07/06/2016

Investment Strategy June 2016

LONG-TERM OPPORTUNITIES, SHORT-TERM RISKS

VNIndex and HNIndex extended their gains in May yet enthusiasm faded as the months marched towards its end and market movers the like of VCB, VNM, BVH, VIC, BID and O&G leaders such as GAS and PVD failed to retain cash flows. On top of solid performance of fundamental mid-caps, the limited losses of larger stocks allowed indices to retain gains and moved sideways in a narrowed band into the first week of June. Last month, the O&G sector led the market with a gain of 20%, followed by retailers at 13% and household goods at 12%. Foreign investors remained bullish in May. Excluding the sales of VIC, foreigners accumulated a net VND3,300bn in the five months ended in May, little changed from previous year.

Economic indicators and gradual improvements in corporate earnings are all pointing to long-term positive trend for the stock market. Of the three macro focuses of 2016, i.e. (1) GDP growth, (2) interest and exchange rate fluctuations and (3) state budget imbalance, we have seen some optimistic developments in the former two in the second quarter as compared to the first quarter. On the one hand, we expected solid performance of non-farm sectors to offset to the drop in agricultural output and send the economy back to the growth trajectory in the second quarter. On the other hand, interest rates and the USDVND exchange rates have remained under the SBV's control of the year despite concerns over an increase in volatility in the beginning of the year. Confidence in economic performance is expected to continue support market sentiment in the upcoming months.

Even so, the stock market of June is within the blast radius of external shocks, i.e. (1) geopolitical tension during Shangrila talks and arbitration of the South Sea, (2) a possible hike of the USD rates following the FED's June meeting, (3) a correction in oil prices and (4) upcoming development of Brexit. Our observations indicate that over the past two years, maritime border tension with China have has immediate and strong impact on market sentiment. In addition, it seems unlikely that stocks like GAS, VCB, BVH, BID, VNM to move fast forward from their current prices while strong gainers will likely face a lot of sale pressure in the first week of June as traders take profits. If the market fails to find new leaders, VNIndex may face strong headwinds before it even reaches 640. However, VCB and BVH can emerge again to "save the index" in the last minute as they have done time and time again over the past few months. As such, VNIndex should continue going sideways within a narrow band until the end of the month.

VNIndex is expected to move between 608 and 638 and HNIndex between 80 and 84.7 in June.

The stock market of June should not be easy from short-term trades with the aim to buy high and sell higher. At the current price level, investors are advised to pay more attention to sector selection and stock screening with a medium to long-term focus. We expect a good numbers of sectors, i.e. securities, building materials, construction, real estate, electricity, automobile parts, specialty retailing and travel – recreation, to exhibit solid earnings growth in the second quarter.

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Uncertainties from the outside world threaten to put a drag on Vietnamese stocks this month where geopolitical tension and the unpredictable oil market are the biggest risks to the watch. Profit-taking sales is also an obstruction on the increasing path of indices. Therefore, we do not expect improvements in the market in term of index gains. Driven by earnings expectation, smaller stocks, however, can extend the gains. Therefore, a strong correction in the market, caused by any of the abovementioned risks should be seen as an opportunity for medium and long-term investors to make new positions and/or increase current holdings.

For Q2 growth outlook, we are quite optimistic about financial services (securities brokerage and non-life insurance), building materials, construction, travel & recreation, automobile parts, specialty retailing (auto dealership and electronics), real estate and consumer goods.

In the financial services sector, top stock brokers such as HCM and SSI, who are generally more aggressive on margin lending, should benefit from the adaptation of intraday trading in July. While core-business earnings steady, a jump in investment gains should add greatly to bottom-line growth of insurers such as PTI and BMI.

The peak season of civil construction and tourism starts in April. As a result, we expect to see strong top-line and bottom-line growth from passenger transporters such as SKG and materials manufacturers like HSG, HPG and BMP. In Q2, a number of real estate developers have begun to hand over units that were sold in late 2014 and early 2015. However, we expect sector-wide earnings growth to be more concrete only in the second half of the year.

Likewise, the banking sector should continue to see a divergence among listed banks despite overall improvements in profitability. Given the ongoing surplus in liquidity and slow-to-expand net interest margins, the ability to grow in loans while maintaining capital adequacy ratios is crucial to banks' profit growth. Of the listed credit institutions, we prefer VCB for its low interest cost and the stronger balance sheet.

- ✓ Transportation: PVT, VTO
- ✓ Seaports: HAH, VSC
- ✓ Construction: CTD
- ✓ Technology: FPT
- ✓ Electricity: NT2, PPC, REE
- ✓ Real estate: BCI, KDH, LHG
- ✓ Retailers: SVC, PTB, MWG
- ✓ Building materials: NNC, DHA, BMP, KSB, HPG, HSG
- ✓ O&G: PGS, PVS, PLC
- ✓ Food & Beverages: VNM
- ✓ Banks: VCB

29 stocks of RongViet Research (analyzing, discussing with companies) and have analysis and specific evaluation in "Company report" or "Analyst pin board" till now

Industries movement in May 2016 and P/E, P/B of industries at the end of the month

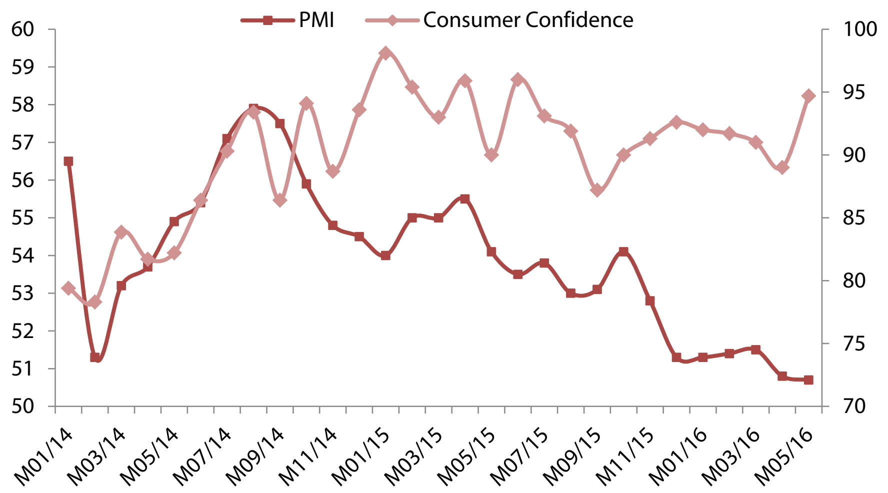
WORLD ECONOMY

- US – The probability of FED to hike rate in June is low
- China - Foreign exchange reserves fell back
- Japan – Delay sale-tax increase till September, 2019

US – The probability of FED to hike rate in June is low

US industrial production and consumption provided mixed signals over the past month. Accordingly, US industrial production has been pessimistic when the rate of expansion was slowed down, despite of being in expanding threshold. PMI for May achieved 50.7 points – lowest figure since 09/2009, dropped from 50.8 in April. In contrast, in term of consumption, related indicators provided positive aspects. Consumer confidence index improved in May, reached 94.7 points, increased by about 5 points compared to 89 points in 4/2016. Retail activity in 04/2016 maintain the positivity, raised by 1.3% compared to last month with 11/13 categories to have improvements. As a result, there are several assessments that economy could catch up with the recovery trend in this quarter after difficulties in Q1 with the growth rate of 1.7% yoy.

Figure 1: US consumer confident and PMI



Source: Tradingeconomics

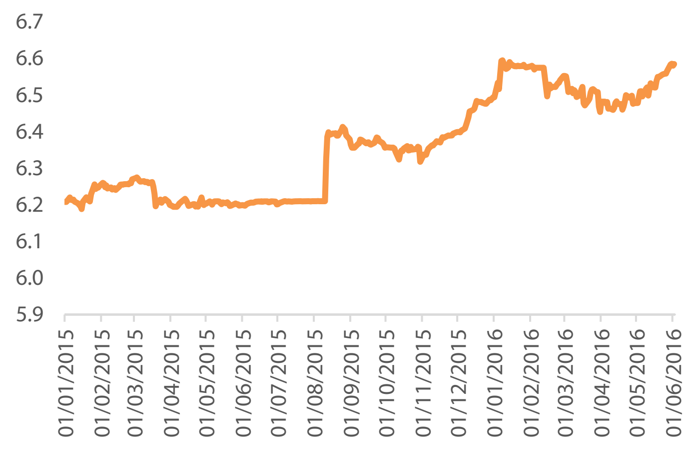
Although domestic macro elements positively support the decision to hike rate in the upcoming meeting on 14 – 15/06, recent survey from Bloomberg pointed out that only 4% of economists to believe in the rate hike. On the other hand, the Proposed referendum on United Kingdom membership of the European Union (Brexit – 1 week after FED's meeting) could be the obstacle for FED's decision because UK leaving EU could bring negative factors to global economy.

China - Foreign exchange reserves fell back

According to Capital Economics, China's foreign exchange reserves in May fell back after rising in March and April, below RMB3 trillion. The capital outflows are also likely to picked up which put more pressure on yuan movement. Up to early June, yuan recorded a loss of 1.64% as compared to the lowest figure in April, 2016.

