KB Securities VIETNAM

Research Division
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MARKET STRATEGY 2Q20

Macro & Market Strategy

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I. Economic downturn for most 2Q

Expected price range of VNIndex at the end of 2Q was around 750 with expectation of a recovery in large caps at the end of the quarter:

- Global markets were volatile and struggling with unpredictable COVID-19 pandemic which brought some main consequences: 1) disrupted global production supply chains due to heavy dependence on China; 2) delayed trading and consumption due to social distancing and lockdown; 3) falling oil prices due to decreasing oil demand; 4) strong sell-off in risky assets (including Vietnamese stocks) due to raising cautious sentiment; and 5) increasing economic stimulus packages from central banks.
- Domestic macro data failed to maintain the stable status and the economic growth may record a sharp downturn. Economic stimulus measures were still limited as the Government only focused on reducing taxes to support businesses. There were many unsolved obstacles to disbursement progress, while the State bank of Vietnam (SBV) could only apply monetary policies prudently due to unfavorable inflation rate.
- Complicated movements of the pandemic made it more difficult to forecast the economic growth. This report was based on the scenario that the peak of the COVID-19 would happen at the end of 2Q20. This means that sustainable rebounds would be recorded no sooner than late 2Q-early 3Q. Large caps would be the main growth force of the economy thanks to their ability to bounce back quickly with healthy financial buffer, advantages in size, and relationships with long-term partners.

Recommended sectors/tickers:

- Power: Hai Phong Thermal Power (HND) & PV Power Nhon Trach 2 (NT2)
- Information Technology: FPT Group (FPT) & CMC Corporation (CMG)

Positive	Impact level	Possibility	Negative	Impact level	Possibility
Central banks easing monetary policy	Low	High	Another wave of COVID-19	Strong	Medium
Stronger public disbursement	Medium	High	Risk of global recession	Strong	Medium
New launched ETFs	Medium	High	Oil war	Strong	Medium
Lower deposit and interest rates	Medium	High	Disrupted production	Strong	High

II. Heavy damage in the short term

Economic growth slowed due to the Coronavirus outbreak

- We lower our 2Q GDP forecast owing to the outbreak: 1) more prolonged and complicated COVID-19 developments vs the original estimates, which forced the Government to apply nationwide lockdown followed by heavy impacts on the economy; and 2) larger-than-expected impacts to several high-growth sectors that help drive the domestic economy, such as textiles, footwear and electronics arising from falling consumer demand in major trading partners like the US and EU.

Lower inflation is the silver lining and the fiscal spending should also support 2020E GDP

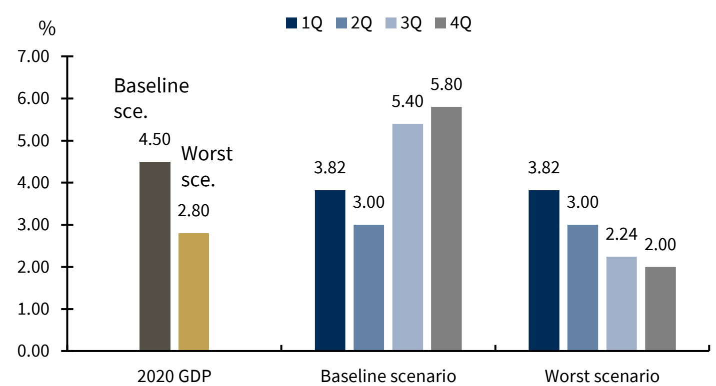
- Slower domestic demand should also tame inflation and is the silver lining as seen during SARS in 2003. The recent world oil plunges also help to reduce inflation.
- We expect the government to tap public investment funds and use large-scale projects to narrow any gap in GDP to the annual 6.8% target, including the North-South highspeed railway and Long Thanh international airport projects.
- In terms of monetary policy, we expect 1H measures to include the SBV asking banks to cut lending rates to support businesses hit by the outbreak and 2H action – assuming inflation remains in check – to include easing of monetary conditions via a synchronous lowering of the interest rate ceiling, cut in the benchmark rate, lifting credit limits for banks that have met Basel II and measures to support systemic liquidity.

Estimated impacts of Covid-19 on some main sectors

Sector	Baseline scenario	Worst scenario
	Covid-19 fully controls in Q2	Covid-19 lasts till Q3 or longer
Tourism	Down by 15% YoY domestic visitors	Down by 40% YoY domestic visitors
	Down by 35% YoY foreign visitors	Down by 55% YoY foreign visitors
Exports	Down by 10% YoY	Down by 20% YoY
Imports	Down by 5% YoY	Down by 15% YoY

Source: KB Securities Vietnam (KBSV)

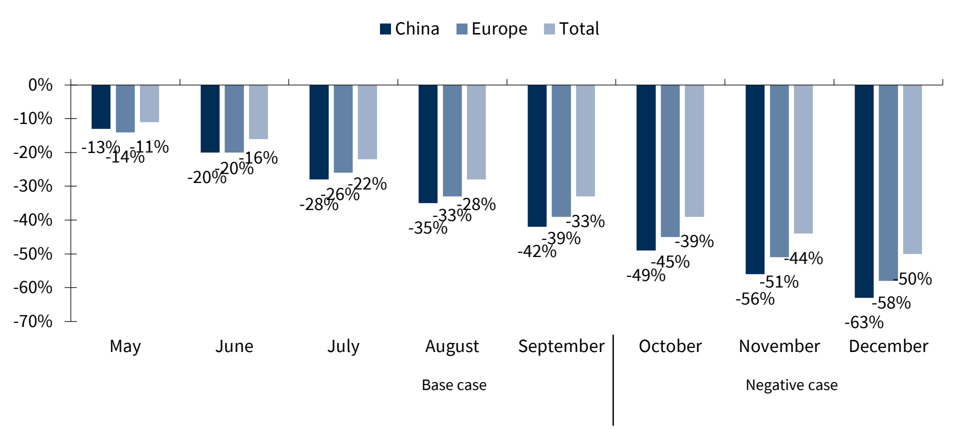
GDP growth 2020 scenarios



Source: KBSV

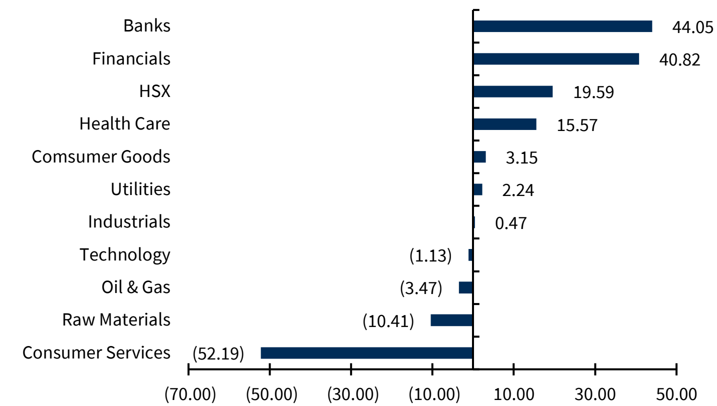
III. Sharp declines in 1Q performance

Fig 3: 2020E foreign tourist traffic to Vietnam during COVID-19 (%)



