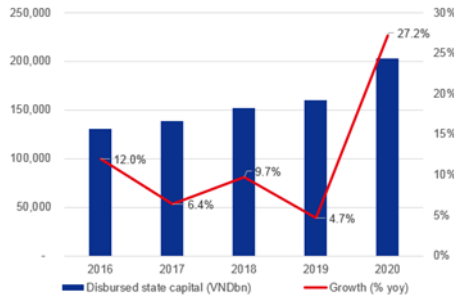


Vietnam

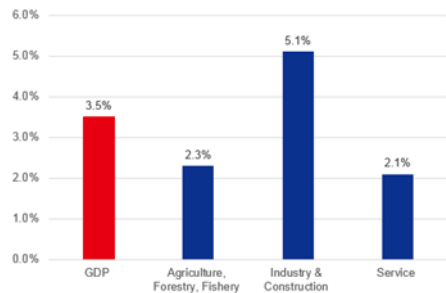
Economics Update

Facing new growth challenges

Robust public investment expansion in the first 7M20



2020F GDP growth by sector in baseline scenario



- We cut our 2020F GDP growth forecast by 1% pt to +3.5% in our baseline scenario due to growing uncertainties over the latest Covid-19 outbreak.
- Our 2020F average inflation rate is kept unchanged at 3.2% yoy.
- We expect to see robust public investment expansion to drive economic growth in the next few quarters.

Vietnam confirms first local Covid-19 transmission in 100 days

A fresh Covid-19 outbreak began on 25 Jul when a 57-year-old man in the central city of Da Nang was tested positive with the coronavirus, making this the first case of a Covid-19 community transmission after 99 days of no local transmission case. The outbreak has now spread to 15 localities, including Vietnam's two largest cities, with total cases of 525 as of 20 Aug.

Covid-19 casts shadow on Vietnam's 2H20F economic outlook

The second wave of the pandemic is having a negative impact on all aspects of Vietnam's economy, especially in the services sector and labour market. The recovery of domestic tourism could be halted as flights and hotel bookings are cancelled and holiday plans are delayed for fear of catching the virus. Also, the lockdowns in Da Nang city and Quang Nam province, along with the halt of some nonessential services in other provinces could stifle growth in some service sub-sectors, especially accommodation and catering, travel and entertainment. The pandemic has also affected the labour market, and the unemployment rate of those of working age edged up to 2.73% in 2Q20, from 2.22% in 1Q20, the highest level in a decade. We are concerned the second Covid-19 wave could further worsen the unemployment rate as the year progresses.

Government boosts public investment to invigorate the economy

The General Statistics Office (GSO) estimates the 1H20 disbursed social investment capital at current prices at VND850.3tr, up 3.4% yoy, the lowest growth in the FY16-20 period. FDI capital has fallen, with 1H20 disbursement sliding 4.9% yoy to US\$8.7bn, while registered FDI declined 6.9% yoy to US\$18.8bn. In order to offset the FDI decline and support growth, the government has accelerated public investment. The disbursed investment capital under the state budget (public investment) in 1H20 rose 21.5% yoy to VND157.4tr. The public investment accelerated further in Jul, with disbursed funds estimated at VND45.7tr (+13.6% mom), bringing total disbursed public investment capital in 7M20 to VND203tr (+27.2% yoy), way above the 4.7% increase in 7M19, and which made up 42.7% of the full-year target.

Exports maintain positive growth despite Covid-19

The General Department of Vietnam Customs said Jul's exports value rose 10.2% mom to US\$24.9bn (+8.2% yoy), the highest monthly level since Sep 2019, while the 7M20 exports value edged up 1.5% yoy to US\$147.6bn. The growth was spurred by domestic enterprises, whose exports value in 7M20 rose 13.7% yoy to US\$52.2bn. In contrast, 7M20 imports fell 3.2% yoy to US\$139.2bn as domestic demand weakened amid the rising unemployment rate and lower workers' incomes. As a result, the 7M20 trade surplus soared to US\$8.4bn, from US\$1.7bn in the same period last year.

We cut 2020F GDP growth to 3.5% in our baseline scenario

As we see more downside risks for the services sector and labour market in coming months amid the pandemic, we revise down our 2020F GDP growth forecast to 3.5% in our baseline scenario (from 4.5% previously). In this scenario, we forecast the services, industry and construction, agricultural, forestry and fishery sectors growing by 3.2% yoy, 6.6% yoy and 3.2% yoy, respectively, in 2H20F. We maintain a positive view on Vietnam's medium-term economic outlook, on the back of external demand recovery and the accelerated relocation of manufacturing facilities from China to Vietnam.

Economist(s)



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Facing new growth challenges

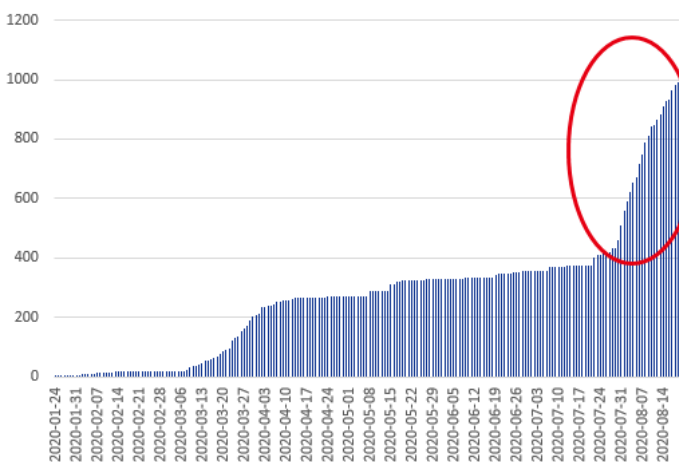
Vietnam hit by second Covid-19 wave

First case of community transmission in 100 days ►

A fresh Covid-19 outbreak began on 25 Jul when tests for the disease for a 57-year-old man in Da Nang confirmed he was infected with the coronavirus. This is the first case of community transmission after 99 days without any local infection case. The outbreak has now spread to 15 localities, including Vietnam's two largest cities, with 525 people infected, including 25 deaths as at 20 Aug.

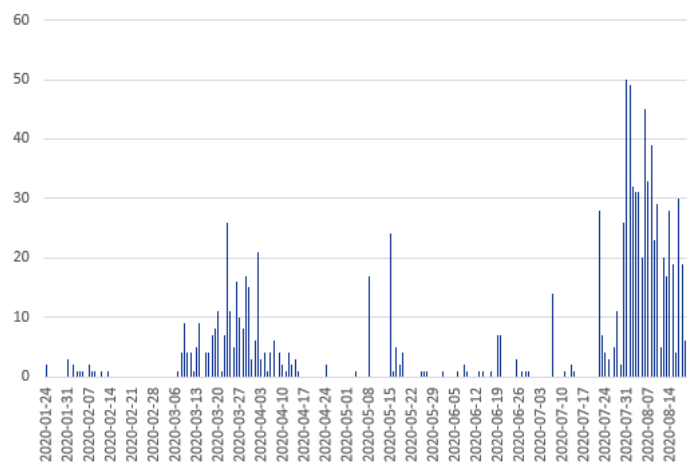
The Vietnamese government has taken drastic steps to curb the spread of the second wave. Several provinces and cities have been ordered to apply social-distancing rules, including Da Nang city and Quang Nam province, the hardest hit areas in this second wave. Several other cities also confirmed infections, such as Ho Chi Minh City and Hanoi, and the authorities have asked for the closure of some non-essential services, such as bars, discotheques, karaoke and massage parlours and other entertainment activities. Vietnam has also stopped passenger transportation to and from Da Nang, its third-largest city and one of its biggest tourist destinations. The Ministry of Health has sent the most experienced medical staff to Da Nang to fight the virus. With these strong moves, we believe Vietnam would be able to defeat the second wave of Covid-19, just as it had successfully fought against the first wave of the outbreak.

