AUGUST

13

THURSDAY

"Impact of Renminbi fluctuation on major industries in Vietnam"

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ADVISORY DIARY

- **Impact of Renminbi fluctuation on major industries in Vietnam**

Talking on CNY depreciation, RongViet Research's macro expert discussed more on new exchange rate mechanism of PBOC in order to help investors have more perspective as well as deeper understand about current issue. In a statement dated on 11/08/2015, China reformed its old exchange rate system in which reference rate was based on a basket of currencies into new regime using closed rate on Interbank Foreign Exchange of preceding day. In other words, we can say that China is floating its currency within a controlled band of 2%.

According to the PBOC, the purpose of this change allows the Renminbi to reflect closely the movements of the forex market as well as help central banks have more flexible tools. Currently, the Renminbi is maintaining two types of rates: domestic (USD/CNY onshore) and international (USD/CNH offshore). In fact, the transaction value between the two currencies before the new policy is not much difference, only 0.1 - 0.2% of low amplitude. Recently, the change was greater, with USD/CNH higher than ~1% compared with USD/CNY today. Also, according to our records, today, the two rates are recorded revival than two days ago. Generally in the last 3 days, the domestic Renminbi (CNY onshore) depreciated 3.09% while the Renminbi on the international market (CNH offshore) depreciated 3.56%.

According to CNBC, in a press conference today, the PBOC said that there was no basis for the continued devaluation of the Renminbi and the country will have the tools to help stabilized and has not ruled out this feature will appreciate the Renminbi. According to many views we observed, the adjustment of the new exchange rate mechanism of China can be a further step Renmibi to consider into the SDR basket of the IMF in the next year.

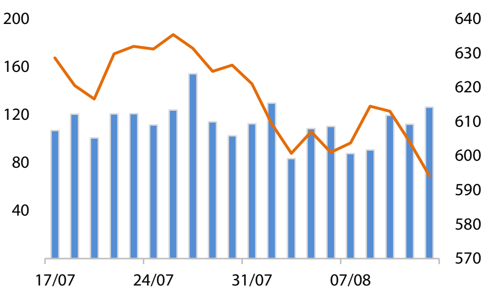
However, it is discovered from a study of Royal Bank of Canada that before new policy applied, CNY had been overvalued by 15%. Moreover, many financial experts also predict RMB will probably depreciate by 6% - 10% as there haven't been any clear signs of China's economy recovery so far. Therefore, using a most conservative scenario in which CNY will have suffered from 6% depreciation by the end of 2015, we conduct a preliminary assessment on impact of this new factor on every single sector of Vietnam:

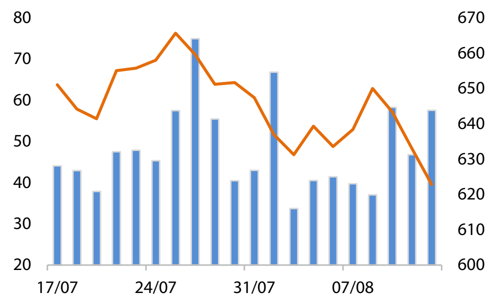
No.	Industry	Subsector	Relating listed tickers	Foreign debt	Export revenue	Imported materials	Overview	Industry analyst's comment
1	**Textile**		TCM, GMC		Export revenue	Over 80% imported material	Negative-Neutral	Pros: Textile companies which import raw materials from China and export final goods to other markets may benefit from dropping oil prices Cons: (1) Cheaper Chinese products reduce competitiveness of Vietnamese goods in both domestic and exporting markets; (2) Shrinking advantages from FTAs; (3) Target to increase localization rate to meet the requirements of origin agreed in FTAs (from fabric onwards – VN-EU FTA and fibber onwards in TPP Agreement) will be challenged (4) Cotton price volatility may affect the profitability from fibber of TCM
2	**Construction**						Neutral	Construction
3	**Logistic**	Sea freight	PVT, VTO, VIP	Cao	Having export revenue		Neutral	PVT: 50-60 % of transporting revenue anchored to USD price and larger than annual debt payment. Consequently, in economic perspective, business was not affected, but in terms of accounting, companies may record more losses. VTO , VIP: having less debt than PVT and having revenue anchored to USD so they should not be affected.
		Port services	Almost				Neutral	
4	**Banking**						**Negative**	FX trading at banks may face losses due to positive net foreign exchange position before appreciation of USD
5	**Construction material**	Cement, Ceramic tile	Companies having exporting revenue				**Negative**	Cement: A rise in competition among Vietnam export markets, including Bangladesh, Cambodia,… Ceramic tile: China products are preferred thanks to cheap and diversified models. This will lead to the significant rise in domestic competitions.
		Plastic					Neutral	Although less effects to output prices, it is likely to indirectly positive from lowering commodity prices (plastic grain)
6	**Automobile**		HHS				**Slightly negative**	HHS completely wrote off its last deferred payment in the end of July; hence, the company can only benefit from new consignments of heavy trucks
7	**Packaging**		DHC, SVI				**Positive**	Benefiting from the lowering material costs while domestic consumption remains stable. DHC: planned purchase of machinery manufacturing in China will benefit. Because the value of equipment is based on USD with lower after China's devaluation.
8	**Tire**		CSM, DRC, SRC				**Negative**	Increased price competitiveness of Chinese tire market in Vietnam
9	**Power**		NT2, SJD	High	Having export revenue		Neutral	Agreed selling prices with EVN are currently based on USD. Cash inflows denoted in USD will ensure a sufficient quantity of foreign currency to repay debt. On the other hand, these companies have to record an amount of loss from FX in terms of accounting standards.

