KBSV RESEARCH

July 11, 2019

MACRO STOCK MARKET REPORT

VIETNAM MACRO STOCK MARKET OUTLOOK IN 2H 2019

- The VN-Index corrected -3.1% in Q2, but overall, it still maintained an increase of 6.4% from the beginning of this year.

- Foreign investors have been net-buying since 2019 with the total value of more than VND10,000 billion.

- VN-Index Q1 earnings dropped significantly. As a result, we cut earning growth outlook for 2019 down to 9% (lower than the growth of 13% - 15% in 2015-2016).

- Domestic macro factors continued to affect the market moves but external factors may have a bigger impact. The reasonable price for VN-Index in the second half of the year is in a range of 930-1000 points.

- *Retail* and *IT* sectors have a positive outlook in the 2H of 2019. Meanwhile, the *banking, real estate, petroleum, electricity,* and *pharmaceutical* sectors were neutral, although opportunities still exist in some stocks with their own stories.

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CONTENT

STOCK MARKET OVERVIEW IN Q2/2019

❖ Vietnam stock market moves in the Q2 can be divided into two main phases

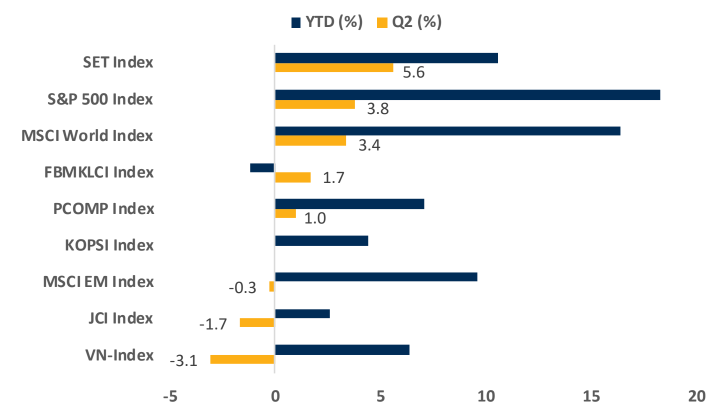
Correction is the main trend in the Q2, stemming from negative information from both domestic and international markets

Phase 1 was from the end of Q1 to early June, in which Vietnam stock market was under a high correcting pressure from the disappointing Q1 earnings and from unfavorable external factors, including the escalating US-China trade tension, and slowing global economic growth…There was a sudden change in the investor sentiment in this period, from positive in Q1 to cautious about rising risks.

Phase 2 was the remaining weeks of June, in which the downward momentum has slowed down as Fed rate cut expectation grow. In particular, Fed Chairman, Mr Powell recently opened a door for a rate cut by end year. The market sentiment in this phase was somewhat more stable, but not improved significantly due to unpredictable results of the US-China meeting at G20 summit at the end of June.

In general, the VN-Index corrected -3.1% in Q2, but overall, it still maintained an increase of 6.4% from the beginning of this year. In addition, VN-Index has underperformed most of regional market (ASEAN - 4) and the benchmark index – MSCI EM from the beginning of 2019.

Figure 1: VN-Index and the world stock market



Source: Bloomberg, KBSV. Using last price

❖ Market highlights

In the decline of Q2, small and medium cap stocks still had more positive movements than large-cap stocks.

In the environment of increased global risk and bearish investor sentiment, large-cap stocks, especially those with relatively high P/Es, were under high selling pressure. This stock group lost 4.0%, dragging VN-Index overall index down in Q2.

After surging in Q1, *mid and small-cap stocks* also faced the correction in the Q2 (decreasing by -3.0% and -2.8% respectively) due to poor Q1 earnings. However, these corrections were still lower than the overall decrease of VN-

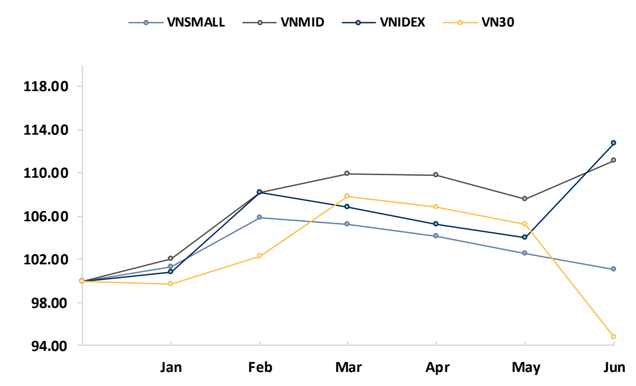
Index.

Liquidity has been weak since early this year

The market continued to trade in weak liquidity, inferred from the average trading volume and value dropping to the lowest in the last two years (Figure 3).

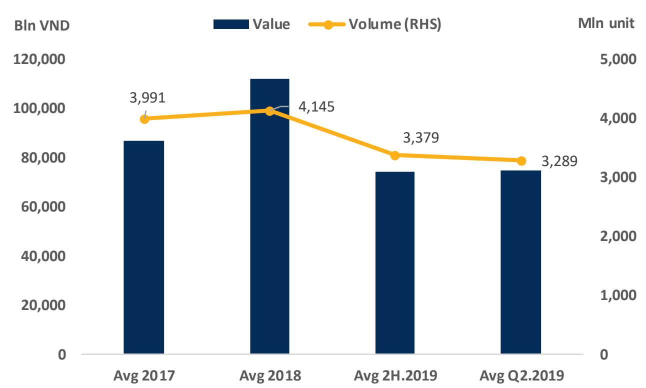
In terms of the stocks' contribution to VN-Index, SAB, VCB and VJC had the most positive contribution, while VHM, TCB and VNM were the most negative in the Q2.

Figure 2: Stock movements



Source: Finnpro, KBSV

Figure 3: Market liquidity



Source: Finnpro, KBSV

6 out of 10 sectors were under pressure of decreasing in the Q2

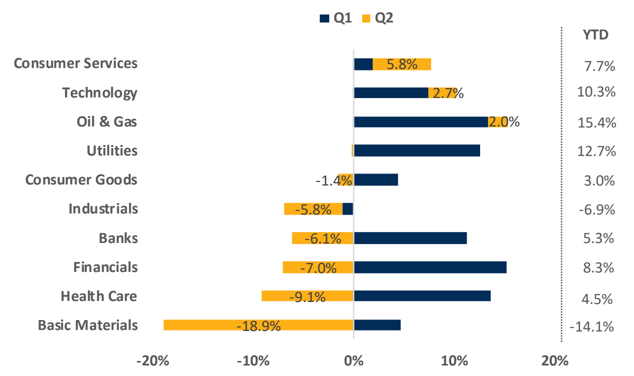
Considering sectors, *Consumer services* was the best performer (+5.8%) thanks to the rebound in the prices of VJC (+10%) and MWG (+9%) after having promising business results in the Q1. As for MWG, investors seem to be more optimistic about the business operations of Bach Hoa Xanh (Green Store).

Followed by, *Information Technology* sector gained 2% with the important contribution from CMG shares (+26%). CMG attracted investors with its strategic cooperation with Samsung SDS via the sale of 25% of ownership.

In contrast, *Material sector* witnessed reversed moves in prices in the Q2 as investors adjusted the sector outlook, triggered by disappointing business performance in the Q1 (NPAT of Materials sector saw the strongest fall in total 10 sectors). PHR was the only positive stock in this sector, based on high expectation about company's divestiture plan from Nam Tan Nguyen company (ticket: NTC).

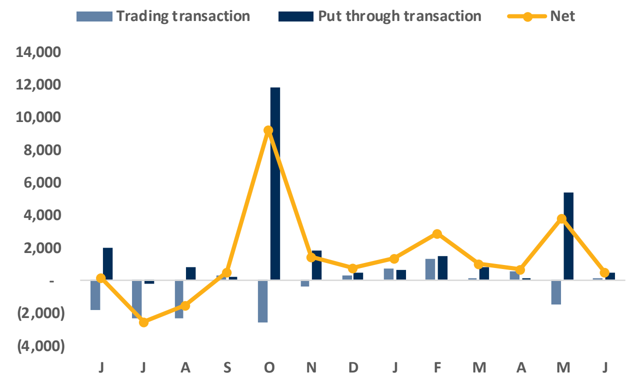
Medical and Healthcare shed -9.1% in the Q2, mainly resulting from the correction of DHG share prices (-8%). DHG recorded a decrease in revenue and profit in the Q1 after this company no longer provided Eugica and MSD products – the segment that used to bring a good profit for the company in 2018. Nevertheless, this correction in price of this stock in the Q2 was at an average level after an increase of 50% in the Q1.

