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THURSDAY

- **Some bullish sessions ahead?**
- **Benefits and risks of international bond issuance**

Some bullish sessions ahead?

Will 12/11 repeat tomorrow? In 11/11 Advisory Diary, we did statistics on VNIndex trading and believe that VNIndex after 4 consecutive decline sessions is usually followed by a strong rally. On 12/11, VNIndex significantly declined during early day and recovered after that, ended this day with "green" color. However, such two "surge" sessions could not maintain longer due to the extraordinary event in the weekend (ISIS's terrorism in France). This event relatively made the impact on short-term global market sentiment, including Vietnam. Therefore, stock exchanged started this week with a decline session and prolonged the downtrend until today, the 4th consecutive session of VNIndex with -1.54%. The decrease was approximate to the previous 4 consecutive days (6/11-11/11).

Furthermore, this is the first time that stock exchange experienced a month with 2 periods of 4 consecutive decline sessions in 11/2015. In 8/2015, markets also faced unexpected news about the adjustment in exchange rate mechanism from the Central Bank of People. However at this time, Vietnamese stock exchanges did not negatively react as the previous "shock" in 8/2015. Since 11/2015, despite going through 2 periods of 4 consecutive decline sessions, VNIndex only dropped by 0.18% compared to the closing index from 10/2015.

"Some bullish sessions ahead?"

Otherwise, liquidity was quite positive in series of bearish sessions. Average order-matching volume of VNIndex in four consecutive bearish sessions was 126.8 million shares, up 22% against average of the period 6/11-11/11.

Leading stocks remained their supportive prices. Apart from VNM under correcting sessions due to selling pressure and less impact of SCIC divestment plan, the remaining 3 leaders (VCB, BVH, VIC) kept their short-term supporting levels despite negative movements of VNM, with supportive range of VCB: VND47,000-48,000, VIC: VND43,000-44,000, BVH: VND56,000-58,000.

Therefore, as we commented yesterday, in the context of solid with the increasing activities of profit takers, investors can take advantage of intraday correction to open new position or accumulate on stocks of good fundamentals, especially those that tend to have positive return in December and January. For the broad market, we see little chance that VNIndex will close with a big drop tomorrow despite the likelihood of some significant corrections during the day.

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Benefits and risks of international bond issuance

According to the WB report, Vietnam domestic debt increased rapidly during the period 2010-2014 from 23.1%/GDP to 31.7%/GDP; whereas international debt remained stable at 27-28% of GDP. Leveraging favorable macro, in Nov, 2011, Vietnam issued $1 billion of government bonds in the international market with a 10-year period (a 4.8% coupon) to restructure the existing loans. Over the last session, the National Assembly approved the $3 bn of international bond issuances. To further clarify the causes and opportunities of issuing sovereign bonds in the coming time, RongViet Research wants to share our perspective on this issue.

Why does Government issue international bonds?

Based on the assessment of the World Bank, domestic debt increased sharply in recent years due to continuous government bond issuance. Average growth rate estimated at 20% per year in 2010-2014. Since early 2015, the State Treasury held 112 auctions with tender value at about

VND216,500 billion and earned more than VND120,000 billion. However, winning ratio dropped from a high level (~ 71% in 2014) to 56% in 2015. In our opinion, there are two main causes leading to this phenomenon: (1) the impacts of Circular 36 and Resolution 78 make the investment needs of government bonds fell; (2) growth of private investments makes banks prioritize funding the private sector. It can be seen that in the context of increased investment needs for infrastructure with budget constraints, the decline in domestic borrowing activity is one of the motives for the Government to consider issuing international bonds.

Also, with high public debt ratio **(~ 62% of GDP in 2015**), current debt and interest payment also forced the Government to seek funding from external sources. According to Rong Viet Research, Government bonds maturing in 2016 is **~VND167,000 billion** (up 11% compared to 2015) and interest payment is **~VND62,100 billion**. In which, 84% of the due debt is from domestic debt issued by State Treasury or Government-backed loan guarantees. Thus, the debt payment pressure is a problem that the Ministry of Finance (MOF) has to deal by using many solutions.

