

Stock picking, not trend-chasing

VNIndex added 1.6% and HNIIndex 0.7% during the month of September. Liquidity dropped significant in the first half of the month as investors tried not to trade against the two ETFs. However, the strengthening of large stocks such as VNM, FPT, VCB and BVH helped lift market sentiment after the funds' rebalancing trades stopped. The reduction of the price increments on the HSX (effective September 12th 2016) came with smoothened stock price movements and a marked increase of interest in large-caps as it was more troublesome now to speculation on low-priced tickers. Between the 12th and the 30th of September, the VN30 group reported the average turnover of 50.7 million units, 12.8% higher than its six-month average. During the same period, VNSmallcap saw a drop of 31% to 18.9 million units. While VNIndex approached its seven-year high at 700, foreign investors sold a net VND2,819bn in the two exchanges.

On a macro perspective, deposit rates finally stepped down. Answering a call from the SBV, the four state-run banks trimmed 0.25-0.5% off their 13-months saving rates in the last week of September. Nonetheless, banks' strong demand for government bonds despite lowered rates in all maturities suggest they still face a low of difficulties on the lending side. Our economist sees it likely that credits to the manufacturing sector still grew lower than the overall credit (10.5%) in the nine months ended in September. Considering the pressures on banks to maintain their LDR and CAR as well as the need to provide for bad debts, it may not be that easy for businesses to "reach" that lowered interest rate.

New developments in the divestment of SCIC are still a supporting factor for stocks like VNM, FPT, BMP, NTP as it seems like the government is going for one last push in this "state exit" story. VNM has lost 10% since the end of August and it was SCIC's recent announcement that it would sell 9% of in the largest dairy producer in Vietnam by the end of this year that has given strength to the stock's prices. Likewise, market participants are speculation on a possible lift in the FOL and issuance of shares to strategic investors by VCB. However, we believe much of the expectations have been priced in. Even the enthusiasm for GAS, PVD and PVS could last after OPEC's agreement to freeze its production. Therefore, we see it unlikely for these leading stocks to gain significant strength in October.

In fact, it was the rise of blue-chips and large-caps that have brought VNIndex's trailing P/E to 16.7x; the ratio for VN30 is now even higher at 18.0x. Though a great many stocks are still trading well below the market average, the growing possibility of a correction among large-caps should make it hard for indices to advance further. While VNIndex finds resistance at 700, there can be robust trading in certain groups, driven by expectations over the underlying companies' Q3 earnings. In a series of sideways movements and weakened liquidity, the stock market should see strong divergence among stocks during October. This means investors would be better off with stock picking rather than trend chasing.

VNIndex is expected to move between 670 and 704 and HNIIndex 84 and 87 during October.

This month, investors should focus stocks with (1) strong outlook in Q3 and FY2016 and (2) reasonable valuations in terms of P/E and P/B. When it comes to earnings expectations, we recommend outweighing Construction, Building materials (stone, tiles, steel), Retailing, Travel-tourism (passenger carriers). In addition, the drop in interest rate would justify higher valuation of high-yielding stocks. It is also a boon for companies in sectors employing high leverage for example, Real estate and Infrastructure.



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Over the past three months, large-caps have had such influence on indices that they have been moving more and more differently from the market majority. Besides expectations of FOL lifting, issuance to strategic investors and SCIC's divestment, stocks the like of VNM, FPT, VCB, BMP, NTP are also supported by their solid fundamentals and expectations of positive earnings growth. However, as these stocks' P/E ratios have reached well above the market average, we see much less upside for these tickers at the moment. Instead, investors can look into companies in outperforming of industries whose prices have not increased as fast. In addition, the interest rate cut may act in favor of high-yielding stocks. In the short term, strong Q3 earnings will also support sectors such as construction, construction materials and tourism-recreation.

CTD and HBC, the two leading domestic contractors, have been able to continuously expand their backlogs. At the end of Q2, HBC posted VND19,000bn and CTD VND 22,000bn in construction backlog. In Q3, CTD announced it had won the D&B contract for D'Capital (Tran Duy Hung, Hanoi) at over VND3,900bn while HBC signed several contracts with Novaland for VND2,600bn in construction value. The rapid increase in revenue, together with the ability to maintain a wide gross margin (8-9%), is expected to bring CTD and HBC strong NPAT growth in Q3 and Q4.

Starting as an infrastructure developer and contractor, HUT has been gradually expanding into the real estate business. In Q3 the firm could recognize VND1000bn in sales revenue from Foresa Xuan Phuong Villas (813 units, total investment VND2800bn). We estimate HUT could record VND120bn of PAT in 3Q and VND440 bn in FY2016. Likewise, CTI is expected to see solid earnings growth in the intermediate term as BOT 91-91B National Route and the road for material transport start collecting tolls. The low interest environment is actually playing a helping hand for this capital intensive business.

The third quarter is usually the peak season for passenger transporters such as VNS and SKG. Despite an estimated 80% of vessel utilization rate, SKG's earnings looks still be on its growth trajectory thanks to (1) new vessel addition at current business routes, (2) launching new Ha Tien- Phu Quoc route using high speed ferry and (3) opening new route from Soc Trang to Con Dao. Regarding VNS, the cab operator expects to see much better performance in the second half of the year as demand likely to jump up in rainy season. Given its dominating market share in South Vietnam, VNS would expect a stable earnings performance in 3Q and 4Q2016. In addition, new Vcar cab line and the introduction of Vinasun App are putting the firm in quite level- playing field with grab and Uber.

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

HIGHLIGHT STOCKS

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

INDUSTRY INDICATORS

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



WORLD ECONOMY

- Japan – Adjust to achieve more flexible operating monetary policy
- US – Federal funds rate is maintained after September meeting
- China – CNY is accepted to be in IMF's SDR basket of reserve currencies

Japan – Adjust to achieve more flexible operating monetary policy

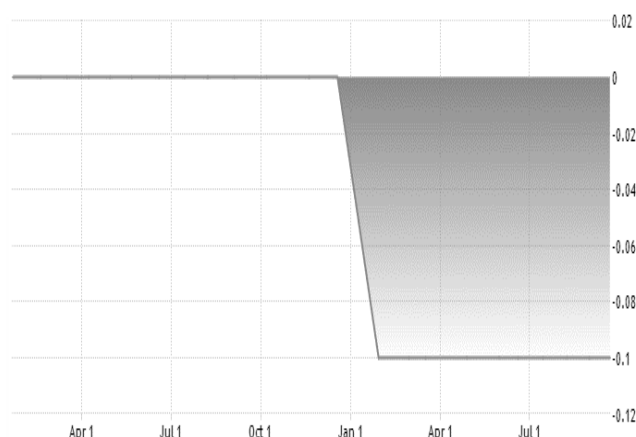
Policy meetings of Bank of Japan (BOJ) and the US Federal Reserve (FED) are the two notable events of the financial market over the last month. The first and foremost issue with the most surprising result is the announcement of BOJ about the upcoming movement of monetary policy that did not meet the expectation. Particularly, BOJ abandoned the fixed target for the expansion of money supply and started to control the interest curve. In addition, the scale of asset purchasing program will not be maintained at JPY 80,000 billion (~USD 781 billion) and will be much more flexible in short-term. Negative rate policy at -0.1% is maintained along with the decision to continue pursuing 2% inflation rate and cut operating rates if necessary.

Figure 1: USDJPY



Source: Bloomberg

Figure 2: BOJ's interest rate



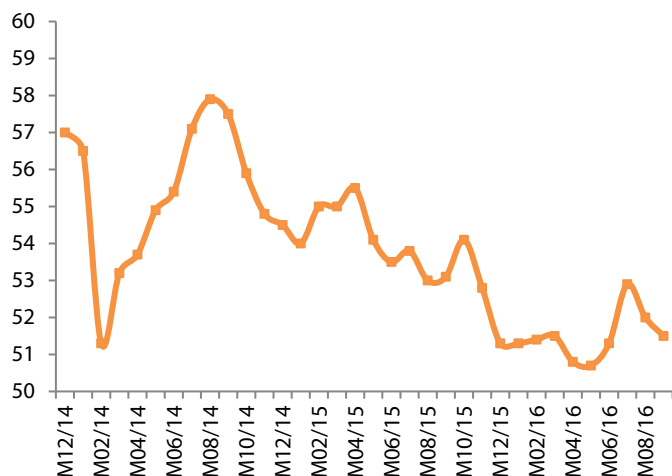
Source: Tradingeconomics

As a result, BOJ's decision demonstrated that Japan policy makers are considering the costs and benefits of the asset purchasing program for the economy. This rebalancing act could be understood in a positive direction as the BOJ is seeking a much more flexible operating policy. It is also understood that the purchasing program was not effective and is reaching the limitation. Under new BOJ's direction, USDJPY exchange rate could slightly increase after approaching the lowest point since 2014. However, it is still too soon to assess the trend of JPY in the future, and the State Banks will have important meetings to provide clearer monetary policy orientation for 2017.

US – Federal funds rate is maintained after September meeting

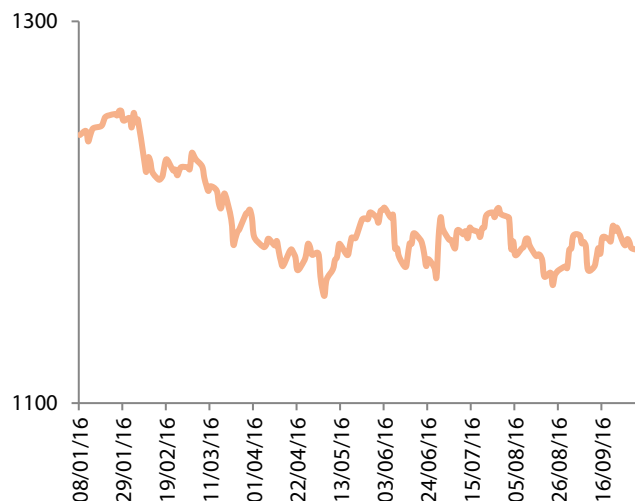
After BOJ's meeting, the result of FED's policy meeting is the second point of interest for financial markets. Analysts believe that BOJ's cautious action from the latest meeting was for "navigation" purpose of the FED's interest rate. However, such result is under expectation when FED maintains the operating rate and the rate hike probability for December meeting increased to 61.2%, significant higher than the previous forecast of RongViet Research (59%). USD also strongly appreciated after BOJ's announcement and is becoming much more stable. We believe that the operating direction of both most powerful State Banks could not affect the movements of those currencies in short-term.

