KBSV RESEARCH

4Q20 market outlook

Back to the starting line

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Vietnam stock market made further rebounds despite the resurgence of COVID-19. Main growth forces in this period include: 1) Vietnam's success in halting the second wave of Coronavirus without rattling economic activities, and expectations that Vietnam would gradually reopen its borders; 2) interest rates slashes amid less attractive investment choices (gold & real estate); 3) easing monetary policy worldwide; 4) the newly effective EVFTA, hence more FDI inflows; and 5) hopes for more effective expansionary fiscal policies such as to expedite public disbursement and cut taxes.

Market boosters in the last months of the year would remain, namely: 1) slower growth rate of infections, the reopening of global passenger transportation services along with positive progress in Coronavirus vaccine production; 2) clearer signs of domestic recovery, underpinned by rebounding consumption in major export markets and tourism; 3) easing monetary policy in central banks; and 4) accelerated public disbursement.

Vietnam economy stands at the risk of: 1) slower economic reopening among countries capped by mounting Coronavirus cases; 2) unattractive pricing market as all surges already passed; 3) slower-than-expected rebounds in business activities, accompanied with an increase in bank bad debts; and 4) being caught in the US presidential election crossfire and labeled as a currency manipulator.

Expected price range of the VNIndex in the next months is around 960 points.

Recommended tickers:
Power: HND, NT2, SJD & TMP
Container ports: GMD
Information technology: FPT & CMG
Retailing: MWG & PNJ
Fisheries: FMC & VHC

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Executive Summary

After grappling with negative impacts from resurgent Coronavirus infections, Vietnam stock market soon bounced back to the peak logged in June thanks to effective and flexible measures to balance between economic interests and the people's health, along with the expectations of the resuming of international flight routes.

We project the VNIndex growth at 960 points by the end of 2020E but are still cautious of wobbly prices. Along with that, we also expect the pandemic would still be well-insulated domestically, and improved globally; business performance of enterprises and the economy post more recovery progresses in line with rosy forecasts of Vietnam 2021E economic growth; and the US election would not wobble the world financial markets.

Recommended tickers:
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Table 1. Vietnam – Main market drivers in 4Q20

Positives	Influence	Probability	Negatives	Influence	Probability
Easing monetary policy at central banks, including Vietnam	Strong	High	Economic and business recovery may miss expectation	Strong	Medium
Re-opening economies & Covid-19 vaccine progress	Medium	Medium	Another wave of Covid-19	Medium	Medium
Higher level of public investment	Medium	High	Risk of labelled as currency manipulator	Strong	Low
Inflow from new accounts	Medium	Medium	US election uncertainty	Medium	High

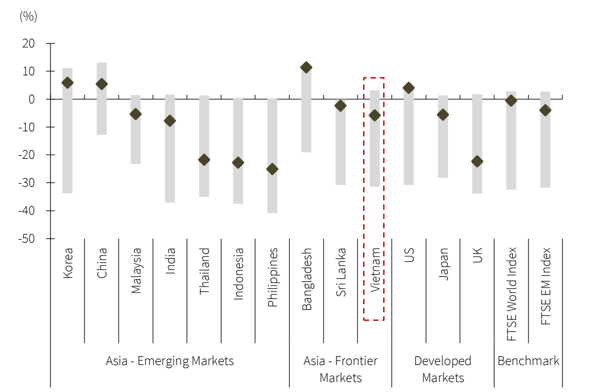
Source: KB Securities Vietnam

3Q20 Vietnam stock market

Vietnam stock market continued strengthen by 10% with heavy trading volumes in 3Q despite the return of COVID-19. Strong performance was led by rallies of *consumer goods stocks* (VNM & SAB), *banks* (CTG, VCB, BID & TCB), and *materials* (HPG). The *materials* sector was the most impressive 3Q performer (Figure 2) with most stocks recording positive growth (HPG, HSG, DCM & KSB).

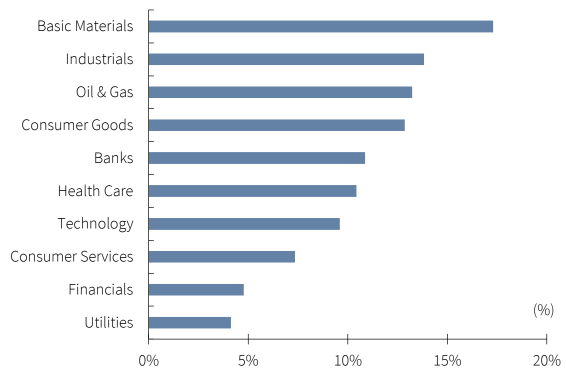
Foreign cash flows have not shown big improvements, but it was not too negative as matching orders were under moderate selldown pressure while put-through transactions still attracted foreign cash inflows. Meanwhile, passive ETFs were quite positive in 3Q, especially local potential ETFs such as VFMVN30 and VFMVN Diamond.

Fig 1. Vietnam & global – Stock market movements (YTD – %)



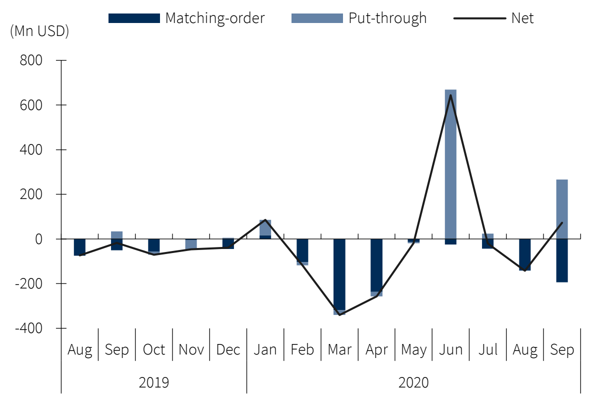
Source: Bloomberg, KB Securities Vietnam

Fig 2. Vietnam – Price changes by sectors in 3Q (%)



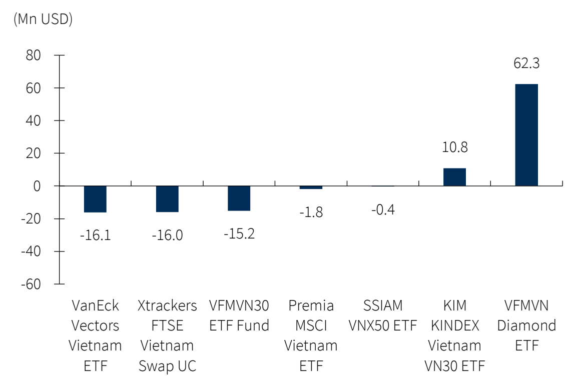
Source: Bloomberg, KB Securities Vietnam

Fig 3. Vietnam – Foreign cash inflows (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 4. Vietnam – Large ETFs (YTD – USDbn)



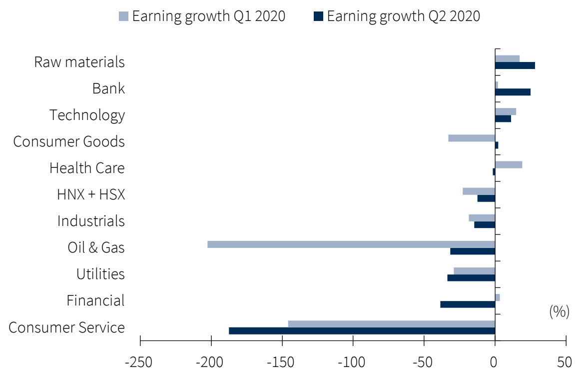
Source: Bloomberg, KB Securities Vietnam

