RONGVIET SECURITIES

Waiting to buy at lower prices

Reaching its five-year high in the first week of July, VNIndex failed to keep the gains as liquidity soon withdrew and the rising trend reversed. The incident of TTF-DRH was more of a catalyst than causation for the fall of stocks on the Hochiminh and Hanoi exchanges. As the market marched towards the end of the months, divergence among stocks became more apparent. Construction and Building materials stocks such as HPG, HSG, CTD, etc. and those with upbeat 1H results continued to outperform while major Oil&Gas stocks like GAS, PVD and PVS extended the losses. Trading volume in July expanded 3.5% from June yet liquidity in the later half of the month contracted 14.7% as compared to the first half. As local investors smelled fears, foreigners bought a net VND1,280 bn (USD57 mn) in July, the highest level since the beginning of 2016.

Two factors that would have implications for the stock market's in August are (1) the fluctuations in liquidity and (2) H2 earnings expectations. In the near term, the supply-demand balance should depend on the availability of cash in the market. In fact, the need to keep interest rates low and to boost GDP growth have urged the SBV to maintain an accommodating monetary policy. From the beginning of the year, the monetary base (M2) has expanded 9.84% and deposits in banks 10.17%. Yet lending has grown only 8.02% by the end of July. We do not expect the situation to last, however as banks tends to push lending in the second, especially the fourth quarter. On the other hand, the slowdown in apartment transactions in Q2 was caused by fears over the renewed restrictions on mortgage lending. The SBV, however, issued Circular 06 in early July saying that the curb would only begin next year and be phased over 2017 and 2018. Finally, there has always been a lag between price increases and monetary expansion. Considering the risk of inflation coming back near year end, we expect the SBV to be more prudent in its policies in the upcoming months. Should the monetary policies reverse, liquidity for the stock market will likely contract.

VNIndex is trading at 14.8 times its trailing EPS, a relatively high level given the 5-year average index PE of only 12.8x. Our statistics of 477 listed companies show that the aggregated net income of the market contracted slightly as compared to 1H2015 in the six months ended June 2016. Excluding KDC, however, market-wide profit after tax still expanded 9.2% yoy in the first half of 2016, in line with our whole-year expectation of 10%. At 640 (up 11% from the beginning of the year), VNIndex seems to be trading at its fair value where prices have fully reflected the earnings expectation of the entire year. What might drive the market to higher grounds is investors' outlook for 2017, which at the time being, may be too soon to be formed in a clear picture. Extended days of trendless trading and tepid liquidity would put the patience of leveraged traders to the test and eventually drive them to trim positions at discounted prices. Meanwhile, there should be no rush for cash holders in the absence of supporting information. For those reasons, we suppose the market will witness strong correction during the first week of August then continue sliding in a narrow range of movements and a gradual decline in liquidity for the remaining days of the month.

VNIndex is expected to move between 610 and 646 and HNIndex between 80 and 82 in August.

Given the likelihood of a correction, investors will become more selective and only companies with strong earnings outlook, possibly supported by upbeat H1 results, would be in the favor for accumulation. Excluding outliers such as KDC, many sectors witnessed an increase in revenue and net income from 1H2016. Bolstered by strengthening FDI and a boom in the new launches of infrastructure and housing projects, Construction, Building materials, Real estate, and Transport companies posted highly optimistic earnings growth in the first half. Insurance and Securities brokerage stocks also outperformed, both in term of stock prices and earnings growth. We expect these industries to continue doing well in the second half. In addition, stocks with sound fundamental and high dividend yields can also be considered by investors with low risk appetite.

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The market is looking at growing negative sentiment as liquidity has contracted and many stocks are under strong selling pressure. Yet, those who made the purchases before the July rally probably still enjoy some modest gains. The tendency to just hold on and wait makes it harder for the trading to improve and could drive the market into a series of sideways movements. Buying into stocks during the first down days is as risky as catching a falling knife. Investors are advised to maintain a strong position in cash and consider accumulating only when prices have found stability at a lower level. Investors should stick to stocks of leading companies with solid fundamentals whose prices might have been adversely impacted by the market.

H1 results confirmed our views on sectors such as Construction, Building materials, Real estate, Securities brokerage, Insurance, Travel & Tourism, Auto, Retailing and Consumer goods. Armed with extensive distribution networks, efficient production lines and strong brand recognition, HPG, HSG and BMP cemented their position as Vietnam's leading material manufacturers. With a much smaller capital base, stone producers like NNC and DHA are advantaged by large reserve, good quarry location, long license period and expanding demand. While DHA has the largest reserve of all listed stone companies, NNC exhibits outstanding business efficiency as compared to its peers. Smaller construction firms like SRF and FCN also posted two-digit revenue and earnings growth rates in 2Q2016. Thanks to its ample capacity and strong financial, SRF was able to accumulate a good backlog in 1H2016, shortening its distance with the largest player in the industry, i.e. REE.

Of real estate companies, TDH, BCI, LHG and KDH are highly regarded for their land bank advantage and optimistic earnings outlook of 2016 and 2017. Trading at a much lower P/B than its peers, TDH posted earnings remarkable growth in Q2 core. The firm has been actively expanding its project pipeline while pushing construction at ongoing projects.

While most O&G-related companies saw a sharp decline in 1H earnings from a year earlier, PVT reported impressive growth in both revenue and profits last quarter. Aside from flagship operations such as crude, petroleum and LPG transport, PVT is venturing into new potential businesses like FSO and coal transport to thermal power plants. We believe PVT is one of the biggest beneficiaries from the operation of Nghi Son Refinery (2017). The powerful influx of FDI has brought about a gradual increase in the volume of cargo in Northern Vietnam. Between 2017-2019, the coming of new FDI projects by Samsung, LG, Canon, etc. is expected to bring great benefits to logistics service providers in the North such as HAH, NCT and VSC.

- ✓ Transportation: PVT, VTO, TCL, NCT
- ✓ Seaports: HAH, VSC
- ✓ Construction: CTD, FCN, SRF, HUT
- ✓ Electricity: NT2, PPC, REE
- ✓ Real estate: BCI, KDH, LHG, TDH
- ✓ Retailers: SVC, PTB, MWG
- ✓ Building materials: NNC, DHA, BMP, HPG, HSG
- ✓ O&G: PGS, PVS, PLC
- ✓ Food & Beverages: VNM
- ✓ Banks: VCB, ACB
- ✓ Others: VNM, FPT, SKG, DRC, DPM, IMP, VFG, NCS

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

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

WORLD ECONOMY

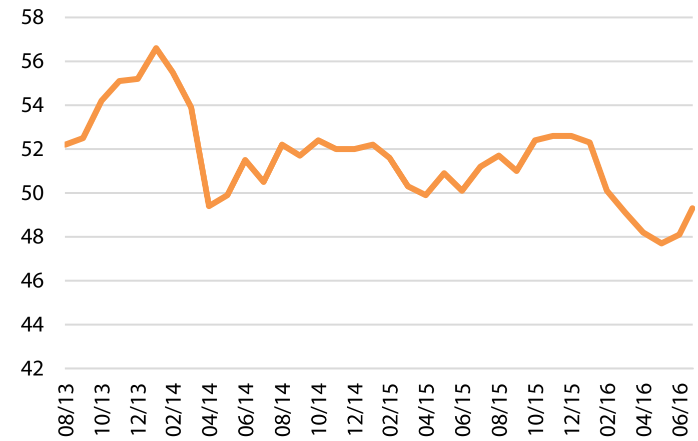
- JAPAN: economic growth depends on fiscal stimulus
- THE U.S.: more solid economic outlook
- THE EU: BOE cuts rate to ward off Brexit repercussion

JAPAN: economic growth depends on fiscal stimulus

Japanese economic activities remained lackluster during the second quarter, deflationary trend prevailed. Industrial production in Japan decreased 1.90% in June of 2016 over the same month last year, and those of April and May fell 3.30% and 0.4% from the April and May of previous year, respectively. Deflation trend occupied the economy as inflation rate (yoy) fell from -0.3% in March to -0.4 in June. Exports from Japan dropped by 7.4% from a year earlier in June of 2016, following a 11.3% fall in May due to the appreciated yen. Despite of decline in exports, Japan enjoys trade surplus of 692.84 billion yen in June compared to a 60.90-billion-yen deficit a year earlier. It's worth noticing that Japan's PMI for July accelerated to 49.3, higher than those of June and May which were 48.1 and 47.8, respectively. Meanwhile, new orders and export orders show declining trends, inducing deterioration in production in the second half of the year.

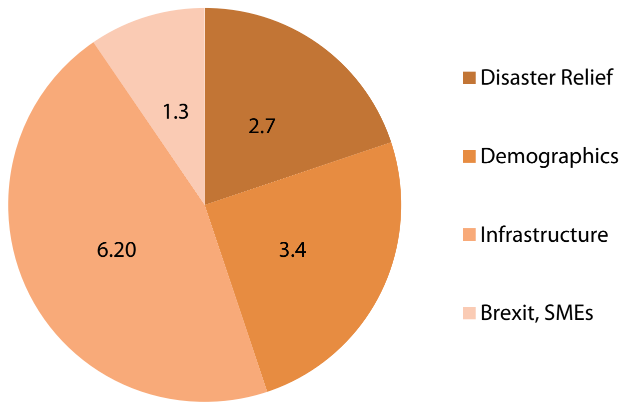
The focus now shifts to Abe's fiscal package. The BOJ, on its meeting at the end of July, opted for modest monetary expansion, which fell short of expectations among many investors for more aggressive actions. Specifically, the BOJ decided to maintain the policy rate it charged from February this year of minus 0.1% and to keep expanding the monetary base at an annual pace of about 80 trillion yen ($760 billion). It is obvious that the Negative Interest Rate Policy (NIRP) has limited effects on bolstering investment as credit growth was sagging during the last quarter. Furthermore, the BOJ is lack of credibility to commit to a more aggressive monetary policy that disappoints the market. On the other hand, the focus now shifts to Abe's fiscal package. On 02 August, the Japanese government announced fiscal measures of 13.5 trillion yen ($132.04 billion), including 56% in new spending and the remaining in low-cost loans. It is a part of a 28 trillion yen ($266 billion) stimulus package (equal more than 5% of gross domestic product) to boost the faltering economy. We suppose that the expansionary fiscal policy would jump start the economy when NIRP becomes less effective and private sector shows signs of slowdown. The economy in the next two years will depend on fiscal stimulus and the growth is expected to be low in the second half of this year.

