

1Q19 RECAP – A WEAK QUARTERLY RESULTS SEASON BUT NOT AS BAD AS FEARED

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As of 08 May 2019, 1,009 listed companies on 3 bourses have released 1Q results, representing 61% of total stocks and 96% of market capitalization.

Market's earnings snapshot

	1Q19 revenue growth	1Q18 revenue growth	1Q19 NP growth	1Q18 NP growth
VNINDEX	3.7%	19.1%	0.8%	31.7%
VN30	3.1%	32.3%	2.4%	37.8%
Large caps	2.9%	27.1%	7.5%	45.0%
Mid caps	5.0%	15.1%	-7.2%	-0.1%
Small caps	4.1%	8.2%	-30.5%	-24.3%

A weak quarterly results season but not as bad as feared

Corporates' aggregate net profit grew a slim 0.8% yoy on the back of net sale growth of 3.7% yoy, much lower than results seen in 1Q18 (NP and revenue jumped 19.1% yoy and 31.7% yoy, respectively). We observed that corporates' earnings growth is trailing behind the country's nominal GDP growth, which both marked a deceleration since 2Q18. Under our coverage, 40% posted 1Q19 results were in line with our expectations, while 36% were above our forecasts and the remaining 24% were well short of our expectations.

Flattish earnings growth due to the slowdown of banking and the weakness of real estate

RE had a lacklustre start with a dive of 3% yoy in bottom line (vs. +66% yoy in 1Q18) as a result of weak deliveries from most property developers. Meanwhile, banking, one of market's largest contributor on market cap-weighted basis, posted a lukewarm 1Q19 results with net profit growth of 12% yoy, much lower than the growth of 56% yoy in same period last year.

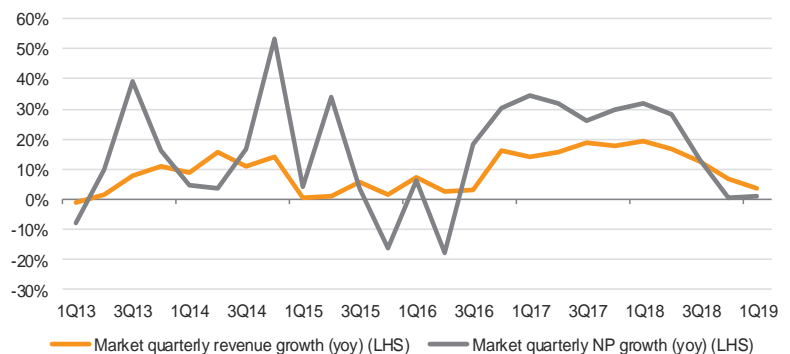
Consumer-related sectors took centre-stage in 1Q19

Consumer-related sectors were the key drivers to market earnings growth. Retail earnings grew 25% yoy on the back of network expansion and FMCG recovery as top producers (VNM, SAB, QNS, MCH) posted favorable results after a few sluggish past quarters. Automobiles exhibited a good performance thanks to impressive sale volume growth (10 times yoy) after car import procedures were cleared since 2H18.

Not yet time for bottom-fishing

VNINDEX increased by 6.1% YTD; market trailing P/E came at 16.4x as of 9th May 2019, nearly the same levels seen in Jul 2018. However, trailing-twelve-month (TTM) earnings grew 11.0% yoy by end-Mar FY19, deeply lower than the 26.3% TTM earnings growth by end-Jun FY18, thus, making VN-Index not very attractive, in our view. We still see some potential names for long-term horizon trading. Retailers (MWG, PNJ) still experienced solid growth on the back of network expansion and high consumer confidence index. A few property developers (NLG, VHM) might get back to the centre stage as high-rise projects will be launched for sale in 2H19F after a long time pending due to license approval delay.

Figure 1: Muted growth in both revenue and NP growth



Source: VNDIRECT, FiinPro

1Q19 RESULTS RECAP

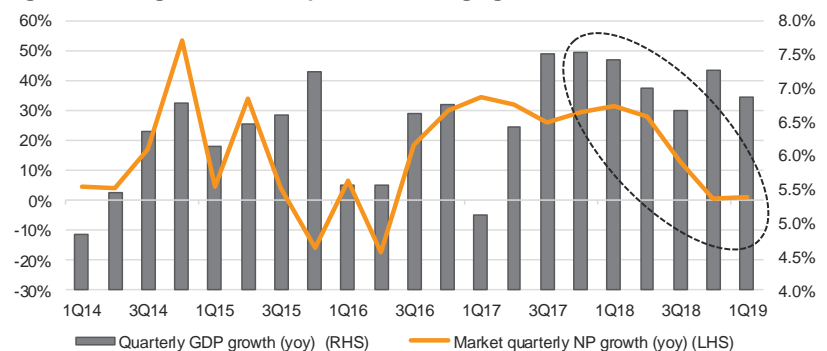
Deceleration streak extended in line with macro

Aggregate net profit grew a slim 0.8% yoy on the back of net sale growth of 3.7% yoy, much lower than results seen in 1Q18 (NP and revenue jumped 19.1% yoy and 31.7% yoy, respectively).

