KB Securities VIETNAM

Stock Market in 2H23

Driven by supportive policies amid weak macro environment

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We maintain our forecast that the VNIndex will reach 1,240 points by the end of this year (as mentioned in KBSV's report on Stock market outlook for 2023 published at the beginning of the year).

We downgrade the 2023F EPS growth of VNIndex to 0.5% (from 5% in the previous report) due to disappointing 1Q business results (down 18% YoY) to reflect the sagging domestic macro economy stemming from objective causes (such as the declining demand from export markets and the not-as-expected China's economic recovery) and subjective causes (such as high interest rates, real estate market collapse, corporate bond market risks, and weakening domestic consumption). There will be a response lag, so we expect the macro economy to recover from 4Q23.

On the other hand, we upgrade the target P/E of the VNIndex at the end of the year to 15.5x (from 14.3x in the previous report), reflecting our expectation of more positive effects from the interest rate decrease. Favorable factors related to exchange rate movements, inflation, and system liquidity, combined with the SBV's moves to lower the policy rates four times and buy foreign exchange reserves helped the interest rates decline rapidly since the beginning of the year, thereby helping the VNIndex to recover with improved liquidity. We think this trend will continue in 2H23, although there is not much room for a sharp fall in interest rates.

The market trend should be unclear in 3Q and develop towards a rebound in 4Q. In the first half of 3Q, macro factors may be relatively quiet amid many potential risks. Entering the 4Q, the market is expected to return to the recovery trend with the expectation of the economy's recovery, lower domestic interest rates, the end of rate hikes in major economies, and reduced corporate bond risks.

The main risk factor affecting our forecast for VNIndex is a severe US economic recession in 2H23, following the high interest rate environment in the US. In addition, a number of domestic risks are the slower-than-expected economic recovery, the risk of a major breakdown in the corporate bond market, or the handling of errors on the stock market.

As for the outlook of the main sectors in the second half of the year, our equity analysis department gives a positive assessment to the power, information technology, and oil and gas sectors *(see also section V. Sector outlook).*

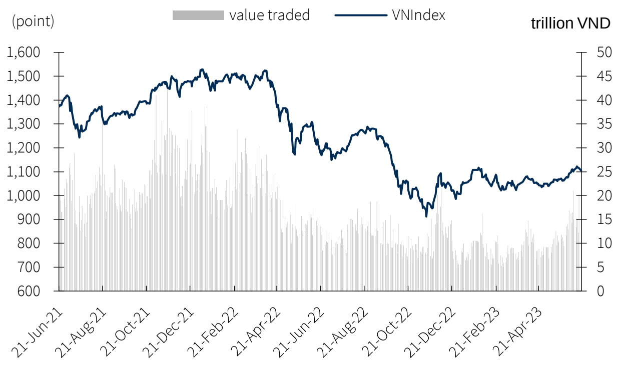
Contents

I. Executive Summary

Vietnam stock market was volatile and mainly showed a recovering trend

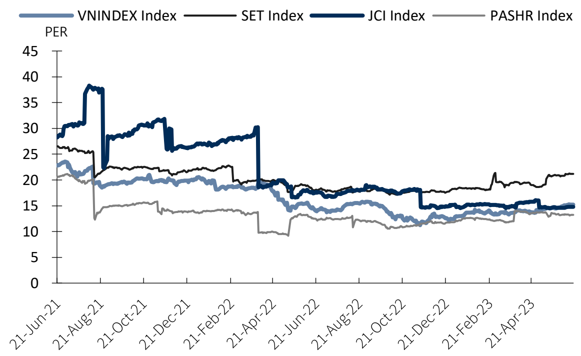
Vietnam stock market in the first half of the year was volatile and mostly went up. Four times of interest rate cuts by the State Bank (SBV) is the main supportive factor to the market's recovery from the low bases formed at the end of 2022. However, the weakening of the macro background and the decrease in profits of listed companies are the factors that hindered the market recovery. As of June 30, 2023, the VNIndex climbed 108.8 points (+10.75% YTD), accompanied by an increase in trading value of 3.86% YTD.

Fig 1. Vietnam – VNIndex movements



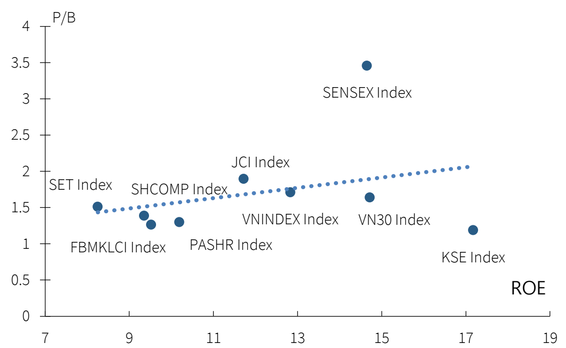
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN4 – P/E movements (x)



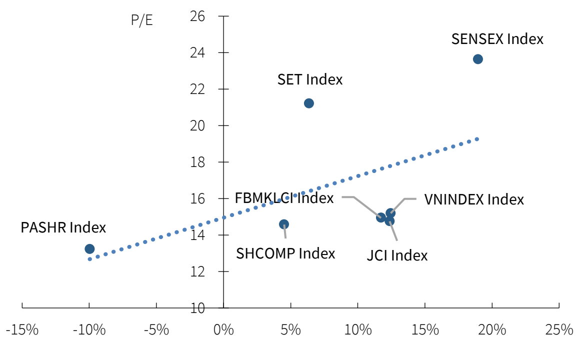
Source: Bloomberg, KB Securities Vietnam

Fig 3. Asia – P/B and ROE of different markets (x, %)



Source: Bloomberg, KB Securities Vietnam

Fig 4. Asia – P/E and EPS CAGR of different markets (x, %)



Source: Bloomberg, KB Securities Vietnam

We believe that there will be four main market drivers in 2H23, including:

The downtrend of interest rates

We forecast that deposit rates will continue to decline from now until the end of the year, with the 12-month average deposit rate of commercial banks dropping 1/3% YTD (or 0.25% compared to the present time) to around 6.7%. Lending interest rates, despite experiencing an impact lag (due to the bank's capital mobilization costs taking time to lower and the risk of bad debt when the economy is weak and credit demand is low), will tend to decline by about 1% - 1.3% YTD.

Profit growth of listed companies

We lower our forecast for overall market EPS growth from 5% in the previous report to 0.5% YoY after observing weaker-than-expected business activities of the listed companies. In addition, we believe that the domestic macro situation will really improve from 4Q, while it will continue to be gloomy and face many risks that weigh on the business activities of SMEs in 2Q and 3Q.

Fed's monetary policy

As the domestic inflationary pressure has cooled down, we believe that the Fed's hawkish stance currently is the main risk factor hindering the downward trend of interest rates in the economy and potentially posing risks to the stock market. However, we think it is less likely that DXY will rebound strongly as witnessed in late 2022 as other risks resulting in higher DXY last year have reduced.

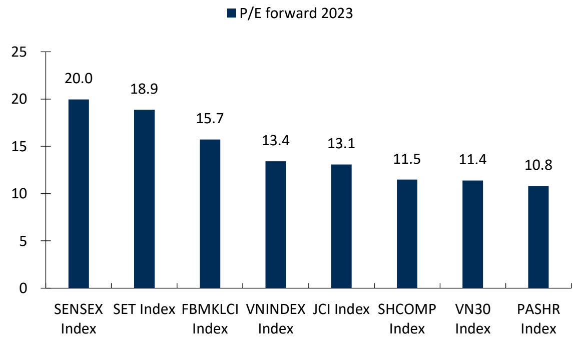
Risks from the corporate bond market

In general, the corporate bond market will no longer experience black swan events this year since investors have prepared for them in advance, the impacts on investor sentiment are minimized and are not shocking as in 2022. In fact, some events of late payment of interest and principal have taken place since the end of 2022, but the impacts on the overall market are negligible. However, the impacts on cash flow and macro stability are still noticeable if a major bond failure occurs and affects the operation of the banking system (like the Van Thinh Phat - SCB event last year).

The risk of US economic recession

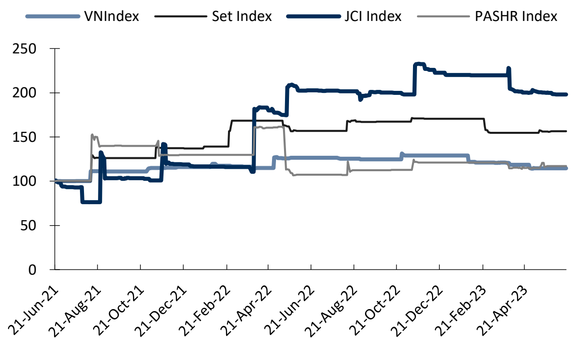
One of the biggest risks that Vietnam's stock market will continue to face in the second half of the year is high interest rates in the US, which may lead to a recession in this country and the world in general. Statistics in the past show that at the beginning of each recession period (inflation and interest rates rise sharply, yield curve inverts, and unemployment rate spikes), the US stock market often experiences another strong decline and only begins to bottom out when the Fed fund rate peaks in five to 12 months. Accordingly, Vietnam economy and stock market will be more or less affected by the decline in investment capital flows, weak exports and subdued business results of listed companies.

Fig 5. Asia – 2023 forward P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 6. ASEAN4 – EPS



Source: Bloomberg, KB Securities Vietnam

We give VNINDEX a reasonable forecast of 1,240 with a target P/E of 15.5x

Based on the analysis of the above four market drivers (which would be explained more clearly in the following sections), we maintain the forecast that the VNIndex will reach 1,240 points by the end of 2023. We sharply reduced the 2023F EPS growth of VNIndex to 0.5% (from 5% in the previous report) to reflect the subdued 1Q business results and sagging domestic macro economy. However, we raised the forecast for the reasonable P/E range of the VNIndex from 14.3x to 15.5x, reflecting the expectation of a stronger impact of the interest rate reduction on the stock market.

Some potential risks that may change our forecast include: the return of exchange rate pressure causing interest rates to rise again, the global economic downturn, and large bond defaults like the Van Thinh Phat – SCB event.

II. Business performance

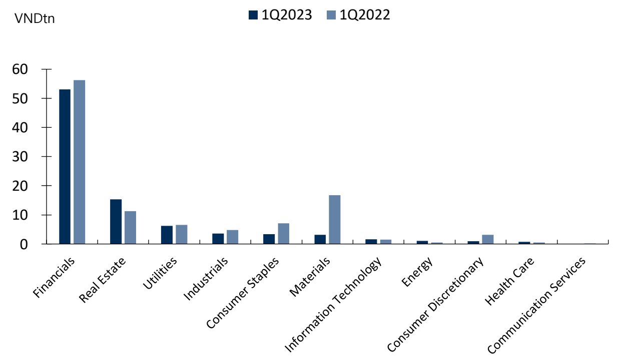
We forecast the average EPS growth of companies on the HSX in 2023 to reach 0.5% YoY (down from 5% in the previous report)

We lower our forecast for the market EPS growth from 5% to 0.5% to reflect the subdued 1Q business results and sagging domestic macro economy (Figure 10). In addition, we believe that the domestic macro situation will really improve from 4Q, while it will continue to be gloomy and face many risks that weigh on the business activities of SMEs in 2Q and 3Q. For example, (1) the purchasing power and demand for goods in both domestic and international markets decrease significantly; (2) foreign investment flows slow down due to recession and inflation from major economies; (3) the domestic real estate market slows down, corporate bond maturity risks are concentrated in the 2Q and 3Q; (4) the bank's bad debt risk increases the pressure of provisioning; and (5) the burden of interest expenses is high compared to the same period last year although the interest rates are lower than the high base levels at the end of 2022.

The hardest-hit industry is materials (with forward EPS of -31% YoY) due to the general difficulties of the construction industry related to legal problems and tight credit environment. The next is the real estate industry (-8% YoY), which performed poorly after entering the restructuring phase, while the two leading companies Vingroup (VIC) and Vinhomes (VHM) still outperformed in 1Q.

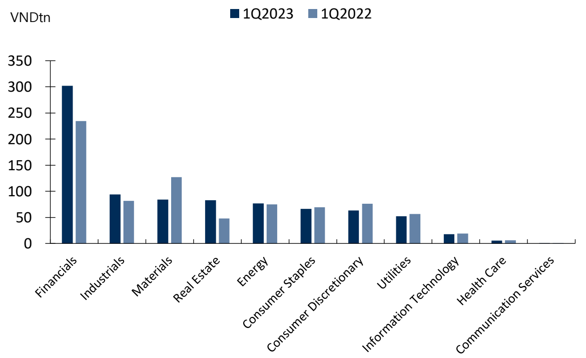
Meanwhile, the industries that are forecast to lead the growth trend are the power (+79% YoY) with Petrolimex (PLX) strong business results, industrial (+62% YoY) with the expectation about transportation service recovery - Vietnam Airlines (HVN) & Vietjet (VJC), the information technology industry with a stable growth (+10%) led by FPT Corp (FPT). For the financial industry (+9% YoY), although it is forecasted to perform better than the general market, it has plunged compared to the increase of 20.9% YoY in 2022, reflecting rising risks in the banking sector under the pressure of increasing provision.

