RONG VIET SECURITIES

INVESTMENT STRATEGY REPORT 2023

TOUGH TIMES NEVER LAST

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TOUGH TIMES NEVER LAST

"Growth engines will run at a slower rate, holes in the economy will be patched, weaknesses in the system will take time to improve"

- The economy in general and the stock market in particular are still expected to face headwinds, at least in H1 2023: the Fed's interest rate hike roadmap, the global economy's recession, and the resistance capability of the economy when a large amount of corporate bond maturity come due in Q2 2023. After high growth in 2022 from the 2021 low base, we expect 2023 GDP growth at 5.6% in the base case scenario, lower than the Government's target.
- We suppose that the stock market has mostly reflected the most negative events in 2022: China's lockdown, the escalation of Russia-Ukraine tensions, the scale of Fed's interest rate hike, banking liquidity crisis due to domestic events. However, the difficulties in 2023 are also challenges that need to be carefully observed. More importantly, because of the synergistic impact of events taking place in 2022, we estimate that 2023 earning of companies under our coverage to decelerate compared to the growth rate of 2022.
- In our base case scenario, we expect that difficulties will be gradually relived after China fully reopens its economy, the Fed's interest rate hike route comes to an end, which will give the SBV more room to operate its monetary policies. Although there are many bottlenecks that need to be removed so that public disbursement meets the guidelines, the higher ratio of disbursement will have a spillover effect to various economic sectors.
- We also expect that fiscal policy will continue to support monetary policy, in case (1) the 2% interest rate support package (roughly VND 40 Tn or USD 1.7 Bn), will be actively disbursed in 2023, (2) keeping the policy of reducing the environmental protection tax for petroleum products, and (3) keeping the policy of reducing the VAT from 10 % to 8% in 2023 amid difficult economic conditions.
- VNIndex is forecasted to fluctuate between 930 -1270 points. The average order-matching value can be maintained at VND 13 -16 trillion/session on average.
- We also see that (1) the market's PER valuation only decreased to 9.x – 11.x during a macro challenging period and (2) buying and holding at the market PER of 9.x – 11.x will offer high investment performance which will outperform bank deposit rates. Therefore, besides allocating your saving to deposit accounts, long-term investors could consider to accumulate strong fundamental stocks which are major beneficiaries in the long-term positive trend of Vietnam's macro.
- Market risks: Highlights are (1) the global economy's potential recession, (2) the escalation of geopolitical tensions, (3) the lack of uniformity and transparency of macro policies. Those problems have been none for a while. Nonetheless, in case these factors turn out to be worse than expectations, the stock market's downward trend could go further. By contrast, an unexpected easing in monetary policies of central banks to support the economy will boost the stock market, especially in 2H2023.

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INVESTMENT STRATEGY AND IDEAS 2023

TOUGH TIMES NEVER LAST

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Stay defensive against macro uncertainties

- The economy in general and the stock market in particular are still expected to face headwinds, at least in H1 2023: the Fed's interest rate hike roadmap, the global economy's recession, and the resistance capability of the economy when a large amount of corporate bond maturity come due in Q2 2023. After a high growth in 2022 from the 2021 low base, we expect 2023 GDP growth at 5.6%, lower than the Government's target.
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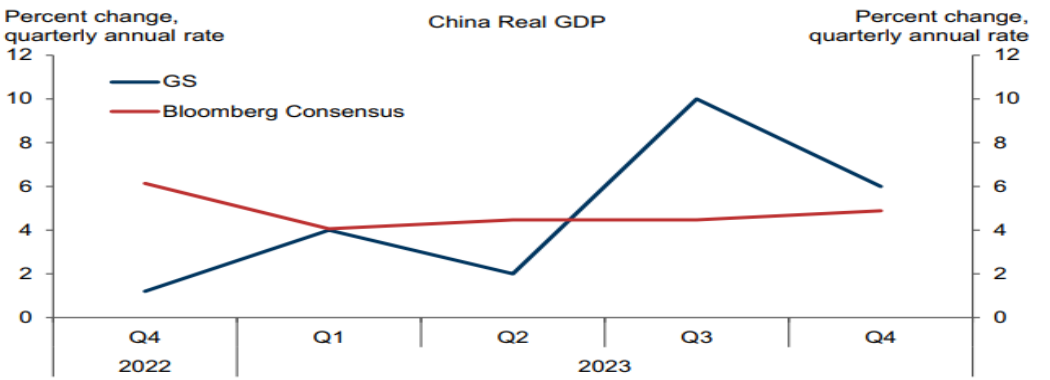
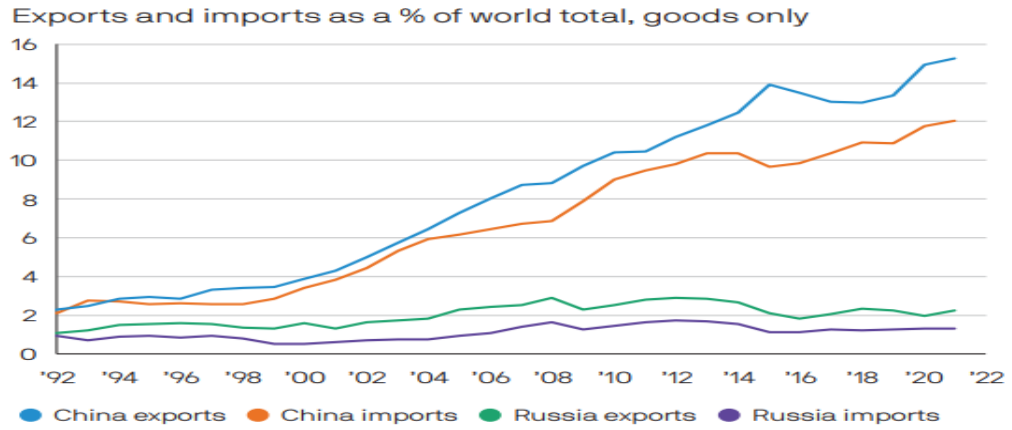
China's economy is expected to recover gradually from 2H2022



Source: Bloomberg, Golman Sachs

Chinese commodities have a large proportion of global export and import turnover: The world needs China and vice versa



Source: JP Morgan, RongViet Securities

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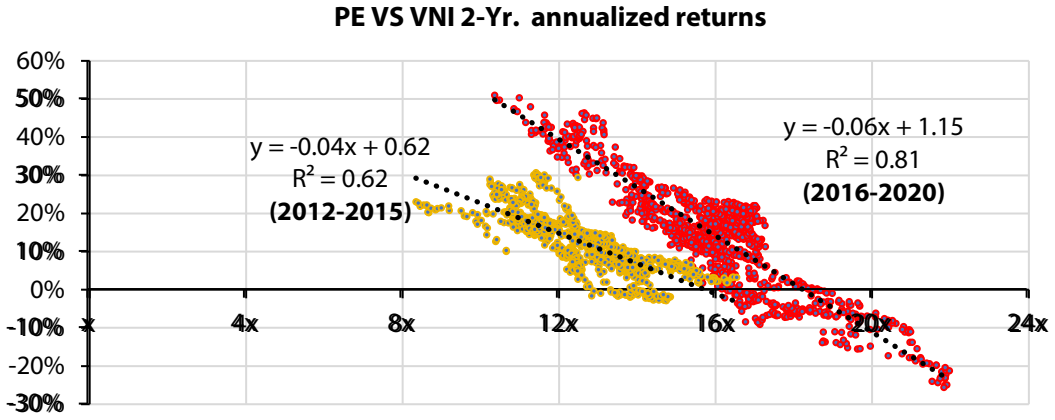
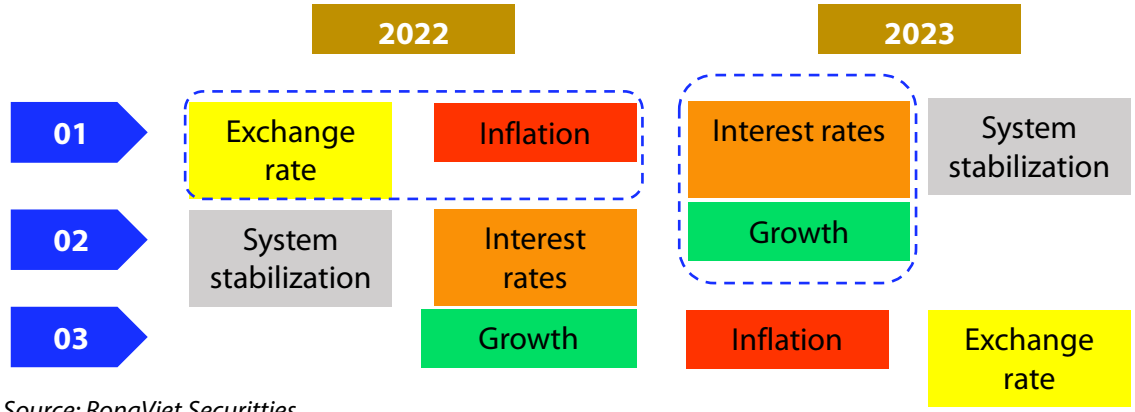
Buying and holding stocks with market's PE valuation at 9.x – 11.x times could bring high investment performance to long-term investors.



Source: Bloomberg, RongViet Securitties

By raising the inflation target in 2023 to 4.5%, we believe that ensuring liquidity stability of the system and controlling interest rates increase to support growth will become the top goals of monetary policy



Source: RongViet Securitties

Keep a defensive strategy against macro uncertainties

- We do not expect a sharp rally or a very strong correction in the stock market in 2023. Instead, there will be waves, in which downward spans will provide chances to accumulate good companies at an attractive price for investors. To be able to optimize such opportunities, we recommend a defensive strategy, at least in 1H2023. Notably, we suggest investors to be cautious in using financial leverage, especially in the sessions without the back up of fundamental changes. In addition, to maximize your investment return, investors can allocate a part of their portfolio for short-term trading, following the movement of those small waves.
- We also see that (1) Market's PER valuation only decreased to 9.x – 11.x during the macro challenging period and (2) Buying and holding at the market PER of 9.x – 1.x will offer high investment performance which will outperform deposit rates. Therefore, besides allocating your savings to deposit accounts, investors could consider to accumulate strong fundamental stocks which are major beneficiaries in the long-term positive trend of Vietnam's macro.

SWIM IN THE RIP CURRENTS

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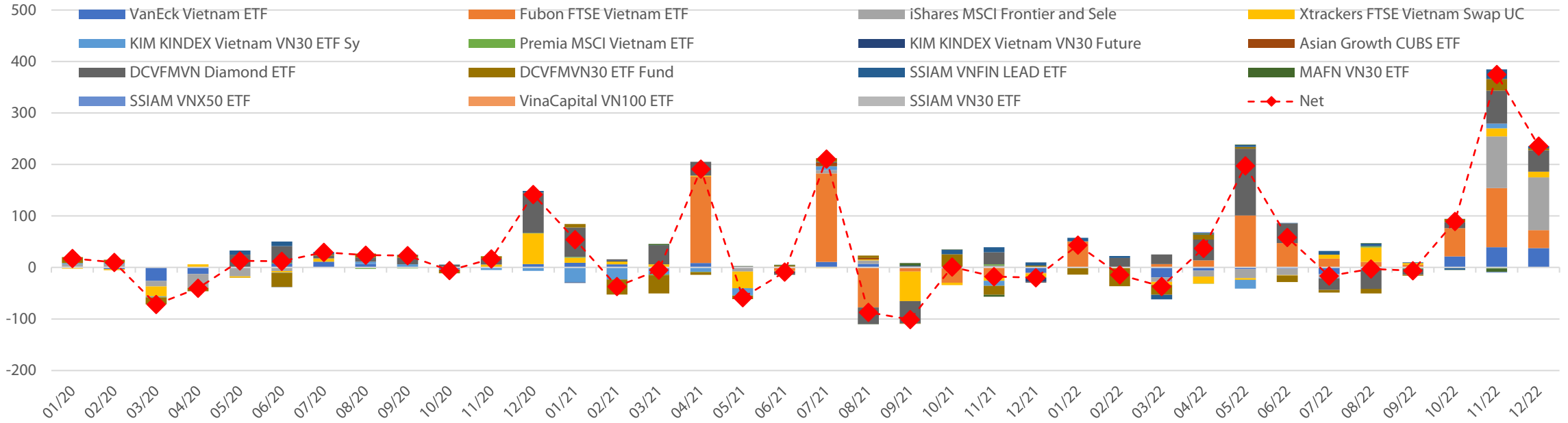
Follow the big boys: the ETFs.

- Following the initiation of the VN30, VNDiamond, VNFinlead, VNFinseclect, VNMid, funds offer more products to their clients, including ETFs. From 2020, capital flows have become more active and being market's supporters at some certain times.
- Vietnam has a relatively stable macro environment and high growth compared to its neighbors. Therefore, we expect that ETF will keep attracting foreign cash flows in 2023.
- Selecting good stocks in the index baskets may help retail investors' portfolios be less vulnerable in a high volatility period.

Movements of ETF capital flows into Vietnam from 2020 to December 12, 2022



Source: Bloomberg, RongViet Securities| Data of Dec 2022 12/2022 as of Dec 12, 2022

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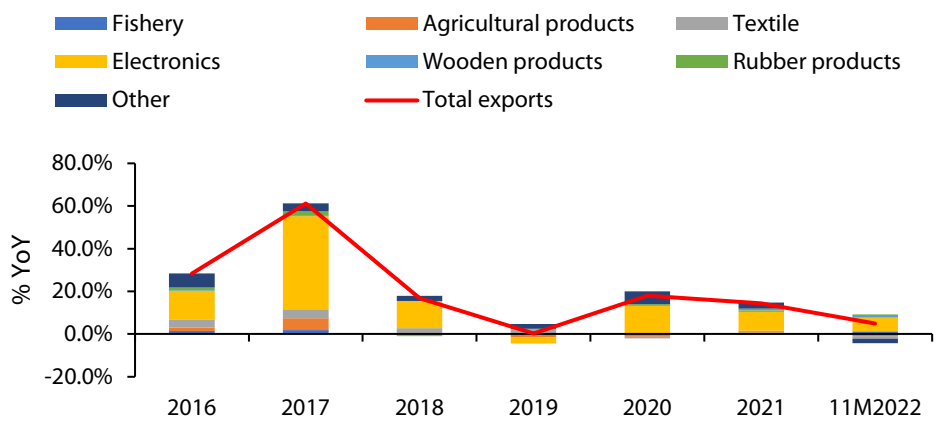
Pressures of high expenses and weak demand will be partially relieved after China reopens its economy

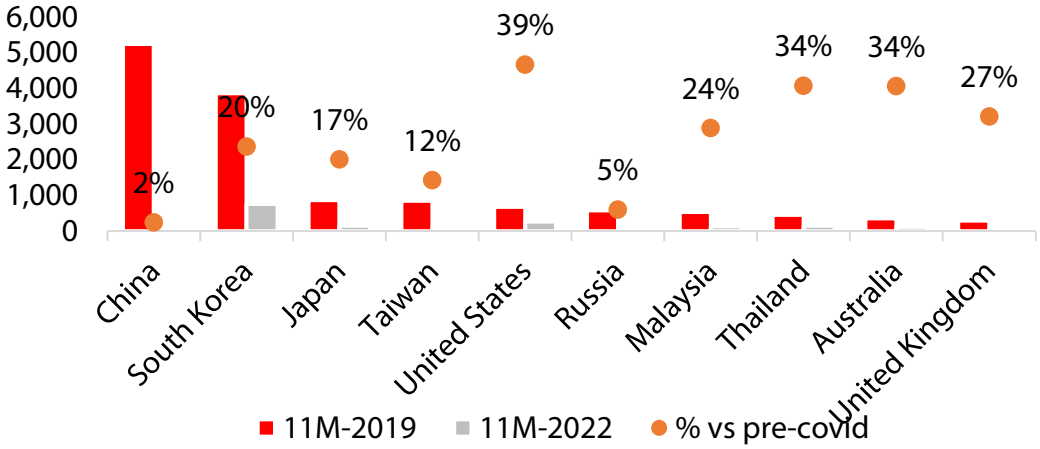
- China is a major trading partner and also a major competitor of Vietnam in exporting many kinds of goods to the US and European markets. Therefore, the reopening of China will have a mixed impact on Vietnam's industries. Besides agricultural products, we expect the demand for pangasius in the Chinese market to increase, partly offsetting the decline in the US and European markets.
- China contributes more than 15% of world's exports and 12% of the world's imports value. Hence, China's Zero-Covid (ZCP) period has caused pressure on warehousing and logistics costs, as well as some types of input raw materials costs. We expect these pressure to ease from 2H2023, in the scenario of a full reopening of China.
- During China's ZCP implementation, consumption was negatively impacted more than manufacturing. Owing to the explosion of online sales platform, consumption of goods was less negatively affected than consumption of services. Thus, with China's reopening, the most obvious positive impact is the strong recovery of service consumption.
- Although Viet Nam reopened its economy from the end of 2022, its tourism sector has showed a minor recover due to lack of Chinese visitors. We expect that after China fully reopens its economy, international visitors to Vietnam will recover in 2023. However, there are not many investment opportunities in sectors such as airlines or cargo services. Instead, we expect spillovers to consumer-related sector like F&B.

Vietnam's export growth to China



Source: Vietnam Customs, RongViet Securities

Top 10 countries with high tourist arrivals: pre-Covid vs now



Source: GSO, RongViet Securities

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Disbursement of public investment to focus on infrastructure and economic recovery programs. The budget for public investment is more than VND 782 trillion (or USD33.3bn), up by 13.7% compared to the 2022 plan. In which, the budget for economic recovery programs are VND 127 Tn (or USD 5.4 bn). In addition, the capital plan in 2023 is 1.7 times higher than the estimated one in 2022 and does not include the unrealized capital transferred from 2022.

New points in the plan for allocating state budget investment capital in 2023 including 1) Prioritize projects under the economic restructuring program and 2) Consider dismissing officials from ministries, central agencies and localities who fail to fulfill their tasks of disbursing public investment capital in two consecutive years (minimum rate is 90% of the assigned plan). These can be two driving forces for the improvement of public investment disbursement in 2023, in addition to the completion of investment procedures for key projects that will promote disbursement.

Key infrastructure projects in regions in 2023

Ring Road 4 – Phase 1

- Expected construction at the end of Q2/2023
- Total investment capital: VND 85,800 billion
- A key project linking the Red River Delta region. Passing through Hanoi, Hung Yen, Bac Ninh, Bac Giang and Vinh Phuc.

Ring Road 3

- Estimated construction: June 2023.
- Total investment capital : VND 75,000 billion
- A key project linking the Southeast region. Passing through the provinces of Ho Chi Minh, Binh Duong, Dong Nai and Long An.

Long Thanh Internation Airport – Phase 1

- Estimated construction: Q1/2023
- Total investment capital: VND 110,000 billion
- To develop and expand the aviation industry in the southern region. Combined with Cai Mep - Thi Vai port to develop comprehensively the domestic logistics chain. In the long term, it is oriented to become a regional transshipment place.

Local expressway project system in the South region

- Estimated construction: 2023
- Total investment capital: VND 93,000 billion
- In 2022, in the southern region, 5 more expressway projects will be built (Dau Giay - Tan Phu, Bien Hoa - Vung Tau, Moc Bai - HCM, An Huu - Cao Lanh, Chau Doc - Can Tho. - Soc Trang).

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Short-term headwinds do not dim Vietnam's positive long-term growth prospects

- Given its high openness, Vietnam's economic growth and financial market stability prospects will see many challenges in 2023. In particular, the deceleration in the FDI and export activities will negatively affect income, thereby indirectly affecting consumer's purchasing power, especially in the mid-end and affordable segments. However, we believe that the difficulties will not linger forever, and companies who flexibly changes to adapt will have the opportunity to grow rapidly when the global economy recovers.
- Multinational corporations keep a strategy to relocate their factories our of China will benefit Vietnam.
- The rapid increase in borrowing interest rates will be a pressure to companies with high financial leverage. Residential real estate is among industries which will be negatively affected. However, with a high proportion of a young population and the ongoing trend of single-generation families, the real demand for housing remains high. Therefore, we believe that real estate developers who are cautious in their development policies and focus on real housing segment are still interesting.
- Risk of rising bad debt has risen amid declining economic activities. However, we believe that capital is still the backbone of Vietnam's economy, as the credit balance is still high compared to GDP. Therefore, banks with high exposure to corporate bonds or real estate will experience liquidity pressure and higher credit costs than others. In addition, although bad debts arised from Covid may increase rapidly after Circular 03 on debt extension expires, we reckon that credit costs of banks will not increase too sharply due to most of the banks have fully made provision for restructuring loans even SBV's policy was not required during that period. Last but not least, our observations show that the industry's PBR has fallen to approximately the level of 2012-2013, the severe crisis period of Vietnam's banking industry. Thus, investors should pay attention to banking stocks.
- We believe that "in the promising industry, there will be stocks with unattractive valuation, and in the less optimistic industry, there will be businesses that are resilient to the crisis but their valuations have been heavily discounted." Accordingly, we tend to choose stocks rather than sectors for this investment theme. Some possible reference criteria for stock selection include (1) Valuation has fallen to the lows of the previous downturn economic cycle; (2) Good companies in healthy industries and healthy companies in negative industries; (3) Using low financial leverage and operating margin is an interest expense; (4) High return on capital and ability to pay dividends.

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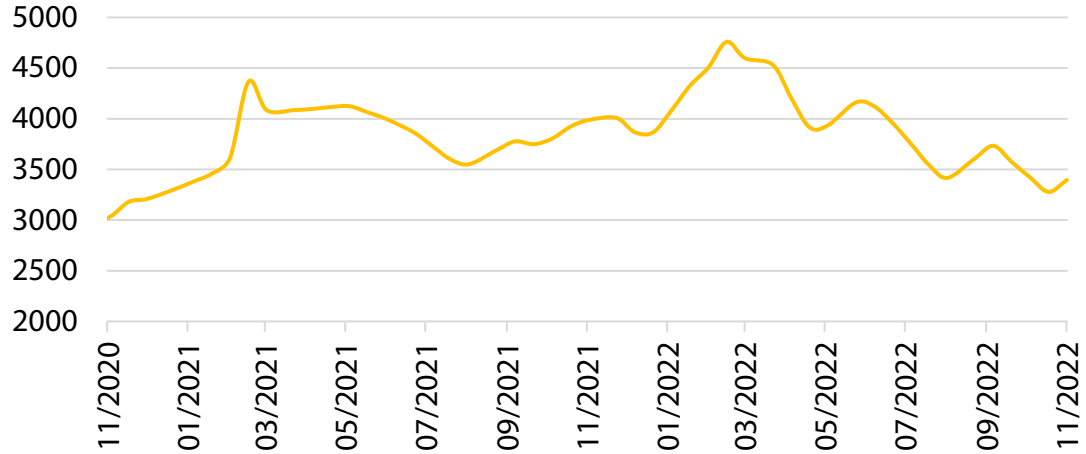
Price of agricultural commodities and livestock (USD)

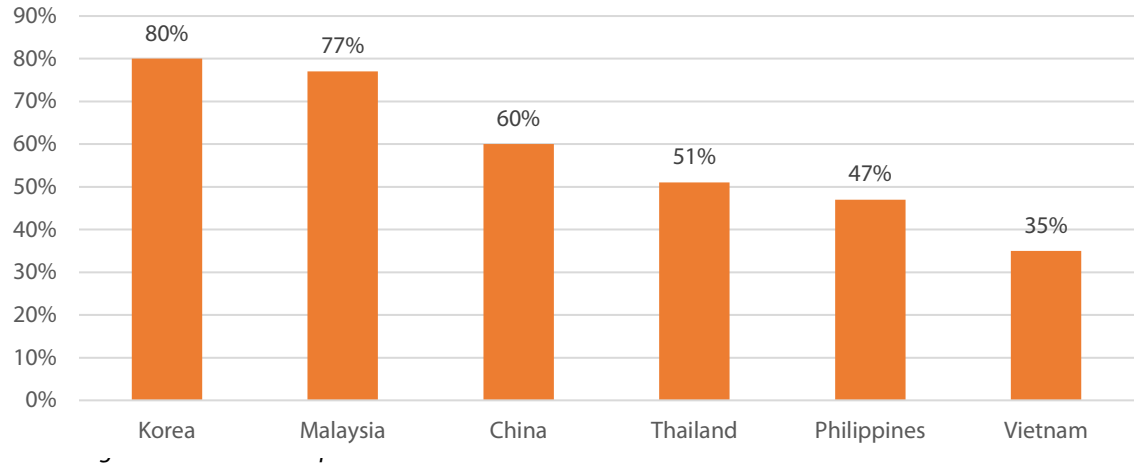
Source: Bloomberg, RongViet Securitites

Price of raw milk (USD/ton)

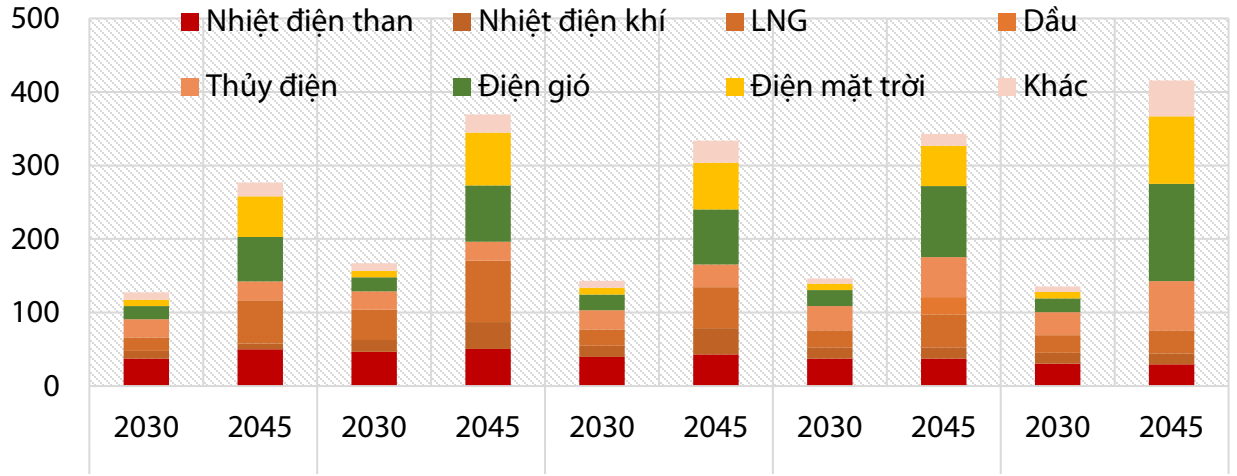


Source: Bloomberg, RongViet Securitites

Housing demand in urban areas is still high with the urbanization rate providing ample room



Power plan 8 approved will pave the way for the development of renewable energy



Source: EVN, RongViet Securitites

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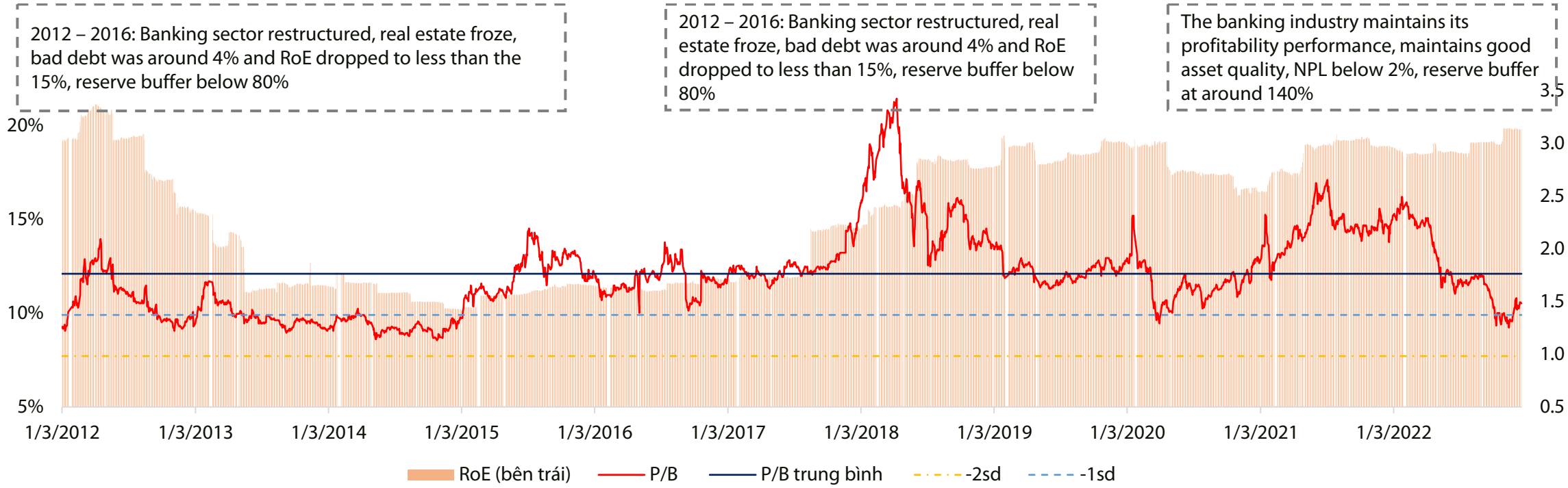
- In 2022, bank shares experienced two sharp declines after the events of Tan Hoang Minh in April and Van Thinh Phat associated with SCB in September 2022. These two declines have brought industry valuations to 10-year lows. We believe that these are partly reflecting the risks that the banking industry facing.
- We believe that compared to the restructuring period of 2012 - 2013, the industry's ability to cope with risks has improved significantly when (1) the level of cross-ownership among banks decreased sharply. , (2) high capital adequacy ratio, most banks have met the minimum requirements according to Basel II standards, and (3) high provisions for bad debt. Therefore, although it is estimated that the profit growth of the industry will slow down significantly in 2023, the recovery will be faster as soon as the world and domestic economy improves, instead of taking many years.



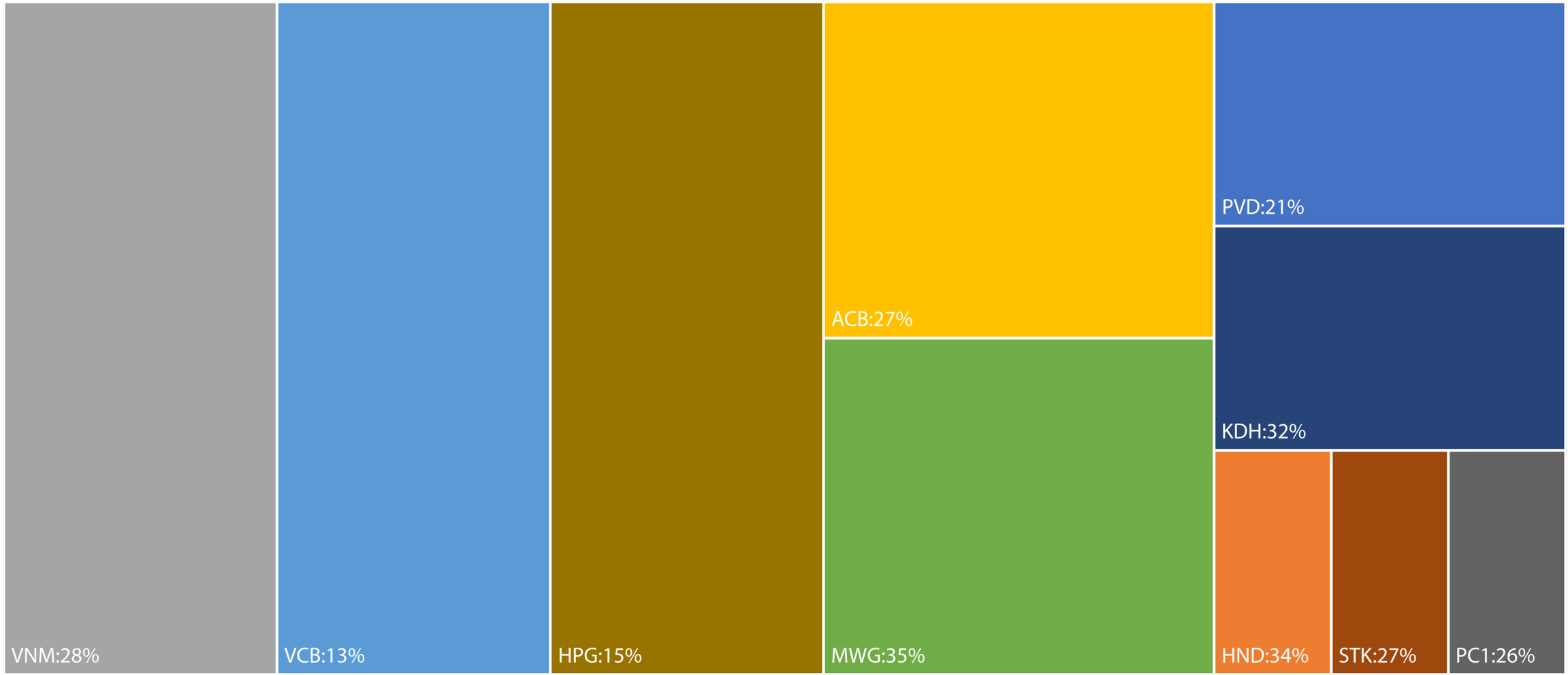
SWIM IN THE RIP CURRENTS

Topics	Tickers	Market Cap (VND bn)	Closed price (VND)	Target price (VND)	Total expected return (%)	Expected cash dividend in next 12M (VND)	Revenue growth			NPATMI growth			2022E		P/E (x)		PB (x)	
							2021A	2022E	2023F	2021A	2022E	2023F	ROE	ROA	2023F	Ave. 2017 - 19	Current	Ave. 2017 - 19
Follow the big boys	FPT	85,239	77,700	107,300	41%	2,000	20%	19%	20%	23%	32%	19%	24%	8%	15.0	16.1	3.5	3.7
	ACB	78,356	23,200	29,400	27%	0	30%	17%	11%	25%	47%	5%	27%	3%	5.6	7.6	1.4	1.4
	PNJ	27,798	113,000	128,000	15%	2,000	12%	64%	6%	-4%	66%	8%	19%	11%	16.0	18.4	3.3	4.7
	VCB	376,235	79,500	90,200	13%	0	16%	14%	9%	19%	15%	7%	21%	2%	15.0	27.1	2.9	4.5
	CTG	135,762	28,250	27,300	-3%	0	17%	22%	4%	3%	13%	6%	16%	1%	12.2	18.4	1.3	1.4
China reopening, O&G price recovering, and commodities price to cooldown	DRC	2,578	21,700	31,000	48%	1,200	20%	18%	5%	13%	8%	13%	17%	10%	9.1	13.7	1.4	1.5
	FMC	2,259	34,550	45,000	36%	2,000	18%	17%	4%	18%	22%	9%	19%	13%	6.9	8.2	1.1	1.9
	HND	6,666	13,332	16,900	34%	1,000	-17%	18%	4%	-69%	63%	31%	12%	9%	9.5	N.A	1.0	N.a
	VNM	162,181	76,234	93,800	28%	3,850	2%	3%	7%	-5%	-6%	15%	26%	19%	17.8	12.1	4.8	4.9
	DBD	2,724	36,400	45,000	24%	0	24%	-6%	15%	20%	13%	23%	19%	14%	12.7	13.3	2.1	2.4
	QNS	12,806	35,876	40,800	22%	3,000	13%	10%	6%	19%	1%	10%	17%	12%	8.7	N.A	1.8	N.a
	PVD	9,839	17,700	21,500	21%	0	-24%	33%	6%	-90%	Loss	Turnaround	-1%	-1%	-58.6	74.5	0.7	0.5
Ready for the economic recovery	LHG	1,068	21,350	33,000	63%	1,900	21%	-6%	16%	49%	-32%	71%	25%	12%	5.7	6.5	0.7	0.9
	MWG	68,787	47,000	61,900	35%	1,500	13%	13%	1%	25%	-13%	22%	20%	7%	16.2	5.9	3.0	2.0
	KDH	20,215	28,200	37,300	32%	0	-18%	-26%	18%	4%	20%	-6%	12%	9%	14.4	14.6	1.7	1.6
	STK	2,123	25,950	32,500	27%	500	16%	7%	6%	93%	-12%	15%	16%	11%	8.7	10.9	1.4	1.8
	PC1	5,584	20,650	26,000	26%	0	47%	-15%	20%	36%	-41%	63%	12%	3%	15.2	8.2	0.9	0.9
	GEG	4,233	13,150	15,700	22%	400	-8%	53%	3%	10%	39%	-3%	12%	4%	11.3	13.1	0.9	1.2
	MBB	85,919	18,950	21,900	16%	0	35%	19%	12%	54%	44%	9%	27%	3%	4.4	7.0	1.1	1.1
	HPG	112,516	19,350	21,300	15%	1,000	66%	-7%	-8%	156%	-72%	54%	9%	5%	10.8	4.6	1.1	0.9
	VPB	122,180	18,200	20,800	14%	0	13%	31%	14%	13%	65%	7%	21%	3%	6.3	5.1	1.2	1.1
	HSG	7,565	12,650	14,400	14%	0	88%	-12%	-31%	184%	-94%	70%	2%	2%	30.1	14.6	0.7	0.8
	KBC	17,501	22,800	25,000	10%	0	97%	-30%	77%	249%	288%	-38%	20%	10%	5.8	10.9	0.9	1.1
	NLG	11,714	30,500	27,000	-8%	1,000	135%	-15%	63%	28%	-68%	334%	11%	3%	49.9	8.2	0.9	1.5

Source: Rong Viet Securities| Closed price as of Dec 15, 2022

SWIM IN THE RIP CURRENTS

Our top pitch



Source: Rong Viet Securities| Square size: market cap scale

RONG VIET SECURITIES

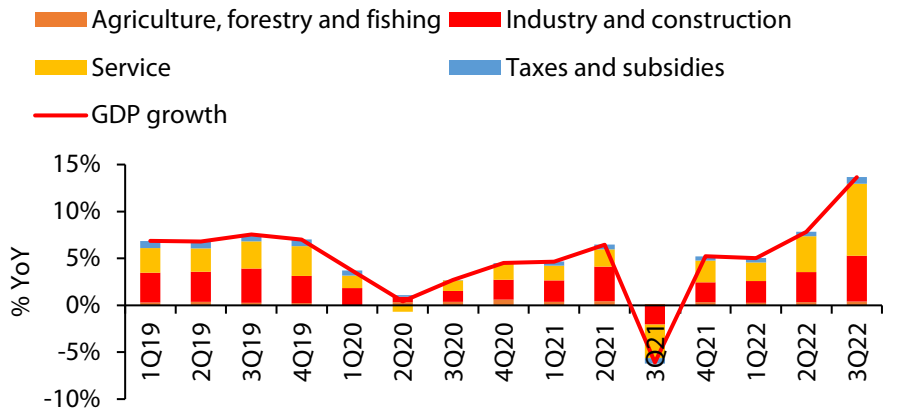
VIETNAM MACROECONOMY

RESHAPE FOR GROWTH

My Tran - my.tth@vdsc.com.vn

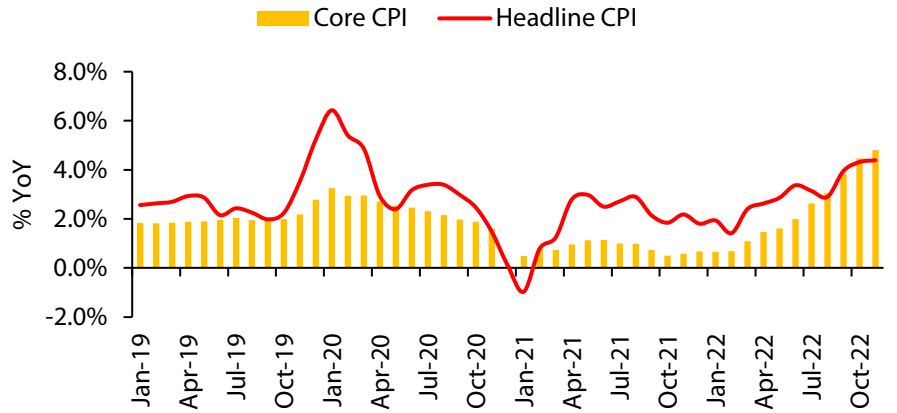
- **Economic growth drivers in 2022 include positive growth in industrial production, exports and the consumption recovery.** In 11M2022, industrial production and exports increased by 8.6% and 13.4% YoY respectively. Retail sales of goods and services after excluding the price factor increased by 16.9% YoY.
- **Economic growth slowed down from 4Q/2022** due to tight monetary policy, weak export demand and broken confidence in the financial system. Economic growth in 4Q is estimated at 6%, although GDP growth in 2022 is at 8% thanks to the low base effect.
- **Average inflation in 2022 is estimated at 3.2%, lower than the Government's target of 4.0%.** Inflation was successfully controlled thanks to under controlled commodity prices of electricity and gasoline, the global oil price gradually decreased towards the year-end and money supply increased slowly. However, inflation in the last months of the year increased sharply, averaging 4.5% over the same period.
- **2022 is a challenging year with increasing external pressures** causing the VND to depreciate by 3.4% compared to the beginning of the year. FDI inflows have slowed down due to tightening monetary policies of developed economies, global political instability and risks of slowing economic growth. As of 11M2022, foreign investment capital reached US$25.1 billion, 5% lower than the same period last year. Weakening external demand negatively affects exports and trade prospects in 2023.

Figure 1: GDP growth by sector



Source: GSO, RongViet Securities

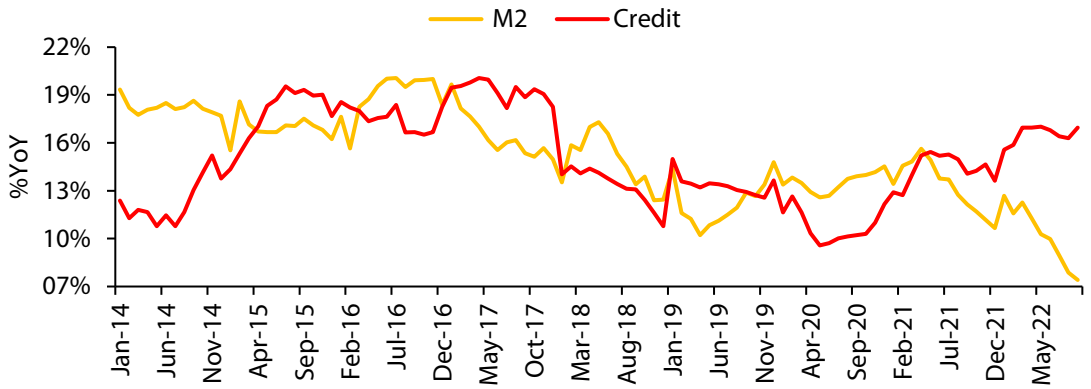
Figure 2: Headline inflation and core inflation



Source: GSO, RongViet Securities

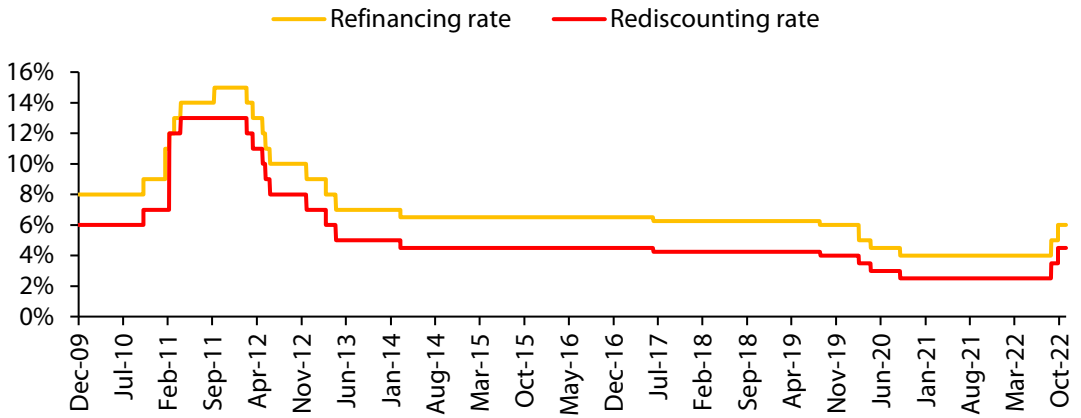
- **The results of economic growth and inflation cannot mask the internal difficulties.** Events such as Tan Hoang Minh and Van Thinh Phat have broken trust in the corporate bond market. The risk of financial contagion is present as liquidity risk to the banking system is still ongoing. This leads to the deposit rates hike of private banks, headwinds on the real estate market, and Vietnamese stock market decreasing by 30% compared to the beginning of the year (as of November 30, 2022) which was one of the world's biggest bear markets.
- **Monetary policy tightened almost throughout 2022**, the SBV made two hikes in the operating interest rate, bringing the refinancing rate to the pre-Covid-19 level of 6.0%/year and discount rate to 4.5%/year, 50 basis points higher than pre-Covid-19 level. At the same time, the open market operation channel is used with continuous frequency, the first stage is to balance money supply and demand to stabilize exchange rate, the second stage is to support liquidity for the system. Credit growth was weak in the last months of the year due to the credit quota policies and weak increase in deposits. Basically, the SBV has responded proactively to external risks but passively to internal risks.
- **Fiscal policy is not as expected when public investment is tied up by many factors including:** 1) institutions, 2) implementation capacity, and 3) fluctuations in raw material prices. As of November 2022, investment and development spending reached 64.3% of the plan, equivalent to VND338.3 trillion, down 0.6% over the same period. Meanwhile, the economic recovery and development support package was disbursed very slowly. As of September 28, 2022, the disbursement rate reached 20% of the total scale, ~ VND60,000 billion, of which, VND40,000 billion is the amount of tax, fee and fee exemption (62% plan), support loans for creating jobs (VND7,000 billion, 100% plan). By the end of August 2022, the 2% interest rate support package only reached VND13.5 billion/16,035 billion allocated for 2022.

Figure 3: M2 supply and credit growth



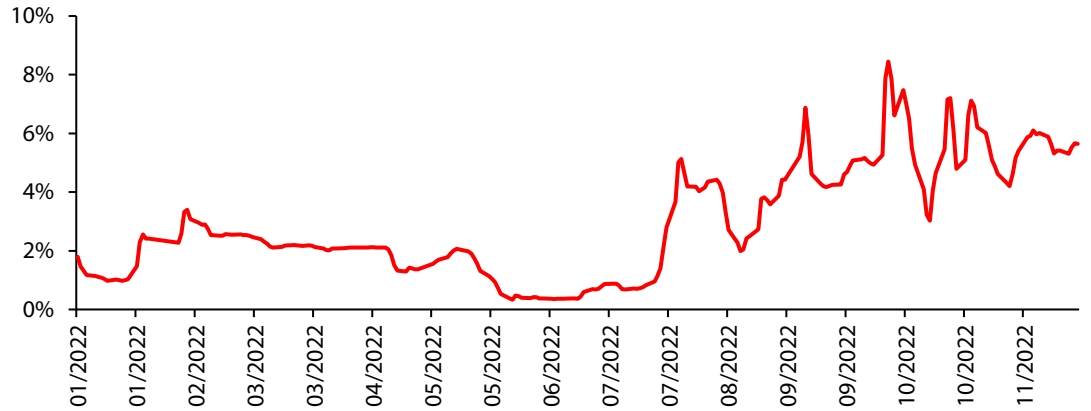
Source: SBV, RongViet Securities

Figure 4: SBV's regulatory interest rates (%/year)



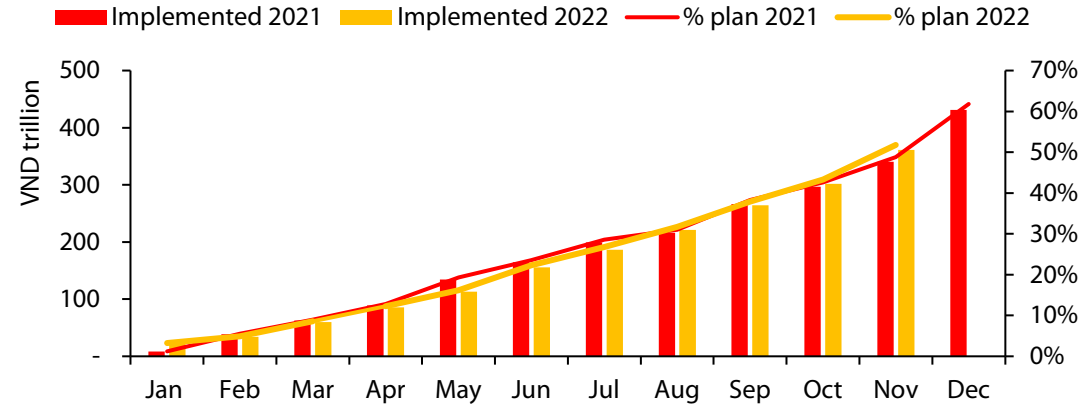
Source: SBV, RongViet Securities

Figure 5: Overnight interbank rate (%/year)



Source: SBV, RongViet Securities

Figure 6: Public investment disbursement (2022 vs. 2021)



Source: MoF, RongViet Securities

"Growth engines will run at a slower pace, holes in the economy will be patched, weaknesses in the system will take time to improve."

- **Economic growth is expected to decelerate sharply from 2022 highs** due to weakness in exports, a correction in the real estate market and a slowdown of recovery in consumer demand. However, inflation in 2023 is expected to be under control in the context of weak consumer demand.
- **Pressure on capital needs for matured corporate bonds, lending interest rates approaching in the period 2012-13 and difficulties of the real estate market gradually seeping into economic activities will be the main challenges of 2023.** The adjustment of policy roadmaps, ensuring smooth capital flows at reasonable costs and promoting the completion of the legal framework will be the focus.
- Unlike in 2022, **the external pressure will ease on the exchange rate, in the base scenario of the US economy having a "soft landing"**, we expect the Vietnamese Government will have more resources to focus on solving internal problems: 1) finding new drivers for growth, 2) enhancing competitiveness to attract investment capital and improve labor productivity, and 3) dealing with uncertainties in financial markets (real estate - corporate bonds - banks).
- **The controlled loosening monetary policy associated with the more obvious fiscal expansion effect** is the fulcrum for the recovery of business, consumer and investor confidence.
- **The reopening of China is a topic of interest to many global investors.** We see that the most direct and visible impact on Vietnam is the improvement of tourism and related services. In terms of the recovery of China's demand for Vietnamese goods and the impact on the supply chain of goods and materials, the bright and dark will be mixed.
- **Risks to Vietnam's economic outlook are associated with global risks** such as persistent and prolonged global inflation, global economic slowdown more than expected, the US$ index return to a new bull cycle and rising geopolitical risk. All these unpredictable factors will erode Vietnam's resilience and make the economic outlook worse than expected.

Table 1: Main macroeconomic indicators

	2020	2021	2022e	2023f
GDP growth (%)	2.9	2.6	8.0	5.6
Average headline CPI (%)	3.2	1.8	3.2	4.2
Export growth (%)	7.0	19.0	11.0	5.0
Import growth (%)	3.8	26.5	8.0	4.0
Trade balance (UD$ bn)	19.9	4.4	10.8	12-15
USDVND exchange rate (end-year)	23,098	22,826	23,800	24,200
Credit growth (%)	12.2	13.6	14.0	11-12
Discount rate (%)	2.5	2.5	4.5	4.5
Refinancing rate (%)	4.0	4.0	6.0	6.0

Source: RongViet Securities

Vietnam's economic growth will certainly slow down in 2023:

Weak export prospects negatively affect industrial production, investment and domestic consumption growth:

- The FDI sector accounts for about **16%** of total social investment, more than **50%** of total industrial production value and **19% of GDP** (2021).
- The FDI sector contributed averagely **1.8 ppts** to economic growth in 2015-19.
- Exports of the FDI sector account for more than **75%** of total exports (2022).
- The FDI sector directly and indirectly creates jobs for about 12 million workers (**24%** of the economy's total employed workers, 2021).

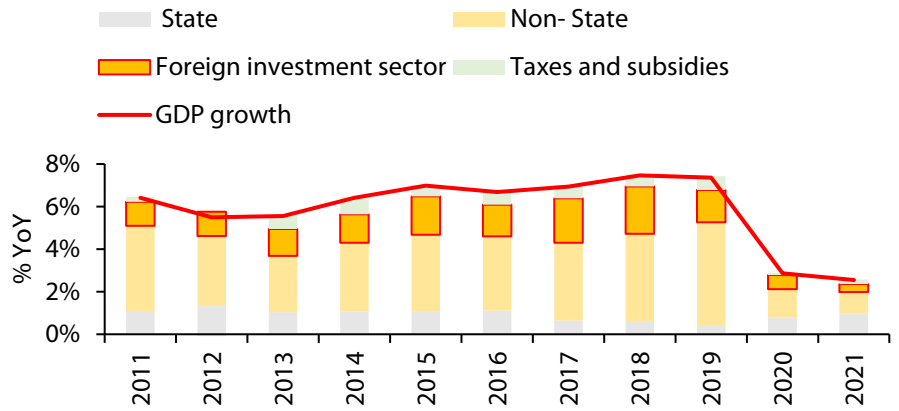
The downcycle of real estate will negatively affect growth:

- Real estate sector accounts for about **3.7% of GDP** (2022), on average contributed **0.2 ppts** to economic growth in 2015-19.
- However, real estate is a highly pervasive industry with high spillover coefficient.
- The industry that are most directly related to real estate include Construction (**6.6% of GDP**) and Finance - Banking (**5.4% of GDP**).

Consumer confidence, investment just recovered after Covid-19 will weaken again:

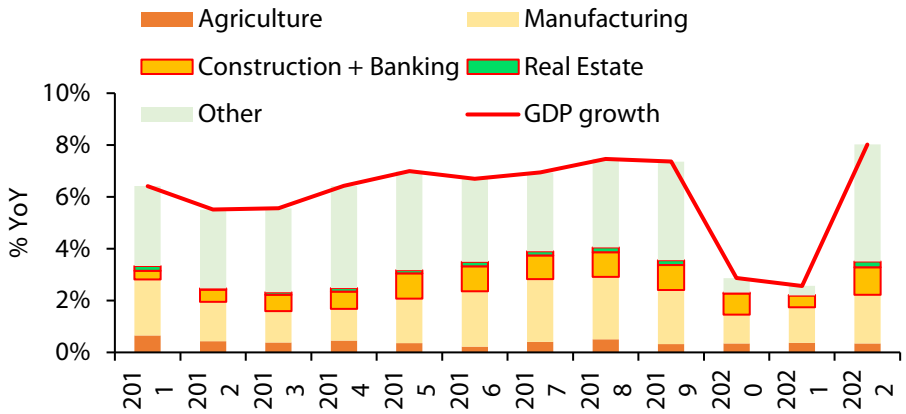
- The difficulty of the real estate market will reduce consumer confidence, especially for consumption of durable goods and non-essential goods.
- The increase in deposit rates coupled with risks in other investment channels causes the demand for savings to increase.
- Higher borrowing costs also reduce incentives to borrow for consumption and new investment.

Figure 7: Contribution of FDI to GDP growth



Source: GSO, RongViet Securities

Figure 8: Real estate contribution to GDP growth



Source: GSO, RongViet Securities

Factors that can support growth:

- Global GDP is expected to grow 2.1% in 2023, with Asian countries being the main growth drivers. This region (including China) accounts for nearly 40% of Vietnam's total export turnover. Besides, the US market, which is the largest export partners, is expected to have no recession or mild recession in 2023.
- Inflation being under control is a supportive factor for domestic consumption, the minimum wage increase implemented in July 2023 is not expected to have much impact on inflation but may support consumption towards the year-end.
- Positive changes in policy: 1) a controlled loosening monetary policy and 2) an improvement in the speed of disbursement of public investment.