Figure 1: Japan's Purchasing Managers' Index (PMI) July 2016



Source: Bloomberg

Figure 2: Japan's Stimulus Package of 13.5 Trillion Yen



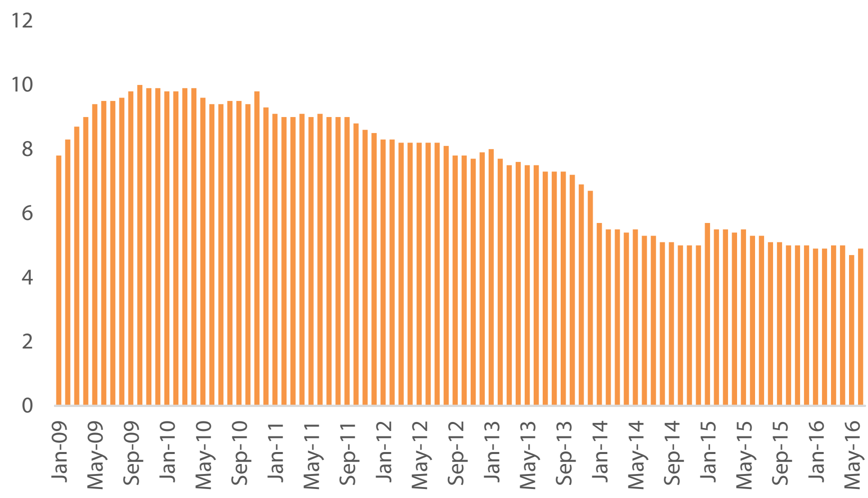
Source: Japanese Government
**Figures in trillions of yen. The total doesn't add up to 13.5 trillion yen due to rounding*
**New spending includes 1 trillion yen of cuts in insurance premium*

THE U.S: more solid economic outlook

The meeting on 27 July of FOMC came to several noticeable outcomes. The Committee expressed optimism about labor market and household spending. Data showed that the U.S. labor market in the first half of 2016 experienced tremendous progress; unemployment rate is 4.9% in June, down from 10% in October 2009. Meanwhile, FOMC still concerns about inflation rate which is 1% in June below the 2% objective. Accordingly, FOMC decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent in order to support further improvement in labor market and a return to 2% inflation rate. At the moment, probabilities of a rate hike are estimated at18% for 21st September meeting; 19.8% for 2nd November meeting; and 35.7% for 14th December meeting.

As economic outlook for the near term is becoming more solid, we expect that Fed would increase the federal fund rate once this year, might be on December. Some experts believe that the U.S. economy has nearly reached full employment; accordingly, there would be little room for an upsurge in growth. We project that the U.S. economic growth will be modest in the rest of 2016.

Figure 3: U.S. Unemployment Rate (2009-2016)

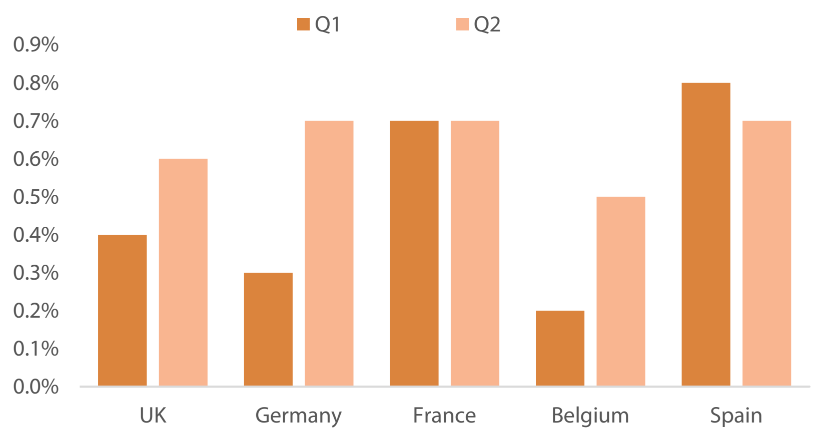


Source: U.S. Bureau of Labor Statistics

THE EU: BOE cuts rate to ward off Brexit repercussion

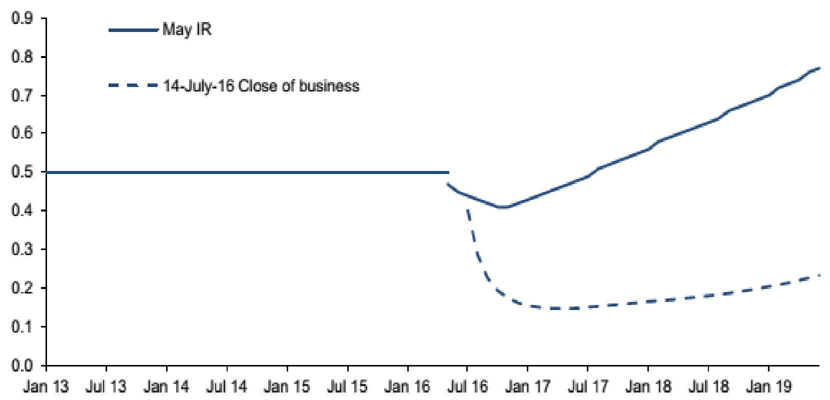
Leading economies still keep their positions. The Eurozone economy expanded 0.3% on the second quarter, cooling from 0.6% of the first quarter. However, major economies in the euro area, at some extent, performed relatively well during the second quarter in comparison to the first one. Particularly, German GDP growth rate is up to 0.7% in the second quarter from 0.3% of the first quarter. The UK's economy advanced 0.6% on quarter in the three months to June of 2016, higher than a 0.4% expansion in the previous period and better than market expectations of 0.4%. However, there might be no repeat of such expansion in the future as UK enters the negotiation of leaving the EU, implying massive adjustments in the economy. The market was looking for a rate cut from the Bank of England (Figure 5).

Figure 4: GDP Growth Rate of Some Major EU Economies



Source: Tradingeconomics.com

Figure 5: Market-implied Path for UK Policy Rate (Percent per annum)

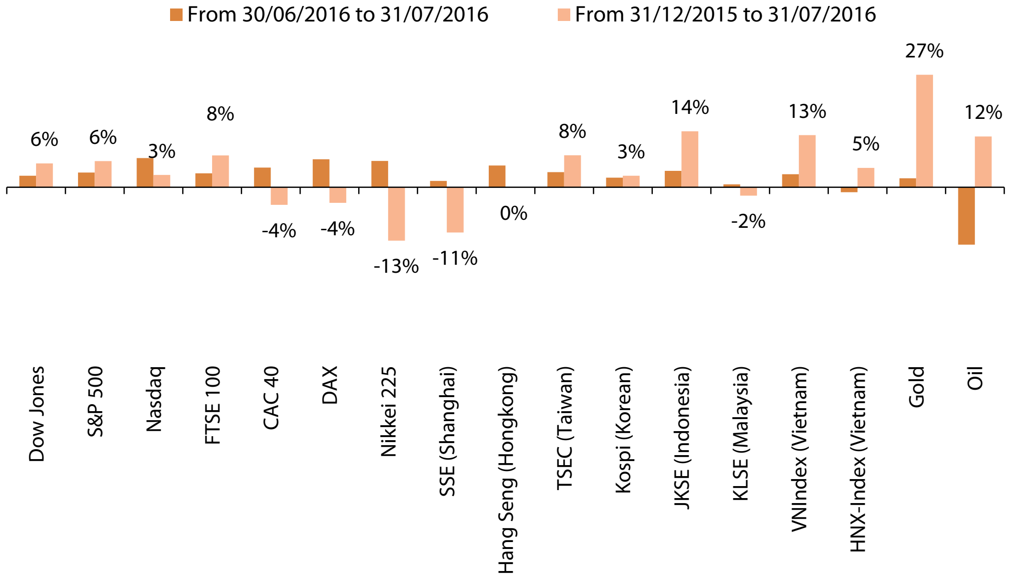


Sources: May Inflation Report, BOE, Bloomberg

A rate cut to ward off Brexit recession. It seems that the immediate impact post-Brexit repercussion on the Eurozone economy was the contraction of manufacturing and consumer's perspectives. Flash Eurozone PMI Composite Output Index declines to 52.9 from 53.1 in June, an 18-month low. Consumer confidence of the euro area also declines to -7.6 in July, down by 1.8 point from -5.8 in June. In the future, uncertainty related to the UK's decision to leave the EU and political risks across the continent more widely, could make companies more cautious. Thus, we expect that the Eurozone economy can hardly bound back due to unsecured economic and political conditions across the continent. In an attempt to alleviate Brexit recession, the Bank of England (BOE) cut interest rate to a record low of 0.25%, boosted its quantitative scheme, and committed an extra100 billion GPB to encourage banks to lend. The Sterling pounds lost 1.3% its value to USD after BOE's announcement. The BOE has just made the first move to tone down the post-Brexit aftermath. We expect that there will be further interest rate cuts and quantitative easing carried out by BOE and other central banks.

GLOBAL STOCK MARKETS: Economic factors were closely observed

Figure 6: Global stock market performance in July



Source: Bloomberg, RongViet Research

Global markets experienced a decent July. Shocking Brexit was partly absorbed while others factors such as oil price and China economic data tended to fade away.

US stock markets recorded strong gains when Nasdaq up 7.07%, S&P 500 added another 3.56% to previous month and Dow Jones moved higher 2.8%. US economy continue to grow slowly as GDP in Q2/2016 reported to rise merely 1,2% annualized. Fed's July meeting ended as expected without any rate changes. However, the meeting keeps a September rate hike possible. The markets were also supported by earning reports of many companies with EPS growth was better than expectations.