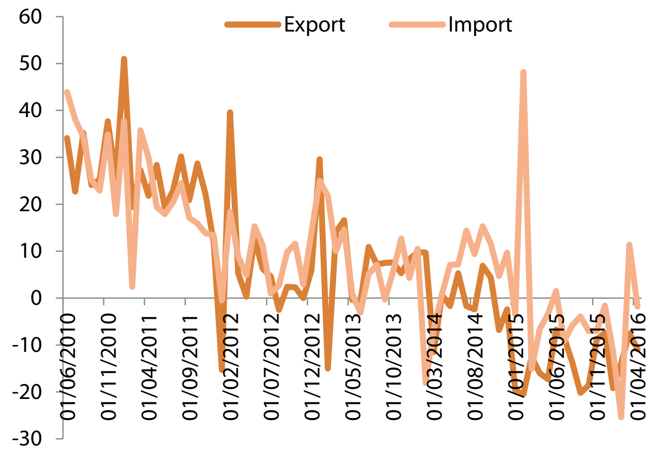
Regarding trade activities, the trade surplus maintained expected growth and will become key role for yuan movement in coming times. Gross export-import value in April fell 0.3% yoy, in which exports rose 4.1% and imports fell 5.7%. Thus, April trade surplus attained RMB298 billion, up 45.8% over the same period. In the first 4 months, trade surplus reached RMB1.11 trillion, up 16.5%. However, this is not a sustainable support as capital outflows place more weight on yuan for yuan movements.

Figure 2: Yuan movement



Source: Bloomberg

Figure 3: Chinese export-import growth



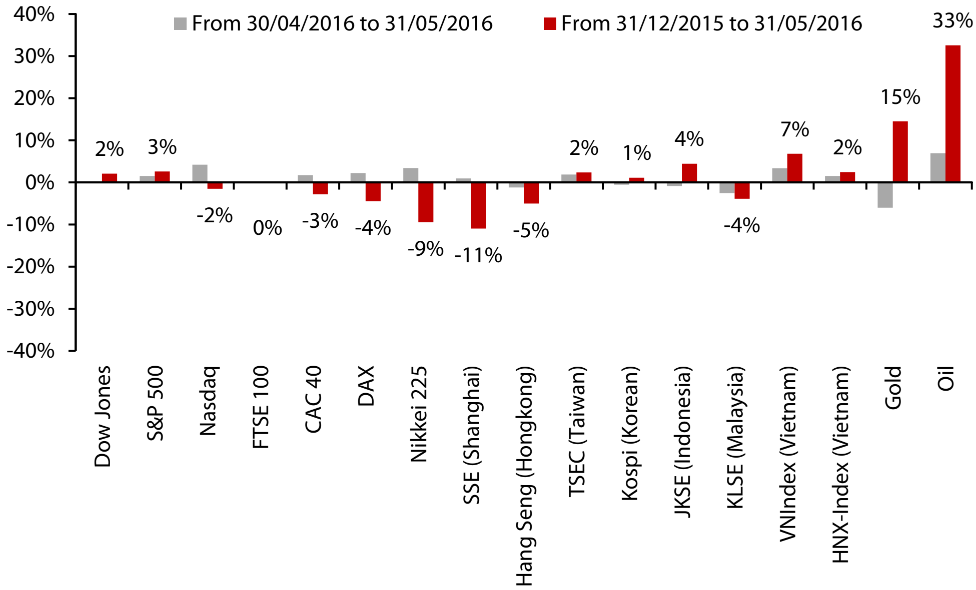
Source: Bloomberg

Japan – Delay sale-tax increase till September, 2019

In the first quarter of 2016, Japanese economy recorded the growth rate of 1.7% yoy, higher than the previous estimate of 0.3% and upped 0.4% compared to the previous quarter. In Q2, it is estimated that the economy growth would likely slow down to 0.5% due to a decline in export growth, industrial production and the impact of the earthquake which took place on May 04th, 2016. In addition, the Japanese authority also has postponed the increase in consumption tax from 2017 till September, 2019. This implies more steps to stimulate the economy in future. However, as the overall picture is still bleak, the yen continued to appreciate. Up to the early June, the USDJPY has risen by 11.15% as compared to the earlier this year.

GLOBAL STOCK MARKETS: Economic factors were closely observed

Figure 4: World stock markets in May



Sources: Bloomberg, RongViet Research

Most global markets continued their rallies beginning in mid Feb 2016. Though there weren't any "sell in May", markets around the world started to witness divergence.

Major indices of US stock market Dow Jones (+0.08%), S&P 500 (+1.53%) and Nasdaq (+4.21%) moved higher in May. S&P 500 even approached closer to 2,100 pts, higher than forecasts of many investors. The meeting minutes releasing in mid-May revealed that FED is eager to lift up the rate by the end of June – begin of July. However, mixed economic data have yet supported FED to do so. Therefore, investors still tended to be quite positive on equities in May.

EU markets did not have any special events while investors were still waiting for stronger stimulus policies from ECB when data of inflation were still behind the expectations. Except for FTSE 100 Index of UK losing 0.18%, other indices in the region were slightly up. For the rest, Asian shares were mixed. VNIndex of Vietnam was the best performance with 3.35% growth in May, lifting up the YTD gain to 6.81%. The monthly increase of Nikkei 225 and SSE Index could not conceal the strongest YTD drops of 9.45% and 10.95% consecutively. The delay of consumption tax would save more time for economy recovery. On the other hand, investors think the postponement is a sign of weak economy regardless of Abenomics policies.

Oil price rose 6.93% in May and was traded close to $50/barrel. OPEC semi-annual meeting in Vienna ended without any consensus on outputs. With the strengthen of USD in May, gold fell back 6.01% to squeeze the YTD performance to 14.5%.

VIETNAM ECONOMY

- Growth of manufacturing activities and sector outlook
- Excess liquidity in banking system
- State-owned divestment and equitization will be promoted in the second half of 2016

Growth of manufacturing activities and sector outlook

PMI in 05/2016 (rose to 52.7 points from 52.3 points in the previous month) confirmed our belief on Vietnam manufacturing activities in the Strategy Report published in May. Average PMI in the first 5 months was 51.5 points thanks to the expansion of output and orders.

Table 1: Vietnam manufacturing

	01/2016	02/2016	03/2016	04/2016	05/2016
PMI (HSBC)	**51.5**	**50.3**	**50.7**	**52.3**	**52.7**
Output					
New Orders					
New Export Orders					
Backlogs of Work					
Stocks of Finished Goods					
Employment					
Output price					
Input price					
Suppliers' Delivery Times					
Stocks of Purchases					
Quantity of Purchases					

Sources: Nikkei, HSBC

Note:

>50+	Expansion	Improve
>50 -	Expansion	Deteriorate
<50-	Contraction	Deteriorate
<50+	Contraction	Improve

Generally, FDI sector continues playing a leading role in manufacturing activities, as shown by the growth of textile and electronic products manufacturing. Average growth rate of production and consumption for electronic products manufacturing were 16.5% and 17.8% yoy, respectively. Meanwhile, textile industry had an average growth rate approximately 11%yoy in both production and consumption.

In term of domestic sector, metals production (mainly steel) recorded the most remarkable growth, production increased by 20% while consumption rose by 26%yoy on average. The second best industries were rubber and plastics products manufacturing. Demand has increased well at food and beverage, pharmaceutical products, however, supply has grown at lower rate. In contrast, supply likely grew faster than demand at paper and packaging production. Compared to other sectors, chemical industry was not very encouraging with negative growth in the first two months of Q2/2016.

One of the most notable things in recent reports on industrial production is the recovery of input and output prices. Input prices have continuously gained in the last three months, while output prices has been adjusted upward in recent two months. According to the survey, input prices grew faster than output prices, mainly due to the recovery of oil prices and raw materials supply shortages. This implies that the profit margin of enterprises might be affected negatively, however, the degree of the impact should depend on specific industries and enterprises.

Based on above analysis, we think some industries could have positive business outlook in Q2 like: (1) F&B, (2) steel production, (3) plastics and rubber products. In contrast, chemical industry might have a bleak prospect.

