Picking stocks for sustainable gains as liquidity falls

VNIndex ended the month of August with an optimistic gain of 3.2% m-o-m and HNIndex 1.0% m-o-m. That, however, did not reflect the gains of the market majority as larger tickers the like of VNM and VCB took turn to support the market index. Enthusiasm ran low among local investors while foreigners sold a net VND1,587bn in both exchanges; liquidity faltered as volume dropped 19% m-o-m and trading value 14% m-o-m. As investors cranked down trading and looked at each other for hints of a rally starting, VNIndex marched lifelessly towards 680.

Overall, the market has been receiving more adverse than supporting news. According to the State Bank, bad debts accounted for 2.58% of commercial banks' total outstanding loans at the end of June, up from 2.55% from the beginning of the year. In absolute number, bad debts have expanded VND11,254bn or 9.5% since the end of 2015. Concerns over increasing NPLs sank VCB, CTG and BID just before the month of September started. Being one with the strongest asset quality among listed banks, VCB is already trading at a higher P/B multiple than its local and regional peers; the stock does not have room for foreign investors. Until NPL fears are completely priced in, we expect bank stocks to continue going sideways and thus have no impact on the overall index.

On the other hand, one of the biggest ETFs investing in Vietnamese stocks, i.e. FTSE ETF, just announced it would sell a number of blue-chips, e.g. HPG, KBC, HAG, etc. while increasing its holdings of only VNM and HSG in its third-quarter review. Since VNM announced it would lift the FOL to 100%, the company's share prices have gained substantially and are currently at their all-time high. VNM's being included in the ETF's buy list was therefore not much of a surprise and should not have a huge impact on the market overall directions. Not only VNM and VCB but other large-caps such as VIC and MSN would also have little power to sway the index. The disappointment over Q2 earnings before extraordinary items along with the concerns of potential financial loss in Q3 due to the acquisition of TTF would remain a constraint to VIC.

While there are pressures to find the destinations for cheap funds, concerns are growing as stocks are trading at their historically high. A breakout in terms of market sentiment is therefore unlikely. VNIndex is trading at 16 times its trailing P/E, the highest in the past 5 years and it is increasingly difficult to find stocks with cheap valuation these days. Even so, we see no likely catalysts for a big washout. Instead, the market may continue to trade slowly as in the first half of September. ETF's finishing their trading could help raise the spirit in the last two weeks of the month. Overall, it is unlikely the market will find a new trend soon and contracting liquidity means investors would be better off with stock picking rather than chasing funds flows.

VNIndex is expected to move between 650 and 678 and HNIndex between 82 and 84 in September.

At the moment, we recommend that investors focus on stocks with (1) positive industry outlook, (2) P/E and P/B lower than its peers and (3) positive growth of core earnings in 1H2016. Also, falling interest rates would justify higher valuations for companies with a strong history of cash dividend payments and/or high dividend yield (over 6%). We maintain a positive outlook for stocks in Construction & Building materials (steel, cement, plastic…), Retailing, Rubber tires, Industrial real estate. Besides, updates on SCIC's sale of stakes in FPT, NTP, BMP, BMI among others could support the prices of these stocks over a short period.

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Biased by large stocks, VNIndex and HNIndex have become less representative of the prevailing sentiment in the market. VNIndex being at its five-year high on top of the faltering liquidity should put a great many stocks at a disadvantage. As the likelihood of a correction runs higher, investors should consider realizing profits in those stocks that have gained substantially. In the near term, investors can take a look at tickers in SCIC's divestment list or those will be sold by ETFs this month. While FPT, being at a low valuation, is supported by strong projected earnings and updates in SCIC's withdrawal HPG could be brought to attractive prices during ETF's review. For long-term investors, we continue to recommend stocks in industries with strong growth prospect. Also, since interest rates are falling, dividend-paying stocks are also worth noticing.

HSG and NKG are also some good choices after HPG in the industrial metal sector. In late August, the Ministry of Finance announced it would impose an anti-dumping tax on galvanized steel imported from Korea and China. Less competition with cheap import steel could help improve selling prices and gross margins of HSG and NKG while supporting their sales volume in the upcoming months. Recently, NKG has invested strongly in its production line. The firm will start the second phase of its new cold-rolling line in December and another expansion in mid-2017. With a constantly-expanding backlog (VND19,000bn by 2Q2016), HBC has surpassed CTD in term of stock price performance. In 1H2016, HBC recorded remarkable growth rates in both revenue and NPAT and was able to maintain a strong gross margin of 9.8%. A private share placement in late 2016 would enable HBC to reduce its dependence on borrowings and cut back on interest expense.

The bankruptcy case of Hanjin, a Korean shipper have got some impact on VSC. However, we estimate the provision made related to Hanjin's receivables, if any, should only have a negligible impact on the VSC's bottom line. VSC just put to Phase 2 of Vip-Greenport, its second port in Hai Phong, into operation in early September for an incremental capacity of 250,000TEUS/year, which should bring significant improvements to its Q3 and Q4 business performance. Despite its restricted port capacity, HAH has been quite active in expanding its container vessel fleet in a long-term plan to upgrade its position in the logistics value chain. Fueled by strong FDI flows, Vietnam seaport operators still have plenty of room to grow over the upcoming years. Considering their outstanding profitability and strong cash dividends, fluctuations in the share prices of VSC and HAH could present a buy opportunity to long-term investors.

Q3 is the peak season for tourism companies. With the dominant market share of transportation in the Phu Quoc - Kien Giang area, SKG is considered a good candidate in this sector. SKG's speed boat fleet is running at is ~80% on their current routes. However, growth potential for SKG is still substantial and could be realized as the company (1) increases investment in new boats on existing routes, (2) opens a new ferry route from Ha Tien to Phu Quoc and another from Soc Trang to Con Dao.

- ✓ Transportation & Seaports: PVT, VTO, TCL, NCT, HAH, VSC
- ✓ Construction: CTD, FCN, SRF, HUT, HBC
- ✓ Electricity: NT2, PPC, REE
- ✓ Real estate: BCI, KDH, LHG, TDH
- ✓ Retailers: SVC, PTB, MWG, PNJ
- ✓ Building materials: BMP, HPG, HSG, NKG
- ✓ O&G: PGS, PVS, PLC
- ✓ Banks: CTG, ACB
- ✓ Others: VNM, FPT, SKG, DRC, DPM, IMP, VFG, NCS, VNM

36 stocks of RongViet Research (analyzing, discussing with companies) and have analysis and specific evaluation in "Company report" or "Analyst pin board" till now

Industries movement in August 2016 and P/E, P/B of industries at the end of the month

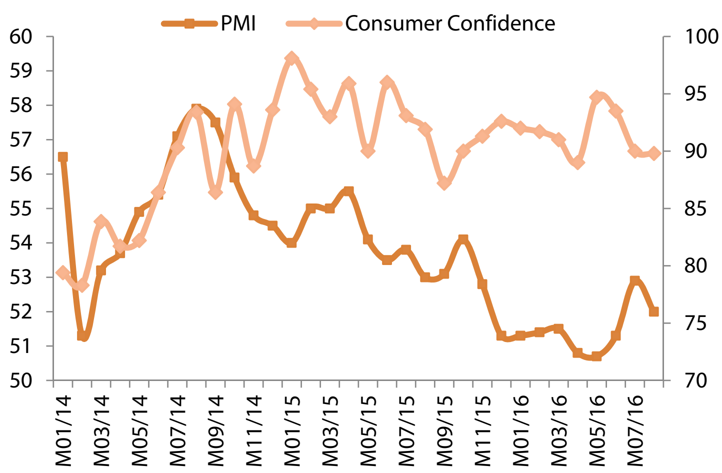
WORLD ECONOMY

- US – The economy appears to look better in Q3/2016
- Japan - BOJ strongly stimulated after economic stagnation
- China- Unclear transformation

US – The economy appears to look better in Q3/2016

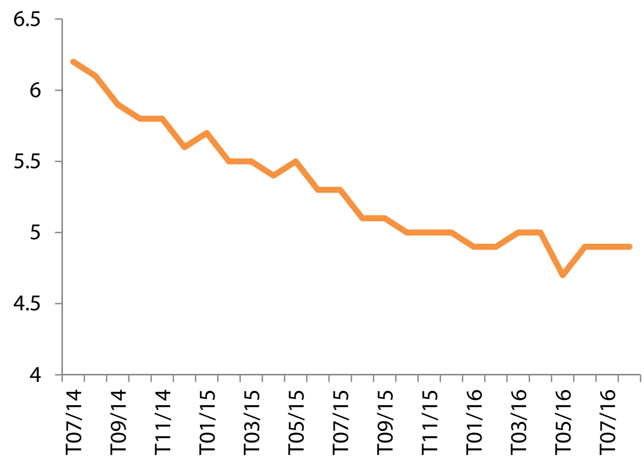
According to the updates, the US macroeconomic indicators experienced a positive growth in July. In particular, industrial production went up 0.7% as compared to previous month and better than market expectation of a 0.2% increase. This figure is the highest in 20-month period. This improvement was also reflected through US Manufacturing PMI, in which August figure reached 52 points, downed slightly from 52.9 points in July. Further moderate upturn in business condition and new orders led to the expansion in manufacturing. It is noticeable to bear a positive outlook for US industrial production in the third quarter.

