



VNDIRECT
WISDOM TO SUCCESS

The party goes on but it's time to get selective

4Q/2017

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Executive Summary

- The economy is on a firm footing with strong growth, a stable current account and currency; however, an uptick in inflation and possible rate hikes and balance sheet normalization by the US Fed could impact the currency and necessitate a hike in policy rates.
- The stock market remains buoyant and has broken through the 800 point resistance level but valuation discount to regional peers has narrowed to just around 10-13%; a short-term correction might be in order.
- Earnings will be the key driver of share price performance, hereon, due to limited scope for multiple expansion.
- Investors should focus on bottoms-up stock selection and buy into stocks with good fundamentals and visible earnings growth right after the imminent market correction; Q4 and early 2018 should see a flurry of new IPOs that will deepen the equity market and could counteract short-term correction pressures.
- At a sector-level, we like Banks, Aviation, Power, Fertilizers, Materials and Automotive; however, stock selection within each sector is key and we do not recommend broad sector-wide positions in the current market environment.
- Investors might want to explore the midcap space due to the recent price correction and the fact that several large caps are already fairly valued from a near-to-medium term perspective.
- We think the VN Index could hit 850 points before the end of the year based on around 20% earnings growth for the full year; however, current high valuations mean that risks are to the downside.

Executive Summary (continued)

- **Banks:** well-capitalized banks with good liquidity should be able to ride to continued loose credit conditions; newly-listed **LPB** looks particularly interesting due to its vast distribution network, low cost of funds and deep discount to peers. A sharp rise in rates to preempt inflation could slow down credit growth and this remains a risk factor.
- **Aviation:** strong growth in domestic and international tourist arrivals should continue due to good economic conditions at home and globally; **VJC** still has upside due to continued strong earnings growth on rising passenger volumes, increasing ancillary service revenue yields per passenger and SLB gains on rapid fleet expansion. **ACV**'s monopolistic position and impending domestic passenger handling fee hikes justify a premium to current valuation. A sharp rise in fuel prices due to recent disruptions in Iraqi oil production or declining shale production in the US is a major risk factor as it could eat into margins and/or impact volumes if passed-through due to the high price elasticity of demand in the LCC segment.
- **Power:** The power sector is a broad play on the economy as rising consumption, growing industrial production and recovering agricultural output are all drivers of electricity demand which is growing at around 10-12% p.a. Individual power generators are however exposed to commodity price risk or weather patterns and so we like **PC1** which provides broad sector exposure without commodity price risk exposure and only limited weather-related risk exposure due its hydropower assets; a healthy order backlog, a strong pipeline of government investment in transmission and distribution infrastructure and commissioning of new hydropower plants bode well for earnings growth in 2018. Project execution delays due to fiscal pressures and another drought in 2018 are the main risk factors.

Executive Summary (continued)

- **Fertilizer:** This is a play on rising urea prices and a strong recovery in the agricultural sector which was ravaged by droughts and salt water intrusion last year; we like **DCM** more than DPM because of its protection on input gas prices (guaranteed ROE) and its strong presence in the Mekong Delta which was the most impacted by the drought last year and should see a strong recovery in fertilizer demand; a cyclical global recovery in urea prices should benefit ASPs. A change in gas pricing policy by PV Gas, bad weather in 2018 and another supply glut in the local urea market due to restarting of mothballed urea plants are the main risk factors.
- **Materials:** We like the steel sector as it is a leveraged play on recovering global steel prices (on the back of strong global economic growth, resumption of capital spending and shut down of excess capacity in China) and local construction activity. Global steel prices should stay strong for the next few quarters due to a strong global economy while local construction activity should stay robust due to continued infrastructure and factory construction which will compensate for a possible slowdown in real estate supply. We like **HPG** due to its exposure to construction activity, fully-integrated production chain, cheap valuation and sizeable capacity expansion through the Dung Quat complex which will be commissioned starting late 2018. Another sudden slowdown in the Chinese economy is a risk as it could weigh on global steel prices and lead to dumping; a sharper-than-expected slowdown in the domestic real estate market is another risk (we do not currently cover HPG and so do not have a company slide on HPG in the report).

Executive Summary (continued)

- **Consumer:** we know that consumer stocks continue to be the rage, but valuations look topy; we still like this space but feel that the usual suspects in this space like PNJ, MWG and VNM are not going to generate alpha over the medium-term; **QNS** is an interesting and relatively under-recognized stock despite being a leader in the niche packaged soya products category that is poised to gain from the continuing shift by consumers to health foods and beverages.
- **Automotive:** we do not currently cover automotive stocks but think this could be an interesting opportunity to get into passenger car dealerships given that their shares have been battered recently following a sharp slowdown in passenger vehicle sales this year. The slowdown does not reflect weak fundamentals but, rather, is a result of consumers postponing their car purchases to take advantage of falling import taxes under the new ASEAN Free Trade Agreement (AFTA) norms. This implies there is huge pent-up demand that could be unlocked next year, particularly in the small-to-medium affordable car segment. We think **SVC** and **CTF** could benefit but we do not cover these names currently and so do not have a company slide on them in this report.
- In addition to the above, we also like the fishing ropes and cordage manufacturer **SBV** which is the leader in a niche market space; the stock is also a broad play on Vietnam's rising maritime exports industry and can actually benefit from overfishing in near shore waters. A 40% expansion in manufacturing capacity in Q4 is a visible earnings catalyst. A sharp rise in oil prices could impact raw material input prices and also demand (less fishing activity).

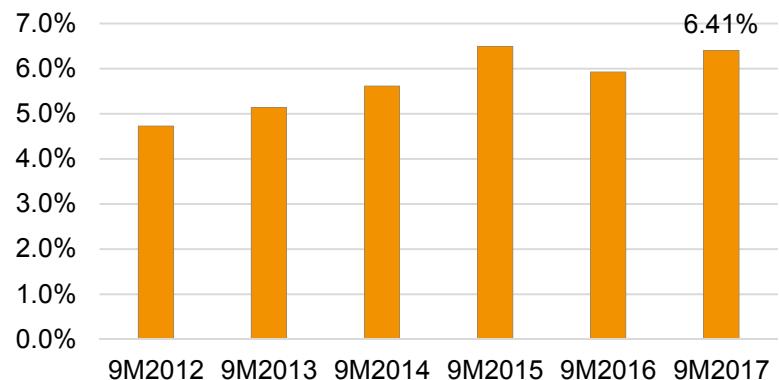
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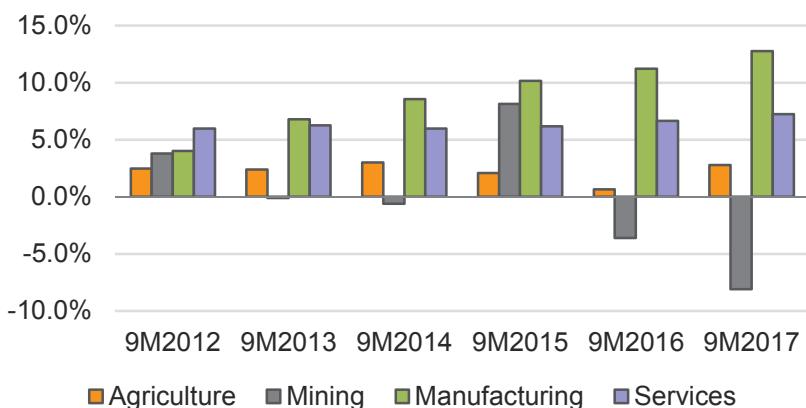
Growth remains resilient and broad-based

- 9M GDP growth was 6.41% (1Q: 5.15%; 2Q: 6.28%, 3Q: 7.46%). Agriculture sector grew 2.78%, Industrial and Construction by 7.17% and Services by 7.25%.
- Economic growth has regained momentum, driven by: The Service sector (biggest GDP contribution of 42.67%) recording a 5-year-high in growth rate; The Manufacturing sector accelerated. Finally, a stimulus package for the Agriculture sector combined with normalization of weather patterns this year facilitated a rebound and spilled over into rural consumption.
- Mining and phone manufacturing, two sectors that dragged on economic growth in the first 6 months have, since, improved. Mining sector declines have tempered since 1Q. Manufacture of electronic, computer and optic products (mostly smart phones and electronic components) has surged by 45.5% thanks to Samsung launching new products in 3Q (compared with 5.9% in 1Q and 23.5% in 2Q).

9-month GDP growth (Yoy, 2012-2017)
(Source: GSO)



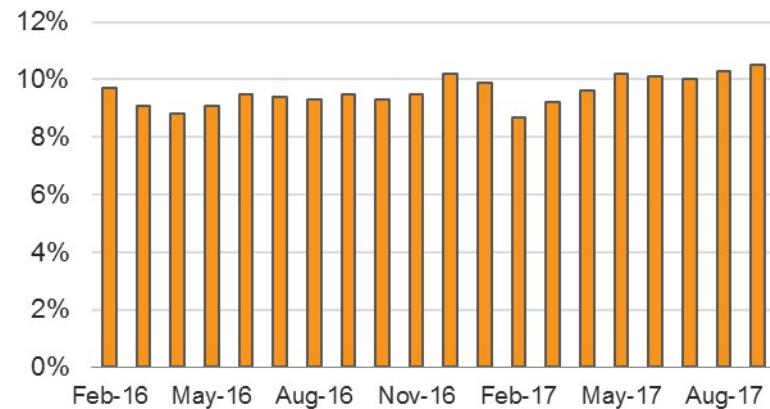
9-month GDP growth by sector (Yoy, 2012-2017)
(Source: GSO)



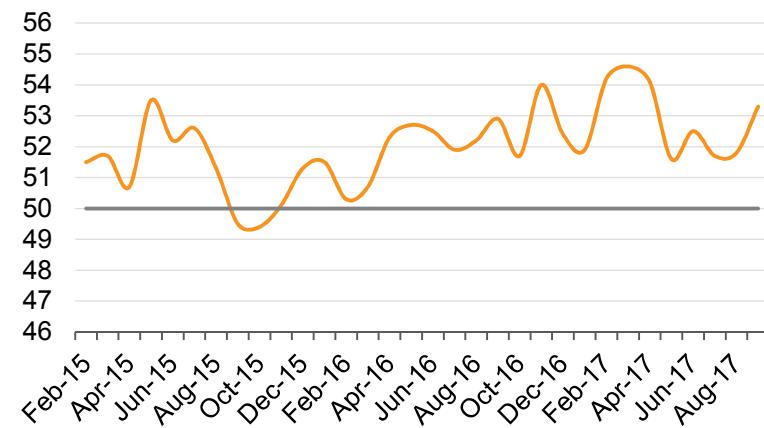
Consumption and FDI were key drivers of Q3 growth

- Retail sales of goods and services (real) rose by 9.2% in 9M, the highest in 5 years. Consumption outlook continues to be positive.
- In 9M 2017, investment from state sector rose modestly (7.2% yoy increase), but investment from domestic private and FDI sectors was solid (15.9% and 13.5% yoy increase, respectively).
- Overall investment increased from 32.8% of GDP in first 6M to 33.9% in 9M. The Government plans to raise the ratio of Investment/GDP to 34-35% for full year 2017.
- A strong global economy, loose monetary conditions and increasing disposable income will continue to support consumption and investment for the rest of the year and into 2018.
- Our forecast GDP growth for 2017: 6.67 - 6.79%**

Consumption growth (YoY)
(Source: GSO)



Vietnam's PMI
(Source: Nikkei)



The fiscal balance improved

- At the end of 2016, Public debt to GDP was 63.7%, of which external debt was 44.3% of GDP.
- Successful bond issuance: The Government has raised VND148 trillion (~USD 6.58 billion) from bond issuance in 9M (80% of annual target). Foreigners net bought VND19 trillion (~USD 830 million) of this. CDS spreads were at 10 year record lows.
- Fiscal revenue (Total government revenues) increased by 13.9% yoy thanks to a buoyant economy and real estate sector. The budget deficit was about VND 61.5 trillion (~USD 2.7 bn) at the end of 3Q. However, Government expenditure needs to be reigned in, especially the high ratio of recurrent expenses in total Government spending.
- Improved fiscal budget will facilitate stimulus policies, but could slow down privatization process.