Two key issues arose in Europe markets: Brexit and Italian banks. Aftershock of referendum result paused but still remains a risky factor. At the end of 2015, Bank of England (BoE) announced to keep the rate unchanged at 0.5% with a QE package of £375 billion. But in July, BoE did not rule out the possibility of cutting rate lower. PMI of England was around 48 pts, far lower than forecast of 50 pts, which could be considered as an effect of Brexit. Besides, the concerns over the risk management of several large and medium-sized Italian banks were another big issue. No specific solutions have been reached to restructure these banks between Italy and Europe.

Asian stock markets witnessed the strongest upsurge of Nikkei 225 with an increase in July of 6.38%, thereby narrowing the year-to-date decrease of the index to 12.95%. Hang Sheng index gained the second-highest increase of 5.28%. VNIndex also surged sharply by 3.16%. In July meeting, Bank of Japan officially decided to maintain annual money supply of JPY 80,000 billion, and increase its purchases of exchange-traded funds (ETFs) from JPY 3,300 billion to JPY 6,000 billion. However, BOJ recently declared a minus of 0.1% in interest rate and a expanded asset purchase program to reach its 2-percent inflation target. In addition, Q2 GDP of China recorded a remarkable growth of 6.7%, the same as 2016Q1. The stronger-than-expected growth of other macro indexes such as retail sales index, industrial production index also sent affirmative signals to Asian stock market in recent July.

Oil prices suffered a sharp loss of 13% in July as compared to the previous month to reach $40-per-barrel low amid recent oversupply woes.

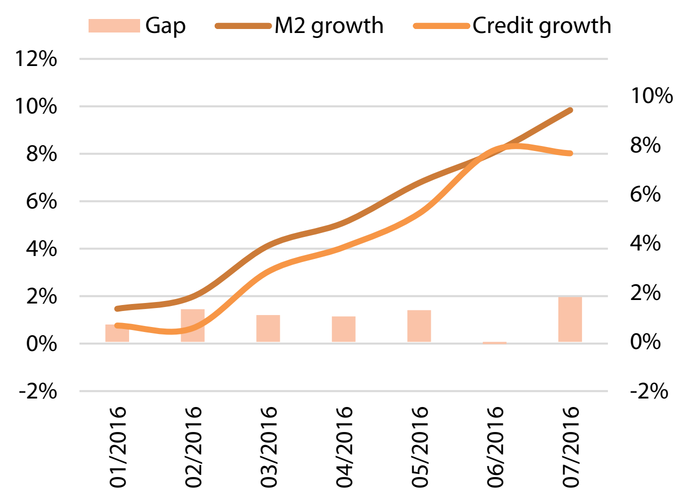
VIETNAM ECONOMY

- SBV is more active in control money supply-demand
- Bad debts in banking system inching up, but worst is over
- Exchange rate stability: under control
- Surplus trade balance due to the gloomy world economy

SBV is more active in control money supply-demand

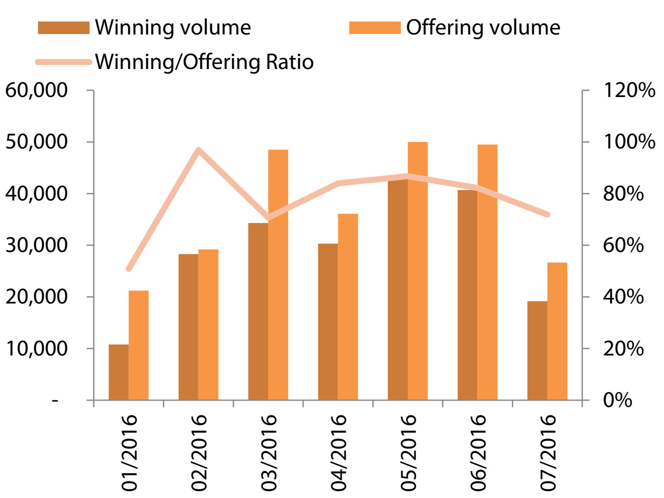
According to the SBV, the gap between M2 growth rate and credit growth rate are widening over the last month. Particularly, as of 20/7/2016, M2 grew 9.84%, deposit surged 10.17% and credit rose by 8.02% as compared those of the end of 2015. Banks' liquidities are abundant; and interbank overnight rate are stable around 1%. Noticeably, interbank average trading volume increased by 15% compared to that of the previous month. Moreover, the SBV intensively intervened in the money market through the issuance of Treasury bills. The use of Treasury bills, which was resumed by the end of May, withdrew a net of 46,000 billion dong from the market by the end of July. The State Treasury's call for capital slowed down over the last month due to decreasing pressure on budget capital mobilization. In addition, lower wining ratio at Government bond auctions suggested diminishing investors' interest on the Government bonds. Wining volume of July was 19,152 billion dong, down by 53% from that of June; winning ratio was 72% (less 10% compared to that of the previous month).

Figure 7: The gap between M2 and credit growth



Sources: SBV, data as of 20/07/2016

Figure 8: Government Bond auctions



Sources: HNX, RongViet Research

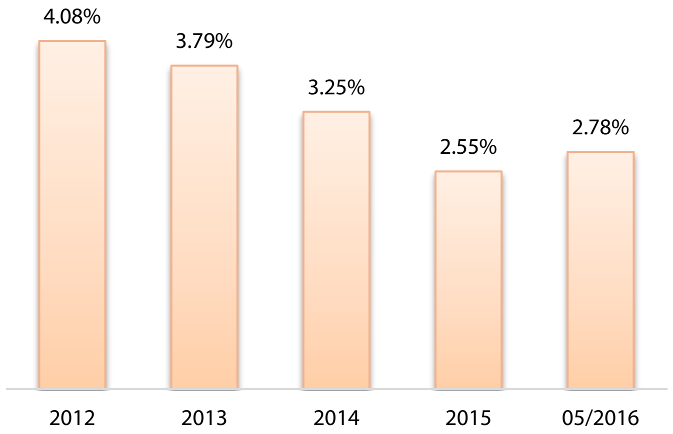
Difference between M2 growth rate and credit growth rate has not significantly changed over the last month; Investment in Government bonds dialed back while the SBV continued hoarding up foreign reserves (900 million USD), implying a surplus of liquidity in the system. However, we assume that capital flowing to short-term securities investment might become less plentiful because the stricter control from the SBV. We also assume that the SBV would continue employing Treasury-bills tool to maintain appropriate liquidity during the rest of the year.

Bad debts in banking system inching up, but worst is over

The announcements of 1H2016 business results of commercial banks raised new concerns about bad debts, affecting negatively to the SBV's credibility and the investors' sentiment. According to the SBV, NPL ratio in Vietnam banking system went up from 2.55% at the end of last year to 2.78%. Figures suggest that the official NPL ratio still remain below 3% target.

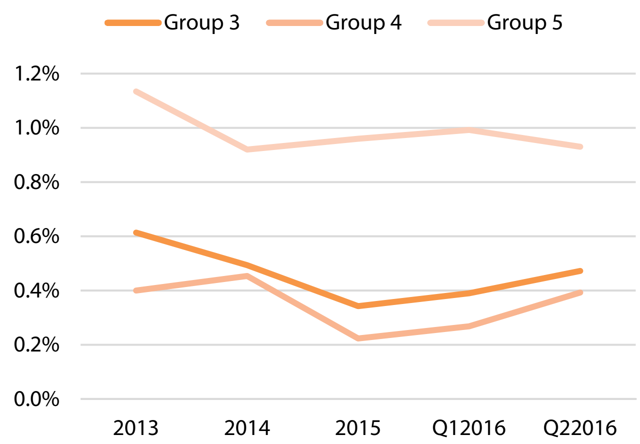
There are two possible causes for above situation: (1) VAMC did not buy bad debts in the first half of 2016 and (2) Restructured debts under the Directive No.780 has gradually became nonperforming loans as borrowers fail to settle their liabilities. The first reason is quite obvious based on the VAMC's actitivites in 1H2016 but the remaining reason is difficult to quantify. Therefore, we chose the sample of 9 listed banks to assess recent development of bad debts in the banking system.

Figure 9: NPL ratio



Source: SBV

Figure 10: Changes in group of loans at JSC. Banks



Sources: FS of JSC. banks, RongViet Research

By examining a sample of 9 listed banks (accounting for 48% of total loans and 31% of bad debts in the banking system), we find bad debts increased again at 5/9 banks, implying a differentiation in asset quality of the banking system (see Table). Besides, sample statistics show the growth rate of group 3 (Substandard debts) was slower than that of group 4 (Doubtful debts); and uncollectible debts has increased only about 6% since the end of 2015. According to our banking analysts, the increase of bad debts mainly comes from banks who have not complete settlement their bad debts with VAMC or being under inspection. This will impact on those banks' business performance without causing any negative impact on the entire system. Basically, we think that investors should not be worried about the increase of bad debts because it is the result of not solving issues of bad debts root and branch. VAMC is deemed to complete its first mission of cleaning-up bad debts on banks' balance sheets; and its next major mission is to focus on the settlement of the purchased debts. By the end of 06/2016, VAMC only settled VND32,400 billion of bad loans, accounting for 13.4% of total purchased debts.

