

## 2Q19 RECAP – POSITIVE SIGNS BENEATH A SOFT RECOVERY

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As of 1 Aug 2019, 750 listed companies on 3 bourses have released 2Q results, representing 47% of total stocks and 85% of market capitalization.

### Better 2Q19 earnings growth as expected

2Q19 aggregate net profit grew 7.5% yoy (vs. 28.1% yoy in 2Q18) on the back of a modest 4.8% yoy net sale growth (vs. 18.1% yoy in 2Q18). The results exhibited a positive recovery on quarter-by-quarter basis, after muted growth in 1Q19 (NP and revenue were up 0.8% and 3.7%, respectively). For 1H19, market earnings jumped 4.2% yoy while net revenue increased 4.3% yoy. Under our coverage, 53% companies posted 1H19 results in line with our expectations, while 33% beat forecasts and only 14% missed expectations.

### Banking and Real Estate fueled market's 2Q19 earnings growth

As discussed in 1Q19, RE's lacklustre start with a dive of 3% was the result of weak deliveries from most property developers, and we thought the delay was temporary. Real estate had an impressive quarter with a 78.0% yoy increase in net profit propelled by a 75% yoy earnings growth of VHM and stronger results of other property developers (NBB: 13x earnings growth yoy; HDG: +834.2% yoy; KBC: +395.8% yoy; DXG +119.1% yoy). Banking, one of the largest contributors on market cap-weighted basis, posted stronger 2Q19 results, with a 26% yoy increase in net profit, much better than the 12% yoy level seen in 1Q19. Thus, listed banks regained their roles as the biggest contributors to market's profit growth, followed up by real estate.

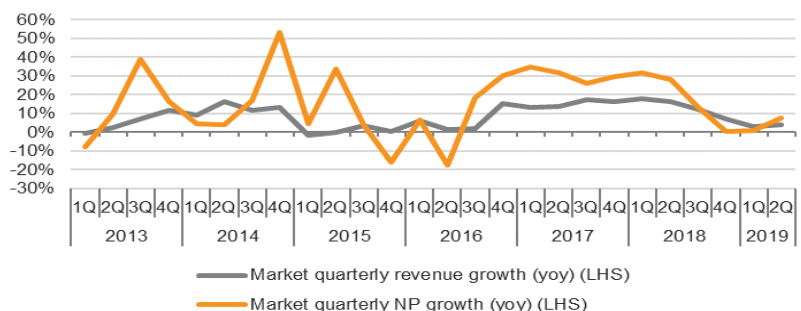
### Consumer-related sectors hold centre-stage despite some laggards

Consumer-related sectors enjoyed a strong quarter. Earnings of retailers grew 34% yoy thanks to network expansion while top FMCG producers (eg: VNM, SAB) showed significant recovery after a few sluggish quarters. However, a few big names still reported unfavorable 2Q19 results. PNJ 's 2Q19 net profit subdued by 8% yoy due to the operation issue of new ERP system. MSN's 2Q19 net profit slumped by 54% yoy as its mining subsidiary – MSR – recorded a sharp plunge of 99% yoy in earnings. In our view, most of earnings damages in consumer space steamed from non-core business. Meanwhile, we believe consumer-related sectors will enjoy a few flourish quarters ahead on the back of buoyant domestic consumptions.

### Earnings recovery could improve investors' sentiment but might not last long

Earnings recovery could improve the sentiment. However, a broad uptrend is unlikely due to fair valuation level of the market (TTM P/E of 16.7x). Amid the nuanced market, we still see some potential names for long-term horizon trading. Retail (MWG, VRE), FMCG (VNM), RE (NLG, VHM) and banks (ACB, MBB) still have positive stories for investors looking for alpha.

Figure 1: Aggregate corporates' revenue and earnings growth recover in 2Q19



Source: VNDIRECT Research, FiinPro

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### Better earnings as expected

2Q19 aggregate net profit grew 7.5% yoy (vs. 28.1% yoy in 2Q18) on the back of a modest 4.8% yoy net sale growth (vs. 18.4% yoy in 2Q18). The results exhibited a positive recovery on quarter-by-quarter basis, after muted growth in 1Q19 (NP and revenue were up 0.8% and 3.7%, respectively). HOSE listed companies performed better with a 10.7% yoy and a 11.0% yoy increase in topline and bottomline, respectively (vs. 2.7% yoy and -1.4% yoy in 1Q19).

