OCTOBER

ADVISORY DIARY

15

THURSDAY

- **Government budget: A view from SCIC's divestment**
- **Stable markets with relatively low risk level**
- **September trade deficit reached USD220.6 million**

Yesterday, we mentioned about imbalance in state budget revenues and expenses derived from SCIC divesting from listed large cap stocks. Our valued investors can find further discussion on this topic below.

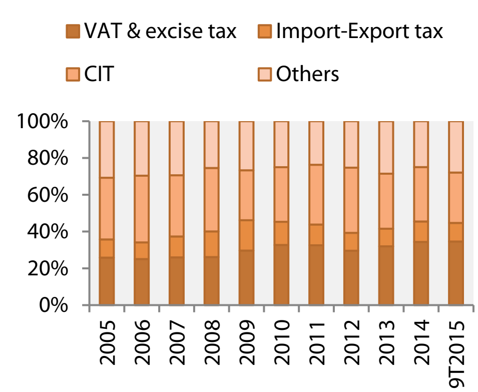
Government budget: A view from SCIC's divestment

The allowance of the Government for State Capital Investment Corporation (SCIC) to conduct divestment in several major (VNM & FPT) on the stock exchanges has received special attention from investors over the last few days. Regarding the actual policy amendment compared to previous decision, there are several speculations that the State budget has been struggling and forced for an adjustment. The issue that concerns investors is the appropriate time for the divestment. According to Rongviet Research, the level of difficulty that State budget has faced could be a suggestion to answer the above question.

Analyzing the budget structure of income and expenditure over the first 9 months of 2015 demonstrated several perspectives about the fiscal situation at this moment. Firstly, the decline crude oil prices impacted on the main sources of income which are natural resources and corporate income tax (CIT) for foreign companies operating in oil & gas industry. To be specific, both of those sources decreased by 35% and 19% y.o.y, respectively. However, budget revenue for the first 9 months still achieved 75% of the yearly projection. The results were achieved thanks to the compensation from value added and special consumption tax along with the improvement in revenues from personal income tax. Furthermore, another interest angle in 9M2015 budget revenue was the corporate income tax from State owned enterprises (SOEs) with 41% y.o.y decline. The drop was the consequence of ongoing SOE restructuring processes.

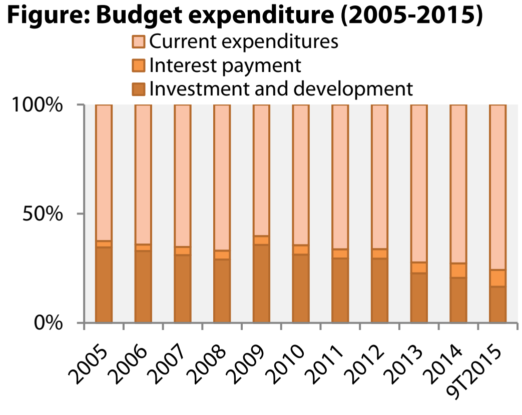
In terms of expenditures, budget expenditure for 9M2015 increased by approximately 7% y.o.y and equivalent to 71% of the projection. Particularly, recurrent expenditures have been relatively close to the estimation and increased by 9% y.o.y. The highest increase was for debt repayment (+15%), followed by administrative and economic expenditures with 12% and 10% respectively. Expenditure that was lower than the yearly plan for investment and development, 9M2015 achieved the equivalent figure to the previous period and only reached 65% of yearly projection.

