05/11/2019

Investment Strategy November 2019

A LIFT FROM FOREIGN CAPITAL

We note that 3Q earning results have not been reflected in share prices in October. While VN30 and VNIndex saw good earning results, the indices were flat. We assume that this was because foreign investors were net seller in October, a negative impact on market sentiment. However, we expect that the market will reflect positive earnings results in upcoming months as foreign investors could turn net buyers soon and domestic capital is enough to support the market.

The trade tension has weighted on the market for more than one year. However, although it would take time for US and China to make a comprehensive deal, the phase I agreement is on the way. According to both parties, they are continuing to negotiate and will soon announce time and place to replace the APEC meeting in Chile to sign the phase I agreement.

Bond yields in developed countries have recently recovered from a big drop, which was because of a strong inflow in safe assets. This indicates that money flowing into safe assets has decreased. Additionally, the possibility of Fed cutting rate again this year is low. We assume that the US 10- year bond yield will stay in a range of 1.5 -1.8 %.

Meanwhile, investment opportunities in the US stock market are not easy to find as the PE of the S&P500 has reached its one-year high. Although we do not think that foreign investors would rush into EM equity right now, Vietnam is still quite attractive. While the PE of VNIndex is quite low compared to regional peers, Vietnam economy remains in a high growth phase.

The main problem for foreign investors to invest in the Vietnam stock market right now is foreign ownership limit. Most companies with good fundamentals are nearly at their limits. However, the Ho Chi Minh stock exchange has released its methodology for building new indices that will help to partly solve the problem. We assume ETFs that track those indices will be launched this year.

Although 3Q's and 9M's earning results of brokerages did not strike as extraordinary good, gains from loans and receivable (*) increased sharply. Historical data indicates a positive relationship between margin outstanding and VNIndex. Even though the relationship is not strong now as it was 2017, increase in margin outstanding clearly supports the stock market.

The margin outstanding increased by VND 12 tn or 29% in the first nine months, nearly four-fold the average daily traded value. The three brokerage with Korean capital including Mirae, KB and KIS accounted for 37% of the total increase. The fact that the Korean central bank cut interest rate again in mid-October encourages Korean brokerages to raise margin outstanding in Vietnam as the average margin lending rate (**) is quite high. Besides that, big domestic brokerages also can raise fund with low interest rates for margin lending.

In short, we assume that 3Q's earning results have not been reflected in share prices in October yet. While the market can expect foreign investors to turn net buyers soon as external risks has decreased, margin outstanding has continued to rise sharply. Additionally, the decrease in margin lending rate due to rising competition among brokerages is also an encouragement for investors. We assume that the VNIndex will fluctuate in a range of 1,000 to 1,040 in November.

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Please see penultimate page for additional important disclosure

(*): gains from loans and receivable is the interest income from margin lending

(**): gains from loans and receivable divides by average of margin outstanding at the beginning and end of period.

CONTENTS

As we discussed on our previous monthly strategy reports, although Vietnam's domestic fundamentals are favorable for a rise of the stock market, global issues have persevered and have held back the market. As soon as those issues and risks diminished in early November, the stock market took off. With the comeback of foreigners, we expect a good last two months of the year for Vietnamese stocks. Raising the proportion of stock against cash or using margin could help investors benefit from this uptrend period.

Regarding the 9M 2019 business results, the divergence among sectors and stocks continues to be wide, such as for example within the real estate industry. In that industry, particularly, total revenue and NPAT grew 24% and 28% YoY in 9M respectively, but mostly came from VIN-related stocks. Excluding the contribution from those companies, NPAT of the real estate group grew merely 15% YoY. The next three groups reporting the highest growth in NPAT are retails, bank and technology (dominated by FPT's results), at 30% YoY, 25% YoY and 22% YoY respectively.

As we shared our views on MWG and PNJ (retail) and FPT (technology) recently, this month will focus on banking stocks. Total operating income (TOI) and NPAT of listed bank grew 22% and 43% YoY in 3Q 2019, and 17.2% and 25% YoY in 9M 2019 respectively. Not only core activities (lending and services) showed an improvement but also lower costs of operation and provisions boosted PBT growth. In 9M 2019, most banks experienced a lower NPAT growth rate than that of last year, mostly due to one-off income last year. The positive is that most banks fulfilled more than three-fourth of their guidance for the entire year 2019. Given that banks' peak earnings season falls in 4Q, we believe that they will achieve a higher-than-targeted figure.

Strong capital buffer, low leverage and high Basel II CAR, will ensure a high lending growth rate. This is a positive point given that (1) Lending is still the key source of income for banks and (2) Credit expansion will allow banks to cross-sell their products (card, transaction settlement, insurance, etc.), then, enhancing their service income. Low relative valuation, given 2020 forward PBR at around 1.0x – 1.4x, and high ROE (18 – 20%) is also another advantage of this group. Note that most listed private commercial banks have reached their plateau in terms of foreign ownership.

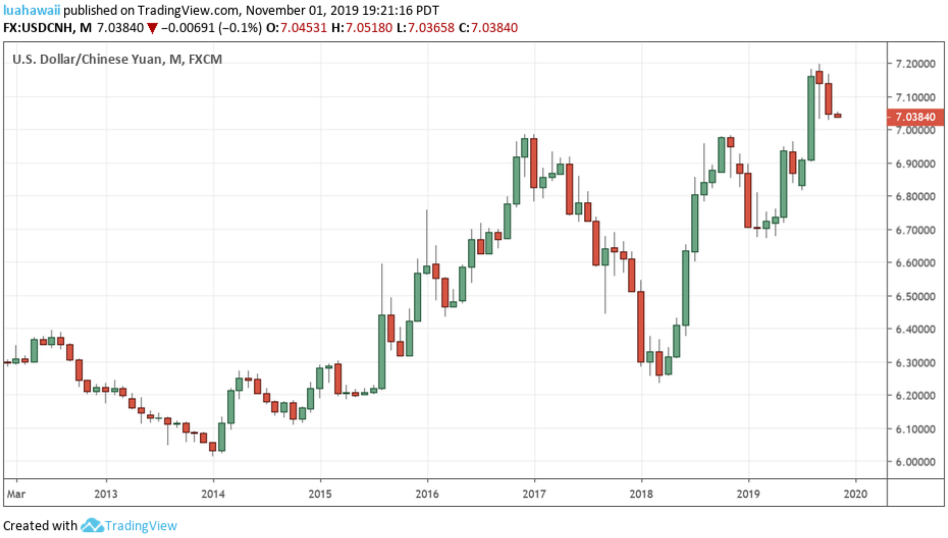
BID, a State-owned bank, has been progressing on its restructuring plan. Having said that, finding a strategic partner will pave the way for better prospects for the bank. Therefore, though its current PBR is higher than is peer's average, we believe BID can become another strong contender in the sector.

Analysis of 55 stocks of Rong Viet Research, discussion with companies and specific evaluation in the "Company Report" or "Analyst Pinboard"

A September survey by the Hurun Research Institute[1], a wealth research firm, found that over a third of 'rich' Chinese- those with an average wealth of USD 4.5 mn- are considering migrating to another country. Some obviously already have. SAFE, the State administration of Forex Exchange, has lately maintained that cross-border capital flows have been stable so far in 2019.

However French bank Natixis estimates that capital outflows from China in September totaled USD 89 billion compared to zero in January. Considering that the Renminbi has depreciated by 2.5% versus the USD so far in 2019 (and by 4.5% at its weakest point in September), this indicates that indeed some capital is leaving the country. Nothing like what we saw in 2015, but still. In fact in 2015 markets were somewhat confused as the causality between capital outflows and a weakening exchange rate. The Renminbi fell continuously until late 2016 but it was not evident that it was caused by outflows of capital. During the same period, China's foreign exchange reserves also fell, which may have triggered some uncertainty among market participants, hence putting pressure on the RMB.

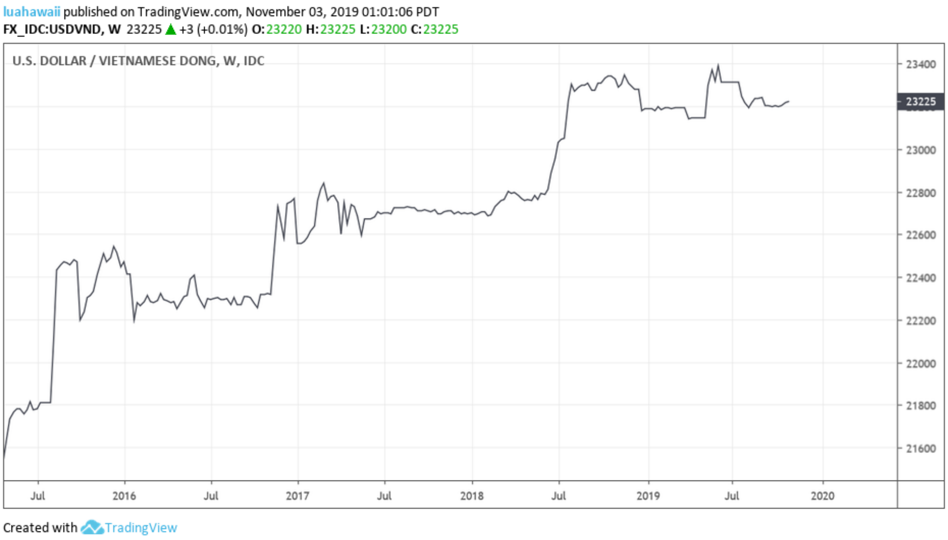
Figure 1: Renminbi Versus USD, Monthly



Source: TradingView

On the other hand the Vietnam Dong has, as opposed to what many pundits had expected, barely moved against the USD in 2019 (Figure 2).

Figure 2: Vietnam Dong versus USD, Weekly



Source: TradingView

[1] https://www.hurun.net/

Even though bond yields are at historical lows in a majority of markets, investors continue to pour money into bonds while exiting equities (Figure 3). Out of the US$ 416 bn finding its way into bonds so far this year, US$ 262 bn went into US bonds, representing 9.2% of assets under management (AUM). Equities saw outflows globally of US$ 191 bn. Among emerging markets, only a handful of them, all in Asia, saw net inflows: China, HK, Taiwan, India and Vietnam. But by far the biggest beneficiary of this low rate environment/ healthy equity markets, have been money markets funds. Cumulative injection in that asset class reached 9.8% of AUM in the first ten months of the year, mostly going into US money market funds.

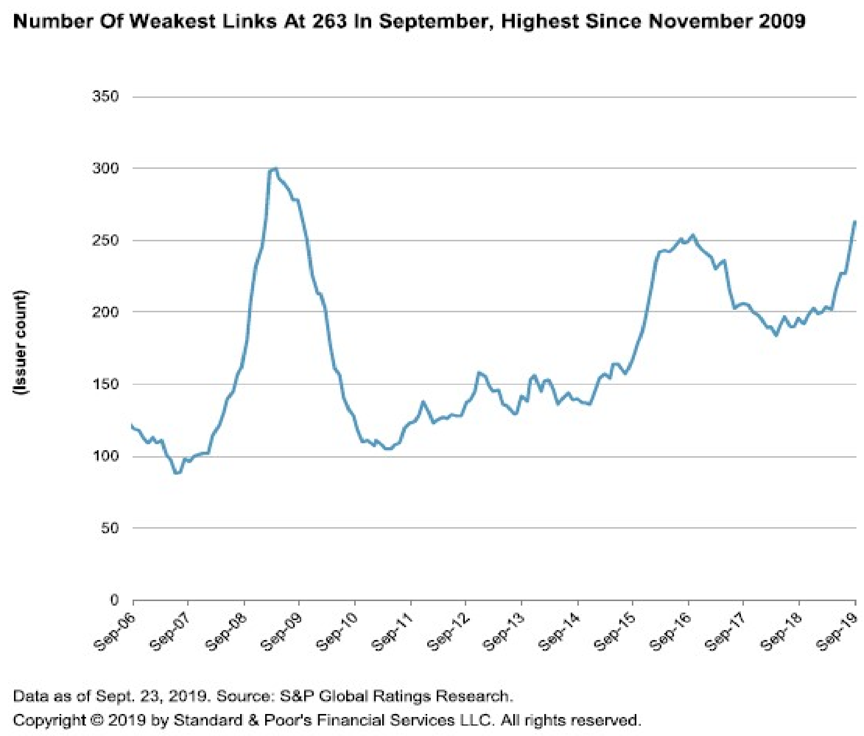
Figure 3: Global Asset Fund Flows, 2019 Year to Date

Asset Class	Cumulative US$ mn	Cumulative % AUM	Return %
Bonds	416,034	7.8	6.4
Developed	380,710	7.8	N/A
Emerging	35,234	7.5	11.1
Equities	(190,554)	(1.8)	17.7
Developed	(153,801)	(1.7)	17.7
Emerging	(36,754)	(3.0)	9.0
Money Mkts	445,683	9.8	N/A
US	423,965	12.5	2.0

Source: Jefferies
Data as of November 1, 2019

The bond buying frenzy is, however, showing some signs of potential unintended consequences. Hence, S&P Global Ratings recently said[2] that its list of "weakest link companies reached a 10-year high in September, the most since November 2009". This list includes 263 companies listed on the US stock market and implies that among those speculative-grade ones, many could flounder if conditions worsen. Credit quality for the average corporate issuer continues to deteriorate and leverage is very high.

