KB Securities VIETNAM

Stock market in 4Q23

Market growth facing headwind

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The outlook for Vietnam's stock market became less positive in 4Q as inflationary and exchange rate pressures return. The appreciation of the USD, soaring US government bond yields, and the recovery of commodity prices led to persistent global inflation, which affects the Vietnam stock market in particular and the global stock market in general. Observing new developments of inflation and exchange rates, the State Bank (SBV) has become more prudent in its operating policies, reflected in the bank's consecutive net withdrawals through the issuance of treasury bills. The bank may even make new moves if exchange rates and inflation do cool down soon. This causes the growth momentum of the market in the first nine months of the year, coming from easing monetary policy, to be weakened at the present time. This partly made us lower the forecast for reasonable price range of VNIndex by the end of the year.

Accordingly, we expect the VNIndex to reach 1,160 points by the end of 2023 (downgraded from 1,240 level projected from the beginning of the year), mainly reflecting concerns over the adverse impacts from inflation and exchange rates on interest rates and global investment environment. We slightly raise the average EPS growth of businesses listed on the HSX by 1% but declined the target P/E for 2023 to 14.5x (from 15.5x in the previous report) to reflect increased external risks while the domestic policies are less favorable.

The main support for the market in the last three months of 2023 is the expectation that the economy has passed the bottom zone in the first two quarters of the year and will recover more clearly in 4Q thanks to the supportive policies of the Government and the SBV. Accordingly, the business results of listed enterprises will gradually return to the growth trend, especially in 4Q. The total earnings of listed companies for the whole year 2023 should almost be flat compared to last year despite the plummets in the first two quarters. In addition, the implementation of the KRX system and the recovery of raw material prices should promote business activities of related industry groups, which, together with the prosperity in the export sector, are market drivers.

For the outlook of sectors in the second half of the year, our equity analysis department gives positive assessment to the industrial real estate, public investment, power, information technology, fisheries, and oil and gas industries *(see also section VI. Sector outlook).*

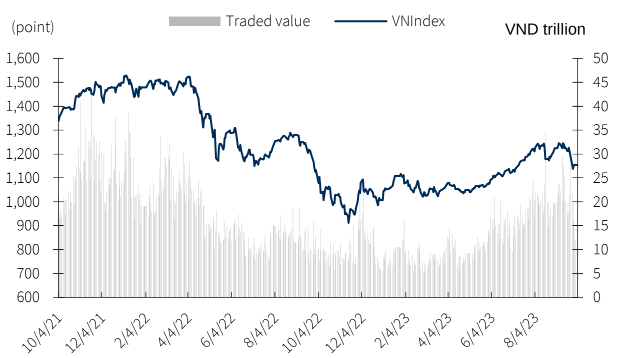
Contents

I. Executive Summary

Vietnam's stock market had its third consecutive quarter of increases thanks to lower interest rates

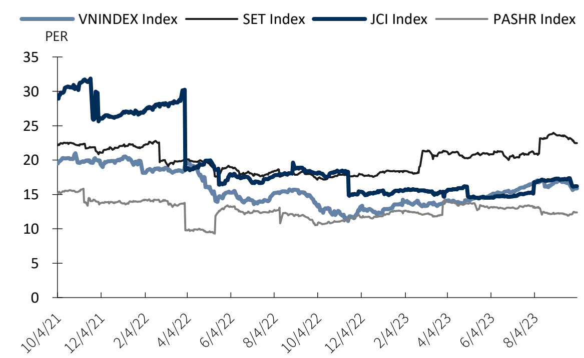
Vietnam stock market continued the growth momentum in 3Q, which is also the third consecutive quarter of increase. The market's uptrend is mainly attributable to lower interest rates in the economy with the supportive policies from the SBV. In addition, the expectation that the economy has passed the bottom, and businesses' business results are gradually improving after a deep decline in the first two quarters of the year are also factors supporting the market. For the entire 3Q, the VNIndex advanced 3%, while the average trading value gained 56% over the same period in 2022.

Fig 1. Vietnam – The VNIndex movements (point)



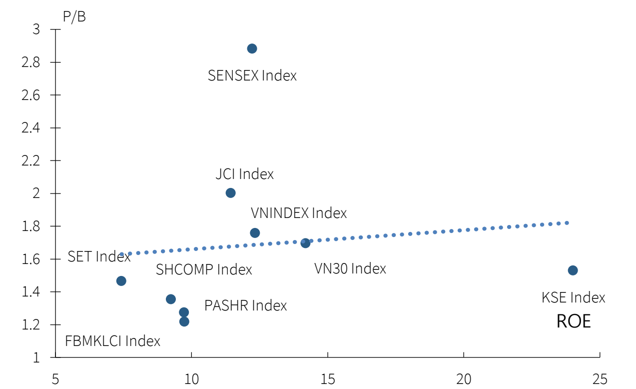
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN4– P/E movements (x)



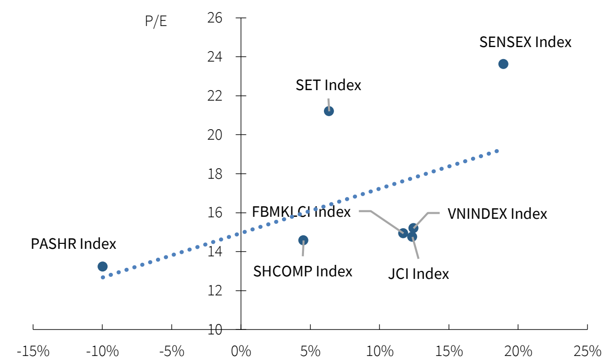
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – P/B of some markets (ppts)



Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – Correlation between P/E and EPS growth of some markets (ppts, %)



Source: Bloomberg, KB Securities Vietnam

We think there are four main factors shaping the trend of Vietnam's stock market in the last quarter of 2023, *which will be analyzed more thoroughly in the following parts of the report*, including:

The trend of interest rates

The decline in interest rates is the main growth driver of the stock market in the first nine months of the year. Although we do not think that interest rates will soon reverse and increase again, with the recent increase in exchange rates and inflationary pressures, the SBV's bill issuance for VND withdrawal and reducing the ratio of short-term capital for medium and long-term loans from 34% to 30%, and the non-performing (NPL) ratio of banks showing no signs of decreasing, we believe that the interest rates can hardly decline much in 4Q. Instead, the interest rates may be flat or go down slightly. Therefore, this may no longer be a strong supporting factor for the stock market.

Profit growth of listed companies

We slightly raised our 2023F EPS growth for the entire market from 0.5% in the previous report to 1% YoY after the released 2Q data showed the decline in the company's business results had stagnated. We expect businesses' earnings will rebound in the last quarter of the year, which helps the market EPS for the whole year 2023 stay flat compared to 2022 despite a plunge in the first two quarters of the year.

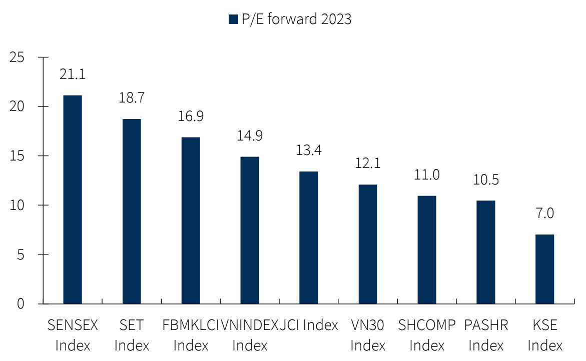
The implementation of the KRX trading system

The long-awaited implementation of the KRX trading system brings two positive impacts to the stock market in general. On the one hand, the KRX system is a premise for building a central clearing partner (CCP), thereby accelerating the upgrade and attracting capital from foreign investors. On the other hand, KRX also facilitates day trading, which is estimated to raise the market liquidity to VND19 trillion per session, thereby positively affecting the business results of the securities companies.

Fed's monetary policy and US recession risk

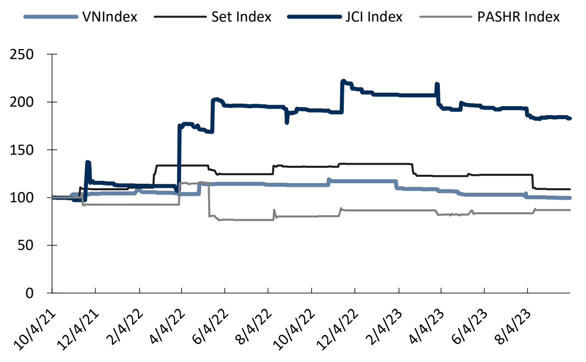
Inflation in the US is expected to persist due to rising energy prices and government spending. Interest rates may remain at higher levels for a longer period of time, leading to an increase in US government bond yields, increasing the risk of recession in the US, and moving investment capital flows out of other economies. Accordingly, Vietnam's economy and stock market will be hit by (1) strong fluctuations in exchange rates, causing investment capital flows into Vietnam and the VND liquidity in the economy to decline; (2) weak demand for Vietnam's exports, making the business prospects of listed companies less positive; and (3) foreign net sell, hindering the recovery of the local market.

Fig 5. Global – 2023F P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 6. ASEAN4 – EPS movement



Source: Bloomberg, KB Securities Vietnam

We forecast the VNIndex would reach 1,160 points with a target P/E of 14.5x

Based on the analysis and assessment of the four market drivers above *(more details in the following sections of the report)*, we reduce our forecast for the VNIndex at the end of 2023 from 1,240 points to 1,160 points. In addition, we slightly raised the EPS growth forecast to 1% and lowered the reasonable P/E level of VNIndex from 15.5x to 14.5x to reflect the adverse impacts from inflation and adverse exchange rates on interest rate trends and the global investment environment.

As the implementation of the KRX system still has many uncertain factors, we have not yet included it in the pricing model. According to the scenario in which the KRX system is deployed as planned, the reasonable price range of the VNIndex will be higher than this forecast.

II. Business performance

We forecast the average EPS growth of businesses on the HSX in 2023 to reach 1% YoY (up 50 bps compared to 0.5% in the most recent report).

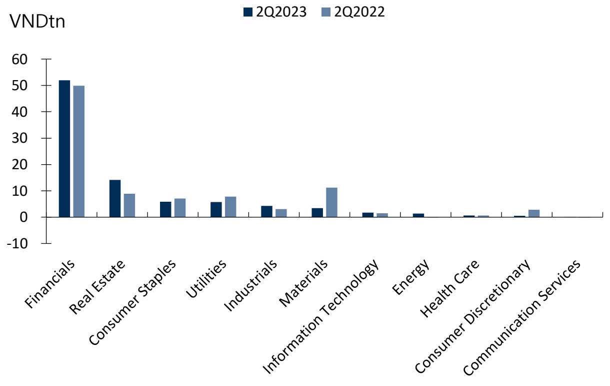
We lower the EPS growth forecast for the entire market by 50bps compared to the forecast in our previous report to 1% YoY. Although this is a low growth rate compared to the average increase of 10-20% YoY in the past, it also reflects the expectation of business recovery in the last six months of the year while the profits of listed businesses dropped 11.6% YoY in 1H23.

Some factors that make us positive about the profits of listed companies in 2H23 are: (1) The comparative base levels of 2H22 is significantly lower than that in 1H23 when the economy showed many signs of weakness from 3Q and 4Q last year. (2) Support policies from the Government and the SBV on promoting public investment, reducing VAT, and lowering interest rates begin to have effects on business performance of companies. (3) The manufacturing sector is rebounding in recent months and should grow stronger in the final months of the year thanks to the peak consumption season in the US and EU and the sharp decline in the US inventories.

Leading the market's overall EPS growth is the industrial group (+75% YoY) with the prospect of recovering tourism and travel activities for Vietjet Aviation (VJC) and the rebound in the industrial and manufacturing sectors. Import-export and transportation activities will come from leading enterprises such as Gemadept (GMD), Binh Minh Plastics (BMP) and REE Corp (REE). Based on forecasts that crude oil prices may surpass the threshold of USD85/barrel from now until the end of the year, we believe that the EPS growth of stocks in the energy industry can reach 72% YoY, led by Petrolimex (PLX) and PV Transportation (PVT). The information technology industry should maintain stable growth (+10%), led by FPT Corporation (FPT). For the financial industry, we have lowered our EPS growth forecast from 9% to 7%, based on our views on this year's credit growth prospects and pressure on provisioning for asset quality among banks.

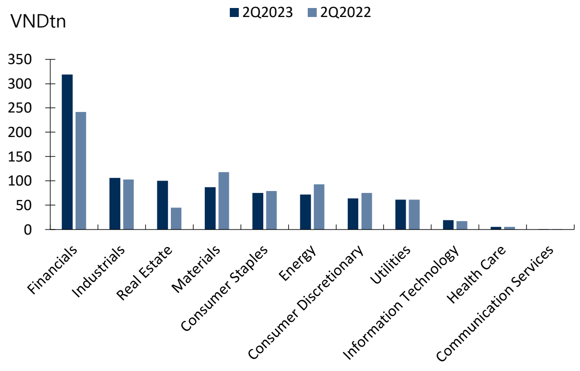
On the contrary, the most negatively affected industry is non-essential consumer goods (-40% YoY). The pressure from global inflation, sharp decline in consumer demand and spending, and fierce competition among businesses caused the business results of information technology and consumer electronics businesses to plunge. Despite being less affected, EPS growth of the essential consumer goods also dropped 8% YoY. The industry is followed by the raw materials (-33% YoY) and utilities group (-18% YoY).

Fig 7. Vietnam – 2Q23 earnings vs 2Q22 (VNDtn)



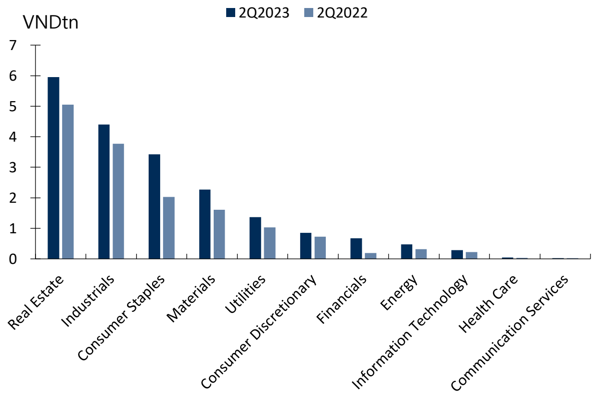
Source: Bloomberg, KB Securities Vietnam

Fig 8. Vietnam – 2Q23 revenue vs 2Q22 (VNDtn)



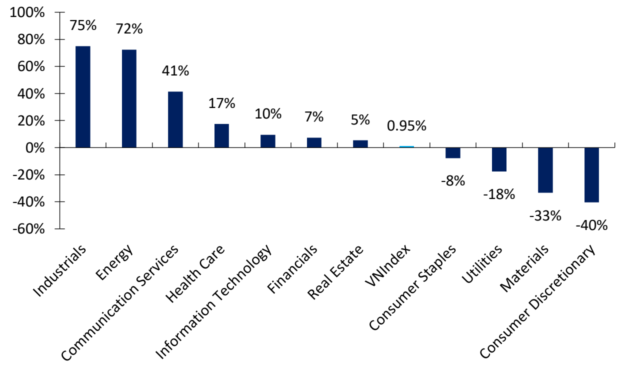
Source: Bloomberg, KB Securities Vietnam

Fig 9. Vietnam – 2Q23 financial expenses vs 2Q22 (VNDtn)



Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – 2023F EPS growth vs 2Q22 (%)



Source: Bloomberg, KB Securities Vietnam

Total revenue of businesses on the HSX increased slightly in 2Q while profits were subdued

In 2Q23, total revenue of businesses on the HSX increased by 8.4% YoY. Big contributors continues to be the financial sector (+32% YoY, led by large-cap state-owned banks), real estate (+122% YoY, led by Vinhomes – VHM, +723% YoY and Kinh Bac City Development – KBC, +592% YoY), and industrial sector (+3% YoY, led by Vietnam Airlines – HVN, +12% YoY, Vietjet Aviation – VJC, +46% YoY, and Vinaconex – VCG, +108% YoY). The remaining sectors, including energy (-26% YoY), raw materials (-23% YoY) and non-essential consumer goods (-14% YoY), all showed subdued business results.

