

VIETNAM'S STOCK MARKET WILL FACE HEADWINDS IN Q2 BUT THERE ARE STILL POCKETS OF GOOD VALUE ON OFFER

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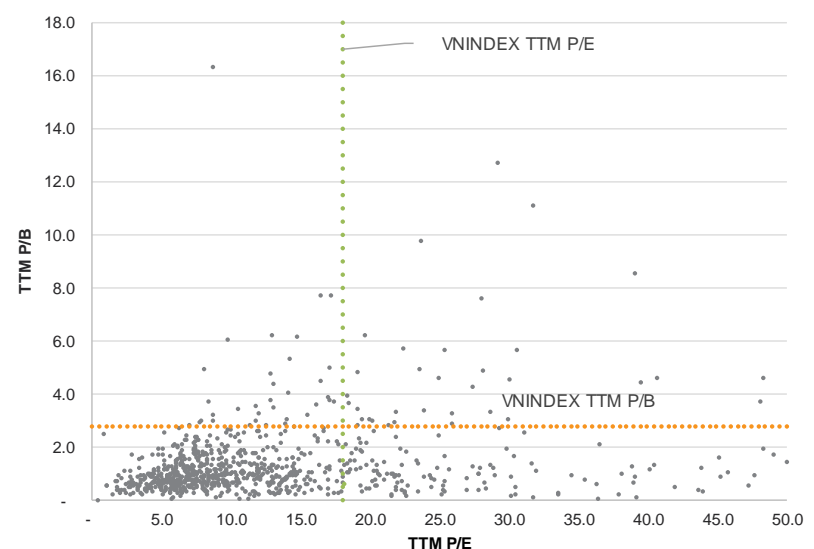
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Vietnam's stock market is entering choppy waters after a stellar first quarter run. Following the impressive 19.33% gain in the VN-Index during the first quarter of 2018 (making Vietnam among the best performing stock markets in the world over the period), we believe that Vietnam's stock market will face strong headwinds in the second quarter of 2018 due to the following factors: (1) the announcement of preliminary Q1 results will lead to a strong bout of profit-taking as share prices have run up in expectation of strong first quarter results (2) the global market is currently more volatile due to the threat of a trade war between the United States and China, the political tensions in the Middle East, and early signs of tightening liquidity conditions globally as evinced in the rise in LIBOR; and (3) Vietnamese large cap valuations look expensive now, even after the recent correction.

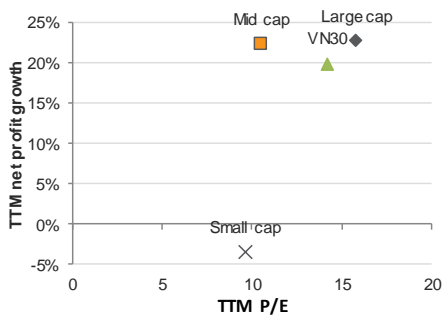
Progress on Vietnam's path to an MSCI Emerging Markets upgrade is unlikely to be dramatic. MSCI will announce the results of its annual market review in June 2018 and in the most optimistic scenario, the Vietnam stock market will be put on the short-list. Following this, MSCI will need one more year to collect feedback from the international investment community and another year to allow the investment community to prepare for changes. Therefore, Vietnam's EM upgrade will happen in 2020, at the earliest. By the end of 1Q2018, Vietnam's stock market had satisfied almost all quantitative criteria for MSCI EM inclusion including market size and liquidity but fell short on qualitative indicators such as (1) publication of information in English, (2) technology platform and infrastructure, (3) barriers to foreign investors and (4) lack of full currency convertibility. As a result, we see only a 50:50 possibility of Vietnam's stock market being put on short-list in June 2018. We think that it could take another year for Vietnam's stock market to meet all of MSCI's requirements for short-list inclusion.