Fig 7. Vietnam – 1Q23 profit of major industries (VNDbn)



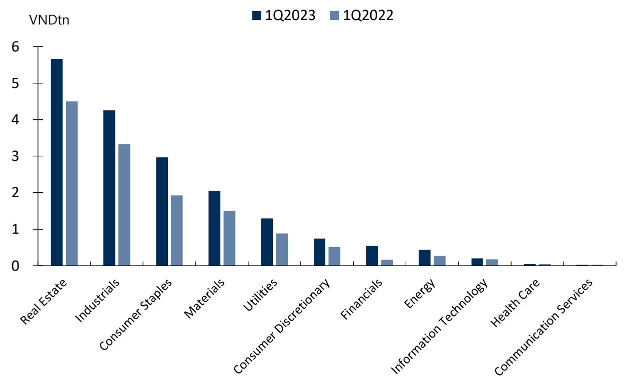
Source: Bloomberg, KB Securities Vietnam

Fig 8. Vietnam – 1Q23 revenue of major industries (VNDbn)



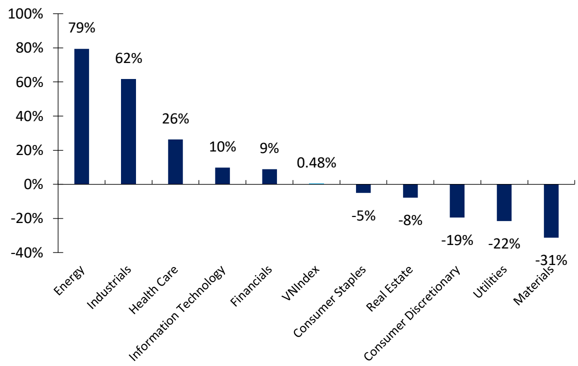
Source: Bloomberg, KB Securities Vietnam

Fig 9. Vietnam – 1Q23 interest expenses of major industries (VNDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – 2023 forward EPS growth of major industries (% YoY)



Source: Bloomberg, KB Securities Vietnam

Total revenue of companies listed on the HSX modestly gained in 1Q23, but profit continued to decline

Total revenue of businesses on the HSX grew slightly by 6.3% YoY in 1Q23, which was mainly supported by the financial sector (+29% YoY) with the strong performance of large-cap state-owned banks. Although most of the real estate businesses had business results unchanged or plummeted in 1Q, revenue of VIC (+113% YoY) and VHM (+228% YoY) helped the whole industry grow 72% YoY. The industrial group also made a good recovery (+16% YoY) as VJC (+185% YoY) and HVN (+102% YoY) posted good results on the rebounding demand of travel and tourism. The rest of the industrial group, like materials (-34% YoY) and communication services (-60% YoY), showed less positive business results.

1Q profit of the whole market declined 18% YoY. Most sectors, excluding real estate, energy, and healthcare with good profit growth, respectively (+36% YoY), (+118% YoY) and (+31% YoY), recorded lower profit compared to the same period in 2022. To be more specific, materials lost 81% YoY, mainly affected by Hoa Phat Group (HPG), Vietnam Rubber Group (GVR), and PV Fertilizer & Chemicals (DPM). Non-essential consumer goods dropped 68% YoY, hit by Mobileworld (MWG), while consumer staples fell 52% YoY with Vinamilk (VNM) and Masan Group (MSN). The main reasons for the decline in profit are (1) the decrease in both domestic consumption and export demand and (2) the adverse of high interest expenses on the profit of heavily indebted enterprises.

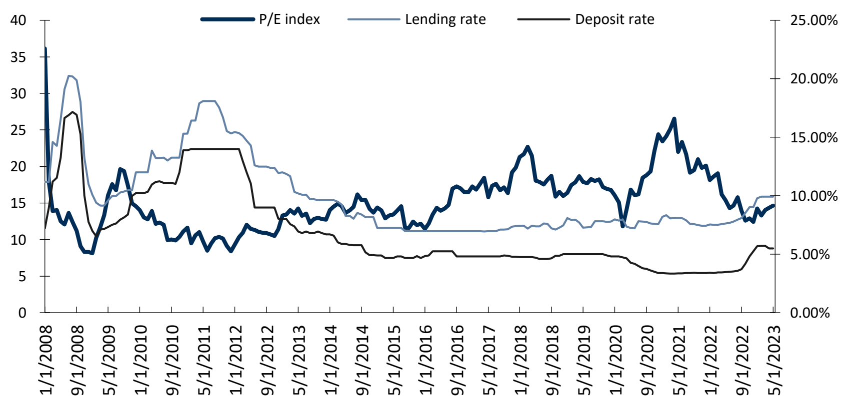
III. Market drivers in 2H23

1. The downtrend of interest rates

There is a relatively close correlation between interest rates and the P/E of the VNIndex

The figure 11 shows the close correlation between the volatility of the Vietnam stock market (shown by the P/E index of the VNIndex) and the level of deposit and interest rates. This correlation is evident in two phases:
- Phase 1 (from 2008 to 2013): The sharp fluctuation of interest rates under factors such as global economic recession, inflation, and real estate bubbles had a strong impact on Vietnam's stock market in the opposite direction. At the end of 2007 when interest rates hit the bottom, the market P/E peaked at around 40x before bottoming to 8x in 2011, corresponding to the time when interest rates peaked.
- Phase 2 (from 2020 until now): The sharp fluctuation in the interest rates under the influence of unusual factors such as Covid-19, corporate bond crisis, SCB, global inflation, and Fed rate hikes had a strong impact on stock market volatility. The VNIndex peaked in early 2022 when interest rates were around the bottom, and gradually decreased to the bottom in October 2022 when interest rates were near the top. With the ongoing decline in interest rates, the VNIndex is on a long recovery trend until now.
- Particularly in the period from 2013 to 2019, the interest rate level was stable, so it has little impact on the stock market.

Fig 11. Vietnam – Correlation between interest rates of 4 SOBs and VNIndex



Source: Bloomberg, KB Securities Vietnam

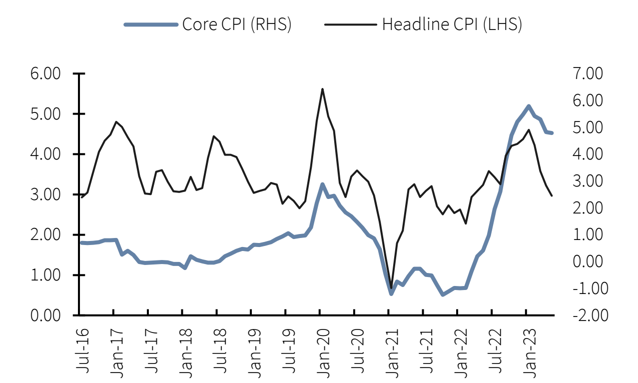
Deposit and lending interest rates may continue to decline from now until the end of the year, although there is not much room for a sharp decrease

We expect deposit rates to continue the declines from now until the end of the year, with the 12-month average deposit rate of commercial banks reaching 6.7% (down 1.3% YTD and down 0.25% compared to the present time). Lending interest rates, despite experiencing an impact lag (due to the bank's capital mobilization costs taking time to lower and the risk of bad debt when the economy is weak and credit demand is low), will tend to decline by about 1% – 1.3% YTD.

Objective and subjective factors support the downtrend of interest rates

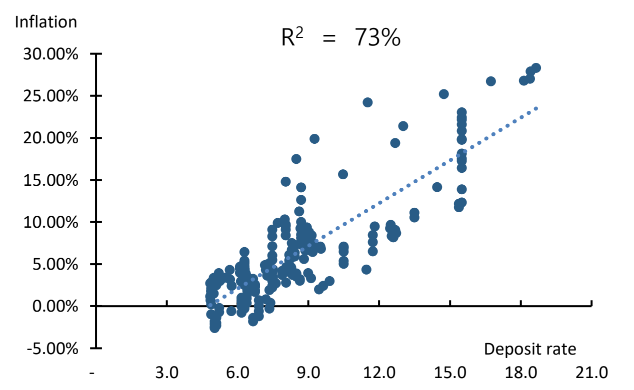
i) **We forecast Vietnam's CPI in 2023 will reach 3.25% YoY** – well controlled and under the 4.5% limit set by the National Assembly, which will be the basis for deposit rates to decrease in the coming time. Inflation has tended to cool down since the beginning of the year (Figure 12) with May inflation increasing by 2.43% YoY, down from the peak of 4.9% YoY in January 2023. However, due to the slow recovery of the economy, weak domestic consumption, along with other factors such as stable pork prices and lower raw material prices, inflation will not cause much pressure in the near future. Besides, the correlation model shows that for every 1% decrease in inflation, there is a 0.43% decrease in deposit rates (Figure 13).

Fig 12. Vietnam – Headline and core CPI (%YoY)



Source: General Statistics Office, KB Securities Vietnam

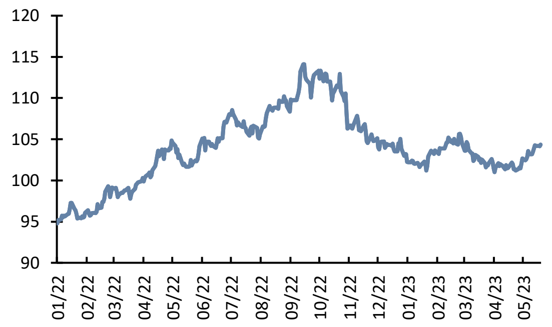
Fig 13. Vietnam – The correlation between 12-month deposit rates and headline CPI in 2000-2022 period



Source: State Bank of Vietnam, KB Securities Vietnam

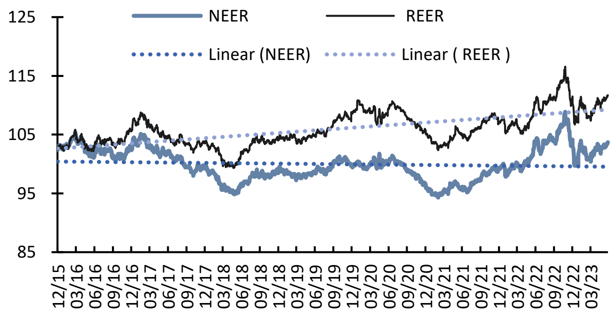
ii) **The exchange rate movements are favorable** as that the Fed is entering the final stage of the interest rate hike cycle. The Fed left interest rates unchanged at its June meeting, and while there is a possibility of one or two more rate hikes, we think it is less likely that this move will cause the DXY (a measure of the dollar's strength vs a basket of currencies) to surge and exert pressure on the domestic exchange rate as witnessed in 4Q of the last year. On the other hand, favorable exchange rate movements, when combined with foreign currency sources from trade surplus, remittances, and FDI or capital sales to foreign investors, may make the SBV continue buying foreign exchange reserves in the second half of the year, partly lowering interest rates.

Fig 14. US – US Dollar Index (point)



Source: Bloomberg, KB Securities Vietnam

Fig 15. Vietnam – NEER & REER (point)



Source: State Bank of Vietnam, KB Securities Vietnam

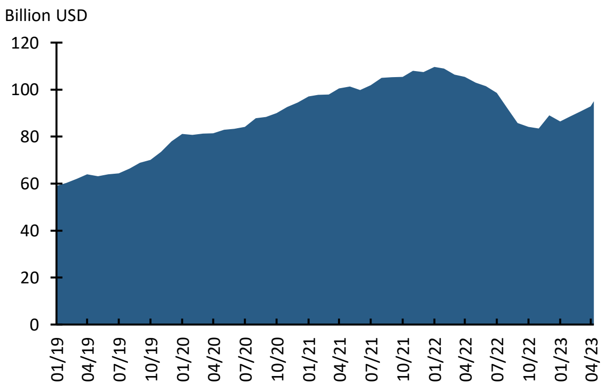
iii) **Easing monetary policies of the SBV or the fiscal policies of the Government should be continuously issued** such as lowering the policy rates four times, buying FX reserves, issuing incentive packages to support interest rates, promulgating circulars 02 and 03, and promoting disbursement of public investment, which will help lower interest rates. In the first six months of the year, the SBV's purchase of foreign currencies is valued at USD6 billion (Figure 16), which is a big help to relieve the liquidity pressure as witnessed at the end of 2022. (Figure 17).

Table 1. Vietnam – Level of policy rate decreases (effective from May 25, 2023)

	Old	New
Refinancing interest rate	5.5%	5%
Discount rate	3.5%	3.5%
Interest rates for overnight loans in interbank e-payments and capital loans in clearing payments by the SBV for credit institutions	6%	5.5%
Maximum interest rate applicable to deposits with term from one month to less than six months	5.5%	5%
Maximum short-term lending interest rate in VND of People's Credit Funds and Microfinance Institutions	6%	5.5%

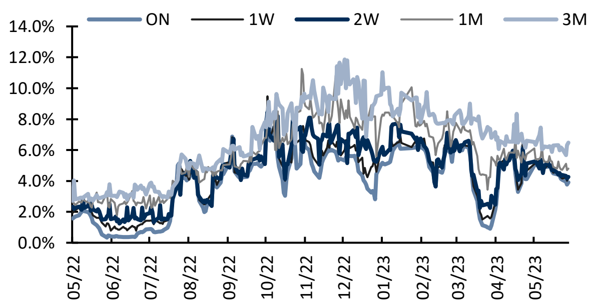
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 16. Vietnam – FX reserves (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 17. Vietnam – Interbank interest rates of different terms (%)

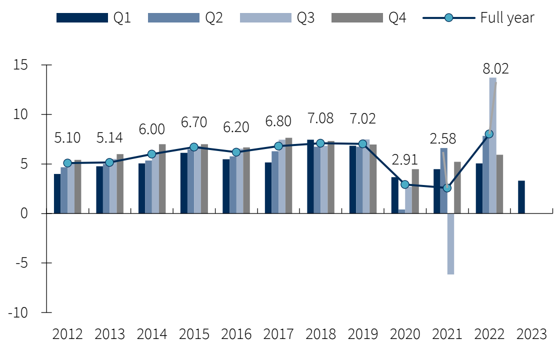


Source: Fiinpro, KB Securities Vietnam

On the other hand, the recession risk of the economy is also the main factor hindering the decline in lending interest rates

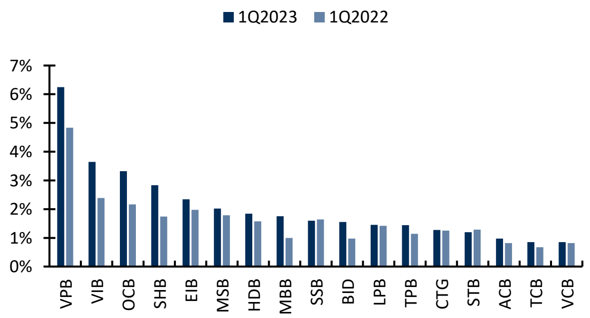
1Q GDP growth is the lowest in more than 10 years (excluding the Covid-19 period) (Figure 18) and is forecast to stay low in the next two quarters. GSO data showed that the number of dissolved enterprises has increased dramatically, leading to a sharp rise in bad debts of banks and, which may continue in the next two quarters (Figure 19). In addition, the sagging of the real estate market and the corporate bond market also exacerbated credit risks for banks' operations. Therefore, banks will need to maintain a high lending rate to maintain high NIM (the difference between deposit and lending rates) and help offset credit risks. However, we expect that this factor will gradually improve thanks to strong supportive policies of the Government and SBV.

