VNDIRECT

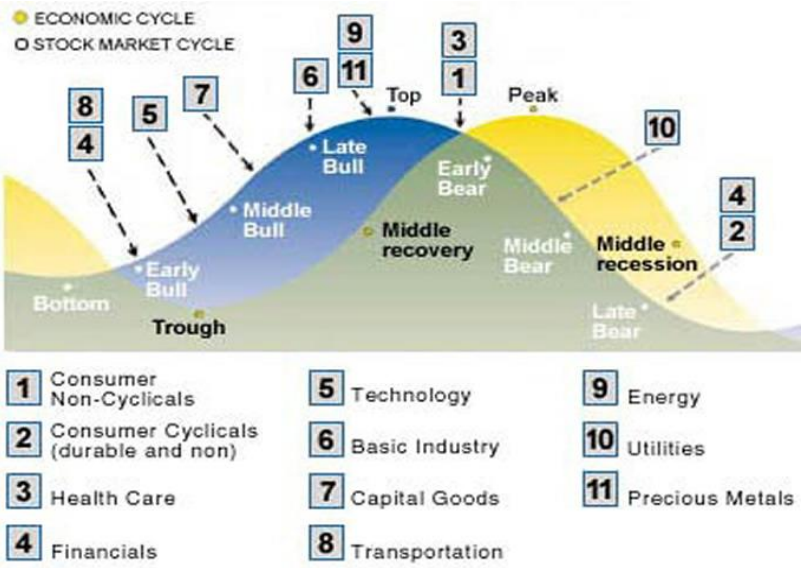
NAVIGATING VIETNAM 2H20

Change expectation

July 2020

1H20 recap

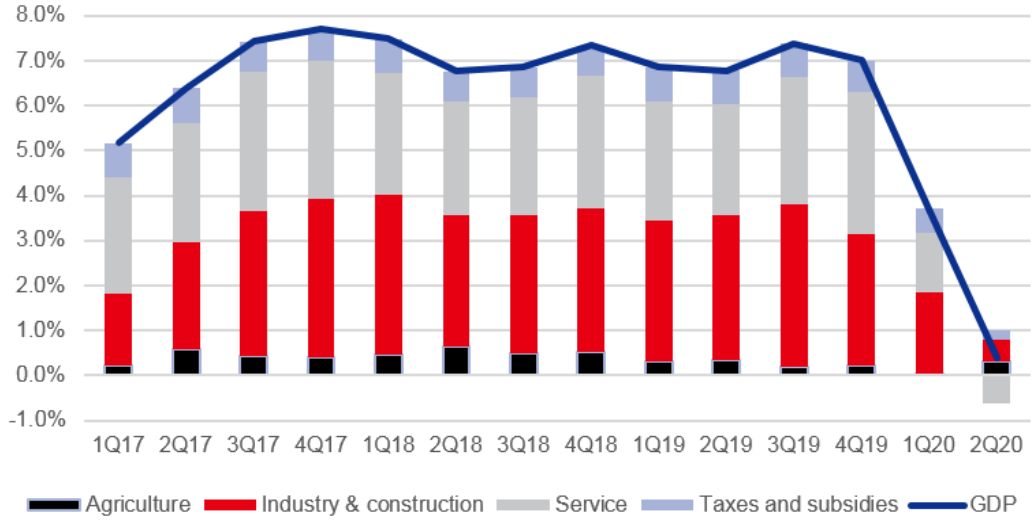
Covid-19 pandemic casted shadow over Vietnam macro and stock market



2

COVID-19 outbreak weighs on GDP growth

Vietnam's 2Q20 GDP expand at the slowest pace in a decade

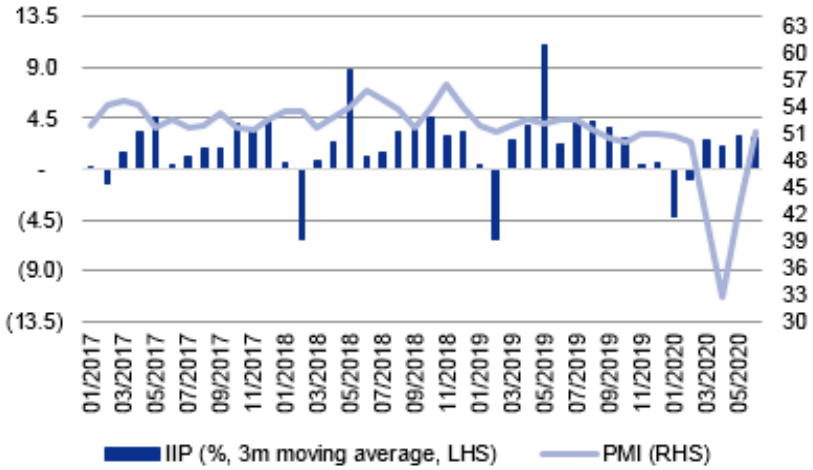


SOURCES: VNDIRECT RESEARCH, GSO

- According to the General Statistics Office (GSO), Vietnam's 2Q20 real GDP is estimated to expand 0.4% yoy, the slowest second quarter growth rate in a decade, as all sectors have been hurt by the COVID-19 outbreak. For 1H20, Vietnam's real GDP grew 1.8% yoy.
- By 15 Jun 2020, Vietnam's exports slid 0.7% yoy US$110.6bn as global demand declined amid the pandemic while Vietnam's imports fell 3.9% yoy to US$106.8bn.
- Despite higher food costs, headline inflation remained under control, with the average reaching 4.2% yoy in 1H20. Muted inflation may lead to further monetary easing in 2H20F.

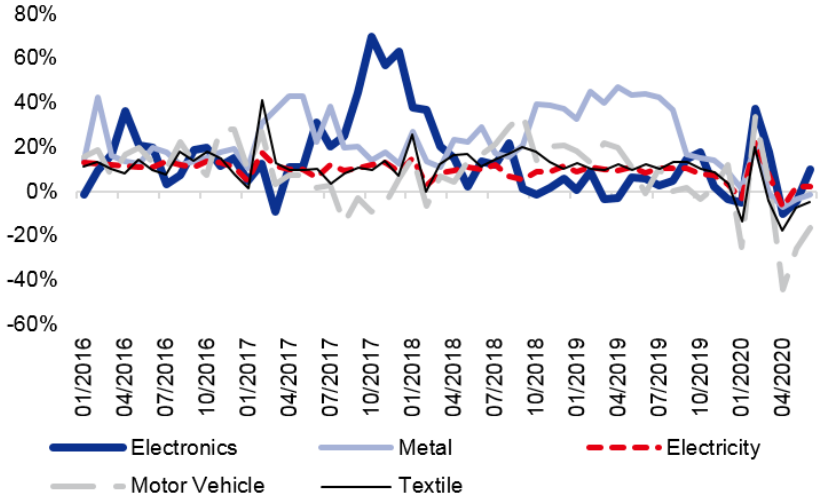
Industrial sector was hit hard by COVID-19

Industrial sector recovered from low base



SOURCE:GSO, VNDIRECT RESEARCH

Industrial activities were hurt by lower external demand and supply chain disruption

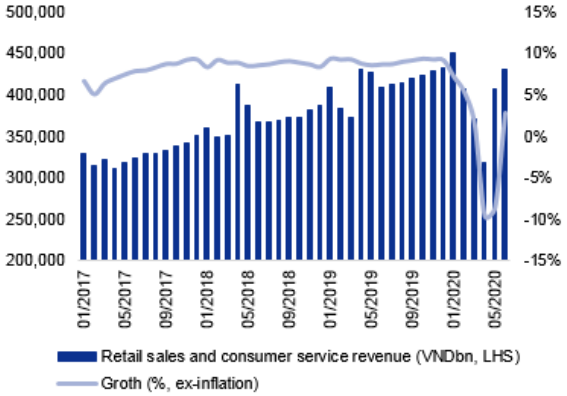


SOURCE: GSO, VNDIRECT RESEARCH

- The industrial sector grew 2.7% yoy in 1H20 (slowing from 9.1% in 1H19), of which the manufacturing sector rose 5.0% yoy (significantly behind the 11.2% rate in 1H19). Vietnam's June IHS Markit Purchasing Managers' Index (PMI) climbed to 51.1pts (note that PMI above 50 indicates an expansion in the manufacturing sector).

Weakness across service and agriculture sectors

Service sector show improvement after social distancing period

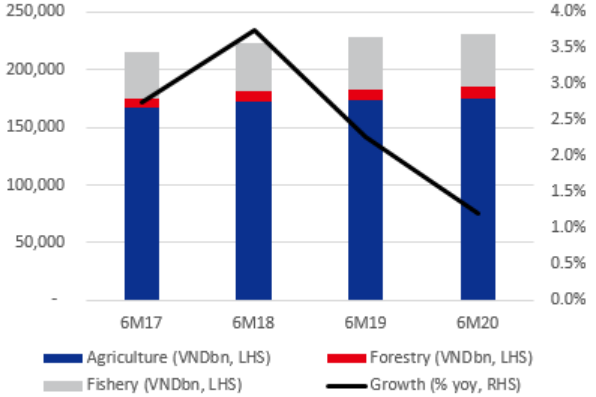


SOURCE: VNDIRECT RESEARCH, GSO

Hospitality revived after easing of social restrictions (VNDbn)

SOURCE: VNDIRECT RESEARCH, GSO

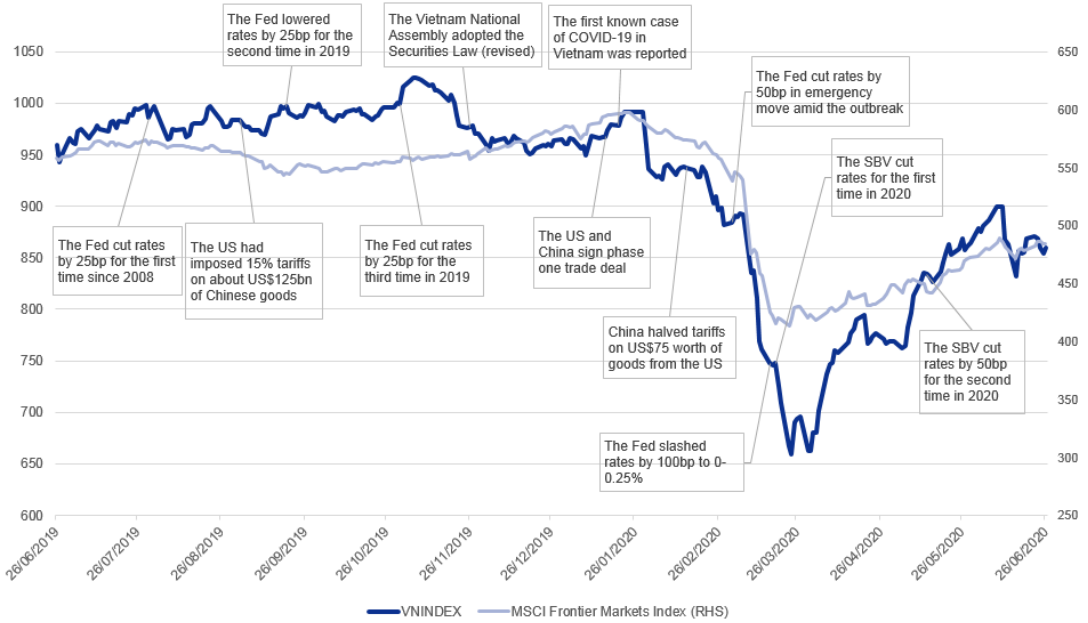
Agriculture dropped deeper in 1H20



SOURCE: VNDIRECT RESEARCH, GSO

- The service sector edged up 0.6% yoy in 1H20 (down from 6.7% in 1H19). We saw the sector's consistent recovery in Jun as retail sales rose 4.7% mom and 9.7% yoy while Jun hospitality revenue increased 12.8% mom but declined 8.3% yoy (against a 33.8%-yoy decline in May).
- The agriculture, forestry and fishery sector grew only 1.2% yoy in 1H20 amid the tightening in cross-border trade. Regarding sub-sectors, agriculture edged up 0.8% yoy, forestry inched up 2.2% yoy while fishery rose 2.4% yoy.

VNINDEX downturn bottomed out since April and so far experienced a 10.8% ytd plummet

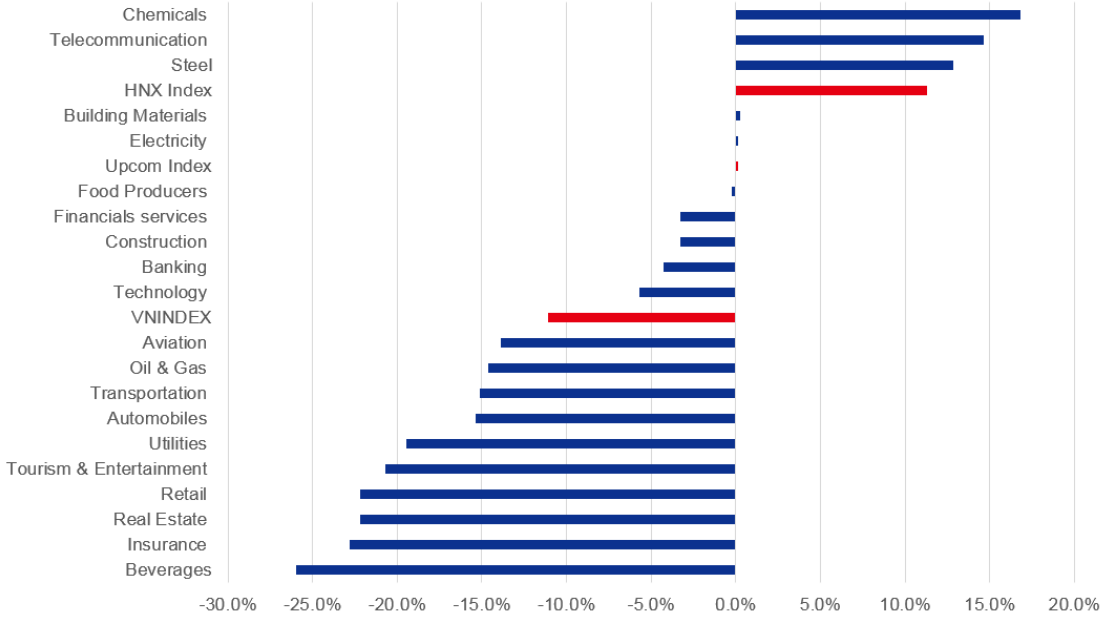


SOURCES: BLOOMBERG, VNDIRECT RESEARCH, data as at 26 June

- The performance of Vietnam's stock market was strongly affected by the COVID-19 outbreaks. The VNINDEX dropped dramatically since the beginning of Feb after Vietnam recorded the first infected case. On 24 Mar the index hit the bottom of 659.2pts, then partly recovered in 2Q20 as Vietnam successfully contained the virus spread. As at 26 Jun, the index had fallen 10.8% from the start of the year.

Sector performance: chemical was the top mover in 1H20

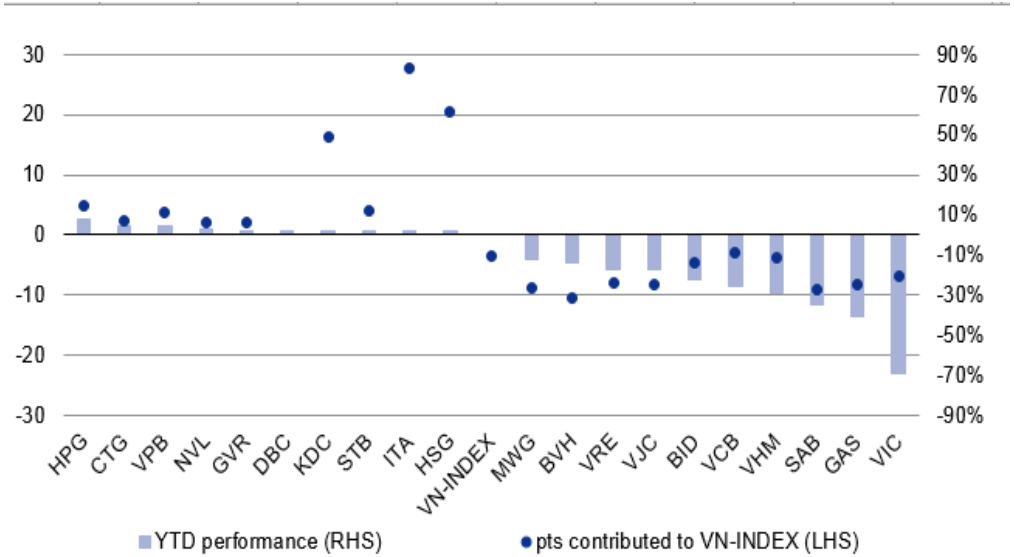
Share price performance by sectors in 1H20 (data as at 26 Jun 2020



SOURCES: FIINPRO, VNDIRECT RESEARCH

- Chemical was the top mover in 1H20, followed by Telecommunication and Steel.
- Regarding the sectors that form the backbone of the VNINDEX, Banking and Food Producers outperformed the index.
- On the negative side, Beverages, Insurance, Real Estate, Retail and Tourism & Entertainment were among the poorest players. These sectors' business results were severely hit by the pandemic.

VN-Index's top leaders and laggards – VIC was the worst in 1H20 (data as at 26 Jun 2020)

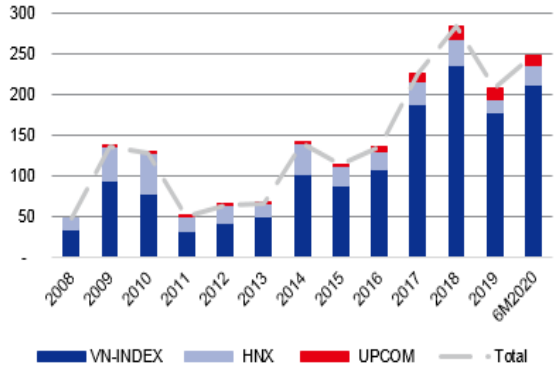


SOURCES: BLOOMBERG

- VIC was the VNINDEX's top laggard 1H20, with the share price having dropped 20%, alone eroding 7.4pts of the index. Other laggards included GAS, SAB, VHM and VCB.
- On the positive side, HPG was the largest supporter, with its share price rising 15% and alone contributing 2.7pts to the index. Other top leaders included CTG, VPG, NVL and GVR.

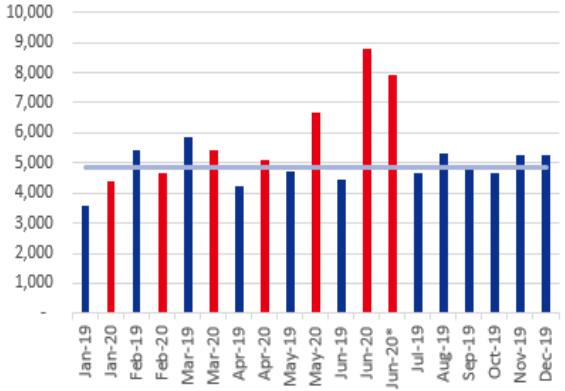
Increasing liquidity since Apr on the "retail investors' rally"

Liquidity posted a 24% yoy in 1H20 (data as at 26 Jun)



SOURCE: VNDIRECT RESEARCH

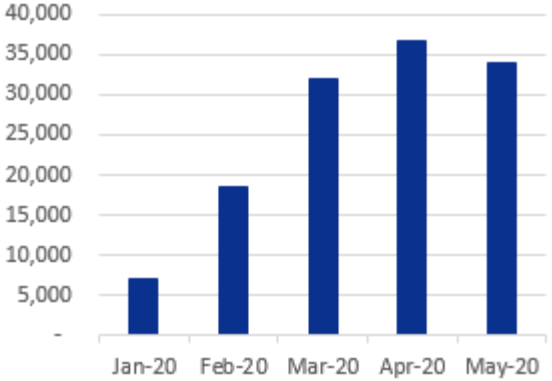
Monthly trading liquidity 2020 vs. 2019 (US$m) (data as at 26 Jun)



SOURCE: VNDIRECT RESEARCH

*Exclude VHM put-through transaction worth VND15,100bn on 16 Jun

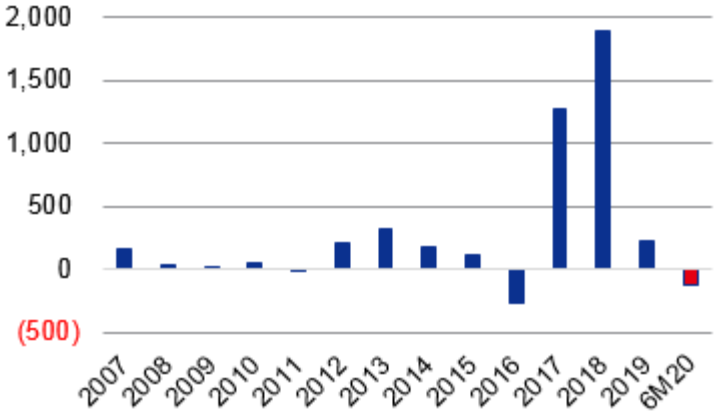
Number of new securities accounts during 5M20



SOURCE: VSD

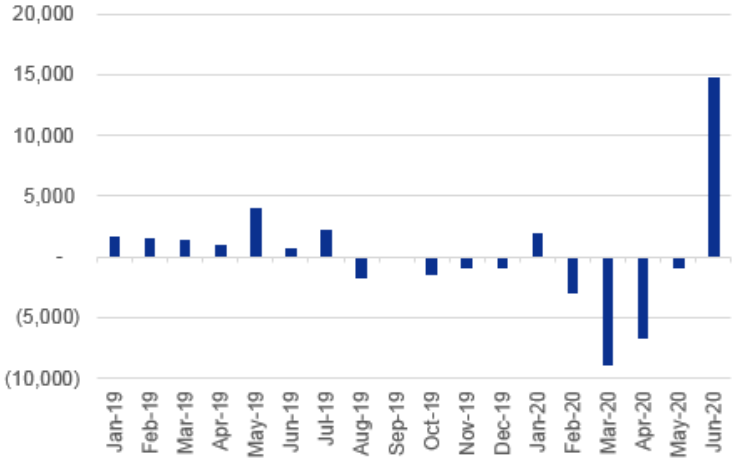
- Liquidity in 1H20 increased 24% yoy to VND5,800bn as domestic cashflow into the stock market accelerated. According to data from the Vietnam Securities Depository (VSD), by end-May, there were nearly 2.5m securities accounts, an increase of 128,347 accounts from the start of the year. On average, more than 25,000 new accounts were opened each month, or 53% higher than the same period in 2019.

Foreigners net sold in Vietnam's stock market in 1H20 (US$m), worth about US$122m (data as at 26 Jun 2020)



SOURCES: VNDIRECT RESEARCH

Foreigners strong net sold during Feb-May period as the pandemic evolved (US$m) (data as at 26 Jun 2020)



SOURCES: VNDIRECT RESEARCH

Foreigners net sold US$122m worth of stocks in 1H20. If excluding the deal of VHM net buying valued at about US$650m on 15 Jun, foreign investors had sold up to US$772m worth of Vietnamese stocks in the first half of 2020.

VIC, PLX and VCB were top net-bought by foreigners

Top foreign investors' net sell (US$m, data as at 26 Jun 2020)

Ticker	Net sold	Buy value	Sell value
VIC	-121	221	342
HPG	-52	161	213
VRE	-46	132	179
SHB	-39	3	42
VJC	-35	27	62
CII	-29	4	34
PC1	-26	2	28
PVS	-26	5	30
STB	-25	20	45
SVC	-24	0	25

SOURCES: VNDIRECT RESEARCH

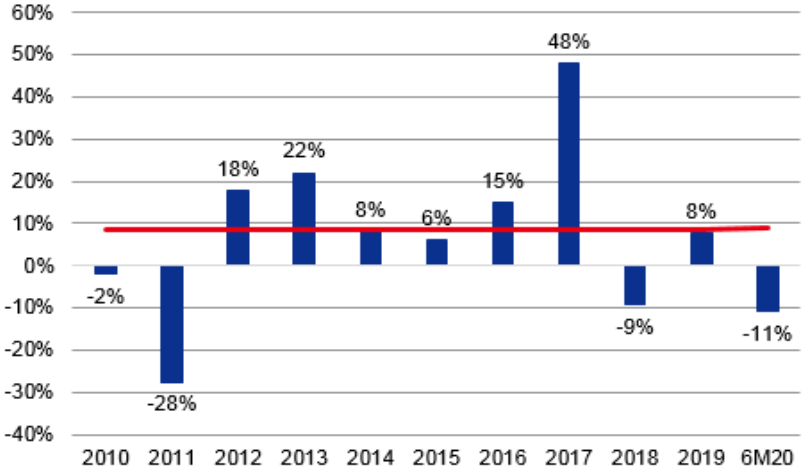
Top foreign investors' net buy (US$m, data as at 26 Jun 2020)

Ticker	Net bought	Buy value	Sell value
VHM	583	861	279
PGD	44	44	0
MWG	25	50	24
CTG	15	137	122
MSN	13	170	157
PHR	11	16	5
VNM	11	567	556
PLX	11	35	24
VTP	6	19	13
DGW	6	8	2

SOURCES: VNDIRECT RESEARCH

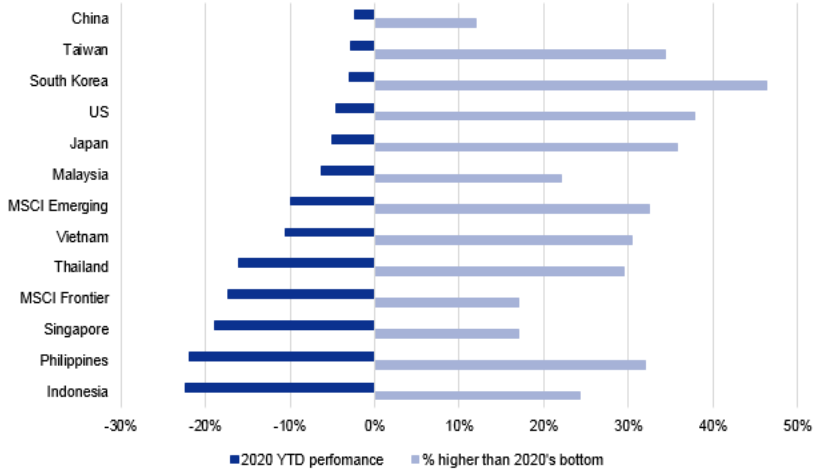
However, Vietnam's stock market still outperformed peers in South East Asia

VNINDEX's 1H20 growth far below its average annual pace in 2010-19 due to the pandemic



SOURCES: VNDIRECT RESEARCH

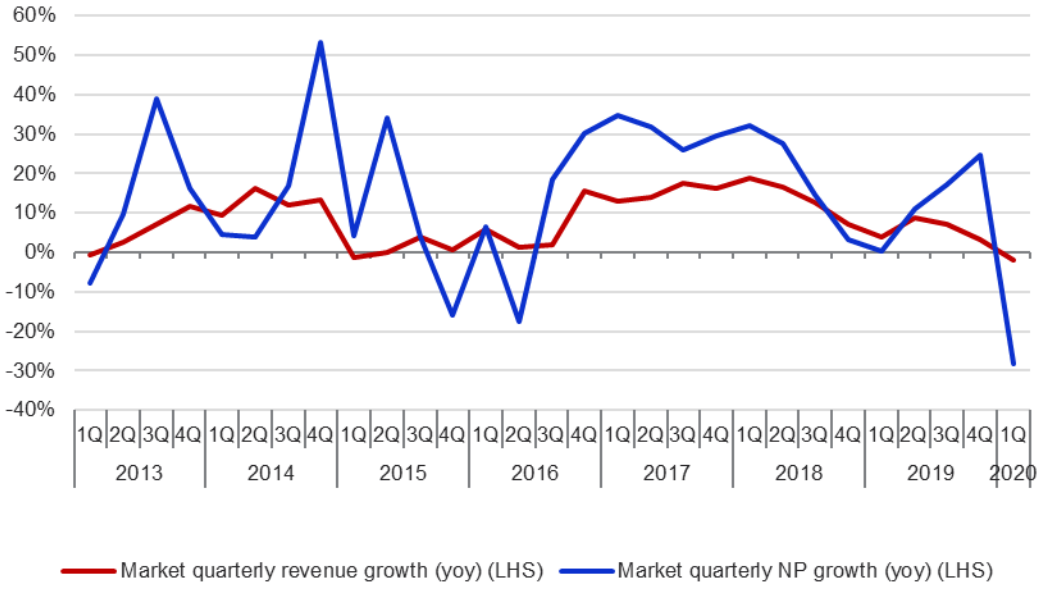
Vietnam's stock market outperformed peers and the MSCI benchmark



SOURCES: VNDIRECT RESEARCH

1Q20 results season disappoints a Covid-19 bites

Stock market aggregate revenue and net profit growth hit record lows in 1Q20



SOURCE: VNDIRECT RESEARCH, FIINPRO

1Q20 market aggregate net profit dropped 28.4% yoy (vs. +0.3% yoy in 1Q19) on the back a 2.1% yoy decline in net revenue (vs. a rise of 3.8% yoy in 1Q19) and a compression of 2.8 pts yoy in aggregate gross margin.

Under our coverage, 46% of companies had 1Q20 results in line with our expectations, another 40% missed the expectations and only 14% beat forecasts.