Figure 1: Distribution of P/E and P/B across the market



Source: VNDIRECT

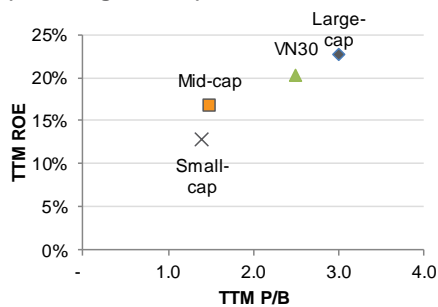
Figure 2: Average TTM P/E versus average net profit growth (excluding outliers)



Source: VNDIRECT

Note: we define “outliers” as stocks with a trailing P/E of above 25.0x

Figure 4: Average P/B versus average ROE (excluding outliers)



Source: VNDIRECT

Note: we define “outliers” as stocks with a trailing P/E of above 25.0x

Heavy-weighted large caps are skewing the market valuation multiples; a vast number of stocks are trading at a deep discount to the index. Mid-cap stocks deserve to trade at higher valuation in the near future, as their earnings growth and profitability are not dramatically lower than that of large-cap stocks. There are 131 mid-cap stocks which have a TTM P/E below 25.0x, and this universe is trading at an average P/E and P/B of 10.5x and 1.5x, respectively which looks cheap in light of average earnings growth and returns on capital.

While Mid-cap and large-cap stocks reported healthy TTM NPAT growth, small-cap shows disappointed results with a 3.4% average decline in NPAT as 252 out of a total of 544 (46.3%) small-cap companies reported earnings declines or losses. Some of the most significantly losses reported in this universe were by VHG (VND1179bn), NVT (VND479bn), OGC (VND473bn) and PVX (VND398bn).

Figure 3: Financial ratios by market capitalization tier

Data as of 23 April 2018	Large-cap (Market cap >VND10,000bn)	Mid-cap (Market cap between VND10,000bn and VND1,000bn)	Small-cap (Market cap <VND1,000bn)
Number of stocks	36	148	544
TTM P/E	20.9	18.7	25.4
TTM P/B	3.8	1.5	1.3
TTM ROE	22.0%	15.2%	11.4%
TTM ROA	8.7%	7.9%	5.6%
Number of stocks with PE<25	28	131	409
<i>Percentage of total stocks</i>	<i>77.8%</i>	<i>88.5%</i>	<i>75.2%</i>
TTM P/E (excl P/E>25)	15.8	10.5	9.6
TTM P/B (excl P/E>25)	3.0	1.5	1.4
TTM ROE (excl P/E>25)	22.7%	16.6%	12.9%
TTM ROA (excl P/E>25)	8.2%	8.7%	6.3%
2017 revenue growth	23.5%	15.1%	5.8%
2017 profit growth	22.7%	22.3%	-3.4%

Source: VNDIRECT

Note: our threshold PE value of 25.0x used for classifying an “outlier” in terms of valuation is subjective and should be treated as such. Outliers are excluded from figures 2 and 4 as they tend to distort the averages for each group.

Brokers will continue to attract interest due to continued strong stock market trading activity in 2018. Earnings of large brokers such as SSI, HCM, VND, VCI and SHS will be buoyed by multiple factors this year including the following:

- (1) Liquidity is projected to grow strongly, especially with higher volatility prompting more short-term, speculative trading.
- (2) The market continues to deepen thanks to a continued pipeline of large listings including multi-billion dollar listings such as that of Vinhomes; with the market valuations at sky-high levels, the government is expected to accelerate the progress of SOE IPOs and listings.
- (3) The derivative market has launched and covered warrants are attracting interest already.
- (4) The prospect of upgrading Vietnam’s stock market from frontier market to emerging market has already been attracting flows from foreign investors.

Cyclical sectors such as banking, property, construction and construction materials will continue to ride a strong economy. Banks will benefit from (1) strong economic growth, (2) supportive

monetary policy, (3) improving asset quality, (4) NPL resolutions and completion of VAMC provisioning and (5) improving profitability through increasing retail lending and non-interest fee income.

Vietnam's property market still has another good year in 2018 as we see enormous real end-user demand in the low-to-mid range segments, as well as landed properties, which is currently not being satisfied by new supply. The real estate market will be supported by (1) strong economic growth and rising incomes of homebuyers, (2) sustained low interest rates and (3) creation of new catchment areas through the establishment of special economic zones and urban infrastructure development. High-end developers will, however, face uncertain times as excess supply leads to further rental yield compression and speculative money is redeployed to the buoyant stock market.

