fundamental strength with 2022F GDP growth of 7.5% and the inflation rate kept in check well below 4%, the benchmark VN-Index was not immune to the adverse impacts of external factors and suffered corrections in 2022.

Given the tremendous uncertainty in the global economy in the last three months of the year, external factors are assessed to keep navigating the domestic market. However, we expect Vietnam's economic foundations like macroeconomic stability and high earnings growth of corporates would make the outlook for EPS growth of the whole market outperform developed markets facing recession risks. Accordingly, Vietnam's stock market will move more positively against many other global and regional markets.

The reasonable target for the VN-Index by the end of the year is 1,330-range

We anticipate the average EPS growth of companies on the Southern bourse to reach 18.3% YoY by year's end *(See also Section II of this report)*. Simultaneously, we adjust the target P/E to 13x due to growing concerns about external pressures plus domestic interest rate increases. Correspondingly, the VN-Index is forecast to approach the 1330-range by the 2022-end.

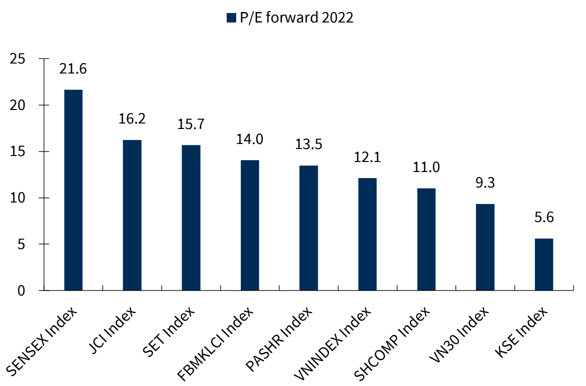
Key factors that could derail our forecast consist of the collapse of the domestic bond market, the decrease in the purchasing power of money or the depreciation of VND against USD, unchecked global inflation, central banks' acceleration of the tightening of monetary policy, the downturn of major economies, and China's economic stagnation.

Table 1. Vietnam – Key factors affecting the VN-Index in 2H22 *(See also Section IV of this report)*

Advantages	Impact	Possibility	Disadvantages	Impact	Possibility
The acceleration of government budget distribution	Medium	High	The rapid decline in China economic health	Medium	Average
Post-Covid economic recovery	Medium	High	US economy falling into recession due to aggressive tightening from FED	Strong	Average
The government economic stimulus	Medium	Average	Inflation rising globally due to supply shortage	Medium	Low

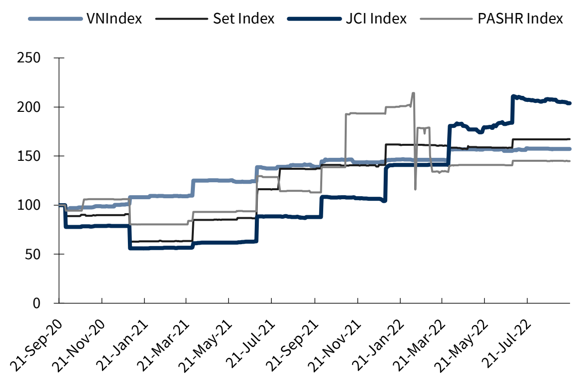
Source: KB Securities Vietnam

Fig 6. Global – 2022 forward P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 7. ASEAN-4 – EPS growth (%)



Source: Bloomberg, KB Securities Vietnam

II. Business activities

2Q22 revenue and earnings growth of listed companies diminished relative to 1Q22's in the context of global economic uncertainties

Revenue and earnings of listed companies in 2Q22 grew by 11.8% and 1.7% over the same period last year respectively, down sharply from the levels achieved in 1Q22 of 31.2% YoY and 21.1% YoY.

Thus, after outstanding growth in 1Q22 following the economic reopening on better control of the pandemic, the business results of HSX-listed companies in 2Q22 slowed. It was attributable to both internal and external factors, namely the ongoing Russia-Ukraine war, China's Zero-Covid strategy, soaring inflation in major economies and subsequent fall in consumer demand, limited domestic credit growth, rising commodity prices, interest rate increases, and the government's stricter control of the corporate bond market amid less dynamic real estate market.

The main contributors to earnings growth in 2Q22 were essential consumer goods (+12.9% YoY), industry (+129.9% YoY) thanks to the recovery of production and business activities after the removal of Covid lockdowns, utilities (+82%) with increased electricity and water demand and favorable weather patterns, financial services (+28.2% YoY); and IT (+25.8% YoY).
In contrast, real estate (-49% YoY) was hurt by a depressed market and strict credit control over corporate bonds by the State Bank of Vietnam (SBV) and the Government, especially after the Tan Hoang Minh scandal. Also, the materials sector (-33.4% YoY) deteriorated due to a sharp drop in demand, a slowing construction market as well as slow disbursement of public spending.

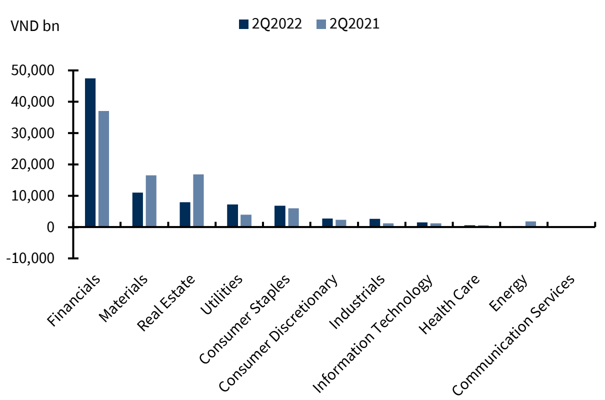
Enterprises will continue to face challenges in the second half of 2022 when supporting factors are progressively losing steam

Entering 2H22, we believe increased internal risks associated with rising interest rates, limited credit growth, and strict control of the corporate bond market would erode the business results of listed companies. Also, global macroeconomic uncertainty resulting from recession fears, central banks' drive to bring inflation down by raising interest rates and reducing balance sheets, and supply chain crisis would exacerbate the situation. Along with that, commodity and food price movements, despite a major fall from their peaks, are unpredictable. It is likely that the earnings growth of some industries, such as steel, fishery, wood, and textiles, have reached their medium-term peaks and will diminish in 2H22, while it continues to be a tough time for the real estate market for the next couple of months. However, despite a highly possible slowdown in business performance compared to the beginning of the year, many sectors may still post growth over the same period due to the low base seen in 3Q21 at the height of COVID-19. On the bright side, utilities, livestock, consumer goods, and IT are believed to see improved business results. The factors driving the growth of listed companies in the second half of 2022 should be the promotion of public spending disbursement, the continued implementation of support packages as well as the recovery of production, consumption, and services.

The average EPS growth of HSX-listed corporates is forecast at 18.3% YoY for the whole year of 2022

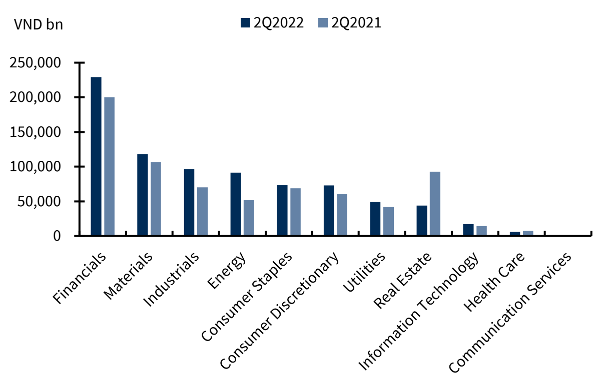
We forecast the average EPS growth of HSX-listed companies to reach 18.3% YoY by the 2022-end. In particular, utilities (+63.6% YoY) should enjoy the highest growth on favorable weather conditions and ever-growing demand, followed by industry (+37.9% YoY) thanks to the post-pandemic recovery in manufacturing and 2021 low, and IT (+21.8% YoY). Please note that the real estate group is set to grow on earnings growth from the low base of Vingroup (VIC) (VIC stocks constitute a large proportion of the local stock market). Besides, the energy sector would level off mainly due to the lower EPS of Petrolimex (PLX) after making provisions for inventories devaluation. And profit erosion of Masan Group (MSN) following its divestment from the animal feed segment for De Heus in 2021 will dampen EPS growth of essential consumer goods.

Fig 8. Vietnam – 2Q21-2Q22 gross profit (VNDbn)



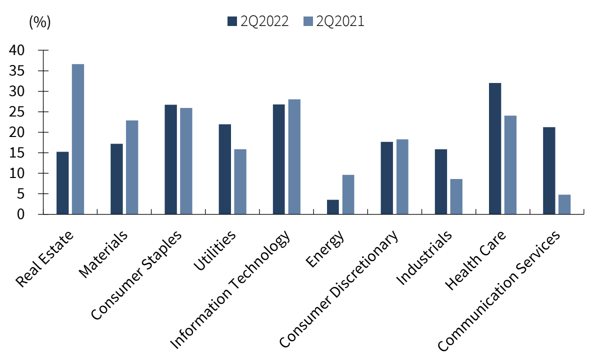
Source: Bloomberg, KB Securities Vietnam

Fig 9. Vietnam – 2Q21-2Q22 revenue (VNDbn)



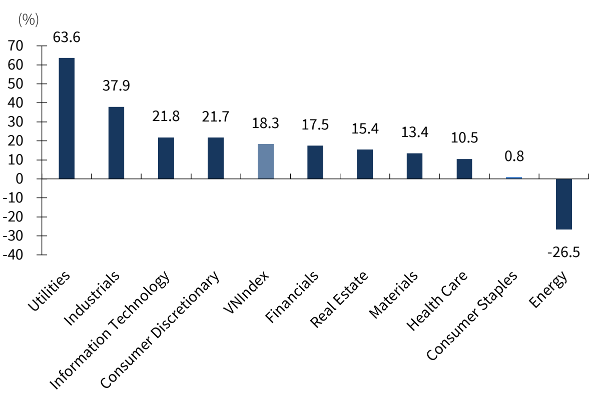
Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – 2Q22 gross profit margin (%YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 11. Vietnam – 2022F EPS growth across sectors (%YoY)



Source: Bloomberg, KB Securities Vietnam

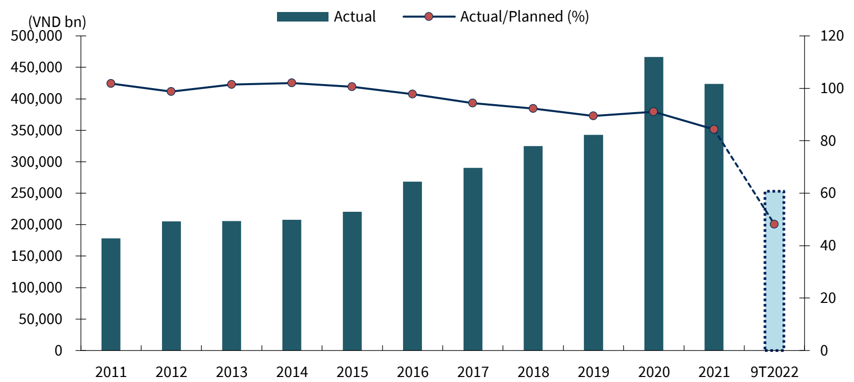
III. Investment themes

1. Public spending

Public spending should be speeded up from the end of 2022

Public investment is considered a key solution to stimulate the economy and simultaneously has spillover effects on other sectors in the long run. A total of VND285.4 trillion (~USD12.18 billion) sourced from the State budget was disbursed between January and August, equaling 51% of the year plan. The disbursement rate is still limited given the specificity of disbursement of public investment capital that is low in the first months of the year and increases sharply in the last months of the year, especially in 4Q, because contractors need time to construct and accumulate enough volume for acceptance and payment. This past time, bottlenecks in site clearance and skyrocketing raw material costs are holding back construction progress since contractors await price adjustments. Moreover, the National Assembly approved the resolution on the medium-term public investment plan in July 2021, so contractors have mainly continued with the ongoing projects since the start of this year. Meanwhile, new projects are still in the preparation phase for legal procedures, which usually takes 6-8 months.

Fig 12. Vietnam – Disbursement of public spending (VNDbn)

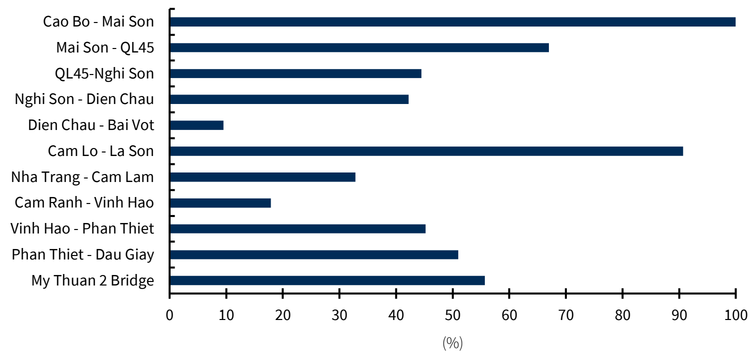


Source: General Statistics Office

Many key public projects are promoted by the Government

The Transport Ministry approved 12 sub-component projects for constructing the Eastern North-South expressway in phase 2 covering a total length of 723.7 km, thus shortening the preparation phase by 50% to move to the implementation phase. Work on major routes to the Long Thanh airport will start this December, and construction of expressway projects in phase 1 will also be boosted until completion. This will be a growth momentum for quarrying businesses in the vicinity. Moreover, to facilitate public investment disbursement for the year-end period, the Prime Minister adopted three thematic resolutions on public investment capital disbursement and three dispatches and assigned six working groups to continue inspection, helping to remove difficulties and obstacles. The Government has also issued Resolution No. 124/NQ-CP dated September 15, 2022 on measures and tasks to promote public investment disbursement in the rest of 2022 to reach 95-100% of the plan assigned by the Prime Minister. The Government determines to disburse 50% of the socio-economic recovery package by the year-end. Therefore, we expect public investment disbursement to achieve better results and reach 90-95% of the plan, corresponding to more than VND200 trillion disbursed between September and December. However, objective and subjective factors like slow construction progress, high raw material prices, and bottlenecks in site clearance can make the disbursement fall short of expectations.

