AUGUST

26

WEDNESDAY

"Industry/sector prospect revisit"

ADVISORY DIARY

- **Pharmaceuticals: more attractions from TPP delayed and FOL expansion?**
- **Are CNY depreciation be able to threaten "Vietnam pangasius"?**
- **Cement and fishery sector: is it time for bottom fishing?**

Vietnam stock market fluctuated highly in tandem with global markets and even with crude oil price. Today's strong rally was because of yesterday's stability. Market's peak in afternoon session was thank to oil&gas (GAS, PVD, PVG, PVC, PVB,…) and large cap (VNM, FPT, HCM, GMD, CSM…). VNIndex and HNXIndex increased by 11.91 points and 2.44 points respectively. Market breadth was wider, with 388 gainers (98 CE) and 88 losers (16 FL).

Trading volume and turnover of market was 167.6 million shares and 2,369.5 billion dong respectively, higher than average of this month but 27% lower than average of three recent sessions. That decrease in liquidity is more likely due to shortage of supply than demand. Opposite to domestic side, foreigners sold strongly approximately 178 billion dong in HSX and 26 billion dong in HNX, focusing in VIC (VND -48.6 billion), HNG (VND -24.8 billion), VCB (VND-22.6 billion), BVH (VND -15.6 billion), PVS (VND 16.5 billion) and IVS (VND-7.2 billion).

Continuing our series of re-evaluating total effects having on certain industry for portfolio rebalancing regarding the possible risk factors to come, we would hereby answer those concerns for the Pharmaceuticals, Fishery, Cement and Power in today Advisory Diary.

Pharmaceutical industry: TPP negotiation progress was prolonged and whether room expansion policy for foreign investors makes pharmaceutical companies be more attractive?

Our analyst asserted that the room expansion policy for foreign investors will not actually bring much benefits or losses for companies in pharmaceutical industry. The reason is that this is the conditional business; therefore, it could be difficult to expect the significant impact from Decree 60/2015/ND-CP.

Meanwhile, regarding TPP, joining TPP with western pharmaceutical product line does not also benefit much due to the low importing taxes for foreign products into Vietnamese market (from 0 to 5%). In contrast, import taxes for functional food products are currently at low level (15%), as a result, TPP deal could promote the competition between foreign and domestic companies. Our analyst pointed out that functional food from domestic pharmaceutical companies mostly derive from traditional sources and focus more on low-end segments while such products from foreign companies originate from western pharmaceutical and focus on high-end segment. With the characteristic of favoring foreign products and the increasing trend of per capital income, there will be a segment of consumption that shifts to foreign functional products and indirectly affect the market shares of domestic companies. Consequently, TPP negotiation being prolonged could be seen as good news for pharmaceutical companies.

However, the big question for pharmaceutical companies still has been about the production technology to face the fierce competition over the last few years. Circular 01… has decreased the proportion of revenue contribution through ETC channel recently. The factory investment and improvement trend could support companies in term of winning bid and market shares in ETC segment. However, in order to shorten times and cutting upgrade cost, foreign strategic partners with experience could play an important role to support companies. Several leading companies which have followed these paths are DMC, IMP and DHG. With VND 39,400 and 67,000/share at the closing price, DMC and DHG are respectively traded at 6x and 8x PE level, lower than 9x industry average.

Fishery industry, Vietnam and China are the competitors that export to US and Euro markets with two product lines that are substitutable, pangasius (Vietnam) and tilapia (China). As a consequence, whether the devaluation of Yuan increased the competitiveness in importing markets?

Regarding the level of devaluation, Rongviet Research's analyst asserted that CNY and VND both depreciated by 3% compared to USD. With such decline, exporting companies from both China and Vietnam are considered to have equivalent advantages in importing countries. In term of fishery, Vietnamese pangasius and Chinese tilapia have been two food segment that are most popular in US market for many years. However, pangasius prices are often lower than tilapia by 25 – 30%, therefore, Vietnamese pangasius has certain advantage in term of price. Only when the level of Yuan depreciation is high enough to compensate the difference in prices, the competitive pressure should be concerned.

So, can TPP and FTAs benefit fisheries sector?

Thus, the pressure of substitute goods (tilapia) for pangasius will not be a concern. Factors that promote growth of fisheries sector turn out to be the demand in large markets such as US, EU. As of June 2015, export turnover to US and EU markets post a two-digit decrease. Recovery is expected to fall in November and December as they are normally peak seasons. Also, investors anticipate FTA between EU-VN will boost the volume exported to Europe. However, many businesses in the industry state that pangasius will not be a tariff deduction so they will not benefit from the Agreement. For this reason, Vietnam businesses are proposing a tariff table and awaiting an official response from EU side.

