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Stock Market Outlook 2024

Accelerating after a break

In the base case scenario, we forecast a reasonable target range for the VN-Index at the end of 2024 to be around 1,330 points, representing average EPS growth of 16.4% of companies listed on the Ho Chi Minh Stock Exchange (HSX) and a target P/E of 15.3x, approximating to the last two years' median.

Throughout 2024, we assess that there are four trend-shaping factors for the Vietnamese stock market, including: (1) domestic economic recovery with GDP growth around 6%, creating a favorable environment for listed businesses to expand operations and return to their growth track with a projected 16.4% increase in the average EPS growth, (2) a low-interest rate environment maintained, with loan interest rates still having room to decrease further and M2 money supply returning to pre-pandemic levels, boosting cash flows into the stock market, (3) the Fed officially making a monetary policy U-turn at the end of the first quarter of 2024 in the context of inflation in the US cooling down as expected and the US economy weakening without slipping into a severe recession, and (4) China's economy experiencing a slowdown, but recovery is expected in the second half of 2024.

The biggest risk elements that could derail our projections are (1) geopolitical instability that may send commodity prices, energy costs, sea freight rates, etc spiraling, intensifying inflation pressure and thus constraining central banks' monetary policies, (2) a depression occurring in one of the major economies, particularly the US and China, adversely affecting the global and Vietnamese economies, and (3) the collapse of the domestic corporate bond market resulting from a record-high maturity value in 2024, unexpected incidents similar to the criminal case associated with disgraced property developer Van Thinh Phat and lender Saigon Joint Stock Commercial Bank (SCB) that threaten the safety of the banking system, or worse-than-expected recovery of the real estate market.

In 2024, our equity research department positively assesses Securities, Power, Information Technology, Retail, Industrial Real Estate, Oil & Gas, and Steel sectors *(Please refer to Section V of this report for further details)*.

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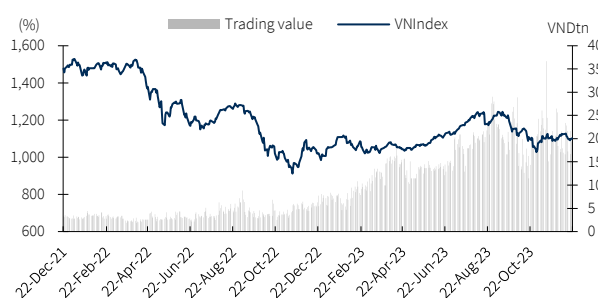
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I. Stock market outlook in 2024

Vietnam's stock market rose slightly in 2023 with a robust recovery in liquidity

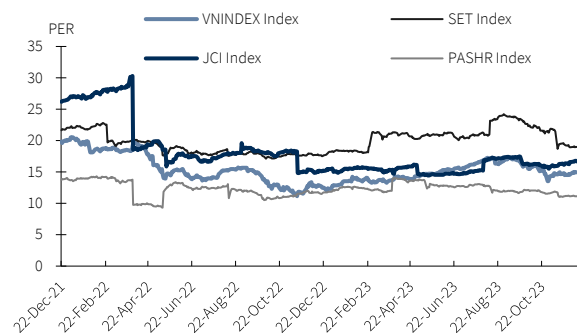
Vietnam's stock market struggled to recover for 2023 as a whole under the influence of different conflicting factors. On the positive side, the sharp decline in interest rates after rising high by the end of 2022 is the most significant supporting factor for cash flow to return to the securities channel. However, there are factors holding back the market, namely macroeconomic weakness, sharp decline in corporate earnings, not-as-expected recovery of China following reopening, and geopolitical conflicts in the Middle East... As of December 28, the VN-Index rose 12% in absolute value and 12.2% in the average daily trading value compared to 2022.

Fig 1. Vietnam – VN-Index & trading value (points,



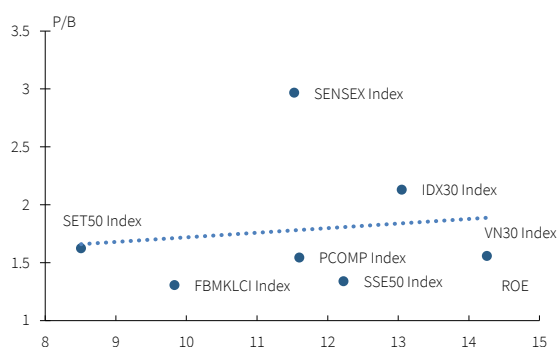
Source: Bloomberg, KB Securities Vietnam

Fig 2. ASEAN4 – P/E movements (x)



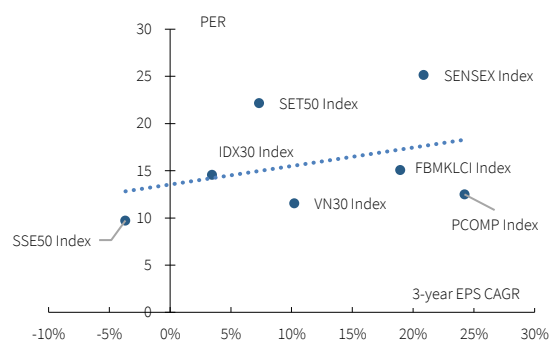
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – P/E & ROE correlation of stock markets



Source: Bloomberg, KB Securities Vietnam

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



Source: Bloomberg, KB Securities Vietnam

The local stock market can enjoy a more pronounced recovery trend in 2024

Entering 2024, we believe the domestic market will see a clearer recovery trend, determined by four major factors including *(see also Section III of this report for more details):*

Domestic GDP growth should return to around 6% for 2024 after modest growth of ~5% in 2023. Our more optimistic view on the economic prospects in 2024 is attributable to the following key drivers: (1) a more prosperous and healthier real estate market, (2) supportive monetary and fiscal policies that support maintaining low interest rates, strong public investment, the ongoing tax exemption and reduction policies, and (3) other enduring driving forces such as foreign direct investment (FDI), domestic consumption and export recovery, ... The economic rebound will create a favorable environment for HSX-listed companies to expand their operations, boosting revenue and earnings growth.

Interest rates will stay low, and public investment will continue to be bolstered. With the expected moderation in inflationary and USD/VND exchange rate pressures in 2024 coupled with low public debt, we believe expansionary fiscal and monetary policies will remain throughout 2024. This not only supports the market from an economic growth perspective but also helps to improve cash flows into the stock market, thus pushing stock prices, particularly among industry groups benefiting from this factor.

The Fed will soon pivot its monetary policy in the context of inflation in the US cooling down as expected and the US economy weakening without slipping into a severe recession. Recent data on the US economy (cooling job market and inflation), the results of the Fed's December policy meeting, the Fed's Dot Plot, Fed officials' speeches, and the CME FedWatch Tool all show that the Fed will very likely lower interest rates at some point in 2024. KBSV's market research analysts anticipate the earliest rate cut to occur at the end of the first quarter of 2024 (1Q24). This is seen as a driver for the global stock markets as well as the Vietnamese stock market. However, the risk of the US economy slipping into recession, which may exert enormous pressure on the global stock markets, should be closely followed.

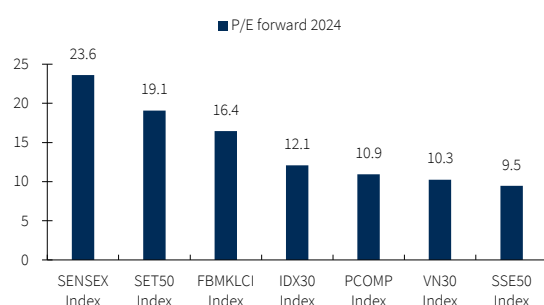
China's economy is experiencing a slowdown, but it is expected to steer clear of a collapse. The potential economic downturn in China is a notable risk in 2024 following its weaker-than-expected reopening after lifting the zero-Covid policy in early 2023, with a slew of default events of real estate giants. However, in the base case scenario, we suggest that China will avoid an economic and real estate collapse in 2024, with GDP growth only shrinking slightly and challenges primarily concentrated in the first half, while the second half could see positive recovery signals.

The reasonable target range for the VN-Index by the end of 2024 is around 1,330 points

After analyzing and evaluating the four major determining factors (see also Section III), we believe the local stock market will enjoy a more pronounced recovery trend in 2024 and approach the 1,330 range by the end of the year. With interest rates predicted to remain low and M2 money supply expanding by an estimated 12.2% in 2024, we anticipate that the market's P/E will improve from 14.9x currently to 15.3x by the end of 2024, equivalent to the average of the 2022–2023 period. Additionally, the market is also supported by a projected 16.4% rise in the average EPS growth of listed companies, given the low base in 2023, and macroeconomic rebound (*see also Section II of this report*).

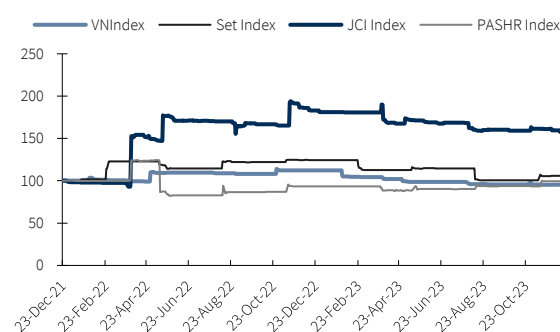
The most notable risk factors in 2024 will stem from geopolitical tensions or slow global economic growth with leading economies such as the US and China undergoing severe recessions. Domestically, the main risk factors are corporate bond maturity value hitting a record high in 2024, the occurrence of events similar to the Van Thinh Phat – SCB incident that would affect the safety of the banking system, and worse-than-expected recovery of the real estate market.

Fig 5. Global – 2024 forward P/E of stock markets (x)



Source: Bloomberg, KB Securities Vietnam

Fig 6. ASEAN4 – EPS growth (%)



Source: Bloomberg, KB Securities Vietnam

II. Business operations

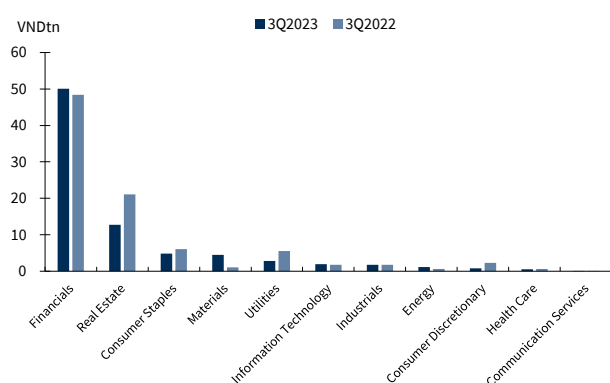
The average EPS growth of HSX-listed companies is set to touch 16.4% YoY in 2024

We expect that starting from 2024, production and business activities will return to recovery for most industry groups, with the EPS growth of the entire market hitting a potential 16.4% YoY for the following reasons: (1) high earnings growth in 2024 due to low base of 2023, (2) the permeation of supportive policies of the Government and the State Bank of Vietnam (SBV) into the business results of listed companies, namely public investment promotion, policy interest rate cuts, etc, and (3) Vietnam's brighter macro outlook and expectations for a soft landing for the US economy.

Leading the overall EPS growth of the overall market in 2024 is the non-essential consumer goods sector (+63% YoY), with expectations for a strong recovery in the retail & consumer sector and import & export activities. The largest contributor to this growth is Mobile World Investment (MWG), building on its low base in 2023. Also, we foresee the construction materials group, especially the steel industry, will enter a consumption recovery cycle and enjoy improved business performance with an industry-wide EPS growth forecast of 35% YoY. The IT industry should maintain steady growth (+23% YoY), led by industry leader FPT Corporation (FPT). As for the finance sector, we raise our 2024F EPS growth projection to nearly 20% YoY against the low base of 2% YoY in 2023, which is based on our positive view on credit growth prospects of the banking group in 2024 when business operations recover, boosting borrowing demand.

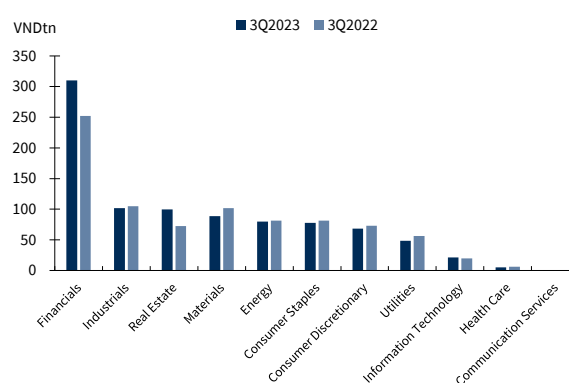
Industries like real estate (0%), telecommunications (0%), utilities (0%), and healthcare (-2%) are projected to see sluggish growth in 2024, albeit not negatively impacting the overall growth. In particular, real estate may not bounce back soon when presales and difficulties related to cash flow and debt will unlikely not improve much in 2024.

Fig 7. Vietnam – 3Q22–3Q23 earnings across sectors (VNDtn)



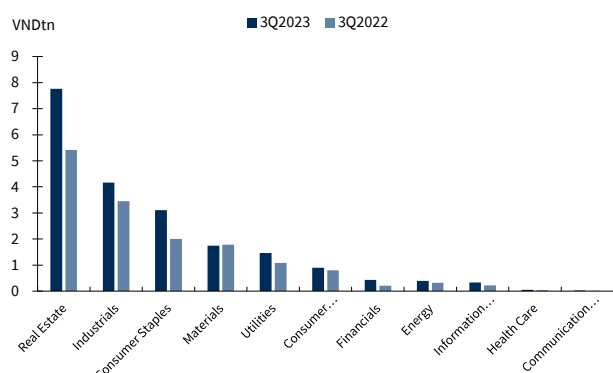
Source: Bloomberg, KB Securities Vietnam

Fig 8. Vietnam – 3Q22–3Q23 revenue across sectors (VNDtn)



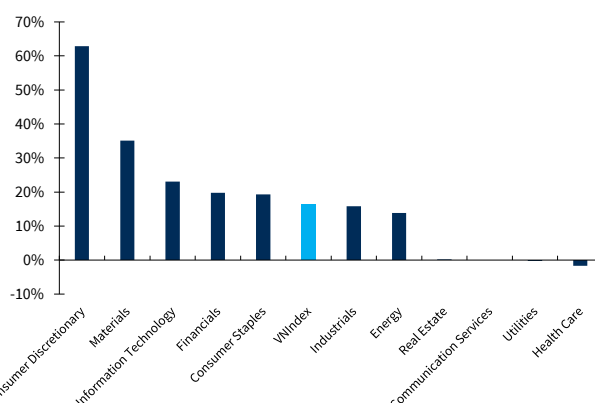
Source: Bloomberg, KB Securities Vietnam

Fig 9. Vietnam – 3Q22–3Q23 financial expenses across sectors (VNDtn)



Source: Bloomberg, KB Securities Vietnam

Fig 10. Vietnam – 2024F EPS growth across sectors (%YoY)



Source: Bloomberg, KB Securities Vietnam

The EPS growth of HSX-listed companies is forecast to fall short of our expectations

3Q23 was another disappointing quarter with negative earnings growth of listed companies

For 2023F, we have adjusted the overall EPS growth projection down about 2 percentage points (ppts) versus the previous assumption in the latest quarterly strategy report to **-1.2% YoY**. Our downward revision is due to disappointing 3Q23 business results of listed enterprises, with a sharp fall in earnings (-9.4% YoY and -8.1% QoQ) despite a slight increase in revenue (+6.2% YoY).

Specifically, real estate was a main dragger of the entire market, with a 40% YoY decline in earnings growth. 3Q23 also marks the least favorable business period for utility businesses (-49.3% YoY), especially in the power and water sectors like PV Power (POW, -6% YoY), PV Power Nhon Trach 2 (NT2, -62% YoY), Vinh Son – Song Hinh Hydropower (VSH, -41% YoY). Essential/non-essential consumer goods businesses have not yet seen positive shifts in profits, down 20% and 66.4% YoY, respectively. This can be explained by the following causes: (1) both domestic and export consumption showing weak recovery, (2) high borrowing costs continuing to erode earnings of highly leveraged and heavily borrowed businesses, and (3) sea freight rates riding high compared to the first half of 2023.

On the contrary, some industries recorded improvements in the third quarter such as construction materials (+325% YoY) thanks to the strong recovery of industry leaders such as Hoa Phat Group (HPG) and Hoa Sen Group (HSG), and energy (+81.5% YoY) benefiting from high oil prices.

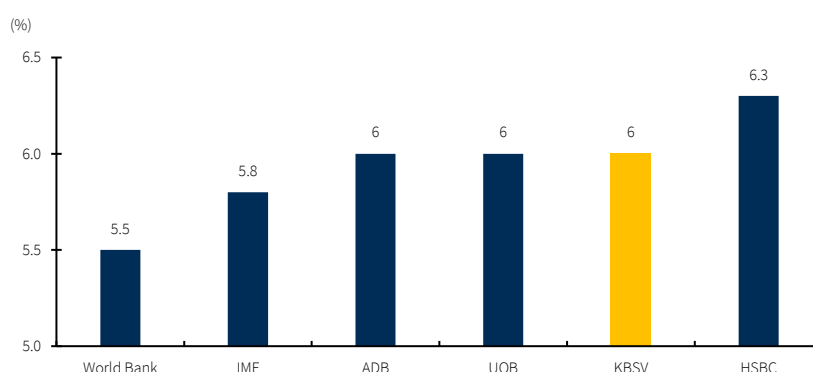
III. Market drivers in 2024

1. Domestic economic rebound

In 2023, macro weakening with GDP growth hitting its 24-year low of 5.05% (excluding the COVID-19 period) was the main reason behind the poor performance of listed companies. This prevented the VN-Index from making a breakthrough despite benefiting from a low-interest rate environment.

For 2024, we have grounds to believe that the domestic economy will recover with GDP growth expected at ~6%. This should lay the foundation for listed companies to be back to their growth trajectory, with expected EPS growth of over 16% as stated in Section II of this report, supported by *(please refer to the upcoming report Macro Outlook 2024 for further details)*:

Fig 11. Vietnam – 2024F GDP growth forecast by international organizations (%)



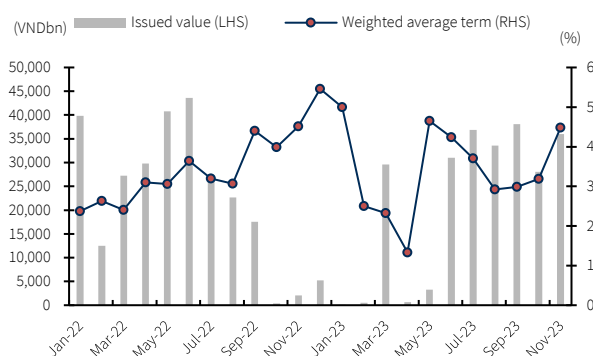
Source: KB Securities Vietnam

The property market is getting better

Real estate stands as a crucial pillar in the economy, not only significantly contributing to GDP growth but also having a ripple effect on many other sectors. Over the past two years, the property market faced numerous challenges due to (1) high interest rates, (2) investor mistrust following corporate bond default events, (3) legal complications, and (4) tight credit control over real estate.

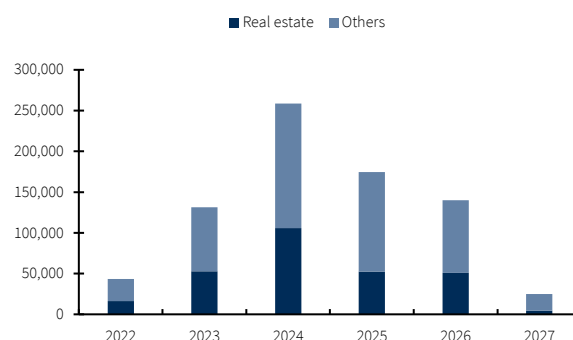
The negative impacts of the aforementioned elements will partially ease in 2024, supporting the gradual recovery of the housing market against 2023. Specifically, interest rates have declined substantially, legal entanglements have been gradually resolved, the corporate bond market has become more transparent with higher issuing value, and plenty of supportive policies have been approved. Still, investor confidence may not quickly recover after the 2022 crash combined with banks' cautious lending practices amid rising NPLs and tightening use of short-term capital for long-term loans, impeding the real estate market from breaking out. It is noteworthy that corporate bonds whose maturity period had been extended will mature in 2024. If presales do not recover well, the default risk for some real estate developers is inevitable.

Fig 12. Vietnam – Newly issued corporate bonds



Source: Hanoi Stock Exchange, KB Securities Vietnam

Fig 13. Vietnam – Maturity value of corporate bonds (VNDbn)

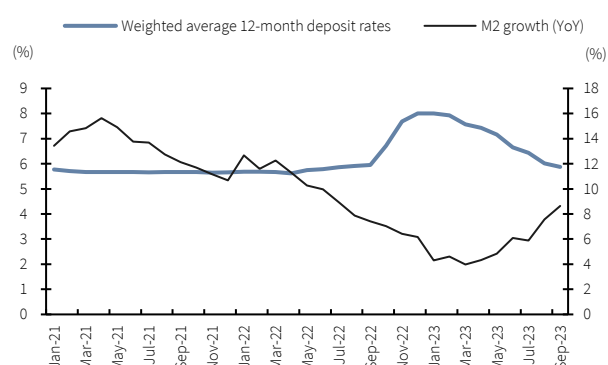


Source: Hanoi Stock Exchange, KB Securities Vietnam

Fiscal and monetary policies will continue to stimulate economic growth

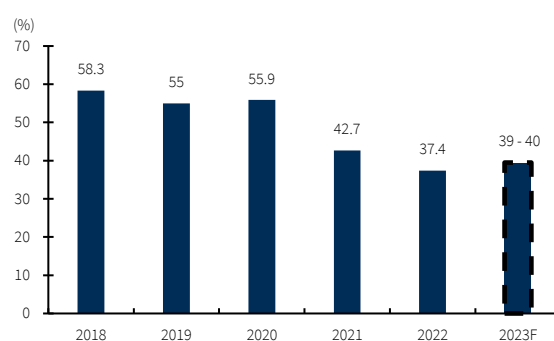
In case there are no unexpected black swan events, inflationary and exchange rate pressures will not be significant in 2024, given cooling inflation in most major economies and the Fed possibly doing a policy U-turn. This leads us to believe that the SBV will maintain the current accommodative monetary policy. Accordingly, deposit interest rates should remain low, while lending interest rates are expected decrease further by 0.75%–1.25% versus the end of 2023. However, given currently weak borrowing demand, low credit growth, and banks exercising caution in disbursing loans, monetary policy may become less effective. In that context, expansionary fiscal policy should continue to be implemented in 2024 since there is still ample room. Specifically, not only has public investment been vigorously promoted, but tax exemption and reduction policies have also been deployed systematically and may have more pronounced effects in 2024.

Fig 14. Vietnam – 12M deposit rates, M2 growth (%)



Source: Wchart, State Bank of Vietnam, KB Securities Vietnam

Fig 15. Vietnam – Government debt to GDP (%)



Source: Ministry of Finance, KB Securities Vietnam

Export activities and industrial production should grow stronger in 2H24

Exports and industrial production have picked up in recent months, which we attribute to seasonal effects. Meanwhile, the purchasing managers' index (PMI) has been persistently below 50 points, hinting at a sharp fall in orders after peak season. Therefore, we are conservative about local export prospects in 1H24. However, domestic exports and industrial production should prosper in 2H24 thanks to (1) demand across major economies expected to recover and (2) manufacturers driven by expansionary fiscal and monetary policies.

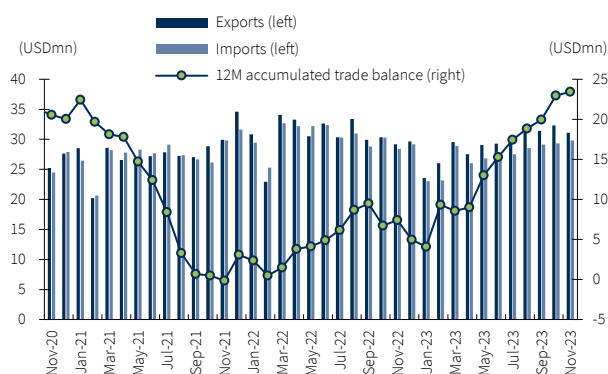
FDI inflows will remain the bright spot of Vietnam's economy

FDI inflows will remain a bright spot in Vietnam's macro picture. Promoted international cooperation, like upgrading ties with the US, China, and Japan, proved effective. In addition, Vietnam has advantages such as economic and political stability, a favorable geographical position, many signed free trade agreements (FTAs), an abundant workforce, attractive support packages, and heavily invested infrastructure, ... These should help to attract FDI inflows, boosting economic growth in 2024.

Domestic consumption will be driven by supportive monetary and fiscal policies

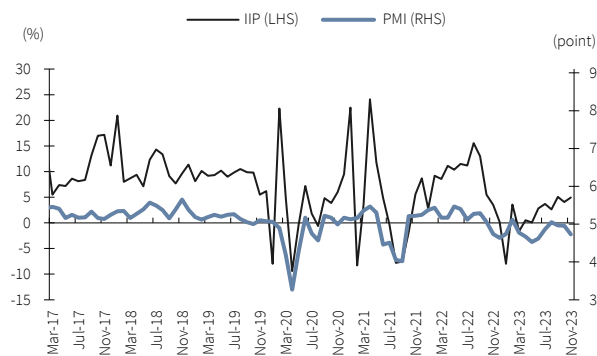
Besides, we believe that monetary policy and stimulus measures (including extending the VAT cut until mid-2024, raising the base salary, ...) will help domestic consumer demand recover. Retail sales of consumer goods and services have now enjoyed stable monthly growth, yet it is still 14% lower than the pre-pandemic level, implying plenty of room for growth.

Fig 16. Vietnam – Exports, imports, 12M trade balance



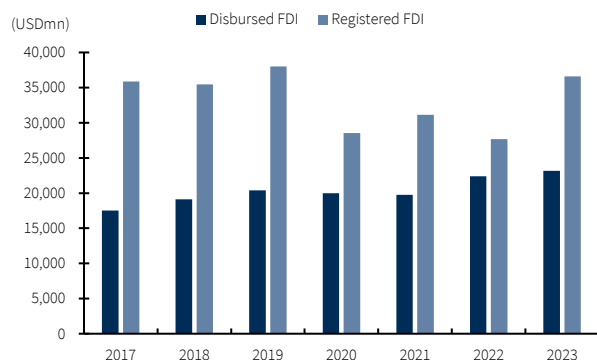
Source: General Statistics Office, KB Securities Vietnam

Fig 17. Vietnam – IIP, PMI (% , points)



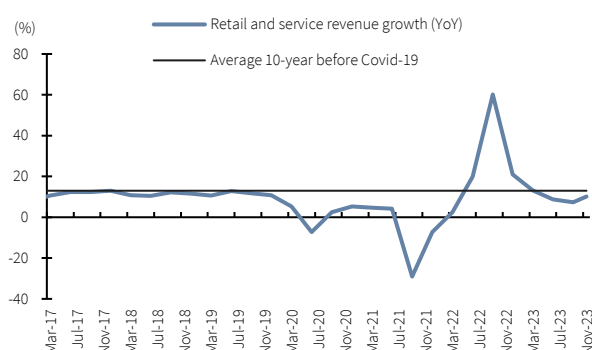
Source: General Statistics Office, KB Securities Vietnam

Fig 18. Vietnam – Disbursed & registered FDI (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Fig 19. Vietnam – Retail sales of goods & services growth (%)



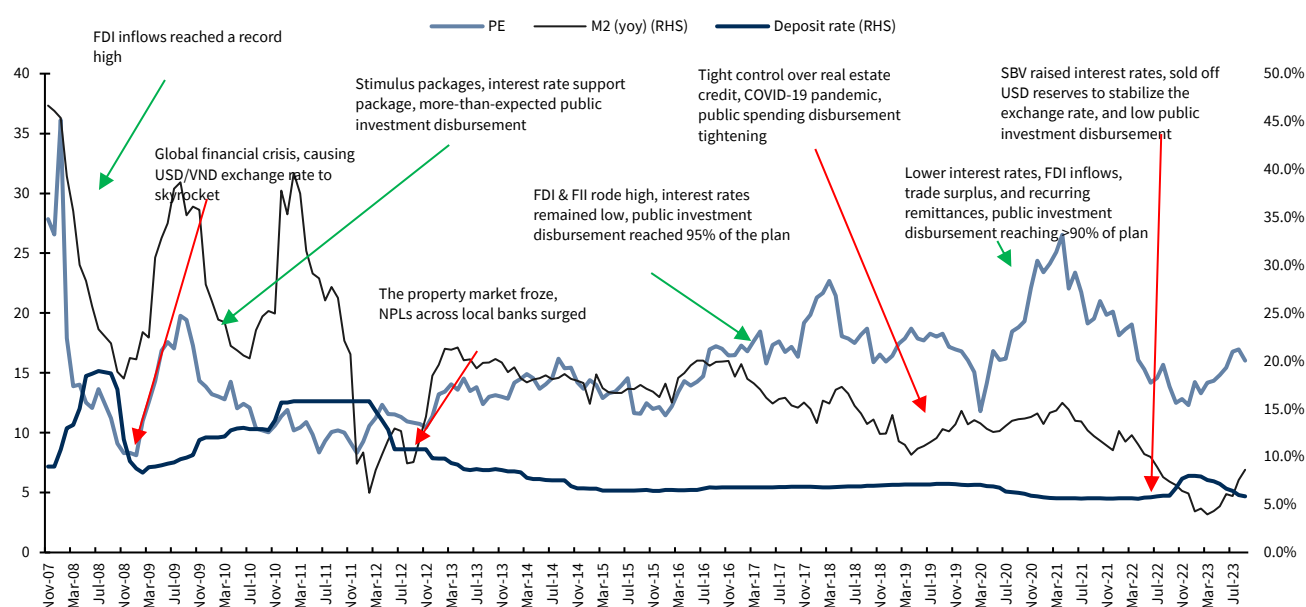
Source: General Statistics Office, KB Securities Vietnam

2. Domestic fiscal & monetary policies

Fluctuations in two main variables of the currency market, interest rates and M2 money supply, have a significant impact on the stock market

Our quantitative models show that domestic stock market developments are closely linked with two variables of the currency market, including interest rates (represented by deposit interest rates) and M2 growth. In particular, the VN-Index recorded upsurges during times enjoying an abrupt increase in M2 money supply and a favorable interest rate environment, such as in 2006–2007, 2009, 2017, and 2020–2022. The opposite context often leads to a deep decline, like in 2022, 2011, and 2008. This is theoretically appropriate as falling interest rates coupled with rising M2 money supply are ideal conditions for cash flows to strongly return to the stock market, pushing stock prices up and vice versa.

Fig 20. Vietnam – M2 growth rate, deposit interest rate, and PE of VN-Index



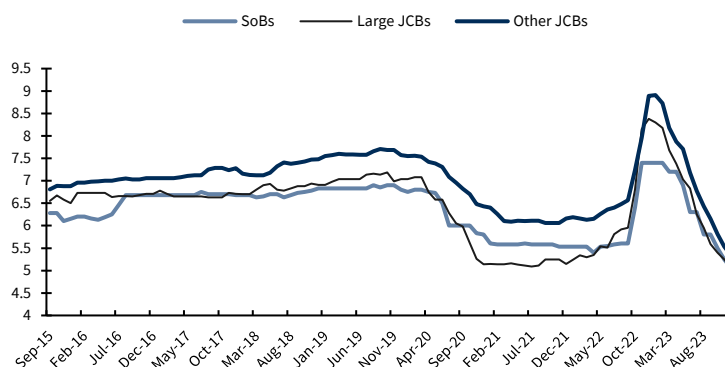
Source: Bloomberg, Wchart, KB Securities Vietnam

Deposit rates are expected to remain low while lending rates may decrease further, supporting the uptrend of the stock market

Thanks to the SBV's strict control and timely response, liquidity risks were eliminated after the Van Thinh Phat – SCB fraud. Moreover, weak credit demand and cooling inflation have created conditions for deposit interest rates to fall deeply, approaching the low level during the COVID-19 pandemic. As of December 26, the average 12M deposit interest rate was down 2.9% YTD to 5.13%. In particular, 12M deposit interest rates fell to a record low of 4.8% at Vietcombank (VCB) and sit at above 5% at other state-owned banks (SoBs). Deposit rates are now at a historic low, even below the COVID-19 level for some banks. Therefore, deposit rates will less likely move lower in 2024 due to unpredictable inflation. Meanwhile, lending rates have only decreased by 2–2.25% YTD due to lags. Accordingly, we anticipate that deposit interest rates will keep moving sideways in the 4.85–5.35% range for most of 2024. However, the average lending interest rate can decrease by another 0.75–1.0% based on the following catalysts:

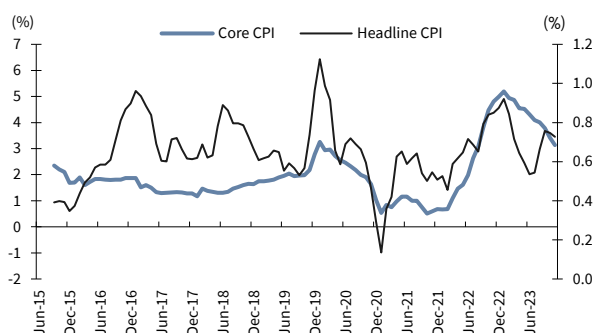
– Credit demand will likely recover but hardly see any rapid increases as 2023's outstanding obstacles remain unresolved. Vietnam's GDP should only expand by ~6% this year when real estate, a key contributor to credit growth, cannot recover strongly. Besides, we forecast that credit growth in 2024 will reach ~12–13%, lower than the 14.5% average over the past decade.

Fig 21. Vietnam – 12M deposit interest rates among local banks (%)



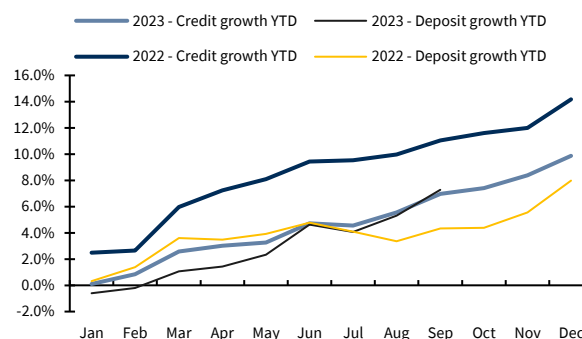
Source: Wicart, KB Securities Vietnam

Fig 22. Vietnam – Core & headline CPI (%)



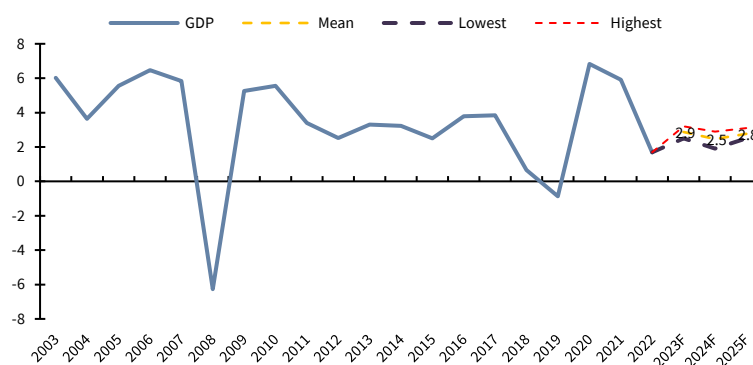
Source: General Statistics Office, KB Securities Vietnam

Fig 23. Vietnam – Deposit & loan growth (%)



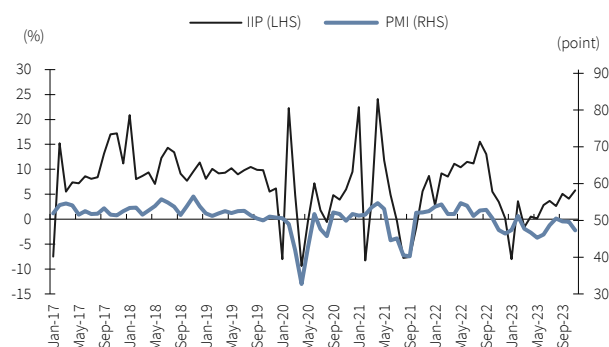
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 24. Global – Global economic growth forecast by financial institutions (%)



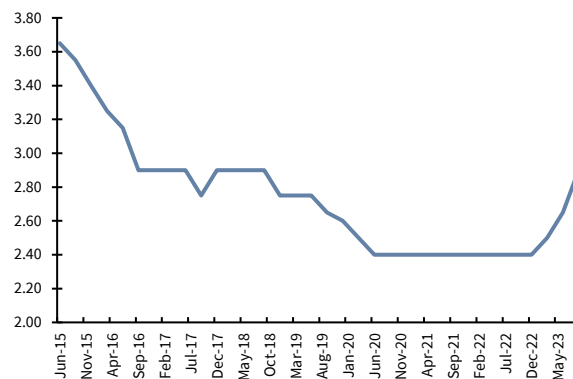
Source: Bloomberg, KB Securities Vietnam

Fig 25. Vietnam – IIP, PMI (% , points)



Source: General Statistics Office, KB Securities Vietnam

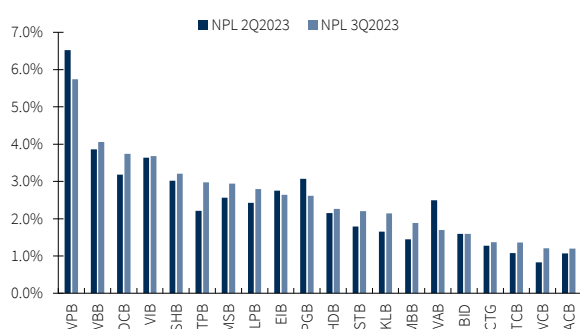
Fig 26. US – Fed funds rate estimates by FOMC (%)



Source: Bloomberg, KB Securities Vietnam

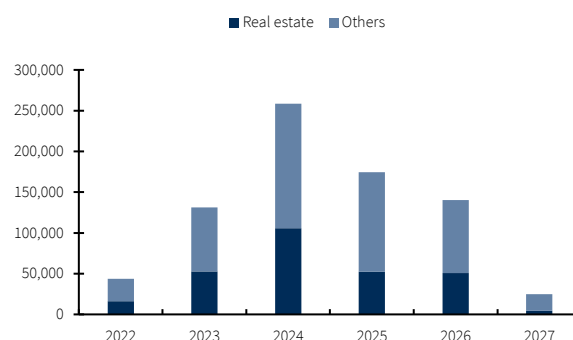
– Local banks posted a drop in funding costs after continuous deposit rate cuts. Lending rates, therefore, have room for further declines: (1) banks being more cautious about disbursing loans due to risks associated with rising non-performing loans (NPLs) and (2) the bond channel not yet recovering. The difficult economic situation in 2023 has caused the NPL ratio of the entire system to rise for four consecutive quarters to 2.2% (+6.9% QoQ in 3Q23). The situation may get worse in 2024 due to (1) the expiration of Circular 02 and (2) banks' shrinking provision buffer. In addition, banks will still be a long-term capital mobilization channel for businesses when the bond market has not yet picked up, while the maturity value of corporate bonds in 2024 is at a record high of nearly VND300 trillion. Therefore, lending rates will unlikely fall sharply.

Fig 27. Vietnam – NPL ratio of local banks



Source: Bloomberg, KB Securities Vietnam

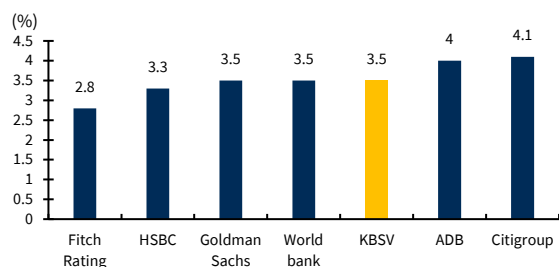
Fig 28. Vietnam – Maturity value of corporate bonds (VNDbn)



Source: Bloomberg, KB Securities Vietnam

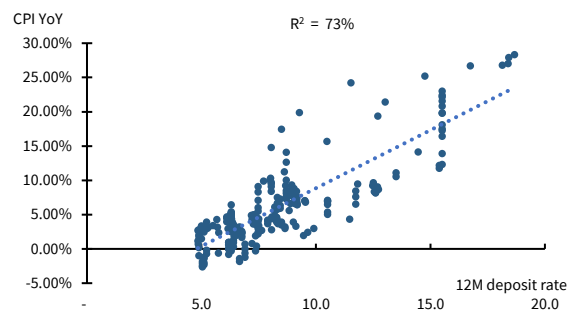
– The SBV still maintains accommodative operating policies amid abating inflationary and exchange rate pressures. To be specific, inflation is ticking lower in most major economies, and the two engines of the world economy, the US and China, may slow down in 2024. Hence, we believe global inflation will continue its downward trend in 2024, helping Vietnam's to be kept in check. Besides, the Fed's policy reversal in 2024, as assessed later in this report, will help alleviate exchange rate pressure. In the base scenario, we presume the SBV will reduce policy rates by another 50 basis points (bps) and the exchange rate will shrink by ~0.5% in 2024.

Fig 29. Vietnam – Inflation forecast by financial institutions (%)



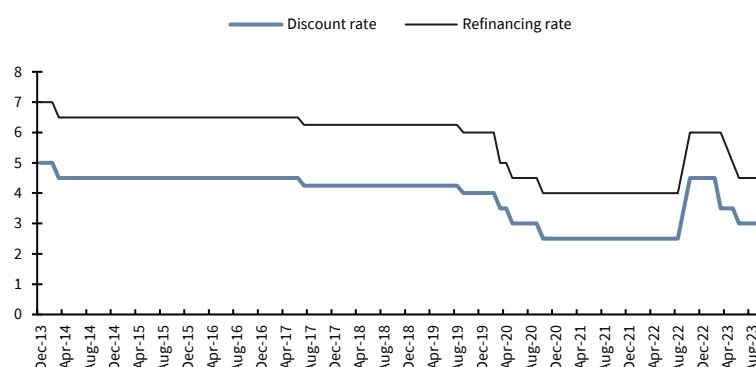
Source: KB Securities Vietnam

Fig 30. Vietnam – Correlation between 12M deposit interest rate and average CPI in 2000–2023



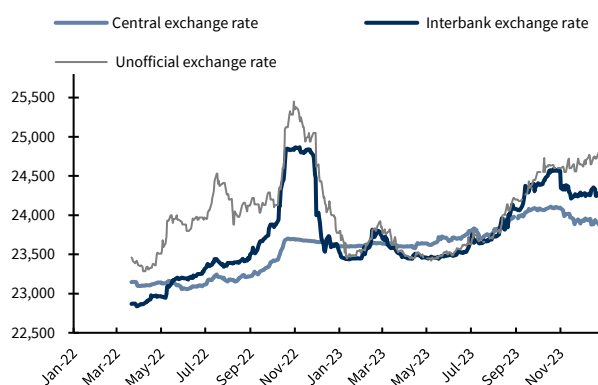
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 31. Vietnam – Policy rates (%)



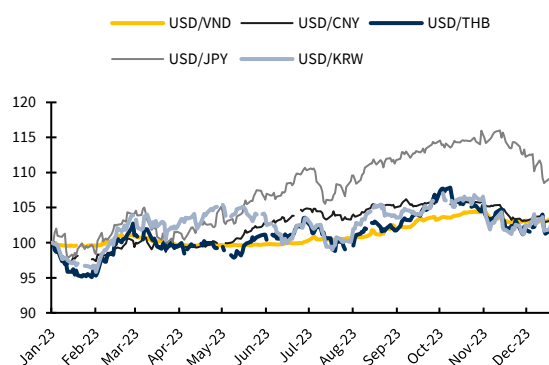
Source: Bloomberg, KB Securities Vietnam

Fig 32. USD/VND exchange rates



Source: Bloomberg, Fiiopro, KB Securities Vietnam

Fig 33. USD vs. currencies of Asian countries



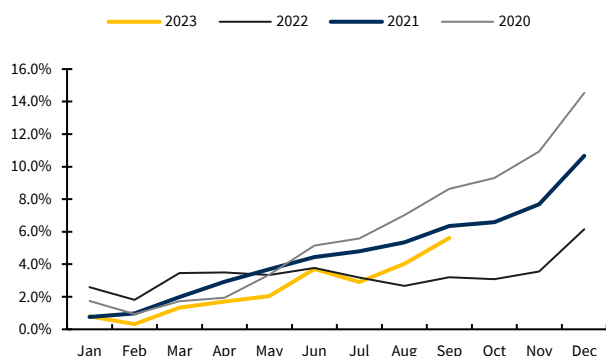
Source: Bloomberg, KB Securities Vietnam

M2 money supply is forecast to grow by 12.2% in 2024 vs. a 5.6% increase in 9M23

By the end of September 2023, M2 money supply only grew 5.6% YTD, much lower than the average increase of 14%/year in the 2012–2021 period. The reasons behind this include low deposit growth (corresponding to low credit growth) and public investment disbursement falling short of expectations, resulting in a large amount of money still being held in the treasury.

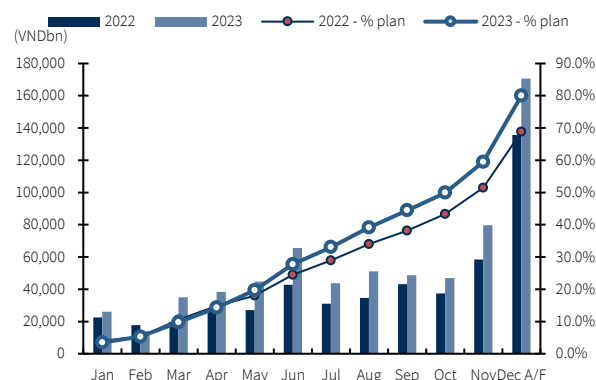
However, credit growth is supposed to reach 12–13% for 2024, the balance of payments surplus is expected to continue on a weakening USD, helping the SBV buy ~USD10 billion, raising foreign exchange reserves, and public investment should be promoted further. For those reasons, we assume that money supply growth will reach 12.2% for 2024 as a whole.

Fig 34. Vietnam – M2 growth rate (%YTD)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 35. Vietnam – Public investment disbursement progress



Source: General Statistics Office, KB Securities Vietnam

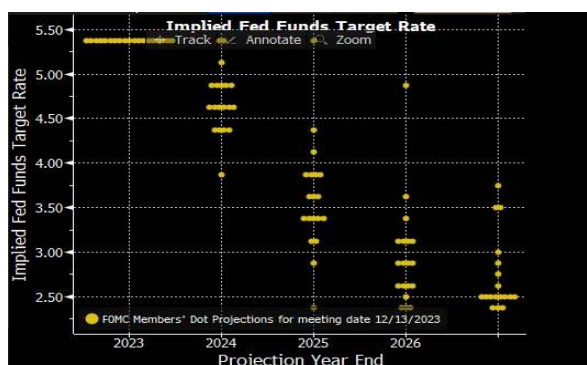
Low interest rates and money supply expansion should lift stock prices

We expect the ongoing favorable interest rate environment and the money supply expansion to support the stock market, considering the P/E of the VN-Index, especially in the context of listed companies' earnings expected to recover in 2024. Accordingly, in a conservative scenario, we expect the market P/E to return to the two-year average at 15.3x from the current 14.9x.

3. Fed's policy reversal & US recession risk

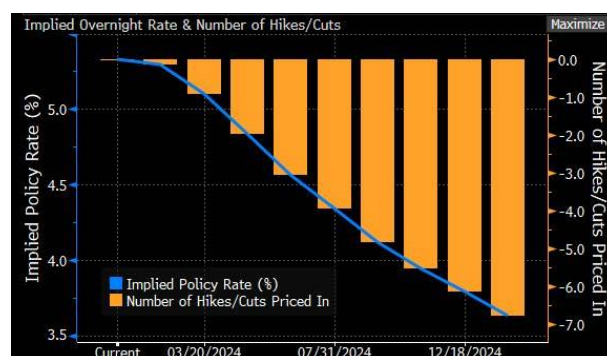
The Fed is supposed to start lowering interest rates at its upcoming March meeting and bring the Fed Funds Rate to 4–4.25% by the end of 2024 (from 4.25–5% as shown in the Fed's Dot Plot published at the December meeting), based on three main catalysts.

Fig 36. US – Fed's Dot Plot



Source: Bloomberg, KB Securities Vietnam

Fig 37. US – Implied policy rate (%)



Source: Bloomberg, KB Securities Vietnam

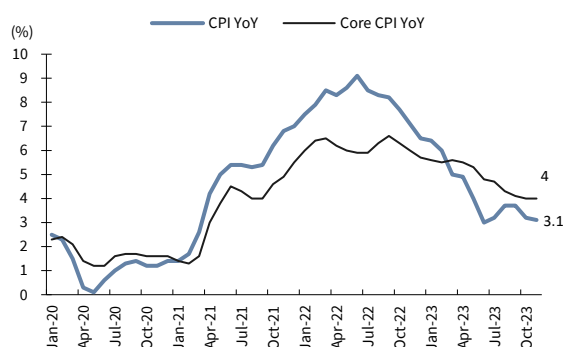
US inflation has declined faster than expected, and the downward trend should continue in 2024

US CPI (%YoY) has shown signs of slowing down in recent months (Fig 38), up 0.1% MoM in November, the lowest MoM increase in 2023. Looking further, US CPI, after peaking at 9.1% YoY in June 2022, dropped to 3.2% YoY this past November, with core CPI (excluding energy and food) also contracted to 4% YoY. It can be attributable to the following reasons:

(i) WTI dropped 35% from its peak in mid-2022 to USD75.9/barrel (Fig 41). We anticipate that oil prices will continue their downtrend in 2024, when production of the Americas region, especially the US, is forecast to be on the rise in the first half of 2024. This should drive US inflation down further in 2024. However, we also note that future escalating geopolitical conflicts such as the Red Sea attacks, the Gaza war, or the Russia – Ukraine war may cause oil prices to increase.

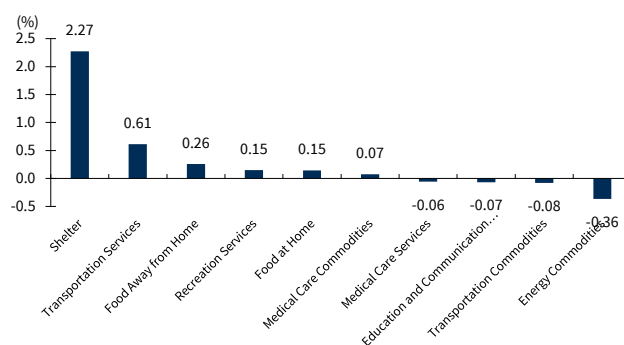
(ii) The shelter component, accounting for roughly 35% of the inflation basket, has a significant influence on the CPI index. In November, shelter prices rose 0.4% over the previous month and 6.5% from a year ago (down from the peak of 8.2% YoY in March 2023). Nonetheless, the housing market seems to have slowed down as both existing and new home sales have maintained a downward trend since the start of the year, down 38.3% YoY to only 4.41 million units in November (Fig 43). Property inventory available for sale also increased by 15% YTD, and the number of building permits in November only reached 1,467,000 permits (Fig 42), 12% lower than the average of 1,667,000 in 2022. Therefore, we are convinced that, with the current gloomy developments of the housing market in the US, the pressure caused by the shelter component on the overall CPI will gradually ease in the coming period.

Fig 38. US – CPI & core CPI (%YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 39. US – Contribution of some components to inflation (%)



Source: Bloomberg, KB Securities Vietnam

Fig 40. US – Average gasoline price (USD/gallon)



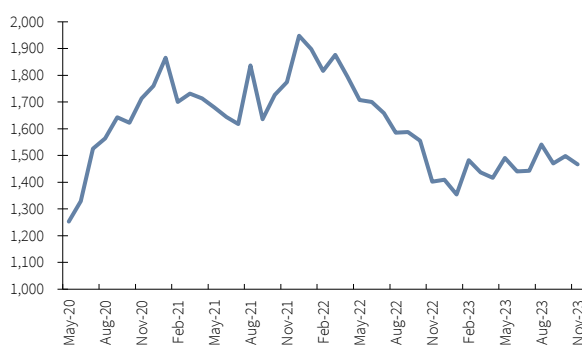
Source: Bloomberg, KB Securities Vietnam

Fig 41. US – WTI prices (USD/barrel)



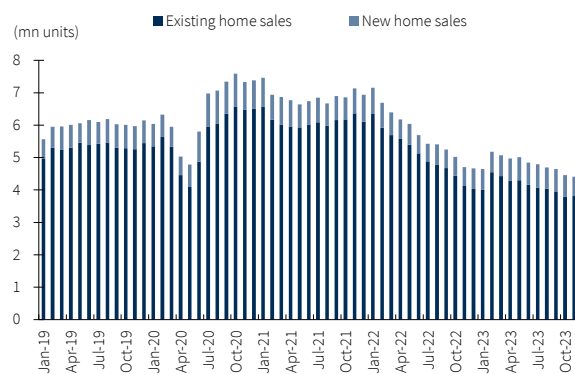
Source: Bloomberg, KB Securities Vietnam

Fig 42. US – New building permits ('000)



Source: Bloomberg, KB Securities Vietnam

Fig 43. US – Existing & new home sales (million units)



Source: Bloomberg, KB Securities Vietnam

The US job market has shown signs of cooling down

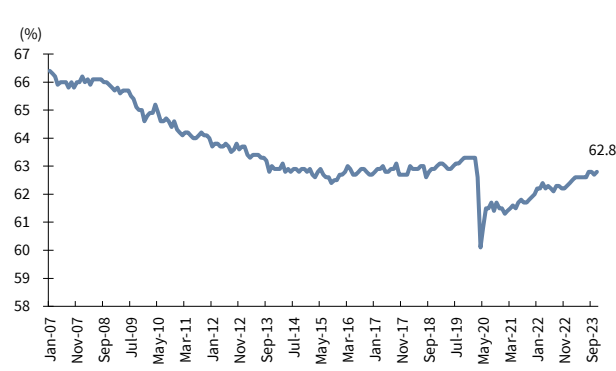
The unemployment rate has risen again after falling to a record low. Job creation and average hourly earnings growth have slowed in recent months (Fig 44), relieving Fed officials as a hot job market will pressure inflation due to the wage-price spirals. In November, the unemployment rate fell to 3.7% from October's 3.9%, while the labor force participation rate rose slightly 10bps to 62.8% (Fig 45), equaling the average from 1948 until now.