Figure: Principle payment (2016-2020)

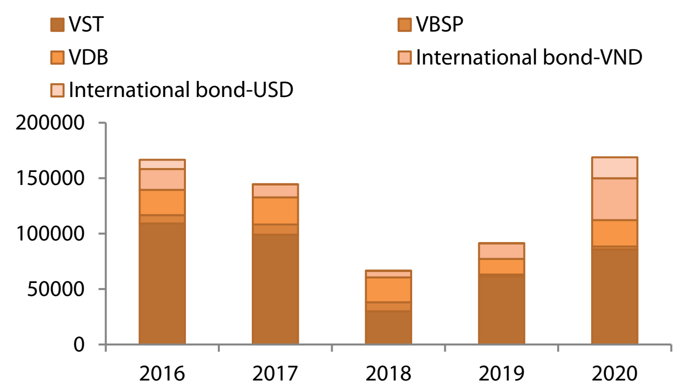
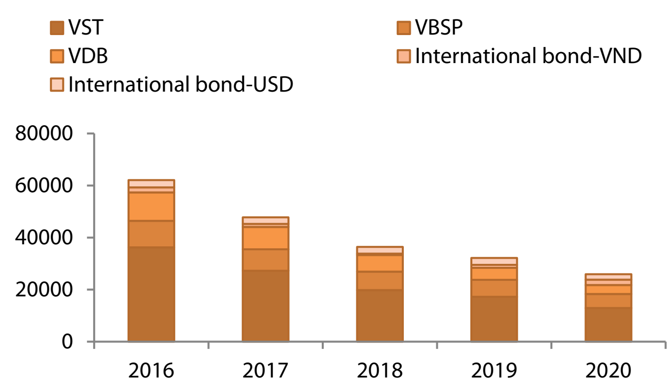


Figure: Interest payment (2016-2020)



Sources: Bloomberg, RongViet Research

VST: Vietnam State Treasury

VDB: Vietnam Development Bank

VBSP: Vietnam Bank for Social Policies

Benefits and risks of international bond issuance

We believe that in case of successful issuance, it creates temporary benefits than long term benefits. Meanwhile, the potential risks are pushed into the future and may destabilize the economy.

In 2016, matured debt and interest payment will be about 483 million USD. Thus, the proposed $3 billion plan is to repay not only international loans but also domestic debts (investment purpose are not given in the Congress discussion). Total debts and accrued interest in 2016 is approximately VND229,000 billion, the international bond issuance (if any) only meet one-third of total payment next year.

Restructuring the term of current debts is another benefit. At the moment, there are about 66% of government bonds and government guaranteed bonds with tenors of 5 years or less. Issuing bonds with tenor of 10 years will help to extend the repayment period. Thus, MOF will not suffer every year to make ends meet. In our opinion, this is the most beneficial one of international bonds issuance.

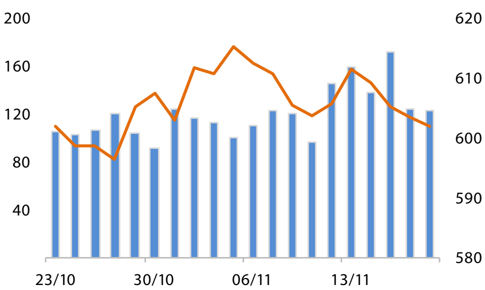
Even so, when issuing international bonds, the proportion of foreign debt will increase, this could make Vietnam became more vulnerable to external shocks. Simultaneously, international debts, per se, will not be as cheap as it looks if considering the exchange rate risk. In the latest issuance, Vietnam borrowed at relatively low interest rate with a coupon of 4.8% per year. However, based on the current conditions, the coupon rate is expected to be higher due to take into account the route of the Fed rate hike. In addition, because of the 5%-devaluation of Vietnam dong in 2015, the issued debt in 2014 is no longer cheap. Exchange rate policy was quite "tense" in 2015 due to the appreciation of the dollar and the trade deficit. International borrowing in dollars may supplement the foreign currency in the short term, but also is a new “shackle" of the flexibility in exchange rate policy.

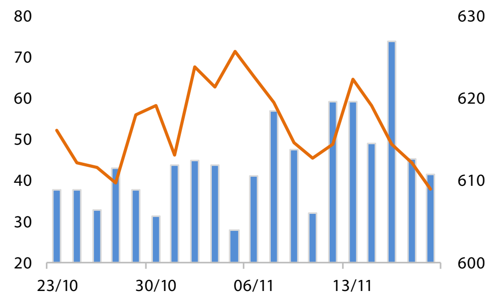
Usually, the economies similar to Vietnam will mainly mobilize capital from domestic, Moody's show that the value of domestic bonds in emerging markets raised by 14.4% in the period 2010-2014 while the international bonds rose only by 2.3%. If shrinking the Government into a business, the pecking order of capital structure support using internal resources rather than external. Currently, Vietnam has come to warning level of public debt; therefore, we believe that domestic borrowing is still more secure than international borrowing anyway.