Source: Fiinpro, KB Securities Vietnam (assumed that tourists from China and Europe down by 70% and 50%)

Fig 4: 4Q19 earnings growth by sectors (%)



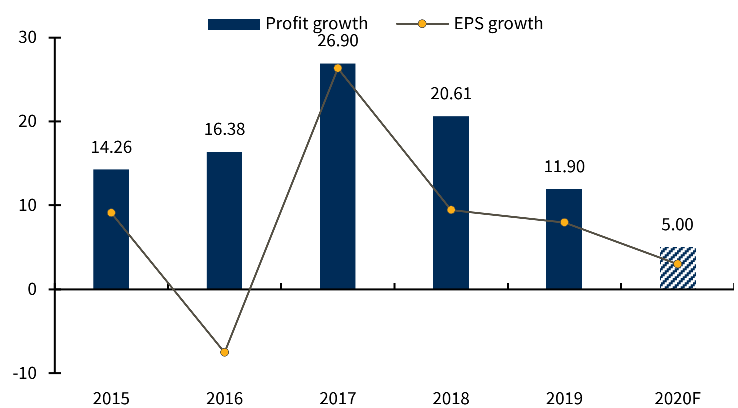
Source: Fiinpro, (ICB sector classification)

Earnings growth of listed companies on the Hanoi Stock Exchange (HSX) would be heavily affected by the outbreak. Directly exposed sectors included: airlines, transportation, services, non-essential consumer goods, and im-export sector due to restricted transportation and trade activities (Figure 3). Indirectly affected sectors are oil & gas, banks, and real estate and so on.

Large cap companies would be the main growth force of the economy despite COVID-19 thanks to their ability to bounce back quickly with healthy financial buffer, advantages in size, and relationships with long-term partners.

With the expectation that the epidemic will peak at the end of 2Q, EPS of listed companies is expected to grow 2% YoY in 2020E (vs the 12% increase previously forecast from early year and the average increase of 14% in the last three years).

Fig 5: 2020E earnings and EPS VNIndex forecast



Source: Bloomberg, KB Securities Vietnam

IV. Increasing foreign sell-down

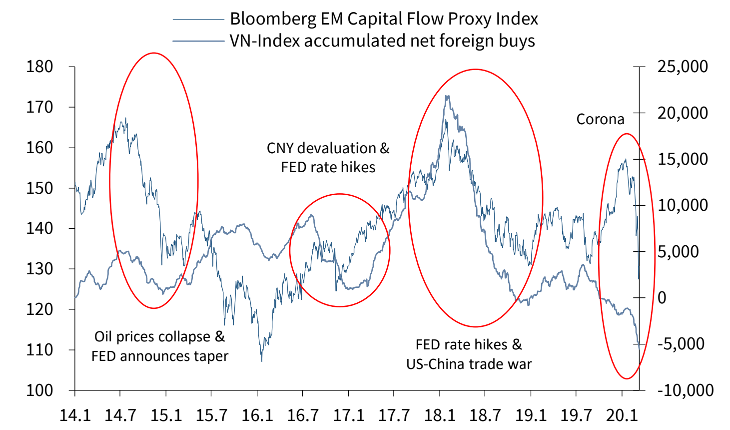
Foreigners accelerated sell-down in the first three months alongside the withdrawal of global capital from emerging markets

- Foreign investors were net sellers in most emerging markets in the region including Vietnam (USD358 million) Philippines (USD633 million), Thailand (USD3,589 million), and Malaysia (USD1,791 million) in 1Q20 on concerns about the pandemic impacts on global economic growth. This was translated into a surge in these markets, while the domestic cash flows are quite limited.

Selling pressure is likely to stay high although the market may have more supportive factors in the coming time

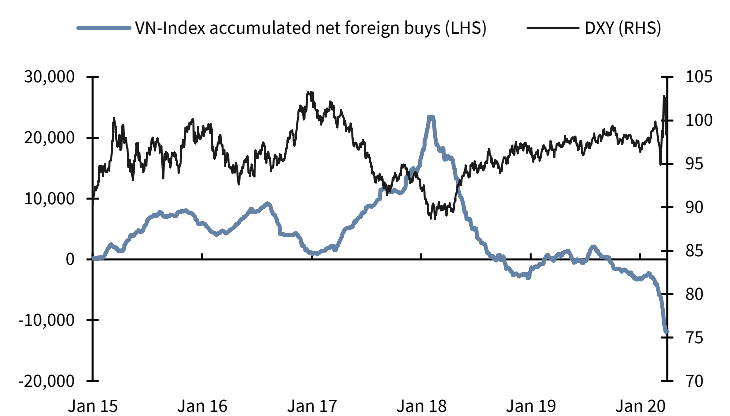
- Historic data showed that VNIndex could reach the bottom and bounce back sustainably only after investors stopped selling down, except for cases of strong drivers like SCIC divestment, corporatization, oil & gas recoveries, and so on. We believe that the current sell-down can hardly reverse in the near future unless there are boosters like well-insulated COVID-19 and clear signs of global economic rebounds.
- Central banks' launch of economic stimulus is a good sign, but the room for the SBV to further ease policies was not as large as in the global post crisis in 2008-2009. This means that the effects of these policies would be limited and would not likely to help to reverse the capital trend.
- We also find that strong USD appreciation is often accompanied by increased selling pressure from foreign investors on Vietnam stock market. The USD is expected to cool down in the coming time thanks to the economic support policies of the Fed and the US Government, which would help curb selling pressure from foreign investors.
- See more: [Áp lực bán gia tăng từ khối ngoại]