Figure: Budget revenue (2005-2015)



Sources: MoF, RongViet Research

Figure: Budget expenditure (2005-2015)



Sources: MoF, RongViet Research

9M2015 state deficit was estimated at approximately VND 141,000 billion, increased by 7% y.o.y and equivalent to 62.4% of yearly projection. Regarding 9-month accumulation, budget deficit was at ~4.9% of GDP, lower than 5.7% in 2014. Consequently, budget balance achieved the target but the structure of incomes and expenditures demonstrates several inadequacies. For example, the

"Stable markets with relatively low risk level"

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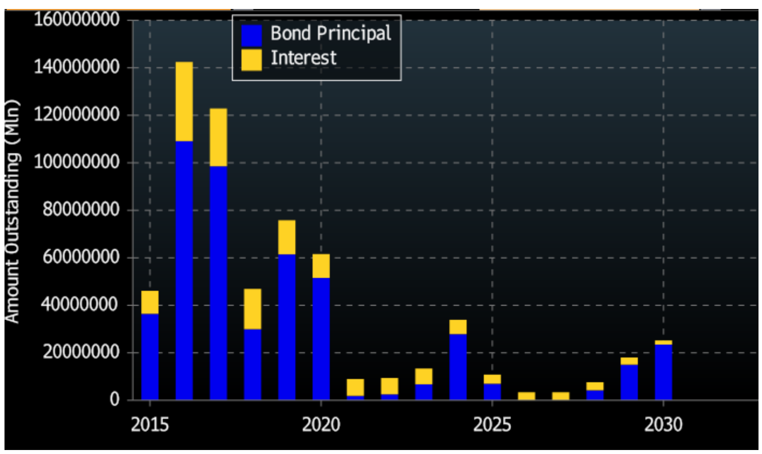
main source of income, which has been CIT (private and FDI sector) showed no improvement or the expenditure structure is relatively unsustainable when current expenditures and debt repayments has accounted for a higher proportion. According to MoF, total revenue in 2015 could be ahead of schedule about 1.8% (~VND16,400 billion), meanwhile, total expenditures could be lower than the projection due to investment expenditures. In 2015, we estimate budget deficit would be about VND200,000 bn (~4.8% GDP).

At the moment, MoF are finding various solutions to deal with budget difficulties. Since the early of the year, the State Treasury issued VND101,500 billion of government bond, adding the USD1 billion issued for Vietcombank, the budget deficit has just been offset ~62%. Recently, MoF also borrowed VND30,000 billion from SBV which must be paid within this year. Though making announcements that this loan is not due to budget constraints, the Government actions show the budget is on the bed of thorns. Because of low wining ratio of long-term Government bond issuance, the policy makers have to change the bond issuance's policy by diversifying the term. Besides, issuing international bonds is also considered.

To sum up, the budget is under three pressures: (1) **the decline from main revenues**; (2) **the burden of debt repayment**; (3) **lack of resources to finance investment and development**. In 2016, those problems will continue to increase due to the debt repayment obligations and no sign of oil price recovery. In addition, deposit rate is showing signs of rising, after reforming the term, we think the interest rate is crucial for the success of Government bond's issuance. *Finally, SOEs reform could generate revenue but the slow progress due to lacking of quality goods and time-consuming, the divestment of state capital from listed companies could be a viable and fast solution.*

Figure: The schedule of Government Debt payable between 2015-2030



Source: Bloomberg

Stable markets with relatively low risk level

Indices rebound. SCIC's divesture lost its effect as VNM, BMP, NTP (approved for divesting) plunged; FPT pushed slightly higher while BVH pointed to strong gains of VND2,500/share. Markets were sluggish in the morning session and VNIndex fluctuated around 590 pts. Higher bids entered in the afternoon lighted up evening session. Banking group including VCB, BID, CTG, STB, SHB and Insurance tickers like BVH, BMI, BIC were main pillars of today markets. By the end of the day, VNIndex closed at 2.42 pts and HNIndex closed at 0.41 pt.\

Volumes posted higher for 2 days in a row. Order matching volume was over 144 million (+7.46%). Considering recent sessions, buying volume increased strongly by 7.2% while selling volume only increased slightly 0.7%. Besides, looking back 2 recent sessions (date 13/10 and 13/10), buying demand was improved but still cautious but selling volume was decreasing. Investors holding stocks could choose to take profit or continue to hold. We think that if this trend continues investors' confidence will be strengthened and lead to more sustainable market rally.

