

# nCoV: Portfolio Recommendations

## Adding VJC & CTG on market pullback

### nCoV spreading faster than SARS but higher level of preparedness

The nCoV outbreak has already outpaced SARS at 40,554 confirmed cases in 25 countries in eight weeks. This compares 8,096 cases in 27 countries for SARS that lasted for eight months (Nov 2002–Jul 2003). Vietnam has confirmed fifteen cases vs the 63 cases seen during SARS. Authorities have been quick to react to nCoV and suspended visas from China as early as January 31 compared to Vietnam's 40 initial confirmed cases at the onset of SARS in March 2003 (WHO first reported data on March 17 at 40 cases that quickly rose to a peak of 63 by March 22).

### Fallout cuts China GDP growth by 0.4%p to 5.9% & Vietnam by 0.4%p to 6.4%

Our global macro team at KB Securities (Korea) estimates the outbreak may slow China's GDP if contained in 1Q by 0.4%p to 5.9% and if contained in 2Q by 0.6%p to 5.7% from 6.3%. Vietnam's slowdown if contained in 1Q likely at 0.4%p to 6.4% and a 2Q containment at 0.7%p to 6.1% by our estimates. This compares to an estimated slowdown to 6.1%–6.3% from the Ministry of Planning & Investment.

### Expect similar impact to SARS: lower inflation/consumption but 2H easing

Inflation slowed to 2.8% from 4.4%, while wholesale/retail activity fell to 6.7% YoY from 7.3% YoY and transportation dropped to 6.3% YoY from 7.1% in 3Q 2003. GDP remained stable at 7.1% from 7.0% prior to the SARS outbreak. We expect a similar impact from nCoV, with the largest slowdowns expected for travel & tourism (Chinese 32% of all international tourists); China exports (15.7% of total exports); and capital imports (30% of imports from China). Importantly, Vietnam's higher level of China exposure – and the silver lining of lower inflation – increases the likelihood that authorities will introduce a stimulus package in 2H, including at least one cut to the benchmark rate and higher credit limits for the banks.

### We add VJC and CTG to our model portfolio and some caution on PNJ

Airlines stocks have been one of the hardest hit sectors during the nCoV outbreak – with Vietnam Airlines (HVN) down 16.8% and Vietjet (VJC) down 11.9% since the Tet holiday – and we use this opportunity to [ADD] VJC to our model portfolio and [REMOVE] PetroVietnam Drilling & Well Services (PVD). With 2H stimulus likely should there be any negative impact from nCoV, we increase our exposure to the banking sector and [ADD] Vietinbank (CTG) to our model portfolio and [REMOVE] Power Construction 1 (PC1). Given possibility of weaker consumption in the luxury segment, we view Phu Nhuan Jewelry (PNJ) more cautiously in the near-term but continue to hold the counter in our model portfolio.

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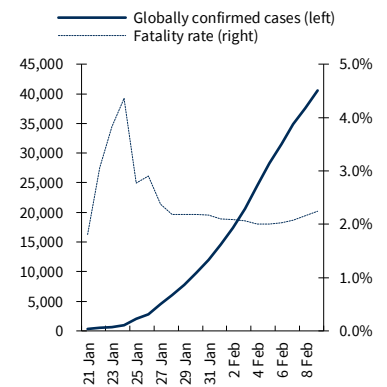
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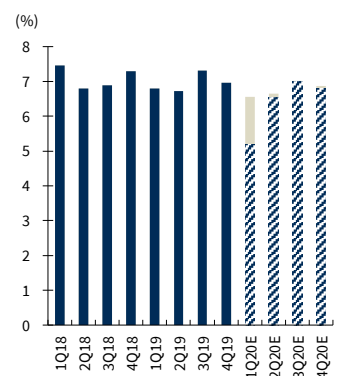
February 12, 2020

Fig 1. nCoV – Confirmed cases & fatality rate



Source: WHO, KB Securities Vietnam

Fig 2. Vietnam – Quarterly GDP growth estimates (assuming containment in 1Q), 1Q18–4Q20E (%YoY)



Source: Bloomberg, KB Securities Vietnam

## nCoV: Portfolio Recommendations

### Reposition the model portfolio to best capture recovery after the nCoV outbreak stabilizes

We reposition our model portfolio to best capture our outlook for recovery in stocks as the nCoV outbreak stabilizes. Main implications from the coronavirus outbreak are the cool off of inflation – which raises the likelihood of easing from the State Bank of Vietnam (SBV) – and stocks with long-term growth intact being oversold from the short-term shock of the outbreak. Changes to our model portfolio include: 1) adding **Vietjet (VJC)** as the airline stocks have taken the brunt of the shock from nCoV and believe lower fuel costs may offset lower passenger volumes; 2) adding **Vietinbank (CTG)** as the biggest beneficiary from higher credit limits as banks will likely be the target of any stimulus measures. We remove **PetroVietnam Drilling & Oil Services (PVD)** as nCoV will likely lead to lower oil prices in the near term and also remove **Power Construction 1** on a loss cut.

We increase exposure to the banks by adding CTG on expectations for higher credit limits as part of 2H stimulus and add VJC as airlines one of the hardest hit sectors due to the outbreak

**Table 1. Model Portfolio – Additions & Deletions**

Ticker	Action	Rationale
CTG	Addition	<ul style="list-style-type: none"> <li>- Building on strong earnings recovery in 2019 &amp; optimistic outlook for 2020</li> <li>- Growing expectations for capital increase in 2020 to offset loan-growth concerns</li> <li>- Already improved asset quality and benign credit risks for 2020</li> </ul>
VJC	Addition	<ul style="list-style-type: none"> <li>- nCoV outbreak impact meaningful but short-lived &amp; fully-reflected in stock price</li> <li>- Lower fuel costs silver lining to offset lower passenger volumes</li> <li>- Growth prospects intact as Long Thanh airport project schedule pulled forward</li> </ul>
PVD	Deletion	<ul style="list-style-type: none"> <li>- Negative earning growth in 2019 at -63% YoY and below expectation</li> <li>- Coronavirus fear hit oil price in the short term</li> </ul>
PC1	Deletion	<ul style="list-style-type: none"> <li>- Cut loss level</li> <li>- Negative earning growth in 2019 at - 24% YoY and below expectation</li> </ul>

Source: KB Securities Vietnam

## nCoV: China Macro Impact

**Outbreak likely to delay any benefits to China from the US-China trade pact to 2H**

Implications for China from the outbreak according to our global macro team based in Korea include: 1) delaying benefits from the US-China trade pact and pushing back economic recovery to 2H; 2) near-term downturn in tourism and domestic consumption but no long-term impact to exports or employment; and 3) minimum GDP growth of 5.5% for 2020 with government stimulus including more infrastructure spending, faster pace of rate cuts and currency weakening.