Table 1: NPL ratios of listed JSC. Banks in the first half of 2016

	31/12/2015	30/06/2016
VCB	1.84%	1.74%
CTG	0.85%	0.90%
BID	1.60%	2.00%
EIB	1.86%	5.30%
STB	1.85%	2.83%
SHB	1.70%	2.20%
MBB	1.60%	1.33%
ACB	1.32%	1.23%
NVB	2.19%	2.19%

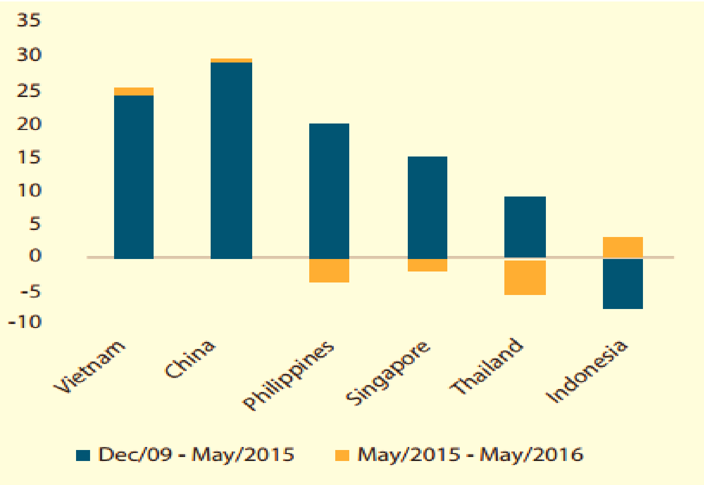
Sources: FS of JSC. banks, RongViet Research

Exchange rate stability: under control

A recent report by the World Bank shows that there are changes in real effective exchange rate (REER) between the domestic currency of some countries in Southeast Asia and currencies of trading partners (relative to currencies of trading partner). In last year (05/2015-05/2016), the REER increased at three countries including Vietnam, China and Indonesia while decreased at three other countries (Philippines, Singapore and Thailand). At the same time, the increase of the dong's REER is one of the highest rate among those of 6 countries. This implies that the competitiveness of Vietnam exports' goods has been reduced compared to that of most countries in the region. However, we believe that the recent weakness of trading activites mainly came from the bleak picture of stagnating world economy rather than the exchange rate's machenism. In the first 6 months, exports growth of Vietnam was about 5.3%, of which domestic sector maintain unchanged. Meanwhile, others countries in the region recorded negative growth in exports. Thus, we believe that the motive of the dong devaluation to stimulate exports is relatively low, especially in the context of globally weak demand nowadays.

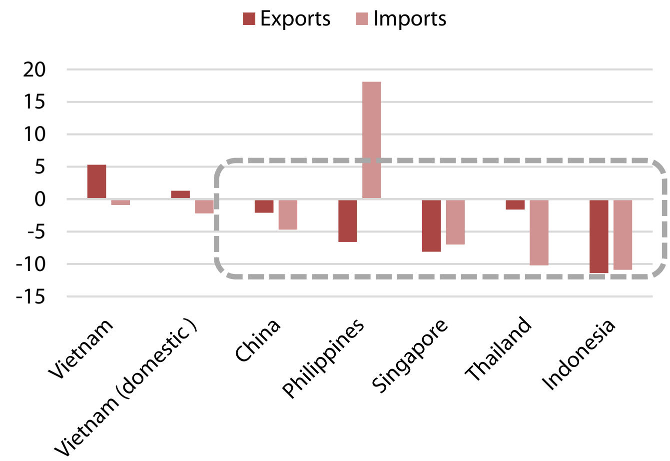
According to the estimates, the central bank has bought nearly $9 billion for foreign reserves since the beginning of the year. The level of foreign exchange reserves is high, enabling the SBV to regulate the exchange rate proactively. Considering the impact of external votility, we find a stable dollar as the Fed continues to delay raising interest rates. Meanwhile, the USDCNY is forecasted to be 6.8 at the end of 2016, corresponding to a further 2.8% depreciation. Therefore, the scenario for the exchange in the rest of the year rate is the flexibility to adjust the central rate without causing any shocks for markets and investors.

Figure 11: Cumulative change of real effective exchange rate



Source: WB

Figure 12: Exports/Imports growth in the frist half of 2016



Source: Bloomberg, Philippines data as of May 2016

Surplus trade balance due to the gloomy world economy

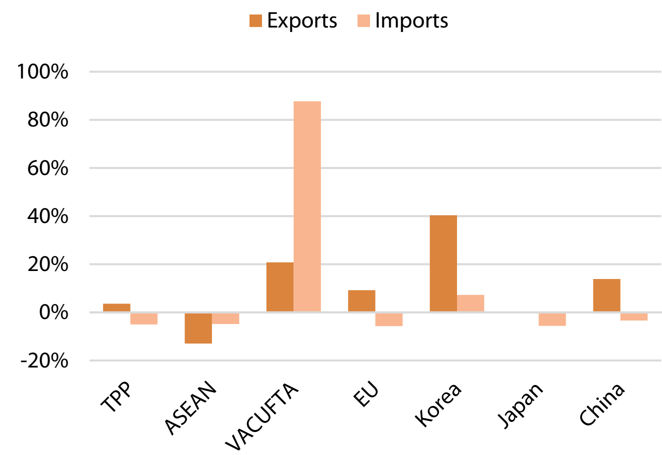
As mentioned above, trade activities of Vietnam have weakened compared to those of the previous periods due to the gloomy world economy. According to the Vietnam Customs, export growth was just over 5% while imports growth was nearly zero, bringing about a trade surplus of approximately $1.3 billion in the first half of 2016. The decline in the growth rate of exports mainly came from foreign sector, while domestic sector was stable.

By countries, exports to ASEAN countries fell sharply (-13% yoy), while the exports growth rates to major trading partners such as the EU and the TPP decreased. In particular, by maintaining exports growth to China while not increasing imports, the trade deficit between VN-China reduced by $2 billion over the same period. Based on the index moving average growth rate of imports and export orders in the PMI - Nikkei, we expect trade activities can hardly improve in the second half of this year. The trade balance is expected to be reversed compared to 2015 with a surplus of about $3 billion this year.

Figure 13: Exports-imports growth

Sources: Customs, RongViet Research

Figure 14: Exports-imports growth of Vietnam's main trading partners

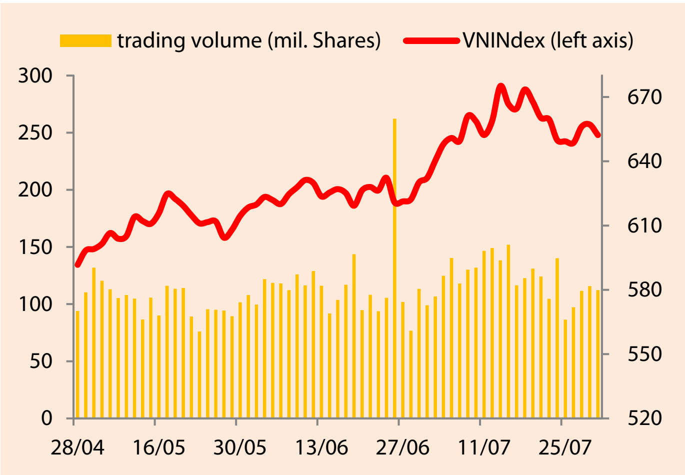


Sources: Customs, RongViet Research

JULY STOCK MARKET: Positive earnings results supported the market rallies

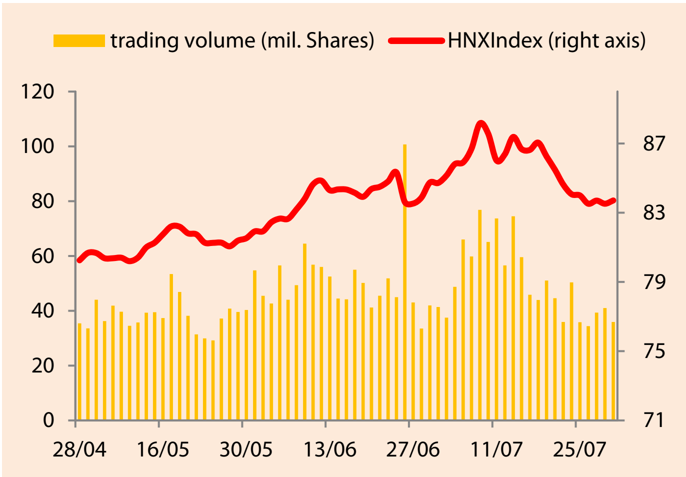
2 shades of July. If we considered market movement in July as a movie, then it was a "Top Hit" divided into 2 parts. Index started at 632.3 points, broke out the 8-year-high 640 in the very 2nd session of the month, set a new high 675.1 on July 13th, before ended up at 673.5 in the last scene of part 1 (July 18th). During that period, the optimism was widely spreaded. Money flooded in the market; total turnover value on VNIndex reached up to VND 3,000 billion in some days. On average, there was about 131 million shares traded in terms of matching order each day, equivalent to a total value of 2,616 billion. Contrary to part 1 that was too bright, part 2 (from July 19th to July 29th) had a much darker theme. The average liquidity and turnover value declined to 112 million shares and 2,073 billion only, respectively. There were sessions with deep correction, particularly on July 22th when VNIndex attempted to test the bottom 3 times. The movie ended with VNIndex closing at 652.2 points, and left investors with an open ending: whether the 675 was already the year high of the market.

Figure 15: VNIndex movement in July



Source: RongViet Research

Figure 16: HNX-Index movement in July



Source: RongViet Research

In both parts, the acting of blue-chip stocks was outstanding. In part 1, VN30 rose by 6.5%, in line with the increase of VNIndex, of which the largest capitalization stocks such as VCB, VNM, CTG, BVH were the main contributors. In part 2, VN30 dropped 3.5%, stronger than the reduction of VNMID or VNSML, dragging VNIndex down by 3.2%. In other words, it seemed to boil down to bluechips who decided to carry VNIndex up or down.