Fig 44. US – Wage growth and job openings rate (%)



Source: Bloomberg, KB Securities Vietnam

Fig 45. US – Labor force participation rate (%)



Source: Bloomberg, KB Securities Vietnam

The US economy will likely avoid a recession

According to Bloomberg's statistics based on financial institutions' forecasts, the probability of the US experiencing a recession over the next 12 months has decreased from 65% in mid-2023 to 50% in the latest update (Table 1). Moreover, per NABE (National Association for Business Economics), about 75% of economic forecasters (40 individuals) estimate the likelihood of a recession in 2024 at below 50%. Not only economists but most major investment banks and financial institutions lean towards a scenario where the US economy may experience a "soft landing" or only undergo a mild recession (Table 1). This is also the base case scenario that we offer with four main points:

(i) Consumer confidence is increasing, reflecting more positive assessments of current business conditions and job availability as well as less pessimistic views on the labor market and personal income prospects over the next six months. The consumer expectation index grew from 77.4 to 85.6 in November (Fig 46). According to the Conference Board, when this index is below 80, it often signals a possible recession in the next 12 months. Overall, US consumers are confident that interest rates will soon decrease, and their financial situation will improve.

Fig 46. US – Consumer expectation index (points)



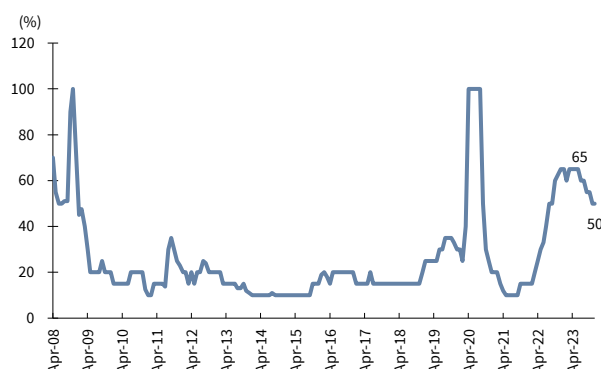
Source: Conference Board, KB Securities Vietnam

Table 1. US – Scenarios for the US economy in 2024 by some financial institutions

Goldman Sachs	Soft landing
Bank of America	Soft landing
Barclays	Soft landing
Lazard	Soft landing
J.P. Morgan	Mild recession
Wells Fargo	Mild recession
Allianz	Recession

Source: KB Securities Vietnam

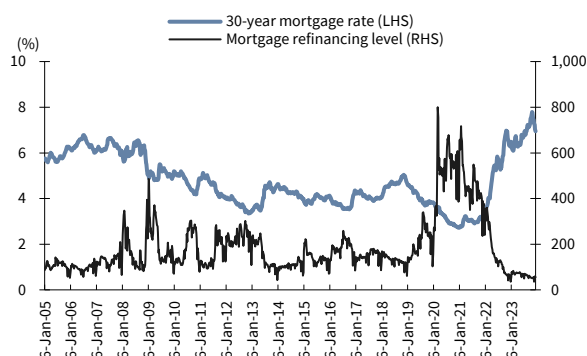
Fig 47. Bloomberg – US recession probability (%)



Source: Bloomberg, KB Securities Vietnam

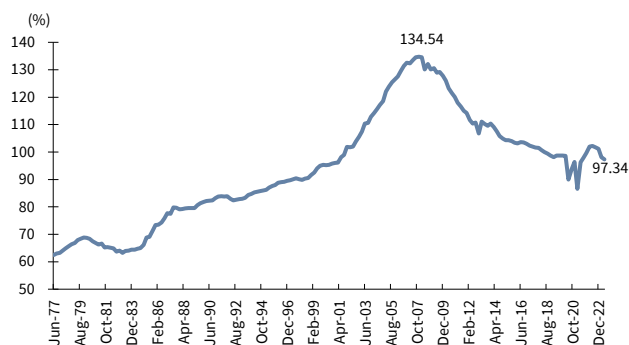
(ii) Western economies, including the US, may be less affected by high interest rates than in the past. The collective debt of private sectors is lower than when interest rates reached the same threshold most recently (Fig 49). Besides, Americans capitalized on low and fixed 30Y mortgage rates during COVID-19 to take out loans for home purchases (Fig 48). Therefore, interest expenses for home mortgages will not put much pressure on them financially.

Fig 48. US – 30Y mortgage rate, mortgage refinancing level



Source: Bloomberg, Fannie Mae, KB Securities Vietnam

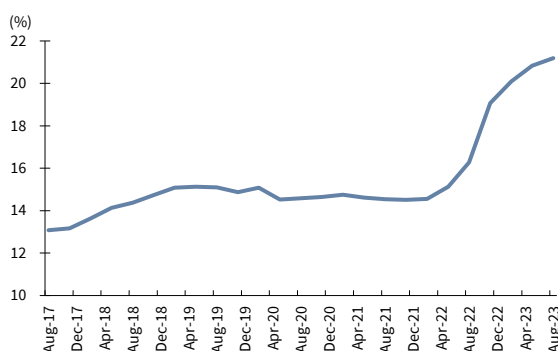
Fig 49. US – Household debt-to-income ratio (%)



Source: Bloomberg, KB Securities Vietnam

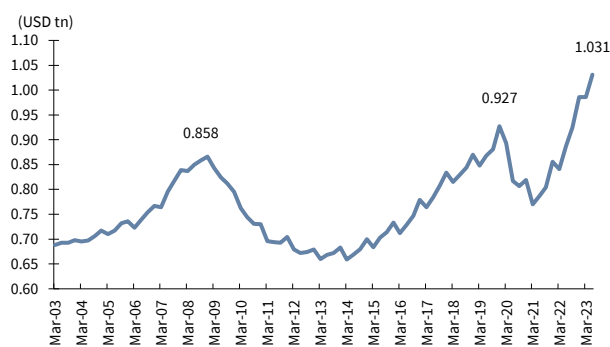
(iii) Consumer loan outstanding and interest rates are at their 20-year high. Yet, the fact that inflation is declining faster than expected will help consumer loan interest rates to decrease progressively, relieving the debt burden on consumers.

Fig 50. US – Consumer loan interest rate (%)



Source: Bloomberg, KB Securities Vietnam

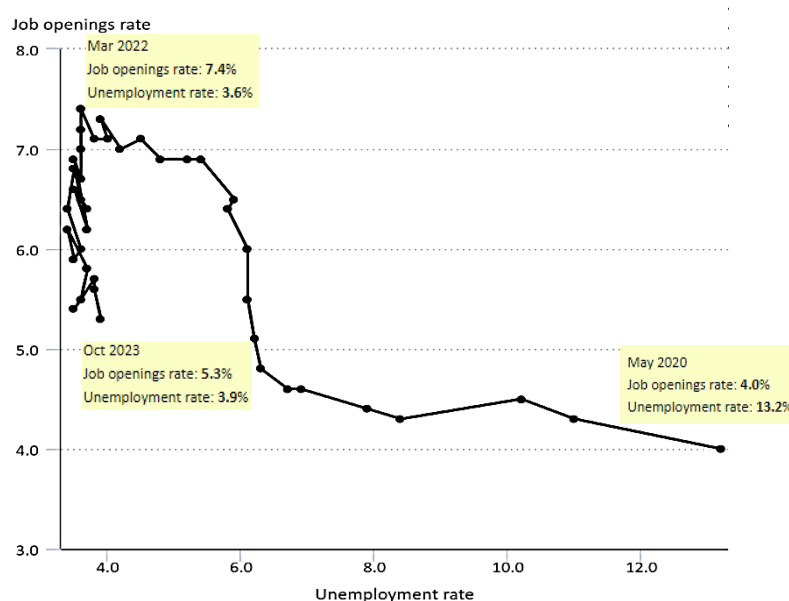
Fig 51. US – Consumer loan outstanding (USDtn)



Source: Bloomberg, KB Securities Vietnam

(iv) The labor market is gradually cooling and moving towards the pre-pandemic equilibrium. The Beveridge Curve (Fig 52) represents the relationship between job openings and unemployment rates. From mid-2020 (high unemployment and low job creation, a sign of a weakening economy) to early 2022 (low unemployment and rising job creation, implying a more vibrant job market, pushing wage growth and inflation), up until now, the curve is approaching the intersection of the two axes, signaling the impact on inflation has weakened and helping the US economy to avoid a recession as the job openings rate slowly declines and the unemployment rate remains low.

Fig 52. US – Beveridge curve



Source: US Bureau of Labor Statistics

The global stock markets will reap the benefit of the US successfully avoiding a depression

The fact that the US can avoid a depression and the Fed will gradually cut interest rates in 2024 is the best-case scenario for not only the US stock market, proven by the recent positive developments of its main indexes, but also the global stock markets. For Vietnam's, despite a lag, we believe it will also benefit much from improved market psychology, easing USD/VND exchange rate pressures, and the return of foreign cash flows.

The risk that inflation will not cool down soon is still present

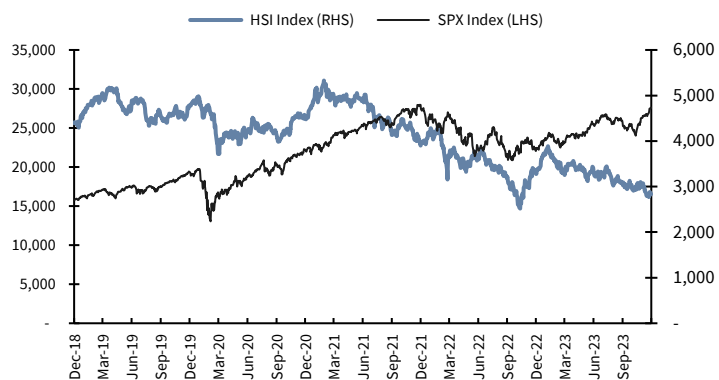
Although the data is showing that the downward trend of inflation is still following the estimated trajectory, we also note that there are still unpredictable factors that could negatively impact the spiral of prices and inflation. Factors such as the possible increases of energy prices under the influence of geopolitical conflicts and supply-demand shocks, the US housing market gradually picking up again during the high season in the early months of the year, and a resurgence in the job market can exert pressure on wage growth.

4. China's economic outlook

China's economy has a great influence on Vietnam's economy and stock market

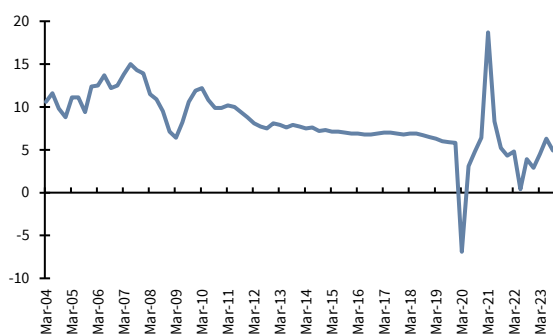
China is not only the world's second-largest economy but also Vietnam's largest trading partner (leading in import value and second in export value). Additionally, it has always been among the countries with the highest FDI inflows into Vietnam as well as the number of tourists entering Vietnam every year. The risk associated with China slowing down in 2024, given its struggles to revive growth after the stringent zero-Covid policy removal, is considered one of the determinants of Vietnam's stock market developments in 2024.

Fig 53. US – HSI, SPX



Source: Bloomberg, KB Securities Vietnam

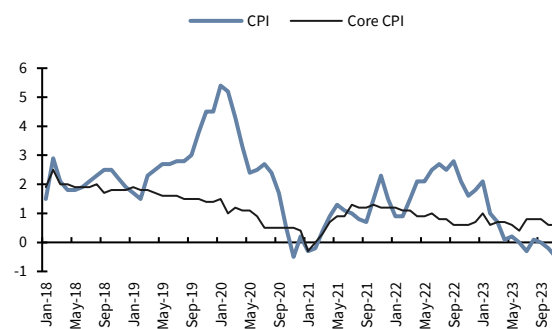
Fig 54. China – GDP growth (%)



Source: Bloomberg, KB Securities Vietnam

Note: Although GDP growth will likely reach the Government's target of 5%, it is still lower than expected, especially from the low base of 2022.

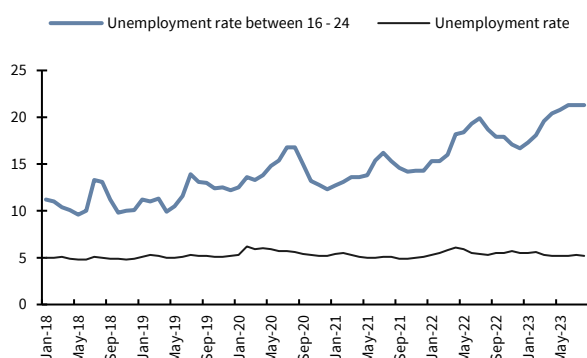
Fig 55. China – CPI, core CPI



Source: Bloomberg, KB Securities Vietnam

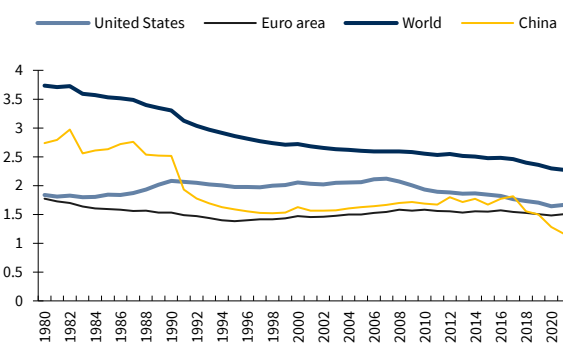
Note: CPI shows signs of declining when it continuously remains negative for two consecutive months despite stimulus efforts from the government.

Fig 56. China – Unemployment rate (%)



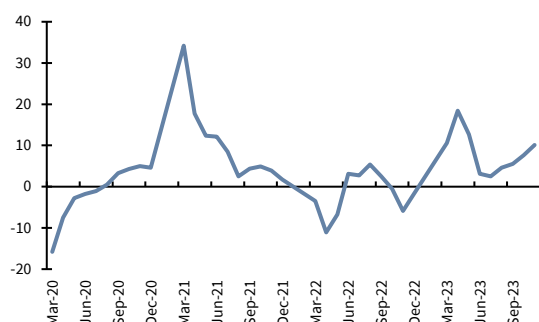
Source: Bloomberg, KB Securities Vietnam

Fig 57. Global – Birth rate (%)



Source: Bloomberg, KB Securities Vietnam

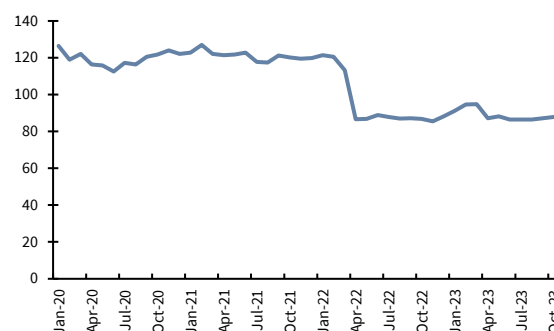
Fig 58. China – Retail sales growth (%YoY)



Source: Bloomberg, KB Securities Vietnam

Note: Positive as the data might look, it is compared to a very low base in 2022. In fact, October retail sales dropped by 0.06% against September.

Fig 59. China – Consumer confidence (points)



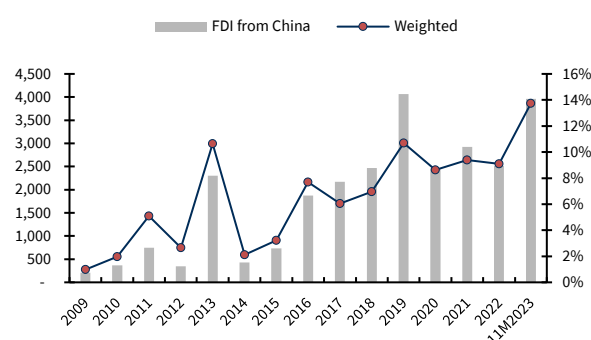
Source: Bloomberg, KB Securities Vietnam

Fig 60. Vietnam – Imports-exports with China (VNDbn, %)



Source: Fiigroup, KB Securities Vietnam

Fig 61. Vietnam – FDI inflows from China (USDmn, %)



Source: Bloomberg, KB Securities Vietnam

The Chinese economy should prosper from 2H24

Per Masaaki Shirakawa, former governor of the Bank of Japan, preventing an economic crisis “will be significantly influenced by how quickly policymakers react and take necessary measures.” Therefore, we assess that China will likely avoid a “lost decade” like Japan in the 1990s, thanks to swift actions from the government (Table 2). However, we assess that 1H24 will remain a challenging period for China when the property market has not shown clear signs of recovery. The situation is expected to improve in 2H24 when global and Chinese consumer demand returns and policies issued in 2023 start to do their job in accelerating the economy. Accordingly, we forecast China's GDP and CPI in 2024 to reach 4.6% (vs. China's target of 5%) and 1.2%, respectively.

Table 2. China – Monetary, fiscal and, social policies in 2023

Date	Policy	Comments
Jun 2023	<ul style="list-style-type: none"> – Lowering one-year loan prime rate for the first time – Lowering five-year loan prime rate 	
Aug 2023	<ul style="list-style-type: none"> – Lowering one-year loan prime rate for the second time 	
Oct 2023	<ul style="list-style-type: none"> – Approving the issuance of 1 quadrillion Yuan (USD137 billion) of government bonds 	Normally, the issuance plan and volume will be fixed at a specific time. This move signals the Chinese Government's clear concern about short-term growth.
	<ul style="list-style-type: none"> – Requiring state-owned banks to roll over existing local government debt with longer-term loans at lower interest rates 	
Nov 2023	<ul style="list-style-type: none"> – Supporting 50 leading real estate businesses financially – Considering allowing lenders to issue loans not backed up by collateral to some builders 	Processing
	<ul style="list-style-type: none"> – Cutting down payments for second-home buyers 	Shenzhen government
Dec 2023	<ul style="list-style-type: none"> – Offering commercial lenders with a net 800 billion yuan (\$112.02 billion) of one-year loans through the so-called medium-term lending facility – Cutting down payment ratio for first and second homes 	
		Governments of Beijing, Shanghai and Guangzhou

Source: KB Securities Vietnam

The Chinese property market will likely keep struggling in 1H24

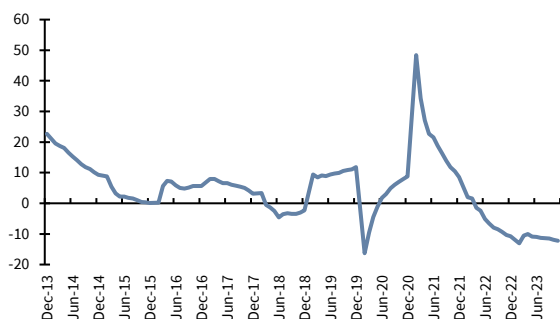
In the face of an overheating real estate market, in August 2020, China imposed "three red lines" that limited new borrowing by developers. The newly issued policy had a major impact on the market along with the general decline for three consecutive years due to the COVID-19 pandemic. This resulted in dwindling demand, surging costs, liquidity shortages, and a consequent wave of unprecedented default, notably Evergrande's default in September 2021.

Total real estate investment was down 9.4% in the first 11 months of 2023 following a 10% decline the previous year. Although the 4.3% decrease in sales is an improvement compared to 2022's 28.3% decline, it is still worse than earlier 2023, indicating that the government's efforts to support homebuyers and developers did not pay off.

Data from the General Statistics Office of China on December 15 showed that new home prices in 70 cities, excluding subsidized housing, edged down 0.37% MoM while October witnessed a 0.38% decline. The second-hand housing market worsened, with prices plummeting 0.79% MoM, the sharpest decline in nine years.

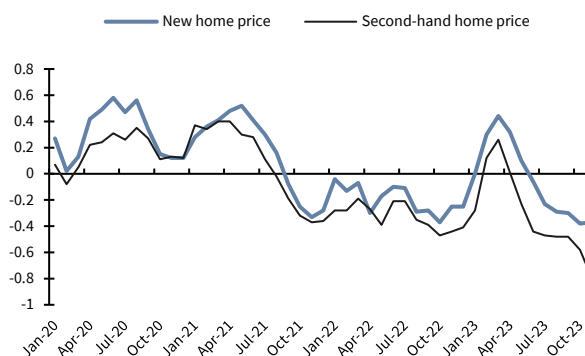
The real estate crunch, the tumble of the stock market, and a sharp decline in income have been hurting more than 400 million middle-class individuals. This has forced them to cut expenses and switch to a defensive stance, creating a vicious loop of spiraling decline in China. The Chinese government recognizes the need to rescue the real estate market without stimulating it excessively to avoid creating a bubble and putting financial pressure on banks. For the citizens, a more stable housing market will help improve their mindset and encourage them to spend more.

Fig 62. China – Investment in property development (%YoY)



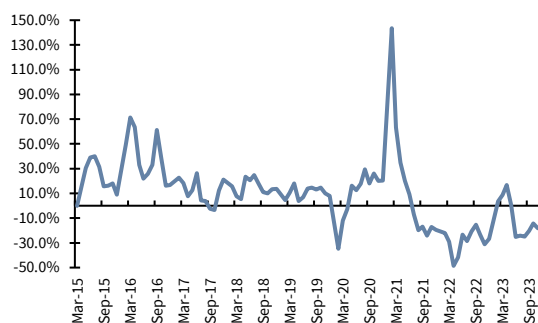
Source: Bloomberg, KB Securities Vietnam

Fig 63. China – New & second-hand home price growth (%MoM)



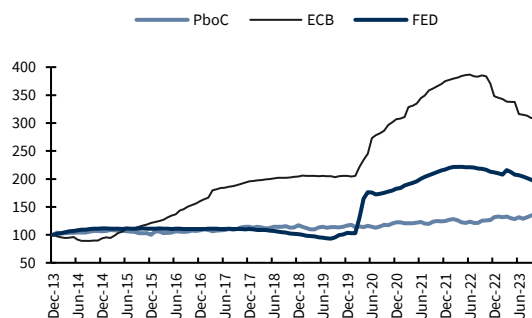
Source: Bloomberg, KB Securities Vietnam

Fig 64. China – Home sales (%YoY)



Source: Bloomberg, KB Securities Vietnam

Fig 65. Global – Balance sheets of PBOC, ECB, Fed balance sheet against the benchmark year 2014 (points)



Source: Bloomberg, KB Securities Vietnam

Note: When compared with the benchmark year 2014, PBOC's (People's Bank of China) assets continue to expand to stimulate the economy while the ECB and FED carried out quantitative tightening (QT) to curb inflation

China will prioritize industry and technology development, while the real estate market has seen some positive changes

During the recent annual Central Economic Work Conference, President Xi Jinping vowed to put industrial policy and technological autonomy on top in 2024. However, he did not change his words much from previous statements about the housing market, with no new remedies proposed. This disappointed investors as there might be no larger economic stimulus packages.

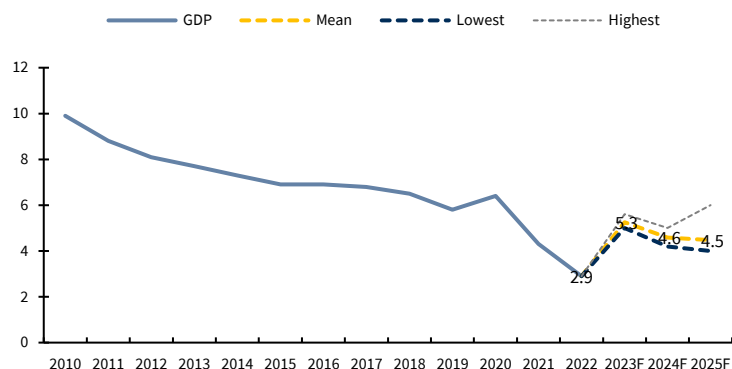
However, the real estate market has seen positive changes when two major cities, Beijing and Shanghai, recorded soaring home sales. In particular, according to HSBC's report on December 20, transactions of second-hand houses in Shanghai jumped by 25.7%, and average daily sales of new homes in the city surged by nearly 41%. Meanwhile, in Beijing, new home sales saw an abrupt increase of 122% in daily new home sales.

Table 3. China – Changes in monetary & fiscal policy stance

	Current stance	Previous stance
Monetary policy	Flexible, accommodative, targeted, and effective	Forceful & targeted (November)
Fiscal policy	Proactive fiscal policy should be appropriately strengthened and improved in quality and efficiency	Stepping up efforts to make proactive fiscal policy more effective (April)

Source: KB Securities Vietnam

Fig 66. China – GDP growth forecast by financial institutions (%)



Source: KB Securities Vietnam

Some domestic sectors will benefit from China's recovering demand in 2024

With the above perspective, we can see clearer positive impacts from the acceleration of China's economy from 2H24 on Vietnam's various sectors, namely aviation & aviation services, large export commodity industry groups to China (textiles, food & foodstuff, rubber, wood), and materials (steel, stone, cement) *(Please refer to Section V. Sector outlook for further details).*

- Aviation & aviation services: benefiting from China's economic recovery. The number of Chinese visitors, which has always made up a large proportion of Asian tourists, took a nosedive due to the COVID-associated social restrictions and the property market crisis, leading people to tighten spending.
- Textiles, fisheries, food & foodstuff, rubber, wood: benefiting from recovering demand in China as well as globally. Apart from that, each industry group has its own stories.
- The textile & garment industry will benefit from Vietnam's active trade activities with 16 signed and implemented FTAs and 3 FTAs under negotiation. Furthermore, Vietnam is the only country to sign FTAs with all major trading partners. The fisheries industry can capitalize on shrinking inventories among export markets and cooling soybean meal prices. The food & foodstuff industry will not reap many benefits due to rising inflation, causing selling prices to decline. The rubber industry's outlook seems bright on higher prices due to the supply-demand gap. Finally, improved mortgage rates and housing supply in the US will also boost the wood industry.
- Construction materials: benefiting from the recovery of the Chinese real estate market. In addition, demand for construction materials will depend on the outlook of the construction sector, which should continue to grow well in 2024 on the recovery of the domestic property market.

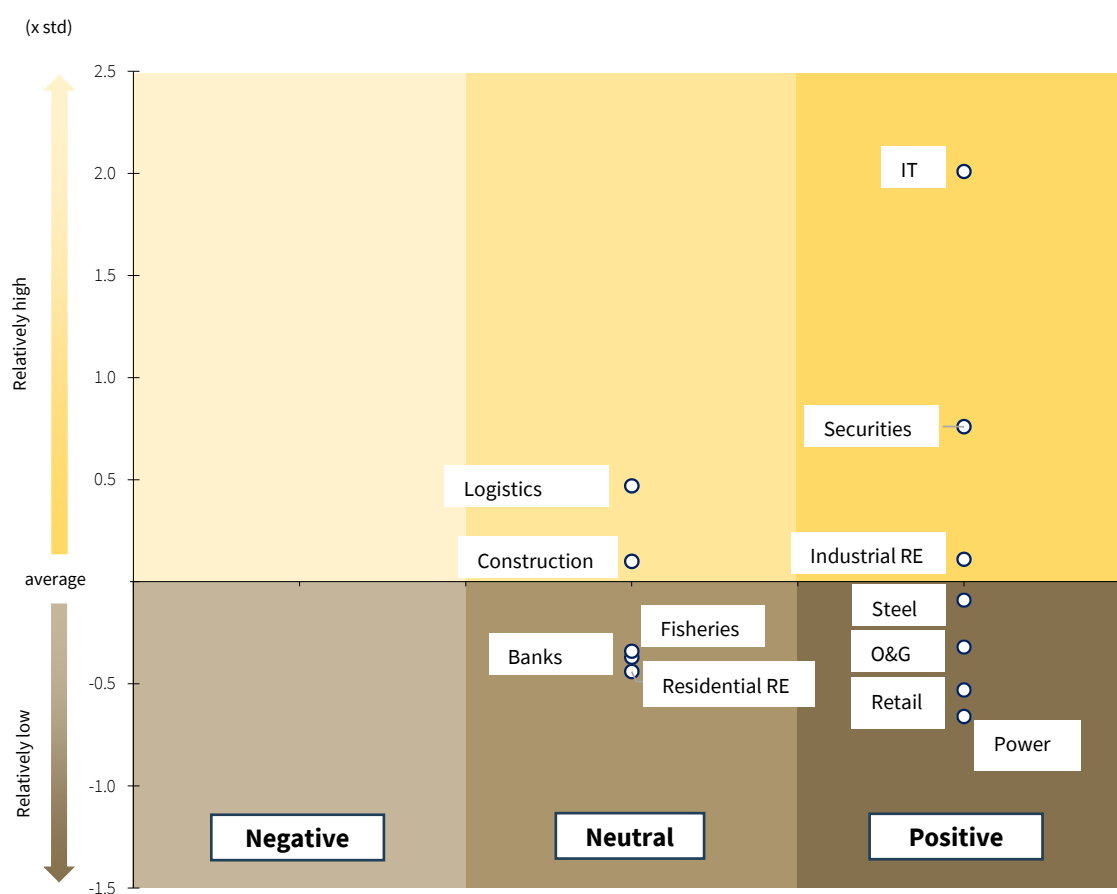
IV. Investment themes & KBSV model portfolio

Investment themes	Sector	Ticker	Investment catalysts	
Economic rebound Rising consumer demand	Retail	MWG	<ul style="list-style-type: none">- MWG continues the price competition in the ICT&CE retail industry, sacrificing profits for more market share- Bach Hoa Xanh (BHX) enjoyed many positive signals and should be the growth driver for MWG	
		PNJ	<ul style="list-style-type: none">- Business performance varied among different segments- The core jewelry retail segment saw many positive signals	
	Utilities	POW	<ul style="list-style-type: none">- Gas-fired power: output and sales volume should recover in 2024- Coal-fired power: Vung Ang is expected to operate stably again	
		NT2	<ul style="list-style-type: none">- NT2 will benefit from the ongoing El Nino phenomenon in 2024- NT2 overcame the difficult period and should recover in 2024	
	Ports	GMD	<ul style="list-style-type: none">- GMD’s total port throughput has increased steadily since early 2023, although it remained lower than in the same period last year, and should continue its recovery trend- GMD’s port service charges have remained unchanged after a round of increase in early 2023 and may increase by 5-10% in 2024	
		HAH	<ul style="list-style-type: none">- HAH is investing in three new ships with a total investment cost estimated at VND2,000 billion- Port operations will be a stable source of income for HAH when the container shipping market is facing difficulties	
	FDI growth	Industrial real estate	KBC	<ul style="list-style-type: none">- Owns a large land fund ready for lease- Trang Due 3 received approval for the construction zoning planning of 1/2000 scale and should have legal procedures completed in 1H24
			IDC	<ul style="list-style-type: none">- Sizeable commercial land bank with remaining leasable area of up to 751 ha- Attractive dividend yield
				<ul style="list-style-type: none">- Stable cash flow from energy and BOT segments
	Reaping the benefits of loosened fiscal & monetary policies	Banks	ACB	<ul style="list-style-type: none">- Credit growth should recover well during the year-end peak season- ACB’s focus on the priority banking customer base will boost long-term growth- ACB remains among the top banks with solid asset quality with an investment portfolio free of corporate bonds
STB			<ul style="list-style-type: none">- STB’s earnings growth remains high regardless of economic and banking industry difficulties- STB has a relatively safe loan structure with low proportion of real estate loans- STB is expected to successfully sell debt related to Phong Phu Industrial Park- STB would auction 32.5% of the bank’s shares managed by VAMC (Vietnam Asset Management Company) to foreign partners	
MBB			<ul style="list-style-type: none">- NIM remains high thanks to its CASA advantage (highest in the entire system)- MBB looks attractive, given its current P/B of only 1.0x	
CTG			<ul style="list-style-type: none">- NIM should improve in 2024, reaching 3.0%- CTG will continue to control the NPL ratio below 1.8%	
Securities			SSI	<ul style="list-style-type: none">- SSI is the securities industry leader with the highest market share and is a pioneer in technology adoption

Promotion of public spending	Construction	CTD	<ul style="list-style-type: none"> - The industrial segment is the driving force for future growth - Backlog in FY24 should increase by 30% - Provision expenses are estimated at VND104 billion in FY24, helping NPAT to improve - Traffic at BOTs has improved by 5-20%
			<ul style="list-style-type: none"> - The promotion of public investment should boost infrastructure construction - Backlog reached VND4,000 billion by the end of 3Q23
			<ul style="list-style-type: none"> - Sales volume continued its upward trend in 4Q23 thanks to the recovery of the export channel and rising steel demand
	Construction Materials	HPG	<ul style="list-style-type: none"> - Raw material prices rose again in 4Q23, affecting gross profit margin
			<ul style="list-style-type: none"> - Domestic galvanized steel sheet consumption should recover, and exports would support revenue growth from the end of 2023 - early 2024 - Gross profit margin improved thanks to HRC input prices remaining low

V. Sector outlook

Fig 66. Vietnam – Correlation between P/B and fundamental prospects as assessed by KBSV across sectors



Source: KB Securities Vietnam

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Banks

Dark clouds to gradually dissipate

Navigating through the challenges and difficulties of the year 2023

Local banks went through a lot in 2023 in the context of economic slowdown. Data released by the SBV show that the overall credit growth by mid-December 2023 reached 9.87% YTD, far below the full-year target of 14%. Earnings for the year as a whole grew modestly as various sources of income were impacted. 9M23 profit before tax (PBT) was down 6% YoY to VND181,101 billion. Net interest margin (NIM) slipped from 3.81% at end-2022 to 3.29% by end-3Q23, mirroring high funding costs in the first three quarters of the year. For 2023, the overall asset quality severely deteriorated as the non-performing loan (NPL) ratio and NPL formation both increased across all banks under our coverage (industry-wide NPL ratio expanded to 2.2 % from 1.6% at end-2022).

Outlook for 2024

We anticipate that the low-interest-rate environment at the end of 2023 will continue into the following year, boosting borrowing demand and improving funding costs for banks. Loan growth should hover around 12–13% for 2024 due to the gloomy economic outlook and will vary among local banks, depending on the quota granted. We suppose NIM of the entire banking industry will rebound in 2024, although the overall conditions may not be favorable enough to bring NIM back to the peak level seen in 2022. Regarding industry risks, we note a potential deterioration in quality assets from mid-2024 after the expiration of Circular 02 along with the slow recovery of the corporate bond and real estate markets, which will continue to impact the industry's profit growth.

Turning challenges into opportunities, attractive valuation in the long-term

The P/B of the entire industry has hit a low (1.4x), nearing the bottom in 2020 and 2022. We foresee that the banking sector will continue to face some challenges in the near term, but the overall picture has shown bright spots, leading us to believe that banking stocks deserve higher prices. Vietcombank (VCB) and ACB Bank (ACB) remain our top picks, given their safe investment portfolio, solid provision buffers, and bright long-term prospects that align well with long-term investors. Banks with strong growth, competitive advantages, and benefiting from the expected recovery of the property sector like Military Bank (MBB) and Techcombank (TCB) are also worth considering for risk-tolerant investors. Some other potential investment opportunities are Sacombank (STB) and VIB Bank (VIB).

Neutral

 maintain

Recommendations

Vietcombank (VCB)	BUY
Target price	VND 109,600
Asia Commercial Bank (ACB)	BUY
Target price	VND 30,000
Sacombank (STB)	BUY
Target price	VND 38,900
Techcombank (TCB)	BUY
Target price	VND 41,000
Military Bank (MBB)	BUY
Target price	VND 25,000

9M23 business performance

Actual credit growth is far below the target of 14%

According to data released by the SBV, the overall credit growth by mid-December 2023 was 9.87% YTD, far below the target cap of 14% for the whole year. In 2023, the SBV extended the credit growth limits for banks three times. Most recently, it prioritized banks that meet certain conditions such as disbursing at least 80% of their previous credit limits, focusing on priority sectors, cutting lending interest rates, ... However, we believe that banks will find it challenging to fulfill their assigned credit limits for the year. Overall, disbursement was rather slow, mainly due to the following reasons:

- (1) Economic woes caused investment, production, business operation, and consumption to slow, leading to a corresponding decrease in borrowing demand from businesses and individuals.
- (2) Outstanding loans to real estate, which account for the highest proportion (>20%) of total outstanding loans, grew a mere 6.04% YTD against double-digit growth in previous years due to unresolved legal entanglements plaguing real estate firms, making this market unable to recover.
- (3) A stagnant corporate bond market when outstanding loans in corporate bonds on the balance sheet of banks shrank by 24% YTD by end-2Q23 and by 8% by end-3Q23 due to a sharp rise at some banks such as Techcombank (TCB), HDBank (HDB). Excluding these two banks, the entire industry's outstanding loans in corporate bonds would drop by 37% YTD after three quarters.
- (4) Financial institutions were more cautious in disbursement due to rising customer risks in a difficult economic context.

Full-year earnings grew modestly since all sources of income were impacted

Economic slowdown hit banks' income sources. In particular, net interest income (NII) of banks under our coverage only recorded a humble 3.7% YoY increase as loan growth decelerated, much lower than the 22% YoY increase in 9M22. Non-interest income (NOII), which accounts for 20-25% of total operating income (TOI), contracted by 3%, primarily due to a sharp fall in banks' net fee income, caused by (1) a quiet corporate bond market and (2) decreased revenue from cross-selling insurance products following incidents occurring in the insurance industry. In general, 2023 TOI of banks is almost flat YoY (+2.2% YoY).

On the other hand, the decline in asset quality forced banks to strengthen their provision buffer, while operating expenses (OPEX) also saw an increase over the same period across most banks. However, from our observation, banks have made great efforts to cut costs to protect profits, so increases in provision expenses and OPEX were insignificant in the first three quarters of the year (up 6% and 8% YoY, respectively). 9M23 PBT of the whole industry topped VND181,101 billion, down 6% YoY, but the rate of decline was gradually under control in the third quarter.

Industry-wide NIM declined due to high funding costs in 2023

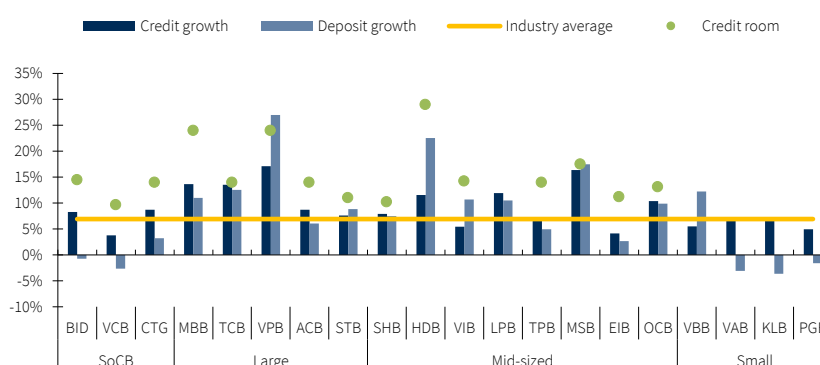
NIM of the entire industry slipped from 3.81% at end-2022 to 3.29% by end-3Q23, mirroring (1) high funding costs in 9M23, (2) lower proportion of higher-margin retail lending in the lending structure, and (3) rising NPL formation. NIM seems to have bottomed out in 3Q23 as some banks recorded improvements in NIM compared to the previous quarter such as Techcombank (TCB), TPBank (TPB), Maritime Bank (MSB), and Ocean Bank (OCB). Pressure from high funding costs will remain but will be moderate thanks to the maturity of 12M deposits bearing high interest rates at the end of 2023 and early 2024.

Asset quality worsened evenly across all banks

In the first half of 2023, industry-wide asset quality deteriorated sharply as the NPL ratio and NPL formation increased across all banks under our coverage (industry-wide NPL rose to 2.2% from 1.6% at end-2022). However, the issuance of Circular 02 and its effect since April has eased the stressful situation associated with asset quality in the third quarter. Although NPLs kept rising in 3Q23, there were some positive signs such as: the rate of increase in the NPL ratio and NPL formation subsided against the previous two quarters, and the proportion of special mentioned loans of the whole system shrank by 7.7% QoQ.

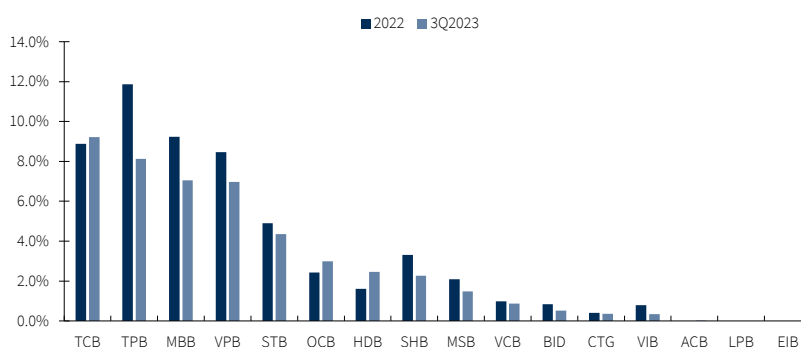
Credit growth varied among banks. Banks with outstanding loans for the real estate sector (TCB, MBB, MSB, HDB) recorded credit growth that was superior to the remainder, which we attribute to increased lending to a number of projects belonging to companies in the same ecosystem with those banks or long-term partners. Banks with a large proportion of retail loans, such as VIB and ACB, had credit growth affected. State-owned banks (SOB) with low-risk appetite and cautious in disbursement achieved lower growth.

Fig 1. Vietnam – 3Q23 credit & deposit growth across banks (%)



Source: Vietnamese banks, KB Securities Vietnam

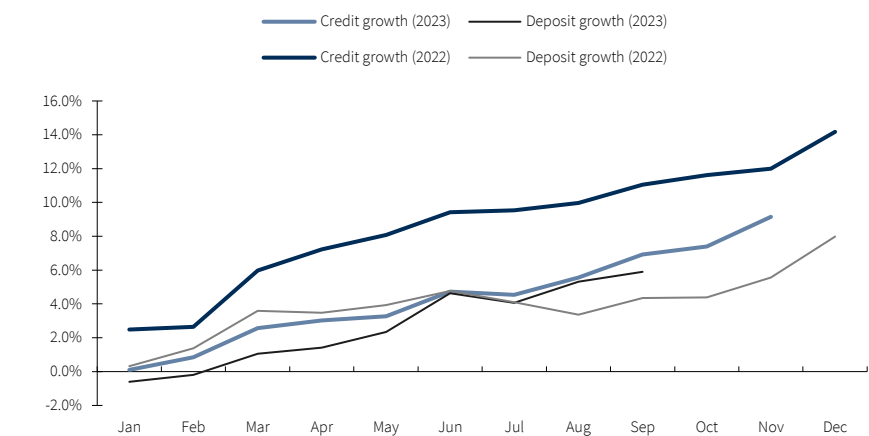
Fig 2. Vietnam – Outstanding value of corporate bonds to total outstanding loans across banks by the end of 2022 and 3Q23 (%)



Source: Vietnamese banks, KB Securities Vietnam

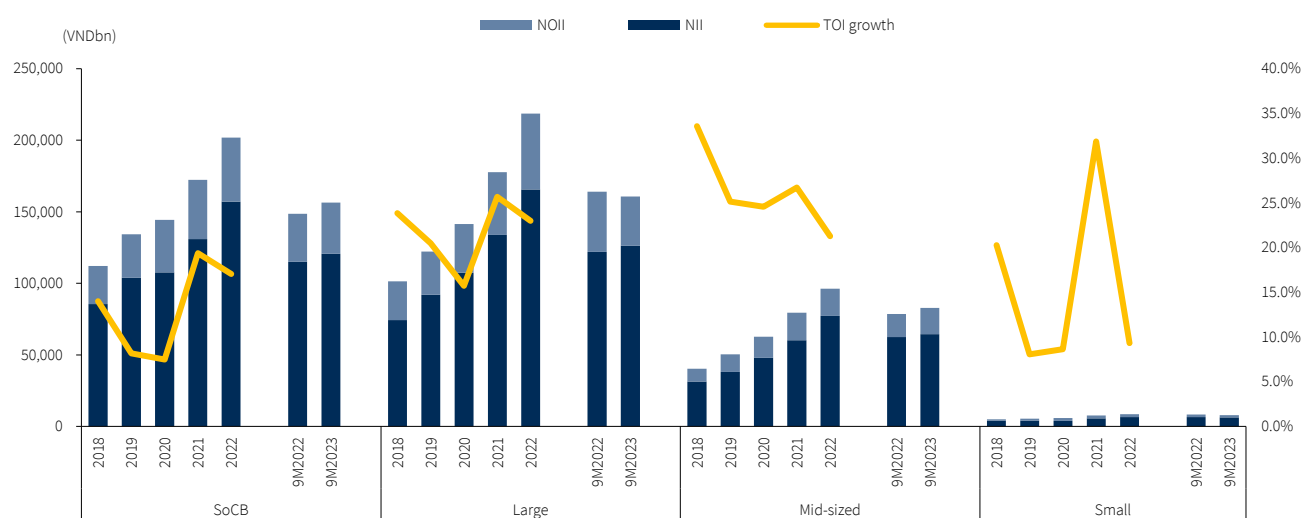
Fig 3. Vietnam – 2022–2023 credit & deposit growth (%)

Quarterly credit growth in 2023 is lower than the previous year while the system no longer faces the liquidity problem.



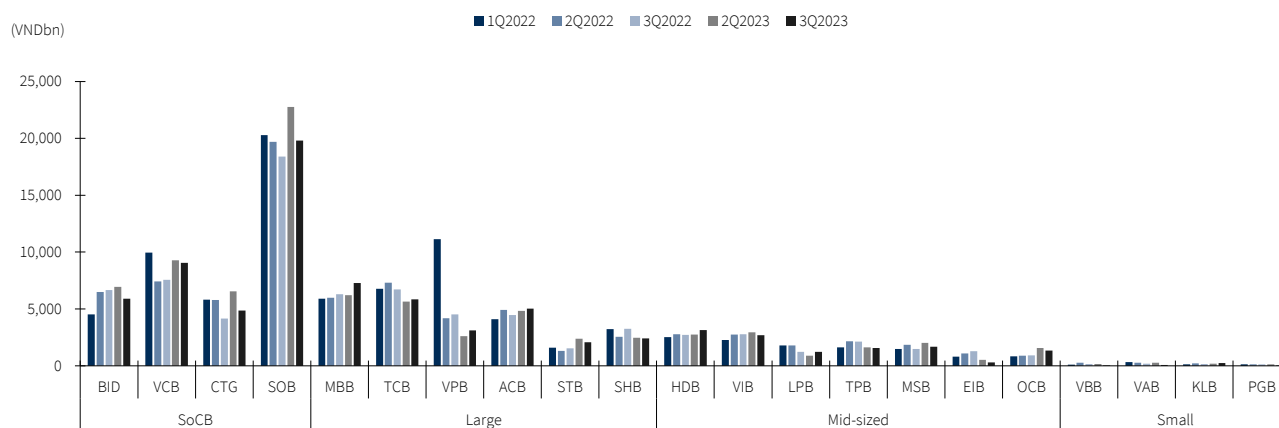
Source: State Bank of Vietnam, KB Securities Vietnam

Fig 4. Vietnam – NII, NOII, TOI growth across banks (VNDbn, %YoY)



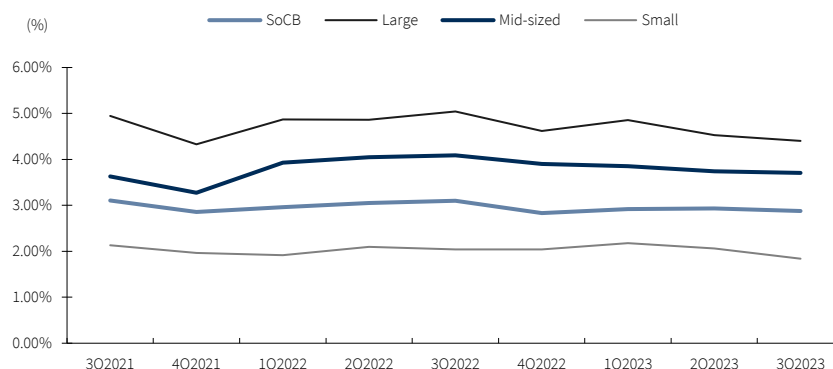
Source: Vietnamese banks, KB Securities Vietnam

Fig 5. Vietnam – NPAT across banks (VNDbn)



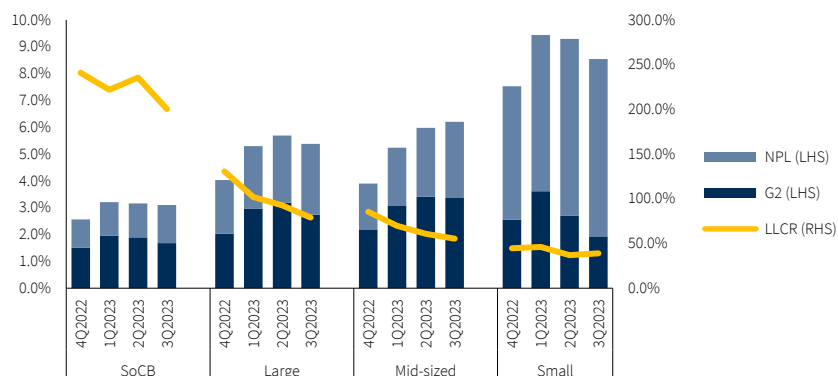
Source: Vietnamese banks, KB Securities Vietnam

Fig 6. Vietnam – NIM across banks (%)



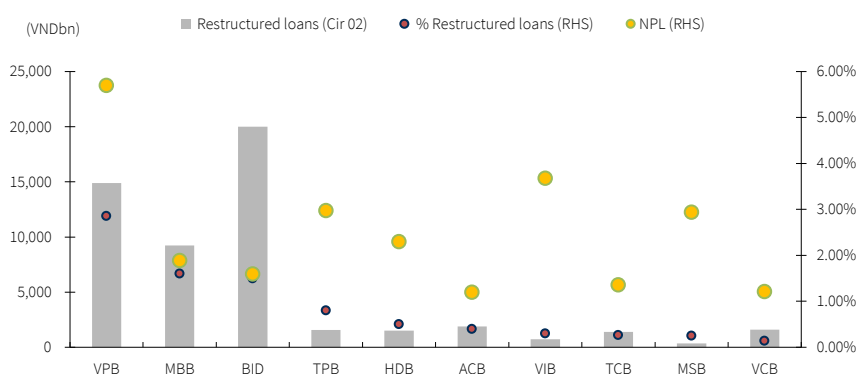
Source: Vietnamese banks, KB Securities Vietnam

Fig 7. Vietnam – NPL ratio, special mentioned loan ratio, LLCR across banks (%)



Source: Vietnamese banks, KB Securities Vietnam

Fig 8. Vietnam – Restructured loans under Circular 02, NPL ratio of some banks (VNDbn, %)



Source: Vietnamese banks, KB Securities Vietnam

Special mentioned loans have started to fall since the third quarter of 2023. We expect this trend to continue in the coming quarters, reducing the pressure on rising NPLs across banks. Banks' provision buffers have decreased relatively compared to the previous quarter. Specifically, SOBs still maintain a high LLCR of 200-300% while the remainder have this ratio all down to below 100%.

According to the SBV, by the end of October 2023, the total restructured loans under Circular 02 hit VND158 trillion (accounting for 1.09% of total outstanding loans). As far as we know, VPB has restructured loans of VND14,900 billion (about 2.86% of total outstanding loans), MBB with VND9,200 billion (about 1.6% of total outstanding loans), and BID with nearly VND20,000 billion (about 1.5% of total outstanding loans), helping to control the soaring NPLs this quarter. The remaining banks have restructured loans only making up a small proportion of total outstanding loans (<1%).

2024 outlook

Low interest rates should drive credit growth and help to improve funding costs

Weak credit demand and gloomy colors of the economic picture have prompted regulators to prioritize interest rate reduction in 2023. After four adjustments by the SBV since March 2023, we observe that banks' deposit interest rates have decreased by 2–4% against the end of 2022. Lending rates followed a similar trend but at a slower pace than mobilization interest rates. KBSV expects that deposit interest rates will maintain the current low levels since (1) banks' deposit interest rates have returned to the bottom low levels in the pre-pandemic period and thus will less likely drop further and (2) it will lay the foundation for lending interest rates to decrease further to support the economy. Loan interest rates are expected to decrease by another 0.5–1.5%, boosting capital needs among businesses as well as credit growth.

Although deposit interest rates have fallen substantially, the cost of funds (COF) has not had a corresponding decline since resetting deposit interest rates often has a 3–6 months lag. We maintain the view that it will take another three to six months for the COF to reflect the interest rate fluctuations in 2023. Furthermore, the industry's CASA should improve again from late 2023, thus lowering input costs. Furthermore, in the scenario of economic recovery, we expect retail lending growth will be positive again, pushing yield on interest-earning assets (IEA). We expect that NIM will start to increase in 2024, although general conditions may not be favorable enough to bring NIM back to the peak level seen in 2022. Banks with a strategy focusing on retail lending and possessing affiliated consumer finance companies within their ecosystem such as VPB, MBB, HDB, VIB... should see a marked improvement in NIM. SoBs and ACB, with a cautious strategy, requiring high customer creditworthiness, and cutting lending rates to support economic recovery, may see slower NIM growth.

Credit growth should reach 12–13% amid the gloomy economic outlook

We expect 2024F credit growth to be around 12–13% amid the gloomy economic outlook. The key growth driver should stem from (1) low interest rates, promoting credit demand for production activities; (2) the government's support policies to be effective in boosting domestic consumer demand; (3) legal issues to be completely resolved, helping to restore the real estate market; (4) the corporate bond market to return to strong growth as before over the next two to three years, boosting the bank credit channels.

However, credit growth will vary among banks, depending on the granted limit as well as the lending practices. We believe that banks that meet the following criteria: (1) participating in restructuring weak credit institutions, (2) having a high capital adequacy ratio and abundant liquidity, (3) a loan portfolio with little exposure to various risks, (4) offering preferential interest rate loan packages to support the economy... will more likely be given extra credit growth quota. Accordingly, we expect that MBB, VPB, and HDB will continue to be assigned quotas higher than the industry standard.

