05/06/2018

Investment Strategy June 2018

REBOUND IN JUNE?

When margin calls were triggered May 29 and the market was down by over 3%, we estimated that margin lending had been brought down to around VND 38 trillion. The figure is relatively lower than that in Q1. We think this is a safer level, and it should help prevent the market from another shocking decline in the short term. However, keep in mind that total margin lending has been on the rise since 2014.

Valuations appear more reasonable. The correction has brought the P/E of the Vietnam market to 18.5x, which translates to an earning yield of 5.4%, quite in line with other markets in the region. Meanwhile, earnings growth is still there. All companies have announced their business results. Corporates listed on the HSX managed to grow their NPAT by 21% in Q1. However, banking stocks account for a big part of that growth. In fact, seven banks are among the 10 contributors for the earnings growth of the VN-Index year-to-date. It remains to be seen if this growth is sustainable.

We see the downside move in the market during the last two months as a 'time correction'. The market usually needs some time to recover after that kind of event, so there is no need for investors to rush in to buy massively. However, considering the fact that corporate earnings are still growing while the market is where it was at the beginning of the year, it seems that it is time to start looking for opportunities and gradually accumulate stocks.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	12.81	1.01	4.72	-10.58	-7.52							
2017	4.87	1.94	1.62	-.63	2.80	5.24	.91	-.10	2.77	4.08	13.45	3.61
2016	-5.83	2.59	.33	6.62	3.35	2.23	3.16	3.43	1.65	-1.45	-1.59	-.03
2015	5.58	2.86	-6.99	2.04	1.27	4.12	4.72	-9.07	-.37	7.95	-5.63	1.02
2014	10.28	5.38	.87	-2.29	-2.76	2.87	3.10	6.81	-5.95	.34	-5.70	-3.70
2013	15.97	-1.09	3.47	-3.37	9.25	-7.19	2.23	-3.89	4.22	.97	2.08	-.62
2012	10.36	9.19	4.10	7.42	-9.41	-1.59	-1.87	-4.45	-.87	-1.06	-2.73	9.50
2011	5.35	-9.64	-.05	4.11	-12.23	2.65	-6.21	4.69	.68	-1.59	-9.53	-7.65
2010	-2.59	3.10	.47	8.64	-6.44	-.06	-2.61	-7.86	-.12	-.42	-.23	7.32
2009	-3.93	-18.95	14.21	14.59	27.99	8.90	4.12	17.14	6.24	1.07	-14.14	-1.85
2008	-8.94	-21.42	-22.08	1.07	-20.73	-3.55	13.01	19.44	-15.28	-24.01	-9.31	.28
2007	38.52	9.25	-5.83	-13.76	17.06	-5.25	-11.39	.05	15.25	1.74	-8.71	-4.66
2006	1.57	25.08	28.90	18.25	-9.50	-4.33	-18.07	16.28	7.24	-2.88	23.75	18.75
2005	-2.49	.76	4.85	-.11	-.82	1.05	2.65	.45	13.69	6.25	1.28	-1.23
2004	28.38	21.59	6.46	-4.69	-4.70	-.91	-4.51	-2.54	.35	-.26	-1.30	4.24
2003	-5.97	-4.51	-11.66	4.90	-.20	.02	-3.91	-2.47	-2.38	-2.23	20.31	1.87
2002	-11.83	-7.93	4.74	4.16	-.65	-2.44	-2.22	-2.99	-4.97	-2.48	.15	3.07
2001	18.84	2.69	6.70	19.22	25.91	23.75	-15.56	-34.34	-11.87	6.48	10.85	-18.41
2000								13.39	4.83	16.68	19.80	22.58

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Please see penultimate page for additional important disclosure

CONTENTS

The correction of the Vietnam stock market in May was worse than our expectations. We think profit-taking, which started in April, net selling by foreign investors and margin lending reduction are the main reasons for such a poor performance of most indices. From unofficial sources, we learnt that margin lending significantly decreased by the end of May and is not been pressured at this time. While external risks have not abated, valuations and prices are now more attractive. Some bottom fishing took place towards the end of the month and is likely to continue. However, this is not a catalyst for a persistent rebound.

On the positive side, foreigners are likely to stop selling, margin lending has decreased, and investors’ sentiment is turning more optimistic. Therefore, we think that the stock market will be more volatile in June, but a rebound is likely. In other words, short term opportunities.

The deeper the correction, the sooner the recovery. We think that banking stocks can be potential candidates for a rebound, given 11% (MoM) decrease in May (April: -14% MoM). Catalysts for the sector include strong earnings growth in 2018. Business results in the first quarter were strong. Total operating income (TOI) and PBT of 14 listed banks (HSX, HNX, and Upcom) were VND 56.34 Tn and VND 20.13 Tn, up by 35% and 52% YoY respectively. They fulfilled 23 – 27% of their target for 2018 in a season that is a low season for banks. Hence we can expect that most of them will achieve their targets before the end of the year.

We think stocks in the airport servicing sector can be potential candidates at this time due to: (1) Vietnam will be among the five fastest growing markets in terms of additional air passengers from 2016-2035 according to the International Air Transport Association (IATA). Vietnam posted a record in air passenger traffic in 2017 with the number of passengers rising to 94 million, a CAGR of 19.3% for 2005 – 2016; (2) Outbound travel registered strong growth, thanks to increasing disposable income together with the booming of LCCs, new routes (both domestic and international) launched and aggressive fleet expansion by local airlines. The Government also made efforts to boost tourism by waiving the visa requirement for citizens from the UK, France, Germany and a few other countries. This represented 10.9 million international inbound tourists in 2017, up 32% YoY. In Q1 2018, foreigners to Viet Nam by air reached 3.4 million, up 28% YoY; and (3) According to the Government, the number of passengers will reach 131 million by 2020 with an average growth rate of 12% per year for the period 2017-2020. Many airport expansion projects have been planned and executed to accommodate the increasing demand for air travel. Total airports capacity will rise to 144 million pax by 2020. This will open more room for new international routes to big cities, which currently are overloaded.

Aviation, airport and flight catering services will benefit from such fast growth. However, while we believe that VJC’s relative valuation not is attractive yet, we recommend looking at AST and NCS, two stocks in that cater to airport and flight services.

Analysis of 48 stocks of RongViet Research, discussion with companies and specific evaluation in the “Company Report” or “Analyst Pinboard”

S&P 500: buybacks, dividends and capex

Companies that are part of the S&P 500 Index paid back a record USD 1 trillion to shareholders in the last 12 months, equivalent to around 4% of market capitalization. Following corporate tax cuts introduced in 2017, dividends and stock buybacks surged to new records. Between March 2017 and March 2018, companies bought $ 570 billion of their own stock and paid out nearly $ 430 billion in dividends. This is unprecedented.

In the biggest overhaul of the US tax code in 30 years, the corporate income tax was lowered to 21% from 35% in late 2017. The new law also created a friendlier environment for companies to repatriate offshore profits by charging a one-time tax, as opposed to an ambiguous system of "tit for tat" regulations. Because of these long-awaited change, US corporates are now paying less taxes than some of their G-20 peers.

Countries	Corporate Tax Rate , %
France	33
Australia	30
India	30
China	25
Italy	24
S.Korea	22
Japan	22
US	21
Vietnam	**20**
UK	19
Germany	15
Canada	15

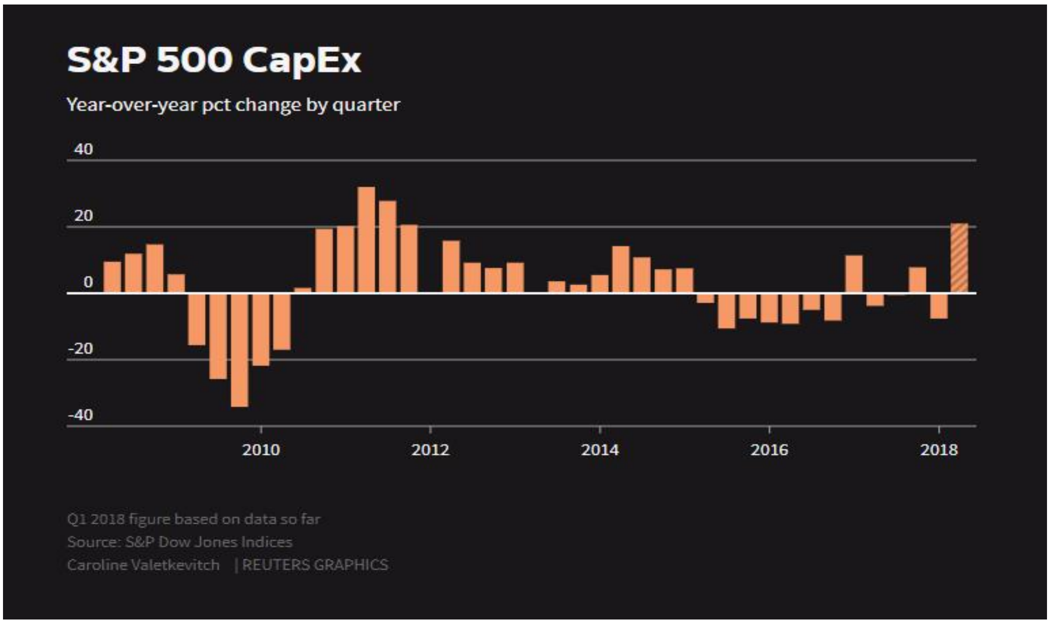
Source: KPMG, Deloitte

Earnings per share rose 26 percent year over year in the quarter ending in March. Some of the windfall from lower corporate taxes has resulted in an increase in capital expenditure spending. Hence capex for the S&P 500 universe totaled USD 159 billion in 1Q 2018, up more than 21 percent over the same period in 2017. This is the highest rate of growth since 2012 (see chart below).

This could have a global domino effect and be supportive for equities in the coming years, providing geopolitics and populism do not interfere. In the shorter time- 8-12 months- we believe equity markets are still vulnerable to higher interest rates and high global corporate debt. According to PIMCO, 48% of global bonds are now rated BBB, up from 25% in the 1990s. The net leverage ratio for these issuers is now 2.9x. It was 1.7x in the early 2000s.

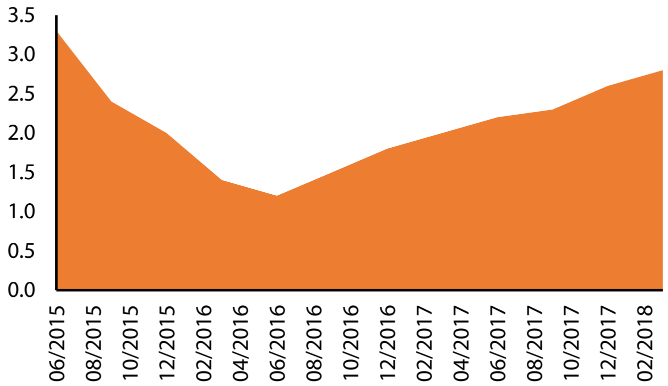
There will plenty of opportunities to buy stocks in late 2018 and early 2019, not just now.