Figure 1: Vietnam has been battling the 2nd wave of pandemic since 25 Jul (total cases)



SOURCES: EUROPEAN CDC, data as at 19 Aug

Figure 2: Daily number of confirmed cases



SOURCES: EUROPEAN CDC, data as at 19 Aug

The latest outbreak casts shadow on Vietnam's economic outlook in the near term

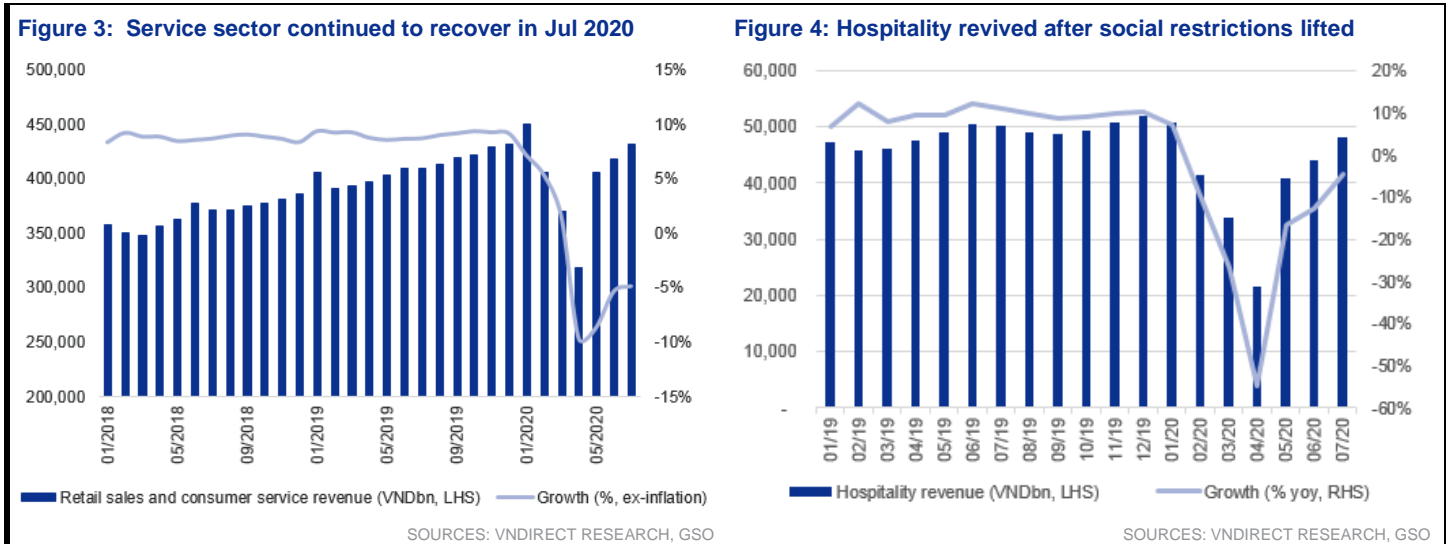
Covid-19 hits services sector hardest ►

We believe the services sector will again bear the brunt of the economic damage caused by this second Covid-19 wave. In 2Q20, the sector slid 1.8% yoy, (slowing from a 3.3% increase in 1Q20) as all service activities were strongly affected by nationwide social distancing measures imposed in Apr 20. The services sector made a steep recovery in May-Jul after the government lifted social-distancing rules. The total value of retail sales and services rose 3.3% mom and 4.3% yoy in Jul 2020, respectively (vs. +3.0% mom and +2.0% yoy in Jun 2020, and +27.7% mom and +0.6% yoy in May 2020). However, the recovery is expected to slow due to the pandemic's second wave.

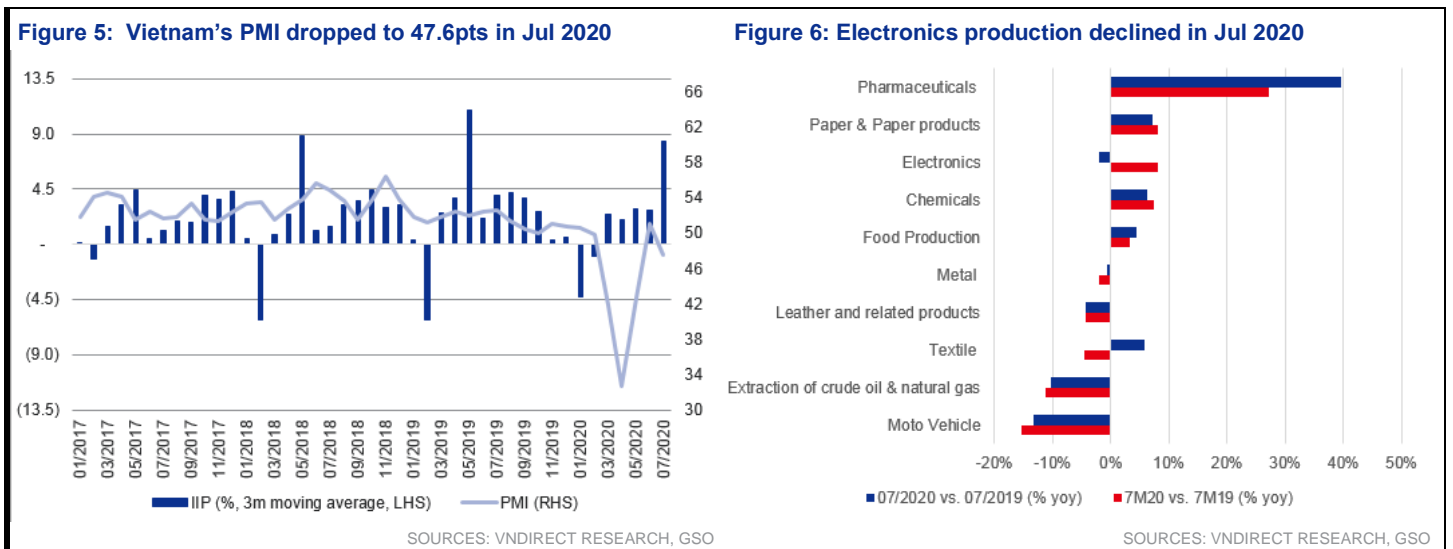
- Firstly, the recovery of tourism could be halted due to the fresh wave of outbreaks. Vietnam reopened the country to domestic tourism at the start of

May after having successfully contained the first wave of the pandemic. In the following three months, the number of domestic tourists recovered strongly and even reached pre-pandemic levels in Jun and Jul, with about 7m-8m tourists per month. However, the second Covid-19 outbreak could weaken this recovery momentum, at least in Aug-Sep, as reports suggest that many holidaymakers are cancelling flight and hotel bookings, or delaying their plans for fear of being infected by the disease while travelling.

- Secondly, the lockdowns in Da Nang city and Quang Nam province, along with the shutdown of some nonessential services in other provinces could reduce the growth of several service sub-sectors, especially accommodation and catering, travel and entertainment.



Industrial sector to witness a more bumpy recovery process ➤



Vietnam's IHS Markit PMI dropped to 47.6pts in Jul, from 51.1pts in Jun, indicating a contraction in manufacturing activities. Also, Vietnam's Jul Index of Industrial Production (IIP) rose by only 3.6% mom (slowing from 10.3% in Jun) and 1.1% yoy (lower than the 7.2% rate in Jun). The main reason for the strong recovery in Vietnam's manufacturing activities in Jun was the sharp increase in new orders for manufacturing products that had been compressed in the Mar-May period as major economies such as the United States and the European Union (EU) implemented social distancing to curb the spread of the virus. When these economies reopened, the new orders poured into Vietnam in Jun, but this did not last long because the world economy has been in a recession and global demand remains weak. Therefore, we expect Vietnam's industrial sector to experience a more bumpy recovery due to global supply chain disruptions and low external