Figure 4:

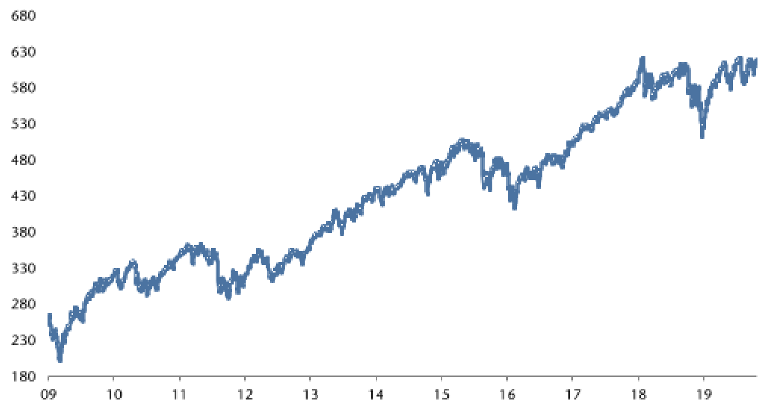


[2] www.spglobal.com/marketintelligence, Oct 17

For now equity markets seems not to have heard the signal from the junk bond market as the MSCI World made new fresh highs in October and has now tripled since its bottom 10 years ago.

Figure 5:

MSCI All World Index since 2009

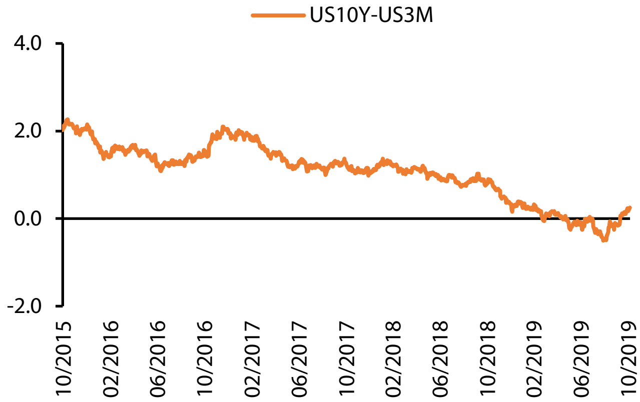


Source: Bloomberg, Jefferies

According to a speech she gave at the Vietnam Economic Outlook 2020 meeting in HCM City last Thursday, Marie Damour, the US Consul General highlighted that bilateral trade between the two countries jumped from USD 200 mn in 1994 to USD 60 bn currently. She stressed that Vietnam and the US must "continue to work together as partners". Let's hope she is right!

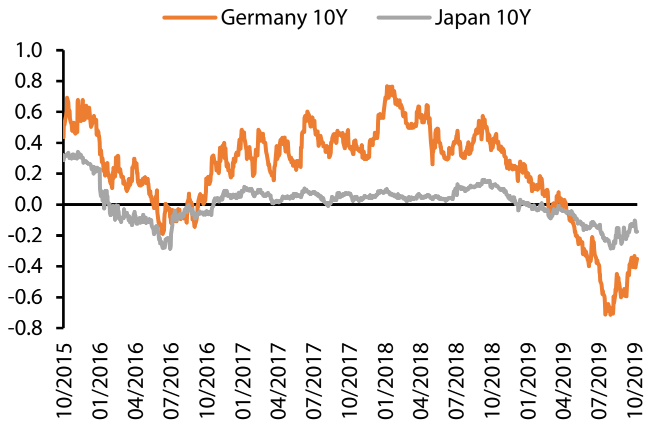
GLOBAL ECONOMIC INDICATORS IN OCTOBER

US G-Bond yields' gap (%/year)



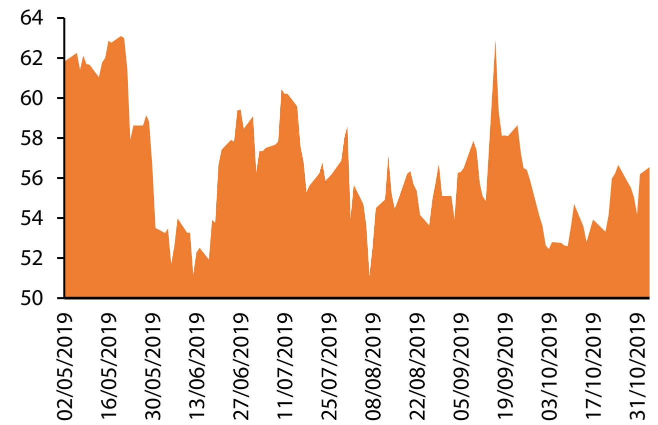
Source: Bloomberg, Rong Viet Securities

Germany and Japan G-Bond yields (%/year)



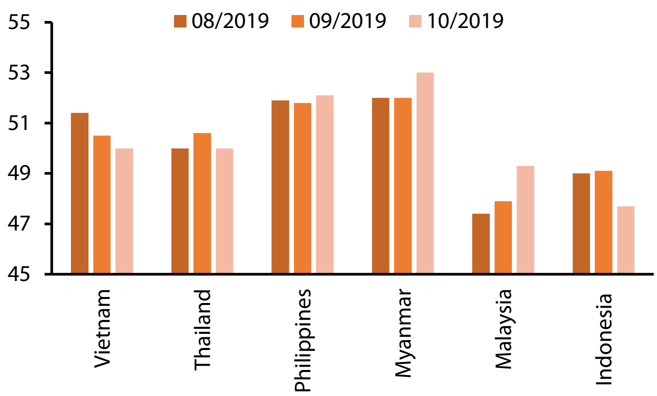
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



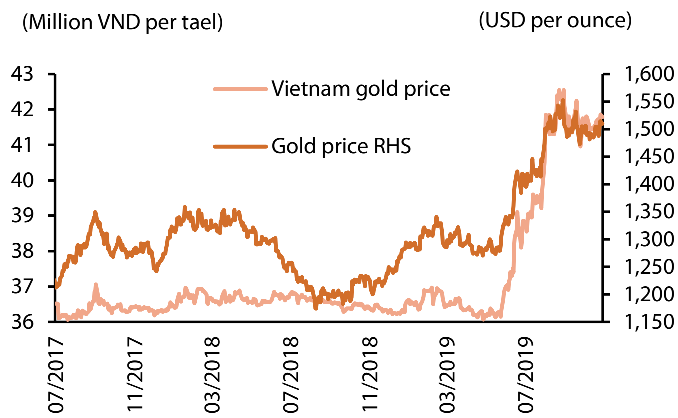
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI (Points)



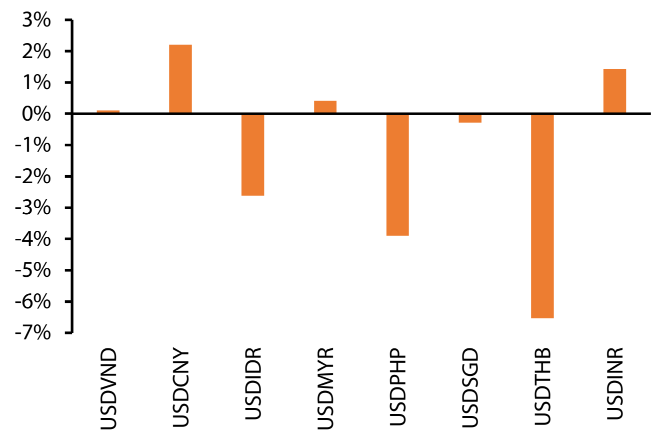
Source: Bloomberg, Rong Viet Securities

Gold prices



Source: Bloomberg, Rong Viet Securities

FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

VIETNAM MACRO

- Trade surplus reached USD 7.0 bn
- USDVND stable as USDCNY moves toward the 7.0 level
- Will credit growth reach the target of 14% in 2019?

Trade surplus reached USD 7.0 bn

Vietnam's total trade was estimated at USD 428 bn, up 8.3% YoY in 10M2019. Exports reached USD 217 bn, up 7.9% YoY, while imports grew at 8.8% YoY to USD 211 bn. The trade surplus reached USD 7.0 bn, higher than 10M2018 of USD 6.4 bn, equivalent to 2.9% of nominal GDP.

The most notable fact is that Vietnamese domestic companies' export growth was 16.5% YoY. Their export revenue accounted for nearly 31% of total exports, approximately USD 66.6 bn. That growth is significantly higher than FDI's export turnover, 3.9% YoY in 10M2019. While FDI's export growth has slowed down since the mid of 2018, Vietnamese domestic companies have recorded a double-digit growth since the beginning of 2017.

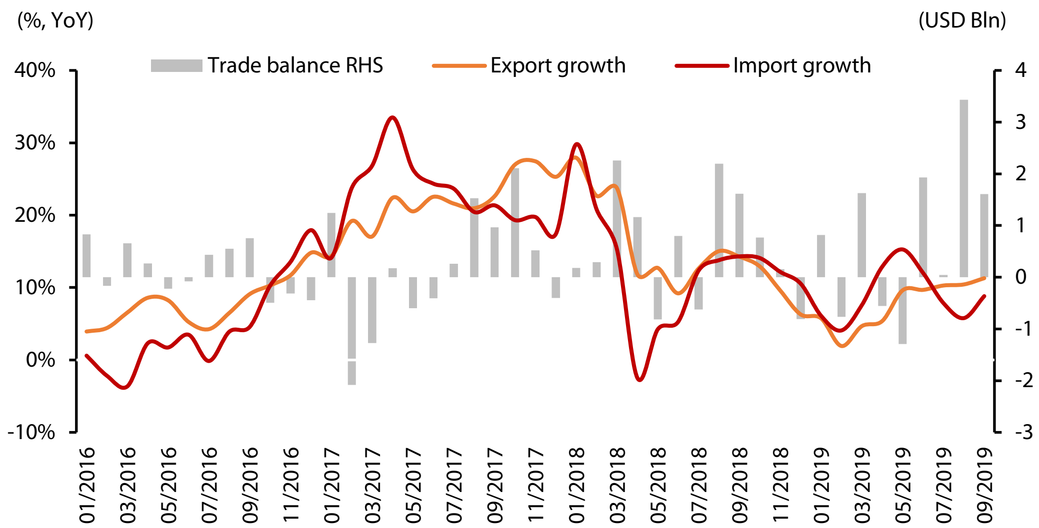
This implies that, on one hand, Vietnamese producers are stepping up into the global value chain and supply directly to large buyers of wood & furniture, textile, plastics, electronics, electrical wire and iron & steel.

On the other hand, we see a high risk of fraud in terms of 'good of origin' and illegal trans-shipment to the US as exports to this market surged 26.6% YoY in 10M2019. We previously wrote about the risk affecting wood exports, especially from companies registered in Binh Duong province. In another case recently, the Vietnam and US administrators investigated the aluminum sector and prevented exports of USD 4.3 bn worth of products to the US. Some of these were actually coming from China and were meant to be re-exported.

According to the Ministry of Industry and Trade (MOIT), some products have been added on the US warning list. For example, Vietnamese plywood products are in the 4th level, the most dangerous warning zone. The lower-level goods are iron racks, foam cushions, electrical bikes, passenger and truck tires, corrosion-resistant steel.

However, as noted above in the global part of our report, Marie Damour, the US Consul General stressed that Vietnam and the US must "continue to work together as partners". In addition to the current hard responses against illegal trans-shipment and investment through Resolution of foreign direct investment and regulations on Vietnamese origin, we believe the trade relationship between Vietnam and US will stay healthy.