Figure 3: US PMI



Source: Bloomberg

Figure 4: US Dollar Index



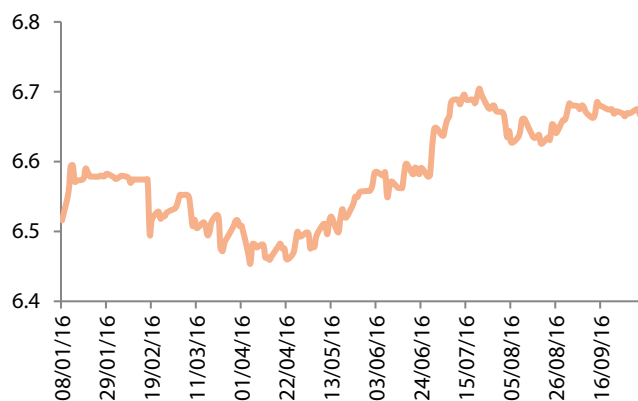
Source: Bloomberg

Along with expected events relating to monetary policies, September passed by without much improvement in economic picture in both US consumption and industrial production. Accordingly, upward trend continues to persist when PMI for September of manufacturing and services maintained above 50 points – the expansion threshold. Based on Markit, September PMI of US achieved 51.5 points for manufacturing sector and 51.9 points for service sector. “Healthy” manufacturing and consumption are the positive signals for US economy until the end of this year. Tradingeconomics asserted that US’s GDP growth rate is estimated at 2.2% in Q4/2016, higher than 1.9% of the same period last year.

China – CNY is accepted to be in IMF’s SDR basket of reserve currencies

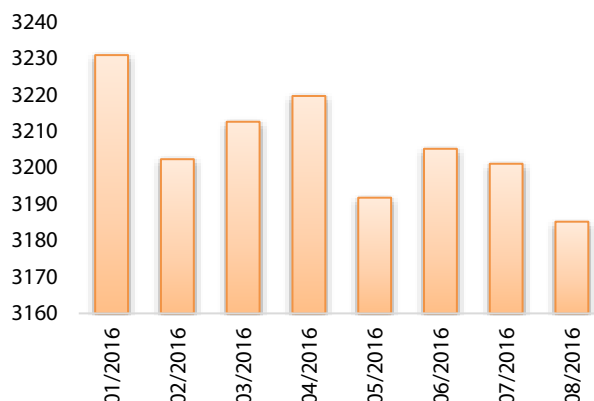
10/2016 witness the significant turning point for the internationalization of CNY when this currency has been officially included in the IMF’s SDR basket. According to the analysis of China International Capital Corp (CICC), this event will increase the influence of CNY upon member countries and the activities of IMF.

Figure 5: USDCNY



Source: Bloomberg

Figure 6: China's foreign exchange reserves

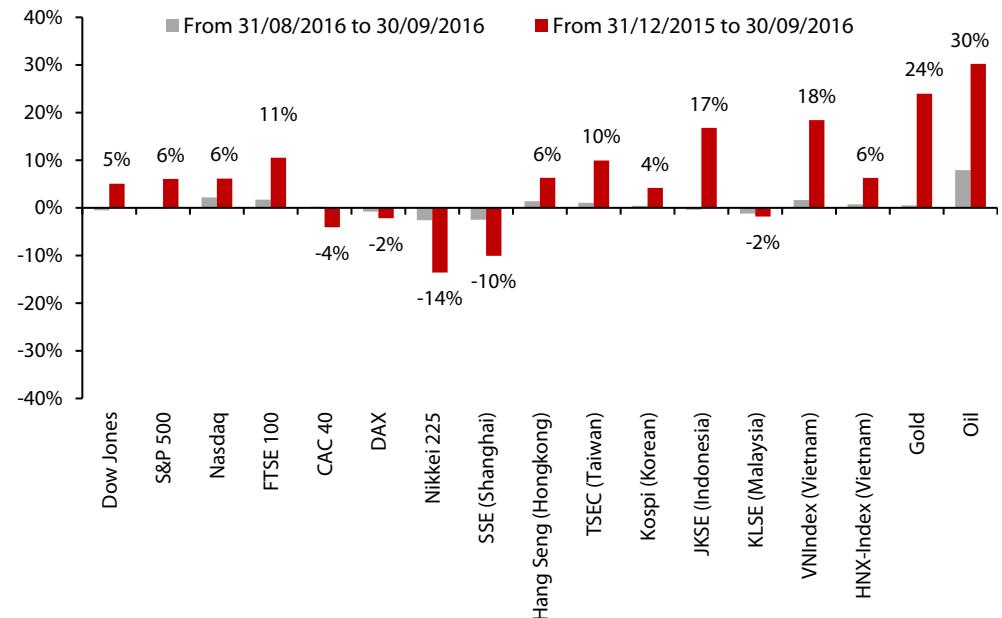


Source: Bloomberg

Since the official announcement of IMF about such change (30/11/2015), CNY depreciated by 4.3% - small adjustment under the pessimistic outlook of China economy along with the expansionary monetary policy which have been implemented

since earlier this year. According to our observation, in order to maintain small fluctuation, China policy makers continuously sold foreign exchange reserve. Until the end of 8/2016, China's foreign exchange reserve decreased by USD 641 billion compared to earlier this year and reached the trough since 2012. It could imply the possibility that CNY exchange rate have still been under impacts of this policy after being included in SDR basket.

Figure 7: Some major global stock market indices in September



Source: Bloomberg, RongViet Research

Recently, investors focus on two important meetings: BOJ's meeting and Fed's meeting. The BOJ's meeting surprised people by announcing the next direction on the monetary policy which does not match the expectation of many investors while they expect that BOJ will cut interest rates deeper into negative zone and expand the asset purchasing program. Instead, BOJ abandoned the fixed target of expanding the money supply, instead, they will control the yield curve. Thus, the scale of asset purchasing program will not be maintained at JPY 80 trillion (~ USD 781 billion) as before but more flexible in the short term. Besides, the interest rates continue to uphold -0.1%. After BoJ's announcement, the market continues to doubt about the effectiveness of monetary policy that this central bank is applying. The Nikkei 225 did not prosper, at the end of September, it closed at 2.25% below the end of August.

On September 20th and 21st, the result of FED's meeting was predictable as FED decided not to raise the interest rates. The previous macro indicators such as nonfarm payrolls index, PMI manufacturing and services index gave the general conclusion that the US economy did not record many new changes, hence, Fed could not aggressively make decision. Whereby, the index did not have any outstanding development as Dow Jones, S&P 500 fell slightly by 0.05% and 0.12% while Nasdaq increased by 2.19%.

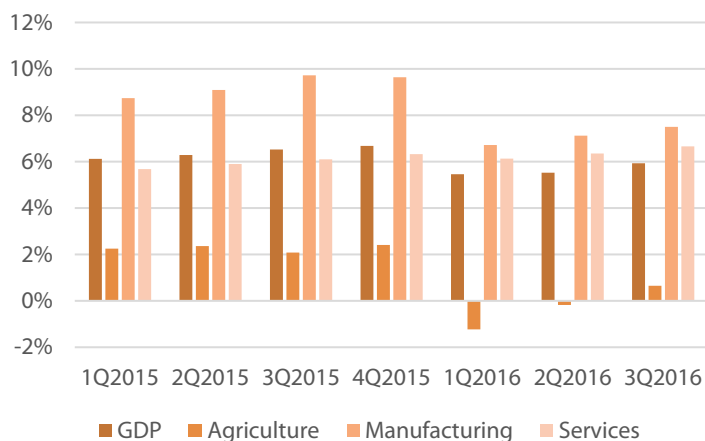
European market indices experienced another stable month in spite of unflavored information on banking system. After two volatile months June and July, this is the second month that major indices in Europe move smoothly.

Last but not least, OPEC members agreed to cut down output production for the first time after 8 years surprised market players. They will reach a consensus to limit the production around 32.5 – 33 million barrels/day, decreased by 750,000 bpd compared to August. Oil price correspondingly increased 7.92% in September.

9M2016 MACROECONOMIC: THE PERSEVERANCE OF INDUSTRIAL PRODUCTION

Q3 economic growth improved

Figure 8: GDP growth in quarters



Source: GSO, RongViet Research

Q32016 GDP growth achieved 5.93%, lower than 6.53% of the same period last year. Particularly, agriculture sector started to recover while mining industry still recorded negative growth rates despite of additional exploitation plan for one million tons of crude oil.

Manufacturing and construction activities are the leading factors for economic growth thanks to the positive disbursement of FDIT and stable business condition.

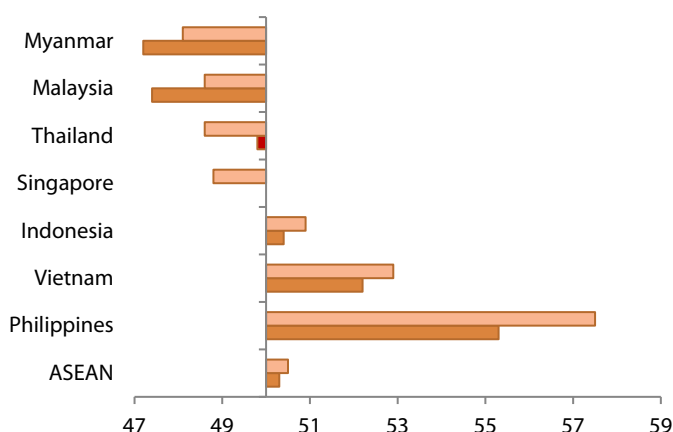
Outlook:

After receiving the official results of 9M2016 socio-economic situation, the Prime Minister provided the growth orientation for 2016 to reach 6.3 – 6.5% in regular meeting in September.

According to RongViet Research, GDP growth rate for 2016 could be slightly higher than our forecast of 6% due to the cyclical aspects of Vietnam economy. However, it is relatively difficult to achieve above plan because the business condition until the end of this year will not greatly fluctuate.

The perseverance of industrial production

Figure 9: PMI of countries in ASEAN



Source: Markit, RongViet Research

Compared to other countries in region, Vietnam is the one to experience optimistic development in industrial production.

In Q32016, industrial production significantly improved with 13.2% of growth rate, higher than 12% from the same period last year. Furthermore, PMI has been above 50 points for 10 months, achieved the highest figure of 52.9 points in September.

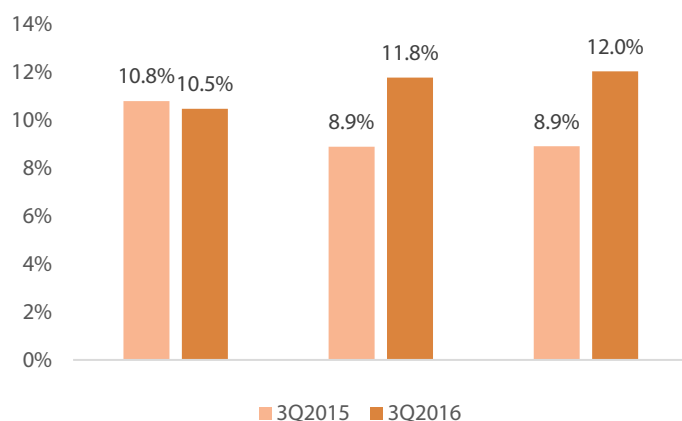
Outlook:

It could be said that Vietnam industrial production has been quite persistent, especially comparing with other countries in region.

With current demand for raw materials, labor recruitment and other production conditions, we believe that production activities of Vietnam could maintain the positivity until the end of this year.