Figure 1: S&P 500 Capex



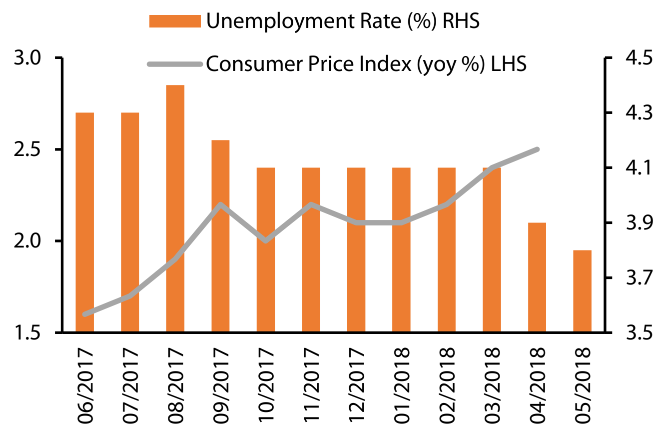
Source: Reuters

Figure 2: US GDP Growth's Upward Momentum (you %)



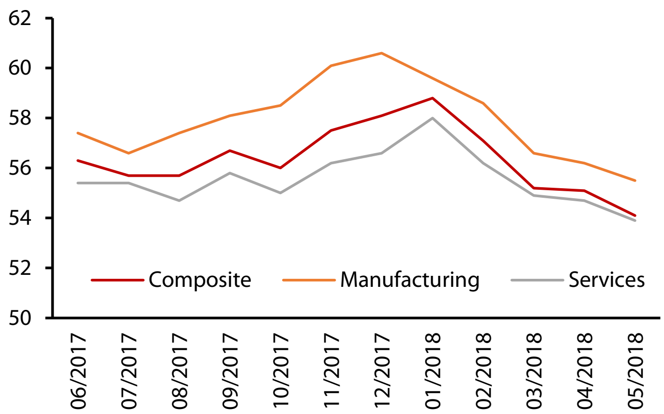
Source: Bloomberg, RongViet Securities

Figure 3: Higher-than-Expected Rise in US Inflation



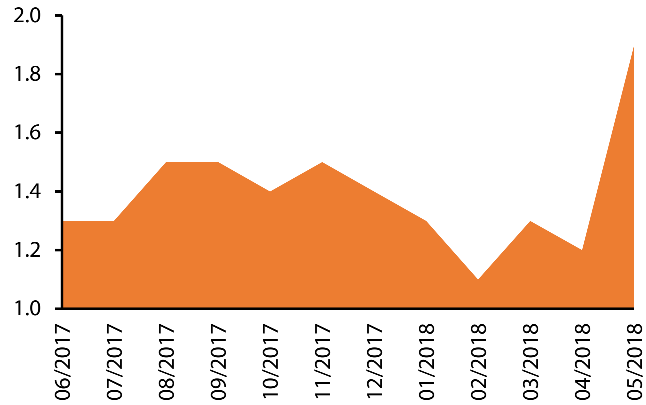
Source: Bloomberg, RongViet Securities

Figure 4: Euro Zone's PMI Indices Slowed Down



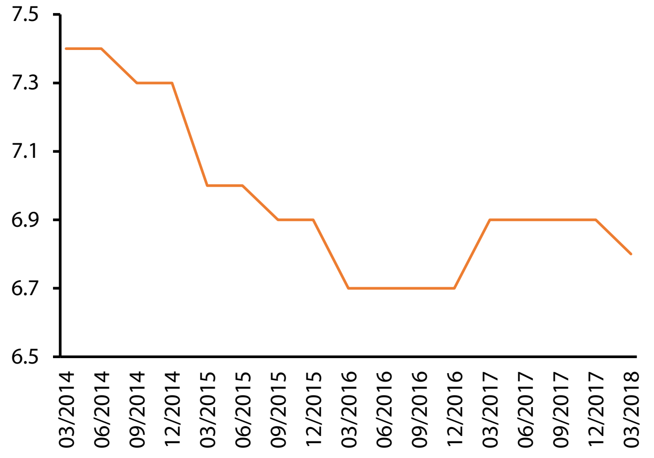
Source: Bloomberg, RongViet Securities

Figure 5: Euro Zone's Surging CPI Growth (yoy %)



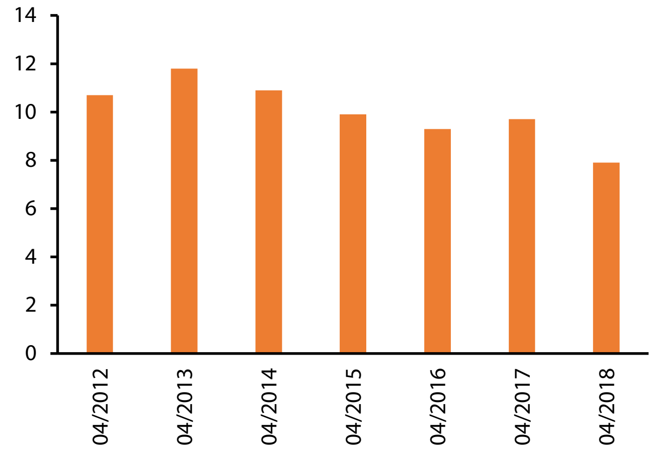
Source: Bloomberg, RongViet Securities

Figure 6: China's Stable GDP Growth (yoy %)



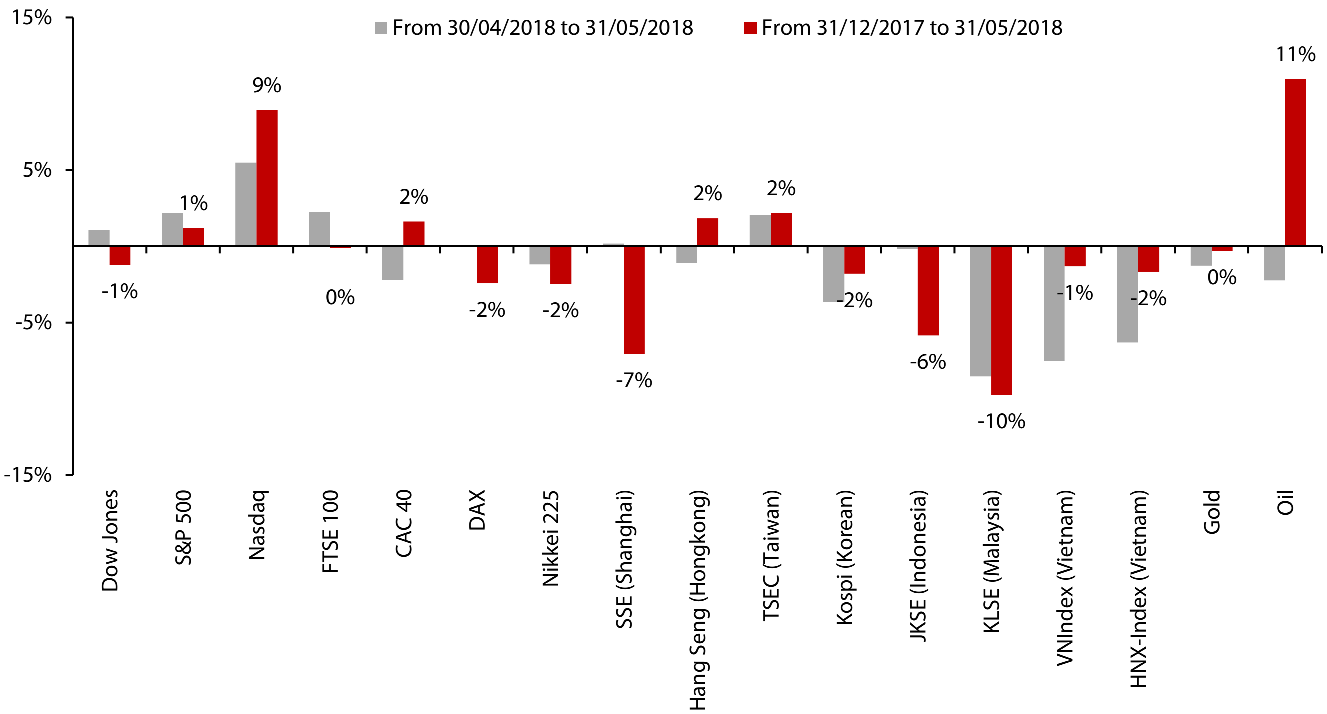
Source: Bloomberg, RongViet Securities

Figure 7: China's Lowest Growth of Retail Sales in Recent April (yoy %)



Source: Bloomberg, RongViet Securities

Figure 8: Performance of some major global stock market indexes in May



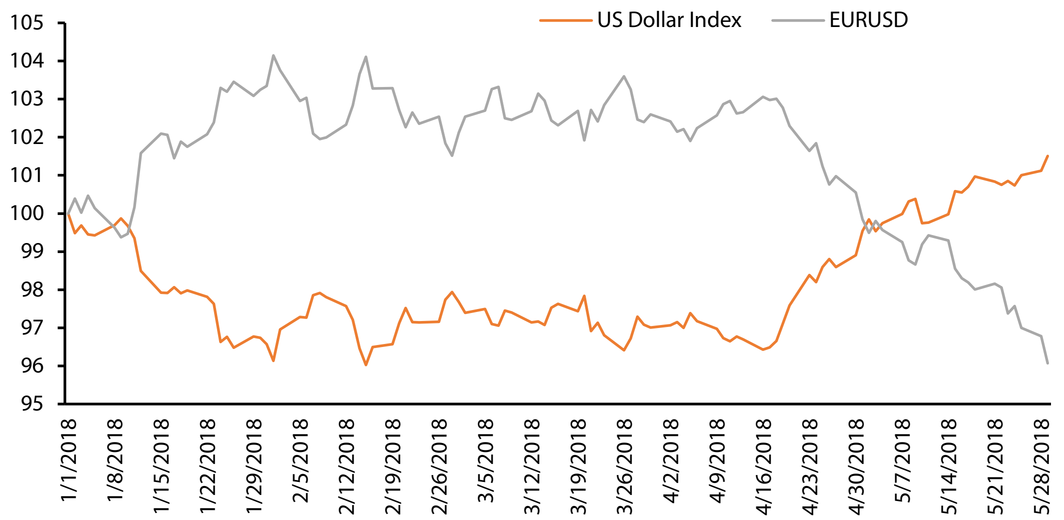
Source: Bloomberg, RongViet Securities

- A "risk-off" environment
- We raise our inflation forecast from 3.8% to 4.0% for 2018

A "risk-off" environment

Italian political issues created some turmoil in global markets in May. Rising volatility was caused by investors' willingness to buy safe-haven assets and sell risky ones. The FX market saw a significant divergence between the US Dollar and the Euro. During the past six weeks, EURUSD lost nearly 6% while the US Dollar Index climbed by over 5%.

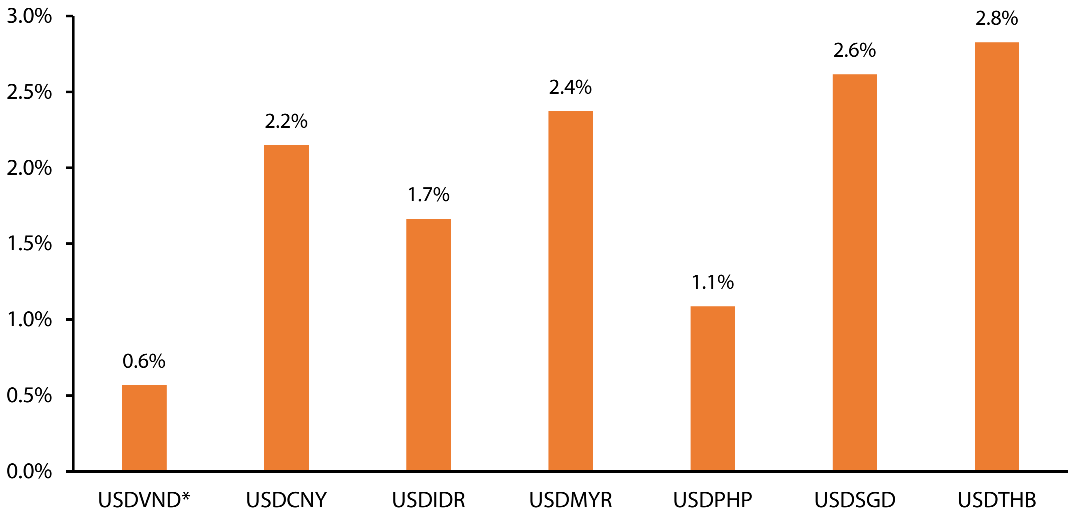
Figure 9: US Dollar and Euro



Source: Bloomberg, RongViet Securities

This "risk-off" environment put serious pressure on emerging markets' currencies, notably ASEAN ones. It is clear that the Dong is still the most stable currency among regional countries as the USDVND dropped by only 0.6% since mid-April and 1% YTD.