Although the whole market's earnings witnessed a smaller decrease (-3.4% YoY) in 2Q instead of -18% YoY in the previous quarter, there is an obvious divergence among industry groups. Except for the energy group, which had a strong improvement in profits, and other sectors with good profit growth such as real estate (+59.6 YoY), industrial (+40% YoY), and information technology (+15% YoY), other sectors continue to record profit writedowns compared to the same period in 2022. The biggest laggards are materials industry group (-69% YoY, mainly hit by Hoa Phat Group - HPG, Vietnam Rubber - GVR, Duc Giang Chemicals - DGC, and PV Fertilizer & Chemicals - DPM); non-essential consumer goods (-68% YoY, mainly affected by Mobile World Investment - MWG and FPT Retail - FRT); utilities (-27% YoY, mostly affected by PV Gas - GAS and PV Power - POW); and consumer goods (-18% YoY, hit by Masan Group - MSN and Sabeco - SAB). The main reasons for this decline are (1) gloomy developments in both domestic consumption and export demand, (2) interest costs as a burden for businesses using high leverage, and (3) the sharp decrease in prices of goods and raw materials compared to the high base levels of 2022.

III. Main market drivers

1. Inflationary and exchange rate pressure on interest rate trend

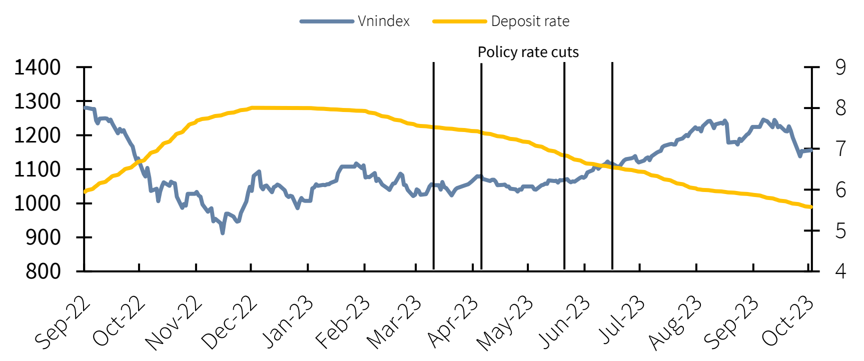
Many policies were issued to support businesses and the economy

As the inflation was controlled, and exchange rate pressure and banking system liquidity cooled down from the end of 2022, the SBV has implemented many monetary and fiscal policies and issued many circulars to support the economy (VAT tax reduction, tax payment extension, Circulars 02, 03 and 06 issuance). In particular, the SBV's four policy rate cuts have strongly affected market sentiment and expectations, which is a measure for revaluing financial assets.

The decreasing trend of interest rates in 9M23 is a huge supporting factor to the market

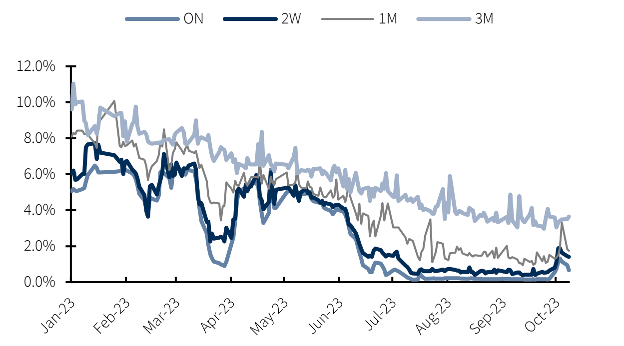
Given the correction of policy rates and abundant cash in the banking system, interbank and customer rates also witnessed big declines. As of the end of September, the overnight interbank interest rate decreased by 487bps to 0.19% and maintained below 1% until July (Figure 12). Meanwhile, the average 12M deposit interest rate also fell 242 bps to 5.58% (Figure 13).
The decline in interest rates adversely affects businesses when borrowing costs decrease and stimulates them to expand investment. On the one hand, it makes the stock market more attractive than the savings channel while the world economy, including Vietnam, in the first nine months of the year was still weak due to inflation and high interest rate environment. However, the stock market is a market of sentiment and expectations, so it can be said that interest rates are one of the most powerful factors driving the market in the first three quarters of the year (Figure 11).

Fig 11. Vietnam – VNIndex and 12M average deposit interest rate (point, %)



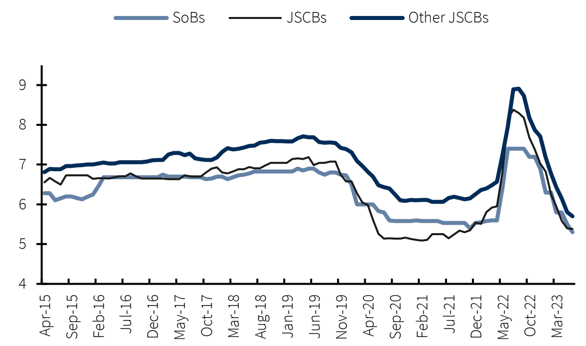
Source: Bloomberg, KB Securities Vietnam

Fig 12. Vietnam – Interbank interest rates (%)



Source: Finngroup, KB Securities Vietnam

Fig 13. Vietnam – 12M deposit interest rates (%)



Source: Wichart, KB Securities Vietnam

However, the downward trend of interest rates encountered many obstacles in the last quarter the year

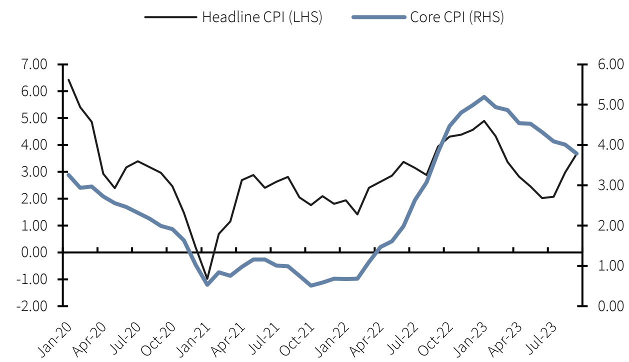
Inflationary and increased exchange rate pressure (in addition to other factors such as high bank NPL and the SBV's reducing the ratio of short-term capital for medium and long-term loans from the beginning of October) in the past two months are the main obstacles to the current interest rate reduction. As the SBV's top goal is maintaining low interest rates and promoting economic growth, we do not think that deposit and lending interest rates will reverse and increase this year (unless DXY and bond yield continues to increase rapidly). However, the trend of lowering interest rates in the last months of this year will not be favorable due to the above barriers, and the room for easing monetary policy is estimated to narrow significantly in 4Q23. Accordingly, the policy factor is no longer a strong driver for the market in the last three months of the year.

Inflationary pressure

CPI and core CPI respectively rose 1.08% and 0.26% MoM in September, and the nine-month average increased by 3.16% and 4.49% YoY (Figure 14). The industry groups that exerted the most impacts on CPI are transportation (1.21% MoM with increased world oil and gas prices); housing and construction materials (1.12% MoM with increased rents, water and electricity prices); food (3.19% MoM with higher rice prices); and education group (8.06% MoM due to increased tuition).

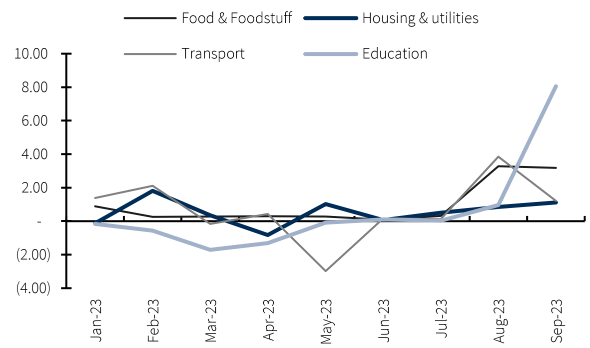
Although it seems that the goal of controlling inflation below 4.5% can be easily achieved, the increasingly rapid CPI growth rate in recent months has reminded executives not to be incautious about inflation.

Fig 14. Vietnam – CPI and core CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 15. Vietnam – Main CPI driving groups in 9M23



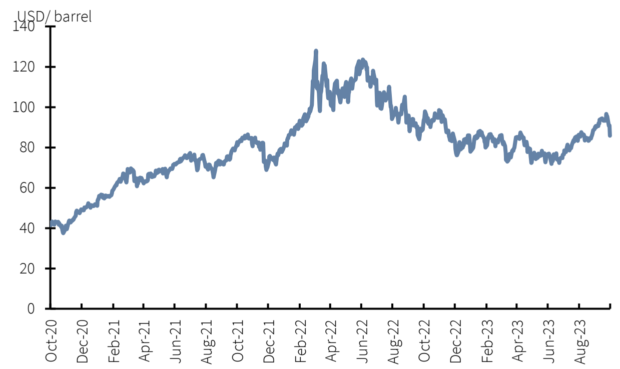
Source: General Statistics Office, KB Securities Vietnam

We raised our forecast for 2023 CPI by 0.2% compared to out September strategic report to 3.6% because September inflation data increased stronger than expectations. The reasons are:

- A 20% increase in basic salary from July 1, 2023 will affect the prices of goods and services, while tourism continues to recover positively.
- Shopping needs during year-end holidays and New Year increase.
- Oil prices continue to remain high, expected to exceed USD80/barrel due to production cuts from OPEC+ and record low inventories in many markets.
- Rice prices continue to stay high in the context of high demand and declining supply when India and the Arab Emirates temporarily suspend rice exports, and the El Nino phenomenon strongly develops from September to November.
- Easing fiscal and monetary policies promote credit growth and public investment in the last months of the year, thereby putting pressure on inflation.

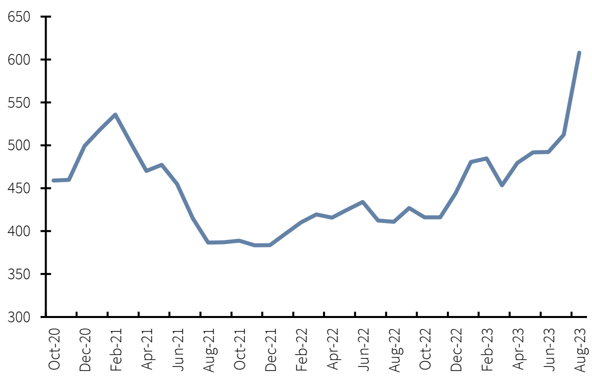
On the contrary, the weakening of the CNY reduces import inflation pressure.

Fig 16. Global – Brent oil prices (USD/barrel)



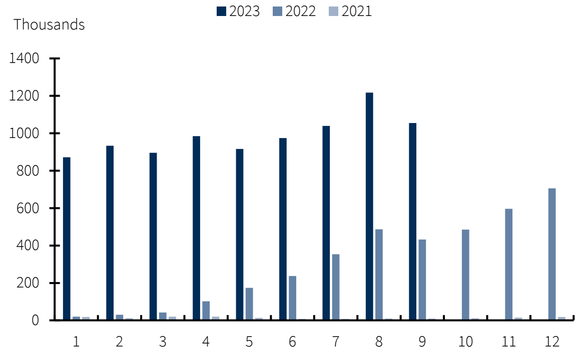
Source: Bloomberg, KB Securities Vietnam

Fig 17. Vietnam – Rice with 5% broken prices (USD/ Ton)



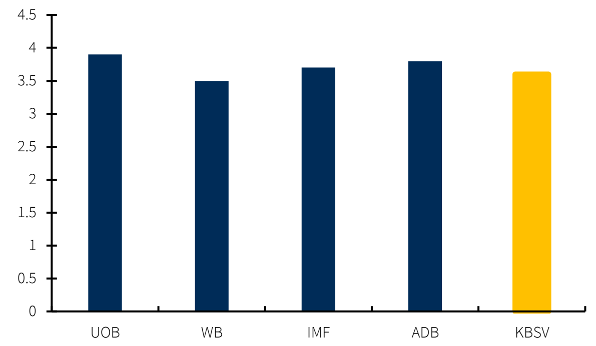
Source: International Monetary Fund, KB Securities Vietnam

Fig 18. Vietnam – Foreign tourist arrivals



Source: Bloomberg, KB Securities Vietnam

Fig 19. Vietnam – 2023 average CPI forecasts by financial institutions (%)



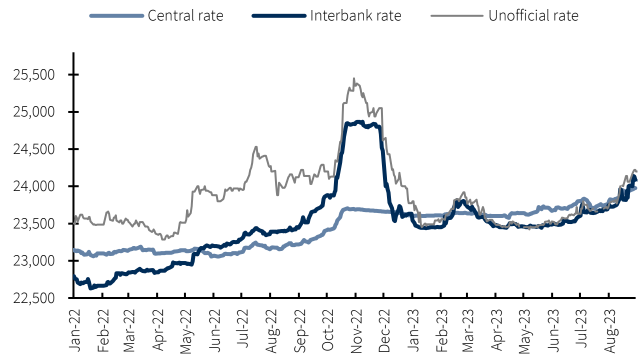
Source: Financial institutions, KB Securities Vietnam

Exchange rate pressure

The exchange rates have significantly cooled down thanks to the SBV's intervention and abundant foreign currency supply in 9M23. However, the contrast in the way SBV and Fed operate monetary policies has created a huge difference between VND and USD interest rates. Besides, the Fed kept interest rates unchanged at the September meeting but left a "higher for longer" message about keeping interest rates at high levels for a longer period of time in the fight against inflation. The DXY index has been surging recently to a peak since the beginning of the year, while the US 10-year bond yields have also reached 15-year highs, putting great pressure on exchange rates (Figure 22 & 23).

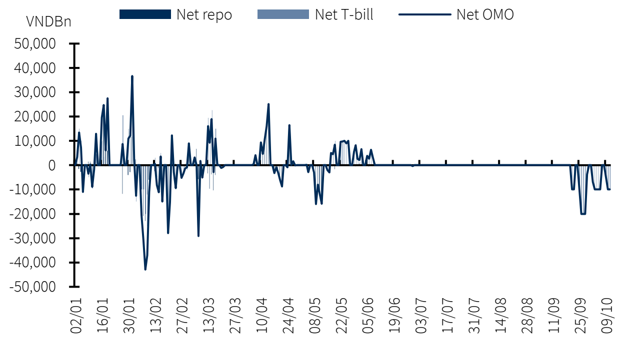
To be more specific, the interbank exchange rate advanced 94bps to VND24,305/USD in September, depreciating about 2.8% compared to the end of 2022 (Figure 20). To prevent speculation in USD holdings among banks, the SBV offered T-bills again on September 21 after more than four months of no transactions on the open market. Following that, SBV continued to net withdraw 28-day T-bills with a total net absorption volume of more than VND120 trillion as of October 4 for an average interest rate of 0.75% (Figure 21).

Fig 20. Vietnam – Central, interbank & unofficial VND/USD exchange rates (VND/USD)



Source: Bloomberg, Finngroup, KB Securities Vietnam

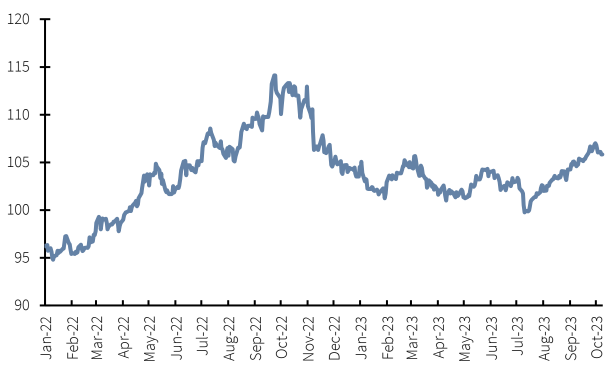
Fig 21. Vietnam – Open market operations



Source: State Bank of Vietnam, KB Securities Vietnam

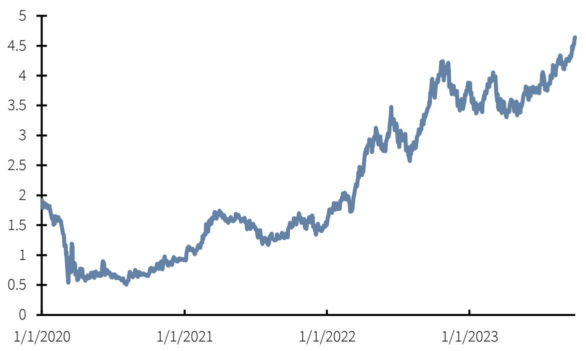
Exchange rate pressure at the end of the year may still be high because (1) the difference in interest rates between USD and VND remains high; (2) the appreciation of the USD continues; and (3) the economic recovery leads to increased import demand. KBSV forecasts that the USD/USD exchange rate will gain 3.5% YTD to VND24,460 by the end of this year. Exchange rate pressure will be the factor restraining the downward trend of interest rates in the near future, although when compared with other economies, the level of VND depreciation is still under control.

