RONG VIET SECURITIES

A First Look at 2017

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Report Content

VIETNAM 2017 MACRO OUTLOOK: Rising Challenges

STOCK MARKET: Our Outlook for 2017

INVESTMENT THEMES: Our Updated Stock Picks for 2017

2017 Economic Outlook: Rising Challenges

Economic Outlook: We forecast that **Vietnam's real GDP will grow by 6.58% in 2017**, higher than the market consensus of 6.3% and 2016's growth rate of 6.25%. The key rationales are:

- We expect to see resilience in manufacturing and consumption
- The recovery of oil prices and agriculture should positively affect GDP growth
- Without a meaningful rise in protectionism, led by the US, we could see exports continue to grow, in line with the recovery of global trade

Rising Challenges:

- **Limited support from fiscal policy** as public debt will reach its limit of 65% of GDP
- Monetary policy continues to deal with **many economic puzzles,** including
    - Controlling inflation and the depreciation of the dong
    - Keeping interest rates low to support the private sector
    - Putting more credit screening regulations in place for households and real estate loans
- **Global headwinds**: The trajectory of US and China's business cycles (FED rate hikes, RMB depreciation vs. stronger dollar, more trade barriers)

Macro Themes in 2017:

Theme 1 : **Riding the Commodity Bull Market**

Theme 2 : **Trade Barriers – Will Vietnam be Hurt?**

Theme 3 : **SOE Reforms**

Special Topic : **China – One Belt One Road Strategy**

Skillful Policymaking Will be Required

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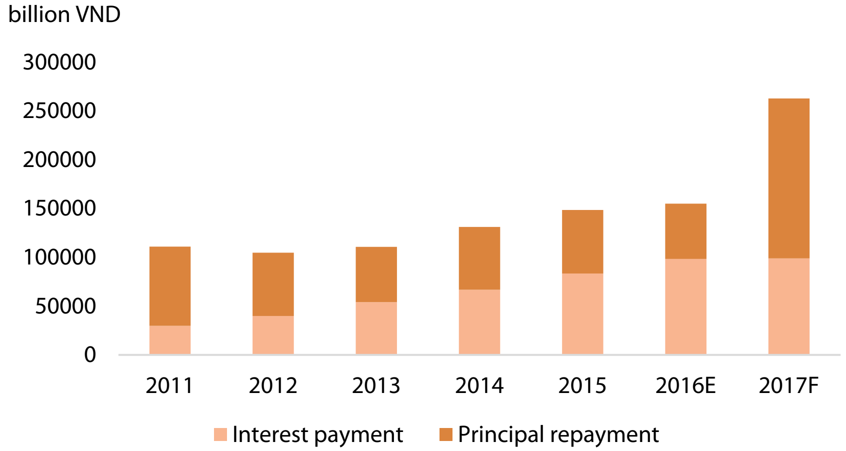
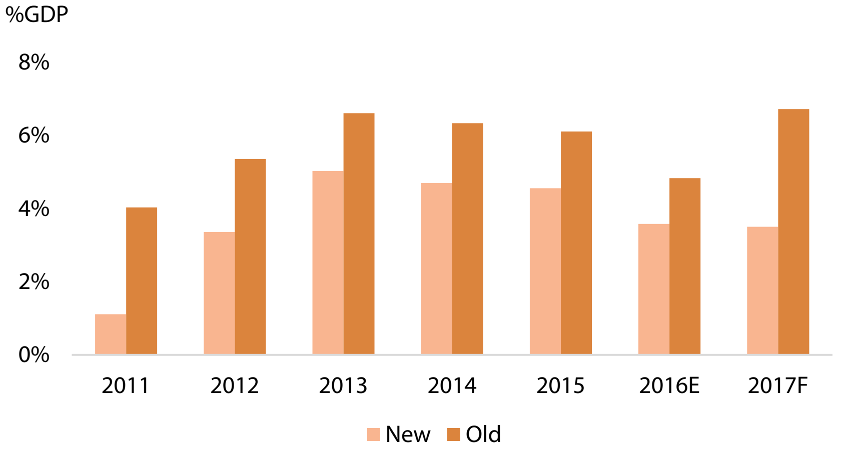
High Debt Repayment Obligations in 2017



Budget Deficit will Remain Under New Law



Fiscal Policy

- A high public debt ratio will lead to a **more restrictive fiscal policy**, hindering the ability to support the economy through the fiscal channel
- **FX debt repayment is in the pipeline**, which will trigger temporary shocks in the currency market during 2017
- In the near term, there is a **need to use privatization revenue to reduce debt**

Monetary Policy

- Monetary policy makers are set to prepare for gradual FED rate hikes and the recovery of commodity prices over the coming years
- **The SBV is unlikely to raise interest rates in 2017**
- **Higher FX reserves** provide the SBV with a buffer against capital outflows and speculation on the currency

*Sources: MoF, Worldbank, RongViet Research, * The new method: Excluding principal repayment in budget deficit calculation (Law of Budget 2015 will be effective in 2017)*

THEME 1: Riding the Commodity Bull Market

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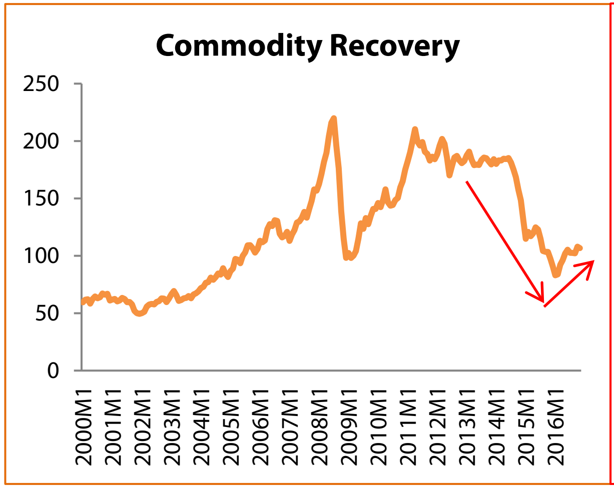
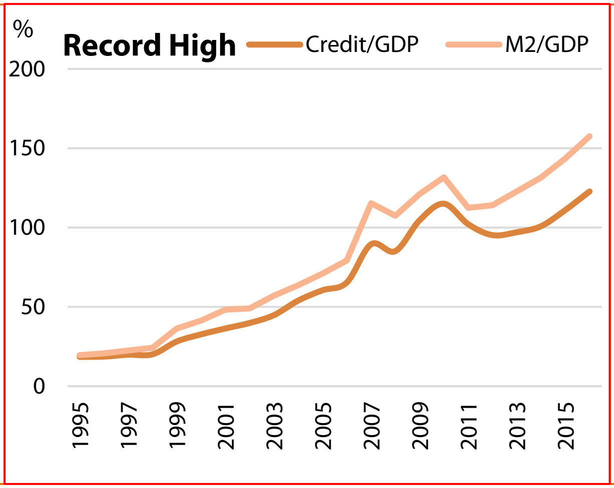
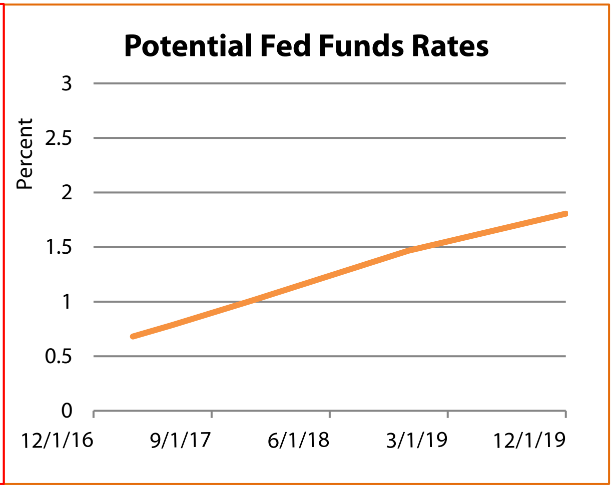
MACRO KEY DEBATES	RISKS
• Will inflation be a concern in 2017? • Where does monetary policy go from here? o High M2/GDP ratio is not triggering concerns for money oversupply and inflation o No policy interest raise • If US rates rise, how will the SBV react?	• The dong's depreciation against USD and price adjustments of public goods & services • Upside risks from the recovery of oil prices • NPL issues • A faster pace of FED rate hikes



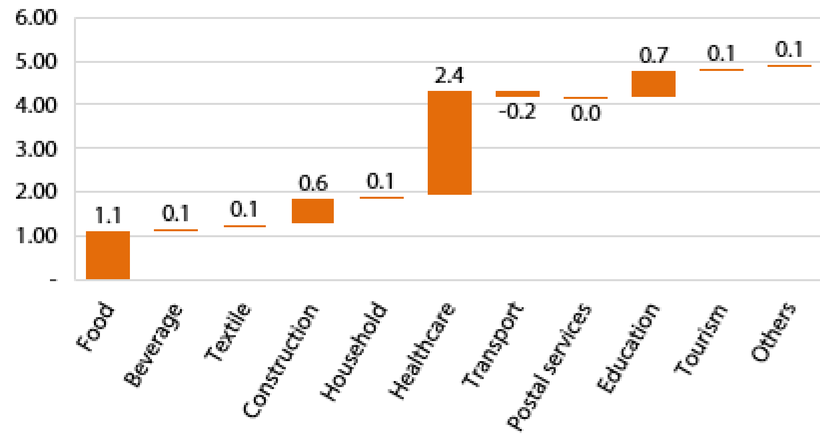




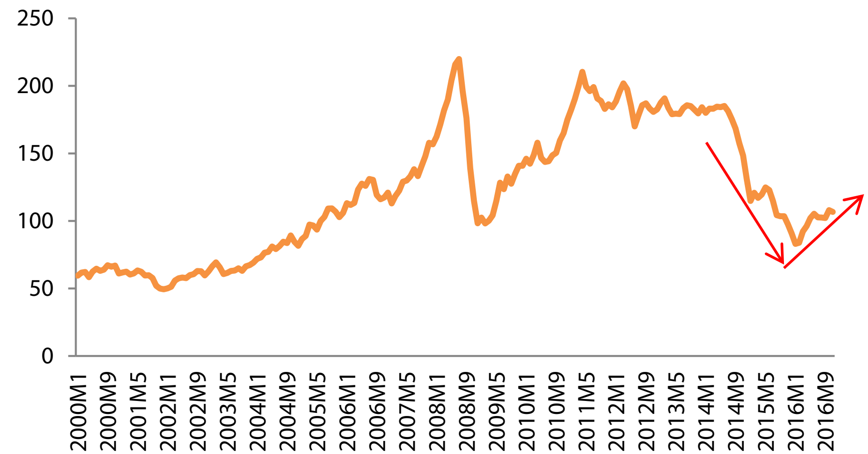
Sources: IMF, SBV, Bloomberg, RongViet Research

Moderate Inflation In 2017

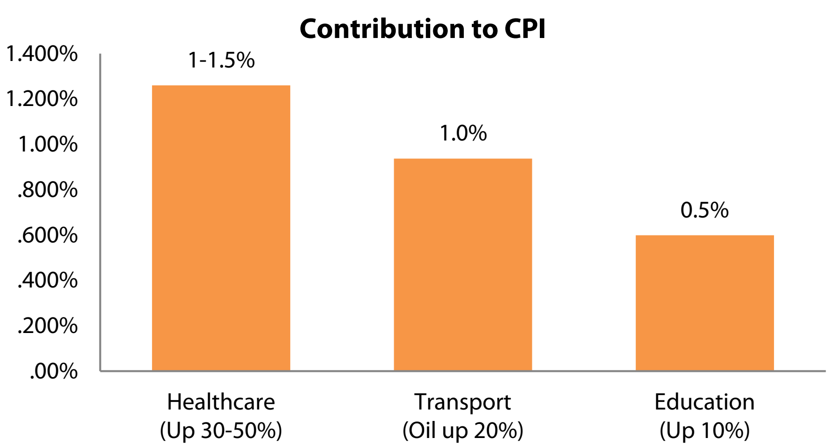
2016 CPI Breakdown (%)



The Recovery of Commodity Prices



Main Drivers of CPI in 2017



2017 Outlook

- We expect to see **CPI rise to 6% in 2017**, above the government's target of 4%
- Historically, **a 20% increase in oil prices caused a 1% rise in inflation**
- The dong's depreciation against the USD and price adjustments of public goods & services (electricity, water) poses risks in our opinion.

Sources: GSO, IMF, RongViet Research

Where Does Monetary Policy Go From Here?

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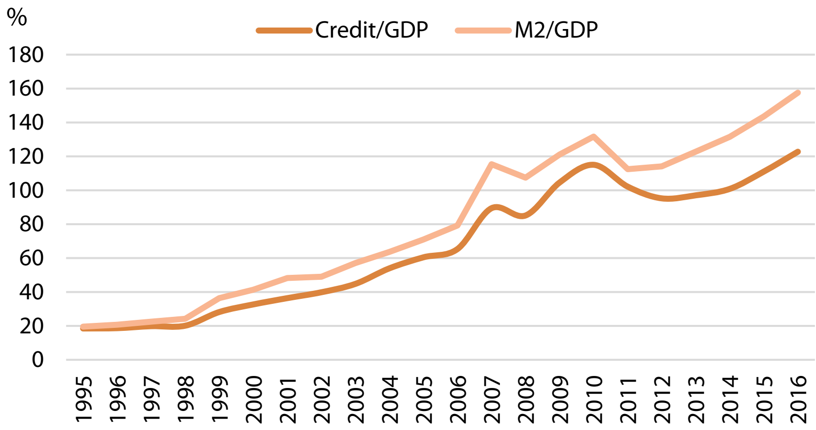
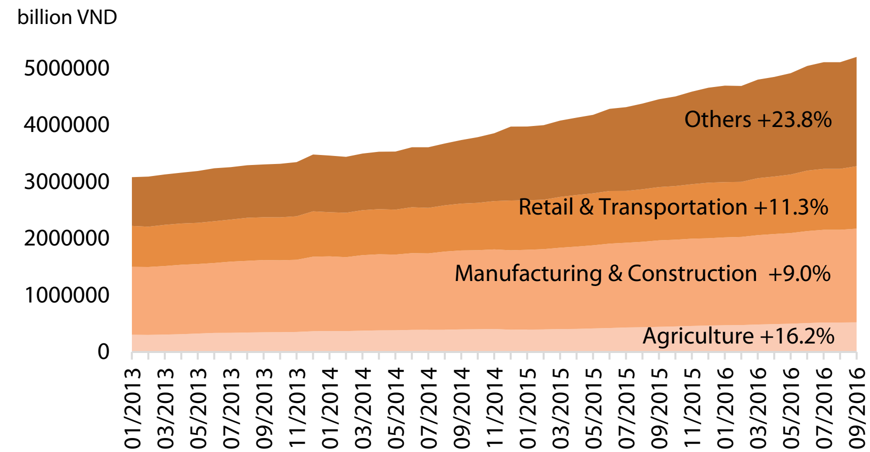
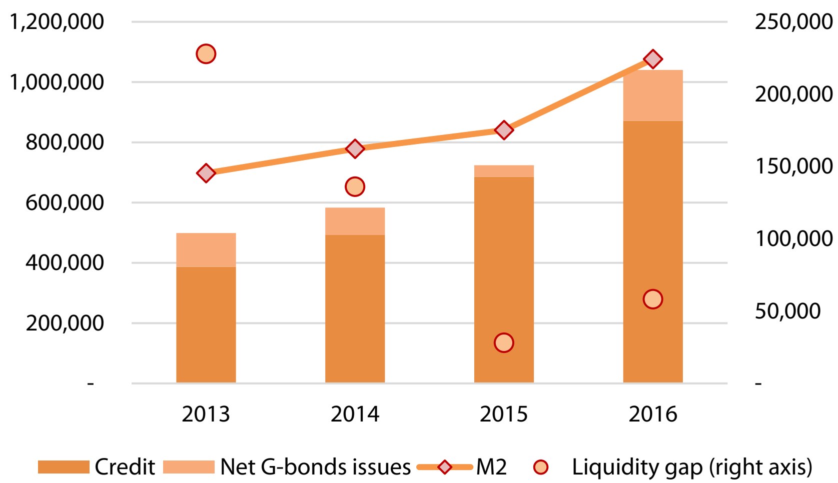
M2/GDP and Credit/GDP Reached an All-time High



Credit by sectors & CAGR growth 2012-2016



Liquidity Gap in 2016 was at Low Level in 2013-2016



2017 Outlook

- **M2 stock and M2/GDP** ratios reached an all-time high in 2016, but this ratio is **not a convincing indicator of money oversupply**, which we believe is not a major source of concern for inflation in 2017.
- Credit growth is in line with key sectors' growths, and **the SBV is unlikely to raise interest rates in 2017**. Instead, they should be ready to cool the credit boom in other sectors (such as consumer spending and real estate).