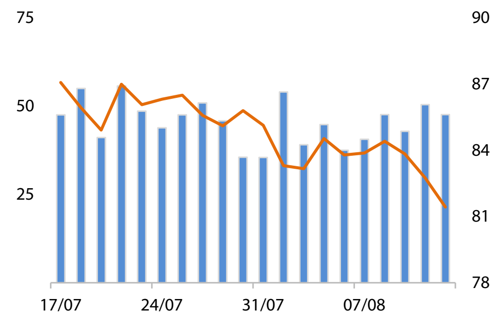
10	**Consumer stables**	Lighting Equipment	DQC, RAL			**Negative**	Compete with cheap Chinese products both domestically and international markets
		Wood	GDT, TTF			Neutral	Major timber export markets are US, EU, Japan, however, these enterprises still compete against Chinese goods in those markets
11	**Pharmacy**		Almost		Material is imported but output is consumed domestically	**Positive**	Input price usually accounts for 50-80% COGS, in which Chinese goods takes large proportion. Therefore, medicine firms can be beneficial players.
12	**Fishery**		IDI, ANV, HVG	Pangasius's export value of Vietnam to China accounted for 7% in June 2015, up by more than 50% yoy, in which IDI was leader with 65% of market share. Revenue from China accounted for more than 20% of IDI's total revenue.	Not	**Negative**	The depreciation of USD/VND can cause an unfavorable demand on pangasius in China. Consequently, export value from this market can be experienced a significant down.
13	**Insurance**					Neutral	
14	**Urea**					**Negative**	It seems that the global urea supply will increase from the increase in Chinese export volume. Domestic market is less likely affected by various factors from the Government (tax and customs procedures).
15	**Oil and gas**	Upstream	PVD, PVS, GAS, PXS			**Negative**	Exchange rate fluctuations did not affect business , but the fall in oil prices will impact negatively on operation of enterprises in the sector
		Distribution	PGS, PGD, CNG			Neutral	
16	**Steel**		HSG, HPG	Exports account for about 40% of the revenue structure of the HSG		**Negative**	Competition against Chinese steel will increase rapidly from now until the end of the year on both the domestic market and international market. HPG : lighter impact
17	**Natural rubber**		DPR, PHR, TRC			**Negative**	Due to the reduction in the global material price.
18	**Electrics cable**		Almost	Low		**Positive**	The Chinese cable manufacturing enterprises mainly imported raw materials (China accounts for only about 8 % of total supply, but around 50% of world copper demand). Chinese products will be less competitive due to higher cost.
19	**Technology**	Outsourcing	FPT, CMG			Neutral	Lower labor cost in Chinese due to depreciation of Yuan but the gap between the price of VN and Chinese labor remains high (30-50 %) Companies having outsourcing revenues in foreign currency will benefit as USD/VND

			increase
20	**Travel**	**Negative**	Chinese visitors might decline according to the devaluation of the Renminbi. Chinese visitors accounted for about 20-25% of the international visitors to Vietnam.