Fig 13. Vietnam – Construction progress of the expressway projects phase 1



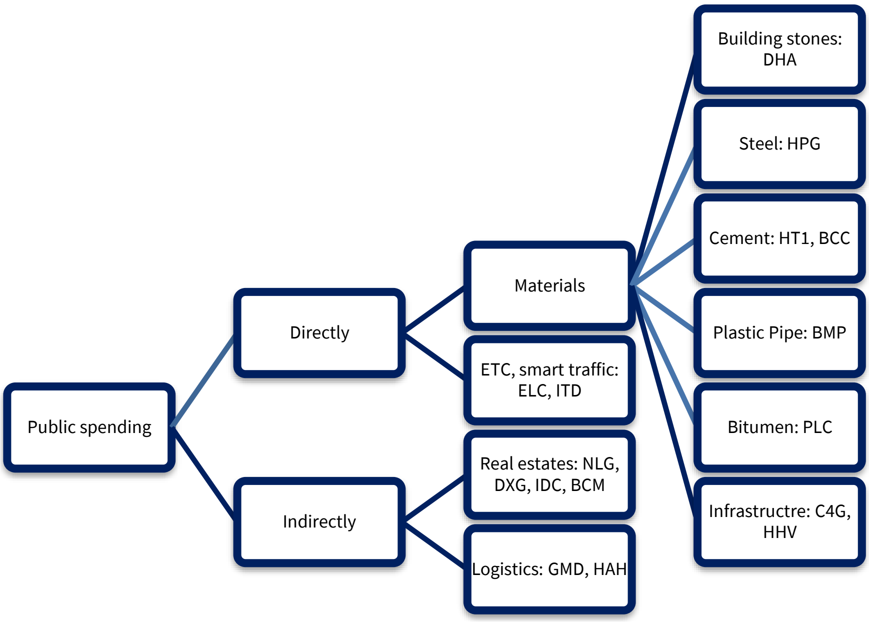
Source: KB Securities Vietnam

Table 2. Vietnam – Key public projects

Project	Total investment (VNDbn)	Disbursement from the State budget (VNDbn)	Expected disbursement during 2021-2025 (VNDbn)	Stimulus packages in 2022-2023 (VNDbn)
Expressway	**273,973**	**262,969**	**74,251**	**92,634**
The east sections of the North – South Expressway (Phase 2)	146,990	146,990	47,169	72,476
Bien Hoa – Vung Tau Expressway	18,635	18,635	5,740	3,500
An Huu, Tien Giang – Cao Lanh, Dong Thap Expressway	6,054	6,054	1,864	1,204
Chau Doc – Can Tho – Soc Trang – Tran De expressway	49,745	49,745	14,247	3,800
Khanh Hoa – Buon Ma Thuot Expressway	17,435	17,435	5,231	2,320
Tuyen Quang – Ha Giang Expressway	6,264	4,800		3,584
Hoa Binh – Moc Chau Expressway	9,770	9,770		4,650
Ninh Binh – Nam Dinh – Thai Binh – Hai Phong Expressway	19,080	9,540		1,100
Traffic projects connecting gateway ports, regions, industrial zones, seaports	**18,554**	**15,786**	**2,412**	**10,530**
Long Thanh International Airport Phase 1	**114,000**		**114,000**	

Source: KB Securities Vietnam

Fig 14. Vietnam – Sectors benefiting from public spending



Source: KB Securities Vietnam

Sectors benefiting from public spending include direct beneficiaries (building materials and infrastructure construction) and indirect beneficiaries (residential and industrial real estate). Specifically:

Public spending is the driving force to restore steel consumption

— The steel industry will benefit from the promotion of infrastructure projects. Particularly, Hoa Phat Group (HPG) is the top priority, given its leading market share in Vietnam and sustainable competitive advantage.

Building stone companies, especially those owning quarries near key public projects, will significantly benefit from public investment

— Building stone companies are the next significantly benefiting from public investment, especially those owning quarries near key public projects with large reserves in Dong Nai and Long Thanh, namely Tan Cang and Thien Tan quarries. Two listed companies with quarries meeting the above criteria are Hoa An JSC (DHA) and Bien Hoa Building Materials Production and Construction (VLB). However, we prefer DHA considering its strong financial position, high performance, and attractive dividend.

Table 3. Vietnam – Quarries of some listed companies

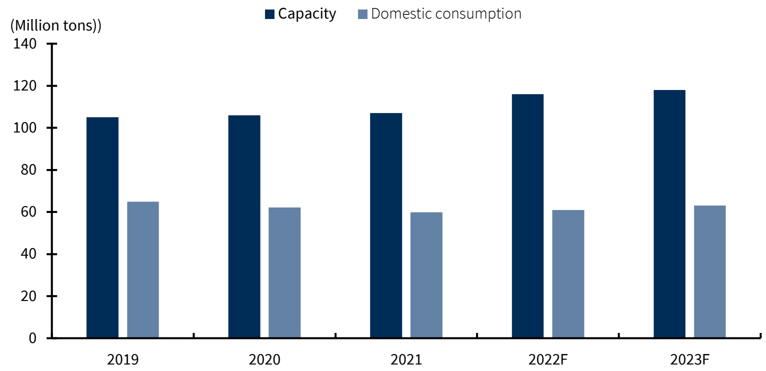
	Quarry	Location	Area (ha)	Licensed capacity (m^3/year)	Licensed reserve (m^3)	Remaining reserves (m^3)	Mine output in 2021 (m^3)	Exploiting period
Binh Duong Mineral and Construction (KSB)	Phuoc Vinh	Phuoc Vinh, Phu Giao, Binh Duong	29.62	1,200,000	10,627,089	1,363,582	1,528,178	Jan-2023
	Tan My	Tan My, Tan Uyen, Binh Duong	40.96	1,500,000	22,326,387	813,363	957,574	Aug-2029
	Thien Tan 7	Vinh Cuu, Dong Nai	12	280,000	5,290,504	3,937,341	411,567	Jan-2035
	Tam Lap	Tam Lap, Phuoc Vinh, Binh Duong	20	1,000,000	7,488,605	7,488,605		9 years after being licensed
CIC39 Corporation (C32)	Tan Dong Hiep	Di An, Binh Duong						December 31, 2019
Nui Nho Stone (NNC)	Nui Nho	Di An, Binh Duong	27.34		19,000,000	-		Stopped in September, 2021
	Mui Tau	Binh Phuoc	51.5	1,420,000	22,509,268	20,299,339	746,525	Aug-2032
Bien Hoa Building Materials Production and Construction (VLB)	Thien Tan 2	Vinh Cuu, Dong Nai	65.0	1,500,000		26,136,492	2,019,587	Jun-2038
	Thach Phu 1	Vinh Cuu, Dong Nai	83.7	1,800,000		39,205,940	1,872,845	Jul-2042
	Soklu 2	Thong Nhat, Dong Nai	17.83	400,000		3,041,148	618,000	Jan-2026
	Soklu 5	Thong Nhat, Dong Nai	29.4	500,000		2,563,542		Jun-2025
	Tan Cang 1	Bien Hoa Dong Nai	62.9	1,500,000		27,193,051	1,492,784	Dec-2039
Cuong Thuan IDICO Development Investment (CTI)	Thien Tan 10	Vinh Cuu, Dong Nai	75	900,000	26,600,000			January 12, 1935. However, the exploitation was stopped.
	Xuan Hoa	Xuan Loc, Dong Nai	20	500,000	18,000,000		90,000	Jan-2034
	Thien Tan 11	Vinh Cuu, Dong Nai	26	550,000	7,400,000			Legal procedures are being prepared.
Hoa An JSC (DHA)	Nui Gio	Hon Quan, Binh Phuoc	18.52	300,000	6,341,768	5,129,550	318,747	Aug-2038
	Tan Cang 3	Bien Hoa Dong Nai	21.74	488,000	12,749,037	10,081,689	668,890	Jun-2037
	Thach Phu 2	Vinh Cuu, Dong Nai	20	818,000	14,914,730	4,651,092	1,151,272	Sep-2026

Source: KB Securities Vietnam

The cement industry will also benefit from public investment but not too much

— For the cement industry, Vicem Ha Tien Cement (HT1) and Bim Son Cement (BCC) are of top interest. However, it is not an attractive sector due to the following reasons: (1) the domestic supply outstrips demand. In particular, the annual consumption is only 60 million tons, while the production output is about 110 million tons in 2022 and may reach 118 million tons in 2023 after the operation of many new cement plants such as Xuan Thanh 3 (4.5 million tons/year), Long Thanh (2.3 million tons/year), Ocean 1 (2 million tons/year); (2) the prices of key raw materials like coal (accounting for 30-35% of the overall cost) remain high while cement prices cannot offset the increase in input prices. Also, exports seem subdued, especially to the major export market of China. In addition, the industry also faces policy risks when the clinker export tariff is forecast to rise from 5% to 10% from the beginning of 2023 to limit mineral exports. However, investors may consider investing in this industry when the situation improves and stocks fall sharply to more attractive prices.

Fig 15. Vietnam – Design capacity and domestic consumption of the cement industry



Source: VNCA, KB Securities Vietnam

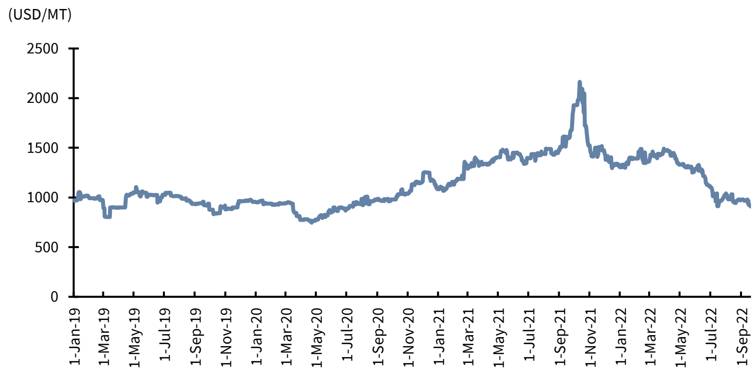
Plastic pipe companies can benefit from public investment and falling input cost but encounter stiff competition

— The plastic pipe industry has a bright prospect on the expectation of increased output and improved profit margin thanks to prices of PVC, key input material, plummeting and approaching pre-pandemic levels and rising plastic pipe prices since late 2021. However, plastic pipe companies often have to offer discounts to gain market share since there are optically no barriers to entry. Moreover, enterprises are running only 50-70% of the design capacity and do not export plastic pipes due to product characteristics. Tien Phong Plastic (NTP) in the north and Binh Minh Plastics (BMP) in the south are the two biggest players in the market. We prefer BMP given its favorable geological location in a key economic region with public investment promoted and that it can capitalize on input materials from the parent company. However, we assess the current stock price has partly reflected the potential.

The asphalt industry is expected to benefit from public projects in the final stage

— The asphalt industry may benefit from public projects in the final stage when the construction work on road surfaces is complete, but there are simply a few listed enterprises. We pick out Petrolimex Petrochemical Corporation (PLC) given its largest share (25-30%), the production capacity of 350,000 tons/year (much higher than that of its competitors), seven factories nationwide, many warehouses, and distribution system through PLX stores.

Fig 16. Global – PVC prices (USD/ton)



Source: Bloomberg

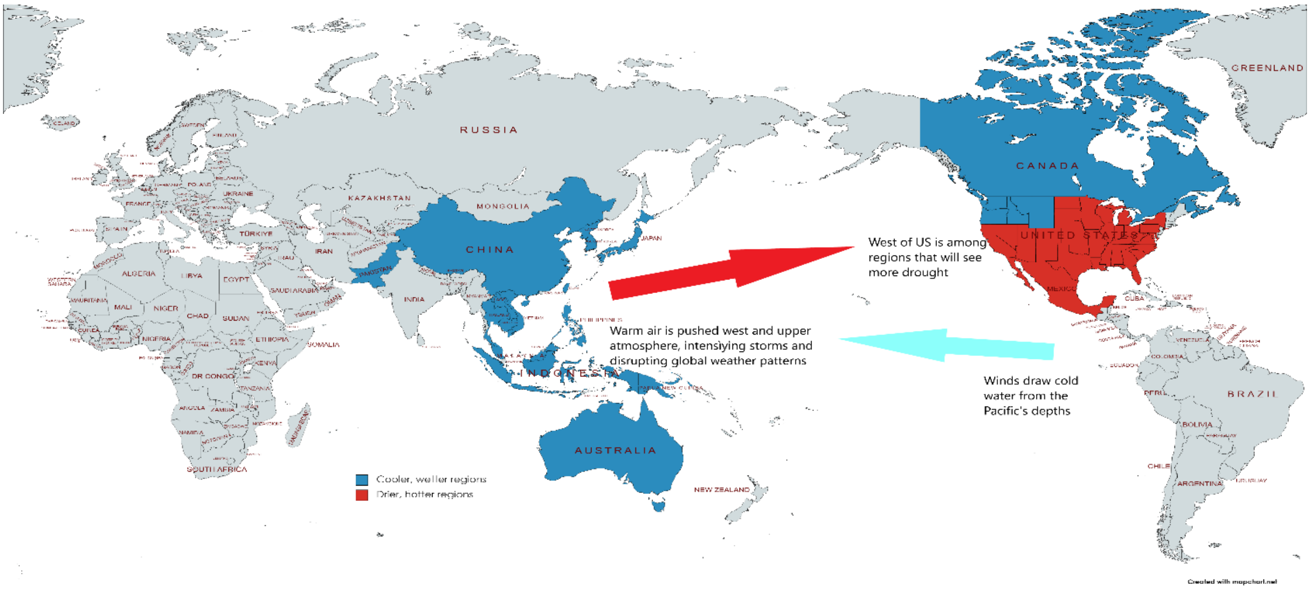
The outlook for construction businesses winning bid packages is bright but profitability, financial structure, and corporate governance should be considered