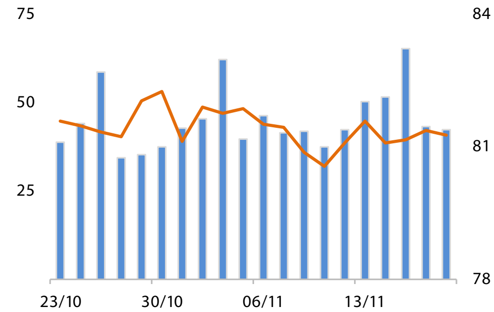
The ability to success in international bonds issuance

According to Citibank, the average coupon rate of government bonds in the Asian market is about 6.18% per year with the average maturity of 12.65 years. For Vietnam, the average coupon rate is 6.1% per year with tenors of 10 years. Based on credit ratings, Vietnam government bonds are classified as high risk, reflected in the CDS (the price of swaps credit risk of government bonds) which is in top 15 in the world. However, the international bond issuance of Vietnam has attracted many investors. In the latest issuance, more than 84% of participants were from fund management companies and registered volume was 10 times as high as the asking volume. Therefore, we believe that the interest of investors for government bonds in Vietnam in the next issuance will be maintained due to the stable macroeconomic outlook along with the positive comments after joining TPP agreement. However, investors may require higher interest rates.