We have known so far that listed corporate growth might not be broadly in line with GDP growth in emerging markets due to the difference of sectorial structure of the economy and stock market. However, we observed that listed companies' earnings growth has trailed behind the country's nominal GDP growth, which both marked a deceleration since 2Q18. This can be partly explained by the fact that market capitalization grew rapidly in the past few years, to come in at 72.5% of GDP by end-2018, a big jump from the level of 43.2% seen by end-2016.

Noted that a surge in 4Q18 GDP growth was mainly driven by strong agriculture and retails, both were not significant contributors to market's total sales.

Figure 2: GDP growth and corporates' earnings growth



Source: VNDIRECT, GSO

More positive surprises than disappointments in 1Q19

Our tally of net profit under coverage universe grew 16.9% yoy in 1Q19. At the beginning of 2019, we expected that corporate earnings would decelerate this year from a high base last year. Therefore, the concerns on earnings slowdown was largely taken into our forecasts, bringing 40% of companies under our coverage to post 1Q19 results in line with our expectations. On the other hand, we believe 1Q19 performances were not that bad as number of positive surprises outstripped the number of disappointed ones. That said, 36% of our covered companies beat our expectation, while the remaining 24% was well short of our forecasts.

Figure 3: Top positive surprises under our coverage

	Net profit growth 1Q19	Our latest forecast net profit growth for full year
NLG	568.90%	16.80%
ACV	107.15%	11.80%
MBB	24.80%	12.60%
GAS	16.20%	-10.10%
PVT	15.50%	9.20%

Source: VNDIRECT

Figure 4: Top disappointed ones under our coverage

	Net profit growth 1Q19	Our latest forecast net profit growth for full year
DPM	-70.80%	8.00%
QNS	-18.10%	12.60%
VPB	-31.90%	14.30%
TCM	-12.40%	-1.80%
HPG	-18.60%	5.37%

Source: VNDIRECT

RESULTS REVIEW BY SECTOR

Flattish earnings growth due to the slowdown of banking and the weakness of real estate

The three sectors that posted the strongest yoy earnings growth were industry goods (+142% yoy); automobiles & parts (+46% yoy) and oil & gas (+37% yoy). The tremendous jump in earnings of industry goods came mainly from 4.3x earning growth of AAA, the biggest plastic & packaging producer. Robust performance of CTF (9-fold yoy in 1Q19 NP) and SVC (+55% yoy) was attributed to the decent growth of automobiles & parts. Meanwhile, strong oil & gas earnings growth was largely driven by fuel oil price spike in 1Q19 (+8.4% yoy). On the other hand, sectors that registered a sharp plunge in 1Q19 earnings were chemical & rubbers (-53% yoy), industry metals (-50% yoy) and mining (-47% yoy).

Consumer-related sectors were the main contributors to market earnings growth. Retail earnings grew 25% yoy on the back of network expansion and emergence of FMCG recovery after a few sluggish past quarters. Automobiles exhibited a good performance thanks to impressive sale volume growth (10-time growth yoy) after car import procedures were cleared since 2H18. Banking, one of market's largest contributor on market cap-weighted basis, posted a lukewarm 1Q19 results with net profit growth of 12% yoy, much lower than the growth of 56% yoy in the same period last year. Moderate earnings growth of banking sector was largely driven by lower loan growth in 1Q19 (2.3% YTD vs. 3.5% YTD in 1Q18).