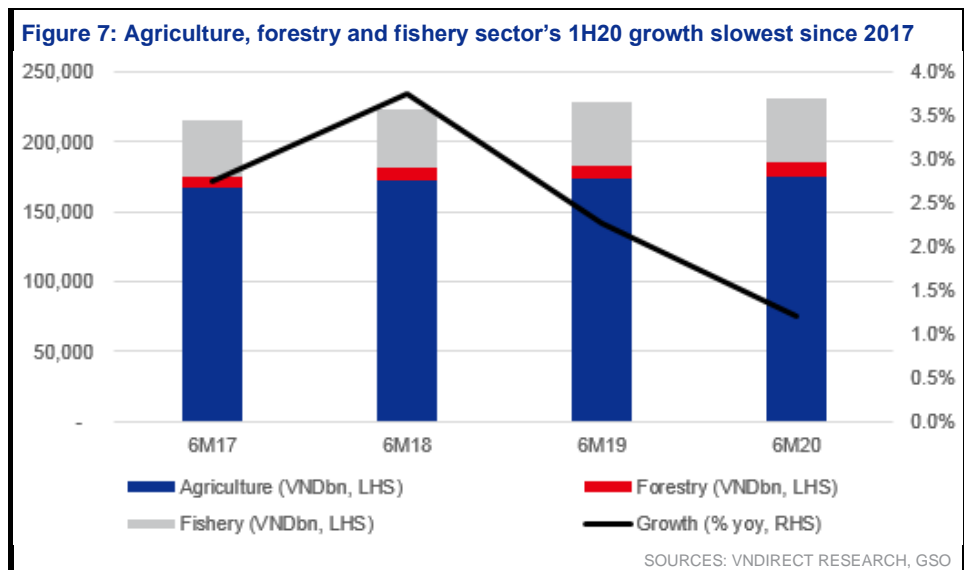
demand as the world continues to battle the pandemic. Sub-sectors likely to be most affected this time include oil and gas extraction, textiles and automobiles. In contrast, several sub-sectors could retain positive growth in 2H20F after they have been proven to be less affected in 1H20, including food production, chemicals and pharmaceuticals

Agriculture sector posts lowest 1H growth since 2017 >

The agriculture, forestry and fishery sector grew by only 1.2% yoy in 1H20, the lowest first-half rise since 2017, as this sector was negatively affected by: (1) tightened cross-border trade amid the pandemic, (2) climate change, and (3) the spread of the African Swine Fever (ASF). By sub-sector, agriculture edged up 0.8% yoy, forestry climbed 2.2% yoy, while fishery rose 2.4% yoy.

According to the Ministry of Agriculture and Rural Development, 1H20's total export value of agricultural products dropped 3.4% yoy to about US\$18.8bn. The main reason for the decline of agricultural exports was tightened cross-border trade and weaker external demand amid the spread of Covid-19 across the major import markets for Vietnam's agricultural products, including the United States, the European Union, China and Japan.

The agriculture, forestry and fishery sector was also affected by the recurrence of ASF in 1H20. According to the General Statistics Office (GSO), the size of Vietnam's pig herd in Jun 2020 fell by 7.5% yoy, while the total live pork output in 1H20 declined by 8.8% yoy to 1.6m tonnes.

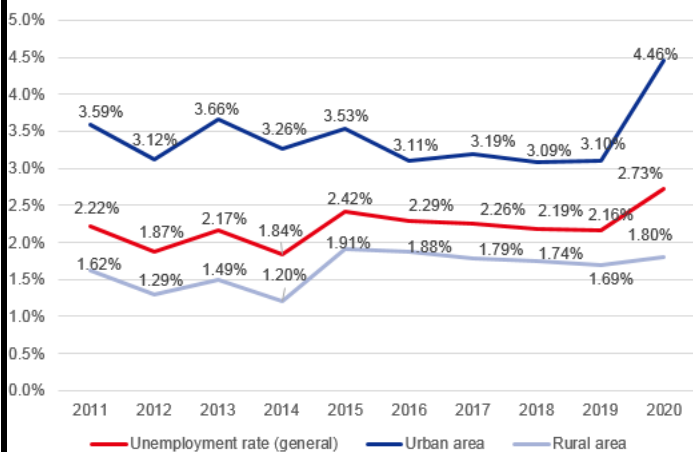


Unemployment rate hits 10-year high >

The Covid-19 pandemic has had negative impacts on the labour and employment markets. According to the GSO, the unemployment rate among Vietnamese of working age edged up to 2.7% in 2Q20 (vs. 2.2% in 2Q19) from 2.2% in 1Q20, the highest level in the last decade, as the number of unemployed persons of working age rose to nearly 1.5m, or 363,900 people higher than in the previous quarter, and 726,600 more than the same period last year. The unemployment rate among those of working age in urban areas was 4.5% in 2Q20, the highest in the last 10 years, and 1.4% pt above that in the same period last year, while the unemployment rate in rural areas advanced 0.1% pt yoy to 1.8% in 2Q20.

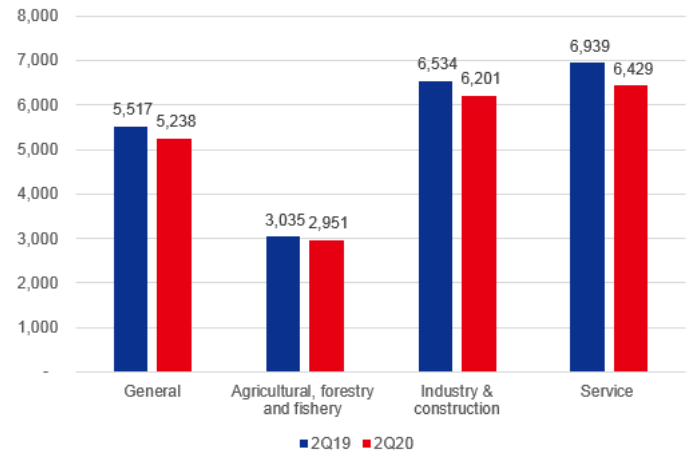
Workers' incomes were also strongly affected by the pandemic. According to the GSO, the average monthly income of informal workers in 2Q20 dropped 9.2% qoq and 4.9% yoy. To be more specific, the services sector recorded a 7.3% yoy decline in the average monthly income of informal workers in 2Q20, the deepest decline among the three economic sectors, while that in the industry and construction sector and the agriculture, forestry and fishery sector dropped by 5.1% and 2.8%, respectively.

Figure 8: Unemployment rate hits 10-year peak



SOURCES: VNDIRECT RESEARCH, GSO

Figure 9: Average month income by sector ('000 VND)



SOURCES: VNDIRECT RESEARCH, GSO

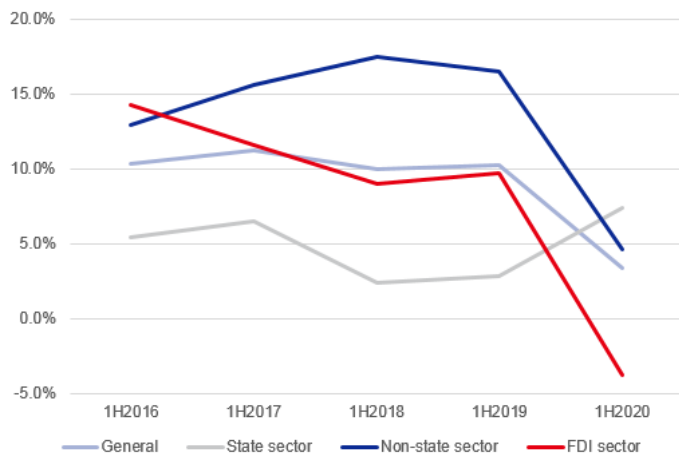
But Vietnam’s economy is still capable of maintaining sustainable growth in 2H20F

Government accelerates public investment to offset decline in foreign direct investment (FDI) ➤

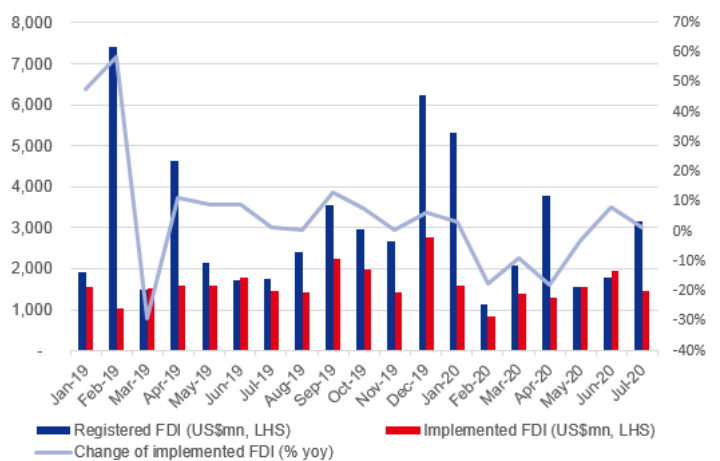
The GSO estimates the 1H20 disbursed social investment capital at current prices rose 3.4% yoy to VND850.3tr, the lowest growth in FY16-20, of which the state sector’s capital reached VND273.5tr, accounting for 32.2% of the total, and which rose 7.4% yoy; the non-state sector’s capital grew 4.6% yoy to VND375.9tr, contributing 44.2% of the total, while the FDI sector’s capital fell 3.8% yoy to VND200.9tr, or 23.6% of the total capital.