Figure 1: US consumer confidence and PMI



Source: Tradingeconomics

Figure 2: US long-term unemployment rate



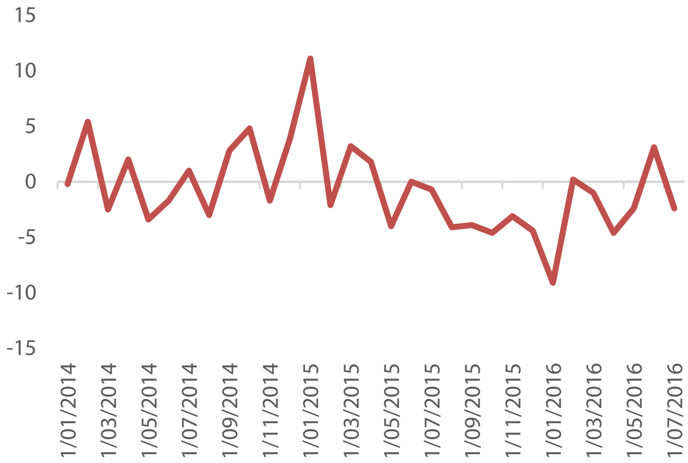
Source: Tradingeconomics

Alongside with the improving macroeconomic indicators of the US economy, Federal Reserve Chairman (Janet Yellen) said that the US could likely hike interest rates in coming months as the US economy is close to hitting its targets. However, after the latest US employment report, many economists supposed that the upcoming interest rate hike would likely occur in the end of 2016 or early 2017. In August, the economy continued to be at full employment when the unemployment rate remained at 4.9%, but created only 155,000 new jobs, lower than expectation of 180,000 jobs. According to a Bloomberg survey, economists put a 32% probability of rate hike in September, 2016 and 59% in December, 2016.

Japan - BOJ strongly stimulated after economic stagnation

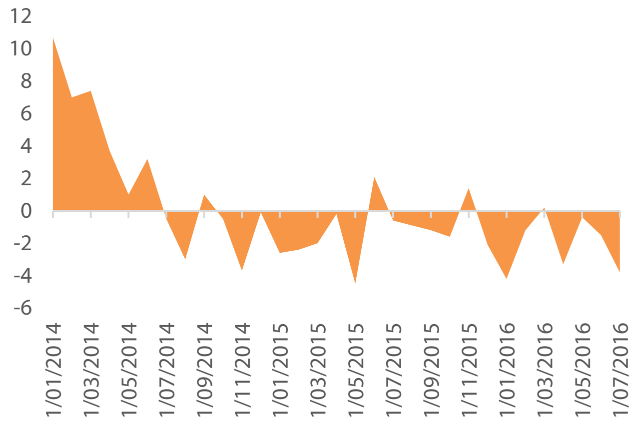
According to the updates, the Japanese economy showed no growth in the second quarter, lower than the 0.5% expansion in Q1 and worse than a 0.2% increase of market forecast. Private consumption, government consumption, and exports fell sharply which became the key factor pulling down GDP growth in Q2/2016. As well as weakened domestic demand, the yen went up 14% against the US dollar making export activities as well as the Japanese economy suffer. In July, Japanese exports fell by 14% yoy and the 10th monthly decrease due to the yen's appreciation.

Figure 3: Japanese export growth



Source: Bloomberg

Figure 4: Industrial production



Source: Bloomberg

At the same time, the stagnation of industrial production in July is less optimistic for economic growth in Q3/2016. In particular, industrial production declined 3.8% yoy, which was the 8th consecutive month with a negative growth. Japanese manufacturing PMI was also below the threshold of 50 points, which continued contraction since January 03/2016. As mentioned in the previous strategic report, we believe that the ineffective negative interest rate policy and the slowdown in the private sector led economy worsen. Investors still wait for the effectiveness of the stimulus program to help economy recover.

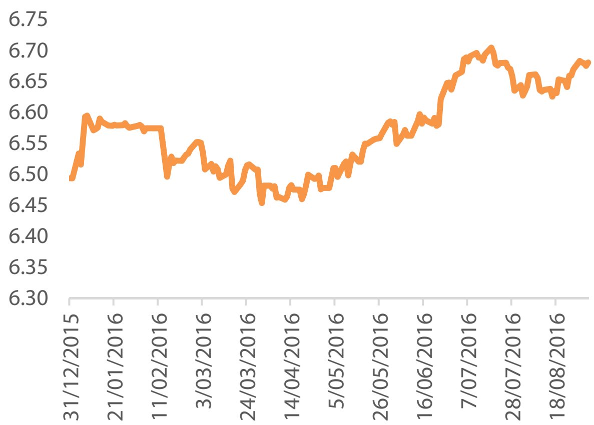
China- Unclear transformation

Half-year has passed, yet the Chinese economy has yet to show a clear recovery signal. Weakened domestic production demand caused the importing activities to deteriorate. In July, net imports were USD 184.7bn, 4.4% lower yoy. July trade balance therefore recorded USD 52.3bn, highest since January. Industrial production has recovered, as PMI was within the expansion range (50.6 points) in July, however that of August declined to 50 points, discontinuing the trend. The decreasing number and value of new orders show that both domestic and oversea demand are going to be flat in the upcoming months.

Figure 5: Chinese export/import growth (yoy)

Source: Bloomberg

Figure 6: USDCNY chart

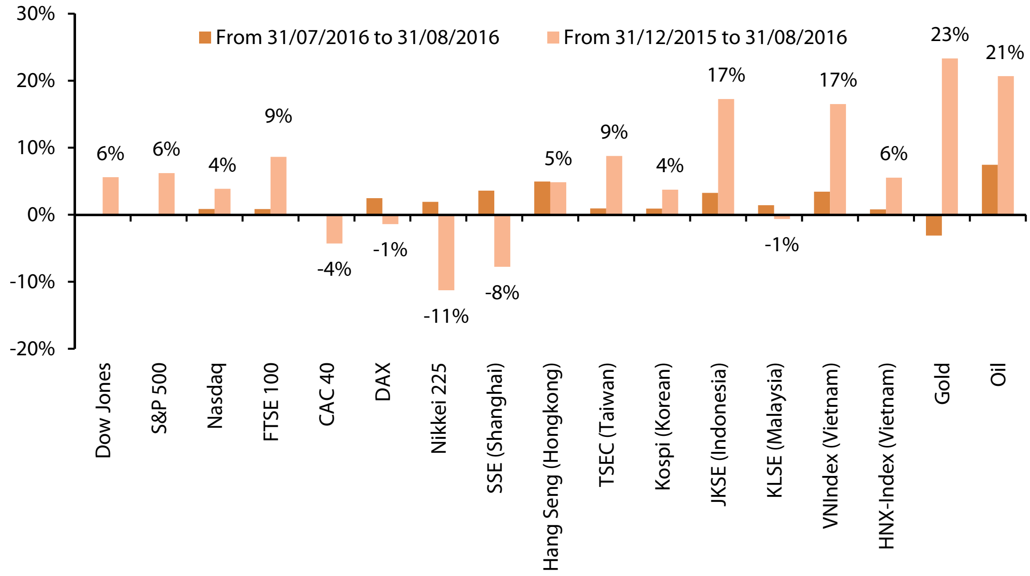


Source: Bloomberg

Studying the short-falling movements, economists have been anticipating the influenced by China's new economic stimulus program, targeting GDP growth of 6.5 to 7% in 2016. Nonetheless, PBoC has only revealed the signals of cutting the banks' reserve requirement in the second half of the year but not cutting the interest rate due to the existent fear of wealth bubbles. The economy's movements have affected CNY as well. The currency has been devaluated by around 3%. USDCNY rate is forecasted at 6.8 at the end of 2016, equivalent to a further 1.8% devaluation.

GLOBAL STOCK MARKETS: Economic factors were closely observed

Figure 7: Some major global stock market indices in August



Source: Bloomberg, RongViet Research

This year August is a so-called "peaceful summer" for world stock markets. US market was narrow as there was little fluctuation in trading. According to JP Morgan, August saw the fourth narrowest trading range since 1928 (other years were 1958, 1964 and 1965). Besides FED delaying its decision to lift up rate, investors were quite comfortable with improving economic data in the US such as industrial production rose 0.7% in July vs 0.3% expected, inflation slightly moved up 0.2% while core inflation increased 0.1%.

EU stock markets also moved sideways. The quite summer began after shocking events like Brexit and negative data on Italian banking system. FTSE 100 and CAC 40 did not see much monthly change. DAX proved itself the best regional in August when it added 2.47% to July's close thanks to 5-year-high GDP growth rate, which implies that Germany's economy is the healthiest one among other members.

On contrary to last year August when China's currency devaluates to cause sharp drop across Asia markets following by other major global markets collapse, this August was the month of Asian shares. SSE (Shanghai), Hang Seng (Hong Kong) were top performers with the gains of 3.59% and 4.96%. VNIndex came third with 3.43% gain.

Oil prices fluctuated strongly in August. In the beginning of August, oil price withdrew to USD40.7/barrel (-20% compared to June's close) with rising concerns of OPEC members continued to increase the output. However, oil price rebounded to the month height of USD49.2/barrel (+21% from August 2nd) thanks to decreasing of US inventory and OPEC's plan to open a conference in September to discuss about freezing production. However, bad news came in the final week of August as Iraq, Iran and Nigeria seemed not to be pleasure with the plan of OPEC as well as worry of slowdown demand in China. Last but not least, the strengthen of USD also contributed to the drop of oil price.

VIETNAM ECONOMY

- Favorable condition for lending rate to decline
- The necessary to devaluate local currency from trade balance
- SOEs privatization and divestment: the latest efforts

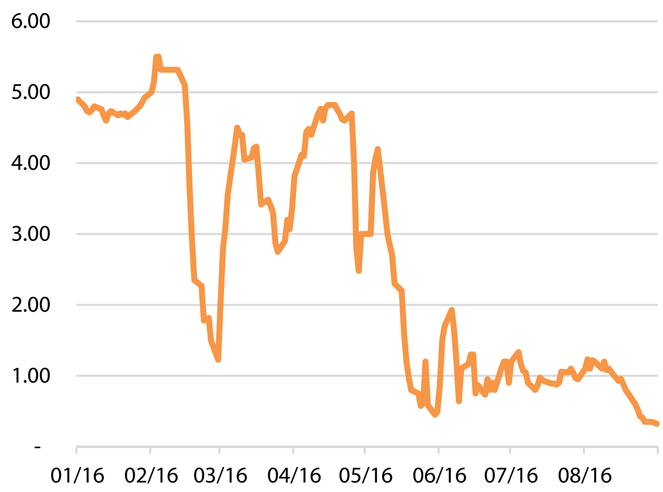
In September Strategy Report, RongViet Research mentions some policy implications for interest rate and exchange rate based on recent macroeconomic developments as well as gives some comments on the process of SOE reform. The third quarter economic growth will be announced at the end of this month with our projection at 5.6-5.8%. This growth rate could disappoint investors, along with the external uncertainties such as (1) the Fed rate hike, (2) the yuan depreciation, (3) there is only slim chance TPP will be ratified this year and US election could make investors less optimistic during the rest of 2016.