Liquidity surplus in banking system

Figure 10: Credit, deposit and money supply growth



Source: SBV, GSO

Deposit growth which is relatively higher than credit growth is the notable issue of monetary market in 2016.

Average inter-bank interest rate of Q3/2016 reached the lowest point over the last years. State commercial banks lowered the deposit rate by 0.3-0.5% during Late-September. Bond yield dropped slightly while lending rate is stable at 9-10% per annum.

Credit growth until 20/09/2016 achieved 10.5%, slightly declined when compared with 10.8% of the same period last year.

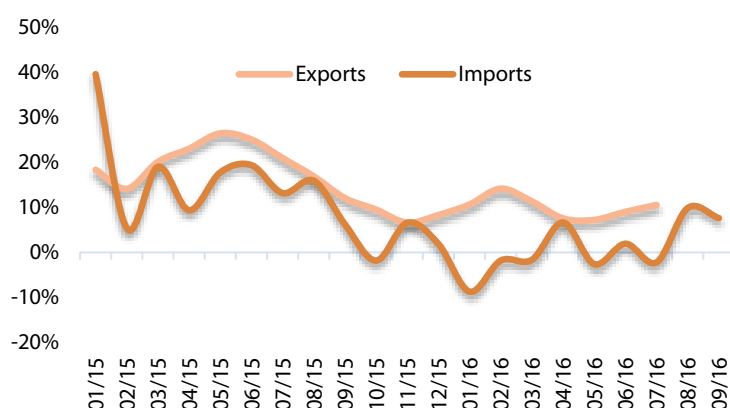
Outlook:

In 2016, credit growth has been aggressively boosted over the first 2 quarters. However, there was a decline in Q3 which leads to significant surplus of liquidity in banking system.

Credit aspect in the last quarter usually accelerates. With recent operation of the State bank, we reserve the verdict that 18-20% credit growth rates will be hard to achieve this year.

Trading activities could improve in the last quarter

Figure 11: 3-month average of export-import growth



Source: Customs, GSO, RongViet Research

According to GSO's estimates, 9M2016 growth rate of ex-import activities still maintain at low level. Total export value is estimated to achieve USD 128 billion (+6.6% yoy) while import value reached USD 125.7 billion (+1.0% yoy).

Cumulative trade surplus over 9M2016 is USD 2.3 billion, while over the same period of time, there was USD 4.3 billion in budget deficit.

Outlook:

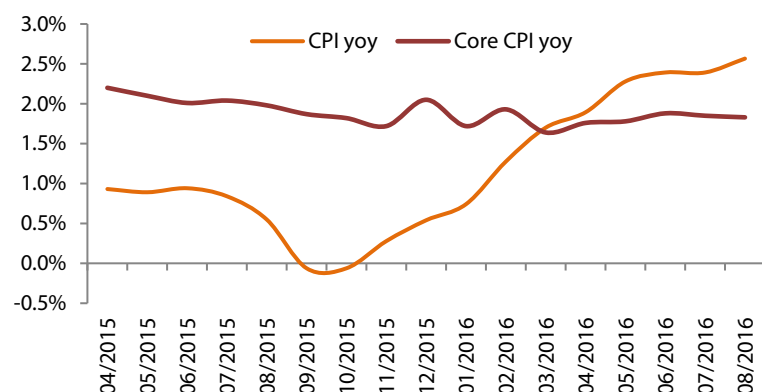
3-month moving average of export growth has relatively matched with the index of industrial production and order demand in PMI. Therefore, we expect exports could improve in the last quarter of this year.

Rising inflation due to increases in prices of public goods & services

Consumer price index over 9M2016 increased by 3.14% compared to late 2015 while core inflation has been stable at 2% for the last 2 years.

The upward trend of prices has been impacted by public goods and services. Accordingly, inflation rate (excluding food & beverage and energy sectors) have improved by 5.72% yoy.

Figure 12: Inflation movements



Source: RongViet Research

Outlook

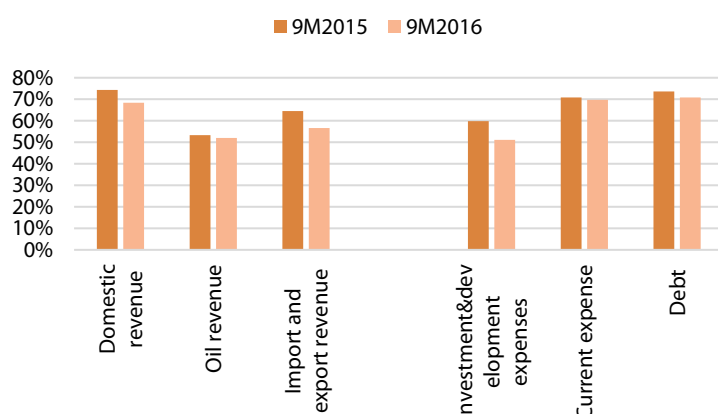
Over the last quarter of this year, inflation will not have to face the impacts of price adjustment from public goods & services.

However, domestic fuel prices could slightly increase following the recovery of global crude oil (after OPEC's announcement, oil price is expected to approach USD 53-55/barrel during late-2016). In addition, food prices could slightly increase, parallel with the recovery of global prices.

2016 inflation is projected to hover around 3.5-4% and core inflation is expected to be stable at 2%.

Unfavorable budget revenue leads to the decline in investment

Figure 13: The rate of budget revenue – expense (% estimates)



Source: GSO, RongViet Research

9-month's governmental budget has been unbalanced due to the plummets in three sources including SOEs, crude oil and international trade. Funding from domestic source grew by 13% yoy owing to the increase in those of FDIs and the private sector.

Until September 20th 2016, development investment expense was below the budget (~51%) while total budget spending went up 5.5% yoy and accumulated budget deficit was VND 154,200bn, increasing 13.5% yoy.

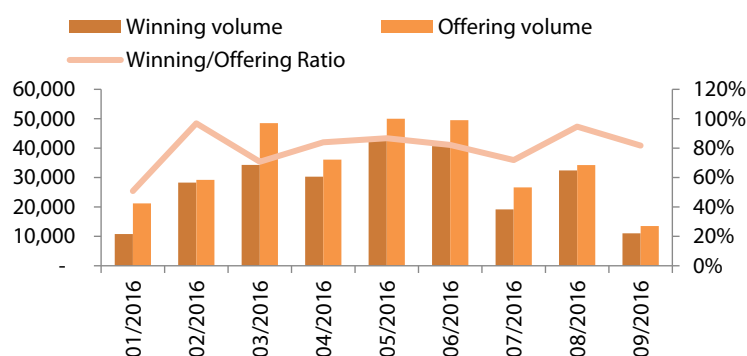
Outlook:

At the current pace of budget revenue and expenditure, this year's annual budget deficit is estimated at VND 200,000bn.

However, the government has recently boosted the progress of divesting from Vinamilk, Sabeco and Habeco. If neatly done, the proceeds from such divestments may help ease the current budget deficit.

Government bond demand stays firms, as supply inclines in the primary market

Figure 14: The issuance of government bonds



Source: RongViet Research

The State Treasury has achieved the government bond issue target, mobilized VND 250,321bn as the success rate reached 81% in the first 9 months of 2016.

The capital mobilized in the 9-month period has exceeded that of whole 2015 by 26.6% and success rate also went up remarkably

Outlook:

Having completed the target, the State Treasury has raised the bond issue target for the second time by VND 31,000. According to the plan, the State Treasury targets an increase in 7-year, 15-year and 30-year capital mobilization as shorter



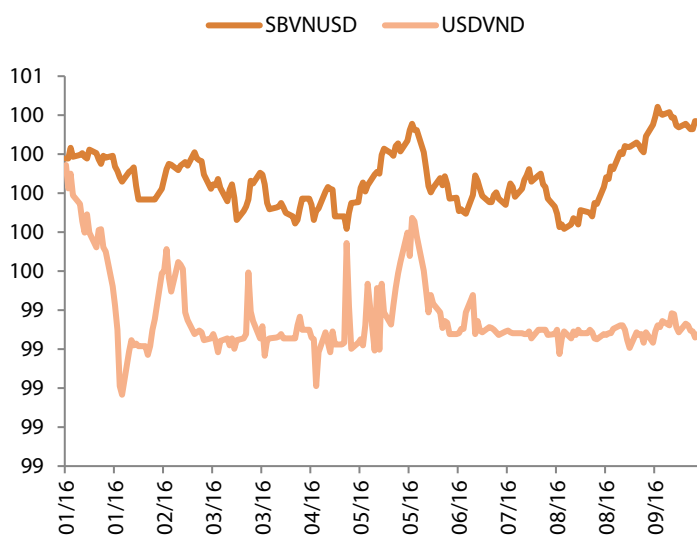
term capital raising has almost reached the initial targets.

It is expected that the government is making use of the declining bond rate to increase new issuance in order to get the market familiar with longer term investments. The first signal has been recognized when VND 1,000bn worth of 10-year bonds have been issued at 6.5% p.a.

However, a substantial change in risk preference among bond investors may need more time to be clearly observed.

SBV is adjusting the central exchange rate

Figure 15: Exchange rate movements in 9M2016



Source: RongViet Research

In the past month, the central exchange rate has increased by VND 30 compared to late August (+0.18%), which went in line with our prediction in the last month's strategic report. The rate has gone up by 0.28% since the beginning of the year.

Although the central exchange rate has been adjusted, the market rate barely changed as USD/VND observed at commercial banks hovered around 22,300.

Outlook:

The remaining of 2016 may witness numerous central banks' monetary policy adjustments globally, albeit VND fluctuation is likely to correlate with USD and RMB movements.

USD's strong revaluation is unlikely to occur in 2016 as Fed is not raising its rate until December. Whereas, PBoC might interfere to stabilize the RMB after the currency has joined the SDR.

Thus, we expect the rising import demand during the last quarter of the year to slightly increase USDVND rate.

VIETNAM ECONOMY

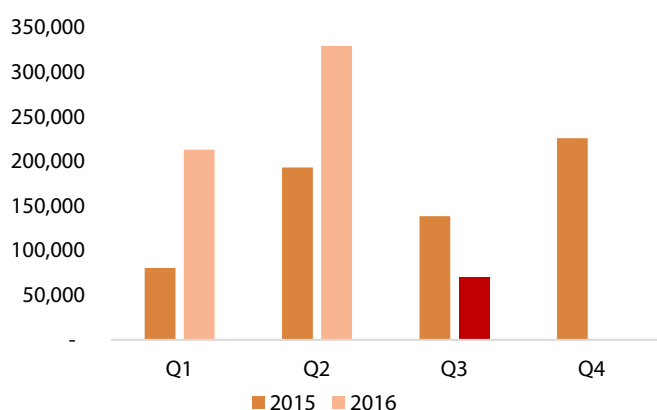
- Pushing credit growth and GDP growth in the last quarter, is it doable?
- Slowly increasing inflation could hinder the policy makers' interest rates target in 2017

Pushing credit growth and GDP growth in the last quarter, is it doable?