VNINDEX	-0.24%	601.90	VN30	-0.52%	609.05	HNXINDEX	-0.15%	81.24

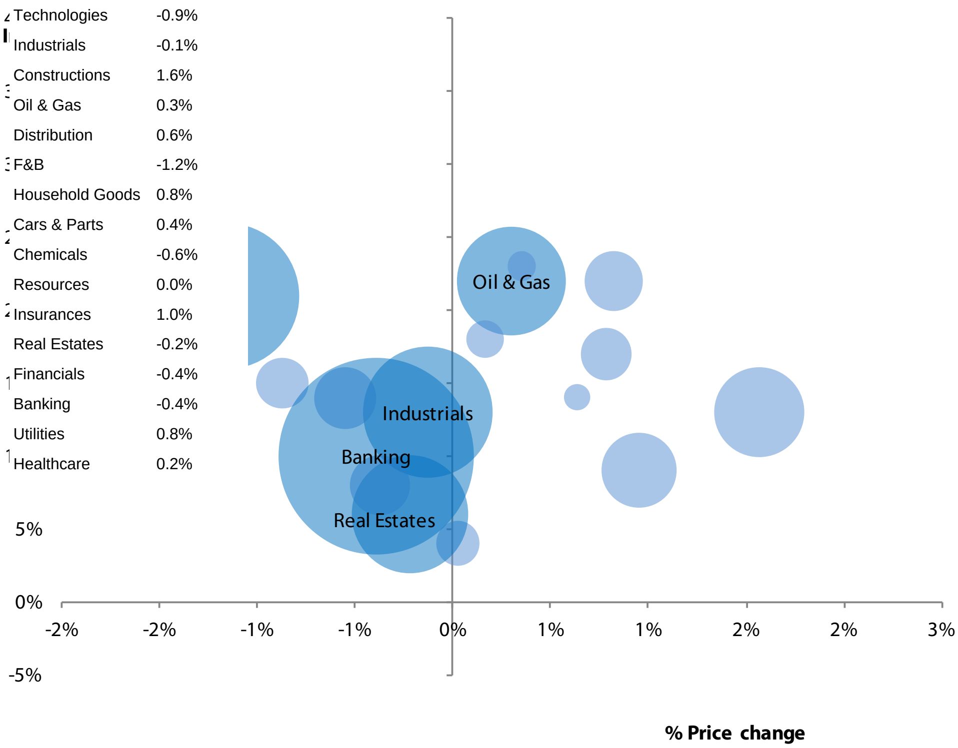




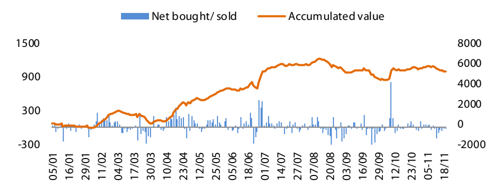


Industry Movement

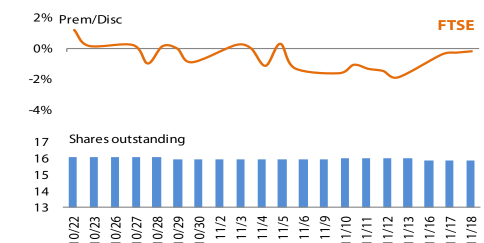
Industry	% change
Technologies	-0.9%
Industrials	-0.1%
Constructions	1.6%
Oil & Gas	0.3%
Distribution	0.6%
F&B	-1.2%
Household Goods	0.8%
Cars & Parts	0.4%
Chemicals	-0.6%
Resources	0.0%
Insurances	1.0%
Real Estates	-0.2%
Financials	-0.4%
Banking	-0.4%
Utilities	0.8%
Healthcare	0.2%

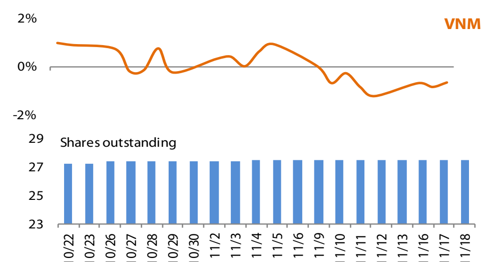


Foreign Investors Trading



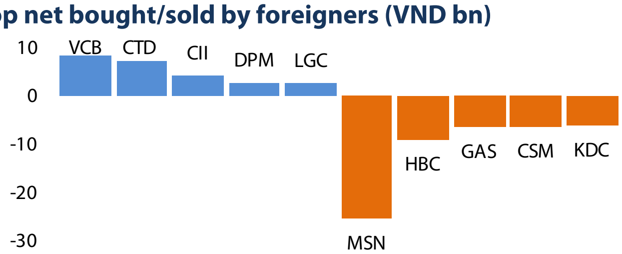
ETF



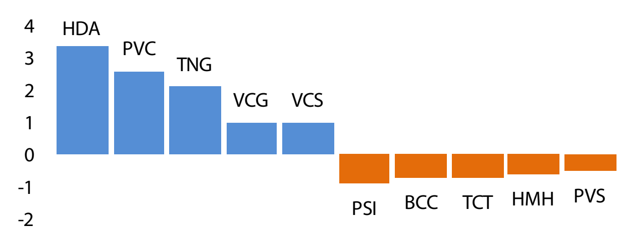


Top net bought/sold by foreigners (VND bn)

HSX



HNX



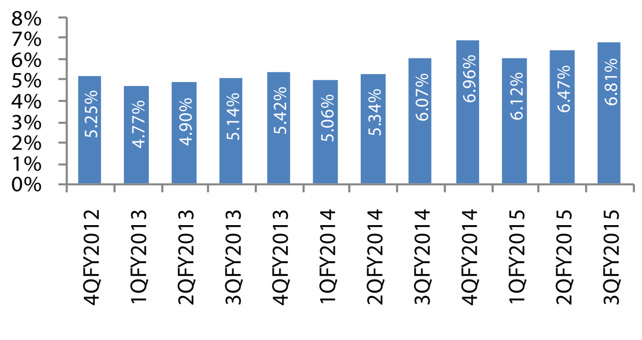
Top Active

Ticker	Price	Volume	% price change
FLC	8.8	20.03	6.0%
SBT	17.8	6.56	-0.6%
FIT	10.6	6.24	1.0%
OGC	3.5	4.93	6.1%
DLG	9.1	3.68	0.0%

Ticker	Price	Volume	% price change
KLF	4.8	5.05	2.1%
SCR	8.4	2.53	-1.2%
ACM	5.1	1.41	8.5%
TIG	11.1	1.32	-1.8%
VIX	7.6	1.31	2.7%