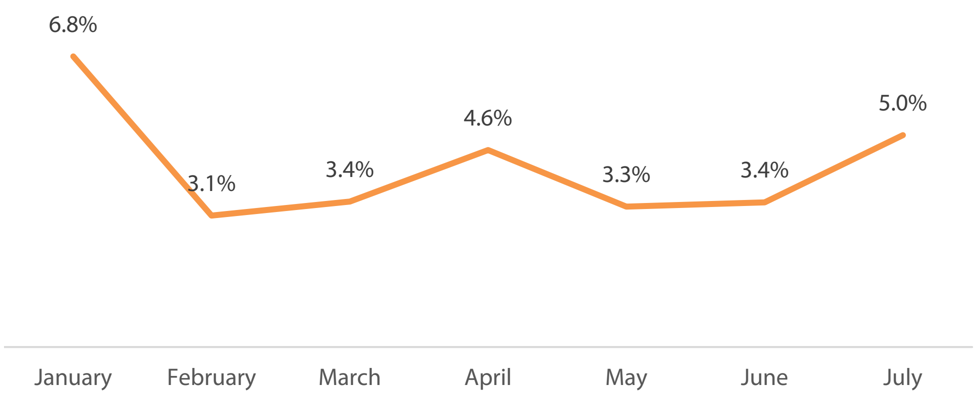
Table 2: Change of some Index in 2 period of July

	Change in period 1 (06/30/2016-07/18/2016)	Change in period 2 (07/19/2016-07/29/2016)
VNIndex	6.5%	-3.2%
VN30	6.5%	-3.5%
VNMID	4.0%	-3.2%
VNSML	1.9%	-2.4%
VCB	18.4%	-3.6%
ITA	16.3%	-2.0%
SSI	15.9%	-5.0%
HCM	9.7%	-4.9%
KBC	9.0%	4.7%
SBT	8.7%	-3.2%
BVH	8.5%	-7.8%
VNM	8.5%	3.3%
CTG	8.3%	-2.2%

Source: RongViet Research

The market was quite "surprise" as it reached a new high. Market movement is a series of eventful mixing up with quiet sessions. Basically, most of the session in which the index fluctuated only a few dozen basis points were only considered as "noises", while the ones that increase/decrease more than 1 percentage point could shown some indications of the market trend. In July, there were 10 out of 21 sessions in which VnIndex fluctuated more than 1% as such. The reasons for this phenomenon were probably the excitement and the willingness to take profit of investors. In days that the market rallied, the buyers rarely thought twice before dispursing their money as they did not want to stay outside the hot market. On the other hand, in correction sessions, the sellers is willing to sell at all prices as they already earned a significant profit. Moreover, as VNIndex broke out the 8-year-high and had no other milestones to conquer, volatility rose significantly.

Figure 17: Volatility in July was much higher compared to other months



Source: RongViet Research

Positive earnings results supported the market rallies

Collecting business results of 198 companies already announced Q2 report on HOSE, we estimated the revenue growth in Q2 was 10.1% , while profit after tax growth was 18.8%. Net profit margin also shown an improvement as it increased from 11% to 11.9%. The fact that businesses performing well and growing was a satisfying explanation for the recent rally of the market.

When it comes to individual sectors, Real Estate, Construction and Materials, and Basic Resources saw the most impressive growth in revenue and profit. Among stocks in these sectors, VIC, NLG, NKG, TLH, SMC, CTD, and VCS had the best performance in 1H 2016. This result was in harmony with the overall picture in which the real estate market somewhat recovered and the government strongly promoted infrastructure development and industrial projects .

Meanwhile, Oil & Gas and Utilities sectors experienced significant declines. It is noteworthy that most of these declines have been foreseen. For Oil & Gas stocks, their earnings were affected by the oil price, which was still very far from the previous USD 100/barrel. Specifically, the after-tax profit in 1H 2016 of GAS, PVD and PVS fell by 42%, 93%, and 23% p-o-p, respectively. As for Utilities sector, hydroelectric enterprises such as CHP, SJD, TBC, SHP were all influenced by the drought, while Pha Lai Thermal Power (PPC) were expected to bear a huge exchange rate loss as the Yen rose sharply.

Table 3: Revenue and NPAT growth of different sectors *

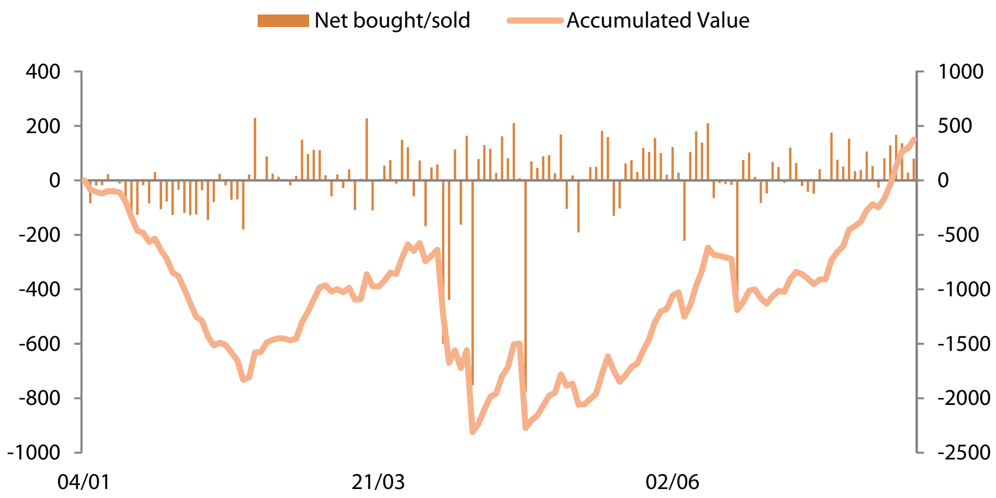
	Revenue growth Q2 2016	NPAT growth Q2 2016	Revenue growth 1H 2016	NPAT growth 1H 2016
Industrial Goods & Services	13.2%	44.8%	20.8%	37.4%
Food & Beverage	21.4%	36.0%	23.4%	33.7%
Banks	14.2%	-1.8%	15.3%	3.5%
Construction & Materials	20.9%	61.7%	18.9%	29.3%
Financial Services	27.3%	-24.4%	37.0%	-37.6%
Basic Resources	-6.8%	1.029.2%	-4.1%	987.9%
Retail	2.2%	-51.8%	8.7%	-46.9%
Health Care	5.3%	5.5%	5.7%	12.0%
Oil & Gas	-18.8%	-40.6%	-19.2%	-44.5%
Utilities	-19.3%	-43.3%	-17.8%	-46.2%
Real Estate	67.6%	266.5%	82.7%	196.9%
Media	14.1%	19.3%	10.7%	17.9%
Insurance	13.2%	9.3%	13.5%	15.9%
Personal & Household Goods	5.9%	46.1%	7.9%	31.4%
Travel & Leisure	14.1%	2.0%	15.4%	5.3%
Technology	-20.2%	17.6%	-30.5%	0.0%
Chemicals	-5.2%	11.2%	-7.0%	-7.2%
Automobiles & Parts	-16.8%	-19.6%	-9.2%	-8.2%

Source: RongViet Research

**collected from 477 companies annouced Q2 result and excluded KDC as it has a hugh one-off profit from selling bakery segment for Mondelez in 2015*

Foreign trading activities: Domestic investors turned inactive while foreigners went the other way

Figure 18: Foreign investors net buy/sell values



Source: RongViet Research

In July, market recently saw the strong activities of foreign investors. In addition, total net buying value reached VND1,284 billion, equivalent to average trading value of approximately VND61 billion. For the last 21 trading sessions, foreigners net sold in only 4 days with total value of about VND139 billion. Particularly, net buying activities took place most in second half of July when market was fairly quiet and started adjusting after surpassing the nine-year peak of 640 at July 4th. Net buying value of foreign investors in the second half of July attained VND827 billion level or an upsurge of 83% as compared to VND 451 billion level in the first half.

Unit: billion dong

Top 10 net buying stocks in HSX		Top 10 net selling stocks in HSX	
Tickers	**Values**	**Tickers**	**Values**
HPG	286	**HSG**	-177
VCB	213	**MSN**	-175
SSI	192	**PVD**	-89
E1VFVN30	121	**KSB**	-71
CTG	109	**HBC**	-54
PVT	103	**PDR**	-47
KBC	99	**BID**	-41
NT2	66	**SAM**	-17
VIC	56	**PAC**	-16
GAS	54	**GTN**	-16

Source: RongViet Research

Top 10 net buying stocks in HNX		Top 10 net selling stocks in HNX	
Tickers	**Values**	**Tickers**	**Values**
PVS	111	**KLS**	-101
VND	67	**NTP**	-54
SCR	30	**NET**	-48
VHL	28	**DBC**	-32
VIX	26	**VNR**	-30
WCS	24	**VCG**	-18
MAS	18	**DXP**	-18
TNG	15	**VGS**	-17
BVS	13	**SPP**	-13
PLC	10	**AAA**	-10

Source: RongViet Research

Other remark concerning foreign capital flow was that VNM offically lifted the foreign ownership limit up to 100%. Removing the limit, on the other hand, leaded to the fact that foreigners could buy VNM plentifully so that there was no need for them to rush to acquire VNM which would push VNM price as the previous period. Moreover, investors are looking forward to whether VNM is eligible for 2 baskets of ETFs in upcoming review period. Db x-trackers FTSE Vietnam ETF is currently recording 38% free float of VNM. As the limit is removed, VNM's free-float will be at 44% (an addition of ~ 6%). However, this 6% is the maximum foreigners could buy since SCIC has not shown any sign to divest its investment in VNM. With these conditions, VNM appears to be eligible for FTSE’s basket. In contrary, free float as well as limit for foreign investors, according to VanEck Vectors Vietnam ETF, were about 6%; therefore, VNM, in our view, may not make it to the VanEck Vectors Vietnam ETF in the Q3 review period as it does not meet the requirement.

Total market trading values in second half of July decreased 14.69% compared to the first 2 weeks. On the other hand, net buying values of foreigners increased by 83%. Movement of foreign capital did not tend to focus on specific stocks or sectors like P-notes in May. Moreover, offshore investors have been withdrawing their invested capital from ETFs. Such current inflows should come from other various sources. Therefore, foreign buying in July seemed to objectively reflect the expectations of foreign investors into Vietnam stock market.