Table: Changes in Bid-Ask volumes

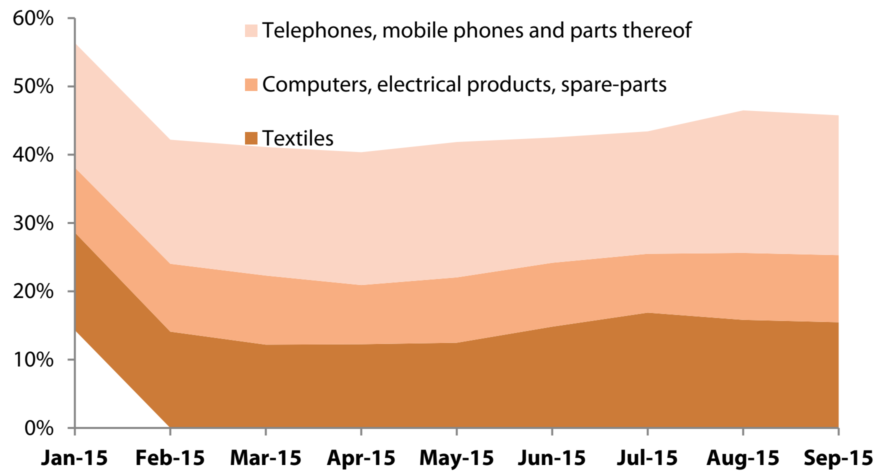
Date	% change in bidding volumes	% change in asking volumes
15/10/2015	7.22%	0.66%
14/10/2015	0.77%	-0.99%
13/10/2015	-6.73%	-7.83%

Macro update

September trade deficit reached USD220.6 million

General Department of Customs announced September exports and imports figure. Specifically, export turnover post USD13.8 billion, up 9.34% yoy. Mobile phones and electronic components, textiles and garments, computers and electronic products have always been accounted for high proportion (~50%) as well as maintained theirs growth. On the opposite side, due to low commodity prices, coffee, tea, rice, coal and crude oil recorded decreasing in export value. Import turnover was reported at USD14.03 billion, slightly up 6.19%. Computers, electronic components and products (15.3%), machine, equipement, tools and instruments (16.07%) and fabric (5.9%) accounted largest proportion of total import turnover. 9-month accumulated import turnover recorded USD124.25 billion, up 15.6% yoy.

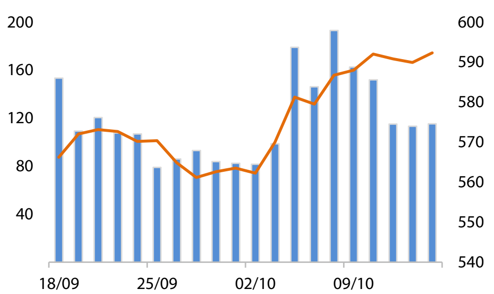
Figure: The 3-largest products' segment

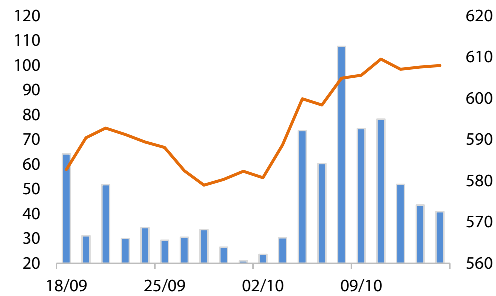


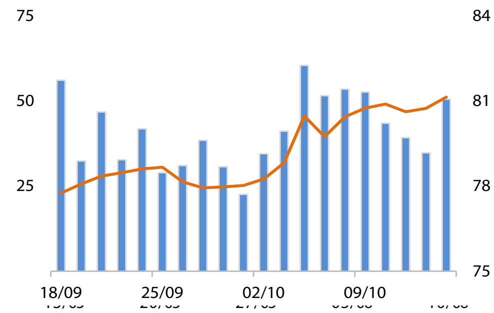
Source: Customs, RongViet Research

So, Vietnam trading figure in September remained deficit of USD 220.58 million, which accumulated to USD 4.03 billion. In fourth quarter, demand for imports usually rises by 5-6% compared to third quarter. Of which, goods such as mobile phone and parts, cloth,… usually increases by 11-13% in the last quarter compared to previous quarters. Therefore, we believe that that trend would be continued.

