05/03/2020

Investment Strategy March 2020

SLIGHT CHANCES EXIST IN THE RISK-OFF ENVIRONMENT

The market movement since the Lunar New Year show that the market was strongly affected by the Covid-19 epidemic. Although foreign investors net bought VND 630 billion before the Lunar New Year, they turned to be net seller coinciding with the outbreak of the Covid-19 outbreak in China. Foreigners are net sellers not only in Vietnam, but also in most other Asian markets. The probability that foreign investors continue to sell is quite high. We believe that foreign investors will stop selling completely or switch to net buying will only happen when the epidemic situation is under control and the Vietnam authorities issue policies to support the economy.

In Vietnam, the State Bank has also requested commercial banks to review and create accommodations for affected businesses. The draft circular of guidance may soon be completed. The Government of Vietnam, in coordination with commercial banks, has just announced a VND 285 trillion credit support package with low interest rates and a support package from fiscal policy of at least VND 30 trillion.

Prior to the Lunar New Year, the VNIndex PE was 15.5x with an estimated EPS growth of 11%, creating PE forward for 2020 at 13.9x, just slightly higher than the current PE of 13.85x. This means the market is expecting profits to be almost flat in 2020. Therefore, preliminary earning results for the first quarter of 2020 and the guidance for the rest of the year should be watched closely.

In addition, ETF that track new indices (VNDiamond and VNFin Lead) have been approved. These ETFs are expected to help the market attract cash flow from abroad. However, we have found that in the past ETF tended to raise more capital after being listed. While the SSIAM ETF will be listed on the exchange in March, the VFM ETF will be listed in May. In the context that foreign investors are net sellers nowadays, proprietary trading may accumulate stocks baskets of these indices and thus help to keep the market stable.

Market sentiment is affected by both the Covid-19 outbreak and the net selling of foreign investors. Since the Lunar New Year, 8 out of 22 sessions have fluctuated by more than 1% and the average daily trading value has increased by more than 30% compared to the figure before Tet. Although risks remain, we believe that the market will be less volatile in March compared to the previous month due to 1) the market has partly reflected the impact of Covid-19, 2) support from the Government will calm the market. We forecast the range of VNIndex will stay between 880 and 925.

Strategy Board

Lam Nguyen

lam.ntp@vdsc.com.vn

Bernard Lapointe

bernard.lapointe@vdsc.com.vn

Son Tran

son.tt@vdsc.com.vn

Tu Vu

tu.va@vdsc.com.vn

Hoang Nguyen

hoang.nt@vdsc.com.vn

Ha Tran

ha.ttn@vdsc.com.vn

Vi Truong

vi.ttt@vdsc.com.vn

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The influence from the unexpected spread of COVID-19 outside China has raised concerns for foreign investors, leading to net selling in the equity and bond markets. As one of a high liquid frontier market, Vietnam's stock market is subject to obvious net selling pressure in the current risk-averse environment.

Until countries control the epidemic to some extent, we believe that the net selling from foreign investors will not stop. Therefore, it is not the time for investors that have not made bottom-fishing decisions on stocks of which foreign investors hold large long positions in previous months/ year.

We believe that the ability to resume the supply chain of raw materials for the activities of the textile, footwear, electrical and electronics industries will be important. Since most of Vietnam's raw material supply to such sectors comes from China (more than 30%), the country's abilities to control of the disease (which has passed its peak) and the restoration of business operations will be important. Therefore, we think this is an important issue that investors need to monitor.

In Vietnam, the Government and various Ministries have been evaluating the impact of the epidemic on corporations and proposing supportive measures. The size of those has not been confirmed yet, but it will focus on (1) Reducing borrowing rates, rolling over overdue loans and (2) Reducing the corporate income tax and the environment tax, etc.. Besides, the government will boost its budget for public projects, aiming to create jobs and stimulate demand. The synergy of monetary and fiscal policies, if they are applied correctly, will somehow offset the impact of COVID-19 for companies' 2020 business results.

Despite of that, until we see more upside of a resumption of operation activities, we stay cautious on sectors such as agriculture, fishery, import-export, hotel, restaurant, tourism, aviation, F&B, transportation, textile, O&G and education.

Beyond the gloomy outlook due to COVID-19, the AGM season and the soon to come IPO of VN Diamond will balance the outlook for the market. We expect that given the market's PER, a low since 2013, could attract local investors in the late part of March. Hence, investors could allocate a part of their portfolio to stocks related to those beat-up names at that time. We recommend that investors not use leverage at this time.

Analysis of 55 stocks of Rong Viet Research, discussion with companies and specific evaluation in the "Company Report" or "Analyst Pinboard"

Flow of funds and correlations

Global equities ETFs saw their first outflows of the year (-USD 14.1bn) in the last week of February. Redemptions were seen mainly in the US (-USD 13.3bn) while Emerging Market flows were somehow resilient (-USD 264 mn). Year-to-date inflows in equities are still positive (Table 1). The only three countries that have registered negative outflows so far in 2020 are Korea (-USD 1.3bn), Malaysia (-USD 18mn) and Turkey (-USD 22mn).

Table 1: Fund flows year-to-date

Equity ETFs	Amount (USD mn)	% of asset under management (AUM)
Developed Markets	54,839	1.3
Emerging Markets	7,544	1.4
North America	35,199	1.1
Asia Pacific	13,930	1.4
Europe	10,591	1.8
Latin America	1,705	2.5

Source: EPFR
Note: Data to Feb 29

Money has flowed out of high yield bonds but is still chasing government bonds and money markets as flows into these asset classes grew by more than four percent of AUM (Table 2).

Table 2: Fund flows year-to-date

Bonds & Money Markets	Amount (USD mn)	% of asset under management (AUM)
Government Bonds	13,796	4.3
Investment Grade Corporate	6,633	2.5
High Yield Bonds	-3,193	-3.1
Money Markets	1,079	4.0

Source: EPFR
Note: Data to Feb 29

At the same time the correlation among global equity markets remain stable but elevated. As expected, private equity is highly correlated with the MSCI World Index, so are global convertible bonds (Table 3). Other asset classes highly correlated to this Index are hedge funds, emerging market currencies and global REITs.

Table 3: Global Correlations with the MSCI World Index (2010-2020, weekly)

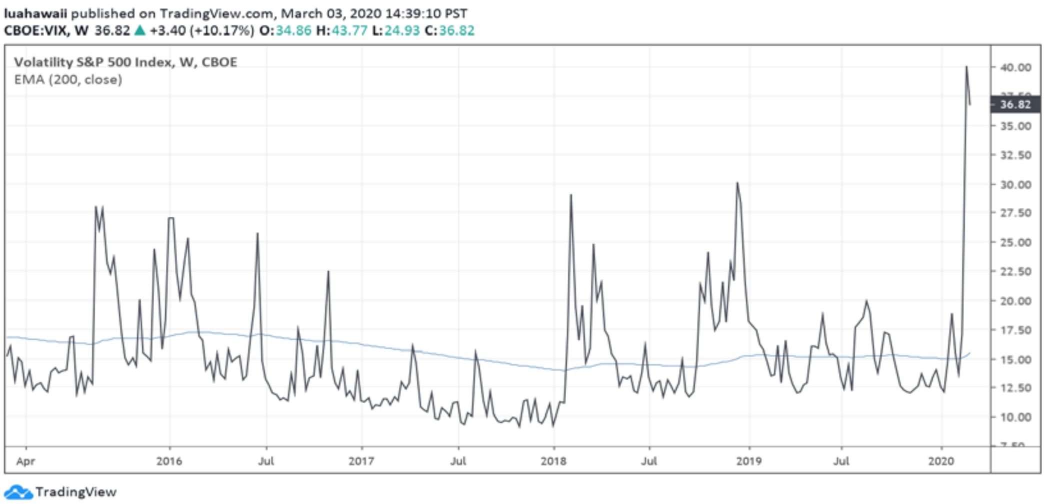
Asset Classes	MSCI World Index (correlation)	Annualized Volatility (%)
Private Equity	0.94	16.6
Global Convertible Bonds	0.91	7.2
Hedge Funds	0.79	3.7
EM Currencies	0.65	7.3
Global REITs	0.59	13.7
EM Bonds	0.46	4.7
Crude Oil	0.41	29.2
US Treasury Yield	0.36	35.7
Soft Commodities	0.23	17.9
Gold	0.12	15.2
US Dollar	-0.31	7.5
VIX Index	-0.74	120.5

Source: Jefferies

We have observed that over the past six months, global equity returns are more correlated to in/outflows in their respective markets. For example in the past 26 weeks, Malaysia has the highest correlation between flows and equity returns at 0.6 while on the other hand Singapore has a negative 0.2 correlation.

What does this tell us? If volatility continues to stay high (see Figure 1) and risk aversion really kicks in, then correlation among most asset classes is likely to remain elevated.

Figure 1: VIX Index, weekly



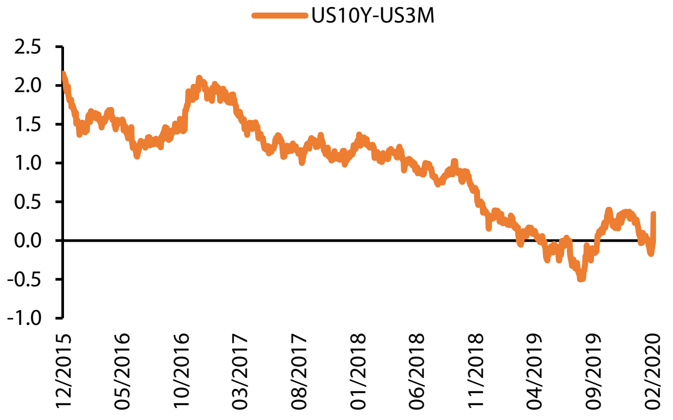
On another somewhat related subject we note that US crude oil production grew 11% y/y in 2019 to a record high of 12.2 mn barrels per day. It was barely above 5 mn bbl/ day in 2008. The US Energy Information Administration (EIA) has released its January 2020 Short-Term Energy Outlook, saying that both global oil supply and consumption are expected to grow in 2020, with supply from non-OPEC producers, particularly the US, Norway, Brazil, and Canada, more than offsetting declining production from OPEC. It forecasts that US crude oil production will reach new records in 2020 and 2021, driven primarily by higher production in the Permian region of Texas and New Mexico.

That should keep crude oil prices under pressure (Figure 2).