2Q20 performance – Hit hard by COVID-19 impacts

Business performance of companies listed on the Ho Chi Minh Stock Exchange (HSX) and Hanoi Stock Exchange (HNX) in 2Q20 was shadowed by Coronavirus-led impacts, recording a fall of 23% YoY (Figure 5). The *consumer services* sector was hit the most (down 146% YoY) due to suspended transportation and hospitality services and slower consumption. Meanwhile *banks* suddenly became the main growth force of the whole market profit (up 25% YoY), supported by the Circular 01/2020/TT-NHNN, which allows banks to reschedule debt repayment terms, exempt or reduce interest rates, and keep the debt group unchanged, thereby helping to reduce the cost of provision for credit risks, and cut other operating expenses. In addition, the *raw materials* sector posted strongest increases in 2Q earnings thanks to expedited public disbursement and infrastructure development.

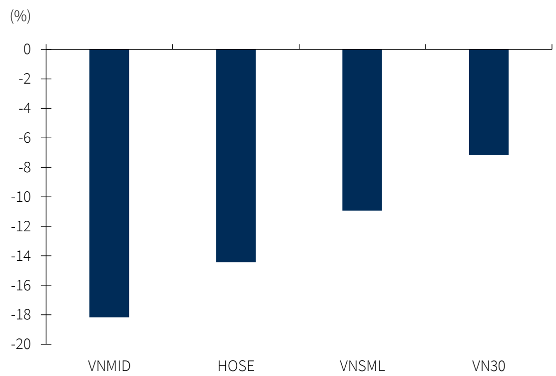
Large caps saw a 7% decline in 2Q earnings, smaller than the losses in medium and small stocks (Figure 6). This result has a significant contribution from heavyweight banks but also partly reflects the ability to better make post-COVID recoveries, facilitated by healthy financial buffer, and the ability to raise capital at a more reasonable cost than small and medium enterprises.

Fig 5. HSX & HNX companies – Earnings growth (%)



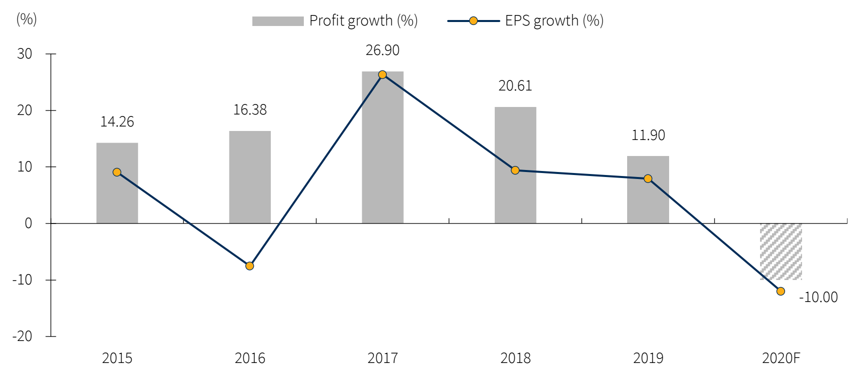
Source: Bloomberg, Fiinpro, KB Securities Vietnam

Fig 6. HSX companies – Earnings growth (%)



Source: Bloomberg, Fiinpro, KB Securities Vietnam

Fig 7. HSX companies – Forecast earnings and EPS growth (%)



Source: Bloomberg, Fiinpro, KB Securities Vietnam

We expect corporate profit pressure to be relieved from 3Q, based on 1) the rebounds of key economic sectors after the lift of protocols on social distancing; 2) increasing domestic demand, especially in *consumer services* after the pandemic has been controlled; and 3) the effects from the government's monetary and fiscal aid package on business results.

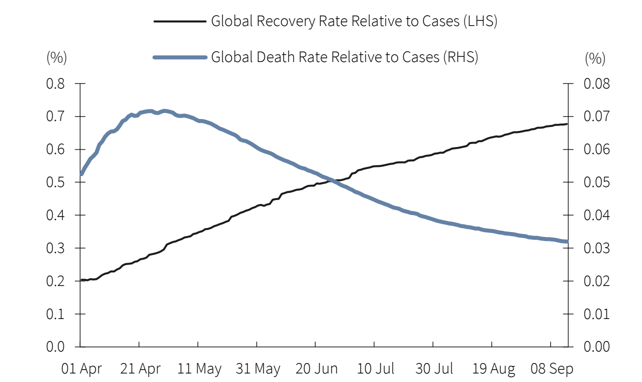
In general, we expect a 10%– 12% YoY decrease in 2020E profit of listed companies. EPS growth is projected to fall 12% – 14% YoY.

Market driver – COVID-19

The Coronavirus pandemic and vaccine making process would be the focus points drawing all eyes in the world in the last months of 2020.

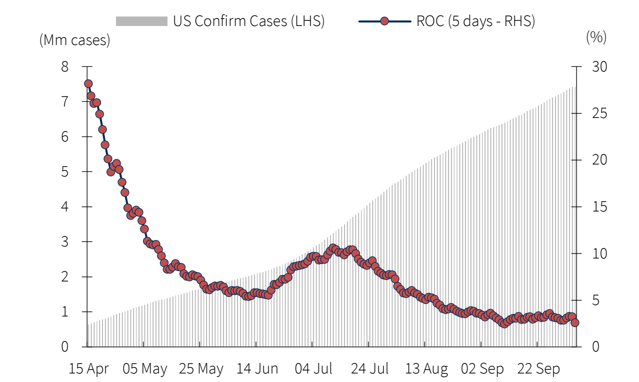
Current developments of the pandemic are still very unpredictable, marked with outbreaks in many emerging countries with large population sizes such as India and Brazil and its resurgence in the EU. However, we also noted some positive points like: 1) the uptrend in recovered cases and the downtrend in death toll (Figure 8); and 2) slower growth rate of new infections in the US – the world's leading economy (Figure 9). In general, we expect the overall situation would turn to the corner in the last few months of the year, but still maintain the negative scenario of a resurgence in the cold season hindering the opening of the US and EU economies.