Sources: WB, SBV, RongViet Research, Liquidity gap = ΔM2 - Δ Net G-bond issues - Δ Credit

Fed Rate Hikes – Headwind For Monetary Policy

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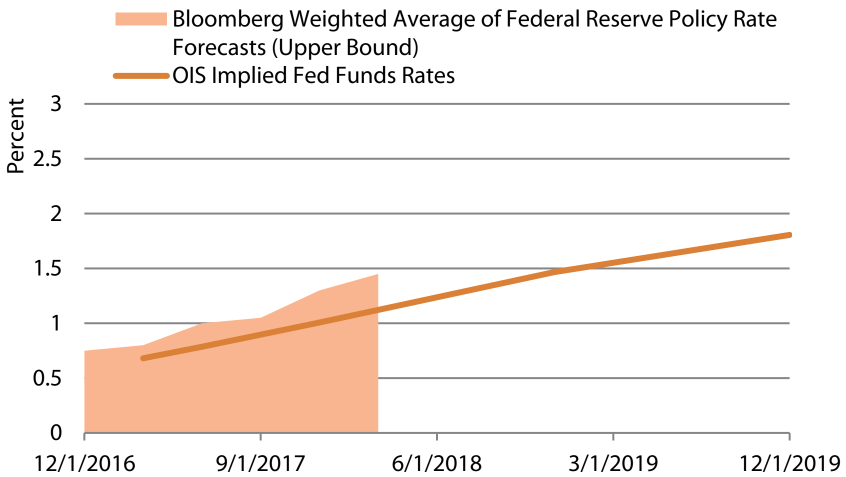
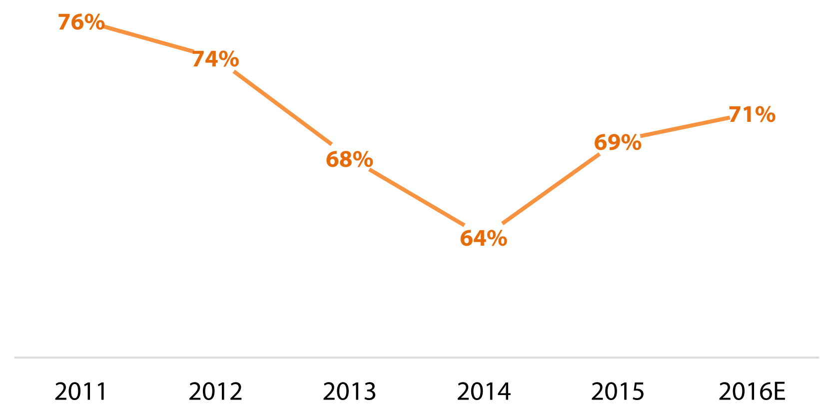
A Gradual Pace of Fed Rate Hikes in 2017



External Debt/Total Debt



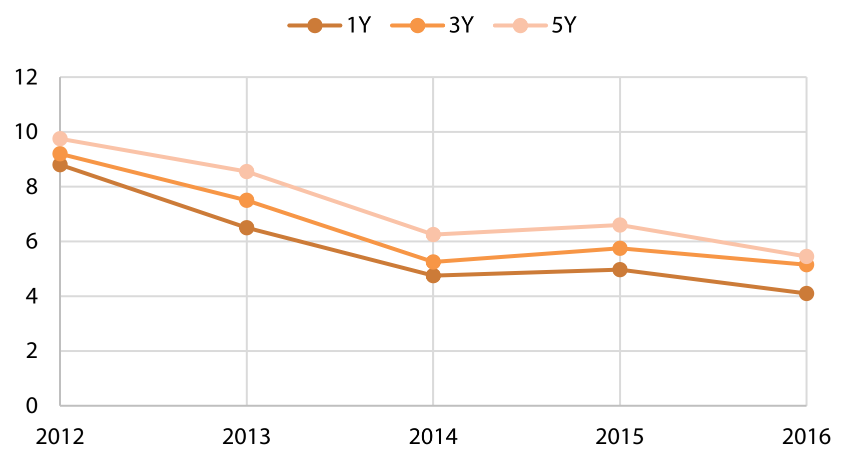
Reasons to Keep Easing

- Public debt in Vietnam is less exposed to Fed rate hikes because it is more reliant on domestic borrowings now (compared to 2011)
- Because of budget constraints, Vietnam is much more dependent on monetary policy to support economic growth
- Keep government borrowing costs at a low level

Foreseeable Risks in the Medium Term

- Higher inflation pressure
- Lending criteria tightens and borrowing costs rise
- High vulnerability to FX movements

Vietnam Government Bond Rate



Sources: Bloomberg, RongViet Research

THEME 2: Trade Barriers – Will Vietnam be Hurt?

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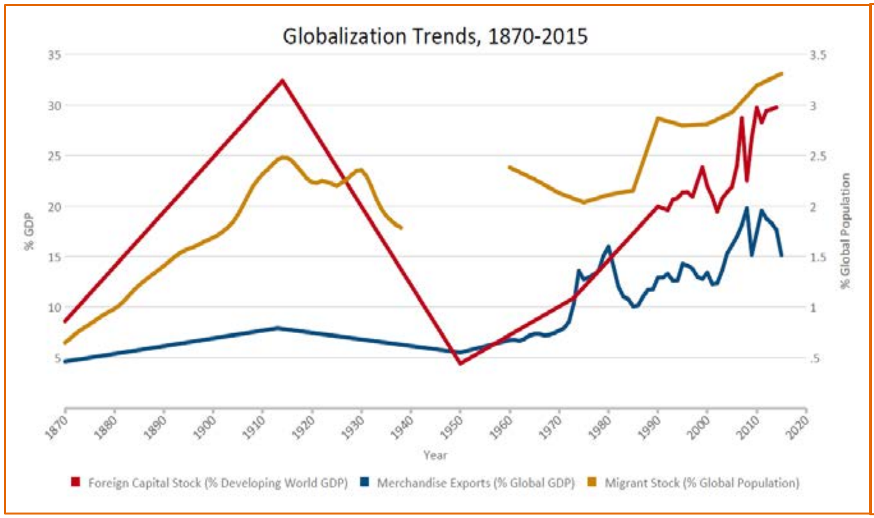
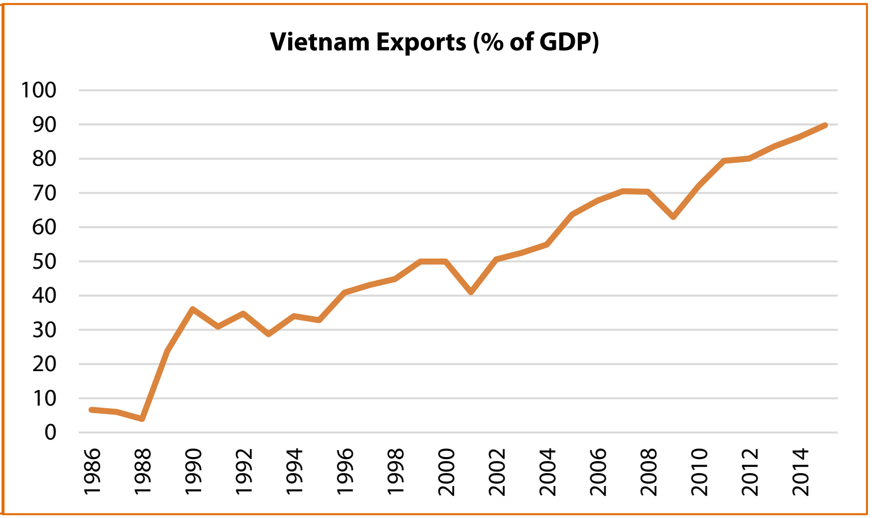
MACRO KEY DEBATES	RISKS
• Potential Outcomes of Trump 's anti-globalization agenda • Vietnam's exports outlook (in short and medium term) • FDI flow is not likely to decline in the medium term • Vietnam is a potential winner if US imports from China decline	• More uncertainties under the Trump presidency • Weakness in global trade • Less support from the FDI sector • Decline in Macro Stability





Sources: zerohedge, GSO, RongViet Research

How a Trump Presidency Could Harm Vietnam's Trade

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Trump's Plan

(1) Withdraw US from TPP: There is no chance for the TPP to be approved under Trump's administration.

(2) Raise trade barriers for US trade partners: A 20% tax on imported goods, a 35% import tariff on Mexico and a 45% import tariff on China, as well as NAFTA renegotiation.

(3) Bring jobs back to the USA: 35% tax on US companies that move jobs overseas.

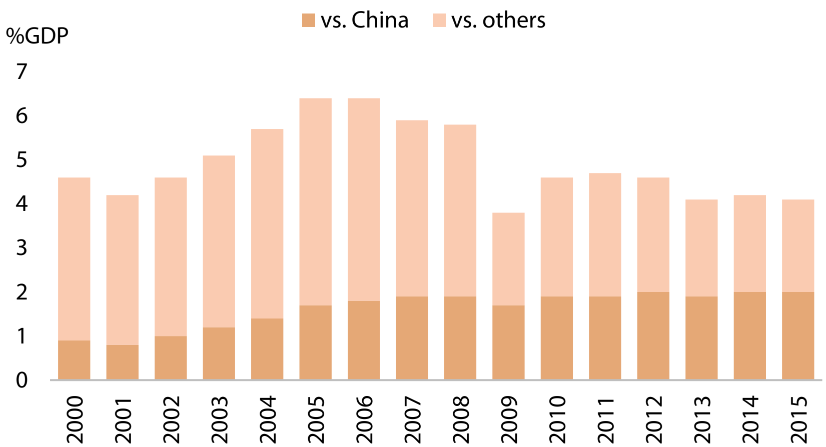
Potential Outcomes

(1) Bilateral trade deals or **new FTAs** (without US) are feasible

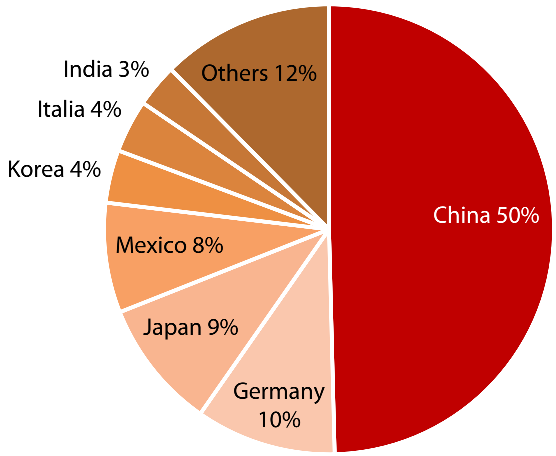
(2) Easier said than done: China might retaliate

(3) A damage to the global supply chain: FDI investors should consider the negative impacts on their businesses.

Trade Deficit of the US (2000-2015)



Decomposition of US Trade Deficit (%)



Sources: Deustche Bank, RongViet Research

Vietnam Exports: Positive Growth In the Short-run

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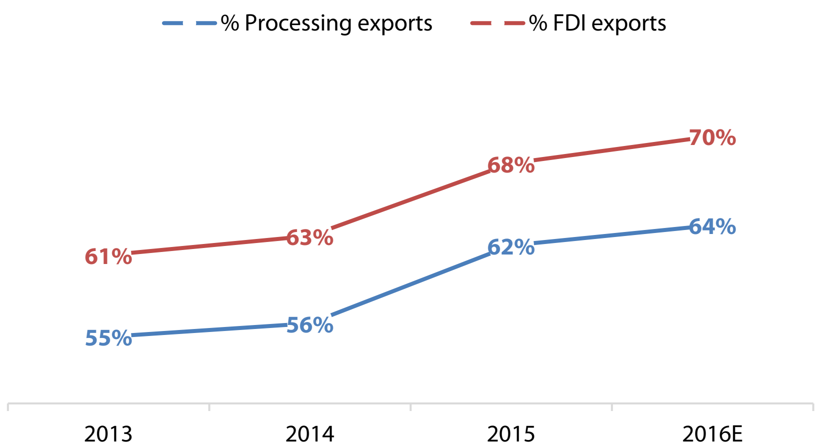
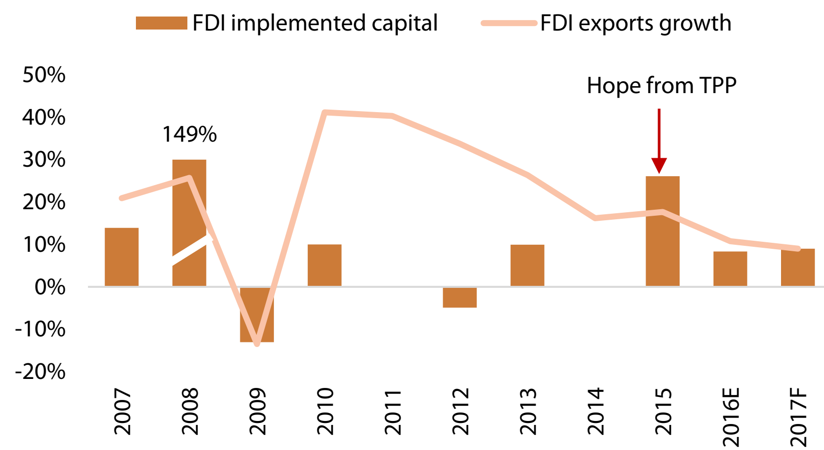
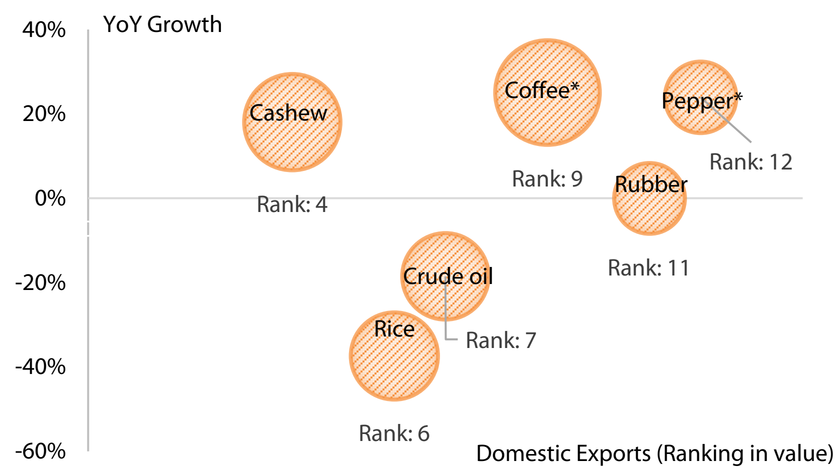
Vietnam Exports Dependency



Growth Momentum will Remain Intact



Commodity-Linked Products Export Growth (2016)



2017 Outlook

- **Growth momentum will remain intact** in the FDI sector, and trade barriers are not likely to hurt Vietnam's exports in the near term.
- **A commodity price recovery will support exports of the domestic sector**, as commodity-linked products accounted for more than 30% of total domestic exports.
- We expect a **9% growth in exports** (higher than the Government's target of 6-7%), and the trade deficit is expected to be ~$1 billion in 2017.

Sources: GSO, Customs, FII, RongViet Research

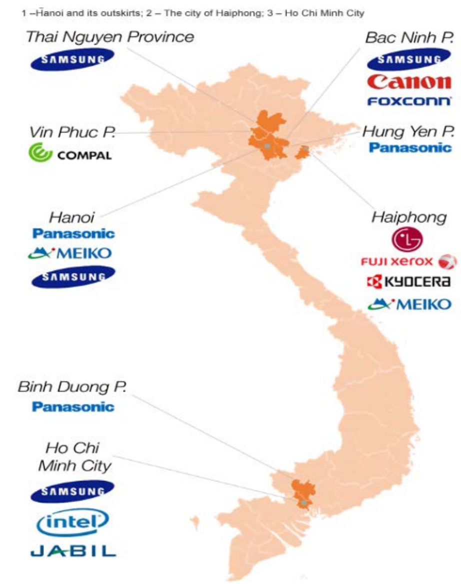
**Positive growth due to an >35% increase in volume*

FDI Flow Is Not Likely To Diminish In the Medium Term

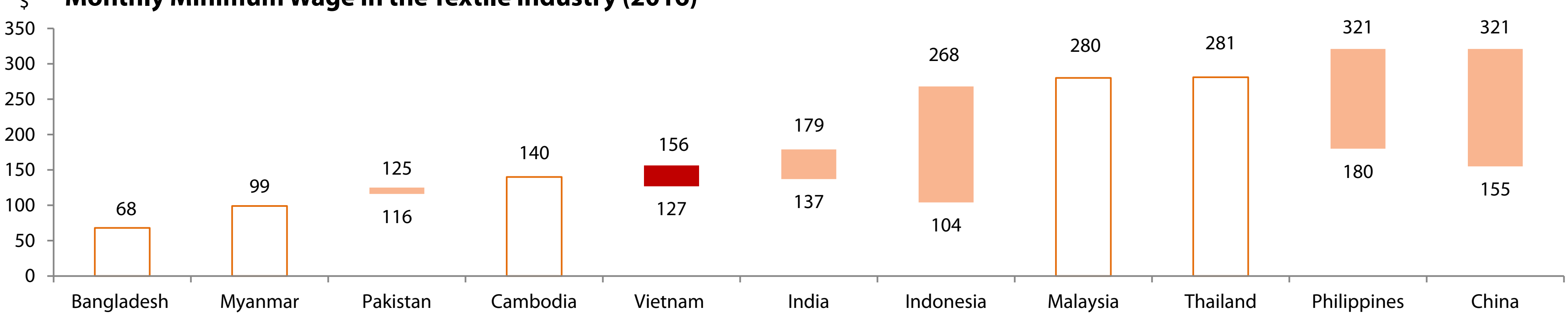
Potential protectionism is not likely to decrease FDI flow into Vietnam because:

- FDI in Vietnam has flowed mostly into the manufacturing sector (59% of total capital) thanks to not only the TPP but also **low labor costs, and macroeconomic and political stability**.
- In China, net FDI is expected to be negative ($100-150 bn per year) in 2016-2018. **Vietnam is definitely a potential destination for China's FDI outflow** but the reallocation of production can only take place over time.
- **Korea and Japan (not US) are the two major FDI investors in Vietnam,** who are not likely to be aligned on broad-based protectionist measures.
- Without the TPP, **Vietnam 's further integration in the global economy remains** (Vietnam signed FTAs with 52 nations across the globe, and some important FTAs are under negotiation (EU-Vietnam FTA, RCEP…).