	1Q20 revenue growth	1Q19 revenue growth	1Q20 NP growth	1Q19 NP growth
All market	-2.1%	3.8%	-28.4%	0.3%
VN30	0.6%	1.5%	-12.6%	3.8%
Large caps	-2.4%	2.1%	-24.9%	9.2%
Mid caps	-0.5%	6.3%	-34.2%	-16.9%
Small caps	-2.9%	3.5%	-50.8%	-25.7%

Weak performance across sectors

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	Net revenue growth 1Q20	Net revenue growth 1Q19	Contribution to total market's net revenue growth 1Q20	Net profit growth 1Q20	Net profit growth 1Q19	Contribution to total market's NP growth 1Q20
Travel & Leisure	-32.7%	5.6%	-2.0%	-227.8%	7.1%	-10.1%
Oil & Gas	-8.5%	0.7%	-1.4%	-142.9%	21.9%	-11.4%
Financial Services	20.0%	-37.2%	0.1%	-114.0%	-45.6%	-1.9%
Electricity	4.1%	-0.1%	0.2%	-68.8%	-6.8%	-3.0%
Mining	7.0%	15.2%	0.2%	-63.6%	-42.1%	-0.2%
Insurance	9.4%	11.2%	0.2%	-56.2%	15.9%	-0.8%
Beverages	-40.9%	18.9%	-0.7%	-44.1%	11.2%	-1.0%
Chemicals	-11.2%	-3.9%	-0.3%	-31.9%	-21.8%	-0.5%
Industrial Transportation	-3.1%	2.1%	-0.1%	-30.1%	2.6%	-1.5%
Industrial	-1.2%	13.7%	0.0%	-27.4%	-42.4%	-0.5%
Personal & Household Goods	-5.9%	3.5%	-0.2%	-22.2%	-8.2%	-0.3%
Food Producers	23.6%	-0.9%	1.7%	-20.9%	14.2%	-1.9%
Construction & Materials	-9.0%	7.2%	-0.7%	-18.6%	3.7%	-0.8%
Retail	10.1%	6.0%	0.8%	-6.1%	14.7%	-0.2%
Utilities	1.7%	9.2%	0.0%	-2.6%	21.4%	0.0%
Support Services	67.6%	30.6%	0.2%	-1.6%	57.4%	0.0%
Banks	15.5%	9.9%	1.5%	3.4%	11.3%	1.1%
Media	-15.4%	15.8%	0.0%	4.9%	-39.7%	0.0%
Health Care	5.5%	-3.8%	0.1%	5.6%	-0.5%	0.1%
Automobiles & Parts	-10.6%	15.4%	-0.1%	7.4%	24.4%	0.2%
Forestry & Paper	32.3%	7.0%	0.1%	8.3%	-34.6%	0.0%
Telecommunications	28.1%	7.5%	0.2%	14.6%	134.8%	0.1%
Technology	10.5%	4.4%	0.2%	15.6%	24.7%	0.2%
Real Estate	-19.7%	-4.5%	-1.7%	29.0%	-12.7%	3.1%
Industrial Metals	-2.0%	5.5%	-0.1%	39.5%	-49.9%	1.0%
Market	**-2.1%**	**3.8%**		**-28.4%**	**0.3%**	
Real estate excluded VHM, VIC	*-18.5%*		*-0.8%*	*-52.1%*		*-2.6%*

SOURCES: BLOOMBERG, VNDIRECT RESEARCH

Ticker	Current price (VND)	Target price (VND)	YTD performance (*)
PC1	16,950	17,200	-3.1%
LPB	8,181	10,000	13.2%
NLG	25,200	39,600	-6.5%
ACV	59,056	82,900	-23.2%
DPM	14,300	15,800	14.2%
VCB	82,600	86,200	-8.4%
MBB	**16,850**	**26,200**	**-19.0%**
VPB	21,450	21,200	7.3%
TCM	19,500	28,200	4.3%
HPG	**27,600**	**32,800**	**17.4%**
PVT	10,500	14,400	-37.5%
STK	**16,700**	**22,400**	**-4.8%**
PNJ	58,700	78,800	-30.3%
KDH	23,500	28,300	-12.6%
ACB	**23,100**	**28,500**	**1.3%**
GAS	70,500	70,000	-24.8%
PVS	12,100	16,500	-30.9%
PVD	10,200	16,500	-32.2%
MSH	33,600	51,600	-24.2%
MWG	**81,800**	**139,900**	**-28.2%**
POW	9,610	16,700	-16.1%
TCB	19,750	27,400	-16.1%
PPC	24,150	27,400	-6.4%
VIB	17,670	23,800	1.0%
KBC	13,950	17,500	-9.7%
VNM	113,000	131,000	-1.7%
VHM	76,900	104,300	-9.3%
VJC	107,900	142,200	-26.2%
VHC	36,500	39,700	-7.9%
VRE	**26,200**	**38,000**	**-22.9%**
GMD	**18,900**	**29,500**	**-18.9%**
DBC	**47,900**	**35,500**	**132.8%**
FPT	46,150	64,348	-7.3%
MML	47,988	73,700	-8.9%
Adjusted coverage YTD return			**-7.2%**
VNDIRECT's 2020 top picks return			**7.2%**
VNINDEX YTD return			**-14.1%**

(*) For stock initiated in 2020, YTD performance calculated from date of the reports.

2H20F Macro Outlook

Solid steps to a “new normal”

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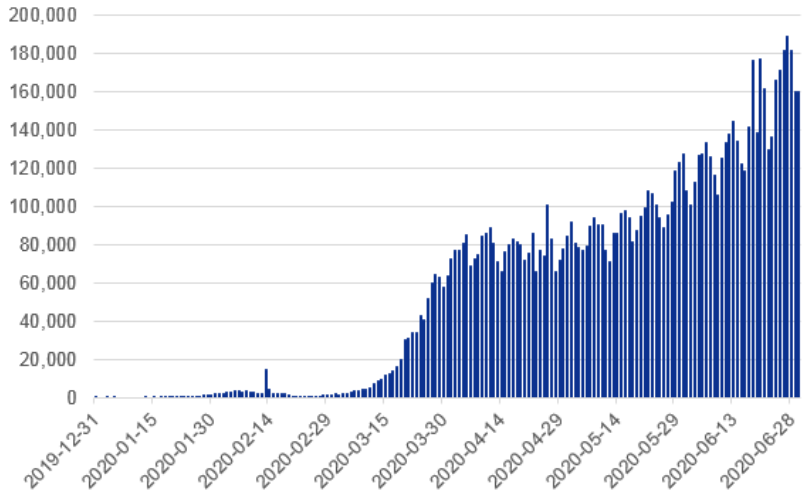
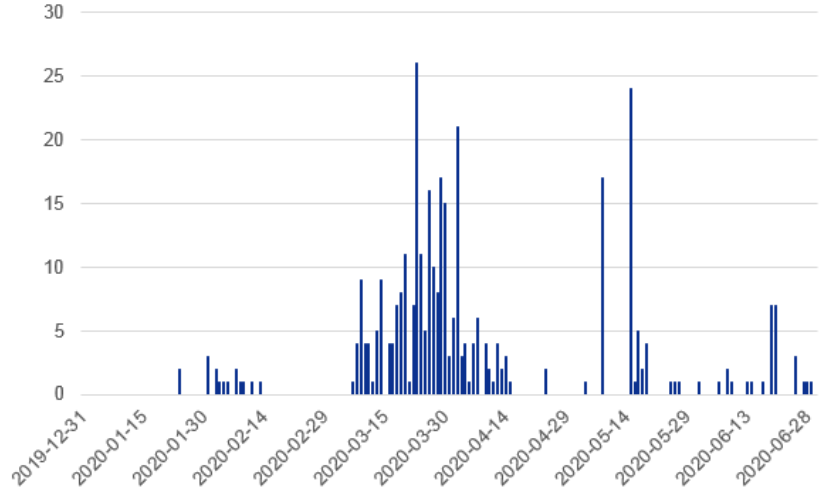
Globally, the pandemic is accelerating, with a second wave already upon the US

Daily number of confirmed cases has already seen a resurgence in recent days



SOURCE: EUROPEAN CDC, data as at 30 Jun

Vietnam is emerging as successful country to contain the Covid-19 (daily cases)



SOURCE: EUROPEAN CDC, data as at 30 Jun

- The daily number of confirmed cases hit the record of 189,197 cases on 27 Jun. The US appears to be in the midst of a second wave, with the likelihood of a return to isolation, social distancing and economic shutdown.
- Meanwhile, Vietnam recorded no community transmission of Covid-19 since 16 Apr and no death toll.

COVID-19 pandemic casts a shadow on global economy outlook

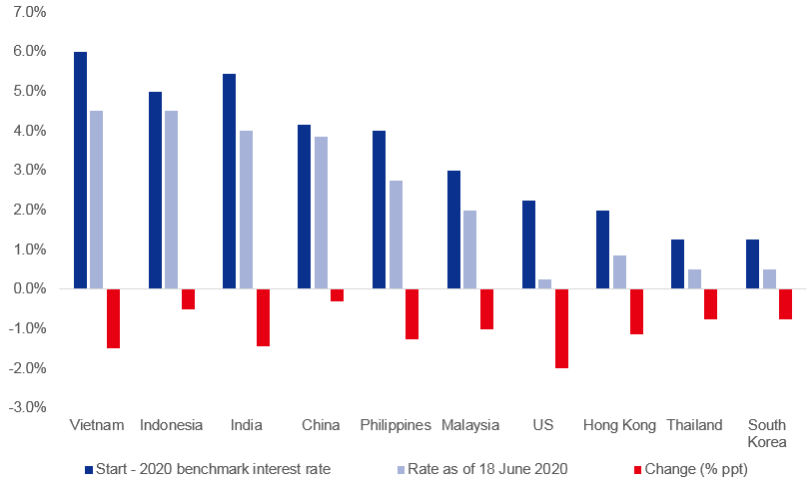
Real GDP (percentage change from the previous year)

	World bank			IMF			ADB		
	2019E	2020F	2021F	2019	2020F	2021F	2019	2020F	2021F
World	**2.4**	**-5.2**	**4.2**	**2.9**	**-3.0**	**5.8**			
Advanced economies	**1.6**	**-7.0**	**3.9**	**1.7**	**-6.1**	**4.5**	**1.7**	**-5.8**	**4.1**
US	2.3	-6.1	4.0	2.3	-5.9	4.7	2.3	-5.3	3.8
EU	1.2	-9.1	4.5	1.2	-7.5	4.7	1.2	-7.0	5.5
Japan	0.7	-6.1	2.5	0.7	-5.2	3.0	0.7	-5.0	2.0
Emerging market and developing economies	**3.5**	**-2.5**	**4.6**	**3.7**	**-1.0**	**6.6**			
China	6.1	1.0	6.9	6.1	1.2	9.2	6.1	1.8	7.4
India	4.2	-3.2	3.1	4.2	1.9	7.4	4.2	-4.0	5.0
Indonesia	5.0	0.0	4.8	5.0	0.5	8.2	5.0	-1.0	5.3
Thailand	2.4	-5.0	4.1	2.4	-6.7	6.1	2.4	-6.5	3.5
Philippines	6.0	-1.9	6.2	5.9	0.6	7.6	6.0	-3.8	6.5
Vietnam	**7.0**	**2.8**	**6.8**	**7.0**	**2.7**	**7.0**	**7.0**	**4.1**	**6.8**

SOURCES: World bank, IMF, ADB

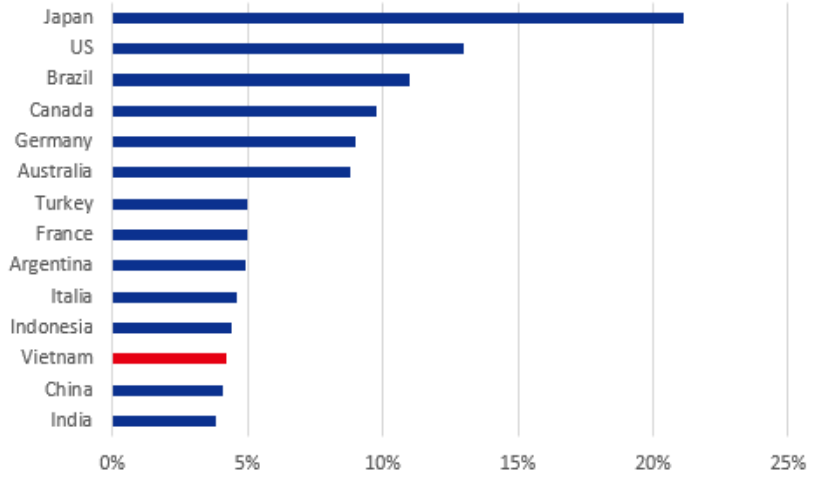
- To combat the pandemic, several governments have imposed lockdowns, which are strongly associated with declines in domestic economic activities.
- In addition, the external business environment has worsened due to slower consumption demand and disruption of global supply chain.
- Major research institutions expected the 2020F global economy outlook to witness the deepest contraction since the Great Depression. However, they also believed global economy could strongly recover in 2021F as risks from the pandemic fade.

Interest sate cuts across Asia-Pacific



SOURCE: CBRates, data as at 23 Jun

Value of fiscal stimulus measures as a share of GDP



SOURCE: IMF, VNDIRECT RESEARCH, data as at 23 Jun

Central banks across the world have eased monetary policy by lowering interest rates and restarting “quantitative easing” (QE) to respond to the Covid-19. According to Fitch Rating, total direct fiscal stimulus measures have reached US$5 trillion (7% of 2019 world GDP) which is significantly larger than the fiscal response seen after the global finance crisis.

Key macro forecasts in 2020F, in our base case scenario

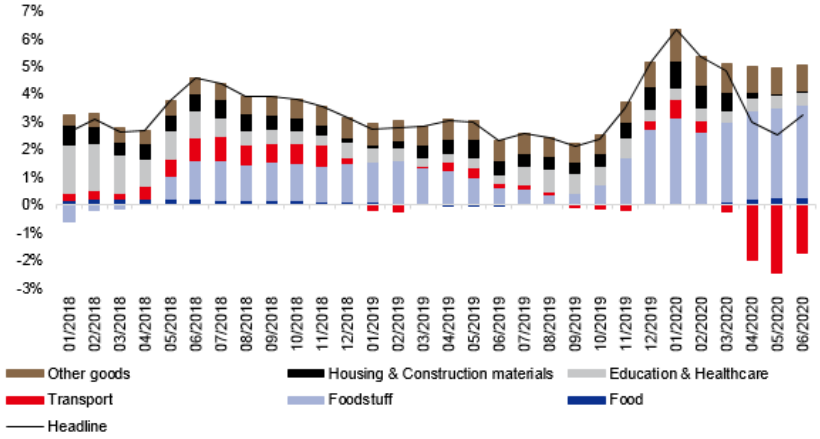
Indicator	Unit	2017	2018	2019	2020F
Real GDP growth	%yoy	6.8	7.1	7.0	4.5
Agriculture, forestry, aquacuture	%yoy	2.9	3.7	2.0	2.3
Industry & construction	%yoy	8.0	8.5	8.9	7.3
Services	%yoy	7.4	7.0	7.3	2.5
CPI (period average)	%yoy	3.5	3.5	2.8	3.2
Credit growth	%yoy	18.3	13.9	13.7	9.0-10.0
M2 growth	%yoy	15.0	12.4	14.8	9.0-10.0
Refinancing rate (USD/VND)	%	6.25	6.25	6.0	4.0-4.25
Exchange rate	% yoy	1.2	1.8	1.4	1.5
Fiscal balance	% of GDP	-2.7	-2.8	-2.5	-4.0
Current account balance	% of GDP	-0.7	2.4	4.9	2.6
Public debt	% of GDP	61.3	58.4	56.1	55.5

- Emerging as a successful story of Covid-19 containment, Vietnam is taking solid steps toward the "new normal".
- We expect Vietnam's major export market to reopen in late-3Q20 which boost the demand to bounce back.
- We expect Vietnam's GDP growth to strongly bounce back in 2H20F on the back of manufacturing recovery and publish investment expansion.
- We expect the State Bank of Vietnam (SBV) to further loosen monetary policy to support economic growth and reduce key policy rates by 0.25-0.5% pts in 2H20F.

SOURCES: VNDIRECT RESEARCH, GSO

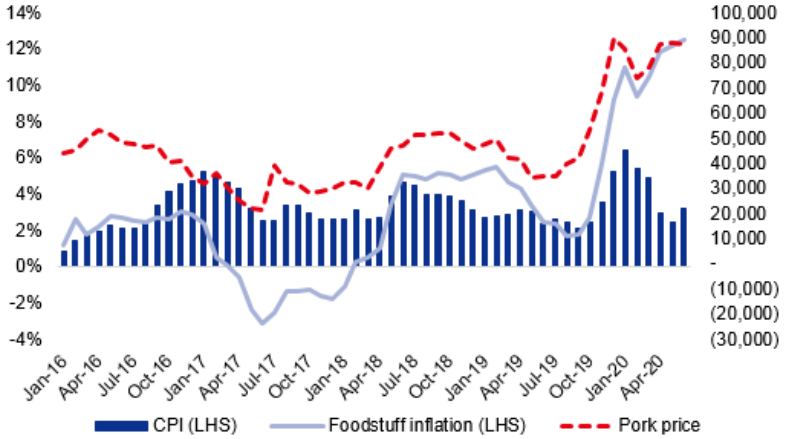
Inflation could stay manageable toward year-end

On a year-on-year basis, headline CPI ticked up in Jun 2020 as crude oil price rebounded



SOURCES: GSO, VNDIRECT RESEARCH

Pork prices to lift foodstuff inflation further



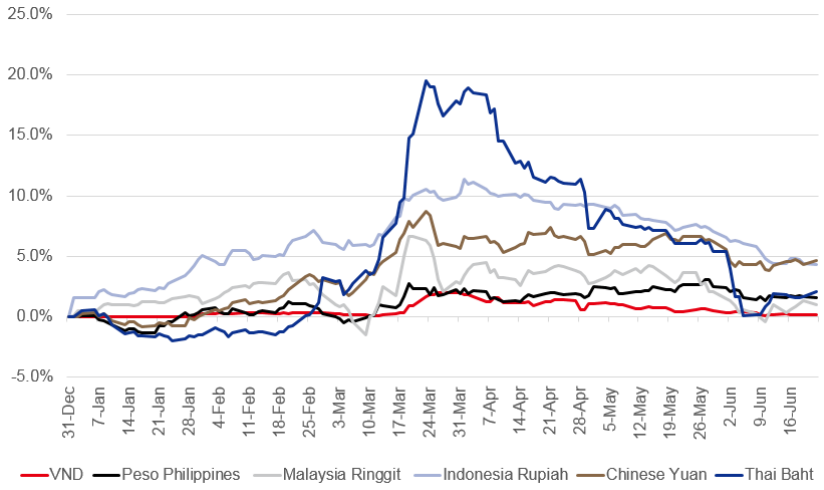
SOURCES: GSO, AGROMONITOR, VNDIRECT RESEARCH

Headline inflation eased since Feb 2020 on the back of subdued crude oil price. We expect inflation to stay at 3.2% in 2020F

Pork/food prices are expected to decline in 2H20F and help create room for further monetary policy easing in late-2020F.

Exchange rate could be stable in 2020F

Vietnamese currency is more stable than most regional peers



SOURCES: VNDIRECT RESEARCH, BLOOMBERG, data as of 23 Jun

Vietnam's FX reserves and import cover

SOURCES: VNDIRECT RESEARCH, BLOOMBERG, SBV

- The current account surplus is expected to remain in place in 2020F, at 2.6% of GDP. We see minimal risk of external pressures, given more synchronised global easing of financial conditions. Expanding FX reserves will support the stability of the Vietnamese dong. Therefore, we expect that the dong may move within a relatively narrow range of VND23,300-23,600/USD in 2H20F.

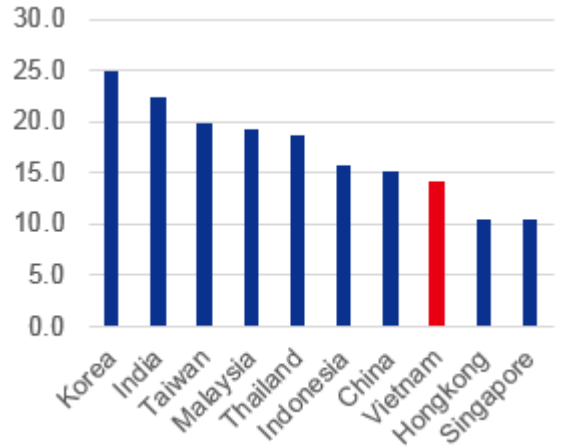
2H20F Stock market outlook

Growing uncertainties

Historical P/E of VNIDEX (2019-present)

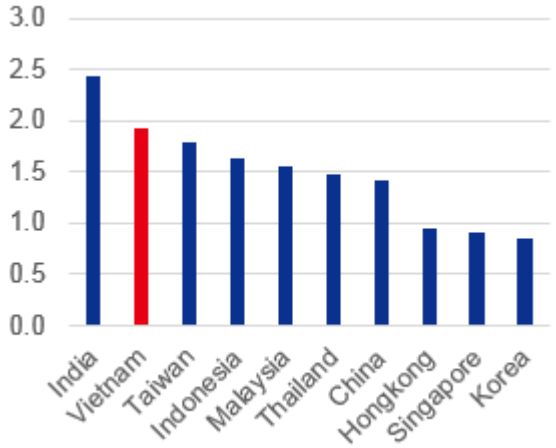
SOURCE: BLOOMBERG

TTM P/E of VNINDEX and regional peers as at 26 Jun 2020



SOURCE: BLOOMBERG

P/B of VNINDEX and regional peers as at 26 Jun 2020



SOURCE: BLOOMBERG

As at 26 Jun, VN-INDEX was trading at 14.2x TTM P/E stands at 14.2x, slightly below the level of 15.1x seen at the beginning of 2020. Vietnam's market valuation looks expensive to South East Asia peers in term of P/B but cheap in term of PE.

- Market valuation is relatively fair and the 2H20F business results of listed companies still severely affected by the COVID-19 pandemic can halt the market's recovery momentum.

Re-rating catalysts to the market include:

- The possibility of foreigners turning net buyers in Vietnam's stock market in 2H20F thanks to (1) strong macro fundamental and positive medium-term outlook, and (2) a possible higher market share of Vietnamese stocks in the MSCI Frontier Markets Index as Kuwait would be reclassified into Emerging market status.
- SBV's possibility of further cutting policy rates to support growth, thus reducing financial costs for listed companies as well as strengthening domestic cash flow into the stock market.
- The EVFTA taking effect from 1 Aug, which is expected to boost export industries.
- Government plans to divest state capital in some large state-owned enterprises, notably SABECO (SAB).

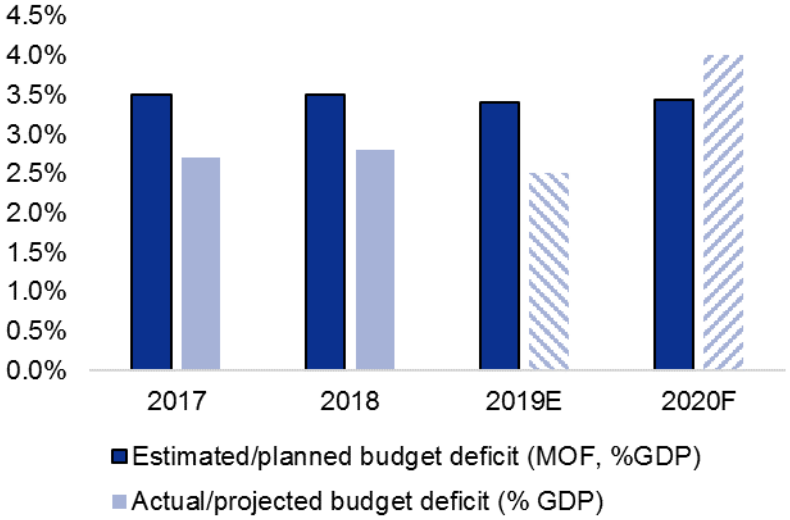
However, uncertainties remains strong as:

- The second wave of the pandemic casts a shadow on business outlook of listed companies, especially in the Consumer sector.
- Trade tensions between the United States and China, or the U.S. Presidential election in 4Q20, may cause a black-swan event to the global stock market.

In base case scenario, we estimate VNINDEX earnings to drop 5-6% yoy in FY20F. We expect the VNINDEX could remain at the current valuation level (2020F P/E of 14-15x) and range between 840-920pts at end-2020F.

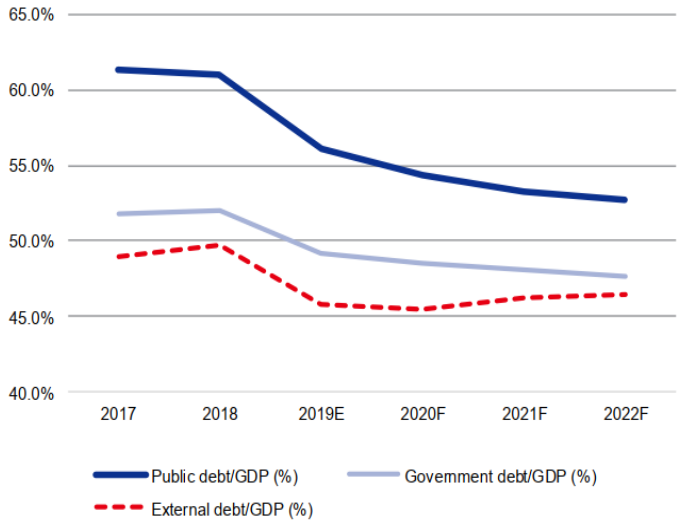
Key investment themes for 2H20F

Fiscal policy still has room to expand further in public investment



Sources: VNDIRECT RESEARCH, MOF, * Final account from MOF and our estimations

Public debt to GDP ratio dropped in 2019E

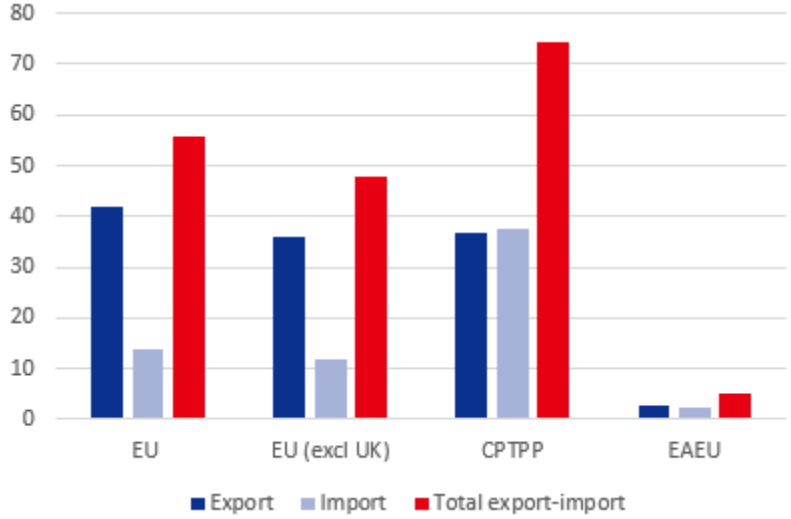


Sources: VNDIRECT RESEARCH, MOF

- All economic growth engines slowed down in 1H20 as results of Covid-19 pandemic. We see public investment will be vital to drive the growth in 2020. Disbursed state capital rose 19.2% yoy to VND154.4tr in 1H20 (vs 4.2% seen in 1H19, equivalent to 33.1% of the full-year target. The lower fiscal deficit and public debt to GDP ratio in 2019 provide room for further improvement in public investment.

Vietnam's export-import value with the EU (US$bn, in 2011-19)

Vietnam's export-import value with other parties in free trade agreements (US$bn)



SOURCES: VNDIRECT RESEARCH, FII, * Excluding the transaction of Thaibev (US$3.85bn)

Based on Ministry of Planning and Investment (MPI) research, EVFTA might boost Vietnam's export value to the EU by 42.7% in the first five years, and 44.4% in the first 10 years compared to the scenario without EVFTA. At the same time, Vietnam's imports from the EU would also increase, but at a lower pace, at 33.1% in the first five years and 36.7% in the first decade compared to the scenario without EVFTA.

List of exported products/sectors which benefit the most when the EVFTA is in place

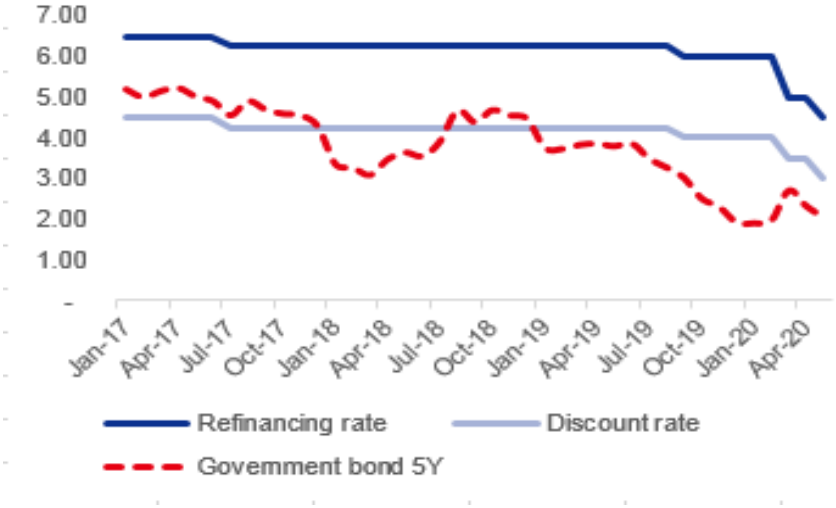
Product	EU commitment on Vietnam's export goods	Commentary
Fisheries (except canned tuna and fish balls)	Immediately remove about 50% of import tariff lines on Vietnam's export when the agreement takes effect; 50% of the remaining tax lines are removed within 3-7 years.	The EU is the second largest export market of Vietnam's seafood with export value in 2018 reaching US$1.44bn, up by 1% yoy. As much as 90% of tariffs on Vietnam's seafood products will be reduced to 0% within 3-4 years, from an average export tax rate of 14% at present.
Telephones, computers, electronic products	As much as 74% of import tariff lines will be removed as soon as the agreement takes effect, the remainder will be eliminated within 3-5 years.	The items are Vietnam's largest export products to the EU. The reduction in tariffs will create a competitive edge for Vietnam's exported electronic products, while promoting the trend of shifting manufacturing factories from elsewhere to Vietnam to take advantage of the tariff advantages under several FTA agreements, including the EVFTA.
Textile	As much as 42.5% of import tariff lines on the Vietnamese export product will be removed (mainly tariff on textile materials) as soon as the agreement comes into effect, the remainder (mainly tariff on final textile products) will be gradually reduced to 0% within 3-7 years from a starting rate of 12%.	The EU is the second-largest export market of Vietnam's textile and garment industry. Currently Vietnam's textile products exported to the EU are subject to tariffs of 7-17% (an average of 9.6%) under the GSP. We believe that exporters of textile materials (fiber, yarn, wool…) to the EU (currently accounting for a small portion of Vietnam's textile and garment export value to the EU) will benefit as soon as EVFTA takes effect. For companies that export final textile products to the EU, the benefits under the EVFTA will increase strongly along with tax reductions from the second year onwards.
Port operators and the logistics sectors	NA	This sector can receive benefits from the increase of the export and import volumes between Vietnam and the EU.
Industrial park (IP) sector	NA	The IP sector can receive benefits from the factory relocation to Vietnam from other countries as manufacturers seek preferential treatments from the FTAs that Vietnam is going to sign, including the EVFTA.
Footwear	About 37% of the import tariff lines will be removed as soon as the agreement comes into effect (mainly tariffs on waterproof shoes with outer soles and upper of rubber or plastics, slippers and other indoor footwear); The remainder will be gradually reduced to 0% within three to seven years from starting rates of 5-8% (most of Vietnam's footwear exported to the EU belongs to this group).	The EU is the second-largest export market of Vietnam's footwear. Currently, Vietnam's footwear products are subject to an average tariff of 3-4% on the EU market under the GSP. In the first two years after the EVFTA into effect, many footwear products could not benefit immediately as the starting tax rates for some Vietnamese key footwear products exported to the EU will be higher than the current tax rates under the GSP. It takes about two years for the EVFTA's tariff on Vietnam's footwear to drop to the same level or below the tax rates currently granted from GSP. When the tariffs on most of Vietnam's footwear are reduced to 0%, the product will enjoy a tax rate 3.5-4.2% below those on Chinese footwear products when exported to the EU market, creating a great competitive advantage for Vietnam.