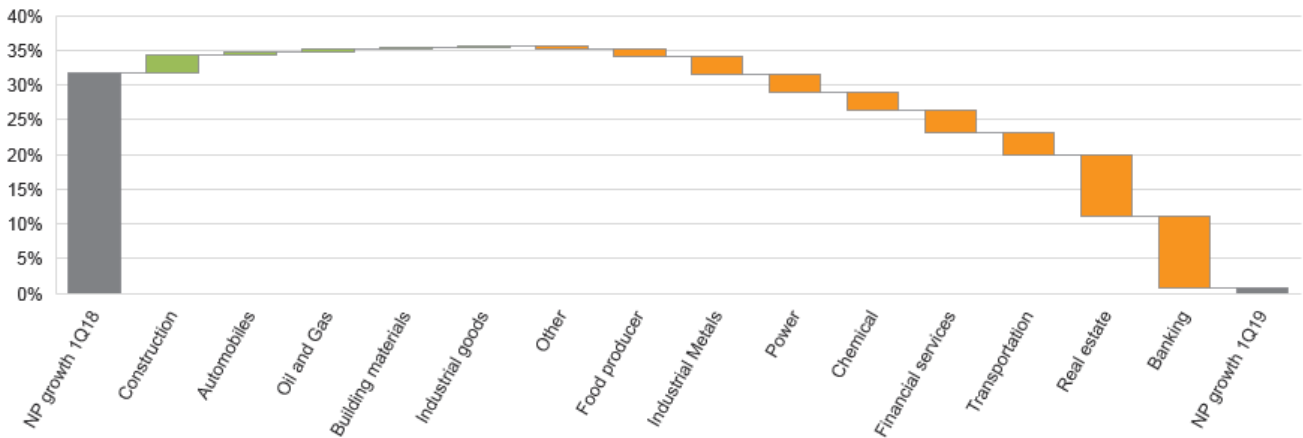
All these positives equally offset the earnings drag from industrial metal (-50% yoy), chemical and rubber (-53% yoy), financial services (-44% yoy) and real estate (-3% yoy).

Figure 5: Revenue and net profit growth review by sectors

	1Q19 revenue growth	1Q18 revenue growth	Contribution to total market revenue growth 1Q19	1Q19 NP growth	1Q18 NP growth	Contribution to total market earnings growth 1Q19
Retail	9.0%	35.0%	0.5%	25.0%	40.0%	0.5%
Insurance						0.2%
Real estate	-11.0%	50.0%	-1.1%	-3.0%	66.0%	-0.4%
Beverage	16.0%	9.0%	0.3%	9.0%	0.0%	0.2%
Financial services	-32.0%	28.0%	-0.3%	-44.0%	81.0%	-1.4%
Transportation	5.0%	11.0%	0.5%	4.0%	38.0%	0.4%
Pharmaceuticals	7.0%	-3.0%	0.1%	0.0%	-4.0%	0.0%
Personal goods	4.0%	17.0%	0.1%	-6.0%	28.0%	-0.1%
Industrial goods	40.0%	58.0%	0.2%	142.0%	-26.0%	0.2%
Consumer appliances	-13.0%	4.0%	0.0%	-27.0%	-34.0%	0.0%
Chemical and rubber	0.0%	8.0%	0.0%	-53.0%	-14.0%	-1.5%
Mining	15.0%	18.0%	0.3%	-47.0%	47.0%	-0.2%
Industrial Metals	5.0%	37.0%	0.4%	-50.0%	-4.0%	-2.6%
Banking	10.0%	20.0%	1.0%	12.0%	56.0%	3.4%
Gas, Water & Multi-utilities	4.0%	26.0%	0.2%	18.0%	18.0%	0.9%
Automobiles & Parts	27.0%	-14.0%	0.3%	46.0%	-43.0%	0.1%
Technology	21.0%	-37.0%	0.2%	27.0%	5.0%	0.2%
Power	-1.0%	8.0%	0.0%	-6.0%	16.0%	-0.3%
Oil and Gas	0.0%	28.0%	0.0%	37.0%	-8.0%	0.6%
Food producer	5.0%	3.0%	0.4%	14.0%	32.0%	1.2%
Communication	-7.0%	14.0%	0.0%	-8.0%	81.0%	0.0%
Telecommunication	21.0%	-20.0%	0.1%	14.0%	23.0%	0.1%
Construction	11.0%	13.0%	0.6%	-12.0%	-51.0%	-0.3%
Building materials	4.0%	5.0%	0.1%	16.0%	-20.0%	0.2%