Fig 8. Global – Recovery rate vs death toll (%)



Source: Bloomberg, KB Securities Vietnam

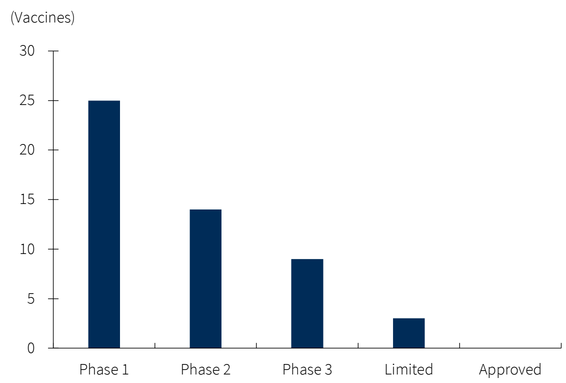
Fig 9. The US – COVID infections (bn – %)



Source: Bloomberg, KB Securities Vietnam

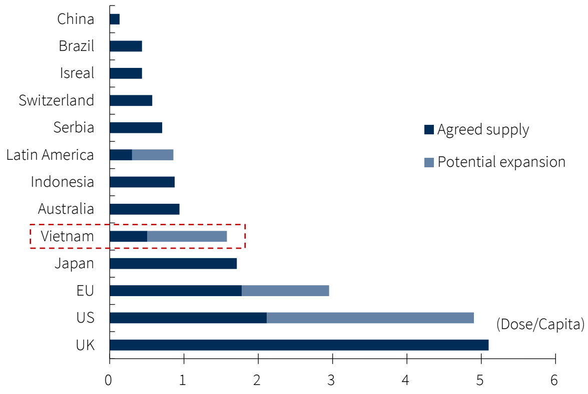
Promising steps in vaccine production would be a catalyst for the global and Vietnamese stocks. However, there are some uncertainties about this factor: some vaccines were approved early without completing Phase 3 trial (Figure 10); recent surveys showed low level of people trust in the vaccine; and large-scale production, transportation and storage would be challenging. The WHO itself recently warned that the vaccine would only be widely distributed as early as mid-2021. Therefore, we do not expect too much about the effectiveness of this factor on the stock market in 4Q.

Fig 10. Global – COVID-19 vaccine production progress



Source: The New York Times, KB Securities Vietnam

Fig 11. Vietnam – Vaccine orders from other countries

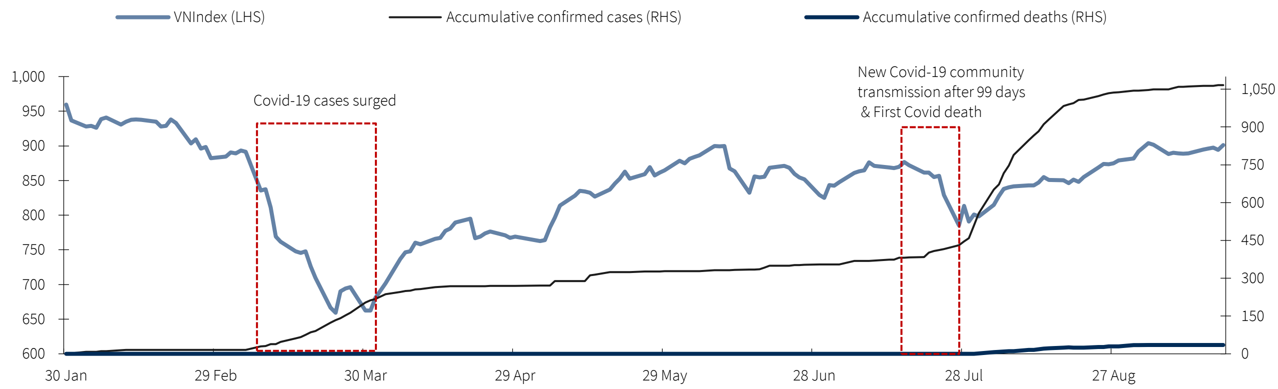


Source: Airfinity, Nature, KB Securities, data on August 21, 2020

We believe that Vietnamese investors have built a strong sentiment on the pandemic. A broad selldown did happen in when second wave of Coronavirus broke out in Vietnam, but soon ended and was replaced with the market bounceback (Figure 12). The government also quickly ordered vaccines in large quantities (Figure 11), which helped to reassure people's concerns in part.

The reopening of international flights in September may increase the new infections in Vietnam. However, considering the market movements in the resurgence in Danang last July, we expect the market reaction would be not too negative.

Fig 12. Vietnam – VNIndex vs infections & death toll in Vietnam (points, number of cases)

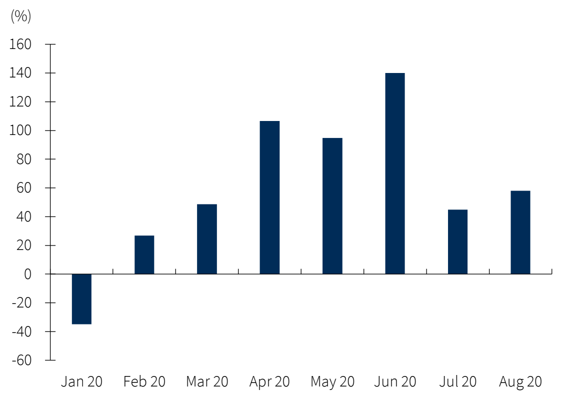


Source: Bloomberg, KB Securities Vietnam

Market driver – Abundant new cash flows

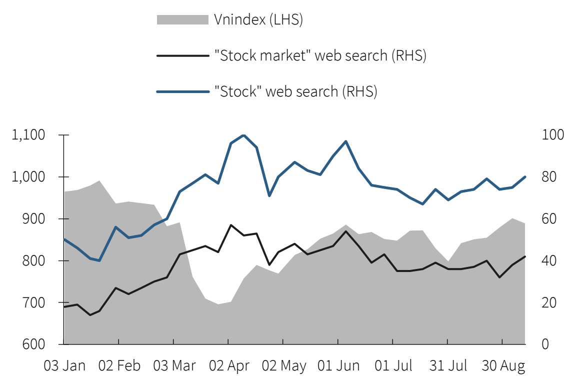
The number of new accounts opened in the first eight months of 2020 logged an impressive increase of 61% YoY (Figure 13) though it has slowed down a bit. The rise in the number of new investors along with the level of interest from the society, reflected in the searched key words, propelled strong cash inflows and boosted the VNIndex recoveries from the March bottom, despite foreign net selling (Figure 14).

Fig 13. Vietnam – Newly opened accounts YoY (%)



Source: Vietnam Securities Depository, KB Securities Vietnam

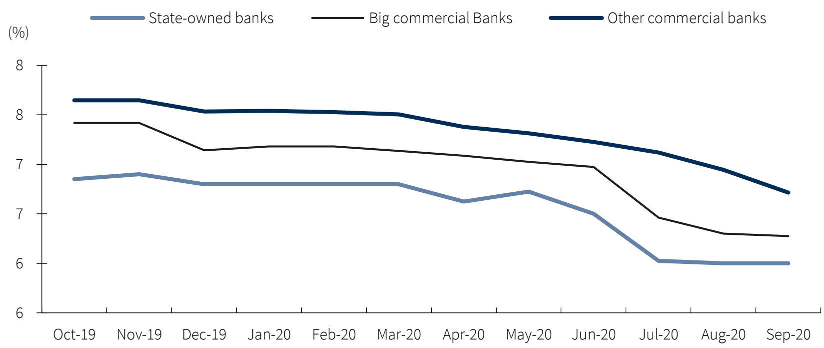
Fig 14. Vietnam – VNIndex and the level of interest on Google



Source: Google Trends, KB Securities Vietnam; 100 = peak search

While the stock market is trading in low price range, other major investment channels are now becoming less attractive: 1) low deposit rates (Figure 15); 2) record high gold prices and big gap between domestic and world gold prices; 3) weak real estate liquidity due to the pandemic; and 4) tightened corporate bonds after the Decree 81 took effect from early September. These are the main reasons for the abundant cash flow into Vietnam stock market recently (reflected in heavier trading volumes, higher trading value and more newly opened accounts), which are expected to boost the market for the rest of the year.