Three Electronics Clusters in Vietnam



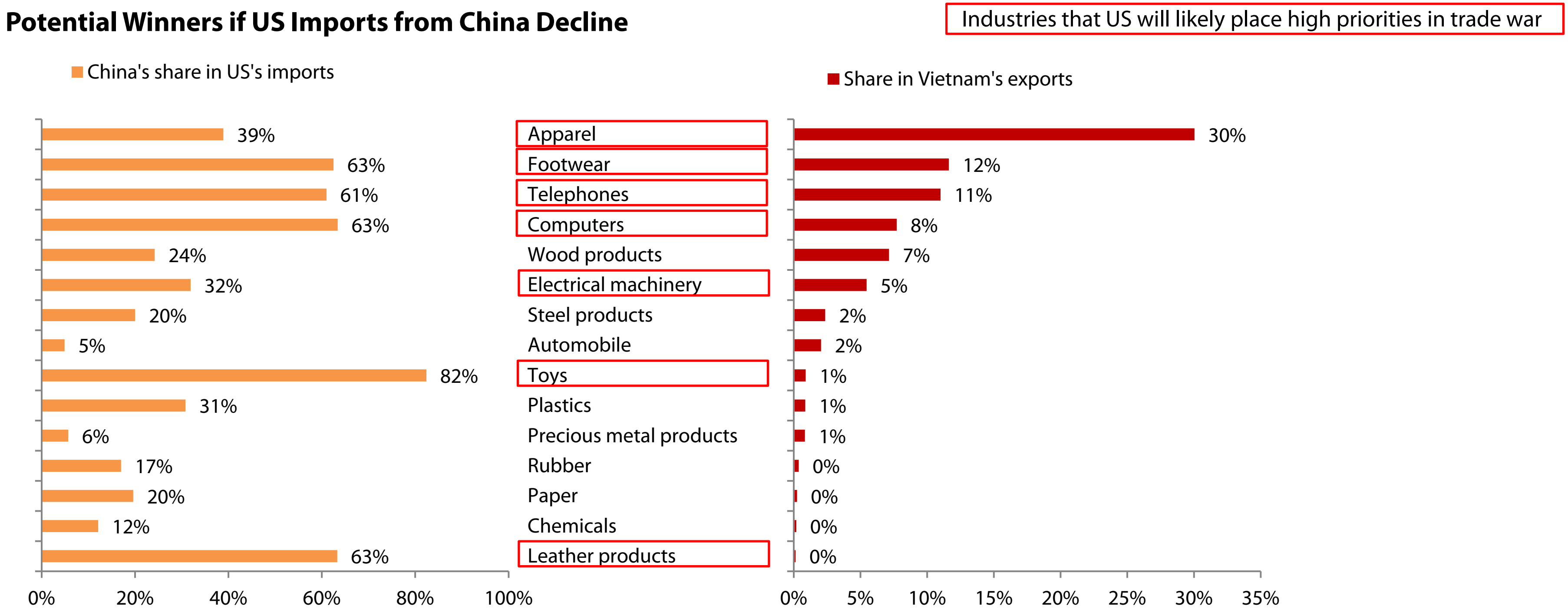
Monthly Minimum Wage in the Textile industry (2016)



Sources: ShengLu, BDG Asia, RongViet Research

The Triumph of Hope Over Fear

Potential Winners if US Imports from China Decline



Expectations if the US only targets products shipped directly from China:

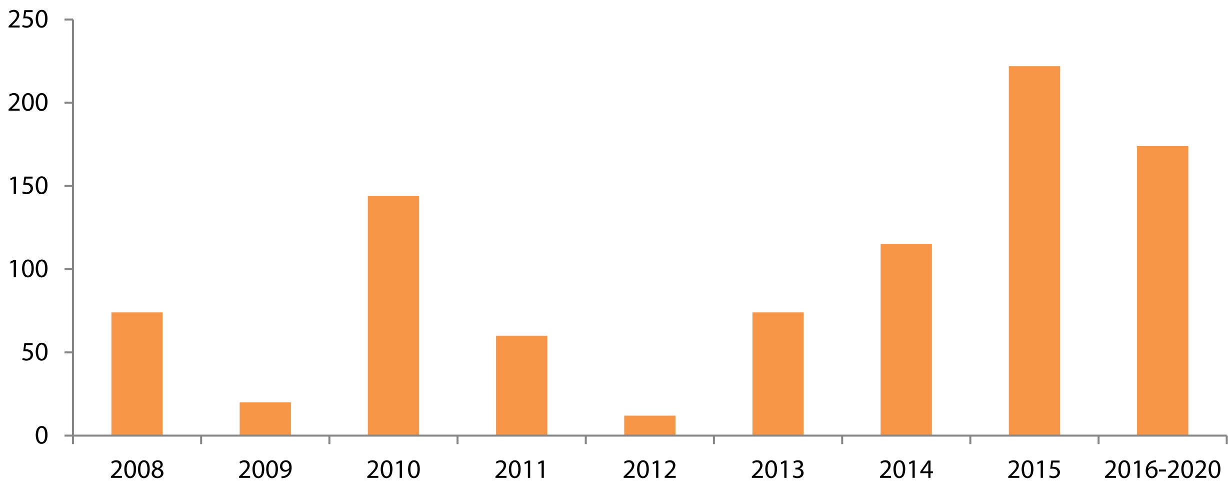
- If US imports from China decline and the vacuum is filled by other exporters, Vietnam could potentially benefit the most
- Wait to Benefit: Electrical machinery, telephones, and computers
- Ready to Benefit: Textile, leather, footwear, and toys

Sources: Deutsche Bank, Customs, RongViet Research, Data as of 2015

THEME 3: SOE REFORMS

MACRO KEY DEBATES	RISKS
• High public debt will catalyze further privatization efforts • SOE reforms: Opportunities vs . Challenges • SOE reforms across Vietnam and Asia • Potential IPOs and State divestments in 2017	• Political risks • Corporate governance reforms disappoint

Number of Privatized SOEs 2008-2020F



Source: RongViet Research

Partial Privatization: Still Challenging

Opportunities/ Positive Movements (+)

(+) The State will only retain 100% ownership in 12 sectors*, creating diversified investment opportunities for many investors

(+) More efforts to push companies that had an IPO into listing on stock exchanges (Circular 115/2016/TT-BTC) , which is considered as a way to promote transparency of these companies

(+) The divestment of profitable industries such as dairy and breweries has progressed, with the Government likely to sell stakes in Vinamilk, Sabeco, and Habeco in 2017

Challenges/Negative Movements (-)

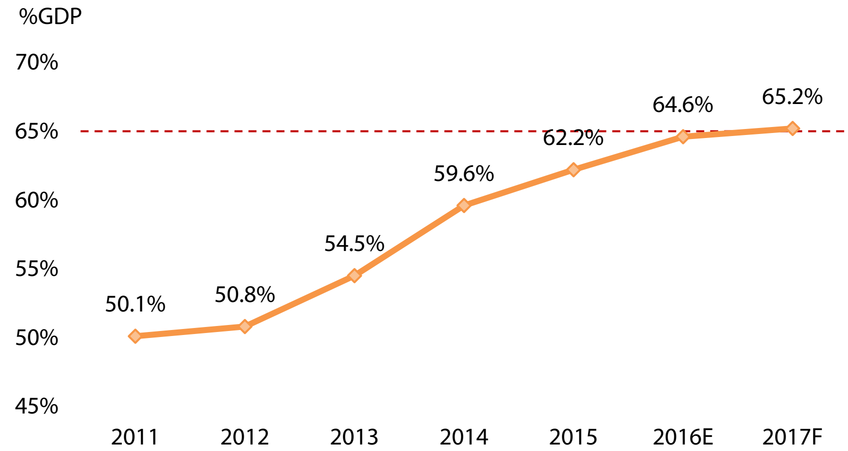
(-) The State continues to hold controlling stakes (63% - under the plan), and the governance reforms and improved efficiency might never materialize

(-) Equitization agenda has not been conducted on time, despite previous optimism and the recognized necessity of this agenda

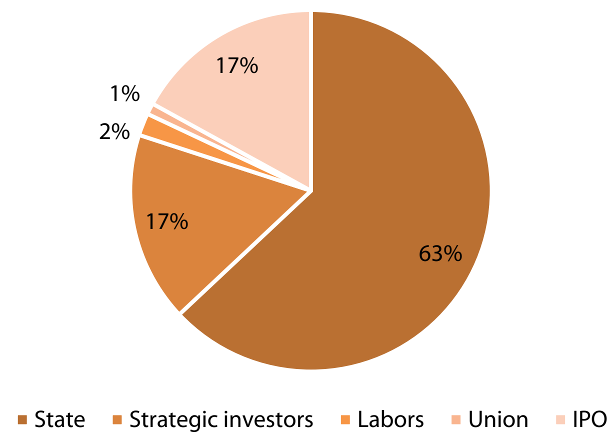
(-) Less accessible for foreign investors

(-) Post IPO restructuring

High Public Debt Pushes Privatization Further



Equitization Plan for 564 SOE companies (2011-2016)

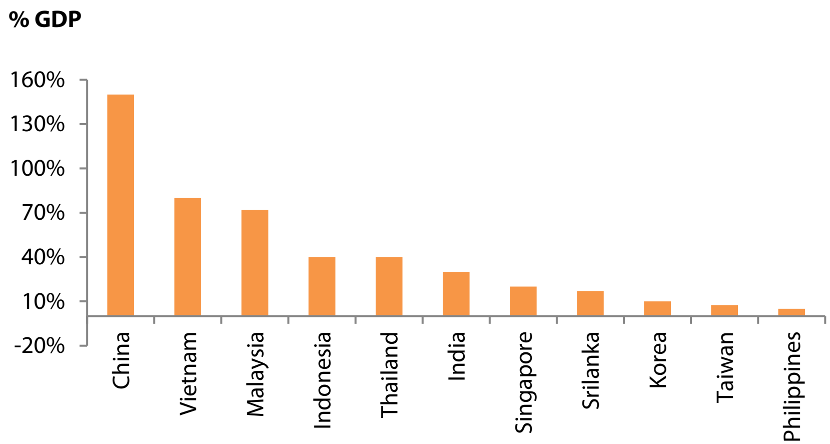


*Cartography for national defense and security; Electricity transmission; Railway infrastructure management; Air traffic and rescue services; Public post; Management and exploitation of irrigation systems; Policy credit for economic and social development; Safety in banking system; Lottery

Sources: GSO, RongViet Research, Fiinpro

SOE Reforms Across Asia

Vietnam: High SOE Assets as % of GDP



How are SOEs restructured?

❖ **Vietnam and China**: a decentralized model (Ministry or similar organization)

❖ **Malaysia, Indonesia, and Thailand**: the Temasek model (Singapore)

Vietnam	China	Malaysia	Indonesia
✗ Governance ✓ Equitization plan ✗ Loosening the State's authority - Non-core business divestment - Increasing transparency	- Mixed ownership ✓ Asset restructuring ✗ Governance ✗ Zombie SOEs - Loosening the State's authority - Regrouping SOEs by function	✓ Control SOEs through a holding company (Khazanah) ✓ Governance and Operational efficiency	- Establish a holding company ✗ State asset sales

Sources: HSBC, RongViet Research, - progressing, ✗ Cautious ✓ Finished (all or in part)

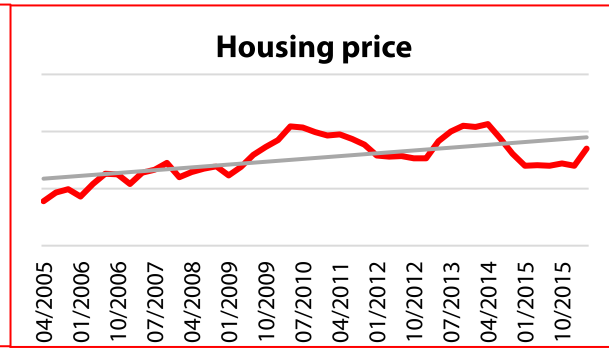
IPO – State Divestment in 2017

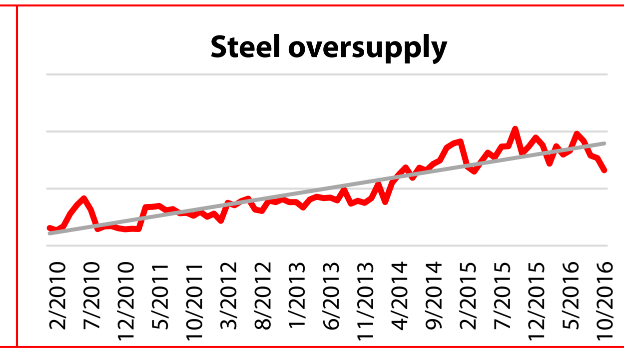
IPO	Vietnam Rubber Group Natural Rubber Q1/2017	PETROVIETNAM BSR Oil&Gas Q3/2017	PETROVIETNAM PV Power Utility	
VINA CAFE Agriculture	Construction	EVNGENCO 3 Utility	mobifone Telecom	Benthanh Group A holding company
State Divestment	SABECO Consumer Goods 04/2017	HABECO Consumer Goods	FPT Fpt Telecom Telecom	SA GIANG SAGIMEXCO. DONG THAP Consumer Goods

Special Topic: China - One Belt, One Road Strategy

China's economic story:

- ❖ Growth leading up to 2007 created a phenomenal trade surplus level
- ❖ After financial crisis:
  - Trade surplus fell sharply
  - Internal investment stimulus led to a housing crash and overcapacity in manufacturing





Source: Bloomberg

Solution:

AIIB (Asian Infrastructure Investment Bank)	RCEP (Regional Comprehensive Economic Partnership)
• Supports infrastructure development in Asia – Pacific • China as a founding member with 50% capital contribution • 57 expected founding partners • $100 billion in capital (~2/3 ADB, ~½ WB)	• 46% of the population • $17 trillion GDP • 40% global trade turnover • ASEAN + China, Japan, Korea, India, Australia, and New Zealand

AIIB

Projects

Proposed Project	Approved project
• India – Energy Power Supply (Co-finance WB) – 28% capital • Kazakhstan – Roads and Highways (Co-Finance WB) • Indonesia – Urban transport and urban water supply (Co-Finance WB) – 25% ➔ 36% capital • Oman – Transport/Highway (Co-Finance WB) – 75% capital • Azerbaijan – Energy Supply/Oil and Gas (Co-Finance WB) – 17% capital	• Indonesia – Infrastructure upgrade (Co-finance WB) – 12% capital • Tajikistan – Road connectivity (Co-finance EBRD) – 26% capital • Pakistan – National motor way (Co-finance ADB, Department for international development (UK)) – 36.6% capital • Bangladesh – Electric Supply – 63% capital • Myanmar – Energy Supply (Co-finance ADB, IFC)

Loan Conditions

AIIB	ADB
• 12 – 15 year term • 3 – 7 year grace period • Interest rate linked to Libor Rate • Commitment fee: 0.25% • Front-end fee: 0.25%	• 25 year term • 5 year grace period • Interest rate: 2% per annum • No commitment fee

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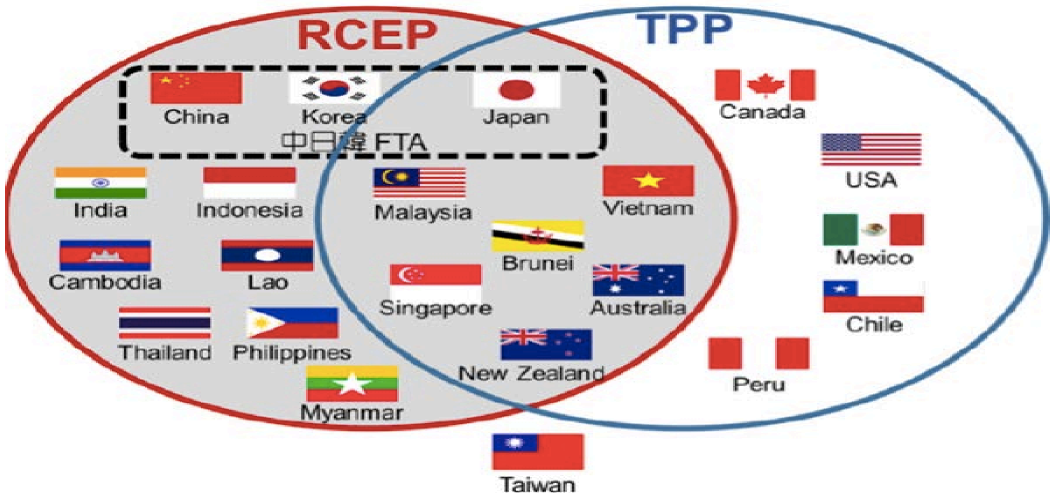
Benefits

- Low interest loans for infrastructure investments:
  - ADB and WB stopped providing ODA to Vietnam since Vietnam has emerged to become a middle-income country
  - To meet the goal of $300 billion in GDP by 2020 with infrastructure accounting for 10 – 11% of GDP, Vietnam needs roughly $25 - $30 billion/year. Vietnam still faces a shortage of $9 billion/year (compared to $2.1 billion/year a decade ago)

Risks

- Uncertainty:
  - Uncertain whether with 50% of capital contribution, China will operate based on a multilateral mechanism other than bilateral mechanism
- Efficiency:
  - Investments from China result in the use of Chinese materials and operating mechanism, low quality technologies and the likely inflow of Chinese labor
  - Projects are often slow in progress and inefficient
  - Example: Cat Linh – Ha Dong railroad project: in 2009, the value invested was $586 million. In 2014, the added investment was $250 million
- Social and Environmental Impacts:
  - Environmental and property damage
  - Example: In Myanmar, investments from China in hydro electrical projects, copper-mining and gas pipelines had to stop because of environmental damage, natural resource losses

RCEP



TPP	RCEP
• 40% of World GDP and 25% trade turnover • US as the pivot • China and India are not members • Built on the developed countries' standards which requires members to follow guidelines on intellectual property and government procurement	• 30% of World GDP, 40% of trade turnover, and 46% of the world's population • ASEAN is the driving force while China supports growth • Pressure on China and India reforms if they want to participate • Simpler and freer rules to support interregional cooperation • Connects the two largest Asian economies, namely China and Japan

Tariff reduction/elimination

More integration into commercial goods, services and investment

RCEP's Impacts on Vietnam

Benefits	Challenges
• Reduced tariffs leads to increased trade • Technology Transfer • More FDI invested in East Asia, especially Vietnam because it has low-labor costs • Improved Supply Chain Management	• Trade deficit increases, especially with China • Fierce competition with China particularly in trade relations with Japan • Fierce competition from ASEAN countries with similar commercial structures
• **Benefiting Industries**: Agriculture (Rice, Vegetables), Fishery, Textile, Transport and Hospitality	• **Industries under fierce competition**: Steel, Paper, Banking, and F&B