Dark color indicates the high level of benefit;

SOURCES: The EVFTA agreement documents; VNDIRECT RESEARCH

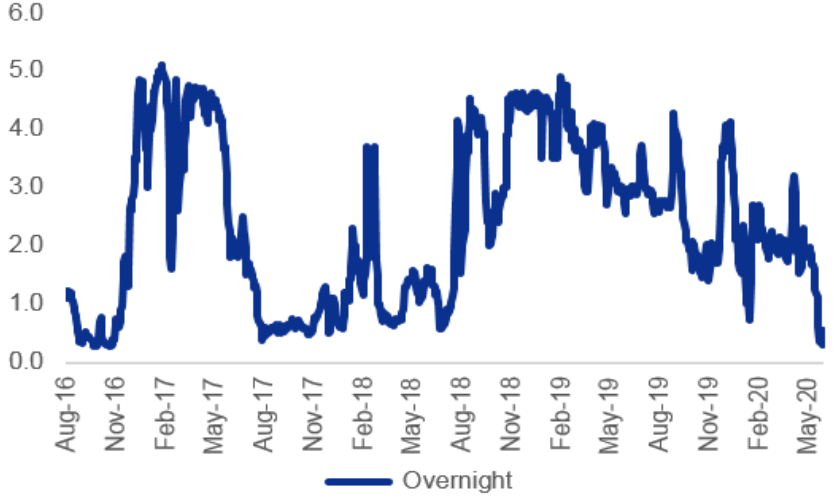
Theme #3: Easing monetary policy to keep interest rates declining

SBV cut key policy rates to support the economy



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

The overnight rate hit the lowest level since Oct 2016



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

- Given the pandemic impact, SBV had cut key policy rates twice to support the economy growth. After the reductions, the refinance rate has been lowered to 4.5% from 6.0%, and the discount rate to 3.0% from 4.0%.
- The overnight rate in late May hit 0.3%, the lowest level since Oct 2016 after SBV had injected nearly VND120,000bn into the banking system via open market operation (OMO) in the same month.

Sector picks & stock picks

Themes	Sector picks	Stock picks
#1: Robust public investment expansion to invigorate the economy	Infrastructure development projects will take centre stage with 3 projects (including Mai Son–National Highway 45, Vinh Hao-Phan Thiet, Phan Thiet - Dau Giay) to start in 3Q20, earlier than our expectation. Thus we believe **construction materials** are broad plays in this theme.	HPG & PLC
#2: Manufacturing relocation from China triggered by Covid-19 & EVFTA	We are generally positive on **Industrial parks** and **Logistics** given the surge in industrial land demand	KBC
#3: Easing monetary policy to aid the economic growth	We put **Banks** in our watchlist among the sectors sensitive to interest change.	MBB & VIB
#4 : Sectors to recover faster-than-expected	We see a strong rebound of **Consumer, Power, Retail, Aviation, Technology** in 2H20F. However we think investors should buy on price weakness in order to mitigate the downside risks.	VRE & MWG FPT & ACV & PPC

Chapter 2

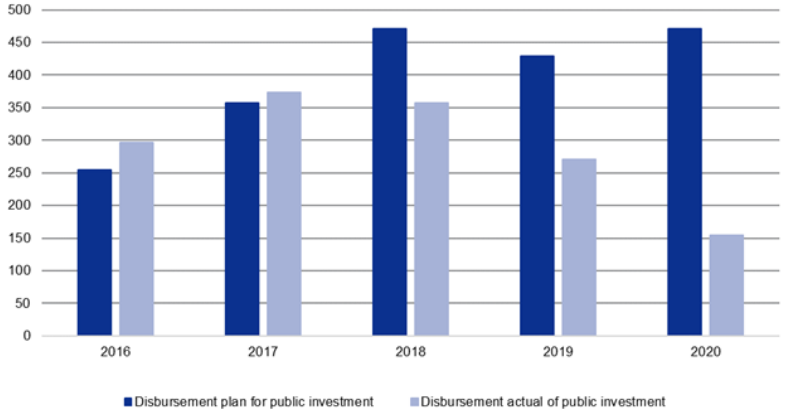
Sector outlook and stock picks

- Construction material – HPG, PLC
- Retail – MWG, VRE
- Aviation – ACV, VJC
- Industrial Property/Logistic – KBC, GMD
- Food and Beverage –VNM, DBC, MML
- Technology – FPT
- Banking – MBB, VIB, ACB, TCB, VCB, VPB, LPB
- Oil & Gas – PVS, PVT, GAS. PVD
- Power – POW, PPC

Construction material

At the forefront of robust public investment expansion

Disbursement of public investment in 2016-20



Source: GSO

Infrastructure development projects will take centre stage at the forefront of public investment expansion

A pipeline of mega projects in 2020 - 2026

Project	Total investment (VND bn)	Starting time	Completion
Metro 1 (Ben Thanh - Suoi Tien)	43.757	2012	4Q21
Metro 2 (Ben Thanh - Tham Luong)	47.800	2021	2026
HCM - Thu Dau Mot - Chon Thanh Highway	24.150		2021-2025
HCM - Moc Bai Highway	10.668	2021	2026
Parallel Road for 50 Route	3.816		2021-2025
Belt Road 2	6.500		2021-2025
Belt Road 3	19.871		2022-2025
Soai Rap Dredging Project (Phase 3)	8.977		2021-2025
The water environment improvement Project (Phase 2)	11.282	2015	2021
Long Thanh International Airport	114.451	2021	2025
11 sub-projects of the eastern section of the North-South expressway	118.716	2020	2021-2025

Sources: MINISTRY OF TRANSPORT

11 sub-projects in the Eastern section of the North-South expressway and My Thuan–Can Tho expressway

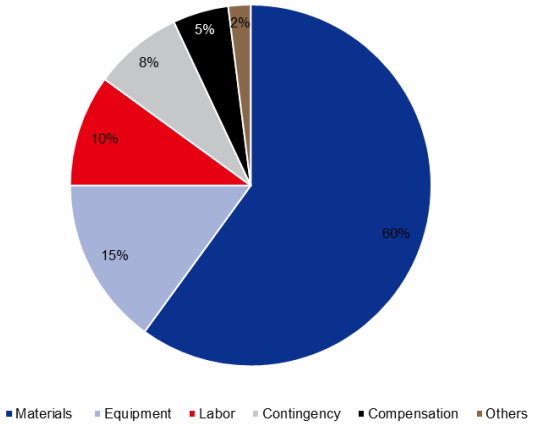
Expressway	Total investment (VNDbn)	Length of the route (km)	Starting time	Financing format
Cao Bo - Mai Son	1,612	15	4Q19	Public investment
Cam Lo - La Son	7,900	98	1Q20	Public investment
My Thuan Bridge 2	5,125	7	1Q20	Public investment
Mai Son – National Highway 45	14,703	63	3Q20	Public investment
Vinh Hao - Phan Thiet	19,648	101	3Q20	Public investment
Phan Thiet - Dau Giay	19,571	99	3Q20	Public investment
Dien Chau - Bai Vot	13,596	50	2021-2025	PPP
Nha Trang - Cam Lam	5,131	49	2021-2025	PPP
Cam Lam - Vinh Hao	15,013	78	2021-2025	PPP
National Highway 45 – Nghi Son	7,769	43	2021-2025	PPP
Nghi Son - Dien Chau	8,648	50	2021-2025	PPP
Total	118,716	653		
My Thuan - Can Tho	4,758	23	3Q20	Public investment

Sources: MINISTRY OF TRANSPORT

- On 19 Jun, National Assembly approved a change in the financing format of three sub-projects under the Eastern North-South Expressway project to public investment from public-private partnership (PPP). Recently, the government asked three projects (including Mai Son–National Highway 45, Vinh Hao–Phan Thiet, Phan Thiet–Dau Giay) to start in 3Q20, earlier than our expectation.

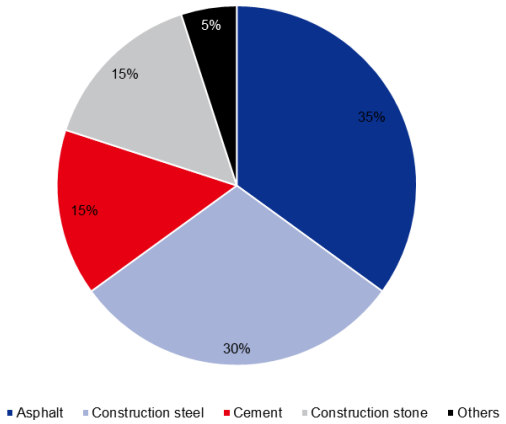
We believe construction material sectors are broad plays in this theme

Cost structure for Vietnam's North-South expressway projects



Source: VNDIRECT RESEARCH estimates

Proportion of construction material for North-South expressway projects



Source: VNDIRECT RESEARCH estimates

- Under our base scenario, about 25% of public investment will be disbursed at My Thuan-Can Tho expressway and six North-South expressway projects (including three projects converted to public investment) in 2020F, and construction will require VND6.4tr worth of asphalt, VND5.5tr of steel and VND2.7tr of cement.
- In addition, to fully complete these projects, we expect the costs for asphalt, construction steel and cement to reach VND25.7tr, VND22.0tr and VND11tr, respectively.

Construction stone and asphalt will be the biggest beneficiaries

Summary of our assessment to derive the "highly potential" sub-sectors among the construction material industries, which could benefit from North-South Expressway projects

	Construction steel	Cement	Construction stone	Asphalt
How is the situation of supply and demand in the sector in 2019?	◑	◔	◑	◑
How is the designed capacity expected to increase in 2020F?	◔	◑	◕	◕
How is the distance of the supplier to the North-South expressway projects to be implemented in 2020F?	◕	◕	◕	◕
How does the demand for raw materials from the North-South expressway projects compare to the production scale of the whole sector in 2020F?	◑	◔	◕	◕
Overall attractiveness rating	◑	◔	◕	◕
Notable stocks	HPG	HT1, BCC	KSB, DHA	PLC

NOTE: ● = "Highly favourable"; ○ = "Unfavourable"

Source: VNDIRECT RESEARCH

- Construction stone: Due to the industry characteristics, transportation costs often account for a large proportion in the production cost of construction stone. We believe that the quarries located near expressway projects will be prioritised for the supply given the advantages and product quality of these large companies.
- Asphalt: We believe that the business results of companies in this industry will greatly benefit from the disbursement of government infrastructure projects. In addition, lower oil prices could translate into higher margins for asphalt companies in 2020.

Construction material peer comparison (Data as at 26 Jun 2020)

Company Name	Ticker	Share price (VND)	Market Cap (US$ m)	FY20F revenue growth plan (%)	FY20F NPAT growth plan (%)	FY20F dividend yield (%)	TTM ROE (%)	TTM ROA (%)	TTM P/E (x)	Current P/B (x)
Hoa Phat Group JSC	HPG VN	27,200	3,232.7	35.1%	18.8%	1.8%	17.0%	8.0%	9.8	1.5
Ha Tien 1 Cement JSC	HT1 VN	13,700	225.0	-2.9%	-10.3%	8.8%	13.6%	7.3%	7.1	1.0
Bim Son Cement JSC	BCC VN	7,400	35.0	21.5%	-4.9%	0.0%	6.4%	2.7%	6.4	0.4
Binh Duong Mineral & Construction JSC	KSB VN	24,000	55.3	12.4%	-3.1%	0.0%	26.8%	8.9%	4.4	1.0
Hoa An JSC	DHA VN	29,800	18.9	-8.8%	-11.4%	10.1%	17.4%	16.0%	6.6	1.1
Petrolimex Petrochemical Corp - JSC	PLC VN	15,200	52.9	-18.6%	-24.6%	9.9%	9.6%	2.7%	10.2	0.9

Source: VNDIRECT RESEARCH, BLOOMBERG

ADD

Current price	VND27,200
Target price	VND32,800
Market cap (US$m)	3,233
Daily value 30 day (US$m)	3.8
FY20F P/B (x)	1.3
FY20F P/E (x)	9.5
Current foreign ownership	36.1%

Key ratios	2018A	2019A	2020F	2021F
Revenue (VNDbn)	55,836	63,658	86,215	100,221
Net profit (VNDbn)	8,573	7,578	9,792	10,803
NP growth (%)	21.0	14.0	29.2	10.3
EPS (VND)	3,039	2,655	3,457	3,814
ROE (%)	23.1	16.6	18.2	16.9
ROAA (%)	15.4	11.3	10.9	11.3
DPS	0	0	500	500
ASP (% change)	14.6	-8.8	-4.0	1.0
Unit sales growth (%)	6.4	17.6	56.8	15.0

Aggressive FY20F growth

HPG's construction steel sales rose despite 5M20 subdued demand

HPG's 5M20 construction steel sales rose 8.7% yoy to 1,260,633 tonnes. Thus, HPG expanded its market share to 30.8% in 5M20, from 26.1% in FY2019. HPG's steel billets was a highlight in 5M20, with 643,000 tonnes sold, against no sales in the same period last year. Notably, 596,000 tonnes of steel billets were exported mainly to China (53.0%), the world's largest steel exporter.

Hot Rolled Coil (HRC) plant to start commercial production in Sep 2020

HRC plant's start-up date has been delayed due to travel bans on foreign experts. However, management is confident of completing HRC plant's test run in Aug 2020 before starting commercial operation a month later.

We expect net profit to grow 29.2%/10.3% yoy for FY20/FY21F

We forecast FY20F revenue at VND86,215bn (+35.4% yoy) and net profit at VND9,792bn (+29.2% yoy), thanks to 1) steel market share expansion, and 2) the agriculture segment's growth to become a key profit contributor.

Reiterate ADD and target price of VND32,800.

Risks to our call include: (1) slower-than-expected steel demand growth; and (2) lower-than-expected HRC plant utilisation. A potential re-rating catalyst is lower-than-expected iron ore price.

ADD

Current price	VND15,200
Target price	VND19,500
Market cap (US$m)	52.9
Daily value 30 day (US$m)	0.2
FY20F P/B (x)	1.2
FY20F P/E (x)	11.7
Current foreign ownership	0.9%

Key ratios	2018A	2019A	2020F	2021F
Revenue (VNDbn)	6,434.0	6,160.0	6,124.3	7,056.4
Net profit (VNDbn)	153.0	145.2	134.8	196.9
NP growth (%)	-10.7	-5.1	-7.1	46.1
EPS (VND)	1,705	1,688	1,668	2,437
ROE (%)	11.5	11.0	10.1	14.6
ROAA (%)	3.5	3.1	3.0	4.0
DPS	2,000	1,600	1,500	1,500
Unit sales volume (% change)	14.2	-0.7	6.1	13.9
Oil price (US$/barrel)	71.7	64.2	42.1	55.0

Buoyed by infrastructure public spending

PLC will directly benefit from growing demand of asphalt

Standing among Vietnam's top three asphalt manufacturers, PLC accounted about 25-30% market share at end-2019. The company is well-equipped with large warehousing capacity and intensive distribution network nationwide. Specifically, its six warehouses are located at strategic locations which is about 300km from each other. Thus, PLC can distribute asphalt to any project timely and cost efficiently. We forecast PLC's asphalt to post a CAGR of 16.4% in revenue; to drive the total revenue to grow at 7.0% CAGR in FY20-21F.

Subdued oil price to improve gross profit margin

We project FY20/21F oil price to be US$42/55 per barrel (-34.3%/+30.5% yoy) in basecase which will lift the GM to 14.3%/13.8% in FY20/21F from 13.6% in 2019. Consequently, net profit is expected to grow at 16.5% FY20-21F CAGR. We note that 2020F net profit will drop vs. 2019 as demand for lubricant and chemicals softens on the pandemic impact, while the asphalt segment is expected to benefit from public investment in 2021-22F.

Initiate coverage with ADD and target price of VND19,500

Risks to our call is higher-than-expected oil price. A potential re-rating catalyst is earlier-than-expected acceleration of public investment.

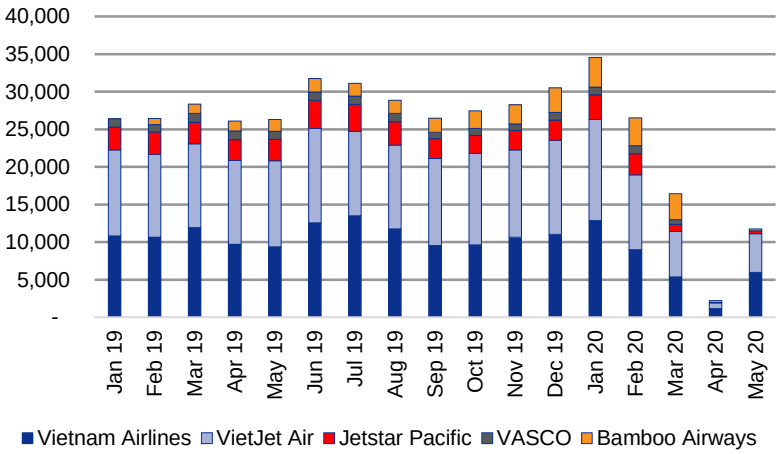
Aviation

Swoosh-shaped recovery

Three scenarios of forecasted foreign tourist arrivals by quarter, based on VNDS Research's estimates

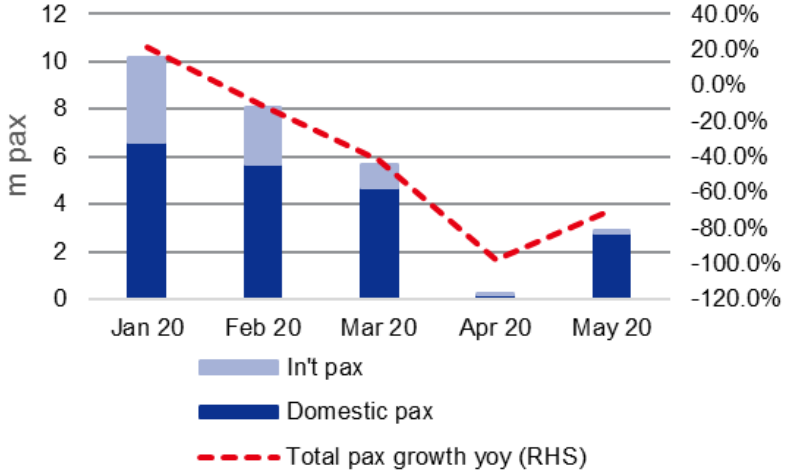
The sky misses the flights

Domestic flights have fully recovered in Jun



Source: Civil Aviation Authority (CAAV)

Vietnam's monthly air passenger throughput in 2020F



Source: CAAV

- In 5M20 the accumulated pax throughput dropped 41.7% yoy to 27.1m, of which domestic pax throughput was 19.9m (-32.1% yoy) while international throughput plunged 58.2% yoy to 7.1m.
- The Ministry of Transport is preparing to restart international scheduled flights in 3Q20 to selected destinations in East Asia (China, South Korea, Japan etc.).

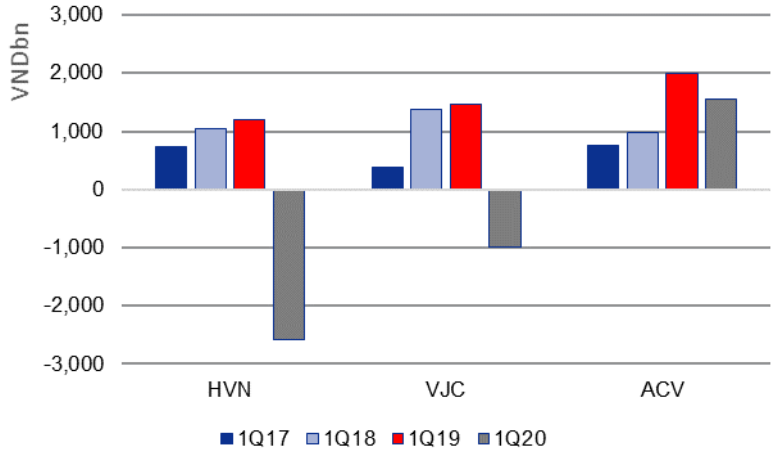
COVID-19 impact partially reflected in 1Q20 results of aviation companies

The sharp drop in 1Q20 net profit of listed aviation companies is just the prelude to upcoming challenges

	Sub-industry	1Q20 revenue growth	1Q20 net profit growth
HVN	Airline	-26.3%	-316.4%
VJC	Airline	-47.0%	-167.6%
CIA	Airport service	-25.2%	-158.6%
SAS	Airport service	-28.3%	-81.1%
MAS	Airport service	-29.3%	-72.6%
AST	Airport service	-21.1%	-71.1%
ACV	Airport	-18.1%	-22.3%
SGN	Ground service	-8.3%	-9.9%
NCT	Cargo terminal	-2.6%	-7.0%
SCS	Cargo terminal	6.3%	8.6%

Source: Company reports

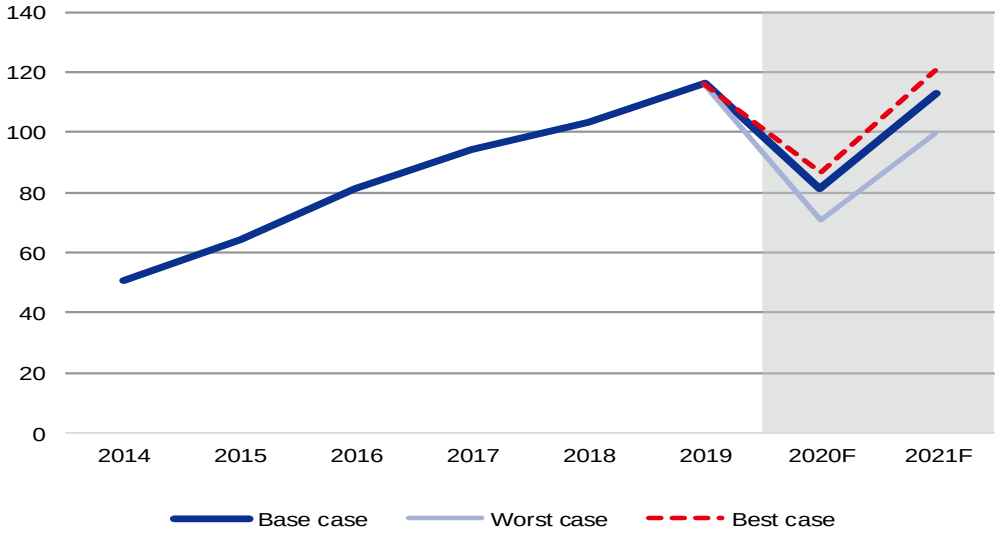
Air carriers recorded severe losses in 1Q20



Source: Company reports

Swoosh-shaped recovery scenario

Three scenarios of forecasted annual passenger throughput nationwide, based on our estimates

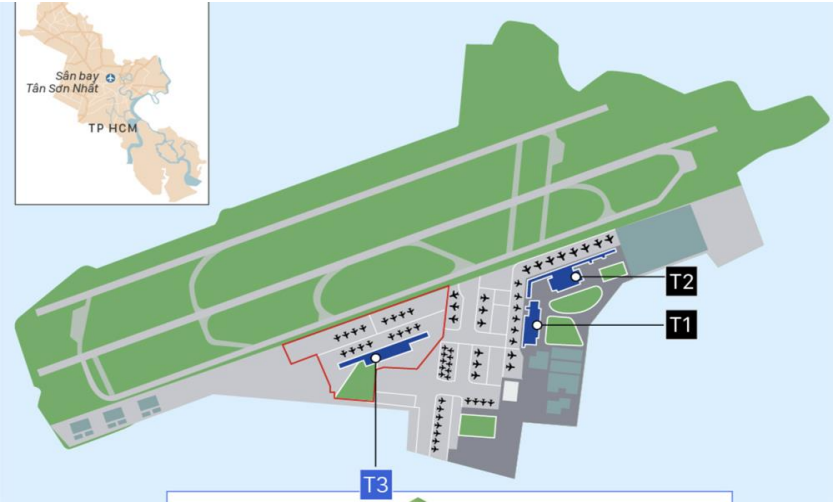


SOURCES: VND RESEARCH, ACV

- We expect Vietnam's national passengers (pax) throughput to bottom out in 2Q20, with a 72.8% yoy plunge.
- Given the heightened global uncertainty due to COVID-19, we expect domestic air travel to recover faster than international travel as Vietnam's border closure might be extended till late-2020F.
- In our base case scenario, quarterly domestic pax number will bounce back to pre-outbreak levels by 4Q20F, while that of international pax will not revisit FY19's levels before 3Q21F.
- Following the Ministry of Transport's proposal in Mar, the government is considering several tax and service fee cuts to support local airlines to ride out the COVID-19 crisis.

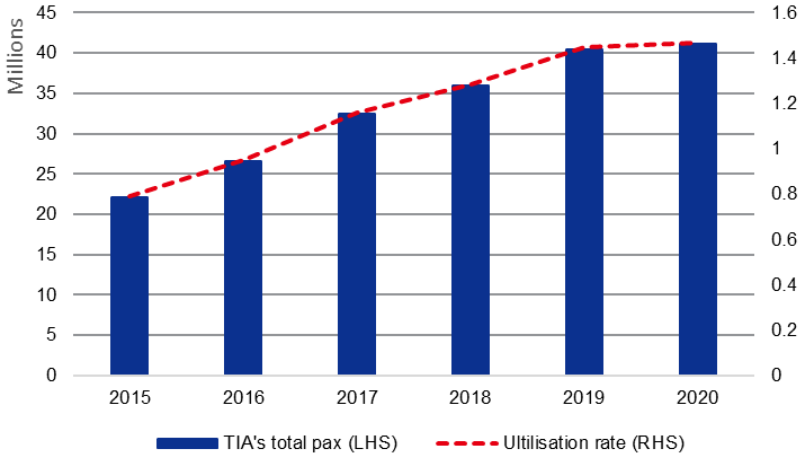
Airport Corporation of Vietnam (ACV) to invest in TIA Terminal 3 project

Tan Son Nhat Airport (TIA) Terminal 3's master plan



Source: Hanoimoi

TIA has become crowded in the past five years



Source: ACV

- ACV has been assigned to invest in TIA Terminal 3, with total capex of VND10,990bn (US$471m).
- T3 will more than double TIA's total capacity to 48m p.a., from 28m now.
- Construction is slated to start in FY21F and complete in FY24F.