Overall, market 1H19 revenue and net profit grew at modest paces of 4.3% and 4.2% yoy, respectively, still lagging behind the decent performances last year.

Figure 2: Market's earnings snapshot

	2Q19 revenue growth	2Q18 revenue growth	1H19 revenue growth	1H18 revenue growth	2Q19 NP growth	2Q18 NP growth	1H19 NP growth	1H18 NP growth
HOSE	10.7%	20.0%	7.8%	21.7%	11.0%	28.7%	3.9%	31.6%
VN30	20.1%	20.9%	9.5%	26.0%	18.5%	46.9%	8.1%	44.6%
Large caps	6.6%	24.2%	4.3%	21.3%	9.0%	42.3%	6.9%	37.6%
Mid caps	3.9%	18.7%	5.0%	16.5%	6.1%	9.0%	-0.6%	11.6%
Small caps	2.5%	8.0%	3.1%	8.5%	-3.8%	-16.9%	-11.2%	-7.0%
<b>Market</b>	<b>4.8%</b>	<b>18.4%</b>	<b>4.3%</b>	<b>17.0%</b>	<b>7.5%</b>	<b>28.1%</b>	<b>4.2%</b>	<b>27.0%</b>

Source: VND Research, FiinPro

### More positive surprises than disappointments in 1H19

Our tally of net profit under coverage universe grew 18.3% yoy in 1H19, outpacing market earnings growth. 53% of companies under our coverage posted 1H19 results in line with our forecasts, higher than the 40% level seen in 1Q19. We believe 1H19 performances were fairly positive as the number of surprises outstripped the number of disappointed ones. That said, 33% of our covered companies beat expectations, while just 14% was well short of our forecasts.

Figure 3: Top positive surprises under our coverage

	Net profit growth 1H19	Our latest forecast net profit growth for full year
LPB	76.7%	14.5%
MSH	52.0%	25.7%
VCB	41.0%	31.3%
STK	25.2%	9.6%

Source: VND Research, FiinPro

Figure 4: Top disappointed ones under our coverage

	Net profit growth 1H19	Our latest forecast net profit growth for full year
DPM	-79.7%	-32.7%
QNS	-7.3%	12.6%
TCM	-18.6%	-1.8%
PNJ	15.7%	27.0%

Source: VND Research, FiinPro

## RESULTS REVIEW BY SECTORS

### Banking and Real Estate fueled market's 2Q19 earnings growth

Industry goods kept positive momentum since 1Q19 and recorded a big jump of 121.8% yoy in 2Q19 net profit. The decent performance of industry goods was attributed to the 3.4 times earnings growth of AAA, a biggest plastic & packaging producer. In addition, other packaging producers reported stellar earnings growth thanks to a 15-20% yoy drop in old corrugated containers price (OCC, or the raw paper input).

Banking, one of the largest contributors on market cap-weighted basis, posted stronger 2Q19 results, with a 26% yoy increase in net profit, much better than the 12% yoy level seen in 1Q19. Thus, listed banks regained their roles as the biggest contributors to market's profit growth, followed up by real estate.

Real estate had an impressive quarter with a 78% yoy increase in net profit propelled by a 75% yoy earnings growth of VHM and stronger results of other property developers (NBB: 13x earnings growth yoy; HDG: +834% yoy; KBC: +396% yoy; DXG: +119% yoy)

Consumer-related sectors enjoyed a strong quarter. Earnings of retailers grew 34% yoy thanks to network expansion while top FMCG producers (eg: VNM, SAB) showed significant recovery after a few sluggish quarters. However, a few big names still reported unfavorable 2Q19 results. PNJ 's 2Q19 net profit subdued by 8% yoy due to the operation issue of new ERP system. MSN's 2Q19 net profit slumped by 54% yoy as its mining subsidiary – MSR – recorded a sharp plunge of 99% yoy in earnings. In our view, most of earnings damages in consumer space steamed from non-core business. Meanwhile, we believe consumer-related sectors will enjoy a few flourish quarters ahead on the back of buoyant domestic consumptions.