2017 KEY MACRO INDICATORS

RONGVIET SECURITIES

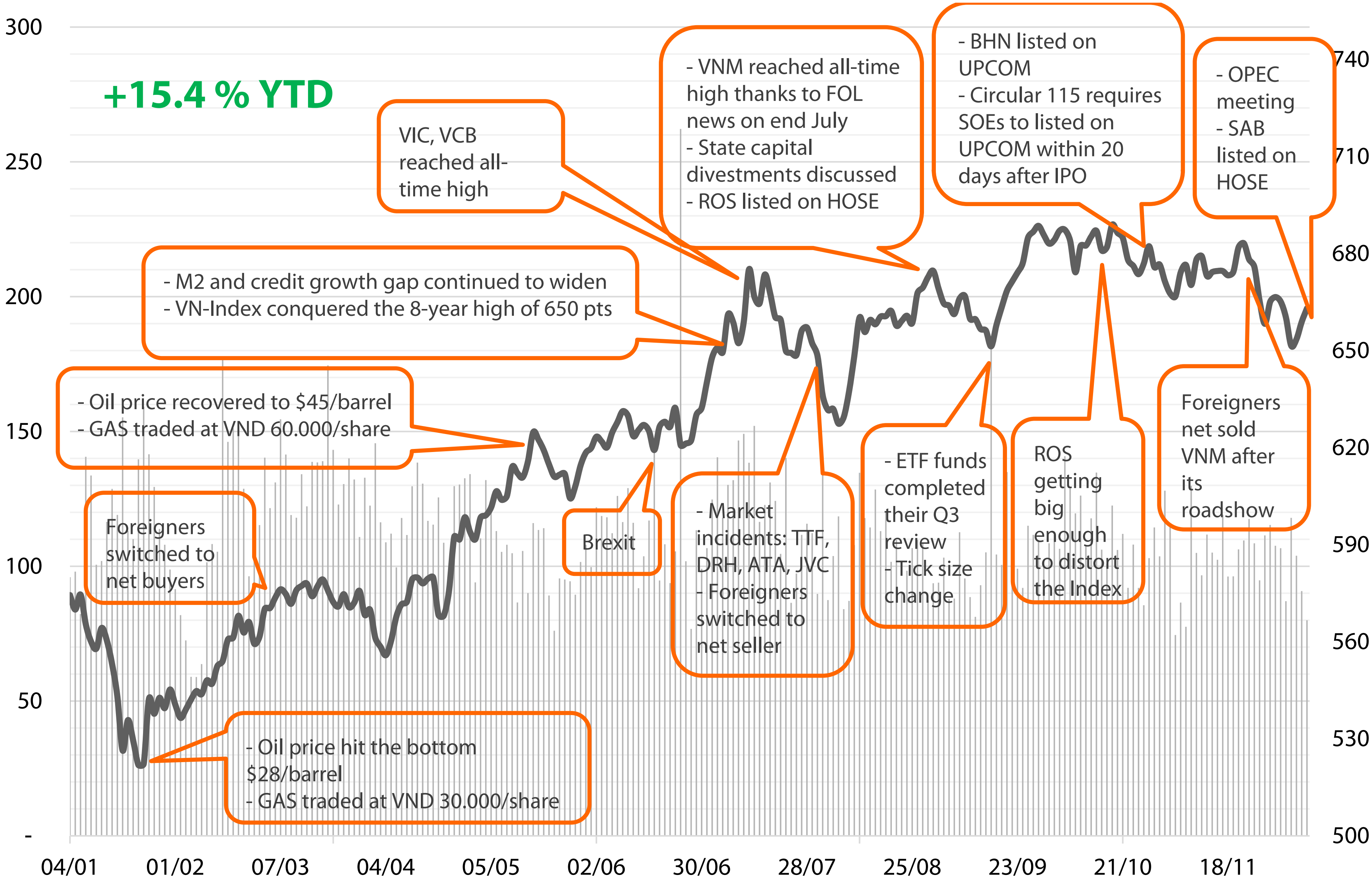
	2014	2015	2016E	2017F
Economic Growth	5.98%	6.68%	6.21%	6.58%
Trade Balance (USD B)	+1.5	-4.1	+2.6	-1.0
Export Growth	11.6%	8.1%	8.6%	9.0%
Import Growth	15.9%	12.0%	4.6%	11.0%
Inflation	1.9%	0.6%	4.74%	6.0%
Refinancing rate	6.5%	6.5%	6.5%	6.5%
M2 Growth	16.0%	14.5%	17.9%	18.0%
Credit Growth	12.6%	17.3%	18.7%	16.0%
Budget Deficit/GDP	4.7%	4.6%	3.1%	3.5%
Exchange Rate	21,405	22,540	22,700	23,200

Source: RongViet Research

RONGVIET SECURITIES

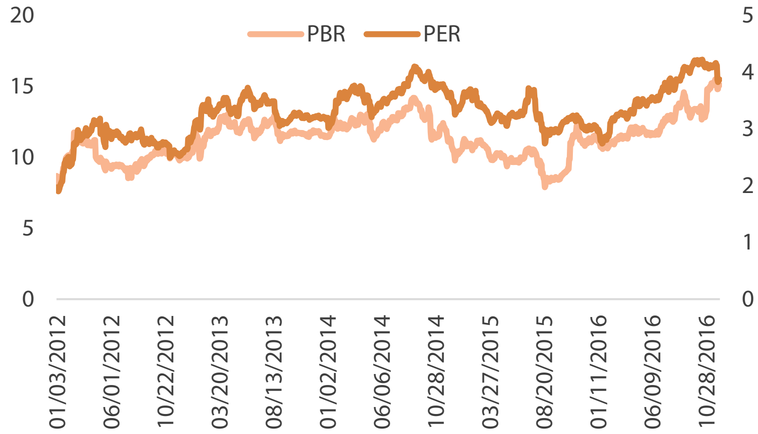
Stock Market Trends for 2017: Outlook for Various Sectors of Vietnam's Stock Market

2016 Stock Market Overview

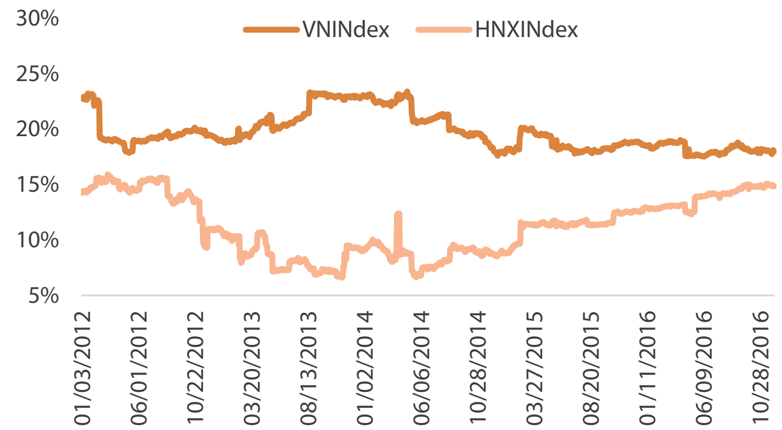


2016 Stock Market Overview

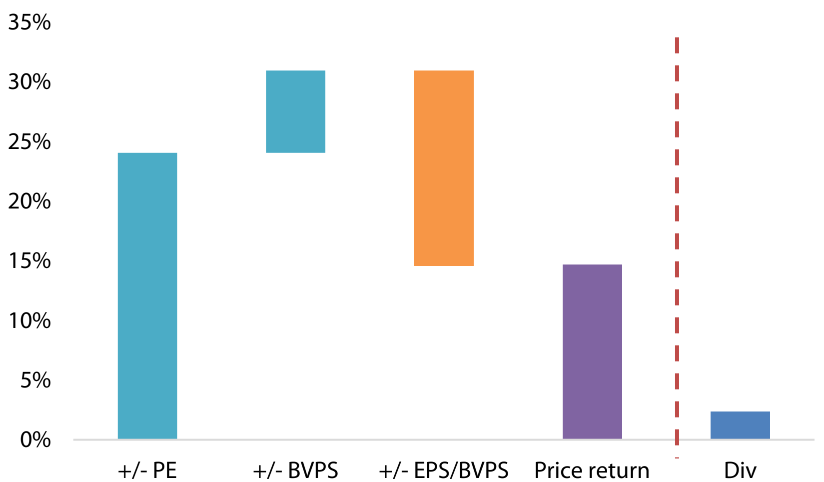
Valuation Multiples are at a Multi-year High!



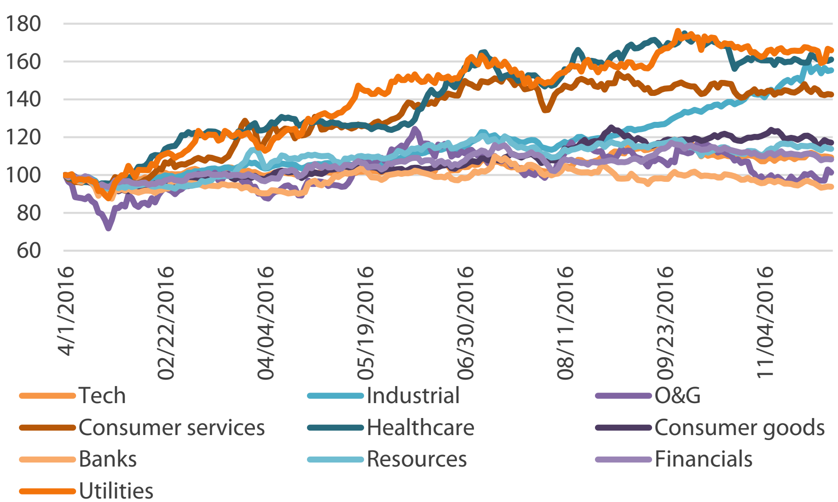
ROE Hardly Improved Between 2012 and 2016



The driver of market return is PE expansion



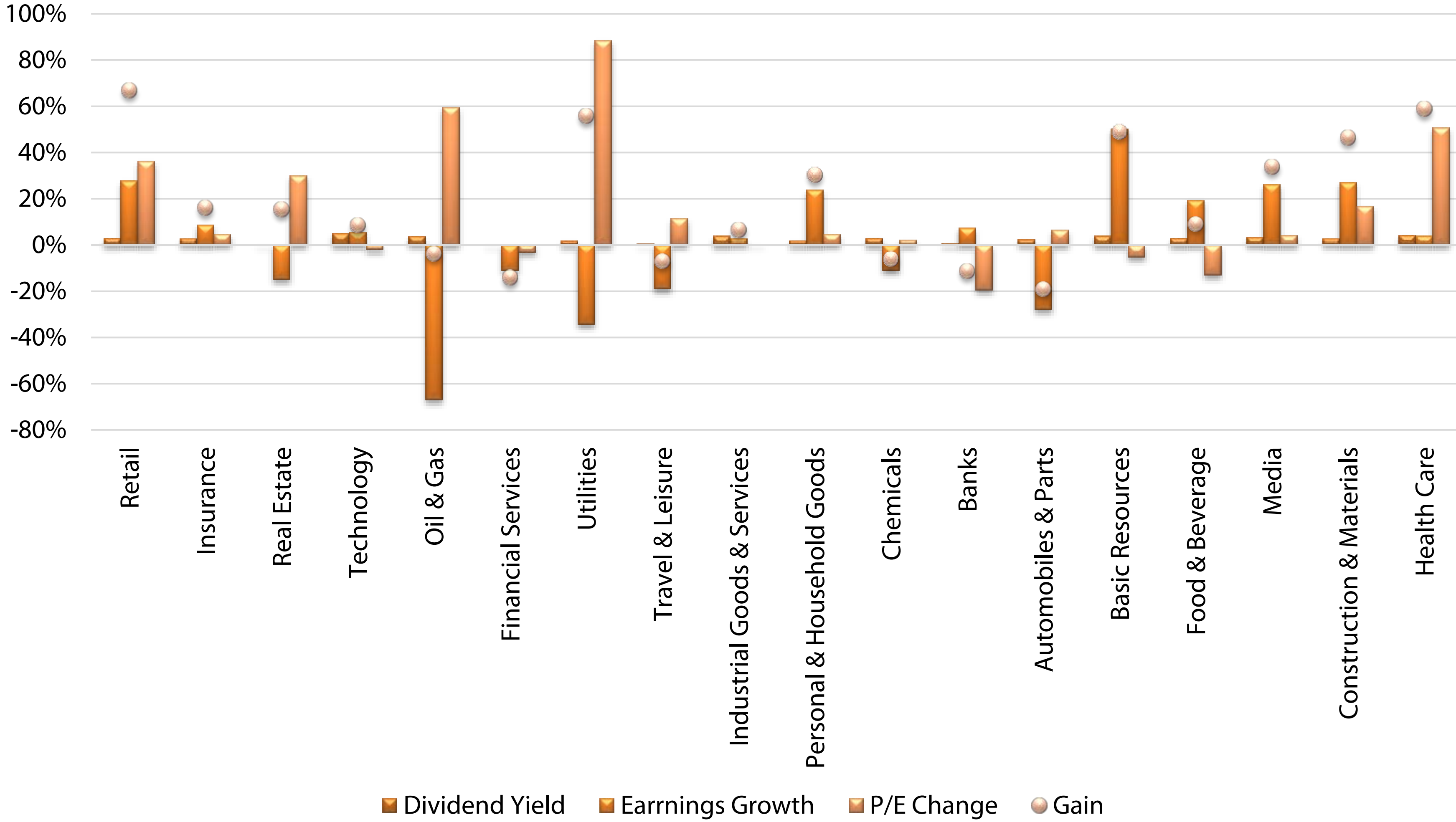
There is a stark contrast in sector performances



Sources: FiinPro, RongViet Research

2016 Overview for Various Industries

RONGVIET SECURITIES



Sources: FiinPro, RongViet Research

Overview for Various Industries

	Market Cap (billion VND)	+/- Price 1M (%)	+/- Price 3M (%)	+/- Price YTD (%)	+/- Price 12M (%)	Trailing PER (x)	PBR (x)	12M ROAA (%)	12M ROE (%)	Gross profit Margin (%)	Net profit margin (%)	EBITDA margin (%)	Debt /Equity (x)
HNX-Index	149,060.7	-0.6	-5.8	0.2	0.0	10.2	0.98	6.64	14.86	24.92	13.15	12.93	0.7
VN-Index	1,367,478.9	-1.1	-0.6	15.4	17.3	15.9	1.97	9.79	17.99	33.37	16.29	18.99	0.5
UPCOM Index	250,727.0	-4.5	0.4	10.6	16.3	56.5	1.52	4.94	9.94	20.84	9.67	22.36	0.7
Consumer goods	387,868.4	-2.5	-5.3	17.1	20.3	14.8	6.1	20.7	29.4	32.8	15.4	19.5	0.5
Industrials	347,152.0	9.1	28.4	55.4	56	18.2	4.0	7.6	14.3	21.5	15.7	23.6	0.6
Banks	311,447.7	-2.6	-6.5	-6.2	-5.9	13.0	1.7	0.8	11.8	53.5	23.1	-	-
Financials	274,480.4	-2.1	0.7	8.3	10.6	25.3	2.7	2.7	7.4	35.0	17.8	18.1	0.7
Utilities	182,691.7	1.5	5.4	65.9	52.8	20.1	2.7	8.0	12.1	19.9	11.5	20.1	0.4
Resources	138,665.0	2.3	-2.5	13.8	14.1	10.5	2.0	9.0	16.9	13.4	1.7	12.6	0.3
Consumer services	55,983.9	-0.4	-4.1	42.6	39.5	19.7	4.4	12.9	28.9	21.7	9.8	10.4	0.7
Technology	25,915.0	0.5	-2.9	9.3	8.5	10.2	1.9	7.3	16.7	20.2	6.0	16	0.7
Healthcare	23,576.1	-0.2	-1.7	61.1	61.1	24.0	3.0	13.6	21.4	39.3	10.6	16.8	0.4
Oil & Gas	18,637.1	3.9	-6.4	1.4	-13.1	14.7	0.7	2.1	4.8	8.9	2.2	9.7	0.3

Source: RongViet Research

2017 Key Forecasts

#1 There will be a mean-reversion in market valuation

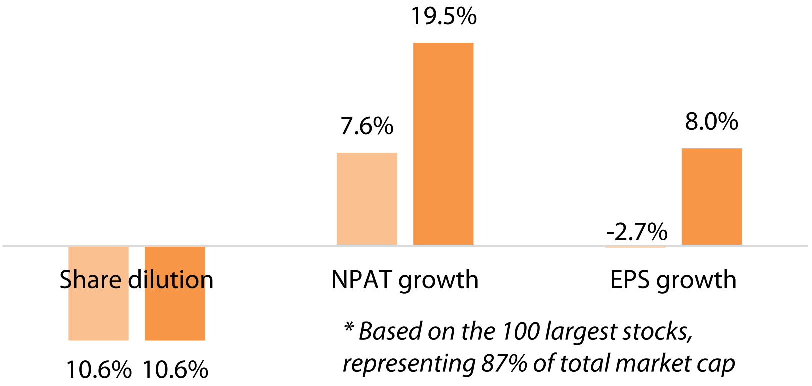
#2 Funds flows are not supportive in the short term

#3 Earnings growth will sustain despite strong dilution

#4 Sentiment will consolidate, but will do so cautiously

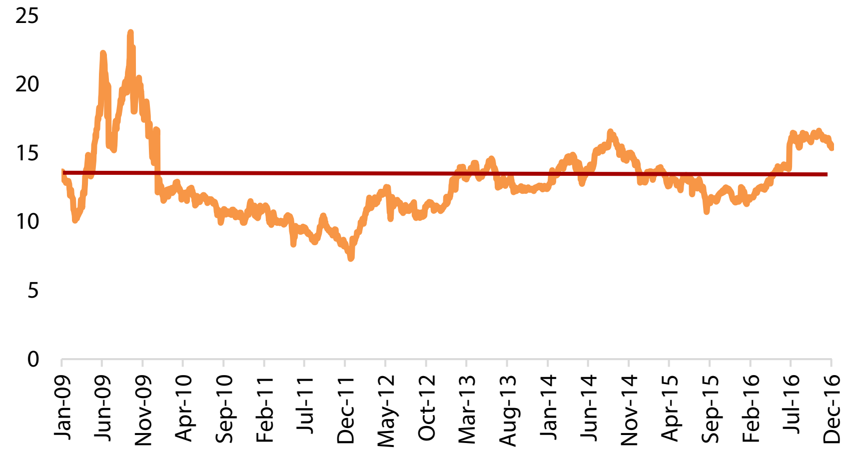
2017 Market Performance Breakdown

Two Scenarios of 2017 Market Performance

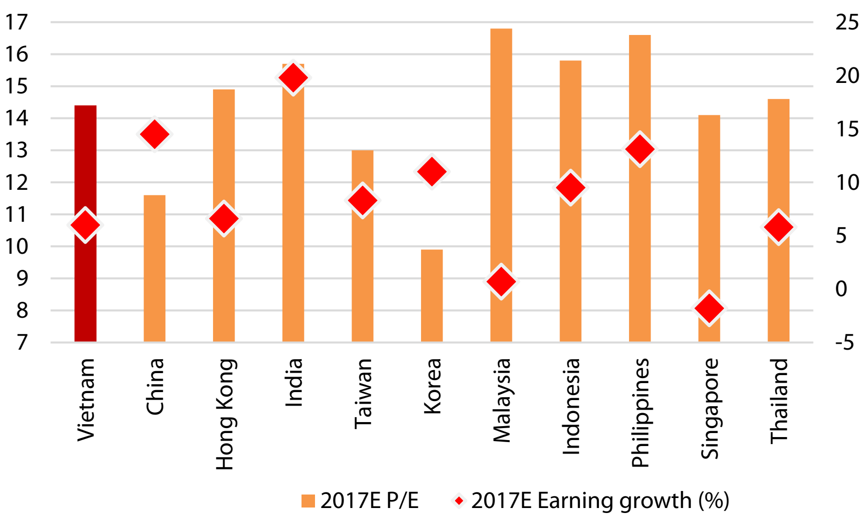


** Based on the 100 largest stocks, representing 87% of total market cap*

VNIndex Historical Trailing PER

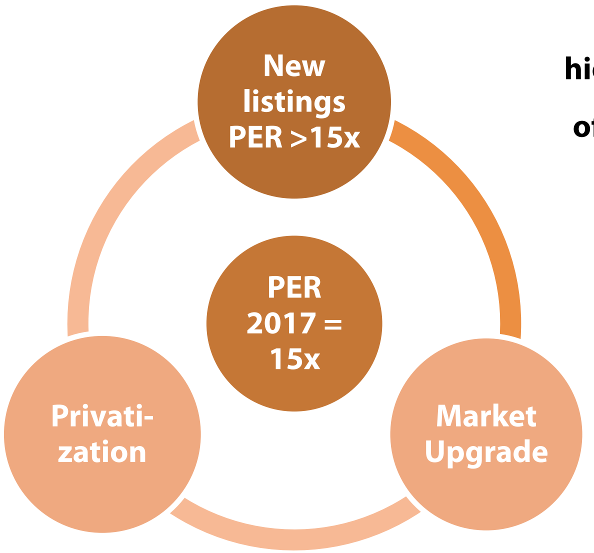


Vietnam Stock Market Relative Valuations



Sources: RongViet Research, JPMorgan

2017 P/E forecast



As the PE goes higher, the chances of mean reversion also increases!

