

MARKET STRATEGY - BEST PLAYERS IN CASH-RICH STOCK THEME

Cash-rich companies to be well-equipped to weather the crisis

VN-Index has plunged 34.3% from the 2020-peak and then recovered 16.3% from its bottom since 1st Apr 2019. It is too early to say that the market is bottoming out, but we believe it is time to gradually build a quality portfolio.

The COVID-19 pandemic not only brings disruptions but also threatens to lead global economy to a recession. Companies will face challenges in terms of both scant supply and falling demand. However, considering it as a process of economic natural selection, the outbreak opens opportunities for businesses, specially strong players to acquire more market share and leave their rivals behind. We believe companies with ample cash in hand and low leverage ratios are more well-equipped to weather the headwinds than others.

This report is compiled based on the investment idea of finding strong businesses to park funds during a market downturn. We would like to highlight two major points: 1) cash-rich companies are more likely to survive and adapt quickly during and after the pandemic, and 2) the recent market turmoil creates chances to accumulate undervalued stocks at favourable prices.

How did we approach?

We advocate a “bottom-up” approach with a screening of 1,023 stocks on three bourses HOSE, HNX and UPCOM, excluding Banking, Insurance and Securities, based on the following criteria:

- Liquidation: Weekly average volume > 10,000 shares
- Market capitalisation: > VND200bn
- Net cash to market capitalisation: > 50%
- Debt/Equity: less than 1

We also perform a general assessment on the impact of Covid-19 outbreak on the core business of each company.

We come up with the following results:

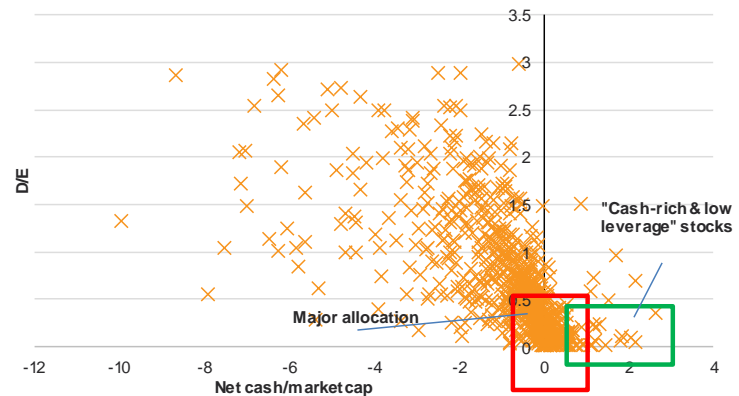
- 48 stocks with net cash to market capitalization higher than 100%, which means limited downside risks from here.
- 412 stocks with net cash position
- 795 stocks from companies with Debt/Equity < 1
- 228 stocks from companies with Debt/Equity > 1, including 79 stocks from companies with Debt/Equity > 2

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Figure 1: Allocation of stocks by D/E and Net cash to market cap



Source: VNDIRECT Research

Figure 2: Cash-rich stocks in focus (Data as at end-FY19)

Ticker	Industry	Market Cap (VNDbn)	Net cash per share (VND/share)	Net Cash to market cap	FY19 ROA	FY19 ROE	Debt/Equity (x)	P/E trailing	Current P/B	Covid-19 impact
HHS	Automobile	923	6,999	208%	5.3%	5.7%	0.00	4.8	0.3	Negative
PVS	Oil & Gas	5,831	17,442	143%	3.5%	6.7%	0.11	8.2	0.5	Negative
NDN	Real Estate	777	21,920	135%	3.5%	11.0%	0.04	9.9	1.2	Neutral
DXP	Logistics	255	11,915	122%	10.0%	10.7%	0.00	7.7	0.6	Negative
VRG	Industrial Park	241	11,067	119%	4.9%	10.1%	0.00	89.2	0.8	Neutral
D2D	Industrial Park	1,089	54,489	107%	20.3%	59.0%	0.00	9.0	1.4	Neutral
EVE	Textile	387	9,302	101%	4.7%	7.8%	0.24	7.0	0.4	Negative
CTD	Construction	4,240	51,006	95%	4.3%	8.7%	0.00	5.8	0.5	Neutral
SIP	Industrial Park	5,255	57,902	76%	3.9%	30.4%	0.21	5.6	3.5	Neutral
SZL	Industrial Park	656	24,941	76%	6.4%	16.0%	0.00	7.2	0.9	Neutral
PVC	Oil & Gas	255	3,809	75%	1.2%	2.5%	0.15	12.3	0.3	Negative
CNG	Oil & Gas	540	13,977	70%	10.1%	15.6%	0.00	6.3	1.0	Negative
VIP	Logistics	277	2,770	68%	2.4%	3.3%	0.18	16.3	0.3	Negative
DVP	Logistics	1,212	19,606	65%	20.2%	22.1%	0.00	5.4	1.0	Negative
SGP	Logistics	1,276	3,564	60%	3.2%	7.7%	0.17	9.7	0.7	Negative
LHG	Industrial Park	665	7,555	57%	6.6%	12.2%	0.09	5.5	0.6	Neutral
DPR	Rubbery	1,539	19,078	53%	4.9%	7.7%	0.12	8.8	0.9	Neutral
LHC	Construction	209	30,550	53%	8.6%	13.1%	0.00	4.7	0.8	Neutral
NTC	Industrial Park	2,424	79,416	52%	6.8%	40.4%	0.01	6.6	4.2	Neutral
PGD	Oil & Gas	2,790	16,067	52%	8.3%	17.1%	0.00	13.6	2.0	Negative
DPM	Fertilizer	5,362	7,080	52%	3.3%	4.6%	0.15	14.1	0.7	Positive
DTD	Construction	253	5,261	51%	7.5%	23.8%	0.25	3.1	0.7	Neutral
OIL	Oil & Gas	6,722	3,312	51%	0.9%	2.1%	0.45	50.6	0.7	Negative
CIA	Aviation	221	5,656	51%	5.5%	6.9%	0.09	12.0	0.6	Negative

Source: VNDIRECT Research

We believe investors should play selectively in cash-rich stocks theme as despite limited downside risks, some stocks lack upside catalysts for re-rating. We generally expect a rebound in oil & gas-related stocks (ie: DPM, PVS, OIL, PGD,...) as we believe the double impact of oil price war and Covid-19 outbreak has been priced in.

We see that a few stocks in industrial park (IP) and logistics sectors appear appealing regarding their cash-rich position. Meanwhile, although Covid-19 is weighing on these businesses in 1H20F, both IP and logistics are expected to recover faster than others thanks to

the manufacturing capital outflow away from China into Vietnam and Vietnam's upcoming Free Trade Agreements (FTAs).

We are not positive about the construction sector, especially civil construction as we believe the property market would remain sluggish into 2020F. Although housing demand remains robust, the delays in project approval and the capital burden still weigh on developers post-pandemic.

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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.

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