**Domestic services & exports to take the brunt of the shock**

The coronavirus is expected to lead to: 1) contraction in the domestic service industry, including tourism; 2) lower exports with disruption to the Asian production value chain; and 3) indirect impact to investment and employment.

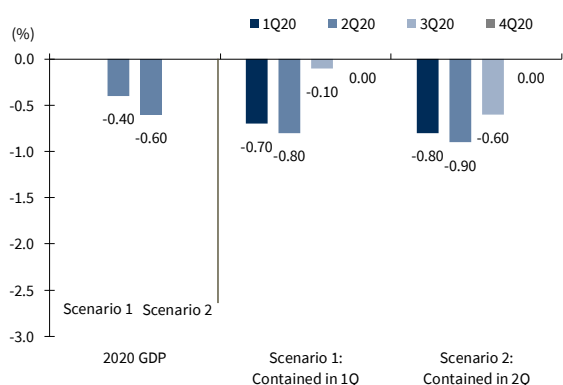
**Base case (scenario 1) assumes April-May containment & China GDP to slow to 5.9% from 6.3%**

China's GDP expected to slow by 0.4%p for annual growth of 5.9% under scenario 1 (base case) that assumes the outbreak is contained by April or May, with economic damage concentrated in 1H. China's economic growth should slow to 5% in 1H, but recovery should be achievable for 2H. As in 2003, the Chinese government is expected to provide additional tax and liquidity support to affected sectors to boost domestic demand. Meanwhile, in 2003, China increased its reserve ratio requirement, but is expected to continue to lower its reserve ratio and cut interest rates in 2020.

**Scenario 2 assumes July-August containment & China GDP could slow further to 5.7% but**

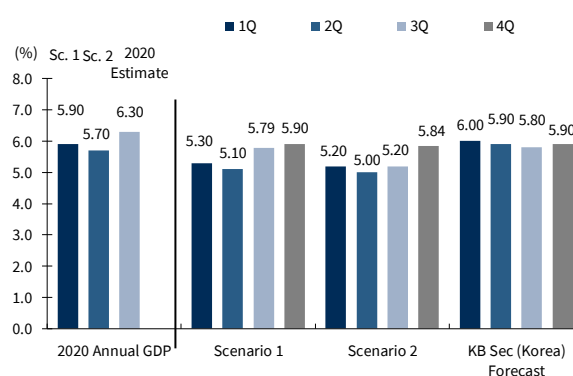
Should containment be pushed back to July or August, the impact to China's GDP could be larger at 0.6%p to slow annual growth to 5.7% (scenario 2). If the effects of the coronavirus continue until 3Q, China's economic recovery will likely be delayed. But this scenario also increases the outlook for more aggressive stimulus and our global macro team believes Chinese authorities will defend GDP growth at 5.5% announcing additional stimulus measures, including increased fiscal spending and tax cuts, to protect growth at around 5.5%. In addition, rate cuts will likely be faster than expected (about 20bps per year) to prevent any slowdown from reaching as low as 5.5%.

**Fig 3. China - Estimated impact to annual GDP, 2020E (%YoY)**



Source: KB Securities (Korea)

**Fig 4. China - Estimated quarterly GDP, 1Q20-4Q20, (%YoY)**



Source: KB Securities (Korea)

## nCoV: Vietnam Macro Impact

### Vietnam's 6.8% GDP growth plan may be difficult to achieve in 2020

Scenarios from the Ministry of Planning & Investment (MPI) are below the government's official 6.8% GDP growth plan. Containment by 1Q likely to see GDP growth slow to 6.3%, while 2Q containment would see GDP growth of 6.1% for 2020. The Ministry expects the impact to hit hardest in 1Q – with growth almost halving to 3.8% from its original target of 6.5% – and the most damage likely for tourism, agricultural and fishery exports and the import of capital goods. CPI estimates in both scenarios are 4.0% and 4.9%, respectively, for 2020.

### Although 6.8% may be tough, several factors may offset the concerns of the Ministry

Our scenarios estimate the impact from nCoV at 0.4% points if contained to 1Q and 0.8% point impact for containment by 2Q or 2020 GDP growth of 6.4% and 6.0% (please see *Outbreak Hits GDP*, February 10, 2020 for more details). In both scenarios, the impact to 1Q GDP is 1.4% points vs the MPI's 2.7% point impact to 1Q. Reasons for our more optimistic view are: 1) tourism season usually peaks in April and leaves room for recovery (flights to/from Hong Kong, Taiwan and Macau already resumed); 2) only trade across land routes have been negatively impacted and ports are still open for business; 3) imports of from China have been pulled forward due to the long Lunar New Year and most are capital goods that can be stored for import at a later date. Consequently, we estimate the impact to Vietnam's 2020 growth at: 1) tourism to hit growth by 0.4%p under scenario 1 and a 0.6%p in scenario 2; 2) agricultural & fishery exports – with short inventory life – to drop by 25% in 1Q; and 3) capital goods imports to fall by 10% in both scenarios with production disruptions in China.

### Cooling inflation is the silver lining and government stimulus should also support 2020 GDP

Slower domestic demand should also tame inflation and is the silver lining as seen during SARS in 2003. 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 highway and Long Thanh airport projects. In terms of monetary policy, we expect 1H measures to include the State Bank of Vietnam (SBV) asking banks to cut lending rates to support businesses hit by the nCoV 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.

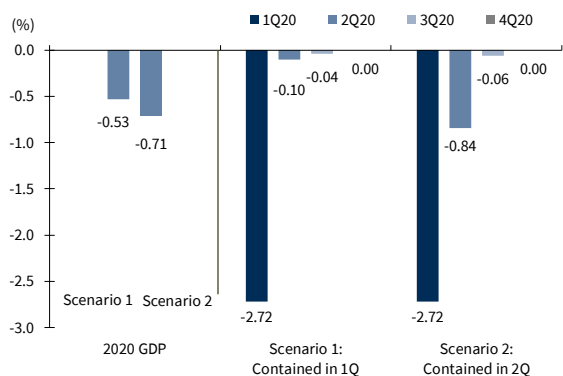
GDP remained stable during SARS and the silver lining could be the cool off in inflation

**Table 2. Vietnam – Major macro indicators during SARS, 2Q 2002–3Q 2003 (%YoY)**

% chg YoY	GDP	Wholesale/ Retail	Transportation	CPI
3Q 2003	7.10	6.71	6.34	2.83
2Q 2003	6.90	6.40	6.79	3.50
1Q 2003	6.88	7.08	7.86	3.83
4Q 2002	7.04	7.25	7.05	4.37
3Q 2002	6.86	6.89	6.97	4.27
2Q 2002	6.70	6.90	6.90	4.00