On 26/09/2016, major credit institutions adjusted the deposit rates for VND with less than one-year term by 0.3%-0.5%. According to the analysis from The SaiGon Times, such adjustments are not random and under the projection of policy makers. Our analyst banking comments that this move could help decrease the competition in mobilizing capital between big banks and the remaining group. Thus, move capital from top banks to other banks and create room for decreasing lending interest rates in the banking system. However, we believe that it is too soon to expect that the decline deposit rate could lead to lower lending rate, then boosting credit growth to support GDP growth in Q4/2016.

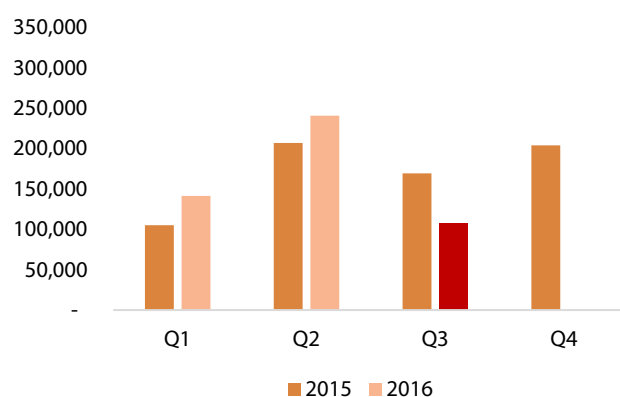
Basically, lending interest rates could decline further, however, the possibility is relatively low under the macroeconomic perspective. Firstly, regarding of the conditions to decline lending rate, SBV's statistics pointed out that average overnight rate for 9/2016 was significantly low at 0.39%/year, dropped by 44 basis points compared to last month. However, according to RongViet Research, the pace of capital mobilization is slower, as of 20/09/2016, the mobilizing capital only increased 1.2% compared to that at the end of second quarter. This pace is lower than our expectation as well as the same period last year, this could make the intention of policy makers become difficult.

Figure 16: Incremental mobilizing capital (quarterly)



Sources: GSO, SBV, RongViet Research

Figure 17: Incremental credit capital (quarterly)



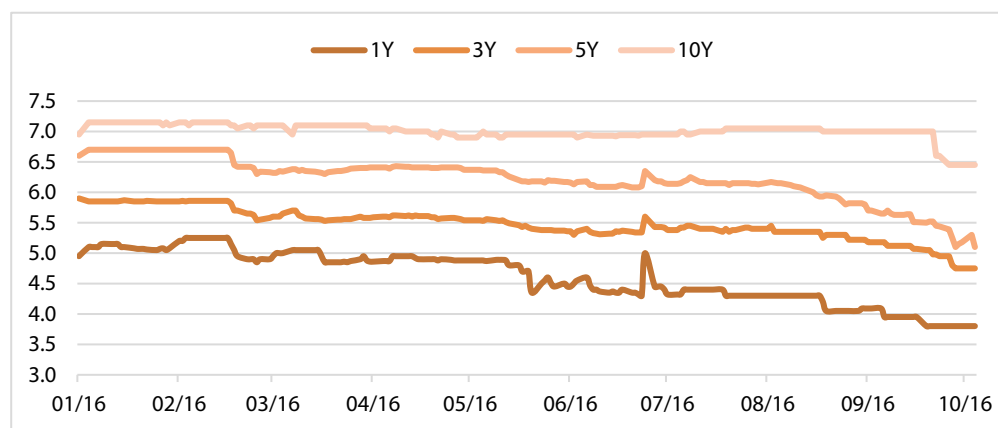
Sources: GSO, SBV, RongViet Research

In Government bonds market, market participants (mainly banks) have approved the loans for government with lower costs and it could be the positive sign for public debts. Accordingly, loan term is extended and interest payment is lower. Compared to earlier this year, government bond yield for the term of 5-year had the biggest decrease of 1.42 basis points. 1-year and 3-year term dropped by 1.15 basis points. The notable point over the last month is that 10-year government bond yield which is pegged at 7%/year decreased by 50 basis points. High demand for government bonds has been so high that at the end of September 2016, the State Treasury continued to adjust the 2016 issuance plan for bonds from VND 31,000 billion to VND 281,000 billion. The question is whether the main incentive for banks to accept lower rates for government bonds is the difficulty in boosting credit growth or interest rates for private sector could drop then.



In the third quarter, credit growth was quite slow, simultaneously, there is a paradox that even though the growth in industrial production is the main pillar for Vietnam economy, credit growth for this sector is at lower pace than overall growth rate. This year, credit growth is also accelerated faster in the first half, in which, credit of prioritized industries grew slowly ([see more at Monthly Strategy Report in July](#)). In addition, certain binding conditions on the capital adequacy ratio and provision for bad debts still exist in the picture of current banking system. Under the circumstance that statistics from SBV are not much different from GSO's estimates, we believe that it will be difficult for policy makers to "squeeze" the credit and GDP growth for Q4/2016 to reach 18-20% and 6.3-6.5% respectively.

Figure 18: Government bond yield

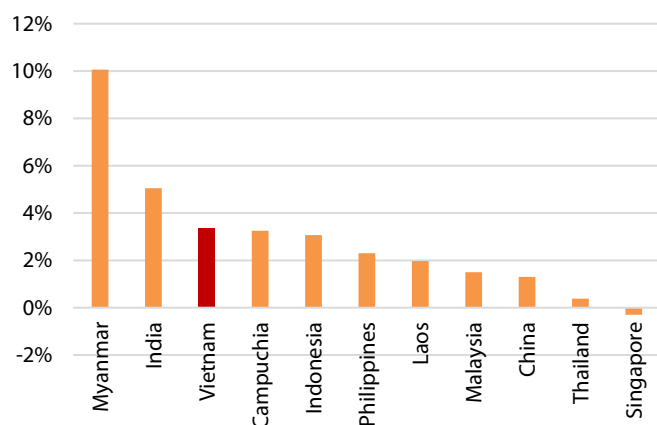


Source: Bloomberg

Slowly increasing inflation could hinder the policy makers' interest rates target in 2017

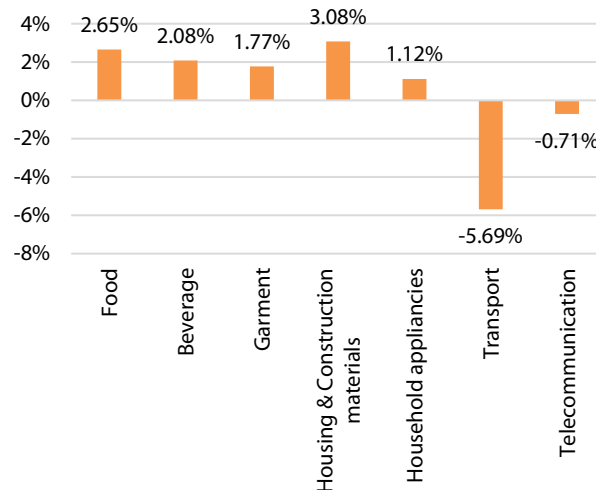
Vietnam inflation has ranked the 3rd highest in the Asia-Pacific region due to the sharp increase of public services (healthcare and education), behind Myanmar and India. Over the same period, the CPI rose 3.34%. In addition to the increase of healthcare price index (+33% yoy) and education price index (+10% yoy), the remaining groups increased evenly, while transport price index continued to reduce as oil prices remain relatively low.

Figure 19: Inflation in Asia Pacific region



Source: Tradingeconomics

Figure 20: CPI by type of goods and services (yoy)



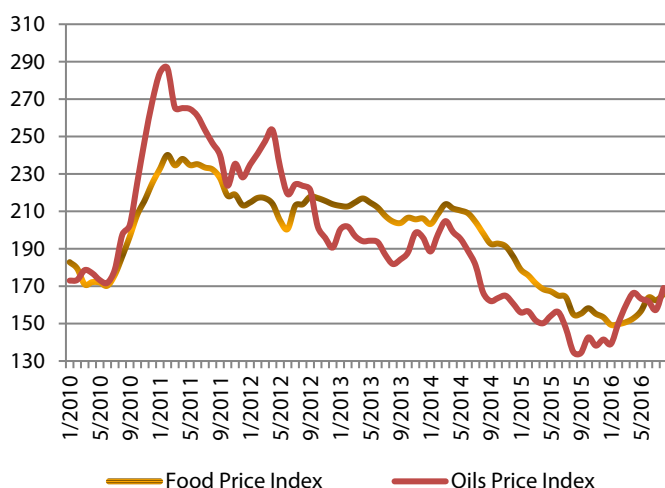
Source: GSO, RongViet Research

Inflation will not be a risk for Vietnam in the upcoming months, we expect 2016's CPI



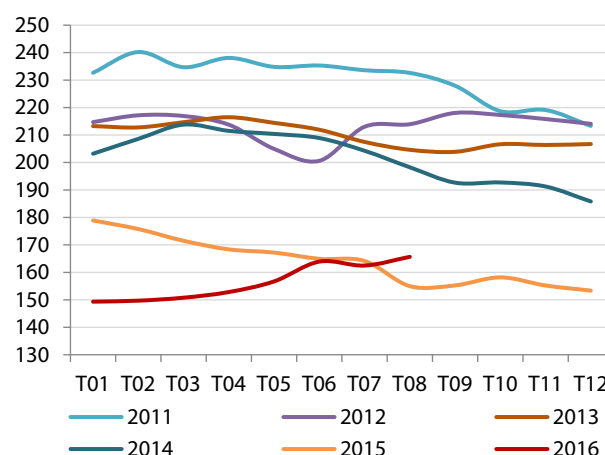
could be in the range of 3.5-4% and core inflation will be stable around 2%. However, in the medium and long term, we see some key factors supporting the rise of inflation: (1) world food price index is recovering and gradually approaching the level at the beginning of 2015, the domestic food prices are stable at the moment. It is worthy to notice that the ability to self-supply of Vietnam help the domestic food price index less affected by the global price. However, we cannot conclude that domestic price will be stable forever when global prices are rising with the increase of economic openness and high consumer confidence in Vietnam; (2) Oil prices are likely to rise after OPEC meeting in November if the OPEC agree to cut output, the recovery trend is expected next year, causing the increase of transportation price index ; (3) The most obvious signal is that the manufacturers began to adjust the output price because the input costs have increased for several consecutive months; (4) Inflation will rise because of low base in 2016. Positive point is that CPI is not likely to increase sharply then not affect negatively to monetary policy and macroeconomic instability. However, banks will be very careful if they want further interest rate cuts next year. This also makes the policy makers fall into a dilemma while persevering with orientation to reduce deposit rates and lending rates.