Figure 6: Trade Growth and Trade Balance



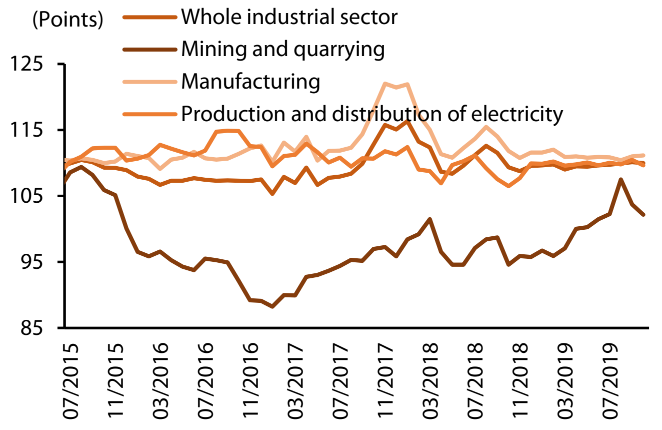
Source: GSO, Rong Viet Securities

Excluding the above issue, we see sustainable growth for Vietnam manufacturing. Currently, manufacturers have been making big contribution to GDP growth. According to GSO's data, the industrial production index rose by 9.2% YoY in Oct 2019, higher than last Oct of 7.7% YoY.

Electronics and electrical goods' producers recorded impressive output growth of 8.3% YoY and 17.7% YoY while last year's growth was negative. The performance was mostly due to manufacturing activities in Bac Ninh, Thai Nguyen and Hai Phong provinces. According to Thai Nguyen province's report, the production of smartphone increased 17.2% YoY in October 2019 and 8.3% YoY in 10M2019. In Bac Ninh province, wearable products jumped as the output was 11 times as high as last October. That partly strengthened manufacturing results in the province. In Hai Phong city, LG corporation's factories recorded an annual revenue growth of 54.6% YoY. LG Display has registered to increase its investment capital by USD 400 mn.

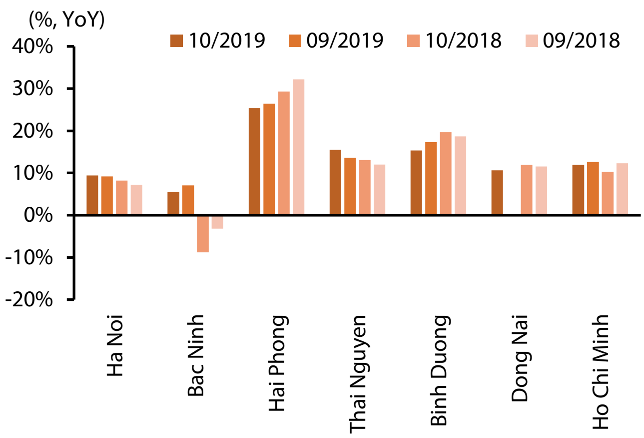
From our point of view, a stable growth of 10% for the manufacturing sector is a good result compared with the chaotic situation regionally and globally.

Figure 7: Industrial Production Index, by Sector



Source: GSO, Rong Viet Securities

Figure 8: Industrial Production Growth, by Province



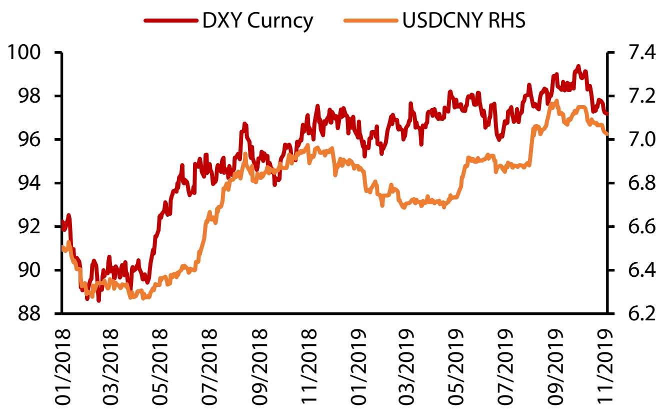
Source: GSO, Rong Viet Securities

USDVND is stable as USDCNY moves toward 7.0 level

The good performance of the manufacturing sector and strong exports as well as more positive traction in trade talks have been strengthening the Dong. Following the FED rate cut in October, Vietnam's US ON rates dropped immediately. Current ON rates are equivalent to 2017-2018's. See more below.

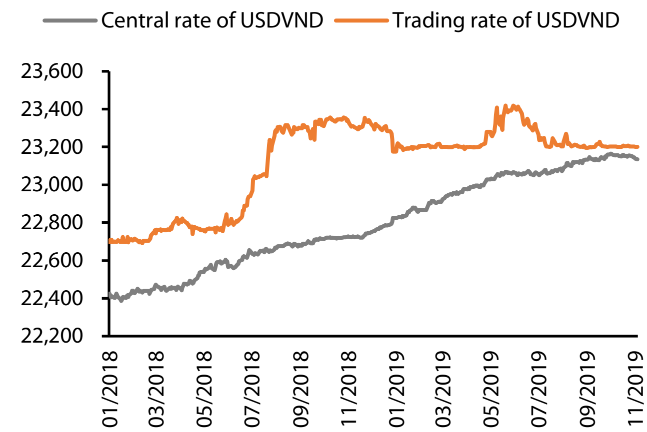
We expect USDCNY to come back 7.0 by the end of 2019. The FX rate has been retreating gradually from 7.15 to 7.03. Besides, the US Dollar Index dropped from 99.0 to 97.2.

Figure 9: USDCNY and US Dollar Index



Source: Bloomberg, Rong Viet Securities

Figure 10: Central and Trading Rates of USDVND



Source: Bloomberg, Rong Viet Securities

Will credit growth reach the target of 14% in 2019?

Up to the end of September 2019, credit growth was at 9% ytd, below 10.3% ytd in 9M2018. That means there is room for a further 5% growth in the last quarter.

Based on the current pace and credit growth of commercial banks, we estimate that 2019's loans will rise by 13.2%. If this is the case, that will be the lowest credit growth in the last decade.

The low growth comes mainly because of from state-owned banks, including BIDV, Vietinbank and Agribank, which have become more stringent on their loan disbursements. Commercial banks continued to extend loans at satisfactory levels. This begs the question: will SBV redistribute the cap on credit growth among lenders to reach the initial target of 14%?

Commercial banks such as VIB, TPB, VPB and MBB recorded fast growth of credit and closely reached the limit set by SBV. Meanwhile, BIDV and Vietinbank's credit grew at 8.6 and 3.2% ytd, below the allowed marks of 12% and 7% ytd. Since the beginning of the year, SBV declared that any banks, who meets the requirement of Basel II, can be considered for higher credit room. As of mid-2019, many commercial banks have met the requirements.

Table 1: Credit and Nominal GDP Growth

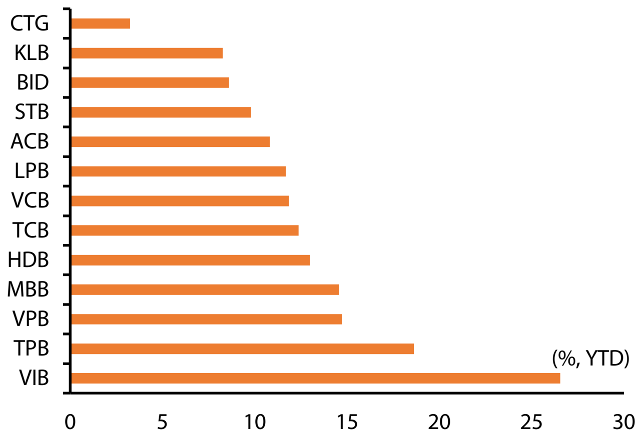
	2012	2013	2014	2015	2016	2017	2018	2019
9M credit growth	3%	7%	7%	12%	12%	12%	10%	9%
12M credit growth	9%	13%	14%	17%	18%	18%	14%	14%[3]
Nominal GDP growth	17%	10%	10%	6%	7%	11%	11%	9%

Source: SBV, Rong Viet Securities

Interestingly the gap between credit growth and nominal GDP growth has been shrinking over the years. Currently, the gap between 12M credit growth and nominal GDP growth is at 5%, well below the range of 7-11% in 2015-2017. In 2018 the gap had narrowed to 3% due to global downside risks and a sudden tightening of credit policy starting in the third quarter of that year.

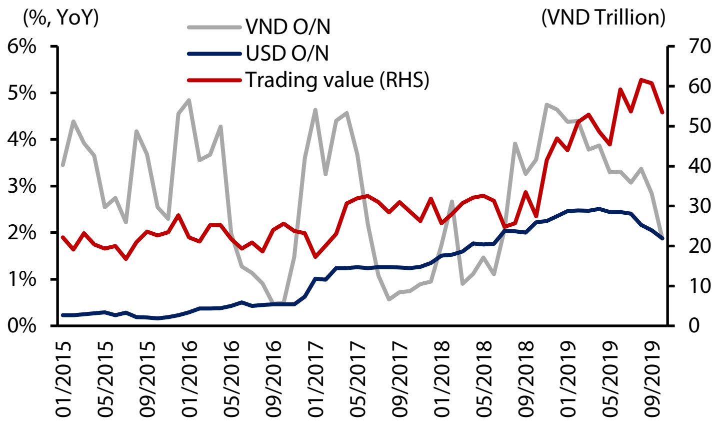
Currently, the environment is friendly to SBV's consideration of redistribution of credit growth cap as both the domestic and international situation are improving. We note that some commercial banks are asking for higher room.

Figure 11: Commercial Banks's Credit Growth, 9M2019 (%, ytd)



Source: Rong Viet Securities

Figure 12: Interbank Market



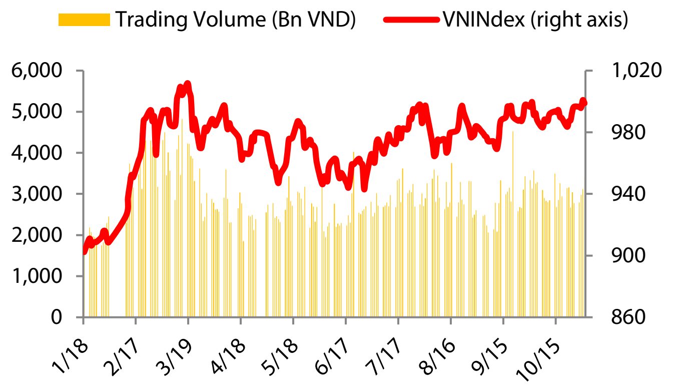
Source: SBV, Rong Viet Securities

[3] Initial target

The breakout of banking stocks in late September did not last long and the VN-Index still could not exceed 1,000 in October. On the other hand, although cash flow in the market was still mostly speculative, liquidity improved and the indices fluctuation's margin became narrower, showing that the expectation of the VN-Index successfully breaking the psychological resistance of 1,000 was real.

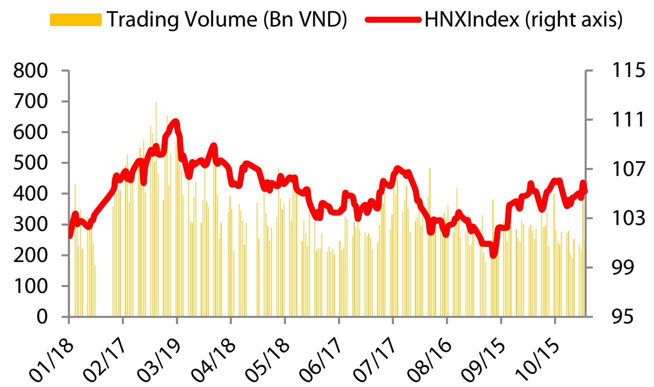
Market consensus for the Fed's rate cut for the third time this year and positive signs from US-China negotiations were external supportive factors. Domestically, the Q3 earnings season almost had no significant impact on the overall market and foreign investors remained net sellers on the two major exchanges.