Potential risks may arise from declining asset quality and not-as-expected recovery of the corporate bond and real estate markets

In 2024, the risk of asset quality deterioration may arise from legal gaps when Circular 02 on debt rescheduling expires in June 2024. From our observation, in the past when circulars on debt repayment term restructuring expired, namely Circular 14/2021 and Circular 03/2021, the asset quality of the banking industry slightly weakened. Therefore, we believe a similar trend may occur in 2024, but it is not yet a highly concerning risk because:

(1) As mentioned in the previous reports, we see that the scale of debt restructuring this time is not as significant as during the COVID period. The total restructured loans under Circular 02 only constitute 0.2–0.5% of the total outstanding loans of some banks we monitor (except BID, VPB, and MBB) and represent over 1% of the total outstanding loans of the entire system. If these amounts are reclassified into substandard, doubtful, and bad debts when the circular expires, banks' NPL ratio may edge up. Nevertheless, boosting provisions for restructured debts will also help to alleviate pressure on banks.

(2) The SBV is considering extending the implementation of Circular 02 in the context that the economy has not yet made a strong recovery and businesses still need support from the government. KBSV believes that the extension can facilitate provision-making and bad debt handling without affecting the financial foundation, lightening the asset quality risks in 2H24 and 2025. We expect the industry's NPL ratio to be well-controlled around the current level in 2024.

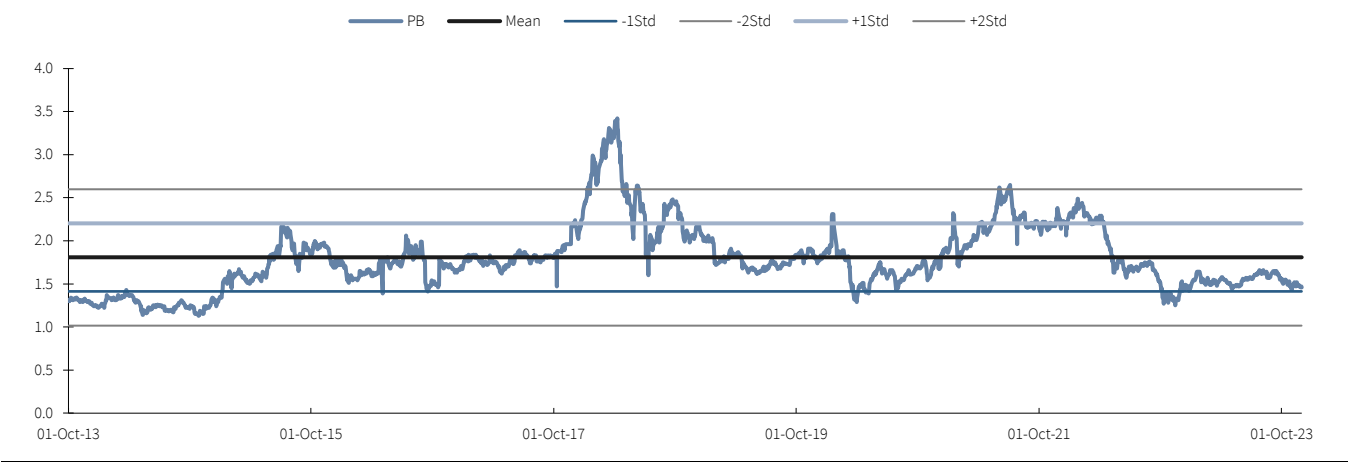
Risks from the corporate bond and real estate markets will still be existential in 2024 if the recovery pace falls short of expectations. Bond maturity pressure will increase in 2024, with a total maturity value of VND329.5 trillion, the highest across the last three years (VND144.5 trillion in 2022, VND271.4 trillion in 2023), including ~VND123.5 trillion in real estate bonds. Besides, the total value of late payment bonds this year has reached 195 trillion, including lots whose terms had been extended before. As a result, we do not rule out the possibility that the concentration risk may occur in a few banks with a considerable proportion of corporate bonds in their lending structure, resulting in a spillover effect in the entire system as in 2022.

Turning challenges into opportunities, attractive valuation in the long term

Navigating through a tough 2023, banking stock prices retreated, with a P/B of 1.4x, close to the bottom of 1.3x in 2020 and 2022 and below the 10-year average of ~1 standard deviation. We believe local banks will continue to face challenges in the near term, depending on the recovery pace of the economy in general and the real estate and corporate bond markets in particular. Still, the overall picture has shown bright spots, leading us to believe that banking stocks deserve higher prices.

VCB and ACB remain our top picks, given their safe investment portfolio, solid provision buffers, and bright long-term prospects that align well with long-term investors. Banks with strong growth, competitive advantages, and benefiting from the expected recovery of the property sector like MBB and TCB are also worth considering for risk-tolerant investors. Some other potential investment opportunities are STB and VIB.

Fig 9. Vietnam – Historical P/B of the banking industry (x)



Source: Fiiipro, KB Securities Vietnam

December 7, 2023

Analyst Vu Thu Uyen
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3Q23 PBT reached 9,051 billion VND (+19.6% YoY)

TOI of Vietcombank (VCB) dropped 5.6% YoY to VND15,777 billion mainly due to weak NII (-7.8% YoY). VCB's PBT gained 19.6% YoY to VND9,051 billion, 9M23 accumulated profit completed 69% of the 2023 target and kept the bank leading position in the banking system.

Credit should grow towards the end of 2023 and sustainably increase in 2024

Credit growth should reach 8.5% in 2023, doubling the increase in the first three quarters thanks to (1) accelerated disbursement of public capital in the last quarter and 2) higher credit demand during holidays. We believe that credit growth potential of the bank will become clearer in 2024 when the economy shows positive signs and is expected to strongly rebound next year.

NIM is expected to remain stable thanks to improved COF

NIM should be stable in 4Q given (1) accelerated credit growth that helps the bank allocate profitable assets more efficiently and 2) improved costs of fund (COF) on maturing deposits with high interest rates.

VCB has a solid backup buffer

The LLCR of VCB is still at the highest level in the industry (270%), which will allow VCB to be flexible in reducing provisions and supporting profits in the last quarter of the year and next year.

We recommend BUY for VCB with a target price of VND109,600/share

Using two valuation methods P/B and residual income discount, we give the target price for 2024 of VCB shares at VND109,600/share, 28.6% higher than the price on December 7, 2023, and a BUY recommendation.

Buy maintain

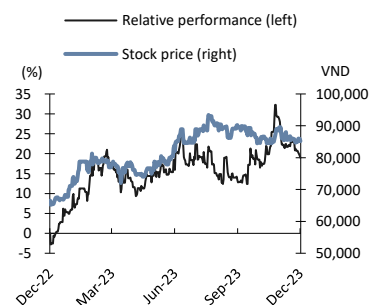
Target price	VND109,600
Upside	28.6%
Current price (Dec 7, 2023)	VND85,200
Consensus target price	VND99,200
	476,749/19.63

Trading data	
Free float	25.2%
3M avg trading value (VNDbn/USDmn)	94.64/3.9
Foreign ownership	23.5%
Major shareholder	State Bank (SBV)
	(74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.5	-4.8	3.7	30.7
Relative	-7.1	5.5	2.6	22.4

Forecast earnings & valuation

(VNDbn)	2021	2022	2023F	2024F
Net interest income (VNDbn)	42,400	53,246	56,821	66,210
PPOP (VNDbn)	39,149	46,832	50,958	58,748
NPAT-MI (VNDbn)	21,939	29,919	33,574	39,094
EPS (VND)	5,910	6,318	6,003	6,564
EPS growth (%)	19%	7%	-5%	9%
PER (x)	14.5	13.5	14.2	13.0
Book value per share (VND)	29,421	28,663	29,031	38,503
PBR (x)	2.90	2.98	2.94	2.22
ROE (%)	21.6%	24.4%	22.5%	20.0%
Dividend yield (%)	1.41%	0.00%	1.41%	1.41%



Source: Bloomberg, KB Securities Vietnam

ACB Bank (ACB)

Steadfast in the face of adversity

November 28, 2023

Analyst Pham Phuong Linh
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Credit growth should rebound more strongly in the year-end peak season

We expect Asia Commercial Bank's (ACB) loan growth to improve against the first half of this year. Our credit growth forecast for 2023F is around 12–13% compared with the 14.5% quota assigned by the State Bank of Vietnam (SBV). For 2024, the figure should reach 14–15% from the low base this year and in the context of a brighter economic picture.

Synergistic effects created by the priority banking customer base will ensure long-term growth

KBSV assesses that the priority banking customer quantity of ACB will increase further thanks to its focus strategy. This potential customer base can bring synergistic effects to ACB via (1) significantly contributing to mobilizing funds and CASA for ACB due to this group's good financial health, (2) supporting credit growth, and (3) boosting cross-selling of other products.

ACB is still among the top banks with solid asset quality

ACB always puts asset quality as a top priority rather than participating in the growth race among joint stock commercial banks. With an investment portfolio free of corporate bonds and real estate loans and good control of non-performing loans, ACB is considered a good investment opportunity.

We recommend BUY for ACB with a target price of VND30,000/share

We use two valuation approaches P/B and residual income to evaluate ACB's value. Accordingly, we reiterate our BUY recommendation for ACB with a target price for 2023F at VND30,000/share, equivalent to a total return of 37.4% against the closing price as of November 27, 2023.

Buy maintain

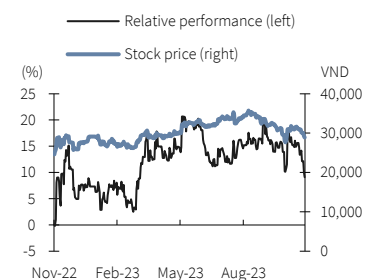
Target price	VND30,000
Upside	37.4%
Current price (Nov 27, 2023)	21,850
Market cap (VNDbn/USDmn)	84,866/3.5

Trading data	
Free float	85%
3M avg trading value (VNDbn/USDmn)	156/6.4
Foreign ownership	30%
Major shareholder	Vietnam Enterprise Investments Ltd (6.26%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-2.2	-15.0	-3.3	14.7
Relative	-4.2	-5.7	-5.1	9.3

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	18,945	23,534	24,922	29,504
PPOP (VNDbn)	15,334	17,185	21,063	24,474
NPAT-MI (VNDbn)	9,603	13,688	15,629	18,455
EPS (VND)	3,554	4,053	4,627	5,464
EPS growth (%)	0%	14%	14%	18%
PER (x)	12.4	10.9	9.5	8.1
Book value per share (VND)	16,618	17,303	20,760	24,654
PBR (x)	2.65	2.54	2.12	1.78
ROE (%)	23.9%	26.5%	24.3%	24.1%



Source: Bloomberg, KB Securities Vietnam

Sacombank (STB)

Asset quality worsened in 3Q23

December 15, 2023

Equity Manager Nguyen Anh Tung
tungna@kbsec.com.vn

3Q23 EBT gained 36.1% YoY to VND2,085 billion

In 3Q23, Sacombank (STB) posted VND4,851 billion in NII (-15.7% QoQ, -15.8% YoY) and VND5,927 billion in TOI (-12.0% QoQ, -16.0% YoY). Provisioning costs decreased sharply QoQ to VND827 billion (-37.2% QoQ, -65.9% YoY), making EBT VND2,085 billion (-12.1% QoQ, +36.1% YoY).

NIM continues its downward trend and is expected to recover in 2024

3Q NIM dropped 28bps QoQ to 3.7%, marking the second consecutive quarter of NIM decrease as high costs of fund (CoF) and declining asset quality squeezed interest income of the bank (-6.97% QoQ). We think the NIM downtrend is temporary, and NIM will recover in 2024 thanks to better control of CoF.

3Q NPL climbed 41bps QoQ, but special mention dropped 44bps QoQ

NPL ratio reached 2.2% (+41bps QoQ) in 3Q, the fourth consecutive quarter of NPL increase. The positive point is that special mention went down 44bps QoQ to 0.71%, ranked among the banks with the lowest special mention. During the period, STB made a provision VND333 billion for customer loan risks of (-60.5% QoQ) and VND494 billion for VAMC bonds (-7.3% QoQ).

BUY recommendation with the target price VND38,900 apiece

Based on valuation results, business prospects and potential risks, we recommend BUY for STB shares. The target price for 2024 is VND38,900/share, 43.7% higher than the price on December 15, 2023.

Buy maintain

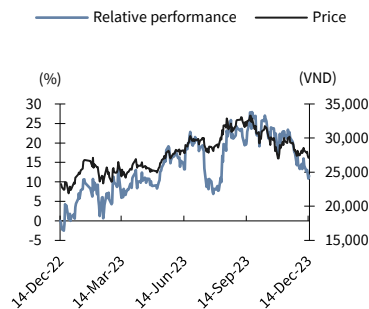
Target price	VND38,900
Upside	43.7%
Current price (Dec 15, 2023)	VND27,100
Consensus target price	VND38,599
Market cap (VNDbn/USDbn)	51,089/2.09

Trading data	
Free float	94.46
3M avg trading value (VNDbn/USDmn)	551.0/22.5
Foreign ownership	23.23
Major shareholder	PYN Fund (4.94%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-7	-15	-8	17
Relative	-7	-10	-6	12

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	11,964	17,147	21,862	25,221
PPOP (VNDbn)	7,954	15,221	14,115	17,557
NPAT (VNDbn)	3,411	5,041	7,707	10,753
EPS (VND)	1,810	2,674	4,088	5,704
EPS growth (%)	27%	48%	53%	40%
PER (x)	15.0	10.1	6.6	4.8
Book value per share (VND)	18,174	20,489	24,578	30,282
PBR (x)	1.49	1.32	1.10	0.89
ROE (%)	10.8	13.8	18.1	20.8
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Techcombank (TCB)

Potential credit growth

December 12, 2023

Analyst Pham Phuong Linh
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3Q TOI was flat while EBT decreased

3Q TOI of Techcombank (TCB) was flat YoY as the small decrease of 3.9% YoY in NII was offset by 13.5% growth in NFI. Credit costs spiked in 3Q due to increased credit scale and worse asset quality. In the quarter, TCB recorded EBT of VND5,843 billion (-13% YoY), making 9M23 EBT VND17,115 billion (-18% YoY) or 73.3% of our forecast.

Positive credit growth thanks to newly granted limits

TCB is also one of the banks granted credit extension in this round. 9M29 credit growth was 13.5% on the 14% limit granted since July, TCB has almost disbursed the full limit. KBSV expects that with the new credit limit, credit growth of the bank this year can reach 15-17%.

COF significantly improved in 3Q, restraining the decline in NIM

3Q cost of funds (COF) hit 4.7%, the lowest in the last three quarters given a big decline in deposit interest rates. The slight decrease in asset yields compared to the COF contributed to this quarter's NIM improving by 4bps compared to the previous quarter. Although 12M trailing NIM of TCB is still trending downward, we expect it will reverse next year.

BUY recommendation – target price VND41,000/share

Using two valuation methods, P/B and residual income, we give the target price for TCB stock at VND41,000/share for 2024, 32% higher than the price on December 11, 2023, with a BUY recommendation.

Buy change

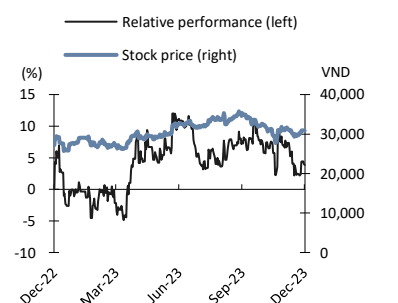
Target price	VND41,000
Upside	32%
Target consensus price	VND40,250
Current price (Dec 11, 2023)	VND30,850
Market cap (VNDbn/USDmn)	122.75/5.03

Trading data	
Free float	65%
3M avg trading value (VNDbn/USDmn)	295.6/12.1
Foreign ownership	22.5%
Major shareholder	Masan Group (MSN, 14.96%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.6	-12.6	-5.7	7.1
Relative	-2.9	-3.4	-6.6	-0.4

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	26,699	30,290	27,091	31,767
Pre-provision operating profit (VNDbn)	25,903	27,504	26,405	29,544
NPAT of the parent bank (VNDbn)	18,415	20,436	18,659	21,498
EPS (VND)	5,142	5,729	5,199	5,975
EPS growth (%)	46%	11%	-9%	15%
PER (x)	8.6	7.7	8.5	7.4
Book value per share (VND)	26,501	32,248	36,769	42,143
PBR (x)	1.66	1.36	1.20	1.04
ROE (%)	22.0%	19.8%	15.4%	15.5%



Source: Bloomberg, KB Securities Vietnam

Military Bank (MBB)

NPL ratio surged in 3Q23

December 20, 2023

Analyst Pham Phuong Linh
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MBB delivered 9M23 TOI of VND35,556 billion (up 5.1% YoY) thanks to positive NII growth

In the first nine months of 2023, Military Bank (MBB) achieved total operating income (TOI) of VND35,556 billion (up 5.1% YoY), driven mainly by net interest income (NII) growth of 12% (making up more than 80% of TOI). Meanwhile, non-interest income (NOII), despite improvements in 3Q23, contracted by 19% YoY as many income sources were affected by economic woes. For 9M23, PBT recorded VND20,019 billion (+10% YoY), equaling 76% of our assumption.

NIM should maintain the current high level thanks to high CASA

KBSV expects that MBB's NIM will maintain the current high level and grow well in 2024 on (1) declining funding costs and (2) the decline pace of lending interest rates will be slower than that of deposit interest rates since medium to long-term loans account for a larger proportion in the lending structure.

The NPL formation rate is still on the rise

In 3Q23, the NPL ratio expanded by 50bps QoQ to 1.9%, in which substandard debt and doubtful debt saw the strongest increase (up 56% and 37% QoQ, respectively). Due to rising NPL formation, MBB boosted provisioning in 3Q23, with provision expenses up 50% YoY and up 20% QoQ. The loan loss coverage ratio (LLCR) dropped to 122%, but MBB remains among the banks with the highest LLCR in the entire system.

We recommend BUY for MBB with a target price of VND25,000/share

Based on P/B and residual income valuation methods, we reiterate our BUY rating for MBB but adjust the target price for 2024 to VND25,000/share, 39% higher than the closing price on December 19, 2023.

Buy maintain

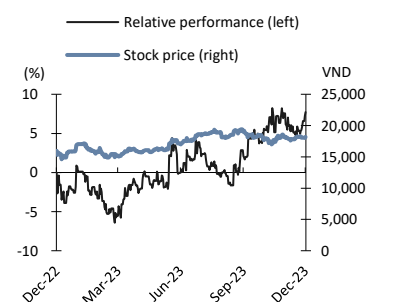
Target price	VND25,000
Upside	39%
Consensus target price	22,300
Current price (Dec 19, 2023)	18,150
Market cap (VNDbn/USDmn)	26,626

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	226.46/9.3
Foreign ownership	23.23%
Major shareholder	14.14%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.3	-4.5	6.8	18.6
Relative	0.2	5.6	7.7	10.7

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	26,200	36,023	40,228	45,344
PPOP (VNDbn)	24,557	30,777	32,788	36,854
NPAT-MI (VNDbn)	13,221	18,155	19,423	22,069
EPS (VND)	3,361	3,856	4,091	4,617
EPS growth (%)	14%	15%	6%	13%
PER (x)	13.1	11.4	10.8	9.5
Book value per share (VND)	16,538	17,559	20,971	24,987
PBR (x)	2.66	2.51	2.10	1.76
PBR (x)	23.5%	25.6%	22.2%	21.2%
ROE (%)	2021	2022	2023F	2024F



Source: Bloomberg, KB Securities Vietnam

BIDV (BID)

NIM should improve in 2024

December 5, 2023

Manager Nguyen Anh Tung
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3Q23 PBT reached VND5,893 billion, down 2.2% YoY

For 3Q23, Bank for Investment & Development (BID) achieved net interest income (NII) of VND13,783 billion (-0.9% QoQ, -2.2% YoY) and non-interest income (NOII) of VND4,104 billion (+10.6% QoQ, +10.6% YoY), taking total operating income (TOI) to VND17,887 billion (+3.6% QoQ, +1.9% YoY). Provision expenses were VND5,950 billion (+51.3% QoQ, +9.6% YoY), making PBT down to VND5,893 billion (-15.2% QoQ, -11.7% YoY). For 9M23, PBT hit VND19,763 billion, up 11.8% YoY.

NIM is expected to rebound in 2024

KBSV expects BID's NIM to improve in 2024 as (1) 12M customer deposits with high interest rates in the 4Q22-1Q23 period will mature in the first half of 2024; (2) deposit interest rates are hovering at low levels; and (3) CASA should increase when businesses stabilize production and operations.

Asset quality was better controlled in 3Q23

BID's 3Q23 NPL ratio reached 1.60%, up 1bps QoQ. BID was among the banks with the lowest NPL formation rate in the entire banking system in the third quarter, only higher than VPBank (VPB) and Eximbank (EIB). Better asset quality coupled with the loan loss coverage ratio (LLCR) ranked third in the industry (158.4%) lay the foundation for BID to reach the target of setting aside VND20-21 trillion for 2023F.

We recommend BUY for BID with a target price VND47,900/share

Based on valuation results, business prospects, and possible risks, we recommend BUY for BID. The target price for 2024F is VND47,900/share, 23.1% higher than the closing price as of December 4, 2023.

Buy update

Target price	VND47,900
Upside	23.1%
Current price (Dec 4, 2023)	VND38,900
Consensus target price	VND45,098
Market cap (VNDbn)	226,878

Forecast earnings & valuation

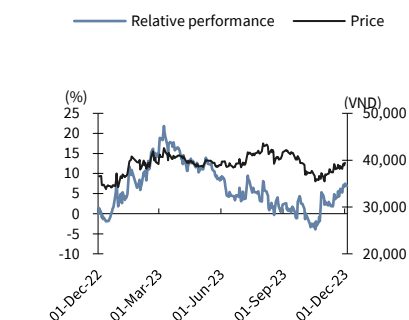
FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	46,823	56,070	57,323	66,783
PPOP (VNDbn)	43,028	47,025	47,972	55,373
NAPT (VNDbn)	10,841	18,420	20,731	24,795
EPS (VND)	2,084	3,590	3,586	4,294
EPS growth (%)	20%	72%	0%	20%
PER (X)	18.7	10.8	10.8	9.1
Book value per share (VND)	17,066	20,597	21,864	26,158
PBR (x)	2.28	1.89	1.78	1.49
ROE (%)	13.1%	19.3%	18.1%	18.1%
Dividend yield (%)	0.51%	0.00%	0.00%	0.00%

Trading data

Free float	4.01%
3M avg trading value	41.9/1.71
Foreign ownership	17.22%
Major shareholder	State Bank (SBV) (80.99%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	7	-4	2	15
Relative	4	4	2	7



Source: Bloomberg, KB Securities Vietnam

Vietinbank (CTG)

NIM is expected to improve in 2024

December 11, 2023

Analyst Ho Duc Thanh
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3Q23 PBT touched VND4,871 billion, up 17.2% YoY

In 3Q23, Vietinbank (CTG) delivered net interest income (NII) of VND13,087 billion (+2.6% QoQ, +1.3% YoY) on total operating income (TOI) of VND17,393 billion (-2.1% QoQ, +0.4% YoY). Provision expenses reached VND7,440 billion (14.8% QoQ, -10.6% YoY), causing NPAT to hit VND4,871 billion (-25.6% QoQ, +17.2% YoY). For 9M23, PBT recorded VND17,401 billion, up 10.4% YoY, with credit growth reaching 8.7% YTD.

NIM is set to improve in 2024, reaching 3.0%

KBSV expects CTG's NIM will improve in 2024, reaching 3.0%, backed by: (1) the maturity of high-interest customer deposits in the 4Q22-1Q23 period with a term of 6 to 12 months, (2) abundant liquidity, supporting low deposit rates, and (3) improved CASA.

The NPL ratio should be well controlled below 1.8%

The NPL ratio rose to 1.37% in 3Q23 amid economic hurdles. CTG set aside more than VND19.8 trillion, thus improving the loan loss coverage ratio (LLCR) (the second highest in the banking system). With a high provision buffer and low-risk loan portfolio, we assess that CTG's NPL ratio will continue to be well controlled below 1.8% in 2024.

We recommend BUY for CTG with a target price of VND40,900/share

Based on valuation results, business prospects, and possible risks, we recommend BUY for CTG. The target price for 2024F is VND40,900/share, 52.1% higher than the closing price as of December 11, 2023.

Buy maintain

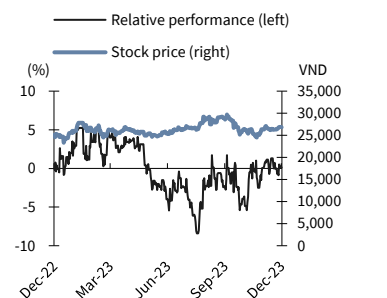
Target price	VND40,900
Upside	52.1%
Current price (Dec 11, 2023)	VND26,900
Consensus target price	VND34,000
Market cap (VNDbn/USDbn)	144,453/6.0

Trading data	
Free float	35.5%
3M avg trading value (VNDbn/USDmn)	114.18/4.72
Foreign ownership	27.8%
Major shareholder	SMBC (15.01%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.0	-5.9	5.8	9.3
Relative	0.0	2.4	4.3	0.4

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	41,788	47,792	52,489	60,991
PPOP (VNDbn)	35,971	45,109	49,882	57,038
NPAT (VNDbn)	14,215	16,835	18,480	23,182
EPS (VND)	2,932	3,491	3,441	4,317
EPS growth (%)	-20.3%	19.1%	-1.4%	25.4%
PER (x)	10.7	9.0	9.1	7.3
Book value per share (VND)	19,487	22,508	22,785	26,302
PBR (x)	1.6	1.4	1.4	1.2
ROE (%)	15.9%	16.7%	16.1%	17.6%
Dividend yield (%)	2.6%	2.6%	2.6%	2.6%



Source: Bloomberg, KB Securities Vietnam

November 16, 2023

Manager Nguyen Anh Tung
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3Q23 PBT touched VND3,117 billion, down 30.9% YoY

For 3Q23, Vietnam Prosperity Bank (VPB) delivered net interest income (NII) of VND8,837 billion (+2.9% QoQ, +21.8% YoY) on total operating income (TOI) of VND11,262 billion (-11.9% QoQ, -16.4% YoY). Provisions were VND4,950 billion (-23.7% QoQ, -8.7% YoY), making PBT reach VND3,117 billion (+19.3% QoQ, -30.9% YoY). For 9M23, NII recorded VND27,133 billion (down 11.7% YoY), and PBT touched VND8,279 billion, down 58.3% YoY.

Funding costs should improve in 2024

KBSV expects VPB's funding costs to improve in 2024, supported by (1) the maturity of 4Q22-1Q23 term deposits with high interest rates; (2) ample liquidity, low deposit interest rates; and (3) improved CASA on rising corporate loans.

NIM may not recover strongly as the average earnings yield will be revised down

However, NIM may not recover strongly in the first half of 2024 when the average earnings yield is still under enormous pressure because: (1) banks cut lending interest rates to increase competitiveness and boost loan growth; (2) retail lending, which used to contribute significantly thanks to high earnings yield, has now slowed; (3) potential risks come from rising investments in real estate.

We recommend BUY for VPB with a target price of VND24,500/share

Basing on valuation results, business prospects, and possible risks, we reiterate our BUY rating for VPB. Our expected target price for 2024F is VND24,500/share, 26.9% higher than the closing price as of November 15, 2023.

Buy maintain

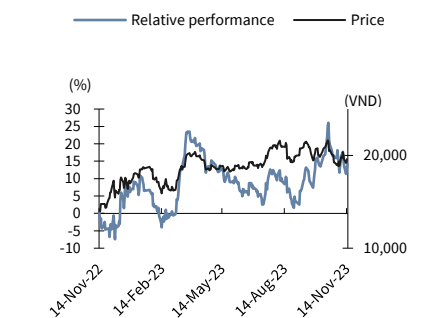
Target price	VND24,500
Upside	26.9%
Current price (Nov 15, 2023)	VND19,950
Consensus target price	VND26,606
Market cap (VNDbn/USDbn)	158,281/6.5

Trading data	
Free float	63.79
3M avg trading value (VNDbn/USDmn)	407/16.6
Foreign ownership	28.62
Major shareholder	SMBC (15.01%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-2	2	9	33
Relative	-6	8	4	14

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	34,349	41,021	38,546	54,089
PPOP (VNDbn)	33,583	43,681	36,835	50,106
NPAT (VNDbn)	11,477	16,909	10,721	14,311
EPS (VND)	2,601	2,694	1,503	1,779
EPS growth (%)	-37%	4%	-44%	18%
PER (x)	7.7	7.4	13.3	11.2
Book value per share (VND)	19,149	15,349	18,176	19,955
PBR (x)	1.04	1.30	1.10	1.00
ROE (%)	16.5%	17.8%	8.7%	9.5%
Dividend yield (%)	0.00%	0.00%	5.05%	0.00%



Tien Phong Bank (TPB)

Asset quality deteriorated

December 22, 2023

Analyst Vu Thu Uyen
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3Q23 PBT reached VND4,959 billion, down 16.3% YoY

In 3Q23, Tien Phong Bank (TPB) delivered net interest income (NII) of VND2,963 billion (+8.6% QoQ, +8.1% YoY) and non-interest income (NOII) of VND1,251 billion (+5.3% QoQ, +22.2% YoY), taking total operating income (TOI) to VND4,214 billion (+7.6% QoQ, +11.9% YoY). Provision expenses surged to VND1,293 billion (2.5x QoQ, 2.9x YoY), causing PBT to contract by 2.6% QoQ and 26.2% YoY to VND1,576 billion. 9M23 PBT hit VND4,959 billion, down 16.3% YoY.

Loan growth reached 40% of the target

By end-3Q23, TPB's credit growth reached 7.2% YTD, equaling ~40% of the target. We expect the figure to reach 12.6% for 2023 as a whole, implying a 5.4% increase in 4Q23 thanks to the bank's efforts to boost lending in the year-end period.

NIM is supported by lower funding costs but will be under pressure as lending rates are expected to fall

NIM is supported by lower funding costs following the maturity of 12M deposits with a high interest rate and rising CASA ratio. However, NIM will be under rising pressure when lending rates are expected to fall sharply in the near term.

The NPL ratio rose while the provision buffer weakened

TPB's NPL ratio was 2.97% (+76bps QoQ) in 3Q23, primarily due to retail lending. Therefore, although TPB has boosted provisions, the loan loss coverage ratio (LLCR) still slumped to 47%.

We recommend BUY for TPB with a target price of VND22,000/share

Based on valuation results, business prospects, and possible risks, we recommend BUY for TPB. The target price for 2024 is VND22,000/share, 30.2% higher than the closing price on December 21, 2023.

Buy update

Target price	VND22,000
Upside	30.2%
Current price (Dec 21, 2023)	VND16,900
Consensus target price	VND19,200
Market cap (VNDbn/USDbn)	36,887/1.52

Forecast earnings & valuation

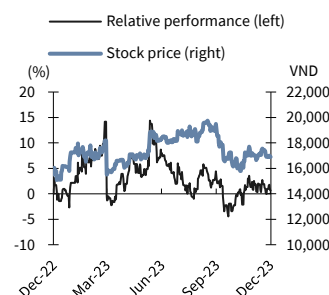
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	9,946	11,387	11,411	13,060
PPOP (VNDbn)	8,947	9,672	9,799	11,542
NPAT-MI (VNDbn)	4,829	6,261	5,284	5,838
EPS (VND)	3,053	3,958	2,257	2,494
EPS growth (%)	-7%	30%	-43%	10%
PER (x)	5.5	4.3	7.5	6.8
Book value per share (VND)	16,429	20,382	13,989	16,483
PBR (x)	1.03	0.83	1.21	1.03
ROE (%)	22.6%	21.5%	16.3%	16.4%
Dividend yield (%)	0.00%	0.00%	14.79%	0.00%

Trading data

Free float	53.6
3M avg trading value (USDbn/USDmn)	88.65/3.7
Foreign ownership	29.85
Major shareholder	FPT Corporation (6.77%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-0.9	-11.3	-8.2	5.2
Relative	-0.2	-2.4	-6.8	-2.4



Source: Bloomberg, KB Securities Vietnam

Securities

Rebound alongside the overall market

9M23 operating income and NPAT of securities companies under our coverage rose slightly YoY

In 3Q23, the group of 21 securities companies with the largest equity achieved total operating revenue of VND8,655 billion (+15% QoQ, +61% YoY) and NPAT of VND4,803 billion (+37% QoQ, +97% YoY). For 9M23, the figures are VND21,618 billion (+9.9% QoQ) and VND10,722 billion (+2.7% YoY), respectively.

Business segments were mixed while return on equity (ROE) declined due to rapid capital growth and market volatility

In 9M23, securities firms under our coverage delivered VND1,800 billion (-48.9% YoY) and VND8,618 billion (-13.7% YoY) in gross profit of brokerage service and margin lending, respectively. Meanwhile, investment gross profit surged 229.9% from the low base in 2022 to VND10,702 billion. The average ROE in 9M23 was 7.7%, much lower than in the 2020–2021 period due to the rapid capital growth as well as market volatility.

In 2024, the Vietnamese stock market is set to recover well in both absolute value and liquidity

Although the local stock market may still experience corrections in 2024, we anticipate that it will recover compared to the 2022–2023 period, backed by: (1) attractive market valuation at a low P/E and P/B when benchmarking historical figures and (2) rising liquidity thanks to low interest rates and the future operation of the KRX stock trading system.

KRX is expected to become operational in 2024, helping to improve liquidity and paving the wave for the domestic stock market to be upgraded

Once all features of the KRX system are fully implemented, it will bring about significant changes: (1) improving order quantity and matching speed; (2) shortening the standard settlement cycle via T+1 transactions; and (3) significantly improving market liquidity. Along with that, KRX coming into operation will pave the way for the Vietnamese stock market to be upgraded from frontier to emerging status.

Current valuations somewhat reflect short-term expectations regarding the KRX system yet remain attractive in the medium to long term

With the expectation of the recovery of the stock market in 2024 and the positive impacts of the KRX system, investors are encouraged to disburse when the securities stocks retreat to a more attractive price range with a P/B equal to or below the average P/B of the entire industry to enjoy higher returns.

Positive initiate

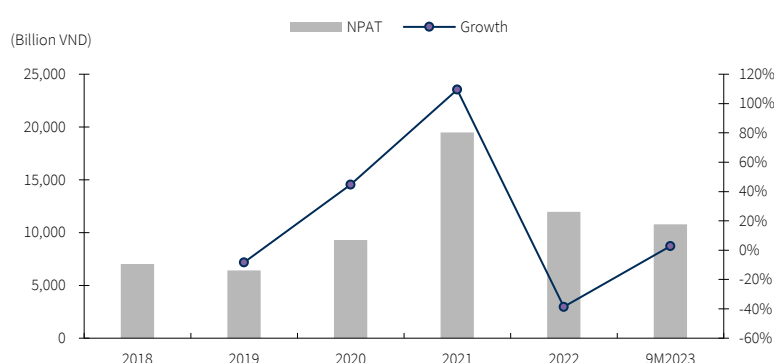
9M23 business performance

9M23 NPAT of securities companies grew by 2.7% YoY

The whole industry's earnings rose slightly in 9M23 thanks to rising liquidity following the market's upward trend in 2Q and 3Q23, positively boosting revenue from brokerage, proprietary trading, and margin lending.

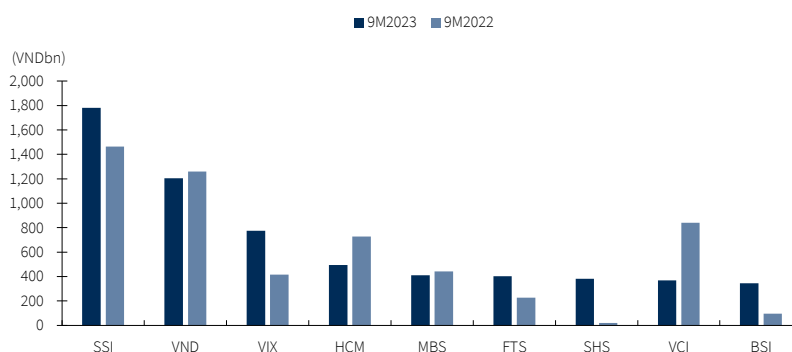
In 3Q23, the group of 21 securities companies with the largest equity (data from these 21 companies are used to represent the entire securities industry in this report) achieved total operating revenue of VND8,655 billion (+15% QoQ, +61% YoY) and NPAT of VND4,803 billion (+37% QoQ, +97% YoY). For 9M23, the figures are VND21,618 billion (+9.9% QoQ) and VND10,722 billion (+2.7% YoY), respectively.

Fig 1. Vietnam – NPAT & NPAT growth of stockbrokers in 2018–9M23 (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Fig 2. Vietnam – 9M23 NPAT of listed stockbrokers (VNDbn)



Source: Vietnamese securities companies, KB Securities Vietnam

By the end of 3Q23, SSI Securities (SSI), as a leading stockbroker, still maintained NPAT growth of 21.6% YTD. VNDirect Securities (VND), Ho Chi Minh City Securities (HCM), and Vietcap Securities (VCI) witnessed a decrease in NPAT due to rising competitive pressure from VPS Securities (VPBS) and new competitors such as Techcombank Securities (TCBS), VPBank Securities (VPBankS)... Meanwhile, the group of medium-sized companies with a large proportion of proprietary trading such as VIX Securities (VIX), Saigon – Hanoi Securities (SHS), BIDV Securities (BSI) enjoyed high growth in 9M23 thanks to the market recovery.

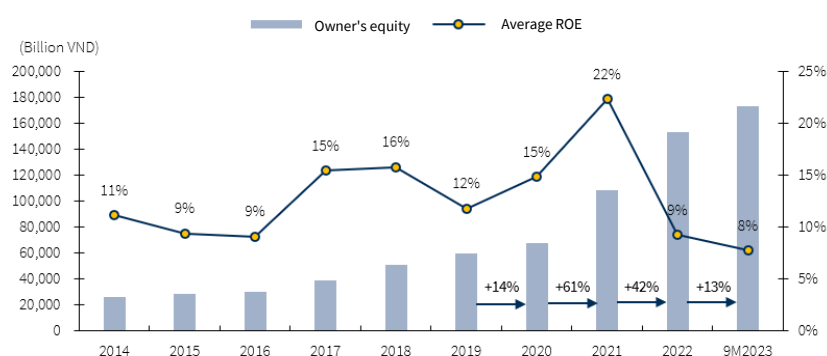
The capital raising race is still going on

Despite a slowdown, the race to increase capital among local stockbrokers is still going strong. As of 9M23, the total equity of the observed securities firms reached VND172,702 billion (up 12.8% YTD), with average growth in the 2019–9M23 period of 30.8%/year. In 2024, the capital increase story will continue as ACB Securities (ACBS) and Hacinco (HSC) both aim to increase capital to over VND7,000 billion or LPBank Securities (LPBS) targets to raise capital from VND250 billion to VND3,888 billion in early 2024.

Rapid capital growth and market volatility negatively impacted ROE of stockbrokers

However, 2022 stock market turbulence coupled with continuous capital increases somewhat affected the ROE of securities companies. In particular, the average ROE as of 9M23 only reached 7.7%, the lowest since 2014 and much worse than in the 2020–2021 period. In KBSV's view, it may take two to three years for stockbrokers to achieve the previously high ROE thanks to rising market liquidity and stockbrokers diversifying business segments and leveraging the additional capital.

Fig 3. Vietnam – Equity, ROE of stockbrokers in 2014–9M23 (VNDbn, %)



9M23 gross profit of brokerage service plummeted 48.9% YoY

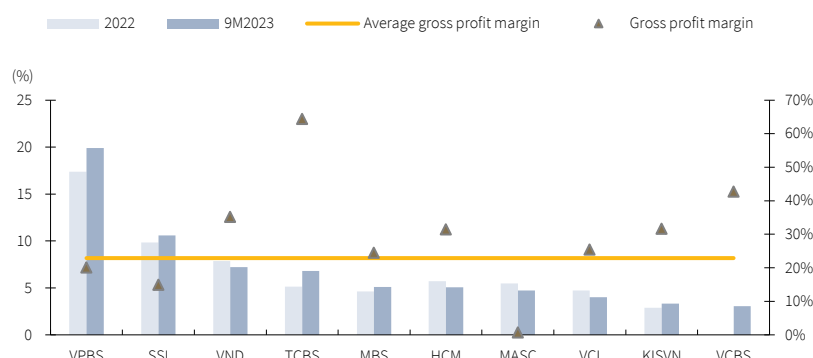
In 9M23, the brokerage service of the securities firms under our coverage obtained gross profit of VND1,800 billion (–48.9% YoY) and gross profit margin (GPM) of 22.9% (–8.1 pts YTD). In terms of brokerage market share, VPS Securities (VPBS) continues to take the lead and leaves others far behind, reaching 19.92% of the HSX brokerage market share (+2.54pts YTD). Meanwhile, the top securities companies in the previous period, such as VNDirect Securities (VND), Ho Chi Minh City Securities (HCM), and Vietcap Securities (VCI), lost their market share to others due to intense competitive pressure.

Brokerage margin is following a downward trend due to competitive pressure

Overall, it is clear that brokerage firms are narrowing brokerage margins to increase market share in the context of businesses continuously expanding their scale and market liquidity has not experienced a significant boom. The average gross profit margin in 9M23 was only 22.9% vs. 41% in 9M2018 while 9M23 gross profit equals 9M2018's. Stockbrokers will remain competitive by (1) lowering transaction fees and (2) increasing commissions for brokers to expand their client base. In our perspective, the trend of narrowing the profit contribution of the brokerage segment will continue in the context of stiff competition. Businesses will sacrifice brokerage earnings to maintain market share and optimize profits from margin lending.

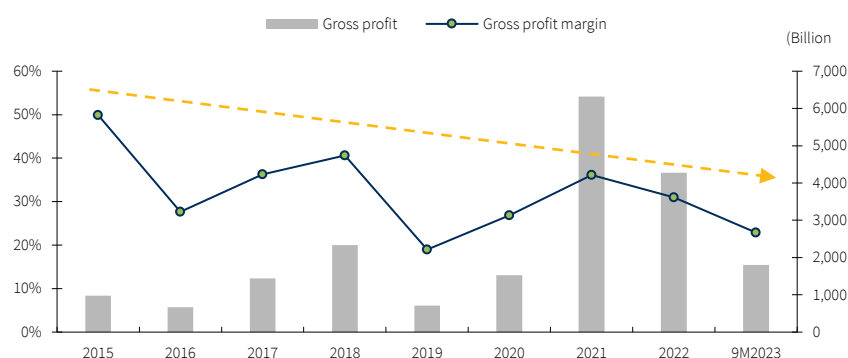
Securities companies with high brokerage market shares and rising coverage such as VPBS and SSI all maintained gross profit margins lower than the industry average.

Fig 4. Vietnam – Brokerage market share and GPM of top 10 HSX-listed stockbrokers (%)



Source: Ho Chi Minh Stock Exchange, Vietnamese securities companies, KB Securities Vietnam

Fig 5. Vietnam – Gross profit, GPM of the brokerage segment in 2015–9M23 (VNDbn, %)



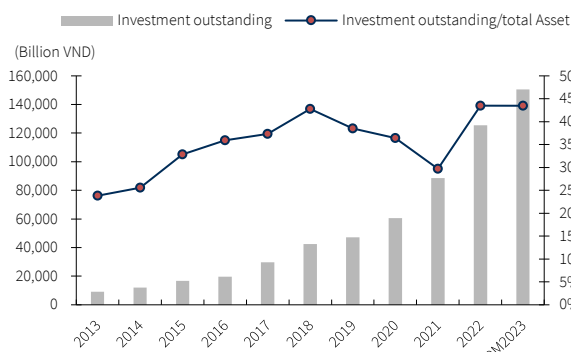
Source: Vietnamese securities companies, KB Securities Vietnam

The investment segment eyed a strong recovery due to a low base in 2022

In 9M23, gross profit of the investment segment of the securities enterprises under our coverage surged 229.9% from the low base in 2022 to VND10,702 billion. The average ROE in 9M23 was 7.1% vs. 2.8% in the corresponding period of 2022.

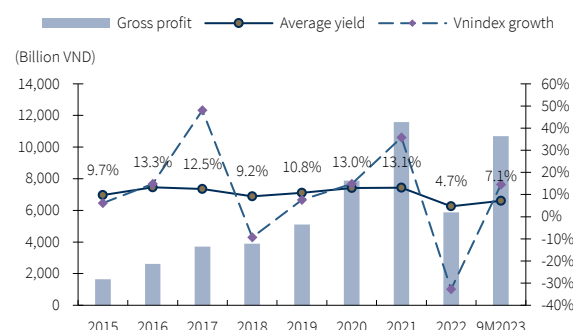
The total investment continued to rise, with outstanding investment in FVTPL, HTM, and AFS up 20.1% YTD to VND150,587 billion and a 5-year CAGR of 28.8%. Investment outstanding to total assets in 9M23 maintained the highest level in many years, reaching 43.5%. With the expectation that the Vietnamese market will recover well in 2024, KBSV believes the securities industry will continue to see good performance in the investment segment with an average yield of over 9%.

Fig 6. Vietnam – Investment outstanding, investment outstanding/total assets of stockbrokers in 2013–9M23 (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

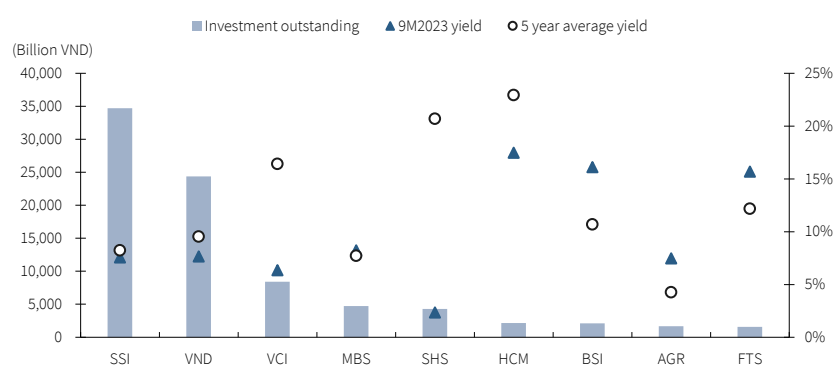
Fig 7. Vietnam – Gross profit, average yield of the investment segment of stockbrokers, VN-Index growth (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Fig 8. Vietnam – Investment outstanding, yield on investments of some listed stockbrokers in 9M23 (VNDbn, %)

Although there has been a good recovery compared to 2022, market volatility caused the effective yield in 9M23 of the investment segment of large-cap companies such as SSI, VND, HCM, VCI to be lower than the five-year average.

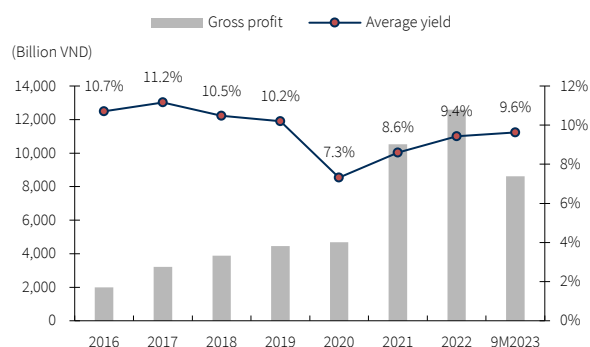


Source: Vietnamese securities companies, KB Securities Vietnam

Margin lending earnings dropped by 13.7% YoY; margin lending outstanding/equity was much lower than the maximum level

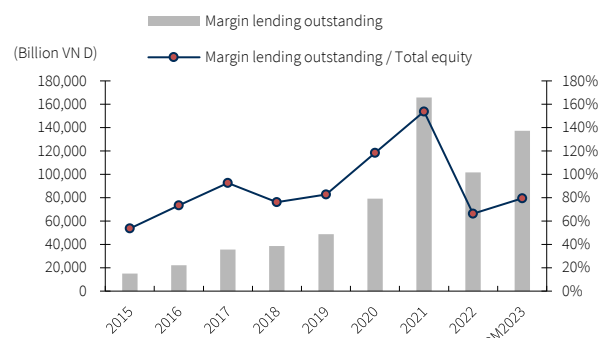
In 9M23, the margin lending segment of securities firms under our coverage generated VND8,618 billion (–13.7% YoY) in gross profit and achieved an average yield of 9.6% (+91bps YoY). The main reason for the decline in gross profit is lower outstanding margin loans following weaker market liquidity in the first half of 2023. Outstanding margin loans by the end of September 2023 amounted to VND137,359 billion, up 35.3% YTD due to the low base level at the end of 2022. The ratio of outstanding margin loans/equity in 9M23 reached 79.5%, much lower than the prescribed maximum level of 200%. The margin lending segment in recent years has always contributed more than 30% to the gross profit. Along with the capital raising race among securities enterprises, KBSV expects this segment to continue to be the main growth driver for the securities industry in 2024. However, given moderate market liquidity, we assess that competitive pressure will increase, causing businesses to cut margin interest to boost lending.

Fig 9. Vietnam – Margin lending gross profit, margin lending yield of the securities sector (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

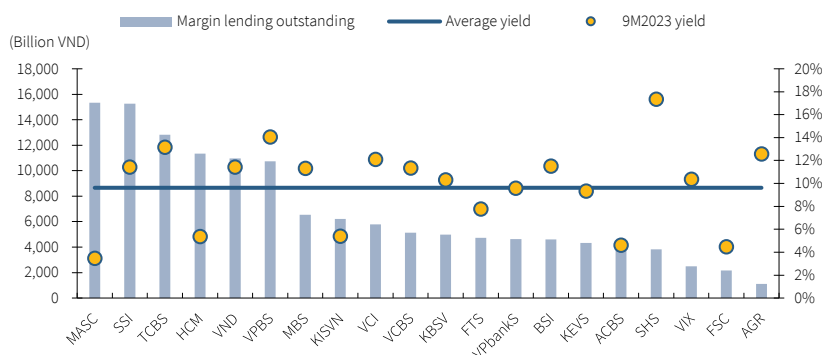
Fig 10. Vietnam – Margin lending outstanding, margin lending outstanding/equity (VNDbn, %)



Source: Vietnamese securities companies, KB Securities Vietnam

Fig 11. Vietnam – Margin lending outstanding, average yield of margin lending of listed stockbrokers in 9M23 (VNDbn, %)

In general, the group of long-standing securities companies with a large proportion of individual customers still maintains high margin lending yields such as SSI, VND, VPS... Meanwhile, the group focuses on institutional customers, especially foreign securities companies with the advantage of cheap mobilized capital and low average yields such as MASC and KISVN.



Source: Source: Vietnamese securities companies, KB Securities Vietnam

2024 outlook

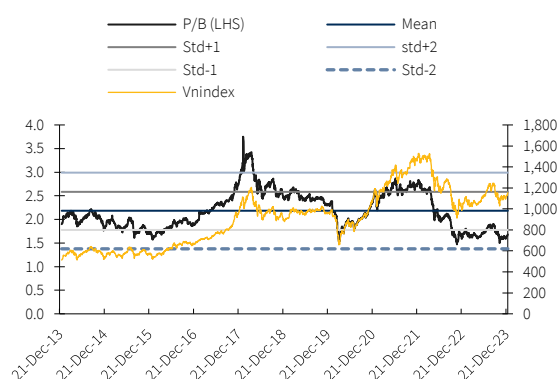
The stock market in 2024 is set to recover well in both absolute value and liquidity

Although the local stock market may still experience corrections in 2024, we assess that it will recover compared to the 2022–2023 period, backed by:

- (1) **Market valuation is currently at a low level.** With the expected earnings growth of the whole market of ~15% in 2024, driven by consumer goods, materials, and finance groups, 2024 forward P/E of the market should touch 12.8x, below the -1 Std deviation of the 10-year average P/E of 13.5x. Meanwhile, VN-Index's P/B index as of December 22, 2023 was 1.6x, lower than the -1 Std deviation of the 10-year average P/B of 1.8x. VN-Index's P/B of 1.5x–1.6x is also the lowest over the last decade.
- (2) **Market liquidity should improve in 2024 thanks to interest rates staying low and the operation of the KRX system.** At the end of 2022 and early 2023, the market tumbled and troughed due to negative international macroeconomic data combined with the bond market crisis and the incident associated with Van Thinh Phat. Trading value during this period fluctuated around VND10,000 – 12,000 billion/session, which we believe will be the bottom in the years to come and will improve in 2024 thanks to (1) the expected market uptrend, attracting cash flow from foreign investors, (2) deposit and lending interest rates remaining low, and (3) the operation of the KRX stock trading system.

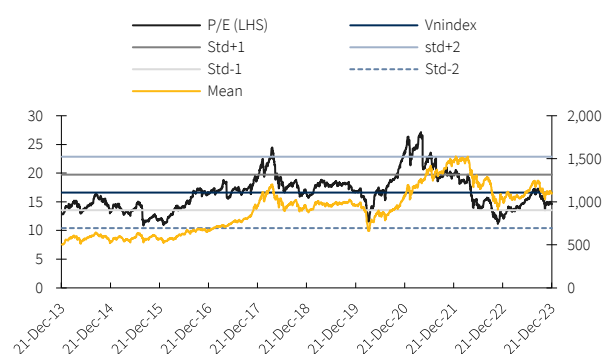
The stock market's recovery will help core businesses of securities companies to record better results, including investment, stock brokerage, and margin lending.