Public debt/GDP (%)
(Source: MoF)



Vietnam's 5Y CDS spreads (bps)
(Source: Bloomberg)

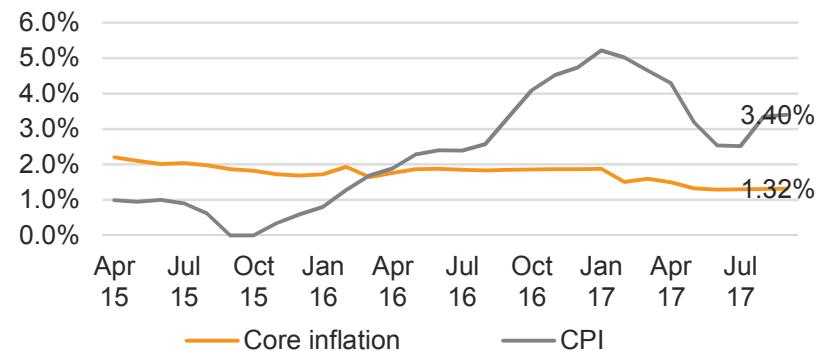




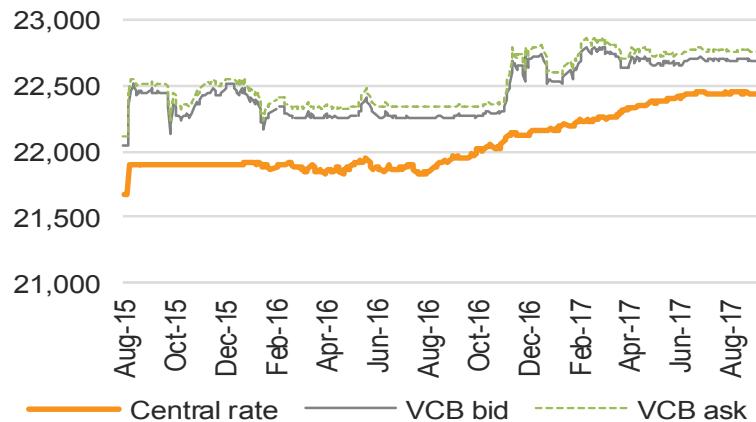
Inflation ticking up but currency has a stable outlook over the medium term

- Credit growth target lifted to 21% in 2017 (from 16-18%)
- CPI was mostly influenced by cost push factors. CPI over 9M increased by 3.40% yoy.
- However, core inflation is trending up and will accelerate in the upcoming period, which poses a risk especially in the context of rising investment and consumption and high credit growth.
- Exchange rate risk has been mitigated over the short term thanks to robust capital inflows. However, a widening trade deficit due to higher import demand also poses a threat to the currency over the medium term. (Trade deficit was USD 2.7 bn in 1H2017). The VND has depreciated by 1.41% vs. USD ytd.
- The SBV continues to buy foreign currency to rebuild its forex reserves. Foreign reserves touched USD 45 bn at the end 3Q 2017.
- **We forecast 2017 CPI growth of 5-5.5% and less than 2% depreciation of VND versus the USD for the full year.**

Vietnam's CPI (Yoy, Apr 2015- Sep 2017)
(Source: GSO)



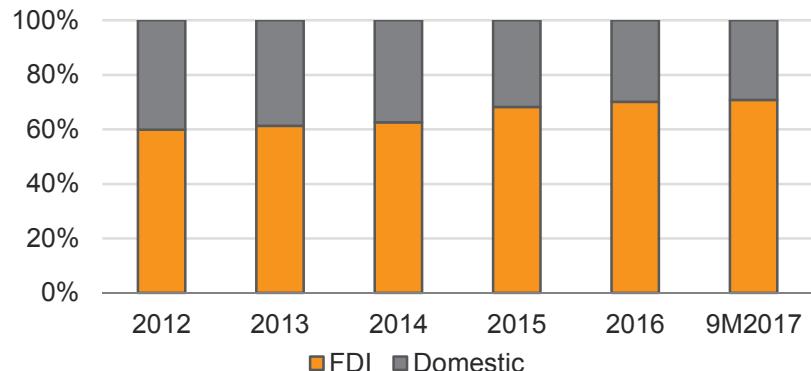
USD/VND rate
(Source: SBV, VCB)



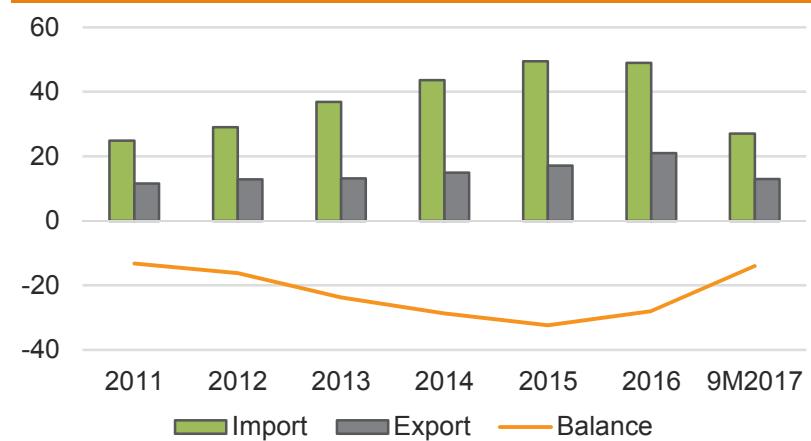
Trade flows benefited from robust global economic growth and Vietnam's growing integration into international trade links

- Exports benefited from global economic growth but remained highly dependent on FDI sector. Import growth also partially tied to FDI-led export growth.
- 9M export value was USD 154.0 bn (19.8% yoy increase); Import value was USD 154.5 bn (23.1% yoy increase). The trade deficit was USD 0.5 bn.
- The FDI sector accounted for 70% of total export value and 60% of total import value, with a major contribution to high-end exports from Vietnam such as phones and components (99% by FDI facilities), computers and electronic products (97% by FDI facilities).
- Phones and components represent the largest export product category with 20% contribution to total exports.
- Imports from China have increased at a slower pace, partly due to backward integration in the local apparel industry in anticipation of TPP built up over the last years.

Export by sector from 2012 – 9M2017
(Source: GSO)



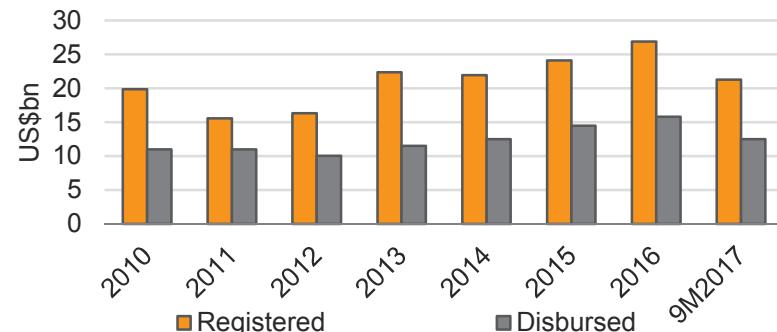
Bilateral trade with China (USDbn)
(Source: GSO)



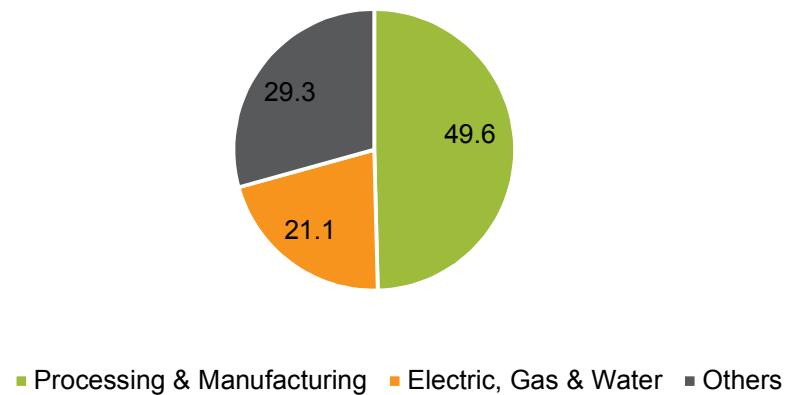
FDI and FII inflows remained robust

- Total registered FDI in 9M 2017 touched USD 21.3bn, a 29.7% yoy increase. 9M FDI disbursement was USD 12.5 bn, a 13.4% yoy increase.
- FDI quality continues to improve with nearly half going into processing and manufacturing operations.
- 9M FII was USD 4.2 bn, a 64% yoy increase; however, reversal remains a risk based on the US Fed's balance sheet normalization and monetary tightening plans.
- There has been a notable increase in FDI into the production and distribution of power in 2017, which reached USD 5.4 bn year to date.
- The balance of payments saw a surplus of USD 1.06 bn at the end of 9M, with a surplus of USD 0.25 bn in the current account and a surplus of USD 2.74bn in the capital account with the latter being driven by strong inflows of FDI and FII.

FDI (2010-2017)
(Source: GSO)



FDI Structure 9M2017
(Source: SBV, VCB)



Macroeconomic Summary

- Vietnam's economy is accelerating, driven by FDI-led export-oriented manufacturing as well as a thriving service sector.
- Robust FDI inflows are driving investment and also spilling over into consumption through job-creation and wage growth (FDI workers earn a significant premium to their counterparts employed by domestic companies).
- The high growth in 3Q GDP was driven by: (1) Rebound in Agricultural production, and (2) Robust growth in the Manufacturing sector, driven partly by Formosa and Samsung factories.
- High growth momentum should reduce risks posed by fiscal deficit and public debt. Besides, successful Government bond issuances could help restructuring of existing debts by increasing average debt term and lowering debt service costs; on the flip side, however, this could detract from the privatization momentum.
- Core inflation has started to increase and is likely to rise at a higher pace in the next 2 quarters, due to loose monetary policy and rising aggregate demand, as well as a recovery in prices of oil and other commodities; interest rate hikes in 2018 are quite likely.
- Stable current account balance is ensuring currency stability, for now but impact of QE reversals and monetary policy tightening by the FED remains to be seen; record high forex reserves provide ammunition to combat future currency pressures.

Source: GSO

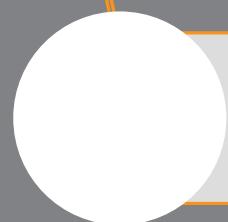
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Macroeconomic update



Stock market review



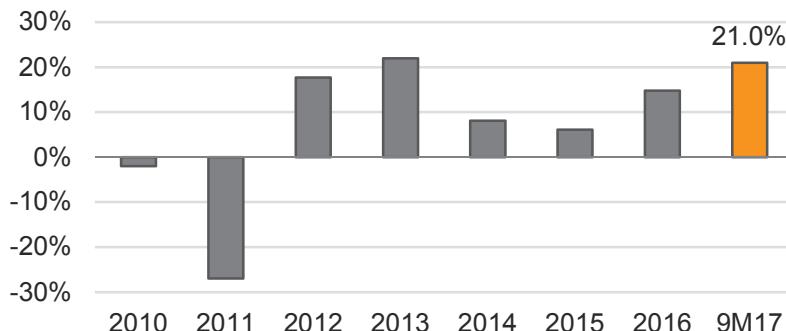
Highlighted sectors & Stock picks





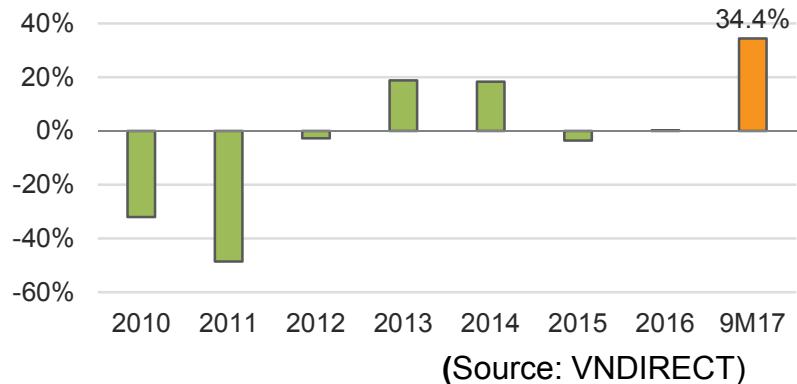
Stock market 3Q17 – VNINDEX broke through the 800pts psychological barrier

VNINDEX's performance history 2010-2017
(YTD Change) (Source: VNDIRECT)

