KB Securities VIETNAM

2Q23 stock market outlook

Up in the air

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We maintain the forecasts made in the *2023 Vietnam stock market outlook* report (hereafter *2023 outlook* report) for the VNIndex at the end of 2022, which may reach 1,236 points in the base case, based on the following assumptions: (1) Inflation in the US continues its steady downward trend. (2) A slight recession will cause a Fed's policy reversal. (3) The State Bank of Vietnam (SBV) will continue to implement policies to support the economy such as lowering policy interest rates and buying USD, which helps the interest rates in the economy to cool down.
In particular, we slightly lower our forecast for average EPS growth of companies listed on the HSX from 8.05% (given in the *2023 outlook* report) to 5%. This reflects their sagging business performance after 4Q22 disappointing growth data, which is in line with the deterioration of the domestic macro foundation. We raised the target P/E for 2023 to 14.3x (from 14.1x previously announced – *P/E ratios of markets in this report are increased according to Bloomberg, omitting extraordinary corporate profits when calculating EPS*), in order to reflect the economy's tendency to lower interest rates and more dovish policies from central banks.

In 2Q23, we believe that the trend of lowering interest rates and more positive signals from the FED's policy rates will be the main drivers to the market trend. However, the two key factors that have potential risks to the market are the corporate bond market and the collapse of some global banks (black swan events like the SVB collapse and Credit Suisse crisis are likely to continue). We believe that both of these factors will be most tense in 2Q or 3Q of this year, when the pressure of matured corporate bonds in the country is huge, while the top policy interest rates of central banks will fall at the end of the 2Q before gradually declining from 3Q. As a result, we think the market would not likely to make a breakthrough right in 2Q when risks are dominant. Alternating peaks and troughs will appear with the general trend of moving sideways throughout the quarter.

For the sector outlook in the second half of the year, our Equity research department gives a positive assessment to the power, information technology, and oil and gas sectors (See section *V. Sector outlook*).

Contents

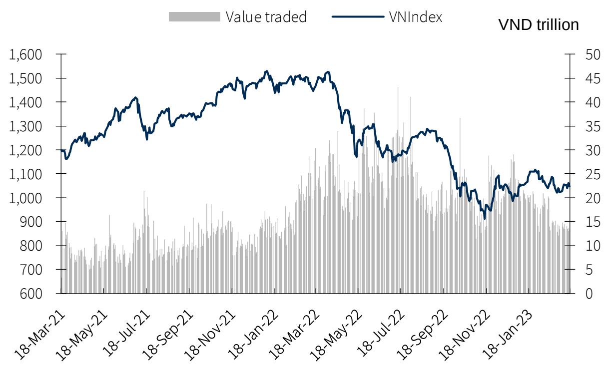
I. 2Q23 stock market outlook

Vietnam stock market moved sideways in 1Q due to mixed factors

Vietnam stock market moved sideways in the whole 1Q with short ups and downs interspersed. Phase 1 took place in January when the market witnessed a strong recovery across many sectors thanks lower deposit and lending interest rates and strong net-buy trend of foreign investors. Phase 2 is the rest of 1Q when the market fluctuates in a downward trend amid adverse domestic corporate bond market and the risks from the global banking system such as the Silicon Valley Bank and Credit Suisse events.

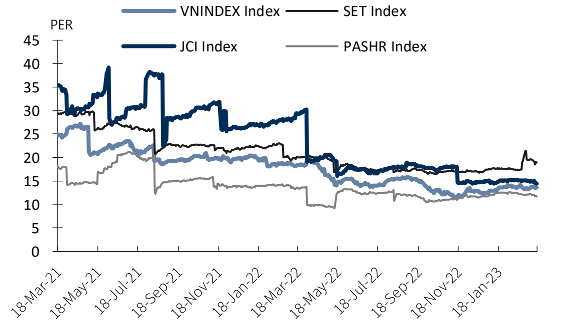
As of March 30, 2023, the VNIndex increased by 5% in points while the average trading value decreased by 5% YoY.

Fig 1. Vietnam – VNIndex movements (point)



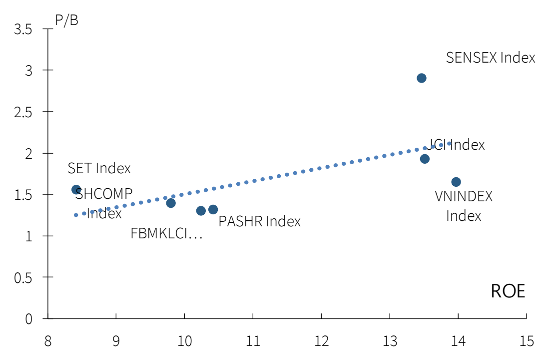
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN4 – P/E movements (x)



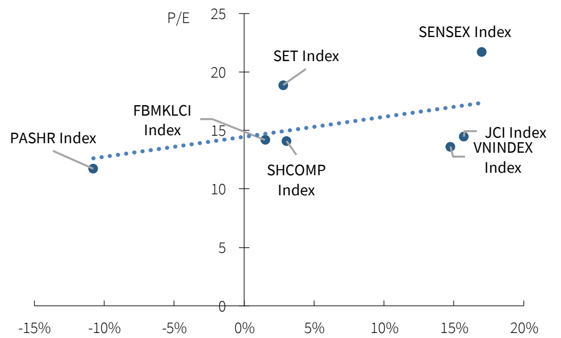
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – Correlation between P/B & ROE



Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – Correlation between P/B & EPS

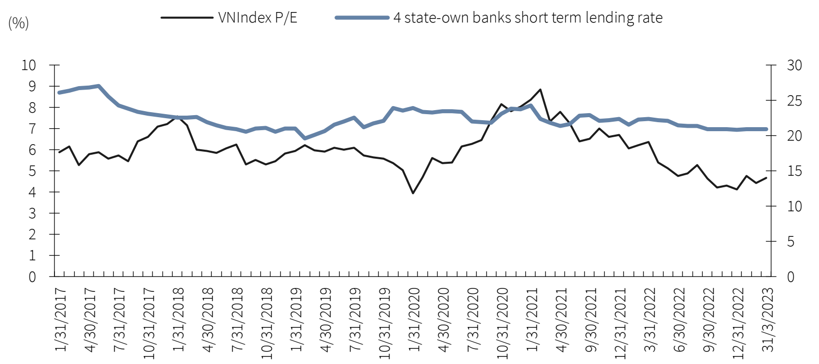


Source: Bloomberg, KB Securities Vietnam

Vietnam stock market is quite attractive in comparison with other stock markets in the region

In comparison with other stock markets in the region, Vietnam stock market is relatively attractive with low P/B (Figure 3) and low P/E (Figure 4). This is also reflected in the strong net-buy of foreign investors in the past six months when the market fluctuated around the bottom, while the trading volumes were not significant and turned towards net-sell in regional markets.

Fig 5. Vietnam – Correlation between interest rates and P/E of the VNIndex



Source: Bloomberg, KB Securities Vietnam

VNIndex's P/E volatility has a strong correlation with interest rates

Vietnam stock market has a close relation with interest rates, which can be seen from the P/E movements of the VNIndex and the average short-term lending interest rates of four state-owned banks (Figure 5). The correlation is clearly shown in the two periods 2008-2013 and 2020-2022 when interest rates saw big fluctuations. Particularly in the period 2014-2019, the interest rate levels were quite stable, so the impact on the stock market was not too strong. It is expected the trend of lowering interest rates, starting from the end of January until now, will continue in the near future as the pressure from inflation, exchange rate and liquidity of the banking system has cooled down. That, when combined with the reasonable policies of the Government and the SBV (see section *III. Interest rate trend*), makes us believe that this is the main supporting factor for VNIndex valuation (according to P/E) to improve from now to the end of the year.

Table 1. Vietnam – The main market drivers in 2H22 (See also section IV)

Supporters	Level of impact	Probability	Risks	Level of impact	Probability
Lower interet rates	Strong	Low	Economic recession or severe global financial crisis	Strong	Low
Accelerated public investment	Average	Low	Widespread collapse of the corporate bond market	Strong	Average
Lower Fed rates	Average	Average	Sagging performance of businesses	Average	High

Source: KB Securities Vietnam

The VNIndex should reach 1,236 points at the end of this year

For the stock market outlook from now to the end of 2023, we slightly lower our forecast for average EPS growth of companies on the HSX from 8.05% to 5% (reflecting a potential slowdown in growth after the disappointing 4Q22 business results) but raised the appropriate P/E of the market from 14.1x to 14.3x (showing the expectation that interest rates will fell faster than the forecast made from the beginning of the year given the SBV lowering the policy rates and more dovish policy from the FED). Accordingly, the target VNIndex at the end of the year is remained unchanged at 1,236 points (compared to 1,240 points given in *2023 outlook* report).

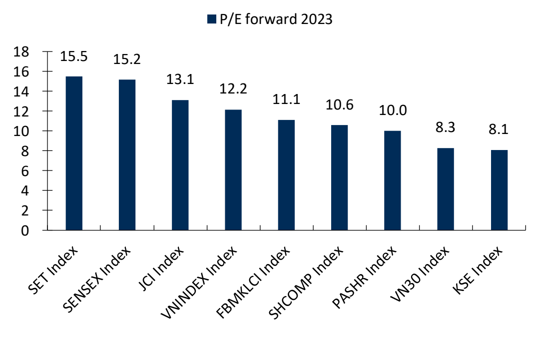
The factors that may change our forecast include: 1) more failures from the global banking system like the SVB and Credit Suisse events but with larger scale and stronger impacts; 2) the corporate bond market is tense with more bond defaults from large listed companies; and 3) severe economic downturn or increasing inflation.

The stock market is forecast to move sideways in 2Q23

In 2Q23, we believe that the trend of lowering interest rates and more positive signals from the FED's policy rates will be the main drivers to the market trend. However, the two key factors that have potential risks to the market are the corporate bond market and the collapse of some global banks (black swan events like the SVB collapse and Credit Suisse crisis are likely to continue). We believe that both of these factors will be most tense in 2Q or 3Q of this year, when the pressure of matured corporate bonds in the country is huge, while the top policy interest rates of central banks will fall at the end of the 2Q before gradually declining from 3Q.

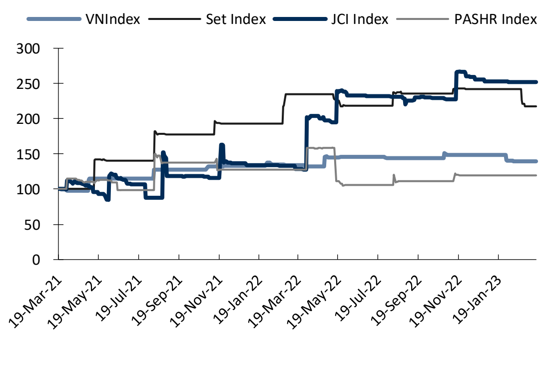
As a result, we think the market would not likely to make a breakthrough right in 2Q when risks are dominant. Alternating peaks and troughs will appear with the general trend of moving sideways throughout the quarter.