Figure 2: WTI prices, weekly

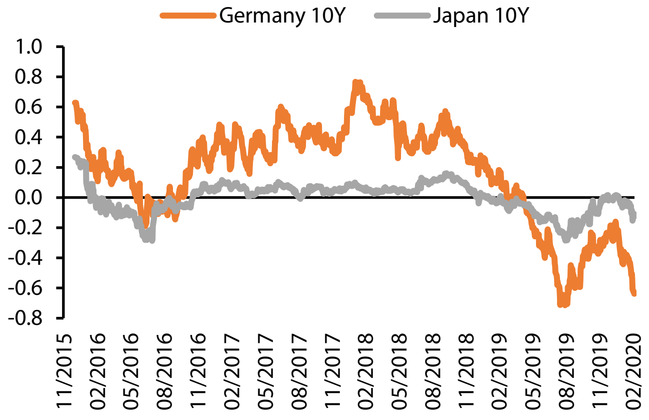
GLOBAL ECONOMIC INDICATORS IN MARCH

US G-Bond yields' gap (%/year)



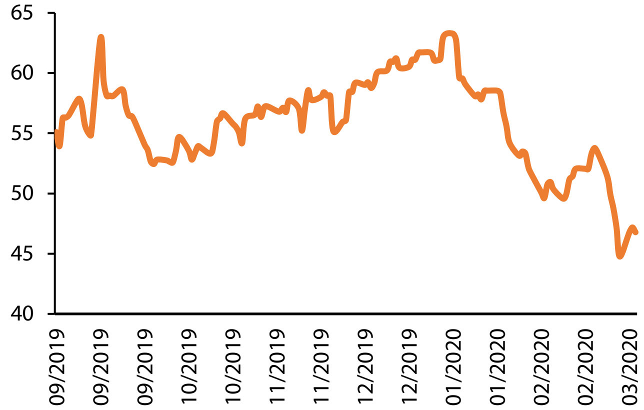
Source: Bloomberg, Rong Viet Securities

Germany and Japan G-Bond yields (%/year)



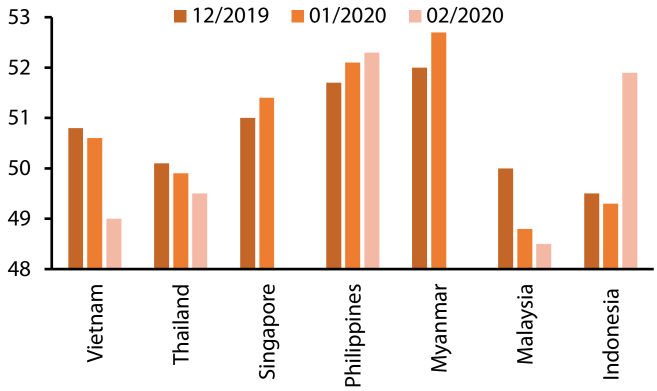
Source: Bloomberg, Rong Viet Securities

WTI crude oil price (USD/barrel)



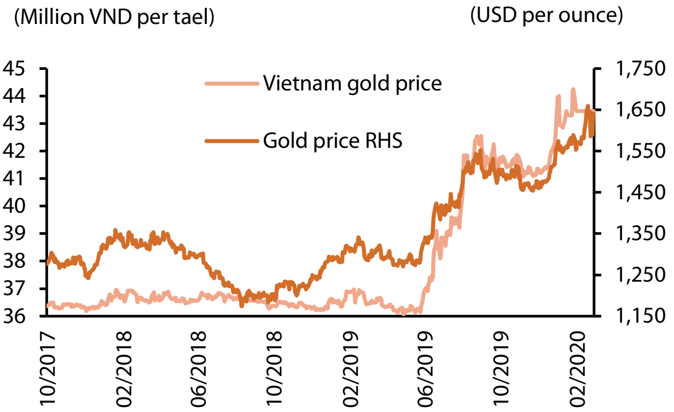
Source: Bloomberg, Rong Viet Securities

ASEAN's PMI (Points)



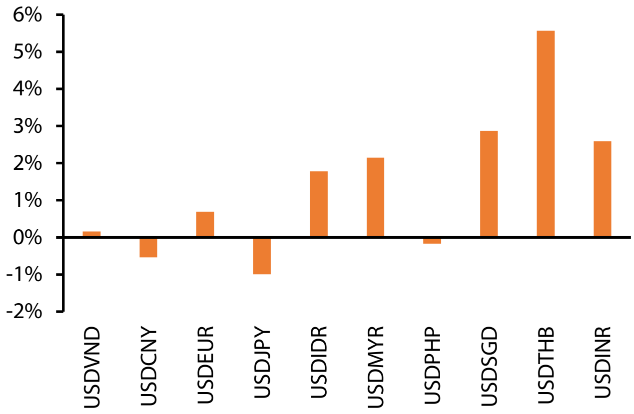
Source: Bloomberg, Rong Viet Securities

Gold prices



Source: Bloomberg, Rong Viet Securities

FX rates (%, YTD)



Source: Bloomberg, Rong Viet Securities

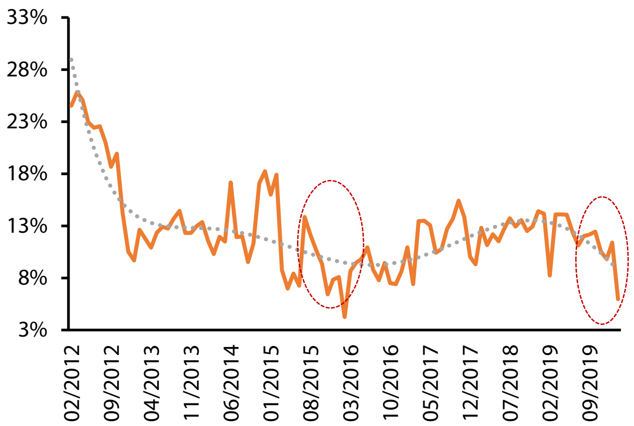
Economic Growth - Supply Shock?

Economic numbers published by the General Statistic Office, show a reduction in domestic consumption and production. A possible recovery in 2H2020 is very dependent on a revitalization of Chinese manufacturing due to the latest disruptions to the supply chain, some of this obviously related to the COVID-19 virus. The government's support is a 'must' in order to stabilize the economy.

The nominal revenue of retail sales, in 2M2020, was estimated at VND863.9 trillion, increasing by 8.3% yoy, the lowest growth since 2014. Excluding inflation, the growth rate was only at 5.4% yoy, approximately equivalent to a half of last year. Most sub-indicators, such as turnovers of goods, hospitality and tourism, dropped significantly. The last time Vietnam recorded such a slowdown was in 2015 which coincided with a large drop in Chinese economic growth and financial markets turbulence.

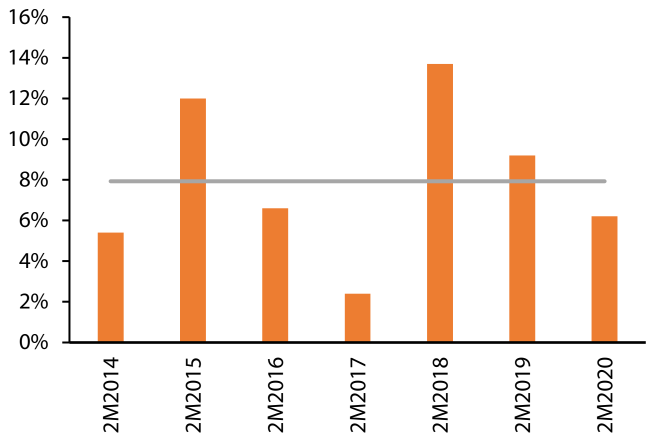
In the first two months of the year retailers' sales grew at 9.8% yoy, well below last year of 13.3% yoy. Consumers have protected themselves against the risk of community transmissions of COVID-19 and refrained from participating in public events, even traditional festivals at the beginning of the year. Meanwhile, the global spread of the epidemic has pushed the government to tightly control borders and limit international tourists arrivals which have dropped by nearly 22% yoy in 2M2020. As a consequence, some hospitality service providers have slowed their operations temporarily as total revenue is up only 1.7% yoy, compared with the same period in 2019 at 10.8% yoy. The tourism industry is been affected on a vast scale.

Figure 3: Retail sales growth (%, yoy)



Source: GSO, Rong Viet Securities

Figure 4: Production index for two months (%, yoy)



Source: GSO, Rong Viet Securities

Industrial production only grew at 6.2% yoy, lower than the last two years. The biggest contribution came from Samsung's increased capacity to fulfill orders for their new smartphones as well as the production of cars by Vinfast, starting operation since July 2019. Therefore, the manufacturing output in Bac Ninh and Hai Phong provinces increased at a two-digit pace.

However, this was not enough to offset the adverse impact of COVID-19 on Vietnam's manufacturing industry. Electronics manufacturers released their initial short-term outlook and showed a lower turnover and output due to drop in new orders as well as shortages of supplies. That was reflected in a report by IHS which surveyed hundreds of cross-sector producers in Vietnam. The most noticeable thing is the contraction of production in February 2020, never seen since 2013 when the economy was at the bottom. While many respondents mentioned softer demand of consumer and intermediate goods, the most concern was the deteriorating performance of vendors because firms struggled to import essential inputs from China. Firms profit margins have been hampered due to rises in input costs. Encouragingly, there has not been a significant transfer into output prices so far.

Figure 5: Manufacturing PMI in Asia

	02/2019	03/2019	04/2019	05/2019	06/2019	07/2019	08/2019	09/2019	10/2019	11/2019	12/2019	01/2020	02/2020
Vietnam	51.2	51.9	52.5	52	52.5	52.6	51.4	50.5	50	51	50.8	50.6	49
Korea	47.2	48.8	50.2	48.4	47.5	47.3	49	48	48.4	49.4	50.1	49.8	48.7
Taiwan	46.3	49	48.2	48.4	45.5	48.1	47.9	50	49.8	49.8	50.8	51.8	49.9
China	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3
Thailand	49.9	50.3	51	50.7	50.6	50.3	50	50.6	50	49.3	50.1	49.9	49.5
Indonesia	50.1	51.2	50.4	51.6	50.6	49.6	49	49.1	47.7	48.2	49.5	49.3	51.9
Malaysia	47.6	47.2	49.4	48.8	47.8	47.6	47.4	47.9	49.3	49.5	50	48.8	48.5
Philippines	51.9	51.5	50.9	51.2	51.3	52.1	51.9	51.8	52.1	51.4	51.7	52.1	52.3
Japan	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8

Source: IHS Markit, Rong Viet Securities

Globally, although the drag on economic activity from COVID-19 is expectedly to be temporary, there is no doubt that the slowdown will hurt growth. As one of the three most important manufacturing hub in the globe, the current disruption in the Chinese supply chain, a supply shock, deteriorates the economic forecast of both upstream economies (Japan, South Korea, Taiwan, Singapore, and Hong Kong) and downstream ones (Thailand, Vietnam, Malaysia, etc).

Most of Asia's manufacturing PMI dropped into the contraction level in February, except for Indonesia and the Philippines. As mentioned above, electronics manufacturers in Vietnam are concerned about shortages of necessary inputs as nearly half of it imported from Chinese suppliers. Similarly, machinery and textiles producers warn of running out of stock since mid-to-late March while other industries have reduced capacity.

Therefore, the key point to watch, right now, is whether China restart successfully its economic activity after a month of disruption and whether there is another wave of coronavirus inflections as workers return from the second half of February.

Figure 6: Share of China among gross intermediate manufactured goods imports by country

%	F&B	Textiles	Wood	Chemical	Metal	Computer	Machinery	Transport eq.	Others
Cambodia	4.5	72.2	37.2	16.4	14.1	50.9	53.6	8.7	52.3
Vietnam	10.5	57.3	24.4	25.5	45.7	42.4	39.3	18.2	33.2
Korea	19.8	55.3	27.8	28.5	41	49.7	26.4	23.5	15.3
Japan	23.2	69.8	30.1	24.5	24.9	59	45.4	22.2	37.5
Thailand	14.7	55.2	21.8	23.7	28	45.3	34.8	12	23.4
Hong Kong	32.2	78.1	36.5	30.9	23.4	41.9	18.3	20.7	44.3
Taiwan	6.9	48.8	26.8	20.5	28.7	45.1	29.1	14.6	26.2
Chile	6.5	70.3	18.8	15.9	45.1	58.2	23.1	10.9	23.3
India	1.5	58.7	13.1	29.7	18.2	59.9	46.6	18.3	27.6