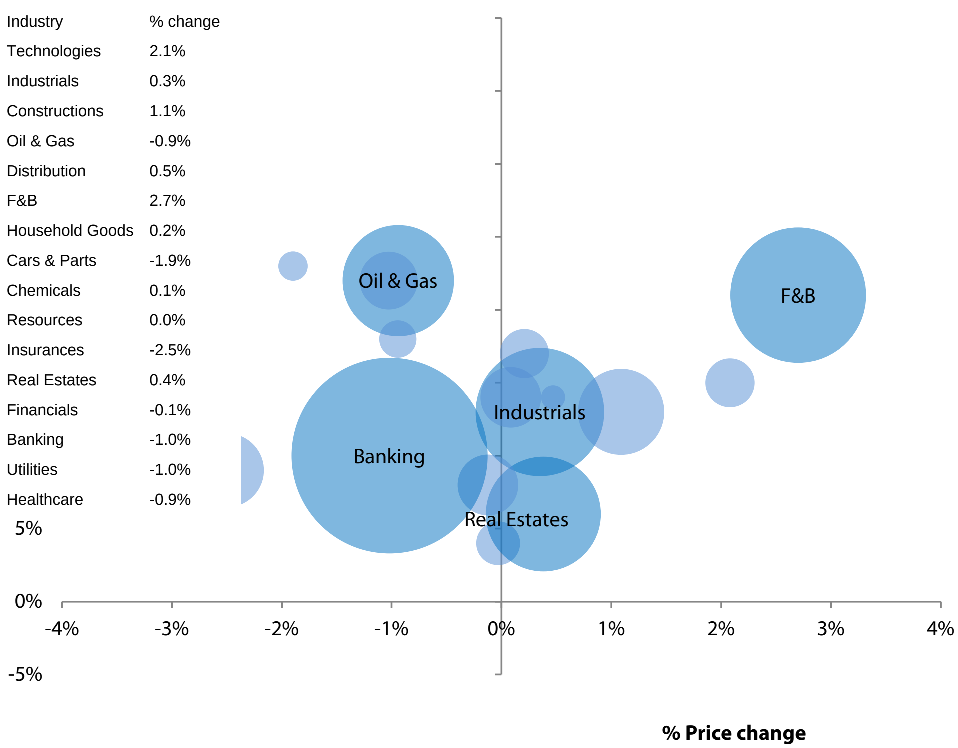
VNINDEX 0.41% **592.40** | **VN30** 0.06% **607.95** | **HNXINDEX** 0.50% **81.14**