VNINDEX	-1.65%	594.26	VN30	-1.59%	622.83	HNXINDEX	-1.60%	81.43

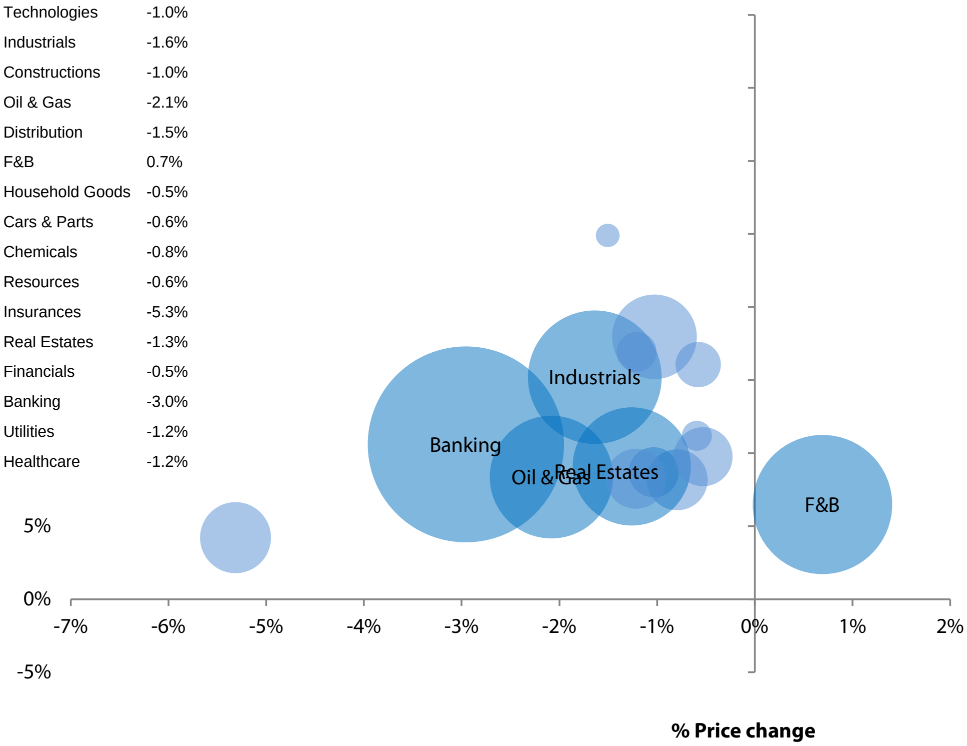




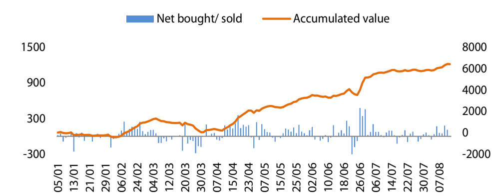


Industry Movement

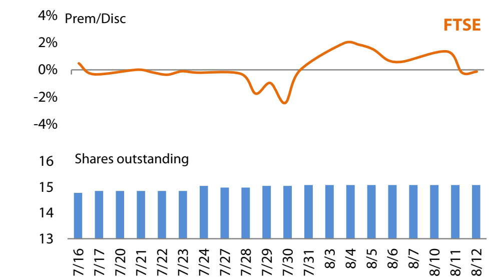
Industry	% change
Technologies	-1.0%
Industrials	-1.6%
Constructions	-1.0%
Oil & Gas	-2.1%
Distribution	-1.5%
F&B	0.7%
Household Goods	-0.5%
Cars & Parts	-0.6%
Chemicals	-0.8%
Resources	-0.6%
Insurances	-5.3%
Real Estates	-1.3%
Financials	-0.5%
Banking	-3.0%
Utilities	-1.2%
Healthcare	-1.2%

