

A RISING DOLLAR WILL HAVE A MIXED IMPACT ON VIETNAMESE CORPORATE EARNINGS

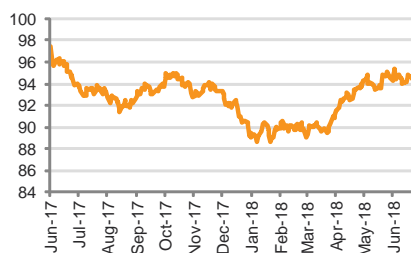
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Figure 1: Dollar index (July 2017-July 2018)



Source: VNDIRECT

The US dollar has surged in recent weeks

The US Fed raised policy rates for the second time this year in the last meeting held in mid-June and they expect to follow through with two further rate hikes within the rest of 2018. The faster-than-expected return in inflation and continued tightening of the US labor market has even spurred expectations of a total of four rate hikes this year. These factors, combined with rising risk aversion around an imminent trade war between the US and China has triggered a rush into safe haven assets and, as a result, the dollar has surprised with its strength over the past few months. The dollar index rose to 95.1pts on June 20th 2018, the highest level seen since July 2017, before slightly retracing to touch 94.4 pts.

The resulting flight out of risk assets is weighing on several emerging and frontier market currencies, including Vietnam

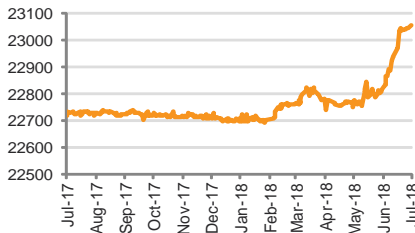
A strengthening US dollar, combined with rising Treasury yields, has made US assets rather compelling on a risk-adjusted basis, triggering huge capital flows out of emerging and frontier markets and putting more pressure on their currencies. The USD/VND exchange rate has risen significantly over the past few months. Even though the official exchange rate has risen by a marginal 1.0% from the beginning of 2018 to VND22,643/USD, the black market rate has risen sharply and surpassed VND23,200/USD, up nearly 2.3% YTD. While Vietnam's macroeconomic picture still looks stable, the weakening Dong will have a mixed impact on company earnings.

Figure 2: Equity flows into some emerging markets and Vietnam

Equity flows into emerging markets and Vietnam				
Market	Date	MTD	QTD	YTD
Asia (emerging market)				
India	13-Jul	-178	-178	-799.9
Indonesia	16-Jul	-40	-40	-3,610
S. Korea	17-Jul	34	34	-3,672
Malaysia	16-Jul	-323	-323	-2,031
Philippines	16-Jul	-65.5	-65.5	-1,284
Taiwan	16-Jul	-917	-917	-9,836
Thailand	16-Jul	-510	-510	-6,151
Asia (frontier market)				
Sri Lanka	16-Jul	-8	-8	68
Vietnam	16-Jul	-66	-66	1,498
Americas (emerging market)				
Brazil	12-Jul	576	576	-1,952
Other continental (emerging market)				
Qatar	15-Jul	50.2	50	1,331
South Africa	16-Jul	-258	-258	1,236
Turkey	06-Jul	-81	-81	-840

Source: VNDIRECT

Figure 3: USD/VND (from July 2017-July 2018)



Source: VNDIRECT

Figure 4: Select net exporters

Ticker	Sector	Export revenue (US\$m)	Estimated Magnitude of USD Imports relative to Exports	USD Borrowings (US\$m)	Net Impact
MPC	Fishery	698	Small	143	Positive
IDI	Fishery	102	Very small	30	Positive
TCM	Textile	2017 revenue: US\$141.4mn mostly from exporting	Small	29	Likely positive
FMC	Fishery	142	Small	26	Positive
GIL	Textile	88	Small	21	Likely positive
PAN	Food & Beverage	75	Small	11	Likely positive
PHR	Rubber	22	Very small	9	Positive
TRC	Rubber	2017 revenue: US\$18mn (30-40% from exporting)	Very small	8	Neutral
NAF	Agricultural	16	Very small	4	Positive
GDT	Wooden furniture	14	Very small	2	Positive
VGG	Textile	2017 revenue: US\$368.3mn (mostly from exporting)	Small	1	Likely positive
SGC	Food & Beverage	2017 revenue: US\$13mn (mostly come from exporting)	Very small	1	Positive
AAA	Plastic	2017 revenue: US\$179mn (mostly from exporting)	Most of raw materials are imported, however, the export value is still higher than import value	Very small	Likely positive
GTN	Food & Beverage	2017 tea revenue: US\$21.6mn (mostly from exporting)	Small	0	Likely positive
VHC	Fishery	270	Buying almost all fish feed from Philippines feed producer	0	Likely positive
GMC	Textile	2017 revenue: US\$70.7mn (mostly from exporting)	Small	0	Likely positive
FPT	IT	317	Small	0	Positive
DPR	IT	2017 revenue: US\$47mn (30-40% from exporting)	Small	0	Positive
LHG	Industrial Park	LHG has USD denominated contracts. Foreign clients account for 50% of total clients of LHG.	Very small	0	Likely positive
NTC	Industrial Park	NTC has USD denominated contracts. Foreign clients account for a large amount of total clients of NTC	Very small	0	Likely positive
KBC	Industrial Park	KBC has USD denominated contracts. Foreign clients account for 80% of total clients of KBC.	Very small	0	Likely positive
PVS	Oil & Gas	Service price in USD (2017 revenue: US\$741mn)	PVS has to buy USD for subcontractor supplying machinery and equipment	-88	Likely positive

Source: VNDIRECT

We think that the depreciation of the VND against the USD will have a mixed impact and is unlikely to be a big drag on overall earnings

We think that the depreciation of the VND against the USD could hurt some companies with USD-denominated borrowings or those that are net importers, but will benefit net exporters. Therefore, it is unlikely to be a big drag on overall market earnings.