Fig 6. Global – 2022 forward P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 7. ASEAN 4 – EPS



Source: Bloomberg, KB Securities Vietnam

II. Business performance

Businesses on the HSX maintained revenue growth but profit dropped sharply in 4Q

The total revenue of businesses on the HSX grew by 10.3% YoY in 4Q22, which was mainly attributable to the financial sector (+28% YoY), led by large-cap state-owned banks. The defensive sectors such as energy (+50%) and utilities (+22%) that were less affected by the economic downturn also maintained stable results thanks to the recovery in output and consumption demand.

However, higher input and financial costs caused a sharp drop in the whole market's profit (-29.5% YoY). The groups that saw the biggest declines due to immense impacts of tight monetary policy, weak domestic demand and less favorable export performance are industrial sector (its profit falling from VND4.7 trillion in 4Q21 to -VND3.8 trillion in 4Q22, mainly due to the influence of Vietnam Airlines (HVN) and Vietjet Aviation (VJC)), raw materials (-95.6% YoY, influenced by Hoa Phat Group (HPG) and Hoa Sen Group (HSG)), consumer staples (-86.9% YoY, mainly driven by Masan Group (MSN), Vinamilk (VNM), and Hoang Anh Gia Lai Agricultural (HNG)), and non-essential consumer goods (-51.2% YoY due to Mobileworld (MWG)). For the whole year of 2022, revenue of listed companies grew by 16.3% YoY while NPAT still inched up 4.4% YoY thanks to positive business results in the first half of the year.

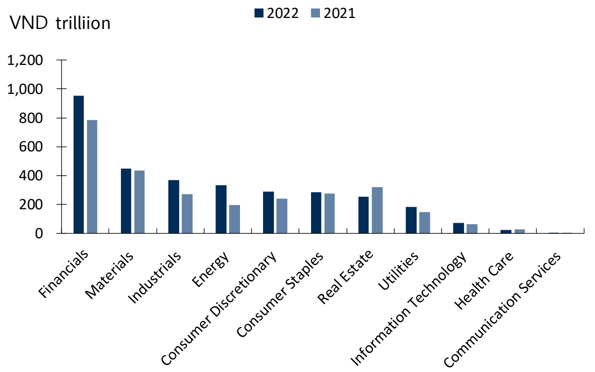
We forecast the average EPS growth of companies on the HSX in 2023 to reach 5% YoY

We maintain a cautious view on earnings growth of listed companies in 2023 after considering risks such as: 1) interest rates, despite being in a downtrend, may maintain high throughout 2023; 2) slow growth of major economies affects export activities and FDI attraction; 3) the domestic bond market may exacerbate, the real estate market is quiet, the domestic demand is weak, and the bad debts may increase.

Materials (-24% YoY) and real estate (-7% YoY) are the most negatively affected industries as the construction industry is facing legal problems and tight credit while the difficulties in debt restructuring and weakening demand for housing due to rising interest rates weigh on real estate. On the other hand, the industries leading the growth trend are industrial (+99% YoY thanks to the reopening of China economy and the resumption of international flights, which has a positive impact on HVN and VJC); the energy sector (+63% YoY thanks to the recovery in consumption demand and positive growth in oil and gas exploitation); and the IT industry (+20% YoY thanks to the leading corporation FPT). Particularly for the financial industry (+9% YoY), although it still outperformed, it actually decreased sharply compared to the increase of 20.9% YoY in 2022, reflecting increased risks at banks when NIM and assets narrowed due to adverse impacts from the real estate and corporate bond markets. Accordingly, we forecast FY23 that the average EPS of companies on the HSX will gain 5% YoY (down from 8.05% YoY in the *2023 outlook* report).

Material risks that may lower our forecast include widespread bond defaults, a surge in bad debts, and rising interest rates (affecting interest expenses).

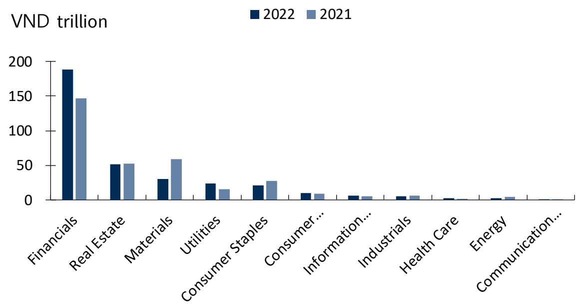
Fig 8. Vietnam – Revenue in 2021 & 2022 (VNDtn)



Source: KB Securities Vietnam

* Note: Industries classified according to GICS

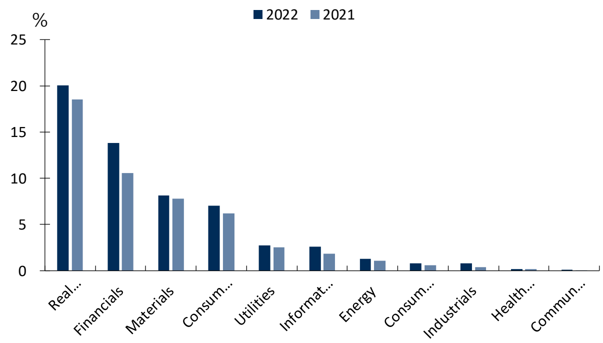
Fig 9. Vietnam – Profit in 2021 & 2022 (VNDtn)



Source: KB Securities Vietnam

* Note: Industries classified according to GICS

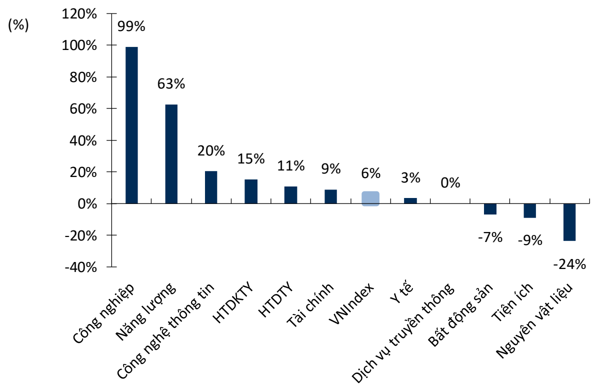
Fig 10. Vietnam – Interest expense in 2021 & 2022 (%)



Source: KB Securities Vietnam

* Note: Industries classified according to GICS

Fig 11. Vietnam – 2023F EPS (% YoY)



Source: KB Securities Vietnam

* Note: Industries classified according to GICS

III. Market drivers

1. Fed monetary policy and the risk of US economic recession

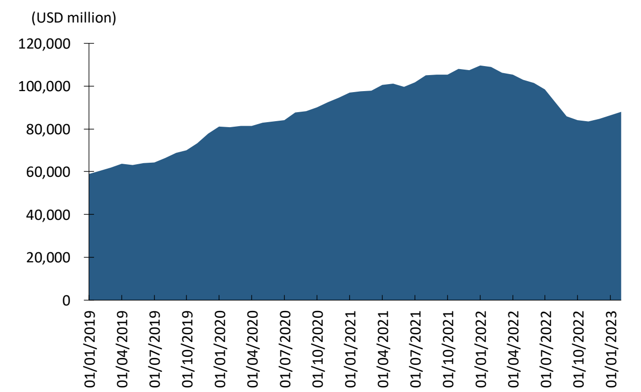
SBV bought USD again from the beginning of the year, which helps to boost the market

After announcing a reduction in policy rates from March 15, 2023, the SBV said it has bought foreign currencies again from credit institutions to supplement foreign exchange reserves after selling about USD25 billion in 2022. According to our estimate, the SBV purchased USD3.5 billion in 2M23 to take advantage of favorable exchange rate movements. Given the bid price at VND23,450/USD, the bank has injected about VND82,000 billion into the banking system. This is a key supporter to liquidity in the economy in general and the uptrend of the stock market in particular.

The volatility of Vietnam's stock market is closely correlated with the DXY

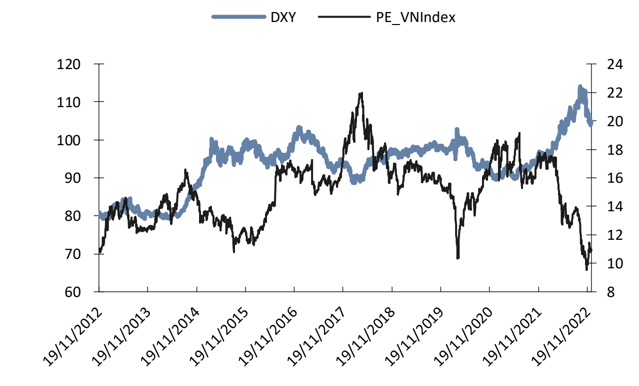
In the late 2022 period, the pressure on exchange rate increased sharply from the steep climb of the USD after the Fed's rate hikes, which had a negative impact on the stock market. In fact, volatility in Vietnam's stock market, or emerging markets in general, is closely correlated with the DXY index (Figure 14). Therefore, the prediction of the USD developments (based on the operating policy of the Fed and the risk of US economic recession) plays an important role in forecasting Vietnam exchange rate pressure and the stock market recovery in 2023.

Fig 12. Vietnam – FX reserves (USDmn)



Source: Bloomberg, KB Securities Vietnam

Fig 13. DXy & VNIndex's P/E (times)



Source: Bloomberg, KB Securities Vietnam

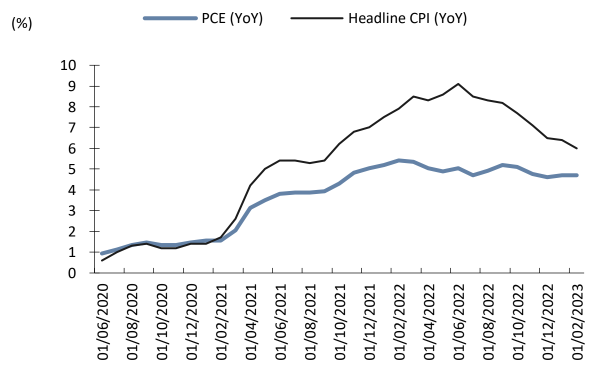
Inflation is cooling down while the US financial system is showing signs of instability

There are some positive signals in March, predicting that the Fed may soon stop raising interest rates and reverse policy this year. First, the inflation in February continued to decrease to 6% from 6.4%. Core inflation in April gained 0.5% MoM and 5.5% YoY (down 0.1ppts from the previous month), showing that inflation is gradually cooling down, although the rate of decrease is not as fast as expected. Second, the weak links in the US financial system are gradually showing up with the announcement of bankruptcy by two local banks, Silicon Valley Bank and then Signature Bank. The Fed was forced to launch a new lending program, the Bank Term Funding Program, which provided one-year loans secured by government securities to support liquidity in the system.