Fig 6: Foreign selling volumes on VNIndex & EM Index



Source: Bloomberg, Fiinpro, KBSV

Fig 7: DXY & order matching cash flows



Source: Bloomberg, Fiinpro, KBSV

V. 2Q20E market evaluation

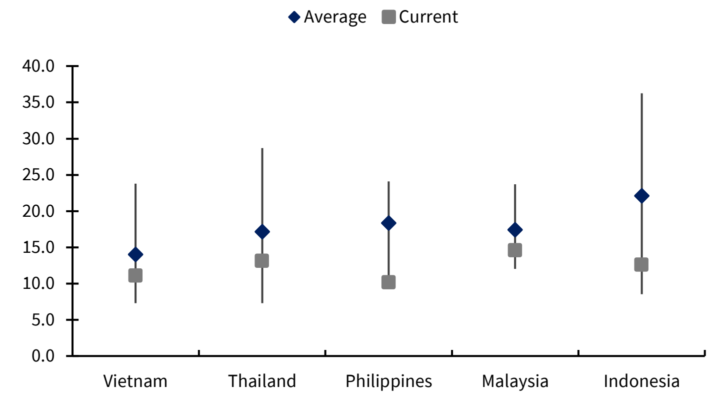
Vietnamese stocks are currently at a reasonable price range. Vietnam's P/E is a bit higher than that of the Philippines, and also close to the lowest level in the past (only higher than in 2011 when the P/E of VNIndex remained below 10). In terms of P/B-ROE relationship, VNIndex is also at a reasonable price range compared to other countries in the region.

Based on the scenario that the epidemic base will peak at the end of 2Q, we expects that the VNIndex would be at around 750 points. The market's 4Q EPS may go down by 3% QoQ, and P/E of the VNIndex may rebound to 12 times thanks to well-controlled COVID-19.

The market may experience strong volatile movements in 2Q as in 1Q amid flexible domestic and foreign cash flows due to fears of adverse impacts on the market. Business operations started to be influenced in 1Q but may bear the heaviest impacts in 2Q. COVID-19 and global economic crisis are the two main risks to the market. In contrast, there are some factors that should help to boost market recoveries and will be discussed in this report, including:

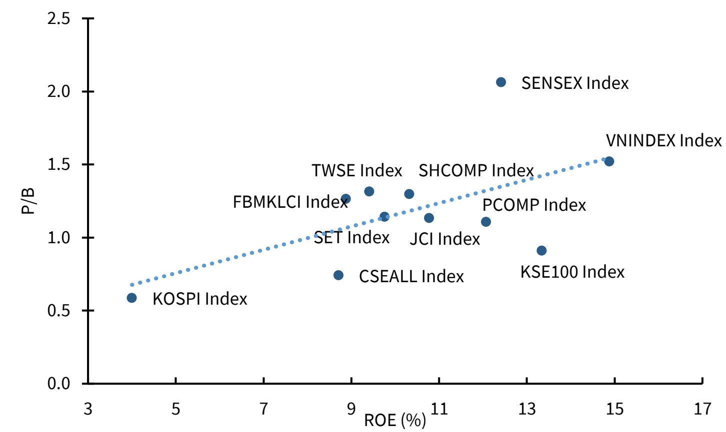
- Accelerated public disbursement
- Central banks' economic stimulus packages
- The Government's aids to support businesses such as tax and interest cuts

Fig 8: P/E of VNIndex vs regional countries (2009-2020)



Source: Bloomberg, KB Securities Vietnam

Fig 9: P/B – ROE of Asian markets



Source: Bloomberg, KB Securities Vietnam

VI. Positive – Accelerated public disbursement

We expect that the public disbursement progress to be expedited as parts of the fiscal policies to support the economy:

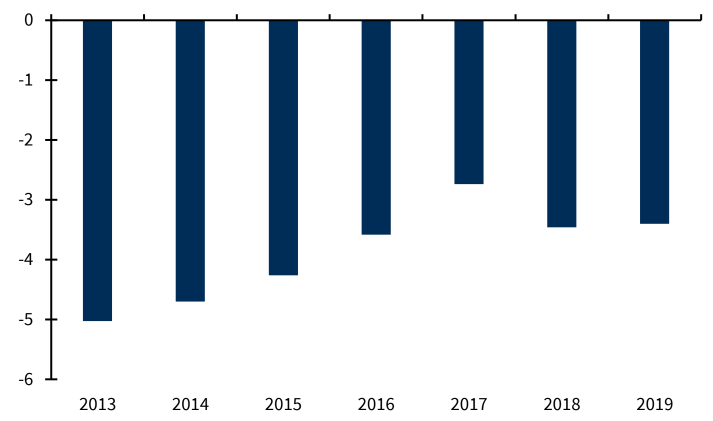
- We believe the government would focus on boosting fiscal spending to mitigate Coronavirus impacts while the room for monetary policies is limited.
- The priority would be given to key infrastructure projects, including the North-South high speed railway and Long Thanh international airport, which are expected to be deployed in 2020.

The Government has more room to boost public investment:

- Approved public investment laws are expected to solved legal obstacles to public investment management.
- State budget deficit in 2019 continued a slight downward trend to 3.4% GDP.
- Improving the tax system enables the government to continue to increase tax revenues, thereby creating fiscal room for spending. Recently, the government has increased arrears of transfer pricing infringing businesses such as Coca-Cola with VND 821 billion and Heineken with VND 917 billion.

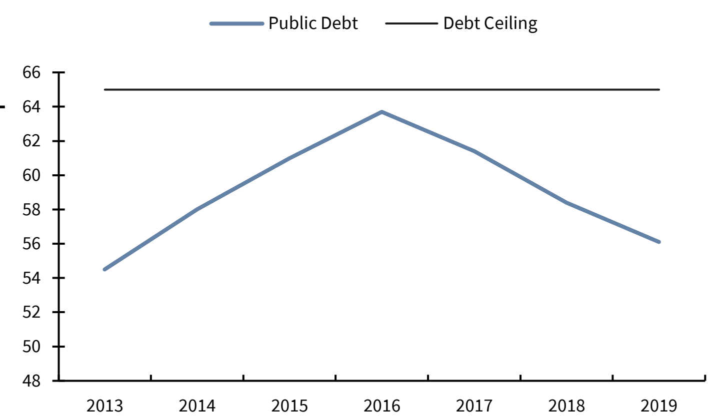
Projects	Investment cap	Beneficiaries
Long Thanh airport	USD5 billion	Construction: ACV, VATM Ground: GVR Real estate: SZL, DIG, SZC, D2D, HBC
North-South railway	VND118,716 billion	Construction: NSN, TTL, C4G, FCN Stone: KSB, NNC
Expansion of Tan Son Nhat airport terminals	VND11,000 billion	Construction: ACV
My Thuan-Can Tho highway	VND4,919 billion	Construction: HHV, DPG