Fig 22. US – DXY index (point)



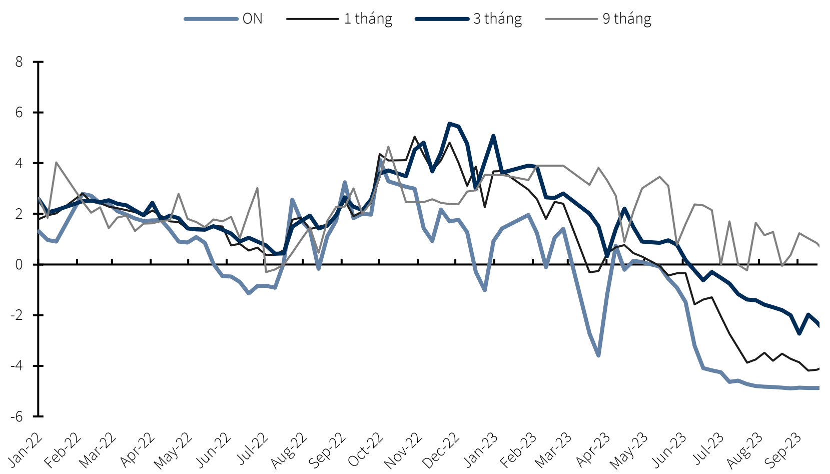
Source: Bloomberg, KB Securities Vietnam

Fig 23. US – Bond yield (%)



Source: Bloomberg, KB Securities Vietnam

Fig 24. US, Vietnam – VND-USD interest rate difference by term (%)



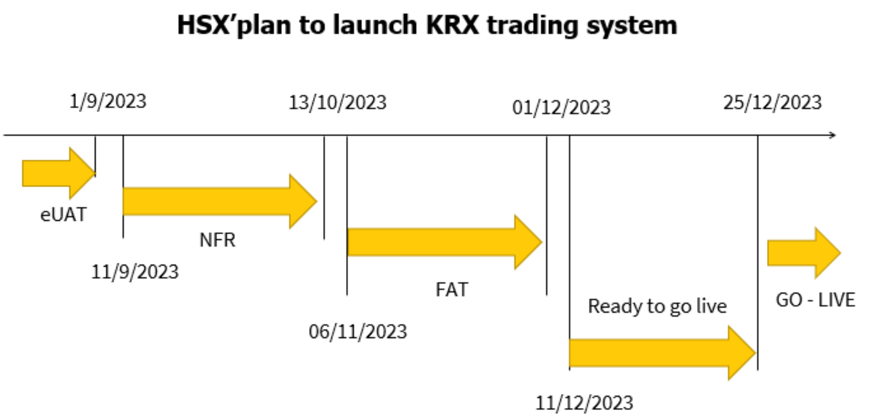
Source: State Bank of Vietnam, KB Securities Vietnam

2. KRX system rollout – A step closer to market upgrade

According to the plan from the contractor, the Korean Stock Exchange (KRX), Vietnam will conduct the final testing in November and complete the system preparations on December 25 to be ready for deployment (Figure 25). The official operation of the KRX trading system is considered an important premise for Vietnam to be upgraded from frontier to emerging market and should allow day trading (T0). To make it clearer:

- The KRX system is a necessary infrastructure to deploy the CCP model, thereby solving one of the key bottlenecks for upgrading which is the prefunding. Upgrading the market ranking helps Vietnam's stock market attract investment capital from foreign financial institutions. In particular, the earliest and most obvious impact is the buying of ETF funds that are using the MSCI Emerging Markets Index and FTSE EM as reference. According to some research estimates, upgrading to an emerging market can bring an additional USD10 billion in indirect investment to Vietnam, of which an additional USD2 ~ USD5 billion can be received in the first year. However, we also note that the operation of CCP will only solve one of the bottlenecks, while factors related to foreign investors will require stronger moves from the executive authorities. Accordingly, the upgrade will likely have to wait until at least 2025 to be approved.

Fig 25. Vietnam – The plan on KRX implementation of the HSX

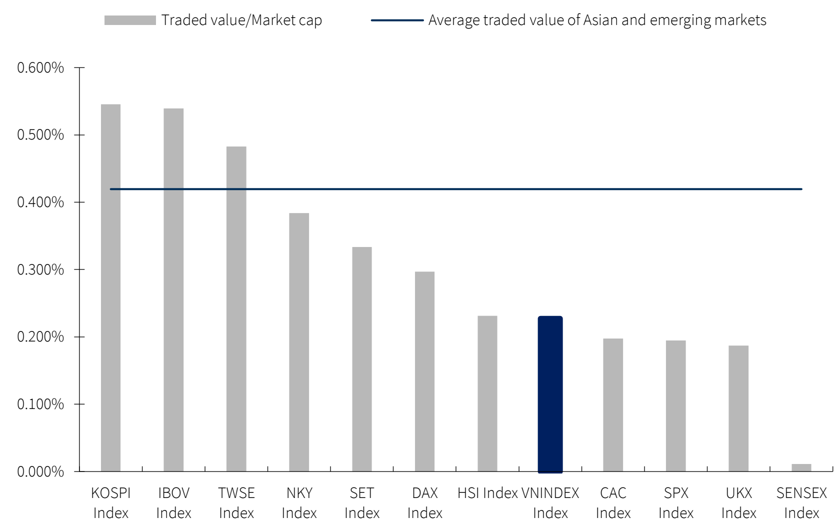


Source: KB Securities Vietnam

- In addition, according to the Ho Chi Minh Stock Exchange (HSX), the KRX trading system will allow day trading (T0 transactions) to be implemented right from the beginning, which will help speed up the cash circulation in investors' trading on the market. In markets that have applied T+2 transactions and day trading such as the US, Korea, Japan, and Thailand, the capital and the five-year average trading value of one session reached roughly 0.3% of total market capitalization. This number is even higher (at 0.42%) if counting only Asian emerging markets (with the transaction value of individual investors accounting for a large proportion). Meanwhile, the average trading value per capitalization of Vietnam is 0.227%.

We expect that the implementation of the new KRX system can help the trading value of VNIndex per session to nearly double the five-year average to reach VND19 trillion/session. Accordingly, the securities industry is expected to directly benefit from the implementation of the system, followed by stocks with higher capitalization in the VN30 basket.

Fig 26. Global – Trading volume/market capitalization ratio (%)



Source: Bloomberg, KB Securities Vietnam

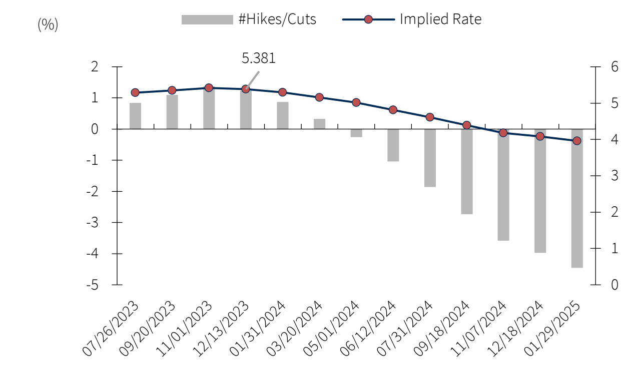
With the KRX trading system expected to be deployed by the end of this year, large-cap stocks (benefiting from the shortened market upgrade prospect), and securities stocks (benefiting from benefit from day trading) should have a positive reaction, thereby positively affecting the stock market.

3. The Fed and the risk of US recession

Interest rates are forecast to stay at a higher level for a longer period of time

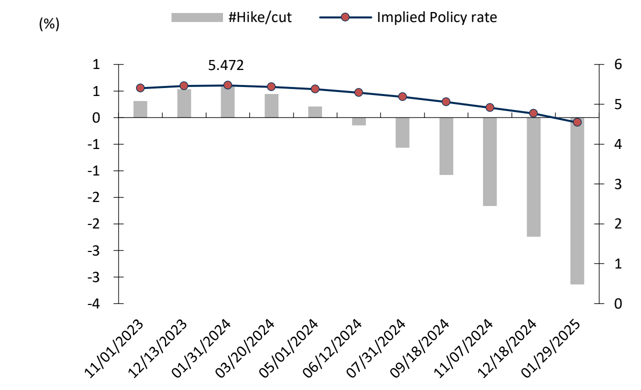
The US August CPI climbed to 3.7% YoY, the second increase after many consecutive months of declining. Energy prices, including fuel oil (+9.1%) and gasoline (+10.6%), spiked in the month. On the contrary, core CPI (excluding food and energy), continuously dropped to 4.4%, the lowest increase since September 2021. Accommodation costs are the main driving force to the decline in core inflation with the fifth consecutive decrease (down to 7.3% YoY). However, the interest rate level is expected to remain at a higher level (5.47% compared to 5.42% at the end of 2Q) with one rate hike in December and in a longer period (the first interest rate cut is postponed to September 18, 2024 compared to the previous forecast of June 12, 2024).

Fig 27. US – Implied forward rates by the end of 2Q23 (%)



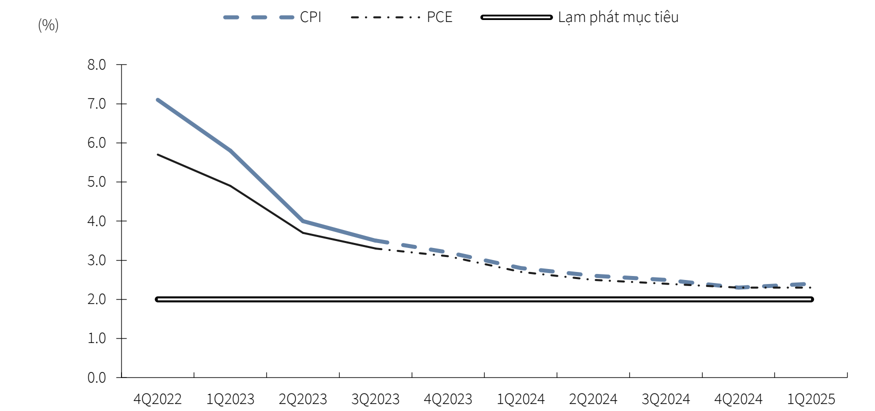
Source: Bloomberg

Fig 28. US – Implied forward rates by the end of 3Q23 (%)



Source: Bloomberg

Fig 29. US – FOMC forecast CPI (%)

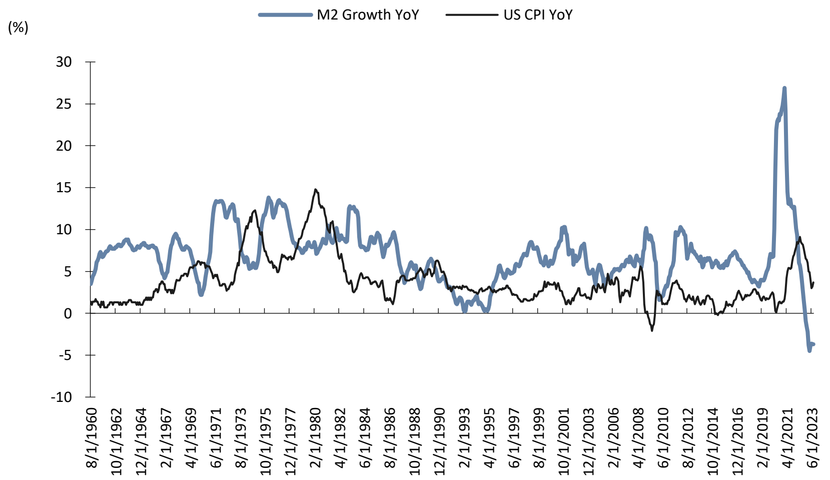


Source: Federal Open Market Committee

Inflation may prolong due to the impacts from fiscal policy expansion

Inflation in the US is projected to stay above the target 2% until the end of 2024, according to the Federal Open Market Committee (FOMC). **We also believe that the US will continue to experience a persistent period of inflation due to the expansion of fiscal policy while tightening monetary policy. Even though this has helped the country avoid an immediate recession, it also makes it difficult for inflation to decrease as quickly as expected**. Using the tools of interest rates and quantitative tightening can only help deal with inflation caused by boosting credit (in the private sector) but cannot solve the inflation caused by expanding fiscal policy (belonging to the public sector).

Fig 30. US – M2 money supply growth and inflation rate (% YoY)

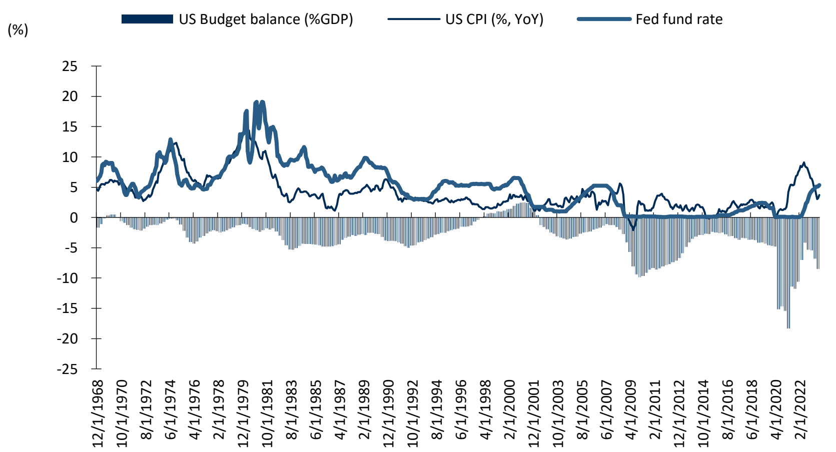


Source: Bloomberg

The US budget deficit has remained high in recent years due to increased spending on economic stimulus programs

When the economy closed due to the Covid-19 pandemic, the Fed injected a large amount of cash into the banking system while the Congress passed many large-scale financial stimulus bills by extending unemployment benefits and direct payments to households. The Biden administration then continued to pass the Inflation Reduction Act with a total spending value of up to USD1,900 billion. Accordingly, USD900 billion was transferred to individuals through the expansion of USD400/week in unemployment benefits and USD1,400 in direct payments to households. The remaining USD1 trillion is used for financing other public investment projects. This, when combined with the recently passed bill to raise the "debt ceiling", made **the US budget deficit reach USD2 trillion while the federal debt quickly hit USD33 trillion (equivalent to -8.5% of GDP and -120% of GDP respectively).**

Fig 32. US – Budget deficit, inflation & Fed rates (%)



Source: Bloomberg, Federal Reserve, KB Securities Vietnam

A mild economic recession may be necessary to reverse inflation expectations

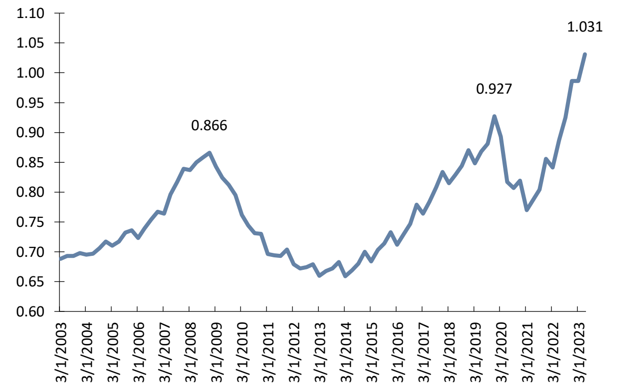
Therefore, without many changes in spending plans as well as efforts to minimize the government budget deficit, we may witness a period of persistent inflation (Figure 31) and high interest rates until at least 2024. Many experts worried that it would be difficult for the US government to strongly slash spending and subsidy packages in the short term as this could be the start of a recession. However, accepting the economy to fall into a mild recession is probably necessary to reverse the market's inflation expectations and eliminate weak links before reopening economic stimulus programs.