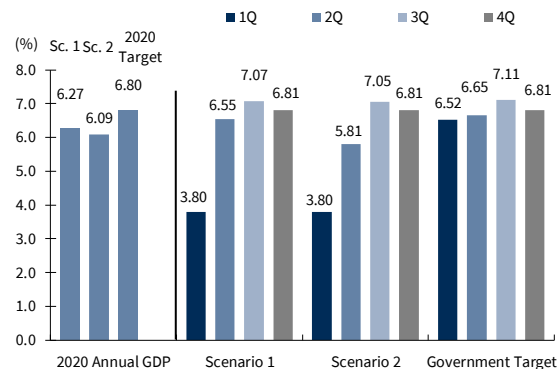
Source: FiiPro, KB Securities Vietnam

Fig 5. Ministry of Planning & Investment – Estimated impact to annual GDP, 2020E (%YoY)



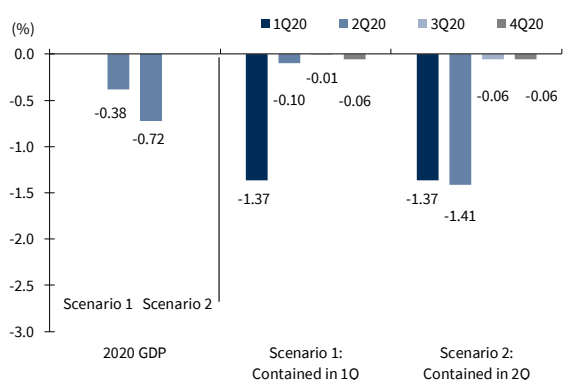
Source: Ministry of Planning & Investment

Fig 6. Ministry of Planning & Investment – Estimated quarterly GDP, 1Q20-4Q20, (%YoY)



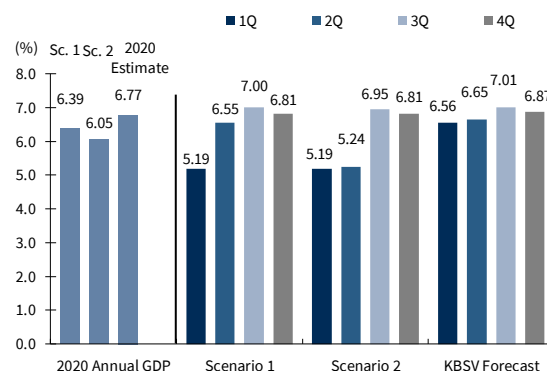
Source: Ministry of Planning & Investment

Fig 7. Vietnam – Estimated impact to annual GDP, 2020E (%YoY)



Source: KB Securities Vietnam

Fig 8. Vietnam – Estimated quarterly GDP, 1Q20-4Q20, (%YoY)



Source: KB Securities Vietnam

Table 3. Vietnam – Detailed impact from nCoV, 2020E (%YoY, USDbn)

	Scenario 1	Scenario 2	
2020 annual GDP growth estimate (%)	6.4	6.0	Scenario 1 contained by 1Q; Scenario 2 contained by 2Q
<b>Impact from nCoV</b>			<b>Assumptions</b>
Decline in tourist revenue (USDbn)	3.4	5.8	
<i>Of which:</i>			
China	0.9	2.0	Arrivals down 90% in Feb & Mar; down 75% over next 3 months
Overseas (ex. China)	0.5	1.1	Arrivals down 20% each month
Domestic	2.1	2.7	Traffic down 70% in Feb & Mar; down 30% over next 3 months
Imports from China (USDbn)	1.3	3.2	Value down 10% each month
Exports to China (USDbn)	1.7	3.3	Value down 25% in Feb & Mar; value down 15% over next 3 months

Source: KB Securities Vietnam

## nCoV: Market Impact

**Airlines, agricultural & fishery exporters and domestic consumption companies all hit by the outbreak**

Airlines (VJC, HVN, AST), agricultural & fishery exporters (ANV, VHC, HAG, DRC) and domestic consumption companies (SAB, BHN, GTN, MWG) have been the hardest hit stocks due to the outbreak. Among these, we believe the airline stocks offer the most opportunity for investors given the strong long-term growth outlook for the entire industry and being oversold, due to the shock to near-term earnings and share prices.

**VJC our preferred airlines stock, MWG our top pick for domestic consumer and will hold off on fisheries for now**

**Vietjet (VJC)** is our preferred airline stock and newest addition to our model portfolio. We continue to hold **Mobile World Investment (MWG)** as our top pick for consumer names due to strong growth from the *Bach Hoa Xanh* grocery chain. Although we expect a turnaround for the fishery industry in 2020 – as overseas markets in the US and Europe recover from the US–China trade war – the nCoV outbreak could delay this recovery due to falling exports to China. Moreover, we expect the central bank to increase the credit limits at banks as part of stimulus measures and expect **Vietinbank (CTG)** to be the biggest beneficiary and also add this to the model portfolio.

**Markets recovered in HK/China after new confirmed cases peaked at the end of April 2003**

Overall, we expect markets to recover after the number of confirmed cases peak as seen during SARS in 2003 (albeit this remains a moving target for the nCoV outbreak). Looking to Hong Kong – the epicenter of SARS – the Hang Seng recovered after new confirmed cases peaked at the end of April 2003.

**VN-Index recovered much earlier with the SARS outbreak stabilizing in Vietnam weeks before China**

Although being a less reliable indicator back in 2003, the VN-Index staged a recovery at the beginning of April when the number of confirmed cases peaked in Vietnam, making stabilization in the local market – and the fact that the bulk of cases of the coronavirus remain within China – the key event to focus on.

Hardest hit industries include the airlines, agricultural & fishery exporters and domestic consumption companies

**Table 4. Vietnam – Top 20 large-caps performance since Tet holidays (%)**

Rank	Ticker	Name	Industry	Sector	% Chg
1	ROS	FLC FAROS Construction	Construction & Materials	Heavy Construction	-21.7
2	PC1	Power Const No. 1	Construction & Materials	Heavy Construction	-18.3
3	HCM	Ho Chi Minh Securities	Financial Services	Investment Services	-17.3
4	HVN	Vietnam Airlines	Travel & Leisure	Airlines	-16.8
5	ANV	Nam Viet	Food Producers	Farming & Fishing	-16.6
6	SAB	SABECO	Beverages	Brewers	-16.1
7	VHC	Vinh Hoan Corp	Food Producers	Farming & Fishing	-15.2
8	BVH	Bao Viet Group	Life Insurance	Life Insurance	-14.2
9	HAG	HAGL Corporation	Food Producers	Farming & Fishing	-13.6
10	PVD	PetroVietnam Drilling	Oil Equip & Services	Oil Equip & Services	-13.0
11	AST	Taseco Air Services	Industrial Transportation	Transportation Services	-12.9
12	POW	PV Power	Electricity	Conventional Electricity	-12.8
13	VJC	Vietjet Air	Travel & Leisure	Airlines	-11.9
14	BID	BIDV	Banks	Banks	-11.5
15	GTN	GTNFOODS	Food Producers	Farming & Fishing	-11.5
16	BHN	HABECO	Beverages	Brewers	-11.4
17	DRC	Da Nang Rubber	Automobiles & Parts	Tires	-11.3
18	MWG	Mobile World Investment	General Retailers	Specialty Retailers	-11.2
19	HDG	HA DO Construction	Real Estate Investment	Real Estate Development	-11.2
20	FLC	FLC Group	Real Estate Investment	Real Estate Development	-10.9