Favorable condition for lending rate to decline

Monetary market last month experienced a rare phenomenon, interbank rate dropped to the record low level. Specifically, overnight rate in August averaged 0.83%/year, 17 basis points lower than last month. Remarkably, interest rate has been in the downtrend and at the end of August, overnight rate dropped to only 0.32%/year, lowest figure over the last few years. Not only overnight rate but also other common terms in interbank market also experienced the similar issue. Therefore, we could infer that loan demand in the system is relatively low. As mention in August Strategy report, the State Bank proactively utilized treasury bills to neutralize the residual amount in the system. Total issued treasury bills reached VND 70,000 billion at the end of August. Furthermore, treasury bill rate also decreased to 0.59%/year, lowest in history. In fact, treasury tool only has the neutralizing effect in short-term. Liquidity surplus situation over the last few months pointed out that the issue came from commercial banks.

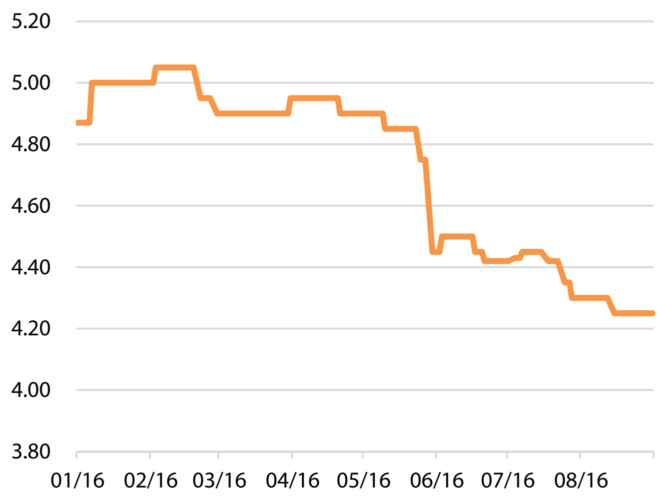
According to statistics from Vietnam Bond Market Association, the winning rate for government bonds rose to monthly-high after winning rate fell in most maturities (except 2-year term). At the end of 8/2016, the State Treasury successfully mobilized VND 239,284 billion, achieved 96% of adjusted plan for this year (VND 250,000 billion). Capital demand for the economy is no longer undercut by public sector, however, credit growth is still slower than mobilization rate, leading to the difficulties in regulating demand-supply of the Central Bank. For the developing economy as Vietnam, capital demand for production and businesses is still at high level. However, business screening over the last years, partially processing bad-debts and requirements for safety made banks to be more cautious. Despite of favorable liquidity, we have not recognized the aggressiveness of the State Bank in term of downward adjusting operating rate. Instead, we believe that the lending rate will depend on the ability to balance capital of commercial banks. At this moment, being less cautious to increase credit market share will be more suitable for healthy banks which went through the restructuring period. This trend is happening in several group of commercial banks to enhance credit growth and support economic growth in 2H2016.

Figure 8: Interbank rate (%)



Sources: SBV

Figure 9: 1Y G-bond interest rate (%)

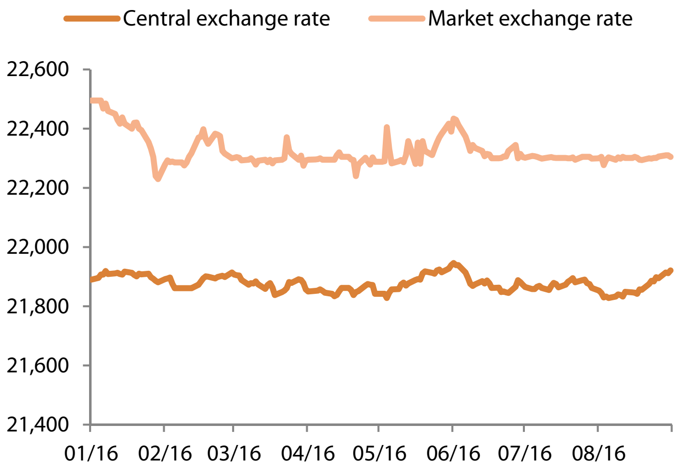


Source: Bloomberg

The necessary to devaluate local currency from trade balance

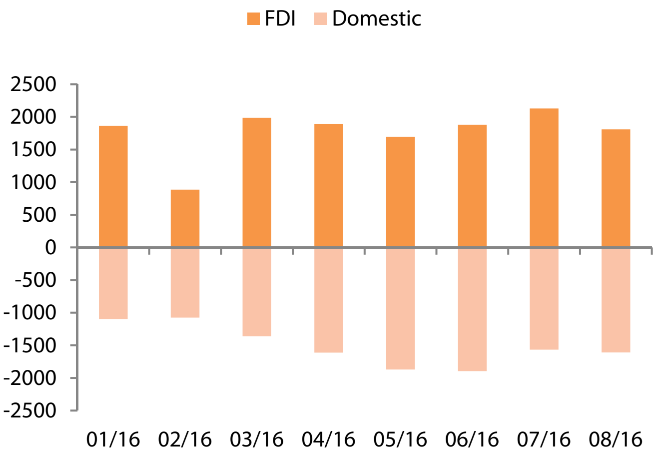
Not as noisy as liquidity story, central rate slightly adjusts over the last days. Compared with the downward decline from the last 2 months, central rate remains stable. However, we believe that it is the time for the Central Bank to devaluate VND. Perhaps, we should start with the story of trade balance this year. Overall, Vietnam net exported over USD 2 billion in 8 months. This figure relatively equivalent to the trade surplus of USD 2.8 billion over the same period of the last 2 years. However, on the inside, it is the complete different story. The difference comes from the trade balance between domestic and foreign investors. 8M2014, FDI sector had the trade surplus of USD 6.7 billion, domestic sector had the trade deficit of USD 3.9 billion. Those figures after 2 years were USD 14.1 billion and USD 12.1 billion respectively. This fact was resulted from the decline in prices, leading to the significant drop in exporting value of several goods. It also delves into deteriorating competitiveness of domestic sector over a short period of time.

Figure 10: Exchange rate movement



Source: SBV

Figure 11: FDI and domestic trade balance



Source: Customs

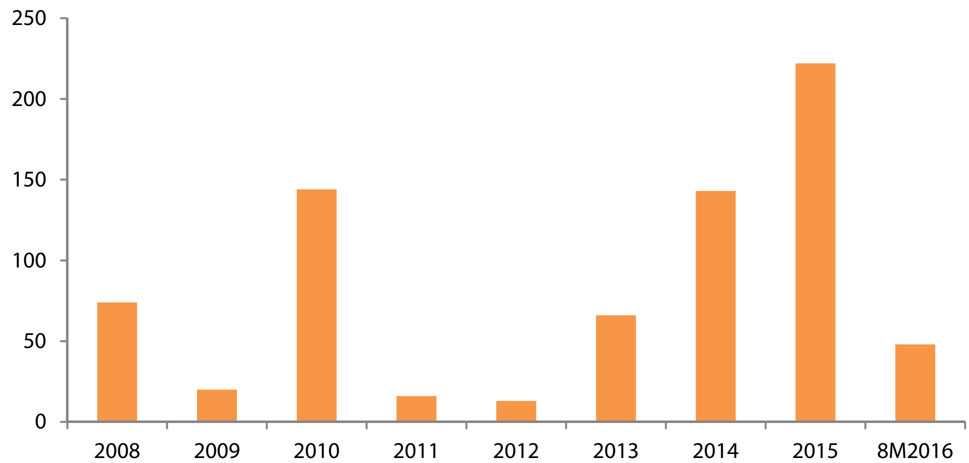
SOEs privatization and divestment: the latest efforts

The equitization of state-owned enterprises (SOEs) in 2016 is not as hasty as in 2015. As of 20/08/2016, 48 SOEs went through equitization, this figure is equivalent to only 21.6% of actual result in 2015. However, the process of privatization is considered to be suitable with the goal of period 2016-2020 (250-280 companies which are forced to be equitized, half of 2011-2015 period). IPOs remained stable with higher success rate (increased from 45% to 75%). Thus, investors' interest is improving, especially the IPOs of big corporations (Vinapharm, VEAM, Viglacera, Vietnam Livestock Corp…). Total bought value grew by 60% compared to 2015's result thanks to these companies.

Under above developments, investors' expectation on SOEs reform has not been fulfilled. The drawbacks include (1) big-ticket "equitization" sales have been delayed years by years; (2) the lack of SOEs' transparency after IPOs; (3) the State retains majority ownership after IPOs. By this time, one of big name is Mobiphone, however, the risk of revaluation could delay its IPO. The lack of transparency and majority ownership by the State after IPOs should be a big disappointment of the SOEs reform. The most prominent event happened is the removal of Vinamilk foreign ownership cap, it is the first step for SCIC to divest from the best companies on Vietnam stock exchange. However, at current pace, we believe that the divestment of SCIC could be delayed so far. Recently, the Prime Minister has stressed the sales of State stakes in beer giants Sabeco and Habeco. The listings of these two companies must be done prior to their State stake sales, this latest information could be an attractive story for investors, as well as the newest effort of new Government to push the SOEs reform.

The Government may fully divest Habeco in 2016 (~VND 9,000 bn, equivalent to 81.79% stake). Meanwhile, the sale of the state's stake in Sabeco has two phases: (1) reduce the state ownership from 89.59% to 36% once through public auction (~VND24,500 bn in 2016), (2) sell the remaining state's stake in 2017 (~VND16,000 bn), after being listed. Thus, it is unnecessary to sell stake in Vinamilk, the Government could receive at least VND25,000 bn this year, a significant contribution to the budget could reduce fiscal pressure. However, it is still an open question to make it happen.