Figure 4: Price-performance by ICB sector in the Q2



Source: Finnpro, KBSV

Figure 5: Foreign trading movements



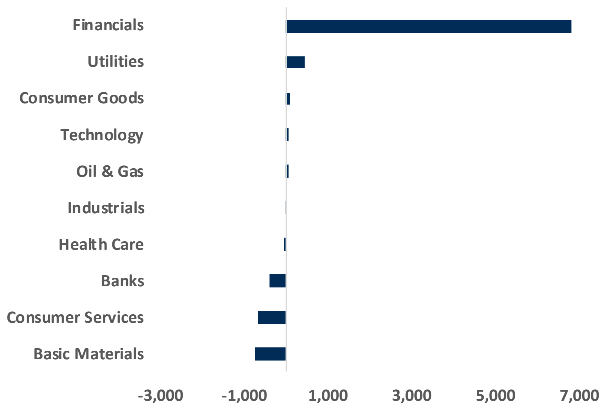
Source: Finnpro, KBSV

The good news is the non-stop net-buying of foreign investors

The net-buying trend among foreign investors still existed (Figure 5). The highlight of Q2 was the put-through transaction of SK Group buying VIC shares in May.

In terms of sectors in Q2, *Finance* (excluding *Banking*) and Utilities stocks were net-bought at a large volume by foreigners, while *Materials, Consumer Services* and *Banking* stocks were strongly net-sold (Figure 6). In terms of stock tickers, VIC and MSN shares were most strongly bought by foreigners, while VJC, VHM and STB were sold at the largest volume.

Figure 6: Foreign trading in Q2 by sectors (VND Bil.)



Source: Finnpro, KBSV

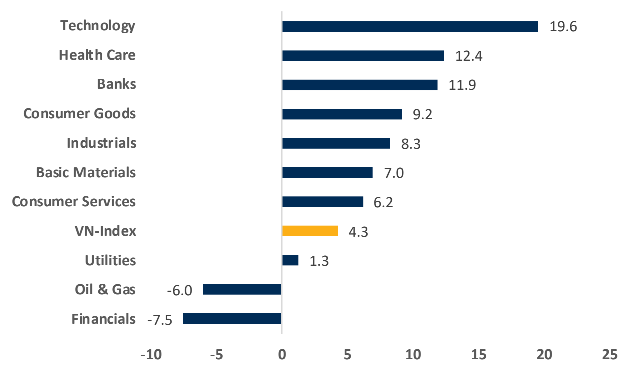
BUSINESS OPERATIONS

❖ Business performance in Q1/2019

The Q1 business performance was disappointing

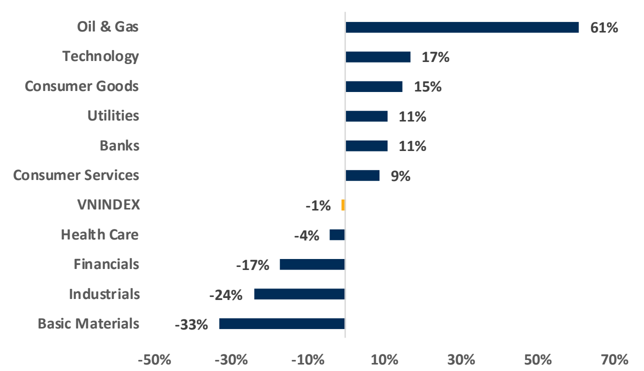
As expected, the business performance of companies in the Q1/2019 experienced a fall in profit growth compared to the same period. Specifically, among 714 enterprises that we follow (except for ones that have just been listed on the two exchanges since the Q1/2018), only 312 had a positive profit growth (43.6%). Total revenue on both exchanges achieved a 4.9% increase, while profit was almost unchanged, just gaining 0.31%. This is a significant step backwards compared to 2018 revenue and profit growth of enterprises at 16% and 22% respectively.

Figure 7: Revenue growth by sector in the Q1/2019 (%)



Source: Bloomberg, Finnpro, KBSV. Excluding newly listed companies. Sector classification based on ICB standards.

Figure 8: Profit growth by sector in the Q1/2019 (%)



Source: Bloomberg, Finnpro, KBSV. Excluding newly listed companies. Sector classification based on ICB standards.

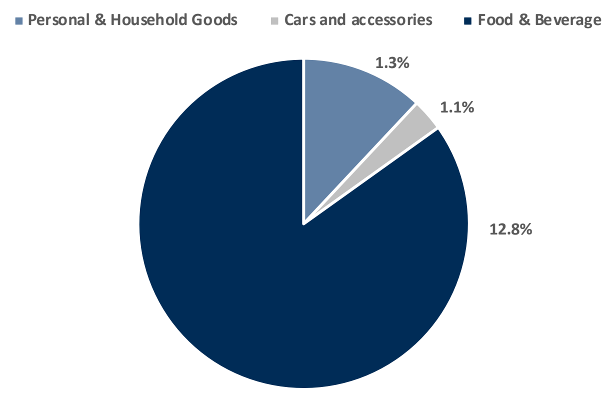
Petroleum and IT led the growth in profit

Regarding earning performance, in 10 sectors we observed, there are 6 sectors with positive profit growth and 3 sectors with negative growth over the same period. Although the revenue growth dropped slightly by 6%, Petroleum was the industry with the most sudden growth in profit (60.8%) due to the surge in oil prices on the international market from the early months of 2019.

Information technology is the second strongest sector (16.7%) thanks to the significant contribution of FPT shares (+23%). The impressive results mostly came from the software outsourcing segment which had a revenue growth of 20-25%. In addition, we saw an improvement in net profit margin of advisory service segment and digital transformation segment.

Consumer goods sector saw positive growth (+15.3%), in which *Automobile & Spare parts*, *Food & Beverage, Personal & Household goods* increased 44%, 15% and 10% respectively. In terms of contribution, the *Food & Beverage* still makes a major contribution (12.8%) to the overall growth of the *Consumer Goods* sector (Figure 9).

Figure 9: Profit structure of *Consumer goods* and the contribution in the Q1/2019



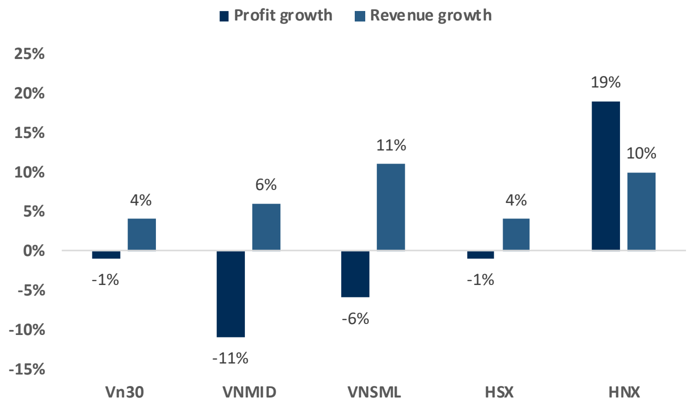
Source: Bloomberg, Finnpro, KBSV

In contrast, the *Steel* segment is the main reason for the decrease of 33.3% in the *Raw Material* sector. Difficulties that *Steel* sector facing are the increasing protectionism in the world, wobbly raw material prices and rising production costs. Therefore, it is not surprising that the net profit of steel enterprises fell sharply by 43% in Q1.

Industrial sector also saw a drop of 24.5%, amid surplus supply as small businesses joined the market and pushed bidding prices down. In addition, the prices of raw materials are higher than the same period, which also significantly affected NPAT of enterprises. In particular, CTD (-35%) and SII (-346%) were the most negatively affected stocks in this sector.