Fig 18. Vietnam – GDP growth by quarter (%)



Source: FiinPro, KB Securities Vietnam

Fig 19. Vietnamese banks – NPL ratio (%)



Source: State Bank of Vietnam, KB Securities Vietnam

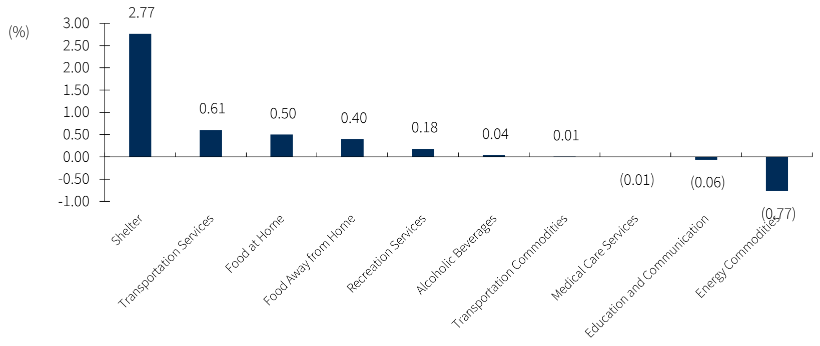
2. The Fed monetary policy

The dot-plot chart (Figure 21) in the June meeting shows that Fed expect two more rate hikes this year, and the agency will only lower interest rates in 2024. However, according to a survey by CMEGroup (Figure 22), the market is currently expecting the Fed to have only one more rate hike in July before a policy reversal from November 2024. Thus, the expectation that the Fed will soon reverse policy right this year is not expected for the following reasons:

i) The US employment data continued to grow with non-farm payrolls increasing for the 29th consecutive month. The US labor market added a total of 339,000 jobs in May, well above the forecast of 190,000. Besides, wage growth also reached 4.3% YoY, surpassing inflation for the first time in two years. A tight labor market and positive wage growth will increase inflationary pressures on the service sector.

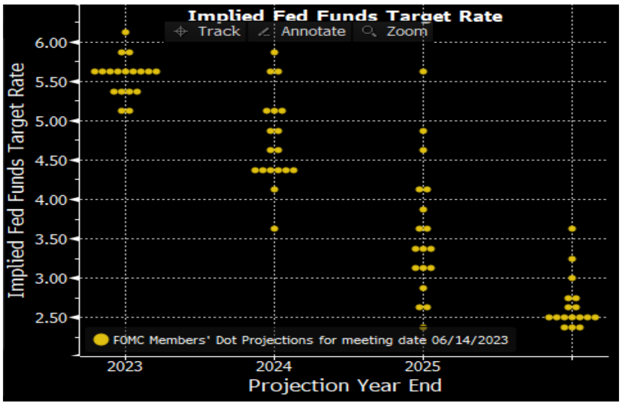
ii) The real estate market in the US is showing signs of recovery after more than seven straight months of decline. Statistics from the American Association of Realtors show that house prices in March and April advanced 3.2 and 3.6% MoM (Figure 25), similar to the data of S&P Case-Shiller. The number of newly issued construction permits in May reached 1,491,000, increasing from low bases in January (Figure 26). As rents account for more than 30% in CPI basket, the US inflation may not cool down as soon as expected.

Fig 20. Vietnam – Structure of CPI basket



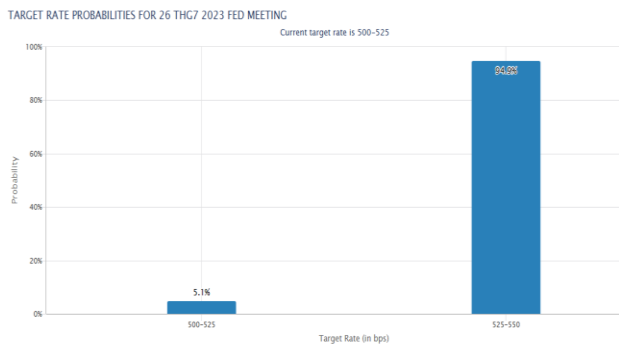
Source: Bloomberg, KB Securities Vietnam

Fig 21. US – The Fed dot plot



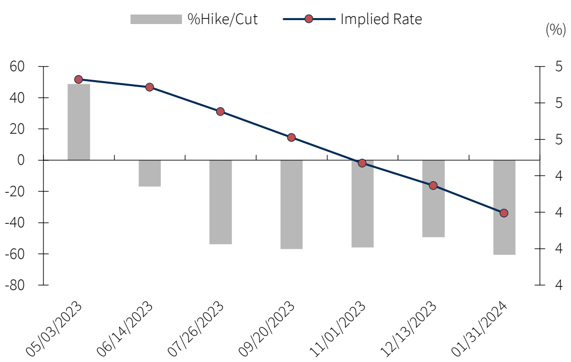
Source: Bloomberg

Fig 22. US – Probability of Fed's rate hike in July meeting (%)



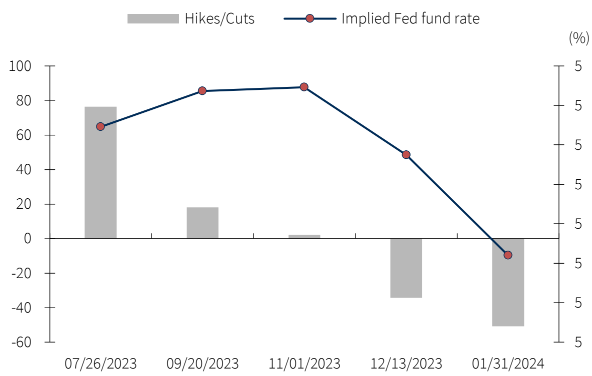
Source: VME Group

Fig 23. US – Implied interest rates in 1Q23 (%)



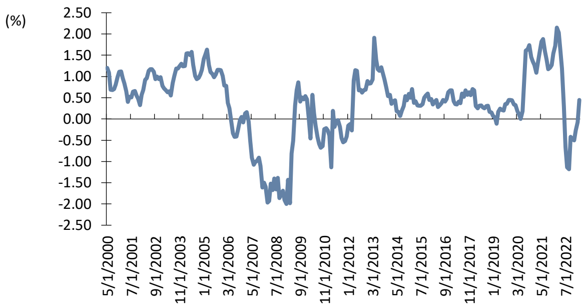
Source: Bloomberg, KB Securities Vietnam

Fig 24. US – Current implied interest rates (%)



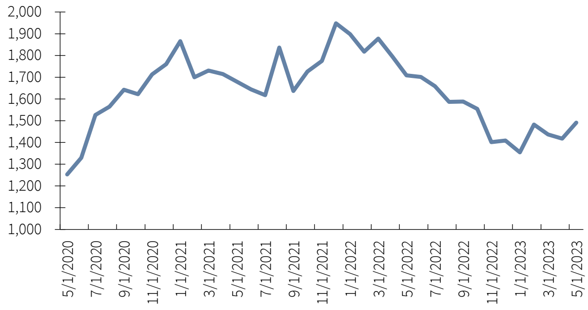
Source: Bloomberg, KB Securities Vietnam

Fig 25. US – House prices in 20 big cities (% MoM)



Source: Bloomberg, KB Securities Vietnam

Fig 26. US – New construction permits (thousand permits)



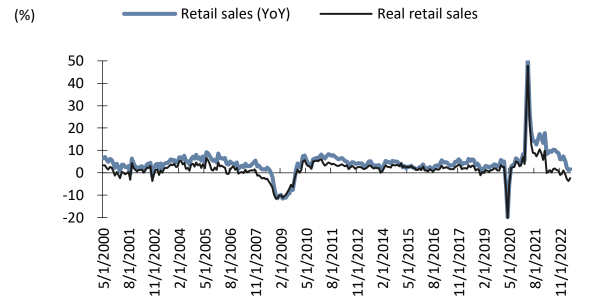
Source: Bloomberg, KB Securities Vietnam

The Fed's maintaining its hawkish stance for the rest of the year will put pressure on the DXY index and the domestic exchange rates, thereby narrowing the room for SBV to ease policies

The Fed's maintaining its hawkish stance for the rest of the year will put pressure on the DXY index and the domestic exchange rates, thereby narrowing the room for SBV to ease policies. We believe that cooled down domestic inflation pressure is the main factor that hold back the downward trend of interest rates in the economy, thereby posing potential risks to the stock market. However, we think it is less likely that DXY will rebound strongly as witnessed in late 2022 as this factor has already been reflected, while other risk factors that led to DXY's price increase at the end of last year have decreased (similar to the collapse of SVB, First Republic bank, and US government default).

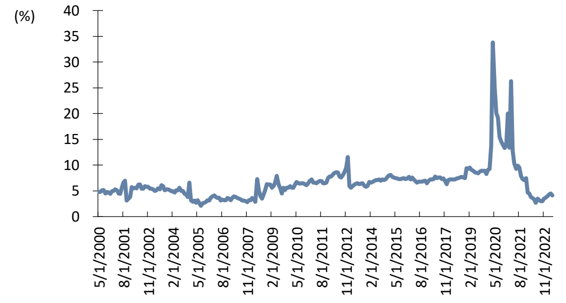
Besides, stably high FFFR has negatively impacted economic activities in the US. May retail sales in this country gained 0.5% YoY, well below the historical average of 4.8%. After being adjusted for the current inflation, retail sales fell 4.2% YoY and marked the sixth consecutive month of decline (Figure 27). This figure is assessed to continue to deteriorate in the near future as the personal savings rate continues to remain low (Figure 28), and the growth in consumer credit and the applied interest rate is reaching 20-year highs (Figures 29 & 30). The increased pressure on consumers to pay interest on loans will make spending on non-essential consumer goods seriously affected. Vietnam's exporters in the textile, garment, fisheries, wood, and stone industries like the US are expected to continue to face difficulties in the short term due to weak domestic demand, which may last at least until the end of 2Q23.

Fig 27. US – Nominal & actual retail sales growth (%)



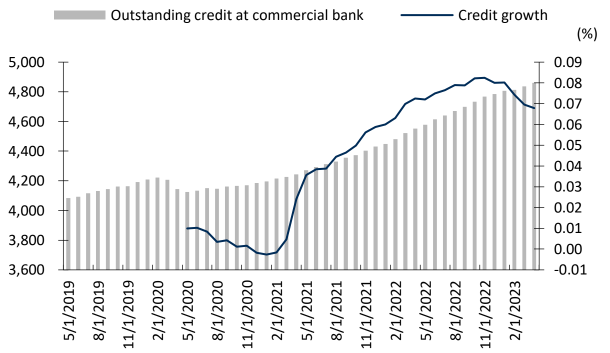
Source: Bloomberg, KB Securities Vietnam

Fig 28. US – Personal savings to net income ratio (%)



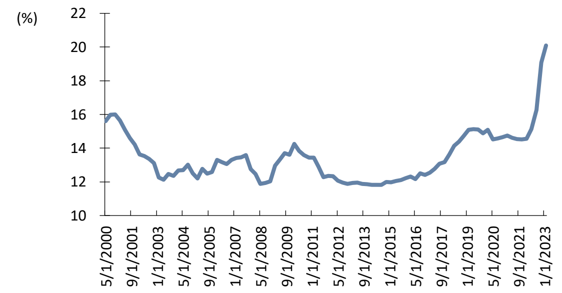
Source: Bloomberg, KB Securities Vietnam

Fig 29. US – Loan balance & consumer credit growth (billion USD, %)



Source: Bloomberg, KB Securities Vietnam

Fig 30.US – Interest rates on consumer loans (%)



Source: Bloomberg, KB Securities Vietnam

3. Risks from corporate bond market

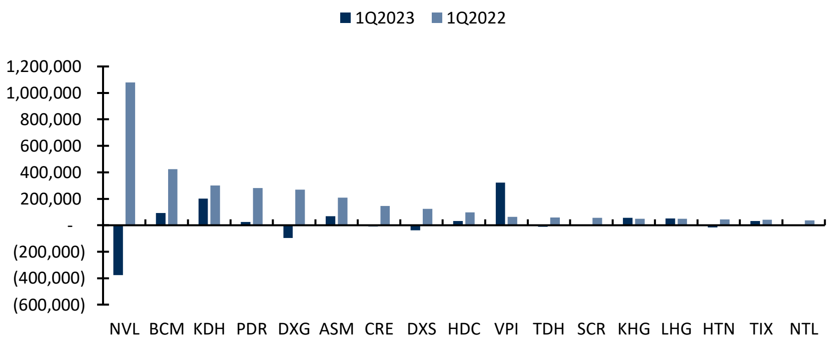
The impacts from corporate bonds on the stock market recently

The recent difficulties of the corporate bond market are still a risk factor that significantly affects the Vietnamese stock market, mainly because:

i) Late repayment of bonds in a large number of enterprises has increased the risk of bad debts, putting pressure on the provisioning costs of the banking system (Figure 33). Accordingly, lending interest rates of banks remained high despite the SBV's efforts to lower policy rates. In addition, difficulties in the corporate bond market also caused liquidity bottlenecks, especially in real estate businesses. All of the above factors were reflected in the interest expenses of listed companies as they increased sharply to 37% YoY in 1Q (Figure 32), which led to poor business results, especially in real estate companies with 1Q profit dropping 24% YoY (excluding the sudden change in VIC and VHM).