Expectations about the rate of the Fed rate hikes changed compared to the beginning of the year after the events of SVB and Signature Bank

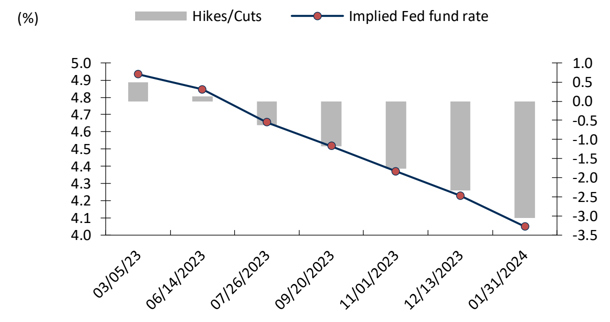
At the last meeting, the Fed continued to raise the federal funds rate (FFR) by 25 points and announced that there would be no roadmap to cut interest rates this year. The data of the service sector such as transportation and entertainment are still higher than expected, forcing the Fed to stick with the set plan. However, this still does not change the market's expectation of a policy reversal. The current implied rate ceiling is at 4.9% and may gradually narrow to 4.4% by year-end. According to a survey by CME at the end of March, the probability of Fed's keeping the rates unchanged in the next meeting is 60%.

Fig 14. US – Headline & core CPI (%)



Source: Bloomberg, KB Securities Vietnam

Fig 15. US – Implied Fed fund rate (%)



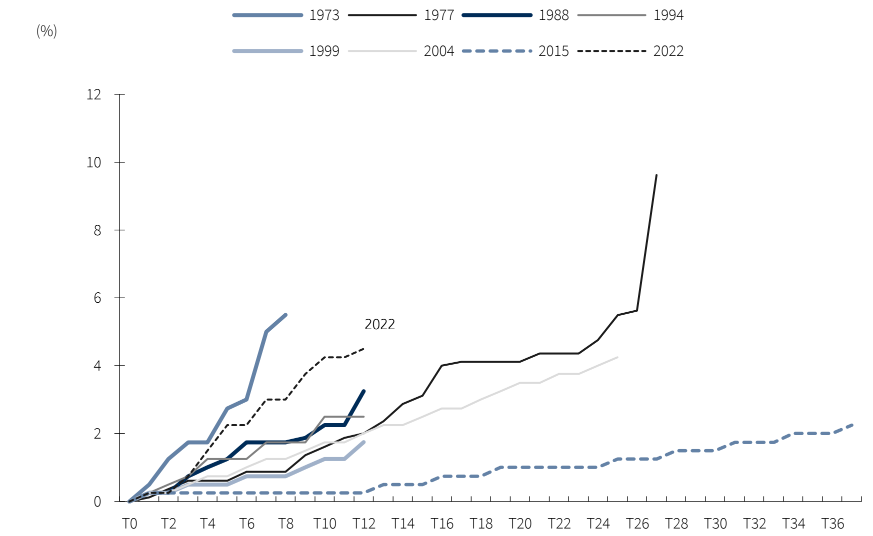
Source: Bloomberg, KB Securities Vietnam

The US unemployment rate unexpectedly increased in February while the PMI remained below 50 points for the fourth consecutive month

The above expectation is completely justified when the US economy is gradually showing uncertainties due to raising interest rates with the second fastest rate after the tightening in 1980 (Figure 16). The unemployment rate in February increased by 0.2ppts MoM to 3.6%. Many industries, especially those that are highly sensitive to interest rates such as the real estate market, have now shown signs of weakness. To be more specific, home sales fell by more than 25% after only six months from the first rate hike, equivalent to the total decline rate in three years after the 2004 tightening (Figure 18).

The activities of manufacturing enterprises are also significantly affected by the impact of the tightening monetary policy and the sagging domestic and international consumption demand. February PMI modestly gained from 47.4 points to 47.7 points, marking the fourth consecutive month that US PMI reached below 50 points. Statistics show out of 23 times the PMI under 50 for four straight months, there are 10 periods when the economy is in recession and five periods when the economy is about to enter a recession in the next six months. According to many major financial institutions in the US such as Black Rock and JP Morgan, a recession in the second half of the year is hard to avoid. The gap between yields on 10-year and two-year bonds also indicates that the US economy is facing an increasing risk of falling into a recession. From 1970 to present, there are up to six out of seven times that the US economy has fallen into a recession within 6-12 months since the yield curve inverted and the yield spread between 10-year and two-year bonds was negative.

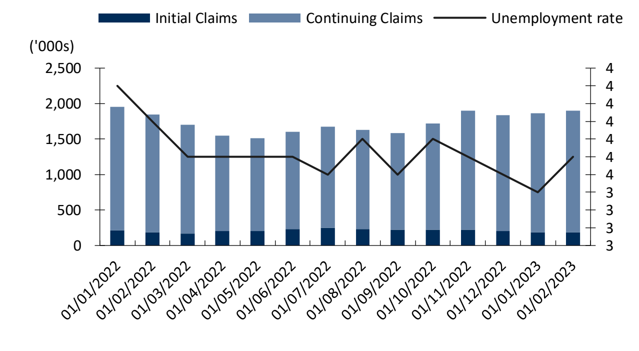
Fig 16. US – Interest rates movements in policy tightening periods in 1973–2023 (%)



Source: Bloomberg, KB Securities Vietnam

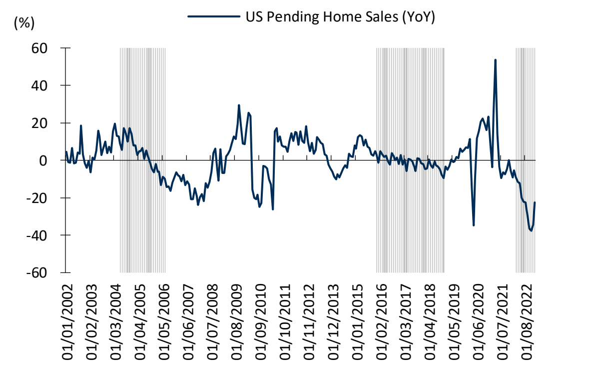
* T0 is the first time that Fed raised interest rates

Fig 17. US – Unemployment rate and initial claims (thousand people)



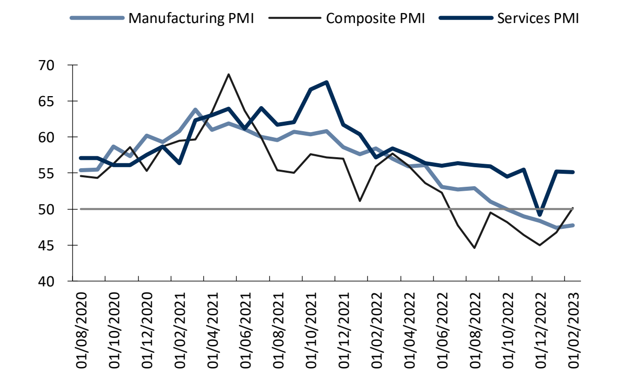
Source: Bloomberg, KB Securities Vietnam

Fig 18. US – Home sales growth in 2002–2023 (%)



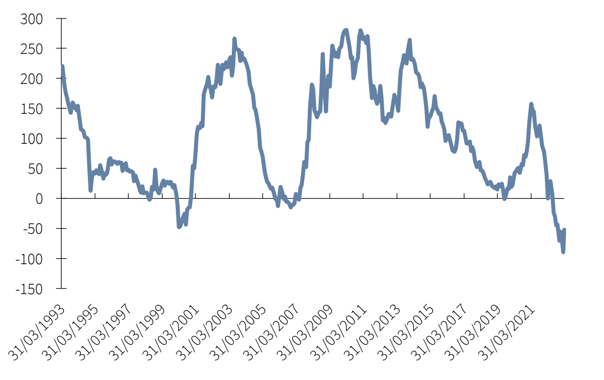
Source: HNX, Fiinpro, KB Securities Vietnam

Fig 19. US – PMI (point)



Source: Bloomberg, KB Securities Vietnam

Fig 20. US – 10-year & 2-year yield spread (bsp)



Source: Bloomberg, KB Securities Vietnam

Base case: Rate hike rate is as expected, Fed stops raising interest rates after March meeting

Base case: The US inflation continues its sustained cooling trend, although it is unlikely to reach the 2% target in 2023 as set by the Fed but will decrease to around 4.2% (according to Bloomberg's forecast). The US economy becomes weaker with the unemployment rate rising slightly to 4.4% while the consumer sector declined. The bankruptcy of SVB was only partial and did not cause a chain break and affect the entire banking system in the US. A mild recession in the second half of the year would prompt the Fed to reverse course and cut FFR. The USD will continue the main downward trend and the pressure on the domestic exchange rate is expected to be gradually relieved, and the SBV will be more flexible to apply supportive monetary policies such as lowering policy rates and buying USD. The improved liquidity of the economy will be a positive support factor to the recovery of the stock market.

Negative case: A serious crisis followed by larger disruptive events after SVB

Negative case: The bankruptcy of SVB is just the beginning of a larger collapse, which is similar to the event of Bear Stearns in March 2008, followed by the collapse of Lehman Brothers in September 2008. Looking back to 2008, the breakdown of the banking system in the US and EU (Figure 22) stemmed from subprime lending activities and led to the loss of credit quality control and the outbreak of bad debts at banks amid inefficient economic operations and high interest rates. We do not see systemic risks in the US and EU banking systems at the moment. However, the deterioration of financial assets due to the impact of high interest rates, tightening financial conditions, difficulties in raising capital, the weakening of the economy, and overwhelming negative sentiment may trigger unpredictable risks. If this scenario happens, business production and activities will stagnate due to the freezing of global capital flows, which will slow down economic growth and negatively affect the stock market in 2H23.

Fig 21. Global – Major events during the global economic recession in 2007-2010

Source: KB Securities Vietnam

2. Risks from corporate bond market

The most notable risks to the Vietnam stock market in 2023

Events related to the corporate bond market are one of the main reasons for Vietnam's stock market to plunge in 2022:

1) Enterprises have difficulty in raising capital, increasing the risk of cash shortage and leading to a negative outlook in production and business activities, especially in real estate enterprises.

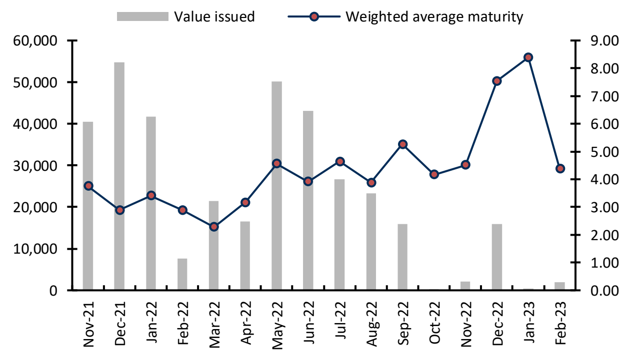
2) The sale of mortgages took place strongly to recover the money of securities companies or sell investment portfolios of corporations increased the supply pressure on the stock market.

3) Increased risk of bad debt and the pressure of provisioning worsened business prospects of banks.

4) The pressure to supply capital for the economy is concentrated on the banking channel again, which caused credit demand to surge (partially used to redeem corporate bonds prior to maturity) and promoted a sharp increase in lending interest rates.

