Investment Strategy September 2018

OPPORTUNITIES IN MID-CAP STOCKS?

Although the VN-Index recovered well in August, we notice that capital flows did not increase significantly but mainly rotated among different sectors. Therefore, if there is no sudden increase in capital flows, it will be difficult for the market to move higher.

In this context, the market has to rely on foreign investors. However, foreign flows are still limited in part due to President Trump's erratic comments that have led to worries about the instability of the world economy. As we mentioned in our previous report, capital flows indeed have not returned to frontier and emerging market. Meanwhile, the FED will likely raise interest rates in September, which is not supportive for equities.

Until there is a reversal of foreign capital flows as well as improvement in terms of liquidity, we think the VNIndex will fluctuate between 960 – 1040. Within this range, there are more opportunities with mid and small cap stocks than with large cap stocks.

Portfolio investment flow in Asian equities

Currency USD ☑ Group By Region

Country	Date	Daily	WTD	MTD	QTD	YTD	12M
Asia		Mln	Mln	Mln	Mln	Mln	Mln
2) China	06/30			-10,435.9	7,112.8	18,776.0	69,506.1
3) India	08/31	-409.0	-439.8	-277.9	-70.0	-691.5	276.7
4) Indonesia	09/03	-20.5	-20.5	-20.5	-72.3	-3,642.1	-6,597.8
5) Japan	08/24		-3,010.6	-10,622.0	-3,610.7	-41,355.7	-36,063.5
6) Malaysia	09/03	4.4	4.4	4.4	-433.9	-2,141.2	-2,138.0
7) Philippines	09/03	-13.1	-13.1	-13.1	-151.6	-1,370.5	-776.5
8) S. Korea	09/04	56.1	-161.5	-161.5	1,603.9	-2,102.1	-1,062.9
9) Sri Lanka	09/03	0.0	0.0	0.0	-17.9	57.8	-4.5
10) Taiwan	09/03	13.7	13.7	13.7	1,117.7	-7,800.8	-10,435.4
11) Thailand	09/03	-56.7	-56.7	-56.7	-697.2	-6,338.8	-7,234.2
12) Vietnam	08/31	-1.2	-1.8	-80.4	-191.1	1,373.3	1,896.5

Source: Bloomberg

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Overall, the market has been receiving more adverse than supporting news. Although Vietnam macro indicators still performed well, external risks have been worrying investors. It is likely that the FED will hike rates in the meeting late-Sep. Given that VN-Index will fluctuate between 960 - 1040, there are more opportunities with mid and small cap stocks than with large cap stocks. Our stock picking for Sep are QNS, TCM, and STK due to their positive outlook in the 2H 2018.

In the 2H 2018, we expect that QNS's business results will keep being positive as the sugar segment is still profitable. It would be worth to remind that this segment incurred losses due to the high production cost and low selling price in the same period last year. In addition, QNS continues to maintain its leading position in the soymilk while launching new products to increase its competitiveness against rivals. We maintain our forecast of VND 8,209 bn in revenue, up 7.5% YoY and VND1,216 bn in net profit, up 18.4% YoY. With the closing price on September 5, 2018 at VND 39,000, QNS is trading at a forward P/E of 8.1x, which is quite low for a FMCG stock.

For textile sector, Vietnam's textile and garment industry has maintained a positive growth rate in the first eight month of 2018, with an export turnover of USD 19.4 bn, increased by 14.9% over the same period. The major export markets recorded two-digit growth rate such as US (+10.4%), Japan (+21.9%), China (+43.1%), ASEAN (+33.9%). We believe that this trend will continue as a result of the shifting of textile orders from China to Vietnam to take the advantage of cheap labor, also the opportunity to expand markets and cut tariffs from the free trade agreement like CPTPP, EVFTA will continue to be the driving force for the future growth. For STK, the increase in the revenue contribution of high quality recycle yarn will help company improve its GPM, as well as the implement of TB5 project will increase its supply capacity. As a result, EPS is estimated at VND 1,633 per share and target price is VND 20,700. For TCM, we expect that the gross margin will improve because of the increase in high quality orders from Eland partner and Japan customers. In addition, the profit from its land sales in spinning no. 4 will be recorded in 3Q. As a result, its business performance will be improved. We maintain EPS at VND 3,696 per share and target price at VND 28,570 for this stock.

Analysis of 56 stocks of RongViet Research, discussion with companies and specific evaluation in the "Company Report" or "Analyst Pinboard"

Monetary Policy

The Annual Economic Symposium, hosted by the Federal Reserve Bank of Kansas City, took place August 23-25 in Jackson Hole, Wyoming.

Noteworthy was the absence of Mario Draghi of the ECB, Haruhiko Kuroda of the BoJ and Mark Carney of the Bank of England.

"The Symposium focusses on important economic issue facing the US and world economies. Participants include prominent central bankers, finance ministers, academics, and financial market participants from around the world. Participants convene to discuss the economic issues, implications, and policy options pertaining to the symposium topic. The symposium proceedings include papers, commentary, and discussion."

This year the topic was: "Changing Market Structure and Implications for Monetary Policy".

With US stocks at record historical high, defying the law of gravity, many economists have been predicting a correction for months. We know that economists are not the best at market timing for sure, but their views still need to be considered. For nine years, five months and a few days, the US bull market has been raging on. Economists have been predicting a full out bear market or a recession for years. So far there are no indications that it will be the case. However, this writer believes that risks are skewed towards some kind of market correction and/or a slowdown in the growth of GDP in the US. For sure interest rates are still going to move up, at the disdain of Mr. Trump.

This seems to be the message that transpired from various central bank officials in Jackson Hole.

See some of their public comments below. The Fed Chairman, Jerome Powell, with a background in law[1] did not failed to mention the 'lesser influence of technicians in assessing the path of interest rates'. According to him, historical data may not "capture changes in the economy that are not in the data". Beyond that, Powell cautioned that preconceived notions of where monetary policy should end up could create a vacuum in terms of where the Fed stands. Not sure we get that one…

Fed Chairman Powell:

Jerome Powell made a politically astute speech at Jackson Hole August 24th which was interpreted by markets as dovish. Still there has been minimal impact in terms of any change in monetary tightening expectations. But what has happened of late is that the yield curve has continued to flatten.

"There does not seem to be elevated risk of overheating but raising rates is the right thing to do at this juncture. No clear signs that inflation is accelerating above the 2% target. The banking system is resilient. He did mention that economic mobility has declined and is now lower than in most advanced economies."

"The economy is strong. Inflation is near our two percent objective, and most people who want a job are finding one. My colleagues and I are carefully monitoring incoming data, and we are setting policy to do what monetary policy can do to support continued growth, a strong labor market, and inflation near two percent."

Dallas Fed President Kaplan:

"Labor market is very tight. Inflation is going to keep moving up, hence two more rate hike in 2018 are needed. On oil: global demand keeps rising, moving to an undersupply situation. Steel and aluminum tariffs are affecting companies' production costs. CEOs are saying that tariffs are having

[1] *A friend and chief Economist from a large investment bank told us that he was surprised why a lawyer would be invited to a summer camp for economists…*

a small impact, so far, on companies' investment decisions. However, tariffs have not impacted the wider US economy. Looking at 2020-21, lower productivity could become a drag on GDP growth. External events also need to be watched: Turkey, Brazil and development in Italy's political sphere. Not too many tools available for the Fed to fight lower growth when it comes."

Cleveland Fed President Loretta Mester:

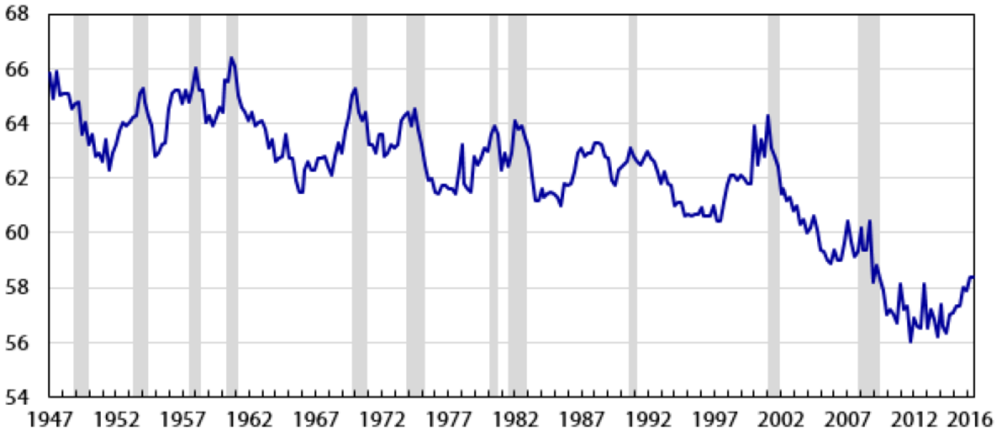
"The case for raising rates is compelling. Slope of the yield curve may not be signaling a recession as in the past because investors are looking for safe assets, hence buying US long term bonds."

St-Louis Fed President James Bullard:

"As economists we often fall in love with our models, I certainly fall in love with my models. But at the same time, I'm aware and I have to remind myself all the time about all the shortcomings of models."

We heard from various CEOs that the demand for skilled workers is driving the cost of human capital higher. Retaining talent seems to be a challenge, especially in IT and industries that are dependent on 'older' workers. This is highlighted by the fact that the US labor share of GDP has been rising since 2012 and has probably contributed to rising overall productivity (see below).

Figure 1: US labor share of output, %, 1947 to 2017



Source: BLS

Another subject raised by speakers, including Professor Van Reenen from MIT[2], was the dispersion in productivity. It appears that the top decile workers account for a bigger share of productivity than 25 years ago. Measurement is obviously an issue, but logic would indicate that it is possible.

Back to Vietnam, our positions in the model portfolio have not changed in August.

[2]*www.kansascityfed.org*

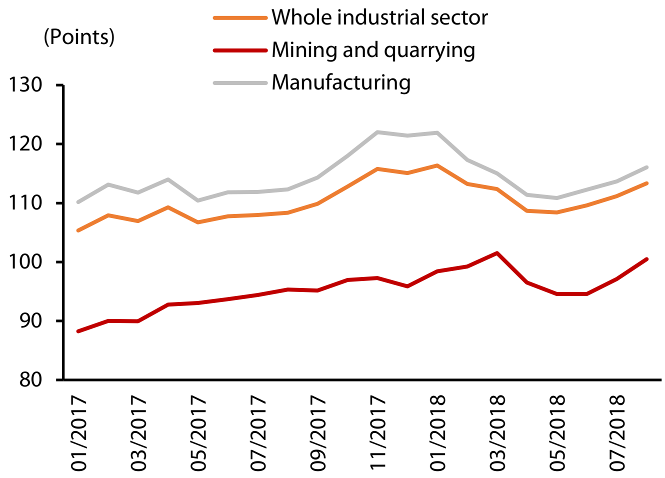
- The economy will grow at a moderate rate
- Bond yields are rising

The economy will grow at a moderate rate

In general, Vietnam's industrial production has been recovering since May. Based on GSO's data, the industrial production index's 3-month moving average stood at 113.3 points in August, higher than 112.3 points in the same period in last year. Manufacturers keep an important role with the mining and quarrying sectors strengthening because of a better production of coal, lignite and metal ores.