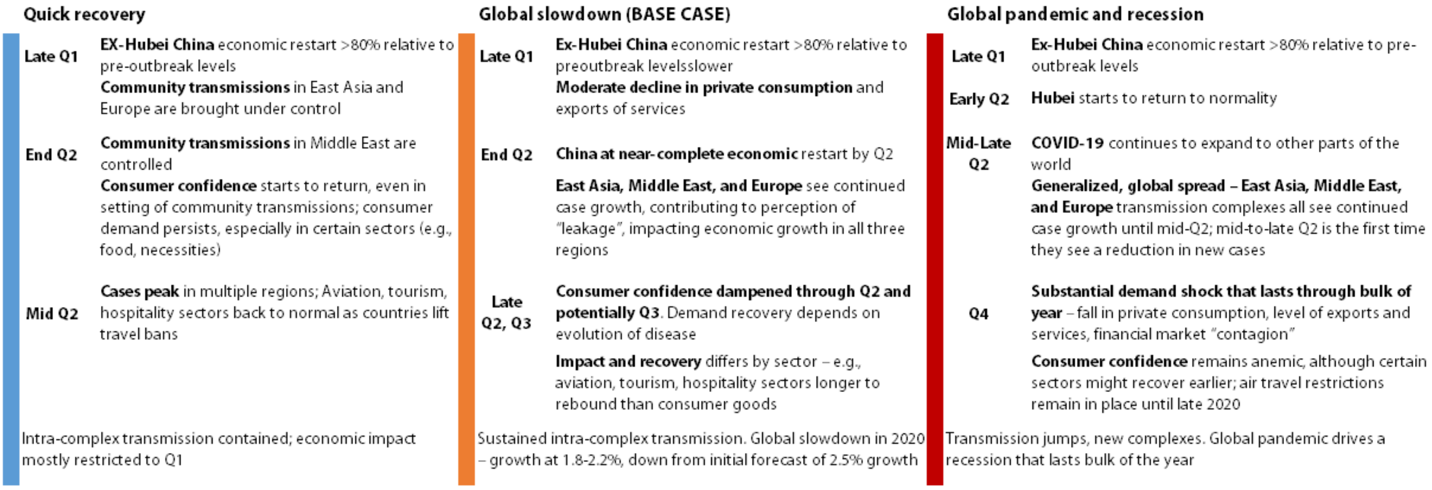
Source: OECD TiVD, DBS and Rong Viet Securities

Currently, it is premature to get correct answers to the above questions and we should keep following the epidemics update. In the report, we intend to deliver different scenarios for how COVID-19 could evolve, make initial assessment on Chinese manufacturing reboot as well as supporting policies of Vietnam and other countries.

First of all, we believe that the global economy is in a late-cycle growth regime but there is a low possibility of a global recession in 2020. The base case is highlighted by three points:

- East Asia, Middle East, and Europe see continued growth of the virus before recording a reduction in new cases in early Q2. This can cause lower than necessary cash available in the economy because higher savings siphons money out of the systems and lowers the potential of credit creation.
- China's economic growth picks up by Q2 as a result of the large-scale health response and containment measures taking place.
- Demand recovery from Q3, dependent on the evolution of the disease.

Figure 7: Three scenarios on how COVID-19 could evolve



Source: McKinsey and Company, Rong Viet Securities

After President Xi Jinping's push to restore economic activity, the government currently assumes that over 90 per cent of China's state-owned enterprises have resumed production. Local governments reports have also announced that many provinces have now seen production back to normal. Travel curbs have started to be relaxed and local governments provided free transport to ferry workers from their hometowns.

The oil and gas, communications, electricity generation, transportation industries are operating at 90% of capacity. By provinces, the top GDP contributors, like Guangdong, Jiangsu and Shandong, reported running at 80% of capacity in February.

Figure 8: Work resumption rate in China

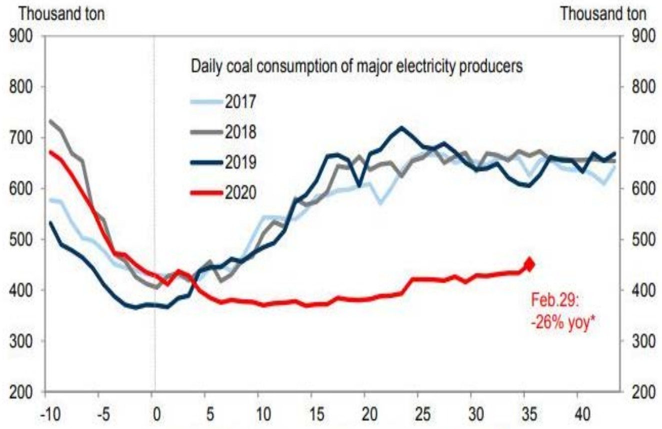
Province	Activity resumption ratio (%, as of latest)	Activity resumption ratio (%, as of 18-Feb)	Provincial share of China's GDP (%)
Guangdong	82.2% (21-Feb)	60%(14-Feb)	10.9%
Jiangsu	80% (20-Feb)	65% (16-Feb)	10.1%
Shandong	84.1% (20-Feb)	67.7% (14-Feb)	7.2%
Zhejiang	>90% (24-Feb)	50% (16-Feb)	6.3%
Henan	>66% (Zhenzhou, 19-Feb)	30% (Henan, 13-Feb)	5.5%
Sichuan	83.7% (18-Feb)	35.6% (13-Feb)	4.7%
Fujian	83.3% (21-Feb)	60% (16-Feb)	4.3%
Hunan	46% (18-Feb)	42.3% (16-Feb)	4.0%
Shanghai	73% (19-Feb)	70%(manufacturing, 10-Feb)	3.9%
Anhui	51.5% (18-Feb)	40.4% (16-Feb)	3.8%
Beijing	61.2% (19-Feb)		3.6%
Hebei	75.1% (22-Feb)	35% (10-Feb)	3.6%
Shaanxi	53.4% (24-Feb)		2.6%
Liaoning	83% (21-Feb)	57.7% (13-Feb)	2.5%

Source: Caixin, Rong Viet Securities

However, there are concerns about the reliability of such official figures of how factories are back into production. We emphasize two main indicators: daily coal consumption of major electricity producers and congestion in major Chinese cities. Up to Fed 29th, the former was still far from normal while the latter had just seen a modest rebound compared with the beginning of post-Lunar New Year.

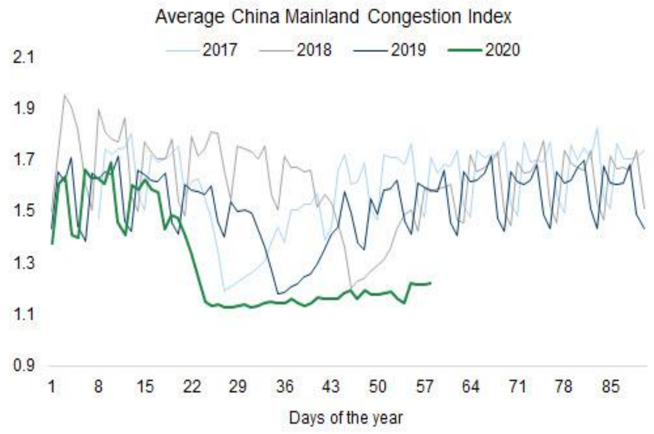
Therefore, it is likely that the government overstates the reality and the economy is operating far below capacity. We believe that Chinese economic activity will be near its potential growth in Q2. That, in turn, will adversely impact the material inputs of Vietnamese companies as they will likely be faced with exhausted stocks or suffer cost burdens and lower profit margins.

Figure 9: Daily coal consumption of major electricity producers



Source: WIND, Rong Viet Securities

Figure 10: Congestion in major Chinese cities



Source: WIND, Goldman Sachs, Rong Viet Securities

Although there is high expectations of a V-shape recovery once the epidemic's impact dissipate, the unknown depth and duration of the supply shock add material downside risks and encourage policy makers to deliver some financial stimulus. In terms of policy, when to respond and how to are the central questions.

Since the start of trade tensions in 2018, there has been a slowdown in economic growth and trade on a global scale. Changing from normalization to easing is the most important pillar to stabilize the global economy in a late-cycle regime.

However, the current supply shock can make faster-than-expected deterioration in spending patterns before causing a mixture of demand- and supply-side shocks. Given an all-time low inflation, developed countries governments should focus on the drop in economic output. The Japanese government has just delivered an important message that officials should concentrate on boosting economic growth instead of chasing up the unimaginable target inflation of 2%. The economic growth momentum of Japan and Euro is highly connected to China's economy. While the Euro post-crisis economic recovery has been dependent on exporting manufactured and consumer goods to China, a large part of Japanese factories are located in the second biggest economy. It's unsurprising to see a technical recession in Japan and Euro in Q1.

The FED surprised the market by its latest rate cut of 0.5%. The high connection between equity performance and individuals' wealth is one of the most important reason forcing the central bank to mitigate the downside risks to consumption.

The situation is more complicated in small countries like Vietnam because of low levels of independence and resistance. There are concerns about the output and inflation trade-off in the effort to tackle the supply shock. Theoretically, the government's effort to restore the economy after the impact of exogenous negative supply shock can cause a significant rise in inflation. Stimulus policies also have limited effects on erasing economic disruption.

A higher risk of inflation, nearly 6% yoy in the first two months of 2020, and lower output growth limit flexibility for policy makers . The central bank's current supporting policies intend to help companies with cash-flow problems, or those with debt service costs that are challenging if demand weakens. A rate cut is expected in mid Q2.

While countermeasures to the virus, like tax holidays or reductions of payroll taxes, it is reasonable to believe in higher spending on medical services and infrastructure. According to the Ministry of Finance, the public investment disbursement has completed 7.4% of the yearly plan in 2M2020, well above last year of below 4%.

Overall, macro-economic stability has improved compared with the two previous downturns in the last decade.

Figure 11: External and domestic environment prior to the three downturns in the last decade

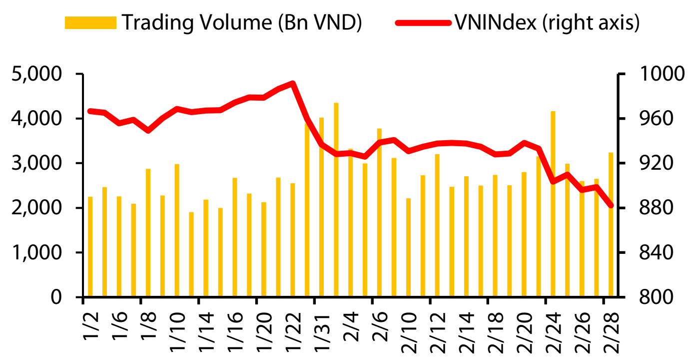
		2008-2009	2015-2016	2018-
External Environment	Global Growth	Synchronized sharp downturn	Moderated	Significant slowdown
	Global Trade	Collapsed	Stagnant	Slowdown with trade tensions
	Financial Condition	Sharp plunge	Turbulence across the board	Relative calm
	Major CB Policy	Synchronized easing	Divergent	Form normalization to easing
Domestic Conditions	Trade Balance	Severe Deficit	Surplus/Rising	All-time high
	Capital Outflow Pressure	High	Moderate-to-High	Low-to-Moderate
	Exchange Rate Pressure	High	High	Moderate/Rising
	Excess Capacity/Inventory	High	Low-to-moderate	Moderate/Rising
	Debt Overhand	Moderate/Rising	High/Decreasing	Moderate/Rising
	Inflation Pressure	High	High	Moderate/Rising

Source: AMRO, Rong Viet Securities

It looked like money was flowing into the market with the VN30 starting a positive first quarter of the year but it turned out to be the opposite. The Covid-19 outbreak suddenly hit the market after the Tet holiday. The VN-Index quickly hit a two-year low in the first week of February before recovering afterwards. However the dramatic increase of cases outside of China erased prior gains. The VN-Index tested the 880 level at the end of February.