Construction companies and construction materials producers will ride the continued growth in property development and an anticipated pick-up in public spending on infrastructure. Long steel continues to see strong volume growth while the cement market might be turning a corner due to huge capacity cuts in China to curb pollution and further China's economic transition away from heavy industry.

SECTOR OUTLOOK IN 2Q2018

Figure 5: Financial performance and valuation summary by sector (data as of 23 April 2018)

Sector	2015 vs 2014		2016 vs 2015		2017 vs 2016		TTM ROA	TTM ROE	TTM P/E	TTM P/B
	Revenue growth	Profit growth	Revenue growth	Profit growth	Revenue growth	Profit growth				
Brokerage	-10%	-19%	32%	-12%	60%	121%	7.9%	13.3%	13.1	1.2
Real Estate	26%	80%	57%	-13%	37%	49%	4.9%	11.8%	14.1	1.3
Banking	14%	2%	14%	15%	26%	33%	0.9%	17.4%	18.0	2.4
Power	0%	-26%	-2%	-8%	3%	29%	9.5%	16.8%	8.7	1.4
Construction	16%	47%	8%	16%	7%	29%	4.4%	11.7%	11.3	0.8
Oil & Gas	-20%	-35%	-17%	-29%	9%	25%	5.9%	10.7%	10.9	1.0
Insurance	22%	17%	19%	8%	18%	21%	3.1%	9.0%	19.7	1.8
Food & Beverage	29%	30%	25%	30%	7%	19%	8.6%	16.6%	14.9	2.5
Steel	0%	2%	16%	167%	35%	12%	7.4%	16.8%	8.3	1.0
Pharmaceutical	3%	12%	9%	19%	11%	7%	9.5%	16.1%	13.1	2.1
Agricultural	7%	-27%	7%	8%	-1%	0%	5.5%	10.9%	13.3	1.2
Materials	8%	50%	6%	21%	6%	-1%	8.2%	15.7%	8.2	1.1
Textile and garment	9%	-1%	9%	-3%	14%	35%	7.3%	14.9%	9.8	0.9

Source: VNDIRECT

The textile & garment, agriculture & fisheries and automotive sectors might also benefit from macro factors. There were some signs of recovery in the agriculture and fisheries sector in 1Q2018. According to GSO, the agriculture, forestry and fishery sector output increased by 4.05% yoy and contributed 0.46 percentage points to Vietnam's overall GDP growth (the fisheries sector recorded the highest growth in 8 years).

Total garment export turnover in the first quarter of 2018 reached USD7.6bn, up 13.4% over the same period last year, fulfilling 22.4% of the 2018 export plan, driven by full order books as Vietnam starts to benefit from a slew of recently-inked bilateral Free Trade Agreements (FTAs). A number of prospective large trade agreements such as the Vietnam-EU FTA and CPTTP could further lift the sector's prospects. Given its labor-intensive nature, we think that the garment sector is least vulnerable to growing trade protectionism. Even hardliners such as President Trump might not see the merit in asking Levi Strauss & Co. to move its denim production back to the US. TCM (ADD) is already seeing a clear improvement in its financial performance as a result.

The demand for passenger automobiles should recover strongly around the middle of the year, after declining in the past few months, driven by reductions on import tariffs for ASEAN-built units. Dealers of mass-market imported passenger car brands stand to benefit from the unleashing of all the pent-up demand which resulted from postponements of car purchases by consumers in anticipation of price reductions.

STOCK PICKS

Below are some stocks that we recommend looking at for the remainder of 2018.

Figure 6: Summary of stocks worth looking at for 2Q 2018 and beyond (data of April 24 2018)