Table 2: Production and consumption of some industries in the first 5 months

		Food	Beverage	Textile	Paper	Chemical	Pharmaceutical	Rubber, Plastics products	Metal	Electronic products
						PRODUCTION				
QII/16	05/2016	3.8%	5.1%	15.4%	16.5%	-3.6%	-1.0%	15.1%	12.8%	20.7%
	04/2016	7.3%	1.8%	11.4%	14.5%	0.8%	6.8%	13.9%	13.5%	36.6%
QI/16	03/2016	5.3%	5.8%	10.8%	11.5%	7.7%	9.3%	6.6%	16.3%	16.8%
	02/2016	8.0%	1.8%	8.6%	10.0%	6.1%	7.4%	11.6%	42.4%	9.4%
	01/2016	7.9%	15.0%	12.1%	4.5%	8.9%	9.7%	9.7%	14.1%	-1.2%
						CONSUMPTION				
QII/16	05/2016	10.3%	5.5%	9.5%	1.5%	-7.0%	4.4%	9.2%	6.3%	31.1%
	04/2016	9.1%	6.1%	4.3%	6.0%	-2.7%	10.0%	10.9%	39.1%	17.5%
QI/16	03/2016	10.9%	8.1%	28.5%	10.8%	15.0%	4.4%	9.8%	39.7%	22.1%
	02/2016	12.3%	23.1%	-2.8%	-4.5%	-5.2%	18.6%	7.7%	24.5%	-4.3%
	01/2016	13.1%	5.0%	15.2%	1.1%	25.2%	10.7%	7.9%	18.6%	22.6%

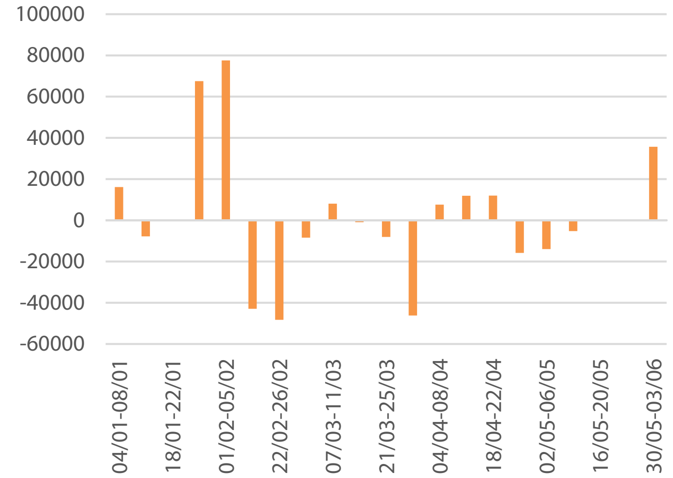
Sources: GSO, RongViet Research

Excess liquidity in banking system

Monetary market has been stable in the first 5 months of 2016 with notable hidden movements. Lending interest rates (G-bonds, interbank) have decreased slightly. In addition, there is excess liquidity in banking system at the moment because SBV keeps buying foreign currency and M2 has accelerated faster than credit.

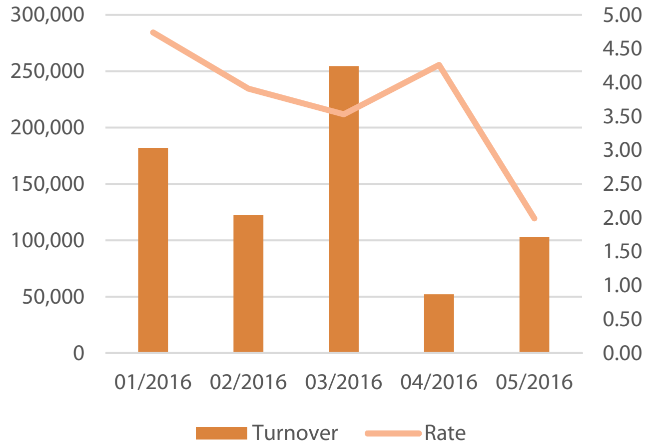
Basically, the stability of banking system reflected by such factors as steadily pumping/withdrawing on OMO market, interbank turnover decreased slightly compared to the same period last year while overnight rate has declined gradually month by month. Average O/N rate in May decreased to only 2%/year compared to 4.74%/year in the early-year. Government bonds issuance is very positive with high winning ratio and has improved gradually month by month. Until now, the State Treasury issued VND157,000 bn of G-bonds, completed 71.4% the plan. Winning interest rate decreased slightly in 3-5 years term (~40 bsp). Besides, the State Treasury also issued VND20,000 bn T-Bills with stable yield at 5%/year.

Figure 5: OMO Market



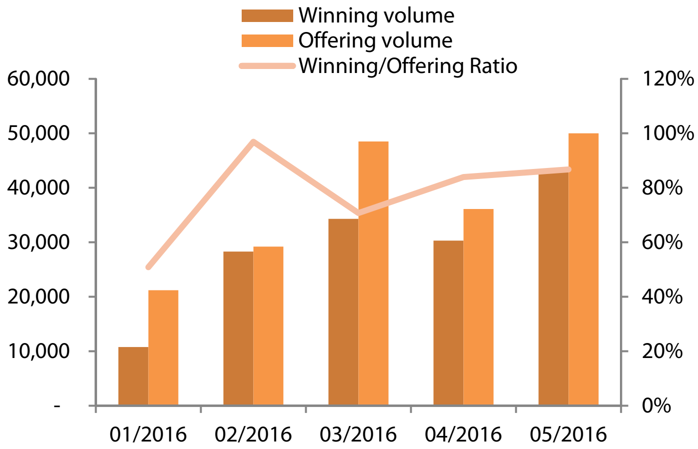
Source: Bloomberg

Figure 6: Interbank market



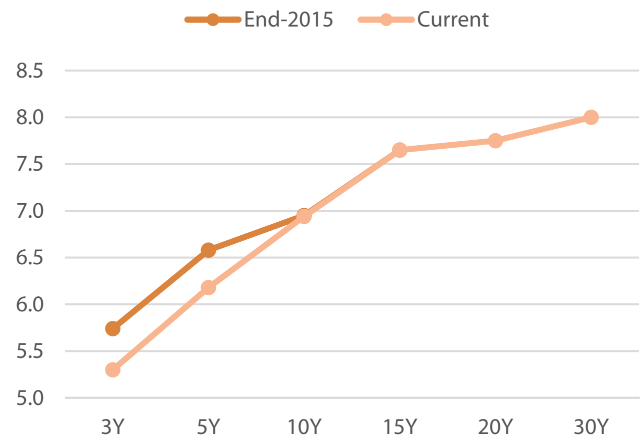
Source: SBV

Figure 7: G-bonds auction result



Source: HNX

Figure 8: G-bonds yield curve

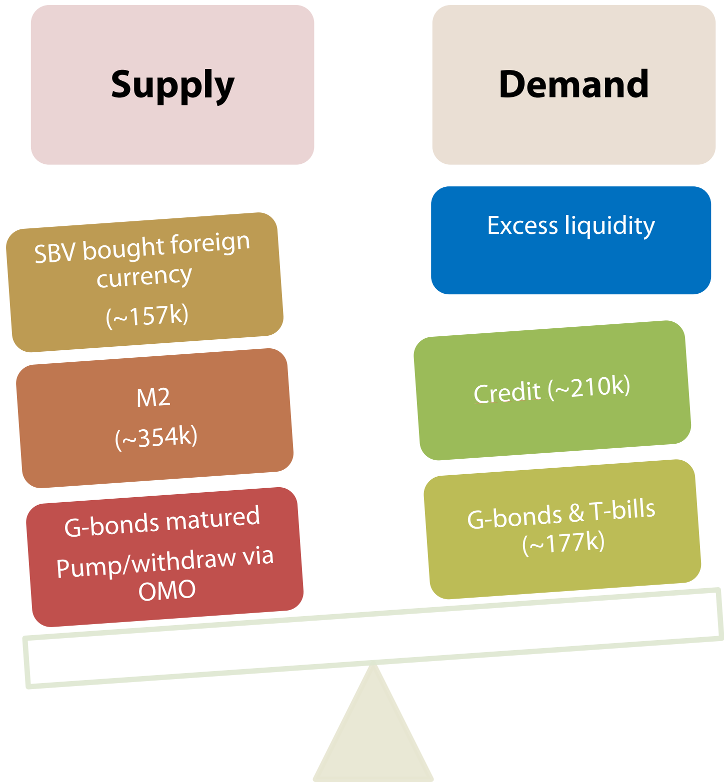


Source: HNX

For mobilization and credit in the banking system, it could be seen that M2 growth is higher than credit growth. As of 20/05/2016, M2 growth is estimated at 5.88%, total deposits increased by 5.52% while credit growth is estimated at 4.52%. Since the early-year, SBV also kept buying foreign currency to add foreign exchange reserve, according to unofficial source, the amount of foreign currency that the SBV has bought is about USD7 billion (~VND157,000 billion). In order to accumulate foreign currency, the SBV must pump a certain amount of VND, simultaneously, it has to issue bills or withdraw VND on OMO market to balance the impact of money supply increase. The SBV has just began to issue bills in June, thus, we believe the banking system should be at surplus in liquidity at the moment as there is not enough evidences that the monetary authorities have ability to neutralize the increase of money supply in the economy.

Above observations gave some implications as follows: (1) The new circulars (06&07) issued by the SBV at the end of May, 2016 are suitable orientation under current circumstance; (2) The gap between money supply and demand could create a surplus of liquidity, when this situation happens, stock market sentiment as well as cash flow will be more active; (3) inflation from money supply could be a potential risk, but we think it is not at warning level because core inflation maintains low. However, we suppose that supply-demand should be controlled and regulated to avoid undesired consequences in the future; (4) Capital allocation is the main theme for the remaining months of this year: (a) pressure from G-bonds mobilization, (b) control credit growth at consumer and property loans, (c) promote capital to manufacturing activities. Because Ministry of Finance completed 71% the G-bonds issuance plan in 2016, the pressure from G-bonds mobilization could be decreased in the next few months. Stable interest rate could push credit growth, however, pumping capital into industries which support sustainable economic growth is not an easy task for the SBV.