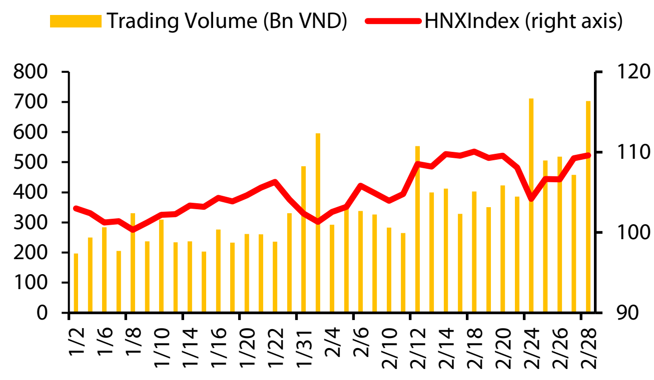
On February 24th, The State Securities Committee of Vietnam (SSC) issued the Certificate of Public Fund Registration to the SSIAM VNFin Lead ETF, simulating the stock index of Vietnam Leading Financial Index. Few days later, on February 27th 2020, SSC also approved the IPO licence of VFMVN DIAMOND ETF. The news brought a little excitement to the VN Diamond stocks but it did not last long since large caps were under selling pressure. *Please recall to our Analyst pinboard **here** for details on the new indices.*

Figure 12 : VNIndex movement in February



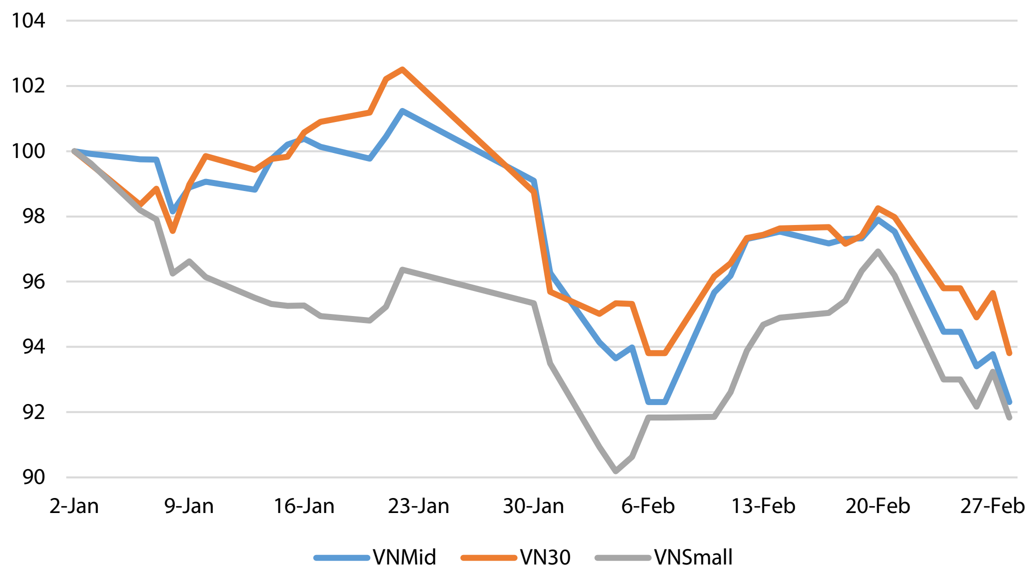
Source: RongViet Securities

Figure 13: HNXIndex movement in February



Source: RongViet Securities

Figure 14: Performances of VN30, VNMID and VNSML indices year-to-date

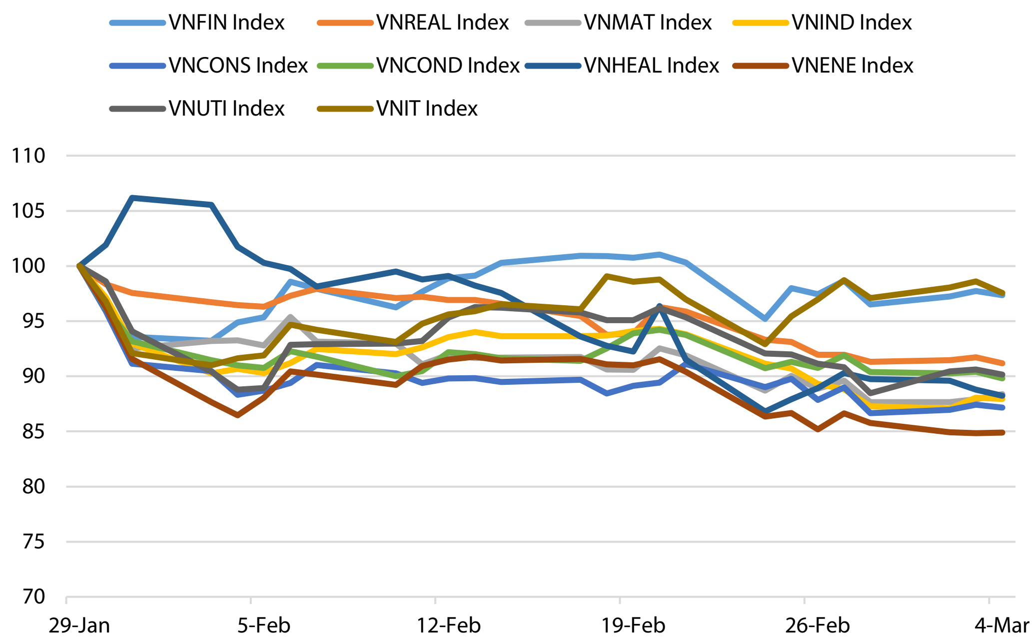


Source: FiinGroup, RongViet Securities

Liquidity surged in the VN30 group as a result of the relentless selling from foreign investors. The Covid-19 outbreak spreading out from China was the main reason for the withdrawal. On the other hand, domestic institutions showed an appetite to buy, partly mitigating foreigners' selling pressure. Brokerage's proprietary trading was quite active last month. They net bought VND 233 bn, focusing on GEX (VND 306 bn), VCB (VND 137 bn) and ROS (VND 115 bn).

Overall, most sectors did not have a good month in February. Only Financial and IT managed to fall the least while Energy was the worst performer.

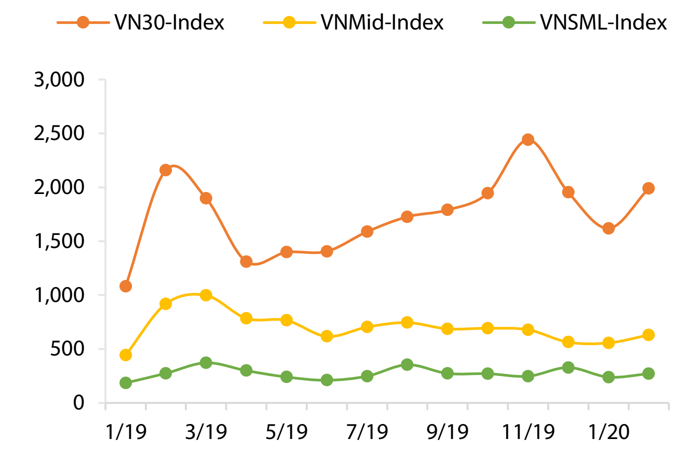
Figure 15: Performances of Sector indices in February



Source: FiinGroup, RongViet Securities

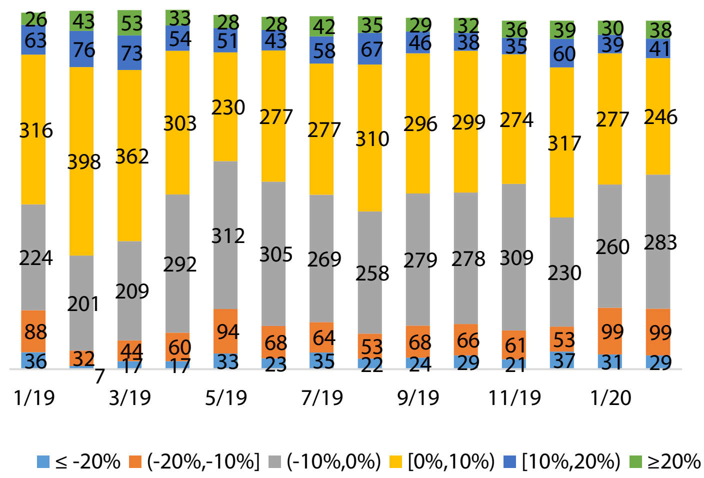
Market breath was also not positive as the number of decliners posted a record high since May/2019, when the US – China trade war accelerated.

Figure 16: Average monthly order-matching value on HOSE (VND bn)



Source: FiinGroup, RongViet Securities

Figure 17: Number of stocks by performance



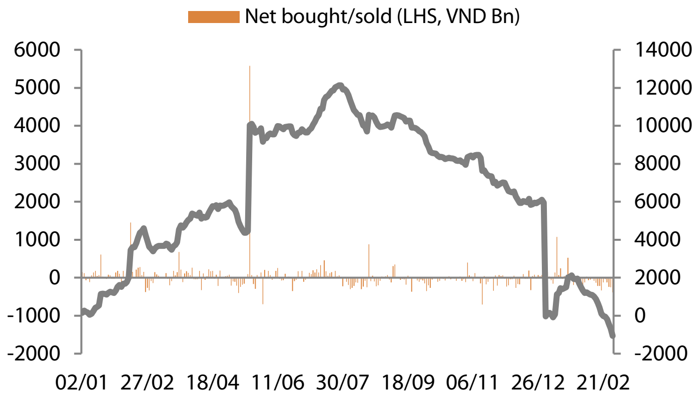
Source: FiinGroup, RongViet Securities

Foreign investors trading

Foreign investors were the major contributors to the negative picture of the market in February as they net sold VND 2,400 bn. This was the highest number since October 2018.

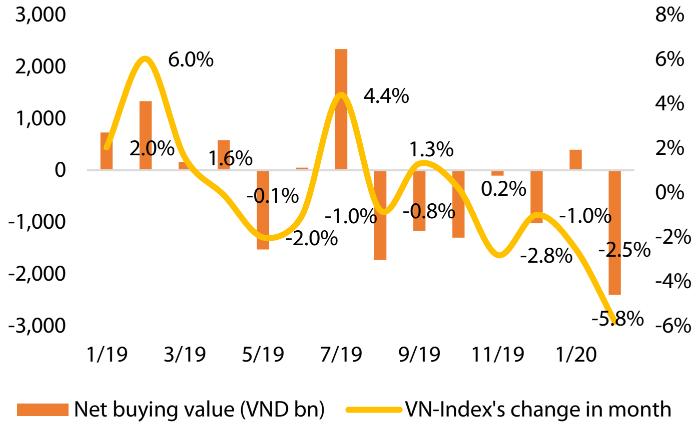
On the contrary, ETFs actually received net inflows in February: VFMVN30 (+ USD 6.1 mn), KIM (+ USD 2.3 mn), Premia (+ USD 1.3 mn) while the FTSE ETF (- USD 2 mn) and Vaneck ETF (-USD 2 mn) were net sold.