The operation of the *Finance* sector (excluding the *Banking*) weakened markedly in Q1 with net profit of the whole sector fell 16.7%. In particular, the *Financial Services* (securities companies) and *Real Estate* are considered as two main reasons for the decrease. NPAT of securities companies declined by 46% as the liquidity in the stock market this quarter fell to the lowest within 8 quarters, -45% YoY from the peak of Q1 last year. The *Real Estate* segment lost 12%, mainly due to a shortage of new supply in Q1. Meanwhile, the *Insurance* segment was a bright spot with a positive increase of +9% thanks to a sharp decline in the claim ratio for non-life insurance.

Figure 10: Revenue/profit growth of stock groups Q1/2019 (%)



Source: Bloomberg, Finnpro, KBSV

Large-cap sectors still had better business performance than mid-small sectors

Although all 3 groups maintained their revenue growth (at a low level), the profit growth declined, especially in mid and small-cap stocks. Profit margins in these two groups also tumbled 1.4%, partly because the ability to adjust output prices was quite limited while input costs increased. In addition, we think that because of low consumer demand, many SMEs have accepted to adjust prices, leading to a decline in gross profit margin (GPM).

Notably, business results on the HNX flourished due to significant improvements in some large enterprises such as ACB (+ 19%), SHB (+ 48%), PVS (+ 46%), DGC (+ 1,027%), or VCG (+ 84%). If excluding these enterprises, enterprises listed on HNX almost did not see any positive profit growth.

❖ Business performance for 2019

The downtrend in profit growth has been clearly shown since Q2 2018 (Figure 11). The main causes are:

(i) Dramatic profit growth of the finance and real estate sectors in the end of 2017 and early 2018, stems from the fact that some businesses belonging to these sectors were newly listed in 2018 (HDB, TPB, VHM...) and all of them recorded outstanding profit growth before being listed. Besides, banking sector saw a strong growth in 2018 (+32%) over the same period, mainly supporting by the bad debt recovery, provision reducing, and investment bond profit realization. The above earning sources will no longer exists or become insignificant in 2019, causing this sector's profit growth to slow down (12% -15%) although the net interest income growth of banks is forecasted to stay stable.

(ii) Production costs are under a great pressure from the sharp increase in gasoline, oil and coal prices. At the same time, the costs of input materials (textiles, steel prices...) of some construction and textile enterprises were also pushed up. Electricity prices skyrocketed at the end of the first quarter, although it did not directly affect the operating costs of enterprises, there could be indirect impacts through changes in business plan making process of enterprises since the beginning of the year.

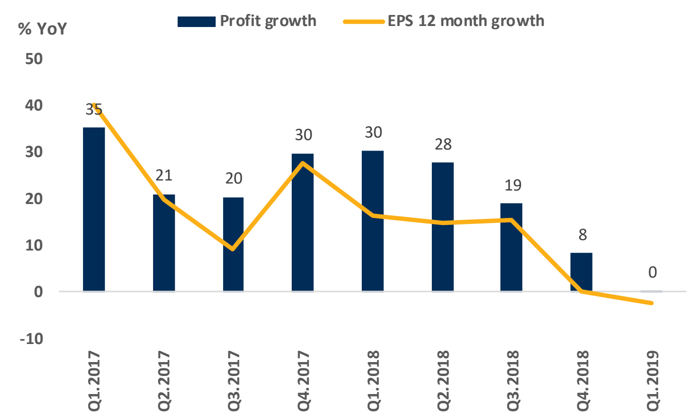
(iii) The SBV has had a less loosening monetary policy via reducing credit growth from 18% in 2017 to 14% in 2018, and probably to 13% in 2019. The SBV also tightened real estate credit at banks (Short-term loans for medium-term loans decreased from 45% to 40% and the risk rate for real estate loans increased from 150% to 200%.)

(iv) Severe competition with imports from China as the Yuan had a strong devaluation, and Chinese goods are seeking alternative markets due to the taxes imposed by the US.

We lower the forecast business growth to 9% for 2019

For the forecast profit growth of listed companies in 2019, we keep a prudent view, but we are not too negative about the result. In addition to the technical reasons causing the decline in profit growth in recent quarters, there is the fact that the domestic and international macro context is not as favorable as in previous years for the expansion of business activities of enterprises. However, with the forecast that Vietnam economic growth in 2019 will remain at a high level (6.6% - 6.8%), the macro indicators remain stable (average inflation rate will fall below 4%; the VND will weaken 2% - 2.5%, combined with the projected growth in large-cap enterprises, profit of businesses on the two exchanges is expected to grow 9% in 2019 (lower than the growth of 13% - 15% in 2015-2016).

Figure 11: Profit growth of listed companies and EPS VN-Index



Source: Bloomberg, Finnpro, KBSV

MARKET DRIVERS IN THE LAST 6 MONTHS

Positive factors	Impact	Negative factors	Impact
Easing monetary policies	Strong	Trade war	Strong
Solid and stable macro condition	Moderate	Slowing global economy	Strong
EVFTA	Moderate	Poor earning prospectives in 2019	Moderate
Weak USD	Moderate	Prudent SBV monetary policy	Weak
Cover Warrants	Weak		

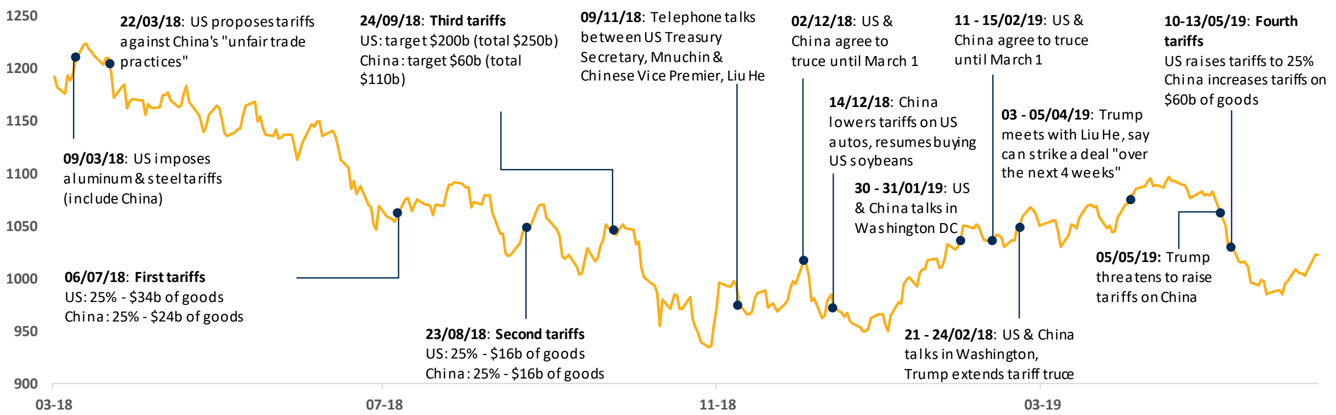
Source: Bloomberg, KBSV

❖ The US-China trade war

The US-China trade war continues to be an influential factor to the global stock market in general and Vietnam stock market in particular in the second half of 2019

The US-China trade war was one of the main reasons leading to plunge in the global stock market in the last 2-3 quarters, and continues to be a major factor affecting the market in the second half of 2019. The latest movements of the G20 meeting have shined up the light of hope for the market, as the two sides will continue the negotiation and temporarily not increase additional taxes. However, we believe that both sides will still struggle to agree on key issues and the trade tension could get worse before the deal is reached. Thus, there still is a possibility that US can impose more taxes on USD300 billion Chinese commodities; or China may cut the volume of rare-earth elements exported to the US. Our base case is that trade tension will remain in the 2H 2019.