Figure 21: Food and oil prices index



Source: FAO

Figure 22: Food index (monthly)



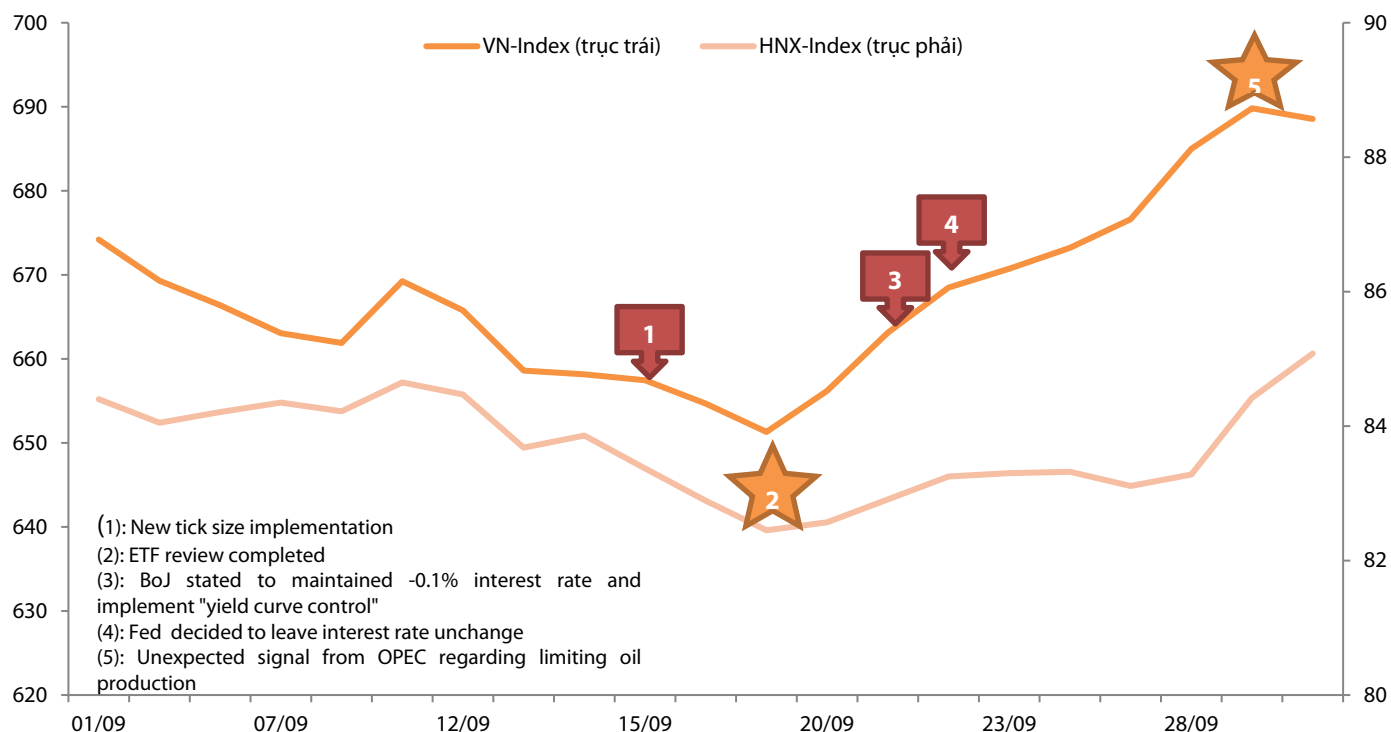
Source: FAO

SEPTEMBER STOCK MARKET: PASSING THROUGH THE RAIN

As scheduled, the market witnessed ETFs' review in early September. During the review, more room for VNM means that ETFs need to sell a considerable amount of other shares, which in turn put a great deal of pressure on the market. Therefore, most investors were seen to suspend actions, especially during the second week of the month when 2 ETFs had to conclude their transactions, and the market lost the short term support. In addition, new tick sizes since September 12th had impacted investor behavior. Excluding the Friday session when ETFs performed their last review transactions, other sessions' trading activities appeared to be sparse as HSX's trading value was as low as VND 1,800bn on average. VN-Index, starting the second week (September 12th) at 666.88, went down to 651.31 (-2.4%) on the day ETF concluding their review (September 16th).

After the rain came the sun. The fact that the selling pressure from the ETFs could not manage to break VN-Index's solid 650-point resistance level had strongly supported investor sentiment. Thus, subsequent to the review conclusion, promising macroeconomic news during the second half of September brought a new appearance to the whole market. Liquidity improved remarkably during the last two weeks as the average daily trading value was around VND 2,300bn excluding large put-through deals on REE, ROS and FPT, which on several days boosted trading value on HSX to VND 4,000bn. VN-Index went up for 9 consecutive sessions and concluded September at 685.73, recorded the 8-year high level.

Figure 23: Event chart in September



Source: RongViet Research

Big ships continued to surf. Despite the fact that VN-Index went up, diversion was wide among the individuals. Market breadth stayed at a moderate level as the number of red and green were equal in many sessions. Meanwhile, highest priced stocks were still seen to gradually increase in market value. Even though they were not racing, the strongly upward trend has been kept since the beginning of the year which is sensible in a year that capital flows in fundamental stocks while all the said companies have been delivering remarkable performances.



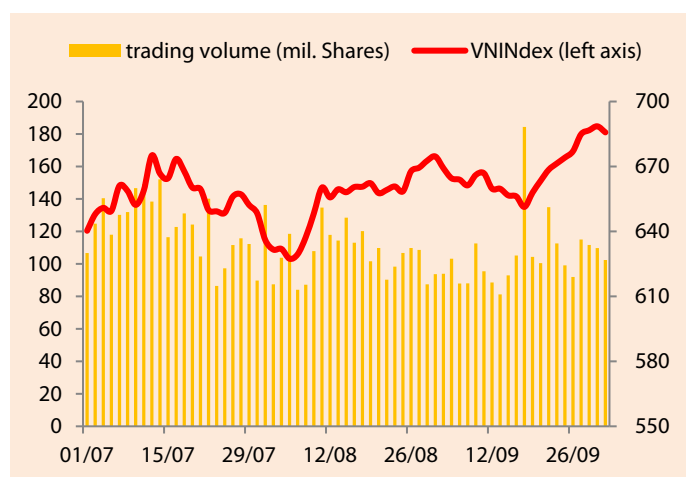
Table 1: List of stocks whose price higher than VND100.000

Stocks	Price as of September 30	Price change 1M	Price change YTD	P/E trailing
CTD	259,600	6.8%	75.2%	11.0
BMP	193,800	18.9%	52.7%	15.0
WCS	177,000	7.3%	18.8%	8.0
MAS	155,000	11.2%	17.7%	10.0
SLS	149,400	38.3%	201.6%	8.0
VCF	147,000	2.8%	8.1%	13.0
VNM	140,000	-10.3%	36.3%	23.0
MWG	139,200	-3.3%	80.8%	14.0
VCS	130,725	22.4%	158.3%	12.0
TV2	124,000	17.5%	195.8%	11.0
TRA	123,500	10.3%	101.5%	21.0
PTB	122,300	10.4%	119.1%	11.0
DHG	112,000	16.1%	75.7%	15.0
RAL	106,800	12.4%	105.3%	9.0
TLG	106,000	-2.8%	63.9%	17.0

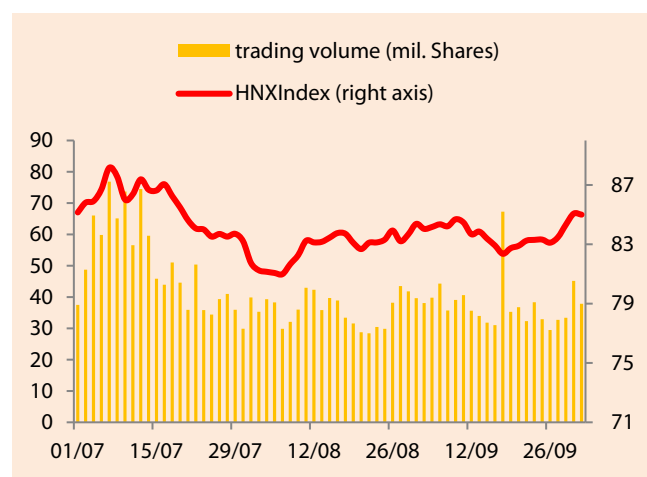
Source: RongViet Research

Construction and material sector achieved impressive gain in this month (17%), followed by Utilities (11%) and Insurance (11%). Excluding ROS, there were still a lot of outperformed stocks in Construction and material sector, from CDO (42%), QTC (30%) to CVT (22%), VCS (20%), NNC (16 %) and HBC (12%). This seemed to be accounted by the active of this sector since the beginning of the year is very positive. For example, when it comes to the growth of manufacturing sector, construction materials contributed quite substantially, with the growth of tiles, cement and steel was 9%, 15% and 17%, respectively. Thanks to that, manufacturing sector recovered strongly in the first 9 months and greatly supported the economic growth.

All in all, getting through the ETF review, the market at the present was much better than this time last month both in terms of sentiment and overall situation. In addition, Q3 earnings season are expected to bring new hope for the market. **Market may not have too much room to increase, but investors still can expect the opportunity in certain stocks or sectors.**

Figure 24: VNIndex movement in September

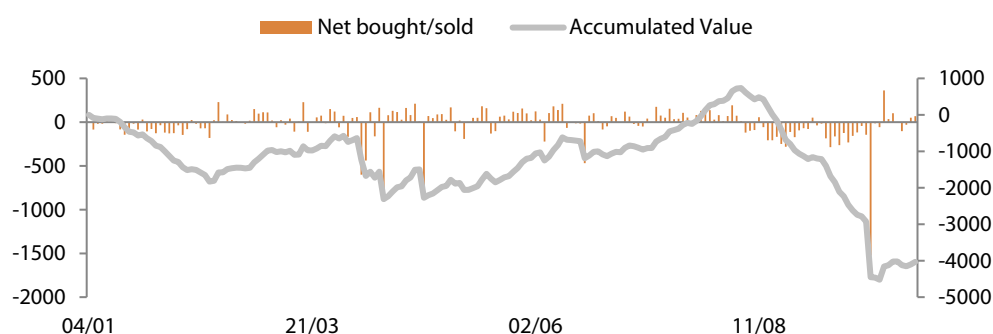
Source: Rongviet Research

Figure 25: HNX-Index movement in September

Source: Rongviet Research

Foreign trading activities: Undesired records

Figure 26: Foreign investors trading



Source: RongViet Research

Foreign investors recorded the highest net sold value for this year 2016 in September. Total selling value was VND2,819 billion. In HSX, there were 16 sessions that foreigners were net sellers and only 5 sessions that they net bought. Total selling value in HSX accordingly was VND2,752 billion. Noticeably, foreigners targeted to sell VNM the most (the stock was sold VND1,022 billion) and they concentrated on selling for the first half of September. In HNX, foreigners net sold for 8 sessions and turned to buyers for 13 sessions with total value of minus VND67 billion.