Figure 10: Emerging markets' currencies depreciation in the past six weeks



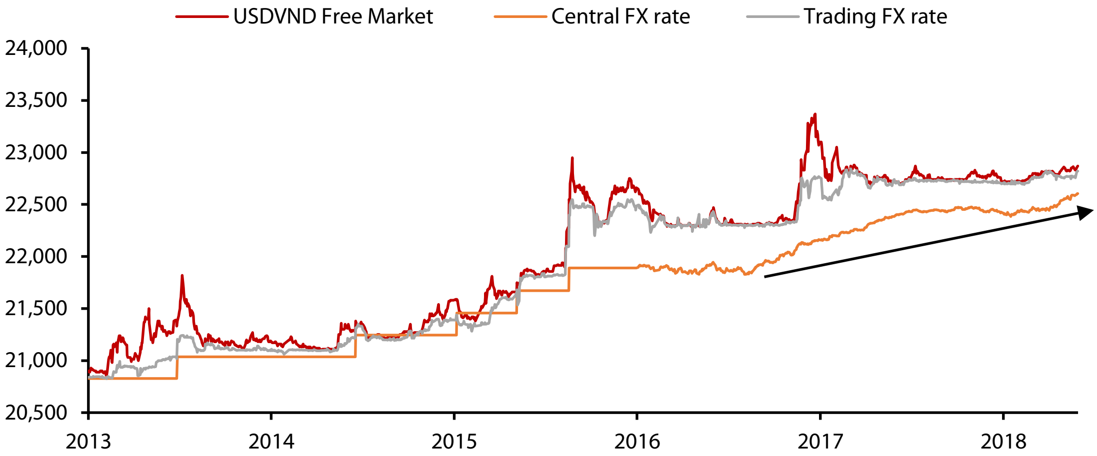
Source: Bloomberg, RongViet Securities

Note: USDVND is the central FX rate published by the State Bank of Vietnam (SBV)*

There is no doubt that the State Bank of Vietnam (SBV) has been actively managing the currency, as opposed to prior periods when sudden moves of the USDVND forced the central bank to devaluate the Dong. The currency is still sensitive to external risks such as a potential yuan devaluation, like what happened in 2015, or general trade wars.

The Dong's slight weakening was mostly caused by the negative "spread-out" effect of ASEAN currencies' depreciation.

Figure 11: USDVND free market rate



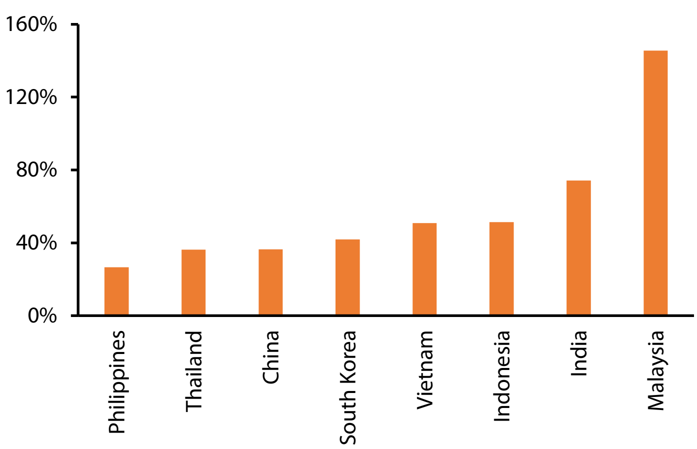
Source: SBV, RongViet Securities

From our point of view, the Dong's weakness is something that the SBV can control. However, we remind readers that the central FX rate depreciated by 3.2% since the mid of 2016 while the trading FX rate went down by 2.3%. The gap of 0.9% probably needs to be closed before the end of the year. That means the trading FX rate will decrease by 1.5-2%.d

There are upside risks that could weaken the currency. First of all, Vietnam ranked 4th in the list of Asia's most-debt risky nations, according to Moody's Investors Service. The external vulnerability index, which is the ratio of short-term debt, maturing long-term debt and non-resident deposits over a year calculated as a proportion of reserves, puts Vietnam at 50.9%. Therefore, tighter global financial conditions will make foreign debt repayment more expensive. Notably, Vietnams' current FX reserves, nearly USD 63 Bn, cover only 3.5 months of imports, the lowest level among countries in the region. That means possibly negative pressure on the dong.

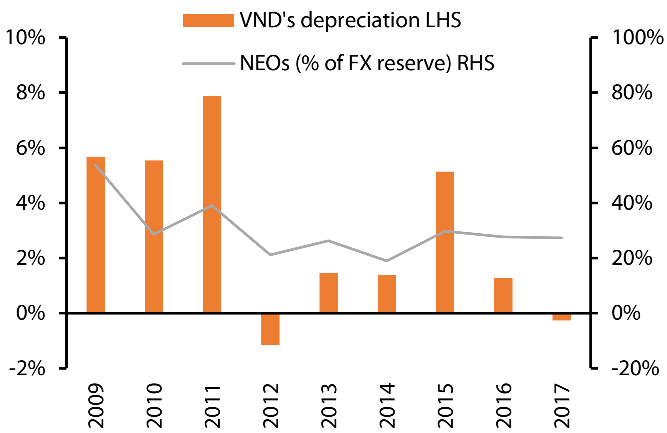
Besides, there an increasing amount in the net errors and omissions in the balance of payments. It is equivalent to 27% of FX reserves. In 2009 there was USD 12.8 Bn of net errors and omission, which might be a reason why the FX rate climbed up two years later.

Figure 12: Vulnerability index



Source: Moody's Investors Service, RongViet Securities

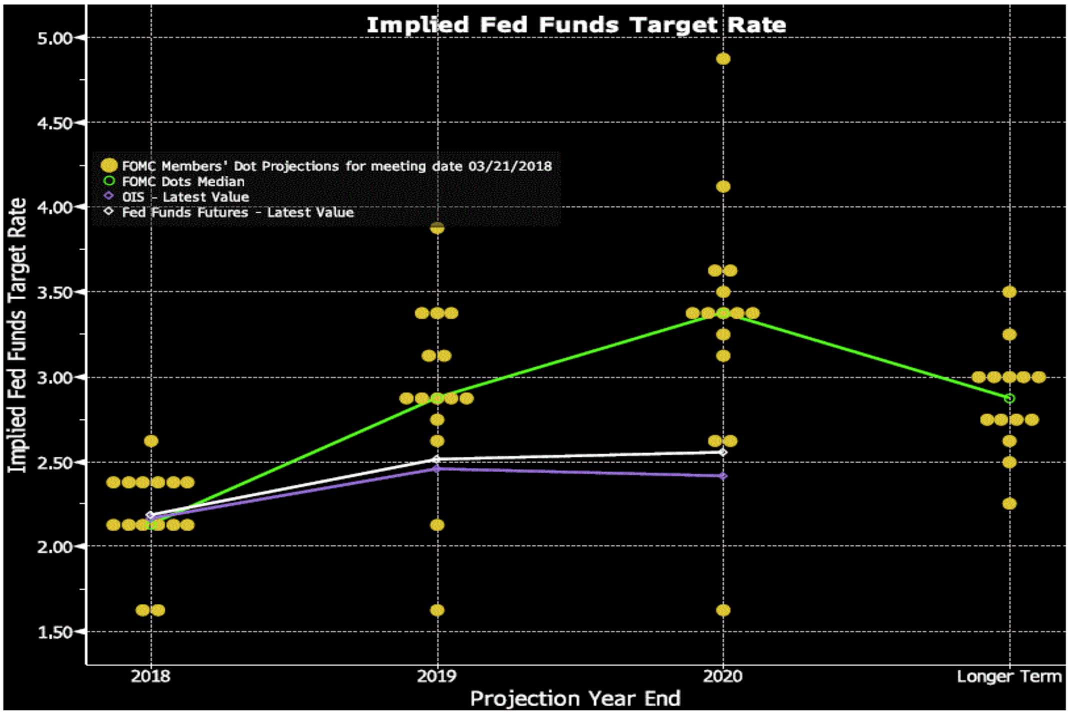
Figure 13: Vietnam's net errors and omissions



Source: SBV, RongViet Securities

Externally, tighter financial conditions may be a concern as the FED will most likely continue on the path of 'normalization'. The next FOMC meeting is June 12-13. The market expects the US Central Bank to raise the benchmark rate by 25 bps. It is likely that the Fed funds rate will move to 1.75-2% by year end.

Figure 14: Implied Fed funds target rate

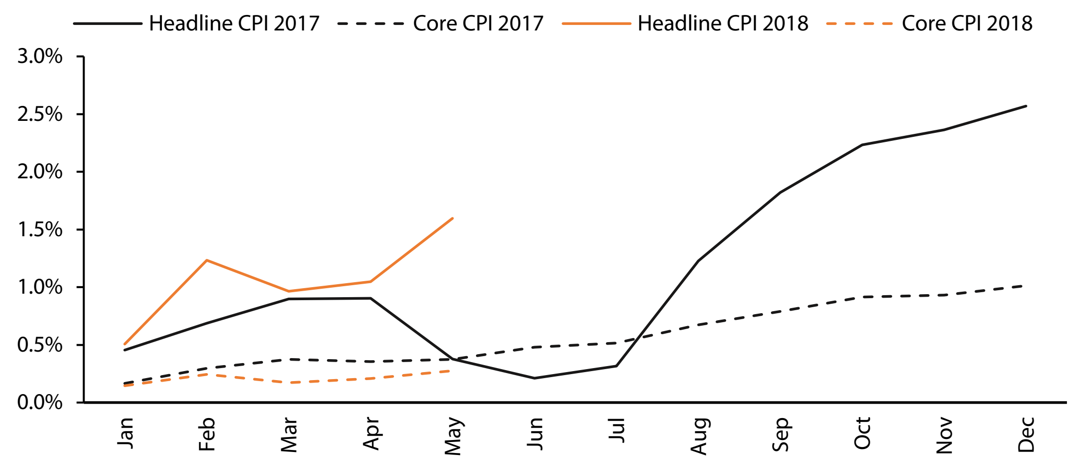


Source: Bloomberg, RongViet Securities

Upward pressure on Inflation

According to GSO, Vietnam's headline CPI rose by 0.55% MoM in May, marking the biggest monthly jump in six years. Headline CPI rose 1.61% YTD, caused by a significant increase in food prices and gasoline prices. In addition, there is an impact from an increase in healthcare services and construction materials prices.

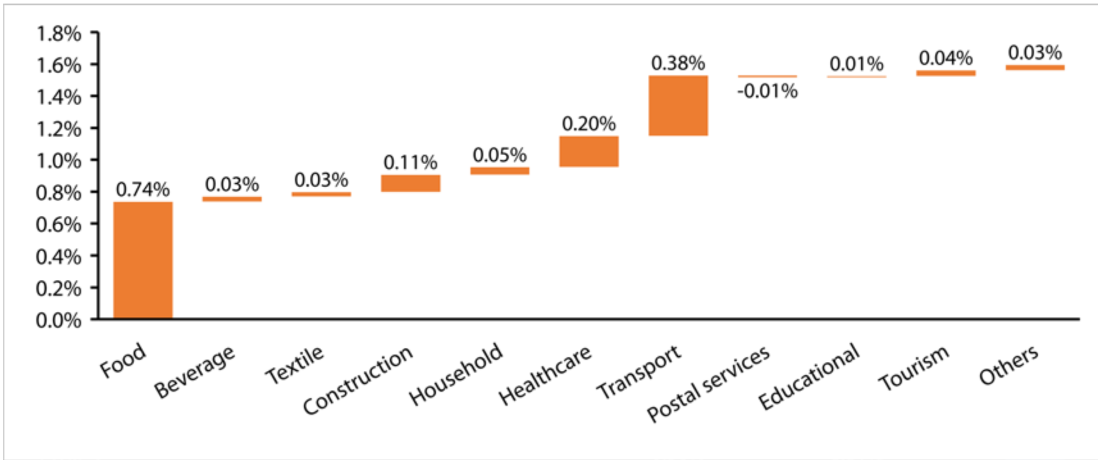
Figure 15: YTD CPI growth



Source: GSO, RongViet Securities

The food group, with a weight of 36% in the inflation index, contributed to 50% of the CPI increase so far this year. It is mostly due to surging prices of pork and rice year over year because of a low base effect versus 2017. Rising global oil prices put pressure on transport costs, up 0.38%. Recently, the Ministry of Finance (MOF) proposed to increase the environmental protection tax. This could result in a 0.11 to 0.15% increase in inflation.

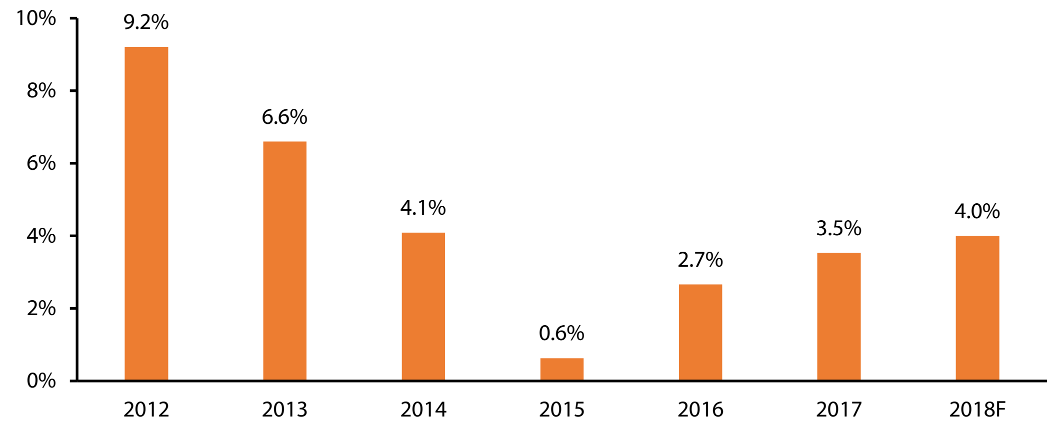
Figure 16: Contribution to CPI



Source: GSO, RongViet Securities

We raise our forecast of inflation from 3.8% to 4% for 2018, in line with the National Assembly's target. Lawmakers are actively putting measures to stem potential 'out of control' inflationary pressures. Decreasing some health care services' prices and stabilizing drug prices are some of the ideas proposed by them. In addition, there is an unsustainable rise of pork prices.

