RONGVIET SECURITIES

JANUARY

17

TUESDAY

"Banking Stocks Surprised Investors"

6 PM CALL

Market today: Banking Stocks Surprised Investors

*(**Thien Bui** - Ext: 1321)*

The VNIndex has been very volatile over the last 2 days. Yesterday, it plunged by 7 pts, but today it gained 6.77 pts and closed at 684.71 pts. The HNXIndex increased slightly by 0.89 pts to approach 84 pts. Sabeco and banking stocks were today's leaders.

SAB strongly gained after the announcement that one of its subsidiaries Saigon Beer Bac Lieu JSC (SBL) plans to list on the UPCom on 23/01/2017. 12,012,000 shares will be listed at the initial reference price of VND17,000/share. SBL is a joint venture with SAB (SAB owns 20% of its shares). The business results of SBL have been outstanding compared to its peers on the back of higher gross margin and well-controlled expenses. The company focuses on the high-end and mid-end segments which have the most growth potential in the future (Mash up, Saigon Special, Saigon Export). Hence, we expect that SBL will improve its performance when operating at full capacity. Investors can find more detailed information here.

Banking stocks also contributed to the recovery of the VNIndex today. Investors strongly purchased banking stocks after hearing the news that Prime Minister Nguyen Xuan Phuc will lift up the FOL for commercial banks. The recent Capital Adequacy Ratio (CAR) adjustment took place at this exciting time in the industry. The minimum CAR under Circular 41 is 8%, while the previous was 8% under Circular 36. The adjustment will not relax the pressure of raising capital for commercial banks; hence, this will lower the possibility to lift up FOL. There are other factors that should be considered when discussing FOL for banking stocks but we will just focus of CAR in this short daily news.

CAR Formulation under Circular 36	CAR Formulation under Basel II Criteria
$CAR(\%) = \frac{Core\ capital}{Risky\ Assets} \geq 9\%$	$CAR\ (\%) = \frac{Core\ capital}{RWA\ Credit\ Risk + 12.5 * (K\ Market\ Risk + K\ Operating\ Risk\ )} \geq 8\%$

Source: RongViet Research
Core capital = Tier 1 capital + Tier 2 capital
*Risky assets = Total Assets * weigted of risky assets + Total debt*weighted of off-balance sheet items*
K market risk/Operating risk: Minimum capital reserve for market risk/operating risk

The two formulas explained a lot. The difference is that risky assets not only include credit risk but also account market and operating risks, implying that the total risky assets will significantly increase. So, although piloted banks had a CAR ratio of 9%, higher than the regulation in circular 36, the deployment of Basel II has made their CAR ratio decrease significantly. Therefore, banks are applying solutions to improve CAR including raising capital and asset restructure.

(1) Raising equity by raising Tier 1 Capital:

- **Stock issuance to current shareholders, in which State shareholders are likely to abandon the right to buy**: If this plan is implemented it will be because the Congress Decision about Economy Restructuring plan in 2016-2020 decided not to use state budgets for funding commercial banks
- **Private Placement:** The most likely strategic partners for banks are foreign investors.
- M&A

- Stock dividend
- Retaining earnings instead of paying dividends
- Selling treasury stock

(2) Increase Tier 2 Capital by issuing long-term bonds.

(3) Reduce risky assets (denominator) by limiting credit growth, pushing deposit growth and restructuring loan and investment portfolios at the same time.

Obviously, there is no easy way to increase capital. Under the above solutions, banks are facing trade-offs between capital raising and profit growth, and profitability or interest of shareholders, as shareholders will not receive cash dividends for a few years. Searching for strategic partners is another difficult task, since the real level of NPLs is high. It is even harder for state-owned banks as they must be approved by SBV in some conditions (such as issued price, **FOL**) when looking for strategic partners.

In this case of CTG, **the bank has reached the FOL limit of 30% and state's ownership is at the minimum 65%**. As a result, the first 2 solutions are not possible. Therefore, lifting the FOL can open up some new choices for banking stocks. That's is the reason why CTG reacted most strongly to today's news.

We published a report on the banking sector called **"New Cycle: Opportunities and Challenges" today.** Our banking analyst did a deep assessment on many issues of the banking sector and an analysis on VCB, ACB, BID, CTG and MBB:

- 2016 Rewind
- Bad Debt Solutions: More Challenges in the 2nd Phase
- Motivation for Income Growth
- Operating Expenses: Pressure from Infrastructure Investments and Human Resources
- Pilot Basel II from 2017
- Assessments on VCB, ACB, BID, CTG and MBB

We hope this report can provide thoughtful views on the banking sector, from which investors can have appropriate stock picks.

Returning to today's market overview, although the VNIndex reversed, we do not think it is possible for the VNIndex to break 690 pts in the short-term for the following reasons:

- *Only large-cap stocks, specifically a few large cap stocks, alternatively increase/decrease while other mid and small-cap stocks underperformed.*

There will be a long holiday period soon, so many investors are hesitating to buy new stocks using margin. They may even sell their stocks to lower margin lending as the interest rate still incurs during Tet holidays. The capital inflow, therefore, will not be abundant enough to support a break-out. The average volume when the VNIndex headed to 690 pts at this time was only 92 million shares compared to 110 million shares at the end of Sept to Oct/2016.

Analyst Pin-board

Stock Market and Banking Liquidity in 2017

*(**Ha My** - Ext: 1309)*

If you are interested in this content, please click here to view more detail.