Fig 10: Vietnam fiscal balance (%GDP)



Source: Ministry of Finance, KB Securities Vietnam

Fig 11: Public debts (%)



Source: Ministry of Finance, KB Securities Vietnam

VI. Positive – SBV lowered policy rates

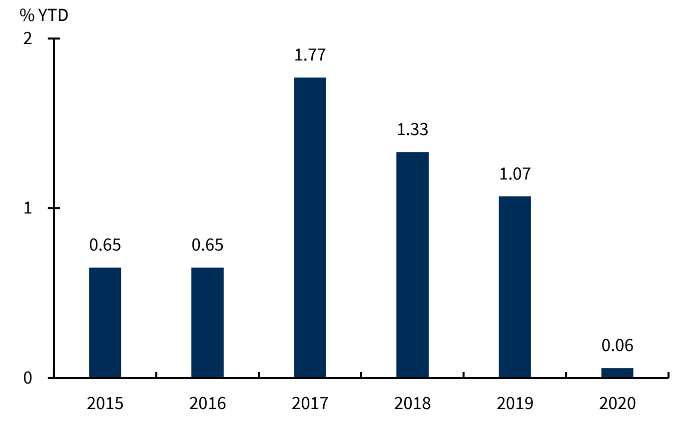
Lowered policy rates helped to support banks

- The noteworthy point of SBV's decision this time is to increase interest rates for reserve requirements in VND to 1.0% per year to offset banks' decrease in earnings to launch VND285,000 billion package to support Coronavirus exposed companies. SBV's 2019 total reserves in commercial banks was VND330 trillion, equal to the support worth VND660 billion from the SBV.

The trend of lowered interest rates would become clearer in the coming time

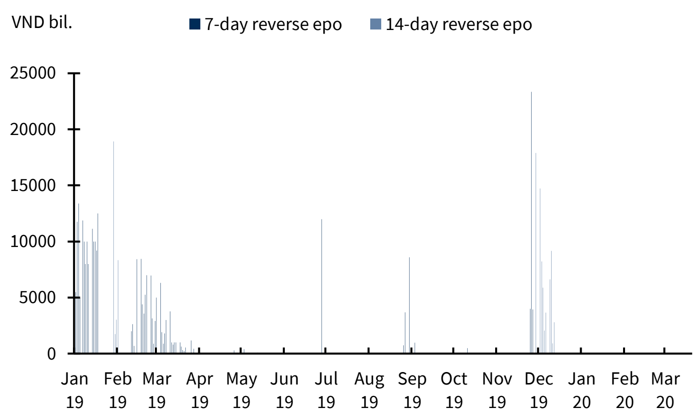
- We believe that the average lending rates would go down to 0.5 bps in the coming period, based on: i) sagging credit demand (2M credit grew a mere of 0.06% YoY – six-year lows) amid ample liquidity under the impact of COVID-19; and 2) lower interbank capital mobilization costs and the Government's aids.
- Based on the forecast of tempered inflation in the coming quarters, the SBV may have more room to ease monetary policies to support the economy. In addition, we expect that the Government would promote fiscal stimulus policies including the extension and refund of taxes, refund, fees, & insurance fees, which should expert favorable direct effects on the liquidity of Coronavirus-exposed businesses without increasing inflation ratio.

Fig 12: Credit growth in the first two months (2016-2020)



Source: Ministry of Finance, KB Securities Vietnam

Fig 13: Reverse Repo on OMOs



Source: Ministry of Finance, KB Securities Vietnam

VI. Positive – Fed’s deep rate slash

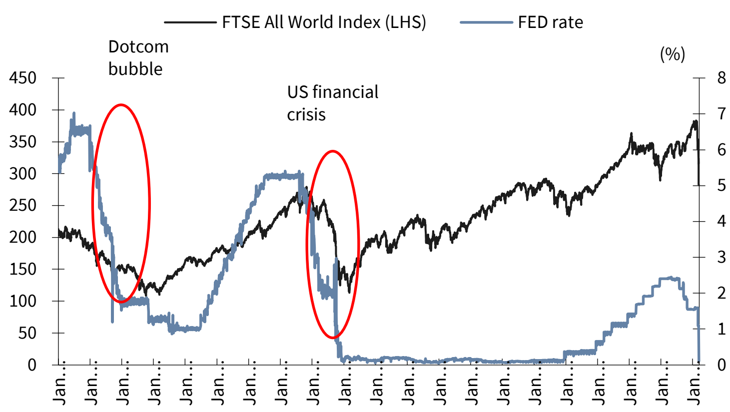
The Fed’s rate cuts would benefit Vietnam stock market in the long term despite insignificant short-term effects

1) Central banks, especially the Fed simultaneously lowered interest rates in the first two weeks of March, which helped to boost global stock markets in two ways: to cool down the US dollar (alleviate the pressure on domestic exchange rates), and to provide cheap money on the market.

2) Historic data showed that the Fed’s strong moves were all followed by plunges of the global stock markets and economic recession (dotcom and 2009). However, the market could be much worse if the Fed does not offer strong supportive policies.

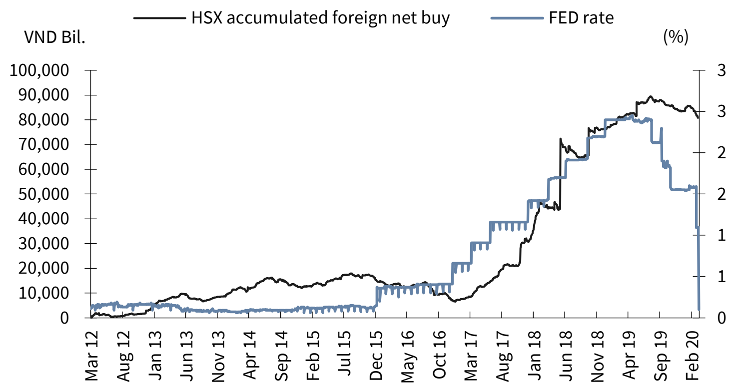
3) The answer for the question whether Coronavirus outbreak can trigger serious global economic slowdown is very unpredictable. If not, the global stock markets would win a chance to bounce back thanks to the economic stimulus packages of central banks. On the contrary, in a more negative case, these actions of central banks will help support the economy and prevent the stock market from a sharp decline.