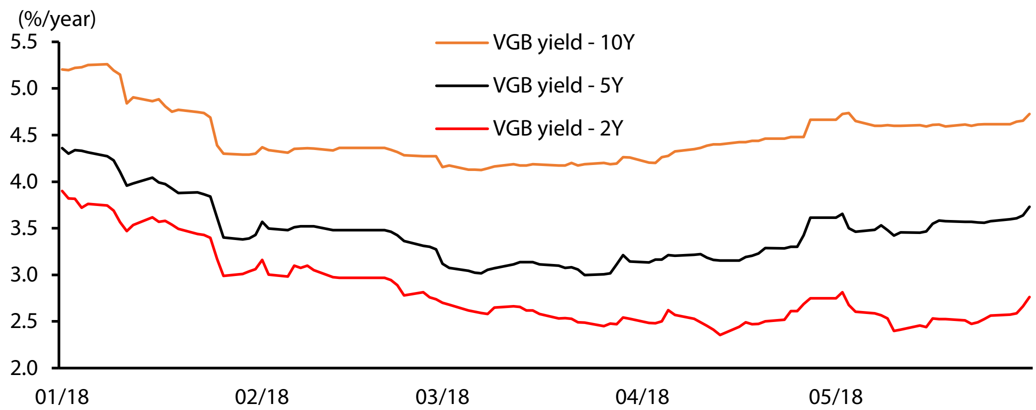
Figure 17: Vietnam's Yearly inflation



Source: GSO, RongViet Securities

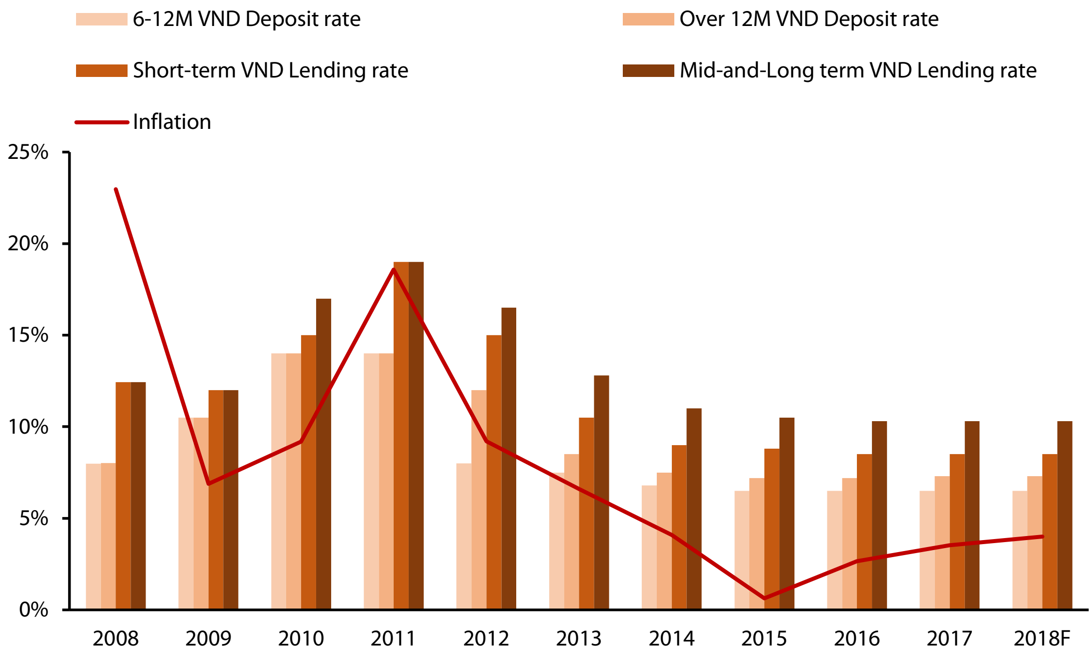
The discount rate dropped to 4.25% per annum from 4.5% per annum in July 2017 while the 6-12M deposit rate stood at 6.5% per annum. Therefore, any higher-than-expected increase in inflation is likely to distort the monetary policy. Inflation is also the reason why bond yields started bottoming out. The 10Y bond yield is at 4.7% per annum, up 60 bps in the last two months.

Figure 18: Vietnam Government Bond Yields



Source: FiinPro, RongViet Securities

Figure 19: Interest rate vs Inflation

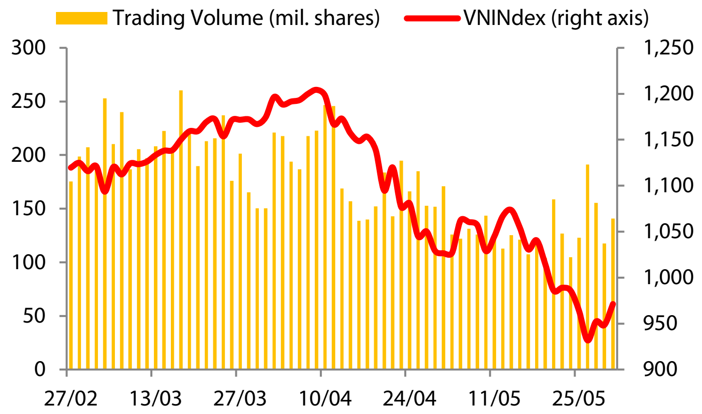


Source: FiinPro, RongViet Securities

VIETNAM'S STOCK MARKET IN MAY: THE CORRECTION LASTED LONGER

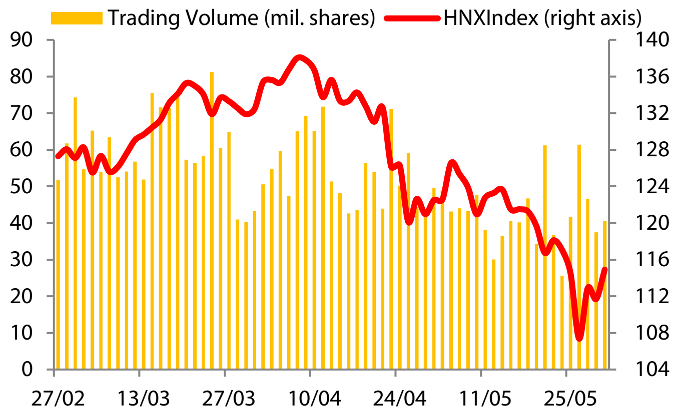
Following the collapse in April, Vietnamese indices continued to fall in May. The VN-Index and the HNX-Index were down by 7.5% and 6.3%, respectively. Liquidity on both exchanges shrunk from VND 6.7 Tn to only VND 4.4 Tn. In a market where bearish sentiment is dominating, low liquidity could be seen as a signal for an upcoming transition phase.

Figure 20: VNIndex movement in May



Source: RongViet Securities

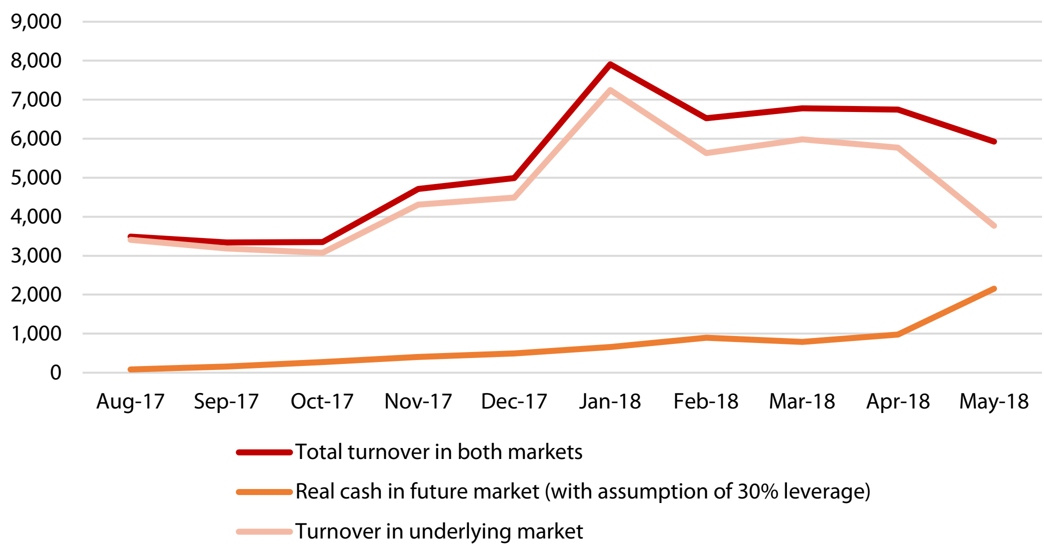
Figure 21: HNXIndex movement in May



Source: RongViet Securities

Turnover in the futures market surged in May.

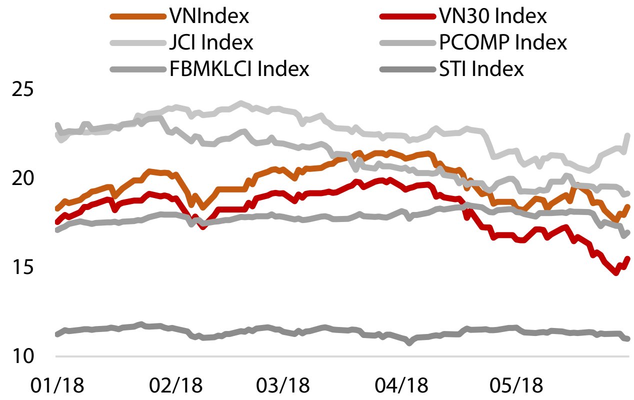
Figure 22: Turnover in futures and underlying markets (Bn VND)



Source: FiinPro, RongViet Securities

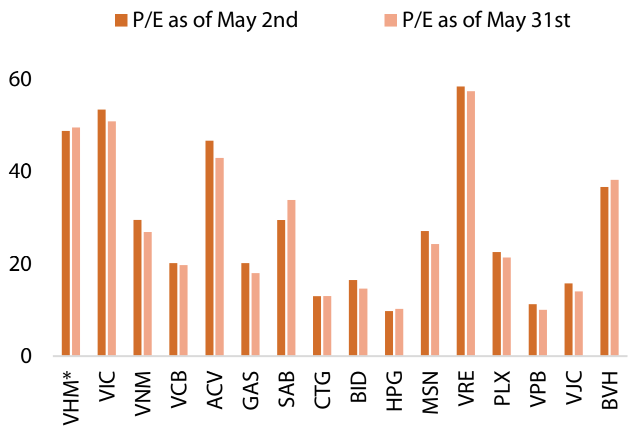
Stocks, especially large caps, look cheaper. The VN30's P/E declined deeply from 19.6 to the current attractive level of 15.5. The P/E of 11 out of 15 of the largest market-cap stocks has decreased during May.