Source: VNDIRECT, Fiipro

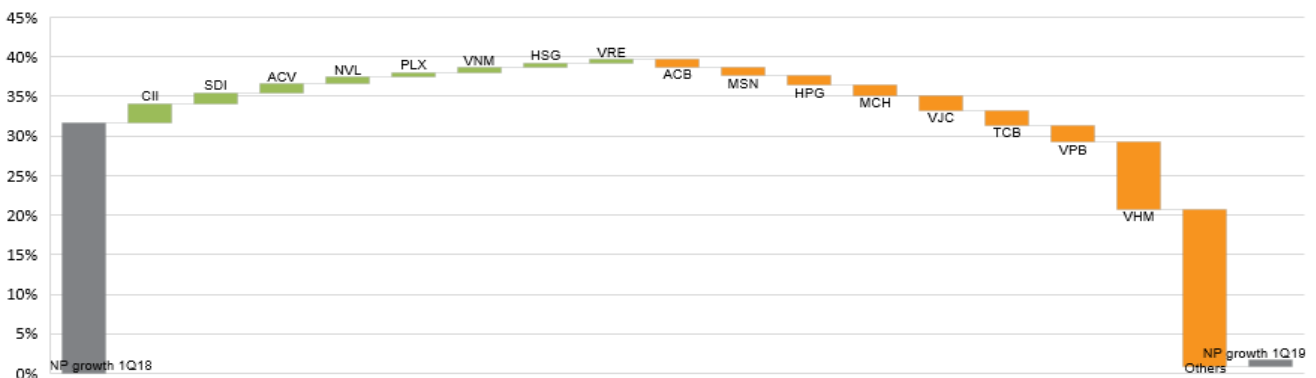
Figure 6: Real estate's negative growth, banking and transportation's lower growth rate contributed to market's deceleration



Source: VNDIRECT

Green: Positive contribution, Orange: negative contribution

Figure 7: Companies drove market NP growth from 31.7% yoy to 0.8% yoy



Source: VNDIRECT, FiiPro

Green: Positive contribution, Orange: negative contribution

A mix bag in 1Q19 gross margin across the board

Overall gross margin arrived at 15.8% in 1Q19, 0.3% pts higher than 4Q18, but significantly lower than the level of 16.7% in 1Q18.

Figure 8: Gross margin performance of sectors

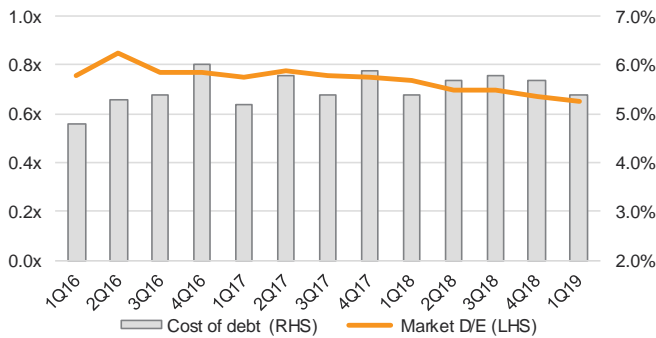
	1Q18	2Q18	3Q18	4Q18	1Q19
Technology	33.6%	32.1%	33.3%	32.2%	39.7%
Consumer appliances	20.9%	21.3%	22.9%	19.7%	25.5%
Financial services	52.7%	40.1%	59.0%	37.9%	55.9%
Industrial goods	11.1%	9.1%	9.2%	9.9%	12.8%
Transportation	16.9%	17.0%	16.3%	14.1%	17.9%
Building materials	16.7%	18.2%	17.5%	18.6%	17.7%
Gas, Water & Multi-utilities	20.1%	21.3%	22.1%	21.4%	20.9%
Retail	15.8%	16.0%	16.0%	16.3%	16.5%
Food producer	26.4%	27.7%	27.7%	25.1%	27.1%
Oil and Gas	7.0%	7.3%	6.9%	3.9%	7.6%
Automobiles & Parts	8.6%	9.7%	9.0%	7.8%	7.8%
Personal goods	14.5%	14.3%	15.0%	12.9%	13.6%
Real estate	24.8%	25.1%	29.2%	24.1%	23.8%
Beverage	23.7%	22.5%	21.6%	20.6%	22.2%
Communication	29.2%	29.6%	26.3%	40.3%	27.1%
Chemical and rubber	17.1%	15.4%	16.3%	15.7%	14.7%
Pharmaceuticals	21.6%	21.5%	19.6%	21.6%	19.1%
Power	18.2%	16.2%	14.9%	17.4%	15.1%
Mining	15.4%	13.0%	11.5%	15.5%	11.8%
Industrial Metals	12.2%	9.9%	9.7%	7.5%	8.5%

Source: VNDIRECT

Corporates (non-banks)'s deleveraging suggests a soft slowdown of market

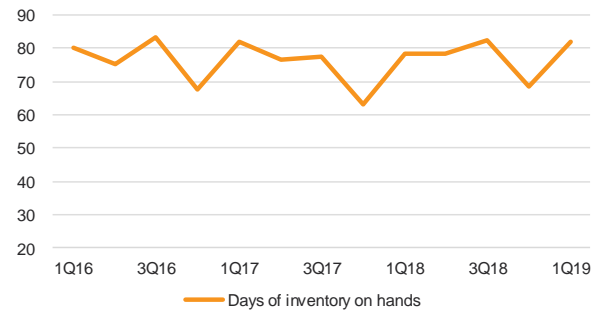
Corporates (non-banks)' deleveraging suggests a soft landing as D/E decreased to 0.65x by end-1Q19 while cost of debt reversed after a 3-quarter gaining streak. Another indicator for our thesis is inventory still at controllable level, despite of increases in days of inventory in 1Q19.