— Three construction enterprises, Deo Ca Traffic Infrastructure Investment (HHV), CIENCO4 Group (C4G), and Vinaconex (VCG), won the bid packages for the construction of public projects. C4G is seasoned and experienced in developing traffic infrastructure in Vietnam with large-scale projects such as the North-South expressway (Mai Son Expressway - National Highway 45 (VND2.498 billion), Vinh Tuy 2 Bridge (VND1,255 billion), Vinh Hao - Phan Thiet Expressway (VND3,225 billion), Phan Thiet - Dau Giay Expressway (VND2.299 billion), and taxiways. It helped C4G continue to win new bid packages in the 2022-2025 period. Meanwhile, HHV is bidding for and investing in four projects Cam Lam - Vinh Hao, Huu Nghi - Chi Lang, Dong Dang - Tra Linh, and Tan Phu - Hoa Loc. The construction of these megaprojects is under the new PPP (Public - Private Partnership) law in which the State will contribute up to 50% of the total investment amount, thus easing the pressure of borrowing on BOT construction businesses. However, only Cam Lam - Vinh Hao is in the process of capital formation and underway, while HHV is preparing legal procedures for the remainders and carrying out feasibility studies. Furthermore, the BOT construction often lasts 30 months, so HHV can only turn a profit from these projects from 2024. Investors should pay special attention to the projects' profitability, financial structure, and corporate governance efficiency of companies when investing in this sector.
— Companies owning intelligent traffic management solutions also benefit from the North-South expressway project phase 1 and 2. Innovative Technology Development (ITD) and Elcom Technology Communications (ELC) are the two largest enterprises in terms of market share in this segment.
— Electrical contractors are beneficial from the implementation of infrastructure projects. One typical stock is Refrigeration Electrical Engineering (REE). REE will likely win the contract for the Long Thanh airport project thanks to its long experience in previous airport projects such as Noi Bai, Tan Son Nhat, and Da Nang airports.
— Residential and industrial real estate businesses owning landbanks adjacent to key projects and logistics companies are likely to benefit indirectly from public projects. However, it still depends on the implementation and scale of these projects. Typical stocks are Nam Long Group (NLG), Dat Xanh Group (DXG), IDICO Corporation (IDC), Investment And Industrial Development (BCM).

2. Supply chain chaos due to conflicts & climate crisis

Global warming is contributing to extreme weather events, and the world is about to experience the third year of La Nina. El Nino and La Nina refer to the periodic warming and cooling of ocean surface temperatures in the eastern Pacific Ocean and central and east-central equatorial Pacific. They occur annually, but the current weather patterns are like the last straw in light of the ongoing Russia-Ukraine war, surging prices of fertilizers, animal feed, and foodstuffs. The US National Hurricane Center reported the probability La Nina will continue until January 2023 is 80%. Drought and flood damage would have reached USD700 billion over the past two years and may grow to USD1 trillion by the 2023-end, according to data and analytics from Aon.

Fig 17. Global – Impacts of La Nina



Source: Bloomberg, KB Securities Vietnam

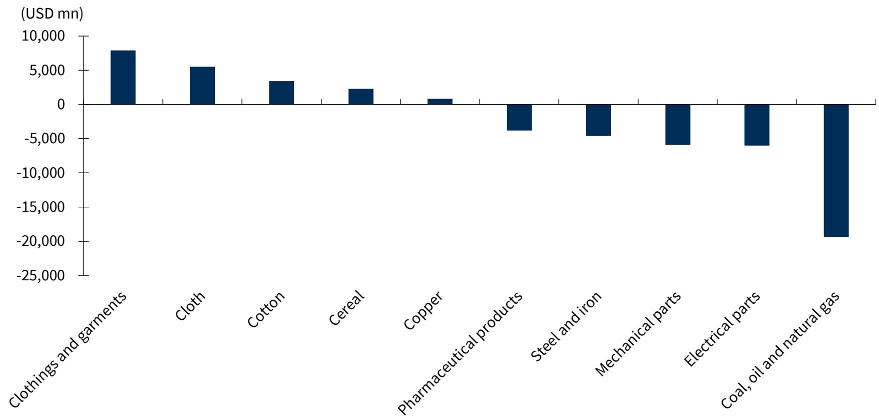
Farm produce supply in America is negatively affected by drought

American west faces water and power shortages due to the climate crisis that led to dangerously low levels of lakes, rivers, and reservoirs. The critical water shortage seriously affected cotton cultivation, causing cotton prices in April to rise to a decade high. Similarly, historical droughts have limited the production of not only coffee, sugar, and oranges in Brazil but soybean and corn in Argentina as well. Moreover, river transport is hampered by low river water levels, forcing farmers to pay additional logistics costs to alternative ports to export on time.

Asia has been suffering from the La Nina pattern

In Asia, extreme weather events are best described by unprecedented floods in Pakistan that killed 1500 people and 750,000 livestock and washed away 800,000 ha of farmland, with damage amounting to over USD10 billion. According to data from International Trade Center (ITC), the main exports of Pakistan in 2021 were textile and clothing (USD13 billion), cotton (USD3.4 billion), and cereals (USD2.2 billion), primarily destined to the US and China. More than 70% of the rice crop in Sindh, hardest hit by recent floods, has been wiped out, boosting food import needs in the country and putting enormous pressure on global agriculture. On the contrary, China, Pakistan's neighbor, has seen the worst drought on record. The historic low water level of the Yangtze River forced many industrial hubs offline on power shortages, including the car factories of major automakers such as Tesla, Toyota, etc. In addition, the energy-intensive chemical plants manufacturing caustic soda and yellow phosphorus have also had to cut production to allocate electricity to households during peak periods.

Fig 18. Pakistan – Export value by item (USDmn)

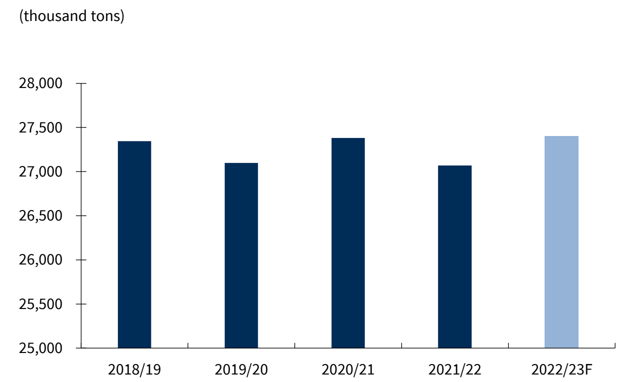


Source: International Trade Center, KB Securities Vietnam

The La Nina climate will likely last into 2023, while the conflict between Russia and Ukraine is escalating after President Vladimir Putin ordered the partial mobilization of the Russian population. We assess these would hurt the global food, energy, and basic chemicals supply chains. Meanwhile, internal factors like favorable weather conditions, low volatility of food supply, and sustainable energy security will help domestic businesses to gain a competitive edge over international ones.

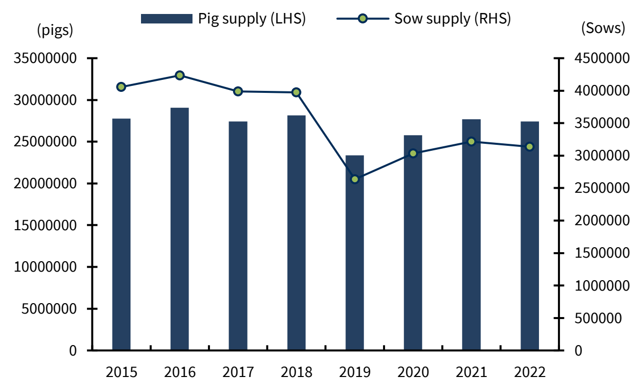
We are upbeat about the prospect of the following industries in the year-end period: agriculture (Trung An Hi-Tech Farming (TAR), Loc Troi Group (LTG), ...) livestock (Dabaco (DBC), ...), and chemicals (Duc Giang Chemicals (DGC), South Basic Chemicals (CSV), PV Fertilizer & Chemicals (DPM).

Fig 19. Vietnam – Rice production (thousand tons)



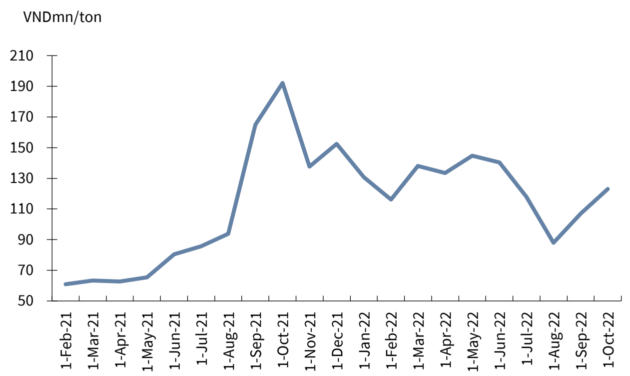
Source: United States Department of Agriculture

Fig 20. Vietnam – Pig and sow supplies



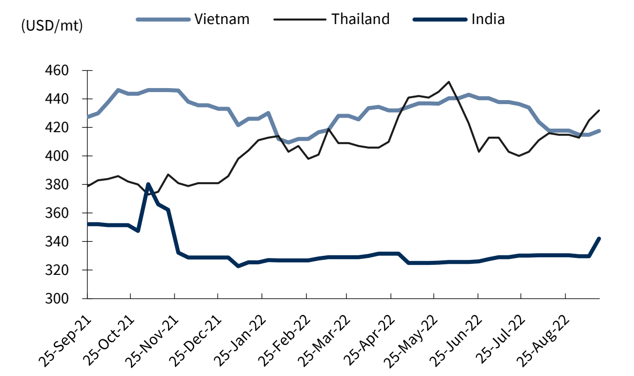
Source: General Department of Customs, KB Securities Vietnam

Fig 21. China – Yellow phosphorus prices (VNDmn/ton)



Source: Sunsirs, KB Securities Vietnam

Fig 22. Asia – Rice export prices (USD/ton)



Source: Bloomberg

3. Efforts to stabilize China's housing market

China's real estate market is gloomy and faces more challenges and risks after the collapse of Evergrande

China's real estate market is gloomy and encounters stumbling blocks after the collapse of Evergrande, as shown by:

(1) Home prices keep falling sharply (Figure 23).

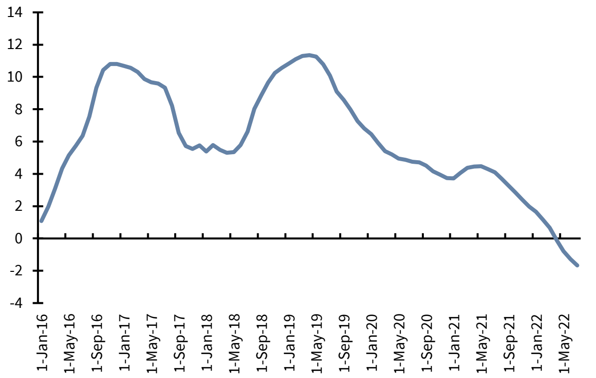
(2) Property businesses announced that they were insolvent and unable to repay their due debts. In the first six months of the year, defaults reached USD31 billion, up four times compared to the whole year of 2021 (Figure 24).

(3) China's zero-COVID policy has led to prolonged lockdowns in big cities. It caused the construction progress and handover of numerous projects to be behind schedule and affected the launch of new projects (Figure 25) as well as household income and mortgage payments.

(4) The wave of mortgage boycotts across China has exposed the precarious state of the country's real-estate sector as confidence in the real estate sector collapsed (Figure 27). The risk of a widespread boycott may cause banks and investors to tighten their lending to property developers (Figure 26), further increasing the number of backlogged projects. Besides, the fact that home buyers stop paying loans for delayed projects can hurt small banks, making the bad debt ratio of this sector the highest in the banking system (Table 4) (Two local banks in Liaoning province has entered bankruptcy procedures). However, it would not cause systemic risks thanks to high loan loss coverage ratios (LLCR) among Chinese banks (Table 5). According to estimates of leading economic organizations, the scale of mortgages at risk as of 1H22 was at least CNY1.6 trillion, equivalent to 0.7% of total outstanding loans and 1.4% of China's GDP (Figure 28).

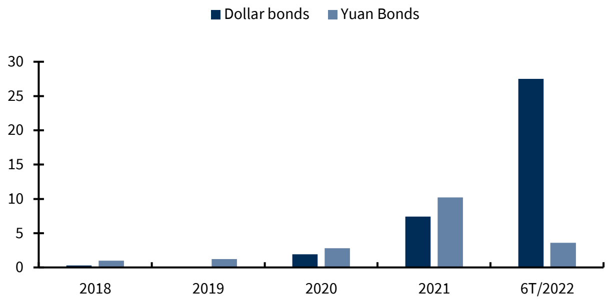
(5) The property crisis and the bankruptcy of some small banks start to affect local tax collection (fiscal risk).