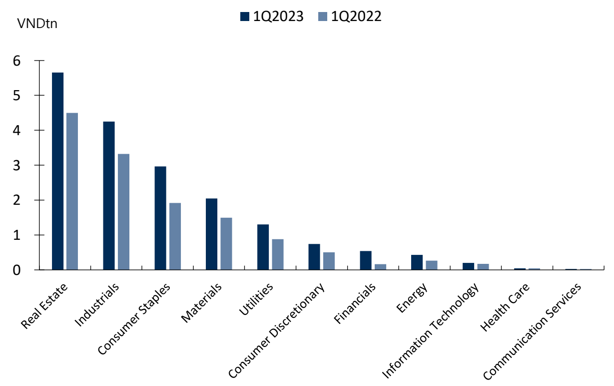
ii) The events of Tan Hoang Minh and Van Thinh Phat took place in April and September 2022, leading to the collapse of the stock market. This factor continues to have a negative impact on the sentiment of domestic investors, especially in the context of peak corporate bond maturity from June to September this year.

Fig 31. Vietnam – 1Q23 profit YoY of listed companies



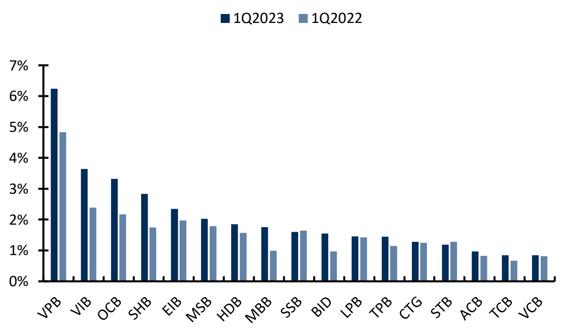
Source: FiinPro, KB Securities Vietnam

Fig 32. Vietnam – 1Q23 interest expenses YoY (VNDtn)



Source: Bloomberg, KB Securities Vietnam

Fig 33. Vietnam – 1Q23 NPL ratio at banks (%)



Source: Bloomberg, KB Securities Vietnam

Total value of corporate bonds with late payment of principal and interest announced in 2023 was at VND61 trillion, accounting for 5.7% of outstanding corporate bonds

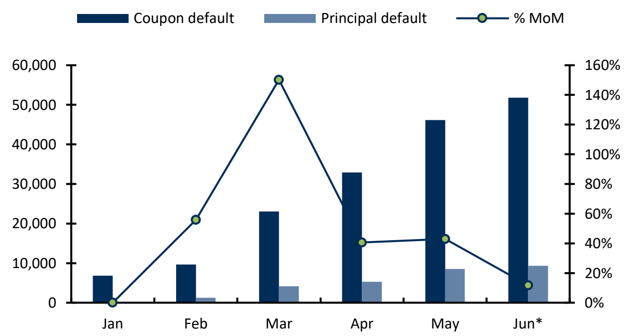
From the beginning of the year to June 14, we estimate the total value of corporate bonds with late payment of principal and interest at VND61 trillion, accounting for 5.7% of the value of corporate bonds outstanding. This includes 9.3 trillion corporate bonds that have matured and failed to pay the principal, while the rest is 51.8 trillion bonds that have not yet been due but have delayed payment of interest. The amount of bonds with late payment started to spike from March until now and has not tended to slow down (Figure 34). In terms of industry structure, real estate accounted for the largest proportion with 71% of the total value of corporate bonds with late repayment (VND42.4 trillion). The financial group including credit institutions and securities companies did not record any late payment bonds.

Maturity pressure is most intense in 3Q23, up 26% QoQ

It is estimated that there will be about VND150.6 trillion in corporate bonds maturing in 2H23. Of which, the amount of bonds maturing is concentrated in 3Q with VND91.8 trillion (up 26% QoQ). Bond maturity pressure should then cool down within two months before rebounding sharply to VND30.6 trillion December 2023. Real estate continued to account for the largest proportion, reaching VND63.3 trillion or 42% of the total maturity value in the last six months of the year.

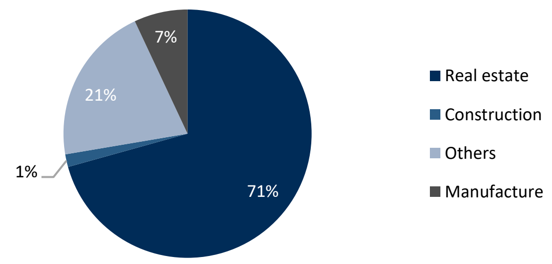
Observing the HNX data, we estimate that there are about 13 non-banking enterprises with bond maturity over VND3 trillion in 2H23 (Figure 39). It is worth noting that among the above enterprises, there are 12 real estate enterprises and 11 unlisted enterprises, showing that the risk of default is extremely large during this period. Of that, An Dong Group under Van Thinh Phat led the value of matured bonds with nearly VND15 trillion. Since these are bond lots related to violations discovered last year by the company's management, the risk is assessed as very high. Other issuers also on the list include Novaland Group (NVL, VND9.2 trillion), Ho Chi Minh City Service Trading Corp (VND3.7 trillion) and Hung Thinh Land JSC (VND3.6 trillion), which have also continuously informed about the late payment of interest and principal of bonds. In general, with the unfavorable business prospects of the real estate industry, it will be difficult for these enterprises to fulfill their due obligations in the near future.

Fig 34. Vietnam – Accumulated corporate bond value with late payment of principal and interest in 2023



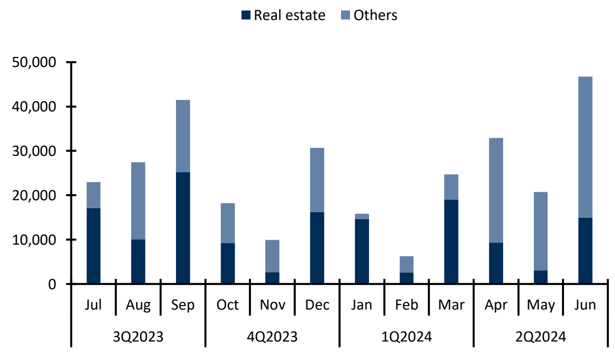
Source: Hanoi Stock Exchange, KB Securities Vietnam
** Data as of June 14, 2023*

Fig 35. Vietnam – The structure of accumulated corporate bond value with late payment of principal and interest in 2023



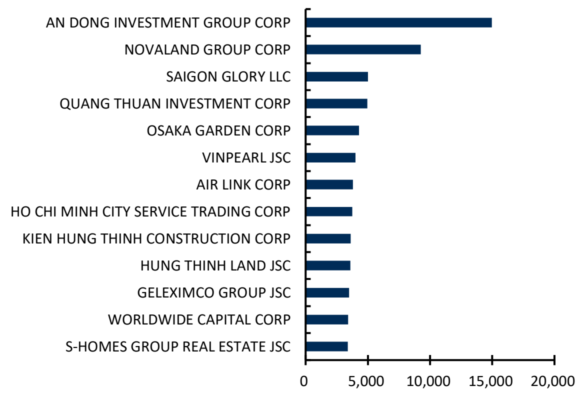
Source: Hanoi Stock Exchange, KB Securities Vietnam

Fig 36. Vietnam – The value of matured bonds



Source: Hanoi Stock Exchange, KB Securities Vietnam

Fig 37. Vietnam – Non-banking companies with the largest matured bond value in 2023



Source: Hanoi Stock Exchange, KB Securities Vietnam

The impacts from corporate bonds on the stock market in the coming time

In general, the corporate bond market will no longer experience black swan events this year since investors have prepared for them in advance, the impacts on investor sentiment are minimized and are not shocking as in 2022. In fact, some events of late payment of interest and principal have taken place since the end of 2022, but the impacts on the overall market are negligible. However, the impacts on cash flow and macro stability are still noticeable if a major bond failure occurs and affects the operation of the banking system (like the Van Thinh Phat – SCB event last year).

Besides, a number of other supporting factors have also appeared and positively impacted the corporate bond market in general and the real estate industry in particular: i) Enterprises can negotiate with bondholders more easily thanks to the support measures of Government; ii) policies to support the corporate bond market are issued in Decree 08 and Circular 02.03; and iii) lower interest rates (despite an impact lag) partly reduced the pressure of interest payments, thereby supporting the recovery of business activities.

We do not currently see the risk of a major shock in the corporate bond market that could have a strong impact on the banking system's operations, the macro stability, and the stock market (similar to the Van Thinh Phat – SCB event). However, with the large maturity scale and the insolvency being gradually revealed, the bank's bad debt is forecasted to continue to increase, putting pressure on provision expenses, profit of the banking industry, and lending interest rates, thereby adversely affecting the recovery of the stock market.

4. The risk of US economic recession

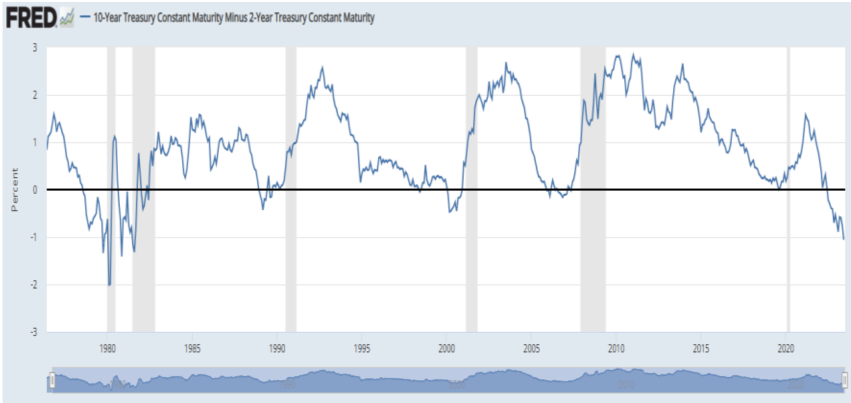
One of the biggest risks that Vietnam's stock market will continue to face in the 2H23 is the risk of recession in the US and the whole world amid high interest rate levels. By the end of 2Q23, the probability of a recession according to a Bloomberg survey in the next 12 months is up to 60% (up 10ppts compared to the previous survey) (Figures 40, 41). The US Treasury yield curve is also inverting, entailing the risk of a recession in the next 12-18 months. Besides, this is also the first time in 40 years that 10-2 year treasury yield spread reached 100 points (Fig 38).

Observing movements during recessions in the period 1954-1985, the declines of the US stock market are usually divided into two phases.

- The first phase is when inflation rises sharply, causing the Fed to tighten monetary policies. The stock market reacted negatively and dropped sharply, similar to the plunge in 2022.
- The second phase is when the interest rate level remains high and for a long time. The effects of increasing interest rates (and quantitative tightening) gradually spread in the economy, and the economy started showing signs of slowing. Profits of enterprises began to decline sharply (Figure 38), and the unemployment rate gradually increased. The stock market will therefore continue to plummet and usually bottom out after the interest rate peaks in 6-12 months (Figure 42).

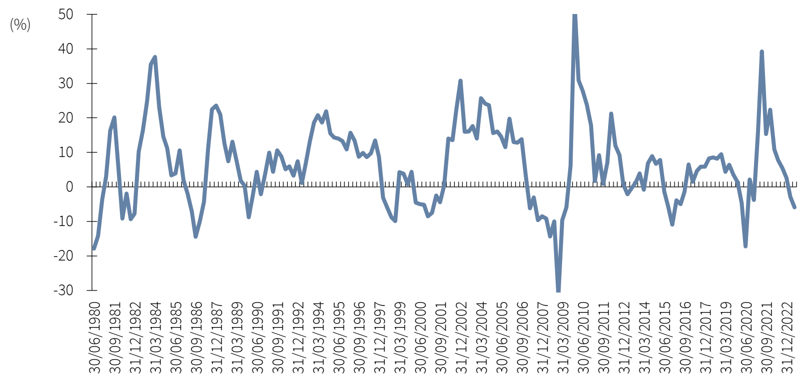
The world economy in general and Vietnam in particular and the stock market will be more or less negatively affected by the decline in global investment capital, weak exports and poor business results of listed companies.