Fig 15. Vietnam – 12-month average mobilized interest rate

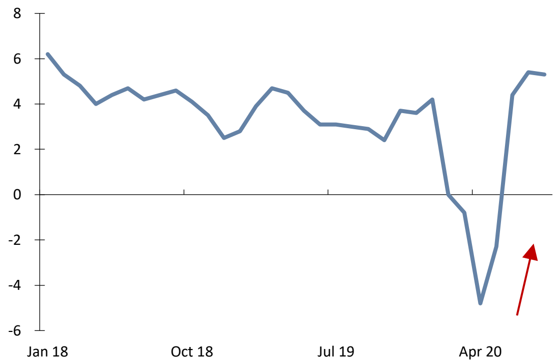


Source: Bank reports, KB Securities Vietnam

Market driver – The economic rebound speed

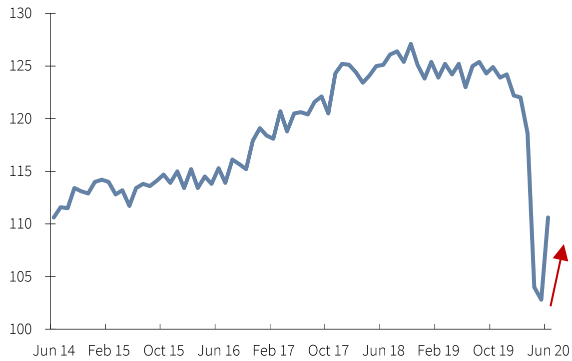
We believe that the global economy is still on the recovery stage thanks to the removal of lockdown protocols in most countries as well as a strong support buffer from super-easing policies of central banks and expansionary fiscal policies worldwide (Figures 16 – 17).

Fig 16. Bloomberg Economic Global Tracker (index point)



Source: Bloomberg, KB Securities Vietnam

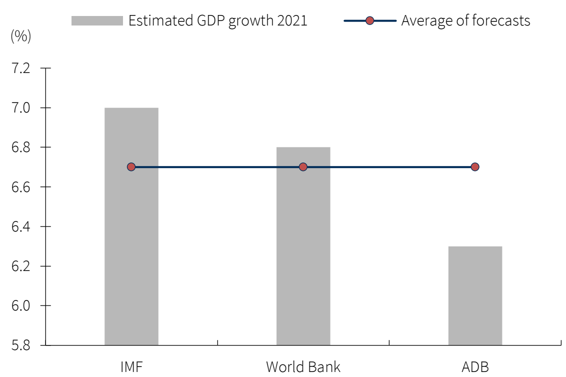
Fig 17. Global – Trade index (index point)



Source: CPB Netherlands Bureau for Economic Policy Analysis, Bloomberg, KBSV

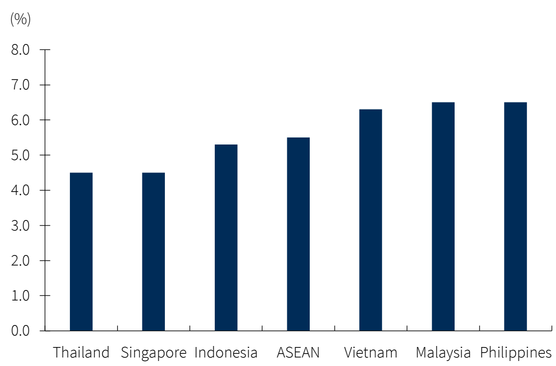
Despite being hit by the second wave of Coronavirus, domestic economy showed good resilience and a recovery momentum. Our base scenario *(See our 4Q 2020 macro outlook report for reference)* maintained our forecast for Vietnam's economy to grow by 3% in 2020E. 2021E economic growth was also quite optimistic given rosy forecasts by many international economic corps (6.7% on average) and would be among strongest growths in Southeast Asia (Figure 18, 19).

Fig 18. Vietnam – 2021E GDP growth (%)



Source: IMF, World Bank, ADB, KB Securities Vietnam

Fig 19. Vietnam – 2021E domestic GDP growth vs regional (%)



Source: ADB, KB Securities Vietnam

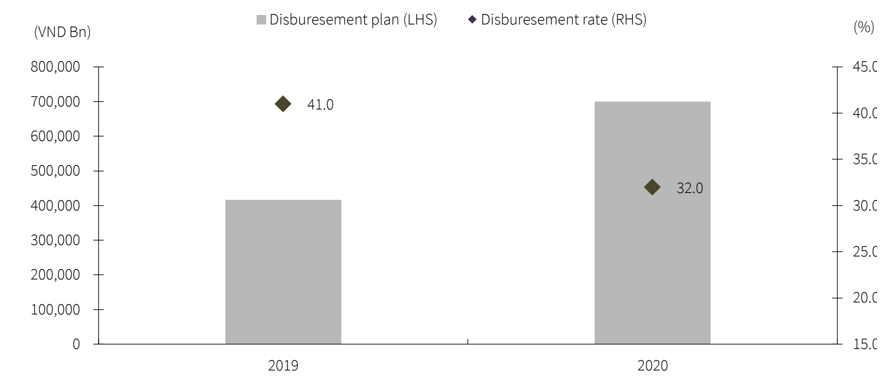
Market driver – Public investment

Public investment made remarkable progress in 3Q and in the first eight months

A report published by the Ministry of Finance estimated Vietnam total disbursement as of August 31 at VND222 trillion, or 32% of 2020E plan of VD700 trillion (including VND470.6 trillion of the 2020E and VND225.2 trillion transferred from 2019 capital). If excluding capital from 2019, the disbursement rate in 8M2020 reached 47% of full-year target (vs 41% in 2019), and was also the highest in many years (Figure 20).

The Law on Public Investment allows undisbursed 2019 capital to be added to the next year, making the budget room in 2020 quite large, at VND700 trillion. Therefore, 8M2020 disbursement progress seems slow, but if excluding the 2019 capital, the disbursement rate in 8M2020 would reach 47% of the plan, and at many-year highs

Fig 20. Vietnam – Public investment plan & disbursement progress (VNDbn – %)



Source: Ministry of Finance, KB Securities Vietnam, progress recorded in 5M2020 and 5M2019

We expect a big improvement in the last few months of the year, with the forecast that disbursement rate can reach 70-80% this year thanks to:

- The Government doubled down on efforts to accelerate disbursement through the issuance of Directive 11/CT-TTg (March 4, 2020) and Resolution 84/NQ-CP (May 29, 2020) on tasks and solutions to expedite the disbursement of public investment capital.

- From August 2020, the Government may give capital from ministries, agencies, and localities with low disbursement progress to ones with better progress to promote disbursement and use capital effectively.

- Mid-term public investment plan for 2016-2020E is expected to start by the end of the year, so many projects, especially the national key project of the North-South highspeed railway (61.6% progress and consistent with the plan) have basically completed legal procedures and site clearance to be ready for implementation.

- The revised Public Investment Law, though exists some confusion in implementation because it is the first year of validity, did help streamline and lessen the procedures, particularly for the capital allocation process.