The impacts of high interest rates in a long time on industries and aspects of the economy are as follows:

Consumer purchasing power in the US is forecast to continue to decline until 1H24, which hits hard on Vietnamese non-essential exports to the US market

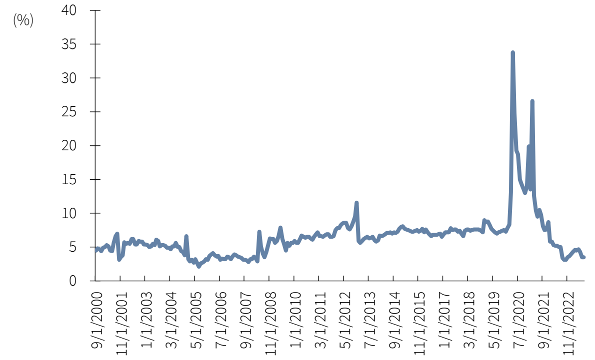
- **Retailing industry – Impact level: High**
  The US real retail sales fell 2% YoY after adjusting for inflation, marking the 10th consecutive decline. The decrease is likely to continue in the coming time as households continue to incur student loan debt obligations. An estimated 44 million borrowers will have to begin repaying their loans in October, totalling approximately USD10 billion a month. This will force households to cut back on some non-essential spending, hitting the consumer shopping sector. Besides, it should be noted that outstanding credit card debt for consumer loans has surged since the beginning of the year to USD1.03 trillion, the highest in history (Figure 32). The cost of many essential goods has increased in the context of (1) the government’s ending money subsidies for people after the Covid and (2) wage growth not keeping pace with the increase in inflation, which has forced consumers to borrow more from banks. Accordingly, the ratio of personal savings to disposable income of Americans has fallen to an alarming level of 3.5%, the lowest in the past 15 years. The overdue debt payment rate tends to bounce rapidly again since the end of 2022 when the interest rate on credit cards skyrocketed to 20.68% by the end of 2Q23. The tightening of lending standards by banks in the US will make it difficult for consumers to balance their sources of debt repayment in the medium term, and at the same time, have a negative impact on household spending and the retailing sector in the US. Vietnam's export prospects for non-essential consumer goods such as textiles and garments are assessed as less positive.

Fig 32. US – Personal credit card balance (USDtn)



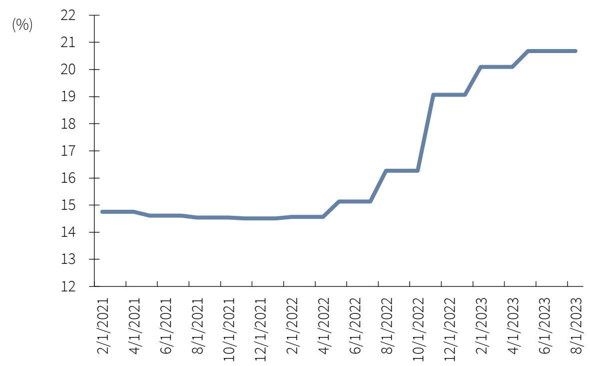
Source: Bloomberg

Fig 33. US – Personal savings to deposable income ratio (%)



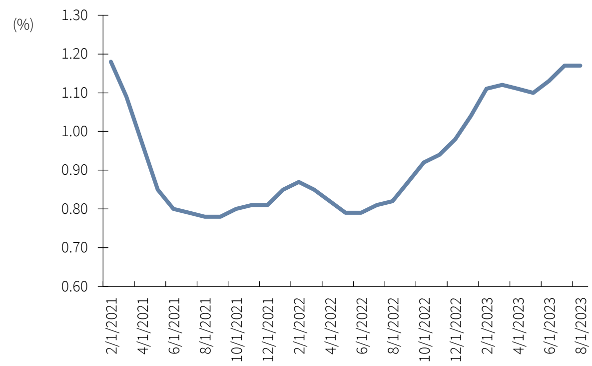
Source: Bloomberg

Fig 34. US – Credit card interest rates (%)



Source: Bloomberg

Fig 35. US – Overdue payment rate (%)

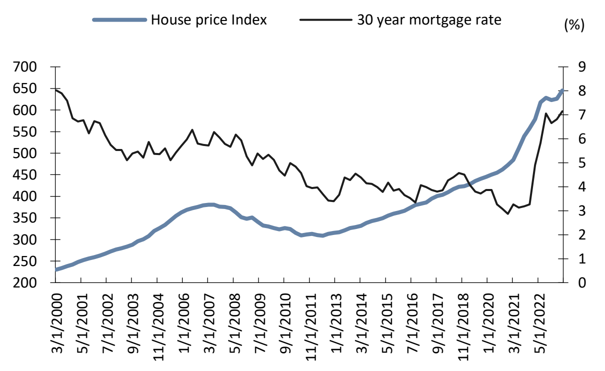


Source: Bloomberg

Although wood and stone exports benefit from reduced inventory and year-end home repair demand in the short term, the freezing real estate industry in the US will negatively affect consumption demand in the medium term

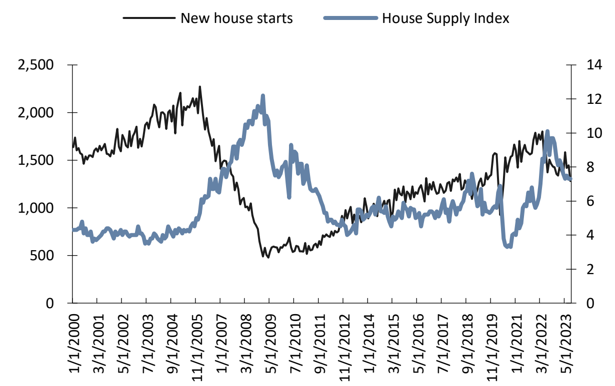
- **Real estate market– Impact level: Medium**
  An increase in interest rates usually has a negative impact on the financial situation of households as their monthly interest payments will increase. However, with more than 90% of home mortgages anchored at fixed interest rates below 4%, repayment pressure on existing loans is negligible as is the risk of a real estate crisis as in the period 2007-2009 is relatively low. However, the 30-year mortgage rates surged to 7.15%, the highest level in the past 20 years, which lowered the demand for new loans. In addition, home sales in August decreased by 15.3% YoY while the demand for buying bigger and nicer houses weakened, causing supply in both the primary and secondary markets to decrease sharply (Figure 37). The real estate market in the US and, accordingly, businesses exporting construction materials such as wood and stone are expected to have fewer positive changes until at least 3Q24.

Fig 36. US – House price index and 30-year fixed mortgage rates (ppts, %)



Source: Bloomberg

Fig 37. US – Housing starts and monthly supply of new houses (unit)



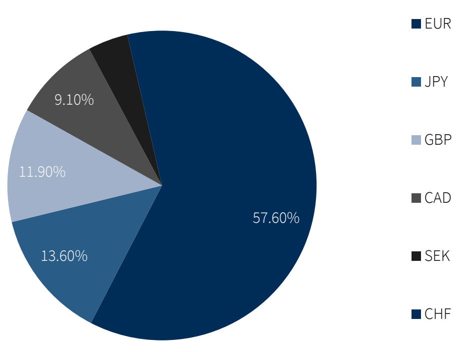
Source: Bloomberg, KB Securities Vietnam

US government bond yield may reach 5.5% for 10-year term

– **Bond yield and DXY index – Impact level: High**

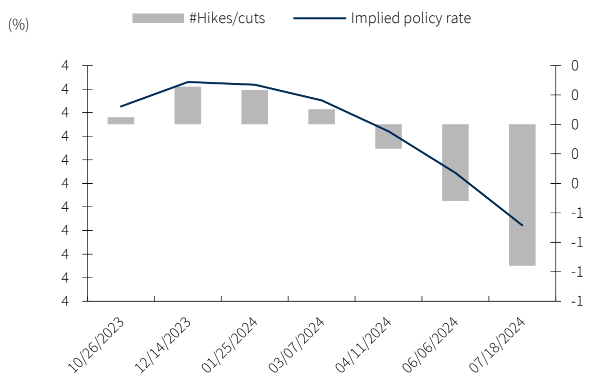
About three-fourths of treasury bonds are held domestically and the rest is held by international organizations. When the US government spends more than it can collect, the difference must be made up by issuing bonds and bills to organizations and individuals from the country (including the Fed) and abroad (partners with large trade surpluses with the US). As the Fed maintains quantitative tightening and continuously reduces the size of its balance sheet by letting government bonds mature without buying more, the US government will need to find ways to attract money from domestic or foreign investors. To achieve this goal, US government bond yields across all maturities will need to remain at current levels or higher, and the target level is forecast to be around 5.5% for the 10-year term.

Fig 38. US – Foreign currencies in DXY basket (%)



Source: KB Securities Vietnam

Fig 39. ECB – Yield curve



Source: Bloomberg

Accordingly, the net selling trend of foreign investors can hardly reverse in the short term

Bond yields have an important meaning for the US economy as this index is used as a reference for borrowing costs for households and businesses and, at the same time, is used to evaluate asset types and direct investors' cash flow. The negative impact of today's rising yields is that as treasuries draw more savings from the private sector, rather than into corporate debt, equity or consumer spending, the economic recession in the US will be accelerated. Along with that, the US also withdrew investment capital from trading partners, promoted foreign net sell on the stock market (including Vietnam), and caused the demand to buy US dollars to increase day by day.

The DXY index is forecast to continue to strengthen when the US economy continues to outperform other developed countries such as the UK, Germany, and Japan

Accordingly, we incline to the scenario in which the DXY index continues to strengthen in the near future as the US economy continues to grow positively (GDP +2.6% YoY) while the growth rate is slow in most parts of the world. Especially Germany, the Europe's largest economy, had negative growth for two consecutive quarters. Observing the above developments, the ECB signalled that interest rates have peaked while the Fed is expected to raise interest rates one more time in the future. In addition, Japan continues to maintain easing monetary policy even though the inflation is above the target level of 2%. The reason is said to be that households have cut spending relatively sharply due to rising living costs. This is currently contrary to the BOJ's goal of achieving sustainable CPI above 2% by stimulating consumer shopping demand. Technically speaking, the DXY index may continue to increase in the medium term and move towards the near resistance level of 107.x and further to 110x before having a chance to create a peak.

The SBV may have to intervene in exchange rates by selling foreign exchange reserves

For Vietnam, when the US bond yields and the DXY index continues to increase, the pressure on the USD/VND exchange rate in 4Q23 will be large if the interest rate difference between the two countries remains at such a high level currently. In the negative scenario, DXY does not cool down soon, the SBV will need to intervene by selling FX reserves to control the exchange rate, reducing the amount of Dong circulating in the system and controlling the liquidity of the market in general.

IV. Investment themes

1. The rebounding trend of commodity prices

Prices of all types of goods have tended to recover stably in the past one or two quarters since the demand rebounded in some major markets while supply is tightened.
We believe that this trend will continue in 4Q, creating investment opportunities in stock groups that benefit from rising commodity prices such as fertilizers, crude oil, chemicals, and steel. To be more specific:

a. Crude oil

Brent and WTI crude oil prices have returned to the peak set at the end of 2022

According to Oilprice, Brent oil price on the morning of September 25 advanced 0.54% to USD93.77/barrel, and WTI oil price also gained 0.46% to USD90.46/barrel. This is the highest price in the past year, since the most recent peak from November 2022. Oil prices increased nearly 30% within only two months after events affecting oil supply worldwide.

Main developments in the recent period:

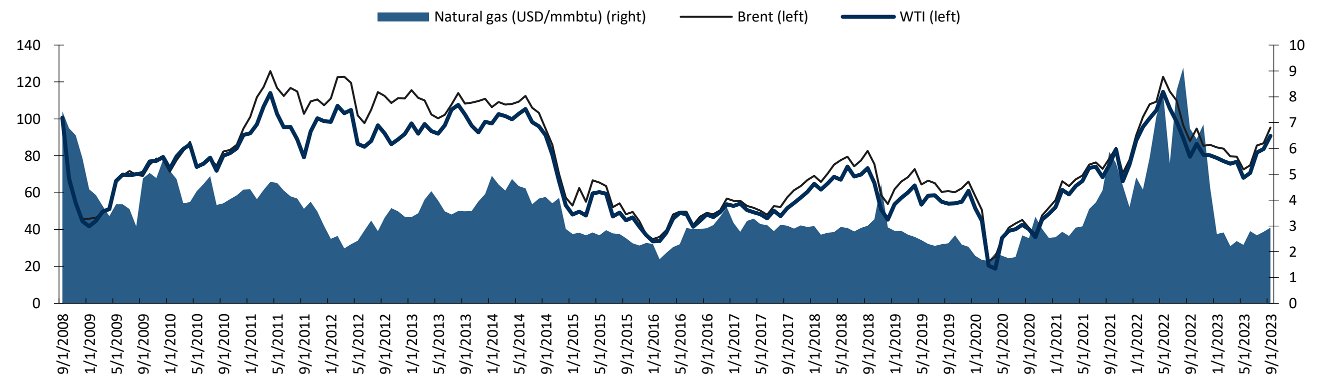
- Russia reduced diesel exports: On September 22, the Russian government issued a temporary ban on the export of diesel and gasoline to four countries of the former Soviet Union to stabilize the domestic fuel market during the wheat harvest. Russia has also cut seaborne diesel and gasoil exports by nearly 30% YoY to 1.7 million tons in the first 20 days of September.
- After the meeting on June 3, 2023, members of OPEC+ and 10 partner countries agreed to cut production by an additional 1.4 million barrels for 2024 to 40.46 million barrels/day. Russia will also cut an additional 0.65 million barrels/day in 2024. In addition, Saudi Arabia announced a cut of 1 million barrels/day in July and may consider extending it Immediately after the OPEC+ cut announcement. Brent oil increased 2% to USD77.64/barrel.

Brent crude oil price is forecast to remain above USD85/barrel until the end of the year

From now until 2024 may be a positive period for oil and gas businesses because crude oil prices are forecast to maintain above the threshold of USD85/barrel until the end of this year amid OPEC+ and Russia's continued intervention in the world's oil supply. In addition, shale oil exploitation activities in the US have slowed down due to businesses limiting upstream investments and pressure from shareholders.

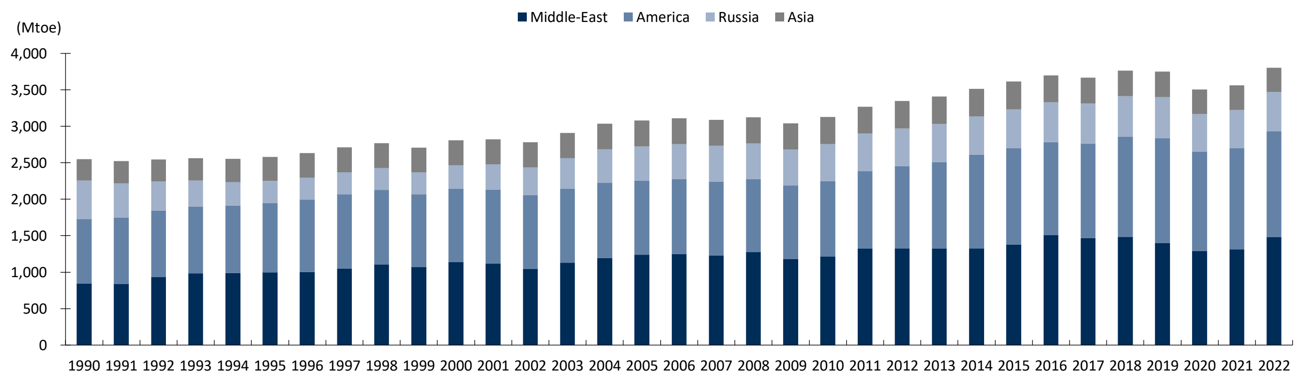
Meanwhile, OPEC predicts that global crude oil demand will increase by 2.44 million barrels/day in 2023 and 2.25 million barrels/day in 2024. The International Energy Agency also made a similar forecast with an increase of 2.2 million barrels/day to 101.8 barrels/day. The main demand comes from China's increased consumption in the fields of industrial production, tourism and fertilizer production.

Fig 40. Global – Crude oil & natural gas prices (USD/barrel, USD/mmbtu)



Source: Bloomberg

Fig 41. Global – Crude oil production (millions of tonnes of oil equivalent)



Source: Enerdata

Domestic fertilizer prices have increased sharply

b. Fertilizers

Faced with fluctuations in world fertilizer prices, Vietnamese businesses continuously raise their prices, even though the country is currently in the low consumption period. Current urea fertilizer prices have increased by about 10% and 25% respectively compared to the end of August and July. Other fertilizers such as potassium, NPK, DAP, and SA all saw an increase of more than 20% compared to the end of June. We believe that the increase in fertilizer prices during this period is influenced by the general upward trend in the world and will cause difficulties for agricultural enterprises' production as fertilizer costs usually accounts for 40-50% of the cost price.

Main events affecting fertilizer prices recently:

- Russia withdraws from the Black Sea Initiative: July 17, 2023 Russia announced to stop extending the Black Sea Grain Initiative, causing the risk of ships transporting food, wheat, and grains being attacked, causing worsening global food security prospects. Other countries must therefore step up farming production and increase the need for fertilizer use.