As for the FDI sector, its disbursement, often described by the GSO as “the implemented capital”, dropped 4.9% yoy to US\$8.7bn in 1H20. Disbursement in Jul alone edged up 1.4% yoy to US\$1.5bn, however the 7M20 value still showed a 4.1% yoy decline, falling to US\$10.1bn. The registered capital of FDI projects in 7M20 dropped 6.9% yoy to US\$18.8bn. We expect the FDI sector’s investments to stay low in 2H20F as foreign investors postpone their plans due to concerns over global economic prospects as the Covid-19 outbreak continues to affect many countries.

We also saw the weakening in investment by the non-state sector. Its disbursed capital in 1H20 grew by only 4.6% yoy, the lowest rate in FY16-20. As most aspects of the economy have been affected by the pandemic, a number of domestic private companies have delayed their business expansion plans, which led to a slowdown in the sector’s disbursed investment. We think that it is very difficult for the non-state sector to maintain its growth rate of disbursed investment as high as the 14-18% per year in the FY16-19 period. For 2020F, we expect the sector’s disbursement to edge up by only 5-6% from FY19.

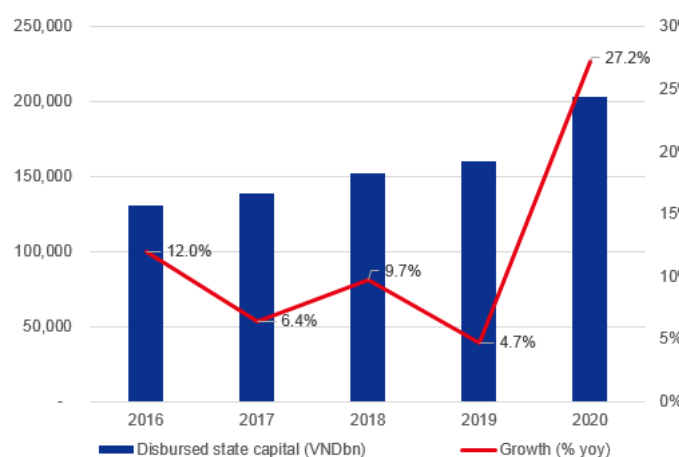
Figure 10: 1H20 disbursed social investment increased at its lowest pace during FY16-20 period


SOURCES: VNDIRECT RESEARCH, GSO

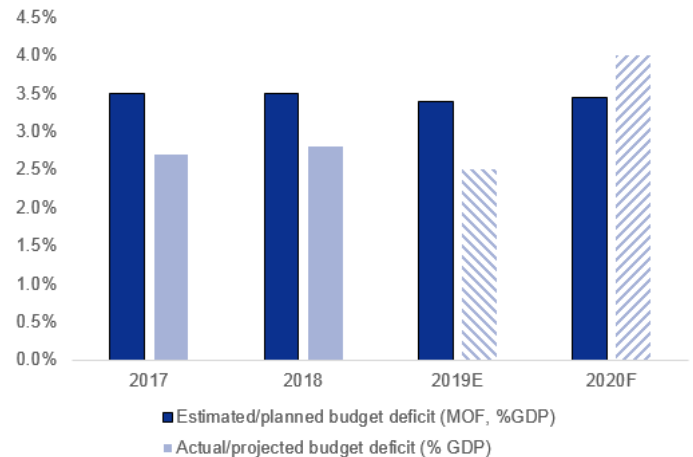
Figure 11: FDI disbursements decreased in 7M20


SOURCES: VNDIRECT RESEARCH, GSO

In order to reverse the downtrend in GDP growth due to the weakening of investment by non-state and FDI sectors, the government has made aggressive steps to boost public investment. On 6 Apr it issued a decree on guiding the implementation of the amended Law on Public Investment, providing regulations on capital management, settlement and specific direction for individuals and organisations to prevent delays in public investment disbursement. The government also allowed the transfer of public investment from projects with slow disbursements to projects where the disbursement pace is quicker. Thanks to these effective measures, disbursed investment under the state budget (public investment) in 1H20 jumped 21.5% yoy to VND157.4tr. Public investment accelerated further in Jul, with an estimated VND45.7tr in disbursed capital (+13.6% mom). For 7M20, total disbursed public investment jumped 27.2% yoy to VND203tr, way above the 4.7% rate in 7M19, and which completed 42.7% of the government's full-year target.

Figure 12: Disbursed public investment in the first seven months in FY16-20 period


SOURCES: VNDIRECT RESEARCH, GSO

Figure 13: Budget deficit is expected to widen in 2020F


SOURCES: VNDIRECT RESEARCH, GSO

We expect the government to further accelerate the disbursement of public investment throughout 2021F to support growth. Most of the public investment projects are infrastructure construction investments, with project durations of 2-4 years. Six of the 11 sub-projects in the eastern section of the North-South Expressway that were implemented between 4Q19-4Q20 will be built in 2021F and are expected to be completed in the 2022-23F period. The remaining sub-projects in the same section are expected to be implemented in the next coming quarters. Furthermore, the government also plans to start Phase 1 construction of the Long Thanh airport, with a total investment of up to VND114,451bn, in May

2021. Therefore, we expect public investment disbursements to sustain their high growth rate in 2021F.

Figure 14: A pipeline of mega projects in 2020-26F

| Project | Total investment (VND bn) | Starting time | Completion |
|--|---------------------------|---------------|------------|
| Metro 1 (Ben Thanh - Suoi Tien) | 43.757 | 2012 | 4Q21 |
| Metro 2 (Ben Thanh - Tham Luong) | 47.800 | 2021 | 2026 |
| HCM - Thu Dau Mot - Chon Thanh Highway | 24.150 | | 2021-2025 |
| HCM - Moc Bai Highway | 10.668 | 2021 | 2026 |
| Parallel Road for 50 Route | 3.816 | | 2021-2025 |
| Belt Road 2 | 6.500 | | 2021-2025 |
| Belt Road 3 | 19.871 | | 2022-2025 |
| Soai Rap Dredging Project (Phase 3) | 8.977 | | 2021-2025 |
| The water environment improvement Project (Phase 2) | 11.282 | 2015 | 2021 |
| Long Thanh International Airport | 114.451 | 2021 | 2025 |
| 11 sub-projects of the eastern section of the North-South expressway | 118.716 | 2020 | 2021-2025 |

SOURCES: VNDIRECT RESEARCH, MINISTRY OF TRANSPORT

Figure 15: Eleven sub-projects in the eastern section of the North-South expressway and My Thuan–Can Tho expressway

| Expressway | Total investment (VNDbn) | Length of the route (km) | Starting time | Financing format |
|--------------------------------|--------------------------|--------------------------|---------------|-------------------|
| Cao Bo - Mai Son | 1,612 | 15 | 4Q19 | Public investment |
| Cam Lo - La Son | 7,900 | 98 | 1Q20 | Public investment |
| My Thuan Bridge 2 | 5,125 | 7 | 1Q20 | Public investment |
| Mai Son – National Highway 45 | 14,703 | 63 | 3Q20 | Public investment |
| Vinh Hao - Phan Thiet | 19,648 | 101 | 3Q20 | Public investment |
| Phan Thiet - Dau Giay | 19,571 | 99 | 3Q20 | Public investment |
| Dien Chau - Bai Vot | 13,596 | 50 | 2021-2025 | PPP |
| Nha Trang - Cam Lam | 5,131 | 49 | 2021-2025 | PPP |
| Cam Lam - Vinh Hao | 15,013 | 78 | 2021-2025 | PPP |
| National Highway 45 – Nghi Son | 7,769 | 43 | 2021-2025 | PPP |
| Nghi Son - Dien Chau | 8,648 | 50 | 2021-2025 | PPP |
| Total | 118,716 | 653 | | |
| My Thuan - Can Tho | 4,758 | 23 | 3Q20 | Public investment |

