STRATEGY REPORT 2019
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- Vietnam Macro and Stock Market Outlook 2019
- Investment Strategy and Themes 2019
- Sectors and Company Outlook 2019

WILL 2019 BE A REPEAT OF 2018 FOR GLOBAL EQUITY MARKETS?

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Our base case scenario is that equity markets, in general, will remain volatile in 2019 and will not reach new highs. Geopolitics is the main issue in our view, not valuations or the level of interest rates. What to watch for:

- Trade war (s) or the end of it
- Currency volatility
- Divergence in monetary policies, curve inversion
- Elections, globally
- And of course Mr. T

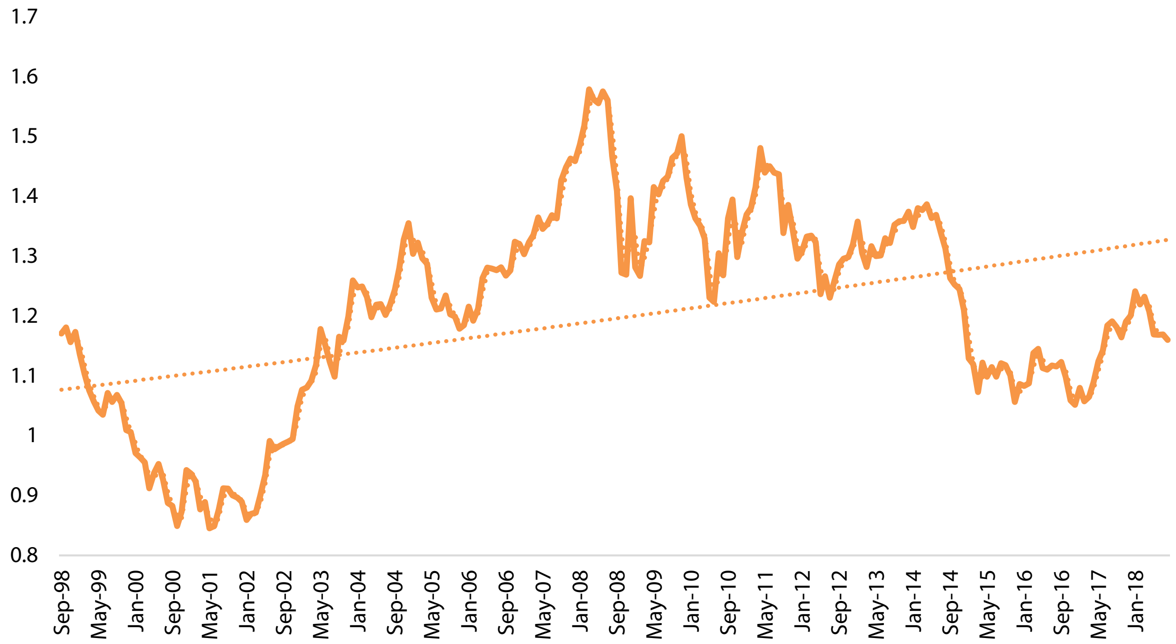
The list could be endless though.

2018

What has characterized equity markets in 2018 is the divergence between returns in the US and the rest of the world. This can be somehow explained by 1) corporate tax reductions in the US; and 2) increased risk aversion from investors after bond yields rose combined with a nine-year rally in equities. The S&P 500 Index is up around 510% since bottoming out in March 2009.

That has helped keep the US dollar fairly steady. The Euro has been on a secular path of weakness versus the greenback for over ten years (see Figure 1). A move from the current 1.13 level to 1.22 seems 'doable' in 2019.

Figure 1: Euro vs USD, monthly



Source: Bloomberg, Rong Viet Securities

Risks to this view exist obviously. More xenophobic right wing politics in Germany is one. A 'messier' Brexit outcome or no outcome is another. There are issues with rising protectionism and so-called nationalism. Workers exasperation in Greece, France and Italy among others is also a challenge. The 'yellow jackets' movement that led lately to demonstrations in France, sometimes violent, is not something that has been created over a few months. It is a generational phenomenon brought by stagnating wages, rising income disparities, higher cost of living and disappearing pensions. Some are ready to blame this on freer trade/ globalization. We think it is mostly due to the failure of governments to adapt to a different global economic and financial environment. In Europe, maybe apart for Germany, competitiveness has declined. A new era where the old continent is not economically anymore at the center of the world. We are in a polarized world. May sounds cliché but one should get used to it.

Hedge fund returns have been dismal for a few years. Money is being returned to investors and quite a few funds have closed shop. The HFR Global Hedge Fund Index is down 6% in 2018 (as of Dec 11).

Figure 2: HFR Global Hedge Fund Index, Jan. 1998 to Dec. 2018

Source: HFR, Bloomberg; As of December 11, 2018

Earnings and valuations

Can earnings growth provide a relief for equity prices in 2019? We doubt it for two reasons:

- Year over year comparisons will be tougher
- GDP growth globally is slowing down, putting pressure on the pricing power of firms

We could add that, in general, rising labor costs will also be impacting companies in so-called developed economies but also in some developing economies.

We mentioned that valuations are not an issue. By themselves they rarely move entire markets, except maybe during the 2000-02 Nasdaq debacle when some companies traded at P/E multiples in excess of 80-100 times.

Among major indices and markets, current valuation levels are lower than four years ago. Vietnam is an exception though, but this is in part due to the fact that earnings growth is still 'good' and that it is among the largest weighting in the MSCI Frontier Market universe.

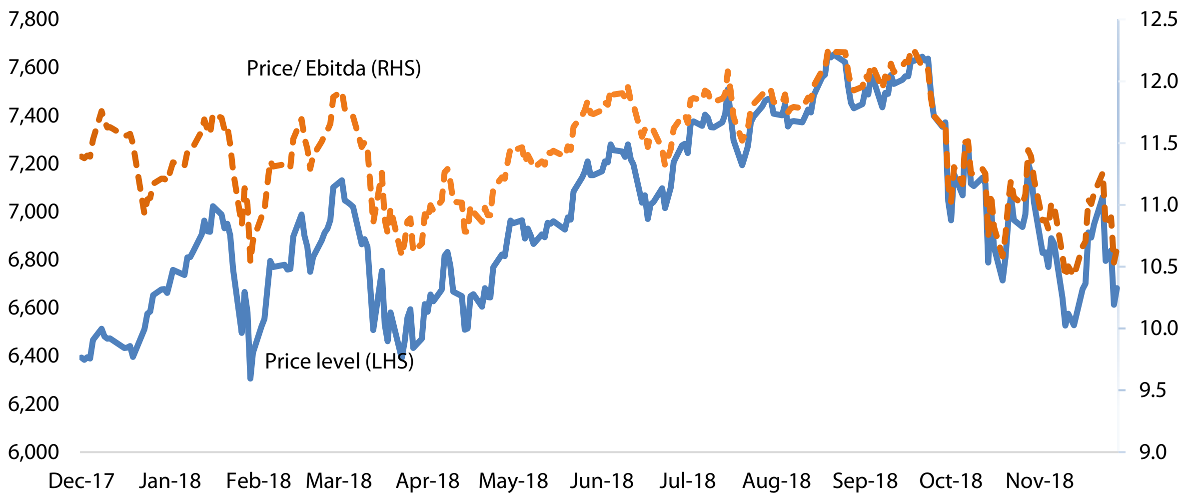
Table 1: P/E and EV/ Ebitda

	P/E	P/E 2014	EV/ Ebitda	EV/Ebitda 2014
MSCI World	16.2x	17.9x	9.8x	10.4x
MSCI EM	11.6	13.1	7.5	7.5
S&P 500	17.9	18.1	9.8	11.2
Eurostoxx 600	14.9	21.0	9.6	9.8
Topix	12.4	16.1	7.8	10.1
China A-shares	12.1	15.6	9.6	12.7
VN Index	16.7	12.9	10.9	9.0

Source: Bloomberg, Rong Viet Securities

As of December 14, 2018

Figure 3: Nasdaq and P/Ebitda



Source: Bloomberg, Rong Viet Securities; As of December 14, 2018

US politics and elections

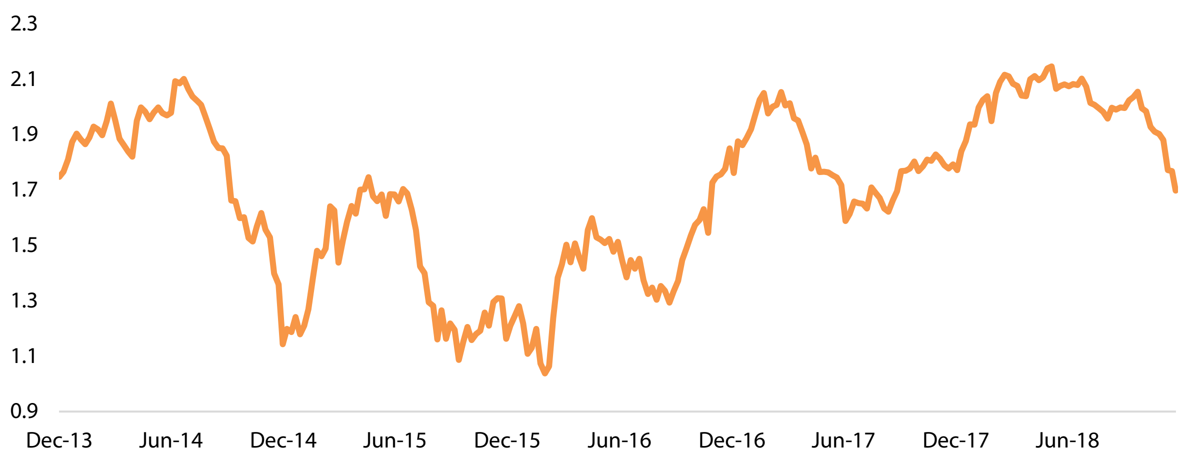
The US house of representatives is now under the control of the Democrats. Will it change the White House various domestic, foreign and budgetary policies? Yes. The other factor to consider for 2019 is the fact that presidential elections are around the corner. The Democrats will need to choose a nominee. There are, for now, three favorites in Bernie Sanders, Joe Biden and Elizabeth Warren. All in their 70s. Millennials do like Sanders as we saw in 2016. However, younger candidates like Kamala Harris could come to challenge those three. For the Republicans it remains to be seen if Mr. Trump will run. His problems with the 'Russia meddling into the 2016 elections' are not over. Legal basis for Trump impeachment? Watch that space.

There will be plenty of elections, either presidential, federal or regional, taking place in 2019. It could keep investors on their toes. Just to mention a few: European Parliament, Greece, Russia, Ukraine, Canada, Argentina, Australia, India, Indonesia, the Philippines and Nigeria.

Interest rates

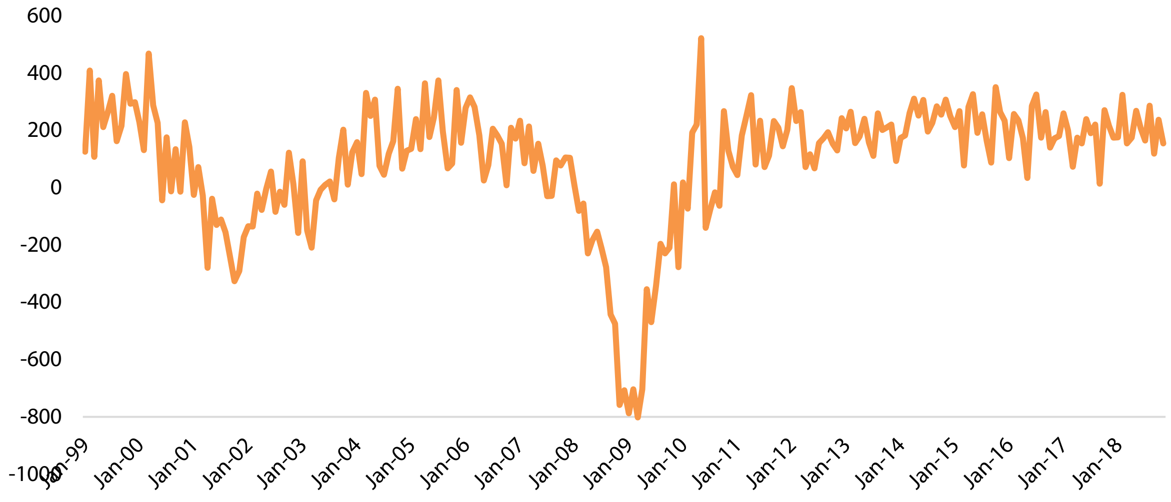
Markets generally are not pointing at much tighter monetary policies in the short term. In the US (Figure 4), Japan and Germany, rates have fallen sharply in the past few months. It is difficult to see how, at least in the first few months of 2019, long term rates could rise sharply. Job creation in the US (Figure 5) has probably peaked, having averaged close to 200,000 per month since 2010.

Figure 4: US 5-yr Treasury note yield, %



Source: Bloomberg

Figure 5: US non-farm payrolls change, monthly in thousands



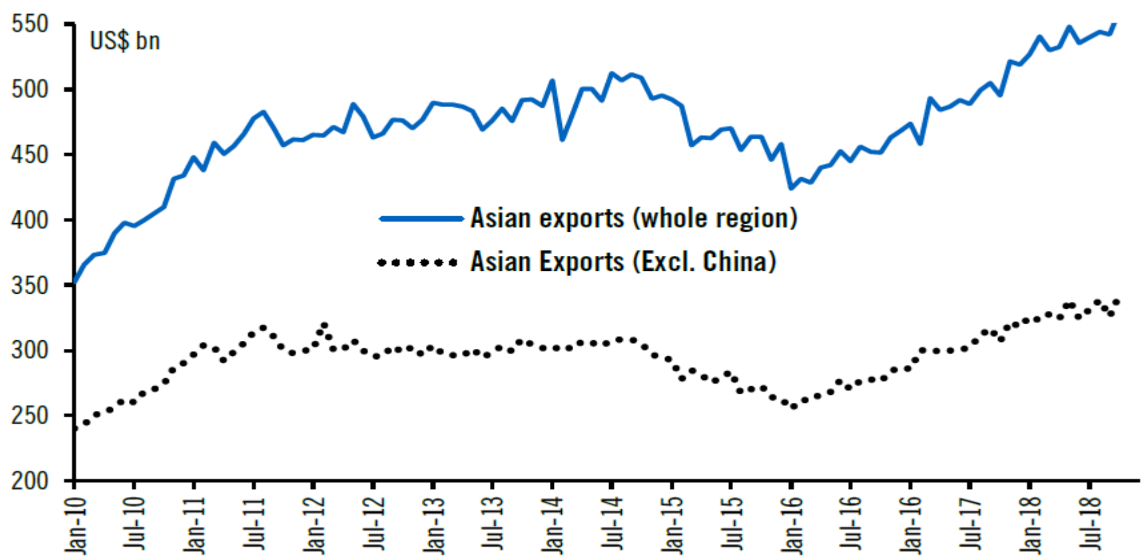
Source: BLS

Of course the talk in markets is the recent inversion of rates between 3-yr and 5-yr Treasury notes in the US. This is to be accepted as a clear deterioration of 'confidence' for many more rate hikes by the FED.

Asian exports

Among the good news for Asia in 2018 has been the expansion of exports, which have reached a record level in value term. In 2019 one should expect a moderation in the growth rate as we expect tougher global conditions.

Figure 6: Asian exports, 2010-2018



Source: Alethia Capital

However on the positive side, in the next few years the economies of emerging Asia will expand by the size of the entire Mexican economy. In five years, emerging Asia will grow by the size of the Japanese economy, and in ten years, by the size of the European economy. That means plenty of cash flow to eventually boost equity markets.

Vietnam

If our bullish call on the Euro is right, this could have an impact on Vietnam's export and imports to/ from the EU. Companies involved in selling or buying goods and services to Europe should be keen to look at what is the potential impact. The European Union is Vietnam's third largest trading partner, slightly below China in second place. A stronger Euro could also affect the import/ export relationship with the US, the largest trading partner.

We note that even though Credit Default Swap (CDS) spreads on Vietnam's 5-year bonds have risen in 2018 to around 155 from 140 early in the year, they are still well below the nearly 300 level of 1Q2016. This implies that credit markets are not too worried about massive defaults from corporates or SOEs.

Relative trade?

Buy Asia ex Japan/ short the US

The carry is positive. Institutional money should eventually come back to Asia. However the larger issue for this trade is the idea that Asian money will stay in Asia, driven by the reconnaissance that things are 'better' in the region than elsewhere.

The economic cycle in the US, and for that matter Europe, is entering into its late stage. Asia ex Japan, however, is still booming. Furthermore, the MSCI Asia ex-Japan has underperformed the S&P 500 massively since June. The VN Index has done better than its peers in the region after registering some stability in the past few months.

Table 2: Index price returns in 2018, USD

Index	Returns
S&P 500	-0.8%
MSCI World	-6.0
MSCI Asia ex-Japan	-15.2
VN Index	-4.8

Source: Bloomberg; As of December 12, 2018

VIETNAM ECONOMIC OUTLOOK - STABILITY IS A TOP PRIORITY

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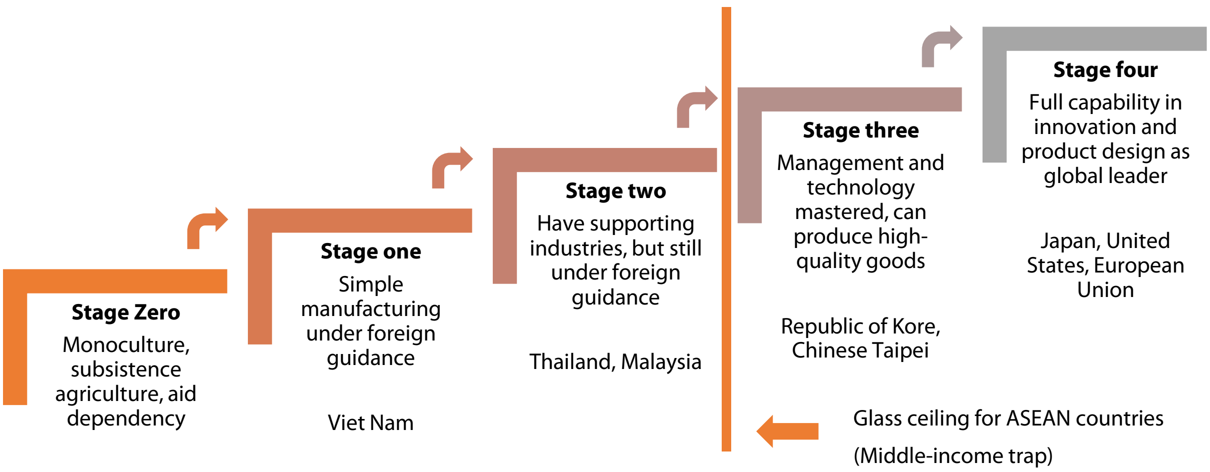
Vietnam: Enhancing the domestic supply chain

There is no doubt that the global economy is currently driven by the concern of the 'late-cycle phase' and the relationship among 'super-powerful' countries. While uncertainty has become the biggest risk, there is a once-in-a-decade opportunity for emerging markets and developing countries (EMDEs), like Vietnam, to deepen their roles in the global value chain (GVC).

The current structural changes in global trade, drawn by the trade tensions between the US and China, and WTO reforms, is likely to speed up the "China plus one" strategy and the "new south wind" strategy of South Korea. That means foreign corporations will look for new destinations. Vietnam is obviously an attractive one due to its strategic location and connections to China, one of three production hubs in the world. However, the comparative advantage of low labor costs is not enough to speed up this process, especially since its attractivity is being eroded. Therefore, the government needs to facilitate the process for companies to become more competitive.

Figure 7: Ohno's stages of industrialization



Source: Ohno 2009, WB, Rong Viet Securities

First, we strongly believe that the Domestic Value Chain (DVC) can be shaped by cohesion and co-operation between various actors in the domestic manufacturing industry as well policymakers. During the building-up phase, the private sector is critical. Vietnamese leaders have embraced the importance of private enterprises since the 12th National Congress of Vietnam Communist Party. Medium and large private companies need to be supported to structure and drive the DVC. In case of success, such development will create opportunities for smaller companies. There are well-known existing and potential domestic value chains in various industries, such as electronics, automobiles, pharmaceuticals, aviation, oil and gas, food and beverage, etc. Table 3 list the top corporations in different industries.

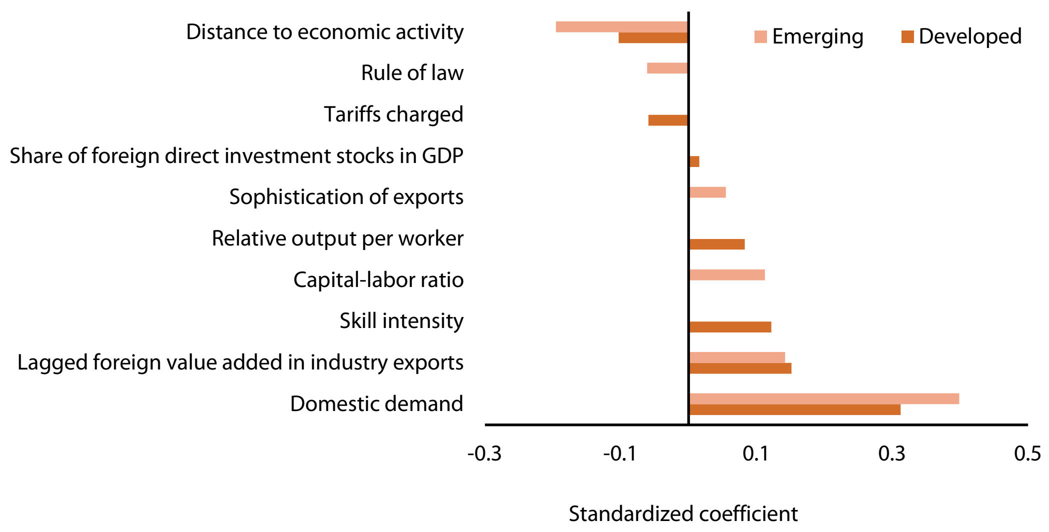
Table 3: List of top corporations in Vietnam

No.	Biggest Private Corporations in Vietnam	Sector	No.	Biggest Corporations in Vietnam	Sector
1	Vingroup Joint Stock Company	Real estate	1	Samsung Electronics Vietnam	Tech
2	Truong Hai Automobile Co., Ltd.	Automobile	2	Vietnam Electricity Corporation	Electricity
3	Vietnam Dairy Products Joint Stock Company	Dairy	3	Petro Vietnam Corporation	Oil&gas
4	DOJI Gold & Gems Group joint stock company	Jewelry	4	Viettel Corporation	Telecom
5	Masan Group Corporation	Food	5	Petrolimex Corporation	Oil&gas
6	Mobile World Investment Corporation	Retail	6	Agribank	Bank
7	FPT Corporation	Tech	7	Binh Son Refining and Petrochemical	Oil&gas
8	Hoa Phat Group Corporation	Steel	8	BIDV Bank	Bank
10	Vietnam Prosperity Joint-Stock Commercial Bank	Bank	9	Vietnam Airlines	Aviation
11	Vietjet Aviation Joint Stock Company	Aviation	10	Vinacomin Corporation	Mining

Source: VNR500, Rong Viet Securities

Demand linkages within the local economy are the most significant determinant of growing domestic value added for exports, according to a Kowalski and Lopez-Gonzalez's (2016) study. We reckon that the effects of domestic manufacturing protectionism policies, thru tariffs and non-tariffs barriers, are bringing incredible opportunities for domestic manufacturers to operate on a large-scale and close the supply value chain gap. Domestic carmakers get a chance to replace imported ones due to the effect of Circular 116. The automobile sector is always important to an economy. Some carmakers are asking for the exemption of special taxes put on domestically produced parts, which is likely to be discussed in parliament meetings in 2019.

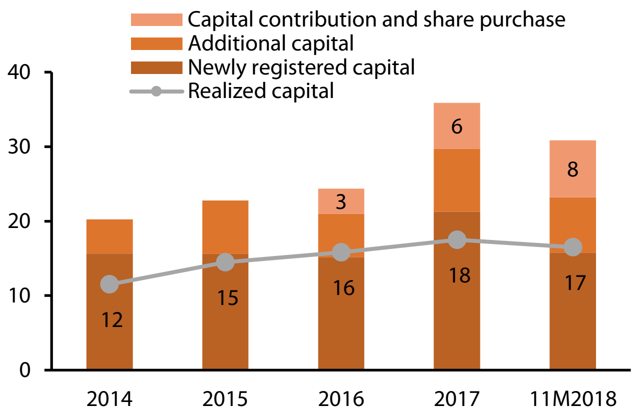
Figure 8: Significant determinants of change in domestic value added in exports



Source: Kowalski and Lopez-Gonzalez 2016, WB, Rong Viet Securities

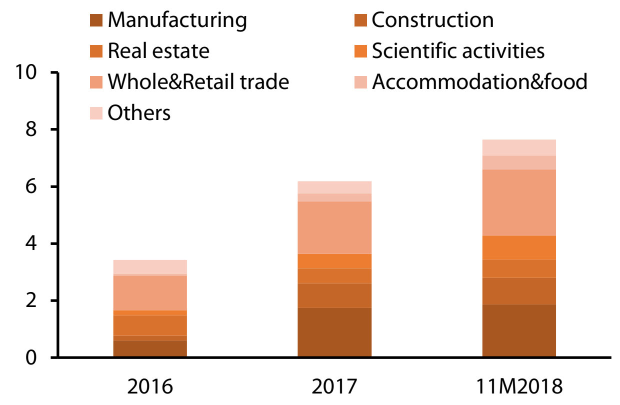
Secondly, co-operating with and joining the value chains of multinational corporations are mandatory for the development of Vietnamese corporations. Formosa, Intel or South Korean chaebols like Samsung and LG are playing an important role in the economy. Currently, we see a new trend of FDI investment where the amount of capital contribution and share purchase is skyrocketing. The M&A market is busy.

Figure 9: FDI Investment (USD Bn)



Source: MPI, Rong Viet Securities

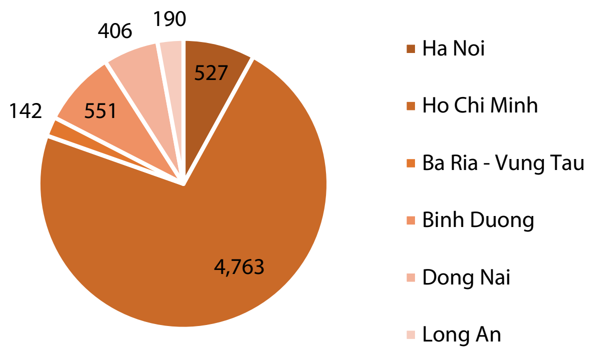
Figure 10: Capital contribution and share purchase, by sector (USD Mn)



Source: MPI, Rong Viet Securities

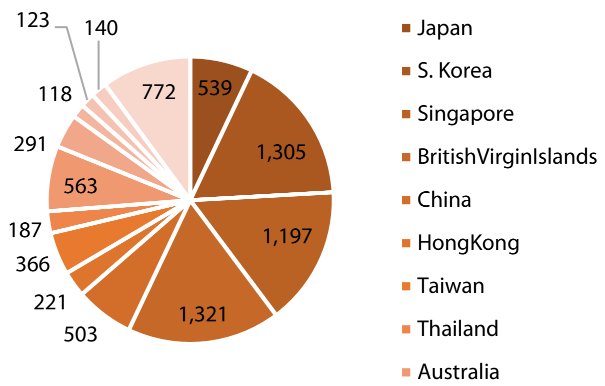
Investment flows in some of Vietnam's key industries is important. Over USD 2.3 Bln was invested into the retail industry in 11M2018, nearly doubling since 2016. Investment in the manufacturing industry was reported at over USD 1.8 Bn, followed by construction, real estate, scientific activities as well as accommodation and food. Most of this was in Ho Chi Minh city which is the center of manufacturing, consumption, tourism and property. These investments come from South Korea, Singapore and the British Virgin Islands (which is pretty much offshore China money. These investments can support the state divestment plan and the growth of Vietnamese corporations.

Figure 11: Capital contribution and share purchase, by location (USD Mn)



Source: MPI, Rong Viet Securities

Figure 12: Capital contribution and share purchase, by partner (USD Mn)



Source: MPI, Rong Viet Securities

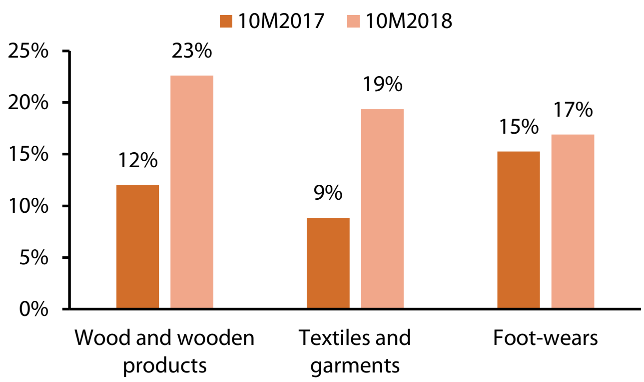
In addition to deepening the DVCs, joining the "next-generation" international economic agreements will affect the development and the comparative advantages of Vietnam in ASEAN. While the CPTPP is likely to take effective in January 2019, there is a huge opportunity with the EU-Vietnam FTA (EVFTA).

The EVFTA is in theory the "next-generation" international economic agreement that would include issues such as investment dispute, intellectual property (IP) rights and Internet governance. Once in force, the EU will eliminate 99% of all tariffs, reduce regulatory barriers, ensure protection of geographical locations and open up the services and public procurement markets. Notably, only 42% of all goods exported to the EU is currently taxed at 0%. Obviously, there are huge promising economic benefits for Vietnam.

However, the probability of that the EU parliament ratifies the deal is 50-50. The Vietnam government needs to prove that there are improvements in human rights as well as how seafood is harvested.

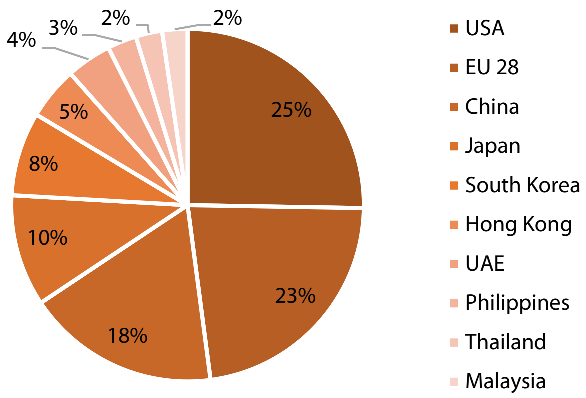
Remarkably, one of the most important issue is related to illegal and/or unofficial goods imported from China. In 2010, the scale of unofficial trade between Vietnam and China was estimated at USD 10 Bn, equivalent to 37% of total officially recorded trade value. The "made in Vietnam" or the temporary import and re-export activity can be exploited by Chinese companies to export their goods in the context of trade tensions. Vietnam has opened other border points and legally allowed transactions in yuan.

Figure 13: Domestic export growth of key goods



Source: Customs, Rong Viet Securities

Figure 14: EU – The second largest importer for Vietnam



Source: Eurostat, Rong Viet Securities

Table 4: Projections for some macro indicators in 2019

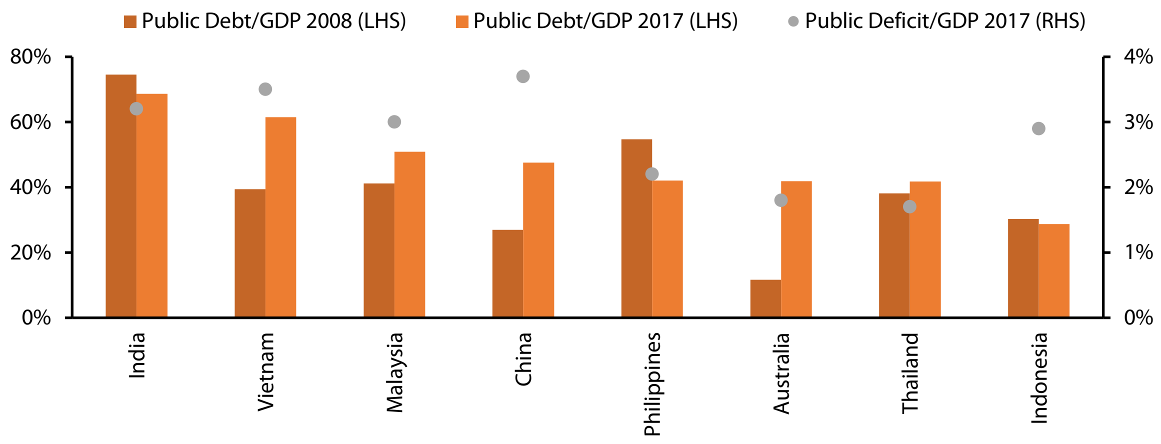
	2015	2016	2017	2018E	2019F
GDP GROWTH	6,68%	6,25%	6,81%	6,8-7,0%	6,6-6.8%
TRADE BALANCE (USD IN BILLIONS)	-4.1	+1.5	+2.9	+7.0	+5.5
EXPORT GROWTH	8.1%	9.0%	21.2%	15.0%	14.0%
IMPORT GROWTH	12.0%	5.3%	20.8%	12.0%	16.0%
INFLATION	0.6%	4.7%	3.5%	3.7%	4.2%
REFINANCING RATE	6.5%	6.5%	6.25%	6.25%	6.25%
OMO RATE	5.0%	5.0%	5.0%	4.75%	4.75%
GROWTH OF MONEY SUPPLY	14.5%	16.2%	17.0%	14.0%	14.0%
GROWTH OF CREDIT	17.3%	18.7%	19.3%	16.0%	15.0%
BUDGET DEFICIT	4.6%	3.9%	3.5%	3.5%	3.6%
EXCHANGE RATE	22,485	22,761	22,715	23,340	24,040

Source: Rong Viet Securities

Fiscal stability: needs to be improved

In addition to financial stability, fiscal stability is also seen as a pillar for an economy. There are two determinants, including public debt and fiscal deficit.

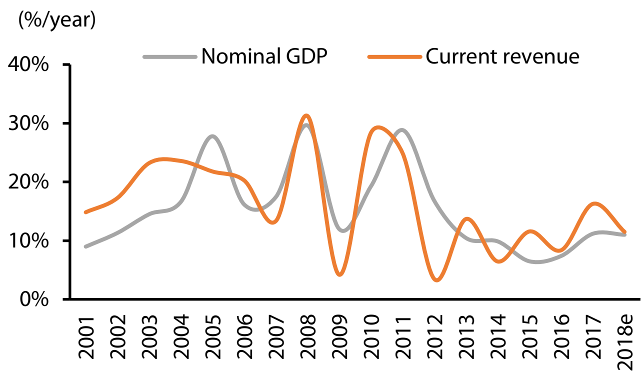
Figure 15: Public debt and public deficit (% of GDP)



Source: IMF, Rong Viet Securities

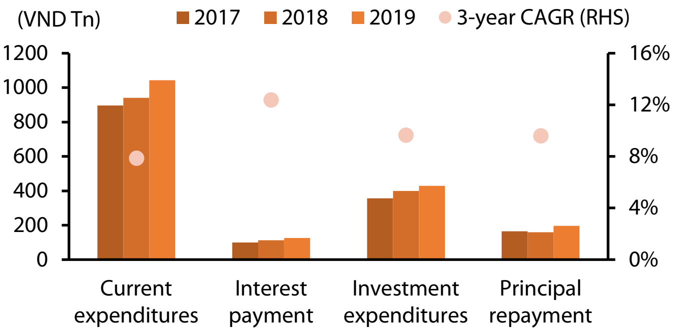
The ratio of public debt to GDP in Vietnam, rose from 39% to 62% in 10 years and is relatively higher than other regional countries. During this period, bad debts of state-owned enterprises (SOEs) increased due to ineffective investment projects. The government is actively tackling these issues via various mid- and long-term programs such as public investment, debt management, etc. The positive is related to a slight decrease of public debt-to-GDP caused by a higher GDP growth and privatization of state-own enterprises.

Figure 16: Vietnam's current revenue vs nominal GDP



Source: ADB, Rong Viet Securities

Figure 17: Vietnam's public expenditure

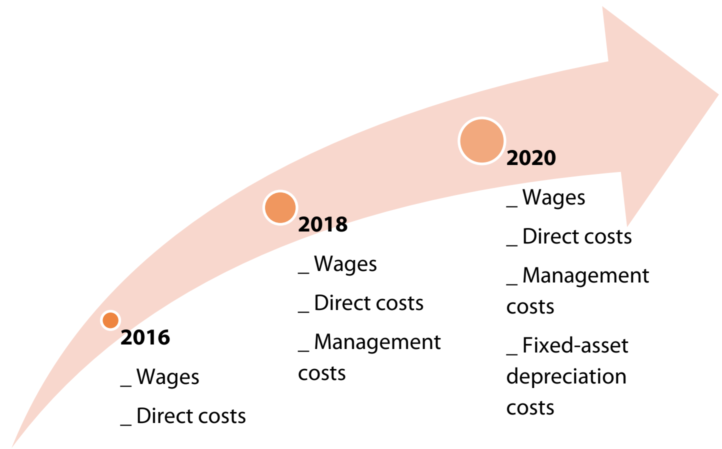


Source: ADB, Rong Viet Securities

The annual public deficit is among the region's worst. There are challenges for the government to deal with the public deficit issue. In general, public revenue is sensitive to the business cycle as income and consumption taxes account for over a half of that. This means the pace of growth will be slower as the economy is in the later stage of booming GDP growth.

While it is hard to meet the requirement of expanding the tax base, the government must try to. It should also reduce subsidies. Average healthcare fees will rise by 10% on average due to the increase of basic wage. Tuition fees are allowed to gradually rise. Our analyst forecasts that electricity prices can rise by 6% in 1H2019. Higher environmental protection tax on gasoline will also make a big contribution to 2019's inflation. Other taxes on consumptions and assets are planned. ***All of this will be risks to next year's inflation which is estimated at 3.8-4.2% y/y.***

Figure 18: Process of pricing public services' fees



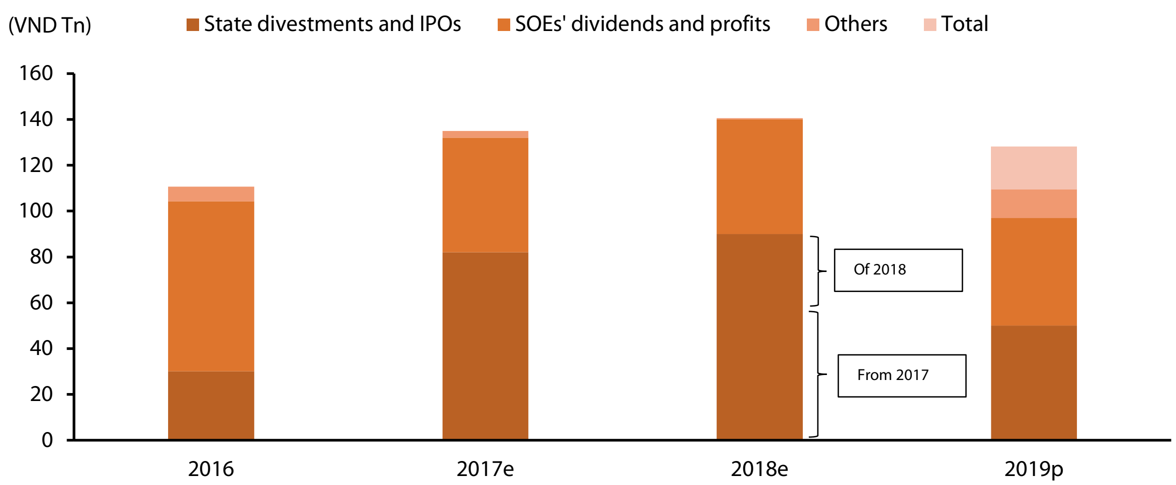
Source: MOF, Rong Viet Securities

On the expenditures front, the largest part, namely current expenditures, continues growing at nearly 8% per year, higher than the average growth rate of current revenue. Besides, the consequences of previous roll-over debts will affect interest payments. The good news is the fact that the debt is mostly denominated in domestic currency while the foreign debt has long maturities. The investment expenditure growth rate will be lower. However, the size of investments will still increase in 2019-2020. There will be large-scale infrastructure projects and we expect better public investment disbursements. For instance, three out of 11 parts of the north-south expressway projects, being financed by the central government, will start next year. The others, named as Public-Private Partnership (PPP) projects, are in the auctioning phase and should begin in 2020.

Revenues from state divestments in SOEs' are an important supplement to fiscal stability. After the success of 2017's divestments and IPOs, the process significantly slowed down in 2018. In 2019, the Ministry of Finance (MOF) plans to receive VND 50 Trillion from state divestments and IPOs, over 50% higher than the realized amount of 2018. Therefore, ***we expect more privatizations next year.***

State divestment is an important theme to attract foreign investments. In the current quantitative tightening regime globally, it leads to a greater emphasis on "bottom-up" selection. However, there are questions whether privatizations are to fill the gap in the budget in the short term or cooperate with non-state sectors for the purpose of higher efficiency.

Figure 19: Vietnam public revenue from SOEs



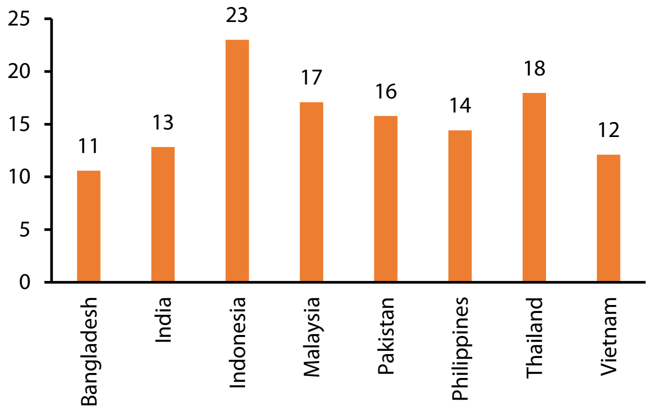
Source: MOF, Rong Viet Securities

Financial stability: key point in the context of fluctuations in the FX market

Sudden changes in financial environments are the major causes of crisis and recessions. In term of financial stability, we focus on four important elements: 1) leverage in the financial sector, 2) borrowing by businesses and households, 3) funding risk and 4) asset valuations. ***Overall, Vietnam's financial stability is moderate despite being sensitive to external risks.*** A wealth capital buffer and lower NPL; strengthened supervision and management of financial risks should be prioritized in 2019-2020.

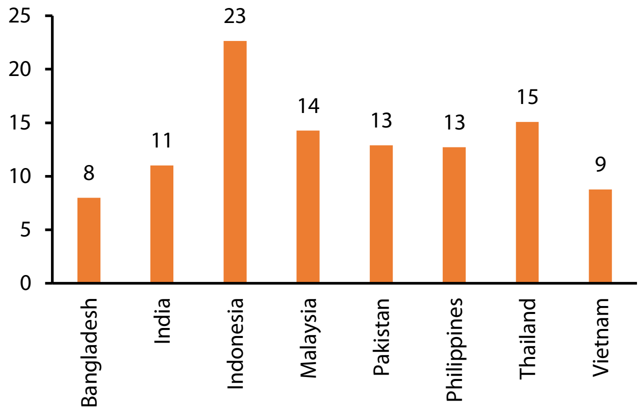
Firstly, the leverage in the financial sector is relatively high, highlighted by thin capital buffers. Capital adequacy ratios (CAR) is a touchy point for Vietnam's banking system as it was 12 at the end of 2017, the lowest in ASEAN and just higher than Bangladesh. The regulatory tier-1 capital to risk-weighted assets follows the same 'low' level pattern. Vietnam's CAR is still calculated in accordance with Basel I, while the majority of regional countries now follow Basel II. If one was calculating Vietnam's CAR in accordance with these standards, Vietnam's CAR would be even lower.

Figure 20: Regulatory capital to risk-weigted assets, %



Source: IMF, Rong Viet Securities

Figure 21: Regulatory tier-1 capital to risk-weighted assets, %



Source: IMF, Rong Viet Securities

The SBV released Circular 41/2016/TT-NHNN defined that Vietnam banks will apply new standards, which mostly approach Basel II criteria, to calculate CAR by 2020. Particular, ten banks (Vietcombank, BIDV, VietinBank, Techcombank, ACB, VPBank, MBB, MaritimeBank, Sacombank and VIB), who are in the pilot program, could apply in 2019. Currently, we noted that the SBV approved VCB, VIB, and OCB to apply Basel II since 2019.

In addition, VCB and BID has come to the final step on capital raising. We expect that they can finish the deals in 2019. After the deals, these two banks' total charter capital will be around USD 1.7 Bn.

On one hand, the issuance will help to strengthen the banks' capital buffer against risks. On the other hand, the SBV's FX reserve fund will be added by the USD-amount collected from these deals. Hence, we expect SBV can manage and stabilize the Dong. We forecast a depreciation of 3% against the USD in 2019.

Secondly, the health of the financial system is driven by borrowings from businesses and households as well as their ability to pay back such debt. How default rates affect lenders, as well as policymakers, is related to the scale of total domestic credit and the solvability of borrowers. ***In our opinion, the risk is remarkable as the total domestic credit expand at a higher pace in compared with that of nominal GDP.***

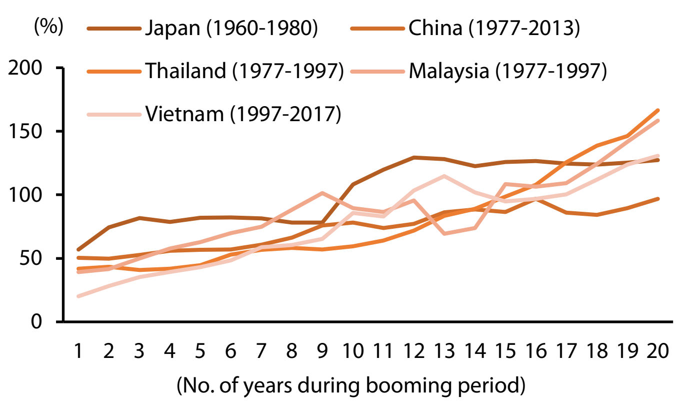
The chart below shows the changes in domestic credit to the private sector in various countries during the boom years. Domestic credit always plays an important role and increases over time. In Vietnam, the proportion of domestic credit to the private sector, in % of GDP, rose from 20% to 130% over 20 years.

According to the recommendations of international institutions such as the IMF and WB, the growth needs being slow down quickly to sustain the macro-economic stability in upcoming years. The annual credit growth should be around 14%. However, it is possible that the credit growth will step gradually down and be 14% by

2020. On the front of macro economy, stable rather than fast economic growth should be a priority. That is our key assumption to forecast a slower GDP growth in 2019, around 6.6%-6.8% YoY.

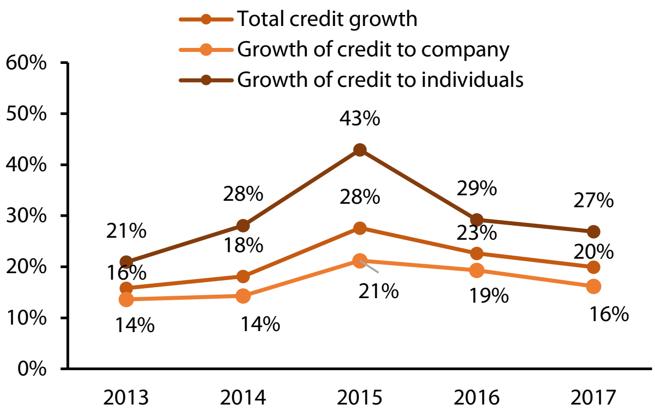
Meanwhile, the overall default rate has been significantly changing. The lending structure is re-allocated as the percentage of individual and household's loans are rising due to a high growth rate in recent years. The ratio of consumer credit to GDP is around 22%, nearly fourfold as high as 2014's. The corporate segment, in generally, grows at a slower pace. Therefore, the composition to the financial system's default rate is affected strongly by such changes. It is also clear that the corporate segment has a more robust resistance and sensitiveness to risk than the individual segment.

Figure 22: Domestic credit to private sector (% of GDP)



Source: WB, Rong Viet Securities

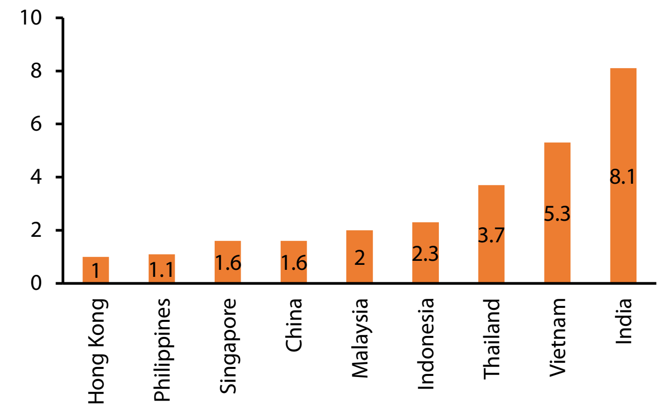
Figure 23: Credit growth of 26 commercial banks



Source: Fiinpro, Rong Viet Securities

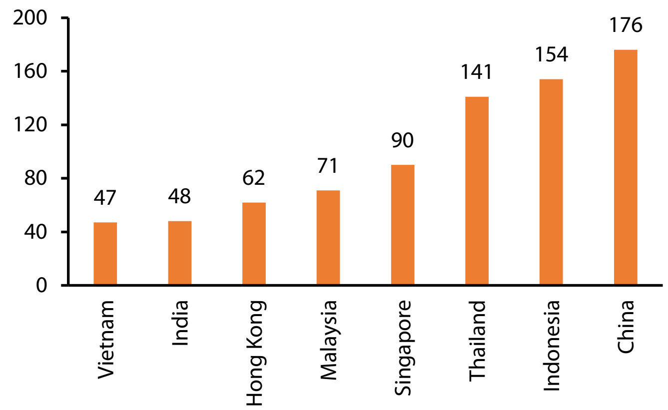
In addition, the issue of bad debt is something to ponder on. Vietnam's ratio of NPL is relatively higher than other countries in the region. The NPL ratio was around 5.3% of total outstanding loans and the loan-loss-reserve ratio was around 47%. Meanwhile, data of the Vietnam's National Financial Supervisory Commission showed that the actual NPL ratio was 9.5% in 2017, down from 11.9% in 2016.

Figure 24: NPL ratio (%)



Source: UBS, Rong Viet Securities

Figure 25: Provisioning reserves to NPLs (%)

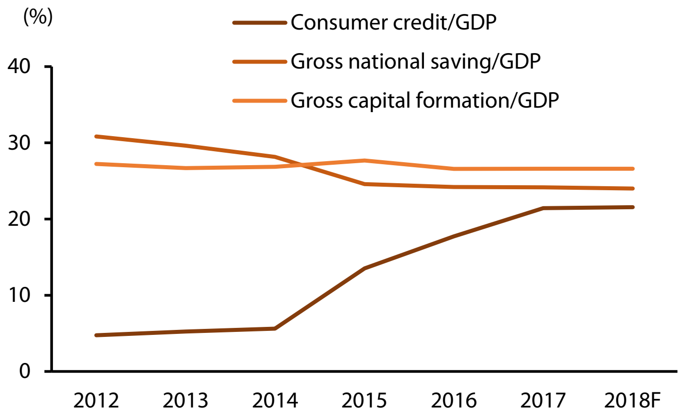


Source: UBS, Rong Viet Securities

The process of dealing with bad debts will be gradually slowdown in the upcoming years as the economy is in the late business cycle. The slowing-down of the real estate market is a critical point as most of the collateral is related to this sector. Meanwhile, many commercial banks, especially the ones focusing on consumer credit, have experienced a rise in bad debt after a period of a booming consumer credit. Notably, the percentage of the worst debt, classified in the fifth group, soared at some large banks.

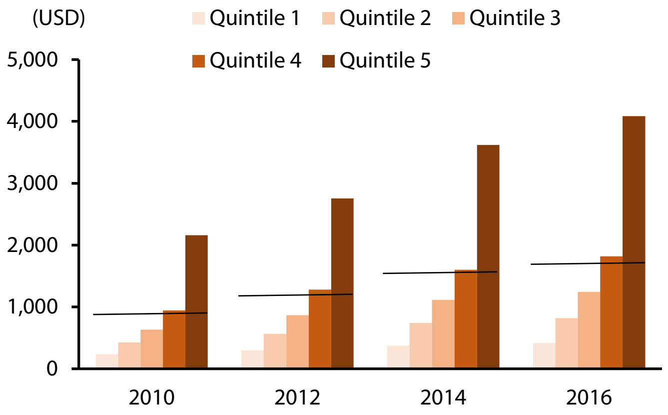
Individual loans must be more tightly regulated as the bad-debt issues are likely to be recurring problems. Credit should grow at a pace equivalent to income growth. Although Vietnam's consumer credit remains potentially high, there are risks for lenders, such as 1) the supporting systems are relatively undeveloped, 2) high competition to lend to mid- and high-income households, 3) risky loans like cash loans. Furthermore, over-indebtedness probably results in higher default rates. In general, the ratio of gross national saving to GDP is down since 2012 and is lower than the percentage of gross capital formation. Vietnam's national saving rate is among the lowest in the region.

Figure 26: Saving vs Consumption



Source: FiinPro, Rong Viet Securities

Figure 27: Yearly income per capita, by income quintile

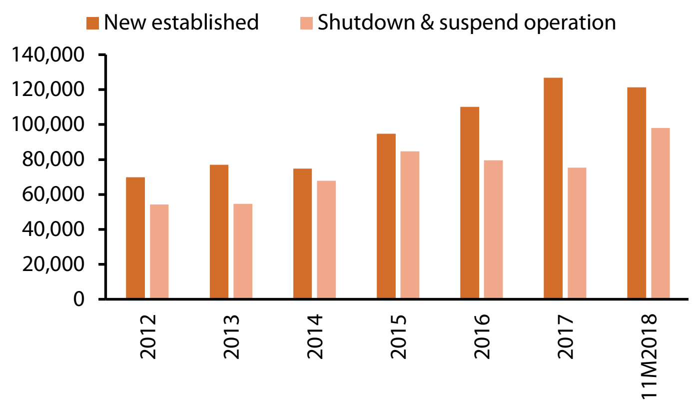


Source: ADB, FiinPro, Rong Viet Securities

Vietnamese enterprises' weak buffers represent the health of the economy. Profitability indicators are quite low although the leverage ratio of the non-financial sector, debt-to-equity, is 1.6 times. In addition, the number of shutdown and suspended companies surged in 2018. If there are 100 new corporations, 80 of them will shut-down and suspend operation. Such ratio is a little lower than what happened in 2012-2014. At that time the economy hit the bottom in terms of growth.

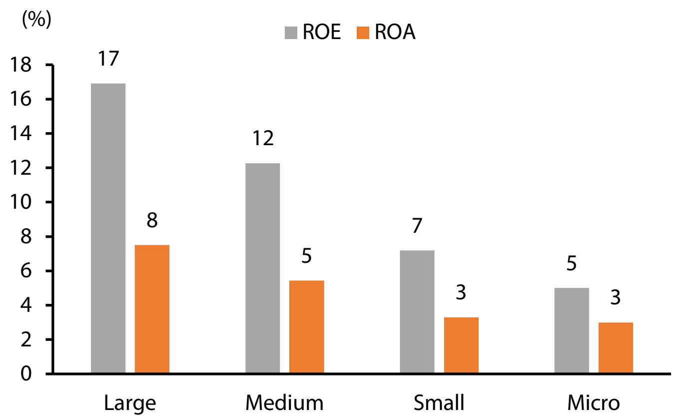
In 2019, the pressure on SMEs will become larger due to 1) the possibility of interest rate hikes and 2) the competition from Chinese imports. Although the government is likely to lower the corporate tax to help SMEs, outstanding and new loans to those companies will remain a risk.

Figure 28: Business registration situation



Source: GSO, Rong Viet Securities

Figure 29: Vietnamese companies' profitability



Source: VCCI, Rong Viet Securities

Thirdly, ***funding risks in the banking system have decreased.*** Vulnerabilities from maturity mismatches are moderate. In our list of covered commercial banks, most of them satisfy the requirement of short-term funding to mid- and long-term loans which will be at 40% in 2019. On the front of liquidity mismatches, the State Bank of Vietnam (SBV) is effectively supporting the banking system via OMO channels. Currently, SBV is injecting money into the system through reverse repo contracts in order to stabilize the interbank market.

Finally, we focus on asset valuation pressure. At the beginning of 2018, asset valuation appeared very high relative to the historical range in several major markets. That suggests a significantly higher risk appetite in the context of an abundant supply of money. The equity valuation reached a peak as its PE was over 20 times. Meanwhile, bond prices took off. Property prices tripled in many places and there were lots of active speculators. The early signal of irrational exuberance? Well noticed by the hypothesis of financial instability by Hyman P. Minksy. Currently, the risk is obviously lower as equity prices have come down and the real estate market has softened a bit.

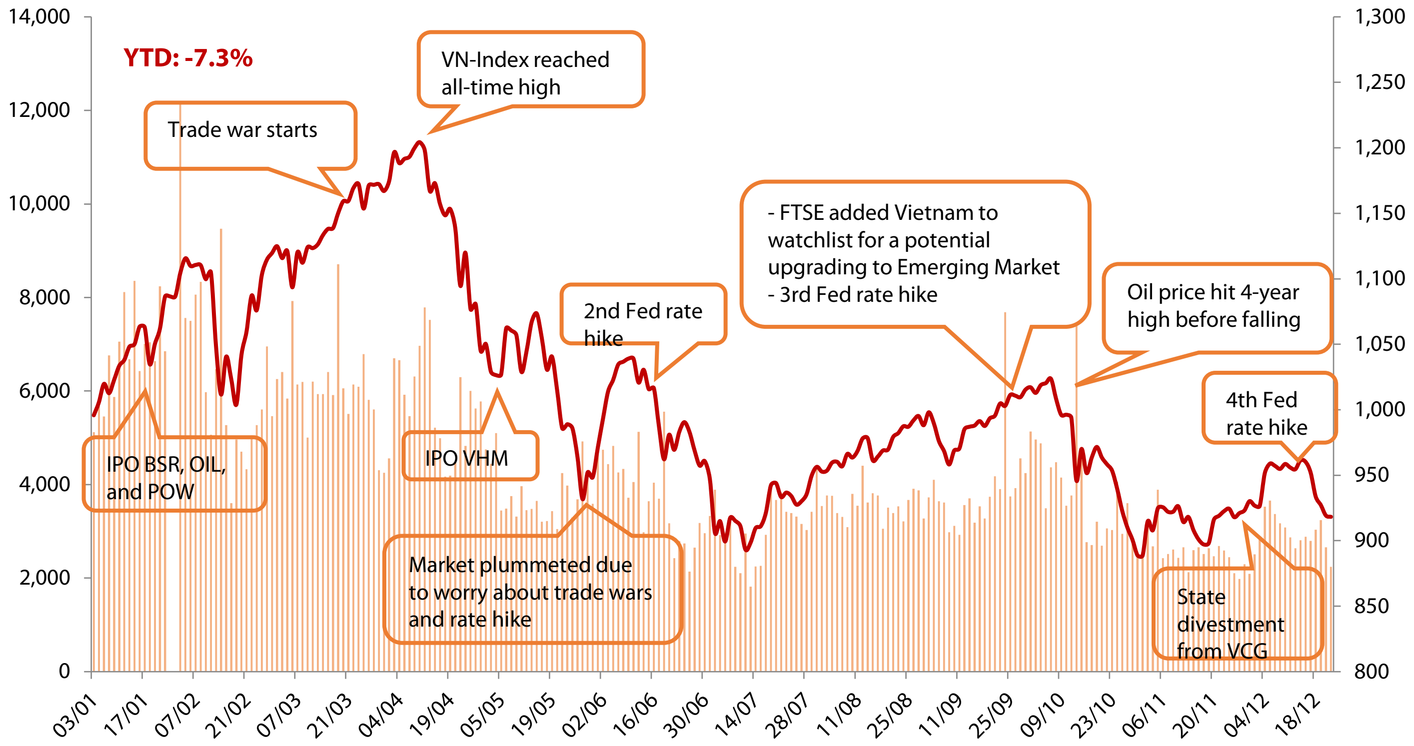
2019 events

_World Economic Forum Annual Meeting _Qatar leaves OPEC _ECB meeting	_Trump and Kim Jong meeting (F) _BOE meeting	_Brexit deal _FOMC meeting _US-China talks _ECB meeting	_Spring meeting of the World Bank Group and the International Monetary Fund _BOJ meeting _ Indonesia: Presidential elections _ India: General elections	_European Parliament election _Australia: Parliament election _ Philippines: General election	_G20 Summit Meeting _FOMC meeting _ECB meeting _BOJ meeting
January	**February**	**March**	**April**	**May**	**June**
_CPTPP takes effective _EC likely withdraws its yellow card _Environmental taxes on gasoline prices	_Lunar new year		_ OPEC meeting (F)	_Vietnam parliament meeting	

_FOMC meeting _ECB meeting _BOJ meeting	_G7 summit	_FOMC meeting _U.S. public budget meeting _ECB meeting _BOJ meeting	_Canada: Federal election	_End of ECB President Draghi's term _End of European Commission President Juncker's term	_FOMC meeting _ECB meeting _BOJ meeting
July	**August**	**September**	**October**	**November**	**December**
		_MSCI Classification _FTSE Classification	_Vietnam parliament meeting _Ratification of securities law		

2018 MARKET SNAPSHOT

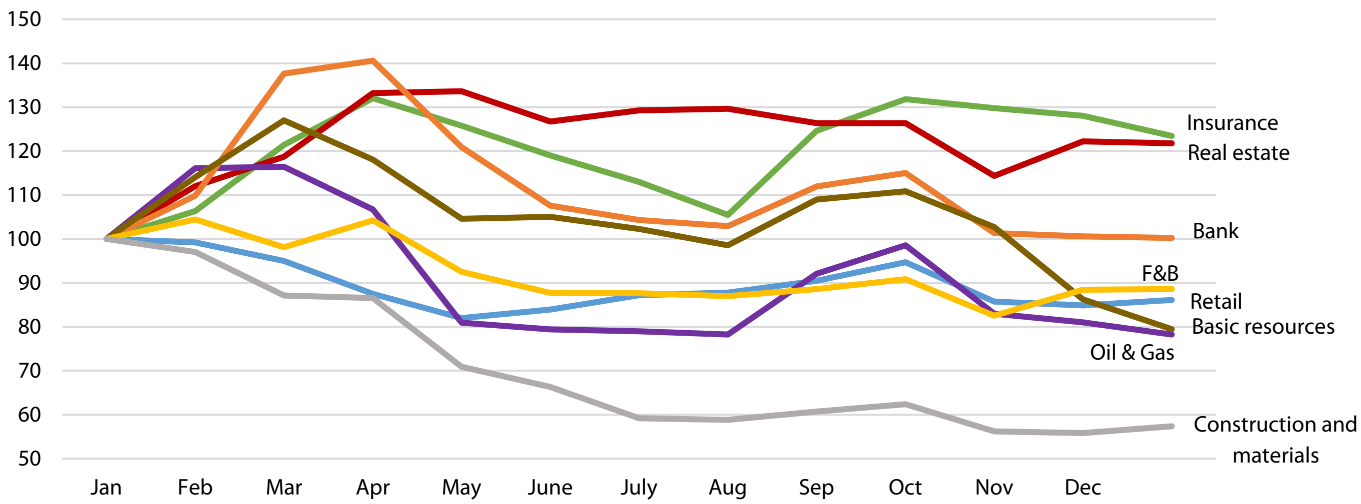
Figure 30: VN-Index movement in 2018: Index (RHS) and Volume (VND Bn – LHS)



Source: Rong Viet Securities as of Dec 21

After the rally in Q1, almost all sectors unperformed for the rest of the year. Only exception are Insurance (due to BVH) and Real estate (due to VIC).