Figure 9: Money supply-demand in the first 5 months of 2016 (Unit: billion dong)



Source: RongViet Research estimates

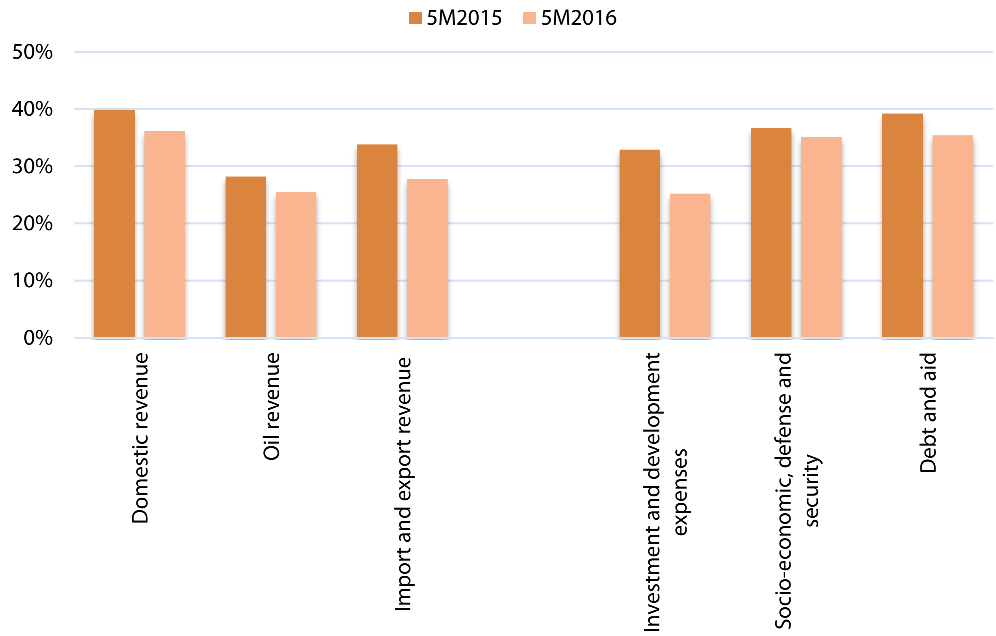
State-owned divestment and equitization will be promoted in the second half of 2016

According to GSO, the State Budget revenue in the first 5 months could not achieve the budget plan, is estimated at VND346.2 trillion (~34.1% the budget plan). Three income sources declined sharply include: revenue from SOEs (-19%yoy), oil revenue (-47%yoy) and export-import revenue (-19%). Meanwhile, total budget expenditure is estimated at VND412.6 trillion, ~32.4% of the budget plan. In the first 5 months of 2016, the budget deficit is about VND66,400 billion (~43% the budget plan). Despite the G-bonds issuance is quite positive (~VND157,000 billion in the first 5 months), high public debts could be a trouble for Vietnam economy. Thus, it is necessary to increase revenue and decrease spending.

In term of expenditures, development investment in the first 5 months reached only 25.2% of the budget plan, meaning that the capital disbursement from the state budget was quite slow. Constrains on budget revenue curbed the ability to support the economic growth of fiscal policy, then shift the responsibility to monetary policy and the self-efficacy of private sector. During the rest of the year, payment for public debt is still high (~VND100,000 billion). Therefore, difficulties in budget issue will not be removed.

To supplement budget revenue, authorities are looking for ways to improve revenues from SOEs sector. The recent dispatch requested BIDV and Vietinbank to pay cash dividend is a typical example. For the state-owned divestment and equitization process, as of 27/05/2016, there was 36 SOEs equitization (value of approximately VND6,000 billion) and SOEs divestment (~VND2,467.5 billion). This is an insignificant number compared to the decrease of revenue from oil and import-export of the State budget (approximately VND23,700 billion). Thus, to perform the task to balance the State budget and ensure public debt at the safety threshold, the SOEs divestment and equitization process should be speeded up in the second half of 2016.

Figure 10: The State Budge revenue-expenditure (% plan)

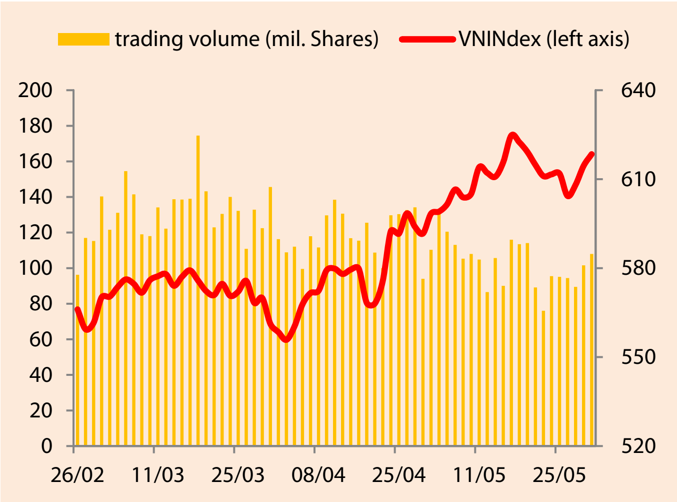


Sources: GSO, RongViet Research

MAY STOCK MARKET: More turning points than ever

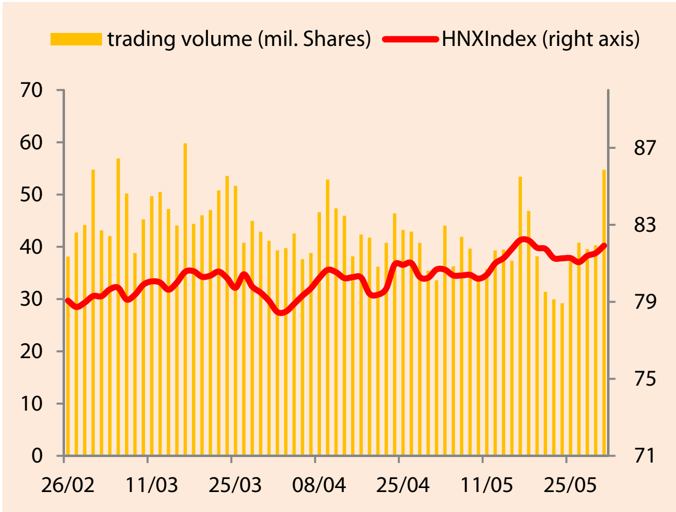
Market saw two turnaround points in May. In 2010-2015, VNIndex in May never had more than one turnover point. Its movement patterns included either sharp up/down trend or V top/V bottom. However, these patterns did not iterate in May of this year. The market index movements were more volatile and quickly formed two turning points, including a peak in the mid of May and a bottom in the late of may (26/5). This high fluctuation was biased by banking stocks. Unstable trend of banking sector shows that uncertainty of cash flows at these "King stocks", implying a potential risk associated with current upward trend of VNIndex.

Figure 11: VNIndex movements in May



Source: Rongviet Research

Figure 12: HNXIndex movements in May



Source: Rongviet Research

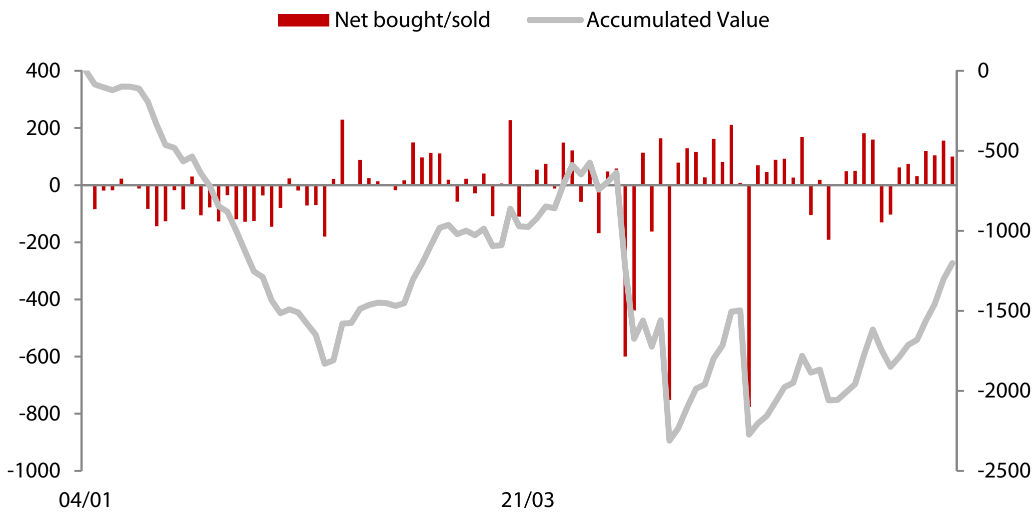
Oil and gas stocks continued their uptrend since January. Their operating result in the first half of the year was mild, and Crude Oil Brent price in May was 25% lower y-o-y. Nevertheless, price of Oil and gas stocks, especially GAS, still went up considerably. GAS has returned to the price level this time last year. This shown that the decision to buy GAS and other Oil and gas stocks was not based on fundamental but simply a bet on the increase of oil price to a higher level than last year. Consequently, if this expectation does not come true in next months, these stocks will probably face strong correction.