Source: FiinPro, KB Securities Vietnam

Table 5. KB Securities Vietnam – Model Portfolio (%)

Ticker	Inclusion date	Close 20/02/11	Daily return (%)	Cumulative return (%)	Main investment catalysts
Mobile World (MWG)	19/08/09	106,500	0.7%	-8.1%	<ul style="list-style-type: none"> <li>- Optimizing revenue from DMG &amp; TGDD chains</li> <li>- BHX expects to reach break-even point soon at stores and distribution centers</li> <li>- In the long term, BHX aims to capture 10-15% of the food retail market</li> </ul>
Nam Long Invest (NLG)	19/06/03	26,100	-0.4%	-2.6%	<ul style="list-style-type: none"> <li>- Leader in mid- to high-end housing &amp; Japanese partners for large urban area (UA) projects</li> <li>- Largest urban area developer (Mizuki Park UA, Akari City UA &amp; Waterpoint US)</li> </ul>
Phu Nhuan Jewelry (PNJ)	19/03/22	81,500	0.0%	6.3%	<ul style="list-style-type: none"> <li>- Strong topline supported by transaction volumes (2018 +34%) &amp; ASPs (2018 +5%)</li> <li>- Strongest customer base to capture lucrative watch segment (5% of sales by 2022E)</li> <li>- Core business activities growing again after the "ERP" incident</li> </ul>
Military Bank (MBB)	18/12/18	21,200	1.0%	7.5%	<ul style="list-style-type: none"> <li>- Military Insurance Corporation (MIC) non-life premiums to boost 2019 non-bank income</li> <li>- Retail loan mix (Mcredit) supports 4% NIM against pricing competition (ACB/MBB)</li> <li>- Mcredit work-in-progress but low-cost funding from Shinsei triples key cash loan mkt</li> </ul>
Refrig Elec Eng (REE)	18/10/11	34,250	2.1%	0.7%	<ul style="list-style-type: none"> <li>- Office lease management &amp; E-town Central occupancy generates stable cash flow</li> <li>- Strategic investments in utility industry provides stable/long-term dividend stream</li> </ul>
FPT Corp (FPT)	18/09/06	53,600	1.9%	39.2%	<ul style="list-style-type: none"> <li>- Software outsourcing foothold in Japan/US/Asia-Pacific/EU drives 25% overseas CAGR</li> <li>- Telecoms stable 15% growth/solid subscriber growth &amp; profitable Pay-TV from 2020E</li> <li>- 20%+ earnings momentum by 2020E</li> </ul>
Vietin Bank (CTG)	20/01/31	27,750	4.3%	13.7%	<ul style="list-style-type: none"> <li>- Building on strong earnings recovery in 2019 &amp; optimistic outlook for 2020</li> <li>- Growing expectations for capital increase in 2020 to offset loan-growth concerns</li> <li>- Already improved asset quality and benign credit risks for 2020</li> </ul>
Vietjet (VJC)	19/02/05	129,000	0.0%	1.6%	<ul style="list-style-type: none"> <li>- nCoV outbreak impact meaningful but short-lived &amp; fully-reflected in stock price</li> <li>- Lower fuel costs silver lining to offset lower passenger volumes</li> <li>- Growth prospects intact as Long Thanh airport project schedule pulled forward</li> </ul>
Hoa Pha Group (HPG)	19/12/04	23,600	-3.1%	0.6%	<ul style="list-style-type: none"> <li>- Steel consumption starts to rebound</li> <li>- Construction steel prices show signs of rising again</li> <li>- Increased capacity from Dung Quat project helps HPG expand market share</li> </ul>
Petro Tech Services (PVS)	18/08/15	16,200	0.6%	-8.3%	<ul style="list-style-type: none"> <li>- Despite strong share price rebound in early 2019, 2019E P/E still below regional peers</li> <li>- 9% EPS CAGR from Sao Vang- Dai Nguyet, Gallaf, Block B, White Lion Phase 2 projects</li> </ul>

Source: KB Securities Vietnam

Unlike SARS, nCoV is more of a China problem vs a Vietnam or global problem and the bulk of cases remain in China

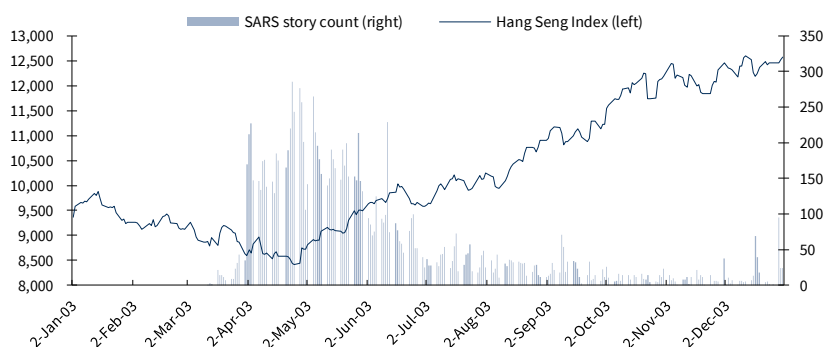
**Table 6. World Health Organization – SARS vs 2019-nCoV**

	SARS	2019-nCoV
<b>China (ex. SAR)</b>		
Start	16 November 2002	31 December 2019
Cases	5,327	40,235
Deaths	349	909
End	3 June 2003	
<b>Vietnam</b>		
Start	23 February 2003	28 January 2020
Cases	63	14
Deaths	5	0
End	14 April 2003	
<b>Global</b>		
Start	16 November 2002	31 December 2019
Cases	8,096 (27 countries)	40,554 (25 countries)
Deaths	774	910
End	13 July 2002	

Source: World Health Organization, KB Securities Vietnam

Recovery in the Hang Seng index occurred confirmed cases peaked and headlines began to fade in late April 2003.