Figure 31: Sector performance in 2018



Source: Fiin Pro, Rong Viet Securities

MARKET OUTLOOK 2019 – BE CAUTIOUS BUT NOT TOO PESSIMISTIC

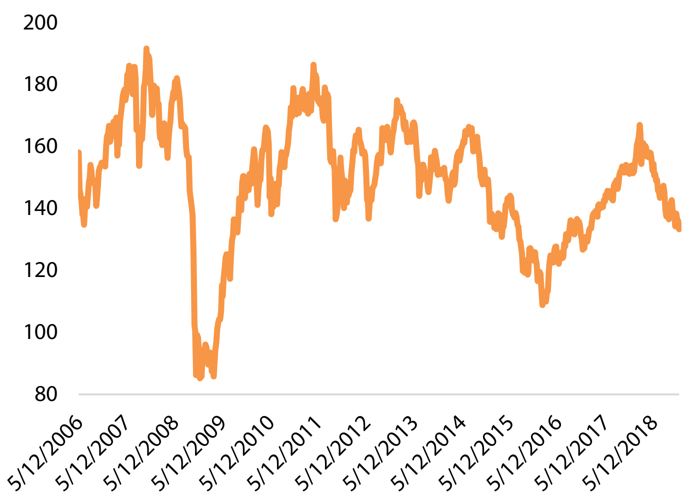
Market team

As we mentioned at the very beginning of this report, 2019 is likely not to be an easy year for equity markets in general. Under the current global context, it will be hard for Vietnam to 'swim against the tide'. We think staying cautious is necessary, but investors should also not be overly pessimistic. We may have already gone through the largest part of the selling and money outflows. Valuations are down a bit but have not reached the 'cheap' territory yet. There is potentially slower earnings growth in 2019. However, some stocks are definitely worth looking at. It all comes down to stock picking.

I. FOREIGN FLOWS

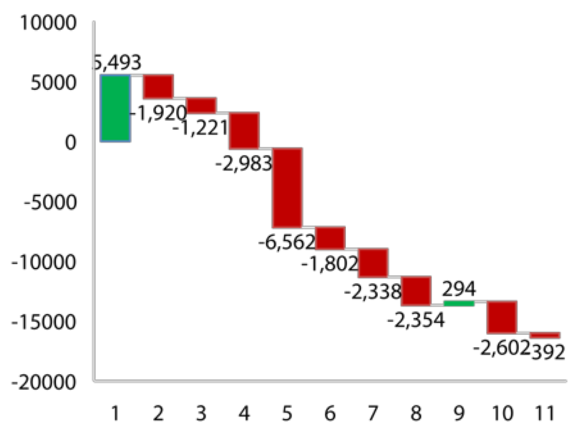
Big outflows may already have happened in 2018. The overall outflows from emerging markets started in early 2018 (Figure 32). In Vietnam, foreign investors injected nearly VND 43 trillion into stocks in early 2018. The money mostly poured into specific deals like NVL (VND 3,500 bn), VHM's IPO (VND 28,500 bn) and MSN (VND 10,000 bn). Via order matching, foreign investors net sold throughout the rest of the year with a total value of VND 16 trillion (Figure 33). That partly explained the poor performance of the market.

Figure 32: Bloomberg's Emerging Markets Capital Flow Proxy Index



Sources: Bloomberg, Rong Viet Securities

Figure 33: Foreign investors' net trade via order matching 2018 YTD in Vietnam (VND bn)



Sources: Fiinpro, Rong Viet Securities

Generally tighter monetary policies globally are not positive for equity markets. However, we think large money outflows out of equities, especially from emerging markets, has already happened in 2018. Risk aversion has made investors move money from emerging markets back to developed ones. The most recent announcements from the FED make it difficult for us to believe that interest rates will rise sharply. This could be a catalyst for improvement in confidence. There might be some inflows back into markets which will be good for Vietnam. However, it will probably take some time as investors have been burned in 2018.

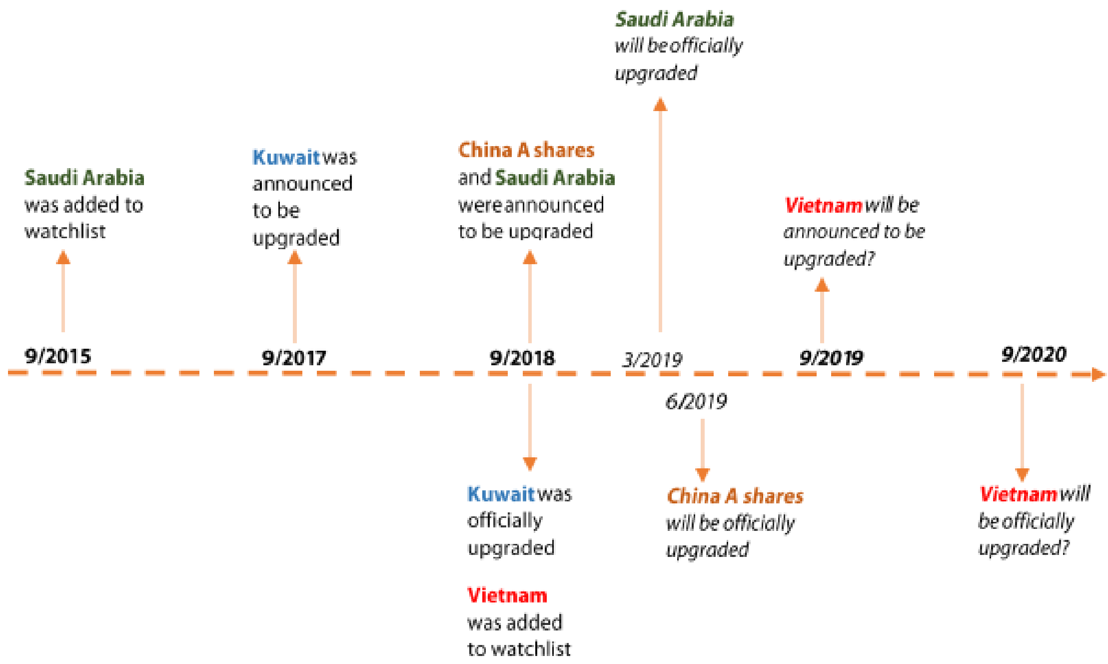
FTSE Russell classified Vietnam as a Secondary Emerging market – Perhaps not a game changer

We are close

In the last FTSE's annual review published in September 2018, Vietnam was added to the watch list for possible upgrading to Secondary Emerging Market. In general, a country needs to be on the watch list for at least one year before a possible upgrading announcement and then another year before the official reclassification. Therefore, in an ideal scenario, Vietnam would be promoted in September 2020.

Kuwait, China A shares and Saudi Arabia are the newest Secondary Emerging markets. Let's have a look at their journeys and see how close Vietnam is to this status.

Figure 34: FTSE's upgrading process for Secondary Emerging Market in recent years



Source: FTSE, Rong Viet Securities

Kuwait: after being added to the watch list in September 2008, Kuwait had to wait for ten years before achieving the status in 2018. The outstanding criteria was "Clearing & Settlement – T+2/T+3" which was addressed in May 2017 by the country. *See table below for "Quality of Markets Matrix".*

China A shares: increasing accessibility of the China A-share market for international investors was a long-lasting problem for China. It refers to the "formal stock market regulatory authorities actively monitoring the market" criteria which was finally met by the country in early 2018, just before the upgrading announcement from FTSE.

Saudi Arabia: after three years of being on the watch list, the country fulfilled two outstanding criteria which were "settlement – rare incidences of failed trades" and "clearing & settlement – T+2/T+3". At a result, FTSE announced the upgrade of Saudi Arabia in September 2018.

To sum up, all three countries were added to the FTSE's watch list even when they were still not meeting all criteria. The upgrading announcement came right after they fulfilled the requirements. Considering that Vietnam was added to the watch list while it had met nine out of nine criteria, we believe if it can maintain these conditions throughout the ongoing review year, Vietnam will be upgraded to Secondary Emerging Market status in 2020.

Table 5: FTSE Quality of Markets – Vietnam has met nine out of nine criteria

Criteria	Developed	Advanced Emerging	Secondary Emerging	Vietnam (9/2018 updated)
Market and Regulatory Environment				
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	PASS	PASS	PASS	**PASS**
Fair and non-prejudicial treatment of minority shareholders	PASS	PASS		RESTRICTED
No or selective incidence of foreign ownership restrictions	PASS	PASS		RESTRICTED
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	PASS	PASS	PASS	**PASS**
Free and well-developed equity market	PASS	PASS		RESTRICTED
Free and well-developed foreign exchange market	PASS	PASS		RESTRICTED
No or simple registration process for foreign investors	PASS	PASS		RESTRICTED
Custody and Settlement				
Settlement - Rare incidence of failed trades	PASS	PASS	PASS	**PASS**
Custody-Sufficient competition to ensure high quality custodian services	PASS	PASS	PASS	**PASS**
Clearing & settlement - T+2 / T+3	PASS	PASS	PASS	**T+2**
Settlement - Free delivery available	PASS			NOT MET
Custody - Omnibus and segregated account facilities available to international investors	PASS	PASS		**PASS**
Dealing Landscape				
Brokerage - Sufficient competition to ensure high quality broker services	PASS	PASS	PASS	**PASS**
Liquidity - Sufficient broad market liquidity to support sizeable global investment	PASS	PASS	PASS	**PASS**
Transaction costs - implicit and explicit costs to be reasonable and competitive	PASS	PASS	PASS	**PASS**
Stock Lending is permitted	PASS			RESTRICTED
Short sales permitted	PASS			NOT MET
Off-exchange transactions permitted	PASS			RESTRICTED
Efficient trading mechanism	PASS			RESTRICTED
Transparency - market depth information/visibility and timely trade reporting process	PASS	PASS	PASS	**PASS**
Derivatives				
Developed Derivatives Market	PASS			NOT MET

Source: FTSE

However, the effect may not meet high expectations

ETFs tracking the FTSE Emerging Markets Index have around USD 65 bn in Assets under Management (Table 5). Vietnam's weight in the FTSE Emerging Markets Index if it 'joined' would be over 0.4%, based on FTSE Vietnam Index's market cap (USD 17 bn) versus the total FTSE Emerging Index's market cap (USD 4,280 bn). Accordingly, there would be approximately **USD 300 mn** of passive inflows into the equity market.

Table 6: Top ETFs to track against the FTSE Emerging Markets Index

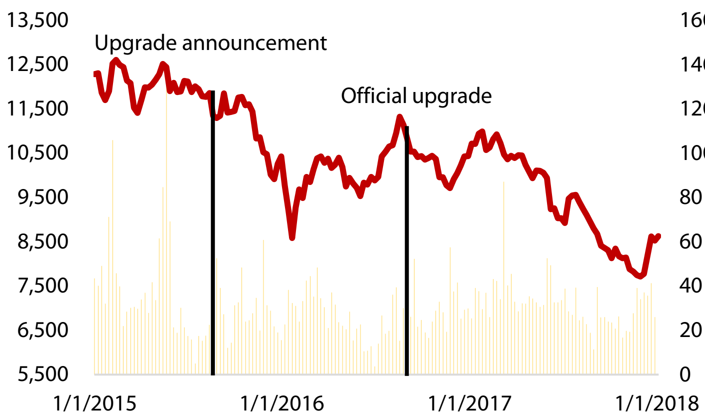
ETFs	Total asset value (USD bn)
Vanguard FTSE Emerging Markets ETF	55.9
Schwab Emerging Markets Equity ETF	4.7
Schwab Fundamental Emerging Markets Large Company Index ETF	2.1
PRF - Invesco FTSE RAFI US 1000 ETF	1.1
Total	63.8

Source: Rong Viet Securities

However, having monitored some new Secondary Emerging market such as Qatar and UAE, we have noticed that there were no significant price increases following up the FTSE's upgrade announcements (Figure 35 and 36). It could come from the rather loose requirement of FTSE's ranking system. A country does not need to make huge improvements to be considered an emerging market from a frontier one.

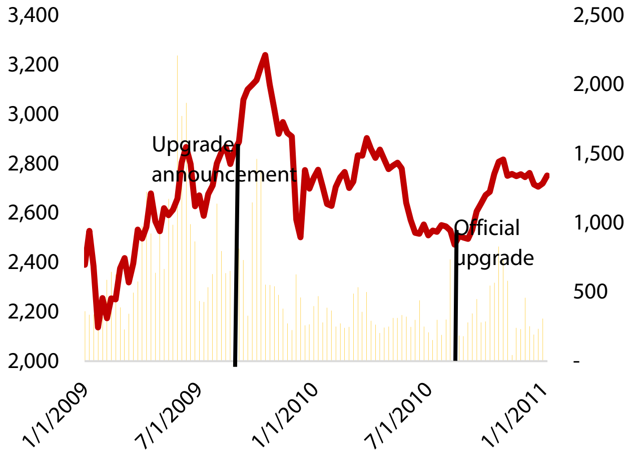
Therefore, it cannot be expected that much new capital will flow in. It also reflects the difference in AUM of FTSE Emerging Index trackers (USD 65 bn) and MSCI Emerging Index trackers (USD 1,600 bn).

Figure 35: DSM Index, Qatar (LHS) and volume (mn, RHS)



Sources: Bloomberg, Rong Viet Securities

Figure 36: ADSMI Index, UAE (LHS) and volume (mn, RHS)



Sources: Bloomberg, Rong Viet Securities

We do not think that the 'upgrade sentiment', if or when it occurs, will make a huge impact on the Vietnam market in 2019.

II. DOMESTIC FLOW

Small shift to the bond market

The size of the bond market in Vietnam has increased by ten times since 2006 from under VND 100 trillion. Although coupon rates have decreased since 2010, they are still higher than stock returns in 2010-2011, 2014-2015, and 2018. Even in 2016 and 2017, when the equity market delivered good returns, the size of the bond market remained constant.

Figure 37: Vietnam Government Bond market size (LHS) and 10yrs G-bond coupon rate (RHS)

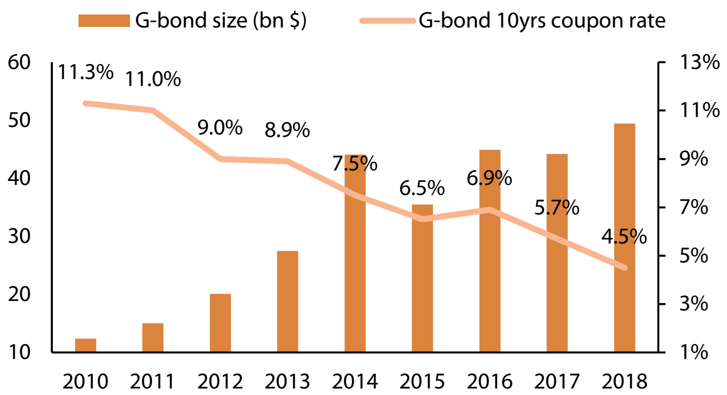
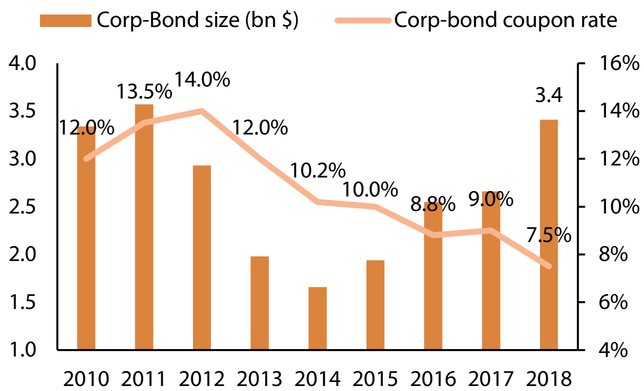
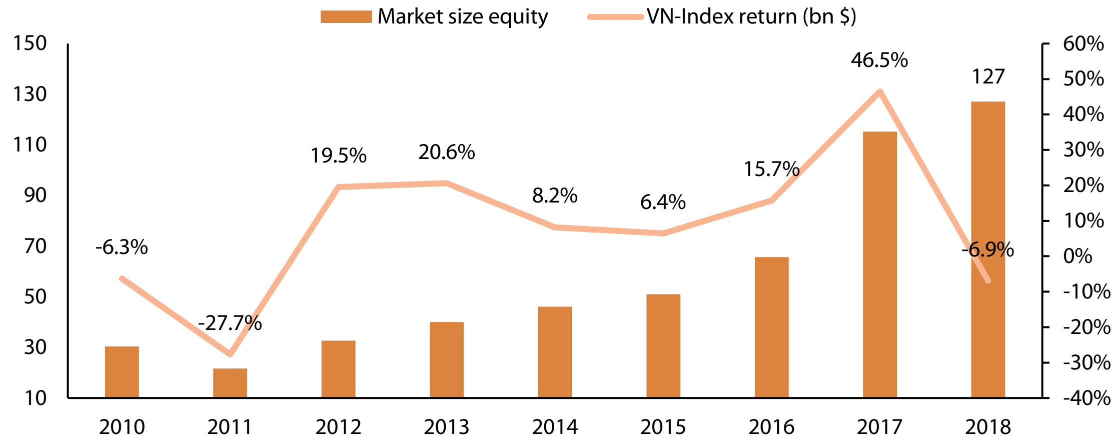


Figure 38: Vietnam Corporate Bond market size (LHS) and Corporate bond coupon rate (RHS)



Source: ADB, Fiinpro, Rong Viet Securities

Figure 39: Vietnam equity market size and returns



Source: Fiinpro, Rong Viet Securities

With the appearance of bond funds, the market now is not exclusive only for institution investors who are suitable for large deals but also available for individual investors.

The attraction of bond funds is no doubt increasing, especially for investors who cannot bear the huge volatility of the stock market. TCBF, the largest bond fund in the market, saw its AuM increase by 185% YTD. From September to November 2018, TCBF attracted around VND 700 bn of new investment each month.

Returns of bond funds so far in 2018 have outperform stocks. In Vietnam long-term yields stand between 6.5 and 7%

Table 6: Status of some bond funds

Fund	NAV, billion VND (as of Oct-Nov 2018)	Return YTD
TCBF	5,821	8.5%
VFMVFB	647	10.6%
BVBF	109	9.9%
SSIBF	75	8.1%

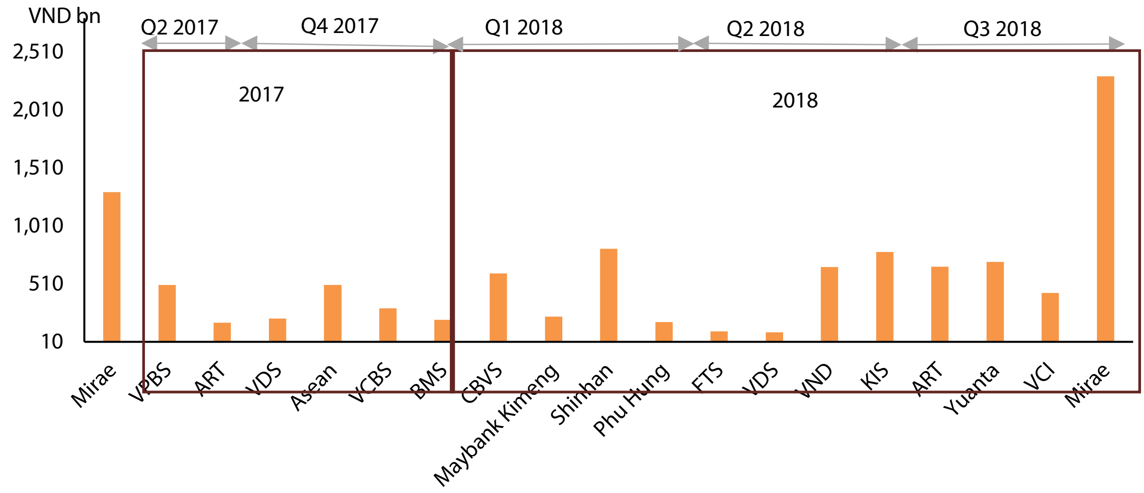
Source: Rong Viet Securities

With rising interest rates, unpredictable events in global trade and high volatility in the equity market, investors in Vietnam could move part of their portfolio into fixed income. However, considering the size of the corporate bond market and bond funds, we think the amount will not be too significant.

New capital from brokerage firms to support market liquidity

30 institutions have changed chartered capital in 3Q 2018, of which 22 institutions increased their capital compared to only 8 that reduced it. Net capital increase was VND 7,146 bn. Korean brokerage firms like Mirae Assets, KIS, Shinhan, and KB were the most active. This promises to boost market activity by various ways such as margin loans or direct investment.

Figure 40: Capital raising of securities firms since 2017



Source: Fiinpro, Rong Viet Securities

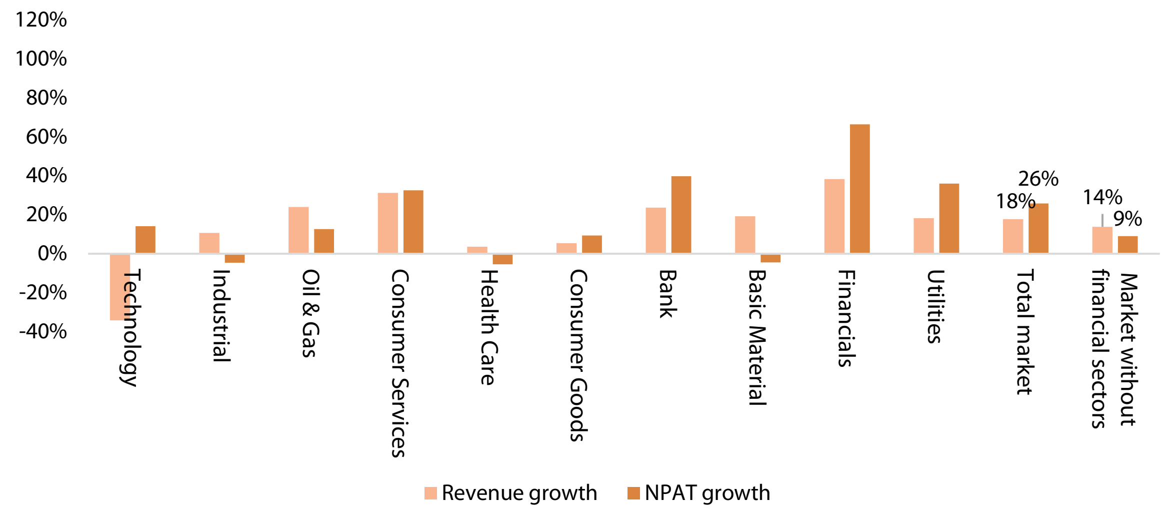
Empirical studies, including one in 2018 from the IMF[1], suggests that 'firms raising capital out of their home market do not perform better than if they had raised capital domestically'.

However, the capital raised, if it happens, should help to improve market liquidity in 2019 (our forecast is an average of VND 3,000 bn to VND 5,000 bn/session) and may create some short-term rallies. However, we think it should not be seen as a catalyst for sustainable gains. Many have talked about the increase of capital by brokerage firms as a catalyst for the market at the beginning of this year. We all know what happened.

III. EARNINGS AND VALUATION

NPAT of companies in 9M 2018 has grown by 26% YoY, mostly thanks to banks and the real estate sector. However, we believe that earnings of those sectors have peaked in 2018. Earning consensus for the 50 biggest companies of the VN-Index in terms of market cap (account for 87% of total market cap) shows **an increase of 14% YoY in 2019.**

Figure 41: Revenue and NPAT growth in 9M 2018 by sectors



Source: FiinPro, Rong Viet Securities

[1] https://www.imf.org/External/NP/seminars/eng/2007/macrofin/jgrlss.pdf

In terms of valuation, we finally saw some P/E contraction. Valuations have gone down a bit to reflect the slower growth in 2019. VN-Index is now trading at 16x P/E. Considering flat earnings growth and the flow of capital, we do not expect a P/E expansion in 2019.

Figure 42: Stock Markets Relative Valuation

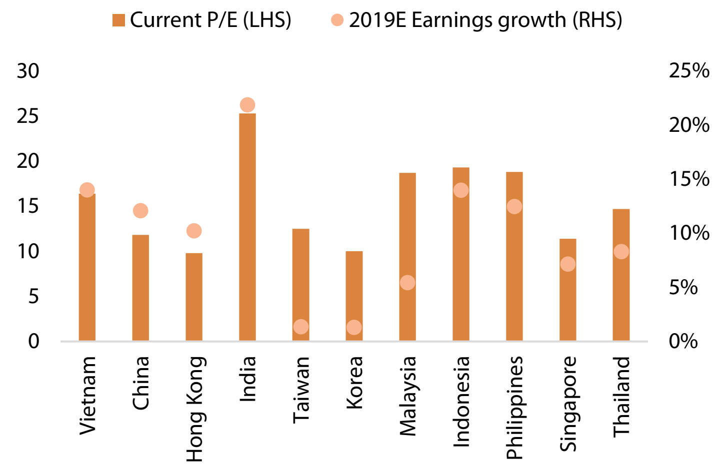
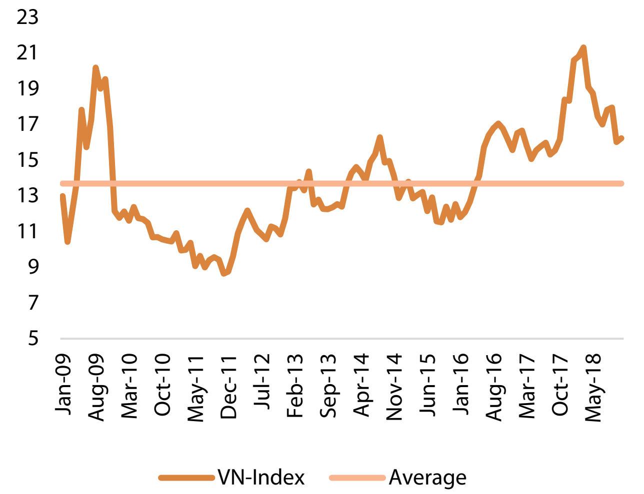


Figure 43: VN-Index Historical trailing P/E Ratio



Sources: Bloomberg, Rong Viet Securities

We think the index will fluctuate around the 900-1000 points. In that context, **stock picking is what matters.** Some stocks are pricier than others. For example, VIN companies (VIC, VHM and VRE) account for 22% of total market cap of the Index. These real estate companies are trading from 3x to 6x P/B. Excluding them, the P/E of the rest of the market is more reasonable at around 14x.

Companies with a strong business model will be able to resist if the market fall sharply. If this occurs, avoid owning stocks with high multiples … unless growth is extraordinary.

IV. STATE DIVESTMENT

2017 was extraordinary for state divestment with a value of nearly VND 120 tn from the SAB (VND 110 tn) and VNM (VND 9 tn) deals. In 2018, there was only VND 13.4 tn successfully divested, mostly in VCG (VND 9.4 tn) and BMP (VND 2.3 tn). 18 out of 98 deals done, implying that only 20% of the target was fulfilled.

Table 7: State divestment in recent years*

Year	2012	2013	2014	2015	2016	2017	2018
Completed deals	1	3	26	75	21	11	18
Value (VND bn)	45	33	428	236	12,388	119,261	13,380

*Source: Fiinpro, Rong Viet Securities * only listed companies on HOSE, HNX and UPCOM*

There are many reasons for the slow progress, but we think the most important one is that the Decision 32/2018/ND-CP has back fired. The Decision requires the price of the divestment to be no lower than 30-days market average, but not many investors are willing to pay the high price.

Adjustment needs to be made

Turning to 2019, we see an urgent need for the government to divest due to increasing pressure on public debt and the budget deficit. Plus, the divestment plan is way behind schedule, with over 80 companies still pending from 2018, not to mention those in the 2019 plan. We believe adjustments will be made to speed up the progress. The government needs to either lower the asking price or give up controlling shares in the business to attract investors. If they do so, there will be some interesting deals. Active divestments will also improve market sentiment, similar to what happened in the beginning of 2018 with the IPOs of BSR, OIL and POW.

While the "free money" era has come to an end, only worthy investments will have a good chance to attract foreign capital. It would be companies with dominant market share in their business (PLX, ACV), attractive land bank and resources (TVN) or being able to add synergy for strategic partner (VGT).

Table 8: Some noticeable state divestment in 2019

Sticker	Company	Charter capital (VND bn)	Free-float	State's divested plan (%stakeholder)	Market cap (VND bn)	Free-float adjusted market cap (VND bn)
ACV	Airports Corporation of Vietnam	21,772	4.6%	20%	176,362	8,114
PLX	Vietnam National Petroleum Group	12,939	10%	25%	70,803	7,080
HVN	Vietnam Airlines Joint Stock Company	12,275	20%	35%	49,337	9,868
TVN	Viet Nam Steel Corporation	6,780	10%	58%	6,508	651
VGT	Vietnam National Textile And Garment Group	5,000	15%	53%	6,047	907
VGC	Viglacera Corporation	4,484	45%	53%	7,935	3,571
SNZ	Sonadezi Corporation	3,765	0.4%	29%	4,141	18
DVN	Vietnam Pharmaceutical Corporation	2,370	20%	30%	3,602	1,081
BHN	HABECO	2,318	0.9%	82%	18,544	167

Source: Fiinpro, Rong Viet Securities, data as of Dec 14th 2018

INVESTMENT STRATEGY AND THEMES

Lam Nguyen (lam.ntp@vdsc.com.vn)

Do not put all your eggs in one basket

Overshadowed by uncertainties, a consensus view has emerged that the global economy is reaching the "late-cycle" and 2019 could be a relatively difficult year for equity markets. Moreover, given the monetary tightening and fiscal stimulus fading over the world, it is likely that offshore cash flowing into frontier markets like Vietnam will be not as high as in previous years. The story of "upgrade to emerging market status" boosted the interest for these markets for a good part of the year. As a result, the fluctuations in asset prices and market liquidity was a threat to local participants.

The positive point is that the market valuation reversed to a relatively more reasonable level after the correction in 2018. VNIndex's is now trading at 16.x, 25% lower than its peak in March 2018.

In addition, we believe there is room for growth for Vietnamese industries. The country is going into a phase of restructuring and upgrading which focuses on (1) Fighting corruption and institutional reforms, (2) Stabilizing the economy and attracting FDI capital, and (3) Encouraging the development of the private sector and start-ups. In the base case, the Government consultant group expects that Vietnam's GDP growth can be maintain at 6.8-6.9% per annum in 2018 - 2020. The expansion of the middle-class and a young population will bring opportunities to many sectors in the long-term. Given the strong growth of many sectors in recent years, we expect, though, that the growth momentum will gradually decrease. We forecast revenue and net earnings growth of 48 companies under our coverage (equivalent to 50% total market cap) will be 21.5% and 39.3% respectively in 2018, and 13.7% and 14% in 2019.

Therefore, we believe that a strong market downturn will provide active investors with buying opportunities. This year, we focus our stock-pick strategies on three key themes: (1) Strong fundamentals, characterized by strong cash positions and low leverage ratios, (2) Taking advantage of global trade agreements and disputes, and (3) The old story: the SOEs equitization and State divestment.

The risk of a VND depreciation could be about the same as it was last year. If the scenario which we expect (in the global part of this report) materializes, the EURO could strengthen. Investors should be cautious with companies that have EUR-denominated debt. Moreover, rising interest rates make fixed income assets' returns more in line with returns on equities. Therefore, we suggest diversifying portfolios with money market deposits and/or bonds.

Stocks with strong fundamentals

We think companies with strong fundamentals should have all or some of these characteristics (1) Sound fundamentals, characterized by strong cash positions and low debt-to-equity ratios (preferably below 0.7x) and no exposure to FX risks, (2) Consistent cash dividend payments with an acceptable dividend yield, (3) Leading market share in the relevant sector, and (4) Positive industry outlook.

High dividend yields, low relative valuations and low leverage stocks

The rising interest rate environment does not benefit certain businesses: the higher cost of debt, and the more discounted becomes the stock's intrinsic value. As capital gains become increasingly uncertain, we believe investors should prefer high-yielding stocks. We prefer companies which can pay a superior dividend yield compared to 12-month (or more) term deposit rate. **DQC, PPC,** and **MSH** are the three stocks which satisfy our criteria. Particularly, **DQC** is trading close to its net current asset value. Some business still faces strong headwinds because of imported products from China. Given that its new factory will come into operation in 2019 and the corporate income tax in the first four years will be 0%, we expect DQC's bottom line will improve.

Ticker	MC (VND Bn)	Dividend Yield (%)	6M Beta	D/E (x)	ROE (%)	ROA (%)	Revenue growth (%)			NPAT growth (%)			PER		PBR	
							2017	2018 E	2019 F	2017	2018 E	2019 F	2017	2018 E	2017	2018 E
PPC	5,915	13.6	1.1	0.2	12.5	17.1	4.3	12.4	1.8	52.5	13.8	-10.2	6.9	5.7	1.0	1.0
DQC	825	11.4	0.4	0.2	9.6	6.6	2.1	12.7	14.0	-45.7	21.1	18.0	8.3	7.5	0.8	0.8
NNC	1,052	10.4	0.2	0.0	43.3	35.7	-0.3	N/a	N/a	3.5	N/a	N/a	N/a	6.0	2.2	2.2
MSH	1,896	10.1	0.0	0.7	13.7	38.0	9.7	17.1	13.5	17.1	77.0	15.3	9.2	6.0	1.3	1.7
HTI	301	10.0	0.1	2.5	15.6	4.0	-10.2	N/a	N/a	24.4	N/a	N/a	3.8	4.8	0.7	0.6
NT2	7,528	9.6	0.3	0.9	8.7	19.3	-15.3	12.6	1.8	-25.3	-10.8	14.3	9.6	10.6	1.5	1.9
TDH	886	9.2	1.0	0.4	4.0	2.4	73.6	N/a	N/a	20.9	N/a	N/a	6.8	N/a	0.5	N/a

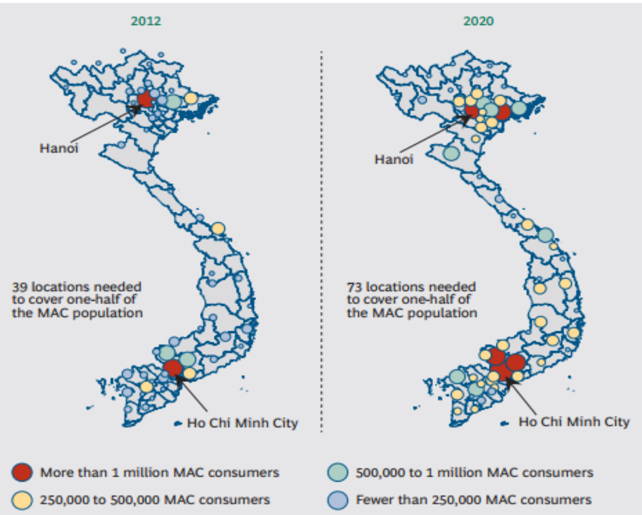
Source: FiinPro, Rong Viet Securities

A strong market correction will be a chance to buy companies who are market leader in their relevant sector and a positive industry outlook.

Vietnam is still a growing country. The government is encouraging the expansion so that this can support long-term potential growth of companies in consumer-related sectors, for example.

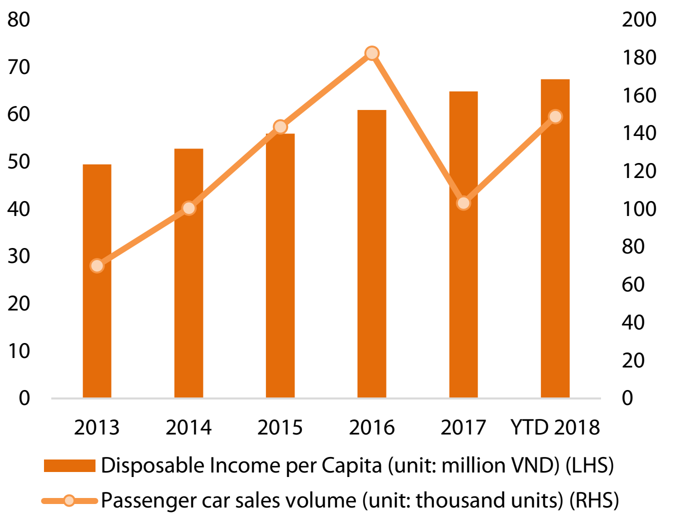
The competitiveness is rising giving more players a maneuvering marge as demand growth could slow down following the robust growth of previous years. In such a competitive environment, we believe that the winners will be (1) Companies which have the strong financial position enabling them to expand their networks and invest in high technology and (2) Companies which have been paying attention and invested on technology to improve productivity as the industrial revolution 4.0 has been putting in place. We believe leading companies will have the advantage over the small manufacturers/retailers. Given that they grew rapidly in recent years, we think it is reasonable to expect that earnings growth of these companies will be slowing down to a low to mid two-digit pace in 2019.

Figure 44: The MAC is spreading out quickly



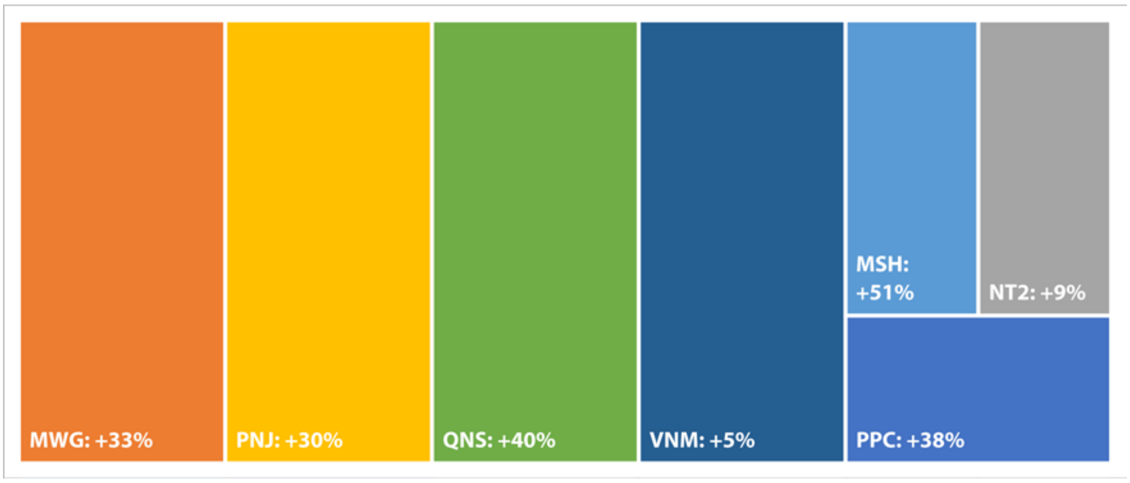
Source: BCG, Rong Viet Securities
**Location classification includes districts, district-level towns, provincial cities and quarters.*

Figure 45: Disposable income growth



Source: VAMA, GSO, RongViet Securities

Our preferred sectors are retailers, consumer discretionary, F&B (selectively companies which have capacity to develop new products). Leading companies in these sectors are among our top picks, including **PNJ**, **MWG**, **MSN**, **VNM**, and **QNS**.



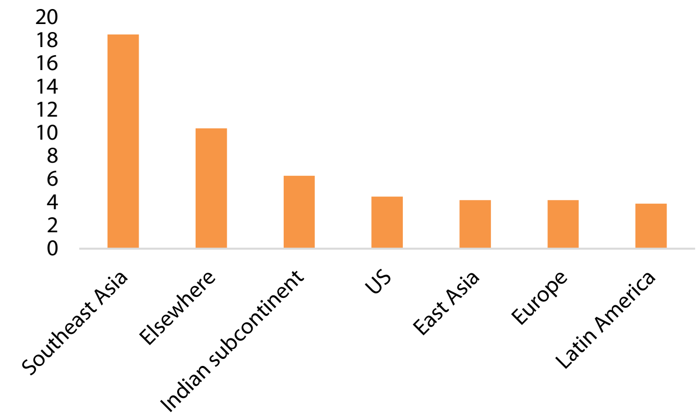
Price as of 12/14/2018 | Square size: stocks' market cap

Short-term beneficiaries in the wave of global trade agreements and disputes

Global trade prospects are mixed. For Vietnam the prospect of FTAs being signed or put into effect next year are bright spots. However, rising protectionism could still be a reality for a while, diminishing the possibilities of the country becoming a manufacturing powerhouse. One bright point is that Vietnam can potentially gain market share from China as a manufacturing hub due to its relatively cheap labor force, stable political environment and open trade policies. The trend of shifting orders or factories from China to Vietnam will continue in 2019.

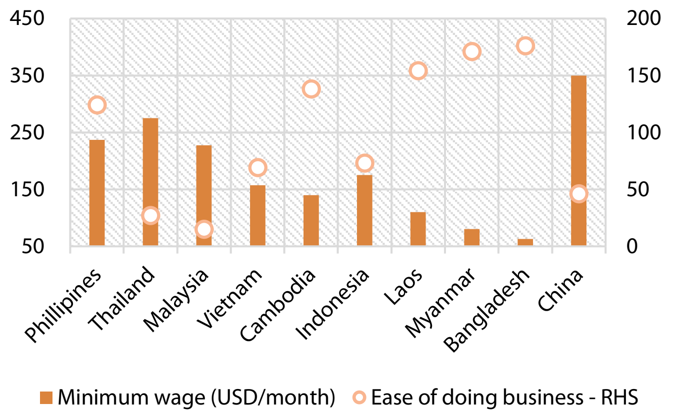
In addition, we expect that several important FTAs will be approved or go into effect in 2019 such as Vietnam-Korea, ATIGA, CPTPP, and EVFTA. If approved, these agreements will help Vietnam penetrate Asian, EU and other developed markets. Meanwhile, the taxes on imports among partner countries will gradually decrease, which can help Vietnam increase market share to export players.

Figure 46: Top destinations where US firms in China have moved production abroad, or are considering moving to (%)



Source: AmCham China, AmCham Shanghai

Figure 47: Labor cost (LHS) and the ease of doing business (RHS)



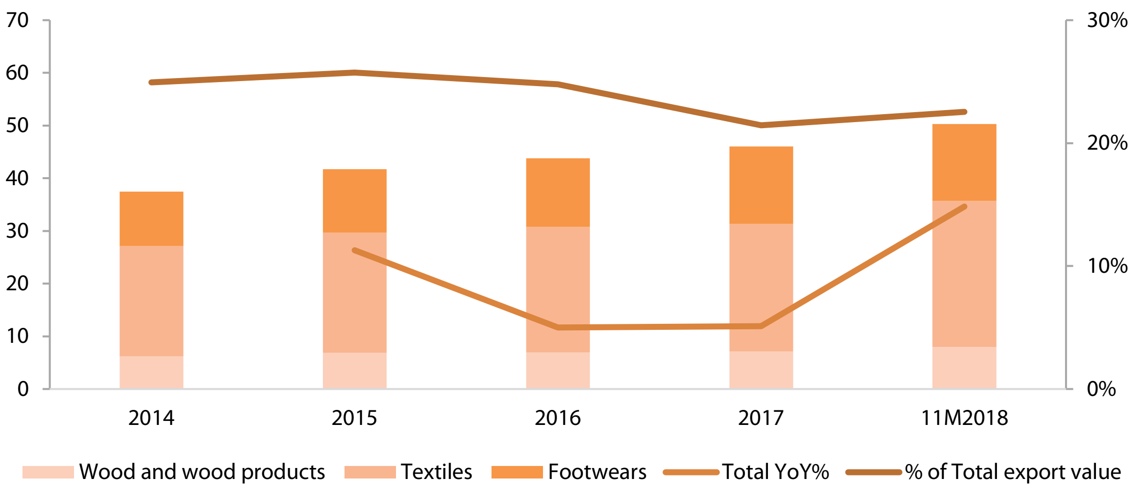
Source: Trading Economics, World Bank

Industrial parks. Although Samsung and LG have expanded their production in Vietnam recently, approximately half of their sattelite vendors have not come yet. Therefore, we predict that the moving trend will continue in 2019, especially since labor costs in China and Korea have continued to increase. This trend along with expansion plans of current investors will boost demand for leasing industrial land. Among industrial park companies, we are positive on **KBC** given its (1) perennial experience on developing industrial parks and (2) remaining huge land bank in favorable locations. In the long-term, Nam Son Hap Linh and Trang Due 3 are expected to maintain their growth. The Phuc Ninh urban area, on the other hand, should boost earnings in the case of a slowdown in leasing activities. **VGC** is also worth to take a look as it is in a turnaround mode. The company has been carrying out several efforts to restructure its building materials segment, including the divestment from ineffective businesses, investing in quality improvements and focusing on high-value products. Besides, its large industrial park land bank should steadily contribute to long term growth.

Logistic. In 2018, Vietnam's export turnover of products which the US taxes on China has grown at the higher rate than the average rate in previous years. This trend will likely boost international shipping demand from/to Vietnam, thus bolstering container throughput as well, given that these products are mainly shipped through seaways. In addition, new regulated price (10% higher from current floor price) should help boost earnings of downstream ports in Haiphong by breaking the downtrend in pricing due to harsh competition in this region. We believe the new Nam Dinh Vu port is poised to receive more cargoes in 2019 thanks to its location and **GMD**'s long proven experience and service quality. Moreover, having available capacity compared to other ports implies more potential growth. Therefore, this is our top choice in this sector for 2019.

Textile. Thanks to the advantages provided by Free Trade Agreements (VJEPA, CPTPP, EVFTA) and the movement of orders from China to Vietnam, export turnover has recorded remarkable growth. For 2019, we expect the trend of shifting orders from Chinese companies to neighboring markets will continue to increase. As a result, this should have a positive impact on the volume of Vietnam's textile & garment orders. On the other hand, it will also bring more intense competition among domestic producers. We believe that companies which are well-prepared in human resources and have strong internal capabilities will be the winners. We prefer **MSH** over the other textile companies because (1) The company aims towards increasing the proportion of FOB, enhance total garment capacity to improve its competitiveness and seize opportunities of order growth from major fashion partners, (2) Its high and stable cash dividend policy, and (3) Potential capacity growth in the long-term if "Song Hong 10" factory goes to operation (as planned in 2020). We also like **STK** due to its high-quality products and growth potential. However, the stock's illiquidity is the weak point.

Figure 48: Vietnam's export value of some commodities benefited from trade wars (Bn USD)

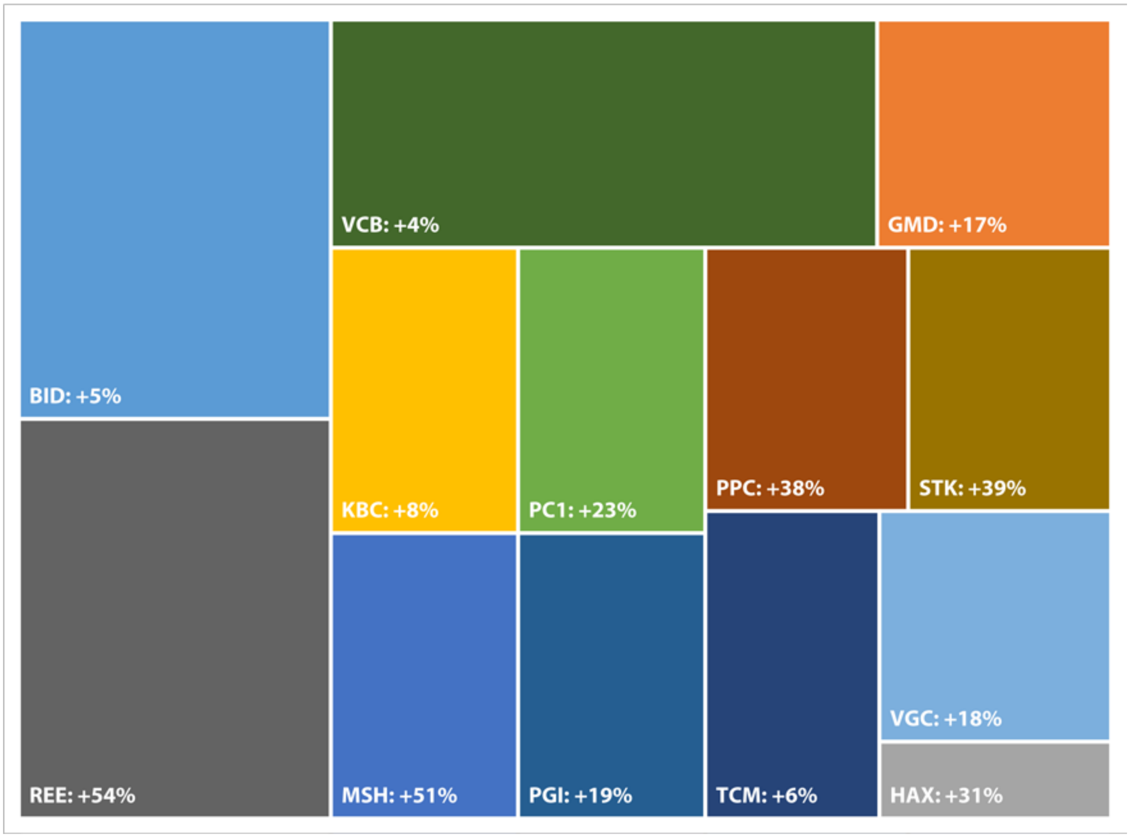


Source: Vietnam Customs

We expect that 2019 will witness a substantial recovery in the ***automotive retail*** sector. There are signs of a recovery in auto supplies since late 2018 as most companies that export cars to Vietnam meet the requirement of Vehicle Type Approval (VTA) certification under Decree 116. We believe that this trend will continue in the coming months, resulting in a surge in 2019 of Completely Built-Up (CBU) cars from a low base in 2018. Moreover, we expect sales of both middle and high-class cars will benefit the most from FTAs. Given that we think the luxury car segment will recover in 2019 , **HAX** is a reasonable choice due to (1) Its leading role with a 60% market share in the luxury car segment and (2) Its current relative attractive valuations, PER of 5.4x.

In the fishery sector, we prefer ***pangasius*** over others, given rising demand from China and hurdles to trade with the US to be reduced (Vietnam's largest importer). While Chinese anabas accounts for 40% of US total imported volume, Vietnamese pangasius accounts for 20%. Therefore, in the case of more trade tensions between the two giant economies, we believe that it will create opportunities for Vietnam to take market share from China. However, legal and oversupply are usual risks of the fishery sector. Hence, although we like **VHC,** which tends to be leader in this sector, we think VHC's investors should closely follow those factors. VHC's stock price increased 80% so far in 2018. Positive sector outlook and high earnings growth prospect may boost the stock price go further, yet we think it should be time for profit-taking.

Meanwhile, global trade tensions coupled with a global economic growth slowdown make us cautious about sectors in which Vietnam has less advantages, such as steel and tires.



Price as of 12/14/2018 | Square size: stocks' market cap

Will the story of State's divestment be back?

2018 was a poor year for the progress of State divestment, very different from 2017. Total value received from divestment reached VND 35.7 Tn, equivalent to 29% of the received amount in 2017. While most of the cash collected in 2017 was from SAB (VND 110 Tn) and VNM (VND 9 Tn), half of the amount in 2018 was contributed by PVOil, PVPower and BSR. Excluding the value from SAB divestment, the collected amount in 2018 was 156% higher than that in 2017.

Figure 49: Cash collection from State divestment

Source: FiinPro, Rong Viet Securities

Table 9: IPO progress of some large State-owned enterprises in 2018

No	Ticker	Name	Charter Capital (VND B)	Noted
1	PVOil	PetroVietnam Oil Corporation	10.342	Done, listed on UpCom
2	PVPower	PetroVietnam Power Corporation	23.419	Done, listed on UpCom
3	BSR	Binh Son Refining and Petrochemical Ltd	31.005	Done, listed on UpCom
4	VRG	Vietnam Rubber Group	26.141	Delayed
5	VNF2	Vinafood 2	2.823	Delayed
6	VICEM	Vietnam Cement Industry Corporation	12.360	Delayed
7	MOBIFONE	Mobifone		Delayed
8	GENCO 3	EVN Genco 3		Delayed

Source: Rong Viet Securities

For 2019, the Ministry of Finance (MoF) expects that it can collect around VND 50 Tn from State-divestment, 40% higher than 2018's performance. We think most of the amount will come from deals delayed in 2017 and 2018, with some big names like VRG, MOBIFONE, GENCO 3, ACV, PLX, VGT, etc.

We think the strict requirement on defining the offered price (under Decision 32/2018/ND-CP) coupled with unfavorable market resulted in low successful rate in 2018. In addition, investors' ability to exploit/synergies with target companies (after buying) also plays an important role. In this scenario, we believe that it should be strategic partners that participate into the deals. Therefore, for this theme, we suggest companies with reasonable valuations and bright prospects in the long-term.

List of state divestment not implemented in 2018

No	Code	Name	Exchange	Capital (VND Billion)	Owners	Divestment Rate
1	ACV	Airports Corporation of Vietnam	Upcom	26.194	MTVN	20%
2	PLX	The Vietnam National Petroleum Group	HSX	23.238	MOIT	25%
3	VGT	Vietnam National Textile and Garment Group	Upcom	7.608	MOIT	53%
4	VNP	Vietnam Plastic Corporation	SCIC	131	SCIC	65%
5	DVN	Vietnam Pharmaceutical Corporation	Upcom	2.459	MOHVN	30%
6	VGC	Viglacera Corporation – JSC	HNX	6.405	MOCVN	20%
7	DBD	Binh Dinh Pharmaceutical And Medical Equipment JSC	Upcom	891	Binh Dinh People Community	10%

Source: RongViet Securities

At a market price of VND 84,000 per share, **ACV** is trading at a forward EV/EBITDA of 16x. The EV/EBITDA that strategic investors usually pay for aviation stocks is around 16x – 18x, giving a 15%-0% growth to Vietnam.

Given the possible slowdown growth of the aviation sector in 2019, we think the latter ratio can decrease by 15% - 20%. We believe it is the time to buy ACV. The continuing divestment of PVN also offers some interesting names like PLX, GAS, or POW.

Table 10: Financial ratio of large names

No	Ticker	Exchange	Market Cap (VNDbn)	State ownership	Remaining Foreign Volume (Shares)	D/E (TTM, x)	BVPS (TTM, VND)	EPS (TTM, VND)	ROE (TTM, %)	ROA (TTM, %)	PER diluted (TTM, x)	PBR (TTM, x)	EV/EBITDA (TTM, x)
1	ACV	UPCOM	181,660	95.4%	988,726,233	1.0	13,733	2,841	21.7	12.1	29.0	6.0	19.0
2	DBD	HOSE	2,148	13.3%	0	0.0	18,276	3,276	19.2	11.7	13.0	2.0	9.0
3	DVN	UPCOM	3,565	65.0%	0	1.0	10,432	929	8.6	3.5	16.0	1.0	44.0
4	GAS	HOSE	170,342	95.8%	872,457,252	0.0	22,203	6,557	28.2	19.5	14.0	4.0	10.0
5	PLX	HOSE	65,589	75.9%	117,245,910	2.0	16,916	3,282	16.5	5.8	17.0	3.0	10.0
6	POW	UPCOM	34,683	79.9%	806,552,869	1.0	10,353	844	6.7	2.9	18.0	1.0	7.0
7	VGC	HNX	8,294	54.0%	110,917,759	1.0	13,763	1,263	8.2	3.4	15.0	1.0	7.0
8	VGT	UPCOM	5,475	53.5%	179,521,840	2.0	12,108	987	6.2	2.3	11.0	1.0	12.0

Source: RongViet Securities

SECTOR OUTLOOK

Lam Nguyen (lam.ntp@vdsc.com.vn)

Following high growth for almost a decade, global as well as Vietnam economies are expected to slow down in 2019. Yet most of our analysts keep an optimistic view on companies' businesses for the long-term. It is supported by the expansion of the middle class, rising incomes and the Government's encouragements towards the development of the private sector. Hence, sales growth prospects of retailers, IT, insurance, and banks will still be good.

Meanwhile, there is a mix picture amongst sectors in the short-term. The trade war, a negative, is compensated by many FTAs (which Vietnam signed or are still being negotiated). This could give domestic companies a chance to capture more market share from other Asian and developed countries. In addition, the low-income advantage as well as being China's neighbor makes Vietnam a potential destination for FDI. These events will support sectors like textile, fishery, logistic, industrial park, and power. On the other hand, there will be high competition in sectors which Vietnam do not have advantages of economies- of-scale like steel and tires.

The end of monetary easing and rising interest rates will be a negative for consumer cyclicals and highly leveraged sectors. As a result, those clusters are in the lower end of our rating table.

Our six-factor rating system (see below) also shows our outlook for the various industries.

High-ranking sectors this year include industrial parks, logistic and textile. The next nine sectors, aviation, retail, automotive retail, technology, fishery, power, O&G, and Insurance also have positive outlooks and are thus worth some consideration. We are negative on steel and fertilizers due to the possibility of a slowdown in demand (steel) and fierce competition (fertilizer, steel).