Figure 13: VNIndex Movement in October



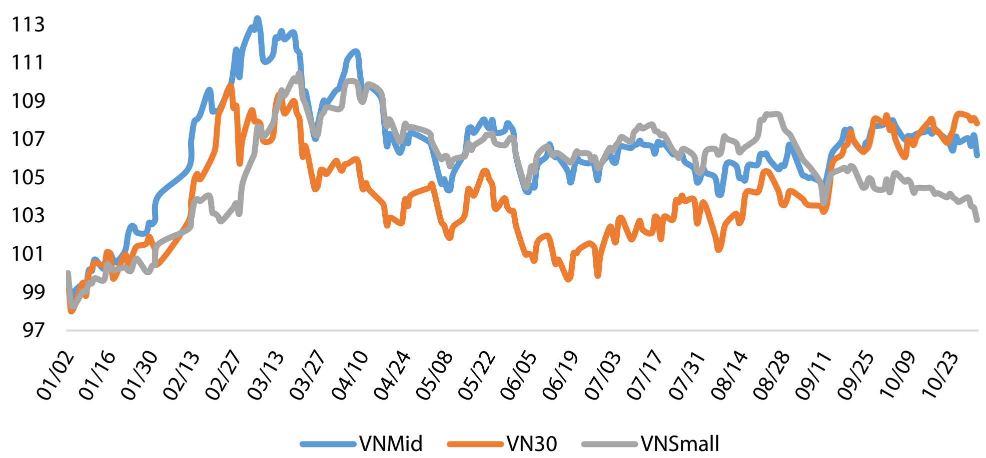
Source: RongViet Securities

Figure 14: HNXIndex Movement in October



Source: RongViet Securities

Figure 15: Performances of VN30, VNMID and VNSML Indices ytd

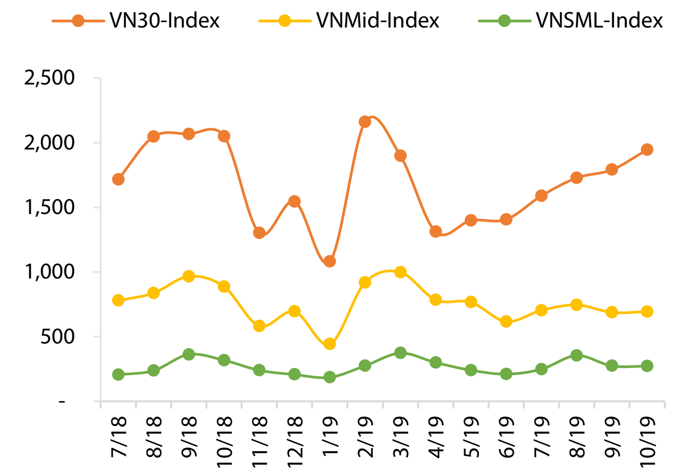


Source: FiinGroup, RongViet Securities

When the market moved sideways with low liquidity (VND 2,500 to 3,000 bn/ session on HOSE), from April until now, money mostly moved between groups and the indices went in opposite ways. Specifically, the VN30-Index (large cap) and VNMid-Index & VNSML-Index (small and medium cap) often increased/decreased in opposite direction, different from Q1 when foreign money through ETFs was pouring into the market and managed to spread returns widely.

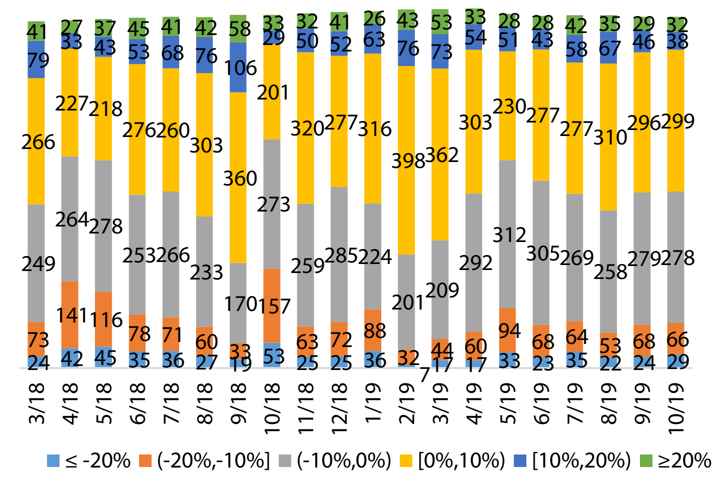
The VN-Index (+0.2%) moved sideways in October, money continuing to being withdrawn from the small and medium-cap groups and heading to large-cap stocks, with the expectation that the market would soon surpass 1,000. Liquidity reached VND 3,045 bn / session, the highest level since April this year. Trading value of VN30 group accounted for 64% of the whole market, compared to the average of 55% in the first 9 months. Foreign investors continued to be net sellers but domestic demand was steady.

Figure 16: Average Monthly Order-Matching Value on HOSE (VND bn)



Source: FiinGroup, RongViet Securities

Figure 17: Number of Stocks by Performance

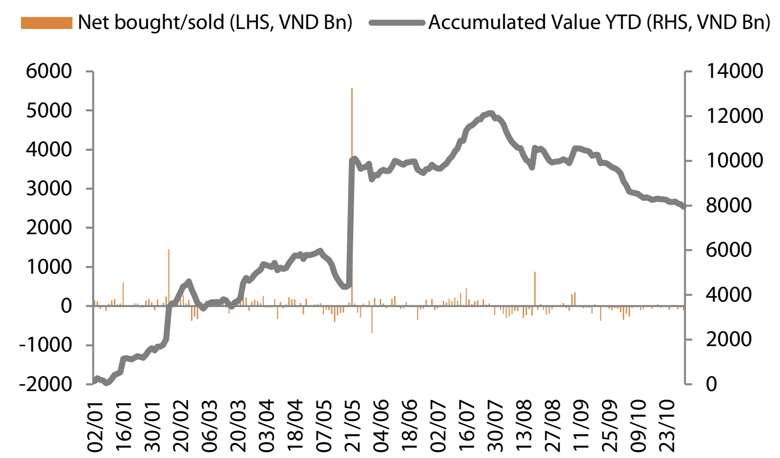


Source: FiinGroup, RongViet Securities

Foreign investors trading

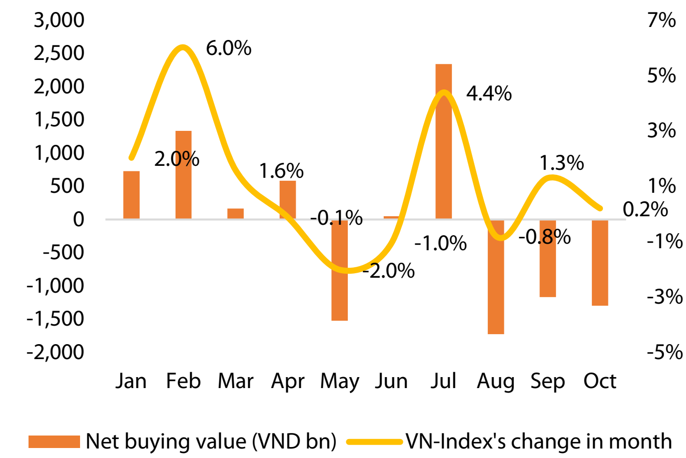
Foreign investors continued to net sell strongly with a value of VND 1,300 bn via matching order on HOSE in October and remained a factor restraining the market. VCB (+VND 226 bn) and BID (+VND 102 bn) were the most net bought stocks by foreign investors, VFMVN30 ETF certificate was also net bought by VND 74 bn. On the other side, the top sold stocks were Vingroup's ones including VIC (-VND 397 bn), VHM (-VND 272 bn), VRE (-VND 177 bn) and other stocks such as MSN (-VND 221 bn), HPG. (-VND 213 bn).

Figure 18: Net Trading Value by Foreign Investors



Source: FiinGroup, RongViet Securities

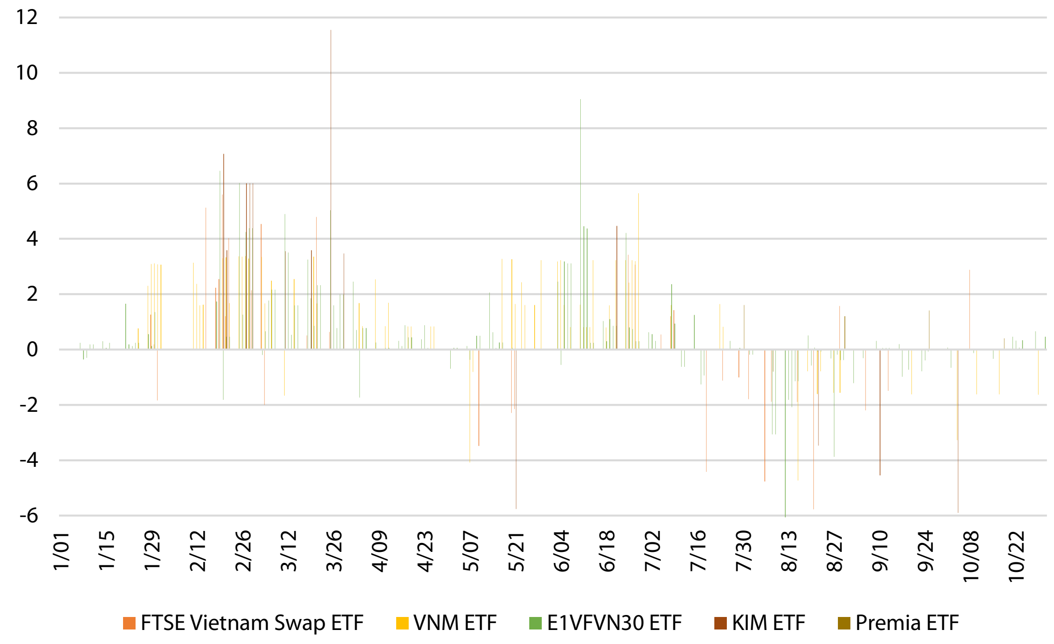
Figure 19: Foreign Net Buying (order match) versus VN-Index



Source: FiinGroup, RongViet Securities

ETFs were net sold about USD 9.5 mn in October. Although the total value did not change much compared to September (nearly USD 12 mn), the VFMVN30 ETF (+USD 1.25 mn) and FTSE ETF (+USD 2.88 mn) were net injected again in October. Meanwhile, Vaneck ETF (-USD 8.15 mn) and KIM ETF (-USD 5.9 mn) continued being net sold quite sharply.

Figure 20: ETFs Issuance Value (USD mn)



Source: Bloomberg, Rong Viet Securities

Table 2: Foreign Investors' Net Trading by Sector on Both Exchanges

Sector	HSX		HNX	
	Net volume (thousand shares)	Net value (VND Bn)	Net volume (thousand shares)	Net value (VND Bn)
Oil & Gas	-1,219	-8,60	-2,842	-54
Chemicals	427	2,40	314	3
Basic resources	-17,016	-251,95	140	1
Construction and building	2,884	209	-323	-13
Industrial goods & services	-3,937	-98	44	-1
Automobile & parts	-738	-15	-8	-0
Food & beverage	-12,017	-571	58	2
Personal & household goods	-1,666	-73	-1,233	-41
Healthcare	979	24	-49	-1
Retail	324	10	85	0
Communication	12	1	-0	0
Travel & leisure	-120	9	191	-1
Utilities	-12,587	-194	-316	-3
Bank	1,738	220	1,531	10
Insurance	-250	-16	4,200	125
Real estate	-29,715	-940	-1,398	-18
Financial services	1,524	23	924	9
Technology	249	9	-99	-1

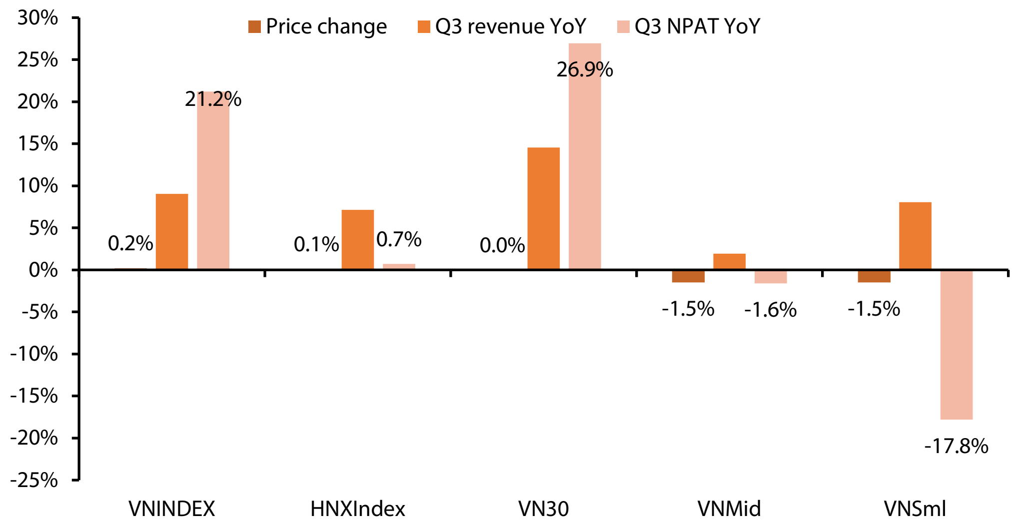
Source: FiinGroup, RongViet Securities

Earning results: Earning results from large cap continues to be positive

3Q earning results indicates that most of the increase in revenue and NPAT came from large caps. Earning results in major sectors such as real estate, banking and retail recorded a positive results. Contrarily, media, basic resources and financial services posted a negative growth rate in term of NPAT. 3Q earning results were quite similar to the 9M earning results.