The main beneficiaries of VND depreciation will be net exporters especially in the Fisheries, Textiles and IT outsourcing sectors.

- Fisheries:** These companies have a high proportion of revenue generated from exports and minimal imports of raw materials. For example, IDI recorded US\$102mn of revenue from exporting pangasius fillets, accounting for over 40% of total revenue in 2017 but had virtually no imported intermediates or inputs. Other pangasius exporters like VHC have some USD-denominated imports of inputs (eg. Fish feed which is procured from the Philippines) but are still net exporters.

Key listed companies in this sector: VHC, IDI, FMC, MPC

- Textiles:** For downstream textile and garment enterprises which typically import raw materials (such as yarn or fabric) and export

finished “Cut Make Trim” (CMT) products, dong devaluation will have a less dramatic impact but will still favor companies with a large contribution of exports to the revenue mix.

Key listed companies in this sector: TCM, VGG, GMC

- **IT Services:** Outsourcing service providers such as FPT and CMG have large exposure to USD-denominated exports with cost of services being largely comprised of domestic manpower costs and, therefore, no links to exchange rates. IT companies are likely to therefore see dramatic margin expansion on offshore IT service revenues.

Key listed companies in this sector: FPT and CMG.

- **Rubber:** Finished rubber is mainly produced for export while imports are limited, making dong devaluation a net positive for many rubber producers.

Key listed companies in this sector: DPR, PHR, TRC

- **Industrial Parks:** Industrial park developers and operators such as KBC, LHG and NTC with many foreign clients will benefit from USD appreciation versus the VND. For example, foreign clients account for more than 80% of total clients of KBC and their leasing contracts are USD-denominated.

Key listed companies in this sector: KBC, LHG, NTC

Net importers could witness margin compression due to higher import costs all of which cannot be passed through to customers.

- **Plastics:** BMP and NTP. They mainly imports plastic resins and pellets such as PE, PP and HDPE from abroad.

Key listed companies in this sector: BMP, NTP

- **Chemicals:** Chemical companies import some raw materials from abroad such as sodium chloride and sulfur.

Key listed companies in this sector: CSV

- **Dairy:** Dairy companies mainly import milk powder from abroad.

Key listed companies in this sector: VNM

Figure 5: Select net importers

Ticker	Sector	Export revenue (US\$m)	Estimated Magnitude of USD		Net impact
			Imports relative to Exports	USD borrowings (US\$m)	
VNM	Milk	Small	VNM imports milk powder from abroad	18.7	Likely negative
BMP	Plastic	Small	Most of the raw materials are imported	0	Likely negative
NTP	Plastic	Small	Most of the raw materials are imported	0	Likely negative
CSV	Chemical industry	Small	Most of the raw materials are imported	0	Likely negative

Source: VNDIRECT

Companies with sizeable USD-denominated borrowings but limited net exports could see an increase in financial expenses

due to the depreciation of the VND against USD without the offsetting impact of higher export revenues in local currency terms.

Figure 6: Companies with sizeable USD borrowings

Ticker	Sector	Export revenue (US\$m)	Estimated Magnitude of USD Imports relative to Exports	USD borrowings (US\$m)	Net impact
PGV	Electricity	Small	Small	2,183	Likely negative
HVN	Airlines	Small	A rising dollar will increase fuel costs	676	Likely negative
GAS	Oil & Gas	Service price in USD (2017 revenue: US\$2,842mn)	Gas has to buy USD for importing LPG	278	Neutral
DCM	Fertilizer	28	Small	202	Likely negative
HSG	Steel	FY17 revenue: US\$1,322mn (35-40% from exporting)	HSG imports most of hot rolled steel from abroad	192	Likely negative
NKG	Steel	2017 revenue: US\$556mn (35-40% from exporting)	NKG must import almost all hot rolled steel (HRC) and cold rolled steel (CRC)	162	Neutral
PVD	Oil & Gas	2017 revenue: US\$556mn (35-40% from exporting)	PVD has to buy USD for subcontractor supplying machinery and equipment	156	Likely negative
VJC	Airlines	Small	Fuel prices are strongly impacted by exchange rates	148	Likely negative
MSN	F&B	Small	Small	120	Likely negative
HPG	Steel	2017 revenue: US\$2,062mn (3-5% from exporting)	HPG imports some raw materials such as iron ore and coke	78	Likely negative
NT2	Electricity	Very small	Small	78	Likely negative
PVT	Shipping	Service price in USD (2017 revenue: US\$271mn)	A rising dollar will increase fuel costs	62	Neutral
VOS	Shipping	Service price in USD (2017 revenue: US\$71mn)	A rising dollar will increase fuel costs	55	Likely negative
VNA	Shipping	Service price in USD (2017 revenue: US\$24mn)	A rising dollar will increase fuel costs	23	Likely negative
VSH	Electricity	Very small	Small	18	Likely negative
CSM	Tyre	Small	A rising dollar will increase raw material costs	15	Likely negative

*HSG USD borrowings as of March 2018

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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