Table 2. Vietnam – Three public-invested subprojects of North-South highspeed railway to be started from September 2020

No	Projects	Investment Amount (Billion VND)	Type of Investment	Commencement Date
1	Mai Son – Route 45	12,920	Government investment	Q4/2022
2	Vinh Hao – Phan Thiet	11,600	Government investment	Q4/2022
3	Phan Thiet – Dau Giay	14,360	Government investment	Q4/2022

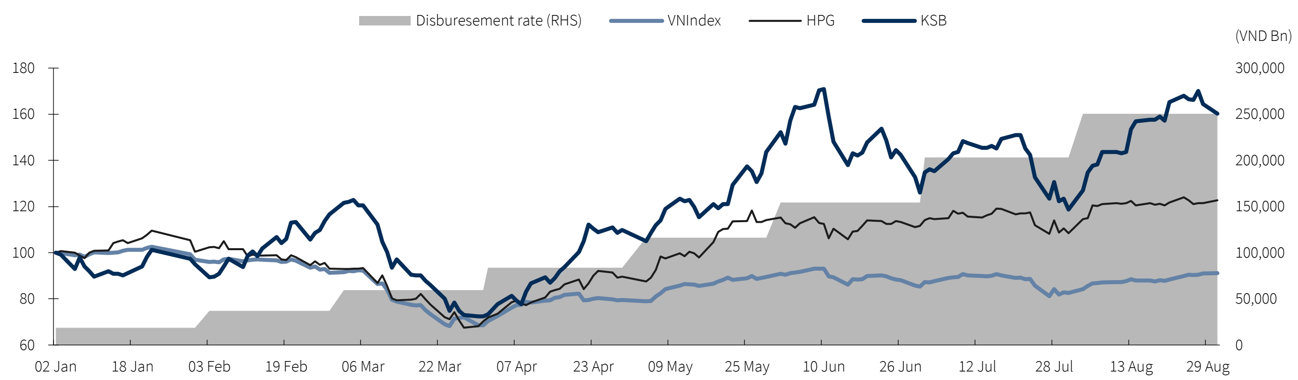
Source: Ministry of Transportation, KB Securities Vietnam

However, there are still many challenges to the public disbursement plan this year, including: 1) difficulties in the site clearance due to low compensation for land (for example the land acquisition and compensation of Long Thanh International Airport project); 2) delayed ODA-funded projects as the pandemic adversely affected the importation of machinery and equipment, and the mobilization of foreign experts, workers and contractors; 3) the irresponsibility of some localities given the lack of strict penalty mechanism for individuals that does not reach the disbursement plan target; 4) the cautious sentiment of some leading authorities amid fears of making mistakes ahead of the National Party Congress.

Public investment is a decisive factor to raw material stocks (Figure 21). Accelerated public investment benefited leading enterprises such as Hoa Phat Group (HPG), Binh Duong Mineral and Construction (KSB), Ha Tien 1 Cement (HT1), Bim Son Cement (BCC) the most, which was clearly reflected in improved 1H20 performance.

For construction enterprises, the impacts of public investment would become more palpable on next year business performance when the Public-private partnership subprojects of North-South high-speed railway 0are implemented. However, bid winners for component projects may already benefit from 4Q20.

Fig 21. Vietnam – Material stock prices and public disbursement progress (%)



Source: General Statistics Office, Bloomberg, KB Securities Vietnam; standardized stock prices at 100 threshold

Market driver – Labelled as a manipulator risk

A report of the Ministry of Finance showed that the VND was deliberately undervalued 4.7% against the USD in 2019. This is the first time the US Department of Commerce to consider the currency undervaluation of the as a form of subsidy when identifying countervailing duties. The US Treasury Department said the low valuations were the result of State Bank of Vietnam (SBV) net buying USD22 billion to supplement foreign exchange reserves in 2019. Given this warning, we believe that the risk of Vietnam being designated as a currency manipulator is palpable in the upcoming report of the Ministry of Finance (expected to be released in October 2020) as Vietnam violated all three criteria in 2019 (Table 3).

However, the past shows that the US Treasury Department is not too rigid to follow the three criteria in evaluating a currency manipulating country. In fact, in its most recent report, the US Treasury Department stated that Vietnam's foreign exchange reserves have been below the standard level for many years, similar to the IMF's previous assessment at the end of 2018 that Vietnam's reserves were only about 76% of reasonable reserves. As a result, Vietnam’s need to increase foreign exchange reserves and improve the health of the monetary system is essential and legitimate amid abundant dollar supplies thanks to trade surpluses, FDI investment and remittances.

In the negative case, if Vietnam is designated as a manipulator, according to current regulations, Vietnam will still have a year to conduct a bilateral dialogue with the US to negotiate resolutions to the issue before sanctions from the US are activated (applying tariff barriers and quotas on goods imported from Vietnam). However, even the specific impacts on production and business activities in 4Q, the prices of shares of Vietnamese exporters (textiles, fisheries, wood, and so on) will still suffer a slump as the export potential to the US major market meets many difficulties. Furthermore, if this scenario happens, the State Bank would have to limit foreign currency purchase, and accept that the VND may strengthen against the USD. This will benefit importers and businesses with large USD outstanding loans, typically in the power sector, while weighing on exporters to the US.

Table 3. Vietnam–US – Criteria for currency manipulator review

	Goods surplus with U.S	Current Account		FX intervention		
	USD billion, 2019	% GDP, 2019	USD billion, 2019	% GDP, 2019	USD billion, 2019	Net purchases 6 of 12 months
Vietnam	47.0	5.0	13.0	8.7	22.9	Yes
Evaluation criteria	20.0	2.0		2.0		Yes

Source: The US Department of the Treasury, KB Securities Vietnam

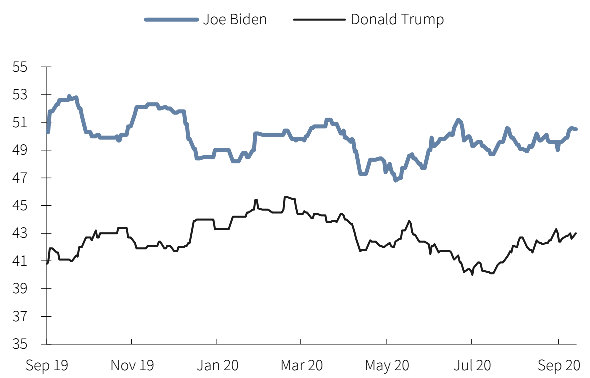
Market driver – The US presidential election

We believe that the upcoming US presidential election result would rattle the US and global stock markets, including Vietnam

We observed that the US stock market sagged amid late-2016 hotly race between Hillary Cliton and Donald Trump, and then rallied after Trump was elected.

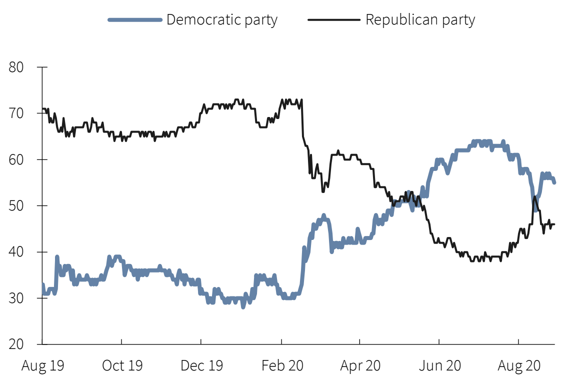
As of mid-August 2020, votes for Republican Trump were lower than Democratic contender Joe Biden (Figure 22-23).