Figure 12: Number of IPOs (2008-8M2016)

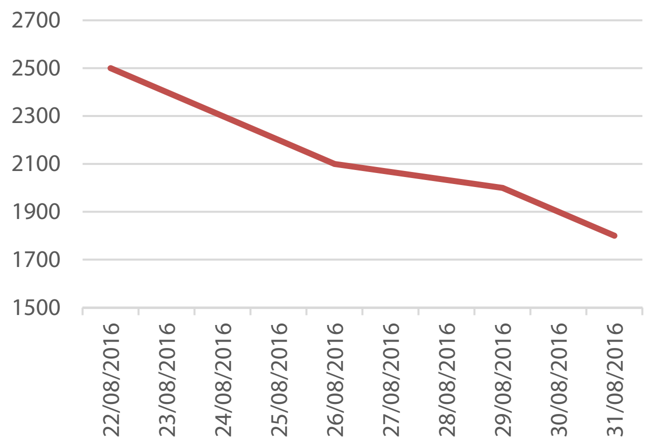


Sources: chinhphu.vn, RongViet Research

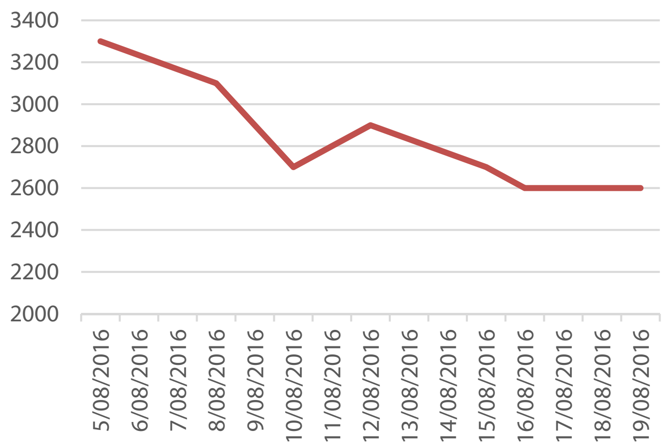
AUGUST STOCK MARKET: Investing in bad-luck month

Similar to US market where September is considered to be the worst month to invest, Vietnam market also has its own bad-luck month. That is July in the lunar calendar, which is this August 2016, when Vietnamese believe most of their serious work will end up not good. **And whether it is coincidence or not, a lot of market shocks indeed happened in this month, causing significant losses for many people.** First, it was TTF who announced Q2 loss of VND 1,128 billion due to nearly VND 1,000 billion shortage of inventory. Similarly, the 2015 financial statement of ATA showed 365 billion value of inventory evaporated, and received Disclaimer of Opinion from auditor. Also not to mention large loss of JVC, HAG and HNG in the first half of 2016. The price of these stocks, after the bad news was released, all went down significantly. These shocks also raised concerns about the transparency of listed companies as well as the ability to protect investors of the competent institutions and the current regulations.

Figure 13: Price movement of ATA (left) and JVC (right) after the release of bad news



Source: Rongviet Research



Source: Rongviet Research

On the other hand, there are still some sectors outperformed the market such as Food & Beverage, Basic Resources or Health Care. There are different explanations for the outperformance of these sectors. For steel stocks (which belong to Basic Resources sector), they are benefiting from the preliminary AD duty on imported coated steel (non-alloyed flat steel, galvanized, galvalumed, hot-dipped) from China (including Hong Kong) and Korea. The appreciation may also be either a market reflection for the possibility of lifting FOL (DMC), share repurchase program (MSN) or simply the changing view for the company outlook (KDC, FPT). **Overall, each stock that outperformed the market has its own story, yet these stories are not easy to be discovered by everyone.**

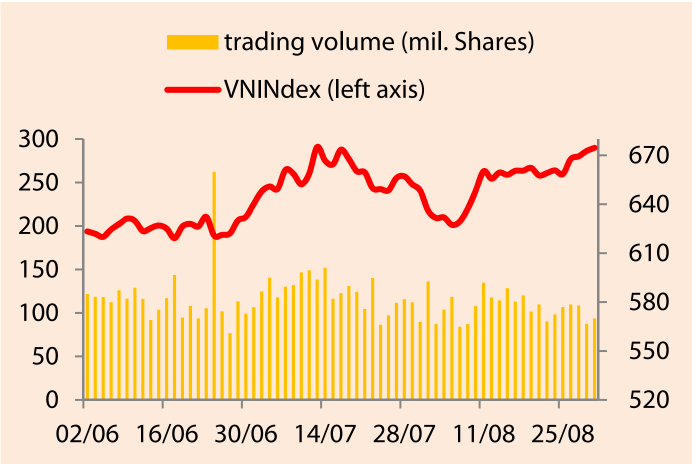
Table 1: Outperform sectors in August

Sector	Change in August	Notable stocks
Food & Beverage	17.5%	KDC (+33%) VNM (+21%) MSN (+8%)
Technology	8.0%	FPT (+10%)
Health Care	7.9%	DMC (+32%) IMP (+24%)
Basic Resources	6.8%	NKG (+56%) VIS (+22%) HPG (+14%) HSG (+10%)

Source: RongViet Research

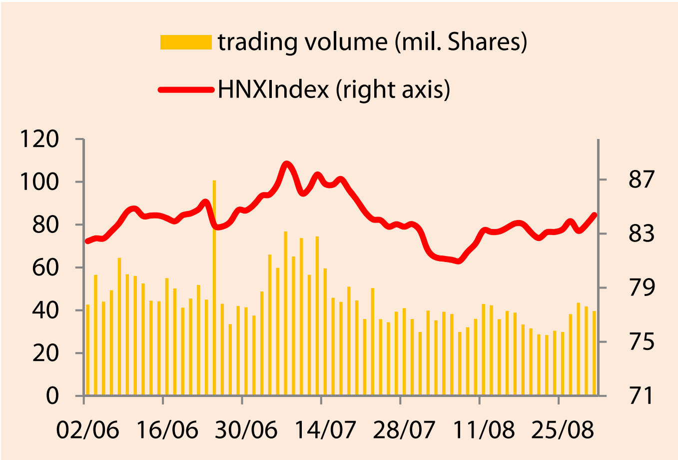
As the month has already past, it is easy to look back to see which stocks have gained and which opportunities have been missed. In fact, the market movement in August, especially when VN-Index went sideways for 10 consecutive sessions (from August 12 to August 25), proved that making money in this month was not easy. A majority of stocks could not breakout in the context of highly concentrated capital and foreign investors being net sellers for the whole month. At the end of the month, VN-Index gained 3.4%, but only VN30 rose 4.1%, while VNMID down by 0.3%, and VNSML fell significantly by 4%. **These movements implied that the increase of VN-Index was mostly thanks to some large caps stocks, which meant most investors, who do not own these large caps, may not benefit from such increase.**

Figure 14: VNIndex movement in August



Nguồn: Rongviet Research

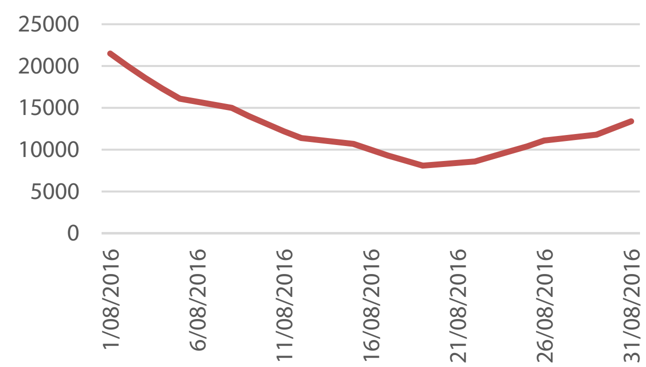
Figure 15: HNX-Index movement in August



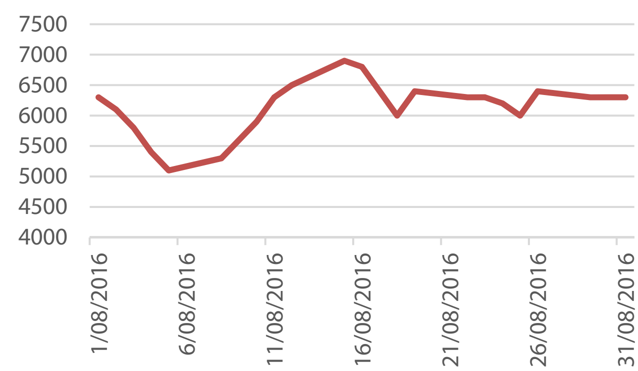
Nguồn: Rongviet Research

Losing patience in this sideways market, a significant part of the cash flow had turned to speculative stocks, especially TTF, DRH, HAG, and HNG, for promising quick profits. Some did succeed in bottom fishing; for example, TTF surged from 8,100 to 13,400 (+65%). Still, anyone who bought these stocks just a bit too soon or too late, their lost was inevitable. All in all, return from "catching a falling knife" can be very high, yet the players also bear enormous risks.