Source: RongViet Research

Market Valuation: Not cheap, but not Expensive Yet

	YTD returns	PE	PB	EV/EBITDA
VNIndex	**15.4%**	**15.9**	**2,0**	**10.7**
Upcom Index	10.6%	56.5	1,5	12.3
HNXIndex	0.2%	10.2	1,0	6.8
Pakistan	**42.1%**	**12.1**	**2.0**	**10.4**
Sri Lanka	**-5.7%**	**12.3**	**1.41**	**7.2**
Thailand	22.6%	16.7	1.8	10.8
Singapore	6.3%	12.5	1.2	13.7
Indonesia	17.7%	24.5	2.4	12.0
Malaysia	-0.1%	17.0	1.7	10.5
Philippines	3.1%	19.1	2.3	12.5
Laos	-9.0%	9.4	0.9	12.9

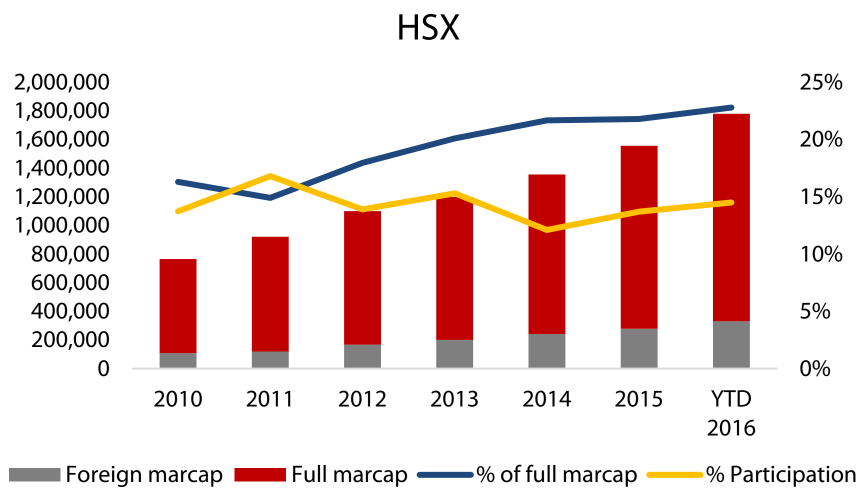
Source: Bloomberg

Components of index performance

EPS growth (8%) + Dividend (3%) + P/E change (-4%) = Total market return (7%)

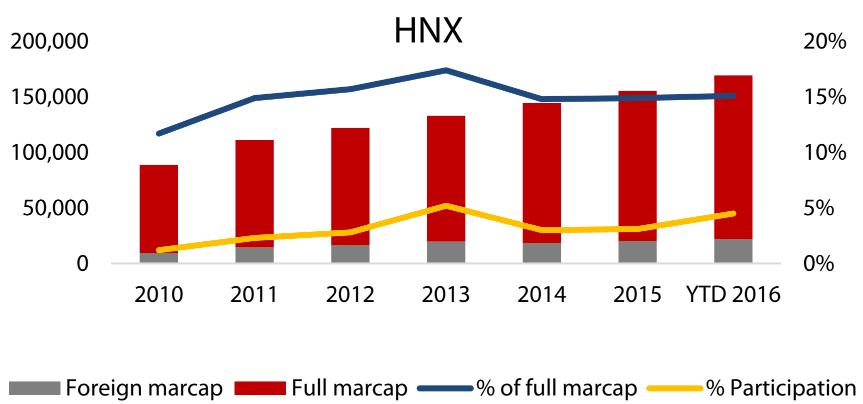
Source: RongViet Research

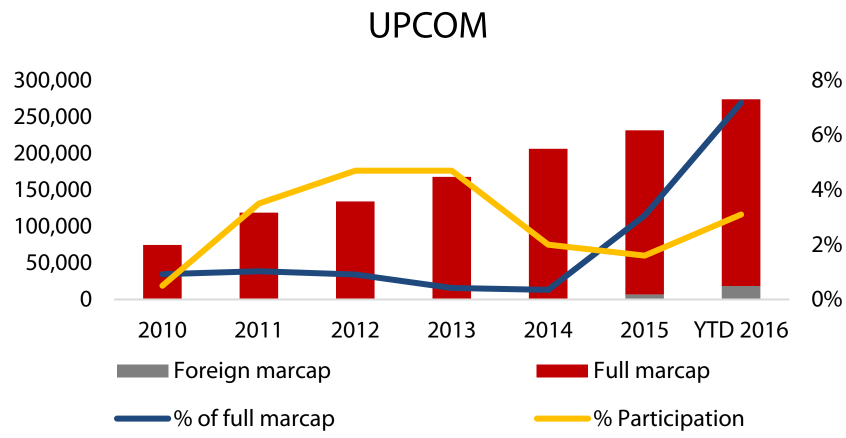
A Wind of Change from the UPCOM



- Foreign ownership in HSX and HNX has stabilized since 2014
- Participation rates in the 2 main exchanges have increased slightly
- Foreign investors have increased their positions in the UPCOM over the last 2 years

UPCOM stocks may continue to emerge as the linkage between IPO and listings will be strengthened by Circular 115/2016/TT-BTC





Source: RongViet Research

FOL Lifting is Still on the Way

RONGVIET SECURITIES

Only 28 companies have increased the FOL or have plans to do so

Tickers	Notes	Status
SSI	Announced lifting FOL to 100%.	Done
EVE	Announced lifting FOL to 100%.	Done
VHC	Announced lifting FOL to 100%	Done
PAN	Announced lifting FOL to 100%	Done
DMC	Announced lifting FOL to 100%	Done
FCN	Announced lifting FOL to 100%	Done
GTN	Announced lifting FOL to 100%	Done
KMR	Announced lifting FOL to 100%	Done
FID	Announced lifting FOL to 100%	Done
CVT	Announced lifting FOL to 100%	Done
VNM	Announced lifting FOL to 100%	Done
CII	Announced lifting FOL to 70%	Done
BIC	Announced lifting FOL to 49%	Done
BSI	Announced lifting FOL to 49%	Done
MBB	Announced lifting FOL to 20%	Done

Tickers	Notes	Status
SMC	FOL lifting to 100% approved at AGM	Pending
HHS	FOL lifting to 100% approved at AGM	Pending
FCN	FOL lifting to 100% approved at AGM	Pending
VDS	FOL lifting to 100% approved at AGM	Pending
TSC	FOL lifting to 100% approved at AGM	Pending
VNE	FOL lifting to 100% approved at AGM	Pending
BMP	FOL lifting to 100% approved at AGM	Pending
VIX	FOL lifting to 100% approved at AGM	Pending
ASP	FOL lifting to 100% approved at AGM	Pending
HQC	Announced increase of the FOL to 60%	Pending
TDH	Announced increase of the FOL to 60%	Pending
HCM	Unofficial information about 100% FOL lifting	Unofficial
TCM	Unofficial information about 100% FOL lifting	Unofficial

Source: RongViet Research

FOL Lifting is Still on the Way

RONGVIET SECURITIES

List of companies that can legally increase FOL to 100%

Ticker	Current FOL	Possible FOL	Expected foreign inflows (best cases) (VND B)
MSN	48.1%	100%	24,535.76
MWG	49.0%	100%	11,587.11
CTD	49.0%	100%	6,749.05
PVD	49.0%	100%	4,217.48
KBC	49.0%	100%	3,497.83
KDC	49.0%	100%	3,293.46
DCM	49.0%	100%	2,915.94
KDH	49.0%	100%	2,410.67
DRC	49.0%	100%	1,938.70
NLG	49.0%	100%	1,616.27
CAV	49.0%	100%	1,307.23
SJS	49.0%	100%	1,242.58
HVG	40.5%	100%	1,223.36
NCT	49.0%	100%	1,120.94
CSM	49.0%	100%	1,022.63
IJC	49.0%	100%	1,125.71
BFC	49.0%	100%	865.92
LIX	49.0%	100%	941.87
CSV	49.0%	100%	606.38
STK	49.0%	100%	468.08
TMT	49.0%	100%	322.55
HTL	49.0%	100%	324.36
DGW	49.0%	100%	330.91

Source: StoxPlus

ETFs have Fallen out of Favor

RONGVIET SECURITIES

FTSE ETF YTD return: 0.14%

Tracking difference: -17.62%

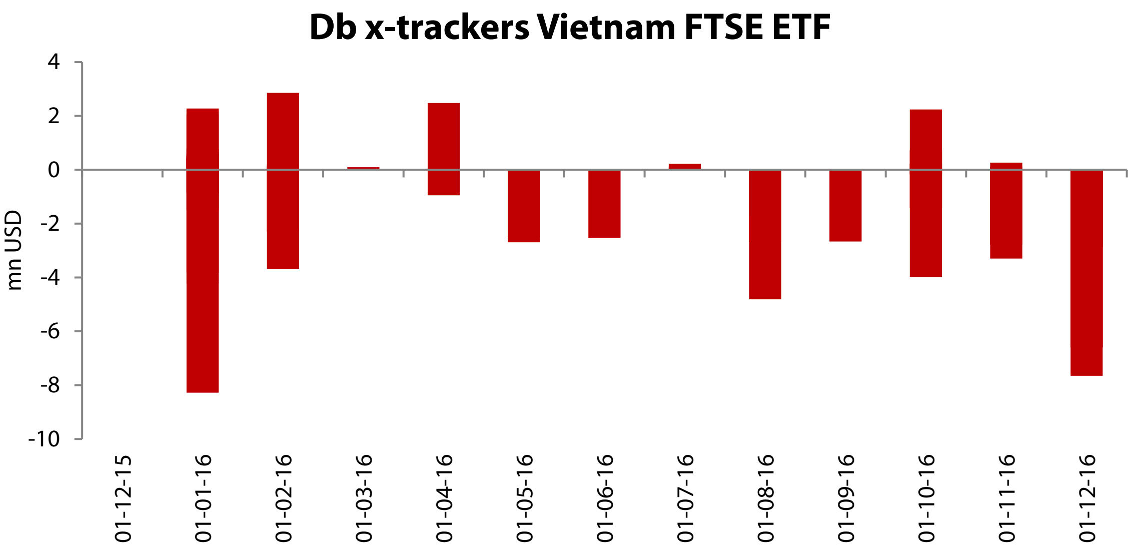
VNIndex: +17.76%

Tracking difference: -26.84%

VNM ETF YTD return: -9.08%

ETFs have Fallen out of Favor

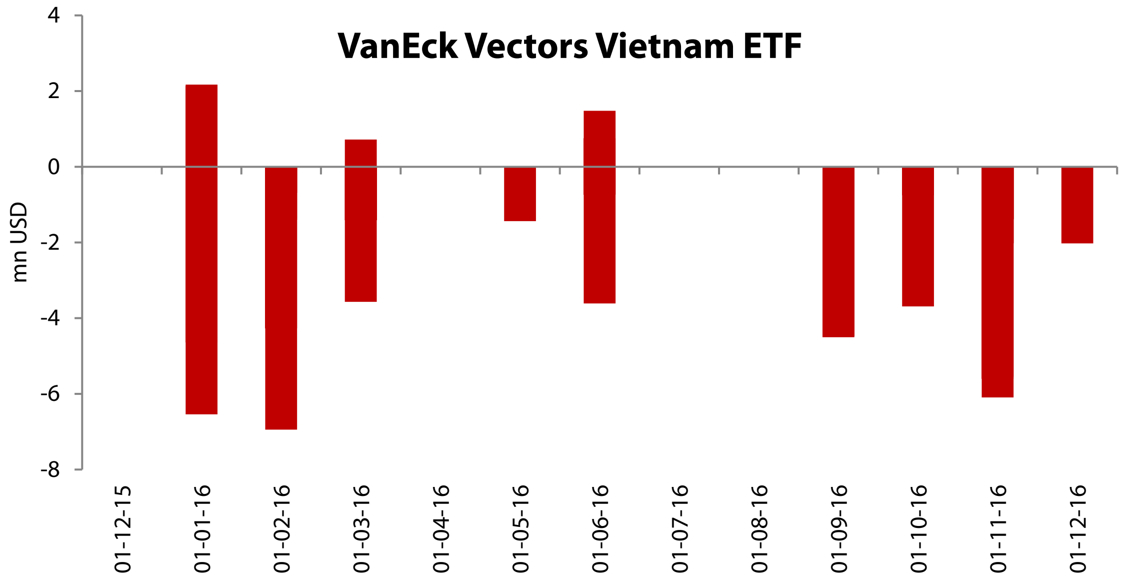
RONGVIET SECURITIES



Net outflow:

- Year-to-date: -71.01 million USD

Total outflows = -$149.54 million (~23% of beginning NAV) – The largest net outflows since inception!



Net outflow:

- Year-to-date: -78.53 mn USD

Source: RongViet Research

Market Status Upgrade is Nowhere in Sight

RONGVIET SECURITIES

Hardly any changes have been made to put Vietnam among other emerging markets

MSCI "C group" criteria revision 2015

C. Market Accessibility Assessment	Vietnam
C.1 Openness to foreign ownership	
Investor qualification requirement	++
Foreign ownership limit (FOL) level	-/?
Foreign room level	-/?
Equal rights to foreign investors	-/?
C.2 Ease of capital inflows/ outflows	
Capital flow restriction level	++
Foreign exchange market liberalization level	-/?
C.3 Efficiency of operational framework	
Market entry	
Investor registration & account set up	-/?
Market organization	
Market regulations	+
Competitive landscape	
Information flow	-/?
Market infrastructure	
Clearing and Settlement	-/?
Custody	++
Registry/ Depository	++
Trading	++
Transferability	-/?
Stock lending	-/?
Short selling	-/?
Stability of institutional framework	+

MSCI "C group" criteria revision 2016

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Market organization	
Market regulations	+
Competitive landscape	
Information flow	-/?
Market infrastructure	
Clearing and Settlement	-/?
Custody	++
Registry/ Depository	++
Trading	++
Transferability	-/?
Stock lending	-/?
Short selling	-/?
Stability of institutional framework	+

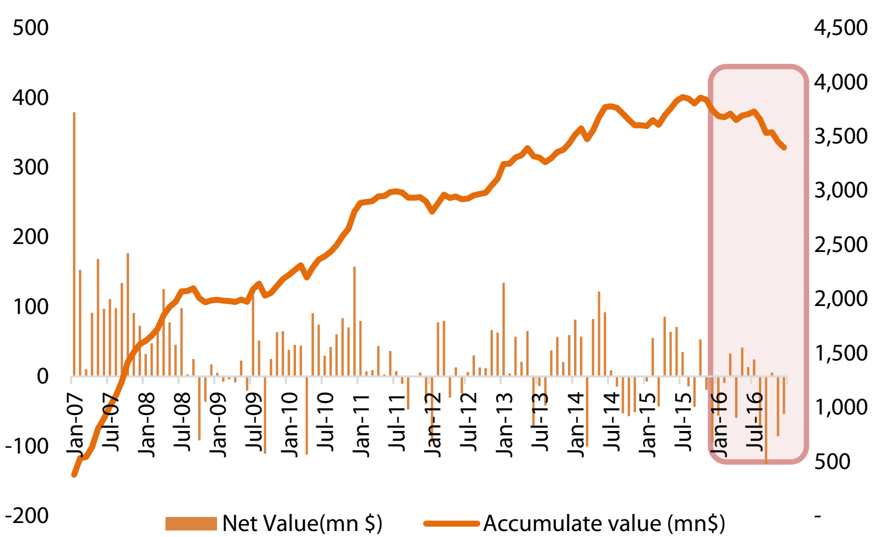
Foreign Trading Activity Drops in 2016

From 2007 to 2015, foreigners accumulated 3,742 million USD in Vietnamese stocks

However, by 08/12/2016, the accumulative value has been reduced to only 3,397 million USD