Fig 22. US – Votes for the two candidates (%)



Source: Real Clear Politics, Bloomberg, KB Securities Vietnam

Fig 23. US – Votes for the two main parties (%)



Source: US PredictIT, Bloomberg, KB Securities Vietnam

The two presidential candidates show hardline different policies (Table 4). The most positive scenario is that Biden wins and the Republican party holds the Senate. In this scenario, the risk of Mr. Biden tightening the fiscal policy is low because he can hardly reach an agreement with the Senate.

Table 4. Vietnam-US – Political stance of the two presidential contenders' impacts

Joe Biden	Donald Trump
Enhance the Pacific Alliance; improved relationships with South Asian countries	More openly hostile foreign policy and volatility in US – China relations
Rebuild the Trans-Pacific Partnership (TPP)	Risk of labeled as currency manipulator
Potential US tax hikes	Fiscal stimulus package

Source: KB Securities Vietnam

Market driver – Foreign ownership limit

The company's right to decide its own foreign room may be dismissed, according to the draft Decree guiding some articles in the Securities Law 2019, which is currently being consulted.

This is one of the State Securities Commission (SSC) efforts to attract foreign capital flows and develop the market. Although the Decree 60 has empowered listed companies that are not conditional business lines to increase the ownership rate without limitation from 2015, the number of enterprises that free up foreign ownership limit to 100% was still very small (only 30 out of total 1,000 companies on all three trading exchanges).

If approved, this Decree would attract more cash flows from foreign funds to Vietnam's stock market as foreign investors can access to a much larger number of shares than the current level. This new regulation would also speed up the market upgrade process as it is a key factor in the assessment of market grading of both FTSE and MSCI.

However, whether the Decree will be passed or not is still an open question as many typical businesses, especially banks, have a legitimate need to lock their foreign ownership ratio lower than the maximum room allowed (for banks is 30%) to wait for the right time to offer their stake to strategic partners. Therefore, the SSC is considering to apply some solutions including time extension for specialized sectors such as banks, especially banks that have locked foreign ownership limit to find strategic investors.

The key to foreign room – Non-voting depositary receipt (NVDR)

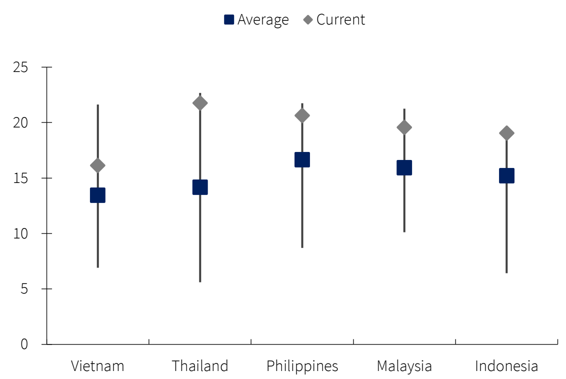
One more solution to limited foreign ownership at Vietnam-based companies is the application of NVDR when the all legal problems have been solved. Specifically, the revised Securities Law and he Enterprise Law introduced broad concepts, regulations on NVDR issuance, and facilitated the establishment of NVDR issuers under Vietnam Stock Exchange – similar to the Thailand model. With guiding circulars expected to be issued soon in 2021, the implementation of NVDR is feasible. If the NVDR is applied, we expect this channel to create a breakthrough in attracting foreign cash flow like the VNDiamond index does (including many stocks that have reached the maximum foreign room).

Recommendation & valuation

Based on the assessment of the advantages and risks to the market in the last three months of the year, along with the comparison between major indices of the VNIndex and the historical data of regional markets, we concluded that the current price range of VNIndex is not high, so the room for further increases is available, though not too large due to many potential risks such as COVID-19 resurgence, US presidential election, US-China trade tensions, and slower-than-expected domestic economic recovery. Given strengthened confidence in macro health, low interest rates, ample cash flows, improved foreign ownership issues, and the gradual reopening of international economies after the COVID-19, we expect the VNINdex to bounce back to 960 points in the last three months of 2020.

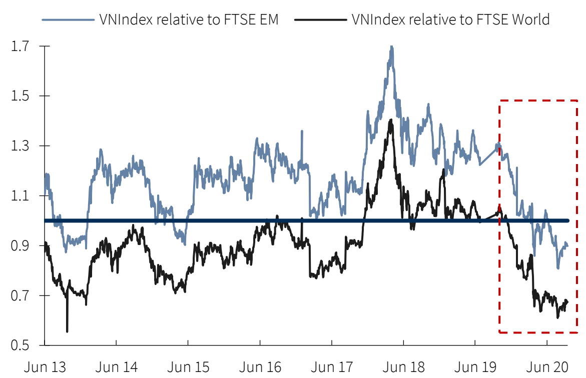
It can be seen that 12-month P/E forward of the VNIndex is lower than that in other regional countries (Figure 24) and lower than FTSE EM Index and the FTSE World Index since 2013 (Figure 25).

Fig 24. Regional countries – 12-month P/E forward (2009-2020)



Source: Bloomberg, KB Securities Vietnam

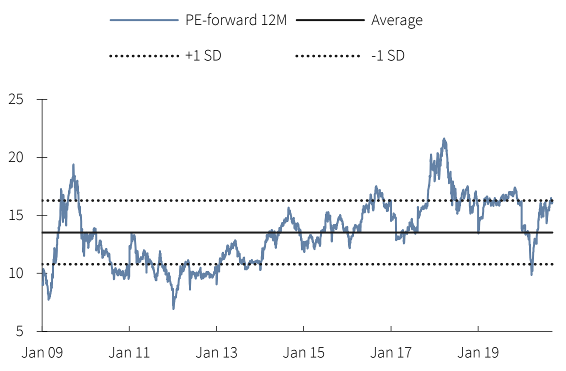
Fig 25. Vietnam – 12-month P/E forward of VNIndex vs FTSE EM Index and FTSE World Index



Source: Bloomberg, KB Securities Vietnam

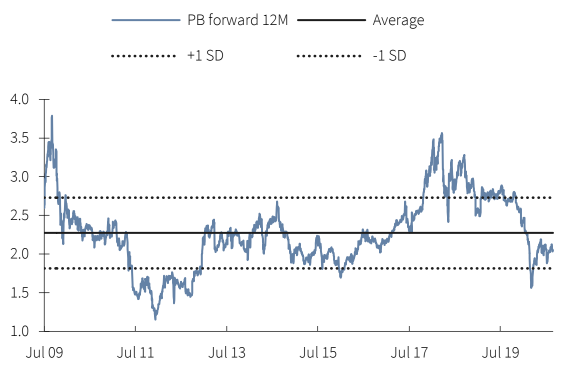
Considering the data recorded from 2009 to 2020, the P/E forward of the VNIndex was close to above the 1 standard deviation range while the 12-month P/B forward is low compared to the average line. (Figure 26 – 27)

Fig 26. Vietnam – 12-month P/E forward of VNIndex in the past (2009 – 2020)



Source: Bloomberg, KB Securities Vietnam

Fig 27. Vietnam – 12-month P/B forward of VNIndex in the past (2009 – 2020)



Source: Bloomberg, KB Securities Vietnam

Real estate

Outlook: Neutral

Tickers: VHM, KDH, NLG, DXG

The real estate market in Vietnam though has not fully active again, but showed signs of recovery after the social distancing protocols were eased. Local companies have quickly promoted presales activities for all segments.