Fig 23. China – Average new home prices in 70 major cities (%YoY)



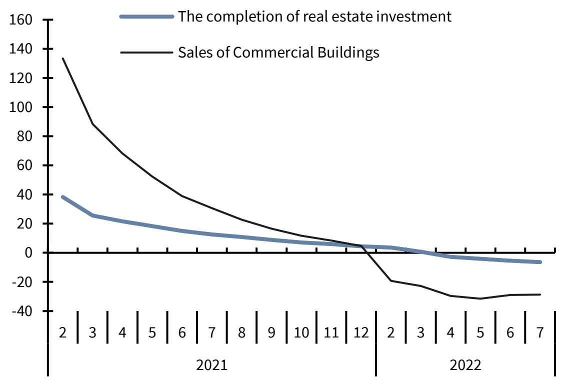
Source: Bloomberg, KB Securities Vietnam

Fig 24. China – Dollar bonds & yuan bonds (USDbn)



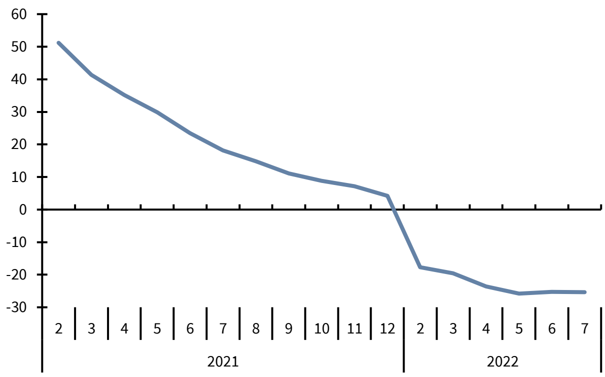
Source: Bloomberg, KB Securities Vietnam

Fig 25. China – The completion of real estate investment & sales of commercial buildings



Source: Bloomberg, KB Securities Vietnam

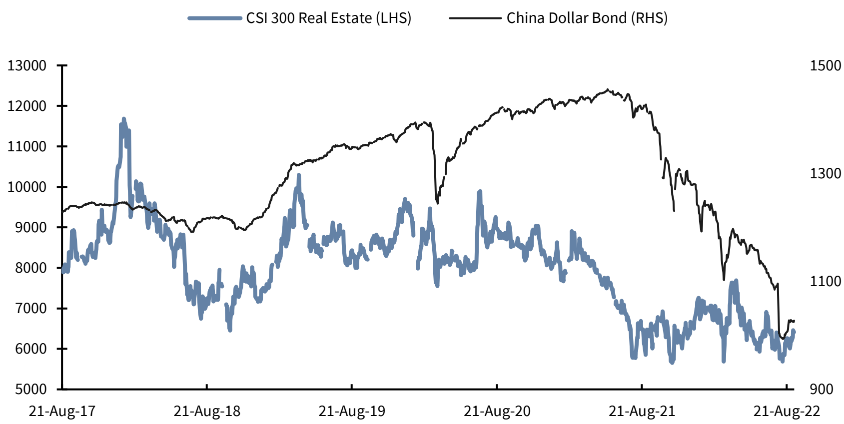
Fig 26. China – Sources of funds for real estate development enterprises (% YoY)



Source: Bloomberg, KB Securities Vietnam

Real estate sentiment index has dropped dramatically since 2021.

Fig 27. China – Real estate sentiment index (RESI)



Source: Bloomberg, KB Securities Vietnam

Table 4. China – Non-performing loan ratio across small banks (%)

	Non-performing loan ratio	
Banks	1H22	2021
Jinshang Bank	10.68	10.29
Bank of Jinzhou	10.37	9.77
Zhongyuan Bank	9.38	3.22
Bank of Chongqing	6.15	4.71
Bank of Suzhou	5.58	6.65
Bank of Tianjin	5.58	5.19
Luzhou Bank	4.9	1.66
Bank of Ningbo	3.94	0.87
Jiangxi Bank	3.87	4.5
Bank of Hangzhou	3.46	3.78

Source: Bloomberg, KB Securities Vietnam

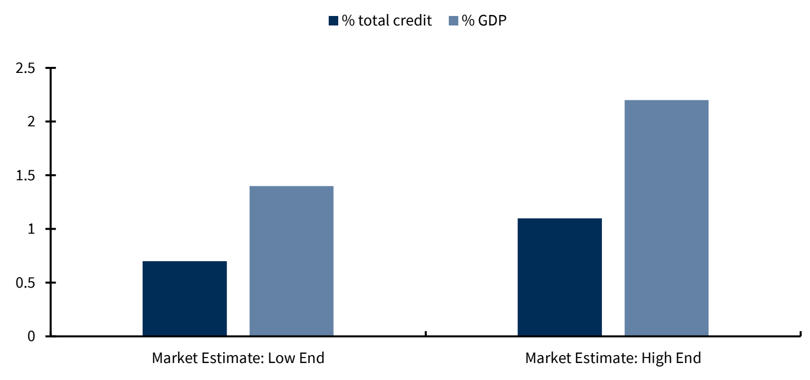
Table 5. China – Loan loss coverage ratio and non-performing loan ratio of listed banks

	Loan loss coverage ratio (%)		Non-performing loan ratio	
Banks	1H22	2021	1H22	2021
Shanghai Pudong Development Bank	158.49	143.96	1.56	1.61
Bank of Jiangsu	340.65	307.72	0.98	1.08
Bank of Nanjing	395.17	397.34	0.9	0.91
Bank of Hangzhou	581.6	567.71	0.79	0.86
Bank of Suzhou	504.93	422.91	0.9	1.11
Qilu Bank	262.96	253.95	1.33	1.35
Xiamen Bank	364.22	370.64	0.9	0.91
Changshu Rural Commercial Bank	535.83	531.82	0.8	0.81
Wuxi Rural Commercial Bank	531.55	477.19	0.87	0.93
Suzhou Rural Commercial Bank	430.1	412.22	0.95	1
Jiangsu Zijin Rural Commercial Bank	261.56	232	1.2	1.45
Rural Commercial Bank of Zhangjiagang	534.24	475.35	0.9	0.95
Jiangyin Rural Commercial Bank	496.08	330.62	0.98	1.32

Source: Bloomberg, KB Securities Vietnam

Leading economic organizations estimate the scale of mortgages at risk at Chinese banks by the end of 1H22 to be at least CNY1.6 trillion, equivalent to 0.7% of China's total outstanding loans and 1.4% of China's GDP.

Fig 28. China – Scale of mortgages at risk during 2021 – 1H22



Source: National Bureau of Standards, People's Bank of China, Bloomberg Economics, KB Securities Vietnam

PBOC intervenes to stop the real estate crisis from spreading into other parts of the economy

The People's Bank of China (PBOC), the country's central bank, maintains the continuity, consistency, and stability in implementing the prudential management of real estate finance with the principle that 'housing is for living in, not for speculation'. However, its move to tighten the credit flows into real estate amid the pandemic has weakened the economy with widespread boycotts, forcing the Chinese Government to intervene to stop it from spreading into other parts of the economy. Specifically:

(1) Home purchase restrictions were dropped;
(2) China eased mortgage loan rates and regulations for loans;
(3) Authorities have allowed the boycotters to pause their payments without penalty;
(4) The Chinese Government urged local governments to monitor and speed up infrastructure projects and ordered local state-owned enterprises (SOEs) to acquire and complete backlogged projects from cash-strapped developers (Ha Nam province took action);
(5) The state required banks to provide appropriate lending to developers to complete the construction;
(6) The central bank plans to launch a real estate fund worth up to USD44 billion to help developers out of a crippling debt crisis. The initial size of the fund would be CNY80 billion (USD12 billion), of which China Construction Bank will contribute CNY50 billion. If this model works, other commercial banks will follow suit and raise the fund up to CNY200-300 billion (USD44 billion).

We highly appreciate the PBOC's efforts to rescue troubled financial firms. However, given the ongoing Zero-Covid strategy incorporating the liquidity crunch of property developers and weakening consumer confidence, KBSV believes it will take a long time to revive the economy. In addition, there are also some problems: (1) The above policies are said to prioritize SOEs, so they will not support the full recovery of the property industry, and (2) The losses the property industry is suffering look to outweigh the size of support packages. Therefore, China's real estate market will move sideways and steadily bounce bank instead of following a V- or U-shaped recovery. The debt problems of real estate could weigh on the country for years as this sector has long been the leading growth engine, accounting for around 29% of China’s GDP.

The stagnation of the Chinese economy would cast a shadow over Vietnam’s economy and stock market.

Negative impacts

Shrinking consumer demand in China as evidenced by a deep decline in the consumer confidence index (Figure 29) combined with the strong depreciation of the CNY against USD (Figure 30) led to some economic consequences:

- Vietnamese commodities are subject to stiff competition from Chinese ones, and Vietnam's exports of key products to China in the first eight months of the year have dropped against 2021. In particular, exports of **Iron and Steel** (-95% YoY), **Clinker and cement** (-36% YoY), **Oil & Gas** (-30% YoY), **Rice** (-28%), and **Textile** (-8% YoY) all decreased (Figure 31).

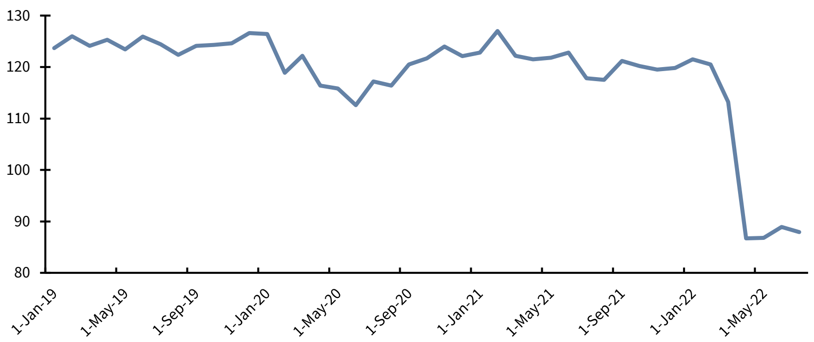
- Prices of raw materials such as coal, iron ore, crude oil, and steel plunged (Figure 32, 33) due to cooling demand in the Chinese market. Regarding steel and crude oil alone, China currently consumes approximately 50% and 13% of global demand, respectively.

Only the export of **fishery** products such as **shrimp** and **pangasius** to the

Chinese market still enjoyed impressive cumulative growth in 8M22 (Figure 31) for: (1) Demand was driven by compressed orders from 2021 due to domestic lockdowns; (2) China eased regulations on imported seafood products. However, the export volume of shrimp and pangasius to China has slowed and gradually decreased following weak demand since June (Figure 34, 35).

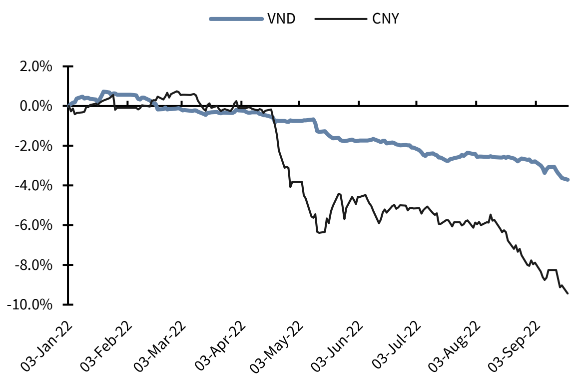
China's consumer index fell significantly to 87,9 points by the end of July 2022

Fig 29. China – Consumer confidence index during 2019-2022



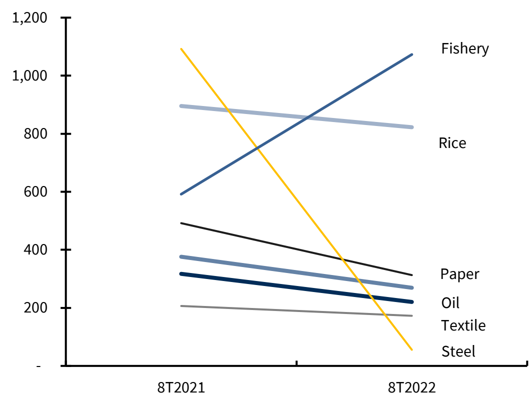
Source: Bloomberg, KB Securities Vietnam

Fig 30. VND/USD and CNY/USD exchange rates



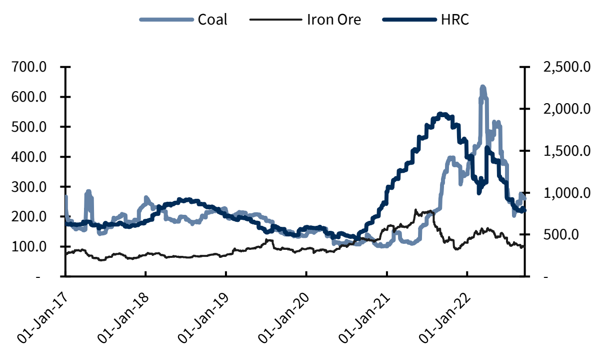
Source: Bloomberg, KB Securities Vietnam

Fig 31. Vietnam – Exports to China in 8M22 (USDmn)



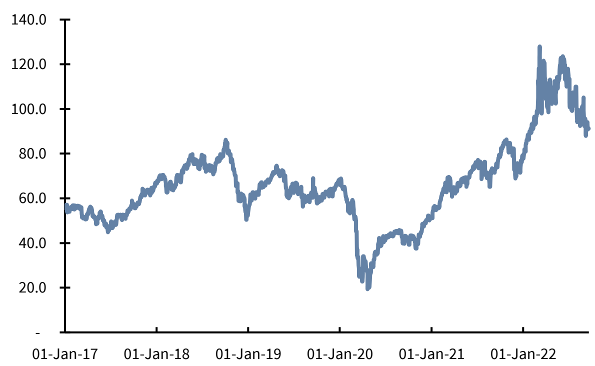
Source: General Department of Customs, KB Securities Vietnam

Fig 32. Global – Coking coal, iron ore, HRC prices (USD/ton)



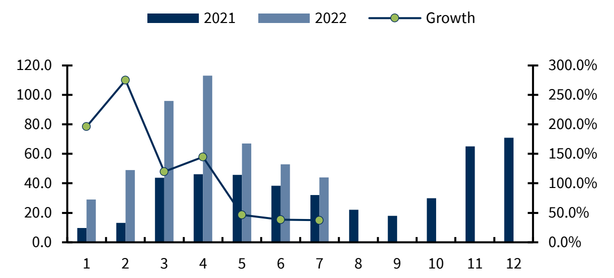
Source: Bloomberg, KB Securities Vietnam

Fig 33. Global – Brent prices (USD/barrel)



