

MARKET ROUT CREATES GOOD ENTRY OPPORTUNITY: BUT BE PICKY

We think the sharp ongoing correction is not entirely unexpected but is a knee-jerk reaction to global risk-off sentiment rather than a function of local developments. Investors should selectively snap-up solid, undervalued names with a view on potential for longer-term gains.

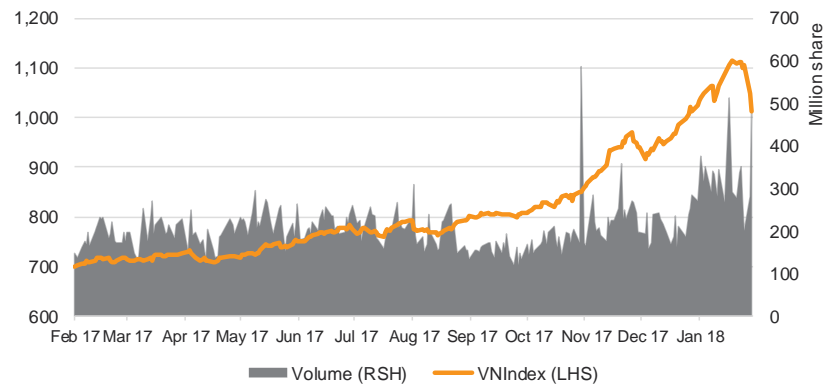
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The long anticipated correction is finally underway... We said starting out this year that we expected the momentum from 2017 to hoist the VNINDEX above the 1,100 point level in early 2018 but clearly caveated that the picture “gets murky” beyond that level; we felt like the “doom merchants” at a time when most on the street were predicting secular market gains to breach the 1,500 point level before the summer solstice. We feel partly vindicated. Some pre-Lunar New Year profit booking was always to be expected but even we did not see such a bloodbath in the offing, so early.

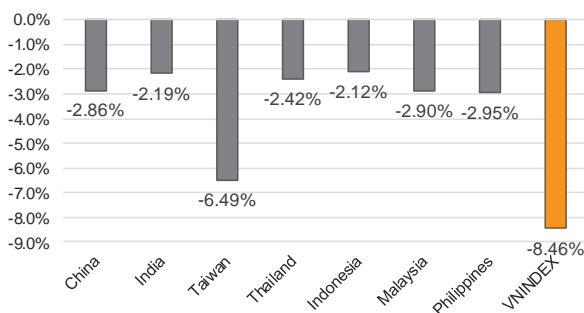
Figure 1: VNINDEX 1 year performance



Source: VNDIRECT

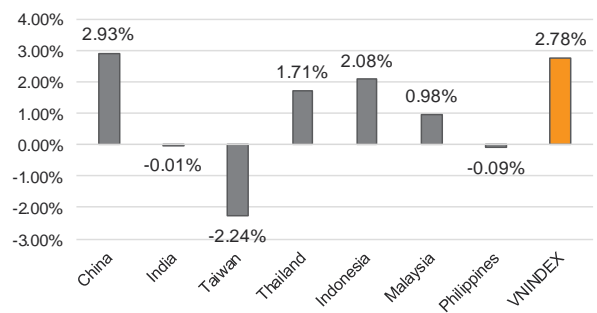
...but this is more a function of global rather than local dynamics. The trigger for this correction has been entirely global in nature. A sharp correction in the US markets on fears that accelerating inflation could trigger rising bond yields did equities in. Asian equities have corrected sharply across the board which hardly makes Vietnam and exception. While global growth remains strong, equity valuations have been looking topy for a while. The specter of accelerating global inflation is just the “straw that broke the camel’s back”. Vietnam’s stock market might have corrected the most dramatically among regional peers but it is also perhaps the only one that still is up on a YTD basis.

Figure 2: VNINDEX 2-day change versus regional peers (%)



Source: Bloomberg

Figure 3: VNINDEX year-to-date change versus peers (%)



Source: VNDIRECT

This is the time for investors to start picking value stocks. We reaffirm our position stated in our December strategy report that valuation multiples are unlikely to keep expanding. In fact, we predicted large cap multiple contraction. Thus, it is time to now focus on earnings-driven stories and look for deep value instead of just trying to ride sentiment.