Figure 16: Price of TTF (left) and HAG (right) surged thanks to speculative money



Source: Rongviet Research



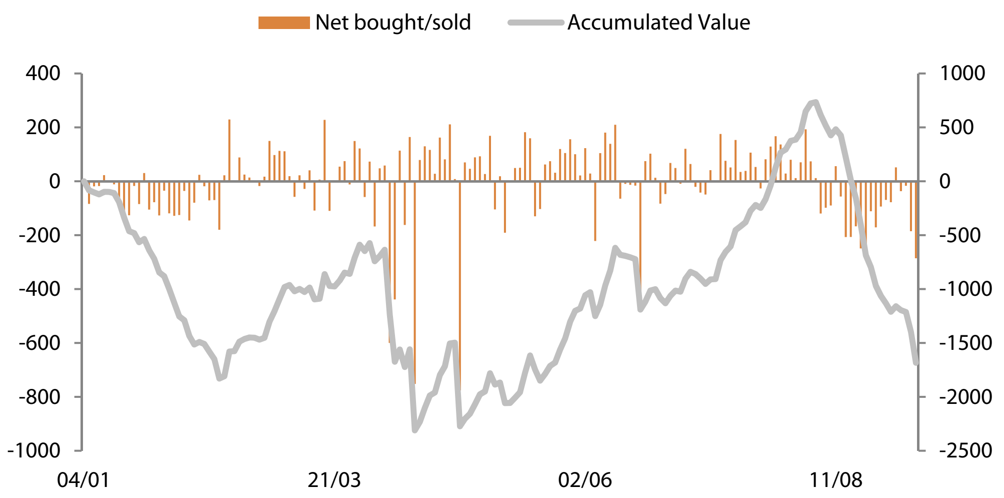
Source: Rongviet Research

Looking back a series of events in last month, it is true that investment opportunities still available, but the fact that market only moved in a narrow channel for quite a

long time has caused many difficulties for investors. But eventually, at the end of the month, VN-Index did gradually rise and approached the year high. This movement somewhat reminded of Niu Lang and Zhi Nu tale, the story behind this bad-luck month, in which the two lovebirds waited for a whole year to meet each other. Yet, the fun was short as they are allowed to meet only once a year. Contrary to that folk tale, the participants in the market always want the fun to last long and a forever bull market. After all, an optimist would say that compared to the beginning of the month when the VN-Index approaching 620, the 674.6 point VN-Index achieved at the end of the month should be seen as a good sign. But taking a closer look, we can see that many market leaders seem not to have the catalyst to increase further. VNM was merely considered as indexing tool, VIC being affected by TTF, and each banking stock have its own problem. If foreign investors continue to net sell in next months, the possibility that the market decline is probably greater.

Foreign trading activities: Foreigners turned into profit takers at bluechips

Figure 17: Foreign investors trading



Source: RongViet Research

In HSX, foreign investors' net sold VND1,837 billion while net bought in HNX VND249.56 billion worth of shares. Real estate sector and food & beverage sector were strongly sold, VND705 billion and VND 672 billion respectively. These 2 industries' net sold data were partial by VIC (-VND569 billion) and VNM (-VND321 billion).

In case of VIC, we believe this move was different from foreigners' net sold in first 4 months of the year with reasons of taking profit on convertible bonds. With information related to TTF, foreigners may concern in fundamentals which directly related to the business activities of the Group.

In case of VNM, net sold probably came from the step of taking profit as (1) stocks' valuation is no longer attractive, and (2) forecast information that VNM will be added into catalogue of Db x-trackers FTSE Vietnam ETF fund (according to RongViet Research's statistics conducted in October 2015, tickets which were added to the ETFs' basket tend to discount later).

In addition, rating both 2 stock exchanges, the majority of stocks which were strongly sold were blue chips - which have grown much recently, encouraged VNIndex rise by 3.4% in August, while in the opposite direction, the stocks were strongly bought mainly from small and medium cap. Along with the move of the market in August with multiple "bluechip-biased" sessions, temporarily conclusion is that not only internal capital flow but also external' s one tend to shift to stocks which have not increased much and neutral to the market volatility as stocks of small and medium cap.

September will be watched closely as there are lots of important events that will directly impact global financial markets. First of all, it is the ECB's meeting on economic stimulus solutions on Sept 08th. Next, two weeks later, investors are following 2-day FOMC's meeting on Sept 21st – 22nd for possibility of rate hiking. Thirdly, OPEC members will gather in Algeria on Sept 26th – 28th to discuss on product output freezing plan. Last but not least, on Sept 16th, the two largest ETFs in Vietnam will complete their trades before new stock baskets come into force. Most of these events occur in mid-September. Hence, foreign capital possibly won't see much change until those days.

Top 10 net buying stocks in HSX		Top 10 net selling stocks in HSX	
Tickers	**Values**	**Tickers**	**Values**
PVT	108	**VIC**	-569
KBC	48	**HBC**	-338
DRC	42	**VNM**	-321
BVH	38	**MSN**	-277
VFG	37	**VCB**	-241
EVE	37	**PVD**	-225
NKG	36	**KDH**	-120
CTD	36	**BID**	-96
NT2	30	**SBT**	-64
PAC	28	**PDR**	-64

Source: RongViet Research

Top 10 net buying stocks in HSX		Top 10 net selling stocks in HSX	
Tickers	**Values**	**Tickers**	**Values**
PVS	112	**AAA**	-36
BVS	38	**VNR**	-25
VND	28	**SCR**	-22
PTI	19	**BCC**	-5
NET	16	**PVC**	-5
VIX	13	**DXP**	-3
VIT	9	**NTP**	-2
CHP	9	**DGC**	-2
VCS	8	**HKB**	-2
PMC	8	**IVS**	-1

Source: RongViet Research

VNIndex ended the month of August with an optimistic gain of 3.2% m-o-m and HNIndex 1.0% m-o-m. That, however, did not reflect the gains of the market majority as larger tickers the like of VNM and VCB took turn to support the market index. Enthusiasm ran low among local investors while foreigners sold a net VND1,587bn in both exchanges; liquidity faltered as volume dropped 19% m-o-m and trading value 14% m-o-m. As investors cranked down trading and looked at each other for hints of a rally starting, VNIndex marched lifelessly towards 680.

Overall, the market has been receiving more adverse than supporting news. According to the State Bank, bad debts accounted for 2.58% of commercial banks' total outstanding loans at the end of June, up from 2.55% from the beginning of the year. In absolute number, bad debts have expanded VND11,254bn or 9.5% since the end of 2015. Concerns over increasing NPLs sank VCB, CTG and BID just before the month of September started. Being one with the strongest asset quality among listed banks, VCB is already trading at a higher P/B multiple than its local and regional peers; the stock does not have room for foreign investors. Until NPL fears are completely priced in, we expect bank stocks to continue going sideways and thus have no impact on the overall index.

On the other hand, one of the two biggest ETFs investing in Vietnamese stocks, i.e FTSE ETF just announced it would sell a number of blue-chips, e.g. HPG, KBC, HAG, etc. while increasing its holdings of only VNM and HSG in its third-quarter review. Since VNM announced it would lift the FOL to 100%, the company's share prices have gained substantially and are currently at their all-time high. VNM's being included in the ETF's buy list was therefore not much of a surprise and should not have a huge impact on the market overall directions. Not only VNM and VCB but other large-caps such as VIC and MSN would also have little power to sway the index. The disappointment over Q2 earnings before extraordinary items along with the concerns of potential financial loss in Q3 due to the acquisition of TTF would remain a constraint to VIC.

While there are pressures to find the destinations for cheap funds, concerns are growing as stocks are trading at their historically high. A breakout in terms of market sentiment is therefore unlikely. VNIndex is trading at 16 times its trailing P/E, the highest in the past 5 years and it is increasingly difficult to find stocks with cheap valuation these days. Even so, we see no likely catalysts for a big washout. Instead, the market may continue to trade slowly as in the first half of September. ETF's finishing their trading could help raise the spirit in the last two weeks of the month. Overall, it is unlikely the market will find a new trend soon and contracting liquidity means investors would be better off with stock picking rather than chasing funds flows.

VNIndex is expected to move between 650 and 678 and HNIndex between 82 and 84 in September.

At the moment, we recommend that investors focus on stocks with (1) positive industry outlook, (2) P/E and P/B lower than its peers and (3) positive growth of core earnings in 1H2016. Also, falling interest rates would justify higher valuations for companies with a strong history of cash dividend payments and/or high dividend yield (over 6%). We maintain a positive outlook for stocks in Construction & Building materials (steel, cement, plastic..), Retailing, Rubber tires, Industrial real estate. Besides, updates on SCIC's sale of stakes in FPT, NTP, BMP, BMI among others could support the prices of these stocks over a short period.

Biased by large stocks, VNIndex and HNIndex have become less representative of the prevailing sentiment in the market. VNIndex being at its five-year high on top of the faltering liquidity should put a great many stocks at a disadvantage. As the likelihood of a correction runs higher, investors should consider realizing profits in those stocks that have gained substantially. Though the view of September's stock market is not very positive, we believe there are still opportunities.

In the near term, investors can take a look at tickers in SCIC's divestment list or those will be sold by ETFs this month. While FPT, being at a low valuation, is supported by strong projected earnings and updates in SCIC's withdrawal HPG could be brought to attractive prices during ETF's review. For long-term investors, we continue to recommend stocks in industries with strong growth prospect. Also, since interest rates are falling, dividend-paying stocks are also worth noticing.

HSG and NKG make the second best choices after HPG in the industrial metal sector. In late August, the Ministry of Finance announced it would impose an anti-dumping tax on galvanized steel imported from Korea and China. Less competition with cheap import steel could help improve selling prices and gross margins of HSG and NKG while supporting their sales volume in the upcoming months. Recently, NKG has invested strongly to better position itself in the value chain. The firm will start the second phase of its new cold-rolling line (400,000 tons/year) in December and another expansion phase (200,000 tons/year) in mid-2017.

With a constantly-expanding backlog, HBC has surpassed CTD in term of stock price performance since early-2016. In 1H2016, HBC recorded 74% and 213% year-over-year growth rates in revenue and NPAT respectively and was able to maintain a remarkable gross margin of 9.8%. A private share placement to foreign investors in late 2016 may enable HBC to reduce its dependence on borrowings and cut back on interest expense, thereby improving its operating efficiency. HBC's backlog at the end of 2Q2016 was around VND19,000bn, a not too far from that of CTD (VND 22,000bn).