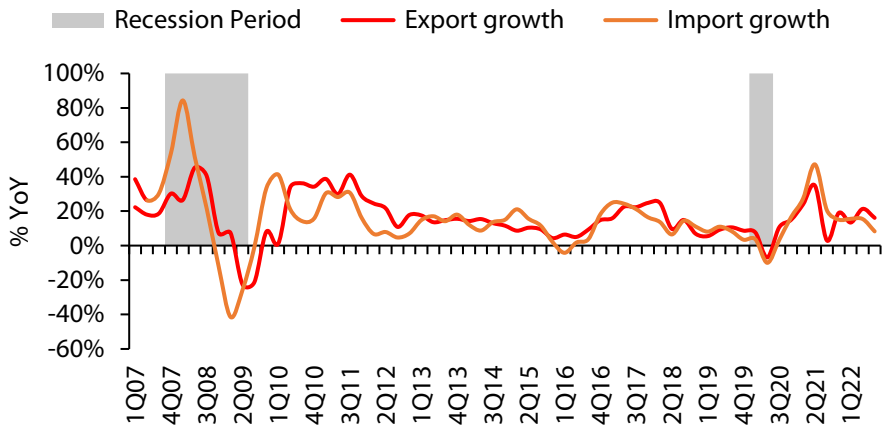
Risks: 1) More severe global recession; 2) Volatility in energy and commodity prices affects the ability to control inflation; 3) Long-lasting tight monetary policy, ineffective loosening solution while public investment doesn't improve as expected.

In the base case, we expect **GDP growth in 2023 to be 5.6%,** lower than the Government's 6.5% target and the current consensus of 6.2%.

Our pessimistic – optimistic scenario for 2023 GDP growth is **5.1% - 6.0%.**

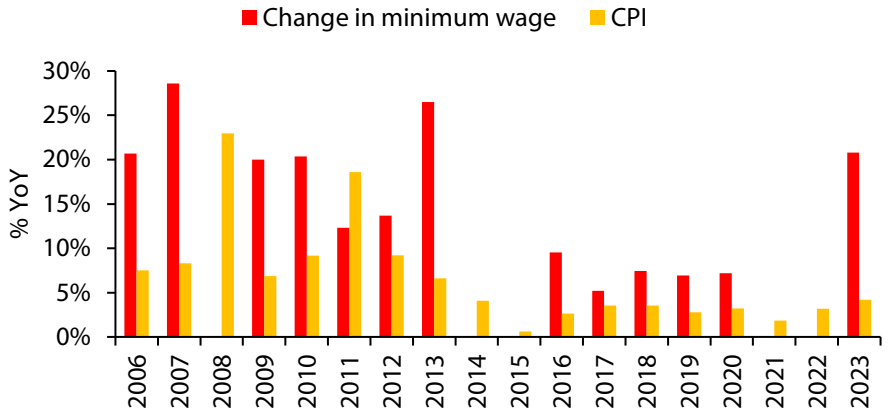
Expectations on economic growth: 1Q/2023 still has the low base of the same period, growth will decline more sharply in 2Q-3Q and recover again in 4Q thanks to changes in policy.

Figure 9: Vietnam's trade growth



Source: Customs, RongViet Securities

Figure 10: Minimum wage growth rate and inflation

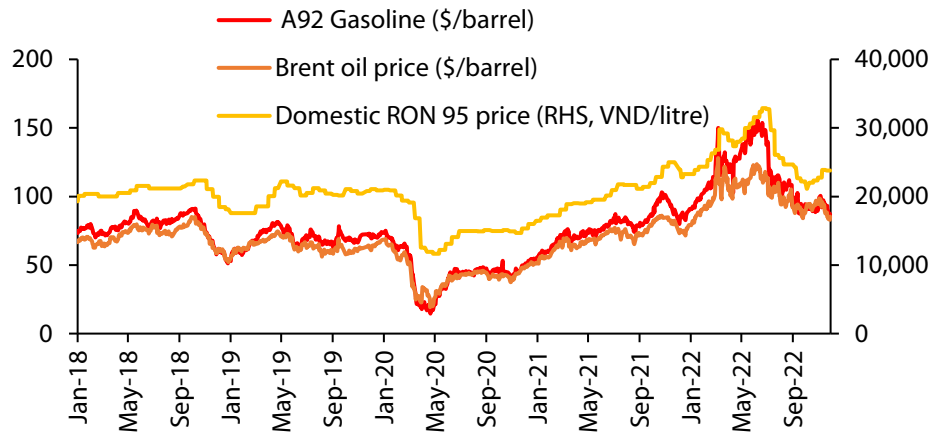


Source: GSO, RongViet Securities

Inflation outlook pivots on "Oil Price" & "Policy":

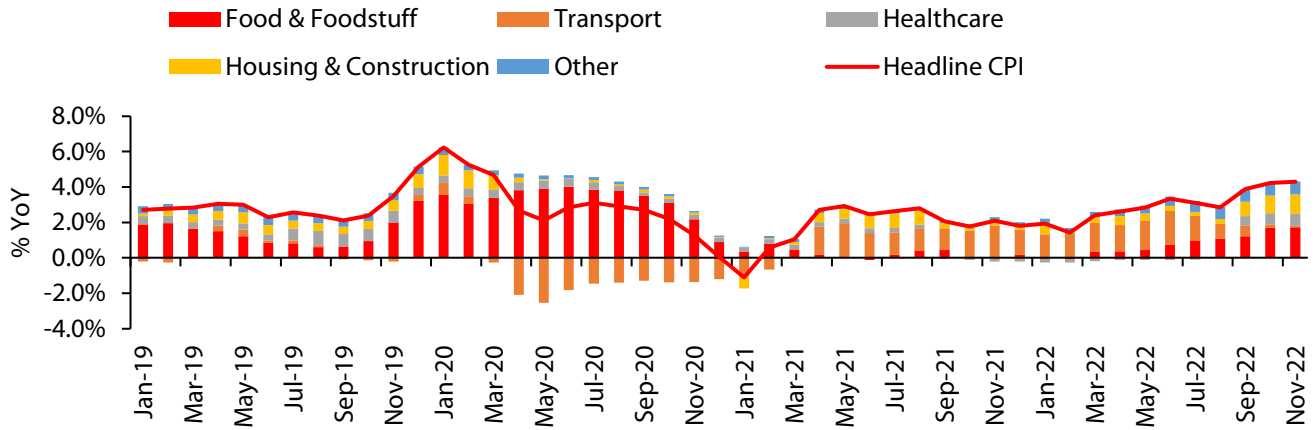
- At the beginning of December, the global oil price drop very quickly due to the gloomy outlook of global economic growth. While the supply issue remains unpredictable, the probability of oil returning to its 2022 peak is low.
- Policy: 1) Environmental protection tax rate for petroleum in 2023 will remain the same as in 2022; 2) Electricity price may be adjusted up by 5-10% in 2023; 3) Policy to increase basic wages and 4) The government loosens monetary policy and inflation target.
- In the context of weak domestic demand and low growth in money supply lasting from 2022 to 2023, **inflation can still be controlled at 4.2%**, in our base case. Inflation in the first months of the year may remain high and gradually decrease after that.

Figure 11: Gasoline price and inflation movements



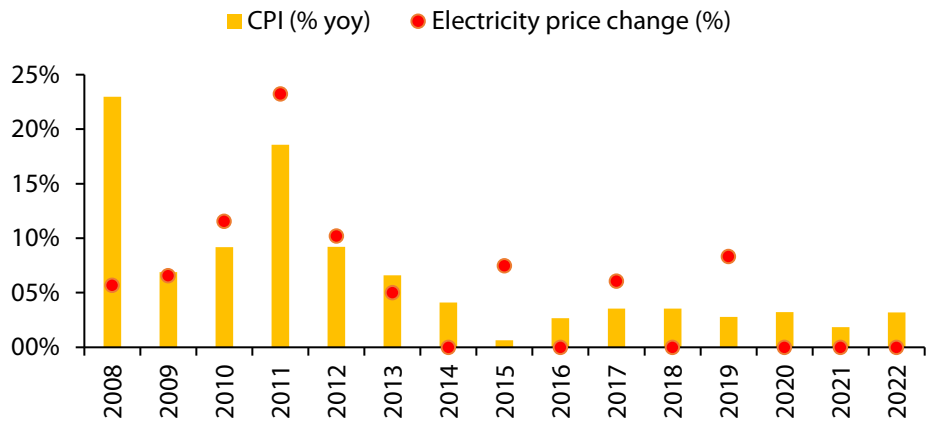
Source: PLX, Bloomberg, RongViet Securities

Figure 12: Inflation by components



Source: GSO, RongViet Securities

Figure 13: Inflation & electricity prices change (2008-2022)

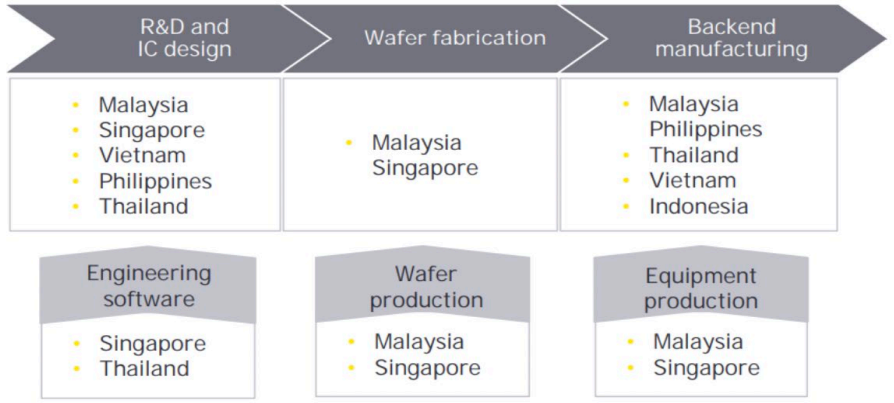


Source: GSO, RongViet Securities

Neutral view on FDI inflows in 2023:

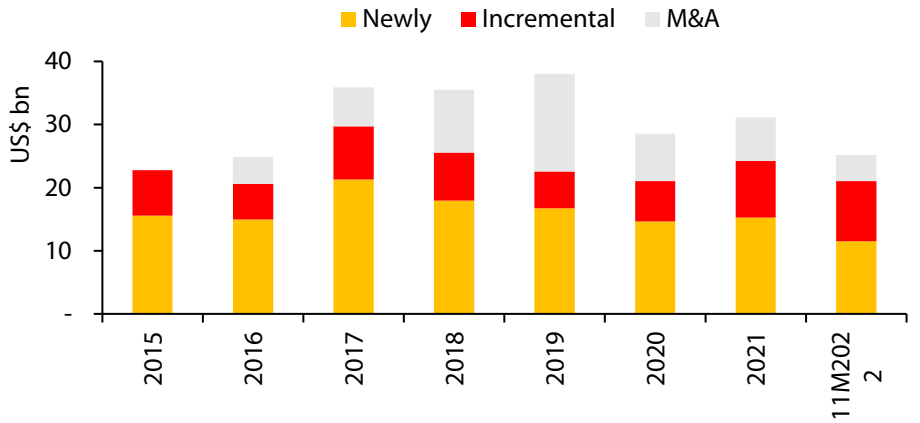
- In 2023, global FDI inflows will continue to decline as inflation remains high, interest rates continue to increase, and investment prospects weaken amid risks of a slowdown in global economic growth.
- As FDI inflows become more competitive and limited, the prominent trend in the next few years will be the reorganization of supply chains in the semiconductor industry due to 1) the continuous disruptions from the pandemic and 2) the escalating technology war between the US and China.
- Vietnam faces **two opportunities to attract new investment**: 1) the realignment of supply chains in the semiconductor industry and 2) geopolitical risks in East Asia that could make multinational corporations operating in Taiwan - China consider diversifying markets and production sites.
- **We have a neutral assessment of opportunities to attract investment in semiconductor sector**. Compared with other countries in the region, Vietnam's strength lies in the two most competitive stages (Figure 14).
- **In Vietnam, multinational corporations already operating in Vietnam** (typically Samsung and LG) **tend to continue to invest**: Newly registered capital tends to decrease from 2017 to present, additional registered capital accounts for 38% of total registered capital in 11M2022, higher than the average of 23% in the period 2015-19.
- The accumulation of a large amount of potential FDI (US$437.5 billion, as of November 20, 2022) will help **disbursed FDI remain stable in 2023.**

Figure 14: Level of expertise in the semiconductor sector of ASEAN countries



Source: EY, RongViet Securities

Figure 15: Foreign investment breakdown



Source: MPI, RongViet Securities

HEADWINDS FOR EXPORT ACTIVITIES

As mentioned in the GDP growth outlook, the negative outlook for trade is the main headwind in 2023 for Vietnam economy:

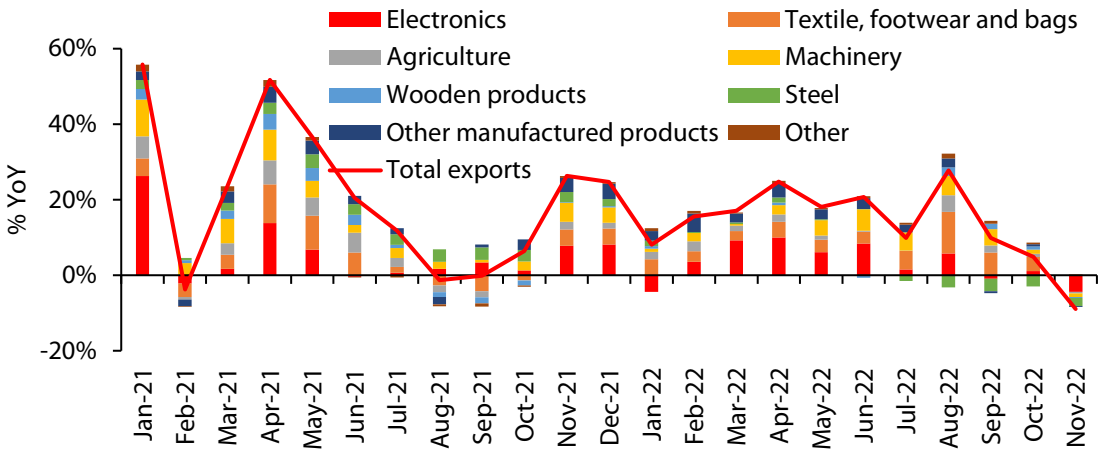
- Except for China, GDP growth in Vietnam's main export markets will all decline in 2023, and the US and EU are both on the brink of recession. In the event of a global recession, global economic growth is expected to slow down slightly.
- The rapid deterioration in PMI and trade growth in November 2022 is an indicator that Vietnam may face negative growth in exports in 2023.
- In the base case, we expect import and export growth to be below 5%, mainly due to the continuing upturn of global prices, but we do not exclude the scenario of negative trade growth in 2023.
- Weaker exports are often accompanied by slower import growth. With oil prices cooling down from the high base of 2022, we expect the trade balance to improve in 2023, reaching US$12-15 billion.

Figure 16: Growth prospects of major export markets

	% share in 2022	2022 GDP growth	2023 GDP growth
US	30%	1.8%	0.4%
China	15%	3.3%	4.8%
EU	13%	3.1%	-0.1%
ASEAN	9%	5.4%	4.7%
Korea	7%	2.6%	1.8%
Japan	6%	1.6%	1.4%

Source: Bloomberg, Customs, RongViet Securities

Figure 17: Export growth by products

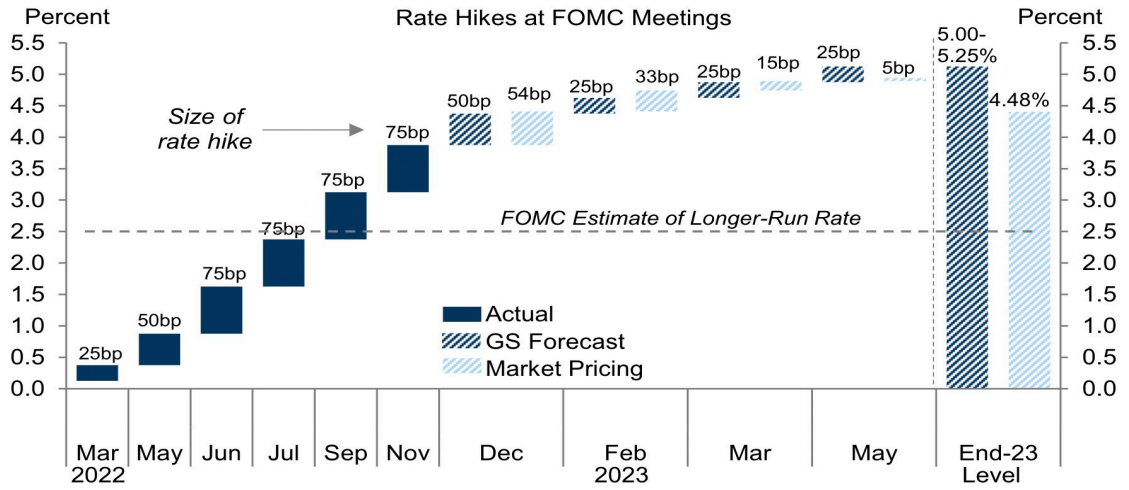


Source: Customs, RongViet Securities

Exchange rate: "The wind will stop blowing"

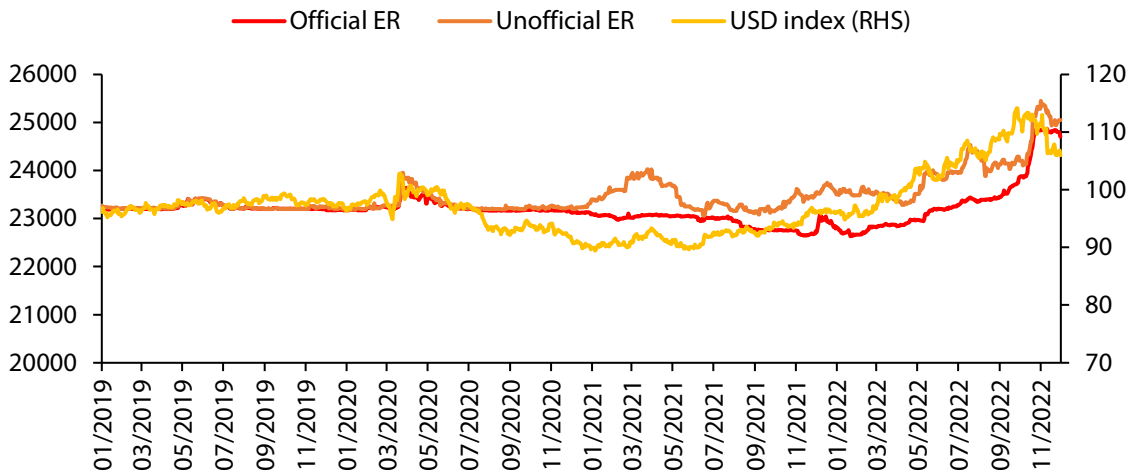
- At the beginning of December 2022, the USDVND exchange rate had a remarkable recovery. The VND only depreciated 3.5% compared to the beginning of the year, lower than the record depreciation of 8.9%.
- In 2023, the VND will not depreciate as strongly as in 2022 thanks to: 1) The Fed is expected to end its rate hike cycle in mid-2023; 2) Balance of payments improved thanks to trade surplus; and 3) The USD Index is expected to peak in 4Q/2022 and the main trend is downturn in 2023.
- But the VND is also unlikely to appreciate in 2023 as: 1) High interest rate environment in developed economies will be maintained throughout the year; 2) With weak export prospects, the Government will have an incentive to allow the VND depreciating further or increase foreign reserves again; 3) The easing of inflation target shows that exchange rate stability will no longer be a policy priority as in 2022.
- We expect USDVND exchange rate to fluctuate **within a narrow range of +/-3%** in 2023.

Figure 18: Fed rate hike outlook



Source: Goldman Sachs, RongViet Securities

Figure 19: USDVND exchange rate and USD index

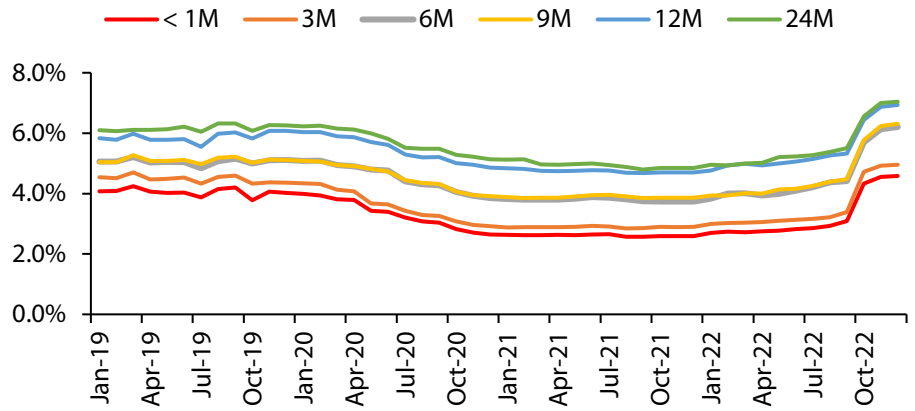


Source: Bloomberg, Fiinpro, RongViet Securities

Direction of regulatory interest rates:

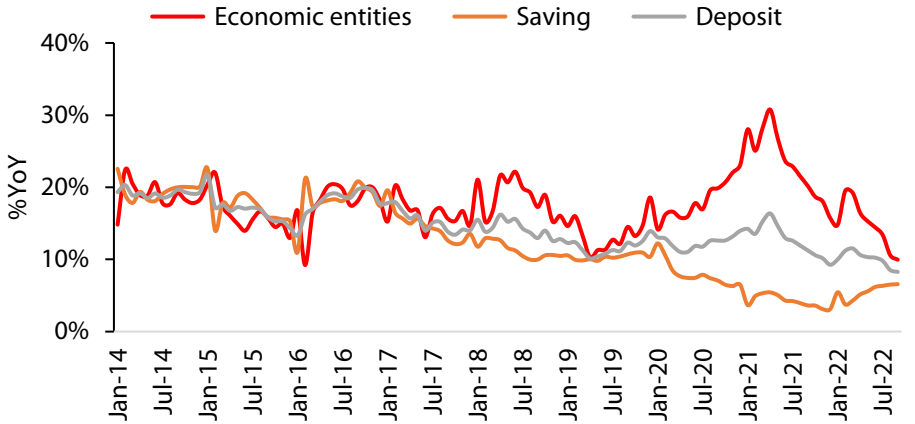
- As of early December 2022, the average deposit rate has increased by 2.0-2.5 ppts compared to the end of 2021 and was 0.6-1.2 ppts higher than pre-Covid level. The highest increase was in 6-month and 9-month tenors at private commercial banks.
- In 2023, we expect residential deposits to recover thanks to rising deposit rates, a deflated land speculative bubble, gold and USD investment cooling down and asset markets (bonds, stocks) decreasing attractiveness as investors rebalance risk/reward expectations.
- Deposit rates of commercial banks will continue to be differentiated due to: 1) rate competition among private JSCBs to solve liquidity problems; 2) the regulation orientation of the State Bank in navigating the increase in deposit rates at SoCBs; 3) competition to attract deposits in the context of depositors accepting to shift towards lower deposit rates to limit risks after the SCB event.
- In 2022, the State Bank of Vietnam increased the operating interest rate by 2 percentage points in response to exchange rate pressure. The whirlwind of interest rate hikes by global central banks is expected to calm down in 2023 with the prospect of lower steps and better predictability.
- Currently, the popular lending rate level in the economy is approaching the 2013-level. With orientation to control the lending rate hike momentum to support economic growth, we believe that **the SBV will not raise the regulatory interest rates in 2023.**

Figure 20: Movement of deposit rates (%/year)



Source: RongViet Securities compiled based on a sample of 12 banks (4 SOBs, 4 JSCBs and 4 foreign)

Figure 21: Movement of deposit growth



Source: SBV, RongViet Securities

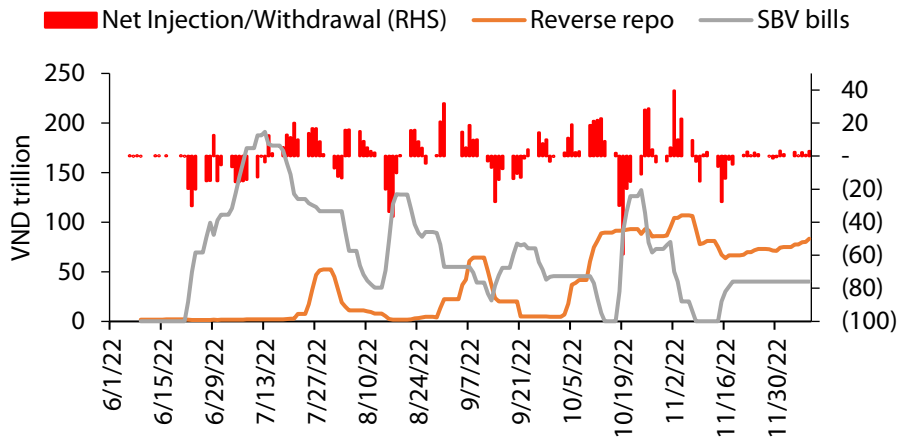
Looking back at the banking system liquidity in 2022:

- The usage of FX reserves at a record high (~ US$22 billion) caused a large amount of VND to be withdrawn from the banking system.
- The SBV reused the capital injection/withdrawal channel on the open market from the beginning of June with the main trend being net withdrawal from June to September 2022, then switching to a net injection starting from October 2022, following the VTP-SCB event. As of Dec 12, 2022, the State Bank has injected a net of about VND40,000 billion through the open market.
- The forward contract outstanding as of Dec 12, 2022 is estimated at approximately VND82,200 billion, of which 15% has 91-day term (maturity in March 2023).
- The interbank rate is currently approaching the mid-2012 level (the period of high inflation and interest rates coupled with bad debt crisis and cross-ownership of the banking system).

Banking system liquidity is expected to improve:

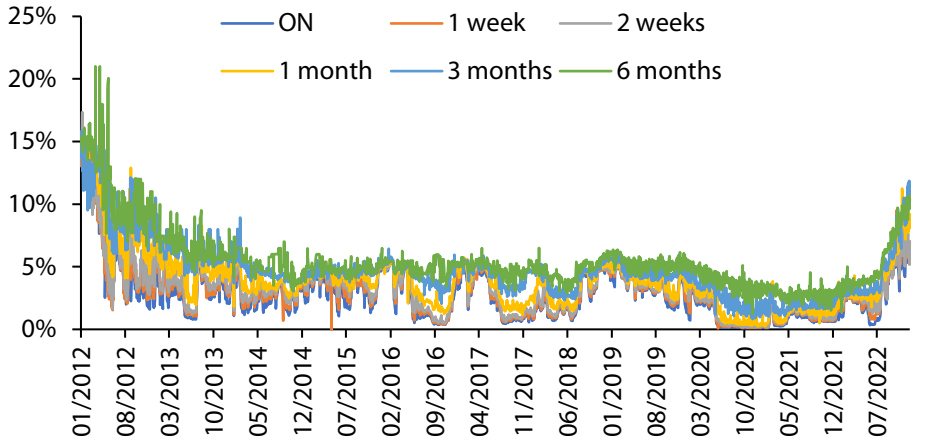
- Lending with longer term is an indicator that the SBV will continue to support the system liquidity, given the pressure of bond maturity and the intense competition in deposit interest rates hike.
- When external pressure subsides, the SBV can take advantage of the opportunity to reserve foreign currency, which also serves as a channel to support VND liquidity.
- Slower credit growth and more positive mobilization are a supporting factor for system liquidity in 2023.
- We expect M2 growth to recover in 2023 thanks to 1) increased deposits, 2) improved public investment and 3) SBV's liquidity support through open market and foreign currency purchases.

Figure 22: Net injection/withdrawal in OMO



Source: SBV, RongViet Securities

Figure 23: Movement of interbank rates (%/year)

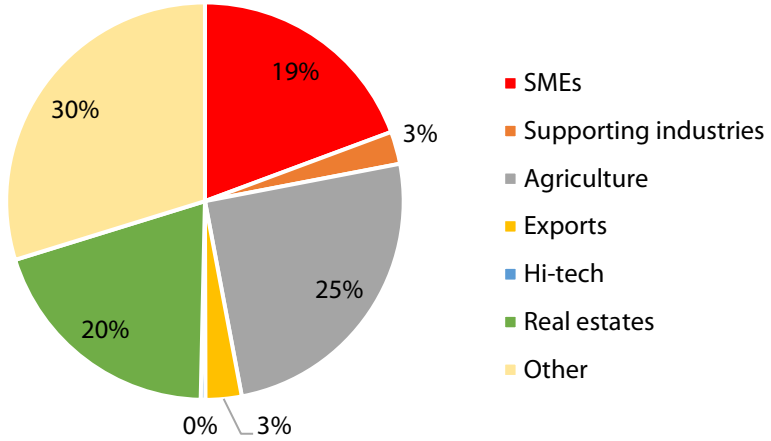


Source: SBV, RongViet Securities

Credit growth is expected at 11-12% for 2023:

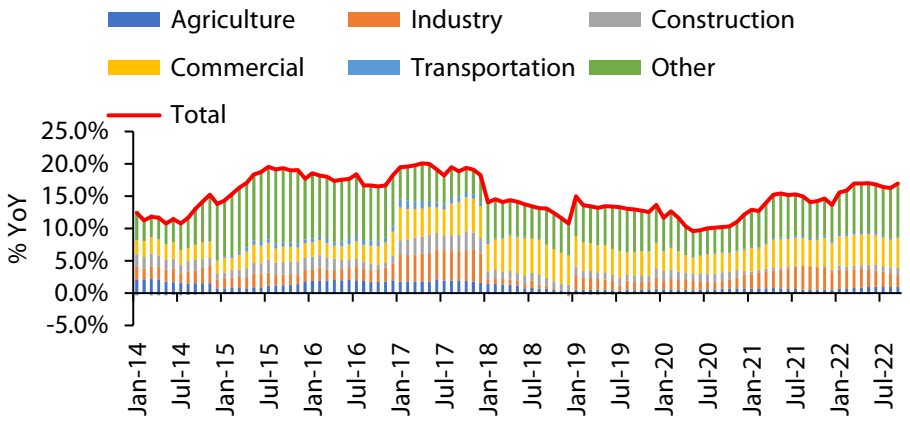
- The priority sector accounts for more than 49% credit of the whole economy, low interest rates but difficult lending conditions also make this sector grow only about 9% in 10M2022, lower than the overall credit growth of 11. 5%.
- Lending rates for priority sectors are currently maintained at a low level of about 4.6%/year, equivalent to the pre-Covid-19 level. The SBV's orientation in 2023 will continue to be favorable for this sector, encouraging lending and expanding the priority group to businesses that are the drivers of economic growth (consumption, investment, export, construction of industrial parks and social housing).
- However, given the picture of economic growth declining, the demand for loans in these sectors is unlikely to increase sharply.
- The real estate sector accounted for nearly 21% credit of the whole economy, of which 68% was mortgage loans. Higher loan interest rates, difficulty in mobilizing capital and developing projects for real estate developers, and declining demand for land speculation are all factors that reduce credit growth for real estate in 2023.
- The 2% interest rate support package is expected to be eased in terms of loan conditions and targeted borrowers, which is a favorable factor to support loan demand in 2023.
- We estimate 2023 credit growth at 11-12%, lower than 2022 full year estimate of 14%.

Figure 24: Credit size by sector (2021)



Source: SBV, RongViet Securities

Figure 25: Credit growth by sector

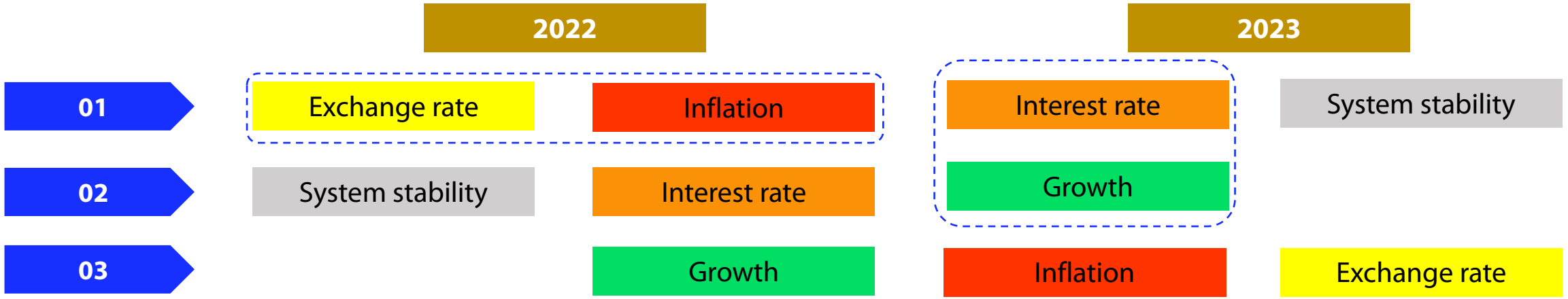


Source: SBV, RongViet Securities

Adapt from priority to action:

- Vietnam's monetary policy is a multi-target policy, there are pairs of targets that are parallel (exchange rate and inflation) but also conflicting targets (exchange rate and interest rate).
- In 2022, the priority of monetary policy is to control the rise of the exchange rate under pressure from the Fed's quick and strong tightening of monetary policy, and to curb inflation is almost the throughout message. From Q4/2022, priority will be shifted to ensuring liquidity for the system and controlling the deposit rates' race.
- In 2023, we believe that the priority of monetary policy will shift in the direction of controlling interest rate hikes in the economy to support economic growth and ensuring system stability (liquidity support, avoid bank run and broken confidence in the banking system). To achieve these goals, the SBV may have to trade off some long-term stability and safety goals to solve short-term problems. The inflation target in 2023 is eased to 4.5% and shared by fiscal policy while managing the exchange rate is expected to be less pressured.

Figure 26: Vietnam's monetary policy priorities in 2022 and expectations for 2023



Source: RongViet Securities

Operating interest:

- Inflation is the factor that causes regulatory interest rates to rise in 2010-12, we believe that the current inflationary context is different.
- Exchange rate pressure is the main factor causing the regulatory interest rates to increase in 2022, this pressure cooling down is the basis for the SBV to keep the regulatory interest rates unchanged in 2023.
- The regulatory interest rates will not follow the market interest rates with the orientation of curbing interest rates to support economic growth, controlling the rate hikes to ensure the system safety, especially in the context that bad debt problem will be more prominent in 2023.

Loosening safety regulations:

- Trade off long-term goals to solve short-term problems: 1) amending Circular 22/2019 to create more room for bank credit, reducing mobilization pressure; 2) amending Circular 16/2021 so that banks have more room to support liquidity for corporate bond market; 3) adjusting the application period for short-term funding for medium and long-term loans ratio as a form of easing real estate loans (Circular 22/2019); ....
- The policy choice of above solutions will reflect the degree of policy easing and the strong/weak impact on the overall outlook. Currently, we are inclined to a cautious easing, gradually observing the market's reaction, modifying from easy to difficult and having roadmap to return to the long-term goals.
- The amendment of Circular 22/2019 with a change in the calculation ratio of Treasury deposits in total deposits may be the first step to be taken in December 2022.

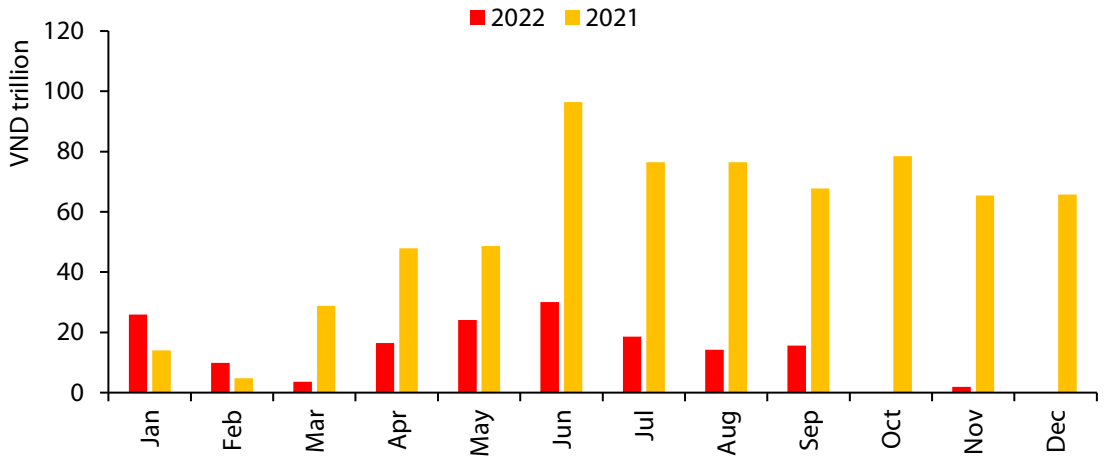
Intervention through the management of money supply - credit:

- We expect the open market to be the main liquidity support channel in 2023.
- It is necessary to reserve US$ after a period of sharp decline, injecting through buying foreign currency is also a reasonable channel in the 2023 economic context. The supply and demand of foreign currency is expected to improve and the SBV can take advantage of this opportunity.
- Credit quota continue to be used as a tool to navigate credit into the economy, which will be distributed according to the situation of credit supply and demand, the most difficult task is how to adjust size of each grant times to avoid the situation of too massive or too drippy.

Persistent difficulties in 2023 for the corporate bond market:

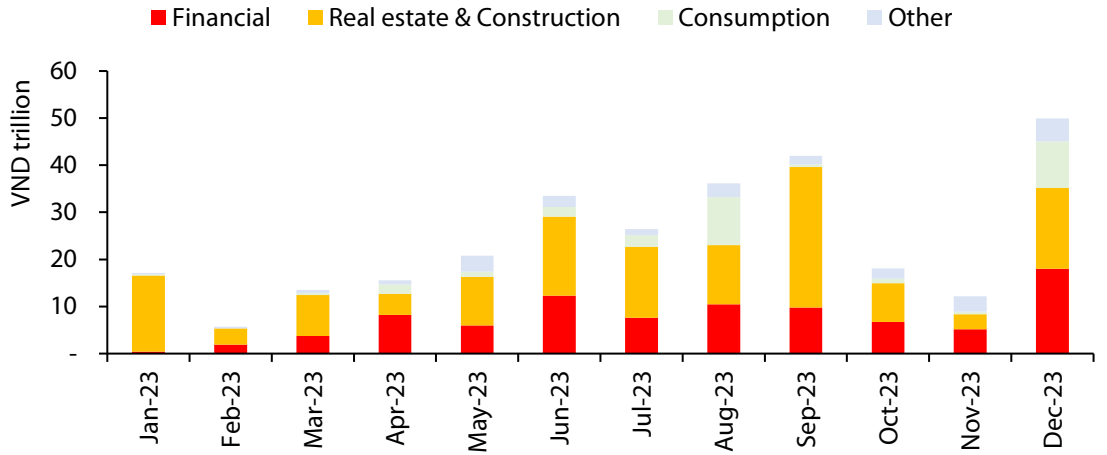
- In 2022, the issuance size is more than VND250 trillion compared to the maturity and pre-maturity redeem size of nearly VND500 trillion.
- The funding demand for corporate bonds maturity in 2023 is estimated at VND290 trillion, up 22% compared to the maturity size in 2022, that of 2024 is more than VND360 trillion.
- The issuance of new corporate bonds decreased sharply from July 2022 and slowed down significantly from October 2022, the amendment of Decree 65 approving to delay the application deadline for professional investors and credit rating until January 1, 2024 is expected to help little of the corporate bond funding channel prospect in 2023, per our opinion.
- In 2023, there will be more focus on restructuring corporate bonds, supported by allowing debt extension (up to 2 years) and converting bond principals and interests into loans/other assets in the draft Amendment of Decree 65.
- The size of banks' holdings of non-bank corporate bonds is VND284 trillion, accounting for about 2.5% of the system total outstanding loans in June 2022. The pressure on banks to make provision for corporate bonds is expected to increase in 2023.

Figure 27: Corporate bonds issuance scale by month (2021-22)



Source: VMBA, RongViet Securities

Figure 28: Size of corporate bonds maturing in 2023



Source: VMBA, RongViet Securities

Fiscal policy stuck in disbursement of public investment capital in 2022:

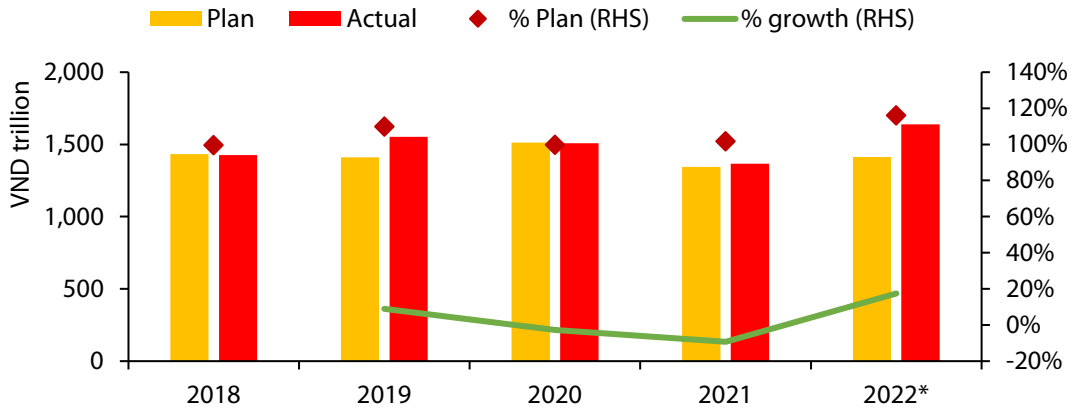
- The State budget revenue in 11M2022: VND 1,639 trillion, up 17.4% YoY and exceeding 16.1% of the plan. Estimated implementation of tax exemption and reduction policies (VAT, environmental protection, etc.) and rental support for employees in 11M2022 is VND78 trillion (~4.8% of total revenue).
- The State budget expenditure 11M2022: VND1,359 trillion, up 3.4% YoY and equaling 76.2% of the plan. Development investment expenditure reached more than VND338 trillion, down 0.6% YoY and equaling 64.3% of the plan.
- The difference in revenue and expenditure in 11M2022 is approximately VND280 trillion, 3.4 times higher than the same period in 2021. Accordingly, the scale of capital mobilization through government bonds decreased in 11M2022 to VND182.2 trillion, equivalent to 46% of the plan at the beginning of the year (VND400 trillion) and 85% of the adjusted plan (VND215 trillion).
- In 11M2022, disbursement of public investment is estimated to reach more than VND384 trillion, up 11.8%YoY, but only reaching 55.1% of the plan.
- The scale of public investment capital in 2022 includes 5.5% of the capital allocated from the Economic Recovery and Development Program (the ERDP, ~VND38 trillion). Because this capital was only allocated in October 2022, the implementation of public investment capital in 2022 is estimated at 58.3% of the plan, slightly higher than the implementation rate of 56.6% in the same period last year.

The pressure to disburse public investment capital is increasing:

- In 2023, the pressure to disburse public investment capital is huge, not to mention the unrealized capital from 2022. In 2023, the planned public investment capital is more than VND782 trillion, an increase of 13.7% compared to the plan in 2022, of which the capital of the ERDP is VND127 trillion. In addition, the capital plan in 2023 is 1.7 times higher than the estimated implementation in 2022.
- New points in the plan for allocating state budget investment capital in 2023: 1) Prioritize projects under the ERDP and 2) Consider dismissing officials from ministries, central agencies and localities who fail to fulfill the task of disbursing public investment capital for 2 consecutive years (minimum rate is 90% of the assigned plan). These can be two driving forces for the improvement of public investment disbursement in 2023, in addition to the completion of investment procedures for key projects that will promote disbursement.

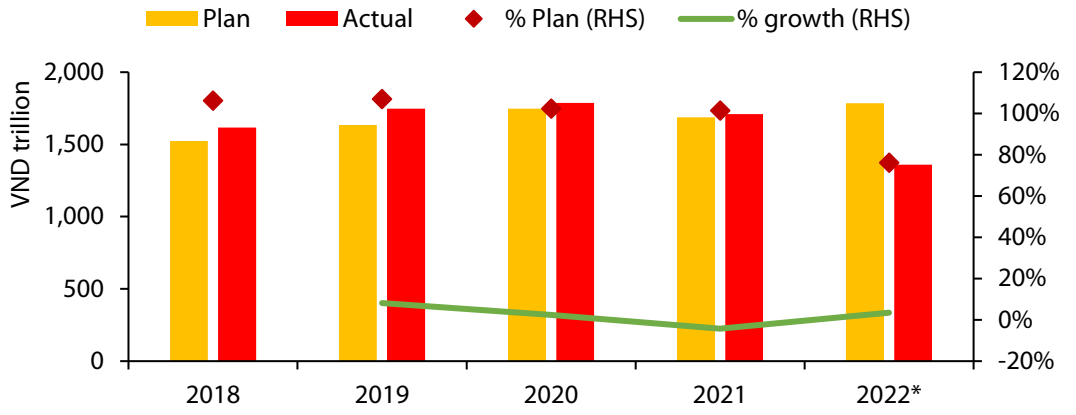
Fiscal policy needs to continue to support the monetary policy: 1) The 2% interest rate support package with about VND40 trillion is expected to be actively disbursed in 2023 when interest rates are rising; 2) Continuing the policy of reducing environmental protection tax for petroleum products, the state budget revenue is estimated to decrease by VND50 trillion VND, according to the proposal of the Ministry of Finance; and 3) The policy of reducing VAT from 10% to 8% is expected to continue in 2023 in the context of economic difficulties.

Figure 29: Sharply rise in the State budget revenue in 2022



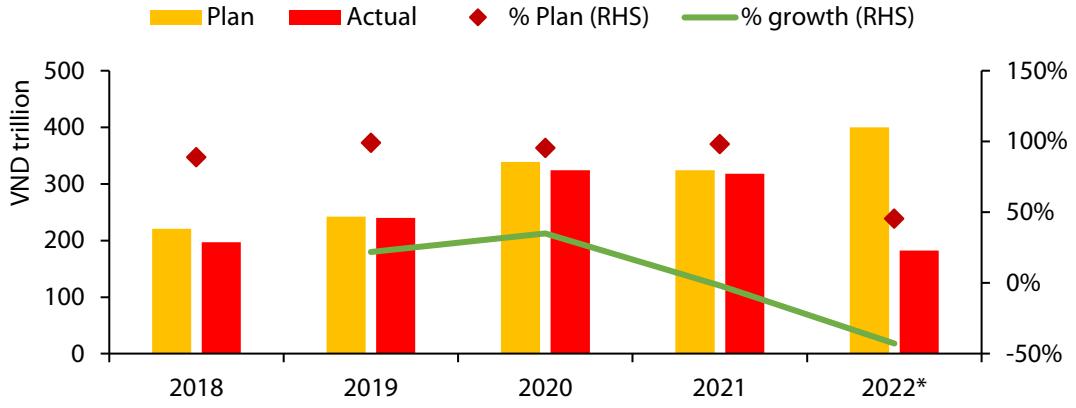
Source: GSO, MoF, RongViet Securities

Figure 30: State budget expenditure not meet the plan in 2022



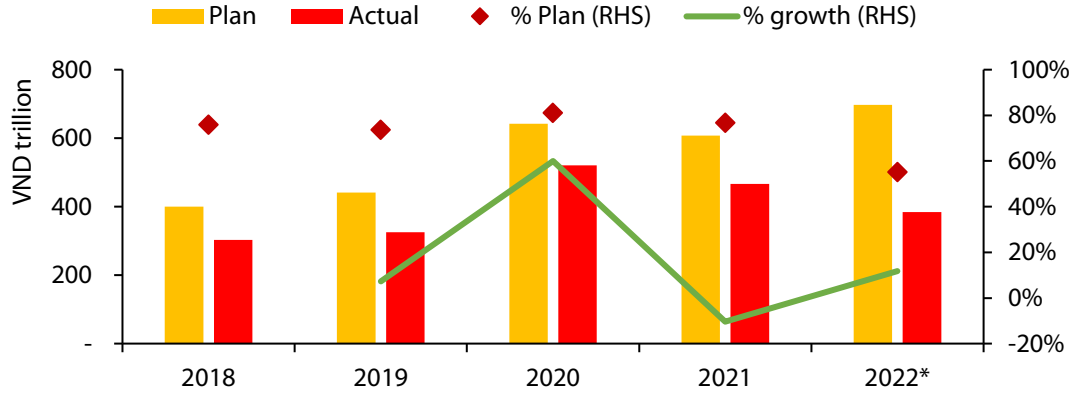
Source: GSO, MoF, RongViet Securities

Figure 31: Decreasing government bonds issuance in 2022



*Source: VBMA, RongViet Securities, * 11M2022*

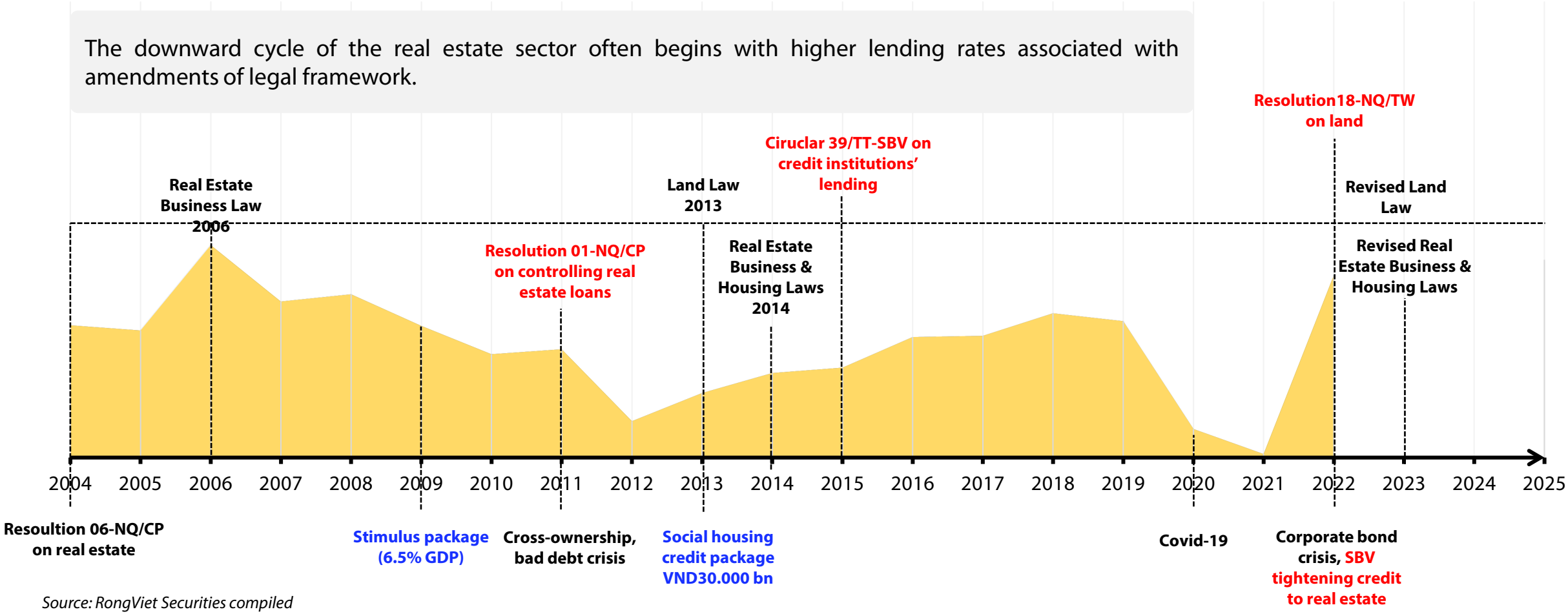
Figure 32: Public investment was much lower than expected



Source: MoF, RongViet Securities

Figure 33: Vietnam's GDP growth of the real estate sector and some crisis developments and related policies

The downward cycle of the real estate sector often begins with higher lending rates associated with amendments of legal framework.

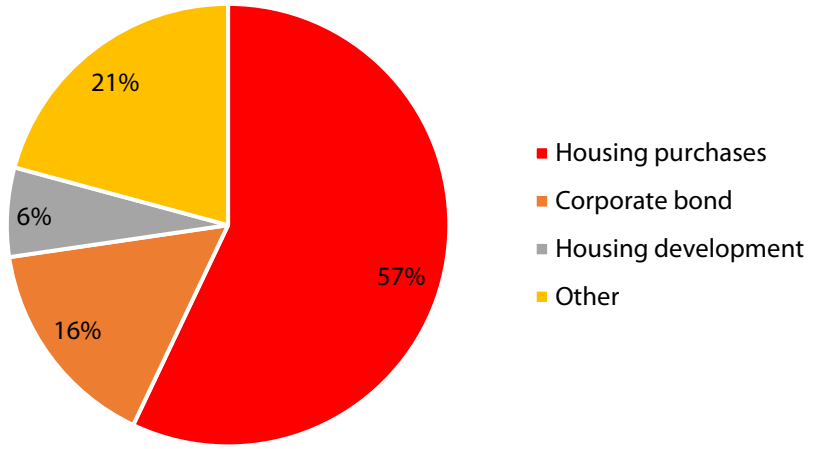


Source: RongViet Securities compiled

Many pent-up difficulties in 2023 for the real estate sector:

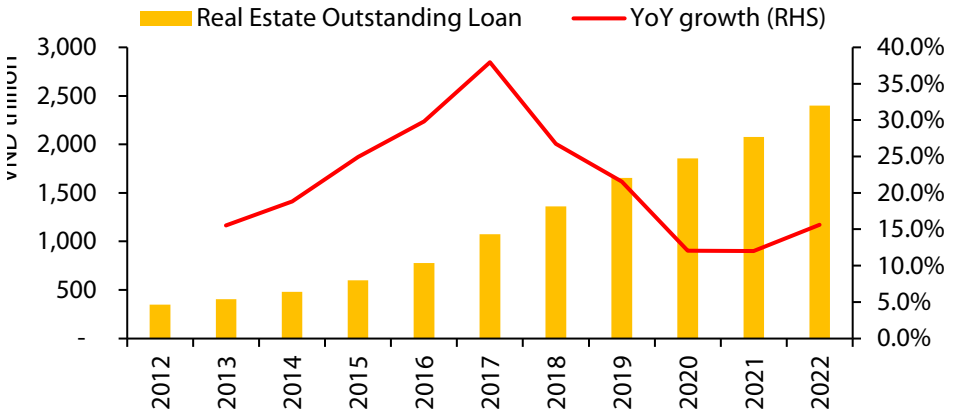
- The scale of issuance of real estate corporate bonds in 10M2022 is VND51.6 trillion with the issuance decreasing from Q1: VND35.2 trillion, Q2: VND10.9 trillion and Q3: VND5.5 trillion.
- The value of corporate bonds redeemed before maturity of real estate enterprises is only about VND30 trillion, equivalent to 21% of the size of corporate bonds redeemed before maturity in 10M2022.
- At the end of October 2022, real estate corporate bonds' outstanding was estimated at about VND445 trillion, equivalent to 34% of the total outstanding corporate bonds of the whole economy.
- The volume of bonds maturing in 2023-24 is VND119 trillion and VND112 trillion, respectively, equivalent to 52% of the total outstanding at the end of October 2022.
- Although the SBV has directions to control credit into the risky sector, and the credit quota granted each time is limited, the growth of real estate loans by the end of August 2022 is still more than 20% compared to the end of 2021, higher overall credit growth of the whole system. Particularly, credit for business real estate increased slowly and tended to decrease, increasing only 7.2% in 8M2022.
- Real estate lending interest rates are approaching the 2013 level, the bottleneck of credit capital for the real estate business, limited supply, unclear legal corridor and the risk of corporate bond default make the prospect of the real estate industry still difficult in 2023-24.