Figure 12: Trade war impacts on MSCI - EM



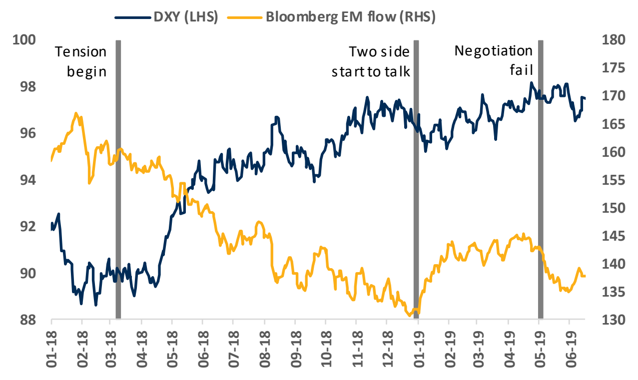
Source: KBSV, Bloomberg

We measure the impacts of trade war on Vietnam stock market through these angles:

REER (Nominal Multilateral Exchange Rate) are correlated with fluctuations in Vietnam stock market and strongly influenced by US-China trade war

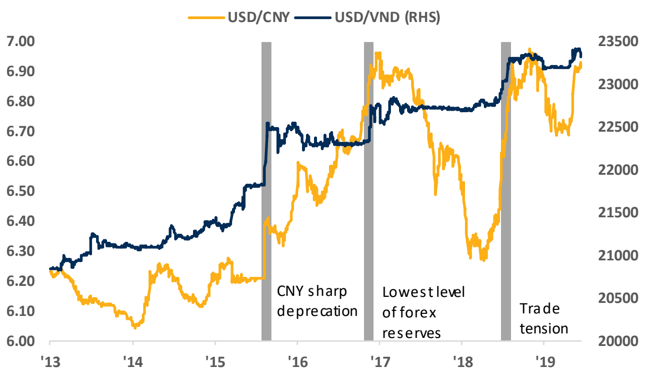
(i) <u>**Exchange rate:**</u> Escalating trade jittery triggered the USD and CNY fluctuations. The USD may rebound after coming to a standstill from early 2019. The gain of USD makes investor sentiment worse, which means that capital investment will be withdrawn from emerging markets (EM), including Vietnam stock market. However, we suppose that the USD will hardly make such a high increase as in 2018 due to the counter-factor of Fed rate cut. In addition, when observing the moves of DXY (Figure 13), we have seen that the impact from trade war on the appreciation of USD has been considerably undermined as the increasing momentum becomes more flattened. Overall, we believe that the impact of trade tensions on the USD may be limited.

Figure 13: DXY and the EM flow under the impact of trade tensions



Source: Bloomberg, KBSV

Figure 14: The fluctuation of CNY and VND



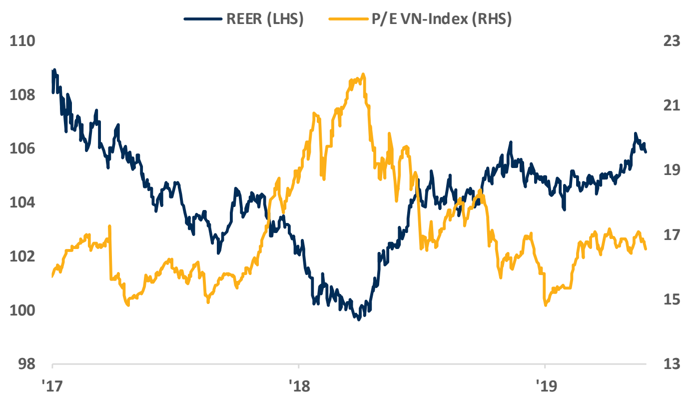
Source: Bloomberg, KBSV

For the CNY, it is likely that China will decide to devalue this currency to retaliate against the US as well as to support exporters. Earlier, PBoC Governor, Mr Li Yang, also left open the possibility of CNY devaluation under 7.00 when denying the existence of the USD/CNY exchange rate ceiling. We have seen the sensitivity of investors with the threshold of 7.00 and if falling under this threshold, the case of huge currency devaluation and large outflow like in 2015 can come back.

As China is the leading strategic commercial partner of Vietnam, any move of the CNY will certainly affect the spot VND, and the REER. In particular, if the CNY depreciates while the VND can hardly have a relevant depreciation level, REER will soar. This fact will adversely influence Vietnam stock market via the decrease of P/E, if based on our observation the existing inverse relation between P/E and REER since late 2017 (Figure 15). However, we believe the possibility of the USD/CNY strongly slipping through 7.00 is low. Therefore, our base case assumes that VND exchange rate will remain stable in the second half of the year. Accordingly, the scenario of increasing exchange rate pressure, rising REER and declining Vietnam stock market in the first half of

2018 will likely not happen in the second half of 2019.

Figure 15: REER và P/E VN-Index

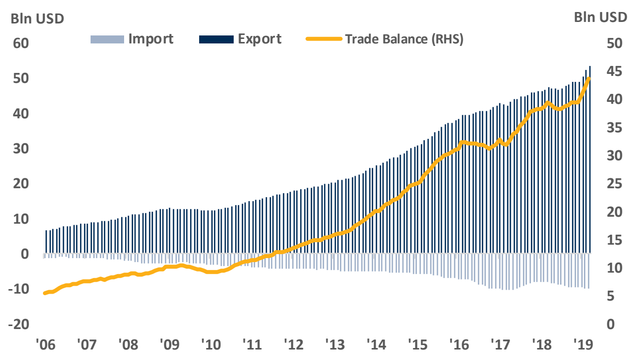


Source: Bloomberg, Finnpro, KBSV

Vietnam faces the risk of being imposed import duties by the US although this possibility is low at the moment

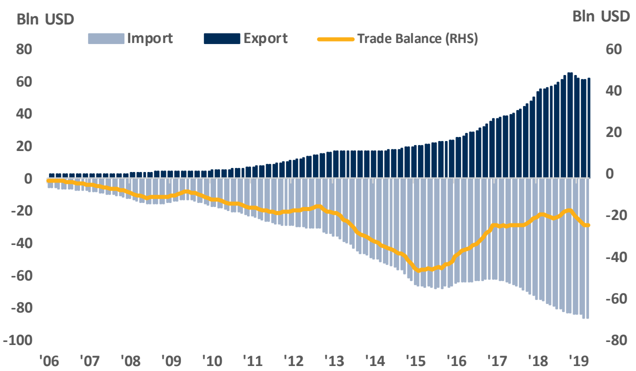
(ii) **The risk of increasing tariffs on exports to US**: Recently, the US has proposed a tax draft to impose on countries scrutinized for currency manipulation. Vietnam, despite not listed this time, has been included in the watch list. Based on the evaluation criteria, especially the level of trade surplus with the US, we recognize the possibility that Vietnam may be taxed in the future. Solving the trade surplus problem will not be easy when the volume of exports to the US tend to increase over time (due to Vietnamese goods replacing China exports to the US and fake 'Made in Vietnam' labeled goods exported from China to dodge tariffs). However, we do not appreciate the possibility that the US will have a policy that directly limits imports from Vietnam since Vietnam has an important geopolitical position in the region while the US is trying to reduce China's influence. Besides, the government will get tough with goods being exported to the US under Vietnamese labels to avoid tariffs on Chinese imports.

Figure 16: Trade surplus with the US



Source: GSO, KBSV

Figure 17: Trade deficit with China



Source: GSO, KBSV

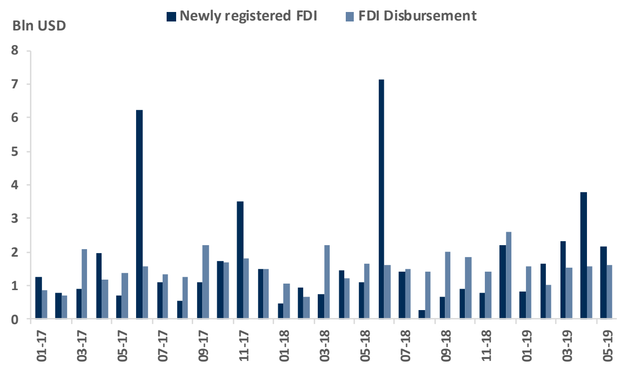
Chinese exports to Vietnam tend to increase

(iii) **Competitive pressure with Chinese goods**: We assess that Vietnam enterprises will have to face an increasing domestic competition when Chinese goods are seeking an alternative market. The competition is getting fiercer as the Yuan has strongly depreciated against the VND since the second half of 2018, making Chinese exports cheaper. This is also the reason for the Chinese trade deficit with a surge of nearly 50% in the first five months. This uptrend partly caused a slight trade deficit from the beginning of the year and will reduce favorable conditions for Vietnam's trade balance in the coming time.