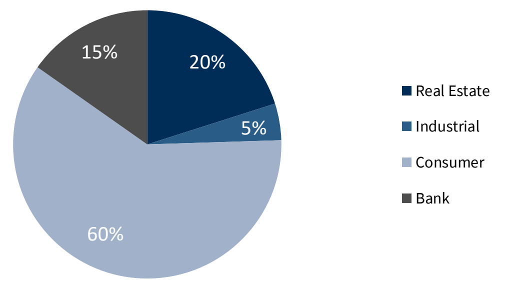
This is the riskiest factor to the market in 2023 as the maturity pressure is high with the value increasing by more than 40% YoY. Some other factors that increase the risk of corporate bond default this year also include high interest rates, the difficulty to issue new bonds to reverse debts due to stricter regulations and less confident investor sentiment (Figure 22) while the real estate market is quiet.

Fig 22. Vietnam – The value of bonds issued (VNDbn)



Source: VBMA, Fiinpro, KB Securities Vietnam

Fig 23. Vietnam – Bond issuance structure in 2023

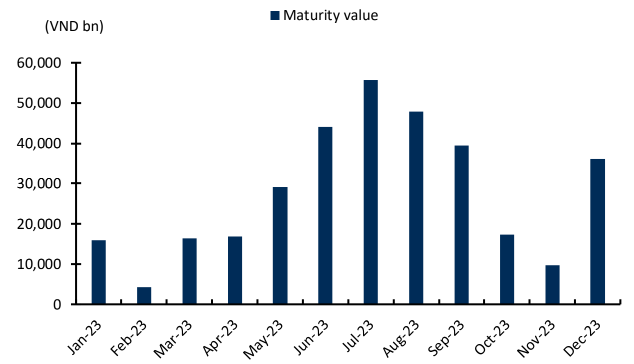


Source: VBMA, Fiinpro, KB Securities Vietnam

The mid-2023 period is a tense period when the amount of maturing bonds is large

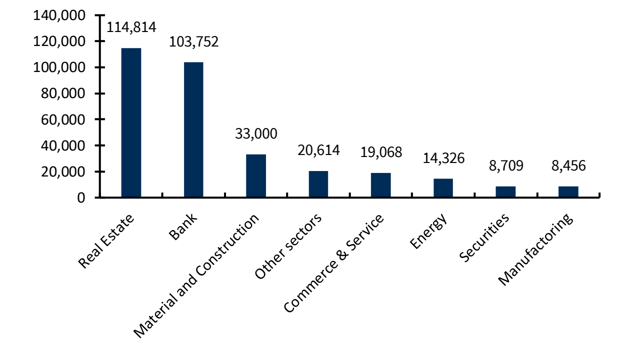
It is estimated that there will be about VND332.8 trillion in bonds maturing in 2023. Of that, the amount of bonds maturing will increase sharply from June to September with the highest maturity value in July (reaching VND55.7 trillion, up 34% YoY). Real estate bonds accounted for the largest proportion (36% of the total maturity value in 2023) with VND114.8 trillion.

Fig 24. Vietnam – Value of bonds maturing in 2023 (VNDbn)



Source: HNX, Fiinpro, KB Securities Vietnam

Fig 25. Vietnam – Value of bonds maturing in 2023 by industry group (VNDbn)

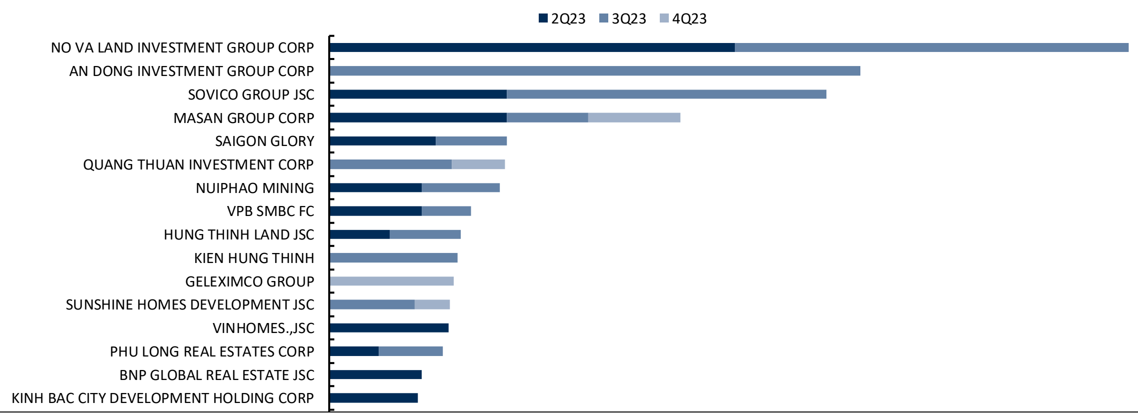


Source: HNX, Fiinpro, KB Securities Vietnam

Maturity pressure increases for businesses with high debt structure, especially real estate businesses

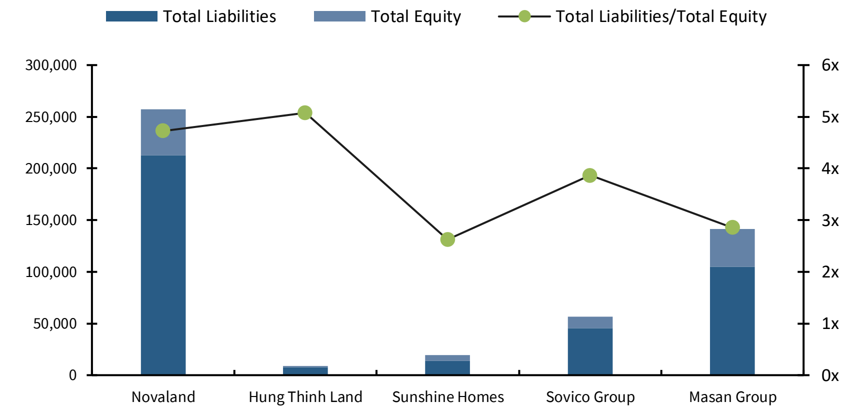
Novaland Investment Group topped the value of bonds maturing in the last three quarters of 2023 with about VND22.5 trillion, followed by An Dong Investment Group (VND15 trillion), Sovico Group (VND14 trillion) and Masan Group (VND10 trillion). In particular, real estate businesses are in the high-risk group due to unstable cash flow and poor ability to mobilize capital during the period of real estate freezing and high mortgage rates. Especially for enterprises with highly leveraged capital structure such as Novaland, Hung Thinh Land and Sunshine Homes, it is likely that they will not be able to pay the principals of their bonds in the near future (Figure 26). Other real estate enterprises on the below list with a large amount of bonds maturing in 2023 also have many potential risks because they are related to Van Thinh Phat and Novaland, particularly An Dong Group and Quant Thuan Investment and An Khang Real Estate Company. Sovico Group carries less risk because of its good financial status. However, it still needs to be monitored due to its relatively high debt ratio (four times of its equity) and a large amount of maturing bonds.

Fig 26. Vietnam – Non-banking businesses with the largest maturing bond value in 2023



Source: KB Securities Vietnam

Fig 27. Vietnam – Capital structure of some businesses in 2022



Source: Fiinpro, KB Securities Vietnam

The positive and desirable point this year is that the Government and business leaders have recognized risks related to the corporate bond market early in the year and have launched a number of solutions to reduce risks, including the issuance of Decree 08 amending Decree 65, the launching of a credit package to support social housing worth VND110,000 billion, the removal of difficulties for key projects of enterprises, and efforts to lower interest rates to remove difficulties for businesses, especially real estate businesses.

The Government issued Decree 08 to support real estate businesses

While the corporate bond market is facing many challenges, the promulgation of Decree 65 will help to remove difficulties for issuers and freeing up capital, positively impacting the market in the long term but causing a great pressure in the short term. Therefore, in order to limit the negative impacts in the short term, the Government is also making some moves to support the corporate bond market, as shown in Decree 08 recently issued.

In general, the adjustment contents of Decree 8 will benefit the market in the short term, especially for the real estate sector. Many immediate difficulties of enterprises are removed when a legal corridor has been created to facilitate business negotiations with bondholders. The demand for bonds is expected to be partly improved when the time to determine the professional investor status is delayed, which helps reduce the costs and time incurred when the credit rating is not performed. However, Decree 08 has not really solved the difficulties of the corporate bond market and totally removed the blockage to capital flows, improve the financial health of enterprises and help restore the real estate market.

Table 2. Vietnam – The amended content of Decree 08

Content	Decree 65	Decree 08	Impacts
Change of bond maturity	Unauthorized	Extension is allowed for up to two years	Creating favorable conditions for businesses to have more time to deal with bond issues, thereby reducing the risk of default and keeping investors' trust
Convert principal and interest into loans and other assets	Not specified	Made in accordance with Civil Law and related laws	Helping businesses reduce pressure on cash flow and minimize the risk of default
Determining the status of a professional stock investor	The portfolio value is worth at least VND2 billion according to the average market value in at least 180 consecutive days before the date of determining. Valid for three months	Moved the application time from September 16, 2022 to January 1, 2024	Maintaining the demand for corporate bonds of subprime individual investors, helping to increase output and the ability of enterprises to reverse debts
Credit rating	(1) Total value of bonds with par value raised in 12 months > VND500 billion and > 50% equity; (2) Total outstanding debt at par value > 100% equity		Contributing to lower pressure on the supply side of the market as businesses can reduce many procedures and issue corporate bonds more easily
Bond distribution time	Not exceeding 30 days from the date of information disclosure, the total time of offering not exceeding six months from the date of the first offering		Giving businesses more time to raise capital from more diverse sources

Source: KB Securities Vietnam

The SBV launched a VND120,000 credit package

A credit package of VND120,000 billion for social housing and worker housing is agreed by four state-owned commercial banks. Lending interest rates for both builders and homebuyers are 1.5-2% lower than the average lending rates on the market from time to time. In addition, it is likely that the package will also be available to low-income households.

The credit package helps real estate businesses solve problems related to cash flow for production and business activities, reduce debt pressure and open up capital for the social housing sector. However, the proportion of social housing projects in general only accounts for a small part of the total value of projects of enterprises. Due to the specificity and narrow profit margin, many investors do not pay much attention to this type of real estate, while the land bank in big cities for this segment is still insignificant. Accordingly, we believe that, unlike a similar credit package worth VND30,000 billion in 2014, the impact of this credit package is somewhat more limited and may need to be scaled up to the low-end or medium segment to extend the influence.

The most noticeable risk to Vietnam stock market in 2023

We believe that the solutions to support the corporate bond market in general and the real estate sector in particular from the Government, despite having certain positive effects, will not be enough to completely eliminate all the risks to the stock market. Instead, it needs more drastic actions, combined with the warming of the real estate market and the sharp decline in interest rates, to significantly restore the real estate. However, these supportive factors are not likely to appear at the same time in this year.

Accordingly, this will continue to be a potential factor to market sentiment and business prospects of listed companies while it may increase the risk of bad debt and hinder efforts to lower interest rates of the Government and the SBV, making it difficult for market valuation to recover strongly even at the current low base. However, as the Government and businesses and investors themselves have prepared for this risk, we think it is very unlikely that this factor can create sharp declines on the market as seen in 2022, although moderate corrections may still occur at times when there is relevant negative information.