Figure 34: Real estate loans' breakdown (2022)



Source: SBV, MoC, Fiinpro, RongViet Securities

Figure 35: Real estate loan size and growth



Source: SBV, RongViet Securities

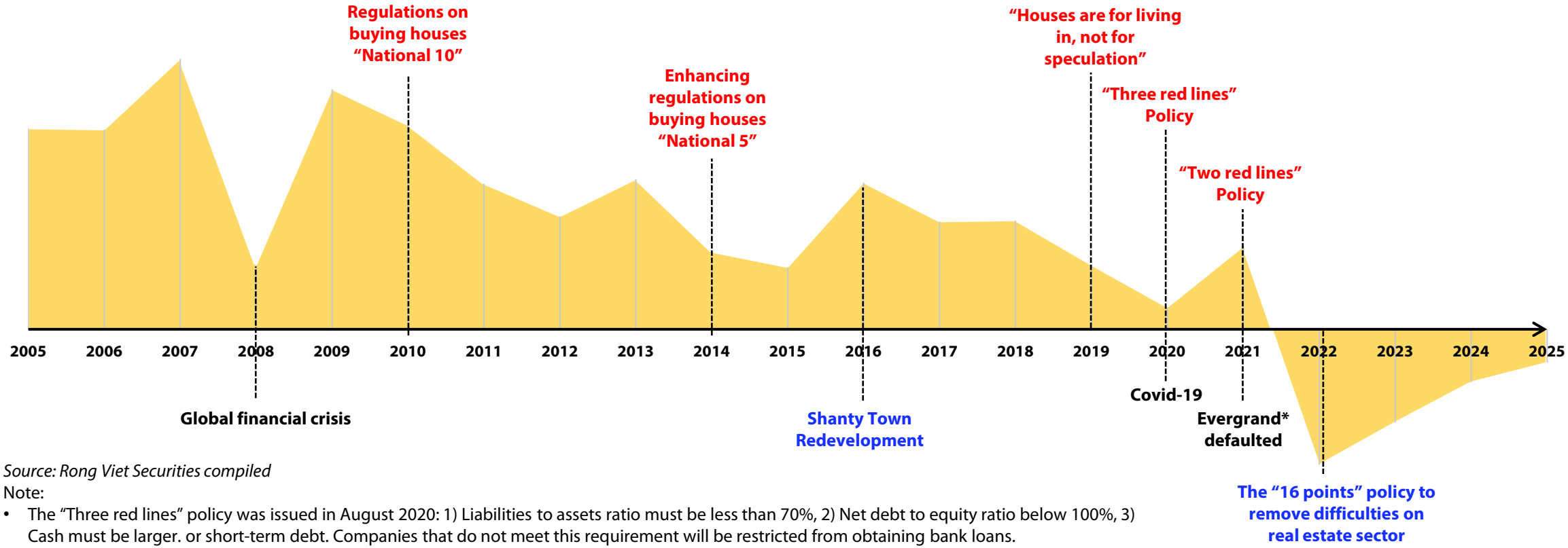
Figure 36: Some indicators of the real estate sector in Vietnam and China

	Vietnam	China
% GDP	11-14% (2019)	17-29% (2020)
% household wealth	na	66% (2019)
% the economy assets	21% (2020)	27% (2020)
Urbanization rate	38% (2021)	63% (2021)
Housing ownership rate	82% (2019)	>80%, 40% own at least 2 houses (2020)
Housing price/income*	33.6 (2022)	44.1 (2022)
Population growth rate	1.14% (2010-19)	0.53% (2010-19)
Property loan/total loan	21% (2022)	~30% (2020)
Property bonds/GDP	4.8% (2022)	~3.4% (2020)
State collection**	13% (2021)	31% (2021)

*Source: RongViet Securities compiled, * in Vietnam: HCMC and in China: Beijing*
*** House and land fee revenue, not including corporate tax from property companies*

- Vietnam's real estate market has many similarities with China on the demand side such as high demand for housing ownership, rapid urbanization leading to an increase in real estate prices in big cities.
- The source of capital for the Chinese real estate market is more diverse, in which a relatively large proportion of funds are mobilized from the prepayment of home buyers and the better ability of real estate enterprises to raise capital themselves through equity and bonds from domestic and foreign markets.
- In terms of scale, Vietnam's real estate market is lower than China's in terms of contribution to GDP, total assets of the economy, budget revenue and use of debt, especially household loans.
- The potential of the Vietnam's real estate market is still great thanks to a higher population growth rate, a lower level of urbanization and a great need for investment in infrastructure.
- The booming scale of real estate corporate bonds in recent years is a "gray area" for the sustainable development of the market.

Figure 37: % contribution to GDP of Chinese real estate sector and related policies



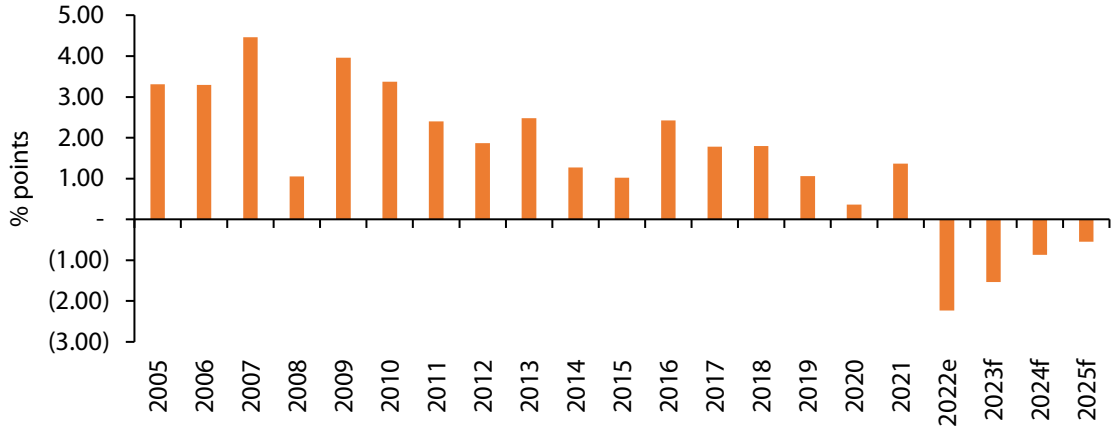
Source: Rong Viet Securities compiled

Note:

- The "Three red lines" policy was issued in August 2020: 1) Liabilities to assets ratio must be less than 70%, 2) Net debt to equity ratio below 100%, 3) Cash must be larger. or short-term debt. Companies that do not meet this requirement will be restricted from obtaining bank loans.
- The policy of "Two red lines" was issued later in early 2021 to limit the proportion of banks' loans to the real estate sector. By the end of 2022, big banks must bring the outstanding loans for real estate companies to the maximum allowed level of 40% of the total outstanding loans and control the mortgage loans to buy houses to the maximum allowed level of 32.5% of total outstanding loans. For smaller banks, the real estate loan limit can be increased or decreased by 2.5 percentage points from the above levels depending on economic conditions in the region in which they operate.
- Evergrande is the second largest real estate group in China with a debt scale of up to 2% of GDP.
- The Shanty Town redevelopment project is a government project to improve the housing of low-income people, started in 2008, the period 2016-18 is the period of strongest boom.

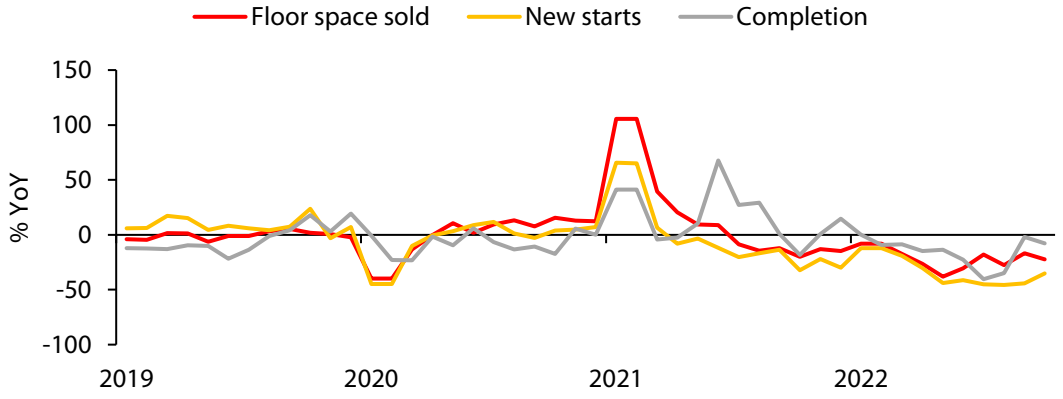
- China's current real estate downcycle starting in 2020 is the next development of a long directional chain from the previous one. By the end of 2022, the Chinese Government has launched a series of solutions to remove difficulties for the market. However, according to estimates by Goldman Sachs, the real estate sector will negatively contribute 2.2 percentage points to China's GDP in 2022 and continue to contribute negative 1.5 percentage points to China's GDP in 2023.
- In 2022, indicators related to China's real estate activity (new starts, completion and floor space sold) all decreased by 10-30% compared to 2021. China's new home prices have fallen continuously from May with the decrease in the last two months being the highest in 7 years.
- Citigroup's estimate of NPL ratio in the real estate sector is higher than reported, 29.1% in the first half of 2022, higher than 24.3% at the end of 2021. In addition, another estimate of the default rate for high-yield bonds of real estate businesses is up to 50% (according to Bloomberg).
- The policy cycle of Vietnam's real estate industry often lags behind China, with the same orientation but with less strict goals and controls. Regarding how to support the real estate market, Vietnam might also have a similar orientation of letting the market self-regulate, reducing speculation, targeting real needs, supporting liquidity or providing loans for some real estate businesses with good governance or temporary difficulties. The ability to support will depend much on monetary policy and banking system.

Figure 38: Housing contribution to China's GDP growth



Source: Goldman Sachs, RongViet Securities

Figure 39: Some related indicators of Chinese property market

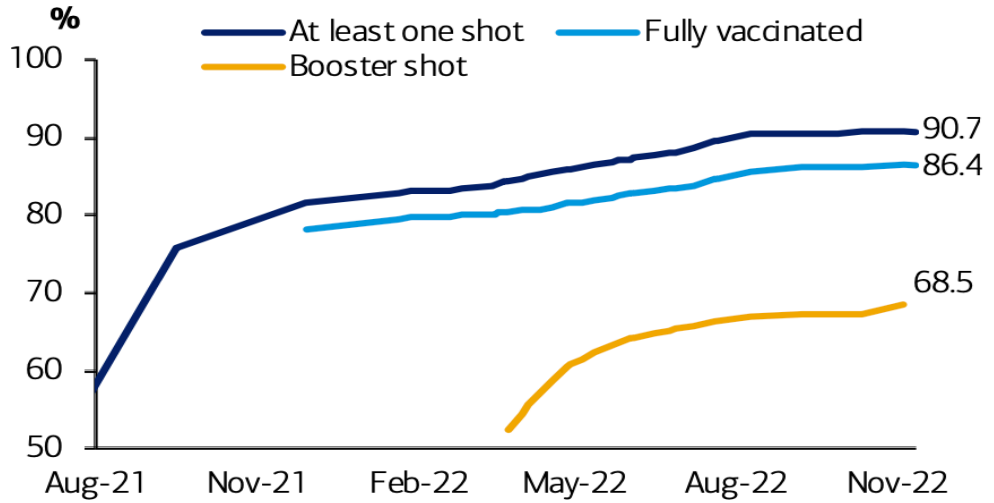


Source: Goldman Sachs, RongViet Securities

The reopening of the Chinese economy is a topic of global concern and will be the big story of 2023:

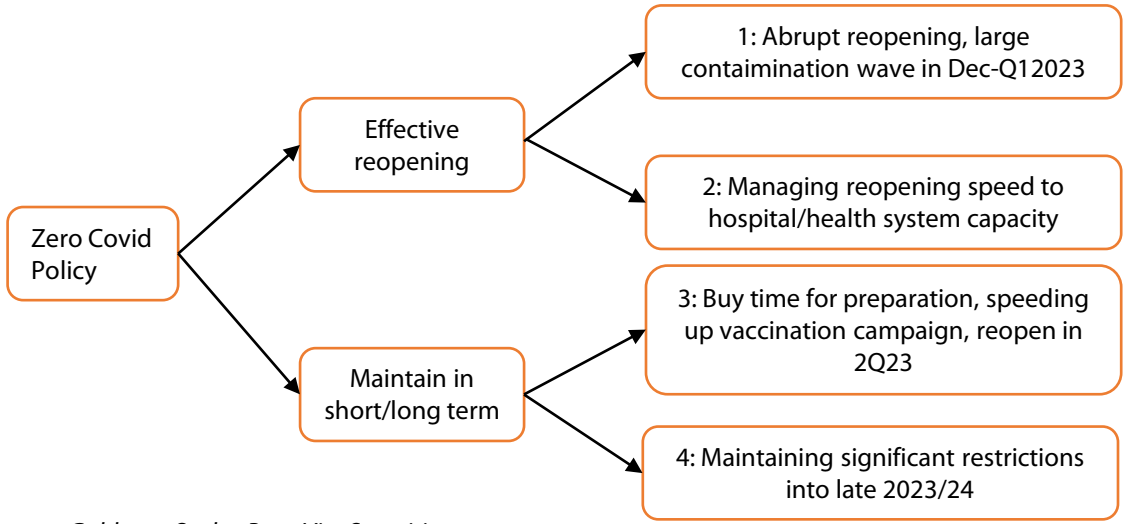
- From the end of November to the beginning of December, the Chinese government sent out a strong message about dismantling the Covid-19 control measures that had lasted for nearly 3 years.
- With the longest period of maintaining the zero-Covid policy compared to other countries, the reopening of China will affect the world in many aspects: the supply chain of goods, consumer demand for goods and services, transportation, investment flows, etc. However, the Chinese government is likely to continue to balance the economic and medical damage during the reopening process.
- **Vaccination rates among the elderly are still problematic.** As of November 2022, the rate of people over 60 years old receiving 2 doses of the vaccine was 86%, of which 69% received the third dose. However, the proportion of people over 80 years old who receive 3 doses of the vaccine is only 40%.
- China's 2023 GDP growth rate is forecasted to fluctuate in a wide range, from 4%-5%, compared with an estimated growth of 3.0-3.5% in 2022.

Figure 40: Vaccination rate for people 60+ in China



Source: BofA, RongViet Securities

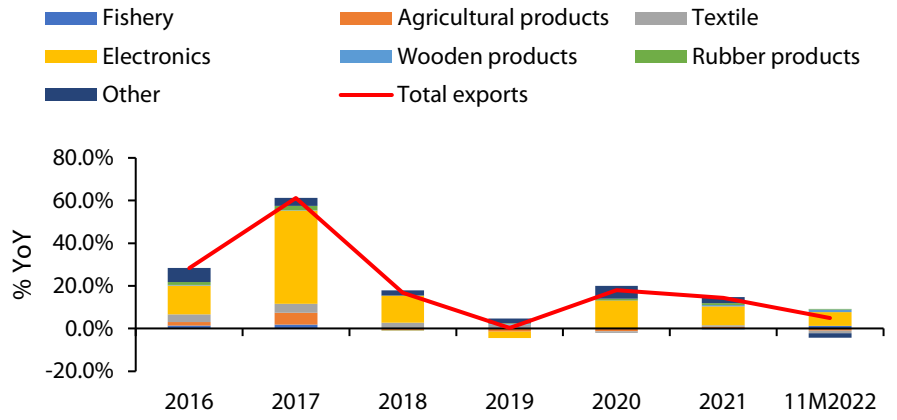
Figure 41: 4 scenarios of China reopening



Source: Goldman Sachs, RongViet Securities

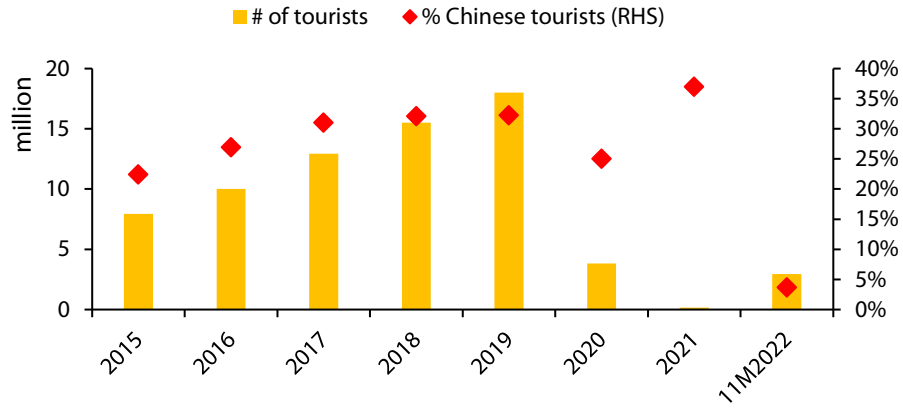
- During China's zero-Covid policy, consumption was negatively impacted more than manufacturing. Regarding consumption, consumption of goods is less negatively affected than consumption of services thanks to the explosion of online sales platforms. Thus, with China's reopening, the most obvious positive impact is the strong recovery of service consumption.
- **The extent of the impact of China's reopening on the demand for Vietnamese goods will vary by product:** Vietnam's export growth to China has declined sharply since 2019. Despite the severe epidemic, export growth has recovered relatively well in 2020-21. In 2022, export growth to China is relatively low (~5%), with a divergence between commodity groups: a strong recovery in seafood, maintaining growth in electronics but continuing decline in textiles and other agricultural products (vegetables, cashews and rice).
- **Vietnam tourism will benefit the most:** Although reopening in late 2021, tourists to Vietnam is still low due to the absence of Chinese visitors, we expect the reopening will significantly improve tourists to Vietnam and tourism revenue in 2023.
- **The commodity that has benefited the most from China's reopening is crude oil**, thanks to a recovery in travel and tourism demand. At the current Brent oil price of $80/barrel, this price reflects Russia's flat oil supply while China's oil demand is 0.5 million b/d lower than the expected demand when the country's economy reopens (Goldman Sachs). This is a key variable for Vietnam's inflation in 2023, per our opinion.

Figure 42: Vietnam's export growth to China



Source: Customs, RongViet Securities

Figure 43: Number of tourists and % of Chinese visitors



Source: GSO, RongViet Securities

RONG VIET SECURITIES

GLOBAL MACROECONOMY

SECOND HALF TO BE BETTER

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- **Key risks for 2023 are:** *Fed policy error, tightening global financing conditions triggering Emerging Markets distress and worsening of China's growth dynamic*.
- **Inflation has peaked.**
- **Will the US dollar strength end?**
- **2H 2023 should see a recovery for equity markets.**

FINANCIAL MARKETS ARE FORWARD NOT BACKWARD LOOKING

- The year 2022 was a "battle"' between the US Federal Reserve raising rates to cool aggregate demand and the expanding balance sheets of commercial banks, households, government and corporates. **In the first half of 2023, we expect that the bond market will be probing for the Fed's terminal rate while equity markets will be in "no man's land"** with earnings still falling as growth and margins disappoint.
- Financial conditions are unusually tight with US real yields and the dollar suffocating asset markets. The extraordinary nominal profit boom looks to be drawing slowly to an end. To date multiple compression has led a forecast earnings recession in 2023 - earnings have held up in 2022. The cycle resembles the 1950s but it is now evolving into a mid-1970s late bear market. Recent end of cycles have been deflationary; the current one is a rare inflationary one. Although the extraordinary tightening by the Fed has overshadowed markets in 2022, we still expect this cycle to be a conventional profit recession and not a credit one – i.e. balance sheets are not going to need to be rebuilt post the recession so the economy should recover relatively quickly.

Figure 1: GDP growth forecast

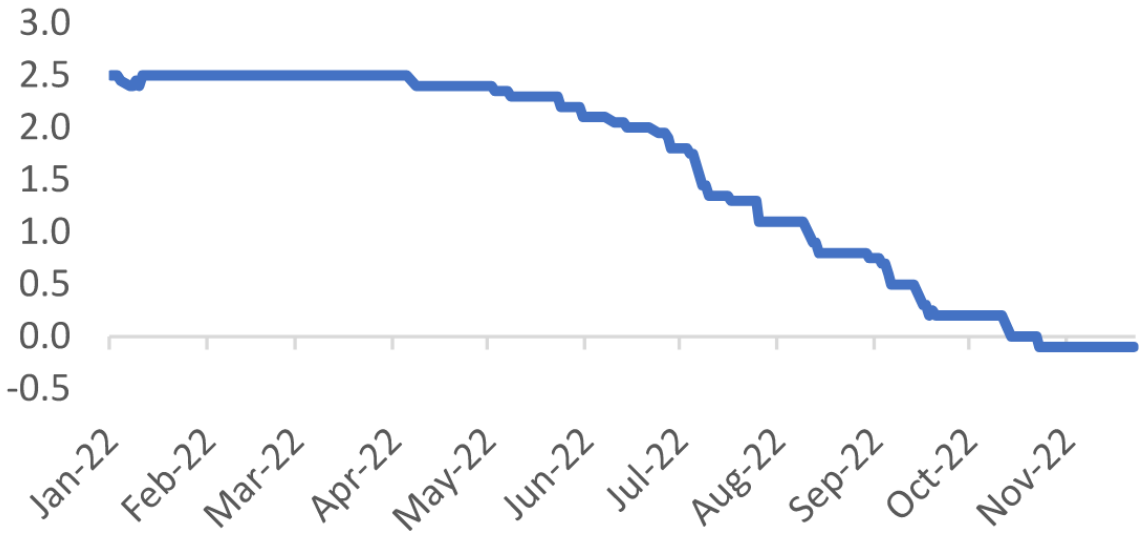
	GDP (%Y) 2022	GDP (%Y) 2023E MS	GDP (%Y) 2023E Cons	GDP (%Y) 2024E MS	GDP (%Y) 2024E Cons
Global	**3.0**	**2.2**	**2.4**	**2.7**	**3.0**
G10	**2.6**	**0.3**	**0.3**	**1.1**	**1.5**
US	1.9	0.5	0.2	0.9	1.5
Euro Area	3.3	-0.2	-0.1	0.9	1.6
Japan	1.5	1.2	1.3	1.6	1.1
UK	4.4	-1.5	-0.8	0.5	0.9
EM	**3.3**	**3.7**	**3.9**	**3.9**	**4.1**
China	3.2	5.0	4.9	4.4	4.8
India	6.8	6.2	7.0	6.4	5.9
Brazil	2.8	1.2	0.6	1.5	1.7

Source: Morgan Stanley

Figure 2: 2023 US consensus real GDP forecast, % y/y

Source: Jefferies

Figure 3: Eurozone 2023 consensus GDP forecast, % y/y



Source: Jefferies

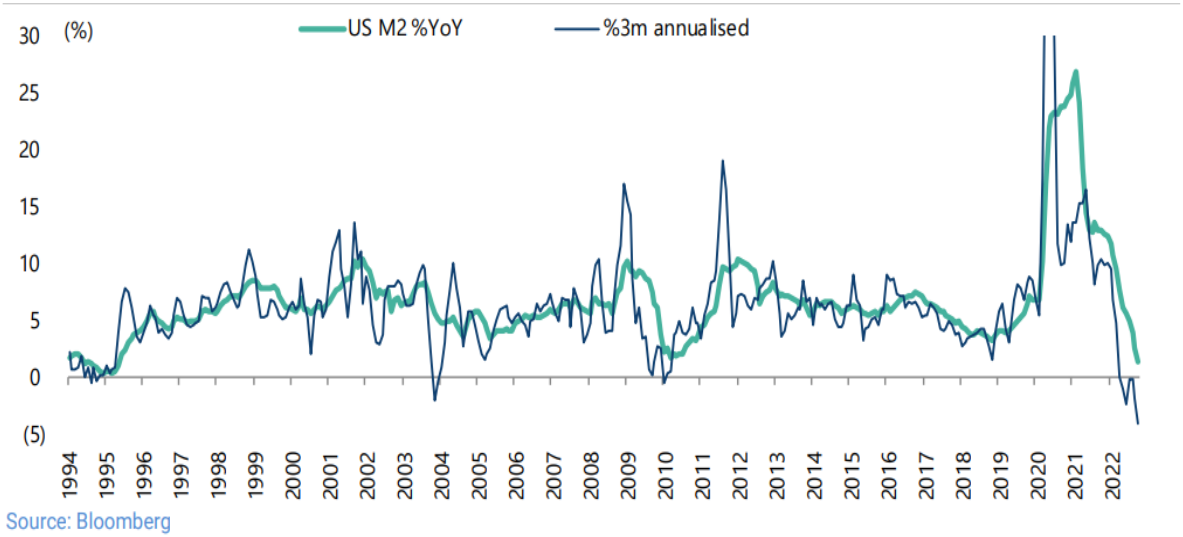
- The procession of global outlook reports from multilateral agencies underscores deep concerns about the outlook for 2023. The widespread view is that macroeconomic risks remain unusually large, ranging from getting US monetary policy stance wrong to tightening global financing conditions triggering emerging market debt distress, not to mention a worsening of China's growth dynamic around a weak property sector and continued struggles with the pandemic.
- Meanwhile 2023 GDP growth forecasts have come down in the US and Europe throughout 2022 (Figures 1, 2 and 3). Europe's fundamentals have been determined by one factor - energy. However, the rate of change is turning and the likelihood that the peak in natural gas prices being revisited is low. Europe is swamped in LNG. The output gap remains better than its peers so there is wiggle room for the ECB. Despite the terms-of-trade shock, Europe remains competitive.

- In the US with the Democrats feeling they have dodged a bullet in the mid-term elections, our guess is that the political **pressure on the Fed to address the inflation issue has peaked**. Meanwhile if the chatter continues to suggest that Fed governors pay no attention to money supply data, they should. The latest M2 data shows a further acceleration in the downward trend. US M2 declined by an annualized 4.1% in the three months to October, compared with an annualized 1.9% decline in the three months to September. While on a year-on-year basis, US M2 growth has slowed from 2.6% y/y in September to 1.3% y/y in October, the slowest growth rate since May 1995 (Figure 4).

- Real interest rates globally are still mostly negative (Figure 5) even with tighter monetary policies. Central banks, with the ECB at the top, are behind the curve.

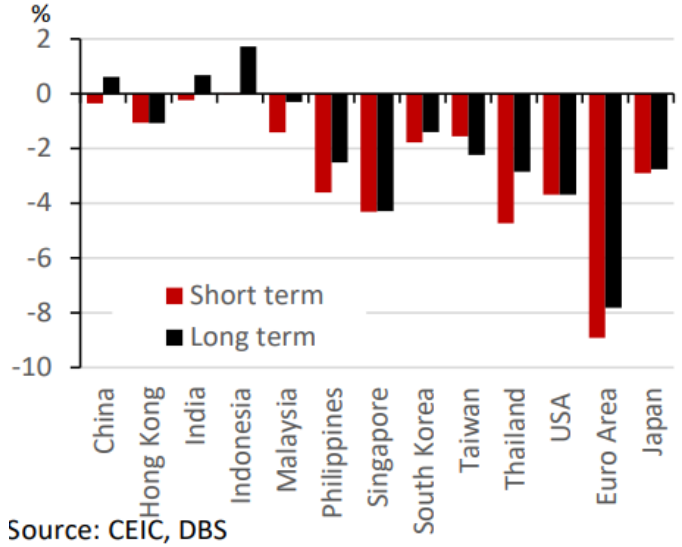
- Real rates are about to jump, however, as policy rates keep rising while inflation eases around favorable base effect and softening demand. In Asia, China, India, and Indonesia real rates have stepped into positive real rate territory, while the Philippines, Singapore, and Thailand are still in substantial negative territory. Like the US, forthcoming disinflation would push up real rates in most of the region.

Figure 4: US M2



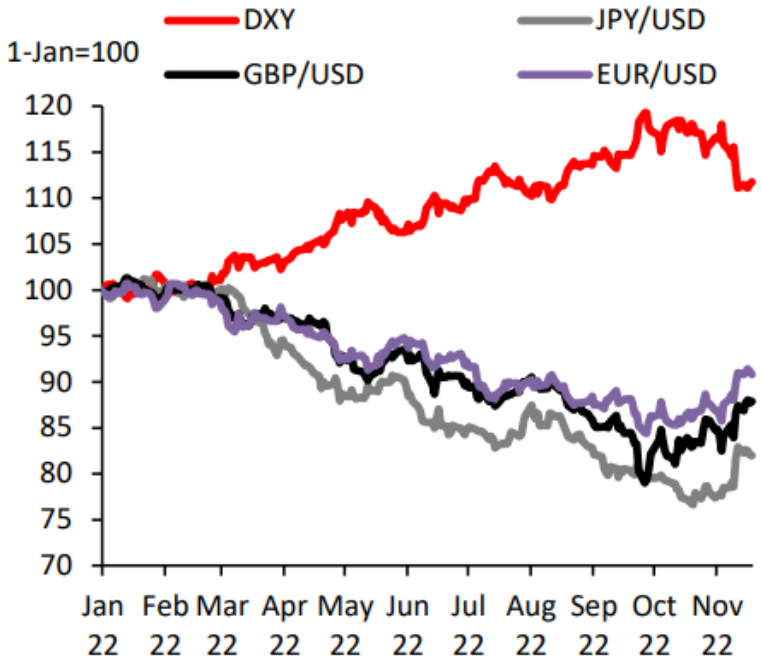
Source: Bloomberg

Figure 5: Real interest rates



Source: CEIC, DBS

Figure 6: Currencies versus the USD



Source: Bloomberg

Table 1: Asian currencies versus USD, 2022, %

	Jan- Oct	November
Japanese Yen	-28%	+13%
Chinese Yuan	-15	+ 3
Korean Won	-19	+ 9
Malaysian Ringgit	-14	+ 7
Indonesian Rupiah	-10	0
Thai Baht	-15	+ 8
Sing $	-4	+ 4
Indian Rupee	-11	+ 2
Vietnam Dong	-9	0

Note: as of November 30
Source: Tradingview

- Elevated inflation and idiosyncratic uncertainties around pandemic, war, and geopolitics have contributed to extreme currency market volatility this year. The USD had an extraordinarily strong performance in 2022 until October, with the DXY gaining as much as 19%. But others such as the JPY, GBP, and EUR posted sharp declines (Figure 6).
- However in November many Asian currencies managed to rise against the USD (Table 1). We expect the USD to weaken in 2023 as aggressive Fed rate hikes are already priced in. There may be some periods of strength but overall it should correct to weaker levels against most Asian currencies.

Figure 7: Consumer discretionary stocks, XLY ETF, as of November 29

- President Joe Biden took office with an ambitious foreign policy agenda summed up by his favorite campaign tagline: "America is back." Above all, that meant repairing the damage done to America's global standing by his predecessor, Donald Trump. During his four years in office, Trump strained ties with America's allies in Europe and Asia, raised tensions with adversaries like Iran and Venezuela, and engaged in a trade war with China that left bilateral relations in their worst state in decades.

- In principle, Biden's agenda is rooted in a repudiation of Trump's "America First" legacy and the restoration of the multilateral order. That was reflected in his early moves to rejoin the Paris Climate Accords and the World Health Organization, and reestablish US leadership on climate diplomacy. The COVID-19 pandemic also offered Biden an opportunity to reassert America's global leadership role and begin repairing ties that began to fray under Trump. So far that has been a mixed outcome.

- We believe the tide will turn for equity markets consumer expectations about growth and job security returns to more 'normal' levels. It will show in investors' sentiment towards discretionary stocks (Figure 7). Year-to-date, this sector has not done well.

- Weakness in Apple stock (Figure 8) is a warning that markets may have not hit the bottom yet.
- The long run view on oil is that the lack of reinvestment in carbon fuels has collided with one of the developed world worst energy crises since the 1970s. Since OPEC+ have retained discipline and US shale oil production is at full output while the global economy has yet to enter a synchronized recession, crude oil prices are being extremely volatile (Figure 9). We expect that to continue in 2023.

Figure 8: Apple stock price, as of November 29

Figure 9: WTI prices, USD/bbl

Figure 10. S&P 500 volatility, points

- The bottom line is that the energy sector has been able to withstand a record high dollar and the fastest rise in US real rates in modern history. However, the relative earnings story in the short term might be challenging. We remain modestly bearish.
- Equity volatility has been trending down in the past few months (Figure 10) but we expect a pick up in the early part of 2023.

Bottom line:

- After 10+ years of easy money, loose credit policy, and consistent economic growth, macroeconomic conditions have started to quickly deteriorate in the US and globally. Slowing economic growth, volatility, and tightening credit and liquidity conditions will likely lead to another six challenging months for investors and asset allocators.
- While inflation has started to slow, its path back to 2% remains highly uncertain as does the Fed and the ECB's willingness to accept anything significantly above that target.
- Central banks are still dealing differently with the external environment although it seems that the Fed and the ECB are likely to move to a pause at least in 1Q23. The latest easing by the PBOC – a 25bp slice off the Reserve Requirement Ratio – reinforces the deflation outlook in China while Japan's October Consumer Price Index, at 3%, was the highest since January 1991.
- **The second half of 2023 will be much better for equities**, barring any political or military events that would disrupt the recovery in economic and earnings growth.
- *With this backdrop in mind, we are reminded of the famous quote from Warren Buffett: "Only when the tide goes out do you discover who's been swimming naked."*

STOCK MARKET 2023

WAITING FOR THE DAWN

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- Since there is little support, we anticipate the market to maintain its sideways trend in the first half of the year in the range of 930 -1,060 points. In the base scenario, we assume that the Fed rate will begin to decline in the second half of 2023 and fall to 4.6% by the end of the year. Additionally, we anticipate a starting of a business recovery for listed businesses as well as NPAT growth of 5–10% YoY in the final two quarters of 2023. Finally, corporate bond risks starting to go through the most difficult period from Q322, which will also encourage the market to begin an upward trend. Based on this, we anticipate that the VN-INDEX can move into the range of **1,200–1,270** in the last months of 2023.
- In a less optimistic scenario, if inflation does not decline as anticipated, the Fed may keep interest rates high at 5.00–5.25% until the end of 2023. The likelihood of a worldwide economic recovery next year, as well as the influence on exchange rates, interest rates, and the recovery of business growth in Vietnam, will all be significantly impacted in high interest rates environment. In this case, we believe that listed companies' after-tax profits could remain low, ranging from 0% to -5% yoy. We estimate VN-INDEX could fluctuate between 930 and 1,060 in this situation.
- At the same time, based on the analysis of market liquidity correlation and VN-INDEX in the past, we anticipate that the average order-matching liquidity of the VN-INDEX will be between VND 13,000 and 16,000bn each session in the base scenario, that VN-INDEX could rise by an average of 12% over the entire year of 2023.

Table 1: Analysis of sensitivity of VN-INDEX to EPS growth and PE

		Tăng trưởng EPS						
		-15%	-10%	-5%	0%	5%	10%	15%
PE	8	652	691	729	768	806	844	883
	9	734	777	820	864	907	950	993
	10	816	864	**912**	**960**	1,008	1,056	1,103
	11	897	950	**1,003**	**1,056**	1,108	1,161	1,214
	12	979	1,036	1,094	1,151	**1,209**	**1,267**	1,324
	13	1,060	1,123	1,185	1,247	1,310	1,372	1,435
	14	1,142	1,209	1,276	1,343	1,411	1,478	1,545
	15	1,223	1,295	1,367	1,439	1,511	1,583	1,655

Source: RongViet Securities estimate

Positive

The SBV has more room to regulate monetary policy towards macro stability and economic support.

- In US, the inflation tends to reach the peak and Fed is likely to slowdown the rate hike. It makes the DXY index cool down and reduces the devaluation pressure of other currencies.
- China's reopening could be a boost to the global economic outlook from the second half of 2023

A series of drafts aimed at removing liquidity bottlenecks in the banking system and corporate bonds are being considered for approval.

- Draft on amendment to Circular 22 in term of calculating LDR ratio
- Draft on amendment to Circular 16 in term of regulations on holding corperate bonds by commercial banks
- Amendments to Decree 65 on corporate bond issuance

The gap between credit growth and money supply is higgest in the past 10 years (credit growth is nearly 3 times higher than money supply growth). It is expected that the gap will narrow in 2023, creating favorable conditions for interest rate reduction.

- The supply-side is expected to improve: Public investment is accelerated, amendments to banking circulars, SBV buys foreign currencies and is flexible in the OMO market. Besides, the fiscal policy is expected to implement more active with (1) 2% interest rate support package – VND 40 trillion, will be disbursed actively in 2023 in high interest rate situation, (2) Maintain the policy of reducing environmental protection tax for petroleum products, and (3) Keep the VAT at 8% in 2023 in the context of economic difficulties.
- Demand-side: demand of borrowing is anticipated to slow down when the real estate industry experiences a challenging period.
- Attractive market valuation for investment activities over one year. The correlation statistics between PE and return on investment for the period 2012-now show that buying and holding when PE is range of 9-11x could bring the profit better than deposit rate after 2 years.

Negative

When compared to the rapid profit growth in recent years, most companies' projected profits for 2023 are slowing down. Even some companies that have benefited tremendously from disruptions to global supply chains in 2021-2022 could change to negative profit.

Lack of large-leading cash flow create spillover effects.

- The age of cheap money in the globe is over. the Fed and ECB are being consistent in their efforts to return inflation to the target level 2%.
- Not only individual investors, large instituations have suffered significant losses in 2022. Meanwhile, Vietnam's stock market is lacking the compelling stories to attract new cash flows.
- Positive macroeconomics and attractive market valuation are attracting ETF cash flows from countries in the region. However, the portfolio is limited, so it is difficult to create a spillover effect.

Events that risk becoming a Black Swan:

- Inconsistent domestic regulatory policies might affect confidence and liquidity over a certain amount of time.
- The breakdown of the real estate and corporate bond markets led to a loss of investor confidence and led to a knock-on effect on the system's liquidity pressure.
- Geopolitical tensions. While the war between Russia and Ukraine has not ended, while tensions between China and Taiwan are showing signs of escalation.

Global inflation and interest rates are expected to cool down in 2023, helping to reduce pressure on domestic exchange rates and interest rates, causing monetary policy have more room to support the economy.

- US core inflation showed signs of peaking in July 2022. In the meantime, according to the Fed's operating target, inflation is projected to reach 3.1% by 2023-end and 2.3% by the end of 2024.
- Fed hiked 50 bps in the last meeting 2022. The Fed policy is expected to increase slightly 0.25% in the first half meetings of 2023, before peaking at 5-5.25% in June and starting to downtrend afterwards.
- Besides, the ECB interest rate is also expected to start a downward trend from 4Q2023, after expecting to set a peak at 2.86% in the September meeting.

Expect the intervention of government policy will narrow the gap between credit and money supply

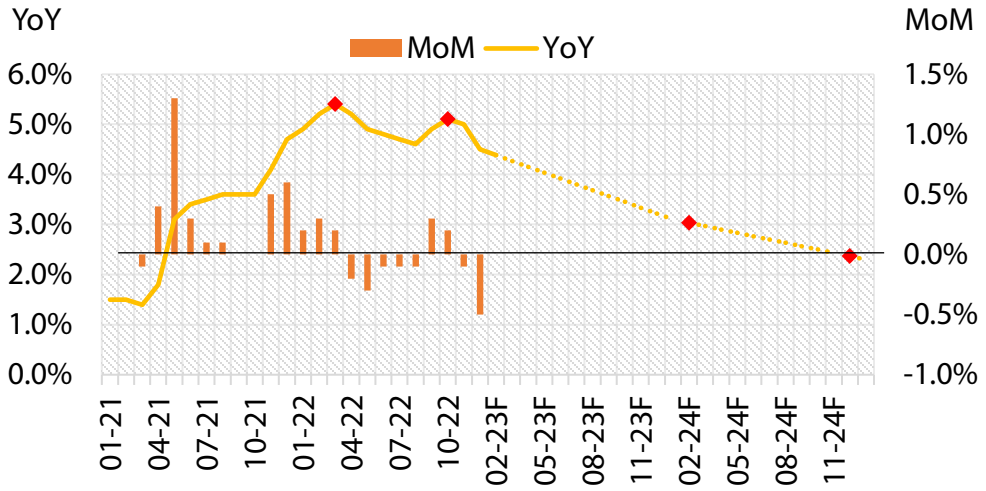
Money supply growth is forecast to improve in 2023.

- The global macro pressures on inflation, interest rates and GDP growth are expected to better in 2023. As such, SBV will have more room to gradually loosen economic policies.
- SBV raises the ceiling inflation target at 4.5% allows this agency to have more space in its money injection activities to support the economy.
- Government ‘s orientation to promote public investment in 2023.

Credit growth in 2023 is expected at 12%

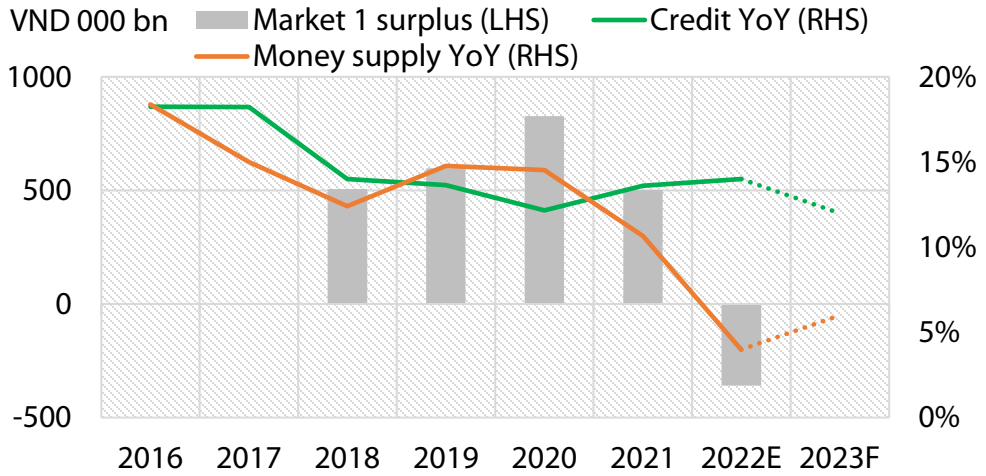
- In view of strictly controlling risks from the real estate market, it’s likely to slow down credit growth.

Figure 4: US's PCE core forecast



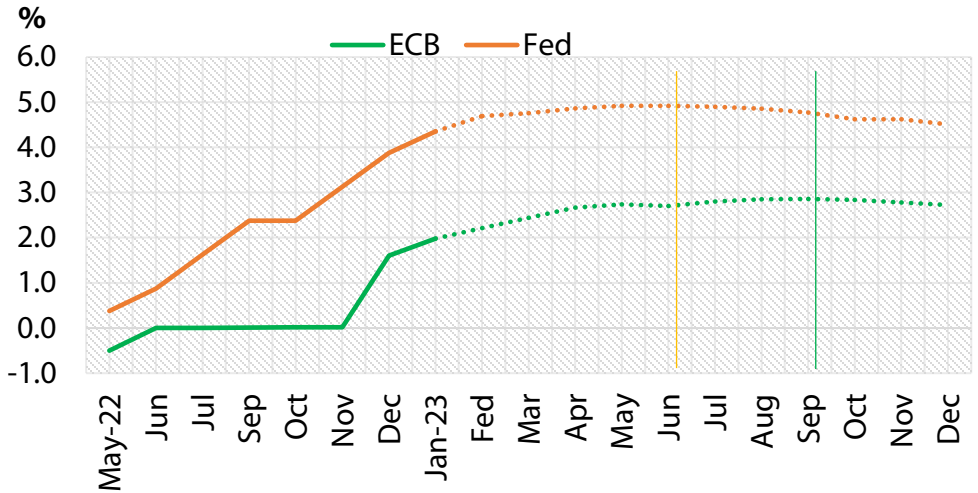
Source: Bloomberg, RongViet Securities forecast

Figure 4: Credit and deposit growth forecast (YoY)



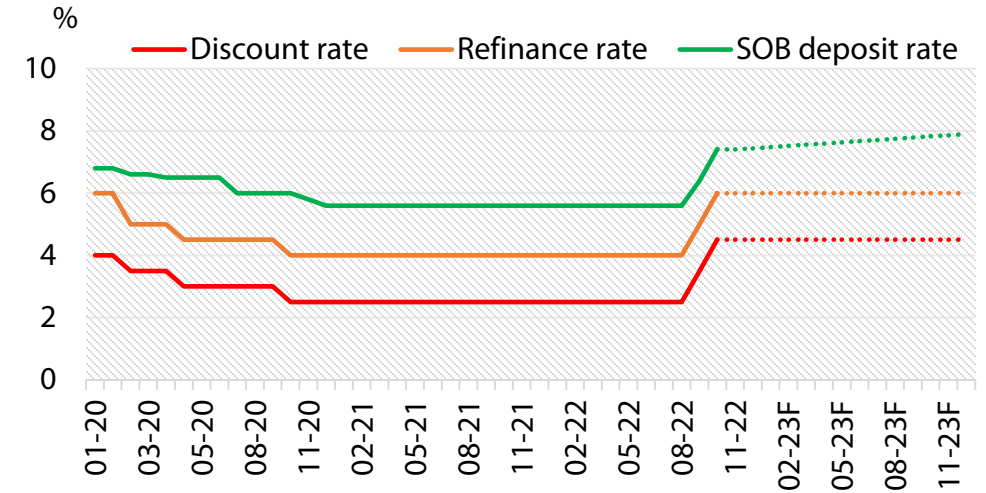
Source: SBV, RongViet Securities forecast

Figure 4: Fed & ECB policy forecast



Source: Bloomberg, RongViet Securities forecast

Figure 5: Interest rate forecast



Source: SBV, RongViet Securities forecast

Table 1: Growth prospects of industry groups in 2023

	Avg 3y-PE	Trailing PE	Avg 3y-PB	Trailing PB	EPS 2022 YoY	EPS 2023 YoY	Stocks
Auto & parts	11.5	5.6	1.9	1.3	30%	1%	HAX, DRC
Banks	11.8	0.0	3.3	1.5	33%	5%	ACB, BID, CTG, HDB, MBB, OCB, TCB, VCB, VPB
Fertilizer	10.1	2.9	1.0	1.3	75%	-45%	BFC, DPM
Fisheries	7.6	5.8	1.5	1.5	122%	-30%	ANV, FMC, VHC
F&B	21.6	16.2	5.5	4.3	-29%	6%	MSN, VNM
Health Care	18.6	15.8	1.9	2.2	17%	15%	IMP, DBD
Industrial park	8.9	7.5	0.8	1.0	142%	-29%	KBC, LHG, PHR, DPR
Logistics	10.2	9.3	1.2	1.5	42%	-8%	SCS, GMD, HAH, PVT, VSC
Oil & Gas			0.6	0.7	Loss	Strong recovery	PVD
Real estate	11.4	12.1	1.3	1.3	-20%	33%	HDG, KDH, NLG
Retail	15.1	14.0	4.9	3.1	7%	19%	PNJ, FPT, MWG
Steel	7.4	6.2	1.7	1.1	-75%	60%	HPG, NKG
Technology	10.8	16.0	2.1	3.5	32%	14%	FPT
Textile	9.0	10.0	1.4	1.8	6%	2%	TCM, TNG, STK, MSH
Utilities	8.1	10.4	1.3	1.3	30%	11%	GEG, HND, NT2, PC1, PPC, REE
Coverage list	**12.8**	**9.1**	**2.6**	**1.7**	**7%**	**6%**	
VN-INDEX*	**15.9**	**11.0**	**2.3**	**1.7**	**-2%**	**13%**	

Source: Bloomberg, RongViet Securities forecast
** Data forcest from Bloomberg*

NPAT growth for Rong Viet's watchlists, which make up 47% of VN-INDEX capitalization, is predicted to be +6% yoy in 2023, a modest decrease of 1% from the growth rate of -7% in 2022.

- Notably, steel enterprises are expected to return to +60% yoy growth mainly thanks to the recovery of steel prices and the reversal of exchange rate losses while output is forecasted to grow slightly.
- In general, residential real estate portfolio is forecasted to grow 33% yoy, mainly due to the leadership of NLG from the point of handing over projects in 2023 and transferring Paragon Dai Phuoc. While the two remaining companies in our watchlist are KDH and HDG, we anticipate flat NPAT in comparison to 2022.
- On the other hand, fertilizer manufacturers are predicted a 45% yoy decline in growth, mainly due to the selling price tended to decrease sharply from the peak after the increasing supply from Russia and China, besides production cost tends to cool down.
- In addition, fisheries enterprises are also anticipated to fall a 30% yoy in growth due to sluggish export demand and a high base in 2022.
- The portfolio of IP stocks is forecasted to decrease by -17% yoy mainly due to the decrease in abnormal incomes from the transfer of rubber land for industrial park projects.

KEY RISKS TEND TO DULL SO FAR

GLOBAL

COVID-19 – REDUCE

- Global vaccine coverage has reached a safe threshold according to WHO.

INFLATION– REDUCE

- The downward trend in energy, food and housing prices in the US and EU has cooled inflation data since September 2022. Core inflation forecast in the US and EU is forecast to reach 3.1% and 3.4% by the end of 2023.

RUSSIA – UKRAINA WAR – MANY UNCERTAINTIES

- There are still many conflicting views on the possibility of negotiations between the two countries

RECESSION – REDUCE

- According to IMF data, the global economy in 2023 is expected to grow by 2.2%. Besides, the world's major economies including the US, EU, OECD, G20 and China are also forecasted to achieve positive growth next year.

CHINA – TAIWAN TENSION – LIKELY TO LAST

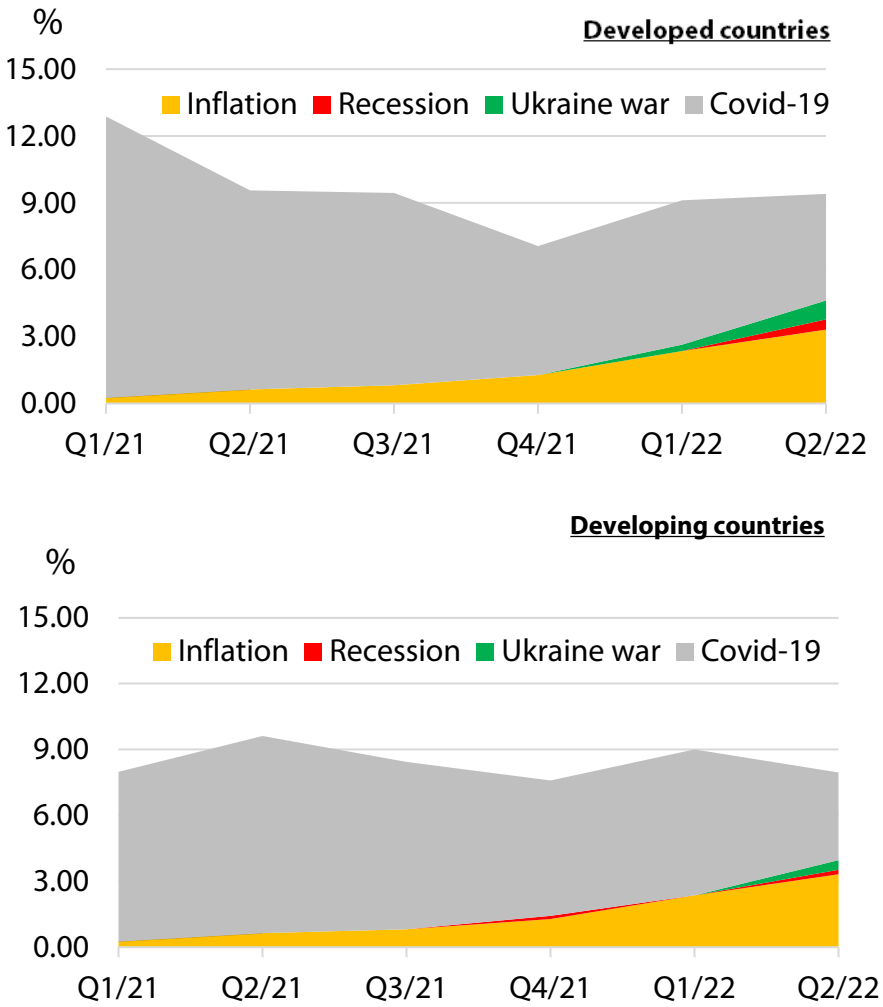
- The majority of Taiwanese respondents to the National ChengChi University survey in June 2022 still backed independence. Along with other major nations, the US and Western nations are demonstrating their support for this government. China, on the other hand, continues to make unambiguous declarations about its solid position in favor of Taiwan's reunification with the mainland.

VIETNAM

CORPORATE BONDS MATURITY - REDUCTION STILL WORRISOME

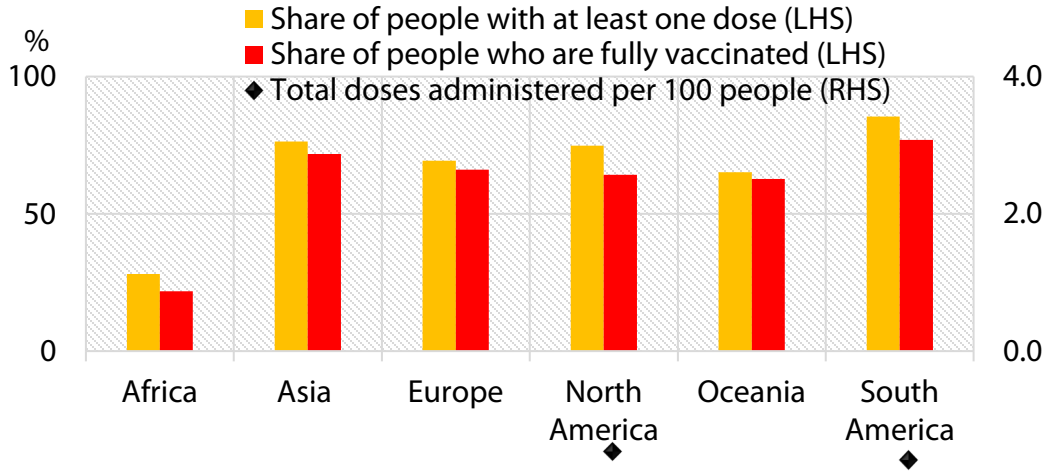
- Some companies with large outstanding corporate bonds have had debt settlement options through asset transfer, private placement to strategic partners, and mobilizing foreign loans.
- The Prime Minister proposed amending Decree 65 on private issuers of corporate bonds. In which, expanding the scope of the professional investor definition.
- However, the maturity value of corporate bonds in 2023 is still high, nearly VND 350 trillion, accounting for about ¼ of the additional credit. In which, the maturity of real estate corporate bonds is estimated at VND 130 thousand billion, equivalent to about 9% of additional credit value.