Fig 12. Vietnam – Historical P/B of the VN-Index in 2013–2023 (x)



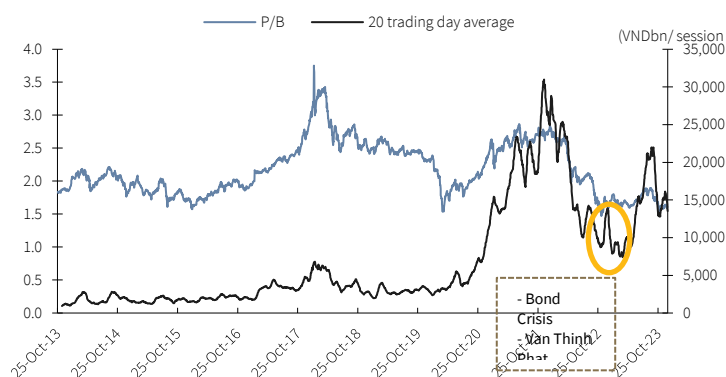
Source: Bloomberg

Fig 13. Vietnam – Historical P/E of the VN-Index in 2013–2023 (x)



Source: Bloomberg

Fig 14. Vietnam – Correlation between P/B & trading value in 2013–2023 (x, VNDbn/session)



Source: Bloomberg

The KRX system is a crucial catalyst for the upward momentum of the securities stocks in 2024

In 2024, information regarding the operation of the KRX system after a 10-year delay is a significant driver for the upward movement of securities stocks. When the KRX system is fully operational and utilizes all its features, it will bring about major changes, including: (1) improvement in order quantity and matching speed, (2) shortening the standard settlement cycle via T+1 transactions, and (3) diversification of features and investment forms such as short selling, options contracts, etc. However, in the short to medium term, the KRX system is likely to focus only on basic operations to ensure the stability of the system.

The Go-live time for the KRX system does not align with the original plan of HSX

Currently, the likelihood of Go-live in 2023, as per the original plan of HSX, is hard to achieve. In KBSV's view, the implementation time for Go-live could extend to 2Q24 to ensure system perfection and smooth transactions. Fundamentally, the delayed Go-live does not significantly impact trading activities on the market, as liquidity during this period remains moderate. However, there might be psychological effects in the short term, especially for the securities industry group.

Market liquidity should improve well after the stable operation of the KRX system

Improved liquidity due to resolving order congestion, accelerating order processing speed, and implementing T+1 transactions will be the key highlights of the KRX system operation. According to information from HSX, the KRX system will allow securities selling transactions to settle on a T+1 basis right from the initial stage, facilitating a quicker turnover of capital in the trading activities of investors in the market. KBSV anticipates that when the KRX system operates stably, it could help the average daily trading value of the VN-Index gradually approach the range of 0.3– 0.4% of the market capitalization, similar to markets that allow T+1 settlement, equivalent to an increase of 30– 70% compared to the average daily trading value of the past five years.

The rollout of the KRX system will pave the way for a market upgrade

In September 2023, Vietnam remained on the watchlist for potential reclassification by FTSE Russell, but it has not yet met all the criteria to officially become an emerging market. According to a report from FTSE, Vietnam currently falls short on two out of nine conditions for an upgrade, including: (1) Vietnam failed to meet the 'settlement cycle (DvP)' criterion, which is currently rated as restricted due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution and (2) the 'settlement – costs associated with failed trades' criterion is unrated since the market does not experience failed trades. The KRX, after being operational, is expected to address both of these issues, but initially, it is likely to apply only to foreign investors and may not be applicable to individual investors. We believe that the opportunity for market reclassification in the FTSE review at the end of 2024 or later, possibly extending into 2025, is plausible.

Valuations somewhat reflect short-term expectations regarding the KRX system yet remain attractive in the medium to long term

In 2023, securities stock prices have shown relatively strong upward trends compared to the overall market, reflecting market expectations regarding the operation of the KRX system towards the end of the year. Currently, most stocks in the industry are trading above or near the 5-year average P/B. With the market's expectation for a robust recovery in both absolute value and liquidity in the securities market in 2024, coupled with the positive impact of the KRX system's operation, investors are encouraged to disburse when the securities stocks retreat to a more attractive price range with a P/B equal to or below the average P/B of the entire industry to enjoy higher returns.

Fig 15. Vietnam – P/B of listed stockbrokers (x)



Source: Bloomberg, KB Securities Vietnam

Residential real estate

Numerous challenges ahead

9M23 revenue and NPAT of property businesses dropped sharply YoY

9M23 revenue and NPAT of real estate businesses dropped steeply YoY, down 46% and 73% YoY to VND32,073 billion and VND2,845, respectively. Notably, only 10 out of 50 firms enjoyed positive earnings growth in 9M23 against the backdrop of numerous difficulties facing the real estate market.

The apartment market in Hanoi and Ho Chi Minh City recovered in 3Q23 after a sluggish 1H23 but remained not so vibrant as in the previous period

In the Hanoi market, new launches reached more than 3,000 units (+53% QoQ, -17% YoY) in 3Q23, and the number of apartments sold amounted to 3,640 (+60% QoQ, flat YoY). In Ho Chi Minh City (HCMC), new launches hit 1,254 units (+87% QoQ, +26% YoY), and the number of apartments sold was 2,600 (+73% QoQ, -72% YoY). From our observation, the recovery of the market in 3Q23 came from (1) falling loan interest rates and (2) investors offering more flexible and preferential sales policies. However, there seems to be a mismatch between supply and demand when high-end projects account for a large proportion, and the price range is high, not meeting the real demand.

Mortgage rates should decrease further

KBSV expects that deposit interest rates will maintain the current low levels throughout 2024, helping mortgage rates to be adjusted down to ~10–12%. However, we assess that this range remains relatively high to stimulate the market demand and will only be subject to prestigious investors and potential projects.

Valuation is attractive in the long term

The real estate industry is now trading at a P/B of 1.4x, equivalent to the 5-year average P/B of -2 standard deviation, the lowest in the past five years. The outlook for the property sector appears uncertain in the near term due to challenges associated with (1) capital mobilization and (2) prolonged and intricate legal procedures impacting project implementation progress. However, in the long run, investors can consider allocating funds to stocks of businesses with promising prospects, sizeable clean land banks, strong project execution capabilities, and a sound financial structure. Some notable investment opportunities are Vinhomes (VHM), Khang Dien House Trading & Investment (KDH), and Nam Long Group (NLG).

Neutral maintain

Recommendations

Vinhomes (VHM)

Target price	VND 75,300
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Nam Long Group (NLG)

Target price	VND 42,200
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Khang Dien House (KDH)

Target price	VND 36,500
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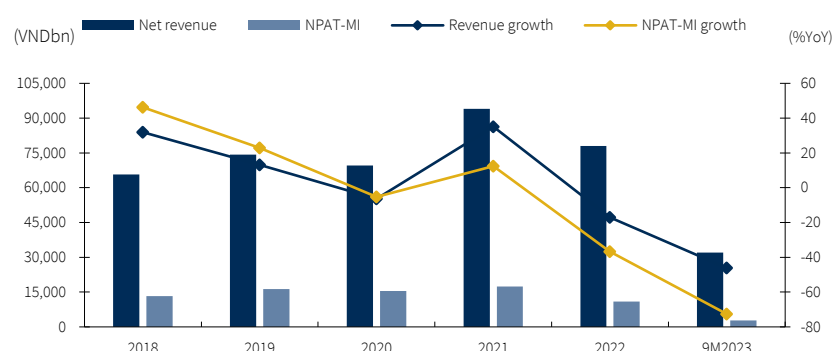
9M23 business performance

9M23 revenue and NPAT of real estate businesses dropped sharply YoY

9M23 NPAT of listed real estate businesses reached VND35,145 billion (+17%YoY) on revenue of VND126,710 billion (+40%YoY). However, excluding VHM, those figures would be VND2,845 (-73% YoY) and VND32,073 billion (-46% YoY), respectively. Only 10 out of 50 enterprises enjoyed positive YoY growth in 9M23 against the backdrop of numerous challenges facing the real estate market. Some businesses maintained positive growth thanks to (1) deliveries at projects in big cities such as Hanoi, HCMC or (2) stake sales or project transfer.

9M23 earnings of listed real estate companies hit a six-year low.

Fig 1. Vietnam – Business results of listed property companies

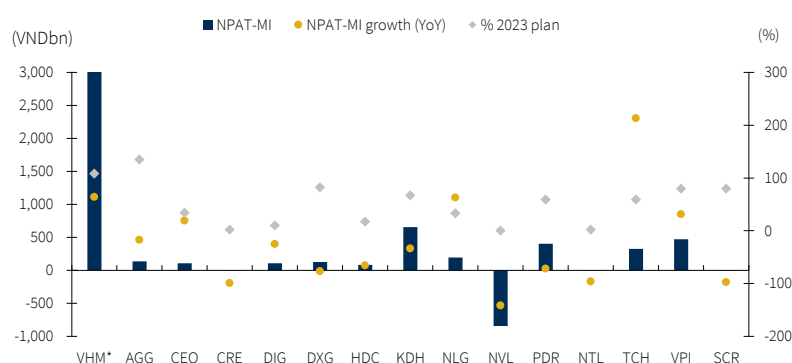


Source: Fiinpro, KB Securities Vietnam

Only five out of 15 real estate developers under our coverage had positive 9M23 NPAT growth over the same period, including VHM, CEO, NLG, TCH, and VPI. Some companies experiencing sharp declines in earnings growth are NVL (-142%YoY), CRE (-99%YoY), DXG (-77%YoY).

After the first three quarters of the year, VHM and AGG had exceeded their full-year target for profits. Meanwhile, many businesses had only achieved less than 50% of their full-year objectives, namely CEO, CRE, DIG, HDC, NLG, NTL.

Fig 2. NPAT & NPAT growth of some property companies (VNDbn, %)



Source: Fiinpro, KB Securities Vietnam

Low advance payments reflect the quietness of the market

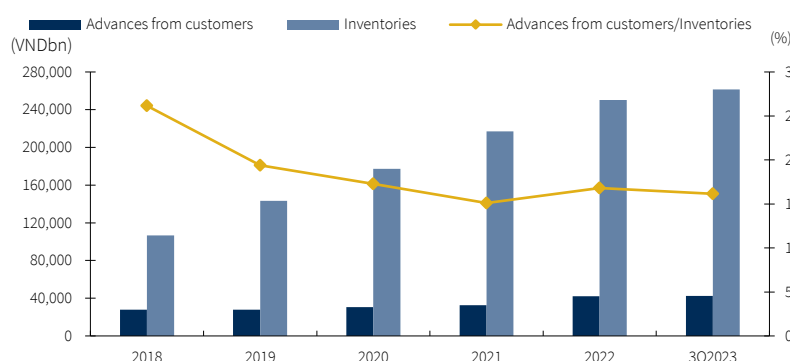
Advance payments of listed real estate firms hit VND42,284 billion by end-3Q23, up 0.7% YTD. Advance payment to inventory is low at about 16%. This ratio has shown the quietness of the market since 3Q22 with very few new launches and low absorption rates due to (1) high mortgage rates, (2) investors having difficulty in accessing loans, and (3) legal bottlenecks impacting the project implementation progress.

Contracted sales fell sharply from the high base level of 2022

All four businesses under our coverage, including VHM, KDH, NLG, and DXG, all suffered a sharp fall in contracted sales from the high base level achieved in the same period a year ago. Specifically, in 9M23:

- VHM: Pre-sales value reached VND56.7 trillion (-49% YoY), with 9,200 units sold (-72% YoY).
- NLG: Pre-sales value reached VND1,769 billion, down 78% YoY.
- KDH: Pre-sales value hit more than VND1,300 billion, down 37% YoY.
- DXG: No new launches, largely selling at Gem Sky World with very few sold.

Fig 3. Vietnam – Advance payment, Inventory, Advance payment/Inventory

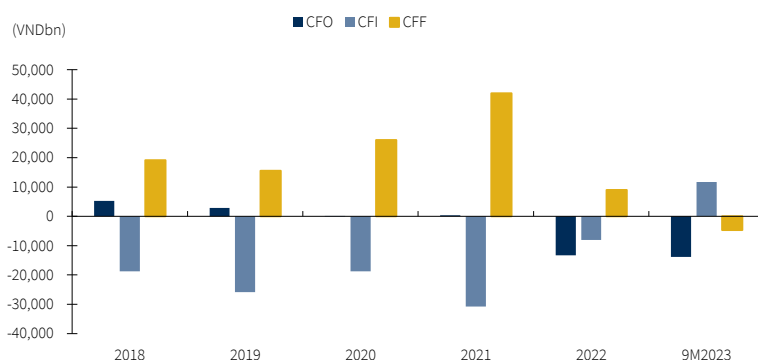


Source: Fiinpro, KB Securities Vietnam

Project transfer is an effective solution in the context of limited access to bank loans

Since 3Q22, tight control over bond issuances and real estate credit as well as the stagnation of the property market have made it challenging for many real estate developers to raise funds for project implementation and to repay principal and interest on loans as they come due. This forced many to partially or entirely transfer projects. According to Cushman & Wakefield data, the total value of real estate investment and M&A transactions in 9M23 is about USD729 million (-33%YoY), of which foreign investors from Singapore, Malaysia, Taiwan, ... continue to dominate M&A transactions. Some notable deals include Keppel Land acquiring a 49% stake in KDH's Clarita and Doan Nguyen projects, CapitalLand taking over part of the Vinhomes Smart City project, and Gamuda acquiring a 3.7-hectare project in Thu Duc.

Fig 4. Vietnam – Cash flow of real estate companies

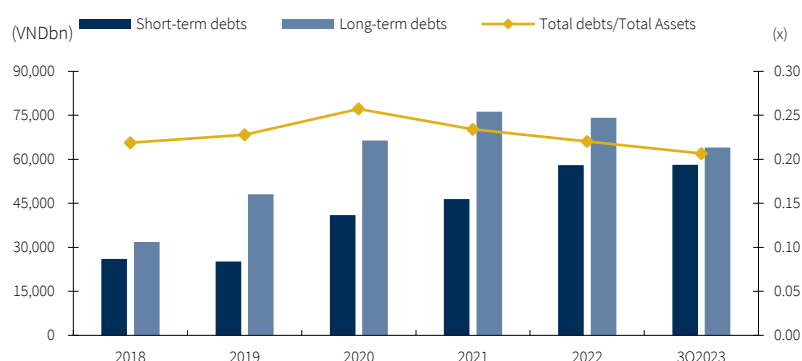


Source: Fiinpro, KB Securities Vietnam

Cash flow from operating activities and financing activities of real estate businesses is negative due to a sluggish market and limited access to credit debt. Cash flow from financing activities is driven by stake sales or project transfer.

Total debt of real estate businesses by the end of 3Q23 was VND122,187 billion, down 8% YTD.

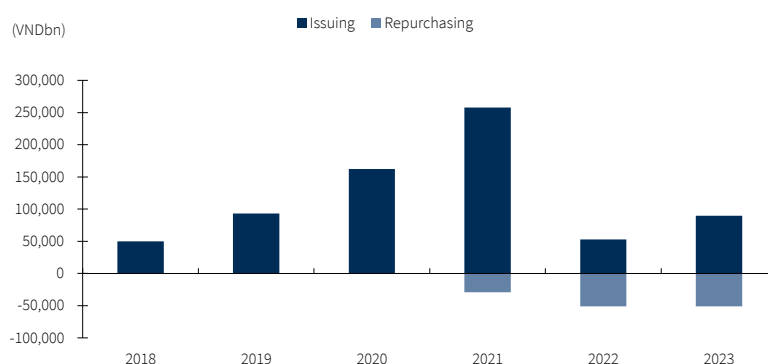
Fig 5. Vietnam – Debt structure of real estate companies



Source: Fiiipro, KB Securities Vietnam

The bond market is more vibrant than last year with a total issuing value of VND89,948 billion. However, the demand side was primarily banks since individual investors and nonbank financial institutions were still worried following the bond crisis in 2022. Many businesses focused on buying back bonds before maturity.

Fig 6. Vietnam – Issuing and redemption value of real estate bonds (VNDbn)



Source: Hanoi Stock Exchange, KB Securities Vietnam

The apartment market in Hanoi and HCMC recovered in 3Q23 after a sluggish 1H23 but remained not so vibrant as in 3Q22

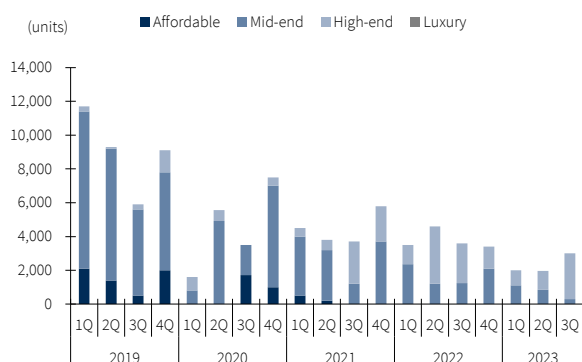
New launches and the number of apartments sold in two big cities Hanoi and HCMC in 3Q23 recovered after a sluggish 1H23 but remained much lower than the previous period.

– In Hanoi, new supply reached more than 3,000 units (+53% QoQ, -17% YoY) in 3Q23. The number of apartments sold recorded nearly 3,640 units (+60% QoQ), flat YoY. Primary prices rose 7% QoQ and 14% YoY to USD2,128/m² due to the high proportion of high-end products. In 9M23, apartment supply hit 6,925 units (-40% YoY), of which high-end products accounted for nearly 70% and the rest were mid-end products. The number of apartments sold was 7,920 (-45% YoY). New supply for 2023 is expected at 11,400 units, the lowest over the past decade.

– In HCMC, the new supply reached 1,254 units (+87% QoQ, +26% YoY) in 3Q23, most of which came from the next phase of existing projects. The number of apartments sold touched 2,600 units (+73% QoQ, -72% YoY). Primary prices in 3Q23 reached more than USD2,500/m² (+4% QoQ, +2% YoY) thanks to the contribution of premium products. In 9M23, apartment supply hit 7,754 units (-58% YoY), with more than 80% coming from the high-end segment. The number of apartments sold was 5,060 units (-70% YoY).

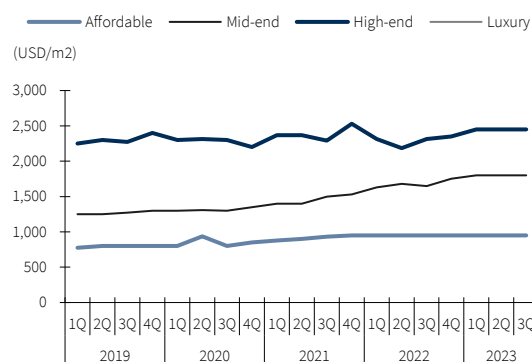
We observed that the market showed signs of recovery in the third quarter of 2023 thanks to (1) cooling mortgage rates and (2) investors offering more flexible and preferential sales policies. However, there seems to be a mismatch between supply and demand when high-end projects account for a large proportion and the price range is high, not meeting the real demand.

Fig 7. Vietnam – Apartment supply in Hanoi (units)



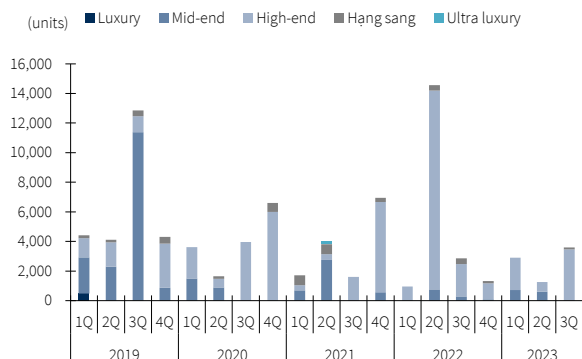
Source: CBRE

Fig 8. Vietnam – Apartment prices in Hanoi (USD/m²)



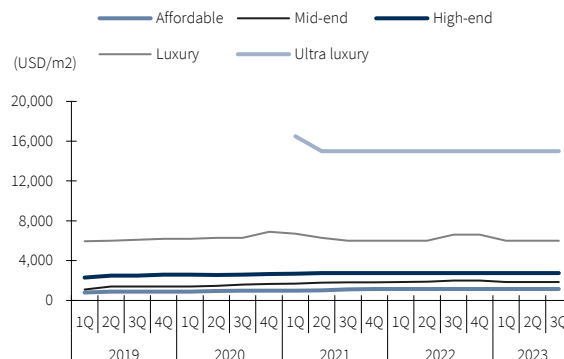
Source: CBRE

Fig 9. Vietnam – Apartment supply in HCMC



Source: CBRE

Fig 10. Vietnam – Apartment prices in HCMC



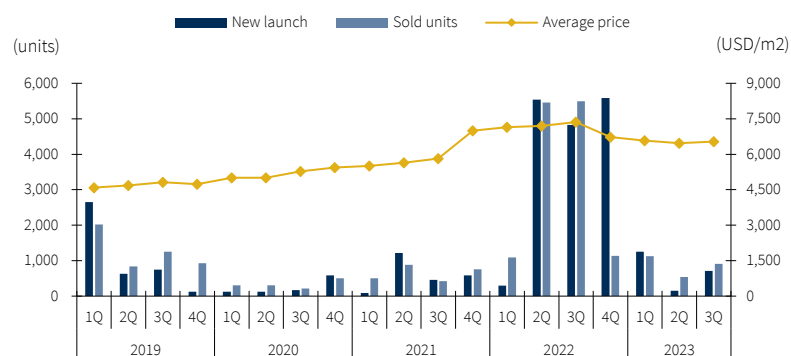
Source: CBRE

The townhouse/villa segment continued to be quiet

– In Hanoi, new launches in 3Q23 reached 710 units from five projects (+367% QoQ, -85% YoY), and the number of units sold hit 1000 (+68% QoQ, -83% YoY), both down sharply from the high base over the same period a year earlier when VHM opened for sale at the Ocean Park 2 project. In 9M23, new launches reached 2,112 units (-80% YoY), and the number of units sold was 2,581 (-79% YoY). The average primary price in 3Q23 neared USD7,760/m² (-5% QoQ, -7% YoY).

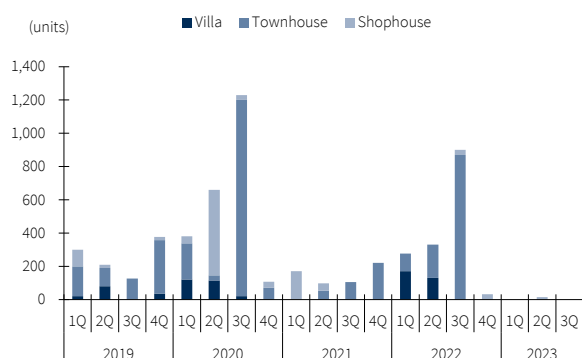
– In HCMC, the market did not see any projects opened for sale in 3Q23 and only recorded one project launched after the first three quarters with 15 units available for sale (-99% YoY), the lowest over the past decade. The number of units sold reached 75, down ~85% YoY. The average primary price did not change much due to limited supply.

Fig 11. Vietnam – Townhouse/villa market in Hanoi



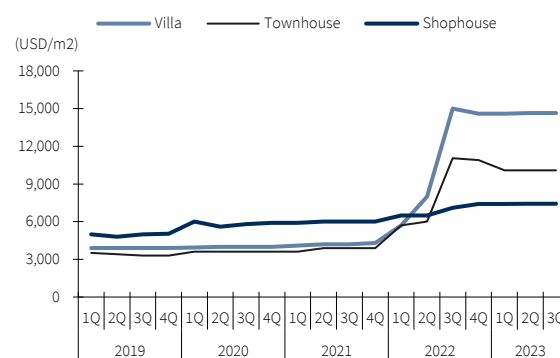
Source: CBRE

Fig 12. Vietnam – Villa/Shophouse/Townhouse supplies in HCMC (units)



Source: CBRE

Fig 13. Vietnam – Selling prices of villa/shophouse/townhouse in HCMC (USD/m²)



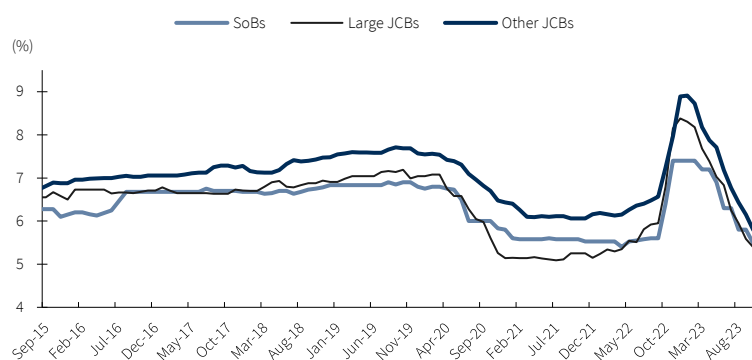
Source: CBRE

2024 outlook

Mortgage rates should decrease further

After four policy rate cuts by the SBV since March 2023, we observe that banks' deposit interest rates have fallen by 2–3.5% against the end of 2022. Lending interest rates also declined but at a slower pace. KBSV expects that deposit interest rates will maintain the current low levels throughout 2024, helping mortgage rates to be adjusted down to ~10–12%. However, we assess that this range remains relatively high to stimulate the market demand and will only be subject to prestigious investors and potential projects.

Fig 14. Vietnam – 12M deposit interest rates across local banks (%)



Source: Wichart, KB Securities Vietnam

The amended laws will have a strong impact on real estate companies

At the 6th session held at the end of May, the 15th National Assembly officially passed the Real Estate Business Law (amended) and the Housing Law (amended), effective from January 1, 2025. Meanwhile, the Land Law (amended) has not been approved. Newly amended laws with some changes and new provisions will help to improve the confidence of homebuyers and shorten the time for the approval of legal documentation, contributing to greater transparency in the market.

We believe this is an opportunity for real estate developers with robust financial structure and strong project execution capabilities. Nonetheless, it will take time for the policies to have a significant impact, and some legal issues still require more specific guidance.

Table 15. Vietnam – Some changes to amended Land Law, Housing Law, and Real Estate Business Law

	Some changes	Comments
Land Law (amended)	<ul style="list-style-type: none"> Propose removing the current land price bracket The Provincial People's Committee will submit to the Provincial People's Council to decide on the initial Land Price List for public announcement and implementation starting from January 01, 2026. Annually, the Provincial People's Committee is responsible for submitting to the Provincial People's Council to decide on adjusting, amending, and supplementing the Land Price List for application from January 01 of the following year. 	Updating land prices to align more closely with market prices facilitates site clearance, although it increases costs for real estate businesses.
	<p>There are four methods for land valuation, including: (i) Direct comparison method, (ii) Income method, (iii) Method of land price adjustment coefficient, and (iv) Residual method. The extraction method is excluded.</p> <p>Land allocation and leasing are primarily conducted through the auction of land use rights, competitive bidding for projects involving land use.</p>	Enhancing transparency and openness, avoiding land wastage due to weak developers who are unable to carry out projects.
Housing Law (amended)	<p>Conditions for Subdivision for Sale of Land Lots</p> <p>For areas not classified as special class I, class II, and class III urban areas, the Provincial People's Committee will base its decisions on local conditions to determine the areas of real estate development projects where residential construction must be carried out for sale, lease, lease-purchase, or transfer of land use rights through the subdivision of lots.</p> <p>Land for Social Housing Development</p> <ul style="list-style-type: none"> The Provincial People's Committee must allocate a sufficient land fund for social housing development according to the housing development program, including either (1) a social housing land fund or (2) a social housing land fund within the scope of a commercial project. In special urban areas class I, II, III, as regulated by the Prime Minister, the Provincial People's Committee decides to allocate a portion of the residential land area for social housing construction or allocates a social housing land fund in a different location or pays an equivalent amount corresponding to the land fund's value. <p>Incentives for investors of social housing projects</p> <ul style="list-style-type: none"> Exempted from land use fees and land rent for the entire project land area; the investor is not required to undergo procedures for determining land prices, calculating land use fees, and land rent for the exempted portion. Allocated a maximum of 20% of the total land area for the construction of commercial services projects and commercial residential properties (this portion is accounted for separately, not included in the construction cost of social housing units, not affecting the price of social housing, and enjoying the entire profit with land use fees paid for the construction of social housing units). Entitled to a maximum predetermined profit of 10% of the total investment cost for the construction of social housing units. 	Aligning with the Real Estate Business Law, tightening the property subdivision for sale of land lots, and curbing speculation
	<p>Project Transfer</p> <ul style="list-style-type: none"> In the case of the transferee being a foreign economic organization, after obtaining the transfer permission and signing the transfer contract, the land procedures are carried out in accordance with the land law. The Prime Minister delegates to the Provincial People's Committee the authority to decide on the partial transfer of the project. <p>Deposit and Guarantee</p> <ul style="list-style-type: none"> The project developer is only allowed to collect a deposit of no more than 5% of the sale or lease-purchase price for residential properties, construction works, or the floor area within the construction project from the party placing the deposit when the residential property or construction project meets all the conditions for commercial operation. Prior to selling or lease-purchasing future residential properties, the real estate project developer must obtain approval from a domestic commercial bank or a legally operating foreign bank branch in Vietnam to provide financial guarantees for the developer's obligations to the buyer or lease-purchaser when the developer fails to deliver the residential properties as committed in the sales or lease-purchase contract for the future-formed residential properties. Upon signing the sales or lease-purchase contract for future residential properties, the buyer or lease-purchaser has the option to choose whether or not to have a financial guarantee for the developer's obligations towards them. 	Shortening the project implementation time, increasing profits for developers to encourage them to invest in social housing projects
Real Estate Business Law (amended)		
	<p>Conditions for Subdivision for Sale of Land Lots</p> <ul style="list-style-type: none"> Land not located within the administrative boundaries of special class I, II, III urban areas; not subject to land use rights auction for residential construction investment projects. For the remaining areas, the Provincial People's Committee, based on local conditions, determines the areas where project developers are allowed to subdivide and sell land lots. 	Aligning with the amended Housing Law, tightening the property subdivision for sale of land lots, and curbing speculation

Source: KB Securities Vietnam

Real estate companies will be under bond maturity pressure in 2024, given record maturity value

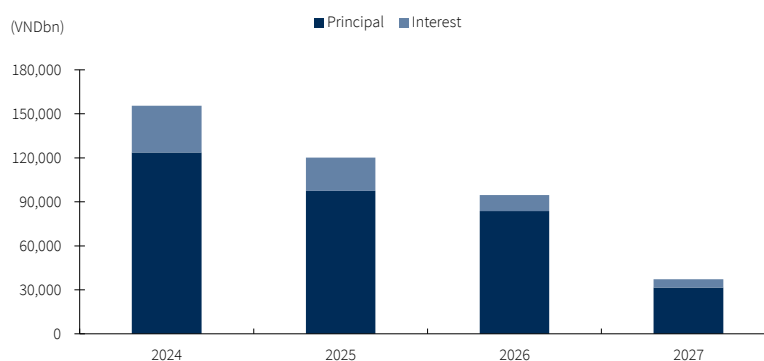
In 2024, the principal and interest of real estate bonds falling due will amount to VND123.6 trillion and VND31.9 trillion, the highest in the coming years. Moreover, Decree 08/2023/ND-CP postpones some provisions under Decree 65/2022/ND-CP that is about to expire, putting real estate developers under

enormous pressure to fulfill their debt obligations. Decree 08's debt extension will have a positive impact on the bond market in the short term, providing businesses with time to stabilize their business operations and restructure debts. Nevertheless, in the long run, more drastic policy solutions are still needed to address these challenges.

Project transfer activities will remain vibrant in 2024

Given difficulties in fundraising, we believe that project transfers will remain vibrant in 2024. This is also the time for financially sound businesses to expand their land bank and purge weaker companies from the market. Enterprises with stable cash flow from sales and stable financial situations, namely VHM, KDH, and NLG, are still our top picks.

Fig 16. Vietnam – Principal & interest of real estate bonds falling due

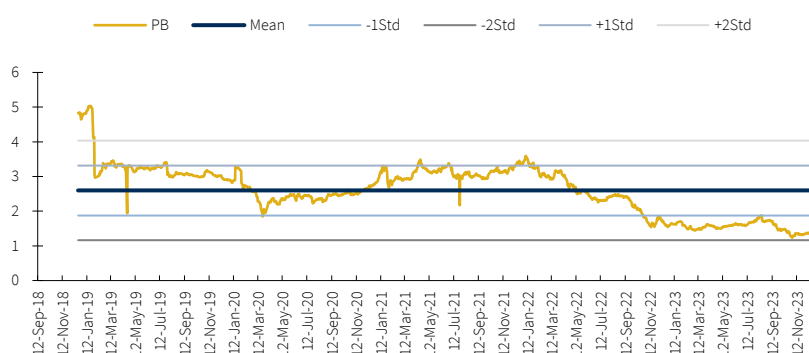


Source: Fiinpro, KB Securities Vietnam

Valuation is attractive in the long term

The real estate industry is now trading at a P/B of 1.4x, equaling the 5-year average P/B of -2 standard deviation, the lowest in the past five years. The outlook for the property sector appears unclear in the near term due to challenges associated with (1) capital mobilization and (2) lengthy and intricate legal procedures resulting in slow project implementation. However, in the long run, investors can consider allocating funds to stocks of businesses with promising prospects, sizeable clean land banks, strong project execution capabilities, and a sound financial structure. Notable investment opportunities are VHM, KDH, and NLG.

Fig 17. Vietnam – Historical P/B of the real estate sector



Source: Fiinpro, KB Securities Vietnam

Vinhomes (VHM)

Business performance saw impressive growth

December 7, 2023

Senior Analyst Pham Hoang Bao Nga
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9M23 revenue and earnings exceeded the full-year objectives

Vinhomes (VHM) obtained 3Q23 revenue of VND32.7 trillion (+84% YoY) and NPAT of VND10.7 trillion (-26%YoY). 9M23 revenue hit VND94.6 trillion (+203% YoY), and if including bulk sales transactions and business cooperation contracts (BCC), the figure is VND108.4 trillion (+118% YoY), primarily thanks to handovers at Ocean Park 2 and 3. 9M23 NPAT topped VND32.4 trillion (+62% YoY). As such, 9M23 revenue and earnings exceeded VHM's full-year objectives.

3Q23 presales principally came from bulk sales transactions at the project in Hai Phong

In the third quarter of 2023, the total contract value hit VND16.1 trillion (-35% QoQ, -9% YoY), of which 70% came from bulk sales transactions at the Vu Yen Urban Area project in Hai Phong and the remainder came from retail sales. For 9M23, contracted sales touched VND56.7 trillion (-49%YoY), and unbilled bookings recorded VND76.9 trillion (-38% YoY).

KBSV estimates 2023F presales to be VND74.3 trillion (-42% YoY)

In the second half of 2023, VHM will continue to open for sale at Ocean Park 2, Ocean Park 3, and Golden Avenue (Quang Ninh). In our estimates, the total contracted sales will reach VND74.3 trillion (-42% YoY) for the whole year 2023.

We recommend BUY for VHM with a target price of VND75,300/share

VHM maintains its leading position thanks to its sizeable land bank and strong project implementation power. VHM looks attractive at a 2024 forward P/B of 0.84x, below the -1Std line of VHM's 5-year average P/B. Based on business prospects and valuation results, we reiterate our BUY recommendation for VHM with a target price of VND75,300/share, equivalent to a 90% upside.

Buy maintain

Target price	VND75,300
Upside	90%
Current price (Dec 7, 2023)	VND39,700
Consensus target price	VND64,300
Market cap (VNDbn/USDbn)	172.9/7.1

Forecast earnings & valuation

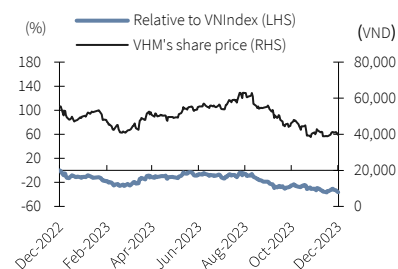
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	84,986	62,393	118,453	134,651
EBIT (VNDbn)	47,665	37,973	47,981	48,509
NPAT-MI (VNDbn)	38,825	28,831	35,680	37,634
EPS (VND)	8,916	6,575	8,194	8,643
EPS growth (%)	9	-26	25	5
P/E (x)	4.99	6.77	4.84	4.59
P/B (x)	1.55	1.34	0.98	0.84
ROE (%)	35	20	20	19
Dividend yield (%)	4%	0%	0%	0%

Trading data

Free float	23.8%
3M avg trading value (VNDbn/USDmn)	289.6/11.9
Foreign ownership	26.8%
Major shareholder	Vingroup (VIC) (66.66%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-1	-28	-28	-28
Relative	-5	-18	-30	-36



Source: Bloomberg, KB Securities Vietnam

Nam Long Group (NLG)

Presales to maintain recovery pace

November 27, 2023

Senior Analyst Pham Hoang Bao Nga
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3Q23 presales continued to improve against previous quarters

Nam Long Group (NLG) continued to see improvements in 3Q23 presales with the total contract value of VND902 billion (+43% QoQ, -40% YoY) from existing projects Mizuki Park, Akari City and Southgate. The figure for 9M23 touched VND1,769 billion, down 78% from the high base in 9M22. Thus, the group achieved 19% of the full-year presales objective set.

Presales should hit VND3,170 billion (-61% YoY) for 2023F and recover well in 2024

KBSV forecasts 2023F presales of VND3,170 billion (-61%YoY) from Akari City, Mizuki Park, and Southgate. Our 35% downward revision from the prior report is due to a slow presales recovery in the first nine months of the year. We expect presales to improve more clearly next year, reaching VND5,439 billion (+72% YoY).

2023F NPAT is expected to reach VND498 billion (-10% YoY)

Our projection for NLG's 2023F NPAT is VND498 billion (-10% YoY) from deliveries at Southgate and Izumi City and promoting handovers at the Mizuki Park project (Phase 2). NLG may recognize a 25% stake sale at the Paragon Dai Phuoc project in 2024 due to waiting for approval from the Dong Nai authorities to update the ownership title of the foreign buyer on its enterprise registration certificate.

We recommend BUY for NLG with a target price of VND42,200/share

We remain upbeat about NLG thanks to (1) its solid fundamentals with a healthy capital structure and (2) its high absorption rates of mid-range/affordable apartment projects. Based on business prospects and valuation results, we upgrade from HOLD to BUY rating for NLG with a target price of VND42,200/share, 15% higher than the closing price as of November 24, 2023.

Buy update

Target price VND42,200

Upside	15%
Current price (Nov 24, 2023)	VND36,900
Consensus target price	VND40,700
Market cap (VNDbn/USDmn)	14.2/0.6

Forecast earnings & valuation

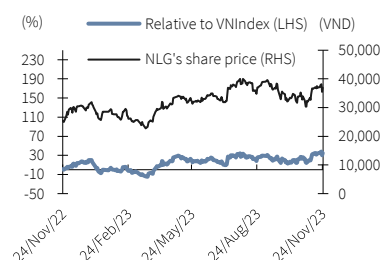
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	5,206	4,339	4,053	4,545
EBIT (VNDbn)	1,205	1,041	560	844
NPAT-MI (VNDbn)	1,071	556	498	686
EPS (VND)	2,686	1,448	1,297	1,786
EPS growth (%)	-3	-46	-10	38
P/E (x)	9.31	17.26	28.44	20.66
P/B (x)	1.07	1.07	1.50	1.40
ROE (%)	11	4	6	7
Dividend yield (%)	5	1	1	1

Trading data

Free float	56.7%
3M avg trading value (VNDbn/USDmn)	89.9/3.7
Foreign ownership	7.2%
Major shareholder	Nguyen Xuan Quang (12%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	8	6	15	48
Relative	8	13	12	35



Source: Bloomberg, KB Securities Vietnam

Khang Dien House (KDH)

The Privia officially launched

November 30, 2023

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The Privia project should achieve a good absorption rate, contributing to KDH's sales in 2023–2024

By the end of November, Khang Dien House (KDH) launched The Privia project, located on An Duong Vuong Street, Binh Tan District, Ho Chi Minh City (HCMC). The project covers an area of 1.8ha and has three blocks of 1,043 apartments. We expect The Privia to record good absorption rate thanks to (1) the reputation of developer KDH for high product quality, on-time house handover and clear legal status and (2) low supply of apartments in the inner city area of HCMC.

Sales are estimated to reach VND2,574 billion (+30%YoY) in 2023 and see robust growth from 2024

KBSV forecasts that the total sales of KDH in 2023 will reach VND2,574 billion (+30%YoY) from two projects Classia and The Privia.

In 2024–2025, KDH plans to launch small projects Clarita, Emeria and The Solina. 2024F–2025F sales should grow strongly to VND3,960 billion (+47%YoY) and VND4,320 billion (+9%YoY) respectively.

2023F NPAT is VND891 billion (–19%YoY)

KBSV estimates 2023 revenue and NPAT of KDH at VND2,638 billion (–9%YoY) and VND780 billion (–29%YoY), respectively.

BUY recommendation – Target price: 36,500VND/share

KDH is currently trading at 2024fw P/B of 1.6x, equivalent to –1std of five-year average P/B of the company. Based on business prospects and valuation results of the business, we give a BUY recommendation for KDH stock with a target price of VND36,500/share, 16% higher than the closing price on November 29, 2023.

Buy change

Target price	VND36,500
Upside	16%
Current price (Sep 19, 2023)	VND35,500
Consensus target price	VND38,500
Market cap (VNDbn/USDmn)	25.2/1.0/1.0

Forecast earnings & valuation

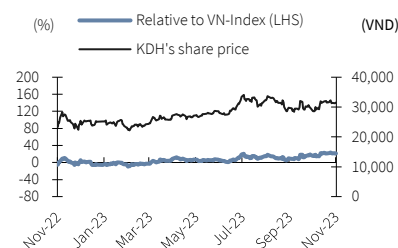
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	3,738	2,912	2,638	3,743
Operating income (VNDbn)	1,355	992	1,263	1,512
Profit of the parent company (VNDbn)	1,202	1,103	891	1,311
EPS (VND)	1,777	1,539	1,244	1,829
EPS growth (%)	–11	–13	–19	47
P/E (x)	19.45	22.45	25.37	17.25
P/B (x)	2.18	2.14	1.68	1.62
ROE (%)	13	10	6	8
Dividend yield (%)	0	0	0	0

Trading data

Free float	89.4%
3M avg trading value (VNDbn/USDmn)	45.8/1.9
Foreign ownership	11.8%
Major shareholder	Dragon Capital (11%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	10	–2	17	35
Relative	5	6	14	28



Source: Bloomberg, KB Securities Vietnam

Power

Surging demand due to El Nino

El Nino affected the mobilization structure of generation sources

Hydropower output decreased, while coal-fired thermal power and renewable electricity output surged. Specifically, in 10M23, coal-fired thermal power took the lead with an output of 107.74 billion kWh (+24.47% YoY), followed by hydropower with 74.57 billion kWh (-19% YoY). Renewable electricity and gas-fired thermal power output hit 31.58 billion kWh (+5.72% YoY) and 22.9 billion kWh (-4% YoY), respectively.

Electricity demand grew positively

Vietnam Electricity (EVN) forecasts that power demand will grow by 8.5%/year over the next five years. We assess that demand will come from (1) domestic production and business activities back to normal; (2) rising FDI inflows into Vietnam, especially into energy-intensive industries like processing and manufacturing, boosting the power demand among industrial customers; and (3) rapid population growth and urbanization, pushing the energy consumption in households. Vietnam is one of the countries with the highest urbanization rates in the region.

Thermal power will benefit in 2024

We assess that thermal power plants' growth momentum in 2024 will stem from (1) rising electricity demand as high temperatures are forecasted to persist, (2) rising mobilization for thermal power due to difficulties facing hydropower plants. In the power generation structure, hydropower and thermal power still dominate when alternative sources have not been developed extensively. Consequently, thermal power should be the focus of mobilization to ensure national energy security, (3) stable and cooling prices of input materials (coal, gas), helping thermal power prices to be more competitive, and (4) many thermal power plants having completed repairs and overhauls in 2023 and ready for resumption.

We are upbeat about the prospects of the power sector in 2024

We are optimistic about the power sector's prospects in the context of persistently rising load demand and the approval of National Power Development Plan VIII (NPDP8). However, KBSV notes that the outlook will diverge among power generation sources. In addition, some investment risks when investing in power stocks include lower-than-expected sales volume, input shortages, and unfavorable developments of input material prices.

Positive maintain

Recommendations	
PV Power (POW)	BUY
Target price	VND 13,700
PV Power Nhon Trach 2 (NT2)	HOLD
Target price	VND 27,700
REE Corporation (REE)	BUY
Target price	VND 72,600

9M23 business performance

El Nino affected the mobilization structure of generation sources

Hydropower output decreased, while coal-fired thermal power and renewable electricity output surged. Specifically, in 10M23, coal-fired thermal power took the lead with an output of 107.74 billion kWh (+24.47% YoY), followed by hydropower with 74.57 billion kWh (-19% YoY). Renewable electricity and gas-fired thermal power output hit 31.58 billion kWh (+5.72% YoY) and 22.9 billion kWh (-4% YoY), respectively.

Regarding the power generation structure, coal-fired thermal power and hydropower still dominate, reaching 46% and 29% respectively. However, mobilized hydropower has fallen sharply from 36.5% in 10M22 due to the impact of El Nino in 2023. In November, hydroelectric power in the Northern region reduced the exploitation of reservoirs as they entered the dry season, resulting in decreased river basin flows. The Central and Southern regions keep high mobilization rates for hydropower plants with good water flow. Amid unfavorable hydrological conditions, mobilization rates for northern coal-fired power plants and BOT power plants are on the rise. Additionally, the renewable electricity output significantly increased output following the commercial operation of more projects.

9M23 business results differed between power generation sources

In 9M23, most thermal power stocks had positive revenue growth, with notable examples being Quang Ninh Thermal Power (QTP, +13% YoY) and Hai Phong Thermal Power (HND, +7% YoY). However, NPAT of these power plants did not align with the revenue growth due to many plants undergoing maintenance and repairs in 2023 and high input costs, impacting profitability. PV Power Nhon Trach 2 (NT2) and PV Power (POW) recorded negative NPAT growth due to scheduled maintenance, input-related factors, and the absence of extraordinary income, unlike in 9M22.

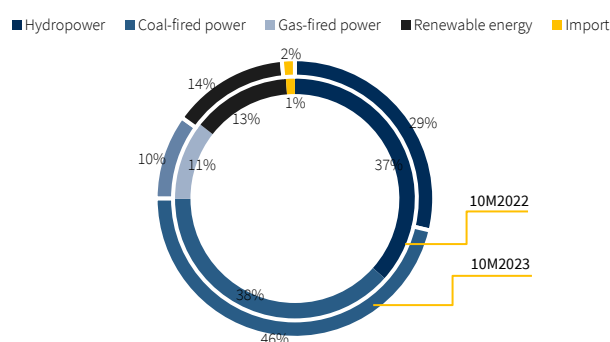
The hydropower stock group, including Vinh Son – Song Hinh Hydropower (VSH), REE Corporation (REE), Song Ba Ha Hydropower (SBH), ... reported flat or decreased revenues compared to 9M22 due to the impact of El Nino as well as the high baseline in 2022. NPAT of this group correspondingly recorded a decline in line with the revenue decrease.

NPDP8 and new retail electricity price bracket were approved

NPDP8 is a crucial document for the development of the power sector in the coming years. Its main objectives include increasing capacity, diversifying sources, upgrading the power grid, optimizing energy usage, and protecting the environment. The strategy focuses on renewable energy, natural gas, infrastructure investment, encouraging private sector participation in energy investment, and regional integration. Accordingly, renewable energy (including hydropower) is expected to account for about 31%–39% of electricity production by 2030 and approximately 67–71% by 2050. NPDP8 marks a turning point for the power industry, with different impacts on various power generation sources in the long term. For more details, please refer to our updated Power Sector Report.

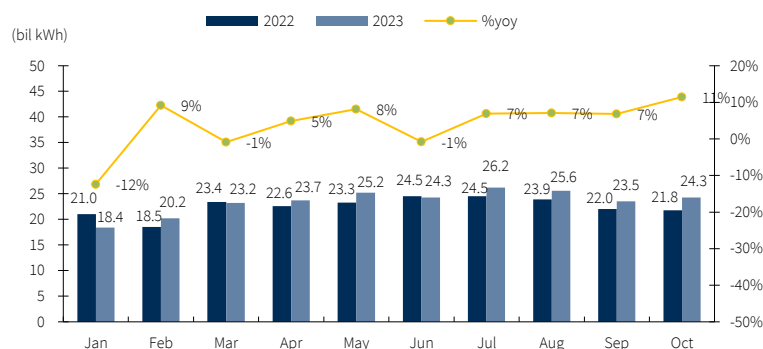
The new retail electricity price bracket takes effect from November 9, 2023. The average retail price has increased to VND2,007/kWh (+7.7% compared to 2022). Prior to this, it had already been adjusted once on May 4, 2023. We assess that the increase in the average retail electricity price will directly impact EVN rather than power plants. Accordingly, increased output will ease EVN's financial situation, improving its ability to fulfill debt obligations. As for power plants, this group may indirectly benefit by minimizing the risk of receivables with EVN.

Fig 1. Vietnam – Mobilization rate of power source types in 2022–2023



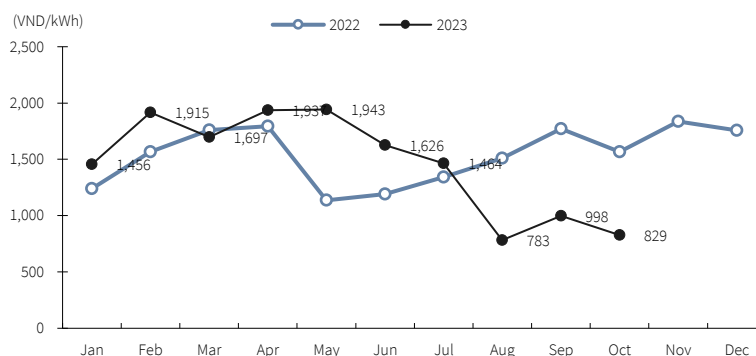
Source: EVN, KB Securities Vietnam

Fig 2. Vietnam – Electricity output in 2022–2023 (billion kWh, % YoY)



Source: EVN, KB Securities Vietnam

Fig 3. Vietnam – Full market price in the CGM in 2022–2023 (VND/kWh)



Source: GENCO3, KBSV

Mobilized hydropower witnessed a sharp fall over the same period due to the adverse impact of El Nino in 2023. Coal-fired thermal power benefited from an increased mobilization rate. Regarding renewable energy, the commercial operation of many new projects helped to improve the mobilization rate of this generation source.

The entire system's electricity output in 11M23 reached 257.35 billion kWh (+4.3% YoY). This growth rate is lower than the assumption in the National Power Development Plan VIII (NPD8) (8.4%) due to a decrease in electricity consumption from industrial production activities. In the future, KBSV expects the recovery of industrial production activities along with increasing electricity consumption of households will help electricity demand to grow by an average of about 8.5%/year.

Full power price (FMP) rose in 1Q and 2Q23 due to a high mobilization rate for thermal power with higher selling prices than hydropower. However, in 3Q23, FMP dropped sharply to VND1,081/kWh (~30% YoY) due to: (1) rising mobilized hydropower, given high water levels at reservoirs and (2) weaker-than-expected demand.

2024 outlook

The demand for electricity would grow

According to EVN, electricity demand is forecast to grow 8.5%/year in the next five years. We think the growth supporters include (1) the return of domestic production and business activities that needs enough electricity for operation and maintenance; (2) foreign investment capital flows into Vietnam, especially in the energy intensive industry like processing and manufacturing; and (3) population growth and rapid urbanization that will boost household energy consumption. Vietnam is one of the countries with high urbanization rates in the region. As of early 2023, the urbanization rate in our country reached more than 42%.

El Nino continues in 2024, hitting hydropower businesses

Hydropower will still face unfavorable weather conditions in 2024. According to forecasts of the International Research Institute on Society and Climate (IRI), El Nino has a high probability of occurring in 2024 before switching to the neutral phase. This means high temperature, reduced rainfall and water reserve will affect the capacity of hydroelectric plants. The electricity supply in the Northern region should meet many difficulties as hydropower accounts for about 46% of the total installation capacity. Therefore, we believe that the business results of this group will continue to face challenges in 1H24 when the dry season leads to little rain, and then improve from 3Q24.

The outlook for thermal power is bright

We believe that the thermal power growth in 2024 will be attributable to: (1) The demand for electricity is strong. Forecasted high temperatures in 2024 will cause electricity demand to increase sharply due to the frequency of using cooling devices, especially during the hottest months. In addition, the production of industrial customers is also expected to recover, leading to higher demand. (2) Mobilization increases for thermal power groups when hydropower weakens. In Vietnam, hydropower and thermal power still account for the main proportion in power generation as many alternative energy sources have not been developed. Therefore, given the El Nino forecast next year, thermal power is expected to be the focus of mobilization to ensure national energy security. (3) World prices of input materials such as coal and gas are showing signs of decline and stability. This supports the input supply of thermal power plants and makes electricity generation prices of this group more competitive. (4) Many thermal power plants have completed repairs and overhauls in 2023 and are ready for operation with all power units in 2024.

Renewable energy is prioritized for development, but there are still difficulties in the short term

According to the NPDP8, renewable energy sources, especially wind power, will be prioritized for development and effective exploitation in the future. Onshore and offshore wind power capacity is expected to reach 21,880 MW and 6,000 MW by 2030, and 70,000 – 91,500 MW by 2050, respectively. In the long term, developing renewable energy sources is necessary because (1) it enhances the goal of reducing net emissions to zero by 2050 of Vietnam; and (2) it helps reduce dependence on hydropower and thermal power, ensuring energy security.

We see that businesses with financial potential and experience in developing and operating renewable energy projects will have an advantage in bidding as they can mobilize capital sources with low cost, enhancing effective management and cost optimization. Some leading enterprises in the industry with great potential include Refrigeration Electrical Engineering Corporation (REE) and Ha Do Group (HDG).

However, in the short term, renewable energy supply will face many challenges. First, supply currently exceeds demand. The number and scale of projects have far exceeded that in the previous period and are mainly concentrated in the Central and Southern regions. Excess capacity in these two areas cannot be transferred to the North due to transmission system issues.

On the other hand, new investment in renewable energy is facing many obstacles, including the problems related to mechanism for calculating electricity prices. The Ministry of Industry and Trade has reported to the Prime Minister and proposed a suitable model to implement the mechanism for direct power purchase agreement (DPPA). However, the parties still need to wait for legal regulations and detailed instructions from the Ministry before this mechanism comes into practice. We expect a more competitive price mechanism and the successful implementation of DPPA will pave the way for investment capital and renewable energy development.