We prefer airports to airlines in 1- year investment horizon

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	P/E (x)		P/BV (x)		EV/EBITDA (x)		Recurring ROE (%)	
						CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Low cost carriers													
Vietjet Aviation	VJC VN	HOLD	108,500	107,500	2,443	634.8	12.0	3.8	2.9	81.4	10.4	0.6	22.5
Air Arabia Pjsc	AIRARABI UH	NR	1.19	1.32	1,512	19.8	8.7	1.6	1.4	31.3	45.3	3.6	11.5
Cebu Air Inc	CEB PM	NR	42.00	67.46	505	n/a	4.1	0.6	0.5	33.3	93.5	(4.8)	12.2
Airasia X Bhd	AAX MK	NR	0.11	0.04	97	n/a	n/a	2.0	1.7	7.0	5.5	(46.2)	74.9
Average						**21.6**	**10.0**	**1.6**	**1.4**	**32.4**	**26.1**	**(12.2)**	**21.0**
Full service carriers													
Air China Ltd-A	601111 CH	NR	6.65	8.06	12,103	n/a	12.4	1.1	1.0	11.9	5.6	(7.1)	7.6
Singapore Airlines	SIA SP	NR	3.83	3.83	8,153	n/a	58.9	0.8	0.8	39.1	7.3	(10.2)	2.3
Cathay Pacific	293 HK	NR	7.67	8.39	3,888	n/a	29.3	0.6	0.6	21.7	6.1	(18.8)	1.5
Eva Airways	2618 TT	NR	11.40	11.20	1,874	n/a	27.1	0.8	0.8	4.6	3.4	(5.4)	3.0
Vietnam Airlines	HVN VN	NR	26,300	22,267	1,607	n/a	24.4	2.3	2.5	62.6	8.3	(17.5)	10.8
Korean Airlines	003490 KS	NR	17,850	19,129	1,556	n/a	23.4	1.1	1.1	8.2	6.8	(25.3)	4.9
China Airlines	2610 TT	NR	8.39	8.00	1,540	n/a	n/a	0.9	1.0	5.0	4.7	(15.9)	(7.6)
Average						**n/a**	**24.2**	**1.0**	**1.0**	**19.5**	**6.2**	**(12.3)**	**4.1**
Airports													
Airports Of Vietnam	ACV VN	ADD	61,000	82,900	5,721	48.2	18.0	3.5	3.1	19.6	9.5	7.4	18.2
Airports Of Thailand	AOT TB	NR	58.75	60.09	27,157	121.6	71.3	5.5	5.2	55.1	36.2	5.1	8.3
Malaysia Airport	MAHB MK	NR	5.60	5.67	2,167	n/a	33.3	1.1	1.1	13.0	8.2	(1.1)	3.1
Average						**84.9**	**40.9**	**3.4**	**3.1**	**29.3**	**17.9**	**3.8**	**9.8**

NOTE: FORECASTS FOR NOT RATED (NR) COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES

SOURCES: VND RESEARCH, BLOOMBERG

DATA AS AT 26 Jun 2020

ADD

Current price	VND61,000
Target price	VND82,900
Market cap (US$m)	5,721
Daily value 30 day (US$m)	0.77
FY20F P/B (x)	3.5
FY20F P/E (x)	48.2
Current foreign ownership (%)	3.4%

Key ratios	2018A	2019A	2020F	2021F
Revenue (VNDbn)	16,123	18,329	11,635	17,767
Net profit (VNDbn)	6,173	8,201	2,754	7,390
NP growth (%)	51	33	-66	168
EPS (VND)	2,835	3,767	1,265	3,394
ROE (%)	21.3	24.3	7.4	18.2
ROAA (%)	9.7	11.6	1.9	9.0
DPS (VND)	900	900	600	900
Total pax growth (%)	3.3	7.8	-27.2	35.4
Total flights growth (%)	7.8	13.5	-25.7	28.9

Opportunities emerge

COVID-19 impact partially reflected in 1Q20 results

ACV's net revenue/net profit dropped 18.3%/22.3% yoy in 1Q20 as total pax throughput during the period fell 12.9% yoy, including a sharp fall in international pax throughput (-35.6% yoy) due to COVID-19.

Swoosh-shaped recovery

In our base case scenario, ACV's quarterly domestic pax throughput will bounce back to pre-outbreak levels by 4Q20F, while international pax throughput would not revert to 2019's level before 3Q21F.

Tan Son Nhat T3 confirmed, Long Thanh Airport pending

ACV has been assigned the investor of TIA Terminal 3, with total capex of VND10,990bn (US$471m). The new terminal will add 20m pax to TIA's total capacity (raising it to 48m p.a.). Construction is slated to start in FY21F and complete in FY24F. Besides, the final decision on LTIA's investor will have to wait for the next parliamentary session scheduled for late-2020.

Reiterate Add rating, with lower TP of VND82,900. We do not prefer aviation stocks given the challenges remaining in upcoming quarters, but ACV remains a long-term play on Vietnam's growing aviation market. Downside risks include another wave of COVID-19 outbreak which will lower the pax throughput below expectation.

Vietjet Aviation JSC (VJC)

HOLD

Current price	VND108,500
Target price	VND107,500
Market cap (US$m)	2,443
Daily value 30 day (US$m)	2.3
FY20F P/B (x)	3.8
FY20F P/E (x)	634.8
Current foreign ownership	18.7%

Key ratios	2018A	2019A	2020F	2021F
Revenue (VNDbn)	53,577	50,603	41,522	65,971
Net profit (VNDbn)	5,335	3,807	90	4,359
NP growth (%)	5.1	-28.6	-97.6	4,743.3
EPS	9,850	7,267	171	8,321
ROE (%)	38.0	25.5	0.6	22.5
ROAA (%)	15.1	8.7	0.2	8.4
DPS	2,000	1,000	0	1,000
Total pax growth (%)	35.0	7.8	-22.3	30.9
Total flights growth	21.2	16.8	-26.7	38.4

Unlikely to get much worse from here

1Q20 business results were hit hard by COVID-19

In 1Q20, VJC's total revenue fell 47% yoy, of which transportation revenue fell 29.6% yoy following a 22% yoy decrease in total pax throughput, leading to a net loss of VND989bn. VJC had no S&LB transaction in 1Q20.

Being aggressive in debt payment rescheduling and cost control

In 1H20, VJC came to agreements to extend debt payment schedule of 80% of its fleet for three to 12 months later. ACV and the government also delivered 30-70% aviation service fee cuts till end-2020.

We expect a bounce back in 2H20F

VJC's business results will bottom out in 2Q20F, following a full recovery of entire domestic flights since Jun 20 and a circumspect reopening of selective international flight routes since Jul 20. We expect FY20F pax volume to drop 22.2% yoy, of which outbound pax volume to drop 60.9% yoy, while that of domestic routes would dip 4% yoy. Thus, we envisage VJC's core revenue/NP to drop 33%/616% yoy, but we expect S&LB transactions to help boost VJC's NP to VND90bn in FY20F. We expect VJC records no large maintenance in FY21F which propels the FY21F NP to VND4,359bn.

We recommend HOLD rating with TP of 107,500/share. Downside risks include another wave of COVID-19 outbreak which will lower the pax volume below expectation.

Industrial Properties and Logistics

Strong recovery post pandemic

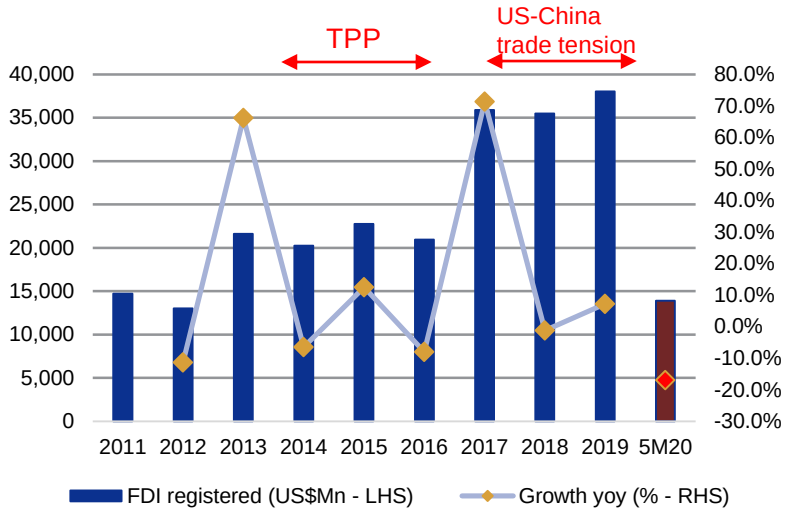
Vietnam's IPs in 1Q20

- 335 established IPs
  - 97,800ha in total area
  - 66,100ha of industrial land
- 260 operational on 68,700ha
- 75 IPs under construction

Sources: VND RESEARCH, MPI

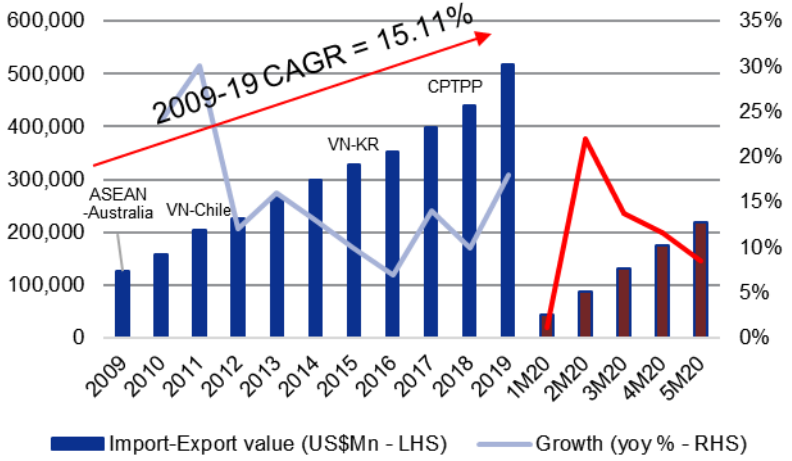
Successfully containing Covid-19 has turned Vietnam into a more promising manufacturing hub

In 5M20, total registered FDI reached US$13.9bn, down 17% yoy due to the COVID-19 delay the investment process.



Sources: VND RESEARCH, FIINPRO

In 5M20, due to the world economic disruption, total imports-exports reached US$197bn, down 2.8% yoy.

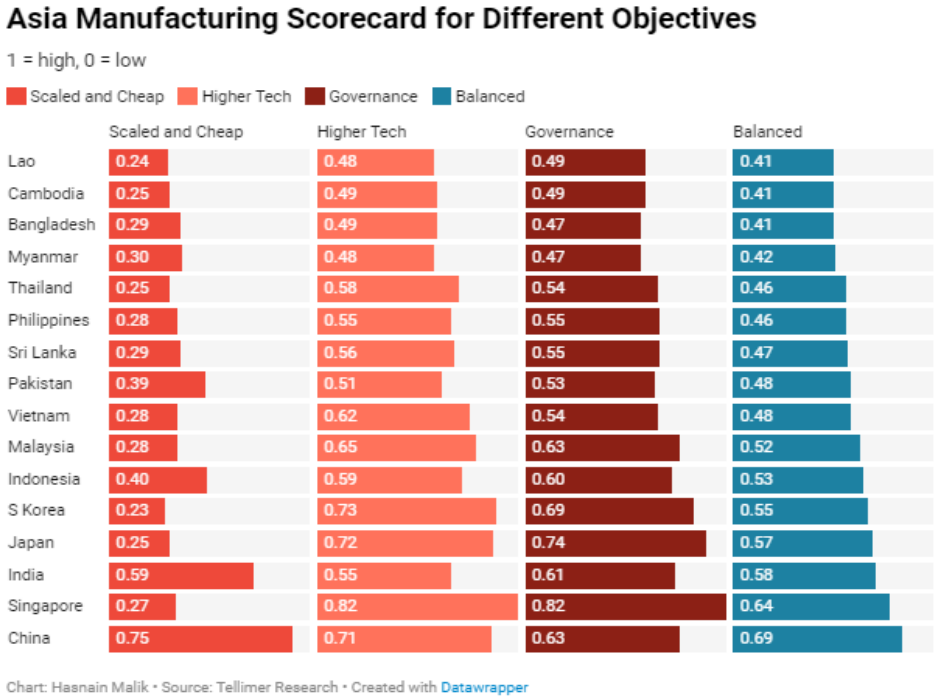


Sources: VND RESEARCH, GSO

The subdued U.S.-China trade war since 2H19 seems to lessen the foreign direct investment (FDI) inflow to Vietnam and slow the trend of moving factories out of China. But the COVID-19 outbreak in early 2020 has hit the world economy, disrupting the global supply chains and prompting manufacturers to re-boot their facility migration. Additionally, FTAs, especially EVFTAs, will help Vietnam to further integrate into global value chain.

Among region, Vietnam looks more attractive to erode China's manufacturing market share

Based on Tellimer Research ranking of Asia Manufacturing, Vietnam is in a strong competition against Malaysia and Indonesia in attracting manufacturer.



Sources: VND RESEARCH, Tellimer research

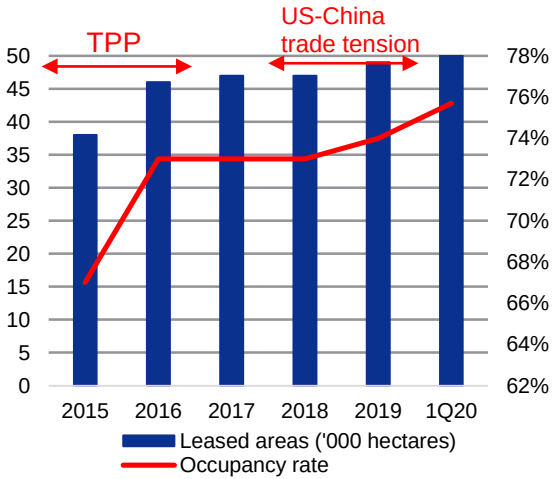
List of companies moving ,or planning to move from China to Vietnam

Company name	Nationality	Status	Location	Sector
Hanwha	Korea	Moved	Ha Noi	Airplane parts
Yokowo	Japan	Moved	Ha Nam	Motor vehicle parts
Huafu	China	Moved	Long an	Textile
Foxconn	Taiwan	Moved	Dong Mai - VGC IP	Electronics - TV
Sharp	Japan	Moved	Binh Duong	Electronics - Camera
Techtronic Industries TTI	Hong Kong	Moved	Saigon Hi-Tech part	Electronic
Goertek	China	Moving	Bac Ninh	Headphone and phone parts
TCL	China	Moving	Binh Duong	Electronics - TV
Kyocera	Japan	Moving	Hai Phong	Electronics - Printer, photocopy
Lenovo	China	Considering	Bac Ninh	Electronics - Computer
Nintendo	Japan	Considering		Electronics - Gaming accessories
Asics	Japan	Considering		Shoes production

Sources: VND RESEARCH, JLL

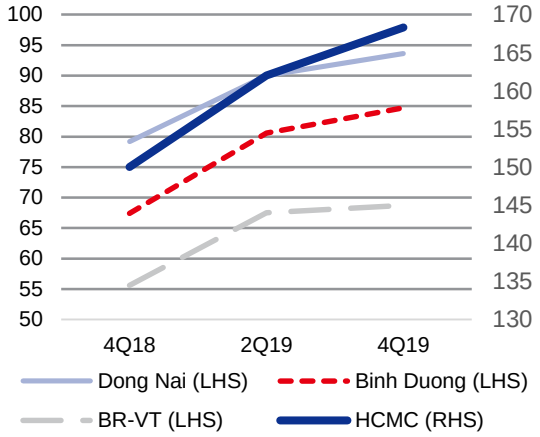
Industrial properties: waiting for the wave of manufacturing relocation

Occupancy rate experienced a rise by 1.7 pts % in 1Q20

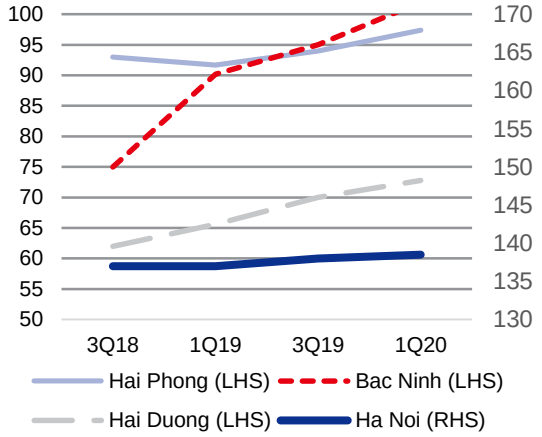


Sources: VND RESEARCH, SAVILLS

Lease prices grew slower amid cooling U.S.-China trade disputes since 2H19; still on the rise in 1Q20 despite COVID-19 outbreak.



Sources: VND RESEARCH, JLL

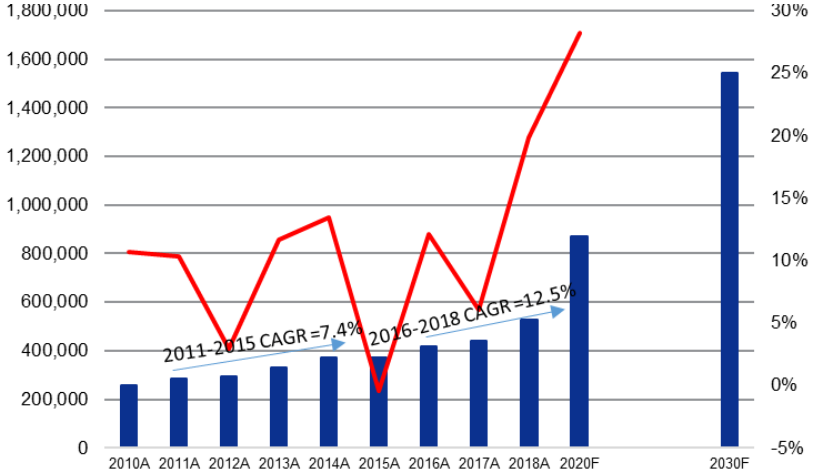


Sources: VND RESEARCH, JLL

In the South, Ba Ria - Vung Tau is emerging as an industrial hot spot since the completion of the expressway system to connect Cai Mep deep-water seaport with HCMC, Dong Nai and Binh Duong. In the North, the newly-opened highway Bac Giang - Lang Son reduces one hour of travel time from Hanoi to Lang Son border area and helps upgrade the IPs in Hai Duong, Bac Giang.

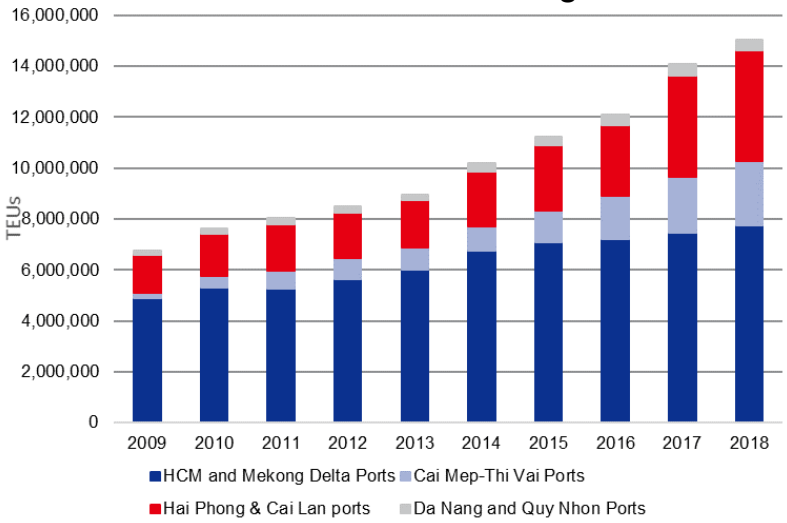
Logistics: services, especially seaborn services, is long-term board plays in this theme

Vietnam's seaborne throughput (tonnes) has grown rapidly in recent years



Sources: VND RESEARCH, VINAMARINE GOV

Downstream ports in Hai Phong port cluster have been the busiest in the northern region



Sources: VND RESEARCH, VPA, TICT

- International cargo which accounted for 60-62% of throughput during FY15-18 was hit hard by COVID-19 in the 1H20.
- In 5M20, VN seaport cargo throughput posted a modest growth of 6% yoy to 273.1m tonnes, lower than the level of 14% seen in 2019. Container cargo grew 9% yoy to 8.3m TEUs, Cai Mep-Thi Vai port cluster outperformed with 14% yoy growth in 5M20.

Peer comparison

We pick **KBC** among IP listed companies thanks to the large available lank bank and good position in the Northern VN. While **GMD** is our top pick of logistics company due to its leader position in listed port operators and the potential of expanding to Cai Mep – Thi Vai cluster

Company Name	Ticker	Price (local curr)	TP (local curr)	Recom.	Market Cap (US$ m)	P/E TTM	P/B Current	ROE (%) TTM	Dividend yield (%) TTM	Net gearing (%) 2019
Kinh Bac City Development Sh	**KBC VN**	**14,450**	**17,500**	**Add**	**292**	**7.7**	**0.7**	**9.5**	**8.4**	**12.2**
Investment & Industrial Deve	BCM VN	26,800	NA	NR	1,195	11.5	1.9	17.7	2.9	87.6
Viglacera Corp Jsc	VGC VN	18,900	NA	NR	365	13.0	1.3	10.1	6.1	-9.0
Sonadezi Corp	SNZ VN	23,300	NA	NR	378	14.8	1.8	12.6	4.8	-7.4
Saigon Vrg Investment Corp	SIP VN	86,000	NA	NR	256	10.0	3.6	42.5	1.3	-235.9
Idico Corp Jsc	IDC VN	18,000	NA	NR	233	15.7	1.6	10.0	6.3	18.1
Vietnam Average						**13.0**	**2.0**	**18.6**	**4.3**	**-29.3**
Vietnam Median						**13.0**	**1.8**	**12.6**	**4.8**	**-7.4**

Company Name	Ticker	Price (local curr)	TP (local curr)	Recom.	Market Cap (local curr)	P/E TTM	P/B Current	ROE (%) TTM	Dividend yield (%) TTM	EV/EBITDA TTM
Gemadept Corp	**GMD VN**	**19,300**	**29,500**	**Add**	**251**	**12.2**	**1.0**	**7.8**	**7.8**	**7.8**
Port Of Hai Phong Jsc	PHP VN	9,600	NA	NR	135	7.6	0.8	11.1	2.3	2.4
Danang Port Jsc	CDN VN	18,600	NA	NR	79	9.2	1.3	14.9	2.2	4.6
Dinh Vu Port Investment & De	DVP VN	34,100	NA	NR	59	5.6	1.1	21.1	8.8	1.1
Dong Nai Port Jsc	PDN VN	79,500	NA	NR	63	10.0	2.6	25.1	NA	5.4
Vietnam Average						**8.9**	**1.4**	**16.0**	**5.3**	**4.3**
Vietnam Median						**9.2**	**1.1**	**14.9**	**5.1**	**4.6**

Sources: VND RESEARCH, CGS-CIMB RESEARCH, COMPANY REPORTS

All prices are based on the closing prices on 26 Jun 2020. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

ADD	
Current price	VND14,450
Target price	VND17,500
Market cap (US$m)	292
Daily value 30 day (US$m)	1.64
FY20F P/B (x)	0.7
FY20F P/E (x)	6.92
Current foreign ownership	20.6%

Key ratios	2019A	2020F	2021F
Revenue (VNDbn)	3,250	4,343	3,278
Net profit (VNDbn)	855	1,052	800
NP growth (%)	14.7	23.0	-24.0
EPS	1,820	2,239	1,702
ROE (%)	9.3	10.6	7.4
ROAA (%)	7.3	7.2	4.9
DPS	1,000	-	-

In the tailwinds of industrial land leasing

Leading Northern IP operator with the second-largest land bank

We believe KBC can capture the growing demand for IP because: 1) KBC has several tech giants in its tenant portfolio, and 2) it has the second-largest land bank (864ha) among listed peers in northern Vietnam.

Positive topline growth, bottomline plunged in 1Q20

1Q20 revenue rose 11.2% yoy to VND556bn as IP land leasing revenue jumped 18% yoy to VND422bn. Minority interest soared 182% yoy as 76% of 1Q20 revenue was contributed by subsidiary Tan Phu Trung IP. 1Q20 net profit dropped 40% yoy to VND54bn, or only 5.2% of our full-year forecast.

IP business expected to grow in FY20F before slowing in FY21F

We project revenue from IP land leasing to increase 18% yoy to VND2,667bn in FY20F as the Nam Son-Hap Linh IP, now negotiating the leasing of 60ha land, is expected to become operational this year. However, we expect FY21F IP revenue to fall 61% yoy when Quang Chau IP reaches full capacity.

Reiterate Add with TP of VND17,500

Downside risks:1) a slowdown in IP land sales, 2) failure to address issues in the Phuc Ninh project's master plan for handover in 2020F, and 3) failure of Nam Son-Hap Linh IP to be ready for leasing. Re-rating catalysts are: 1) a faster rate of IP or residential land sales, and 2) approval for Trang Due 3 IP.

ADD

Current price	VND19,600
Target price	VND29,500
Market cap (US$m)	251
Daily value 30 day (US$m)	0.34
FY20F P/B (x)	0.92
FY20F P/E (x)	11.19
Current foreign ownership	49.0%

Key ratios	2019A	2020F	2021F
Revenue (VNDbn)	2,641	2,929	3,393
Net profit (VNDbn)	515	541	624
NP growth (%)	-72.1%	5.0%	15.3%
EPS	1,719	1,757	1,972
ROE (%)	8.8	8.6	9.1
ROAA (%)	6.5	7.6	8.1
DPS	1,458	-	1,420

A long-term story

Vietnam's top private sector port operator

GMD is Vietnam's biggest private sector port operator, holding a 7.3% market share in 2018. GMD also provides comprehensive supply chain services via its integrated logistics system.

Gemalink to be put in operation in 1Q21

In AGM Jun-20, GMD reported that they suspended Nam Dinh Vu port phase 2 expansion to focus in working on Gemalink. Gemalink is reported to be put in operation on time which finished 80% workload in May 20. GMD planned to technically operate Gemalink in 4Q20 and official operate Gemalink in 1Q21. Gemalink projected to bring a revenue of US$37mn in 21F, which handle 900.000 TEUs.

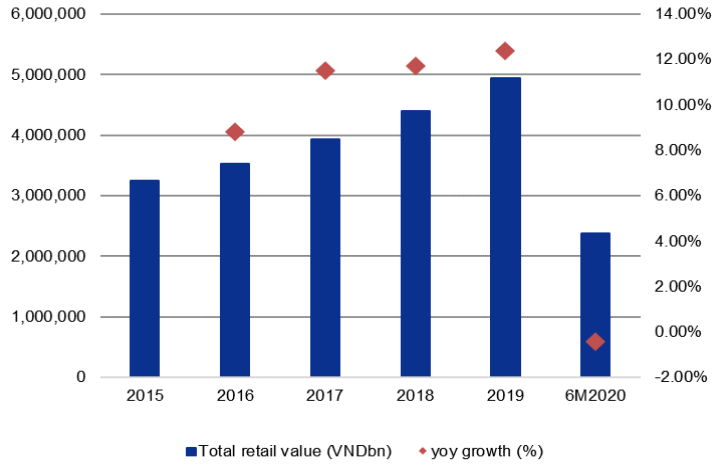
Reiterate Add and TP of VND29,500

We expect GMD revenue to achieve 7.9% CAGR in FY20-21F, driven by a 6.3% CAGR in logistics service and 8.2% CAGR in port operation, thanks to additional volumes at Nam Dinh Vu. Its associate profit is expected at a CAGR of 34.2% in FY20-21F on Gemalink's contribution. Re-rating catalysts: successful divestiture of its non-core businesses and consolidation of Gemalink into GMD. Downside risk: worse-than-expected competition at Hai Phong ports, which could result in lower-than-expected throughput volume for GMD.

Retail

Strong recover post pandemic

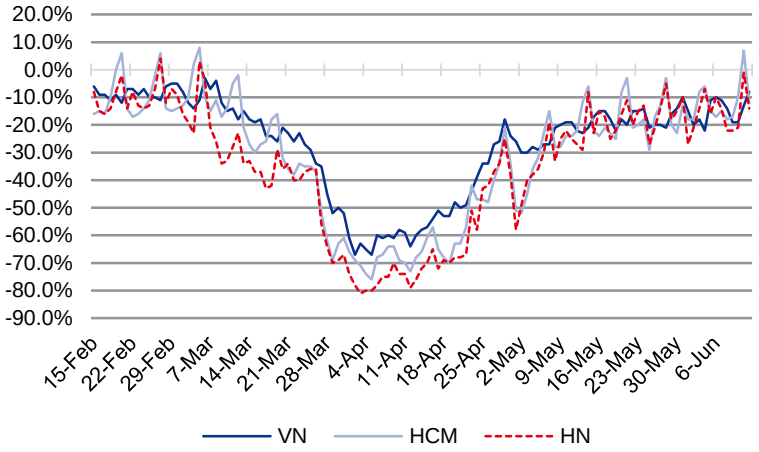
Retail sales grew strongly on higher consumer spending in period of 2017-19, while 6M20 saw a slight decrease due to COVID-19



Sources: VND RESEARCH, GSO

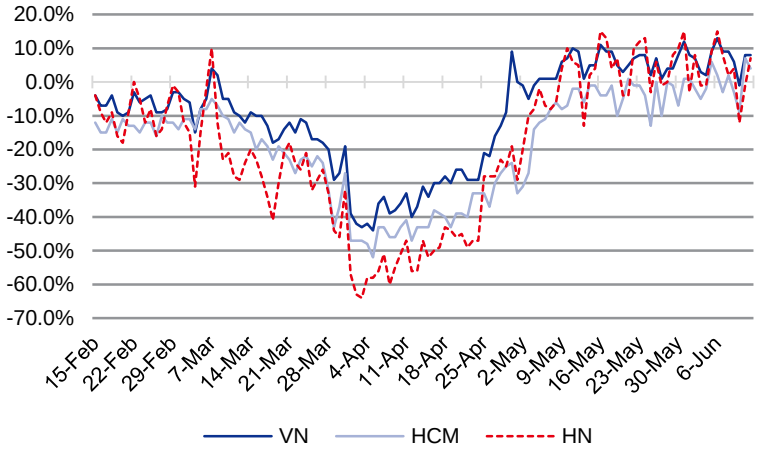
Vietnam consumers have made a strong comeback to the shopping areas

Vietnam's retail and recreation mobility recovered to pre-COVID-19 level in May, Jun 2020



SOURCES: VND RESEARCH, COMPANY REPORTS

Grocery and pharmacy mobility improved better



SOURCES: VND RESEARCH, COMPANY REPORTS

Google's mobility report showed the number of people returning to shopping centres/grocery stores in Jun 2020 recovered by 90% to 100% of the pre-COVID-19 level, which is Google mobility baseline (using data from 3 Jan to 6 Feb 2020). A few retail malls on some days even recorded numbers that were 200% of those a year earlier thanks to promotion campaigns

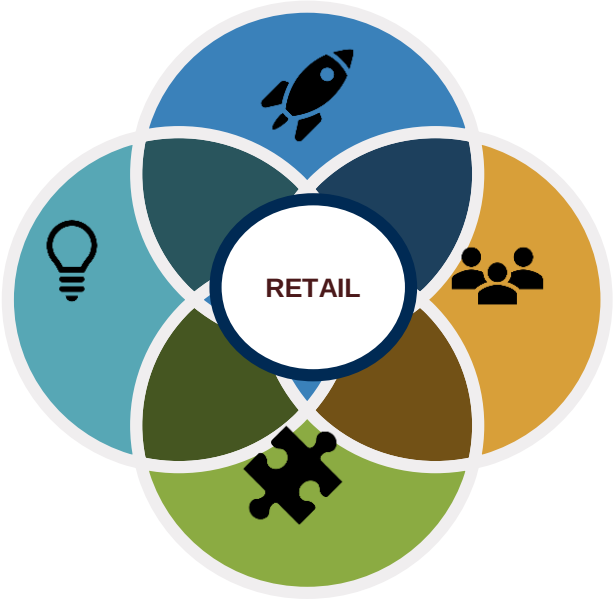
We see the Covid-19 to create four trends in retail sector

The acceleration of ecommerce and digital payment

Covid-19 pandemic has introduced many traditional Vietnamese consumers to the convenience of online shopping, and they might not return to old ways. Consumers are increasingly moving away from cash toward contact-free digital payment methods.