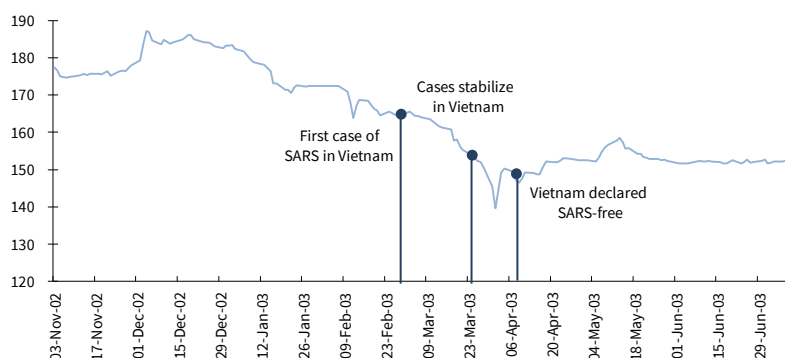
**Fig 9. Hong Kong – Hang Seng Index vs SARS story count, Jan 2003–Dec 2004**



Source: Bloomberg, KB Securities Vietnam

The VN-Index recovered earlier after the spread of SARS was contained in Vietnam in early April

**Fig 10. Vietnam – VN-Index performance during SARS, Nov 2002–Jun 2003**

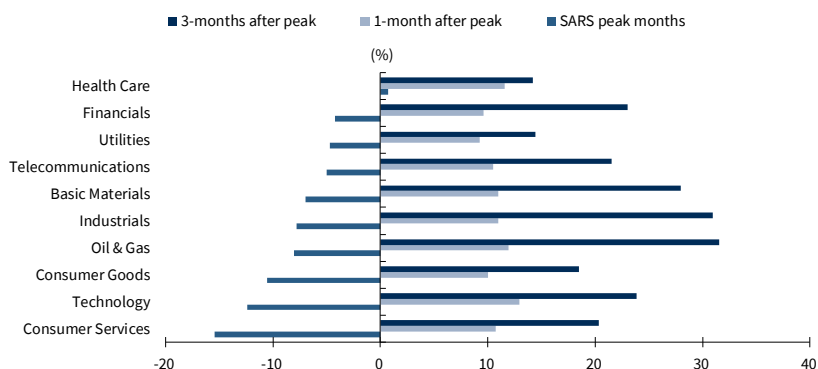


Source: Bloomberg, KB Securities Vietnam



Most sectors were negatively impacted from SARS but rebounded sharply after the outbreak stabilized. Outperformers included the Oil & Gas, Industrial, Basic Materials and Finance sectors.

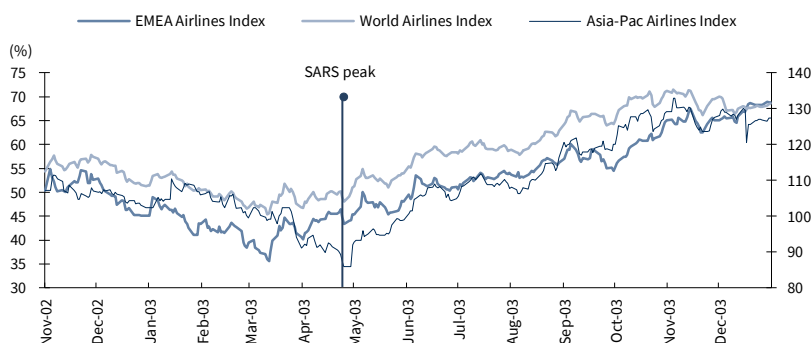
**Fig 11. Hong Kong – Hang Seng Sector Performance during SARS**



Source: Bloomberg, KB Securities Vietnam

The global aviation industry was hit the hardest during SARS amid the sharp slowdown in tourism, with Asian airline stocks lagging the global recovery as ground zero of the SARS outbreak.

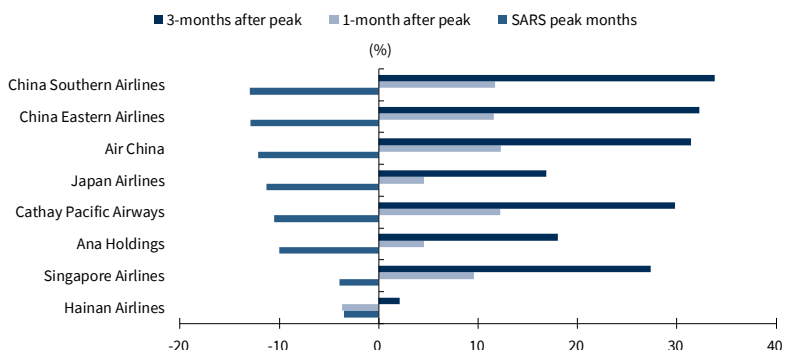
**Fig 12. Global Airlines – Sector Performance during SARS, Nov 2002–Dec 2003**



Note: Bloomberg airline sector indices  
Source: Bloomberg, KB Securities Vietnam

Despite China- and Hong Kong-based air carriers being hardest hit from SARS, the steep falls in shares prices later proved to be a good entry point as the shares rebounded after containing the outbreak.

**Fig 13. Asia Airlines – Share Price Performance during SARS**



Source: Bloomberg, KB Securities Vietnam

## Appendix: SARS – China’s Economic Growth Rate Falls by 0.9%p in 2003

**SARS caused an estimated 0.9%p slowdown to China GDP growth**

Our global macro team in Korea estimates that the SARS outbreak in 2003 led to a 0.9%p slowdown in China’s GDP growth.

**Despite a weak 2Q, real economic growth of 10.1% beat 2002’s 9.1%**

In 2003, China’s realized a real economic growth rate of 10.1% – and higher than 2002’s 9.1% growth – despite SARS slowing 2Q growth to 9.1% YoY (down 2%p) from 1Q’s 11.1%.

**China’s tourism industry lost an estimated US\$5.6 billion due to SARS (or 0.34% of nominal GDP)**

China’s tourism industry took a direct hit from SARS, with revenue falling by 14% in 2003 (and dropping by 50% in 2Q alone) after averaging 14% growth for the previous five years. We estimate that China lost US\$5.6 billion in tourism revenue in 2003 or 0.34% of nominal GDP due to SARS. As a result, domestic demand industries – including transportation, wholesale and retailing, and lodging businesses – were all negatively affected by the outbreak. In addition, the impact was exacerbated by falling domestic demand and slowing consumption.

**Domestic service industries slowed by 1%p to 9.5%**

Growth in China’s service industry (which accounts for 45% of GDP) fell by 1%p to 9.5% in 2003 from 2002’s 10.5%. Main segments impacted by this slowdown were the transportation, storage and delivery industries as growth dropped to 6.1% in 2003 from the 7.1% seen in 2002.

**Surge in exports with China’s entry into the WTO helped offset the slowdown from SARS**

China’s export sector grew by 12.7% in 2003 (compared to 8.5% in 2001 and 9.9% in 2002) and helped offset the negative impact to economic growth. In particular, China’s entry into the WTO led to a 35% surge in exports (vs 22% in 2002). Nonetheless, we estimate the overall impact from SARS at a 0.9%p slowdown in China’s GDP and slower global growth.