SOURCES: VNDIRECT RESEARCH, MINISTRY OF TRANSPORT

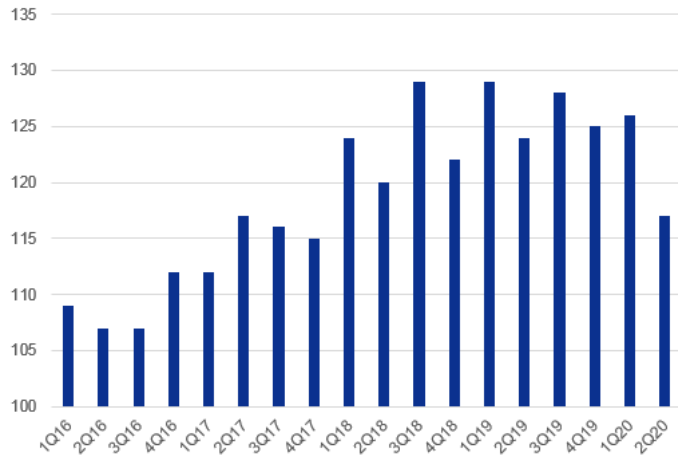
Confidence in the resilience of Vietnam's economy ➤

According to Nielsen, Vietnam was the second most optimistic country globally (after India) with a consumer confidence index of 117 points in 2Q20 – despite being down 9 points from the previous quarter. Vietnam is among 12 of 68 markets in the survey that reported confidence levels above 100, the threshold above which is considered positive, while below it indicates negative. Meanwhile, the Conference Board global consumer confidence index dropped to 92pts in 2Q20 from 106pts in 1Q20, the largest quarterly decline since the index began in 1Q05. This 14-point decline was also double the largest drop in the index during the global financial crisis in FY08-09, per Nielsen's report. In this report, Vietnam is also placed at the top globally in terms of saving intentions, followed by Hong Kong and Singapore. We believe that a combination of relatively high consumer confidence and high savings rate of residents provide the fundamentals for a strong recovery in domestic demand and social investment in Vietnam after the second wave of the pandemic is contained.

On business registration, the total number of newly-registered enterprises and re-operated enterprises in 7M20 edged up 0.2% yoy to 103,812. The positive growth rate indicates the confidence of the business community in the recovery prospects of Vietnam's economy in 2H20F. To be more specific, the number of newly-registered enterprises dropped 5.1% yoy to 75,248, while their registered capital fell 6.3% yoy to VND936.4tr. However, we saw a strong increase in the number of enterprises that resumed operations, rising 17.6% yoy to 28,564 enterprises. The number of enterprises suspending operations temporarily rose 41.5% yoy to 32,722; the number of enterprises ceasing operations and awaiting dissolution

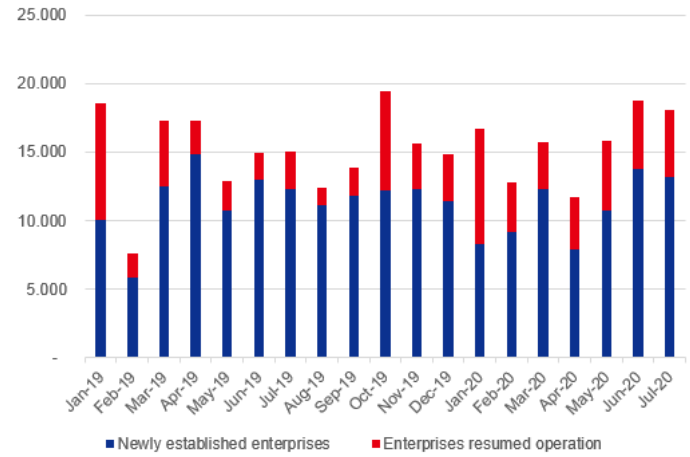
procedures dropped 12.2% yoy to 21,802; while the number of companies that have completed dissolution procedures slid 3.5% yoy to 8,937 in 7M20. The combined number of these categories rose 10.9% yoy to 63,461 enterprises in 7M20.

Figure 16: Vietnam's consumer confidence index dropped 9pts in Jul 2020



SOURCES: VNDIRECT RESEARCH, Nielsen

Figure 17: Total number of newly-established enterprises and enterprises resuming operations have risen since Apr 2020

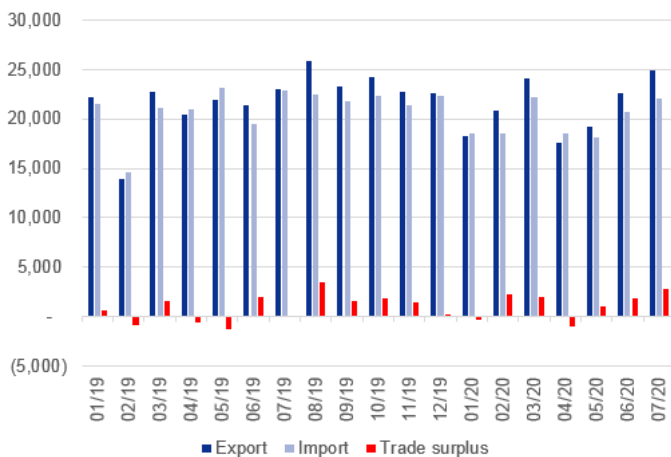


SOURCES: VNDIRECT RESEARCH, GSO

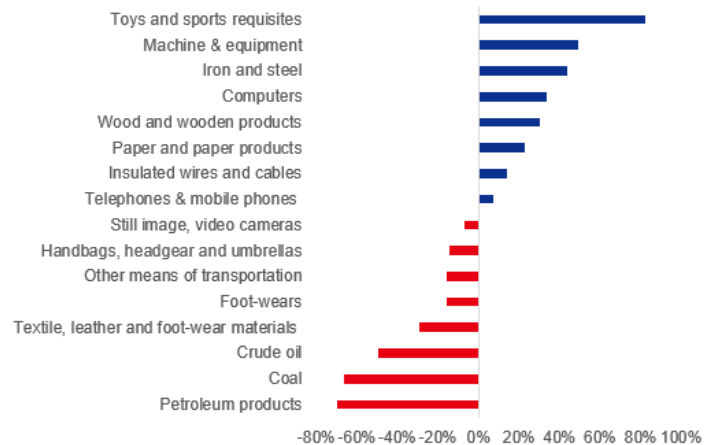
Exports maintain positive growth despite pandemic ➤

Global trade is expected to slow in 2020F as the global supply chain is disrupted by the Covid-19 pandemic. According to World Trade Organization's (WTO) forecasts, the total export and import values globally in 2020F could decline 13% yoy. Despite the gloomy outlook for global trade, Vietnam stands out as one of the very few countries that maintained a positive export growth in 7M20. According to the General Department of Vietnam Customs, Jul exports rose 10.2% mom to US\$24.9bn (+8.2% yoy), the highest monthly level since Sep 19. Its 7M20 exports edged up 1.5% yoy to US\$147.6bn. The growth was spurred by domestic enterprises, with total export value up 13.7% yoy to US\$52.2bn, while that of FDI companies dropped 4.2% yoy to US\$95.4bn. The data also suggests that Vietnam may be benefitting from the US-China trade dispute as a small part of China's export orders are transferred to Vietnamese companies. The items that recorded the highest export growth in 7M20 include rice (+14.0% yoy), fertiliser (+18.9% yoy), computers (+26.7% yoy); insulated wires and cables (+28.1% yoy), machine and equipment (+30.0% yoy), paper and paper products (+32.4% yoy), and toys and sports requisites (+71.4%). In contrast, some items saw negative growth, including fishery products (-6.1%), fruit & vegetables (-13.4%), textile, leather and foot-wear materials and auxiliaries (-18.8%), coal (-20.3%), crude oil (-26.6%), and petroleum products (-46.2%).

As for imports, Vietnam's Jul imports value rose 6.7% mom to US\$22.1bn (-0.5% yoy). Its 7M20 imports fell 3.2% yoy to US\$139.2bn due to the decline in domestic demand amid from higher unemployment rates and lower workers' incomes. As a result, the 7M20 trade surplus widened to US\$8.4bn, from a surplus of US\$1.7bn seen in the same period last year. We forecast 2020F exports to increase 1.7% to US\$268.6bn, and imports to drop by 0.4% yoy to US\$252.2bn. We thus expect the trade surplus to jump 44% yoy to US\$16.4bn in FY20F. We expect the widening trade surplus to support the country's GDP growth and the Vietnamese dong relative to other currencies.

Figure 18: Exports continued to recover in Jul 2020 (US\$ m)


SOURCES: VNDIRECT RESEARCH, General Department of Vietnam Customs

Figure 19: List of export products that changed the most in Jul 2020 (% yoy)


SOURCES: VNDIRECT RESEARCH, General Department of Vietnam Customs

We revise down 2020F GDP growth due to second wave of Covid-19 outbreak

We expect the new wave of Covid-19 infections to have a negative impact on Vietnam's economy, especially in the services sector and labour market, as we highlighted in more detail above. As such, we have revised our forecasts and present two scenarios for Vietnam's economic outlook in 2H20F.