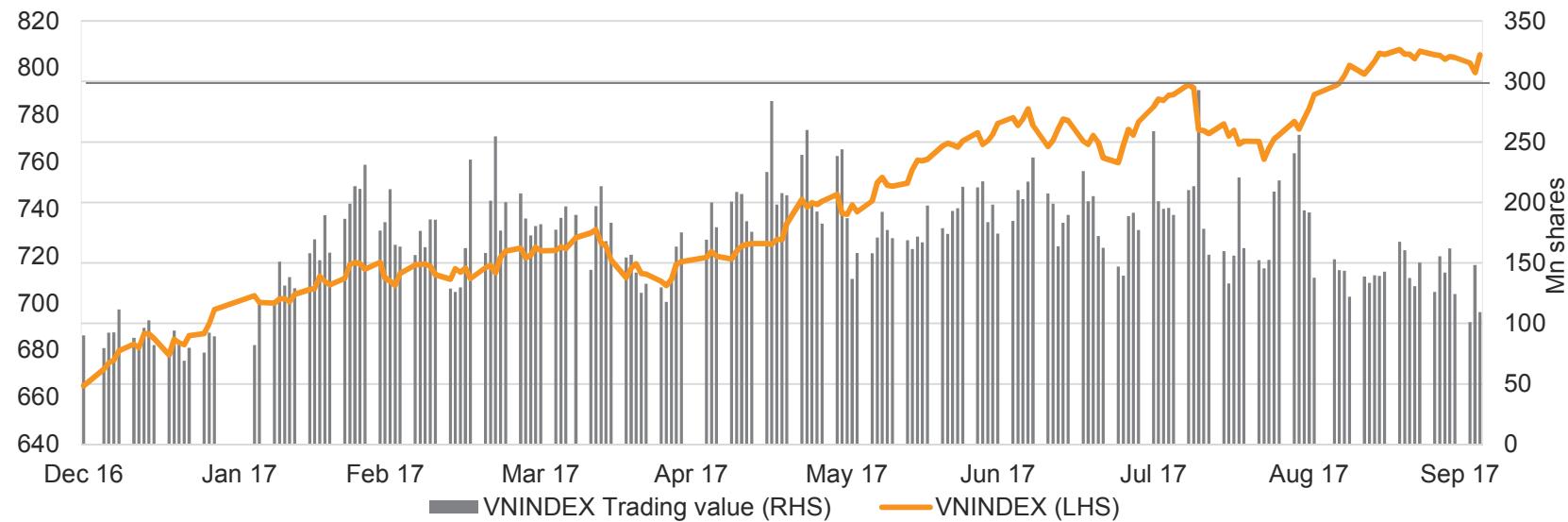


VNINDEX 2017 performance

HNX INDEX's performance history 2010-2017
(YTD Change) (Source: VNDIRECT)



(Source: VNDIRECT)

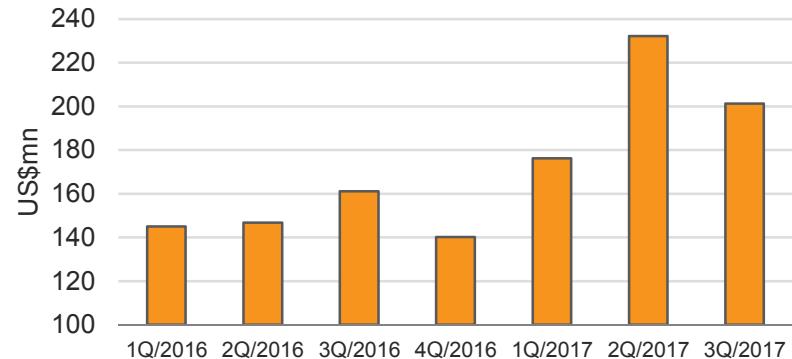




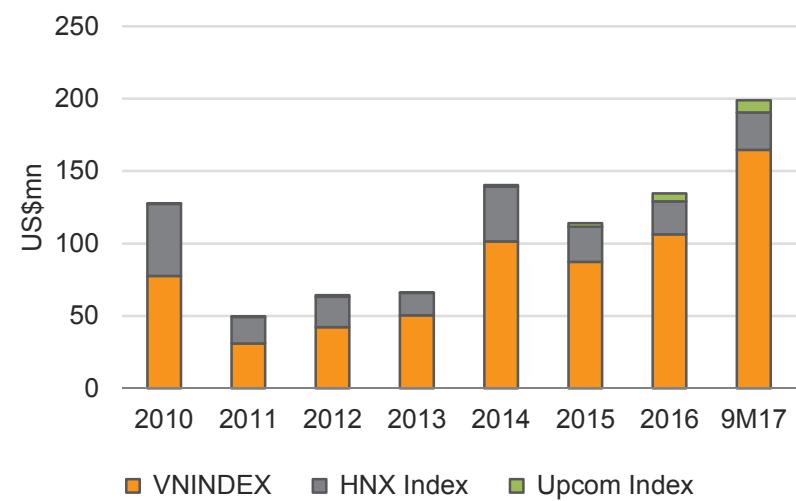
Market liquidity decreased vs 2Q but still very healthy

- Total market average daily trading value (including HSX, HNX and UPCOM) touched VND4.58trl (US\$201mn) in 3Q, down 12% on 2Q's figures but still up 36% yoy.
- Over the period 9M2017, average daily trading value touched **VND4.52trl (US\$198mn)** (+46% yoy).
- Total market capitalization reached **US\$121bn** (+41.7% YTD), equivalent to **61.3% GDP** versus just **38.5% GDP** at the same time last year. The rise in market size was partly facilitated by **US\$16bn** worth of new listings during 9M2017,

Average daily trading value by quarter
(Source: VNDIRECT calculation)

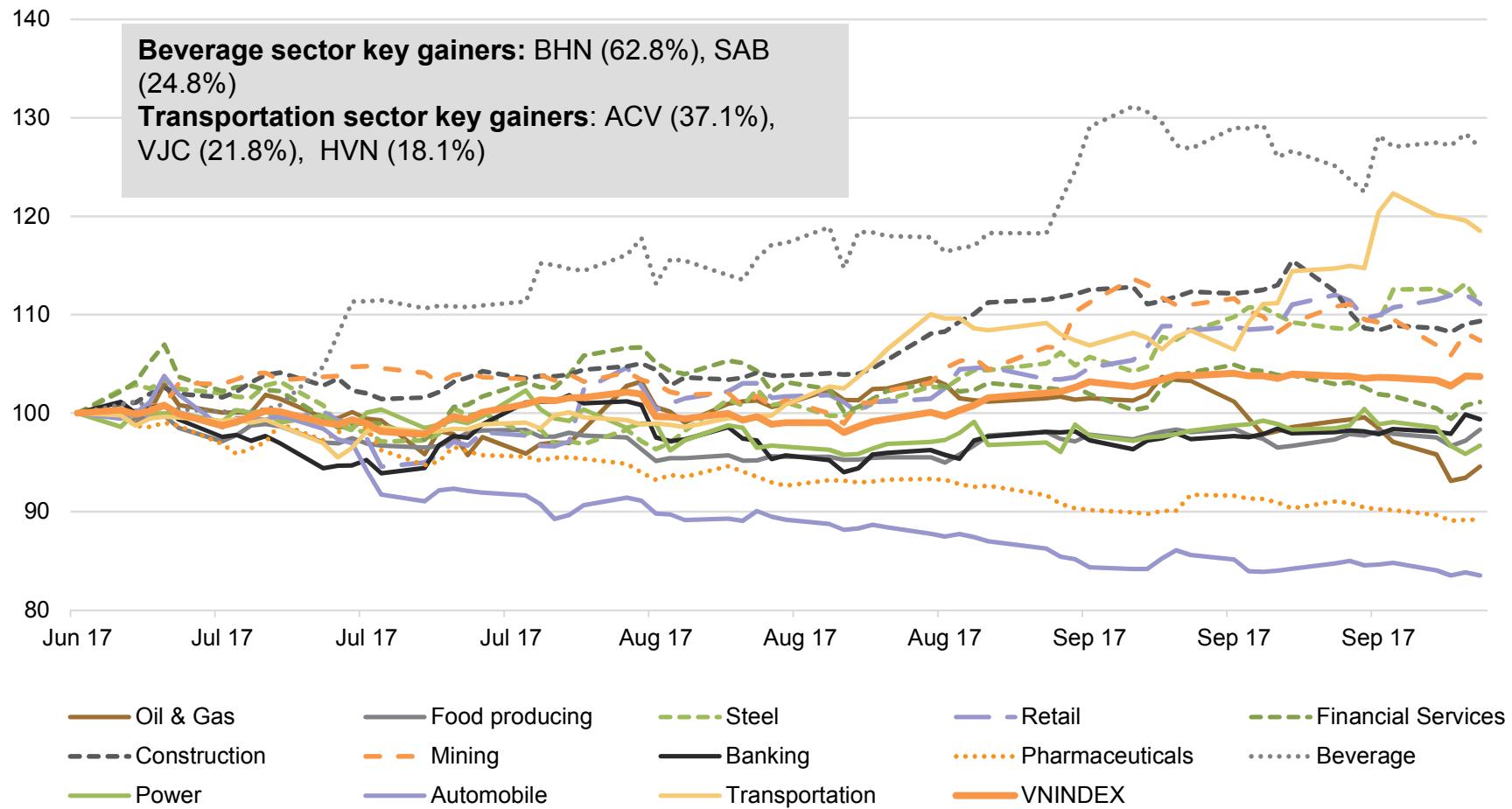


Average daily trading value by year
(Source: VNDIRECT calculation)



Q3 performance by sector – Beverage and Transportation stocks outperformed partly thanks to landmark new listings

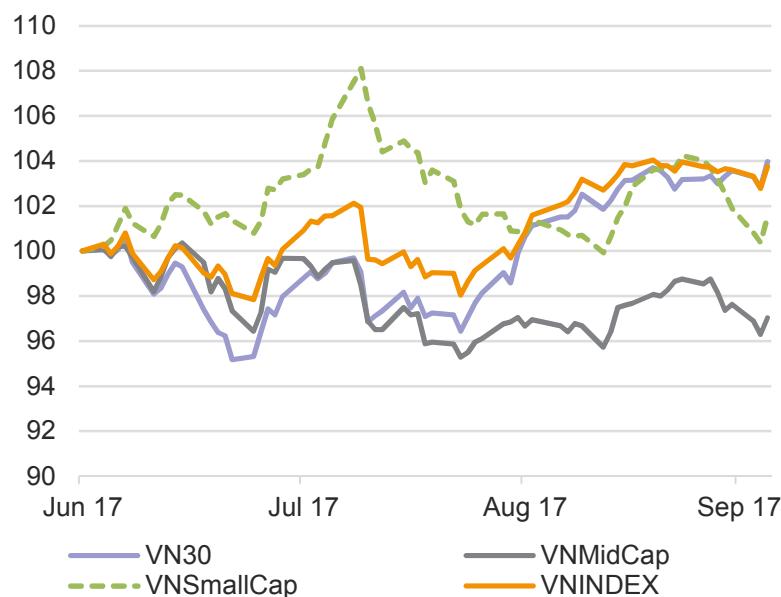
Sectors and Index performance in 3Q17 (30/06/2017 = 100)