Fig 38. US – 10–2 year treasury yield spread



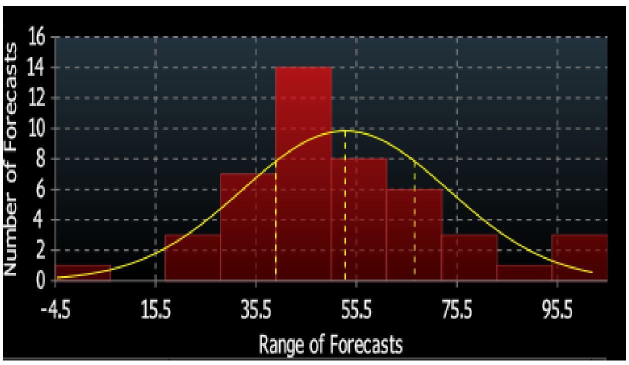
Source: fred.stlouisfed.org

Fig 39. US – Profit growth of businesses (%)



Source: Bloomberg, KB Securities Vietnam

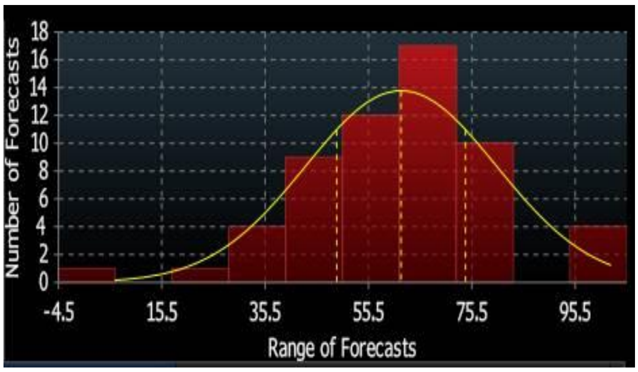
Fig 40. US – Probability of a recession in the next 12 months



Source: Bloomberg, KB Securities Vietnam

** Data as of September 12, 2022*

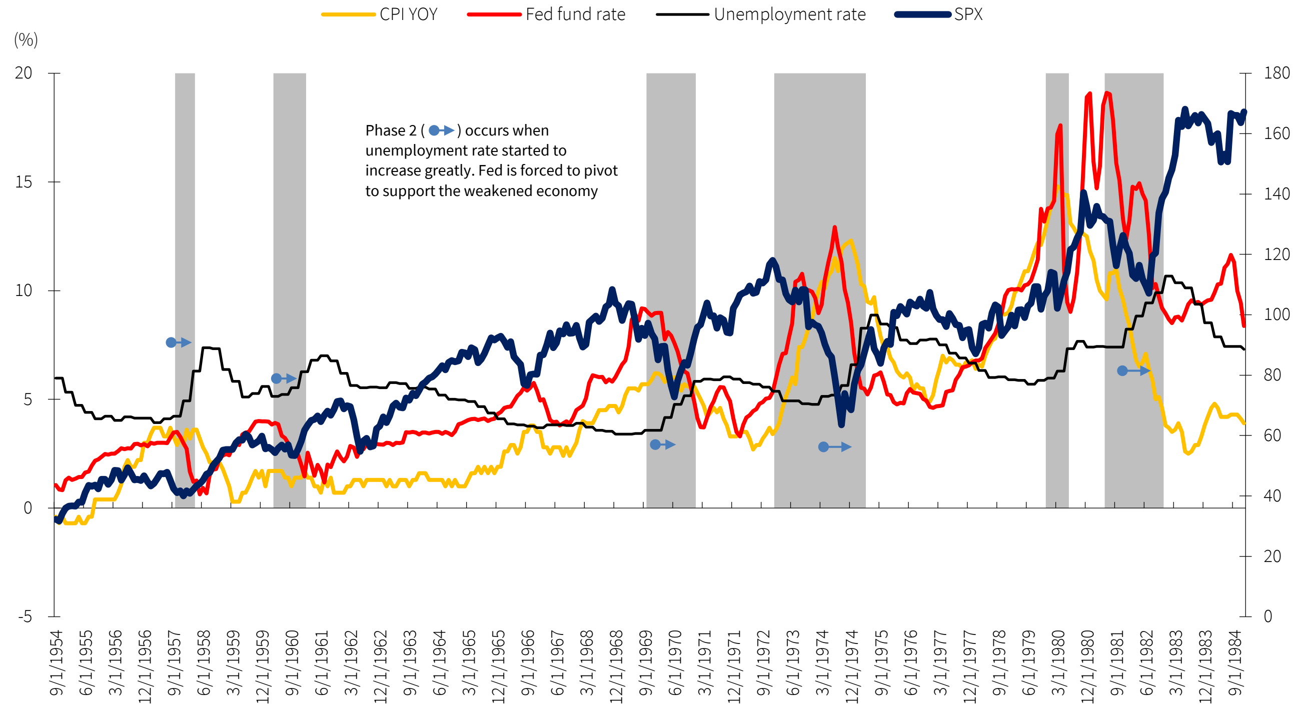
Fig 41. US – Probability of a recession in the next 12 months



Source: Bloomberg, KB Securities Vietnam

** Data as of June 23, 2023*

Fig 42. US – S&P 500, FFR, CPI & unemployment rate in 1954–1984



Source: Bloomberg, KB Securities Vietnam

** The grey parts are the time when the US recession occurred*

At the present time, lower inflation, despite still being high, and the stability of the US economy (low unemployment rate at 3.7%, 1Q GDP growth gaining 2% QoQ, and retail sales rising 0.3% MoM) are supporting the scenario that a soft landing (or mild recession) will happen, and the impact on Vietnam's stock market will not be too strong. However, there are a number of risks that may cause inflation in the US not to cool down as quickly as expected, so the Fed must maintain its hawkish policy and push the US economy into a serious recession:

- The geopolitical uncertainty in Russia in recent weeks may cause a shock to oil supply and a sharp increase in oil prices in the near future amid the OPEC output cuts and costly exploration and exploitation of new oil fields.
- China-Taiwan tensions and the US government's looming ban on chip exports to China could be the start of a trade war between the two countries and make business results and stock prices of technology corporations plunge (similar to the dot-com bubble in 2000-2001) as the AI race was heating up day by day.
- China's economic growth continues to slow, and the market expects the PBOC and the government to continue to loosen fiscal and monetary policies to support the economy. In that scenario, consumer demand and commodity prices will continue to surge, making it difficult to keep inflation under the target level and leading to tight monetary policy in the US for a longer period.

IV. Investment themes

1. El Nino

The El Nino has officially started, bringing heat and drought to the Asia-Pacific region

On June 15, the National Oceanic and Atmospheric Administration (NOAA) announced that the El Nino officially started, bringing heat and drought to the Asia-Pacific region. Meteorological stations in parts of India, Thailand and Bangladesh have recorded temperatures of up to 45 degrees Celsius, unusually high above the annual average. Regarding the impact of this extreme weather phenomenon on the Vietnamese stock market, there are both positive and negative aspects:

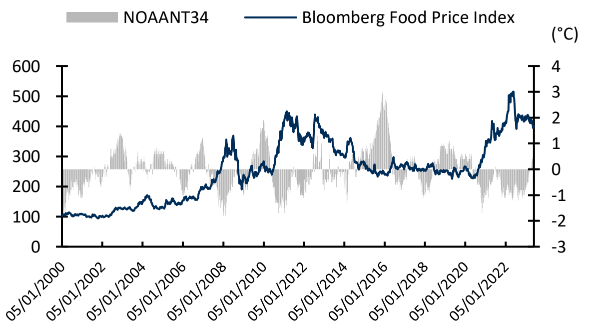
The El Nino is expected to support deflation in the US and the world in general

i) On the positive side, the El Nino is expected to support deflation in the US and the world in general, partly supporting the central banks' easing monetary policies. History shows that food commodities such as corn, and soybeans, followed by the prices of animal feed and pork, tend to decrease when the supply of agricultural crops increase during the neutral phase or El Nino with improved rainfall in major agricultural exporting countries such as the US, Brazil, and Argentina. In contrast, the impact of storms, floods and natural disasters caused by La Nina often cause the prices of agricultural products to spike in the Americas. Since the peak of April 2022, Bloomberg's agricultural commodity price index has now decreased by 20.2% but is still 50.7% higher than the level during La Nina (Figure 43).

El Nino causes power shortages and negatively impacts economic growth

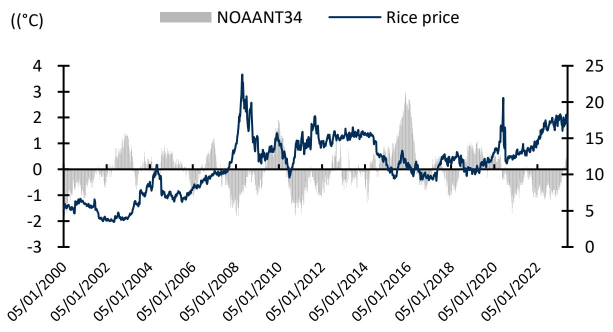
ii) On the negative side, the El Nino causes the water level in Vietnam's reservoirs to drop to a low level, thereby causing electricity shortages, especially in the Northern region, and negatively affecting the economic growth.

Fig 43. Global – Sea surface temperature and commodity price index



Source: Bloomberg, KB Securities Vietnam

Fig 44. Global – Sea surface temperature and rice price movement



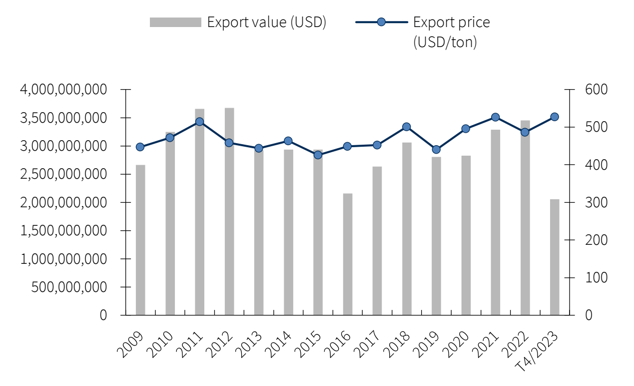
Source: Bloomberg, KB Securities Vietnam

For the impacts on specific industry groups, we believe that there are three groups of industries that are expected to benefit from the El Nino phenomenon:

Rice industry will benefit from the rising demand for rice in the first phase of El Nino

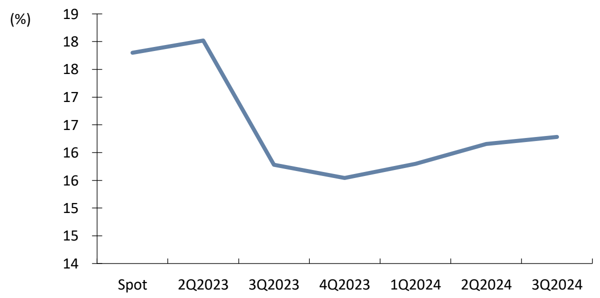
i) **Rice industry**: The industry benefits from high demand in the early stages of El Nino with increasing storage demand from major importers and high inventories from the end of La Nina. This will help Vietnam's rice exports to continue to grow positively until the end of 2023 (Figure 44). According to the data from the Vietnam Customs Department, Vietnam's rice export value in the first five months of the year reached more than USD2 billion, up 1.5 times YoY. The average rice price in 5M23 reached USD527/ton, up 8.39% YoY and reaching ten-year highs (Figure 45). Export volume to major partners such as the Philippines, Indonesia, Malaysia and Hong Kong also recorded high growth, up 40.1% YoY. However, in the second half of the El Nino period, the planting and harvesting of Asian countries, including India, Thailand and Vietnam, will be adversely affected by lower rainfall and high temperature. In addition, the weakening demand after the partners have accumulated enough inventories will put the rice prices under pressure in 2024 (Figure 46).

Fig 45. Vietnam – Rice export turnover and average rice price in 2009 – April 2023 (USD, USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 46. Vietnam – Forecast rice prices until 3Q24

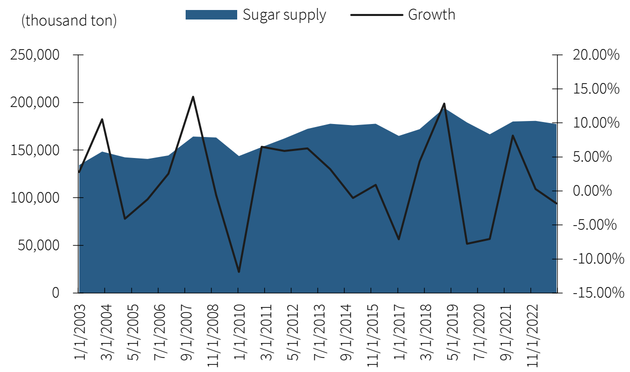


Source: Bloomberg, KB Securities Vietnam

High cane sugar prices will benefit domestic and international sugar producers

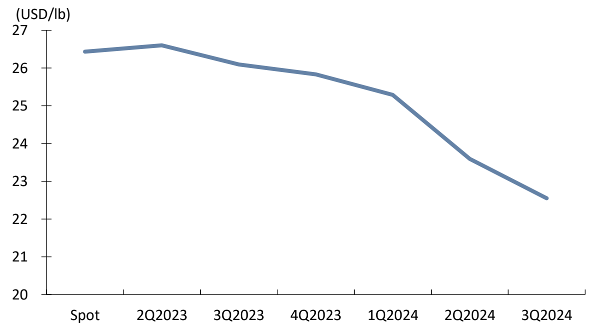
ii) **Sugar industry**: The prices of crude sugar futures in the US have gained 26 cents/lb, hitting 10-year highs while USDA forecast the world sugar production in the 2022-2023 crop year would drop 13% YoY. India should issue a ban on sugar exports until the end of 2Q24 amid concerns over lower sugar output stemming from El Nino-led less rainfall and harvest output. A historic drought in India's Maharashtra region forced the world's second-largest sugar producer and exporter to impose an export quota in May. Besides, the promulgation of Brazil's petroleum tax also hit hard on the world supply as manufacturers turned to biofuel instead of processing cane sugar for exportation. Accordingly, the prices of cane sugar should stay high, supporting the growth momentum of domestic and international sugar producers before a clearer correction phase (Figure 48).

Fig 47. Global – Sugar supply & output (thousand tons)



Source: Bloomberg, KB Securities Vietnam

Fig 48. Global – Forecast sugar prices until the end of 3Q24 (USD/lb)

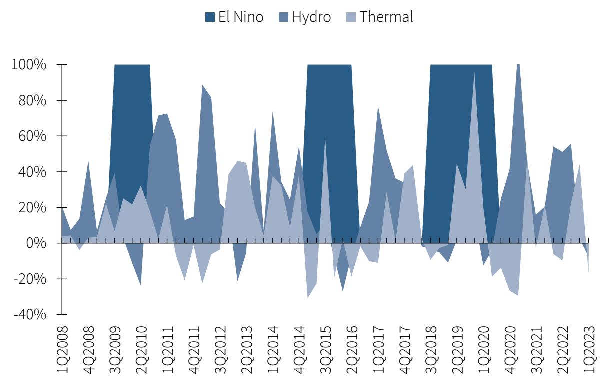


Source: Bloomberg

Coal and gas power groups will benefit from (1) larger mobilization in 2023 and (2) higher CGM prices

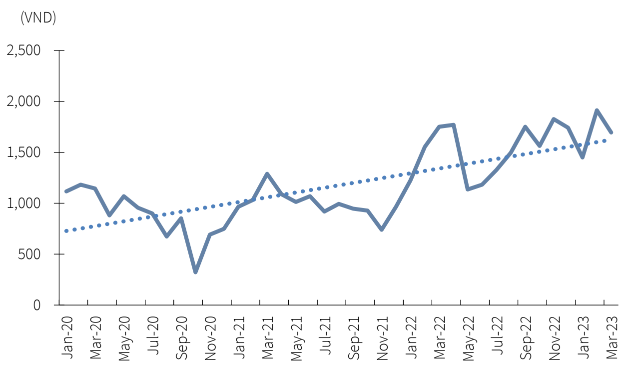
iii) **Thermal power industry**: Thermal power plants usually post positive revenue and profit growth during the El Nino period (data for the period 2003-2006, 2010, 2015-2016) (Figure 49). Under the influence of El Nino, the rainfall in 3Q may decline 15-20%, depending on the region. This would seriously affect the water reserves and power output of hydropower plants. As a result, the thermal power group, including coal and gas power, will benefit from (1) larger mobilization output in 2023 and (2) higher competitive generation market (CGM) prices (Figure 50).