Figure 6: Statistics on the level of macro risks mentioned in the seminars



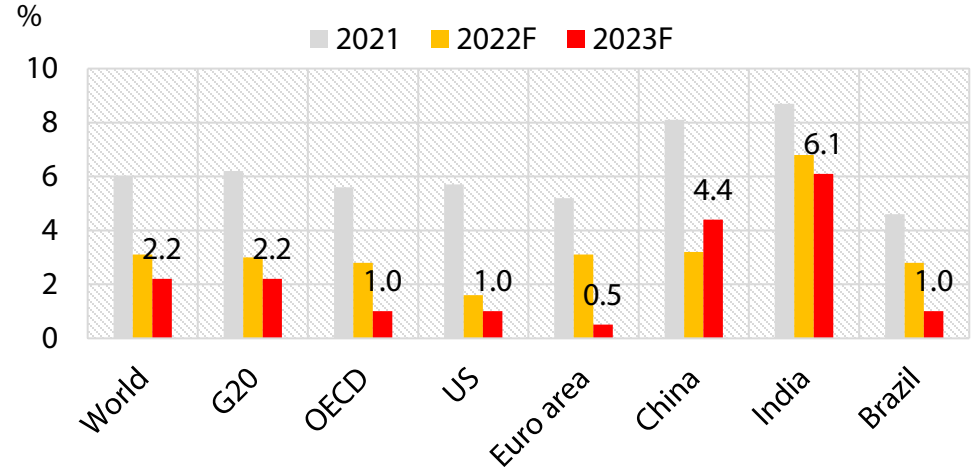
Source: IMF, RongViet Securities

Figure 7: Global vaccine coverage has reached safe levels according to WHO



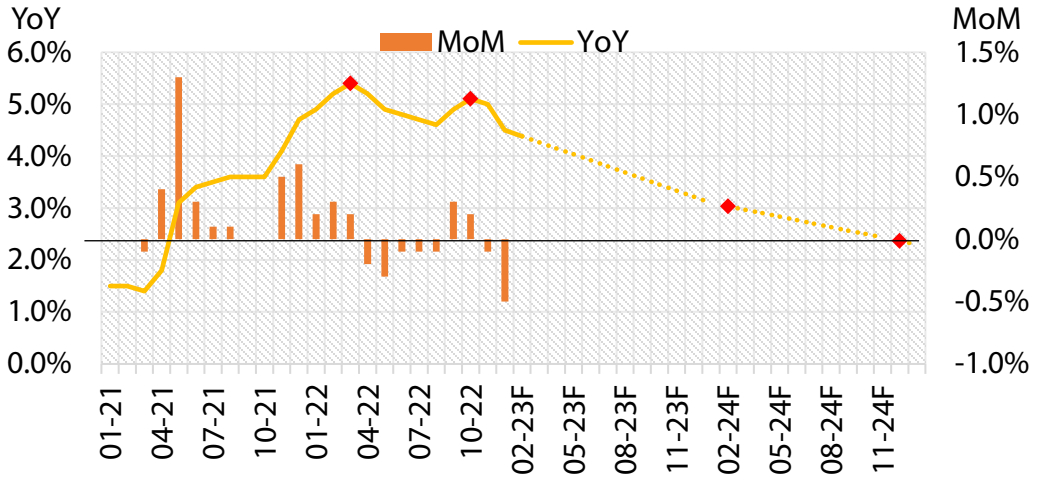
Source: IMF, RongViet Securities

Figure 8: Positive GDP growth is anticipated in 2023 by most economies



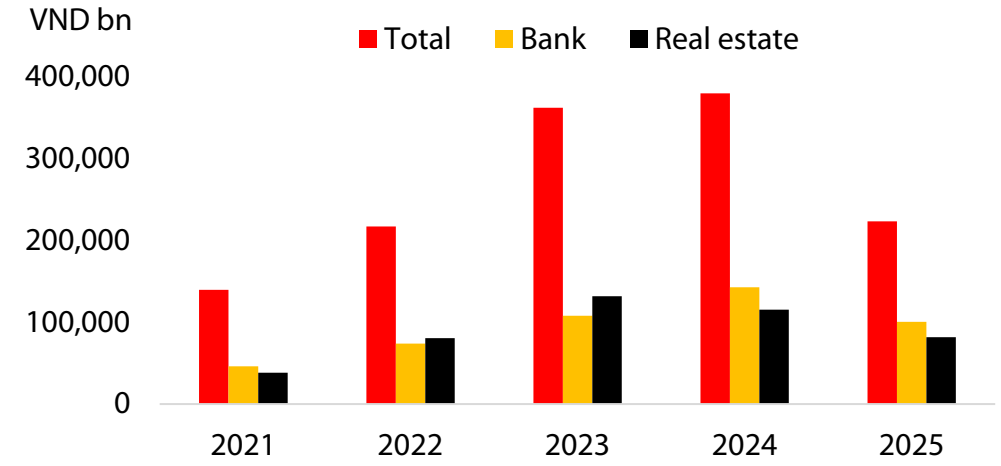
Source: IMF, RongViet Securities

Figure 9: Inflation in the US is forecast to decrease in 2023-2024



Source: Bloomberg, RongViet Securities

Figure 10: Corporate bond maturity value remains high in the period of 2023-24



Source: VBMA, HNX, RongViet Securities

Vn-index is at attractive valuation in the long term

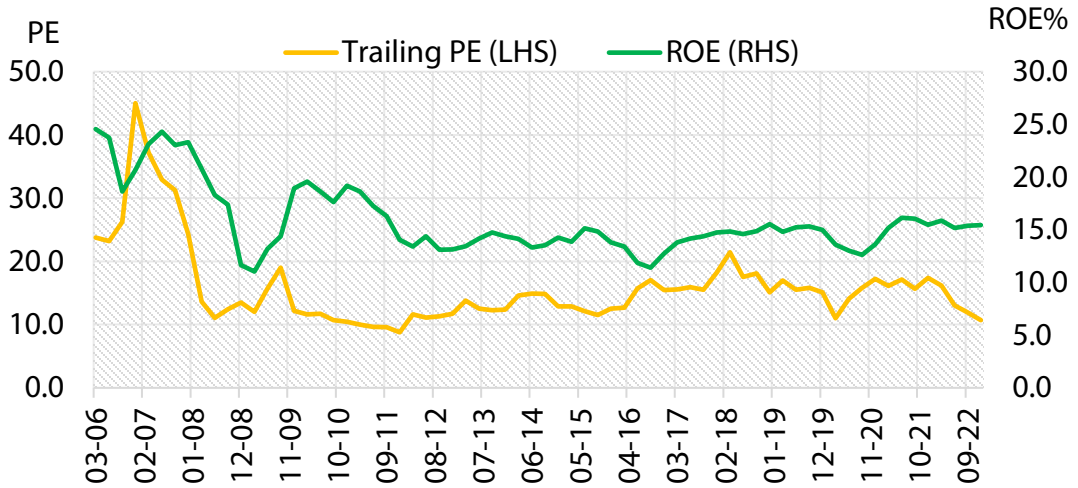
VN-INDEX's 12T sliding E/P performance currently (December 5, 2022) is estimated at 8.9%, 1.5% higher than the deposit rate. In the meantime, this gap is also quite attractive (high) compared to historical data.

- In addition, making the comparison with P/E valuation of VN-INDEX in the past, VN-INDEX is currently trading at a sliding PE of 12T: 11.3x, also stayed at the undervalued area, while still lying below the mean (14x) 01 standard deviation for the period 2009-2022.

Figure 12: VN-INDEX valuation (PE)

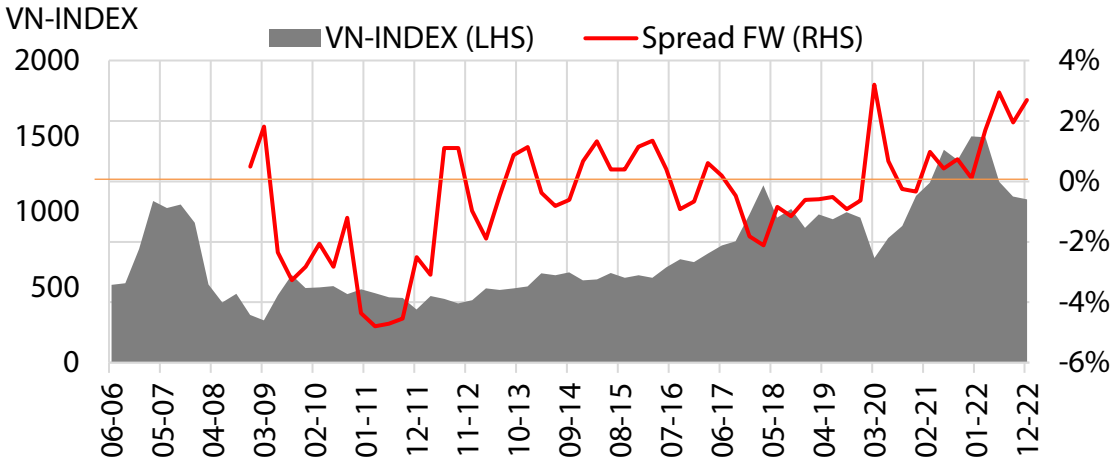
Source: Fiinpro, RongViet Securities

Figure 11: Comparison of PE (12M trailing) and ROE



Source: Fiinpro, RongViet Securities

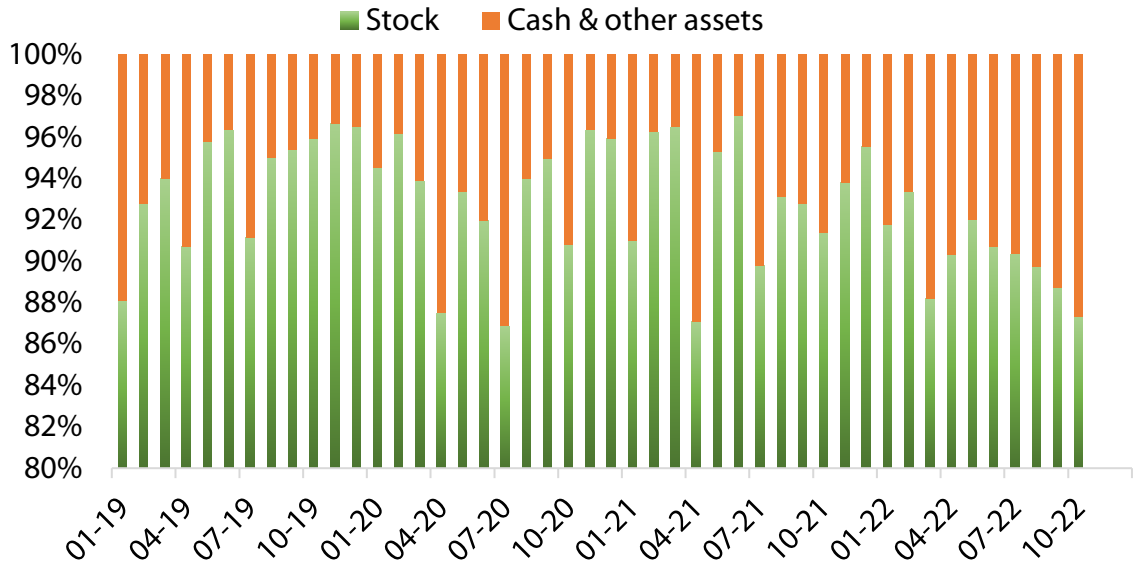
Figure 11: Comparison of E/P (forward) and VCB deposit rate



Source: Fiinpro, RongViet Securities
Spread = E/P forward– 12-month VCB deposit rate

INSTITUTIONAL MONEY FLOW IS EXPECTED TO BE MARKET DRIVER IN 2023

Figure 13: Statistics of asset proportions of some organizations in market



Source: Fiinpro, RongViet Securities

VN-INDEX is expected to attract foreign cash flows on the basis of a stable macro background compared to other countries in the region.

- According to forecasts of economic organizations, Vietnam's GDP growth rate can still achieve a positive growth rate of 6-7% in 2023. Meanwhile, other macro fundamentals include interest rates, inflation and exchange rate are expected to be significantly more stable compared to other countries in the region.

Institutional net buying is anticipated to continue through Q2 2023

From August to October 2022, the proportion of money holdings of organizations has dropped to double digits. At October-end, this figure was at 12.7%, which is quite high compared to the average figure of under 6%, according to Fiinpro. Prior to 2019–2020, it took an average of 6–8 months for the cash balance to return to its previous low level.

Table 2: GDP, interest rates and exchange rates of some countries

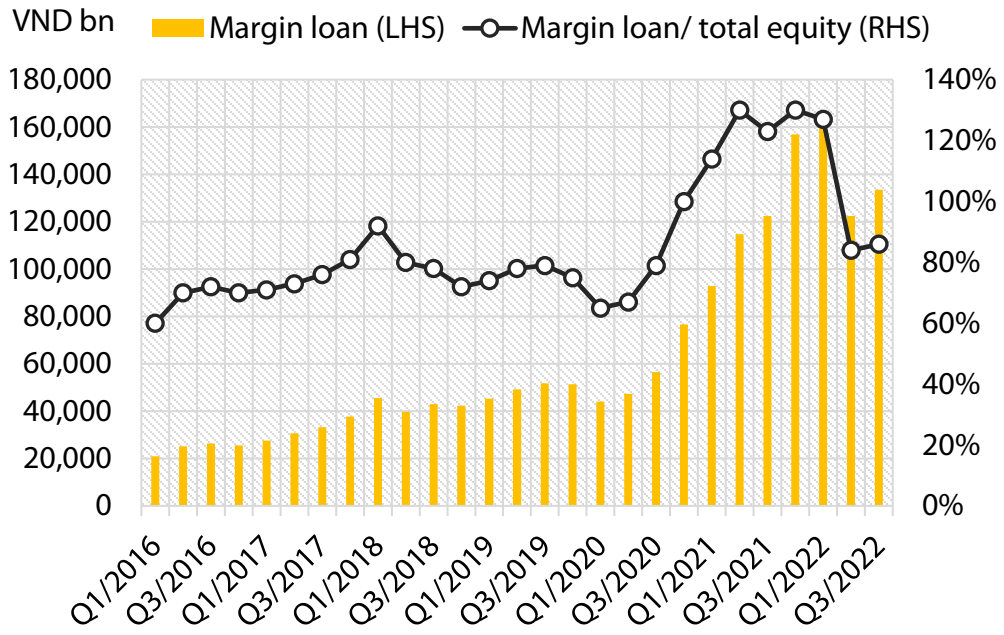
Countries	Total Quantum Hike/cut to the peak 2023	GDP2022F	GDP 2023F	CPI 2022F	CPI 2023F	FX 2022YTD*	FX 2023F
America							
US	1.25%	1.6%	1.0%	8.1%	3.5%	8.5%	
Canada		3.3%	1.5%	6.9%	4.2%	-6.7%	7.1%
Brazil		2.8%	1.0%	9.4%	4.7%	5.3%	4.4%
Eurozone	**1.50%**	**3.1%**	**0.5%**	**8.3%**	**5.7%**	**-6.1%**	
Asia							
China	0%	3.2%	4.4%	2.2%	2.2%	-8.5%	2.2%
Japan	0%	1.7%	1.6%	2.0%	1.4%	-15.1%	-0.7%
India	0.85%	6.8%	6.1%	6.9%	5.1%	-9.8%	0.4%
South Korea	0.75%	2.6%	2.0%	5.5%	3.8%	-8.1%	1.6%
Taiwan	0.37%	2.3%	1.9%	3.1%	2.2%	-9.3%	-8.0%
Hongkong	0%	-0.8%	3.9%	1.9%	2.4%	0.3%	-0.8%
Singapore	0%	3.0%	2.3%	5.5%	3.0%	0.2%	-6.8%
Asean 5							
Vietnam	**0.5-1%**	**7.0%**	**6.2%**	**3.8%**	**3.9%**	**-3.1%**	**-4.4%**
Thailand	1.50%	2.8%	3.7%	6.3%	2.8%	-3.8%	-10.3%
Indonesia	1.50%	5.3%	5.0%	4.6%	5.5%	-8.5%	-4.2%
Malaysia	0.75%	5.4%	4.4%	3.2%	2.8%	-5.1%	-10.0%
Philippines	1.75%	6.5%	5.0%	5.3%	4.3%	-8.6%	-6.7%

*Source: IMF, UOB, RongViet Securities, * data on 14/12/2022*

THE PARTICIPATION OF RETAIL INVESTORS IS LIKELY INSIGNIFICANT IMPROVEMENT IN 6M2023

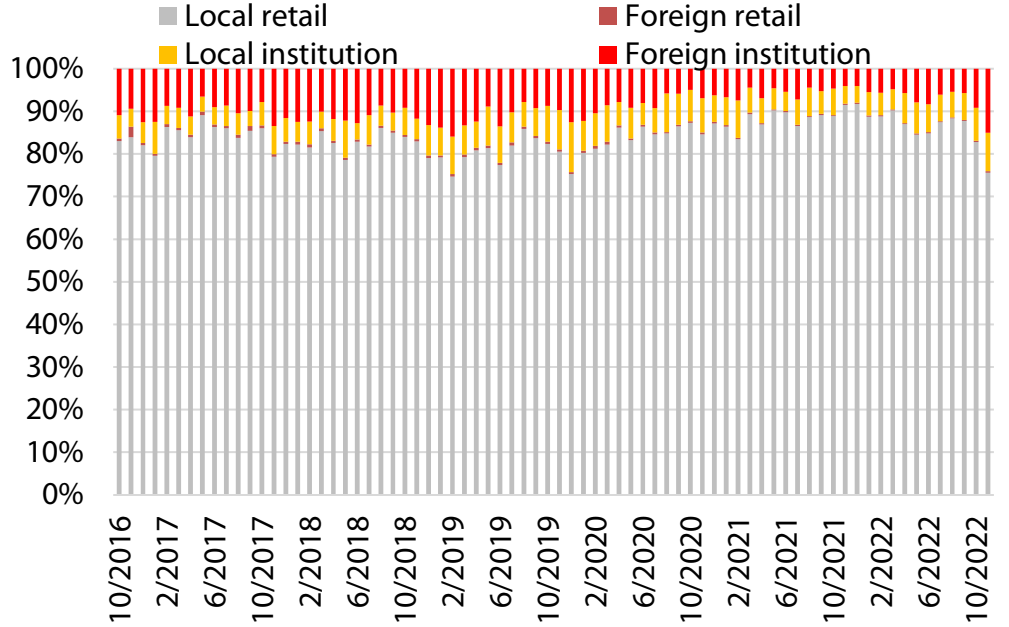
- By the end of 3Q2022, margin loans of securities companies have decreased compared to the peak in 1Q2022, but still stay quite high compared to the peak of 1Q2022. Besides, after the sharp declines of the market in 2022, we believe that individual investors need more time to improve their portfolio efficiency and investment sentiment.

Figure 14: Margin balance at securities companies



Source: Fiinpro, RongViet Securities

Figure 15: Investors proportion by order-matching value



Source: Fiinpro, RongViet Securities

SIGNIFICANT CRITERIA HAVE NOT MET YET

Criteria	Requirement	2021	2022	Detailed Assessment
A. Economic Development	**No requirement**			
- Sustainability of economic development				
B. Size and Liquidity Requirements				
- Number of company meeting the full maket cap over USD 2,14 bn	03		21	
- Number of company meeting the float market cap over USD 1,07 bn	03		21	
- Security liquidity	15%			
C. Market Accessibility Criteria				
- Openness to foreign ownership	**Significant**			
+ Investor qualification requirement		++	++	
+ Foreign ownership limit (FOL) level		-/?	-	Companies in certain conditional sectors and sensitive sectors are subject to the relevant foreign ownership limit.
+ Foreign room level		-/?	-	The equity market is significantly impacted by foreign room issues.
+ Equal rights to foreign investors		-/?	-	Some company related information is not always readily available in English. In addition, the rights of foreign investors are limited as a result of the stringent foreign ownership limits imposed on both total as well as individual foreign investors.
- Ease of capital inflows / outflows	**Significant**			
+ Capital flow restriction level		++	++	
+ Foreign exchange market liberalization level		-/?	-	There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).
- Efficiency of the operational framework	**Good & tested**			
+ Investor registration & account set up		+	+	
+ Market regulations		+	+	Not all regulations can be found in English.
+ Information flow		-/?	-	Stock market information is not always disclosed in English and occasionally is not detailed enough.
+ Clearing and Settlement		-/?	-	There are no overdraft facilities and pre-funding of trades is required.
+ Custody		++	++	
+ Registry / Depository		++	++	
+ Trading		++	++	
+ Transferability		-/?	-	Off-exchange transactions and in-kind transfers require prior approval from the State Securities Commission of Vietnam.
+ Stock lending		-/?	-	
+ Short selling		-/?	-	
- Availability of Investment Instruments	**High**			
- Stability of institutional framework	**Modest**	+	+	

Source: MSCI, RongViet Securities, data on 14/12/2022

T+2 Trading

- Applied from August 29, shares will be returned to the account at 11:30 a.m - 12:00 p.m. on T+2, and the money will also be returned to investors' accounts 1 day earlier than the old regulations. This amendment demonstrates the efforts of the regulator in promoting the growth and development of the stock market in the long term.

Decree 65/2022 offering and trading corporate bonds privately

- Stricter regulations on the definition of professional investors are likely to significantly limit the number of individual investors that can participate in the corporate bond market in the near future. Besides, it's expected to put pressure on the credit demand of the banking system in 2023, when the value of matured bonds increases significantly.
- Companies offering individual bonds must register and centrally deposit them at the Vietnam Securities Depository and Clearing Corporation (VSD). Compared with Decree 153/2020, corporate bonds can be deposited at member companies of VSD, helping authorities control better than in the previous period. In addition, in the long term, this will be a premise for developing a centralized corporate bond trading market, as all corporate bonds issued are centrally managed by VSD. Therefore, investors' access to information and transactions will be easier and more convenient.

Odd-lot trading

- Applied from September 12, 2022, HOSE has officially implemented odd-lot securities trading. The application of odd-lot securities will facilitate investors to actively place orders to buy and sell securities, reducing dependence on securities companies.

Adjusting the initial margin ratio of VN30 index futures contract

- Applied from December 15, 2022, VSD adjusted the minimum initial margin ratio from 13% to 17%.

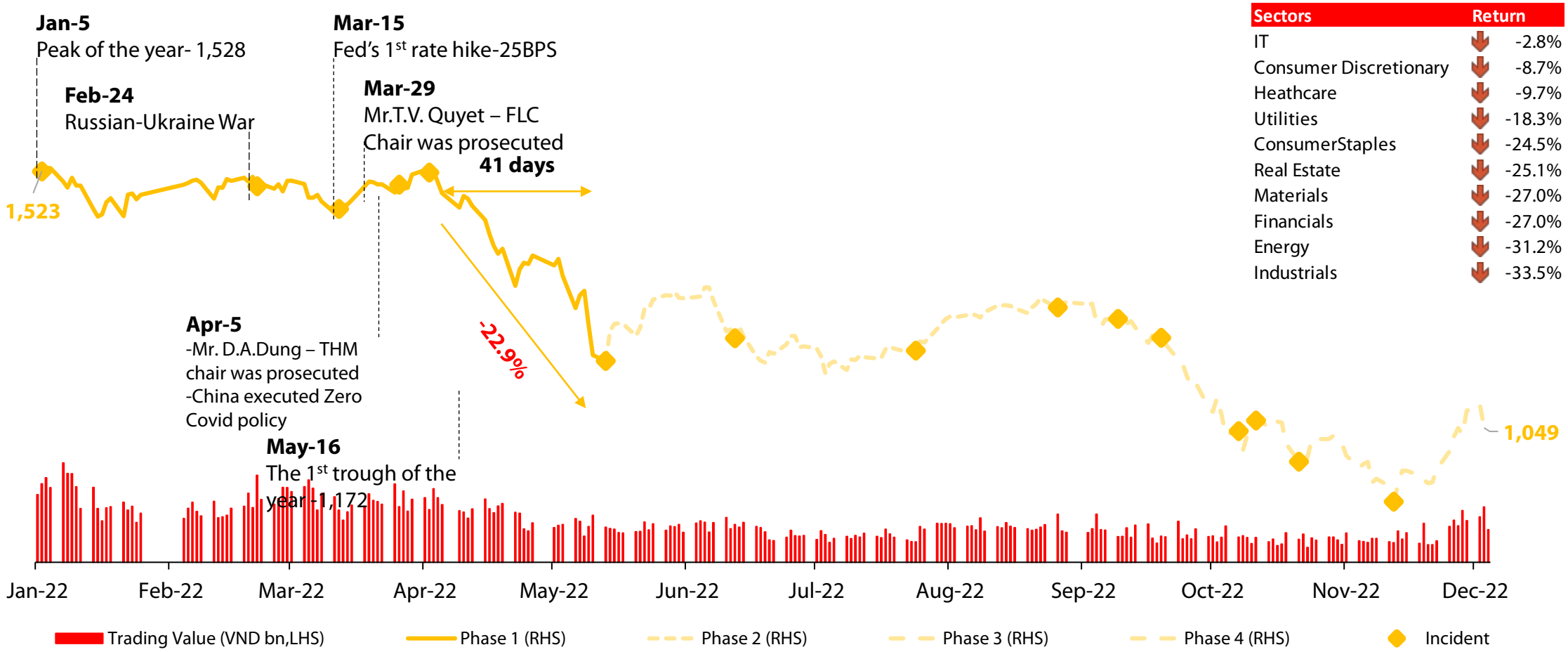
MARKET REVIEW

A TURBULENT YEAR

Hung Le - hung.ltq@vdsc.com.vn

2022 RECAP - PHASE 1: WHEN THE OUTLOOK STARTED CHANGING

Figure 1: VN-Index recap in 2022 - Phase 1



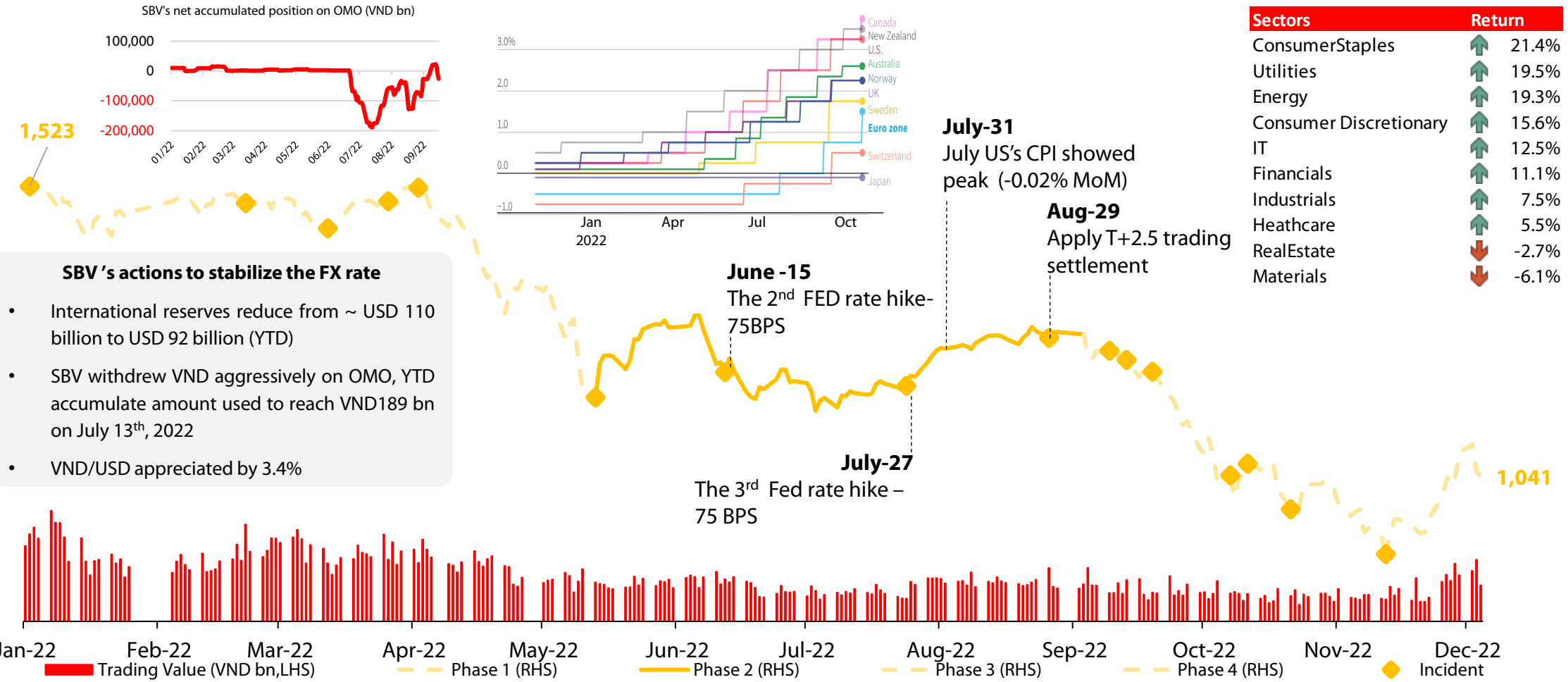
Sectors	Return
IT	-2.8%
Consumer Discretionary	-8.7%
Heathcare	-9.7%
Utilities	-18.3%
ConsumerStaples	-24.5%
Real Estate	-25.1%
Materials	-27.0%
Financials	-27.0%
Energy	-31.2%
Industrials	-33.5%

Source: Bloomberg, RongViet Securities, Updated as of Dec 8th, 2022

Vietnam stock market began 2022 with positive outlook as the global economy opened almost completely. However, the Russia - Ukraine war, the ongoing strict zero-covid policy in China made inflation accelerate, and Central Banks began to rapidly raise interest rates in response to inflation. Besides, market risks also started kick-off when misconducts in capital market was prosecuted, especially ones related to the real estate sector, making market witness the first correction.

2022 RECAP - PHASE 2: MARKET MOVED SIDEWAYS, SBV TRIED TO STABLIZE EXCHANGE RATE

Figure 2: VN-Index recap in 2022 – Phase 2



SBV 's actions to stabilize the FX rate

- International reserves reduce from ~ USD 110 billion to USD 92 billion (YTD)
- SBV withdrew VND aggressively on OMO, YTD accumulate amount used to reach VND189 bn on July 13th, 2022
- VND/USD appreciated by 3.4%

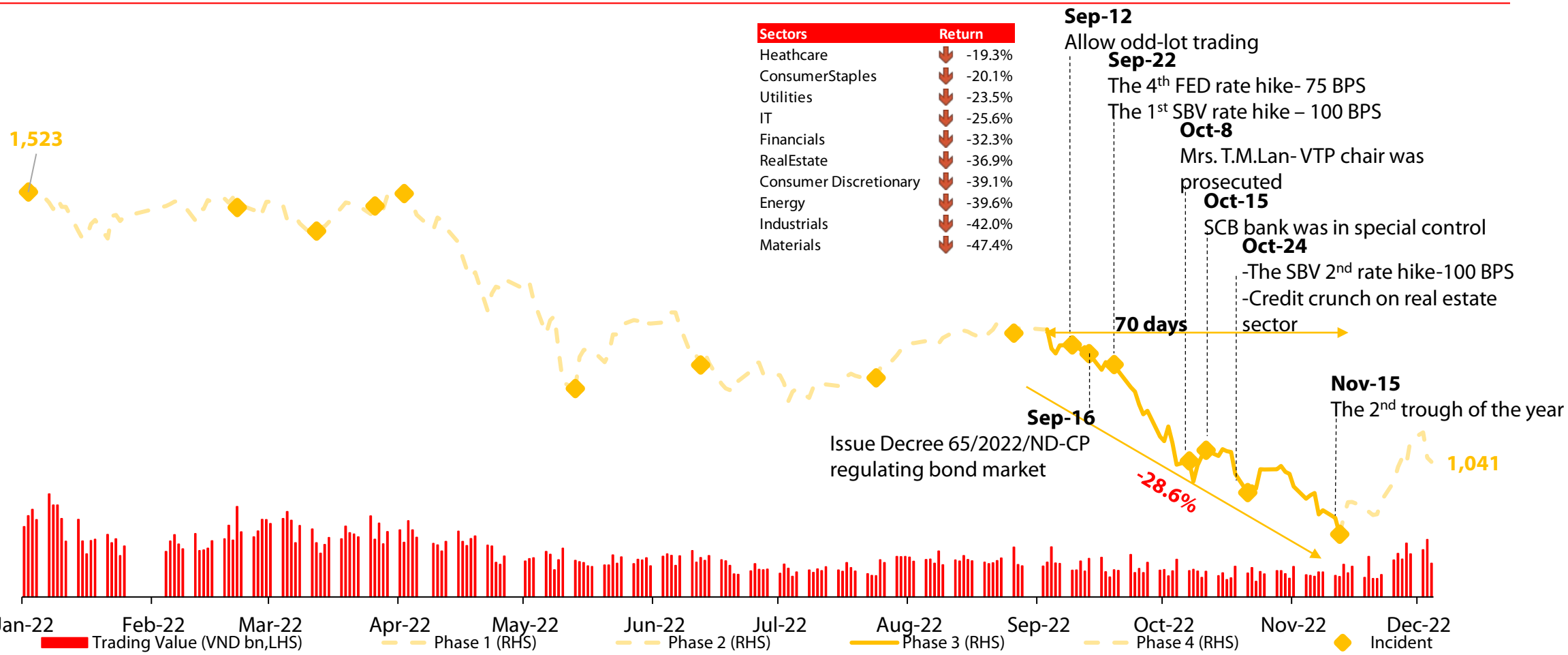
Sectors	Return
ConsumerStaples	21.4%
Utilities	19.5%
Energy	19.3%
Consumer Discretionary	15.6%
IT	12.5%
Financials	11.1%
Industrials	7.5%
Heathcare	5.5%
RealEstate	-2.7%
Materials	-6.1%

Source: Bloomberg, RongViet Securities, Updated as of Dec 8th, 2022

As inflation reached historical high, Central Banks raised interest rate at an unprecedented pace, putting pressure on emerging countries. SBV had to implement monetary tools to stablelize the exchange rate. Hope appeared in late July as market reacted on inflation peak.

2022 RECAP – PHASE 3: CREDIT CRUNCH

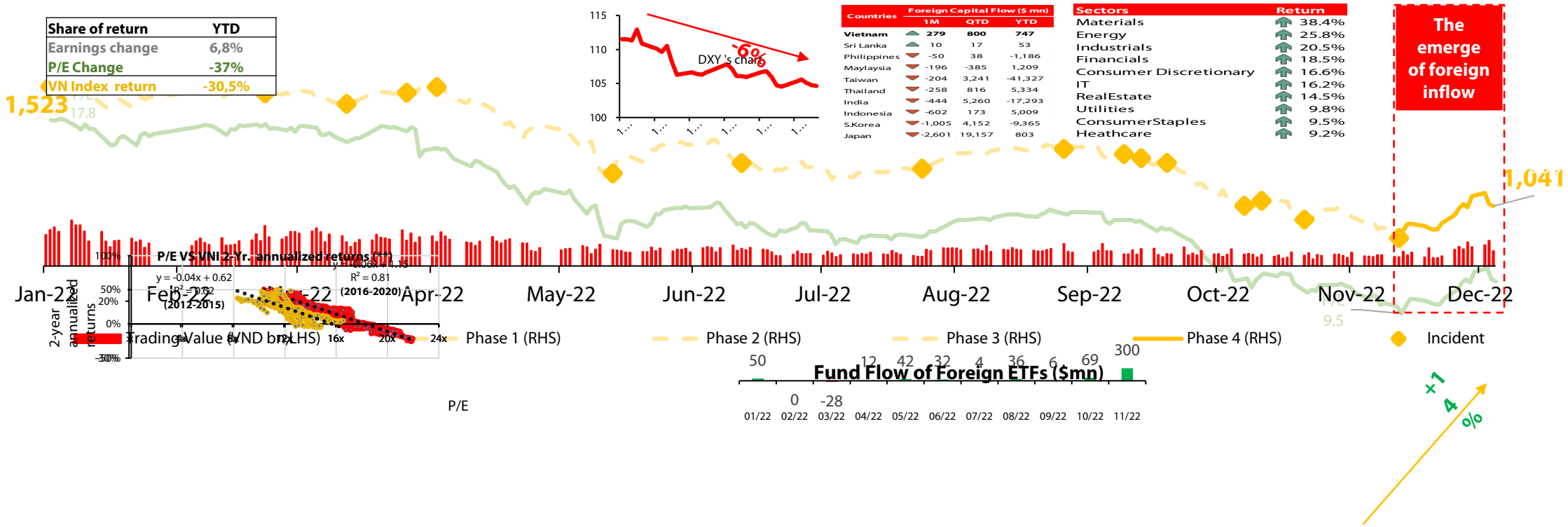
Figure 3: VN-Index recap in 2022 – Phase 3



Source: Bloomberg, RongViet Securities, Updated as of Dec 8th, 2022

(1) SBV started to increase interest rate as foreign exchange reserves fell sharply while the DXY moved to its peak, (2) Decree 65 was issued to regulate bond issuance and bond investors, (3) The scandal of Van Thinh Phat and SCB stimulated credit risk expectation and kicked-off liquidity squeeze on the capital market, in which equity market witnessed series of margin call.

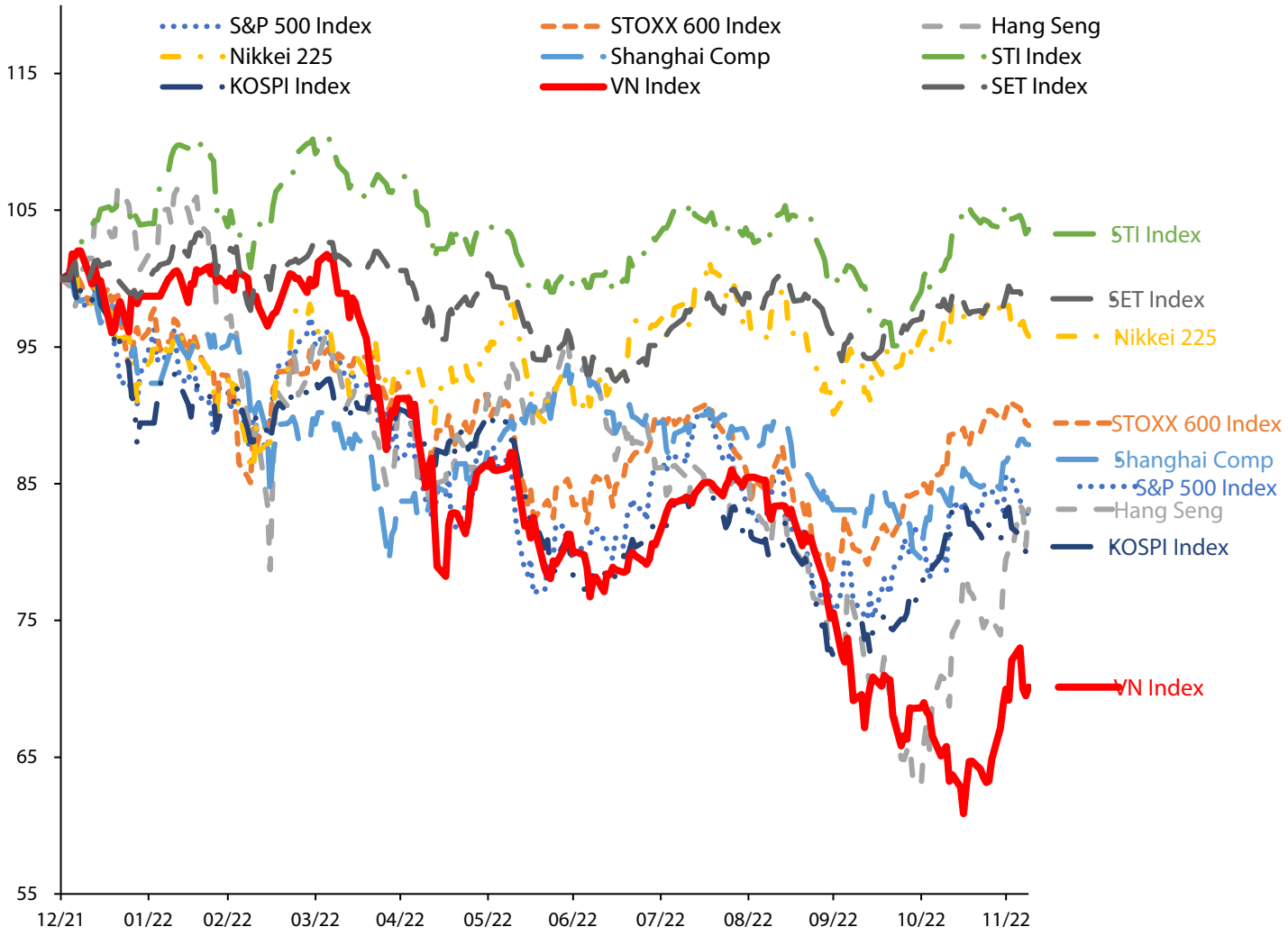
Figure 4: VN-Index recap in 2022 – PHASE 4 (*)



Source: Bloomberg, RongViet Securities, (*) Updated as of 8 Dec 2022, (**) p/e and corresponding 2-year annualized return of VN Index (2012-2020)

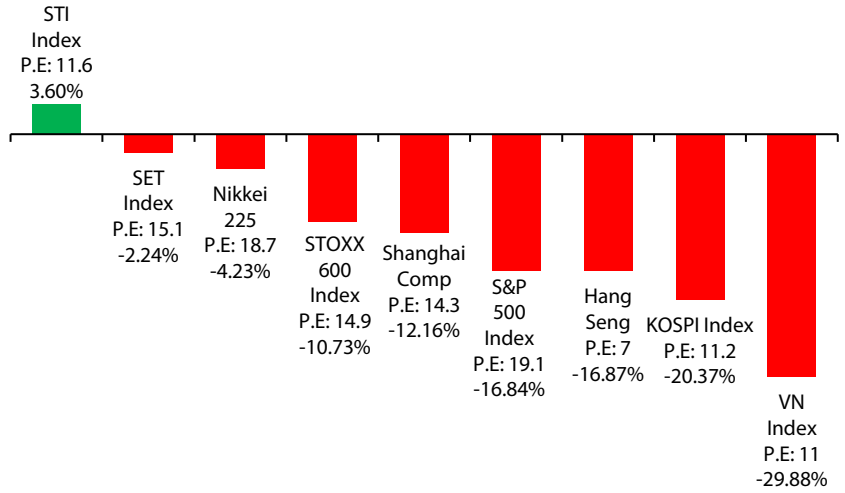
Since November, inflation has showed a cool down, Central Banks had plan to slowdown the interest rate hike, which support for DXY depreciation and stimulate investment in risky assets. Vietnam as a frontier market, have a lucrative valuation (P/E 9.5 as of 11/15/2022 versus 5- years P/E avg of 14.75) after another strong market correction within a year, attracted strong flow from foreign investors.

Figure 5: Global market indices' performance in 2022



Source: Bloomberg, RongViet Securities; Data as of Dec 8th ,2022

Figure 6: Global market indices' YTD return



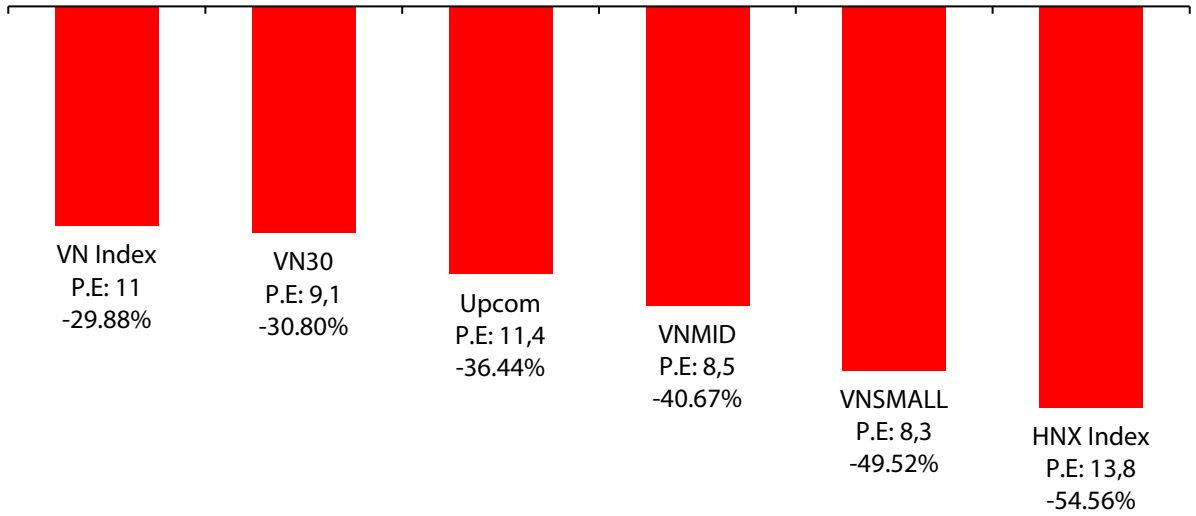
Source: Bloomberg, RongViet Securities

VN Index versus Global peers

- Compared to other global market indices, VN Index still leads in 1Q2022. However, under the impact of unfavorable macro factors, the global stock market mostly corrected strongly in the second and third quarters.
- VN Index plunged and became the top laggard. In the fourth quarter, inflation showed signs of cooling down, VN-Index still recovered more slowly than other markets.

2022 HIGHLIGHTS – INDICES PLUNGED, LIQUIDITY SHOWED THE NEW STAGE OF VIETNAM STOCK MARKET

Figure 7: Vietnam market indices' YTD return



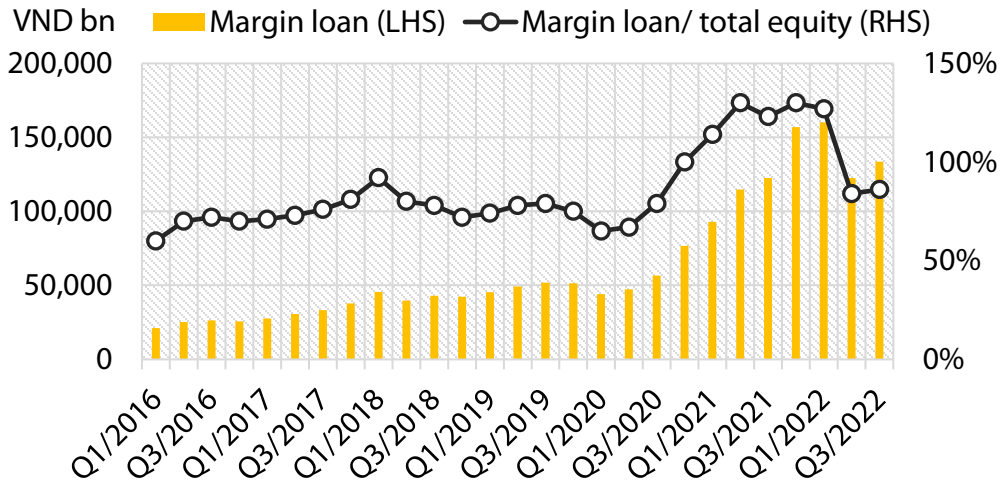
Source: Bloomberg, RongViet Securities,Updated as of Dec 8th, 2022

Figure 8: Vietnam market indices' daily trading value on average (VND bn)

	VN Index	VN30	VNMID	VNSMALL	Upcom	HNX Index
January-22	25,562	9,001	9,686	4,020	1,812	2,919
February-22	21,754	8,511	8,390	3,665	1,538	2,407
March-22	24,785	7,623	10,565	4,954	1,799	3,498
April-22	20,612	7,423	8,419	3,640	1,202	2,289
May-22	13,718	5,431	5,495	2,081	725	1,619
June-22	13,071	4,848	5,753	1,899	1,109	1,507
July-22	10,230	3,659	4,508	1,343	675	1,143
August-22	14,041	4,810	6,451	2,248	825	1,763
September-22	11,772	3,737	5,660	1,838	581	1,300
October-22	9,253	3,646	4,042	1,252	404	883
November-22	9,850	4,647	3,947	1,056	349	842
December-22	17,086	8,027	6,810	1,857	578	1,782

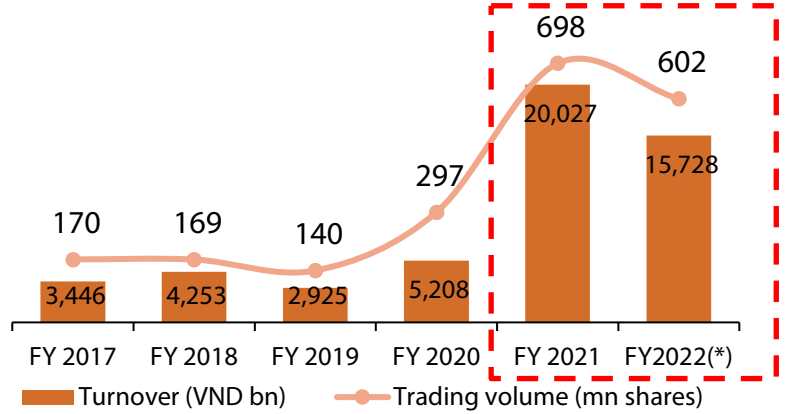
Source: Bloomberg, RongViet Securities, Updated as of Dec 8th, 2022

Figure 9: Margin loan position at brokerage firms



Source: Fiinpro, RongViet Securities,

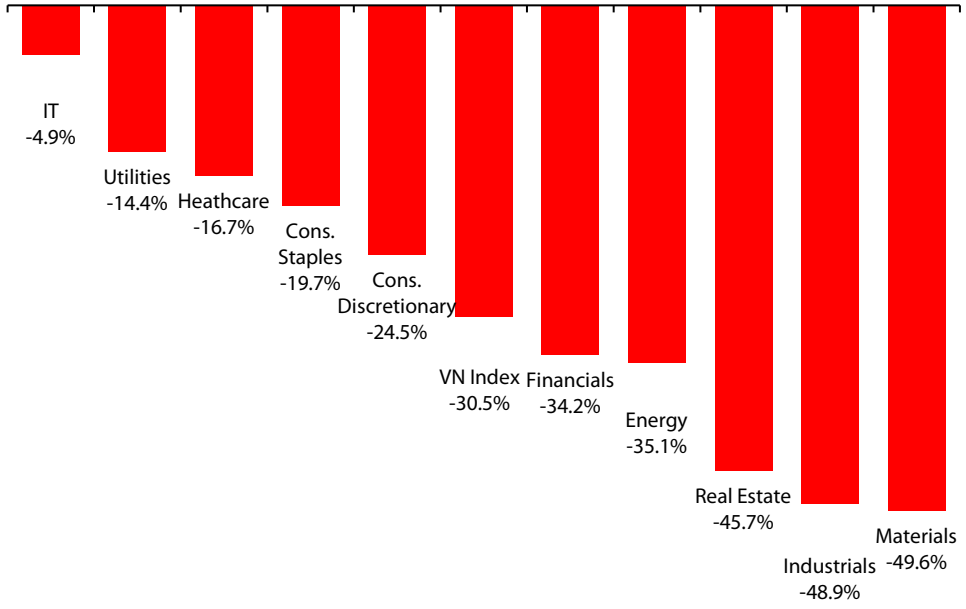
Figure 10 : Daily trading on HSX (VND bn)*



Source: Bloomberg, RongViet Securities, Updated as of 8 Dec 2022
**Daily average matching-order trading value & volume*

- Among sectors based on GICS, all sectors dived into loss territory. In which, 5/10 sectors underperformed VN Index including Financial (-34.2%), Energy (-35.1%), Real estate (-45.7%), Industrials (-48.9%) , and Materials (-49.6%). While Information Technology (-4.9%) was least impact sector.
- About the earnings, 7/10 sectors showed earning growth as showed in table 1, these sectors account for ~86% earnings of the last four quarters. Industrials posted a robust growth (203.1%), while earnings of energy sectors reduced by more than half (-59.2%).

Figure 11: YTD Sectors 's return



Source: Bloomberg, RongViet Securities, (*) Updated as of Dec 8th, 2022

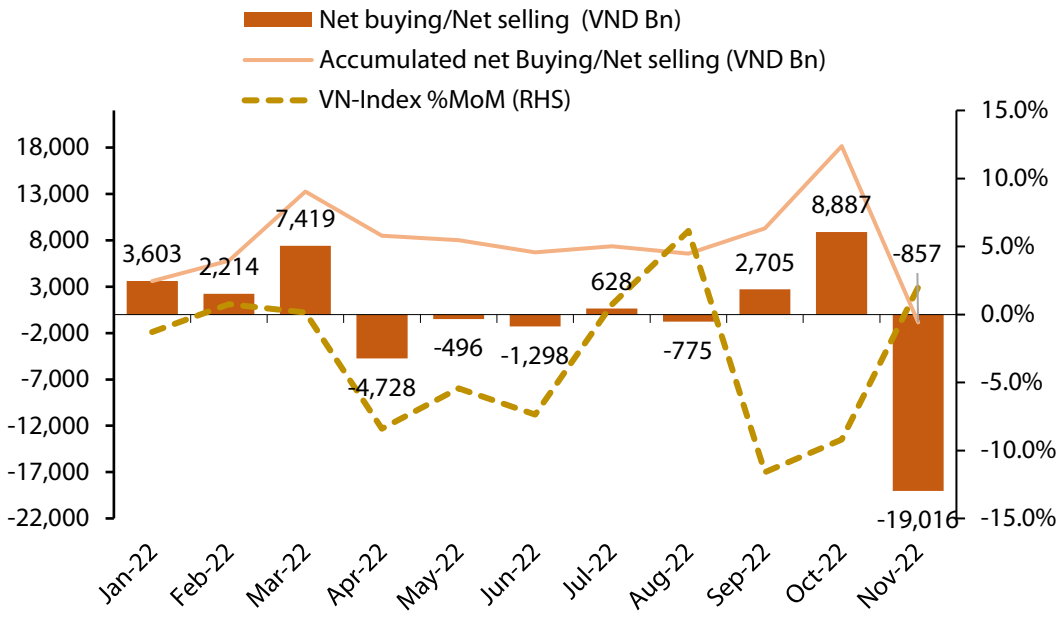
Table 1: Sectors' LTM earnings summary

Sectors	Earnings growth	%weight	Earnings yield on market cap
Industrials	203.1%	4.4%	3.8%
Consumer Discretionary	42.5%	3.5%	6.9%
Consumer Staples	40.8%	9.3%	5.8%
Information Technology	37.1%	1.9%	6.0%
Financials	29.2%	58.8%	12.3%
Utilities	26.2%	7.2%	7.2%
Health Care	16.9%	0.7%	7.1%
Materials	-18.2%	13.2%	12.6%
Real Estate	-20.7%	15.0%	5.2%
Energy	-59.2%	0.6%	2.9%

Source: Bloomberg, RongViet Securities, (*) Updated as of 3Q2022
LTM: last twelve months

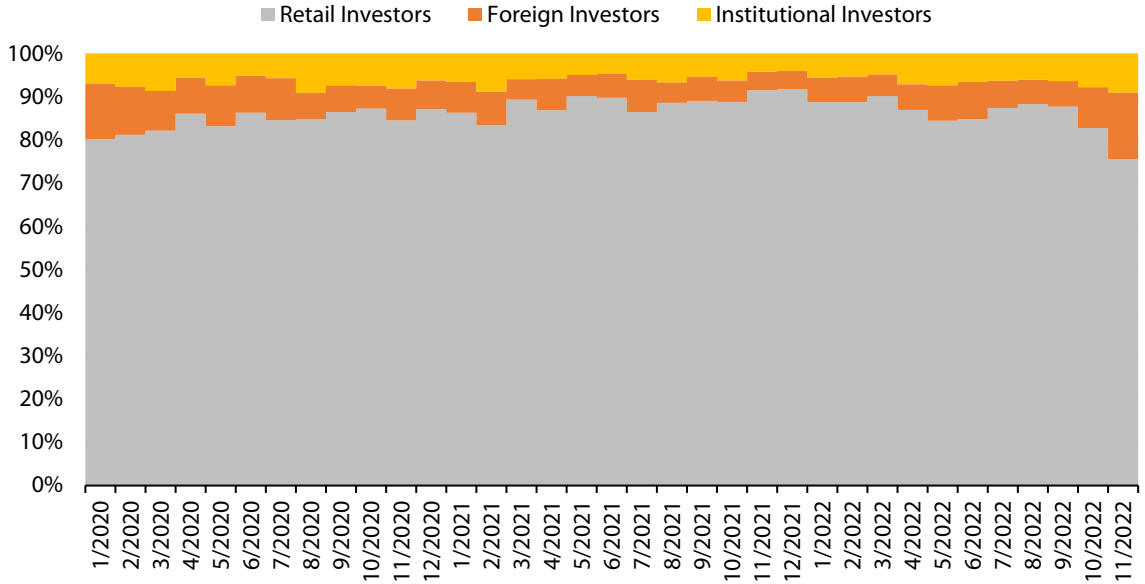
- Retail investors still dominated total trade on the market. However, they lost their share in the later months of year due to emerge of foreign capital.
- In 11M2022, retail investors stayed away from net buying position due to November net selling of VND 19,016 billion or ~ USD 792 mn. Which made accumulated net trading amount turn into negative territory zone of VND 857 billion or ~ USD 36 mn.