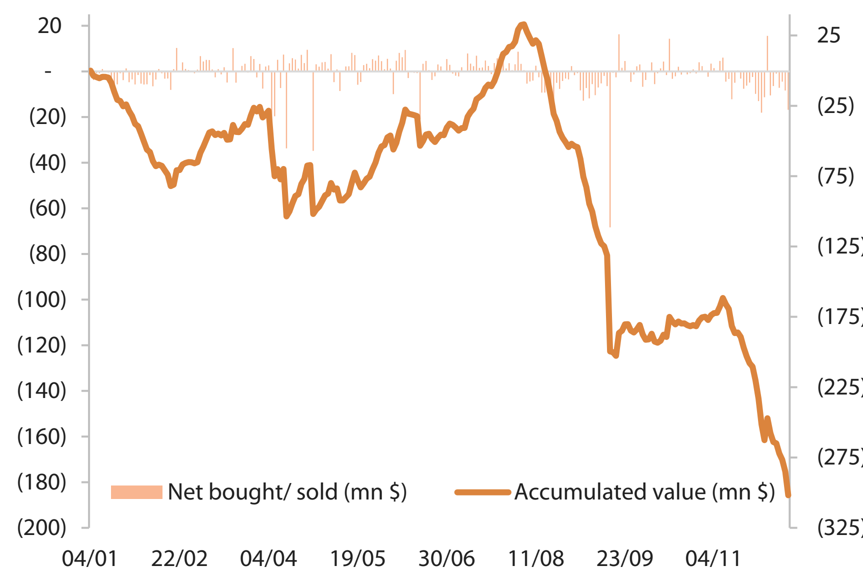
→ *That means foreign investors have withdrawn a staggering 345 million USD from Vietnam stock market in 2016 !!*

Foreigners' activities since 2007



Source: RongViet Research

Foreigners' activities in 2016 (as of 09/12/2016)



Source: RongViet Research

Capital inflows may continue to increase

(1) Monetary easing

(2) More large-caps will list on the stock market

(3) Relaxation of margin lending requirements for newly listed and UPCOM stocks

(4) Room to increase margin lending is still ample

2017 SECTOR RATINGS

RONGVIET SECURITIES

	Growth drivers						Risk				
	SUM	Cyclicality	Regulation	Input cost	Exports	Domestic demand	SUM	Competition	Commodities price risk	Interest rate risk	FX risk
Automobile & Parts	+		+	-		+	**MH**	MH	MH	M	MH
Banking	+	+	-			+	**MH**	MH	N	MH	N
Basic resources	+++	+		-	+	+	**MH**	MH	H	M	M
Chemicals	~	+		-			**M**	M	H	N	N
Construction & Building materials	++	+	+	-		+	**MH**	MH	M	M	N
Financial services	+					+	**M**	M	N	H	N
Food & Beverages	+			-		+ +	**MH**	MH	M	N	M
Healthcare	~	-				+	**MH**	MH	M	N	M
Industrial goods & Services	++	+	+	-		+	**MH**	MH	M	MH	MH
Insurance	+					+	**MH**	MH	N	H	N
Oil &Gas	+	+					**N**	N	H	N	N
Personal & Household goods	-			-	-	+	**H**	MH	M	M	H
Real estate	++	+	+	-		+	**H**	H	N	H	M
Retailing	++					+ +	**N**	MH	N	M	N
Technology	~						**M**	MH	N	M	M
Travel & Tourism	~			-		+	**M**	H	N	N	M
Utilities	+					+	**N**	N	N	N	MH

Seriously negative	- -
Negative	-
Neutral	~
Positive	+
Very positive	+ +

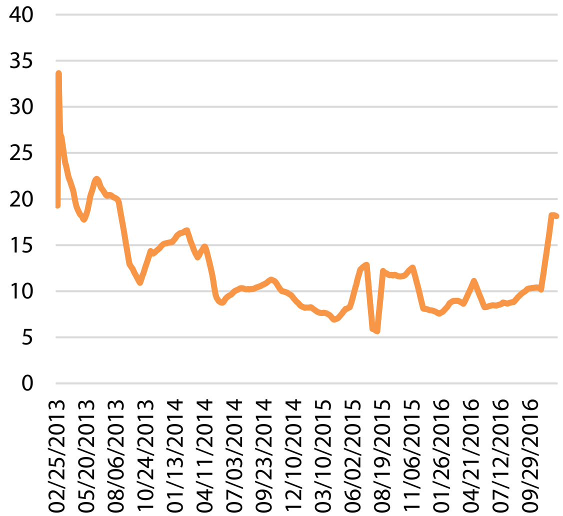
N	Negligible
M	Moderate
MH	Moderate to High
H	High

Source: RongViet Research

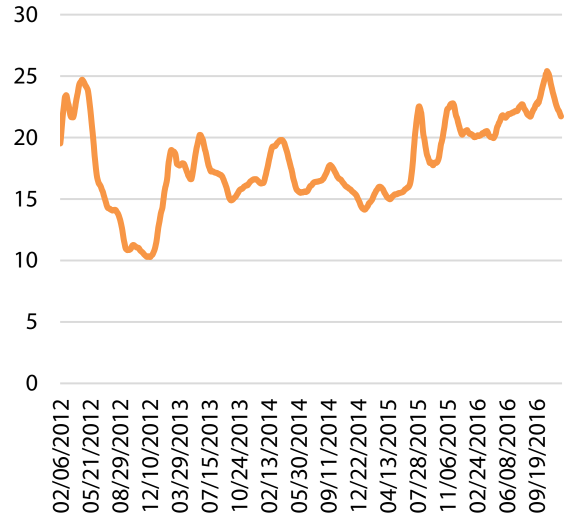
Historical 3-month Rolling P/E

RONGVIET SECURITIES

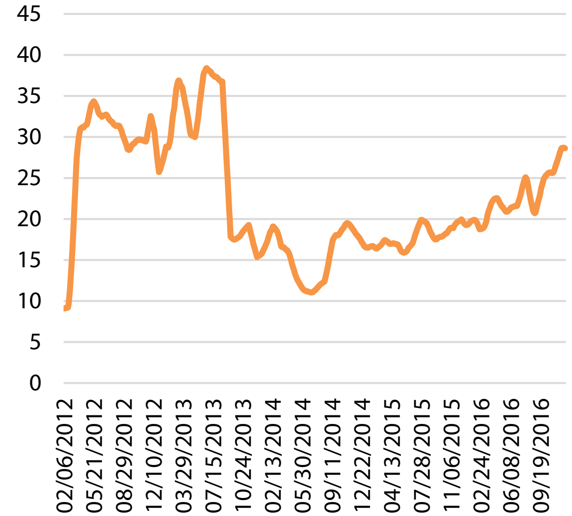
Financial Services



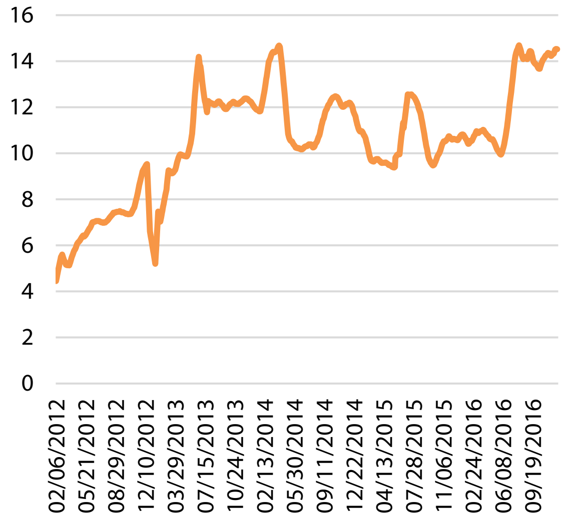
Insurance



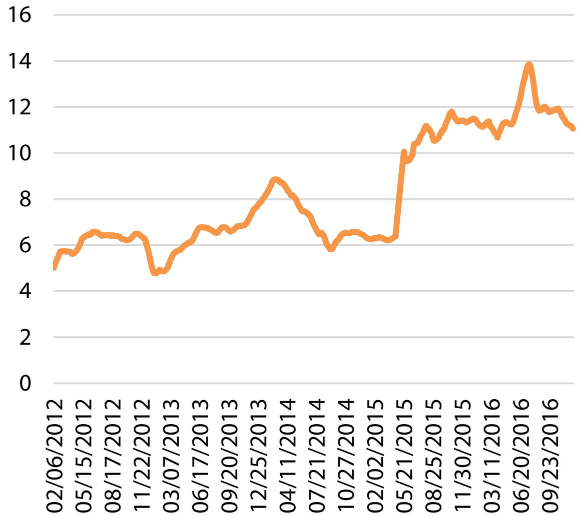
Real Estate



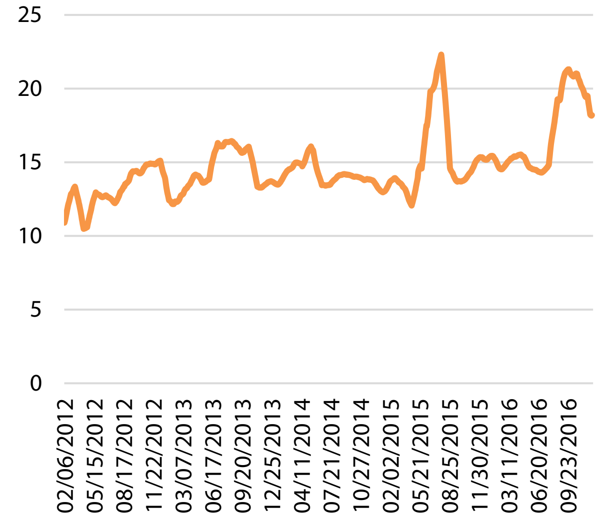
Retailing



Personal & Household Goods



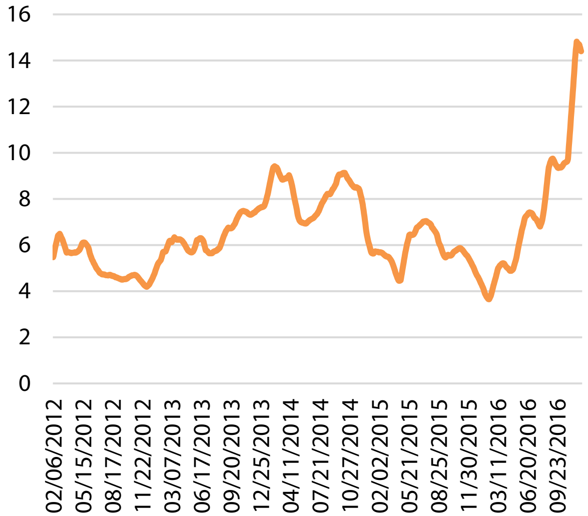
Food & Drinks



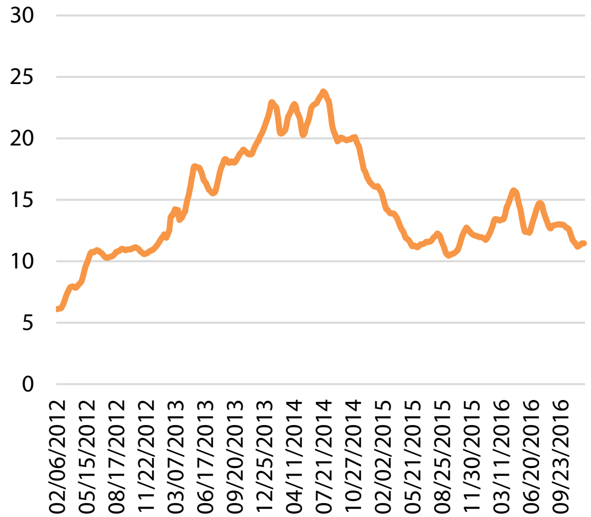
Historical 3-month Rolling P/E

RONGVIET SECURITIES

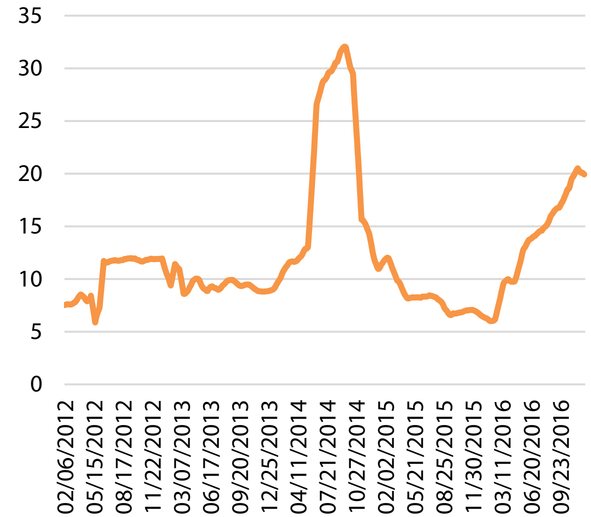
Oil & Gas



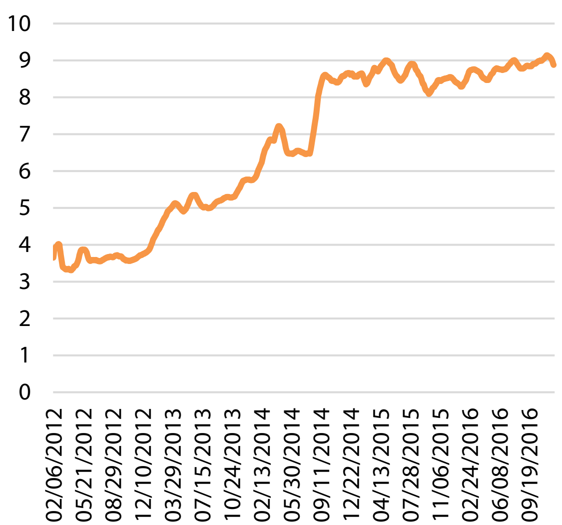
Basic Resources



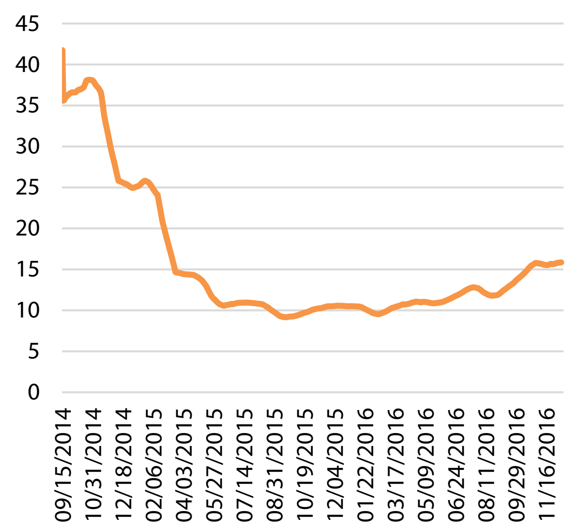
Utilities



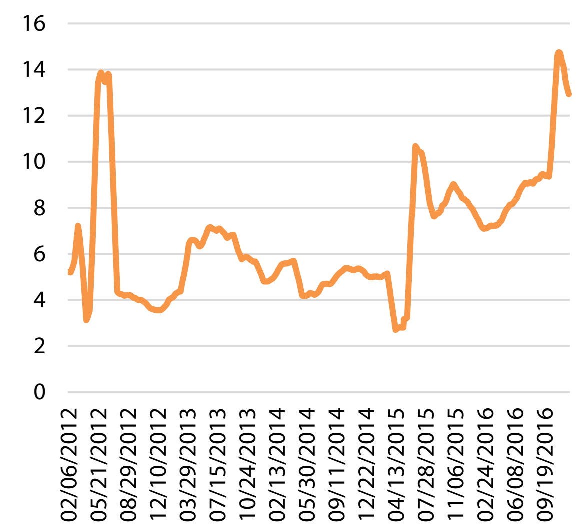
Chemicals



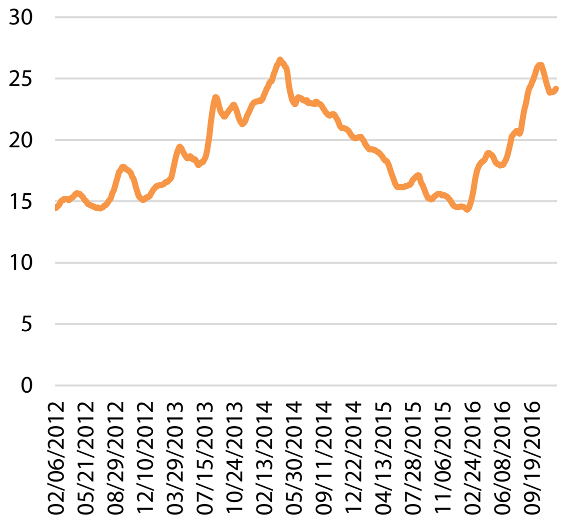
Construction & Materials



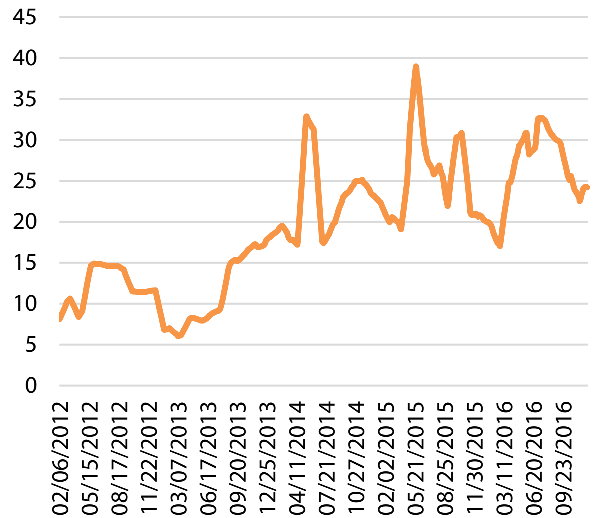
Automobile & Parts



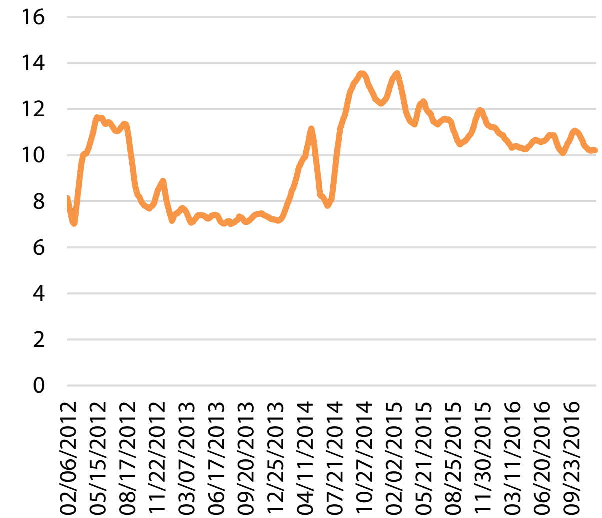
Healthcare



Travel & Tourism



Technology



Source: RongViet Research, FiinPro

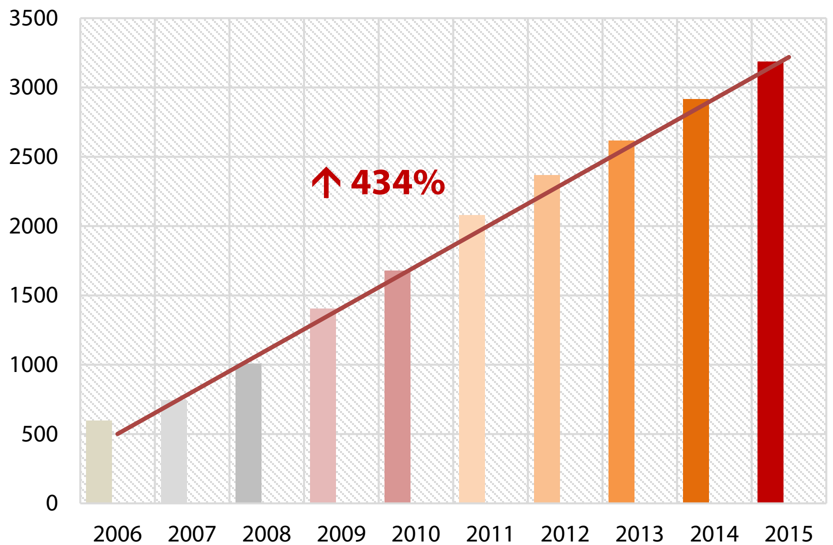
Vietnam's Stock Market Continues to Bear Sweet Fruits


LOW-HANGING FRUIT
Food & Drinks, FMCG, Retailing, Logistics
& Transportation

More Productivity, More Consumption!

