

# Vietnam Strategy

## 2Q20 earnings review: Recovery is under way

- As at 31 Jul 2020, 794 listed companies on three bourses, representing 45.6% of the total stocks and 90% of market capitalisation, have released 2Q20 results.
- Revenue decreased 10.9% yoy while aggregate earnings declined 9.1% yoy in 2Q20. In our view, this was much better than the -27.7% yoy decline in 1Q20 net profit.
- Our VN-index target is 840–920pts for end-2020.

### Results largely in line with our expectations

Based on our estimate, aggregate earnings of listed companies on three bourses (HOSE, HNX, UPCOM) dipped 9.1% yoy. This was much better than the -27.7% yoy decline in 1Q20 net profit, in our view. 1H20 aggregate earnings softened 10.0% yoy while revenue declined 5.2% yoy. Out of the 45 companies under our coverage that have reported their 2Q20 results, 52% companies were in line with our expectations while 24% beat forecasts and 24% missed our estimates.

### Oil & Gas and Retail hit hard by the pandemic

Vietnam implemented nationwide 21-day social distancing protocol in Apr which disrupted the public transportation. Consequently, retail sector's 2Q20 earnings fell 64.7% yoy on weak domestic demand. Oil & gas sector's net profit fell 90.2% yoy in 2Q20 amid the weak Brent crude oil price (-51% yoy). Property sector 2Q20 net profit contracted 29.7% yoy due to the weak presales and slower deliveries amid the pandemic. These sectors' net profit also fell yoy: Travel and Leisure (-263.3% yoy), Utility (-19.7% yoy), Mining (-123.9% yoy), Retail (-40.1% yoy) and Transportation (-78.5% yoy).

### Banks drove markets' earnings growth

Banking sector earnings rose 21.9% yoy in 2Q20, which was much higher than the 3.4% yoy increase seen in 1Q20. This 2Q20 net profit performance was boosted by CTG (102% yoy), HDB (54% yoy), VPB (44% yoy). Banks' net profit increased 12.6% yoy in 1H20, contributing 4.0% to all markets' net profit growth. We observed that cost to income ratio (CIR) of banks under our coverage edged down from 47% in 1H19 to 43% in 1H20, contributed to banks' stellar performance in 1H20.

### Some sectors recovered more strongly than expected in 2Q20

Financial services' (mostly securities brokerage) net profit jumped 172% yoy in 2Q20 vs. a 130% yoy dip in 1Q20 due to the recent market rally. In 2Q20, VN-index accelerated 23.2% since end-Mar 20 while liquidity increased 41.6% qoq and 51.1% yoy. Electricity generators' net profit increased by 27.3% yoy in 2Q20 (vs. -68.1% yoy in 1Q20), mostly thanks to PGV's 13x yoy earnings growth. Chemicals net profit rose 30.6% yoy due to margin expansion on lower oil price (vs. -34.0% yoy in 2Q20). In addition, the markets' NP growth was boosted by Forestry and paper (+341.1% yoy), Industrial metals (+22.7% yoy) and Insurance (+25.0% yoy).

### VN-index target is 840–920pts for end-2020

VN Index rallied to 798 points on 31 Jul 2020, equivalent to trailing P/E of 12.3x, a 23% increase from its bottom of 650 points in Mar. In 2H20, we see growing uncertainties from the second wave of Covid-19 and US-China trade tensions. After nearly 100 days without any community transmission, a cluster of Covid-19 cases was reported in Da Nang city in late Jul 20, which led to the implementation of a 14-day social distancing protocol. Having said that, these factors could support the market: 1) accelerated public investment driving economic growth in FY20F, 2) positive signs of foreign investors returning, and 3) further monetary policy easing to bolster cash inflow to equity market. In our base case scenario, we forecast VN-index earnings decreasing 5-6% yoy in FY20F (vs. 7.1% yoy increase in FY19). Based on our target FY20F P/E of 14-15x, our VN-index target is 840–920pts for end-2020.