Cash flows also contradicted market price movements. Order-matching cash flows in HSX averaged at VND1,760 billion in May, lower 8% than last month figure. Cash flows have diminished since the mid of May, with average of the first half of May appropriate to average of April average but still higher 12% than an average of the second half of May.

Earnings results at mid and small cap stocks were relatively positive than large cap stocks. Total earnings growth (benchmarked by after tax profit for parent shareholders) of mid and small stocks in Q1 were superior to the large cap growth, higher 1.5 times and 3 times, respectively than large cap stocks whose growth was only 6.5%. However, stock-peak activity still remained its role in this period since only a half of mid and small cap stocks saw positive growth in the first quarter.

Foreign trading activities: Follow the YTD trend

Figure 13: Cumulative trading values of foreign investors since beginning 2016



Source: RongViet Research

Foreigners contributed to the rally of both indices. There were 15/20 and 16/20 sessions they net bought in HSX and HNX. Offshore investors net bought VND740 billion in HSX and VND186 billion in HNX. 2 foreign ETFs turned active again when DB x-trackers FTSE Vietnam ETF withdrew USD11.27 million and Van Eck Market Vector Vietn ETF pulled out USD1.43 million. MBB was the top pick with total value of VND351 billion. Foreigners vigorously net bought MBB and gradually got close to the FOL of 20% of MBB. In the context of stronger oil price, oil stocks like GAS, PVD, PVS and PLC were also purchased. On the other side, foreign players continued to net sold VIC with the total value of VND411 billion. Also, divestments of major shareholders from HPG made the stock witness strong sold out of more than VND300 billion.

Thus, the cumulative values from beginning 2016 to the end of May showed that foreigners had been net sellers to the tune of VND1,144 billion worth of shares. Excluding the VIC bias traded values in the first 4 months, foreigners net bought VND3,322 billion. Banking stocks were the most positive ones when offshore investors got 4 out of 5 months' net bought VND1,765 billion. Oil & gas stocks were another one. They changed from net sold in Jan and Feb to net bought in the next 3 months with the increasing values: VND31 billion, VND175 billion and VND262 billion.

Table 3: YTD net buy/sell values of foreign investors

Sectors (ICB lev 2)	Net buy/sell in HSX	Net buy/sell in HNX
Retail	28.76	0.26
Insurance	181.33	(10.44)
Real Estate	(4,636.82)	190.15
Technology	68.73	0.61
Oil & Gas	81.62	224.55
Financial Services	673.96	113.89
Utilities	298.99	9.90
Travel & Leisure	(8.19)	16.56
Industrial Goods & Services	134.23	13.83
Personal & House hold Goods	58.39	(20.52)
Chemicals	(47.68)	71.64
Banks	1,765.55	57.71
Automobiles & Parts	(410.07)	(5.94)
Basic Resources	(656.46)	27.63
Food & Beverage	401.31	(61.08)
Media	0.00	3.57
Construction & Materials	188.07	105.07
Health Caure	(0.83)	(2.10)
Total	**(1,879.12)**	**735.28**

Source: RongViet Research

Table 4: YTD net buy/sell values of foreign investors (exclude VIC)

Sectors (ICB lev 2)	Net buy/sell in HSX	Net buy/sell in HNX
Retail	28.76	0.26
Insurance	181.33	(10.44)
Real Estate	(170.82)	190.15
Technology	68.73	0.61
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Financial Services	673.96	113.89
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Automobiles & Parts	(410.07)	(5.94)
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Construction & Materials	188.07	105.07
Health Caure	(0.83)	(2.10)
Total	**2,586.88**	**735.28**

Source: RongViet Research

The most noticeable session in June would be the Friday, 17/06/2016, the last day that 2 ETFs must finish their reconstitution activities in 2Q/2016. DB x-trackers FTSE Vietnam ETF announced the results whereas GTN is the only ticker that will be added and none will be deleted. Van Eck Market Vector Vietnam ETF will release the result at the end of this week. We forecast that the fund will neither add nor delete any tickers. VIC will be strongly sold (around 4 million shares).

oreign activities remained positive as we foresaw in our strategic report M05/2016. This June, besides upcoming activities of 2 ETFs, 2 global events may also influence foreigners' capital. That is the referendum on June 23 on whether Britain will leave the European Union (a process often referred to as Brexit), and the FOMC meeting on June 14-15. Prior to this meeting, people see only a 29% likelihood of a rate increase from the Fed, compared to 75% in 2015. However, this potential rate increase still poses a risk to inflows of foreigners to Vietnam, and other frontier and emerging markets. Foreigners' capital, accumulating in market-lead sectors such as banking and Oil & gas, may distort the Index. However, please keep in mind that net foreign capital ratio was only 11-15% in the past and is currently around 9-11%. Therefore, investors should remain calm and not make decision solely based on foreigners this month.

VNIndex and HNIndex extended their gains in May yet enthusiasm faded as the months marched towards its end and market movers the like of VCB, VNM, BVH, VIC, BID and O&G leaders such as GAS and PVD failed to retain cash flows. On top of solid performance of fundamental mid-caps, the limited losses of larger stocks allowed indices to retain gains and moved sideways in a narrowed band into the first week of June. Last month, the O&G sector led the market with a gain of 20%, followed by retailers at 13% and household goods at 12%. Foreign investors remained bullish in May. Excluding the sales of VIC, foreigners accumulated a net VND3,300bn in the five months ended in May, little changed from previous year.

Economic indicators and gradual improvements in corporate earnings are all pointing to long-term positive trend for the stock market. Of the three macro focuses of 2016, i.e. (1) GDP growth, (2) interest and exchange rate fluctuations and (3) state budget imbalance, we have seen some optimistic developments in the former two in the second quarter as compared to the first quarter. On the one hand, we expected solid performance of non-farm sectors to offset to the drop in agricultural output and send the economy back to the growth trajectory in the second quarter. On the other hand, interest rates and the USDVND exchange rates have remained under the SBV's control of the year despite concerns over an increase in volatility in the beginning of the year. Confidence in economic performance is expected to continue support market sentiment in the upcoming months.

Even so, the stock market of June is within the blast radius of external shocks, i.e. (1) geopolitical tension during Shangrila talks and arbitration of the South Sea, (2) a possible hike of the USD rates following the FED's June meeting, (3) a correction in oil prices and (4) upcoming development of Brexit. Our observations indicate that over the past two years, maritime border tension with China have has immediate and strong impact on market sentiment. In addition, it seems unlikely that stocks like GAS, VCB, BVH, BID, VNM to move fast forward from their current prices while strong gainers will likely face a lot of sale pressure in the first week of June as traders take profits. If the market fails to find new leaders, VNIndex may face strong headwinds before it even reaches 640. However, VCB and BVH can emerge again to "save the index" in the last minute as they have done time and time again over the past few months. As such, VNIndex should continue going sideways within a narrow band until the end of the month.

VNIndex is expected to move between 608 and 638 and HNIndex between 80 and 84.7 in June.

The stock market of June should not be easy from short-term trades with the aim to buy high and sell higher. At the current price level, investors are advised to pay more attention to sector selection and stock screening with a medium to long-term focus. We expect a good numbers of sectors, i.e. securities, building materials, construction, real estate, electricity, automobile parts, specialty retailing and travel – recreation, to exhibit solid earnings growth in the second quarter.

JUNE INVESTMENT STRATEGY: LONG-TERM OPPORTUNITIES AGAINST SHORT-TERM RISKS

Uncertainties from the outside world threaten to put a drag on Vietnamese stocks this month where geopolitical tension and the unpredictable oil market are the biggest risks to the watch. Profit-taking sales is also an obstruction on the increasing path of indices. Therefore, we do not expect improvements in the market in term of index gains. Driven by earnings expectation, smaller stocks, however, can extend the gains. Therefore, a strong correction in the market, caused by any of the abovementioned risks should be seen as an opportunity for medium and long-term investors to make new positions and/or increase current holdings.

For Q2 growth outlook, we are quite optimistic about financial services (securities brokerage and non-life insurance), building materials, construction, travel & recreation, automobile parts, specialty retailing (auto dealership and electronics), real estate and consumer goods.

In the financial services sector, top stock brokers such as HCM and SSI, who are generally more aggressive on margin lending, should benefit from the adaptation of intraday trading in July. While core-business earnings steady, a jump in investment gains should add greatly to bottom-line growth of insurers such as PTI and BMI.

The peak season of civil construction and tourism starts in April. As a result, we expect to see strong top-line and bottom-line growth from passenger transporters such as SKG and materials manufacturers like HSG, HPG and BMP. In Q2, a number of real estate developers have begun to hand over units that were sold in late 2014 and early 2015. However, we expect sector-wide earnings growth to be more concrete only in the second half of the year.

Likewise, the banking sector should continue to see a divergence among listed banks despite overall improvements in profitability. Given the ongoing surplus in liquidity and slow-to-expand net interest margins, the ability to grow in loans while maintaining capital adequacy ratios is crucial to banks' profit growth. Of the listed credit institutions, we prefer VCB for its low interest cost and the stronger balance sheet.