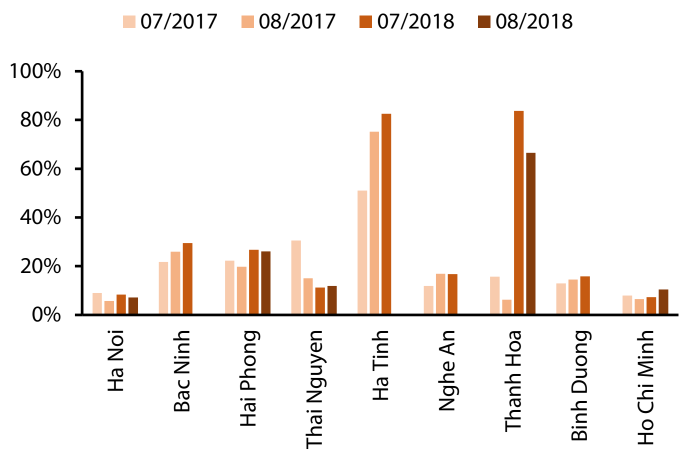
Notably, we note a good performance in most of the big manufacturing provinces/cities in Vietnam compared with last year. Key industries, including steelmakers, carmakers, textile and electronic products are good so far in 2018. Ha Tinh and Thanh Hoa provinces for example have an amazing year because of various USD-billion projects, including Formosa Ha Tinh Steel Company and Nghi Son Refinery and Petrochemicals in Thanh Hoa.

Figure 2: Vietnam's Industrial production index



Source: GSO, RongViet Securities

Figure 3: Provinces' Industrial production indices

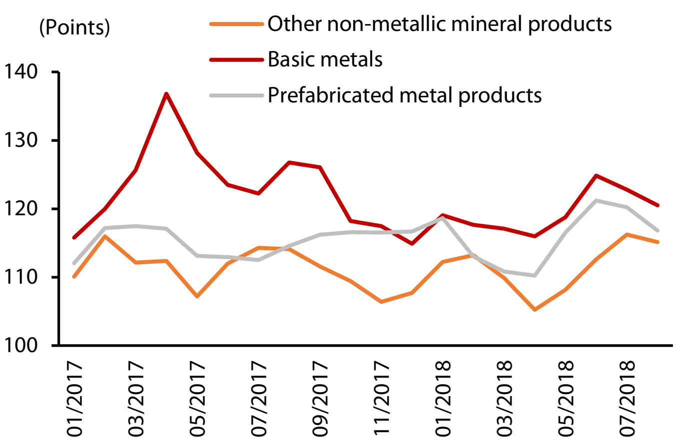


Source: GSO, RongViet Securities

The most impressive performance belongs to metal producers, especially Formosa Ha Tinh Steel Company which has been impacting provincial development. In recent months, the industry grew at around 20% y/y. The output of raw steel, in the first eight months of 2018, increased by over 150% YoY.

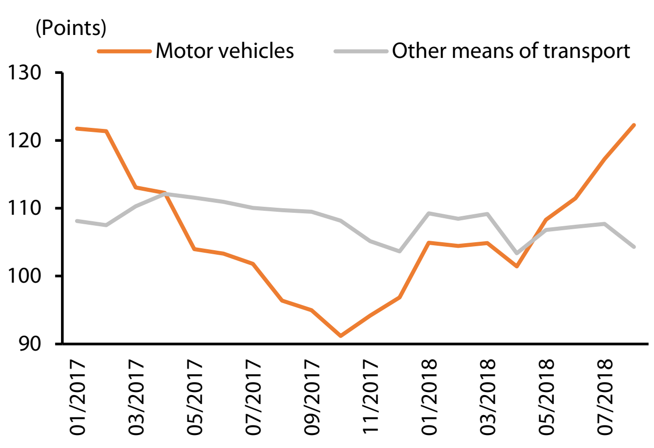
Meanwhile, domestic carmakers are raising capacity as three "Detroit-liked" provinces in Vietnam, including Vinh Phuc, Quang Nam and Ninh Binh. Most of surveyed producers said about the advantages of tariffs and non-tariffs barriers put on imported cars while the domestic demand got higher and higher. According to Customs' data, the value of imported cars was at nearly USD 500 million, down over 60% YoY, in 7M2018.

Figure 4: Sectors' Industrial production indices



Source: GSO, RongViet Securities

Figure 5: Sectors' Industrial production indices

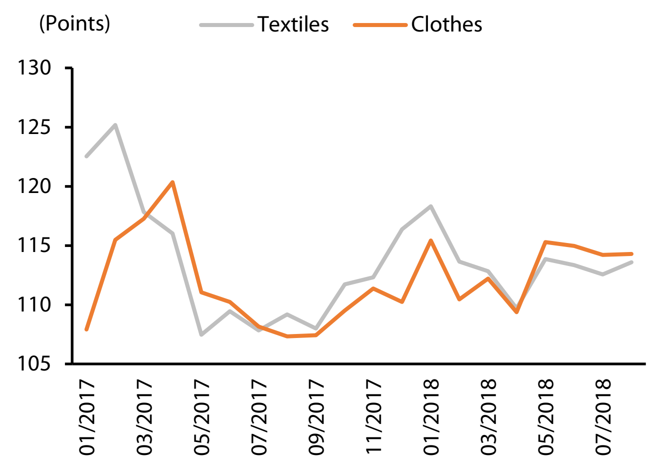


Source: GSO, RongViet Securities

The textile and clothes industries also performed well due to higher export orders and the appearance of FDI companies coming from China. The below chart implies that export growth of different goods increased, especially textiles and garments whose export value stood at USD 16 Billion in 7M 2018.

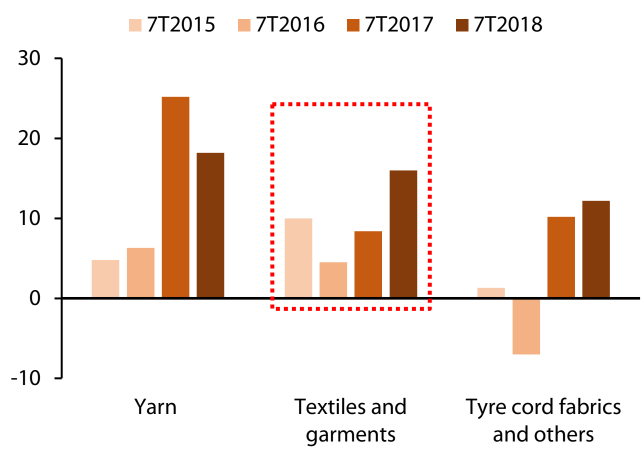
Many Chinese textile companies are moving to Vietnam. The country could become a big textile supplier, especially raw textiles, in ASEAN as well as Asia. Some names include Regina Hai Phong (investment value of USD 260 million), Far Eastern New Century (investment value of USD 760 million), etc. The outlook remains good as Vietnam is to exploit the EU market further as the EVFTA is closed to be finally implemented.

Figure 6: Sectors' Industrial production indices



Source: GSO, RongViet Securities

Figure 7: Export growth (%, YoY)

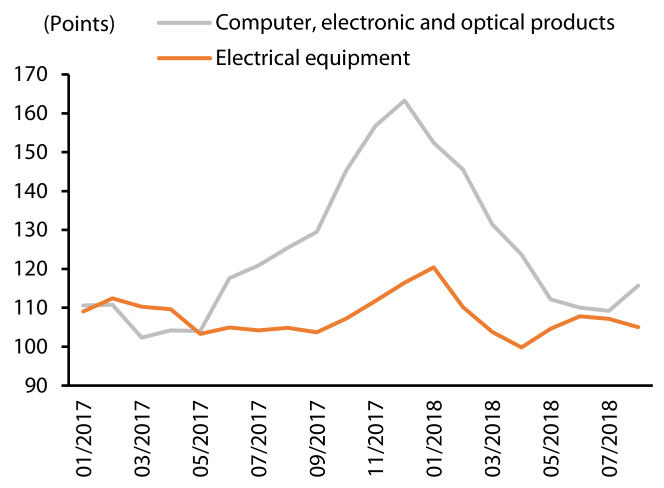


Source: GSO, RongViet Securities

Vietnam's dependence on the Korean Chaebols is an issue. Samsung Vietnam ThaiNguyen (SEVT)'s revenue plummeted due to a tough business environment caused by growing competition. According to Samsung's earnings release, the IT & mobile communications segment's outlook is not good. Samsung's other factories are slightly better as the demand of premium consumer electronics remained the momentum. The company is optimistic about keeping earning growth by increasing sales of new QLED models.

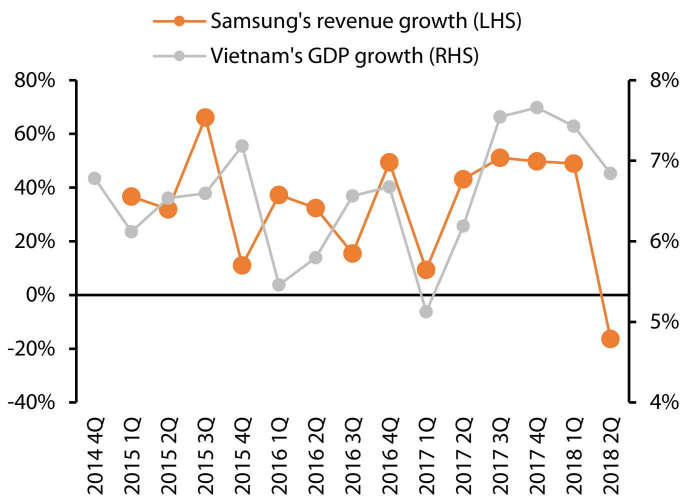
Some Korean companies are doing well in Vietnam. LG Hai Phong contributed to Vietnam's industrial production from its three projects; LG Electronics, LG Innoteck and LG Display, made nearly USD 3 billion revenue.

Figure 8: Sectors' Industrial production indices



Source: GSO, RongViet Securities

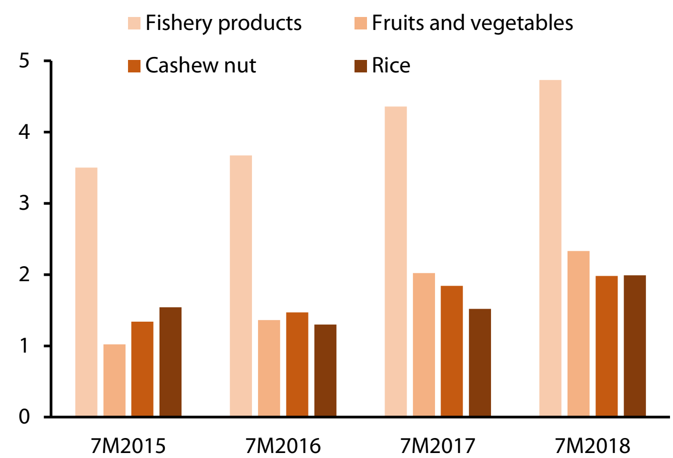
Figure 9: Samsung's revenue growth (%, YoY)



Source: Samsung's FS, GSO, RongViet Securities

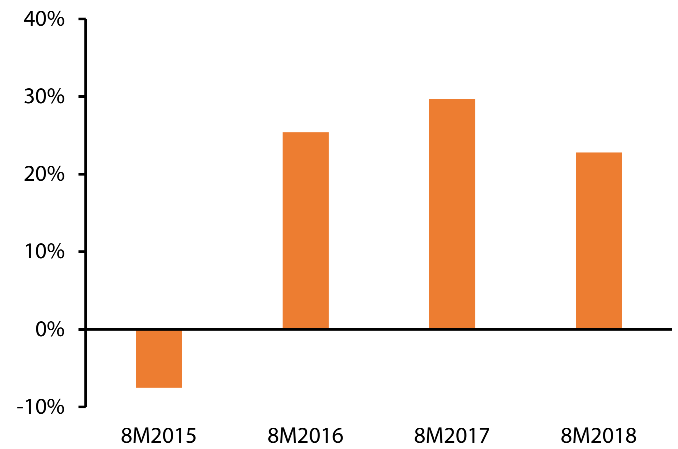
On the front of agriculture and services, we expect a moderate growth despite some troubles in the rest of 2018. Agriculture industry keeps increasing as the key goods' export value gets higher and higher. While Vietnam's aggregate demand remains stable, the growth of international visitors has decreased. Overall, we expect Vietnam economy to grow at around 6.6% YoY in 3Q 2018 and 6.8% YoY in 2018.