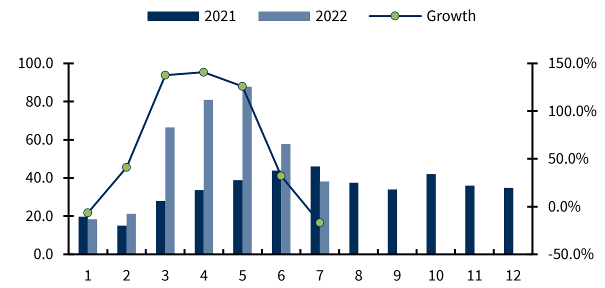
Source: General Department of Customs, KB Securities Vietnam

Fig 34. Vietnam – Pangasius exports to China (USDmn, %)



Source: Bloomberg, KB Securities Vietnam

Fig 35. Vietnam – Shrimp exports to China (USDmn, %)

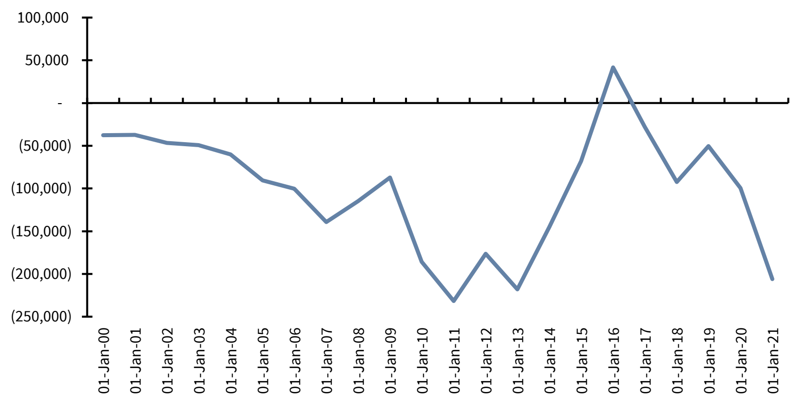


Source: General Department of Customs, KB Securities Vietnam

Positive impacts

China's supply chain disruption is considered an opportunity for Vietnam when foreign investors move production out of China (Figure 36) for the following reasons: (1) Vietnam has fully opened international trade, creating favorable conditions for foreign experts to enter Vietnam to study and sign contracts, and (2) Vietnam remains an ideal destination thanks to many signed free trade agreements (FDAs), favorable geographical location, abundant workforce with relatively low labor costs, and support measures of the state,... Besides, the substantial depreciation of the CNY against the USD may negatively affect foreign investors' confidence in the business environment in China, contrasting the stability of the VND. Accordingly, industrial real estate will benefit from this trend, namely Nam Tan Uyen (NTC), Phuoc Hoa Rubber (PHR), IDICO Corporation (IDC), Kinh Bac City Development (KBC).

Fig 36. China – Foreign direct investment, Net (BOP, USDmn)



Source: International Monetary Fund, Bloomberg, KB Securities Vietnam

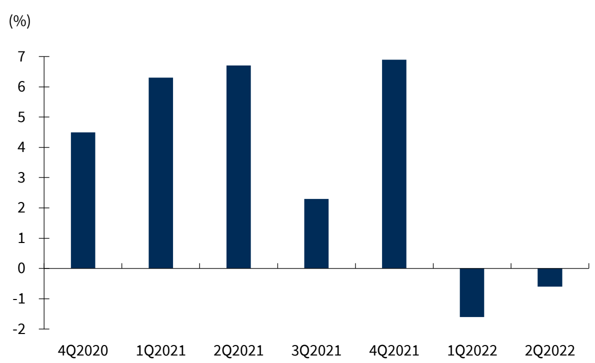
IV. Risk factors

Adverse impacts of the Fed's policy

The picture of the US economy appears in light and dark colors

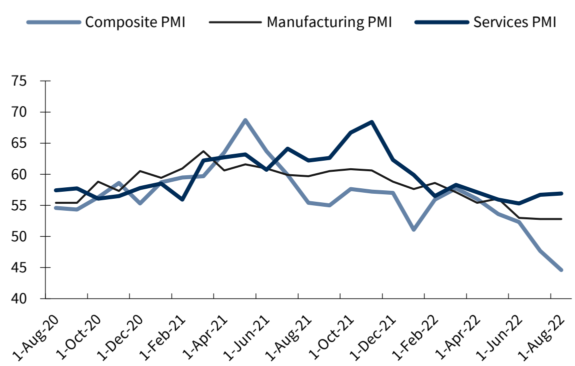
The picture of the US economy appears dark, considering recently released economic data. In detail, the economy posted negative GDP growth for two consecutive quarters (Figure 37). The composite purchasing managers' index (PMI) (Figure 2) plummeted for five straight months to 44.6, consistent with the manufacturing PMI (down 5.8 percentage points to 52.8 percent in August) following a decrease in industrial production and output for two months in a row amid dropping new orders and weak demand. Food, foodstuff, and gasoline prices spiraled, adding to already high inflation (hitting 8.5% in July – Figure 39) and hampering consumer purchasing power and consumption of non-essential goods. The number of backlogs and jobs at factories did not increase significantly. Retail sales (Figure 40) also showed signs of leveling off, rising by 0.7-0.9% MoM in the last two quarters and even declining if adjusted for core inflation.

Fig 37. US – GDP growth by quarter (%)



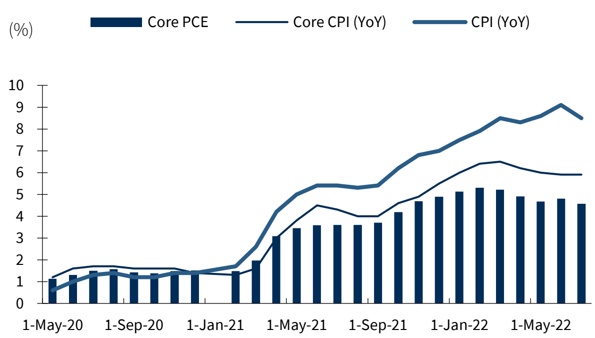
Source: Bloomberg, KB Securities Vietnam

Fig 38. US – Composite, manufacturing, services PMI



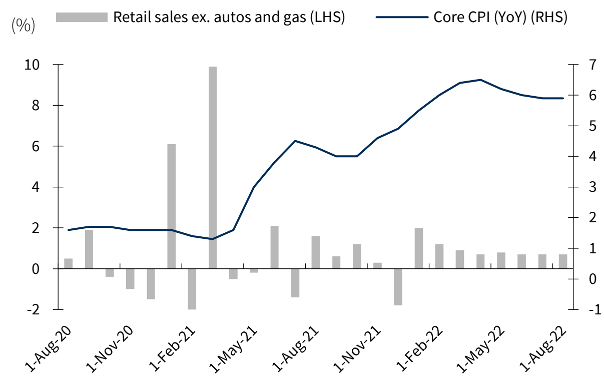
Source: Bloomberg, KB Securities Vietnam

Fig 39. US – Core PCE, core CPI, CPI (%)



Source: Bloomberg, KB Securities Vietnam

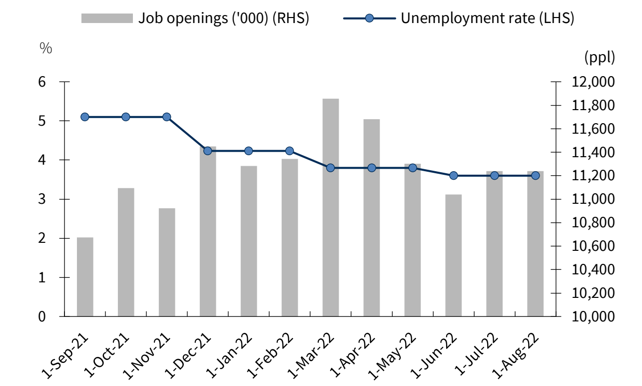
Fig 40. US – Retail sales excluding autos & gas and core CPI (%)



Source: Bloomberg, KB Securities Vietnam

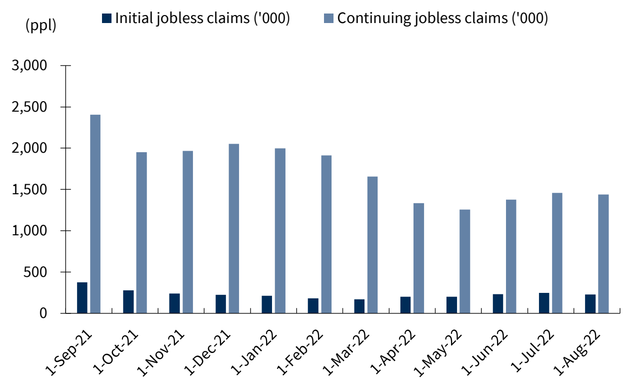
The only bright color in the US economic picture, which is why the National Bureau of Economic Research (NBER) has not declared a recession, is that the labor market continues to shine. An average of more than 11 million jobs was opened each month, helping to keep unemployment at the lowest level in the post-pandemic period. Initial and continuing jobless claims also contracted by -39.36% YoY and -40.12% YoY, respectively.

Fig 41. US – Unemployment rate, job openings (%)



Source: Bloomberg, KB Securities Vietnam

Fig 42. US – Initial and continuing jobless claims



Source: Bloomberg, KB Securities Vietnam

The Fed would be less aggressive but will not stop interest rate hikes soon

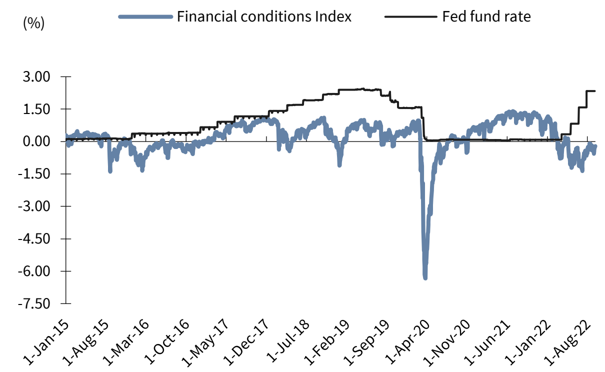
The better-than-expected employment data is the key behind the Fed's move to deliver big rate hikes in its two remaining policy meetings in 2022. Up to now, the Fed has raised the benchmark overnight interest rate four times to a range of 3.00-3.25% and will likely announce another 75bps increase at the next meeting. The US Fed funds rate is expected to hit 4.0-4.25% by end-2022.

Given inflation approaching its peak plus the US economic health showing signs of slowing, we expect the Fed to be less aggressive in raising interest rates in 2023 with an increase of no more than 0.5%. However, the central bank will less likely lower interest rates next year and will keep rates high due to:

(1) A Fed flip-flop on interest rates too early could loosen financial conditions across the money, bond, and stock markets. It goes against the intention of the central bank to force investors and consumers to become more cautious in spending and borrowing, thereby suppressing demand and helping inflation gradually approach the long-term target of 2%.

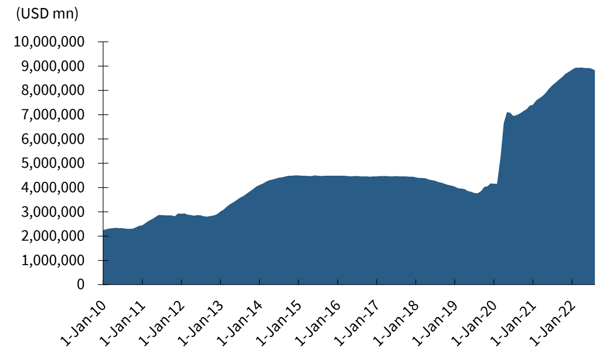
(2) In the COVID-19 period, the Fed bought more than VND5,000 billion of various types of bonds, primarily Treasuries and mortgage-backed securities, from banks and credit institutions in support of the economy through quantitative easing (QE). So far, the central bank has only sold approximately USD2 for every USD100 of bonds purchased during the pandemic. It still has got a lot to do to normalize monetary policy before considering a policy reversal.

Fig 43. US – Financial conditions index, Fed funds rate (%)



Source: Bloomberg, KB Securities Vietnam

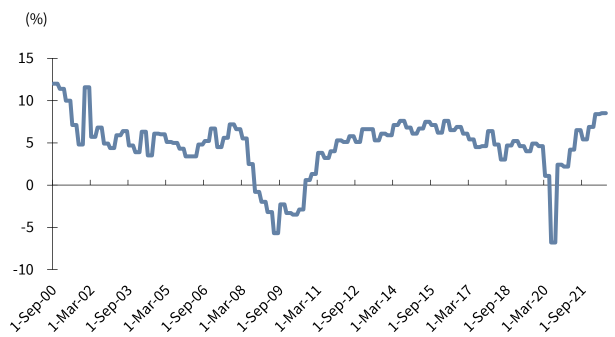
Fig 44. US – Fed balance sheet (USDmn)



Source: Bloomberg, KB Securities Vietnam

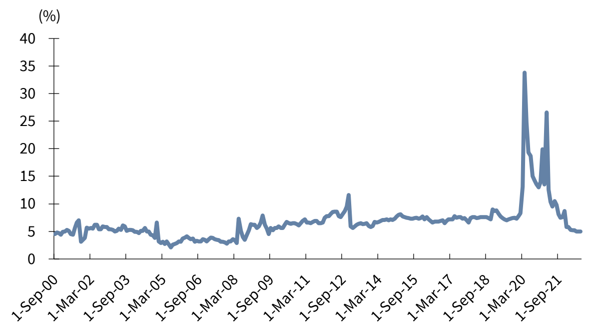
(3) Although many US manufacturing and technology enterprises cut staff and the number of people quitting jobs exceeded the pre-pandemic high (2.8% in 2Q22 vs. 2.3% in the pre-Covid time), the US labor market remains tight. Job openings were far above unemployed workers, so they did not hesitate to switch jobs for opportunities that better fit their needs. Statistically, private-sector wages and salaries in the US grew by 5.7% over the same period, the highest increase since 2001. Inflation is likely to remain high, causing workers to command higher wages to keep up with the rising cost of living. Economists are worried this will lead to the wage-price spiral. Rising income will encourage consumers to shop and invest more, as proven by consumer credit growth hitting its record high of 7.3% YoY since 2011 (Figure 45) and personal savings rate falling to its lowest level since 2009 (Figure 46). Moreover, businesses have to offer a pay rise due to scarce labor, causing selling prices of final products to spike and making it impossible for inflation to cool down.