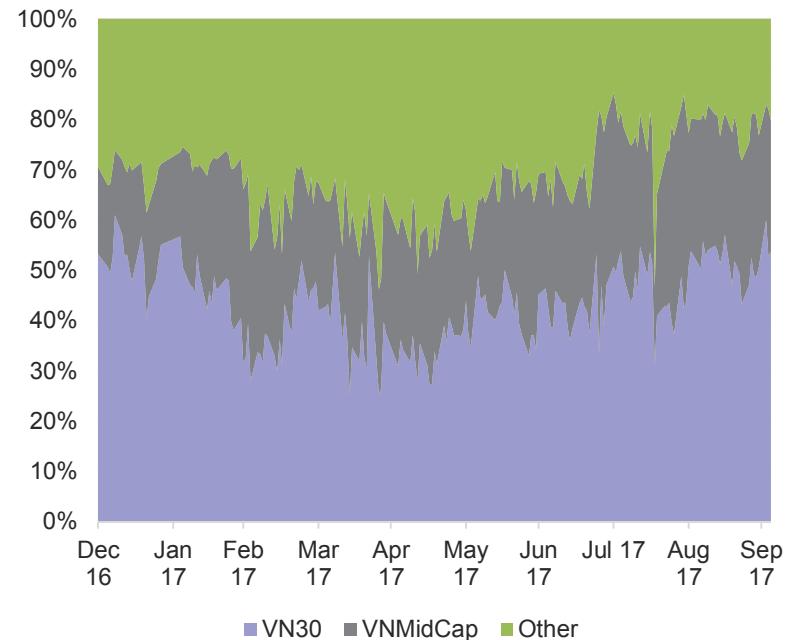


3Q market anatomy – money chased the large caps

Performance by market cap on HOSE 3Q2017



Trading value by market cap on HOSE

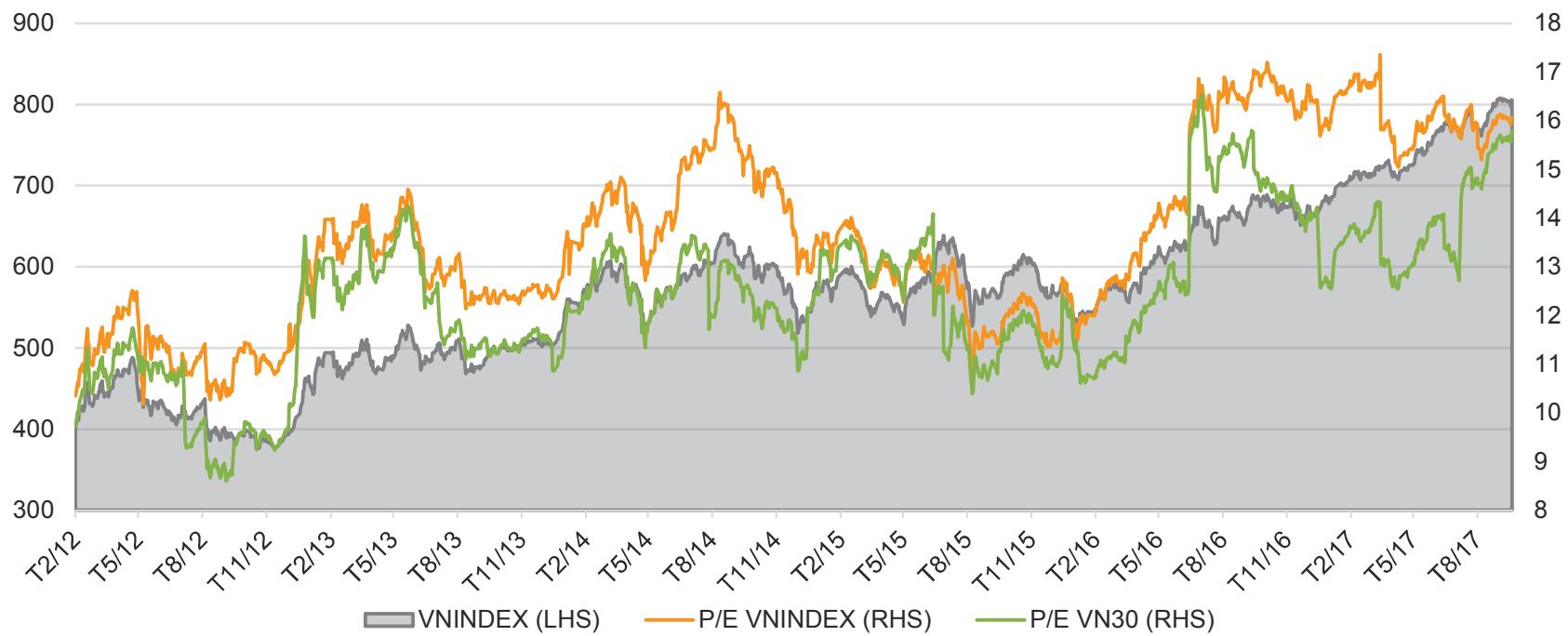


- Speculative money flowed into penny stocks as HAI, FIT, HAR, QCG making small caps strongly outperform the index during the first half of the year.
- Small and mid cap stocks corrected starting mid-July while VN30 and large caps continued to support the Index.
- Beside impressive performance from familiar bluechips (VNM +22%YTD, VIC +22%YTD, MSN +33.5%YTD, HPG +44%YTD), newly listed large caps made a major contribution to the VNINDEX (PLX +35%, VJC +43% versus their listing price; SAB +31% YTD).



Market valuation is at a 5-year high; earnings growth is key

VNINDEX movement and historical P/E (TTM)



- P/E ratio of VNINDEX and VN30 are now at 5-year high (TTM P/E of VNINDEX = 16.1x, TTM P/E of VN30 = 15.6x), thus the market's short-term correction risk has risen significantly. The possibility of further increases of the index will rely on the 3Q17 earning results as a further multiple expansion can be ruled out.

Stock market outlook in 4Q 2017 – short-term correction risk is rising

Short term corrections are possible in the first half of 4Q 2017. Longer-term investors can take advantage of market corrections to buy stocks with good fundamentals and earnings momentum into 2018 and beyond.

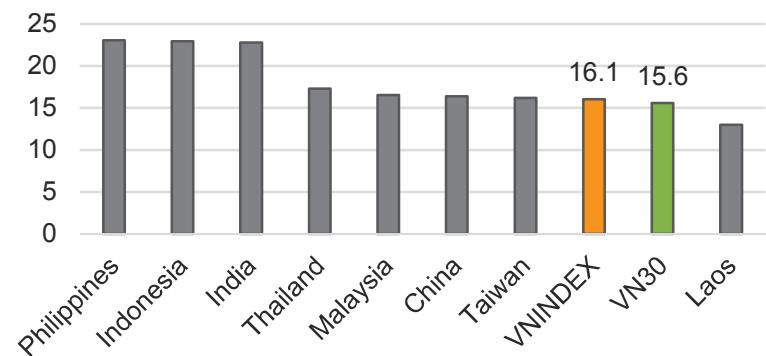
Positives

- Vietnam's GDP grew by 7.46% in 3Q 2017. Vietnam can achieve the full-year GDP growth target of 6.7%.
- The Government continues to push reforms to improve the business environment but improving fiscal position might slow privatization drive.
- Nonetheless, the Government is trying to accelerate the IPO process for SOEs in 4Q 2017. Big IPOs expected in 4Q 2017 are: BSR, IDICO, PVPOWER, PVOIL, THALEXIM.
- For now, progress continues on state divestment from VNM, SAB, BHN, BMP, BMI, FPT.
- Listed companies realized earnings growth of 27% yoy over the period 6M2017; we forecast earnings growth of around 20% for 2017 across our coverage universe.

Negatives/ Risk factors

- Monetary policy loosening might reverse towards end of 2017 as inflation picks up and GDP growth target is met.
- Profit taking activities may kick in following strong 2017 rally.
- Market valuation is not cheap anymore: P/E VNINDEX of 16.1x and VN30 of 15.6x, represent only a 13% discount to the regional average.

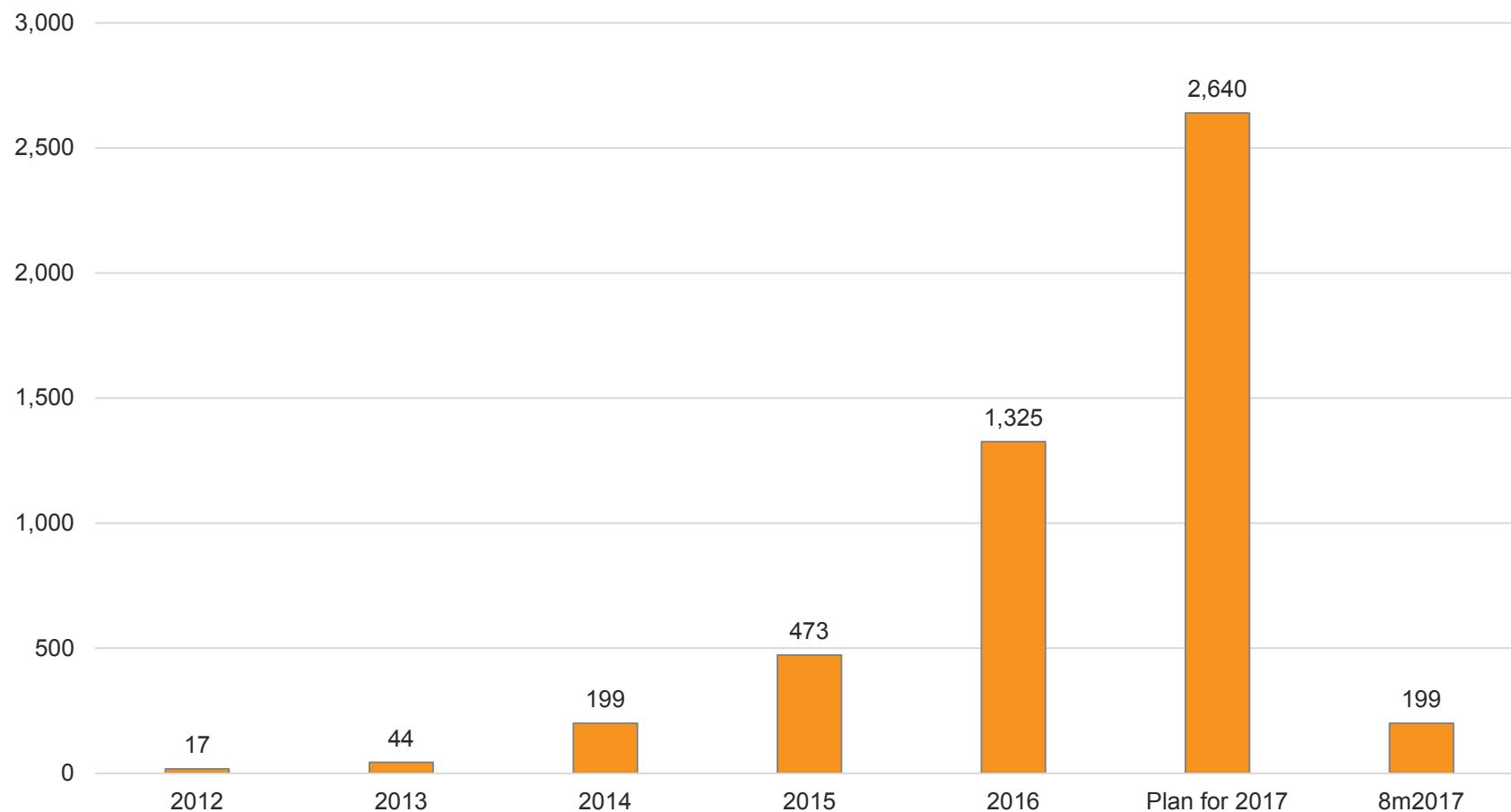
P/E of Vietnam and some regional peers (TTM)
(Source: Bloomberg)



Equitization and divestment of SOEs: Q4 might witness a scramble to meet full year targets

Value of divestment from state-owned enterprises

(Source: MoF) (US\$mn)





Divestment and IPOs of SOEs are expected to accelerate in 4Q 2017, further deepening the equity market

Upcoming IPOs in Q4/2017 and 2018

SOE	IPO (%)	Financial data 2016						Total assets (VNDbn)	Stockholders' equity (VNDbn)	ROA (%)	ROE (%)
		Revenue (VNDbn)	Revenue growth (%)	NPAT (VNDbn)	NPAT growth (%)						
BSR	5-6	73,686	-22.7	4,436	-27.2	62,690	32,573	7.3	13.9		
PVOIL*	6-10	50,910	-23.2	674	Na	20,445	9,912	2.8	6.4		
GENCO 3	na	35,942	27.6	281	38.1	85,590	8,673	0.3	2.8		
PVPOWER	20	28,212	21.4	1,517	-40.7	69,732	26,797	1.5	4.1		
VICEM	Na	26,529	8.4	2,932	24.8	44,630	19,468	6.0	13.0		
VINAFOOD2*	22.95	22,751	-13.6	-9	na	11,013	4,124	Na	Na		
SONGDA*	18.82	17,032	3.4	452	242.4	31,665	7,862	1.5	7.5		
VNRG	11.8	15,694	3.9	2,808	45.1	70,137	45,569	3.6	5.5		
THALEXIM	5%	6,624	-51.8	90	113.3	6,062	1,929	1.4	4.9		
HUD*	23.69	6,553	11.4	459	105.0	15,003	4,062	2.6	9.6		
IDICO	18.44	4,423	-4.1	449	66.4	12,518	3,524	3.0	11.5		

* Financial data 2015

IDICO, THALEXIM, VINAFOOD2, VNRG, PVPOWER, PVOIL plan to equitise in 4Q 2017. Total IPO size of these SOEs is expected at nearly **USD842mn**.