September also witness the reconstitution of 2 ETFs. It was a surprise for market players when it came to the announcement that VanEck Vectors Vietnam ETF would add VNM and delete PVT and SHB. Hence, there were 11 million shares of VNM added. HSG was also added 4 million shares. On the other hands, PVT (-10.2 million shares), SHB (-21.3 million shares) and HPG (-8 million shares) were on top selling list. As the reconstitution took place on 16/09, it was the date that a large number of shares, equivalent to total value of VND1,523 billion sold out.

So, in combination with previous selling record VND2,789 billion in August, the YTD buy/sell of off-shore investors reached a “disappointed” record: minus VND4,675 billion. There were 2 main reasons. First of all, YTD outflows from 2 largest ETFs were estimated around USD87 million, equivalent to VND1,941 billion. Secondly, the bias of VIC due to profit takers at convertible bonds of VIC was around VND4,466 billion. Therefore, if we exclude these technical trading values, it turns out that foreigner’s net bought VND1,732 billion after 9 months.

What about upcoming October? We are of the opinion that they will turn to net buyer again for 2 following reasons.

First, ETFs might not be problem for market. Analyze the data from 2010 to 2015:

Table 2: Inflows/ outflows of ETFs since 2010

Time	Inflows/ outflows (unit: million USD)	Time	Inflows/ outflows (unit: million USD)
2010 Sept	41.48	2010 Oct	78.32
2011 Sept	13.79	2011 Oct	-21.68
2012 Sept	-2.41	2012 Oct	9.56
2013 Sept	5.96	2013 Oct	17.87
2014 Sept	19.97	2014 Oct	-38.40
2015 Sept	-9.90	2015 Oct	23.82
2016 Sept	-18.64	2016 Oct	???

Source: Bloomberg



There were only 2 out of 6 times investors would withdraw from ETFs (the probability is 33%). Besides, in this September, they withdrew USD18.84 million. The historical data show that if foreigners withdraw in September, they will inject more capital in October (the probability is 100%). Hence, the cycle of ETFs capital flow is supporting a “capital inject October”.

Secondly, 5-year CDS of Vietnam tends to decrease in October. The regression model between 5-year CDS and daily trading values of foreigners since 2010 shows a negative correlation between these 2 factors with the significant level 5% and R-squared 26%. It could be explained that foreigners would assess lower risk of Vietnam in case of decreasing 5-year CDS; hence, they would be more confident to invest in Vietnam. Not only hold true in Vietnam, the correlation is also applicable in other regional markets such as Indonesia, Philippines, Thailand and Malaysia. The evidence is that the 5-year CDS of Indonesia, Philippines and Thailand continuously went down in the first 9 months and the net foreign investment in equity of these markets was +USD2.6 billion, +USD9.4 billion, +USD3.8 billion. However, in Vietnam such trend is facing some unusual due to some above mentioned technical trading activities.

Figure 27: 5-year CDS of some regional countries



Source: Bloomberg

Figure 28: 5-year CDS heat map



Source: Bloomberg



OCTOBER STOCK MARKET OUTLOOK: STOCK PICKING, NOT TREND-CHASING

VNIndex added 1.6% and HNIndex 0.7% during the month of September. Liquidity dropped significant in the first half of the month as investors tried not to trade against the two ETFs. However, the strengthening of large stocks such as VNM, FPT, VCB and BVH helped lift market sentiment after the funds' rebalancing trades stopped. The reduction of the price increments on the HSX (effective September 12th 2016) came with smoothened stock price movements and a marked increase of interest in large-caps as it was more troublesome now to speculation on low-priced tickers. Between the 12th and the 30th of September, the VN30 group reported the average turnover of 50.7 million units, 12.8% higher than its six-month average. During the same period, VNSmallcaps saw a drop of 31% to 18.9 million units. While VNIndex approached its seven-year high at 700, foreign investors sold a net VND2,819bn in the two exchanges.

Table 3: Liquidity changes following the narrowing of price increments

	12/09-30/03	01/04-30/09	Differences
VNINDEX	108,936,919	112,202,296	-3.0%
VN30	50,720,810	44,958,064	12.8%
VNMidcaps	34,433,011	29,913,588	15.1%
VNSmallCaps	18,892,482	27,286,027	-31.0%

Source: FiinPro, RongViet Research

On a macro perspective, deposit rates finally stepped down. Answering a call from the SBV, the four state-run banks trimmed 0.25-0.5% off their 13-months saving rates in the last week of September. Nonetheless, banks' strong demand for government bonds despite lowered rates in all maturities suggest they still face a low of difficulties on the lending side. Our economist sees it likely that credits to the manufacturing sector still grew lower than the overall credit (10.5%) in the nine months ended in September. Considering the pressures on banks to maintain their LDR and CAR as well as the need to provide for bad debts, it may not be that easy for businesses to "reach" that lowered interest rate.

Table 4: Key data of market-cap index

Index	+/- % Index 1M	+/- % Index 3M	+/- % Index YTD	P/E trailing (x)	P/B (x)	Mar. Cap (VND bn)	ROA (%)	ROE (%)	Gross margin (%)	Net margin (%)
VNINDEX	1.94	8.46	19.38	16.73	3.34	1,390,334	9.83	18.05	34.75	16.32
VN30	1.09	7.50	13.31	18.01	3.73	1,052,824	10.14	18.76	37.91	17.31
VNMID	3.27	2.94	20.68	12.70	2.26	199,989	9.85	17.52	25.96	12.62

Source: FiinPro, RongViet Research

New developments in the divestment of SCIC are still a supporting factor for stocks like VNM, FPT, BMP, NTP as it seems like the government is going for one last push in this "state exit" story. VNM has lost 10% since the end of August and it was SCIC's recent announcement that it would sell 9% of in the largest dairy producer in Vietnam by the end of this year that has given strength to the stock's prices. Likewise, market participants are speculation on a possible lift in the FOL and issuance of shares to strategic investors by VCB. However, we believe much of the expectations have been priced in. Even the enthusiasm for GAS, PVD and PVS could last after OPEC's agreement to freeze its



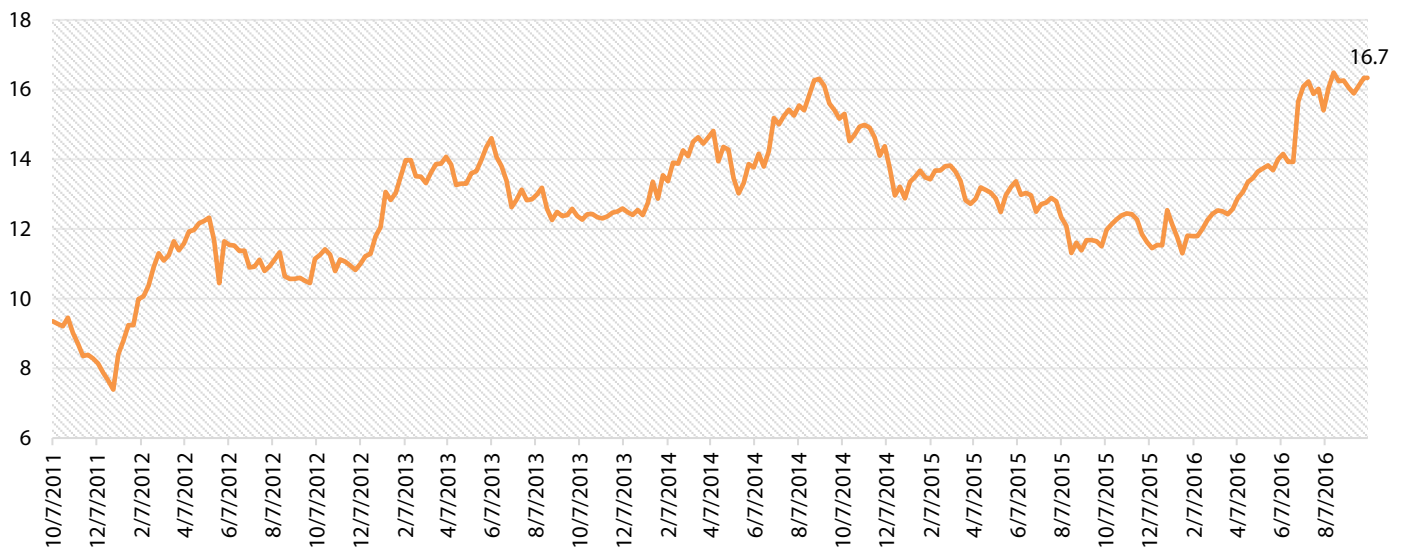
production. Therefore, we see it unlikely for these leading stocks to gain significant strength in October.

In fact, it was the rise of blue-chips and large-caps that have brought VNIndex's trailing P/E to 16.7x; the ratio for VN30 is now even higher at 18.0x. Though a great many stocks are still trading well below the market average, the growing possibility of a correction among large-caps should make it hard for indices to advance further. While VNIndex finds resistance at 700, there can be robust trading in certain groups, driven by expectations over the underlying companies' Q3 earnings. In a series of sideways movements and weakened liquidity, the stock market should see strong divergence among stocks during October. This means investors would be better off with stock picking rather than trend chasing.

VNIndex is expected to move between 670 and 704 and HNIIndex 84 and 87 during October.

This month, investors should focus stocks with (1) strong outlook in Q3 and FY2016 and (2) reasonable valuations in terms of P/E and P/B. When it comes to earnings expectations, we recommend outweighing Construction, Building materials (stone, tiles, steel), Retailing, Travel-tourism (passenger carriers). In addition, the drop in interest rate would justify higher valuation of high-yielding stocks. It is also a boon for companies in sectors employing high leverage for example, Real estate and Infrastructure.

Figure 29: Weekly P/E of VNIndex, 2011-2016



Source: RongViet Research



Table 5: Key data of sub-sectors

Subsector	+/- % Index 1M	+/- % Index 3M	+/- % Index YTD	P/E trailing (x)	P/B (x)	Mar. Cap (VND bn)	ROA (%)	ROE (%)
Automobile & parts	5.41	-10.59	-1.39	8.87	1.90	13,482	10.57	22.14
Banks	-3.1	1.85	0.09	14.36	1.51	335,291	0.78	11.58
Chemicals	4.45	2.15	6.86	9.21	1.47	46,813	9.11	15.36
Construction & Building materials	17.21	23.96	52.1	14.74	2.69	132,759	8.78	17.77
Financial services	2.09	1.05	-4.66	10.49	1.20	26,984	5.10	9.8
Food & beverages	-4.58	15.7	17.81	21.12	6.48	321,945	22.25	30.64
Healthcare	8.01	10.0	72.60	85.88	3.38	25,170	13.36	20.61
Industrial goods & services	2.33	3.73	10.54	14.03	1.93	87,761	9.71	15.16
Insurance	11.24	19.89	33.23	25.57	3.07	68,608	2.41	8.92
Oil&Gas	2.46	0.92	12.51	9.61	0.81	19,777	3.74	7.92
Personal & household goods	2.96	-2.63	43.24	12.04	3.12	32,058	11.37	23.17
Real estate	7.15	4.72	13.88	25.91	2.61	196,119	2.71	7.22
Resources	0.3	1.39	25.11	13.11	2.36	94,695	8.89	17.37
Retailing	-2.55	10.48	52.75	13.95	5.64	24,737	18.12	46.61
Technology	7.23	11.54	16.18	11.13	2.07	27,547	7.21	16.47
Travel & tourism	-4.53	-12.23	-11.67	25.10	2.83	12,620	15.92	19.24
Utilities	7.96	10.73	72.07	18.28	2.98	180,731	10.0	14.62

Source: Fiinpro, RongViet Research



Over the past three months, large-caps have had such influence on indices that they have been moving more and more differently from the market majority. Besides expectations of FOL lifting, issuance to strategic investors and SCIC's divestment, stocks the like of VNM, FPT, VCB, BMP, NTP are also supported by their solid fundamentals and expectations of positive earnings growth. However, as these stocks' P/E ratios have reached well above the market average, we see much less upside for these tickers at the moment. Instead, investors can look into companies in outperforming of industries whose prices have not increased as fast. In addition, the interest rate cut may act in favor of high-yielding stocks. In the short term, strong Q3 earnings will also support sectors such as construction, construction materials and tourism-recreation.