Figure 10: Export revenue (USD Bn)



Source: Customs, RongViet Securities

Figure 11: International visitors' growth (%, YoY)



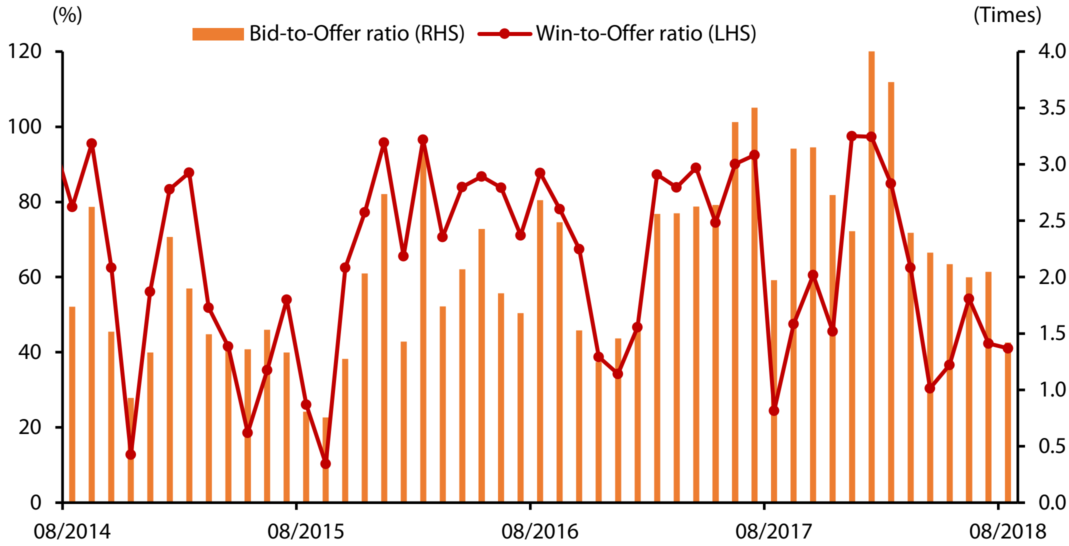
Source: GSO, RongViet Securities

Vietnam government bond yields are rising

There may be some issues with the Vietnamese government bond issuance plan which can't seem to fulfill the initial 2018 target. While the primary market is quiet, there is a remarkable foreign net outflow in the secondary market. Yields have surged in recent months.

The Vietnam State Treasury only issued a half of the initial planned amount. As of the end of August it issued VND 106 Trillion, equivalent to 53% of the plan of VND 200 Trillion. The bid-to-offer ratio is low. Liquidity has pretty much dried up. By maturity, 10-year and 15-year government bonds are attractive to investors because of relatively higher yields while there is slump related to other longer-maturity bonds. That is extremely different to what happened in 2017.

Figure 12: Government bond issuance



Source: MOF, RongViet Securities

In the secondary market, the liquidity is also a key issue. Foreign investors net sold a significant amount while trading volume has decreased since March. August's liquidity was equivalent to a half of the peak level in March. Remarkably, foreign investors kept net selling government bonds. Up to the end of August, investors sold USD 122 million, the highest value since the last quarter of 2016. This goes hand in hand with the selling on the local stock market.

Figure 13: Foreign investment flows

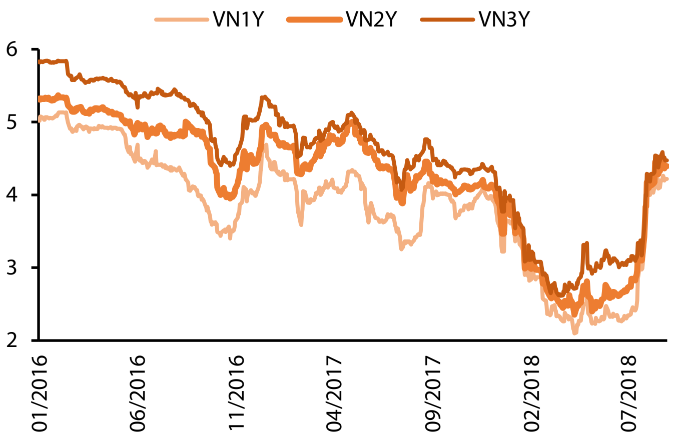
Source: Bloomberg, HNX, RongViet Securities

Short-term yields have risen substantially lately. One reason could because 'hot-money' has become more important as investors exit emerging markets for the safety of US fixed income products. A drying source of money plays in important role in particular since Vietnam is still a small global bond market.

Interbank market's interest rates moving higher also pushed short-term yields up as there is a closely positive correlation between them. In addition to the uptrend of short-term yields, a higher inflation and FX risk also contributed to the increase of long-term yields.

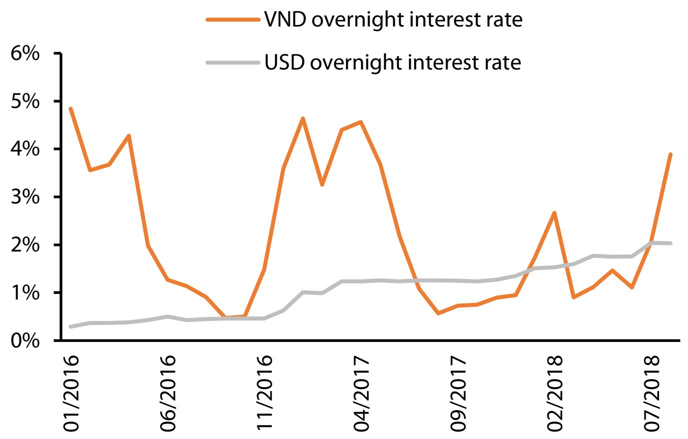
VGB yields always weight on borrowing and lending interest rates. There are more and more pressures on SBV's monetary policy operation. In addition, a global higher borrowing cost environment, caused by the FED's interest rate hikes, is the biggest risk. There will be most likely two hikes in September and December 2018. Therefore, we expect a slight rise of Vietnam's interest rates in 2019.

Figure 14: VN short-term yields (%/year)



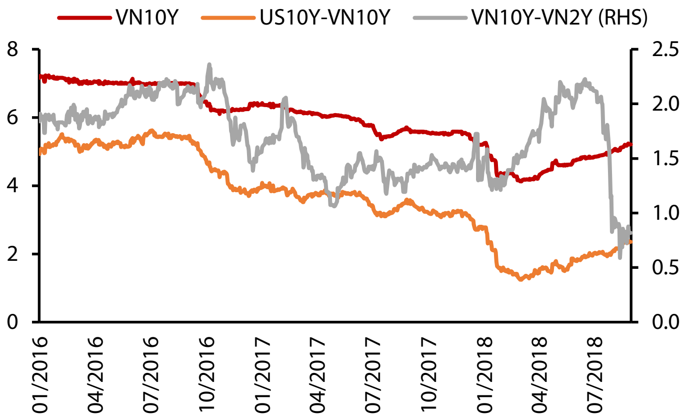
Source: Bloomberg, RongViet Securities

Figure 15: Interbank market's interest rates (%/year)



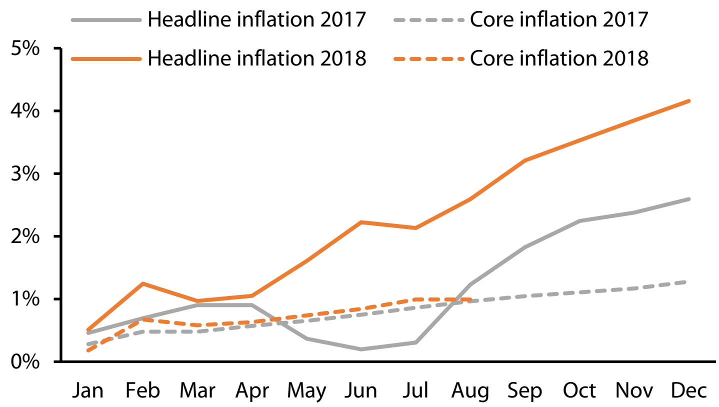
Source: GSO, SBV, RongViet Securities

Figure 16: G-bond yields of Vietnam and US (%/year)



Source: Bloomberg, RongViet Securities

Figure 17: Inflation (%, ytd)

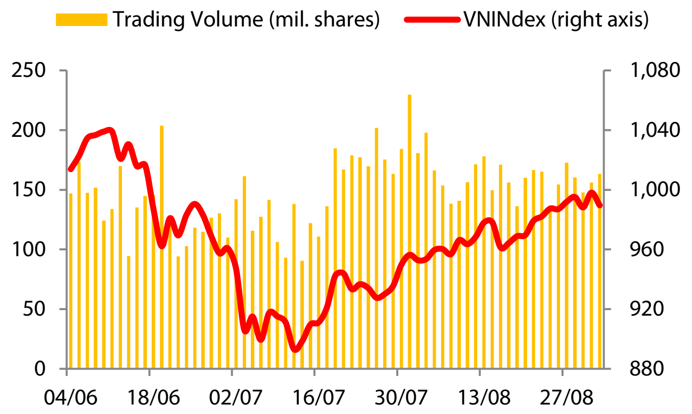


Source: GSO, RongViet Securities

VIETNAM'S STOCK MARKET IN AUGUST: STRONG RECOVERY

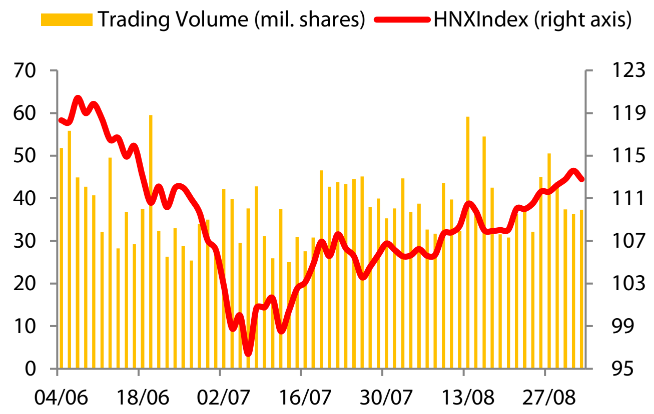
The market had the first gaining month since March. After hitting bottom in July, the VN-Index recovered strongly in August (+3.5%).

Figure 18: VNIndex movement in August



Source: RongViet Securities

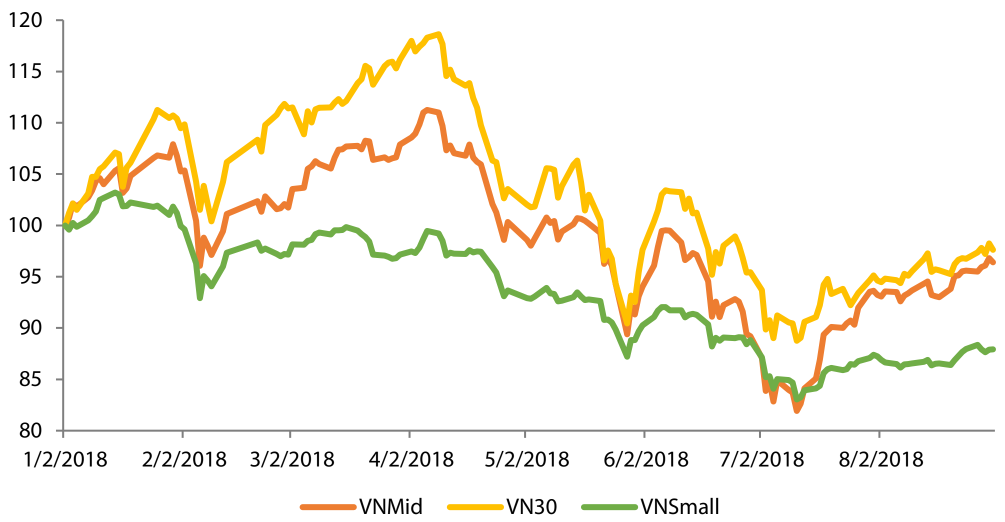
Figure 19: HNXIndex movement in August



Source: RongViet Securities

Midcap stocks have performed exceptionally well in the last two months.