**Stimulus measures included tax credits and credit expansion to the service sectors despite a 1.0%p hike to reserve ratios**

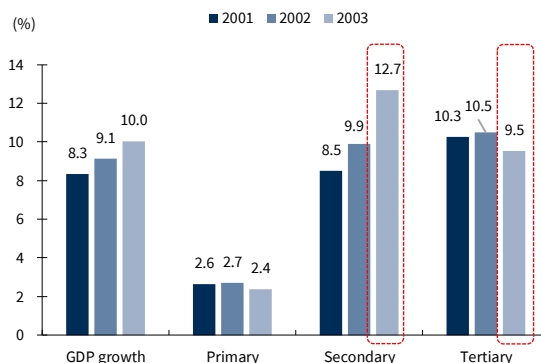
China’s government also actively introduced stimulus measures to recover from SARS despite the central bank being in a tightening mode. These measures included tax benefits and credit loans to the service sectors such as private passenger transportation, tourism, passenger railways, catering and lodging. Support measures were announced even though overheating of the real estate market and excessive monetary easing (M2 growth was more than 20%) caused the central bank to raise the reserve ratio to 7.00% from 6.00% in September.

Fig 14. China – Quarterly Real GDP Growth, 1Q02–4Q04 (%YoY)



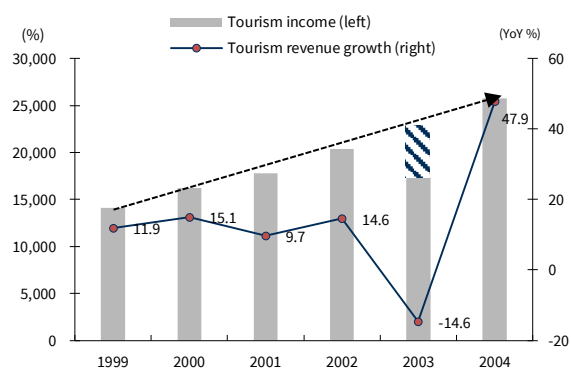
Source: CEIC, KB Securities (Korea)

Fig 15. China – Annual Growth by Sectors, 2001–2003 (%YoY)



Source: CEIC, KB Securities (Korea)

Fig 16. China – Tourism Industry Revenue & Growth, 1Q02–4Q04, (USDmn, %YoY)



Source: CEIC, KB Securities (Korea)

Fig 17. China – Retail Sales, 2000–2007 (%YoY, Index)



Source: CEIC, KB Securities (Korea)



# Companies

Vietjet (VJC)

Vietinbank (CTG)

February 12, 2020

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**4Q miss; hit hard by competition from Bamboo Air and delayed sales/leaseback bookings for Airbus deliveries**

4Q earnings weak on: 1) increased competition from Bamboo Airway that led to an 8.3% YoY drop in passenger traffic; and 2) delayed sales/leaseback bookings that plunged by 49% YoY with only two Airbus deliveries vs nine during the same period last year. 4Q earnings fell by 65% YoY to VND539 billion, while revenue dropped by 25% YoY to VND13,925 billion. Full-year 2019 results were down 21% YoY to VND4,219 billion and revenue dropped by 3% YoY to VND52,049 billion.

**Cutting 20E earnings by 14% to reflect nCoV outbreak and rollover to 20E forecasts & change to EV/EBITDAR raises target price to VND131,100; maintain HOLD**

Flights to China have stopped since February 1 and we assume disruptions until April/May as seen in past outbreaks (Chinese tourists 32% of international arrivals). We cut our 20E earnings by 14% to reflect lower passenger volumes (including spillover to other domestic & international routes), weaker ticket pricing but some offset from lower fuel costs. Earnings momentum remains attractive at 35% YoY growth in 20E to VND6,066 billion as sales increase by 44% YoY to VND74,964 billion. Rolling over to 20E forecasts, our target price rises to VND130,100 as we base our target price on EV/EBITDAR. Currently, VJC trades at an EV/EBITDAR of 6.0x vs a peer average at low-cost carriers of 6.3x and we maintain our HOLD rating.

**Long term benefits coming from the new Long Thanh Airport project**

The government plans to increase investments in phase 1 (2025–2026) of the new Long Thanh Airport project (located 40km from Ho Chi Minh City) to VND112 trillion in March 2020. The new airport will boost passenger capacity to 25 million per year, allow new routes and help reduce operating costs on lower wait times.

**Hold** Maintain

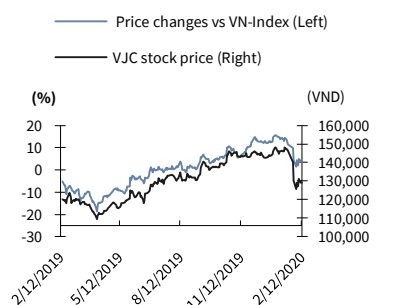
<b>Target price</b>	<b>VND 133,100</b>
Up/down	3.0%
Current price (Feb 12, 2020)	VND129,200
Market capitalization	VND67,575 billion

Trading data	
Outstanding stock volume	523,838,594
3M order-matching volume	441,828
Foreign ownership	19.5%

Share price performance				
(%)	1M	3M	6M	12M
VJC	-10.8	-10.0	-2.5	3.5
VNINDEX	-1.2	-7.4	-2.8	0.0

### Forecast earnings & valuation

FY-End	2017	2018	2019	2020F
Net revenue (VND bn)	42,303	53,577	52,059	74,964
Growth rate (%)	53.8%	26.6%	-2.8%	44.0%
Gross profit (VND bn)	6,549	7,492	6,754	9,341
Gross profit margin (%)	15.5%	14.0%	13.0%	12.5%
Net profit (VND bn)	5,074	5,335	4,219	5,729
Growth rate (%)	103.27%	5.16%	-20.93%	35.79%
EPS (VND)	11,241	9,851	7,787	10,577
EPS growth (%)	35.1%	-12.4%	-20.9%	35.8%
P/E	11.30	12.89	16.31	12.01



Source: KB Securities Vietnam

**Income Statement**

(VND billion)	2016	2017	2018	Q2/2019
Net sales	27,499	42,303	53,577	52,060
Cost of sales	-23,597	-35,753	-46,085	-45,305
Gross Profit	3,902	6,549	7,492	6,755
Financial income	145	119	332	737
Financial expenses	-654	-521	-918	-981
of which: interest expenses	-181	-238	-258	-351
Gain/(loss) from joint ventures (from 2015)	-15	-44	-89	-92
Selling expenses	-518	-579	-713	-1,004
General and admin expenses	-189	-226	-295	-436
Operating profit/(loss)	2,671	5,298	5,809	4,980
Other incomes	32	6	8	32
Other expenses	0	-2	-1	0
Net other income/(expenses)	32	4	7	31
Income from investments in other entities	0	0	0	0
Net accounting profit/(loss) before tax	2,703	5,303	5,816	5,011
Corporate income tax expenses	-207	-229	-481	-792
Net profit/(loss) after tax	2,496	5,074	5,335	4,219
Minority interests	0	0	0	1
Attributable to parent company	2,496	5,073	5,335	4,219