But be prepared to ride out high volatility and stay focused on longer term gains. For all our talk about getting into value stocks, it will not be a smooth ride over the next few weeks. While some bottom-fishing appears to have kicked-in already and might swing the VNINDEX back into the green, don't expect it to be a secular recovery. Especially, leading into the Lunar New Year Holiday, we are unlikely to see deep value-hunting activity pick up substantially while, at the same time, scalpers will ensure a choppy ride leading into the holiday. So we advocate selective picks and long-term investment horizons rather than speculative bottom-fishing. This market rout has created a good entry point into solid names that were looking fairly valued just a few days ago. Investors should capitalize on the opportunity. We list out our ADD recommendations below, including a few names we do not currently cover but that feature on our watch-list.

VNDIRECT TOP STOCK PICKS

*Note: tickers marked with * are subject to an upcoming upward TP revision*

Ticker	Adjusted price	Adjusted target price	Upside	Rating	TTM EPS growth (%)	TTM P/E	P/B	Investment thesis summary/Update	Latest report
PC1	36,000	42,100	16.9%	ADD	(32.8)	15.3	1.7	Positive outlook for 2018 with surge in revenue thanks to: (1) New contribution from My Dinh Plaza II and (2) commissioning of two new hydropower plants in Q4, 2017.	
LPB	14,500	17,700	22.1%	ADD	28.8	7.2	1.1	1. Unique distribution advantage with more than 1000 PTOs across country. Will be able to maintain strong credit growth thanks to good capital buffer (CAR ~13%) and strong liquidity (LDR ~80%). 2. FY17 YE P/B of 1.1x, cheap relative to peers.	Link
DCM	12,250	16,200	32.2%	ADD	6.7	10.8	1.0	1. Recovery in ASP (+6% in 2017 from low level in '16) and volume (+9% in 2017, supported by exporting activities), driven by recovery in agriculture sector and global urea price cycle. 2. Gas price subsidy from PVN until the end of 2018 (guaranteeing ROE at minimum 12%), preferential income tax rate of 5% 3. Possible change in VAT policy could reduce COGS and improve margins by 2-3% pts. 4. PVN plans to divest 24.6% stake by 2018 which will add to free-float.	
BFC	31,900	43,338	35.9%	ADD	0.2	6.7	1.7	1. Leading NPK producer in terms of capacity (current 925k tons, could add 200k tons more in the North) and market share (15-16%) 2. Long-term growth from expansion strategy to Northern Vietnam (+20%/year in volumes) and overseas market (Cambodia)	