Fig 49. Vietnam – Revenue growth of hydro and thermal power plants by quarter (%)



Source: Bloomberg, KB Securities Vietnam

Fig 50. Vietnam – CGM electricity prices (VND)



Source: Bloomberg, KB Securities Vietnam

Although the stock prices of companies in the rice, sugar and thermal power industries have recovered well from the bottom in November 2022, we assess that the above three industries still have a lot of room for growth in the near future as the El Nino is forecast to last until the end of 2024 with more extreme weather patterns than previous years. Therefore, investors in the medium and long term can buy stocks in these sectors during correction sections.

2. Public investment

The disbursement progress for public investment in May 2023 reached VND 46,461 billion, the highest since the beginning of the year

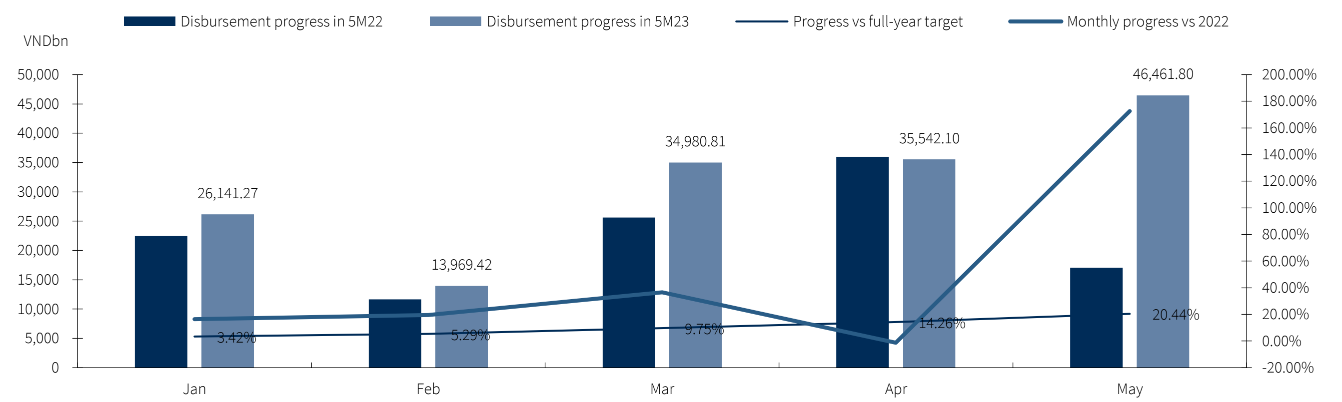
From the beginning of the year to May 31, 2023, the disbursement value of public investment capital reached VND162,781 billion, equivalent to 20.44% of the plan set out by the National Assembly in 2023 (according to data from the latest report of the Ministry of Finance on the estimated implementation of the five-month plan in 2023). In May alone, the disbursement value reached VND46,462 billion, which is the highest number since the beginning of the year (increasing 30.72% MoM and 2.7 times YoY). This is the third consecutive month since the beginning of the year recording an increase in the value of public disbursement.

However, the disbursement rate is only 22.22% of the target assigned by the Prime Minister. After five months of implementation, the remaining planned capital in 2023 is more than VND633 trillion. With the target disbursement rate in 2023 is from 95%-100% of the capital plan, it is required that each month in the next eight months of the year VND90 trillion should be disbursed (until January 2024). This is quite a challenge for ministries, sectors and agencies because the highest monthly disbursement in the past five months only stopped at VND46.5 trillion.

Problems from procedures and approvals affect the speed of disbursement of public investment capital

Large public investment capital but slow disbursement is still a dilemma for ministries and agencies. The reasons are: (i) The capacity of contractor is underqualified, especially when the requirements for construction quality and fire protection and prevention are higher and stricter. (ii) The preparation for investment and construction is not good, and the site clearance takes a long time, leading to the project not being eligible for capital allocation on schedule. (ii) The update, review and publication of the costs of building materials have not timely reflected market changes, affecting costs for businesses and the investment-construction procedures.

Fig 51. Vietnam – Public disbursement progress in 5M23



Source: Ministry of Finance, KB Securities Vietnam

Table 2. Vietnam – The progress of major public investment projects

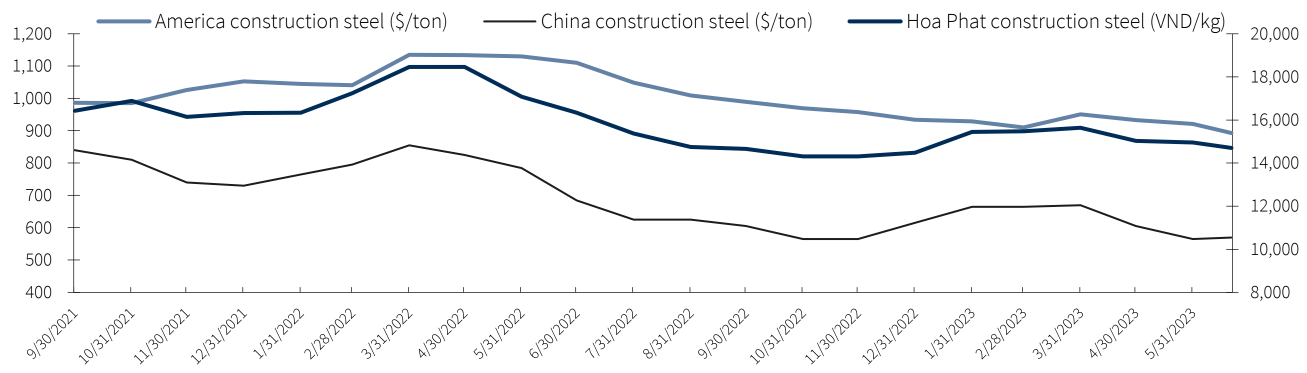
Name of project	Total investment (VNDbn)	Progress
Long Thanh International Airport	336,630	The site clearance has basically completed, only eight cases have not been handed over. About construction progress, the bidding package for construction and equipment installation of the passenger terminal was officially closed/opened for the second time on June 12, 2023. If the contractor selection takes place successfully, the construction of this bidding package (worth VND35,000 billion) should start in August 2023.
North – South expressway project phase 1	103,000	Six out of 11 component projects have been completed.
North – South expressway project phase 2	146,990	Projects are under construction and expected to operate from 2026.
Ben Luc – Long Thanh Expressway	31,320	The construction was stopped in the middle of 2019 due to problems related to mechanisms, policies and laws, resulting in no capital allocation. On May 8, 2023, the construction of package A6 (East section) was resumed.
Ring Road 4 Hanoi	85,813	The phase 1 was started on June 25, 2023.
Ring Road 3 – HCMC	75,378	The construction should start from June 30, 2023.
Bien Hoa – Vung Tau Expressway	17,837	The construction started from June 18, 2023.

Source: KB Securities Vietnam

Public investment is expected to be strongly promoted in 2H23

We expect public investment disbursement to reach 85% of the plan (equivalent to VND 676,905 billion) in 2023, higher than 80.63% in 2022 and 76.78% in 2021, based on: (i) Public investment becomes an important driving force to support the economy amid macroeconomic difficulties and a decline in aggregate demand. (ii) 2023 is the third year of the medium-term public investment plan. Normally, the years from the third year onwards will be promoted more strongly in order to keep up with the targets assigned by the government and the state. (iii) The disbursement cycle of state budget investment capital will be less at the beginning of the year and gradually increase towards the end of the year. (iv) The prices of raw materials should decrease, thereby reducing input costs of enterprises. In 2023, the prices of raw materials and construction material price index were lower than in the previous period. We expect lower input prices will be a supportive factor for businesses to implement the projects on schedule as in the signed contracts.

Fig 52. Global – Construction materials prices



Source: Bloomberg

CTD, C4G, VCG and VLB will be the most beneficiaries

In our opinion, construction contractors with good construction capacity, abundant capital, and experience in participating in many large-scale infrastructure construction projects such as Coteccons (**CTD**), Vinaconex (**VCG**) and Cienco4 (C4G) will have an advantage in winning bids for road infrastructure packages, especially for Long Thanh International Airport.

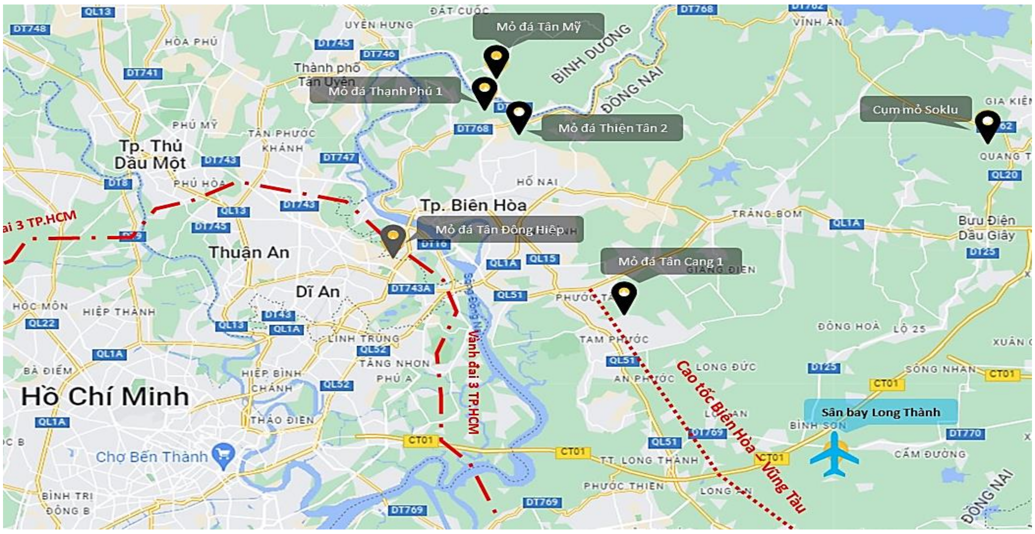
For building material enterprises, the demand for construction stone is very urgent in the coming period when key infrastructure projects in the South enter the stage of leveling and foundation work. Therefore, with the soft ground nature of the Southern plain, the amount of stone needed for construction will be very large. Bien Hoa Building Materials Production and Construction (**VLB**) owns quarries with convenient locations (convenient for inland water transportation and near Long Thanh airport project) and the largest stone reserves among listed quarry enterprises. Therefore, VLB has a great advantage in providing stone for surrounding infrastructure projects.

Table 3. Vietnam – Airline-related projects & construction items of VCG & C4G

Projects	Conscious	Value (VNDbn)	Time period
C4G			
Cat Bi	Hai Phong	122	2020-2022
Phu Bai	Hue	198	2020-2022
Cam Ranh	Khanh Hoa	642	2017-2019
Cam Ranh	Khanh Hoa	260	2022-2023
Tan San Nhat	HCMC	537	2020-2022
Phu Quoc	Kien Giang	437	2016-2017
VCG			
Noi Bai	Hanoi	204	
Orange line	Khanh Hoa	299	
Long Thanh	Dong Nai	1,195	2022-2023

Source: Bloomberg, KB Securities Vietnam

Fig 53. Vietnam – Locations of VLB's quarries



Source: Bloomberg, KB Securities Vietnam

V. Model portfolio

Ticker	Target price	Closing price as of June 30	Expected return	2022 forward P/E	2022F NPAT	Investment catalysts
FPT	101,900	86,100	18%	13.01	27%	- FPT maintained positive business results in 5M23, it is perfectly possible to achieve its target growth of 18% - 20% in 2023. - FPT benefits from strong digital transformation and enjoys strong software export growth in key markets like the USA, Japan. - Investment-education segment eyed high and stable growth.
SSI	30,000	25,500	18%	15.00	30%	- SSI is the leading securities enterprise and is expected to benefit from the economy's easing monetary policy. - Long-term growth drivers of the industry should come from market upgrading and the implementation of the KRX trading system in the coming time. - 2Q23 business performance should grow strongly from the corresponding period.
VLB	41,500	37,700	10%	11.10	N/A	- 2023F NPAT is expected to grow strongly to VND 189 billion (from -VND 23 billion recorded in 2022) - VLB benefits from public projects thanks to its quarries located in favorable locations. - VLB has abundant reserves and got a mining license for a long period of time.
KBC	33,100	29,350	13%	10.50	90%	- KBC's long-term growth engine comes from its land bank expanded to 1,256 ha in 2022. - In 2023, KBC's leasable area may reach more than 162 ha, primarily thanks to contracts signed in 2022 with unrealized revenue since foreign investors have not been granted investment licenses. - Trang Cat Urban Area and Trang Due 3 Industrial Park are being requested by Hai Phong City People's Committee to speed up the progress to ensure construction starts in 2024.
VCB	112,500	100,000	13%	5.90	12%	- Loan loss coverage ratio (LLCR) remains high, contrary to the trend of the whole industry, which will allow the bank to reduce provision expense and support profit growth. - NIM should stay flat or decrease slightly as (1) VCB cut lending rates twice to support customers (2) VCB is one of the four leading commercial banks participating in a VND 120,000 billion credit package for buyers of social housing projects. - VCB might be awarded a greater credit limit of 14% thanks to taking over a poor-performing financial institution and cutting lending rates to the economy.
REE	75,000	65,200	15%	11.20	-14%	- REE's hydropower plants obtained higher-than-expected results, offsetting the thermal power segment due to some problems at the Pha Lai thermal power plant. - The recently approved National Power Development Plan VIII focuses on developing onshore and offshore wind power. With a stable cash flow, REE aims to expand its renewable energy portfolio in the coming years. - REE is completing the construction and furniture for the E-town 6 project, which should be available for lease from the end of 2023 with an occupancy rate of about 30%.
GAS	118,000	93,000	27%	18.00	-14%	- Crude oil prices should recover from the end of 2Q23. - Bright long-term prospects should come from National Power Development Plan VIII and LNG import projects. At the same time, LNG prices in the Asian market dropped to reasonable levels, supporting GAS's LNG projects. - Block B-O Mon gas project should make progress.
VHC	72,500	65,000	12%	8.40	-27%	- 1Q23 business results fell sharply YoY, which has been reflected in its share price. - Exports to the US and China should recover from 2Q23 thanks to rising demand in the upcoming holiday season. - Vietnam's demand for white fish in the EU remains steady despite high inflation thanks to the disruption of other supplies.
STB	35,300	29,800	18%	9.33	41%	- STB benefits from the SBV's cutting policy rates and improved liquidity. - STB is among banks with the lowest NPL ratio and special mentioned debt decreased in 1Q23, thereby significantly easing the pressure of setting aside for NPLs. - STB can make provision for VAMC bonds as planned thanks to its strong profit growth.
BSR	21,400	17,300	24%	10.50	-45%	- Crack spread may improve when China and the US enter their peak oil consumption period. - BSR postpones its maintenance plan, helping revenue and NPAT to increase sharply against forecast. - BSR was granted a license on the upgrade and expansion of the Dung Quat Oil Refinery.