Figure 12: YTD Monthly net buying/selling by local retail investor on HSX



Source: Fiinpro, RongViet Securities, Updated as of Nov 30th,2022

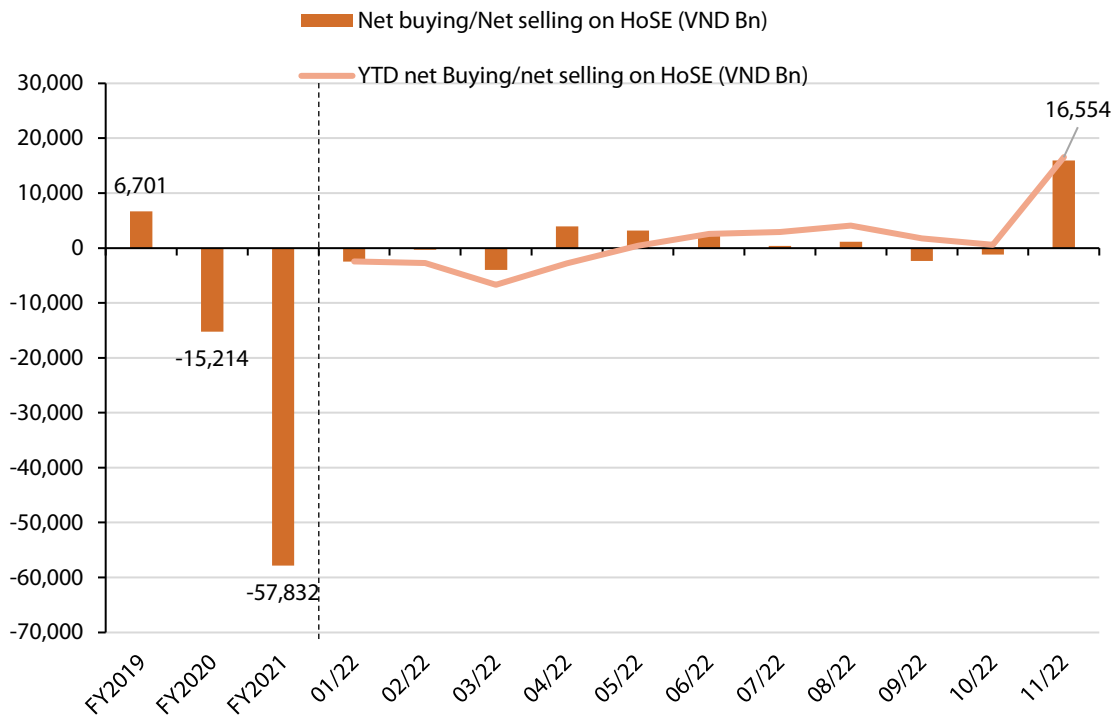
Figure 13: Trading value breakdown among investor (%)



Source: Fiinpro, RongViet Securities, Updated as of Nov 30th,2022

After 2 year of net selling aggressively, foreign investors start net buying in 2022. Especially, they bought at phenomenal amount in later months of the year. Banking still their favorite sector as it was bought the most.

Figure 14: net buying/selling by foreign investor on (2019-11M2022, VND bn)



Source: Fiinpro, RongViet Securities, Updated as of Nov 30th,2022

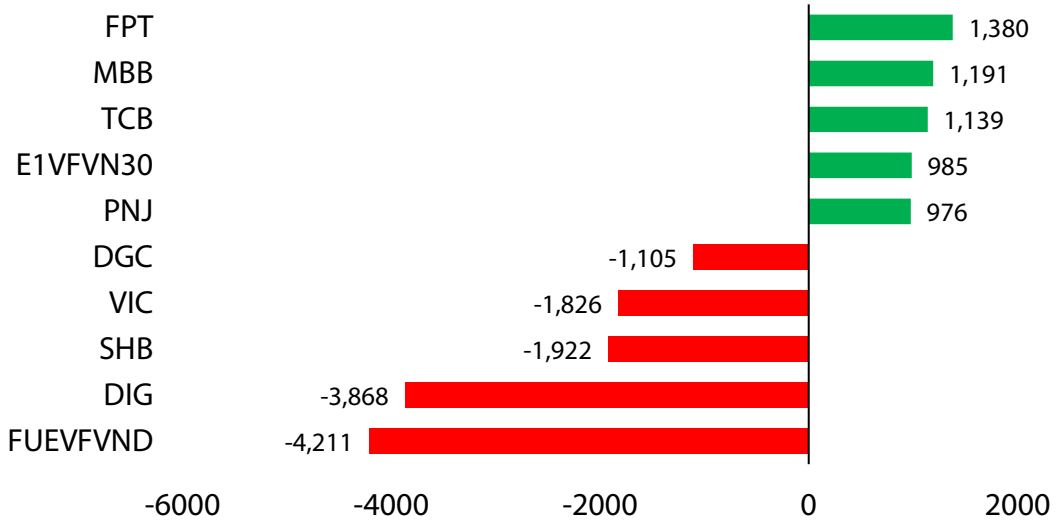
Table 2: Foreign trading by sectors on HSX

Sector	Net trading value (Billion VND)	Net trading volume (thousand shares)
Banks	7,242	337,234
Chemicals	5,775	85,576
Financial Services	3,971	255,541
Industrial Goods & Services	2,166	59,851
Food & Beverage	2,057	91,445
Retail	1,774	13,242
Real Estate	1,547	104,863
Oil & Gas	1,344	70,977
Utilities	1,073	45,286
Health Care	605	13,256
Technology	559	6,707
Personal & Household Goods	288	108
Travel & Leisure	286	268
Insurance	270	13,336
Construction & Materials	209	6,438
Telecommunications	0	0
Automobiles & Parts	-48	-9,008
Media	-68	-2,978
Basic Resources	-5,667	-112,552

Source: Fiinpro, RongViet Securities, Updated as of Nov 30th,2022

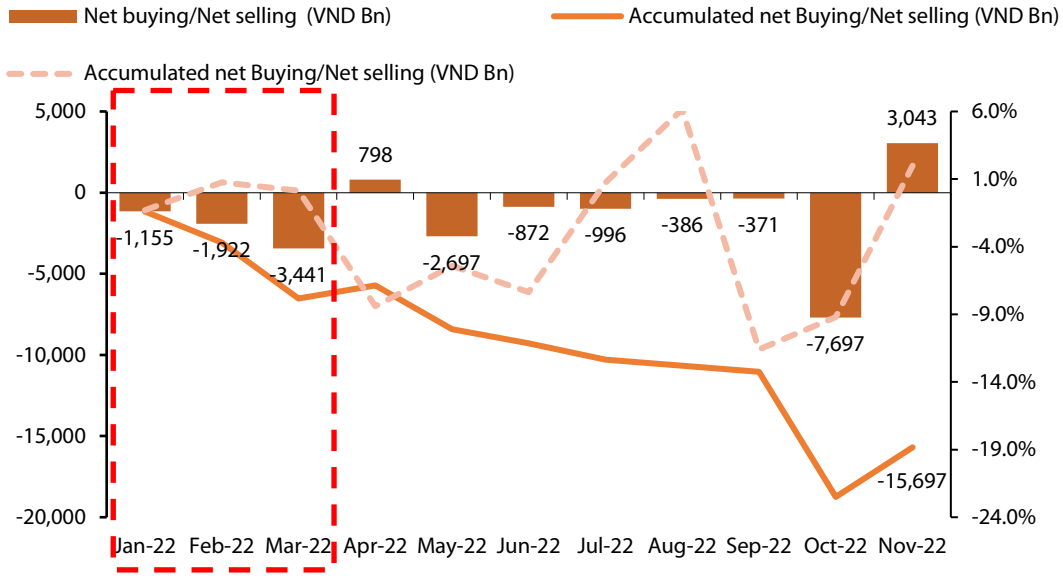
- Institutional investors sold aggressively to increase cash balance right before the market correct beginning in April.
- As stock market performed poorly, adding with series of misconducts in capital market, they also faced redemption pressure from their clients
- Starting to buy back strongly in November reduced net accumulated selling amount down to VND 15,697 billion or ~ USD 654 mn.

Figure 15: Top net sold/bought stocks by local institutions in 1H2022 (VND bn)



Source: Fiinpro, RongViet Securities, Updated as of Nov 30th,2022

Figure 16: Trading activity by local institutional investors on HSX (VND bn)



Source: Fiinpro, RongViet Securities, Updated as of Nov 30th,2022

SECTOR OUTLOOK

- 56 stocks (~more than 40% of HSX's total market cap) under our coverage show a sharp deceleration in revenue and profit growth. This trend is also consistent with our macro analysts expectations of GDP growth in 2023, which will slow down from the high base rate in 2022.
- The Chinese economy will gradually open up in 2023. The return of China will have a mixed effect on the business outlook of industries. In general, prices of materials that China plays a role in supplying are expected to cool down. On the contrary, prices of goods that are consumed a lot are likely to recover. Some of the industry groups that we think will see strong improvement in profit margins due to these adverse impacts include oil and gas, food, pharmaceuticals, electricity, steel, textiles, food and pharmaceuticals. In which, oil and gas, electricity and steel are expected to be the two industries with the most improved profit margins.
- In the opposite direction, business activities of industries benefiting from supply chain disruptions, caused by the Covid pandemic and the Russia-Ukraine war, are expected to decelerate sharply. These industry groups include fertilizers, chemicals, logistics, and fisheries.
- Enterprises using high financial leverage may face many challenges in the context that (1) the bond mobilization channel is temporarily congested, limiting the capital supply for the economy, resulting in (2) interest rates. Borrowing rates increase rapidly and are likely to remain at the award level for a while. Of these groups, residential real estate may be the most challenging business. Industry profits showed growth in 2023 mainly because we moved some recognition from 2022 to 2023.
- As the lifeblood of the economy, profit growth of the banking industry is difficult to keep as high as in recent years. Although many banks have been very cautious with provisioning for Covid-related restructuring loans, we still add to the industry's credit costs in 2023, to reflect the less-than-optimistic outlook for the sector. real estate and import-export activities. This makes the profit growth of the banking industry in 2023 will be lower than that of operating income.

NOTES: SECTOR RATING

- *Our qualitative rankings are based on six industry-wide criteria, namely: 2023 supply-demand outlook, regulatory environment, long-term growth potential, technology development, and competition with a rating of 1 to 5, and the criteria vary across industries.*
- *Positive sectors are we believe there will be growth opportunities and/or upbeat earnings prospects this year. Neutral sectors are driven by favorable factors but also by many external and/or internal risks; We believe these sectors will be more suitable for investors with a moderate to high risk tolerance and ability to monitor market movements. For negative sectors, opportunities are present only when urgent problems are solved.*

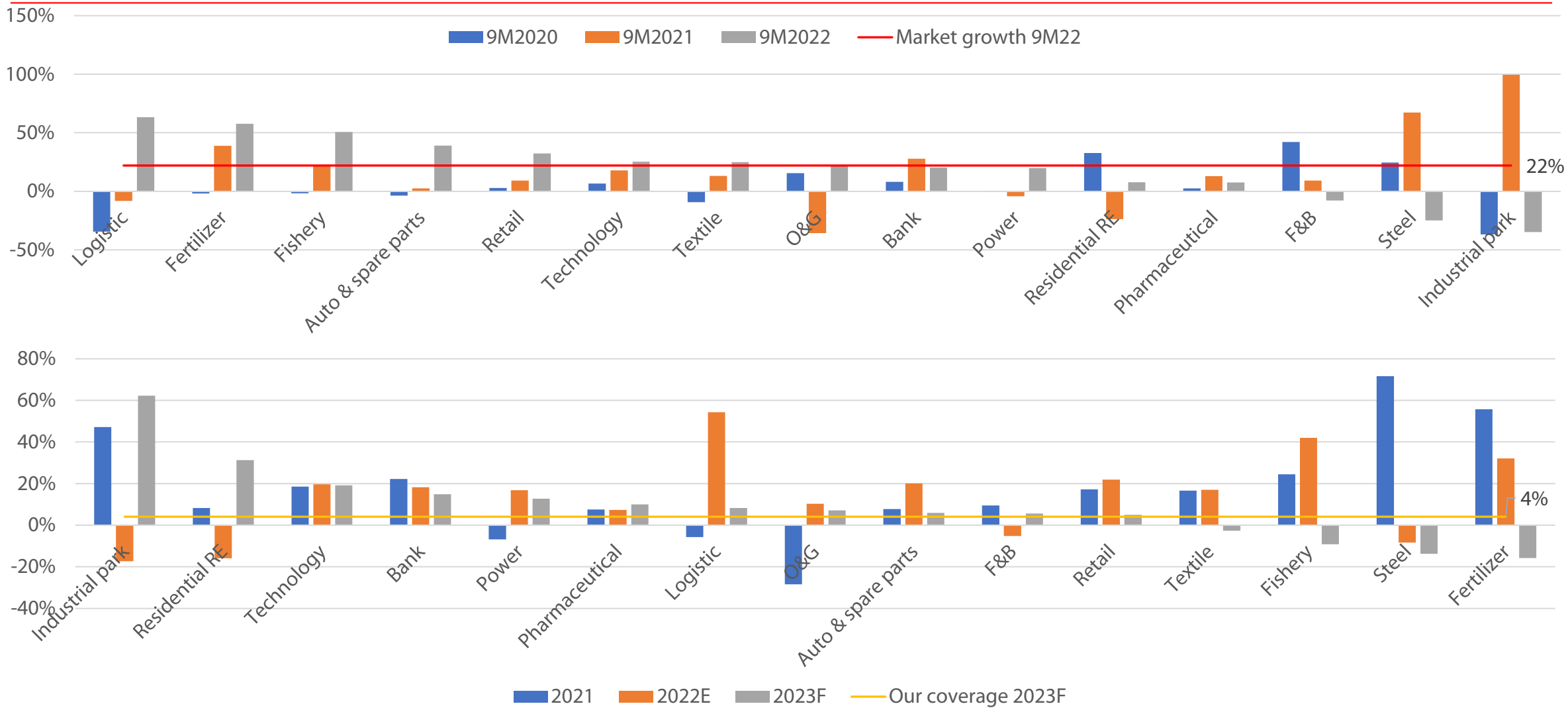
SECTOR RATING

Sector	Supply	Demand	Input cost	Selling price	Technology influence	Impact of changing laws and policies	Rating	Stocks picks and tracking
Food & Beverage	+	++	++	++	+	+	Positive	MSN, VNM, QNS
Pharma	+	++	+	++	+	++	Positive	IMP, DBD, TRA, TNH
Auto & spare parts	+	++	++	- -	++	++	Positive	DRC, HAX
IP	+	++	+	++	- -	- -	Positive	LHG, KBC, PHR, DPR, SIP
Oil & Gas	++	- -	+	+	++	++	Neutral	PVD, PVS, PVT
Technology	++	+	+	- -	+++	++	Neutral	FPT, CMG, ELC
Power	+	+	++	+	+	+	Neutral	REE, PC1, HND, PPC, GEG, NT2, QTP
Steel	+	- -	+	++	+	+	Neutral	HPG, NKG, HSG, SMC
Insurance	+	+	+	+	+	+	Neutral	
Fertilizer	- -	+	++	- -	++	+	Neutral	DPM, BFC
Banking	+	- -	- -	+	+	++	Neutral	VCB, ACB, MBB, CTG, BID, TCB, VPB, HDB, OCB
Fisheries	++	- -	+	- -	+	+	Neutral	VHC, FMC, ANV
Retail	+	- -	+	+	++	+	Neutral	MWG, FRT, PNJ
Logistic	+	- -	+	- -	+	+	Negative	VSC, HAH, GMD, ACV, SCS
Residential RE	- -	- -	- -	- -	+	++	Negative	KDH, NLG, HDG
Textiles	- -	- -	+	- -	+	+	Negative	STK, MSH, TNG, TCM

Note: The "+" symbol represents a Neutral rating | "++": Positive | "+++": Good | "- -": Negative | "- - -": Bad

SALE OF SECTORS WHICH BENEFITED FROM SUPPLY CHAIN DISRUPTION SHOWS SIGNS OF DECREASE

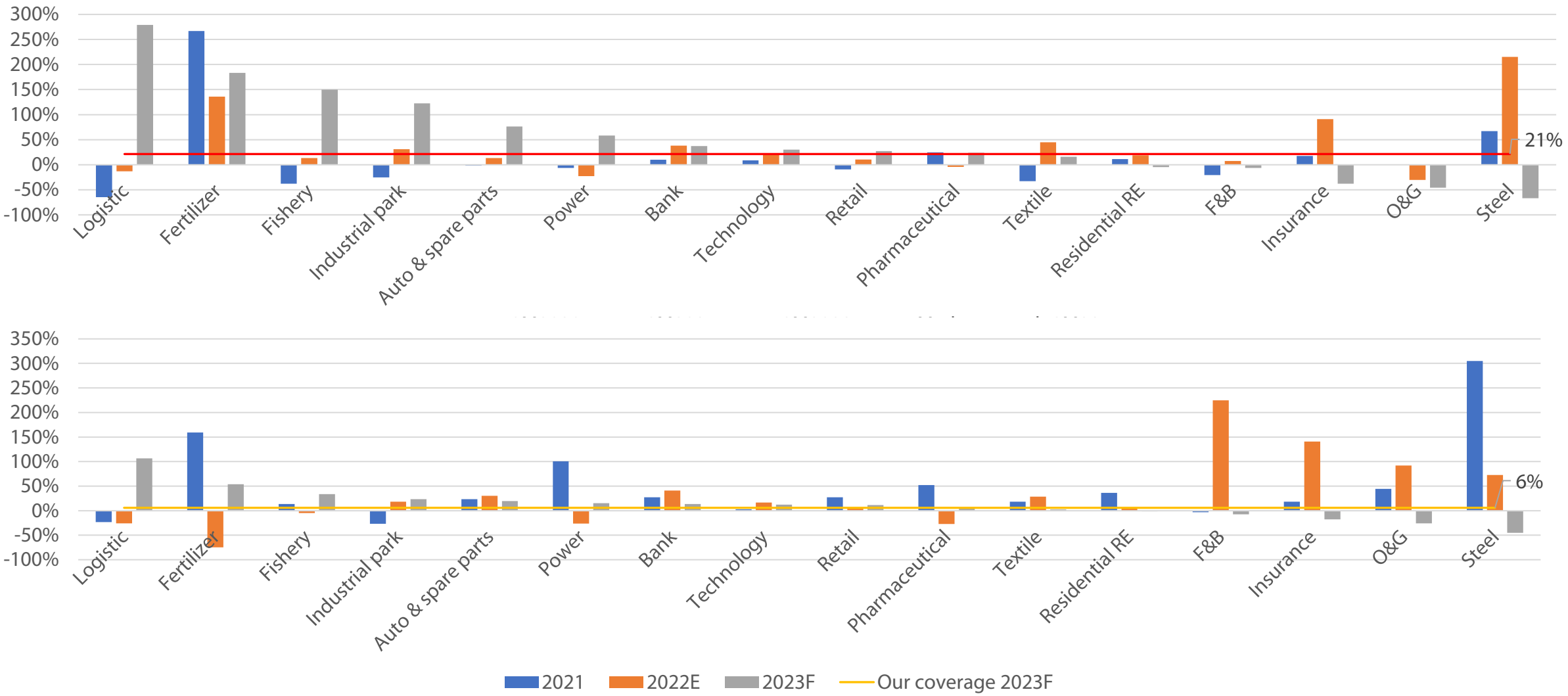
Sales growth YoY



Source: Rong Viet Securities

NET PROFIT MARGIN IMPROVING TO BOOST NPATMI FASTER THAN SALES'

NPAT growth YoY



Source: Rong Viet Securities

OUR COVERAGE LIST

Ticker	Market cap (USD mn)	3M avg. daily turnover (USD thousand)	Target price (VND)	Price @28/12(VND)	Total Return	2021 (VND bn)			2022E (VND bn)			2023F ((VND bn)			2021 % change		2022F % change		2023F % change	
						Rev.	NPAT	Basic EPS (VND)	Rev.	NPAT	Basic EPS (VND)	Rev.	NPAT	Basic EPS (VND)	Rev.	NPAT	Rev.	NPAT	Rev.	NPAT
LHG	46.7	236.8	33,000	21,400	63%	782	295	5,006	733	200	3,752	851	341	6,417	21.5	48.5	-6.2	-32.2	16.1	70.5
PNJ	1,180.1	2,459.9	128,000	82,500	58%	19,613	1,029	4,197	31,982	1,713	7,061	34,059	1,848	7,147	12.0	-3.4	63.1	66.5	6.5	7.9
DRC	107.0	429.4	31,000	20,650	56%	4,380	291	2,449	5,179	314	2,380	5,457	354	2,685	20.1	13.4	18.3	7.9	5.4	12.7
MWG	2,744.2	8,444.3	61,900	43,000	47%	122,958	4,899	6,870	139,206	4,264	2,906	140,144	5,222	3,489	13.3	25.0	13.2	-13.0	0.7	22.5
FMC	93.0	99.5	45,000	32,600	44%	5,199	267	4,080	6,089	327	4,998	6,331	357	5,465	17.8	18.1	17.1	22.6	4.0	9.2
PHR	239.6	1,237.9	54,000	40,550	43%	1,950	478	3,375	1,694	1,053	7,768	1,776	796	5,873	19.0	-49.8	-13.1	120.3	4.8	-24.4
FPT	3,669.5	5,214.3	107,300	76,700	43%	35,657	4,333	4,774	42,441	5,710	5,185	50,886	6,778	6,155	19.5	22.5	19.0	31.8	19.9	18.7
KDH	845.6	4,863.6	37,300	27,050	38%	3,738	1,202	1,870	2,779	1,443	1,954	3,291	1,357	1,905	-17.4	4.3	-25.7	20.0	18.4	-6.0
HND	284.2	11.6	16,900	13,033	37%	9,026	443	886	10,617	744	1,403	11,014	972	1,834	-16.9	-69.5	17.6	67.9	3.7	30.6
HAX	39.0	557.9	20,900	15,700	36%	5,551	160	3,233	6,746	272	4,670	7,172	236	4,063	-0.3	28.2	21.5	69.9	6.3	-13.2
HDB	1,777.0	2,595.7	21,800	16,200	35%	16,758	6,054	3,016	21,862	8,136	3,930	25,737	8,915	4,313	21.6	42.5	30.5	34.4	17.7	9.6
BFC	42.4	121.8	20,800	17,000	34%	7,708	220	3,843	9,277	204	3,216	8,960	186	2,550	42.2	64.5	20.4	-7.1	-3.4	-8.8
ACB	3,240.5	4,386.1	29,400	22,000	34%	23,564	9,603	3,554	27,677	14,078	4,124	30,740	14,714	4,312	29.7	25.0	17.5	46.6	11.1	4.5
TNG	62.8	1,400.6	17,200	13,700	31%	5,444	233	2,384	6,756	296	2,992	6,338	274	2,547	0.2	0.5	24.1	27.0	-6.2	-7.4
DPR	100.1	303.3	65,800	53,400	29%	1,217	431	5,089	1,356	484	11,257	1,215	407	9,472	6.7	152.0	11.4	12.3	-10.4	-15.9
MSH	107.1	181.0	40,000	32,750	28%	4,748	442	8,846	5,313	355	4,590	5,146	361	4,665	24.5	90.8	11.9	-19.8	-3.1	1.7
PC1	240.6	1,703.7	26,000	20,400	27%	9,813	691	2,843	8,400	408	1,357	10,104	664	2,210	47.4	36.8	-14.4	-41.0	20.3	62.8
STK	92.8	26.0	32,500	26,000	27%	2,042	278	4,069	2,187	245	2,997	2,325	282	3,448	15.7	94.2	7.1	-12.0	6.3	15.1
VNM	7,018.2	7,698.0	93,800	77,000	27%	60,919	10,532	4,561	62,512	9,918	4,271	66,622	11,427	4,921	2.2	-5.1	2.6	-5.8	6.6	15.2
TCB	4,011.2	12,984.4	33,000	26,150	26%	37,076	18,038	5,138	43,316	21,534	6,091	47,394	20,889	5,907	37.1	46.4	16.8	19.4	9.4	-3.0
MBB	3,450.4	11,675.1	21,900	17,450	26%	36,934	12,697	3,361	43,983	18,308	4,320	49,456	19,898	4,696	35.0	53.7	19.1	44.2	12.4	8.7
HPG	4,615.3	28,147.4	21,300	18,200	23%	149,680	34,478	7,708	139,320	9,667	1,786	128,476	14,846	2,743	66.1	156.6	-6.9	-72.0	-7.8	53.6
QNS	559.5	401.7	40,800	35,945	22%	7,335	1,254	3,479	8,064	1,267	4,119	8,546	1,393	4,530	13.0	17.9	9.9	1.0	6.0	9.9
HSG	310.4	7,045.9	14,400	11,900	21%	56,561	4,379	8,874	49,711	251	420	34,518	427	663	88.2	183.7	-12.1	-94.3	-30.6	70.1
ELC	25.5	101.8	11,400	9,950	21%	659	48	690	799	41	773	882	43	796	-17.8	0.5	21.2	-14.1	10.5	2.8
PPC	177.6	61.5	14,300	12,700	20%	3,885	287	513	5,147	362	858	7,188	543	1,289	-51.0	-71.5	32.5	26.0	39.7	50.0
GMD	598.7	1,754.5	53,300	45,550	20%	3,206	612	2,007	3,747	1,049	3,480	4,097	1,162	3,494	23.1	65.4	16.9	71.4	9.3	10.8
PVD	443.6	6,191.2	21,500	18,300	17%	3,988	19	46	5,319	-168	-302	5,623	320	570	-23.7	-89.6	33.4N/A		5.7N/A	
FRT	362.7	4,556.3	80,300	70,200	16%	22,495	444	3,766	29,167	391	3,298	35,722	422	3,562	53.4	1,695.1	29.7	-11.9	22.5	7.9
HDG	330.7	3,070.6	35,900	31,000	16%	3,842	1,090	5,551	3,515	1,416	4,759	3,565	1,422	4,637	-23.2	11.3	-8.5	29.9	1.4	0.4
VPB	5,313.8	16,064.0	20,800	18,150	15%	44,301	11,721	2,621	57,835	19,387	2,898	65,764	20,798	2,986	13.5	13.4	30.5	65.4	13.7	7.3
DBD	128.4	249.5	45,000	39,350	14%	1,559	184	3,190	1,476	215	2,870	1,668	244	2,711	24.0	19.8	-5.3	17.0	13.0	13.3
ACV	8,066.5	595.0	96,600	84,965	14%	4,758	830	220	13,146	7,312	3,358	15,909	6,618	3,040	-38.4	-90.8	176.3	780.9	21.0	-9.5
VCB	16,511.2	4,887.3	90,200	80,000	13%	56,711	21,908	5,907	64,898	25,314	5,317	70,528	26,994	5,672	15.7	18.8	14.4	15.5	8.7	6.6
NT2	360.9	1,217.1	29,400	28,750	11%	6,150	534	1,778	8,916	762	2,581	8,818	716	2,423	1.1	-14.6	45.0	42.8	-1.1	-6.0
DPM	738.1	4,595.6	40,700	43,250	10%	12,786	3,117	7,963	17,844	5,555	14,132	13,886	2,974	7,566	64.7	349.6	39.6	78.2	-22.2	-46.5
PVT	304.9	1,548.5	23,300	21,600	10%	7,460	660	2,056	9,175	854	2,480	9,073	794	2,305	-0.2	-0.5	23.0	29.4	-1.1	-7.0
KBC	764.9	8,156.9	25,000	22,850	9%	4,309	784	1,647	2,985	3,033	3,952	5,289	1,869	2,435	100.3	198.7	-30.7	287.0	77.2	-38.4
MSN	5,774.4	7,902.3	101,400	93,000	9%	88,629	8,563	7,253	78,199	3,641	2,557	81,902	2,966	2,084	14.8	593.9	-11.8	-57.5	4.7	-18.5
GEG	207.8	475.4	15,700	14,800	9%	1,381	283	931	2,119	392	1,166	2,174	381	1,042	-7.5	9.4	53.4	38.6	2.6	-2.8
IMP	174.2	16.8	63,000	59,900	8%	1,267	189	2,835	1,546	222	2,934	1,675	240	3,162	-7.5	-9.8	22.1	17.4	8.3	8.1
REE	1,112.9	1,723.1	77,000	71,800	7%	5,810	1,855	5,982	8,508	2,764	7,772	8,248	2,655	7,465	3.0	13.9	46.4	49.0	-3.1	-3.9
SCS	296.8	116.8	76,500	72,500	6%	839	565	9,746	926	634	6,023	1,035	720	6,914	21.1	21.6	10.4	12.4	11.8	13.5
HAH	99.6	3,372.5	32,500	32,450	5%	1,955	446	9,133	2,516	834	11,030	2,150	537	7,104	64.1	222.1	28.7	87.2	-14.5	-35.6
VHC	558.2	1,736.7	70,500	69,800	4%	9,054	1,101	6,005	14,146	2,293	12,253	12,050	1,586	8,473	28.7	56.2	56.2	108.2	-14.8	-30.8
CTG	5,690.2	7,253.9	27,300	27,150	1%	53,149	14,092	2,096	64,619	15,928	2,319	67,380	16,856	2,454	17.4	3.0	21.6	13.0	4.3	5.8
PVS	460.7	6,999.3	21,500	22,100	0%	14,221	602	1,260	14,755	628	1,182	15,875	631	1,188	-29.5	-3.5	3.8	4.3	7.6	0.5
PGI	125.7	17.3	24,800	26,000	0%	3,037	352	3,903	3,127	260	2,886	3,557	300	3,619	1.3	101.2	3.0	-26.1	13.8	15.4
OCB	949.9	1,306.1	15,800	16,200	-2%	8,919	4,405	3,106	8,040	3,012	2,090	9,170	3,333	2,211	11.3	24.6	-9.9	-31.6	14.1	10.7
CMG	249.6	152.7	36,500	38,000	-4%	6,290	240	2,220	7,195	274	1,829	8,324	373	2,487	21.4	36.9	14.4	14.3	15.7	36.0
NLG	503.3	3,350.8	27,000	30,050	-7%	5,206	1,071	2,796	4,403	346	611	7,183	1,502	2,711	134.8	28.3	-15.4	-67.7	63.1	334.1
BID	9,243.4	2,740.4	37,400	41,900	-11%	62,395	10,573	1,717	70,220	19,173	3,032	75,075	20,107	2,979	24.7	48.1	12.5	81.3	6.9	4.9
TCM	181.5	1,204.0	39,800	50,800	-21%	3,535	143	1,700	4,219	265	2,911	4,029	262	2,868	1.9	-48.2	19.3	85.9	-4.5	-1.1

FOOD & BEVERAGE

STAND FIRM AMID RISING INTEREST RATES

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FOOD & BEVERAGE – STAND FIRM AMID RISING INTEREST RATES

Rating

Negative	Neutral	Positive

Overview

Given the non-cyclical nature of the food & beverage (F&B) products that people are unable to cut out of their budgets regardless of their financial situation, the food & beverage industry is expected to see an upward trend in sales despite of 2023 headwinds. We expect selling volumes to be flat but the higher selling prices will take full effect in 2023. Moreover, we believe that there will be discrepancies between small- and large-scale companies. The F&B giants with strong brand market share and large-scale advantage will be able to keep the level of volumes going while enjoying cost optimization thanks to the advantage of economies of scale. The slowing down of raw material prices since Q3 2022, profit margins of these companies are expected to expand in 2023.

Highlights

Stable demand will drive Food & Beverage companies to stand firm amid rising interest rates

- Vietnamese are expected to keep spending on food & beverage products even under the pressure of rising interest rates which will lift the living costs and limit the income. Vietnam retail sales of goods during the first eleven months of 2022 not only were stable but are also backed to pre-pandemic level. In the same period, Vietnam index of industrial production (IIP) of Foods and Beverages remained positive.
- According to Kantar Worldpanel, the average selling price is the largest contributor to the total value growth in 9M2022. Meanwhile, rural areas showed a higher consumption growth than urban ones. Therefore, we believe that the F&B giants with strong brand market share and large-scale advantage such as VNM or MSN will be able to maintain current sales volumes owing to their wide diversified product portfolio as well as large distribution networks across Vietnam.

Below-year ago level of input prices and operating cost optimization will facilitate longer-term profit margin expansion

- Global agriculture and livestock commodity prices have decreased since Jun-2022 after strongly increased in the last two years. The ease of global supply chain disruption after the pandemic is the main supporter. We expect that prices will gradually decline in 2023, then enhancing long-term profit margin of F&B producers.
- Vietnam F&B giants have coped with the high inflation by implementing operating cost optimization strategies since the beginning of 2022. In fact, profit margin of the F&B industry showed a recovery in 9M2022 compared to 2021. As a result, we believe that the F&B giants with the advantage of economies of scale and strong balance sheet will succeed in cost optimization, facilitating margin expansion.

Recovery of trailing P/E multiple of both global and domestic F&B

Projected P/E of F&B stocks has been revised up as 1) higher profit margin; and 2) longer-term sustainable growth which can compensate for market uncertainties.

STABLE DEMAND DESPITE OF RISING INTEREST RATES

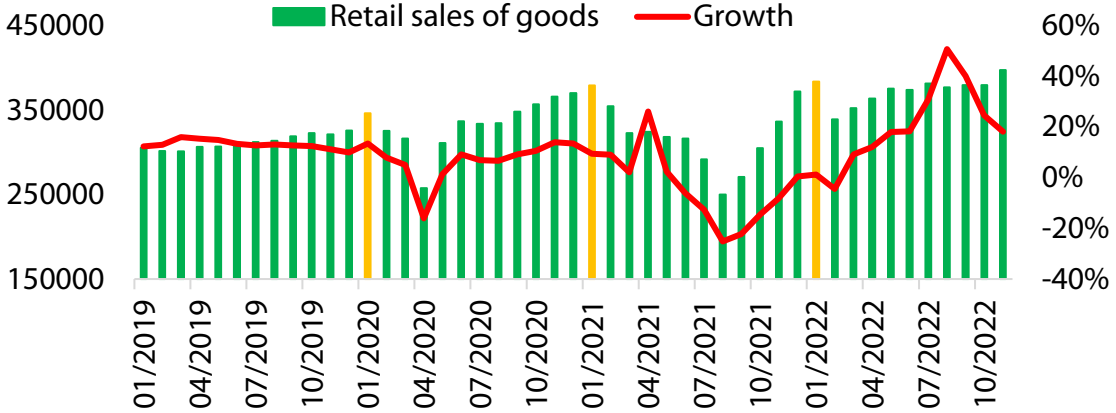
Vietnamese are expected to keep spending on food & beverage products even under the pressure of rising interest rates.

- Given the non-cyclical nature of food & beverage (F&B) products that people are unable to cut off their budgets regardless of their financial situation, Vietnam food & beverage industry is expected to draw an upward trend in sales despite of 2023 headwinds, including high interest rate, rising unemployment rate or weak purchasing power. We believe that the total sales volumes will be flat in 2023.
- Vietnam's retail sales in Q3/2022 reached VND1.137 tn (or USD 45 bn) which is not only 40% higher than that in Q3/2021 but also backed to the pre-pandemic level. Moreover, this indicator slightly went up in Nov-2022 at VND397 tn (or USD 16 bn, +4.7% MoM, +18.1% YoY). The high shopping season of F&B products falls in Q4 and Q1, due to Christmas and Tet holidays. As a result, we believe that F&B consumption will continue to be go up.
- In addition, Vietnam IIP of Foods and Beverages, though in a downtrend between Aug and Nov-2022, remained positive during 11M2022.

The resumption of overseas travelers foot traffic will ramp up sales of F&B producers.

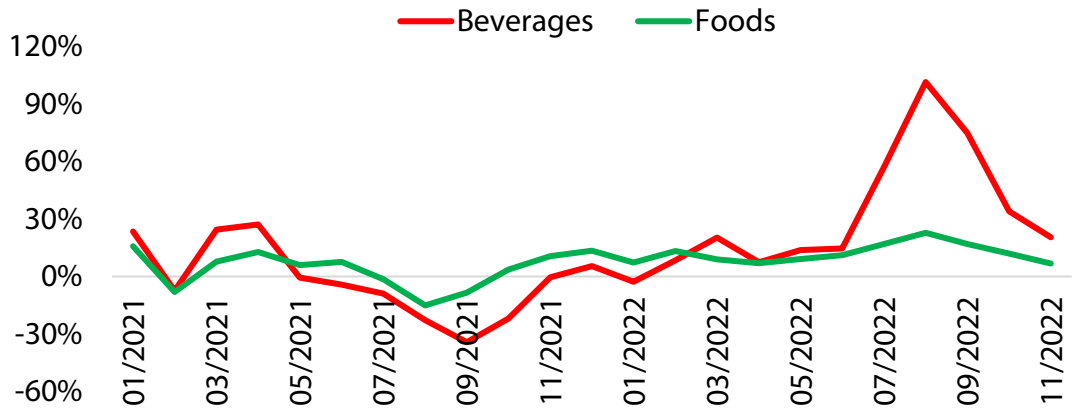
- Another upside factor for the F&B industry is earnings from overseas travelers. In 2022, global tourism activity has still not completely recovered yet due to Covid-19 pandemic (lockdown policy in China is a case) and Ukraine-Russia tension. We expect that these problems will ease in 2H2023, encouraging people to travel. Therefore, we believe the resumption of overseas travelers, especially Chinese, will ramp up sales.

Figure 1: Vietnam retail sales (VND bn, LHS) and growth (% YoY, RHS)



Source: GSO, RongViet Securities.

Figure 2: Vietnam IIP of Foods and Beverages (% YoY)

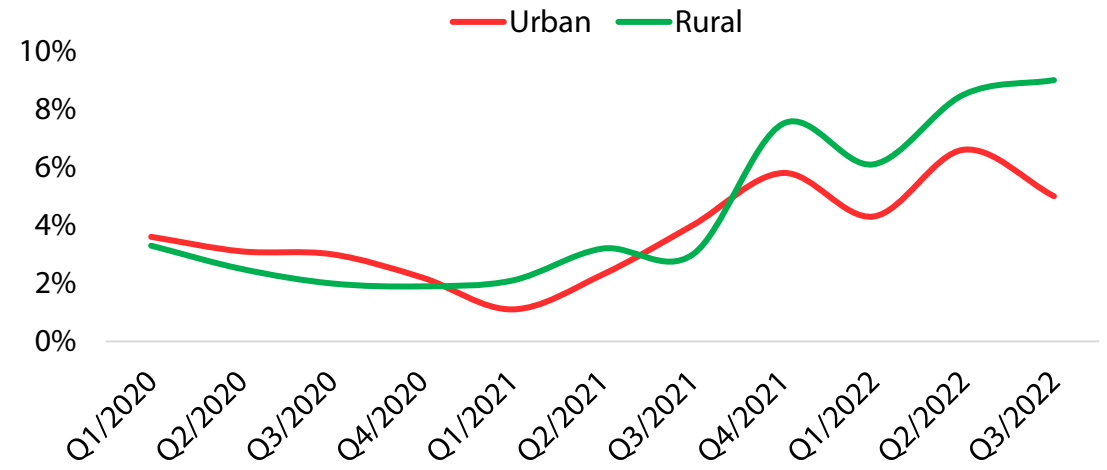


Source: GSO, RongViet Securities.

Selling prices is the most important factor affecting purchasing decisions in 2023

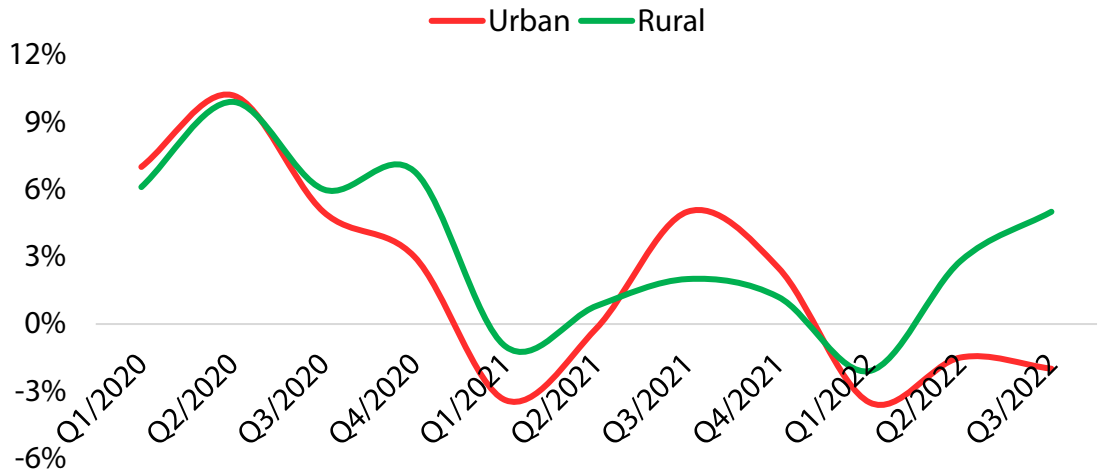
- According to Kantar Worldpanel, the average selling prices of FMCG products started to increase since Q1 2022, of which, it showed the strongest growth in Q2 & Q3 2022. We expect that the higher selling prices will last until 1H2023 because prices were quarter-by-quarter in 2022 (Figure 3). Because the demand is expected to be stable, selling prices will be growth driver for the industry in 2023.
- We suppose that rising selling prices will limit spending on premium products in the background of tightening spending. Vietnamese consumers will keep spending on essential F&B products, but some of them will prefer mass brands such as Vinamilk or Kinh Do. As a result, companies who own a wide diversified product portfolio, from normal to premium segment, will have a better performance.
- Besides, an unusual behavior is appearing that is although rising prices of rural areas is higher than that of urban areas, it drew a higher consumption volume growth (Figure 4). Therefore, we believe that rural people are less sensitive to price rise than urban citizens. These might be a result of tourism activities or the trend of moving to the countryside after Covid-19. Consequently, companies who own a large distribution network will gain more.

Figure 3: Growth in average selling prices of FMCG (% YoY)



Source: Kantar Worldpanel, RongViet Securities.

Figure 4: Growth in volume of FMCG (% YoY)



Source: Kantar Worldpanel, RongViet Securities.

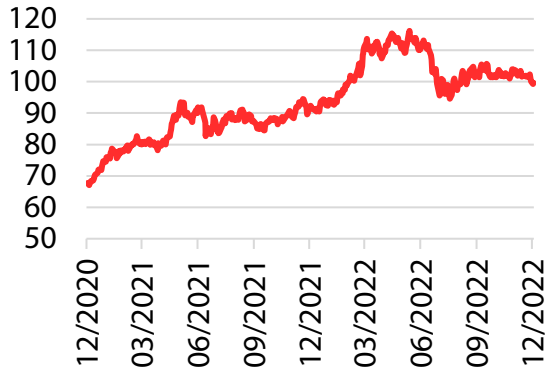
Prices of raw material are on a downward trend, encouraging gross margin expansion in 2023

- Global agriculture and livestock commodity prices, raw milk powder or wheat, have decreased since Jun-2022. The main supporters are: 1) easing of global supply chain disruptions after the pandemic; and 2) lower demand from China due to the lockdown policy. In fact, on the 5th of Dec 2022, prices of global agriculture and livestock commodity index is USD 99.3 (+7.6% YoY; -4.1% MoM). On Nov 2022, prices of whole milk powder is USD/ton 3,397 (-14.8% YoY; -0.7% MoM). We expect this situation will continue in 2023.
- F&B companies, especially beverages producers, experienced decreasing margins during 2H2021 and 1H2022 due to rising input costs. Therefore, expected decline in input costs in 2023 will help gross margin to recover. However, in a conservative view that the demand of China will increase after the lockdown eases, we forecast that the prices of raw materials will gradually decrease instead of significantly drop.

Cost optimization strategies facilitates margin expansion in the long-term

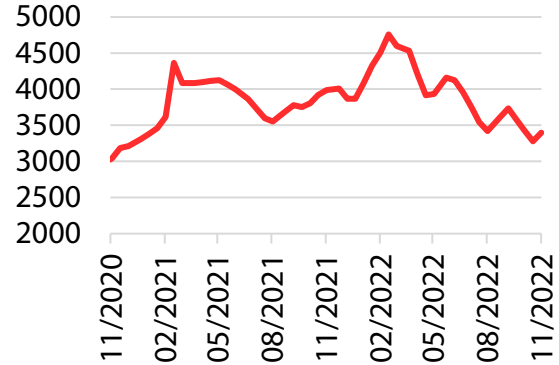
- Vietnam F&B giants likes SAB, VNM or MSN have coped with high inflation by implementing operating cost optimization strategies since the beginning of 2022. In fact, profit margins of the F&B industry showed a recovery in 9M2022 compared to 2021. As a result, we believe that the F&B giants with the advantage of economies of scale will succeed in cost optimization, facilitating margin expansion.

Figure 5: The prices of global agriculture and livestock commodity (USD)



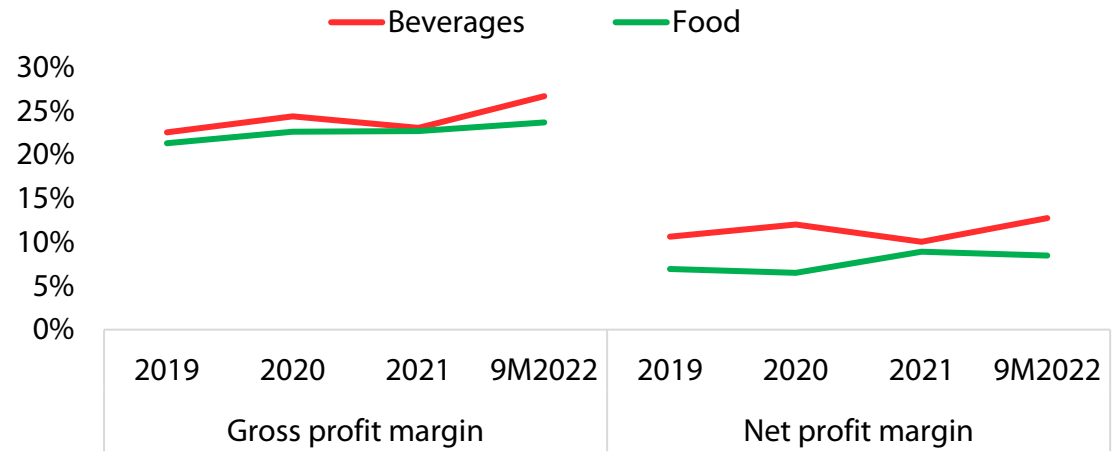
Source: Bloomberg, RongViet Securities.

Figure 6: The prices of whole milk powder (USD/tonne)



Source: Bloomberg, RongViet Securities.

Figure 7: Gross profit margin and net profit margin of Food and Beverages industry (%)



Source: Fiinpro, RongViet Securities.

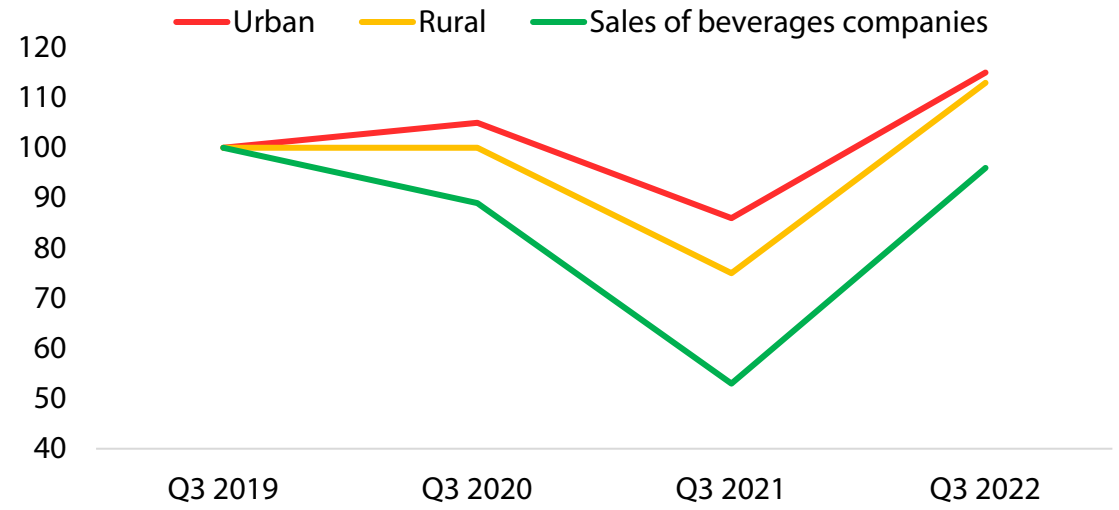
Beverages saw the stronger growth in consumption volumes

- Beverages is showing a strong growth in retail volume terms in 2022, benefiting not only from the low-base during the pandemic but also growing healthy lifestyle awareness after the pandemic. The term beverages includes dairy, non-dairy, non-alcohol and alcohol drinking products. Mentioned by Kantar Worldpanel, spending on beverages has exceeded the pre-pandemic level in Q3 2022, of which, healthy drinks took over 80% of total beverage consumption. We predict that these are the signals for a rosy outlook in 2023.

Beverages companies are expected to enjoy lower interest expenses in 2023 thanks to decreasing debts

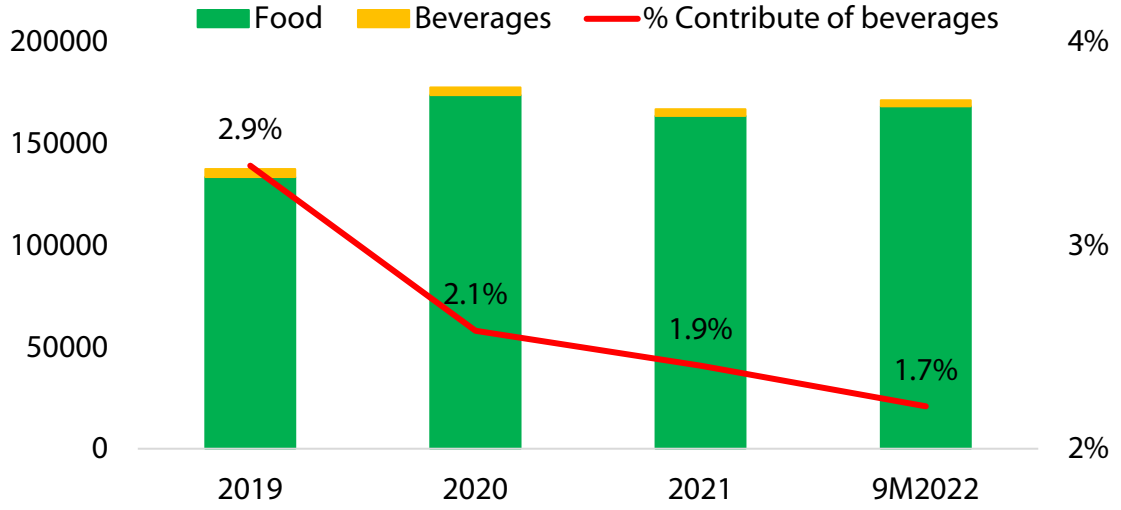
- We calculate that beverages companies will enjoy lower interest expenses in 2023, due to 1) decreasing debts (Figure 9); and 2) preferential loan interest (2-3% on average). In the same context of decreasing raw material prices and logistic costs, lower interest expenses will lead beverages producers to have a higher net profit margin than food producers.

Figure 8: Change in spending on beverages in urban & rural and sales of beverage companies (x, compared to Q3 2019)



Source: Kantar Worldpanel, Fiinpro, RongViet Securities.

Figure 9: F&B debt breakdown (VND bn, LHS) and contribution of beverages in total debt (%, RHS)



Source: Fiinpro, RongViet Securities.

P/E RATIO OF F&B INDUSTRY HAS BEEN REVISED UP

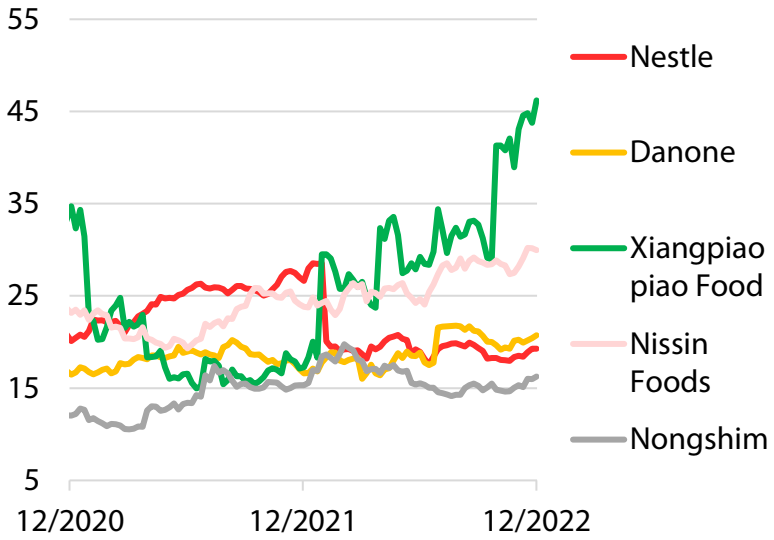
P/E ratio of Food and Beverages stocks has been revised up on the expectation of the bottom-lines to be in a recovery mode

- From 2023, the profit of F&B companies are expected to recover after a two-year slump due to rising input costs. In fact, trailing P/E of global FMCG giants has recovered since Oct-2022 (Figure 10). In addition, P/E multiple of Vietnam F&B industry also bottomed out in Nov-2022 (Figure 11). We suppose that global investors are willing to "pay" higher expected P/E level for F&B stocks because of 1) higher profit margins; and 2) longer-term sustainable growth which can compensate for market uncertainties in 2023.

Vietnam beverage stocks is expected to show a higher P/E multiple than other sub-sectors

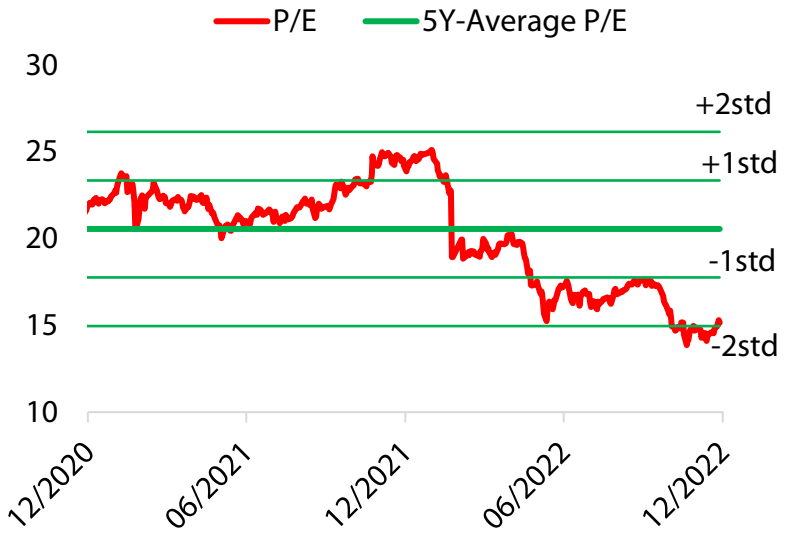
- We believe that the P/E ratio of beverage stocks will outperform food stocks, supported by the visibility of earnings growth, consistency and quality of growth without balance sheet stress.