Recent developments in the bankruptcy case of a Korean shipper called Hanjin have got certain impacts on seaport stocks, especially VSC. We estimate VSC makes from VND3.5 to VND4.2bn of revenue from servicing Hanjin goods to each month. Even in the worst case scenario, the amount of provision made related to Hanjin's receivables, which are settled monthly) should have a negligible impact on the VSC's bottom line. On the other hand, VSC just put to Phase 2 of Vip-Greenport, its second port in Hai Phong, into operation in early September for an incremental capacity of 250,000TEUS/year. This should bring significant improvements to VSC's Q3 and Q4 business performance. Despite its restricted port capacity, HAH has been quite active in expanding its container vessel fleet in a long-term plan to upgrade its position in the logistics value chain. Fueled by strong FDI flows, Vietnam seaport operators still have plenty of room to grow over the upcoming years. Considering their outstanding profitability (i.e. high ROE and ROA) and strong cash dividends, fluctuations in the share prices of VSC and HAH could present a buy opportunity to long-term investors.

Q3 is the peak season for tourism companies. With the dominant market share of transportation in the Phu Quoc - Kien Giang area, SKG is considered a good candidate in this sector. SKG's speed boat fleet is running at is ~80% on their current routes. However, growth potential for SKG is still substantial and could be realized as the company (1) increases investment in new boats on existing routes, (2) opens new ferry routes for Ha Tien – Phu Quoc and (3) opens new route from Soc Trang to Con Dao.

Our selection in each sector are:

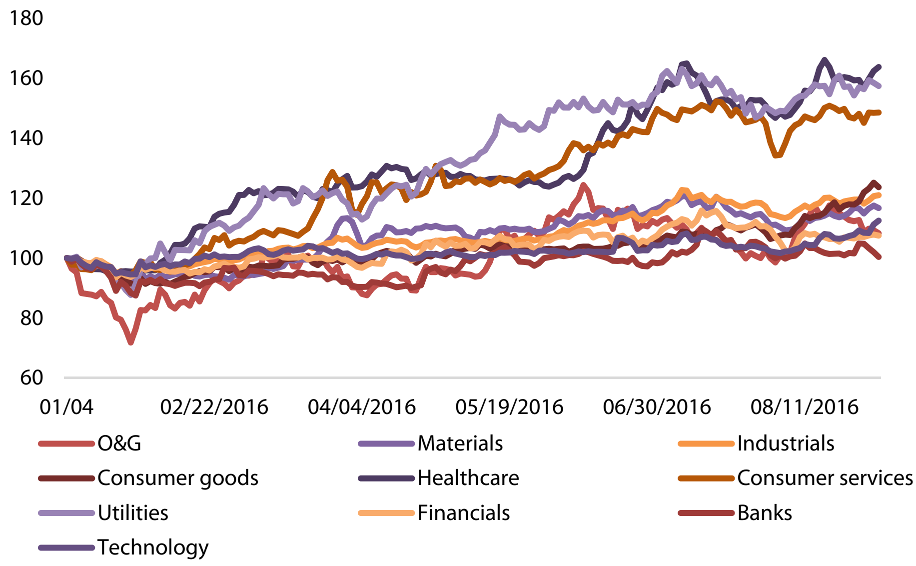
- Transportation: PVT, VTO, TCL, NCT
- Seaports: HAH, VSC
- Construction: CTD, FCN, SRF, HUT, HBC
- Electricity: NT2, PPC, REE
- Real estate: BCI, KDH, LHG, TDH
- Retailers: SVC, PTB, MWG, PNJ
- Building materials: BMP, HPG, HSG, NKG
- O&G: PGS, PVS, PLC
- Banks: CTG, ACB
- Others: VNM, FPT, SKG, DRC, DPM, IMP, VFG, NCS, VNM

Table 2: Sector performance and valuation

No.	Sector	Mar. cap (VND bn)	+/- Price 1M (%)	+/- Price 3M (%)	+/- Price 1Y (%)	+/- Price YTD (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
1	Automobiles & Parts	12,806	0.66	-5.44	-5.57	-1.82	9.43	1.83	6.31
2	Banks	338,938	-3.07	-0.18	0.38	-3.64	14.51	1.83	0.00
3	Basic Resources	94,777	4.52	6.92	24.22	21.03	13.12	2.32	-5.35
4	Chemicals	45,294	0.60	3.17	3.68	8.81	8.91	1.40	7.40
5	Construction & Materials	115,063	5.09	16.76	32.78	51.57	12.99	2.30	16.48
6	Financial Services	26,575	-5.08	-2.99	-6.12	-16.31	10.59	1.16	6.84
7	Food & Beverages	336,55	15.56	22.64	23.78	41.36	22.47	7.24	16.17
8	Healthcare	23,901	8.48	31.52	63.78	64.23	81.85	3.10	10.46
9	Industrial Goods & Services	86,168	0.98	8.10	8.51	24.93	13.82	1.92	0.03
10	Insurance	61,957	4.85	9.80	19.46	37.31	23.09	2.63	19.41
11	Oil & Gas	19,165	5.52	-4.01	8.26	-17.09	9.31	0.79	3.75
12	Personal & Household Goods	31,586	2.97	8.71	41.12	63.05	11.86	3.09	11.48
13	Real Estate	183,17	-4.87	-1.44	6.22	11.80	24.19	2.67	14.57
14	Retails	25,242	8.37	49.02	55.71	79.93	14.24	5.82	9.87
15	Technology	26,695	8.99	9.81	12.48	22.30	10.76	1.98	6.70
16	Travel & Leisure	12,463	-1.80	-1.12	-7.73	13.35	29.31	3.03	17.20
17	Utilities	166,49	4.60	5.53	57.40	36.87	16.75	2.69	15.41

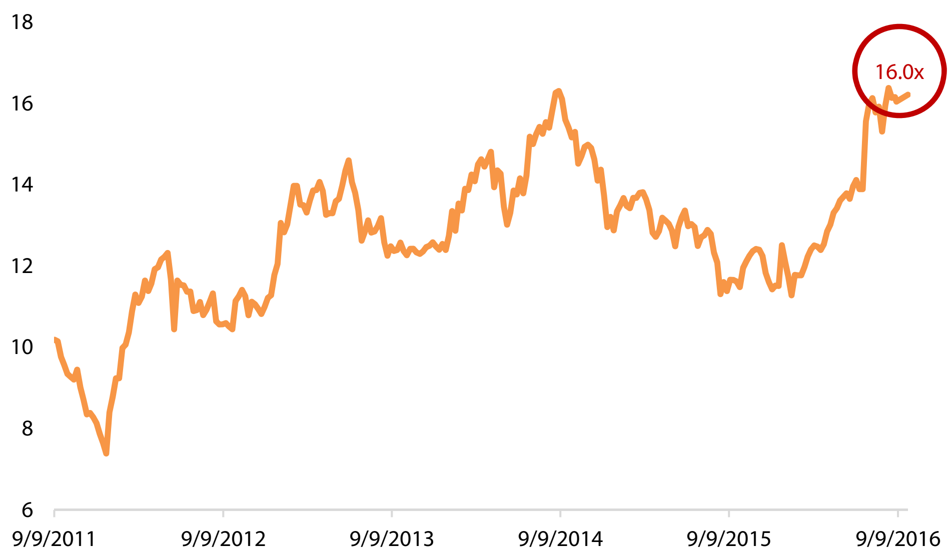
Source: Fiinpro, RongViet Research

Figure 18: Sector performance YTD



Source: Fiinpro, RongViet Research

Figure 19: Weekly PE of VNIndex, 2012-2016



Source: Fiinpro, RongViet Research

HIGHLIGHT STOCKS

No.	Ticker	Subsector	Target price (VND)	Current price (VND)	Rating	Time horizon	Financial 2017F +/- Rev. (%)	Financial 2017F +/- NPAT (%)	Financial 2016F +/- Rev. (%)	Financial 2016F +/- NPAT (%)	Valuation P/E (x)	Valuation P/B (x)	Valuation Div. Yield (%)	Valuation +/- Price 1y (%)	Trading 3-month avg. daily vol. (shares)	Trading Market cap (USD Mn)	Trading Foreign room (%)
1	ACB	Banks	22,500	17,900	Accumulate	Long-term	21.8*	48.1	8.2*	29.4	14.3	1.2	-	(1.6)	143,551	16,043,302	19.0
2	BCI	Real estate	28,400	22,400	Accumulate	Long-term	168.0	68.9	(2.5)	(20.2)	6.7	1.0	4.5	18.0	189,234	1,942,531	40.4
3	BMP	Construction & Materials	179,000	164,000	Neutral	Long-term	12.8	9.2	25.8	27.2	13.1	3.5	1.2	75.6	99,003	7,458,470	-
4	CTD	Construction & Materials	N/A	248,000	N/A	Long-term	14.7	22.4	19.8	17.8	10.7	3.3	1.2	164.0	105,457	12,184,342	7.2
5	DPM	Chemicals	31,500	29,000	Neutral	Intermediate-term	1.0	(10.0)	(8.9)	11.8	7.4	1.3	10.3	7.9	450,995	11,348,693	25.1
6	DRC	Automobile & parts	48,500	39,300	Accumulate	Long-term	7.0	12.1	10.7	(17.1)	11.4	2.3	-	13.4	282,403	4,668,549	17.0
7	FPT	IT	58,000	44,500	Buy	Intermediate-term	9.6	16.1	10.0	11.6	10.7	2.3	4.5	21.4	844,398	20,440,821	-
8	HAH	Transport	48,000	38,200	Accumulate	Long-term	6.5	2.0	(3.0)	(17.0)	6.1	1.6	7.9	(12.8)	77,427	876,274	30.8
9	HPG	Industrials	57,600	42,400	Buy	Long-term	12.5	19.7	23.6	68.0	7.7	1.8	4.7	61.7	4,473,387	35,734,076	11.8
10	HSG**	Industrials	N/A	44,000	N/A	Intermediate-term	27.5	37.1	4.1	30.6	7.0	2.3	-	113.1	2,463,609	8,647,752	21.7
11	LHG	Real estate	22,000	23,700	Neutral	Long-term	4.5	4.3	7.8	0.4	7.5	0.9	-	111.6	185,492	616,447	43.8
12	MWG	Retailing	N/A	143,000	N/A	Intermediate-term	29.2	15.4	50.8	31.6	14.1	6.8	-	126.0	354,752	20,963,493	-
13	NCS	Food & beverages	114,000	91,000	Accumulate	Long-term	10.0	13.0	10.0	12.0	12.1	5.8	5.3	#DIV/0!	6,204	736,979	47.3
14	NCT	Transport	140,000	101,000	Buy	Long-term	15.9	14.2	(9.2)	(14.1)	9.7	6.4	10.5	(5.2)	22,603	2,642,738	35.3
15	NKG	Construction & Materials	46,800	41,500	Accumulate	Intermediate-term	35.7	26.0	29.9	316.0	5.6	2.2	-	294.2	588,173	2,076,426	44.5
16	NNC	Construction & Materials	104,000	88,500	Buy	Intermediate-term	19.8	15.9	22.6	37.3	9.0	3.9	3.4	125.3	62,203	1,454,957	28.5
17	NT2	Electricity	36,400	34,900	Neutral	Intermediate-term	(6.7)	(3.0)	(9.9)	8.0	8.2	1.9	5.7	70.2	672,383	9,942,173	27.9