Based on 3Q earning result from 575 companies, **revenue and NPAT increased by 9% YoY and 19% YoY respectively**. 9M revenue and NPAT increased by 8% YoY and 11% YoY. VCB, VHM, MSN, VPB, HVN, CTG and STB contributed the most to the increase in 3Q NPAT. In general, VN30 stock's results were quite positive while those of VNMid, VNSml and HNX were not so. **However, VN30 and VN-Index's business results have not been priced in yet as VNIndex and VN30 indices moved sideways in October.**

Figure 21: Q3/2019 Earning Results Have not Been Priced in Yet



Sources: Fiinpro, Rong Viet Securities

More specifically, key sectors such as **banking, real estate, and retail** all showed impressive results. However, only the banking index increased in October.

The banking group had the strongest increase in profit after tax with 43% in Q3/2019 and 25% in 9M2019 YoY. The main contribution to Q3 net profit came from the results of VCB, VPB, CTG and STB.

Meanwhile, NPAT growth of the travel & leisure sector came mainly from the contribution of HVN, accounting for 90% of the industry's growth. The first 9 months NPAT (+9% YoY) increase came from HVN.

Food & Beverage's NPAT increased by 27% YoY in Q3/2019. The main contributors were MSN and SAB. The strong increase in NPAT of MSN came from the fact that MSN gained compensation from the Jacobs case. At the other end, poor results of VHC, DBC and ACL dragged down the total NPAT of the sector.

Insurance sector recorded NPAT growth of 26% YoY in Q3/2019. It all came from BVH's contribution because its NPAT nearly tripled thanks to strong revenue growth and cost control by changing its product structure. The sector's 9T NPAT increased by 18% mainly due to the contribution of BVH and PVI.

Retail sector continued to have strong NPAT growth. MWG contributed more than 97% of the increased net profit of this sector. In addition, DGW also had good results as NPAT increased by nearly 42% YoY. This is also the picture of the retail sector after the first 9 months.

Although Real Estate's Q3 NPAT still recorded an 18% growth, it all came from VHM's contribution. Excluding the growth of VHM, the real estate sector's NPAT would have decreased by 4% YoY. This is due to the decline in NPAT of some companies such as NVL, NLG, VIC and LDG. However, 9M results of the real estate sector was still positive as revenue and NPAT growth were 24% and 28% YoY respectively. Even without Vingroup, 9M revenue and NPAT still increased 32% and 15% YoY respectively.

Table 3: Q3/2019 Earnings and Price Changes in October by Sector on HOSE and HNX

Sector	Price change in October	Q3 Revenue YoY	Q3 NPAT YoY	9M Revenue YoY	9M NPAT YoY
Retail	-1.6%	19.1%	26.1%	15.1%	30.8%
Insurance	-2.8%	3.7%	25.8%	9.0%	13.8%
Real estate	-0.9%	29.7%	17.8%	23.8%	27.7%
Technology	0.2%	11.0%	25.3%	15.0%	25.2%
Oil & Gas	-2.9%	6.1%	-7.7%	-1.0%	17.8%
Financial services	-2.5%	3.1%	-24.0%	-13.4%	-33.7%
Utilities	-1.8%	5.8%	10.0%	3.3%	4.2%
Travel & leisure	3.9%	3.0%	32.5%	5.9%	9.2%
Industrial goods & services	-0.4%	2.2%	-0.4%	8.7%	-18.0%
Personal & household goods	-0.5%	14.4%	3.5%	8.8%	8.2%
Chemicals	-1.2%	-2.8%	-21.5%	0.9%	-16.4%
Bank	3.8%	21.7%	43.0%	17.2%	25.0%
Automobile & parts	-3.2%	29.2%	21.7%	28.2%	15.3%
Basic resources	0.1%	-0.2%	-30.6%	0.9%	-29.3%
Food & beverage	-0.7%	4.0%	26.9%	6.0%	5.8%
Communication	-7.3%	-8.4%	-227.8%	2.2%	-210.7%
Construction & Materials	-3.1%	-3.1%	7.7%	1.5%	2.4%
Healthcare	-2.3%	2.8%	-4.4%	8.2%	-2.0%

Sources: Fiinpro, Rong Viet Securities

We note that 3Q earning results have not been reflected in share prices in October. While VN30 and VNIndex saw good earning results, the indices were flat. We assume that this was because foreign investors were net seller in October, a negative impact on market sentiment. However, we expect that the market will reflect positive earnings results in upcoming months as foreign investors could turn net buyers soon and domestic capital is enough to support the market.

Foreign investors turn to net buyers

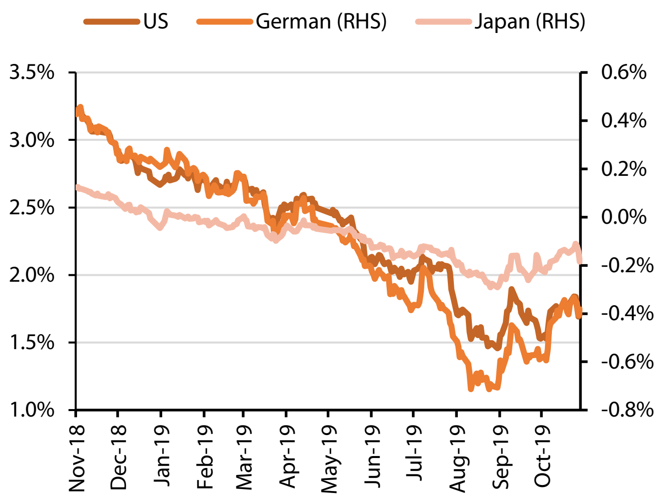
The trade tension has weighted on the market for more than one year. However, although it would take time for US and China to make a comprehensive deal, the phase I agreement is on the way. According to both parties, they are continuing to negotiate and will soon announce time and place to replace the APEC meeting in Chile to sign the phase I agreement.

Bond yields in developed countries have recently recovered from a big drop, which was because of a strong inflow in safe assets. This indicates that money flowing into safe assets has decreased. Additionally, the possibility of Fed cutting rate again this year is low. We assume that the US 10- year bond yield will stay in a range of 1.5 -1.8 %.

Meanwhile, investment opportunities in the US stock market are not easy to find as the PE of the S&P500 has reached its one-year high. Although we do not think that foreign investors would rush into EM equity right now, Vietnam is still quite attractive. While the PE of VNIndex is quite low compared to regional peers, Vietnam economy remains in a high growth phase.

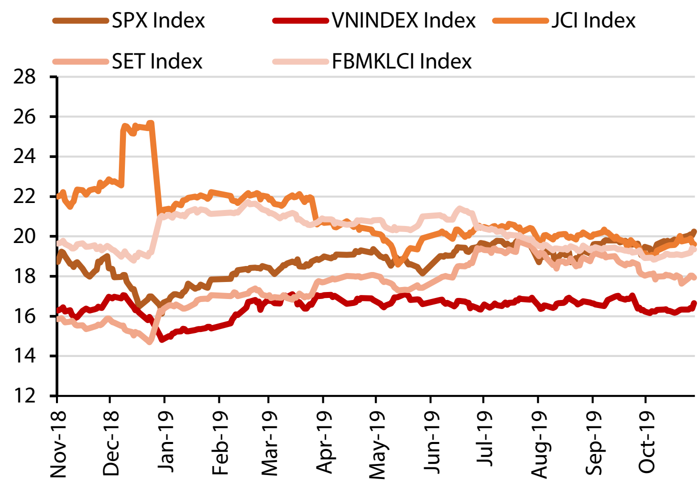
The main problem for foreign investors to invest in the Vietnam stock market right now is foreign ownership limit. Most companies with good fundamentals are nearly at their limits. However, the Ho Chi Minh stock exchange has released its methodology for building new indices that will help to partly solve the problem. We assume ETFs that track those indices will be launched this year.

Figure 22: Bond Yields Have Recovered



Source: Bloomberg, Rong Viet Securities

Figure 23: PE of VNIndex is Low Compared to Regional Peers



Source: Bloomberg, Rong Viet Securities

Substantial margin outstanding

Although 3Q's and 9M's earning results of brokerages did not strike as extraordinary good, gains from loans and receivable (*) increased sharply. Historical data indicates a positive relationship between margin outstanding and VNIndex. Even though the relationship is not strong now as it was 2017, increase in margin outstanding clearly supports the stock market.

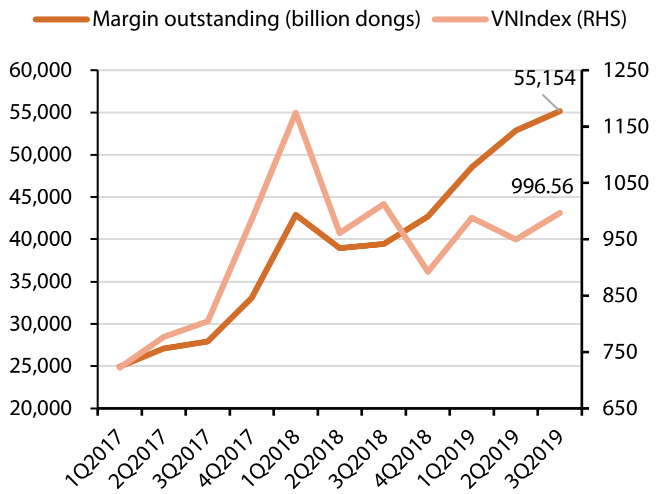
(*): gains from loans and receivable is the interest income from margin lending

The margin outstanding increased by VND 12 tn or 29% in the first nine months, nearly four-fold the average daily traded value. The three brokerage with Korean capital including Mirae, KB and

KIS accounted for 37% of the total increase. The fact that the Korean central bank cut interest rate again in mid-October encourages Korean brokerages to raise margin outstanding in Vietnam as the average margin lending rate (**) is quite high. Besides that, big domestic brokerages also can raise fund with low interest rates for margin lending.

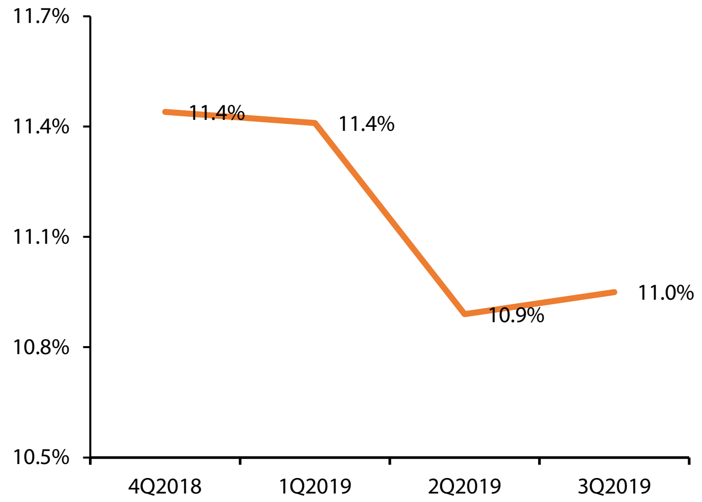
(**) gains from loans and receivable divides by average of margin outstanding at the beginning and end of period.