Figure 20: Major indices' performances since Jan 2018

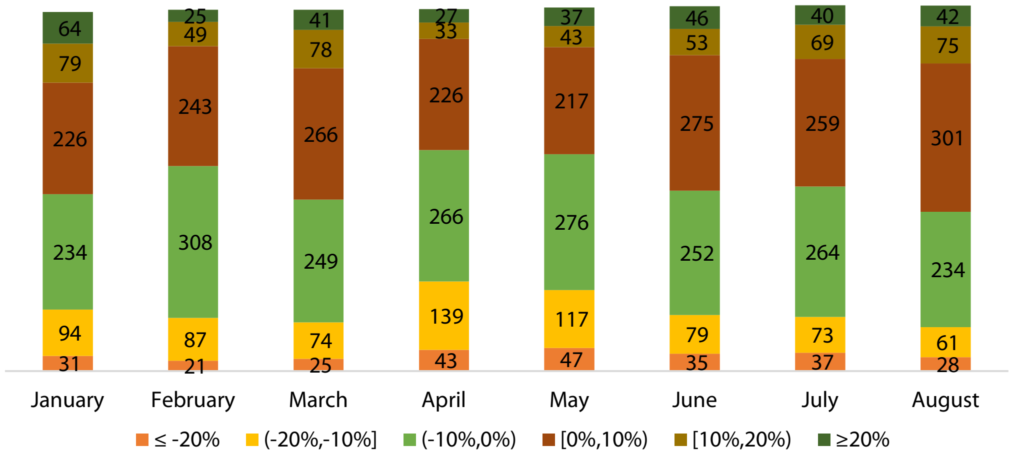


Source: Fiinpro, RongViet Securities

Liquidity improved (around VND 3,600 bn/session on HOSE) but was nowhere near the first quarter level (around VND 6,000 bn/session).

Market breadth has turned positive: number of gainers (348) exceeded that of losers (323).

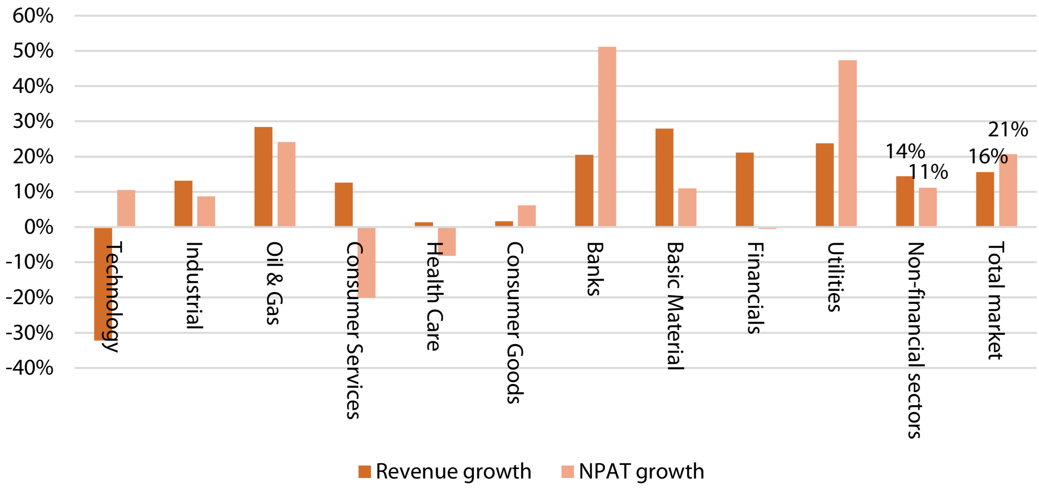
Figure 21: Market breadth – numbers of stock categorized by price changes



Source: RongViet Securities

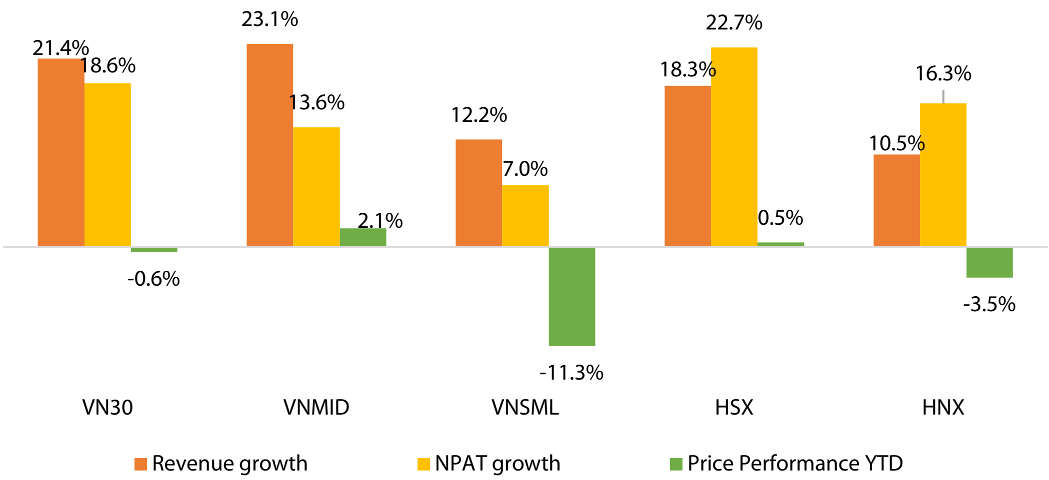
Following last month's strategy report, we update the final 1H business results as follow:

Figure 22: Revenue and NPAT growth in Q2 2018 by sectors



*Source: FiinPro, RongViet Securities**

Figure 23: Earnings growth of indices in 1H 2018

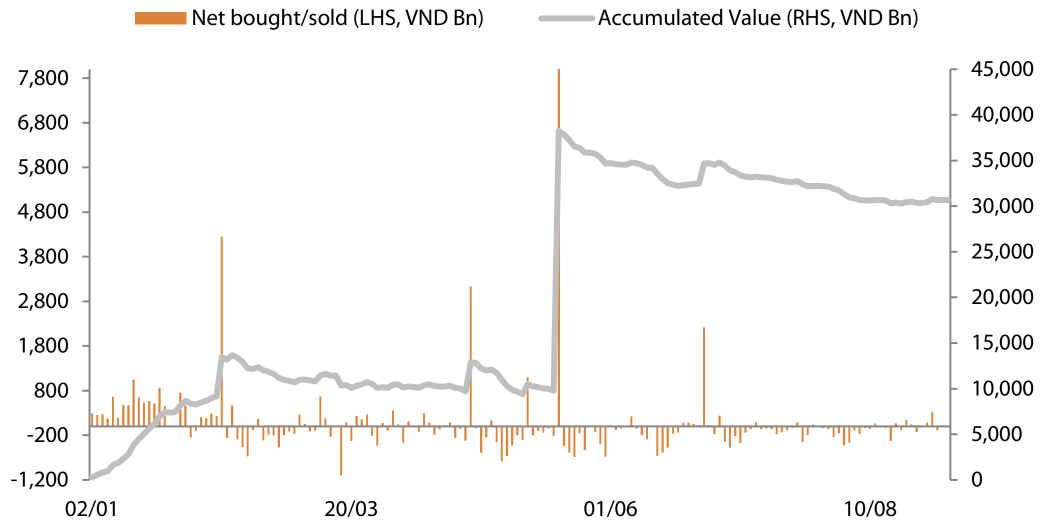


*Source: FiinPro, RongViet Securities**

**Earnings calculation are based on 698 companies announced their results. We excluded ASM, CII, GMD, KBC, STG, TTF, HAG, HNG, KDC, MSN, VIC and VHM for better comparison.*

Foreign investors trading:

Figure 24: Net trading value by foreign investors



Source: FiinPro, RongViet Securities

In August, foreign investors net sold over VND 1,400 bn on both exchanges, which was a significant slowdown considering they net sold VND 2,400 bn in July. It helped mitigating a lot of selling pressure on the market as the VN-Index recovered by 3.5 percent throughout the period.

Even though outflows of foreigner's do not seem to be stopping, many large caps turned from net-sold to net-bought in August, especially consumer stocks such as MSN (VND 286 bn), VJC (VND 237 bn) and HPG (VND 206 bn). Meanwhile, VIC (-VND 1,330 bn), VNM (-VND 1,064 bn) and VHM (-VND 514 bn) were still among the top-selling stocks.

On the other hand, domestic ETF funds are still receiving good foreign inflows. VFMVN30 got a net foreign inflow of VND 102 bn in July and VND 220 bn in August.

Table 1: Foreign investor's net trading by sector in both exchanges

Sector	HSX		HNX	
	Net volume (thousand shares)	Net value (VND Bn)	Net volume (thousand shares)	Net value (VND Bn)
Oil & Gas	-10,247	-79	3,195	70
Chemicals	370	12	44	0
Basic resources	1,839	208	-567	-2
Construction and building materials	-5,762	48	288	18
Industrial goods & services	-1,642	-79	298	11
Automobile & parts	-1	7	-2	-0
Food & beverage	-9,711	-670	381	12
Personal & household goods	-678	-16	-757	-8
Healthcare	-1,409	-125	32	1
Retail	-83	16	53	1
Communication	-	-	17	0
Travel & leisure	3,041	492	-260	-10
Utilities	610	142	-131	-2
Bank	12,131	474	2,748	22
Insurance	-756	36	-129	-4
Real estate	-42,800	-2,394	1,383	19
Financial services	18,939	373	-1,337	-17
Technology	-448	-2	-30	-1

Source: FiinPro, RongViet Securities

Waiting for Foreign Inflows

Although the VN-Index recovered well in August, we notice that capital flows did not increase significantly but mainly rotated among different sectors. Therefore, if there is no sudden increase in capital flows, it will be difficult for the market to move higher.

In this context, the market has to rely on foreign investors. However, foreign flows are still limited in part due to President Trump's erratic comments that have led to worries about the instability of the world economy. As we mentioned in our previous report, capital flows indeed have not returned to frontier and emerging market. Meanwhile, the FED will likely raise interest rates in September, which is not supportive for equities.

Figure 25: Portfolio investment flow in Asian equities

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12) Vietnam	08/31	-1.2	-1.8	-80.4	-191.1	1,373.3	1,896.5

Source: Bloomberg

However, from a currency perspective, implied volatility has risen so much, not just in Asia but around the world, that risks of further 'depreciations' against the USD is probably priced in. Rising volatility in currencies, poor returns from stocks in South East Asia and the summer lull could indicate that equity markets in the region have little more downside in general.

Table 2: Implied currency volatility (six months, at-the-money, annualized)

Currency	(%)
Lira (Turkey, TRY)	34%
Real (BRL)	18
Ruble (RUB)	15
Peso (Mexico, MXN)	14
Won (KRW)	8
Renminbi (CNH)	6

Source: CBOE, Rong Viet securities

Nevertheless, our view is that the VN Index can hardly go beyond the 1,000-point level in the short term. In that context, it is modestly positive if liquidity can remain at current levels (around VND 4 trillion per session). On the positive side, we expect more positive foreign flows towards October and November, which could signal a move to 1100 on the index. It is typical that it happens at the end or the beginning of the year. For example, after buying VHM in the IPO deal, foreign investors have gradually net sold this stock (they also net sold VIC and VRE). There is a chance that foreign inflows, including proceed from selling VHM, are waiting for an appropriate time to come back in the market.