Subsectors	2019 Supply - Demand	Input price	Legal Environment	Long-term Growth Potential	Technological Development	Competition	View	Stock Picks	Watch List
RE - Industrial park	++		-	+		+	Positive	KBC, VGC	LHG, NTC
Logistic	+	-	+	+	+	-	Positive	GMD	TMS, SWC, VTP
Textile	+	-		+	+	-	Positive	STK, MSH	TCM, TNG
Aviation				++		+	Positive	ACV, VJC	SCS, AST, SGN
Retails	+			+	+	+	Positive	MWG, PNJ	DGW, FRT
Automotive retail	+		+	+		-	Positive	HAX	SVC, VEA
Technology	+		+	++	+	-	Positive	FPT	
Fishery	+	-		+	+	-	Positive	VHC	MPC, ANV
Power	+	-	+	+	+		Positive	PPC, REE, POW	HND, NT2
Oil & Gas	+	-	+		-	-	Positive	PVS	GAS, PXS, PVB, PLX
Insurance	+	-	+	++	+	-	Positive	PGI	BVH, BMI
Bank	+	-	-	++	+	-	Neutral	MBB, ACB	TCB, VIB, VCB, BID
F&B (Beer, milk)	+	-	-	+	+	-	Neutral	VNM, QNS	SAB, MCH
RE – Residential	-		-	++		+	Neutral	DIG, NLG, VHM	VIC, NVL, HDG
Automotive - Rubber Tires	+					--	Neutral		DRC, CSM
Pharmaceutical		-	+	+		-	Neutral	PME, MKP	DHG, DBD, TRA
Securities	-	-	+	++	+	--	Neutral		SSI, VND, HCM
Construction	-	-	-	++	+		Negative	CTD	HBC
Building materials	-	-		+	+	-	Negative		PTB, BMP, HT1
Chemicals - Natural rubber	-			+	-	-	Negative		PHR
Chemicals - Fertilizers		-	-	-		-	Negative	BFC	DPM
Steel	-	+	-	+	+	--	Negative		HPG, HSG, FTV, SMV
Others									YEG, BWE, DQC

Source: Rong Viet Securities

NOTES

SECTOR QUALITATIVE RATINGS

Our table of qualitative ratings is based upon six industry-wide criteria's, specifically: 2019 supply-demand outlook, legal environment, long-term growth potential, technological development and competition with ratings from 1 to 5 and different criteria weights across sectors.

Positive sectors are sectors we believe will have growth opportunities and/or optimistic earnings outlook this year. Neutral sectors are driven by favorable factors but also have many external and/or internal risks; we believe these sectors would be more appropriate for investors with moderate-to-high risk tolerance and the ability to follow market fluctuations. For negative sectors, opportunities only open when critical problem(s) are resolved.

RATING/RECOMMENDATION EXPLANATIONS

At the end of each sector, we have included a table of key financial metrics and ratings for individual stocks within the sector. Our rating system is specified as below:

Ratings	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Total return including dividends, 12-month horizon	>20%	>5% to 20%	-5 to 5%	-20% to -<5%	<-20%

HIGHLIGHT STOCKS

Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Price @Dec 14 (VND)	Total Return (%)	Rating	2017		2018E		2019F		PER Trailing (x)	PER 2018E (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
ACB	HNX	1,628	35,800	30,400	17.8	Accumulate	81.0	59.8	18.0	134.7	13.0	16.1	8.7	7.8	1.9	0.0	12.4	4,275	0.0
ACV	UPCOM	7,900	95,300	84,500	14.2	Accumulate	-5.5	-18.1	19.8	53.1	7.5	8.8	29.8	32.6	6.2	1.4	-0.7	344	45.4
AST	HOSE	108	74,500	70,200	11.1	Accumulate	108.0	236.1	27.9	4.5	12.6	21.4	16.2	20.1	5.0	5.0	0.0	359	26.5
BFC	HOSE	64	26,800	26,250	4.0	Neutral	6.1	0.2	4.7	-24.0	-1.9	-9.0	7.3	7.7	1.5	1.9	-10.5	77	35.1
BID	HOSE	4,975	35,000	33,900	5.3	Accumulate	13.2	10.3	13.5	8.8	9.1	14.7	13.9	20.1	2.3	2.1	38.7	3,344	27.1
CTD	HOSE	542	163,600	161,500	3.7	Neutral	30.7	16.2	5.5	-5.4	5.0	-1.1	7.6	9.1	1.6	2.4	-24.9	885	5.2
CTG	HOSE	3,572	24,300	22,350	8.7	Accumulate	23.3	9.2	11.1	-17.9	7.7	3.3	10.8	17.1	1.2	0.0	1.6	4,629	0.0
DHG	HOSE	463	83,000	82,500	4.2	Neutral	7.4	-9.5	-4.2	-3.5	1.6	10.5	18.1	19.3	3.7	3.6	-24.6	851	50.9
DIG	HOSE	172	19,500	15,900	22.6	Buy	68.4	31.7	16.8	64.6	6.2	11.9	24.3	12.4	1.4	0.0	-21.1	1,094	11.4
DXG	HOSE	383	30,063	25,500	17.9	Accumulate	14.9	39.8	40.4	35.2	-6.2	19.8	8.4	8.6	1.9	0.0	47.8	2,722	0.8
FPT	HOSE	1,163	55,000	44,150	29.1	Buy	8.0	47.0	-44.4	-14.1	14.9	17.8	8.3	10.8	2.3	4.5	-4.6	1,361	0.0
FRT	HOSE	219	84,000	75,000	14.7	Accumulate	21.0	40.0	20.6	30.3	26.3	25.1	14.9	14.1	5.0	2.7	0.0	66	0.3
GMD	HOSE	365	30,800	28,600	14.7	Accumulate	4.9	29.3	-39.6	228.8	8.9	-72.2	4.4	5.6	1.5	7.0	-7.9	1,721	0.0
HAX	HOSE	24	19,600	16,050	22.1	Buy	33.1	8.1	17.1	34.0	19.9	9.2	6.3	5.0	1.4	0.0	-33.9	91	36.9
HDB	HOSE	1,272	34,000	30,200	15.9	Accumulate	38.5	136.6	23.7	52.7	18.2	16.3	12.1	11.1	2.0	3.3	0.0	3,553	3.0
HDG	HOSE	155	38,500	38,000	2.6	Neutral	14.1	-16.0	61.5	160.9	68.9	55.1	9.4	7.0	2.5	1.3	38.8	452	34.4
HPG	HOSE	3,054	38,900	33,500	16.1	Accumulate	38.7	21.3	23.0	10.4	28.1	15.0	7.7	8.7	1.8	0.0	15.4	9,452	10.1
IMP	HOSE	123	53,000	57,800	-5.2	Reduce	15.4	16.0	7.2	19.3	12.9	5.7	22.4	23.1	1.9	3.1	2.3	66	0.9
KBC	HOSE	290	15,600	14,400	8.3	Accumulate	-36.0	4.9	84.8	5.9	16.9	13.1	12.7	10.9	0.8	0.0	8.7	1,490	29.6
LTG	UPCOM	89	31,200	25,500	30.2	Buy	12.0	28.5	5.3	4.3	6.3	9.9	5.4	5.6	0.9	7.8	-19.4	41	49.0
MBB	HOSE	2,022	30,500	21,800	42.2	Buy	40.7	39.7	35.2	65.2	18.9	29.5	9.3	8.8	1.5	2.3	10.4	6,134	0.0
MKP	UPCOM	49	81,900	59,000	41.4	Buy	8.3	-4.2	-12.5	-16.5	-1.1	0.0	14.0	13.3	1.1	2.5	0.0	2	1.5
MSH	HOSE	81	56,000	39,800	50.8	Buy	9.7	17.1	17.1	77.0	13.5	15.3	5.7	6.0	1.8	10.1	0.0	323	47.2
MWG	HOSE	1,624	115,000	87,900	32.5	Buy	48.7	39.8	33.3	35.8	17.6	20.0	13.6	13.2	4.6	1.7	-8.2	2,473	0.0
NKG	HOSE	64	8,900	8,170	21.2	Buy	41.2	36.6	18.0	-20.5	90.7	10.4	3.9	3.2	0.5	12.2	-69.7	495	57.7
NLG	HOSE	292	34,258	28,450	20.4	Buy	24.8	55.0	1.0	46.5	-7.1	19.9	6.9	8.7	1.5	0.0	13.3	781	0.0
NT2	HOSE	323	27,100	26,150	9.4	Accumulate	-15.3	-25.3	12.6	-10.8	1.8	14.3	8.9	10.8	2.0	5.7	0.1	192	27.2
PC1	HOSE	133	28,200	23,400	22.6	Buy	1.9	12.0	42.6	87.9	32.9	-5.2	6.6	7.5	1.0	2.1	-29.2	356	13.1
PGI	HOSE	68	20,100	17,950	18.7	Accumulate	13.0	24.9	3.3	10.7	6.3	23.4	11.8	13.3	1.1	6.7	-1.2	2	28.3
PME	HOSE	204	78,100	63,500	26.1	Buy	7.6	19.7	7.0	10.3	15.0	16.8	15.9	15.2	2.8	3.1	-4.2	56	38.0
PNJ	HOSE	703	126,000	98,100	30.3	Buy	28.2	61.1	37.1	39.5	29.6	34.8	17.4	16.8	4.7	1.8	18.9	2,106	0.0
POW	UPCOM	1,545	18,400	15,200	21.1	Buy	5.3	107.8	13.9	-11.5	7.3	67.2	18.2	20.8	1.5	0.0	0.0	1,164	34.5
PPC	HOSE	254	23,000	18,450	38.2	Buy	4.3	52.5	12.4	13.8	1.8	-10.2	6.1	6.4	1.0	13.6	4.3	300	34.3
PVS	HNX	417	23,800	20,300	20.7	Buy	-10.5	-22.9	-2.6	6.7	2.9	9.0	11.6	11.4	0.9	3.4	18.9	4,658	29.2
PVT	HOSE	198	21,200	16,400	33.5	Buy	-9.0	0.7	22.3	26.4	13.8	14.9	7.9	9.3	1.2	4.3	2.4	177	15.4

Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Price @Dec 14 (VND)	Total Return (%)	Rating	2017 +/- Rev. (%)	2017 +/- NPAT (%)	2018E +/- Rev. (%)	2018E +/- NPAT (%)	2019F +/- Rev. (%)	2019F +/- NPAT (%)	PER Trailing (x)	PER 2018E (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
QNS	UPCOM	551	60,200	43,300	41.3	Buy	9.6	-27.9	11.1	21.9	5.4	9.1	11.5	8.7	2.6	2.3	-0.5	805	37.3
REE	HOSE	431	48,400	32,400	54.3	Buy	36.5	26.0	5.0	22.4	11.2	15.6	6.4	6.0	1.1	4.9	-16.7	797	0.0
SCS	UPCOM	377	157,000	153,600	6.8	Accumulate	18.6	40.5	16.7	23.3	9.5	11.6	22.0	19.5	9.8	4.6	0.0	140	29.1
STK	HOSE	46	24,300	18,000	39.4	Buy	46.6	242.3	22.3	63.7	16.6	19.6	6.7	7.4	1.3	4.4	-7.3	61	40.8
VCB	HOSE	8,726	58,000	56,500	4.1	Neutral	18.2	33.0	23.2	36.5	9.9	13.5	16.8	19.7	3.3	1.4	26.3	3,587	9.2
VGC	HNX	343	21,000	17,800	18.0	Accumulate	11.4	23.7	-4.0	-9.9	-0.2	14.4	14.1	14.8	1.3	0.0	-23.9	1,206	24.8
VHC	HOSE	400	126,300	101,000	26.3	Buy	11.6	6.7	16.3	159.2	12.1	-1.4	7.6	6.7	2.5	1.3	100.4	1,134	62.7
VHM	HOSE	11,474	90,500	79,800	13.4	Accumulate	N/A	N/A	230.0	3,225.1	7.1	18.0	24.5	15.4	6.5	0.0	0.0	3,663	33.5
VIC	HOSE	14,071	97,817	102,700	-4.8	Neutral	68.4	74.1	39.0	-8.1	5.0	28.7	85.2	84.0	6.3	0.0	72.6	5,742	39.9
VJC	HOSE	2,976	140,000	128,000	11.7	Accumulate	54.0	81.0	27.8	27.5	24.3	20.9	12.8	12.0	5.6	2.3	18.1	5,476	6.4
VNM	HOSE	10,092	139,000	135,000	5.2	Accumulate	9.1	10.1	5.6	-1.9	7.1	9.7	24.3	25.9	9.2	2.2	-17.0	6,187	40.7
VRE	HOSE	3,219	33,118	32,200	2.9	Neutral	-13.6	-17.2	49.1	19.9	23.9	23.0	30.4	25.3	2.7	0.0	-12.7	2,898	17.4
VSC	HOSE	94	47,000	43,500	12.6	Accumulate	20.4	-5.6	0.9	26.4	2.5	4.0	7.6	8.1	1.4	4.6	4.8	447	8.3

Source: Rong Viet Securities

INDUSTRIAL REAL ESTATE - ENJOY THE TAILWIND

Thu Pham (thu.pa@vdsc.com.vn)

Industrial zones are a regional distinctive of Asia due to economies of scale. China, in a sense, initiated this movement as it became world's factory. However, rising labor costs in China caused the relocation of manufacturing hubs since 2015. Recent trade disputes have accelerated this move. These concerns and shifting plans should remain on the agenda for a while. For Vietnam, and other ASEAN countries, it creates opportunities. Rental demand in Vietnam surged since mid-2018 and is supposed to stay high in 2019. Our top picks are Kinh Bac City (HSX: KBC) and Viglacera Corporation (HNX: VGC) who will benefit the most.

Investment Outlook

Vietnam is of choice amidst trade disputes

Vietnam is appealing for various reasons including geographical advantages and close proximity to China, enabling road transport. Further, no industrial zones are deep inland and the key ones are tied with seaports, underpinned by increasing investment in infrastructure. The ease of doing business considerably improved as Vietnam leaped 24 grades to rank 69th in three years according to the World Bank (Figure 50). Labor costs in Vietnam are 43% and 10% lower than that of Thailand and Indonesia. Occupancy of Vietnam's zones were reported to be around 73% whereas more than 90% of industrial land in Thailand was occupied in mid-2018. Thailand is favored by the automotive industry while Vietnam has been chosen as a hub, in general, by electronic and accessories manufacturers.

The upside for developers is to bring captive tenants

Samsung, LG and other large corporations, who have been present for more than ten years in Vietnam, create a demand for northern industrial hubs. Strong bedrocks for manufacturing were therein established given the availability of specialized input providers and access to similar workforces. We call it the 'lock-in' effect. This helps suppliers place their production close to customers. We are specifically seeing potentials for lease demand from the increasing (1) production of OLED panels from Samsung Display and LG Display; (2) solar energy investments and (3) Vinfast incoming production. Notwithstanding, large corporations are often offered at discounts whereas their suppliers should bring higher income for developers.

Land banks, customer backgrounds and demand differ

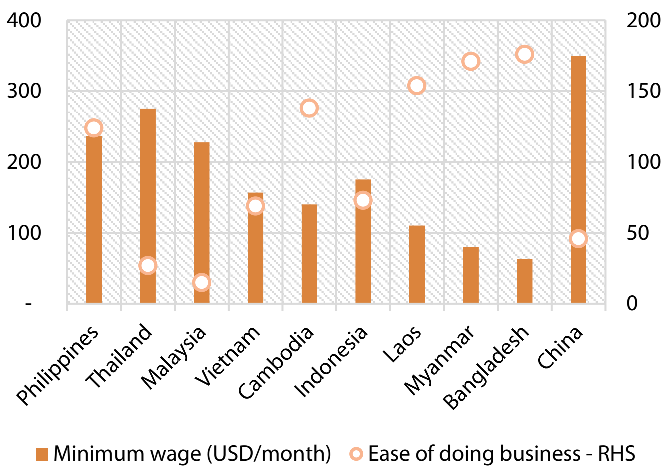
Northern zones are preferred by technology corporations. KBC expects to sell 843 ha of its remaining leasable land around Bac Ninh, Bac Giang and Hai Phong, where demand is high. VGC owns 911 commercial land in the north. Viglacera's zones are more spread out, probably causing leases to grow a bit slower. Average asking price in the northern zones is 82 USD/sqm/lease term, 13% higher than that of the south. That is to say, KBC and VGC should enjoy the tailwind if (1) trade disputes linger and (2) high-tech giants continue to recruit more vendors. We think that northern zones will have a bit more rapid absorption rate and are less vulnerable.

Southern tenants are more diverse. They include smokestack and chemical industries. The trade dispute has encouraged enterprises from Taiwan and China, mostly SMEs, to shift their manufacturing hubs to southern zones. LHG and NTC then avail. Long Hau 3 should experience slow sale of 90 ha leasable land, albeit its strategic standing, due to the hindrance in land clearance. Meanwhile we expect Nam Tan Uyen 3 to set ground from 3Q 2019 and lease out 255 ha in about five years. Our data shows that BCM and IDC own 2,118 ha of the remaining leasable land. Some zones experience slow sales due to unfavorable locations. Recent rising relocation costs may reduce the willingness to move for SMEs.

Risks

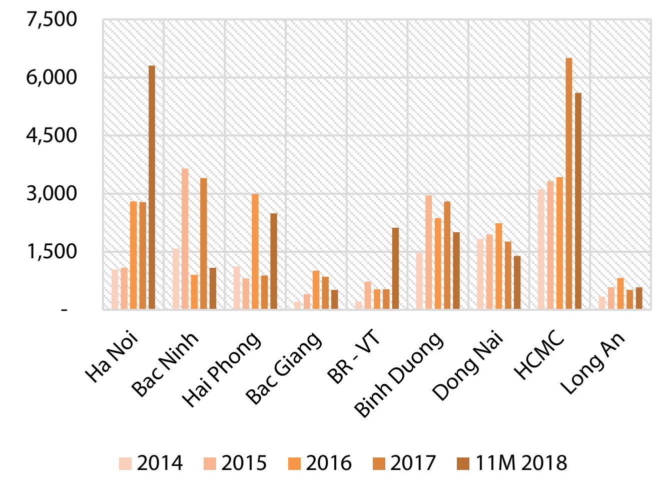
- Slowdown of foreign inflows due to global instability and soaring relocation costs.
- Regulatory changes that cause delays in deployment and rising land clearance costs.

Figure 50: Labor cost and the ease of doing business



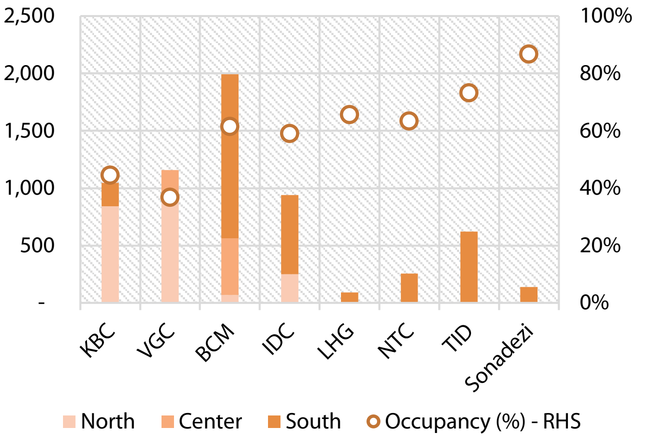
Source: Trading Economics, World Bank

Figure 51: FDI by provinces (USD million)



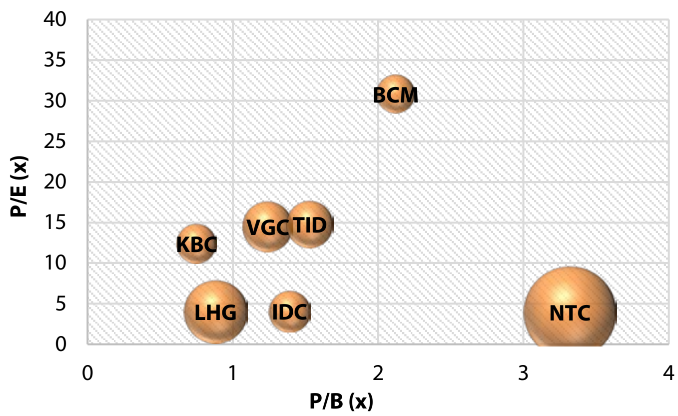
Source: MPI

Figure 52: Remaining leasable land (ha) and occupancy



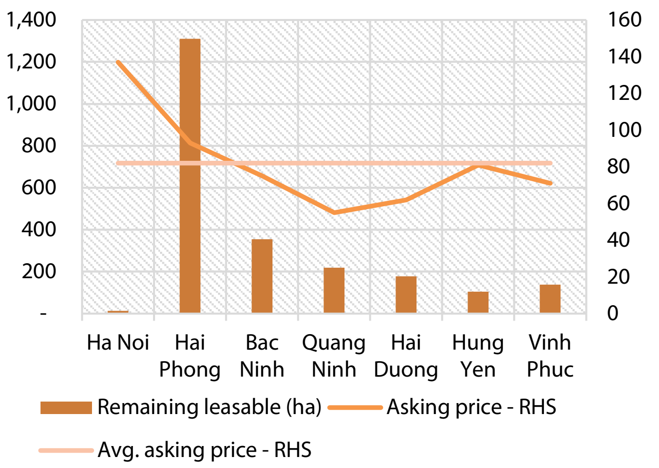
Source: Rong Viet Securities

Figure 53: P/E, P/B and ROE (%) of major players



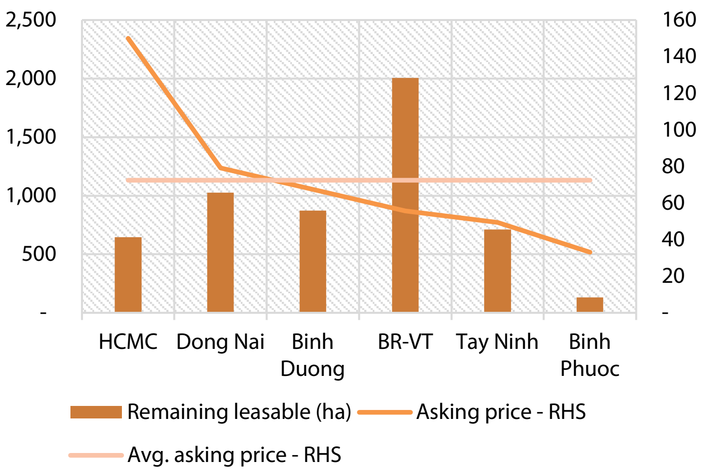
Source: Bloomberg, Rong Viet Securities, bubble size: ROE

Figure 54: Northern lease status in 3Q 2018



Source: JLL

Figure 55: Southern lease status in 2Q 2018



Source: JLL

KINH BAC CITY DEVELOPMENT HOLDING CORP — Bloomberg: KBC VN

Strong leases ahead

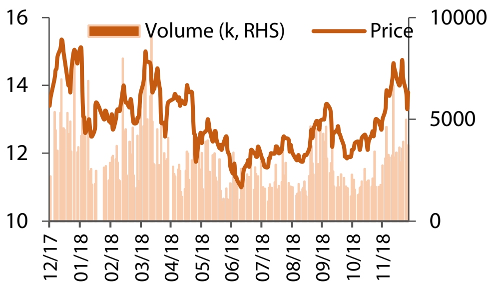
ACCUMULATE 8%

CMP (VND)	**14,400**
Target Price (VND)	**15,600**
Cash Dividend (VND)*	-

Stock info

Sector	Industrial RE
Market cap (VND bn)	6,765
Current shares (millions)	469.8
3M avg. volume (K)	2,668
3M avg. Trading value (VND bn)	34.3
Remaining foreign room (%)	29.6
State ownership (%)	-

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,972	1,260	2,329	2,673
% yoy	37.5	-36.1	84.8	14.8
PAT	557	585	619	657
% yoy	18.0	4.9	5.9	6.1
ROA (%)	3.8	3.7	3.7	3.9
ROE (%)	7.2	7.1	7.0	6.9
EPS (VND)	1,186	1,244	1,318	1,492
BV (VND)	16,397	17,644	18,962	20,454
Div (VND)	-	-	-	-
P/E (x)	11.7	10.8	10.9	10.9
P/BV (x)	0.8	0.8	0.8	0.7

*Price as of 12/14/2018

Company snapshot

Kinh Bac is one of the leading industrial park developers. The company possesses a huge land bank including 5,174 ha for industrial land and more than 1,100 ha for urban area development. It owns seven major parks in Bac Ninh, Hai Phong and HCMC as well as seven in association with other parties. In the short term, land lots and villas sales are expected to bolster the company's results. In the long term, the incoming leasable land of 689 ha from Nam Son Hap Linh and Trang Due 3 will ensure lease revenues for KBC.

Rong Viet Securities remains positive standpoints on KBC's core business given its (1) perennial experience on developing industrial parks and (2) remaining huge land bank in favorable locations. About 488 ha were leased out during 2013 - 9M 2018, mostly to FDI enterprises with some notorious tenants namely LG Electronics, LG Display, Canon and Foxconn. The track record bodes well for incoming leases. Nam Son Hap Linh and Trang Due 3 expect to maintain growth in the long term, given remaining leasable land of 213 ha in Bac Ninh and 456 ha in Hai Phong. Phuc Ninh urban area, on the other hand, should boost earnings in the case that leases taper off.

Investment Rationales

- **Mid-term leases should stay buoyant.** Leasable land is around 442 ha for the next five years. The latter figure is around 1,045 ha when fully counting Nam Son Hap Linh and Trang Due 3. KBC's key zones are located in Bac Ninh, Bac Giang and Hai Phong, where most of manufacturing activities are taken place. This grants significant advantages in attracting tenants. Increasing manufacturing relocation out of China recently has bolstered leasing results and created promising demand going forward. Trang Due 3, which is not included in our forecasts and valuations, should remain a long term catalyst as well as higher upside of the stock price, despite current setbacks. We expect Trang Due 3 to obtain swift leases given its strategic location and luring tax incentives. The zone will possibly enjoy a relatively high asking price, at 80 - 85 USD/sqm/50 years.
- **Land lots sale expects to boost earnings growth.** Phuc Ninh urban area has about 16 ha available for sale from FY2019 on. Land acquired with low costs allows high profitability. Gross margin is around 53 - 58%. The project targets to the increasing middle class and foreign professionals in Bac Ninh. Local plan of Bac Ninh City towards FY2030 of becoming a municipality expects to underpin its absorption. It will take about seven to nine years to develop the remaining parts of Phuc Ninh.

2019 Outlook

- **Notable handover amount from Phuc Ninh.** The project is reaching its final stage of construction. Current presale is around 4 ha. An estimated revenue of VND 800 billion will be recognized in FY2018 - 2019. We assume that the company will hand over 2.8 ha in FY2019, corresponding to VND 560 billion of revenue. Gross margin is expected to be around 53 - 58%.
- **First lease contribution from Nam Son Hap Linh.** Rental demand stayed strong in Bac Ninh as more vendors arrived. Leasable land in Que Vo 2 is drying out, making it indispensable for Nam Son Hap Linh to be set up. Due to recent local land adjustment, we assume the zone to have a total leasable land of 213 ha. There are 66 ha available for lease at this time. We expect the zone to rent 30 ha in FY2019, generating VND 658 billion of revenue (28% of leasing sales).
- Projected revenue and NPATMI are VND 2,722 billion (+17% YoY) and VND 701 billion (+13% YoY) respectively, suggesting a FY2019 P/E of 10.9x.

Risks to Our Call

- Slowdown FDI and rising relocation costs.
- Regulatory issues that cause longer delay in Nam Son Hap Linh's kickoff.

VIGLACERA CORPORATION - JSC Bloomberg: VGC VN

A blitz on restructuring amidst rising challenges

ACCUMULATE 18%

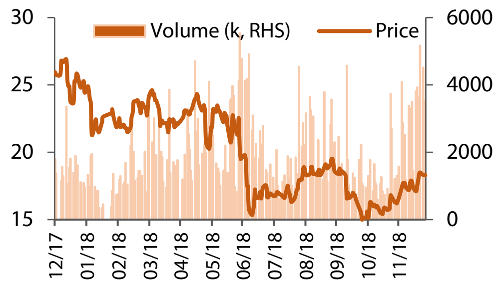
CMP (VND)	**17,800**
Target Price (VND)	**21,000**
Cash Dividend (VND)*	-

(*) expected in next 12 months

Stock info

Sector	RE & Materials
Market cap (VND bn)	7,981
Current shares (millions)	448.4
3M avg. volume (K)	1,587
3M avg. Trading value (VND bn)	27.4
Remaining foreign room (%)	24.8
State ownership (%)	54.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	8,139	9,197	8,832	8,810
% yoy	4.1	13.0	-4.0	-0.3
PAT	541	600	541	619
% yoy	56.4	16.8	-9.8	14.4
ROA (%)	3.9	3.7	3.3	3.8
ROE (%)	13.0	9.6	8.5	9.5
EPS (VND)	1,673	1,339	1,207	1,381
BV (VND)	12,875	13,913	14,180	14,564
Div (VND)	950	950	950	-
P/E (x)	9.1	19.7	14.7	1.2
P/BV (x)	1.2	1.9	1.3	1.4

*Price as of 12/14/2018

Company snapshot

Viglacera Corporation (HNX: VGC) is considered as one of the leading companies in building material industry and also confirms its prestige in real estate sector with residential products and industrial parks operation. Its building material includes building glass, tiles, sanitary ware and teracotta.

The company accounts for 45% market shares in teracotta segment and is domestically notable in sanitary ware producers. Incoming plants, Phu My and My Xuan, should potentially be long term growth drivers. On the other hand, Viglacera has been operating nine industrial parks, clustering in the north, with about 911 ha remaining leasable area. Last but not least, VGC is also the developer of several residential projects in Ha Noi, namely Xuan Phuong, 671 Hoang Hoa Tham.

Viglacera is in a turnaround mode. An effective restructuring is needed against obstacles from the building materials segment, representing 64% of profit. Several efforts have been carried out, including the divestment from ineffective businesses, investing in quality improvements and focusing on high-value products. My Xuan sanitary ware and Phu My ultra-white glass factories are expected to bring distinct advantages in the long term. Industrial park should steadily contribute to long term growth as a result of favored FDI and some manufacturing shifting from China to Vietnam. Residential projects in Hanoi and social houses encircling industrial zones will also help the company keep income stable.

Investment Rationales

- **Industrial park lease broadens as rental demand is soaring.** The northern part is experiencing escalating demand as foreign enterprises come in, possibly due to recent trade disputes. Viglacera has seen more land leased in its far-off zones, including Dong Van IV, Phu Ha and Tien Hai. Yen Phong Expansion, 165 ha of remaining leasable land, is supposed to soon rent out, mostly to technology suppliers. We think the leasing area will range from 60 to 90 ha per year, from 911 ha remaining leasable land, and contribute about 23% of annual earnings.
- **Leading role in building material and restructuring attempts expect to maintain growth.** Viglacera accounted for 41% and 9% market share in building glass and sanitary ware; 14% and 45% market share of tiles and bricks, respectively. In 2018, restructuring attempts have been pushed up, to minimize costs and optimize production efficiency. We think this process takes time. Leading position and the longstanding brand names should curtail negative impacts from the ongoing competition. In the short term, fully divest from 6 ineffective subsidiaries in bricks and My Xuan sanitary ware to kick off production, are positive factors. Its collaboration with foreign partners in quality and design is promising. We however think the contribution from My Xuan will not be significant in 2019.
- **Entire divestment of 54% from the MoC in FY2019 opens the door for strategic partners.** Recent attempts of restructuring the building materials sector should attract strategic investors. We expect underperforming assets to be revamped with the engagement of incoming strategic partners. Profitability thus should improve.

2019 Outlook

- **We expect** (1) building glass not to experience a more diminishing gross margin as a result of cost restructuring and better utilization of low-e products; (2) My Xuan sanitary ware plant to operate at 55% of total design capacity; (3) tiles contribution to stay flat while exports could rise and (4) teracotta to be more concentrated after divesting from six unproductive subsidiaries. Industrial parks are supposed to lease 92 ha as demand is on the rise. Residential revenue should fall sharply, about 36% drop as our estimates, due to lower margin of social housing projects.
- Projected revenue and NPATMI are estimated at VND 8,810 billion (-0.3% YoY) and VND 619 billion (+14% YoY). We assume industrial park and tiles to contribute 48% of gross earnings.

Risks to Our Call

- Unexpected surge in oil prices & lower production of My Xuan sanitary ware.
- Slowdown FDI that possibly causes industrial park leases to slump.

SEAPORT - BOX THROUGHPUT GROWTH TO BE SUSTAINED

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We believe Vietnam seaport's throughput will continue to grow at double-digit and in-line with trade activities. Our view is predicated on the Government's efforts to open up trading by participating in regional and international free trade agreements. A number of important FTAs has been implemented such as Vietnam - Korea, CPTPP and Vietnam - EU (expected in 2019). Particularly, the CPTPP could significantly boost international trade between Vietnam and other countries. According to BMI Research, Vietnam's total trading value is forecasted to increase 12% per annum over the next four years, reaching a nominal value of USD 735 bn by 2022.

Investment Outlook

In Haiphong, the Northern international container terminal of Vietnam, international shipping lines will continue to move to near-ocean ports. Upstream ports will need to find new domestic customers. Major shipping lines have been upsizing their feeder-size vessels for many years, which means the draught and overall length of vessels have increased as well. As a result, ports that have deeper berth draft and larger wharf-front turning basin for vessels will be the main beneficiaries.

Deep-water port clusters in Cai Mep – Thi Vai (Vung Tau) are expected to become the new centers for container terminals in Southern Vietnam. After a long time of low utilization rate, since 2011, container volume in this area has tripled and reached 2.4 mn TEU in 2017 (around 20% national volume-Figure 58).

According to the master plan of developing South East Seaports, to ease the congestion issue in HCMC's main ports, container flow will be shifted to this area. The Government also set the container volume target for these deep-water ports at a range from 3.1-3.3 mn TEU in 2020, equivalent to an average annual growth of 11%. In fact, even SSIT port, which has been handling bulk goods to survive since being established, started to receive container calls from MSC this year.

Because of the US-China trade war, Vietnam can potentially gain market share from China as a manufacturing hub due to its relatively cheap labor force, stable political environment and open trade policies. We note that Vietnam's exports value of commodities that China has been taxed on (wood, textiles, and footwear) has grown at a higher pace than normal level. This trend will likely boost international shipping demand from/to Vietnam, thus bolstering container throughput as well, given that these products are mainly shipped through seaway.

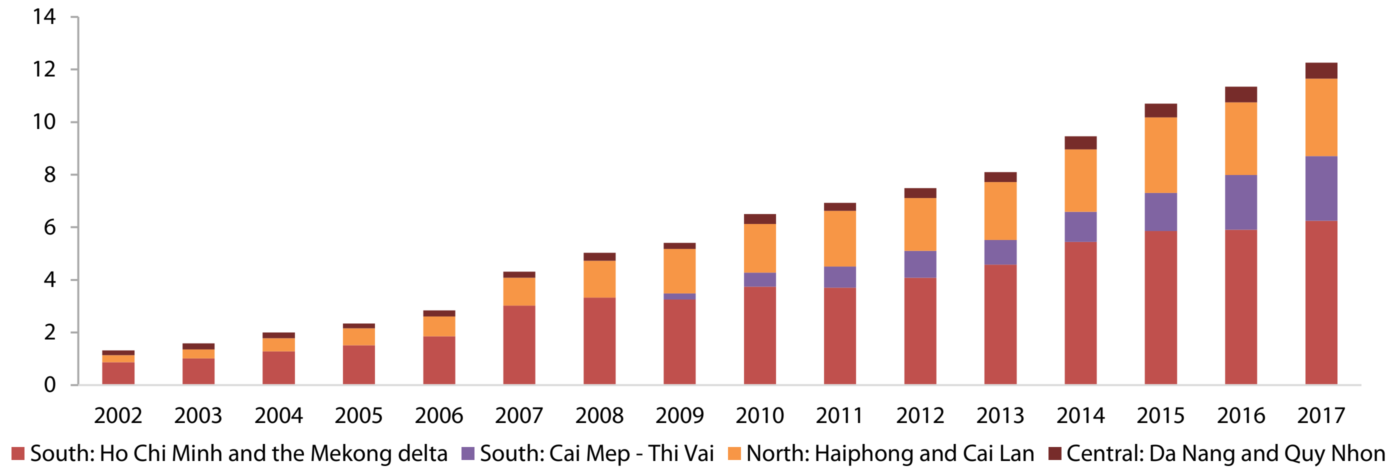
According to Circular 54/2018/TT-BGTVT of Ministry of Transport, new container handling fees will become effective in 2019. Accordingly, new regulated prices will be 10% higher per TEU from current floor prices (which equal market prices due to oversupply) for Northern seaports (exclude HICT in Lach Huyen). This should help boost the earnings of downstream ports in Haiphong by breaking the downtrend in pricing due to harsh competition in this region.

In the South, tariffs remain unchanged except for terminals in Cai Mep – Thi Vai (+13% per TEU).

Risks

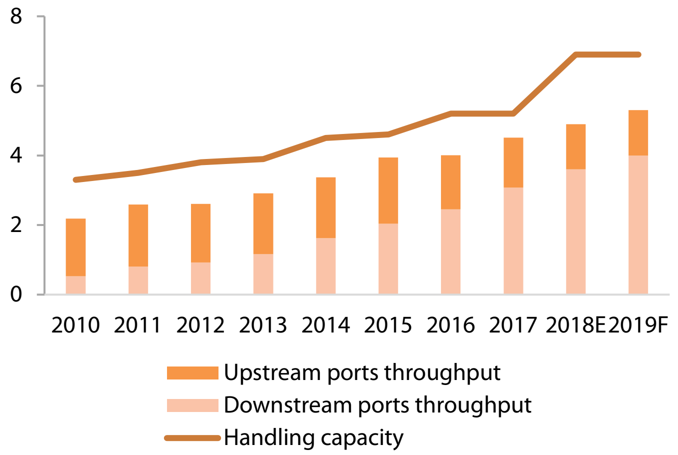
- **FDI to slow down.** Too much reliance on FDI puts the economy at risk if it slows down.
- **Oversupply in Haiphong.** This may lead seaport operators not to fully enjoy the higher container services tariff.
- **Delays in channel dredging while awaiting approval from the Ministry of Natural Resources and Environment for procedures related to mud fills.** Lower channel depth means mainliners have to cut back cargo shipments, resulting in lower throughput.

Figure 56: Vietnam container throughput (Mn TEU)



Source: VPA

Figure 57: Supply and demand in Haiphong (Mn TEU)



Source: Rong Viet Securities

Figure 58: Supply and demand in Vung Tau (Mn TEU)

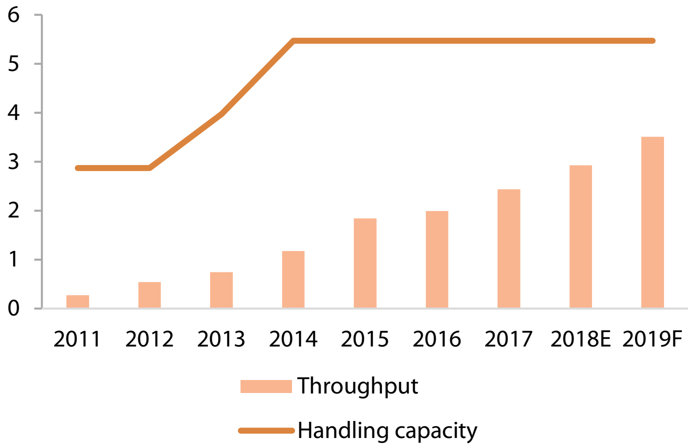
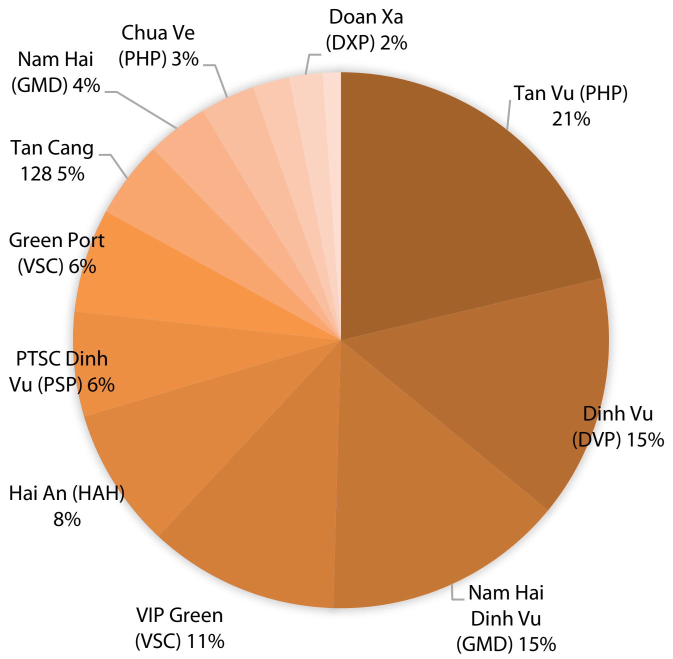
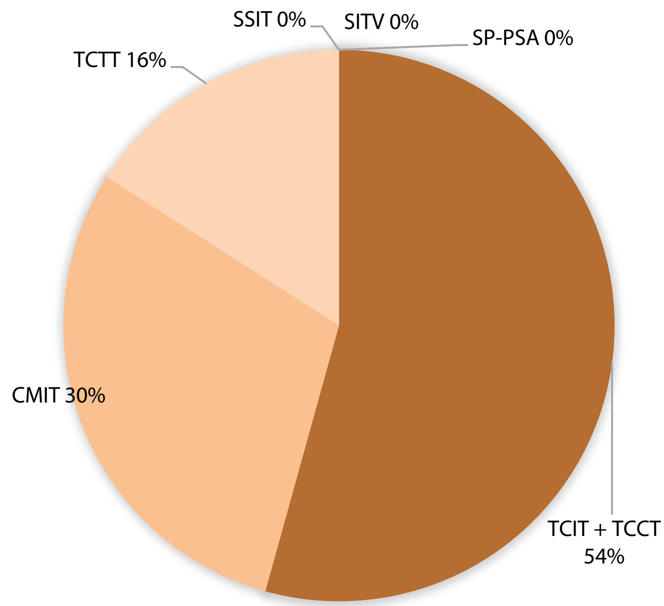


Figure 59: Market share in Haiphong in 2017



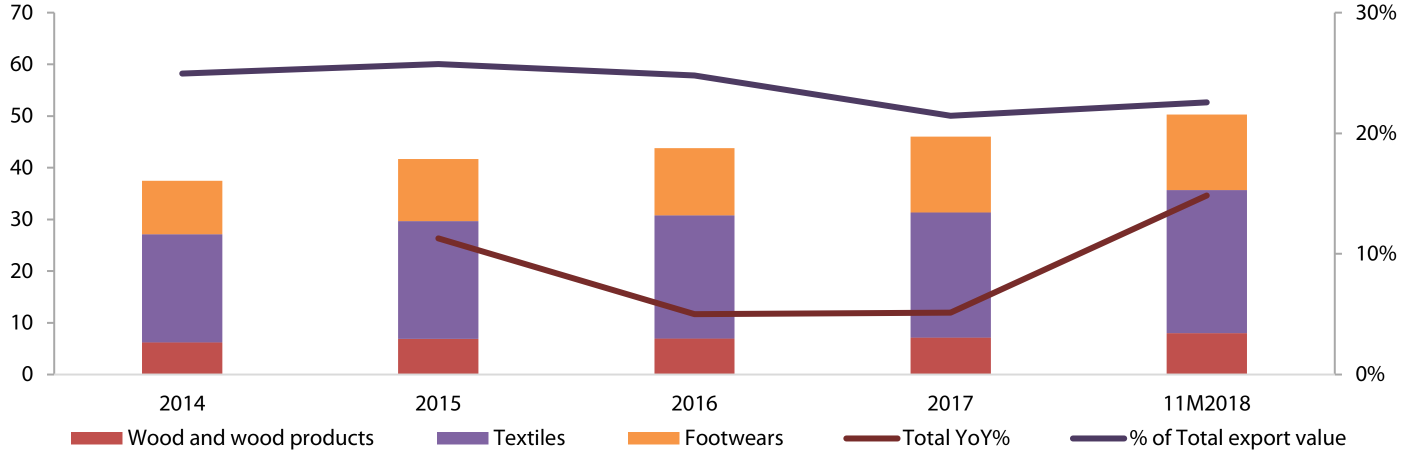
Source: Rong Viet securities

Figure 60: Market share in Vung Tau in 2017



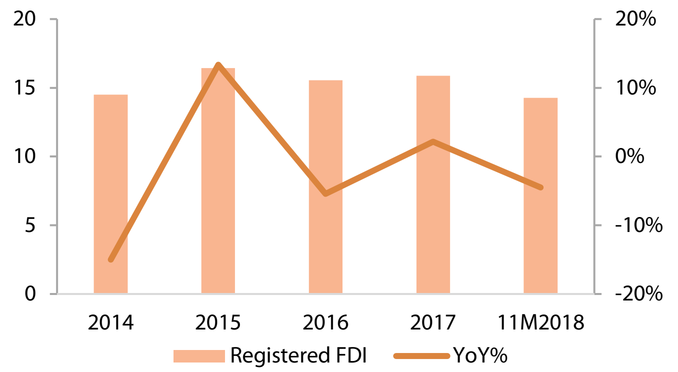
Source: Rong Viet securities

Figure 61: Vietnam's export value of some commodities benefited from trade wars (Bn USD)



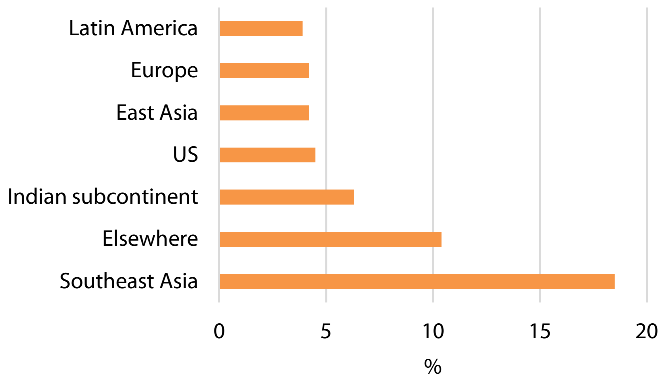
Source: Vietnam Customs

Figure 62: Registered FDI Flow to the manufacturing sector (Bn USD)



Source:FIA

Figure 63: Top destinations where US firms in China have moved production abroad, or are considering moving to



Source: AmCham China, AmCham Shanghai

VIETNAM CONTAINER SHIPPING JSC — Bloomberg: VSC VN

Maintaining an impressive performance

ACCUMULATE 13%

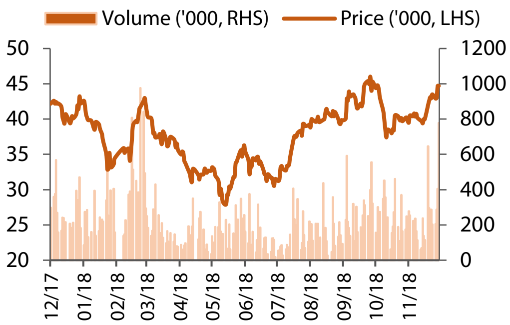
CMP (VND)	**43,500**
Target Price (VND)	**47,000**
Cash Dividend (VND)*	2,000

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	2,240.0
Current shares (millions)	50.1
3M avg. volume (K)	230.7
3M avg.Trading value(VND bn)	9.6
Remaining foreign room (%)	9.5
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,082	1,303	1,642	1,700
% yoy	16.6	20.4	26.0	3.6
PATMI	251	237	294	315
% yoy	-5.3	-5.6	23.9	7.1
ROA (%)	10.5	9.6	11.5	11.7
ROE (%)	18.6	16.2	17.7	16.8
EPS (VND)	5,516	4,735	5,867	6,283
BV (VND)	29,603	29,307	33,174	37,458
Div (VND)	2,000	2,000	2,000	2,000
P/E (x)	9.2	8.6	7.4	6.9
P/BV (x)	1.4	1.2	1.3	1.2

*Price as of 12/14/2018

Company snapshot

VSC manages two ports in Haiphong, Green Port and VIP Green Port, with total capacity of 900K TEU per year.

The company also provide CFS services, warehousing, freight forwarding, maritime brokerage, and inland transportation services.

VSC experienced the fastest growth in terms of container throughput in Haiphong in recent years. Along with GMD, VSC is the company that will benefit from higher container handling fees, which will be effective from 2019. Its cheap valuation and stable dividend policy make the stock quite attractive.

Investment Rationales

- **Favorable location and industry-leading quality services of VIP Green Port.** The trend of international shipping lines adopting larger vessels provides an advantage for near-ocean port like VIP Green as it can save time for customers and be able to serve up to 30K DWT vessels. We expect VSC to increase its market share in Haiphong to around 20% (from 17% in 2017).
- **Having Evergreen as a large shareholder.** VSC can attract more shipping lines who have slot-sharing agreements with Evergreen. In fact, thanks to that, Yang Ming and TS Lines became new customers of VIP Green Port in 2018, fostering an outstanding year for the company. We expect a slight increase in average TEU handled per call rather than new services at VIP Green Port. This port has nearly reached its limitation in terms of calls per week.
- **New circular will lead to higher handling fees.** Import/export container handling tariffs will be up 10% compared to current prices and take effect in January 2019. As the majority of VSC's throughput is import/export cargoes, VSC is likely to benefit from this.

2019 Outlook

- We estimate 2019 PATMI to be VND 315 bn (+7% yoy).
- Maintains very high utilization rate in both VIP Green Port and Green Port. We expect the volume to be 744K TEU (+5% yoy) for VIP Green Port and 312K (-8% yoy) for Green Port. Thus, total volume of the two ports is expected to remain flat, at around 1,056K TEU.
- GIC Logistics Centre to boost VIP Green Port's efficiency, creating room for this port to accommodate more throughput.
- Evergreen Line to increase its ownership in VIP Green Port to 26.7%.

Risks to Our Call

- Congestion issue at VIP Green Port may limit VSC's upside potential.
- Evergreen Line to increase cargoes on mother ships to dock at deep seaport competitor, HICT, as it currently has one service there. This may lead to a decrease in VIP Green's volume throughput.

Rising container throughput

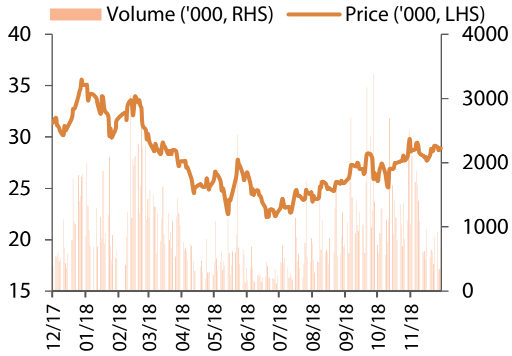
ACCUMULATE	**17%**
CMP (VND)	**28,600**
Target Price (VND)	**33,000**
Cash Dividend (VND)*	500

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	8,581.1
Current shares (millions)	296.9
3M avg. volume (K)	1,469.6
3M avg. Trading value (VND bn)	40.8
Remaining foreign room (%)	0.0
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	3,742	3,984	2,695	3,009
% yoy	4.3	6.5	-32.4	11.7
PAT	390	508	1,817	517
% yoy	-3.7	30.3	257.7	-71.6
ROA (%)	3.9	4.5	17.3	4.9
ROE (%)	7.5	8.0	32.7	8.9
EPS (VND)	2,172	1,762	6,021	1,712
BV (VND)	28,792	22,005	18,730	19,502
Div (VND)	2,000	0	9,500	1,000
P/E (x)	15.3	17.5	4.3	15.3
P/BV (x)	0.6	1.3	1.4	1.3

*Price as of 12/14/2018

Company snapshot

Gemadept Corporation is the largest private logistics provider in Vietnam, with a high concentration in port operations.

It owns five seaports all over Vietnam and handles around 12 % of the national container volume.

The company also offers domestic container liner services, forwarding agency logistics, project cargo transport in cooperation with CJ Logistics Corp.

GMD also invested in real estate and rubber through joint ventures.

We believe the new Nam Dinh Vu port is poised to receive more cargoes in 2019 thanks to its location and GMD's long proven experienced and service quality. Moreover, having available capacity compared to other ports implies more potential growth. Therefore, this is our top choice in this sector for 2019.

Investment Rationales

- **Nam Dinh Vu port is poised to consolidate its market share from other competitors due to better location.** This new port added 500K TEU capacity to GMD's Haiphong port clusters downstream of Bach Dang River, where some nearby competitors have started to experience overcapacity issues. We think that the potential for Nam Dinh Vu to fulfill its capacity in the long-term is very good, as (1) upstream ports will gradually lose market share of international cargoes to downstream players, and (2) organic growth of container volume through Haiphong's seaports is to remain healthy.
- **Higher operating efficiency as GMD reduced its ownership in the shipping and logistics businesses.** Transferring part of its ownership in a 'thin' margin business to Korean CJ Logistics was a wise move. Not only can it improve gross margins, but this also brings more opportunities to develop its logistics services internationally.

2019 Outlook

- We expect revenue to grow by 12%, reaching VND 3,009 bn, driven by a growth of 14% in total container volume (around 1,654K TEU).
- Construction of Gemalink Port (in Vung Tau) and Nam Dinh Vu Port phase 2 will begin. It will add around 1,600K TEU in capacity by 2020.
- Gain from JV to reach VND 174 bn (+39% yoy) as SCS, key profit contributor, continues to be very profitable.
- Successful divestments from non-core businesses (rubber and real estate) to be upside catalysts. However, we think it is unlikely to happen in 2019.

Risks to Our Call

- Loss from the rubber segment.
- Competition from deep seaport HICT in Lach Huyen, Haiphong.

TEXTILE & GARMENT – A MIX OF OPPORTUNITIES AND CHALLENGES

Thao Dang (thao.dtp@vdsc.com.vn)

Vietnam experienced a vibrant 2018 for its textile & garment industry. Due to the advantages provided by Free Trade Agreements (VJEPA, CPTPP, EVFTA) and the movement of orders from China to Vietnam, export turnover recorded a remarkable growth. Ending 2018 with positive business results from listed companies will be a stepping stone to strengthen capabilities for 2019. Better preparedness in terms of human resources is one element needed to be ready for the moving trend in the industry. In particular, 2019 is going to witness significant free trade agreement such as CPTPP, EVFTA, along with the escalating effects from the US-China trade war. The trend of shifting orders from Chinese companies to neighboring markets will continue to increase. As a result, this should have a positive impact on the volume of Vietnam's textile & garment orders. On the other hand, it will also bring more intense competition among domestic producers.

Investment Outlook

The economies of the US and the EU are forecasted to still grow in 2019, stimulating apparel consumption. According to the IMF, even though economic growth in the US and the EU will slightly decrease next year, GDP will still be positive: 2.5% (-40 bps YoY) and 1.9% (-10 bps YoY), respectively. In such a context, Vietnam's two largest markets for this industry will ensure the value of exports will stay robust.

Free trade agreements such as CPTPP and EVFTA may come into effect in 2019. The yarn producers and textile & garment companies that are vertically integrated along the supply chain, from yarn to sewing production, such as STK, FTM, TCM, PPH will benefit directly from the origin requirements of FTAs. Preferential tariffs will help to improve price competitiveness. Companies with exports to total sales to the EU market, such as MSH (30% of total sales), GMC (32% of total sales), TNG (58%), M10 (36%) and VGG (17%), will benefit due to the high order growth from major fashion partners.

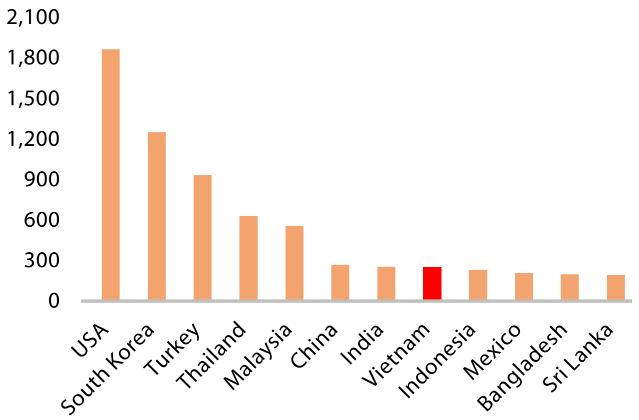
The benefit from CPTPP will not be so obvious as Vietnam signed the bilateral and multilateral FTAs with seven out of ten countries with similar tariff levels. However, we can expect that joining CPTPP will help to expand the market shares of apparel exports to potential markets such as Canada, Mexico, New Zealand and Australia.

The movement of orders from China to Vietnam continues to increase. The US and China temporary ceasefire will not affect much the movement of orders from China to neighboring countries, including Vietnam. China's policy to shift the economic structure to consumption and technology production with high value added, limits the development of downstream garment using intensive cheap labor. This will be an opportunity for Vietnamese companies to increase their market shares in the US market.

Risks

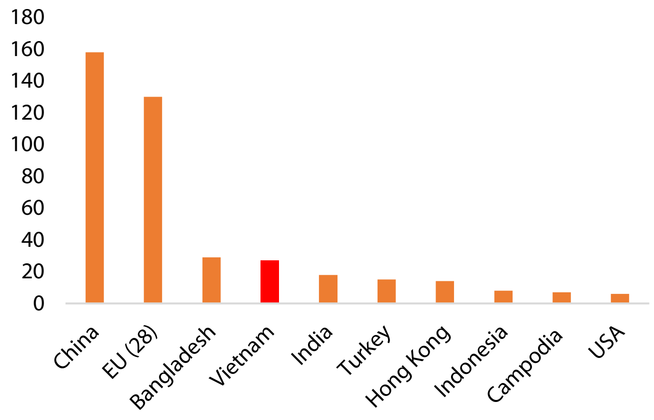
- **Competitive advantage of cheap labor declining.** Orders may move to other markets with lower costs such as Bangladesh, Pakistan, Cambodia or Myanmar.
- **Risks from traceability of raw materials and additional taxes**. One cannot exclude the possibility that the US will conduct traceability of textile & garment products manufactured in Vietnam to restrict originating materials from China. Therefore, it is imperative that domestic firms actively diversify their garment & textile of supplies instead of relying on China (50% of fabric materials are imported from China).
- **The value chain of the sector is not high.** Most of the firms are only 'processing', so the value added is not high. At the same time, bottlenecks are concentrated in the weaving and dyeing stage. If companies do not invest properly to develop a complete supply chain, the country will not be able to take advantage of the opportunities mentioned above. As a result, profits could decrease due to competitive pressure.