Growing awareness on healthy and natural products

Increasing focus on improving health, paired with increased demand for fresh food could drive longer-term habits focused on healthy lifestyle and nutrition.



Consumers is tightening their belts

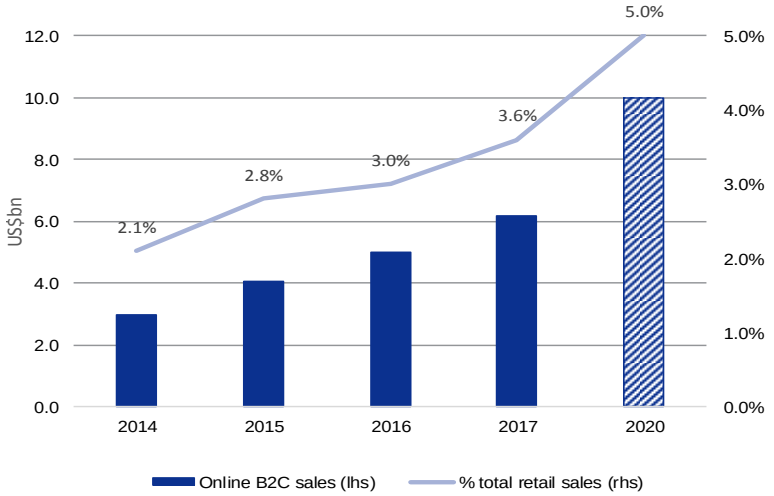
A postcrisis downturn will probably lead consumers to focus more in “value for money” products across retail sector.

Retail space rents were dragged down

1Q20 average ground floor rent in commercial centres fell 11.4% yoy in downtown, and about 15.9% in outer districts. This creates opportunities for “rich-cash” and “aggressgive expanding” tenants to acquire prime retail location at lower price.

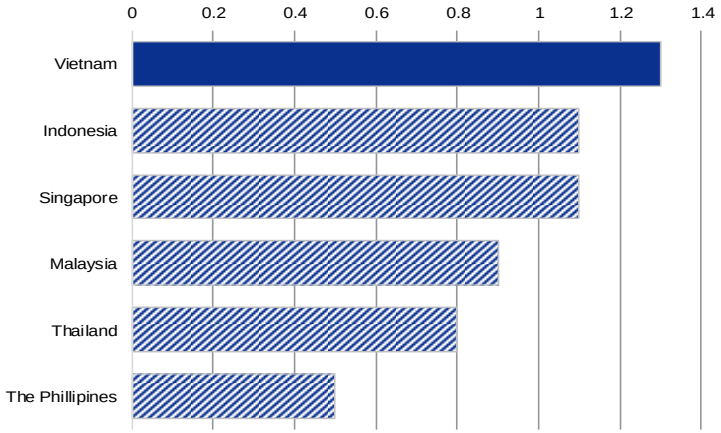
The pandemic accelerated the emergence of e-commerce faster-than-expected.

Online B2C sales in Vietnam secures larger retail share



SOURCES: VND RESEARCH, DELOITTE 2019

Vietnam has the highest online-to-sales conversion rate*, some 30% above regional average



*Online conversion rate is the proportion of website visits that have been converted to sales

SOURCES: VND RESEARCH, DELOITTE 2019

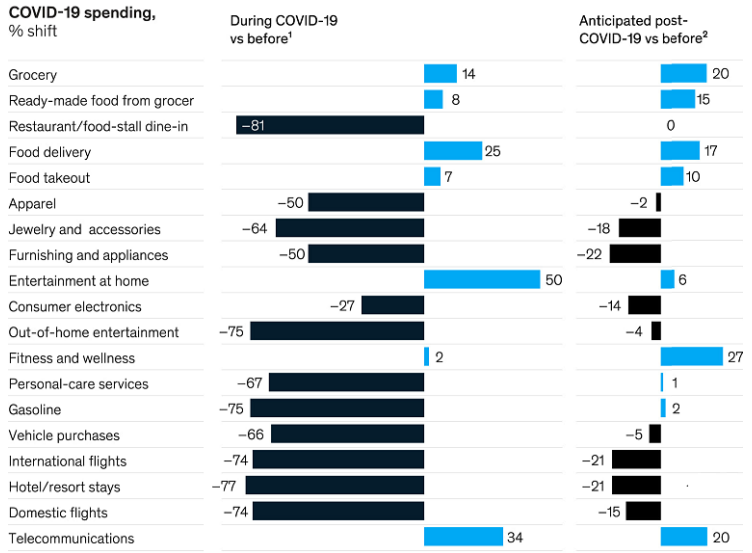
Vietnam has one of the least developed e-commerce markets in the region (accounting for around 3% of total retail sales as at 2018, according to Euromonitor). While retailers are challenged to survive in the short-term, the crisis also presents opportunity; bold retailers that invest ambitiously and timely in their online business are likely to emerge as market leaders.

Calling on the big names

Inspite of the pandemic, retailers kept expanding in 5M20, led by Dien May Xanh and Bach Hoa Xanh, chains of Mobile World Corp (MWG)

SOURCES: VND RESEARCH, COMPANY REPORTS

A big change in Vietnam consumer spending after COVID-19, which focus in consumer stable items.



SOURCES: VND RESEARCH, MCKinsey&Company

MWG is benefiting as Bach Hoa Xanh and Dien May Xanh are enjoying the change in consumer spending, which people change to shop grocery, food, electronic / telecommunications items due to effect of COVID-19, resulted in the increase in these chains revenue in 2Q20.

Vietnam's retail sector valuation

Given the current positions as the leaders in electronics and grocery stores, MWG are the 1st retail stock pick for 2H20. While we see a recover of shopping mobility in Jun-20, which the leader of retail real estate – VRE, our 2nd retail stock pick, will have a chance to comeback to growing pace after the pandemic.

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY20F	FY21F		TTM	FY20F	FY21F	TTM	FY20F	FY21F	TTM	FY20F	FY21F
Retail real estate companies																		
Vincom Retail JSC	VRE VN	ADD	25,400	38,000	2,489	20.9	22.1	16.6	5.6%	2.2	2.0	1.9	10.3%	12.0%	15.7%	7.7%	8.7%	10.9%
Retailer																		
Mobile World Investment Corp	MWG VN	ADD	81,500	139,900	1,591	9.3	9.2	7.6	31.3%	2.8	2.4	1.9	33.6%	25.2%	30.3%	11.7%	8.6%	10.6%
Phu Nhuan Jewelry JSC	PNJ VN	ADD	57,500	78,800	558	11.1	14.6	11.8	32.0%	2.6	2.5	2.3	26.0%	21.7%	23.8%	16.1%	12.2%	13.8%
FPT DIGITAL RETAIL JSC	FRT VN	na	22,300	na	76	8.6	11.2	10.3	-16.6%	1.4	1.2	1.1	17.1%	12.2%	12.1%	3.6%	2.6%	2.7%
Digiworld Corp	DGW VN	na	35,800	na	66	8.6	7.9	6.5	33.1%	1.7	1.5	1.2	21.1%	19.3%	19.0%	10.0%	7.4%	7.4%
Average - Retailer peeres					**573**	**9.4**	**10.7**	**9.1**	**19.9%**	**2.1**	**1.9**	**1.6**	**24.4%**	**19.6%**	**21.3%**	**10.3%**	**7.7%**	**8.6%**

NOTE: FORECASTS FOR NOT RATED (NR) COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES

SOURCES: VND RESEARCH, BLOOMBERG

DATA AS AT 26 JUN 2020

ADD

Current price	VND26,500
Target price	VND38,000
Market cap (US$m)	2,596
Daily value 30 day (US$m)	3.58
FY20F P/B (x)	2.05
FY20F P/E (x)	19.03
Current foreign ownership	30.3%

Key ratios	2019A	2020F	2021F
Revenue (VNDbn)	9,124	9,259	11,545
Net profit (VNDbn)	2,848	2,405	3,535
NP growth (%)	18	-15.6	46.9
EPS	1,223	1,058	1,556
ROE (%)	13.2	12.0	15.7
ROAA (%)	9.9	8.7	10.9
DPS	1,050	-	-
Total GFA (m sqm)	1,597	1,657	1,961
Gross margin (%)	47.6	43.7	47.9

Recovery ahead

VRE to capture opportunities during the retail boom

We believe VRE is well-equipped to ride the retail boom, supported by: 1) a well-adapted shopping mall portfolio with sharp focus on middle and affluent consumers, 2) a strong tenant portfolio and advantageous rental structure, 3) project development know-how and funding capability, and 4) the ability to leverage the ecosystem of its parent company.

Strong recovery after COVID-19

Vietnam's mobility has recovered after social distancing to pre-COVID-19 levels in Jun 2020 and VRE also reported footfall at shopping centres on weekdays in Jun 20 reaching 65-70% of the Jun 19 level, and rising to 90-100% of 2019's level at weekends that make us believe VRE can have a strong growth in 21F/22F.

Reiterate Add rating with target price of VND38,000

We maintain our Add rating on the back of: 1) VRE's leading position in Vietnam's retail property segment; 2) the strong support from parent firm Vingroup, and 3) our expectations of a strong growth in the retail segment in 21F/22F after COVID-19. Downside risks: increasing competition in key cities, the emergence of e-commerce and another wave of coronavirus. Upside catalysts: faster-than-expected mall opening, which, based on VRE's newly released pipeline, is expected to expand its total GFA to 5m sqm by 2026F.

ADD

Current price	VND84,200
Target price	VND139,900
Market cap (US$m)	1,643
Daily value 30 day (US$m)	4.75
FY20F P/B (x)	2.58
FY20F P/E (x)	11.28
Current foreign ownership	49.0%

Key ratios	2019A	2020F	2021F
Revenue (VNDbn)	102,174	111,286	147,891
Net profit (VNDbn)	3,834	3,397	5,229
NP growth (%)	25.2	-12.1	50.7
EPS	8,560	7,522	11,333
ROE (%)	36.3	25.2	30.3
ROAA (%)	10.8	8.6	10.6
DPS	1,500	1,500	1,500
No. of TGDD and DMX stores	2014	2084	2129
No. of BHX stores	1,008	1,628	2,168

In Bach Hoa Xanh we trust

Bach Hoa Xanh shined during social distancing

MWG's 5M20 revenue reached VND47,492bn (+11% yoy), mainly coming from contributions by Dien May Xanh (DMX, 57.5% of total revenue, +8.3% yoy) and Bach Hoa Xanh (BHX, 16.5% of total revenue, +149% yoy). 5M20's net profit eased 4% yoy to VND1,723bn.

The number of BHX stores reached 1,365 at end-May, up 191% yoy and the average revenue per BHX store reached VND6.68bn in 5M20, up 1.36% yoy. According to MWG, the revenue of each store in 5M20 reached its breakeven point at the store's level and distribution centre. In May 20, BHX expanded its network to Lam Dong province, the 24th so far in Vietnam. The expansion will continue in southern and central highland provinces until 2021F.

Reiterate Add rating and TP of VND139,900/share

We lower our DCF-based TP to VND139,900 (WACC: 12.4%). Our TP implies 15.1x FY20F P/E. We believe the market has appraised MWG mainly on its CE retailing business, but we think its growth potential in grocery retailing should also be priced in.

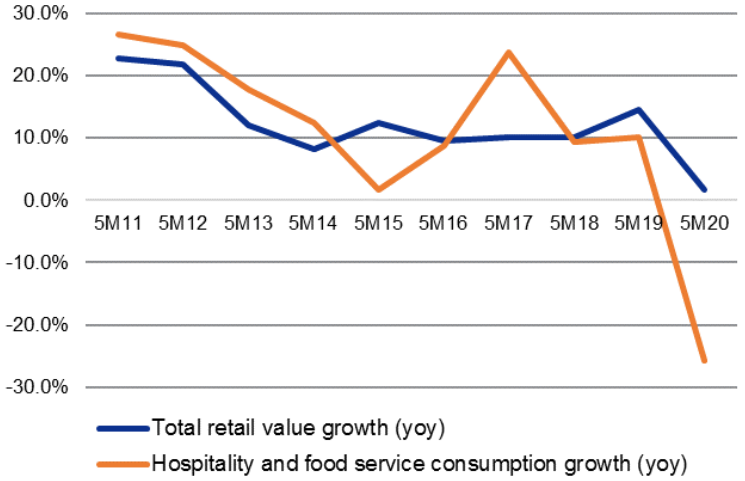
Potential re-rating catalysts are: 1) the success of BHX grocery store chain amid the outbreak, 2) a high demand for consumer electronics, and 3) online shopping that offset the lower revenue from store closures. Downside risks are: 1) BHX's slower-than-expected store opening, and 2) another social distancing period.

Food & Beverage

Pandemic may spur M&A among F&B space

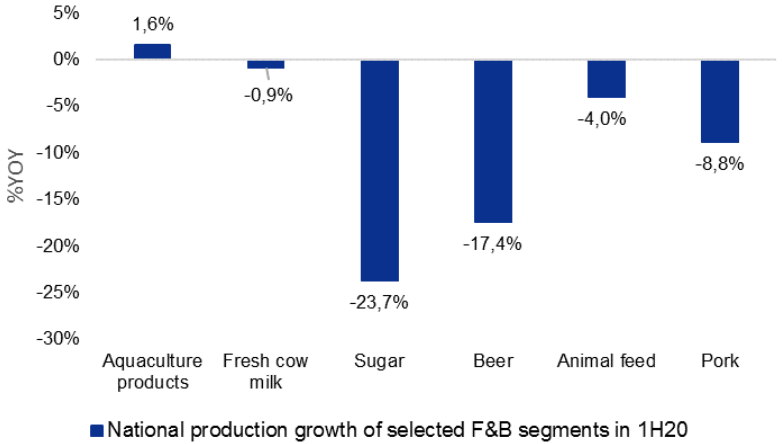
F&B consumption slumped in 1H20

Hospitality and food service consumption dropped for the first time in a decade



Source: GSO

Production volumes witnessed a compression across the board in 5M20

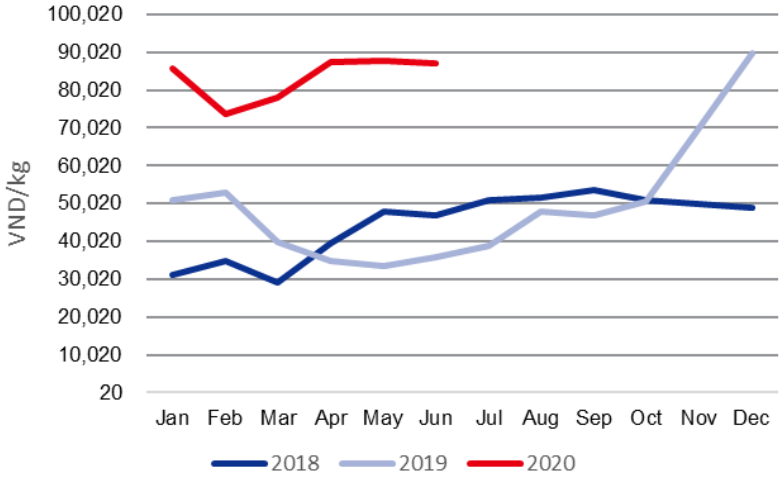


Source: GSO

The COVID-19 outbreaks hindered outdoor activities and travel in 1H20 which lowered the demand of food and beverage. At-home consumption has increased, but out-of-home consumption – which historically generates the highest margin – has experienced a sharp drop during the social distancing.

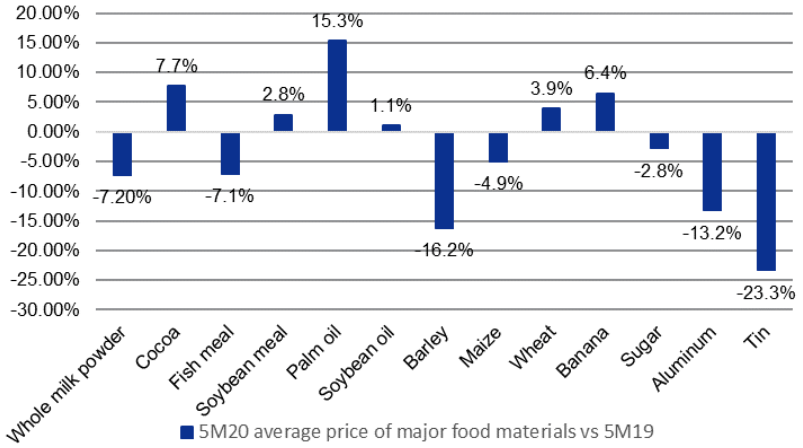
Pork price remains at high level

6M20 average live pig price soared 101% yoy due to pork shortage



Source: Agromonitor, Anovafeed

Prices of major food materials had mix performance in 5M20



Source: World Bank

African swine fever (ASF) re-appear in Vietnam since late April 2020 according to Anovafeed, preventing back-yard farms with low bio-security to repopulate their pig herds. The country has started importing live pigs from Thailand, Laos and Cambodia since mid-Jun 2020 to help easing domestic pork prices.

1Q20 aggregate earnings of listed F&B producers dropped amid the outbreak

1Q20 aggregate revenue eased 3.7% yoy while net profit subdued 19.0% yoy

		Net revenue growth			GPM			SG&A as % revenue			Net profit growth		
		3M20	3M19	Chg	3M20	3M19	Chg	3M20	3M19	Chg	3M20	3M19	Chg
Producer	**Product category**	*%*	*%*	*pts*	*%*	*%*	*pts*	*%*	*%*	*pts*	*%*	*%*	*pts*
MSN	Packaged food & retail	116.1%	-1.4%	117.5%	22.5%	30.2%	-7.7%	22.2%	16.0%	6.2%	-109.0%	6.0%	-115.0%
VNM	Dairy product	7.3%	8.8%	-1.5%	46.7%	46.7%	0.0%	24.0%	22.4%	1.6%	-0.9%	3.3%	-4.2%
MCH	Packaged food	22.7%	5.8%	16.9%	41.4%	43.3%	-1.9%	22.3%	21.1%	1.2%	2.3%	1.8%	0.5%
MML	Animal feed & husbandry	6.4%	N/a	N/a	16.6%	15.9%	0.7%	12.1%	11.9%	0.2%	251.9%	N/a	N/a
SBT	Sugar	18.7%	-8.2%	26.9%	17.6%	11.6%	6.0%	8.8%	7.9%	0.9%	-74.6%	104.1%	-178.7%
MPC	Aqua product	-15.4%	9.5%	-24.9%	8.5%	10.2%	-1.7%	6.5%	6.5%	0.0%	-33.4%	-14.9%	-18.5%
DBC	Animal feed & husbandry	41.1%	24.2%	16.9%	26.0%	13.5%	12.5%	7.0%	8.1%	-1.1%	1638.7%	96.6%	1542.1%
KDC	Packaged food	11.3%	-6.9%	18.2%	20.0%	20.5%	-0.5%	18.4%	22.6%	-4.2%	95.3%	-148.9%	244.2%
VHC	Aqua product	-8.6%	-0.8%	-7.8%	13.1%	23.5%	-10.4%	4.8%	5.3%	-0.5%	-50.5%	213.8%	-264.3%
IDI	Aqua product	-17.6%	41.6%	-59.2%	5.8%	14.4%	-8.6%	3.0%	3.1%	-0.1%	-91.4%	-7.0%	-84.4%
VSN	Packaged food	20.5%	18.9%	1.6%	20.2%	21.5%	-1.3%	16.2%	17.3%	-1.1%	19.4%	-20.9%	40.3%
QNS	Packaged food	-28.8%	25.2%	-54.0%	25.1%	23.6%	1.5%	16.2%	14.6%	1.6%	-24.6%	-17.9%	-6.7%
TNA	Food material	5.0%	5.4%	-0.4%	4.7%	4.9%	-0.2%	2.0%	2.3%	-0.3%	-5.7%	-53.3%	47.6%
APF	Food material	0.5%	7.7%	-7.2%	13.1%	7.9%	5.2%	6.0%	3.9%	2.1%	112.6%	-20.3%	132.9%
TAC	Packaged food	23.1%	-22.0%	45.1%	15.1%	13.8%	1.3%	11.8%	11.0%	0.8%	24.1%	-26.0%	50.1%

Source: FiinPro

We see the confluence of 4 trends to change the industry in 2H20

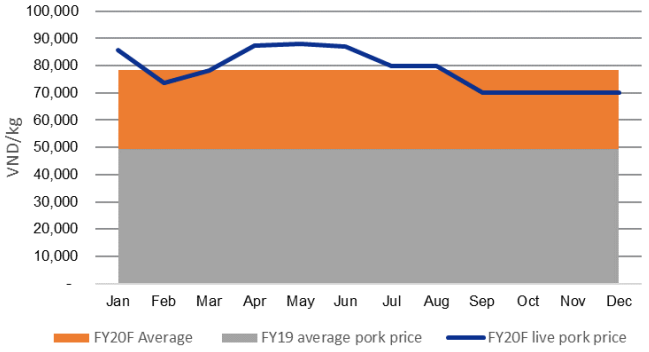
International tourism still hibernate till end-2020

Though Vietnam are gradually reopening borders and resuming selected international flights in 3Q20, we still see the hibernation in international tourism until 2021, which weigh on the recovery of F&B consumption.

Consumer more conscious of healthy food and drinks due to the pandemic

According to recent studies of Nielsen, Covid-19 is a impetus for Vietnamese consumer to increase the consumption of organic and healthy food.

Pork price is likely to hover around VND80,000/kg



Source: Anovafeed, VNDIRECT Research

Food price is likely to stay high due to pork price

The live pig import from neighbouring countries is not likely to pull average pork price below VND80,000/kg due to transportation and bio-security expenses, in our view. High pork price will keep food prices at a high level.

We saw a new wave of M&A and partnership post pandemic

SOFT DRINKS & ICE-CREAM

VINAMILK + KIDO GROUP

PACKAGED FOOD & RETAIL

MASAN GROUP + VINGROUP

ICE CREAM – EDIBLE OIL

KIDO GROUP

Tường An

KIDO FOODS

We expect leading companies to conduct M&A and form joint ventures in 2H20F and FY21F.

F&B peers comparison (data on 26th Jun 2020)

Company	Ticker	Recomm.	Price	TP	Mkt Cap	P/E (x)		3-year EPS	P/BV(x)		EV/EBITDA(x)		ROE (%)		D/E
			LC$	*LC$*	*US%m*	*TTM*	*CY20F*	*CAGR (%)*	*TTM*	*CY20F*	*TTM*	*CY20F*	*TTM*	*CY20F*	*%*
Dairy producers															
Inner Mongolia Yili	600887 CH	NR	31	N/a	24,635	34.9	30.5	7.3	6.7	N/a	N/a	21.6	21.8	15.6	39
China Mengniu Dairy	2319 HK	NR	30	N/a	14,725	25.8	28.5	N/a	3.7	N/a	15.1	N/a	15.1	N/a	70
Yakult Honsha Co	2267 JP	NR	6,230	N/a	10,402	25.1	27.4	10.9	2.7	N/a	15.3	N/a	10.9	N/a	28
Vietnam Dairy JSC	VNM VN	ADD	114,400	131,000	8,686	20.4	18.8	4.1	6.4	6.4	13.0	12.0	38.3	39.4	18
Vitasoy	345 HK	NR	30	N/a	3,987	58.8	51.6	(3.6)	10.1	9.3	28.7	25.2	17.0	18.5	14
Average					***12,487***	***33.0***	***31.4***		***5.9***		***18.0***		***20.6***		***34***
Median					***10,402***	***25.8***	***28.5***		***6.4***		***15.2***		***17.0***		***28***
3F Meat producers															
Tyson Food Group	TSN US	NR	58	N/a	22,770	11.0	13.0	14.6	1.5	N/a	8.3	8.7	14.1	N/a	84
New Hope Liuhe Co	000876 CH	NR	29	N/a	17,205	20.4	8.9	56.9	4.3	3.0	N/a	7.7	23.8	36.4	61
CPFoods	CPF TB	NR	31	N/a	8,719	13.2	14.6	3.4	1.3	1.5	11.8	12.5	11.0	10.5	153
IOI Group	IOI MK	NR	4	N/a	6,436	66.2	29.1	83.7	3.0	N/a	24.8	N/a	4.5	N/a	52
Dabaco Group	DBC VN	HOLD	48,950	52,300	202	8.0	4.7	6.4	1.5	1.1	6.8	2.7	20.6	30.1	154
Average					***11,066***	***23.7***	***14.1***	***33.0***	***2.3***		***12.9***		***14.8***		***101***
Median					***8,719***	***13.2***	***13.0***	***14.6***	***1.5***		***10.1***		***14.1***		***84***
Packaged F&B producers															
Saigon Beer Alcohol Beverage Corp	SAB VN	NR	164,800	N/a	5,046	24.2	25.6	7.3	6.1	5.1	17.1	16.9	27.2	21.6	5
Masan Consumer Holdings	MCH VN	NR	69,900	N/a	2,198	12.2	N/a	18.0	4.1	N/a	10.9	N/a	35.3	N/a	42
Hanoi Beer Alcohol Beverage Corp	BHN VN	NR	53,800	N/a	543	33.7	N/a	(7.4)	2.8	N/a	14.2	N/a	8.4	N/a	9
Thanh Thanh Cong - Bien Hoa JSC	SBT VN	NR	14,050	N/a	377	82.3	N/a	(22.3)	1.1	N/a	26.4	N/a	1.5	N/a	157
Kido Group	KDC VN	NR	29,000	N/a	297	88.9	71.4	(19.9)	1.0	1.0	23.5	N/a	1.1	1.4	23
Average					***1,692***	**48.3**		**(4.8)**	**3.0**		**18.4**		**14.7**		**47**
Median					***543***	**33.7**		**(7.4)**	**2.8**		**17.1**		**8.4**		**23**

Source: Bloomberg, VNDIRECT Research

ADD

Current price	VND114,400
Target price	VND131,000
Market cap (US$m)	8,688
Daily value 30 day (US$m)	5.00
FY20F P/B (x)	6.4
FY20F P/E (x)	18.8
Current foreign ownership	58.7%

Key ratios	2018A	2019F	2020F	2021F
Revenue (VNDbn)	52,562	56,318	62,042	66,330
Net profit (VNDbn)	10,184	10,527	11,766	12,793
NP growth (%)	-0.7	3.4	11.8	8.7
EPS	5,295	5,485	6,080	6,611
ROE (%)	41.4	38.3	39.4	38.9
ROAA (%)	26.6	25.6	25.4	26.0
DPS	4,500	4,500	4,500	4,500
UTH sales growth (%)	1.1	3.2	5.6	5.5
Yogurt sales growth (%)	1.0	6.0	6.0	6.0

High quality stock – Good valuation

Better 1H20 performance than company targets

VNM targets FY20F revenue/net profit to rise 5.4%/1.0% yoy, much lower than FY19 growth of 7.1%/3.4% yoy. The targets reflect negative impacts of the COVID-19 pandemic on dairy consumption in both domestic and foreign markets. In 1H20, VNM net revenue grew 7.0% yoy (mostly thanks to the consolidation of GTN Foods) and net profit was up 3.0% yoy, to be inline at 50% of our full-year net profit forecast.

New products, new export market announced

VNM is going to form a venture with KIDO GROUP, the local market leader of edible oil and ice-cream, to invade the US$5bn domestic soft drinks market. The market value is expected to post a firm CAGR of 8.2% in FY18-23F. Besides, the company has received official export approval to EAEU region in mid-Jun 2020. We expect soft drink business and new export market to strengthen VNM's revenue in FY20-23F.

Reiterate ADD rating, with TP of VND131,000/share

We forecast VNM FY20F revenue/net profit to rise 10.2%/11.8% yoy thanks to (1) the consolidation of GTN Foods, (2) the much earlier-than-expected control of COVID-19 pandemic in Vietnam, and (3) lower material milk price.

Risks: COVID-19 pandemic break out again in Vietnam. Global milk material price increase higher than expected.

HOLD	
Current price	VND48,950
Target price	VND52,300
Market cap (US$m)	202
Daily value 30 day (US$m)	5.9
FY20F P/B (x)	1.1
FY20F P/E (x)	4.7
Current foreign ownership	2.7%

Key ratios	2018A	2019E	2020F	2021F
Revenue (VNDbn)	6,674	7,187	9,103	10,027
Net profit (VNDbn)	360.2	304	1,215	1,020
NP growth (%)	80.0	-15.6	300.0	-16.0
EPS (VND)	3,217	2,727	10,440	8,767
ROE (%)	13.7	10.5	30.1	20.0
ROAA (%)	6.28	3.4	11.8	8.6
DPS (VND)	1,000	500	1,500	1,000
Feed sales growth(%)	-12.4	-8.0	0.0	3.0
Farm sales growth(%)	82.8	22.8	48.8	11.0

FY20F profit to soar on pork price hike

1H20 results skyrocketed as favourable pork price

DBC 1H20 prelim net profit was VND746bn, increased 2,603% yoy, forming 163% of company full-year target and reached 82% of our previous full year net profit forecast. The earning acceleration was driven by 1H20 average live pork price increased 101% yoy under pork shortage in Vietnam, to VND83,000/kg and pork production rose 15% yoy.