Figure 24: Positive Relationship Between Margin Outstanding and VNIndex



Source: Fiinpro, Rong Viet Securities

Figure 25: The Average Lending has Gradually Decreased



Source: Fiinpro, Rong Viet Securities

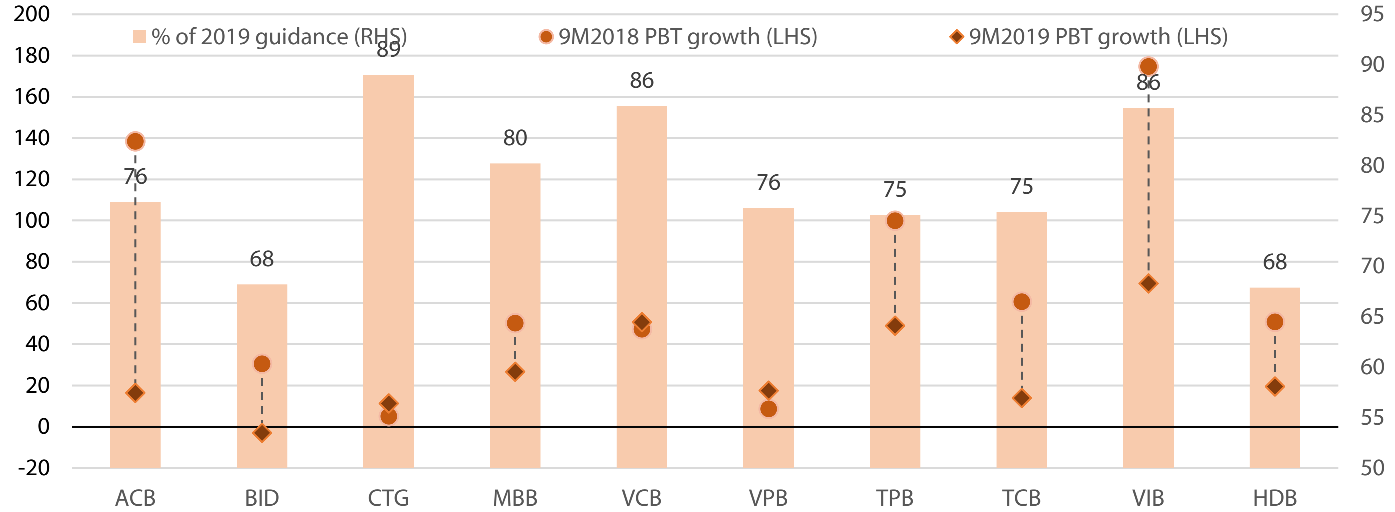
In short, we assume that 3Q's earning results have not been reflected in share prices in October yet. While the market can expect foreign investors to turn net buyers soon as external risks has decreased, margin outstanding has continued to rise sharply. Additionally, the decrease in margin lending rate due to rising competition among brokerages is also an encouragement for investors. We assume that the VNIndex will fluctuate in a range of 1,000 to 1,040 in November.

As we discussed on our previous monthly strategy reports, although Vietnam's domestic fundamentals are favorable for a rise of the stock market, global issues have persevered and have held back the market. As soon as those issues and risks diminished in early November, the stock market took off. With the comeback of foreigners, we expect a good last two months of the year for Vietnamese stocks. Raising the proportion of stock against cash or using margin could help investors benefit from this uptrend period.

Regarding the 9M 2019 business results, the divergence among sectors and stocks continues to be wide, such as for example within the real estate industry. In that industry, particularly, total revenue and NPAT grew 24% and 28% YoY in 9M respectively, but mostly came from VIN-related stocks. Excluding the contribution from those companies, NPAT of the real estate group grew merely 15% YoY. The next three groups reporting the highest growth in NPAT are retails, bank and technology (dominated by FPT's results), at 30% YoY, 25% YoY and 22% YoY respectively.

As we shared our views on MWG and PNJ (retail) and FPT (technology) recently, this month will focus on banking stocks. Total operating income (TOI) and NPAT of listed bank grew 22% and 43% YoY in 3Q 2019, and 17.2% and 25% YoY in 9M 2019 respectively. Not only core activities (lending and services) showed an improvement but also lower costs of operation and provisions boosted earnings growth. As we can see from figure (26), most banks experienced a lower NPAT growth rate than that of last year, mostly due to one-off income last year. The positive is that most banks fulfilled more than three-fourth of their guidance for the entire year 2019. Given that banks' peak earnings season falls in 4Q, we believe that they will achieve a higher-than-targeted figure.

Figure 26: Earnings Results in 9M 2019 by Bank



Source: Rong Viet Securities

Figure 27: TOI, Opex and Provision Expenses Growth in 9M2019 (%, YoY)

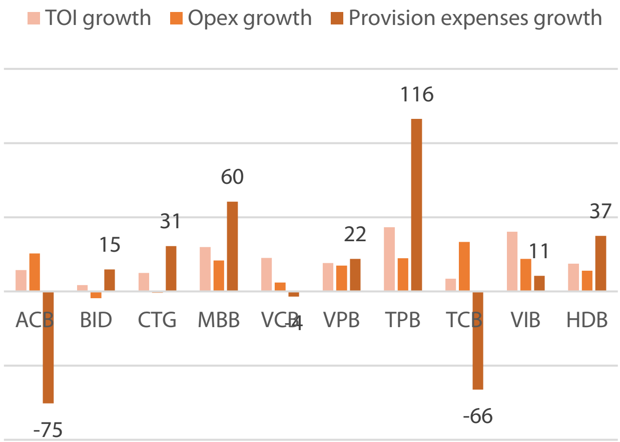
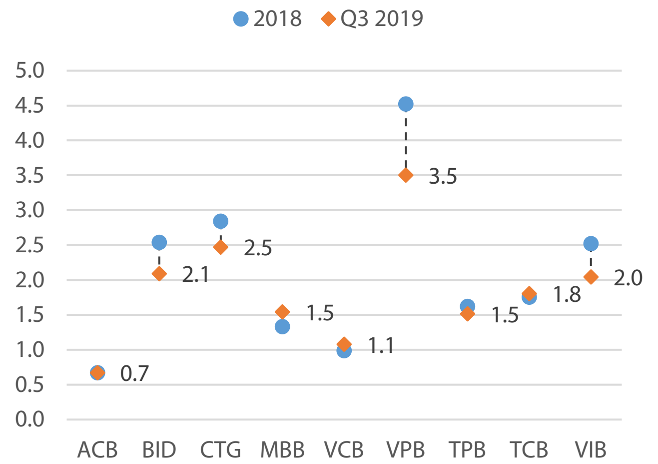


Figure 28: Bad Debt (NPL and VAMC bond) Ratio (%), Well-Controlled for Most Banks as of Sep 2019



Source: Rong Viet Securities

Strong capital buffer, low leverage and high Basel II CAR, will ensure a high lending growth rate. This is a positive point given that (1) Lending is still the key source of income for banks and (2) Credit expansion will allow banks to cross-sell their products (card, transaction settlement, insurance, etc.), then, enhancing their service income. Low relative valuation, given 2020 forward PBR at around 1.0x – 1.4x, and high ROE (18 – 20%) is also another advantage of this group. Note that most listed private commercial banks have reached their plateau in terms of foreign ownership.

ACB – TP: VND 27,800. We are positive view on ACB considering that, along with healthy liquidity and sufficient capital buffers, the bank focuses on its traditional strengths instead of expanding into high-risk areas. In addition, the potential for bancassurance income growth is expected to be boosted by the recently signed non-exclusive insurance distribution contract with Manulife. These will act as income and earnings drivers since few net interest income growth factors are expected in the near term. In addition, top asset quality and competency in controlling credit costs, along with the potential of bad debts recovery, are also important advantages that should help ACB to maintain a stable profit growth.

VPB – TP: VND 25,700. VPB's 9M business results showed a strong recovery in consumer lending (via its subsidiary FE Credit). Particularly, VPB reported a consolidated PBT of approximately VND 7.2 Tn (USD 310 Mn, +17.4% YoY), fulfilling 76% of its guidance for the entire year. We estimate that the parent bank's PBT decreased by 3.6% YoY to VND 3.5 Tn (USD 151 Mn), excluding the one-off upfront fee in 2018, its PBT grew more than 25% YoY. Meanwhile, that of FC's PBT was up by more than 52% YoY to VND 3.7 Tn (USD 159 Mn). In 9M 2019, the parent bank contributed 51.5% and FC made up 48.5% (9M 2018: 37%) of VPB's total PBT.

In October 2019, VPB successfully bought back 50 million of its treasury shares. As a result its equity declined around VND 1.1 Tn (~ USD 47.4 Mn). The reduction, however, will be compensated by generating earnings in 4Q 2019, and then, will not hurt its CAR (Basel II) too much. Given that its income from lending and services has grown better than our expectations, we increase our forecast on VPB's PBT to VND 9,948 Bn (USD 429 Mn), up by 8% YoY and 5% higher than its guidance for 2019. VPB is trading at a 2020 forward PBR of 1.0x, a relatively attractive valuation considering its ability to grow at a two-digit rate in terms of net earnings and to deliver a ROE of 20% within the next two years.

BID, a State-owned bank, has been progressing on its restructuring plan. Having said that, finding a strategic partner will pave the way for better prospects for the bank. Therefore, though its current PBR is higher than is peer's average, we believe BID can become another strong contender in the sector.

BID – TP: VND 50,000. BID has completed the deal to sell 603 million shares to KEB Hana Bank (KHB), at VND 33,640 per share, equivalent to post-money PBR of 1.7x. The shares will be locked up for five years. With over VND 20.2 Tn (or c. USD 875 Tn) collected from the deal, BID's chartered capital increased to VND 40.22 Tn (or c. USD 1.73 Bn), making it the biggest banks in terms of charter capital in the Vietnam banking industry. BID is still planning to continue to make placements to dilute the government's ownership to 65% next year. The placement will be up to 10% of new charter capital and will take place at least six months after the strategic placement deal with KHB.

The new funds from KHB will alter BID's fundamentals as well as impact its growth prospect in the upcoming years:

- Improving capital buffer, which in turn enables a higher credit growth. After the deal, CAR (Basel 1) is raised to 10.5%, and CAR (Basel 2) is estimated to be at higher than 9%. Credit growth is targeted to reach 14-15% per annum.
- Relieving funding pressure. We estimate that BID can maintain a lower growth of total mobilization (*) than total credit, as well as become less dependent on Tier 2 capital. As such, NIM is likely to reach 2.9% for 2019 and 3.1% for 2020.

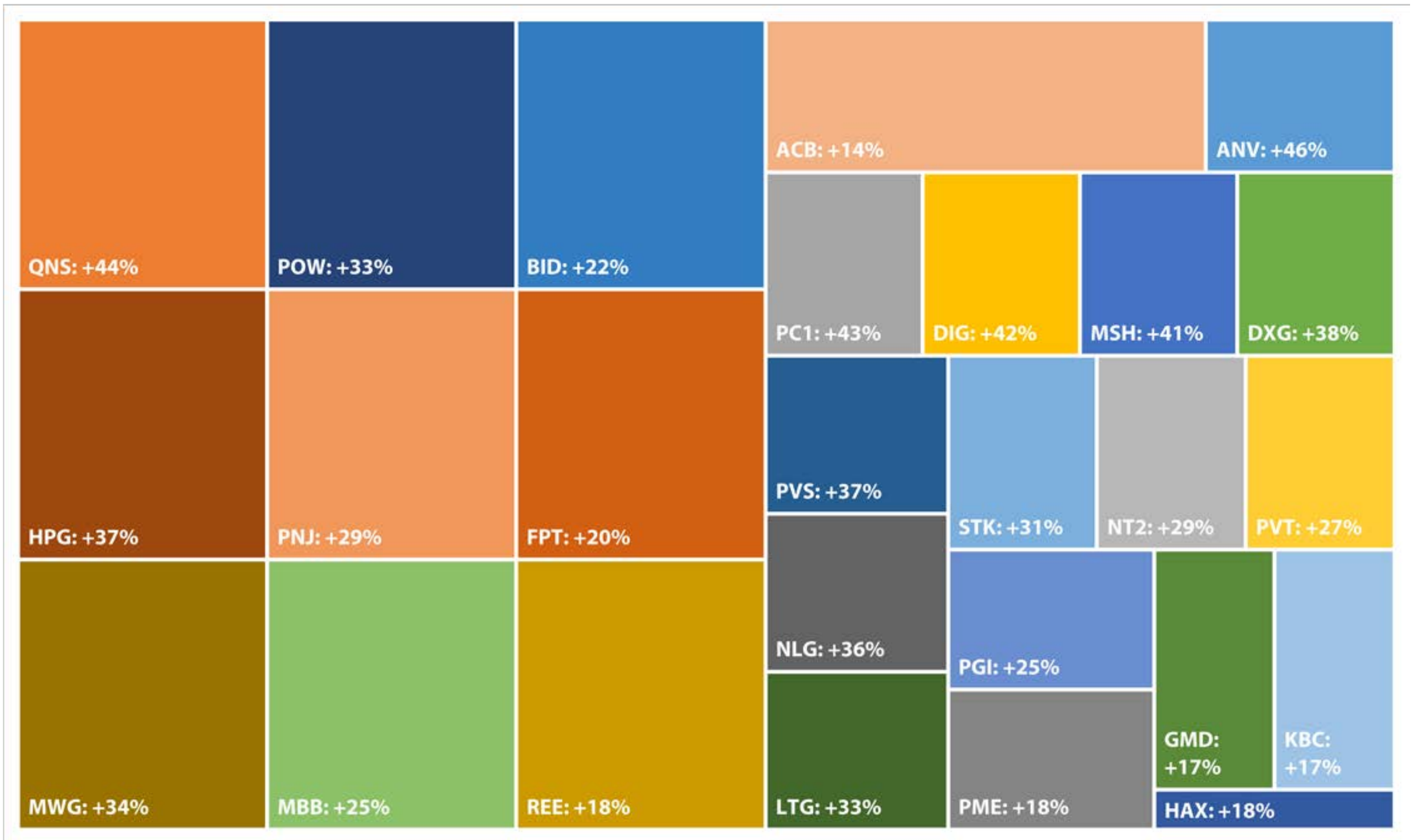
  (*) total mobilization fund including customer deposit and value paper

- Strengthening BID's retail banking, digital banking and asset quality management. Keb Hana Bank will send around 20 Korean expats to BID to cover some key positions, including one seat on the BOD and one seat on the BOM.