Figure 64: Minimum wage level for garment workers (USD per month)



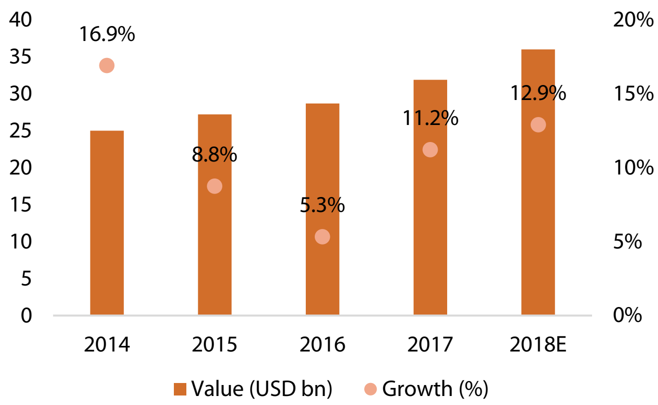
Source: PRI, Rong Viet Securities

Figure 65: Top 10 clothing exporters in 2017 (USD bn)



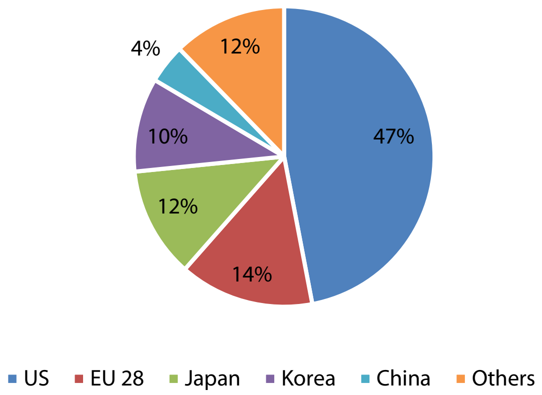
Source: WTO, Rong Viet Securities

Figure 66: Export turnover of Vietnam's textile & apparels



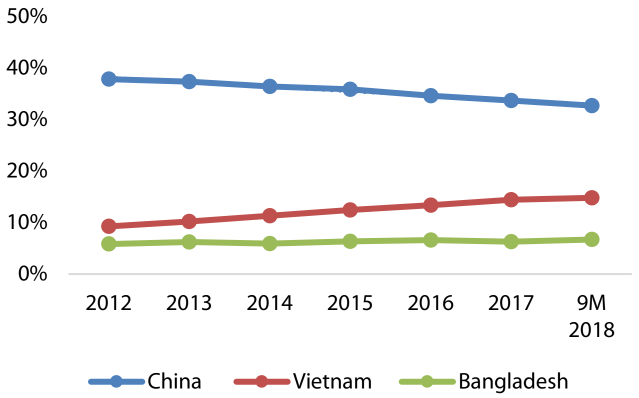
Source: Vietnam Customs, Rong Viet Securities

Figure 67: Proportion of Vietnam's textile & garment exports in 2017 by market (%)



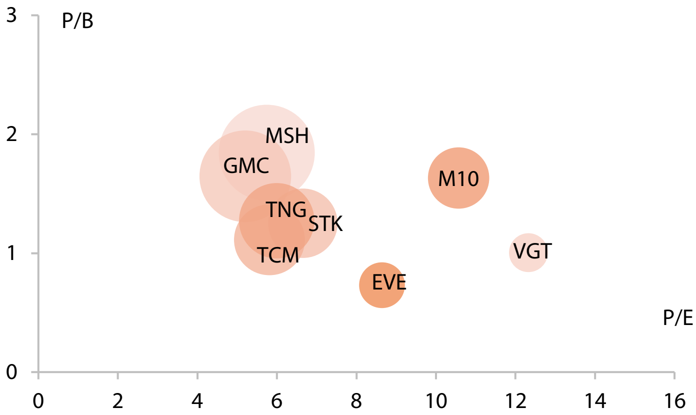
Source: Vietnam Customs, Rong Viet Securities

Figure 68: Export market share in US of three main markets (%)



Source: OTEXA, Rong Viet Securities

Figure 69: ROE, PE, PB of listed textile & garment companies



*Source: Fiinpro, Rong Viet Securities, * Bubble size: ROE*

SONG HONG GARMENT JSC — Bloomberg: MSH VN

Solid foundations for growth

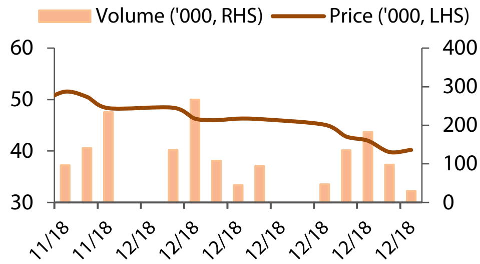
BUY	**51%**
CMP (VND)	**39,800**
Target Price (VND)	**56,000**
Cash Dividend (VND)*	4.000

(*) expected in next 12 months

Stock info

Sector	Textile
Market cap (VND bn)	1,895.6
Current shares (billions)	47.6
3M avg. volume (K)	154.1
3M avg. trading value (VND bn)	7.8
Remaining foreign room (%)	47.2
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	2,992	3,282	3,842	4,359
% yoy	17.4	9.7	17.1	13.5
PAT	185	200	354	408
% yoy	16.0	8.2	77.0	15.3
ROA (%)	8.4	8.4	13.1	13.7
ROE (%)	28.3	26.5	31.6	30.9
EPS (VND)	3,715	4,331	6,689	7,712
BV (VND)	28,805	31,711	23,545	27,757
Div (VND)	4,500	4,500	4,000	3,500
P/E (x)	n/a	n/a	6.0	5.2
P/BV (x)	n/a	n/a	1.7	1.4

*Price as of 12/14/2018

Company snapshot

Song Hong Garment JSC (MSH) is one of the leading companies in the garment sector with stable business results and high cash dividend. Its main business activities include manufacturing and exports of garments as well as bedding products under the "Song Hong" brand name. Currently, MSH is increasing the proportion of products using the FOB method to improve its gross profit margin and increase its competitiveness.

MSH is a promising stock with a stable business performance and high cash dividend that has been maintained over the years. It mainly exports FOB orders to two major markets: USA (~70%) and EU (~30%). Thanks to the advantage of the EVFTA that is expected to be effective in 2019 along with the movement of orders to Vietnam under the impact of the trade war, the potential for orders growth in these markets is quite large. Besides, MSH strengthened its internal abilities via changes in production methods. It is aiming towards increasing the proportion of FOB, enhance total garment capacity to improve its competitiveness and seize the opportunities of order growth from major fashion partners.

Investment Rationales

- **Impressive gross profit margin compared to competitors.** Due to the contribution of bedding, with high gross margins (~36%), good control of production costs and reduction in the loss of fabric materials from FOB orders, MSH recorded a higher gross margin compared to its competitors (MSH: 19,7%, peers: 16.0% in 9M 2018).
- **Adapt production methods in order to increase the proportion of FOB orders to improve its competitiveness.** Apparently, for sustainable growth, garment companies have to reduce the CMT method and move their value chain towards FOB and ODM to increase competitiveness. This strategy will help MSH to increase its revenues and gross margins in the coming years. It expects to increase the current proportion of FOB method to revenue from 70% to 100% in 2020.
- **"Song Hong 10" factory (SH10) will be a catalyst for long-term growth.** Due to full capacity, it plans to enhance the total capacity, builds up the SH10 garment factory to capture orders from current fashion partners. SH10 is expected to be built in 2019 and come into operation in 2020. Garment output is estimated to increase by 17%, with a total investment of VND 300 bn.
- **Attractive dividend yield.** In the past few years, it maintained a high cash dividend of VND 4,500/share. It targets to keep a stable dividend policy of VND 3,500/share in the next few years. A cash dividend of VND 4,000/share is expected to be paid in 2018, corresponding to the dividend yield of 10.1%, quite attractive.

2019 Outlook

- Gross profit margin is estimated to be 19.2%.
- Revenue is forecasted at VND 4,359 bn (+13.5% YoY) and NPAT at VND 408 bn (+15.3% YoY).
- Selling expenses and G&A expenses to revenue to be 4% and 5%, respectively.

Risks to Our Call

- EVFTA may not be adopted.
- The decline in global economic growth, especially in the US and EU, may lead to a decrease in demand for garment products.
- A sharp increase in labor costs.

CENTURY SYNTHETIC FIBER JSC | Bloomberg: STK VN

Growth prospects for recycled yarn

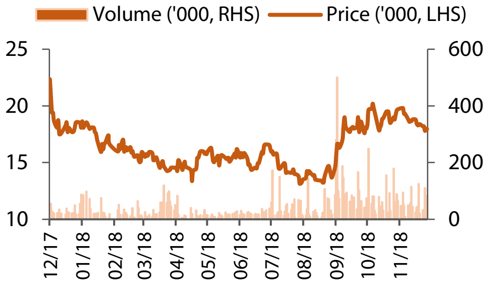
BUY	**39%**
CMP (VND)	**18,000**
Target Price (VND)	**24,300**
Cash Dividend (VND)*	800

(*) expected in next 12 months

Stock info

Sector	Textile
Market cap (VND bn)	1,078.9
Current shares (billions)	59.9
3M avg. volume (K)	77.5
3M avg. trading value (VND bn)	1.4
Remaining foreign room (%)	40.8
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,358	1,989	2,433	2,838
% yoy	31.2	46.4	22.3	16.6
PAT	29	100	163	195
% yoy	-59.9	248.3	63.7	19.6
ROA (%)	1.5	5.0	8.1	9.3
ROE (%)	4.1	12.8	18.6	19.6
EPS (VND)	534	1,662	2,443	2,926
BV (VND)	12,989	12,991	14,635	16,561
Div (VND)	300	800	800	1,000
P/E (x)	31.2	11.1	7.4	6.2
P/BV (x)	1.3	1.4	1.2	1.1

*Price as of 12/14/2018

Company snapshot

Century Synthetic Fiber JSC (STK) is a leading domestic yarn producer in Vietnam, focusing on the high-quality polyester filament yarn segment. Currently, its total capacity is 60,000 tons/year. Formosa produces 72,000 tons/year, and Hualon 84,000 tons/year. The company has diversified its product portfolio. It upgraded the quality of current DTY & FDY yarn product lines and increased the proportion of high-quality recycled yarn.

Major shareholders: Huong Viet Investment Consultant (20.2%), Dang Trieu Hoa (13.9%).

The positive impact of FTA free trade agreements such as CPTPP, EVFTA and the increasing of orders shifting from China to Vietnam will be a prerequisite for the increasing demand of raw materials. On the domestic side, STK is aiming to upgrade the quality of its existing products, producing lower spinning with higher fineness to increase its efficiency. In addition, the increase in the proportion of recycled yarn to revenue can meet the demand for sustainable development from high fashion brand names. In turn this will be a springboard for the company in order to increase its competitiveness and improve its profitability.

Investment Rationales

- **Increase the proportion of revenue in the domestic market to minimize the risk of trade protectionism.** STK actively shifted some orders by increasing the contribution to revenues from the domestic market to avoid the dependence on exports. This reduces the risk of trade protectionism from other countries (Turkey applied an anti-dumping tax on Vietnam's polyester yarn and partially oriented yarn).

- **Raise the contribution of recycled yarn to revenue in order to improve its gross margins**. In Vietnam, only two companies, STK and Formosa produce recycled yarn, so the supply is quite limited. Meanwhile, in order to meet the target of sustainable development in the future, famous fashion brands such as H&M and Adidas are committed to increase the use of recycled materials from the current 20% to 100%. This will be a springboard for STK to increase its contribution of recycled yarn to revenue as planned (2019F: 20%, 2020F: 30%). With the highest gross margin, the increase of recycled orders is expected to improve its gross profit margin.

- **Trang Bang 5 project comes into operation in 1Q 2019.** It is expected to start testing in Q4 before officially operating in 1Q 2019. With a capacity increase of 5.5%, equivalent to 3,300 tons of DTY yarn and 1,500 tons of recycled yarns, this will help to increase total capacity of 63,300 tons per year.

- **New product development projects with high gross margins continue to be implemented.** STK continues to research and develop new products such as elastic yarn, quick dry and soft package yarn, Sorbtek yarn and high-purity yarn to maximize selling prices.

2019 Outlook

- Revenue is forecasted at VND 2,838 bn (+17% YoY) and NPAT of VND 195 bn (+20% YoY), corresponding to a forward EPS of VND 2,926 per share.

Risks to Our Call

- The decline in macroeconomic growth could affect the demand for apparel products.

- Unexpected fluctuation in chips material price.

- Foreign exchange risks.

AVIATION - TEMPORARY SLOWDOWN CREATES OPPORTUNITIES

Hieu Nguyen (hieu.nd@vdsc.com.vn)

All listed companies in the sector recorded spectacular growth in 2018, as we expected. However, their high valuation is one of the reason stock performances were not in line with earnings growth. In 2019, many companies may be affected by a temporary close of runways at Tan Son Nhat and Noi Bai airports for a couple of months. This short-term headwind could create opportunities to buy, as the long-term outlook for the sector is still bright thanks to demographics, rising income and an attractive tourism sector.

Investment Outlook

The rise of middle-class incomes leads to a huge demand for tourism and air travel. Passenger growth during the 2006-17 period was 20% per year, the highest in Asia Pacific (Figure 71). We foresee that at least for the next few years, traffic growth will stay robust.

Government's efforts to promote tourism. In recent years, Vietnam has risen as a new travel hub in Southeast Asia. The government has targeted tourism as one of the economic growth engines and shown strong support for the industry. However, Vietnam still needs to improve services and make visas easier to obtain.

Growth of budget airlines in the region. LCCs in the region have aggressively expanded their fleet (Figure 73 and 74). This promises higher traffic in the coming years.

Being geographically well positioned, **Vietnam has the potential to become another hub in the region**. Many regional airports have reached their capacity limits. However, traffic to and from other part of the world such as Europe need to become more developed. Vietnam airports' infrastructure also needs to be expanded to unlock the latent demand.

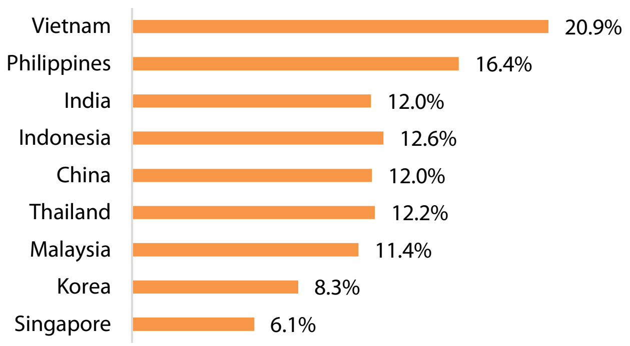
Risks

- **Exchange rate.** Capital-intensive businesses like ACV, HVN and VJC are heavily exposed to USD and JPY denominated loans.
- **Appreciation of fuel prices**. Fuel costs account for 35-40% of airline's operational expenses. The oil price has rallied strongly in the first half of 2018. Volatility of prices has an impact on profitability.
- **Risks associated with economic cycles.**

Figure 70: Top 20 airports (weekly seats) in 1996 vs in 2016 – a clear shift

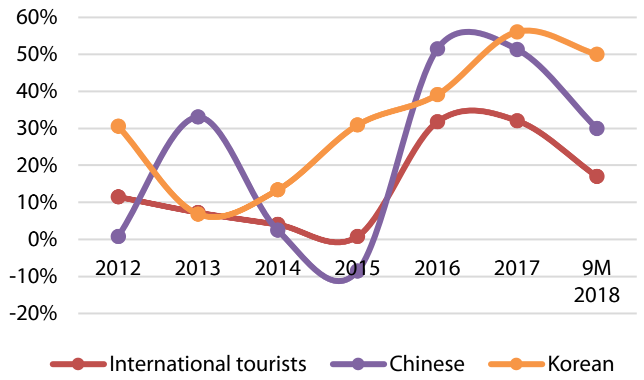
Source: Boeing market outlook report

Figure 71: Passenger yearly growth rate in the region, 2006-2017



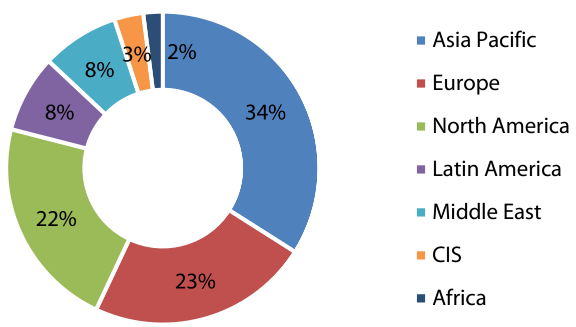
Source: knoema.com

Figure 72: Growth of Northeast Asia pax to Vietnam (%)



Source: Vietnam tourism

Figure 73: New airplanes deliveries by region 2011-2030



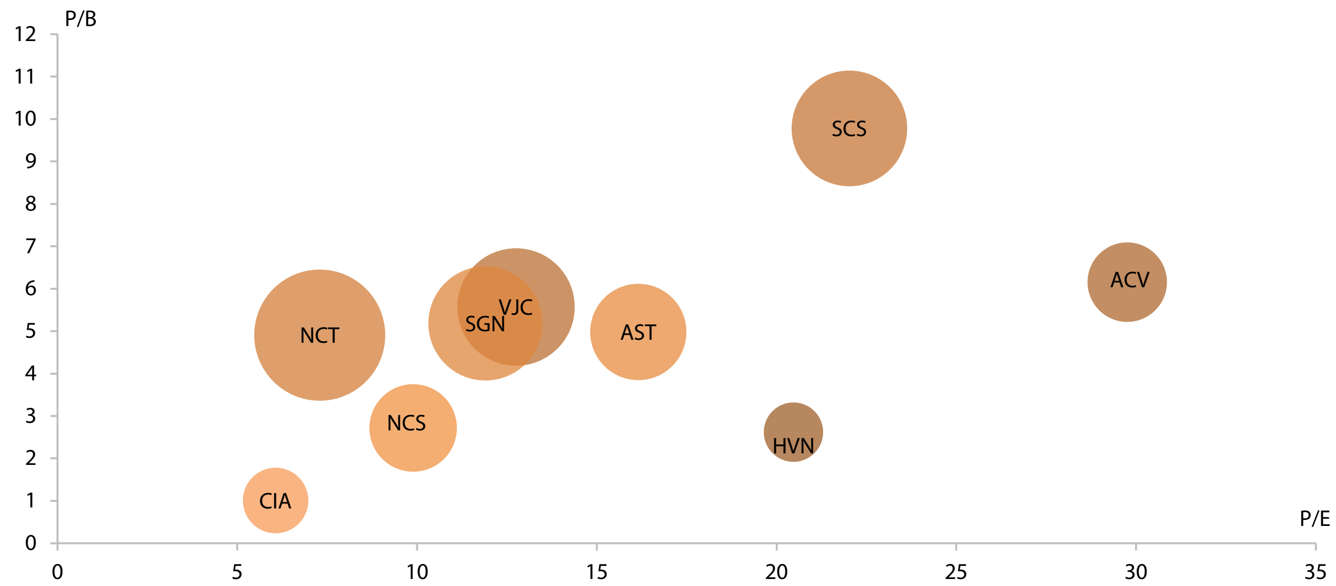
Source: Boeing market outlook report

Figure 74: Top 5 order books in SEA as of Aug 1, 2018

Airline	Order book	Fleet size	Ratio
VietJet Air	**328**	**59**	**5.6:1**
Air Asia/Air AsiaX	494	243	2.0:1
Lion	449	304	1.5:1
Singapore Airlines	182	196	0.9:1
Garuda Indonesia	99	193	0.5:1

Source: CAPA Fleet Database

Figure 75: ROE, PE, PB of listed companies



Source: Fiin Pro, Rong Viet Securities (Size of bubble: ROE)

VIETJET AVIATION JSC

Bloomberg: VJC VN

Last year of 'Golden Times'

ACCUMULATE **12%**

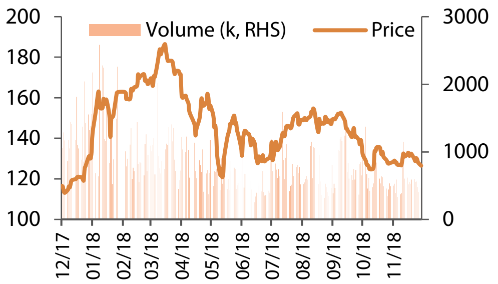
CMP (VND)	**128,000**
Target Price (VND)	**140,000**
Cash Dividend (VND)*	3,000

(*) expected in next 12 months

Stock info

Sector	Consumer Services
Market cap (VND bn)	69,326.3
Current shares (millions)	541.6
3M avg. volume (K)	936.4
3M avg. Trading value (VND bn)	127.4
Remaining foreign room (%)	6.4
State ownership (%)	0.0

Performance



Key financials *

(VND bil)	2016	2017	2018E	2019F
Revenues	27,499	42,303	54,152	67,312
% yoy	38.6	53.8	28.0	24.3
PAT	2,496	5,073	5,758	7,237
% yoy	113.2	103.3	13.5	25.7
ROA (%)	12.4	16.0	14.9	15.8
ROE (%)	52.7	49.0	40.9	36.7
EPS (VND)	4,608	9,367	10,631	13,362
EPS (adj)	2,230	4,100	5,876	8,474
BV (VND)	15,775	22,924	26,024	36,385
Div (VND)	N/A	4,000	4,000	3,000
P/E (x)	N/A	13.1	12.0	9.6
P/E adj (x)	N/A	29.8	21.8	15.1
P/BV (x)	N/A	6.3	4.9	3.5

*Price as of 12/14/2018

Company snapshot

VietJet Aviation JSC is the largest LCC in Vietnam. As of Sep 2018, VJC had a fleet of 57 aircrafts. It operates 39 domestic routes and 64 international routes, with an average load factor of 88%.

VJC has been growing its core business at over 40%/year in the past five years. This is not common. We believe it is still able to grow at high two-digit numbers in 2019. However, we are concerned that passenger growth from 2020 onward may slow down, while performance efficiency may decline due to the aggressive expansion of the fleet, higher oil prices or currency fluctuations. To reflect our concerns, we applied a lower multiple than what it was trading at in the past. Our target price is a combination of 16x P/E (adjusted for sale and lease back activities) and 7x EV/EBITDAR.

Investment Rationales

- **High growth maintained in 2019**. With an LCC model, VJC has increased its domestic market share from 8% in 2012 to 45% in August 2018. Passenger transportation grew at a CAGR of 50%/year during 2013-2018. The company is still able to grow at high two-digit numbers in 2019.
- **The fleet reaches its highest efficiency in 2018-2019.** Each aircraft can carry more passengers, and ancillary revenue/customer increases. This will help the airline counter the effect of rising fuel prices, if any.

2019 Outlook

- Passenger number could reach 28.5 million (+23% YoY).
- 11 A321s (max capacity of 230 seats) and 4 Boeing 737 (capacity of 200 seats) will replace the old A320s (180 seats). New aircrafts can carry more passengers and are more fuel efficient.
- 19 sale and leaseback transactions would yield a profit of VND 3,700 billion.
- Ancillary revenue per person increases by 10%.
- Average jet fuel's price increases by 3%. Fuel price has rallied by 25% in 1H 2018 but has since decreased.

Risks to Our Call

- Runways closing, or unexpected decline of Chinese tourists could affect passenger volume.
- Competition from new players. The arrival of Bamboo Airline shows that there is a possibility for new players to enter the market. Air Asia, with great financial power and experience, has said they will be "more aggressive" in the Vietnam market.
- With recent incidents, VJC may not be allowed to increase their slot flights. This may not affect its transportation plan, but will likely lower its competitive power.

AIRPORTS CORPORATION OF VIETNAM JSC — Bloomberg: ACV VN

State divestment needed

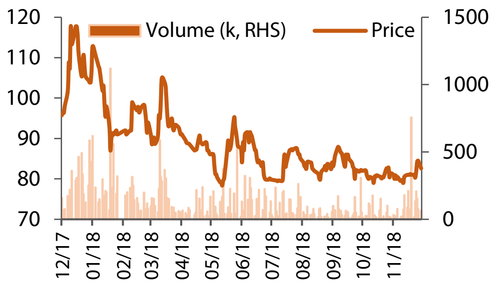
ACCUMULATE	**14%**
CMP (VND)	**84,500**
Target Price (VND)	**95,300**
Cash Dividend (VND)*	1,200

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	184,032.8
Current shares (millions)	2,177.1
3M avg. volume (K)	86.8
3M avg. Trading value (VND bn)	7.1
Remaining foreign room (%)	45.4
State ownership (%)	95.4

Performance



Key financials **

(VND bil)	2016	2017	2018E	2019F
Revenues	14,650	13,830	16,584	17,830
% yoy	34.8	-5.5	19.7	7.5
PAT	5,105	4,101	6,279	6,834
% yoy	221.0	-19.7	53.1	8.8
ROA (%)	10.9	8.3	11.8	10.5
ROE (%)	21.7	15.0	20.1	19.6
EPS (VND)	2,343	1,883	2,594	2,823
BV (VND)	10,821	12,556	14,352	16,001
Div (VND)	600	900	1,200	1,200
P/E (x)	20.7	57.6	32.6	29.9
P/BV (x)	4.3	8.6	5.9	5.3
EV/EBITDA	12.7	26.6	15.6	14.1

*Price as of 12/14/2018

Company snapshot

ACV is the sole unit that manages, operates and exploits the entire system of 22 international and domestic airports in Vietnam.

The government is planning to divest 20% of its ownership in 2019.

Due to a significant increase in aeronautical fees, ACV's earnings have grown strongly in 2018. As the company will not raise fees anymore, it has to rely solely on passenger growth in 2019. However, a potential close of runways at Tan Son Nhat and Noi Bai airports for a couples of months could hinder that growth to a certain extent. The stock price could be affected in the short-term, but long-term prospects remain positive.

Investment Rationales

- Manages, operates and exploits all 22 airports in the country. True monopoly.
- Passenger growth in Vietnam during the 2006-17 period was 20% per year, the highest in Asia Pacific. We foresee that at least for the next few years, traffic growth will stay robust.
- **Huge potential for yield improvements.** Non-aeronautical revenues per passenger at Vietnam airports is very low at one dollar per person. In Thailand and Malaysia, it is around four to five dollars. There is room for this to expand, but it requires the 'help' of a strategic investor.
- Our study on airport transactions shows that multiples are rising, with average EV/EBITDA of 16-18 times in recent years. Our price target is based on an EV/EBITDA 2019 of 16x.

2019 Outlook

- Passenger volume should reach 114 million (+8% YoY).
- Revenue from PSC, SSC and LTO* segments will increase by 9%, 9% and 5%, respectively.
- JPY/VND to appreciate by 4%.

Risks to Our Call

- Influence of runways closing is worse than our expectations.
- Stock probably will not move up without news regarding state divestment. It has a small free float and liquidity since the Government owns 95% of the company.

**PSC: Passenger service charge, SSC: Security surcharge, LTO: Landing-take off*

***Revenue does not include contribution from LTO segment*

Profitable business with a competitive edge

ACCUMULATE 7%

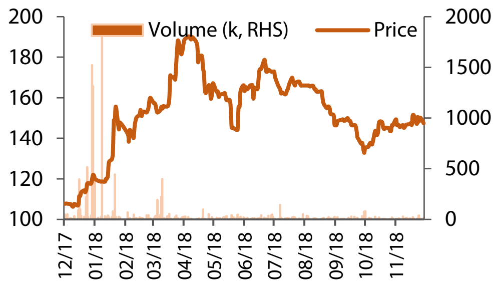
CMP (VND)	**153,600**
Target Price (VND)	**157,000**
Cash Dividend (VND)*	7,000

(*) expected in next 12 months

Stock info

Sector	Consumer Service
Market cap (VND bn)	8,782.2
Current shares (millions)	57.2
3M avg. volume (K)	22.3
3M avg. Trading value (VND bn)	3.3
Remaining foreign room (%)	29.1
State ownership (%)	13.1

Performance



Key financials *

(VND bil)	2016	2017	2018E	2019F
Revenues	496	588	686	751
% yoy	45.4	18.6	16.6	9.5
PAT	245	344	424	473
% yoy	81.3	40.5	23.2	11.5
ROA (%)	25.5	34.8	39.5	40.5
ROE (%)	31.9	37.7	42.4	43.3
EPS (VND)	4,752	6,515	7,889	8,863
BV (VND)	16,655	18,293	20,022	21,872
Div (VND)	4,500	6,000	7,000	8,000
P/E (x)	N/A	18.7	19.5	17.3
P/BV (x)	N/A	6.7	7.7	7.0

*Price as of 12/14/2018

Company snapshot

Saigon Cargo Service is one of only two airfreight services providers at Tan Son Nhat Airport at the moment. Established in 2010, the company has increased its market share to 35% in 2017.

Saigon Cargo Service (SCS-HSX) is one of only two airfreight services providers at Tan Son Nhat Airport. Because its competitor, TCS, has reached full capacity, SCS has taken advantage of the increase in cargo volume. SCS cargo volume has grown at a CAGR of 23% during 2013-2017.

We like the company for its pricing power and the fact that there are high barriers to entry in the sector. The business is very profitable. Net margin has consistently increased from 10% in 2013 to 63% in 9M 2018, and still has potential to increase further due to the fixed cost structure.

Investment Rationales

- FTA agreements and the rise of E-commerce will fuel cargo volume growth.
- Unlike TCS who has reached full capacity, SCS still has available room. It also has the best facilities and services in the industry.
- High barriers to entry and pricing power**.** There is very limited space at Tan Son Nhat at the moment. Therefore, it seems very hard for a new player to join the industry.
- SCS business requires minor capex and generates very strong cash flow. The company has paid back almost all its earning as cash dividend when it does not have any potential M&A target or profitable projects to invest in.

2019 Outlook

- Growth of cargo volume in 2019 will be 5%, reflecting the risk of the runway closing.
- Average services prices increase by 5%, a rate similar to past years.
- Gross margin will continue to improve as volume increases.

Risks to Our Call

- Influence of runway closing is worse than our expectations.
- Unpredictable consequence of trade war tensions.

TASECO AIR JSC — Bloomberg: AST VN

Expanding its airport retailing network

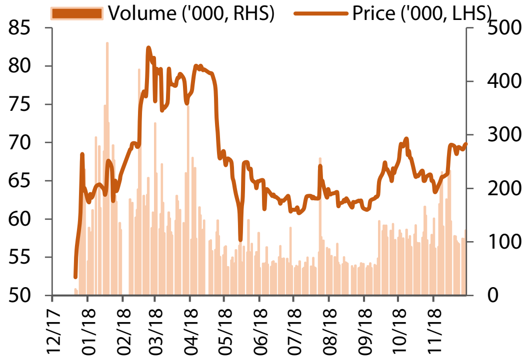
ACCUMULATE	**11%**
CMP (VND)	**70,200**
Target Price (VND)	**74,500**
Cash Dividend (VND)*	3,500

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	2,505.6
Current shares (millions)	36.0
3M avg. volume (K)	111.1
3M avg. Trading value (VND bn)	7.4
Remaining foreign room (%)	26.5
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	317	659	880	944
% yoy	719.7	108.0	33.5	7.3
PATMI	44	147	155	197
% yoy	3889.8	236.1	5.4	27.1
ROA (%)	20.9	23.5	20.7	25.8
ROE (%)	38.3	31.7	33.1	34.4
EPS (VND)	2,732	4,093	4,102	4,456
BV (VND)	12,582	12,924	13,025	13,620
Div (VND)	2,500	2,000	2,000	3,500
P/E (x)	N/A	N/A	17.1	15.8
P/BV (x)	N/A	N/A	5.4	5.2

*Price as of 12/14/2018

Company snapshot

AST operates souvenir stores and restaurants at six main airports in Vietnam. The company also offers tourism-related services such as pick-up and see-off and hotel services.

AST also operates catering services and duty-free shops via its joint ventures VINACS and JDV.

AST will continue to expand its airport retail network by opening new stores in three airports. This, coupled with an improvement from gains in joint ventures, promises high earnings growth in 2019.

Investment Rationales

- **Profitable chain of souvenir stores and restaurants at major airports**. Airport retailing contributes over 60% to total revenue. Profit from this business has nearly doubled in the last three years. It will continue to benefit from the double-digit growth of air passengers in Vietnam.
- **Long-term growth maintained thanks to new stores opening**. The company plans to open 16 new stores in 2019: four souvenir stores at Van Don International Airport, four at Tan Son Nhat Airport and eight at Phu Quoc Airport. Bidding for those in Tan Son Nhat and Phu Quoc is ongoing.
- **Healthy capital structure backed by strong cash flow.** The company always maintains a relatively low level of debt thanks to its strong cash flow.

2019 Outlook

- We estimate 2019 sales to be VND 935 bn (+11% YoY), mainly from the contribution of stores opened in 2018 (in Cam Ranh, Noi Bai). We think contribution from Van Don will not be significant in 2019 as passenger volume will be relatively low.
- Successful opening of new stores in Tan Son Nhat and Phu Quoc Airport is the main catalyst for 2019.
- Contribution from joint ventures to turn positive as JDV's profit will absorb the loss from VINACS.
- Income from its hotel, A la Carte Da Nang, should remain stable.
- Private placement to raise funds and develop the Condotel project in Quang Ninh. There will be some dilution impact, factored in our model.

Risks to Our Call

- Higher-than-expected loss from airlines catering, VINACS.
- Failing to re-new contracts of current point-of-sales at airports.

RETAIL INDUSTRY – CONQUER THE ''NO-MAN'S" LAND

Son Tran (son.tt@vdsc.com.vn)

Vietnam retail's market has always been in the eyes of global investors due to its young population, rising disposal income and urbanization rate. While foreign players such as AEON, Lotte and BJC are gaining advantage in the Mega/Supermarket segment, domestic retailers still reign kings in mid and small-sized stores, which are more popular due to the high population density and undeveloped traffic conditions. In this segment, besides the electronics market that is almost saturated, the rest is still extremely fragmented and dominated by the traditional channels. That implies a huge potential growth for modern chains like MWG, FRT and PNJ to conquer the "no-man's land".

Investment Outlook

Fast-growing middle and affluent class (MAC), not only in population, but also in coverage areas (Figure 76 and 77)**.** It creates huge opportunities for modern retailers, which offer high-quality products with better customer services than mom-and-pop stores and wet markets. Consequently, there is a clear shift of customers to the modern channels (Figure 78).

In addition, since the retail market is still offline-based, retailers who can effectively operate a wide-coverage store network will benefit the most.

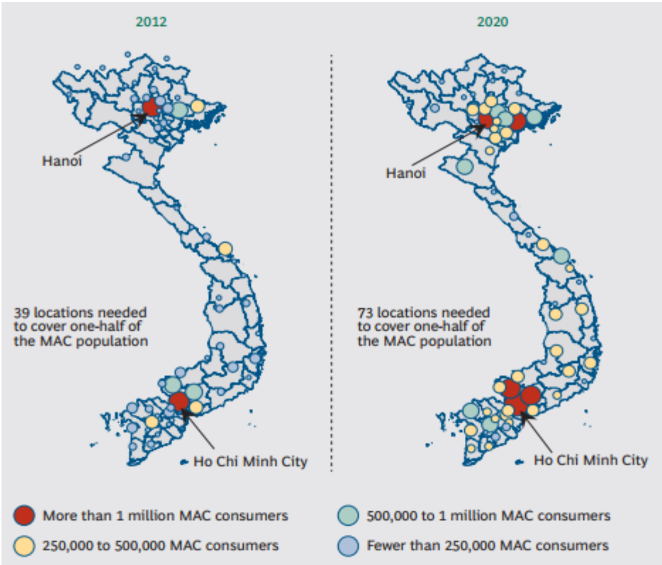
Young population and increasing urbanization rate (Figure 4) make Vietnam one of the most attractive retail markets in the world (placed 6th in a A.T. Kearney's 2017 ranking). It gives abundant room for retailers to expand. Moreover, high internet and smartphone penetration enables more channels for retailers to approach customers, making way for future omni-channel development that could take advantage of their physical stores.

A big and very fragmented retail market. The USD 129 billion market is still dominated by the traditional retail channels (Figure 80). Accordingly, major retailers with superior chain management and financial capabilities are setting their footprints into new fields to claim market share. MWG with food & FMCG, FRT with pharmaceutical, and PNJ with fashion jewelry.

Risks

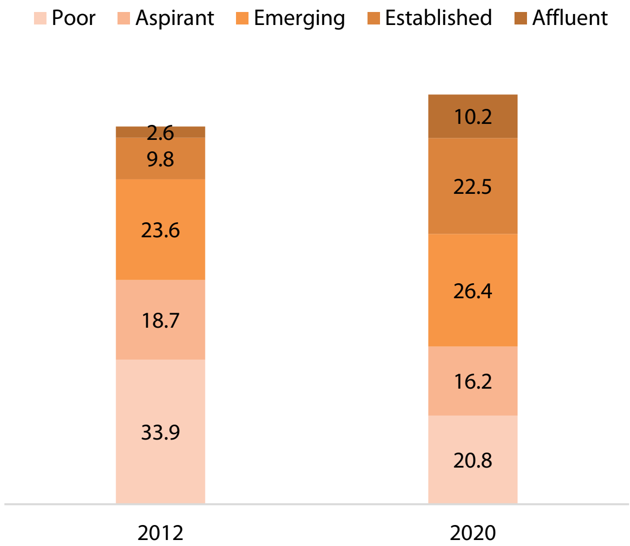
- **Declining purchasing power** due to slowdown in credit growth or economic downturn.
- **Rising interest rate environment.** This increases financial expenses for retailers, which heavily rely on short-term loans to finance working capital.

Figure 76: The MAC is spreading out quickly



*Source: BCG, Rong Viet Securities | *Location classification includes districts, district-level towns, provincial cities and quarters.*

Figure 77: Vietnam has a fast-growing MAC population (million)

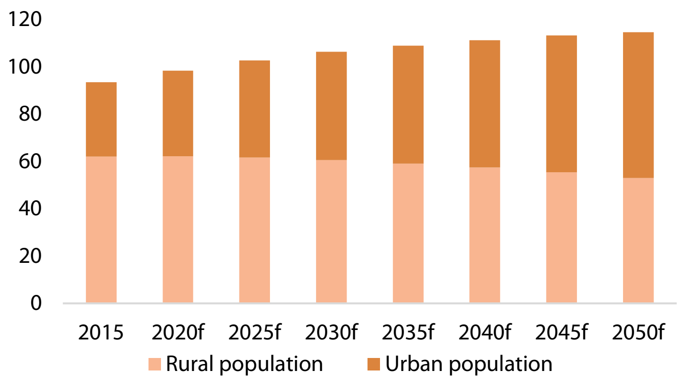


Source: BCG, Rong Viet Securities
**The MAC cutoff is monthly per capita income of USD 190*

Figure 78: FMCG sales by channels (inner circle: 3Q 2017, outer circle: 3Q 2018), unit: %

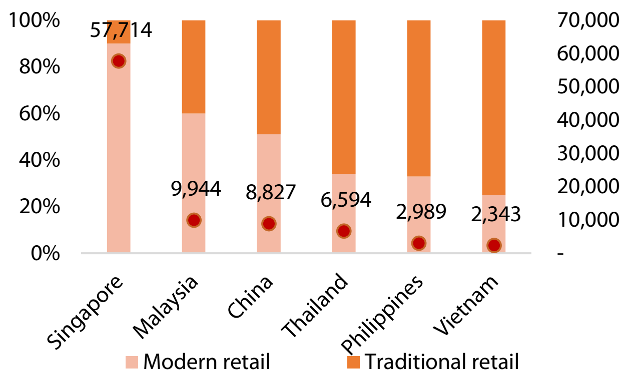
Source: Kantar Worldpanel, Rong Viet Securities

Figure 79: Urban and rural population: million (2015-2050)



Source: BMI

Figure 80: Retail market share by channels (2017)



Sources: Vibiz, Worldbank, Rong Viet Securities

Sustainable growth from a fragmented jewelry market

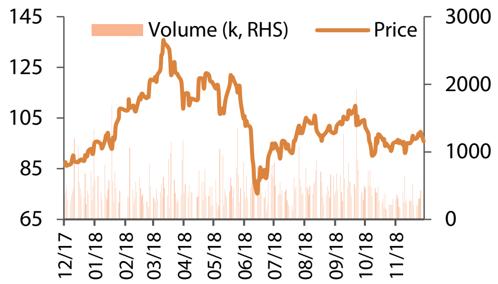
BUY	30%
CMP (VND)	**98,100**
Target Price (VND)	**126,000**
Cash Dividend (VND)*	1,800

(*) expected in next 12 months

Stock info

Sector	Consumer Goods
Market cap (VND bn)	16,383.0
Current shares (millions)	167.0
3M avg. volume (K)	485.5
3M avg. Trading value (VND bn)	49.1
Remaining foreign room (%)	0.0
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	8,565	10,977	15,048	19,508
% yoy	11.1	28.2	37.1	29.6
PAT	450	726	1,012	1,364
% yoy	496.3	61.1	39.5	34.8
ROA (%)	12.6	16.1	18.1	19.6
ROE (%)	30.0	35.0	29.6	31.3
EPS (VND)	2,698	4,340	5,844	7,638
BV (VND)	15,267	19,174	20,458	25,338
Div (VND)	1,800	1,800	1,800	2,300
P/E (x)	14.5	20.4	16.1	12.3
P/BV (x)	4.4	5.0	4.6	3.7

*Price as of 12/14/2018

Company snapshot

Phu Nhuan Jewelry JSC is the largest jewelry manufacturer and retailer in Vietnam, accounting for 27% of the branded jewelry market.

The company has the largest jewelry factory in Vietnam with about 1,000 goldsmiths and a capacity of four million products per year.

Among the major jewelry firms in Vietnam, PNJ is the pioneer (2012) in converting a business model from gold bar focused to jewelry focused. Due to that, the company has picked up the trend of increasing jewelry consumption by the youth and minimizing the impact of the government's gold bar restrictions. PNJ has become the leading fashion jewelry retailer in the country in terms of market share and number of outlets, far outperforming its competitors.

Coming to 2019, due to the favorable business environment, PNJ's business results will continue to be good. Along with the expansion of the retail network, the company also invests in performance-enhancing projects such as ERP & Digital Transformation (to be completed by 2019) and Big Data.

Investment Rationales

- **Gold jewelry demand in Vietnam is growing at 10% per year.** Meanwhile, gold jewelry consumption per capita is one of the lowest among Asian countries. Growth potential is still plenty as demand for gold bars is gradually declining.
- **The middle and affluent class is growing rapidly in Vietnam** (estimated to account for one third of the population by 2020). These are modern-minded consumers with high self-expression needs, who are target customers for fashion jewelry retailers.
- **Dominating the branded jewelry market.** Among branded jewelry chains, PNJ's market share is estimated at 26%. With great advantages in production /design capability, PNJ will increasingly widen the gap with other competitors.
- **Wide coverage of retail network.** PNJ's store count reached 308 (end of September 2018), an increase of 39 stores compared with the beginning of 2018, and far exceeding the number of its competitors: SJC (48), Doji (47) and Precita (18).

2019 Outlook

- Total store count will reach 368, an increase of 16% compared to 318 stores (estimated) by the end of 2018. In addition to the main market of HCM City (where 40% of stores are located), PNJ will also expand in other regions, especially the North. Most of the new stores will be independent shops, with higher sales and better customer experience than counters in shopping mall.
- Revenue and PAT growth of 30%, 35% respectively. Retail jewelery accounts for 63% of total revenue, while wholesale accounts for 23% and the remaining segments (gold bars, exports, accessories) account for only 14%. We temporarily have not added the watch business segment due to its small size (less than 0.5% of revenue) and PNJ has no specific plan for this segment.
- We apply a 2019 forward P/E of about 17x. This is in line with the industry average and lower than PNJ's 2018 average P/E of 21x as we estimate that the market will be more risky next year.

Risks to Our Call

- New stores opened in the North do not meet performance expectations.
- Negative news from the Dong A bank investigation.

Long Chau Pharmacy is following the right path

ACCUMULATE **15%**

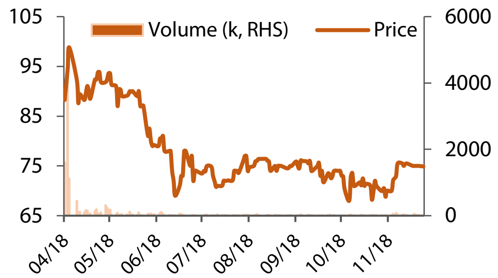
CMP (VND)	**75,000**
Target Price (VND)	**84,000**
Cash Dividend (VND)*	2,000

(*) expected in next 12 months

Stock info

Sector	Consumer Services
Market cap (VND bn)	5,100.0
Current shares (millions)	68.0
3M avg. volume (K)	21.0
3M avg. Trading value (VND bn)	1.5
Remaining foreign room (%)	0.3
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	10,853	13,147	15,850	20,015
% yoy	36.5	21.1	20.6	26.3
PAT	208	290	378	473
% yoy	42.4	39.8	30.3	25.1
ROA (%)	4.4	7.5	8.5	7.8
ROE (%)	40.3	36.4	28.6	27.6
EPS (VND)	2,990	4,177	5,319	6,522
BV (VND)	25,762	19,911	19,036	24,201
Div (VND)	2,000	2,000	2,000	2,000
P/E (x)	N/A	N/A	14.1	11.5
P/BV (x)	N/A	N/A	3.9	3.1

*Price as of 12/14/2018

Company snapshot

FPT Retail (FRT) is the second largest electronics retailer in Vietnam, after MWG, with 524 stores.

FRT is currently operating three retail chains: FPT Shop that sells electronics products, F.Studio sells Apple devices and Long Chau - the pharmaceutical retail chain.

By following MWG's expansion strategy, FRT had experienced an impressive growth. CAGR revenue and PAT during 2014-2017 were 36% and 92%, respectively.

FRT, like its competitor MWG, is also influenced by the saturation of the mobile phone industry. The company has chosen to expand into pharmaceutical retail by acquiring Long Chau drugstores, thereby establishing FPT Pharma. In the long run, FRT expects to be able to capture a good share of the pharmaceutical retail market worth USD 1.6 bn from 57,000 private pharmacies nationwide.

In order to maintain its growth in the short and medium term, FRT has deployed two installment plans, namely F.friends and Subsidy, to capitalize on consumer credit growth. In addition, FRT also has plans to open more F.Studio stores to explore the 'unauthorized' Apple market.

Investment Rationales

- **There are still growing potential in the mobile phone segment with the two installment programs:** F.friends and Subsidy. While same store sales growth of FPT Shop is nearly zero percent, F.friends and Subsidy are estimated to contribute 10% of total revenue in 2018 and are expected to increase in 2019 when FRT begins promoting these programs.
- **Exploring the 'unauthorized' Apple market.** Being Apple Premium Reseller (APR), F.Studio has the edge over unauthorized mom-and-pop stores in branding, training and after-sales services. We expect FRT to be able to find growth in this segment.
- **Long Chau pharmacy chain is moving in the right direction with an appropriate model**: (1) strategic locations such as intersection corners, near markets, hospitals and residential areas, (2) maintaining high SKU and (3) competitive pricing strategy. FRT plans to expand the chain to make it one of the main drivers of the company in the next five years.

2019 Outlook

- Opening 80 FPT Shop, 10 F.Studio and 50 Long Chau drugstores (including 30 flagship stores and 20 satellite stores).
- Revenues from F.friends and Subsidy to grow 47% YoY, contributing 12% of FRT's total revenue.
- Accordingly, revenue and PAT will rise by 22% and 25% YoY respectively.

Risks to Our Call

- Bad debt increasing from the two installment programs.
- The expansion progress of Long Chau drugstores is not as expected due to difficulties in finding locations and managing inventories.

MOBILE WORLD INVESTMENT JSC — Bloomberg: MWG VN

Brighter prospect from Bach Hoa Xanh

BUY **33%**

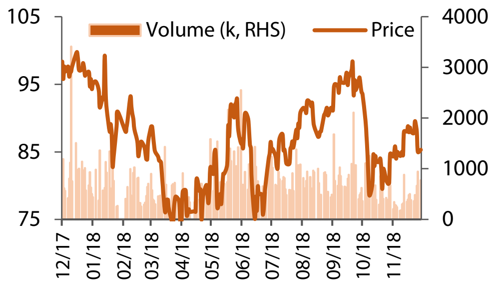
CMP (VND)	**87,900**
Target Price (VND)	**115,000**
Cash Dividend (VND)*	1,500

(*) expected in next 12 months

Stock info

Sector	Consumer Services
Market cap (VND bn)	37,831.9
Current shares (millions)	430.4
3M avg. volume (K)	506.2
3M avg. Trading value (VND bn)	57.2
Remaining foreign room (%)	0.0
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	44,613	66,340	88,448	104,015
% yoy	76.7	48.7	33.3	17.6
PAT	1,577	2,206	2,995	3,593
% yoy	47.2	39.8	35.8	20.0
ROA (%)	14.3	9.7	11.7	12.0
ROE (%)	49.9	37.6	35.1	31.8
EPS (VND)	3,554	4,969	6,680	7,857
BV (VND)	24,698	18,516	19,242	25,451
Div (VND)	1,500	1,500	1,500	1,500
P/E (x)	7.5	22.4	13.3	11.3
P/BV (x)	3.1	8.4	4.6	3.5

*Price as of 12/14/2018

Company snapshot

Mobile World Investment JSC is the largest retailer in Vietnam with over 2,200 retail outlets covering 63 provinces.

By the end of 2018, the company has 50% of the mobile phone market, 35% of the consumer electronics market and leads the eCommerce market with more than 20% of the trading value.

After many years of annual growth of over 40% in revenue and PAT, the electronics division of MWG is entering the saturation stage. The company has been preparing for the transition from late 2016 with the development of the food and FMCG retail chain called Bach Hoa Xanh, which is expected to be a major growth engine in the long run. By 2019, MWG's growth will come from continuing to expand Dien May Xanh (consumer electronics chain) and the significant initial contribution from Bach Hoa Xanh.

Investment Rationales

- **Dien May Xanh is still a short-term growth driver.** The consumer electronics market is still growing quite well (20% value yoy, 2018). Currently mom-and-pop stores are still accounting for nearly 40% of the market, indicating that Dien May Xanh will still be able to grow well in the next one to two years, until the smartphone market becomes saturated.
- **Vietnam's foods market is worth about USD 50 bn, growing at 10%/year and is very fragmented**. There are around 8,500 traditional wet markets and 1.4 million grocery stores that account for 90% of the market. Consumers tend to shop more at supermarkets/minimart due to better quality control and increasing convenience.
- **Bach Hoa Xanh's efficiency is improving**. Starting this year, the standard/large store model will be delivering superior performance over the small-store model. The average monthly revenue reached VND 1.15 bn, up 70% compared to the beginning of this year, while gross margin reached 17%. There are 270 stores (65% of total stores) in the standard/large model and this number will continue to increase. MWG's management also shows great adaptation by not hesitating to admit mistakes and shutting down inefficient stores**.**
- **Attractive valuation.** MWG is trading at a forward P/E of around 13x, equivalent to a PEG ratio of 0.65x. We expect the market to pay a higher P/E for MWG from 2019 on, when Bach Hoa Xanh improves.

2019 Outlook

- Open 100 small Dien May Xanh stores (half of those will be converted from The Gioi Di Dong stores). Thereby, Dien May Xanh and The Gioi Di Dong sales will change +19% and -4% respectively.
- Open 500 Bach Hoa Xanh, revenue growth will be 180%. Total gross margin could reach 19%.
- Bach Hoa Xanh is forecasted to contribute VND 12,000 bn in revenue, but still make a net loss of around VND 100 bn (after all expenses related to stores, distribution centers and company).
- Accordingly, MWG's consolidated revenue and PAT will rise by 18% and 20% yoy respectively.

Risks to Our Call

- Bach Hoa Xanh's expansion speed does not meet expectations due to difficulties in finding locations as well as adjusting the model to suit each area, especially in neighboring provinces.
- Competitors from CoopFood, SatraFood and Vinmart, as well as promoting store openings could put more pressure on Bach Hoa Xanh, especially for FMCG.

AUTOMOTIVE RETAIL - GROWTH MOMENTUM IN 2019?

Vy Nguyen (vy.ntk@vdsc.com.vn)

The automotive retail industry suffered from weak consumption in 2017 as consumers waited for the import tariff cut. By 2018, the industry continued to face shortages of supply due to tough requirements of Decree 116. Therefore, despite high demand for autos, total automobile sales of the whole market in 10M 2018 remained similar to those of the same period last year. However, since late 2018, most vehicle importers could meet government regulations related to the quality, technical safety and emissions standards. Hence, we expect a brighter but more competitive automobile retail industry in 2019.

Investment Outlook

Automotive supply may recover substantially in 2019.

In 7M 2018, the auto market faced difficulties in importing Completely Built-Up (CBU) cars due to the requirement of Vehicle Type Approval (VTA) certification under Decree 116, resulting in a fall of 16% YoY in 11M 2018 CBU car supplies. However, there are signs of a recovery in auto supplies since late 2018 as most producers that export cars to Vietnam meet the requirements. We believe that this trend will continue in the coming months, resulting in a surge in 2019 of CBU cars from a low base in 2018. However, we expect that the government will still want to control the growth rate to some extent via Decree 116.

Demand for autos remains strong.

As car imports were interrupted temporarily in the first months of 2018, supply has not met the high demand for autos. Due to the shortage, it takes two to three months longer than usual for customers to purchase a car. Although many customers already left a deposit in 2018, they can only receive their cars no sooner than early 2019. In addition, the Vietnamese market continues to see an upward trend in auto sales. One of the reason is that Vietnam's disposable income per capita has improved quickly over the last five years (Figure 82) and the trend may be ongoing in 2019. Therefore, the expected demand for autos will remain strong in 2019.

Sales of both middle and high-class cars benefit from Free Trade Agreements.

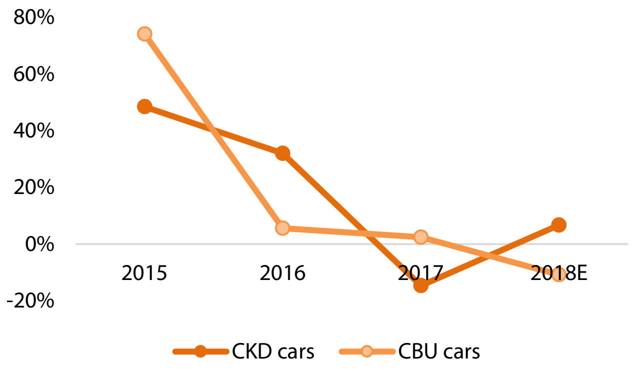
Autos imported from ASEAN nations, which are mostly middle-end vehicles, may continue to benefit from the ASEAN Trade in Goods Agreement (ATIGA) in 2019. After the removal of tariffs under ATIGA, prices of autos coming from these countries, ranging from VND 300 to 500 million, are suitable for income of most domestic residents. In addition, customers may have more choices due to a wide diversity of models from Indonesia and Thailand. Therefore, sales of middle-class automobiles are forecasted to rise by 20% YoY in 2019. As a result, car dealers in the mid-range segment may benefit.

We expect that luxury car dealers should benefit from the Vietnam-EU FTA, which may come into effect in mid-2019. Under the agreement, tariffs for autos imported from EU nations will be cut gradually to 0% in 10 years, from the current 70%; this would make these cars more attractive. That said, the benefits could be negligible in the short run, given the low-price elasticity feature of high-end cars. Tariff cuts, in our view, are insufficient for a surprised rally in the number of luxury car sales.

Risks

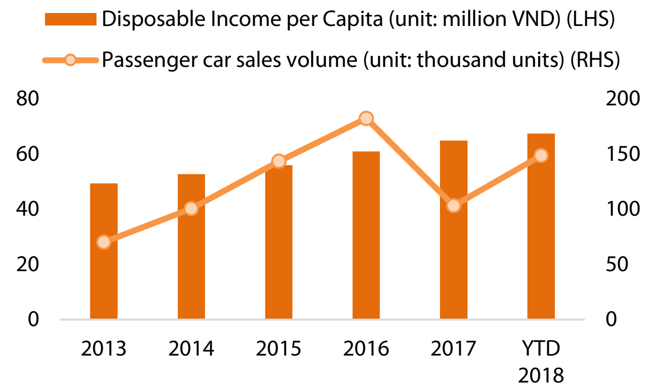
- **Competition in the auto market in 2019 can become more intense.** The automotive outlook for the market in 2019 may be brighter but more competitive. To maintain their market share, car dealers may have to decrease selling prices, resulting in a slight fall in gross profit margin (GPM).
- **Political uncertainty in the EU may cause the EVFTA approval to be delayed.**

Figure 81: Completely Knocked Down (CKD) cars and CBU cars growth



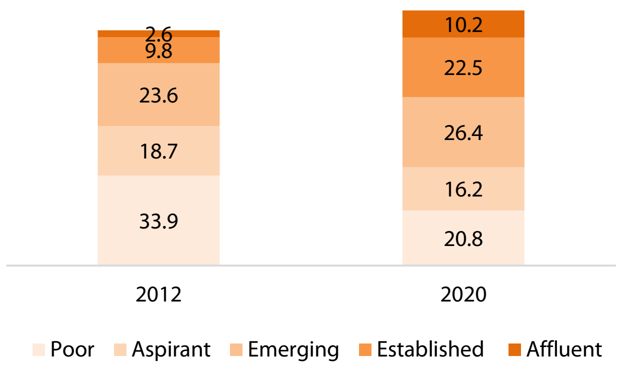
Source: VAMA, Rong Viet Securities

Figure 82: Disposable income growth



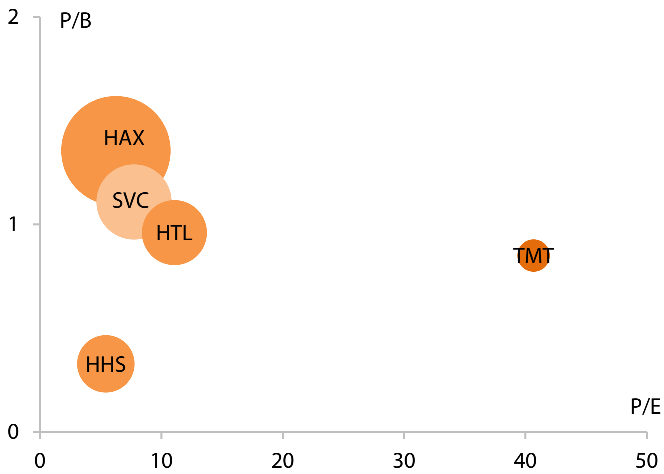
Source: VAMA, GSO, Rong Viet Securities

Figure 83: Vietnam has a fast-growing the middle and affluent classes (MAC) population (millions)



Source: BCG, Rong Viet Securities
**This is owing to differences in the point at which consumers spending takes off.*
** The MAC cutoff is monthly per capita income of USD 190*

Figure 84: ROE, PB, PE of Companies in Automotive Retail Industry



Source: FiinPro, Rong Viet Securities, Size of Bubble: ROE

Benefiting from the favorable luxury car market

BUY **31%**

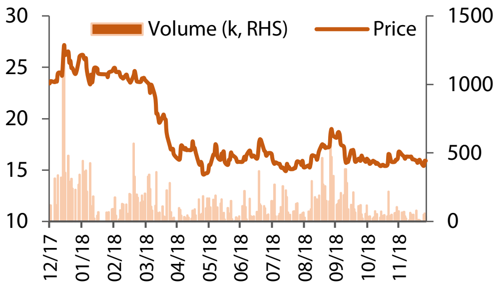
CMP (VND)	**16,000**
Target Price (VND)	**19,600**
Cash Dividend (VND)*	1,500

(*) expected in next 12 months

Stock info

Sector	Automobile
Market cap (VND bn)	553.2
Current shares (millions)	35.0
3M avg. volume (K)	129.6
3M avg. Trading value (VND bn)	2.2
Remaining foreign room (%)	36.9
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	2,880	3,833	4,489	5,382
% yoy	58.1	33.1	17.1	19.9
PAT	78	84	113	123
% yoy	171	8.1	34.0	9.2
ROA (%)	9.1	5.7	7.3	7.0
ROE (%)	25.9	21.8	24.2	22.9
EPS (VND)	2,227	2,407	3,226	3,523
BV (VND)	21,184	16,525	13,357	15,380
Div (VND)	0	1,500	1,500	1,500
P/E (x)	7.4	9.7	5.0	4.6
P/BV (x)	1.9	2.2	1.2	1.0

*Price as of 12/14/2018

Company snapshot

Hang Xanh Motors Service JSC (HSX: HAX) is an authorized distributor of Mercedes-Benz (MBV) in Vietnam. The company is listed on HSX, specializing in distributing and repairing Mercedes – Benz cars.

HAX is sharing the leading position with its competitor, Vietnam Star, in distributing Mercedes-Benz cars. Each of them distributes roughly 37% of MBV's cars, followed by Andu.

Showroom system of HAX includes Vo Van Kiet (HCM), Dien Bien Phu (HCM), Lang Ha (Ha Noi) and Kim Giang (Ha Noi).

Although the high-end automotive market in Vietnam experienced challenges in 2018 due to Decree 116, sales volume of Mercedes-Benz Vietnam (MBV) in 11M 2018 still witnessed a growth of 2% YoY, outstripping its biggest rival, Lexus which had a slump of 52% in sales. Being a main distributor of MBV, HAX benefited greatly from the strong position of the German car firm, resulting in an expected increase of 17% YoY in sales volume in 2018.

In 2019, the outlook for the industry suggests that the year will see strong growth. We expect more intense competition in the segment. Hence, HAX's sales in 2019 may rise but NPAT is forecasted to move up modestly.

Investment Rationales

We expect a stable growth in HAX's sales due to the strong position of MBV. Sales of MBV, the leading player with a 60% market share in the luxury car segment, witnessed a CAGR of 22% during the 2014-2018 period. Selling volume of HAX saw a CAGR of 40% from 2014 to 2018, which made it a major dealer of MBV. Its market share rose significantly. The fact that the luxury auto market still has ample room to grow, fueled by the improvement of population in the affluent class, supports our view of a growth of HAX'S sales of 20% per year in 2019-2020.

Sales of HAX in 2019 is forecasted to increase by 20% YoY. Supply of luxury cars may recover strongly in 2019 as most imported cars can enter the Vietnamese market as of late 2018. In addition, demand in 2019 may remain strong for three main reasons: (1) limited supply in 2018 has not met the high demand for luxury cars. (2) Vietnam-EU FTA may be a catalyst to stimulate demand for the sector and (3) the so-called 'affluent' population is growing, at a CAGR of 29% (2012- 2020), according to a report by the Boston Consulting Group (BCG).