Electrical infrastructure businesses are the first beneficiaries

We suppose enterprises developing electrical infrastructure will be the first to benefit in the coming years thanks to the increase in electrical and line installation and station and transformer voltage construction packages after the approval of the NPDP8. In October 2023, the Ministry of Industry and Trade conducted bidding work for the Pho Noi 500kV line project of Circuit 3 Quang Trach worth nearly VND23,000 billion. This implies that major power projects will speed up after a long period of stagnancy.

We think that Power Engineering Consulting JSC 2 (TV2) and PC1 Group (PC1) will gain more workload from this context.

We give a POSITIVE forecast for the power industry in 2024

We give a POSITIVE forecast for the power industry, based on increasing load demand and the approval of NPDP8. However, KBSV notes that the outlook for each power generation type will be different as explained above.

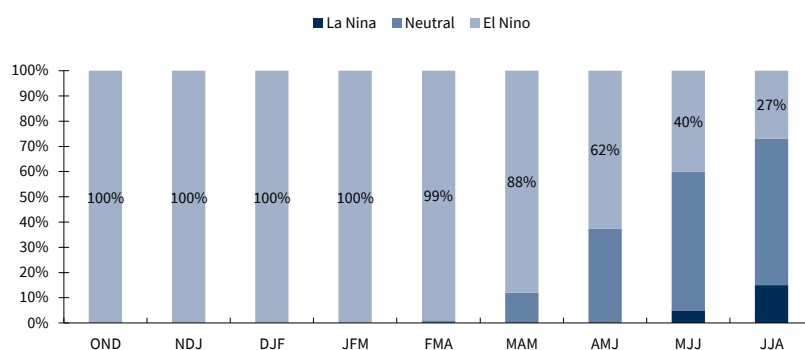
Observing the current price movements of stocks of the thermal power group (such as NT2, POW, and QTP), we noted that the prices of stocks have significantly decreased since the beginning of 3Q23 in line with the general market trend.

The current stock price is attractive for investment, especially in 1H24 when the dry season and high temperatures due to El Nino will raise the demand and improve business results of thermal plants.

For stocks in the power construction group (PC1 and TV2), hydropower (Vinh Son – Song Hinh Hydropower – VSH and Song Ba Ha Hydro Power – SBH) and renewable energy (REE and HDG), investors should observe and consider entering open positions when the return rates are attractive and matching each investor's taste.

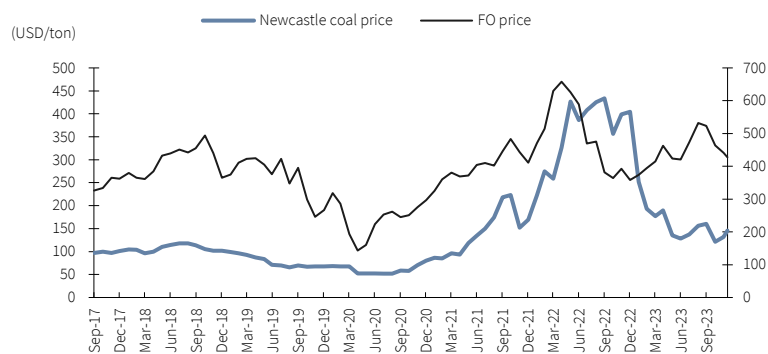
However, risks that should be considered include lower-than-expected output, raw material shortages and cost changes.

Fig 4. Global – Probability of weather patterns in 2024 (%)



Source: IRI, KB Securities Vietnam

Fig 5. Global – Input material costs (USD/ton)



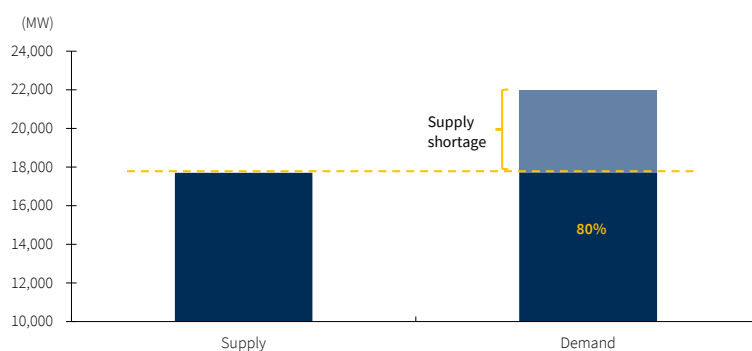
Source: Bloomberg, KB Securities Vietnam

According to forecasts from international meteorological organizations, El Nino has a high probability of lasting until the end of April 2023, leading to low amount of water in reservoirs. After that, the probability of the weather entering the neutral phase will increase above the 50% threshold from May to July. Thermal power will continue to be highly mobilized next year.

Coal and FO prices (reference for input gas prices) stayed high compared to the five-year average but became lower than 2022. Input prices went down and stabilized, helping to reduce electricity generation costs and increase competitiveness for thermal power plants when offering prices on the market.

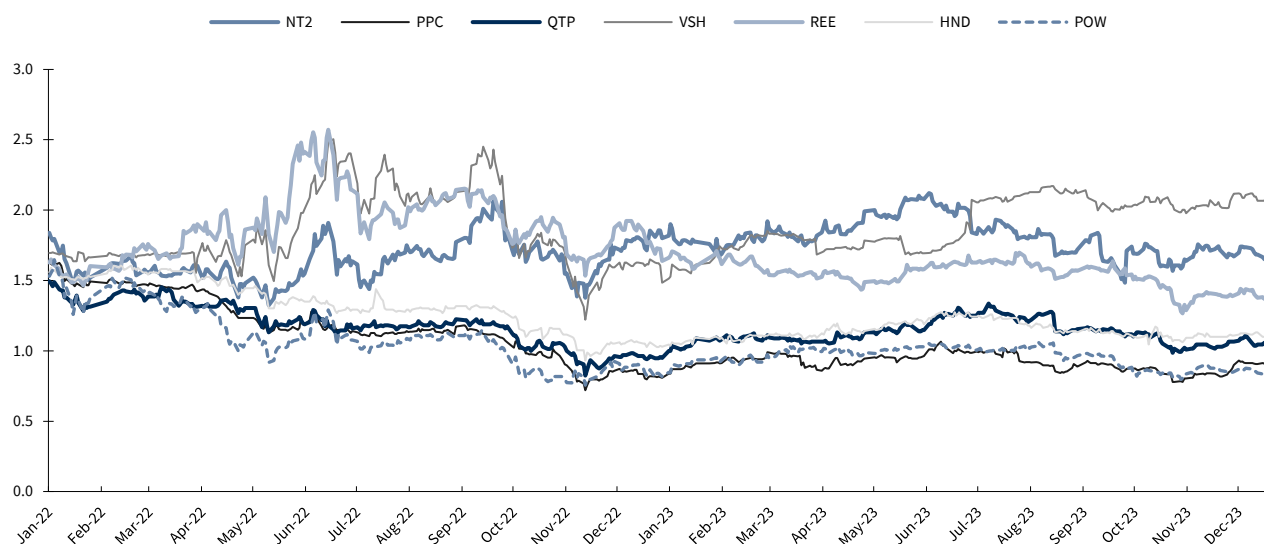
Fig 6. Vietnam – Power demand and supply in the Northern region (MW)

The North faces risks of electricity shortage as consumption demand increases. Hydropower accounts for 46% of this region's power generation structure, and the rest is mainly thermal power. With El Nino continuing, hydropower decline puts pressure on electricity supply in the North, while there is no additional capacity from new power projects. The solution proposed for this problem is to build a 500kV line 3 of Quang Trach – Phot Noi to transfer electricity from the Central region to the North and import electricity from other countries.



Source: EVN, KB Securities Vietnam

Fig 7. Vietnam – P/B or power stocks in 2022–2023 (x)



Source: Bloomberg, KB Securities Vietnam

Nhon Trach 2 (NT2)

Expecting recovery in 2024

December 6, 2023

Analyst Nguyen Dinh Thuan
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3Q23 revenue and earnings both decreased sharply YoY

In the third quarter of 2023, PV Power Nhon Trach 2 (NT2) recorded a loss of VND123.77 billion in NPAT on revenue of VND816 billion (-62.3% YoY). 3Q23 business results dropped sharply YoY since NT2 carried out a major overhaul from September 7 to October 31, leading to the suspension of operation and thus adversely affecting the electricity output in the period.

NT2 will benefit from the ongoing El Nino event in 2024

The International Research Institute for Climate and Society (IRI) forecasts that El Nino will very likely persist in 2024 before transitioning into the neutral phase, meaning higher temperatures and rising electricity demand. Besides, the ongoing El Nino event will also affect precipitation and hydroelectric reservoirs' water level, so hydropower generation mobilization will decrease, benefiting other sources.

NT2 is expected to recover in 2024 after having overcome the difficult period in 3Q23

We expect NT2 to recover in 2024 after overcoming a tough 3Q23 when: (1) the plant has completed its overhaul and is ready for mobilization from EVN; (2) imported LNG should be available in Vietnam next year through the Thi Vai LNG terminal Phase 1, downplaying the risk of gas shortages in the context that domestic gas reserves have dried up; and (3) the ongoing El Nino will boost electricity consumption, pushing thermal power generation mobilization.

We recommend HOLD for NT2 with a target price of VND27,700/share

Based on valuation results, business prospects, and possible risks, we recommend HOLD for NT2. The target price is VND27,700/share, 11% higher than the closing price as of December 6, 2023.

Hold maintain

Target price VND27,700

Upside	11%
Current price (Dec 6, 2023)	VND 24,900
Consensus target price	VND 28,400
Market cap (VNDbn)	6,880

Forecast earnings & valuation

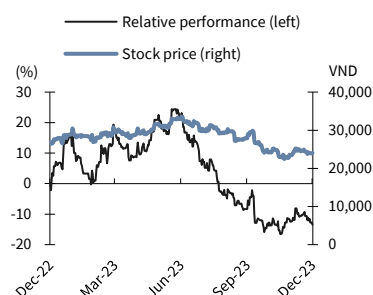
FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	6,150	8,788	6,836	8,580
EBIT (VNDbn)	559	957	413	714
NPAT-MI (VNDbn)	534	883	474	771
EPS (VND)	1,756	2,992	1,648	2,679
EPS growth (%)	-16.2	70.4	-44.9	62.6
P/E (x)	14.4	9.7	17.1	10.5
P/B (x)	1.2	1.8	1.7	1.6
ROE (%)	13%	19%	10%	15%
Dividend yield (%)	12%	6%	4%	7%

Trading data

Free float	30%
3M avg trading value (VNDbn)	15.7
Foreign ownership	15%
Major shareholder	PV Power (POW) (59.4%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	2.6	-13.8	-26.9	-9.6
Relative	-0.7	-5.1	-28.3	-11.1



Source: Bloomberg, KB Securities Vietnam

PV Power (POW)

Overcome difficulties

December 12, 2023

Analyst Nguyen Dinh Thuan
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3Q23 results are lower than the same period in 2022

PV Power Corporation (POW) recorded VND52 billion (-74% YoY) in 3Q NPAT on revenue of VND5,679 billion (-6% YoY). 9M23 commercial electricity output reached 11,144 million kWh (+11% YoY) thanks to the active mobilization of Ca Mau 1&2 and Vung Ang plants compensating for the sharp decline in hydroelectric plants and Nhon Trach 1&2.

Gas power output is expected to recover in 2024

We expect gas-generated power output to recover well in 2024 to reach 10,487 million kWh (+12% YoY), based on (1) Nhon Trach 2 and Ca Mau 2 plants have completed repairs and been ready for mobilization; (2) the inauguration of Thi Vai LNG terminal (phase 1) will benefit gas sources for power plants in the Southeast region; (3) POW should negotiate with Jadestone partner to buy additional gas from Nam Du - U Minh fields for Ca Mau 1 & 2 power plants after 2028; and (4) The mobilization for thermal power would increase when hydropower declines.

Coal thermal power plant Vung Ang should return to stable operation

Vung Ang thermal power plant has completed repairs and test run in 3Q23 and been ready for mobilization. We expect that the output of Vung Ang power plant can reach 5,763 million kWh (+36.1% YoY) in 2024 given benefits from El Nino and the completion of repairs in 3Q.

BUY recommendation with target price of VND13,700/share

Based on SOTP valuation, business prospects and possible risks of POW, we recommend BUY for POW stock. The target price is VND13,700/share, 18% higher than the price on December 11, 2023.

Buy maintain

Target price	VND13,700
Upside (%)	18%
Current price (Dec 11, 2023)	VND11,600
Consensus target price	VND14,800
Market cap (VNDtn/USDtn)	26/1.09

Forecast earnings & valuation

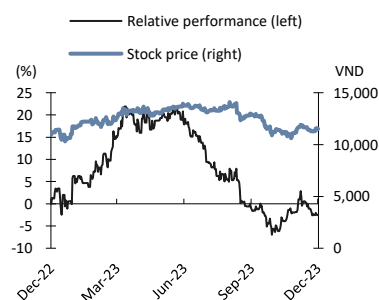
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	24,561	28,224	28,906	33,969
EBIT (VNDbn)	2,400	2,858	1,728	2,673
NPAT of the parent (VNDbn)	1,799	2,061	1,316	1,949
EPS (VND)	757	871	562	832
EPS growth (%)	-24.2	15.1	-35.0	48.0
P/E (x)	23.1	13.4	31.5	21.3
EV/EBITDA (x)	8.4	5.5	11.0	9.6
P/B (x)	1.3	0.8	1.2	1.0
ROE (%)	6.6	7.7	4.3	5.7
Dividend yield (%)	1.7	0.7	0.0	0.0

Trading data

Free float	20.0%
3M avg trading value (VNDbn/USDmn)	64.73/2.7
Foreign ownership	6.18%
Major shareholder	PetroVietnam (PVN, 79.94%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	3.1	-10.9	-16.4	2.7
Relative	-0.6	-1.2	-17.3	-3.8



Source: Bloomberg, KB Securities Vietnam

REE Corp (REE)

Facing short-term challenges

December 15, 2023

Analyst Nguyen Dinh Thuan
thuannd@kbsec.com.vn

3Q23 revenue and profit decreased YoY

Refrigeration Electrical Engineering Corporation (REE) recorded VND465 billion in 3Q NPAT (-44.2% YoY) on revenue of VND1,962 billion (-12.2% YoY). The energy segment, accounting for a large proportion of the total revenue (55%), only reached VND895 billion (-25.1% YoY). This hit hard on 3Q overall performance of the corporation, while other business segments maintained stable operations.

Renewable energy offset the decline in hydroelectricity output

Hydropower output reached 4,083 million kWh (-14.16% YoY) in 3Q as the water reserve was low compared to the average of many years. We believe that this segment will continue to be under pressure when El Nino continues. We maintain the view that the business results of the power segment will recover thanks to (1) Pha Lai thermal power plant improving profits when operating again; (2) REE adding more capacity after investing in renewable energy projects; and (3) current renewable energy plants operating stably.

E town 6 should boost the revenue from the real estate segment in 2024

NPAT of the office leasing segment was flat at VND411 billion as a slight increase in rents during the period offset the decrease in occupancy rates. The progress of E-town 6 is slower than expected, so we changed the forecast REE recording revenue from E-town 6 to 2024 instead of 4Q23 as in the previous report. Bo Xuyen residential area project (Thai Binh) officially started construction and is expected to complete phase 1 by December 31.

BUY recommendation with target price of VND72,600/share

Based on SOTP valuation, business prospects and possible risks, we recommend BUY for REE shares with the target price at VND72,600 apiece.

Buy maintain

Target price VND72,600

Upside	28%
Current price (Dec 15, 2023)	VND56,700
Consensus target price	VND70,900
Market cap (VNDbn/USDbn)	26,279/1.09

Forecast earnings & valuation

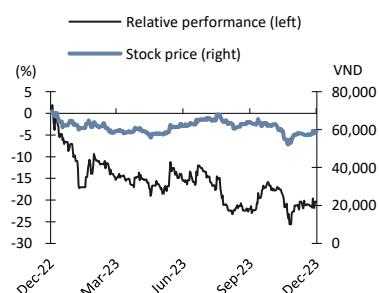
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	5,810	9,372	9,379	9,910
EBIT (VNDbn)	1,855	3,663	3,266	3,403
NPAT of the parent (VNDbn)	1,855	2,693	2,421	3,261
EPS (VND)	6,003	7,576	6,781	9,133
EPS growth (%)	14.3	26.2	-10.0	35.0
P/E (x)	12.1	10.6	10.7	8.0
EV/EBITDA (x)	13.0	8.7	8.7	8.0
P/B (x)	1.4	1.5	1.2	1.0
ROE (%)	13.1	18.3	14.2	14.0
Dividend yield (%)	0.4	2.0	2.1	2.3

Trading data

Free float	35.2%
3M avg trading value (VNDbn/USDmn)	61.47/2.5
Foreign ownership	49.0%
Major shareholder	Platinum Victory PTE LTD (31.05%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	3.1	-6.9	-4.4	-14.9
Relative	1.0	1.3	-5.8	-21.9



Source: Bloomberg, KB Securities Vietnam

Information technology

Steady growth in the long term

Business performance in 2023

According to the announcement of the Ministry of Information and Communications, revenue of the IT industry in the first 10 months of 2023 is estimated to reach over VND2.7 million billion, equivalent to USD113.8 million (+1% YoY). The number of digital technology businesses registering for establishment is still increasing steadily. Data from the Ministry of Planning and Investment (Business Registration Management Department) said there were 73,500 enterprises (+7% YoY) registered as of September 2023, an increase of 700 enterprises compared to August 2023.

Global IT spending sustains future growth

According to Gartner's forecast, spending on the IT sector in 2024 will grow steadily by 8% to USD5.1 trillion. Software and IT services are expected to grow by 13.8% and 10.4%, respectively. In the long term, we believe that IT spending will continue to grow as (1) the rapid development of technology requires businesses and organizations to invest heavily to compete and adapt to the inevitable trend; (2) consumer habits gradually change, depending on IT products; and (3) governments prioritize technology development to keep up with world changes.

We expect growth in Asia-Pacific and recovery for the US and European markets in 2024

We expect growth in the Asia-Pacific market next year because (1) These are potential markets with high economic growth rates. (2) The need for digital transformation remains positive, especially in Japan after the Covid -19 period (3) Support policies promote investment in technology and digital transformation in this area.

Meanwhile, we believe that the US and EU markets will recover in terms of spending demand for the IT sector.

We believe the IT industry will have POSITIVE prospects in 2024

We maintain a POSITIVE view on the IT industry in the coming year. Investors can consider FPT Corporation (FPT) because this is a prominent enterprise in the field of software export and digital transformation and is investing heavily in data centers. However, risks may be involved in the adverse influence of macro market developments and investment projects that are behind schedule.

Positive

 maintain

Recommendations

FPT	BUY
Target price	108,500

2023 business performance

IT companies recorded positive results in 10M23

According to the announcement of the Ministry of Information and Communications, revenue of the IT industry in the first 10 months of 2023 is estimated to reach over VND2.7 million billion, equivalent to USD113.8 million (+1% YoY).

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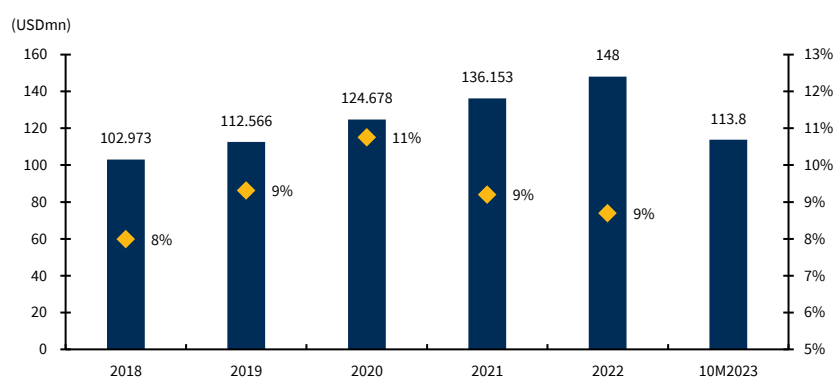
In the first ten months of 2023, the world faces many difficulties due to economic recession with no signs of recovery. The IT consumer market is declining with low growth potential. This directly affects Vietnam's export market for goods and services in general and IT products and services in particular, shown in the declining number of orders.

Since July 2023, the global economic situation has gradually improved, benefiting the export market. Hardware and electronics export turnover in 3Q23 surged by 10% YoY. The rising USD/VND exchange rate helped narrow the decline in accumulated revenue in 2023 compared to 2022. The software export segment showed no signs of deceleration as FPT's revenue from IT services in foreign countries (accounting for a large proportion in software export turnover) continued to grow 30% YoY in 10M23.

IT companies recorded positive results. FPT and Viettel Construction JSC (CTR) posted 22% and 19% YoY growth in 9M23, respectively. In the software export segment, income from foreign markets of FPT in 9M2023 rose 30.8% YoY thanks to fruitful Japanese market (+44.1% YoY). The main business lines of CTR all grew. 9M23 revenue from the operating and exploitation segment contributed the largest proportion with VND4,214 billion (+16% YoY).

The IT consumer market in general declined due to unfavorable macro factors, which also decreased the export orders from Vietnam. Since July 2023, the global economic situation has gradually improved, benefiting the export market. Hardware and electronics export turnover in 3Q23 surged by 10% YoY. The rising USD/VND exchange rate helped narrow the decline in accumulated revenue in 2023 compared to 2022.

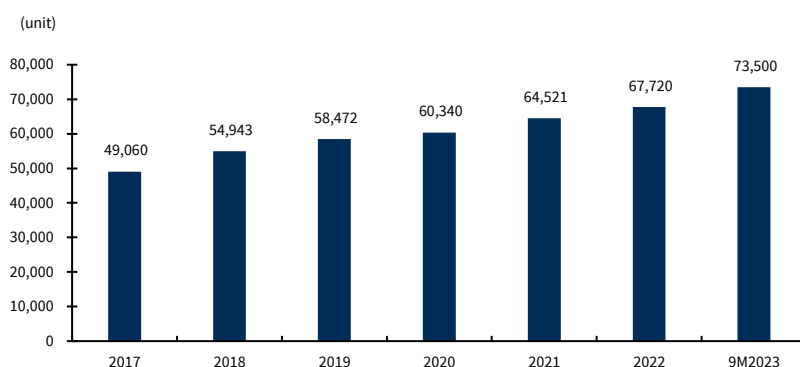
Fig 1. Vietnam – Revenue & revenue growth of the ICT industry (USDmn, %)



Source: MakeinVietnam, KB Securities Vietnam

The number of digital technology businesses registering for establishment is still increasing steadily. Data from the Ministry of Planning and Investment (Business Registration Management Department) said there were 73,500 enterprises (+7% YoY) registered as of September 2023, an increase of 700 enterprises compared to August 2023.

Fig 2. Vietnam – Number of ICT businesses in 2017–2023 (unit)



Source: MakeinVietnam, KB Securities Vietnam

2024 outlook

Global IT spending sustains future growth

According to Gartner's forecast, spending on the IT sector in 2024 will grow steadily by 8% to USD5.1 trillion. The growth is attributable to expectations of larger investment in Cloud, information security, AI and automation. Software and IT services are expected to grow by 13.8% and 10.4%, respectively. In the long term, we believe that IT spending will continue to grow as (1) the rapid development of technology requires businesses and organizations to invest heavily to compete and adapt to the inevitable trend; (2) consumer habits gradually change, depending on IT products; and (3) governments prioritize technology development to keep up with world changes.

We expect growth in Asia-Pacific and recovery for the US and European markets in 2024

We expect growth in the Asia-Pacific market next year because (1) These are potential markets with high economic growth rates. (2) The need for digital transformation remains positive, especially in Japan after the Covid -19 period (3) Support policies promote investment in technology and digital transformation in this area.

Meanwhile, we believe that the US and EU markets will recover in terms of spending demand for the IT sector. The wave of layoffs of IT personnel has ended in the US, and interest rates should ease in 2024. Besides, Gartner also projected IT spending in the EU would grow by 9.3% in 2024, bouncing back from 2023 low at 5.3%.

KBSV noted that the US and EU are still the world's leading regions in IT investment. According to IDC (a market research and technology consulting company in the US), spending on digital transformation in the EU will grow rapidly with a CAGR of 16% for the period 2023–2027. Therefore, the prospects for IT businesses, especially FPT, are still bright. Furthermore, FPT can compete in personnel costs and is penetrating into these two markets.

The potential for developing Data Center and Cloud in the domestic market is big

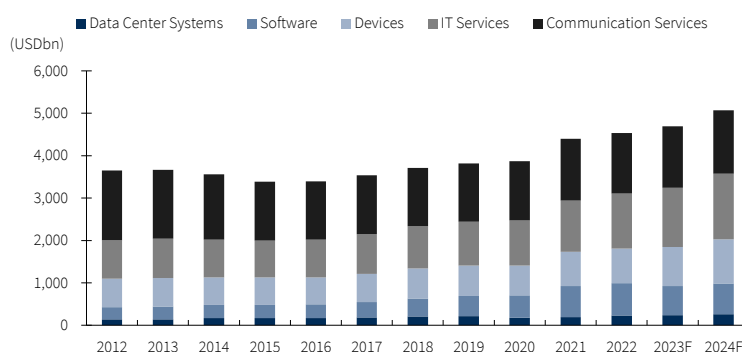
The growth potential of Data Centers and Clouds in Vietnam is large because (1) there is much room for development. Savills Asia Pacific reports showed that Indonesia, Malaysia, Thailand and Vietnam have fewer data centers than Hong Kong and Singapore, despite having a population 30 times larger. The government also aims for Vietnam to become an important digital center. Vietnam's data center market is projected to reached USD1.04 billion in 2023, up from USD561 million in 2022 and achieve a CAGR of 10.7%. (2) Vietnam has fast development speed. Data centers of Vietnam are considered one of the fastest growing markets in the world thanks to the digitalization of local SMEs, a young tech-savvy population, the potential of 5G, and data localization laws.

We believe the IT industry will have POSITIVE prospects in 2024

We maintain a POSITIVE view on the IT industry in the coming year. Spending in this field will increase in line with the general trend of the whole world. The price movements of technology group stocks since the beginning of the year also outperformed the market. We believe that with solid demand in the future, ICT stocks will maintain double-digit growth in business results.

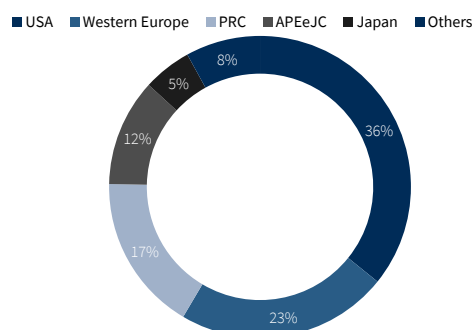
Investors can consider FPT Corporation (FPT) because this is a prominent enterprise in the field of software export and digital transformation and is investing heavily in data centers. However, risks may be involved in the adverse influence of macro market developments and investment projects that are behind schedule.

Fig 3. Global – IT spending in 2012–2024 (USDbn)



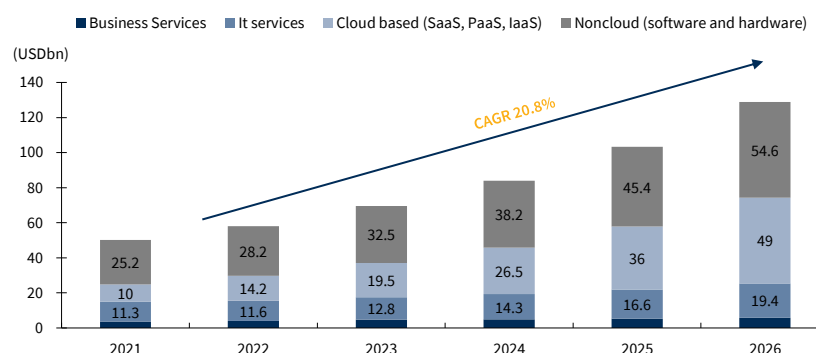
Source: Gartner, KB Securities Vietnam

Fig 4. Global – Digitalization market share in 2023 (%)



Source: IDC, KB Securities Vietnam

Fig 5. APAC – IT spending growth from DNBs in 2022–2026 (%)



Source: IDC, KB Securities Vietnam

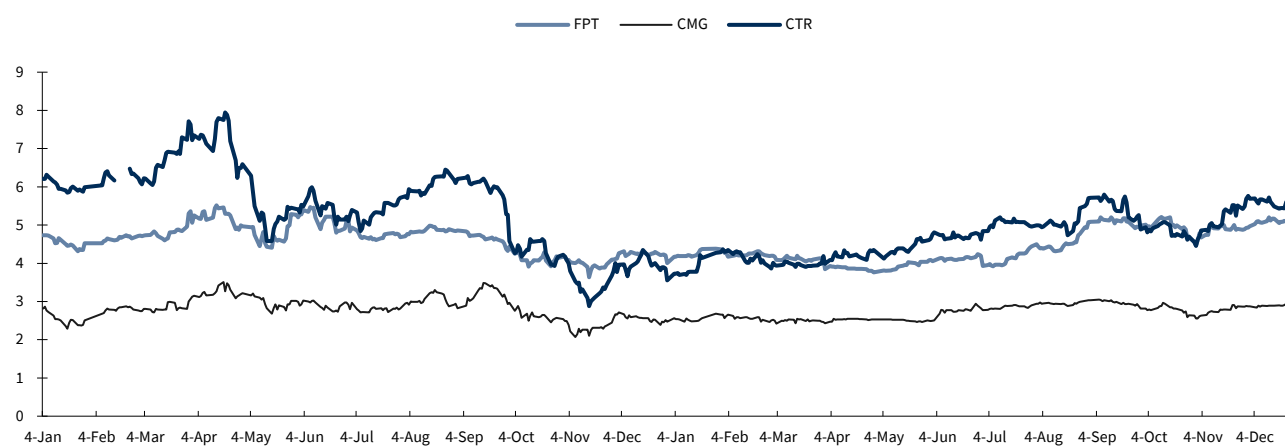
According to Gartner's forecast, spending on the IT sector in 2024 will grow steadily by 8% to USD5.1 trillion. Software and IT services are expected to grow by 13.8% and 10.4%, respectively

According to IDC, spending on digital transformation in the EU will grow rapidly with a CAGR of 16% for the period 2023–2027. The US will account for 35.8% of total digital spending worldwide by 2023, which is roughly on par with the Asia-Pacific region (including Japan and China) with a spending share of 33.5%. The Europe, Middle East and Africa (EMEA) region will contribute 26.8% of total IT spending worldwide this year.

Digital native businesses (DNB) are businesses that have been established in the last 10 years and used digital media to create primary value.

According to IDC, DNBs' IT spending in APAC should reach USD128.9 billion by 2026, corresponding to a CAGR of 20.8%. This shows significant investment in technology from DNBs across the Asia-Pacific (APAC) region. This strong growth rate reflects the increasing importance of technology in DNBs' business strategy and operations.

Fig 6. Vietnam – P/B of IT stocks in 2022–2023 (x)



Source: Bloomberg, KB Securities Vietnam

FPT Corporation (FPT)

Sustaining growth momentum

November 29, 2023

Analyst Nguyen Dinh Thuan
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3Q results are positive

In 3Q23, FPT Corporation (FPT) posted VND13,762 billion in revenue (+23% YoY) and a gross profit margin (GPM) of 40%. NPAT was VND2,076 billion (+18% YoY). In 9M23, the foreign IT services continued to lead the growth of the corporation with many large orders. 9M value of newly signed contracts reached VND20,700 billion (+23.2% YoY), including 20 projects worth over USD5 million each.

The foreign IT segment is increasing brand awareness in the US market

We expect revenue from the IT segment in 2024 to grow 25% YoY, based on (1) potential revenue from Japan (+30% YoY) and APAC markets (+30% YoY) thanks to digital transformation demand and the ability to penetrate these two markets; (2) expected improvement in IT spending in the US and EU; and (3) advantages from low cost, experience, and synergistic benefits from recent M&As.

The education segment positively contributes to the corporation growth

The education segment continues to show steady growth. In 9M23, it achieved strong growth in revenue, reaching VND4,435 billion (+43% YoY). We believe that FPT, with its reputation for training highly qualified human resources in IT, will attract many students as the current demand for learning is large. FPT University founded the Department of semiconductor and circuits, expected to officially start training from 2024.

BUY recommendation with target price of VND108,500/share

Based on FCFF and P/E valuation, business prospects and possible risks of FPT, we recommend BUY for FPT stock. The target price is VND108,500 apiece, 19% higher than the closing price on November 28, 2023.

Buy change

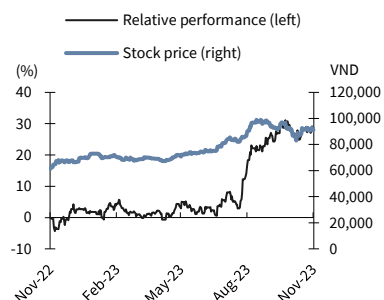
Target price	VND108,500
Upside	19%
Current price (Nov 28, 2023)	VND91,100
Consensus target price	VND111,800
Market cap (USDbn/VNDtn)	4.73/116

Trading data	
Free float	85%
3M avg trading value (VNDbn)	76.03
Foreign ownership	49%
Major shareholder	Truong Gia Binh (7%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.9	1.3	29.0	45.7
Relative	0.1	10.0	25.0	29.2

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	35,657	44,010	53,149	62,674
Operating income (VNDbn)	6,228	7,589	9,061	10,640
NPAT of parent company (VNDbn)	4,337	5,310	6,411	7,529
EPS (VND)	4,349	4,429	5,048	5,928
EPS growth (%)	6%	2%	14%	17%
P/E (x)	10.1	16.6	18.0	15.3
P/B (x)	2.0	3.4	4.1	3.6
ROE (%)	0.2	0.3	0.3	0.3
Dividend yield (%)	6%	3%	2%	3%



Source: Bloomberg, KB Securities Vietnam

Analyst Nguyen Truong Giang
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Retail

Expecting recovery

Retail sales decelerated and purchasing power weakened in 2023

Total retail sales of goods have slowed down despite maintaining positive YoY growth. Purchasing power in the economy is still low as domestic and world economic slowdown and sluggish demand leads to a decline in production. PMI below 50 points in many months shows that the production and business situation are still weak, leading to massive layoffs and people's income cuts, thereby hitting purchasing power.

Business results of retailing companies are mixed by product lines

The business results of retail companies showed a differentiation between essential and non-essential consumer goods. Retailers trading in consumer staples (Masan Group – MSN, Vinamilk – VNM, Long Chau of FPT Digital Retail – FRT, and Bach Hoa Xanh) of Mobile World Investment – MWG) still posted positive results. Meanwhile, ICT products (of MWG, FRT, and DGW) witnessed a sharp decline in revenue due to consumers cutting back on spending on non-essential items such as smartphones and laptops.

We expect the retail industry to rebound in 2024

The macroeconomic situation starts to show positive signs such as recovering exports, easing inflation, and likely lower lending interest rates. Therefore, it is expected that the retail industry will also recover, but the recovery speed will be quite slow. The retail company should record growth in 2024, which had 2023 low bases in comparison. Each business will have its own growth driver, Bach Hoa Xanh for MWG, Long Chau drugstore chain for FRT, and Winmart for MSN. Many stocks had a deep discount of about 40–50% compared to the peak price such as MWG and MSN, which gives attractive opportunities for to buy and hold. Stocks that are approaching the peak such as FRT and Phu Nhuan Jewelry – PNJ partly reflect bright prospects, so investors should only consider buying if strong corrections appear.

Positive change

Recommendations	
MWG	BUY
Target price	VND45,700
MSN	BUY
Target price	VND78,600
PNJ	BUY
Target price	VND92,200
FRT	HOLD
Target price	VND106,000
DGW	HOLD
Target price	VND56,800

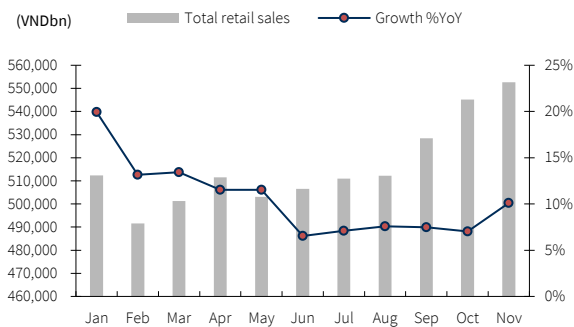
2023 business performance

Total retail sales growth slowed down due to sagging purchasing power

Total retail sales of goods in each month of 2023 remained positive, compared to the same period in 2022. However, the growth slowed down at 6–7% from June to October 2023 before returning to double-digit growth in November when total retail sales of the month hit VND552.7 trillion (+10.1% YoY). Of that, retail sales of goods gained 9.1%, accommodation and catering services and travel services rose respectively 18.3% and 70.9%. Total retail sales of consumer goods and services in 11M23 are estimated at VND5,667 trillion, up 9.6% YoY.

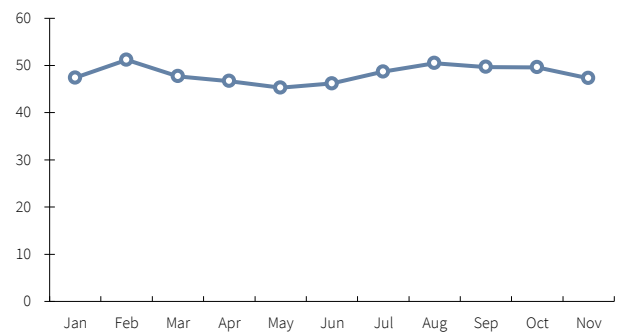
In 2023, the retail industry witnessed a decline in consumer purchasing power, triggered by the domestic and international economic slowdown. Rising inflationary pressure caused central banks to raise interest rates, consumption in major markets to slow down, and exports to stagnate, so many companies must cut production and limit other business activities. The PMI in 2023 reflects the shrinking production of the entire economy. For many straight months, the index stayed below the 50 threshold, indicating that production was increasingly narrowed and became the weakest around 2Q23, pushing up the unemployment rate and decreasing people's income. As PMI is a leading indicator, the low PMI in the first half of the year was reflected in the total retail sales of goods and services in the following months.

Fig 1. Vietnam – Total retail sales of goods and services in 2023 (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – PMI in 2023 (point)

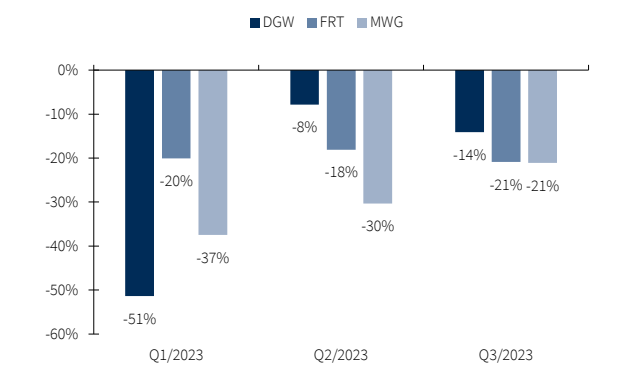


Source: General Statistics Office, KB Securities Vietnam

Business results of retail companies are differentiated

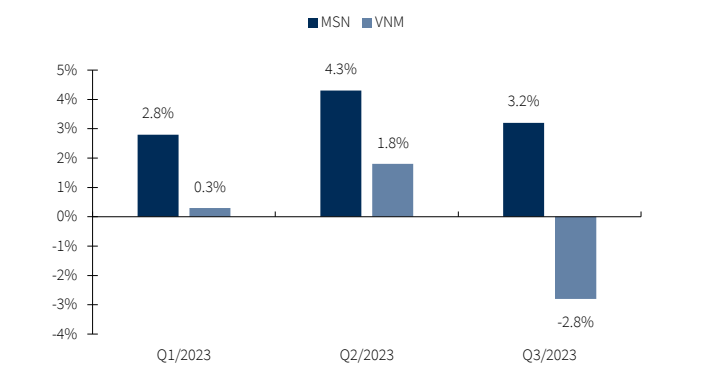
Business results of retailing companies are mixed by product lines. For companies trading in consumer staples such as VNM and MSN, revenue was almost flat as people may hardly cut down on their spending on these products. For ICT companies, most of their products are consumer discretionary, and the demand peaked during the Covid-19, so their business was seriously affected. Due to weak demand, companies have entered a price war to gain market share, started by MWG. Although the price war helped bring promising results, most ICT retailers lost all profits in 2023. PNJ, a gold and silver jewelry retailer, managed to cushion its revenue and profits thanks to cost optimization, marketing activities, and the characteristic of jewelry that is stable prices.

Fig 3. Vietnam – Revenue growth of ICT retailers (%)



Source: Financial statements, KB Securities Vietnam

Fig 4. Vietnam – Revenue growth of consumer goods retailers (%)



Source: Financial statements, KB Securities Vietnam

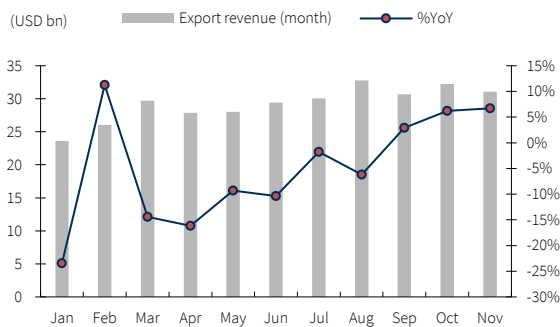
2024 outlook

The retail industry shows signs of recovery

The retail industry should have clearer signs of recovery in 2024 when macroeconomic environment and the purchasing power are better:

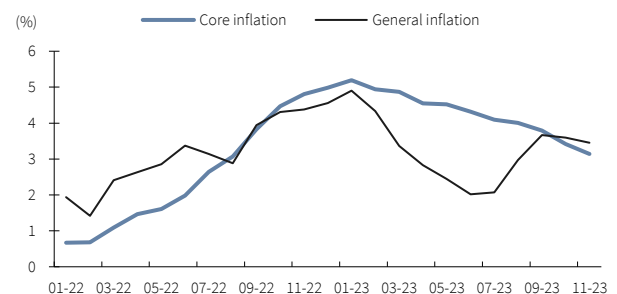
- (1) Recovering exports: Exports are important to Vietnam economy, contributing a significant proportion to the GDP structure. When the economies of the main export markets such as the US and EU slowed down in 1H23, exports were hit hard, thereby limiting the number of jobs for people and lowering income. Recent months have also recorded positive growth over the same period last year after many months of decline. This bodes well for the people's employment and income.
- (2) Cooling inflation: In Vietnam, inflation has shown clear signs of cooling down since the beginning of the year. Global headline inflation has cooled down from a peak of 4.9% at the beginning of the year to 2% at times and is currently fluctuating between 3.4–3.6%. Meanwhile, inflation in the US has also slowed down from the peak of 9% to only 3.2% in November 2023. The Fed also forecast there would be three rate cuts in 2024, which is seen as a positive signal for the economy.

Fig 5. Export turnover by month in 2023



Source: KB Securities Vietnam

Fig 6. Inflation shows signs of cooling down

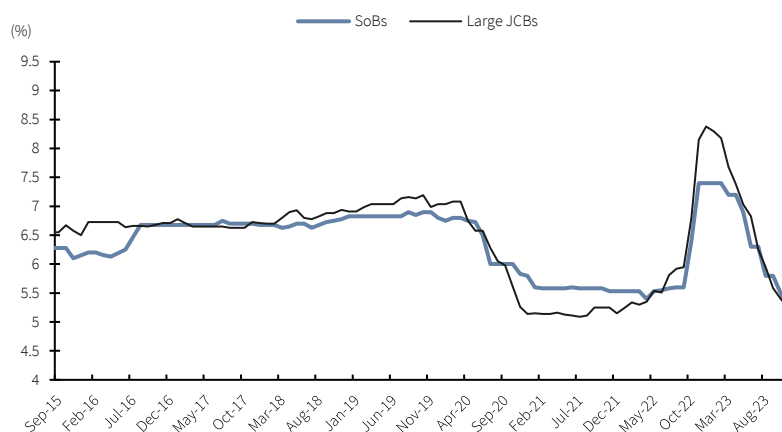


Source: KB Securities Vietnam

- (3) Decreasing interest rates (which will need more time to take effect on the economy): After the continuous policy rate cuts of the SBV, commercial banks also reduced their deposit interest rates to many-year lows. Lending interest rates have also begun to cool down, but it will take more time for the economy to absorb this amount of loan capital. It is expected that after the directives from the SBV to banks on opening up capital flows, credit growth will return, and the economy will begin to absorb capital flows to promote growth.

Deposit interest rates saw falls as strong as in Covid years

Fig 7. Vietnam – Deposit interest rates in 2019–2023 (%)



Source: State Bank of Vietnam, KB Securities Vietnam

All business lines in the retail sector have potential growth prospects

Every business in the retail sector has its own growth driver. For the essential consumer goods traders (VNM and MSN), the growth will depend on the recovery of the economy. These companies will also get better profit margins when inflation cools down and leads to a decline in the price of raw materials.

The ICT industry should recover along with the entire retail sector. Other supportive factors should be:

- (1) Smartphone and laptop replacement cycle: The average lifespan of ICT products is about three to four years. Consumers tend to pass their old devices and buy new ones when they show signs of obsolescence and new models are released. 2020–2022 was a boom time for ICT products when the demand for learning and working online surged during the Covid lockdowns. Based on the replacement cycle, it is forecast that from 2H24, the need to replace phone and laptop products will begin to increase again as people's income improves.
- (2) 2G/3G switch off: According to the roadmap, the Ministry of Information and Communications will stop 2G network between December 2023 to September 2024. By August 2023, there were about 23 million 2G mobile subscribers left. After stopping 2G services, these phones will have to be completely replaced with other phone lines. This is an opportunity for smartphone retailers, especially chains with large coverage in rural areas such as FPT Shop and Thegioididong.

Each stock has its own story besides the potential recovery of the whole sector

Each stock will have its own story, so their valuation of retail stocks shows a divergence.

- (1) For stocks of non-essential goods and ICT industry:

MWG: The expectation that the ICT retail industry will recover slowly while Bach Hoa Xanh continues to slow down on breakeven progress has caused this stock to fall sharply from its recent peak. However, we think that MWG has overcome the worst period as the Bach Hoa Xanh chain continuously posts positive revenue and is also very close to the break-even point. Investors can open new buy positions at the current price range for return in the next year.

DGW: This stock is quite similar to MWG. The declining ICT industry and not-strong enough growth drivers may squeeze revenue in the short term.

FRT: Although FRT also faces many difficulties like other ICT retailers like MWG, it has found the answer to its growth problem in the Long Chau chain. Despite negative profits, FRT is at its peak, we recommend hold for this stock.

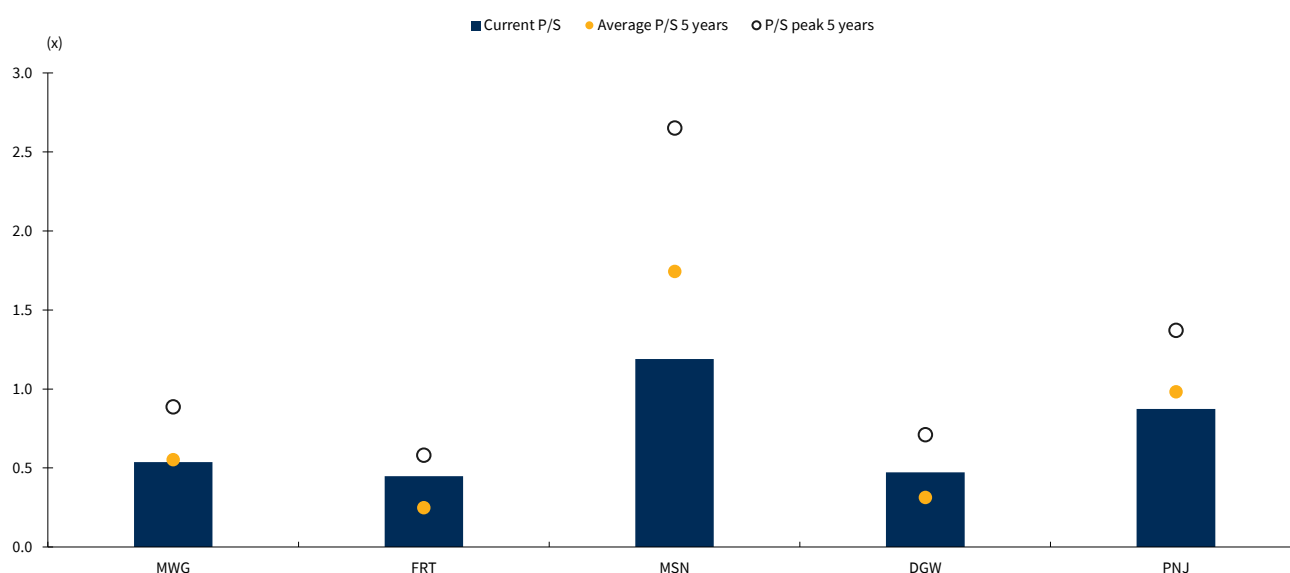
PNJ: Although this business trades in consumer discretionary, it maintained superior revenue and profit compared to the industry average and captured more market share from small retail stores in 2023. For 2024, when purchasing power recovers, PNJ will continue to grow.

(2) For stocks in the essential consumer goods industry:

MSN: The Winmart chain is reaching the breakeven point. After facing a lot of pressure from loan interest and bond maturity in 2023, MSN price is fairly low, suitable to buy when the above pressure has gradually passed.

VNM: VNM is projected to record revenue and profit growth in 2024, but the company has not found a new growth driver, so it is only suitable for value investors that receive annual dividends.

Fig 8. Vietnam – P/S of retail stocks (x)



Source: Bloomberg, KB Securities Vietnam

Mobileworld (MWG)

Expectations put on Bach Hoa Xanh

November 30, 2023

Analyst Nguyen Truong Giang
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Business results improved, but NPAT still fell sharply YoY

Mobile World Investment (MWG) achieved 3Q23 net revenue of VND30,288 billion (down 5.4% YoY). 3Q23 revenue moderated its YoY decrease rate compared to the previous quarters on the gradual recovery in purchasing power. The gross profit margin (GPM) was up 0.2 percentage points (ppts) QoQ but down 4.4 ppts YoY to 18.7%. 3Q23 NPAT slumped 94% YoY to VND39 billion, hampered by the price war.

MWG continued its price war in the ICT&CE retail industry in return for more market share

In the third quarter, MWG continued its low-price strategies to expand coverage amid weak consumer demand. The price competition helped MWG win back market share but damped earnings. Therefore, in the coming time, MWG will need to make appropriate adjustments to the pricing policy to both optimize costs and raise operational efficiency.

Bach Hoa Xanh enjoyed positive signs and should be future growth driver

Bach Hoa Xanh (BHX) enjoyed positive signals, proven by total revenue and sales per store continuously improving with month. This was primarily thanks to restructuring efforts rather than objective factors. A sharp increase in invoice volume shows that the supermarket chain has gained new customers and retained old ones. Despite losses, results significantly improved, so we forecast that BHX will break even by the end of this year or at the beginning of 2024.

We recommend BUY for MWG with a target price of VND45,700/share

Our projections for MWG's 2023F net revenue and NPAT are VND119,606 billion (-10.3% YoY) and VND214 billion (-94.8% YoY), respectively. With the expected recovery in the ICT&CE segment and the BHX chain nearing the breakeven point, we recommend BUY for MWG stock with a target price of VND45,700/share.

Buy update

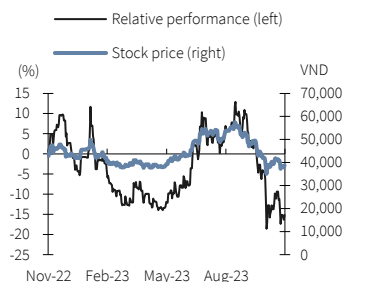
Target price	VND45,700
Upside	19%
Current price	VND38,500
Consensus target price	VND56,855
Market cap (VNDtn/USDtn)	56.6/2.3

Trading data	
Free float	25.2%
3M avg trading value	107.6/4.5
Foreign ownership	45%
Major shareholder	Retail World Investment Consultant Ltd (10.49%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-9.5	-24.8	-0.5	-5.4
Relative	-11.8	-18.2	-2.7	-12.5

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	124,142	134,722	119,606	134,519
EBIT (VNDbn)	6,468	6,575	1,177	4,670
NPAT (VNDbn)	4,901	4,102	214	3,651
EPS (VND)	3,348	2,802	146	2,494
EPS growth (%)	-21%	-16%	-95%	1606%
P/E (x)	11.6	13.8	264.8	34.9
P/B (x)	2.8	2.4	2.4	2.2
ROE (%)	24%	17%	1%	6%
Dividend yield (%)	2%	2%	1%	2%



Source: Bloomberg, KB Securities Vietnam

FPT Digital Retail (FRT)

Long Chau is a long-term driver

December 22, 2023

Analyst Nguyen Truong Giang
giangnt1@kbsec.com.vn

Weak purchasing power coupled with fierce price competition eroded earnings

In the third quarter of 2023, FPT Digital Retail (FRT) achieved VND8,236 billion (+6.8% YoY) in net revenue. Gross profit margin (GPM) picked up 120bps YoY to 16.7% thanks to the rising profit contribution of the Long Chau pharmacy chain. NPAT continued to record a loss of VND13 billion due to weak purchasing power and the heavy impact of the stiff price competition, partly offset by the good performance of Long Chau.

The ICT industry seems to have bottomed out in 2Q23 and should rebound from 2H24

The ICT industry seems to have bottomed out in 2Q23 and slowly recovered in 3Q23. Positive macroeconomic signals emerged, proven by recovering exports, cooling inflation, and the FED signaling interest rate cuts in 2024. It is expected that the ICT industry will rebound from 2H24.

Long Chau is a long-term growth driver

Long Chau continues to be the long-term growth driver of FRT when the ICT market is close to the saturation point. Long Chau, with solid competitive edges, is growing strongly, staying ahead of the competition.

We recommend HOLD for FRT with a target price of VND106,000/share

We forecast that FRT's 2023F NPAT will suffer a loss of VND155 billion due to the fierce price war on net revenue of VND32,591 billion (+8% YoY). We expect that the ICT industry's recovery and Long Chau's strong growth will help FRT accelerate in the future. However, FRT's current price has reflected its growth potential, meaning an unattractive discount. Therefore, we recommend HOLD for FRT with a target price of VND106,000/share, implying a 3% return against the closing price on December 22, 2023.