Reaching its five-year high in the first week of July, VNIndex failed to keep the gains as liquidity soon withdrew from the rising trend reversed. The incident of TTF-DRH was more of a catalyst than causation for the fall of stocks on the Hochiminh and Hanoi exchanges. As the market marched towards the end of the months, divergence among stock became more apparent. Construction and Building materials stocks such as HPG, HSG, CTD, etc. and those with upbeat 1H results continued to outperform while major Oil&Gas issues like GAS, PVD and PVS extended the losses. Trading volume in July expanded 3.5% from June yet liquidity in the later half of the month contracted a striking 14.7% as compared to the first half. As local investors smelled fears, foreigners grew increasingly bullish, buying a net VND1,280 bn (USD57 mn) in July, the highest figure of net foreign purchase in a month since the beginning of 2016.

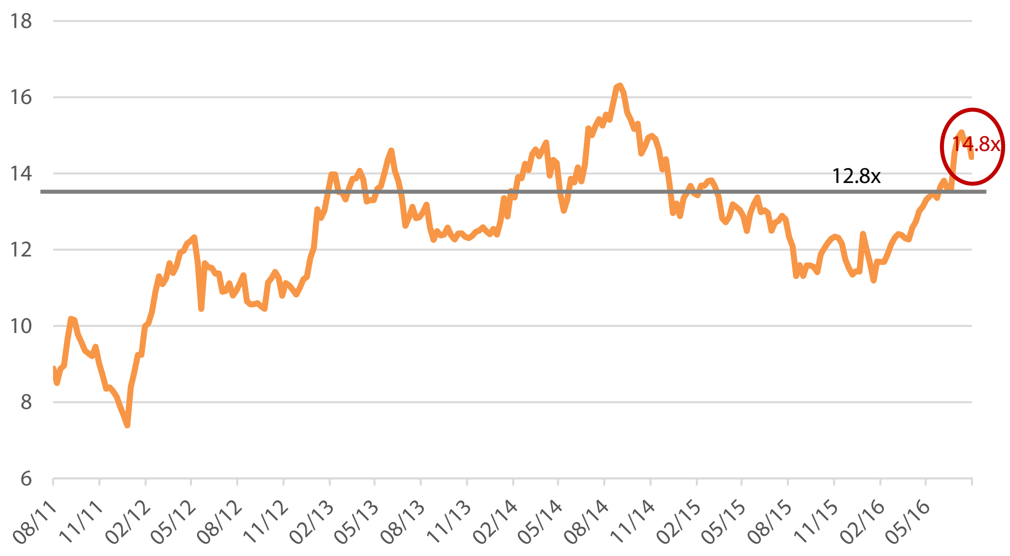
Two factors that would have an impact on the stock market in August are (1) the fluctuations in liquidity and (2) H2 earnings expectations. In the near term, the supply-demand balance should depend on the availability of cash in the market. In fact, the need to keep interest rates low and to boost GDP growth have urged the central bank to maintain an accommodating monetary policy. From the beginning of the year, the monetary base (M2) has expanded 9.84% and deposits in banks 10.17%. Yet lending has grown only 8.02% by the end of July. We do not the situation to last, however since Vietnamese bank tends to push lending in the second half, especially the fourth quarter. On the other hand, the slowdown in apartment transactions in Q2 was caused by fears over the renewed restrictions on mortgage lending. The SBV, however, issued Circular 06 in early July saying that the curb would only begin next year and be phased over 2017 and 2018. For this, we expect the housing market to rebound in the third quarter. Finally, there has always been a lag between price increase and monetary expansion. Considering the risk of inflation, we expect the SBV to be more prudent in its policies in the upcoming months. Should the monetary policies reverse, liquidity for the stock market will likely contract.

VNIndex is trading at 14.8 times its trailing EPS, a relatively high level given the 5-year average index P/E of only 12.8x. Our statistics of 477 listed companies show that the aggregated net income of the market contracted slightly as compared to 1H2015 in the six months ended June. Excluding KDC, however, market-wide profit after tax still expanded 9.2% yoy in the first half of 2016, in line with our market-wide expectation of 10%. At 640 (up 11% from the beginning of the year), VNIndex seems to be trading at its fair value where prices might have fully reflected the earnings expectation of the entire year. What might drive the market to higher grounds is investors' outlook for 2017, which at the time being may be too soon to be formed in a clear picture. Extended days of trendless trading and tepid liquidity would put the patience of leveraged traders to the test and eventually drive them to trim positions at discounted prices. Meanwhile, there should be no rush for cash holders in the absence of supporting information. For those reasons, we suppose the market will witness strong correction during the first week of August then continue sliding in a narrow range of movements and a gradual decline in liquidity.

VNIndex is expected to move between 610 and 646 and HNIndex between 80 and 82 in August.

Given the likelihood of a correction, investors will become more selective and only companies with strong earnings outlook, possibly supported by upbeat H1 results, would be in the favor for accumulation. Excluding outliers such as KDC, many sectors witnessed an increase in revenue and net income from 1H2016. Bolstered by strengthening FDI and a boom in the new launches of infrastructure and housing projects, Construction, Building materials, Real estate, and Transport companies posted highly optimistic earnings growth in the first half. Insurance and Securities brokerage stocks also outperformed, both in term of stock prices and earnings growth. We expect these industries to continue doing well in the second half. In addition, stocks with sound fundamental and high dividend yields can also be considered by investors with low risk appetite.

Figure 19: Weekly PE of VNIndex, 2012-2016



Sources: Bloomberg, RongViet Research

Table 4: Listed company H1 revenue and earnings

Group \ Criteria	1Q2016		2Q2016*		1H2016*	
	Revenue	NPAT	Revenue	NPAT	Revenue	NPAT
Market	7.1%	-4.1%	5.6%	-6.2%	7.0%	-2.9%
Market excl. KDC	7.3%	-4.0%	5.9%	16.2%	7.4%	9.2%
Market excl. O&G	9.6%	4.0%	11.1%	2.5%	8.1%	2.2%
Market excl. KDC and O&G	9.9%	4.0%	11.5%	34.0%	8.4%	17.0%
>VND10,000 bn	5.8%	-5.0%	12.5%	21.7%	14.1%	15.4%
>VND10,000 bn excl. O&G	13.1%	9.1%	15.3%	35.9%	18.4%	30.1%
VND1,000-10,000 bn	14.5%	-10.1%	1.8%	-47.8%	2.1%	-42.3%
VND1,000-10,000 bn excl. KDC and O&G	15.2%	-10.2%	16.8%	17.9%	16.6%	-2.9%
< VND1,000 bn	1.3%	21.9%	0.0%	22.8%	1.7%	28.2%
<VND1,000 bn excl. O&G	1.5%	23.8%	0.1%	23.1%	1.6%	28.3%

*Source: FiinPro, RongViet Research, * 477 companies, accounting for 73.7% of total market capitalization*

Unlike a month ago, the market is seeing an increase in negative sentiment. On top of the contraction in liquidity, many stocks are under strong selling pressure. Yet, those who made the purchases before the July rally probably still enjoy some modest gains. The tendency to just hold on and wait makes it harder for the trading to improve and could drive the market into a series of sideways movements. Buying into stocks during down days is as risky as catching a falling knife. Investors are advised to maintain a strong position in cash and consider accumulating only when prices have found stability at a lower level. Should new positions are to be opened, investors should go for stocks of leading companies with solid fundamentals whose prices might have been adversely impacted by the market.

H1 results confirmed our views on sectors such as Construction, Building materials, Real estate, Financial services (Securities brokerage), Insurance, Travel & Tourism, Auto, Retailing and Consumer goods. Armed with extensive distribution networks, efficient production lines and strong brand recognition, HPG, HSG and BMP cemented their position as Vietnam's leading material manufacturers. With a much smaller capital base, stone producers like NNC and DHA are advantaged by large reserve, good quarry location, long license period and expanding demand. While DHA has the largest reserve of all listed stone companies, NNC exhibits outstanding business efficiency as compared to its peers.

Not only top contractors the like of CTD, smaller construction firms like SRF and FCN also posted two-digit revenue and earnings growth rates in 2Q2016. SRF is now the second largest player by market share in the M&E industry. Thanks to its ample capacity and strong financial, SRF was able to accumulate a good backlog in 1H2016, shortening its distance with the biggest player in the industry, i.e. REE.

Circular 06/2016/TT-NHNN issued in early July effectively delayed the curb on mortgage lending to 2017 and extended the effective period over 2017 and 2018. Of real estate companies, TDH, BCI, LHG and KDH are highly regarded for their land bank advantage and optimistic earnings outlook of 2016 and 2017. Trading at a much lower P/B than its peers, TDH posted a remarkable growth in Q2 core earnings. The firm has been actively searching for new locations to expand its project pipeline while pushing sales and development at ongoing projects. Ample demand for affordable housing in HCMC underlies TDH's long-term outlook.

While most O&G-related companies saw a sharp decline in 1H earnings from a year earlier, PVT reported impressive growth in both revenue and profits last quarter. Aside from flagship operations such as crude, petroleum and LPG transport, PVT is venturing into new potential businesses like FSO and coal transport to thermal power plants. We believe PVT is one of the biggest beneficiaries from the operation of Nghi Son Refinery (2017).

The powerful influx of FDI has brought about a gradual increase in the volume of cargo in Northern Vietnam. Between 2017-2019, the coming of new FDI projects by Samsung, LG, Canon, etc. are expected to bring great benefits to transporters and logistics service providers around Hanoi and Hai Phong, such as HAH, NCT and VSC.