Figure 10: Trailing P/E of some global FMCG giants (x)



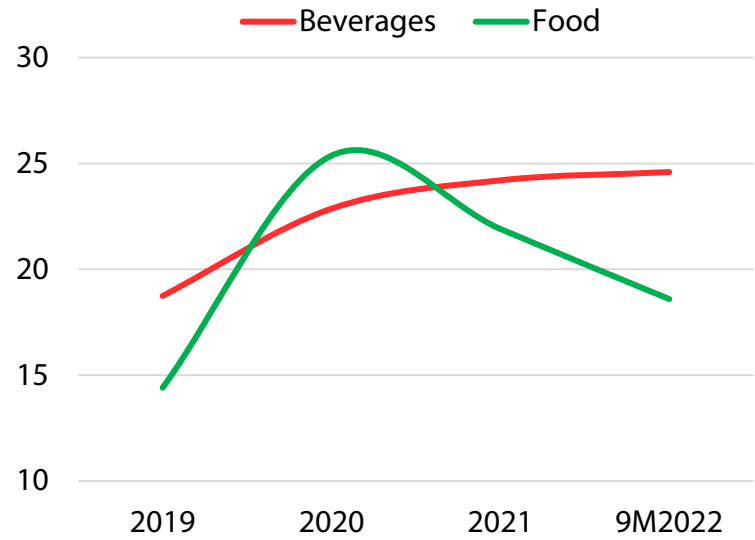
Source: Bloomberg, RongViet Securities.

Figure 11: P/E band chart of Vietnam F&B industry (x)



Source: Fiinpro, RongViet Securities.

Figure 12: P/E of Food and Beverage sub-sectors (x)



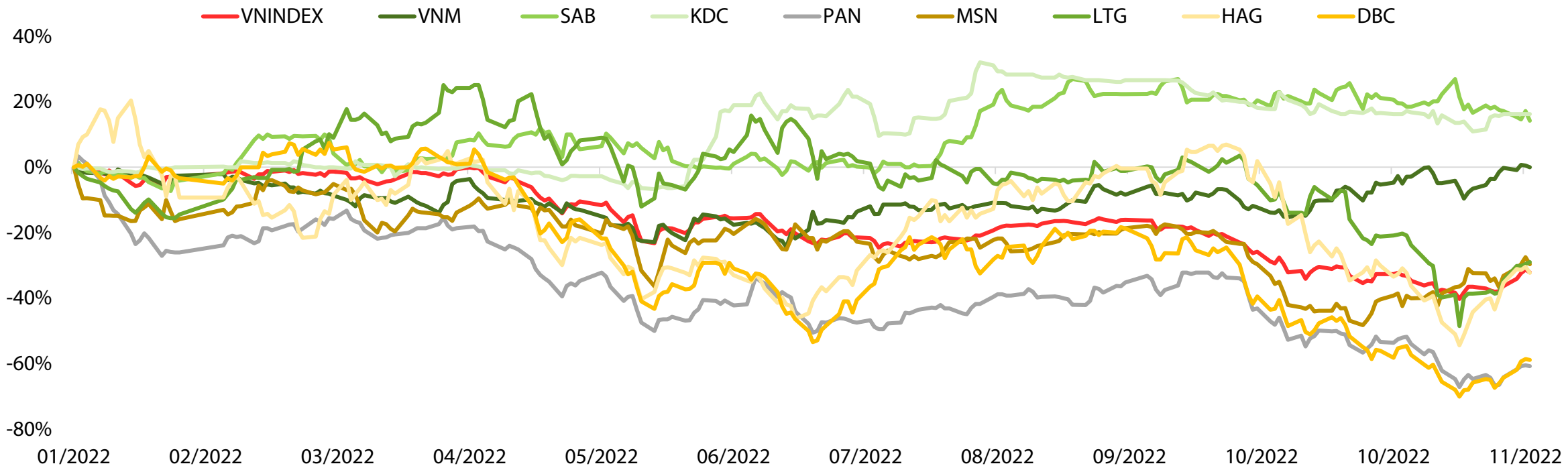
Source: Fiinpro, RongViet Securities.

FMCG SHARES: A SAFE SHELTER DURING UNCERTAINTIES

FMCG shares had a better price performance compared to other food stocks

- During market uncertainties in 11M2022, FMCG shares were a safe shelter for investors, evidenced by their better share price performance than the other shares in the Food & Beverage industry. In fact, the FMCG giants with stable cash dividend policy likes VNM, SAB or KDC outperformed the VN-Index. MSN shares price moved in the opposite direction due to the worries on MHT (non-consumer business segment) outlook since Tungsten prices are forecasted to peak in 2022.
- We expect that negative expectations of the F&B industry such as rising raw material prices or lower purchasing power have been completely reflected on F&B 'stock performance.

Figure 13: Performance of some Food & Beverage shares in Vietnam stock market (% YTD)



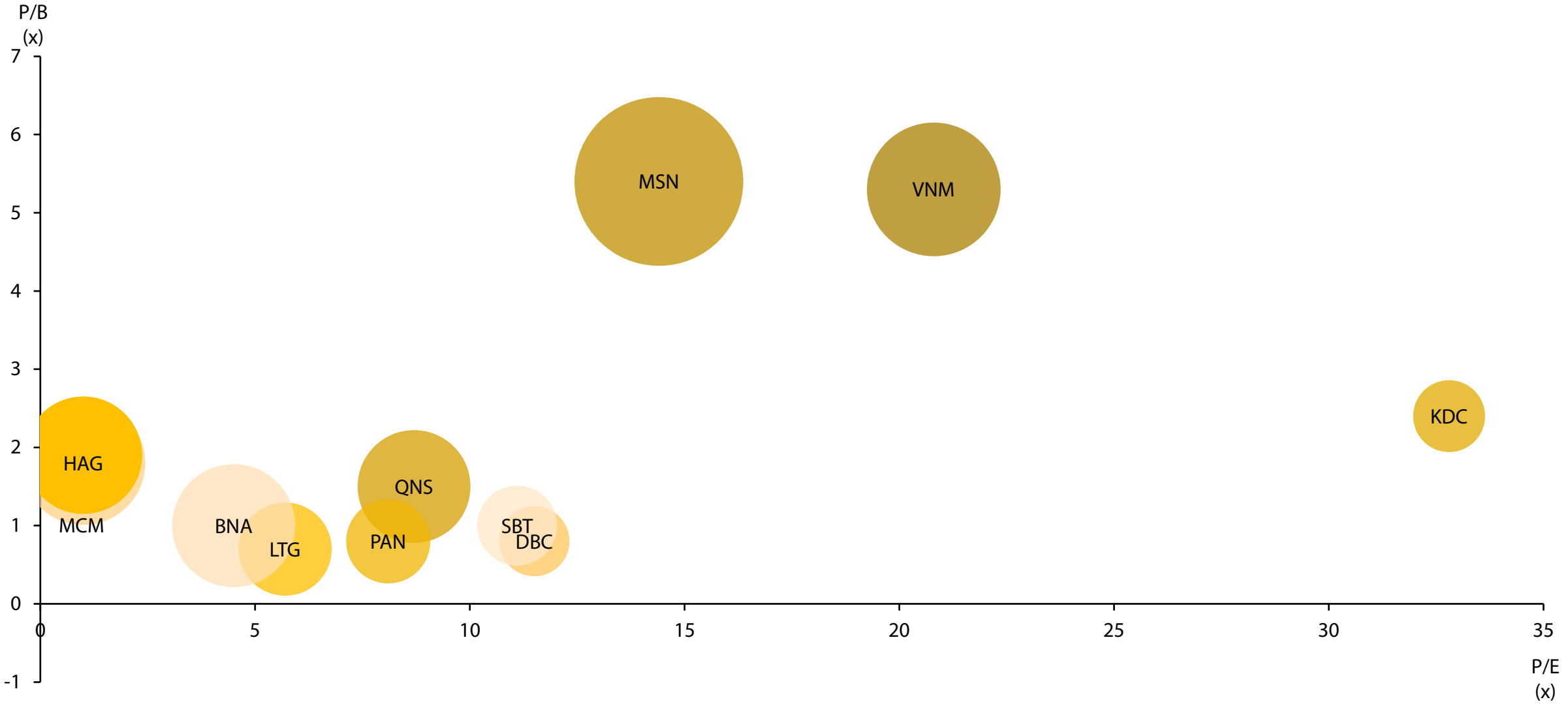
Source: Fiinpro, RongViet Securities.

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
MSN	5,826	101,400	97,000	0	18.5	14.8	-11.8	4.7	535.6	-57.5	-18.5	10.4	2.9	48.7	32.5	4.0	4.5
VNM	6,921	93,800	78,500	3,850	44.0	2.2	2.6	6.6	0.0	-5.8	15.2	25.6	18.7	19.0	23.7	5.8	8.2
QNS	542	40,800	36,000	3,000	29.8	13.0	9.9	6.0	0.2	1.0	9.9	17.0	12.3	7.9	9.7	1.5	1.9
KDC	678	N.R	62,500	N.A	24.3	26.1	N.A	N.A	1.9	N.A	N.A	7.3	3.4	32.8	63.3	2.4	1.3
PAN	138	N.R	15,700	N.A	37.8	11.0	N.A	N.A	0.2	N.A	N.A	10.1	3.1	8.1	22.3	0.8	1.7
LTG	86	N.R	25,200	N.A	9.1	36.2	N.A	N.A	0.1	N.A	N.A	12.3	5.7	5.7	7.2	0.7	0.9
DBC	165	N.R	16,200	N.A	43.9	7.9	N.A	N.A	-0.4	N.A	N.A	7.0	3.1	11.5	7.9	0.8	1.1
HAG	352	N.R	9,010	N.A	47.4	-34.0	N.A	N.A	-1.2	N.A	N.A	21.8	5.6	7.9	N.A	1.8	1.0
MCM	171	N.R	36,800	N.A	98.6	3.6	N.A	N.A	0.1	N.A	N.A	18.6	17.2	13.4	N.A	1.9	N.A
BNA	13	N.R	12,000	N.A	0	67.8	N.A	N.A	1.0	N.A	N.A	21.5	8.7	4.5	N.A	0.7	N.A
SBT	407	N.R	13,400	N.A	87	15.8	N.A	N.A	-114.3	N.A	N.A	9.1	3.7	11.1	23.4	1.0	1.4

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

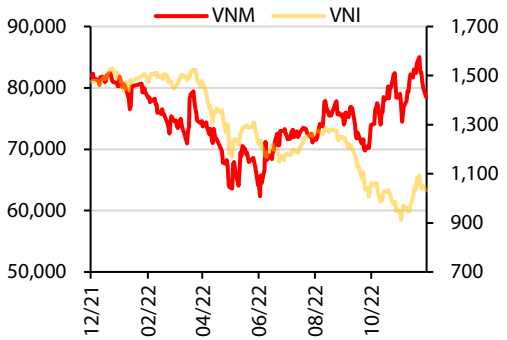


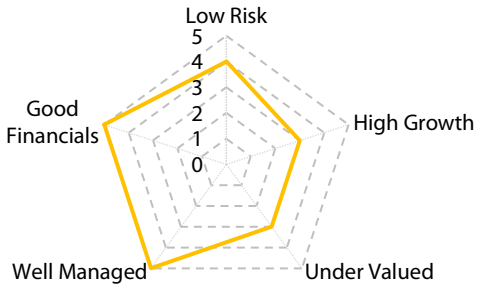
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

KEEP MOVING FORWARD STEP-BY-STEP

HSX: VNM

BUY: +24% **MP: 78,500** **TP: 93,800**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	6,949
Current Shares O/S (mn shares)	2,090
3M Avg. Volume (K)	2,059
3M Avg. Trading Value (VND Bn)	155
Remaining foreign room (%)	44.0
52-week range ('000 VND)	64.5 – 87.5

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	60,919	62,512	66,622
NPATMI (VND bn)	10,532	9,918	11,427
ROA (%)	20.9	18.7	21.4
ROE (%)	26.7	25.6	26.5
EPS (VND)	4,517	4,271	4,921
Book Value (VND)	15,830	16,154	17,225
Cash dividend (VND)	3,850	3,850	3,850
P/E (x)	19.1	21.9	19.0
P/B (x)	5.0	5.8	5.4

INVESTMENT RATIONALES

Increasing sales growth after the period of sluggish performance

- VNM has strengthened its dairy market share position thanks to 1) the success of new trade terms that boosted sales of general trade (GT); and 2) the larger coverage on modern trade (MT) channel. We believe that VNM 's new trade terms have worked and will generate a higher market share in the long-term.
- VNM is well placed with a diversified product portfolio and large distribution network to address various customer needs in the context of tightening consumer spending. Backed by this, the company will not only retain loyalty customers but also attract new clients who de-prioritize premium brands.

Easing of the P&L pressure highlights VNM performance in 2023

VNM 's profit margin is expected to bottom-out from Q4 2023 onwards. The main reasons are 1) raw milk prices and logistic costs are trending downwards; 2) strong cost management; and 3) stable financial income from bank deposits.

A high-quality stock with high ROIC

RISKS TO OUR CALL

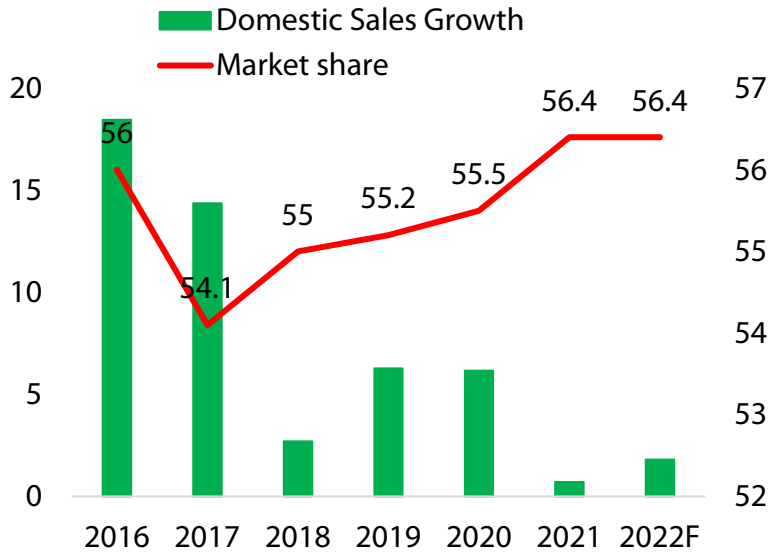
- Chinese dairy producers significantly purchase raw milk powder after the lockdown eases, limiting the downside of raw material prices.
- Dairy giant competitors aggressively promote promotions to capture market share.

VISIBILITY OF INCREASING SALES GROWTH AFTER SLUGGISH PERIOD

Focus on top-line growth to strengthen the Vietnam largest dairy market share position

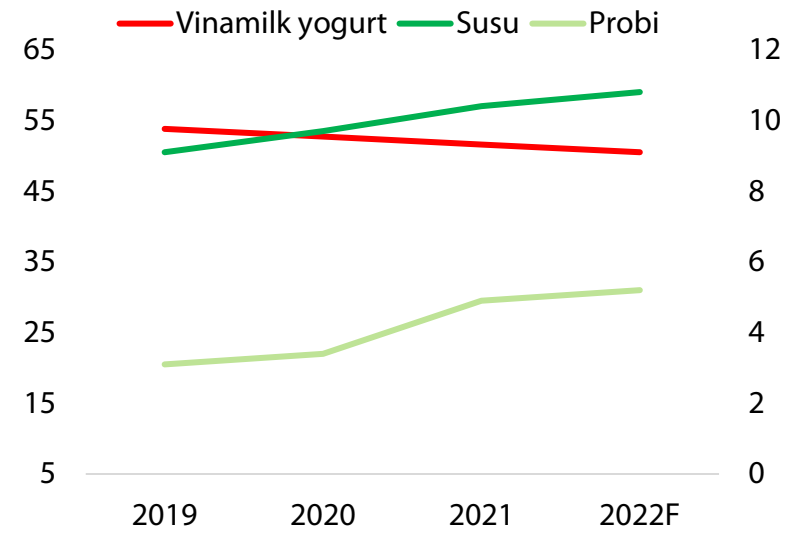
- Fierce competition is still running in Vietnam dairy market which limits the upside of VNM 's market share since 2018 (Figure 1). In fact, the increase of VNM 's market share in 2021 is due to the acquisition of MCM. However, in 2022, VNM has applied a new selling strategy which helped the company regained the market share in yogurt and condensed milk (Figure 2).
- According to the new trade terms, VNM gives more discount to general trade (GT) distributors. Besides, the company also expanded its coverage on modern trade (MT) by adding more 600 PoS. We believe that Vinamilk is putting its efforts on boosting top-line growth that will generate a higher market share in 2023.
- Growth momentum from subsidiaries. In 9M2022, sales growth of VNM 'subsidiaries stayed positive, indicating that demand of their dairy products remain intact despite inflation fears, signaling continued growth in Q4 2022 and onwards.

Figure 1: Vinamilk 's domestic sales growth (% YoY, LHS) and market share (%, RHS)



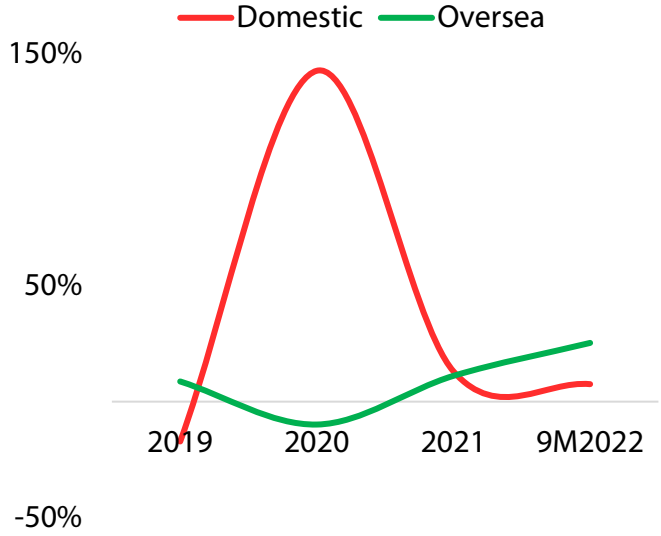
Source: VNM, RongViet Securities

Figure 2: Market share of Vinamilk yogurt brand (%, LHS) and Susu & Probi brands (%, RHS)



Source: Euromonitor, RongViet Securities

Figure 3: Sales growth of domestic and oversea subsidiaries of VNM (% YoY)



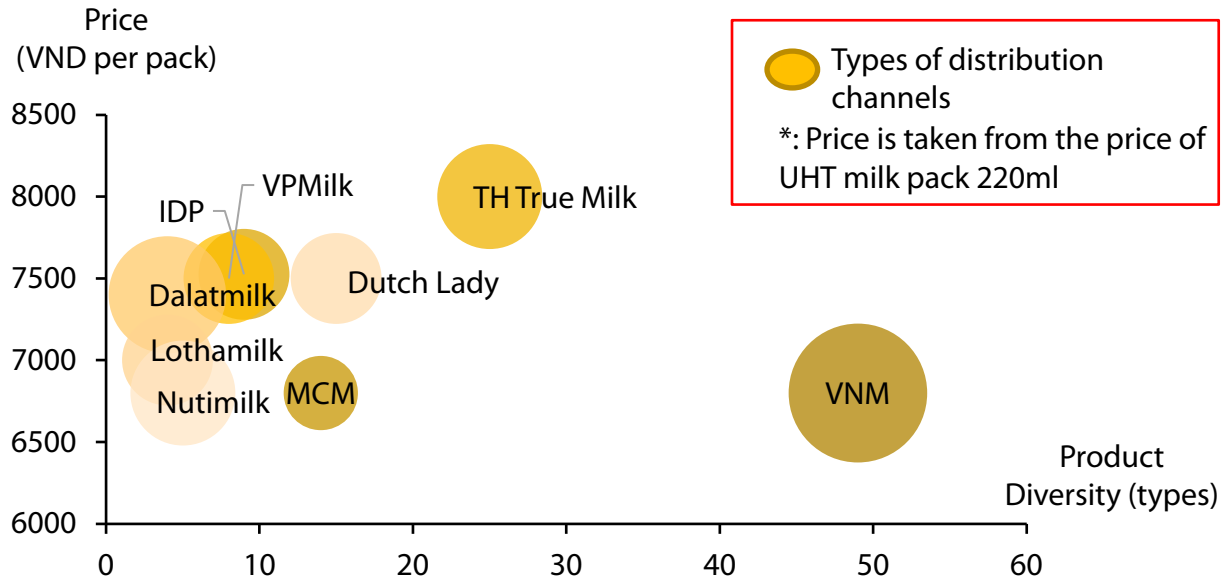
Source: VNM, RongViet Securities

BENEFITS FROM 2023 HEADWINDS

VNM is expected to be benefited from the 2023 headwinds

- Although Vietnamese companies are expected to have a weak 2023 performance because of the headwinds, rising inflation, higher interest rates, or tightening consumer spending for examples, we believe that VNM is one exception. We assume that 2023 headwinds will push consumer to switch to competitively priced substitute products, resulting in de-prioritize premium brands trend.
- VNM is well placed with a diversified product portfolio (from standard to premium), large distribution network and strong brand (Table 1) to address various customer needs. For example, VNM has the cheapest price in the low-priced UHT milk segment (Figure 4).
- Backed by this, Vinamilk will not only retain loyalty customers but also attract new clients who de-prioritize premium brands.

Figure 4: VNM position compared to dairy peers



Source: Bachhoaxanh.com, RongViet Securities

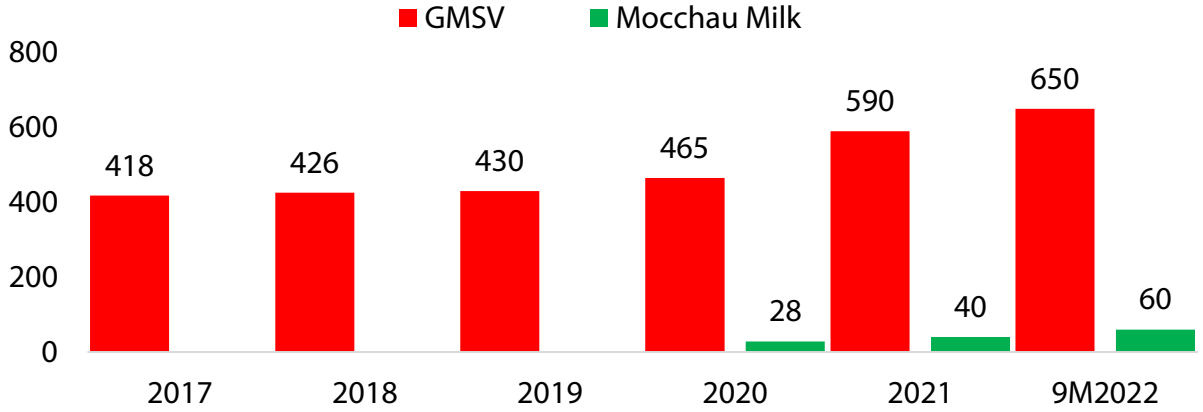
Table 1: Top 5 most chosen dairy brands (2022)

Rank	Urban 4 key cities	CRP (M)	Rural	CRP (M)
1	Vinamilk	44.4	Vinamilk	120.1
2	TH True	13.5	Fami	57.3
3	Ngoi Sao Phuong Nam**	12.0	Ong Tho**	45.6
4	Milo	9.8	Milo	32.6
5	Ong Tho**	9.6	Ngoi Sao Phuong Nam**	29.0

**CRP: Consumer reach points; **: Vinamilk 's products*

Source: Kantar Worldpanel, RongViet Securities

Figure 5: Number of GMSV and MCM stores (unit)



Source: VNM, RongViet Securities

EASE OF THE P&L PRESSURE

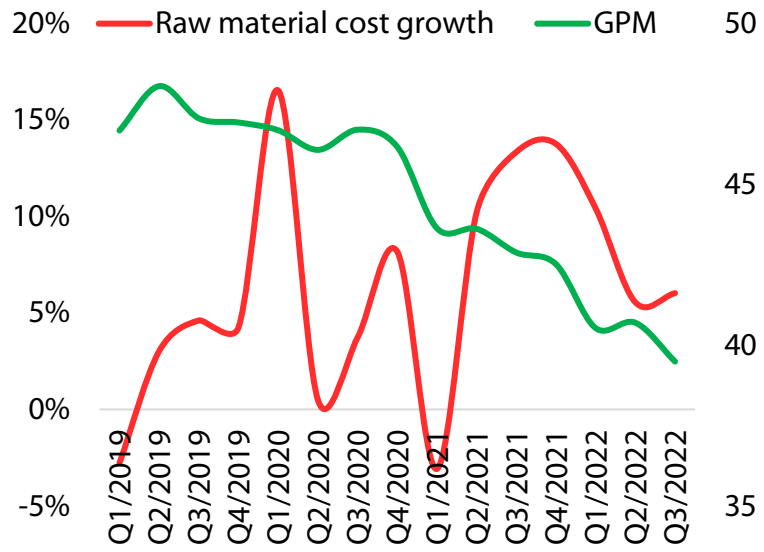
Raw milk prices and logistic costs are trending downwards producing a recovery of profit margin in 2023

- Vinamilk closed new raw materials contracts in Q4 2022 at below year-ago levels. However, the company still has some inventories bought at high prices in Q4 2022, thus they expect to fully use low-cost inventories from mid-Q1 2023. Together with decreasing logistic costs of both crude oil prices and Baltic Dry Index (BDI), we believe that gross and operating margins will expand in 2023.

Stable financial profit from strong balance sheet

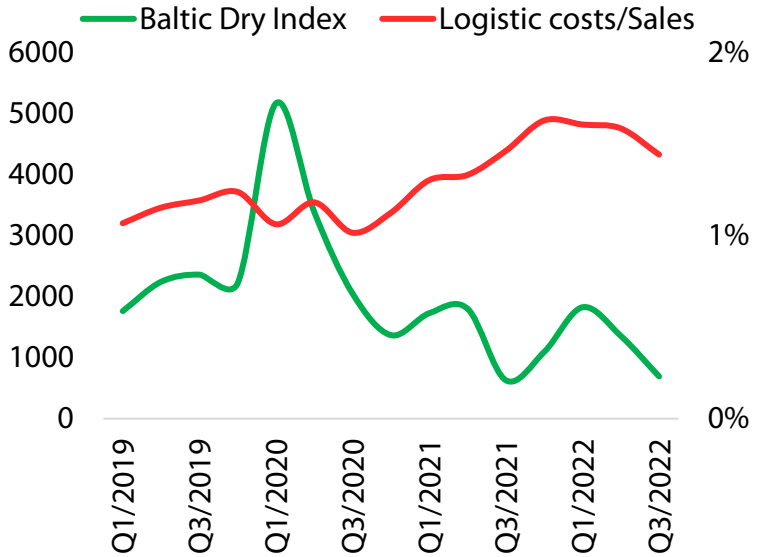
- Vinamilk has a strong balance sheet with high bank deposits, generating a stable deposit income (Figure 8). According to the company, they will restrictively invest on future projects (e.g., M&A or expansion) in such a challenge year as 2023. Therefore, we forecast that VNM will keep 2023 bank deposits as high as in the 2021-2022 period, resulting a high deposit income.

Figure 6: VNM 's change in raw material costs (% YoY, LHS) and gross margin (%, RHS)



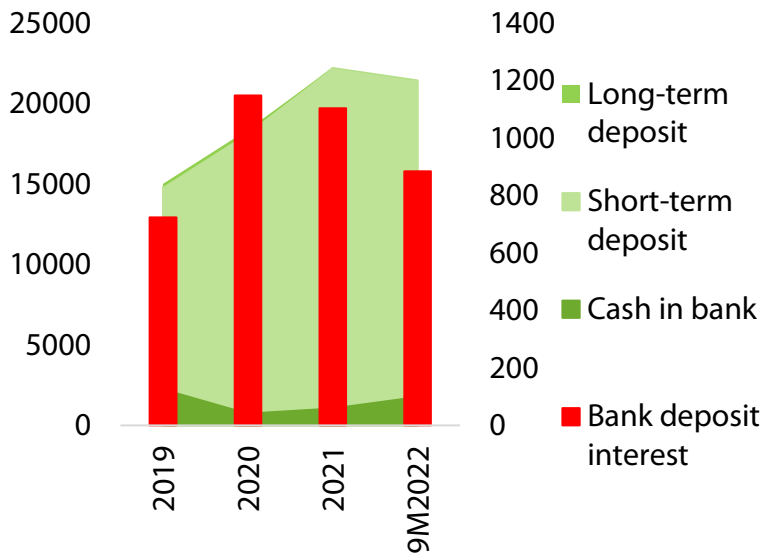
Source: VNM, RongViet Securities

Figure 7: VNM 's logistic costs/sales ratio (%, RHS) and Baltic Dry Index (pts, LHS)



Source: VNM, Bloomberg, RongViet Securities

Figure 8: VNM 's bank deposits (VND bn, LHS) and deposit interest (VND bn, RHS)



Source: VNM, RongViet Securities

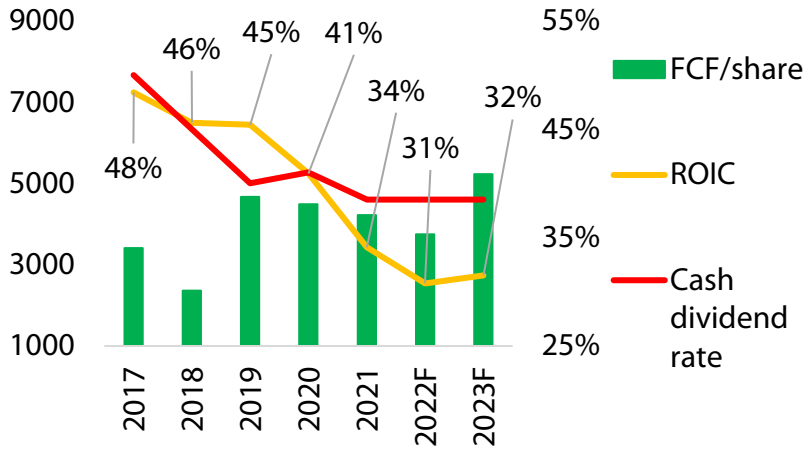
A HIGH-QUALITY STOCK WITH HIGH ROIC

VNM is a high-quality stock with high ROIC

- We believe that VNM is a high-quality stock, backed by the consumer staple nature of products, strong brand loyalty and safe financial leverage. These advantages helps VNM to maintain a steady positive free cash flow (FCF) during 2019-2022F period. Besides, although VNM 's ROIC showed a downward trend in the reviewed period, it is still high, adding more colors for the stock quality (Figure 9 and 10).
- In the view of improved profit margin, positive result from invested projects (e.g., MCM or Lao-Jargo farm), and lower future investments, we believe that both of VNM 's FCF and ROIC will recover since 2023.
- In the period of difficult economic and market conditions, we suppose that a high-quality stock with improved ROIC as VNM stock is deserved a premium P/E ratio thanks to attractive return potential and capital protection ability.

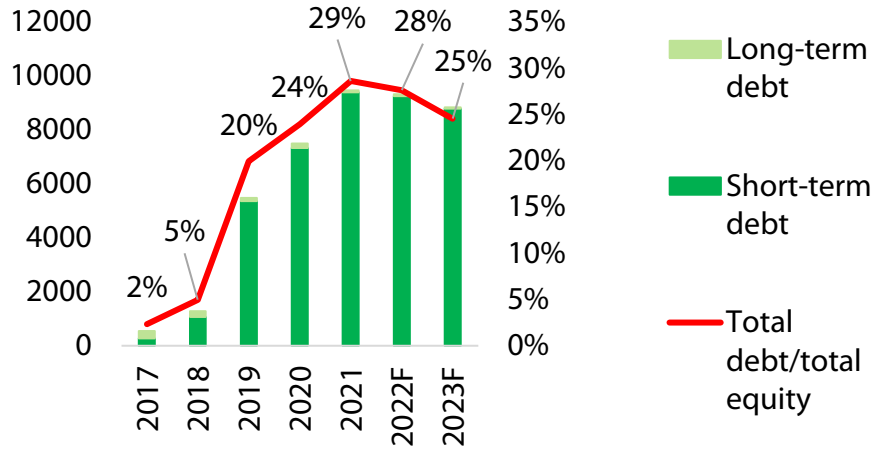
We see that global investors is preferred to dairy shares, evidenced by the enhanced P/E ratio of global dairy giants (Figure 11). As a result, we expect that VNM shares will move in the same way with the global dairy shares.

Figure 9: VNM 's FCF/share (VND, LHS) and dividend rate (%, RHS) and ROIC (%, RHS)



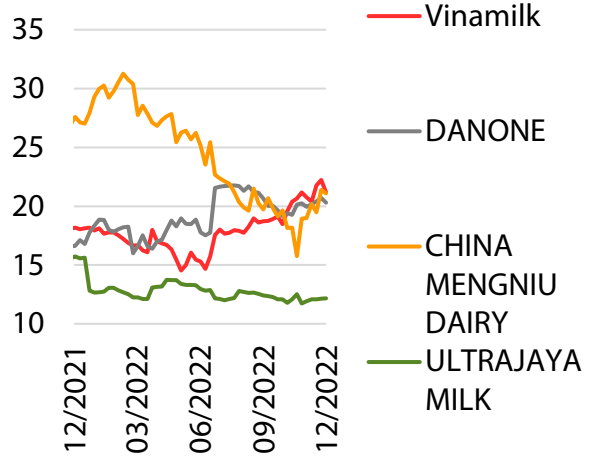
Source: VNM, RongViet Securities

Figure 10: VNM 's short-term debt and long-term debt (VND bn) and Total debts/equity ratio (%, RHS)



Source: VNM, RongViet Securities

Figure 11: P/E ratio of some dairy giants (x)



Source: Bloomberg, RongViet Securities

Table 2: Business Forecasts

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**44,888**	**-0.5%**	**62,512**	**2.6%**	**66,622**	**6.6%**
Parents	37,327	-3.0%	51,888	-0.2%	55,011	6.0%
% Export	10.0%	-120bps	10.4%	-300bps	11.4%	100bps
Subsidiaries	7,561	13.4%	10,624	18.7%	11,611	9.3%
% Oversea subsidiaries	42.9%	370bps	45.0%	490bps	45.3%	30bps
Gross profit	**18,052**	**-7.7%**	**25,523**	**-3.1%**	**27,787**	**8.9%**
Parents	16,564	-8.1%	23,398	-3.3%	25,494	9.0%
Subsidiaries	1,488	-2.7%	2,125	1.9%	2,293	7.9%
Operating profit	**7,692**	**-17.5%**	**11,235**	**-4.5%**	**12,226**	**8.8%**
SG&A expenses/sales	23.1%	40bps	22.9%	-90bps	23.4%	50bps
PBT	**8,200**	**-19.9%**	**12,089**	**-6.4%**	**13,929**	**15.2%**
NPAT-MI	**6,708**	**-20.3%**	**9,918**	**-5.8%**	**11,427**	**15.2%**
EPS (VND)	**3,180**	**-20.3%**	**4,271**	**-5.4%**	**4,921**	**15.2%**

Source: VNM, RongViet Securities

Expensive input costs and the weak performance of exports resulted in negative growth in 9M2022.

- In 9M2022, net profit decreased by -20.3% YoY due to 1) weaker purchasing power in the Middle East on recession fears dragging down export revenue; and 2) rising costs, including both input prices and logistic expenses. Compared to 2022 targets, VNM fulfilled 70.2% of revenue and 68.3% of PBT.

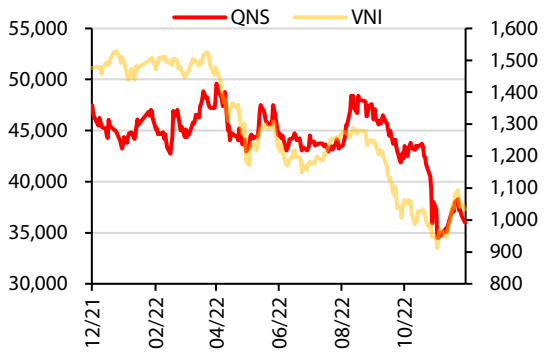
2023 bottom-line is expected to strongly recover thanks to the 2022 low-base.

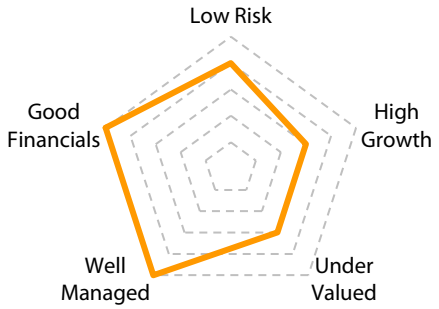
- We believe that all of VNM 's earnings sources, including direct export, domestic channel and subsidiaries, will show a positive result in 2023.
- Direct export will slightly recover as people gradually adapt to inflation while the domestic sales growth will rise thanks to the success of new trade terms mentioned above. We believe that VNM will **maintain its market share** in 2023.
- 2022 is the worst year of VNM since 2017 as net profit headed for a six-year bottom, equivalent to an expected net margin of 15.9%.
- In the view of 1) sales recovery; 2) strong decreasing input costs; and 3) 2022 low-base performance, **2023 NPAT is expected to grow at double-digit.**

A GOOD CHOICE FOR HIGH-DIVIDEND-YIELD HUNTERS

UPCoM: QNS

BUY: +22% **MP: 36,000** **TP: 40,800**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	544
Current Shares O/S (mn shares)	357
3M Avg. Volume (K)	177
3M Avg. Trading Value (VND Bn)	7
Remaining foreign room (%)	29.9
52-week range ('000 VND)	31.2 - 52.7

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	7,335	8,064	8,546
NPATMI (VND bn)	1,254	1,267	1,393
ROA (%)	12.7	12.3	12.9
ROE (%)	17.7	17.0	18.0
EPS (VND)	4,117	4,119	4,530
Book Value (VND)	23,539	24,659	25,851
Cash dividend (VND)	3,000	3,000	3,500
P/E (x)	11.7	8.7	7.9
P/B (x)	2.0	1.5	1.4

INVESTMENT RATIONALES

Soymilk's revenue to level off whilst its gross margin to recover

- Soymilk's revenue in FY2023 is projected to drop by 1% YoY, netting VND 4,295 Bn (or USD 179 Mn) as sales volume is likely to reduce by 2% YoY due to undermined demands, which should be offset by the 1% increase in selling price.
- Input costs (soybeans) tend to decrease, which will support a slight recovery in gross margin of soymilk segment. We are projecting a 2023 soymilk gross margin at 42.7%, +97 bps YoY. As a result, NPAT of soymilk segment is forecasted to increase slightly by 5% YoY.

Sugar segment will see strong volume growth driven by the anti-dumping tax

For FY2023, we expect RS volume to increase by 24% YoY, RE volume to flat, while selling price of sugar will increase slightly by 4% YoY. Thus, we forecast that revenue and net profit from sugar will achieve VND 2,464 Bn (or USD 102 Mn, +27% YoY) and VND 348 Bn (or USD 15 Mn, +36% YoY), respectively.

Becoming "a cash cow"

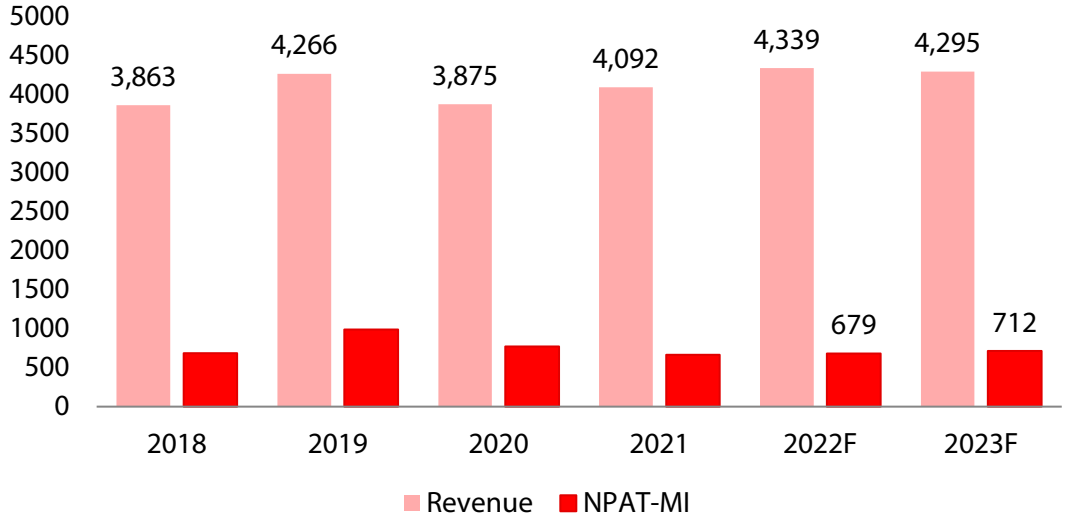
- Our target price puts 2023 P/E at 9.0x, 5% lower than the 5-year average level, despite positive 2023 growth. We attribute this to lack of new catalyst in 2023 and a dull long-term outlook.
- Overall, we view that QNS has become a "cash cow" - low growth but strong cash generation. This allows the company to continue to pay high dividends. Therefore, QNS is suitable for investors who prefer stocks with high and stable cash dividend. At current prices, the expected 2023 cash dividend yield is 8.3%.

RISKS TO OUR CALL

- (1) Weaker-than-expected soymilk consumption; (2) Anti-dumping tax on sugar may be less effective than expected.

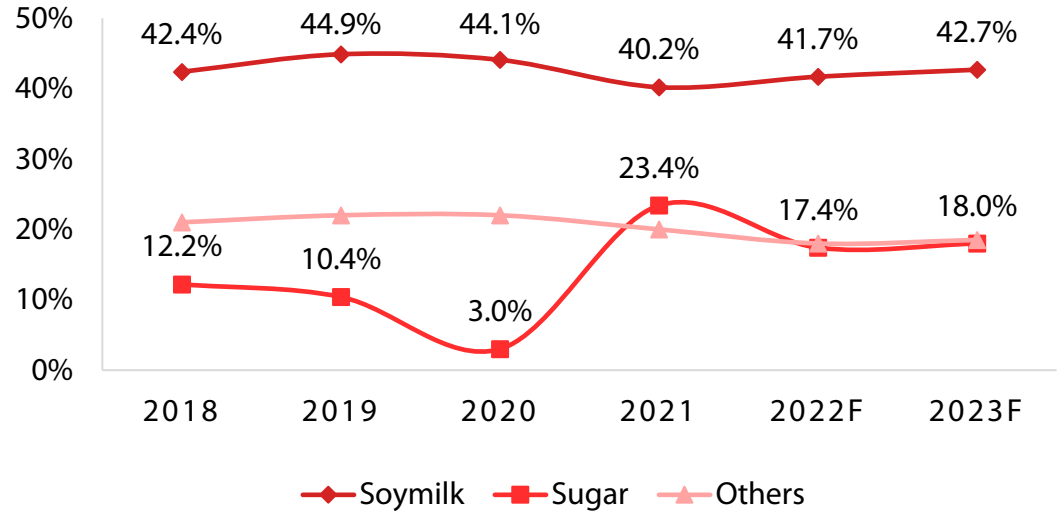
- For FY2022, we expect revenue from soymilk to reach VND 4,339 Bn (or USD 181 Bn), up 6% YoY. However, the segment's revenue in FY2023 is projected to drop by 1% YoY, netting VND 4,295 Bn (or USD 179 Mn) as sales volume is likely to reduce by 2% YoY due to undermined demands for FMCG products during high inflation, which should be offset by the 1% increase in selling price.
- In the context of reduced consumer purchasing power and fierce price competition with other FMCG manufacturers, QNS will have little room to increase selling prices. However, input costs (soybeans) tend to decrease, which will support a slight recovery in gross margin of soymilk segment. We are projecting a 2023 soymilk gross margin at 42.7%, +97 bps YoY. As a result, NPAT of soymilk segment is forecasted to increase slightly by 5% YoY.

Figure 1: Soymilk revenue and net profit (VND Bn)



Source: QNS, RongViet Securities.
** Historical net profit is based on our estimate, not the company filings.*

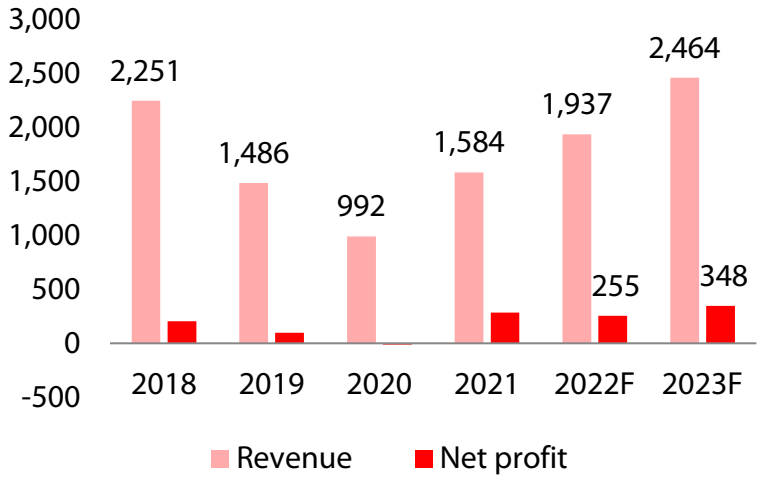
Figure 2: GPM by products (%)



Source: QNS, RongViet Securities

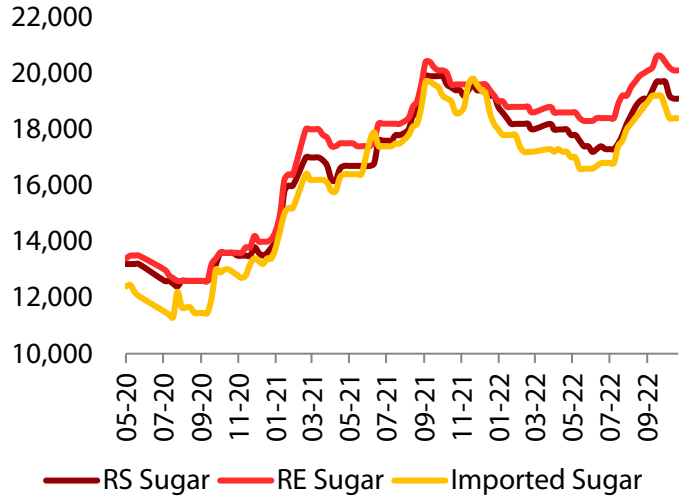
- Throughout the beginning of 2H2022, sugar price started rising amid the favorable results of anti-dumping tax on Vietnam's sugar imported from 5 ASEAN countries. In FY2022, we estimate the sugar segment's revenue to reach VND 1,937 Bn (or USD 81 Mn, +22% YoY) and NPAT to be VND 255 Bn (or USD 11 Mn, -10% YoY), respectively. The negative NPAT growth of sugar segment is due to lower gross margin which results from low selling prices of 1H2022.
- For FY2023, we expect RS volume to increase by 24% YoY, RE volume to flat, while selling price of sugar will increase slightly by 4% YoY. Thus, we forecast that revenue and net profit from sugar will achieve VND 2,464 Bn (or USD 102 Mn, +27% YoY) and VND 348 Bn (or USD 15 Mn, +36% YoY), respectively.
- Overall, for the whole company, we forecast FY2023 revenue and net profit to be VND 8,546 Bn (or USD 356 Mn, +6% YoY) and VND 1,393 Bn (or USD 58 Mn, +10% YoY), respectively.

Figure 3: Sugar revenue & net profit (VNDbn)



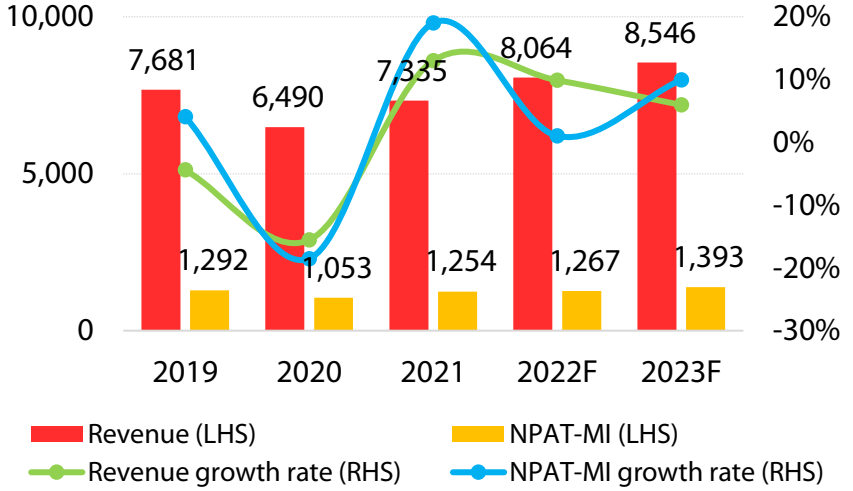
Source: QNS, RongViet Securities.
** Historical net profit is based on our estimate, not the company filings.*

Figure 4: Vietnam sugar price (VND/kg)



Source: Bloomberg, RongViet Securities

Figure 5: QNS's revenue & NPAT forecast (VNDbn)



Source: RongViet Securities

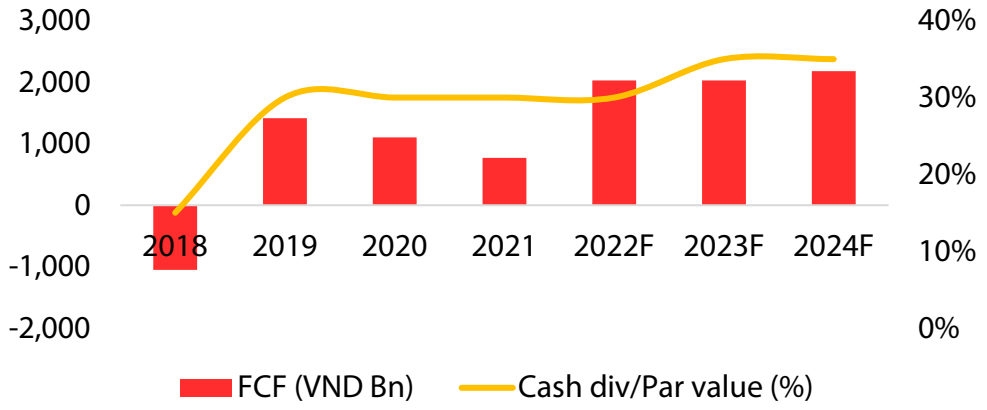
Table 1: Valuation summary

FCFE		Sum of the parts (SoTP)		
Risk-free rate	5.0%	**Segment**	**Method**	**Valuation**
Market return	16%	Soymilk	P/E 11x	26,033
Beta	0.75	Sugar	P/E 7x	7,644
Premium	2.0%	Biomass	FCFE	2,078
Cost of Equity	16%	Others	P/E 6x	2,854
Target price	**44,279**	Target price		**38,609**
Target price, VND/share (50% FCFE, 50% SoTP)				**40,877**

Source: RongViet Securities

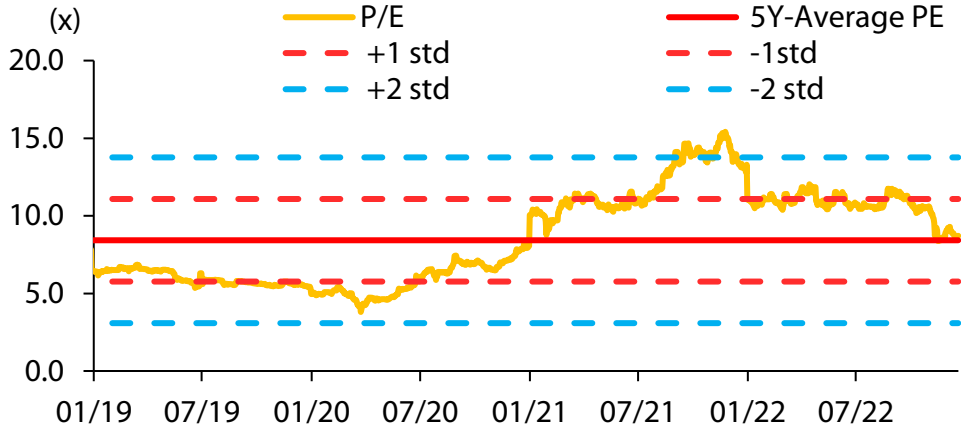
- Our target price puts 2023 P/E at 9.0x, 5% lower than the three-year average level, despite positive 2023 growth. We attribute this to: (1) Soymilk segment still has little room for gaining market share; (2) The company's profit contribution shifted to the unsustainable sugar segment which is difficult to control both input and output prices; (3) Stock price jump in 2021 was driven by the anti-dumping tax catalyst which will no longer be a surprise in 2023.
- Overall, we view that QNS has become a "cash cow" - low growth but strong cash generation. This allows the company to continue to pay high dividends. Therefore, QNS is suitable for investors who prefer stocks with high cash dividend. At current prices, the expected 2023 cash dividend yield is 8.3%.

Figure 6: QNS's FCF and Cash dividend/Par value



Source: QNS, RongViet Securities

Figure 7: Historical P/E

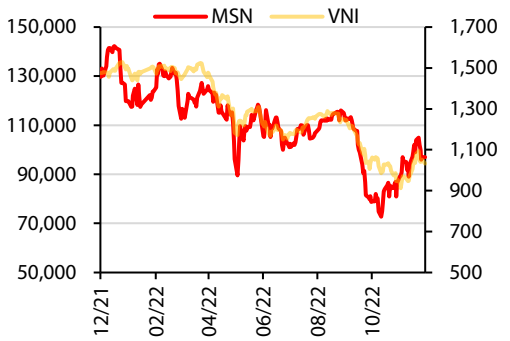


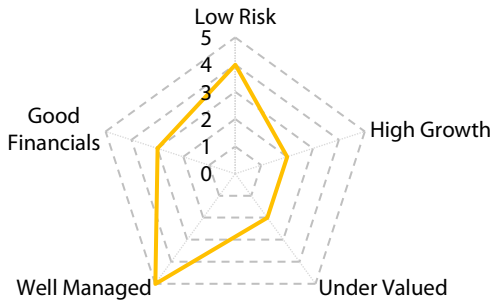
Source: Bloomberg, RongViet Securities

THE DARKNESS OF INTEREST BURDEN

HSX: MSN

NEUTRAL: +5% **MP: 97,000** **TP: 101,400**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	5,849
Current Shares O/S (mn shares)	1,424
3M Avg. Volume (K)	1,114
3M Avg. Trading Value (VND Bn)	99
Remaining foreign room (%)	18.5
52-week range ('000 VND)	69.1 – 145.8

FINANCIALS

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	88,629	78,199	81,902
NPATMI (VND bn)	8,563	3,641	2,966
ROA (%)	3.0	2.9	2.3
ROE (%)	15.6	10.4	7.3
EPS (VND)	7,254	2,557	2,084
Book Value (VND)	27,796	26,713	31,074
Cash dividend (VND)	1,200	800	0
P/E (x)	23.5	39.6	48.7
P/B (x)	3.8	4.0	3.4

INVESTMENT RATIONALES

Sales growth to be defensive, in-line with consumer industry given its leading position in Vietnam consumer industry

- Sustainable sales growth of consumer segment (MCH, WCM, MML) compensated for the weak growth of mining segment (MHT). Consumer earnings takes over 80% of total sales of MSN, leading the total sales growth to be defensive in rising inflation environment.
- MSN owns not only the largest distribution network but also the most diversified consumer product portfolio. Therefore, the company has the advantage in touching to the mass market.

Net profit is expected to be weak in short-term due to the rising of borrowing interest rate and the modest margin improvement

- Profit margins modestly improve based on the mix of higher gross margin of consumer segment and lower gross margin of mining segment. The expansion of the prior is due to the decreasing raw material costs and higher average selling prices (ASP). The tightening of the latter is because of the decreasing Tungsten prices as higher supply from China.
- Since 2022, MSN's financing leverage has sharply increased for their business plans, such as acquire Nyobolt, increase stakes in Phuc Long, or expand Winmart chain. Although these ongoing investments is expected to bring a profitable sales growth in the long-term, MSN faces a huge interest expenses in short-term, grabbing the profit.

Stepped up investments to deliver profitable sales growth in the long-term

RISKS TO OUR CALL

- Higher-than-expected expenses on Wincommerce expansion plan.