Hold initiate

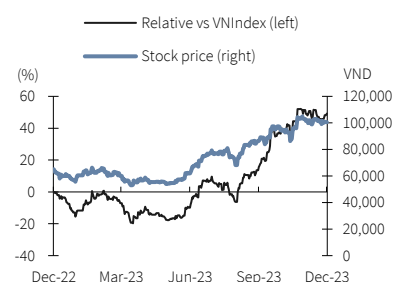
Target price	VND106,000
Upside	3%
Current price (Dec 22, 2023)	VND102,500
Consensus target price	VND106,725
Market cap (VNDtn/USDtn)	13.9/0.6

Trading data	
Free float	49.5%
3M avg trading value (VNDbn/USDmn)	53/2.2
Foreign ownership	36.4%
Major shareholder	FPT Corporation (FPT) (46.5%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.7	13.9	57.8	58.3
Relative	-2.4	27.1	60.6	49.1

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	22,495	30,166	32,591	38,348
Operating income/loss (VNDbn)	546	474	(102)	473
NPAT (VNDbn)	444	398	(155)	380
EPS (VND)	562	336	(114)	279
EPS growth (%)	4245%	-40%	N/A	N/A
P/E (x)	30.9	34.5	(88.4)	36.1
P/B (x)	8.2	6.7	7.5	6.6
ROE (%)	31%	21%	-8%	19%
Dividend yield (%)	0.0%	0.3%	0.4%	1.0%



Source: Bloomberg, KB Securities Vietnam

Masan Group (MSN)

Pushed by consumer-retail ecosystem

December 12, 2023

Analyst Nguyen Truong Giang
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Revenue and GPM remained stable, but high interest expenses eroded NPAT-MI

In 3Q23, Masan Group (MSN) posted net revenue of VND20,155 billion (+3.2% YoY), gross profit margin (GPM) of 29.5% (up 90bps QoQ, up 170 bps YoY), driven by improved margin of core businesses like WCM and MCH. High financial leverage to grow and expand the business led borrowing costs to skyrocket in the period (up 55% YoY to VND1,745 billion). NPAT Pre-MI touched VND485 billion (-42% YoY), and NPAT-MI recorded VND48 billion (-91% YoY).

Companies in the consumer-retail ecosystem continued to achieve encouraging results

WCM, MCH, and MML, companies in the consumer-retail ecosystem, all achieved encouraging results. WCM maintained revenue growth momentum, with EBITDA margin constantly improving and many stores making profits, helping the entire chain to approach the breakeven point. MCH and MML enjoyed strong growth in many product categories, with improved profit margins thanks to falling input prices and optimization of inventory and logistics costs.

Improved cash flow and investment from Bain Capital will help to relieve MSN's liquidity pressure

MSN said it has repaid almost all its debt obligations due in 2023. Improved cash flow and an investment of USDVND250 million from Bain Capital will help to alleviate MSN's liquidity pressure in the coming time, given the total bond obligations maturing in 2024 of only VND6,000 billion.

We recommend BUY for MSN with a target price of VND78,600/share

We forecast MSN's 2023F net revenue of VND80,405 billion (+5.5% YoY) and NPAT-MI of VND589 billion (-58.7% YoY). As concerns about the business situation and liquidity pressure eased, we recommend BUY for MSN with a target price of VND78,600/share, equivalent to an expected return of 19%.

Buy maintain

Target price	VND78,600
Upside	19%
Current price (Dec 12, 2023)	VND66,200
Consensus target price	VND87,389
Market cap (VNDtn/USDtn)	89/3.7

Trading data	
Free float	45.6%
3M avg trading value (VNDbn/USDmn)	126/5.3
Foreign ownership	20.3%
Major shareholder	Masan Group (MSN) (31.2%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.0	-24.9	-15.6	-37.9
Relative	-6.1	-17.0	-17.0	-42.6

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	88,629	76,189	80,405	90,451
Operating income/loss (VNDbn)	11,273	5,223	2,205	5,874
NPAT-MI (VNDbn)	8,563	3,567	589	4,375
EPS (VND)	7254	2505	414	2929
EPS growth (%)	590%	-65%	-83%	608%
P/E (x)	10.4	24.9	150.8	20.3
P/B (x)	2.1	2.4	2.4	1.9
ROE (%)	30%	12%	5%	12%
Dividend yield (%)	1.9%	1.3%	1.6%	1.6%



Source: Bloomberg, KB Securities Vietnam

Phu Nhuan Jewelry (PNJ)

Back to growth trajectory

December 12, 2023

Analyst Nguyen Truong Giang
giangnt1@kbsec.com.vn

3Q23 business results neared the levels achieved last year on the slow recovery of purchasing power

For 3Q23, Phu Nhuan Jewelry (PNJ) generated net revenue of VND6,918 billion, down 6.1% YoY as purchasing power recovered slowly and remained softer than in the 3Q22 post-pandemic period. Gross profit margin (GPM) picked up 40bps YoY to 17.3% thanks to efforts to optimize costs and boost sales of high-value products. NPAT hit VND253 billion, flat YoY, helped by operations optimization.

Performance varied among business segments

Performance varied among business segments in the third quarter of 2023. In particular, retail sales only recorded VND4,054 billion (-13% YoY), and wholesale sales achieved VND621 billion (-38% YoY). Meanwhile, 24K gold sales brought about VND2,073 billion (+31% YoY) thanks to the increased purchases of gold bars among Vietnamese people during the economic slowdown.

The core retail segment showed positive signals

PNJ's retail sales dropped YoY but at a much smaller percentage than the entire industry. It was attributable to PNJ opening new stores and deploying many campaigns to gain new customers and retain old ones. In the first three quarters of 2023, the company could expand its coverage and maintain GPM growth simultaneously.

We recommend BUY for PNJ with a target price of VND92,200/share

We forecast PNJ's 2023 NPAT to achieve VND1,838 billion (+1.4% YoY) on net revenue of VND31,939 billion (-5.7% YoY). We recommend BUY for PNJ with a target price of VND92,200/share, implying a 15% upside compared to the closing price as of December 12, 2023.

Buy maintain

Target price	VND92,200
Upside	15%
Current price (Dec 12, 2023)	VND80,300
Consensus target price	VND92,575
Market cap (VNDtn/USDtn)	25.7/1.1

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	19,613	33,876	32,208	36,630
Operating income/loss (VNDbn)	1,305	2,338	2,389	2,753
NPAT (VNDbn)	1,033	1,811	1,886	2,173
EPS (VND)	4,161	7,358	7,662	8,828
EPS growth (%)	-3.4%	76.8%	4.1%	15.2%
P/E (x)	23.5	13.4	13.5	10.9
P/B (x)	4.0	2.9	2.6	2.2
ROE (%)	17%	25%	21%	21%
Dividend yield (%)	1.7%	2.5%	2.5%	2.5%

Trading data

Free float	82.7%
3M avg trading value (VNDbn/USDmn)	39.8/1.7
Foreign ownership	49%
Major shareholder	VIETFUND (9.16%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	4.6	-1.2	10.0	-1.7
Relative	1.2	9.2	8.3	-9.2



Source: Bloomberg, KB Securities Vietnam

Digiworld (DGW)

Growth slowing down

December 7, 2023

Analyst Nguyen Truong Giang
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DGW reported subdued business results due to weak purchasing power

Digiworld Corporation (DGW) posted VND5,413 billion in 3Q net revenue, decreasing 11% YoY due to the weakening purchasing power on the entire retail market. GPM rose 0.4ppts YoY to 7.1% as the company joined new industries with higher profit margins. NPAT went down 43% YoY to VND102 billion as lower revenue and higher costs to support retailers led to a decrease in net profit margin.

All product lines witnessed a decline like the whole retail industry

The purchasing power for most of products of DGW has declined as the trend on the whole industry. New product lines and brands that initially contributed to revenue of the company include Achison and ABInbev.

Prospects for recovery depend on the purchasing power and new product lines

Retail businesses have shown signs of bottoming out in profits, the demand is gradually recovering, and inventories have also returned to a relatively low level. However, the recovery speed will be quite slow, so the purchasing power should fully recover by the end of 2024. By continuously searching for new product lines and brands to diversify revenue with a different business model, DGW should soon improve its business performance, and the profit would not bear impacts as strong as other retailers.

HOLD recommendation – Target price VND56,800

We forecast 2023F NPAT of DGW will reach VND392 billion (–43% YoY) on net revenue of VND19,857 billion (–10% YoY) as the purchasing power slowly recovers and new products have not contributed as expected. We recommend HOLD for DGW shares with a target price of VND56,800.

Hold change

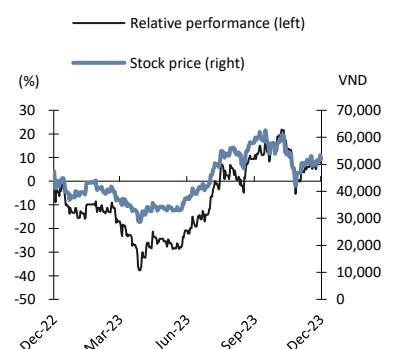
Target price	VND56,800
Upside	7%
Current price (Dec 7, 2023)	VND53,000
Consensus target price	VND53,400
Market cap (VNDtn/USDbn)	8.7/0.4

Trading data	
Free float	67.2%
3M avg trading value (VNDbn/USDmn)	99/4.1
Foreign ownership	25%
Major shareholder	Created Future (32.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	11.1	–11.9	38.9	18.2
Relative	7.2	–2.5	36.6	11.1

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net sales (VNDbn)	20,923	22,028	19,857	22,811
Operating income (VNDbn)	821	868	500	822
NPAT (VNDbn)	655	684	392	652
EPS (VND)	4,012	4,188	2,401	3,994
EPS growth (%)	145%	4%	–43%	66%
P/E (x)	13.4	12.8	22.4	13.5
P/B (x)	4.9	3.6	3.3	2.8
ROE (%)	45%	33%	15%	23%
Dividend yield (%)	1.5%	1.5%	1.5%	1.5%



Fisheries

Prudent targets for 2024

Exports decreased due to weak demand

In 2023, the fisheries export industry continued to decline compared to 2022. The main reasons are prolonged inflation and high interest rates that led to global economic slowdown and low purchasing power. In addition, the amount of inventory imported during and after Covid has not decreased much, the production scale of farming households has also shrunk, and the European Commission keeps the "yellow card" warning for Vietnam's fisheries exploitation. However, there have been signs of recovery in recent months, and the fisheries sector is expected to reach 92% of the full-year target.

Business results of fisheries enterprises decreased in 2023

Fisheries companies face inevitable impacts from the whole sector difficulties. For catfish exporting enterprises such as Vinh Hoan Corporation – VHC, Nam Viet Corporation – ANV, and I.D.I International Development & Investment Corporation – IDI, the speed of recovery in main export markets directly affects their business performance. For shrimp exporters such as Minh Phu Corporation – MPC and Sao Ta Foods – FMC, they are not only subject to lowering demand but also cope with fierce competition with cheap shrimp from Ecuador and India, leading to subdued results in 2023.

Prospects for a cautious recovery in 2024

For 2024, the fisheries sector set prudent targets, including total output of 9.22 million tons (flat YoY) and a turnover of USD9.5 billion (up 3% YoY but down 13% compared to 2022). The sector industry is unlikely to strongly grow again because of slow demand recovery in its main markets and increasingly fierce competition. Stocks of this sector are forecast to rebound from 2023 lows, but it will be difficult to achieve strong growth momentum. Investors can consider some outperformers with strong recovery or plans on increasing capacity like VHC and FMC from 2H24 with return target from 2025.

Neutral

 change

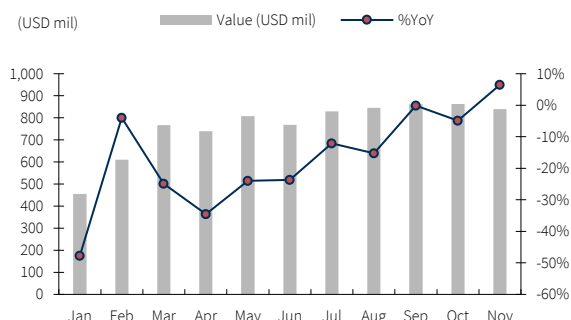
2023 business performance

Weak purchasing power in the main import markets affected the entire fisheries export industry

As expected, fisheries exports encountered difficulties right from the first months of 2023. At its peak in January 2023, fisheries export turnover fell 48% YoY, the following months except February also witnessed a decrease of 20–30% YoY. However, a recovery trend started from November 2023. According to VASEP, fisheries exports for the whole year 2023 are estimated at USD9.2 billion, reaching 92% of the plan (USD10 billion). The revenue was from the main products like shrimp (USD3.45 billion), catfish (USD1.9 billion), mollusks USD0.8 billion), and tuna (USD0.9 billion). According to statistics from the Vietnam Directorate of Fisheries, total fisheries production in 2023 is estimated at 9.269 million tons, rising 2% YoY. Of that, fisheries output from exploitation reached 3.861 million tons (flat YoY), and the farming output was more than 5,408 million tons (up 3.5% YoY).

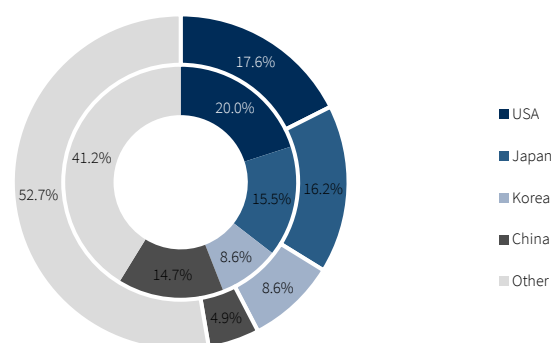
Regarding the export structure by market, 10M23 turnover from the US market had the sharpest decline of 32% YoY, China decreased by 15% YoY, and the remaining markets such as Japan, Korea, and the EU all fell by 10–20%. Some emerging markets showed growth, but their contribution is not significant. The decline in major markets strongly hit the business results of fisheries exporters.

Fig 1. Fisheries export 2023



Source: KB Securities Vietnam

Fig 2. Fisheries export market structure



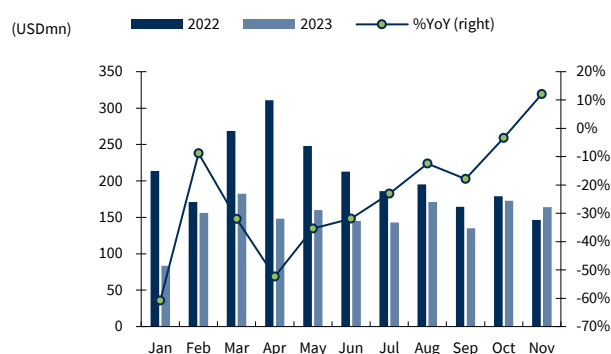
Source: KB Securities Vietnam

Key export industries are facing difficulties

Under the general impact of the economy, key commodities and the entire fisheries sector face certain difficulties, especially in the first half of 2023. According to VASEP, by the end of November, export turnover of catfish dropped 27.9% to USD1.6 billion. Low demand is the main reason, but an additional challenge for Vietnam's catfish industry is that many countries are investing and expanding catfish farming areas. This threatens Vietnam's position as an exclusive supplier of catfish. Due to weak demand and high supply, the prices of catfish for export failed to keep the high value as in 2022.

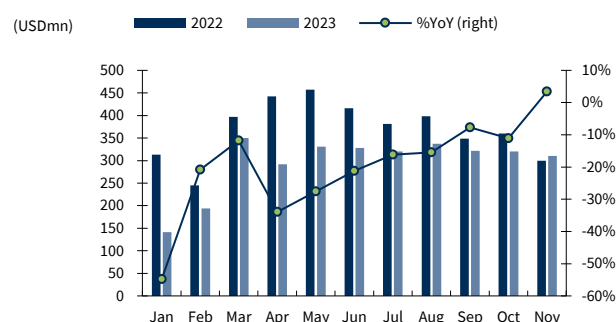
Difficulties also come to the shrimp export industry. Estimated shrimp exports by November 2023 decreased 22% YoY to USD3.15 billion. According to VASEP, Vietnam's shrimp exports in 2023 are expected to reach about USD3.4 billion, 21% lower than 2022's. Exports to most main markets are lower than the same period. In addition to weak demand and low orders, shrimp exports face strong competition from excess world shrimp supply, leading to reduced selling prices.

Fig 3. Vietnam – Catfish export turnover (USDmn)



Source: Agromonitor, KB Securities Vietnam

Fig 4. Vietnam – Shrimp export turnover (USDmn)



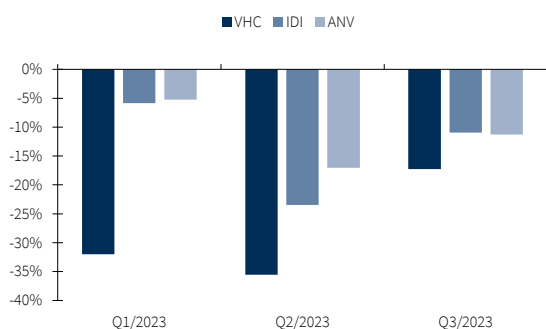
Source: Agromonitor, KB Securities Vietnam

Fisheries exporters are also affected like the whole sector

Catfish exporters (VHC, ANV, and IDI) all witnessed a decline due to sluggish demand. The level of decrease in each market varies. The decrease in export prices led to a decline in gross profit margins for most companies and a sharp decline in NPAT. Some companies even recorded losses.

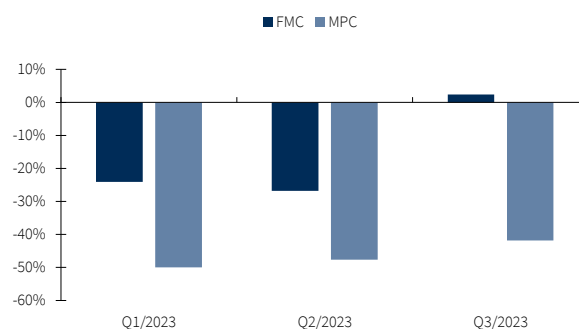
Stocks of shrimp exporters showed mixed movements, depending on the main market of each. MPC and many other shrimp exporters recorded a decline in revenue and profits due to reduced demand in main markets such as the US and EU and strong competition from Indian and Ecuadorian shrimp. A few companies, including FMC, still maintained their revenue and profits thanks to the main market, Japan, where (1) demand has not decreased too much, and (2) FMC's refined products meet the strict standards of this market.

Fig 5. Vietnam – Revenue growth of catfish exporters (%)



Source: KB Securities Vietnam

Fig 6. Vietnam – Revenue growth of shrimp exporters (%)



Source: KB Securities Vietnam

2024 outlook

The sector set prudent objectives for 2024

For 2024, the fisheries sector set prudent targets, including total output of 9.22 million tons (flat YoY) and a turnover of USD9.5 billion (up 3% YoY but down 13% compared to 2022). The sector industry is unlikely to strongly grow again because of (1) slow demand recovery in its main markets, (2) abundant supply, making it difficult for price hikes, and (3) increasingly fierce competition from other markets, urging local companies to improve product quality for higher export value and competitiveness.

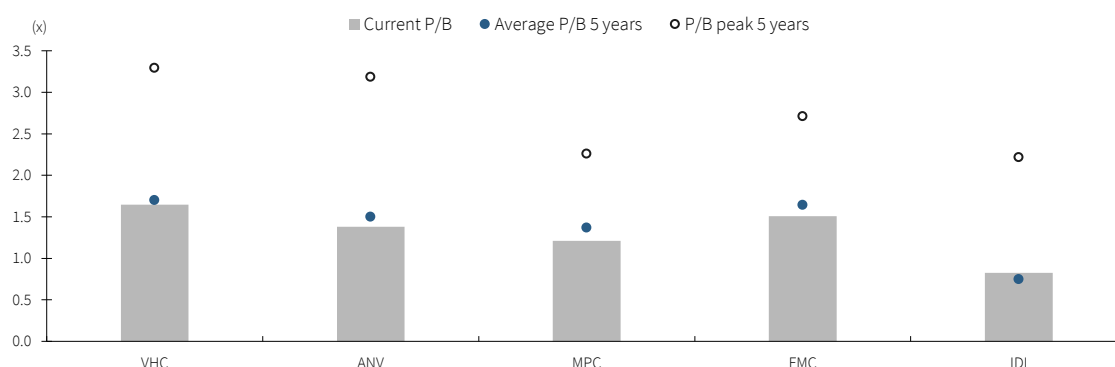
It is recommended to HOLD industry-leading stocks and follow stocks with their own catalysts

For the shrimp industry, it is forecast that shrimp supply from large countries such as Vietnam, Ecuador, and India will begin to shrink in 1H24 as people narrow farming areas due to losses. Demand should recover from 2H24, when inflationary pressures ease and inventories of importers decrease. With supply shrinking in major shrimp producing countries along and recovering demand, export shrimp prices are expected to bounce back in 2H24. For shrimp stocks, the expectation of recovery in the export markets will help the stocks recover in revenue and profits. A few stocks with their own catalysts can be followed. For example, after FMC completes the Tam An and Sao Ta 2 factories, its output will rise 26%, which will help the company benefit from rebounding demand and export prices.

For the catfish industry, it is forecast that inflation in main markets such as China and the US will cool down along with reduced inventories, which will promote consumption demand to recover from 2H24. Catfish stocks will recover, following the general trend of the sector. We give a hold recommendation for leading stocks such as VHC and ANV, expecting a recovery from 2H24 to help these stocks generate returns.

In terms of valuation, most fisheries stocks have posted gains reflecting expectations of recovery at the end of 2023. Currently, the P/B levels of all stocks are near the five-year averages. With the prospect of a cautious recovery in 2024, our ratings for fisheries stocks are NEUTRAL.

Fig 7. Vietnam – P/B of fishery stocks



Source: Bloomberg, KB Securities Vietnam

Logistics

Expecting recovery

The port throughput steadily recovered towards the end of 2023 despite being lower than 2022's

Container ports still faced many difficulties in 2023 due to world economic instability. Cargo output plunged from the end of 2022 and began to slowly recover from 2Q23. The recovery of port throughput comes from: (1) the low bases at the end of 2022 and (2) the continuous increase in the import-export turnover from April 2023. Since September, the turnover has recorded YoY growth, boding well for the port throughput.

Business performance of port operators slightly grew while maritime transporters saw multiple-time decreases compared to 2022

Most port operating businesses recorded flat or slightly decreased revenue YoY, but gross profit margin of port services improved because most port operators optimized costs to compensate for the decline in output. Meanwhile, the business results of shipping lines shrank due to lower rates and demand for freight transport.

Although the logistics sector has not yet completely recovered, growth prospects for 2024 are bright

We expect Vietnam logistics companies to maintain recovery momentum, supported by: (1) positive import and export prospects thanks to rebounding demand from the US and Chinese markets, (2) expected upward FDI capital, and (3) a potential 5-10% rise in port freight rates in 2024.

We maintain our NEUTRAL rating for ocean shipping companies, based on: (1) a modest gain in shipping output, (2) a potential growth in spot rates in the short term but lacking signs of recovery in the long term, and (3) stagnant vessel chartering due to concerns about oversupply.

Neutral

 maintain

Recommendations

GMD	BUY
Target price	VND81,800

HAH	BUY
Target price	VND48,600

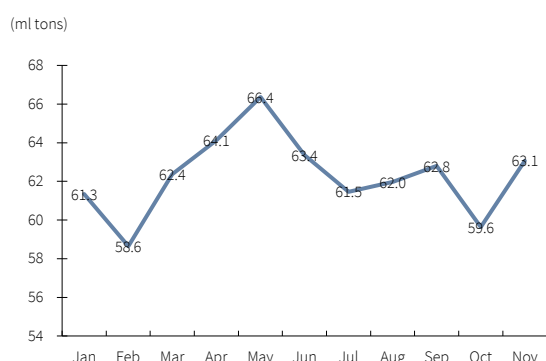
2023 business performance

Total container port throughput showed signs of recovery in 2H23 despite being lower than 2H22

According to statistics from the Vietnam Maritime Administration, the total output of goods through Vietnam's seaport system in 11M23 reached 694 million tons (+4% YoY). Of which, import output recorded 164 million tons (+1% YoY), export output reached 203 million tons (+7% YoY), and domestic transport output was 324 million tons (+4% YoY). Container cargo reached 22.6 million TEUs, down slightly by 1% YoY, the decline rate has slowed down significantly compared to the decrease of 3% YoY in 9M23 and 15% recorded in 1Q23.

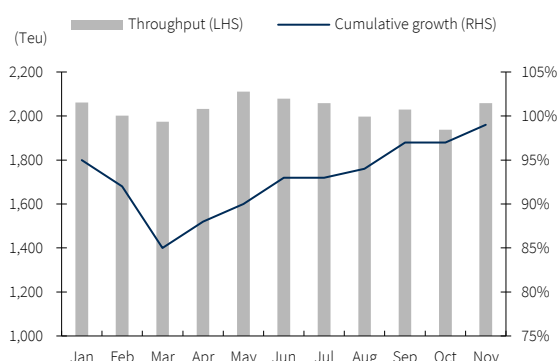
The recovery of port throughput comes from: (1) the low bases at the end of 2022 and (2) the continuous increase in the import-export turnover from April 2023. Since September, the turnover has recorded YoY growth, boding well for the port throughput.

Fig 1. Vietnam – Total cargo port throughput (million tons)



Source: Vietnam Seaports Association, KB Securities Vietnam

Fig 2. Vietnam – Total container port throughput (TEU)

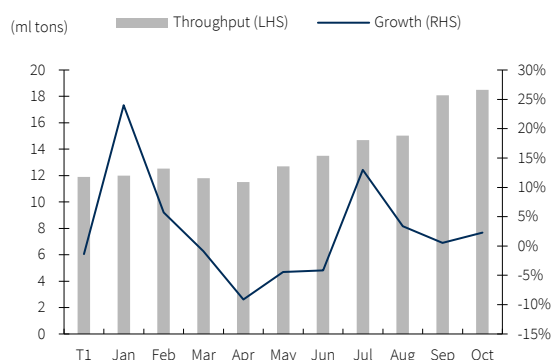


Source: Vietnam Seaports Association, KB Securities Vietnam

The cargo port throughput varied by region

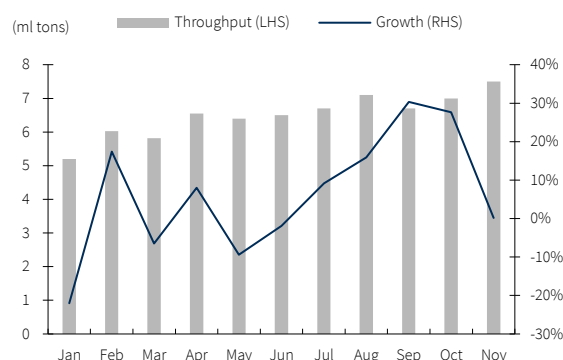
11M23 cargo port throughput in Cai Mep Thi Vai area port significantly gained compared to the Hai Phong area. The throughput in Hai Phong recorded 150 million tons (+0.6% YoY) while the port throughput of Cai Mep – Thi Vai area reached 69.5 million tons (+5.2% YoY). Looking back at the first six months of the year, the cargo port throughput in Cai Mep ports witnessed a steep fall 24% compared to a decrease of 5% in the North. The sharp decline in the first half of the year and the rapid improvement in the second half of the year of Cai Mep ports came from (1) changes in inventory and demand from the US main market (The inventory index at the beginning of the year was high as the country accelerated importing goods from 2022 due to concerns over supply chain disruption, leading to a decline in import demand. However, the inventory gradually returned to normal level at the end of the year) and (2) the difference in main customers (Ports in Hai Phong area mainly serve ships running intra-Asia routes which are subject to less fluctuations).

Fig 3. Vietnam – Cargo port throughput in Hai Phong (million tons)



Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Cargo port throughput in Cai Mep Thi Vai (million tons)



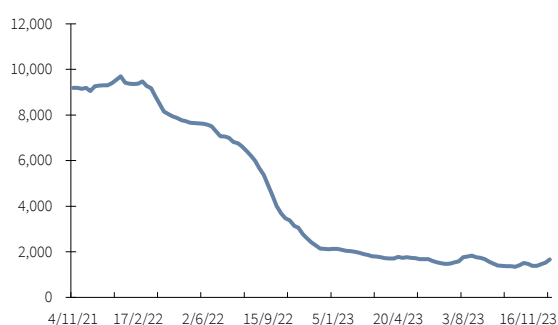
Source: General Statistics Office, KB Securities Vietnam

Freight rates saw sharp drops from 2022 before slightly recovering in the last two months of 2023

According to the Drewry world container index (WCI), spot freight prices continuously created new bottoms from the end of 2022 until October 2023, hitting USD1,342/40ft (-37% YTD), 6% lower than the pre-Covid average. The downward trend in freight rates resulted from (1) the decline in global consumer demand due to tightening monetary policy to control high inflation, especially from large markets like the US and Europe and (2) concerns about oversupply occurring as the number of new ships built from now to 2024 is large.

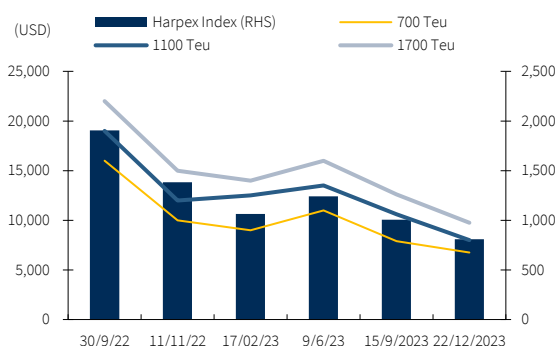
Recently, spot freight rates tend to rebound although they are still low, increasing by 23% within two months due to worries about a Red Sea tensions-led supply chain crisis.

Fig 5. Global – Drewry WCI (USD/40ft)



Source: General Statistics Office, KB Securities Vietnam

Fig 6. Global – HARPEX for small vessels (USD)



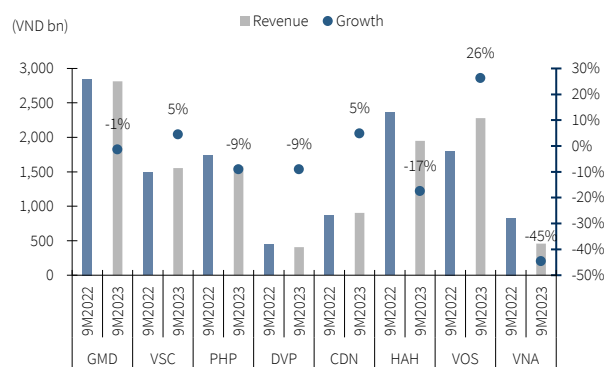
Source: General Statistics Office, KB Securities Vietnam

Business results of port and shipping enterprises are different

Business performance of port operators slightly grew while maritime transporters saw multiple-time decreases compared to 2022. Most port operating businesses recorded flat or slightly decreased revenue YoY because (1) the cargo port throughput started to rebound from 2H23, but the recover speed was still slow. The total cargo output is lower than the same period in 2022. (2) The increase in port service rates is not significant due to fierce competition in the Hai Phong port cluster. However, the gross profit margin of port services improved since most port operators optimized costs to compensate for the decline in output, hence flat or modestly increased NPAT. The exceptions are Gemadept (GMD), which grew strongly thanks to extra profit, and Viconship (VSC), which recorded negative growth of 64% due to skyrocketing interest costs.

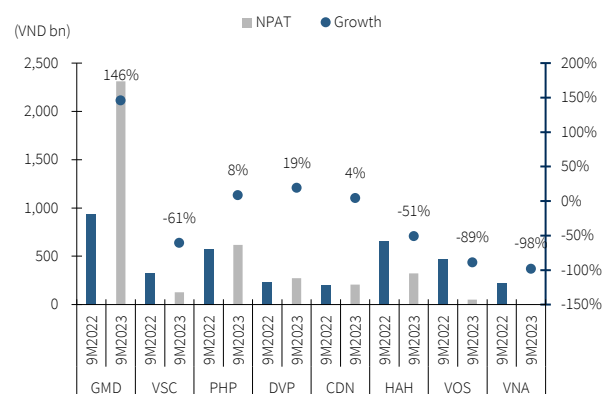
Meanwhile, the business results of shipping lines saw multiple-time falls compared to 2022 as (1) spot freight rates have been dropping to three-year lows since late 2022. (2) The comparative bases in 1H22 when the business results of shipping lines peaked. (3) Most vessels leased for high rates in 2022 have been unoccupied in 2023 and not received new charter contracts due to oversupply. (4) Time charter rates for container ships have been plunging since the end of 2022 and creating new bottoms.

Fig 7. Vietnam – Revenue growth of logistics businesses (%)



Source: Financial statements, KB Securities Vietnam

Fig 8. NPAT – NPAT growth of logistics businesses (%)



Source: Financial statements, KB Securities Vietnam

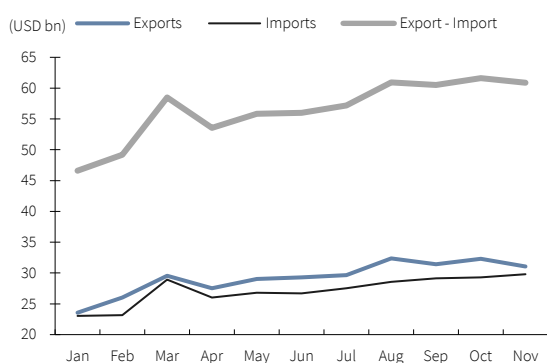
2024 outlook

Despite challenges ahead, we expect total port throughput to recover in 2024

In 2024, the logistics sector is expected to face many difficulties due to the influence of world economic instability, however we expect the port throughput of Vietnam to be positive thanks to:

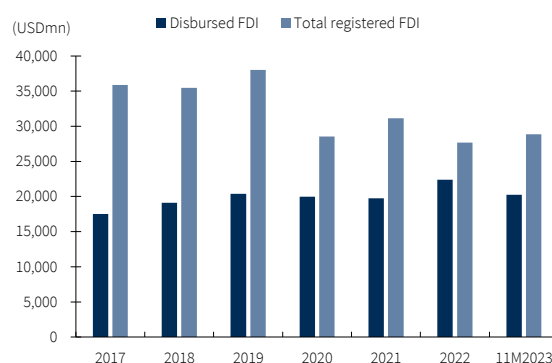
- Import-export turnover should maintain its growing momentum despite being at a low speed. The main driving force, according to a report by Maersk, comes from the recovery of consumption in the US and China. The inventory index in the US has returned to normal levels after remaining at a high level at the beginning of the year. Order cuts due to high inventory will end, so although the recovery in consumption is not significant, the sector will record large growth in output for 2024, especially in the first half of the year, which had 1H23 lows in comparison.
- FDI is also on the rise again, with Vietnam participating in many trade agreements and signing bilateral cooperation documents with Korea, the US and China recently. This shows Vietnam's potential in international trade in the near future.
- The government's active support in disbursing public investment, consolidating regional port systems, and building port connection infrastructure will help businesses increase their competitive advantages, attracting more trade partners, and optimizing business operational capacity.

Fig 9. Vietnam – Import & export turnover in 2023 (USDbn)



Source: General Statistics Office, KB Securities Vietnam

Fig 10. Vietnam – Newly registered and realized FDI (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Port service rates should increase by at least 5–10% in 2024

Port freight rates have gained 3 – 10%/year in recent years, depending on each service item. We expect the increase to continue to remain at a minimum of 5–10% in 2024, based on:

- Port service rates in Vietnam are much lower than other countries in the region. Vietnam's port freight rates are 30% lower than Singapore, 60% lower than Thailand, and 35% lower than China. The gap is even bigger for deep-water ports. This shows that there is still a lot of room for increasing domestic port service rates.
- The competition that has lasted for many years in the Hai Phong port area tends to ease, and price competition becomes less fierce. In the next three to four years, only Nam Dinh Vu 3 and HITC's deep-water ports will be put into use in Hai Phong, while most upstream ports are in the process of changing their purpose of use due to reduced competitiveness, leading to a reduction in the number of ports operating in Hai Phong.
- The draft to replace Circular 54/2018/TT-BGTVT is expected to be applied from early 2024 and have a positive impact on port freight rates. Accordingly, the draft to increase the rates of container handling services from January 1, 2024. Specifically, the domestic loading and unloading service rates are proposed to increase by 8 – 10% compared to the old rates, and the minimum import and export container loading and unloading rate should be raised by 10%. The draft Circular also has separate regulations on container loading and unloading service rates for deep-water ports. For terminals and ports that receive ships of 160,000 DWT or larger, businesses are allowed to apply a container loading and unloading rate frame equal to 110% of the prescribed frame. Enterprises that own green ports and deep-water ports will benefit the most if the draft is passed.

The growth prospects of maritime transporting businesses are unclear

We maintain our NEUTRAL rating to maritime transporters because:

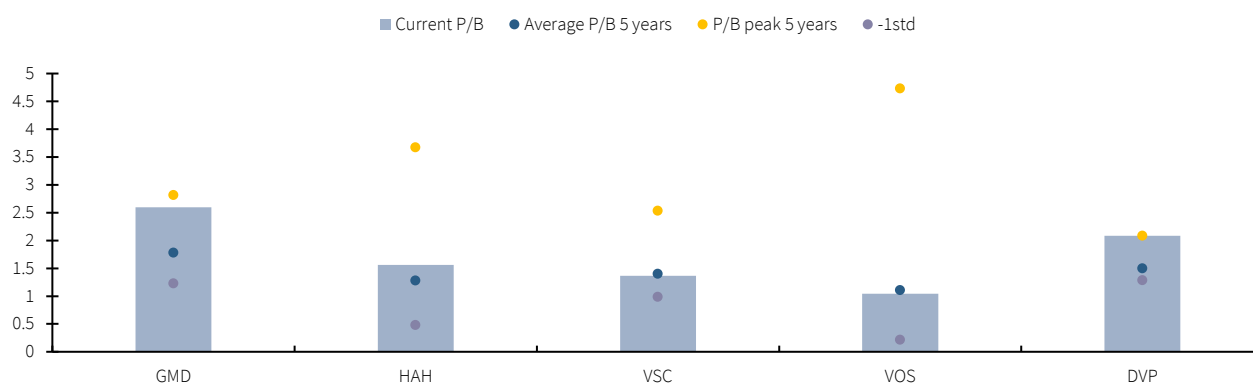
- The shipping output has shown no clear signs of recovery. However, with positive expectations on import and export output thanks to better demand from major economies such as the US and China, the output should record modest gains.
- Spot freight rates in 2023 dropped lower than the average pre-Covid rate, increasing expectations that they have bottomed out and will recover in 2024. Spot freight rates started to recover in the last two months of 2020 thanks to the Red Sea tensions. Concerns about supply chain crises are expected to push up freight rates in the short term. However, long-term ship charter rates are still at a low level, showing that the world still has no expectation of a long-term recovery of the shipping industry.
- The market for self-operated vessels and time charters may also be affected by concerns about oversupply as the number of newly built ships being delivered is increasing while transport demand has not really recovered.

We maintain our NEUTRAL rating to logistics businesses

Business results of port operators in the coming time will be differentiated. As stated above, port-owning enterprises in the Cai Mep – Thi Vai area will have the strongest recovery compared to Northern ports and Ho Chi Minh City due to the low base levels in the first half of 2023 and a clear change in the US inventory. Large businesses will also benefit the most when the draft replacing Circular 54 takes effect as the highest price increases are applied to green ports and deep-water ports. We think GMD will maintain strong and stable growth in the coming time.

Regarding the group of shipping stocks, we maintain our NEUTRAL assessment on the industry's growth prospects when (1) freight prices are still lower than the pandemic, recovery is not significant and there is no clear growth motivation in the near future, (2) ship rental prices are continuing to create new bottoms due to declining transport demand and increasing concerns about oversupply when newly built ships arrive. Business results of shipping businesses have not shown signs of recovery, investors should only consider investing in stocks with solid fundamentals such as HAH and VOS when the stocks are at attractive prices.

Fig 11. Vietnam – P/B of logistics stocks (x)



Source: Bloomberg, KB Securities Vietnam

Gemadept (GMD)

Positive outlook in the year-end period

December 7, 2023

Analyst Nguyen Thi Ngoc Anh
anhntn@kbsec.com.vn

GMD achieved 3Q23 NPAT of VND338 billion (+18% YoY) on net revenue of VND998 billion (+1% YoY)

GMD's total port throughput has risen since early 2023 though it remained lower YoY

GMD's port service charges have remained unchanged after a round of increase in early 2023 and may advance 5–10% in 2024

In November 2023, GMD approved a resolution on Nam Hai Port JSC divestment

We recommend BUY for GMD with a target price of VND81,800/share

Buy maintain

Target price	VND81,800
Upside	16.2%
Current price (Dec 7, 2023)	VND70,400
Consensus target price	VND86,000
Market cap (VNDtn/USDmn)	21.5/887

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	3,206	3,916	3,991	4,697
Operating income/loss (VNDbn)	861	1,357	3,458	2,010
NPAT-MI (VNDbn)	612	995	2,581	1,487
EPS (VND)	1,869	3,037	8,563	4,935
EPS growth (%)	63%	62%	182%	-42%
P/E (x)	24.3	23.2	8.2	14.3
P/B (x)	2.0	1.7	2.1	1.9
ROE (%)	10.2%	14.6%	27.3%	15.5%
Dividend yield (%)	2.0%	2.0%	2.8%	0%

Gemadept Corporation (GMD) recorded 3Q23 revenue of VND998 billion (+1% YoY). In particular, port operations remain the core business, contributing VND780 billion or 78% of total revenue. For 9M23, GMD achieved NPAT of VND2,310 billion (+145% YoY) on revenue of VND2,812 billion (-1% YoY).

GPM's total port throughput has increased steadily since early 2023, although it remained lower than in the same period last year. The recovery trend may continue in the near term as (1) the upward momentum of import-export turnover, supported by rising consumer demand in the US and Europe, (2) new shipping routes docking at GMD's ports, and (3) GMD's efforts to enhance operational efficiency, strengthening its leading position in the port industry.

After a round of increase in port service prices at the beginning of 2023, GMD has had no new price updates. These fees should advance 5–10% early next year. The percentage of increase will be higher following the approval of the draft circular replacing Circular 54/2018/TT-BGTVT on raising seaport service charges.

In early November, GMD announced a resolution on selling all stakes at Nam Hai Port JSC. Proceeds from this deal can help GMD focus on expanding Nam Dinh Vu and Gemalink.

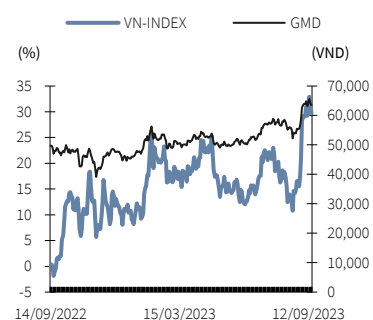
Based on business prospects and valuation results, we recommend BUY for GMD with a target price of VND81,800/share, equivalent to a 16.2% upside.

Trading data

Free float	90%
3M avg trading value (VNDbn/USDmn)	99.2/4.08
Foreign ownership	48.89%
Major shareholder	SSJ Consulting Co., Ltd (9.7%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	7	14	45	51
Relative	6	23	44	49



Source: Bloomberg, KB Securities Vietnam

Hai An Transport (HAH)

Diversifying container routes

September 21, 2023

Analyst Nguyen Thi Ngoc Anh
anhntn@kbsec.com.vn

In 2Q23, HAH recorded net revenue of VND611 billion (-34% YoY) & net profit of VND80 billion (-75% YoY)

Ship operations may not rebound in 2023 on weak logistics demand and freight rates hitting rock bottom with no signs of recovery

HAH ordered three new ships with an expected investment of as much as VND2,000 billion

Port operation will remain a stable income for HAH amid a challenging container shipping market

We recommend BUY for HAH with a target price of VND48,600/share

Buy maintain

Target price	VND48,600
Upside	23%
Current price (Sep 21, 2023)	VND39,500
Consensus target price	VND34,600
Market cap (VNDbn/USDmn)	4,168/171

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	1,955	3,206	2,627	2,718
EBIT (VNDbn)	642	1,300	512	707
NPATMI (VNDbn)	446	822	337	464
EPS (VND)	8,750	11,306	3,190	4,395
EPS growth (%)	220%	29%	-72%	38%
P/E (x)	3.7	3.5	12.4	9.0
P/B (x)	1.7	0.8	1.5	1.4
ROE (%)	28.9%	36.1%	12.7%	15.4%
Dividend yield (%)	2%	2%	8%	3%

In 2Q23, Hai An Transport & Stevedoring (HAH) recorded net revenue of VND611 billion (-34% YoY), with reduced contributions from port and ship operations due to 2Q22's high base coupled with shrinking demand and freight rates. 2Q23 NPAT neared VND80 billion (-75% YoY). Thus, in 1H23, HAH obtained net revenue and NPAT of VND1,267 billion and VND216 billion, respectively, equaling 43% and 44% of the full-year revenue and profit target, respectively.

We expect profits of self-operated and charter vessels to remain low towards the end of 2023. Logistics demand has shown no improvements while the world economy remains unstable, and freight rates continue to anchor at low levels due to (1) weak logistics demand and (2) oversupply concerns on rising new ships.

HAH owns an 11-vessel fleet with a total capacity of nearly 16,000 TEUs. The company plans to further expand its fleet when ordering three new Bangkok Mark ships of 1,700 TEUs. HAH can expect its first newly built ship this November.

Throughout 2023, port operation should remain a stable income for HAH thanks to cargo volume from its own fleet as well as SM Lines. Moreover, port charges enjoyed upward revisions for some services.

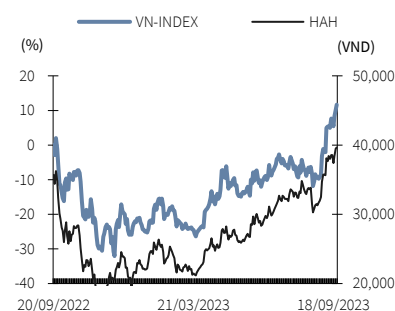
Based on business prospects and valuation results, we recommend BUY for HAH with a target price of VND48,600/share, equivalent to a total return of 23% compared to the closing price on September 21, 2023.

Trading data

Free float	87.3%
3M avg trading value (VNDbn/USDbn)	90,686/3.72
Foreign ownership	4.51%
Major shareholder	Hai Ha Investment & Transport (14.5%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	31	-10	23	-26
Relative	28	-19	6	-25



Source: Bloomberg, KB Securities Vietnam

Industrial real estate

Bright outlook for 2024

Industrial park rents continued to grow, and occupancy rates remained high

In 3Q23, the average occupancy rate of industrial parks in Northern and Southern provinces was 80.2% and 91.8%, respectively. Industrial land rents continued to increase in both the North and the South thanks to high demand. In the quarter, the average rent for the tier-1 markets reached USD131/m²/remaining term (+12% YoY) in the North and USD189/m²/remaining term in the South (+13% YoY).

Gross profit margins of industrial parks tended to improve in 9M23

Land rental revenue of most industrial park operators decreased YoY in 2023 due to legal-issues-caused slow handover progress. However, businesses with large clean leasable land banks such as Kinh Bac City Development (KBC) and Sai Gon VRG Investment Corporation (SIP) recorded strong growth in 2023. However, GPM of industrial parks all expanded YoY thanks to an 8-13% rise in the average rent, compared to 2022.

The supply of new land in the South is expected to remain limited, while the supply in the North is more abundant

Industrial land supply in the South should remain limited in 2024 and only rise by 200-300ha, mainly in Long An province. The supply of industrial parks in the North will be more positive as the current occupancy rates in the Northern provinces are just above 80% (while in the South it is 92%). New industrial park land for lease in 2024 is projected to reach 400-500ha.

We assess the overall outlook of the industrial real estate sector would be POSITIVE in 2024

Despite general difficulties of the economy and the lack of clear signs of recovery, industrial parks still have strong growth potential, coming from (1) rising FDI inflows, reflecting high demand for industrial park land; (2) promoted investment in infrastructure, and (3) a likely increase of 6-12% in industrial park rents in 2024.

Positive maintain

Recommendations

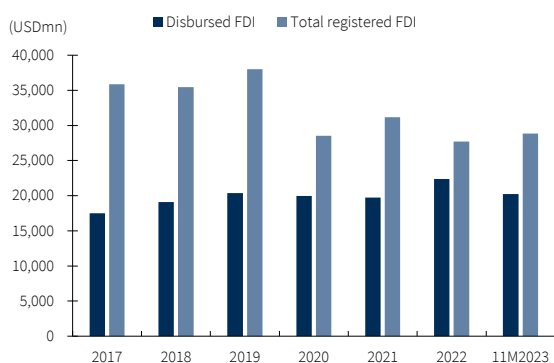
KBC	BUY
Target price	VND39,300
GVR	BUY
Target price	VND26,700
PHR	BUY
Target price	VND55,800

2023 business performance

11M23 FDI into Vietnam was USD28.85 billion (+14.8% YoY)

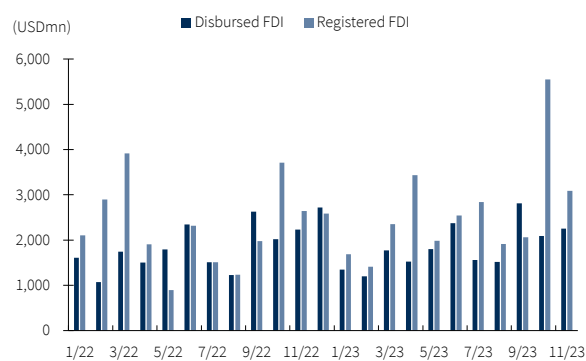
After a period of stagnation earlier in 2023, FDI capital into Vietnam has returned to strong growth. The total newly registered capital, adjustments and contributed capital and share purchases by foreign investors reached VND28.85 billion (+14.8% YoY) in 11M23. Of which, the total newly registered capital hit VND16.4 billion (+42.4% YoY), and the number of new projects granted investment certificates recorded 2,865 projects (+58.1% YoY).

Fig 1. Vietnam – Registered and realized FDI (USDmn)



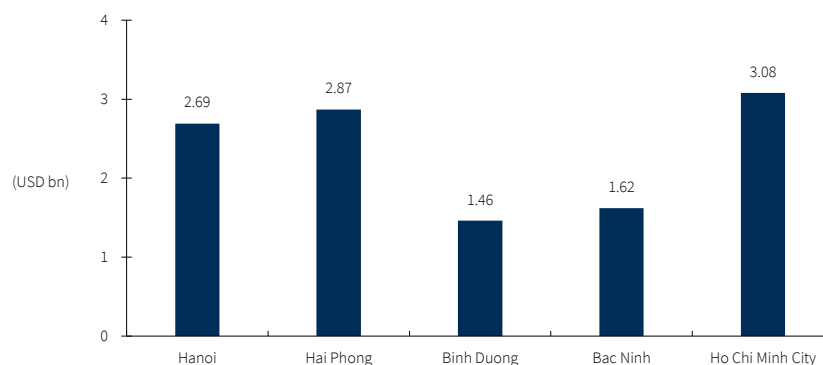
Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – Registered and realized FDI by month (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Fig 3. Vietnam – Foreign investment in some localities (USDbn)



Source: General Statistics Office, KB Securities Vietnam

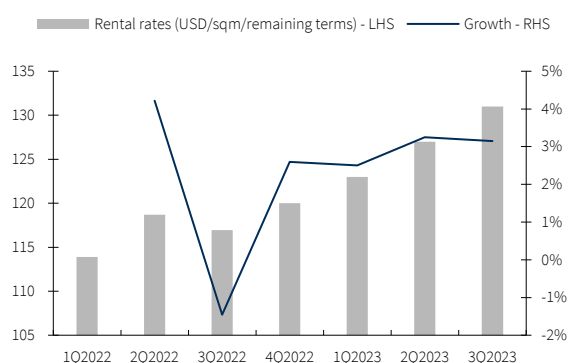
Industrial park rents continued to grow, and the occupancy rates are high

A report by CBRE said the average occupancy rate of industrial parks in tier-1 Northern and Southern provinces was recorded at 80.2% and 91.8%, respectively. The total absorbed land area across the country in 9M23 was 1,180 ha, higher than the absorption level of the whole of 2022.

- The Northern region: The market continues to record large transactions from tenants manufacturing plastics, textiles, and contact lenses. The total land area leased reached more than 700ha.
- The Southern region: Industrial land area leased was 480ha. Customers are mostly Chinese and Japanese companies majoring in mechanics, chemicals, plastics, rubber, and electronics.

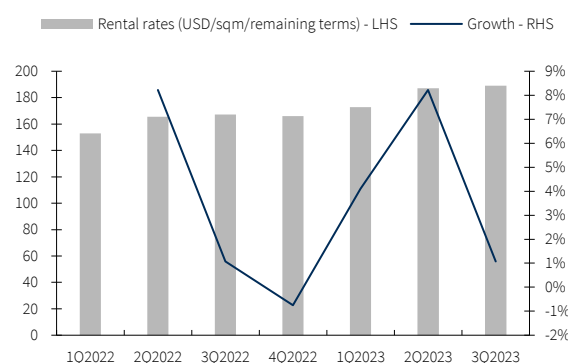
Industrial land rents rose further in both the North and the South thanks to positive demand. In 3Q23, the average rent for the tier-1 markets reached USD131/m²/remaining term (+12% YoY) in the North and USD189/m²/remaining term in the South (+13% YoY).