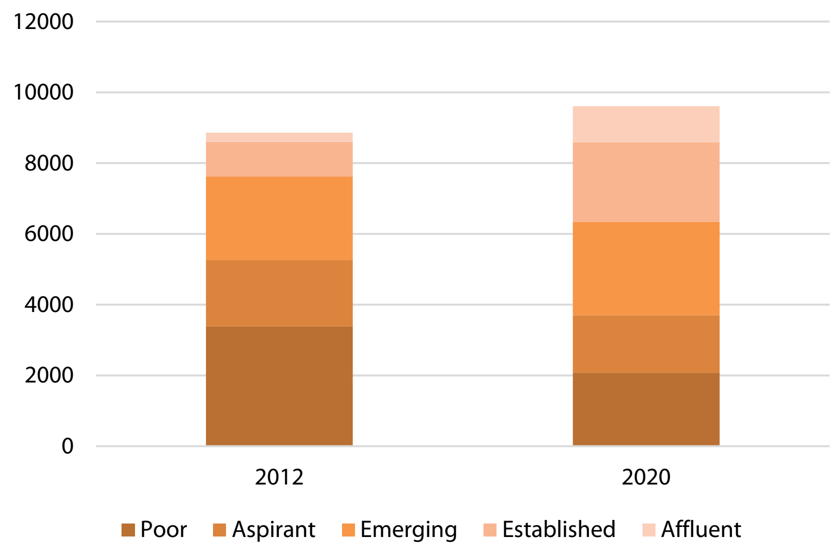
- Higher productivity & more employment for skilled workers leads to **faster income growth and consumption.**
- **Expansion of the "MAC"** will result in higher demand for entertainment, recreation and premium goods.
- The ability to pass on input price increases depends on the level of competition and each company's market power.

Total Retail Sales (VND B)



Sources: GSO, RongViet Research

Vietnam Household Income Distribution



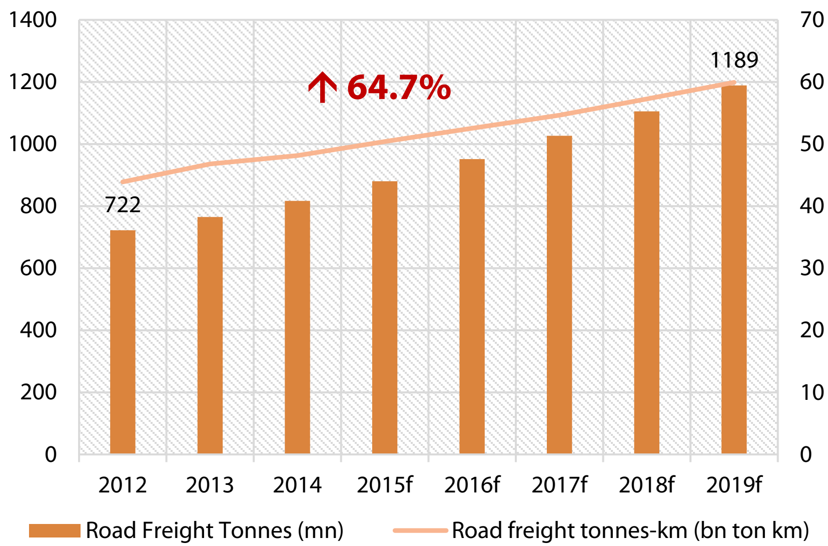
Source: Boston Consulting group

More Productivity, More Consumption!

RONGVIET SECURITIES

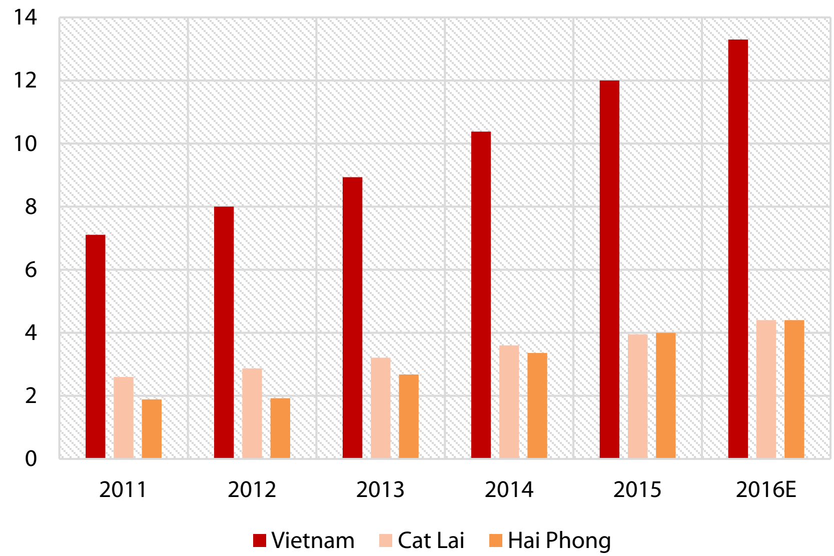
- The logistics sector is crucial in ensuring a **continuous flow of goods** in, out and within the country.
- Seaports operators are among the **most profitable** companies in the market.
- TPP or no TPP, **trade will continue** to grow and **FDI will keep on flowing**.

Road Freight Tonnes



Sources: GSO, RongViet Research

Port Throughput (mm tonnes)



Source: Ministry of Transport

Our Top Picks in this Theme

RONGVIET SECURITIES

Ticker	Target price (VND)	Current price (VND)	Rating	Time horizon	Financials 2016 +/- Rev. (%)	Financials 2016 +/- NPAT (%)	Financials 2017 +/- Rev. (%)	Financials 2017 +/- NPAT (%)	Valuation PBR Cur. (x)	Valuation PEFR (x)	Valuation +/- Price 1y (%)	Trading 3M Avg. Vol. (shares)	Trading 3M Avg. turnover (VND B)	Trading MC (VND B)	Trading Room (%)
Food & Beverages															
SAB	143,000	141,200	Neutral	Long-term	10.9	34.2	8.6	4.8	6.8	22.3	n/a	144,170	17,801	90,549	39.6
VNM	146,000	132,500	Neutral	Long-term	17.1	26.0	15.4	9.4	9.4	20.3	37.6	2,098,362	291,329	92,317	52.1
Retailers															
PNJ	89,600	68,900	Buy	Long-term	10.8	218.0	12.3	28.9	4.3	15.1	80.5	140,238	10,149	6,771	-
Transportation															
GMD	30,000	26,950	Accumulate	Intermediate-term	5.6	(2.2)	9.9	36.7	0.9	13.4	12.2	529,978	14,628	4,836	19.0
PVT	15,300	12,000	Accumulate	Long-term	5.1	13.0	1.2	1.0	1.0	7.8	38.9	830,787	11,228	3,377	24.2
VSC	71,200	55,700	Accumulate	Long-term	18.5	(9.0)	17.6	23.0	1.9	11.1	(13.4)	116,612	7,794	2,538	-

Source: RongViet Research, as of 08/12/2016

Watch List

Name	Subsector	Mar. cap (VND B)	Shares Outstanding	Trailing PER (x)	PBR Cur. (x)	ROEA (%)	ROAA (%)	Current price (VND)	2015		Trailing 12 months	
									+/- Rev. (%)	+/- PAT (%)	+/- Rev. (%)	+/- PAT (%)
LIX	FMCG	1,817.6	32,400,000	8.9	3.8	43.7	26.5	56,100	124.6	3.0	13.4	20.7
NET	FMCG	727.9	22,398,374	7.9	2.4	31.9	22.6	32,500	87.4	(2.5)	13.6	3.3
BHN	Food &Beverages	29,940.7	231,800,000	33.7	5.8	15.1	9.2	135,700	6.4	5.1	5.1	6.4
CMF	Food &Beverages	1,130.0	8,100,000	20.1	4.7	21.7	10.6	139,500	24.7	14.1	24.7	14.1
MSCC	Food &Beverages	40,362.0	538,160,117	14.4	3.6	22.9	16.7	75,000	0.9	(15.3)	9.4	32.3
NCS	Food &Beverages	771.1	11,998,630	8.5	4.0	52.6	35.4	64,000	66.5	17.7	17.7	66.5
SVC	Retailing	1,039.0	24,975,507	10.9	1.2	8.8	3.3	41,600	86.0	24.7	23.1	(16.8)
ACV	Transport	90,172.0	2,177,173,236	41.3	3.6	8.3	3.9	41,800	(33.4)	24.8	24.8	(33.4)
HAH	Transport	892.3	22,939,129	6.9	1.5	26.7	15.9	38,900	26.9	21.9	(11.2)	(41.1)
HVN	Transport	55,239.0	1,227,533,800	18.1	3.4	17.5	2.7	45,000	(4.5)	93.3	8.5	162.0

Source: RongViet Research, as of 08/12/2016

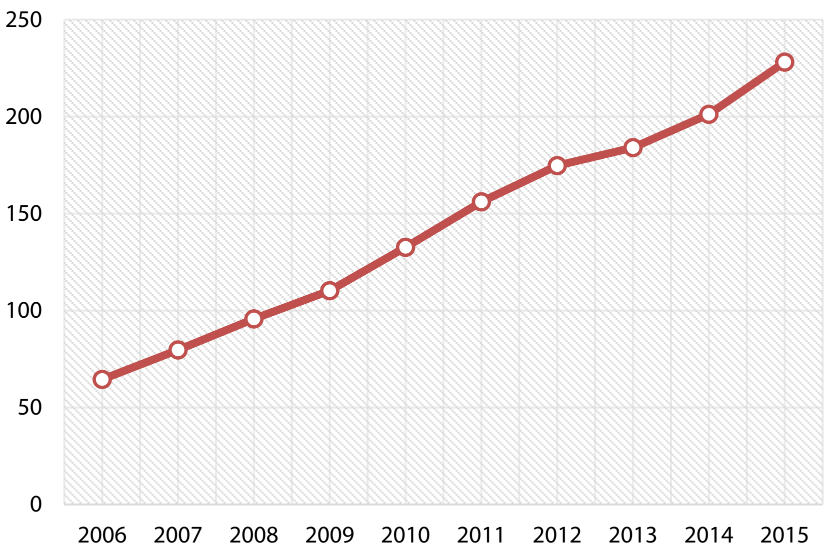
RIPENING FRUIT:

Construction and Building Materials, Real estate, Infrastructure, Insurance & Industrials

Nurturing Growth from the Inside

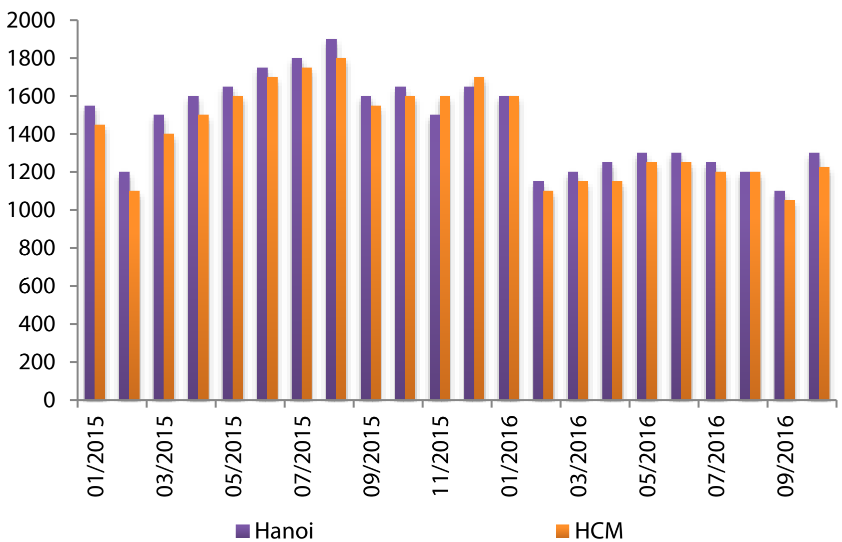
- To boost GDP growth and draw FDI, **it is imperative that Vietnam builds more infrastructure**.
- The **development of infrastructure, new household formation** and **easier financing for house buyers** will continue to support house prices and keep the property market buoyant.
- **Strong backlog and new orders** will keep construction and materials businesses growing.

Construction Gross Product (VND B)



Sources: GSO, RongViet Research

Real Estate Transactions HCMC & Hanoi (units)

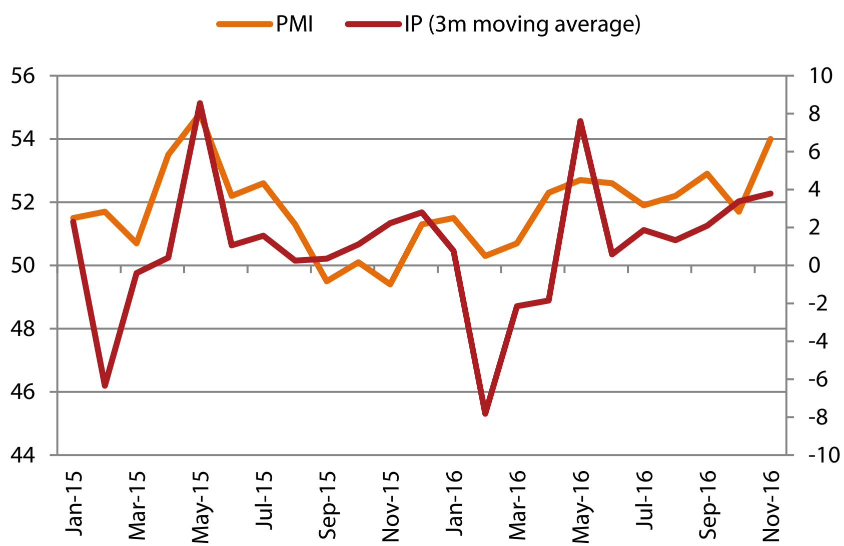


Source: Ministry of Construction

Nurturing Growth from the Inside

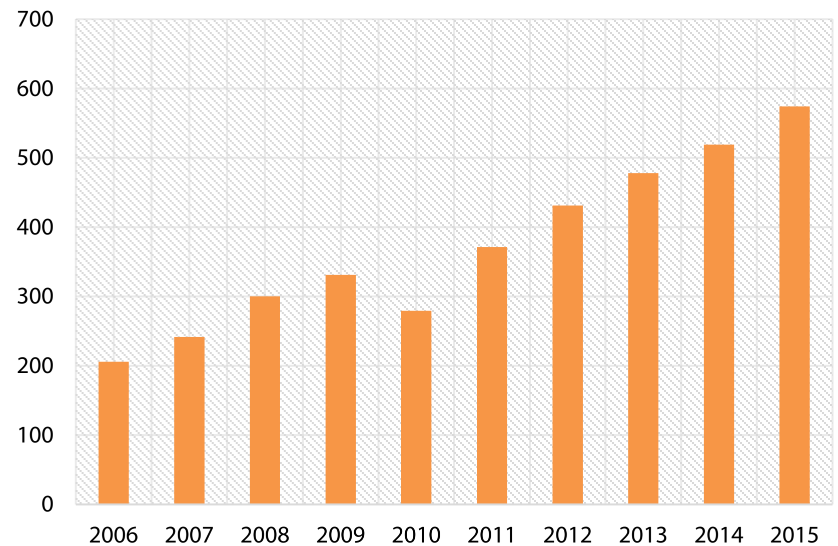
- Stable interest rates will continue to nurture the manufacturing sector and support expansion plans.
- **Companies equipped with advanced technology and large market shares** will be able to withstand competition and market disruption.
- Innovators and market leaders are better positioned to receive incentives.