MACRO WATCH

Graph 1: GDP Growth

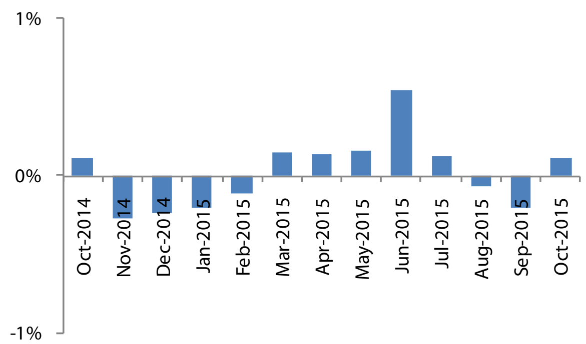


Sources: GSO. Rongviet Securities database
(*) Comparision price in 1994

Graph 2: IIP

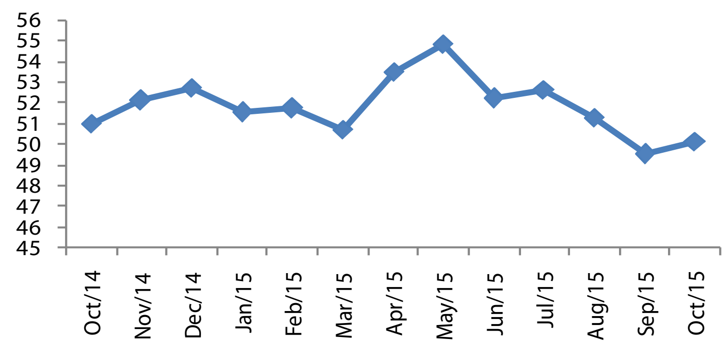
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



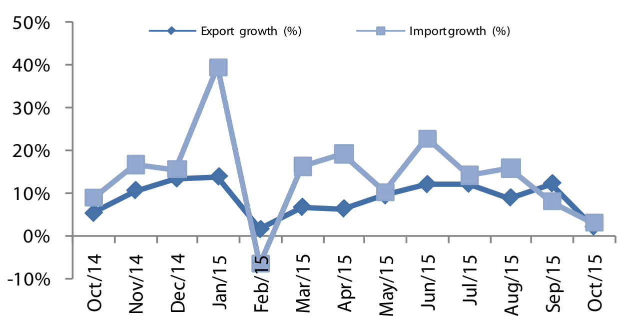
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



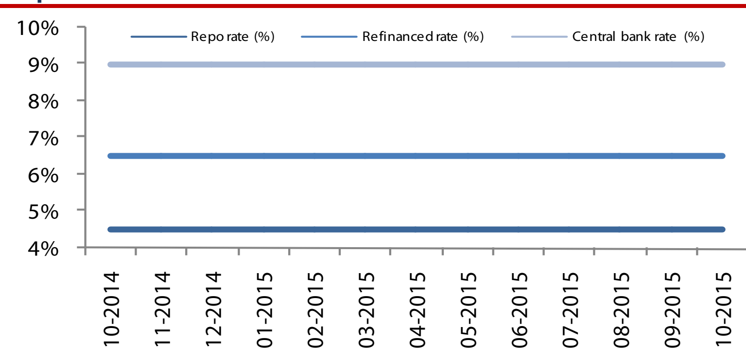
Sources: GSO. Rongviet Securities database

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
DRC - Expecting on replacement segment.	November 13th, 2015	Accumulate – Long term	52,000
NKG- Capital ravels to be untangled	November 6th, 2015	Neutral – Intermediate term	17,400
DMC - Restructuring sparks positive changes	October 30th, 2015	Accumulate – Intermediate term	49,000
HSG - New investments: The engine of growth	October 29th, 2015	Accumulate – Long term	52,500
KSB - Rock-solid foothold in the construction stone	October 28th, 2015	Buy – Intermediate term	38,400

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	03/11/2015	0% - 0.75%	0% - 2.5%	12,058	12,047	0.09%
VEOF	03/11/2015	0% - 0.75%	0% - 2.5%	10,674	10,488	1.77%
VF1	11/11/2015	0.2% - 1%	0.5%-1.5%	24,055	24,092	-0.15%
VF4	11/11/2015	0.2% - 1%	0%-1.5%	10,886	10,869	-0.02%
VFA	05/11/2015	0.2% - 1%	0%-1.5%	7,517	7,461	0.76%
VFB	05/11/2015	0.3% - 0.6%	0%-1%	12,490	12,409	0.66%
ENF	06/11/2015	0% - 3%	0%	12,233	12,170	0.52%
MBVF	05/11/2015	1%	0%-1%	10,974	10,991	-0.15%
MBBF	04/11/2015	0%-0.5%	0%-1%	12,489	12,438	0.41%

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