Fig 4. Vietnam – Average industrial park rent in Northern tier-1 provinces (USD/m²/remaining term)



Source: CBRE, KB Securities Vietnam

Fig 5. Vietnam – Average industrial park rents in Southern tier-1 markets (USD/m²/remaining term)



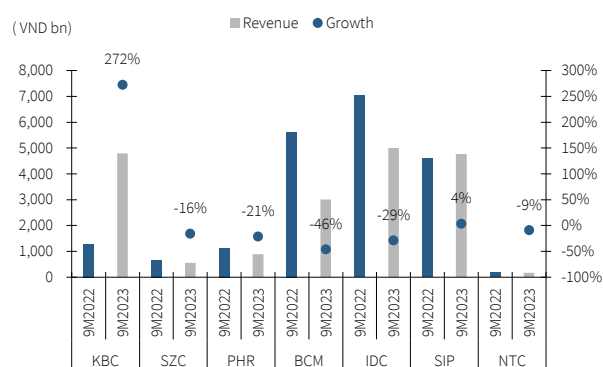
Source: CBRE, KB Securities Vietnam

The business results of industrial parks in 9M23 are differentiated, but they all posted positive gross profit margins

Although the number of signed MOUs from 2022 tends to increase, the slower speed of land handover than expected has burdened the business results of most industrial parks with (1) prolonged certificate granting process and (2) slow land allocation due to problems related to legal procedures, the approval progress of industrial park projects and site clearance. Therefore, land rental revenue of most industrial park businesses recorded writedowns in 2023. Meanwhile, businesses with large clean land banks ready for lease such as KBC and SIP were outperformers.

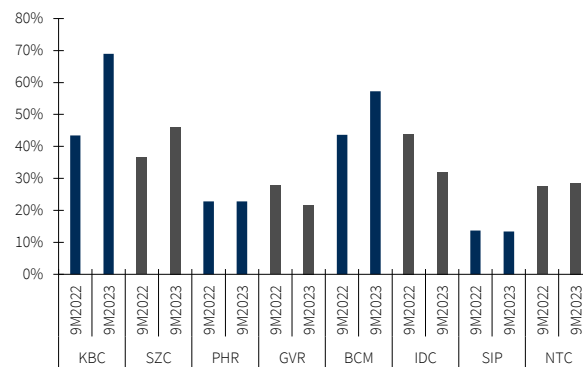
However, GPM of industrial parks all expanded YoY thanks to an 8-13% rise in the average rent, compared to 2022 (except for the decrease in gross margin of GVR due to the surging proportion of revenue from rubber segment). However, net interest margins were lower than 2022's because of increased interest and business management costs.

Fig 6. Vietnam – Revenue growth of industrial parks (%)



Source: Financial statements, KB Securities Vietnam

Fig 7. Vietnam – GPM of industrial parks (%)



Source: Financial statements, KB Securities Vietnam

2024 outlook

The outlook for 2024 is positive

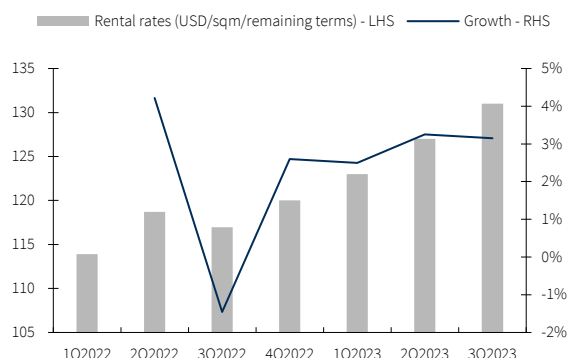
In the context of general economic difficulties with no clear signs of recovery, the industrial real estate sector still has great growth potential from:

- Vietnam is still an attractive destination for FDI capital thanks to (1) the trend of production base relocation from China, (2) many signed free trade agreements and good trade relationship with the US, Korea and China (shown in strategic cooperation documents signed in the second half of 2023). Registered and disbursed FDI capital is gaining, showing the long-term growth potential of the industrial park sector in Vietnam.
- Large corporations come to Vietnam, implying strong demand for industrial park land, specifically from customers trading in electronics in the North (2023 witnessed expansion from large manufacturers such as Foxconn and Goertek in Bac Giang and Bac Ninh) and more diverse fields (car manufacturing, garment and packaging) in the South. Some major capital increases in 2023 included LG Innotek being granted a certificate of investment registration to increase capital by USD1 billion and Far Eastern Polytex planning to raise investment capital by USD250 million in a project in Binh Duong. Demand for industrial park land maintains growth momentum, ensuring that the land absorption rate remains at a positive level.
- Vietnam is the country with the strongest commitment to infrastructure investment in the region. Transport infrastructure construction projects that are being promoted by the Government such as the North-South expressway, Ring Road 4 in Hanoi, maritime port and airport projects will enhance the attractiveness of industrial parks to many investors and benefit the sector in the long term.

Land supply is limited in the South but stable in the North

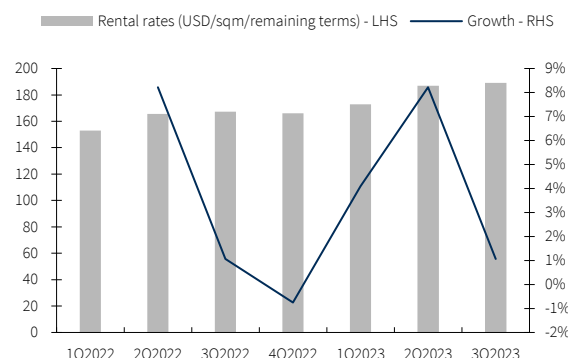
In the Southern region, new land supply in 3Q23 only recorded an additional 171ha from Nam Tan Tap Industrial Park. The supply is expected to remain limited in 2024 and estimated to only increase by 200–300ha, mainly in Long An province. The supply of industrial parks in the North will be more positive as the current occupancy rates in the Northern provinces are just above 80% (while in the South it is 92%). New industrial park land for lease in 2024 is projected to reach 400–500ha. With lower rents and more abundant land supply, combined with the advantage of location near China, industrial park enterprises with leasable landbank in the North should record perform well in the near future. .

Fig 8. Vietnam – Occupancy rates in Southern provinces (%)



Source: CBRE, KB Securities Vietnam

Fig 9. Vietnam – Occupancy rates in Northern provinces (%)



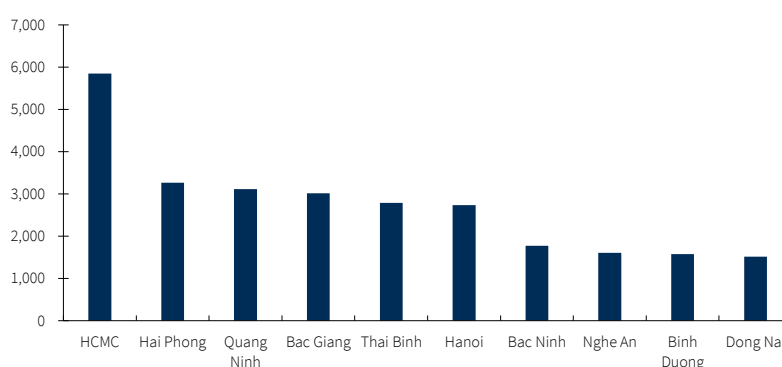
Source: CBRE, KB Securities Vietnam

Industrial park rents are projected to continue to climb by 6–12% in 2024, so tenants start to search for cheaper choices in tier-2 provinces

KBSV forecasts that in the next two years, industrial land rents will climb 6–10%/year in the Northern region and 7–12%/year in the South thanks to (1) strong demand from many industry groups and countries and (2) a slow increase in land supply, especially in tier-1 markets. Due to the current high rents, many businesses tend to choose industrial parks in tier-2 provinces, where the land area available for lease is larger, and the rents are 10 – 30% cheaper. Furthermore, the infrastructure connecting tier-2 and tier-1 provinces are increasingly invested for improvement.

FDI capital tends to flow into both tier-1 and tier-2 provinces, showing the attractiveness of the industrial park land market. In the chart, tier-2 provinces include Quang Ninh, Thai Binh and Nghe An.

Fig 10. Vietnam – Top 10 cities and provinces with the largest FDI attraction (USDmn)



Source: General Statistics Office, KB Securities Vietnam

Tax incentives will no longer be effective when the global minimum tax comes into effect in Vietnam from 2024

On November 29, the National Assembly passed a resolution on the application of global minimum tax (GMT) from January 1, 2024. The tax rate is set at 15%, applicable to multinational enterprises (MNEs) with total consolidated income globally from EUR750 million in at least two years of the last four consecutive years. It is estimated that about 122 MNEs investing in Vietnam (with more than 1,000 related businesses) will be affected.

- The application of the GMT will remove the tax incentives of foreign companies when investing in Vietnam. In the previous years, foreign corporations enjoyed many tax incentives such as tax exemptions and reductions in the first years of investment in Vietnam. These tax incentives help reduce FDI CIT to 12.3% or even 3–6%.
- However, we assess that the impact of the GMT on FDI capital flows into Vietnam in the short term are not worrying. FDI pouring into Vietnam is expected to continue its recovery from 2H23, ensuring growth potential for the industrial park in the coming time. Policies on investment support funds, building a healthy business environment and new preferential policies to replace tax incentives are being developed by the National Assembly and are expected to be completed in 2024.

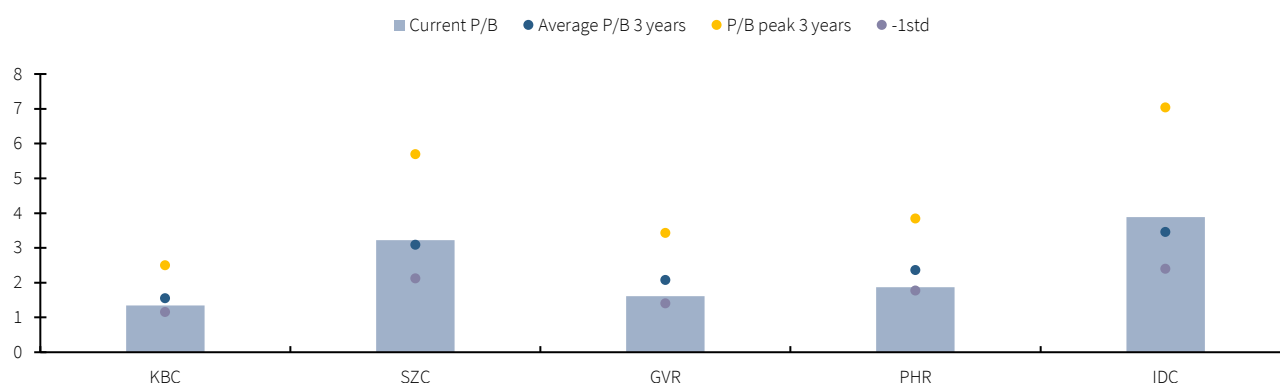
We give a POSITIVE rating to the industrial real estate sector in 2024

We give a POSITIVE rating to the industrial real estate sector in 2024, based on recovering FDI, strong demand, and rising rents.

We appreciate stocks with large leasable landbank such as KBC, IDC, and Sonadezi – SZC, especially when the supply shortage will prolong. KBC owns a large landbanks and is expected to soon put Trang Due 3 (687ha) into operation. SZC has an advantage with a landbank of more than 560ha and competitive price of Chau Duc Industrial Park (much lower than the average in Ba Ria – Vung Tau area). IDC currently has more than 700ha of land ready for leasing and attractive dividend yields.

Most stocks in the industrial real estate sector have made multiple-time increases compared to the bottoms at the end of 2022 but are 24 – 40% lower than the peak in 2021. Long-term investors can consider KBC, IDC, and SZC, which have strong growth potential and healthy financial status. For other stocks, investors should only open positions when the business has more attractive stories, and the stock price adjusts to a deeper level.

Fig 11. Vietnam – Three-year P/B of industrial park stocks (x)



Source: Bloomberg, KB Securities Vietnam

Kinh Bac City (KBC)

Long-term growth coming from Trang Due 3

December 14, 2023

Analyst Nguyen Thi Ngoc Anh
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9M23 NPAT achieved VND2,086 billion (-2% YoY) on revenue of VND4,798 billion (+272% YoY)

IP land sales will less likely touch the level seen in early 2023 but remain positive in the near term and should record 50 ha unbilled backlog

Trang Due 3 received approval for the construction zoning planning of 1/2000 scale and should have legal procedures completed in 1H24

We recommend BUY for KBC with a target price of VND39,300/share

For 9M23, Kinh Bac City Development Holding (KBC) obtained VND2,086 billion (-2% YoY) in NPAT on revenue of VND4,798 billion (+272% YoY) thanks to recording IP land sales of up to 132 ha. Thus, KBC fulfilled 52.2% and 54% of the full-year objectives for earnings and revenue, respectively.

IP land sales will remain positive on the back of (1) IP land handovers should increase in the coming quarters thanks to signed memorandums of understanding (MOUs), sizeable commercial land available for lease, and growing demand for IP land rentals following the recovery of FDI flows into Vietnam and (2) leasing prices are expected to enjoy a 6-10% increase per annum over the next two years.

In November 2023, the Hai Phong City People's Committee approved the construction zoning planning of 1/2000 scale for the Trang Due 3 IP project. With the current progress, especially with the urge to speed up the progress of the Committee, Trang Due 3 is expected to have legal procedures completed and commence construction in 1H24, significantly improving IP land sales right after the project launch.

Based on business prospects and valuation results, we maintain our BUY recommendation for KBC. The target price is VND39,300/share, 25% higher than the closing price of VND31,450 on December 13, 2023.

Buy maintain

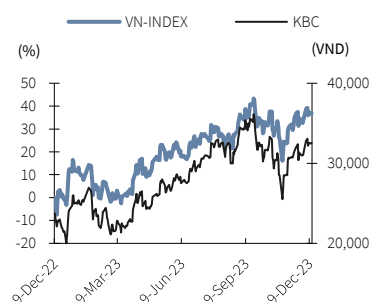
Target price	VND39,300
Upside	25%
Current price (Dec 13, 2023)	VND31,450
Consensus target price	VND36,100
Market cap (VNDbn/USDmn)	24,141/995

Trading data	
Free float	75%
3M avg trading value (VNDbn/USDmn)	281/11.6
Foreign ownership	21.64%
Major shareholder	Mr. Dang Thanh Tam (18.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	6	-6	18	37
Relative	3	3	17	37

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	4,246	957	6,158	4,148
NPAT (VNDbn)	954	1,596	2,393	1,547
NPAT-MI (VNDbn)	782	1,547	2,154	1,393
EPS (VND)	1,586	2,019	2,806	1,814
EPS growth (%)	232%	27%	39%	-35%
P/E (x)	15.3	15.6	11.2	17.3
P/B (x)	2.2	1.0	1.3	1.2
ROE (%)	5.9%	8.9%	12.7%	7.6%
Dividend yield (%)	0.7%	0.4%	0.7%	0.0%



Source: Bloomberg, KB Securities Vietnam

Phuoc Hoa Rubber (PHR)

Great potential from Nam Tan Uyen 3 & VSIP III

September 28, 2023

Analyst Nguyen Thi Ngoc Anh
anhntn@kbsec.com.vn

PHR recorded 2Q23 net revenue of VND111 billion (-55% YoY) and NPAT of VND127 billion (+127% YoY)

In 2Q23, Phuoc Hoa Rubber (PHR) earned VND111 billion in net revenue (-55% YoY). Specifically, rubber revenue fell sharply by 56% YoY to VND98 billion, while IP revenue rose slightly to VND21 billion. PHR posted 2Q23 PBT of VND154 billion (+133% YoY) on old rubber tree liquidation. Halfway through the year, the enterprise completed 34% and 79% of full-year revenue and earnings targets.

PHR's rubber segment revenue may decrease dramatically YoY on (1) waning demand and (2) rubber prices much lower than 2022

The rubber industry is expected to recover slightly against 1H23 on (1) growing rubber demand in major markets, especially China and (2) rubber prices following global price increases thanks to rising demand and oil prices and high oil price expectations. However, for 2023F, PHR's rubber revenue may still decrease as year-end recovery cannot offset a steep fall in 1H23.

PHR owns sizeable rubber land bank available for conversion, ensuring long-term growth potential

PHR owns over 15,000 ha of rubber land and has a conversion plan for 6,000 ha. Due to complicated legal procedures, PHR is focusing on speeding up progress for Tan Lap 1 and Tan Binh expansion in order to launch them in 2025 – 2026.

Nam Tan Uyen 3 and VSIP III may generate steady high cash flow for PHR from 2024

Nam Tan Uyen 3 and VSIP III may generate steady high cash flow for PHR from 2024 when (1) Nam Tan Uyen received land handover in 2Q23 and is rushing to complete it to put it into operation from 2024, and (3) VSIP III should complete infrastructure construction to be available for rent next year.

We recommend BUY for PHR with a target price of VND55,800/share

We recommend BUY for PHR with a target price of VND55,800/share, 17% higher than the closing price on September 28, 2023.

Buy maintain

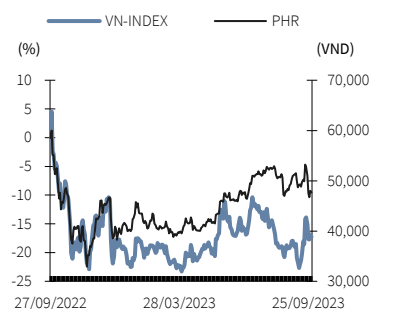
Target price	VND55,800
Upside	17%
Current price (Sep 28, 2023)	VND47,700
Consensus target price	VND53,300
Market cap (VNDbn/USDmn)	6,463/269

Trading data	
Free float	33.4%
3M avg trading value (VNDbn/USDmn)	27.1/1.13
Foreign ownership	16.4
Major shareholder	Vietnam Rubber Group (GVR) (66.6%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3	0	20	-18
Relative	1	-1	11	-17

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	1,945	1,709	1,141	1,235
EBIT (VNDbn)	567	433	287	489
NPATMI (VNDbn)	478	885	745	841
EPS (VND)	3,211	6,265	5,495	6,206
EPS growth (%)	-58%	95%	-12%	13%
P/E (x)	12.3	7.6	8.7	7.7
P/B (x)	3.1	1.6	2.0	1.8
ROE (%)	16.5%	26.9%	20.3%	20.6%
Dividend yield (%)	9.8%	5.6%	6.0%	6.8%



Source: Bloomberg, KB Securities Vietnam

Vietnam Rubber (GVR)

Rubber business to continue the recovery

December 22, 2023

Analyst Nguyen Thi Ngoc Anh
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9M23 NPAT plunged 44% YoY to VND1,954 billion

In 9M23, Vietnam Rubber Group (GVR) posted VND1,954 billion (-44% YoY) in NPAT on revenue of VND14,503 billion (-11% YoY). Of that, rubber industry revenue saw the sharpest fall to VND297 billion (-77% YoY, while 3Q revenue from the core business, natural rubber, rebounded to VND10,868 billion (+8% YoY).

GVR rubber prices and output should grow in 2024

We expect GVR's rubber prices to grow 5-7% and output to gain 5% in 2024 thanks to: (1) the increase in world rubber prices, (2) a likely decline in supply in the upcoming low season, and (3) surging rubber demand from China with the growth potential of the tire and tube segments and electric vehicles.

Nam Tan Uyen 3 is the driving force for GVR's industrial park growth in the short and medium term

Nam Tan Uyen 3 Industrial Park located in the key economic region of Binh Duong was allocated land at the end of May 2023, which will support the short and medium-term growth of GVR from 2024.

GVR continuously develops new projects and expands the industrial park land bank

The group set a goal of converting at least 2,900ha land by 2025 and would focus efforts on speeding up progress for eight industrial parks which should start operating between 2024 and 2026. Recently, GVR cooperated with VSIP and Becamex (BCM) to consider implementing two more projects covering 2,800ha.

BUY recommendation – target price VND27,400/share

We give a BUY recommendation for GVR stock with the target price of VND27,400/share, corresponding to a return of 35.3% compared to the closing price on December 22, 2023.

Buy maintain

Target price	VND27,400
Upside	17.6%
Current price (Dec 12, 2023)	20,250
Consensus target price	25,100
Market cap (VNDbn/USDbn)	81,000/3.34

Forecast earnings & valuation

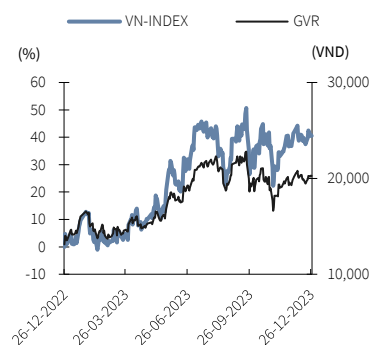
FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	26,190	25,426	18,168	19,846
EBIT (VNDbn)	5,783	4,381	2,398	3,877
NPAT of parent company (VNDbn)	4,158	3,839	2,141	3,008
EPS (VND)	1,040	807	535	752
EPS growth (%)	10%	-22%	-34%	40%
P/E (x)	13.3	28.1	42.4	30.2
P/B (x)	2.8	1.0	2.0	1.8
ROE (%)	10.3%	8.9%	4.7%	6.3%
Dividend yield (%)	0.1%	0.1%	0.1%	0

Trading data

Free float	3.23%
3M avg trading value (VNDbn, USDmn)	46.4/2.03
Foreign ownership	0.32%
Major shareholder	Committee for Management of State Capital at Enterprises (96.8%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	3	5	8	54
Relative	1	8	9	41



Source: Bloomberg, KB Securities Vietnam

Analyst Pham Minh Hieu
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Oil & gas

Business performance was mixed by group

Crude oil prices face a lot of pressure in the short term

In the early 2024, we believe that oil prices may be undermined by (1) weakening economic prospects in the US and China, (2) low season consumption, and (3) larger crude oil output from non-OPEC+ countries.

For the whole year 2024, crude oil price should be supported by positive supply-demand balance

We maintain our prudent assumption that Brent oil price will average USD78/barrel for the whole year 2024. OPEC, EIA, and IEA are taking a more cautious view on the outlook of crude oil demand for 2024. KBSV expects the market to have a more positive view on crude oil consumption from 2H24 when the Fed begins easing monetary policy. We suppose that crude oil supply in 2024 will still be tight and make up for the decline in consumption.

Rig supply is limited in the long term while the demand for investment in exploration and production (E&P) is rebounding

The number of orders for new jack-up rigs (JU rigs) is reaching 20-year lows while the market currently has up to 163 JU rigs facing the risk of being out of order due to their ages. Oil prices staying at high levels in the 2022–2023 period have encouraged massive investment capital to flow back to the oil and gas sector. Global JU rig performance is approaching 2014 levels as supply tightens and rental demand increases.

Vietnam's domestic E&P market will be more vibrant in the period 2024–2025

In November 2023, American oil and gas company Murphy Oil made a final investment decision (FID) for the Golden Camel field. The proposal for FID of Block B O Mon project will still be delayed, but Vietnam Oil & Gas Group (PVN) has recently awarded contracts for EPCI#1 and EPCI#2 packages, helping the projects to start construction from early 2024.

Investment catalysts for oil and gas stocks in 2024

PV Drilling & Well Services (PVD) and PV Technical Services (PVS) remain our top picks thanks to their growth potential and limited risks of being strongly affected by oil price changes. PV Transportation (PVT) may also record good performance in 2024, but the stock price has already reflected the positive outlook of the business. Meanwhile, PV Gas (GAS) and Binh Son Refinery (BSR) will need deeper discounts to compensate for short-term risks, but investment opportunities may appear when the market is overly pessimistic about crude oil price prospects.

Positive maintain

Recommendations

PVD	BUY
Target price	VND34,300
PVS	BUY
Target price	VND45,700
PVT	HOLD
Target price	VND29,100
GAS	HOLD
Target price	VND87,300
BSR	HOLD
Target price	VND21,500

2023 business performance

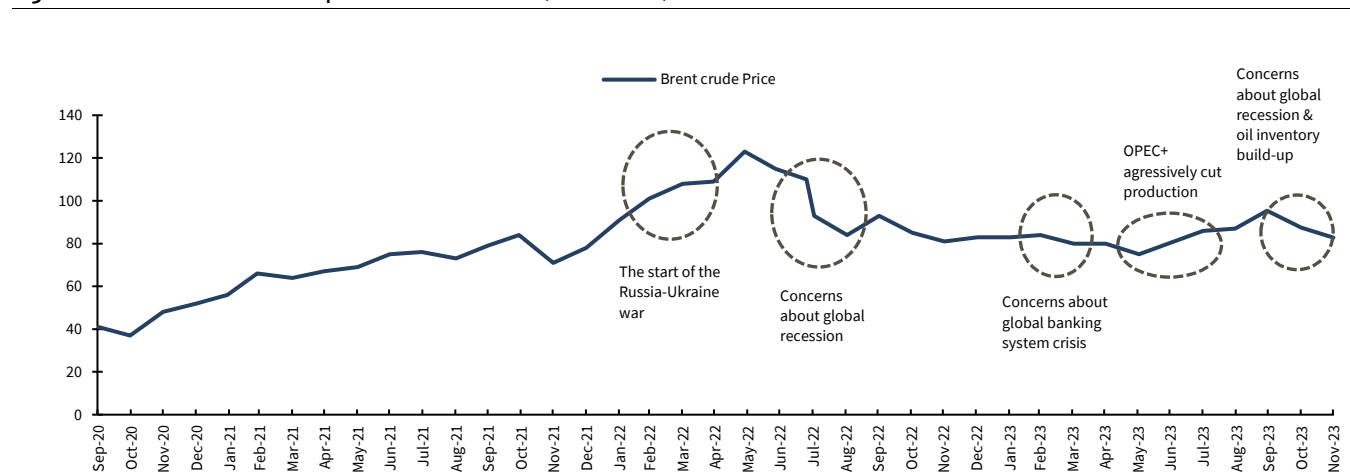
9M23 business results were mixed by group

The **upstream group** (PVD and PVS) recorded strong growth in 9M23. Revenue of PVD posted a modest gain of 3% YoY, but NPAT significantly improved to VND304 billion compared to a loss of VND201 billion in 9M22 thanks to the strong increase in average rental rate and rig utilization. Revenue and NPAT of PVS respectively grew by 13.6% YoY and 33.9% thanks to improved workload for the core mechanical and construction (M&C) segment. The **midstream group** with typical stock PVT maintained good growth, with revenue and NPAT increasing by 17% and 15% respectively thanks to favorable freight rates and fleet expansion. The business results of the **downstream group** (BSR and GAS) are weaker than the same period in 2022. BSR recorded a 17% YoY decrease in revenue while NPAT lost 52% YoY due to a plunge in crude oil prices and crack spread compared to the high comparative figures in the same period in 2022. Similarly, GAS revenue and NPAT fell 14% YoY and 23% YoY, respectively, due to sharp YoY falls in crude oil and FO prices and a slight decline in dry gas consumption.

Crude oil prices saw strong fluctuations in 2023

2023 is a volatile year for global crude oil prices. In 1H23, instability in the global banking system and temporary supply surplus caused oil prices to fall sharply from the high base of the same period in 2022. By 3Q23, sharp production cuts by OPEC+ started to affect the market, and consumption demand spiked during the peak season. Oil prices, at times, exceeded USD95/barrel. By 4Q23, oil prices declined faster than our expectations as (1) economic data of the world's two largest crude oil consuming countries, the US and China, showed signs of weakness. (2) The end of the peak driving season causes gasoline inventories to be higher than expected. (3) Global oil refineries are entering the maintenance season, triggering a temporary decline in oil refining output. (4) Crude oil output from non-OPEC+ countries (mainly the US) was larger than forecasts.

Fig 1. Global – Brent crude oil prices in 2020–2023 (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

2024 outlook

Crude oil prices had to face a large pressure in the short term

In the early 2024, we believe that oil prices may be undermined by (1) weakening economic prospects in the US and China, (2) low season consumption, and (3) larger crude oil output from non-OPEC+ countries. In November 2023, OPEC+ agreed to an additional voluntary cut totaling 2.2 million barrels/day for 2024, of which up to 1.3 million barrels/day is an extension of cuts by Saudi Arabia and Russia. We assess that this move implies many adverse signals for oil prices in the short term: (1) There is a certain disagreement among OPEC+ countries, making it impossible for the entire bloc to agree on a shared cut. (2) The level of production cuts is voluntary and not obligatory for all members. (3) The room for production cuts from Saudi Arabia and Russia may be limited due to budget deficits.

For the whole year 2024, crude oil price should be supported by positive supply-demand correlation

We maintain our assumption that Brent oil price will average USD78/barrel for the whole year 2024. Economic forecasting organizations are taking a more cautious view on the outlook for crude oil consumption demand for 2024. OPEC, EIA and IEA expect crude oil consumption growth in 2024 to slow down, reaching 2.2, 1.3 and 1.1 million barrels/day respectively. The growth driver comes from Asia with clearer economic recovery prospects, while negative factors come from the weakness of industrial production in the OECD. KBSV expects the market to have a more positive view on crude oil consumption from 2H24 when the Fed begins easing monetary policy. We think the probability of sharper cuts from OPEC+ producers is low, but crude oil supply in 2024 will still be tight because (1) output growth from non-OPEC+ countries will likely be limited due to the rig shortage; and (2) the congestion in the Black Sea region (due to Russia-Ukraine war), the Panama Canal and the Red Sea area (Suez Canal) could worsen, further narrowing the global crude oil supply. We expect tight supply will offset the decline in crude oil consumption in 2024.

Table 2. Global – Forecasts on crude oil consumption for 2024 (million barrels/day)

Organization	Forecasts published in December 2023	
	2023F	2024F
OPEC	2.5	2.2
EIA	1.8	1.3
IEA	2.3	1.1
Median	2.3	1.3
Organization	Forecasts published in July 2023	
	2023F	2024F
OPEC	2.4	2.2
EIA	1.8	1.6
IEA	2.2	1.1
Median	2.2	1.6

Source: OPEC, EIA, IEA, KB Securities Vietnam

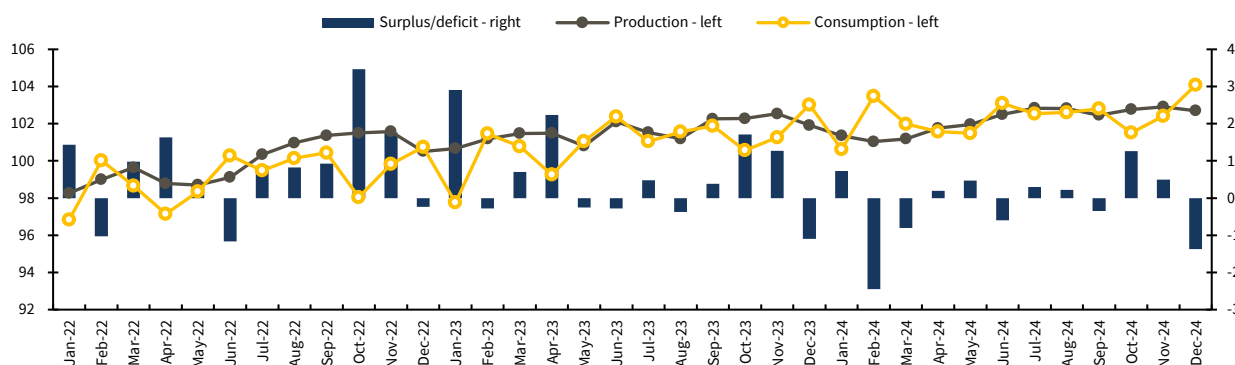
Table 3. Global – Forecasts on Brent oil price for 2024 (USD/barrel)

Organization	Date of forecast (dd/mm/yyyy) *	Forecast price for 20244
EIA	07/12/2023	83
JPMorgan Chase & Co	14/12/2023	83
RBC	13/12/2023	83
Fitch Solutions	13/12/2023	85
Macquarie Group Ltd	07/12/2023	77
Barclays PLC	04/12/2023	90
Citigroup Inc	30/11/2023	74
Deutsche Bank AG	30/11/2023	89
Median		83
KBSV's forecast		78

Source: EIA, Bloomberg, KB Securities Vietnam

* Note: Only included forecasts made after the latest OPEC+ meeting at that time

Fig 4. Global – 2024F crude oil supply – demand (million barrels/day)

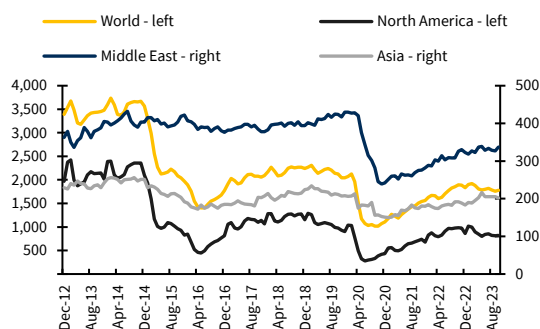


Source: EIA, KB Securities Vietnam

The supply of JU rigs should be tight in the long term

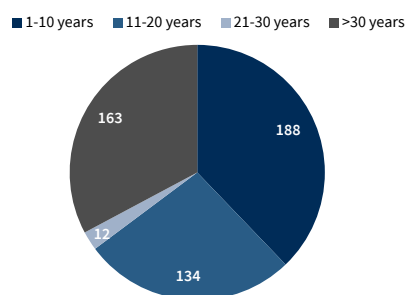
The number of drilling rigs in key regions has been almost flat or decreased since December 2022. According to S&P Global Petrodata, the number of orders for new JU rigs is hitting 20-year lows, equivalent to less than 5% of the total number available on the market. Furthermore, the market currently has up to 163 JU rigs facing the risk of being removed from the market soon due to their age and safety concerns. We think there are two main reasons explaining this: (1) sharp increases in interest costs and inflation cause investment costs to escalate, reducing the need to invest in new drilling rigs in North America. (2) Large rig shipyards are not ready to receive orders to operate at full capacity because they have not fully recovered from the Covid-19 pandemic.

Fig 5. Global – Number of rigs by region (rig)



Source: Baker Hughes, KB Securities Vietnam

Fig 6. Global – Existing jack-up rigs by age group (rig)

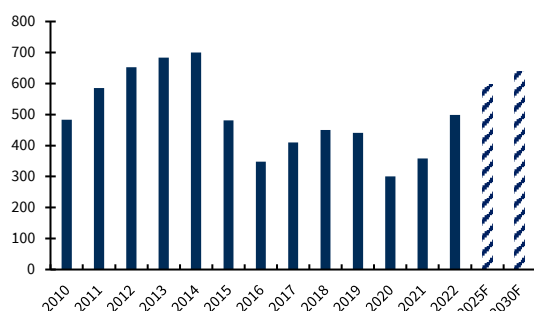


Source: PV Drilling, S&P Global Petrodata, KB Securities Vietnam

Global E&P demand is recovering

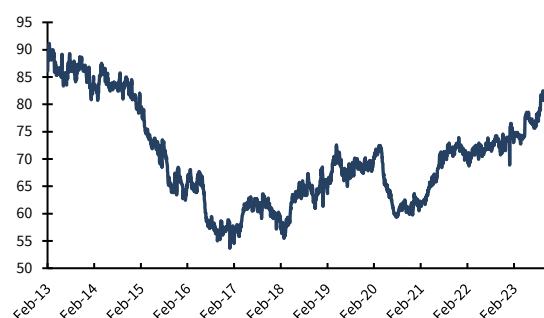
Since 2014, the world has experienced nearly 10 years of low investment in the oil and gas E&P due to the oil price crisis. However, oil prices staying at very high levels in the 2022–2023 period has encouraged massive investment capital flow back to the oil and gas industry. According to S&P Global, investment capital will still flow into the market from 2025 to 2030. Global JU rig utilization has increased to an average of 82% in November 2023, approaching 86% in April 2014 mainly thanks to the surge in rental demand and limited rig supply.

Fig 7. Global – Forecast investment in oil E&P (USDbn)



Source: IEF, S&P Global Commodity Insights, KB Securities Vietnam

Fig 8. Global – JU rig utilization rate (%)



Source: Bloomberg, KB Securities Vietnam

Vietnam's domestic E&P market will be more vibrant in the period 2024–2025

We expect that Vietnam's E&P market will be very vibrant in 2024–2025. White Rhino Block 16–2; Golden Tuna Block 9–2 and Block 05–1b/c projects are expected to go into exploitation from the end of 1Q24. In November 2023, American oil and gas company Murphy Oil made a final investment decision (FID) for the Golden Camel field. The proposal for FID of Block B O Mon project will still be delayed, but Vietnam Oil & Gas Group (PVN) has recently awarded contracts for EPCI#1 and EPCI#2 packages, helping the projects to start construction from early 2024.

Table 9. Vietnam – Oil E&P projects in 2024

Project	Operator	Description	Expected start date
Block B O Mon	PVN, MOECO, PTTEP	Start of the EPCI 1 and 2 package	1Q2024
White Rhino Block 16–2	Hoang Long/Hoan Vu JOC	Drill campaign for 226.5 days, 2–3 wells	04/2024
Yellow Tuna Block 9–2	Hoang Long/Hoan Vu JOC	Drill campaign for 313.5 days, 2–3 wells	04/2024
Block 05–1b/c	Idemitsu	Drill campaign for 2 wells	03/2024
Dai Hung Phase 3 Block 05–1a	PVEP	Drill campaign for 12 wells	07/2024
Unconfirmed	Cuu Long JOC	Announcement of a drilling plan for 2024	02/2024
Block 15–2/17	Murphy	Drill campaign for 60–520 days	06/2024
Golden Camel Block 15–1/05	Murphy	Drill campaign for 800 days	06/2024
Block 11–2	KNOC – Zarubezhneft	Drill campaign for 2 wells	04/2024

Source: EIA, KB Securities Vietnam

The upstream group has positive business results prospects and still has room to increase stock prices

2024 outlook for PVD stock is positive, supported by (1) tight rig supply (2) recovering JU rig utilization compared to the peak in 2014, (3) strong rental demand in the Middle East and Southeast Asia (that could cause the market to have a shortage for JU rigs), and (4) the growth potential of domestic E&P market from 2024, boding well for the well engineering services. PVS will be a stock that benefits from the vibrant global E&P market and recent developments in the Block B O Mon project. In addition, the company will also have benefits from improving profit margins in the wind power M&C segment after entering the industry since (1) the number of competitors in the industry is very limited; and (2) PVD has an outstanding advantage in shipyards for more suitable wind power M&C compared to its main competitors in Southeast Asia. Although the two tickers had already made impressive gains in 2023, PVD and PVS are still our favorite stocks for 2024 as their current market prices have not fully reflected the growth potential of the businesses, and the risk of being strongly hit by oil price fluctuations is low. We also expect the valuation of the two businesses to be upgraded as the global oil and gas industry is entering a new growth cycle after 10 years of investment shortage in upstream businesses.

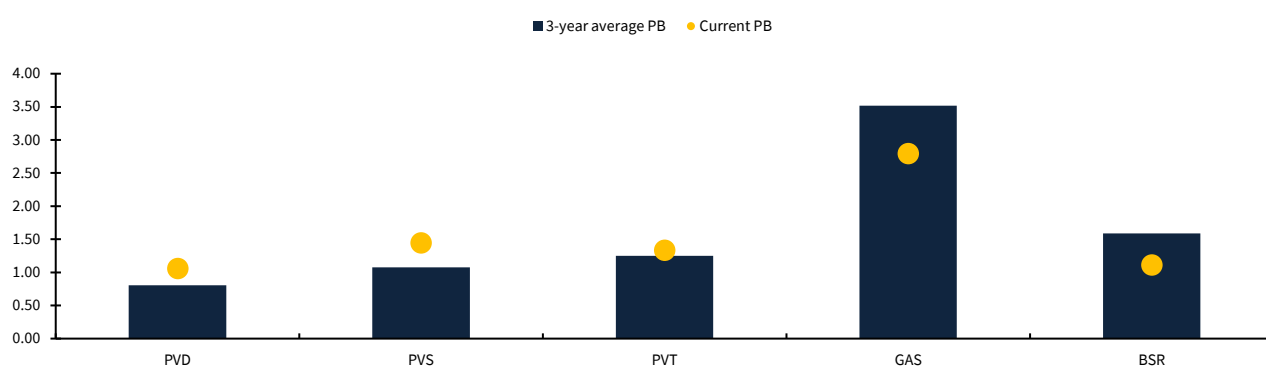
The midstream group has favorable fundamentals, but market prices have gradually reflected growth prospects

For the midstream group with typical stock PVT, there will be growth motivation from (1) the fleet expansion plan to 2025; (2) longer shipping distances due to Russia-Ukraine war, Panama Canal drought and the Red Sea attacks; (3) small number of orderbooks for shipbuilding for crude oil and finished petroleum product transportation; (4) increasing LPG exports from North America to Asia due to the widening price gap between the two regions; and (5) the LPG consumption growth potential in Asia as petrochemical plants in China should go into operation in 2023–2024. Risks of investing in PVT shares in 2024 include (1) OPEC+ further production cuts, which will cause crude oil transportation traffic to decline and (2) a large number of new LPG ships joining the market. We still appreciate PVT's business prospects for 2024, however the current stock price has gradually reflected the stock's long-term growth prospects. We recommend that investors wait for corrections to buy this stock.

The downstream group may be adversely affected by short-term oil price fluctuations

The downstream group will be negatively affected by short-term oil price fluctuations. The bright spot in GAS's 2024 outlook will be being able to start recording revenue from the LNG segment. However, factors such as (1) strong fluctuation in crude oil and FO prices in early 2024 and (2) the possibility that the company may have to subsidize LNG prices will squeeze 2024 NPAT of the GAS. Similarly, BSR will also be affected by (1) crude oil price fluctuations and crack spreads and (2) an overhaul of Dung Quat refinery at the end of 1Q24. Investors should wait for deeper price discounts for the downstream businesses to compensate for the risks mentioned above. We expect that investment opportunities with GAS and BSR will appear when the market becomes overly pessimistic about the oil price outlook in 1Q24.

Fig 10. Vietnam – Current P/B of oil & gas businesses vs the three-year average (x)



Source: EIA, KB Securities Vietnam

PV Drilling & Well (PVD)

Potential growth in the long term

December 5, 2023

Analyst Pham Minh Hieu
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9M23 revenue and profit improved from 9M22

In 9M23, revenue of PV Drilling & Well Services (PVD) inched up 3% YoY. The company did not record revenue from renting rigs, but the average rate gained 30% YoY and operating performance improved sharply, which helped cushion revenue from a steep fall and raised 9M NPAT to VND304 billion from a loss of VND201 in 9M22. In 3Q, PVD received full compensation of USD6 million from customers for changing lease agreements.

Rig supply will remain tight in the long term

Brent prices are stably high, but the number of drilling rigs in key areas around the world has mostly moved sideways or decreased since December 2022. We believe that this may continue until the 2024–2025 period because (1) the number of new jack-up rig orders is reaching record lows while (2) a large number of rigs are likely to become out of order due to their ages.

The demand for rig rental should increase sharply in the next two years

Strong rental demand in the Middle East and Southeast Asia may cause the market to have a supply deficit of jack-up rigs. Jack-up rig performance is returning to 2014 levels (the latest peak of the oil price cycle) thanks to a favorable supply-demand balance. PVD's jack-up rigs are expected to be fully occupied until 2025.

BUY recommendation with target price of VND34,300/share

Based on FCFF valuation, business prospects and possible risks of PVD, we recommend BUY for PVD stock. The target price is VND34,300/share, equivalent to an upside of 19.4% compared to the price on December 5, 2023.

Buy maintain

Target price	VND34,300
Upside	19.4%
Current price (Dec 5, 2023)	VND28,750
Consensus market price	VND32,500
Market cap (VNDbn, USDmn)	15,759/656

Forecast earnings & valuation

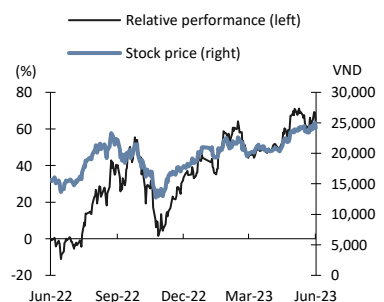
FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	3,996	5,432	5,337	6,158
Operating income (VNDbn)	172	30	750	1,289
NPAT of the parent (VNDbn)	20	-103	402	901
EPS (VND)	-36	-250	723	1,620
EPS growth (%)	-113	594	-389	124
P/E (x)	-798.61	-115.00	39.76	17.75
P/B (x)	0.89	1.15	1.12	1.05
ROE (%)	0.3	-1.1	2.8	5.8
Dividend yield (%)	0.0	0.0	0.0	0.0

Trading data

Free float	45.9%
3M avg trading value (VNDbn, USDmn)	153.5/6.4
Foreign ownership	23.6%
Major shareholder	Petrovietnam (PVN, 50.5%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	14.3	9.8	16.4	83.0
Relative	8.9	22.8	14.7	73.3



Source: Bloomberg, KB Securities Vietnam

PV Transportation (PVT)

Bigger risks, higher rates

December 22, 2023

Analyst Pham Minh Hieu
hieupm@kbsec.com.vn

9M23 revenue posted modest gains while gross profit improved YoY

9M23 revenue of PV Transportation Corporation (PVT) grew by a mere of 2% YoY due to the company's cutting the proportion of FSO/FPSO and commercial segments to focus on the core segment of maritime transportation. Gross profit rose 17% YoY. Of that, gross profit from transportation gained 41% YoY, mainly from the shipping of crude oil, finished oil/chemicals, and LPG. Bulk cargo transportation recorded a loss of VND89 billion.

Instability at cornerstones of global ocean shipping will keep freight rates high

Panama Canal and the Red Sea issues are expected to continue to trigger sharp gains in ocean freight rates. We believe that the congestion in Panama cannot be improved soon as the dry season will start right from January 2024. It is unlikely that the Red Sea attacks will be resolved in 1Q24 because it is difficult to reconcile the political interests of the parties involved.

The supply of tankers for crude oil, finished petroleum products and bulk cargo is still tight, while LPG gas carriers' quickly expanded

The number of orders for tankers to ship crude oil, finished petroleum products, and bulk cargo has not significantly increased, while orders for LPG vessels are 20% larger than the total number of carriers on the market. Many LPG ships over 20 years old should have been removed from the market, but they may be occupied for longer than expected due to high freight rates.

HOLD recommendation – target price VND29,100/share

Based on FCFF, EV/EBITDA and P/E valuation, we give a HOLD rating for PVT stock. The target price is VND29,100/share, equivalent to an upside of 9.4% compared to the price on December 22, 2023.

Hold change

Target price	29,100 VND
Upside	9.4%
Current price (Dec 22, 2023)	VND26,600
Consensus market price	VND28,700
Market cap (VNDbn/USDmn)	8,701/352

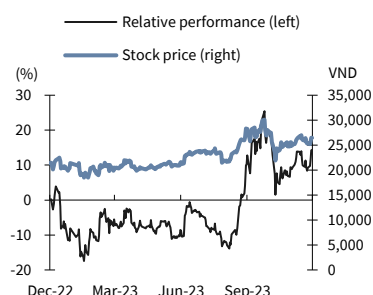
Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	7,368	9,047	9,246	11,049
Operating income (VNDbn)	963	1,234	1,410	1,758
NPAT of the parent (VNDbn)	666	857	978	1,086
EPS (VND)	2,056	2,500	2,747	3,050
EPS growth (%)	5.7	21.6	10.0	11.0
P/E (x)	11.1	8.8	10.6	9.5
P/B (x)	1.1	1.0	1.1	1.0
ROE (%)	12.1	14.4	12.5	12.1
Dividend yield (%)	5.1	0.5	3.4	3.4

Trading data	
Free float	48.9%
3M avg trading value (VNDbn/USDmn)	122.4/5.1
Foreign ownership	13.2%
Major shareholder	Petrovietnam (PVN, 51%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	3.7	-6.4	12.5	23.3
Relative	4.5	1.3	19.7	14.3



Source: Bloomberg, KB Securities Vietnam

PV Gas (GAS)

Unattractive discount due to oil price risk

December 11, 2023

Analyst Pham Minh Hieu
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9M23 revenue and gross profit decreased sharply YoY

For 9M23, PV Gas (GAS) saw revenue down 14% YoY and gross profit down 22% YoY. Despite an improvement in 3Q23, crude oil, FO, and LPG prices still decreased 24%, 29%, and 26% YoY in 9M23, respectively, dampening GAS's business results. In 3Q23, dry gas consumption decreased among power plants (following better-than-expected hydrological conditions) and industrial parks (-3% YoY) while it remained flat YoY by fertilizer producers.

Brent and FO prices may be under pressure in the short term

We maintain our conservative assumptions for Brent and FO prices, averaging USD78/barrel and USD398/ton for 2024F. In late 2023 and early 2024, oil prices will be negatively affected by (1) deteriorating macroeconomic data in the US and China, (2) low season, and (3) rising crude oil production across non-OPEC+ countries. FO prices will fluctuate alongside crude oil prices but are partly supported by heating demand in winter.

LNG terminals remain a long-term growth driver, but the issue of downstream gas prices should be thoroughly resolved

In 2024, we expect GAS to officially launch the Thi Vai 1 LNG terminal though it cannot record significant profits in the early stages as GAS may have to subsidize LNG prices. We emphasize that imported LNG prices can swing widely, given limited supplies and strong demand due to the trend of prioritizing low-carbon energy sources. Therefore, LNG price negotiations under sales and purchase agreements should be reached, a prerequisite for the project's profitability.

We recommend HOLD for GAS with target price of VND87,300/share

Based on valuation results and possible risks, we recommend HOLD for GAS. The target price is VND87,300/share, equivalent to an 11.5% upside.

Hold update

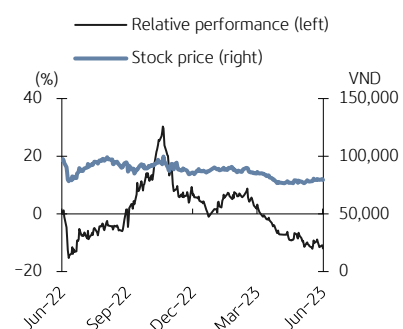
Target price	VND87,300
Upside	11.5%
Current price (Dec 11, 2023)	VND78,300
Consensus target price	VND93,100
Market cap (VNDbn/USDmn)	179,145/7,464

Trading data	
Free float	4.2%
3M avg trading value (VNDbn/USDmn)	48.7/2.0
Foreign ownership	2.8%
Major shareholder	PVN (95.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.1	-8.5	-1.7	-11.8
Relative	-4.8	1.3	-2.9	-17.4

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	64,135	78,992	100,724	94,019
Operating income/loss (VNDbn)	8,694	10,374	17,799	13,460
NPAT-MI (VNDbn)	7,855	8,673	14,794	11,847
EPS (VND)	4,028	4,356	7,647	5,158
EPS growth (%)	-34.4	8.1	75.6	2.0
P/E (x)	19.3	17.9	10.2	15.1
P/B (x)	3.0	2.9	2.5	2.4
ROE (%)	16.1	17.0	24.6	16.0
Dividend yield (%)	4.6	3.9	3.9	3.9



Source: Bloomberg, KB Securities Vietnam

Binh Son Refinery (BSR)

Expecting wobbles

November 27, 2023

Analyst Pham Minh Hieu
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Revenue and gross profit in 9M23 decreased sharply YoY

Brent oil price spiked to USD92.5/barrel in September, but the averages in 3Q and 9M23 only reached respectively USD86/barrel (-11.9% YoY) and USD82/barrel (-20% YoY). Therefore, Binh Son Refinery (BSR) still recorded a sharp decline in 9M23 business results (revenue 17% YoY & gross profit down 50% YoY) vs high bases in 2022.

Brent crude oil prices may see strong fluctuations in the late 2023-early 2024 period

KBSV maintains the forecast for Brent oil price at a prudent level, averaging USD78/barrel for 2024. Factors that may push oil prices down include: (1) Deteriorating macroeconomic indicators in the US and China; (2) the start of low consumption season; and (3) increasing crude oil production in non-OPEC+ countries. Factors supporting oil prices are: (1) The end of maintenance season; (2) new petrochemical plants coming into operation; (3) low diesel inventories; and (4) the possibility that OPEC+ will continue to cut output.

Diesel oil crack spread is forecast to narrow down

The return of global oil refineries after the maintenance season is beneficial to crude oil prices but may harm the diesel crack spread with massive output of this heavy oil on the market. The outlook for diesel consumption at the end of 2023 – early 2024 is not very bright as PMIs of the US, Eurozone and China all weakened.

HOLD recommendation – target price VND21,500/share

Based on FCFF and P/B valuation, we recommend HOLD for BSR shares (target price VND21,500). We lower the target price for BSR to reflect the disadvantages that BSR will encounter including (1) fluctuations in oil prices and crack spreads and (2) the maintenance period of the refinery in late 1Q24.

Hold change

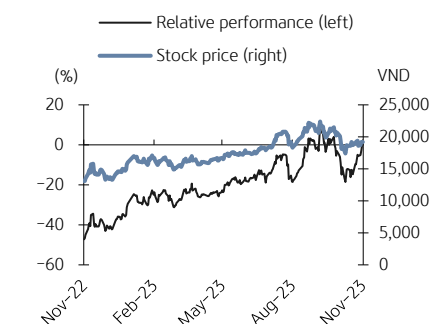
Target price	VND21,500
Upside (%)	13.2%
Current price (Nov 24, 2023)	VND19,000
Consensus target price	VND21,900
Market cap (VNDbn/USDmn)	64,150/2,673

Trading data	
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	195.6/8.2
Foreign ownership	0.9%
Major shareholder	Petro Vietnam (PVN, 92.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-7.2	3.8	15.0	46.6
Relative	-9.1	10.3	10.5	25.7

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	101,080	167,124	137,977	112,566
EBIT (VNDbn)	6,511	14,673	7,977	6,133
NPAT of parent company (VNDbn)	6,716	14,726	8,222	6,506
EPS (VND)	2,073	4,750	2,652	2,098
EPS growth (%)	-328.1	129.1	-44.0	-21.0
P/E (x)	11.0	3.9	8.1	10.3
P/B (x)	1.9	1.1	1.2	1.2
ROE (%)	17.8	28.7	15.1	11.5
Dividend yield (%)	0.7	2.3	3.3	3.3



Source: Bloomberg, KB Securities Vietnam

Steel

Expecting growth from 2023 low bases

9M23 revenue and NPAT dropped 32% YoY and 73% YoY respectively

2023 business performance of steel enterprises were adversely impacted by (1) declined consumption demand due to housing investors facing capital and legal issues and (2) a 235bp fall in 9M23 GPM because of high inventory prices at the end of 2022 and steep falls in steel prices. However, we believe that the profit and consumption volume of the steel sector bottomed out in 2023 and 3Q23 – 1Q24. Furthermore, GPMs of businesses have improved with reducing inventory and effective working capital.