Recommendations:

The market turned up strongly thanks to bank stocks. The trading volume increased on HSX but decreased on HNX. Although the indexes went up, the number of gainers were quite lower than the number of losers. Traders should maintain a balance portfolio and wait for more signals.

PORTFOLIO RECOMMENDED BY TECHNICAL ANALYSIS

Ticker	Price	Action	Buying date	Buying Price	Target Price 1	Target Price 2	Cut loss Price	Selling Date	Selling Price	Gain/ Loose	Duration
BVH	62.00	**Hold**	05/01/2017	61.10	66.00		58.00			1.47%	Short
PVD	20.85	**Hold**	03/01/2017	20.80	23.00	25.0	19.50			0.24%	Intermediate
HCM	28.10	**Hold**	03/01/2017	28.30	30.00		27.00			-0.71%	Short
CII	31.35	**Take profit**	18/11/2016	28.80	31.35		27.85	09/01/2017	32.30	12.15%	Intermediate
PPC	17.00	**Take profit**	18/11/2016	14.50	16.20		13.70	09/01/2017	16.80	15.86%	Intermediate
VGC	14.70	**Take profit**	26/07/2016	13.50	17.60		12.60	09/01/2017	15.30	13.33%	Long
LHC	67.60	**Hold**	21/08/2015	41.50	70.00	78.0	58.00			62.89%	Long

Notes:

- **Buying Price** is the Close Price at Buying date. **Selling Price** may be the Target Price, Cut loss Price or Closing Price at Selling date depending on specific cases.
- **Target Price 2** will be updated when the stock passes Target Price 1.
- In the ex-rights date, the prices will also be adjusted accordingly
- Duration: **Short-term** is less than 01 month; **Intermediate-term** is from 01 to 03 months; **Long-term** is more than 03 months.

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
SKG - Competition Will Begin to Impact Earnings Results	December 16th, 2016	Neutral – Long term	72,800
VGC - Catalysts Ahead for VGC to Fully Realize its Potential	December 14th, 2016	Neutral – Long term	17,800
SAB - The Giant of Vietnam's Beer Industry	December 06th, 2016	Neutral – Long term	143,000
DHG - Hope awaits in 2017	November 30th, 2016	Accumulate – Long term	119,000
GMD - Encouraging result amid short-term cargo low	November 28th, 2016	Accumulate – Intermediate term	30,000

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

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VF1	09/01/2017	0.25% - 0.75%	0% - 2.5%	28,506	28,441	0.23%
VF4	09/01/2017	0.25% - 0.75%	0% - 2.5%	12,701	12,674	0.21%
VFA	06/01/2017	0.25% - 0.75%	0% - 1.5%	7,017	6,697	4.78%
VFB	06/01/2017	0.25% - 0.75%	0% - 2.5%	13,822	13,814	0.06%
ENF	30/12/2016	0% - 3%	0%	14,011	13,763	1.80%
MBVF	15/12/2016	1%	0%-1%	11,905	11,966	-0.51%
MBBF	21/12/2016	0%-0.5%	0%-1%	13,413	13,403	0.07%

ANALYSTS

Truc Doan – Head of Research

+ 84 8 6299 2006 | Ext: 1308

truc.dtt@vdsc.com.vn

Ha My Tran – Deputy Manager

+ 84 8 6299 2006 | Ext: 1309

my.tth@vdsc.com.vn

Lam Nguyen

+ 84 8 6299 2006 | Ext: 1313

lam.ntp@vdsc.com.vn

Thien Bui

+ 84 8 6299 2006 | Ext: 1321

Thien.bv@vdsc.com.vn

Diem My Tran

+ 84 8 6299 2006 | Ext: 1311

my.ttd@vdsc.com.vn

Hieu Nguyen

+ 84 8 6299 2006 | Ext: 1514

Hieu.nd@vdsc.com.vn

Huong Pham

+ 84 8 6299 2006 | Ext: 1314

huong.pt@vdsc.com.vn

Kien Nguyen

+ 84 8 6299 2006 | Ext: 1320

Kien.nt@vdsc.com.vn

Quang Vo

+ 84 8 6299 2006 | Ext: 1517

Quang.vv@vdsc.com.vn

Trinh Nguyen

+ 84 8 6299 2006 | Ext: 1331

Trinh.nh@vdsc.com.vn

Hoang Nguyen

+ 84 8 6299 2006 | Ext: 1319

Hoang.nh@vdsc.com.vn

Dung Nguyen

+ 84 8 6299 2006 | Ext: 1518

dung.nv@vdsc.com.vn

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York, NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through VDSC. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

HEAD OFFICE

141 Nguyen Du St., Dist. 1, HCMC

- T +84 8 6299 2006
- F +84 8 6299 7986
- E info@vdsc.com.vn
- W www.vdsc.com.vn

HA NOI BRANCH

2C Thai Phien St., Hai Ba Trung Dist.,
Ha Noi City

- T +84 4 6288 2006
- F +84 4 6288 2008
- E info@vdsc.com.vn
- W www.vdsc.com.vn

NHA TRANG BRANCH

50 Bis Yersin, Nha Trang City

- T +84 058 3820 006
- F +84 058 3820 008
- E info@vdsc.com.vn
- W www.vdsc.com.vn

CAN THO BRANCH

95-97-99 Vo Van Tan St., Ninh Kieu Dist.,
Can Tho City

- T +84 0710 381 7578
- F +84 0710 381 8387
- E info@vdsc.com.vn
- W www.vdsc.com.vn