- Transportation: PVT, VTO
- Seaports: HAH, VSC
- Construction: CTD
- Technology: FPT
- Electricity: NT2, PPC, REE
- Real estate: BCI, KDH, LHG
- Retailers: SVC, PTB, MWG
- Building materials: NNC, DHA, BMP, KSB, HPG, HSG
- O&G: PGS, PVS, PLC
- Food & Beverages: VNM
- Banks: VCB
- Other: SKG, DHC, DRC, PTI, DPM

Table 5: Sector key information

Sector	Market cap (VND bn)	+/- % 1-month	+/- % 3-month	+/- % YTD	+/- % 1-year	P/E trailing (x)	P/B (x)	EV/EBITDA (x)
Banks	339,681	4.70	5.14	0.63	1.77	14.54	1.75	n/a
Foof & Beverages	276,676	0.53	4.73	1.10	25.93	14.31	5.39	13.94
Real estate	185,778	3.58	10.66	8.87	13.43	21.83	2.78	16.53
Utilities	159,326	13.20	29.89	50.22	4.00	13.99	2.45	8.13
Construction & Building materials	95,741	5.72	13.65	16.03	35.64	11.42	1.84	16.41
Resources	80,706	2.76	32.89	18.68	25.15	12.65	1.42	10.91
Industrial good & services	80,013	-0.13	2.17	2.11	18.81	12.77	1.85	7.36
Insurance	56,937	-2.25	5.18	8.23	61.56	21.55	2.51	18.18
Chemicals	44,345	0.20	-1.02	1.01	8.34	8.67	1.29	6.61
Personal & household goods	29,473	11.94	24.87	32.01	59.30	12.42	2.76	12.03
Financial services	28,856	0.89	-5.11	-3.19	-6.67	8.43	1.16	13.38
Information technology	24,704	-0.31	-0.93	1.98	13.59	10.52	1.83	7.12
Oil & Gas	21,086	20.44	22.18	15.61	-24.09	7.42	0.84	3.46
Healthcare	18,209	-0.23	4.25	26.80	6.44	21.73	2.33	7.89
Retailing	17,291	13.08	8.90	6.81	4.96	10.57	3.62	7.59
Media	15,423	4.80	84.15	220.33	283.87	12.71	4.71	410.83
Automobile & parts	14,077	6.78	10.94	0.95	-6.54	8.56	2.17	6.13
Travel & Recreation	12,531	0.68	1.65	-4.69	-0.31	21.58	2.83	16.99

Source: Fiinpro, RongViet Research

Q2 BUSINESS OUTLOOK SURVEY

Sector	Business outlook 2016 vs 2015	Business outlook 2Q2016 vs 2Q2015	Comments
Construction	++	++	- That Q2 is in the dry season acts in favour of construction activities. - Large-scaled high-end housing projects in Hanoi and HCMC along with prominent resort projects have brought more jobs to civil contractors. - FDI disbursement in the first 6 months grew considerably yoy.
Logistics & Seaport	+	-/?	- Cargo activities in Hai Phong during Q2 are expected a growth compared to both Q1 and yoy. However, Hai Phong seaports' Q2/2016 performances might be lower than those of last year, as 2015 reefer storage's profits were mainly realised in Q2 and Q3. - Oil & gas transportation segment (VTO & VIP) expects to achieve positive Q2 business results compared to the same period due to higher transportation demand, capacity (VIP started to operate new vessel in 6/2016) and upward day rate adjustment. In term of PV Trans (PVT), Q2 business result was forecasted to be optimistic thanks to additional revenue from FSO and active liquid transportation activities that significantly support other marine services.
Building materials (exc. Steel)	++	+	- Construction material companies are expected to grow yoy owing to construction activities and the real estate market. Construction stone companies are considerable as stone's ASP has gone up 20% yoy. - Input prices are in an upward trend compared to last quarter, yet lower than those of last year. Looking at the increase in sales volumes, it is forecasted that plastic companies' performances can be promising.
Information Technology	++	++	- IT companies' revenue and NPAT are expecting a strong growth in 2016 thanks to last year's remaining work value and this year's feasible contracts. - Various important traffic project approvals are likely to increase contracts of supplying equipment and integrated solutions. - Mobiphone's investment in infrastructure helps create new jobs for IT companies. -ITD is predicted to maintain growth in Q2 and ELC Q2's revenue growth is likely to exceed that of Q1. FPT's Q2 performance expects little improvement due to its retail business and telecommunication's depreciation.
Real estate	+	+	- Q1's Apartment market absorption in HCMC declined slightly compared to Q4/2015, while April and May sales were lower than the previous months due to a surge in high-end segment's supply. - 2014-sold apartments, mainly average and lower-end started the handover in late-Q1 and early Q2. - SBV's Circular 06 amending Circular 39/2014/TT-NHNN increases the real estate's credit risk rate to 200% instead of 250% and keeps the medium and long-term lending to short-term capital ratio at 60% until the end of 2016.
Non-life insurance	+	+	- Q2 is the off-season for insurance sales activities. -Some companies that experienced strong growth in 2015 such as PTI and BIC might bear higher loss ratio (2%- 4% y-o-y). The reason might strong growth mainly came from motor vehicle insurance segment and there have been lots of accidents relating transportation and catastrophes. -Interest rate has yet increased; therefore, income from fixed-income assets might not improve
Automobile parts	+	+	- Tire and battery consumptions maintain the growth in Q2 thanks to replacement demand from new vehicles in 2014-2015. - Natural rubber price decrease helps improve tire companies' gross margin.
Retailers (Auto and Positive Electronics)	+	+	- VAMA statistics show that all vehicle types increased their 4-month sales volumes yoy. Particularly, passenger car sales went up by 14%, while truck sales inclined 5%. - Excess tax increase from July 1st 2016 is expected to boost Q2 passenger car sales, especially high engine capacity vehicles.

Electricity	-/?	+	- As a result of El Nino, thermal power plants have been running at large capacity in Q1 and Q2. Besides, the rain season starting in May is expect to raise utility rates for hydro power plants in Central Highlands and in the South. - VND depreciated strongly against most foreign currencies including EUR and JPY in the first 6 months of the year. Thus, FX-debt incurring thermal power plants may book a great amount of unrealised FX loss.
Travel & Recreation	-/?	+	-Q2 is within the peak season for tourism -Cheap transportation cost will support national tourism. Industry business activities are expected to improve positively in Q2.
Food & Beverage	+	+	- Consumption activities have maintained high growth momentum for the first 5 months this year. - Gross profit margin improves due to low input prices, Q2 business results continue to be optimistic.
Banking	++	++	- Banking revenue still largely depends on loan; acceleration in credit growth compared to the same period in 2015 is the positive signal for banking results. - Approximately 50% of bad debts sold to VAMC during 2013 – 2015 has been made in 2015, provision costs for special bonds are expected to achieve the highest figure during 2016 – 2018.
Personal & Household goods (textilegarment, furniture)	-/?	-/?	- Q2 is the peak season for garment industry. However, with fierce competition from FDI enterprises, we believe that growth rates for business results could slow down compared to last year.
Fertilizers	-/?	-/?	- Sale activities of fertilizer companies prospered in Q2 when negative impacts from El-nino has been weakened. - Even though oil price has recovered recently, overall price level is still at low level and companies will continue to benefit from low input prices. - Selling prices are expected to recover in Q2 and improve gross profit margins for fertilizer companies compared to Q1.
Pharmaceuticals	+	+	- New Pharmacy Law No. 105/2016/QH13 (effective on 06/04/2016) with new Circular No. 11/2016/TT-BYT on the procurement of drugs in public health facilities (effective on 01/07/2016) focus more on drug quality. ETC procurement will bring more benefits. - High dividends have been maintained, providing the signal that core business activities still create healthy cash flow. - Q1 business result demonstrated that alteration in sale policy was effective. Therefore, Q2 revenue is expected to improve compared to last year.
Industrial metal (steel)	+	++	- Global steel selling price started to decline due to the end of peak construction season in China. China continues dropping selling prices to put pressure on domestic products. - Q2 is peak season for construction and companies could improve production and capacity. - Low input prices in Q1 could maintain high gross profit margin. - Q2 business results are equivalent to Q1 and grew compared to the same period. However, it has been reflected into stock prices through the recent surge.
Natural rubber	-	-	- Rubber supply is estimated to decline by 6% in 6 months from 3/2016 due to the concensus supply cut from largest rubber producers. In addition, El-nino and shrinking supply-demand gap are the positive factors to boost rubber prices. Average selling price for 2016 will be equivalent to 2015. - Rubber price in early Q2 slightly declined after the recovery in Q1. - Garden liquidation cost also decreased by 20% yoy.
Oil & Gas	-	-	- Oil price surged in the first half of 2016, as a result, lessening the negative impacts in industry activities. - Gas companies could improve business results thanks to the recovery of selling prices. - Construction companies will maintain stable core business activities with remaining projects and workload. - Oil & gas service companies continue to face low demand (marine, drilling, coating…)