18	PAC	Automobile & parts	33,200	31,500	Neutral	Intermediate-term	20.1	29.1	10.0	9.5	15.6	2.7	3.8	101.8	330,154	1,463,858	26.3
19	PGI	Nonlife insurance	21,000	19,700	Neutral	Long-term	9.9	13.4	6.9	15.1	13.3	1.6	5.1	43.9	128,953	1,398,192	47.4
20	PGS	Utilities	20,600	16,000	Accumulate	Intermediate-term	10.6	(66.3)	16.0	204.0	3.1	0.8	10.0	(1.9)	315,190	799,980	28.4
21	PLC	Construction & Materials	32,300	28,800	Accumulate	Intermediate-term	9.4	14.1	(10.6)	(17.7)	9.3	1.9	6.9	(2.4)	44,124	2,326,969	41.6
22	PNJ	Personal goods	101,000	69,500	Buy	Long-term	16.5	44.0	9.3	239.0	18.2	4.6	2.2	123.2	217,056	6,830,033	-
23	PPC	Utilities	21,100	14,800	Accumulate	Long-term	9.9	99.9***	(12.5)	-41.9***	(19.0)	1.0	11.5	(5.3)	281,247	4,708,688	34.4
24	PTB	Household goods	150,000	130,000	Accumulate	Long-term	12.7	19.5	23.8	37.3	9.7	3.9	-	207.8	66,056	2,340,080	38.4
25	PVS	O&G	18,000	20,300	Reduce	Intermediate-term	9.6	16.4	(15.7)	(25.6)	7.0	0.9	4.9	3.4	1,805,725	9,068,018	18.9
26	PVT	Transport	15,300	14,600	Neutral	Long-term	1.2	1.0	5.1	13	10.1	1.1	-	56.4	1,030,715	4,109,072	23.0
27	REE	Industrials	26,800	20,100	Buy	Long-term	3.8	21.2	3.1	(5.9)	8.7	1.0	5.0	(5.7)	354,500	6,232,023	-
28	SKG	Travel & leisure	103,000	92,500	Accumulate	Intermediate-term	9.4	(8.0)	30.5	34.9	13.6	5.2	1.1	121.2	81,285	3,170,089	1.8
29	SRF	Construction & Materials	32,100	29,800	Neutral	Long-term	12.0	11.9	44.0	29.4	9.6	1.8	5.0	110.9	38,292	725,983	22.0
30	SVC	Retailing	N/A	43,000	N/A	Intermediate-term	2.5	3.7	5.1	16.0	10.8	1.3	2.8	131.0	120,570	1,073,946	10.6
31	TCL	Transport	34,000	29,900	Neutral	Long-term	6.0	5.0	8.0	3.0	6.9	1.2	5.0	22.1	20,724	626,222	35.0
32	TDH	Real estate	15,800	12,100	Buy	Long-term	38.4	(19.2)	(30.3)	107.9	6.2	0.5	8.3	5.8	431,853	858,959	4.6
33	VCB	Banks	52,000	52,500	Neutral	Long-term	8.4**	19.6	10.3**	24.5	22.3	2.9	1.9	23.5	771,253	139,913,567	27.8
34	VFG	Chemicals	110,000	91,000	Accumulate	Long-term	7.0	1.1	10.0	18.4	8.4	2.3	2.2	135.6	49,542	1,663,792	29.0
35	VNM	Food & beverages	146,000	154,000	Neutral	Long-term	15.4	10.0	17.0	26.0	24.7	9.7	3.2	92.8	1,410,915	223,523,828	51.3
36	VSC	Transport	81,500	73,500	Neutral	Long-term	20.7	22.0	26.1	1.0	12.6	2.6	2.7	58.0	202,897	3,348,449	-

Source: RongViet Research

** Total operating income growth*

*** Fiscal year ends in September*

**** Core business results*

APPENDIX 1: List of top IPOs in 2015 & 2016

No	Company	Auction date	Bid volume (shares)	Begin price	Highest bid price	Lowest bid price	Average bid price	Buy volume (shares)	Buy value (bn VND)	Corporate investor	Individual investor
					2016						
1	VEAM Corp.	29/08/2016	167,074,900	14,290	16,520	14,290	14,291	149,493,500	2,136	15	225
2	Vinamotor Corp.	11/01/2016	85,581,223	14,612	14,612	14,612	14,612	85,581,223	1,251	1	-
3	Vissan Ltd.	07/03/2016	11,328,002	17,000	102,000	67,000	80,053	11,328,002	907	1	5
4	Housing development & Trading JSC.	28/01/2016	78,230,500	10,000	15,000	10,000	10,000	78,230,500	782	1	26
5	Vinapharm Corp.	22/06/2016	42,557,000	10,000	16,500	10,000	10,433	42,557,000	444	5	170
6	Viglacera Corp.	28/07/2016	30,000,000	11,700	14,300	13,400	13,923	30,000,000	418	4	1
7	Vietnam LiveStock Corp.	28/04/2016	23,719,600	14,200	20,000	14,200	16,636	23,719,600	395	11	107
8	Tico Corp.	17/06/2016	5,350,884	34,300	66,000	60,200	63,802	5,350,884	341	-	10
9	Proconco JSC.	18/01/2016	10,458,588	27,000	35,400	27,200	27,212	10,458,588	285	1	4
10	Building Materials Corp. No 1	19/08/2016	25,006,300	10,500	16,800	10,500	10,502	25,006,300	263	-	45
					2015						
1	Airports Corporation of Vietnam	10/12/2015	77,804,122	11,800	38,300	13,100	14,344	77,804,122	1,116	19	133
2	Saigon Port Ltd.	30/06/2015	35,706,628	11,500	22,500	11,500	11,514	35,706,628	441	3	36
3	Thang Long GTC Ltd.	13/08/2015	33,882,300	10,600	31,000	10,700	10,724	33,882,300	363	0	16
4	Vietnam Tourism-Hanoi Ltd.	31/03/2015	20,679,800	10,000	21,500	13,200	16,100	20,671,800	299	0	9
5	Vietnam National Vegetable, Fruit & Agricultural Products Corp.	04/09/2015	27,669,800	10,051	12,001	10,051	10,052	27,669,800	278	0	6
6	National Oil Services JSC	26/11/2015	25,807,600	10,500	12,000	10,500	10,507	25,807,600	271	0	66
7	Trang Thi Trading Services Ltd.	22/06/2015	3,111,400	10,000	82,000	82,000	82,000	3,111,400	255	0	2
8	Thong Nhat Power Ltd.	17/03/2015	5,751,200	10,200	45,200	41,000	43,350	5,751,200	244	1	3
9	Licogi Corp.	13/04/2015	21,269,000	10,000	11,000	10,000	10,006	21,269,000	213	0	106
10	Transportation & Public Works Ltd.	14/08/2015	19,611,150	10,000	15,000	10,000	10,000	19,611,150	196	2	16

Sources: Finnpro, Rong Viet Research

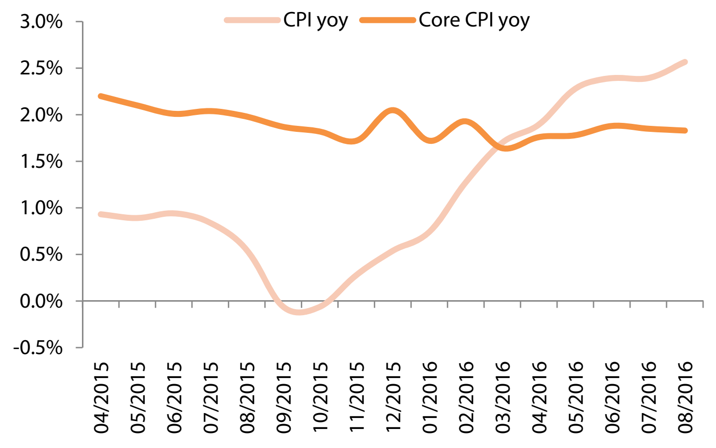
APPENDIX 2: List of companies that will be divested by State

No	Company	State ownership	MC (bn VND)
1	Bao Minh Insurance	50.7%	2,467
2	FPT Telecom	50.2%	na
3	Vietnam infrastructure investment & development	47.6%	na
4	Ha Giang Mineral & Mechanics	46.7%	477
5	Vinamilk	45.1%	217,718
6	Vietnam National Reinsurance	40.4%	2,805
7	Tien Phong Plastic	37.1%	5,808
8	Binh Minh Plastic	38.4%	7,731
9	Sa Giang Import Export Corp.	49.9%	329
10	FPT Group	6.0%	20,303
11	Sabeco	89.6%	na
12	Habeco	81.8%	na

