

REDUCE YOUR COMMODITY PRICE EXPOSURE ON KEY VIETNAM BETS

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Rising global trade tensions, bubbly asset prices and sky-high levels of corporate leverage are bringing back global risk aversion. The sharp recent corrections and heightened volatility in global equity markets are reflections of the diminishing appetite for risk assets.

Figure 1: S&P volatility Index



Source: Bloomberg

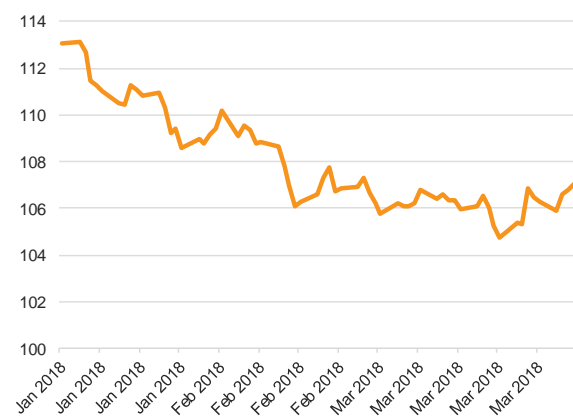
Rising risk-aversion is triggering rising allocations to safe havens. Traditional safe-haven assets such as gold have seen a steady rise in price in recent months while the Japanese Yen has continued to steadily strengthen against the USD.

Figure 2: Gold price (trailing 1 year)



Source: Bloomberg

Figure 3: JPY/USD exchange rate (trailing 3 months)

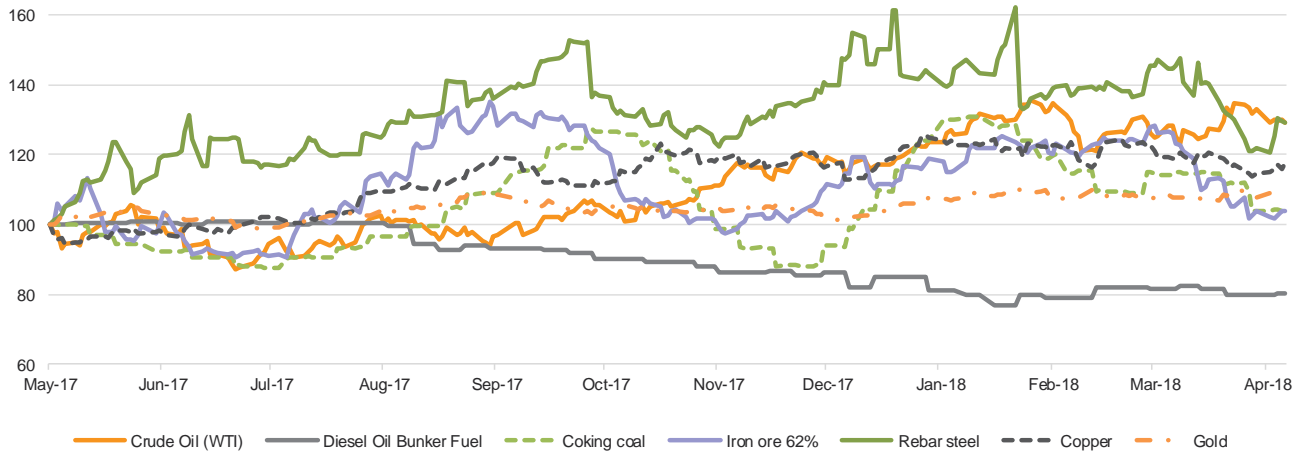


Source: Bloomberg

The rising risk aversion could spur commodity price volatility. While equity markets have seen a surge in volatility, we are yet to see this really play out in prices of key commodities. However, given low and declining inventory levels in key commodity markets and several geopolitical forces – often tugging in opposite directions (US trade tension with China, tax cuts, Fed rate hikes, periodic flare-ups in

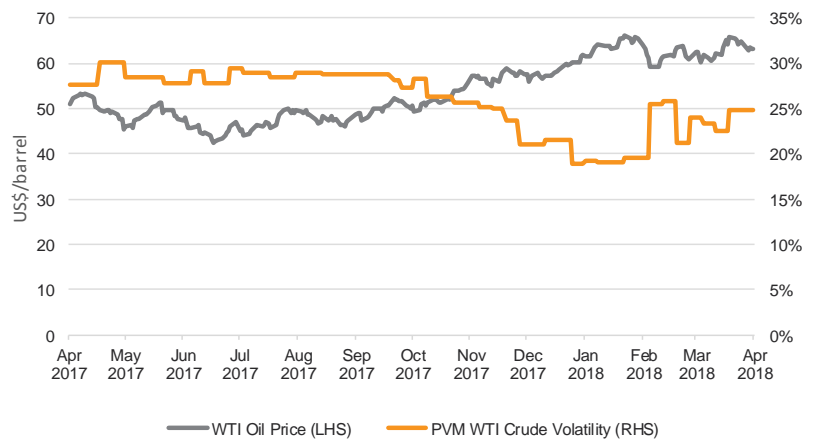
tensions with North Korea, Iran and Russia) – it is conceivable that commodity price volatility will spike in 2018.

Figure 4: Indexed price movements of some key commodities



Source: Bloomberg, VNDIRECT

Figure 5: WTI Crude oil price 1-year movement and volatility



Source: Bloomberg

Certain sectors which are key beneficiaries of Vietnam’s growth story also carry high commodity price exposure. Sectors that provide some of the most direct exposure to the greatest structural growth stories in Vietnam such as the rise in tourist arrivals, growing trade integration, growing infrastructure investment, rising power consumption and domestic hydrocarbon reserve development also come with high exposure to global commodity prices..