MCH: PROFIT MARGINS RECOVERS THANKS TO DECREASING INPUT COSTS

Vietnam FMCG leading position ensures positive sales growth for MCH

- MCH has the largest FMCG distribution network, including general trade (GT), modern trade (MT), wet market, and retail chain of the parent – Winmart. As a result, we expect that MCH is able to reach out the mass market. In the context of rising ASP announced by MSN, MCH 'sales value is expected to pick up.
- MCH is famous for the most diversified consumer product portfolio, covering from standard to premium categories. In the picture of tightening spending which might shift consumer behavior to lower price level products, we believe that MCH will have the advantage to capture various FMCG demand.

Rising input prices pressure has slowdown since 2H2022 onwards

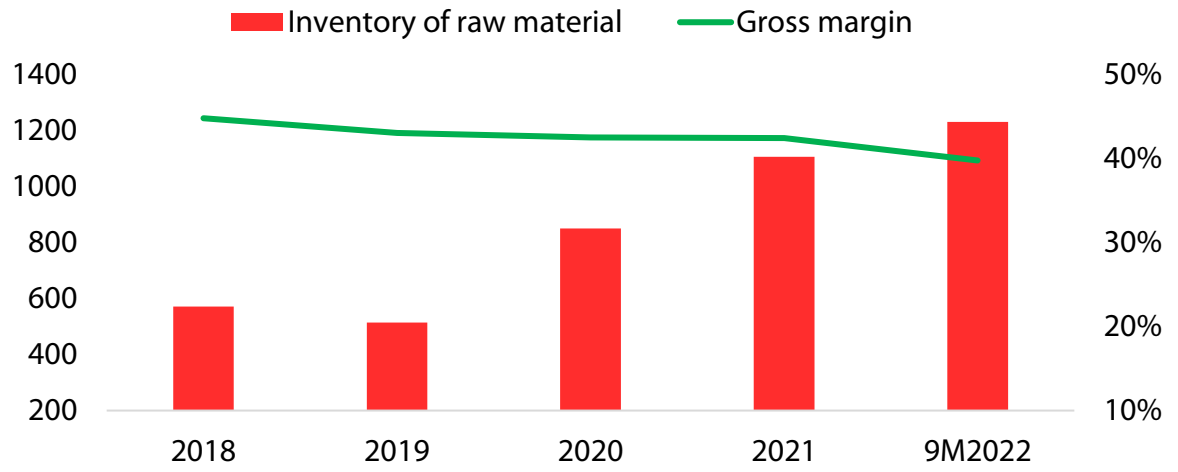
- We expect that MCH 's gross margin will improve since 2023 after experienced a raw materials inflation in 2022. In 2H2022, the input prices has started decreasing. We suppose this situation will continue in 2023 as the Russia-Ukraine tensions has eased. Because there is a lagging time of input prices on profit margins, we expect the lower prices effect to be realized from 2023.

Table 1: Top 10 most chosen FMCG manufacturers in Vietnam (2022)

Rank	Urban 4 key cities	CRP (M)	Rural	CRP (M)
1	Vinamilk	67.0	Masan Consumer	330.2
2	Unilever	52.2	Unilever	305.4
3	Masan Consumer	43.6	Vinamilk	223.1
4	Nestlé	31.8	Calofic	123.1
5	Suntory PepsiCo	25.3	Acecook	104.2
6	Acecook	24.9	Uniben	97.1
7	Calofic	16.6	Nestlé	77.1
8	Ajinomoto	14.9	Ajinomoto	76.8
9	Coca-Cola	13.9	Asia Food	66.8
10	Orion	13.1	Suntory PepsiCo	64.7

Source: Kantar Worldpanel, RongViet Securities | CRPs: Consumer Reach Points/ M: Million

Figure 1: MCH 's inventory of raw material (VND bn, LHS) and gross margin (%, RHS)



Source: MCH, RongViet Securities

WCM: RAISING MARKET SHARE WARMS UP SALES GROWTH

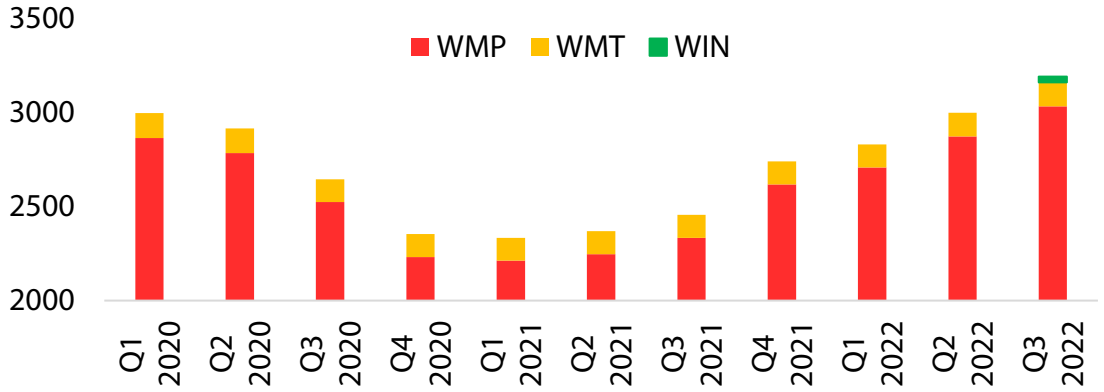
Larger store chain coverage is key growth driver for WCM 'sales in the short-term

- WCM 's revenue to keep growing despite high inflation challenge, backed by the expansion of Winmart chain. MSN will keep scaling up Winmart chain to around 390 new stores in Q4 2022, equivalent to store count increase of +12% QoQ and +26% YoY.
- As of 30th Sep 2022, based on the number of minimart/CVS location nationwide, WCM 's market share rose to 48% from 40% in 31st Dec 2021. In the story of closing part of inefficient stores of Bach Hoa Xanh chain – one of Vietnam leading grocery retailers, we believe that WCM will success in deliver a higher market share since 2023 onwards thanks to their strong expansion strategy.

Cost optimization will compensate for the lower margin effect of store count acceleration

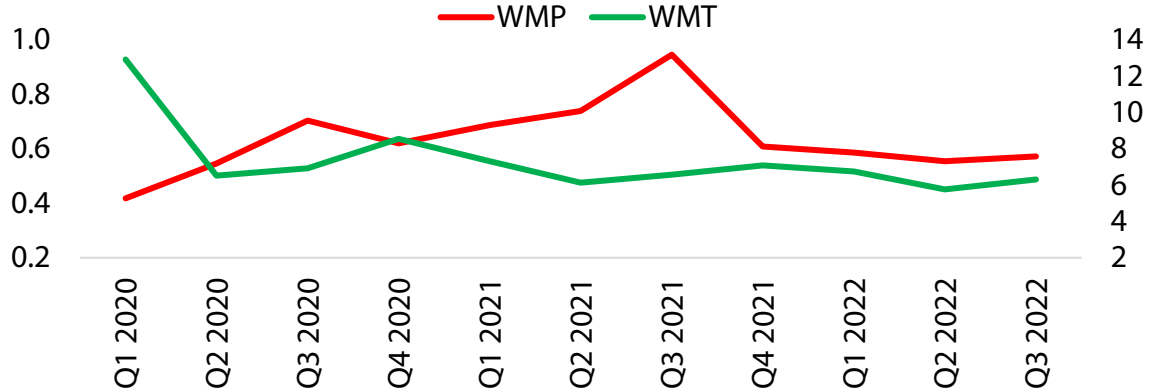
- WCM is testing some new formats for Winmart chain, WIN store is for example, to enlarge their customer portfolio. We suppose that the testing phase and store count acceleration will dilute average sales per store in the initial years.
- The lower sales per store might reduce profit margins. To hedge this negative effect, WCM has optimized costs (e.g., logistic expenses or exit low margin products). Backed by the rich experience in retail operation and financial management of MSN 's key managers, we believe that WCM will be able to minimize the negative effect of high sunk cost at the initial stage.

Figure 2: WCM's store count (unit)



Source: MSN, RongViet Securities

Figure 3: WCM ' average sales per store per month of WMP (VND bn, LHS) and WMT (VND bn, RHS)



Source: MSN, RongViet Securities

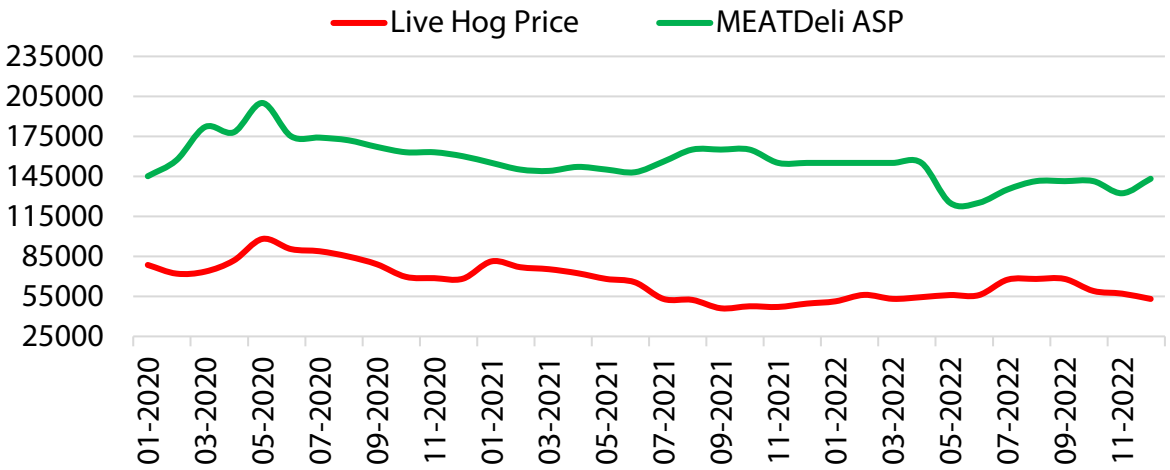
Sales is moving up as planned thanks to distribution channel diversification and synergy from WIN membership program

- Since 2022, MML made big changes in their strategy with the purpose of boosting sales growth. In detail, they close the gap with wet market by lessening selling prices of MEATDeli products, together with distributing their products to other supermarkets besides Winmart chain and their standalone meat store. These strategies has showed their efficient by positive quarterly sales growth during 9M2022.
- To fuel sales growth, MML has also implied another program which is discounting for WIN membership. This program helped increase selling volume by 35% during the pilot phase.
- Backed by this, we believe that sales growth of MML will go up further.

Heavy costs pressure on profit margin from new strategies

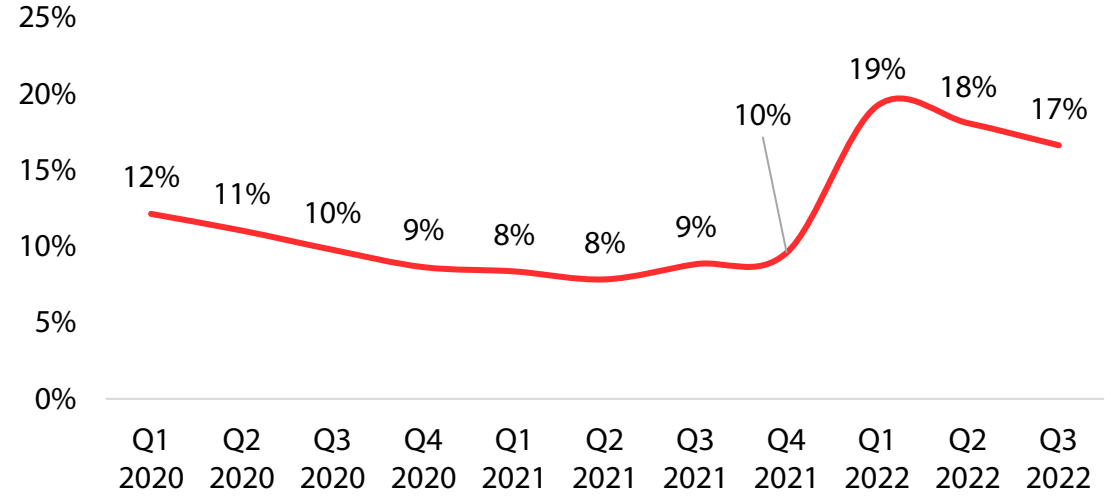
- We expect that gross margin of MML will recover since 2023, supported by the synergy of higher YoY pork and chicken price and decreasing input costs. In the view of China lift lockdown policy in 2023, Chinese consumers is forecast to increasingly consume porks, pushing up both global pork demand and selling price also.
- However, we doubt that the new strategies will burn cost of MML in the initial stage. As a result, the SG&A/sales ratio is forecast to remain at the high-level next year.

Figure 4: MEATDeli pork ASP and live hog price (VND/kg)



Source: vietnambiz.vn, RongViet Securities

Figure 5: MML 's SG&A/Sales ratio (%)



Source: MML, RongViet Securities

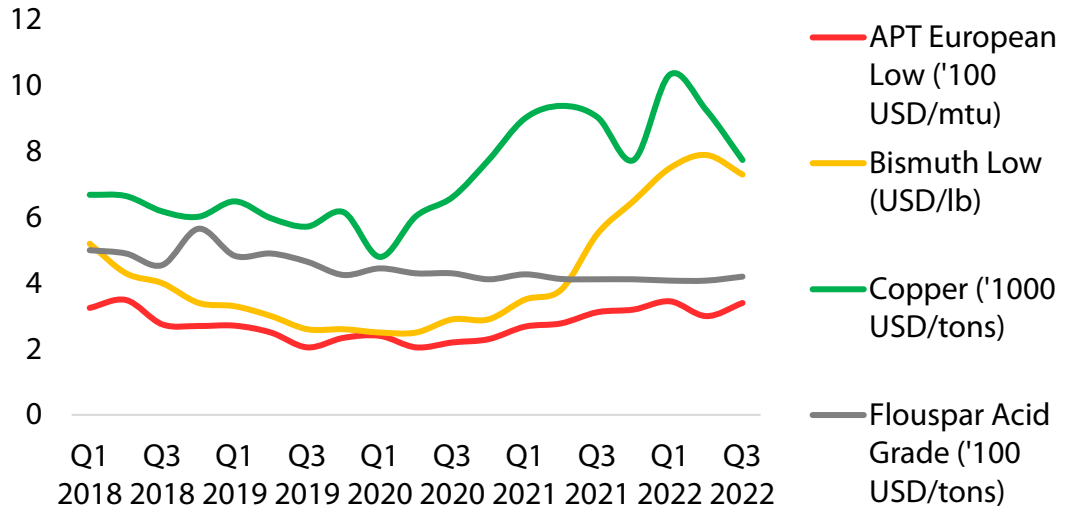
Sales will demonstrate a diminishing growth in the period of 2022-2024F

- We expect MHT sales growth will be limited due to higher supply from China since 2H2023.
- We assume that the production activities of China will need a time to re-operate after the lock-down period, at least in 2H2023. Therefore, we predict that the selling volume of MHT will keep slightly improving on the back of rising Vonfram demand in 2023 but will decrease in 2024.

Selling prices will gradually adjust downward to pre-pandemic level since 2023

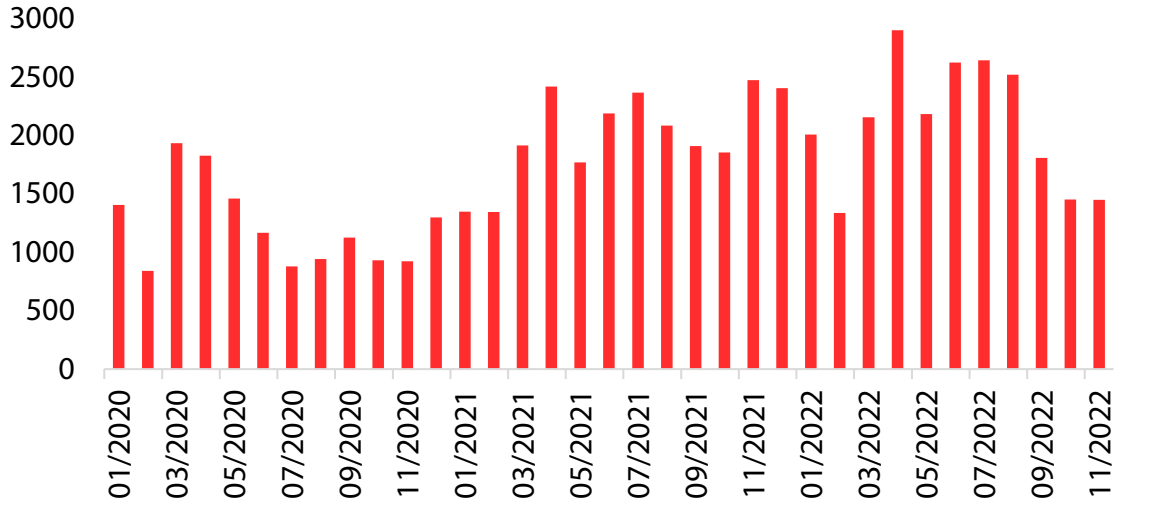
- In the period of 2021-2022, the selling prices of Tungsten significantly grew, explained by global supply chain disruption and low supply from China due to Covid-19 pandemic. However, we believe that global supply chain has backed to normal operation. Together with expected higher supply from China, Tungsten prices will gradually back to pre-pandemic level.
- Decreasing lower selling prices will make the upward trend of gross margin of MHT to be reversed in the upcoming years.

Figure 6: Quarterly metal prices



Source: MSN, RongViet Securities

Figure 7: China Tungsten export volume (thousand tonnes)



Source: Bloomberg, RongViet Securities

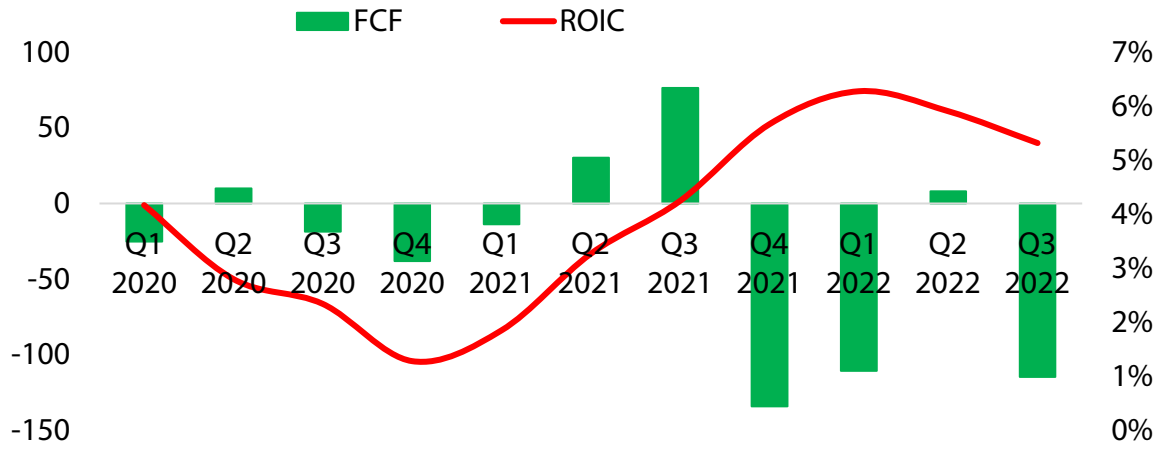
Gross margin is expected to modestly improve, partly hurt by expected decreasing Tungsten prices as higher supply from China

- Profit margins modestly improve based on the mix of higher gross margin of consumer segment and lower gross margin of mining segment that is analyzed above. Because MHT takes ~30% of total gross profit of MSN, its narrow gross margin effect only led to a modest improvement in total gross margin of MSN.

MSN will face heavy interest payment pressure in short term

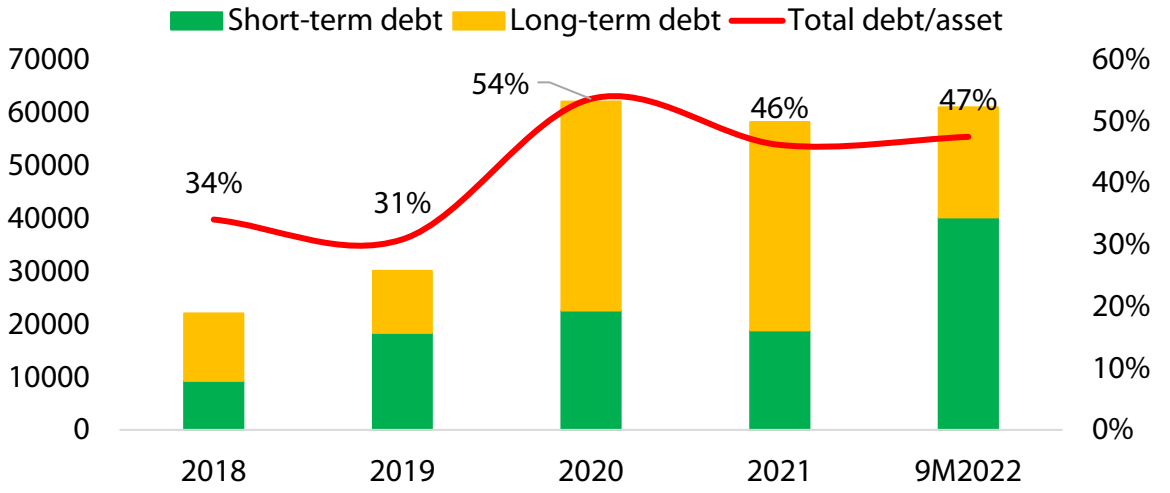
- Since 2022, MSN strongly raised debts to finance for their business plans, such as acquire Nyobolt, increase stakes in Phuc Long, or expand Winmart chain. In 9M2022, MSN 's total debt is VND60,931 bn (or USD2,487 bn), of which, 20% by USD-denominated loan. As a result, we believe that MSN will experience high interest expenses in the upcoming years.
- In the combination of weak improvement in core profit margins and high interest expenses, MSN 's bottom-line is expected to be weak in 2023 but will back to positive growth since 2024 when the economy recovers.
- Although bearing a high financial leverage ratio, we believe that MSN will not fall into financial distress backed by their strong financial capacity. However, their profitability ratio such as ROE or ROIC, will be weak in the short-term.

Figure 8: MSN 's FCF (VND bn, LHS) and ROIC (%, RHS)



Source: Bloomberg, MSN, RongViet Securities

Figure 9: MSN 's short-term debt and long -term debts (VND bn) and Total debt/asset ratio (%, RHS)

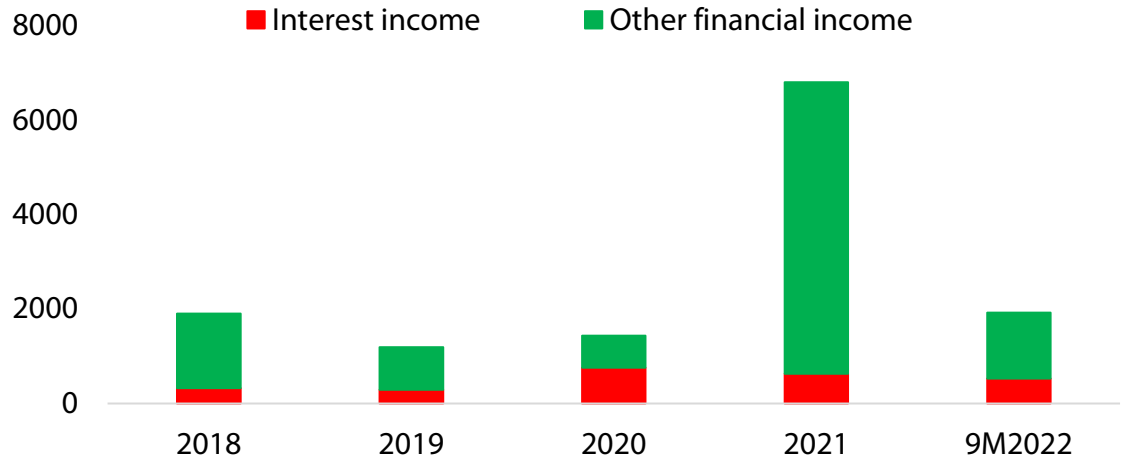


Source: MSN, RongViet Securities

Stepped up investments to deliver profitable sales growth in the long-term

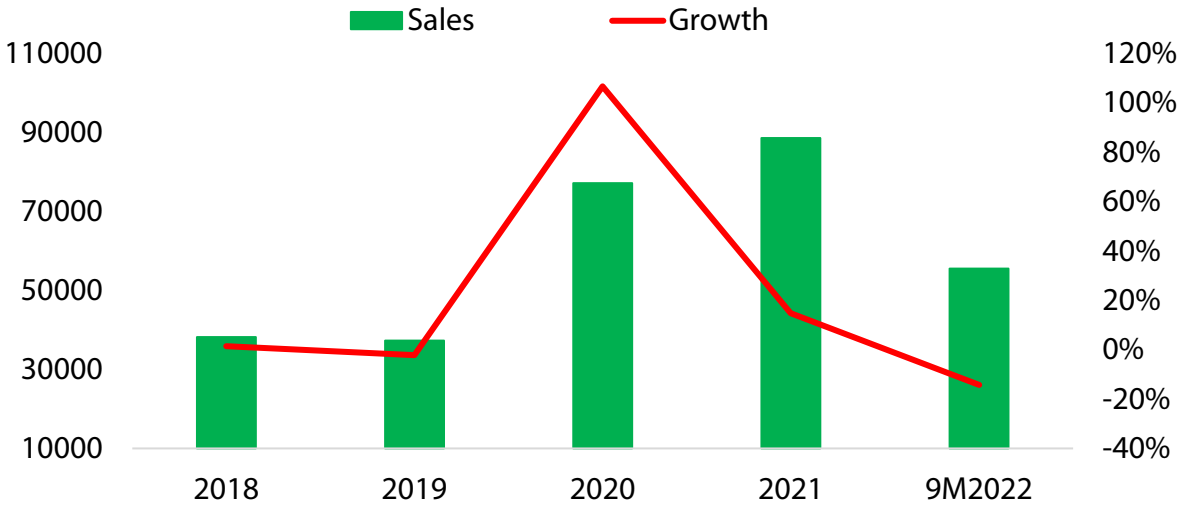
- MSN is currently Vietnam FMCG leader; thus, it is hard for the company to speed up their sales growth at double-digit rate without making new business segment (by innovation or M&A) or creating new distribution channel (e.g., export). In fact, in the period of 2008 – 2022, the financial incomes had been the main growth driver for MSN 's net profit. Therefore, we suppose that the stepped-up investment decisions of MSN is a right strategy to deliver profitable sales growth in the long-term.
- We believe that 2021-2023 period is transition state of MSN, after that, the company will upgrade their business model to a new level, successfully generating higher profitability.

Figure 10: MSN 's financial incomes breakdown (VND bn)



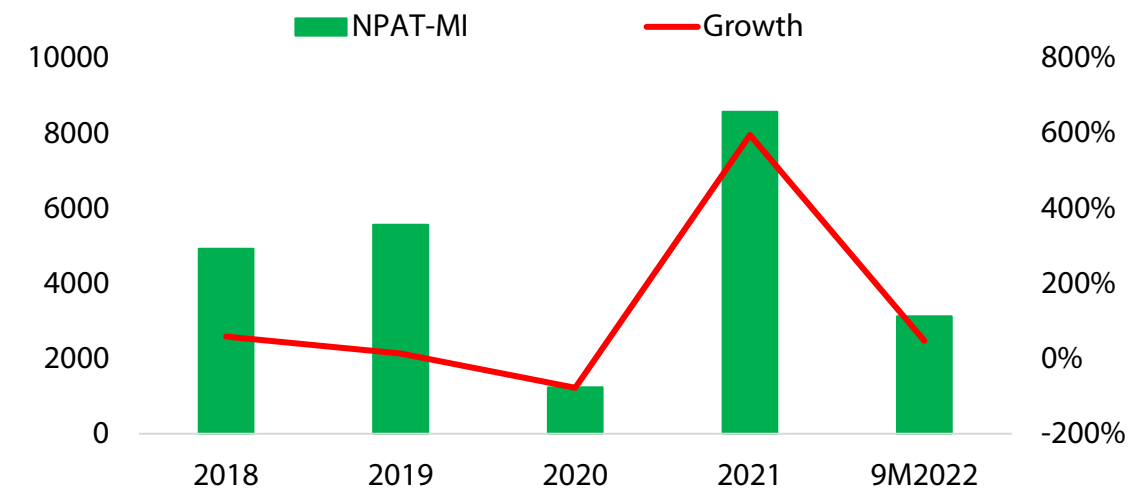
Source: Bloomberg, MSN, RongViet Securities

Figure 11: MSN 's sales (VND bn, LHS) and growth (% YoY, RHS)



Source: Bloomberg, MSN, RongViet Securities

Figure 12: MSN 's net profit (VND bn, LHS) and growth (% YoY, RHS)



Source: Bloomberg, MSN, RongViet Securities

Table 2: Business Forecasts

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**55,546**	**-14.3%**	**78,199**	**-11.8%**	**81,902**	4.7%
MCH	19,695	5.4%	28,149	1.4%	29,473	4.7%
WCM	21,936	-8.6%	29,719	-3.7%	31,355	5.5%
MML*	3,232	-78.7%	4,660	-76.4%	4,928	10.5%
MHT	11,651	21.3%	15,870	17.0%	16,146	1.7%
Gross profit	**15,481**	**1.5%**	**21,212**	**-4.2%**	**22,632**	**6.7%**
MCH	7,832	2.0%	11,328	-3.9%	12,200	7.7%
WCM	5,020	7.5%	6,835	10.5%	7,368	7.8%
MML*	238	-87.9%	329	-76.3%	388	17.9%
MHT	2,003	61.3%	2,720	19.8%	2,675	-1.8%
Operating profit	**3,288**	**-13.4%**	**4,008**	**-36.2%**	**4,874**	**21.6%**
Net interest expenses	2,836	-8.5%	3,316	-20.3%	4,701	41.8%
Income from JVs	**3,590**	**23.6%**	**4,321**	**10.9%**	**4,192**	**-3.0%**
PBT	**4,244**	**21.5%**	**4,463**	**-56.8%**	**3,790**	**-13.0%**
NPAT-MI	3,120	46.8%	3,343	-61.0%	2,451	-26.7%
Core NPAT-MI	**2,105**	**39.5%**	**3,398**	**-10.6%**	**2,505**	**-26.3%**
EBITDA	10,826	-4.5%	9,843	-9.8%	11,146	13.2%
EPS (VND)	2,198	21.8%	2,387	-25.8%	1,759	-26.3%

** The negative growth of MML business is due to the deconsolidation of feed segment since Q1 2022*

Source: MSN, RongViet Securities

Increasing income from JVs pushed the bottom-line up in 9M2022

- Thanks to the non-cyclical nature of Masan's businesses, the income from Joint Ventures (JVs) – mainly Techcombank (HSX: TCB), help MSN to record double-digit growth in 9M2022 bottom-line.
- MSN has significantly restructured their business model since Q4 2021 until present, resulting in strong fluctuation in 9M2022 business result.

We predict that 2023 performance of MSN will be diverse, of which, core profit will show double-digit growth, but sharp rising non-core expense will grab profit.

- 2023 top-line will present one-digit growth, encouraged by consumer-retail segments. In the background of many competitors decrease business scale because of rising inflation, the strong expansion of MSN will help the company gain higher market share.
- MSN will bear high interest expenses since 2023. For example, the company has raised USD600 mn (or VND14,700 bn) syndicated loan with interest rate and duration of 6.5% per annum and 5 years, respectively.
- In addition, we expect a lower contribution from MSN's JVs due to the slowdown of the economy in 2023, implying a negative effect on MSN's **2023 net profit.**

Sum Of The Parts (SoTP)/ Unit: VND bn	FY2023F	Comments
1) Masan Consumer (MCH)		DCF method
Equity value	103,693	
Masan's ownership (%)	72.8	
Equity value attributed to Masan Group (A)	75,488	13x justify PE multiple
2) Masan MEATLife (MML)		EV/EBITDA method
Equity value	772	
Masan's ownership (%)	94.8	
Equity value attributed to Masan Group (B)	732	EV/EBITDA multiple of peers = 12.9x
3) Masan High-tech Materials (MHT)		EV/EBITDA method
Equity value	43,502	
Masan's ownership (%)	86.4	
Equity value attributed to Masan Group (C)	37,586	EV/EBITDA multiple of peers = 7.5x
4) WinCommerce (WCM)		P/S method
Equity value	31,104	
Masan's ownership (%)	71.5	
Equity value attributed to Masan Group (D)	22,239	P/S multiple = 1.0
5) Phuc Long Heritage		
Equity value	5,178	
Masan's ownership (%)	85.0	P/E multiple = 10
Equity value attributed to Masan Group (E)	4,401	
6) Long-term investment value		
Techcombank (TCB)	7,631	
Other long-term investment	945	DCF + P/B method
Equity value attributed to Masan Group (F)	8,576	
7) Other net assets (G)	(4,672)	
Equity Value (A) + (B) + (C) + (D) + (E) + (F) + (G)	**144,351**	
Common outstanding shares (mn shares)	1,424	
Target Price (VND)	**101,400**	FY2023

- In 2022-2023 period, we expect that consumer-based businesses (MCH, MML & WCM) will lead consolidated core business growth. However, the bottom-line will show weak performance due to non-core business expenses.
- Based on SoTP valuation, we evaluate MSN at VND 101,400 per share. We recommend to **NEUTRAL** on MSN shares with the total expected return of +4.5%.

PHAMARCEUTICAL

CHANGING POLICIES FOR DEVELOPMENT

Quan Cao – quan.cn@vdsc.com.vn

PHARMACEUTICAL INDUSTRY – SUNSHINE AFTER THE RAIN

Ranking

Overview

The pharmaceutical industry witnessed a bottleneck in drug bidding, a shortage of drugs for treatment at hospitals that lasted throughout 2022, accumulated in 11M2022, the total value of drug bidding packages decreased by 16% YoY. The Ministry of Health has taken measures to resolve this situation such as organizing additional bidding packages with values up to VND 22 trillion serving in the 2022 - 2024 period to cool down the short-term drug shortage on ETC channel. In addition, the Government is planning to change the bidding law and related resolutions to solve existing problems to support long-term development in the pharmaceutical industry.

For the OTC channel, the growth is forecasted to slow down because the recovery from the ETC channel will erode the market share from the OTC channel.

In the long term, the pharmaceutical industry will benefit from (1) the population aging trend in Vietnam (2) the growth of per capita income, which leads to an increase in people's spending on pharmaceuticals.

Highlights

ETC Channels will be slightly positive in 2023.

- Accumulated 11M2022, the total value of drug bids reached VND 40 trillion (-16% YoY). The Government is actively trying to remove obstacles, adding drug supply packages with a value of VND 22 trillion in the 2022 - 2024 period.
- Many executive documents are being drafted by the Congress to clarify regulations to limit mistakes in bidding and increase attraction from ETC channel for pharmaceutical companies such as changes in the Bidding Law No. 43/ 2013/QH13, Circular 14/2020/TT-BYT, Decree 146/2018/ND-CP. The goal is to promote the development of the ETC channel in the long term.
- According to Fitch Solutions forecasts, ETC channel revenue will reach USD 5.46 billion (+7% YoY) for 2023F and USD 6.81 billion (7.7% YoY) for 2026F, a 5-year CAGR of 8%.

Although the new opening rate of drugstore chains is likely to slow down, the OTC channel is still forecasted to achieve a growth rate of 7.7% in 2023F by Fitch Solutions .

- The distribution channels are large with the total store number of 03 retail chains reaching 2,550 stores. Along with that is about 56,000 traditional pharmacies.
- The habit of buying drugs at retail pharmacies instead of going to hospitals is a supporting factor for the OTC channel.

PHARMACEUTICAL INDUSTRY – SUNSHINE AFTER THE RAIN

Highlights

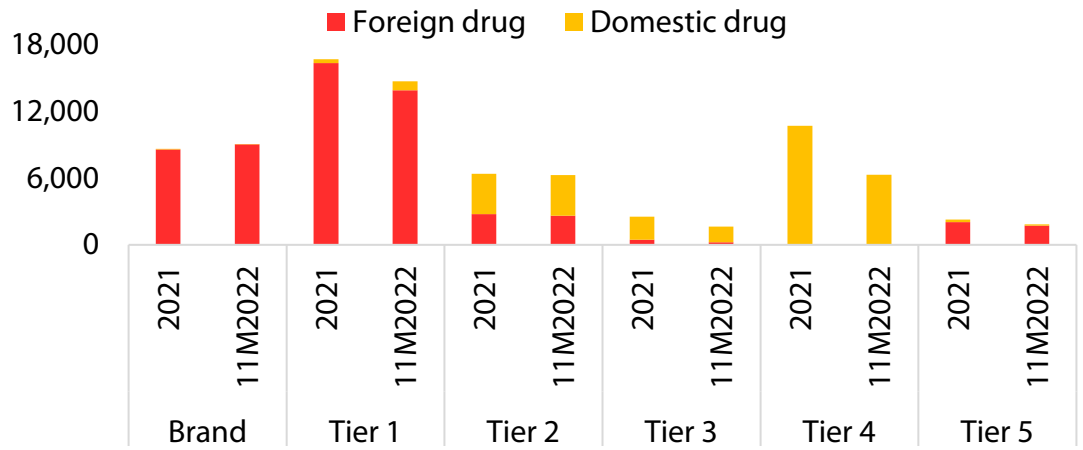
The increase in demand for drug procurement due to population aging and increased spending on pharmaceuticals will support the growth in long term.

- According to the General Statistics Office, the number of people over 60 years old in Viet Nam is about 13 million people, equivalent to 13.17% of the total population in 2022. This number is expected to increase to 29.22 million people, accounting for 25.35 % of the total population of Vietnam in 2050.
- Vietnam's GDP growth is forecast to reach 6-7% annually (equivalent to emerging countries), which will improve per capita income with a 5-year CAGR of 6% over period of 2022 – 2026.
- These two factors will be the structural changes for pharmaceutical spending, with an expected compounded 5-year growth rate of 7.8%.

Risk

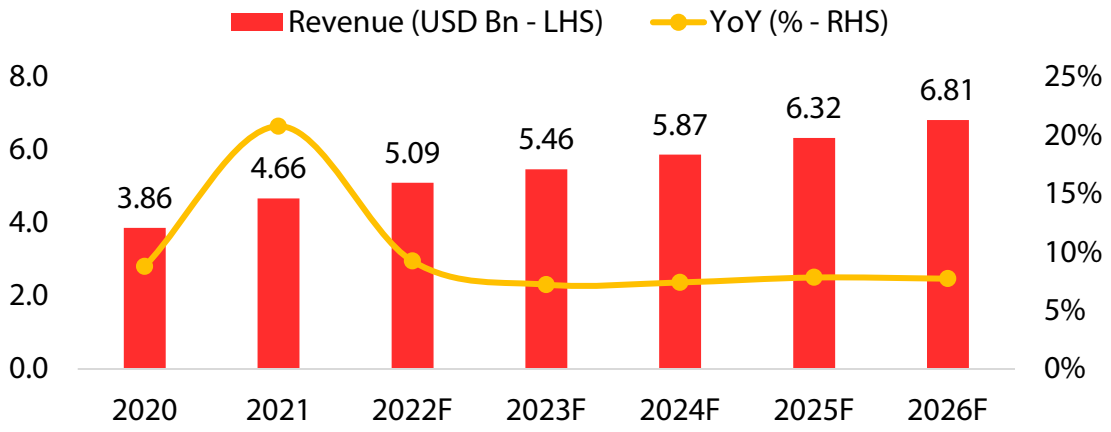
The duration for changing operating documents is longer than expected and the impact of the policy will be delayed.

Figure 1: Bidding results in 11M2022 decreased sharply (VND Bn)



Source: DAV, RongViet Securities

Figure 2: The ETC revenue forecast



Source: Fitch Solutions, RongViet Securities

The Viet A case negatively affected ETC bidding activities in 2022. Accumulated 11M2022, the total winning value **decreased significantly** to VND 40 trillion (-16% YoY), of which domestic drugs and foreign drugs decreased to 12 trillion VND (-28% YoY) and 28 trillion VND (-9% YoY), respectively, accounting for 31% and 69% respectively.

Additional bidding packages supported to cool down the shortage of drugs on the ETC channel in the short term.

- To prevent the shortage of drugs, the bidding packages for supplementing drugs for 2022 - 2024 reached VND 22 trillion. In addition, many hospitals are still inviting bids to ensure the supply for 2023-2024 with a value of VND 5,600 billion, including VND 4,800 billion of generic drugs.
- Due to Fitch Solutions forecasts, ETC channel revenue will reach USD 5.46 billion (+7% YoY) for 2023F and USD 6.81 billion (7.7% YoY) for 2026F, equivalent to a CAGR 5-year of 8% on the basis of expanding coverage of universal health insurance, forecasting rapid growth of brand-name drugs and licensed generics.

Changing in regulation facilitate the development of the ETC channel in the long term.

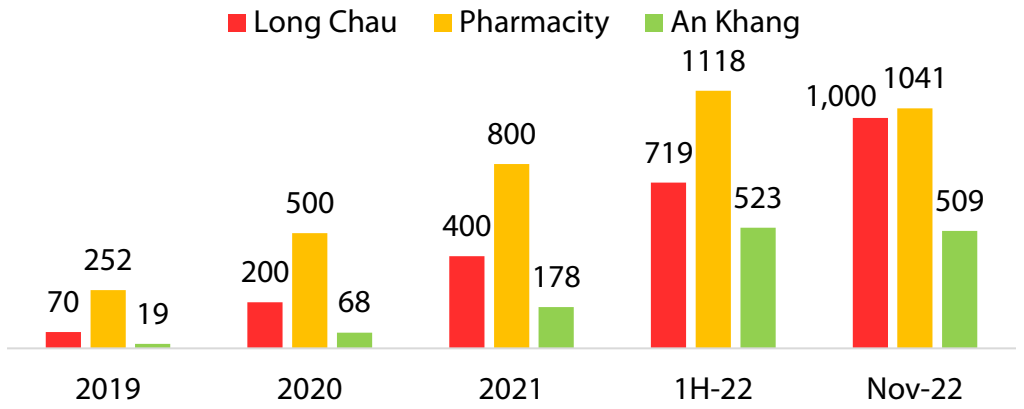
Some announcements were presented in the 4th session of the 15th National Assembly related to issues in bidding to solve drug shortage on ETC channel. We assess that the goal of the amendment is to clarify the law, limit mistakes so that hospitals and medical facilities have grounds to organize bidding and attract pharmaceutical companies to the ETC channel.

Table 1: Some proposed amendments in the executive documents show the goal of attracting companies towards the ETC channel

Document	Suggested content to be modified	Our comment
Circular 14/2020-MoH	When estimating the bid package price, the medical facility must refer to the price of the winning medical equipment within the previous 12 months. **The planned price of medical equipment must not be higher than the winning bid price of the medical equipment that has been performed or announced.** In case the price is higher, specific explanations and explanations must be made.	Regulatory change will follow the market rule that drug prices tend to increase year by year, companies participating in the bidding have the ability to generate profits. Which attracts pharmaceutical companies towards the bidding channel.
Decree 146/2018 - Government	Payment by rate is applicable to medical examination and treatment establishments that apply outpatient health insurance.	The revised Decree aims to solve the current shortage of capitation funds due to the increasing demand for outpatient medical examination and treatment. Many hospitals are not covered by health insurance, causing hospitals to be late or unable to pay their drug suppliers, leading to companies not wanting to participate in tenders.
Draft of the new Bidding Law	The draft has developed a separate chapter on drug procurement in the revised Bidding Law.	Clarifying regulations, limiting errors for hospitals to organize bidding. Increase transparency, attract capable manufacturing companies towards the ETC channel.

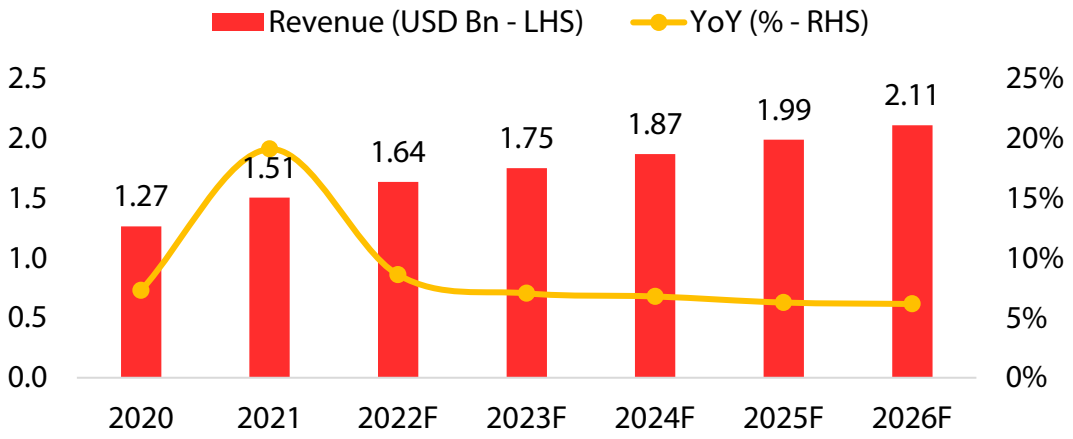
Source: RongViet Securities

Figure 3: Number of stores of pharmaceutical retail stores



Source: MWG, FRT, Pharmacity, RongViet Securities

Figure 4: The OTC channel revenue forecast



Source: Fitch Solutions, RongViet Securities

The recovery of the ETC channel will lead to the deceleration of OTC channel …

The growth rate of OTC channel revenue is forecasted to slow down due to (1) the COVID-19 epidemic period has passed, causing a sudden increase in demand for OTC drugs, (2) The government is also actively opening up the ETC channel as analyzed above, (3) Fitch Solutions forecasts the rapid growth of brand-name drugs, licensed generics, and expansion of universal health insurance coverage, will boosting the growth of the ETC channel.

…. But the OTC channel is still forecasted to achieve a 5-year CAGR of 7% by Fitch Solution.

- **The rapid development of the pharmaceutical retail system**. In the period 1H2022, Long Chau, An Khang and Pharmacity opened 982 new stores. However, after that, only Long Chau can maintain the new opening rate with 281 stores while Pharmacity and An Khang closed 77 and 14 inefficient stores, respectively. However, the total number of stores of 03 retail chains reached 2,550 stores (+85% YoY), an increase of 1,172 stores compared to the end of 2021. Along with that is the number of about 56,000 traditional pharmacies to ensure the distribution channel is large enough
- The majority of people have the habit of buying medicine at a retail pharmacy instead of going to the hospital.

AGING POPULATION TREND IS A LONG-TERM GROWTH DRIVER | PHARMACEUTICAL

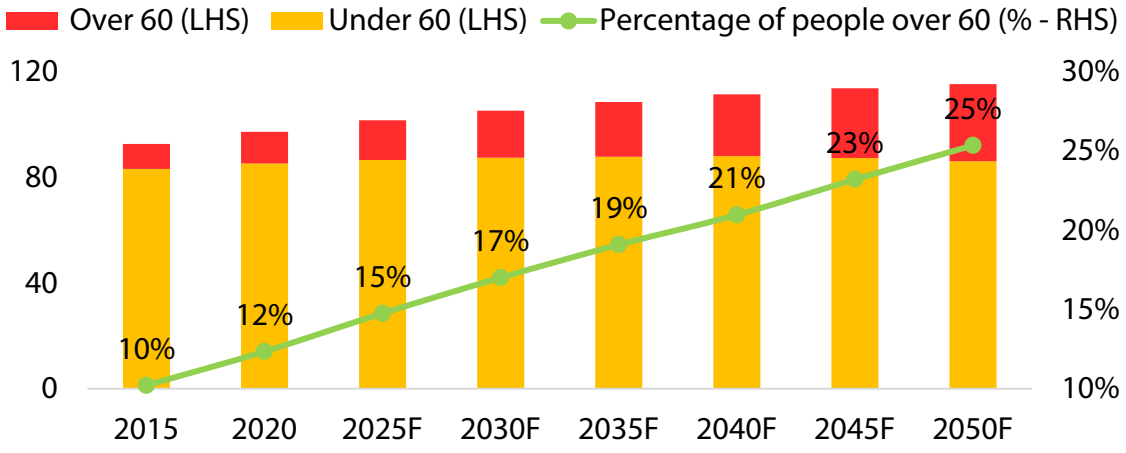
Demographic trends favor the pharmaceutical industry in the long term.

- For the elderly, health problems will occur more and the demand for medicinal products will be higher than people of working age.
- According to the General Statistics Office, the number of people over 60 years old in Viet Nam is about 13 million people, equivalent to 13.17% of the total population in 2022. This number is forecasted to increase to 29.22 million people, accounting for 25.35 % of Vietnam's total population by 2050.

People are spending more on pharmaceuticals due to rising average incomes.

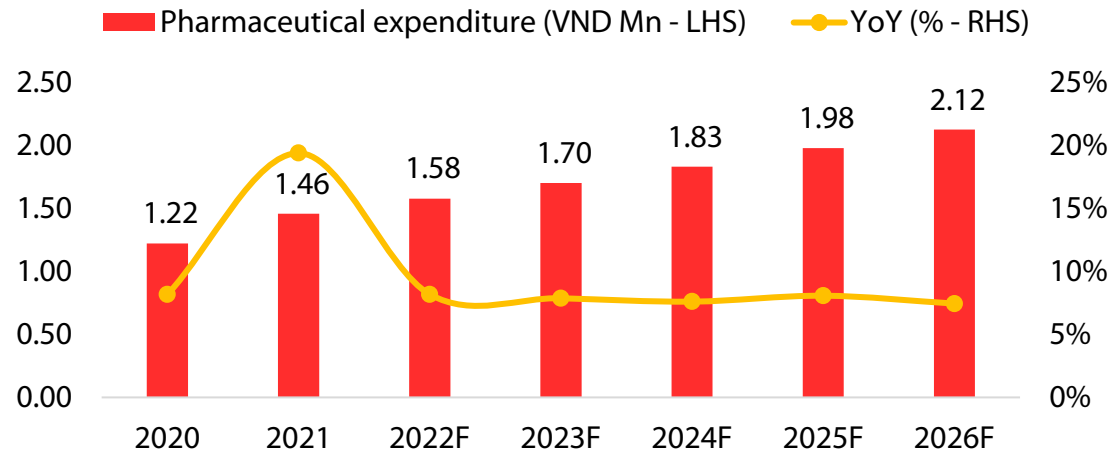
- Fitch Solutions forecasts that per capita spending on pharmaceuticals will tend to increase from VND 1.46 million in 2021 to VND 2.12 million in 2026F, equivalent to a compound growth rate of +7.8 % within the next 5 years, accounting for an average of 5% of per capita income per year.