Besides, our analysts presume that involving parties will use technical barriers for their domestic protection purpose. In this case, quality and prestige will be determinants of advantages; thus, big firms will gain market share from SMEs, which fail to meet the requirements. Among those "giants", we believe VHC is a "golden" player.

Cement and electricity sector: VND depreciation definitely caused significant loss from FX as companies in these industries post many debts denominated in foreign currencies. FX risks have deteriorated stock prices recently, so is time for bottom fishing these stocks?

Electricity and cement sectors share much in common: (1) substantial debts quoted in foreign currencies and (2) geographical characteristic of Vietnam leads to imbalance between supply (Northern areas) and demand zone (Southern areas). With recent exchange rate volatility, these companies have to record large unrealized losses from FX. If we assume USD/VND up by 5.3% (YTD) and USD/EUR at 1.155, the FX unrealized profit/loss of some cement and power enterprises is forecasted as following:

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Table. FX unrealized gain/loss

	3Q/2015	9M2015
HT1	-78	22
BTS	-53	15
BCC	-59	17
NT2 (*)	-286	-190
PPC (*)	-238	-264

Source: RongViet Research; (*) Exchange rate used in calculation for NT2 and PPC is transfer rate announced by Vietcombank

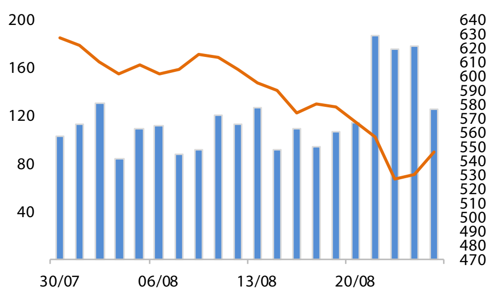
However, excluding the FX risks as the gains/losses have yet realized, which have no effects on cash flows, our analyst shows her favor for prospects of companies in the Southern areas.

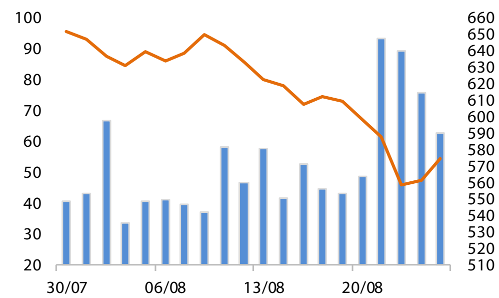
Regarding the cement industry, the rate of consumption (domestic:export) is ~ 70:30 (according to the Vietnam Cement Association, 2014). In particular, in the South, there are more than 90% of domestic consumption and less than 10% is exported, shows that most exports from the North. In the first seven months of 2015, domestic consumption growth with an increase of ~ 8% thanks to the recovery of the property market and construction activity. However, the value of cement and clinker exports decreased sharply ~ 27% y-o-y, due to (1) market exporting to several countries hit hardest as Bangladesh, the traditional export markets of Vietnam cement; (2) World demand increases but supply the world has also increased significantly. Vietnam has to compete with countries like China, Thailand, Indonesia, Japan ... which has had many export experience; (3) there are no deep-water ports dedicated to export cement in Vietnam. In the southern region, cement production for domestic consumption increased by 19.4% y-o-y, higher than in the North (3.8%) and Central (-3.0%).

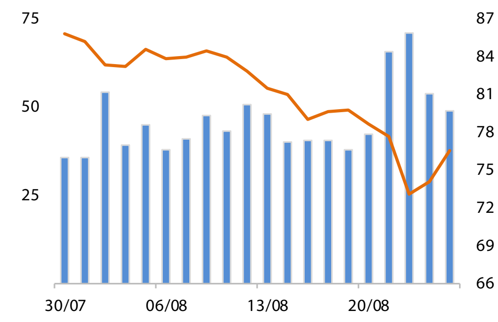
In group of southern enterprises, our analyst appreciate HT1 due to its leader position and highest market share (~28.83% of southern market at the end of June 2015). After first year-half, thanks to recovery of demand and improving of sales policies, sales volume of HT1 up to 18% (yoy). Our analyst continue to expect a bright outlook for remaining moths of this year, due to main market of HT1 is in the South where having a little competitors and having highest growth in the country's consumption. We estimate that HT1's revenue can reach VND1,921 and profit-after-tax (including FX unrealized loss) is around VND99 bn in 3Q2015. We will publish a company report for more detail analysis in upcoming days.