At the same time, BID has been prioritizing the cleaning of its asset book, both on-balance sheet and VAMC debts. However, with the support from the injected capital in 4Q 2019, we expect that the bank can still achieve a modest 10% earnings growth in 2019. Upon the clearance of VAMC debts, provision burden should ease when provision costs might be reduced to VND 16 Tn (or c. USD 699 Mn, -24% YoY) in 2020. As such, we expect a significant earnings acceleration in 2020.

The stock is trading at a 2019 PBR of 2.2x, significantly higher than its peer's average (excluding VCB). We would anticipate, however, that the bank deserves such a high PBR given its high growth potential (NPAT CAGR of 30% in 2019 – 2022 and ROE approaching 19% by 2022).

Figure 29: Our favorite stocks in November 2019



Source: Rong Viet Securities; Price as of Nov 4th 2019; Square size: stock's market-cap classification

HIGHLIGHTED STOCKS

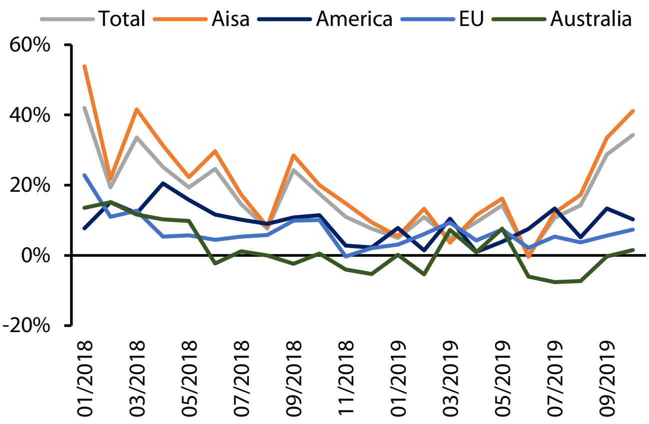
Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Current price (VND)	Total Return (%)	Rating	2018		2019F		2020F		PER Trailing (x)	PER 2019F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)	Revenue 9M 2019 (VND Bn)	NPAT 9M 2019 (VND Bn)	vs Analyst expectation
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)										
LHG	HOSE	33	25,000	15,150	65.0	Buy	-11.8	6.6	7.0	-8.7	17.6	30.5	5.5	4.7	0.7	0.0	-12.7	150	37.9	330	98	
HAH	HOSE	27	18,000	13,000	53.8	Buy	35.5	-8.3	3.7	-5.4	9.6	10.5	5.1	5.0	0.7	15.4	10.1	259	30.9	0	0	
PAC	HOSE	53	38,000	26,500	52.8	Buy	12.7	-42.6	9.6	11.4	10.8	7.5	7.5	7.1	1.8	9.4	-38.4	76	23.9	2,264	116	😐
ANV	HOSE	140	35,400	25,700	45.5	Buy	39.6	321.4	11.4	10.5	13.4	15.5	4.0	4.9	1.5	7.8	4.7	564	46.9	3,102	506	😐
QNS	UPCOM	449	40,500	29,100	44.3	Buy	5.2	20.8	-2.7	-6.3	17.4	10.9	8.2	7.7	1.7	5.2	-11.5	592	32.3	6,048	807	😐
PC1	HOSE	128	26,800	18,700	43.3	Buy	60.5	90.0	22.2	-11.6	-2.9	17.0	7.3	8.1	0.9	0.0	-0.7	256	10.7	0	0	😐
DIG	HOSE	186	19,500	13,750	41.8	Buy	68.4	31.7	-9.2	26.5	162.8	37.0	13.5	10.2	1.2	0.0	8.9	666	13.2	1,287	93	☹
MSH	HOSE	115	72,000	53,700	40.6	Buy	20.4	84.6	13.8	17.0	10.1	9.7	5.7	6.6	2.1	6.5	0.0	247	40.5	3,456	356	😊
DXG	HOSE	356	22,000	15,950	37.9	Buy	14.9	39.8	-4.5	4.4	-4.8	6.6	5.2	6.7	1.2	0.0	-22.4	1,390	2.8	3,798	907	😊
PVS	HNX	384	25,080	18,700	36.8	Buy	-12.9	30.8	17.9	7.9	-12.3	-11.0	9.1	8.0	0.7	2.7	3.6	1,930	26.7	13,569	649	☹
HPG	HOSE	2,581	29,700	21,750	36.6	Buy	22.0	0.0	19.7	-2.6	30.3	49.5	8.2	7.4	1.3	0.0	-29.3	5,034	11.4	45,683	5,591	☹
NLG	HOSE	306	38,714	28,500	35.8	Buy	24.8	55.0	-8.2	27.8	-44.1	12.1	13.5	7.6	1.5	0.0	10.2	1,187	-0.1	1,325	412	😐
MWG	HOSE	2,400	167,000	126,100	33.6	Buy	30.0	30.5	21.7	35.0	25.2	36.7	15.1	14.7	4.9	1.2	52.0	4,816	0.0	76,763	2,975	😐
POW	HOSE	1,384	18,000	13,750	33.1	Buy	5.3	107.8	4.4	45.6	18.0	23.6	12.9	13.2	1.2	2.2	0.0	921	34.9	26,239	2,223	
LTG	UPCOM	82	29,800	23,600	33.1	Buy	4.0	0.0	-5.7	22.9	-3.2	-14.5	4.1	4.4	0.7	6.8	-17.8	54	4.8	6,318	288	😊
STK	HOSE	57	24,000	18,650	31.4	Buy	21.0	79.0	5.2	20.8	8.4	9.3	6.0	6.8	1.3	2.7	16.5	54	39.8	1,653	161	😐
TCM	HOSE	54	28,000	21,700	31.3	Buy	14.1	35.1	2.4	-11.6	6.9	24.0	6.3	6.1	0.9	2.3	-5.2	568	0.0	2,789	153	😐
PNJ	HOSE	819	109,000	85,600	29.4	Buy	33.0	32.5	16.9	20.4	19.9	33.0	17.7	17.7	4.6	2.1	18.3	2,697	0.0	11,679	806	😐
PVD	HOSE	296	21,060	16,350	28.8	Buy	-27.2	-79.8	-21.5	N/A	51.9	N/A	15.9	N/A	0.5	0.0	10.3	1,674	26.6	2,982	49	😊
NT2	HOSE	285	27,100	23,000	28.7	Buy	13.4	-3.5	2.4	-3.7	0.3	4.7	8.3	9.0	1.6	10.9	-3.4	283	29.6	5,760	548	
DPM	HOSE	230	16,400	13,650	27.5	Buy	16.0	0.7	-22.2	-53.0	28.6	101.8	18.3	19.1	0.7	7.3	-23.4	282	29.8	5,399	144	☹
PVT	HOSE	208	21,300	17,200	26.7	Buy	22.4	44.9	8.3	-0.2	0.0	-7.5	6.8	7.9	1.2	2.9	0.8	561	18.2	5,826	491	😐
VSC	HOSE	61	30,000	25,650	26.7	Buy	30.1	26.6	-5.8	-16.3	-3.1	-14.9	6.2	5.1	0.9	9.7	-25.5	185	9.9	1,355	149	☹
PGI	HOSE	65	20,100	17,000	25.3	Buy	3.4	15.6	5.5	7.7	6.2	9.2	9.9	10.7	1.0	7.1	12.4	5	28.4	0	116	😐
MBB	HOSE	2,329	28,500	23,300	24.9	Buy	40.9	68.3	23.1	23.4	22.1	20.5	7.3	7.5	1.5	2.6	18.6	4,598	0.0	17,957	6,142	😊
VHC	HOSE	319	100,600	81,600	23.3	Buy	13.7	138.5	-14.2	-14.4	21.7	7.0	5.3	6.1	1.5	0.0	-10.2	517	65.5	5,696	981	😐
FRT	HOSE	138	49,000	40,600	23.2	Buy	16.0	20.0	12.4	10.6	9.8	15.1	9.0	8.6	2.5	2.5	-33.0	110	0.1	12,427	234	☹

Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Current price (VND)	Total Return (%)	Rating	2018 +/- Rev. (%)	2018 +/- NPAT (%)	2019F +/- Rev. (%)	2019F +/- NPAT (%)	2020F +/- Rev. (%)	2020F +/- NPAT (%)	PER Trailing (x)	PER 2019F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)	Revenue 9M 2019 (VND Bn)	NPAT 9M 2019 (VND Bn)	vs Analyst expectation
BID	HOSE	6,201	50,000	42,200	21.8	Buy	14.0	8.4	24.9	19.5	17.2	80.7	20.0	26.3	2.6	3.3	30.0	2,033	26.6	34,259	5,496	☹
FPT	HOSE	1,746	70,000	59,900	20.2	Buy	17.0	35.0	23.2	26.9	16.0	20.3	12.8	12.2	3.0	3.3	59.7	4,970	0.0	19,597	2,378	😐
PME	HOSE	177	63,000	55,000	18.2	Accumulate	3.2	8.0	11.0	6.5	14.0	14.6	13.5	12.6	2.2	3.6	-17.6	21	37.9	1,328	224	😐
REE	HOSE	510	43,300	38,300	17.8	Accumulate	36.5	26.0	1.8	-10.0	0.0	16.6	6.8	7.4	1.2	4.7	26.1	1,737	0.0	3,565	1,189	😐
HAX	HOSE	28	19,600	17,950	17.5	Accumulate	33.1	8.1	12.0	9.6	10.3	11.1	8.1	6.1	1.4	8.4	23.8	121	39.8	3,636	44	☹
GMD	HOSE	343	30,000	26,900	17.1	Accumulate	-32.0	263.8	5.6	-71.6	9.0	13.6	13.2	15.5	1.3	5.6	-2.2	1,480	0.0	1,996	451	▪
KBC	HOSE	289	16,200	14,300	16.8	Accumulate	98.8	27.9	12.9	13.3	-10.3	-8.8	8.9	8.0	0.7	3.5	25.7	1,354	22.8	2,486	500	☹
BFC	HOSE	37	15,900	14,900	16.8	Accumulate	1.6	-30.1	-4.4	-67.5	-0.6	22.2	8.9	14.6	1.0	10.1	-38.0	41	34.5	0	0	▪
ACB	HNX	1,752	27,000	24,600	13.8	Accumulate	22.7	142.5	10.4	15.4	13.0	14.6	6.9	7.1	1.6	4.1	5.2	2,906	0.0	11,288	4,448	😐
NCS	UPCOM	21	30,000	27,500	12.7	Accumulate	15.4	24.2	6.8	-17.0	6.9	7.7	11.5	13.6	2.2	3.6	-20.0	1	47.3	488	32	😐
SCS	HOSE	373	160,000	150,600	11.6	Accumulate	14.8	20.7	12.4	14.9	16.5	21.1	18.1	16.9	8.3	5.3	6.2	120	24.7	549	367	😐
VRE	HOSE	3,493	38,550	34,900	10.5	Accumulate	-13.6	-17.2	2.5	21.7	13.3	22.2	30.6	27.8	2.9	0.0	21.2	4,728	17.4	6,475	1,968	😐
IMP	HOSE	103	51,000	48,550	8.8	Accumulate	1.7	18.2	9.8	7.9	14.6	15.3	16.0	18.2	1.6	3.7	-0.8	102	0.0	886	110	😐
DRC	HOSE	116	23,600	22,700	8.4	Accumulate	0.0	-0.2	9.1	11.5	5.8	16.8	13.3	18.7	1.7	4.4	9.8	439	25.9	2,891	170	☺
BMP	HOSE	185	51,100	52,600	6.7	Accumulate	15.6	-24.9	7.8	10.0	3.0	-3.7	10.4	9.8	1.7	9.5	-1.3	360	20.3	3,178	328	😐
VGC	HOSE	363	20,100	18,850	6.6	Accumulate	-2.3	-6.4	-2.8	10.3	2.3	7.6	13.6	13.6	1.3	0.0	0.0	803	35.4	7,382	522	☺
VNM	HOSE	9,828	134,000	131,300	5.9	Accumulate	3.0	-0.7	8.1	5.5	7.1	8.9	21.4	23.6	8.4	3.8	14.9	5,408	41.0	42,079	8,380	😐
AST	HOSE	142	75,000	73,600	4.6	Neutral	31.2	9.2	32.5	23.3	20.0	23.7	16.9	16.7	5.1	2.7	42.8	418	3.3	845	154	😐
HDG	HOSE	183	37,200	35,900	3.6	Neutral	14.1	-16.0	48.1	7.7	27.5	22.5	3.9	6.5	1.9	0.0	32.6	888	33.5	3,118	645	☺
PPC	HOSE	356	23,000	25,800	0.8	Neutral	14.1	35.3	-3.6	-14.1	5.6	7.6	7.9	8.7	1.4	11.6	63.0	336	33.2	5,909	776	😐
VCB	HOSE	14,667	90,000	92,000	-1.3	Neutral	33.6	61.1	19.7	27.7	14.7	16.4	17.5	20.4	4.2	0.9	63.7	3,127	6.1	35,066	14,117	☺
ACV	UPCOM	7,510	78,000	81,000	-1.5	Neutral	16.0	50.0	13.2	16.5	9.6	10.8	24.4	27.4	5.1	2.2	0.4	470	45.3	13,500	5,898	▪
HDB	HOSE	1,244	29,000	29,500	-1.7	Neutral	38.5	136.6	14.7	17.5	13.6	18.7	8.9	8.7	1.6	0.0	-11.9	2,109	6.3	8,044	2,484	
VJC	HOSE	3,272	138,000	145,300	-3.0	Neutral	26.7	5.2	13.1	27.0	66.7	82.7	15.0	14.5	5.1	2.1	8.2	5,613	10.0	38,134	3,682	▪
CTG	HOSE	3,593	21,300	22,450	-5.1	Reduce	-11.9	-27.1	36.6	47.6	6.3	10.2	13.7	14.4	1.1	0.0	-4.5	2,521	0.0	29,948	6,806	
VIC	HOSE	17,503	106,661	121,700	-12.4	Reduce	68.4	74.1	7.6	50.0	41.2	106.5	89.4	77.4	5.3	0.0	26.8	4,487	34.2	92,614	2,898	😐
PHR	HOSE	337	30,200	57,800	-40.8	Sell	40.4	48.5	-9.4	211.4	8.8	-15.0	9.3	9.4	2.5	6.9	111.6	1,388	42.2	1,159	610	😐