3. Interest rate trend

SBV lowered some policy interest rates on March 14, 2023

On March 14, 2023, SBV issued decisions to lower some policy rates, effective from March 15, 2023 (Table 2). We assess that SBV's actions, which, when combined with a number of favorable factors, will help the average deposit and lending interest rates of the state-owned banks with a term of 12 months respectively decrease to around 7% (-0.8% YTD) and 10% (-1% YTD) and support the economy given the inflation is still kept under the Government's limit and credit demand is low.

Table 2. Vietnam – The decrease rate of policy rates from March 15 (%)

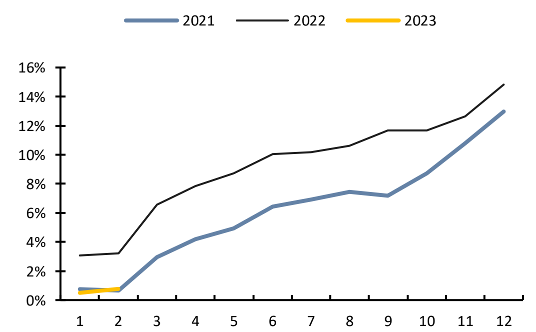
	Old	New
Refinance interest rate	6%	6%
Discount rate	4.5%	3.5%
Interest rates for overnight loans in interbank e-payments and loans to cover capital shortfalls in clearing payments from the SBV to credit institutions	7%	6%
Maximum short-term lending interest rate in VND of credit institutions for priority sectors	5.5%	5%
Maximum short-term lending interest rate in VND of the People's Credit Funds and Microfinance Institutions	6.5%	6%

Source: State Bank of Vietnam, KB Securities Vietnam

Both credit and deposit growth were low

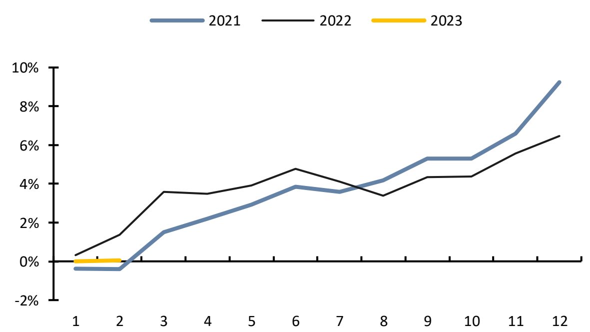
Credit growth of the whole economy by the end of February grew by a mere of 0.77% YTD, and deposit growth gained 0.05% YTD (Figures 28 & 29). The credit low growth reflects the slowing demand for loans as this month coincide with the Lunar New Year, and the lower orders make businesses more cautious in borrowing to expand their production scale. There are also many businesses that do not meet the conditions for loans. In February, the average mortgage rate declined 0.5%, and the deposit rate also decreased by 0.4%, compared to the end of 2022.

Fig 28. Vietnam – Credit growth (%YTD)



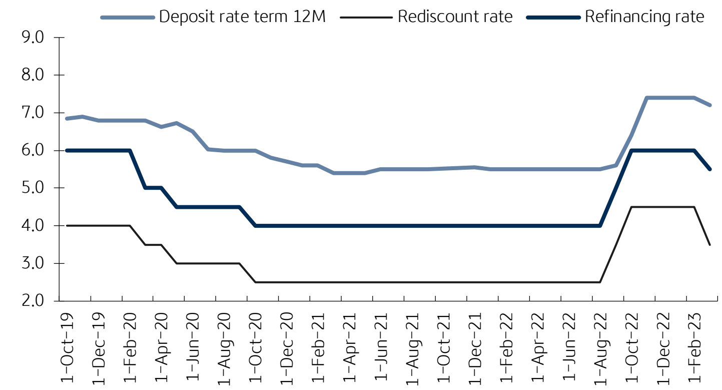
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 29. Deposit growth (%YTD)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 30. Vietnam – Credit and deposit rates of state-owned commercial banks (%)



Source: Fiinpro, KB Securities Vietnam

Factors supporting the downtrend of interest rates include: (1) Inflation, (2) liquidity, and (3) the Fed's stopping to raise interest rates

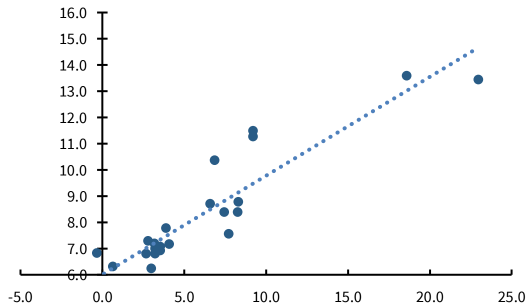
The deposit rate tends to decrease and can remain around the threshold of 7%, corresponding to the average interest rate around 10% (for the average 12-month term of state-owned banks) at the end of the year thanks to the following supporting factors: (1) Inflation was controlled below 4.5%; (2) bank liquidity is stable; and (3) the Fed is at the end of the interest rate hike roadmap and has a policy reversal at the end of 2Q23.

Inflation is kept below 4.5%, which will help to stabilize interest rates

Average CPI is well controlled within the Government's target range of 4 – 4.5%, which will partly help the 12-month deposit interest rates to remain around 7% and average lending rates around 10%.

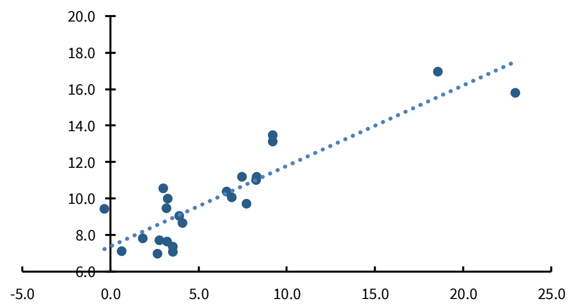
Observing the data from 2000 to 2022, we find that when the average CPI fluctuates in the range of 4-5%, the 12-month deposit rate will remain around 7.0 – 8.0% and the lending interest rate will be around 9.5 – 11.0% (with the R square interpretation for both models reaching 80%) (Figure 31 & 32).

Fig 31. Vietnam – Correlation between 12-month deposit rates and average CPI in 2000-2022



Source: Asia Development Bank, World Bank, KB Securities Vietnam

Fig 32. Vietnam – Correlation between average interest rates and average CPI in 2000-2022



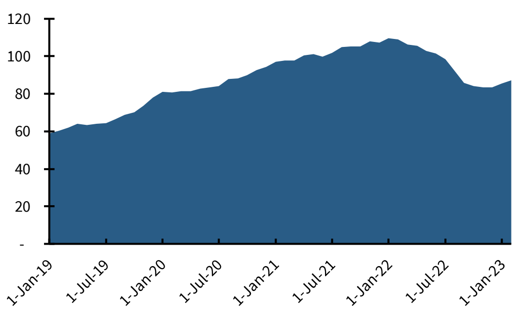
Source: Asia Development Bank, World Bank, KB Securities Vietnam

Liquidity of the banking system is stable, creating a favorable environment for interest rate reduction

Liquidity in the first three months of 2023 is stable thanks to SBV's purchase of USD3.5 billion or VND82 trillion, creating a favorable environment for lowering interest rates.

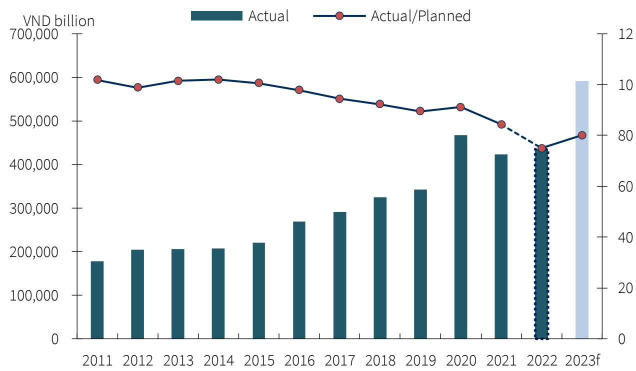
In 2023, we expect liquidity to continue to improve when the M2 money supply expands by 14% YoY in case: (1) The SBV can purchase USD again, expecting the value may reach USD10 to USD12 billion, equivalent to 15% of the increase in M2 money supply given good foreign currency supply coming from trade surplus, remittances and FDI, and net foreign debt. (2) The rate of disbursement of public investment is expected to improve to over 80% of the plan (compared to 75% in 2022), helping to clear the bottlenecked capital in the treasury, equivalent to 3-4% of the increase in the M2 money supply.

Fig 33. Vietnam – FX reserves (USDbn)



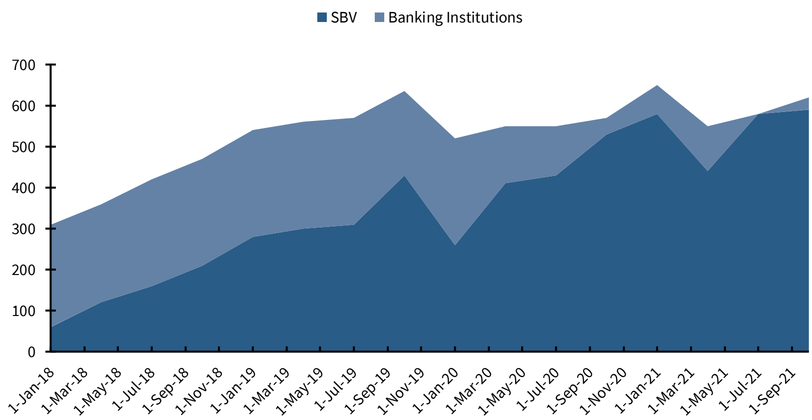
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 34. Vietnam – Public disbursement



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 35. Vietnam – State treasury at SBV & other banks



Source: VBMA, KB Securities Vietnam

The Fed is at the end of the path to increase interest rates and may reverse its policy at the end of 2Q23

The Fed may be in the end of the roadmap of raising interest rates. The highest FFR may reach 4.5 – 4.75% in March and then maintain sideways and reverse at the end of 2Q23. In 2023, KBSV forecasts that the VND may depreciate by 2 – 3%, and the FFR maintains around 4%. If there is a fluctuation in the foreign exchange market, SBV may use treasury bills to balance and maintain the interbank market interest rates at a reasonable level around 5%. In general, exchange rate risk has cooled down significantly and is not a worrying factor to interest rates. At times when the exchange rate is favorable, the SBV will buy and increase FX reserves (estimated at USD10-12 billion in 2023), thereby supporting the trend of lowering interest rates as analyzed above.