Table 5: Q2 and H1 sector performance

Sector	Mar. cap (VND bn)	ROE (%)	P/E (x)	P/B (x)	ROA (%)	+/- Price 1M (%)
Automobiles & Parts	9,388	21.0	11.88	2.13	9.4	(5.5)
Banks	331,593	9.5	16.03	1.96	0.6	6.7
Basic Resources	13,065	9.1	11.35	1.53	3.2	1.4
Chemicals	23,886	14.7	8.90	1.44	10.3	(0.3)
Construction & Materials	59,078	14.1	11.72	2.35	5.3	6.0
Financial Services	25,798	5.6	11.82	1.32	3.2	(2.6)
Food & Beverage	32,919	10.7	12.66	1.66	4.8	8.8
Health Care	14,543	18.4	13.55	2.76	6.8	(2.8)
Industrial Goods & Services	141,622	13.8	14.37	2.40	6.3	2.2
Insurance	7,295	8.7	16.40	1.43	3.2	2.9
Oil & Gas	135,888	12.9	15.88	2.54	7.7	(7.1)
Personal & Household Goods	26,692	17.8	12.71	2.91	8.6	(11.3)
Real Estate	28,714	9.3	11.49	1.32	4.1	3.1
Retail	7,302	11.6	9.17	1.15	6.6	(6.1)
Technology	21,516	16.0	10.45	1.75	6.7	(1.2)
Travel & Leisure	8,335	16.3	10.54	3.21	9.6	(2.3)
Utilities	31,192	12.4	8.81	1.66	5.9	0.2

Source: RongViet Research

HIGHLIGHT STOCKS

No.	Ticker	Subsector	Target price (VND)	Current price (VND)	Rating	Time horizon	Financial 2017F +/- Rev. (%)	Financial 2017F +/- NPAT (%)	Financial 2016F +/- Rev. (%)	Financial 2016F +/- NPAT (%)	Valuation P/E (x)	Valuation P/B (x)	Valuation Div. Yield (%)	Valuation +/- Price 1y (%)	Trading 3-month avg. daily vol. (shares)	Trading Market cap (USD Mn)	Trading Foreign room (%)
1	ACB	Banks	22,500	17,800	Accumulate	Long-term	21.8*	48.1	8.2*	29.4	15.1	1.3	-	(17.6)	488,205	15.953	19.0
2	BCI	Real estate	28,400	23,800	Accumulate	Long-term	168.0	68.9	(2.5)	(20.2)	6.8	1.0	4.2	24.1	32,810	2.063	40.1
3	BMP	Construction & Materials	164,000	155,000	Neutral	Long-term	16.2	13.7	28.1	34.9	12.3	3.3	1.3	73.1	90,483	7.049	-
4	CTD	Construction & Materials	n/a	222,000	n/a	Long-term	14.7	22.4	19.8	17.8	9.6	2.9	1.4	166.5	96,946	10.387	7.5
5	DPM	Chemicals	31,500	29,300	Neutral	Intermediate-term	1.0	(10.0)	(8.9)	11.8	7.5	1.3	10.2	6.3	451,407	11.466	24.7
6	DRC	Automobile & parts	47,800	39,000	Accumulate	Long-term	7.0	5.8	17.7	19.5	11.3	2.3	-	7.8	286,100	4.632	18.0
7	FPT	IT	n/a	41,100	n/a	Intermediate-term	18.0	12.0	7.5	10.1	9.8	2.1	4.9	4.3	761,138	18.879	-
8	HAH	Transport	48,000	38,500	Buy	Intermediate-term	11.4	8.1	4.2	(10.6)	6.1	1.6	7.8	(12.1)	94,768	883	31.2
9	HPG	Industrials	57,600	44,100	Buy	Long-term	12.5	19.7	23.6	68.0	7.0	1.9	1.1	35.7	4,328,645	32.318	11.8
10	HSG**	Industrials	n/a	37,800	n/a	Intermediate-term	27.5	37.1	4.1	30.6	7.2	1.4	-	78.3	2,221,645	7.429	21.4
11	IMP	Healthcare	50,400	50,500	Neutral	Long-term	12.2	40.3	4.4	2.8	16.7	1.6	3.6	17.8	65,653	1.461	-
12	LHG	Real estate	22,000	23,500	Neutral	Long-term	4.5	4.3	7.8	0.4	7.4	0.9	-	109.8	269,977	612	43.8
13	MWG	Retailing	n/a	130,000	n/a	Intermediate-term	29.2	15.4	50.8	31.6	14.6	6.6	-	85.4	323,521	19.060	-
14	NCS	Food & beverages	114,000	91,000	Accumulate	Long-term	10.0	13.0	10.0	12.0	12.0	5.7	5.3	#DIV/0!	5,459	726	48.0
15	NCT	Transport	140,000	108,000	Accumulate	Long-term	15.9	14.2	(9.2)	(14.1)	10.4	6.8	9.8	2.2	19,599	2.825	34.5
16	NNC	Construction & Materials	104,000	84,000	Buy	Intermediate-term	19.8	15.9	22.6	37.3	8.6	3.0	3.6	112.2	55,406	1.381	28.5
17	NT2	Electricity	36,400	35,200	Neutral	Intermediate-	(6.7)	(3.0)	(9.9)	8.0	8.3	2.0	-	71.7	631,404	10.027	28.3

						term											
18	PAC	Automobile & parts	36,800	34,800	Neutral	Long-term	14.7	33.8	14.7	33.8	17.2	3.0	3.4	104.8	286,265	1.617	28.0
19	PGI	Nonlife insurance	21,000	19,900	Neutral	Long-term	8.8	11.1	7.1	18.3	13.4	1.6	5.0	45.3	148,677	1.412	47.8
20	PGS	Utilities	20,600	15,900	Accumulate	Intermediate-term	10.6	(66.3)	16.0	204.0	3.1	0.8	10.1	(14.5)	446,755	795	28.8
21	PLC	Construction & Materials	32,300	29,000	Accumulate	Intermediate-term	9.4	14.1	(10.6)	(17.7)	9.3	1.9	6.9	(4.1)	55,744	2.343	41.7
22	PNJ	Personal goods	101,000	63,000	Buy	Long-term	16.5	44.0	9.3	239.0	16.5	4.2	2.4	76.4	202,582	6.191	-
23	PPC	Utilities	16,500	15,200	Neutral	Long-term	0.5	52.3***	(8.9)	(45.2)***	(19.5)	1.1	11.2	(20.1)	450,457	4.836	34.8
24	PTB	Household goods	130,000	116,000	Neutral	Long-term	6.5	14.4	20.1	34.9	8.6	3.4	-	171.9	63,620	2.088	39.4
25	PVS	O&G	18,000	17,300	Neutral	Intermediate-term	9.6	16.4	(15.7)	(25.6)	6.0	0.8	5.8	(28.3)	1,907,219	7.727	20.2
26	PVT	Transport	17,000	15,400	Neutral	Long-term	1.2	1.0	5.1	13	9.9	1.1	-	19.4	1,210,961	3.940	25.8
27	REE	Industrials	26,800	20,200	Buy	Long-term	(5.6)	8.7	2.8	9.4	8.8	1.0	5.0	(17.2)	337,593	6.263	-
28	SKG	Travel & recreation	103,000	93,000	Accumulate	Intermediate-term	9.4	(8.0)	30.5	34.9	13.7	5.2	1.1	140.7	78,137	3.187	1.9
29	SRF	Construction & Materials	32,100	26,800	Accumulate	Long-term	12.0	11.9	44.0	29.4	10.0	1.6	5.6	74.2	15,861	652	20.9
30	SVC	Retailing	n/a	39,600	n/a	Intermediate-term	2.5	3.7	5.1	16.0	9.9	1.2	3.0	105.7	123,438	989	12.1
31	TCL	Transport	34,000	29,400	Accumulate	Long-term	6.0	5.0	8.0	3.0	6.8	1.2	5.1	8.7	22,691	615	35.8
32	TDH	Real estate	17,400	12,700	Buy	Long-term	(0.6)	(32.3)	(29.3)	85.8	6.5	0.6	7.9	(1.4)	369,794	901	5.5
33	VCB	Banks	52,000	53,000	Neutral	Long-term	8.4*	19.6	10.3*	24.5	22.5	2.9	-	6.2	734,760	141.246	27.7
34	VFG	Chemicals	93,000	74,500	Accumulate	Long-term	7.0	1.1	10.0	18.4	6.8	1.9	2.7	97.5	39,088	1.362	31.6
35	VNM	Food & beverages	145,000	155,000	Neutral	Long-term	16.0	1.0	13.0	11.0	22.2	8.2	3.2	62.8	1,218,274	186.021	(0.0)
36	VSC	Transport	75,000	66,000	Neutral	Long-term	15.2	15.0	19.1	(13.5)	11.2	2.4	3.0	41.9	152,371	3.006	-