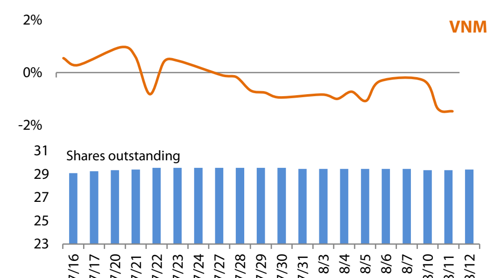


Foreign Investors Trading



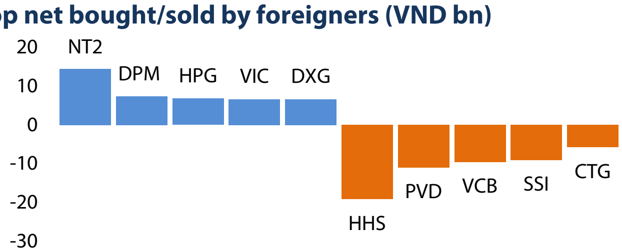
ETF



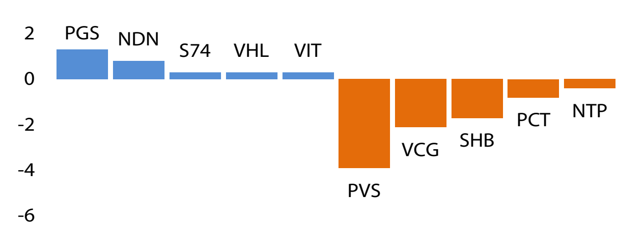


Top net bought/sold by foreigners (VND bn)

HSX



HNX



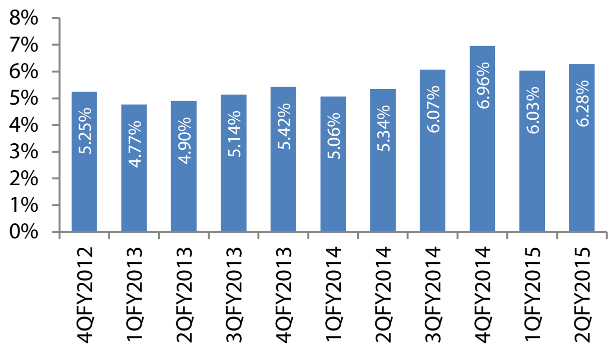
Top Active

Ticker	Price	Volume	% price change
FLC	7.5	9.45	-3.8%
HAI	7.1	6.07	-6.6%
MBB	15.5	4.97	-1.9%
HHS	22.2	3.88	0.9%
SSI	26.8	3.64	-0.4%

Ticker	Price	Volume	% price change
KLF	5.6	6.34	-3.4%
SHB	7.5	4.76	0.0%
SCR	8.2	3.40	-1.2%
KVC	13.4	2.79	-0.7%
PVX	3.6	2.78	-2.7%

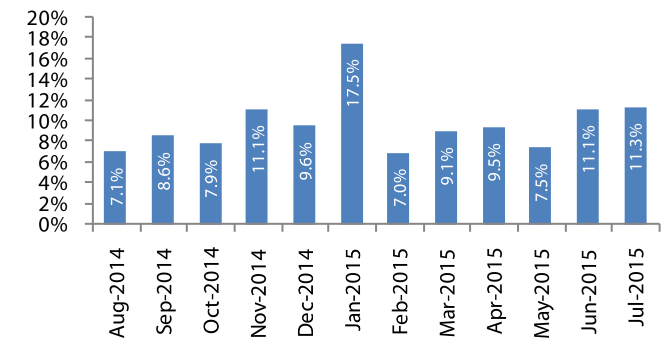
MACRO WATCH

Graph 1: GDP Growth



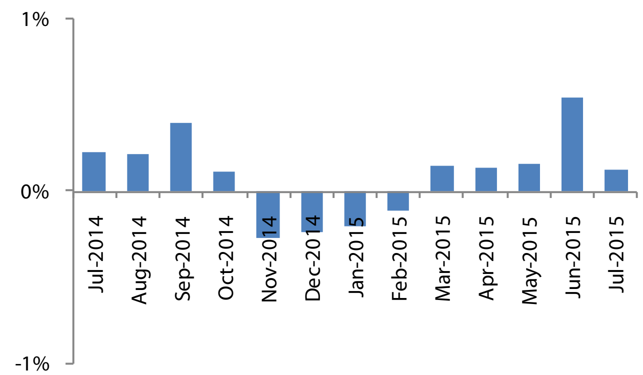
Sources: GSO. Rongviet Securities database
(*) Comparision price in 1994