Figure 20: Key indicators in our baseline scenario

| Indicator | Unit | 2017 | 2018 | 2019 | 2020F | | 2021F |
|------------------------------------|----------|------|------|------|----------|----------|-----------|
| | | | | | Old | New | |
| Real GDP growth | % yoy | 6.8 | 7.1 | 7.0 | 4.5 | 3.5 | 7.1 |
| Agriculture, forestry, aquaculture | % yoy | 2.9 | 3.7 | 2.0 | 2.3 | 2.3 | 3.1 |
| Industry & construction | % yoy | 8.0 | 8.5 | 8.9 | 7.3 | 5.1 | 8.9 |
| Services | % yoy | 7.4 | 7.0 | 7.3 | 2.5 | 2.1 | 7.1 |
| CPI (period average) | % yoy | 3.5 | 3.5 | 2.8 | 3.2 | 3.2 | 2.9 |
| Credit growth | % yoy | 18.3 | 13.9 | 13.7 | 9.0-10.0 | 8.0-9.0 | 13.0-14.0 |
| M2 growth | % yoy | 15.0 | 12.4 | 14.8 | 9.0-10.0 | 9.0-10.0 | 13.0-14.0 |
| Refinancing rate | % | 6.25 | 6.25 | 6.0 | 4.0-4.25 | 4.0-4.25 | 4.0-4.25 |
| Exchange rate (USD/VND) | % yoy | 1.2 | 1.8 | 1.4 | 1.5 | 0-1.0 | 0.5-1.5 |
| Fiscal balance | % of GDP | -2.7 | -2.8 | -2.5 | -4.0 | -4.0 | -3.5 |
| Public debt | % of GDP | 61.3 | 58.4 | 56.1 | 55.5 | 55.5 | 54.5 |

SOURCES: VNDIRECT RESEARCH

We cut 2020F GDP growth to 3.5% in our baseline scenario ➤

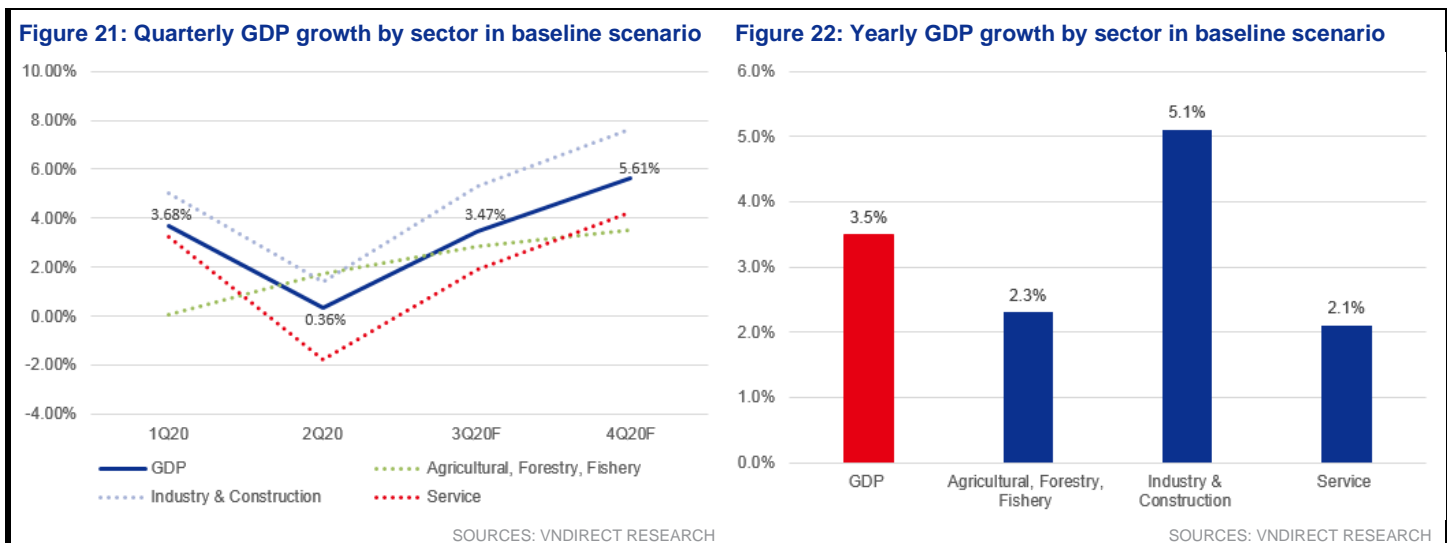
Our baseline scenario is based on the following key assumptions:

- Vietnam would completely contain the second wave of the pandemic in 3Q20F. Hanoi and Ho Chi Minh City, Vietnam's two largest economic centres, would not face lockdown or social distancing under the government's Directive 16 on the implementation of urgent measures for prevention and control of Covid-19 pandemic.
- International flights could be licensed for commercial purposes from mid-4Q20F.
- Large countries, such as the United States, the EU as a whole and Japan, could effectively block the second wave of infections and continue to open their economies.

In our baseline scenario, the services sector would be hit hard by the second wave of infections. Some service sub-sectors, including accommodation, tourism, passenger transportation and entertainment may record negative growth in 3Q20F before rebounding in 4Q20F after the government eases social distancing

rules in Da Nang city and allows non-essential services to reopen. We forecast the services sector rising only 3.2% yoy in 2H20F, higher than the 0.6% growth in 1H20 but much lower than the 7.7% growth in 2H19. The industry and construction sector could be less affected by the second wave of the pandemic and is expected to grow by 6.6% yoy in 2H20F, an improvement from the 3.0% rate in 1H20, as manufacturing sub-sectors may recover strongly in 2H20F when global supply chains resume and the accelerating public investment expands construction activities in 2H20F. We expect the agricultural, forestry and fishery sector to grow by 3.2% yoy in 2H20F, from 1.2% in 1H20 for the following reasons: (1) the United States, the EU and Japan, Vietnam's main agricultural export markets, are reopening their economies, which will boost demand for Vietnam's agricultural products, especially seafood such as pangasius and shrimp; and (2) the government is accelerating pig herd recovery after the ASF has been brought under control.

In our baseline scenario, we forecast 3Q20F GDP growth at 3.5% yoy before accelerating to 5.6% in 4Q20F.



However, if the new wave of the pandemic worsens, Vietnam’s 2020F GDP growth could drop to 2.3% ➤

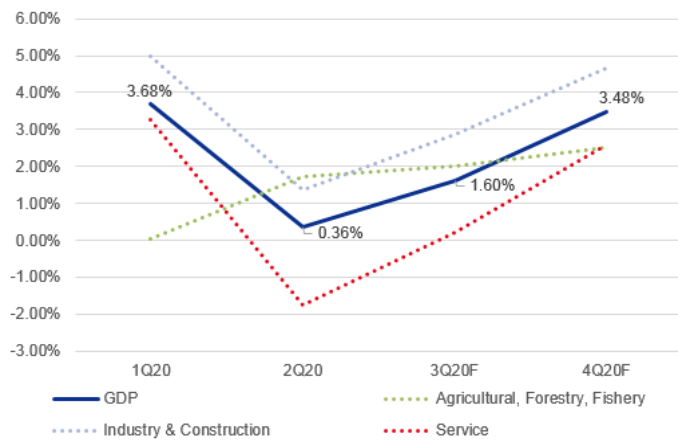
Our worst-case scenario is based on the following key assumptions:

- The second-wave of infections would last longer and only be completely contained by mid-Nov. Hanoi and Ho Chi Minh City could be ordered to apply social distancing rules under the government’s Directive 16 on the implementation of urgent measures for prevention and control of Covid-19 pandemic if infections rapidly escalate.
- International commercial flights would not be allowed until end-FY20.
- The reopening of major economies could be halted as infections dramatically increase.