IV. Investment viewpoints & model portfolio

Ticker	Target price	Closing price on March 30, 2023	Upside	2023 forward FE	2023 Est NPAT growth	Investment viewpoints
FPT	101,900	79,100	29%	11.95	27%	- FPT continues to achieve positive business results in 2022 and sets ambitious plans for 2023 with revenue and PBT increasing by 23% and 23% respectively. - FPT benefits from the trend of digital transformation and the growth of technology segment in key markets such as the US and Japan. - Education segment maintains high and stable growth rate.
GAS	134,000	102,500	31%	18.20	-4%	- Long-term growth drivers are LNG consumption and Block B - O Mon project. - Raw gas demand from power plant customers is expected to recover strongly in 2023. - GAS expects to benefit from oil price recovery when China fully opens its economy in 2023.
VNM	81,200	75,000	8%	16.95	9%	- VNM's net profit should improve from 2Q or 3Q23 when the company starts using low-priced powdered milk for production (accounting for 40.84% of raw materials in 2023). - VNM expects to maintain dividend yield for 2022 at the rate of 38% on par value and 90% on profits distributed to the parent company.
PNJ	121,100	78,100	55%	16.30	12%	- In 2022, we forecast PNJ's net revenue and NPAT would reach VND33.926 billion (+73.0% YoY) and VND1,838 billion (+77.9% YoY) respectively. - For 2023, net revenue should be VND38,786 billion (+14.3 % YoY) and NPAT may reach VND2,093 billion (+13.9% YoY). - In the period of 2022-2025, PNJ plans to open 30 to 40 stores per year. The Management said that they are looking for a place to build a new factory (expected to start in 2022) because the existing factories are already operating at 100% capacity.
VPB	22,600	21,000	8%	8.40	17%	- There is currently some information on the amendment of the Decree related to raising foreign room to 49% at banks participating in restructuring weak credit institutions. We think VPB and HDB are two potential candidates. In addition, there is also information related to SMBC's divestment of EIB to invest in VPB. - In 2022, VPB has successfully mobilized syndicated loans twice from foreign organizations with a value of up to USD1.25 billion. Currently, VPB is only behind TCB in terms of active level in the foreign capital market. These syndicated loans are important in the context of mobilization difficulties and help to reduce the cost of capital for the bank. - VPB is being assigned the highest credit room in the industry for 2022, reaching 31%. We continue to expect VPB to be assigned a higher room rate than the industry average in 2023 thanks to (1) its industry-leading consolidated CAR ~15%, (2) participating in handling weak credit institutions, and (3) always be an active participant in supporting the economy.
NT2	31,200	28,650	9%	12.00	3%	- It is forecast that the weather will no longer be favorable for hydroelectricity in 2023, thermal power, especially gas-fired power plants with lower emissions than coal power will benefit. With the advantage of location, we believe that NT2 will be prioritized for mobilization in the near future. - With abundant operating cash flow and the completion of long-term debt obligations in 2021, NT2 currently owns a position which can cushion business results from fluctuations in exchange rates and interest rates. - We expect NT2 to continue to pay high cash dividends for 2023.

IDC	50,300	40,200	25%	5.21	7%	- IDC is a pioneering investor with long-term experience in the field of industrial park investment and development. - The total remaining leasable land area of IDC is more than 750ha. - Expanded Huu Thanh, Phu My I and Phu My II industrial park projects are expected to ensure growth for IDC in the medium term thanks to good rental capacity and high rental rates. The estimated contribution revenue of these projects is about VND18,500 billion.
GMD	71,500	48,900	6%	20.30	16%	- The transaction of divesting capital from Nam Hai Dinh Vu is expected to bring extra profit for the business in 2023. - Nam Dinh Vu phase 2 is expected to come into operation from 1Q23, and the volume of goods transferred from Nam Hai Dinh Vu should fill 60% of capacity in 2023. - Gemalink 2 is expected to come into operation by the end of 2024 or early 2025, which is a driving force for GMD's long-term growth.
MWG	53,300	46,500	-17%	12.80	8%	- The ICT&CE chain continues to maintain a stable double-digit growth in the long-term as the company has a strategy to expand to foreign markets. TopZone are DMS are still effective models. - After the restructuring process, Bach Hoa Xanh chain is showing better performance. With a new direction in 2023, it is expected that the chain will be profitable from the 4Q23 and become a growth driver for MWG. - MWG has a healthy financial position as the company pursues a cash flow protection strategy in a negative macro context.
REE	91,100	67,800	-1%	9.00	-2%	- It is expected that three wind power projects will continue to operate stably. - REE's office leasing segment should maintain stable revenue growth with 2022-2026 CAGR reaching 9.6%/year. - In the medium term, as a leading M&E contractor, we believe that REE will win big projects such as Tan Son Nhat T3 Terminal and Long Thanh International Airport, ensuring growth potential in the medium term with an estimated CAGR in 2022-2026 of 21.5%/year.

V. Sector outlook

Industrial real estate: Neutral
Logisitics: Neutral
Retailing: Neutral
Residential real estate: Neutral
Banks: Neutral
Information technology: Positive
Oil and gas: Positive
Power: Positive
Steel: Neutral
Fishery: Neutral

Sector	Tickers	Outlook	Investment viewpoints
Industrial real estate	KBC, PHR, IDC, GVR	Neutral	• **In 2M23, total newly registered FDI decreased, but the number of approved projects increased, showing the growth potential in the short and medium term of the industrial park sector**. Total newly registered capital, adjusted capital and contributed capital to buy shares of foreign investors reached USD3.1 billion, down 38% YoY, partly showing the declining prospect of the sector. However, the number of projects granted investment registration certificates increased to 261 projects with a total registered capital of more than VND1.76 billion, an increase of nearly 2.8 times compared to the same period last year, which is still enough to ensure the growth momentum at least in the medium term. • **Industrial park average rent is still on the rise**. According to JLL, the average rental price in 2022 will reach USD110/m^2/lease cycle (up 4.3% YoY) in the North and USD125/m^2/lease cycle (up 10 YoY YoY) in the South, even up to 20-30% in some Southern provinces. Despite the general economic downturn, we expect the rents will not decline this year thanks to limited supply, slow progress of site clearance while the current occupancy rates of industrial parks the North and the South by the end of 3Q22 reached 80% and 86%. • **In the medium term, the industrial real estate industry in Vietnam benefits** from (1) signed FTAs and Vietnam's FDI attraction policies, (2) the trend of production base relocation, moving from China to neighboring countries, (3) Vietnam's low rental prices of industrial land (30-35% lower than that of other countries in the region), (4) and accelerated public investment with a number of large projects such as the North-South, Bien Hoa - Vung Tau, Dau Giay - Phan Thiet expressways, and deep-water ports in Cai Mep - Thi Vai. This helps to create a convenient connection between industrial parks and increase the attractiveness of industrial parks in the region to foreign investors. In addition, Decree 35 issued from 2022 has simplified the approval process for industrial park investors, which should help shorten the time to establish an industrial park. • **The industrial real estate industry is also facing a number of risks** such as (1) the risk of slow FDI flows into Vietnam and (2) the risk of supply shortage in many key

			areas due to slow project approval and site clearance while the occupancy rates at industrial parks are high, affecting the ability to lease large areas. • The industrial parks' share prices have recovered from 25-50% compared to the mid-term bottom in November, strengthening the expectation about a brighter outlook for the industry. Investors should wait for price corrections to gain higher return. Some typical tickers are Kinh Bac City Development (KBC), IDICO Corp (IDC), Vietnam Rubber Group (GVR), and Phuoc Hoa Rubber (PHR). These are enterprises with large land bank available in the main areas benefiting from promoted public investment and production base relocation.
Logistics	GMD, VSC, HAH	Neutral	• **Port throughput tends to decrease early in the year**. According to the Vietnam Maritime Administration, the total throughput in 2M23 reached more than 165.2 million tons, down 4% YoY. Of that, domestic cargo volume accounted for the majority with 73.4 million tons while exports and imports reached 91.3 million tons. The volume of container cargo tended to decrease sharply over the same period (-15% YoY), recording an output of 5.1 million TEUs. • **The growth of cargo throughput in the North and the South has diverged**. In Hai Phong, total throughput in 2M23 reached 22.54 million tons, up 3.7% YoY due to the low base level at the beginning of last year, earning about VND985.3 billion in revenue, up 3.36% YoY. At Cai Mep - Thi Vai port area, the port throughput in 2M23 is estimated at 10.67 million tons, down more than 9% YoY. • **We maintain a neutral stance towards logistics enterprises**. Before consumer demand from importing countries recovers, the war between Russia and Ukraine eases, and China's economy is completely reopened, port throughput is not expected to achieve a strong growth. Container ports may maintain stable business results in the coming time thanks to stable port service rates. Currently, Vietnam's seaport rates are among the lowest in Southeast Asia. • **Business results of logistics companies tends be flat or decrease YoY in 2Q23**. We expect that in 2Q23, port service rates will remain stable at the current level, and output tends to decrease by 10-15% compared to the same period last year because at present (1) international transport demand has not shown any sign of recovery; (2)

			Hai Phong port cluster is in a state of oversupply. Nam Dinh Vu 2 should come into operation from the end of 2Q23, continuing to cause fierce competition; and (3) most ports in the South are operating at full capacity or beyond capacity, however, there is no big growth potential in the short term as no new ports would come into operation this year. • **The logistics industry is still thriving in the first two months of the year, but still faces many difficulties**. Sea freight transport recorded a volume of 17.9 million tons, an increase of 17.2% YoY due to the low base level in 1Q22. However, the logistics industry may face many difficulties in the coming time: (1) Sea transport demand may drop sharply in many large consuming markets due to reduced purchasing power amid global economic risks. (2) Freight rates are still on a downward trend although the rate of decrease has slowed down. Hai An Logistics & Stevedoring (HAH), a typical shipping company posting multiple-time growth rate in the past two years, is expected to recorded revenue & earnings write-downs compared to 2022. However, HAH's business performance should be positive in 1H23 as (1) freight rates have not declined as there is a lag in the effects from the global falling freight rates on domestic rates; and (2) HAH's signed charter contracts have high charter rates and last until 3Q23. • **Investors should wait for stock price corrections to get a better profit margin**. Logistics shares posted a good recovery after a sharp drop in 4Q22. The prices of stocks with good fundamentals such as Gemadept (GMD) and HAH have partly reflected the expectation of encouraging business results, so investors may consider buying in correction sessions to gain better return.
Retailing	FRT, PNJ, MWG	Neutral	• **Total retail sales of goods continued to maintain a positive growth over the same period**. According to the General Statistics Office (GSO), the total retail sales of goods and services in February reached VND481.8 trillion, down 6% MoM and up 13.2% YoY. The total retail sales of consumer goods and services in 2M23 is estimated at VND994.2 trillion, up 13% YoY. However, according to the Office's estimates, this result will only reach 77.7% of the target (the target is set assuming the COVID-19 pandemic does not resurge from 2020 to present).