Graph 2: IIP



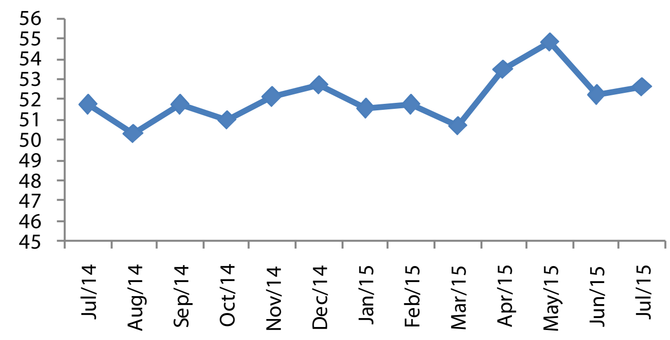
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



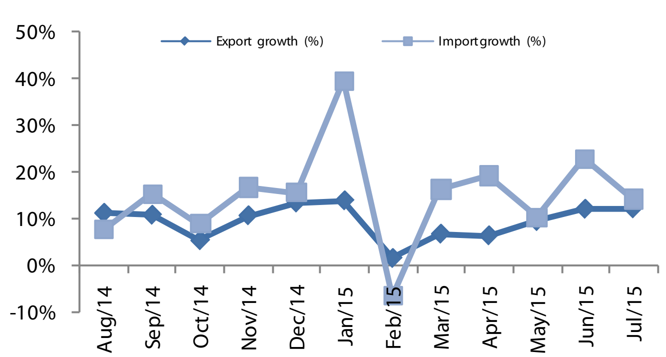
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



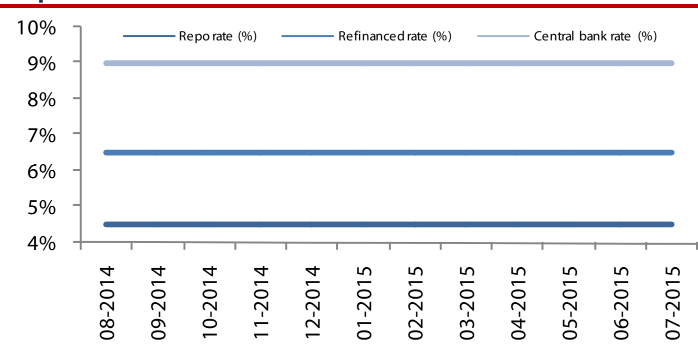
Sources: GSO. Rongviet Securities database

Graph 5: Trade Growth



Sources: GSO. Rongviet Securities database

Graph 6: Interest



Sources: SBV. Rongviet Securities database

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
MAC – Bigger Propellers, further waters	Aug, 7th 2015	Buy – Long term	17,600
NT2 - Growth in stability	July, 30th 2015	Buy – Intermediate term	30,200
FMC - Leaping in overseas waters	July 23rd, 2015	Accumulate – Intermediate term	27,000
SVC - Firing up the engine	July 20th, 2015	Accumulate – Intermediate term	24,100
LCG - A new cycle begins	July 16th, 2015	Accumulate – Intermediate term	9,500

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

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	21/07/2015	0% - 0.75%	0% - 2.5%	11,817	11,748	0.59%
VEOF	21/07/2015	0% - 0.75%	0% - 2.5%	9,945	10,100	-1.53%
VF1	31/07/2015	0.2% - 1%	0.5%-1.5%	23,561	23,582	-0.09%
VF4	29/07/2015	0.2% - 1%	0%-1.5%	10,715	10,752	-0.34%
VFA	31/07/2015	0.2% - 1%	0%-1.5%	7,606	7,606	0%
VFB	31/07/2015	0.3% - 0.6%	0%-1%	12,282	12,260	0.18%
ENF	24/07/2015	0% - 3%	0%	11,626	11,557	0.60%
MBVF	30/07/2015	1%	0%-1%	10,578	10,626	-0.45%
MBBF	29/07/2015	0%-0.5%	0%-1%	12,300	12,295	0.04%

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