Some potential IPOs planned for 4Q 2017

- **Binh Son Refining and Petrochemical Company Limited (BSR):** BSR owns Dung Quat refinery, which is the first oil refinery in Vietnam. BSR plans to sell 5-6% of its shares in an initial public offering on 7th November; starting price expected at 14,600VND/share. BSR also plans to sell an additional 49% stake to strategic investors in 2018.
- **IDICO Urban and Industrial Zone Development Corporation (IDICO):** IDICO has invested and developed projects in industrial zones, urban and residential areas, hydropower plants, resorts and hotels in Vietnam. IDICO completed the sale of 18.44% stake at an average price of 23,940VND/share (nearly 50% higher than starting price) in an initial public offering on 5th October. Besides, IDICO plans to sell an additional 45% stake to strategic investors and 0.56% stake to employees, thus reducing state-ownership to 36%.
- **PV Oil Vietnam Oil Corporation (PVOIL):** PVOil operates in the fields of crude oil export-import and trading and petroleum product processing, trading and distribution. PVOil plans to sell 20% of its shares in an initial public offering in 4Q 2017; starting price expected at 14,300VND/share. PVOil also plans to sell an additional 44.7% stake to strategic investors and 0.2% stake to employees, thus reducing state-ownership to 35.1%.
- **Petro Vietnam Power Corporation (PVPOWER):** PVPOWER operates in the field of power generation. PVPOWER plans to sell 20% of its shares in an initial public offering in December 2017; starting price expected at 14,329VND/share. PVPOWER also plans to sell an additional 28.882% stake to strategic investors and 0.118% stake to employees, thus reducing state-ownership to 51%.
- **Thanh Le General Import – Export Trading Corporation (Thalexim):** THALEXIM operates in the field of petroleum product processing. THALEXIM plans to sell 5% of its shares in an initial public offering on 31th October 2017; starting price expected at 10,600VND/share. THALEXIM also plans to sell an additional 45.55% stake to strategic investors and 0.45% stake to employees, thus reducing state-ownership to 49%.
- **Vietnam Rubber Group (VRG):** VRG operates in the fields of planting, maintaining, exploiting and processing rubber. VRG plans to sell 11.88% of its shares in an initial public offering in 4Q 2017; starting price expected at 13,000VND/share. Also plans to sell another 11.88% stake to strategic investors and 1.24% stake to employees.

 Vietnam is planning to divest 406 SOEs by 2020, with 135 expected to be completed within 2017 alone

Financial data of 2016									
SOE	Sector	Revenue (VNDbn)	Revenue growth (%)	NPAT (VNDbn)	NPAT growth (%)	Total assets (VNDbn)	Stockholders' equity (VNDbn)	ROA (%)	ROE (%)
ACV	Aviation	14,650	11.2	5290	201.8	46,942	24,333	10.1	22.4
BHN	F&B	9,996	3.7	796	-16.3	9,781	6,538	5.6	16.0
BMI	Insurance	3,375	7.5	182	41.1	5,126	2,171	3.6	8.2
BMP	Materials	3,678	18.5	627	20.9	2,891	2,297	23.5	29.1
CC1	Construction	6,584	17.7	211	-29.1	9,399	1,769	0.8	4.0
DIG	Real Estate	1,152	75.9	66	375.3	5,876	2,798	1.5	3.2
DVN	Pharmaceutical	6,036	-17.1	662	89.1	6,898	3,671	9.4	17.9
FICO*	Materials	5,458	-6.2	97	-7.4	5,109	1,661	1.4	4.4
FPT	IT	39,531	4.1	2575	5.7	29,833	11,448	7.3	17.7
HAN	Construction	3,884	1.0	109	-3.7	8,984	1,635	1.2	5.8
HND	Utilities	9,157	0.5	287	-26.6	17,103	4,709	1.6	6.0
HVN	Aviation	70,089	6.3	2105	161.2	96,480	15,296	2.2	14.5
KTL	Steel	927	-3.8	59	-1.0	1,199	332	4.7	18.8
MIE	Industrial Machinery	2,143	-5.6	0	-99.4	2,143	1,246	0.0	0.0
MTH	Water Treatment Services	208	-7.2	15	-0.9	126	106	12.0	17.7

* Financial data of 2015. Orange color indicates good business performance

 Vietnam is planning to divest 406 SOEs by 2020, with 135 expected to be completed within 2017 alone (continued)

Financial data of 2016									
SOE	Sector	Revenue (VND.bn)	Revenue growth (%)	NPAT (VND.bn)	NPAT growth (%)	Total assets (VND.bn)	Stockholder's equity (VND.bn)	ROA (%)	ROE (%)
NTP	Materials	4,354	22.4	398	8.6	3,420	1,833	11.9	22.4
PLX	Energy	123,097	-16.2	5,147	63.7	54,244	23,201	8.9	23.5
QTP	Utilities	8,738	13.4	367	Na	15,459	2,873	2.3	14.0
SAB	F&B	30,569	12.6	4,655	29.3	19,193	12,433	22.0	33.8
SEA	Fisheries	1,513	6.5	308	322.2	2,449	1,877	10.3	13.5
SGC	F&B	265	12.7	29	27.1	167	117	18.4	25.3
SNZ	Construction	3,524	10.7	582	11.5	14,436	6,266	2.7	6.2
TPU	Electrical cable	1,857	19.7	118	19.0	522	340	22.5	35.8
TVN	Steel	17,849	4.4	835	383.6	14,752	7,599	5.3	10.6
VCG	Construction	8,533	6.3	687	31.2	22,801	7,455	2.2	6.5
VEAM	Industrial Machinery	6,308	7.0	4,502	3.0	20,387	18,583	24.2	26.7
VGC	Materials	8,139	4.1	621	52.7	12,989	4,367	4.2	13.4
VGT	Textile	15,462	1.8	579	5.9	19,794	7,594	1.7	4.4
VINAWIND	Furnishings	912	7.7	64	19.0	424	203	15.7	34.0
VNM	F&B	46,794	16.8	9,364	20.5	29,379	22,406	32.9	43.2

* Financial data of 2015. Orange color indicates good business performance

Contents



Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

- Aviation – ACV, VJC

- Industrials – SBV

- Power – PC1

- Fertilizer – DCM

- Automotive

- Materials

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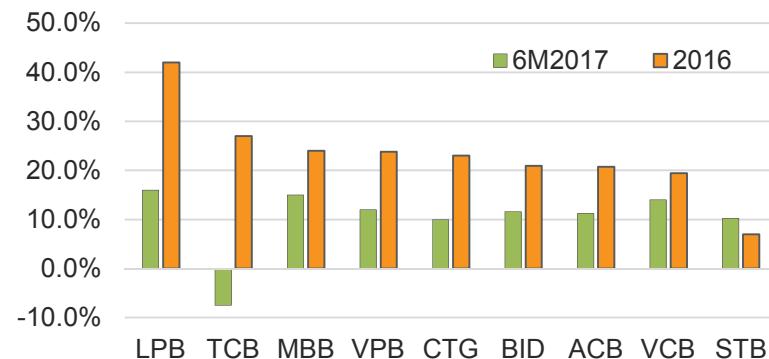
- Materials



Banking sector: 1H2017 performance rode a strong economy

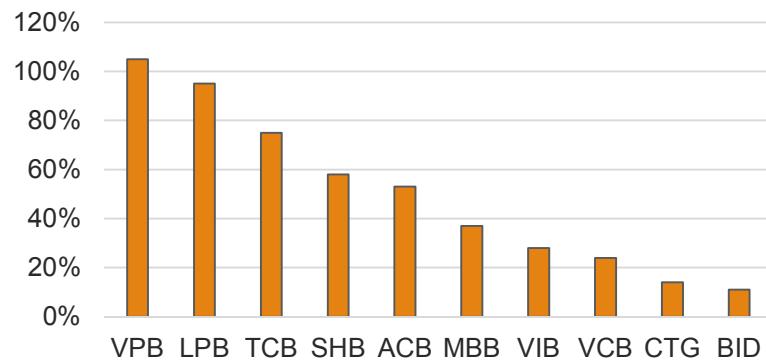
Credit growth among banks in 1H2017

Source: Stoxplus, VNDIRECT



Pre-tax profit growth in 1H2017

Source: Stoxplus, VNDIRECT



Source: Stoxplus, VNDIRECT

- Vietnam's economic growth surged in the second quarter thanks to a robust service sector.
- High growth in a low inflation environment, signals that the economy is on a firm footing . This implies that monetary policy still has enough room to support economic growth. As a result the State Bank of Vietnam (SBV) cut interest rates in early July to stimulate credit expansion.
- Several banks recorded their best ever results in 1Q2017. The top-ten banks posted an increase of 38% yoy in aggregate pre-tax profit 1H17. Top-tier banks managed to beat the system-wide trend of NIM compression owing to their lower cost of funds.



Banking sector: Potential for sustained growth

- The stable outlook for the Vietnamese banking sector in 2017 is premised on the country's steady GDP growth, driven by FDI inflows as well as improving business confidence.
- We believe Vietnam might be able to deliver 16% - 18% credit growth over the next few years based on the following:
 - (1) credit growth has recently been driven more by private businesses and consumers, both of which still have ample room to grow; consumer and small-business confidence remain high.
 - (2) Economic growth, policy focus and banks' own strategy should support SME credit appetite.
 - (3) the Basel 2 implementation deadline delay to 2020 allows more time for banks to prepare themselves.
- Asset quality risks mitigated by a shift away from SOE loans to retail loans. Bank's outstanding loan exposure to SOEs fell to 16% at end-2016 from 25% at end-2012.
- New resolution tackling bad debts to confer lenders with more power in collecting and selling collateral under book value should enable faster resolution of legacy NPL.
- Some banks have started to repurchase bad debt from VAMC to handle in-house, thereby signaling an improvement in their financial capacities and ability to restructure bad debt.

Banking sector: Focus on fundamentals

Sector comparative multiples

Source: Stoxplus, VNDIRECT

Banks	Tickers	Exchange	Market Cap VND bn	ROA FY16	ROE FY16	P/B Curr.	P/E Curr.	P/B FY17	P/E FY17
Vietcombank	VCB	HOSE	139,234	0.9%	14.7%	2.7x	18.3x	2.5x	20.6x
Vietinbank	CTG	HOSE	70,372	0.8%	11.8%	1.2x	9.6x	1.1x	11.9x
BIDV	BID	HOSE	68,032	0.7%	14.9%	1.5x	11.0x	1.4x	13.7x
VP Bank	VPB	HOSE	51,878	1.9%	25.8%	2.0x	9.6x	2.0x	8.5x
Military Bank	MBB	HOSE	39,744	1.2%	12.0%	1.5x	11.4x	1.4x	12.6x
Techcombank (*)	TCB	OTC	35,512	1.5%	17.5%	1.6x	8.6x	1.6x	8.6x
Asia Commercial Bank	ACB	HNX	30,070	0.6%	9.9%	2.1x	18.3x	1.9x	21.3x
Sacombank	STB	HOSE	21,824	0.1%	1.6%	1.0x	45.0x	1.0x	58.2x
Eximbank	EIB	HOSE	14,753	0.2%	2.3%	1.1x	25.7x	1.1x	25.7x
VIB Bank	VIB	UPCOM	12,079	0.6%	6.5%	1.4x	19.3x	1.3x	11.8x
LienVietPostBank	LPB	UPCOM	8,915	0.9%	13.3%	1.0x	6.4x	1.0x	7.9x
Saigon-HN Bank	SHB	HNX	8,954	0.4%	7.5%	0.6x	7.4x	0.6x	7.4x
Average				0.8%	11.5%	1.5x	15.9x	1.4x	17.4x
Median				0.8%	11.9%	1.5x	11.2x	1.4x	12.3x

(*) TCB's share price is referred from OTC market

Focus on banks with:

- Good exposure and good capability to grow into retail and SME which we expect to continue to be key growth segments,
- Better capital ratios and/or a relatively good chance of being recapitalized in the future.
- Banks which aggressively made provisions in the past.