Distribution of other brands supports long-term growth. In 2019, two subsidiaries, Can Tho Automobile Engineering JSC and PTM JSC, will sell Nissan and Vinfast cars, respectively. Despite the low contribution to revenues and profits to the company in 2019, we believe that two new brands will pave the way for long-term earnings growth.

Bright outlook makes current valuation relatively attractive. At current market price, HAX is trading at a P/E ratio of 5.4x, which we consider quite attractive given the positive prospects for 2019. We expect a growth in earnings of 9.2% YoY in 2019 thanks to anticipated improvement in the high-range automobile segment. In the long-term, we forecast that profits of the dealer will see a CAGR of 11% for the next five years. That is based on the strong position of MBV in the luxury auto industry and its ambitions to expand market share.

2019 Outlook

- We expect sales volume to reach 2,700 units, corresponding to total sales of VND 5,382 billion (+20% YoY).
- GPM will decrease slightly to 4% due to more intense competition.
- 2019 NPAT is forecasted to rise by 9.2% YoY, resulting in an EPS of VND 3,523.

Risks to Our Call

- The unpredictable amount of incentives makes quarterly earnings of HAX highly volatile.
- The competition in the high-end auto market could be fiercer than expected, resulting in lower GPM than our forecast.

PANGASIUS - HIGH DEMAND TO SUPPORT GROWTH

Tam Pham (tam.ptt@vdsc.com.vn)

Vietnam is the world's largest pangasius producer due to its ideal natural conditions for growth and quality of the product. Pangasius is ranked six in the world as the most consumed seafood due to its good taste and low price. As wild caught seafood is controlled to preserve natural resources reproduction, aquaculture seafood has a tremendous growth opportunity to meet the food demand of the world's rising population.

Investment Outlook

Increasing demand. The world's population will excess 8.5 billion in 2030. Nevertheless, the growth of captured fish will likely be flat to secure biodiversity. The proportion of aquaculture fish in the total fish supply should increase from 47% in 2016 to 54% in 2030 (according to FAO, figure 85). Pangasius producers like VHC will have vast opportunities to expand production.

Vietnam is the world's largest exporter of pangasius (a type of catfish) with a market share of 93% (figure 86). The Mekong Delta of Vietnam has ecological conditions that are favorable for farming pangasius on a large-scale. Natural conditions combined with advanced farming technology produce white flesh pangasius, which is the favorite choice of consumers. Other main pangasius countries (India, Bangladesh, Thailand and Indonesia) are producing low-valued yellow flesh pangasius with volumes just meeting their domestic demand.

Hurdles to trade in the US, the largest market (figure 87)**, to be relieved.** Vietnam has passed onsite inspections of the US Department of Agriculture (USDA), which is the most significant step in the initial equivalent process established by the US Food Safety and Inspection Service. Besides, the preliminary anti-dumping tax on pangasius of the 14th period of review (POR 14) is largely lower than that of POR 13 (Table 11). Therefore, export volume to the US market should increase sharply in 2019.

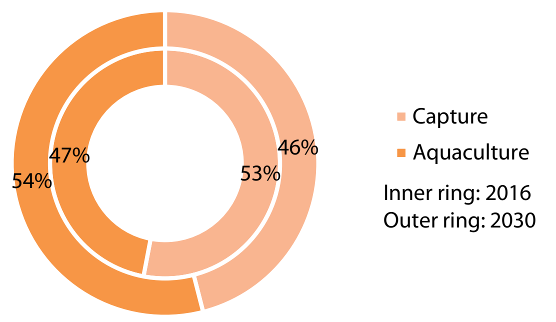
Vietnam-EU Free Trade Agreement (EVFTA) is likely to be approved in early 2019. If it is approved, the import tax will be reduced from the current rate of 5.5% to 0% in three years for frozen fillets and from 7% to 0% in seven years for processed fillets. Demand for pangasius in the EU is expected to rise strongly.

Risks

Oversupply of pangasius in Vietnam. The shortage of fingerlings and material pangasius has caused a remarkable surge in prices since the beginning of 2017 (figure 88). Famers are rushing to raise fingerlings and material fish. That can lead to an oversupply of material when many farms come into harvest season at the same time. Selling prices could plunge. Famers may then suffer large losses and stop seeding for the next crop, which will result in a material shortage later.

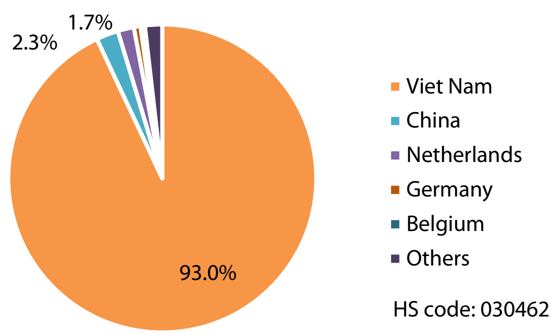
Political uncertainty in the EU may cause the EVFTA approval to be delayed.

Figure 85: Global capture and aquaculture production



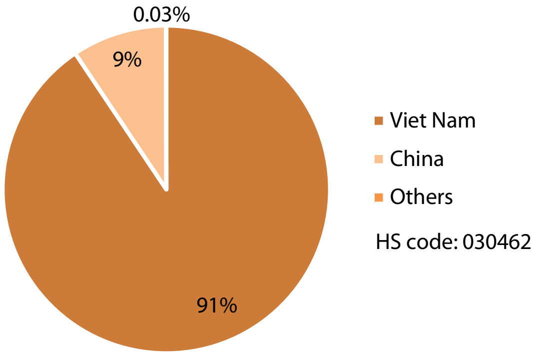
Source: FAO

Figure 86: Market share of catfish export by country



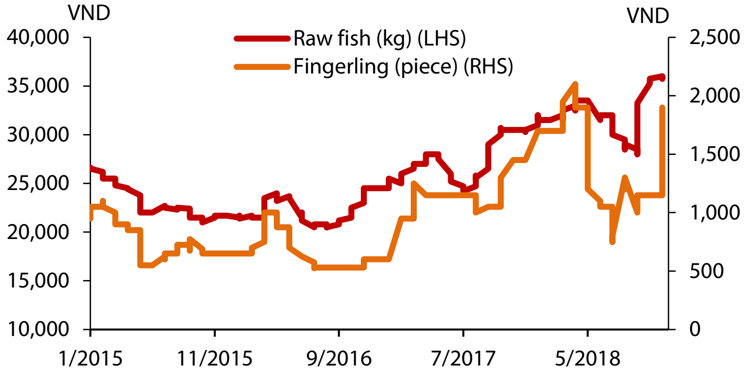
Source: International Trade Center

Figure 87: Market share of catfish in the US by country



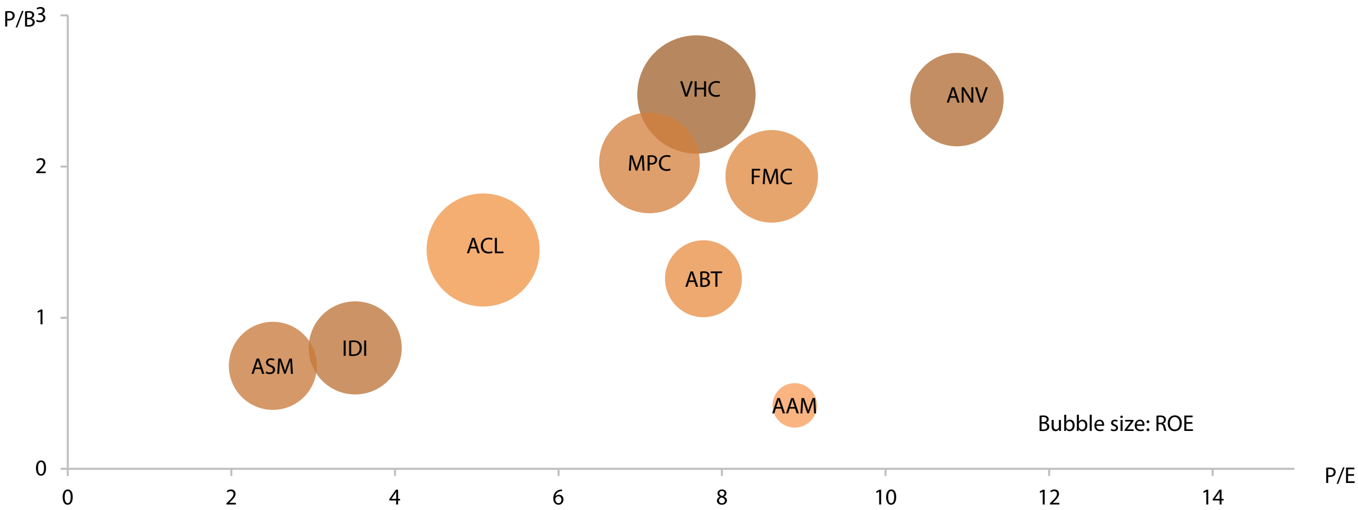
Source: International Trade Center

Figure 88: Fingerling and pangasius price movements



Source: VASEP

Figure 89: P/E, P/B and ROE of companies in the sector



Source: FinnPro

Table 11: US anti-dumping tax on Vietnamese pangasius

		Mandatory respondents	Self-requested respondents	Country-wide	Effective period of application
POR 10	USD/kg	0	0.97	2.39	08/01/2012 - 07/31/2013
POR 11	USD/kg	0	0.69	2.39	08/01/2013 - 07/31/2014
POR 12	USD/kg	0.69	2.39	2.39	08/01/2014 - 07/31/2015
POR 13	USD/kg	3.87	7.74	2.39	08/01/2015 - 07/31/2016
POR 14*	USD/kg	0 - 1.37	0.41	2.39	08/01/2016 - 07/31/2017

**Preliminary results*

Source: US Department of Commerce, International Trade Administration

Enhanced capacity to meet strong demand

BUY **25%**

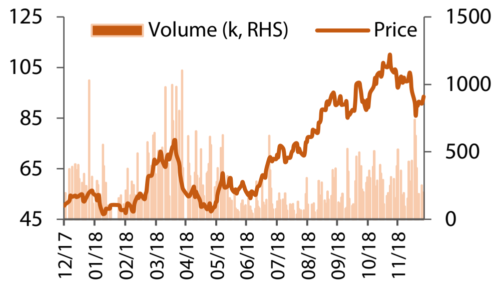
CMP (VND)	**101,000**
Target Price (VND)	**125,000**
Cash Dividend (VND)*	1,300

(*) expected in next 12 months

Stock info

Sector	Consumer Goods
Market cap (VND bn)	9,322.5
Current shares (millions)	92.3
3M avg. volume (K)	272.6
3M avg. Trading value (VND bn)	26.5
Remaining foreign room (%)	62.7
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	7,304	8,152	9,478	10,627
% yoy	0.0	11.6	16.3	12.1
PAT	567	605	1,538	1,517
% yoy	76.2	6.7	16.2	-1.4
ROA (%)	12.7	12.0	26.0	21.2
ROE (%)	23.7	20.5	37.4	29.6
EPS (VND)	5,707	6,433	15,150	14,937
BV (VND)	25,864	31,883	44,529	55,393
Div (VND)	2,000	2,000	3,300	3,300
P/E (x)	10.1	8.3	6.7	6.8
P/BV (x)	2.2	1.7	2.3	1.8

*Price as of 12/14/2018

Company snapshot

Vinh Hoan's business is processing and exporting pangasius fillets, fish oil, fish powder and collagen and gelatin.

With a 15% market share of Vietnam pangasius exports, VHC is the leading company in the industry since 2010.

The company has 520 hectares of fish farms and a production capacity of 850 tons/day.

Vinh Hoan's enhanced culturing capacity will minimize the adverse effects of the surge in material prices on production costs. The company's expanding processing capacity, leading position and diverse and high-value products will secure its ability to meet the market's demand. All of these factors make VHC our top choice in the fisheries sector for 2019.

Investment Outlook

- **The biggest hurdle to trade in the US market in 2019 has been cleared.** Vietnam has passed onsite inspections, which is the most significant step in the initial equivalent process established by the US Food Safety and Inspection Service.
- **Vietnam-EU Free Trade Agreement (EVFTA) is likely to be approved in early 2019.** The FTA is expected to come into effect from mid 2019. The import tax will be reduced from the current rate of 5.5% to 0% in three years for frozen fillets and from 7% to 0% in seven years for processed fillets. Demand for pangasius is expect to rise strongly.
- **Large potential to increase profitability with high-value products. R**eady-to-eat and Ready-to-cook products are most favored by the US and the EU markets where customers have high incomes. The gross margin of these products is 22-25%, compared with 12-16% frozen fillets.
- **Expanding culturing and production capacity.** The new 220-hectare farm will start operating in Jan 2019 and the first harvestwill be in Jul/Aug 2019. Self-produced material will increase by 40% YoY. Processing capacity is forecasted to increase from the current level of 850 tons/day to 1,130 tons/day by the end of 2021.

2019 Outlook

- We expect revenue to grow by 12.1%, equivalent to VND 10,627 bn. The export value of pangasius reaches USD 381 mn, of which the proportion of the main markets are the US 60%, the EU 9% and China 11%.
- Because of high competition in the US market, which has high selling prices, sales there will drop but rise in other markets. Export volume could increase by 19.7% YoY while average selling price falls by 9.2% YoY. Gross margin falls to 19.4% from 23.3% in 2018.
- NPAT is VND 1,517 bn, equivalent to an EPS of VND 14,937.

Risks to Our Call

- Political uncertainty in the EU may cause the EVFTA approval to be delayed.

POWER - 2019 OUTLOOK FAVORS THERMAL POWER PLANTS

Son Phan (son.pnt@vdsc.com.vn)

In 2018, a lower amount of rainfall than in 2017 and stable electricity consumption growth at above 10% helped maintain competitive generation market (CGM) prices far above last year levels. Under such conditions, only a few hydropower plants located in areas that had unusually high rainfall benefited from high CGM prices and experienced strong earnings growth. Meanwhile, most of the plants in the thermal power segment were hit by lower amount of contract volume (Qc) and higher FX losses due to the depreciation of the VND against USD, resulting in lower earnings. The lower Qc even affected core-earnings of gas-fired power plants more strongly since their gas input prices is estimated to have gone up by 21% YoY.

Regarding the 2019 outlook, consumption growth is projected to outpace system capacity growth. The potential El Nino phenomenon is likely to happen and last for the first half of the year, resulting in low hydropower supply. Due to this, thermal power plants are expected to have higher mobilized volume and thus an increase in Qc. In addition, adequate input supply will be the critical factor to ensure that thermal power plants can capitalize on favorable market conditions. Regarding the wholesale electricity market (VWEM), the current restructuring progress of the system remains too slow to be fully implemented in 2019. Therefore, we believe that its impact on the industry in 2019 will be marginal.

Investment Outlook

The supply-demand balance in 2019 favors the supply side. According to expectations by Vietnam Power Group (EVN), electricity consumption growth in 2019 should be around 11% - 12%, mainly driven by the household and industrial segments. Meanwhile, the estimated additional capacity of power plants coming into operation in 2018 was only 3,300 MW, corresponding to 7.3% of total system capacity at the beginning of the year. In addition, the pipeline of power projects in 2019 are mostly in the second half of the year, after the dry season. Therefore, we expect consumption growth to outpace system capacity growth, implying favorable conditions for the supply side.

El Nino is likely to happen in 1H2019, impacting the thermal power sector in a positive manner and improve competitive generation market (CGM) prices.

According to forecasts by the International Research Institute for Climate and Society at Columbia University (iri.columbia.edu), there is a 96% probability that El Nino will occur in the first half of 2019. The appearance of El Nino would imply:

(1) Rising temperature levels, especially in the dry season, resulting in stronger demand from households.
(2) Lower level of rainfall, thus reducing hydropower supply.

Due to this, we expect that CGM prices would continue to increase from the high base in 2018 while mobilization output from thermal power plants would rise as a result. Moreover, as planned mobilization volume from these plants rises, the amount of Qc for thermal power is expected to increase.

Favorable conditions in input supplies support operations and earnings of thermal power plants.

Many thermal power plants suffer from input supply shortages during peak seasons. For instance, a technical issue reduced volume of gas supply in the Southeast region by 10% in 2Q 2018, affecting gas-fired power plants in the region. An unexpected coal shortage in 4Q 2018 forced coal-fired power plants in the North to lower their operation levels. Some plants even had to temporarily halt their production.

However, the supply shortage is unlikely to recur in 2019. While the Wild Orchid gas field is coming into operation from early 2019, helping gas supply in the Southeast region rise by 6% YoY, the government will ensures that coal-fired power plants have adequate supply, both from domestic and imported sources.

In addition, as we forecast that crude oil prices will continue falling from 72 USD/barrel on average in 2018 to about 65 USD/barrel in 2019, gas prices would decline accordingly. Meanwhile, it is likely that the government will accept a 5% increase in the price of coal supplied to power plants. Due to these changes in input prices, we expect that the per-kWh production cost of gas-fired power and coal-fired power would converge in 2019, creating a more balanced competitive landscape for the industry.

Wholesale electricity market (VWEM) is not expected to have a significant impact in 2019. The transformation process to VWEM still has a lot to do to be completed, such as:

- turning the National Load Dispatch Centre (A0) into a corporation under government supervision,

- re-distributing contract volume (Qc) in PPA contracts from Electricity Power Trading Company (EPTC) to five power corporations,

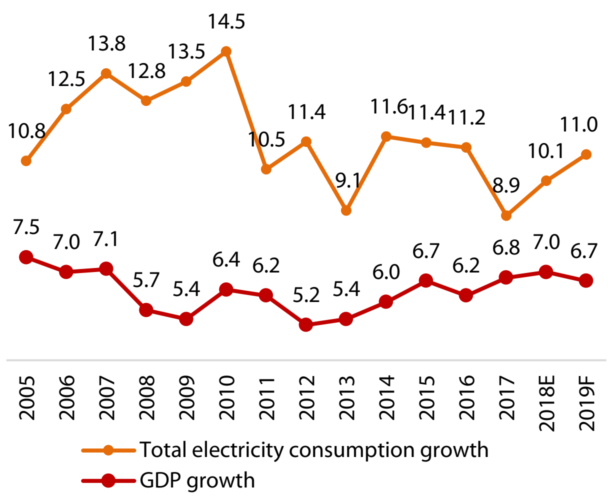
- creating the cross-offset mechanism among these five corporations.

Therefore, even though the government planned to officially operate VWEM from the beginning of 2019, we still believe that it would take more time to complete and thus could be effective in late 2019. In addition, if both contract prices and volume (Qc and Pc) for power plants remains the same after the implementation of VWEM, the profit level of power plants would remain stable and only change gradually in the next years as the amount of Qc decline.

Risks

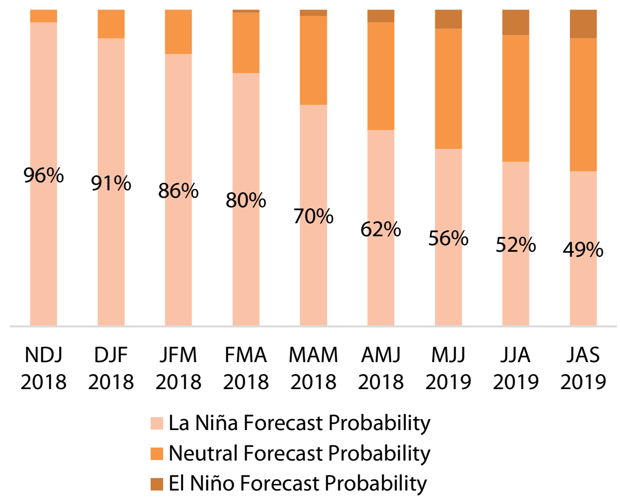
- Companies that have loans in foreign currencies like NT2 and POW, in USD and EUR, BTP in KRW or PGV in USD, JPY and CNY.
- Operating at high capacity requires power plants to maintain their readiness; otherwise, any technical issues happening when CGM is high cost plants a significant negative CfD (contract for difference) revenue.

Figure 90: Comparison between the growth rate (%) of electricity consumption and GDP



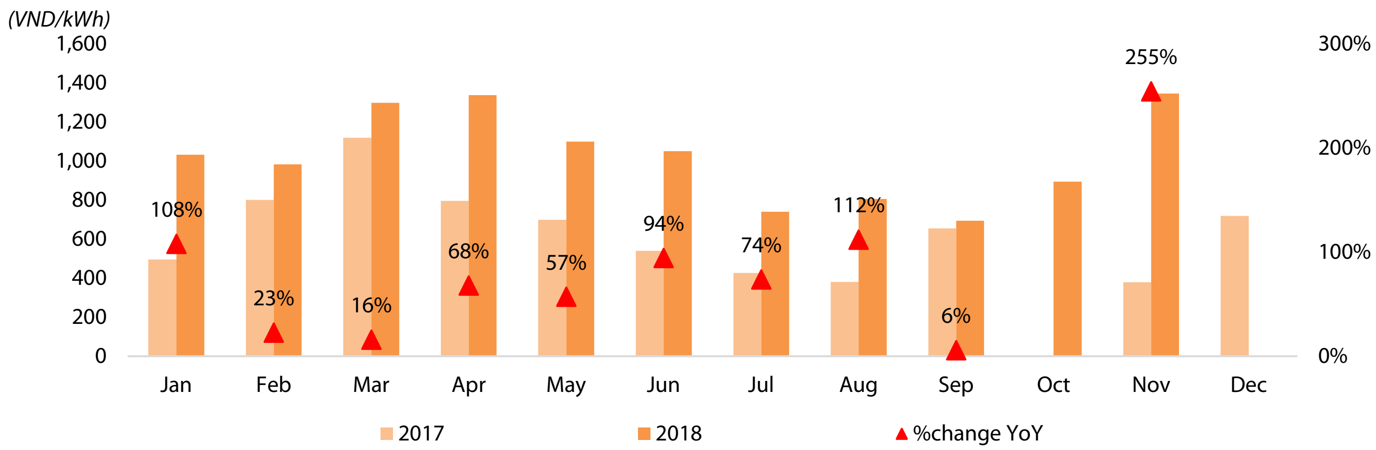
Source: GSO, RongViet Securities

Figure 91: Early-December probability forecast on ENSO on a monthly basis



Source: International Research Institute for Climate and Society

Figure 92: Monthly average CGM prices (FMP) in 2017- 2018



Source: EVN, Rong Viet Securities | (*) Since the CGM was halted temporary in October 2017, there was no CGM price during this month.

PETROVIETNAM POWER NHON TRACH 2 JSC — Bloomberg: NT2 VN

Recovery in core earnings

ACCUMULATE — 9%

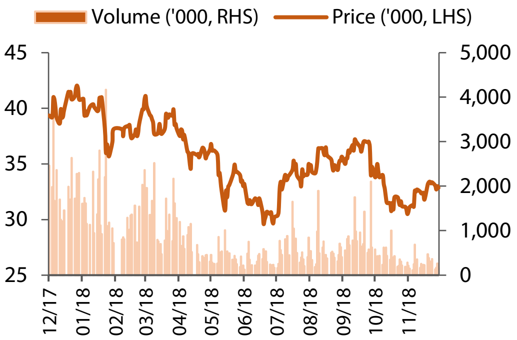
CMP (VND)	**26,200**
Target Price (VND)	**27,100**
Cash Dividend (VND)*	1,500

(*) expected in next 12 months

Stock info

Sector	Utility
Market cap (VND bn)	7,528.0
Current shares (millions)	287.9
3M avg. volume (K)	179.3
3M avg. Trading value (VND bn)	4.6
Remaining foreign room (%)	27.2
State ownership (%)	65.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	7,983	6,761	7,614	7,751
% yoy	19	-15	13	2
PAT	1,086	810	723	826
% yoy	-5	-25	-11	14
ROA (%)	8	8	8	11
ROE (%)	22	16	18	19
EPS (VND)	3,701	2,716	2,422	2,768
BV (VND)	17,230	17,317	14,028	15,388
Div (VND)	2,878	3,123	5,792	1,500
P/E (x)	7.2	12.1	11.0	9.6
P/BV (x)	1.6	2.0	2.1	1.9

*Price as of 12/14/2018

Company snapshot

PVPower NT2 was founded in 2007 in Ong Keo Industrial Park in Dong Nai province. Currently, PVPower NT2 is the largest gas-turbine power company listed on the stock exchange in terms of market capitalization.

PVPower NT2 is responsible for investment and operation of the NT2 gas turbine power plant with capacity of 750 MW. The plant was constructed in four years, fully began its commercial operations in Oct-2011 and started participating in the Vietnam Competitive Generation Market in July of 2012.

In 2018, lower contract volume (Qc), a temporary gas supply shortage and higher gas input prices strongly hit NT2's business performance, resulting in a 34% decline in recurring NPAT. However, favorable movements in USD and EUR exchange rates this year helped the company turn a large FX loss in 2017 to a net gain in 2018, resulting in an only 11% decline in estimated NPAT. When it comes to 2019, higher Qc, lower gas prices, and a more favorable competitive generation market (CGM) are expected to be key catalysts driving core earnings growth.

Investment Rationales

- **Modern and highly efficient technology bring NT2 'privileges' in the Southern power system.** Advanced technology helps NT2 achieve relatively lower heat rate by 4% - 6% compared to other gas-fired power plants such as NT1, Phu My or Ba Ria. Because of such efficiency, NT2 has a strong competitive advantage against other gas-fired power plants. It will be especially true when Take or Pay (ToP) pricing mechanisms turn into market prices. In a case of gas supply shortages, like the one in 2Q 2018, power plants with higher operation efficiency, such as NT2, are less affected.

- **New gas field ensures adequate input supply and thus stable operations in 2019.** As the 2019 market outlook shows favorable conditions, it is essential that power plants have adequate input supply to benefit from these opportunities. Coming into operation from Mid Feb-2019, Wild Orchid gas will contribute to an additional 0.7 billion cbm, corresponding to 10% of total gas supply in the Southeast region, where the NT2 plant is located.

- **The decrease in gas prices from a high base in 2018 and the increase in contract volume (Qc) is promising.** At an average oil price of 72 USD/barrel in 2018, the average gas input price of NT2 this year is estimated to increase by 21% YoY, hurting NT2's earnings. However, as we project that oil prices would fall from 72 USD/barrel on average in 2018 to 65 USD/barrel in 2019, the gas input price for the plant would decline by 7% to 6.51 USD/mm BTU, resulting in higher competitiveness for NT2. Moreover, as 2019 Qc for NT2 is expected to rise to 4.26 billion kWh, earnings of the company would be better hedged against gas price volatility.

2019 Outlook

- Total electricity output is projected to increase by 4.5% YoY to 4.9 billion kWh while average selling price falls by 2.6 % YoY due to lower contract price (Pc).
- FX loss in 2019 is estimated at VND 47 billion in the case that VND depreciates by 3% against EUR and USD.
- NPAT will increase by 11% YoY, correspontng to Ean PS of 2,768 VND/share.

Risks to Our Call

- An unexpected rise in natural gas prices would have a negative impact on competitiveness and earnings.

- An above-expectation appreciation of USD and EUR against VND.

Ample catalysts supporting earnings growth

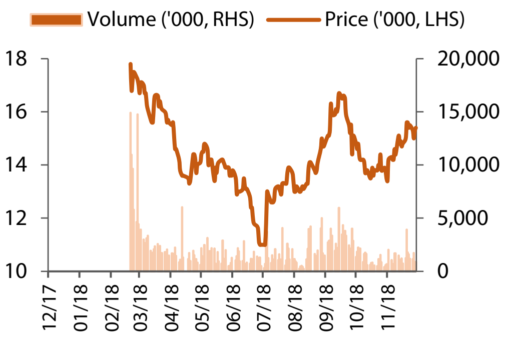
BUY	**29%**
CMP (VND)	**14,500**
Target Price (VND)	**18,400**
Cash Dividend (VND)*	300

(*) expected in next 12 months

Stock info

Sector	Utility
Market cap (VND bn)	35,729.9
Current shares (millions)	2,341.9
3M avg. volume (K)	1,808.6
3M avg. Trading value (VND bn)	27.5
Remaining foreign room (%)	34.5
State ownership (%)	79.9

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	28,212	29,710	33,872	36,344
% yoy	21.4	5.3	14.0	7.3
PAT	1,075	2,233	1,732	2,896
% yoy	-50.5	107.8	-22.4	67.2
ROA (%)	1.5	3.7	2.9	5.0
ROE (%)	4.5	9.0	7.0	10.7
EPS (VND)	463	1,014	731	1,222
BV (VND)	11,048	11,437	10,633	11,528
Div (VND)	0	0	300	300
P/E (x)	N/A	N/A	20.9	12.5
P/BV (x)	N/A	N/A	1.6	1.5

*Price as of 12/14/2018

Company snapshot

PetroVietnam Power Corporation was established in 2007 by and with 100% capital from Vietnam Oil and Gas Group (PVN). Currently, POW is the second biggest power producer in Vietnam with a portfolio of 4.2 GW, accounting for 10% of national capacity.

Gas-fired power accounts for 64% of total capacity. The remaining includes coal-fired power (30%) and hydropower (6%). POW was listed on UpCom in early 2018. The state is expecting to divest more of its holdings.

After an impressive turnaround in 2017, POW started 2018 with lower contract volume (Qc) for its thermal power plants, interruption in gas supply and rising gas input prices, which proved to be huge obstacles for the company. In addition, Vung Ang 1 plant and Nhon Trach 1 plant also experienced technical issues affecting production volume. As a result, 2018 NPAT of POW is estimated to be VND 1,732 billion (-22% YoY). When it comes to 2019, the expected increase in Qc, stable input supply, and the significant decline in depreciation expenses will be important catalysts for strong earnings growth.

Investment Rationales

- **Stable operations expected in 2019.** The Wild Orchid gas field came into operation in early 2019, contributing to about 10% of total gas supply in the Southeast region, where the NT1 and NT2 plants of POW are located. The Vung Ang 1 plant has signed a FY2019 coal supply contract with TKV. In addition, except for medium repair of the second turbine in Vung Ang 1 plant, POW has no major or medium overhaul that could interrupt electricity production.
- **Favorable market conditions would help improve both output level and gross margin.** The market outlook for 2019 suggests high demand for thermal power. POW's plants are expected to enjoy an increase in Qc, which usually has better gross margin than CGM. In addition, 2019 CGM prices are expected to be even higher than those in 2018. Therefore, we believe that both output level and gross margin of POW will witness a significant improvement.
- **Lower depreciation expenses are the key catalyst for 2019 earnings.** As both Ca Mau1&2 plants have fully depreciated their machinery parts in 2018, the depreciation expenses of the plants will decline by VND 585 billion in 2019. In addition, the NT1 plant will also fully depreciate its machinery by August, resulting in another VND 141 billion decline in depreciation expense for POW. Therefore, we expect that the decline in depreciation expenses will become the key catalyst for POW's earnings growth in 2019.
- **Positive progress from the NT3-4 project can enhance the long-term growth outlook.** This project will start in 2Q 2020 and be completed by early 2023. Key preparation steps such as the pricing mechanism in PPA contracts and feasibility studies will be undertaken in 2019 so smooth procedure would strengthen the prospects for the company.

2019 Outlook

- Sales volume is projected to rise by about 1.7 billion kWh.
- We expect revenue to grow by 7% YoY to VND 36,344 billion and NPAT-MI to grow by 67% YoY to VND 2,896 billion, corresponding to an EPS of 1,222 VND/share.

Risks to Our Call

- Foreign exchange rate risk.
- Technical issues with power plants.

Changing growth drivers

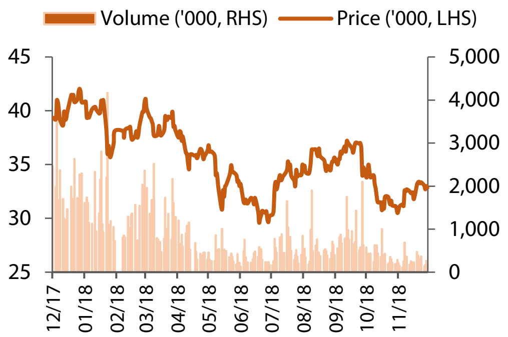
BUY	**54%**
CMP (VND)	**32,400**
Target Price (VND)	**48,400**
Cash Dividend (VND)*	1,600

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	10,045.7
Current shares (millions)	310.1
3M avg. volume (K)	543.0
3M avg. Trading value (VND bn)	18.6
Remaining foreign room (%)	0.0
State ownership (%)	5.3

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	3,659	4,995	5,244	5,832
% yoy	38	37	5	11
PAT	1,093	1,377	1,686	1,949
% yoy	28	26	22	16
ROA (%)	8	9	10	11
ROE (%)	14	15	16	16
EPS (VND)	3,519	4,441	5,384	6,224
BV (VND)	23,080	25,912	29,696	34,319
Div (VND)	1,600	1,600	1,600	1,600
P/E (x)	9.0	7.1	5.9	5.1
P/BV (x)	1.0	1.5	1.1	0.9

*Price as of 12/14/2018

Company snapshot

REE is a holding company, whose businesses include Mechanical and Engineering (M&E), office leasing, real estate development and power and water utilities. Income from associated companies, mostly contributed by power generators, accounts for nearly a half of its total earnings. 2017 NPATMI distributed to segments of REE includes: power (39%), water (7%), office leasing (20%), real estate development (9%), M&E (23%), Reetech and others (1%).

In 2018, the power and water sectors showed strong performance with estimated earnings growth of 50% YoY and became the key drivers of REE's business results. In addition, the one-off gain from the disposal of a real estate project helped the segment to a 30% YoY growth despite of lower profits in VIID, a real estate subsidiary. Therefore, we estimate that REE could witness growth of NPAT of 22% in 2018. Regarding the 2019 outlook, key earnings driver will turn to office leasing while new investments could help the power and water sectors.

Investment Rationales

- **Effective investments drive earnings growth.** As a holding company, REE retains the majority of its annual earnings to reinvest in companies in its core sectors including power and water utilities. In addition to non-organic growth through new investments, REE also add value to these companies by cooperating with other shareholders to solve the bottlenecks in their performance. Therefore, even in years when REE only has small new investments, such as 2018, the utility segment still drives earnings.

- **Office leasing could be the key driver for 2019 while utilities grow moderately.** We expect that individual companies with the largest weight in REE's portfolio have reached their peak earnings. Most of the projected growth is from new investments, which have an estimated total size of VND 1.5 trillion, including undisbursed capital from 2018. However, the key catalyst for 2019 NPAT would be the office leasing segment since the new etown Central building is expected to be running at full capacity, helping earnings from the segment grow by 39% YoY.

- **Strong corporate governance, earnings growth and stable cash dividend make the current price attractive.** REE is trading at an attractive 2019 P/E of 5.1x and P/B of 1.1x. The CAGR of adjusted-EPS was 11% in the last five years and is expected to remain at 10% in the next five years. In addition, beside large retained earnings for new investments to maintain its high growth rate, REE is consistent with a stable cash dividend policy at 1,600 VND/share, corresponding to a dividend yield of 5%.

2019 Outlook

- We project that 2019 NPAT-MI of the company will continue to grow by 16% YoY to VND 1,949 billion, mainly driven by earnings growth from office leasing (+39% YoY), M&E (+13% YoY), and utilities (+12% YoY).

- Projected 2019 EPS is 6,224 VND/share.

Risks to Our Call

- Uncertainties for the long term prospects of the real estate segment could make it a potential risk in forecasting earnings.

- Conglomerate discount remains the biggest obstacle keeping REE's stock valuation low.

PHA LAI THERMAL POWER JSC — Bloomberg: PPC VN

2019 earnings going back to 'normal'

BUY **40%**

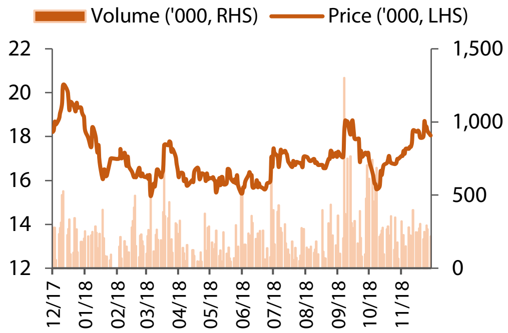
CMP (VND)	**18,200**
Target Price (VND)	**23,000**
Cash Dividend (VND)*	2,500

(*) expected in next 12 months

Stock info

Sector	Utility
Market cap (VND bn)	5,915.3
Current shares (millions)	320.6
3M avg. volume (K)	366.5
3M avg. Trading value (VND bn)	6.9
Remaining foreign room (%)	34.3
State ownership (%)	51.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	5,977	6,236	7,009	7,132
% yoy	-22	4	12	2
PAT	549	854	972	873
% yoy	-2	56	14	-10
ROA (%)	5	11	13	13
ROE (%)	10	16	16	14
EPS (VND)	2,063	2,680	2,880	2,587
BV (VND)	16,204	17,083	17,462	17,549
Div (VND)	2,510	3,207	2,500	2,500
P/E (x)	8.1	8.5	6.3	7.0
P/BV (x)	1.0	1.3	1.0	1.0

*Price as of 12/14/2018

Company snapshot

Pha Lai Thermal Power JSC. was founded in 1982 and is among the oldest and largest coal-burning power plant in Northern Vietnam. PPC has two electrical thermal factories, named PL1 with a designed capacity of 440 MW and PL2 with a capacity of 600 MW. PPC also owns a 26% stake in Hai phong electrical thermal factory, a new factory with a capacity of 1,200 MW. PPC is capable of providing an average of 6 billion kWh of electriity per year, accounting for 6% of the national electricity supply. PL1 was fully depreciated in 2014 and PL2 was in mid-2015.

The State owns 52%. PPC, represented by GENCO2. EVN has a significant influence on PPC, and PPC's annual busines plan strictly follows EVN.

Despite of lower contract volume (Qc), the Pha Lai Thermal Power plant still showed impressive operational performance in 2018 as estimated profits from electricity production grew by 41% YoY. Therefore, we expect that 2018 NPAT of the company could grow by 14% YoY from a high base in 2017. Regarding the 2019 outlook, increasing level of Qc for PPC may adversely affect operating income as it lowers the company's exposure to the competitive generation market (CGM). In 2018 PPC received selling prices above its contract prices. As a result, our forecast is that 2019 earnings will fall back to more 'normal' levels.

Investment Rationales

- **Earnings are expected to be off their peak in 2018 but still high enough to maintain the current dividend.** Even though Qc of the company in 2018 was 5% below that of 2017, favorable market conditions still helped PPC achieve an estimated average selling price (ASP) of 5% - 9% above those of 2017. Hence, higher Qc in 2019 means lower benefit from CGM and falling ASP for PPC. We expect that this situation will help PPC achieve a 9% YoY increase in sales volume, but per-kWh profit would decrease by 18% YoY, resulting in a 10% YoY decline in NPAT.
- **Potential long-term earnings growth due to its investments.** While the two productions lines that PPC owns are old, the company has major ownership in two other new power plants including HND and QTP. Currently, the two plants are still in the first years of their operation so their earnings are relatively low due to high financial and depreciation expenses. However, as financial performance of power plants usually improves when they get older, we believe that both QTP and HND will become key catalysts for PPC's earnings growth in the 2019 – 2022 period.
- **Strong cash flow helps PPC ensures a high dividend yield in the next years and make current valuations attractive.** Since PPC has paid-off most of its debt, the company's FCFE from 2017 onward is high, at about VND 830 – 1,000 billion per annum, corresponding to 2,600 – 3,200 VND/share. Because of such strong cash flow, we believe that the company can easily main an annual cash dividend at 2,500 VND/share, generating, at current stock price, a dividend yield of 14%.

2019 Outlook

- We forecast that the sale volume will increase by 9% YoY while ASP declines by 6% YoY.
- The company's NPAT would fall moderately by 10% YoY to VND 873 billion, corresponding to an EPS of 2,587 VND/share.

Risks to Our Call

- Risk of technical issues is usually high in Pha Lai 1 production line. If it occurs during the peak period, when both Qc and CGM prices are high, it would cost PPC a significant negative CfD (contract for difference) revenue.
- QTP price volatility will affect largely PPC's reported earnings.
- Problems with renegotiation on the PPA contract of Pha Lai 1 production line weakens the outlook of PPC in 2020.

OIL & GAS - WAITING FOR MAJOR PROJECTS

Vu Tran (vu.thx@vdsc.com.vn)

The oil & gas sector closes 2018 with overall positive results compared to 2017. However, there are still something to worry about since major oil & gas projects continue to be delayed. In the context of high domestic demand for oil & gas, as current projects are in the final stages of their exploitation cycle, Vietnam needs to accelerate the pace of updating them. In these circumstances, upstream companies are expected to benefit the most.

Investment Outlook

OPEC and its allies approved to cut oil production. The significant fall in crude oil prices is due to lower forecasts for demand globally and higher shale oil production from the US. OPEC and its allies decided to cut production. Rong Viet Securities expects that Brent Crude will stay above USD60 per barrel, the minimum level for oil & gas projects to take off.

PVN's reconstruction. After experiencing "scandals", PVN is stabilizing its management team to continue the key tasks of the divestment plan and accelerate the progress of oil & gas projects in coming years.

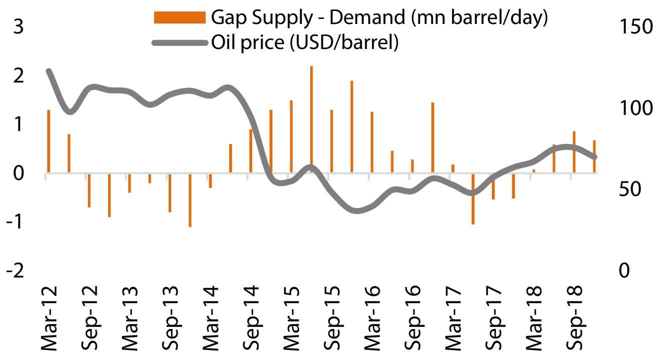
The divestment of PVN may motivate oil & gas share prices. From 2019, PVN will continue its divestment plan with some big names in the sector, which may support their share prices in the near future.

Benefit from major projects. As the current oil & gas projects are at the end of their life cycle, new ones are essential to make sure that there are inputs for the power and fertilizer industry in Vietnam. Therefore, the oil & gas industry will benefit from the huge workload from Block B, Nam Con Son 2 Phase 2 or White Lion Phase 2. Rong Viet Securities thinks that the upstream companies will benefit the most.

Risks

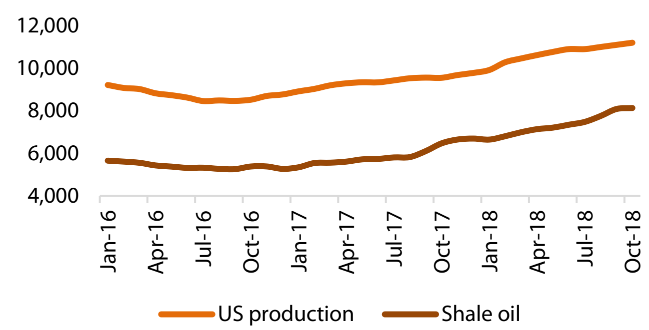
- **Decreasing oil price:** Oil price below USD60 per barrel will affect the progress of oil & gas projects.
- **Difficult financing**. Some oil & gas projects are facing difficulties to get financing.

Figure 93: Gap in supply - demand (LHS) and Brent crude oil price (RHS)



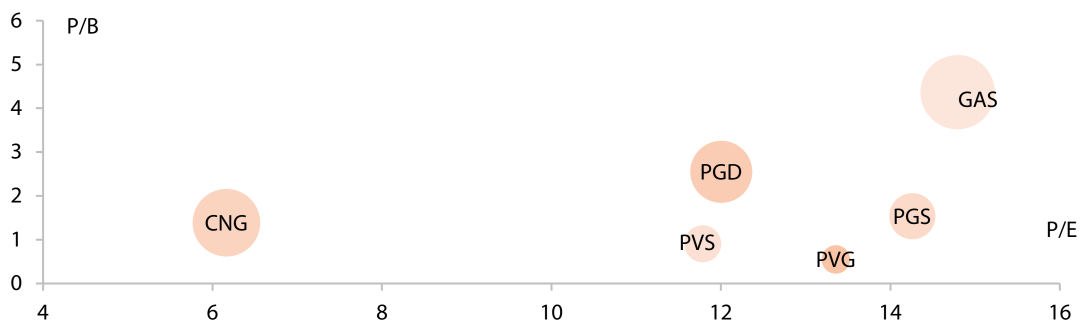
Source: IEA, Rong Viet Securities

Figure 94: US shale oil and US total oil production (thousand barrels/day)



Source: Bloomberg

Figure 95 : ROE, PE, PB of companies in the Oil & Gas Industry



*Source: Fiinpro, RongViet Securities, *Size of the bubble: ROE*

PETROVIETNAM TECHNICAL SERVICE CORP — Bloomberg: PVS VN

Catalysts from key Oil & Gas projects

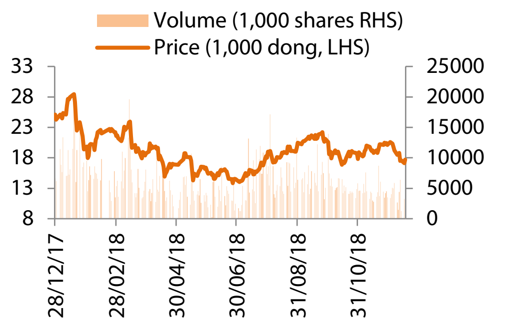
BUY	21%
CMP (VND)	**20,300**
Target Price (VND)	**23,800**
Cash Dividend (VND)*	500

(*) expected in next 12 months

Stock info

Sector	Oil & Gas
Market cap (VND bn)	9,702
Current shares (millions)	478
3M avg. volume (K)	5,238
3M avg. Trading value (VND bn)	109
Remaining foreign room (%)	29.2
State ownership (%)	51.4

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	18,682	16,729	16,300	16,775
% yoy	-20.0	-10.5	-3.0	2.9
PAT	1,039	801	854	931
% yoy	-31.5	-22.9	6.7	9.0
ROA (%)	4.0	3.5	3.7	4.0
ROE (%)	8.8	7.5	7.6	7.8
EPS (VND)	2,159	1,729	1,776	1,936
BV (VND)	23,107	24,008	23,596	24,867
Div (VND)	1,000	700	700	700
P/E (x)	7.6	13.6	16.0	13.8
P/BV (x)	0.7	1.0	3.0	2.6

*Price as of 12/14/2018

Company snapshot

PetroVietnam Technical Services Corporation (PTSC) is a member of the Vietnam Oil and Gas Group. PTSC's main operations is to supply technical services to the oil & gas, industries such as: EPCI for offshore projects, EPC for industrial facilities, FSO/FPSO services, offshore support vessels, seismic survey services, Geochemical Metocean and Oceanographic survey services, ROV Services and Subsea works, installation, operation and maintenance of offshore facilities and port services.

In the long-term oil prices are expected to continue to rise, creating favorable conditions for key oil & gas projects. Therefore, the company's business is anticipated to benefit from that trend thanks to its leading position in the upstream sector. In 2018, PVS agreed to get rid of ROV, an ineffective segment. The company expects that this will help it "jump" up higher in the next coming years.

Investment Rationales

- **Dissolving the ROV segment to improve the overall business.** The ROV segment has been facing difficulties in recent years with losses of VND100 bn to VND200 bn. As a result, the dissolution of the JV (operating the ROV segment) can help profits increase by that amount.
- **Stable profit generated by FSO Sao Vang Dai Nguyet from 2021.** PVS has been awarded a contract to supply FSO for the Sao Vang Dai Nguyet Project from 2021 on. Thanks to a long-term contract, this FSO is expected to generate a stable profit when operating. The total value of this contract is around USD176 mn, lasting for seven years.
- **Likely to get more contracts in the next years.** The existing oil/gas fields are at the end of their life cycle, leading to a decrease in the supply for fertilizer and electricity producers. As a result, the implementation of new projects is very essential. On the back of pushing the progress of key oil & gas projects, we expect that the company can get more contracts from Block B, White Lion Phase 2 due to the fact that it is a leader in the upstream segment.

2019 Outlook

- M&C segment is expected to book VND5,400 bn from Sao Vang Dai Nguyet and VND2,800 bn from Gallaf. Other segments will be stable. We forecast that total revenue will increase by 2,9% (compared to the 2018 forecasted number) to VND16,775 bn. Besides, the dissolution of the JV (operating the ROV segment) can help profits increase by 9% to VND931 bn.

Risks to Our Call

- Key oil & gas projects are delayed.
- More provision from slow growing projects.

Operation of Nghi Son adding more jobs from 2019 on

BUY 33%

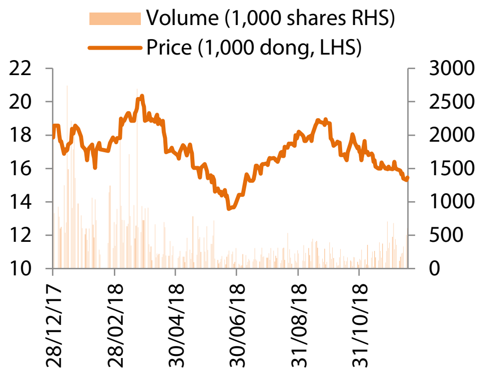
CMP (VND)	**16,400**
Target Price (VND)	**21,200**
Cash Dividend (VND)*	700

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	4,615
Current shares (millions)	281
3M avg. volume (K)	232
3M avg. Trading value (VND bn)	4.0
Remaining foreign room (%)	15.4
State ownership (%)	51.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	6,734	6,129	7,700	8,535
% yoy	16.9	-9.0	25.6	10.8
PAT	416	423	709	608
% yoy	12.9	0.7	67.6	-14.2
ROA (%)	4.4	4.4	5.4	5.7
ROE (%)	9.6	11.6	13.3	13.9
EPS (VND)	1,321	1,436	2,369	2,031
BV (VND)	12,696	13,051	14,810	15,501
Div (VND)	1,000	1,000	700	700
P/E (x)	8.7	12.7	6.9	8.1
P/BV (x)	0.9	1.4	1.1	1.1

*Price as of 12/14/2018

Company snapshot

PetroVietnam Transportation Corporation (PVTrans) is a member of the Vietnam Oil and Gas Group. PVTrans' main operations are to supply services to crude oil and product tankers as well as LPG tankers. Currently, PVTrans is the leader with a 100% market share. Besides, PVTrans is also delivering FSO services and O&M for oil&gas projects

From 2019, PVTrans will expand its activity to coal shipping for PVN's thermal power plants.

The operation of Nghi Son will add more jobs for PVT as the company will be in charge of transporting the crude oil input as well as the gasoline products output. Besides, the leasing rate's adjustment of the FSO Dai Hung Queen from 2018 will push up the net profit of PVT in the future. However, the aggressive plan to expand its fleets with a total investment up to USD 250 mn will limit PVT's cash flow, leading to a possibility of no cash dividend in the coming years.

Investment Rationales

- **The crude oil tanker segment will benefit from investing in a VLCC.** Beside the stable workload from Binh Son, the crude oil tanker segment will benefit from investing in a VLCC, which will carry 25% of total crude oil input for Nghi Son ~ 2.5 mn tons/year from 2019.
- **Nghi Son will improve the oil product tanker segment.** Half of the oil product tanker fleet is now operating international routes, for which the volatility of charter rates is higher and workload is lower than that of the domestic routes. As Nghi Son commercially runs in late 2018, the domestic demand for transporting gasoline will increase and PVT can move its fleet to domestic market in order to improve the operation of the oil product tanker segment.
- **LPG tanker continues to grow.** LPG demand from the domestic market is expected to grow 8% per year, leading to steady jobs for LPG vessels, especially since the imported volume can be replaced by the supply from Nghi Son and GPP Ca Mau. Moreover, LPG shipping in Asia is forecasted to be favorable thanks to improvement in demand.
- **PVT has an advantage when PVN's thermal power plants come online.** As a member of PVN, PVT is expected to get more contracts for carrying coal for PVN's thermal power plants like Song Hau, Long Phu.
- **Divestment from 51% to 36%.** As planned, PVN will decrease its ownership in PVT from 51% to 36% during 2018-2025. This could be a support for the stock price.

2019 Outlook

- The operation of Nghi Son will add more jobs for PVT from 2019 on. Based on the assumption of carrying 2.2 mn tons crude oil input and 1.6 mn tons oil products, the revenue for PVT in 2019 is projected at VND8,535 bn, up 10.8% YoY. Net profit attributable to the parent company could be around VND608 bn, down 14.2% due to no extraodinary profit.

Risks to Our Call

- Unstable operation from Nghi Son.
- PVN's thermal power plants are delayed.
- Volatility in exchange rates could lead to losses.

INSURANCE - THRIVING ECONOMY GIVES PLENTY OF ROOM FOR GROWTH

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After a downturn in 2013-2014, the Vietnam insurance industry has grown by 14% per year since 2015, twice the growth of the economy (figure 1). The OECD forecasts that Vietnam's GDP can maintain an average growth rate of 6.0-6.2% per year for at least the next five years. That combined with a low insurance penetration rate (total premiums to GDP, figure 2) and a young population with fast-growing income allow for great potential for the industry.

Investment Outlook

Expanding middle class is the driving force for personal insurance. Over 50% of Vietnam's population will join the global middle class by 2035, compared to 11% in 2015 (figure 98). Demand for saving, investment and car ownership will boost the demand for personal insurance, including life, healthcare and automobile.

Growth of other non-life insurance segments will benefit from the US-China trade war and the government's policies. While healthcare and automobile insurance will continue to grow strongly following the expansion of the middle class, other segments (property, cargo and fire and explosion) have shown a slow recovery after the 2013-2014 economic downturn. However, the trade war should bring opportunities for property and cargo insurance as it is forecasted that companies could shift some part of their purchases and production from China to Vietnam. New/amended regulations on different types of insurance will create a legal corridor for new products (table 12) to enhance product diversification as well as stimulate demand for some that currently face weak demand.

Rising interest rates. The period of declining interest rate seems to have come to an end. Bank deposit rates and government bond coupon rates have been increasing (figure 99). Provisions liability of life insurers will be lower. Meanwhile, we expect that investment yields of non-life insurers, whose portfolios mostly are in bank deposits, will rise.

Bancassurance is becoming an important distribution channel. Sales via bancassurance have increased from 5% in 2012 to approximately 10% in 2017. Because banks and consumer credit companies often require borrowers to buy insurance as a condition for the credit to be granted, this channel has substantial growth potential. Insurers can have access to a large distribution network and customer databases of banks for market research, product development and risk management. In many countries bancassurance has contributed substantially to total sales of insurance companies: 72% in Spain, 70% in Italy, 60% in France. Bancassurance has plenty of room to grow in the coming years.

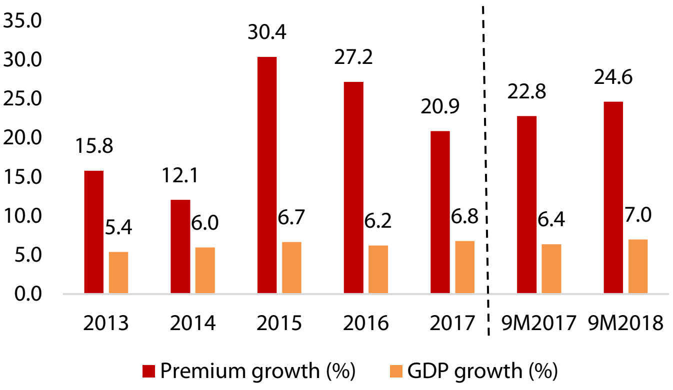
Smoother insurance business conditions and the divestment plan of the government should attract more foreign investors. The Ministry of Finance is considering a new decree amending Decree 73/2016/ND-BTC. That would make business conditions easier for insurers. The new decree is expected to encourage the participation of foreign insurers in the Vietnam insurance sector. In addition, the government divestment plan from insurance is expected to accelerate in 2019. This should be a catalyst for the ongoing wave of cooperation between domestic insurers and foreign partners in enhancing underwriting expertise and management.

Risks

Natural disasters more serious than forecasts. Natural disasters are the most important risks for insurers because of the large scale of losses it can cause. More severe and unpredictable damages can make compensation higher than forecasts.

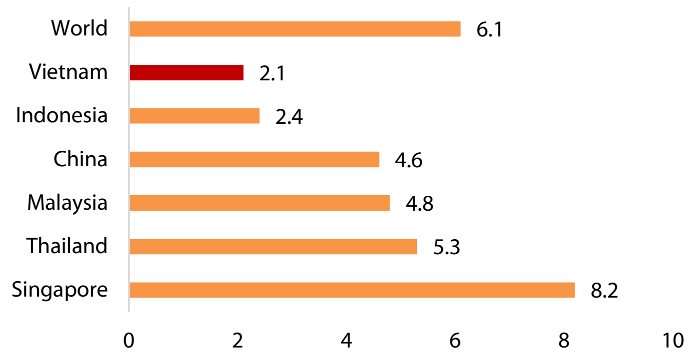
Rising competition from the government mandatory health insurance program. According to Decree 146/2018/ND-CP, new policies that are favorable for participants of the program have taken effect as of December 1, 2018. This may undermine the demand for private health insurance.

Figure 96: Insurance revenues growth vs GDP growth



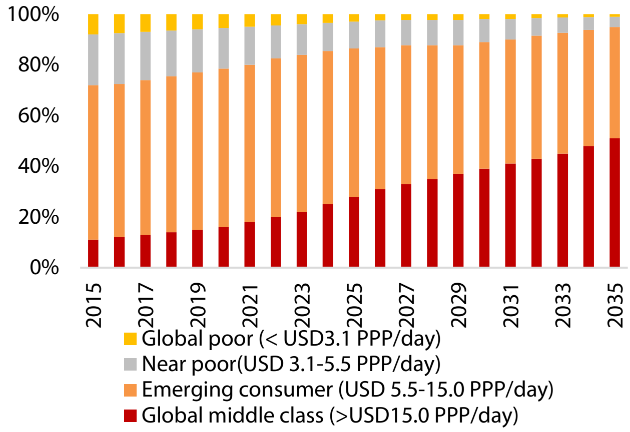
Source: IAV, GSO

Figure 97: Insurance penetration rate in 2017 (%)



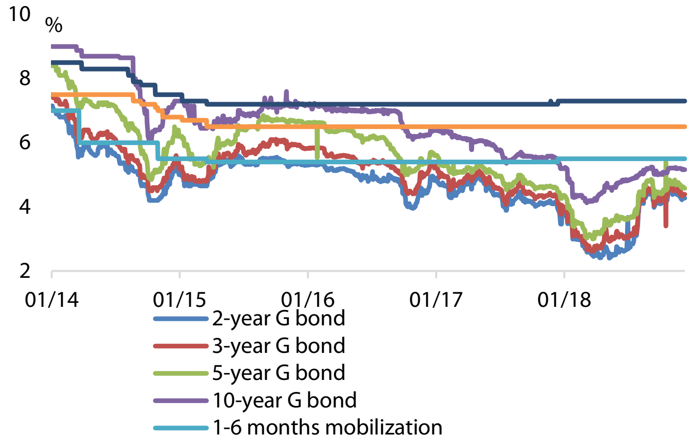
Source: Swiss Re Institute

Figure 98: Middle class proportion in the country's population



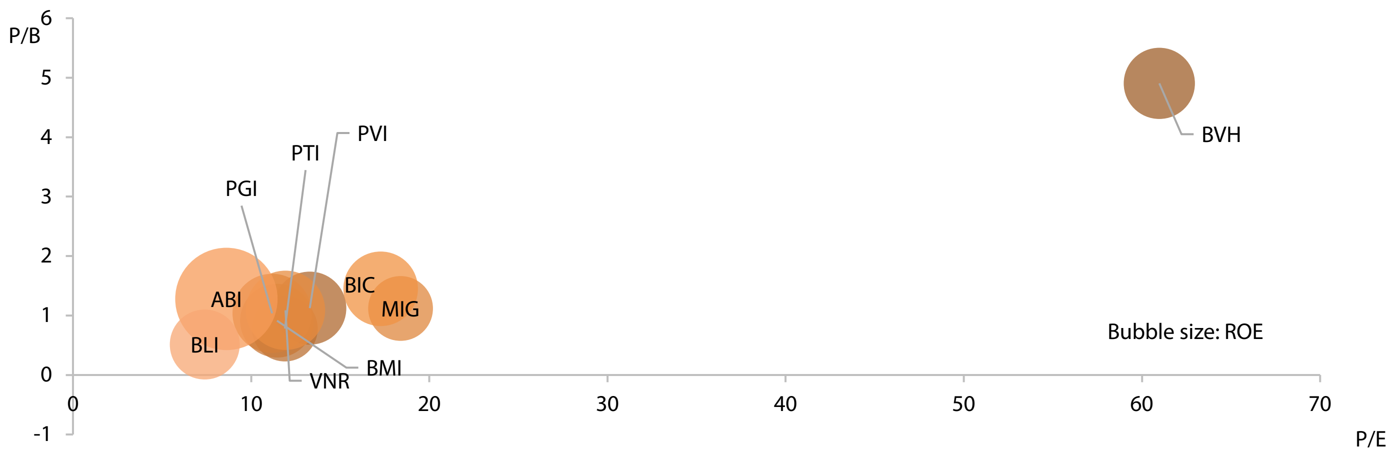
Source: GSO, World Bank

Figure 99: Interest rates and G-bond coupon rates



Source: Fiinpro

Figure 100: P/E, P/B and ROE of Vietnamese insurers



Source: Bloomberg

Table 12: New regulations to support insurance revenues

Document	Date of application	Type	Amendment to	Product
Decree 23/2018/ND-CP	4/15/2018	New		Obligatory fire and explosion insurance
Circular 25/2018/TT-BTC	5/1/2018	Amendment	A part of Circular 78/2014/TT-BTC	Pension insurance
Decree 58/2018/ND-CP	6/5/2018	New		Agriculture insurance
Decree 17/2018/ND-CP	3/25/2018	Amendment	A part of Decree 67/2014/ND-CP	Fishing boat insurance
Decree (in-prepare)		New		Obligatory insurance on civil liability of vehicle's owner to third party
Decree (in-prepare)		New		Micro insurance for low-income people

Source: Rong Viet Securities

PETROLIMEX INSURANCE CORPORATION — Bloomberg: PGI VN

Bright prospects due to a good credit rating

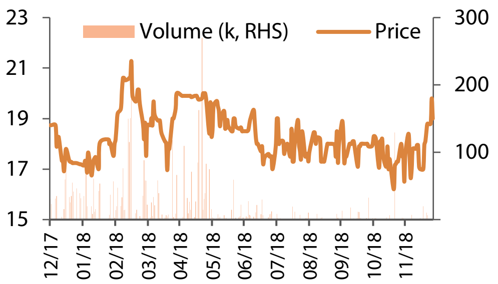
ACCUMULATE	19%
CMP (VND)	**17,950**
Target Price (VND)	**20,100**
Cash Dividend (VND)*	1,200

(*) expected in next 12 months

Stock info

Sector	Financials
Market cap (VND bn)	1,592.5
Current shares O/S (millions)	88.7
3M Avg. Volume (K)	3.7
3M Avg. Trading Value (VND bn)	0.1
Remaining foreign room (%)	28.3
State ownership (%)	44.6

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	2,066	2,335	2,411	2,563
% yoy	9.0	13.0	3.3	6.3
PAT	**102**	**127**	**141**	**174**
% yoy	9.5	24.9	11.0	23.4
ROA (%)	2.6	2.7	2.8	3.2
ROE (%)	11.9	10.7	9.5	11.4
EPS (VND)	1,236	1,218	1,347	1,674
BV (VND)	12,882	16,546	16,926	17,662
Div (VND)	1,100	1,200	1,200	1,200
P/E (x)	16.5	17.5	12.4	9.9
P/BV (x)	1.6	1.2	1.2	1.2

*Price as of 12/14/2018

Company snapshot

Founded in 1995 and listed on HSX in 2011, Petrolimex Insurance Corp. is among the top five largest non-life insurance companies in Vietnam with a market share of 6%.