Fig 45. US – Consumer credit growth (%)



Source: Bloomberg, KB Securities Vietnam

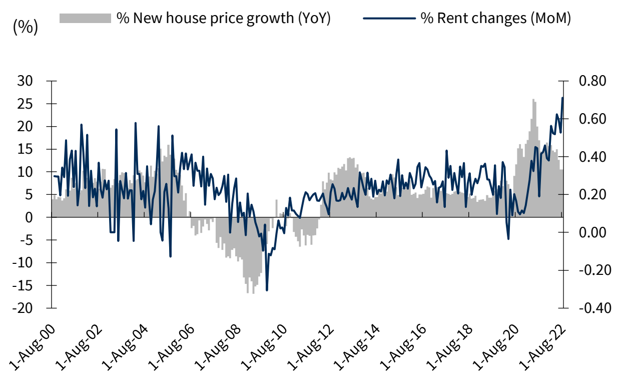
Fig 46. US – Personal savings rate (%)



Source: Bloomberg, KB Securities Vietnam

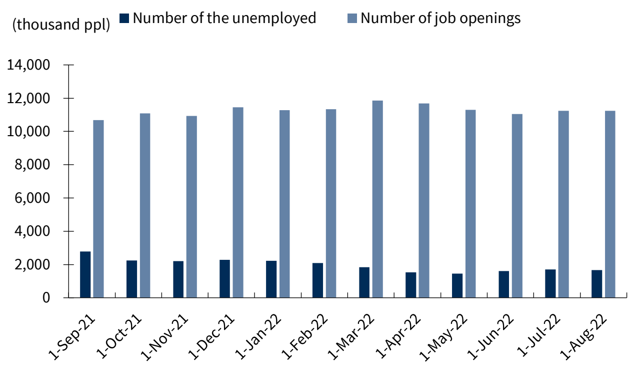
(4) In addition, a factor driving inflation in August was home prices and rents that maintained an upward trend, although the growth somewhat slowed. From the supply side, housing prices in the primary and secondary markets in the first eight months of 2022 are 10 to 15% higher than in 2021. The rent increase has not contributed much to overall inflation of 7-8% for the time being since lease renewals usually last from six months to one year. Also, a sharp increase in Fed funds rates that pushed home loan interest rates also added to a huge rent hike (up 4.5% compared to the beginning of the year). In addition, from the demand side, workers choose to change their workplace for lucrative salaries. It also supports the upward momentum in rents in the foreseeable future and makes this trend less likely to reverse. It will make the Fed more committed to its hawkish stance and will not ease monetary policy anytime soon if the labor market remains too tight. In the base case scenario, we believe the US labor market will see the unemployment rate touch 4.2% to achieve the inflation target of 2%.

Fig 47. US – Increase in home prices and rents (%)



Source: Bloomberg, KB Securities Vietnam

Fig 48. US – Unemployed workers, job openings (thousand people)

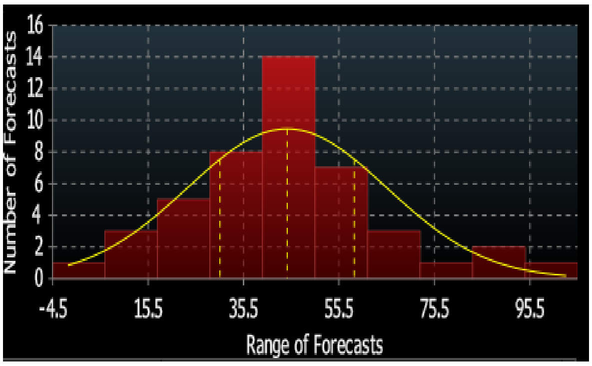


Source: Bloomberg, KB Securities Vietnam

(5) The early reversal of tight monetary policy could end up weakening the USD and fueling persistent rises in inflation due to spiking import prices amid the supply chain disrupted by the ongoing conflict between Russia and Ukraine.

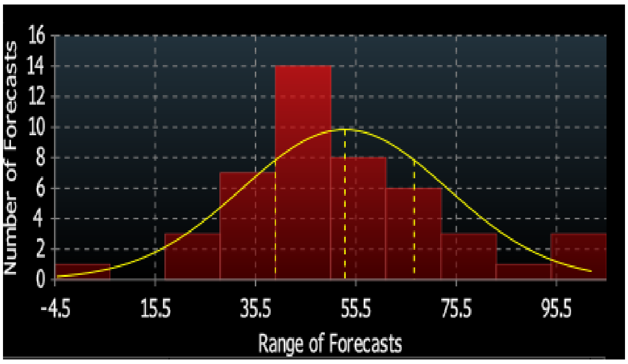
(6) Hard as it is, the Fed is hoping to achieve a proverbial 'soft landing' for the US economy, in which inflation falls steadily and approaches the target level while GDP decreases marginally and the unemployment rate increases moderately. In this scenario, the Fed can maintain high interest rates until the inflation target is reached. A recent Bloomberg survey shows that the probability of a recession is 50% for the time being, up from 40% after two months since the Fed raised interest rates in July.

Fig 49. US – Probability of recession over the next 12 months (Survey on July 27)



Source: Bloomberg, KB Securities Vietnam

Fig 50. US – Probability of recession over the next 12 months (Survey on September 12)



Source: Bloomberg, KB Securities Vietnam

The impact on Vietnam's stock market is not too severe in the base case scenario

In the base case scenario for 4Q22, US inflation progressively cools down (reaching 8% YoY in December 2022 and 3.6% YoY by the end of 2023). The US economy, therefore, can maintain its growth momentum at 0.2% with a somewhat weaker labor market (unemployment up from 3.7% to 4.2%) and avoid the worst case of a hard landing. Accordingly, the impact on Vietnam's stock market is not too severe since it is consistent with the market's expectations. Furthermore, the general downtrend of the market since early September has reflected risk factors. At that point, internal factors like the domestic economy and business activities of listed companies will play a pivotal role in shaping the general market trend.

In the most pessimistic scenario, the growing risk is that the US economy will fall into stagflation in the first half of 2023, in which inflation remains high (CPI remains above 8% YoY), squeezing the economy. The US stock market may then tumble by approximately 20% from the current range following a decrease in reasonable P/E valuation (due to the rapidly increasing interest rates) and shrinking earnings growth of listed companies (due to the economic downturn). At that point, the Vietnamese stock market will also inevitably be affected, with a correction of 10-15% (below that of the US stock market, backed by domestic economic growth and high earnings growth of listed companies). However, we assess this scenario is less likely to happen and will closely follow US inflation and employment rate.

V. 4Q22 top picks & model portfolio

Table 6. KBSV Top picks

Ticker	Target price	Closing price (Sep 23)	Expected return	2022 forward P/E	2022F NPAT growth	Investment catalysts
FPT	112,500	82400	37%	16.70	27%	- FPT continues to aim high this year, with growth in North Asia, America, Europe, and Southeast Asia markets reaching 20%, 33%, 25%, and 25% respectively. - FPT expects a 3-year CAGR of not lower than 30% and 2022F PBT to grow by 50%, with the motivation coming from digital transformation. - The education and investment segment maintained impressive growth in 2021, with revenue up 93.3% YoY despite the negative impact of the COVID-19 pandemic.
IDC	77,400	52900	46%	7.78	385%	- IDC is a pioneer investor and has long experience in industrial park investment and development. - The total remaining leasable area is more than 750ha. - Huu Thanh, Phu My II, and Phu My II IP projects are expected to ensure growth for IDC in the medium term.
MWG	84,912	68400	24%	16.70	-37%	- The restructure of Bach Hoa Xanh (BHX) received positive signals and the new store layout will be deployed on a larger scale in the coming years. - It is expected that MWG will complete its sale of 20% stake in BHX right in 1Q23. - The outlook for TGDD/DMX will be more positive in the second half of 2022 compared to the low base of the same period last year.
PNJ	140,000	113900	23%	16.30	59%	- In 2022, we forecast PNJ's business results with net revenue of VND27,437 billion (+39.8% YoY) and NPAT of VND1,603 billion (+55.2% YoY). - In 2023, NPAT should reach VND2,046 billion (+27.5% YoY) on net revenue of VND31,697 billion (+15.5% YoY). - Between 2022 and 2025, PNJ plans to open 30 to 40 new stores/year. The Board of Directors said they are looking for a site to build a new factory (expected to start construction work in 2022) since the existing factories have reached their maximum capacity.
QTP	23,000	16300	41%	11.00	57%	- After having repaid all debts, QTP will likely keep its current attractive dividend without any major expansion plans. We expect QTP will maintain its dividend payout of 16% in cash, equivalent to VND1,600/share for the next two years and increase to VND1,800/share from 2024 onwards thanks to its strong cash flow. - The probability of the weather pattern entering the neutral phase may surpass the threshold of 50% in 2023, so the water reserves in hydro plants will be lower than that in the 2021-2022 period. In addition, the proportion of hydropower in the North's power supply structure is high. Therefore, we believe that thermal power plants like QTP will benefit. - We estimate QTP's 2022F revenue and NPAT will reach VND9.3 29 billion (+ 9% YoY) and VND907 billion (+ 57% YoY), respectively.
DHA	55,800	38000	47%	8.10	-20%	- DHA is expected to benefit from the promotion of public spending in the year-end period. - DHA owns quarries with large reserves near megaprojects. - DHA offers attractive cash dividend.
PVT	29,200	21300	37%	7.90	41%	-Revenue and profit will accelerate from 3Q22 on the ongoing Russia-Ukraine war and embargoes on Russian oil products, which will boost the demand for transportation of alternative supplies to offset the shortfall in Russian oil, leading to higher charter rates in 2H22 and 2023. - Short-term motivation comes from the PVT Athena crude oil tanker liquidation. - Future fleet expansion plan brings long-term growth potential for the business.
GMD	71,500	48,700	47%	18.40	33%	- Nam Dinh Vu is expected to reach 90% of the design capacity this year. Cargo throughput at the Hai Phong port cluster has now surpassed 90% of the total capacity. Nam Dinh Vu phase 2, expected to come into operation in early 2023, will become a growth driver for the Northern ports in the medium term. - As most ports in the Cai Mep port area are running at full capacity and shipping lines increasingly prefer large vessels, it will be a significant advantage for the Gemalink deep-water port. The operation of Gemalink is expected to exceed 90% of the design capacity this year. - We estimate GMD to achieve NPAT of VND959 billion (+33% YoY) and net revenue of VND3,689 billion in 2022.

GAS	151,100	112500	34%	20.00	65%	- Brent price increase will boost FO (fuel oil) and LPG (liquefied petroleum gas) prices, leading to higher average selling prices for GAS's products. - GAS, as the largest LNG (Liquefied natural gas) importer, will benefit from rising consumption of LNG in the future. - The outlook for gas-fired thermal power enterprises is brighter in 2023 after being affected by the La Nina pattern in the 2021-2022 period and under enormous pressure from the boom of renewable energy power projects.
DXG	52,600	24800	112%	19.47	19%	- DXG will re-open for sale the key project Gem Riverside in the third quarter of 2022 with a new price of about VND80 million/m^2, above the initial price of VND30-32 million/m^2 in 2018. - DXG is currently working on detailed planning 1/500 for Gem Premium in Thu Duc and may launch this project in the near future. - DXG is aggressively expanding its current landbank of about 4,200 ha, of which 30-40% is the clean and clear landbank available for sale.

VI. Sector outlook

Residential real estate

Outlook: Neutral
Tickers: VHM, KDH, NLG, DXG

The supply of apartments in the 2Q22 in both Hanoi and Ho Chi Minh City (HCMC) surged after being subdued in 1Q due to the impact of Tet and the COVID-19 resurgence in February and March. The number of new apartments in HCMC, mostly from Vinhomes Grand Park project, was 15,528 units (+1.656% QoQ, +2.882%YoY), the highest in the past three years. Apartments launched in Hanoi reached 4,600 units (+27%QoQ, +24%YoY). Housing prices in both cities increased, HN recorded a high rise of about 27%YoY mainly due to the high proportion of the high-end segment, while HCMC witnessed a modest gain of 8.6%YoY. The shophouse/villa segment was still busy in Gia Lam, Hung Yen and Thu Duc where many urban projects were opened for sale. The prices of this segment surged 46%YoY to a record high of USD7,300/m^2 in Hanoi and spiked 48%YoY to USD6,913/m^2 in HCMC thanks to high demand.

The property market is facing many short-term difficulties, namely (1) higher home loan interest rates as rising deposit rates affect the demand for loans of home buyers and (2) developers' difficulty in assessing capital given the banks' tightening credit into real estate and closely watching bond issuance activities.

However, the market in some areas still benefits thanks to (1) promoted public investment with large projects such as the North-South expressway, Long Thanh airport, and traffic axes connecting the center of Hanoi and HCMC with other areas and (2) resumed and boosted sales at projects in the inner HCMC.

Real estate stock prices recovered well in July and August with an increase of 15%-25% after a sharp correction in 2Q. However, from mid-August to early September, some stocks witnessed strong falls, currently at P/B around 1.5x due to the impact of macro factors and concerns about unresolved obstacles of the industry. KBSV believes that investors can consider real estate stocks that have already seen deep corrections and had good business prospects thanks to a large landbank, good legal status, safe financial structure, and projects with positive sales. Some typical tickers are Vinhomes (VHM), Khang Dien House (KDH), Nam Long Group (NLG), and Dat Xanh Group (DXG).

Industrial real estate

Outlook: Positive
Tickers: NTC, IDC

The total newly registered FDI reached USD16.8 billion (-12%YoY). However, the additionally registered capital continued to grow strongly to USD7.5 billion (+50%YoY), and realized capital was USD12.8 billion (+11%YoY), reaching five-year highs. We expect FDI to continue to recover thanks to fully operated international flights.