Figure 18: Net trading value by foreign investors



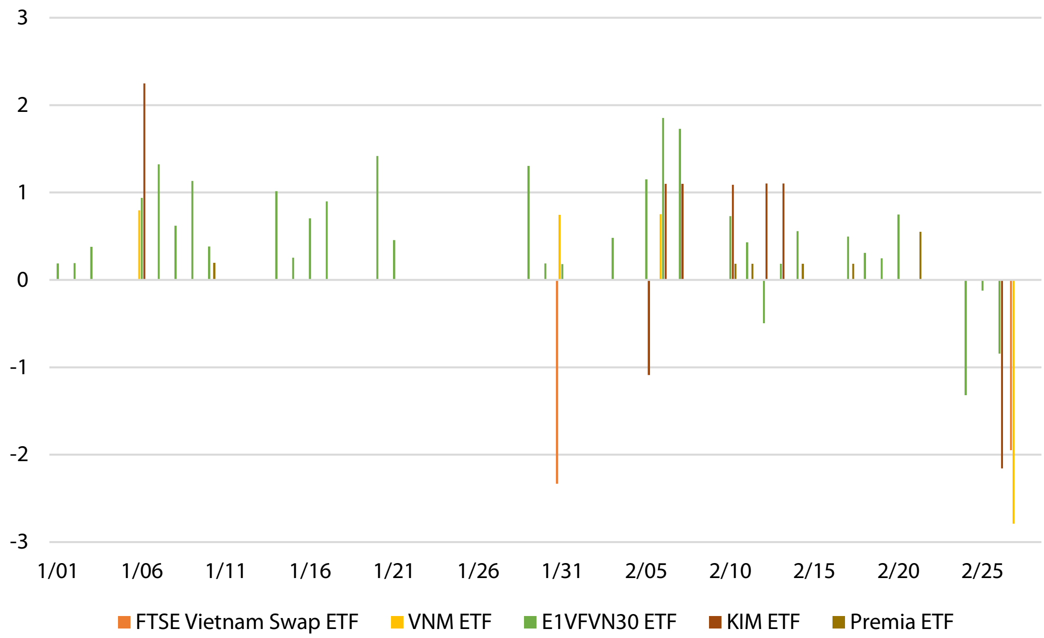
Source: FiinGroup, RongViet Securities
Note: RHS shows accumulated value net trading value of foreigners. The LHS shows daily net trading value of foreigners

Figure 19: Foreign net buying (order match) versus VN-Index



Source: FiinGroup, RongViet Securities

Figure 20: ETFs' issuance value in 2020 YTD (USD mn)



Source: Bloomberg, Rong Viet Securities

Table 4: Foreign investors' net trading by sector on both exchanges

Sector	HSX		HNX	
	Net volume (thousand shares)	Net value (VND Bn)	Net volume (thousand shares)	Net value (VND Bn)
Oil & Gas	-4,809	-58	-5,292	-87
Chemicals	-2,869	-16	-1,175	-26
Basic resources	-4,594	-95	133	1
Construction and building	-11,958	-219	-2,158	-28
Industrial goods & services	-4,171	-86	-138	-1
Automobile & parts	-4,652	-148	-91	0
Food & beverage	-17,645	-513	68	4
Personal & household goods	-3,966	-106	74	1
Healthcare	-192	-10	122	2
Retail	-887	-10	2	0
Communication	-92	-4	-69	-1
Travel & leisure	-2,636	-54	-38	0
Utilities	-15,009	-207	-1	0
Bank	2,153	-104	-3	0
Insurance	-1,254	-69	-10,492	-76
Real estate	-40,131	-954	-213	-4
Financial services	-8,119	-149	-925	-12
Technology	-693	-11	-1,628	-15

Source: FiinGroup, RongViet Securities

Current risks

Covid-19 outbreak: The Covid-19 epidemic has severely affected almost every stock market in the world. According to an update from Johns Hopkins University on March 4, the number of infections has increased to 93,129. While the number of new infections in China has recorded a slowdown, the number of infections in other countries such as South Korea, Italy and Iran has risen. The ability to control the Covid-19 outbreak is still unknown as it continues to spread outside China. As a result, the risk of a downtrend for markets remains high as the epidemic is expected to have a stronger impact on the world economy than the SARS epidemic. While the US stock market fell 13% from January to March 2003 because of SARS, it now has dropped more than 7% since the Covid-19 outbreak.

Table 5: Foreign investor net selling value by market

Market	YTD (million US dollars)
Taiwan	5,755
Korea	4,167
Japan	3,823
Thailand	1,327
Malaysia	581
Philippines	391
Indonesia	359
Vietnam	59

Source: Bloomberg

Net selling from foreigners: The market movement since the Lunar New Year show that the market was strongly affected by the Covid-19 epidemic, especially by foreign investors. Although foreign investors net bought VND 630 billion before the Lunar New Year, they turned to be net seller coinciding with the outbreak of the Covid-19 outbreak in China. Foreigners are net sellers not only in Vietnam, but also in most other Asian markets. The probability that foreign investors continue to sell is quite high. We believe that foreign investors will stop selling completely or switch to net buying will only happen when the epidemic situation is under control and the Vietnam authorities issue policies to support the economy.

Supportive factors

Vietnam and other countries' government response

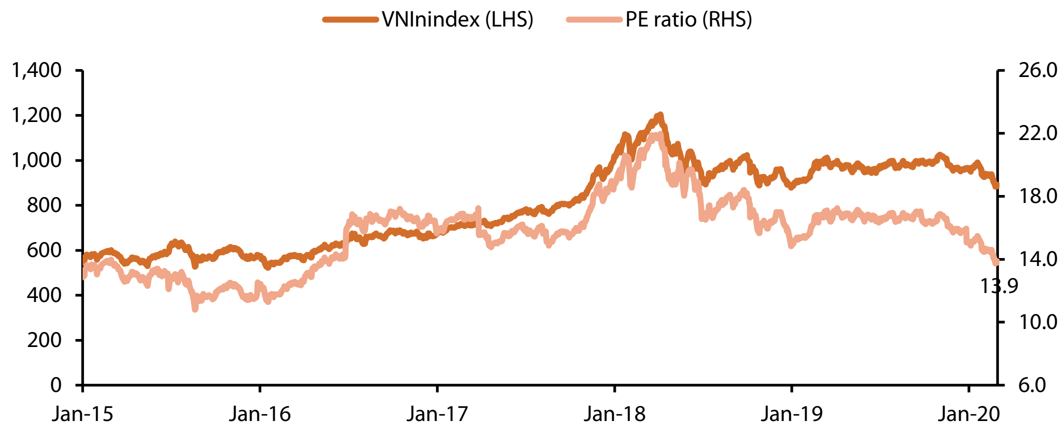
Despite being the center of the Covid-19 epidemic, the Chinese market has dropped the least since the Chinese New Year compared to other markets: SHCOMP (-3%), S&P 500 (-7%), VNIndex (- 11%), KOSPI (-12%), SET (-15%), as of March 2nd. This is due to the Chinese government's implementation of many measures to support the economy, including lowering interest rates, pumping money into the banking system to maintain liquidity and keeping the currency stable, providing loan packages of 300 billion RMB for affected businesses and reducing imported taxes on some items including goods from the US. In addition, the Beijing government pledged to provide more support measures. As of March 3rd, foreign investors net bought nearly US $8 billion of Chinese stocks YTD via the Shanghai and Shenzhen exchanges.

Besides China, Australia, Hong Kong and Malaysia have just announced that they are lowering interest rates. The Fed has also unexpectedly cut interest rates by 50 basis points to cope with the Covid-19 outbreak and is ready to take further action if necessary. The European Central Bank (ECB) has also confirmed that appropriate actions will be taken to support the economy. While in Italy, the government has provided $4 billion to support affected businesses. In Vietnam, the State Bank has also requested commercial banks to review and create accommodations for affected businesses. The draft circular of guidance may soon be completed. The Government of Vietnam, in coordination with commercial banks, has just announced a VND 285 trillion credit support package with low interest rates and a support package from fiscal policy of at least VND 30 trillion.

PE at three-year low

Prior to the Lunar New Year, the VNIndex PE was 15.5x with an estimated EPS growth of 11%, creating PE forward for 2020 at 13.9x, just slightly higher than the current PE of 13.85x. This means the market is expecting profits to be almost flat in 2020. Therefore, preliminary earning results for the first quarter of 2020 and the guidance for the rest of the year will have a significant impact on the market.

Figure 21: Current PE of VNindex



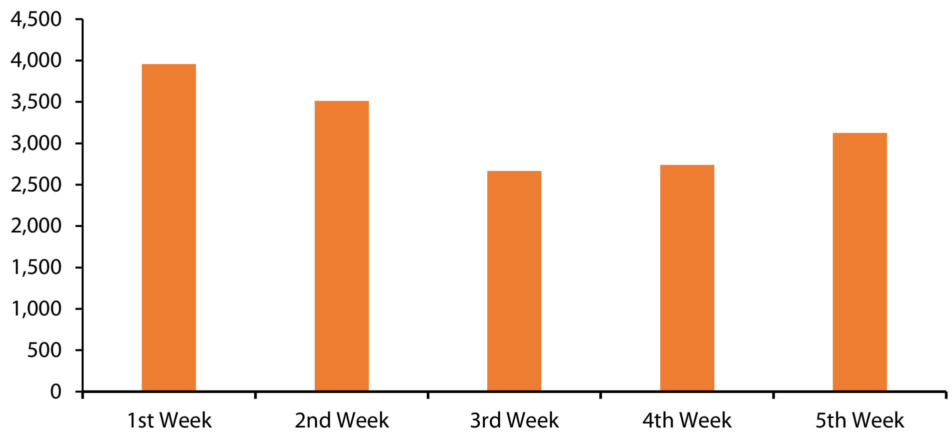
Source: Bloomberg

New ETFs

In addition, ETF that track new indices have been approved. These ETFs are expected to help the market attract cash flow from abroad. However, we have found that in the past ETF tended to raise more capital after being listed. While the SSIAM ETF will be listed on the exchange in March, the VFM ETF will be listed in May. In the context that foreign investors are net sellers nowadays, proprietary trading may accumulate stocks baskets of these indices and thus help to keep the market stable.

Market sentiment is affected by both the Covid-19 outbreak and the net selling of foreign investors. Since the Lunar New Year, 8 out of 22 sessions have fluctuated by more than 1% and the average daily trading value has increased by more than 30% compared to the figure before Tet. Although risks remain, we believe that the market will be less volatile in March compared to the previous month due to 1) the market has partly reflected the impact of Covid-19, 2) support from the Government will calm the market. We forecast the range of VNIndex will stay between 880 and 925.

Figure 22: Liquidity has decreased since the Covid-19 outbreak began (1St week starts after Tet holidays), (billion VND)

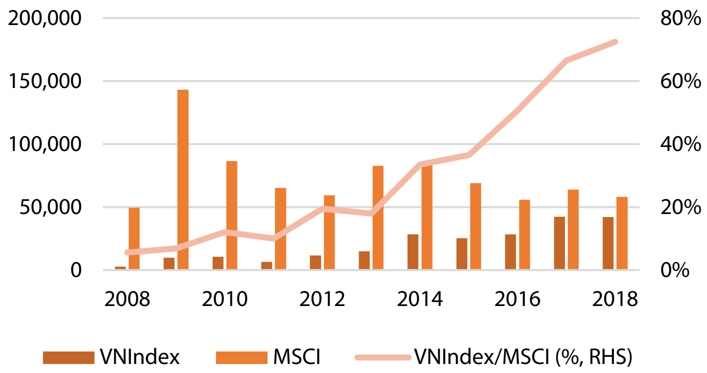


Source: Bloomberg

The influence from the unexpected spread of COVID-19 outside China has raised concerns for foreign investors, leading to net selling in the equity and bond markets (*refer to our global stock market section page 03*). As one of a high liquid frontier market, Vietnam's stock market is subject to obvious net selling pressure in the current risk-averse environment.