However, global macro conditions will dictate the path for the next 12 months. Bottom line: choose the right market going into the fourth quarter.

The VNIndex ended the month of August on an optimistic note. That, however, did not reflect the reality of the market as a majority of larger tickers took turn to support the market. Enthusiasm ran low among local investors while foreigners sold a net VND 200 Bn on HSX. Liquidity in the underlying market was up by 40% MoM but still far below the average trading amount since the beginning of 2018.

Overall, the market has been receiving more adverse than supporting news. Although Vietnam macro indicators still performed well, external risks have been worrying investors. It is likely that the FED will hike rates in the meeting late-Sep. As a result, there are worries that foreigners will withdraw cash, exacerbating pressure on the Dong and halt cash flows into the stock market. Until there is a reversal of foreign capital flows as well as improvement in terms of liquidity, we think the VNIndex will fluctuate between 960 – 1040. Within this range, there are more opportunities with mid and small cap stocks than with large cap stocks.

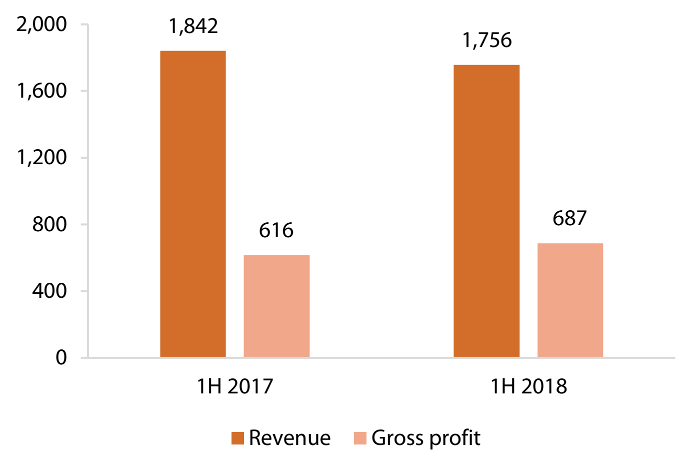
No.	Indices	Basic PER (x)			PBR (x)			ROE (%)	ROA (%)
		12/29/2017	3/30/2018	8/31/2018	12/29/2017	3/30/2018	8/31/2018		
1	VNINDEX	19.4	22.1	18.6	5.6	5.9	7.6	19.5	8.4
2	VN30	22.9	25.0	19.4	6.6	6.9	5.3	21.6	10.3
3	VN100	20.6	22.9	18.0	6.0	6.5	4.8	20.6	9.9
4	VNMID	11.6	13.1	11.9	2.0	2.3	1.8	14.4	7.5
5	VNSML	9.8	11.1	9.3	1.3	1.3	1.2	12.5	6.4
6	HNX Index	14.5	14.0	10.7	2.5	2.5	1.9	16.3	6.3
7	HNX Mid/Small Cap Index	16.0	13.2	11.5	2.1	1.9	1.9	12.6	6.5
8	HNX Large Cap Index	14.7	15.3	11.1	2.7	2.7	1.9	16.8	5.9

Source: FiinPro

QNS:HSX

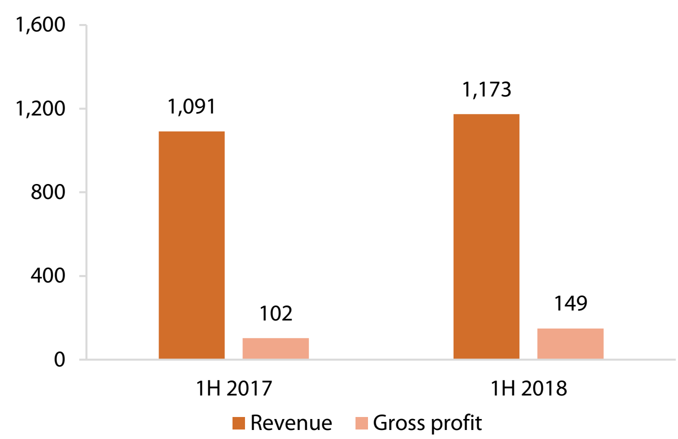
After 1H 2018, while big players such as VNM, SAB or KDC reported poor business results, QNS was one of the few big FMCG companies to report a higher profit with growth of 13.9% YoY. Better profitability comes from the sharp improvement in the gross margin of two main segments, soymilk and sugar. For soymilk, although sales fell slightly, prices of sugar and soybeans dropped, helping the gross margin rise from 33.4% to 39.1%. In terms of sugar, the cost of production fell faster than the selling price, which is the main contributor that lifted the gross margin from 9.4% to 12.7%. In addition, QNS also recorded a VND 30 bn profit from the biomass power plant in 1H 2018.

Figure 26: Revenue and gross profit of soymilk segment



Source: QNS

Figure 27: Revenue and gross profit of sugar segment



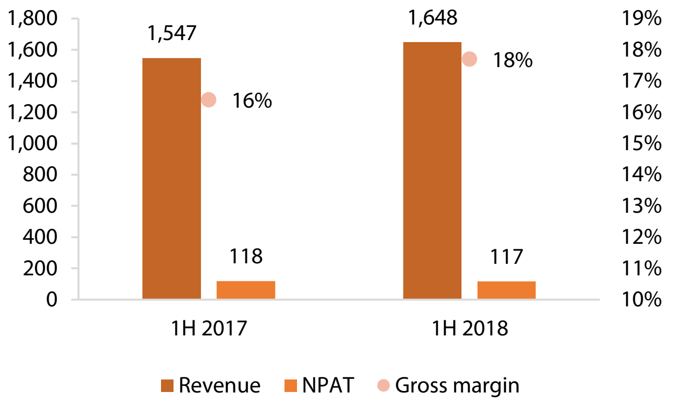
Source: QNS

In the 2H 2018, we expect that QNS's business results will keep being positive as the sugar segment is still profitable. It would be worth to remind that this segment incurred losses due to the high production cost and low selling price in the same period last year. In addition, QNS continues to maintain its leading position in the soymilk while launching new products to increase its competitiveness against rivals. We maintain our forecast of VND 8,209 bn in revenue, up 7.5% YoY and VND1,216 bn in net profit, up 18.4% YoY. With the closing price on September 5, 2018 at VND 39,000, QNS is trading at a forward P/E of 8.1x, which is quite low for a FMCG stock.

TCM:HSX and STK: HSX

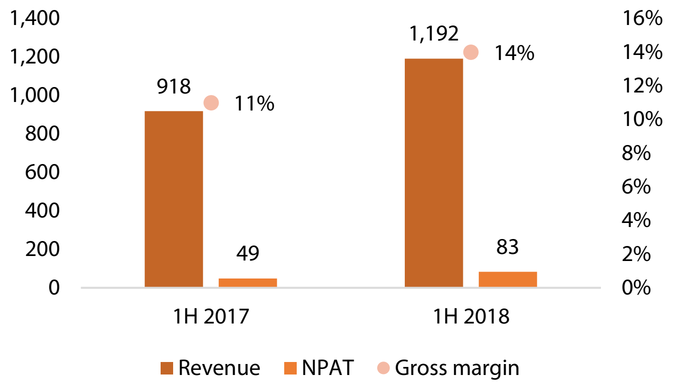
Vietnam's textile and garment industry has maintained a positive growth rate in the first eight month of 2018, with an export turnover of USD 19.4 bn, increased by 14.9% over the same period. The major export markets recorded two-digit growth rate such as US (+10.4%), Japan (+21.9%), China (+43.1%), ASEAN (+33.9%). We believe that this trend will continue as a result of the shifting of textile orders from China to Vietnam to take the advantage of cheap labor, also the opportunity to expand markets and cut tariffs from the free trade agreement like CPTPP, EVFTA will continue to be the driving force for the future growth.

Figure 28: TCM's business result 1H 2018



Source: TCM

Figure 29: STK's business result 1H 2018



Source: STK

In 2H 2018, we have a positive outlook on these two stocks. For STK, the increase in the revenue contribution of high quality recycle yarn will help company improve its GPM, as well as the implement of TB5 project will increase its supply capacity. As a result, EPS is estimated at VND 1,633 per share and target price is VND 20,700.

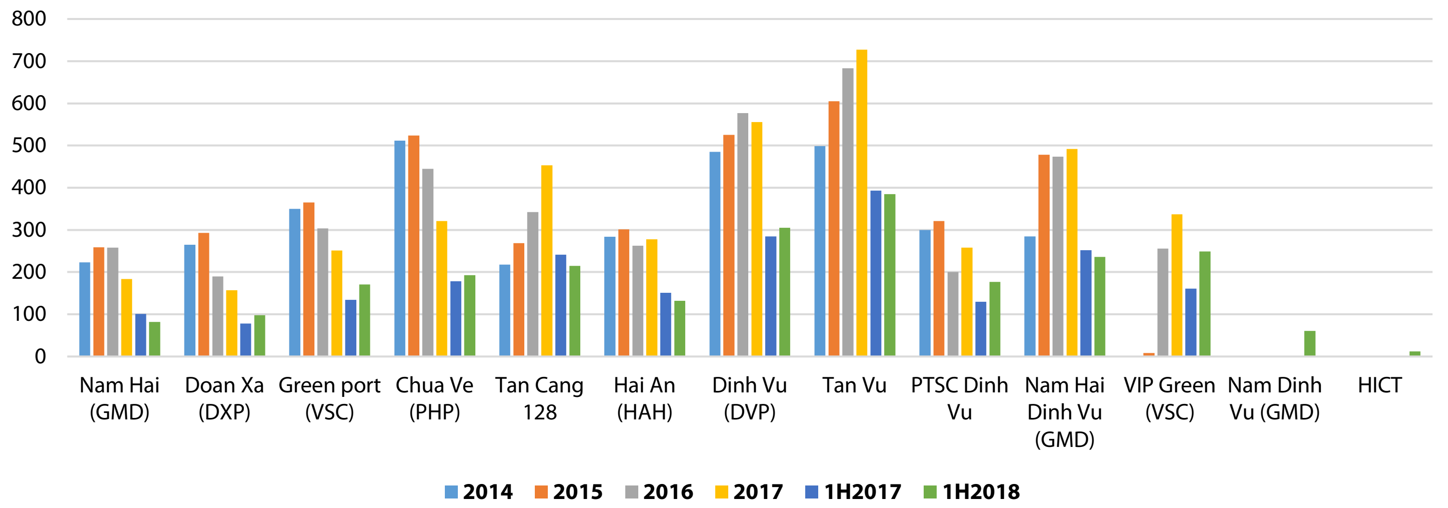
For TCM, we expect that the gross margin will improve because of the increase in high quality orders from Eland partner and Japan customers. In addition, the profit from its land sales in spinning no. 4 will be recorded in 3Q. As a result, its business performance will be improved. We maintain EPS at VND 3,696 per share and target price at VND 28,570 for this stock.