VI. Sector outlook

Residential real estate: Neutral
Industrial real estate: Neutral
Steel: Neutral
Power: Positive
IT: Positive
Banks: Neutral
Retailers: Positive
Fisheries: Neutral
Oil & Gas: Positive
Logistics: Neutral

Residential real estate

Outlook: Neutral
Tickers: VHM, KDH, NLG

New supplies in Hanoi and Ho Chi Minh City (HCMC) showed inverse trends. In particular, in the first quarter of 2023, HCMC's new supply resource surged to 2,900 residential units (twofold YoY and +1.2 times QoQ), half of which was from the Vinhomes Grand Park project. However, there were only three new projects introduced to the market for the first time. The absorption rate in the quarter is 28% due to the influence of Tet and the cautious sentiment of home buyers. On the contrary, Hanoi's apartment market saw a sharp decline in new supplies with just 2,000 units available for sale (-43% QoQ, -44% YoY), the lowest since 1Q20, and had just nearly 2,000 units sold (-54% QoQ, -58% YoY). Primary prices in both markets rose (+2% QoQ and +10%YoY in HCMC and +3% QoQ and +20% YoY in Hanoi). Notably, secondary prices at some suburban projects recorded a decrease ranging from 3-8% as homebuyers' grace period came to an end. From our observations, new sales policies were introduced to boost sales, namely reducing the initial deposit, extending the closing date, or offering low home loan interest rate packages.

1Q23 remained quiet for the townhouse and villa market. For the first time in 10 years, HCMC recorded no new projects opened for sale. During the quarter, only 45 units were sold, largely from Khang Dien House Trading and Investment's (KDH) Classia project. In Hanoi, there were 1,250 units launched, equaling one fifth of the same period last year, mainly from Vinhomes Ocean Park 2 and 3. The average primary price in both markets did not eye drastic changes, while the secondary price fell another 3% QoQ.

The residential real estate market continues to face challenges: (1) Home loan interest rates, although decreasing, remain high; (2) Investors have difficulty in raising capital, given tight control over real estate loans and bond issuance; (3) Legal bottlenecks continue to affect projects' implementation progress; and (4) There would be nearly VND 55 trillion worth of maturing bonds in 3Q23.

Some good news that may support the real estate industry includes: (1) the issuance of Decree No. 08 and Resolution No. 33 which would somehow remove difficulties of corporate bonds and housing market; (2) the implementation of the VND 120 trillion credit package for social housing and workers' housing projects; and (3) the acceleration of public spending disbursement on projects such as North-South expressway, Long Thanh airport, axes connecting the center of Hanoi and HCMC with neighboring regions and provinces, which would promote housing prices and stimulate the demand for real estate investment.

Residential real estate stock prices recovered 10-20% over the second quarter of 2023 in response to the positive news in the short term. KBSV recommends that investors invest in real estate stocks during corrections and pick out businesses with bright prospects, large clean land banks, and strong financial health. Our top picks are Vinhomes (VHM), Khang Dien House Trading and Investment (KDH), and Nam Long Group (NLG).

Analyst Pham Hoang Bao Nga

Industrial real estate

Outlook: Neutral
Tickers: KBC, GVR, IDC, PHR

In January-May of 2023, the flows of foreign direct investment (FDI) into Vietnam decreased while the number of approved projects increased, showing the growth potential of the leasing market in the short and medium term. Total newly registered capital, adjusted and contributed capital to buy shares by foreigners neared USD 10.9 billion, down 7.3% YoY and up 11 percentage points against 4M23. However, as many as 962 projects were granted investment certificates (+66.4% YoY) with a total registered capital of more than USD 5.26 billion (+27.8% YoY).

Rental prices at industrial parks continued their upward trend. In 1Q23, the rate grew by 2-5% YoY to an average of USD 123/m^2/lease term in the North and expanded by 4-9% YoY to an average of USD 173/m^2/lease term in the South, according to CBRE. We expect rents to remain high this year, given the fact that many memorandums of understanding have been signed, with rates of up to over USD 200/m^2/lease term and the new supplies of industrial parks stay low while the occupancy rate reached 81% in the North, 85% in the South, and is approaching 100% in some key provinces.

On the one hand, the industry is benefiting from: (1) signed free trade agreements (FTA) as well as Vietnam's FDI attraction policies, (2) the trend of relocating factories from China to neighboring countries, (3) adjustments and supplements to the master plan of many provinces and cities in 2Q23, which should have a positive impact on the progress of industrial park projects and (4) promoted public spending on projects like North-South Expressway, Ring Road No. 4 in Hanoi, seaport and airport projects that will directly support Vietnam's industrial real estate in the long term.

On the other hand, industrial park developers also face many risks: (1) supply shortages due to complicated legal procedures with lengthy approval and clearance processes, restraining enterprises' growth, (2) the global minimum tax to be introduced in 2024, meaning companies with annual revenues of 750 million euros or more are eligible for a tax rate of 15%. As a result, measures to attract foreign capital through tax incentives will no longer be effective, lowering FDI inflows into Vietnam in the coming years, and (3) global economic recession fear, which explains the slow recovery of industrial real estate stocks compared to others over the past few months.

Most industrial stock prices in 2Q23 jumped by 20-30% yet are still 25-40% lower than their previous peaks. Investors may consider investing in stocks of enterprises with currently attractive valuations, huge land banks available for leasing or located in the regions with high FDI inflows, particularly Kinh Bac City Development (KBC), IDICO Corporation (IDC), Vietnam Rubber Group (GVR), Phuoc Hoa Rubber (PHR).

Analyst Nguyen Thi Ngoc Anh

Steel

Outlook: Neutral
Tickers: HPG, HSG, NKG

The flat steel market saw a 17% YoY and 2% YoY decrease in consumption to 752,589 tons and 798,870 tons this past April and May, respectively. The notable thing was that HRC sales volume in these two months improved against 1Q23, with an average of 775,730 tons in April-May from 641,839 tons in 1Q23. This can be explained by higher export growth of 49% of HRC consumption in the first two months of 2Q23 (equivalent to 754,317 tons) compared with 37% in 1Q23. Regarding construction steel, despite a 29% MoM rise in May consumption driven by expanding domestic demand (+23% MoM), its consumption remains weak compared to the same period last year (-26% YoY).

Input prices plummeted in 2Q23, which we believe was the major stimulus to the profit growth of steel companies in 2Q23. In detail, iron ore, coking coal, and scrap prices fell by 23% QoQ to near their 5-year bottom and construction steel and HRC prices shrank by 11% QoQ,

In 2Q23, Hoa Phat Group (HPG) resumed three blast furnaces in Hai Duong and Dung Quat. Along with that, HPG's production capability was 95% in May, the highest yet since October 2022. This July, HPG intends to restart its fourth blast furnace at Dung Quat. In our view, the worst was over for the steel sector: (1) Raw material prices are falling to their 5-year bottom; (2) High-priced inventories were liquidated in 4Q22 and 1Q23; and (3) Sales volume should improve in 2H23 thanks to growing steel demand for infrastructure construction amid reduced lending interest rates.

Steel businesses may expect a slow recovery in consumption until the end of 2023 on weak domestic demand, with risks revolving around real estate: (1) The maturity value of corporate bonds in 3Q23 is estimated at VND 55,000 billion, with 17% of property developers failing to make bond principal and interest payments on time in 2023 and (2) real estate investors restrict new launches and push back construction progress of this year's new projects. However, some drivers to boost demand in 2H23 include: (1) boosted public spending (steel consumption constitutes approximately 15% of raw materials of public projects) and (2) steady decline in interest rates on corporate loans expected in the year-end period, facilitating property developers' capital raising.

Steel stocks grew by 15-20% alongside positive news in 2Q23. Mid and long-term investors can consider partial disbursement at this stage for steel stocks, given their attractive valuations with the industry's P/B of 1.3x from the 5-year average of 1.5x. Meanwhile, speculators are encouraged to grasp the opportunities during corrections in the context of existing challenges of the whole industry. Our top picks include Hoa Phat Group (HPG), Hoa Sen Group (HSG), and Nam Kim Steel (NKG).

Analyst Nguyen Duong Nguyen

Power

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

Total electricity usage in 1Q23 fell short of expectations, witnessing a minimal decline over the same period last year. Commercial power output reached 61.83 billion kWh (-1.6% YoY) in 1Q23 and 23.36 billion kWh (+3.6% YoY) in April. In general, in the year to May, the index of industrial production (IIP) is estimated to narrow by 2% over the same period, with that of energy-intensive industries all going down, namely steel (-5.5% YoY), cement (-5.5% YoY), and paper (-8.5% YoY). We lower our forecast for electricity consumption growth from 7% to 6%, in line with our projection for 2023F GDP growth since the global economic slowdown has been weighing on Vietnam's exports and production. Regarding mobilization structure, coal-fired power and hydropower still accounted for the majority at 45% and 24.9% respectively.

Electricity prices in the competitive generation market (CGM) remain high due to power shortages, recorded at VND 1,942.58/kWh (+71% YoY) in May and at an average of VND 1,789/kWh (+20% YoY) in January-May. Unfavorable weather conditions sent hydroelectricity output down, making the whole system unable to satisfy the ever-growing load demand throughout the hot summer. In particular, the North relies heavily on hydropower and thermal power, causing CGM prices to skyrocket as supply outweighs demand. Some plants even had to utilize oil for generation to ensure power supply, pushing production costs higher.

2023 should be a positive year for the power sector, but there will be a divergence among generation sources as follows:

• Hydropower: Unfavorable weather has affected hydroelectricity output, dampening hydropower companies’ business performance, especially during hot summer.

• Thermal power: It can take advantage of reduced mobilization from hydropower when these are the two main generation sources in the North. Furthermore, cooling coal and natural gas prices should be a driver for this group.

• Electrical construction: The recently approved National Power Development Plan VIII lays the foundation for deploying power source and power grid projects. Electrical construction enterprises would be at the forefront to benefit from this thanks to more investment poured into building transmission lines and substations.

Observing the current price movements of power stocks, especially of thermal power stocks of North-based businesses, we find that their prices have partly mirrored market expectations on the power industry outlook. Bright as it may be, KBSV recommends that investors buy power stocks only when they have passed the correction period and the upside is attractive enough to each investor's taste.

Analyst Nguyen Dinh Thuan

Information technology

Outlook: Positive
Tickers: FPT, CMG

5M23 IT services recorded negative revenue growth over the same period a year ago (down 8% YoY to USD 52.2 billion) due to shrinking hardware and electronics exports (down 7.42% YoY to nearly USD 43.9 billion). It was primarily due to a slump in aggregate demand against the backdrop of flagging world economy. There were 71,300 ICT enterprises as of April 2023, up 1% YTD and flat YoY.

The US and euro area saw IT spending level off amid a high interest rate environment that forced businesses to cut costs. In April, software exports to these two markets only ticked up 2% from the low base achieved in 2022. Headwinds in the US and EU will hit domestic IT companies when much of the export revenue is from these advanced economies.

However, software exports maintained positive growth, especially in Japan and the Asia Pacific. As in the case of FPT, 1Q23 global IT services revenue surged 32% YoY, with newly signed contracts up 44.1% YoY, and the major contributors were Japanese and APAC, with respective revenue growth of 31.2% and 65.7% on the back of powerful digital transformation.

We are upbeat about the prospect of software export in the medium to long term for the following reasons: (1) Global IT spending is expected to grow thanks to the acceleration of digital transformation. Gartner, an American-based technological research and consulting firm, anticipated that global software spending would grow strongly, reaching 12.3% and 13.1% in 2023 and 2024 respectively and (2) Vietnam's labor costs are relatively low compared to other powerful software exporting countries.

We expect domestic IT businesses to maintain double-digit growth throughout the year. Investment opportunities are FPT Corporation (FPT) and CMG Corporation (CMG) with strong software export and digital transformation. Each correction period should be a good opportunity for investors to buy and hold IT stocks, considering their optimistic long-term outlook.

Analyst Nguyen Dinh Thuan

Banks

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

Amid economic hurdles, credit experienced stagnant growth in the first five months of 2023, reaching 3.17% YTD vs. 8% YoY in 5M23. Some banks with a high proportion of corporate loans enjoyed more impressive growth than the industry average in 1Q23, namely Techcombank (TCB) (+9% YTD), HDBank (HDB) (+9% YTD), VPBank (VPB) (+4.9% YTD). In contrast, banks whose loans were primarily to individuals posted negative growth, namely Vietnam International Bank (VIB) (-1.3% YTD), Asia Commercial Bank (ACB) (-0.6% YTD). In general, most lenders were lending less over the past few months due to: (1) challenges facing domestic businesses amidst slowing import-export activities, (2) shrinking consumer demand, and (3) depressed corporate bond and real estate markets.