The trade diversion helps Vietnam to attract FDI and boost exports

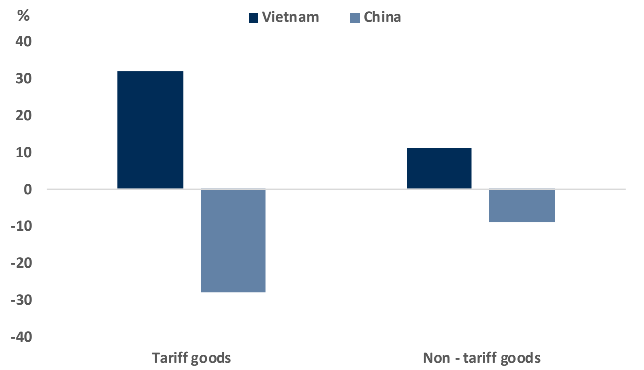
(iv) **Trade diversion**: Vietnam is rated as one of the countries benefiting directly from trade diversion when multinational companies (MNCs) move their factories from China to Vietnam. This is partly shown through the large amount of newly registered FDI in the first five months which reached USD16.7 billion, a record high level of investment value within the past four years (Figure 18). In addition, Vietnamese exports tend to replace Chinese exports in the US market for those goods under tariff regime (Figure 19). However, the above advantages could be lost as President Trump recently accused Vietnam of abusing Sino-US trade war to boost exports to the US. And if the scenario of US tax imposition on Vietnam occurs, the trade diversion is likely to grand to a standstill.

Figure 18: FDI registering and disbursement in Vietnam



Source: Bloomberg, KBSV

Figure 19: The growth of exports to the US from Vietnam and China in Q1 2019



Source: FT, UST, KBSV

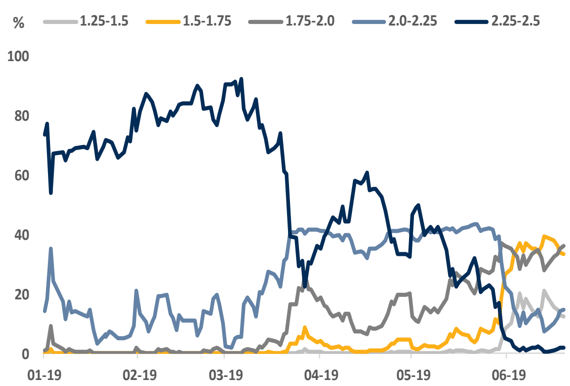
The weakening global economy will have a strong impact on Vietnam economy

(v) **Decline in global economy:** As one of the economies that have the largest openness in the world, with a total export turnover of up to 200% of GDP, it is difficult for Vietnam to avoid negative impacts when the global demand of goods declined due to trade tensions. In the long term, we believe this risk will overwhelm the trade diversion advantage and have a negative impact on Vietnam's overall growth prospects. However, the impacts will only be clearly seen in the next 2-3 years, and depend on the level and scale of global protectionism

❖ Fed monetary policy

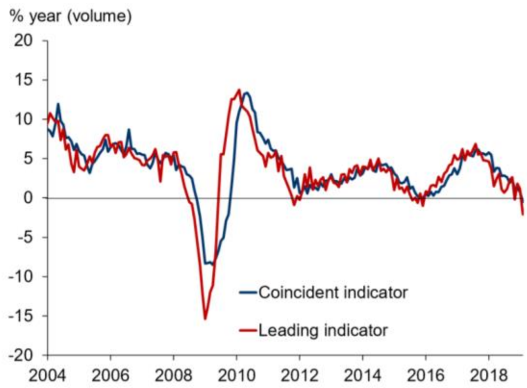
The global stock market had a correcting phase at the end of Q2 thanks to the market's expectation about Fed's potential rate cuts in 2019 based on these signals:

Figure 20: Forecast Fed fund rate at the end of 2019



Source: Bloomberg, KBSV

Figure 21: Global trade activities (volume)



Source: Oxford Economics, Bloomberg

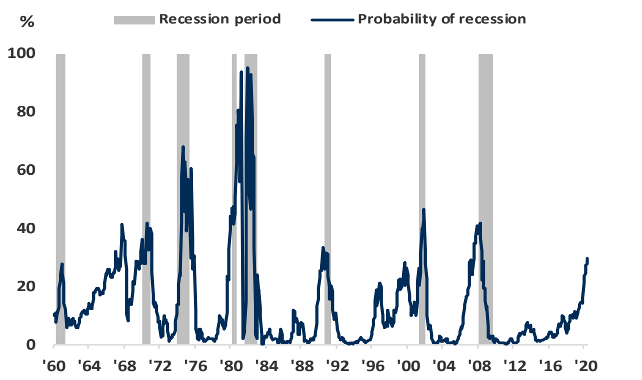
FED's dovish message amid increasing risks to the US economy, is a highlight to support global stock market movements at the end of Q2

- The risks to the US economy are increasing through the deceleration of the world economy, triggered by the negative effects of US-China trade tension. This deceleration can be clearly demonstrated by the growth of world trade activities (measured by trading volume) (Figure 21). According to Oxford Economics, the leading indicator has fallen to the lowest level since 2009. In line with the general trend, the US economy has also shown signs of slowing growth along with increasing probability of a looming recession (Figure 22).

- The Core PCE Price Index - Fed inflation monitoring indicator - is showing signs of a decline, and is much lower than 2% target, even though the labor market is in a tightening state with the lowest unemployment rate in history (Figure 23).

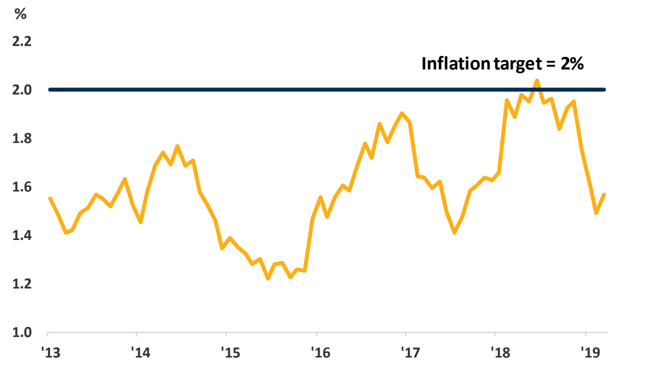
Therefore, in the latest FOMC meeting of Fed on June 18, 19, Fed Chairman, Mr. Jeremy Powell, decided to change to a loosening viewpoint as he skipped the "patience" viewpoint in monetary policy and ready to act to cope with risks to economic growth. These signals were clear so we decided to announce that there would be at least one rate cut from Fed this year in the base case.

Figure 22: The possibility of 2020 crisis using bond yields method



Source: Federal Reserve Bank, KBSV

Figure 23: PCE of the US



Source: Bloomberg, KBSV

Unlike many Fed's interest rate cuts in the post-crisis period (passive), current Fed's active rate cuts often create positive effects on the stock market

When the prospect of Fed cutting interest rates becomes more practical, the question is how this Fed's move will affect the US stock market. Thereby, we can calculate the impacts of it on Vietnam stock market outlook in the mid-term. Figure 24 shows the impacts of Fed fund rate on the S&P500 were quite complex because the co-relation between them could be directly proportional or inversely proportional at different times.

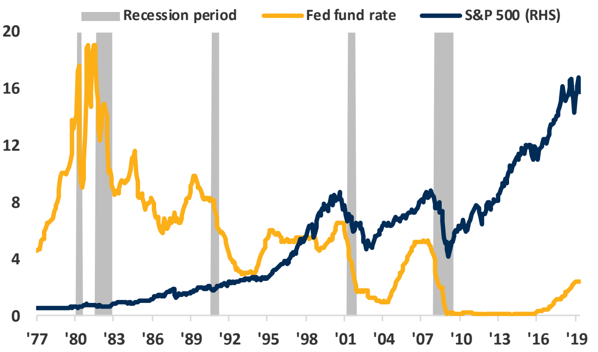
We have seen that the reasons of the above move mainly depend on Fed's activeness and passiveness. In some cases, only when the US economy had already entered a recession, Fed started to cut interest rates (passive), the effects of this move on the US economy need a certain lag. In the primary phase, the business performance of companies continued to turn downward, and the US stock market plunged. In contrast, in some other cases, Fed actively lowered interest rates to maintain the growth rate, which prevented a deceleration for the economy. In this phase, business operations of companies were kept stable, and Fed's rate cuts served as a booster for the stock market.