Providing a wide range of products like all other non-life insurers, the four major segments include health and accident insurance, motor vehicle insurance, cargo transportation insurance and property and damage insurance.

Despite the fact that the Vietnam's non-life insurance sector has kept growing at 14%/year in the last three years, PGI's average growth rate in the same period was only 7%/year as the company strictly maintained its prudent strategy which focuses on profitability. This explains why PGI's market share has continuously declined while its profits expanded strongly. That coupled with its well-managed investment portfolio makes the company an interesting investment in the insurance sector.

Investment Outlook

- **The insurance industry benefits from a thriving economy.** The OECD forecasts that Vietnam's GDP will grow by 6-6.2% per year for the next five years. The proportion of the middle class is forecasted to reach 23% of the country's population from 11% in 2012. Therefore, the demand for many types of insurance products (health, property and vehicle) will increase significantly and support the revenue growth of insurers. In fact, the growth of the non-life insurance sector has been twice that of GDP growth in the past three years.
- **Product restructuring focuses on effective products.** Health and accident insurance are expected to become more an important driver for the company while motor vehicle insurance will be gradually reduced and maintained at 35% of direct written premiums. Customers who send claims too frequently will be taken off the list of clients.
- **Samsung Fire and Marine Insurance (SFMI), a strategic partner,** supports staff training, marketing, digitalization and introducing PGI to Samsung subsidiaries and the Korean community working in Vietnam. SFMI is ranked 1st in South Korea and 23rd in the world. The Samsung Group has invested USD 17.3 bn in Vietnam. There are about 60,000 Koreans living in Vietnam. This will help PGI to increase revenues and reduce costs and compensation.
- **Rising interest rate.** Earnings from investment could be higher as interest rates are forecasted to rise in the coming years. More than 96% of PGI's portfolio are bank deposits.
- **Good credit rating.** In Sep 2018, PGI was rated B+ (Good) for financial strength and bbb- (Good) as a long-term issuer by A.M. Best[2]. Because of this, the PGI brand is well recognized, improving its competitive advantage. PGI can provide insurance to foreign customers, who have better awareness of risk prevention than domestic customers.

2019 Outlook

- Direct written premiums will grow by 7.8%.
- Loss ratio stays at 53.6%, the same level as in 2018. Premiums will rise but so will claims. The main reason is that the maintenance cost of motor vehicle insurance will continue to increase because of the rise in spare part prices. The expense ratio will be reduced slightly to 46.4% from an estimated 46.6% for 2018. The combined ratio comes at 99.9%.
- PAT reaches VND 214 bn, giving an EPS of VND 1,966.

Risk to Our Call

- Natural disasters more severe than expected could make compensation higher than expected.

[2] A.M. Best is the only global credit rating agency focusing on the insurance industry.

BANKING - PERFORMANCE TO DIVERGE

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Inheriting positive momentum since 2017, the banking industry continued to achieve very high earnings growth in 2018. Meanwhile, there are signals of new bad debt increasing as banks boosted lending to the retail and consumer segments. By Sep 2018, listed banks' NPL ratio increased to 1.8%, resulting in high provision expenses despite the fact that VAMC special bonds have been cleared in some banks. While the total NPL outstanding balance of listed banks increased 18.3% YTD in 9M 2018, their total provision expenses (including on-balance sheet NPL and special bonds) grew 14.7% YoY, raising provision reserve for losses on customer loans by 40.6%. The loan loss reserve (LLR) ratio increased to 89.3% by Sep 2018 from 85.9% at the end of 2017, implying an improvement in banks' asset quality.

In 2019, we believe that the ability to maintain/expand NIM and the movement in provision expenses will diverge among banks. Meanwhile, due to the fact that banks are still on the way to upgrade their core banking systems as well as invest on digital banking, it is less likely that they can save on operating expenses in the next few years. These factors, along with the ability to control provision expenses, will be the key determinants for earnings growth.

Investment Outlook

Though the NPL ratios have gradually been increasing, provision buffers have improved. After Resolution 42/2017/QH14 went in effect in Sep 2017, VAMC's bad debt collection showed positive progress. Particularly, the total amount that VAMC handled from Sep. 2017 to Sep. 2018 was VND 95 Tn, 1.4 times higher than the handled amount accumulated from 2013 to Aug 2017. However, we are concerned that most of the collected amount came from loans secured by real estate while the collection from other types of collateral showed a low ratio of success. Moreover, given their high income in 2017 – 2018, some banks like ACB, MBB, TCB, and CTG bought back special bonds.

From a balance sheet perspective, asset quality is moving in different directions. Due to the fast growth of retail and consumer lending recently, the NPL of some banks has gradually increased. We believe that the trend will continue in 2019, resulting in higher provision expenses for some of them. The positive point is that banks' LLR continued to improve for ACB, CTG, and VCB, just to name a few.

Net interest income continues to grow but at a slower pace. On the asset side, considering that the SBV is to closely control credit growth, we believe volume growth in 2019 will be equal or a bit lower than in 2018. The asset reallocation optimization (increasing retail lending) has contributed to recent NIM expansions. However, this is likely to be partly offset by increasing competition in retail lending given that too many banks are aiming to expand into this segment. On the funding side, we continue to see the pressure on costs, as banks are pushing for longer-term deposits and bond issuances in response to the tougher regulatory environment for capital and funding. Among individual banks, we hold the view that certain banks still have an opportunity to increase NIM, such as MBB, with funding cost advantages, VPB with the significant contribution of non-secured loans or ACB and VCB given their healthy assets quality and abundant liquidity.

Decreasing volume growth and limited room to grow NIM has slowed down net interest income growth since 3Q2018. We hold the view that this will continue in 2019, keeping net interest income growth at a lower, more stable rate. We also expect that under tougher regulations, banks with large market share in the long-term corporate bond market (such as TCB) will have an advantage.

More contribution from service income to total operating income (TOI). Banks' service income has been expanding, mainly due to the high growth of transaction and guarantee fees, as well as more contribution from value-added products such as cross-sale services, insurance, and brokerage activities. HDB recorded the highest service income growth in 9M2018 with a boost from insurance brokerage activities. It was followed by CTG and MBB who have finished upgrading their core banking recently. VCB will launch its new core banking system in 2019. Meanwhile, BID will face pressure to upgrade their system. However, BID (provided that the bank divests from BIDV MetLife) and VCB are the remaining banks who have the potential to gain from high one-off fees from exclusive bancassurance partnerships.

Excluding one-off income, we expect that total services income of banks under our coverage will grow 26.4% in 2019 and will account for 9.7% of TOI (from an estimated 8.6% in 2018).

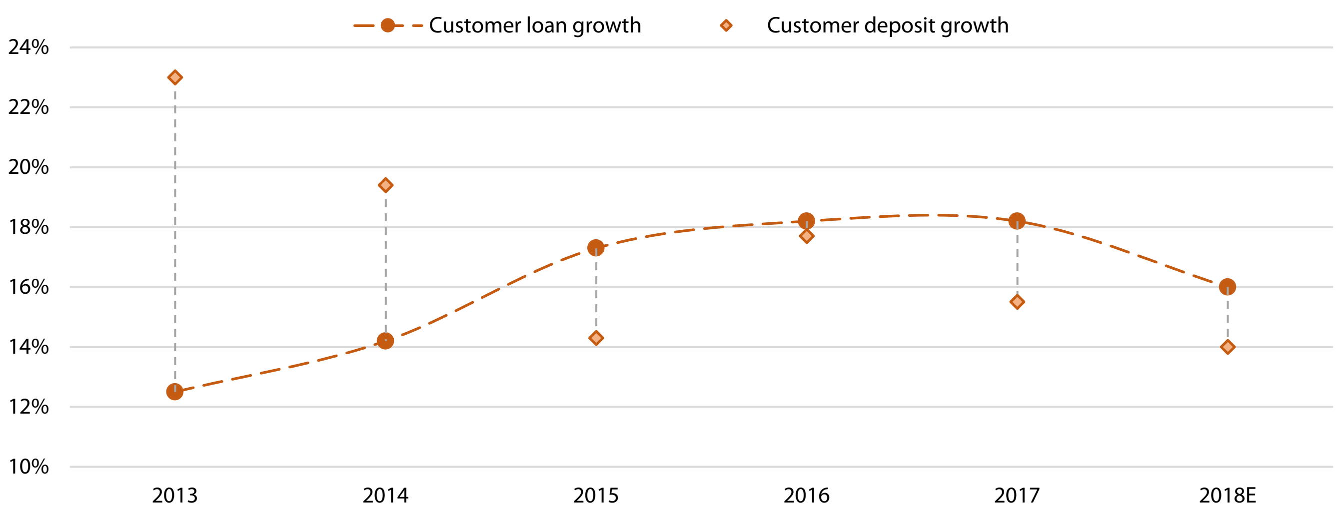
Pressure to raise Tier 1 and Tier 2 capital. The SBV will take one more step on its examination of banks' capital buffer and liquidity. Short-term capital to finance mid- and long-term loans will be reduced to 40% (2018: 45%) and Basel II capital adequacy requirement will be applied from 2020. Though we believe that banks can easily meet the first one, they will experience a busy year of capital mobilization in 2019 to meet the second one. Regardless of stock or bond issuances, the implementation will not be easy for them. In the first two months of 4Q 2018, we saw some banks issue long-term bond to increase Tier 2 capital but not with a high successful ratio (merely 50% - 60%). In terms of Tier 1 capital raising, VCB and BID are at the final step of issuance. We expect that they can do it in 2019, which will have a big positive impact on these banks' growth outlook.

VCB, VIB, and OCB have received approval from SBV to apply capital adequacy ratio following Basel II standards from 2019. VPB has submitted registration documents and is awaiting official approval. Other banks in the Basel II pilot program also expect to submit registration documents in 2019.

Risks

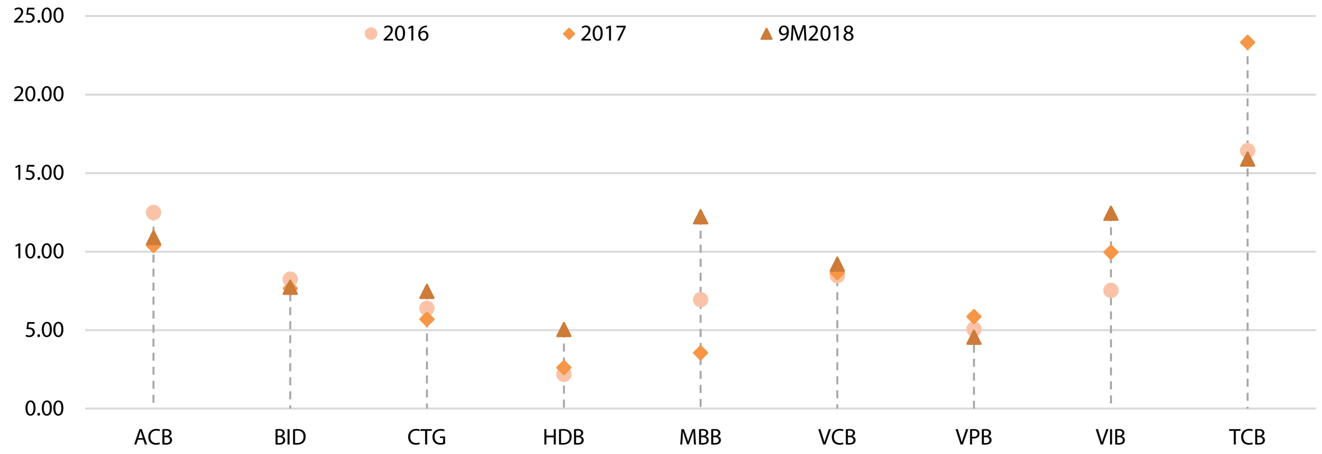
- Lower credit growth quotas and tighter controls on consumer finance practices, including a pricing cap, would slow banks' credit expansion more than expected.
- Failure to recapitalize (BID, CTG, VCB) would affect their prospects and earnings outlook.

Figure 101: Customer loan and deposit growth of the banking sector 2013-2018E



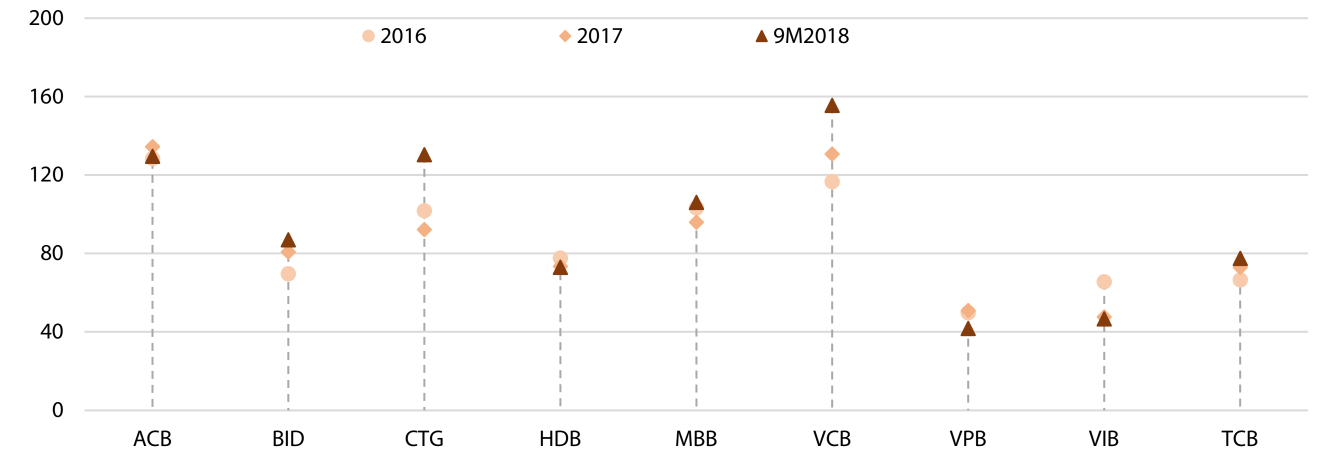
Source: Banks' FS, Rong Viet Securities

Figure 102: Service income's contribution on TOI of some banks



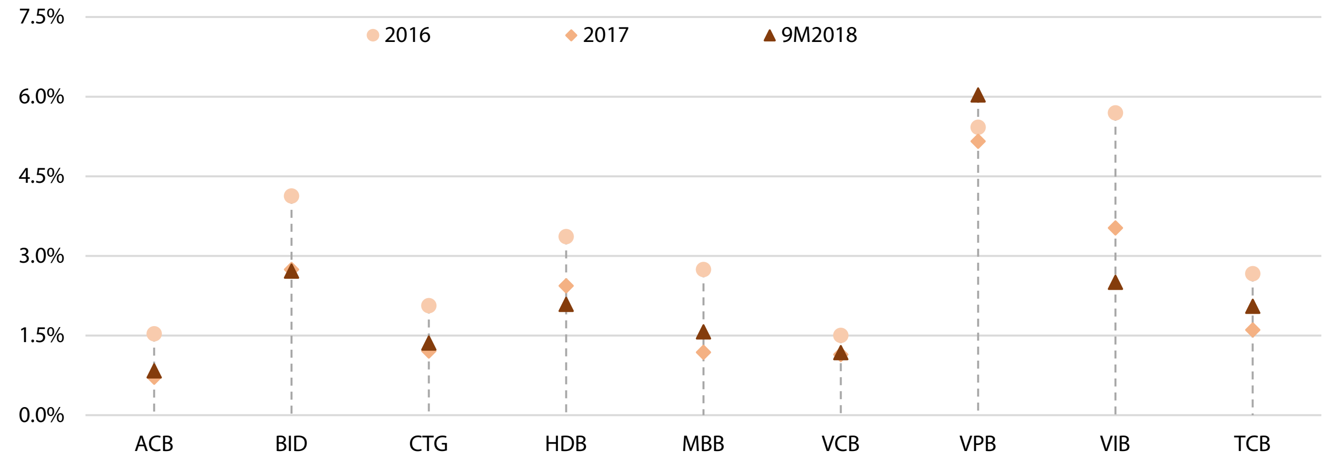
Source: Banks' FS, Rong Viet Securities

Figure 103: Loan loss reserve ratio of some listed banks



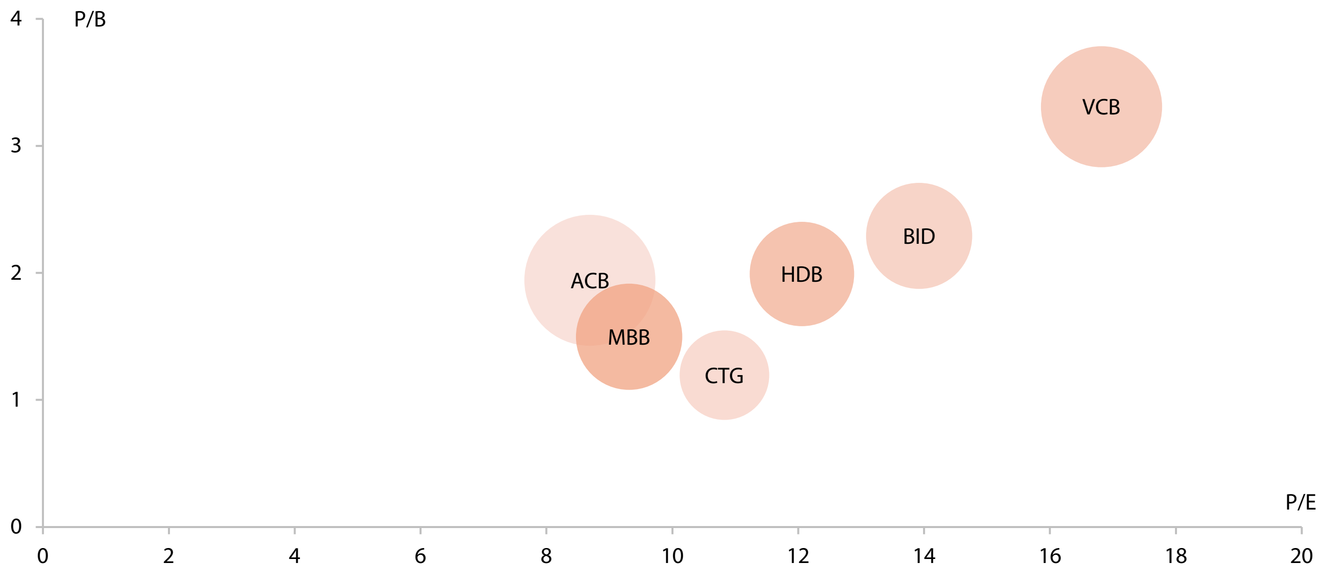
Source: Banks' FS, Rong Viet Securities

Figure 104: Bad debts ratio (NPL plus VAMC) of some listed banks



Source: Banks' FS, Rong Viet Securities

Figure 105: ROE, PE, PB of some listed banks



Source: FiinPro, Rong Viet Securities

JSC BANK FOR FOREIGN TRADE OF VIETNAM   Bloomberg: VCB VN

Growth to slow down

NEUTRAL **4%**

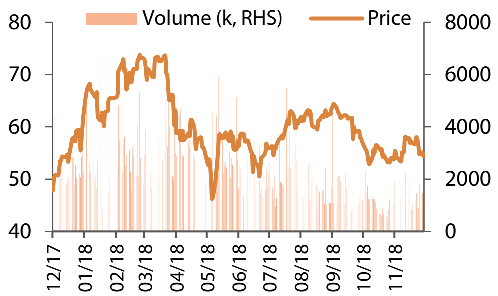
CMP (VND)	**56,500**
Target Price (VND)	**58,000**
Cash Dividend (VND)*	800

(*) expected in next 12 months

Stock info

Sector	Banks
Market Cap (VND bn)	203,273.9
Current Shares O/S (mn)	3,597.8
3M Avg. Volume (K)	1,448.9
3M Avg. Trading Value (VND bn)	85.1
Remaining Foreign Room (%)	9.2
State ownership (%)	77.1

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	24,886	29,406	36,235	39,824
% yoy	17.4	18.2	23.2	9.9
PAT	6,876	9,091	12,408	14,085
% yoy	29.4	32.2	36.5	13.5
ROA (%)	0.9	1.0	1.2	1.3
ROE (%)	14.8	18.1	21.7	20.8
EPS (VND)	1,517	2,103	2,871	3,259
BV (VND)	13,382	14,608	17,232	20,347
Div (VND)	800	800	800	800
P/E (x)	23.4	25.8	19.7	17.3
P/BV (x)	2.6	3.7	3.3	2.8

*Price as of 12/14/2018

Company snapshot

VCB is the 4st largest state sank in term of total assets, credit and mobilization market share and network system. VCB has a vast market share of international clearing and credit. VCB is now operating as a financial institution whose core business is commercial bank and affiliated companies.

The State owns 77.1% and strategic investor (Mizuho) owns 15%.

VCB is an interesting stock in Vietnam's banking industry because of its high transparency as well as strong asset quality. VCB is ranked 4th in terms of total assets, and 3rd in terms of capital. It has a smaller credit and deposit market share than BID and CTG. Because of its high-quality assets and low capital usage ratio, VCB has more room to improve its earnings growth and profitability. By trying to restructure its risky assets, VCB has become the first bank which could qualify for Basel II.

Investment Rationales

- ***The leader in Vietnam***. Being a State-owned commercial bank, VCB has always well-managed its assets and earnings quality. As a result, the bank's financial situation is strong: (1) Low NPL ratio with high loan loss reserves, 1.2% and 156%; (2) High liquidity, LDR and short-term capital financing mid- and long-term loans are under control; (3) The first bank which can qualify for Basel II.
- ***Room for NIM to expand***. Given its high lending market share, the SBV's controlling measures for credit growth will not result in a significant impact on the bank's lending activities. Meanwhile, the limited lending quota will allow VCB to restructure its loan book towards higher interest rate lending, in the retail segment for example. We expect that the bank's NIM could increase by 15bps per annum in 2018 – 19.
- ***Potential growth in services income***. Services activities have been expanding with more cross selling of products. This will contribute more to the bank's bottom line. Moreover, we expect that the launching of new core banking operations in 2019 will help VCB offer better services to its clients in the retail banking segment.

2019 Outlook

- Customer loans and deposits will grow at 15.0% and 14.5% respectively. NIM will slightly increase to 2.8%. Therefore, net interest income will grow by 12% YoY and account for approximately 75% of total operating income.
- Net service income will grow 30% with higher contribution from bancassurance, transaction fees and fees from other services activities. The contribution to TOI will be nearly 11%, from the current rate of 9%. Moreover, we expect income from forex trading and bad debt collection will stay the same as in 2018. Consequently, VCB's TOI will grow around 10% YoY with no change in operating and provision expenses.
- NPAT will grow by 13.5% YoY, delivering an EPS of VND 3,259.

Risks to Our Call

- The downside risk is that VCB can fail to fully increase its charter capital by 10% via a private placement. This would weigh heavily on the bank's potential growth.
- Upside risks is quite low and could only be in the case where VCB enters into an exclusive partnership with a life insurance company, bringing the bank a huge amount of up-front fees.

ACB JSC. BANK — Bloomberg: ACB VN

Not a jack of all trades

ACCUMULATE 18%

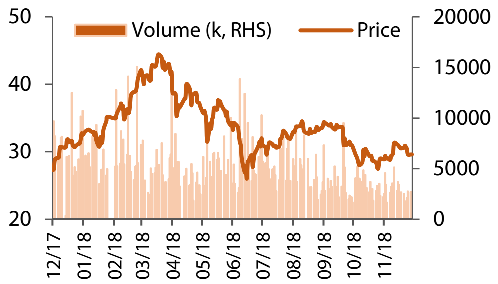
CMP (VND)	**30,400**
Target Price (VND)	**35,800**
Cash Dividend (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Banks
Market Cap (VND bn)	37,913.8
Current Shares O/S (mn)	1,247.2
3M Avg. Volume (K)	3,239.6
3M Avg. Trading Value (VND bn)	100.6
Remaining Foreign Room (%)	0.0
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	7,563	11,439	13,495	15,254
% yoy	21.6	51.3	18.0	13.0
PAT	1,325	2,118	4,972	5,773
% yoy	28.9	59.8	134.7	16.1
ROA (%)	0.6	0.8	1.6	1.6
ROE (%)	9.9	14.1	27.5	25.2
EPS (VND)	1,022	1,658	3,893	4,519
BV (VND)	11,276	12,854	16,460	20,386
Div (VND)	0	0	0	500
P/E (x)	17.2	22.3	7.8	6.7
P/BV (x)	1.6	2.9	1.8	1.5

*Price as of 12/14/2018

Company snapshot

Asia Commercial Joint Stock Bank was established in April 1993 as a small private bank focusing on retail activities. It is a pioneer in implementing modern banking service activities such as issuing various kind of credit cards since the 90's.

ACB is the 3rd largest commercial bank in terms of total assets and is also considered one of the leading retail bank. ACB carried out an IPO in 2006, and was the first bank to be listed on the HNX.

Mr. Tran Huy Hung (chairman and relatives) owns 6% while foreign ownership is 30%.

Favorable conditions in the banking system in recent years helped ACB resolve some old legacy issues but also provided resources to reinforce and invest in retail banking. Although ACB's credit growth will be slower in 2018 than in 2016 – 2017, the bank could record a 135% YoY growth in net earnings due to a higher contribution from services income, high provisions reversal (from legacy issues), and lower provision expenses. Net earnings growth in 2019 will be significant lower given the high base in 2018. Despite of that, we believe that ACB has strong quality assets. The bank's mindset is to stay focus on retail.

Investment Rationales

- **ACB maintains its assets quality and liquidity reserves**. By the end of 3Q 2018, ACB's Tier 1 CAR and consolidated CAR were 9.3% and 11.6% respectively. The bank is well-prepared to apply for Basel II in 2019. Short-term funds to finance mid- and long-term loans were higher than 16%. In 9M 2018, ACB's customer loan grew 11.3%, of which individual loans grew 13% and accounted for 56% of the total loan book. Despite high growth in retail loans, the bad debt ratio was still at 0.84% by Sep 2018. The loan loss reserve ratio (LLR) was 130%, the highest among commercial banks.
- **Stay focus on retail banking.** After taking care of its old legacy issues, ACB has put its resources into the retail segment. The investment includes three pillars: (1) technology, branding, and human resources, (2) digitalization, and (3) focus on big data. We think these investments will keep ACB competitive in the retail segment where the competition has been being fierce in recently years. ACB expects that it can improve its productivity as well as capture more clients in the affluent and housing segments. However, it's a long term project, which takes time to implement and deliver results.
- **Services income to expand further.** In 2018, ACB boosted its service offering in many activities such as transaction, payment, insurance agency, guarantee, securities brokerage and others. Therefore, services income is expected to grow 30% YoY in 2018 – 19.
- **The bank could pay a part of its dividend in cash from 2019 on**. High earnings growth in 2017 – 18 allowed ACB to pay a high stock dividend in 2018 (30% on par). For 2019, we expect that the bank could pay part of its dividend in cash. The total amount, including stock and cash dividend, would equal to 20% of its charter capital.

2019 Outlook

- Customer loans and deposits will grow at 15% and 14% respectively. Moreover, ACB will issue bonds worth around VND 2.8 Tn. NIM will be stable at 3.5%.
- Net interest income will continue to be a key source of income and will contribute approximately 79% in TOI and will grow 16.5% YoY. We expect that ACB can maintain a growth of 30% YoY in services income, with the higher contribution from bancassuarance and transaction fees. In addition, provision reversal from legacy issues will continue to be as high as it was in 2018.
- NPAT will grow 16% YoY, delivering an EPS of VND 4,519.

Risks to Our Call

- If ACB sells its treasury stocks by the matching order method, the oversupply will have a temporary negative impact on the stock price.

High provision charges likely to undermine earnings

ACCUMULATE 9%

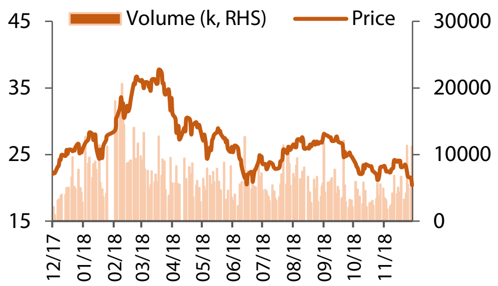
CMP (VND)	**22,350**
Target Price (VND)	**24,300**
Cash Dividend (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Banks
Market Cap (VND bn)	83,218.1
Current Shares O/S (mn)	3,723.4
3M Avg. Volume (K)	4,297.9
3M Avg. Trading Value (VND bn)	106.8
Remaining Foreign Room (%)	0.0
State ownership (%)	64.5

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	26,462	32,619	36,241	39,038
% yoy	16.3	23.3	11.1	7.7
PAT	6,838	7,432	6,100	6,299
% yoy	20.0	8.7	-17.9	3.3
ROA (%)	0.8	0.7	0.5	0.5
ROE (%)	11.5	11.8	9.2	8.8
EPS (VND)	1,564	1,594	1,308	1,351
BV (VND)	16,843	17,126	18,385	20,077
Div (VND)	700	700	0	0
P/E (x)	9.6	15.2	17.1	16.5
P/BV (x)	0.9	1.4	1.2	1.1

*Price as of 12/14/2018

Company snapshot

Vietinbank has a wide banking network across Vietnam, with one head quarter, 150 branches, and over 1,ooo agency/ provident funds. Vietinbank is the second largest bank in terms of charter capital and third in terms of total assets. The company's credit and deposit market share is approximately 12% and 19%, respectively, in 2016, slightly increasing compared to the previous year. Currently, Vietinbank is undergoing a paradigm shift and is also investing in modern technology applications, with the aim of becoming the leading retail bank in Vietnam.

Its large investors are the State (64.5%), and two foreign investors: Mitsubishi UFJ and IFC with a total ownership of 27,7%.

Following the phase of reorganizing its operating model as well as launching new modern core-banking products, CTG's services income is starting to show positive results. We expect that services income will grow around 30% per annum in the next three years. Meanwhile, we think that the bank will continue to book high provision expenses in 2019, given the fast growth of NPLs. Moreover, given its current high leverage ratio, CTG is under pressure to raise its charter capital. The bank is also already at the 30% foreign ownership limit, which may complicate the recapitalization process. Therefore, CTG is always trading at a high discounted PBR compared to its peers.

Investment Rationales

- **Process to clear bad debt still ongoing, but it will make asset quality healthier**. Non-performing loans grew 35% YoY, resulting in the NPL ratio increasing to 1.4% in Sep 2018 (2017: 1.1%). Hence, bad debt grew by 25% YoY, mostly caused by the increase of Group 3 and Group 5 loans. It should be noted that the bank made around VND 7.8 Tn in new provisions for on-balance sheet bad debts in 9M 2018. Hence, CTG's loan loss reserve (LLR) ratio increased to 130% from 92% at the end 2017. Meanwhile, we saw Group 3 debt grew 23% YTD in the 9M 2018. This kind of debt will be easy to become Group 4 and Group 5 debt in the near future. Therefore, we think CTG's provision expenses will continue to be high in the next five to six quarters and undermine earnings.
- **Contribution from services income keeps increasing.** CTG launched its high-tech core-banking platform in Feb 2017. We expect that this will be strong and safe enough to (1) serve CTG's purpose of pursuing its retail banking strategy, (2) enhance the bank's capacity to develop services products for SME and retail clients and (3) become a payment bank on the Vietnam Stock Exchange, which used to be BID's play-yard only. Therefore, we think services income will grow 25 – 30% per annum in the next three years due to higher fees from services, bankcards, insurance, transaction and securities. In 9M 2018, CTG's net services income grew 55% YoY and accounted for approximately 7.5% of the bank's TOI.
- **Capital raising unlikely to be done in 2019**. CTG's CAR almost approached the minimum ratio under Circular 36's requirement and shortfall under Basel II's criteria. Increasing its general provision fund will also help, though it is not enough. Raising charter capital will play a key role. However, it has not been easy for CTG due to the fact that the State's ownership is around 65%. The Government doesn't intend to allocate any State budget into commercial banks.
  Decision 986 in August 2018, approving the development strategy of the Vietnamese banking sector, mentions that the Government's plan to reduce its ownership in state-owned banks to 51%. Though we think that this will not happen until 2020 or later.

2019 Outlook

- Customer loans and deposits will grow at 10%. NIM will slightly decrease to 2.66% due to higher funding costs. Therefore, net interest income will grow 8.7% YoY and account for approximately 83% of total operating income.
- Net services income will grow 30% with a higher contribution from transaction and guarantee fees. That contribution to TOI will be nearly 9.3%, from the current rate of 7.8%. Moreover, we expect that provision expenses will continue to increase compared to the 2018 levels as the bank is in a restructuring period. TOI will grow by around 7.7% YoY.
- NPAT will grow by 3.3% YoY, delivering an EPS of VND 1,351.

Risks to Our Call

- Downside risk to our rating and TP is a failure to recapitalize the bank over the medium term, which would constrain growth and earnings more than we currently factor in our forecasts.

BANK FOR INVESTMENT AND DEVELOPMENT OF VIETNAM J.S.C Bloomberg: BID VN

Looking forward to the strategic and financial placement

NEUTRAL **5%**

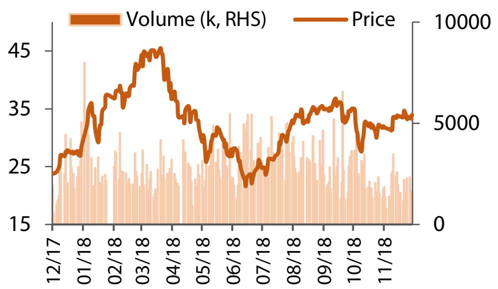
CMP (VND)	**33,900**
Target Price (VND)	**35,000**
Cash Dividend (VND)*	700

(*) expected in next 12 months

Stock info

Sector	Banks
Market Cap (VND bn)	115,894.4
Current Shares O/S (mn)	3,418.7
3M Avg. Volume (K)	2,336.3
3M Avg. Trading Value (VND bn)	78.2
Remaining Foreign Room (%)	27.1
State ownership (%)	95.3

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	30,434	39,017	44,269	48,300
% yoy	23.2	28.2	13.5	9.1
PAT	6,138	6,787	7,384	8,470
% yoy	5.4	10.6	8.8	14.7
ROA (%)	0.7	0.6	0.6	0.6
ROE (%)	14.4	14.9	14.8	15.7
EPS (VND)	1,508	1,547	1,683	1,930
BV (VND)	12,443	14,284	14,904	16,681
Div (VND)	700	700	700	700
P/E (x)	9.4	16.5	20.1	17.6
P/BV (x)	1.1	1.8	2.3	2.0

*Price as of 12/14/2018

Company snapshot

As the longest-established bank in Vietnam, BIDV has total assets of more than VND1,268 tn, making it the country's largest commercial bank.

Currently BIDV's network include 190 branches, 853 transaction offices covering 63 cities and provinces in Vietnam, and one branch in Yangon, Myanmar.

In Nov 2018, BID has obtained shareholders' approval for a strategic placement of 15% of its shares to KEB Hana Bank in 2019. The bank also has a plan for a private placement to financial investors of up to 12% of its shares in 2019-2020.

BID has a lower operating income growth than average peers due to tight capital, margin stagnation and low service income growth. Meanwhile, the bank is still burdened by high provisions because of NPLs and VAMC bonds. Planning to raise capital and clear all VAMC debts in 2019, BID is expecting higher growth afterwards. Our target price of VND35,000 is equivalent to a PBR 2019 of 2.1x. We estimate that in the case of a successful strategic placement, the stock could offer a BVPS of more than VND18,000 with a corresponding PBR of 1.9x.

Investment Rationales

- **Giving priority to the improvement of asset quality.** BID prioritizes the cleaning of its asset book, resulting in low growth of earnings. For 9M2018, while the NPL ratio increased by 14bps, the bank spent 66.4% of earnings before impairment charges as provision expenses. It raised provision coverage from 80.7% to 87.0%. Meanwhile, the collection of VAMC debts is progressing positively. Given the plan to clear all VAMC bonds by the first half next year, we expect that the portion of provision expenses on earnings before impairment charges will be lower in 2019.
- **Positive progress in capital raising to meet Basel II standards.** BID's CAR is very close to the threshold of 9% while the Debt to Equity ratio is very high at 22.6%. The unsolved need for a recapitalization has limited the bank's asset and earnings growth since 2015. In Nov 18, BID obtained shareholders' approval for a strategic placement of 15% shares to KEB Hana Bank in 2019. In the meantime, the bank organizes roadshows to seek potential financial investors for up to 12% of its shares. If they succeed, the capital buffer will improve and it will brighten the bank's outlook for credit and profit growth.
- **BID's competitive advantage in retail & SME banking is likely to be strengthened.** BID has tried to shift its loan portfolio towards retail lending, which raised interest margin from 2.52% in 2016 to 2.81% in 2017 and to 2.84% in 3Q2018. Since 2018, the competition in the retail segment has become more intensive, which seems to limit the room for margin improvement. However, we expect that the USD300mn loan facility given by ADB and the involvement of KEB Hana bank in BID's management (upon the strategic placement) will strengthen the competitive ability of the bank. KEB Hana is a leading Korean bank in terms of assets, reputation and has advantages regarding innovative banking services. This can contribute to reinforce BID's edge in the retail, SME and FDI segments.

2019 Outlook

- We expect customer loans and deposits to both grow at 14%.
- We expect BID's NIM to stay at 2.8%. We forecast that net interest income will grow by 9.5% YoY and contribute to 79.4% of TOI. Services income is forecasted to grow moderately by 10%.
- CIR is likely to go up to 40.7% due to the investment in core banking upgrades. Provision expenses are expected to reach VND18 trillion, equivalent to 62.4% of earnings before impairment charges.
- NPAT is likely to reach VND 8,470bn (+14.7% YoY), giving an EPS of VND 1,930.

Risks to Our Call

- Downside risks include the challenge to maintain NIM due to increasing competition in retail lending.
- Upside risks include positive progress in NPL and VAMC debts recovery that reduces the provision burden exceeding our expectations and the success of the private placement to strategic investor and financial investors.

MILITARY COMMERCIAL JOINT STOCK BANK — Bloomberg: MBB VN

Strong growth both in traditional and non-traditional banking activities

BUY **42%**

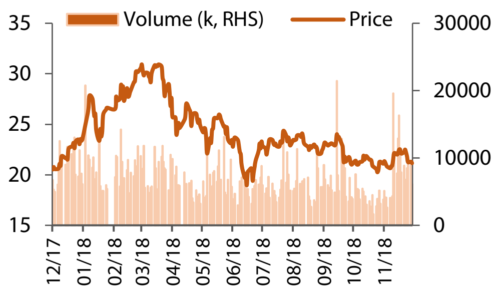
CMP (VND)	**21,800**
Target Price (VND)	**30,500**
Cash Dividend (VND)*	500

(*) expected in next 12 months

Stock info

Sector	Banks
Market Cap (VND bn)	47,097.8
Current Shares O/S (mn)	2,160.5
3M Avg. Volume (K)	6,492.2
3M Avg. Trading Value (VND bn)	143.7
Remaining Foreign Room (%)	0.0
State ownership (%)	27.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	9,855	13,867	18,749	22,291
% YoY	12.4	40.7	35.2	18.9
PAT	2,912	3,520	5,814	7,528
% YoY	16.7	20.9	65.2	29.5
ROA (%)	1.2	1.2	1.7	2.0
ROE (%)	12.1	12.8	18.6	20.8
EPS (VND)	1,275	1,500	2,479	3,209
BV (VND)	11,828	13,701	15,226	18,210
Div (VND)	500	600	600	500
P/E (x)	8.2	13.9	8.8	6.8
P/BV (x)	0.9	1.5	1.4	1.2

*Price as of 12/14/2018

Company snapshot

Military Commercial Joint Stock Bank was established in 1994, in order to meet the financial services demand of military firms.

After operating for more than 20 years, MBB has grown strong and has been expanding to new market segments besides the traditional ones. MBB has healthy financials and strong competitiveness, and is also one of 10 banks that has been piloting Basel II in risk & capital management since 2017.

The bank aims to become a financial group with a majority ownership in associates such as MB Securities (80%), MB Ageas Life (61%), MB Shinsei (50%), and MIC (70%).

MBB continues to achieve high growth not only from traditional lending but also from non-traditional banking activities such as consumer finance and services expansion. Though the growth momentum is slowing down due to limited credit room available since 2H2018, MBB is still amongst a few banks that is expected to improve its NIM further. With high services income growth rate, the bank should achieve higher growth than the industry average. However, it is to note that MBB's new businesses, especially consumer loans, imply a higher risk exposure. Therefore, we are cautious on the bank's ability to drive faster growth while maintaining the same asset quality in the long term.

Investment Rationales

- **Top asset quality amongst commercial banks.** MBB's asset quality is well-controlled, with a stable NPL ratio of 1.2-1.3% and provisions coverage kept at more than 100%. A strong growth of TOI enables MBB to make high provision, write off bad debts and maintain a healthy asset book. Though the NPL ratio increased 24 bps between 3Q2017 and 3Q2018, we believe it will be normalized towards the end of the year due to MBB's write-off and recovery efforts.
- **High margin due to a boost in retail lending and consumer finance.** While total credit growth in 3Q2018 was 11.2%, this was driven by higher growth in retail lending (+22.8% YTD) and consumer finance (+178.0% YTD). Since 3Q2017, the percentage of retail lending in the loan portfolio has expanded from 32.6% to 36.0% and the percentage of consumer finance lending from 0.7% to 1.8%. With these drivers, MBB's net interest margin has been improving for seven consecutive quarters, reaching 4.5% in 3Q2018. With funding advantage of a very high CASA (32.9% in 3Q2018), MBB's net interest margin is amongst the highest in the industry and we expect it to expand further.
- **Services income growing at a faster rate than other banks.** Services income contributed 12.2% to total operating income in 9M2018, increasing from 10.3% in 9M2017 and 8.2% in 2017. The increase in activities of MB Ageas Life saw a surge in income from insurance (+220.6% YoY), which in turn drove services income to grow by +62.9% YoY. MBB is committed to operating its own life insurance joint-venture, instead of engaging in an exclusive bancassurance partnership. As such, MBB is more likely to achieve a sustainable income growth in the long-term rather than resorting on extraordinary services income.

2019 Outlook

- We expect customer loans of the parent bank to grow at 17%, and loans of MB Shinsei to grow at 25%. Customer deposits is expected to grow by 14%. Consolidated NIM is likely to expand to 4.7%.
- We forecast that net interest income will grow by 17.5% YoY and contribute to 78.0% in TOI. We also expect that services income growth will reach 50%, pushed by net income from insurance operations and settlement fees.
- CIR is likely to improve to 42.8% and provision expenses are expected to reach VND 3,145bn, a bit lower than that in 2017 and 2018.
- NPAT is forecasted to increase to VND 7,528bn, translating to an EPS of VND3,209.

Risks to Our Call

- Downside risks include challenge in expanding NIM due to increasingly intensive competition in retail lending, and higher risks due to the boost in non-traditional businesses including consumer finance and security brokerage.

Expect earnings growth to recover while lending continues to expand

ACCUMULATE 16%

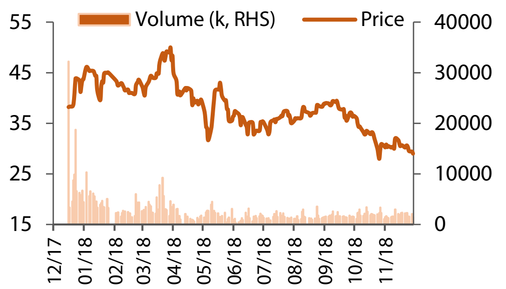
CMP (VND)	**30,200**
Target Price (VND)	**34,000**
Cash Dividend (VND)*	1,000

(*) expected in next 12 months

Stock info

Sector	Banks
Market Cap (VND bn)	29,626.2
Current Shares O/S (mn)	981.0
3M Avg. Volume (K)	2,485.4
3M Avg. Trading Value (VND bn)	83.1
Remaining Foreign Room (%)	3.0
State ownership (%)	3.1

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	5,418	7,506	9,286	10,980
% YoY	31.1	38.5	23.7	18.2
PAT**	738	1,746	2,666	3,101
% YoY	43.9	136.6	52.7	16.3
ROA (%)	0.6	1.0	1.5	1.5
ROE (%)	7.9	14.5	19.5	21.6
EPS (VND)	833	1,777	2,715	3,158
BV (VND)	10,553	15,045	16,148	17,445
Div (VND)	0	1,300	1,000	1,000
P/E (x)	N/A	N/A	11.1	9.6
P/BV (x)	N/A	N/A	1.9	1.7

*Price as of 12/14/2018
** Excluding minority interests

Company snapshot

HDBank was established in 1990 with the original name of Ho Chi Minh City Housing Development Joint Stock Commercial Bank. In 2013, HDBank took over Dai A Bank, and acquired Societe Generale Viet Finance (currently known as HD Saison). HD Saison is the third biggest company in consumer finance, following FE Credit and Home Credit.

In April 2018, HDB signed a strategic partnership agreement with Petrolimex, the market leader in petroleum retailing in the country, including a plan to take over PG Bank. If the merger is successfully implemented, HDBank's charter capital is going to increase to VND 12,810bn. The post-merger bank is going to keep the same management structure.

In spite of impressive growth in 2017, HDB saw a slowdown in income growth during 9M2018 due to temporary lending stagnation (while awaiting for additional credit growth quota), squeezing of NIM and weakening consumer finance. Meanwhile, the growth of PBT was more positive than TOI's due to lower provision expenses. We are of the view that HDB will be able to continue to achieve stable growth although at a lower rate than our previous expectations. Despite the plan to clear all VAMC bonds by June 2019, we expect that the pressure on provision expenses should not cause too much concern, considering HDB's current asset quality and positive debt recovery progress.

Investment Rationales

Diverse customer ecosystem supports the retail-banking strategy. HDB has close partnerships with Vietjet Air (HSX: VJC) and some major retail-oriented companies with nationwide customer bases such as Petrolimex (HSX: PLX), Vinamilk (HSX: VNM) and Saigon Coop. HDB is exploiting this customer ecosystem to grab more market share by cross-selling products. In 9M2018, the parent bank's credit growth reached +15.0% YTD, while CIR improved to 48.0% from 52.4% compared to the same period last year. However, it should be noted that in 3Q2018 margins were moving unfavorably both in the parent bank and consolidated bank. Though we expect that the parent bank's NIM will improve when lending continues to expand, it is likely to be offset by lower profitability in consumer finance. Considering SBV's tightening of credit, we believe that HDB will need to adjust its credit growth strategy by focusing more on margins instead of volume.

The merger with PG Bank is expected to strengthen the bank's customer base and transaction network, which in turn will support HDB's retail banking strategy. The bank got approval for the merger by SBV in 3Q2018. Upon the merger, HDB is also likely to benefit from higher CASA, higher credit quota and service income from Petrolimex and associates. However, we hold the view that the near-term performance of the post-merger bank will partly be affected by PG Bank's high NPL and VAMC special bond.

Strong potential to increase service income from insurance brokerage. Though service income contributed to only 1.9% of TOI in 9M2017, the portion has been constantly expanding to 2.6% in 2017 and 5.0% in 9M2018. This is due to the boost in income from insurance brokerage, which accounts for more than 60% of service income. Considering the very strong growth achieved in 9M2018, we expect that the bank will continue to be a leader in that segment with approximately 150% growth in 2018 and 70% growth in 2019.

2019 Outlook

- We forecast that credit growth will reach 16.8% (17% for parent bank and 15% for HD Saison), while total mobilization will increase by 15%. We also expect that consolidated NIM will be kept at 4.0%.
- We expect that services income will grow by 71.2%, accounting for 7.4% of TOI.
- We forecast that consolidated CIR will reach 48.9%. Total provision expenses will reach VND 1,169bn (amongst which VND 124bn is used to buy back remaining VAMC bonds in 2019).
- Consolidated NPAT is expected to increase by 16.3%, for an EPS of VND3,158.

Risks to Our Call

- Downside risks include challenges in maintaining the current level of NIM due to increasing competition in retail lending and consumer finance. Another risk is the continuous stagnation of consumer finance which leads to very low or negative growth rate of the industry in 2019.

DAIRY INDUSTRY – CHANGES IN CONSUMER BEHAVIOUR

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Recently the demand for dairy products has been declining. Some observers suggest that it is an indication that the dairy industry has reached a saturation threshold and cannot grow much more. However, we think that the demand is witnessing a divergence as consumers are more concerned about their health, switching to high nutritional products and healthy beverages. As a result, they increase the demand for high-quality milk, yogurt and alternative dairy products made from plants. This is also a current consumption trend in developed countries such as the US and the EU.

Besides, the reduction in consumption of traditional "pasteurized milk" products, which face high supply, but low nutritional value, is also one of the reasons for the decline of this industry. However, we believe that the strategies to expand dairy farms will help to increase the ability of producers to become more self-sufficient. This will increase the supply and improving the quality of output in the future. In addition, demographic factors and rising incomes will be a catalyst for the long term growth of the demand for high-quality products.

Investment Outlook

Long-term growth remains positive. Vietnam's dairy milk consumption per capita is low, at 26 liters/year compared to the consumption in the region, such as 35 liters/year in Thailand or Singapore with 45 liters/year. Besides, favorable demographic factors such as a large population with rapid growth rate, young population structure and a growing middle-class income will help to boost the demand for long-term dairy consumption.

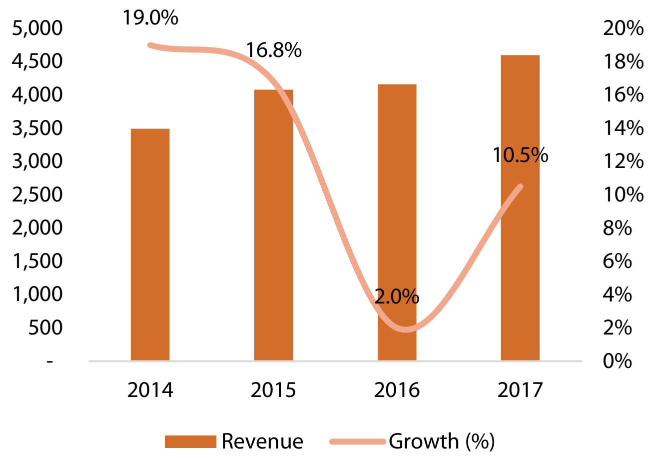
A**dvantage for companies able to capture consumption trends changes.** Consumers pay more attention to their own health and are increasing aware of the value of nutritional products. Therefore, the demand for high-quality liquid milk (organic milk, A2 milk), yogurts and alternative products from plants (walnut milk, soymilk, macadamia milk) is increasing. Companies preparing sufficient resources to catch these opportunities will have an advantage. Pioneering companies such as Vinamilk and TH True Milk will benefit over other competitors as they have a production system adapted to international standards and can launch new products rapidly according to market demand.

More self-sufficiency will benefit firms as their dependence on the price and volatility of raw materials decrease. As a result, they can control the quality of raw milk inputs, and improve the quality of output milk to meet the strict demand of the market.

Risks

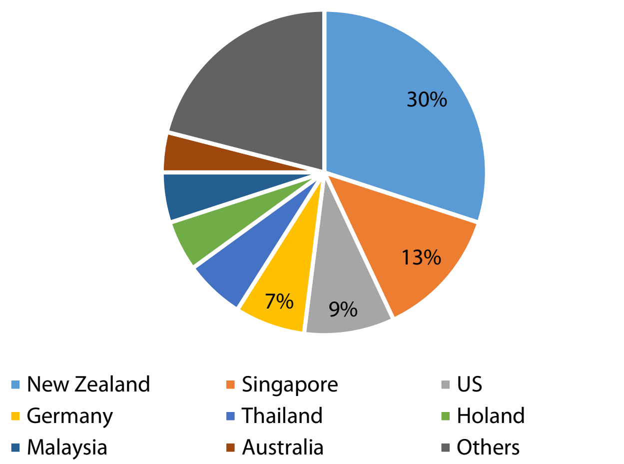
- **Demand for cow milk continues to decline.**
- **Competitive price pressure from foreign players.** When CPTPP comes into effect, the import duty on dairy products from New Zealand, Singapore and Japan will be reduced to 0%, increasing price competitiveness.
- **The shifting of product lines takes too long to implement.** The supply of high-quality dairy products is quite small. Meanwhile, 70% of the liquid milk supply is from the traditional pasteurized milk, which has lower nutritional value than fresh milk. If the shifting to high-quality products is slower than expected, the total consumption volume will continue to decline.

Figure 106: Dairy sales in Vietnam (million USD)



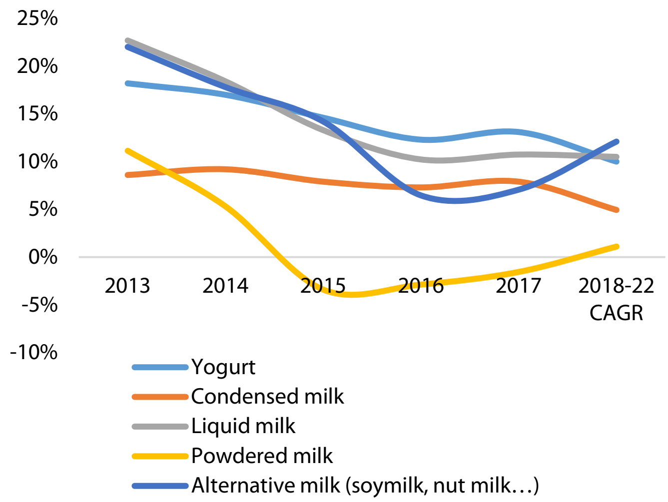
Source: StoxPlus, Rong Viet Securities

Figure 107: Raw materials imported by countries in 2017



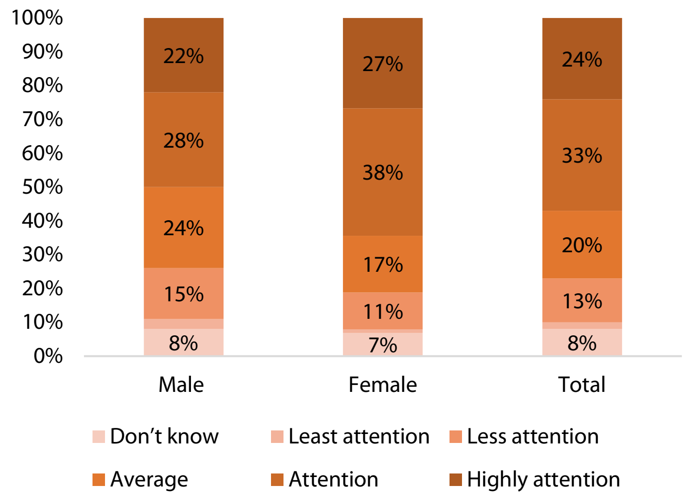
Source: Vietnam Customs, StoxPlus, Rong Viet Securities

Figure 108: Revenue growth rate per segment



Source: Euromonitor, Rong Viet Securities

Figure 109: Scale of consumer interest in organic milk (%)



Source: Q&Me, Rong Viet Securities

Attractive valuations

BUY **41%**

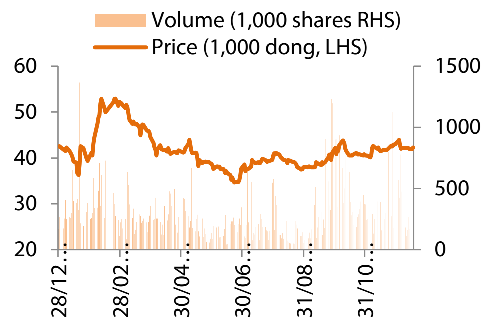
CMP (VND)	**43,800**
Target Price (VND)	**60,200**
Cash Dividend (VND)*	1,500

(*) expected in next 12 months

Stock info

Sector	Consumer Goods
Market cap (VND bn)	12,838
Current shares (millions)	292
3M avg. volume (K)	442
3M avg. Trading value (VND bn)	18
Remaining foreign room (%)	37.3
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	6,972	7,644	8,489	8,948
% yoy	-10.4	9.6	11.2	5.4
PAT	1,410	1,017	1,240	1,353
% yoy	14.6	-27.9	20.8	9.1
ROA (%)	25.0	15.6	14.7	13.3
ROE (%)	43.3	22.9	20.8	19.3
EPS (VND)	5,667	4,154	4,984	5,438
BV (VND)	20,854	18,342	24,151	28,436
Div (VND)	2,000	1,500	1,500	2,000
P/E (x)	12.8	11.0	8.8	8.1
P/BV (x)	4.6	3.0	1.8	1.5

*Price as of 12/14/2018

Company snapshot

Quang Ngai Sugar JSC was formerly known as Quang Ngai Sugar that mainly produced RS and ethanol. Currently, the company is active in the production of soymik, RS sugar, beer, beverage, and confectionery. Since 2018, QNS has been operating a biomass plant with a total capacity of 95MW.

With three soymilk factories in Bac Ninh, Quang Ngai and Binh Duong provinces, soymilk is contributing the most in total sales. Sugar is second. Currently, QNS is running the biggest sugar plant in Viet Nam that can crush 18,000 tons of sugarcane per day.

After facing a difficult year in 2017, QNS is experiencing a good 2018 year thanks to the improvement in the gross margin of soymilk and sugar segments. However, faced with a slowdown in the soymilk segment, QNS has launched new products to diversify its portfolio as well as push sales from 2019 on. With a positive outlook for 2019, we believe that QNS shares will trade at higher valuations.