			• **The retail industry is still adversely affected by the decline in purchasing power of consumers**. The spillover effects of the global economic downturn on the retail industry began to affect business results from 4Q22, which may persist in the first half of this year. We believe that in the short term, consumer spending will not be able to recover immediately, so there will be a divergence between essential and non-essential spending. The demand for FMCG and pharmaceutical products will be affected but to a lesser extent. Meanwhile, the consumption of non-essential goods (ICT&CE) has slowed down and has not seen a clear recovery recently. Currently, the inventory of some retailers is still quite large, and businesses want to optimize revenue, so we believe that they would strongly promote promotional and incentive strategies, thereby leading to a price competition. This will affect the gross profit margin of retail companies. • **The retailing industry expects to show signs of recovery in 3Q23**. February PMI rebounded to above the 50-point threshold, showing that manufacturing health has begun to improve after three consecutive months of decline. The number of export orders continued to increase, and this was the second consecutive increase thanks to improving demand in the international market, GSO said. Therefore, we expect exports will soon recover, boosting the labor market and domestic consumption. However, consumers will need more time to earn money, so there would be a lag in the recovery of the retail industry. The industry is expected to see positive signs from 3Q23 and gradually recover in 2024. For Phu Nhuan Jewelry (PNJ), we expect the business results to continue to be positive despite the pressure of the comparative high base in the same period last year. Mobileworld (MWG) and FPT Retail (FRT) expect the ICT segment to make a clearer recovery from 3Q23 while the non-ICT&CE segments (departments and pharmaceuticals) are expected to earn profits soon. • **Stock price corrections give many investment opportunities**. The gloomy short-term outlook has dragged down the industry's stock prices. Many retailers are currently trading at low five-year P/E levels, opening up attractive long-term investment opportunities. We expect stock prices to rebound from mid-2023 when

			the economy shows signs of recovery, but it will need time for the positive effects to be reflected in retail business results.
Residenti-al real estate	VHM, KDH, NLG	Neutral	• **The supply and price of apartments in both Hanoi and Ho Chi Minh City markets declined**. The supply of apartments in 4Q22 in both Hanoi and Ho Chi Minh City had a marked slowdown. In HCMC, the number of new apartments reached 1,312 units (-54% QoQ, -81%YoY), the lowest in the past 10 years. The number of apartments opened for sale in Hanoi reached about 3,400 units (-6%QoQ, -41%YoY). Selling prices were flat compared to the previous quarter. However, according to our observations, many investors offer projects with big discounts, ranging from 20% to 45% depending on the payment progress. The townhouse/villa segment in Ho Chi Minh City continues to be in short supply with only 32 products launched in the quarter (-96%QoQ, -85%YoY). While Hanoi recorded 5,587 units for sale, mostly from Vinhomes Ocean Park 3 - The Crown project, however, the sales rate dropped sharply compared to the previous quarter to 1,136 units (-80%QoQ, +50%YoY). Both primary and secondary selling prices have started to decline 8% QoQ after period of high and sustained growth over the past five quarters. • **The real estate market is currently facing many difficulties in the short term** when (1) home loan interest rates remain high, affecting the demand for loans of home buyers; (2) investors also face difficulties in accessing capital due to tight credit and closely monitored bond issuance activities; and (3) legal bottlenecks affect the project implementation progress. • **However, there are some bright spots that may benefit the real estate industry in the short term**: (1) Decree 08 and Resolution 33 are the Government's moves to help remove difficulties for the corporate bond market and real estate market. (2) Promoted public investment with a number of large projects such as North-South expressway, Long Thanh airport, traffic axes connecting the center of Hanoi and Ho Chi Minh City with neighboring regions and provinces would increase housing prices, thereby stimulating the demand for real estate investment. • Real estate stock prices have dropped 10-15% YTD, reflecting negative information related to the corporate bond market. KBSV believes that investors can consider

			buying real estate stocks whose prices have passed deep corrections and have good business outlook, large land bank with full legal requirements and safe financial structure. In addition, businesses that have projects with positive sales progress to ensure cash flow are notable investment opportunities – Vinhomes (VHM), KDH, and Nam Long Investment (NLG).
Banks	VCB, BID, MBB, STB, ACB	Neutral	• **The State Bank extended the credit room to meet the loan demand at the end of the year**. As a result, credit for the whole banking industry jumped 1.9% in December after a long period of slow quarterly growth since June. For the whole year of 2022, credit debt for the whole economy reached VND11.9 million billion, up 14.18% YTD and about 13.6% YoY. Although the liquidity problem has been partly solved, the SBV is still very careful in granting credit room at the beginning of this year. The credit room for Military Bank (MBB) and Vietnam Prosperity Bank (VPB) are about 15% at the beginning of 2022 but narrowed to 9% this year. Ho Chi Minh Development Bank (HDB) is granted a 11% credit room, compared with 15% last year, Tien Phong Bank (TPB) 9.1% vs 11.5% last year, and Bank for Investment & Development (BID) 8.3% (equivalent to the period of 2020 and earlier) vs 10% last year. • **Liquidity pressure has been temporarily cooled down, but risks still exist**. The exchange rate and inflation were controlled, creating conditions for SBV to buy foreign currencies to increase the money supply and support liquidity for the banking system through the OMO channel. Banks also actively raised capital mobilized from deposits with high interest rates. Customer deposits in 4Q rose 3.5%QoQ after the previous two quarters, which gained 7.98%YoY for the whole year. December's M2 money supply growth has since rebounded to 6.16%YTD from 3.56%YTD in November. Therefore, the gap between credit growth and money supply has narrowed to about 8% in December from the low of 9.56% in October. Most banks no longer have liquidity problems and can meet customers' lending needs well. However, the gap between money and credit growth tend to expand again in the first two months of this year as money supply increased by only 0.05%YTD, much lower than the increase of 0.77%YTD of credit. Therefore, we expect banks to boost deposits in 2Q with lower deposit rates.

			• **Bank's business performance still recorded high growth in 2022**. The interest rate on lending portfolio of the whole industry in 4Q reached 7.92% (+0.6ppts QoQ and +1.17ppts YoY) thanks to the re-pricing of interest rates based on the interest base. The new deposit rate and the limited credit room in 9M22 also contributed to the increase in mortgage rates from 3Q. The SBV had two increases in policy rates with a total increase rate of up to 2ppts, causing deposit rates to gain sharply in 4Q. All banks had to adjust their deposit rates by 1.5-2ppts, but this also helped the industry to supplement capital sources and reduce liquidity pressure. Deposit rates increased mainly in November and December, so the average cost of fund has not yet fully reflected the impact (only increasing by 0.74ppts QoQ to 4.55%). As a result, 4Q NIM modestly decreased QoQ to 3.84%. For the whole year of 2022, the industry's net profit margin still gained 0.21ppts YoY to 3.81% thanks to low costs of capital in 9M22. Total NIM of listed banks reached VND430,632 billion, up 23.6%YoY. Total non-interest income is still led by service fees to offset the loss of about VND761 billion from trading securities. Total operating income in 2022 reached VND555 trillion (+20.6%YoY). Operating expenses recorded a corresponding increase of 20.6%YoY and credit expenses were flat YoY. Therefore, the industry's pre-tax profit in 2022 reached VND246,750 billion, a sharp increase of 34.0%YoY (vs 33.5% in 2021). • **The industry's asset quality is showing bad signs as the NPL ratio in 2022 (of 27 listed banks) reached 1.61%, up 0.23ppts YoY**. Bad debts recorded the strongest increase at 62%YoY, special mention and doubtful increased by 16.9%YoY and 23.6%YoY respectively. It is worth noting that substandard debt of the whole industry increased by 77.5%YoY. The main reason for this trend is partly due to restructuring debt under Circular 14 and weaker business performance, which were hit hard after two years of the COVID-19 pandemic and exacerbated by high interest rates (due to limited credit room and increasing deposit rates) and huge bonds coming to maturity. Some of the banks with substandard debts increasing multifold are Techcombank (TCB, x4 times), Sacombank (STB, x3.7 times), VietinBank (CTG, x2.5 times), and SEABank (SSB, x2.7 times). Although the loan loss coverage ratio (LLCR) of the whole industry decreased compared to 2021, it still remained at a high level (123.4%).

			Vietcombank (VCB) is still at the top of the industry in terms of LLCR (317.4%), followed by CTG and BID with LLCR at 188.4% and 216.8%, respectively. For the group of private joint stock commercial banks like MBB, Asia Commercial Bank (ACB) and Bac A Commercial Bank (BAB) are the banks with the highest LLCR. • **We forecast that the banking industry in 2Q23 may face some difficulties as follows**: (1) Banks maintain credit growth cautiously in 2Q due to smaller credit room compared to the same period last year and the risk of liquidity from large gap between credit and money supply. (2) 2Q NIM will still be under high cost of capital pressure because banks mainly mobilized in 4Q last year and loan portfolio yields were adjusted down faster according to new deposit rates. (3) Regarding asset quality, we will have to observe the substandard debt in the 1Q financial statement to assess the impact, but now we see this as a potential risk. (4) The pressure on bonds to mature will focus on 2Q and 3Q of this year, which will further damage the health of businesses even though Decree 08 has made strides in supporting businesses and bondholders to reach a solution. • We maintain a **NEUTRAL** view on the banking industry in 2Q23. The bank stocks we chose are BID, VCB, ACB, MBB, and STB. For state-owned banks, we highly appreciate VCB for its safety and stability in operation; BID is one of the banks that still recorded high growth rates thanks to digital transformation and increased exploitation of the retail segment. For private commercial banks, ACB is one of the top choices thanks to its strong position in retail lending and prudent business strategy; STB also owns a position in retail lending, with the fifth branch coverage in the industry, promising outstanding profit growth after handling VAMC; and MBB remains on our list as it is the industry leader in CASA, which saves capital costs. • **We think the banking industry is still in an attractive price range and suitable for long-term investment goals**. Banking stock prices had a good recovery from November 2022 to January 2023 thanks to new credit room, positive 4Q business results, and temporarily resolved liquidity problems. However, since the beginning of 2023, the share prices of the banking sector has witnessed sharp falls as many real estate businesses are unable to pay bond interests. Valuation of PB of the sector is at

			1.52x, trading right on -1Std. Meanwhile, the industry's average ROE reached 20.67%, above the 10-year average of 15.4%. • **The main risks for our assessment include**: (1) special mention cannot be upgraded to standard debts and tends to increase faster in2Q; and (2) real estate enterprises continue to face difficulties in paying interest, causing banks to make provision for their bond portfolios.
Informati-on technolo-gy	FPT, CMG	Positive	• **The growth of the IT segment remained high in 2022**. The revenue of the IT industry in 2022 is estimated at USD148 billion, up 8.7% YoY. The number of ICT enterprises reached 67,228 enterprises, up 4.2% YTD with the motivation from software production, up 5.5% YoY. Leading IT enterprises have impressive growth in 2022. FPT and CMC Corporation's (CMG) NPAT increasing by 21.3% YoY and 28.7% YoY respectively, underpinned by the software outsourcing segment. • **Software export is still the main driver**. Software export growth maintained a good growth with an increase in the number of new contracts signed thanks to the rapidly increasing demand for software solutions and digital transformation in the world. By the end of December 2022, FPT's foreign IT service revenue increased by 32.2% YoY and the number of newly signed contracts increased by 38.9% YoY. • **The global information technology industry is forecast to face many difficulties in 2023**. Negative macro developments in the US and Europe have a great influence on the global information technology industry. High interest rates cause businesses to focus on cutting costs, thereby reducing the need to spend on IT. According to statistics of Crunchbase News, more than 106,000 technology workers in the US have been laid off in the mass reduction of staff in 2023. Difficulties in the US and European markets will affect the IT industry of Vietnam, which has a large share of software export value in these markets. • **The prospects for software export are good in the medium and long term**. There would be more difficulties in 2023, however, KBSV assesses that Vietnam's software export segment still has a lot of room for growth based on: (1) the effectiveness of digital transformation and the continuous appearance of new platforms and applications (Technology spending in the world will continue to remain