For the electricity sector, liberalization roadmap power industry is preparing to step 1 - phase 2 (pilot competitive wholesale market), shows that the operator is working hard to increase the attractiveness for investment and development of this sector. One of the listed shares are thermoelectric industry professionals appreciate the NT2. After nearly four years of operation and activities of the NT2 has become more stable. Due to unfavorable weather and rising electricity demand, electricity production reached 3.13 billion kWh for seven months of 2015 and corresponding revenue is VND4,340 billion. For all of 2015, the power output of NT2 forecast at 5.14 billion kWh, up 7.9% compared with 2014 and reached 5.5% of the total capacity. Profit from operating activities is estimated at VND836.8 billion, up 58% y-o-y. If the assumption of USD/VND and EUR/VND at VND22,651 and VND26,049, respectively by the end of this year, reasonable prices of NT2 is defined at ~ VND28,700/share, 21.5% higher than today closing price.

VNINDEX	3.00%	545.89	VN30	2.47%	574.88	HNXINDEX	3.30%	76.46

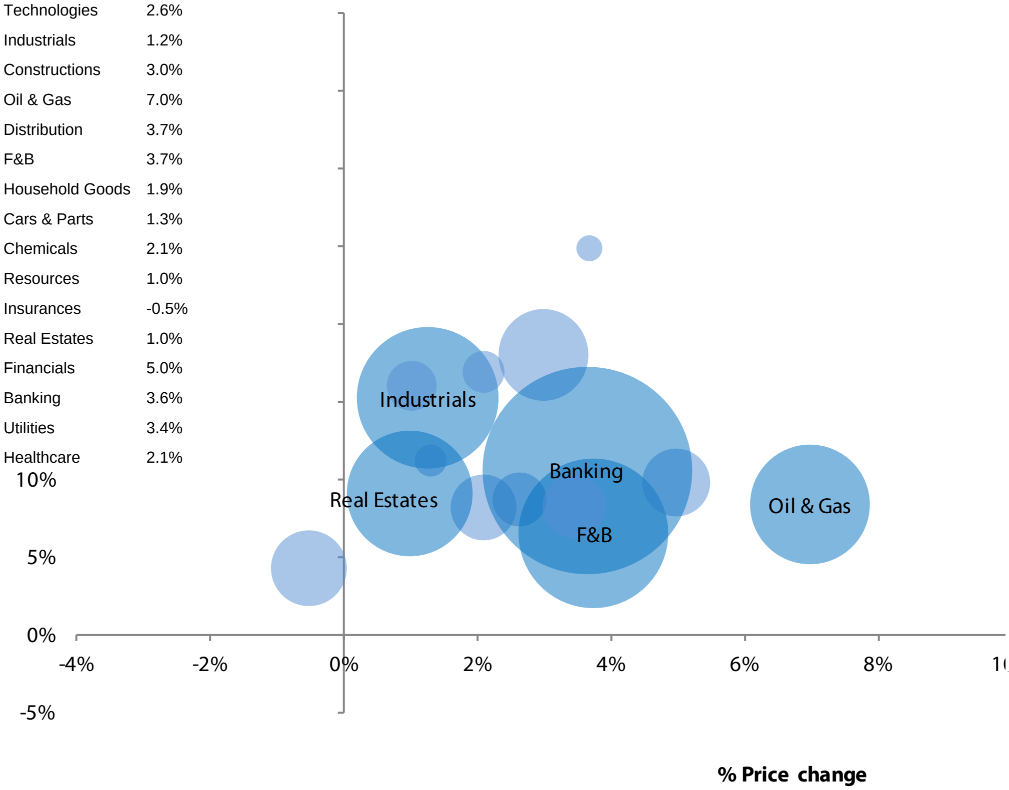




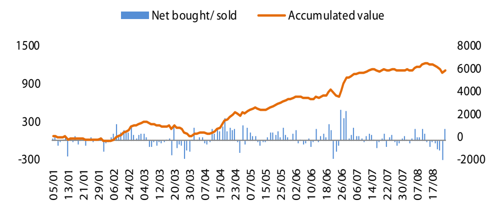


Industry Movement

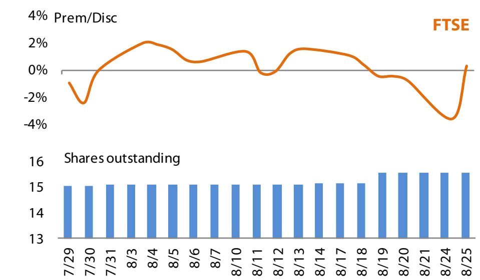
Industry	% change
Technologies	2.6%
Industrials	1.2%
Constructions	3.0%
Oil & Gas	7.0%
Distribution	3.7%
F&B	3.7%
Household Goods	1.9%
Cars & Parts	1.3%
Chemicals	2.1%
Resources	1.0%
Insurances	-0.5%
Real Estates	1.0%
Financials	5.0%
Banking	3.6%
Utilities	3.4%
Healthcare	2.1%

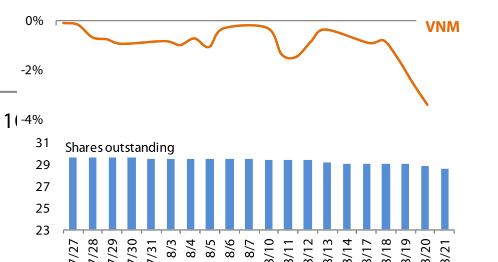


Foreign Investors Trading

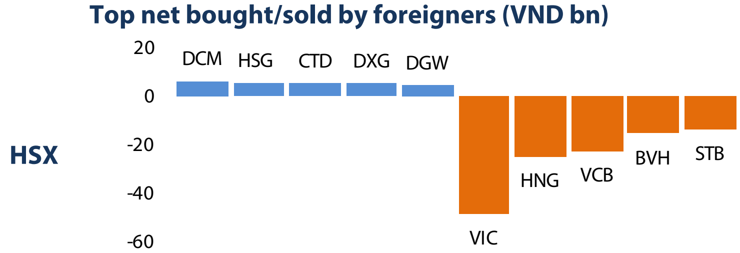


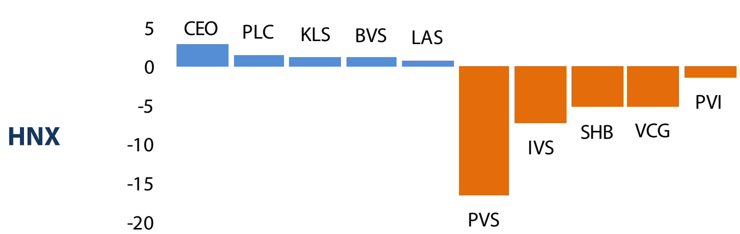
ETF





Top net bought/sold by foreigners (VND bn)





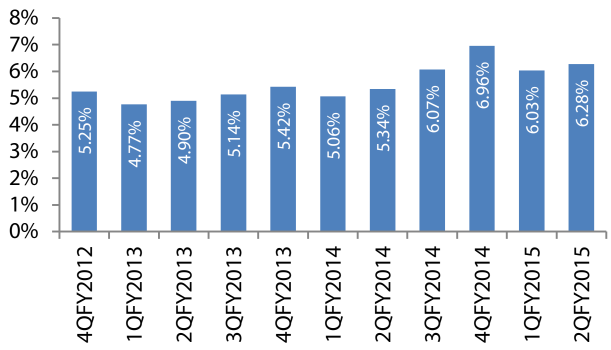
Top Active

Ticker	Price	Volume	% price change
FLC	6.5	11.63	6.6%
CII	23.8	9.83	3.5%
HAI	5.7	6.22	5.6%
FIT	10.1	5.85	6.3%
SSI	23.9	5.24	3.0%

Ticker	Price	Volume	% price change
KLF	4.5	5.39	9.8%
SHB	7.0	4.17	0.0%
SCR	7.7	4.09	2.7%
PVS	20.7	2.35	8.9%
PVX	3.1	2.16	6.9%