CTD and HBC, the two leading domestic contractors, have been able to continuously expand their backlogs. At the end of Q2, HBC posted VND19,000bn and CTD VND 22,000bn in construction backlog. In Q3, CTD announced it had won the D&B contract for D'Capital (Tran Duy Hung, Hanoi) at over VND3,900bn while HBC signed several contracts with Novaland for VND2,600bn in construction value. The rapid increase in revenue, together with the ability to maintain a wide gross margin (8-9%), is expected to bring CTD and HBC strong NPAT growth in Q3 and Q4.

Starting as an infrastructure developer and contractor, HUT has been gradually expanding into the real estate business. In Q3 the firm could recognize VND1000bn in sales revenue from Foresa Xuan Phuong Villas (813 units, total investment VND2800bn). We estimate HUT could record VND120bn of PAT in 3Q and VND440bn in FY2016. Likewise, CTI is expected to see solid earnings growth in the intermediate term as BOT 91-91B National Route and the road for material transport start collecting tolls. The low interest environment is actually playing a helping hand for this capital intensive business.

The third quarter is usually the peak season for passenger transporters such as VNS and SKG. Despite an estimated 80% of vessel utilization rate, SKG's earnings looks still be on its growth trajectory thanks to (1) new vessel addition at current business routes, (2) launching new Ha Tien- Phu Quoc route using high speed ferry and (3) opening new route from Soc Trang to Con Dao. Regarding VNS, the cab operator expects to see much better performance in the second half of the year as demand likely to jump up in rainy season. Given its dominating market share in South Vietnam, VNS would expect a stable earnings performance in 3Q and 4Q2016. In addition, new Vcar cab line and the introduction of Vinasun App are putting the firm in quite level- playing field with grab and Uber.

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

HIGHLIGHT STOCKS

No.	Ticker	Subsector	Target price (VND)	Current price (VND)	Rating	Time horizon	Financial				Valuation				Trading		
							2016F		2017F		P/E	P/B	Div. Yield	+/- Price 1y (%)	3-month avg. daily vol. (shares)	Market cap (USD Mn)	Foreign room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
1	ACB	Banks	22,500	18,300	Accumulate	Long term	8.2	29.4	21.8	48.1	14.6	1.2	-	(5.7)	213,956	733.9	-
2	BFC	Chemicals	43,000	38,800	Accumulate	Intermediate term	2.0	30.0	2.0	7.1	8.7	2.2	5.2	n/a	133,138	99.2	33.2
3	BMP	Construction & Materials	179,000	193,800	Neutral	Long term	25.8	27.2	12.8	9.2	15.4	4.2	1.0	82.3	116,975	394.4	0.0
4	CHP	Electricity	23,000	20,600	Neutral	Long term	(16.0)	(25.0)	5.0	12.1	13.1	1.8	7.8	19.1	125,815	115.6	45.8
5	CTD	Construction & Materials	277,000	259,600	Neutral	Long term	59.7	108.8	25.0	15.0	11.3	3.5	1.2	172.1	112,804	570.7	9.9
6	CTI	Construction & Materials	36,000	31,000	Accumulate	Intermediate term	35.0	105.0	17.9	2.5	10.9	1.9	5.1	87.8	538,444	56.6	20.6
7	DPM	Chemicals	31,500	28,500	Accumulate	Intermediate term	(8.9)	11.8	1.0	(10.0)	7.3	1.3	10.5	4.4	566,013	499.0	26.2
8	DRC	Automobiles & Parts	42,000	42,000	Neutral	Long term	10.7	(17.1)	7.0	12.1	12.2	2.5	-	25.2	270,860	223.2	16.4
9	FPT	Software & Computer Services	58,000	46,650	Buy	Intermediate term	10.0	11.6	9.6	16.1	11.2	2.4	4.3	26.1	1,807,639	958.8	-
10	GMD	Industrial Transportation	28,000	29,300	Neutral	Long term	4.9	(5.6)	7.9	23.0	13.5	1.1	-	41.9	932,063	235.23	19.0
11	HAH	Industrial Transportation	48,000	40,400	Accumulate	Long term	(3.0)	(17.0)	6.5	2.0	6.4	1.7	7.4	(7.8)	78,320	41.5	30.4
12	HPG	Industrial Metals	62,600	45,700	Buy	Long term	23.6	68.0	13.0	29.4	8.3	1.9	4.4	78.3	4,354,136	1,723.2	13.2
13	HSG	Industrial Metals	52,100	42,000	Buy	Intermediate term	10.3	124.1	27.5	34.6	6.7	2.2	-	105.9	2,490,256	369.3	19.2
14	HUT	Construction & Materials	15,000	13,200	Neutral	Long term	15.0	142.0	15.0	26.1	6.4	1.0	9.1	35.8	2,169,502	99.5	33.0
15	MWG	Electronic & Electrical Equipment	165,000	139,200	Accumulate	Long term	72.0	51.2	38.5	22.5	13.7	6.6	-	132.6	297,948	913.0	-
16	NCS	Food services	110,000	93,700	Accumulate	Long term	10.0	12.0	10.0	13.0	12.3	5.9	5.1	n/a	5,092	33.5	47.0
17	NKG	Industrial Metals	44,160	41,500	Neutral	Intermediate term	29.9	316.0	35.7	23.7	5.6	2.2	-	247.9	636,640	92.9	44.7



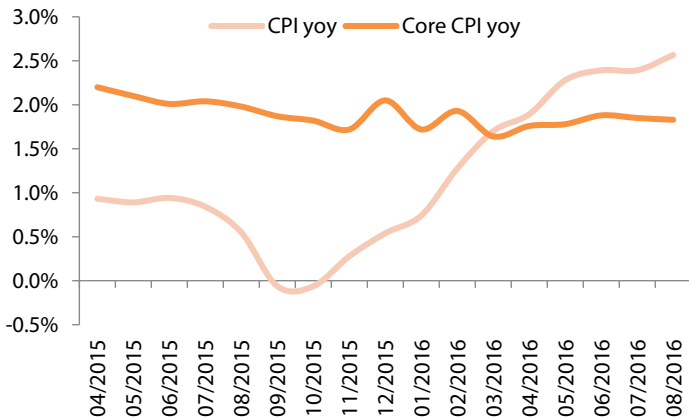
18	NNC	Construction & Materials	94,400	94,000	Neutral	Long term	19.2	52.8	14.4	15.8	9.6	4.2	3.2	135.3	67,052	69.1	28.6
19	NT2	Electricity	36,400	37,900	Neutral	Intermediate term	(9.9)	8.0	(6.7)	(3.0)	8.9	2.1	5.3	84.9	637,542	483.1	27.4
20	PGI	Nonlife Insurance	20,530	22,600	Neutral	Long term	7.6	25.1	11.7	15.0	15.2	1.8	4.4	65.0	135,659	71.8	47.1
21	PGS	Gas, Water & Utilities	20,600	16,900	Buy	Intermediate term	16.0	204.0	10.6	(66.3)	3.3	0.9	9.5	4.2	184,934	37.8	27.7
22	PLC	Construction & Materials	32,300	28,000	Accumulate	Intermediate term	(10.6)	(17.7)	9.4	14.1	9.0	1.8	7.1	(12.0)	38,148	101.2	41.7
23	PNJ	Personal Goods	101,000	75,000	Buy	Long term	9.3	239.0	16.5	44.0	19.6	5.0	2.0	133.5	229,662	329.8	-
24	PPC	Electricity	19,400	14,400	Buy	Long term	(12.5)	(41.6)	9.9	77.6	(18.5)	1.0	11.8	(5.8)	226,777	205.0	34.4
25	PTB	Household Goods & Home Construction	130,000	122,300	Neutral	Long term	22.4	33.8	12.5	13.3	11.2	3.6	-	212.8	56,386	118.2	38.8
26	PVS	Oil Equipment, Services & Distribution	25,000	21,200	Accumulate	Intermediate term	(15.7)	(25.6)	9.6	16.4	7.3	0.9	4.7	9.0	1,808,791	423.7	20.4
27	PVT	Industrial Transportation	15,300	14,450	Neutral	Long term	5.1	13	1.2	1.0	10.0	1.1	-	60.8	1,144,696	182.0	25.2
28	REE	General Industrials	26,800	21,600	Accumulate	Long term	2.1	(3.6)	4.2	22.4	9.4	1.1	4.6	3.0	729,099	299.6	-
29	SKG	Travel & Tourism	103,000	87,000	Accumulate	Intermediate term	30.5	34.9	9.4	(8.0)	12.8	4.9	1.1	51.5	88,107	133.4	1.0
30	SRF	Construction & Materials	32,100	28,300	Neutral	Long term	44.0	29.4	12.0	11.9	9.1	1.7	5.3	113.8	41,926	30.8	22.0
31	SVC	General Retailers	n/a	49,700	n/a	n/a	5.1	16.0	2.5	3.7	12.4	1.5	2.4	146.0	102,809	55.5	9.7
32	TCL	Industrial Transportation	34,000	29,900	Neutral	Long term	8.0	3.0	6.0	5.0	6.9	1.2	5.0	18.4	19,743	28.0	35.1
33	TDH	Real Estate Investment & Services	15,800	11,400	Buy	Long term	(30.3)	107.9	38.4	(19.2)	5.9	0.5	8.8	5.7	393,871	36.21	4.7
34	VCB	Banks	36,000	38,300	Neutral	Long term	10.3**	24.5	8.4**	19.6	21.9	2.1	2.6	23.0	1,206,831	6,165.3	9.4
35	VFG	Chemicals	112,000	88,500	Accumulate	Long term	8.0	4.2	9.0	14.3	8.2	2.2	2.3	115.3	33,454	72.4	29.0
36	VGC	Construction & Materials	18,300	17,200	Neutral	Long term	7.6	62.7	8.3	8.7	13.6	1.5	2.3	n/a	240,076	200.2	44.4
37	VNM	Food Producers	146,000	140,000	Neutral	Long term	17.0	26.0	15.4	10.0	22.5	8.8	3.6	74.4	2,076,708	9,091.9	0.9
38	VNS	Travel & Tourism	37,000	36,150	Neutral	Long term	8.8	6.5	11.6	9.7	6.4	1.6	5.5	22.3	320,324	109.8	7.0
39	VSC	Industrial Transportation	81,500	68,000	Accumulate	Long term	26.1	1.0	20.7	22.0	11.7	2.4	2.9	25.8	236,619	138.6	-