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

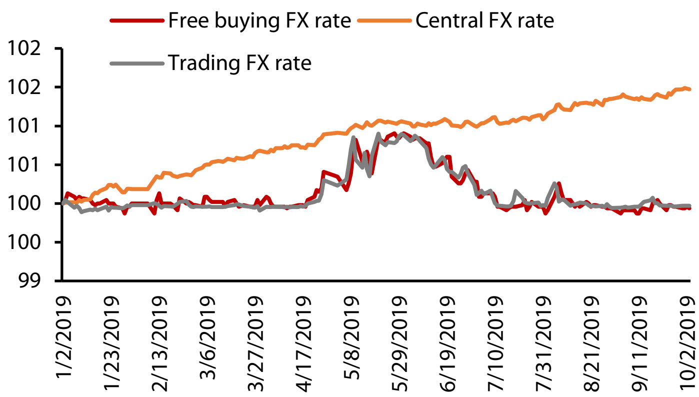
VIETNAM ECONOMIC INDICATORS IN OCTOBER

International tourists' growth (%, YoY)



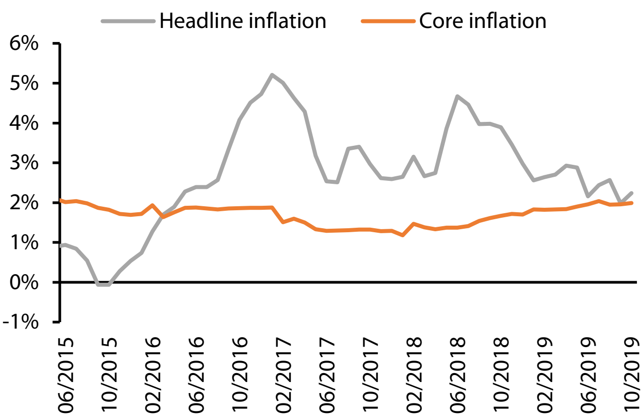
Source: GSO, Rong Viet Securities

USDVND exchange rate (Points)



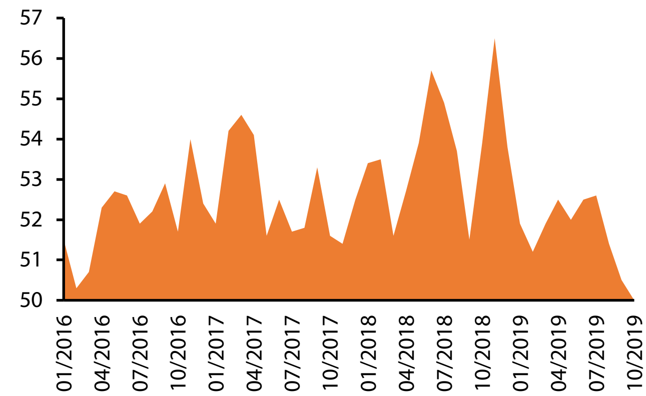
Source: SBV, Rong Viet Securities

Inflation (%, YoY)



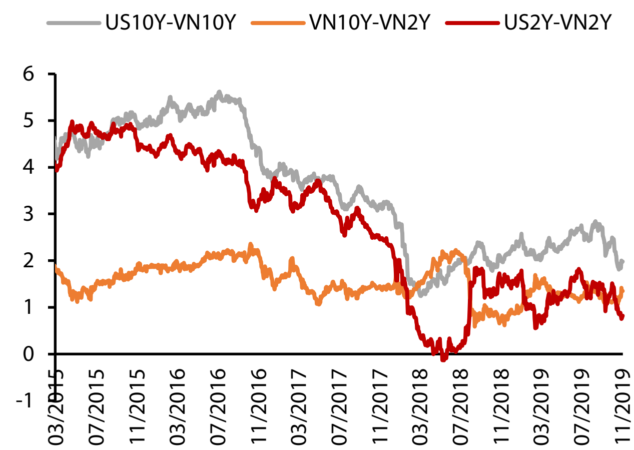
Source: GSO, Rong Viet Securities

Vietnam's PMI (Points)



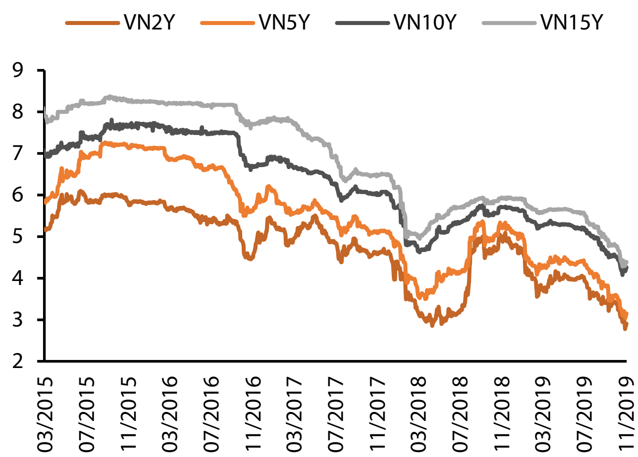
Source: IHS, Rong Viet Securities

G-Bond yields' gap between Vietnam and US



Source: Bloomberg, Rong Viet Securities

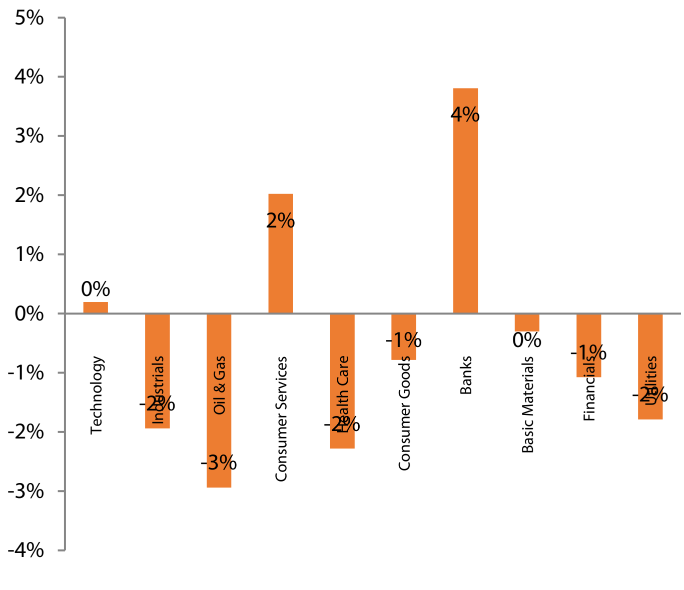
Vietnam G-Bond yields



Source: Bloomberg, Rong Viet Securities

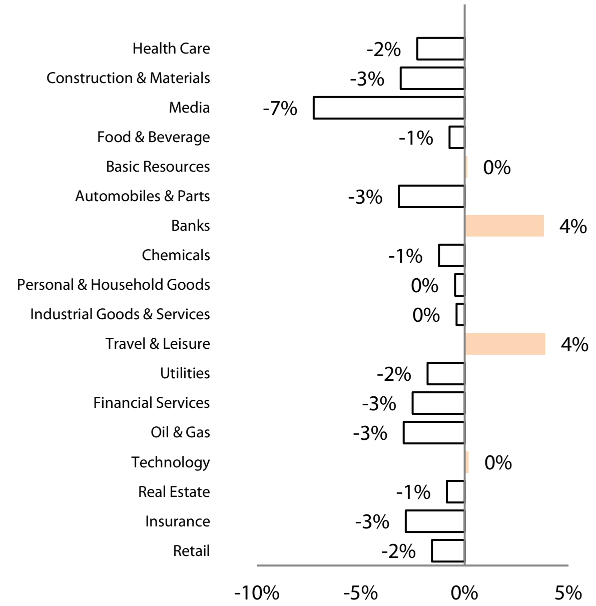
INDUSTRY INDEX

Level 1 industry movement



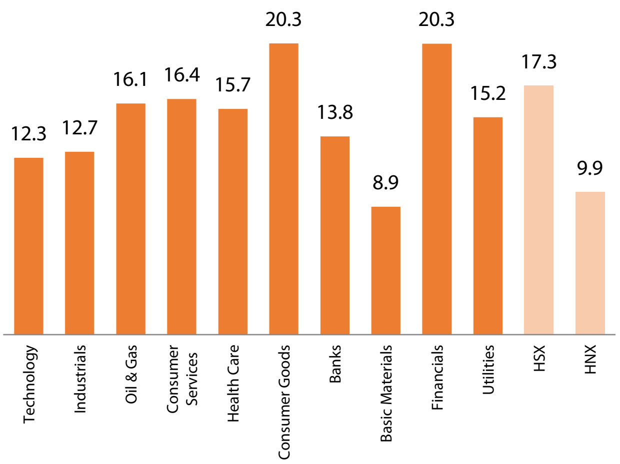
Source: Fiinpro, RongViet Securities

Level 2 industry movement



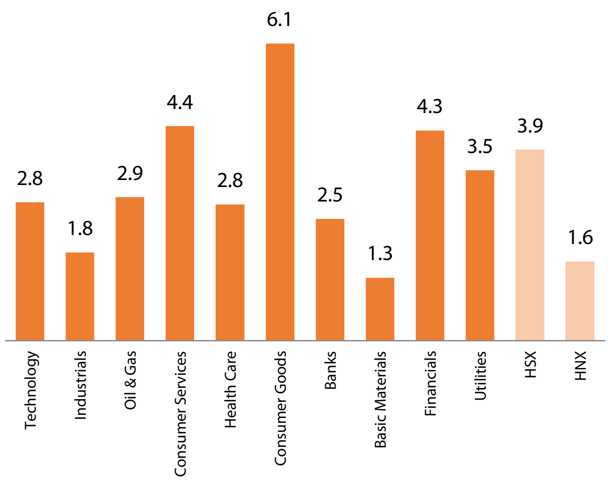
Source: Fiinpro, RongViet Securities

Industry PE comparison



Source: Fiinpro, RongViet Securities

Industry PB comparison



Source: Fiinpro, RongViet Securities

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