Unsolved legal issues remained as a big obstacle to each company's post-pandemic recoveries. The delay in project licensing makes the supply of apartments decline, leading to higher housing prices, especially in Ho Chi Minh City. although some recently released policies boded well for solutions to legal issues. For example, Ho Chi Minh City allowed investors to invest again in Thu Thiem new urban area, District 2 and many other key areas.

The highlight of the industry in 2020 is the promotion of public investment with some large projects such as the North-South high-speed railway, Bien Hoa-Vung Tau high-speed railway, and Long Thanh International Airport. Real estate companies quickly grabbed this opportunity and turned to invest in suburban projects with increasingly improved infrastructure.

Companies with large clean land bank, good legal status, and safe financial structure such as Vinhomes (VHM), Khang Dien House (KDH), Nam Long Investment (NLG), and Dat Xanh Group (DXG) are ideal investment choices when the market gained further balance after the COVID-19 pandemic.

Property Analyst - Pham Hoang Bao Nga

Industrial parks

Outlook: Negative in the short-term, positive in medium and long term

Tickers: KBC, VGC, PHR, NTC

In the short term, the COVID-19 has slowed down FDI inflows in 2020. The total registered FDI capital in the first eight months of the year reached USD19.5 billion, down 13.6% YoY, of which, newly registered FDI was USD9.7 billion, up 6.6% YoY. However, if excluding the LNG gas project in Bac Lieu with a total investment of USD4 billion in January, newly registered FDI would fall 37.2% YoY. Disbursed FDI was USD11.3 billion, down 5.1% YoY. These numbers reflect the influence of the Coronavirus (especially the second outbreak) on the sentiment of foreign investors. We believe that the pandemic may continue to hit the demand for industrial land lease in 4Q20 as investors will be more cautious of its adverse impacts.

Business results in 2H20 of industrial parks are expected to decline due to travel restrictions during the outbreak, which makes it difficult to approach customers and sign new lease contracts.

In the medium term, Vietnam's industrial real estate industry would gain numerous benefits from new FTAs and the relocation of production chain from China. Accordingly, the demand for existing industrial properties and warehouses would increase. Accelerated public investment also helps to rise the connection across parts of the country.

Some investment opportunities to consider after the market is more stable include Kinh Bac City Development (KBC), VGC (Viglacera), PHR (Phuoc Hoa Rubber) and Nam Tan Uyen (NTC). These are enterprises with large leasable landbank, convenient location in major economic regions near Hanoi and Ho Chi Minh City.

Property Analyst – Pham Hoang Bao Nga

Power

Outlook: Positive

Tickers: HND, NT2, SJD, TMP

The COVID-19 exerted many negative impacts on power consumption, especially during the nationwide lockdown. The power consumption in April 2020 fell 9.5% YoY, but gained 1.6% in May when the operations of power plants resumed and stabilized. The consumed volume rose 2.1% YoY to 164.05 billion kWh in the first eight months.

El Nino was the main reason leading to the water shortage in many hydro power plants. Currently, the reserved water in reservoirs is very low compared to the average level in many previous years. As a result, thermal plants were mobilized with more power capacity to offset the power shortage. We believe that the shortage situation would be more positive in the 2H.20 rainy season. However, according to forecasts of the National Oceanic and Atmospheric Administration (NOAA), the El Nino phenomenon ended, followed by the La Nina with a probability of more than 80% in rainy season this year, which will be favorable for hydro power plants.

The progress of power plant construction projects was also slower due to the pandemic as many foreign experts and equipment met difficulties in coming to Vietnam. This would exacerbate the current power shortage, and help existing power plants to be mobilized with higher capacity.

In We noted three main potential risks to thermal power plants: 1) *Weather conditions*. As hydo plants are always favored thanks to low costs, if the water reserve increases, hydo plants will benefit, thermal plants will receive bad effects and vice versa. 2) *Input material shortage*. The two input materials for thermal power, coal and gas, are increasingly exhausted. 3) *Re-signing power purchase agreements* after power plants have paid off all debts.

Investment highlights for the power sector include: 1) *the return of La Nina* with a probability of over 80% in rainy season of 2020, which would benefit hydoro plants heavily affected by El Nino in the last two years such as Candon HydroPower (SJD), Ba Ria-Vung Tau Trading & Oil Agency (TMD), and Central Hydropower (CHP); 2) *the efforts of many power plants to pay off all debts*, helping to improve interest expenses and business performance. Being out of debts, power plants may receive many large cash inflows, and can pay cash dividends such as Pha Lai Thermal (PPC), Nhon Trach 2 (NT2), Hai Phong

Thermal (HND), and PV Power (POW); 3) the *fully depreciated fixed assets or fully allocated the exchange rate difference of some plants*, which will strongly improve its business results such as PPC and Quang Ninh Thermal (QTP).

Power & Construction Material Analyst – Le Thanh Cong

Container ports

Outlook: Positive

Ticker: GMD

Vietnam is one of the countries with the most impressive container traffic growth rates in the world (CAGR of 10.9%). We expect the CAGR of 9% to be maintained over the next five years given: (1) stable growth in import and export turnover at 10-12%; (2) increasing FDI inflows to Vietnam; (3) benefits from FTAs; and (4) the relocation of global supply chains.

The total tonnage of Hai Phong port cluster advanced 7.3% YoY in July and August, underpinned by the recovery in total import-export turnover (up 3.3% YoY). This recovery boded well for Coronavirus-hit trading activities. More importantly, Pegatron Group - included in the top five global manufacturers of electronic components, is proposing to invest USD1 billion to build Nam Dinh Vu Industrial Park in Hai Phong, which is also a signal of the shift in production base.

The total tonnage of Lach Huyen port rose 29.3% YoY, imposing a large pressure of competition on downstream ports, namely Vietnam Container Shipping (VSC) and Dinh Vu Port Investment and Development (DVP). In September 2020, Hai Phong Economic Zone Authority proposed Hateco Group to build the port terminal no. 5 and no. 6 of Lach Huyen port cluster. The first phase of the project is expected to be completed in 2025.

The infrastructure to connect Cai Mep - Thi Vai port cluster with other provinces has been gradually improved. Recently, the Government approved Phuoc An bridge connecting Cai Mep - Thi Vai seaport with the Southern highspeed railway with an investment of VND5,000 billion. Along with that, the Bien Hoa - Vung Tau railway investment plan has also been finalized in two phases with a total investment of VND23,693 billion. Developing infrastructure helped to brighten growth prospect of Cai Mep-Thi Vai port cluster. According to information from Vung Tau Port Authority, despite the pandemic, the total tonnage in Vung Tau was still up 17% YoY in the first seven months of the year.

Information Technology & Logistics Analyst - Nguyen Anh Tung

Information technology

Outlook: Positive

Ticker: FPT, CMG

Software outsourcing was still the main growth force in the first six months of the year. The Coronavirus outbreak was expected to not hit this business segment too hard as staff could work from home, and the demand for technological solutions of many companies sharply increased in this period.

The potential growth of software outsourcing is still positive due to (1) high global demand. Software outsourcing does not require a high level of brainpower, but a large number of employees, so many countries are in shortage of personnel. (2) Vietnam's low labor cost for software engineers compared to other countries (24% lower than India and 54% lower than China), which is a major competitive advantage. However, increasing personnel costs due to the market competitiveness may affect businesses' growth potential, which needs to be followed closely in the long term.