At the moment, we believe that if the Fed's rate cut in the 2H.2019 really created a prospect as for the second case mentioned above, the US stock market will likely to set new peaks. Our assessment is based on the similarity with the Fed's interest rate cut in 1995, helping the US economy to soften the ground and bolster the US stock market to increase by 14% in the next six months.

Under the impact of Fed's dovish signals, the US yield curve (10 years – 2 years) slightly rose, partly shows that investors assess the probability of the US economy to decline slightly

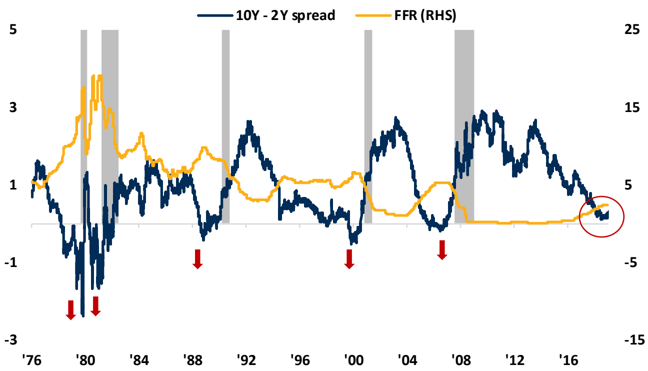
Meanwhile, we have seen that there is a correlation between the yield curve difference (10y – 2y) and Fed Fund Rate. In general, when Fed lowered interest rates in the past, the yield spread tended to move upward, showing the market's assessment of the probability of a crisis going down (Figure 25). A similar phenomenon is happening with yield spread (10y-2y) when it hit the bottom of 0.13% and gradually increased. This partly indicated that investors are more optimistic about the US economic outlook under the impact of Fed's more dovish monetary policy.

Figure 24: Fed fund rate and S&P500 fluctuations



Source: Federal Reserve Bank, KBSV

Figure 25: The gap between yield curve (10y-2y) and Fed fund rate



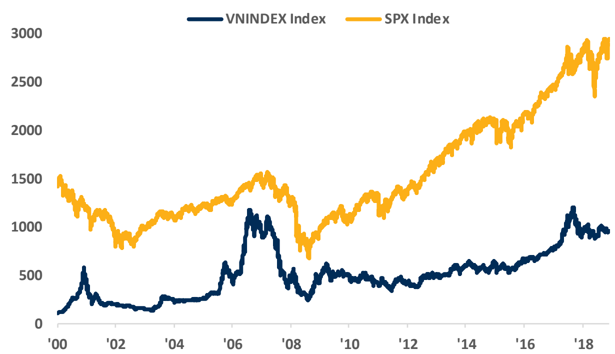
Source: Bloomberg, KBSV

Thus, we can assess the Fed's rate cut on Vietnam stock market moves via three main angles:

The Fed's rate cut on Vietnam stock market moves can be observed via three main angles which are all positive

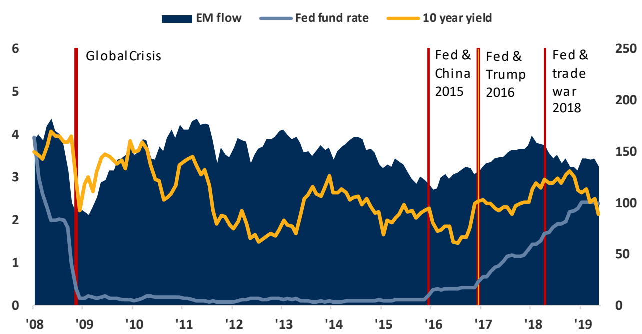
- First, the psychological impact: With the increasingly closer correlation between Vietnam stock market and the US (or global) stock market in recent years (Figure 26), the indexes on the US stock market such as Dow Jones, and SP500 in turn exceeded (or approached) the old peak, while Vietnam stock market has just experienced a long correction (from mid-May), which will stimulate bottom-fishing sentiment of domestic investors, and increase disbursements to seek opportunities in strongly corrected stocks.

Figure 26: The correlation between Vietnam stock market and the S&P 500



Source: Bloomberg, KBSV

Figure 27: Fed fund rate, bond yield and Bloomberg EM flow



Source: Bloomberg, KBSV

- Second, the impact on foreign cash flow: In the past (especially in the period of 2009-2011), when major economies simultaneously applied loosening monetary policies, lowering interest rates and injecting money, low-cost cash flow tended to be disbursed in risky assets with high expected returns like the stock markets of developing countries (Figure 27). We expect the above trend will re-occur if the Fed strongly loosens monetary policy as it did in the past.

- Third, the positive impact from the weakening USD due to FED loosening policies. This helped the SBV to reduce pressure on the exchange rate management, and increase potential room to focus on other targets such as inflation curb, growth support...

Overall, in the context of rising global risk factors in 2019 (trade war, conflict in the Middle East, economic crisis, Brexit...), the loosening monetary policy of central banks of the in the world is one of few highlights supporting the growth trend of the global stock market in general and Vietnam stock market in particular.

❖ Special domestic events

The Revised Law on Securities is an important stage in the development of Vietnam stock market. However, the draft of this law, which is issued for consultation, does not mention room openness for foreign investors as expected by the market

The Draft Law on Securities (revised) has recently been discussed at the 7th session of the 14th National Assembly, and is supposed to be passed at the 8th session (in November 2019), before coming into effect in 2020.

Major changes of the Draft Law on Securities (revised) focus on regulations on securities and stock market activities; rights and obligations of organizations and individuals in the field of securities; stock market organizations; State management on securities and stock market. In particular, the draft mentions stricter regulations on conditions for IPO to become more standardized as international practices, and to improve the quality of goods, protect the legitimate rights and interests of the investors. In addition, the new law also includes regulations to promote the IPO associated with listing, trading registration on the stock market. The draft law specifies: securities offered to the public must be listed and registered for trading at the Stock Exchange.

In particular, the third draft currently being consulted has removed the previous regulations on foreign ownership included in the first draft. Specifically, in the first draft of the Revised Law on Securities, Chapter III, Section I, Article 32 clearly stated: "Foreign ownership in public companies is unlimited, except for the case international treaties in which Vietnam is a member or a specialized law have specific provisions on foreign ownership rates.” This regulation is expected to open the door for foreign investors to invest in Vietnam stock market, and help Vietnam stock market meet some relevant criteria to be upgraded to emerging markets in MSCI standards. The abolition of this provision, from our point of view, can explain that the Government does not want to provide a detailed provision on this issue in the law, but will provide sub-law documents instead to make it easier for further supplement or amendment.

Newly released CW blew a fresh breeze into Vietnam stock market,

Covered warrant (CW) officially went into operation at the end of Q2 after a long time of research and preparation. This new product is expected to blow

but in the first stage, the practical effects would be not very strong

a new breeze into Vietnam stock market, and extend choices for investors with high leverage advantages. It can also be used as a tool in portfolio risk management. Additionally, CW helps foreign investors can invest, and gain profits from stocks that currently have full foreign room.

However, according to our assessment, at the first stage of deployment, there are only 6 tickers selected by securities companies (FPT, FPT, HPG, MBB, MWG, PNJ and VNM); with a relatively limited number of issued covered warrants. Therefore, the impact of CWs on the stock market will not very strong in the 2H.2019. Furthermore, the current CW products issued by securities companies require the price of fundamental stock price to gain 10% at least after three months to ensure the profitability of the positions bought by investors. This increase is considered high and not really attractive to investors because the selected fundamental stocks generally have stable fluctuations.

The signing of EVFTA brings a great competitive advantage to exporters to the EU

The signing of EVFTA. This is a major agreement to liberalize trade and services between Vietnam and the EU, and further expand the market for Vietnamese exports. Specifically, as soon as the Agreement comes into effect, the EU will abolish import duties on about 85.6% of tariff lines, equivalent to 70.3% of Vietnam's export turnover to the EU. After 7 years since the Agreement becomes effective, the EU will abolish import duties on 99.2% of tariff lines, equivalent to 99.7% of Vietnam's export turnover. For the remaining 0.3% of the export turnover, the EU pledged to provide Vietnam with tariff quotas with the import tax rate in the quota of 0%.