VSC:HSX

There are six seaport companies in Haiphong, divided into two groups. Group one includes companies which operate wholly in the upstream segment, HAH and DXP. Group two was companies whose main revenue contribution is from downstream ports. In the 1H 2018, we saw the trend that containers have been moved from upstream ports to downstream ones as shipping lines prefer the latter ones because of more favorable technical conditions. Therefore, group one ports showed a sharp decrease in GPM because of the decrease in the proportion of international container activity. In contrast, Group two's GPM was more positive due to the ability of maintaining international container volume or even increase throughput by gaining market share from upstream competitors. We expect that shipping lines will continue to move downstream because docking at near-ocean ports can save much more time (don't have to wait for the tide for docking) and costs. Moreover, the upsizing trend of vessels will even make it harder to dock at upstream ports due to limitation in draft berth. Upstream ports are only capable of serving vessels which carry a maximum of around 1,000-1,200 TEUs with around 7 meter deep of vessel draft. Meanwhile, the average number of container per ship transported to Haiphong has been increasing to around 1,500 TEU. Among companies in the group two, we prefer VSC to the other ones due to:

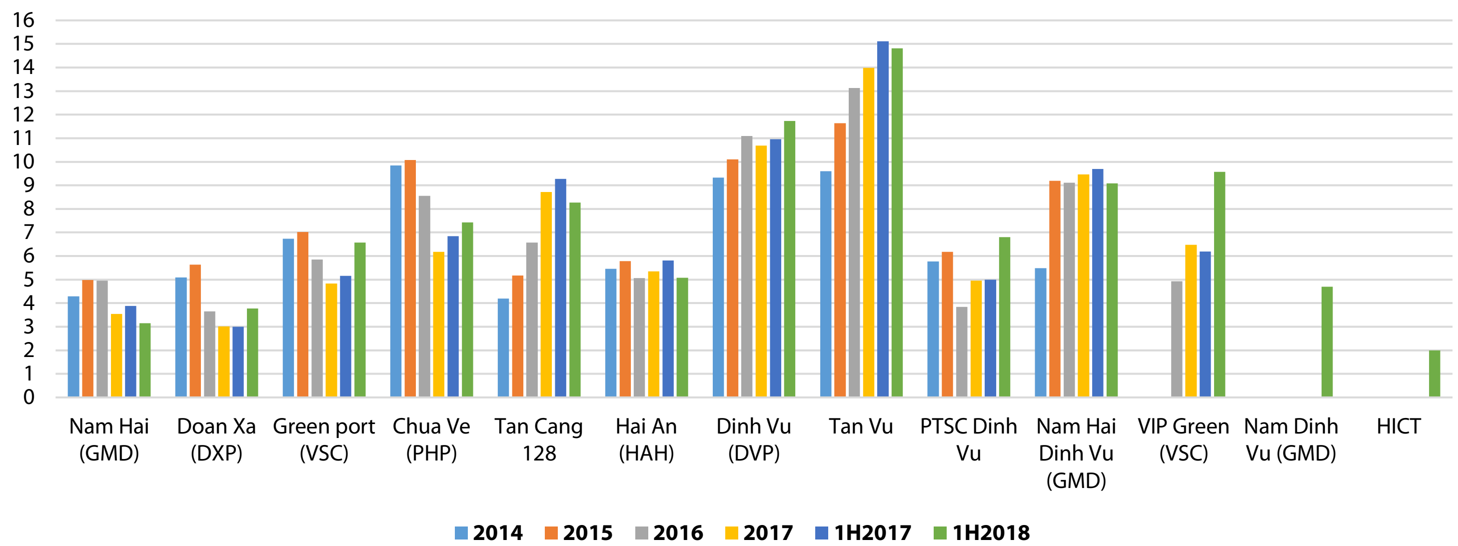
- VIP Green Port's container throughput to surge thanks to (1) deeper berth draft than upstream ports, which could accommodate large feeder vessels, (2) Haiphong container handling demand to sustain healthy growth supported by strong FDI in manufacture sector and FTAs
- New logistics centre (GIC) to increase capacity of VIP Green Port up to 800k TEU, create more room for growth in the next 2-3 years
- Better-than-expected volume throughput in VSC's upstream port, Green Port, thanks to improvement in vessel calls per week

Figure 30: Number of vessel call at seaports in Haiphong



Source: Maritime administration of Haiphong, RongViet Securities

Figure 31: Estimated calls per week of seaports in Haiphong



Source: Maritime administration of Haiphong, RongViet Securities

VJC:HSX

Although being a large cap stock, VJC is our stock pick for our thematic portfolio, which initiated in June 2018. From that time, VJC's stock price increased by about 13% by the end of August. Total expected return (based on September 4 closing price) of this stock is 14%.

The growth of international visitors to Vietnam in 1H 2018 remains high. As a result, we keep an optimistic view on passenger volumes at airports. Airlines such as VJC will continue to be benefit. In Q2 2018, VJC's number of passengers reached 5.8 million (+28% YoY), of which foreign passengers were 1.6 million (+96% YoY). As a result, its air transportation revenue is up 52% YoY. Despite the increase of oil price, VJC core earnings still improved 53% YoY.

We do not think the potential new entrance of Bamboo Airline could have any big impact on VJC at present. Bamboo airline expected market share should be small, and most of its planning routes do not directly compete with VJC.

Figure 32: Growth of North-East Asia visitors to Vietnam (%)

Figure 33: Growth of VJC domestic and international visitors

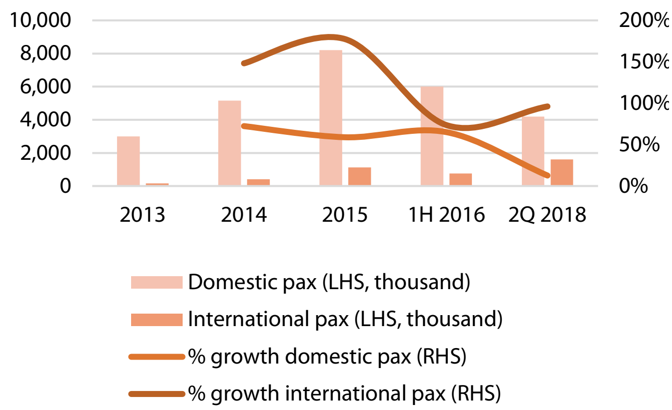


Figure 34: Impressive growth in core revenue & EBITDA of VJC

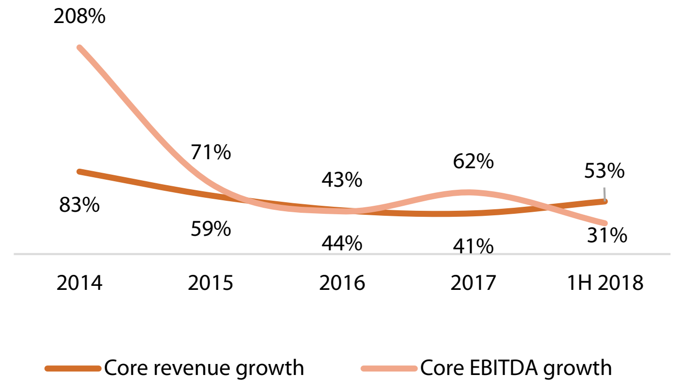
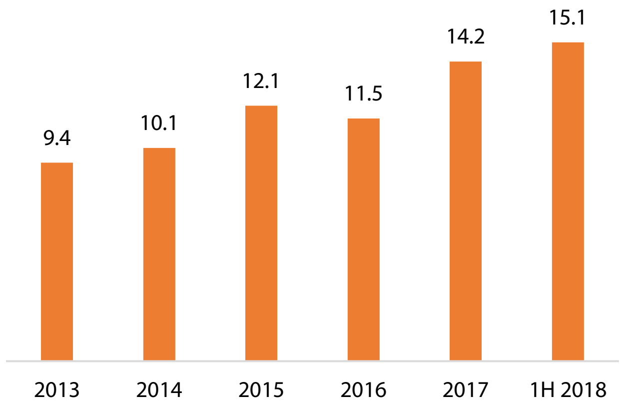


Figure 35: Ancillary revenue per customer (USD) of VJC



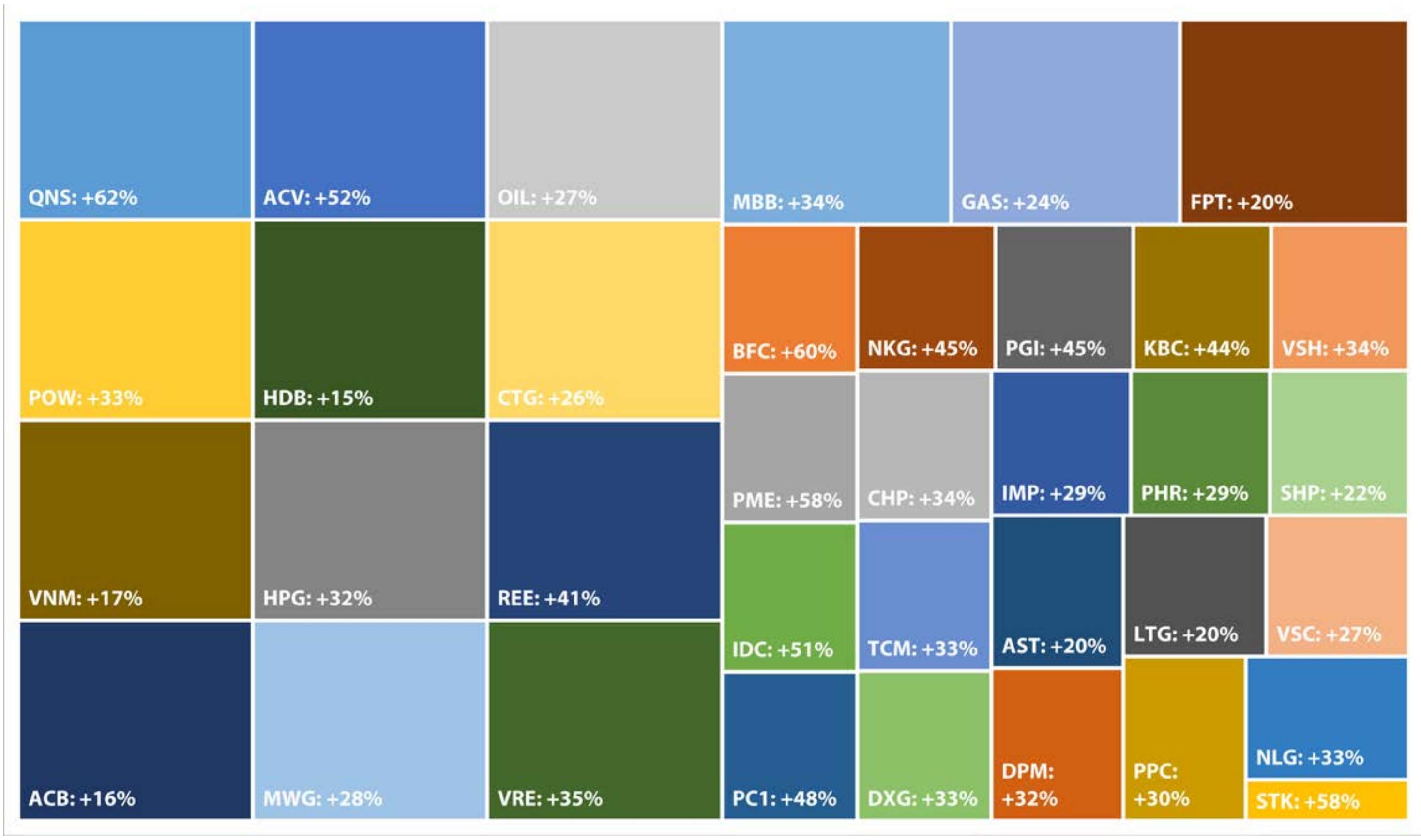
Source: VJC, Vietnamtourism, RongViet Securities

Last but not least, our Vietnam thematic portfolio for long-term absolute-return investors is up 6.3% while the VN Index is up 2.0% by Sep 4th. No changes have been made this month.