Name	Sector	TTM P/E	TTM P/B	ROE (%)	2017 revenue growth	2017 total net profit growth	2017 EPS growth	TTM EPS growth	VNDIRECT rating	Investment ideas
ASM	Real Estate	18.1	1.2	6.6	49.4%	0.6%	0.6%	0.6%	NON-RATED	ASM became the parent company of IDI from March 29, 2018. They set high business plan for 2018 with revenue and net profit multiplying by more than 4 to 6 times thanks to (1) consolidation with IDI and (2) contribution of 4 under-developing real estate project with total area of 237ha.
CEO	Real Estate	12.9	1.0	9.6	29.9%	13.2%	-16.8%	-16.8%	NON-RATED	CEO is the leading company in investing in real estate projects in the special economic zones such as Phu Quoc and Van Don
FPT	Software	9.7	2.3	23.2	7.9%	50.4%	50.4%	50.4%	NON-RATED	FPT has high profitability and a cheaper valuation compared to the other large-cap stocks. The company might also report sizeable one-time financial gains in the future from divestments of its stake in newly-listed retail subsidiary FRT.
HPG	Steel	9.1	2.3	30.0	38.7%	21.3%	21.3%	21.3%	ADD	HPG will enter a new growth phase from 2018 thanks to the commissioning of Phase 1 of the Dung Quat project and the tapering off its capex cycle from 2019 onwards.
IDI	Agriculture & Fisheries	7.4	1.2	15.5	31.8%	257.4%	203.8%	203.8%	NON-RATED	The prospect for pangasius exports continue to be positive in 2018, especially in Asian markets such as China, Japan and within South East Asia.
KBC	Real Estate	10.4	0.7	6.5	-36.1%	4.9%	4.9%	4.9%	NON-RATED	FDI inflows into Vietnam continue to be strong. Besides, KBC is benefiting from the contribution of the residential real estate project in Bac Ninh starting this year.
LPB	Banking	7.2	1.1	21.0	29.9%	28.2%	28.2%	28.2%	ADD	High profitability. Cheap valuation compared to the other banks despite good asset quality and huge potential branch network from Vietnam post office conversions.
MBB	Banking	13.1	1.8	22.3	40.6%	20.2%	20.2%	33.0%	ADD	High profitability. MBB has set high business plan targets for 2018 thanks to the reduction in provisioning for bad debt and expanding contribution from consumer lending and non-lending financial services. Valuation is cheaper than the industry average
NLG	Real Estate	10.1	1.5	15.0	24.8%	55.0%	49.1%	49.1%	REDUCE	The prospects for the real estate market in HCMC are expected to be positive. The revaluation of Water Point project presents upside to our current target price and should warrant a re-rating.
PVT	Logistic	13.4	1.2	9.5	-8.7%	8.3%	8.3%	8.3%	ADD	Nghi Son oil refinery will be put into operation in 2018, thus creating additional jobs. Dung Quat refinery will return to a full year of operations this year. Coal thermal power capacity expansion due to several new power plant projects will also increase coal transportation workload for PVT.
REE	Industrials	8.1	1.3	17.0	36.5%	26.2%	26.2%	26.2%	NON-RATED	REE is the leading private company in investing in electricity and water industry. The market demand for these two essential services is still huge, so the growth prospects remain strong. Valuation is cheaper than the average of large-cap stocks.
SCR	Real Estate	10.8	0.7	6.9	135.6%	42.7%	42.7%	42.7%	NON-RATED	SCR owns a huge land bank of up to 1,500ha across the country. SCR is in a restructuring process to improve focus on the core business. They will launch some large projects in 2018.
TCM	Textile & garment	5.4	1.2	18.4	4.5%	67.8%	50.9%	61.3%	ADD	A series of trade agreements, such as CPTTP and FTA Vietnam-EU will boost Vietnam's textile and garment exports and lift TCM's order book. RE projects to also contribute earnings in 2018.

Name	Sector	TTM P/E	TTM P/B	ROE (%)	2017 revenue growth	2017 total net profit growth	2017 EPS growth	TTM EPS growth	VNDIRECT rating	Investment ideas
VHC	Farming & Fishing	10.6	2.3	21.2	11.6%	14.8%	14.8%	8.5%	NON-RATED	The prospect for pangasius exports continue to be positive in 2018, especially in Asian markets such as China, Japan and within South East Asia. VHC continues to be the only exporter of pangasius that is exempt from US anti-dumping duties
VND	Securities Brokerage	9.7	1.6	17.9	69.6%	161.2%	161.2%	161.2%	NON-RATED	The favourable stock market outlook in 2018 will continue to support the business results of large securities companies, including VNDIRECT. It has the cheapest valuation among the top 4 brokers.

Source: VNDIRECT, BLOOMBERG

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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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