In the worst-case scenario, the pandemic’s negative impact on the services sector would be prolonged and exacerbated. Service sub-sectors including accommodation, tourism, passenger transportation and entertainment could see sharp yoy declines in 3Q20F, with a level quite similar to that of 2Q20, and another negative growth expected in 4Q20F. In this scenario, we forecast the services sector expanding by only 1.5% yoy in 2H20F (vs. 0.6% in 1Q20 and 7.7% in 2H19). The industry and construction sector could rebound at a slower pace due to global supply chain disruptions and lower external and domestic demand. We forecast the industry and construction sector growing by 3.9% yoy in 2H20F (vs. 3.0% in 1H20 and 8.9% in 2H19). For the agricultural, forestry and fishery sector, we forecast an expansion of 2.3% yoy (vs. 1.2% in 1H20 and 1.8% in 2H19) due to lower external demand for Vietnam’s agricultural products.

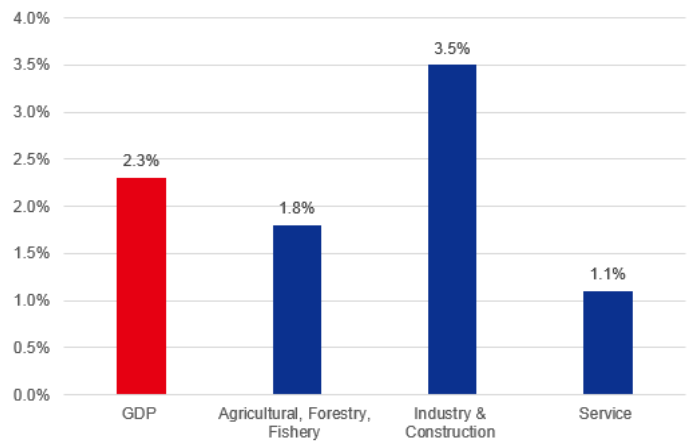
In our worst-case scenario, we forecast 3Q20F GDP to inch up 1.6% yoy before improving to 3.5% in 4Q20F.

Figure 23: Quarterly GDP growth by sector in worst-case scenario



SOURCES: VNDIRECT RESEARCH

Figure 24: Annual GDP growth by sector in worst-case scenario

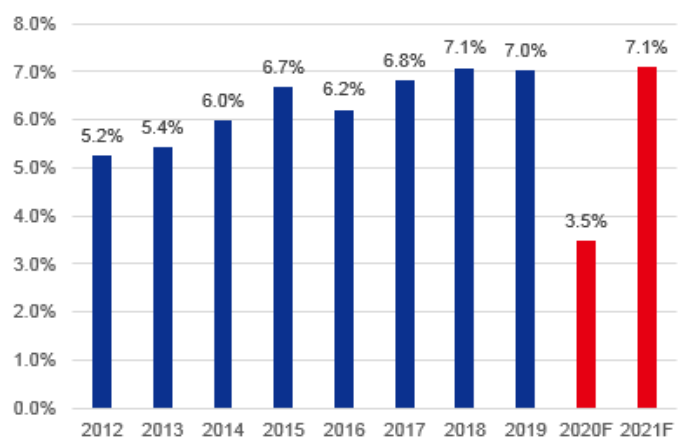


SOURCES: VNDIRECT RESEARCH

We expect GDP to rise 7.1% yoy in 2021F ➤

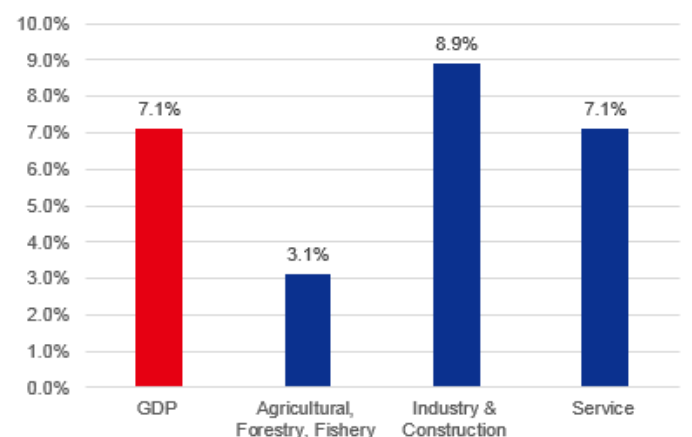
We expect the global economy, as well as Vietnam's, to recover strongly in 2021F after the pandemic is contained with the wide availability of a vaccine. Currently, there are many vaccines being developed and are expected to be commercially produced from the beginning of 2021F. We expect that the vaccine will help countries successfully contain the pandemic, thus creating favourable conditions for a recovery in the global economy from next year. The reopening of major economies, such as the US, the EU as a whole and Japan, would increase demand for Vietnam's export products. Furthermore, the resumption of international commercial flights would support the recovery of the tourism industry in 2021F, one of two main drivers for the rebound of Vietnam's services sector, along with the recovery of domestic demand. Moreover, we expect the government to maintain loose monetary and fiscal policies for the whole of 2021 to support economic growth amid low inflationary pressures. We also expect a large increase in total social investment capital in 2021F as the government continues to accelerate the disbursements of public investment. The investment capital of the non-state sector as well as the FDI sector could also recover strongly thanks to a more favourable business environment after the pandemic. As a result, we forecast Vietnam's GDP expanding by 7.1% yoy in 2021F, of which the agriculture, forestry and fishery sector will grow by 3.1% yoy, the industry and construction sector will expand by 8.9%, while the services sector will grow by 7.1% yoy.

Figure 25: Annual GDP growth in 2012-21F period



SOURCES: VNDIRECT RESEARCH

Figure 26: Our annual GDP growth forecast by sector for 2021F



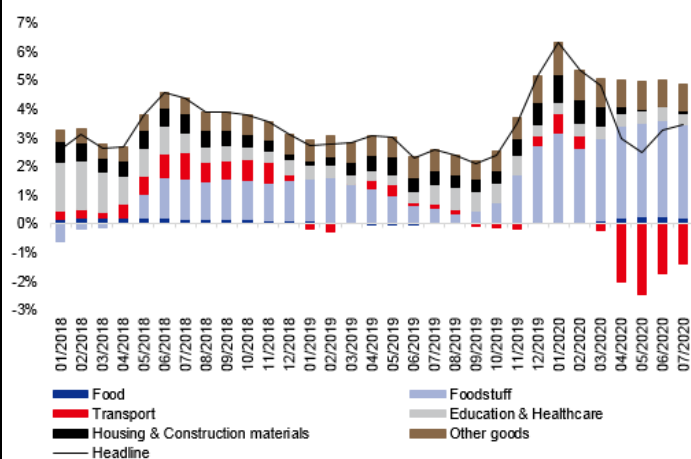
SOURCES: VNDIRECT RESEARCH

Inflation could be manageable towards year-end ➤

Vietnam's headline inflation stood at 3.4% yoy in Jul (vs. 3.2% yoy in Jun). Headline CPI edged up 0.4% mom in Jul, mostly driven by higher transportation prices (+3.9% mom), and accommodation and construction materials (+0.5% mom). The average headline CPI in 7M20 rose 4.1% yoy, slightly above the government's target of keeping the FY20F inflation under 4.0% yoy. We expect that inflationary pressure would ease from the beginning of 4Q20F as the gap between live pork prices in 4Q20F and 4Q19 would be narrowed from the differences in the previous quarters. To be specific, we forecast 4Q20F average live pork price at VND82,000/kg, or 11.6% higher than the price in 4Q19, while we estimate 9M20F average live pork price to climb to VND84,000, double the figure in 9M19. Therefore, the food and foodstuff CPI Index is estimated to be much lower than the Jul level of 11.9% yoy (noting that pork accounts for 11.6% of the monthly food and foodstuff CPI calculation basket and 4.2% in the monthly headline CPI calculation basket). We keep unchanged our forecast for the 2020F average headline CPI to increase 3.2% yoy, based on the following key assumptions: 1) we expect Brent crude oil price at around US\$43-45/barrel in 2H20F, and 2) the government is not expected to raise electricity prices in 2H20F.