Fig14: Fed rates and global stock markets



Source: Bloomberg, KB Securities Vietnam

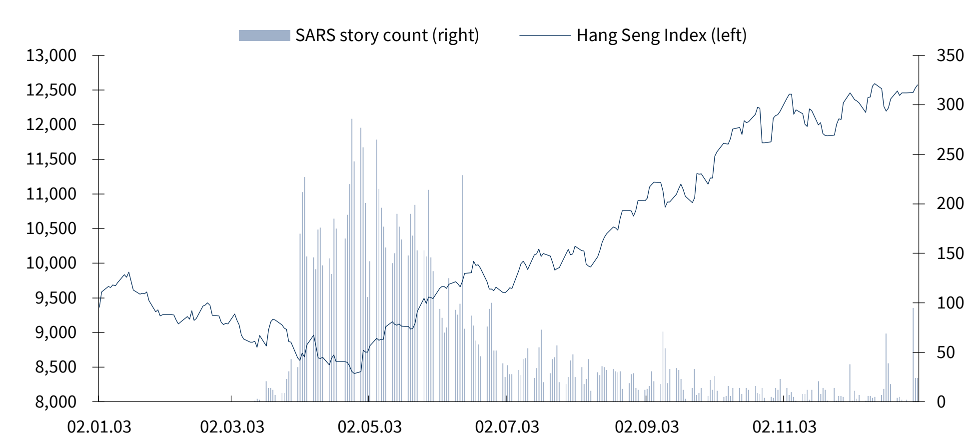
Fig 15: Fed rates and foreign trading volumes



Source: Bloomberg, KB Securities Vietnam

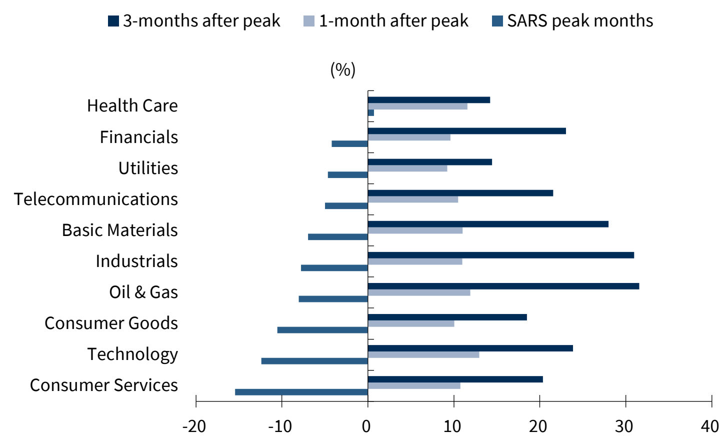
VII. COVID-19: Positive case – soon global economic rebounds

Fig 16: Hang Seng Index – SARS concerns (Jan 2003 – Dec 2003)



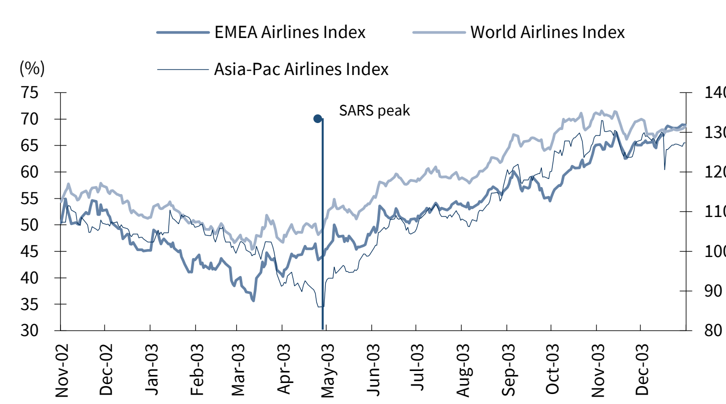
Source: Bloomberg, KB Securities Vietnam

Fig 17: Hang Seng Index – Sector movements during SARS



Source: Bloomberg, KB Securities Vietnam

Fig 18: Global airlines during SARS (Nov 2002 – Dec 2003)



Source: Bloomberg, KB Securities Vietnam

Like the global stock market after SARS, Vietnam stock market is expected to recover if the outbreak peaked at 2Q or earlier, and the wound to the economy has not been serious enough to lead to a recession (equal or more serious than the 2008-2009 crisis). Looking back to 2003, most of the industries strongly affected by the SARS and the plunging stock prices rebounded strongly when the pandemic was over.

The comparison between the SARS 2003 and the current COVID-19 is limited due to differences in global macroeconomic conditions and COVID-19's deeper impacts on the economy. Although we think that the possibility of a global deep recession is not high (in the base scenario that the pandemic would soon peaked and ended), but rapid and strong recoveries of stock markets as the post-SARS period will not likely to happened as economies will need more time recover.

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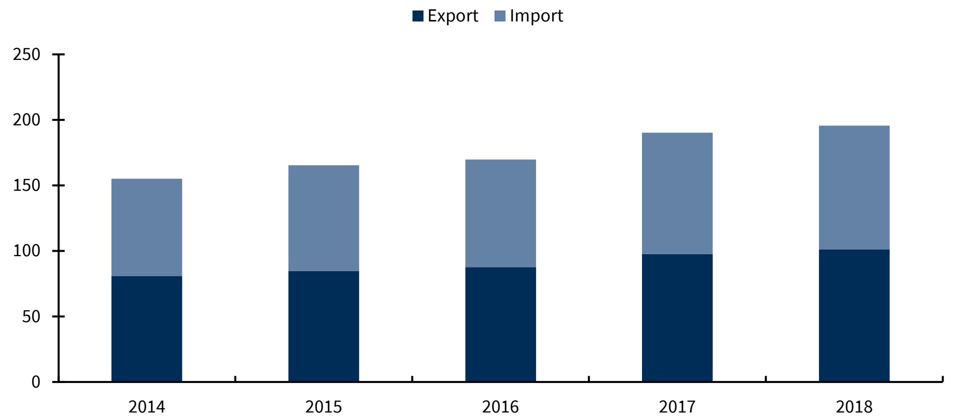
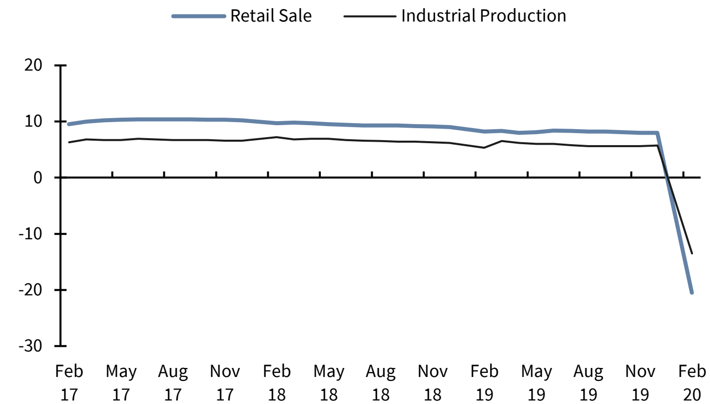
VII. COVID-19: negative case – deep and profound recession