Source: Company data, VNDIRECT



Military Joint Stock Commercial Bank (MBB)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND22,200	VND25,000	2.7%	ADD	BANKING

Stock info

Market cap (VND bn)	40,105
Daily value 30 day (VNDbn)	106.0
Foreign room (%)	0.0
State ownership (%)	54.3
P/B Curr. (x)	1.5
P/E TTM (x)	11.5

Key ratios	2016A	2017E	2018E
NP growth (%)	16.7	29.0	15.0
EPS growth (%)	-10.3	24.8	15.0
NIM (%)	3.5	3.6	3.7
CIR (%)	42.4	40.0	40.2
NPL (%)	1.3	1.2	1.3
ROAE (%)	12.2	14.1	14.7
ROAA (%)	1.2	1.4	1.4

INVESTMENT HIGHLIGHTS

- Founded in 1994, MBB is the fifth largest bank in term of assets.
- **More visible growth.** Relatively superior capital position (CAR 12.5%) and sufficient liquidity (LDR 77.4%) will support strong credit growth in the next few years. With the distinct advantage of low cost of funds due to a high CASA ratio along with focus on individual loans, the bank is positioned to expand its NIM.
- **New CEO with new ambitious targets:** an increase of 24% yoy in FY2017's pre-tax profit target; targeted completion of repurchase of all bad debts from VAMC by 2018-mid; and improving ROE to above 15% in the next 3 years.
- **Not immune, but can navigate challenges that sector will face in FY18.** Low LDR gives the bank some funding flexibility. Meanwhile, healthy asset quality (NPL 1.3%; LLR 103%) will help to cut down provision related-expenses in coming years.
- **We recommend an ADD on MBB with a 25,000/share target price** (after bonus share issuance) based on 1.6x of forecasted FY17 year-end book value. With an improving growth profile, MBB deserves to trade broadly in line with its industry peers if not at a premium, in our view.



LienVietBank
NGÂN HÀNG LIÊN VIỆT

Lien Viet Post Bank (LPB)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND12,600	VND17,200	2.9%	ADD	BANKING

Stock info

Market cap (VND bn)	8,790
Daily value 30 day (VNDbn)	N/A
Foreign room (%)	5.0
State ownership (%)	15.1
P/B Curr. (x)	1.0
P/E TTM (x)	6.5

Key ratios	2016A	2017E	2018E
NP growth (%)	203.8	27.8	21.1
EPS growth (%)	201.9	18.3	12.7
NIM (%)	3.5	3.7	3.7
CIR (%)	52.5	52.5	52.2
NPL (%)	1.08	1.16	1.18
ROAE (%)	13.3	14.7	15.3
ROAA (%)	0.9	0.9	1.0

INVESTMENT HIGHLIGHTS

- Founded in 2008, LPB ranked the 13th in term of assets. The bank listed on UPCOM on Oct 5th 2017.
- **Superior retail network.** With the right to access more than 1,000 postal transaction offices (PTOs) and 10,000 transaction points nationwide. LPB is considered the only private JSC bank that has a presence in all cities and provinces, especially in remote areas.
- **Credit growth to remain strong.** Relatively strong capital buffer (CAR ~13.2% at 2016-end) and strong liquidity (LDR ~ 79% at 1Q2017-end) should allow higher-than-industry-average loan growth in the next few years.
- **Higher-than-average profitability.** LPB posted 13.3% ROAE and 0.85% ROAA for FY16, higher than the average ROAE of 11.5% and ROAA of 0.8% for the top 12 banks.
- **Attractive valuation:** LPB is being traded on the OTC market around about VND13,500/share, equivalent to 1.0x of forecasted FY17 year-end book value, relatively cheap versus peers. Given our expectation of strong growth into 4QFY17 and beyond, we believe LVB deserves to trade broadly in line with peers. Our target price equates to a target P/B of 1.3x and represents a 27% upside.

Vietcombank (VCB)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND39,900	VND43,100	2.1%	HOLD	BANKING

Stock info

Market cap (VND bn)	142,447
Daily value 30 day (VNDbn)	32.6
Foreign room (%)	9.3
State ownership (%)	77.1
P/B Curr. (x)	2.6
P/E TTM (x)	18.7

Key ratios	2016A	2017E	2018E
NP growth (%)	28.5	20.7	17.4
EPS growth (%)	30.3	23.1	17.4
NIM (%)	2.6	2.8	2.8
CIR (%)	40.0	41.6	41.0
NPL (%)	1.5	1.5	1.6
ROAE (%)	14.7	15.0	15.3
ROAA (%)	0.9	0.9	1.0

INVESTMENT HIGHLIGHTS

- Found in 1963, VCB is the third largest bank in term of assets. The bank was equitized in 2008 and Mizuho Bank (Japan) became its strategic investor with 15% since 2009.
- **Strong position** with 9% of lending market share, leading position in trade finance, domestic settlements and card issuance.
- **VCB is the best Vietnamese bank in terms of asset quality** with a NPL ratio of 1.5%, LLR of 129%. It is also the first local bank to have completely written down the bad debts transferred to VAMC. Hence, we believe VCB can lower its provisioning rates from 1.5-1.8% (during 2011-16) to 1.1-1.2% of loan balance in FY17-19F, which will allow the bank to achieve steady profit growth while building up its loan loss reserves.
- **NIM expansion might be supported by rising share of higher yield retail lending in the total lending mix.** VCB plans to grow its retail lending at around 40% per year and push its retail lending to 50% of the loan book by 2020 (from 34% currently).
- **We maintain HOLD on VCB** with target price of VND43,100/share, translating into 2.8x of forecasted FY17 book value.

Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

- Aviation – ACV, VJC

- Industrials – SBV

- Power – PC1

- Fertilizer – DCM

- Automotive

- Materials



Quang Ngai Sugar Joint Stock Company (QNS)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND65,100	VND85,400	0.8%	ADD	CONSUMER
Stock info				
Market cap (VND bn)	15,891			
Daily value 30 day (VNDbn)	60.7			
Foreign room (%)	7.6			
State ownership (%)	0.0			
P/B Curr. (x)	4.0			
P/E TTM (x)	11.3			
Key ratios	2016A	2017E	2018E	
NP growth (%)	14.5	4.5	3.7	
EPS growth (%)	12.3	-19.6	1.3	
GPM (%)	33.1	32.9	33.0	
Asset turnover (x)	1.2	1.2	1.1	
Financial leverage (x)	1.7	1.5	1.4	
ROAE (%)	24.9	22.3	21.1	
ROAA (%)	43.2	33.2	29.1	

INVESTMENT HIGHLIGHTS

- **QNS is a dominant player in the soymilk category with 84% share of the branded segment.** The company experienced a robust CAGR FY12-15 of 34% and 42.3% in sales and EBT, respectively.
- **1H2017 share price fell on sluggish performance.** QNS posted a +17.8% yoy rise in revenue but saw a 0.3% yoy fall in net profit due to the following factors: (1) soy milk GM plunged to 33.3% from 36.3% in 1H2016 as the company had to ramp-up sales promotions which lowered ASP; (2) though sugar sale volumes improved by 15% yoy, higher depreciation cost (84% yoy) dragged on earnings.
- **2018 could be a challenging year** with multiple headwinds including (1) intensifying competition as foreign brands such as Vitasoy, Homesoy have just entered; QNS' product portfolio is not diversified; (2) tariffs on ASEAN imported sugar will fall to zero after 2018.
- **However valuation has turned attractive with PE FY18 of 10.2x.** We lower our target price from the previous VND95,600/share to 85,400VND/share based on a PE multiple of 16x (previously 19x) for the soymilk segment (a discount 20% to VNM and Vitasoy) and PE of 8x for other businesses. We believe QNS could be an alternative to other consumer blue chips which are maxed out on FOL.

Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

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Aviation: Many more people will take to the skies

Emerging middle-income population

According to the Boston Consulting Group, the middle and affluent class population of Vietnam could reach 33mn by 2020, triple the 2012 level.

Reason: Rising income per capita level, possibly from US\$2,200 to US\$3,400 by 2020.

Implications: Increasing demand for quality-of-life-enhancing services such as education, food, travel.

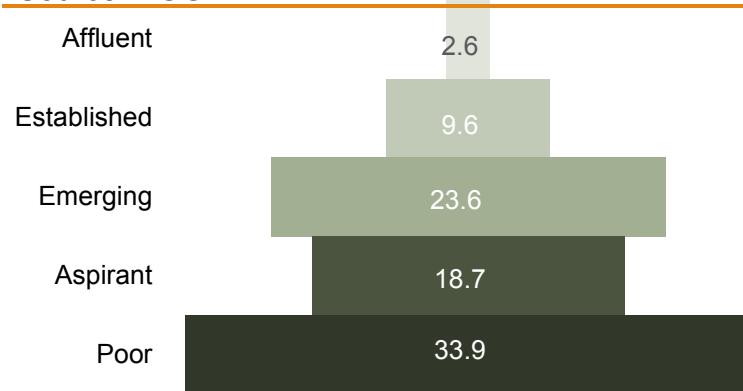
This transition remains the main growth driver for air passenger traffic over the next several years.

Favorable conditions:

- Vietnam has great combination of high GPD per capita growth rate, low air travel penetration and rapidly improving aviation infrastructure. As a result, Vietnam's RPK's per capita (286) is catching up to regional peers' such as Indonesia (385), Thailand (1,365), and Malaysia (3,229) but with plenty of room for growth. For 1H2017, total passenger traffic was 30.3mn, +19.5% yoy.
- Growth in international tourist arrivals has been robust at 9.5% per year for the last five years, the second highest level in Southeast Asia after the Philippines
- Domestic tourism is also booming with total arrivals growing at 16% CAGR from 2011 to 2016 as rising disposable income, dropping fares and improving tourism infrastructure are improving access

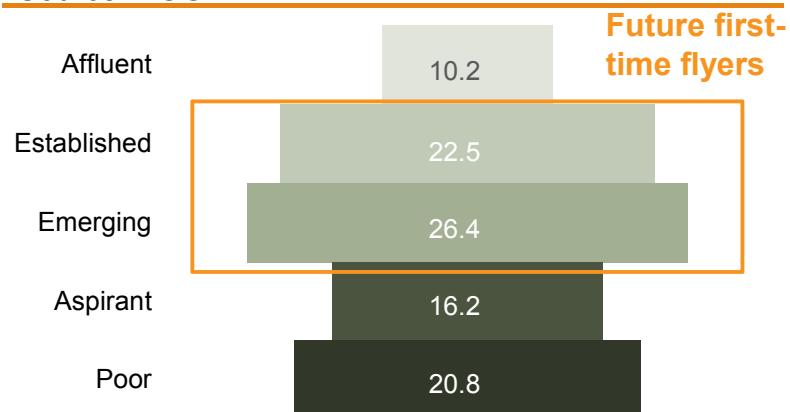
MAC population 2012, mn

Source: BCG



MAC population 2020, mn

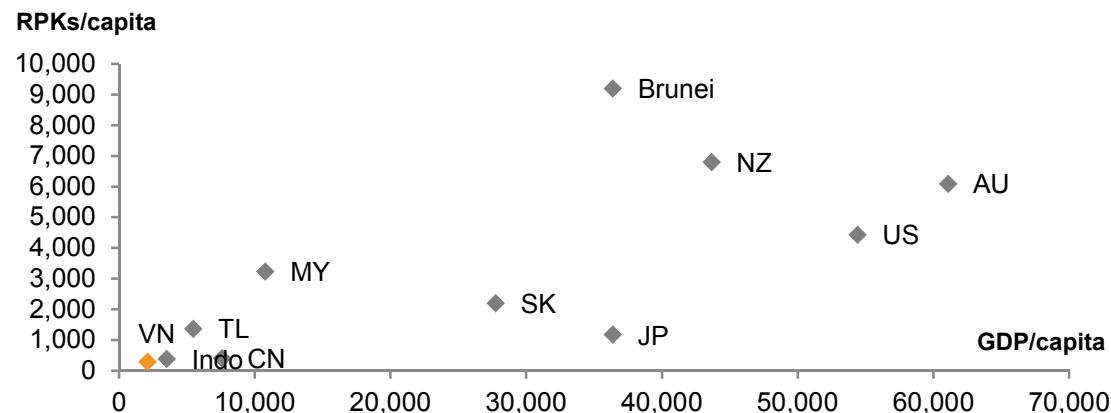
Source: BCG



Aviation: Rising domestic penetration and foreign arrivals

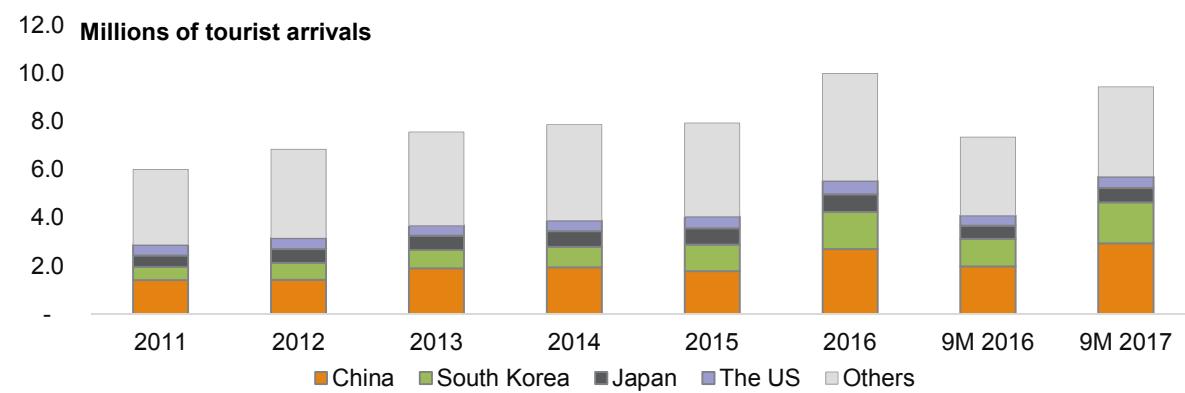
Vietnam's air travel penetration still has plenty of room to grow