Figure 23: P/E of VN30 versus ASEAN countries



Source: FiinPro, RongViet Securities

Figure 24: P/E of top 15 Vietnamese large-cap stocks



Source: FiinPro, RongViet Securities

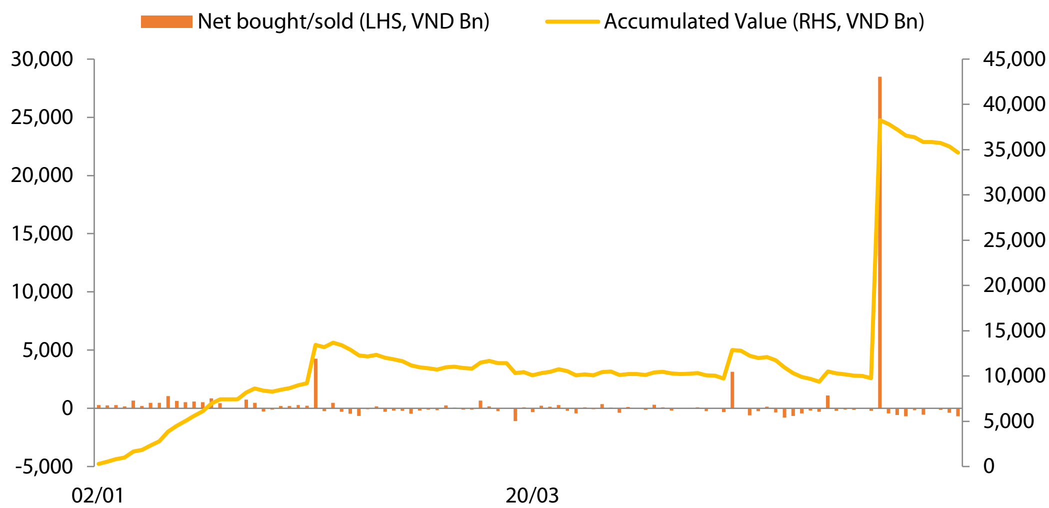
Inflows into two ETFs: VanEck and FTSE. Since the beginning of the year it is around USD 54 Mn.

Figure 25: Money flows of VanEck and FTSE ETF (Mn USD)

Source: Bloomberg

Foreign investors trading:

Figure 26: Net trading value of Foreign Investors



Source: FiinPro, RongViet Securities

Foreign investors net bough VND 22,884 Bn on both exchanges in May driven by the historical net-buy session of 249 million Vinhomes shares for USD 1.2 bn. Excluding this transaction foreign investors net sold VND 933 Bn.

Notably, 11 out of 22 sessions saw net-selling that exceeded VND 300 Bn in May, compared to just three in April. Main reasons:

- Shift in investment portfolios from stocks that have gone up a lot to new-listed stocks.
- 10-year Treasury yields hitting their highest level since 2014 raising concerns about the FED's interest rate policy.
- Worries about a US-China trade war and geopolitical risks around the world.

From the beginning of the year to now, foreign investors still net bought over VND 7,000 Bn, excluding the Vinhomes' transaction.

Table 1: Foreign investor's net trading by sector in both exchanges

Sector	HSX		HNX	
	Net volume (million shares)	Net value (VND Bn)	Net volume (million shares)	Net value (VND Bn)
Oil & Gas	-2.90	-84.39	-1.89	-35.05
Chemicals	-6.35	-122.44	-0.64	-11.94
Basic resources	23.31	930.37	-1.01	-1.38
Construction and building materials	-4.42	-181.41	-7.43	-200.74
Industrial goods & services	-4.89	-158.70	0.09	-0.46
Automobile & parts	-4.48	-97.81	0.00	-0.01
Food & beverage	-3.17	-343.43	-0.37	-2.41
Personal & household goods	-0.51	-22.76	0.06	0.56
Healthcare	0.93	35.17	-0.38	-20.76
Retail	1.65	253.41	0.00	0.08
Communication	0.00	0.05	-0.02	-0.21
Travel & leisure	-10.35	-622.17	-0.37	-8.89
Utilities	-6.41	-232.48	-0.02	-0.28
Bank	-1.58	-496.82	0.10	-19.06
Insurance	0.23	14.45	-0.13	-3.04
Real estate	210.30	23,598.22	-0.21	29.80
Financial services	-3.82	332.68	3.09	55.10
Technology	1.31	82.47	-0.01	-0.02

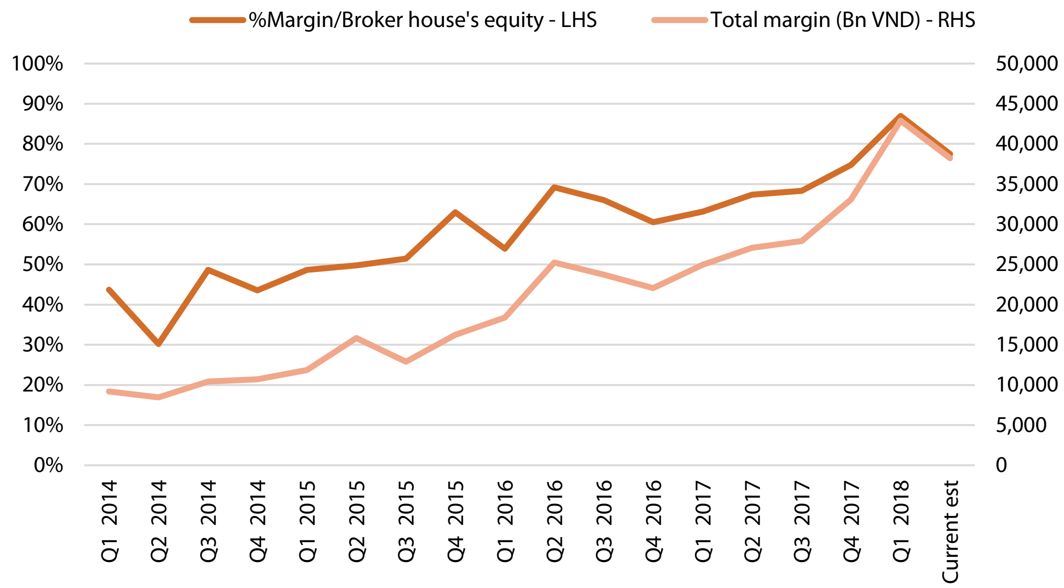
Source: FiinPro, RongViet Securities

Margin lending: where are we?

Total margin lending has been on the rise since 2014. The data is collected at the end of every quarter. Actual margin lending in 2018 is likely to be higher than in 2017.

When margin calls were triggered May 29 and the market was down by over 3%, we estimated that margin lending had been brought down to around VND 38 trillion. The figure is relatively lower than that in Q1. We think this is a safer level, and it should help prevent the market from another shocking decline in the short term.

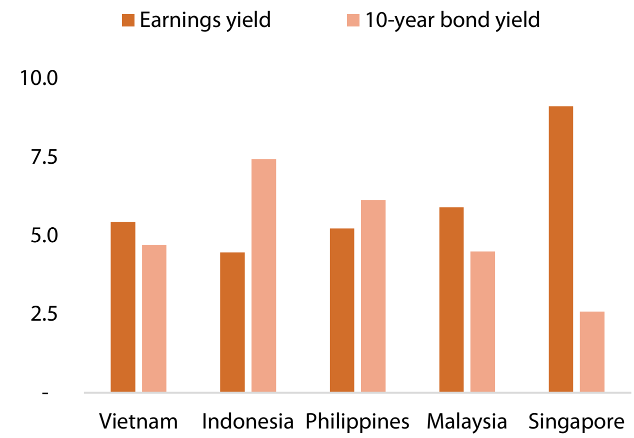
Figure 27: Total margin lending



Valuations appear more reasonable.

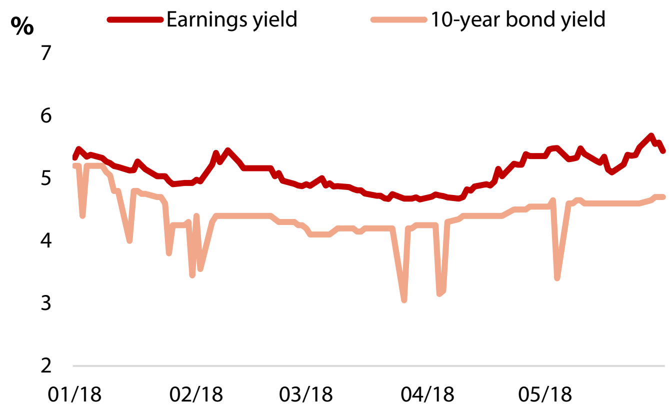
The correction has brought the P/E of the Vietnam market to 18.5x, which translates to an earning yield of 5.4%, quite in line with other markets in the region.

Figure 28: Earnings yield and bond yield in several ASEAN countries as of May 31st



Source: Bloomberg, Rong Viet Securities

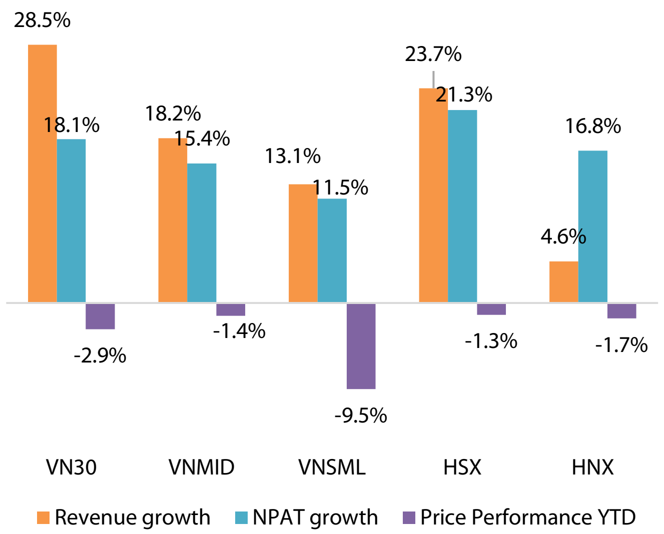
Figure 29: Earnings and bond yields in Vietnam



Source: Bloomberg, Rong Viet Securities

Earnings growth is still there. All companies have announced their business results. Corporates listed on the HSX managed to grow their NPAT by 21% in Q1. Nevertheless, keep in mind that banking stocks account for a big part of that growth. In fact, seven banks are among the 10 contributors for the earnings growth of the VN-Index year-to-date. It remains to be seen if this growth is sustainable.

Figure 30: Earnings growth of indices in Q1 2018



Source: Rong Viet Securities, removed MSN, GMD, CII, CHP, STG, ASM, VGP for better comparison

Figure 31: Top 10 contributors to earnings growth in HSX

	Increased NPAT YoY (Bn VND)	Increased NPA YoY (%)
VCB	1,298	59%
VJC	989	263%
MBB	659	74%
VPB	552	36%
HDB	524	169%
GAS	432	20%
CTG	401	20%
EIB	308	226%
TPB	297	138%
HPG	277	14%
HSX	**6,835**	**21%**

Source: FiinPro, RongViet Securities

We see the downside move in the market during the last two months as a ‘time correction’. The market usually needs some time to recover after that kind of event, so there is no need for investors to rush in to buy massively. However, considering the fact that corporate earnings are still growing while the market is where it was at the beginning of the year, it seems that it is time to start looking for opportunities and gradually accumulate stocks.

The correction of the Vietnam stock market in May was worse than our expectations. We think profit-taking, which started in April, net selling by foreign investors and margin lending reduction are the main reasons for such a poor performance of most indices. From unofficial sources, we learnt that margin lending significantly decreased by the end of May and is not been pressured at this time. While external risks have not abated, valuations and prices are now more attractive. Some bottom fishing took place towards the end of the month and is likely to continue. However, this is not a catalyst for a persistent rebound.

On the positive side, foreigners are likely to stop selling, margin lending has decreased, and investors' sentiment is turning more optimistic. Therefore, we think that the stock market will be more volatile in June, but a rebound is likely. In other words, short term opportunities.