EVFTA has positive effects on Vietnam stock market, both from a macro and corporate perspective. From the macro perspective, according to the study of the Ministry of Planning and Investment, EVFTA Agreement will help Vietnam's export turnover to the EU increased by about 20% in 2020; 42.7% in 2025 and 44.37% in 2030; thereby contributing to Vietnam's GDP with an average of 2.18-3.25% (2019 - 2023); 4.57-5.30% (2024 - 2028) and 7.07-7.72% (2029 - 2033). From corporate perspective, EU's commitment to abolish tax increases the competition for listed companies on the exchanges such as seafood, wood, textiles... In general, although this is not a new story and partly reflected in the stock prices of related sectors, however, we believe that this factor will still bring positive effects to investor sentiment in the short term.

MARKET ASSESSMENT AND FORECAST

❖ A relative comparison between Vietnam stock market and other markets in the region & data in the past

The growth of Vietnam stock market is still lower than that of other countries in the region

In order to have a far-reaching viewpoint about Vietnam stock market in general, we have made some relative comparisons between current VN-Index indices and indices in the past, as long as regional stock markets:

(i) When compared with P/E of regional markets, VN-Index's P/E is the lowest and below the average P/E of 19.1x (Table 1). Meanwhile, considering the economic growth potential (using OECD's GDP growth forecast for 2019-2023 period), Vietnam is among the economies that will achieve the highest growth rate. The fact that Vietnam stock market is undervalued, in our opinion, was caused by two main reasons: Vietnam stock market is still classified as a frontier market, and Vietnam economic growth is not really sustainable with the key growth force coming from the FDI sector. However, the current P/E of 16.5x is still considered to be quite attractive and Vietnam stock market absolutely can have a positive growth in the coming time to gradually narrow the gap with other markets in the region, while the potential of being upgraded is increasing.

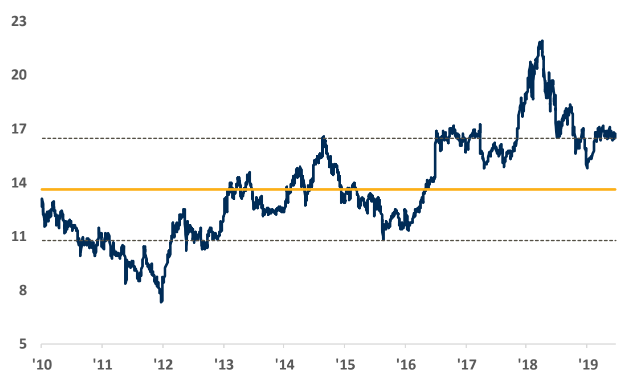
Table 1: VN-Index and other indices in the regions

	GDP (%)		P/E	P/E forward 1 year
	Q1/2019	*2019-2023*		
VN-Index	6.78	6.5	16.5	16.8
PCOMP Index	2.8	3.7	19.4	16.7
SET Index	5.6	6.6	18.7	20.1
FBMKLCI Index	5.07	5.2	21.2	21.9
JCI Index	4.5	4.6	19.8	19.0
Average	**4.95**	**5.32**	**19.1**	**18.9**

Source: Bloomberg, OECD forecast, KBSV

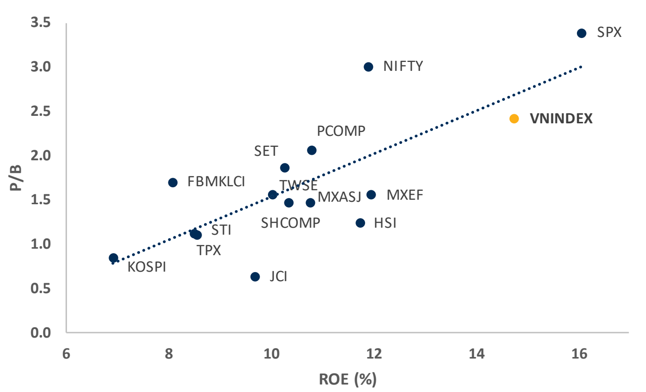
(ii) Based on the data in the past of VN-Index, the current P/E has stayed higher than the average P/E around 14 since the beginning of 2010. This shows that the P/E of VNIndex is relatively high, but this is considered a reasonable level, while the economic growth and business operations of companies are in the most favorable period since 2010.

Figure 28: P/E of VN-Index in 2010 - 2019



Source: Bloomberg, KBSV

Figure 29: ROE – P/B of Asian countries (S&P 500 added)



Source: Bloomberg, KBSV

(iii) Based on the correlation between ROE - P/B with Asian countries (S&P 500 added), it can be seen that ROE (showing the efficiency of capital use of listed companies) of Vietnam stock market is high compared to other Asian countries, followed by high P/B index. Our quantitative model evaluates the P/B of VN-Index is still being discounted by approximately 8%, reflecting the growth potential of the market in the future.

Overall, by comparing the current main indices of VNIndex with indices in the past and in other countries in the region, we believe that the current price range of Vietnam stock market is quite safe, while the potential growth of the economy in the next few years may slow down, but still maintain at a high level, and listed companies recorded positive business results (inferred from ROE). With objective favorable conditions, Vietnam stock market can absolutely reach higher price range to narrow the gap with regional countries. In contrast, in a negative case, external factors turn worse, the risk of a strong correction on the market will be partly reduced.

❖ Market forecast in the last six months

Domestic factors are positive but the impact will be weaker than in 2018

Domestic factors which are still seen as the positive background for Vietnam stock market in the 2H of this year include:

(i) Favorable and stable macro environment, demonstrated through a high economic growth (6.78%) in the first six months, while inflation and exchange rates are under control, despite many adverse factors (increasing oil and electricity prices, strengthening USD and weakening CNY...). Despite many existing challenges, we are still positive about the macro picture at the end of this year – forecast GDP at 6.6 – 6.8%, inflation rate at 3.5 - 4% and currency devaluation rate at 2.5%.

(ii) The SBV monetary policy becomes more prudent (planned credit growth was lowered to 14% instead of 17%-20% in previous years), and real estate credit is also be limited. We think that this is a reasonable step to achieve the stability in financial system, especially when the economic outlook is still positive. However, the monetary policy is not tightened, and can still support the market.

(iii) The signing of EVFTA will benefit the business outlook of some listed companies that export goods to the EU, thereby having positive impacts on stock prices of these companies.

(iv) Other factors involved in the Revised Law on Securities and CWs will also benefit the market in the last six months, although the power of these impacts is insignificant.

(v) The net-buying trend among investors may still continue thanks to the increase of Vietnam stock proportion in the MSCI Frontier Index basket, and the attractiveness of Vietnam stock market compared to other peers in the region.

External factors will continue to affect Vietnam stock market

However, with the high correlation between Vietnam stock market and the global stock market being proved in many recent quarters, the external factors continue to have an important influence on the fluctuation of Vietnam stock market. The two factors that have the strongest influence is the Fed's monetary policy, and the US-China trade tensions. While the first is considered a strong supportive factor the market in the 2H.2019, the second still has many potential risks as we analyzed above. In addition, other potential risk factors affecting Vietnam's stock market in the 2H.2019 may include the health situation of major economies, and monetary policy movements of central banks (America, China, EU, UK, Japan...), Brexit, Middle East tensions (affecting oil prices)... These factors are unpredictable in terms of time and influence level. In general, the global stock market in general and Vietnam stock market in particular will continue to experience a volatile period in the 2H. 2019 due to increasing market-influential risks.

We adjusted our forecast for profit growth of listed companies from 13% - 14 % in the report in early year to 9%

After Q1 business results were announced with less positive growth figures (+0.31% YoY) than the initial forecast, we adjusted our forecast for profit growth of listed companies from 13% - 14 % in the report in early year to 9%. Correspondingly, the VNIndex's EPS is forecast to grow by 7% in 2019 in the base case.

For VN-Index, we think that the P/E of 16x is reasonable and reflects the risks/potentials of the market at the moment. Therefore, VN-Index in the 2H 2019 will fluctuate around 930-1000 points in the base case. At the beginning of the Q3, we saw an opportunity to open the short-term positions in the short term because this is the convergence stage of optimistic sentiment about the resumed US-China negotiation and the expectation about Fed interest rate cuts.