### Analyst(s)

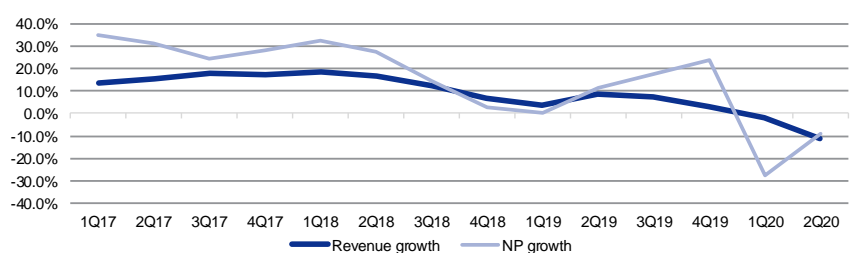


Tuan NGUYEN

T (84) 94 814 2970

E tuan.nguyenthanh@vndirect.com.vn

Figure 1: Quarterly revenue and net profit growth on yoy basis (1Q17-2Q20)



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

## KEY CHARTS

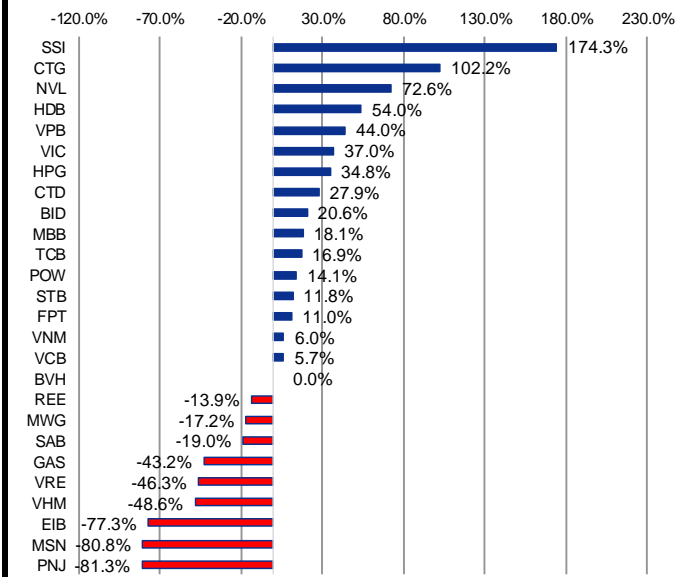
### 2Q20 earnings growth indicated a recovery from 1Q20

Based on our estimate, 2Q20 aggregate earnings of listed companies on three bourses (HOSE, HNX, UPCOM) dipped 9.1% yoy. Earnings of companies listed on Hochiminh Stock Exchange (HOSE) contracted at a lower rate of 1.2% in 2Q20. Meanwhile, small-caps enterprises earnings slumped 13.5% in 2Q20 due to the Covid-19 pandemic.

	2Q20 revenue growth	2Q19 revenue growth	2Q20 NP growth	2Q19 NP growth	6M20 revenue growth	6M20 NP growth
All markets	-10.9%	8.7%	-9.1%	11.2%	-5.2%	-10.0%
HOSE	-8.6%	9.8%	-1.2%	10.1%	-3.7%	-2.3%
VN30	-7.5%	15.4%	0.0%	16.5%	-1.6%	1.1%
Large caps	-10.5%	14.4%	-9.4%	16.4%	-4.2%	-7.3%
Mid caps	-12.1%	3.4%	-6.3%	0.2%	-5.9%	-15.5%
Small caps	-10.1%	3.9%	-13.5%	-4.2%	-7.1%	-30.2%

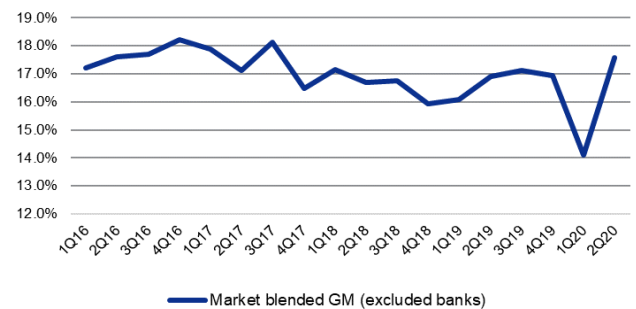
### Divergence in VN30 listed companies' 2Q20 earnings growth