Source: VJC, VNDIRECT analysis



Vietnam is becoming a popular tourist destination especially among North East Asian travelers

Source: GSO, VNDIRECT analysis





Airports Corporation of Vietnam (ACV)

Current Price	Target Price	Dividend Yield	Recommendation	Industry
VND68,500	VND83,700	2.7%	ADD	AVIATION
Stock info				
Market cap (VND bn)	150,032			
Daily value 30 day (VNDbn)	6.7			
Foreign room (%)	49.0			
State ownership (%)	95.0			
P/B TTM (x)	6.2			
P/E TTM (x)	31.2			
Key ratios				
	2016A	2017E	2018E	
NP growth (%)	201.8	-28.9	59.0	
EPS growth (%)	134.4	-28.9	59.0	
GPM (%)	39.8	39.5	46.4	
Asset turnover (x)	0.3	0.4	0.5	
Financial leverage (x)	2.1	1.9	1.9	
ROAE (%)	23.1	15.1	23.5	
ROAA (%)	11.1	7.7	12.0	

INVESTMENT HIGHLIGHTS

- Increase in passenger traffic of 15% yoy expected, on average, for the next 2-3 years** due to: 1) intensifying competition among carriers leading to competitive ticket prices; 2) rising incomes and 3) airport infrastructure upgrades. For the last 3 years, passenger traffic has grown at 22.5% yoy on average.
- Rise in passenger service fees** by 1.8% yoy for 2017 and by 22.7% yoy in 2018, leading to improvement in gross margin of 6.7% pts to touch 43.6%. The fare hike could add VND1,000bn to 2018 NPAT.
- FY17 NPAT to fall despite strong revenue growth due to 2016 high-base effect:** Expected revenue of VND17,021bn (+16.2% yoy), NPAT of VND3,761bn (-28.9% yoy) due to: 1) the reversal of prepaid expenses of VND2,424bn in 2016 which inflated NPAT in that year; 2) increased depreciation expenses associated with maintenance and expansion of Noi Bai, Phu Quoc, and Phu Cat airports.
- FY18 NPAT to skyrocket** thanks to a sharp increase in domestic passenger fees from VND63,941/pax to VND91,250/pax. NPAT is expected to touch VND5,979bn (+59% yoy)
- Risks:** 1) FX rate risk due to JPY borrowings worth approximately JPY72bn ; 2) limited free float.
- Valuation looks attractive:** ACV is trading at a 2018 EV/EBITDA of 11.1x. As a monopoly in a fast-growing aviation market, we think the stock should trade at an 2018 EV/EBITDA of 15.0x.



Vietjet Air JSC (VJC)

Current Price	Target Price	Dividend Yield	Recommendation	Industry
VND109,000	VND139,600	1.5%	ADD	AVIATION
Stock info				
Market cap (VND bn)	47,391			
Daily value 30 day (VNDbn)	35.5			
Foreign room (%)	5.0			
State ownership (%)	0.0			
P/B TTM (x)	10.2			
P/E TTM (x)	17.6			
Key ratios				
	2016A	2017E	2018E	
NP growth (%)	95.6	141.5	32.6	
EPS growth (%)	93.5	-23.7	8.5	
GPM (%)	12.7	17.7	20.3	
Asset turnover (x)	1.7	1.7	1.3	
Financial leverage (x)	4.8	3.7	2.8	
ROAE (%)	68.7	77.4	55.2	
ROAA (%)	14.3	20.9	19.6	

INVESTMENT HIGHLIGHTS

- Rapid fleet expansion facilitated by SLB transactions:** VJC plans to increase its fleet size by 14 new aircraft (+39% yoy) in 2017 and 37 new aircraft (+90%) by 2019. ASKs could increase by 22.7% yoy for the next 3 years. Strong ASK growth and competitive pricing strategy will lead to RPK growth of 17-18% yoy for the next three years as Vietnam's RPK/capita is among the lowest in the region.
- Improving efficiency through deployment of new models of aircrafts:** VJC will introduce more Boeing 737 Max 200 aircrafts into its fleet, starting 2019. According to Boeing, the 737 Max 200 burns 16% less fuel compared to Airbus A320 aircraft.
- Strong revenue and NPAT growth expected for FY17:** Expected revenue of VND45,277bn (+64% yoy), NPAT of VND5,734bn (+150% yoy) due to: 1) Ancillary revenue per passenger increasing by 26% yoy, 2) Aircraft sale gains increasing by 35.6% yoy per aircraft to VND164bn in 1H2017. For FY18, we expect revenue to grow slower at 12.1% yoy to VND47,780bn due to lower aircraft sales. FY18 NPAT could reach VND7,331bn (+32.6% yoy).
- Risks:** 1) off-BS FX rate losses; 2) competition; 3) rising fuel price
- Valuation:** VJC currently trades at 2018 adj EV/EBITDAR of 5.6x. We think the stock should trade at a 2018 EV/EBITDAR 6.0x.

Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

- Aviation – ACV, VJC

- Industrials – SBV

- Power – PC1

- Fertilizer – DCM

- Automotive

- Materials



Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND48,000	VND57,487	9.3%	ADD	INDUSTRIALS
Stock info				
Market cap (VND bn)	985			
Daily value 30 day (VNDbn)	1.6			
Foreign room (%)	32.7			
State ownership (%)	0.0			
P/B TTM (x)	2.1			
P/E TTM (x)	8.6			
Key ratios	2016A	2017E	2018F	
NP growth (%)	31.8	5.1	15.5	
EPS growth (%)	31.8	5.1	15.5	
GPM (%)	42.5	41.8	41.3	
Asset turnover (x)	1.0	1.0	1.1	
Financial leverage (x)	1.6	1.3	1.3	
ROAE (%)	35.7	27.4	29.4	
ROAA (%)	21.8	20.2	22.7	

INVESTMENT HIGHLIGHTS

- **Leading the marine rope and cordage market** with a market share of 36%, which is 2.5 times the second competitor.
- **SBV has solid brand equity and a reputation for quality.** SBV's product has a premium positioning and is aspirational in nature. This confers significant pricing power and protects margins.
- **Fishermen are shifting from near-shore to offshore fishing,** which will generate demand for high quality rope, due to (1) the scarcity of near-shore fishery resources and (2) policy stimulus by the Government under the Decree 67/2014/NĐ-CP. We estimate the number of offshore vessels could increase by 10% per year over the next 4 years.
- **40% increase in production capacity in FY17Q4** will ease current capacity constraints (current utilization of 80%) and provide the foundation for continued growth.
- **Sharp oil price rises remain a risk to the downside.**
- **Attractive dividend policy.** We estimate the company could pay VND4,500 per share per year, based on the current outstanding shares. In November 2017, they will pay an advance cash dividend of VND1,500 per share and a 3:1 stock dividend.

Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

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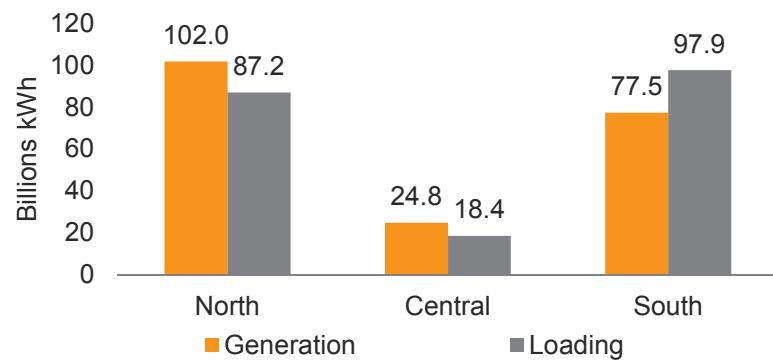
- Automotive

- Materials

Power: Huge need for transmission infrastructure upgrades to balance regional disparities

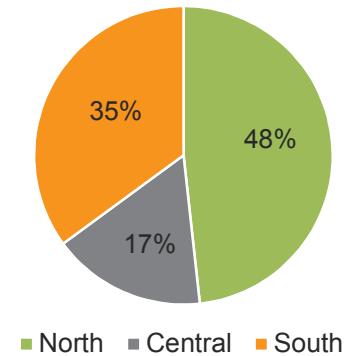
2017 power generation & loading plan by region

Source: NLDC



2017 Power generation capacity share by region

Source: EVN



- Vietnam's electricity consumption will grow at CAGR of 10-12% p.a till 2030 with 7% GDP growth p.a. assumption (according to Revised Power Development Plan VII)
- Huge regional imbalances in electricity consumption and generation capacity:
 - Southern Vietnam dominates electricity consumption, accounting for approx. 50% of nationwide total
 - Electricity consumption in the south exceeds its generation capacity by 26% according to NLDC estimates in 2017
- Electricity shortage in the South is currently covered by surplus electricity transmitted from the North and Central. However, outdated transmission infrastructure and long distances lead to high transmission losses, necessitating transmission infrastructure upgrades.



Power Construction JSC No. 1 (PC1)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND33,600	VND42,100	n/a	ADD	POWER
Stock info				
Market cap (VND bn)	3,019			
Daily value 30 day (VNDbn)	5.1			
Foreign room (%)	8.4			
State ownership (%)	0.0			
P/B TTM (x)	1.7			
P/E TTM (x)	9.9			
Key ratios	2016A	2017E	2018E	
NP growth (%)	24.0	-1.2	93.2	
EPS growth (%)	24.0	-1.2	93.2	
GPM (%)	17.5	15.3	19.1	
Asset turnover (x)	0.8	0.7	0.8	
Financial leverage (x)	2.3	2.2	2.1	
ROAE (%)	17.9	18.6	18.9	
ROAA (%)	6.7	5.0	8.2	

INVESTMENT HIGHLIGHTS

- Founded in 1963, PC1 is the market leader in power construction and engineering and has diversified into other 3 businesses. The firm was equitized in 2005.
- Market leader in industrial production:** PC1 is the only company capable of designing & manufacturing single steel poles 110kV, 220kV – 1,2,4 in the market, accounting for 40% market share with continually rising export sales. The two fully-owned steel manufacturing factories have a capacity of 50,000 tons/year.
- Dominant market presence:** 34-38% market share in transmission lines and substations engineering & construction sector with an order back-log of ~US\$159mn; advantage in bidding for construction projects located in complex terrain due to advanced equipment and good track record with EVN.
- Huge future investment expected in power transmission and distribution infrastructure:** According to the revised Power Development Plan VII, total investment for power grids development approved by the State for 2016-2020 period is US\$9.5bn and for 2021-2030 is US\$26.9bn. EVN expects an addition of 10,234km of new transmission lines in 2016-2020.



Power Construction JSC No. 1 (PC1) (continued)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND33,600	VND42,100	n/a	ADD	POWER

INVESTMENT HIGHLIGHTS

- **Expansion into hydropower to bring more stable, recurring cash flow:** with current hydro generation of 60MW, PC1 is expecting another 2 plants (54MW total) to go online in 4Q2017. Another 2 plants with a combined capacity of 48MW total will be built in 2018 and go into operation in 2019. PC1 is working towards making hydropower the second core business segment after electrical construction. Hydropower should contribute VND542bn (US\$23.9mn) of revenues in 2018 based on an assumed wholesale electricity price of VND1,100/KWh.
- **Real estate segment is expected to contribute significantly to 2018 results:** revenue from My Dinh Plaza II of VND1.1trl (US\$48.4mn) and EAT of VND216bn (US\$9.5mn) will be booked in 2018 if 100% of the apartments are sold (40% have been sold already); complete sales of apartments will be made possible by the project's favorable location in the West of Hanoi and My Dinh center - currently the project has sold 200 apartments out of the total 472 apartments.
- **Announcement of weak 2017 full year results could create an entry opportunity.** Lack of real estate revenue contribution and a rise in financial expense in 2017 will depress full year 2017 results; if the market reacts negatively to this news, this could open up the opportunity for investors to buy on the dip in preparation for strong 2018 earnings growth.

Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

- Aviation – ACV, VJC

- Industrials – SBV

- Power – PC1

- Fertilizer – DCM

- Automotive

- Materials



PetroVietnam Ca Mau Fertilizer (DCM)



Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND13,450	VND16,200	6.7%	ADD	FERTILIZER

Stock info

Market cap (VNDbn)	7,120
Daily value 30 day (VNDbn)	20.7
Foreign room (%)	46.6
State ownership (%)	75.6
P/B TTM (x)	1.2
P/E TTM (x)	8.5

Key ratios	2016A	2017E	2018F
NP growth (%)	-27.2	18.2	4.6
EPS growth (%)	-27.2	18.2	4.6
GPM (%)	26.8	28.2	27.7
Asset turnover (x)	0.4	0.5	0.5
Financial leverage (x)	2.3	2.1	1.9
ROAE (%)	10.3	12.3	12.3
ROAA (%)	5.7	7.8	8.2

INVESTMENT HIGHLIGHTS

- **A leading urea producer** with market share of 35-40% domestically and 38% in Cambodia; dominant player in the Mekong Delta region which is an agricultural powerhouse and recovering from last year's drought-induced carnage.
- **Average ROE of urea segment guaranteed at 12%** until 2018 by PVN via subsidized gas prices; this incentive provides a floor on DCM's margin compression due to rising energy prices.
- **Low income tax thanks to preferential tax scheme in the urea segment:** Ca Mau plant's urea production will enjoy a tax rate of 5% in 2016-2024 (vs. DPM's 15%), note that urea accounts for over 90% of revenue and GP.
- **Possible VAT policy change could help DCM improve gross margin by 3-4% pts.** Current VAT policy classifies fertilizers as tax-exempt goods hence producers do not receive input tax deduction, while the new VAT policy will reclassify fertilizers to taxed goods, allowing companies to receive input tax deduction, lowering production cost and boosting gross margin.
- **Government's plan to further divest 24.56% stake** within 2017-2018 could support stock price.



PetroVietnam Ca Mau Fertilizer (DCM) (continued)

Current Price	Target Price	Dividend Yield	Recommendation	Sector
VND13,450	VND16,200	6.7%	ADD	FERTILIZER

INVESTMENT HIGHLIGHTS

- **Strong recovery in 2017** from a low level in 2016 following the recovery in ASP (+6.1% YoY) and good consumption volume (+8.6% YoY).
 - Urea prices are recovering as a result of the recovery in global urea price and the easing of domestic oversupply (9M urea import volume -22.4% YoY).
 - Higher demand due to more favorable weather conditions this year versus severe drought last year.
 - Flooding this year has impacted the North but not the South which is DCM's stronghold.
- **Steady growth in 2018** driven by mild recovery in urea price, while government supports continue.
- **2019 prospects still unclear:** (1) New NPK project (capacity 300,000 tons/year) could contribute to revenue and profit, but (2) DCM will no longer enjoy the gas price subsidy, which can pressure gross margins in the medium-term.
- **Risks:** (1) Long-term risk of a sharp increase in input costs after 2018, (2) Financial expenses are subject to exchange rate fluctuations, since the majority of DCM's outstanding debt is denominated in USD (~US\$231mn as of end-1H2017)

Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB

- Consumer – QNS

- Aviation – ACV, VJC

- Industrials – SBV

- Power – PC1

- Fertilizer – DCM

- Automotive

- Materials

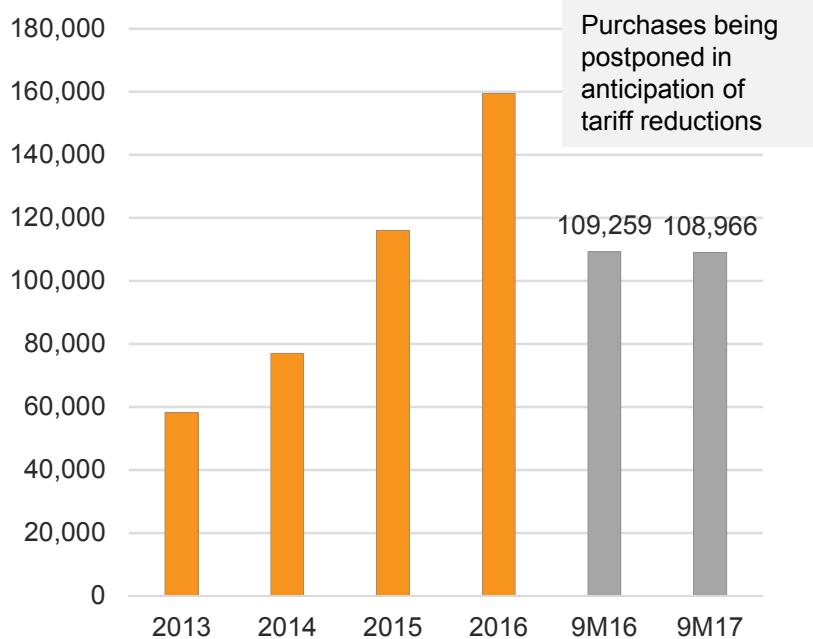
Automotive: Building-up latent demand due to tariff reductions

Emerging middle-income population

- In 2018, tariffs on imported cars into Vietnam from within the ASEAN block will be relieved to comply with the ASEAN Free Trade Agreement (AFTA) while the special consumption tax (reduced by 5-10% for under-2-litre engine cars) may boost affordable car sales volumes.**
- We are still cautious on the how authorities will react to the new tariff policy in order to control traffic overload from the current vehicle fleet by increasing other tax layers (VAT, special consumption tax), but the counter policy may lag the import tariff reductions.**
- Consumers are now holding back on purchases as car dealers** are progressively reducing prices in order to be prepare for next year's tax drop; we believe that the muted passenger car sales this year (flat volume growth over 9M2017) are a symptom of this postponement of purchases
- We expect this pent-up demand to be unleashed in 2018** and we may see volume growth not significantly below what was observed in 2016 (38% yoy).
- We think that **SVC** (sells Honda, GM, Suzuki and Toyota brands (as well as **CTF** (sells the Ford brand) are best positioned to benefit in 2018 as they are focused on the small and medium-sized, affordable car segment.

VAMA Passenger vehicle sale volume (units sold)

Source: VAMA



Highlighted sectors & Stock picks

- Banking – MBB, LPB, VCB
- Consumer – QNS
- Aviation – ACV, VJC
- Industrials – SBV
- Power – PC1
- Fertilizer – DCM
- Automotive
- Materials

Steel: Riding the economy and global steel price recovery

Bonanza from new capacity and rising prices

Increasing demand domestically and globally is lifting steep prices

- Stable real estate supply, high spending in infrastructure investment and robust FDI are supporting domestic steel demand (HPG's 9M2017 long steel volumes rose 31% yoy)
- Long steel prices have been rising steadily since the early of 2017 mainly due to China'S crackdown on overcapacity. Asean steel prices are likely to strengthen as China's strong political will to continue to curb overcapacity and address environmental issues.

Domestic producers are benefiting from protective policy measures

- Anti-dumping and safeguard duties imposed by MoIT have opened up a market space for local producers, especially for GI/GL and color-coated steel.
- We like **HPG** because it has 24% share of the long steel market in Vietnam and is currently running at full capacity but is set to triple current capacity over the next 3 years.
 - The company will start operating the Dung Quat Steel complex which has a capacity of 4 million tonnes/year with phase 1 (2 million tonnes/year) due to come on stream by YE2018. This project will benefit logically from the new Dung Quat port.

Steel price on the uptrend (China HRC, USD/ton)

Source: Bloomberg



Appendix 1

PVPOWER

- IPO NOTE



Petro Vietnam Power Corporation (PVPower)

Stock info

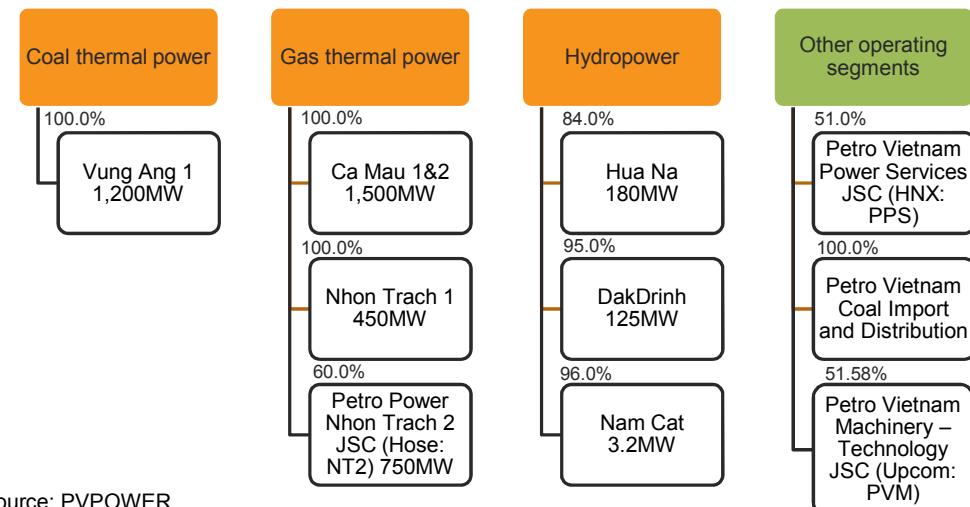
Market cap (VND bn)	na
Daily value 30 day (VNDbn)	na
Foreign room (%)	na
State ownership (%)	100
P/B TTM (x)	na
P/E TTM (x)	na

Key ratios	2015A	2016A	2017E
NP growth (%)	-7.3	-40.7	-2.2
EPS growth (%)	-40.4	-50.4	na
GPM (%)	22.5	13.4	na
Asset turnover (x)	0.4	0.4	na
Financial leverage (x)	1.7	1.6	na
ROAE (%)	9.9	4.1	na
ROAA (%)	3.6	1.5	na

Company Overview

- Main operation: electricity generation (>90% revenue), other supporting services for power plants
- Total capacity: 4.2GW (12% of total capacity nationwide); planning to add another 1.5GW (Nhon Trach 3&4) by 2021
- Second largest total annual electricity output in Vietnam after EVN: 21bn kWh/year (~13% of total nationwide output)

Company structure



Source: PVPOWER

Petro Vietnam Power Corporation (PVPower)

Map of owned electric plants



Source: PVPOWER

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COMPANY OVERVIEW - continued

- Coal-based thermal power: 2 engines at total capacity of 1,200MW
 - Output average 8bn kWh/year,
 - Coal used imported by Petro Vietnam Coal Import and Distribution under PVPower.
- Gas-based thermal power:
 - Gas supplied by PetroVietnam Gas JSC (GAS)
 - Gross profit highly dependent on gas prices → volatile gross profit margin

IPO INFORMATION

- IPO in December 2017: 20% stake offered to the public (468.37mn shares) at initial price VND14,329/share (equivalent to 2016 P/E of 29.03x and 2016 P/BV of 1.16x)
- To institutional investors after IPO: 28.882% - 3 investors including financial and strategic investors

BUSINESS PERFORMANCE

- 1H2017: revenue increased by 31.3% YoY but EAT only rose by 8.08% YoY due to gross margin compression on rising input prices.
- Fuel cost accounted for 70% of COGS in 1H2017
- Interest coverage ratio relatively low but not yet alarming (~2-4x)

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CONTACTS

Anirban Lahiri (Mr.)
Head of Research

T: +84 28 7300 0688 (Ext: 21242)
E: anirban.lahiri@vndirect.com.vn

Hang Tran (Ms.)
Director
Institutional Clients
T: +84 28 7300 0688 (Ext: 21168)
E: hang.tranxuan@vndirect.com.vn

Phuong Nguyen (Ms.)
Director
Research Department
T: +84 24 3972 4568 (Ext: 20202)
E: phuong.nguyenmai@vndirect.com.vn

Trung Nguyen (Mr.)
Associate Director –
Business Development
T: +84 28 7300 0688 (Ext: 21068)
E: trung.nt@vndirect.com.vn

Giang Nguyen (Ms.)
Associate Director -
Trading
T: +84 28 7300 0688 (Ext: 21099)
E: giang.nt@vndirect.com.vn

Headquarter
1 Nguyen Thuong Hien Str
Hai Ba Trung Dist, Hanoi
T: +84 24 3972 4568
F: +84 24 3972 4600

HCMC Office
The 90th Pasteur Building
90 Pasteur Str, Dist 1, HCMC
T: +84 28 7300 0688
F: +84 28 3914 6924