– Egypt, the country accounts for 4% of world production and 8% exports of urea fertilizers, indefinitely extends the 30% gas supply cut for all gas producers in the country.

Imbalance of domestic supply and demand

Currently, Vietnam's total annual demand for fertilizers of all kinds is about 11 – 12 million tons. The production capacity is lacking about four million tons, but there are differences between types. Because the domestic supply of SA and potassium fertilizer cannot be met, these types must be completely imported. For other types such as DAP and MAP, domestic supply only meets 86% of consumption, and the rest depends on import channels. The current domestic production of phosphate and NPK fertilizers is enough to serve domestic farming needs. As for urea fertilizers, the total output from Ninh Binh, Ha Bac, Ca Mau, and Phu My fertilizer plants has reached 2.6 million tons, exceeding the average consumption of 2.2 million tons. Therefore, the increase in fertilizer prices following the world trend will create an imbalance in domestic supply and demand as the supply and demand for each type are different.

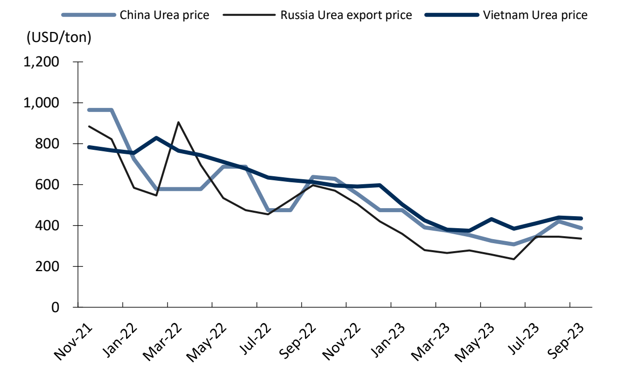
Fertilizer prices may remain high due to the continuing gap between world and domestic supply and demand

Fertilizer supply worldwide may be disrupted. The Chinese government in early September asked major urea fertilizer producers to stop signing new export contracts to ensure domestic supply and stabilize prices. Russia also recently announced a plan to impose a new export quota for a period of six months, starting from December with the amount of nitrogen fertilizer allowed to be exported at 5.9 million tons. In addition, the earthquake in Morocco on September 8, 2023 had an impact on the world fertilizer supply in the short term because the country owns 70% of the world's phosphorite used to produce fertilizers and phosphate fertilizers.

Signs showing that fertilizer prices may not cool down yet:
– For foreign markets: Russia-Ukraine tensions will put pressure on the world's food supply, increasing the need for farming and growing to fill reserve warehouses. The Americas region is also entering the planting season, and India is also promoting food production to compensate for domestic shortages. In addition, urea price is also forecast to fluctuate in line with coal and natural gas prices.

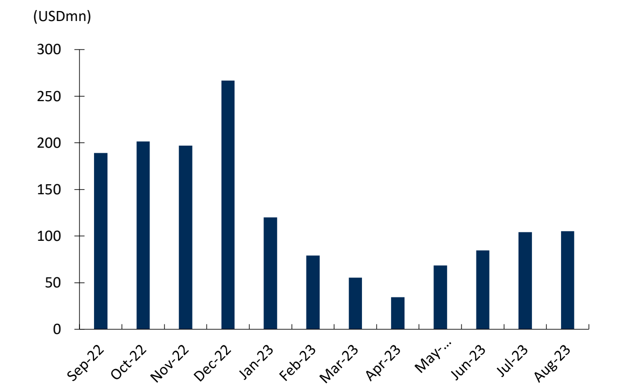
– For the domestic market: Domestic urea prices may still remain at a high base because 4Q is the beginning of the peak of the winter – spring season and is also the time of highest consumption of the year. However, the complicated developments of the El Nino phenomenon may affect the planting productivity of the Mekong Delta region due to less water and higher risk of saltwater intrusion.

Fig 42. Global – Comparison of urea prices (USD/ton)



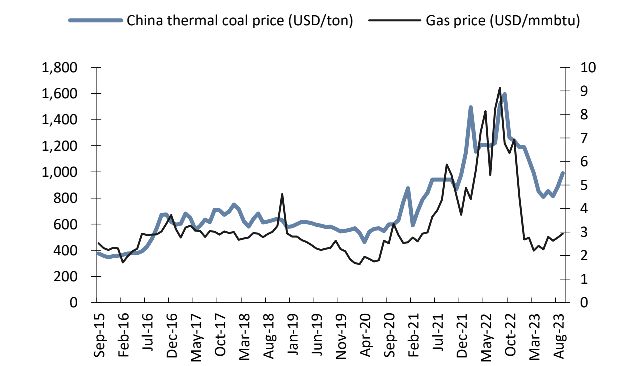
Source: Bloomberg

Fig 43. China – Fertilizer export volume (USDmn?)



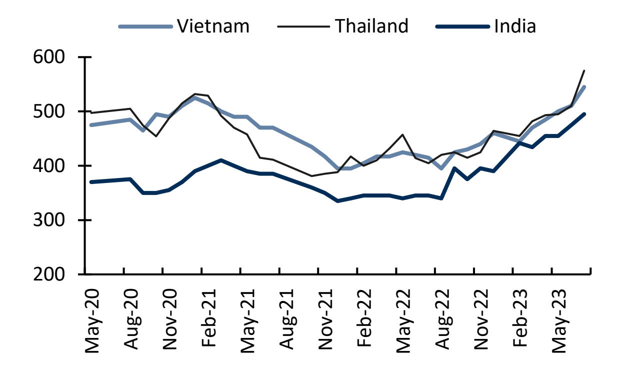
Source: Ceicdata

Fig 44. Global – Coal and gas prices (USD/ton, USD/mmbtu)



Source: Bloomberg

Fig 45. Global – Broken rice prices (USD/ton)



Source: Vietnam Food Association

c. Steel

Steel prices have witnessed gloomy developments

Hit by weak consumption demand, stagnant real estate market and slow industrial production activities, domestic construction steel prices have experienced 19 consecutive decreases since the beginning of the year, varied in size by manufacturers. Currently, local steel prices are fluctuating around VND13 – 14 million/ton, the lowest level since the end of 2020. Export steel prices have also witnessed similar developments. The prices of iron and steel exports of all kinds dropped 25% YoY to USD771.6/ton in 8M23.

Steel prices in the world's largest steel production market, China, also recorded a fall of nearly 20% compared to the peak in March, down to only CNY3,690/ton as of October 1, 2023. Although the government has taken many measures to stimulate consumption demand, the recovery of this sector has not been as expected.

Domestic consumption demand has not shown many bright spots, export channels are the fulcrum

Consumption in the domestic market stayed low in 2Q when construction steel consumption output is flat compared to 1Q with only 15 real estate projects licensed for construction and the subdued industrial production sector. In addition, domestic steel also faces competition from China. Steel volume imported from this country gained in July and August 2023 due to the 3-5% QoQ decrease in prices of Chinese steel and distributors' inventory cuts.

However, the export channel can be considered a bright spot of Vietnam's steel industry. According to the General Department of Customs, despite a decrease of 6.4% in export value, output increased sharply by 24.4% in the first 8 months of 2023. Vietnam's steel production enterprises have boosted exports to markets smaller ones like Italy, Turkey, India, ... because agents here prioritize importing Vietnamese and Chinese goods because of their more competitive prices.

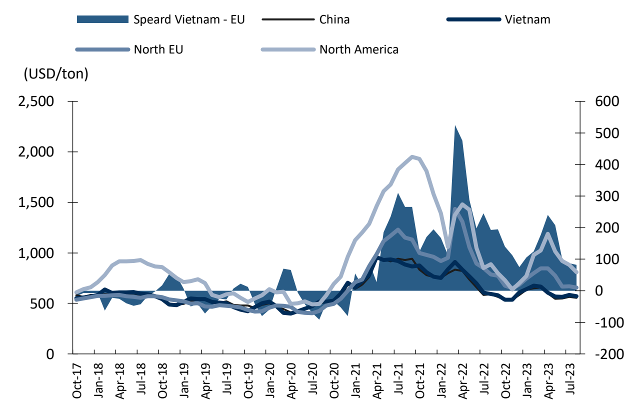
The outlook for steel prices is brighter as China starts to cut production

Steel prices may continue to remain low from now until the end of the year, but it is unlikely to fall further because steel inventories in China and Vietnamese businesses have approached the bottoms since end of 2020.

Although there has not been a significant improvement compared to the same period last year, developments in the domestic steel market are gradually showing more positive signs as domestic steel consumption has grown again since April. We expect that steel consumption on the home market may rebound from the beginning of 2024 thanks to (1) low interest rates as a support to production and business activities of enterprises, (2) low base steel prices in 2023 and HRC's potential in boosting domestic demand, and (3) policies to remove obstacles for the real estate and civil construction markets.

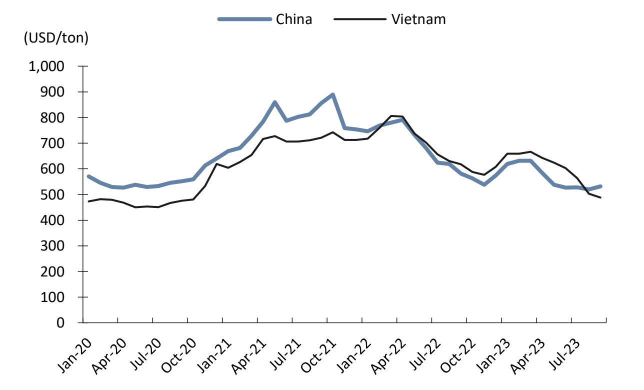
The export market is expected to still be the main channel for Vietnam's steel industry. Besides main markets such as the US and Europe, Vietnamese businesses are taking advantage of competitive prices compared to products from the US and Europe to expand market share in smaller markets. In addition, China is making moves to cut steel production and export output due to concerns about environmental issues. Therefore, the export market will be under less competitive pressure.

Fig 46. Global – HRC prices (USD/ton)



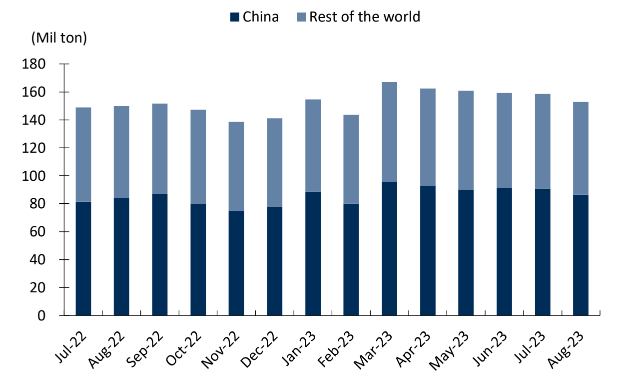
Source: Bloomberg

Fig 47. Global – Construction steel prices (USD/ton)



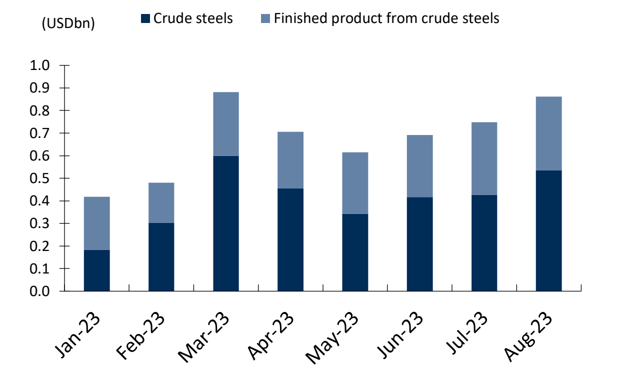
Source: Bloomberg

Fig 48. Global – Crude steel production (million tons)



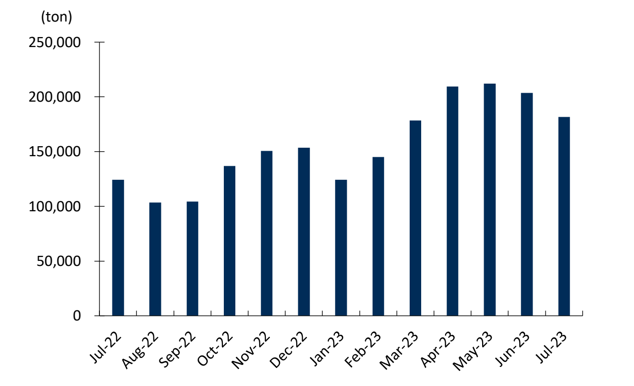
Source: World Steel Association

Fig 49. Vietnam – Steel imported from China (USD billion)



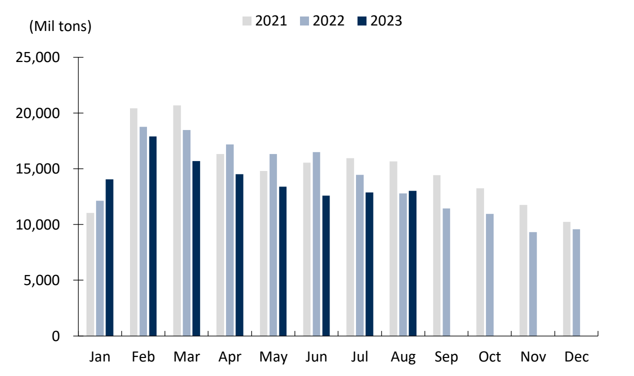
Source: Vietnam Steel Association

Fig 50. Vietnam – Steel export volume (ton)



Source: Vietnam Steel Association

Fig 51. China – Steel inventories (million tons)



Source: Bloomberg

d. Chemicals

The prices of alkali and yellow phosphorus have bottomed and strongly rebounded

In the first half of 2023, alkali prices have recovered and peaked in March and April. However, with demand from the international market slowing down in 2Q, alkali prices have not been able to maintain high prices. Up to now, this product prices in the Chinese market have returned to an upward trend with an increase of 20% in the past three months (up by 30% from the bottom in 3Q23).

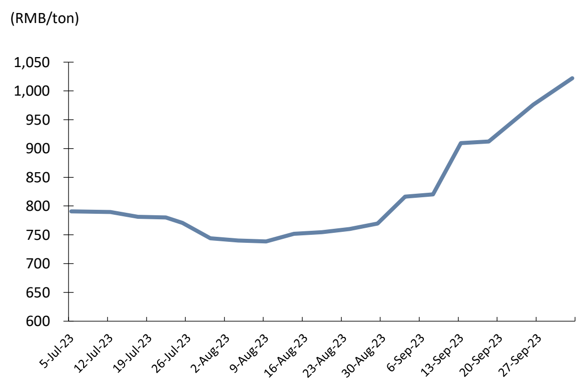
Yellow phosphorus prices have also seen a long downtrend since the beginning of the year, bottoming at RMB20,000/ton (down 40% YTD) in mid-May due to reduced demand for the production of electronic components and semiconductors. However, the prices have bounced back to RMB27,000/ton.

Alkali and yellow phosphorus prices should rebound thanks to recovering consumer demand and intermittent supply from the Chinese market

Demand for alkali and its derivatives is expected to continue to strongly increase thanks to industrial production sectors that depend on this material (aluminium, steel, and textiles) showed signs of recovery after a long period of declining. We expect alkali prices to return to the high bases of 2021-2022, reaching over RMB900/ton from the next year.

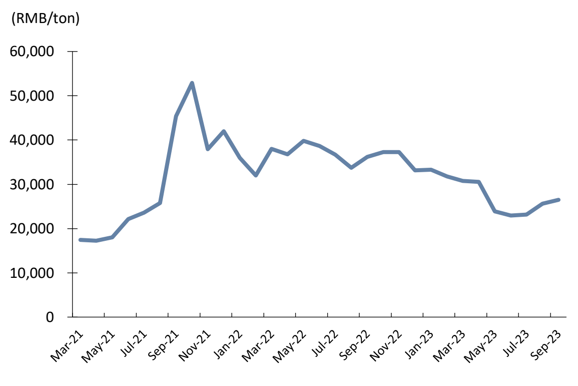
Yellow phosphorus supply in China is being affected by the drought-induced power shortage. Yellow phosphorus output in the first half of this year in Yunnan, the province contributing more than 50% of total yellow phosphorus production in China, only reached 222,000 tons, down 17% YoY. In addition, there are more investment projects in semiconductors, which should raise the demand for yellow phosphorus.