**Margin ratio**

	2016	2017	2018	2018
Gross profit margin	14.2%	15.5%	14.0%	13.0%
EBITDA margin	11.8%	13.8%	12.4%	10.4%
EBIT margin	11.6%	13.6%	12.1%	10.2%
Pre-tax profit margin	9.8%	12.5%	10.9%	9.6%
Operating profit margin	9.7%	12.5%	10.8%	9.6%
Net profit margin	9.1%	12.0%	10.0%	8.1%

**Cash Flow Statement**

(VND billion)	2016	2017	2018	Q2/2019
Net profit/(loss) before tax	2,703	5,303	5,816	5,011
Depreciation and amortisation	46	95	147	77
Profit/loss from investing activities	-41	44	72	-369
Interest expense	181	238	258	351
Operating profit/(loss) before changes in Working Capital	3,333	5,889	6,739	5,628
(Increase)/decrease in receivables	-2,629	-2,794	-5,284	-7,269
(Increase)/decrease in inventories	27	-129	-202	-215
Increase/(decrease) in payables	848	1,824	1,461	383
(Increase)/decrease in prepaid expenses	275	1,344	2,077	1,186
Net cash inflows/(outflows) from operating activities	1,636	5,578	4,429	-1,077
Purchases of fixed assets and other long term assets	-3,146	-2,622	-800	-3,599
Proceeds from disposal of fixed assets	0	0	1,546	0
Loans granted, purchases of debt instruments	-1	-487	0	-6
Collection of loans, proceeds from sales of debts instruments	270	0	0	1
Investments in other entities	-60	0	-1,133	-142
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	107	67	209	249
Net cash inflows/(outflows) from investing activities	-2,830	-3,042	-178	-3,496
Proceeds from issue of shares	72	1,759	0	0
Payments for share returns and repurchases	0	0	0	-2,347
Proceeds from borrowings	21,250	25,899	33,530	37,717
Repayment of borrowings	-18,035	-25,185	-35,528	-31,970
Finance lease principal payments	0	0	0	0
Dividends paid	-300	-877	-2,017	0
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	2,986	1,597	-4,015	3,399
Net increase in cash and cash equivalents	1,792	4,133	237	-1,174
Cash and cash equivalents at the beginning of period	924	2,741	6,862	7,165
Cash and cash equivalents at the end of period	2,741	6,862	7,165	6,076

**Balance Sheet**

(VND billion)	2016	2017	2018	2019
CURRENT ASSETS	10,313	17,669	19,079	26,626
Cash and cash equivalents	2,741	6,862	7,165	6,076
Short-term investments	1	1	817	435
Accounts receivable	7,129	10,223	10,273	18,986
Inventories	138	267	469	684
LONG-TERM ASSETS	9,749	13,990	20,007	20,982
Long-term trade receivables	5,105	7,153	10,577	12,940
Fixed assets	1,047	1,529	1,646	1,295
Investment properties	0	0	0	0
Long-term incomplete assets	181	222	1,233	1,319
Long-term investments	68	68	68	216
TOTAL ASSETS	20,063	31,658	39,086	47,608
LIABILITIES	15,329	21,064	25,048	32,294
Current liabilities	10,570	13,912	14,941	18,906
Trade accounts payable	391	560	924	1,411
Advances from customers	307	456	689	670
Short-term unrealized revenue	1,307	1,964	2,732	3,143
Short-term borrowings	6,102	6,897	4,958	8,159
Long-term liabilities	4,759	7,153	10,107	13,387
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	0	0	0	0
Long-term borrowings	695	627	572	3,664
OWNER'S EQUITY	4,734	10,594	14,039	15,315
Paid-in capital	3,000	4,513	5,416	5,416
Share premium	0	246	246	246
Undistributed earnings	1,703	5,809	8,256	11,933
Minority interests	1	2	2	2

**Key ratios**

	2016	2017	2018	Q2/2019
Multiple				
P/E	15.5	11.5	13.1	16.6
P/E diluted	15.5	11.5	13.1	16.6
P/B	8.2	5.5	5.0	4.6
P/S	1.4	1.4	1.3	1.3
P/Tangible Book	8.2	5.5	5.0	4.6
P/Cash Flow	23.7	10.4	15.8	-64.9
EV/EBITDA	13.2	10.1	10.3	14.0
EV/EBIT	13.4	10.3	10.5	14.2
Operating performance				
ROE	0.73	0.66	0.43	0.29
ROA	0.16	0.20	0.15	0.10
ROIC	0.28	0.32	0.33	0.20
Financial structure				
Cash Ratio	0.26	0.49	0.55	0.37
Quick Ratio	0.93	1.23	1.23	1.38
Current Ratio	0.98	1.27	1.28	1.41
LT Debt/Equity	0.15	0.06	0.04	0.24
LT Debt/Total Assets	0.03	0.02	0.01	0.08
Debt/Equity	1.44	0.71	0.39	0.77
Debt/Total Assets	0.34	0.24	0.14	0.25
ST Liabilities/Equity	2.23	1.31	1.06	1.23
ST Liabilities/Total Assets	0.53	0.44	0.38	0.40
Total Liabilities/Equity	3.24	1.99	1.78	2.11
Total Liabilities/Total Assets	0.76	0.67	0.64	0.68
Activity ratios				
Account Receivable Turnover	22.9	26.4	24.6	9.9
Inventory Turnover	156.1	176.5	125.3	78.6
Account Payable Turnover	57.8	75.2	62.1	38.8

February 12, 2020

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### 4Q earnings beat expectations and affirm the strong turnaround seen in 2019

Strong 4Q earnings due to: 1) net interest margin expansion from more loan mix to higher-yielding retail loans; 2) continued improvement in the cost-to-income ratio to 39% from 50% levels amid tighter staff costs; and 3) better asset quality, with the NPL ratio down to 1.2% from 2018's 1.6%. Full-year 2019 ROE now at 13.1% from 2018's 8.3%.

### Overhang from IFC Corp stake sale nearing completion

According to press reports, International Finance Corp (IFC) – the investment arm of the World Bank – has sold about a third of its remaining 4.99% stake and we estimate the remaining portion at about US\$145 million or 3.4%. The IFC reduced its owner to below 5% in January 2020 after originally owning 10% when it bought shares and subordinated debt in 2011.

### Slowly resolving the capital conundrum & higher credit growth cap expected for 2020

The government's recent announcement to boost charter capital should begin to resolve complications with the capital structure. Although the government may only boost charter capital via a stock dividend (instead of boosting overall capital), this – and the return to profitability – should allow a higher credit growth cap in 2020 and begin building the roadmap to meet Basel II requirements.