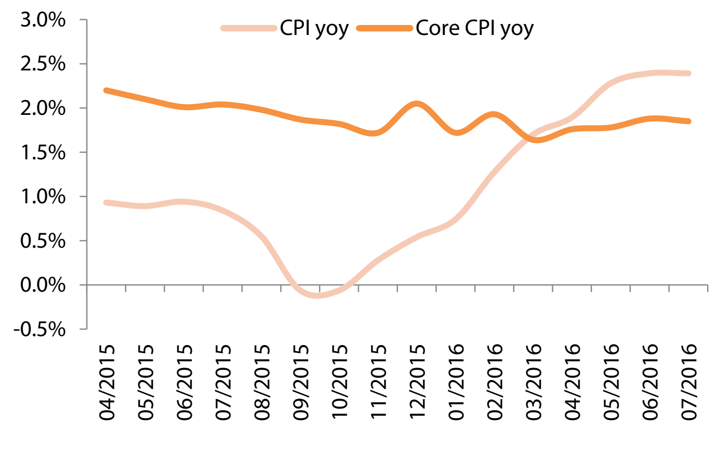
Source: RongViet Research

** Total operating income growth*

*** Fiscal year ends in September*

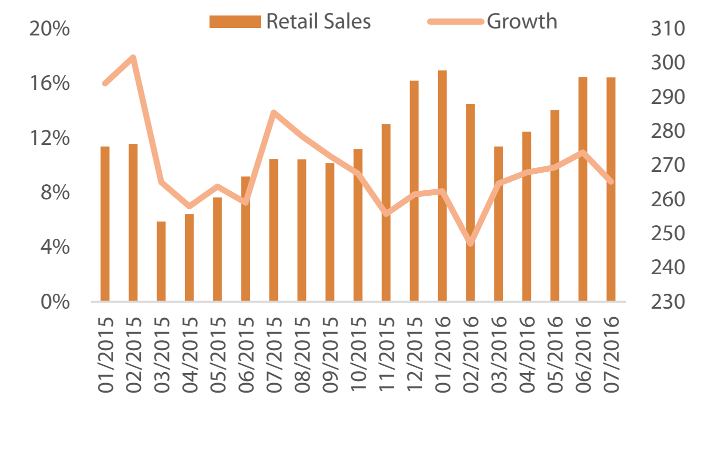
**** Core business results*

Inflation slightly declined in July



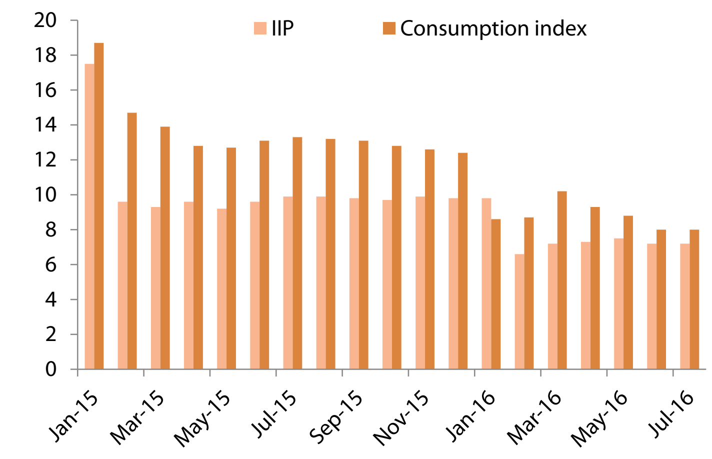
Source: GSO, Rongviet Securities

Retail sales were stagnated in July



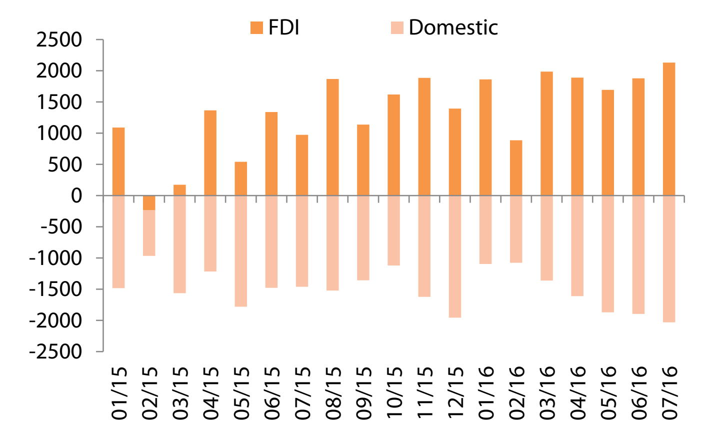
Source: GSO, Rongviet Securities

Slowdown in Industrial Production



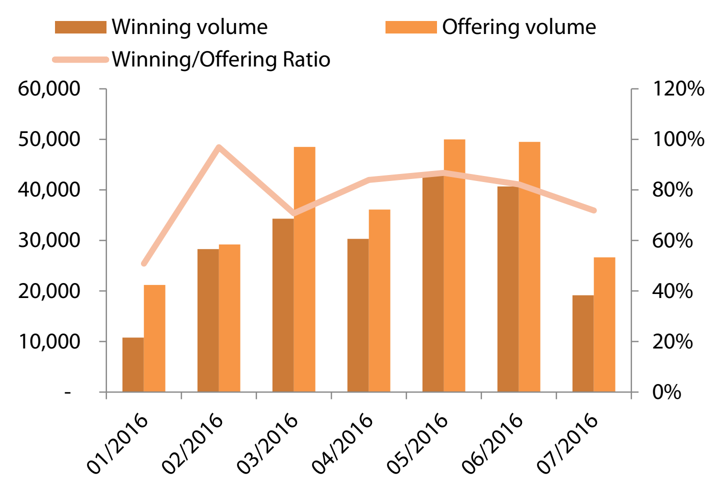
Source: GSO, Rongviet Securities

Domestic firm's trade deficit increased significantly



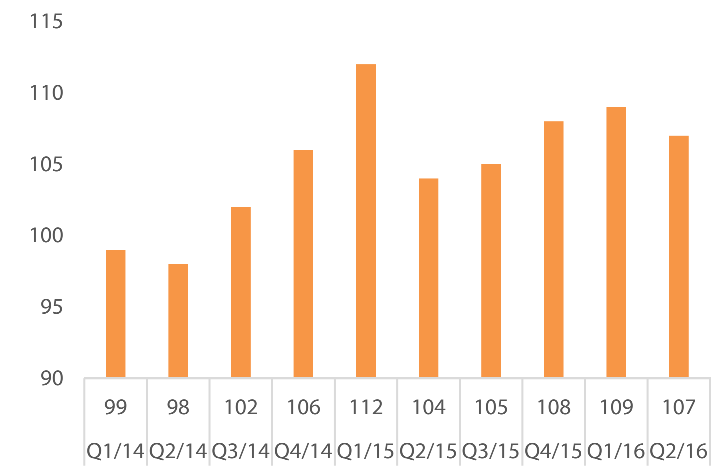
Source: GSO, Rongviet Securities

Decreasing winning /offering ratio



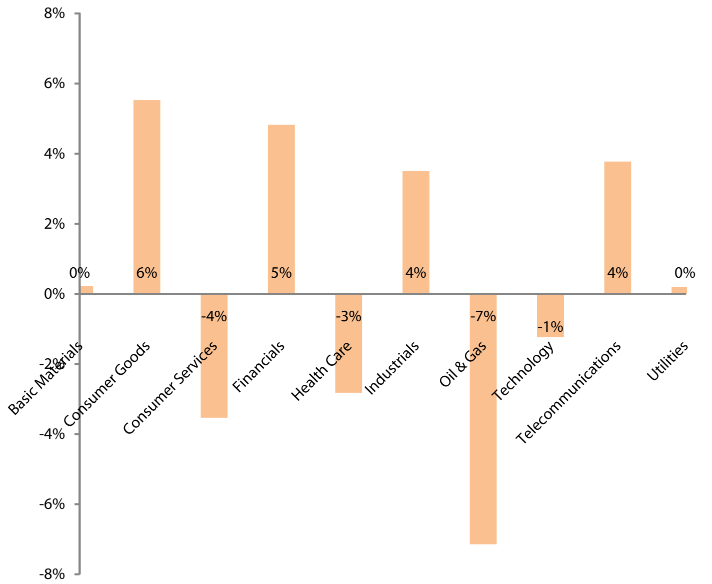
Source : VBMA, Rongviet Securities

Vietnamese consumer confidence marginally dropped



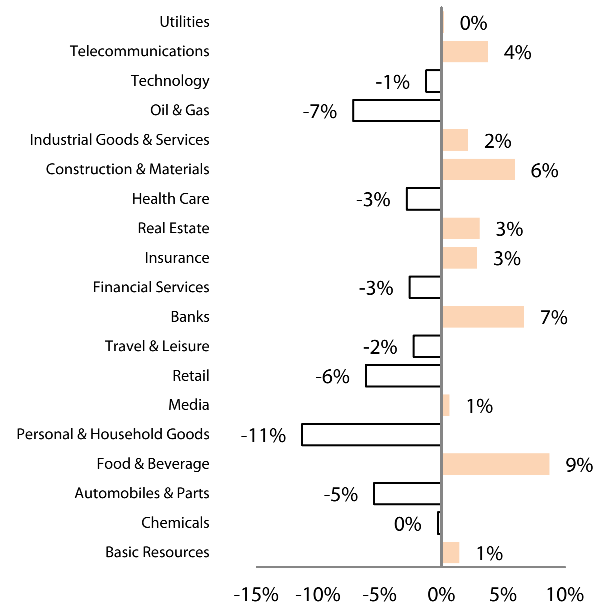
Source: Nielsen, Rongviet Securities

Level 1 industry movement



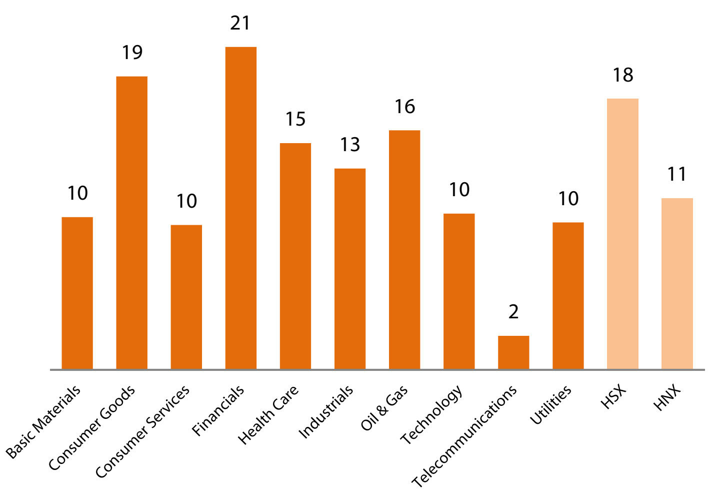
Source: RongViet Research

Level 2 industry movement



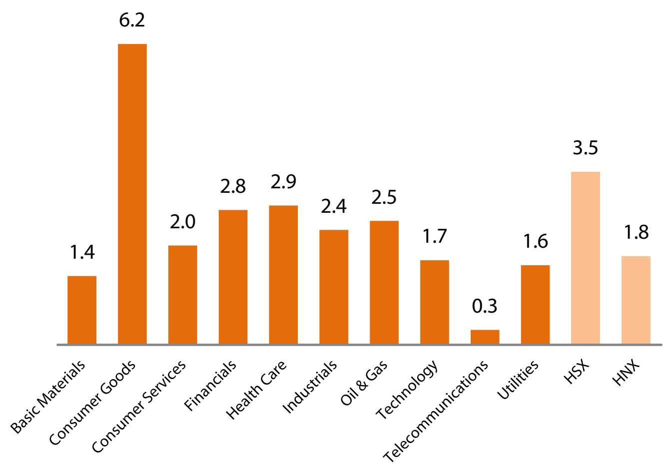
Source: RongViet Research

Industry PE comparison



Source: RongViet Research

Industry PB comparison



Source: RongViet Research

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