Fig 52. China – Caustic soda flakes price (RMB/ton)



Source: Sunsirs, KB Securities Vietnam

Fig 53. China – Yellow phosphorus prices (RMB/ton)



Source: KB Securities Vietnam

Table 1. Beneficiaries of lower commodity costs

Ticker	Commodity	Investment catalysts
BSR	Crude oil	OPEC+'s move to extend production cuts could cause Brent crude oil prices to remain above USD90/barrel from now until the end of the year. Crack spreads may increase on 2H22's low base level and growing consumption demand.
PVD	Crude oil	Crude oil prices remain high and global drilling rig supply is tight. Exploration and production activities are also vibrant in the Middle East, causing the demand for drilling rigs to increase dramatically.
PVS	Crude oil	Global exploration and production (E&P) activities remain buoyant, especially in the Middle East, with the expectation of capital flows returning after low crude oil prices during 2015-2021 suppressed investment into developing oil production to very low levels.
DCM	Fertilizer	Earnings should rise substantially in 2H23 thanks to a spike in urea prices and rising exports following tight supplies across major export markets. We expect urea prices will not see a downward correction soon thanks to the peak consumption period in the year-end period and the disruption of the agricultural and food supply chain worldwide, raising the need for fertilizer to cultivate.
DPM	Fertilizer	
HPG	Steel	Exports remain the main driving force for revenue growth in the context of European steelmakers temporarily suspending for maintenance and smaller markets prioritizing imports from Vietnam and China due to low prices. HPG's factories must run at their maximum capacities for HRC export orders in October and November 2023.
HSG	Steel	Exports should be the main revenue contributor for HSG against the backdrop of the gloomy domestic market. Low HRC prices will also support HSG in increasing low-priced inventory, improving gross profit margin.
CSV	Chemicals	2023F earnings should be back on track thanks to a spike in caustic soda (NaOH) prices and the recovery of industrial production in Vietnam and China.
DGC	Chemicals	The semiconductor and electronic parts manufacturing industry will recover more positively in late 2023 and 2024, pushing yellow phosphorus and phosphoric acid prices.

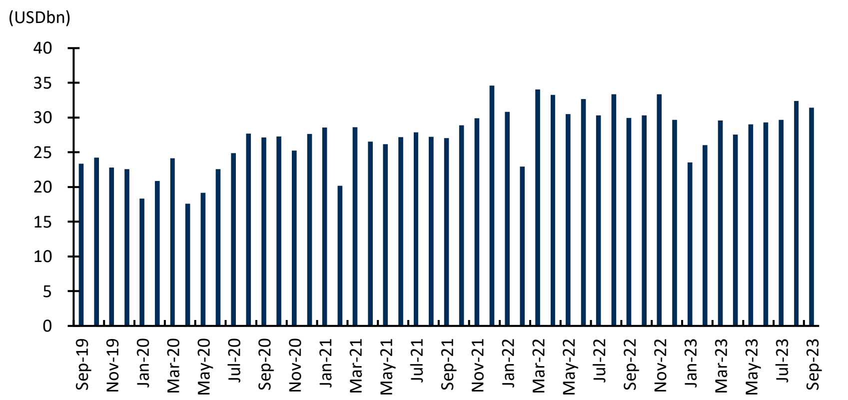
Source: KB Securities Vietnam

2. Export recovery

Export of goods should be on the path of recovery

Export is among the key determinants promoting domestic GDP growth. However, 2023 saw a decline in the export of goods primarily due to weak demand in major economies such as the US, the EU, and China, leading to stagnant domestic production. Specifically, 9M23 export turnover contracted by 8.2% YoY to USD259.7 billion, which we attributed partly to the high level achieved in the equivalent period last year following post-Covid economic reopening. In general, exports are back on track when reaching USD31.4 billion in September against a much lower USD23.56 billion in January. Along with that, the index of industrial production (IIP) hit 3.5 % YoY in 3Q23 after two quarters of negative growth. The production manager index (PMI) decreased slightly in September, but new order quantity rose. All these signs imply export growth in the coming months.

Fig 54. Vietnam – Export turnover (USDbn)



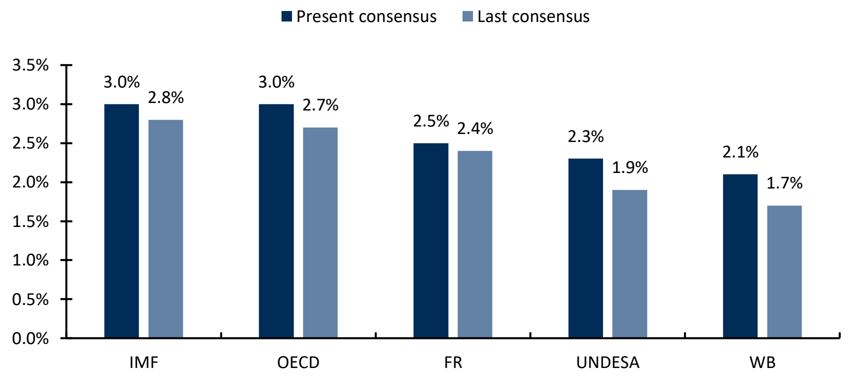
Source: General Statistics Office, KB Securities Vietnam

We expect Vietnam's exports to recover in the fourth quarter and grow stronger in 2024 thanks to both internal and external favorable factors, including:

The global economy is expected to grow stronger than initially forecast, leading to a slight recovery in demand in major partner countries

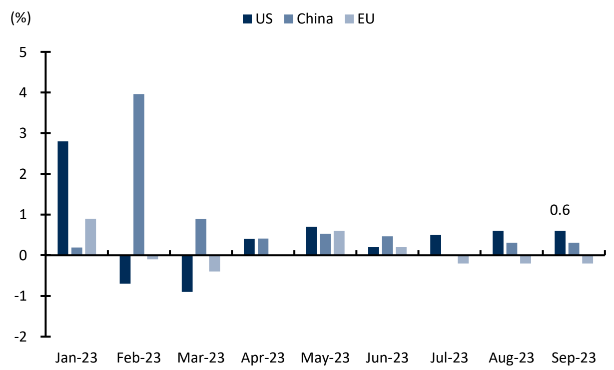
(i) Most international organizations are less pessimistic about global economic growth in 2023, given their upward revision of 0.1-0.4 percentage points versus initial forecasts earlier this year, thanks to positive signs in leading economies. In particular, the US is said to have had a soft landing, proven by quite good macroeconomic data, especially retail sales and producer price index (PPI) increasing more than expected (+0.6% MoM and +0.7% MoM respectively). The Euro bloc grew stronger than forecast in the second quarter, with improved production and consumption, encouraging Vietnam's exports. In the first eight months of the year, exports to the US market accounted for the majority with 27% of export turnover, followed by China (16%) and the EU (13%).

Fig 55. 2023F global economic growth by international organizations



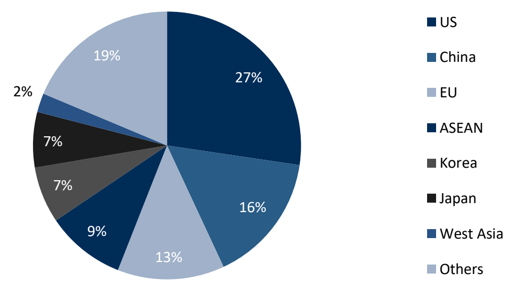
Source: IMF, OECD, FR, UNDESA, WB, KB Securities Vietnam

Fig 56. US, China, EU – Retail sales growth (%)



Source: Bloomberg, KB Securities Vietnam

Fig 57. Vietnam – Exports by country (%)



Source: Ministry of Industry & Commerce, KB Securities Vietnam

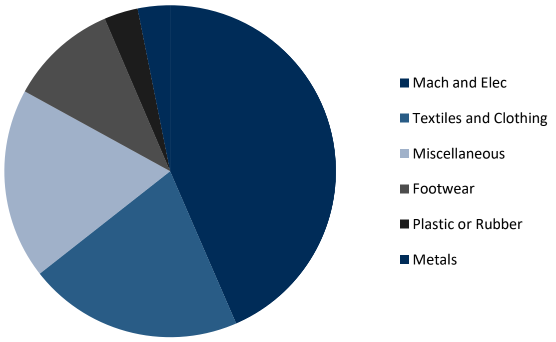
US inventory growth bottomed out following order cuts

(ii) Vietnam's key exports to the US are consumer goods like textiles and garments, footwear, consumer electronics, machinery, and smartphones. Meanwhile, US retail inventory growth slowed remarkably, from a high of 23% YoY last year to ~5% in July 2023. It is mainly due to the fact that US retailers have cut orders, including orders from Vietnam, to solve excess inventory due to worse-than-expected post-pandemic recovery of purchasing power. Typically, Walmart and Target’s inventory fell by 5% and 17% YoY in the second quarter, respectively. We assess inventory growth will likely bottom out at the end of 2023 before bouncing back from 1H24 on growing consumer demand. Accordingly, Vietnam's exports to the US market will progressively recover.

Rising exchange rate supports exports

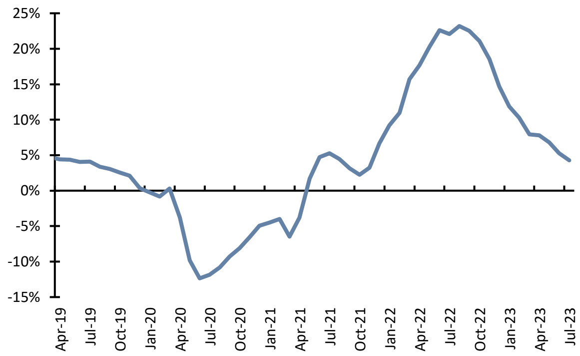
(iii) As mentioned earlier, we forecast the VND will depreciate another 3.5% against the USD from the level recorded at the beginning of the year. Although it may hit many aspects of the economy, it supports export activity as the rising USD/VND exchange rate will make Vietnam's export prices cheaper. However, the VND is one of the most stable currencies with the slightest depreciation versus the USD, so we consider the impact mild. On the other hand, export businesses will benefit from the rising exchange rate when booking revenue and earnings in VND.

Fig 58. Vietnam – Key exports to the US in 2018–2021



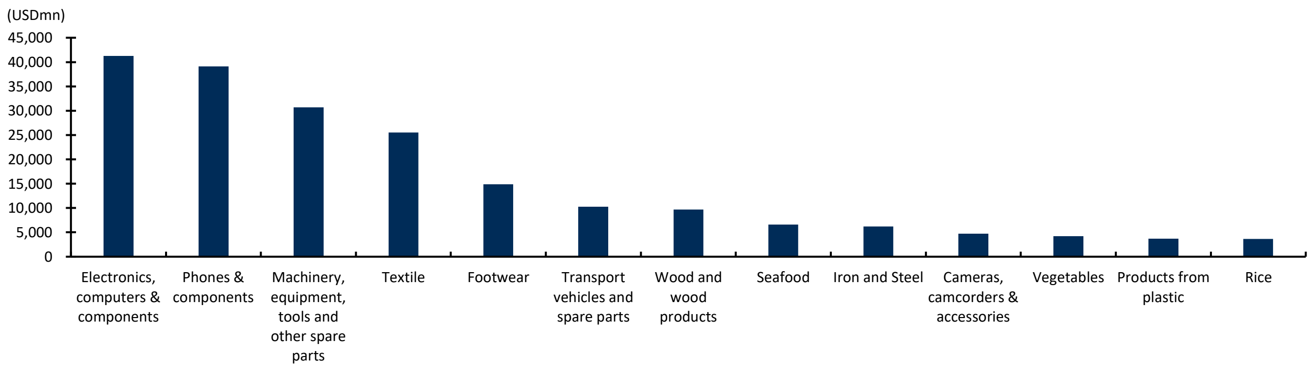
Source: WITS, KB Securities Vietnam

Fig 59. US – Retail inventories growth (% YoY)



Source: FRED, KB Securities Vietnam

Table 2. Vietnam – 9M23 export turnover by categories (USDmn)



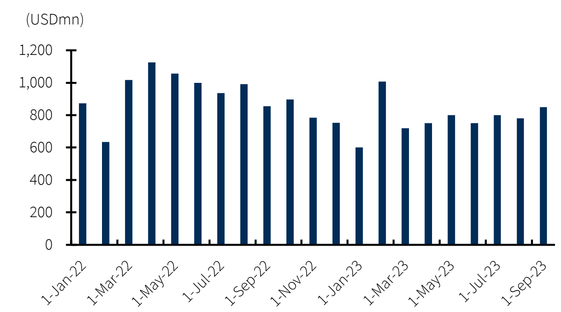
Source: General Statistics Office, KB Securities Vietnam

Overall, the FDI sector makes up ~70% of Vietnam's total export value, with primary products being consumer electronics, phones, machinery... The rest comes from the domestic sectors such as textiles and garments, seafood, wood, steel, rice, ... We believe the export recovery will directly impact the business prospects of export enterprises in the following industry groups:

(i) **Seafood, textiles & garments:** Driven by an expected demand recovery in the upcoming holiday season and slowing retail inventory growth, especially in the US market in light of cooling inflation. For the seafood industry, export value, although decreased, showed signs of improvement when reaching USD858.8 million (up 10.2% MoM), the highest since the start of 2023. Notably, in the same month, exports to the US expanded by 4% YoY after 11 consecutive months of negative growth. Besides, we believe that Japan's release of treated nuclear wastewater into the Pacific Ocean will more or less interrupt the seafood industry of regional countries. China has banned importing many aquatic products from Japan, which is seen as an opportunity for Vietnamese seafood. Thus, investors can consider investing in businesses with solid inner strength and benefiting from external factors like Vinh Hoan Corporation (VHC) and Nam Viet

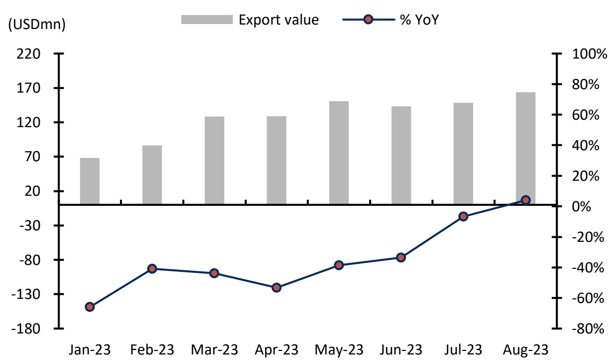
Corporation (ANV) during market corrections. As for the textile and garment industry, export value has tended to increase gradually since early 2023 and is expected to continue to recover slightly in the coming months. Nonetheless, we only take a neutral stance about the outlook for this industry due to recession risks affecting purchasing power for non-essential items like apparel.

Fig 60. Vietnam – Seafood exports (USDmn)



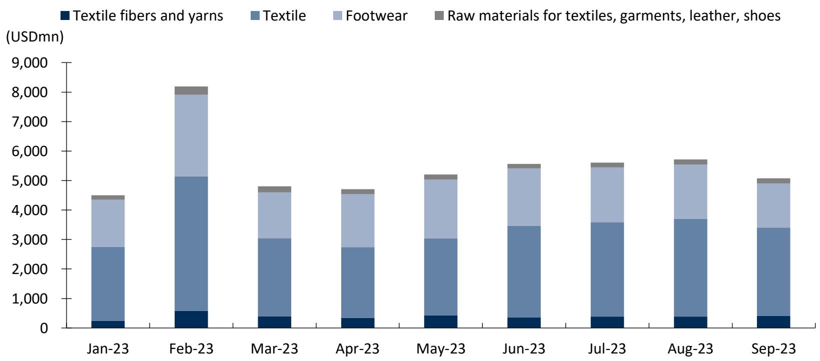
Source: General Statistics Office, KB Securities Vietnam

Fig 61. Vietnam – Seafood exports to the US (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Fig 62. Vietnam – Export volume of textile and garment products

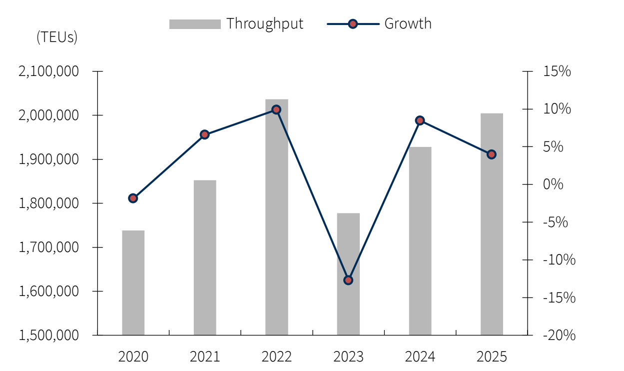


Source: General Statistics Office, KB Securities Vietnam

(ii) **Wood:** In the near term, wood exports will benefit from home renovation and furniture demand during the peak period with many holidays like the year-end period. In the long run, we expect the property market in the US (Vietnam's largest wood importer) to prosper in the third quarter of 2024 along with cooling interest rates, resulting in more wood export orders for Vietnam.