Sector	Name	Ticker	Weight (%)	Purchase Price (VND)	Current Price (VND)	Gain/ Loss (%)
Cons Services	VietJet Air	VJC	10	138,417	143,000	3.3
Cons Goods	Quang Ngai Sugar	QNS	10	35,650	39,000	9.4
Cons Goods	Vinh Hoan	VHC	10	59,800	79,000	32.1
Basic Materials	Phuoc Hoa Rubber	PHR	10	21,000	25,000	19.0
Industrials	Taseco Air Services	AST	10	62,900	61,500	-2.2
Industrials	Airport Corp Vietnam	ACV	10	92,000	82,600	-10.2
Basic Materials	Nam Kim Steel	NKG	10	16,000	13,100	-18.1
Financials	Dat Xanh	DXG	5	16,800	27,200	61.9
Utilities	Central Hydro Power	CHP	10	23,000	22,800	-0.9
Cash			**15**			
Total			**100**			
		VN Index		**957.0**	**975.9**	**2.0**
		Portfolio				**6.3**

Readers should refer to the relevant Rong Viet research reports for detailed analysis and disclosures.
Prices as of Sep 4th
Source: Rong Viet Securities

Figure 36: RongViet Securities' coverage list



Price as of Sep 4th; Size of stocks is its market cap

HIGHLIGHT STOCKS

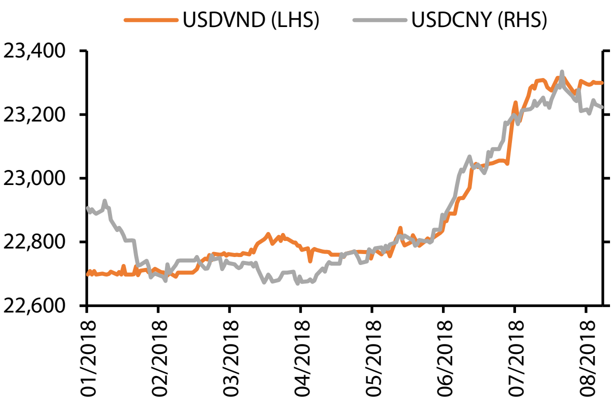
Ticker	xchange	Market cap (USD mn)	Target price (VND)	Price @ Sep 4th (VND)	Total Return (%)	Rating	2017		2018F		2019F		PER Trailing (x)	PER 2018F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
ACB	HNX	1,765	44,000	38,000	15.8	Accumulate	81.0	59.8	16.3	119.1	17.6	17.5	11.4	9.5	2.2	0.0	46.2	8,035	0.0
ACV	UPCOM	7,703	124,000	82,100	52.1	Buy	-5.5	-18.1	38.8	58.9	13.4	15.1	32.3	28.7	6.4	1.1	41.1	466	45.4
AST	HOSE	95	70,000	61,500	20.3	Buy	108.0	236.1	27.9	4.5	12.6	21.4	14.8	17.6	4.8	6.5	0.0	200	25.3
BFC	HOSE	67	40,500	27,500	60.0	Buy	6.1	0.2	8.2	10.6	14.7	25.0	7.3	5.1	1.6	12.7	-23.6	43	35.1
CHP	HOSE	135	29,000	22,800	33.8	Buy	32.5	59.2	-26.1	-38.4	12.1	31.6	16.3	13.1	1.9	6.6	1.1	53	46.0
CTD	HOSE	547	160,100	163,000	1.3	Neutral	30.7	16.2	5.0	-5.7	0.0	1.0	7.6	9.4	1.7	3.1	-19.1	1,341	5.6
CTG	HOSE	4,130	31,900	25,900	25.9	Buy	23.3	9.2	9.4	31.6	13.6	31.5	12.4	12.6	1.4	2.7	41.0	6,200	0.0
CTI	HOSE	82	31,500	30,400	8.9	Accumulate	7.1	39.2	131.3	214.9	-44.0	-80.7	14.1	10.6	1.6	5.3	3.9	281	21.7
DHG	HOSE	519	102,000	92,700	13.3	Accumulate	7.4	-9.5	15.2	31.8	9.3	1.8	20.4	16.4	4.1	3.2	-11.9	1,065	3.0
DIG	HOSE	185	19,500	17,150	13.7	Accumulate	68.4	31.7	54.0	56.1	-7.0	25.2	27.2	16.2	1.5	0.0	16.9	1,398	9.6
DPM	HOSE	297	22,400	17,700	32.2	Buy	0.9	-39.1	35.1	-13.1	7.4	67.3	10.9	13.5	0.9	5.6	-16.0	512	28.8
DRC	HOSE	132	24,300	25,900	-2.3	Under reviewing	0.0	7.1	-0.2	7.2	5.0	-3.9	23.4	18.8	2.1	3.9	12.1	333	25.0
DXG	HOSE	399	36,106	27,200	32.7	Buy	14.9	39.8	56.2	37.7	1.0	4.3	9.5	9.0	2.2	0.0	55.9	4,496	3.3
FPT	HOSE	1,159	50,900	44,100	20.0	Accumulate	8.0	47.0	-45.8	-31.5	13.5	14.7	8.7	13.6	2.3	4.5	9.6	1,998	0.0
FRT	HOSE	222	84,000	76,400	12.6	Accumulate	21.0	40.0	29.9	35.5	41.8	40.7	16.1	13.5	5.5	2.6	0.0	267	1.5
GAS	HOSE	8,443	125,900	103,000	24.2	Buy	9.3	36.4	14.3	15.9	10.6	-2.3	17.5	18.0	4.6	1.9	73.9	2,391	45.4
HAX	HOSE	23	30,000	15,250	96.7	Buy	33.1	8.1	34.1	34.2	30.3	32.6	5.4	4.7	1.4	0.0	-37.6	67	37.2
HDB	HOSE	1,571	42,000	37,400	15.0	Accumulate	38.5	136.6	33.1	48.6	25.9	31.6	13.4	14.2	2.6	2.7	0.0	2,381	2.7
HDG	HOSE	138	31,277	33,900	-6.3	Reduce	14.1	-16.0	49.6	103.8	-0.2	29.8	12.1	7.1	2.4	1.5	32.5	215	36.2
HPG	HOSE	3,547	51,400	39,000	31.8	Buy	38.7	21.3	35.7	35.2	33.8	43.3	9.2	8.2	2.3	0.0	55.6	10,092	10.0
HTM	UPCOM	75	15,500	8,000	96.3	Under reviewing	-5.8	-20.0	26.2	136.3	11.3	119.8	55.1	20.7	0.8	2.5	0.0	21	34.3
IDC	UPCOM	278	33,500	22,200	50.9	Buy	11.1	-14.0	3.1	-14.3	5.7	21.5	3.2	23.2	2.1	0.0	0.0	190	0.0
IMP	HOSE	111	67,100	52,400	29.0	Buy	15.4	16.0	20.4	21.6	21.2	20.0	21.3	20.6	1.8	1.0	-11.2	23	0.2
KBC	HOSE	241	16,270	12,000	43.9	Buy	-36.0	4.9	84.5	23.3	-5.7	13.5	12.8	9.5	0.7	8.3	-20.3	1,067	31.7
LTG	UPCOM	111	43,932	38,300	19.9	Accumulate	12.0	28.5	9.8	6.0	8.6	4.3	6.1	6.9	1.1	5.2	-17.7	65	49.0
MBB	HOSE	2,137	30,504	23,100	34.2	Buy	40.7	39.7	15.0	73.6	6.9	5.5	11.1	15.2	1.7	2.2	25.7	6,108	0.0
MWG	HOSE	1,637	149,631	118,400	27.6	Buy	48.7	39.8	34.2	18.9	17.1	24.3	14.0	15.8	5.1	1.3	9.8	3,393	0.0
NCS	UPCOM	30	57,400	38,500	54.3	Under reviewing	15.4	24.2	10.4	-15.5	14.0	22.5	8.3	10.7	2.9	5.2	-12.5	6	47.2
NKG	HOSE	102	18,000	13,100	45.0	Buy	41.2	36.6	56.4	-20.5	43.9	10.4	3.9	5.2	0.8	7.6	-43.2	192	58.9
NLG	HOSE	275	40,200	30,300	32.7	Buy	24.8	55.0	11.9	61.0	-60.5	7.4	12.7	8.8	1.8	0.0	33.9	619	0.0
NT2	HOSE	325	27,100	26,400	12.1	Accumulate	-15.3	-25.3	14.2	-9.2	2.1	-6.9	8.9	10.7	2.1	9.5	27.9	359	27.4
OIL	UPCOM	640	18,232	14,400	26.6	Buy	52.0	-13.6	-3.7	-7.2	14.2	18.5	36.8	34.6	1.6	0.0	0.0	518	0.0
PC1	HOSE	142	37,000	25,000	48.0	Buy	5.1	-22.1	55.2	99.5	3.3	24.0	8.1	6.7	1.1	0.0	-17.5	108	12.0
PGI	HOSE	68	24,900	18,000	45.0	Buy	0.0	24.9	10.7	7.7	11.2	58.2	12.9	9.3	1.1	6.7	-6.3	1	28.1
PHR	HOSE	145	30,200	25,000	28.8	Buy	40.4	48.5	2.3	92.4	13.3	35.5	8.2	6.5	1.4	8.0	7.6	298	39.9
PME	HOSE	220	106,100	68,500	57.8	Buy	7.6	19.7	25.1	20.3	17.0	15.7	17.4	15.1	3.1	2.9	0.0	36	0.0

Ticker	xchange	Market cap (USD mn)	Target price (VND)	Price @ Sep 4th (VND)	Total Return (%)	Rating	2017		2018F		2019F		PER Trailing (x)	PER 2018F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
PNJ	HOSE	694	103,000	100,000	6.0	Accumulate	28.2	61.1	31.7	28.6	13.4	26.0	18.7	17.4	4.8	3.0	41.4	2,565	0.0
POW	UPCOM	1,390	18,400	13,800	33.3	Buy	5.4	82.1	20.0	7.9	7.9	28.3	12.2	15.8	1.3	0.0	0.0	785	-18.7
PPC	HOSE	249	22,000	18,100	29.8	Buy	4.3	52.4	4.1	-5.9	1.2	1.0	6.0	7.9	1.0	8.3	2.1	156	33.7
PVS	HNX	417	22,500	21,800	6.4	Accumulate	-10.5	-22.9	-8.1	-11.2	-2.7	30.2	13.5	14.7	0.9	3.2	41.0	4,005	29.6
PVT	HOSE	211	18,100	17,500	3.4	Neutral	-9.0	0.7	9.4	-1.1	4.6	3.9	8.5	12.7	1.3	0.0	27.6	210	14.7
QNS	UPCOM	489	61,800	39,000	62.3	Buy	9.6	-27.9	7.8	19.6	5.2	9.5	10.6	8.1	2.3	3.8	-33.3	309	38.1
REE	HOSE	470	48,400	35,400	41.2	Buy	36.5	26.0	13.3	23.3	4.6	2.1	6.7	6.5	1.3	4.5	4.6	705	0.0
SHP	HOSE	88	25,400	22,000	22.3	Buy	20.3	88.9	-1.9	-7.1	3.0	16.3	11.3	12.0	1.9	6.8	3.5	7	44.2
STK	HOSE	35	20,700	13,450	57.6	Buy	46.6	242.3	2.0	27.7	7.9	16.0	6.1	6.5	1.0	3.7	-12.7	20	40.8
TCM	HOSE	51	28,570	22,200	33.2	Buy	4.5	67.8	-0.9	-9.1	8.8	10.5	6.3	7.0	1.1	4.5	-18.7	229	0.5
VCB	HOSE	9,399	60,000	61,000	-0.3	Neutral	18.2	33.0	19.3	28.8	10.2	14.9	19.4	22.2	3.8	1.3	66.4	5,849	9.2
VGC	HNX	351	30,200	18,300	70.2	Under reviewing	11.4	23.7	14.4	41.8	15.6	27.2	13.3	8.7	1.3	5.2	5.1	1,704	24.5
VGS	HNX	16	15,500	9,900	68.7	Buy	31.4	-12.3	27.9	37.8	3.2	9.4	4.7	4.4	0.6	12.1	3.1	19	42.4
VHC	HOSE	312	61,100	79,000	-20.1	Under reviewing	11.6	4.7	15.8	20.3	11.7	32.9	9.4	10.3	2.3	2.5	68.2	465	9.4
VIC	HOSE	13,956	95,041	102,100	-6.9	Reduce	68.4	74.1	39.2	74.7	27.1	45.6	89.9	43.5	7.8	0.0	150.1	11,863	41.5
VJC	HOSE	3,366	159,100	145,100	11.7	Accumulate	54.0	81.0	17.7	26.6	25.8	16.7	16.6	11.5	6.7	2.1	93.6	4,690	5.3
VNM	HOSE	9,739	177,769	156,700	16.6	Accumulate	9.1	10.1	17.0	18.4	15.0	14.9	23.2	20.7	8.7	3.2	5.1	6,648	41.0
VRE	HOSE	3,086	51,200	37,900	35.1	Buy	-13.6	-17.2	73.5	44.0	-7.3	12.1	35.8	24.8	2.6	0.0	0.0	3,112	17.5
VSC	HOSE	87	50,000	40,400	27.5	Buy	20.4	-5.6	0.9	26.4	2.5	4.0	7.3	7.5	1.3	3.7	-10.9	259	12.1
VSH	HOSE	152	22,100	17,250	33.9	Buy	17.5	10.8	3.2	-3.1	112.7	12.7	10.2	12.9	1.2	5.8	0.0	36	35.2