Ticker	Adjusted price	Adjusted target price	Upside	Rating	TTM EPS growth (%)	TTM P/E	P/B	Investment thesis summary/Update	Latest report
QNS	49,700	76,000	52.9%	ADD	(13.4)	7.0	2.5	<p>1. QNS is a dominant producer of soy milk with 85% market share in the packaged segment.</p> <p>2. One of the most profitable F&B companies in terms of ROE (FY16 ~43.3%) and ROA (FY16 ~25%).</p> <p>3. Manufacturing capacity addition is the next engine for growth: an increase by 30% of soymilk capacity and 50% of sugar refine capacity</p> <p>5. The recent share price fall means valuation is still attractive especially compared with consumer peers.</p>	Link
SBV	33,000	44,100	33.6%	ADD	(10.8)	8.0	2.1	<p>1. SBV is the leading company in the marine rope and cordages niche market and has a great brand which gives it pricing power.</p> <p>2. Fishermen are shifting to offshore fishing, thereby boosting demand for higher quality rope products which SBV specializes in.</p> <p>3. The new factory launch will be behind schedule but will nonetheless, be earnings accretive in 2018.</p>	Link
DPR	38,700	51,900	34.1%	ADD	47.5	5.8	0.8	<p>1. ASP will stay at high levels in 4Q 2017 and FY2018.</p> <p>2. Surge in 2018 disposal earnings given spike in 9M 2017 rubber wood price.</p> <p>3. Tapping volume rise and disposals to drive FY2018 EAT growth</p>	Link
LTG	40,200	66,270	64.9%	ADD	24.0	8.7	1.2	<p>1. All segments apart from CPC grew in 3Q</p> <p>2. CPC segment's 22% YoY drop in sales 3Q was an aberration.</p> <p>3. Booming rice exports to China and Philippines should boost Agrifood sales.</p> <p>4. For 2018, we expect a 7.1% growth in top line to touch VND8,781bn and a 18.4% growth in bottom line to touch VND517bn; stock looks cheap in light of forward earnings.</p>	Link
MBB	29,000	27,700	-4.5%	HOLD*	19.6	19.6	1.8	<p>1. Continued push into retail lending paid off with a large expansion in net interest margin (NIM).</p> <p>2. Sound performance in 2017 accelerated bad debt provisioning.</p> <p>3. High profit growth forecasted for 2018 and 2019 as MBB reaches the end of the current provisioning cycle.</p> <p>4. Healthy capital and loan-to-deposit position ensure high loan growth in the coming years; we expect to revise our TP upwards.</p>	Link
VSC	37,000	62,300	68.4%	ADD	4.9	7.3	1.2	<p>1. VSC will boost VGP capacity by a third to 800,000 TEU by 2019 through the additional of a new quay crane and a back-end logistics center which is 75% complete at the moment.</p> <p>2. 2018 net profit expected to soar to VND360bn (+34.8% YoY).</p> <p>3. Valuation is attractive due to the foreign investors' sell off over the last few weeks. VSC is currently trading at 12M EV/EBITDA 4.0x, well below the peer average of 6.7x.</p>	Link

Ticker	Adjusted price	Adjusted target price	Upside	Rating	TTM EPS growth (%)	TTM P/E	P/B	Investment thesis summary/Update	Latest report
VPB	51,500	53,400	3.7%	HOLD*	1.7	10.7	2.4	<p>1. A top retail lender with exceptional growth and returns on capital. VPB delivered ROA of 2.5% and ROE of 23.6% in FY17, the highest returns-on-capital among local peers and impressive even in a regional context.</p> <p>2. FY17 NIM of 8.0% was driven by a shift in loan mix towards higher yielding segments, such as consumer finance, retail, household and micro-SME loans.</p> <p>3. Strong topline growth in FY14-17, complemented by an improvement in operational efficiency on continued investments into technology.</p> <p>4. We expect strong earnings growth in FY18-20F with forecasted net profit CAGR of 25.6% and sustained high average ROE of 22.7%.</p>	Link
TCM	24,500	29,300	19.6%	ADD	123.7	7.2	1.2	<p>1. FY17 earnings to surge by 87% on core business recovery, declining revenue contribution from low margin yarn segment and land sales.</p> <p>2. We expect healthy sales growth to be sustained into 2018 on continued strength in garment sales and fabric capacity expansion</p> <p>3. Reported earnings to fall, however, due to lack of one-time gains; but valuation looks cheap and resurrection of TPP could best sentiment on the textile sector.</p>	Link
GEX	28,350	N/A	N/A	NON-RATED	38.2	11.5	2.0	<p>1. GEX is building a synergistic portfolio of electrical equipment manufacturing assets with pockets of market leadership; this industry should see strong growth due to huge planned power infrastructure investments.</p> <p>2. The company also has attractive real estate assets that could generate sizeable income.</p> <p>3. A growing presence in the high-growth logistics and renewable energy "sunrise" industries carries further long-term upside.</p> <p>4. Recent migration from UPCOM to main HOSE bourse should help bring story to mainstream market participants over time.</p>	
VND	26,400	N/A	N/A	NON-RATED	216	7.5	1.6	<p>1. Top 4 largest Brokerage firm in Vietnam.</p> <p>2. Stock market surges in both market capitalization and liquidity terms will benefit brokers; VND stands to benefit from recent volatility due to heavy exposure to retail investors</p> <p>3. 2017 earnings doubled but company is trading at a substantial discount to peers.</p> <p>4. Leading online brokerage platform is allowing VND to pioneer direct access to Vietnamese equities for foreign retail investors; this should boost earnings over the medium-term.</p>	

Source: Bloomberg. VNDirect Research

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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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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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