Fig 19: The openness of the Vietnam economy (%)



Source: Bloomberg, KB Securities Vietnam

Fig 20: China retail sales & industrial output (%YoY YTD)

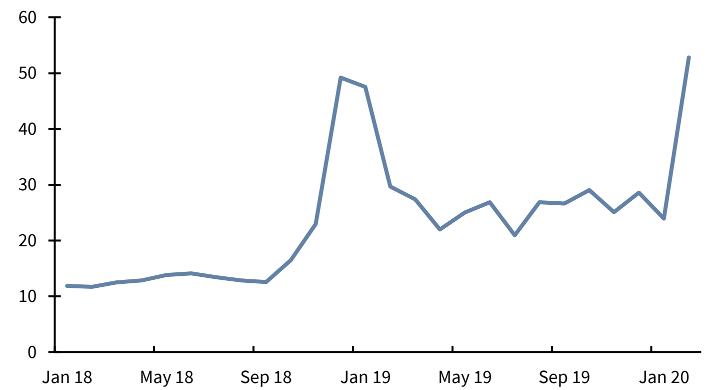


Source: Bloomberg, KB Securities Vietnam

COVID-19 has brought the global economic recession closer. The Institute of International Finance (IIF) forecasts global GDP growth may decline to only 1% this year. China, the world economic giant, has shown signs of sagging, reflected through a 20.5% drop in January retail sales, a 13.5% fall in industrial output, and a 25% decrease in fixed asset investment. Meanwhile, Bloomberg also estimated that the probability of the US recession was nearly 50%, higher than the time when US-China trade tensions escalated.

Although Vietnam economy became healthier and more stable since the last recession from more than years ago, it depends heavily on import and export activities (economy openness reaching 200%) and FDI. Plus, the economic growth also relies on weak recoveries of domestic sectors due to COVID-19, hence bearing inevitable negative impacts from the global economic recession.

Fig 21: Possibility of a US recession (%)



Source: Bloomberg, KB Securities Vietnam

VII. COVID-19: negative case – the takeaway from 2008 crisis

The VNIndex plunged since mid 2007 in line with the period of the global economic crisis

- The VNIndex skyrocketed with a P/E of 40 times due to a high proportion of loans to buy stocks and large indirect capital inflows to Vietnam following Vietnam's participation to the WTO. This was also a consequence of long-term fiscal and monetary policies expansion (high budget deficit and credit growth), leading to inflation and surging commodity prices. Thus, right before the crisis, the Vietnam economy revealed many weaknesses.
- When the global economic crisis took place, combined with the SBV's Directive No.03 to limit lending for securities investment, and the withdrawal from foreign cash flows from Vietnam's stock market during the financial crisis, the VNIndex collapsed. At the end of 2008, P/E of the market hit the bottom at 8 times.

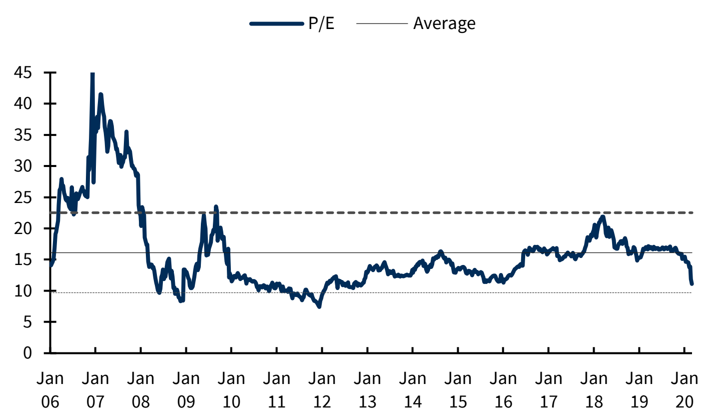
If the global recession happens this time, its impacts may not be as heavy as in 2008-2009

- The current macro health of Vietnam is quite stable with low inflation while the banking and financial system is more stable with controlled non-performing loan ratio. With the experience of dealing with the economic crisis in 2008-2009, the Government and the State Bank will have room to apply flexible support policies.
- Vietnam stock market has changed significantly vs ten years ago. The cash flows are more stable and have longer term. However, market movements in the 2008-2009 crisis gained Vietnam experience to cope with negative cases. We forecast P/E of the market during the 2008-2009 crisis (8 times) would be the worst scenario, equal to the current price of VNIndex of 500 points.

Fig 22: VNIndex during the 2007-2008 crisis

Source: Bloomberg, KB Securities Vietnam

Fig 23: VNIndex P/E in 2006-2020



Source: Bloomberg, KB Securities Vietnam

VII. Sector outlook – Residential real estate – Negative – Tickers: VHM, KDH, NLG, HDG

- Unpredictable COVID-19 made the real estate sector very quiet. Cancellation of product sales and promotions will affect the cash flows, revenue and profit of real estate businesses at least in 1H20.
- Another indirect risk of the pandemic to this industry is that it hit hard on people's income, especially home buyers using loans. This may also affect property prices and trading volumes on the primary and secondary markets.
- Unsolved legal issues would continue to hinder the growth of real estate businesses in 2020. However, some newly issued policies are potential to solve these problems (Ho Chi Minh City allowed infrastructure construction of the Thu Thiem project in District 2 and many other key areas).
- More importantly, the Government accelerated many major projects such as the North-South railway, Bien Hoa-Vung Tau railway, and Long Thanh airport.
- Vinhomes (VHM), Khang Dien House (KDH), Nam Long Group (NLG) and Ha Do Group (HDG) would be ideal investment choices thanks to their large and clean landbank, good legal basis, and safe financial structure.