Figure 9: Low debt burden can hardly bring a sharp downturn to the market



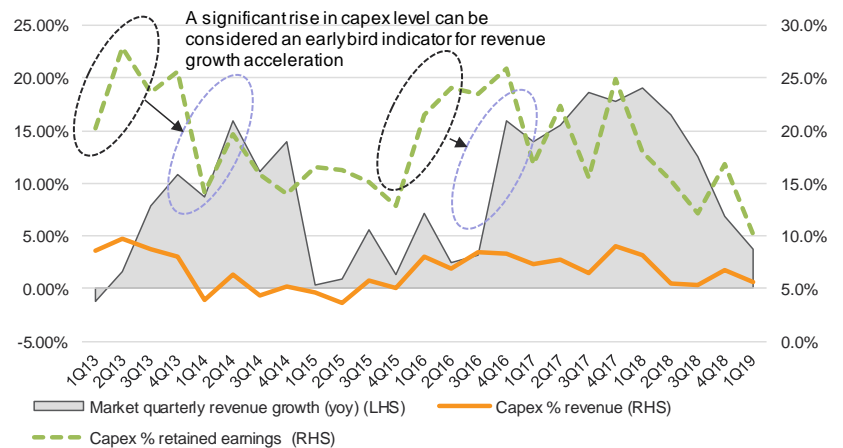
Source: VNDIRECT, FiinPro

Figure 10: Days of inventory on hand is still at average level



Source: VNDIRECT, FiinPro

Figure 11: But a low-level capital expenditure implied that a period of strong revenue growth is unlikely



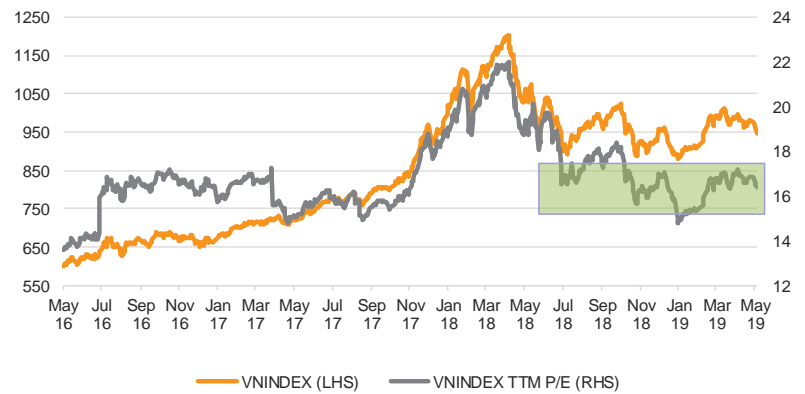
Source: VNDIRECT

MARKET VALUATION OUTLOOK: NOT YET TIME FOR BOTTOM-FISHING

VNINDEX increased by 6.1% YTD, market trailing P/E came at 16.4x as of 9th May 2019, nearly the same levels seen in Jul 2018. However, TTM earnings grew 11.0% yoy by end-Mar FY19, deeply lower than the 26.3% TTM earnings growth by end-Jun FY18, thus, making VN-Index not very attractive, in our view.

We believe, in short-term, that the market is likely to fail to find direction, due to the lack of: 1) earnings catalyst as results have been largely in line, albeit with slight positive surprises; 2) new listings or IPOs – there will be no major listings or IPOs towards year-end. In addition, the trade war tension still casts shadow on market sentiment. Therefore, we believe time for a bottom-fishing has not yet arrived.

Figure 12: VNINDEX performance and TTM P/E



Source: VNDIRECT, Bloomberg

Amid the nuanced market, we still see some potential names for long-term horizon trading. Retailers (MWG, PNJ) still experienced the solid growth on the back of network expansion and high consumer confidence index. A few property developers (NLG, VHM) might get back to the centre stage as high-rise projects will be launched for sale in 2H19 after a long time pending due to license approval delay.

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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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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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