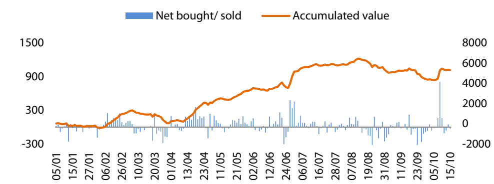




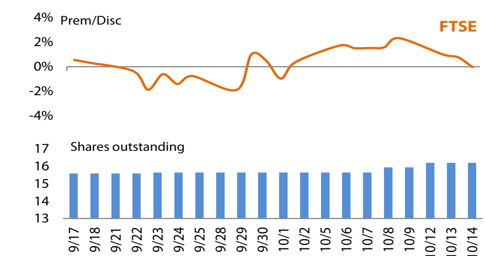
Industry Movement

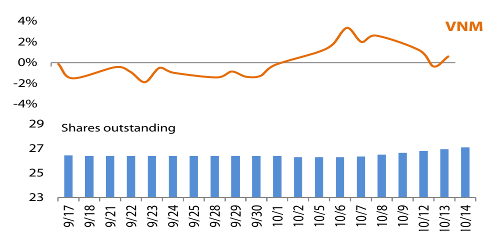


Foreign Investors Trading

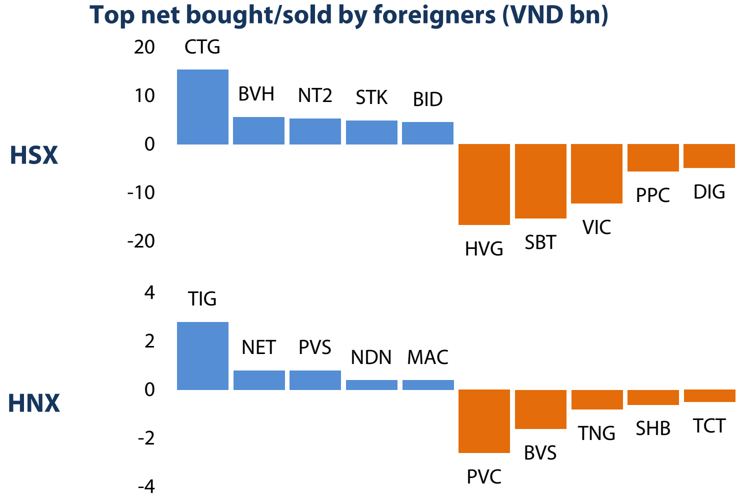


ETF





Top net bought/sold by foreigners (VND bn)



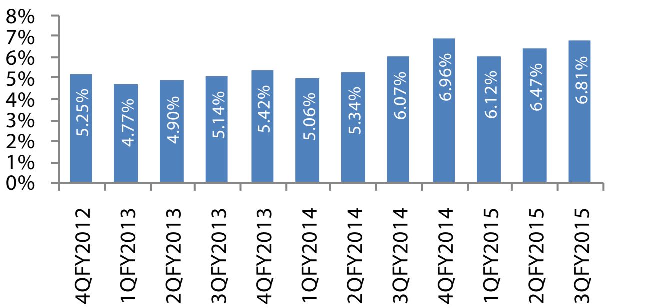
Top Active

Ticker	Price	Volume	% price change
ITA	6.7	6.88	4.7%
DLG	7.5	5.71	4.2%
CTG	20.7	4.44	2.5%
FLC	7.1	4.26	0.0%
HQC	6.1	3.83	0.0%

Ticker	Price	Volume	% price change
SHB	6.9	5.96	1.5%
SCR	8.2	2.44	1.2%
VMI	8.8	1.66	-9.3%
KLF	4.5	1.64	2.3%
VND	13.3	1.32	1.5%