			high); and (2) Vietnam's low labor costs compared to other strong software exporting countries. • **Telecommunications segment is expected to achieve a stable growth**. The main driving force comes from the increase in broadband internet subscribers (+8~10%) and the growth of the OTT TV segment when the entertainment demand on OTT TV is gaining popularity in Vietnam. Besides, the development of mobile broadband internet including 4G-5G is a breakthrough step for telecommunications businesses. • **Chip production is a long-term potential**. Viettel started to carry out research and production of Chips in August 2022 or FPT announced the launch of the first microchip in the context of the global chip supply crisis that disrupted production and business in many industries as well. is the story to watch in 2023. • **Maintain double-digit growth in 2023**. We believe that IT businesses will continue to maintain a double-digit growth in 2023. Investment opportunities include stocks with strong software export and digital transformation activities such as FPT and CMG. They are being traded at parity in early 2022 and have lower valuations compared to peers in the region.
Oil and gas	GAS, BSR, PVS, PLX, PVT	Positive	• **Oil prices were high throughout 2022 but have cooled down**. Oil prices averaged around USD100/barrel (+%YoY), but they have been dropping to USD72/barrel. In addition, the prices of natural gas are currently lower than pre-Covid levels, reaching USD2,3941/barrel, down 65% compared to December 2022. The continuous decline of oil and gas prices was triggered by concerns over decreasing consumption demand amid global economic recession. • **We expect oil prices to drop slightly**, averaging USD85/barrel in 2023 because (1) oil supply continues to be tight as oil producing countries such as Russia and OPEC cut output; and (2) China's economic reopening will help increase total world oil demand. • **Crude oil consumption in 2023 may continue to gain slightly YoY**. According to the US Energy Information Administration (EIA), total crude oil consumption in 2022 will reach 99.42 million barrels/day. The agency also forecast global demand to

average 101 million barrels per day for the whole of 2023 (+1.5% YoY). The reopening of China will be the main driver for oil demand in the near future.

• **The recently passed revised petroleum law would benefit the industry**. The content focuses on the investment incentive mechanism through tax incentives and more detailed regulations on the rights and obligations of related parties. Positive changes in the oil and gas law will help create a consistent legal corridor and attract more investment to upstream activities, thereby speeding up the construction progress of projects.

• **There are expectations about future oil and gas projects**. Existing large gas fields in Vietnam are gradually decreasing in output, so the development of new oil and gas projects is extremely necessary. Block B – O Mon project is one of the gas exploitation projects with the largest investment value up to now. We expect the project to be approved for the final investment decision in 2023, brightening the outlook for businesses in the oil and gas industry.

• **The outlook of refineries depends on their location**. For the upstream group, PV Drilling & Well Services (PVD) may benefit from the rates of renewed/signed rig services and improved performance. PV Technical Services (PVS) has the potential to add new jobs from oil and gas projects in the near future. For the midstream group, the increase in freight rates has had a positive impact on PV Transportation (PVT). For the downstream group, petroleum distributors can increase their profit margin from the low base level of 2022 thanks to (1) improved supply from domestic refineries and (2) more stable oil prices.

• We still maintain a **POSITIVE** assessment on the oil and gas industry, based on the expectation that oil prices will stay high and new projects will be launched in the near future. The stock prices of this sector have recovered quite well since November, partly showing the prospect of business results. Oil and gas stocks are often quite volatile due to oil price fluctuations. KBSV believes that investors may consider holding or buying oil & gas stocks if the stocks enter attractive price range, depending on each investor's risk appetite.

Power	POW, NT2 REE, QTP, GEG, PC1	Positive	• **Electricity production and consumption rebounded in 2022**. Commercial electricity output in 2022 reached 268.4 billion kWh (+5.26% YoY). The power output of the whole system reached 20.22 billion kWh (+9.4% YoY) in 2M23. We believe that the electricity demand of the whole system will continue to recover in 2023, expecting to grow by 7% along with GDP growth rate. Regarding the structure of power sources in 2022, coal-fired power and hydroelectricity still account for the largest proportion with 39.1% and 35.4% of total output, respectively. The total installed power capacity of the whole system by the end of 2022 was 77,800 MW (+1.8% YoY). Of that, the total installed capacity of renewable energy sources is about 21,000 MW (including nearly 16,200 MW of solar power and nearly 4,000 MW of wind power), accounting for 27% of the total capacity. • **Electricity prices on the competitive generation market (CGM) stayed high in 2022**. CGM prices in January 2023 is VND1,455.99/kWh (+17.51% YoY). In 2022, CGM prices averaged VND1,539,023 /kWh (+54.8% YoY). High CGM prices will strengthen business results of hydro and thermal power plants in 2023. • **The prospect of the power industry in 2023 will be diverged among generation sources**: o Hydropower: The weather turns neutral and El Nino is likely to appear at the end of the year. This means that the amount of water entering the lake for hydroelectric power plants is no longer as abundant as in the 2021-2022 period, and power output is no longer actively maintained. o Thermal power: The end of La Nina will help thermal power plants to be mobilized with more capacity. Besides, input coal and gas prices tend to cool down, which can improve the gross profit margin of this group. o Renewable energy: The new regulation of the Ministry of Industry and Trade on the solar/wind power generation framework for transitional projects will affect the investment in renewable energy projects, especially solar power. To be more specific, the ceiling price for power generation types will be 17%-29% lower than the previous FIT price. Renewable energy enterprises whose projects with

			electricity prices have not been signed on time will be greatly affected because the new prices will reduce profit margins and delay the payback. • With the current price movements of stocks, especially the thermal power and hydro power stocks like PV Nhon Trach 2 (NT2) and Sonh Hinh Hydropower (VSH), we find that the prices of these stocks partially reflect the market's expectations about their business results. Despite still having a positive view of the industry, KBSV believes that investors should only buy power stocks when the prices have corrected deeply and brought a big potential return.
Steel	HPG, HSG, NKG	Neutral	• **Steel consumption demand continues to decline in 1Q23 and is expected to be flat in 2Q23**. 2M23 consumption volume decreased over the same period, of which construction steel fell 28% YoY, and HRC dropped 23% YoY amid difficulties of domestic real estate market. We assess that the promulgation of Decree 08/2023/ND-CP on regulations on individual corporate bond offerings and transactions will be a driving force to the recovery of the real estate market, but in the short term, enterprises will still face difficulties in cash flow under the impact of debt, capital mobilized from bonds, and demand decline. Therefore, we believe that consumption volume of the steel industry will remain low in 2Q23. • **Steel prices increased due to pressure from input material prices**. On the domestic market, steel prices were adjusted up eight times in 1Q23 to ensure COGS. Steel prices are estimated to increase by 10% compared to 4Q22. At the same time, iron ore, coke, scrap, and billet prices respectively gained 23% QoQ, 10% QoQ, 31% QoQ, and 11% QoQ. • **It is forecast that steel product prices and raw material costs will decrease gradually from now until the end of the year when supply recovers**. We believe that the prices of raw materials will decrease in the coming quarters because: (1) The major exporting countries of steel materials such as Brazil and Australia may need to lower their selling prices to attract customers when large consumption demand in China will also decline (to serve the goal of combating climate change). (2) enterprises in the US also plan to restart blast furnace plants to serve the market's demand after a supply shortage recorded in 1Q23. Therefore, we believe that steel

			prices on the international markets will also lower in the coming quarters given (1) the supply is restored but (2) consumption is low due to weak demand. Real estate in the US and China markets has not shown any clear signs of recovery. The scarcity of HRC in the US and European markets will keep the price base high in 2Q23 before falling at the end of the quarter as supplies in Turkey and the US stabilize the regional demand. • **GPM of steel companies should be improved compared to 4Q22**. Local steel enterprises have kept their inventories at a low level, so they will also be able to control their GPM better in the coming time than in 4Q22. We estimate that the sudden increase in HRC prices in February and March 2023 also helped HPG, HSG, and Nam Kim Steel (NKG) improve their business results in 1Q23. However, in the coming quarters, the three above businesses will still face difficulties in sales volume due to weak demand from the real estate sector. • **Valuation of stocks in the steel industry is low but volatile, hiding many risks**. Steel stocks climbed 10-20% on average in 1Q23 after a sharp decline in 4Q22 when announcing losses. We believe that the decline in business performance of steel companies has been partly reflected in stock prices. However, KBSV believes that the period ahead is still quite risky (mainly related to sales volume under the impact of the real estate market), so investors should take advantage of deep corrections when P/B level dropped to historical lows before accumulating stocks for long-term targets.
Fishery	ANV, IDI, FMC	Neutral	• **Fishery exports still face challenges in the first months of the year**. Following the deep downward trend from the end of 2022, Vietnam's 2M23 fishery export turnover reached USD1.1 billion, down 26% YoY (according to VASEP). In February, fishery exports increased slightly by 4% YoY on the low base of February 2022 (coincide with the Lunar New Year), so the export turnover was low, but this growth is not considered a sign of industry recovery. In terms of export markets, fishery exports in 2M23 were directly affected by the decline in the US (-53% YoY) and EU (-32% YoY) markets due to high inventories, while the China market began to recover thanks to the economic reopening.

• **Business results in 2Q23 are unlikely to exceed the high base of the same period in 2022**. Fishery businesses should continue to be under pressure in 2Q as 2Q22 recorded a peak in profit. We believe that the consumption rate of shrimp products in major markets such as the US and EU will remain slow because high-cost products such as shrimp will find it difficult to compete with cheap shrimp from India and Ecuador when these countries are close to import markets. Meanwhile, the export volume to Japan has a more positive outlook. For pangasius, we forecast that the number of orders will gradually increase from 2Q as the inventories of importers have been released after two quarters of temporary import slowdown. However, the decrease in product prices (estimated to decrease by 20-30% YoY) and lower prices of raw materials may affect the GPM of enterprises.

• **There are opportunities for the whole industry when China reopens its economy**. China market is the bright spot to the fishery industry and may help to undermine the impacts from the decline in the US and EU markets. China's complete opening has cleared the bottlenecks for many of Vietnam's exports, including pangasius. The value of fishery exports to this market recorded an increase of 33% in February 2023, showing relatively positive signs of recovery. Orders from China are expected to gradually gain in 2Q, although we expect the prices to remain low in the near future. In addition, the level of impacts of China's reopening on businesses is mixed, making it difficult for the industry to create an uptrend in the short term. We continue to maintain our view that the recovery in the Chinese market would only help reduce growth pressure for businesses but not create a boom in business results.

• **Investors should consider stocks with a good foundation for long-term investment given attractive price range**. In general, it is not likely that the fishery would bounce back in the short term as the global economy is forecasted to fall into recession. However, fishery is still an essential commodity, so it may not drop too sharply. Moreover, affordable products like pangasius will still be chosen by the low- and middle-income class - the group most affected by inflation. Some pangasius stocks such as Nam Viet Corp (ANV) and I.D.I Corp (IDI) should continue to benefit from China's opening and be suitable for short-term trading. Investors may consider

			Vinh Hoan Corp (VHC) and Sao Ta Foods (FMC) for medium and long-term investment goals as these stocks are trading at relatively attractive P/E ranges.

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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