It is expected that gross profit margin of software outsourcing would improve in the medium term when the credibility to business partners as well as contracts with more added value.

The broadband internet segment maintained its growth despite the COVID-19 outbreak. In the first eight months of the year, the number of new subscribers reached 1.34 million, up 17% YoY. This segment may grow further in the long term, but profit margin should go down because (1) Internet fees in the provincial market are usually lower due to customers' low incomes; and (2) companies without official and stable infrastructure will have to outsource, thereby increasing operating costs.

Information Technology & Logistics Analyst – Nguyen Anh Tung

Banks

Outlook: Neutral

Tickers: VCB, ACB

The total credit of the whole system increased by 3.7% in the first seven months of 2020, equaling half of that in the same period last year. Credit is showing signs of recovery, but hardly reach the 2020E target of 11-14% in the last months of the year.

Interest income was not only affected by credit stagnation but also by a drop in bank lending rates to help customers which puts pressure on net interest margin (NIM). However, focusing on improving CASA and delaying the roadmap to tighten the ratio of short-term capital for medium and long-term loans (Circular 08) and lower deposit rates are the main factors that allow banks to secure their NIM. Based on the State Bank estimates, by the end of 1Q20, VND2 million billion in loans was affected by the pandemic, or 23% of the total credit. Because of the prolonged COVID-19, customers find it difficult to operate and manage cash flows, so we believe that the increase in restructured debts and non-performing loans (NPL) is inevitable. Restructuring and reclassification have reduced the NPL and provision pressure in 1H20, but in 2H20 banks may be more drastic in bad debt recovery and provision. Although the cost of provision was reduced in 2Q, the room for further reduction is not much as the risk of bad debts rises.

2020E non-interest income may slow down: 1) service and bancassurance fees slowed due to the social lockdown and lower people's income; 2) the slow and ineffective bad debt recovery process; 3) the possibility that incomes from foreign income and securities investment would become the main drivers in 2020E; 4) income surprises from upfront fees of exclusive bancassurance cooperation (Viecombank-VCB, HD Bank-HDB and TPBank-TPB) as well as divestments from subsidiaries (VPBank -VPB & SHBank -SHB). The capitalization challenges persist as new NPLs arising from COVID-affected customers will increase the value of risky assets, which poses more challenges for banks and boosts the need to increase capital between late-2020 and early 2021, especially banks with capital adequacy ratio below 10%.

Banks with good fundamentals and many investment highlights such as changing exchanges and extraordinary income in 2H2020 are ideal investment opportunities (Vietcombank-VCB & Asia Commercial Bank-ACB).

Financials Analyst - Nguyen Thu Huyen

Retailing

Outlook: Positive

Tickers: MWG, PNJ

Trading and service activities in August 2020 tended to decrease compared to the previous month due to the resurgence of Coronavirus. Retail sales of consumer goods and services in August saw a contraction of 3% MoM but still increased 2% YoY according to the data from the General Statistics Office. Return from travel services turned down sharply by 75% YoY to VND974 billion after the surges in June and July. Retail sales of goods is the only segment that recorded a positive growth of 7% YoY to VND334 trillion. In the first eight months of the year, total retail sales of consumer goods and services posted modest losses by 0.02% YoY to VND3,225 trillion, of which retail sales of goods increased 4% YoY to VND2,553 trillion.

Given the scenario that the pandemic would not return in Vietnam in 4Q, the retailing sector is expected to rebound. This has been partly shown in Mobile World Investment (MWG)'s two-digit August growth. Despite the closure of many stores amid the Coronavirus resurgence, the total revenue of The Gioi Di Dong and Dien May Xanh only dipped down 1% while Bach Hoa Xanh revenue grew 84% YoY and continued to improve the sales per store in August. Phu Nhuan Jewelry (PNJ) August business results were also hit by the closure of stores in Da Nang and more cautious consumer sentiment amid the pandemic. However, retail sales decreased slightly than wholesale (-7% YoY vs. -40% YoY), showing that PNJ's retail segment is likely to outperform the jewelry market. August gross profit margin still gained compared to the same period last year thanks to the company's efforts to optimize operating costs.

We expect that in the near future, especially when the pandemic is controlled and the lockdown in Da Nang is lifted from early September, the consumption demand of the people would rebound and move towards modern commerce and benefit retail stocks that can take advantage of both offline and online channels.

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

Oil & Gas

Outlook: Neutral

Tickers: GAS, PLX, PVT

PV Gas (GAS) 2H20 earnings should recover as gas selling prices directly depends on oil prices ((Selling price = MAX [46% HSFO price, wellhead price] + tariffs), and we expect oil prices to further rise and trade at USD48 on average of 2H20. PV Drilling & Well Services (PVD) rig utilization fell from 90% to 80% from Malaysian production cuts and delays until 2021E. To compensate for this, PVD will also try to expand opportunities the Middle East and Europe. PV Technical Services (PVS) has no new big projects except for *Sao Vang - Dai Nguyet* and *Gallaf - Al Shaheen* in this year. The behind-scheduled *Block B* & *Ca Voi Xanh* would also be a challenge to the company in the last month of the year. Petrolimex (PLX) would continue to bounce back after pump and raw material prices have stabilized. PLX also raised the number of COCO's gas stations to expand retail profit margin. PV Transportation (PVT) and Binh Son Refinery (BSR) should fully recover in 4Q20 as BSR would start its two-month maintenance from August.

Downstream companies should be in recovery momentum in 4Q. Upstream PVS & PVD may continue to face difficulties as oil prices are still below the breakeven level of USD55 and oil exploitation projects have not fully recovered.

Oil & Gas & Chemicals Analyst - Nguyen Vinh

Fisheries

Outlook: Positive

Tickers: FMC, VHC

Vietnam's shrimp exports were valued at USD2.3 billion (up 8.4% YoY) in the first eight months of 2020, and is expected to maintain healthy growth in the 3Q thanks to: 1) advantages (gaining market share in China and US) over main competitors such as India and Ecuador which are fighting against the pandemic; 2) more market share as parts of benefits from US-China trade tensions; and 3) eliminated import tariffs to the EU thanks to EVFTA (the EVFTA eliminated the 4.2% import tariff on Vietnam's frozen shrimp, which will benefit FMC (Sao Ta Foods) as EU is the main market of this company).

Vietnam's pangasius export fell 28% YoY to USD913.4 million in the first eight months mainly due to the sharp drop in selling prices from the peak of 2018 and lower consumption at restaurants amid the pandemic. Vietnam pangasius exports should to return to positive growth from 4Q because: 1) export volumes stopped falling in 4Q, and 2) export price bottomed out in 3Q would rebound from 4Q. The Chinese market may recover to the pre-pandemic growth as it is the first market to reopen the economy. The EU market is expected to escape the declines and rebound in 4Q given clearer benefits from the EVFTA (Vinh Hoan Corp-VHC has an advantage in this demanding market since the majority of VHC farms already have international quality certification). The US market started to increase inventory imports from early this year (but was delayed in 2Q due to COVID-19), which should boost exports in 4Q. After peaking in 2018, export prices have fallen continuously and are now at a sustainable level, although 2Q and 3Q performance was hit hard by the pandemic but should rebound in 4Q. However, there is still risk of Coronavirus resurgence in major markets would delay the rebounds 1Q or 2Q of 2021E.

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market