Source: Rongviet Research

HIGHLIGHT STOCKS

No.	Ticker	Subsector	Target price (VND)	Current price (VND)	Rating	Time horizon	Financial 2017F +/- Rev. (%)	Financial 2017F +/- NPAT (%)	Financial 2016F +/- Rev. (%)	Financial 2016F +/- NPAT (%)	Valuation PER Trailing (x)	Valuation PBR Cur. (x)	Valuation +/- Price 1y (%)	Trading 3-month avg. daily vol. (shares)	Trading Market cap (USD Mn)	Trading Foreign room (%)
1	ACB	Banks	22.500	18.500	Accumulate	Long-term	21.8	48.1	8.2	29.4	15.6	1.3	(6.1)	452,047	16,581	19.0
2	BCI	Real Estate Investment & Services	28.000	23.600	Accumulate	Long-term	182.4	83.6	3.2	(13.3)	6.8	1.0	40.6	64,947	2,046	40.0
3	BMP	Construction & Materials	164.000	134.000	Accumulate	Long-term	16.2	13.7	28.1	34.9	10.3	2.8	87.8	105,258	6,094	-
4	CTD	Construction & Materials	171.000	179.000	Neutral	Long-term	14.7	22.4	19.8	17.8	9.5	2.4	148.1	99,792	8,375	7.6
5	DHC	Forestry & Paper	38.200	36.500	Neutral	Long-term	11.5	-	10.5	15.3	7.7	1.8	87.2	136,877	848	17.0
6	DPM	Chemicals	32.500	27.800	Accumulate	Intermediate-term	1.0	(10.0)	(8.9)	11.8	7.5	1.2	8.8	473,623	10,879	24.6
7	DRC	Automobiles & Parts	52.000	52.000	Neutral	Long-term	7.0	5.8	17.7	19.5	11.4	2.7	(3.7)	363,396	4,751	19.2
8	FPT	Software & Computer Services	43.000	40.700	Neutral	Long-term	18.0	12.0	7.5	10.1	10.0	2.1	10.5	772,370	18,695	-
9	HAH	Industrial Transportation	48.000	41.000	Accumulate	Intermediate-term	11.4	8.1	4.2	(10.6)	6.9	1.7	(6.4)	189,860	940	36.1
10	HPG	Industrial Metals	39.700	35.600	Neutral	Long-term	10.2	21.0	27.1	24.3	6.8	1.7	39.1	3,060,463	26,089	11.1
11	HSG	Industrial Metals	40.700	37.200	Neutral	Intermediate-term	27.5	37.1	4.1***	30.6***	7.1	1.4	103.8	1,556,546	7,311	18.2
12	KSB	Mining	61.500	54.500	Neutral	Long-term	8.0	8.5	11.9	23.9	9.7	2.3	123.9	627,424	1,275	38.0
13	LHG	Real Estate Investment & Services	22.000	25.000	Reduce	Long-term	4.5	4.3	7.8	0.4	7.4	1.0	164.9	479,400	651	43.7
14	MWG	Electronic & Electrical Equipment	93.000	88.000	Neutral	Intermediate-term	29.2	15.4	50.8	31.6	9.9	4.4	20.4	144,508	12,902	-
15	NT2	Electricity	35.600	31.600	Accumulate	Intermediate-term	(6.7)	(3.0)	(8.0)	(12.9)	9.4	1.8	54.1	766,368	9,002	28.5
16	PGS	Gas, Water & Multiutilities	20.600	17.600	Accumulate	Intermediate-term	10.6	(66.3)	n/a	n/a	3.3	0.8	3.1	476,475	880	28.9
17	PLC	O&G	32.300	31.200	Neutral	Intermediate-term	9.4	14.1	(10.6)	(17.7)	8.2	2.1	20.8	91,411	2,520	42.3

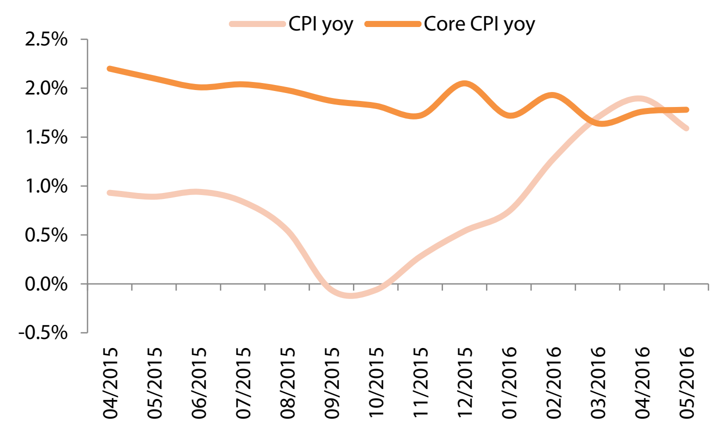
18	PPC	Electricity	18.500	15.600	Accumulate	Long-term	0.2	104.1	(2.4)	(3.5)	19.0	0.9	(16.8)	839,493	4,963	35.8
19	PTB	Household Goods & Home Construction	130.000	119.000	Neutral	Long-term	6.5	14.4	20.1	34.9	8.9	3.4	180.6	35,813	2,142	40.2
20	PTI	Nonlife Insurance	28.500	23.500	Accumulate	Long-term	14.6	13.3	21.6	25.9	9.7	1.0	43.3	52,827	1,889	11.1
21	PVS	Oil Equipment, Services & Distribution	18.000	18.800	Neutral	Intermediate-term	9.6	16.4	(15.7)	(25.6)	5.8	0.8	(24.8)	1,910,213	8,398	22.3
22	PVT	Industrial Transportation	14.000	12.900	Neutral	Long-term	2.9	(2.2)	5.7	21.1	8.8	1.0	12.2	1,367,364	3,300	30.1
23	REE	General Industrials	26.800	20.700	Accumulate	Long-term	(5.6)	8.7	2.8	12.8	7.9	0.9	(13.8)	368,084	6,418	-
24	SKG	Travel & Tourism	103.000	98.500	Neutral	Long-term	9.4	(8.0)	30.5	34.9	17.2	4.2	177.9	54,570	3,375	1.2
25	SVC	General Retailers	41.700	37.600	Neutral	Long-term	2.5	3.7	5.1	16.0	8.9	1.1	110.2	114,525	939	13.5
26	TCM	Personal Goods	30.500	26.500	Accumulate	Long-term	6.3	10.0	24.7	20.0	9.2	1.5	(10.7)	548,570	1,301	0.0
27	VCB	Banks	46.700	47.300	Neutral	Long-term	8.4	19.6	10.3**	24.5	20.9	2.7	8.6	892,971	126,055	28.0
28	VNM	Food Producers	145.000	139.000	Neutral	Long-term	16.0	1.0	13.0	11.0	19.9	7.4	68.4	1,019,253	166,819	-
29	VSC	Industrial Transportation	66.000	54.500	Accumulate	Long-term	15.2	15.0	19.1	(13.5)	9.3	1.7	35.5	121,458	2,482	-