Table 2: KBSV scenarios for 2019

	Negative	Base	Positive
EPS growth YoY	6%	7%	8%
P/E	15.5x	16x	16.5x
VN-Index (2H 2019)	**930**	**965**	**1,000**

SECTOR OUTLOOK

Ticket	Outlook
MBB VCB ACB VIB	Positive, but not for all stocks

❖ Banking

- In general, credit growth will be stable with the target of 14% set by the SBV, but there will be a big gap of credit allocation among banks. EBT growth in 2019 is still maintained, but not likely to reach the dramatic increase as in 2018.
- Although mobilization interest rates are under the pressure of increasingly fierce competition in private joint-stock commercial banks and the pressure of exchange rates, 2019 NIM can still be improved thanks to the expanding retailing trend that strongly supports the average lending interest rate. However, the profitability demonstrated by ROE and ROA will probably decrease over the high YoY increase in 2018, except for the profitability rate in MBB, CTG.
- Together with the rise of NIM thanks to retail credit, NPL and Group 2 loans/total outstanding loans ratio are most likely to advance due to higher pressure of interest payment. Risks are increasing in the next few years in the scenario of a slowing economic growth.
- The capital pressure to meet CAR requirements was high in BID and CTG, which will affect credit growth in the two banks. Meanwhile in private joint-stock commercial banks, the capital pressure will be involved in mid-term and long-term capitals which are aimed at meeting the requirements of the Circular No.36 about the proportion of short-term capital for mid-long term lending (40% at least), and the latest draft about lowering this rate to 30% in the next 2 – 3 years.
- The average P/B for KBSV banking stocks is around 1.66. The overall valuation according to P/B is currently lower than that in the previous 1M, 3M, 6M or one year due to decreasing profitability expectation, increasing NPLs, and higher capital pressure. Nevertheless, some banks are still likely to have a positive outlook in 2019. We divided these banks into three group in descending order of positive outlook, including: Group 1: MBB; Group 2: ACB, VCB, VIB; Group 3: CTG, BID, VPB, TCB, BID.

Ticket	Outlook
MWG PNJ	Positive

❖ Retail

- Continue to benefit from high economic growth and urbanization speed. Central banks have been considering to cut central interest rates to boost economic growth. The VND are a having low depreciation rate against the USD, which alleviates the pressure on inflation and does not adversely affect the buying of citizens. According to the Trade Research Institute (Ministry of Industry and Trade), in the period of 2016-2020, Vietnam's retail trade growth rate will reach 11.9% per year, the market size is about USD 179 billion in 2020, in which modern retail accounts for over 45% compared to 25% of 2016. By 2020, according to the plan, the whole country will have about 1,200 - 1,500 supermarkets, 180 trade centers, and 157 shopping malls. Essential areas will see a strong growth.

- The disposable income of the people tends to increase and the demographic conditions become more favorable. The structural shift from the young population to the aging population with the growth rate of the elderly population (over 65 years) and the middle-aged population (40-64 years) is expected to reach 21.5% and 30.9% respectively by 2050. Thus, the opportunity will be greater for retailers serving the middle-aged and old population segments with health-related products, entertainment, high-quality food,… in the future.
- Benefits from the shift from traditional retailing to modern retailing.
- However, a large number of Vietnamese are still living in rural areas where it is not easy to approach modern retailing due to the lack of infrastructure and transportation. Meanwhile, the supply and average prices of real estate projects can have an impact on the expansion speed of a retail system. Fierce competition is also another challenge to retailers.

Ticket	Outlook
FPT	Positive
CMG	

❖ Information Technology

- Software processing has a high potential growth because (1) High demand on the world market. This segment does not require high quality but high quantity of labour source, but almost all countries are lack of human source. (2) The cost of Vietnamese software engineers is low compared to other countries (24% lower than India, 54% lower than China), which is a great competitive advantage.
- Gross profit margin is expected to be improved as enterprises are oriented to develop software segment with higher gross profit margin than that of previous hardware segment.
- The broadband internet segment still has room for development, according to statistics, about 45% of people have not used the internet yet. The market in big cities shows signs of saturation, the growth motivation comes from the exploitation of the provincial market.
- There is a fierce competition in pay-TV segment, businesses are accepting to offset losses to expand market share.

Ticket	Outlook
NLG	Neutral
DXG	
VHM	

❖ Housing real estate

- Housing demand still stays high due to the increasing population, high urbanization speed, young population and the surge in the number of middle-class people.
- Mid-end and low-end housing will still be the key segment with good liquidity, which is suitable to the stable growth of the market.
- Real estate prices at the center of HCMC and Hanoi increasing high because of the lack of land bank to develop in urban areas, leading to a fall in supply sources and skyrocketing secondary transactions.
- Project developers have also expanded the market to surrounding provinces like Hai Phong, Bac Ninh, Dong Nai, Long An, Binh Duong. However, the real estate market in these provinces can be saturated as businesses simultaneously develop projects in surrounding areas, making

supply sources sharply rise, while the buying of the market is not very strong.

- Tightening credit flowing into real estate not only affects developers but also house buyers. Businesses have to seek for other capital sources instead of bank loans.
- Landing market in HCMC have currently faced obstacles from prolonged legal procedures which impeded businesses from deploying projects, and caused a plunge in the number of apartments offered for sale in 1Q/2019.

Ticket	Outlook
KBC	Neutral
NTC	
SZL	

❖ Industrial park Real estate

- Industrial park real estate benefits from (1) Growing FDI into Vietnam (2) Massive investment of the Government into infrastructure projects (3) The shift of factories from China to Vietnam, triggered by Sino-US trade war (4) The advantage of low-priced labour source and lower industrial park land leasing fees than those in countries of the same region.
- However, the leasing of industrial parks also depends on features of each industrial park such as location, prices, infrastructure state in the area, etc.
- The average P/E of real estate stocks are at 8x, which partly reveals a positive outlook. EPS in the second half of 2018 of industrial park real estate companies barely reached a high level as in previous periods.
- Industrial park real estate have to face many risks from the changes of macro and foreign affair policies.

Ticket	Outlook
GAS	Neutral
PVS	
PVD	

❖ Petroleum

- Brent oil prices in the second half of 2019 and in 2020 are forecast to be around USD67 per barrel (said the June forecast of EIA). The possibility of a surge in oil prices is not high due to slowing crude oil demand.
- The demand for electricity in Southern area is expected to increase sharply in following years, leading to the increase in the demand for gas in power stations. Therefore, gas projects in Southern area such as Sao Vang Đai Nguyet, O Mon Block B will continue to be stimulated.
- Mid-stream petroleum companies such as GAS and PVS are forecast to continue benefiting from domestic project development, but insignificantly affected by oil prices as upstream companies.

Ticket	Outlook
POW	Neutral
PPC	
NT2	
REE	

❖ Electricity

- El Nino in 2019 led to the extremely low level of water used for hydroelectric power, thereby reducing the production of hydroelectric segment in 2019.
- Thanks to the decrease in hydroelectric production, thermal power plants can sell more electric production to EVN. As a result, thermal power plants are expected to have positive moves in business performance in the second half of 2019. However, the prices of thermal power shares, particularly PPC and NT2 have gained considerably in the first half of 2019, which partly showed the business outlook.

- The risk of cutting the average electricity price appears when EVN reduces the electricity purchase rate in the power purchase agreement (PPA) from 85% to 80% for thermal power group, and renegotiate the PPA with many factories. Power plants will sell more electricity in the competitive generation market, where the prices of electricity are often lower than the prices in the contract.

Ticket	Outlook
DHG	Neutral
IMP	
PME	

❖ Medical

- The advanced awareness of citizens about health led to the successful penetration of state and private health insurance products, which helps to increase the sales of ETC to replace the OTC.
- The prices of drugs will gradually be tightened via centralized and transparent bidding policies. The state plans to reduce overall drug prices by 10-15% in the next two years while continuing to raise the quality requirements.
- Large enterprises that meet the EU-GMP standards will have more competitive advantages in the coming period.
- In the long term, the average drug consumption per capita in Vietnam is expected to grow over 10% in the next 5 years. By 2022, the drug consumption of Vietnamese is forecast to reach USD111, lower than USD181 of the world's average. This implies that the medical sector will see positive growth in the long term.
- Pharmaceutical enterprises are in the trend of loosening room 100%, leading to the demand for M&A, especially from foreign investors. This will be an important driving force for the stock prices of pharmaceutical companies in the coming time.

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DISCLAIMER

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