Pork price likely to stay high in 2H20 as ASF re-emerging

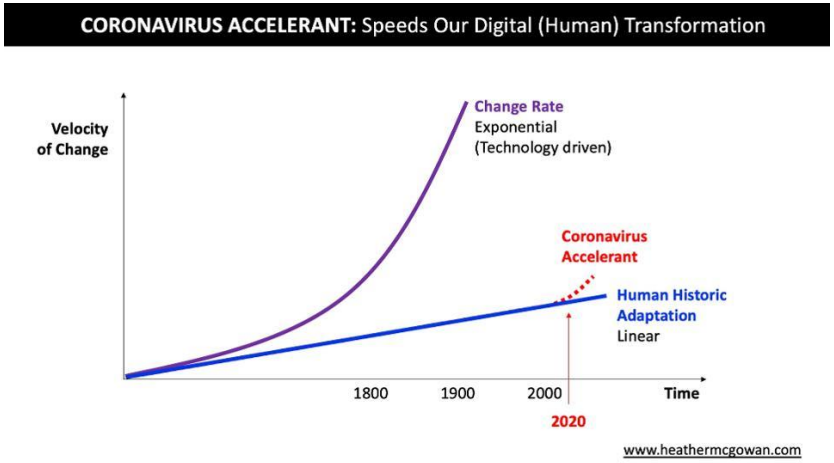
Vietnam's pork production fell 8.8% yoy in 1H20 due to the ASF disease. Gorvernment's effort to ease pork price (encourage farms to repopulate and import live pig from Cambodia, Thailand) seem provide effect under the re-emerge of ASF in 33 areas in Vietnam since late April, 2020. It's likely that live pork price will hover around current range of VND75,000~85,000/kg in 2H20, which is 16% higher than our previous live pig price forecast.

Recommend HOLD with TP of VND52,300

As pork price forecast for 2H20 is increased, we revise our FY20F net profit forecast to VND1,215bn (+33% from previous forecast), equivalent to growth rate of 300% yoy. Our revised TP is VND52,300 (+50% from prevous TP) coming with HOLD recommendation.

Technology

COVID-19 spurs the digital economy



Source: Heather E. Mcgowan

Digital transformation accelerated by COVID-19

COVID-19 accelerates technology growth and adoption

Streaming

- **50,000 years (Streaming Data):** The amount of content Americans streamed in just one day (4 Apr).
- **22% (Netflix):** Yoy subscriber growth.
- **66% (Peloton):** Membership growth for the collaborative workout company.
- **4 years (Disney+):** Number of years the streaming platform is ahead of its own projections, with 54m paid subscribers in May.

Social Media

- **27% (Facebook):** Increase in daily website traffic.
- **26% (Linkedin):** Quarterly growth of user sessions.
- **2x (Whatsapp):** Increase in calls and videos.
- **25% (Tiktok):** Increase in the number of monthly downloads of popular social video sharing app.

Business

- **3,800 years (Google Meet):** The amount of time spent in Google Meet sessions in a single day.
- **2.7 billion (Microsoft Teams):** New record of total meeting minutes in a single day.
- **2,900% (Zoom):** Growth of daily Zoom participants since December 2019.
- **80% (Slack):** Increase in new paid customers when compared to the previous quarter.

Gaming

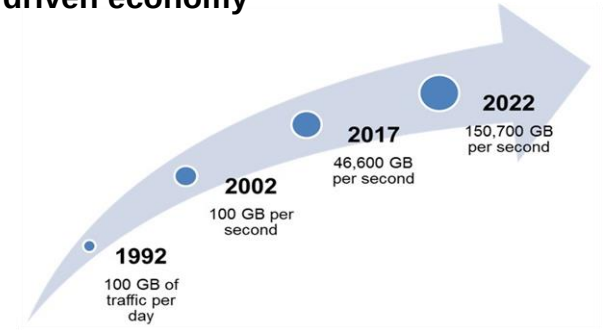
- **41% (Nintendo)**: Surge in annual profit.
- **2x% (Activision Blizzard):** Increase in in-game revenue for Call of Duty: Modern Warfare vs. last year's Call of Duty: Black Ops.
- **1 million (Bunch Live):** Growth of users over seven days for the social gaming app.
- **70% (House Party):** Growth in monthly signups for the social video and gaming app.

The Cloud

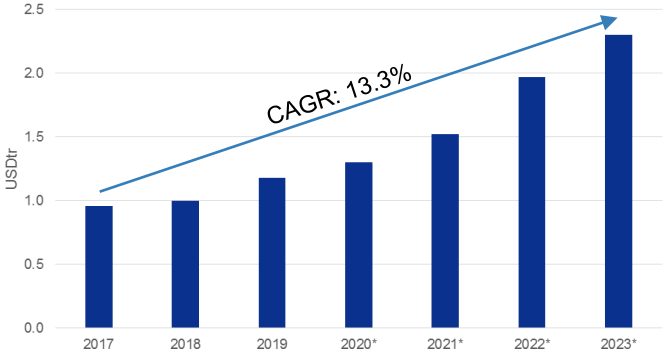
- **70% (Amazon Web Services):** Yoy revenue growth in 1Q20.
- **775% (Microsoft):** Increase in cloud service usage in regions with social distancing and shelter-in-place orders.

Source: Infinera

The world is still in the dawn of the data-driven economy



Global digital transformation market size



Source: UNCTAD, IDC, Statista

Vietnam's IT Industry – historical data and forecasts

Indicator	2017	2018	2019F	2020F	2021F	2022F	2023F
IT market value (VNDbn)	106,486	117,550	134,024	153,794	173,902	196,732	221,595
IT market value, % of GDP	2.1%	2.1%	2.2%	2.3%	2.3%	2.3%	2.4%
Computer hardware sales (VNDbn)	32,694	31,286	33,170	36,535	37,674	39,540	41,423
Personal computer sales (VNDbn)	19,457	18,439	19,472	21,548	22,046	23,015	24,117
Software sales (VNDbn)	13,201	15,574	18,804	22,763	26,865	31,779	37,676
Services sales (VNDbn)	60,591	70,691	82,050	94,496	109,363	125,413	142,496

Source: FITCH SOLUTIONS

Vietnamese enterprises' spending on IT, by sector (% of Vietnam's gross value added)

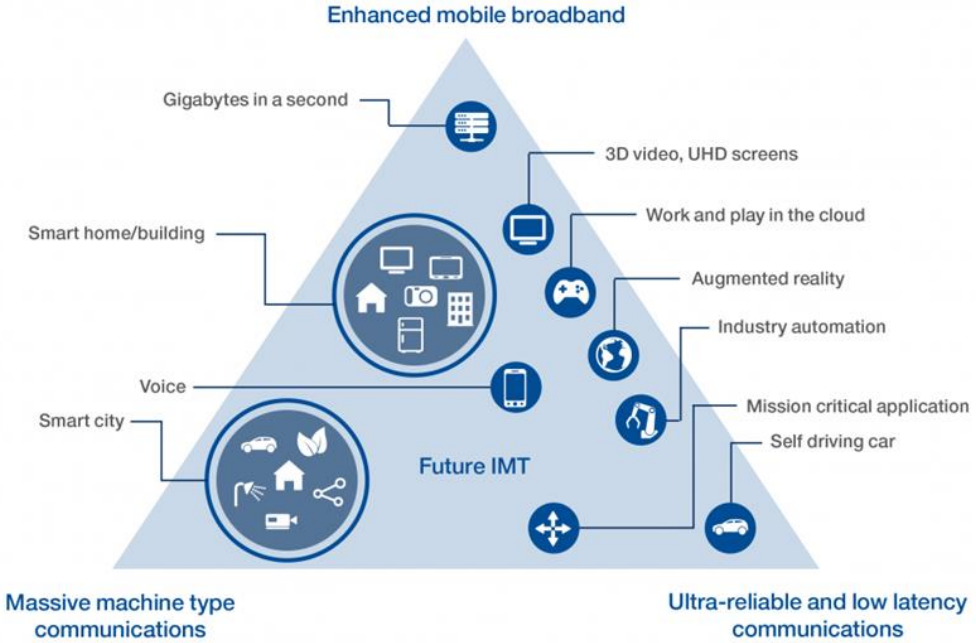
Sector	2017	2018	2019F	2020F	2021F	2022F	2023F
Agricuture	17.05%	17.21%	17.37%	17.52%	17.65%	17.78%	17.89%
Mining	8.30%	8.20%	7.44%	6.74%	6.11%	5.54%	5.02%
Manufacturing	17.03%	16.73%	16.46%	16.19%	15.94%	15.72%	15.51%
Construction	6.37%	6.49%	6.68%	6.82%	6.96%	7.08%	7.19%
Finance	6.08%	6.29%	6.39%	6.49%	6.58%	6.66%	6.73%
Real estate	5.32%	5.66%	5.69%	5.71%	5.72%	5.74%	5.75%
Other services	4.63%	4.78%	4.85%	4.93%	5.00%	5.06%	5.11%
Utilities	5.40%	5.41%	5.41%	5.41%	5.42%	5.42%	5.42%
Trade & tourism	16.16%	15.93%	16.15%	16.37%	16.56%	16.73%	16.89%
Transport & communications	3.71%	3.87%	3.90%	3.93%	3.95%	3.98%	4.00%
Public sector	9.94%	9.42%	9.66%	9.90%	10.11%	10.30%	10.48%

Source: FITCH SOLUTIONS

According to Decree No. 13/2019/ND-CP, which took effect on 20 Mar 2019, qualified scientific and technological enterprises are entitled to four years of corporate income tax (CIT) exemption and a subsequent nine years of a 50% reduction in CIT rates, along with other incentives, such as exemption or reduction of rental fees for land use rights and credit incentives.

5G technology is the new catalyst in the making

Usage scenarios for 5G technologies



Source: INTERNAL TELECOMMUNICATION UNION

- Vietnam may soon become one of the first Southeast Asian countries to launch 5G, with local telecoms firms racing to develop the country's first nationwide network (Viettel, Vinaphone and MobiFone).
- With the advent of breakthrough 5G technology, we believe technology companies have opportunities to develop advanced applications to diversify products and services.

Stock picks: FPT Corp (FPT VN, Add, VND64,300)

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US$m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA		Dividend Yield (%)	
						FY20F	FY21F		FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	FY20F	FY21F
FPT CORP	**FPT VN**	**ADD**	**46,850**	**64,300**	**1,582.7**	**9.6**	**8.1**	**13.2**	**2.1**	**1.9**	**24.7**	**24.2**	**4.6**	**4.1**	**4.3**	**4.3**
Telecom																
TELSTRA CORP	TLS AU	ADD	3.13	3.73	25,581.7	16.4	17.8	(3.2)	2.4	2.4	15.1	13.4	5.9	6.2	0.0	0.0
TELEKOMUNIKASI	TLKM IJ	ADD	3,190	3,700	22,222.8	14.2	12.8	11.1	2.9	2.7	21.4	22.0	5.4	5.0	5.3	5.8
MAXIS BHD	MAXIS MK	REDUCE	5.34	5.10	9,733.5	28.8	26.9	2.8	5.9	5.9	20.4	21.9	13.5	12.8	3.4	3.7
INTOUCH HOLDINGS	INTUCH TB	ADD	57.00	61.80	5,914.0	17.6	16.7	(1.8)	4.8	4.4	28.3	27.6	13.9	12.9	3.9	4.5
GLOBE TELECOM	GLO PM	HOLD	2,130	2,060	5,691.9	15.7	N/A	3.1	3.5	N/A	22.9	N/A	6.5	N/A	0.0	N/A
PLDT INC	TEL PM	ADD	1,250	1,780	5,408.6	10.6	10.2	(3.4)	2.3	2.4	20.8	22.2	4.8	4.5	5.7	5.9
Average						**17.2**	**16.9**	**1.4**	**3.6**	**3.6**	**21.5**	**21.4**	**8.3**	**8.3**	**3.0**	**4.0**
Median						**16.0**	**16.7**	**0.5**	**3.2**	**2.7**	**21.1**	**22.0**	**6.2**	**6.2**	**3.7**	**4.5**
Software & IT Services																
INFOSYS LTD	INFO IN	ADD	748.2	700	42,128.4	19.2	20.4	5.5	4.8	4.5	25.5	22.8	13.1	13.1	2.3	3.7
WIPRO LTD	WPRO IN	ADD	225.4	225	17,024.1	13.5	15.6	4.6	2.4	2.1	17.3	13.9	8.7	9.0	0.4	2.9
HCL TECH LTD	HCLT IN	ADD	562.4	620	20,176.0	13.8	13.9	6.9	3.0	2.5	23.7	19.5	8.5	7.9	1.1	2.1
TECH MAHINDRA LT	TECHM IN	ADD	560.9	675	7,163.0	12.1	14.0	7.2	2.2	2.0	19.2	14.9	7.5	7.4	2.7	3.6
L&T INFOTECH LTD	LTI IN	ADD	1,928.7	1,940	4,441.2	22.1	23.3	13.2	6.2	5.3	29.5	24.6	15.2	14.1	1.5	1.4
HEXAWARE TECHNOL	HEXW IN	ADD	327.0	335	1,291.9	17.9	14.6	5.9	3.3	2.9	19.0	21.1	11.0	8.8	2.0	3.4
NIIT LTD	NIIT IN	ADD	1,461.7	1,500	1,207.5	20.5	21.2	11.3	3.8	3.8	20.2	17.9	11.8	11.3	1.6	1.4
CYIENT LTD	CYL IN	ADD	275.5	300	400.5	8.8	11.6	2.8	1.2	1.1	14.5	9.8	4.2	5.0	5.5	4.3
MPHASIS LTD	MPHL IN	ADD	893.0	900	2,202.1	14.0	14.6	8.5	2.9	2.6	20.6	18.8	8.9	8.5	3.9	4.0
MINDTREE LTD	MTCL IN	HOLD	949.1	810	2,064.9	24.8	21.3	18.8	4.9	4.3	19.5	21.6	13.1	10.7	1.4	1.9
L&T TECHNOLOGY S	LTTS IN	ADD	1,296.5	1,300	1,791.7	16.5	20.0	7.0	4.9	4.2	31.2	22.7	11.4	11.9	1.6	1.5
Average						**16.7**	**17.3**	**8.3**	**3.6**	**3.2**	**21.8**	**18.9**	**10.3**	**9.8**	**2.2**	**2.7**
Median						**16.5**	**15.6**	**7.0**	**3.3**	**2.9**	**20.2**	**19.5**	**11.0**	**9.0**	**1.6**	**2.9**

Source: CGS-CIMB, BLOOMBERG, VND RESEARCH

FPT is our top pick as one of the leaders in global IT services and domestic telecommunications providers.

FPT's valuation is approaching VN30's and VN-Index's interms of trailing P/E ratio (as of 26 Jun 2020)

Source: BLOOMBERG, VND RESEARCH

ADD	
Current price	VND46,850
Target price	VND64,300*
Market cap (US$m)	1,583
Daily value 30 day (US$m)	3.8
FY20F P/B (x)	2.1
FY20F P/E (x)	9.6
Current foreign ownership	49.0%

Key ratios	2018A	2019A	2020F	2021F
Revenue (VNDbn)	23,214	27,717	32,452	37,570
Net profit (VNDbn)	2,620	3,135	3,828	4,527
NP growth (%)	-10.6	19.7	22.1	18.3
EPS*	4,270	4,622	4,883	5,775
ROE (%)	21.9	23.7	24.7	24.2
ROAA (%)	11.0	12.0	12.5	12.6
DPS	2,500	2,000	2,000	2,000
Tech rev. growth (%)	20.9	17.8	20.4	18.0
Tele rev. growth (%)	15.4	17.7	9.3	12.0

* Adjusted for stock dividend

Digital transformation is bright spot

Minimal impact of COVID-19 on 5M20 performance

5M20 net revenue rose 12.4% yoy to VND11,199bn (vs. 20.2% yoy same period last year). Profit after tax recorded VND1,655bn(+15.6% yoy), coming in at 34.7% of our full-year forecast. Online advertising had the worst performance with a negative 18.9% yoy in 5M20 revenue due to customers' ad spend cuts as the pandemic spread.

Digital transformation (Dx) is still the revenue growth engine

Dx posted a VND1,517bn revenue (+70% yoy) in 5M20, contributing 24.6% of technology topline. We forecast a strong Dx revenue CAGR of 30.3% in FY20-23F on the back of aggressive M&A plan to expand its brand and overseas customer base.

Telecom should provide concrete base amid growing competition

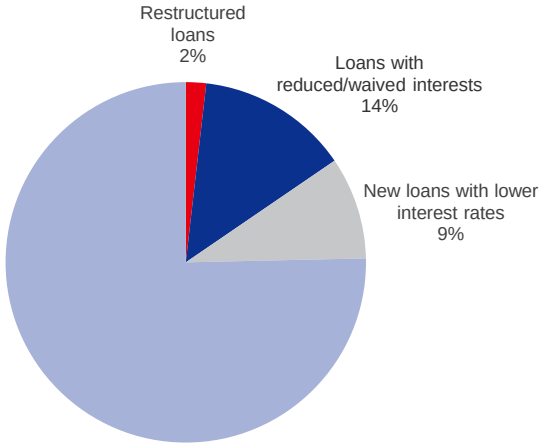
We expect the company's telecommunication segment to generate a stable revenue CAGR of 8.4% in FY20-23F thanks to solid domestic demand, especially after the pandemic, while pay TV should ignite net profit over the longer term, possibly breaking even and reporting profits in FY21F.

Reiterate Add rating with TP of VND64,300/share. Potential re-rating: an expansionary government fiscal policy and a successful M&A deal with an overseas technology company. Downside risks are fewer technology contracts if the pandemic is prolonged.

Banking

Impact of the pandemic further exposed

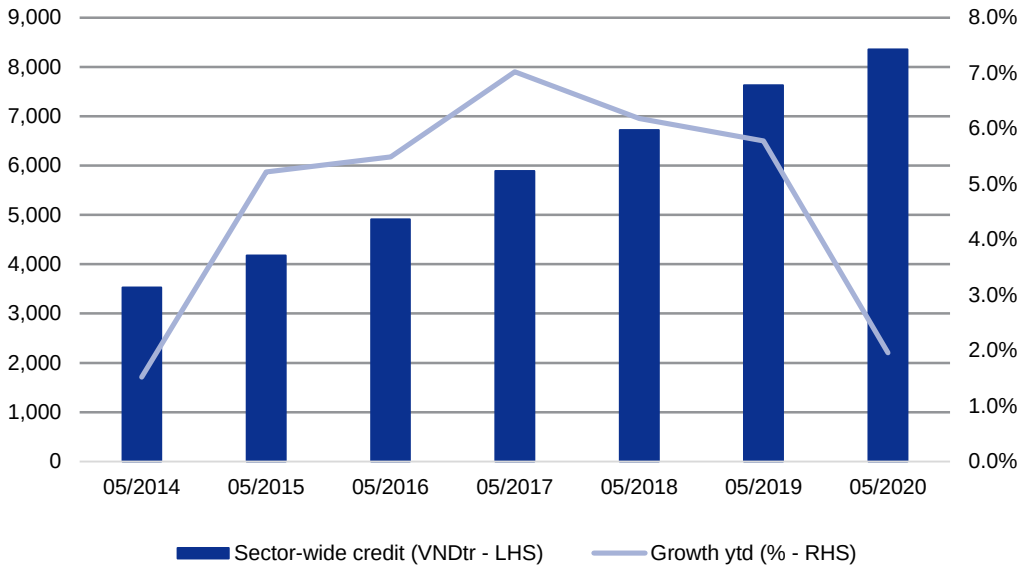
A quarter of the sector's credit got support in form of loan restructuring or lower interest rates



Source: SBV

Banking sector's FY20F credit growth expected at 9%

System's credit growth still low



SOURCE: VND RESEARCH, SBV, COMPANY REPORTS

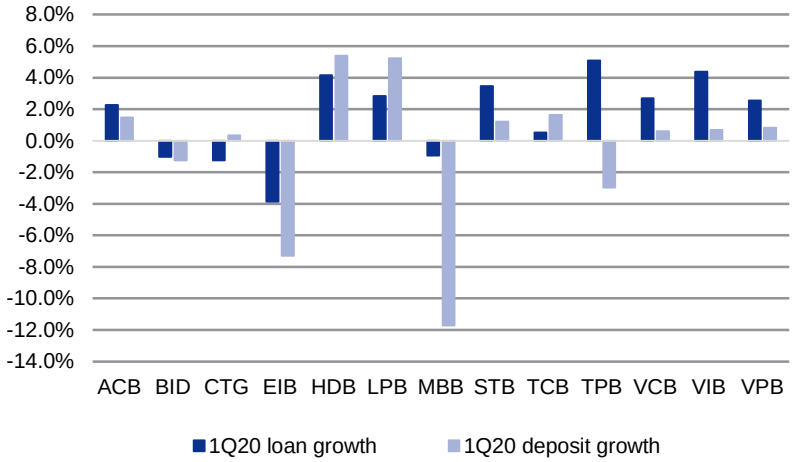
Credit growth remains sluggish: By 16/06 system's credit growth reached 2.13%, much lower than 5.7% of the same period last year. Credit growth was the lowest rate in 6 years. Deposit growth was 1.85% by end-May 2020.

In our view, credit growth could recover in 2H to arrive at 9% yoy for FY20F

- Policy rate and deposit ceiling rate cuts to facilitate a reduction in lending rates, thereby encouraging firms to take on new loans.
- Resumption of corporate operation as Vietnam removes internal restrictions and other countries start opening borders.
- Public investment boost, which will create new jobs for both companies and individuals, therefore generating credit demand as a secondary effect.

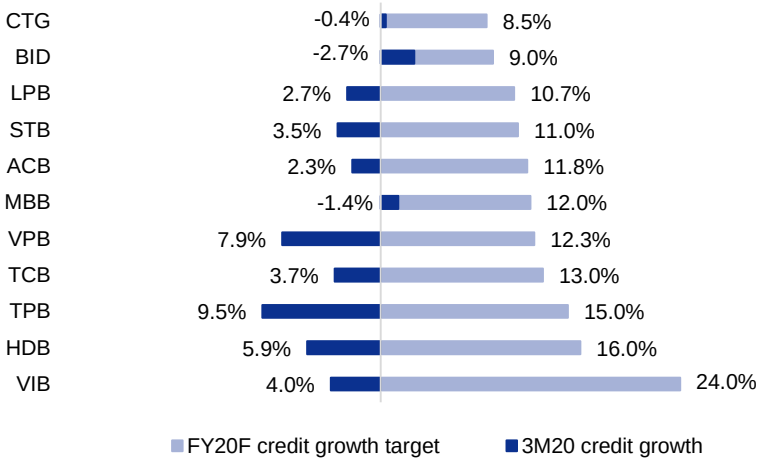
Most banks target lower credit growth in FY20F

1Q20 saw low loan and deposit growth across banks



SOURCES: VND RESEARCH, COMPANY REPORTS

Small banks aim for higher credit growth than SOCBS

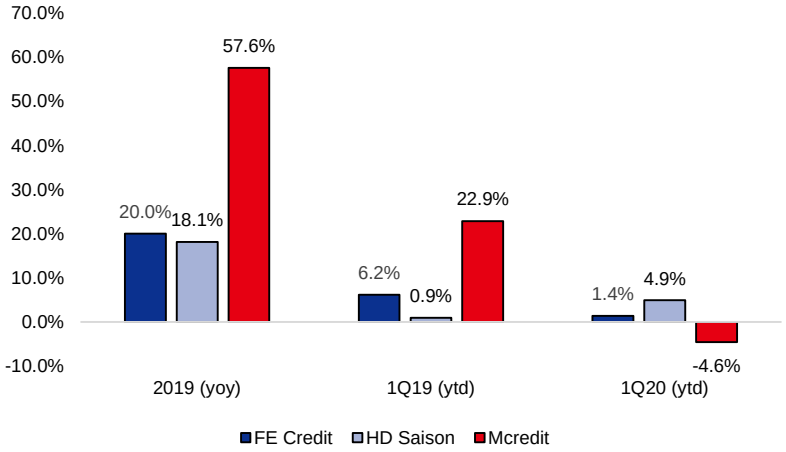


SOURCES: VND RESEARCH, COMPANY REPORTS

- Subdued credit demand resulted in low loan growth and low deposit growth across the sector. However, some banks achieved higher-than-average credit growth thanks to corporate bonds investments, which came from 2019 pipelines.
- Overall, banks have lower credit growth targets for FY20F than the growths they achieved in 2019.

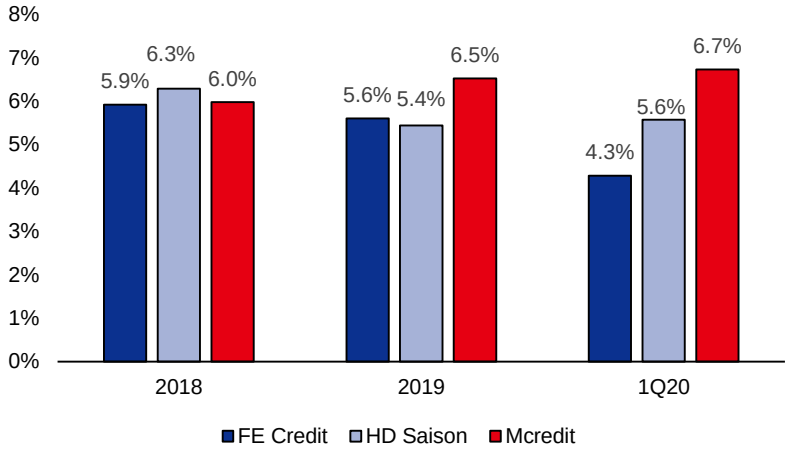
Consumer finance companies' credit growth declined in 1Q20

CF companies with large proportion of cash loans saw credit growth decelerate in 1Q20



SOURCES: VND RESEARCH, COMPANY REPORTS

NPL ratio declined at FE Credit in 1Q20 on aggressive write-off

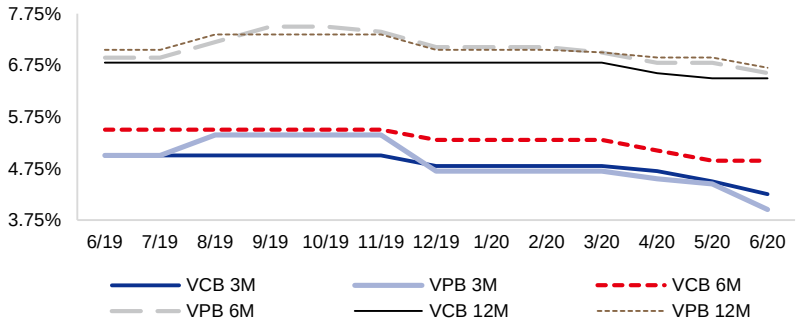


SOURCES: VND RESEARCH, COMPANY REPORTS

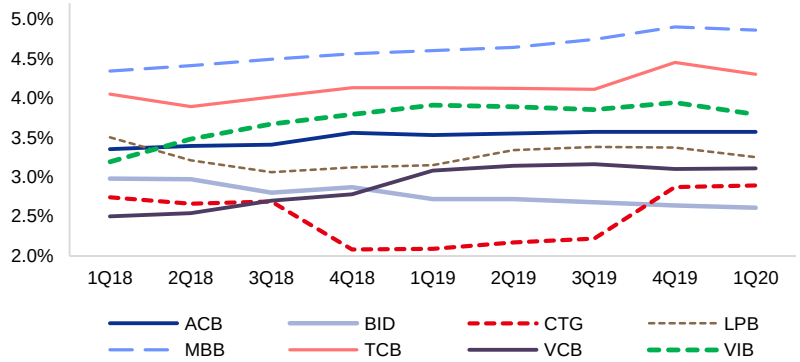
- Consumer finance companies with large proportion of cash loans saw much lower credit growth in 1Q20 as they step back from high risk lending, amid increasing credit risk due to the Covid-19 outbreak.
- Bad debt has risen across CF companies, except at FE Credit which wrote-off sizable amount of bad debt in 1Q20.