Chinese government support packages should stimulate steel demand

The Chinese government plans to announce economic and real estate support packages, focusing on social housing projects and renovating residential areas in suburban areas. Although data on house prices and home purchase transactions are still decreasing, reflecting weak consumption and cautious sentiment, we believe that the market needs time to absorb the supportive policies, and steel consumption in the Chinese domestic market will improve from 3Q24, helping to stabilize steel prices.

Construction activities in the residential real estate segment have shown signs of recovery

We see that construction activities in the residential real estate segment have shown signs of improvement in 4Q23, shown in the increasing number of projects under construction. We expect that construction demand for the residential segment to rebound stronger from 2H24, thereby creating a driving force for steel producers.

Expect steel prices to bottom out and bounce back from 3Q24

We see that steel prices have been on a downward trend since 2023 and expect steel prices to remain flat and bottom out before gradually improving from 3Q24 thanks to (1) improved demand alongside the rebounding residential real estate market and (2) more stable input material prices when domestic steel consumption in China recovers.

Valuation has not fully reflected the potential for profit recovery in 2024

We believe that the recent increase in steel stocks has reflected short-term steel price developments. However, in the medium term, current valuations are still attractive with (1) potential profit recovery from the low bases of 2023 and (2) growth potential from getting ahead of the curve.

Positive change

Recommendations

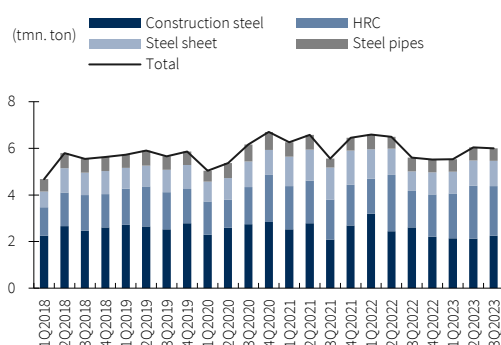
HPG	BUY
Target price	VND32,300
HSG	HOLD
Target price	VND24,700

2023 business performance

Exports are the main force to boost consumption in 2023

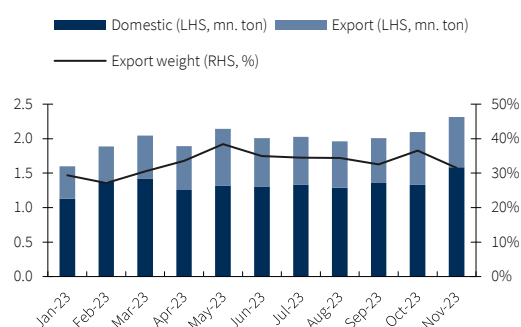
11M23 total steel consumption of the whole steel industry reached 21.9 million tons (-1% YoY), of which steel exports reached 6.8 million tons (+25% YoY, 31% of the whole industry). It is impossible not to mention HRC, the item reaching 3.4 million tons in export consumption (+143% YoY) and being the main driving force to consumption output of the entire industry. We believe that the most difficult period for the steel industry is over with the bottom of consumption being established in the period 3Q22– 1Q23.

Fig 1. Vietnam – Steel consumption in 1Q18–3Q23



Source: FiinPro, KB Securities Vietnam

Fig 2. Vietnam – Steel domestic and export consumption in 11M23



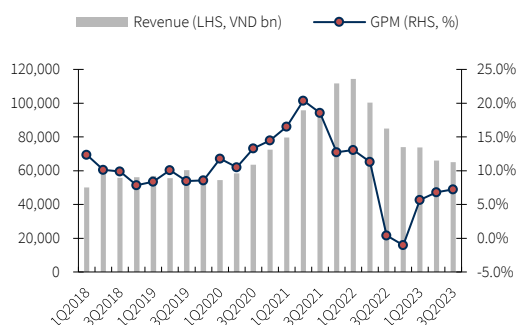
Source: FiinPro, KB Securities Vietnam

9M23 business results declined from high bases amid weak consumption

Statistics of listed companies from FiinPro show that revenue and NPAT in 9M23 totaled VND204,713 billion and VND2,624 billion, down 32% YoY and 73% YoY, respectively. The reason comes from: (1) The demand for construction steel and HRC in the domestic market went down 10% YoY and 15% YoY respectively as residential real estate businesses faced difficulties in capital and legal issues, causing the number of new construction projects in the year to decrease sharply. In addition, (2) high-priced inventory in the late 2022 and the downward trend of steel prices caused the profit margin of steel enterprises to decline in the following quarters (9M23 GPM reached 6.5%, dropping 235bps YoY).

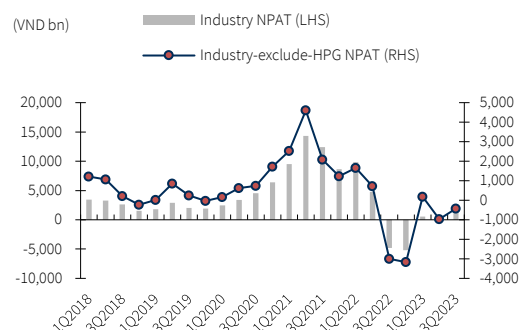
We see a divergence in business results between the manufacturing and trading groups in 9M23. Specifically, steel trading enterprises are under pressure to reduce product prices amid low consumption, making it more difficult to control profit margins than steel producing enterprises. Statistics show that 9M23 PAT margin of the sellers was -3.3% (Figure 5), although the fluctuations in previous periods were quite limited compared to producers. We believe that the trading group will continue to be affected as above until product prices improve and enter an upward trend.

Fig 3. Vietnam – 9M23 sales and GPM of the steel industry (VNDbn, %)



Source: FiinPro, KB Securities Vietnam

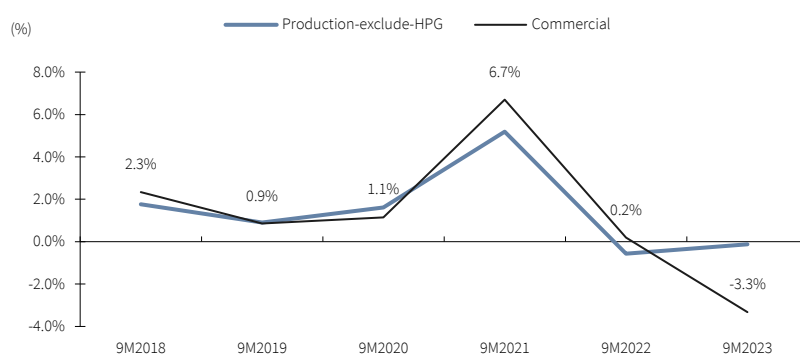
Fig 4. Vietnam – NPAT of the steel industry (VNDbn)



Source: FiinPro, KB Securities Vietnam

NPAT margin of steel selling enterprises is subject to stronger effects from (1) falling steel prices and (2) uncontrollable input costs than steel producing companies

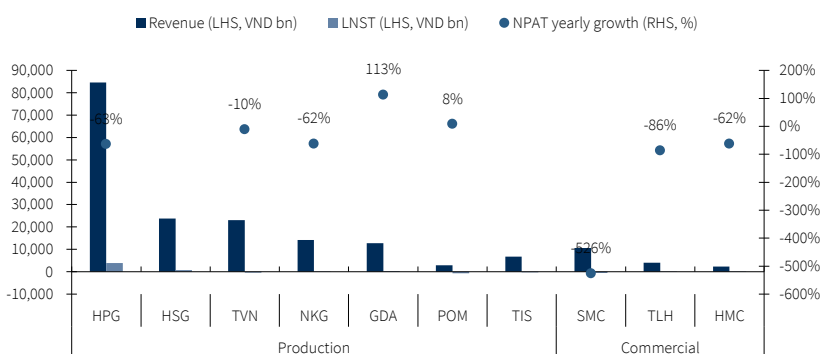
Fig 5. Vietnam – 9M23 NPAT margin of steel sellers and producers (%)



Source: FiinPro, KB Securities Vietnam

Many steel enterprises faced difficulties, SMC recorded YoY five-time losses in 9M23, and POM posted net loss for five consecutive quarters and had to cut the number of workers.

Fig 6. Vietnam – 9M23 NPAT of six out of ten listed steel manufacturers



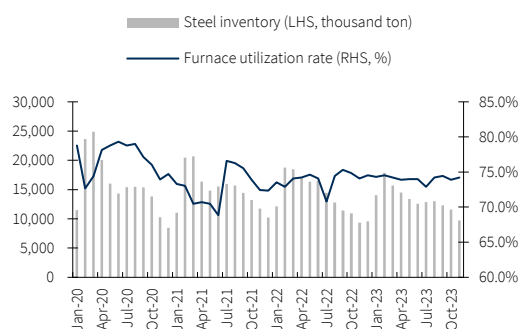
Source: FiinPro, KB Securities Vietnam

2024 outlook

The market is waiting for the Chinese Government's economic stimulus package to benefit the steel industry in 2024

The Chinese government planned an economic stimulus package of USD112 billion, aiming at the development of social housing and the renovation of residential areas in suburban areas, along with new policies to support people in buying house. This raised expectations of steel consumption growth in 2024, causing input material costs to increase sharply in 4Q23. However, newly released data continue to reflect weak consumption and cautious sentiment in the real estate industry as new house prices decreased by 0.3% MoM (five consecutive months of declining), and sales in the tier-1 regions fell 4% MoM. This weighed on the growth prospects of the steel industry in China while the real estate market has shown no clear recovery trend. We expect the economic stimulus package to be announced soon and believe that the Chinese real estate market will need time to absorb new policies and restore investor and consumer confidence.

Fig 7. China – Inventory and blast furnace capacity utilization (thousand tons, %)



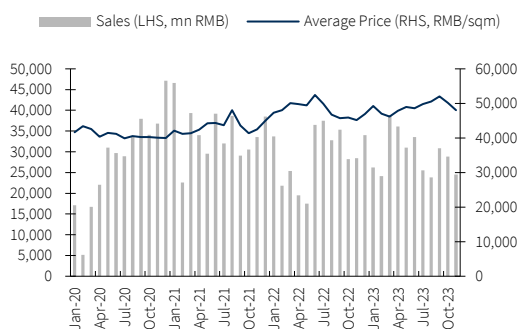
Source: Bloomberg, KB Securities Vietnam

Fig 8. China – GPM of domestic construction steel (%)



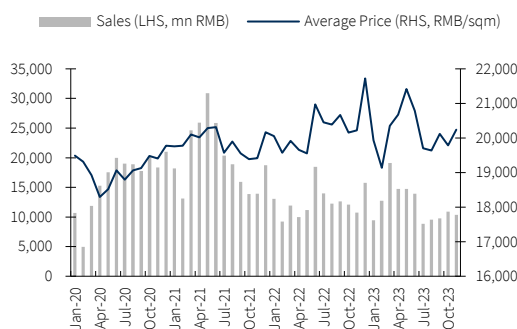
Source: Bloomberg, KB Securities Vietnam

Fig 9. China – Average real estate sales and price in tier-1 markets (RMB million, RMB/m²)



Source: Bloomberg, KB Securities Vietnam

Fig 10. China – Average real estate sales and price in tier-2 markets (RMB million, RMB/m²)

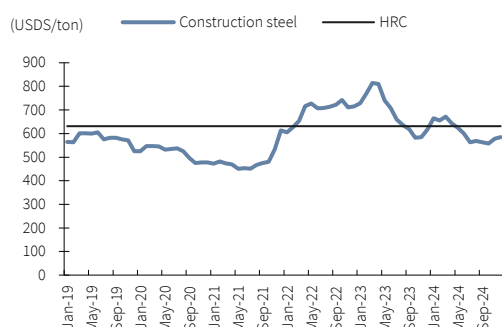


Source: Bloomberg, KB Securities Vietnam

Construction steel prices are expected to bottom out and rebounding from 3Q24

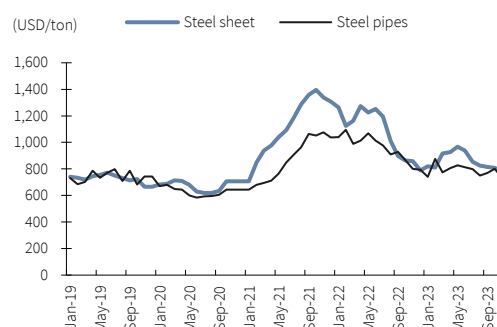
We noted that steel prices have shown signs of bottoming out in 2023 after a period of low domestic and abroad consumption. In the base scenario, we maintain our prudent assumption that steel prices will remain low in 1H24 before gradually recovering from 3Q24 when (1) domestic demand is driven by the recovery of the residential real estate group, and (2) China's economic stimulus packages have positive impacts on the steel market.

Fig 11. Global – Construction steel & HRC prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 12. Global – Coated steel & steel pipe prices (USD/ton)



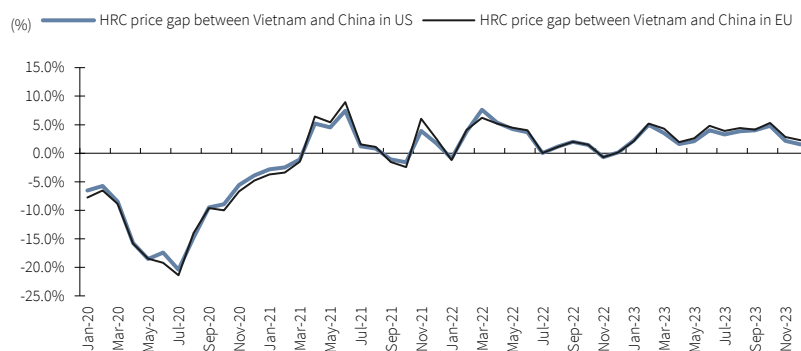
Source: Bloomberg, KB Securities Vietnam

Export demand to the US and EU is maintained in 1Q24

Some reliable sources said that pre-ordered HRC orders for export to the EU for January–February 2024 have been quickly completed. We expect HRC export volume to be maintained in 1Q24 thanks to (1) competitive import prices (Figure 13 & 14) and (2) EU manufacturers' maintaining low production capacity to balance supply and demand and market price and ensure profit margin and operating cash flow. However, we also believe that this trend will not last long as a number of proposals to increase anti-dumping duties here have also been discussed and are being considered for application. At the same time, there have been signs of increasing steel inventory in China thanks to the expectation of recovery of real estate, ending the liquidation of cheap steel in 2Q23 – 3Q23.

HRC prices in the US increased again in 4Q23 thanks to the shortage of high-quality coated steel for automobile production after the UAW ended the strike, while HRC prices in the EU continued to move sideways. HRC prices in Vietnam are higher than China because China boosts inventory exports in 2H23

Fig 13. Global – HRC price gap between Vietnam & China in the US & EU (%)



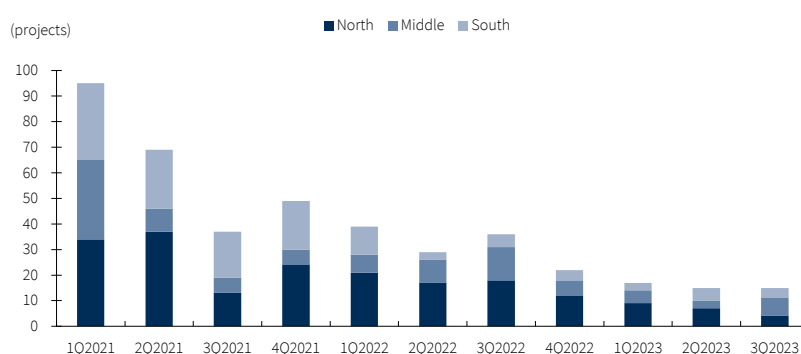
Source: Bloomberg, KB Securities Vietnam

Residential construction activities should gradually recover from 2H24

The number of residential real estate projects showed signs of bottoming out in 3Q23 and is expected to improve in the future thanks to the Government's policies to support and stimulate the real estate industry.

In 3Q23, 15 real estate projects were licensed for construction, moving sideways compared to 2Q23. However, the market has started to become positive when (1) land and apartment prices on the secondary market have shown signs of bottoming out and moving sideways; and (2) the number of land transactions has risen from 2H23. With market support policies (such as lowering/keeping lending interest rates at low levels and promoting the resolution of legal issues for residential and public investment projects), we expect the construction for residential projects to gradually recover from 2H24.

Fig 1. Vietnam – Number of newly licensed residential real estate projects (project)

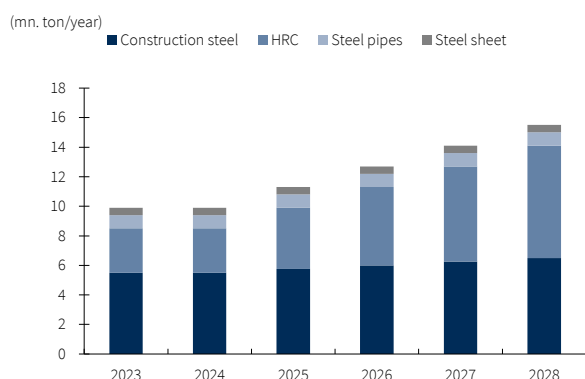


Source: Ministry of Construction, KB Securities Vietnam

Steel manufacturing enterprises with plans to increase capacity will have a growth potential when the market recovers

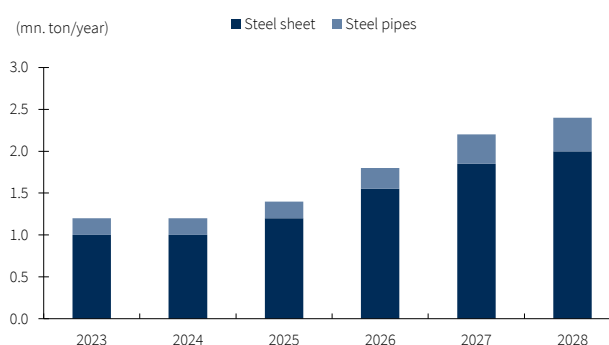
We believe that businesses with plans to expand production will have a solid foundation to improve business results when the steel industry recovers. We pay attention to Hoa Phat Group (HPG) Dung Quat 2 Complex project with a capacity of 5.6 million tons/year, expected to come into operation in 1Q25. The other choice is Nam Kim Steel (NKG) with Nam Kim Phu My Coated Steel Plant (capacity of 1.2 million tons/year) focusing on high-quality coated products for home appliance.

Fig 15. HPG – Production capacity (million tons/year)



Source: Hoa Phat Group, KB Securities Vietnam

Fig 16. NKG – Production capacity (million tons/year)



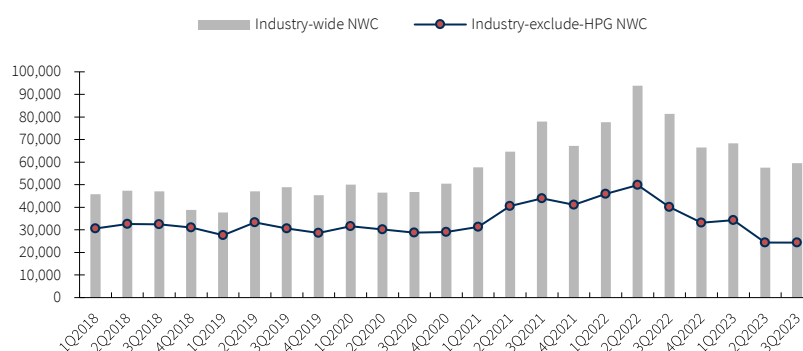
Source: Nam Kim Steel, KB Securities Vietnam

Steel businesses focused on controlling profit margins and cash flow

Working capital of the steel industry has reached five-year lows

We believe that steel industry profit bottomed out in 2023 (Figure 4) and will recover since (1) consumption in the domestic market is forecast to maintain and gradually improve from 2H24, increasing revenue. In addition, (2) steel enterprises have proactively lowered inventory, reduced working capital and focused on maintaining profit margins and cash flow during a period of low consumption (Figure 6).

Fig 7. Vietnam – Working capital of the steel industry in 2018–2023 (VNDbn)

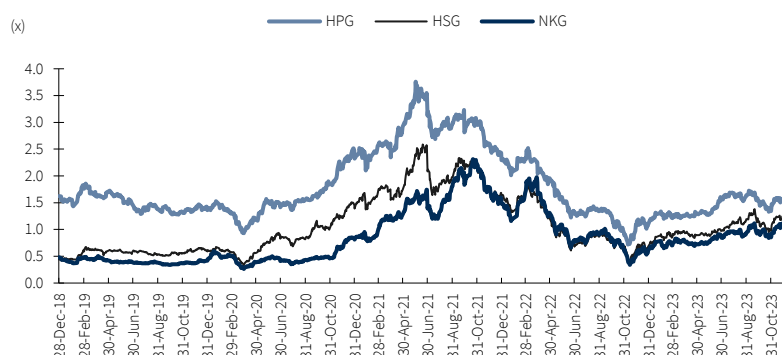


Source: FiiPro, KB Securities Vietnam

Attractive valuation with recovery prospects in 2024

We believe that steel stock prices period have recently reflected expectations of short-term increases in finished product prices of manufacturing enterprises, but have not fully reflected the potential for NPAT recovery with (1) rebounding demand from the bottom and (2) effective inventory management. Our top picks include HPG, HSG, and NKG. All have P/B valuations in the attractive range (1.1 – 1.2x), which is suitable for long-term investment.

Fig 18. HPG, HSG, NKG – P/B valuation (x)



Source: Ministry of Construction, KB Securities Vietnam

Hoa Phat Group (HPG)

Sales volume improved further

December 18, 2023

Analyst Nguyen Duong Nguyen
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3Q23 NPAT reached VND2,000 billion (versus a loss of VND1,744 billion in 3Q22) on revenue of VND28,484 billion (-16% YoY)

Sales volume continued its uptrend in 4Q23 on the recovery of exports and construction steel consumption

GPM is expected to diminish in 4Q23 due to surging input costs

Sales volume should maintain its momentum, and output price hikes may be reflected in 1Q24 results

The residential market is expected to gradually recover from 2Q24

We recommend BUY for HPG with a target price of VND32,200/share

Buy maintain

Target price	VND32,200
Upside	21%
Current price (Dec 18, 2023)	VND26,600
Consensus target price	VND29,050
Market cap (VNDtn/USDbn)	15.6/6.4

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	149,680	141,409	118,166	133,023
Operating income/loss (VNDbn)	37,008	9,794	6,366	11,919
NPAT-MI (VNDbn)	34,478	8,484	5,436	10,131
EPS (VND)	7,708	1,459	935	1,742
EPS growth (%)	90%	-81%	-36%	86%
P/E (x)	4.6	12.3	28.5	15.3
P/B (x)	1.8	1.1	1.6	1.5
ROE (%)	46%	9%	6%	10%
Dividend yield (%)	3.8%	3.9%	0.0%	0.0%

Hoa Phat Group (HPG) saw 3Q23 revenue down 3% QoQ and NPAT up 37% QoQ, supported by (1) sales volume up 8% (construction steel consumption up 17% thanks to the export channel) and (2) cooling input prices. As a result, gross profit margin (GPM) expanded by 178 bps QoQ.

HRC production capacity utilization rate is estimated to reach 100% in 4Q23 (~750,000 tons/quarter). Besides, construction steel consumption rose further as steel dealers tended to boost inventory before HPG adjusts the selling prices of finished products.

We expect HPG's GPM to decline in 4Q23 as iron ore and coking coal prices increased by an average of 9% QoQ and 30% QoQ, respectively.

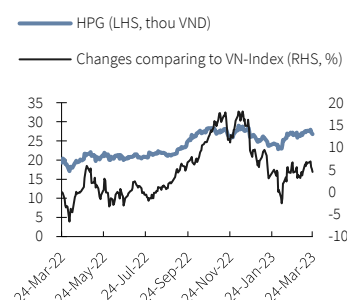
We believe HPG's competitive output prices will continue to push exports to the US and EU markets. At the same time, sales volume will maintain momentum thanks to dealers raising inventory in anticipation of the peak construction season.

The residential market in Vietnam showed signs of recovery in 4Q23 when real estate prices in Tier-2 markets seemed to have bottomed out and land transactions increased. The property market should slowly recover from 2Q24.

We reiterate our BUY recommendation for HPG with a target price of VND32,200 apiece, 21% higher than the closing price on December 18, 2023.

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	618.9/25.4
Foreign ownership	25.39%
Major shareholder	Mr. Tran Dinh Long (26.08%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-2	18	35	20
Relative	0	9	19	22



Source: Bloomberg, KB Securities Vietnam

Hoa Sen Group (HSG)

Golden lotus

October 5, 2023

Analyst Nghiem Sy Tien
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HSG recorded a 29% YoY decrease in revenue for 3Q of the fiscal year 2022–2023

In 3Q of the fiscal year 2022–2023, Hoa Sen Group (HSG) recorded gross profit of VND892 billion (–44% YoY) on net revenue of VND8,645 billion (–29% YoY). After all taxes and expenses, the net profit of the group is only about VND14 billion (–95% YoY) and (–95% QoQ). Gross profit margin accordingly was only 10.1% (down 2.8ppts YoY) due to both domestic and export prices decreasing.

Domestic consumption of galvanized steel should recover, and export segment will support revenue late 2023

We expect domestic consumption output of HSG to strongly recover from late 2023 – early 2024 thanks to the group's efforts. Besides, the export segment can maintain a stable growth rate thanks to a large customer base and more competitive prices compared to the US and EU markets'.

GPM improved thanks to input HRC prices staying low

HRC prices staying low from mid–2022 is a good opportunity for steel manufacturing enterprises to increase raw material imports. This, combined with the rebound in steel and galvanized steel product prices, will boost the GPM of the group.

BUY recommendation with target price of VND24,700/share

Based on the business prospects and assumptions about HSG's consumption output, we set a target price for the stock at VND24,700/share, equivalent to an upside of 34.9% compared to the closing price on October 5, 2023.

Buy initiate

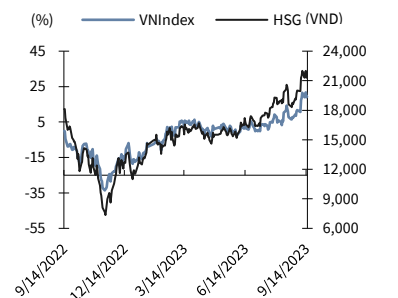
Target price	VND24,700
Upside	21%
Current price (Oct 5, 2023)	VND18,350
Market cap (VNDtn)	13.4

Trading data	
Free float	85%
3M avg trading value (VNDbn)	5.9
Foreign ownership	20.48%
Major shareholder	17.02%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	7	26	34	18
Relative	7	18	16	19

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	56,561	40,695	32,694	38,252
Operating income/loss (VNDbn)	5,074	–806	899	1,324
NPAT–MI (VNDbn)	4,379	–1,068	680	1,038
EPS (VND)	6,974	–1,701	1,082	1,503
EPS growth (%)	184%	–124%	–164%	39%
P/E (x)	4.55	–8.06	26.80	19.30
P/B (x)	1.74	1.77	1.54	1.40
ROE (%)	48%	–10%	6%	9%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

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Construction

Driven by industrial group and FDI

The business performance of the whole construction sector declined due to external factors

Revenue and NPAT of the entire sector decreased by 10% YoY and 58% YoY, respectively, because (1) the backlog in the residential segment decreased when real estate developers had difficulty finding capital and waiting for legal approval; and (2) interest expenses increased (accounting for 54% of gross profit in 9M23 compared to 40% in 9M22), causing NPAT to decline.

Public investment benefited infrastructure businesses in 2023

Key transportation projects were bid and awarded quickly in 2023, including North-South expressway phase 2 and Long Thanh international airport. However, the progress of capital disbursement did not meet expectations (only reaching 65% of the target after 11M23), which has indirectly affected the business results of the public investment-related businesses (five out of eight covered companies recoded 9M23 dropping 35– 50% YoY).

Opportunities in industrial construction with FDI projects in 2024–2025

We believe that (1) the relocation of production bases and (2) the rising comprehensive strategic relationship with the US and cooperation with major countries such as China, Japan, and Korea in 2023 will boost FDI capital flows and create a favorable environment for industrial construction enterprises in the coming time. Businesses with a solid financial foundation, construction capacity and the ability to meet high technical requirements of foreign investors will benefit.

The progress of public investment projects should be closely watched

Most of the key projects in the 2021–2025 period have been awarded contracts since 2023. For 2024, we believe that project implementation and public investment capital disbursement progress will be directly reflected in the business results of construction businesses. Given the government's policies to accelerate public investment, KBSV expects the disbursement rate in 2024 to improve and become a growth driver for related companies.

NEUTRAL rating on business results of construction businesses

The stock prices of the public investment group increased in 2023, while the residential real estate group showed a divergence. We maintain a NEUTRAL rating on the construction sector, but some businesses with large backlogs, good execution and handover capabilities will have opportunities to outperform in 2024.

Neutral change

Recommendations

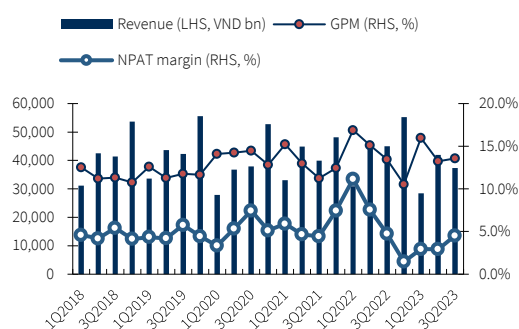
CTD	BUY
Target price	VND76,200

2023 business performance

9M23 NPAT plunged 58% YoY

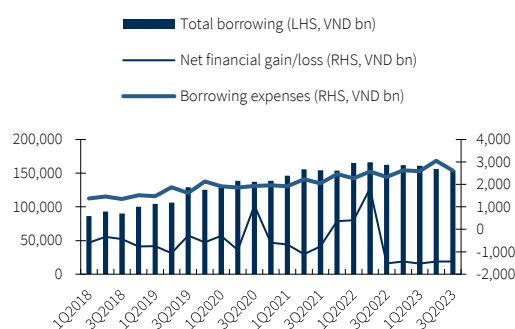
In 9M23, revenue of the whole construction sector was VND107,715 billion (-10% YoY), while NPAT reached VND3,751 billion (-58% YoY). The decline in business results is due to the limited workload on the market in 1H23 and the investors' slow project implementation. At the same time, lending interest rates increased from 4Q22, causing NPAT to be eroded by interest expenses (Figure 2). However, the financial pressure of construction enterprises has been eased as the total value of receivables decreased by 10% YTD, and the proportion of receivables by 3Q3 also reached five-year lows (Figure 3).

Fig 1. Vietnam – Profit margin of construction sector (%)



Source: FiinPro, KB Securities Vietnam

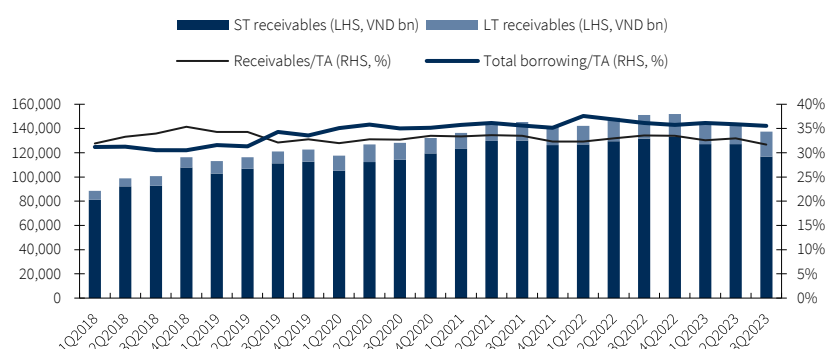
Fig 2. Vietnam – Loan status of construction businesses



Source: FiinPro, KB Securities Vietnam

By 3Q23, the balance sheets of construction businesses were improved thanks to a 10% YTD decline in receivables

Fig 3. Vietnam – Balance sheets of construction businesses

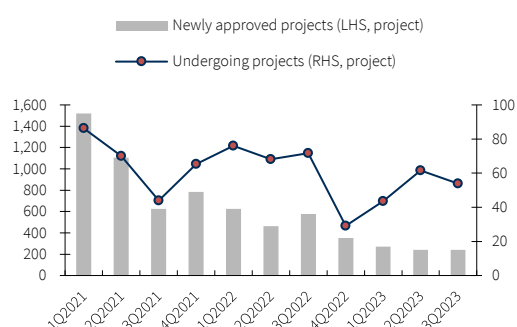


Source: FiinPro, KB Securities Vietnam

Subdued residential real estate affected residential construction activities

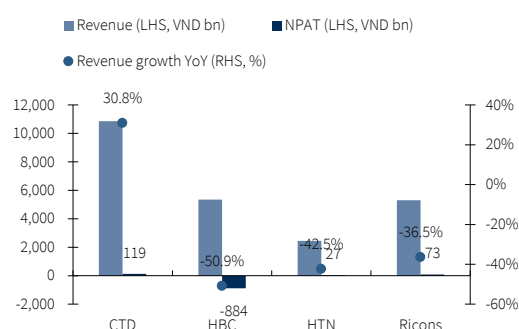
Statistics from the Ministry of Construction showed that the number of ongoing projects tended to be lower than the same period in 2022. In 3Q23, there were 863 residential construction projects being implemented (-25% YoY) and 15 projects granted new construction licenses (compared to 36 projects in 3Q22), reflecting the difficulties of real estate developers in terms of capital and legal issues. This directly affected the supply of residential construction backlog. Three out of four businesses majoring in residential construction that we cover witnessed a revenue decline of 35–50% in 9M23 (Figure 5).

Fig 4. Vietnam – Number of ongoing and newly licensed housing projects (project)



Source: Ministry of Construction, KB Securities Vietnam

Fig 5. Vietnam – 9M23 performance of residential construction businesses

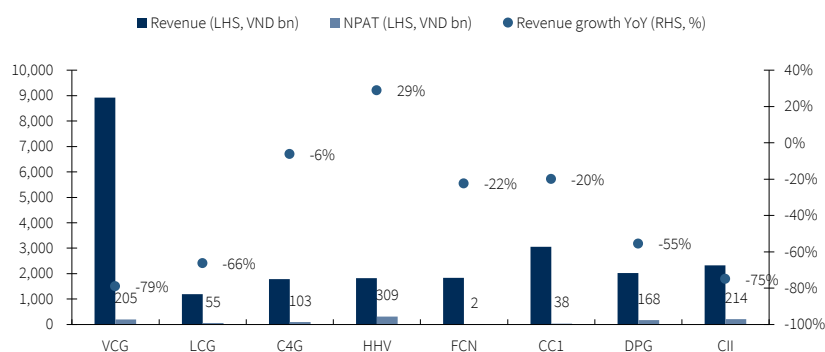


Source: Financial statements, FiinPro, KB Securities Vietnam

Public investment created motivation for infrastructure developers

In contrast, businesses focusing on infrastructure construction benefited from accelerated public investment disbursement in 2023. However, the disbursement of public investment in some key projects was not as expected, averaging 60% as of November 24, 2023 (Table 7). In addition, the pressure from increased interest costs has weakened the performance of infrastructure developers, causing their NPAT to decline in 9M23 (Figure 6). Only Deo Ca Traffic Infrastructure Investment (HHV) and Cienco 4 Group (C4G) were less affected from 4Q22 as their debts were concentrated on BOT projects, and interest costs (PPP) were adjusted to a fixed proportion of revenue.

Fig 6. Vietnam – 9M23 NPAT & revenue of leading construction enterprises (VNDbn)



Source: Financial statements, FiinPro, KB Securities Vietnam

Five out of eight leading construction enterprises recorded lower revenue in 9M23

Table 7. Vietnam – Disbursement progress of key transportation projects and related contractors (as of November 24, 2023)

No.	Project	Total budget	State budget	Provincial budget	Private budget	Plan	State budget	Provincial budget	Disbursed	State budget	Provincial budget	Progress	Listed companies	Package	Value (VND bn)
1	North-South expressway (western part) 2017 -2020	97,289	78,267	0	19,022	16,110	16,110	0	10,792	10,792	0	67%			
1.1	Cao Bo - Mai Son	1,607	1,607	0	0	0	0	0	0	0	0	0%			
1.2	Mai Son - QL45	12,111	12,111	0	0	2,004	2,004	0	1,273	1,273	0	63%	HHV	XL-13	1,256
1.3	QL45 - Nghi Son	5,534	5,534	0	0	1,660	1,660	0	1,058	1,058	0	64%	LCG	XL-02	1,193
													VCG	XL-03	1,144
													HHV	XL-01	1,158
1.4	Nghi Son - Dien Chau	7,293	7,293	0	0	1,667	1,667	0	1,217	1,217	0	73%	VCG	XL-03	1,266
													C4G	XL-04	1,139
1.5	Dien Chau - Bai Vot	13,338	6,608	0	6,730	1,869	1,869	0	1,369	1,369	0	73%	C4G	PPP	
1.6	Cam Lo - La Son	7,669	7,669	0	0	687	687	0	161	161	0	23%			
1.7	Nha Trang - Cam Lam	7,615	2,979	0	4,636	510	510	0	563	563	0	110%		PPP	
1.8	Cam Lam - Vinh Hao	13,687	6,031	0	7,656	2,275	2,275	0	1,497	1,497	0	66%	HHV	PPP	
1.9	Vinh Hao - Phan Thiet	10,854	10,854	0	0	2,633	2,633	0	1,730	1,730	0	66%	VCG	XL-04	3,225
1.10	Phan Thiet - Dau Giay	12,577	12,577	0	0	2,088	2,088	0	1,505	1,505	0	72%	VCG	XL-03	2,299
1.11	My Thuan bridge phase 2	5,003	5,003	0	0	717	717	0	419	419	0	59%	HHV	XL-02	413
2	North-South expressway (eastern part) 2021 - 2025	135,178	135,178	0	0	42,610	42,610	0	29,688	29,688	0	70%			
2.1	Bai Vot - Ham Nghi	7,644	7,644	0	0	1,975	1,975	0	1,713	1,713	0	87%	VCG	XL-11	5,232
2.2	Ham Nghi - Vung an	9,735	9,735	0	0	2,864	2,864	0	1,715	1,715	0	60%			
2.3	Vung Ang - Bung	12,548	12,548	0	0	3,731	3,731	0	3,042	3,042	0	82%	LCG	XL-02	5,400
2.4	Bung - Van Ninh	9,361	9,361	0	0	2,413	2,413	0	1,811	1,811	0	75%	C4G	XL-01	3,939
2.5	Van Ninh - Cam Lo	9,920	9,920	0	0	3,830	3,830	0	2,114	2,114	0	55%			
2.6	Quang Ngai - Hoai Nhon	20,470	20,470	0	0	7,119	7,119	0	5,080	5,080	0	71%	HHV	XL-01	3,949
2.7	Hoai Nhon - Quy Nhon	12,401	12,401	0	0	4,668	4,668	0	3,082	3,082	0	66%			
2.8	Quy Nhon - Chi Thanh	14,802	14,802	0	0	5,693	5,693	0	3,237	3,237	0	57%	CC1	XL-01	3,253
2.9	Van Phong - Nha Trang	10,774	10,774	0	0	3,584	3,584	0	1,945	1,945	0	54%	VCG	XL-02	3,549
2.10	Can Tho - Hau Giang	10,371	10,371	0	0	2,802	2,802	0	2,774	2,774	0	99%	CC1	XL-01	7,555
2.11	Hau Giang - Ca Mau	17,153	17,153	0	0	3,932	3,932	0	3,174	3,174	0	81%	C4G	XL-01	6,466
3	Khanh Hoa - Buon Ma Thuot expressway phase 1	22,234	22,234	0	0	3,382	2,282	1,100	2,006	1,278	728	59%			
3.1	Component 01	5,632	5,632	0	0	899	596	303	660	561	99	73%			
3.2	Component 02	10,437	10,437	0	0	1,124	1,000	124	290	284	6	26%	C4G	XL-03	
3.3	Component 03	6,165	6,165	0	0	1,359	686	673	1,057	433	624	78%	CC1	XL-03	1,467
4	Bien Hoa - Vung Tau expressway phase 1	17,828	17,828	0	0	5,043	3,933	1,110	2,599	1,589	1,010	52%			
4.1	Component 01	6,012	6,012	0	0	1,324	1,224	100	157	156	1	12%	LCG, CC1	XL-21	1,411
4.2	Component 02	6,852	6,852	0	0	1,691	1,691	0	416	416	0	25%			
4.3	Component 03	4,964	4,964	0	0	2,028	1,018	1,010	2,026	1,017	1,010	100%			
5	Chau Doc - Soc Trang expressway phase 1	44,814	44,814	0	0	6,807	4,280	2,527	5,726	3,457	2,268	84%			
5.1	Component 01	13,526	13,526	0	0	2,135	1,653	483	2,135	1,653	483	100%	CC1	XL-45	2,035
5.2	Component 02	9,725	9,725	0	0	1,837	837	1,000	1,668	799	869	91%			
5.3	Component 03	9,602	9,602	0	0	1,335	844	491	936	446	490	70%	VCG	XL-01	3,479
5.4	Component 04	11,961	11,961	0	0	1,500	946	554	986	560	427	66%			
6	Hanoi ring road 04	85,813	37,860	18,506	29,447	11,858	6,419	5,439	6,561	3,887	2,674	55%			
6.1	Indemnify, resettlement projects	19,590	9,860	9,730	0	10,309	4,870	5,439	5,829	3,155	2,674	57%			
6.1.1	Component 01 - 01	13,370	4,010	9,360	0	7,069	2,000	5,069	4,008	1,334	2,674	57%			
6.1.2	Component 01 - 02	3,740	3,740	0	0	1,870	1,870	0	805	805	0	43%			
6.1.3	Component 01 - 03	2,480	2,110	370	0	1,370	1,000	370	1,017	1,017	0	74%			
6.2	Parallel road projects	9,687	9,687	0	0	1,549	1,549	0	732	732	0	47%			
6.2.1	Component 02 - 01	5,388	5,388	0	0	900	900	0	720	720	0	80%	VCG	XL-09	1,816
6.2.2	Component 02 - 02	1,505	1,505	0	0	200	200	0	10	10	0	5%	LCG	XL-01	1,253
6.2.3	Component 02 - 03	2,794	2,794	0	0	449	449	0	1	1	0	0%			
6.3	Expressway project	56,536	18,313	8,776	29,447	0	0	0	0	0	0	0%		PPP	
7	Hochiminh city ring road 03	75,378	75,378	0	0	30,460	16,149	14,311	17,051	14,563	3,446	56%			
7.1	Construction project	33,788	33,788	0	0	8,628	1,623	7,005	2,074	1,152	922	24%			
7.1.1	Component 01	22,412	22,412	0	0	7,000	1,000	6,000	1,569	699	870		HDG	XL-02	1,727
													HHV, CC1	XL-04	1,642
													C4G	XL-08	1,418
7.1.2	Component 03	2,584	2,584	0	0	100	50	50	34	26	8	34%			
7.1.3	Component 05	5,752	5,752	0	0	1,128	380	748	243	242	1	22%			
7.1.4	Component 07	3,040	3,040	0	0	400	193	207	228	186	42	57%			
7.2	Indemnify, resettlement projects	41,590	41,590	0	0	21,832	14,526	7,306	14,977	13,411	2,525	69%			
7.2.1	Component 02	25,610	25,610	0	0	11,500	11,500		10,435	10,435	0	91%			
7.2.2	Component 04	1,284	1,284	0	0	478	50	428	0	0	0	0%			
7.2.3	Component 06	13,528	13,528	0	0	8,859	2,100	6,759	4,542	2,100	2,442	51%			
7.2.4	Component 08	1,168	1,168	0	0	995	876	119		876	82	0%			
7.3	Hochiminh road	9,982	9,982	0	0	5	5	0	0	0	0	0%			
8.1	Chu market - Trung Son	1,665	1,665	0	0	0	0	0	0	0	0	0%			
8.2	Rach Soi - Ben Nhat - Vinh Thuan	3,904	3,904	0	0	0	0	0	0	0	0	0%			
8.3	Co Tiet - Cho Ben	4,413	4,413	0	0	4	4	0	0	0	0	0%			
9	Indemnify, resettlement projects for Long Thanh international airport	11,111	23,263	0	0	1	1	0	0	0	0	0%			
9.1	Indemnify, resettlement projects	22,856	22,856	0	0	0	0	0	0	0	0	0%			
9.2	Customs headquarter	407	407	0	0	1	1	0	0	0	0	0%			

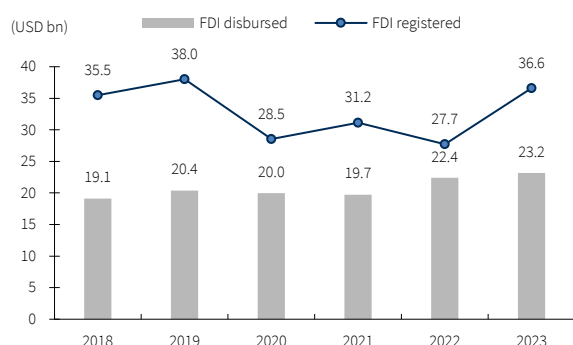
Source: Ministry of Finance, Ministry of Planning & Investment, KB Securities Vietnam

2024 outlook

FDI industrial projects will be the growth driver for the construction sector

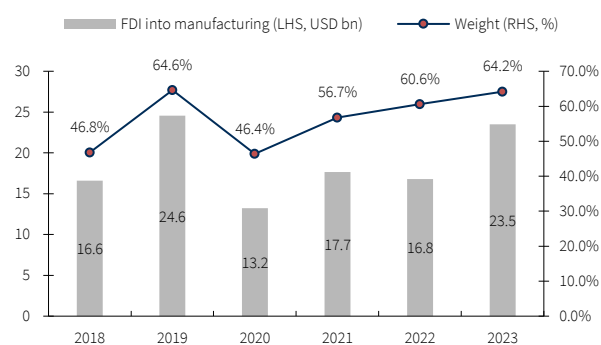
We noted that the development trend of industrial production with FDI investment will increase in the near future thanks to the surge in registered FDI capital in 2023 (+32% YoY) thanks to the promoting cooperation with the US, China, Japan, and South Korea in 2023. Investment capital in the manufacturing and processing sector is estimated at USD23.5 billion (+40% YoY), which will drive the growth of the industrial construction segment in Vietnam in 2024–2025. We believe that construction enterprises with execution capacity and the ability to meet high technical requirements of foreign investors will benefit from industrial projects with FDI capital in the near future.

Fig 8. Vietnam – Registered and disbursed FDI in 2023 (USDbn)



Source: General Statistics Office, FinnPro, KB Securities Vietnam

Fig 9. Vietnam – Registered FDI value and weight in industrial segment (USDbn, %)



Source: General Statistics Office, FinnPro, KB Securities Vietnam

Table 10. Vietnam – Top 10 industrial production and processing–manufacturing projects with the largest FDI capital in 2023

No.	Company	Origin	Industry	Budget (mn. USD)	IP	Location
1	Fulian Precision Technology	Singapore	Computer, electronics	621	Quang Chau	Bac Giang
2	Shadong Haohua Tire Co. Ltd	China	Plastic, rubber	500	Sikico	Binh Phuoc
3	Goertek (Hongkong) Co. Ltd	Hongkong	Computer, electronics	280	Nam Son – Hap Linh	Bac Ninh
4	Suntory Pepsico	Netherlands	Beverages	185	Huu Thanh	Long An
5	Boltun Corp & QST International Corp	Taiwan	Machines, manufacturing	165	Bac Tien Phong	Quang Ninh
6	Pandora Production Holdings A/S	Denmark	Jewelry	163	VSIP III	Binh Duong
7	Autoliv Vietnam	Sweden	Autoparts	154	Amata Song Khoai	Quang Ninh
8	Longi Green Energy Technology Co. Ltd	China	Solar panels and batteries	140	Van Trung	Bac Giang
9	Crown Company	Singapore	Aluminum	95	Phu Tan	Binh Duong
10	Rising Team Enterprises	Hongkong	Textile	38	TMTC	Tay Ninh

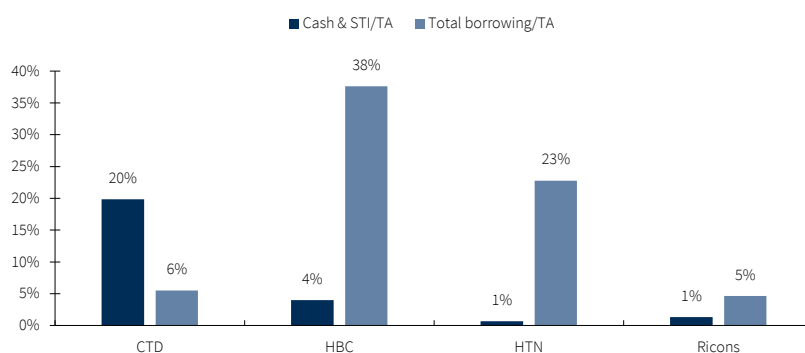
Source: Savills, KB Securities Vietnam

Construction activities in the residential real estate segment should recover in 2024

We believe that the number of newly licensed and ongoing residential real estate projects bottomed out in 2023 (Figure 4) and expect the residential construction segment to recover in 2024 thanks to (1) the Government's supportive policies for real estate developers (low interest rates, extension of bond maturity, and acceleration of legal procedures) will help some projects to access capital, return to construction and be granted licenses. In addition, the amended laws (*Real estate sector – Table 15*) are expected to improve the sentiment of home buyers, shorten legal procedures and increase market transparency. However, the speed of recovery may be affected by debt payment pressure and the need of investors to restructure debt from bonds due in 2024 (of which a number of bond lots have been extended from 2023).

Businesses with (1) large amounts of cash and (2) human resources will have an advantage in bidding for residential projects when the market recovers

Fig 11. Vietnam – Cash and debts to total assets ratios of residential construction businesses (%)



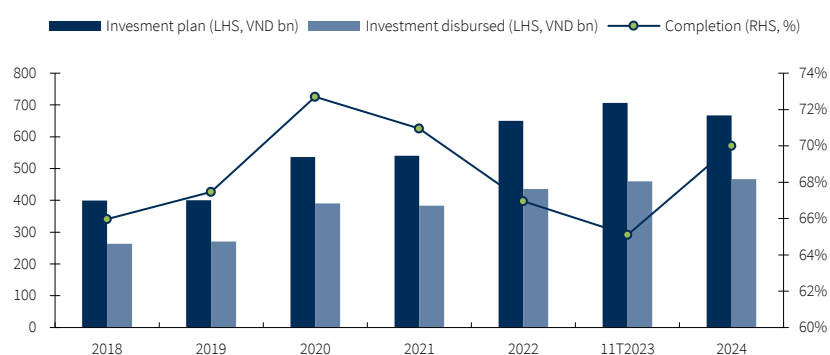
Source: Financial statements, FiinPro, KB Securities Vietnam

Public investment will be further promoted in 2024 to achieve national goals

After 11M23, it is estimated that disbursed public investment capital reached VND461 trillion, equivalent to 65% of the year's plan. In 2024, the government's public investment plan is estimated to reach VND677 trillion, accounting for 32% of the state budget. The investment focused on key projects such as the North-South Expressway, Long Thanh International Airport, Ring Road 4 Hanoi, and Ring Road 3 Ho Chi Minh City. We estimate the total public investment capital that can be allocated in 2024 at VND730,000 (backlogs from 2023 to 2024) and expect the disbursement rate to be at 80%, up 16% YoY.

We believe that positive information related to winning bids has been reflected in the stock prices of public investment groups in 2023. For 2024, projects that have been approved and had quick disbursement speed will benefit

Fig 12. Vietnam – 2024F public investment (VNDbn)



Source: Ministry of Planning & Investment, KB Securities Vietnam

Coteccons (CTD)

Optimize provision cost to boost profit

December 8, 2023

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Operating income returned to growth in 1Q FY2024 thanks to improved GPM and reduced provision expenses

By the end of 1Q FY2024, Coteccons Construction (CTD) NPAT reached VND67 billion on revenue of VND4,124 billion (+33% YoY). Good performance was attributable to (1) a 2.4% gain in GPM from revenue from Lego project (industrial segment) and (2) a decrease of 29% YoY in provision costs. Operating income (excluding net financial income) has also returned to positive levels.

The industrial segment is the driving force for future growth

GPM of CTD should improve in FY2024 thanks to (1) the large proportion of the industrial segment (21% at the end of FY2023 compared to 14% in early 2023) with the main motivation from the Lego project and (2) CTD's new contracts in the industrial segment with FDI developers in the medium and long term.

The value of new contracts to be signed in FY2024 should gain 30%

FY2023-end backlog of the company reached VND20,000 billion. For FY2024, the value of newly signed contracts should gain 30% YoY thanks to the repeat sales strategy and the potential recovery in the residential real estate market.

Estimated FY2024 provision costs are at VND104 billion, supporting NPAT

We expect provision costs in FY2024 to account for 0.6% of CTD's revenue and decrease by 32% compared to that of the last four quarters. CTD can limit additional bad debts in the future thanks to (1) the application of payment guarantees and (2) risk management while implementing repeat purchases.

BUY recommendation with target price VND76,200/share

We determine the fair value of CTD at 76,200 VND/share, corresponding to a potential price increase of 19% compared to the closing price on December 8, 2023.

Buy change

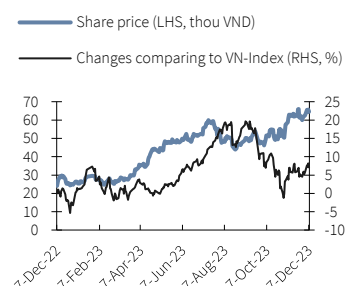
Target price	VND76,200
Upside	19%
Current price (Dec 8, 2023)	VND64,300
Consensus target price	VND49,500
Market cap (VNDtn/USDtn)	0.61/0.25

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	929/40
Foreign ownership	44.8%
Major shareholder	Kustoshem Private (17.55%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0	0	0	2
Relative	0	0	0	1

Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net sales (VNDbn)	14,537	6,744	17,109	16,530
Operating income/loss (VNDbn)	-54	69	280	391
NPAT (VNDbn)	21	52	222	313
EPS (VND)	263	663	2,141	3,019
EPS growth (%)	-13%	152%	223%	41%
P/E (x)	125.2	97.8	30.0	21.3
P/B (x)	0.3	0.6	0.8	0.8
ROE (%)	0%	1%	3%	4%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

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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

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