Banking sector outperformed the other sectors in 2Q20, boosted by Vietinbank (CTG VN, Not rated; +102.2% yoy), HDBank (HDB VN, Not rated; +54.0% yoy); VPBank (VPB VN, HOLD, TP: VND25,000; +44.0% yoy); Techcombank (TCB VN, ADD, TP: VND27,400; +16.9% yoy); BIDV Bank (BID VN, Not Rated; 20.6% yoy) and Vietcombank (VCB VN, HOLD, TP: VND86,000; +5.7% yoy). Hoa Phat Group's (HPG VN, ADD, TP: VND32,800) strong 34.8% earnings growth stemmed from rising steel sales volume and stellar agriculture business. Cotecons Corp (CTD VN, Not rated) enjoyed strong net profit growth off a low base in 2Q19. Saigon Securities Corp (SSI VN, Not rated) benefited from the strong stock market performance in 2Q to achieve its highest quarterly NP growth of (174.3% yoy) among companies in VN30 Index basket. Vinhomes JSC's (VHM VN, ADD, TP: VND104,300) 2Q20 performance was sluggish due to weak presales during the pandemic. Vincom Retail (VRE VN, ADD, TP: VND38,000); Phu Nhuan Jewelry JSC (PNJ VN, Not rated) and Mobile World Corp's (MWG VN, ADD, TP: VND139,900) businesses were also hit hard by social distancing measures.



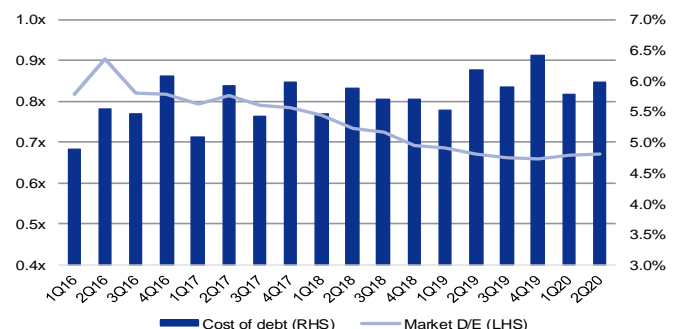
### Market's blended 2Q20 gross margin recovered from fall in 1Q20

In our view, 2Q20 gross margin (excluding banks) improved due to: 1) lower fuel cost, 2) slow manufacturing capacity or network expansion, if any, and 3) better margin from property developers.



### Market's deleveraging trend has become much clearer

The market's overall D/E ratio was 0.67x in 2Q20 and 1Q20. However, the cost of debt edged up 0.2% pt qoq. This suggests that State Bank of Vietnam's rate cut in 2Q20 did not have an impact during the quarter.