The COVID-19 pandemic has multifaceted impacts on banks

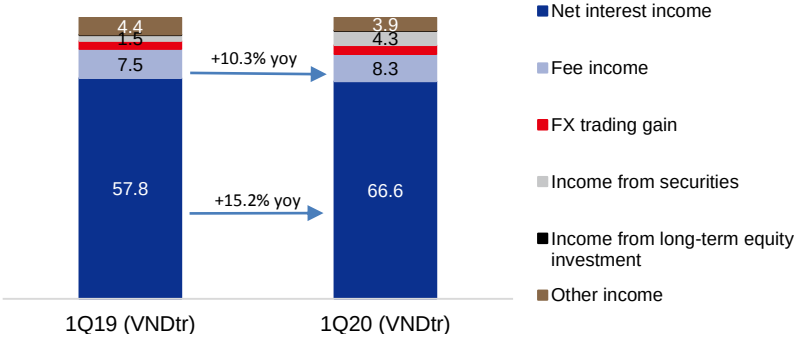
Deposit rates lowered after two policy rate cuts



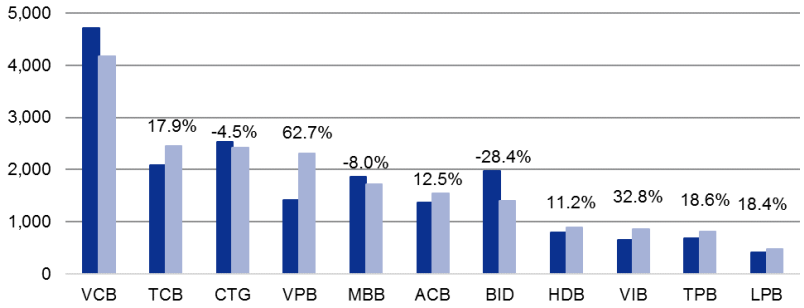
… but NIMs have been flat or slightly shrank



Income from fee & service and bad debt recovery slowed



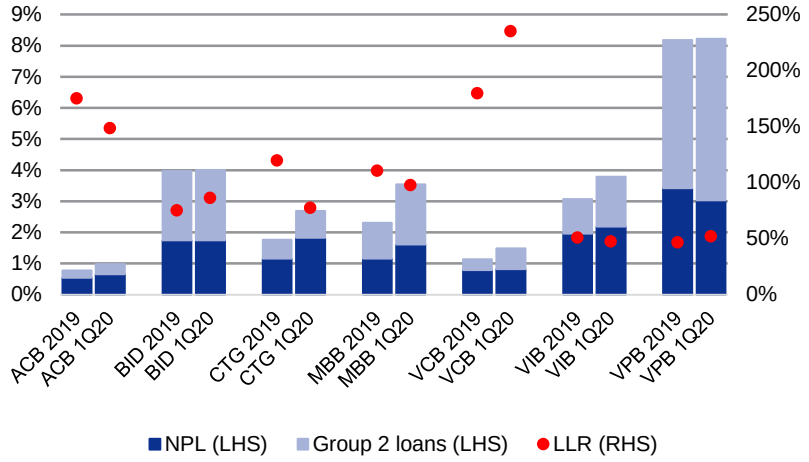
Net profit fell at banks with large wholesale loan books



SOURCES: VND RESEARCH, COMPANY REPORTS

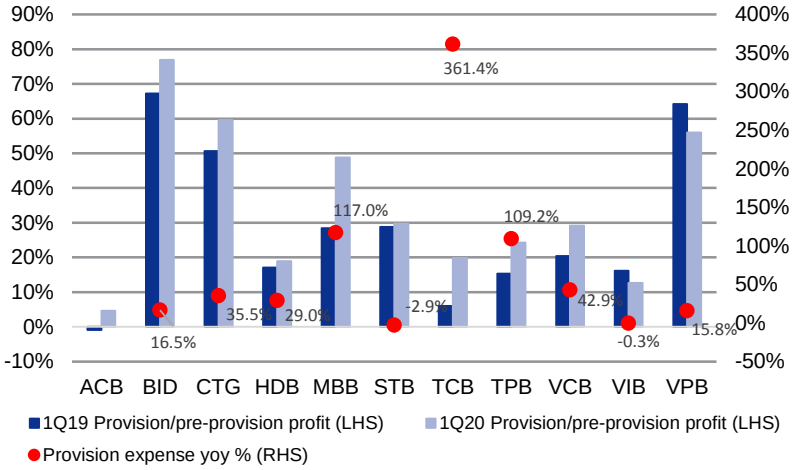
Provision expenses increased on rising bad debt

Both non-performing loans and Group 2 loans have risen across banks



SOURCES: VND RESEARCH, COMPANY REPORT

Some banks were ahead in provisioning amid rising bad debt



SOURCES: VND RESEARCH, COMPANY REPORTS

- Overdue loans have increased across banks but some banks ramped up provision buffer while others kept low provisioning to protect the bottomline. As a result, their loan-loss reserves fell in 1Q20.
- Bad debt could rise further from 1Q20 figures due to stricter social distancing orders in Apr 2020 and because banks can restructure loans without reclassifying those loans into riskier loan groups.

Stocks pick: MBB & VIB

Banks	Bloomberg Code	Recommendation	Closing price	Target price	Market cap	P/BV (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
			(local curr.)	(local curr.)	(US$m)	FY20F	FY21F	FY20F	FY21F	%	FY20F	FY21F
Bank Central Asia	BBCA IJ	ADD	28,225	27,300	49,093	4.1	3.7	34.1	25.6	7.1%	12.2%	15.2%
Bank Rakyat Indonesia	BBRI IJ	ADD	3,030	3,000	26,366	2.1	1.8	20.7	11.1	6.4%	9.7%	17.7%
Bank Mandiri	BMRI IJ	ADD	5,000	6,000	16,461	1.2	1.1	15.8	9.0	5.1%	7.4%	13.1%
Bank Negara Indonesia	BBNI IJ	HOLD	4,580	3,400	6,025	0.9	0.8	58.3	8.7	5.4%	1.4%	9.7%
Indonesia banks' average						***2.1***	***1.9***	***32.2***	***13.6***	***6.0%***	***7.7%***	***13.9%***
Malayan Banking Bhd	MAY MK	HOLD	8	7	20,022	1.1	1.1	14.5	11.5	-0.9%	8.6%	9.8%
Public Bank Bhd	PBK MK	ADD	17	19	15,027	1.4	1.3	12.8	12.6	0.2%	11.3%	10.9%
Hong Leong Bank	HLBK MK	HOLD	14	14	7,195	1.1	1.0	11.6	11.3	3.1%	9.5%	9.0%
BIMB Holdings	BIMB MK	REDUCE	3	3	1,446	1.0	0.9	9.2	9.9	-5.7%	11.1%	9.6%
Malaysia banks' average						***1.1***	***1.1***	***12.0***	***11.3***	***-0.8%***	***10.1%***	***9.8%***
Kasikornbank	KBANK TB	HOLD	92	111	7,067	0.5	0.5	7.7	7.7	-2.8%	7.2%	6.9%
Siam Commercial Bank	SCB TB	HOLD	73	75	8,042	0.6	0.6	8.8	9.1	-7.2%	7.4%	7.0%
Bangkok Bank	BBL TB	ADD	109	122	6,728	0.5	0.5	6.9	7.0	-2.8%	7.3%	6.9%
Kiatnakin Bank	KKP TB	HOLD	42	43	1,157	0.8	0.8	6.9	6.7	1.4%	12.2%	12.2%
Thailand banks' average						***0.6***	***0.6***	***7.6***	***7.6***	***-2.8%***	***8.5%***	***8.2%***
Vietcombank	VCB VN	HOLD	83,300	86,200	13,318	3.0	2.5	14.6	12.5	16.1%	23.6%	22.7%
Techcombank	TCB VN	ADD	20,350	27,400	3,070	1.0	0.8	6.6	5.7	12.5%	16.0%	15.8%
Vietnam Prosperity JSC Bank	VPB VN	HOLD	22,000	25,000	2,312	1.1	0.9	6.5	5.3	15.5%	17.8%	18.4%
Military Commercial Joint Stock Bank	MBB VN	ADD	17,350	26,200	1,804	0.9	0.8	4.8	4.2	13.3%	20.5%	19.4%
Asia Commercial Joint Stock Bank	ACB VN	ADD	23,600	28,500	1,692	1.2	1.0	6.0	5.4	11.6%	21.6%	20.4%
Vietnam International Bank	VIB VN	ADD	17,600	23,800	700	1.0	0.8	4.5	3.8	13.9%	23.6%	22.4%
Lien Viet Post Bank	LPB VN	HOLD	8,800	10,000	366	0.6	0.5	7.5	6.3	11.2%	11.3%	11.9%
Vietnam banks' average						***1.2***	***1.0***	***7.2***	***6.2***	***13.4%***	***19.2%***	***18.7%***
Vietnam banks' average - excl. VCB						***1.0***	***0.8***	***6.0***	***5.1***	***13.0%***	***18.5%***	***18.1%***

Our top picks are MBB and VIB for the following rationales:

- the ability to recover credit growth thanks to large corporate customer base at MBB and VIB's prominent position in auto loan which benefits from lower car prices and 50% reduction in registration fee;
- improvement in insurance sales post-pandemic;
- new distribution channel for MCredit via Vietnam Post's network, thereby facilitating credit growth;
- attractive valuation versus peers

SOURCES: VND RESEARCH, CGS-CIMB RESEARCH

ADD

Current price	VND17,350
Target price	VND26,200
Market cap (US$m)	US$1,804m
Daily value 30 day (US$m)	US$5.87m
FY20F P/B (x)	0.9
FY20F P/E (x)	4.8
Current foreign ownership	23.0%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	76.6%	28.0%	11.3%	14.5%
EPS growth (%)	79.4%	26.4%	8.8%	14.0%
NIM (%)	4.53%	4.89%	4.84%	4.94%
CIR (%)	44.7%	39.4%	41.0%	41.0%
NPL (%)	1.3%	1.2%	1.2%	1.6%
ROAE (%)	20.1%	22.1%	20.5%	19.4%
ROAA (%)	1.8%	2.0%	2.0%	2.0%

Damage priced in looks overdone

MBB has restructured assets and funding mix to cope with headwinds

Due to sluggish loan growth, MBB has reduced customer deposits and increased the lower-cost interbank funding to protect NIM, hence 1Q20 NIM gained 15bp yoy. The pandemic has dampened demand for insurance, causing 1Q20 net fee income to drop 1.8% yoy. Amid headwinds from the pandemic, MBB ramped up profit-taking on its bond book to boost earnings.

Pandemic has triggered higher bad debt and surging credit cost

NPL jumped to 1.6% of loans at end-1Q20, from 1.2% at end-FY19. 1Q20 provision expenses soared 117% yoy, hence the credit cost increased to 3.4%, from 1.7% in 1Q19. Heavy provisioning dampened the bottomline, with 1Q20 net profit dropping 8% yoy.

We expect net profit to grow 11.3% yoy in FY20F

We expect income to improve in 2H20 thanks to the rebound in credit growth, MBB's continued expansion in retail lending and consumer finance, and more upbeat insurance sales. Our TP is based on equal weighting of residual income valuation (COE: 14.3%; LTG:3%) and 1.2x FY20F P/BV.

Downside risk: higher-than-expected credit costs due to a faster rise in bad debt caused by the pandemic. Re-rating catalyst: stronger growth in fee income which exceeds our projections.

ADD

Current price	VND17,600
Target price	VND23,800
Market cap (US$m)	US$700m
Daily value 30 day (US$m)	US$0.89m
FY20F P/B (x)	1.0
FY20F P/E (x)	4.5
Current foreign ownership	20.5%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	95.1%	48.9%	7.9%	17.8%
EPS growth (%)	96.0%	46.2%	6.5%	17.8%
NIM (%)	3.77%	3.93%	3.92%	4.03%
CIR (%)	44.2%	42.2%	44.0%	44.0%
NPL (%)	2.5%	2.0%	2.3%	2.5%
ROAE (%)	22.6%	27.1%	23.6%	22.4%
ROAA (%)	1.7%	2.0%	1.8%	1.7%

Robust 1Q20 growth on flat provisioning

Strong topline growth but insurance sales

VIB was among the banks with the highest credit growth in 1Q20 (+32.3% yoy), driven by individual loans. NIM fell 10bp yoy due to the reduction of interest rates to support customers and the increase of valuable papers issuance (+68.6% yoy). 1Q20 NII grew 29.9% yoy and non-II rose 40.2% yoy, of which income from payment services jumped two-fold yoy thanks to robust card issuance in FY19, while insurance income fell 13.2% yoy.

Flat provision, slightly increasing bad debt

VIB only wrote-off a small amount of bad debt in 1Q20, thus NPL ratio climbed to 2.19% at end-1Q20, from 1.96% at end-FY19 and provision expense stood flat yoy. Besides, group 2 loan also soared 50.3% vs. end-FY19. Given the flat provision expense, 1Q20 net profit jumped 32.8% yoy.

VIB can achieve a higher-than-average loan growth in FY20F

Given its prominent position in auto loan market, VIB can benefit from lower car prices and the 50% registration fee reduction. We forecast a 18% loan growth in FY20F. Reiterate Add. Our TP is based on equal weighting of residual income valuation (COE: 16.8%; LTG: 3%) and 1.0x FY21F P/BV.

Upside risk is better-than-expected loan growth. Downside risk would be higher-than-expected bad debt.

ADD

Current price	VND23,600
Target price	VND28,500
Market cap (US$m)	US$1,692m
Daily value 30 day (US$m)	US$3.93m
FY20F P/B (x)	1.2
FY20F P/E (x)	6.0
Current foreign ownership	30%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	142.5%	17.0%	8.7%	12.2%
EPS growth (%)	143.6%	16.1%	7.5%	12.1%
NIM (%)	3.54%	3.54%	3.47%	3.55%
CIR (%)	47.8%	51.6%	50.0%	49.0%
NPL (%)	0.7%	0.5%	0.6%	0.6%
ROAE (%)	27.7%	24.6%	21.6%	20.4%
ROAA (%)	1.7%	1.7%	1.6%	1.6%

Still good performance amid challenges

Robust topline growth in 1Q20

ACB's net interest income (NII) rose +19.7% yoy, driven by a 15.8% yoy loan growth and a 6bp yoy NIM hike. Meanwhile, non-interest income (Non-II) surged 51.3% yoy, being boosted by a 17.9x yoy rise in investment securities income, thanks to the offload of 12.8% of government bonds, and a 77.4% yoy rise in FX trading gain. Net profit rose by a moderate 12.5% yoy in 1Q20 due to higher cost-to-income ratio and provision expense.

Asset quality remained solid

ACB's NPL ratio was still the lowest in Vietnam's banking sector, standing at 0.65% at end-1Q20 (1Q19: 0.68%), while its loan-loss reserves (LLR) remained the second highest at 148.3% at end-1Q20 (1Q19: 158.1%).

We expect net profit to rise 8.7% yoy in FY20F

We forecast a loan growth of 12% for ACB in FY20F and NIM is projected to lose 7bp due to lending rate cuts. NIM could improve by 3-7bp yoy in FY21-22F on improving CASA. Reiterate Add and TP of VND28,500, based on residual income valuation (COE: 14.3%; LTG: 3%) and 1.3x FY20F P/BV.

Upside catalyst: An exclusive bancassurance deal which promises a sizable agency fee. Downside risk: higher-than-expected funding costs, weighing on NIM.

ADD

Current price	VND20,350
Target price	VND27,400
Market cap (US$m)	US$3,070m
Daily value 30 day (US$m)	US$1.91m
FY20F P/B (x)	1.0
FY20F P/E (x)	6.6
Current foreign ownership	22.5%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	31.3%	19.1%	6.4%	16.0%
EPS growth (%)	17.6%	19.1%	6.4%	16.0%
NIM (%)	4.01%	4.33%	4.27%	4.45%
CIR (%)	31.8%	34.7%	35.0%	35.0%
NPL (%)	1.7%	1.3%	1.6%	1.7%
ROAE (%)	21.5%	17.8%	16.0%	15.8%
ROAA (%)	2.9%	2.9%	2.6%	2.7%

Solid performance, improved asset quality

Robust topline accommodated surging expenses in 1Q20

Techcombank's (TCB) NII grew 22.8% yoy, backed by 23.8% yoy credit growth and a 15bp yoy rise in NIM. Non-II surged 89.1% yoy, thanks to: 1) a 73.1% yoy rise in net fee income (of which: payment fees +38.7% yoy, and advisory fees +5.5x yoy); 2) a 8.7x yoy jump in income from investment securities. However, net profit grew only 17.9% yoy, due to higher operating expense and aggressive provisioning, but was still the second-highest net profit among its peers.

Bad debt declined on aggressive write-offs

NPL ratio fell to 1.1% at end-1Q20 from 1.3% at end-FY19, and loan-loss reserves improved to a record 117.9% at end-1Q20, from 94.8% at end-FY19. This is due to a higher write-off, valued at VND693bn in 1Q20, way above the VND127bn write-off for the whole of FY19.

We forecast TCB's net profit to rise 6.4% yoy in FY20F

We project a 12.2% credit growth for TCB in FY20F as the pandemic has weighed on housing demand while mortgages are driving the bank's credit growth. Reiterate Add. Our TP of VND27,400 is based on equal weighting residual income valuation (COE: 13.7%; LTG: 4%) and 1.2x FY20F P/BV.

Re-rating catalyst: higher-than-expected credit growth. Downside risks: increase in bad debts.

HOLD

Current price	VND83,300
Target price	VND86,200
Market cap (US$m)	US$13,318m
Daily value 30 day (US$m)	US$3.37m
FY20F P/B (x)	3.0
FY20F P/E (x)	14.6
Current foreign ownership	23.8%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	60.7%	26.7%	14.3%	16.7%
EPS growth (%)	58.5%	22.9%	14.3%	16.7%
NIM (%)	2.76%	3.10%	3.12%	3.16%
CIR (%)	34.7%	34.6%	36.0%	36.0%
NPL (%)	1.0%	0.8%	1.0%	1.3%
ROAE (%)	25.5%	25.9%	23.6%	22.7%
ROAA (%)	1.4%	1.6%	1.6%	1.7%

The most conservative bank in the sector

Income growth slowed in 1Q20 due to headwinds from the pandemic

VCB's 1Q20 loans grew 12.1% yoy, lower than 1Q19 due to subdued credit demand. NIM fell 13bp yoy on lower lending rates and reduction/waiver of interest to support customers. 1Q20 net interest income grew a slight 6.3% yoy while non-II was flat, hence TOI only rose 4.4% yoy.

Proactively ramped up provisioning despite a slight rise in NPL

Provision expenses jumped 42.9% yoy in 1Q20, hence the quarter's net profit fell 11.2% yoy. VCB has taken one step forward to set aside provisions for potential rise in bad debts as its 1Q20 NPL ratio increased insignificantly to 0.82%, from 0.79% at end-FY19. Heavy provisioning and a contained NPL made LLR jump to 235% at end-1Q20 from 179.5% at end-FY19.

We forecast net profit to rise 14.3% yoy in FY20F

Moderate net profit growth is expected in FY20F on our forecast of VND1.8tr one-off income from exclusive bancassurance deal with FWD Insurance, a new income stream from insurance commission as VCB started selling FWD insurance in Apr, and the credit growth rebound in 2H20F.

We reiterate Hold with a TP of VND86,200/share. Downside risk: higher-than-expected bad debts and credit cost. Upside catalyst would be a shorter period to book the one-off income from exclusive bancassurance deal.

HOLD

Current price	VND22,000
Target price	VND25,000
Market cap (US$m)	US$2,312m
Daily value 30 day (US$m)	US$6.10m
FY20F P/B (x)	1.1
FY20F P/E (x)	6.5
Current foreign ownership	23.6%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	14.2%	12.3%	0.1%	23.8%
EPS growth (%)	11.6%	9.0%	3.3%	23.8%
NIM (%)	8.71%	9.29%	8.57%	8.85%
CIR (%)	34.2%	34.0%	35.0%	34.0%
NPL (%)	3.5%	3.4%	3.4%	3.5%
ROAE (%)	22.8%	21.5%	17.8%	18.4%
ROAA (%)	2.4%	2.4%	2.1%	2.3%

Asset protection over profit

NIM is falling due to unsecured lending scale down

1Q20 NIM was flat yoy but fell 41bp qoq as VPB scaled down unsecured lending at FE Credit. FE Credit's loan book is targeted to ease 3.7% yoy, while the consolidated credit growth is targeted at 12.3% in FY20F. The scale down of FE Credit will hurt VPB's profit in FY20F, but the move helps control bad debt, with 1Q20 NPL dropping to 3%, from 3.4% at end-FY19.

Strong earnings growth in 1Q20, but unsustainable for FY20F

NII rose 18.2% yoy in 1Q20 thanks to a 14.0% yoy loan book growth and a 94.6% yoy growth in corporate bonds, much of the latter coming from 2019 pipeline. 1Q20 non-interest income surged 60.1% yoy as income from bad debt recovery doubled yoy while gains from securities jumped 4.3x yoy as VPB sold 8.5% of its bond book in 1Q20. Net fee income slipped 6.7% yoy due to sluggish insurance sales at FE Credit.

We forecast net profit unchanged in FY20F

We expect provision expenses will increase in the coming quarters while credit growth will slow due to a lack of corporate bond investment seen in 1Q20. We reiterate Hold rating, with a TP of VND25,000/share, based on residual income valuation (COE: 14.3%; LTG: 3%). Upside risk: better-than-expected credit growth. Downside risk: increasing bad debts of FE Credit and stricter regulation on loan collection due to recent negative media news.

HOLD

Current price	VND8,800
Target price	VND10,000
Market cap (US$m)	US$366m
Daily value 30 day (US$m)	US$1.96m
FY20F P/B (x)	0.6
FY20F P/E (x)	7.5
Current foreign ownership	4.9%

Key ratios	2018A	2019A	2020F	2021F
NP growth (%)	-29.8%	66.7%	-5.4%	18.0%
EPS growth (%)	-43.5%	46.8%	-5.4%	18.0%
NIM (%)	3.10%	3.36%	2.99%	3.18%
CIR (%)	62.5%	62.0%	61.0%	61.0%
NPL (%)	1.4%	1.4%	1.6%	1.6%
ROAE (%)	9.8%	14.0%	11.3%	11.9%
ROAA (%)	0.6%	0.8%	0.7%	0.8%

High growth is unlikely for FY20F

Moderate topline growth in 1Q20

LPB's NII climbed 2.6% yoy in 1Q20 as loan book grew 16.8% yoy, but NIM dropped 33bp because of lower lending rates and interest rate waiver. Besides, the issuance of VND13tr bonds since 2Q19 boosted funding costs. 1Q20 non-II recorded VND57bn gain vs. VND32bn loss in 1Q19, driven by 174.7% yoy surge in net fee income as LPB started selling insurance at more branches/transaction offices. However, Non-II only contributed 3.8% to the total operating income (TOI), hence TOI rose only 9.2% yoy.

Provision reversal boosted net profit growth to 18.4% yoy

1Q20 NPL ratio was flat vs. end-FY19 at 1.4%, thus the bank did not incur new provision expense in 1Q20. LPB also collected some corporate bonds, hence bonds provision was reversed.

We project net profit to dip 5.4% yoy in FY20F

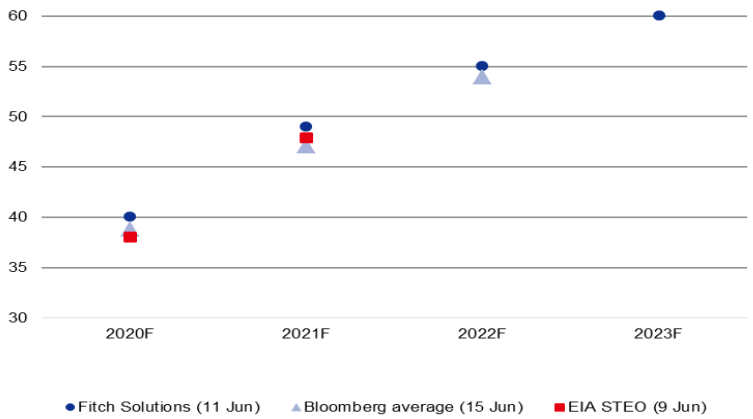
1Q20 results were boosted by provision reversal, but a similar reversal is unlikely. Bad debt is likely to rise due to the pandemic, hence provision expenses will increase going forwards. Our TP is based on equal weight of residual income valuation (COE: 14.5%; LTG: 3%) and 0.7x FY20F P/B.

Upside risk: lower-than-expect bad debt. Downside risk: higher-than-expected operating costs due to network expansion.

Oil & Gas

Bottom out

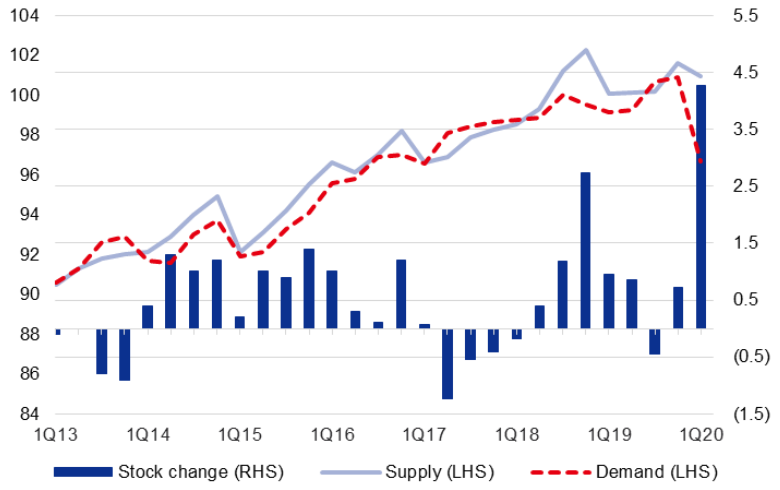
Brent crude oil price forecast (USD/bbl)



Sources: Bloomberg, EIA, Fitch Solutions

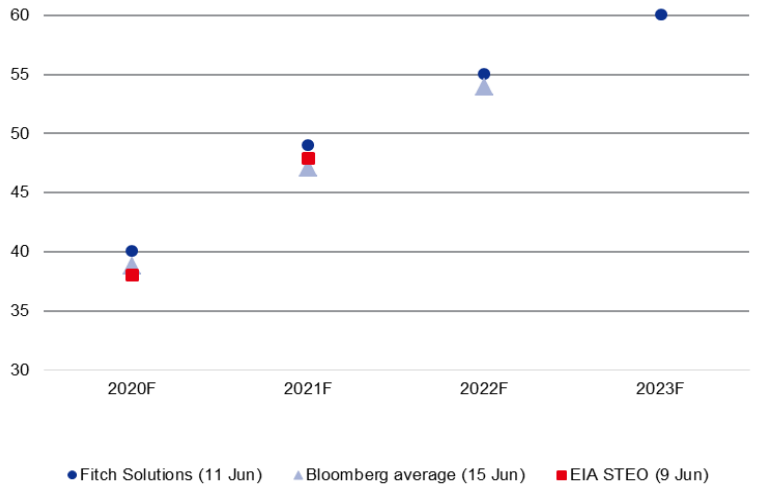
Oil price would continue to recover in 2H20F, albeit at a slower pace than 2Q20 amid a gradual recovery in demand

Global oil supply-demand balance (Unit: mbd)



Source: IEA

Brent crude oil price forecast (USD/bbl)



Sources: Bloomberg, EIA

OPEC+ has resumed its market-balancing position with production cuts expected to be in place until Apr 2022. Therefore we expect oil price to continue its recovery towards year-end as demand slowly returns on gradual easing of lockdown measures, with OPEC+ closely monitoring the supply side.

2H20F could see limited upside as uncertainties remain high, but a much brighter outlook for 2021F is expected by market consensus.

Direct exposure: midstream and downstream players

- Stock price has the strongest correlation with oil price fluctuations as gas price is linked directly to FO price through a formula.
- **GAS** would be the biggest beneficiary from the gain in oil price. However FY20F upside is limited as oil price recovery could slow down from 3Q after almost doubling from the trough (US$19.3) in 2Q, given high uncertainties around the reopening speed of large economies.
- For gas users such as power plants (**POW, PGV**) and fertiliser plants (**DPM, DCM**), oil price recovery only lowers the expected benefit gained by these companies. Average oil price in FY20F is projected to stay lower yoy (-29.9% yoy), therefore should still provide some benefit for the end-users.