On the other side, sectors that spoiled market 's 2Q19 earnings growth include: Oil & Gas (-70%), Communication (-62% yoy), Mining (-37% yoy) and Chemical & Rubbers (-29% yoy).

Figure 5: Revenue and net profit growth review by sectors

	1H19 revenue growth	1H18 revenue growth	2Q19 NP growth	2Q18 NP Growth	Contribution to total market earnings growth 2Q19	1H19 NP growth	1H18 NP growth	Contribution to total market earnings growth 1H19
Retail	13.0%	36.2%	33.7%	38.2%	0.6%	29.8%	39.9%	0.6%
Insurance	0.0%	0.0%	12.0%	-36.5%	0.1%	10.2%	-10.9%	0.1%
Real estate	18.0%	55.2%	78.0%	22.5%	4.0%	36.4%	88.2%	8.3%
Beverage	6.1%	9.2%	16.4%	2.3%	0.4%	12.7%	7.0%	0.5%
Industrial	4.1%	5.5%	12.2%	44.1%	0.3%	8.3%	29.4%	0.6%
Financial services	-25.8%	48.5%	-14.8%	-2.7%	-0.9%	-35.0%	34.0%	-0.3%
Transportation	11.0%	20.5%	-13.0%	29.9%	-0.4%	-4.3%	22.4%	-1.0%
Pharmaceuticals	8.6%	-0.5%	3.6%	-9.4%	0.0%	-0.5%	-6.1%	0.0%
Personal goods	-12.7%	14.8%	-4.2%	28.4%	-0.1%	-15.3%	26.4%	0.0%
Industrial goods	13.3%	43.0%	121.8%	-93.7%	0.2%	133.2%	0.0%	0.2%
Consumer appliances	-12.6%	5.6%	35.9%	-4.5%	0.0%	2.0%	-16.4%	0.1%
Chemical and rubber	-4.5%	-9.5%	-28.8%	-10.3%	-0.5%	-27.1%	-14.4%	-0.6%
Mining	15.2%	19.6%	-36.9%	74.5%	-0.2%	-44.4%	61.6%	-0.2%
Industrial Metals	-0.3%	27.8%	-16.5%	31.0%	-1.5%	-30.2%	22.3%	-0.8%
Banking	0.0%	0.0%	25.8%	49.7%	5.2%	18.5%	52.9%	6.7%
Gas, Water & Multi-utilities	1.6%	18.1%	1.7%	66.3%	0.5%	8.9%	41.3%	0.1%
Automobiles & Parts	29.4%	-7.6%	-1.5%	4.2%	0.0%	14.8%	-1.1%	0.0%
Technology	23.0%	-43.4%	23.8%	18.0%	0.3%	27.9%	12.3%	0.3%
Power	2.6%	9.9%	-9.2%	10.0%	-0.3%	-6.9%	31.6%	-0.4%
Oil and Gas	-15.4%	29.1%	-70.4%	28.0%	-1.9%	-58.5%	0.8%	-2.9%
Food producer	5.9%	7.7%	-24.1%	18.9%	-1.3%	-12.0%	25.7%	-3.0%
Communication	15.6%	27.6%	-61.7%	26.0%	-0.1%	-33.5%	42.9%	-0.2%
Telecommunication	21.9%	-20.7%	-42.1%	-99.2%	0.1%	28.3%	-86.3%	0.2%
Construction	0.3%	8.8%	-22.1%	-30.0%	-0.4%	-17.9%	-40.0%	-0.6%
Building materials	7.8%	1.8%	1.2%	14.3%	0.2%	11.2%	-2.1%	0.0%
<b>Market</b>	<b>4.3%</b>	<b>17.0%</b>		<b>28.1%</b>		<b>4.2%</b>	<b>27.0%</b>	