In our view, asset owners and operators and ancillary service providers and mid-stream equipment suppliers are relatively insulated from direct commodity price risk. Given the rising commodity price volatility adhered to above, we came up with the following summary of target sectors and potential names to play some of the super-trends while limiting exposure to commodity price volatility.

Figure 6: Our commodity price risk exposure reduction strategy

Theme	Sources of commodity exposure	Our recommended "low beta" strategy	Sectors with heavy global commodity price exposure	Sectors relatively insulated from global commodity price risk	Names to explore
Rising domestic and international tourism	Global fuel prices (aviation, diesel oil)	Focus on asset owners and operators instead of passenger transportation players in order to reduce direct exposure to fuel prices	Airlines	Airport operations, Aviation services	ACV (HOLD)
Growing trade activity	Global fuel prices (aviation, diesel oil), global container shipping charter rates	Look at logistics and infrastructure asset owners rather than transporters or shipping lines	Container shipping	Port operations, Logistics, Industrial Park Operators, Air cargo services	VSC (ADD) KBC (NON-RATED) LHG (NON-RATED) SCS (NON-RATED)
Growing fruit and vegetable exports especially to China	Selling prices in global market	Focus on ancillary service providers and suppliers to fruit and vegetable exporters instead of the exporters or growers, themselves	Farming / horticulture	Food irradiation services	APC (NON-RATED)
Growing aquatic exports to the world	Selling prices in global market	Focus on equipment providers to fishermen and fish farmers / breeders instead of the exporters or farmers / breeders, themselves.	Aquaculture, frozen seafood production	Aquaculture and fishing equipment manufacturing	SBV* (ADD)
Re-starting of domestic hydrocarbon asset development cycle	Crude oil prices	Look at oil field service companies for whom fee structure is less linked to crude oil prices. Also look at hydrocarbon infrastructure developers and suppliers	Oil E&P, oil drilling services	Oil field services, Oil equipment supply	PVS** (NON-RATED) PVB (NON-RATED)
Expansion in thermal power capacity	Coal and gas input prices	Look at power engineering and construction companies, power equipment suppliers*** and logistics and bulk-handling and transportation players instead of power generators	Power generation	Power infrastructure and engineering, electrical equipment, coal transportation and handling	PC1 (ADD) PVT (NON-RATED) GEX (NON-RATED)
Expansion in crude refining capacity	Crude oil input prices and refined product selling prices	Look at refinery E&C players, equipment suppliers and oil transportation service providers	Oil refining	Tanker transportation, Downstream E&C	PVT (NON-RATED)
Continued heavy domestic infrastructure build-out and FDI-led industrialization	Steel and cement prices	Look at infrastructure builder-owner-operators and industrial park developer-operators. In the materials sector, look at fully integrated players that have significant pricing power, captive sources of feedstock and are protected from imports and / or less reliant on exports	Galvanized steel, cement / clinker production	Fully integrated long steel producers, industrial park operators, infrastructure development and services, specialized E&C	CII (NON-RATED) KBC (NON-RATED) LHG (NON-RATED) FCN (NON-RATED) HPG**** (NON-RATED)

Notes

*We acknowledge that SBV has exposure to polypropylene and polyethylene input prices but its strong brand allows partial pass through to customers

**We consider PVS to be a good long-term bet despite the recent suspension of the Red Emperor Project

***some exposure to input metal prices (e.g. Copper)

****HPG is an exception in the materials sector due to its captive iron ore sources, its leading market share and scale domestically, tariff protection from imported steel and low share of exports in the total revenue mix

Figure 7: A summary of key names that provide exposure to structural growth themes with reduced exposure to commodity prices

Ticker	Company short name	Exchange	VNDIRECT rating	Marketcap (VNDbn)	P/E (x)	P/B (x)	Beta
ACV	Airports Corporation of Vietnam	UPCOM	HOLD	208,371	50.8	7.6	0.7
HPG	Hoa Phat Group	HOSE	NON-RATED	89,192	10.1	2.8	0.7
SCS	Saigon Cargo Service	UPCOM	NON-RATED	10,852	30.3	11.9	0.4
GEX (*)	Vietnam Electrical Equipment	HOSE	NON-RATED	10,539	13.4	2.4	-
PVS	Petroleum Technical Services	HNX	NON-RATED	9,291	11.6	0.9	2.3
CII	Ho Chi Minh Infrastructure	HOSE	NON-RATED	8,286	5.4	1.9	0.9
KBC	Kinh Bac Urban Development	HOSE	NON-RATED	7,046	12.1	0.9	1.0
PVT	PVTrans	HOSE	NON-RATED	6,079	13.5	1.6	0.7
PC1	Power Construction No. 1	HOSE	ADD	3,694	13.7	1.4	0.2
VSC	Vietnam Container Shipping	HOSE	ADD	1,954	8.2	1.3	0.6
FCN	FECON	HOSE	NON-RATED	1,808	7.2	1.0	0.6
LHG	Long Hau Corp	HOSE	NON-RATED	1,275	4.5	1.2	0.9
SBV	Siam Brothers Vietnam	HOSE	ADD	890	7.9	1.9	0.3
APC	An Phu Irradiation	HOSE	NON-RATED	439	6.6	1.6	0.2
PVB	PetroVietnam Coating	HNX	NON-RATED	324	5.8	0.8	1.7

(*) GEX recently migrated from UPCOM to HOSE

Source: VNDIRECT, FiinPro

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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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