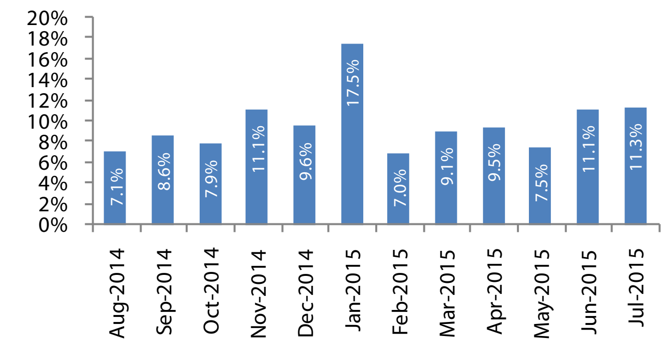
MACRO WATCH

Graph 1: GDP Growth



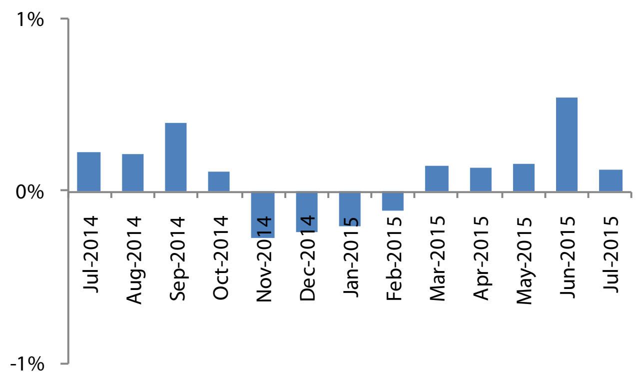
Sources: GSO. Rongviet Securities database
(*) Comparision price in 1994

Graph 2: IIP



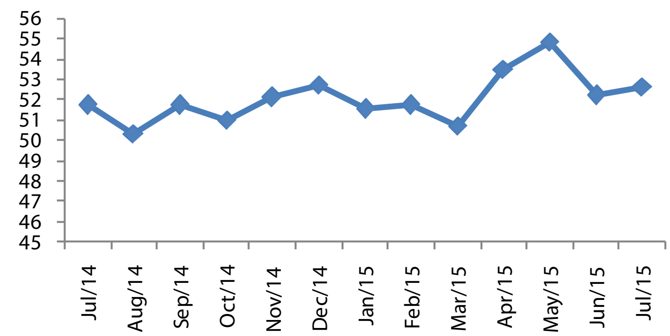
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



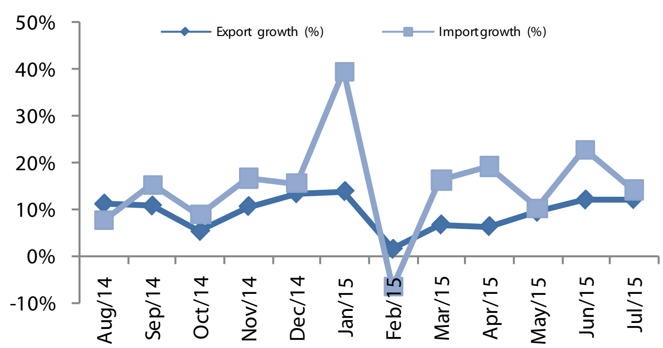
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



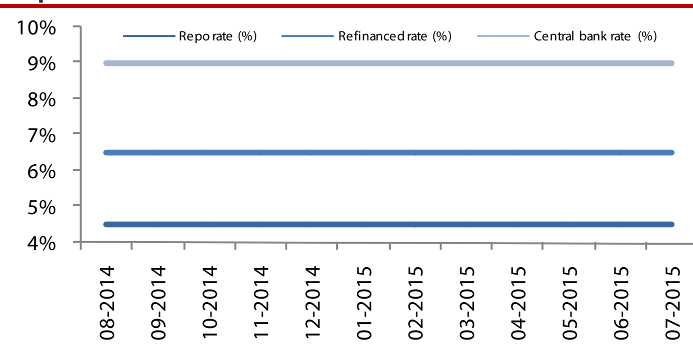
Sources: GSO. Rongviet Securities database

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	11/08/2015	0% - 0.75%	0% - 2.5%	11,851	11,856	-0.04%
VEOF	11/08/2015	0% - 0.75%	0% - 2.5%	10,298	10,011	2.87%
VF1	14/08/2015	0.2% - 1%	0.5%-1.5%	23,279	23,537	-1.09%
VF4	14/08/2015	0.2% - 1%	0%-1.5%	10,459	10,573	-1.08%
VFA	14/08/2015	0.2% - 1%	0%-1.5%	7,404	7,482	-1.04%
VFB	14/08/2015	0.3% - 0.6%	0%-1%	12,331	12,311	0.16%
ENF	07/08/2015	0% - 3%	0%	11,601	11,665	-0.55%
MBVF	06/06/2015	1%	0%-1%	10,735	10,578	1.48%
MBBF	05/08/2015	0%-0.5%	0%-1%	12,299	12,300	-0.01%

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