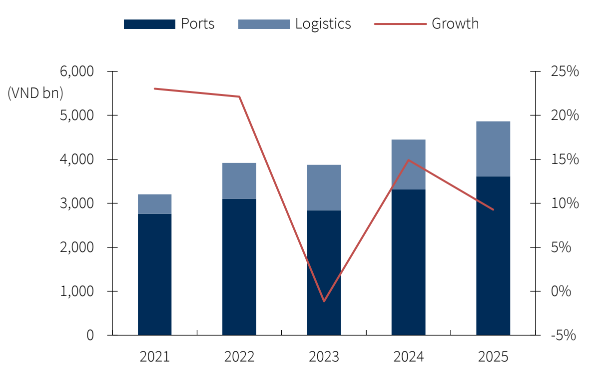
(iii) **Logistics:** Rising demand for cargo transportation following export recovery will help logistics enterprises see port throughput improve compared to previous quarters. In the medium to long term, we highly assess the growth potential of the logistics industry for (1) Vietnam remaining an attractive investment destination thanks to incentives from free trade agreements (FTAs) that the country has signed with several countries and blocs; (2) the government's plan to upgrade seaports; and (3) the amendment draft to replace Circular 54 by the Ministry of Transport. Hai An Transport & Stevedoring (HAH) has a stable source of income from port operations and benefits from expected port service charge increases in 2023 and 2024. Gemadept Corporation (GMD), in addition to improved financial expenses thanks to loan restructuring, is considering construction on Nam Dinh Vu 3 along with Gemalink 2, ensuring GMD's position in the medium and long term.

Fig 63. GMD – 2020A-2025F container volume (TEUs)



Source: Gemadept, KB Securities Vietnam

Fig 64. GMD – 2021A-2025F business results



Source: Gemadept, KB Securities Vietnam

V. Model portfolio

Table 3. Model portfolio

Ticker	Target price	Closing price (Sep 30, 2023)	TSR	2023F P/E	2023F NPAT	Investment catalysts
TNG	25,000	20,300	23%	N/A	5%	- Fashion inventories of TNG's partners have shown clear signs of decline, textile and garment exports have shown signs of recovery. - TNG's gross margin improved in the last four months. - Export activity benefits from rising exchange rate.
MSB	17,700	13,750	29%	6.00	16%	- The 12-month NIM remains stable at a high level. - Loan growth reached 13.2% YTD, outperforming the industry median of 2.06%. - Credit growth should hit 17-20% in the coming time.
KBC	39,500	32,100	23%	9.50	91%	- KBC should book revenue for more than 160 ha of industrial land this year. - Legal procedures for Trang Due 3 should be completed within 2023 and KBC can record IP land sales revenue starting from 2024.
VHM	80,200	45,500	76%	8.04	4%	- VHM continues to expand land bank in Hai Phong, Long An, Khanh Hoa. - Business results grew exponentially. - Sales at small-scale projects are going well.
CTD	58,400	47,800	22%	13.50	N/A	- CTD can book revenue and profits for the LEGO project at the end of 2023. - CTD has a competitive edge over other peers thanks to its huge cash flow. - Backlog ensures revenue growth.
PVS	45,700	38,600	18%	22.90	8%	- The domestic oil and gas mechanical & construction (M&C) segment should be more vibrant from 2024. - PVS has a competitive advantage in the renewable energy M&C segment.
PVD	30,200	25,800	17%	40.60	N/A	- PVD is expected to achieve VND443 billion in NPAT of the parent company after a loss of VND103 billion in 2022 and a profit of only VND20 billion in 2021. - The drilling rig rental market is experiencing dynamic growth amid tight supply, pushing charter rates and operating efficiency. - Jack-up rigs' utilization rate should increase from 82.5% in 2022 to 92.1% in 2023.
POW	15,400	11,600	33%	23.10	-13%	- POW completed repairs and overhauls in 2023. - POW's share price has experienced a sharp correction, resulting in a high discount versus its valuation.
HAH	48,600	38,800	25%	12.40	-60%	- Freight rates should slow their rate of decrease and move sideways. Short-term time charter contracts contribute to maintaining revenue from the fleet. - The proposal to raise the floor price of container stevedoring service at container ports by 10% is expected to lift port profits. - HAH ordered three new ships with a total expected expense of as much as VND2,000 billion.
DBC	27,400	21,900	25%	80.40	1540%	- Pig prices should remain high. - DBC's share price has experienced a sharp correction, resulting in a high discount versus its valuation.

Source: KB Securities Vietnam

VI. Sector outlook

Residential real estate

Outlook: Neutral
Tickers: VHM, KDH, NLG

New apartment supply in both Hanoi and Ho Chi Minh City (HCMC) remains limited, but the number of sold units has recovered from the previous quarter. In the second quarter of 2023, HCMC saw 1,254 condos (-57% QoQ, ~85% YoY) opened for sale due to concerns about poor absorption rates and 1,500 condos (+56% QoQ, -87% YoY) sold. Primary home prices in the quarter dropped by 4.8% QoQ, marking the first correction since 2018 following the introduction of preferential sales policies. Meanwhile, in the same period, Hanoi saw 1,820 condos (-10% QoQ, -62% YoY) opened for sale and almost 2,280 units (+14% QoQ, -62% YoY) sold. Primary home prices grew 1% QoQ and 10% YoY due to the increased share of high-end products.

The townhouse/villa segment remains quiet. The market recorded the launch of only one project with 15 properties, the lowest recorded over the past decade. Sold units plunged by ~85% YoY to 30. The average primary price was relatively unchanged in the context of limited supply. In Hanoi, there were 152 units from two projects launched (-97% YoY) and 541 units (-90% YoY) sold, and the average primary price picked up ~11% YoY.

Challenges in the property market are set to last on (1) high mortgage rates, (2) developers' difficulties in accessing funding, including bank loans and the local bond market, and (3) project delays due to lengthy legal procedures.

- Some good news in support of the housing market includes (1) Decree 08 and Resolution 33 helping clear bottlenecks for the corporate bond and real estate markets, (2) the expected approval of amendments and supplements to the Land Law, Housing Law, and Real Estate Business Law this October and (3) the acceleration of public spending disbursement for large projects like North-South expressway, Long Thanh International Airport, traffic axes connecting the downtown of Hanoi and HCMC with neighboring provinces, boosting real estate prices as well as real estate investments.
- Residential real estate stocks have recovered 20-30% in their price in 3Q23 in response to positive news in the short term. Investors are encouraged to disburse only after a deeper correction and invest in businesses with sizeable clean land banks, transparent legality, projects on sale, and a strong financial position. Our top picks are Vinhomes (VHM), Khang Dien House Trading and Investment (KDH), and Nam Long Group (NLG).

Senior Analyst Pham Hoang Bao Nga

Industrial real estate

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

For 8M23, both foreign direct investment (FDI) inflows and new FDI projects increased, ensuring growth potential for industrial parks. Specifically, the total newly registered capital, adjusted and contributed capital to buy shares and buy contributed capital of foreign investors neared USD18.15 billion (+8.2% YoY). Over the first eight months of 2023, 1,924 new projects were granted investment registration certificates (up 70% YoY), with a total registered amount of more than USD8.87 billion (up 40% YoY).

Rental prices are still on the rise, and the absorption rate is also much higher YoY. In particular, 1H23 absorption rate in the Northern and Southern tier-1 markets was 386 ha (up 60% YoY) and 397 ha (up 20% YoY), respectively. Per CBRE's 2Q23 report, the average price of the primary market in the North and the South rose to USD127/m^2 (+3.3% QoQ) and USD187/m^2/lease term (+8% QoQ). Over the past four years, the average price has increased by 7%/year in the North and 13%/year in the South. We expect rental prices to remain high through year-end and maintain annual growth of 4-8% in the following years.

The domestic industrial land market will benefit from: (1) a new wave of investment from major companies, leading to solid demand for industrial land, especially for consumer electronics in the North (2023 saw production expansion of large manufacturers such as Foxconn and Goertek in Bac Giang and Bac Ninh) and car manufacturing, garment, and packaging in the South, (2) the shift of FDI flows out of China, (3) the acceleration of transportation infrastructure projects such as North-South Expressway, Ring Road 4, seaports, and airports, and (4) the US and Vietnam elevating ties to a comprehensive strategic partnership during the recent visit of the US President, promoting investment capital flows from the US to Vietnam in the foreseeable future.

In addition, industrial park developers also face many risks: (1) supply scarcity plus lengthy and complicated legal procedures and (2) the global minimum tax effective from 2024, undermining Vietnam's preferential rates for foreign investors and thus lowering FDI flows into Vietnam in the coming years

Industrial real estate stocks have fallen sharply, but we assess their current price has partly reflected positive factors. Speculators can disburse at deeper corrections. Long-term investors can consider industrial park developers with clean land banks located in regions with many large FDI projects, namely Kinh Bac City Development Holding (KBC), Vietnam Rubber Group (GVR), and Phuoc Hoa Rubber (PHR), as well as those free of bond payment burdens.

Analyst Nguyen Thi Ngoc Anh

Steel

Outlook: Neutral
Tickers: HPG, HSG, NKG

For 7M23, steel consumption reached 13.6 million tons (-9% YoY), with construction steel sales down 12% YoY but HRC sales up 12% YoY thanks to competitive pricing strategy. The export channel was the highlight of 3Q23 when HPG, HSG, and NKG all recorded an increase in HRC and galvanized steel export orders, mainly from Europe when distributors increased inventory following the temporary suspension of European steelmakers for scheduled maintenance. However, domestic businesses are under competitive pressure from Chinese steel sources, causing HRC prices to decline in the medium term.

Policies to support homebuyers in mainland China are expected to boost consumption. The utilization rate of blast furnaces in China increased for three consecutive months of 3Q23, reaching 74.4% in September 2023 after the Chinese Government cut mortgage and deposit rates. This encouraged distributors to increase inventory, causing iron ore prices to rise 3% QoQ. Some domestic manufacturers announced to raise steel prices by VND100,000/ton in the second half of September 2023. We anticipate steel prices will increase slightly in 4Q23 thanks to decreased low-priced inventory imported from China. As a result, the 4Q23 gross profit margin will be less affected by recent iron ore price hikes. Besides, China's steel production cuts in 4Q23 to hit green goals will push steel prices in the last months of the year. In particular, China produced an average of 8.9 million tons each month in the January-through-July period. Assuming steel output in 2023 will be flat YoY, average monthly production output in the year-end period should drop by 15% against previous months.

Consumption demand primarily comes from exports. For HPG, steel plants must run at their maximum capacity to meet HRC orders in 3Q23, equivalent to 250,000 tons/month. Meanwhile, the steel giant also promoted construction steel exports in the context of soft domestic consumption, proven by the export volume in August 2023 reaching 98,000 tons (up 1.2x compared to the January-July average). HSG and NKG also revealed rising galvanized sheet order quantity in 2H23, pushing 2H23 earnings back to positive territory.

We are neutral about the steel industry since stock prices have advanced 50-70% YTD, which we believe reflected the expected recovery of business results in the short term. We recommend steel stocks having experienced a deep correction and businesses with great growth potential thanks to rising new orders and consumption in the coming time. Notable investment opportunities include Hoa Phat Group (HPG), Hoa Sen Group (HSG), and Nam Kim Steel (NKG).

Analyst Nguyen Duong Nguyen

Construction

Outlook: Positive
Tickers: VCG, HHV, C4G, DHA, VLB

Public investment disbursement acceleration helps to promote infrastructure construction. Statistically, the total investment capital for the approved sub-projects of the North-South Expressway reaches VND110.926 billion, from 2023 - 2025, with a total length of 729 km. These projects had contractors selected, and construction started in January 2023. Long Thanh International Airport has a total investment of VND114,450 billion for phase 1. We see that the revenue of construction businesses had increased substantially in the 2020 - 2022 period thanks to public projects and should rise further during 2023 - 2025 following the industry life cycle. In addition, over the next 2-3 years, we believe input material prices will decline to pre-Covid levels. Therefore, we expect the gross profit margin of infrastructure construction businesses will improve significantly in 2023 - 2025. Our top picks are Vietnam Construction And Import-Export (VCG), Deo Ca Traffic Infrastructure Investment (HHV), and CIENCO4 Group (C4G) due to their large backlogs after winning many bids for key projects.

Construction stone consumption is driven by public projects, which we estimate to reach 21.5 million m3 in 2023 - 2025, including 13.5 million m3 in the South, mainly from Long Thanh International Airport (7.9 million m3). For expressway and infrastructure projects, we believe construction stone will account for 35% of construction costs, excluding compensation and site clearance costs. In the medium term, we estimate that Long Thanh will add 14 million m3 of construction stone to the total sales volume in the Southern market between 2024 and 2027, assuming the construction progress of Long Thanh Airport Phase 2 and Phase 3 will be on schedule. This will be a major driving force for construction stone businesses. Also, we believe businesses in the Southeast region will benefit from higher selling prices thanks to (1) surging demand and (2) decreased supply following the closure of the Tan Dong Hiep and Nui Nho quarry mines with a combined capacity of ~5 million m3/year. We like Hoa An JSC (DHA) and Bien Hoa Building Materials Production and Construction (VLB) because these are two out of three enterprises with the largest stone reserves in the Southern region and owning mines in the Tan Cang quarry cluster (which has a price advantage thanks to its favorable geographical location for transportation to Long Thanh Airport).

We believe that the story of benefiting from public investment remains a supporting factor for the business activities of construction and construction material enterprises in the medium term. Nevertheless, given substantial increases since the beginning of the year, investors are recommended to wait for adjustment periods with higher discounts before disbursement.

Analyst Nguyen Duong Nguyen

Power

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

The electricity output of Vietnam's power system improved slightly YoY, with 8M23 output reaching 186.3 billion kWh (+2.7% YoY). The IIP is estimated to contract by 0.5% YoY, the IIP index of the steel industry increased slightly by 1.6% YoY, while that of other energy-intensive industries did not see much improvement, such as cement (-4.3% YoY), paper manufacturing (-4.8% YoY). Regarding the mobilization rates of several types of power plants to the total electricity generation, coal-fired power and hydropower still account for the largest proportion with 47.3% and 26%, respectively.

Prices in the competitive generation market (CGM) have decreased markedly, recording VND783/kWh (-48% YoY) in August 2023. However, the figure for 8M23 is still higher YoY, reaching an average of VND1,602/kWh (+11% YoY). In August 2023, heavy rains in the Northern and Southern regions provided abundant water for hydropower generation. Lower temperatures also reduced load demand, thus lowering electricity prices and mobilization.

We maintain our view on the prospect of different types of power plants in 4Q23 as follows:
- Hydropower: El Nino will likely last until the end of the year and into 2024, taking a toll on hydropower plants, especially during peak heat waves, resulting in smaller amounts of water flowing into lakes and reservoirs.
- Thermal power: The mobilization rate for thermal power is forecast to rise. Notably, plants in the North will be major beneficiaries due to the heavy dependence on two main categories of energy for electricity generation without many alternatives. Besides, coal and natural gas prices tend to subside, supporting thermal power plants.
- Electrical construction: Businesses will benefit from electrical service packages, including line and transformer station construction and installation.

Given the current price movements of power stocks, especially of thermal power plant operators in the North like Hai Phong Thermal Power (HND) and Quang Ninh Thermal Power (QTP), we find that their prices partly reflected the market's expectations about business prospects. However, some others, such as PV Power Nhon Trach 2 (NT2) and PV Power (POW), have experienced quite strong corrections, which is a good investment opportunity with the expectation of thriving thermal power in 2024. Despite our positive view towards this sector, we recommend investors disburse during deep corrections to enjoy higher discounts attractive enough to each investor's taste.

Analyst Nguyen Dinh Thuan

Information technology

Outlook: Positive
Tickers: FPT, CMG, CTR

For 8M23, IT revenue went down 5% YoY to USD86.8 billion, driven by hardware and electronics exports down 4.7% YoY to nearly USD72.8 billion due to reduced investments amid a slowing global economy. The number of ICT enterprises increased by 500 to 72,800 as of July 2023.