Source: RongViet Research, Market cap @ 06/09/2016

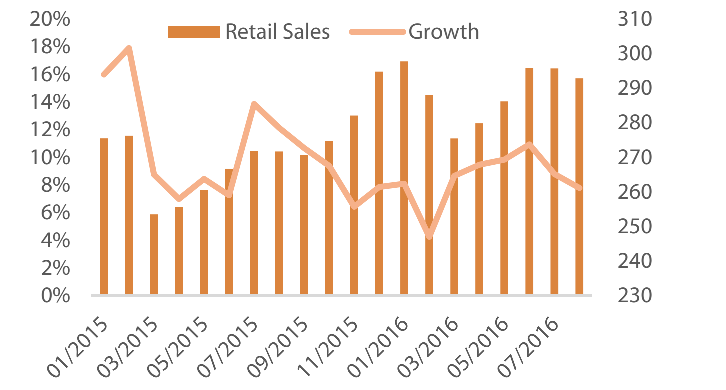
MACRO WATCH

Inflation slightly declined in August



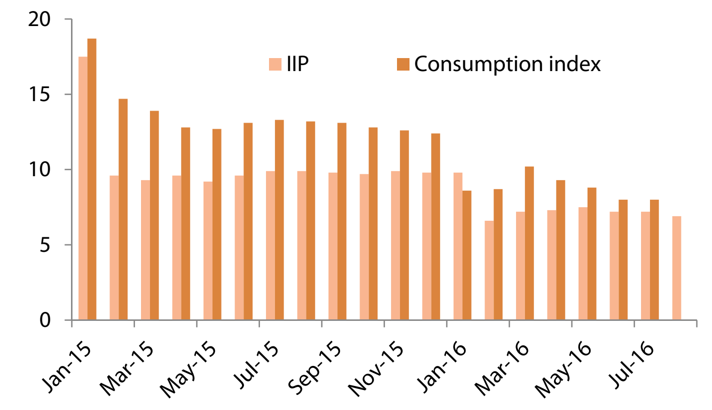
Source: GSO, Rongviet Securities

Retail sales were stagnated in August



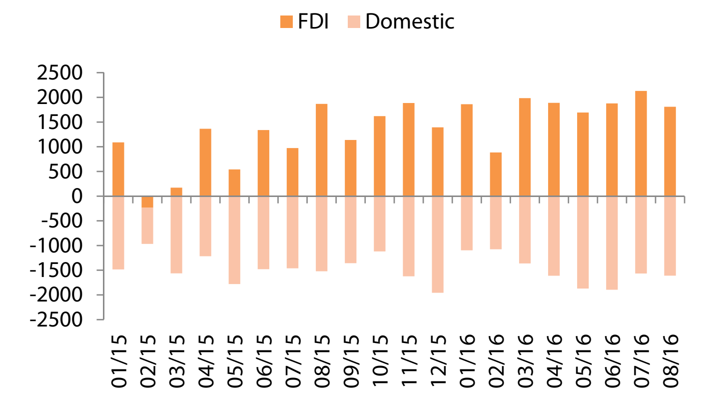
Source: GSO, Rongviet Securities

Slowdown in Industrial Production



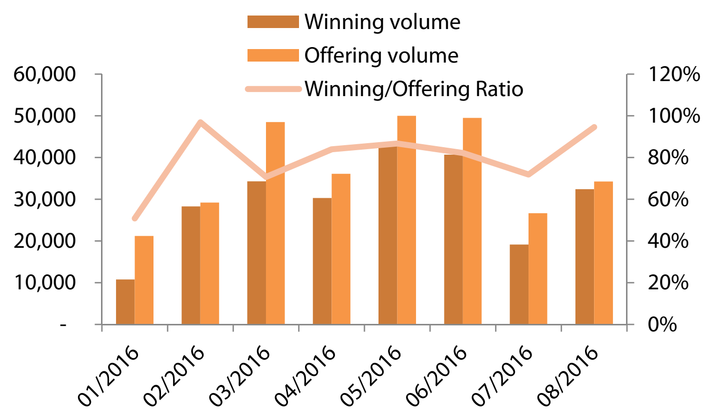
Source: GSO, Rongviet Securities

Domestic firm's trade deficit increased significantly



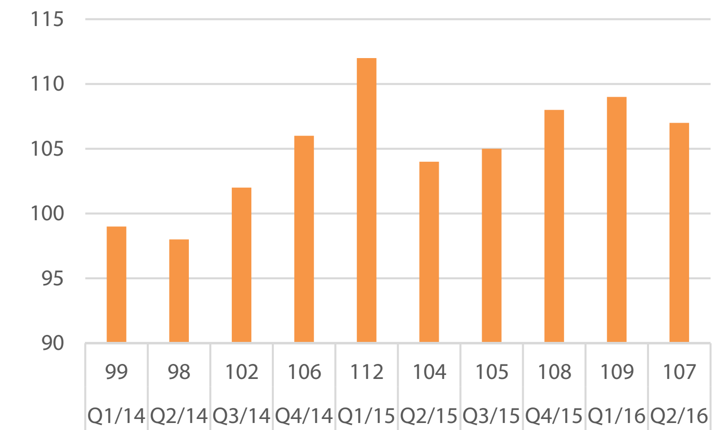
Source: GSO, Rongviet Securities

Increasing winning /offering ratio



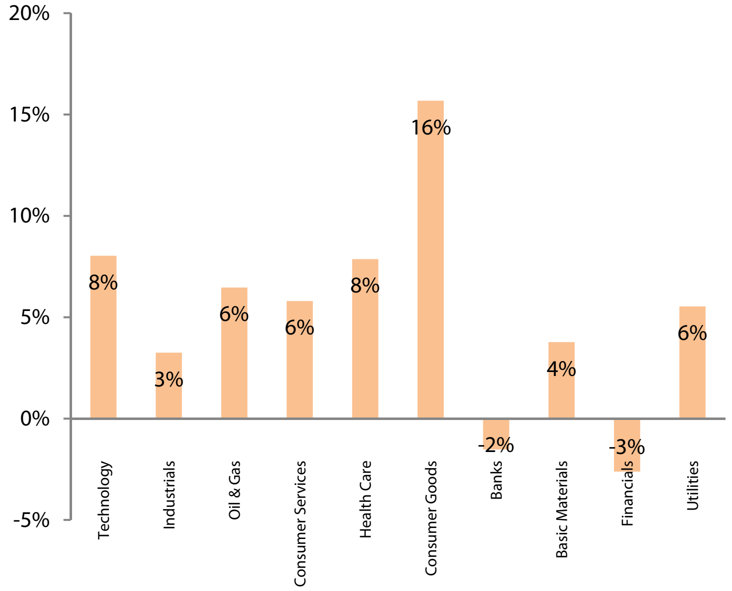
Source : VBMA, Rongviet Securities

Vietnamese consumer confidence marginally dropped



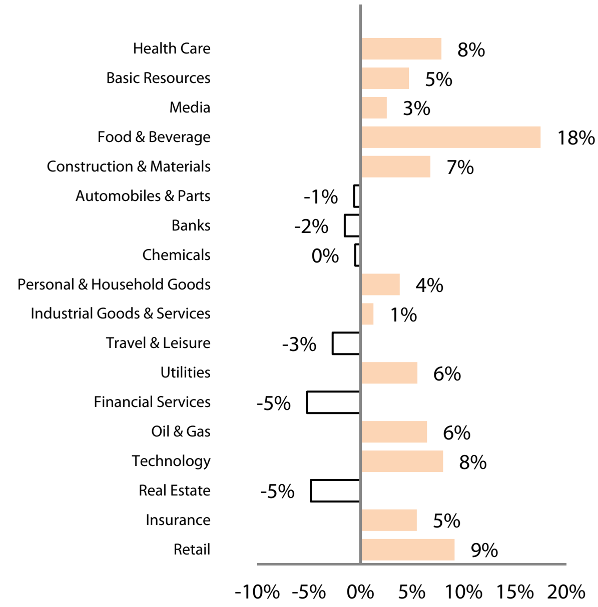
Source: Nielsen, Rongviet Securities

Level 1 industry movement



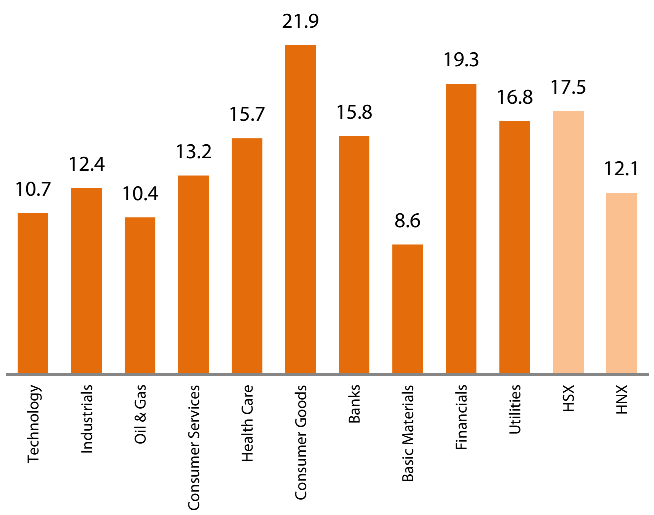
Source: RongViet Research

Level 2 industry movement



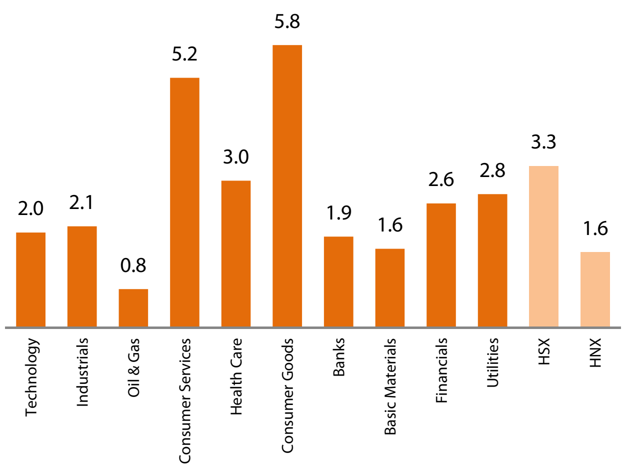
Source: RongViet Research

Industry PE comparison



Source: RongViet Research

Industry PB comparison



Source: RongViet Research

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