Monthly PMI and IIP (Moving Average)



Sources: GSO, RongViet Research

Manufacturing Sector Output (VND T)

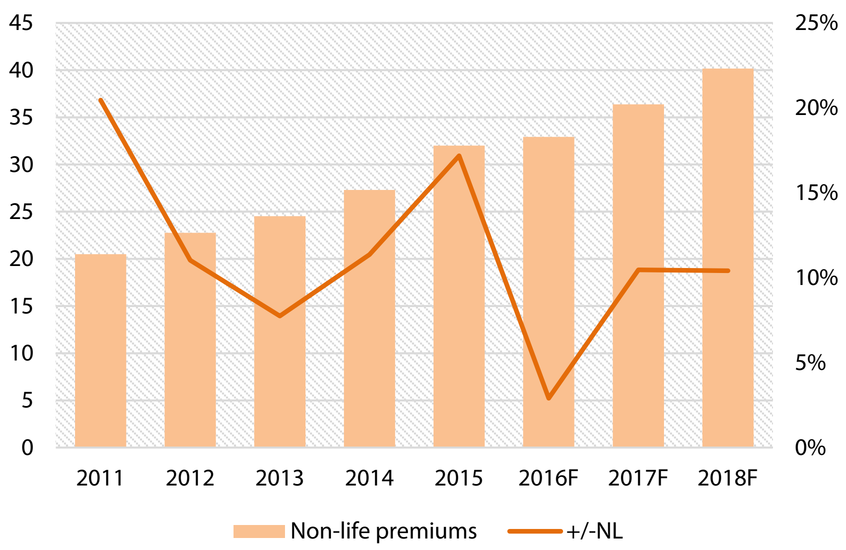


Sources: GSO, Markit

Nurturing Growth from the Inside

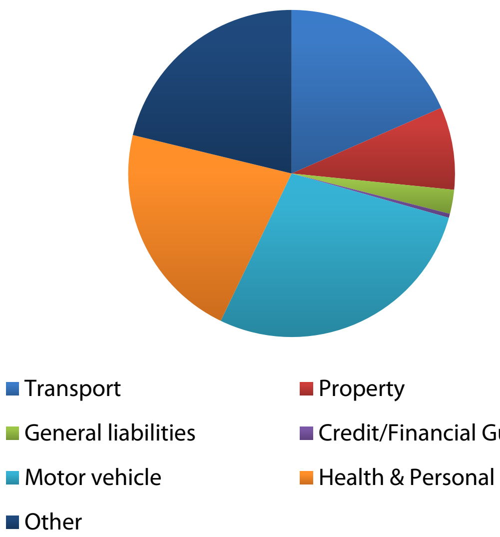
- Vietnam's nonlife insurance market is poised for rapid growth thanks to **healthy economic growth, heavy investment in infrastructure and increased consumption of the private sector**.
- Vietnam has low gross premium per capita and low non-life penetration; **the continuous increase in household income will boost demand** for non-life insurance products.
- **The participation of strategic partners** can help local insurers diversify their product offerings and improve the overall market penetration.

Gross Non-Life Premiums Written (VND T)



Sources: GSO, RongViet Research

Non-life Premium Structure (1H2016)



Source: BMI, AVI

Our Top Picks in this Theme

Ticker	Target price (VND)	Current price (VND)	Rating	Time horizon	Financials 2016 +/- Rev. (%)	Financials 2016 +/- NPAT (%)	Financials 2017 +/- Rev. (%)	Financials 2017 +/- NPAT (%)	Valuation PBR Cur. (x)	Valuation PEFR (x)	Valuation +/- Price 1y (%)	Trading 3M Avg. Vol. (shares)	Trading 3M Avg. turnover (VND bn)	Trading MC (VND bn)	Trading Room (%)
Construction															
CTD	195,000	171,500	Neutral	Long-term	54.9	102.9	25.0	15.0	2.3	8.8	65.1	132,631	27,846	13,203	(1.3)
SRF	32,100	25,700	Accumulate	Long-term	44.0	29.4	12.0	11.9	1.5	9.0	84.2	16,316	461	626	21.9
VGC	17,800	15,400	Accumulate	Long-term	1.2	57.9	7.2	7.9	1.3	8.9	96.9	167,601	2,787	4,780	46.2
Building Materials															
BMP	179,000	189,000	Neutral	Long-term	25.8	27.2	12.8	9.2	3.7	14.5	55.4	106,622	20,113	8,595	-
HPG	50,300	40,850	Accumulate	Long-term	13.0	58.5	26.9	5.9	1.9	6.6	62.1	4,348,141	184,751	34,427	13.0
HSG	52,100	46,000	Accumulate	Intermediate-term	10.3	124.1	27.5	34.6	2.2	6.2	117.1	1,809,957	76,951	9,041	21.1
NKG	45,700	35,200	Buy	Intermediate-term	51.6	353.5	44.1	27.8	1.2	5.2	190.8	395,743	15,228	1,761	21.7
Infrastructure															
HUT	15,000	11,500	Buy	Long-term	75.5	173.5	14.9	41.6	0.9	5.0	13.1	1,575,676	19,797	2,028	31.9
CTI	36,000	25,600	Buy	Intermediate-term	35.0	105.0	17.9	2.5	1.6	8.3	36.5	387,006	11,132	1,101	21.3

Source: RongViet Research, as of 08/12/2016

Watch List

Name	Subsector	Mar. cap (VND B)	Shares outstanding	Trailing PER (x)	PBR Cur. (x)	ROEA (%)	ROAA (%)	Current price (VND)	2015		Trailing 12 months	
									+/- Rev. (%)	+/- PAT (%)	+/- Rev. (%)	+/- PAT (%)
HBC	Construction & Building materials	2,654.0	94,447,467	7.5	1.9	28.7	3.8	28,100	20.4	44.3	148.4	1,578.1
HT1	Construction & Building materials	8,317.6	381,541,911	9.8	1.4	18.2	7.1	21,800	142.3	12.6	10.7	87.3
NNC	Construction & Building materials	1,185.3	16,440,202	7.1	2.9	49.2	37.9	72,100	18.4	29.5	11.4	17.8
PC1	Construction & Building materials	2,754.6	75,262,482	6.3	1.4	23.1	10.6	36,600	(42.2)	0.0	(21.2)	47.1
PLC	Construction & Building materials	2,213.9	80,797,566	11.1	1.7	16.4	5.7	27,400	23.1	1.6	(39.7)	(58.8)
GTN	Agriculture	4,587.5	250,000,000	117.6	1.7	1.4	1.0	18,350	(36.3)	231.9	(81.2)	(86.9)
VLC	Agriculture	1,185.2	63,101,000	10.3	1.4	9.7	7.6	18,900	42.7	5.9	3.8	(25.7)
KBC	Real estate	6,788.0	469,760,189	8.6	0.9	9.5	5.6	14,450	93.0	34.2	(14.4)	94.8
KDH	Real estate	4,715.1	233,999,892	13.0	1.0	8.4	4.3	20,150	338.6	69.1	60.9	(19.6)
NLG	Real estate	3,169.2	142,114,510	10.8	1.4	11.3	5.6	22,300	101.4	45.2	155.3	243.0
Novaland	Real estate	35,362.2	589,369,234	53.2	4.3	11.2	2.0	60,000	138.2	351.0	-	-

Source: RongViet Research, as of 08/12/2016

From Sour to Sweet

Oil & Gas, Electricity, Natural Rubber & Agriculture

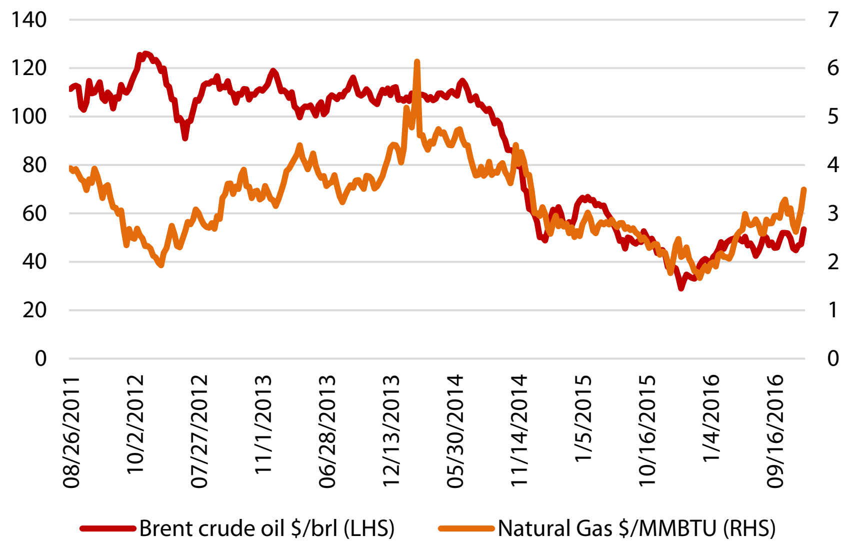
Turnaround Sectors

- **China's renewed demand and strengthening of the greenback** promises to bring new hope for commodities producers, exporters and even services providers.
- **Having suffered from currency shocks and unfavorable weather, electricity companies** are ready for a turnaround.
- **Agricultural production** is recovering from the worst drought in 100 years.

Natural Rubber Prices (USD/kg)

Sources: GSO, Bloomberg

Crude Oil and Natural Gas Prices



Source: Bloomberg

Our Top Picks in this Theme

Ticker	Target price (VND)	Current price (VND)	Rating	Time horizon	Financials 2016 +/- Rev. (%)	Financials 2016 +/- NPAT (%)	Financials 2017 +/- Rev. (%)	Financials 2017 +/- NPAT (%)	Valuation PBR Cur. (x)	Valuation PEFR (x)	Valuation +/- Price 1y (%)	Trading 3M Avg. Vol. (shares)	Trading 3M Avg. turnover (VND bn)	Trading MC (VND bn)	Trading Room (%)
Chemicals															
BFC	43,000	30,000	Buy	Long-term	2.4	19.2	10.2	6.7	1.8	6.0	54.8	133,309	4,765	1,715	32.1
VFG	112,000	77,900	Buy	Long-term	10.5	4.3	24.8	12.4	1.9	9.9	33.9	13,548	1,106	1,424	27.6
Electricity, Water, Gas															
PPC	19,400	15,900	Accumulate	Long-term	(21.6)	(38.9)	14.2	50.8	1.1	8.1	(3.1)	238,569	3,573	5,059	33.6
PGS	20,600	16,100	Buy	Intermediate-term	16.0	204.0	10.6	(66.3)	0.8	2.3	7.2	190,278	3,232	805	27.9
REE	26,800	22,200	Accumulate	Long-term	2.1	(3.6)	4.2	22.4	1.1	8.4	5.8	1,016,758	22,419	6,883	-
Oil & Gas															
PVS	21,400	17,400	Buy	Intermediate-term	(19.1)	(28.7)	(2.4)	10.6	0.8	7.2	2.3	1,900,408	37,404	7,773	21.5

Source: RongViet Research, as of 08/12/2016

Watch List

Name	Subsector	Mar. cap (USD M)	Shares Outstanding	Trailing PER (x)	PBR Cur. (x)	ROEA (%)	ROAA (%)	Current price (VND)	2015		Trailing 12 months	
									+/- Rev. (%)	+/- PAT (%)	+/- Rev. (%)	+/- PAT (%)
DPR	Natural Rubber	1,412.4	40,124,790	15.6	0.7	3.4	2.7	35,200	(27.2)	(8.9)	(11.4)	(33.7)
PHR	Natural Rubber	1,883.8	78,490,047	6.9	0.9	12.3	8.0	24,000	(19.4)	(23.5)	14.8	460.8
CHP	Utilities	2,583.0	125,999,511	12.7	1.8	13.8	6.6	20,500	54.1	16.4	0.7	48.5

Source: RongViet Research, as of 08/12/2016

GREEN FRUIT

Passenger Carriers, Fertilizer Companies, and Textile & Seafood Companies

Export Growth and Valuation

The Good:

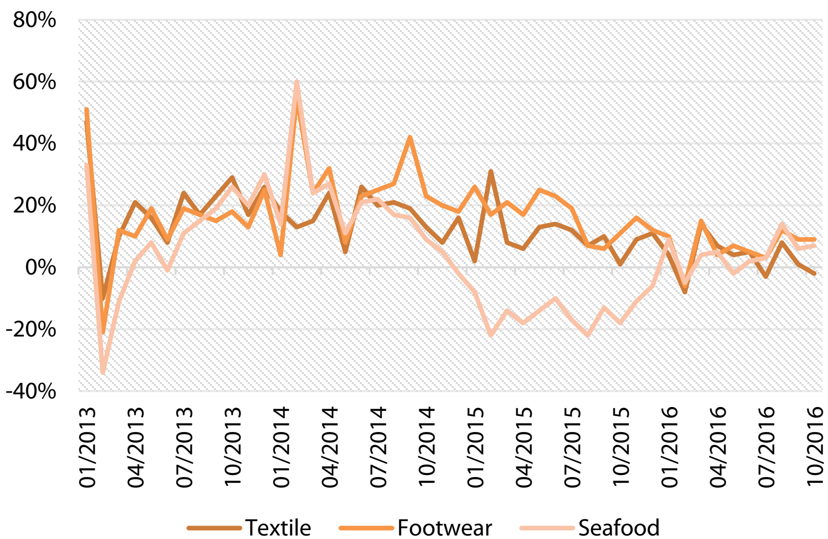
- Large potential market and plenty of room for growth in the long term
- Strong and high dividend yields for fertilizer companies and passenger carriers

The Bad:

- Competition & trade barriers reduce growth in the intermediate term

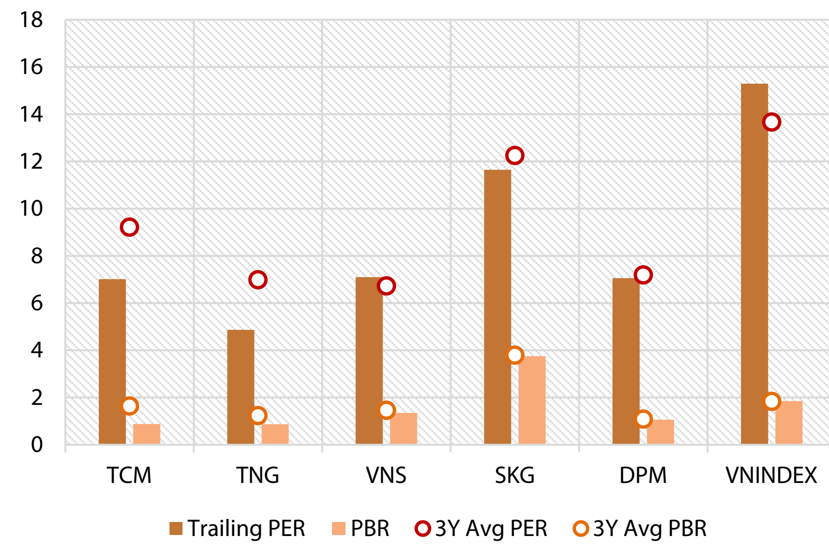
… but prices have decreased a lot!!

Textile & Seafood Exports Growth



Sources: GSO, Bloomberg

Trailing PE and Current PB vs 3-year Averages



Source: RongViet Research

Watch List

Name	Subsector	Mar. cap (VND B)	Shares Outstanding	Trailing PER (x)	PBR Cur. (x)	ROEA (%)	ROAA (%)	Current price (VND)	2015		Trailing 12 months	
									+/- Rev. (%)	+/- PAT (%)	+/- Rev. (%)	+/- PAT (%)
FMC	Food producer	573.0	30,000,000	5.7	1.1	20.6	7.1	19,100	55.1	(0.1)	25.1	(18.8)
VHC	Food producer	5,067.4	92,301,883	9.6	2.1	23.7	11.1	54,900	(30.7)	3.2	29.7	122.2
TCM	Personal & Household goods	711.9	49,099,501	6.4	0.8	12.6	4.4	14,500	(8.7)	8.6	(1.9)	(12.4)
TNG	Personal & Household goods	431.7	34,264,978	4.8	0.8	18.7	4.8	12,600	34.1	39.7	(5.0)	18.1
VGG	Personal & Household goods	2,478.0	42,000,000	6.1	1.9	27.9	9.5	59,000	5.8	16.9	20.1	16.7
SKG	Travel & Tourism	2,505.2	34,271,242	11.6	3.7	36.4	35.7	73,100	69.5	36.3	20.6	21.7
VNS	Travel & Tourism	2,151.1	67,859,192	6.9	1.3	20.3	10.6	31,700	4.9	12.8	5.8	(5.7)
DPM	Chemicals	8,805.0	391,334,260	6.7	1.0	14.8	12.5	22,500	34.2	2.3	(19.7)	(49.8)
LAS	Chemicals	1,376.8	112,856,400	7.2	1.1	14.4	7.1	12,200	(30.2)	(6.7)	6.4	(9.0)

Source: RongViet Research, as of 08/12/2016

EXOTIC FRUIT

State Divestments, IPOs & New Listings

Last but not Least

RONGVIET SECURITIES

- Given the tight budget, **the political will to push privatization and state divestment** is strong.
- **SOEs with $15 billion in market cap** will hold their IPOs by 2018 and many will have to list shares in 2017.
- Big private companies are rushing to IPO, too.

→ *THE RESULT: Increased market size and more interest from foreign investors*

Big-ticket IPO/New listing

No.	Company	IPO/Listing date	No.	Company	IPO/Listing date
1	ACV	Dec-16	8	PVOil	2017
2	BHN	Nov-16	9	PVPower	2017
3	BSR	2017	10	QNS	Dec-16
4	HVN	Dec-16	11	SAB	Dec-16
5	MSCC	2017	12	VEAM	2017
6	Novaland	Dec-16	13	VGT	2017
7	PLX	2017	14	VietJet Air	2017

Source: RongViet Research

Watch List

Name	Mar. cap (USD M)	Shares O/S after IPO	Trailing PER (x)	PBR Cur. (x)	Current Price (VND)	ROEA (%)	ROAA (%)	2015		2014	
								+/- Rev. (%)	+/- PAT (%)	+/- Rev. (%)	+/- PAT (%)
ACV	88,393	2,177,173,236	40.53	3.50	40,600	8.3	3.9	24.8	(33.4)	10.5	14.5
BHN	31,432	231,800,000	35.43	6.05	135,600	15.1	9.2	5.1	6.4	42.3	7.6
HVN	55,239	1,227,533,800	18.15	3.43	45,000	17.5	2.7	(4.5)	93.3	0.3	61.9
MCH	40,362	538,160,117	14.36	3.97	75,000	22.9	16.7	0.9	(15.3)	9.7	4.7
NVL	35,362	589,369,234	53.19	4.32	60,000	11.2	2.0	138.2	351.0	75.1	1,172.4
PLX	38,816	1,293,878,100	8.65	1.90	30,000	20.1	7.4	(29.0)	n/a	5.5	n/a
QNS	15,379	187,549,000	13.15	4.65	82,000	39.4	21.0	20.5	58.9	16.6	32.9
VEAM	20,596	1,328,800,000	4.75	1.35	15,500	30.2	26.8	15.9	31.4	(12.7)	41.2
VGT	6,800	500,000,000	15.96	1.16	13,600	5.8	2.2	12.6	14.5	22.9	69.8

Source: RongViet Research, as of 08/12/2016

THANK YOU!

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