Source: RongViet Research

*** Total operating income growth*

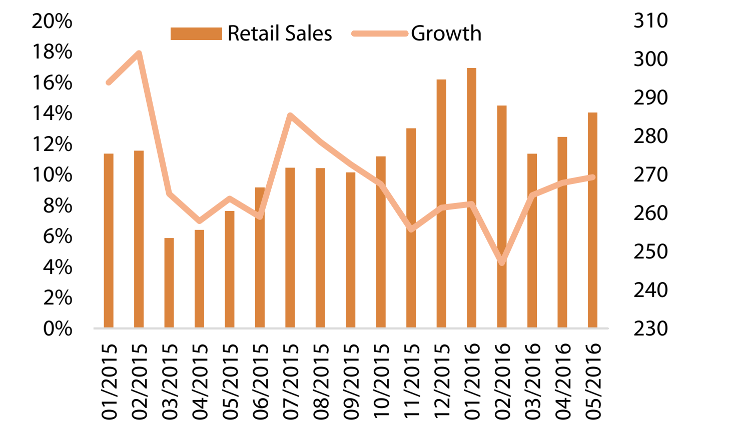
****Fiscal year ending in September*

Inflation surged in May



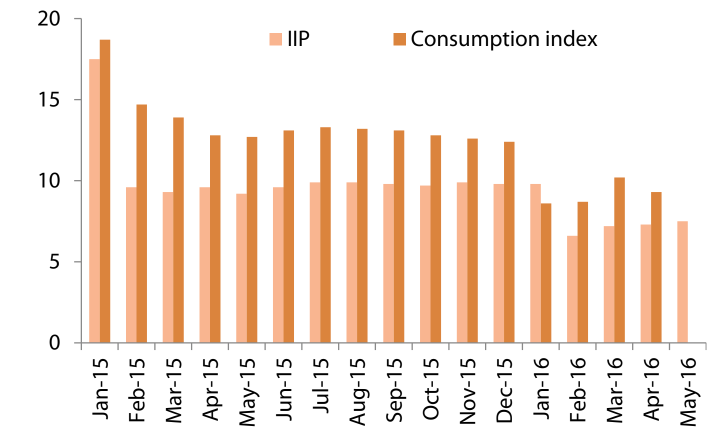
Source: GSO, Rongviet Securities

Retail sales improved rapidly



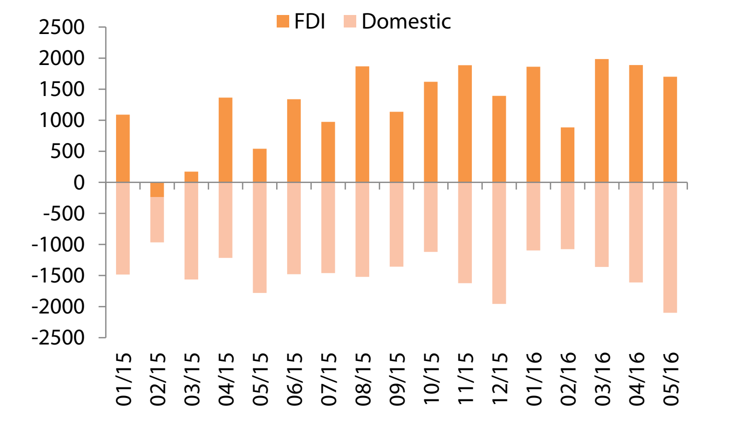
Source: GSO, Rongviet Securities

Industrial production remained stable



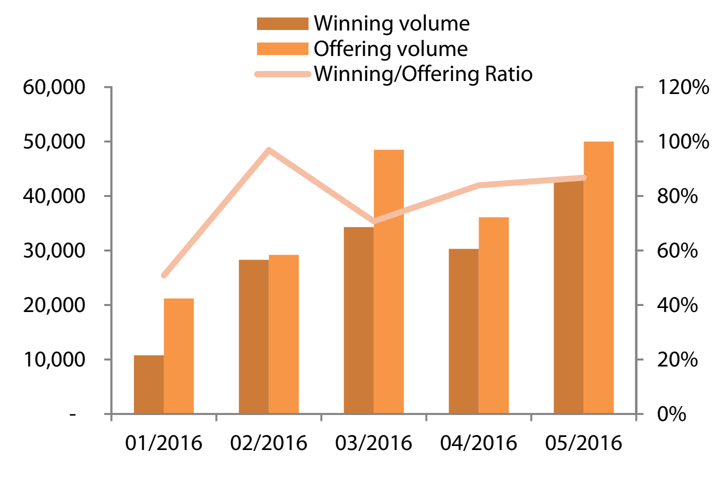
Source: GSO, Rongviet Securities

Domestic firm's trade deficit increased significantly



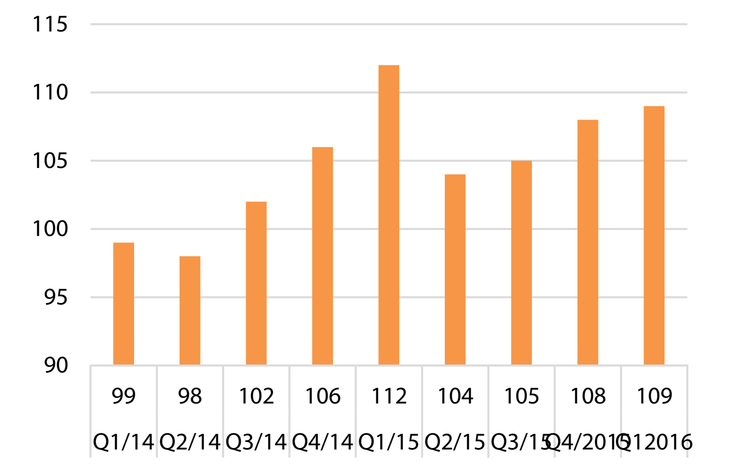
Source: GSO, Rongviet Securities

High winning /offering ratio



Source : VBMA, Rongviet Securities

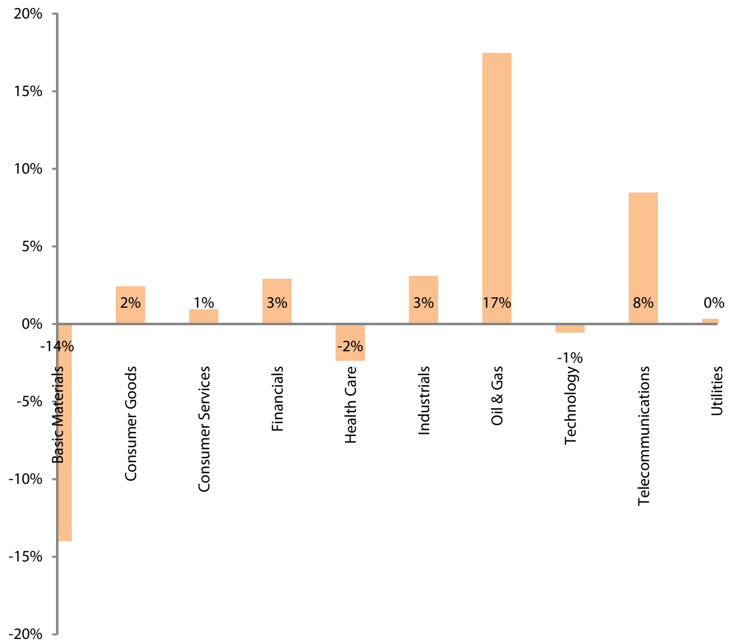
Vietnamese consumer confidence is the top among Asian's



Source: Nielsen, Rongviet Securities

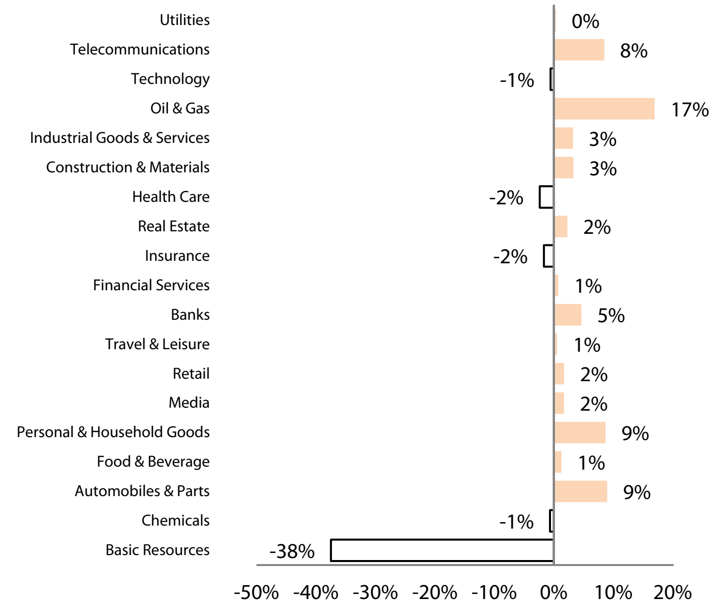
INDUSTRY INDEX

Level 1 industry movement



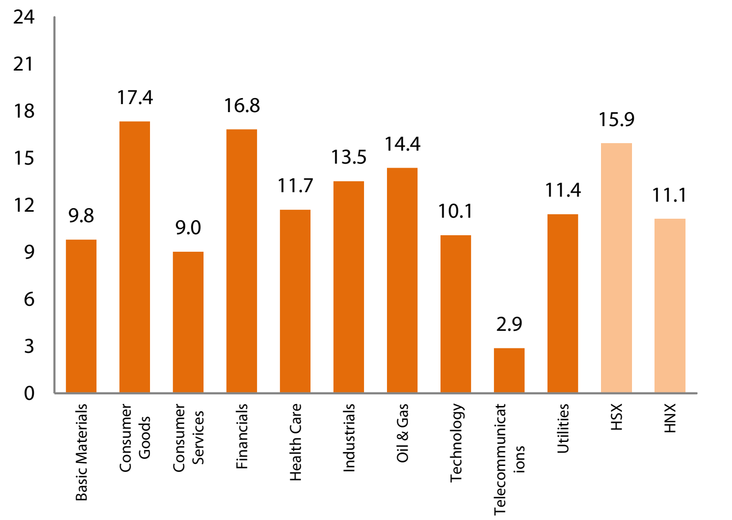
Source: RongViet Research

Level 2 industry movement



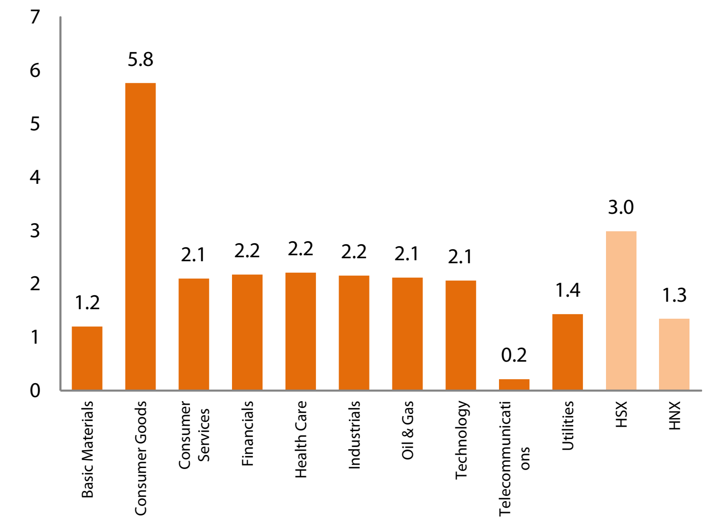
Source: RongViet Research

Industry PE comparison



Source: RongViet Research

Industry PB comparison



Source: RongViet Research

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