Indirect exposure: upstream players

- Stock price has increasing correlation with oil price movements in low-price environment/lagged correlation with oil price movements in higher-price environment (over US$40/bbl).
- We expect oil price to range from US$40-45/bbl by year-end, which is closed to Vietnam's break-even oil price of US$45/bbl and higher than the break-even price of some old fields. This could provide some relief to field developers in Vietnam and lessen the pressure on service providers such as **PVS, PVD, PVT.**

We expect domestic projects to provide the backlog for upstream players in FY21-22F

Key oil & gas projects in the medium term

Projects	Description	2019	2020F	2021F	2022F	2023F
Sao Vang Dai Nguyet	• Located in Blocks 05-1b and 05-1c in Nam Con Son basin, water depths ~120m. • **Ownership:** Idemitsu (35%), Nippon Oil (35%), and Inpex (30%)	Recovery: c.75.7m bbl. of crude oil, c.9.6 bcm of natural gas Development capex: c.US$1.1bn				
Block B – O Mon	• Located in Malay – Tho Chu basin, water depths ~80m. • **Ownership:** PVN (42.9%), PVEP (26.8%), Mitsui Oil (22.6%) and PTTEP (7.7%)			• Recovery: c.75.7 bcm. of natural gas, c.14m tonnes condensate • Development capex: c.US$6.7bn		
Blue Whale	• Based in deepwater block 118, 80km off the coast of central Quang Nam province • **Ownership:** ExxonMobil (85%), PVEP (15%)			• Recovery: c.150 bcm of natural gas • Development capex: c.US$10bn		
Su Tu Trang Phase 2	• Located in Block 15/01, expanding on the basis of the current Su Tu Trang field • **Ownership:** PVEP (50%), Perenco Cuu Long (23.25%), KNOC (14.25%), Geopetrol (3.5%)			• 2P reserves of 317bcf of gas and 435m bbl of oil/condensate • Development capex Phase 2: est.US$250m		

In progress In schedule

SOURCES: VND RESEARCH, PVN, COMPANY REPORTS

- Global E&P capex is forecasted to be cut by 20-30% in FY20F, following the decline in oil price. Therefore, competition in the services market should increase and low-cost provider could have an advantage over higher-cost players.
- We expect domestic projects such as Block B O Mon, Blue Whale, and the construction of LNG terminals to provide some backlog “cushion” for local providers. We expect little delays in the progress of such projects due to the gas shortage in Vietnam.
- Stock pick: upstream oilfield services stocks - PVS

We choose PVS as our stock pick thanks to its high backlog and healthy financial position

Company	Bloomberg Ticker	Recom.	Share Price (local cur.)	Target Price (local cur.)	Market Cap (US$ m)	P/E (x) FY20F	P/E (x) FY21F	3-yr EPS CAGR (%)	P/BV (x) FY20F	P/BV (x) FY21F	ROE (%) FY20F	ROE (%) FY21F	ROA (%) FY20F	ROA (%) FY21F
Oil services companies														
PV Technical Services	PVS VN	ADD	12,400.0	16,500.0	255	6.6	5.8	10.4%	0.5	0.6	7.6%	9.6%	2.9%	3.6%
Malaysia Marine Eng	MMHE MK	NOT RATED	0.4	NA	144	35.0	19.3	NA	0.3	0.3	0.8%	1.6%	0.7%	1.4%
Yinson Holdings	YNS MK	ADD	5.9	7.1	1,463	30.1	14.1	35.9%	1.8	1.7	2.5%	8.6%	2.4%	4.1%
Hyundai Engineering	000720 KS	HOLD	33,550.0	45,000.0	3,112	7.3	7.0	NA	0.5	0.5	6.7%	6.7%	2.4%	2.4%
Keppel Corp	KEP SP	ADD	6.0	7.5	7,899	17.4	14.9	6.1%	1.0	0.9	5.6%	6.4%	2.0%	2.4%
Average - Oil services peers					**3,154**	**22.4**	**13.8**	**21.0%**	**0.9**	**0.8**	**3.9%**	**5.8%**	**1.9%**	**2.6%**
Offshore drilling companies														
PV Drilling	PVD VN	HOLD	10,450.0	11,700.0	185	35.2	20.3	33.3%	0.3	0.3	0.9%	1.6%	0.8%	1.0%
Valaris plc	VAL US	NOT RATED	0.7	NA	144	NA	NA	-54.3%	0.0	0.0	-32.8%	-19.5%	-16.5%	-8.1%
Borr Drilling Ltd	BDRILL NO	NOT RATED	10.6	NA	174	NA	NA	40.6%	0.1	0.2	-16.7%	-21.8%	-6.3%	-6.9%
Velesto Energy Bhd	VEB MK	REDUCE	0.2	0.1	287	NA	NA	NA	0.4	0.4	-1.1%	-0.8%	-0.7%	-0.6%
Sapura Energy Bhd	SAPE MK	REDUCE	0.1	0.0	354	NA	NA	-18.1%	0.2	0.2	-13.3%	-9.1%	-4.8%	-2.9%
Transocean	RIGN SW	NOT RATED	1.4	NA	889	NA	NA	NA	0.1	0.1	-6.2%	-6.6%	-3.2%	-2.9%
Average - Offshore drilling peers					**370**			**-10.6%**	**0.2**	**0.2**	**-14.0%**	**-11.6%**	**-6.3%**	**-4.3%**
Gas distribution companies														
PV GAS	GAS VN	HOLD	72,200.0	70,000.0	5,955	18.6	12.6	-1.5%	3.2	3.2	16.1%	25.1%	10.8%	17.2%
Indraprastha Gas	IGL IN	NOT RATED	442.1	NA	4,104	28.1	20.9	11.2%	5.1	4.6	22.3%	22.1%	NA	NA
Toho Gas Ltd	9533 JP	NOT RATED	5,460.0	NA	5,413	28.1	36.5	5.2%	1.7	1.6	6.4%	4.8%	3.8%	3.1%
Petronas Gas Bhd	PTG MK	HOLD	17.0	15.8	7,831	18.5	18.4	-1.8%	2.5	2.4	13.5%	13.2%	9.2%	9.0%
China Gas Holdings	384 HK	NOT RATED	27.2	NA	16,867	11.9	10.6	14.5%	2.7	2.2	23.4%	22.8%	9.1%	9.3%
PTT PLC	PTT TB	ADD	37.0	46.5	34,196	18.5	14.6	-7.0%	2.5	2.4	13.5%	13.2%	9.2%	9.0%
Average - Gas distribution peers					**13,682**	**21.0**	**20.2**	**4.4%**	**2.9**	**2.6**	**15.8%**	**15.2%**	**7.8%**	**7.6%**
Transportation companies														
PVTrans	PVT VN	ADD	10,750.0	14,400.0	130	6.7	6.3	6.0%	0.7	0.7	10.2%	11.0%	5.4%	6.0%
Vietnam Petroleum Trans	VIP VN	NOT RATED	5,360.0	NA	15	NA	NA	NA	NA	NA	NA	NA	NA	NA
Vietnam Tanker JSC	VTO VN	NOT RATED	7,680.0	NA	26	NA	NA	NA	NA	NA	NA	NA	NA	NA
Eusu Holdings Co Ltd	000700 KS	NOT RATED	6,250.0	NA	132	NA	NA	NA	NA	NA	NA	NA	NA	NA
Shipping Corp of India Ltd	SCI IN	NOT RATED	58.2	NA	349	5.4	6.4	NA	NA	NA	6.3%	5.1%	NA	NA
Great Eastern Shipping Co l	GESCO IN	NOT RATED	219.2	NA	416	5.3	5.0	NA	NA	NA	8.5%	8.5%	NA	NA
Average - Transportation peers					**188**	**5.3**	**5.7**	**NA**	**NA**	**NA**	**7.4%**	**6.8%**	**NA**	**NA**

ADD

Current price	VND12,400
Target price	VND16,500
Market cap (US$m)	255.4
Daily value 30 day (US$m)	2.4
FY20F P/B (x)	0.5
FY20F P/E (x)	6.6
Current foreign ownership (%)	11.8%

Key ratios	2019A	2020F	2021F	2022F
Revenue (VNDb)	16,968	16,105	20,438	20,971
Net profit (VNDb)	849	901	1,030	1,144
NP growth (%)	(18.9)	6.0	14.3	11.1
EPS (VND)	1,777	1,884	2,154	2,393
ROE (%)	7.1	7.6	9.6	11.9
ROAA (%)	2.5	2.9	3.6	4.1
DPS (VND)	830	700	700	700
Oil price (US$/bbl)	64.2	45.0	55.0	57.0
Outstanding orderbook (VNDb)	16,991	41,072	31,871	20,305

M&C projects to be the lifesaver in FY20F

FY20F net profit supported by current M&C projects

PVS's key projects such as Sao Vang Dai Nguyet, Nam Con Son 2, Gallaf Qatar are all reaching their final stage, thus implying an improvement in M&C gross margin and providing support to 2H20F-1H21F earnings. We expect gross profit of M&C segment to increase 30% yoy to VND230bn and contribute 23.4% to company gross profit in FY20F.

Domestic projects could drive near-term growth

The gas shortage in Vietnam could push governments to either accelerate the progress of new gas field development in Vietnam such as Block B and Blue Whale, or approve the construction of LNG terminals to import the needed gas in FY21-22F. We expect these projects could create an annual backlog of over US$800m for PVS until FY24F. We forecast PVS to post a revenue CAGR of 7.3% and net profit CAGR of 10.4% in FY19-22F.

Reiterate Add with TP of VND16,500

Our TP is based on an equal weighting of DCF and FY20-22F target P/E of 6.8x, -0.5 s.d. from 5-year mean P/E. Downside risks: further M&C project delays and larger decline in demand for service-related jobs. Re-rating catalysts: a recovery in oil prices and new contract wins.

ADD

Current price	VND10,750
Target price	VND14,400
Market cap (US$m)	130.4
Daily value 30 day (US$m)	0.8
FY20F P/B (x)	0.7
FY20F P/E (x)	6.7
Current foreign ownership (%)	25.6%

Key ratios	2019A	2020F	2021F	2022F
Revenue (VNDb)	7,758	6,189	7,107	7,803
Net profit (VNDb)	690	459	502	539
NP growth (%)	5.8	(33.5)	9.4	7.4
EPS (VND)	2,450	1,629	1,783	1,915
ROE (%)	16.4	10.2	11.0	12.0
ROAA (%)	7.5	5.4	6.0	6.3
DPS (VND)	1,200	400	400	1,000
Fleet size	32	34	36	38
No. of petroleum tankers	12	13	14	15

FY20F might be the trough

FY20F business activities hit by lockdown measures

Rising operating costs coupled with lower demand for crude oil transportation led to a 54% yoy decline in 1Q net profit. Although we expect transportation demand in the market to recover from 2Q until year-end, higher operating costs, lower charter rates, and BSR's scheduled maintenance would affect the company's bottomline in FY20F. We project net profit to decline 33.5% in FY20F before recovering mildly in 2021F (+9.4% yoy).

Key investments could be delayed further

We think the company could hardly achieve its target capex of US$7.4tr in FY20F due to the effect of Covid-19, and while large-size vessel prices have yet to cool down. However, we still expect PVT to continue to invest in LPG/coal tankers with a capex of VND1.2tr in FY20F, in line with the company's strategy of expanding its LPG/refined product fleet.

Maintain Add and TP of VND14,400

Our TP is based on an equal weighting of DCF and target FY20-22F P/E of 7.7x. Higher transportation volumes for Nghi Son refinery is a potential re-rating catalyst. Downside risks include: (1) lower-than-expected crude oil demand from Binh Son refinery and (2) further delay in the commission of new coal-based power plants.

HOLD

Current price	VND10,450
Target price	VND11,700
Market cap (US$m)	185.1
Daily value 30 day (US$m)	2.6
FY20F P/B (x)	0.3
FY20F P/E (x)	35.2
Current foreign ownership (%)	12.3%

Key ratios	2019A	2020F	2021F	2022F
Revenue (US$m)	188.5	205.1	202.3	235.9
Net profit (US$m)	8.0	5.3	8.9	18.9
NP growth (%)	(7)	(34)	69	112
EPS (US$)	0.019	0.012	0.021	0.045
ROE (%)	1.4	0.9	1.6	3.5
ROAA (%)	1.2	0.8	1.0	2.0
DPS (US$)	0.0	-	-	-
Average JU day rate (US$)	57,500	65,000	60,000	65,000
Average JU util. rate (%)	90	76	80	90

Starting to feel the pain of Covid-19

Delays in 2H20F drilling schedule due to Covid-19

Due to the oil price crash and Covid-19 restrictions, Malaysia customers Petronas and Repsol have decided to delay their 2H20F contracts for PVD II and PVD III rigs to FY21F. We think it is hard for PVD to secure replacement contracts in 2H20F to fill in the gap, thus we expect its full-year JU utilisation rate could only reach 76%, vs. 95% in case of no delays. FY20F EPS is forecast to decline 33.9% yoy, mainly due to lower drilling workload.

FY21F net profit to recover on higher utilisation rate and the revival of TAD rig

We believe PVD could manage to maintain its JU utilisation rate at above 80% in FY21F but at the expense of curtailed day rates. As oil price continues to recover, the drilling market could warm up again in FY22F. In terms of the TAD rig, we expect the rig to resume operations from Jul 2021, thus generating lower losses in FY21F vs. the cold-stacked 2017-19 period. From FY22F onwards, the TAD rig could contribute US$6-7m (or 18%) to total gross profit.

Reiterate Hold at blended TP of VND11,700, based on a 50:50 combination of DCF and target P/BV of 0.4x on FY20-22F EPS. Upside risks are faster-than-expected debt collection and stronger recovery of the drilling sector. Downside risks include low oil prices, which could dampen recovery in E&P activities.

HOLD

Current price	VND72,200
Target price	VND70,000
Market cap (US$m)	5,955
Daily value 30 day (US$m)	2.2
FY20F P/B (x)	3.2
FY20F P/E (x)	18.6
Current foreign ownership (%)	3.4%

Key ratios	2019A	2020F	2021F	2022F
Revenue (VNDb)	75,005	63,466	76,845	82,814
Net profit (VNDb)	11,902	7,426	10,943	11,376
NP growth (%)	3.9	(37.6)	47.4	4.0
EPS (VND)	6,219	3,880	5,718	5,944
ROE (%)	25.4	16.1	25.1	26.0
ROAA (%)	17.5	10.8	17.2	17.4
DPS (VND)	4,300	3,500	3,000	3,000
Oil Price (US$/bbl)	64.4	45.0	55.0	57.0
Volume Growth (%)	2.4	(8.6)	3.3	(1.3)

High exposure to oil price

2020F net profit to be partially hurt by oil price slump

PVGas's dry gas segment would be the biggest loser from the correction in oil price, however the gas transportation business would be quite resilient on the back of stable volume. We project 2020F net profit to fall 37.6% yoy on the back of a 30.1% decline in Singapore FO price.

Investment projects on track to support depleting gas supply

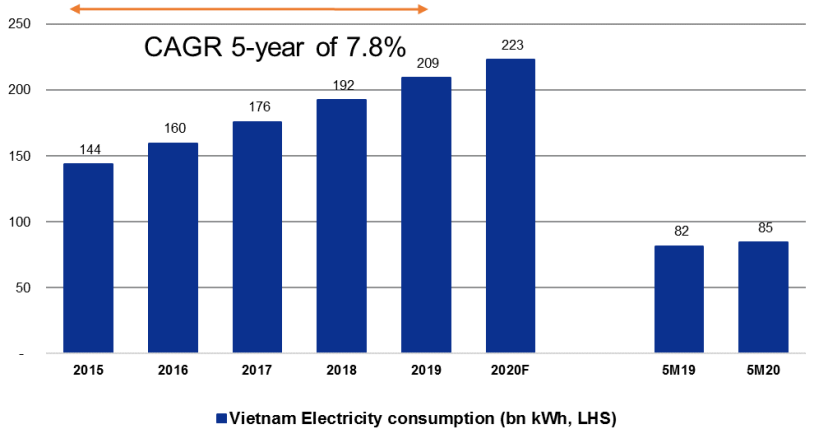
The gas sales contract between PVGas and its customer PVPower stipulates for first gas from Sao Vang field no later than Jan 21, thus indicating delay at this project, if any, could be only minor. Meanwhile, further-date project such as LNG Thi Vai is still on schedule for first gas in FY22F. With gas transportation capacity expansion in plan, we project PVGas's revenue from transportation segment to jump c.85% over 2020-25F.

Reiterate Hold and TP of VND70,000

Our TP is based on an equal weighting of DCF and target P/E of 12.3x on FY20-22F EPS. We see limited upside for GAS as oil price appreciation would be slower after more than doubling from the trough in 2Q. Upside risk is higher-than-expected oil price. Downside risks are low oil price and further delays in Sao Vang Dai Nguyet project.

POWER

Coal-fired power mobilisation to escalate



SOURCES: VND RESEARCH, GSO

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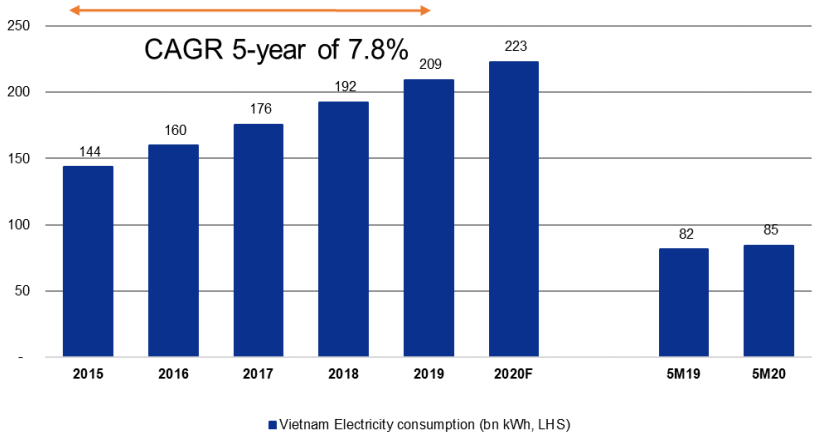
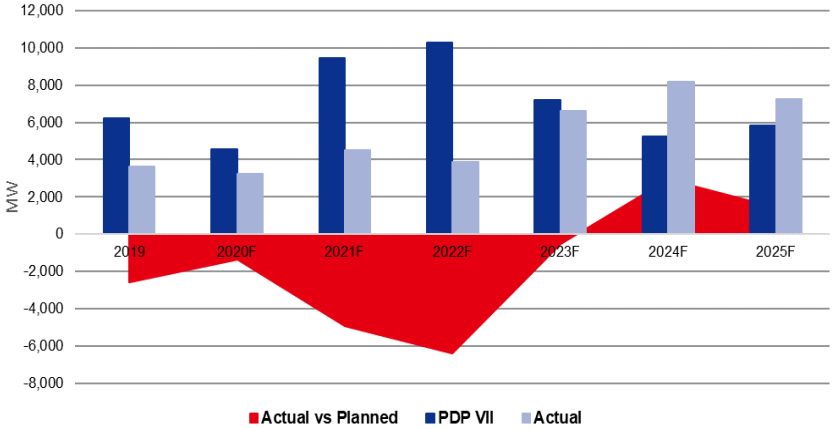
Electricity consumption slightly deaccelerated due to the Covid-19 outbreak

We expect electricity consumption to grow 6.5% yoy in FY20F



SOURCES: VND RESEARCH, GSO

High risk of serious electricity shortage in 2020-23F due to the delays of new power plants in pipeline

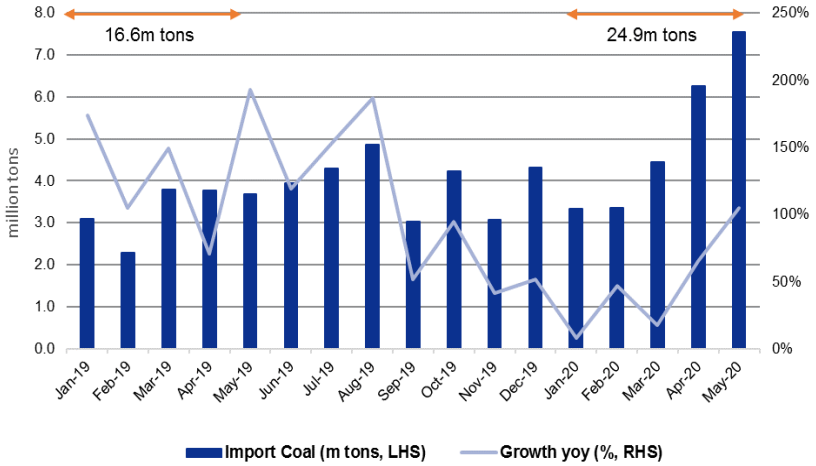


SOURCES: VND RESEARCH, EVN

Electricity consumption grew 3.6% yoy in 5M20, slowing from 10.2% yoy in 5M19, due to the COVID-19 pandemic. We expect that demand growth will be at 6.5% for FY20F (corresponding to our new GDP FY20 growth forecasted at 4.6%) and return to normal rate of 8-9% in FY21F. 35/60 power projects in Power Development Plant VII (with total capacity of 39,000MW) are lagging behind schedule due to the slow publish investment. As a result, we believe the power shortage still linger till 2023.

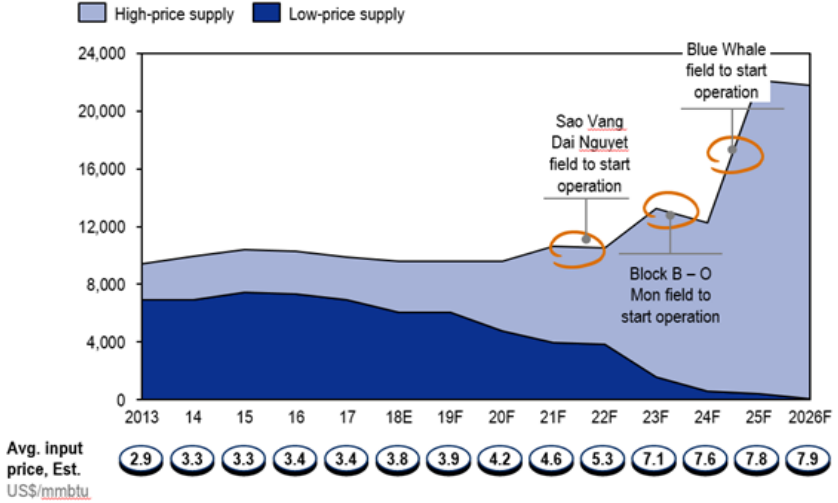
Coal supply to be secured, but gas and water shortage likely to linger until 2021F

Vietnam import coal has risen since Mar 2020



SOURCES: VND RESEARCH, GSO, MoIT

We expect concerns over the gas shortage to ease in FY21F

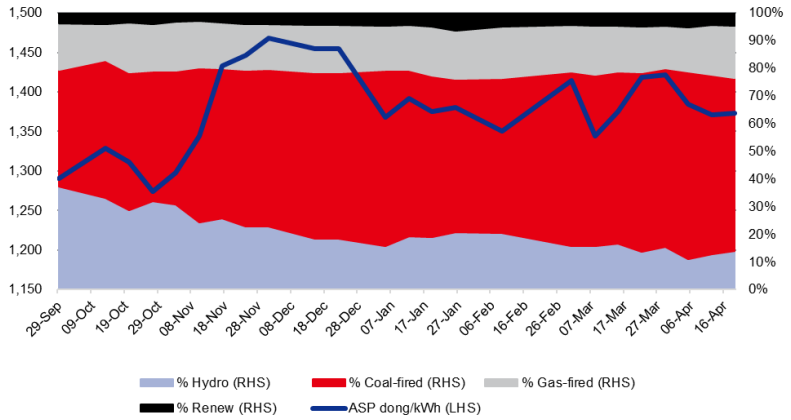


SOURCES: VIETNAM PETROLEUM INSTITUTE ESTIMATES, VND RESEARCH

In 5M20, Vietnam imported 24.9m tonnes of coal (+50% yoy), which already doubled the government's initial plan of 12m tonnes for 2020, taking advantage of the recent decline in global coal price (-16.1% yoy). The 5M20 import volume accounts for 50% of domestic demand in 2020F (50m tonnes), therefore we believe supply of the fossil to coal-fired plants would be guaranteed in 2020. We expect the gas deterioration issue would only be resolved from FY21F when Sao Vang Dai Nguyet field (1.6bcm p.a.) comes online, while hydropower could recover gradually in the rainy season (Jul-Oct) but it takes time to return to pre-2019 levels.

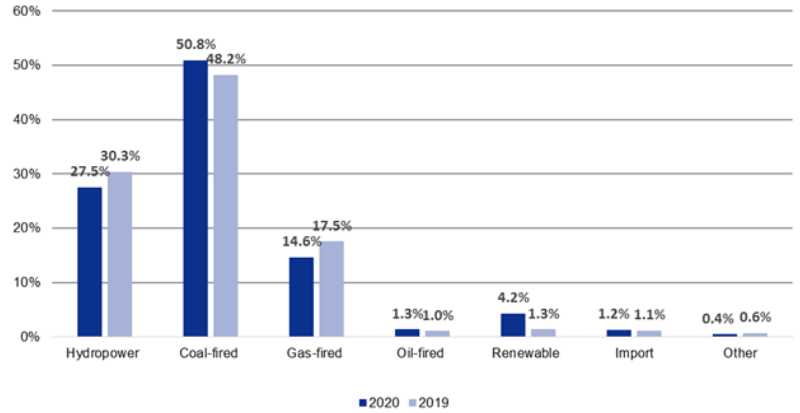
2H20F: High utilisation of coal-fired plants extended

Increasing coal-fired output makes up for hydropower's output shortage



SOURCES: VND RESEARCH, EVN

EVN's electricity mobilisation in FY20F vs. FY19 by types



SOURCES: VND RESEARCH, EVN

We expect coal-fired power to be further highly utilised in 2H20F, given that the recovery by hydropower is only gradual while gas shortage still hinders gas-fired power plants in FY20F.

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)		3-year EPS	P/BV (x)		EV/EBITDA (x)		ROE (%)		D/E
			LC$	LC$	US$ m	TTM	CY20F	CAGR (%)	TTM	CY20F	TTM	CY20F	TTM	CY20F	(x)
International peers															
First Gen Corp	FGEN PM	NR	23.0	NA	1,474	7.3	8.6	-1.0%	0.9	0.8	3.9	4.5	13.3	9.7	0.7
An Hui Wenergy Co Ltd	000543 CH	NR	4.0	NA	1,251	11.2	8.6	16.0%	0.7	0.6	NA	NA	6.3	7.4	0.6
Dian Swastatika Sentosa Tbk PT	DSSA IJ	NR	20,175	NA	1,049	20.6	NA	NA	0.7	NA	6.9	NA	3.5	NA	0.8
SJVN Ltd	SJVN IN	NR	21.7	NA	1,138	5.7	NA	NA	0.7	NA	3.9	NA	14.4	NA	0.2
Malakoff Corp Bhd	MLK MK	ADD	0.9	1.1	1,006	15.0	16.2	1.0%	0.8	0.8	4.9	5.1	5.4	5.1	1.9
JSW Energy Ltd	JSW IN	NR	49.5	NA	984	7.5	9.8	-1.0%	0.7	0.7	4.8	5.3	9.4	6.9	0.7
Guodian Changyuan Electric Pow	000966 CH	NR	3.8	NA	602	11.0	6.3	4.0%	1.0	1.0	NA	NA	9.6	14.1	0.9
Domestic peers															
PetroVietnam Power Corp	POW VN	ADD	10,200	16,800	1,028	10.0	8.2	10.4%	0.9	0.8	6.2	4.9	9.4	10.2	0.6
Power Generation Corp 3 Co Ltd	PGV VN	NR	10,500	NA	466	12.6	NA	NA	1.0	NA	7.7	NA	7.9	NA	4.7
HAI Phong Thermal Power JSC	HND VN	NR	17,800	NA	377	7.6	6.7	73.6%	1.4	NA	3.4	NA	19.7	18.8	0.9
Pha Lai Thermal Power JSC	PPC VN	ADD	24,400	27,400	337	6.8	7.9	24.3%	1.3	1.3	5.5	6.4	19.3	13.2	0.0
PetroVietnam Nhon Trach 2 Powe	NT2 VN	NR	21,900	NA	269	8.6	8.8	-11.5%	1.5	1.5	3.9	NA	18.1	16.8	0.4

Source: VNDIRECT RESEACH, Bloomberg (Data: 26 June 2020)

Our top pick is PPC thanks to: (1) expected strong performance of its coal-fired plants in 2H20F, 2) low depreciation cost, and 3) sustainably high dividend received from affiliates in FY20F.

Pha Lai Thermal Power JSC (PPC)

PPC

ADD

Current price	VND24,400
Target price	VND27,400
Market cap (US$m)	337.0
Daily value 30 day (US$m)	0.22
FY20F P/B (x)	1.3
FY20F P/E (x)	7.9
Foreign ownership	16.7%

Key ratios	2019A	2020F	2021F	2022F
Revenue (VNDbn)	8,183	8,276	8,084	8,707
Net profit (VNDbn)	1,261	810	884	894
NP growth (%)	12.3	-35.8	9.1	1.1
EPS	3,933	2,527	2,756	2,787
ROE (%)	21.7	13.2	13.7	13.2
ROAA (%)	17.7	10.7	11.2	10.6
DPS	1,982	2,000	1,700	2,000
Sales volume (m kWh)	5,508	5,728	5,348	5,480
Utilisation (%)	66.5	69.5	64.9	66.0

Solid sales volume in FY20F

Higher mobilisation from EVN to boost PPC's output in FY20F

We estimate sales volume to grow 4.0% yoy to 5,728m kWh despite the scheduled overhaul at its PL1&2 plants in 3Q20F. Our FY20F net revenue edges up 1.1% yoy on the back of a projected 2.5% decline in average selling price due to lower Competitive Generation Market (CGM) price.

Dividend payment from affiliates to support PPC's earnings

We expect PPC's cash dividend received from affiliates to reach VND195bn thanks to the sustainable performance of its affiliate HND, with high utilisation rate of 83% and lower interest pressure on fast debt repayment.

FY20F net profit is expected to reach VND810bn (-35.8% yoy)

Despite a boost in sales volume and dividend received, PPC's net profit in FY20F is forecast to slump 35.8% yoy due to 1) an 11% increase in coal costs, 2) a one-off surge in maintenance cost (+39% yoy), and 3) lack of provision reversal similar to that in FY19. However we expect FY21F net profit to grow 9.1% yoy as the maintenance cost will taper down.

Reiterate ADD with DCF-based TP of VND27,400. FY20F dividend yield of 8.2% is relatively attractive. Downside risks: 1) technical issues in operation, and 2) lower-than-expected CGM price.

PetroVietnam Power Corporation (POW)

PETROVIETNAM POWER

ADD

Current price	VND10,200
Target price	VND16,800
Market cap (US$m)	1,028
Daily value 30 day (US$m)	2.3
FY20F P/B (x)	0.8
FY20F P/E (x)	8.2
Foreign ownership	11.7%

Key ratios	2019A	2020F	2021F	2022F
Revenue (VNDbn)	35,421	39,260	41,050	40,460
Net profit (VNDbn)	2,491	2,916	3,185	3,356
NP growth (%)	25.1	17.1	9.2	5.4
EPS	1,064	1,245	1,360	1,433
ROE (%)	9.7	10.2	10.1	9.6
ROAA (%)	6.9	8.0	7.6	7.1
DPS	0	0	0	0
Sales volume (m kWh)	22,541	22,128	22,347	21,615
Utilisation (%)	61.1	60.1	60.7	58.7

Vung Ang 1 to become a key driver

Prelim 1H20F net profit to come in at 53% of our full-year forecast

POW estimated 1H20F sales volume of 10,974m kWh, or 50.8% of its FY20F plan and 49.6% of our full-year forecast. 1H20F profit after tax is expected to arrive at VND1,500bn, making up 76.0% of its FY20F plan and 53.3% of our forecast.

Bright prospects for coal-fired plants

With secured coal supply, Vung Ang 1's (VA1) 5M20 output jumped 49% yoy to 3.3bn kWh. According to POW, VA1 has 300,000 tonnes of coal in stock by May 2020, equal to 25 days of operation. Therefore we expect VA1 could easily achieve the full-year volume target of 6.2bn kWh (+8.0% yoy); utilisation rate edges up to 59% in FY20F from 55% in FY19, and offset the output shortage from Nhon Trach 1 gas-fired plant and hydropower plants (Hua Na and Dakdrinh).

FX loss risk is diminished in 2H20F

Thanks to 1) a faster-than-expected debt repayment, which is nominated in foreign currency, and 2) a stable FX rate is expected for the remaining 2020F.

Reiterate ADD with TP of VND16,800. Downside risks are 1) unstable supply of coal and gas, 2) unexpected technical issues, and (3) higher-than-expected provision made for EPTC's receivables.

VNDIRECT
WISDOM TO SUCCESS

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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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