In 2Q22, the occupancy rates of industrial parks in the Northern and the Southern regions were stable, and rents went up thanks to the recovering demand after the pandemic. In the South, new supply was abundant, but the occupancy rate remained at 85%, showing that demand is still high. The rents continued to reach a new peak of USD125/m^2/lease cycle (+10.7% YoY). The occupancy rate of Northern industrial parks was 79% (+4% YoY), and the rental price was USD110/m^2/lease cycle (+4.4% YoY).

Regarding the medium-term prospect, Vietnam's industrial real estate benefits from (1) signed free trade agreements (FTAs), (2) Vietnam’s lower labor costs and land rents compared to the region, which makes Vietnam a potential destination for companies moving out of China, and (3) promoted public investment with many key infrastructure projects to help increase connectivity between regions and attract more FDI.

Share prices of industrial parks regained 15%-25% in July & August but plunged due to negative macro factors. Investors should consider industrial parks that had passed the deep correction period and had good fundamentals such as large commercial land bank and convenient locations in key provinces near Hanoi and HCMC. Some notable industrial real estate stocks are Kinh Bac City Development (KBC), Phuoc Hoa Rubber (PHR), Nam Tan Uyen (NTC), and IDICO Corp (IDC).

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Power

Outlook: Positive
Tickers: POW, NT2 REE, QTP, PC1

8M22 national commercial electricity output grew 5% YoY. We believe that the electricity demand of the whole system will continue to recover in the new "normal" – living with COVID-19. We lower our 2022F output growth to 9% but still maintain our view that power output in the last months of 2022 will bounce back stronger given low comparative base in 2021.

The average electricity price on the competitive generation market (CGM) in August was VND1,511/kWh (+51% YoY), the highest in the past five years. 8M22 CGM price averaged VND1,442/kWh (+37.1% YoY), which is high and would help maintain a positive outlook for hydroelectric and gas-fired power plants for the last months of 2022.

2022 should be a positive year for power industry but there will be a divergence between generation sources because 1) La Nina is likely to continue until the end of 2022, making the water conditions more favorable for hydropower plants and offering competitive mobilizing prices; 2) wind power plants that have been fully constructed and operated before November 1, 2021 should record revenue growth thanks to high power prices – especially power projects of PC1 Group (PC1), Gia Lai Electricity (GEG), and Refrigeration Electrical Engineering (REE); 3) gas-fired power plants are expected to rebound from the low base of 2021 by meeting electricity demand while coal-fired power plants are lacking input materials; and (4) coal power plants will have to face obstacles as Vinacomin Minerals Holding (KSV) and Dong Bac Corporation have not found alternative sources of coal to the current source which required high costs due to the Russian – Ukraine conflict.

Observing the current price movements of stocks, especially the thermal and hydro power plants like PV Nhon Trach 2 (NT2) and Vinh Son – Song Hinh Hydropower (VSH), we find that the prices of these stocks partially reflect the market's expectations about positive business results in 3Q22 and the whole year of 2022. Despite the positive view, KBSV recommends that investors should only buy power stocks when they have already passed the correction period and the upside is attractive enough to each investor's taste.

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Information Technology

Outlook: Positive
Tickers: FPT, CMG

The world demand for information technology is growing strongly. According to Statista, total spending on IT exports in 2022 and 2023 was estimated at USD1,280 billion (+7.9% YoY) and USD1,392 billion (+8.8% YoY) respectively with increased demand on software as a service (SAAS) and cloud solution.

In 2021, the total revenue of the ICT industry hit USD136.15 billion (+9.2% YoY), of which the hardware sector contributed USD121 billion. The Ministry of Information and Communications forecasts the ICT industry's CAGR in the next four years to reach 15.22%, driven by digital transformation. The Ministry has set a target that by 2025 there will be 100,000 digital technology enterprises in Vietnam, an increase of 56.25% compared to 2021's 64,000 enterprises.

Domestic companies' software export maintained good growth, underpinned by an increase in the number of new contracts. FPT Group's (FPT) revenue from foreign IT services rose 29.1% YoY, and the number of new contracts grew 43.2% YoY.

Digital transformation in the country is taking place strongly in both the business sector and the public administration sector. In the last quarter, Bank for Investment & Development (BID) and PVcombank signed contracts with with CMC Technology Group (CMG) to develop digital transformation projects to support the bank's operations, while FPT also signed a strategic cooperation agreement on this field with Tien Phong Bank (TPB), Tan Long Group, and Flamingo Group. For the public administration sector, the provinces of Nam Dinh, Thua Thien Hue, Dak Nong, Hau Giang signed strategic cooperation agreements on comprehensive digital transformation with FPT and CMC.

Telecoms segment is expected to grow steadily, supported by increasing broadband internet subscribers (+8-10%) and the growth of the OTT TV segment as the demand for entertainment via OTT TV is gradually gaining popularity in Vietnam. Besides, the development of mobile broadband internet including 4G-5G will be a breakthrough step for telecoms businesses.

We believe that IT businesses would maintain a double-digit growth in 2022. Investors should consider stocks with strong software export and digitalization activities like FPT and CMG. Currently, these two stocks are trading at PE below std+1 of three-year PE average. Investors can consider buying at correction spans for medium and long-term positions.

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Banks

Outlook: Neutral
Tickers: VCB, BID, VPB, MBB, TCB

According to data released by the State Bank of Vietnam (SBV), by the end of August, the total loan for the entire economy reached VND11.7 million billion, an impressive growth of 9.91% compared to the beginning of the year. As many banks ran up the credit room in the first five months of the year, credit growth in July and August was very low, at 0.07% and 0.5% respectively. In the beginning of September, the SBV decided to expand the credit ceiling for the banking industry. To be more specific, (1) for state-owned joint stock commercial banks like Agribank (AGR) and Vietcombank (VCB), the credit caps were raised by 3.5% and 2.7% respectively, while the rate for Vietinbank (CTG) and Bank for Investment & Development (BID) gained by a mere of 0.7% as their caps at the beginning of 2022 were already high, much better than in previous years. (2) Some private commercial joint stock banks have relatively large credit extension like HCM Development Bank (HDB, +3.4%), Military Bank (MBB, +3.2%), Saigon Hanoi Bank (SHB, +3.2%), Techcombank (TCB), and Asia Commercial Bank (ACB), Vietnam International Bank (VIB) up 2.7% respectively, Tien Phong Bank (TPB, 1.2%) and Vietnam Prosperity Bank (VPB, +0.7%). According to our estimation, in case banks use up the new room, the credit of the whole industry will gain 13.2% YTD. Therefore, the SBV can still loosen the room again from 0.5-1.2% to achieve the full year target of 14%. But we don't expect too much on this lift because the SBV is still very consistent with the goal of controlling inflation and exchange rates.

The economy is recovering, and businesses are gradually regaining their repayment ability, helping the average loan yield in 2Q improve by 0.24% QoQ to 8.42%. Low deposit growth and SBV's continuous net withdrawal of trillions of VND through open market operation and foreign currency sales caused a deep drop in the liquidity of the industry. The "race" to increase deposit interest rates is inevitable and in fact banks have increased deposit interest rates by 0.1-0.7% in the first half of the year. The increase in deposit interest rates also made demand deposits rise 2.1% QoQ, the CASA ratio of the banking industry remained at 23%. The average interest expense on deposit in 2Q was 3.83%, up 0.14% QoQ. 2Q NIM of the whole industry was 3.8%, up 0.12% QoQ but still down 0.12% YoY as 2Q21 deposit interest rates hit bottom lows, and the demand for loans bounced back strongly. 2Q22 NII of listed banks gained 7.7%QoQ and 16.8%YoY to VND106 trillion. The interest rates on government bonds increased, causing revenue from securities trading to lose VND646 billion. Operating expenses rose 19.3% YoY and provision expenses declined

13.8% YoY. 2Q EBT reached VND64 trillion, up 36.2%YoY and if excluding upfront fees at VPB, CTG in 1Q22, EBT increased by 3.6%QoQ. 1H22 EBT of listed banks reached VND132,355 billion, up 33.3% YoY.

At the end of 2Q, the non-performing ratio (NPL) of the whole industry increased to 1.5% (+0.07% QoQ) as bad debt increased 20.9% QoQ. Most of the listed banks recorded an improvement in their NPL compared to the previous quarter. Big banks with higher bad debt ratio in 2Q are MBB (+0.2 pts), BID (+0.05 pts) and CTG (+0.1 pts), but this ratio was still at a safe level, below 1.5%. Some other joint stock commercial banks saw strong NPL increase are SHB (+0.8 pts), Viet Capital Bank (BVB, +0.31 pts), notably, VPB's consolidated bad debt ratio at the end of 2Q was 5.25% due to its focus on the banking sector. The consumer credit sector is very risky, especially in the case of National Citizen Bank (NVB) whose NPL ratio spiked to 11%. Regarding restructured debt, most of the banks we observed recorded a decrease of 30-50% in restructured loans after 1H22 along with a good recovery of the economy. The industry’s loan loss coverage ratio (LLCR) remained positive and stable above 146%. VCB holds the top position in provisioning when itsLLCR reached a record of 505%, and CTG and BID are also among the top with the ratios of 189.7% and 262.5% respectively. For the group of private joint stock commercial banks, MBB, ACB and TCB are the banks with the highest LLCR ratio.

We change our view for banks in 4Q22F from POSITIVE to NEUTRAL, based on the following main points:
(1) The SBV’s room extension is in early September should give banks room to grow better in 4Q, not to mention the possibility that the SBV will loosen the room for the second phase in November.
(2) The pressure to raise interest rates will increase by the end of the year when banks step up to mobilize capital for loans and the SBV has officially raised the ceiling for policy rates by 1% from September 22. We expect short-term deposit rates to gain 0.5-1% right in 4Q, while long-term rates may see a higher increase of 1-1.5%. Accordingly, the average deposit interest rate of the whole industry is projected to gain sharply by 1.14pts YTD to 4.56%. Meanwhile, the increase in lending interest rate will slow down in the last months of the year to promote disbursement of new credit room, banks' shift of loan portfolio to less risky industries will also reduce the average yield. The industry's NIM is therefore expected to be flat or decrease this year.
(3) In terms of asset quality, we believe that the NPL ratio will gradually decrease in 4Q as better profit growth from the new credit room makes banks more eager to make provision and to accelerate debt settlement (usually in 4Q), which should create room for growth in the following years given a more stable macroeconomic situation.
(4) The 10-year government bond interest rate continuously gained 1% in 3Q and peaked at 4.31% in September, so banks will have to reduce the value of their securities portfolios. Income from securities trading will be directly affected by this.

The bank stocks that we choose are BID, VCB, VPB, MBB, and TCB. For state-owned banks, we continue to appreciate VCB for its operational safety, and BID for all the necessary factors for outstanding growth this year such as a large credit room, improved CASA via digital transformation (linking bank accounts with chip-based ID card) and promoted retail lending. For private joint stock commercial banks, MBB is one of the top choices thanks to its high credit room, top asset quality, and strong digital transformation. VPB only got a modest room rate of 0.7%, but the plan to sell capital to foreign countries next year is also worth paying attention, besides, VPB also has the top CAR in the industry (12.7%). Investors can also consider TCB as it is the leading bank.

Bank stock prices gained 15-20% in July and August, reflecting expectations about business performance the second half of the year and the new credit room. However, from mid-August to early September, the growth rate slowed down and showed signs of decrease under the impact of the poor macroeconomic data and slower credit disbursement affected by SBV's monetary policy and the pressure of raising interest rates. Valuation of PB of the banking sector is at 1.66x, trading right on -1Std. Meanwhile, the industry's profitability in the first six months reached 19% - 17% and is above the five-year average. We still assess that the banking group is at an attractive price range and is suitable for long-term investment goals.

The main risks for our assessment include: (1) bad debts from real estate businesses increase rapidly when real estate credit is still tightened; (2) deposit rates increased faster than expected; (3) the SBV continued to withdraw money to control inflation and stabilize the exchange rate, creating a bottleneck in credit capital flows.

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Retailers

Outlook: Positive
Tickers: MWG, PNJ

Total retail sales of goods and services in 8M22 reached VND2,679 trillion, increasing 19.3% YoY, which is stronger than that of the same period in the past years and before COVID-19 (8M22 sales gained 13.9% over the same period in 2019 – also the pre-COVID period). The retail sales of goods alone gained 15.4% YoY, compared to the low base affected by the pandemic last year.

We believe that the retail industry is recovering as the economy gradually gains stabilization after reopening. The long-term growth potential comes from the fact that Vietnam is a country of 100 million people with a top growth rate of middle class in Southeast Asia. However, we note that in the short term, the inflationary pressure may affect the people’s spending and slow down the purchasing power of the retail industry. Besides, 4Q business performance of some businesses may not meet expectations because comparative base last year reached a peak after the Government eased social-distancing protocols. However, we still prefer leading companies such as Mobileworld (MWG) and Phu Nhuan Jewelry (PNJ) with bright prospects in the short and long term.

MWG’s 7M22 NPAT and revenue recorded growth of 3% and 14% YoY, respectively, which is not really impressive due to unfavorable weather, so the consumption of electronic products did not meet the expectations for 2Q. The Bach Hoa Xanh chain (BHX) is in the process of restructuring and closing many inefficient stores, which also affect MWG’s results. We believe that the outlook for the last months of the year will be more positive as the newly launched iPhone 14 handset is being well received, and the World Cup and the holiday season will boost 4Q sales of the ICT&CE segment. We expect BHX to return to pre-epidemic growth after the restructuring. The capital sale of BHX should also be completed in 1Q23.