Source: RongViet Research; * Total operating income growth; ** Fiscal year ends in September; *** Core business results



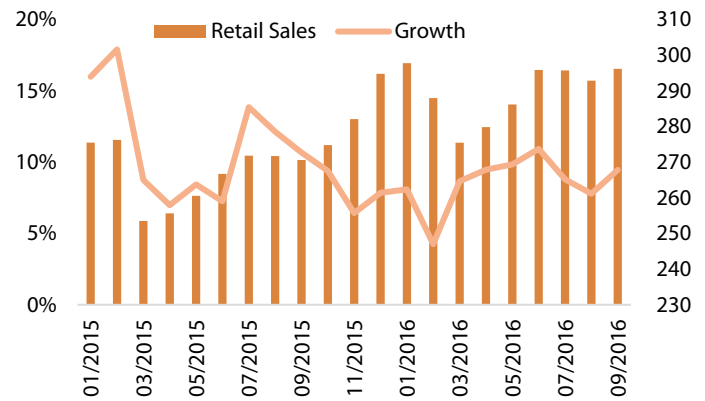
MACRO WATCH

Inflation slightly declined in September



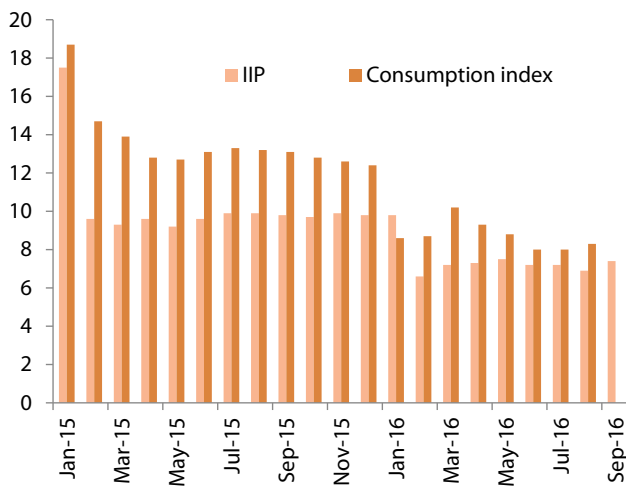
Source: GSO, Rongviet Securities

Retail sales increased slightly



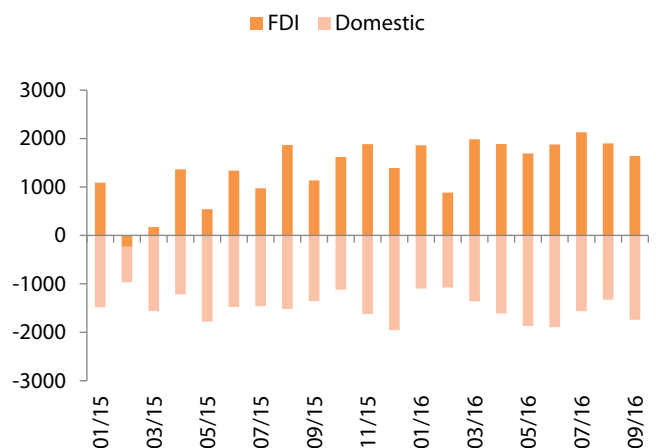
Source: GSO, Rongviet Securities

Slowdown in Industrial Production



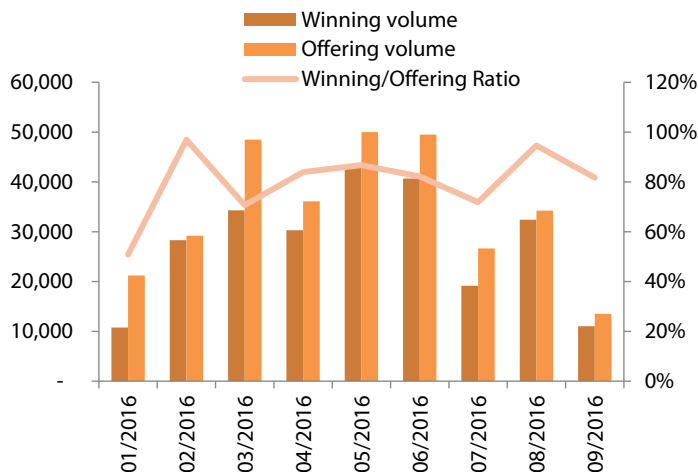
Source: GSO, Rongviet Securities

Domestic firm's trade deficit increased significantly



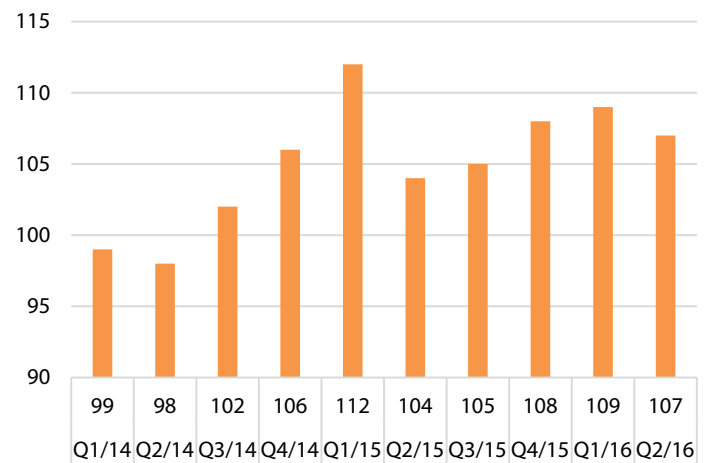
Source: GSO, Rongviet Securities

Winning /offering ratio remained stable



Source: VBMA, Rongviet Securities

Vietnamese consumer confidence marginally dropped

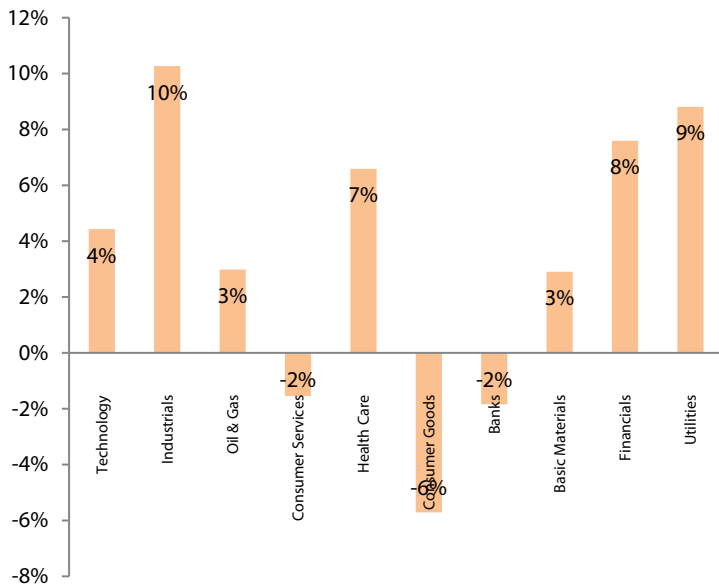


Source: Nielsen, Rongviet Securities



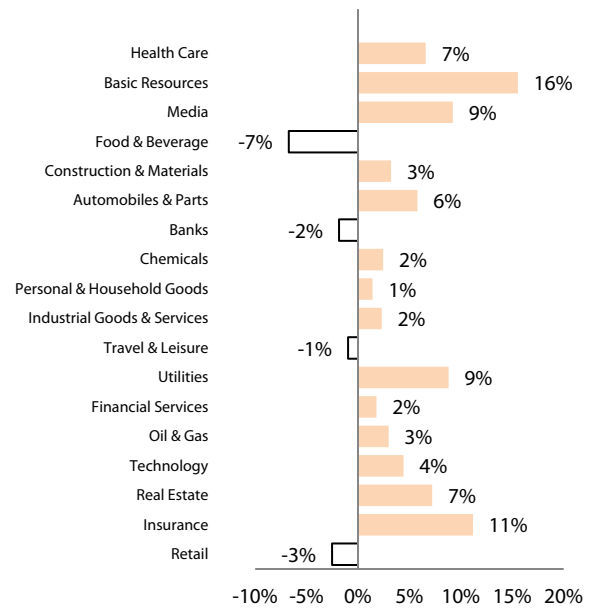
INDUSTRY INDEX

Level 1 industry movement



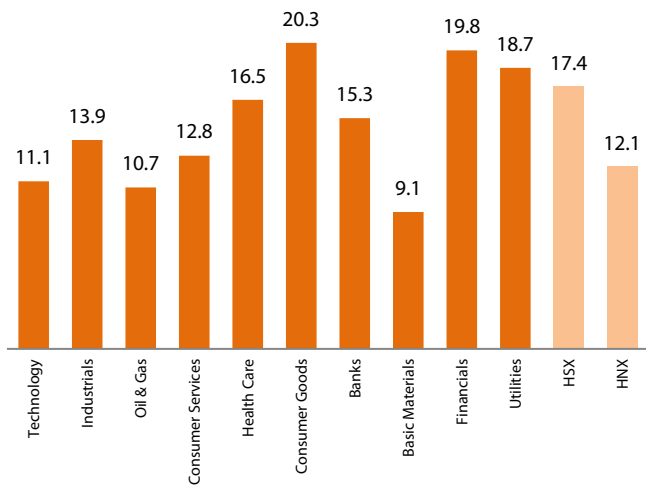
Source: RongViet Research

Level 2 industry movement



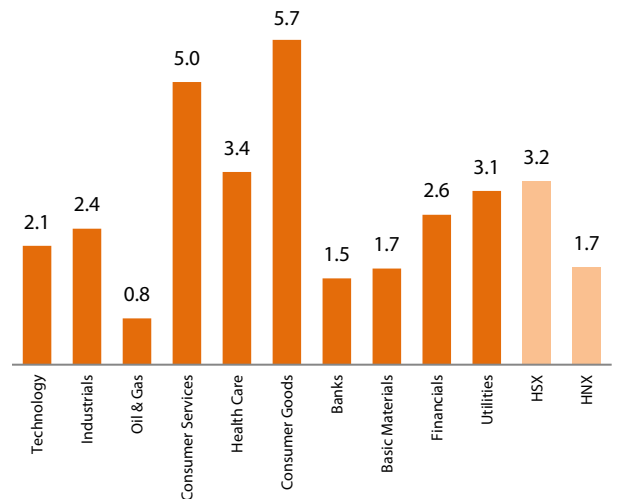
Source: RongViet Research

Industry PE comparison



Source: RongViet Research

Industry PB comparison



Source: RongViet Research



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