MACRO WATCH

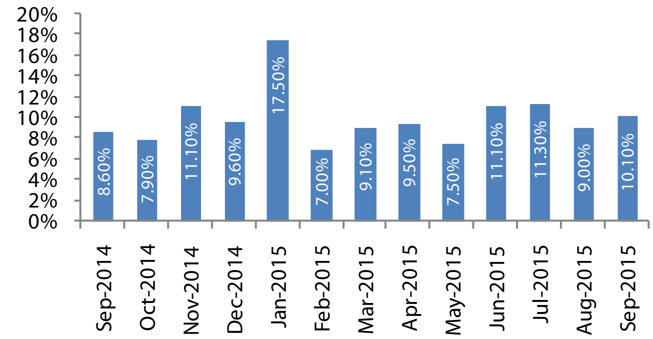
Graph 1: GDP Growth



Sources: GSO. Rongviet Securities database

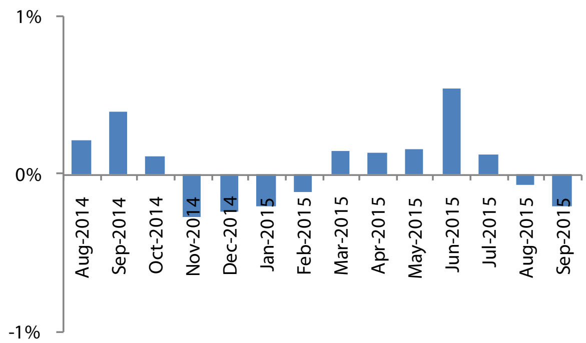
(*) Comparision price in 1994

Graph 2: IIP



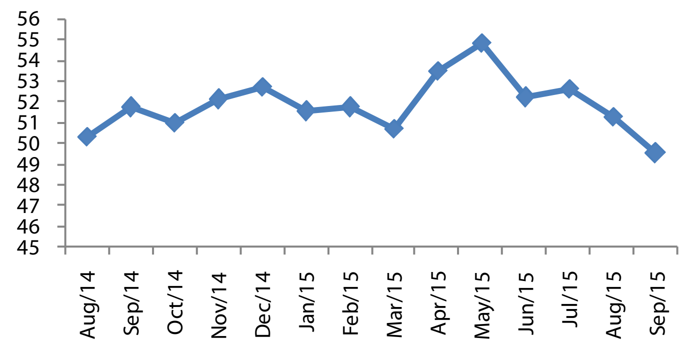
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



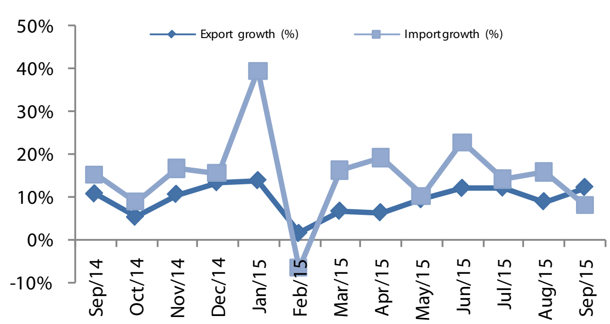
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



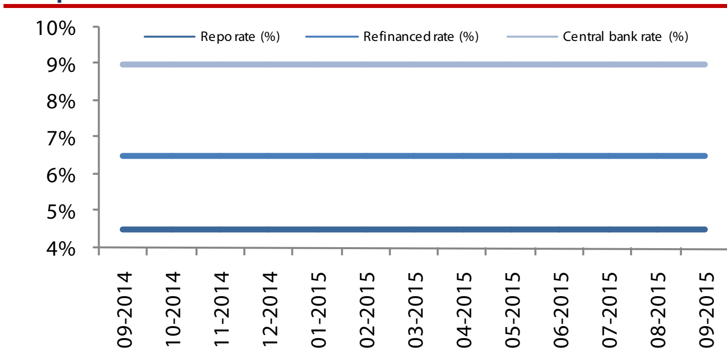
Sources: GSO. Rongviet Securities database

Graph 5: Trade Growth



Sources: GSO. Rongviet Securities database

Graph 6: Interest



Sources: SBV. Rongviet Securities database

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
CHP- Off season advantages	Sep, 30th 2015	Buy - Intermediate	23,600
PXS - Invest to strengthen construction capacity	Sept, 4th 2015	Accumulate - Intermediate	17,000
SHP - Positive over long-term	Sept, 3rd 2015	Accumulate - Intermediate	20,800
PET - Tracking the progress of Thanh Da land plot transfer	Aug, 20th 2015	Stable	N/a
VNC - Embrace the new wave of international commerce	Aug, 14th 2015	Neutral – Long term	28,900

Please find more information at http://www.vdsc.com.vn/en/companyReport.rv?categoryId=302

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	06/10/2015	0% - 0.75%	0% - 2.5%	11,935	11,922	0.11%
VEOF	06/10/2015	0% - 0.75%	0% - 2.5%	10,347	10,241	1.14%
VF1	08/10/2015	0.2% - 1%	0.5%-1.5%	23,236	22,386	-0.64%
VF4	07/10/2015	0.2% - 1%	0%-1.5%	10,038	10,391	-0.79%
VFA	02/10/2015	0.2% - 1%	0%-1.5%	7,097	7,217	-1.66%
VFB	02/10/2015	0.3% - 0.6%	0%-1%	12,375	12,361	0.12%
ENF	02/10/2015	0% - 3%	0%	11,582	11,578	0.03%
MBVF	30/09/2015	1%	0%-1%	10,574	10,538	0.34%
MBBF	30/09/2015	0%-0.5%	0%-1%	12,383	12,372	0.09%

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