We also maintain a positive view on PNJ stocks as its 7M22 performance exceeded expectations with NPAT and revenue up 66.1% and 70.9% YoY. Inflationary pressure may affect spending on non-essential items such as jewelry, but PNJ's customer base is middle and high-class, so the inflation risk for PNJ is not too big. We expect PNJ to record growth in 3Q22 (as it recorded a loss in 3Q21 when it had to close many stores) and to remain positive in 4Q22 – the quarter of peak demand for jewelry. Opening new stores and improving the capacity of factories will be the driving force for PNJ to increase its market share in the jewelry retail market in the long term.

Fishery

Outlook: Positive
Tickers: VHC, ANV

8M22 fishery export turnover reached USD7,557 billion, up 35.5% YoY. August export value in August rose 54% YoY, which does not represent an optimistic trend because August 2021 was the peak month of the COVID-19 in the Mekong Delta region, so fishery production was interrupted, and exports fell to the lowest level of the year.

According to VASEP, shrimp exports dropped the most in fishery products. Shrimp exports plunged from a peak of USD456 million in May to USD356 million in August but still grew 26% YoY. This is because high input costs and adverse weather and lower demand due to high inventories in import markets affected shrimp production. These factors and inflation caused shrimp exports to the US and China, the two major markets to decline from July.

Pangasius export was stable in 8M22 and rose 81% YoY to USD1.8 billion. Although the average export price of pangasius to markets has decreased slightly compared to previous months, pangasius is the choice of many markets despite inflation in many countries. Pangasius exports to markets have kept a two or three-digit growth.

In general, after recording record growth in 1Q and 2Q, seafood exports in 2Q slowed down due to inventories in import markets, especially in the US when it imported a large volume in 1H22. The ongoing inflation in many countries also tightens customer spending on high-end products such as shrimp.

We have a positive view about the fishery industry in 4Q22. Exports will recover in the next quarter and the demand will rebound ahead of the festive season (Christmas & Easter) in import markets, however, it will be difficult to go back to the peak of 1H22. The China market will be a bright spot for seafood export as the country soon eases the import process and reopens the economy, creating a good driving force for pangasius exporters.

Stock prices of fishery companies started to decline and slow down since June 2022 after experiencing a period of remarkable price increases thanks to positive business results in 1H22. The short-term downtrend of the industry partly reflected in the stock price movements in the past time. KBSV believes that fishery businesses, especially pangasius exporters, will still be good for investors to hold.

Oil & gas

Outlook: Positive
Tickers: GAS, BSR, PVS, PLX, PVT

Brent oil price remained high at USD104.9 per barrel on average in 1H22 (+61% YoY) due to geopolitical tensions between Russia and Ukraine and concerns about Western sanctions against Russia. Besides, OPEC+ has not achieved the expected increase in actual output to make up for the shortfall from Russia. KBSV keeps the view that Brent oil prices for the rest of 2022 will likely remain around USD100 per barrel because 1) the tensions between Russia – Ukraine are not likely to be resolved soon; and 2) Crude oil demand recovers strongly as winter – the peak season for crude oil and gas demand is approaching.

Regarding the progress of the Block B – O Mon project, the main gas-using project, O Mon III, has been delayed for many years due to higher-than-expected investment costs and the Japanese government's unwillingness to expand the scale of ODA loans required to complete the project. The delay in the key downstream project has caused upstream projects to be delayed for quite a long time. However, in August 2022, the O Mon III gas-fired thermal power plant – an important downstream component of the Block B megaproject, was approved for investment. This is the largest project in the oil and gas industry with an average annual supply of about 7 billion m^3 of gas, accounting for about 75% of the current annual gas output of PV GAS (GAS). We believe that the approval of O Mon III thermal power plant will be the first step for speeding up the approval of the entire Block B project when the final investment decision (FID) is likely to be made in 4Q. This created a positive outlook for upstream enterprises in the oil and gas industry.

We maintain our view that GAS is the leading oil & gas stock thanks to benefits from the selling price, which is directly correlated with the increase in oil prices, and Vietnam's shift to using natural gas and imported LNG for production to meet the long-term shortage of electricity demand. GAS's 2022F profit should recover as gas prices benefit from world oil prices with a base assumption of USD100 per barrel, compared to an average of USD70 per barrel in 2021.

Petrolimex (PLX) will be self-sufficient in finished petroleum products after importing a part of its input petrol for spot price instead contract price, making 2Q business results be negative. We believe that the independent input and divestment from PGBank at the end of 2022 will support PLX business results in the last months of 2022.

Binh Son Refinery (BSR) will continue to be positive in 2022 although Crack spread has shown signs of cooling down in 2022 due to the low comparative base of 3Q and 4Q21. In addition, Vietnam's uncertain petroleum demand and the lack of stable operation in Nghi Son Refinery are advantages for BSR's finished petroleum production & distribution.

PV Transportation (PVT) will benefit from the Russian embargo, which will create a gap between the supply and demand of crude oil and finished petroleum products in Europe and lead to higher demand for alternative sources to replace Russia in late 2022 and 2023. In addition, we expect one-time earnings from vessel liquidation to be a short-term driver for PVT in 2022.

For two upstream plants PV Drilling & Well Services (PVD) and PV Technical Services (PVS), high oil prices (at more than USD55 – also the breakeven point of the industry in the region) will help brighten the outlook. Although the 1Q22 business results are not very impressive, we expect new high oil prices will have a positive impact on these two businesses. For PVD, we see an improvement in both rig performance and daily rig rental rates in Southeast Asia, and the company starts a long-term contract on TAD rig in Brunei after four years of idle time. As a result, PVD should have better results in 2H22. For PVS, the company is in the process of bidding for EPC projects with positive progress, which, when combined with high oil prices, should support earnings from FPSO/FSO joint ventures. In addition, the resuming of the Block B project will be a short-term driver for the two oil & gas stocks.

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Logistics

Outlook: Positive
Tickers: GMD, HAH, VSC, DVP

Total port throughput nationwide in 8M22 reached 496 million tons, up 3% YoY, higher than 1% growth in 1H22. This is a modest growth as the current sea freight rates, despite reducing, are still much higher than the pre-pandemic rates. Container cargo throughput was 17 million Teus, up 2% YoY, with the increase in exports and imports of 4% and 6% respectively. Specifically, exports reached 5.6 million Teus, imports reached 5.8 million Teus, and domestic goods reached 5.6 million Teus.

Total cargo throughput at Hai Phong ports by the end of August was estimated at more than 99 million tons, up 9.27% YoY, positively affecting business results of Hai Phong port cluster. Port revenue of Hai Phong port cluster was estimated at VND511 billion in August, up 7.37% YoY and VND4,380 billion in 7M22, up 13.5% YoY.

We maintain a positive outlook for the logistics industry in the next quarter, expecting profit to continue to grow strongly in 4Q, the peak quarter. Deep ports in Cai Mep and Hai Phong may achieve outstanding results. Port operating businesses should benefit further from high freight rates until the end of the year due to ongoing supply chain disruptions.

On August 9, the Ministry of Transport approved the investment project to upgrade the Cai Mep - Thi Vai navigation channel from buoy 0 to the upstream of Cai Mep terminal with a total investment of VND1,414 billion in the period of 2021-2025. The upgrading aims to form and develop a major international gateway port, attracting transshipment goods in the region. In addition, from the beginning of August, HCMC reduced the port infrastructure fee for goods transported by inland waterways. The fees on import and export goods are also reduced by 50%. After the application of the port infrastructure fee from the beginning of April this year, goods through ICDs have decreased by 25-30%. The adjustment of the fee rate combined with the decrease in gasoline prices will positively affect the volume of goods through the Southern ports, promoting the growth of this region's ports.

2Q22 revenue and profit of logistics company Hai An Transport & Stevedoring (HAH) both doubled those in the period last year thanks to the addition of two new ships, a sharp increase in domestic freight rates and ship rental prices, and the rise in the number of chartered ships. In the first half of this year, most port enterprises recorded growth in profits, although the increase varied across companies. Gemadept (GMD) and Gemalink – the largest port in Cai Mep Thi Vai deep-water port cluster and Hai Phong Port witnessed heavy port throughput, with pre-tax profit up 86% and 34% YoY, respectively. Dinh Vu Port Investment & Development (DVP) and Viconship (VSC) recorded a lighter increase with pre-tax earnings up 20% and 29% YoY. We expect GMD's 2H22 results to maintain a good growth, based on (1) the low comparative base at the end of 2021 and (2) great growth potential from Gemalink port, a large deep port with a large room for growth. Meanwhile, HAH's earnings should remain at a high level thanks to high freight rates and high ship chartering prices on two or three-year contracts.

Equity Research – KB Securities Vietnam

Securities

Outlook: Neutral
Tickers: SSI, HCM, VCI

Market liquidity increased strongly in the period of 2020-2021 and showed signs of weakening in 1H22 along with the market's downward momentum. As of September 15, 2022, the three-month average trading volume reached VND13,583 billion, down 37.4% YoY. The T+2 trading regulation after two weeks of implementation has not yet brought about clear differences in liquidity due to the cautious sentiment in the negative global macro context.

The business results of the securities industry declined sharply in 2Q. In 30 securities companies with the largest equity, operating profit and NPAT decreased by 31% YoY and 57% YoY, respectively. Industry-average ROE in 2Q reached 18.3%, down from 21.6% in 2Q21. Details of each business segment are as follows:

The brokerage segment's gross profit in 2Q decreased by 35% YoY and 49% QoQ due to a sharp drop in market liquidity. In terms of market share, securities companies that focus on MASS customers such as VPS Securities and Techcom Securities have risen strongly in the past two years, entering the top five companies with largest brokerage market shares, while securities companies focusing on institutional clients such as Viet Capital Securities (VCI), Ho Chi Minh City Securities (HCM) gradually lose market share.

Gross profit of margin lending in 2Q gained 37% YoY thanks to capital raising to meet the needs of customers for margin loans in the recent period but dropped 9% QoQ due to the decline momentum on the market.

The market fell sharply with the VN-Index down 21% in 2Q, making the gross profit from securities trading to lose VND340 billion vs 2Q21 profit of VND3,102 billion. The group of securities companies with losses from proprietary trading can be mentioned as Tien Phong Securities (ORS), Saigon - Hanoi Securities (SHS), Viet Dragon Securities (VDS), and ACB Securities.

Gross profit of investment banking segment in 2Q decreased by 9.0% YoY and 40% QoQ due to (1) tightening corporate bond market management, (2) delayed equitization and divestment of state capital, and (3) unfavorable market movements, leading capital sales and divestments of enterprises to stall.

According to KBSV's assessment, with market movements bottoming and recovering in 3Q, profits of securities companies will be partly improved thanks to proprietary trading. However, liquidity may still be low, which, when combined with negative macro factors, would make it difficult for businesses to achieve high earnings as in 2H21, when the market peaked in terms of trading volume and value. Investment opportunities that can be considered when the market corrects to attractive price ranges include SSI, HCM, and VCI, which are the leading securities companies in the industry with a stable customer base to sustain and recover well after the difficult time of the market.

Equity Research – KB Securities Vietnam

Steel

Outlook: Neutral
Tickers: HPG, HSG, NKG

The world's steel output continues to decline, and the outlook is gloomy. According to the World Steel Association (WSA), crude steel production in July was 149.3 million tons (-6.5% Yoy) and decreased from June's 158.1 million tons. We believe that the world steel supply will fall further because (1) closing steel plants in the EU due to the unresolved energy crisis and (2) the policy of reducing output and protecting the environment in large steel producing countries like China.

Domestic crude steel production declined due to weak demand and large inventories. In August, finished steel production reached 1,982 million tons, down 12% MoM and down 21.6% YoY. Accordingly, 8M22 crude steel reached 20,808 million tons (-5.8% Yoy). Sold volume of finished steel was 19,261 million tons (-1.6% YoY).

We expect domestic steel consumption in the last three months of the year will recover because (1) the rainy season – the low season for construction has passed, so steel demand should increase in 4Q when construction works accelerate; and (2) public investment is expected to accelerate at the end of the year. Disbursement speed in August was faster than July 2022, disbursed capital in the first eight months of 2022 completed 51% of the year plan and increased 16.9% YoY. The source of investment to be disbursed for the period 2022-2023 is still abundant, which will be the driving force to domestic steel consumption.

The economic support policy of the Chinese government on August 24, 2022 also boded well to the steel industry. Of particular note was an additional CNY300 billion that state banks can use to invest in infrastructure projects. The recovery of the China market is the main driver of the world's steel demand in 2023. However, the outlook for world steel demand is uncertain due to concerns about inflation and recession.

Steel prices in early September on Vietnam market showed a recovery after consecutive declines. Steel prices were supported when domestic demand and coke prices rebounded. Coal prices increased due to the EU's ban on coal imported from Russia that took effect from August 11, 2022. This means that the EU will have to proactively search for alternative supplies from other countries such as Australia and Colombia. The global prices of sea-transported coal will increase accordingly. The FOB price of coking coal at Australian ports on September 6 was USD254.5/ton. However, steel producers will be less pressured because raw material prices are still much lower than those in early May and selling prices started to rebound slight. We expect the business results of steel companies to improve in 4Q.

We have a NEUTRAL view of the steel industry in the next quarter. Steel prices and domestic demand are likely to recover in 4Q. However, inflation and recession in other countries may worsen the global steel market, making certain impacts on Vietnam market. Hoa Phat Group (HPG) with a strong competitive advantage can be considered as an investment opportunity when the domestic construction steel market is recovering. In addition, Hoa Sen Group (HSG) and Nam Kim Steel (NKG) may benefit if the EU market lacks steel supply due to the closure of factories in the near future. However, the extent of benefits may not be so clear as Vietnam's hot-dip galvanized steel (HDG) products into the EU are currently subject to import quotas.

The share prices of steel companies have dropped sharply since the beginning of April. This partly reflects concerns in the market about the subdued business performance of businesses when the prices of raw materials skyrocketed and decreased profit margins and consumption. In the past, the price of steel stocks often bottomed before the announcement of business results. Although the steel industry is still in a difficult period, we believe that stocks of the industry will bounce back thanks to the return of steel demand and more positive business results in 4Q.

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Investment ratings & definitions

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