Investment Rationales

- **New products to push sales from 2019 on.** QNS has launched two new products with flavors of red bean/sticky rice and black sesame/sticky rice to diversify its product mix besides the traditional ones like Vinasoy Sesame or Fami Canxi. We expect the new products to contribute six mn liters to the total soymilk consumption in 2018 and another 40 mn liters in 2019.
- **Huge soymilk market.** Based on a population of 95 mn and QNS's soymilk consumption of 280 mn liters in 2018, the average soymilk consumption of QNS per capita is around 2.9 liters/year. The soymilk consumption per capita in Vietnam is 6.8 liters/year. So there is still a huge market for the company to expand its sales.
- **Sugar continues to see favorable conditions in 2019.** Because of a low sugarcane input price, the sugar segment is forecasted to be stable or even grow if the sugar price keeps performing well. Besides, QNS is investing in a RE sugar production line to join the retail market from 2019-2020.
- **Attractive valuation.** Despite being a leader in the soymilk market, the valuation of QNS is quite low compared to peers like VNM (22x) or MSN (14x).

2019 Outlook

- The soymilk segment is expected to post a 6% volume growth in 2019 due to new products coming to market. We think that it will translate in revenues of VND4,300 bn.
- The sugar segment can record a 5% volume growth if the selling price is stable. Expected sales are VND2,500 bn.
- The biomass plant will run throughout the sugar production period, so it will contribute more profit to the company in 2019 compared to 2018.
- Revenue is forecasted to increase by 5.4% to VND8,948 bn and net profit may post 9.1% growth to VND1,353 bn. So the EPS forward will be around VND5,438 per share, equivalent to a P/E 8x at current market price.

Risks to Our Call

- New products don't find enough buyers/ consumers.
- Sugar prices plunge like it happened in 2017.

Growth momentum stagnant

NEUTRAL **5%**

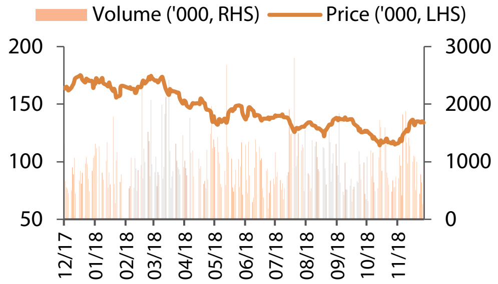
CMP (VND)	**135,000**
Target Price (VND)	**139,000**
Cash Dividend (VND)*	3,000

(*) expected in next 12 months

Stock info

Sector	F&B
Market cap (VND bn)	235,091.8
Current shares (billions)	1,741.4
3M avg. volume (K)	1,146.0
3M avg. trading value (VND bn)	145.4
Remaining foreign room (%)	40.7
State ownership (%)	36.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	46,794	51,041	53,910	57,718
% yoy	16.8	9.1	5.6	7.1
PAT	9,350	10,296	10,099	11,076
% yoy	20.3	10.1	-1.9	9.7
ROA (%)	32.9	29.9	27.6	28.7
ROE (%)	43.2	44.0	37.9	39.7
EPS (VND)	4,859	5,296	5,218	5,723
BV (VND)	15,273	16,105	15,306	16,029
Div (VND)	6,000	5,000	5,000	5,000
P/E (x)	21.5	32.8	25.9	23.6
P/BV (x)	8.2	13.0	8.8	8.4

*Price as of 12/14/2018

Company snapshot

Vietnam Dairy JSC (VNM) is a leading dairy producer in Vietnam with more than 40 years of experience, leading the dairy market in many segments such as liquid milk, condensed milk, yoghurt… VNM brand name has been deeply embedded into the minds of customers. This is the great competitive advantage. High brand awareness helps it easily promote a new product launch. Currently, the company has begun to develop high-quality products and alternative milk from plants to meet the market demand.

The decline in the demand of dairy products and the fluctuation of raw material prices negatively affects VNM's earnings. Therefore, VNM actively implements strategies to develop high-quality products and alternative milk products in line with changes in consumer preferences. It attempts to penetrate niche markets and expands its exports in order to boost revenues. However, all these strategies need more time to be reflected in the effectiveness on its business performance.

Investment Rationales

- **Transferring to high-end dairy products**. The consumption trend is shifting to yogurt, high-grade liquid milk and milk from plants. In 2018, VNM launched nine new products to follow the changing behaviour of consumers. These included premium milk A2 product, yogurts such as Greek, sticky rice, pineapple yogurt and alternative milk products (banana milk, drink cheese). We think that it will take more time for this to be reflected into real business performance. Therefore, we expect that 2019 will be a 'crunch' year.

- **Penetrating the niche market to boost its revenues.** VNM distributes its products to the niche market to push revenues, increase its market share through cooperative strategies with leading companies. Specifically, the cooperation with Vietnam Airlines helps to reach customers in the aviation sector. The cooperation strategy with Hau Giang Pharmaceutical helps to develop its functional foods. Besides, VNM became a strategic partner of Cho Ray Hospital, where the two can work together to research specialized nutritional products for patient and the elderly.

- **Seeking new export markets.** Asian revenues recorded a positive growth rate, particularly in Cambodia and the Philippines. In addition, VNM actively established a joint venture in Myanmar and Indonesia to export yogurt and liquid milk products. Recently, China allowed VNM to export its products to this market. It will be an opportunity to introduce VNM's products such as yogurts, liquid milk, infant formula products to the largest populated country.

2019 Outlook

- Revenue and net profit are forecasted to be VND 57,718 bn and VND 11,076 bn, respectively, increasing by 7.1% YoY and 9.7% YoY. Corresponding to a forward EPS of VND5,723 per share.

Risks to Our Call

- The demand of cow milk continues to decline.
- The effectiveness of developing niche markets and expansion of exports remain unclear.
- The price of skim milk powder, whole milk powder increases sharply.

REAL ESTATE INDUSTRY- EVERY CLOUD HAS A SILVER LINING

Duong Lai (duong.ld@vdsc.com.vn)

The outlook was decidedly bullish for Vietnam's residential market 12 months ago, with forecasts to build upon a stellar 2016-2017. In 2018, transaction volumes in key markets, including Hanoi and Ho Chi Minh, steadily decreased during the recent two quarters. However, the bright spot is the absorption rate, which still performed well. Demand for low-to-mid-end segments is still on the rise, while supply is undoubtedly tight due to the delay of some project's legal status. The situation may extend to next year, which will be positive for developers having deployable land banks. The Vietnamese housing market has not been well-developed in the past, because of very limited supply, so it experienced huge booms and massive busts. But the market appears to be in a steadier upward trend now that it is maturing. Therefore, it is a good time to accumulate real estate stocks selectively. Land bank and ability to develop projects are the key.

Investment Outlook

Supply fades, but demand remains good

Total transaction volumes in general are declining during recent quarters. Hanoi saw a decrease of 29% yoy while Ho Chi Minh dropped by 20% yoy. On the other side, the bright spot is the absorption rate in both the Ho Chi Minh and Hanoi market. There is not only a reduction in supply but also in new projects. Last quarter's performance may be good for the Hanoi market, thanks to the launch of Vinhomes Ocean Park projects, but Ho Chi Minh is probably still not as expected. Looking forward to 2019, prospects become more conservative. The market will be driven by the launching of large-scale projects from reputable developers.

- ***Legal reviews:*** The legal status of projects is very complicated since mid-2017, which may spread to 2019, causing the shortfall in supply. This leads to opportunities for companies with deployable land banks. Vinhomes and Nam Long are notable candidates.
- ***Improved infrastructure*** will be the biggest motivation for new launches.
- ***BT projects put on hold:*** A resolution by the Government on the implementation of BT projects is expected to be enacted. This could be a positive for companies which own projects being permitted under the "***old format***".
- ***FDI pouring into the real estate market:*** Chinese, Singapore, South Korea and Japanese firms keep looking at the Vietnam market, driving the potential growth.

Bank tighten real estate loans

Policymakers have also noticed potential risks from a 'real estate bubble' in the residential land segment. As a result, State Bank of Vietnam only allows banks to lend 40% of short-term mobilization funds for long-term loans, instead of 60% in the past, which will be applied in early-2019. Banks also prepared for this scenario in 2018, when they managed to pull down real estate lending to total outstanding loans.

Given the revolution in the financial sector, real estate firms are less dependent on bank credit because there are other methods to raise funds, like issuing equity through the stock market or bond market and advances from customers. Therefore, the impact of credit risk and the risk of increasing interest rates for developers will be smaller. For homebuyers, the current lending interest rate is relatively attractive, at around 10%. Looking forward to 2019, interest rates may increase but by a small percentage. Not a significant impact on the general market.

Developers performance to improve

In recent years, the average gross profit margins stayed at around 25-30%, however, it gradually decreased, approaching 24%. ROEs have been improving and reaching an average rate of 9%, thanks to a reduction in interest expenses, as a result of less reliance on credit flows and better management in G&A expenses. The current level is almost equal to the borrowing cost, which is considered an acceptable level. The average P/E of the industry is 13 times, which can be considered relatively lower and more reasonable than in the past.

Looking forward 2019, among listed companies' plans, we see that some of them have clear intentions for their upcoming large-scale projects. Real estate still faced unresolved legal issues, about which is most worried. In general, we still prefer companies with strong financial capabilities, legal stability and good project execution. The main factors we consider are unbilled bookings and valuation. Among our universe, NLG and DIG are our top picks. Besides, restructuring and assets play are also stories investors should pay attention.

- DIG: Expectations on the kick-off of Dai Phuoc- 23ha of commercial land
- DXG: Maintains growth with plan to launch five small-scale projects: Lux Star, Lux Riverview, Sunview Garden, Opal Skyview, Opal Boulevard. Gem Riverside is still main contributor.
- VHM: Large-scale VinCity, including Ocean Park, Sportia and Grand Park
- NLG: Waterpoint in Long An
- HDG: Launching of pending projects like Dragon City, NoongTha, Greenlane

Risks

- Trade war and slowdown of global economic growth
- Policy and political risks are the major issue as the industry is heavily policy dependent
- Credit risks
- Land fever can cause bubble

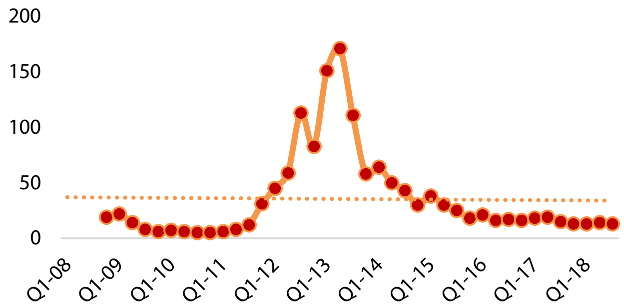
Figure 110: Sales performance in Hanoi

Source: CBRE, Rong Viet Securities

Figure 111: Sales performance in Ho Chi MInh

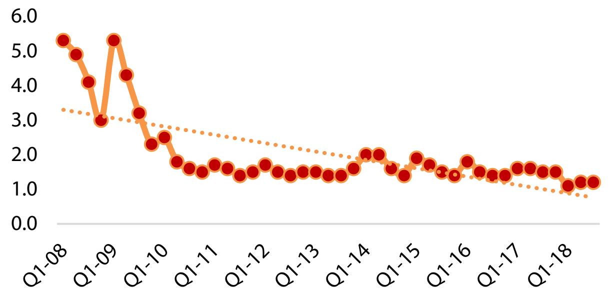
Source: CBRE, Rong Viet Securities

Figure 112: P/E ratio



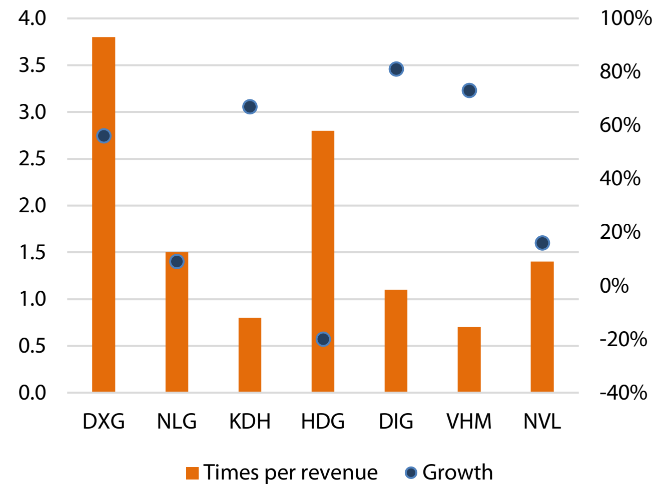
Source: FiinPro, Rong Viet Securities

Figure 113: P/B ratio



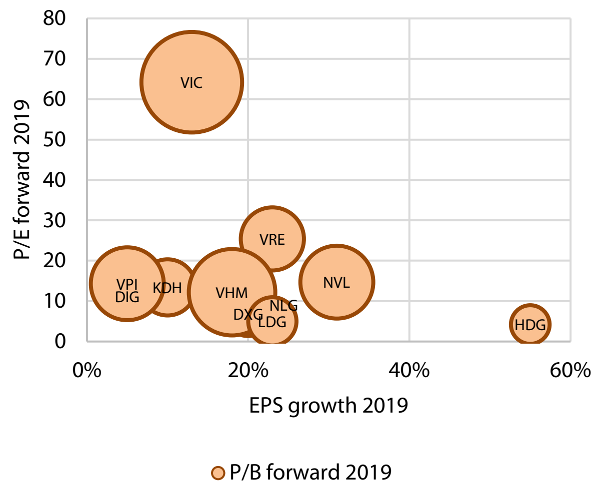
Source: FiinPro, Rong Viet Securities

Figure 114: Unbilled bookings 2019



Source: Rong Viet Securities

Figure 115: Residential companies' valuation



Source: Rong Viet Securities

DAT XANH GROUP　　Bloomberg: DXG VN

Waiting for more signal

ACCUMULATE　17%

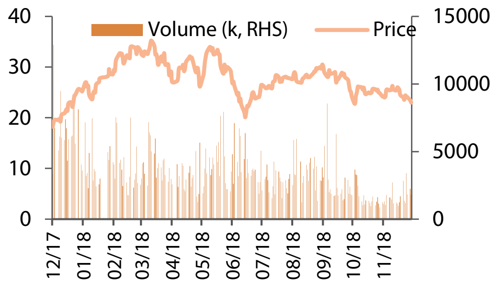
CMP (VND)	**25,500**
Target Price (VND)	**30,063**
Cash Dividend (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Real estate
Market cap (VND bn)	8,920.4
Current shares (millions)	349.8
3M avg. volume (K)	2,376.3
3M avg. Trading value (VND bn)	64.7
Remaining foreign room (%)	0.8
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	2,507	2,879	4,044	3,794
% yoy	79.7	14.9	40.4	-6.2
PAT	537	751	1,015	1,216
% yoy	59.6	39.8	35.2	19.8
ROA (%)	11.8	11.5	12.6	9.9
ROE (%)	20.2	20.4	17.8	15.4
EPS (VND)	2,038	2,478	2,964	3,550
BV (VND)	12,822	12,578	18,686	23,450
Div (VND)	500	0	0	0
P/E (x)	6.1	8.7	8.6	7.2
P/BV (x)	1.0	1.7	1.4	1.1

*Price as of 12/14/2018

Company snapshot

Established as a brokerage firm, Dat Xanh Group leveraged its business into real estate development, based on its knowledge and customer database in the residential industry. The company is very active on land bank acquisitions and targets the mid-end segment. Currently, DXG owns a portfolio of above 10 projects, mostly located in Ho Chi Minh city, equivalent to an area of 20ha.

The company met its profit guidance in 2018, marking the first year it achieves a new record in term of bookings. However, legal status of projects is the main issue now, which can extend to 2019. Next 3-year period could be a time to gear up in project development. In addition, almost its products target mid-end home buyers, which is considered to be suitable for Vietnamese income and have the highest demand. All land bank is well-located in Ho Chi Minh City, in district 7, 2, 9 and Thu Duc disrtict. On the other hand, the spin-off of the brokerage segment can be a bright spot for next year.

Investment Rationales

- **Legal reviews to affect the development progress.** As with other developers, DXG has been ‘swirled in the vortex’ of the real estate market. The rumors about the legal status of its projects started in 2018, causing a slump in the stock price. We suppose that the current negative news have been partly priced in. The risk is that legal reviews may take more time than expectation.
- **Launching plans.** In 2019, Gem Riverside will still be the most contributor to DXG’s valuation, to which investor should pay attention. Besides, DXG intends to develop five residential projects. They are all small-scale projects which missed the 2018’s launching target. We are cautious perspective on this due to the legal status situation. Other large-scale projects, such as Opal City or Gem Premium, have to see their sales plan scheduled in 2020 onwards. Current unbilled bookings value is estimated at VND 6.7 trillion by the end of 2018, thanks to the contribution of Gem Riverside and Opal Garden.
- **Spin-off of the brokerage segment.** DXG is a leading broker of mid-end and affordable housing with an estimated market share of 20-25% [3]in FY2018. The company has restructured its brokerage services business and prepared for the spin-off plan. It can be a bright spot for DXG in 2019.

2019 Outlook

- Profit growth in 2019 will be maintained (+20% YoY), thanks to contribution of LDG’s profit and divestment of residential projects.
- Sales launches: waiting for more signals, however, we are not optimistic.

Risks to Our Call

- **Sales launch of key projects.** Execution is also key to watch, given previous failed landbank transactions.

[3] *Only including Hanoi and Ho Chi Minh markets*

HA DO GROUP | Bloomberg: HDG VN

Growth momentum

NEUTRAL **3%**

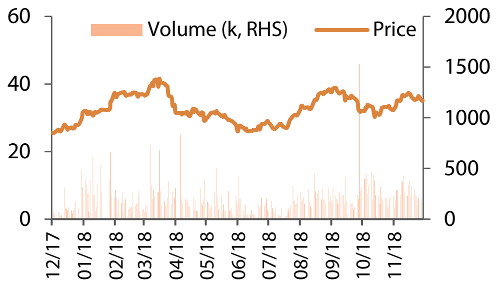
CMP (VND)	**38,000**
Target Price (VND)	**38,500**
Cash Dividend (VND)*	500

(*) expected in next 12 months

Stock info

Sector	Real estate
Market cap (VND bn)	3,606.9
Current shares (millions)	94.9
3M avg. volume (K)	295.8
3M avg. Trading value (VND bn)	10.5
Remaining foreign room (%)	34.4
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,988	2,268	3,663	6,187
% yoy	34.4	14.1	61.5	68.9
PAT	236	198	516	801
% yoy	90.8	-16.0	160.9	55.1
ROA (%)	4.8	2.4	4.6	6.3
ROE (%)	15.0	11.2	19.1	25.2
EPS (VND)	3,090	2,606	5,438	8,433
BV (VND)	15,523	14,140	29,330	38,520
Div (VND)	1,000	500	1,000	500
P/E (x)	7.7	13.2	7.0	4.5
P/BV (x)	1.5	2.4	1.3	1.0

*Price as of 12/14/2018

Company snapshot

Established as a construction firm, Ha Do Group (HSX:HDG) expanded its business into property development, which became its core business. Furthermore, HDG also plans to expand its portfolio in the power segment, leveraging to a capacity of 500-700MW in the next five years. Specifically, renewable powers, including solar and wind power, are the main next steps.

Looking ahead to 2019, it will be the peak season for profit recognition. Two main businesses that investors should pay attention to are the real estate and power segments. We see more positive signals of residential launches. The power segment is transitioning into renewable energy. Current market price is close to our valuation. Therefore, we will adjust our valuation until there are clearer signals from launching of real estate projects.

Investment Rationales

- **Real estate business: booking profits in the next two years and positive signals from exploiting the land bank.** Centrosa Garden will contribute to significant profit growth in 2018 and 2019, with construction progress running ahead of schedule. HDG is busy with plans to launch three projects, namely Dragon City, Green Lane, and Noong Tha. However, we remain conservative on the success of these launches due to less favorable locations. Another project, namely HH1, is in a more premium location, offering a GFA of 250,000 sqm to the market, will be key. However, there is no official launch schedule. Recently, HDG has started a project in Thu Duc district, with a site area of 1.3ha. It could be a catalyst in 2019.

- **Power segment to be a new strategic player.** The new hydropower plant, Nhan Hac, started generating electricity in September 2018, raising total capacity to 120MW. Song Tranh 4 is still on construction schedule and M&A of Dakmi2 will bring more profit to HDG from 2020 onwards. The key catalyst in 2019 is renewable energy. HDG plans to run a 48-MW solar power plant by June 2019 to enjoy a preferential purchasing price from EVN for a 20-year contract. The company is quite active in developing wind power projects. We expect that the power business will be next strategic step for HDG.

2019 Outlook

- Profit growth in 2019 is guaranteed, thanks to the hand-over of Centrosa Garden. Revenue and net profit are estimated at VND 6,187 (+69% YoY) and VND 801 billion (+55% YoY).

- We are looking forward to the sales launch of residential projects as planned.

Risks to Our Call

- **El Nino effects in 2019**
- **Solar power to overload electricity grid, reducing capacity**
- **Premium land bank to dry out.**

Unlock huge land bank

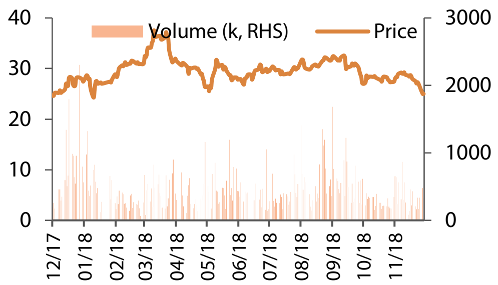
BUY	25%
Giá hiện tại (VND)	28,400
Giá mục tiêu (VND)	35,490
Cổ tức tiền mặt (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Real estate
Market cap (VND bn)	6,803.4
Current shares (millions)	239.1
3M avg. volume (K)	627.9
3M avg. Trading value (VND bn)	19.2
Remaining foreign room (%)	0.0
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	2,534	3,161	3,191	2,963
% yoy	101.3	24.8	1.0	-7.1
PAT	345	535	784	939
% yoy	67.4	55.0	46.5	19.9
ROA (%)	6.1	6.8	9.0	10.7
ROE (%)	12.4	15.6	20.5	19.1
EPS (VND)	2,269	3,314	3,278	3,929
BV (VND)	17,477	23,678	17,372	21,119
Div (VND)	498	252	0	0
P/E (x)	9.8	9.1	8.7	7.2
P/BV (x)	1.3	1.3	1.6	1.3

*Price as of 12/14/2018

Company snapshot

Nam Long is among the few real estate developers in the affordable housing segment and has been successful with the Ehome brand. After establishing a solid position in the affordable housing segment, NLG's strategy has shifted to mid-end housing with mini-villas and townhouses since 2015. This is considered as a wise move by the BOD to meet the rising demand of increasing middle-class consumers in Ho Chi Minh City. In addition, these projects have been developed under joint ventures, not only to ease the financial pressure on NLG but also to take advantage of their partners' management and development experience.

The convergence of recording profit and sales launches will result in a good year for NLG in 2019. The company crossed a turning point this year by unlocking a huge land bank in Long An province. Nam Long will begin launches in 2019. It is the largest project, ensuring 10-years of good revenue.

Investment Rationales

- **Key time to exploit the land bank.** NLG established joint ventures with Japanese partners to co-develop two key projects, namely Waterpoint and Akari City. They are large-scale projects which are expected to launch next year. There is a change in sales plan because Akari City has been re-scheduled to 2019.
  - Waterpoint could generate a profit of about VND 2,100 billion in phase 1 after a 5-year development. It will benefit from moving to the suburbs in coming years because the land bank in the center has dried out.
  - The Akari City project is classified as mid-end segment, offering a total of 4,600 units, with an estimated selling price of VND 22 million/psm. This segment will have a high absorption rate due to high demand and NLG's reputation.
- **Healthier financial ratios.** NLG is always among the top-rated companies for corporate management. It maintains a healthy cash flow. NLG's leverage is relatively low compared to most of the other real estate companies.
- **Attractive valuation.** Current valuation looks very attractive, with P/E and P/B 2019 forward at 7.4x and 1.3x. The upside comes from the prospects of launching two key projects next year, namely Waterpoint and Akari City.

2019 Outlook

- Revenue and net profit in 2019 are estimated at VND 1,400 billion (-60% yoy) and VND 891 billion (+8%), respectively.
- Key catalysts are launching of Akari City and Waterpoint.

Risks to Our Call

- **Slow sales progress of Waterpoint.** We maintain our conservative view on this project due to its large contribution to total valuation.
- **Legal reviews and slowdown in the overall real estate market.**

VINHOMES — Bloomberg: VHM VN

Undisputed leader

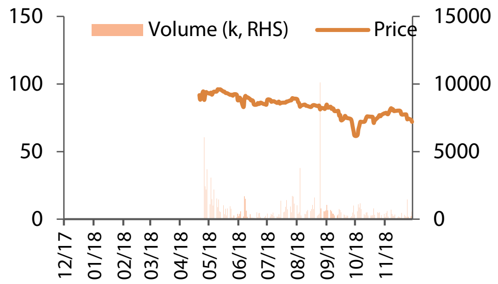
ACCUMULATE	**13%**
CMP (VND)	**79,800**
Target Price (VND)	**90,500**
Cash Dividend (VND)*	-

(*) expected in next 12 months

Stock info

Sector	Real estate
Market cap (VND bn)	267,291.2
Current shares (millions)	3,349.5
3M avg. volume (K)	982.4
3M avg. Trading value (VND bn)	86.3
Remaining foreign room (%)	33.5
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	11,217	15,297	50,484	54,072
% yoy	128.0	36.4	230.0	7.1
PAT	1,649	1,410	16,584	19,567
% yoy	107.3	-14.5	1,075.1	18.0
ROA (%)	-	-	10.8	10.2
ROE (%)	-	-	26.9	22.8
EPS (VND)	-	-	5,197	6,132
BV (VND)	-	-	13,181	17,181
Div (VND)	-	-	-	-
P/E (x)	-	-	15.4	13.0
P/BV (x)	-	-	6.1	4.6

*Price as of 12/14/2018

Company snapshot

Vimhomes (HSX:VHM) is the residential arm of its parent Vingroup. It is a strategic part of the conglomerate driving cash inflow. In 2018, VHM was listed on the stock exchange, becoming the largest developer in Vietnam based on all aspects like land bank and profits.

Vingroup currently hold a 70% stake in this subsidiary company. The remaining stakes is held by institutional investors, including GIC.

Vinhomes historic IPO took place in 2018. The company is now the largest real estate developer in Vietnam, an undisputed leader in term of land bank and project implementation.

Investment Rationales

- **Huge land bank.** Total land bank is nearly 165 million sqm located in premium locations, which is enough for at least ten years of development. More than 20 million sqm GFA will be offered to the market in the next three years. Among developers, Vinhomes is a pioneer by having driven the market towards new concepts and better execution. The basic cases are urban areas at the center of Ho Chi Minh City like Vinhomes Central Park, Royal City or Times City. The market is waiting for a transition into the mid-end as well as the affordable segment with brand names such as VinCity and Happytown. The next three VinCity projects are Ocean Park, Grand Park and Sportia, with total land area of 1,000 ha and offering nearly 140,000 units. However, we suppose Vinhomes is also expanding its existing market share by moving to the suburbs. It is considered to be a very popular and necessary trend.
- **Superiority in project acquisition and implementation.** There are no doubts about Vinhomes' ability to develop residential projects. The market is generally surprised about the development progress of large scale projects. This will probably be so in the future. Currently, the total unbilled booking value is around USD 2.6 billion, which is estimated at around USD 4.5 billion in 2019 (+70% YoY). These launches will get a high absorption rate, thanks to the improvement of infrastructure conditions and the trend of moving to the suburbs.
- **Current valuations.** The P/E and P/B forward 2019 are at 13.0x and 4.6x, an accepable level for a "***giant player***" like VHM. These ratios may be even more attrative as per Vinhomes' guidance for 2019. We only evaluate the project portfolio expected to be deployed in the next five years.In term of valuation, VHM is trading at 15% below its NAV, which is considered to be a "resonable discount" like some other big players in the region.

2019 Outlook

- Revenue and net profit will be VND 54 trillion (+7% yoy) and VND 19.5 billion (+18% yoy), thanks to the contribution of new launches like Vinhomes Cau Rao and Ocean Park.
- Total unbilled bookings value is estimated at USD 4.5 billion (+70% yoy), mainly driven by VinCity large-scale projects.

Risks to Our Call

- **Huge market risk exposure.** Less flexibility for large firms like VHM in terms of business structure. Risks will arise if there is a sharp downward trend in the property market.
- **High leverage.** Aggressive landbank expansion on upfront payment terms could put a strain on finances, given the group's start-up phase. The leverage ratio is nearly 90%, which is much higher than normal levels at 30%-50%. As a result, VHM faces strong pressure, in term of cash flow, in case there are any delays in the development progress. It is the main point investors should pay attention to. However, positive sentiment outweighs negative ones.

VINGROUP Bloomberg: VIC VN

Extend arms

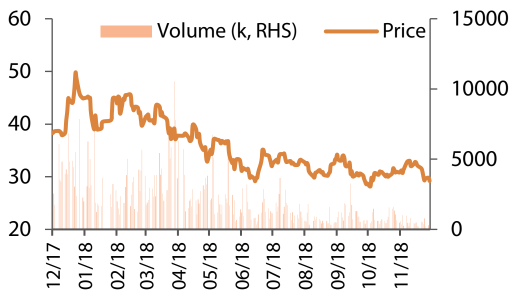
NEUTRAL	**3%**
CMP (VND)	**102,700**
Target Price (VND)	**106,000**
Cash Dividend (VND)*	-

(*) expected in next 12 months

Stock info

Sector	Real estate
Market cap (VND bn)	327,779.5
Current shares (millions)	3,191.6
3M avg. volume (K)	1,371.6
3M avg. Trading value (VND bn)	134.5
Remaining foreign room (%)	39.9
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	57,614	90,355	125,620	131,946
% yoy	69.2	56.8	39.0	5.0
PAT	3,385	4,247	4,453	5,020
% yoy	178.4	25.5	4.8	12.7
ROA (%)	2.1	1.7	3.4	5.4
ROE (%)	7.9	14.8	24.2	29.4
EPS (VND)	1,283	1,729	1,395	1,573
BV (VND)	10,550	11,835	13,181	16,663
Div (VND)	0	0	0	0
P/E (x)	32.7	44.7	73.6	65.3
P/BV (x)	4.0	6.5	7.8	6.2

*Price as of 12/14/2018

Company snapshot

Vingroup is a pioneer in various sectors in Vietnam, including residential, consumer retail, leasing, hospitality as well as being an automobile maker. In terms of land acquisition and development progress, Vingroup is growing faster than competitors. Currently the company has secured a land bank of 165 million sqm of which the majority of sites are located at strategic locations in Hanoi, HCMC, and tier-2 cities. Furthermore, Vingroup plans to adapt its business model to grow recurring revenues from consumer retail and service businesses. It plans to expand its network of commercial properties, hospitality assets and consumer retail operations.

Vingroup in 2018 set a new transaction record, surprising the market, after the listing of its residential arm Vinhomes. It is also planning to 'conquer' the car markets in Vietnam. The company is undisputable the leader in the residential segment in Vietnam. However transitioning into automobile production is an adventurous move that will cost a fortune.

Investment Rationales

- **Real estate to still be the main driver.** Vingroup introduced two out of three Vincity projects, as planned, in late-2018. Total contract value is above USD 10 billion, equivalent to a total of 66 blocks and 140,000 units. We expect that the absorption rate will best at the low and mid-end segments, almost out of stock. In addition, the company plans to launch a series of other smaller scale projects in 2019. Current pre-sales are USD 2.6 billion, and the forecast for 2019 is USD 4,5 billion (+70% YoY). Three Vincity projects will be the driving force.
- **Automobile to be the new focus.** Supported by Vingroup, Vinfast aims to launch its first E-scooter and cars in 2019-2020. Vietnam's automobile market is fragmented. Many participants are foreign brands. Being a capital intensive industry, Vinfast will need money and time to ensure that it is a sustainable business investment. An interesting story to follow for the few years.
- **Improving performance in hospitality, consumer retail and leasing.** Expansion in these three segments was a concern in the past. The 2016-2018 period was considered to be a rapid growth period in term of revenue and scale expansion. Currently the leasing business generates a stable performance, consumer retail improved, while hospitality will be the next issue for 2019. In addition, the casino in Phu Quoc may be a catalyst for this segment in 2019.

  Any surprises for Vingroup in 2019? Recently, the company has targeted a new strategic segment, namely technology. However, it will be a long-term plan. Current risk and reward are not significant.

2019 Outlook

- We estimate that revenue and net profit in 2019 will be VND 131.9 trillion (+5% YoY) and VND 5.0 trillion (+13% YoY), respectively. Of which, real estate still plays a key role.

Risks to Our Call

- *Cash flow risk.* This will be the biggest risk for the company. Total capex for 2019 is around USD 5.5 billion, of which real estate and automobile account for the highest proportion. The risk will arise if cash flow from real estate is under pressure.

VINCOM RETAIL | Bloomberg: VRE VN

Largest retail property play

ACCUMULATE **8%**

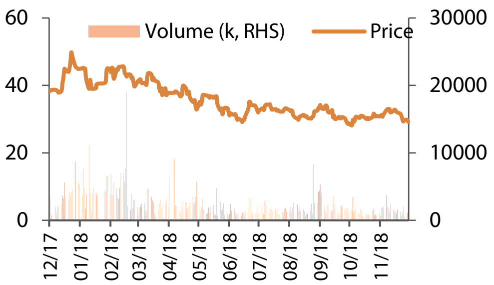
Giá hiện tại (VND)	**32,200**
Giá mục tiêu (VND)	**35,000**
Cổ tức tiền mặt (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Real estate
Market cap (VND bn)	74,988.0
Current shares (millions)	2,328.8
3M avg. volume (K)	1,913.3
3M avg. Trading value (VND bn)	67.7
Remaining foreign room (%)	17.4
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	6,386	5,518	8,230	10,195
% yoy	7.2	-13.6	49.1	23.9
PAT	2,437	2,016	2,418	2,973
% yoy	123.6	-17.2	19.9	23.0
ROA (%)	6.9	5.6	6.3	7.4
ROE (%)	12.3	8.0	8.8	9.8
EPS (VND)	1,155	1,061	1,272	1,564
BV (VND)	11,688	13,704	16,584	18,148
Div (VND)	0	0	0	0
P/E (x)	0.0	44.5	25.8	21.0
P/BV (x)	0.0	3.4	2.0	1.8

*Price as of 12/14/2018

Company snapshot

Vincom Retail, the largest Vietnam's retail property play, is ramping up its portfolio to an unprecedended scale.

Vincom Retail plans to open 20-30 shopping centers per year, aiming to cover more than 50 provinces and increasing its mall network to 200 by 2022. As of December 2018, there are 66 shopping malls covering 38 provinces and cities across Vietnam.

Vincom Retail, the largest Vietnam's retail property play, is ramping up its portfolio to an unprecedended scale. To mitigate the impact of e-commerce, Vincom Retail also implements O2O[4] offerings in the key shopping malls in order to help retailers raise their offline sales through online platform, namely Adayroi and loyalty program, namely VinID. Besides, the company has improved its financial performance during the recent years by reducing net gearing combined with a solid stream of cash flow. On the flip side, its current valuation looks expensive, which is quite similar to other leading Asia retail property firms. We expect that 'patient' holders will profit in the long run.

Investment Rationales

- **Modern retail to take off.** Modern retail channels are taking off in Vietnam, supported by many positive factors such as young population, expansion of the middle class and a retail spending boom. Vietnam still has a huge potential for retail property industry. Retail property currently accounts for 0.4% of total retail sales, very low compared to other countries in the region.
- **The largest Vietnam's retail property play.** The business models of Vincom Retail are diverse in order to meet the demand of various type of customers. The company plans to open 20-30 shopping centers per year, aiming to cover more than 50 provinces and increasing its mall network to 200 by 2022. As of December 2018, there are 66 shopping malls covering 38 provinces and cities across Vietnam.
- **Stable income and profit margin.** At premium sites like Vincom Center and Megamall, occupancy is around 90-95% on average while Vincom+ and Vincom Plaza have lower occupancy rates of 80% on average. EBITDA margin is in the range of 65-70%. We estimate the next 3-year CAGR of revenue and EBITDA will be 20% and 25%, respectively.
- **Strategies to mitigate the impact of e-commerce and other rivals.** Vincom Retail has attracted international leading brands to drive customers to the malls, such as H&M, Zara, Old Navy, Massimo Dutti, Pull & Bear, and Stradivarious. Many foreign retailers are starting to pay attention to the market such as Uniqlo and F21. Some are in the process of negotiating with Vincom Retail for a leasing contract. Besides, the company implemented O2O offerings in key shopping malls in order to help retailers raise their offline sales through online platforms, namely Adayroi and VinID.

2019 Outlook

- Revenue and net profit in 2019 will be VND 10,195 billion (+24% YoY) and VND 2,973 billion (+23% YoY). At current price, PE and PB forward for 2019 will be 21.0x and 1.8x.

Risks to Our Call

- Rising influence of e-commerce.
- Expansion plan in tier-2 and 3 provinces to run ahead the development of modern retail.

[4] *Online to offline: a business strategy that draws potential customers from online channels to make purchases in physical stores*

PHARMACEUTICALS - STEADY BUT SLOW PROGRESS

Hieu Nguyen (hieu.nd@vdsc.com.vn)

We believe rising healthcare spending and the replacement of foreign drugs with domestic ones in healthcare facilities is a major and inevitable trend. However, poor results of many listed companies in 2018 has proven that the transition will probably take many years. Therefore, we only have a NEUTRAL view on the pharmaceutical industry for 2019 even though the transition progress in hospital channels may somehow speed up. Investors may expect 2019 to be a tough year for equity markets and consider this 'defensive' sector. However, winner in the sector needs to have proper facilities, a supportive strategic partner and eventually manage to sell the drugs to end-users.

Investment Outlook

Aging population requires higher spending on healthcare

According to UNFPA, although Vietnam is still a young country, the population entered the "aging phase" in 2017. A report from the World Bank warned that aging will likely hit Vietnam with full force within a very short span time. This transition could come in a mere 15 years and be completed well before the 2040s. An aging population means more spending on pensions and healthcare.

Healthcare spending leaning towards the 'hospital channel'

According to BMI, sales of the Vietnam pharmaceutical market is USD 5.3 Bn, of which sales to hospitals account for 70%. Moreover, we believe the government needs to increase the spending for healthcare in the next few years. It is what happened in China and is very likely to be the same in Vietnam (Figure 116 and 117). This trend should favor manufacturers focusing on hospital channels.

Domestic drugs to replace foreign drugs – an inevitable trend

As rising spending for healthcare is only a matter of time, the government needs to control costs. This will also help control inflation of healthcare. Therefore, reducing treatment cost and improving efficiency in healthcare facilities are a must. One solution is to encourage domestic drugs usage instead of imported ones. To do so, the government has been working on a series of policies to give preferential status for locally manufactured drugs for hospital purchases.

Progress has been made, but slowly

The progress has been displayed by the drug bidding result in public health facilities since June 2018. We have observed that some domestic manufacturers, namely PME and IMP, won the bid in Tier 1 and Tier 2 (Figure 118). These tiers are typically dominated by foreign drugs.

However, the amount has not reached our expectations. One of the reasons is the lack of a new guiding policy for the drug bidding process. The draft has not been approved although more than one year has passed since. This shows that the conflict of interest among different parties is very high and will likely continue to slow down the transition progress.

Companies with modern facilities have a clear advantage

Having a factory with EU-GMP or PIC/S Japan standard is a prerequisite to take part in tier 1, tier 2 and the centralized bidding process. For example, although DBD is well known for its cancer treatment drugs, it cannot join the centralized bidding as its factory is only at the WHO-GMP standard.

Few companies are able to get to these standards at present: PME, IMP, MKP, Tenamyd, and Savipharm.

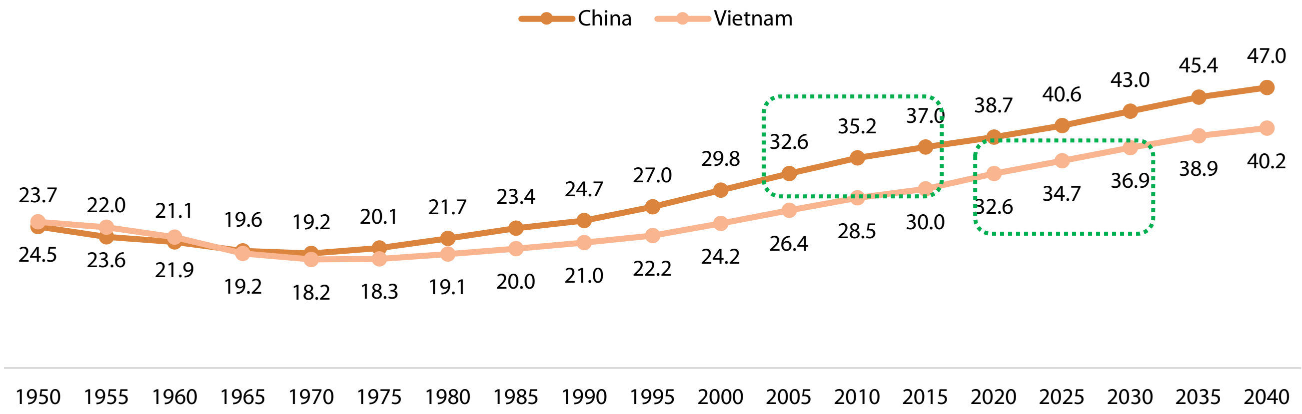
However, winners will be the one who manage to sell drugs to end-users

Companies like PME and IMP expect that their modern factories will help boost sales via hospital channels. Due to the slow transition progress, sales improvement will take some time. Meanwhile, other companies like MKP decided to manufacture for their strategic partner.

Risks

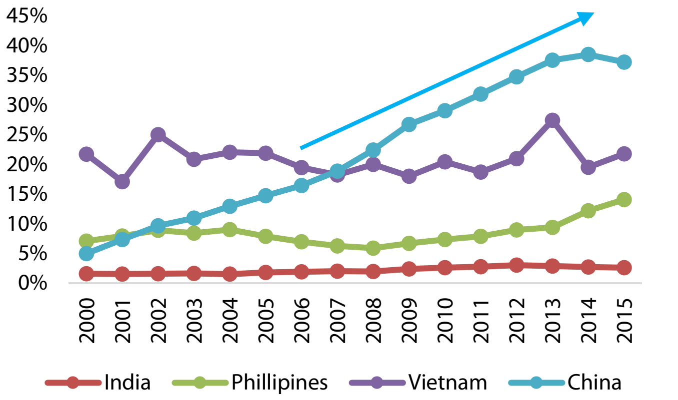
- Policy risk is the major issue as the industry is heavily policy dependent.
- FTAs coming into effect would lower the imported tax for foreign drugs.
- High input price will likely remain due to the environment protection act from China.

Figure 116: Median age of Vietnam and China 1950-2040



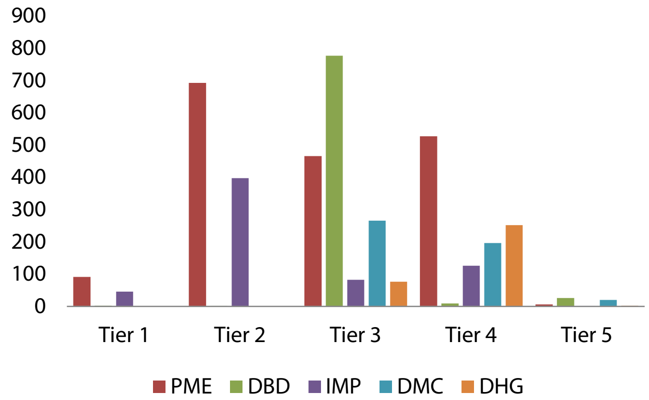
Source: Statista

Figure 117: Social health insurance as % of current health expenditure



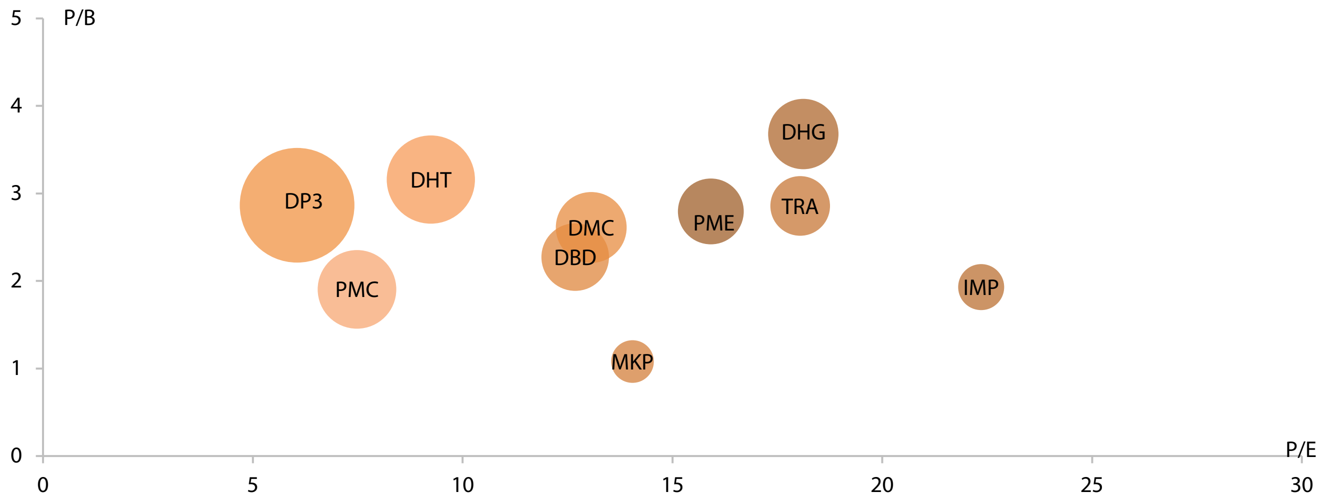
Source: WHO

Figure 118: Drug bidding result in public health facilities from 2017 to 1H 2018



Source: DAV, Rong Viet Securities

Figure 119: ROE. P/E, P/B of listed companies



*Source: Fiinpro, RongViet Securities * Size of bubble: ROE*

PYMEPHARCO JSC — Bloomberg: PME VN

Strong fundamentals and benefit from STADA's support

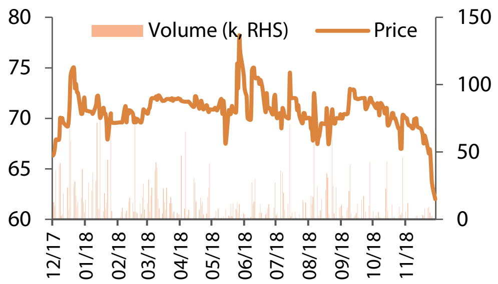
BUY	**26%**
CMP (VND)	**63,500**
Target Price (VND)	**78,100**
Cash Dividend (VND)*	2,000

(*) expected in next 12 months

Stock info

Sector	Health Care
Market cap (VND bn)	4,763.2
Current shares (millions)	75.0
3M avg. volume (K)	18.6
3M avg. Trading value (VND bn)	1.3
Remaining foreign room (%)	38.0
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,508	1,622	1,736	1,996
% yoy	15.2	7.6	7.0	15.0
PAT	239	286	316	369
% yoy	30.3	19.8	10.2	17.0
ROA (%)	14.8	14,6	14.9	15.6
ROE (%)	18.0	17,8	17.6	18.4
EPS (VND)	3,190	3,818	4,168	4,882
BV (VND)	26,431	24,677	23,887	26,769
Div (VND)	N/A	2,000	2.000	2.000
P/E (x)	N/A	19.1	16.1	13.7
P/BV (x)	N/A	3.4	2.8	2.5

*Price as of 12/14/2018

Company snapshot

With the support from STADA (Germany), PME is the first pharmaceutical company in Vietnam to have the antibiotic workshop that meets EU-GMP standards- since 2013.

The company currently owns two plants: Tablet Plant with a capacity of 800 million units per year, and Injection Drug Plant with a capacity of 37 million units per year.

Pymepharco JSC is the second largest western medicine manufacturer in Vietnam in terms of revenue and profit. It is one of the first company that will benefit greatly from the replacement of foreign drugs by domestic drugs in hospitals. PME has strong fundamentals and supports from its biggest shareholder, STADA.

Investment Rationales

- **Supporting policies to promote the use of domestic drugs in hospitals.** To reduce treatment costs in healthcare facilities, the government has been working on a series of policies to give preferential status to locally manufactured drugs for hospital purchases.
- **Competitive advantage of EU-GMP factories.** Building an EU-GMP factory requires a lot of time and effort (at least two years). Therefore, having two EU-GMP beta lactam lines (capsules and injection) is a big advantage for PME presently.
- **STADA is likely to increases sales through PME to retain its influence in Vietnam**. It is scheduled to divest from the STADA Vietnam J.V after 2019, which means PME is the only subsidiary left. In 2016, earnings distributable to STADA from the STADA Vietnam J.V was VND 123 Bn.

2019 Outlook

- We expect revenues to grow by 15%. The increase comes from: (1) 7% organic growth of old products, and (2) over VND 100 Bn contributed from the injection drug plan.
- Gross margin remains at 48%.
- New non-beta lactam factory with investment capital of VND 600 billion is expected to come into operation in late 2019 or 2020. The capacity is 1.2 billion units/year.

Risks to Our Call

- Policy changes takes too much time to implement or 'twist' in a negative way, which greatly affect the replacement trend of imported drugs by domestic drugs.
- Additional revenue from STADA products is not as high as expected.

A target for strategic investors

REDUCE **-5%**

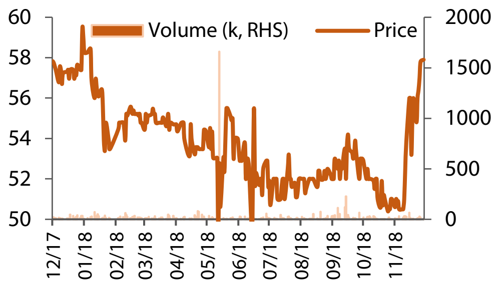
CMP (VND)	**57,800**
Target Price (VND)	**53,000**
Cash Dividend (VND)*	1,800

(*) expected in next 12 months

Stock info

Sector	Health Care
Market cap (VND bn)	2,855.4
Current shares (millions)	49.4
3M avg. volume (K)	29.1
3M avg. Trading value (VND bn)	1.5
Remaining foreign room (%)	0.9
State ownership (%)	19.9

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,010	1,165	1,249	1,410
% yoy	4.8	15.4	7.2	12.9
PAT	101	117	140	148
% yoy	8.9	16.0	19.7	5.7
ROA (%)	8.8	6.6	7.9	7.9
ROE (%)	10.8	8.4	9.2	9.4
EPS (VND)	1,801	2,090	2,501	2,643
BV (VND)	32,337	32,466	30,732	31,875
Div (VND)	800	500	1,500	1,800
P/E (x)	16.0	24.2	23.2	21.9
P/BV (x)	1.7	2.0	1.9	1.8

*Price as of 12/14/2018

Company snapshot

One of the five largest domestic pharmaceutical companies.

Key products are antibiotic and digestive drugs such as Pms-Claminat, Pms-Probio, and parenteral antibiotics, which are all produced with Spain's Enzymatic technology.

Similar to PME, IMP is one of the first companies that will benefit from the replacement of foreign drugs by domestic ones in healthcare facilities. However, due to a slow transition, IMP's earnings have not picked up as we expected. This results in a much lower ROA and ROE compared to its peers as the company has invested in new factories. Improvement is likely to take time and high valuations makes it not very appealing currently.

Investment Rationales

- **ETC sales needs more time to pick up.** We do believe the transition progress in the hospital channel will improves in 2019. However, it does not seem enough to boost earnings significantly.
- **High valuation.** Stock is trading at 23x P/E 2018. Growth in the next two years likely does not justify this level.
- **Takes time for IMP to find a strategic partner.** A strategic partner would be willing to pay a high multiple for the stock. With four EU-GMP factories, IMP appears very attractive. Nevertheless, the management prefers a partner that could contribute in terms of science and technology to one that is only seeking outsourcing.

2019 Outlook

- We expect ETC sales to increase 35%, reaching VND 260 Bn, and OTC sales to grow by 11%, equivalent to VND 940 Bn.
- The third EU-GMP factory starts operations. It will manufacture antibiotics in Vinh Loc.
- The company will continue to disburse for its high-tech factory in Binh Duong, completed in early 2020.

Risks to Our Call

- Transition progress speeds up, boosting ETC sales considerably.
- IMP finds a strategic partner, or someone takes over.

Output seems not to be a problem

ACCUMULATE 14%

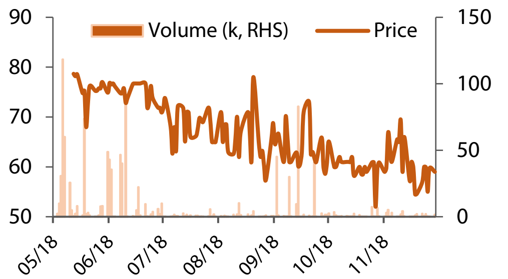
CMP (VND)	**58,200**
Target Price (VND)	**82,000**
Cash Dividend (VND)*	1,500

(*) expected in next 12 months

Stock info

Sector	Health Care
Market cap (VND bn)	1,130.7
Current shares (millions)	19.4
3M avg. volume (K)	0.7
3M avg. Trading value (VND bn)	0.0
Remaining foreign room (%)	1.5
State ownership (%)	18.2

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	1,262	1,367	1,220	1,206
% yoy	17.2	8.3	-10.7	-1.1
PAT	120	115	96	96
% yoy	18.8	-4.3	-16.3	0.7
ROA (%)	10.4	8.8	7.2	6.1
ROE (%)	12.2	11.0	8.7	7.3
EPS (VND)	6,161	5,899	4,442	3,577
BV (VND)	50,400	53,627	56,632	54,663
Div (VND)	2,300	2,000	1,500	1,000
P/E (x)	N/A	N/A	13.3	16.5
P/BV (x)	N/A	N/A	1.0	1.1

*Price as of 12/14/2018

Company snapshot

Six years after delisting, Mekophar is now back as a listed company with a Japanese strategic partner, Nipro. With the support of Nipro, it now has a new factory with PIC/S Japan standards.

The company also operates a stem cell blood bank with high growth potential.

Unlike PME and IMP whose output significantly depends on the hospital channel, Mekophar plans to manufacture and export most of its products for its strategic partner Nipro. This strategy should guarantee a consistent revenue for MKP. However, since orders from Nipro will likely only surge after 2020, so do earnings. Therefore, investing in this stock requires a 2-3 year horizon.

Investment Rationales

- **PIC/S Japan factory** with capacity of 2 billion units/year. While most of the products will be exported, the PIC/S Japan standards also allows MKP to participate in Tier 1 bidding in Vietnam.
- **High demand from Nipro.** Since it is the biggest contract manufacturing organization (CMO*) in Japan with a 90% market share, we strongly believe that its production demand for MKP will be huge. This guarantees MKP's factory to run at high capacity from 2021 onward.
- **Additional income from a potential real estate project**. After the leasing contract expires in 2020, the land in 297/5 Ly Thuong Kiet (1.2 ha) could be converted to other purpose like an office building complex or other. MKP is looking for a partner to realize the project.
- **Low valuation.** Stock is trading at a 13x P/E 2018, and 1x P/B. In terms of P/B, MKP is the cheapest among its peers.

2019 Outlook

- PIC/S factory to run at 15%-20% capacity and incur a loss of about VND 15 Bn.
- We expect total revenue and earnings to be flat in 2019.
- The company will issue stocks worth 20% of the current total outstanding amount to existing shareholders at around VND 40,000/share and 5% for ESOP at about VND 20,000/share. The proceeds will be used to build a new factory, with estimated capital of VND 400 Bn, and to be completed in 2020.

Risks to Our Call

- Demand from Nipro is lower than expected.
- Legal problem could delay the progress of real estate projects.

**CMOs are companies that serves other companies in the pharmaceutical industry on a contract basis to provide comprehensive services from drug development through drug manufacturing. This allows major pharmaceutical companies to outsource those aspects of the business.*

Stable Business

NEUTRAL **5%**

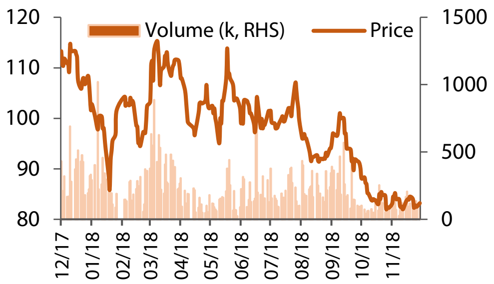
CMP (VND)	**82,500**
Target Price (VND)	**83,500**
Cash Dividend (VND)*	3,000

(*) expected in next 12 months

Stock info

Sector	Health Care
Market cap (VND bn)	10,786.6
Current shares (millions)	130.7
3M avg. volume (K)	211.6
3M avg. Trading value (VND bn)	20.0
Remaining foreign room (%)	50.9
State ownership (%)	43.3

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	3,783	4,063	3,893	3,954
% yoy	4.9	7.4	-4.2	1.6
PAT	686	642	620	685
% yoy	16.2	-6.3	-3.6	10.5
ROA (%)	18.1	15.8	15.9	17.3
ROE (%)	17.4	15.7	15.1	15.2
EPS (VND)	5,244	4,913	4,265	4,714
BV (VND)	32,532	21,013	22,235	24,251
Div (VND)	3,500	3,000	3,000	3,000
P/E (x)	8.5	19.9	19.4	17.6
P/BV (x)	2.0	4.6	3.7	3.4

*Price as of 12/14/2018

Company snapshot

DHG is the largest pharmaceutical company in Vietnam in terms of size and distribution system. 90% of its revenue comes from the pharmacy channel.

While the three above mentioned companies have focused on high factory standards as their competitive advantage, DHG's most powerful strength lies in its large distribution system in Vietnam. Since DHG is the largest pharmaceutical company whose revenue doubles the second, it is unrealistic to expect DHG to grow at a high rate. The stock is trading at a 20x trailing P/E, suggesting there is not much room for gains. However, DHG has quality that defensive investors look for: large market cap, well-established business, strong management and stable cash flow. It could be a nice 'stalwart' if the price drops further.

Investment Rationales

- **Stable business with largest distribution system.**
- **Having a strong strategic partner.** The partnership with Taisho (Japan) should provide DHG with a stable source of income. DHG can access other markets with Taisho in the region and can also manufacture its products.
- **If Taisho increases its stake in DHG it is likely to impact the stock price positively.** This is what happened twice in the past.

2019 Outlook

- Sales of blockbuster drugs: Hapacol (pain relief), Klamentin and Haginat (antibiotics) up by 5%-7%. These three account for a third of DHG's revenues.
- We expect strong growth from Naturenz (hepatic), Nattoenzym and Apitim (cardio-diabetic). However, sale of these drugs is not big enough to make a great impact on total revenue.
- Overall, sale from self-manufactured drugs will offset the loss from the drug distribution segment, which DHG forfeited as a requirement for FOL removal. We estimate DHG's revenue to be flat at around VND 4,000 Bn.
- As self-manufactured drugs have higher margins, we forecast gross margin will improve to 45.5% in 2019.
- The company's NPAT in 2019 is estimated to be VND 685 Bn, translating to an EPS of VND 4,717 (+10% YoY)

Risks to Our Call

- P/E contraction due to the slow growth of the company

CONSTRUCTION - MATURE

Anh Tran (anh.tm@vdsc.com.vn)

The construction industry is showing signs of entering the mature stage of its life cycle. During the 2015-17 period, many construction companies experienced solid performance, especially those who worked in the residential and commercial segments. They have had trouble prolonging their organic growth rates in 2017-2018. Obstacles occur partly because this industry is becoming saturated with intense competition and bargaining power customers (i.e. project investors). As well there are tight legal and regulation issues, badly influencing the industry's gross profit margin.

Of course, in an industry worth more than VND 115 thousand billion in market cap, there will be some 'miracle stories' of healthy companies that have overcome difficulties to solidify their position over other competitors. Moreover, growth prospect still looks good since developing construction is undoubtedly the priority of the government for the next 10 years.

Investment Outlook

Construction is growing in line with GDP but entering the 'mature stage'

Using the price of 2010 as a point of reference, from 2005 to 2017, this industry has been linearly increasing in line with GDP. With the expansion of the economy, the construction industry experienced growth. Nevertheless, this industry is entering the 'mature stage' of its life cycle. Hence, contribution value is expected to grow at 7.1% in the 2018-2019 period. The industry's contribution to GDP is predicted to decline to 6.2% in 2019 (see Figure 120).