*_Equity Department_*

VII. Sector outlook – Industrial parks – Negative – Tickers: KBC, VGC

- In the short term, the COVID-19 pandemic has slowed FDI inflows in 2020. The total registered FDI capital in the first three months of the year was USD8.6 billion, down 20.9% YoY. Of this, newly registered FDI reached USD5.5 billion, up 44.8% YoY, however, if excluding the LNG gas project in Bac Lieu with a total investment of USD4 billion in January, the capital decreased 59.9% YoY. Disbursed FDI was USD3.9 billion, down 6.6% YoY. The decrease in FDI reflected Coronavirus impacts on investors' decisions. Therefore, we believe that the pandemic will strongly affect the industrial parks in 2020E.
- In the medium term, CBRE said that industrial parks of large provinces and cities would be soon reach the maximum occupancy rate. By the end of 2019, the average occupancy rates of the industrial zones in the major provinces and cities in the North and the South were more than 92% and 80% respectively. Industrial zones in Ho Chi Minh City, Dong Nai, Binh Duong and Bac Ninh have all been filled, so the market tends to expand to other provinces such as Ba Ria - Vung Tau, Hai Duong, and Bac Giang.
- Viglacera (VGC) and Kinh Bac City Development (KBC) are the two investment choices to be considered after COVID-19. The two companies own leasable landbank with the area of 1,182ha and 952ha respectively, focused in provinces with favorable infrastructure conditions like Bac Ninh, Bac Giang and Hai Phong. The duo may also record 2020E earnings from many sales contracts signed in 2019.

VII. Sector outlook – Power – Positive – Tickers: HND, NT2

- Despite Coronavirus adverse impacts on other sectors in the first two months of 2020, total consumed power output reached 36.2 billion kWh, up 7.5% YoY.
- Many hydro power plants are facing water shortage and the reserved water hit many year lows. The volume of water shortage was 17.42 billion m3 (equal to 7.12 billion kWh of power). Currently, the current water level in the North only reached 17-83% of the average, 2 to 76% in the Central, and 12-70% in the South. As a result, thermal plants were mobilized with higher capacity in the first two months to offset the power shortage. We predict that this situation will last at least until the end of June 2020.
- The pandemic led to many delays in power projects and hindered the arrivals of foreign experts to Vietnam. This would exacerbate the situation and help power plants be mobilized with higher power capacity.
- We noted two main potential risks to thermal power plants: 1) Weather conditions. As hydro plants are always favored thanks to low costs, if the water reserve increases, hydro plants will benefit, thermal plants will receive bad effects and vice versa. 2) Input material shortage. The two input materials for thermal power, coal and gas, are increasingly exhausted.
- More importantly, many power plants gradually paid off all debts, helping to improve interest expenses and business performance. Being out of debts, power plants may receive many large cash inflows, and can pay cash dividends such as Pha Lai Thermal (PPC), Nhon Trach 2 (NT2), Hai Phong Thermal (HND), and PV Power (POW). In addition, some plants have also fully depreciated its fixed assets or fully allocated the exchange rate difference, which will strongly improve its business results such as PPC and Quang Ninh Thermal (QTP).

VII. Sector outlook – Container ports – Neutral – Tickers: GMD, VSC, DVP, HAH

- Vietnam is one of the countries with the most impressive container throughput growth rates in the world. Vietnam's container throughput had a compound growth of 10.9% to 12.5%, the highest in the top six Southeast Asian countries. We expect an compound annual growth rate of 9% over the next five years based on: (1) import-export turnover growth at 10-12%; (2) ongoing FDI inflows to Vietnam; and (3) effects of FTAs.
- The impacts from the outbreak were not so negative. The vessel tonnage in Hai Phong port cluster decreased 2% while the total tonnage increased 12%. The total import-export turnover of Vietnam in the first two months gained 6.1% YoY, which bodes well for the whole industry. However, if the pandemic cannot be controlled in the next quarter, adverse impacts will be more obvious.
- The throughput in downstream ports in Hai Phong was decreasing due to pressure from Lach Huyen port, while the declines in upstream ports' throughput showed signs of slowing down thanks to relationship with loyal customers.
- In the long-term, investors may accumulate seaport stocks because: 1) Hai An Transport & Stevedoring (HAH), Dinh Vu Port Investment and Development (DVP), and Vietnam Container Shipping (VSC) have decreased to the prices with high average dividend yield; (2) Port operators all generate net cash flow from positive and stable operations, some have completed the period of investment in fixed assets, ensuring enough cash to pay dividends for shareholders in case the business results are affected by the pandemic.

VII. Sector outlook – Information Technology – Neutral in short term, positive in long term – Tickers: FPT, CMG

- Software outsourcing was still the main growth force in the first six months of the year. The Coronavirus outbreak was expected to not hit this business segment too hard as staff could work from home, and the demand for technological solutions of many companies sharply increased in this period
- The potential growth of software outsourcing is still positive due to (1) high global demand. Software outsourcing does not require a high level of brainpower, but a large number of employees, so many countries are in shortage of personnel. (2) Vietnam's low labor cost for software engineers compared to other countries (24% lower than India and 54% lower than China), which is a major competitive advantage. However, increasing personnel costs due to the market competitiveness may affect businesses' growth potential, which needs to be followed closely in the long term.
- It is expected that gross profit margin of software outsourcing would improve in the medium term when the credibility to business partners as well as contracts with more added value.
- The broadband internet segment was affected in the short-medium term as the pandemic made the number of new contracts decrease, especially contracts with institutional customers. This segment may grow further in the long term, but profit margin should go down because (1) Internet fees in the provincial market are usually lower due to customers' low incomes; and (2) companies without official and stable infrastructure will have to outsource, thereby increasing operating costs.