## 2Q20 earnings review: Recovery is under way

Figure 2: 1H20 earnings review by sectors

	% released 2Q20 results to sector market cap	2Q20 net profit growth	2Q19 net profit growth	Net profit growth 2Q19	Contribution to market's NP growth 2Q20	1H20 revenue growth	1H20 net profit growth	Contribution to market's NP growth 1H20
<b>Market</b>	88.8%	-9.1%	-27.7%	11.2%		-5.2%	-10.0%	
Forestry & Paper	36.9%	341.1%	5.9%	-48.0%	0.1%	52.9%	162.1%	0.1%
Financial Services	85.4%	172.1%	130.1%	-24.6%	1.9%	30.8%	9.3%	0.1%
Chemicals	90.6%	30.6%	-34.0%	-39.1%	0.6%	-9.3%	21.5%	0.4%
Electricity	94.6%	27.3%	-68.1%	-3.3%	1.1%	-5.6%	-22.5%	-1.0%
Insurance	93.1%	25.0%	-48.1%	10.7%	0.3%	6.1%	-19.7%	-0.3%
Industrial Metals	97.5%	22.7%	37.7%	-16.7%	0.8%	4.0%	25.1%	0.9%
Banks	100.0%	21.9%	3.4%	26.3%	6.5%	9.1%	12.6%	4.0%
Technology	90.2%	12.4%	15.6%	19.1%	0.2%	5.5%	15.5%	0.2%
Food Producers	89.7%	2.3%	-21.4%	-23.9%	0.2%	27.9%	-7.3%	-0.7%
Industrial	94.8%	-0.2%	-26.7%	12.1%	0.0%	-2.8%	-11.7%	-0.2%
Health Care	76.4%	-5.7%	9.5%	7.4%	-0.1%	-2.9%	3.3%	0.0%
Utilities	75.2%	-19.7%	-5.0%	9.3%	-0.2%	0.0%	-6.9%	-0.1%
Beverages	88.9%	-20.8%	-54.0%	16.7%	-0.5%	-32.3%	-32.6%	-0.8%
Personal & Household Goods	54.9%	-23.0%	-24.1%	69.3%	-0.3%	-13.5%	-14.6%	-0.2%
Construction & Materials	68.4%	-23.9%	-24.4%	1.6%	-1.1%	-14.4%	-22.1%	-1.0%
Support Services	35.7%	-29.3%	-0.6%	105.8%	0.0%	76.9%	-20.0%	0.0%
Real Estate	96.7%	-29.7%	28.5%	61.2%	-5.4%	-27.6%	-7.6%	-1.1%
Automobiles & Parts	99.4%	-39.0%	8.5%	3.4%	-1.3%	-11.6%	-19.9%	-0.6%
Retail	85.8%	-40.1%	-6.8%	26.8%	-1.1%	0.8%	-22.9%	-0.6%
Telecommunications	99.8%	-74.9%	212.0%	994.4%	-1.3%	17.5%	4.9%	0.1%
Industrial Transportation	83.3%	-78.5%	-30.2%	-11.1%	-3.6%	-15.4%	-53.1%	-2.6%
Oil & Gas	75.3%	-90.2%	142.8%	3.3%	-4.8%	-23.2%	-98.7%	-5.9%
Mining	92.3%	123.9%	-65.0%	-44.6%	-0.4%	-7.7%	118.4%	-0.4%
Travel & Leisure	8.9%	263.3%	227.8%	-31.6%	-0.8%	-40.3%	-192.8%	-0.6%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Quarterly GM across sectors (excluding banks)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
<b>Market</b>	16.1%	16.9%	17.1%	16.9%	14.1%	17.6%
Personal & Household Goods	13.2%	12.6%	12.6%	12.2%	14.0%	14.8%
Industrial	15.3%	15.1%	15.0%	13.5%	15.5%	16.2%
Food Producers	26.2%	26.6%	24.5%	25.6%	25.4%	27.3%
Construction & Materials	14.2%	14.0%	14.0%	14.3%	15.7%	18.1%
Telecommunications	33.2%	34.3%	34.7%	28.3%	32.5%	33.8%
Utilities	19.3%	20.5%	21.8%	20.8%	19.5%	21.8%
Health Care	23.5%	26.2%	25.0%	24.9%	27.4%	31.8%
Mining	11.7%	12.2%	9.4%	12.5%	10.6%	8.2%
Industrial Transportation	21.7%	20.7%	21.6%	20.2%	18.9%	8.2%
Chemicals	15.9%	15.1%	16.7%	18.6%	15.0%	19.7%
Forestry & Paper	15.7%	12.8%	13.8%	17.2%	17.3%	9.5%
Real Estate	23.2%	32.4%	35.6%	31.9%	19.8%	25.1%
Retail	14.8%	14.6%	15.2%	15.8%	16.0%	18.3%
Support Services	11.5%	9.0%	7.9%	10.7%	8.3%	6.1%
Travel & Leisure	16.1%	10.3%	13.6%	7.7%	-4.5%	-45.1%
Electricity	15.7%	15.8%	16.0%	19.4%	12.4%	11.7%
Beverages	21.5%	24.2%	24.1%	23.7%	22.9%	27.4%
Technology	26.0%	25.9%	27.6%	23.8%	26.6%	28.6%
Oil & Gas	9.7%	8.3%	8.2%	8.5%	3.2%	5.7%
Industrial Metals	8.3%	9.7%	8.5%	8.2%	11.6%	10.9%
Automobiles & Parts	8.4%	8.2%	9.1%	8.2%	11.1%	10.3%

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	Rating Distribution (%)	Investment Banking clients (%)
Add	60.1%	0.4%
Hold	25.9%	0.1%
Reduce	14.0%	0.3%

## Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** - Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

### 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.

**Hien Tran Khanh – Deputy Head of Research**

Email: [hien.trankhanh@vndirect.com.vn](mailto:hien.trankhanh@vndirect.com.vn)

**Tuan NGUYEN – Associate Manager**

Email: [tuan.nguyenthanh@vndirect.com.vn](mailto:tuan.nguyenthanh@vndirect.com.vn)

**VNDIRECT Securities Corporation**

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi | Tel: +84 2439724568

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