The growth rate showed differentiation among banks. Total operating income (TOI) of 27 listed banks went down 2.3% YoY to VND 140,558 billion. State-owned banks (VCB, BID, CTG) achieved the most encouraging results with earnings before tax (EBT) growth of 22.9% YoY, whereas large private commercial banks (TCB, MBB, VPB, ACB, STB) decreased slightly by 2%. Net interest income (NII) growth offset the decline in non-interest income (NOII) due to reduced contributions from bancassurance and internet banking, thus supporting TOI growth of the entire industry. High lending interest rates across banks pushed the average of the whole system in the first quarter to 8.53% (up 0.61 percentage points QoQ). Credit institutions started to record an increase of 0.92 percentage points QoQ to 5.47% on average in cost of funds, pulling NIM down to 3.64% (-21bps).

The asset quality of the banking system deteriorated significantly. In particular, the NPL ratio increased to 2.9% by the end-1Q23 from 2% by the end-2022, according to the State Bank of Vietnam (SBV). Non-performing loans kept surging for the third quarter in a row when Circular 14/2021 on debt rescheduling for pandemic-hit clients expired. In detail, special mentioned and substandard debt soared 43% QoQ and 66.7% QoQ, respectively. Enterprises and low-to-middle-income individuals hit by stagflation struggled with paying off debts on time. Most banks with surging NPL ratios in 1Q23 were those with massive real estate loans or retail banks with consumer lending segment like Military Bank (MBB), TPBank (TPB), VPBank (VPB). The loan loss coverage ratio (LLCR) dropped further to 106%. State-owned banks such as Vietcombank (VCB, 320.8%), BIDV (BID, 171.3%), Vietinbank (CTG, 173%) still upheld their position, whereas some large commercial banks (TCB, MBB, STB) witnessed a decreased yet high LLCR.

We see that several positive factors deriving from policies issued in the first half of 2023 may somehow remove difficulties for the financial and real estate markets, namely Circular No. 02/2023 on debt restructuring, Circular No. 03/2023 allowing banks to buy back corporate bonds, Decree No. 08 amending Decree No. 65 on private issuance of corporate bonds, and especially the SBV’s easing monetary policy. However, KBSV holds a neutral stance on the banking sector in the short term, given the current stress of the entire system and the slow-burn impact of supportive policies. Firstly, credit growth is expected to be more positive in 2H23 as commercial banks cut lending rates in the context of the SBV's lowering policy rates, thereby boosting credit demand. However, the disbursement of loans still has problems: (1) The gloomy economic situation is having an adverse impact on consumer demand and business orders and (2) Lenders are growing cautious about high-risk unsecured loans. Therefore, we assess that credit growth for the whole year 2023 may not reach the 14% target set by the SBV. Secondly, the asset quality of the entire industry is a key concern. Still, we expect the central bank’s Circular No. 02 to help the NPL ratio and provision expense to decline over the next two quarters. Thirdly, the decrease in net interest margin (NIM) would level off after the SBV lowers interest rates, and some banks may even enjoy a higher NIM since the hike in deposit rates has lagged behind the lending rate increase.

Halfway through the year, banking stocks have rebounded, but their valuations remain relatively attractive compared to the 5-year average. After difficulties regarding real estate and corporate bonds were progressively removed, the industry's P/B has returned to its 5-year average of -1 standard deviation, and this is still a reasonable price range for investors to buy and hold this group of stocks in the long term. However, investors may expect another short-term correction and should only disburse when the price has a higher discount. We prefer Vietcombank (VCB), BIDV (BID), Asia Commercial Bank (ACB) due to their safe and stable operation. Besides, investors may consider Techcombank (TCB), Military Bank (MBB) following the housing market turmoil.

Manager of Equity Research Nguyen Anh Tung
Analyst Pham Phuong Linh

Retailers

Outlook: Positive
Tickers: MWG, FRT, PNJ

Total retail revenue of consumer goods and services continued to maintain good growth, reaching VND 519 trillion (+1.5% MoM and +11.5% YoY) in May, estimated by the General Statistics Office (GSO). For 5M23, this figure is VND 2,527 trillion (+12.6% YoY). Despite positive results, we see that many retailers still faced challenges and had to offer discounts and deploy promotions to maintain revenue and market share, causing profits to fall sharply.

The downtrend of inflation and interest rates is a positive sign for both the economy and retailers. On June 16, the SBV announced to cut regulatory interest rates for the fourth time since the start of the year to support the economy. With access to low-cost capital, firms will have more incentives to expand production and business and thus boost the labor market. However, we assess that policy changes will have a slow-burn impact on the retail industry.

Increased base salary and reduced VAT were also engines for the retail industry. From July 1, 2023, the base salary for cadres, civil servants, public employees, and the armed forces will be 20% higher, from VND 1.49 million/month to VND 1.8 million/month. Also, many business establishments calculating VAT using the credit-invoice method are subject to 8% VAT for goods and services instead of 10%. These factors contribute to expanding consumer demand for the whole economy, thus helping businesses to fulfill their target.

The purchasing power is set to recover from 2H23, but there might be a split between essential and non-essential goods. For the former, companies that own chains of department stores, supermarkets, and pharmacies like Mobileworld (MWG), Masan Group (MSN), FPT Digital Retail (FRT) are expected to be back on track of growing. For the latter, luxury retailers like Phu Nhuan Jewelry (PNJ) will not be affected much, given its main customer base being those from the affluent class. However, the ICT and CE industry is likely to recover slowly, with the latter recovering sooner than the former. Retailers continue to run discounts to increase sales and clear out old inventory and prioritize retaining customers rather than making profits.

Many stocks are now trading at a huge discount. The short-term prospects and business results remain bleak, so many retail shares have touched their 2-year P/E and P/B low, with a 30-40% discount from the old peak. With the expectation that the retail industry will recover and regain ground in the end-2H23 and 2024, KBSV believes this is the right time for a long-term buy-and-hold strategy. Meanwhile, swing traders should take advantage of short-term fluctuations and take the disbursed price range into consideration when 2Q23 business results look less upbeat.

Analyst Nguyen Truong Giang

Fisheries

Outlook: Neutral
Tickers: VHC, ANV

Domestic export turnover sank from the high base in the corresponding period last year. According to the Ministry of Agriculture and Rural Development, the figure was down 27.9% YoY to a humble USD 3.38 billion for 5M23 following a sharp fall in all major export products. Specifically, pangasius exports reached only USD 690 million, down 40.7% YoY, and shrimp exports were USD 1.22 billion, down 34.4% YoY. Concerning the export market, revenue from the US/China/EU went down 48.3% YoY/25.7% YoY/32.5% YoY to USD 563 million/USD 513 million/USD 377 million, respectively.

Despite some optimistic signs, export to key markets will less likely recover right in the third quarter. According to the Vietnam Association of Seafood Exporters and Producers (VASEP), seafood export turnover decreased by 28% YoY in April and by 19% YoY in May. In the leading export market of the US, inflation has cooled down, CPI dropped to 4.9%, and important holiday seasons are concentrated in the year-end period. However, the country’s high inventories to sales ratio remains anchored while the local demand cannot rebound soon in light of high interest rates and potential rate hikes until the end of the year. Likewise, contribution from the Chinese market following its reopening fell short of expectations, with export turnover of Vietnam's main products like pangasius and shrimp descending 68% and 30% in 4M23. It might be due to high competition, reduced prices of substitute goods such as pork, and weak spending. Demand in the EU stays constant when local people go for Vietnamese pangasius, given its low prices and the disrupted pollock supply in the wake of political tensions.

We take a Neutral stance on seafood stocks. Most seafood businesses are forecasted to continue their dismal performance in 2Q and 3Q from the high base achieved last year owing to unclear signs of recovery. We see that all stocks have returned to the reasonable but not attractive enough price range, and a few stocks even have increased significantly from the bottom in line with market expectations about the industry’s recovery at the year-end period. Investors can continue to hold leading shares such as Vinh Hoan Corporation (VHC), Nam Viet Corporation (ANV) for long-term goals.

Analyst Nguyen Truong Giang

Oil & Gas

Outlook: Positive
Tickers: GAS, BSR, PVS, PVD

Oil prices fell in 1H23. Brent crude oil slipped from USD 85/barrel earlier this year to USD 75/barrel in May. It was due to the market pessimism about the outlook for the world economy.

We expect oil prices to bounce back in 2H23. In our view, crude oil will likely return towards USD 80-85/barrel in the second half of 2023 as US shale production growth cannot offset production cuts by OPEC+. Even though the global economic slowdown may lead to waning consumption demand in 2023, we assess that the decline in global supply will likely cause a deficit in the crude oil supply.

Possible oversupply will likely drive crude oil prices. In June 2023, member countries of the OPEC+ bloc agreed to stick with an output cut of 3.66 million barrels per day (bpd) until the end of 2023 to support crude oil prices. In particular, Saudi Arabia pledged a voluntary cut of 1 million bpd from July 2023, bringing the total OPEC+ cuts to 4.66 million bpd or 4.6% of the global demand. The US Energy Information Administration (EIA) projected that the world crude oil inventories will likely record a continuous deficit from the third quarter to the end of 2023 following OPEC+'s decision to cut production. The International Energy Agency (IEA) anticipates global crude oil supply to reach 101.3 million bpd and demand to expand by 2.4 million bpd to a record 102.3 million bpd in 2023. Non-OECD countries like China, India should account for as much as 90% of global demand growth this year.

The bright perspective of the Block B-O Mon megaproject is expected. It is waiting for a Final Investment Decision (FID). The project can expect the first gas flow in 2026 and might provide 5-7 billion m^3 (bcm) of gas annually over a life cycle of 23 years. From 2023 to 2026, the project would generate USD 10 billion for upstream businesses. We expect PetroVietnam (PVN) to get the FID by the end of this year so that the project can go into operation as planned in 2026.

Regarding the upstream group, Block B-O Mon will create a large amount of work for PV Drilling and Well Services (PVD) and PV Technical Services (PVS) in the medium term. PVD alone will benefit from high oil prices, boosting demand for drilling rigs in the region. PVS will gain growth momentum from National Power Development Plan VIII with LNG terminals and offshore wind power projects. For the midstream group, LNG prices have fallen to a reasonable level, helping to improve the feasibility of GAS's plan to import LNG. For the downstream group, we expect Binh Son Refinery (BSR) to take advantage of as potentially high crack spreads in the coming peak season.

We stay optimistic about the oil and gas industry in the third quarter of 2023 based on the expectation that oil prices will improve and the Block B-O Mon project will make progress. PV Technical Services (PVS) and PV Drilling & Well Services (PVD) posted gains in 1H23 thanks to their short-term positive outlook. We recommend investors wait for corrections to buy these two stocks. Other investment opportunities include PV Gas (GAS) and Binh Son Refinery (BSR). GAS stocks have fallen to an attractive valuation with a PE of 15.2x below the 5-year average P/E of 16.2x. BSR shares have gained quite well in 1H23, yet they are at an attractive valuation with a P/B of 1.1x lower than the 5-year average P/B at 1.4x. Downside risks include (1) oil price volatility due to the deteriorating economic outlook and (2) slow approval of the FID for Block B-O Mon.

Analyst Pham Minh Hieu

Logistics

Outlook: Neutral
Tickers: GMD, VSC, HAH, VOS

The decline in freight demand led to a drop in total port throughput. During January-May 2023, export and import turnover is about USD 136.17 billion (-5.9% YoY) and USD 126.37 billion (-17.9% YoY), respectively. The total volume of goods transported through domestic seaports also decreased accordingly. In detail, the figure recorded at Hai Phong port cluster and Ba Ria-Vung Tau was 56.29 million tons (-3.19% YoY) and 22 million tons (-9.5% YoY).

Falling cargo throughput directly affected the business results of logistics enterprises. In 1Q23, companies like Gemadept (GMD), Vietnam Container Shipping (VSC), Port of Hai Phong (PHP) all recorded flat or slightly decreased revenue from the corresponding period, while their net profit dropped significantly due to reduced volume and high input costs.

We take a neutral stance towards logistics companies over the next quarter. Share prices should stay flat, and output will less likely recover in the near term for the following reasons: (1) A hawkish monetary policy of most major central banks led to a sharp decline in consumption power and continued decline in imports and exports, particularly in the Southern region of Vietnam, amid softer demand from the US market cast a shadow over port throughput and (2) Waning demand for port services and increased competition may affect already low port service rates in Vietnam. However, Vietnam's logistics sector still has huge potential for development in the mid and long term based on: (1) Vietnam has signed a series of free trade agreements (FTAs); (2) The Ministry of Transport recently submitted a master plan for the country's transportation infrastructure with a total investment of more than VND 300 trillion by 2030; and (3) More and more new international routes of major shipping lines go through Vietnam.

The logistics industry has shown signs of slight recovery despite the handicaps ahead. In 2Q23, spot rates tended to decelerate and move sideways after continuous decline for more than a year to pre-Covid levels. Meanwhile, charter rates rebounded at the beginning of 2Q23 and are moving sideways after a sharp decline in 1Q23. Some challenges facing shipping companies include: (1) a sharp drop in transportation demand among many large consuming markets due to reduced purchasing power amid global economic risks, (2) record-high new orders for container ships over the last 10 quarters of 7.54 million TEUs, causing possible oversupply and increasing competition, and

(3) IMO regulations on cutting carbon emissions from international shipping, which would upset companies with an old fleet.

In 2Q23, logistics shares enjoyed a 10 to 20% surge. We see that the current price has reflected the short-term positive news. New disbursements should only be encouraged when stocks experience corrections toward support areas. Some shares that are still at relatively attractive P/E and P/B valuations such as Hai An Transport & Stevedoring (HAH), Vietnam Ocean Shipping (VOS) are notable opportunities for long-term investors.

Analyst Nguyen Thi Ngoc Anh

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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