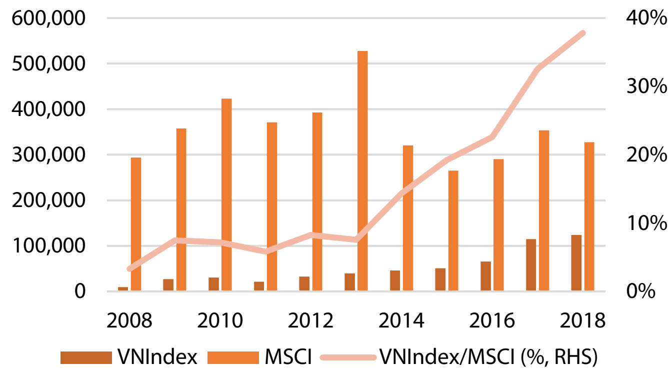
Until countries control the epidemic to some extent, we believe that the net selling from foreign investors will not stop. Therefore, *it is not the time for investors that have not made bottom-fishing decisions on stocks of which foreign investors hold large long positions in previous months/ year.*

Figure 23: Trading volume of VNIndex and MSCI (LHS, mn shares)



Source: Bloomberg, Rong Viet Securities

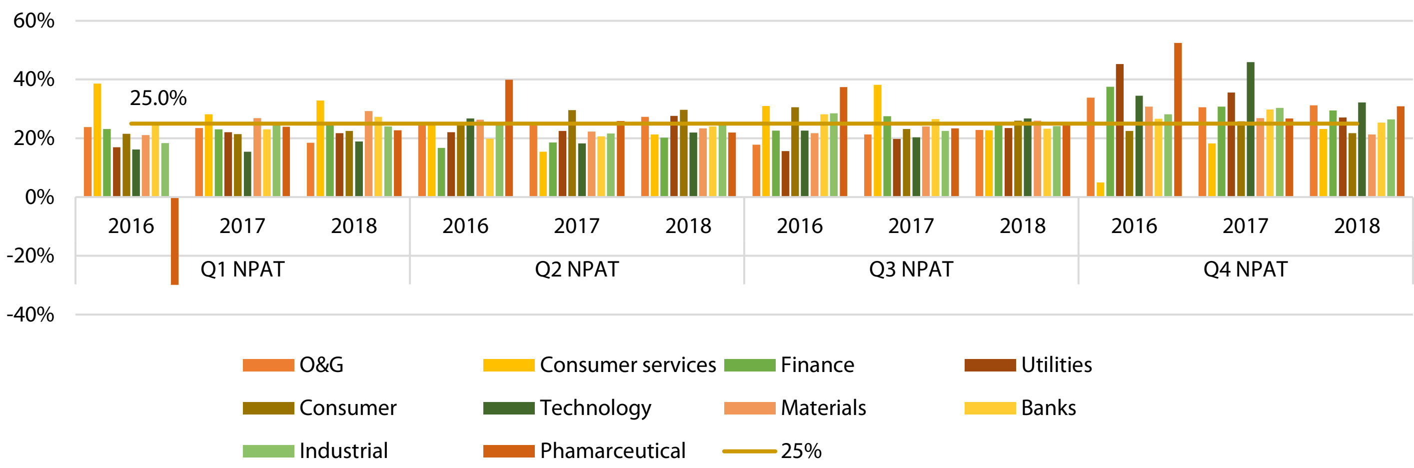
Figure 24: Market cap of VNIndex and MSCI (LHS, mn USD)



Source: Bloomberg, Rong Viet Securities

Our database from 2015 – 2018 shows that more than 25% of total revenue and NPAT of most sectors was reported in Q4. Consumer services (aviation, retail, tourism, hotel, restaurant and publisher) is the one which reported a high proportion of revenue and NPAT in Q1. The reason is mostly because of the long Tet holiday. Given that the 2020's Lunar New Year happened in January, before the break-out of COVID-19, we think the impact of COVID-19 during Feb and Mar will not be too significant to sectors like aviation, retail and tourism in Q1. The slowdown in growth of total sales of retail goods and services (to the lowest rate since 2014), however, has been raising our concern on weak demand in upcoming months unless the Government releases supportive package and well-controls inflation as well.

Figure 25: NPAT structure by quarter

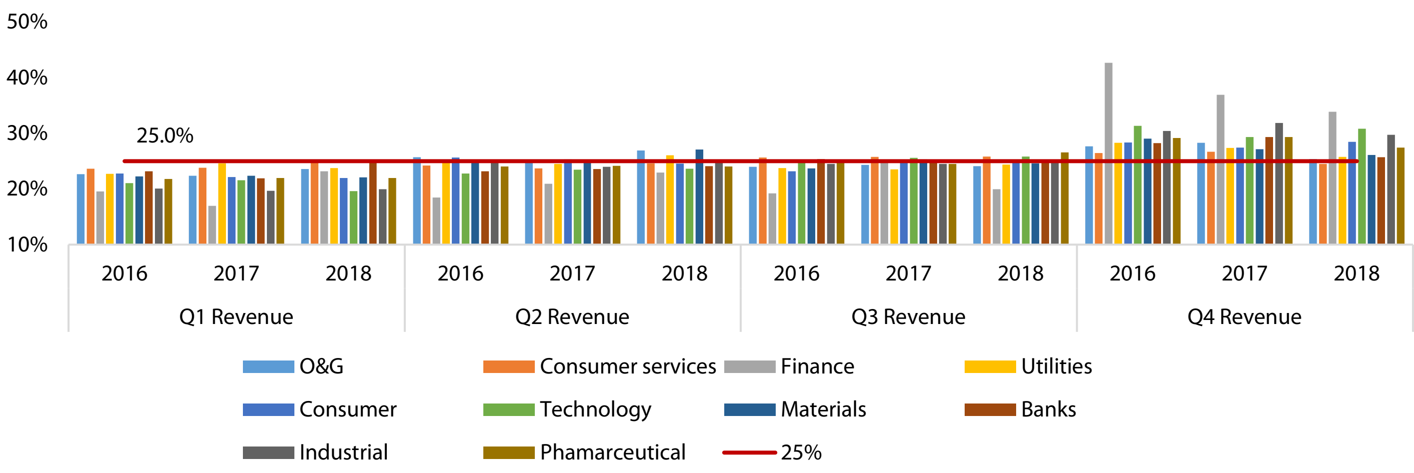


Source: Rong Viet Securities, FiinPro

We believe that the ability to resume the supply chain of raw materials for the activities of the textile, footwear, electrical and electronics industries will be important. Since most of Vietnam's raw material supply to such sectors comes from China (more than 30%), the country's abilities to control of the disease (which has passed its peak) and the restoration of business operations will be important. Therefore, we think this is an important issue that investors need to monitor.

Regarding COVID-19 progression, in the base case, it is expected that the epidemic will be gradually controlled in the early of Q2 and China will works at its almost fully capacity by Q2. In Vietnam, it is expected that the government will announce to getting out of COVID-19 in the early weeks of March 2020.

Figure 26: Revenue structure by quarter



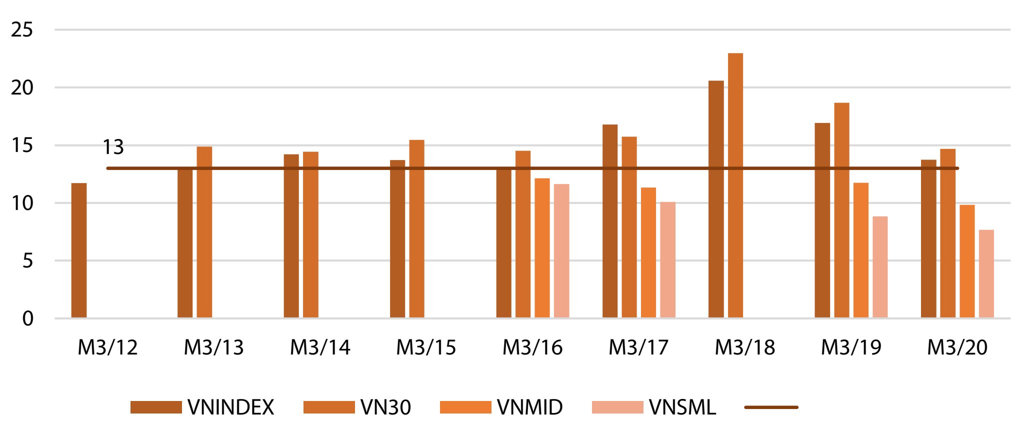
Source: Rong Viet Securities, FiinPro

In Vietnam, the Government and various Ministries have been evaluating the impact of the epidemic on corporations and proposing supportive measures. The size of those has not been confirmed yet, but it will focus on (1) Reducing borrowing rates, rolling over overdue loans and (2) Reducing the corporate income tax and the environment tax, etc.. Besides, the government will boost its budget for public projects, aiming to create jobs and stimulate demand. The synergy of monetary and fiscal policies, if they are applied correctly, will somehow offset the impact of COVID-19 for companies' 2020 business results.

Despite of that, *until we see more upside of a resumption of operation activities, we stay cautious on sectors such as agriculture, fishery, import-export, hotel, restaurant, tourism, aviation, F&B, transportation, textile, O&G and education*.

Beyond the gloomy outlook due to COVID-19, the AGM season and the soon to come IPO of VN Diamond will balance the outlook for the market. We expect that given the market's PER, a low since 2013, could attract local investors in the late part of March. Hence, *investors could allocate a part of their portfolio to stocks related to those beat-up names at that time. We recommend that investors not use leverage at this time.*

Figure 27: Indices' PER

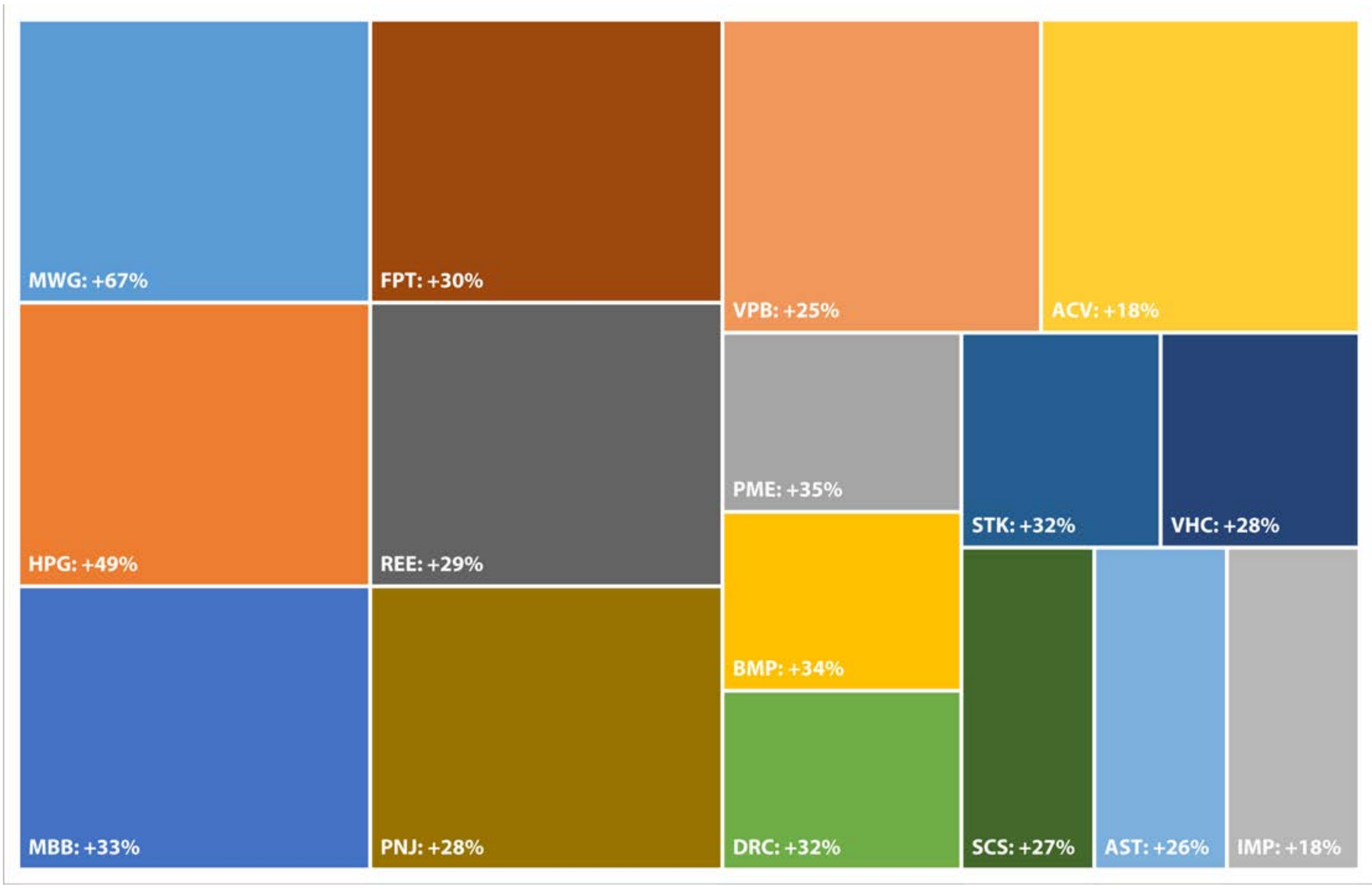


Source: Rong Viet Securities, FiinPro

Our most favorite stocks this month include:

- Pharmaceutical: PME, IMP
- Industrial: REE, DRC
- Bank: VPB
- Retail: PNJ
- Following COVID-19: ACV, SCS, VHC

Figure 28: Our favorite stocks in March 2020



Source: Rong Viet Securities; Price as of Mar 4th 2020; Square size: stock's market-cap classification

HIGHLIGHTED STOCKS

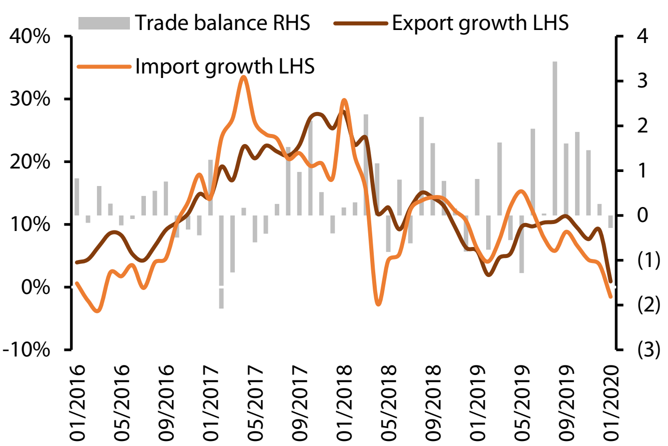
Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Current price (VND)	Total Return (%)	Rating	2019		2020F		2021F		PER Trailing (x)	PER 2020F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
MWG	HOSE	2,073	175,500	106,000	67.0	Buy	18.1	33.2	23.1	33.2	14.7	28.4	12.3	7.8	3.9	1.4	21.1	3,974	0.0
HPG	HOSE	2,663	33,400	22,350	49.4	Buy	14.1	-10.1	33.8	50.1	18.9	27.1	8.2	4.5	1.3	0.0	-17.8	7,316	10.5
PME	HOSE	188	76,500	58,100	35.1	Buy	10.3	3.9	12.3	14.0	13.9	18.6	13.6	10.1	2.2	3.4	0.5	45	37.9
BMP	HOSE	148	51,100	41,800	34.2	Buy	10.7	-1.1	-2.0	18.1	8.7	5.9	8.1	7.6	1.4	12.0	-13.4	182	20.5
MBB	HOSE	2,159	27,000	20,750	33.0	Buy	26.2	29.2	26.5	25.1	18.2	21.7	6.1	4.2	1.3	2.9	3.9	5,273	-0.9
DRC	HOSE	113	27,900	22,000	32.3	Buy	8.6	80.6	7.4	2.8	15.6	51.8	10.4	7.2	1.6	5.5	1.5	474	25.8
STK	HOSE	54	23,000	17,800	32.0	Buy	-7.0	20.3	6.9	16.5	11.5	4.4	5.7	5.4	1.2	2.8	-2.1	132	44.4
FPT	HOSE	1,624	70,000	55,500	29.7	Buy	19.4	19.7	19.0	24.8	15.6	19.6	12.0	8.0	2.7	3.6	41.1	3,759	0.0
REE	HOSE	433	39,900	32,400	28.7	Buy	-4.1	-8.1	1.7	5.2	5.4	0.8	6.1	5.8	1.0	5.6	2.7	1,087	0.0
PNJ	HOSE	799	103,500	82,200	28.1	Buy	16.7	24.0	17.2	26.3	14.5	17.2	15.4	11.8	4.0	2.2	10.0	2,636	0.0
VHC	HOSE	254	41,400	32,400	27.8	Buy	-15.1	-18.2	10.1	-14.8	12.1	20.4	5.0	4.9	1.2	0.0	-31.4	255	65.7
SCS	HOSE	227	125,000	104,500	27.3	Buy	10.8	15.0	3.6	6.5	12.2	14.7	11.9	9.8	5.2	7.7	-25.3	289	24.5
AST	HOSE	118	75,000	61,000	26.2	Buy	29.2	23.4	17.4	18.9	9.2	13.2	14.4	10.7	4.7	3.3	12.8	143	3.3
VPB	HOSE	2,856	34,000	27,150	25.2	Buy	17.0	12.4	17.0	39.8	16.9	17.8	8.0	4.8	1.6	0.0	26.9	5,321	-0.1
IMP	HOSE	124	67,000	58,300	18.4	Accumulate	18.4	17.1	20.6	17.0	18.0	17.9	17.7	14.6	1.8	3.4	20.0	174	0.0
ACV	UPCOM	5,474	68,000	58,271	18.2	Accumulate	13.7	35.8	-12.1	-30.0	13.5	17.8	15.2	20.5	3.4	1.5	-32.9	588	45.3
HAX	HOSE	18	19,600	11,600	81.9	Buy	8.3	-48.2	14.1	135.3	9.1	8.3	8.1	3.3	0.9	12.9	-25.6	97	40.2
PVT	HOSE	146	21,300	12,000	81.7	Buy	5.7	2.6	4.5	9.8	8.1	-2.4	5.0	4.9	0.8	4.2	-27.9	260	18.0
PC1	HOSE	103	26,800	15,000	78.7	Buy	14.9	-23.8	1.8	28.5	3.7	33.8	6.7	3.9	0.7	0.0	-25.0	252	13.8
LHG	HOSE	31	25,000	14,350	74.2	Buy	-30.4	6.1	-9.6	57.8	15.7	19.6	5.4	2.8	0.6	0.0	-21.9	85	39.3
PVD	HOSE	228	21,060	12,550	67.8	Buy	-22.3	-43.4	41.9	105.8	34.0	76.3	28.0	7.8	0.4	0.0	-25.0	1,676	31.5
QNS	UPCOM	393	40,500	25,487	64.8	Buy	-4.4	3.2	25.0	1.8	7.4	2.5	7.0	5.9	1.4	5.9	-24.6	427	31.5
MSH	HOSE	88	60,000	40,750	57.1	Buy	12.0	22.2	10.9	11.3	21.5	17.1	4.4	3.8	1.8	9.8	-19.8	70	41.1
POW	HOSE	1,006	15,300	9,960	56.6	Buy	138.8	477.4	14.9	23.0	3.5	-14.0	9.4	8.9	0.9	3.0	-39.5	1,100	36.1
ANV	HOSE	97	25,800	17,750	56.6	Buy	8.8	17.4	-2.4	-11.2	13.6	19.7	3.2	3.0	0.9	11.3	-35.4	253	47.7
HDG	HOSE	135	40,100	26,300	52.5	Buy	34.3	33.0	31.7	16.7	-6.7	14.3	3.7	2.8	1.3	0.0	-16.6	370	31.0
NLG	HOSE	278	38,900	25,800	50.8	Buy	-26.8	25.8	-19.8	18.1	-12.4	19.9	6.8	4.9	1.3	0.0	5.1	731	0.0
NT2	HOSE	248	27,100	19,950	48.4	Buy	-0.2	-2.9	2.8	3.9	7.9	1.7	7.6	7.4	1.4	12.5	-26.4	258	30.5
GMD	HOSE	245	26,000	19,150	43.6	Buy	-2.5	-72.1	11.8	2.4	5.9	0.9	11.0	10.9	1.0	7.8	-27.8	644	0.0
DIG	HOSE	185	19,500	13,600	43.4	Buy	-8.9	32.7	82.9	34.4	20.7	26.9	9.7	5.9	1.1	0.0	-13.2	1,102	14.4
PTB	HOSE	129	86,600	63,200	40.8	Buy	17.6	13.3	11.3	36.3	23.0	37.4	6.9	3.7	1.7	3.8	4.1	146	25.6
CVT	HOSE	30	24,500	19,200	40.6	Buy	1.1	-1.0	4.9	0.1	7.1	8.6	4.2	3.9	1.1	13.0	-9.0	134	34.1
PVS	HNX	318	20,700	15,400	39.0	Buy	17.9	-7.6	36.5	47.6	-27.4	-21.3	10.1	8.7	0.6	4.5	-26.8	1,472	28.7
VRE	HOSE	2,790	39,500	28,450	38.8	Buy	1.5	18.6	13.5	25.6	9.8	6.6	23.2	17.4	2.4	0.0	-14.7	3,085	16.1
LTG	UPCOM	63	22,800	18,094	37.1	Buy	-8.0	-19.7	0.6	33.1	3.3	11.1	4.4	3.5	0.6	11.1	-17.5	23	5.0
VSC	HOSE	57	28,200	24,000	27.9	Buy	5.8	-22.1	5.3	14.0	-0.3	-3.6	5.7	5.7	0.8	10.4	-35.5	105	12.8

Ticker	Exchange	Market cap (USD mn)	Target price (VND)	Current price (VND)	Total Return (%)	Rating	2019		2020F		2021F		PER Trailing (x)	PER 2020F (x)	PBR Cur. (x)	Div Yield (%)	+/- Price 1y (%)	3-month avg. daily turnover (USD thousand)	Foreign remaining room (%)
							+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)	+/- Rev. (%)	+/- NPAT (%)							
DXG	HOSE	290	16,500	12,950	27.4	Buy	25.1	3.2	13.9	30.0	22.0	23.3	4.8	2.4	1.0	0.0	-36.8	1,092	5.7
PAC	HOSE	46	27,300	23,000	25.2	Buy	3.6	8.7	9.0	-4.1	7.5	-4.8	6.2	7.6	1.6	6.5	-35.0	18	24.0
VNM	HOSE	7,875	126,000	104,800	24.5	Buy	7.1	3.5	8.5	5.6	4.5	2.0	17.2	17.8	6.6	4.3	-23.9	6,842	41.3
SMB	HOSE	40	34,000	30,900	23.0	Buy	-2.2	47.9	-10.4	-28.0	2.0	2.7	4.5	6.7	2.0	12.9	6.5	61	37.7
KDH	HOSE	583	29,500	24,800	21.0	Buy	-3.5	13.2	14.9	37.1	15.5	15.1	14.7	9.4	1.8	2.0	2.4	513	4.5
PGI	HOSE	66	19,100	17,150	18.4	Accumulate	8.0	17.2	5.0	-5.4	6.6	15.3	9.2	9.1	1.0	7.0	19.4	35	28.3
VCB	HOSE	13,075	95,000	81,700	17.3	Accumulate	20.1	28.6	22.4	23.1	18.8	20.4	16.4	12.3	3.5	1.0	31.3	3,472	6.2
HDB	HOSE	1,169	33,000	28,150	17.2	Accumulate	23.6	26.2	14.5	20.0	12.8	15.4	7.5	5.5	1.4	0.0	-7.4	2,252	6.5
TCM	HOSE	45	20,500	18,100	16.0	Accumulate	-0.5	-16.8	3.5	-5.9	3.8	8.9	4.9	5.3	0.7	2.8	-40.2	379	0.5
DPM	HOSE	215	13,600	12,750	14.5	Accumulate	-15.8	-49.6	8.0	56.9	1.8	1.8	13.2	10.4	0.6	7.8	-35.8	168	30.1
VGC	HOSE	358	20,100	18,500	13.8	Accumulate	14.8	15.4	-11.7	2.3	5.0	21.5	12.7	10.2	1.3	5.1	0.0	274	35.7
KBC	HOSE	301	16,200	14,850	12.5	Accumulate	30.4	14.6	-16.3	9.9	-9.1	-13.7	8.2	8.7	0.7	3.4	6.5	1,755	24.4
ACB	HNX	1,844	28,000	25,800	12.4	Accumulate	14.7	16.7	14.6	17.8	15.0	17.5	7.0	5.2	1.5	3.9	10.3	3,858	0.0
BID	HOSE	8,009	50,000	46,150	9.9	Accumulate	8.3	15.3	18.3	30.8	16.8	58.3	19.1	12.8	2.5	1.5	42.1	1,924	12.0
BFC	HOSE	30	12,100	12,000	9.2	Accumulate	-4.4	-56.7	0.1	34.5	2.8	3.5	9.9	6.4	0.7	8.3	-40.9	44	35.3
PHR	HOSE	272	47,500	46,600	8.4	Accumulate	4.8	-24.3	27.9	389.7	-12.7	-66.5	14.1	9.9	2.5	6.4	9.4	1,058	42.6
CTG	HOSE	4,250	28,000	26,450	5.9	Accumulate	41.0	74.8	11.3	25.9	9.4	36.6	10.4	7.2	1.3	0.0	24.8	7,681	0.3