Source: VND Research, Fiiipro

Figure 6: Contributions to market's 2Q19 NP growth by stocks

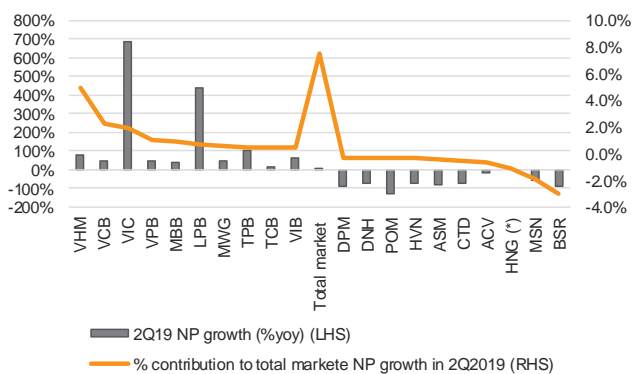
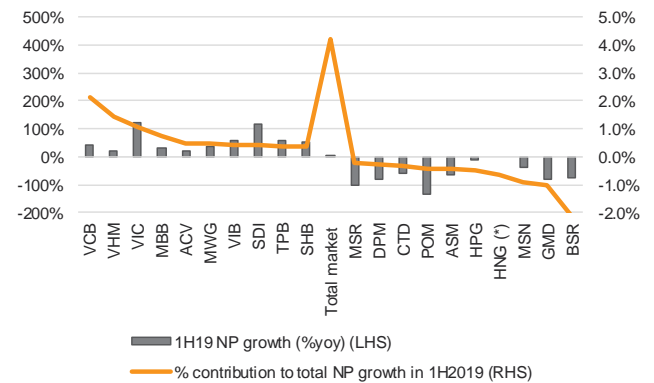


Figure 7: Contributions to market's 1H19 NP growth by stocks



(\*) HNG reported NP of VND-729bn for 1H19 versus VND47bn in 1H18. We excluded NP growth number of HNG to avoid outlier.

Source: VND Research

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### Gross margin improved among major sectors

We estimate that market gross margin climbed to 19.0% in 2Q19, +3.9% pts qoq. Real estate's GM jumped to 35.5% in 2Q19 from the average of about 25.5% in the four past quarters, bolstered by the sale of Vinhomes Ocean Park of VHM. Others sectors like Beverage, Food Producers and Consumer Appliances also witnessed the improvement in gross margin amid the positive sale growth.

Figure 8: Gross margin performance across sectors

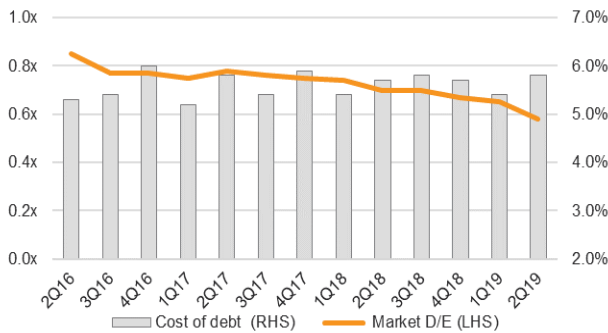
	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Retail	15.8%	16.0%	16.0%	16.3%	16.5%	16.3%
Real estate	24.8%	25.1%	29.2%	24.1%	23.8%	35.5%
Beverage	23.7%	22.5%	21.6%	20.6%	22.2%	25.0%
Financial services	52.7%	40.1%	59.0%	37.9%	55.9%	53.0%
Transportation	16.9%	17.0%	16.3%	14.1%	17.9%	14.5%
Pharmaceuticals	21.6%	21.5%	19.6%	21.6%	19.1%	18.5%
Personal goods	14.5%	14.3%	15.0%	12.9%	13.6%	13.6%
Industrial goods	11.1%	9.1%	9.2%	9.9%	12.8%	12.6%
Consumer appliances	20.9%	21.3%	22.9%	19.7%	25.5%	27.3%
Chemical and rubber	17.1%	15.4%	16.3%	15.7%	14.7%	15.0%
Mining	15.4%	13.0%	11.5%	15.5%	11.8%	12.9%
Industrial Metals	12.2%	9.9%	9.7%	7.5%	8.5%	10.4%
Gas, Water & Multi-utilities	20.1%	21.3%	22.1%	21.4%	20.9%	20.0%
Automobiles & Parts	8.6%	9.7%	9.0%	7.8%	7.8%	8.0%
Technology	33.6%	32.1%	33.3%	32.2%	39.7%	34.6%
Power	18.2%	16.2%	14.9%	17.4%	15.1%	15.2%
Oil and Gas	7.0%	7.3%	6.9%	3.9%	7.6%	3.9%
Food producer	26.4%	27.7%	27.7%	25.1%	27.1%	28.5%
Communication	29.2%	29.6%	26.3%	40.3%	27.1%	23.1%
Telecommunication	30.7%	36.0%	35.8%	35.9%	41.9%	43.6%
Construction	12.2%	11.5%	11.8%	10.9%	12.4%	10.8%
Building materials	16.7%	18.2%	17.5%	18.6%	17.7%	19.4%
<b>Market</b>	<b>16.1%</b>	<b>15.7%</b>	<b>15.7%</b>	<b>14.9%</b>	<b>15.1%</b>	<b>19.0%</b>