Figure 32: Market performance is usually poor in the summer (May to July)

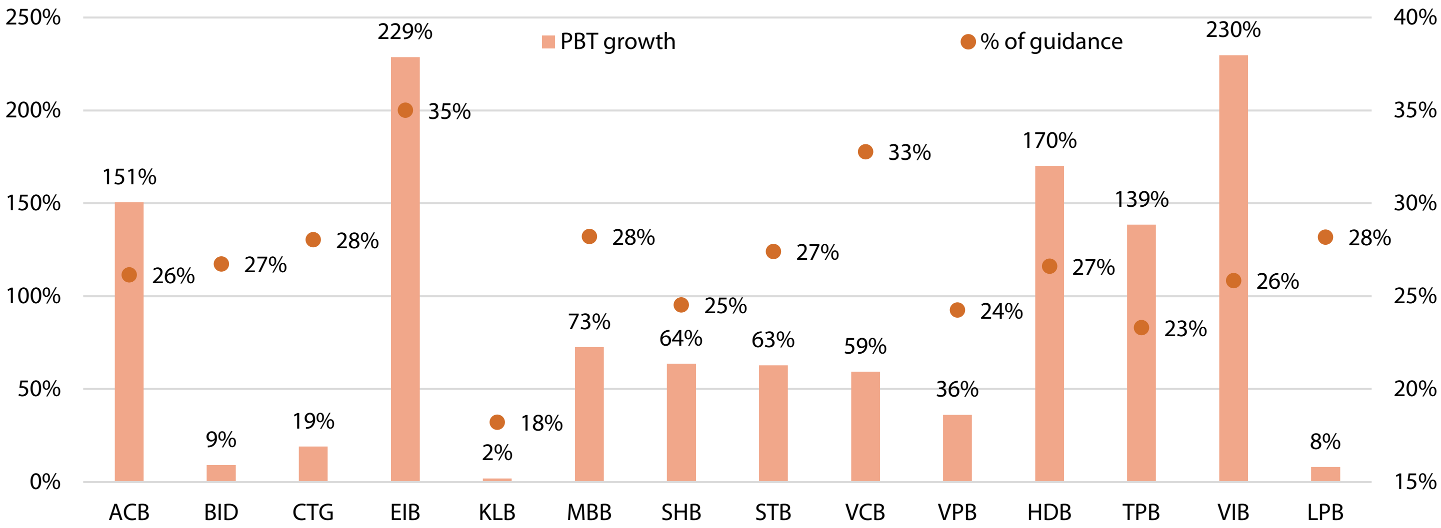
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	12.81	1.01	4.72	-10.58	-7.52							
2017	4.87	1.94	1.62	-.63	2.80	5.24	.91	-.10	2.77	4.08	13.45	3.61
2016	-5.83	2.59	.33	6.62	3.35	2.23	3.16	3.43	1.65	-1.45	-1.59	-.03
2015	5.58	2.86	-6.99	2.04	1.27	4.12	4.72	-9.07	-.37	7.95	-5.63	1.02
2014	10.28	5.38	.87	-2.29	-2.76	2.87	3.10	6.81	-5.95	.34	-5.70	-3.70
2013	15.97	-1.09	3.47	-3.37	9.25	-7.19	2.23	-3.89	4.22	.97	2.08	-.62
2012	10.36	9.19	4.10	7.42	-9.41	-1.59	-1.87	-4.45	-.87	-1.06	-2.73	9.50
2011	5.35	-9.64	-.05	4.11	-12.23	2.65	-6.21	4.69	.68	-1.59	-9.53	-7.65
2010	-2.59	3.10	.47	8.64	-6.44	-.06	-2.61	-7.86	-.12	-.42	-.23	7.32
2009	-3.93	-18.95	14.21	14.59	27.99	8.90	4.12	17.14	6.24	1.07	-14.14	-1.85
2008	-8.94	-21.42	-22.08	1.07	-20.73	-3.55	13.01	19.44	-15.28	-24.01	-9.31	.28
2007	38.52	9.25	-5.83	-13.76	17.06	-5.25	-11.39	.05	15.25	1.74	-8.71	-4.66
2006	1.57	25.08	28.90	18.25	-9.50	-4.33	-18.07	16.28	7.24	-2.88	23.75	18.75
2005	-2.49	.76	4.85	-.11	-.82	1.05	2.65	.45	13.69	6.25	1.28	-1.23
2004	28.38	21.59	6.46	-4.69	-4.70	-.91	-4.51	-2.54	.35	-.26	-1.30	4.24
2003	-5.97	-4.51	-11.66	4.90	-.20	.02	-3.91	-2.47	-2.38	-2.23	20.31	1.87
2002	-11.83	-7.93	4.74	4.16	-.65	-2.44	-2.22	-2.99	-4.97	-2.48	.15	3.07
2001	18.84	2.69	6.70	19.22	25.91	23.75	-15.56	-34.34	-11.87	6.48	10.85	-18.41
2000								13.39	4.83	16.68	19.80	22.58

Source: Bloomberg

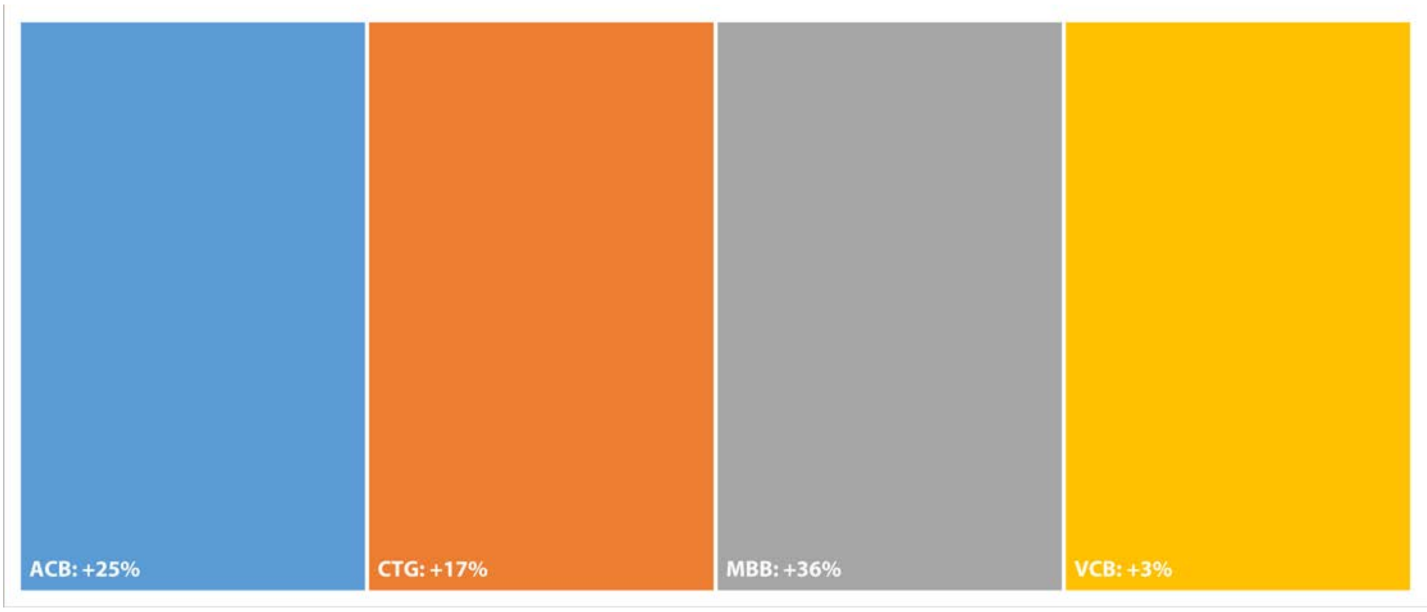
The deeper the correction, the sooner the recovery. We think that banking stocks can be potential candidates for a rebound, given 11% (MoM) decrease in May (April: -14% MoM). Catalysts for the sector include strong earnings growth in 2018. Business results in the first quarter were strong. Total operating income (TOI) and PBT of 14 listed banks (HSX, HNX, and Upcom) were VND 56.34 Tn and VND 20.13 Tn, up by 35% and 52% YoY respectively. They fulfilled 23 – 27% of their target for 2018 in a season that is a low season for banks. Hence we can expect that most of them will achieve their targets before the end of the year.

Banking stock prices are probably a buy in Q2.

Figure 33: Listed banks' profit before tax growth in Q1 2018

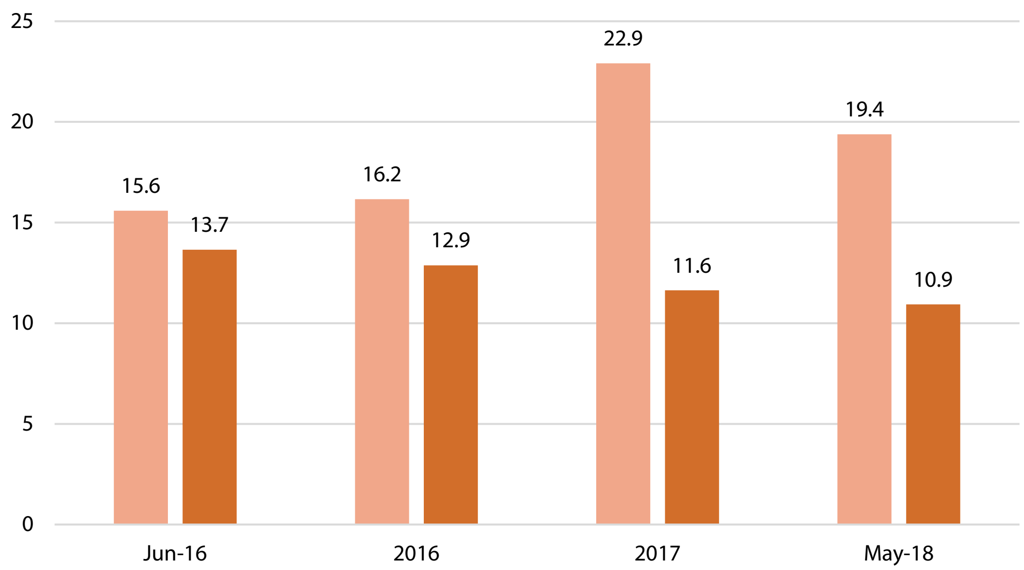


Source: RongViet Securities



Price @ 4 June 2018

Figure 34: PE of VN30 (large cap) and VNMID



Source: FiinPro

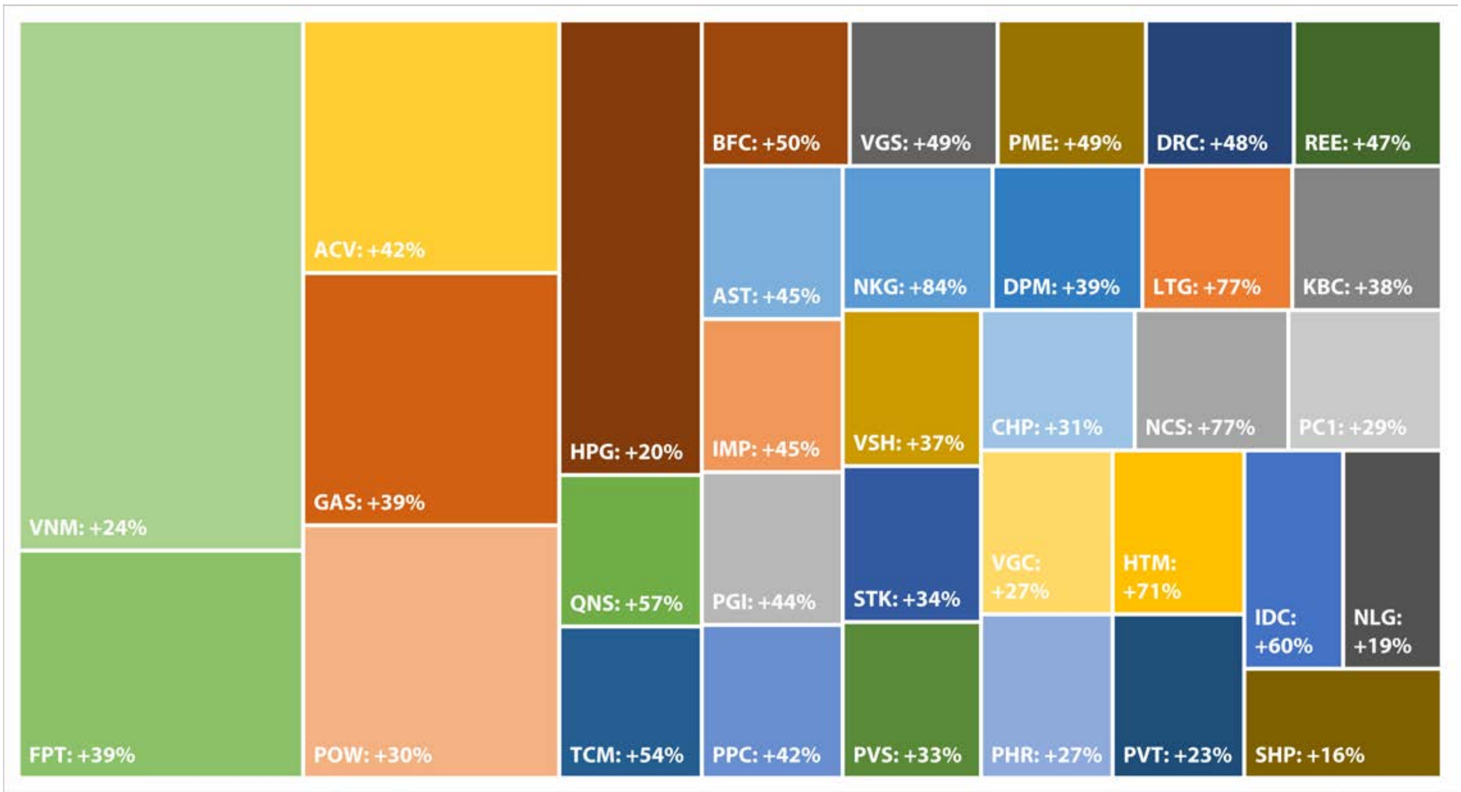
We think stocks in the airport servicing sector can be potential candidates at this time due to:

- ✓ Vietnam will be among the five fastest growing markets in terms of additional air passengers from 2016-2035 according to the International Air Transport Association (IATA). Vietnam posted a record in air passenger traffic in 2017 with the number of passengers rising to 94 million, a CAGR of 19.3% for 2005 - 2016.
- ✓ Outbound travel registered strong growth, thanks to increasing disposable income together with the booming of LCCs, new routes (both domestic and international) launched and aggressive fleet expansion by local airlines. The Government also made efforts to boost tourism by waiving the visa requirement for citizens from the UK, France, Germany and a few other countries. This represented 10.9 million international inbound tourists in 2017, up 32% YoY. In Q1 2018, foreigners to Viet Nam by air reached 3.4 million, up 28% YoY.
- ✓ According to the Government, the number of passengers will reach 131 million by 2020 with an average growth rate of 12% per year for the period 2017-2020. Many airport expansion projects have been planned and executed to accommodate the increasing demand for air travel. Total airports capacity will rise to 144 million pax by 2020. This will open more room for new international routes to big cities, which currently are overloaded.