The rising industrial construction sector

The residential segment has witnessed the growth of projects being far from city centers, and now, this story may continue with even further projects. They are attractive for investors since the land bank is adequate to scale up projects, acquiring cost is affordable and the public traffic has improved in recent years. VinCity and the rise of mid-end projects will be a catalyst for the industry's sustainable growth.

The slowdown in residential and commercial segments in 2018 forced construction firms to diversify their operations, take projects in sub-sectors which have lower gross profit margins, such as industrial or infrastructure facilities. Expansion in the industrial segment is supported by:

(i) Solid FDI and the increase in demand for building industrial factories.

(ii) US-China trade war, which may create a wave of moving manufacturers from China to Vietnam to avoid tariff hikes.

In fact, construction firms like Coteccons and Hoa Binh have diversified their businesses towards the industrial segment and increased this to 20% of their revenues.

Gross profit margin of construction firms whose market cap are over VND 100 bn witnessed a fall since 2014 (see Figure 121).

Another reason explaining lower gross margin is that constructors are influenced by the prices of input materials. Usually they are unable to fully pass this rise to customers. Intense price competition between contractors prevents most players from charging customers more when material inputs become more expensive.

Infrastructure is considered 'high return'

According to BMI research, Vietnam is classified as one of the most rapidly growing frontier markets, where infrastructure investments are a government priority. Vietnam has significant scope for new infrastructure facilities from very basic levels (e.g. highways, heavy rail) to more high value projects (renewables, urban transport). Infrastructure as a percent of total construction averages around 45%.

The rewards when investing in Vietnam is considered as 'Very High', and this comes from the construction industry value, the real growth of this industry, and the project pipeline. Together with the low rate of urbanization, developing infrastructure facilities is the priority of the government.

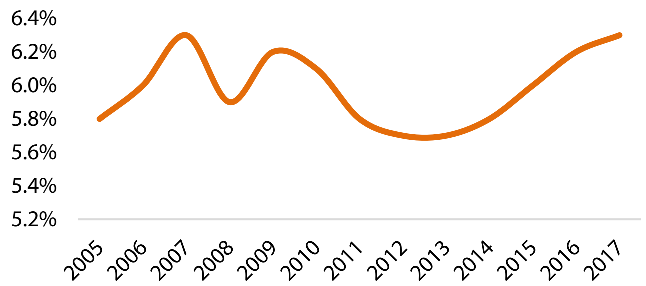
Expenditures on construction account for around 25% of total governmental expenditures from 2015 to 2018. The planned figure for 2018 is 390 trillion VND (see Figure 122).

Risks

- **Long term economic conditions**: Construction and GDP are highly correlated. Vietnam's economic growth rate is expected to slowdown a bit in 2019, so is the construction's growth rate.
- **Long term legal environment:** Decree 167/2017/ND-CP issued on 31/12/2017. Effective from 01/01/2018 on investigating and the use of public properties, especially public land. The government has increased *inspection on the seizure and forfeiture of assets associated with criminal cases, and strictly punished the violators. This will significantly affect the leasing segment of construction firms.*
- **Timeliness and contracts of construction:** The lagging time from approving projects from the government to completion is quite high. The duration of processing capital requirements and legal documents also vary by types of projects and short term government priorities.
- **Cash flow pressure**: Companies are facing the problem of negative cash flows. According to our analysis of 148 construction firms who have released their financial results until 3Q2018, there are only 57% of them that have positive cash flow from operating activities. Construction firms have to pay in advance to sub-contractors to push the progress of projects, then it takes time for them to collect money from investors.

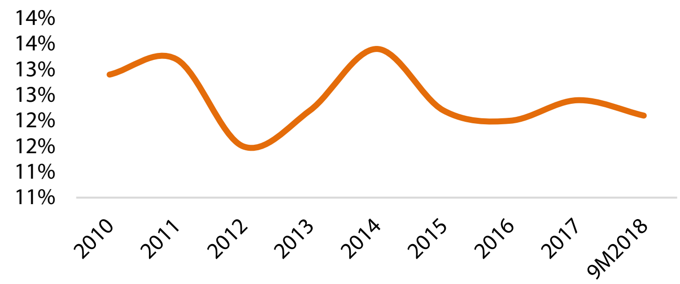
  Receivables gradually increased by 18% from 155 days in 2014 to 184 days in 2017. For 9M2018, this figure reached 281 days (see Figure 123). This problem can be solved in the last quarter of the year, when firms collect money from project investors and book revenues.

Figure 120: Construction's contribution to GDP (%)



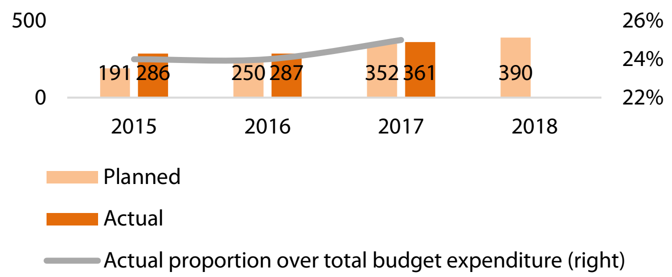
Source: GSO

Figure 121: GPM of construction firms with more than VND 100 bn in market cap



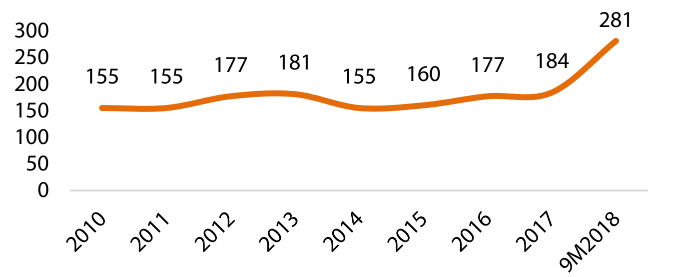
Source: FiinPro

Figure 122: Planned and Actual capital construction expenditure (trillion VND)



Source: Ministry of Finance

Figure 123: Days sales outstanding (days)



Source: FiinPro

COTECCONS CONSTRUCTION JSC | Bloomberg: CTD VN

Moving out of the 'comfort zone'

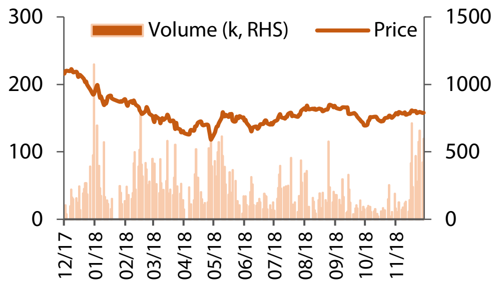
NEUTRAL	**4%**
Current price (VND)	**161,500**
Targer price (VND)	**164,200**
Cổ tức tiền mặt (VND)*	3,900

(*) expected in next 12 months

Stock info

Sector	Construction & Materials
Market cap (VND bn)	12,628.8
Current shares (millions)	78.2
3M avg. volume (K)	119.7
Free float (%)	18.9
Remaining foreign room (%)	5.2
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	20,783	27,153	28,646	30,078
% yoy	52.0	30.7	5.5	5
PAT	1,422	1,653	1,563	1,546
% yoy	113.5	16.2	-5.4	-1.1
ROA (%)	12.1	10.8	5.5	5.1
ROE (%)	22.8	18.3	9.1	8.3
EPS (VND)	15,093	20,436	17,812	17,633
BV (VND)	80,904	94,830	107,170	120,888
Div (VND)	5,000	5,000	3,900	1,600
P/E (x)	12.1	11.1	8.6	8.7
P/BV (x)	2.3	2.4	1.4	1.3

*Price as of 12/14/2018

Company snapshot

Coteccons Construction JSC (CTD-HSX) is one of the largest listed Vietnamese construction contractor, famous for its Design & Build capacity. Managing a nearly-1-billion USD backlog of large-sized projects of various construction works, CTD is trusted by large developers including Vingroup and Sungroup. Possessing a remarkably strong financial structure with no loans and a sufficient amount of cash makes Coteccons superior to most of its local peers in placing large and complicated bids..

While most construction companies struggled to reach their 2018's targets, CTD performed well to achieve growth in both revenue and profit. Although the main strength of CTD still lies in constructing residential projects, it is step by step diversifying its business to maintain a stable cash flow. The industrial construction segment would be the right choice as the residential and commercial segments are predicted to cool down. With a steady backlog, a promising M&A plan, and a new adventure in the industrial segment, CTD is ready to sail in 2019.

Investment Rationales

- **Financial strength is the key to pursue long term goals:** CTD is famous for its no-debt capital structure with an adequate amount of cash. This enables CTD to operate in projects in which it needs to pay in advance to sub-contractors to push the rate of progress. A healthy financial structure not only puts CTD ahead of the pack when bidding for construction projects, but also make it more powerful when negotiating payment terms with the project's investors.
- **Design and Build with the support of technology**: When the price competition becomes fierce, CTD use the strength of technology to manage expenses and optimize its D&B service. Building Information Modeling (BIM) has been applied and gives CTD the insights and tools to more efficiently plan to design, construct and manage buildings and infrastructure.
- **Moving out of the comfort zone:** To maintain its current market share, CTD decided to raise its activities in the industrial segment. It works with Vietnamese owners and target projects financed by the Chinese, who have the tendency to outsource their manufacturers to Vietnam to avoid negative influences created by the current US-China trade war. Main projects in 2018 are VinCity (residential one), Hoa Phat Group industrial complex, Vinfast complex and Timberland Manwah (industrial ones).
- **Integrating business with M&A transactions:** Currently, CTD possesses 15% of Ricons, and plans to merge this company. The M&A plan would be determined in the Annual General Meeting in March 2019.

2019 Outlook

- Current backlog of VND 22,000 bn in which residential and industrial projects are 50% and 18%, respectively.
- Gross profit margin expected to remain at around 6.8%;
- VinCity projects would probably be positive for sentiment;
- Legal and regulation issues prevent the growth of the commercial and residential segments.

Risks to Our Call

- Unexpected short term legal and political environment could threaten CTD's business.
- Scandals of either sub-contractors or project investors may harm CTD's reliability and reputation.

FERTILIZER - MAIN DRIVERS NOT FROM FUNDAMENTALS

Vu Tran (vu.thx@vdsc.com.vn)

The fertilizer industry is ending 2018 with lower numbers in net profit compared to 2017. Expecting a change in the VAT policy continues to be a key point which created "tiny waves" in stock prices in 2018. However, the sector has to wait for another year to get the confirmation from the Ministry of Finance (MoF) about the proposed amendments on VAT regulations. The National Assembly did not formerly announce it in November 2018. Regarding Urea producers, DPM and DCM are benefiting from decreasing gas input prices and increasing selling prices. The divestment stories from PVN and Vinachem, which is not over, are still the catalysts for the fertilizer industry. Therefore, we believe the 2019 drivers, once again, for fertilizer stocks will come from the adjustment in VAT policies and the expectations about divestment.

Investment Outlook

Waiting for the VAT adjustment in 2019. Regulations are expected to subject fertilizer products to a VAT of 5% from no VAT. As a result, DPM, DCM or LAS are the ones to benefit the most.

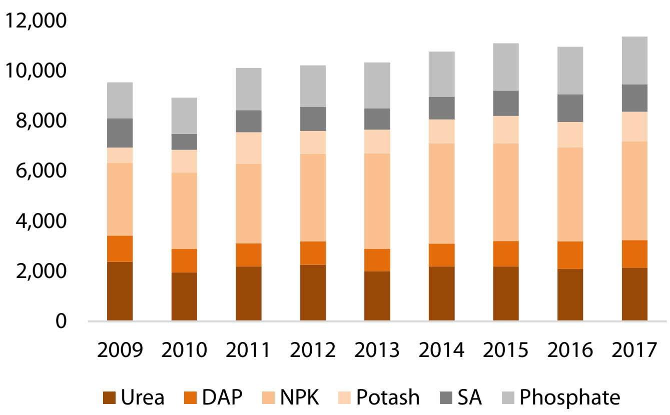
Divestment story from PVN and Vinachem. PVN and Vinachem have not finished the divestment plan for 2018 and the market hopes this will happen in 2019. Following that, PVN will decrease the ownership in DPM and DCM below 51% while Vinachem will do the same with SFG and BFC. Nevertheless, the divestment method of PVN may have to be adjusted by merging DPM and DCM before reducing the ownership in these two companies.

DPM and DCM are the two most beneficiaries. With the decreasing gas prices, following the downside in the crude oil price and the increasing in the urea price, urea companies like DPM and DCM were able to improve gross margins and their net profit. However, sustainability is an issue. It will depend, in part, if OPEC and its allies agree to cut production to support prices.

Risks

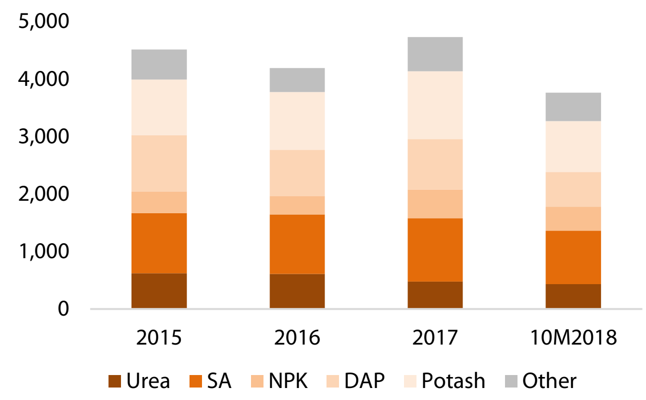
- **Fierce competition.** NPK market will face strong competition as a lot of players build NPK plants.
- **VAT law may not be approved in 2019.**
- **Increasing gas input price will hurt DPM and DCM.**

Figure 124: Fertilizer domestic demand (Thousand tons)



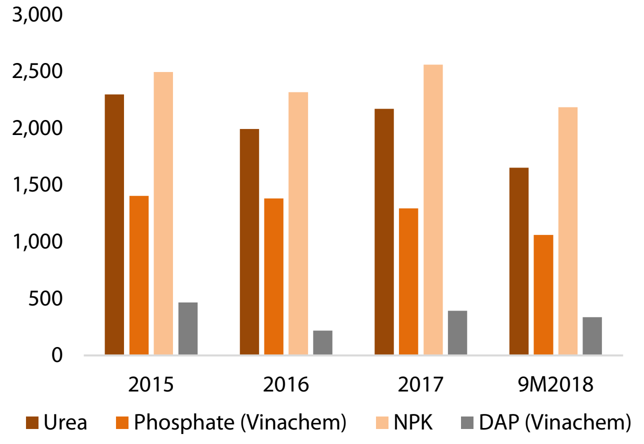
Source: Rong Viet Securities

Figure 125: Imported fertilizer volume (Thousand tons)



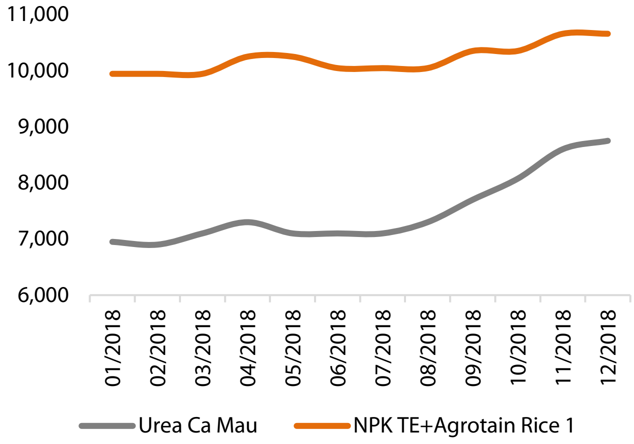
Source: Vietnam Customs

Figure 126: Domestic fertilizer production (thousand tons)



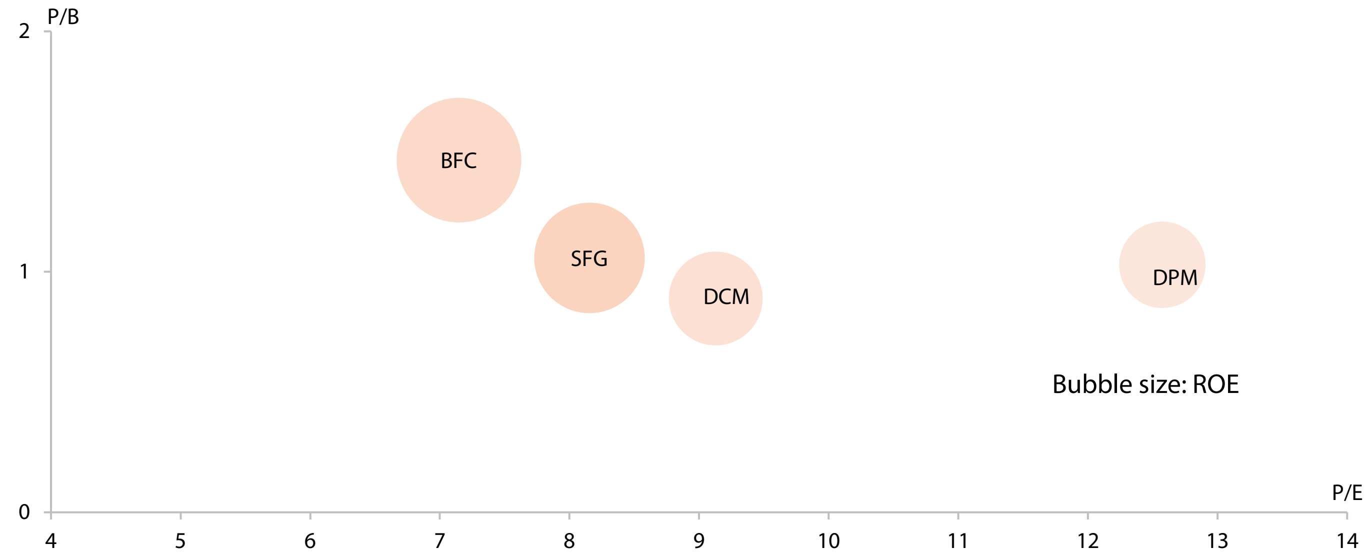
Source: Rong Viet Securities

Figure 127: Ca Mau urea price and NPK Binh Dien (VND/kg)



Source: Rong Viet Securities

Figure 128: ROE, PE, PB of companies in the fertilizer industry



*Source: Fiinpro, RongViet Securities, *Size of the bubble: ROE*

BINH DIEN FERTILIZER JSC — Bloomberg: BFC VN

Finding an answer for growth

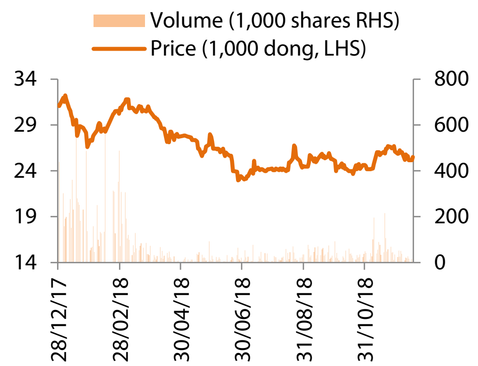
ACCUMULATE	11%
CMP (VND)	**26,250**
Target Price (VND)	**26,800**
Cash Dividend (VND)*	2,500

(*) expected in next 12 months

Stock info

Sector	Basic materials
Market cap (VND bn)	1,500
Current shares (millions)	57.1
3M avg. volume (K)	66.0
3M avg. Trading value (VND bn)	1.8
Remaining foreign room (%)	35.1
State ownership (%)	65.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	5,943	6,306	6,604	6,478
% yoy	-1.6	6.1	4.7	-1.9
PAT	277	278	211	192
% yoy	21.0	0.2	-23.9	-8.7
ROA (%)	7.9	8.3	5.2	5.0
ROE (%)	24.8	31.2	20.6	18.2
EPS (VND)	4,457	4,457	3,393	3,098
BV (VND)	15,749	17,063	17,942	18,539
Div (VND)	3,000	3,500	2.500	2.500
P/E (x)	5.7	7.5	7.7	8.5
P/BV (x)	1.5	1.6	1.5	1.4

*Price as of 12/14/2018

Company snapshot

Binh Dien is a high-quality NPK producer under the brand name "Dau Trau", a top leading company with a 28% and 30% market share in the Southern and Highland markets, respectively. The business operates on a designed capacity of 975,000 tons/year and 70% capacity on average.

In addition to its high-end NPK production business, the company has diversified operations through other sectors such as organic fertilizer and agrochemical products.

Vietnam National Chemical Group (Vinachem) is currently the largest shareholder with a 65% stake of BFC.

We anticipate that the NPK market will face strong competition when players like LAS and DPM take part in by building more factories resulting in more supply into the domestic market. Demand is stable, preventing organic growth for BFC. The only opportunity for the company is to look at export markets but the outcome is not so promising in our opinion. Hence the divestment story from Vinachem will be the rare support for the stock price in 2019.

Investment Rationales

- **Strong competition but BFC can maintain its market share.** Binh Dien is a well-known brand name in the fertilizer sector. It has a good sales team which will help BFC maintain its market share amid strong competition.
- **High cash dividend.** BFC cannot post profit's growth as the company may face higher expenses to stabilize the selling volume. However, we expect that the company can keep it cash dividend policy at VND2,500 per share, equivalent to a dividend yield of 9.5% at the current market price.
- **Vinachem's divestment.** As planned, Vinachem will reduce its ownership in BFC to below 51% in 2019. The market is waiting.

2019 Outlook

- Basing on a slightly lower selling volume and a higher selling price, combined by the increasing input price, revenue is forecasted to decrease by 2% to VND6,478 bn. Net profit attributable to the parent company will fall almost 8,7% to VND192 bn next year.

Risks to Our Call

- Intense competition can be a drag on NPK's selling volume.
- Slower divestment plan from Vinachem.

BUILDING MATERIALS INDUSTRY – COLORFUL

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Duong Lai (duong.ld@vdsc.com.vn)

The steel industry: Challenges ahead

The threats of trade war and economic cyclical factor resulted in the slowdown of China economy; thus, reduce steel demand in this country. Because China accounts for 50% of total steel consumption worldwide, this situation would lead to a significant decrease in the growth rate of global steel demand (Figure 129). Consequently, increasing protectionism is a difficulty that Vietnam steel industry has to deal with, especially for galvanized (coated) steel companies. Domestically, the cooled-down of real estate market and the increasing of production capacity of steel mills may push the competition more intensively. However, the opportunities still exist both in Vietnam and in international markets for companies which can illustrate their flexibility during hard time.

Investment Outlook

Protectionism gets worse. Vietnam is currently a target of many lawsuit from various countries/organizations such as the United States, the EU, Malaysia, Thailand, Indonesia and so on. In Q3, 2018, Vietnam had to face with eight lawsuits from seven different countries in one month and this circumstance affected immediately to the export of Vietnam steel products in this quarter. Potentially, Vietnam steel industry has to cope with more lawsuits in the future. *However, Vietnam steel industry is also seeking more markets to export*. The export weight of top 5 steel importers (Malaysia, Indonesia, Thailand, Cambodia, Philippine) in ASEAN versus total steel export has deteriorated from the peak 77% of total export in 2013 to just 48% in 11m 2018 (Figure 131), which means Vietnam steel products are now have more markets to export. Although the export value to Malaysia, Indonesia and Thailand not significantly increase, Cambodia became the favorite market for Vietnam steel exporters. Cambodia market is already in the plan of Vietnam steel makers thanks to its booming in construction sector and HPG decided that this market will be the most important international market in the upcoming year. (Figure 132).

Intensify competition. With the rising design capacity of the whole industry, the competition will be more intensive than the previous years, especially when the expected growth of steel consumption decrease. For the construction steel, the main competition zone will be the southern market due to the products from Dung Quat plant of Hoa Phat. For the galvanized products, the excess comes from the total design capacity (over 5mn tons and increasing) is far beyond the total consumption (around 4mn tons), which will bring down the utilization rate.

Safeguard taxes will end in 2020. Vietnam's safeguard taxes with billet and rebar will end in 2020, which lead to a threat of China steel product will dominate domestic market thanks to its competitive price. Another negative affection is Chinese steel products try to evade taxes from countries like the U.S by export to Vietnam as an intermediate location and then from Vietnam export to the U.S. This activity harms domestic steel industry because Vietnam is a target of many anti-circumvention lawsuit.

Vietnam economy may not be able to keep the high growth rate – Real Estate sector slowdown. Although some sectors may be benefited from the trade war but overall, Vietnam could be badly affected due to its openness level of economy. GDP growth rate is decreasing since 1Q, 2018, hence, investors afraid that this would affect to the private investment. World Bank forecasts GDP growth will decrease to 6.5%-6% in the upcoming years. Additionally, the Real Estate sector showed some signal of slowing down in terms of transactions amount decreased in 2H 2018.

Rising interest rate: Many companies in this sector depend heavily on leverage due to the rapid expansion period for the last 3 years and galvanized companies would suffer the most if interest rise up.

The expectation of downtrend for main inputs which will lead to the decrease of COGS. Iron ore has dropped to 65$/ton zone after reaching its peak at 76$/ton in October, 2018. The substitution of iron ore - steel scrap is predicted to be in the downtrend in 2019 because of huge amounts of supply from China (from 150 mn tons to 200 mn tons), which is resulted from the cycle life of steel products (around 40 years). Hard Coking Coal is expected to maintain at current price 220$/ton or even decrease because the demand from steel mills in China will be cut down significantly due to government command on environment issue. Hot Rolled Coil, a main input material for coated steel, is also decreasing below the 500$/ton level. (Figure 130).

Risks

- The tension between the US and China cool down by a trade agreement which will boost up the global economy, thus increase the demand for steel.
- The Real Estate sector is not as bad as predicted and still have a huge amount of backlog comes into construction..

The cement industry: Exports are the way to ease the tough competition

In 2018, Vietnam was among the top 10 cement producing countries with installed capacity of 148 mn tons per year, however, total consumption is much lower, at around 85 million tons. Excess capacity, together with the rises in production costs, including material expenses (coal, oil) and worker expenses, negatively influence the profitability of cement industry. Nevertheless, with the rising demand in China market in 2018, the cement industry has found exports as the solution for excess capacity. On March 2017, Chinese planners considered to cut production of coal, steel, and cement by 10% to control air pollution. Moreover, they also enabled a plan to prohibit the expansion of heavy industry capacity, including cement in 2018.

By November 2018, total cement export reach 28 million tons, which is 10 million tons higher than the number of 2017. Meanwhile, cement export value reached an all-time high of USD 1.1 bn. Since November 2018, China is Vietnam's biggest export destination, with more than 7.6 tons in volume and more than USD 276 mn in value. Bangladesh ranked second with nearly 6 million tons. In Southeast Asia, the Philippines is the most important importer with 5.5 tons of cement in 10M2018.

Cement firms located in the North are going to benefit from exports since they have the competitive advantage of location. This scenario will ease the harsh competition, and indirectly support other cement firms whose products are consumed domestically. For 2018-2020, exports will still be the main investment theme, with China as the biggest trade partner. Bangladesh, Cambodia and the Philippines are prominent destinations for Vietnamese cement products. Construction demand from these countries has been augmenting in recent years.

The wood and wooden product industry: The American dream

With the durability and flexibility of wood, the demand for using such kind of products in American homes has never diminished. The rise in demand also enabled countries like Vietnam to explore this huge market over the past few years. In 9M2018, the US was Vietnam's most valuable export market, which accounted for more than 43% of exports in value. The proportion of the US is even twice as that of the second biggest market, Korea, at 20% (see Figure 133).

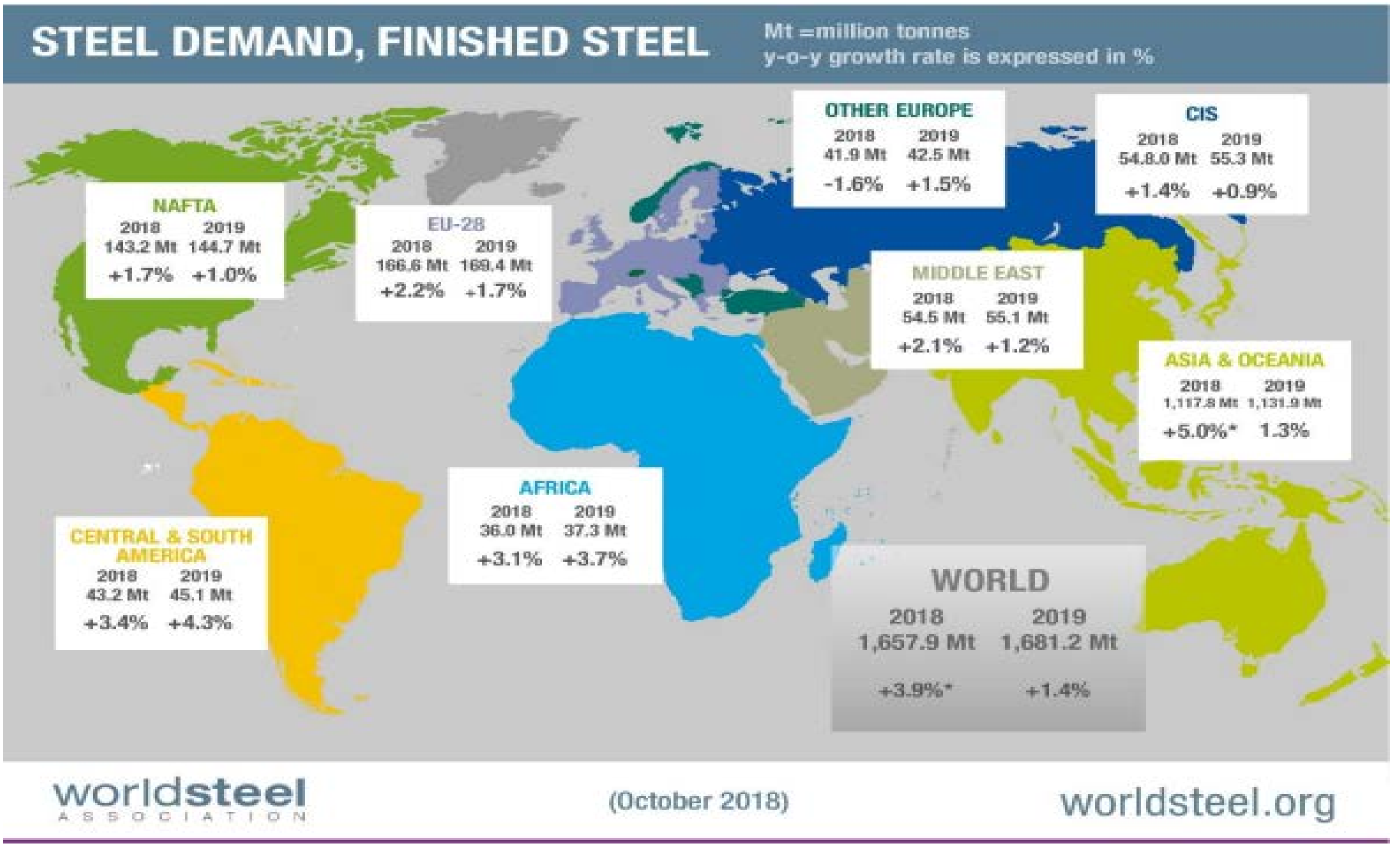
Regarding wood and wooden products, export value to the US also experienced an upward trend from 2015 to 2017. Meanwhile the import value saw almost no significant change. Specifically, the export value of wood and wooden products to the US market reached USD 2.6 bn in 2015 and gradually increased by nearly 20% to USD 2.8 bn in 2017. In contrast, the import value has fluctuated at around USD 0.2 bn from 2015 to 2017. Moreover, over the past three years, this trade surplus has marginally grown up from USD 2.3 bn in 2015 to USD 2.8 bn in 2017. The trade surplus ended 6M2018 at a high of USD 1.5 bn (see Figure 134).

In 2018-2020, The US is the biggest market for wood and wooden products exports. In addition, China, Japan, Korea and the Euro zone are potential market for exporters.

Risks

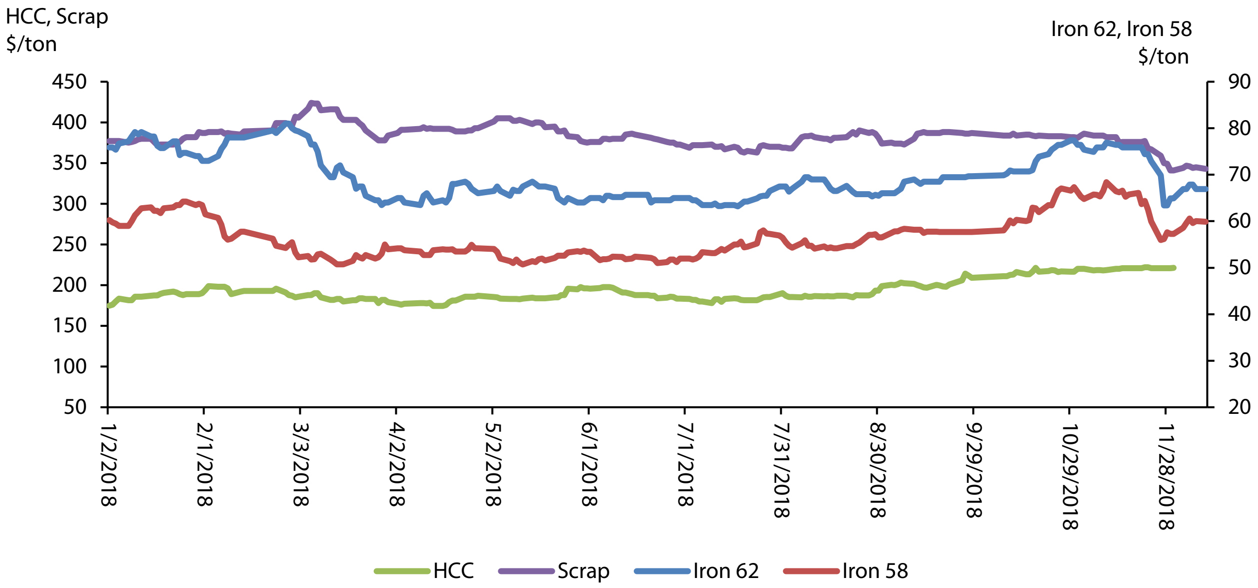
- The increase in input prices.
- The possibility of increased interest rates, which will significantly impact many corporations using a large proportion of debt to finance new investments.
- Unfavorable weather conditions.

Figure 129: Steel sales volumes (million tons)



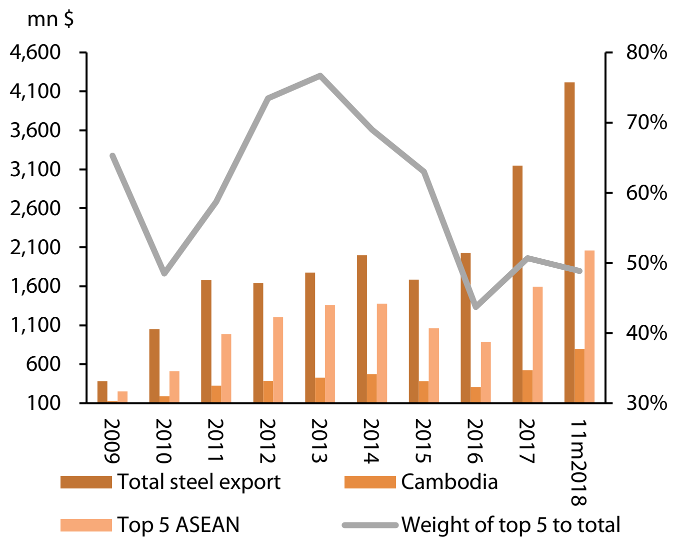
Source: Worldsteel

Figure 130: Fluctuation of main steel inputs in 2018



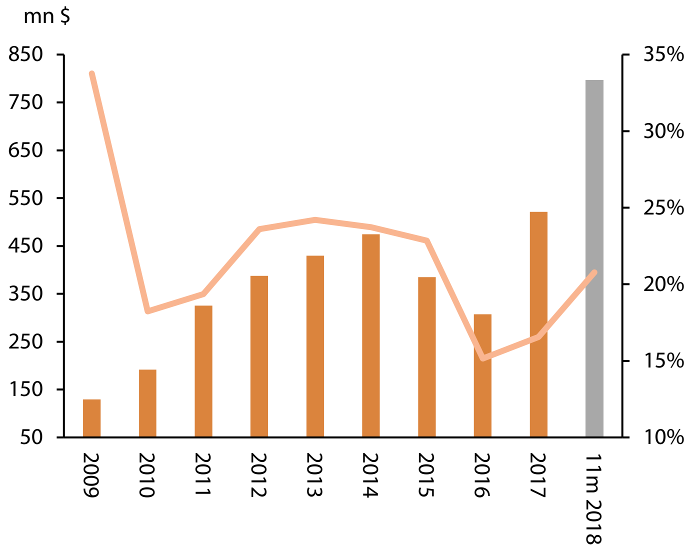
Source: Bloomberg

Figure 131 : Steel export value to top 5 importers in ASEAN (Malaysia, Indonesia, Philippines, Cambodia, Thailand) versus total Vietnam steel export from 2009 to 11m2018



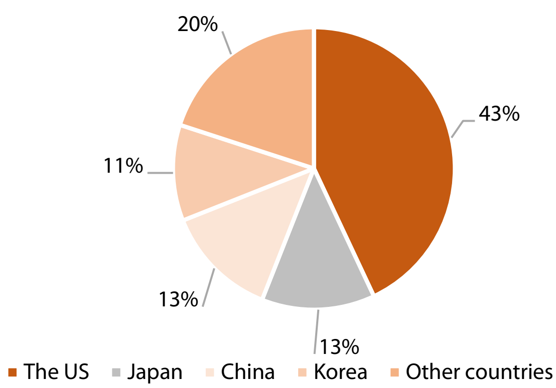
Source: Vietnam Custom

Figure 132: Export volume to Cambodia (bar, LHS) and weight of Cambodia versus total steel exports (line, RHS)



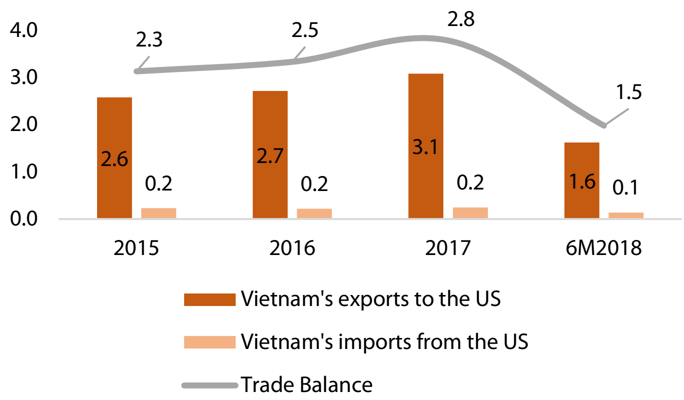
Source: Vietnam Custom

Figure 133: Vietnam's wood & wooden products export markets



Source: Vietnam Customs

Figure 134: Export – Import value (USD bn)



Source: Go Viet

Dung Quat will be the spotlight in 2019

ACCUMULATE 16%

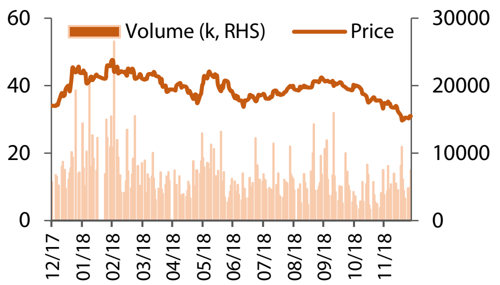
CMP (VND)	**33,500**
Target Price (VND)	**38,900**
Cash Dividend (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Metal
Market cap (VND bn)	71,151
Current shares (millions)	2,123.9
3M avg. volume (K)	5,685.3
3M avg. Trading value (VND bn)	219.6
Remaining foreign room (%)	10%
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	33,283	46,162	56,760	72,697
% yoy	21%	39%	23.0%	28.1%
PAT	6,606	8,015	8,838	10,163
% yoy	89%	21%	7.2%	11.6%
ROA (%)	22.5%	18.6%	13.8%	11.7%
ROE (%)	33.3%	24.7%	21.3%	22.4%
EPS (VND)	5,229	5,757	3,870	3,423
BV (VND)	23,425	21,282	18,962	15,505
Div (VND)	1500	0	0	0
P/E (x)	6.2	8.9	8.9	10.4
P/BV (x)	1.1	2.2	1.8	2.2

*Price as of 12/14/2018

Company snapshot

Hoa Phat Group Is the leading steel manufacturer, which main products are construction steel and pipes. The company was established in 1992 as a construction equipment supplier and later became the largest steel corporation. In 2017, HPG initiated the ambitious project – Dung Quat with a target to join the top 50 largest steel mills in the world.

With three steel factories in Hung Yen, Hai Duong and the incoming Dung Quat in Quang Ngai, construction steel contributes the most to revenues. Steel pipes, with a capacity of 700 thousand tons annually, come second in terms of contribution to the bottom line.

HPG has been a favorite choice for institutional and individual investors in the past few years. In 2018, although the steel sector has been under pressure, HPG still achieved good business results. HPG started investing into the Dung Quat project, which is expected to bring tremendous revenues and profits for the upcoming years. However, investors raised concerns about the escalation of debt on HPG' balance sheet. The impact of competition from China is a factor affecting steel prices to the downside. In order to overcome these difficulties, HPG has put in place solutions from seeking opportunities in international markets to increasing its market size in the domestic market.

Investment Rationales

- **Dung Quat Project is on track.** With total capex of over VND 40,000 bn, HPG has invested around VND 28,000 bn just in 2018. The amount of capital poured into this project highlights the fact that construction is progressing rapidly. The company expects that the first product from Dung Quat will be coming by the end of Q2, 2019. This project will contribute over 2 mn tons annually of construction steel and hot rolled coil products, which will bring over VND 20,000 bn in revenue.
- **Exploiting new markets.** Increasing market share, especially in the South, and expanding oversea business are the two key solutions in order to solve the output question for Dung Quat products. A port in Dong Nai Province has been built and an office in Cambodia has been opened. HPG's Chairman declared that in 2019, HPG will export at least 400,000 tons.
- **Huge competitive ability.** HPG is a steel mill using BOF technology, which has far more advantage in terms of unit cost than EAF technology, which are using by 70% of competitors in the South. Because of economies of scale, the gross margin of HPG is triple or four times higher than its rivals. This leads to a much favorable position for HPG to offer discount policies compared to other steel mills.
- **Healthy balance sheet and excess profit.** Despite many concerns of rising debt, the company has the capacity to fulfill its payment obligations. Interest expenses that HPG will have to pay from 2019 onward are estimated at around 9% to 10% of EBIT.

2019 Outlook

- Construction steel volume expected to increase 5% to 8%. Booming construction demand in Cambodia will continue thanks to a large number of approved projects.
- Main inputs such as iron ore and hard coking coal will continue drop.
- Revenue is forecasted to increase by 28% to VND 72,697 bn and net profit may grow 12% to VND 10,163 bn in 2019. The 2019 EPS diluted will be around VND 3,423 per share.

Risks to Our Call

- The real estate sector gets into a downturn.
- The Dung Quat project is delayed.
- Competition from Chinese steel products.

Fair valuation

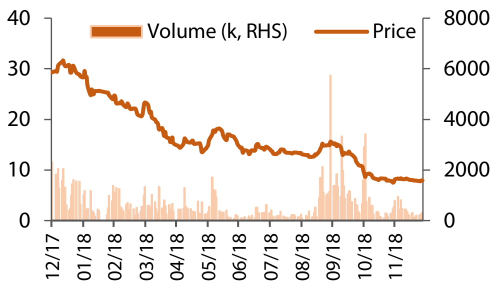
ACCUMULATE	**9%**
CMP (VND)	**8,170**
Target Price (VND)	**8,900**
Cash Dividend (VND)*	0

(*) expected in next 12 months

Stock info

Sector	Metal
Market cap (VND bn)	1,486
Current shares (millions)	182
3M avg. volume (K)	931
3M avg. Trading value (VND bn)	11.45
Remaining foreign room (%)	5.7%
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	8,936	12,619	14,891	15,814
% yoy	55%	41%	18%	6%
PAT	518	708	222	279
% yoy	311%	37%	-69%	26%
ROA (%)	10%	9%	2.2%	2.8%
ROE (%)	33%	24%	7.1%	8.2%
EPS (VND)	3,983	5,442	1,160	1,458
BV (VND)	23,934	22,619	17,316	18,774
Div (VND)	0	1000	0	0
P/E (x)	3	2	7.2	5.7
P/BV (x)	1.0	1.0	0.5	0.4

*Price as of 12/14/2018

Company snapshot

Nam Kim Group Is a galvanized steel manufacturer which main products are coated steel and steel pipes. This company was established in 2002 and is located in Binh Duong Province. In 2017, NKG was the second largest galvanized steel producer, a result which come from the rapid expansion of NKG in the 2015-2016 period.

With three coated steel factories in Binh Duong, coated steel is contributing the most in total sales, while steel pipe accounts is second. Currently, NKG has a capacity of around 1 million tons of galvanized products per annum.

After a record profit in 2017, NKG is experiencing a turbulent 2018 due to fluctuations in the steel sector globally, which results from trade tensions and the rising of protectionism around the world. Sharp rising input cost at the beginning of the year followed by the huge drop of export consumption in 2H 2018 has deteriorated NKG's profit significantly. The galvanized industry will continue to face hard conditions in 2019 year because of intense competition and other negative factors mentioned above. With the rising trend of protectionism, NKG will find it more difficult to export its product, mostly because of anti-dumping taxes. Additionally, trade war(s) could cause world economic growth to slow down, thus, decreasing manufacturing and eventually suppliers like NKG. The rapid expansion of competitors, such as HSG, Dong A, Phuong Nam and HPG, causes huge pressure on the galvanized steel market. Total coated steel consumption for the year until November 2018 is 3.2 mn tons, far below the total design capacity of the sector at around 5 mn tons.

Investment Rationales

- **Hot Rolled Coil (HRC) is in a downtrend.** The main input material of NKG is going down after reaching its peak at 620$/ton in early 2018. In December 2018, HRC price dropped below 500$/ton and are expected to decrease furthermore. This trend is the result of oversupply of HRC combined with negative forecasts of global galvanized consumption.
- **Fair valuation.** Despite the many difficulties of the industry in the upcoming year, it cannot be denied that NKG is one of the key player in galvanized manufacturing. With a huge design capacity, we expect that NKG could maintain its market share as well as stabilize its in balance sheet.

2019 Outlook

- The galvanized segment is expected to post 10% volume growth in 2019.
- The HRC price is expected to stay at 500$/ton or lower if consumption drops.
- Revenue is forecasted to increase by 6.2% to VND 15,814 bn and net profit may post a 25.7% growth to VND 279 bn. The forward EPS will be around VND 1,458 per share.

Risks to Our Call

- Sharp rise of interest or exchange rates.
- The US-China tensions come become critical, which could badly damage international trade.
- Unexpected increase of input costs.

OTHER STOCK PICKS

Sustainable growth post restructuring

BUY **30%**

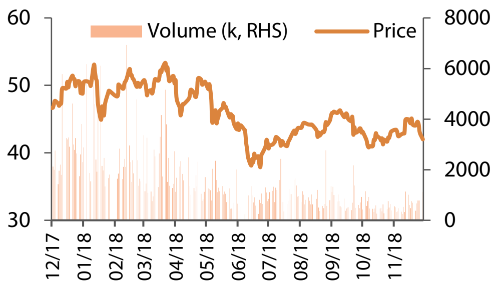
CMP (VND)	**44,150**
Target Price (VND)	**55,000**
Cash Dividend (VND)*	2,000

(*) expected in next 12 months

Stock info

Sector	Technology
Market cap (VND bn)	27,088.4
Current shares (millions)	613.6
3M avg. volume (K)	750.0
3M avg. Trading value (VND bn)	33.1
Remaining foreign room (%)	0.0
State ownership (%)	5.9

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	39,531	42,692	23,753	27,286
% yoy	4.1	8.0	-44.4	14.9
PAT	1,991	2,927	2,513	2,960
% yoy	3.1	47.0	-14.1	17.8
ROA (%)	7.1	11.7	8.8	9.6
ROE (%)	18.4	25.7	18.9	19.7
EPS (VND)	4,333	4,778	4,079	4,804
BV (VND)	20,727	21,513	21,698	24,493
Div (VND)	2,000	2,000	2,000	2,000
P/E (x)	10.2	8.8	11.0	9.4
P/BV (x)	1.8	1.9	2.1	1.8

*Price as of 12/14/2018

Company snapshot

FPT provides services in system integration, outsourcing, internet and telecommunications. FPT is the parent company of FPT Telecom (UpCom-FOX), one of the largest internet providers in Vietnam, having over 10% of the market. FPT is one of the leading technology companies in Vietnam with a substantial proportion of revenue derived from overseas by providing software outsourcing services for developed countries. Having been restructured by divesting from the trading and retail subsidiaries, FPT is now able to improve its financials by focusing on its technology and telecommunication businesses.

As a technology leader, FPT represents 10% of the labor force of the IT industry an generates 11% of software export revenues in Vietnam (2017). FPT benefits most from the development of the global IT industry, especially through software exports and the digital transformation. In 2017, FPT divested from FPT Retail and FPT Trading, earning VND 1,072 bn in financial profit and officially became a pure technology and telecommunication corporation.

Investment Rationales

- **Global software spending is forecasted to reach USD 424 bn in2019**, an increase of 8.4% yoy. Outsourcing demand is estimated to be nearly USD 100 bn. FPT, with labor cost that is about 20% cheaper than Chinese and Indian companies, has a significant competitive advantage, especially in Japan (accounting for 60% of FPT's export revenue). Considering that the major rivals in Japan are Chinese companies, who are facing difficulties with increasing labor cost.
- **Increase efficiency in software exports,** coming from: (1) increasing the contribution from the digital transformation, which has higher profit margin than software outsourcing, (2) increase labor productivity and, (3) provide more value-added services by acquiring local companies (in 2018, FPT bought Intelinet – an American consulting company).
- **The Ministry of Finance has reduced the required contribution to the public telecommunication service fund from 1.5% to 0.7% of total revenue in June 2018**. Accordingly, FPT can save an amount equivalent to 0.8% of its internet service revenue. Since the telecom service segment's net profit margin was only around 11% in 2017, the reduction in the government's required contribution can make way for a considerable growth in FOX's net profit starting in 2019.
- **Positive post-restructuring changes**. Divesting from the retail and distribution segments in 2017 enables FPT to focus more on its traditional businesses: technology, telecommunication and education - which create stable cash flows, have lower working capital requirements- thus significantly reducing the pressures from inventories, short-term debt and receivables.

2019 Outlook

- Revenue and PAT grew by 15% and 18% yoy compared to 2018, respectively.
- The two sectors that contribute the most to revenue, telecommunication and technology, are forecasted to grow by 15% and 14% in 2019.

Risks to Our Call

- Geopolitical uncertainties in major markets such as Japan, the US and Europe could affect software export growth.
- Increasing competition in fixed Internet services.

Expecting a rebound in core business

BUY 23%

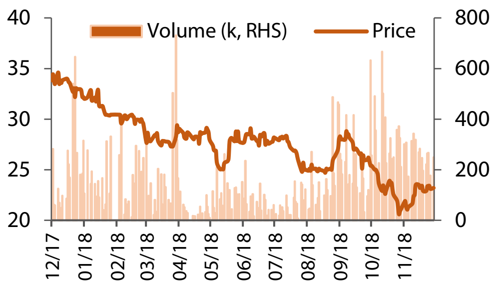
CMP (VND)	**23,400**
Target Price (VND)	**28,200**
Cash Dividend (VND)*	500

(*) expected in next 12 months

Stock info

Sector	Industrials
Market cap (VND bn)	3,106.8
Current shares (millions)	132.8
3M avg. volume (K)	344.7
3M avg. Trading value (VND bn)	8.3
Remaining foreign room (%)	13.1
State ownership (%)	0.0

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	3,008	3,161	4,508	5,993
% yoy	-3.0	5.1	42.6	32.9
PAT	305	237	446	423
% yoy	24.1	-22.1	62	-5
ROA (%)	7.8	5.1	7	6
ROE (%)	17.8	10.2	16	13
EPS (VND)	3,799	2,342	3,126	2,962
BV (VND)	26,017	23,255	21,603	24,065
Div (VND)	0	0	0	500
P/E (x)	9.5	16.5	7.5	7.9
P/BV (x)	1.4	1.7	1.1	1.0

*Price as of 12/14/2018

Company snapshot

Power Construction JSC No.1 (Hose: PC1) was established in 1963 and has four main businesses: power construction, industrial manufacturing, power energy and real estate.

In recent years, hydroelectricity and real estate transfers have played an increasingly important role, besides the original core business of power construction and industrial manufacturing. Hydroelectricity and real estate transfers, though, representing just 29% of revenues, contributed 67% of net profit in 2018.

Mr. Trinh Văn Tuan (Chairman) and his wife own 19.6% of the company while foreign investors own 35.7%. The two largest foreign shareholders are Vietnam Enterprise Investments Limited (VEIL), Vietnam Holding Limited (VHL).

In 2018, PC1's business results grew strongly due to the growth from real estate transfers and the hydropower segment. However, the disappointing performance of power construction and industrial manufacturing weakened market sentiment on the stock. When it comes to 2019, we believe that these two core businesses will rebound and enhance market sentiment. In addition, the hydropower segment with regular and stable cash flows is a solid foundation enabling PC1 to invest in other activities, especially real estate. After a decline of 28% in its share price in 2018, PC1 is trading at a relatively attractive price to book value of one.

Investment Rationales

- **PC1 is the market leader in the power construction industry, which is still growing quickly**. Accounting for a 40% market share, the company has strongly positioned itself as the leading player in the power construction industry thanks to modern equipment and technologies, personnel with industry expertise and long-established cooperative relationships. According to the Vietnam Government, electricity consumption will increase by 9-10% per year from 2017 to 2020. The estimated investment in the grid system will reach USD 2.123 bn (+8.8% YoY) in 2019. Therefore, we believe that the industry still has room to grow.
- **Increasing contribution from hydropower helps PC1 improve its stability and profitability.** PC1's hydropower portfolio has total capacity of 114 MW and annual output of 464 million kWh. The "avoid cost tariff" is consistent over the years, bringing PC1 stable revenues. The tariff is also high enough to help the firm achieve strong margin. In 2018, hydroelectricity only contributed 12% to revenue but 38% to gross profit thanks to its high net profit margin of 30%. The contribution of hydropower is expected to increase as three new plants are being built to meet the total capacity goal of 300 MW by 2022.
- **Strong recovery in power construction and industrial manufacturing could help enhance market sentiment.** PC1 has a huge backlog of projects which it expects to turn into revenues in 2019. The Third National Transmission Line project is under pressure to be completed by mid-2020. Meanwhile, solar projects also need to come into operation by the end of June-2019. Therefore, we expect that revenue from power construction and industrial manufacturing in 2019 would grow by 87% and 86%, respectively, resulting in better market sentiment.
- **The stock is trading at an attractive valuation.** PC1 is trading at close to its book value while the company still holds advantages such as leading position in power construction and steel tower production, ownership in highly profitable assets in hydropower and the real estate segment. In addition, the company is trading at a 2019 P/E ratio of 8 while we expect CAGR of NPAT in the next three years to be 10.3%, implying attractive PEG of 0.8.

2019 Outlook

- We expect revenue to increase by 32% YoY to VND 5,992 bn.
- 2019 NPAT is expected to decrease by 5.4% YoY to VND 423 bn, equivalent to EPS of VND 2,960.

Risks to Our Call

- Power construction projects are delayed, weakening performance of the segment.
- Lower hydropower output because of issues with hydrological conditions.

Building a sustainable value chain

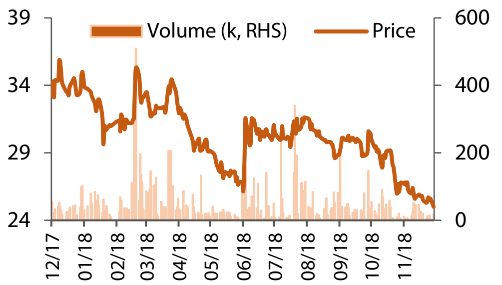
BUY	29%
CMP (VND)	**25,670**
Target Price (VND)	**31,200**
Cash Dividend (VND)*	2,000

(*) expected in next 12 months

Stock info

Sector	Basic Materials
Market cap (VND bn)	2,068.8
Current shares (millions)	80.6
3M avg. volume (K)	28.2
3M avg. Trading value (VND bn)	1.0
Remaining foreign room (%)	49.0
State ownership (%)	24.2

Performance



Key financials

(VND bil)	2016	2017	2018E	2019F
Revenues	7,783	8,687	9,147	9,724
% yoy	-0.9	11.6	5.3	6.3
PAT	347	415	433	476
% yoy	8.8	19.6	4.3	9.9
ROA (%)	5.5	6.8	6.1	6.3
ROE (%)	16.2	19.2	17.0	17.0
EPS (VND)	5,167	4,369	4,566	5,020
BV (VND)	32,018	28,758	31,660	34,670
Div (VND)	3,000	2,000	2,000	2,000
P/E (x)	N/A	10.4	5.6	5.1
P/BV (x)	N/A	1.6	0.8	0.7

*Price as of 12/14/2018

Company snapshot

Loc Troi Group JSC (Upcom: LTG), formerly An Giang Plant Protection Services Company (AGPPS) has three main businesses: crop protection chemicals (CPC), agrifood-rice, and seed.

LTG is one of the two exclusive distributors in Vietnam for Syngenta – one of the world's leading crop protection company.

The State owns 24.2% of the company while foreign investors own 43.5%. The three largest foreign shareholders are Marina Viet Pte, Standard Chartered Private Equity and Kingsmead.

We value positively LTG's strategy of building a sustainable agricultural business with a focus on the rice market, especially exports. The US Department of Agriculture (USDA) forecasts that Vietnam's rice export volume in 2019 will be at the same level as in 2018, seven million tons due to high demand from traditional importing countries in Southeast Asia. LTG's vision is appropriate because of the trends in the industry and increasingly concerns by consumers about food safety. Therefore, we think that LTG is suitable for investors who are interested in sustainable agriculture with a long investment horizon.

Investment Rationales

- **LTG is a crop protection chemicals (CPC) market leader with a high and stable gross profit margin.** In 2016, the company's market share was about 20%. The second biggest player was VFG with 8%. Gross profit margin fluctuated around 30% from 2012 to 9M 2018 and is expected to stay at this level in the near future. The stable CPC segment is a solid foundation enabling LTG to invest in other activities, especially rice.
- **LTG is able to build a sustainable agricultural value chain.** Established as a leading supplier of agricultural material, LTG went downstream by providing certificate seeds to farmers, controlling their input use and finally buying paddy rice via grower contracts. In order to build a national brand of Vietnam high-quality rice, LTG established the Dinh Thanh Agricultural Research Center (DT ARC) in 2012. It invested in complete rice processing infrastructure and adopted the Sustainable Rice Platform (SRP) which is an alliance led by the UN Environment and International Rice Research Institute (IRRI).
- **The rice segment has started to show positive results.** Revenues increased strongly by 12% YoY in 1H2018 and 30% YoY in 9M2018. The gross profit margin increased from 2% in 2017 to 3% in 1H2018 and 4% in 9M2018 because LTG decreased cultivation areas and inventories.
- **The cooperation with Vien Thi Ho Nam Science and Technology Development is expected to help LTG actively penetrate the Chinese market.** According to the USDA, 2018/19 rice imports of China are forecasted to be five million tons. Import volumes have expanded over 10 percent annually over the past five years. LTG has two joint ventures with Vien Thi Ho Nam. It owns 52% of the one in Vietnam while 49% of another one in China. The main activities are rice import and export, as well as researching, developing and producing a variety of plants. It is expected that this will help LTG penetrate the large Chinese rice market because of Vien Thi's science and technology advantages.

2019 Outlook

- We expect revenue to grow by 6% to VND 9,724bn. The revenue contribution of CPC, rice, and seed are expected to be 60%, 27%, and 10% respectively.
- Gross margin is expected to increase slightly to 23%.
- NPAT is expected to increase 10% YoY, resulting in an EPS of VND 5,020.

Risks to Our Call

- The market for high-quality rice is still small, especially the domestic one.
- Developing a stable reputation of being a quality rice exporter takes time and is costly.

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