Source: VNDIRECT

**Market's financial leverage is controllable.**

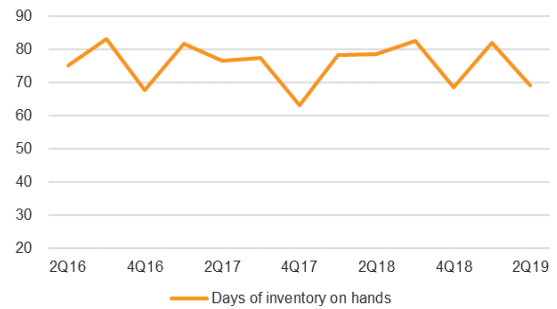
Corporates' (non-banks) deleveraging became more apparent as D/E decreased to 0.57x by end-1Q19. However, cost of debt increased again and reached the six-quarter peak (5.85%). Besides, days of inventory declined in 2Q19, keeping inventory situation in a controllable level.

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



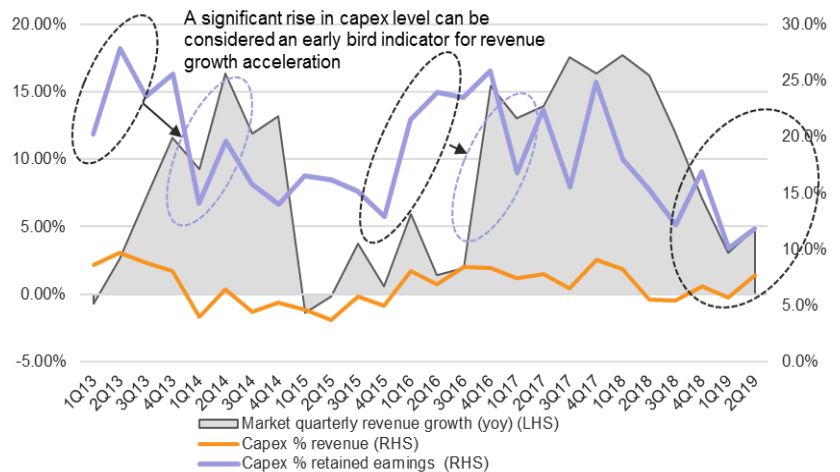
Source: VNDIRECT, FiinPro

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



Source: VNDIRECT, FiinPro

**Figure 11: Recent rise in capital expenditure level is a positive signal. But we need one to two more quarters to confirm another uptrend in revenue growth.**



Source: VNDIRECT

**MARKET OUTLOOK: EARNINGS RECOVERY COULD IMPROVE MARKET SENTIMENT BUT MIGHT NOT LAST LONG**

The VNINDEX has risen 11.2% YTD, market trailing P/E came at 16.7x as of 2<sup>th</sup> Aug 2019, nearly the same level seen in Jul 2018. However, TTM earnings grew 7.7% yoy by end-Jun FY19, much lower than the 26.3% TTM earnings growth by end-Jun FY18, thus, making the VN-Index not very attractive, in our view.



Figure 12: VNINDEX performance and TTM P/E



Source: VNDIRECT, Bloomberg

Earnings recovery could improve market sentiment. However, an uptrend across the market is unlikely due to fair valuation level. Amid the nuanced market, we still see some potential names for long-term horizon trading:

- Retailers (MWG, VRE) still experienced a solid growth on the back of network expansion, while FMCG (VNM) enjoyed high consumer confidence index and product portfolio upgrading.
- 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.
- We prefer banks with good asset quality and well-positioning to offset the challenges from rising funding costs. ACB and MBB remain our top pick.

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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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