(*) Total Return = Stocks' Upside plus dividend yield

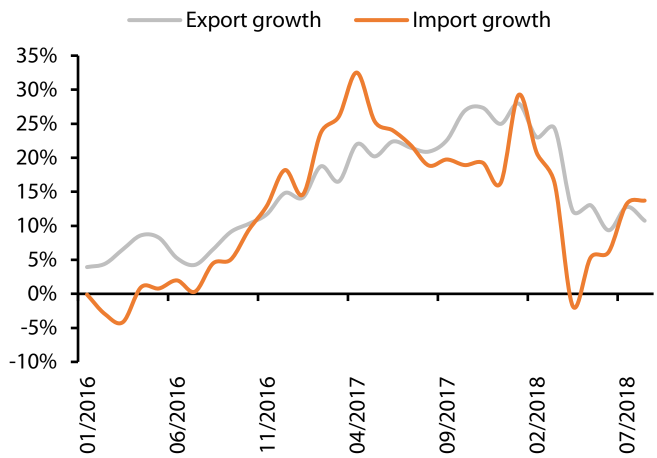
MACRO WATCH IN AUGUST

FX risk was silent in August



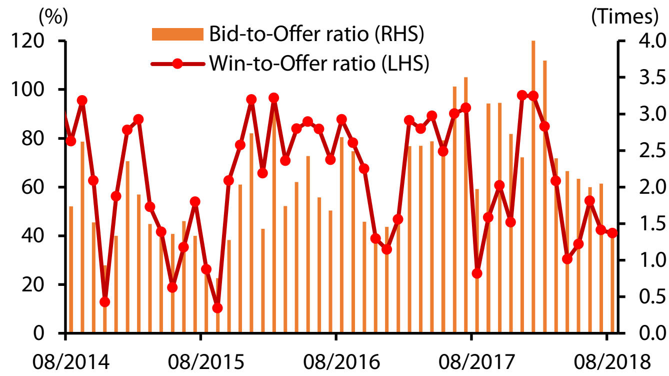
Source: Bloomberg, RongViet Securities

Trade growth was slower than last year's



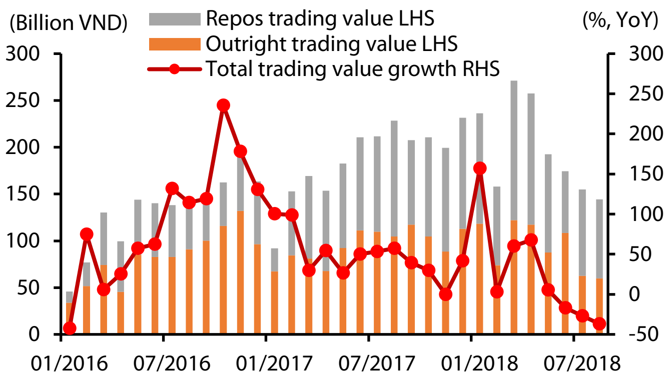
Source: Customs, RongViet Securities

Government bond issuance was poor



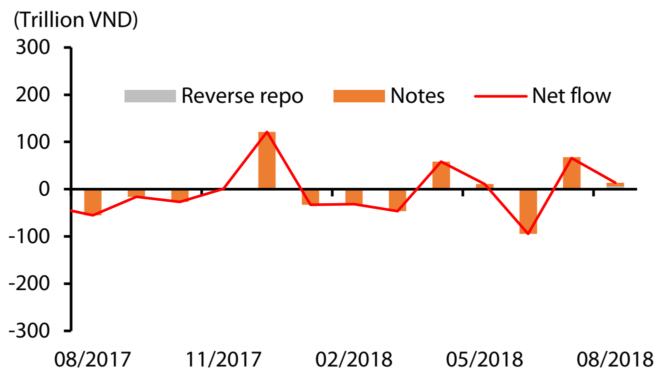
Source: HNX, RongViet Securities

Bond market's liquidity dries up



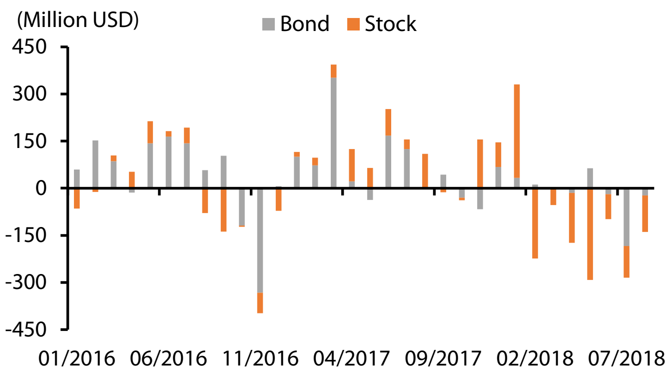
Source: HNX, RongViet Securities

SBV injected money via OMO tools



Source: SBV, RongViet Securities

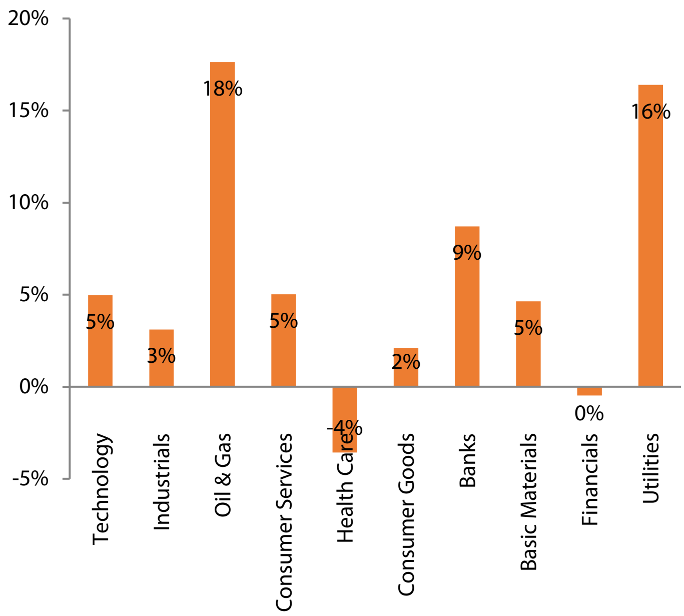
Foreigners net sold local financial assets



Source: Bloomberg, RongViet Securities

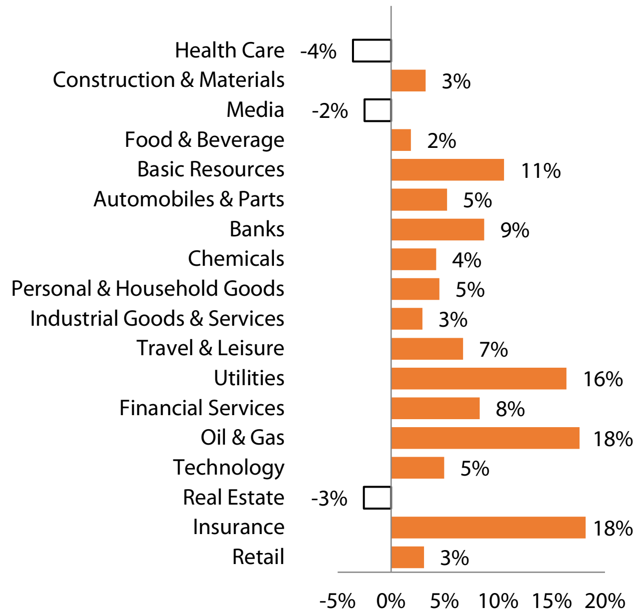
INDUSTRY INDEX

Level 1 industry movement



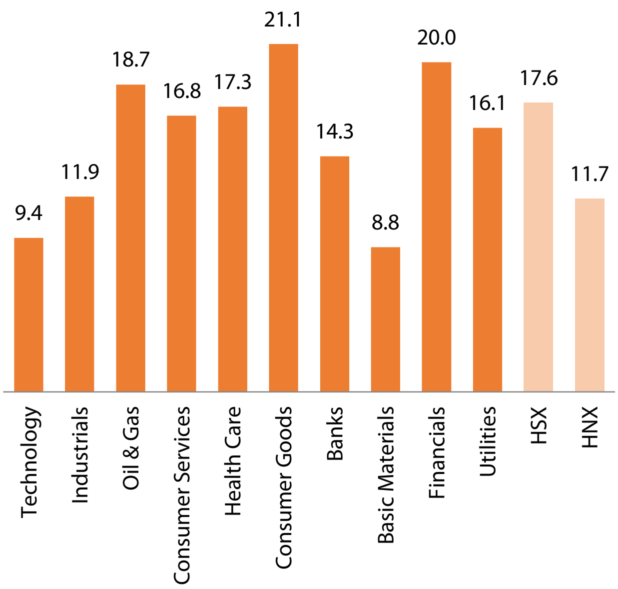
Source: RongViet Securities

Level 2 industry movement



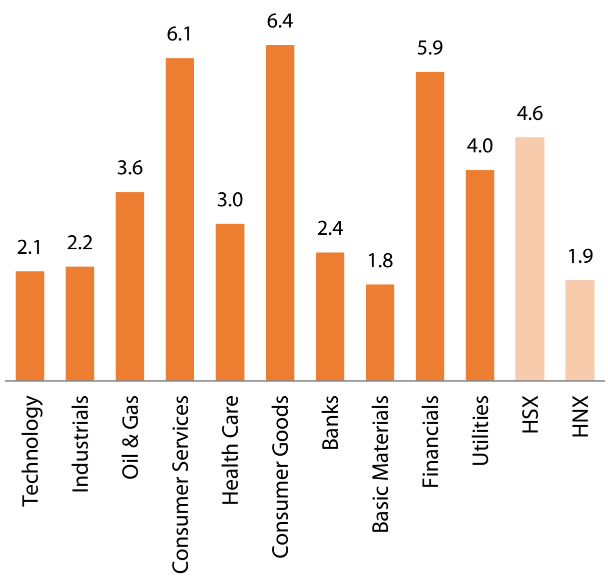
Source: RongViet Securities

Industry PE comparison



Source: RongViet Securities

Industry PB comparison



Source: RongViet Securities

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