### Moving target on capital resolution plan should narrow valuation discount

We expect better clarity on credit growth to continue narrowing CTG's valuation discount. Currently, CTG trades at a P/B of 1.3 times 2019 book value or a steep discount to the 1.5–1.6 times of peers (and the 4.0 times of Vietcombank).

## Not rated

Target price	N/A
Upside/downside	N/A
Current price (Feb 12)	VND 27,200
Consensus target price	VND 27,530
Market cap	VND 99,415 billion

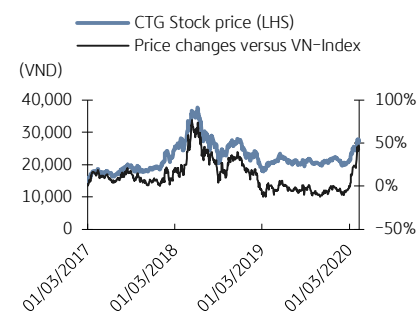
Trading Data	
Free float	7.78%
Avg T/O Val (3M, VNDbn)	155.8
Foreign ownership	24.8%
Major shareholders:	
SBV (64.46%), BTMU (19.73%), IFC (8.03%)	

Share price performance				
(%)	1M	3M	6M	12M
CTG	-1.49	0.23	-0.73	0.72
VN-Index	-0.28	0.66	0.70	1.24

### Forecast earnings & valuation

FY-end	2016	2017	2018	2019
Net interest income (VND bn)	22,405	27,073	22,518	33,199
Pre-provisioning OP (VND bn)	13,592	17,550	14,482	24,782
NP to parent (VND bn)	6,690	6,718	5,193	9,279
EPS (VND)	1,457	1,546	1,073	2,541
EPS growth (%)	19%	6%	-31%	137%
PER (x)	18.2	17.2	24.7	10.5
BVPS (VND)	16,127	17,046	18,037	20,624
PBR (x)	1.7	1.6	1.5	1.3
ROE (%)	11.8%	12.0%	8.3%	13.1%
Div Yield (%)	2.6%	0.0%	0.0%	0.0%

Source: Company reports, KB Securities Vietnam



Source: FiinPro, KB Securities Vietnam

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2015	2016	2017	2018	2019		2015	2016	2017	2018	2019
Net interest income	18,839	22,405	27,073	22,518	33,199	Loans	538,080	661,988	790,688	864,926	935,271
Interest income	42,472	52,991	65,277	74,176	82,743	Marketable securities	125,242	139,292	134,495	108,073	116,551
Interest expense	(23,633)	(30,586)	(38,204)	(51,658)	(49,544)	Cash (ex. Reserves)	5,091	5,187	5,980	7,028	8,283
Fees & commissions	1,460	1,698	1,855	2,768	4,056	Interest earning assets	668,413	806,467	931,163	980,028	1,060,104
Other non-interest income	2,445	2,359	3,692	3,452	3,267	Fixed assets & other assets	38,355	42,051	43,286	43,843	10,997
Total operating income	22,744	26,462	32,620	28,738	40,522	Total assets	779,483	948,568	1,095,061	1,164,435	1,240,789
SG&A expenses	(10,719)	(12,871)	(15,070)	(14,256)	(15,740)	Customer deposits	492,960	655,060	752,935	825,816	892,782
Pre-provisioning OP	12,024	13,592	17,550	14,482	24,782	Borrowings & call money/ref	120,147	109,001	137,661	157,616	166,549
Provision for credit losses	(4,679)	(5,022)	(8,344)	(7,751)	(13,002)	Interest bearing liabilities	613,107	764,061	890,596	983,432	1,059,332
Operating income	7,345	8,569	9,206	6,730	11,780	Other liabilities	42,802	113,315	119,129	45,013	27,724
Other non-operating income	-	-	-	-	-	Total liabilities	723,373	888,261	1,031,296	1,096,979	1,163,434
Pre-tax income	7,345	8,569	9,206	6,730	11,780	Charter capital	37,234	37,234	37,234	37,234	37,234
Income tax expense	(1,629)	(1,712)	(1,747)	(1,314)	(2,302)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	5,717	6,858	7,459	5,416	9,478	Retained earnings	3,942	6,991	9,234	11,976	19,837
Minority interest profit	(19)	(20)	(27)	(2)	(17)	Capital adjustments	-	-	-	-	-
Parent NP	5,718	6,690	6,718	5,193	9,279	Total shareholders' equity	56,110	60,307	63,765	67,456	77,356

Financial Indicators (%)						Valuation (VND, X, %)					
	2015	2016	2017	2018	2019		2015	2016	2017	2018	2019
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	10.3%	11.8%	12.0%	8.3%	13.1%	EPS	1,224	1,457	1,546	1,073	2,541
ROA	0.8%	0.8%	0.7%	0.5%	0.8%	BVPS	15,004	16,127	17,046	19,037	20,624
RORWA	N/A	N/A	N/A	N/A	N/A	Tangible BVPS	13,917	15,068	15,769	16,795	19,547
Pre-provision ROE	21.6%	23.3%	28.3%	22.1%	34.2%	Common stock DPS	0.57	0.48	-	-	-
Pre-provision ROA	1.7%	1.6%	1.7%	1.3%	2.1%	<b>Valuations</b>					
Pre-provision RORWA	N/A	N/A	N/A	N/A	N/A	PER	217	182	172	247	105
Net interest margin (NIM)	2.8%	2.8%	2.9%	2.3%	3.1%	PBR	18	17	16	15	13
<b>Efficiency</b>						<b>Tangible PBR</b>					
Loan to deposit ratio (Cir. 22)	87.8%	86.6%	88.8%	87.9%	88.3%	Dividend yield	2.6%	2.6%	0.0%	0.0%	0.0%
Cost-income ratio	47.1%	48.6%	46.2%	49.6%	38.8%	ROE	10.3%	11.8%	12.0%	8.3%	13.1%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	17.9%	21.7%	15.4%	6.3%	6.6%	BIS ratio	N/A	N/A	N/A	N/A	N/A
Loan growth	-80.3%	110.4%	62.1%	-24.0%	48.8%	<b>Asset Quality</b>					
PPOP growth	7.1%	13.0%	29.1%	-17.5%	71.1%	NPL ratio (substandard)	0.9%	1.0%	1.1%	1.6%	1.2%
Parent NP growth	1.1%	17.0%	0.4%	-22.7%	78.7%	Coverage ratio (substanc	243.3%	201.6%	194.8%	105.8%	229.2%
EPS growth	-4.6%	19.0%	6.1%	-30.6%	136.8%	NPL ratio (precautionary)	1.5%	1.9%	1.6%	2.2%	1.8%
BVPS growth	15%	7.5%	5.7%	5.8%	14.3%	Coverage ratio (precautic	147.5%	110.5%	138.9%	76.6%	150.3%

Source: Company reports, KB Securities Vietnam



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## Investment ratings & definitions

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### 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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