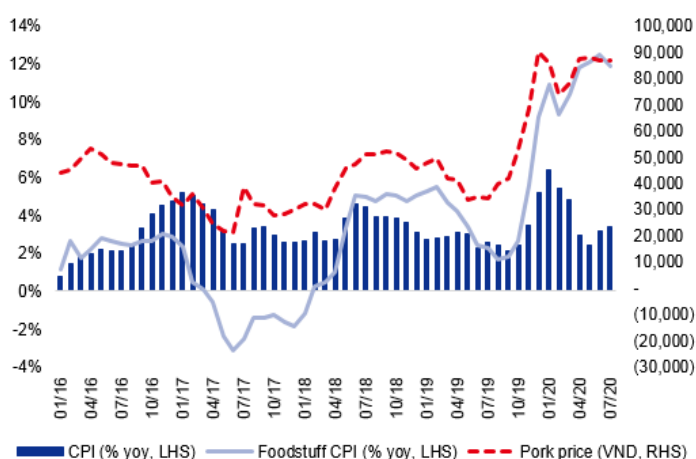
We expect inflationary pressure to remain low in 2021F as live pork prices could further decline after the domestic pig herd size recovers to pre-ASF levels. We forecast 2021F average headline CPI increasing 2.9% yoy, based on the following key assumptions: 1) we forecast 2021F average live pork price to decline 14.0% yoy to VND72,000/kg, 2) we expect 2021F average Brent crude oil to stay at US\$50/barrel (+14.2% yoy), and 3) we expect retail electricity price to increase 5-8% in the first half of 2021F.

Figure 27: Headline CPI ticked up yoy in Jul on higher crude oil price



SOURCES: VNDIRECT RESEARCH, GSO

Figure 28: Pork prices to lift foodstuff inflation further



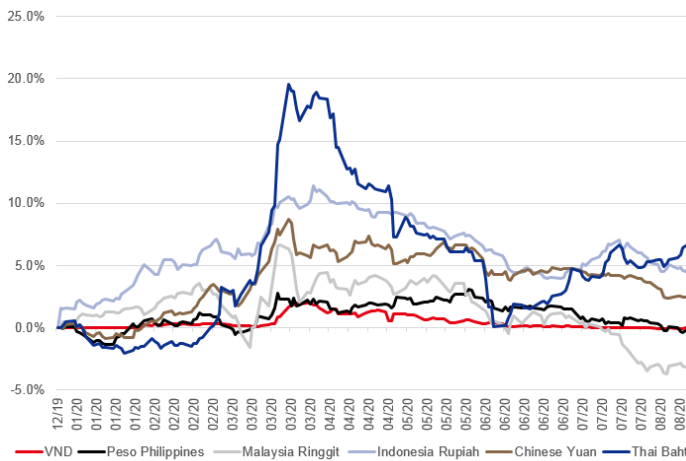
SOURCES: VNDIRECT RESEARCH, AGROMONITOR

Exchange rate could be stable in 2H20F ➤

We see minimal risk from external pressures, given more synchronised global easing of financial conditions. We expect Vietnam's current account surplus to remain in place in 2020F at 2.6% of GDP. According to the State Bank of Vietnam (SBV), the country's foreign reserves rose to US\$84bn in late-Mar 2020 from around US\$81bn at end-FY19. Expanding forex reserves should be supportive of the Vietnamese dong. Therefore, we expect the dong to move within a relatively narrow range of VND23,200-23,500/US\$ in 2H20F.

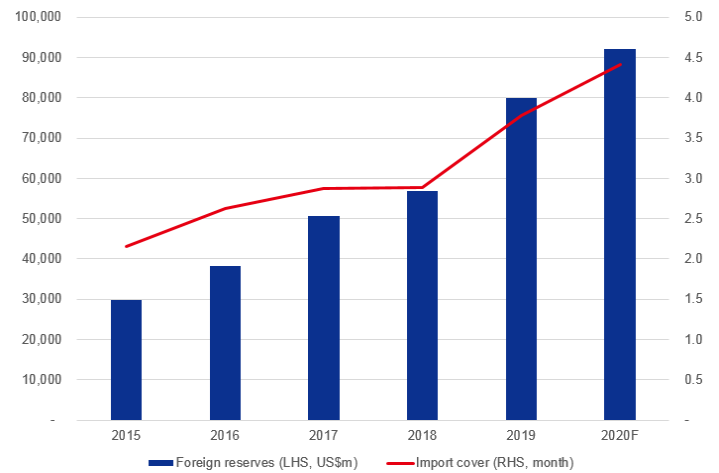
We expect the US dollar to remain weak in 2021F as the Federal Reserve could maintain a loose monetary policy to support growth. Therefore, we see minimal risk for the VND/US\$ exchange rate in 2021F and expect the dong to depreciate by only 0.5-1.5% vs. the greenback next year.

Figure 29: Vietnam's currency is more stable than most of its regional peers



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

Figure 30: Vietnam's forex reserves and import cover (2015-2020F)



SOURCES: VNDIRECT RESEARCH, SBV, VIETNAM CUSTOMS

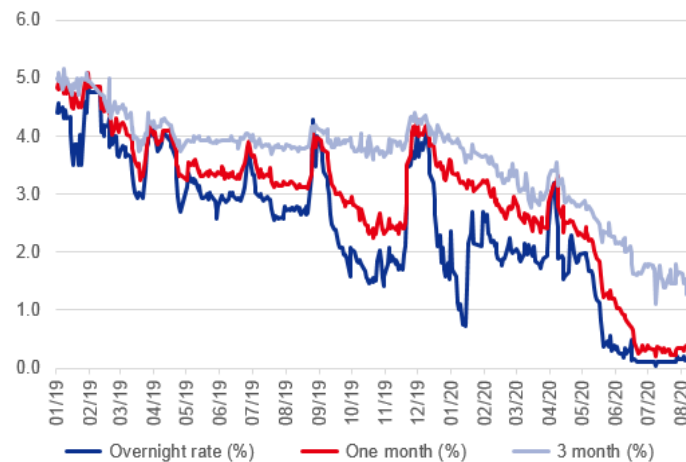
Interest rates could fall further towards year-end ➤

We expect the SBV to further loosen monetary policy to support economic growth and reduce its key policy rate by 0.25-0.5% pts in 2H20F. We also expect both deposit and lending rates offered by commercial banks to decline by 0.25-0.5% pts in 2H20F, of which short-term deposit rates could see a greater decline compared to long-term rates.

We expect credit demand to remain low in 2H20F as many companies delay their business expansion plans due to the pandemic. We forecast credit to increase 8.0-9.0% yoy in FY20F, while M2 would expand a faster clip at 9.0-10.0% yoy.

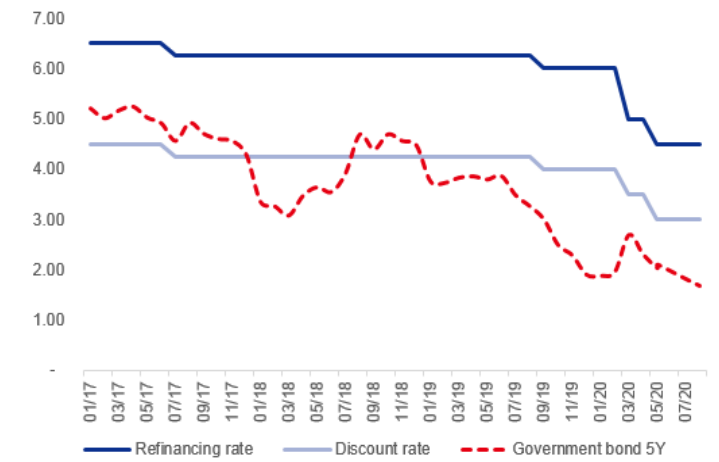
Given the benign inflationary pressure, we expect the SBV to maintain its accommodative monetary policy into 2021F. Although we do not expect the central bank to cut its key policy rate further beyond end-2020F, we also think it would not lift them either next year in a bid to continue supporting the economy by maintaining a loose monetary policy. Nevertheless, we expect the SBV to channel its money market activities via the open market, such as buying foreign exchange, raising credit growth ceilings or extending the deadline for applications of higher financial safety standards at commercial banks.

Figure 31: Overnight rate hits all-time low in late-Jun 2020



SOURCES: VNDIRECT RESEARCH, BLOOMBERG, SBV

Figure 32: Key policy rates (%)



SOURCES: VNDIRECT RESEARCH, SBV

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

| | | | | | |
|---------------------|-----------|-----------|---------|-------------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 or | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | |

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| Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2020 | | |
|--|-------------------------|--------------------------------|
| 800 companies under coverage for quarter ended on 30 June 2020 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 60.1% | 0.4% |
| Hold | 25.9% | 0.1% |
| Reduce | 14.0% | 0.3% |

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand: the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

| | |
|--------|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

Country Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |

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