IT spending has not improved in the US and EU markets. Interest rate hikes forced businesses to cut costs, including IT spending. In the US, new software import orders this past June only increased slightly by more than 1% YoY, the lowest since 2022. Economic headwinds in the US and EU will adversely affect Vietnam's IT industry, given a large proportion of software export value in these markets.

The software export segment is still growing well in the Japanese and APAC markets. As in the case of FPT Corporation (FPT), global IT services in 2Q23 increased by 30.2% YoY, and newly signed contract value expanded by 28.6% YoY, with the main contribution from Japan (up 39.1% YoY) and APAC (up 42.5% YoY). Software exports to these two markets will still be on the rise on (1) strong digital transformation in APAC and (2) cheaper-priced IT solutions provided by FPT against competitors.

We remain upbeat about the prospects of software export in the medium to long term for the following reasons: (1) global investment in IT, especially digital transformation, should remain high. Gartner, an American-based technological research and consulting firm, revised its projection for global IT spending in 2023 and 2024 to 13.7% and 14.1% and (2) Vietnam's labor costs are relatively low compared to other strong software exporting countries.

We see that technology companies will maintain their double-digit growth in 2023. Investment opportunities include companies with strong software export and digital transformation, namely FPT Corporation (FPT) and CMC Corporation (CMG). Each correction will be an opportunity to buy technology stocks due to their long-term bright prospects.

Analyst Nguyen Dinh Thuan

Banks

Outlook: Neutral
Tickers: VCB, BID, ACB, STB, CTG

9M23 loan growth remained sluggish. The State Bank of Vietnam (SBV) said credit growth of the entire economy as of the end of September 2023 reached 6.92% YTD, reflecting slowing growth across most sectors. In general, loan demand is still soft amid a weak macro environment while the real estate market is yet to recover. Most banks under our coverage recorded relatively low credit growth in 1H23, and only a few lending to real estate achieved more outstanding increases, such as Techcombank (TCB, +9.7%YTD), HDBank (HDB, +9.3% YTD), VPBank (VPB, +10.1% YTD), and Military Bank (MBB, +10.6% YTD). Besides, we see aggregate debt structures shifting their focus from individual to corporate customers due to individual customers being affected by the economic downturn.

NIM is forecast to recover alongside cooling deposit interest rates. The cost of funds in 1Q23 jumped by 94 bps QoQ due to high interest rate levels from the end of 2022. However, we find that the rate of increase has subsided in 2Q23 (+38 bps QoQ) following the SBV's policy rate cuts. Accordingly, state-owned banks adjusted deposit interest rates down 1.0-1.6%, while joint stock commercial banks revised down 1.3-1.8%. We expect the cost of funds will improve significantly from 3Q23 because high-interest rate term deposits mostly have 3 to 6-month terms, and interest rates should maintain their current levels in the fourth quarter. Also, lending interest rates have dropped dramatically since early 2023 following the government's request to support businesses. We believe lending interest rates will continue their downward trend but at a slower pace and with a lag compared to deposit interest rates since lending interest rates are usually adjusted every 3-6 months. KBSV expects NIM to bottom out in the third quarter before recovering in the fourth quarter, though it cannot reach the high base of 2022. However, we note that risks to the recovery of NIM may come from (1) the ratio of short-term capital for long-term loans (SFL) falling to 30% will cause some banks to readjust their mobilization portfolio, raising the proportion of long-term deposits, leading to an increase in cost of funds; (2) competition in lending interest rates among banks following Circular 06 (allowing customers to borrow from another bank to repay outstanding debts) will negatively impact NIM of the entire industry. Nonetheless, in case these risks occur, the impact may be insignificant and it will not affect the entire system but only a few banks.

Asset quality continues to deteriorate, but the NPL ratio has improved. The NPL ratio of 27 banks in the banking system increased from 1.9% in the first quarter to 2.1% in the second quarter, showing a slowing pace of increase. The positive thing is that the three debt groups forming the NPL ratio showed signs of decline but with divergence. Banks affected by the real estate market and individual loans due to individual customers being affected by economic slowdown like TCB, VPB, ... will be under more pressure of rising NPL ratios than banks with safe loan portfolios such as Vietcombank (VCB), Asia Commercial Bank (ACB). Besides, the issuance of Circular 02 on debt rescheduling will partly downplay the risk of rising bad debt this year. However, we assess that the scale of this debt restructuring will be smaller than during the COVID-19 pandemic era when Circular 02 only allows standard debt restructuring. KBSV expects the NPL ratio to peak in the third quarter and to be kept in check in the year-end period when the economic outlook is brighter and customers' financial health improves.

Challenges remain, but there will still be investment opportunities. In the short term, the banking sector will still face difficulties derived from corporate bonds and bancassurance. However, we still find bright spots in the industry's outlook in 2H23. Credit growth will hardly reach the 14% target but can achieve 10-12% according to KBSV's forecast based on the expectation that (1) individual loans will recover in the year-end period; (2) loan demand should be higher thanks to import-export activities; (3) legal problems related to the real estate is gradually resolved, although it will take time for the property market to warm up. Strong credit recovery will boost net interest income (NII) in the remaining months. Besides, as mentioned earlier, we expect more positive developments in NIM and NPL control. We still highly assess banks' prospects in the long term after difficult times with some prominent names such as VCB, ACB, and Sacombank (STB).

Deep corrections gave some banking stocks attractive discounts, including VCB, ACB, BID, and Vietinbank (CTG). The P/B of the entire industry is currently equivalent to the 2016 level when the real estate market gradually showed signs of recovery. Given long-term growth potential, banking stocks deserve higher valuations. Investors are recommended to continue the long-term accumulation of banking stocks during corrections for higher upside.

Senior Analyst Nguyen Anh Tung
Analyst Pham Phuong Linh

Retailers

Outlook: Neutral
Tickers: MWG, FRT, PNJ

Total retail sales of goods and services continued to grow but more slowly, reaching VND4,044 trillion (+10% YoY) for 8M23 and VND515.4 trillion (+7.1% YoY) in August 2023 alone. Total retail sales have shown a clear deceleration in recent months, up 5.4%, 7.4%, 5.1%, and 7.1% in May, June, July, and August, respectively, versus double-digit growth in previous months. Although revenue of the tourism and accommodation sector grew well on tourism recovery, revenue from retail sales of goods decelerated for most items due to weak purchasing power and people cutting their spending.

The business results of listed retail companies in 2Q23 were disappointing. The price war to gain market share intensified and eroded the earnings of ICT firms. Mobile World Investment (MWG) achieved a net profit of only VND17 billion, and FPT Digital Retail (FRT) reported a loss of VND219 billion. Masan Group (MSN), a business in the retail-consumer sector, also saw its net profit plunge by 90% YoY due to surging borrowing costs. Meanwhile, Phu Nhuan Jewelry (PNJ) is a rare enterprise that maintains earnings in the first half of 2023 almost equivalent to the same period thanks to its more resilient middle-affluent consumer base and not being hit by the price war.

Policies in support of economic growth need more time to have a noticeable impact. Despite cooling interest rates, credit growth remains relatively low, reaching 5.3% in 8M23 vs. 9.5% in 8M22 as businesses were still hesitant in expanding production and banks aimed towards capital adequacy. Reduced interest rates will partly stimulate consumer lending, a significant revenue contributor to retail firms. In particular, peak installment revenue accounted for about 40% and 20% of the overall revenue of MWG and FRT, respectively. We believe that the retail industry will continue to recover slowly in the near term and more strongly in 2024, thanks to the economic stimulus measures.

The manufacturing sector showed signs of recovery following monetary and fiscal policies to stimulate the economy, evidenced by its PMI in August once again exceeding the 50-point threshold for the first time since February 2023, touching 50.5 points. The story is expected to drive real income, thus positively impacting the retail industry.

Many stocks are priced above average, reflecting investors' expectations for a recovery in 2024. Some stocks have increased by over 50% from their bottom in price. KBSV believes that the current price range quite closely reflects the future expectations of retail stocks. We will closely monitor some stocks with separate growth stories like FRT with Long Chau and MWG with Bach Hoa Xanh and make appropriate adjustments in the future.

Analyst Nguyen Truong Giang

Fisheries

Outlook: Positive
Tickers: VHC, ANV

Export value continued to decrease YoY but showed signs of recovery with months. According to the General Department of Customs, domestic seafood export turnover neared USD858.8 million in August 2023, up 10.2% MoM but down 13% YoY. It is the ninth successive month seafood exports witnessing YoY negative growth. For 8M23, Vietnam's seafood exports reached USD5.79 billion, down 24% YoY. Regarding the market, exports to the US in August increased by 4% YoY after 11 months of negative growth. Meanwhile, the Japanese market eyed a sharp decline of 21.9% YoY. Others, such as China and Korea, although showing more positive signs than in July, also dropped YoY.

Strong recovery is expected in the year-end period. We believe the event of Japan releasing contaminated radioactive wastewater into the Pacific Ocean will more or less interrupt the seafood trade across regional countries. China has banned importing many aquatic products from Japan, which is considered an opportunity for Vietnamese seafood. Seafood exports to China should recover positively in the remaining months thanks to (1) growing demand during year-end holidays in China and (2) gaining market share from Japan. Demand in other major markets, such as the US, South Korea, and the EU, may also improve in the upcoming holidays.

The fisheries industry should enjoy a recovery in 4Q23 on supporting events. Most recent is the business trip of Minister of Agriculture and Rural Development Le Minh Hoan with the European Commission (EC) in an effort to mobilize the EC to remove the yellow card for illegal fishing. In the US market, according to preliminary determinations in the administrative review POR19, the DOC determined the anti-dumping duties of two businesses, Vinh Hoan Corporation (VHC) and Can Tho Aquaproduct Import And Export (CCA). The preliminary tax rate given at the POR19 has been significantly reduced compared to the final results of the previous POR18 review. It is a positive signal for local pangasius exporters to the US in the coming time, especially in the context of the recently decreased inventory in this market.

We give a positive view on fish stocks, given the expectations about a recovery in the second half of 2023 and 2024 thanks to more positive developments in the export markets. Many stocks are trading at historical prices (2-year, 5-year average). Businesses with solid inner strength and benefiting from external factors, such as Vinh Hoan Corporation (VHC) and Nam Viet Corporation (ANV), are good investment opportunities during market corrections.

Analyst Nguyen Truong Giang

Oil & Gas

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

Oil prices recovered better than expected in 3Q23 following OPEC+'s production cuts and a significant increase in global demand during the peak season. Brent crude oil rose sharply from USD75/barrel in June 2023 to USD92/barrel in September 2023.

We expect oil prices to remain high towards the end of 2023. For 2023, the IEA forecasts global crude oil demand to increase by 2.2 million barrels/day while supply only increases by 1.5 million barrels/day. We assess that crude oil prices will remain above the USD80/barrel threshold until the end-2023 as production growth in other regions cannot offset production cuts from OPEC+. Crude oil and finished petroleum products inventories are at record lows across many economies and will continue to support oil prices in the remaining months.

The global upstream oil and gas segment is about to enter its golden growth cycle. Brent crude oil far exceeding the current level of USD70/barrel will encourage exploration and production (E&P) activities worldwide. We find global E&P activities very dynamic, especially in the Middle East, when countries must step up E&P activities in 2023-2030 to wean themselves from dependence on fossil fuel revenues. We believe the global E&P segment will likely enter a new growth cycle with the return of investment capital after a decade of investment shortage due to the oil price crisis and the COVID-19 pandemic.

The domestic E&P market will be more vibrant from 2024 thanks to the Block B - O Mon gas pipeline project making progress. From our observation, the project would not receive the Final Investment Decision (FID) until mid-2024 due to unresolved problems related to selling price and transportation costs. However, in September 2023, PetroVietnam (PVN) issued a resolution on this. Accordingly, PVN can issue limited letters of acceptance (LLOA) for offshore package EPCI 1 and a number of other upstream and midstream packages with the approved budget over the next six months. If the Block B - O Mon project cannot get the FID in the next six months, a Side Agreement will be negotiated during the implementation of the LLOA, allowing PVN to continue the project until the FID is approved. This means that the implementation of bid packages for the project can happen in 1H24 and no longer depend entirely on the FID as before. In addition to Block B - O Mon, we expect a number of other local projects to be implemented soon, such as Camel Vang A&B, Su Tu Trang 2B, and possibly Nam Du U Minh.

The drivers for oil and gas stocks vary among downstream, midstream, and upstream groups. The upstream group will benefit from (1) a dynamic global E&P market due to high oil prices and (2) the domestic E&P market expected to be more vibrant from 2024. In particular, PV Drilling & Well Services (PVD) will benefit from rising demand in a tightened drilling rig market, pushing rental prices and utilization rates. PV Technical Services (PVS), in addition to technical services for the oil and gas industry benefiting from a more dynamic E&P market, the company's growth momentum will come from the improved margin of the wind power mechanical and construction (M&C). Concerning the midstream companies, rising crude oil and fuel oil (FO) prices will help improve business results for PV Gas (GAS) in 2H23. However, the LNG segment will face many challenges due to risks in the midstream and downstream phases caused by unresolved issues under sales and purchase agreements. PV Transportation (PVT) will be driven by (1) expected favorable liquid bulk freight rates due to demand outstripping supply and (2) a fleet expansion plan until 2025. For the downstream group, we expect Binh Son Refinery (BSR) to see improvements in business performance in 2H23 thanks to the positive outlook for high crude oil prices and rising crack spreads.

We maintain our POSITIVE view on the oil and gas industry based on the expectation that oil prices will anchor at high levels and global and domestic E&P activities will be more vibrant. Our top picks are PVS, PVD, and PVT. They all have increased sharply in 9M23, but we believe their current market price still does not reflect the full growth potential, especially in the context that the global oil and gas market will potentially enter the golden growth cycle in the near term.

Analyst Pham Minh Hieu

Logistics

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

Total port throughput has improved but has not yet reached the level recorded last year. According to the Vietnam Maritime Administration, 8M23 cargo volume through Vietnam's seaport system was 565 million tons (+3% YoY), with imported goods up 4% YoY to 165 million tons and exported goods down 1% to 133 million tons. 8M23 container throughput alone recorded 18.2 million TEUs, down 3% YoY, implying a slower rate of decline compared to the first seven months of the year.

The decline in container throughput varies among port regions. In 1H23, port throughput passing through Vung Tau port saw a significant decrease of up to 24% compared to a drop of 5% in the North as (1) intra-Asia trade is showing positive signs following China's reopening and (2) Vung Tau port owns a customer base primarily from the US and the EU with consumption declining heavily due to the impact of high inflation.

We reiterate our NEUTRAL view on logistics businesses in 4Q23. In the second half of 2023, port service charges may keep moving sideways. Output should improve slightly against 1H23 on the expected recovery of shipping demand for input materials (mainly imported from China) thanks to the upcoming holiday season in 4Q23, pushing export volume. However, the business results of container port enterprises will still be significantly lower than in 2022 due to (1) weak commodity consumption due to world economic instability and slowing trade and (2) competitive pressure on domestic port service rates, which are already lower than many regional countries, due to low demand. In the medium and long term, the logistics sector still has significant growth potential when: (1) Vietnam remains an attractive investment destination thanks to incentives from free trade agreements (FTAs) that the country has signed with several countries and blocs; (2) the government is investing in many projects to upgrade and develop seaport infrastructure; and (3) the Ministry of Transport this past August issued an amendment draft to replace Circular 54, increasing stevedoring service costs by 10% and even higher for deep-water ports and green ports, expected to apply from 2024.

In the second half of 2023, the shipping industry seems less positive than the seaport industry. The main activities of shipping enterprises, self-operated shipping service and ship leasing, are expected to experience negative growth compared to 1H23. Spot rates and rental prices under time charter contracts are approaching their 3-year bottom after a short-term recovery in August 2023, dragging down the revenue and earnings of shipping companies. The shipping industry also faces challenges from falling demand and oversupply, specifically: (1) shipping demand not showing signs of improvement due to weak purchasing power in major markets in the past year amid economic volatility and (2) ship oversupply concerns as new ship orders continue to increase higher and faster than demolished ship quantity.

Year to date, most stocks in the logistics sector have increased by 30 – 50% in price in response to positive news. Hai An Transport & Stevedoring's (HAH) stock price even increased by more than 70%. Investors should invest in seaport and shipping businesses with high growth potential and healthy financial structures, namely Gemadept (GMD) and HAH, and disburse during sharp corrections for a better return.

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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