_ Equity Department _

VII. Sector outlook – Banks – Neutral – Tickers: VCB, CTG, BID

- COVID-19 would have indirect impacts on banks' operations for the rest of the year. In the 1Q, the pandemic caused the average price of banks to decline to 23.90%, and decrease average P/B from 1.52 in late 2019 to 1.15.
- After the restructuring period, most banks solved backlog issues related to asset quality, but may face potential risks of increasing non-performing loans in 2020E. In addition, they are also under the pressure of provision costs while other companies, especially tourism and hospitality, airlines, import-export, agriculture, and real estate companies, are struggling with COVID-19 damages. Therefore, banks with diversified lending structures (VCB, BID, CTG, MBB, ACB & VPB) will minimize this concentrated risk. Circular No. 01/2020/TT-NHNN dated March 13, 2020 on maintaining the debt group to support customers affected by the COVID-19, which can be inferred that the provision costs may not directly affect 2Q earnings of banks.
- The dual effects of cyclicality and the COVID-19 lowered credit demand. The State Bank's statistics showed two-month credit growth grew a mere of 0.06%, a sharp decrease compared to the 1% increase of the same period last year. However, the Government and the SBV are taking actions to stimulate the economy such as lower the deposit ceiling interest rate in the short term and raise the credit limit in 2020 when domestic pandemic is stabilized. This bodes well for the banks' performance.
- Overall, 2020E credit growth would still depend on the pandemic developments. We expect credit cycle in 2020 to bear modest impacts and banks can still improve margins and achieve a stable ROE. In this year, banks should focus on refinancing to meet Basel II requirements, and making credit growth the main income driver.
- Our top picks include state-owned banks with improved business results (VCB, BID, CTG). VCB is always the leading digital stock among banks with good financial health, while BID and CTG are very potential with successful restructuring in 2019 and the ability to raise capital for strong credit growth.

*_Phòng Phân tích doanh nghiệp_*

VII. Sector outlook – Retailing – Positive – Tickers: MWG, PNJ

- 2M total retail sales of consumer goods and services in the first two months of 2020 reached VND863.9 trillion, up 8.3% YoY. Retail sales of goods were estimated at VND674 trillion, up 9.8% YoY, much lower than the 13.3% increase in the same period last year due to the Coronavirus outbreak. Food and hospitality services only increased by 1.7% YoY due to travel restrictions and less dining out with family, together with a sharp fall in tourist traffic (GSO 2020).
- 2Q20 outlook of Vietnam retail industry is forecast to be not very positive due to the unpredictable pandemic, people must follow social distancing requirements and focus spending on necessities or health related products. The TGDD and DMX chain of MWG should be strongly affected, but the BHX chain can maintain stable sales as it provides daily necessities. Consumers also cut spending on luxury products, so PNJ's performance should be adversely affected. However, we expect that by the end of Q2, when the outbreak is controlled, people's sentiment would stabilize and consumer demand would grow again. Therefore, retailers like MWG or PNJ will benefit.
- The modern multi-channel retail model has become a trend amid COVID-19 pandemic, especially e-commerce with the estimated size of E-commerce market in 2025 about USD15 billion, ranking second only after Indonesia in the Southeast Asia.
- In 2020, many new international retail brands would enter the Vietnam such as Muji, JD, and Sephora, bringing new and convenient experiences to customers. In addition, many non-CBD shopping centers such as Satra Center Mall, Socar Mall, Elite Mall and Central Premium Mall will also join the market, contributing 280,000 square meters of construction floor, which helps to boost post-pandemic shopping demand.

VII. Sector outlook – Oil & Gas – Negative – Ticker: PVT

- 2020E rig rental price of PVD should reach USD65,000 per day (up 10.1% YoY) and rig utilization would reach about 95% (up 60 basis points YoY). Gas projects such as *Sao Vang Dai Nguyet, Ca Voi Xanh*, and *Block B* should continue to be deployed, bringing large backlog revenue for PVS. However, the EIA expects the average oil price in 2020E at USD43.3 per barrel, down 32.3% YoY. If the average price of oil in six months is lower than USD45 per barrel (break-even price in Southeast Asia), mining activities would be delayed or canceled, thereby weighing on earnings of PVS and PVD.
- For downstream companies (BSR, PLX, OIL), the inventory turnover cycle is 30 days while selling oil prices are based on the 15-day average of Singapore market and FIFO accounting method. Due to the sudden plunge in oil prices since early March, downstream companies' 1Q earnings are expected to face bad effects.
- PV Gas Selling price = MAX [46% HSFO price, wellhead price] + tariffs. Due to low oil prices and IMO 2020, GAS needs to quickly change the reference price to boost earnings. HSFO prices dropped 26.6% YTD and 53.4% YoY.
- PVTrans was less affected by the decline in oil prices as PVTrans transferred most of its fuel costs to customers. Due to the high energy demand, PVT will invest in many fleets with USD250 million to serve the transportation. However, as Nghi Son Refinery is not operating at 100% capacity and Dung Quat Oil Refinery (BSR) overhaul (every three years) and interest expenses for ship investment, PVT's 2020E earnings would be flat vs 2019.

_ Equity Department _

VII. Sector outlook – Fisheries – Negative – Ticker: VHC

- Vietnam's pangasius industry is supposed to bear heavy impacts from COVID-19 pandemic at least until the end of 2Q20. Vietnam pangasius exports in the first two months of 2020 reached USD210 million, down 32% YoY due to the influence of the largest market - China. The closure of many Chinese restaurants and congestion at ports due to blockade of goods circulation caused a plunge in 2M exports to this country (down 52% YoY). This also posed heavy adverse impacts on fishery exporters such as Nam Viet Corp (ANV) and I.D.I International Development & Investment (IDI).
- Although China has started to open its restaurant chains again, it might last until 2Q.2020 for fully re-opening. Mean while, the European market is under a large pressure of falling prices from importers due to many restaurants' closure. The pandemic's epicenters in Italy, Germany and the UK have stopped trading and showed no signs of recovery in the 2Q.2020 (In the first two months of 2020, pangasius exports to the EU market should fall 40% YoY). Although the prospect of pangasius in the US market is still quite negative in the 2Q.2020, it is brighter than other markets, and Vinh Hoan Corp (VHC) should be less affected than other companies in the same industry.
- The 2Q outlook of shrimp exports is also not positive due to COVID-19 impacts, although the industry was not affected heavily in the 1Q as 1Q was not the main shrimp farming period (2M shrimp up 2.6% YoY). The oversupply from India and Ecuador due to failure to export in 1Q will put great pressure on Vietnamese shrimp harvested in 2Q.
- Reducing demand for shrimp in Vietnam's main export markets is forecast to continue in the 2Q. The disease situation in Europe has yet to show signs of cooldown, while tariff benefits from EVFTA should take effect no sooner than July 2020. The development of the shrimp market in the US is quite complicated due to the pandemic, while the MPC is still under anti-dumping investigation (the final decision was scheduled at the end of 2Q20). The 2020 Tokyo Olympics, which used to be a promising chance to increase Japan's demand for shrimp imports in 2Q, was officially postponed to 2021.

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