Aviation, airport and flight catering services will benefit from such fast growth. However, while we believe that VJC's relative valuation not is attractive yet, we recommend looking at AST and NCS, two stocks in that cater to airport and flight services.

HSX:AST – TP: VND 97,000. Taseco Airs is one of the largest companies operating in the non-aeronautical business at five major international airports in Vietnam. Thanks to the strong growth of air passengers, backed by the Government's support for infrastructure improvements in the tourism sector, airport retailers will be the main beneficiaries. AST owns a network of more than 70 point-of-sale under the Lucky brand name, with a dominant position in Noi Bai and Da Nang airports. This segment has shown an impressive growth in recent years, and we expect that the company can even improve its performance because of new store openings in 2018. VinaCS, AST's affiliate in catering services, is also poised to benefit as demand for air meals is soaring in-line with demand for air travel. We estimate that the affiliate will contribute to earnings from 2019 onwards. For the hotel segment, A la Carte Da Nang has been providing stable cash flow for AST. We see the new project 5-star A la Carte Ha Long as the driver for earnings growth when the hotel becomes operational in 2020. We project AST's NPAT at approximately VND 160 billion (+9% YoY). Excluding the one-off profit from selling land in 2017, core business NPAT's growth is 28%. Forecasted EPS for 2018 is VND 4,235.

UPCOM:NCS – TP: VND 60,000. Noi Bai Catering Services JSC is a leading player in flight catering and related services at NoiBai international airport. Due to its monopoly status in providing catering service for Vietnam Airlines, as well as its extensive experience in the catering services industry, its business activities have been growing up over the years. During 2013-2017, NCS's net revenues and NPAT have recorded an impressive CAGR of 13% and 27% respectively. Gross profit margins have improved for years. For the period 2018-2022, flight catering services are estimated to keep growing based on: (1) the strong growth of the number of airline passengers, (2) the increasing demand for business travel and tourism, (3) the expansion project of NoiBai international airport, and (4) NCS's new catering factory project that will enhance its capacity.



Price @ 4 June 2018

HIGHLIGHT STOCKS

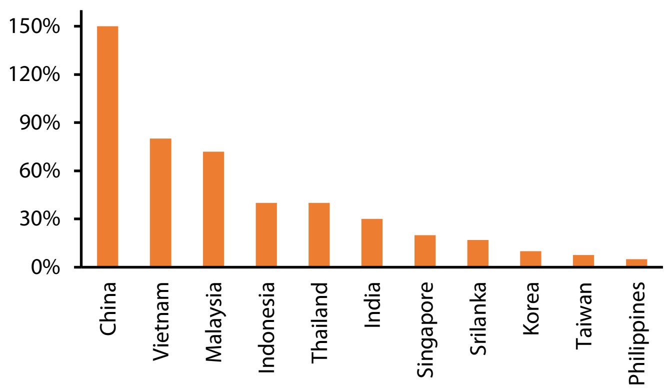
Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Price @ June 04 (VND)	Total Return (%)	Rating	2017		2018F		2019F		PER Trailing (x)	PER 2018F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
ACB	HNX	2,074.1	52,500	43,500	20.7	Buy	4,531.6	81.0	59.8	16.3	119.1	17.6	16.9	10.9	2.6	0.0	101.0	9,538.2	0.0
ACV	UPCOM	8,403.4	124,000	88,200	41.6	Buy	3,207.0	-5.5	-18.1	38.8	58.9	13.4	43.5	30.9	6.8	1.0	80.2	763.5	45.5
AST	HSX	129.0	97,000	81,500	23.9	Buy	5,619.4	0.0	0.0	28.4	8.6	17.4	19.9	19.2	6.3	4.9	0.0	690.5	26.1
BFC	HSX	80.4	40,500	32,000	39.1	Buy	6,173.0	6.1	0.2	8.2	10.6	14.7	7.2	6.0	1.8	12.5	-2.4	183.1	35.1
CHP	HSX	138.5	31,900	25,000	33.2	Buy	2,518.2	32.5	59.2	-26.1	-38.4	12.1	16.0	13.1	1.9	5.6	18.1	54.0	45.5
CTD	HSX	447.1	160,100	129,900	27.1	Buy	17,530.5	30.7	16.2	5.0	-5.7	0.0	6.1	7.5	1.3	3.8	-34.2	2,060.3	7.3
CTG	HSX	4,747.4	31,900	29,000	12.4	Accumulate	2,719.3	23.3	9.2	10.5	33.7	13.2	13.8	13.9	1.6	2.4	71.9	12,918.1	0.0
CTI	HSX	85.9	31,500	31,000	9.0	Accumulate	1,344.0	7.1	39.2	130.0	208.3	-44.0	13.3	10.8	1.7	7.4	9.9	1,015.1	21.1
DHG	HSX	561.0	102,000	97,600	7.6	Accumulate	5,767.0	7.4	-9.5	15.2	31.8	9.3	19.9	17.2	4.6	3.1	6.6	1,542.3	1.9
DPM	HSX	312.3	22,400	18,150	34.4	Buy	2,194.0	0.9	-39.1	35.1	-13.1	7.4	10.9	13.8	0.9	11.0	-15.7	830.9	26.7
DRC	HSX	120.6	29,500	23,100	35.5	Buy	2,367.0	9.2	-59.1	3.1	87.7	4.5	24.5	9.8	1.8	7.8	-11.8	582.8	21.1
DXG	HSX	410.2	36,106	30,800	17.2	Accumulate	3,559.4	14.9	39.8	56.2	37.7	1.0	10.1	9.0	2.3	0.0	72.8	5,782.9	6.7
FPT	HSX	1,360.5	63,600	58,000	13.1	Accumulate	4,487.5	8.0	47.0	-47.7	-28.7	13.5	10.2	14.9	2.6	3.4	47.9	7,015.2	0.2
GAS	HSX	8,120.3	125,900	96,500	32.5	Buy	6,249.0	9.3	36.4	21.0	21.6	2.2	18.4	16.4	4.2	2.1	82.8	4,070.2	45.5
HDG	HSX	132.5	39,700	39,700	1.3	Neutral	5,825.3	14.1	-16.0	49.6	103.8	-0.2	14.3	8.3	2.4	1.3	40.6	423.8	33.4
HPG	HSX	3,621.3	71,900	54,300	32.4	Buy	8,402.3	38.7	21.3	25.5	20.0	33.8	9.4	9.2	2.4	0.0	99.3	16,408.8	9.2
IDC	UPCOM	51.2	33,500	23,500	44.7	Buy	1,162.6	N/a	N/a	N/a	N/a	5.7	2.7	24.5	0.4	2.1	0.0	167.7	-25.8
IMP	HSX	115.6	77,000	61,200	27.9	Buy	3,507.0	15.4	16.0	20.4	21.6	21.2	21.1	20.9	1.9	2.1	13.6	54.9	0.0
KBC	HSX	280.9	16,270	13,600	27.0	Buy	1,433.0	-36.0	4.9	84.5	23.3	-5.7	10.4	10.8	0.8	7.4	-10.8	2,357.8	28.8
LTG	UPCOM	108.5	57,100	37,000	66.5	Buy	6,042.0	11.6	23.9	N/a	N/a	8.3	5.7	6.7	1.0	12.2	0.0	123.4	4.5
MBB	HSX	2,414.6	41,000	30,250	37.2	Buy	1,907.4	40.7	39.7	15.0	73.6	6.9	13.3	16.7	1.9	1.7	93.1	10,460.4	0.0
NCS	UPCOM	33.3	60,000	41,100	57.2	Buy	4,365.0	15.4	24.2	10.4	-15.5	14.0	9.1	11.5	3.2	11.2	6.7	5.3	47.4
NKG	HSX	117.7	39,900	20,600	98.5	Buy	6,235.9	41.2	36.6	45.9	16.7	32.9	3.5	3.4	0.9	4.9	-28.4	580.1	58.0
NLG	HSX	286.2	37,200	34,500	9.3	Accumulate	4,992.0	24.8	55.0	8.9	47.3	-3.4	10.1	9.0	1.8	1.4	51.1	620.7	0.0
NT2	HSX	393.0	37,600	31,050	37.2	Buy	3,412.9	-15.3	-25.3	13.7	21.8	13.9	11.5	9.5	1.7	16.1	13.6	744.9	26.8
OIL	UPCOM	268.5	18,400	13,300	38.3	Buy	1,118.7	5.4	82.1	20.0	7.9	7.9	26.4	15.3	1.2	0.0	0.0	2,401.6	-16.1
PC1	HSX	164.0	37,000	32,300	17.6	Accumulate	4,030.2	5.1	-22.1	55.2	130.3	3.3	14.1	8.6	1.4	3.1	12.3	301.1	11.3
PGI	HSX	72.2	24,900	18,500	47.6	Buy	2,448.0	0.0	24.9	10.7	7.7	11.2	11.8	9.6	1.2	13.0	-14.1	23.0	28.2
PHR	HSX	141.5	52,600	41,000	35.6	Buy	8,684.4	40.4	48.5	2.3	92.4	13.3	9.2	6.4	1.3	7.3	71.5	533.8	39.7
PME	HSX	238.9	120,000	83,300	46.5	Buy	6,054.0	7.6	19.7	25.1	20.3	17.0	18.6	15.9	3.4	2.4	0.0	118.8	0.0
POW	UPCOM	268.5	18,400	13,300	38.3	Buy	1,118.7	5.4	82.1	20.0	7.9	7.9	26.4	15.3	1.2	0.0	0.0	2,401.6	-16.1
PPC	HSX	258.7	22,000	18,350	32.4	Buy	1,916.9	4.3	52.4	4.1	-5.9	1.2	6.6	8.0	1.0	12.5	17.7	186.4	32.4
PVS	HNX	331.9	22,500	16,900	38.5	Buy	1,738.0	-10.5	-22.9	-11.7	0.4	-0.8	9.5	10.1	0.7	5.3	6.7	6,335.9	31.4
PVT	HSX	233.9	18,100	18,900	6.3	Accumulate	1,438.0	-9.0	0.7	9.4	-1.1	4.6	12.0	N/a	1.4	10.6	58.8	606.5	15.2
QNS	UPCOM	543.7	61,800	50,300	25.8	Buy	5,779.0	9.6	-27.9	7.8	22.2	6.8	12.6	10.5	2.7	3.0	-45.9	659.4	39.4
REE	HSX	489.4	48,400	35,900	39.3	Buy	5,535.2	36.5	26.0	13.3	23.3	4.6	7.8	6.6	1.4	4.5	25.7	2,199.5	0.0

Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Price @ June 04 (VND)	Total Return (%)	Rating	2017 +/- Rev. (%)	2017 +/- NPAT (%)	2018F +/- Rev. (%)	2018F +/- NPAT (%)	2019F +/- Rev. (%)	2019F +/- NPAT (%)	PER Trailing (x)	PER 2018F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
SHP	HSX	92.7	25,400	22,500	20.0	Buy	2,128.6	20.3	88.9	-1.9	-7.1	3.0	12.4	12.3	1.8	7.1	20.1	13.2	44.5
STK	HSX	39.7	21,500	15,050	46.2	Buy	2,419.0	46.6	242.3	2.0	27.7	7.9	8.0	7.2	1.1	3.3	-6.4	20.9	39.4
TCM	HSX	44.5	30,500	19,650	60.3	Buy	3,276.0	4.5	67.8	-0.9	-9.1	8.8	5.3	6.2	0.9	5.1	-15.2	514.8	0.0
VCB	HSX	9,427.4	60,000	59,600	2.0	Neutral	2,568.7	18.2	33.0	8.7	17.4	12.0	20.6	25.3	3.8	1.3	71.5	9,311.8	9.6
VGC	HNX	469.1	30,200	23,800	31.1	Buy	2,682.4	11.4	23.7	14.4	41.8	15.6	17.6	11.3	1.7	4.2	64.7	1,538.5	14.5
VGS	HNX	18.3	15,500	11,100	50.5	Buy	2,434.1	31.4	-12.3	27.9	37.8	3.2	5.5	5.0	0.7	10.8	9.0	121.6	42.4
VHC	HSX	224.0	61,100	55,200	14.3	Accumulate	10,168.0	11.6	4.7	15.8	20.3	11.7	8.6	7.2	1.8	3.6	8.0	1,198.8	10.6
VIC	HSX	14,264.1	115,000	123,000	-6.5	Reduce	4,097.1	68.4	74.1	39.2	74.7	27.1	75.9	43.7	9.8	0.0	203.7	14,873.1	38.9
VJC	HSX	3,432.9	191,000	173,000	12.1	Accumulate	11,926.0	54.0	81.0	17.7	26.6	25.8	14.2	13.7	6.8	1.7	95.0	11,647.0	4.8
VNM	HSX	11,804.1	215,323	185,000	17.7	Accumulate	8,683.0	9.1	10.1	17.0	18.4	15.0	26.7	24.5	10.4	1.4	29.1	11,147.9	40.4
VRE	HSX	3,869.9	51,200	46,300	10.6	Accumulate	1,712.4	-13.6	-17.2	73.5	44.0	-7.3	43.4	30.3	3.4	0.0	0.0	13,919.6	16.0
VSH	HSX	154.1	22,100	17,000	35.9	Buy	1,505.3	17.5	10.8	3.2	-3.1	112.7	11.1	12.7	1.1	5.9	15.7	34.6	34.7

(*) Total Return = Stocks' Upside plus dividend yield

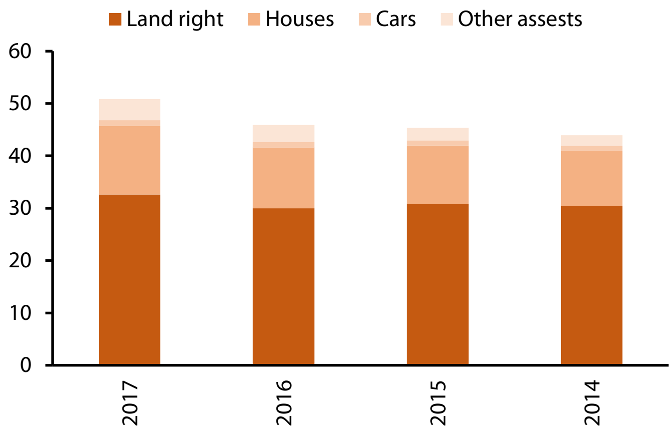
MACRO WATCH IN MAY

Vietnam: SOE Assets as % of GDP



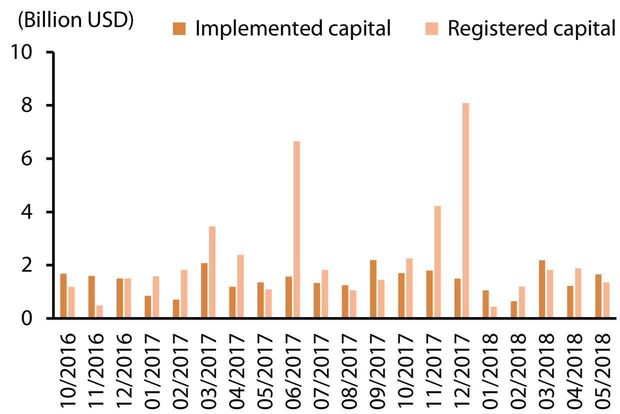
Source: Vietnam's Government, RongViet Securities

Public Assets Owned by Public Administrations (USD Billion)



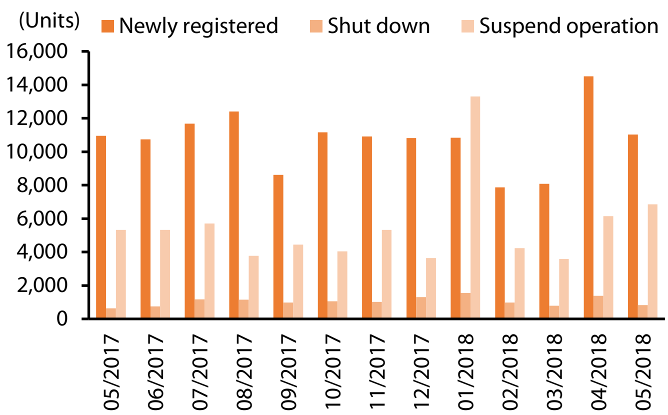
Source: Vietnam's Government, RongViet Securities

Low Registered FDI Capital in 5 Months 2018



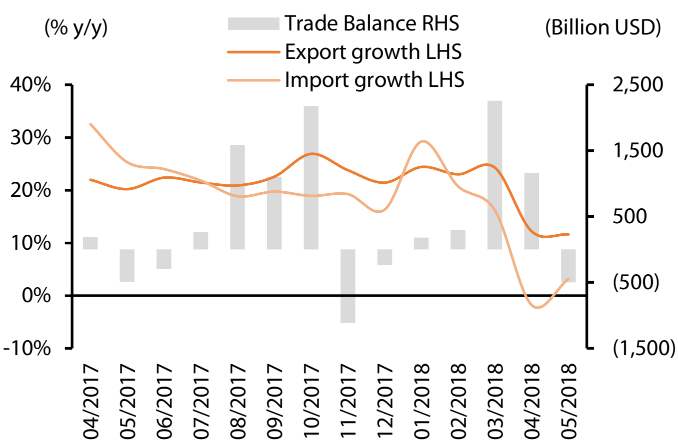
Source: GSO, RongViet Securities

High Newly Registered vs High Suspend Operation



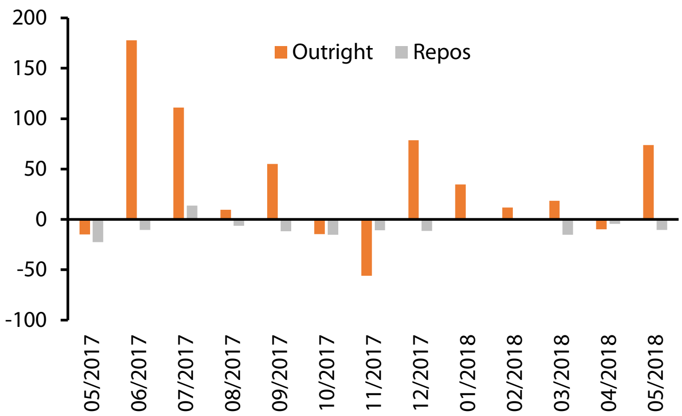
Source: GSO, RongViet Securities

Trade Deficit



Source: GSO, Customs, RongViet Securities

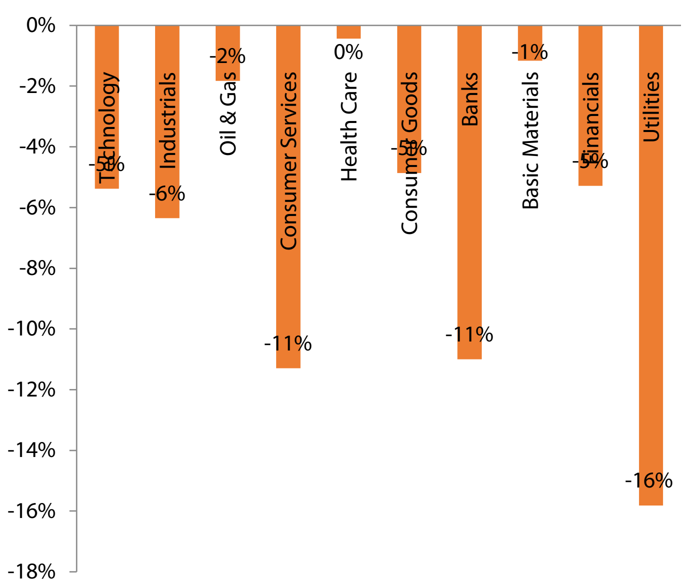
Bond Market: Foreign Net Buying (USD Billion)



Source: HNX, RongViet Securities

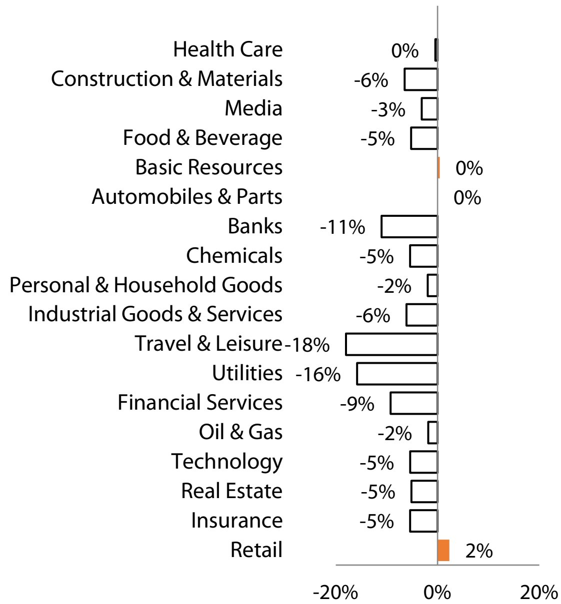
INDUSTRY INDEX

Level 1 industry movement



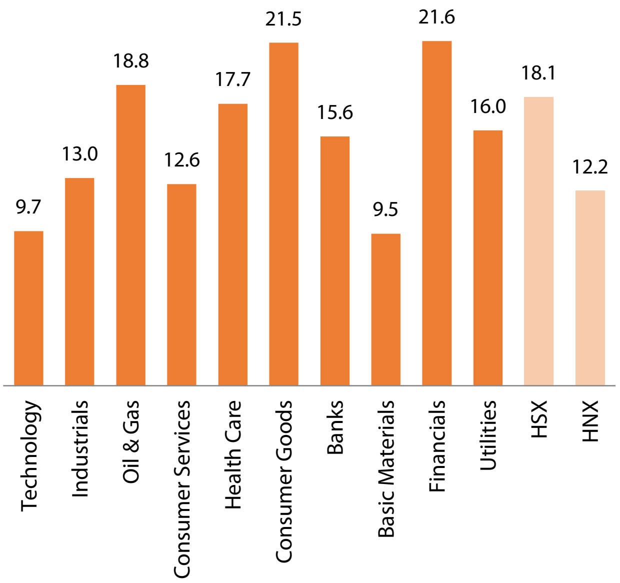
Source: RongViet Securities

Level 2 industry movement



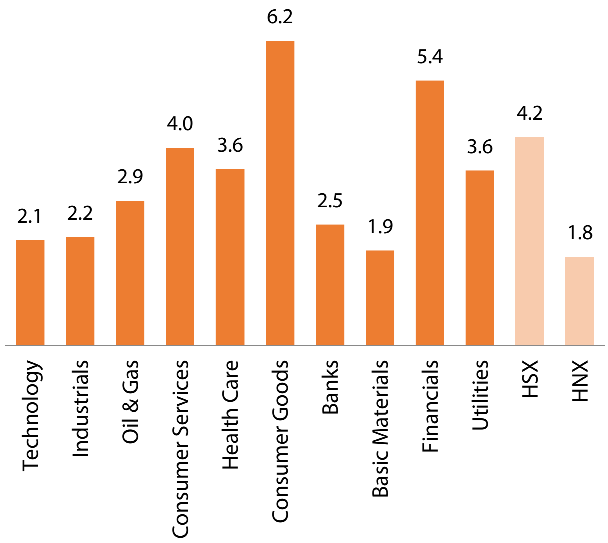
Source: RongViet Securities

Industry PE comparison



Source: RongViet Securities

Industry PB comparison



Source: RongViet Securities

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