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

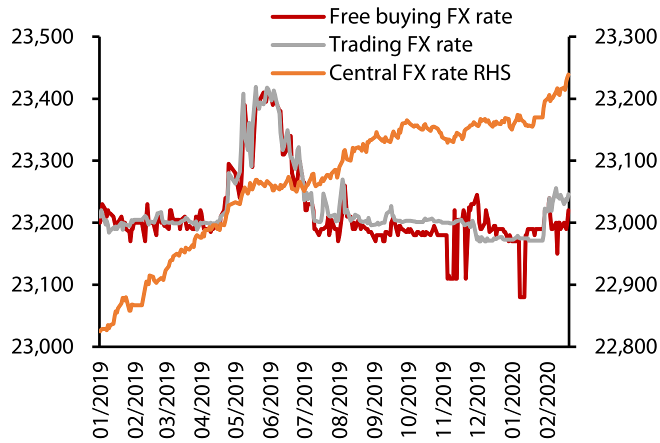
VIETNAM ECONOMIC INDICATORS IN MARCH

Trade balance (US Billion)



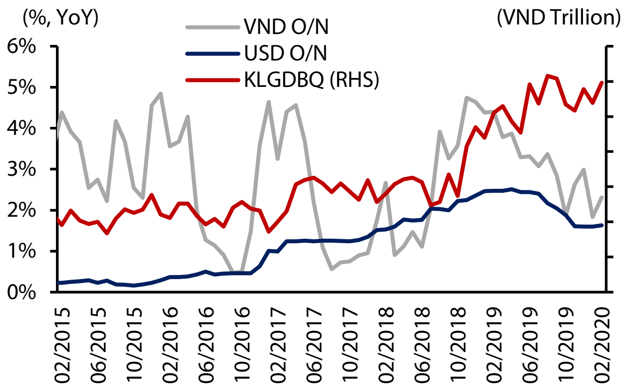
Source: GSO, Rong Viet Securities

USDVND exchange rate



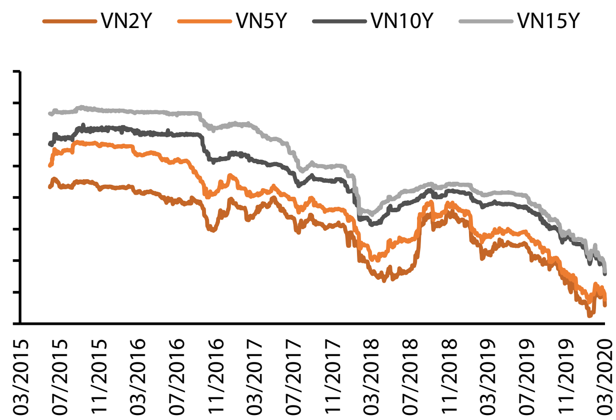
Source: SBV, Rong Viet Securities

Interbank interest rate (%/year)



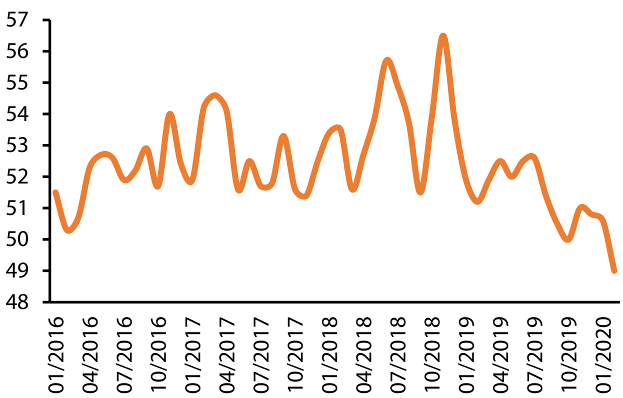
Source: SBV, Rong Viet Securities

G-Bond yields (%/year)



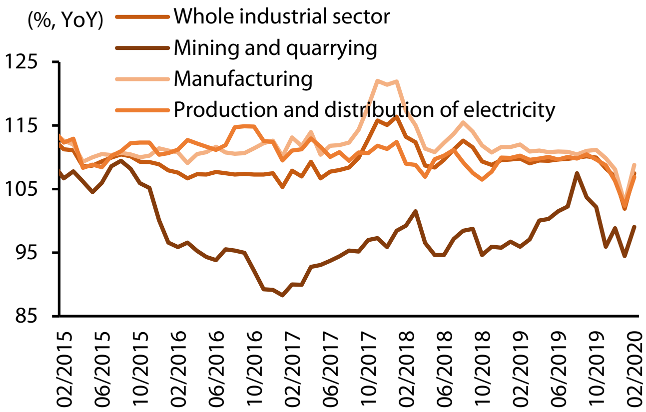
Source: Bloomberg, Rong Viet Securities

Manufacturing PMI (Points)



Source: IHS Markit, Rong Viet Securities

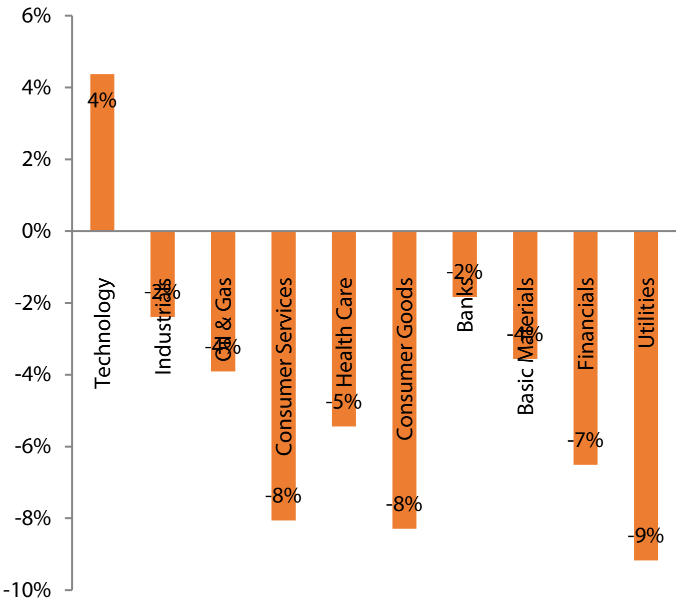
Industrial Production Indices (Points)



Source: GSO, Rong Viet Securities

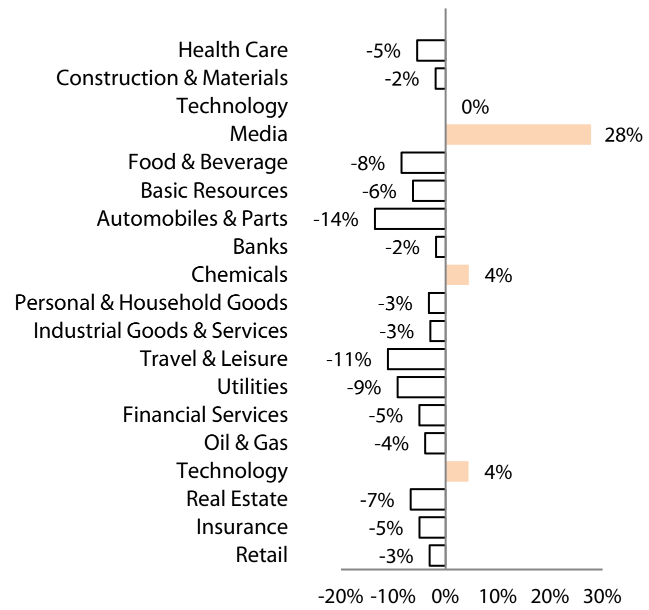
INDUSTRY INDEX

Level 1 industry movement



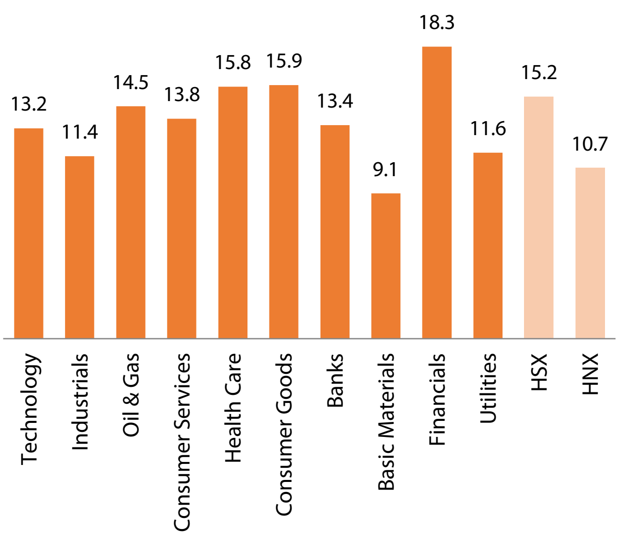
Source: Fiinpro, RongViet Securities

Level 2 industry movement



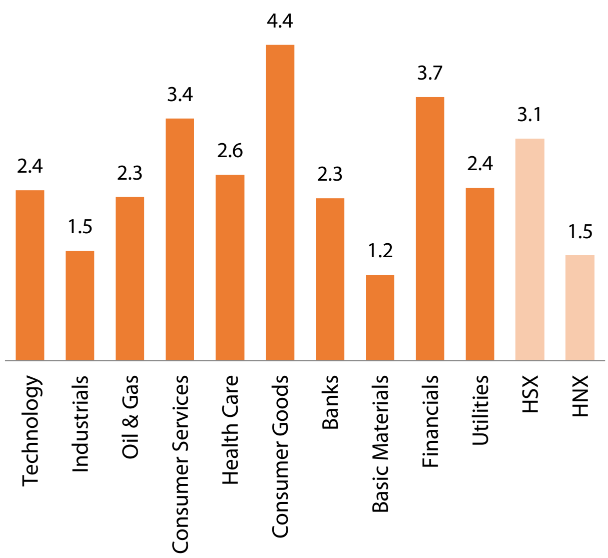
Source: Fiinpro, RongViet Securities

Industry PE comparison



Source: Fiinpro, RongViet Securities

Industry PB comparison



Source: Fiinpro, RongViet Securities

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Steel
- Construction
- Utilities

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Market Strategy
- Consumer discretionary
- Pharmaceuticals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance
- Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Natural Rubber
- Agriculture

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Steel

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

RONG VIET SECURITIES CORPORATION

Floor 1-2-3-4, Viet Dragon Tower,

141 Nguyen Du St. - Dist 1 – HCMC

Tel: (84 28) 6299 2006

Fax: (84 28) 6291 7986

Email: info@vdsc.com.vn

Website: www.vdsc.com.vn

Hanoi Branch

Floor 10th, Eurowindow Tower, 2 Ton That Tung St., Dong Da Dist, Hanoi

Tel: (84 24) 6288 2006

Fax: (84 24) 6288 2008

Can Tho Branch

95-97-99 Vo Van Tan – Ninh Kieu - Can Tho

Tel: (84 292) 381 7578

Fax: (84 292) 381 8387

Nha Trang Branch

50Bis Yersin St, Nha Trang

Tel: (84 258) 382 0006

Fax: (84 258) 382 0008

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