Figure 5: Population aging trend



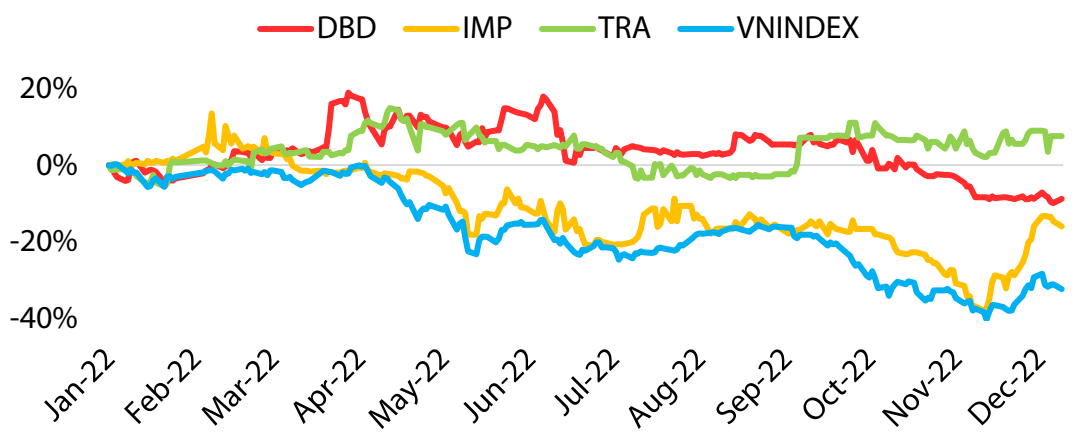
Source: GSO, RongViet Securities

Figure 6: Pharmaceutical expenditure (million VND)



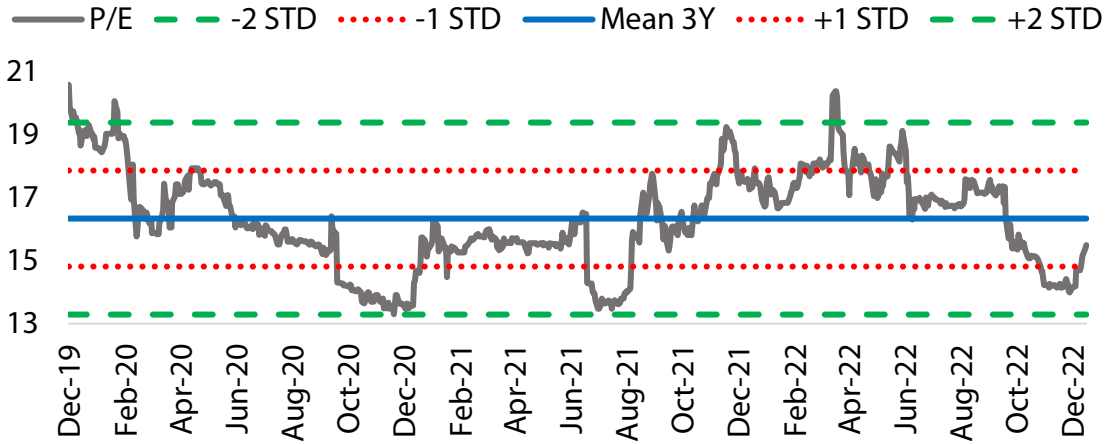
Source: Fitch Solutions, RongViet Securities

Figure 7: Pharmaceutical stocks outperformed VNINDEX



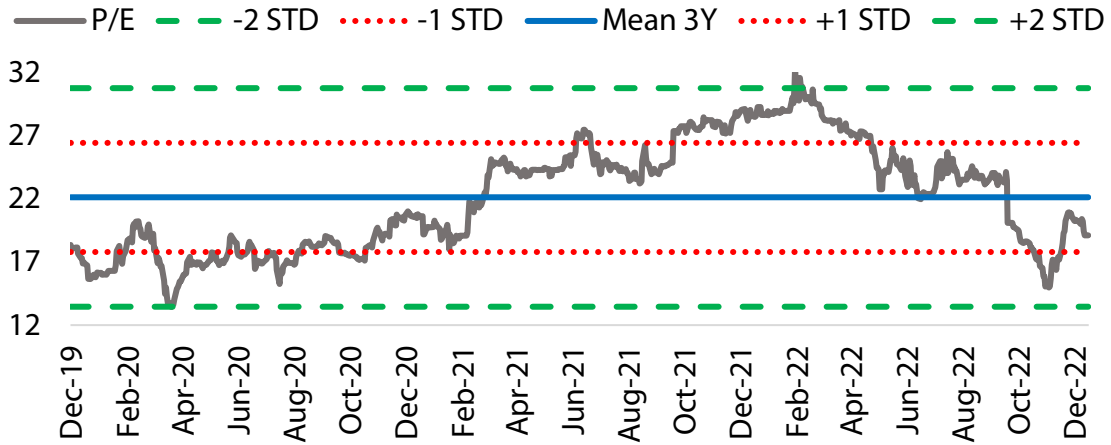
Source: Bloomberg, RongViet Securities

Figure 8: DBD's historical P/E



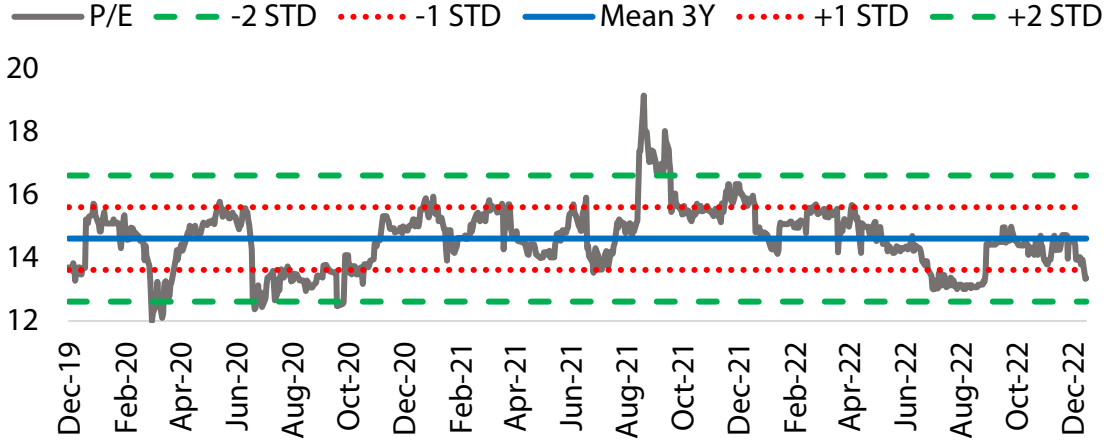
Source: Bloomberg, RongViet Securities

Figure 9: IMP's historical P/E



Source: Bloomberg, RongViet Securities

Figure 10: TRA's historical P/E



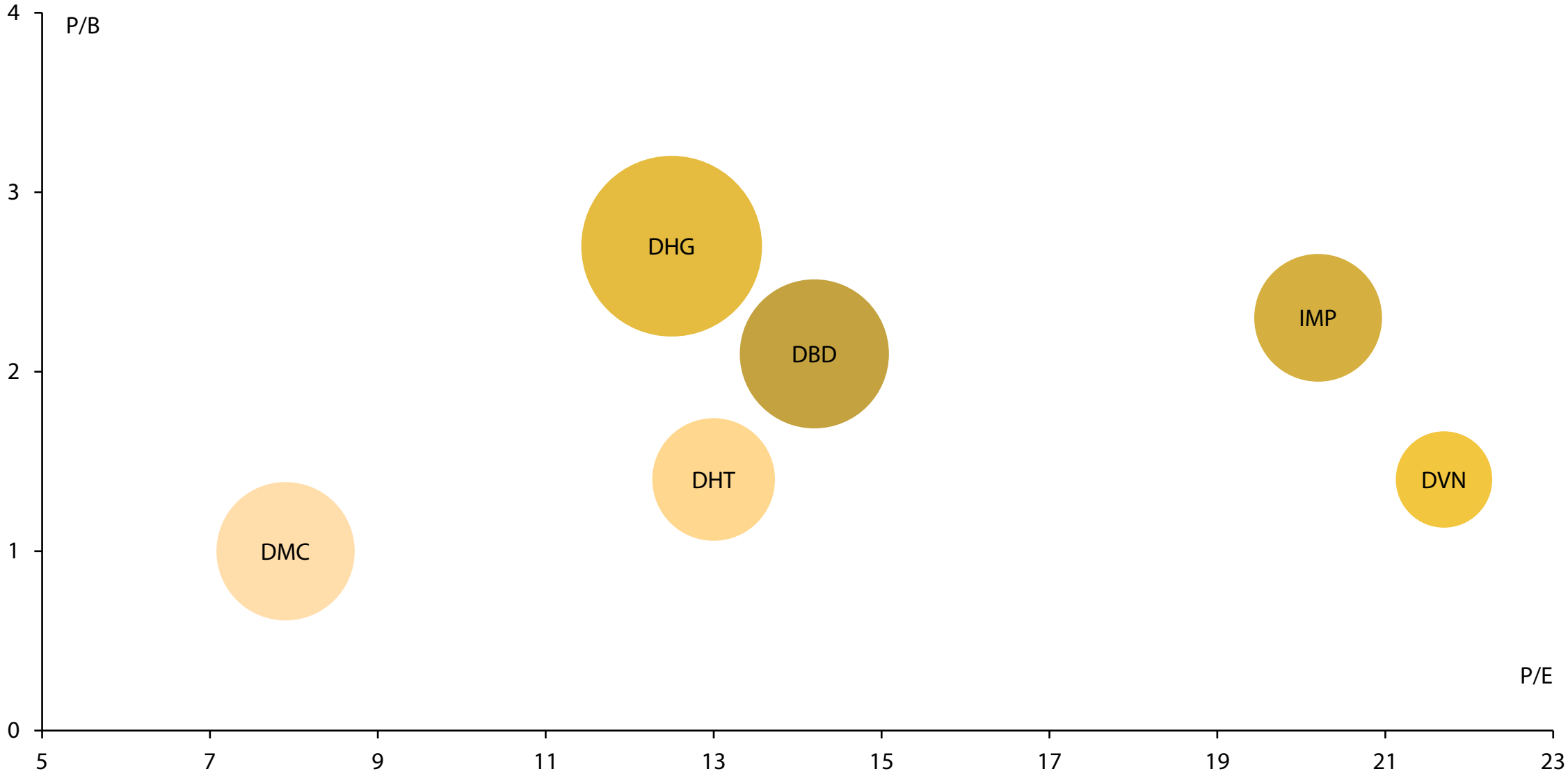
Source: Bloomberg, RongViet Securities

INDUSTRY COMPARABLE

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022		%	2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
DBD	2,721	45,000	36,350	0.0	92.1	24.0	-29.7	77.2	0.1	287.9	-38.4	18.7	9.6	9.1	18.5	0.9	2.8
IMP	4,167	63,000	62,500	4,000	25.2	-7.5	-12.9	4.8	-0.1	120.3	-24.4	34.3	17.5	7.7	23.7	2.0	2.1
DHG	11,126	N.R	85,100	N.A	45.8	6.6	N.A	N.A	0.0	N.A	N.A	23.2	19.9	12.5	20.5	2.7	4.0
DVN	3,892	N.R	16,800	N.A	0.0	-8.2	N.A	N.A	0.0	N.A	N.A	18.7	9.6	9.1	21.8	0.9	1.5
TRA	3,888	N.R	93,800	N.A	3.0	13.2	N.A	N.A	0.2	N.A	N.A	21.2	16.0	13.4	19.2	2.7	3.2
DHT	1,030	N.R	39,000	N.A	21.8	-19.8	N.A	N.A	-0.2	N.A	N.A	10.7	6.3	13	12.6	1.3	3.1
DMC	1,445	N.R	41,600	N.A	44.9	3.2	N.A	N.A	-0.1	N.A	N.A	13.6	10.7	7.9	12.9	1.0	2.3

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

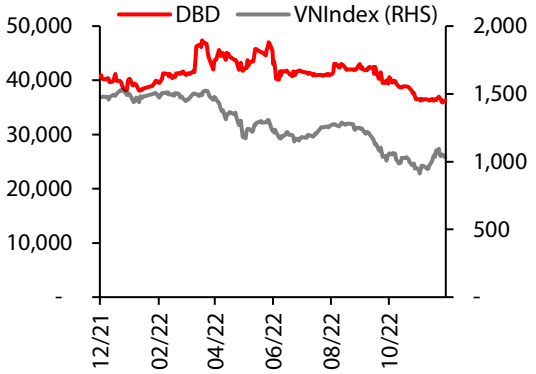


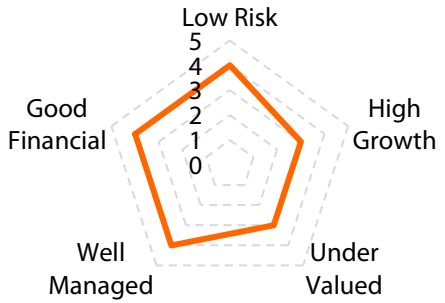
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

NHON HOI FACTORY MEETING EU - GMP WOULD ENHANCE DBD'S POSITION

HSX: DBD

BUY: +24% **MP: 36,350** **TP: 45,000**





STOCK INFO

Sector	Health Care
Market Cap ($ mn)	115
Current Shares O/S (mn shares)	75
3M Avg. Volume (K)	65
3M Avg. Trading Value (VND Bn)	2
Remaining foreign room (%)	92.2
52-week range ('000 VND)	33,95 - 48,8

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	1,559	1,476	1,538
NPATMI VND bn)	164.7	263.7	159
ROA (%)	11.8	12.3	10.3
ROE (%)	16.2	16.3	15.5
EPS (VND)	3,190	2,878	2,849
Book Value (VND)	19,643	17,701	18,361
Cash dividend (VND)	1,500	0	0
P/E (x)	18.5	12.6	20.1
P/B (x)	2.6	2.1	3.1

INVESTMENT THESIS

It is expected that Nhon Hoi cancer drug factory meeting EU - GMP standards will lead to a leap in the ETC channel's business results from 2024.

- Nhon Hoi cancer drug factory consists of two production lines for injections and pills, which are expected to meet EU - GMP standards in Q2/2024 and Q2/2025, respectively. Thereby, DBD will become the first domestic cancer drug manufacturer to be able to bid for tier 1&2 drugs on the ETC channel.
- The gross profit margin of the cancer drug segment will be improved because the price of the winning drug in tiers 1&2 is 1.5 - 2 times higher than the drug with the same active ingredient being bid in tiers 4&5.
- ETC channel revenue is forecasted to reach VND 721 billion (+16% YoY) in 2022 and grow strongly in 2023 to reach VND 890 billion (+23% YoY).

The growth rate of new pharmacy customers (OTC), although slowed down, is still in line with the strategy

- The number of pharmacy customers as of the end of October 2022 is 18,885 customers and is expected to complete the target of 19,000 in 2022.
- It is estimated that by 2026, the OTC channel will reach VND 762 billion in revenue and develop 30,000 pharmacy customers.

Potential for M&A deals in the future Vietnam's pharmaceutical industry has a significant attraction for foreign investors when it can own up to 100%. Currently, the rate of foreign ownership in DBD is quite low at only 7.49%. This could become a catalyst for future stock price appreciation.

RISKS TO OUR CALL

- Nhon Hoi cancer drug factory was granted EU - GMP certificate later than expected.

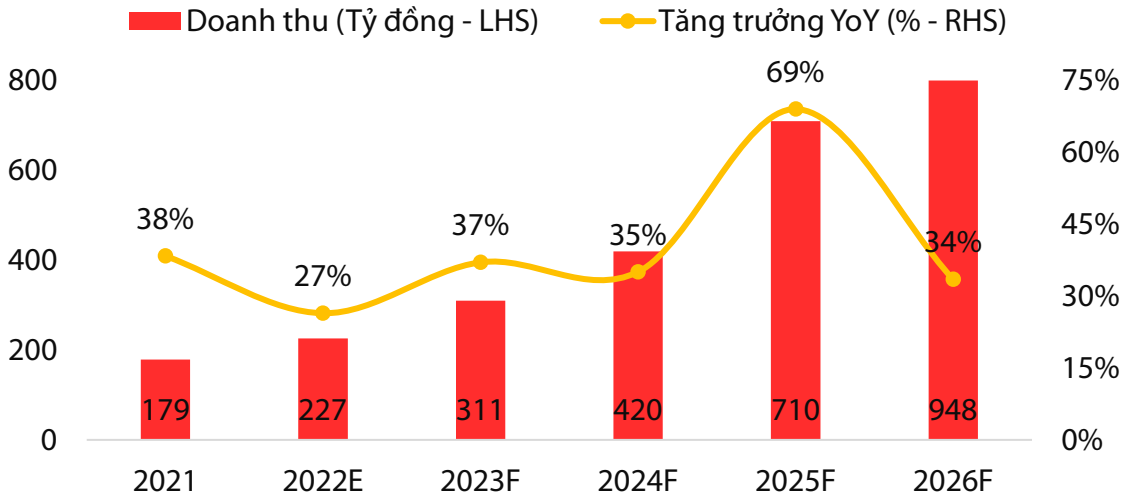
CANCER DRUG IS THE MAIN FORCE BOOSTING ETC CHANNEL GROWTH

Cancer drug revenue currently accounts for about 30% of ETC channel, forecasted to soar when Nhon Hoi factory meets EU - GMP standards.

- DBD will become the first domestic cancer drug manufacturer that can participate in tiers 1&2 bidding when their two production lines for injectable and tablet cancer drugs are expected to meet EU - GMP standards in Q2/2024 and Q2/2025, respectively.
- Currently, the bid-winning price of cancer drugs in tiers 1&2 is about 1.5 - 2 times higher than drugs with the same compounds being bid in tiers 4&5. While the company does not need to change manufacturing materials, this will help improve cancer drug GPM.

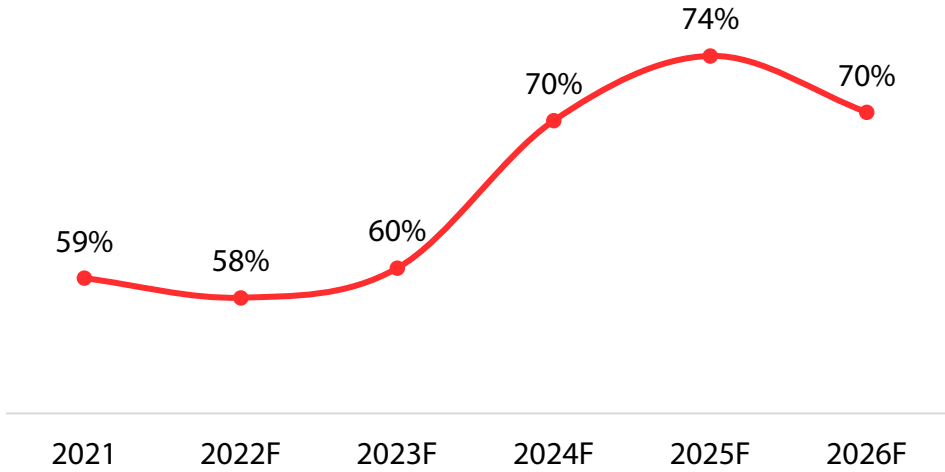
Accumulated 9M2022, the ETC channel's revenue reached VND 567 billion (+26% YoY) because the health insurance agency is prioritizing the use of domestic drugs to tighten the spending budget. The main products of DBD on the ETC channel, which are cancer drugs, antibiotics, hemodialysis solutions, and peritoneal dialysis solutions, recorded growth rates of 54%, 47%, 23%, and 92%, respectively.

Figure 1: Cancer drug revenue and growth rate



Source: DBD, RongViet Securities

Figure 2: Cancer drug gross profit margin was expanded



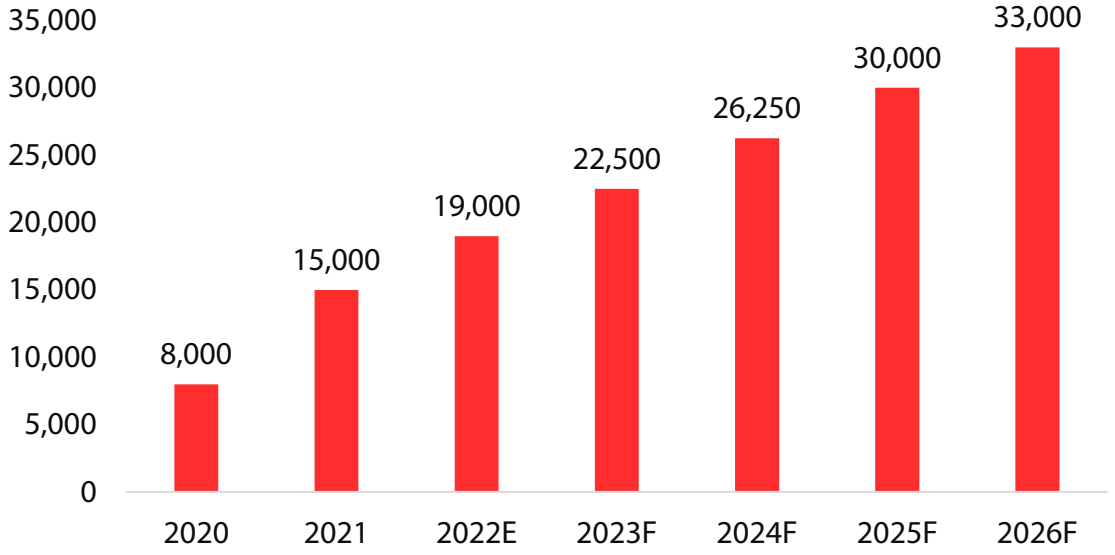
Source: DBD, RongViet Securities

OTC CHANNEL DEVELOPMENT STRATEGY IS GOING IN THE RIGHT DIRECTION

DBD started to expand the OTC channel since 2022 while their pharmacy channel expansion strategy to strengthen the presence in a larger number of retailers instead of focusing on the biggest pharmacies is still on the right track

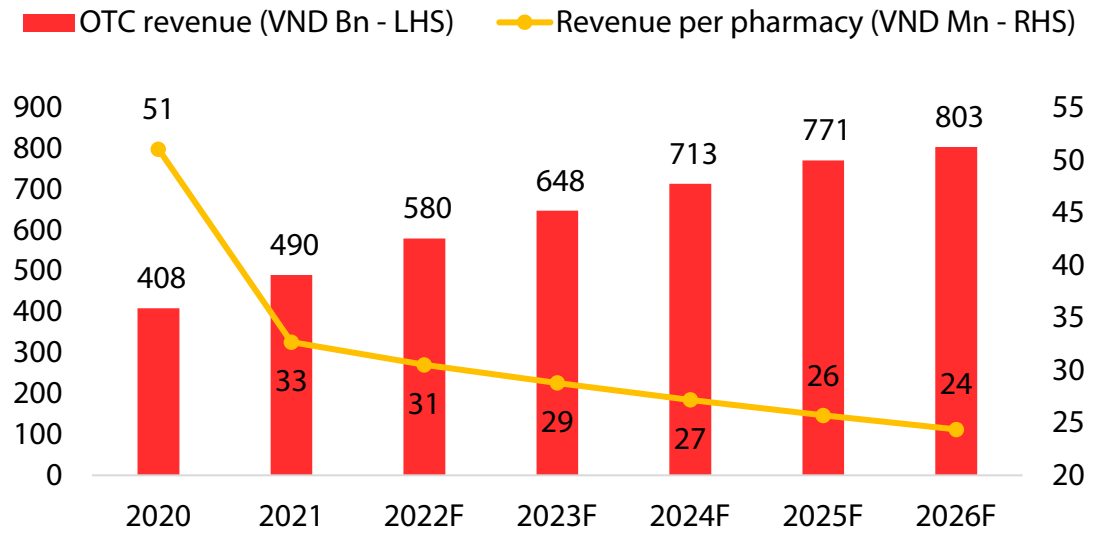
- By the end of October 2022, DBD had developed 18,865 pharmacy customers, an increase of 1,265 customers compared to the end of June 2022. It is expected that the number of pharmacy customers can gain the target of 19,000 for 2022.
- The OTC channel revenue rate slows down due to the number of new pharmacy customers. Accumulated 9M2022, the OTC channel revenue reached VND 428 billion (+5% YoY). The main product groups of the OTC channel are vitamins, functional foods, musculoskeletal, digestive and cardiovascular drugs.

Figure 3: Plan to expand the number of the OTC channel customers



Source: DBD, RongViet Securities

Figure 4: The OTC channel revenue forecast

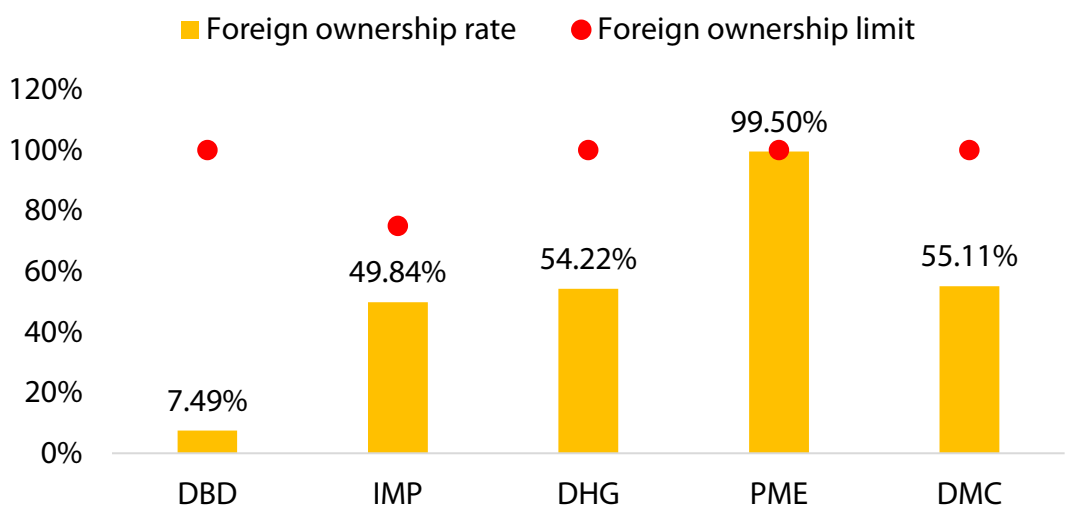


Source: DBD, RongViet Securities

DBD has a long experience and diversified drug research and production capacity which can be a target for foreign strategic investors.

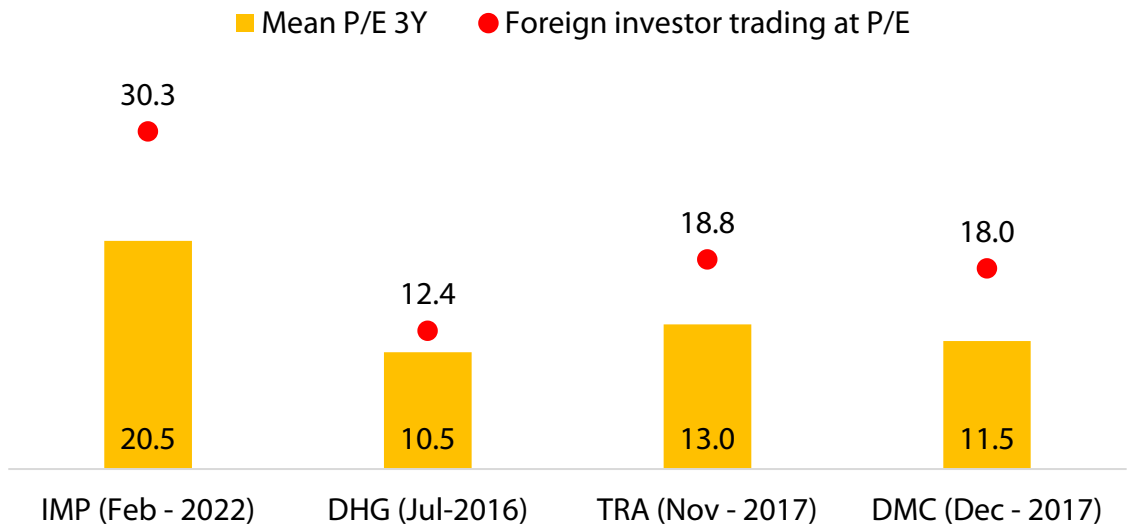
- Vietnam's pharmaceutical industry has a significant attraction for foreign investors when it is possible to own up to 100%. Many foreign organizations had strategic cooperation with listed companies such as SK Investment and IMP, Taisho Pharmaceutical and DHG, Abbot Laboratories and DMC, Daewoong and TRA, and the case of Stada Service Holding B.V. own up to 99% of PME.
- Currently, DBD's shareholder structure has a relatively low foreign ownership rate of only 7.49%, and there is no large organization to cooperate as a strategic shareholder.

Figure 5: Foreign ownership rate in some listed pharmaceutical companies



Source: VSD, RongViet Securities

Figure 6: Foreign investors always offer preferential pricing for Vietnamese pharmaceutical companies



Source: Bloomberg, RongViet Securities

Table 1: Forecast

Unit Bn	9M2022	YoY%	FY22F	YoY%	FY23F	YoY%
Net revenue	**1,090**	**-6%**	**1,469**	**-6%**	**1,697**	**15%**
Pharmaceutical	1,028	14%	1,350	15%	1,583	17%
Self-produced	*995*	*18%*	*1,302*	*16%*	*1,545*	*19%*
ETC	*567*	*26%*	*721*	*16%*	*890*	*23%*
OTC	*428*	*5%*	*580*	*18%*	*648*	*12%*
Outside purchased medicines	*33*	*-31%*	*47*	*-20%*	*38*	*-20%*
Medical supplies	32	-88%	104	-71%	98	-6%
Materials, packaging, and other services	30	200%	15	-1%	15	0%
Gross profit	**542**	**19%**	**666**	**7%**	**804**	**21%**
GPM	*50%*	*10 pps*	*45%*	*5 pps*	*47%*	*2 pps*
SG&A expenses	346	18%	413	2%	486	18%
Operating profit	196	23%	253	16%	317	26%
PBT	**207**	**22%**	**264**	**13%**	**325**	**23%**
NPAT-MI	**165**	**23%**	**215**	**17%**	**264**	**23%**
NPM	*15%*	*3 pps*	*15%*	*3 pps*	*16%*	*1 pps*
EPS	**2,201**	**-6%**	**2,864**	**2%**	**2,934**	**2%**

Source: DBD, RongViet Securities

Forecasting for 2022F/2023F, we estimate net revenue of VND 1,469 billion (-5.7% YoY) and VND 1,697 billion (+15.5% YoY), respectively. In which, the pharmaceutical segment will grow well in both ETC and OTC channels

- We estimated that the ETC channel revenue in 2022F/2023F will reach VND 721 billion (+16% YoY) and VND 890 billion (+23% YoY) respectively, with the main driving force coming from cancer drugs.
- We estimated that the number of pharmacy customers will reach 22,500 and 26,250 customers for 2022F/2023F, respectively. Estimated the OTC revenue for 2022F/2023F is VND 539 billion (+19% YoY) and VND 606 billion (+14% YoY), respectively.

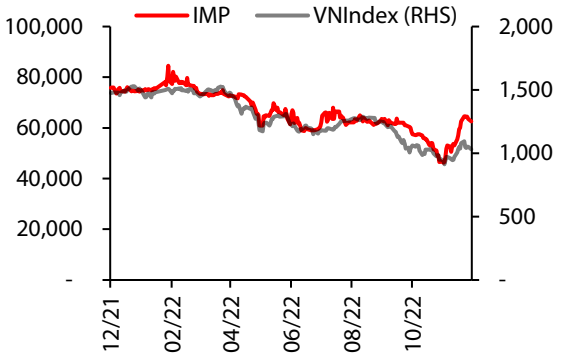
Forecast NPAT for 2022F/2023F is VND 215 billion (+17% YoY) and VND 264 billion (+23% YoY) respectively.

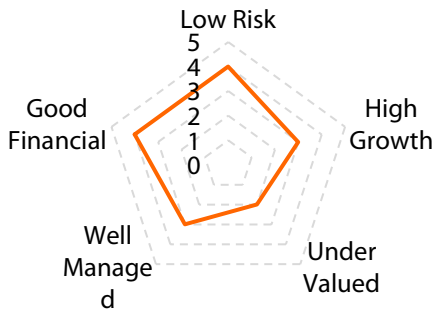
With the expectation that Nhon Hoi cancer drug factory will meet EU - GMP standards will help DBD's profit margin to gradually expand from 2023.

LOW GROWTH MAKES VALUATION NOT REALLY ATTRACTIVE

HSX: IMP

ACCUMULATE: 3% **MP: 62,500** **TP: 63,000**





STOCK INFO

Sector	Health Care
Market Cap ($ mn)	176
Current Shares O/S (mn shares)	67
3M Avg. Volume (K)	7
3M Avg. Trading Value (VND Bn)	0
Remaining foreign room (%)	25.2
52-week range ('000 VND)	43,5 - 86,4

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	1,267	1,546	1,675
NPATMI VND bn)	189	222	240
ROA (%)	8.2	9.6	9.9
ROE (%)	10.5	11.7	11.8
EPS (VND)	2,495	2,934	3,162
Book Value (VND)	26,901	28,547	30,336
Cash dividend (VND)	1,500	1.500	1.500
P/E (x)	19.2	21.3	19.8
P/B (x)	1.8	2.2	2.1

INVESTMENT THESIS

The profit growth of 2023F will not have many mutations due to the deceleration of the OTC channel while the ETC channel, despite having one more EU-GMP factory and the whole industry recovering after a long time of drug scarcity, cannot yet promote growth due to the low contribution.

- The OTC channel revenue accounted for 64% of total revenue in 2022F and will be flat for 2023F to reach VND 937 billion (+2% YoY) due to the shortage of drugs on ETC channel being reduced and IMP's strategy to reduce the contribution proportion of OTC channel, making the overall revenue growth rate only get a single digit.
- IMP 4 factory has officially achieved EU - GMP standard in Q3/2022. Although this factory will make IMP become the first domestic company that can participate in bidding for antibiotics in groups 1&2 to compete with foreign companies, its contribution to growth will not be huge because the scale of bidding packages containing active ingredients that IMP 4 is planned to produce is relatively small.
- We expect that the Ministry of Health is actively removing obstacles in the bidding process and solving the drug shortage that happened in the whole year of 2022, which will support the demand for drug procurement at the ETC channel to recover in 2023. Revenue from the two factories IMP 2 and IMP 3 is forecasted to reach VND 72 billion (+16 YoY) and VND 489 billion (+9% YoY) respectively in 2023.

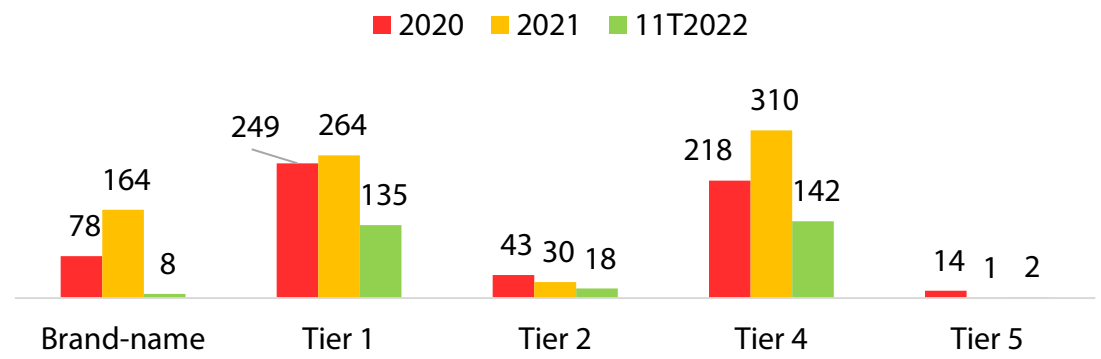
The valuation is not attractive enough compared to the 5-year CAGR of NPAT. Although IMP is trading at a P/E 2023F valuation of 19.8x, 13% lower than the 5Y average P/E of 22.5x, it is still quite high if considering the 5-year CAGR of NPAT is 7% and the 12-month P/E trailing is 60% higher than the industry average.

RISKS TO OUT CALL

- The organization of drug bidding on ETC channel continued to be delayed.

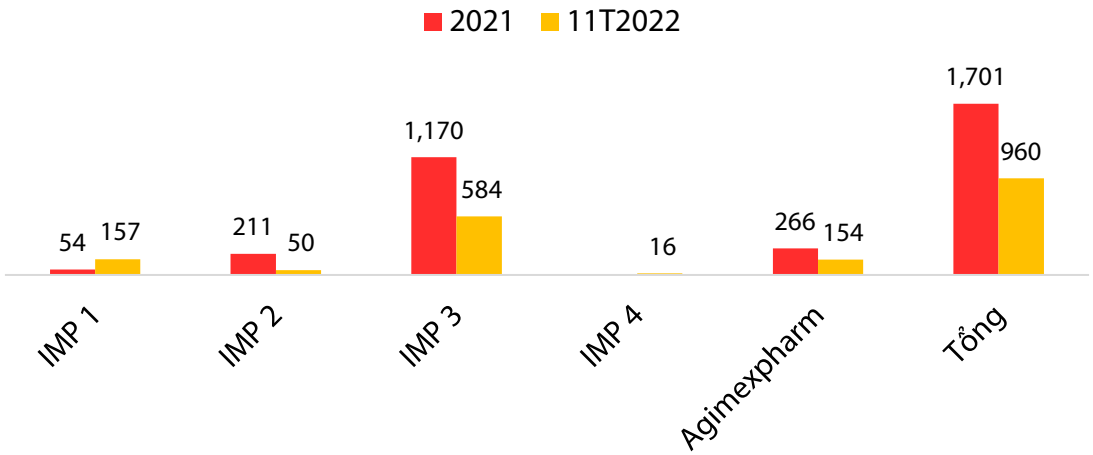
THE NEW EU–GMP FACTORY HAS NOT CONTRIBUTED SIGNIFICANTLY TO BUSINESS RESULT IN 2023F

Figure 1: Winning results of antibiotics containing Non-Betalactam that IMP4 has registered to manufacture (VND Bn)



Source: DAV, RongViet Securities

Figure 2: Winning results by factory of IMP (VND Bn)



Source: DAV, RongViet Securities

IMP will become the first company to bid for Non-betalactam antibiotics in group 1 & 2 of ETC channel…

- The IMP 4 factory has registered 22 products of Non-betalactam antibiotics in the form of lyophilized powder for injection, which was officially announced by the Ministry of Health to meet EU - GMP standards in Q3/2022. Therefore, IMP will become the first domestic company to participate in competitive bidding with foreign manufacturers in the bidding packages of Non-Betalactam antibiotics tiers 1&2.

…However, the contribution to the overall revenue will not be really significant.

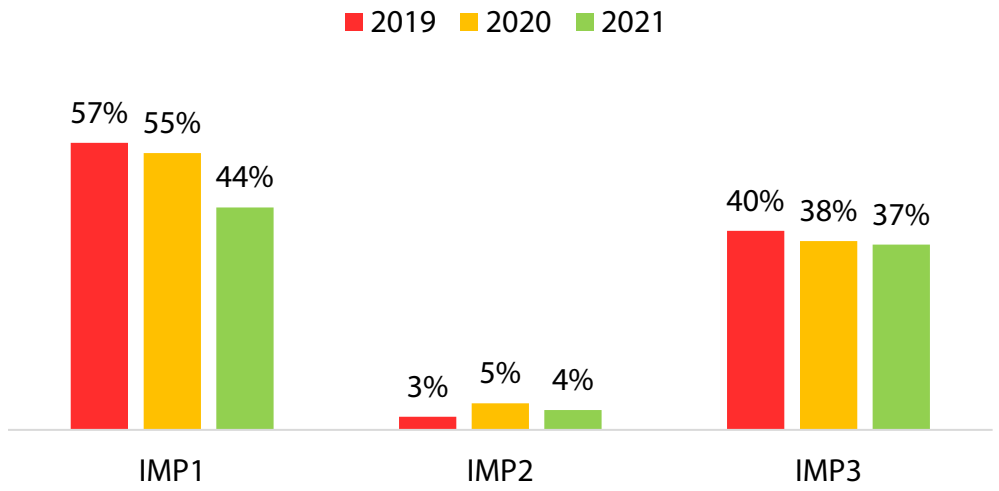
- We estimate that the total scale of bidding packages for tiers 1&2 of active ingredients that IMP4 is expected to produce is about VND 250 billion.
- Given the relatively small size of the bidding packages, we assume that the winning value of IMP 4 will reach 30% of the bidding size (equivalent to the average winning rate of IMP 2 and IMP 3).
- IMP 4 will start contributing to business results from 2023, revenue is forecasted to reach VND 83 billion, equivalent to 5% of IMP's ETC channel revenue.

ETC CHANNEL DEMAND WILL RECOVER AFTER A LONG TIME BEING PENT-UP

The recovery of drug procurement demand on the ETC channel in 2023 may boost the growth of IMP 2 and IMP 3, two factories producing Betalactam antibiotics.

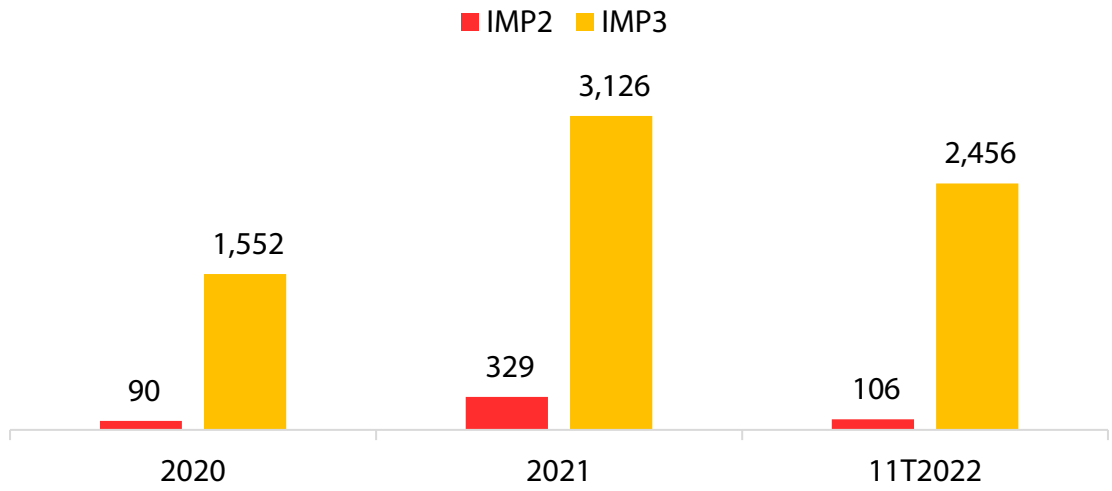
- The MoH is actively removing obstacles in bidding and dealing with drug shortages that took place in 2022. The value of bidding packages that IMP supplied in the period of 2022 - 2024 reached VND 560 billion and is organizing a bid of 450 billion VND for a group of drugs that IMP can produce.
- IMP 2 and IMP 3 factories are mainly producing Betalactam antibiotics for the ETC channel. The ratio of the winning value to the total bidding scale of the active ingredients that these two factories produce is always at a high level of over 25%. This, combined with the expected progress in hospital procurement, will support IMP's ETC revenue.
- Forecast the ETC channel revenue for 2022F-23F reach VND 518 – 653 billion respectively, mainly contributed by IMP3 factory (VND 447 billion (+7% YoY) and VND 489 billion (+9% YoY).

Figure 3: Capacity of IMP factories



Source: DAV, Rong Viet Securities

Figure 4: Scale of Betalactam bidding packages of tiers 1&2 that IMP produced (VND billion)



Source: DAV, Rong Viet Securities

Table 1: Forecast 2022 - 2023

Unit: VND Bn	9M2022	YoY%	FY22F	YoY%	FY23F	YoY%
Net revenue	**1,087**	**25%**	**1,546**	**22%**	**1,675**	**8%**
Self-produced	1,060	29%	1,487	23%	1,628	6%
ETC	*339*	*7%*	*518*	*19%*	*653*	*26%*
OTC	*721*	*45%*	*929*	*29%*	*937*	*1%*
Franchise	20	-51%	50	-20%	40	-20%
Other	7	-18%	9	-30%	6	-30%
Gross profit	**456**	**30%**	**621**	**27%**	**664**	**7%**
GPM	*42%*	*2pps*	*40%*	*2pps*	*39%*	*1pps*
SG&A expenses	254	30%	351	38%	380	8%
Operating profit	202	31%	274	17%	296	8%
PBT	**197**	**27%**	**278**	**16%**	**300**	**8%**
NPAT-MI	**155**	**27%**	**226**	**18%**	**232**	**8%**
NPM	*14%*	*0pps*	*14%*	*0pps*	*14%*	*0pps*
EPS	**2,324**	**27%**	**2,934**	**18%**	**3,162**	**8%**

Source: IMP, RongViet Securities

9M2022: OTC revenue increased sharply due to the low base level of 2021, shortage of drugs at ETC channel causing people to shift to buy drugs at OTC channel and a sudden increase in demand for post-COVID treatment in Q1/2022. The policy of rewarding employees according to sales and market development activities returning when the epidemic passes, leads to an increase in costs faster than the growth rate of gross profit, making the NPAT margin flat at 14 %.

Forecasting for 2022F/2023F, we estimate net revenue of VND 1,546 billion (+22% YoY) and VND 1,675 billion (+5% YoY), respectively. In which:

- ETC channel revenue in 2022F/2023F will reach VND 518 billion (+19% YoY) and VND 653 billion (+26% YoY) respectively, due to the recovery in demand for hospital drugs.
- OTC channel revenue for 2022 will reach VND 929 billion (+29% YoY) and flat in 2023, reaching VND 937 billion (+1% YoY) due to the decrease in drug shortage on ETC channel and IMP's strategy to boost ETC channel development.

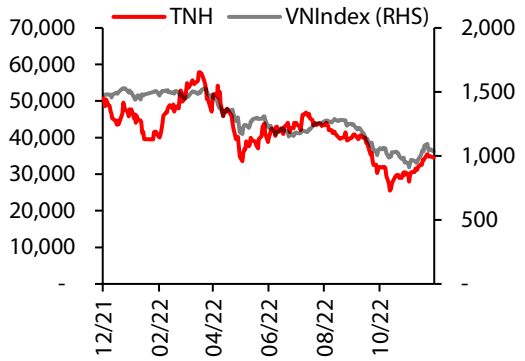
The forecasted NPAT for 2022F/2023F is VND 222 billion (+18% YoY) and VND 240 billion (+8% YoY), respectively. NPAT margin remained at 14%.

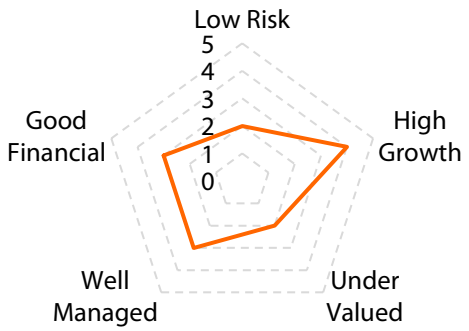
GROWTH DYNAMICS FROM HOSPITAL SCALE EXPANSION

HSX: TNH

<NON-RATED>

MP: 31.000





STOCK INFO

Sector	Health Care
Market Cap ($ mn)	76
Current Shares O/S (mn shares)	52
3M Avg. Volume (K)	185
3M Avg. Trading Value (VND Bn)	6
Remaining foreign room (%)	7.9
52-week range ('000 VND)	25,4 - 59,3

FINANCIALS

	2020	2021	2022E
Revenue (VND bn)	336	412	450
NPATMI VND bn)	109	143	136
ROA (%)	10.7	11.7	10.6
ROE (%)	17.1	18.4	17.5
EPS (VND)	2,101	2,751	1,313
Book Value (VND)	15,361	18,801	18,801
Cash dividend (VND)	0	0	0
P/E (x)	N/A	15.8	13.0
P/B (x)	N/A	2.9	1.2

INVESTMENT THESIS

Accumulated 9M2022, revenue and NPAT reached VND 338 billion (+10% YoY) and VND 98 billion (+10% YoY), respectively, completing 78% and 66% of the year plan.

- Sales growth decelerated compared to 2021 (+23% YoY) due to (1) 2 new hospitals of TNH (TNH Thai Nguyen International General Hospital Phase 2 and Yen Binh Thai Nguyen General Hospital put into operation in August 2020 and December 2019, respectively) have been operating stably and (2) high base level of 9M2021 due to the signing of PCR testing contract for Samsung employees during the social distancing period last year. However, the company's re-recruitment of personnel (which had been cut before due to the COVID-19 epidemic) in Q1/2022 led to a prohibitive increase in COGS and a decrease in profit, equivalent.

TNH possesses certain advantages to attract people to medical examination and treatment.

- TNH is organized under the model of the hotel - hospital with modern facilities, airy and clean space that surpasses many hospitals in the area.
- People who need a medical examination by services will prefer TNH because it takes less time than a medical examination at Thai Nguyen Central General Hospital.

Expanding the scale with the plan to build a new hospital in Viet Yen district, Bac Giang province. TNH has officially started construction of TNH Viet Yen General Hospital with a total investment capital of VND 620 billion, a design scale of 300 beds, and is expected to start operation in Q4/2023. TNH expects the number of outpatient visits to be about 180,000 visits/year and 9,000 inpatients/year, corresponding **to a maximum revenue of about 200 billion VND per year**, equivalent to half of TNH's full-year 2021 revenue.

RISK TO OUR CALL

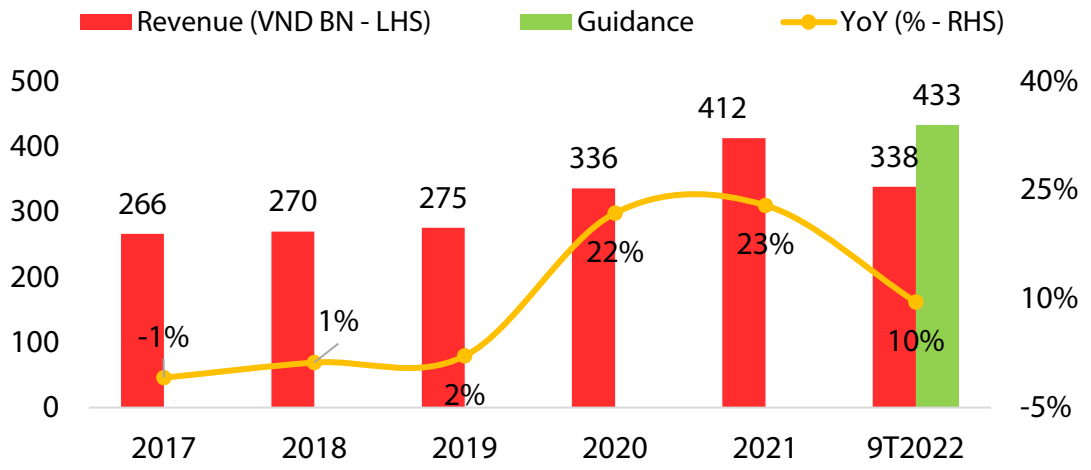
- TNH has many transactions to buy services from companies related to the management board, potential corporate governance risk.

PROFIT HAS NOT BEEN ACHIEVED EXPECTATION AFTER 9M2022

Accumulated 9M2022, revenue and NPAT reached VND 338 billion (+10% YoY) and VND 98 billion (+10% YoY), respectively, completing 78% and 66% of the year plan.

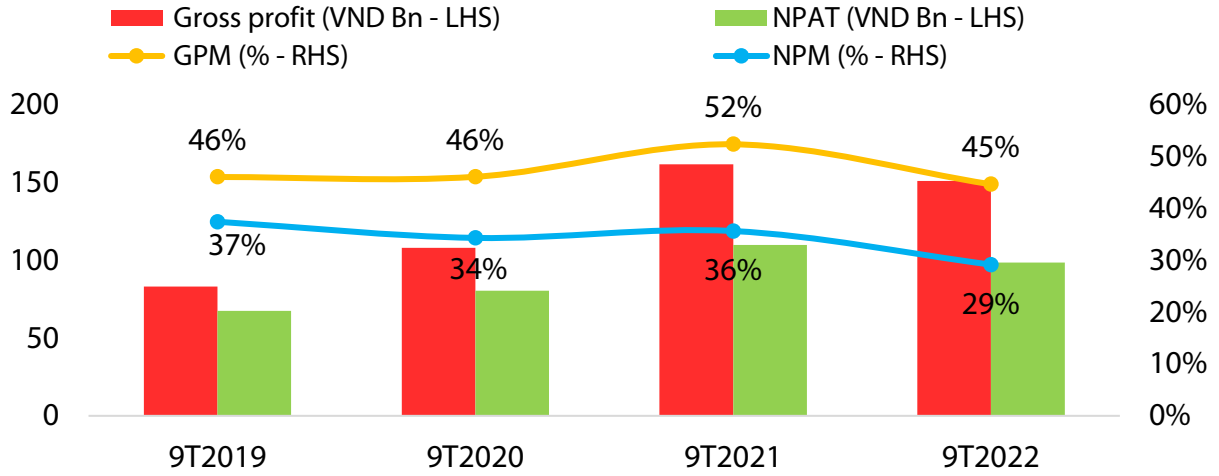
- Sales growth decelerated compared to 2021 due to (1) 2 new hospitals of TNH have been operating stably and (2) the revenue from PCR testing for Samsung employees during the social distancing period creating a high base level in 9M2021.
- Q1/2022 gross profit margin decreased to 35% due to TNH's re-hiring of personnel (who were cut during the period of social distancing in 2021) leading to an increase in COGS. This significantly affects the 9M2022 gross profit margin, down 7 pps YoY, and equal to the 2019-20 gross margin.
- In the middle of Q3/2022, TNH increased prices by an average of 20% - 30% for medical services, we believe this factor will be fully reflected in the gross profit margin in Q4/2022, thereby helping for improved gross margin for 2022.

Figure 1: Revenue decelerates after 9M2022 when two hospitals have been operating stably



Source: TNH, RongViet Securities

Figure 2: Profit margin gradually stabilized compared to the period before the outbreak



Source: TNH, RongViet Securities

Figure 2: TNH Thai Nguyen International General Hospital (QTTN)

Source: TNH, RongViet Securities

Figure 3: Yen Binh Thai Nguyen General Hospital (YBTN)

Source: TNH, RongViet Securities

- TNH's two hospitals (TNH Thai Nguyen International General Hospital and Yen Binh Thai Nguyen General Hospital) are both built in areas with high hospital density.
- TNH operates under the model of a hotel hospital with modern facilities, clean and airy space that is superior to many hospitals in the area, so it can attract people to come for medical examination and treatment.

Opposite TNH Thai Nguyen International General Hospital is Thai Nguyen Central General Hospital (TWTN) with a scale many times larger.

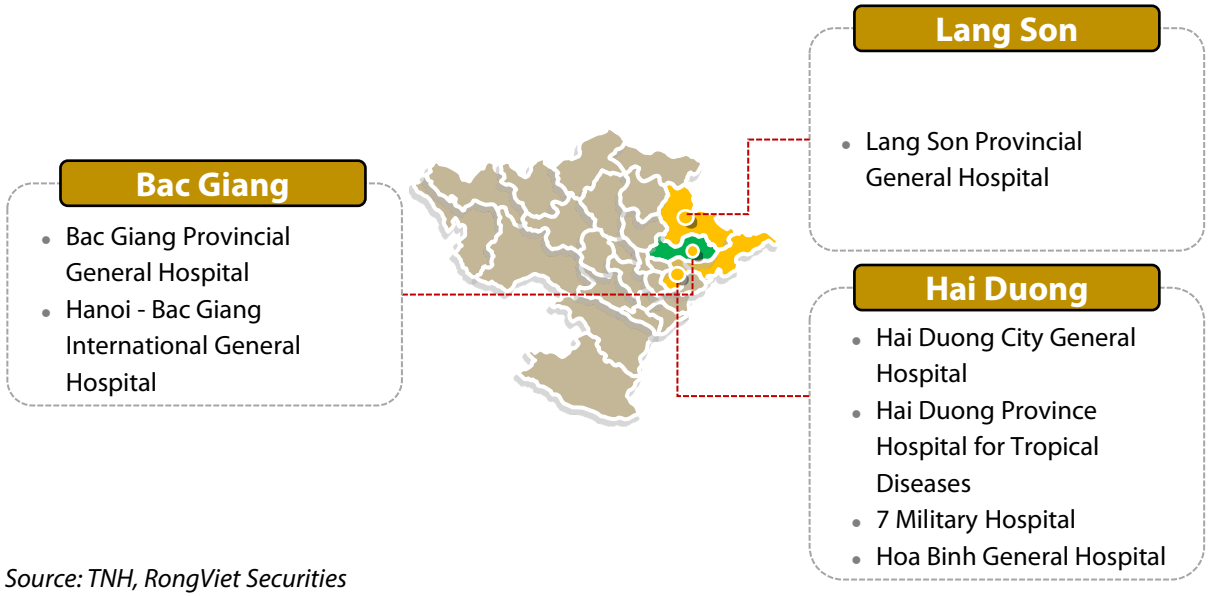
- People tend to prefer to choose services at the QTTN hospital to save time compared to the examination at TWTN.
- For specialized diseases that require long-term treatment, TWTN will be the destination that patients are aiming for.

Yen Binh Thai Nguyen General Hospital was built in Pho Yen district, Thai Nguyen province.

- Growth potential due to the hospital's location near Yen Binh Industrial Park, where there are many big companies with a large workforce such as Samsung, Hansol, Dainese, Sunny, etc., which lead to high demand for medical services.

SCALE EXPANSION PLAN IN MEDIUM AND LONG TERM

Figure 5: Hospital density in the North East region



Source: TNH, RongViet Securities

Table 1: New hospital construction project of TNH

Project	Total investment (VND Bn)	Usable area (m^2)	Scale of hospital bed
TNH Viet Yen General Hospital	620	32,000	300
Yen Binh General Hospital phase 2	228	N/A	150
Thai Nguyen TNH Eye Hospital	165	N/A	N/A
Thai Nguyen TNH maternity hospital	330	N/A	N/A
Total	**1,343**		**450**

Source: TNH, RongViet Securities

TNH Viet Yen General Hospital was officially started construction in Viet Yen district, Bac Giang province. TNH Viet Yen General Hospital has a capacity of 180,000 outpatient visits/year and 9,000 inpatients/year, equivalent to the ability to generate **revenue of about VND 200 billion per year** for TNH. Management expects to be able to complete a part of Viet Yen hospital and put it into operation by the end of 2023.

Supporting factors for Viet Yen TNH General Hospital:

- The location close to Van Trung Industrial Park (the largest industrial zone in Bac Giang province) with a large number of employees is expected to generate a huge demand for medical care.
- Competitive pressure is low when there are not many large hospitals in the North East region. Bac Giang Provincial General Hospital and Hanoi - Bac Giang International General Hospital are the only two large hospitals in Bac Giang province while Lang Son province also has only one large medical facility, which is the Provincial General Hospital.

AUTOMOTIVE & SPARE PARTS

THE DEMAND FOR TRUCKS REMAINS STRONG

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AUTOMOTIVE & SPARE PARTS – THE DEMAND OF TRUCKs REMAINS STRONG

Negative	Neutral	Positive

Rating

Overview

We expect there will some diversity in the 2023 performance in the automotive & spare parts industry. We expect that only trucks demand will remain strong into 2023 thanks to pent-up demand which is the result of Covid-19 and supply constraints during 2021-2022. It will be less affected by rising interest rated compared to the other sub-sectors. Backed by the recovery of OEMs production activities in Vietnam, we predict that the demand for domestic truck' spare parts will lead the trend while the export demand will remain stable. In contrast, the other sub-sectors, passenger cars for example, are expected to slowdown amid concerns about a demand-sapping triggered by an aggressive tightening from banks. In terms of cost pressure, 2023 profit margins of the industry are expected to recover on the back of decreasing input prices.

Highlights

Strong demand for trucks will strengthen sales growth of spare parts

- Global truck supply is below the demand from 2017 until now. Therefore, the easing of input costs and chip shortage problems, truck manufacturing activities is expected to increase, followed by OEMs tire demand. However, due to fiercer competition from China and Thailand, we predict that Vietnam's export of tires in 2023 will not be as strong as in 2022.
- We expect domestic logistic activities will become better from Q4 2022, because of 1) holiday season; 2) better road infrastructure; and 3) expected re-opening of China's economy. As a result, local truck demand is expected to remain strong in 2023, pushing up the consumption of both replacement and OEMs tires.

Passenger cars (PCs) sales are expected to slow amid rising interest rates

- Almost all consumers purchase their personal cars by using bank loans. Therefore, rising loan rates could partly impact demand.
- Backed by the policy of reduction in registration fees in 1H2022, Vietnam PCs 'sales skyrocketed in 2022. Because the policy expired, we expect that Vietnam PCs selling volume will slow down in 2023.

Expected downward trend in raw material 's prices will expand profit margin

- Rubber prices are expected to trade at below the year ago level in 2023 amid concerns about oversupply due to the global recession. Some of PCs giant such as Toyota or Nio announced that they plan to cut their annual output target in 2023.
- Decreasing crude oil prices will help to save not only overall production cost but also logistic costs.

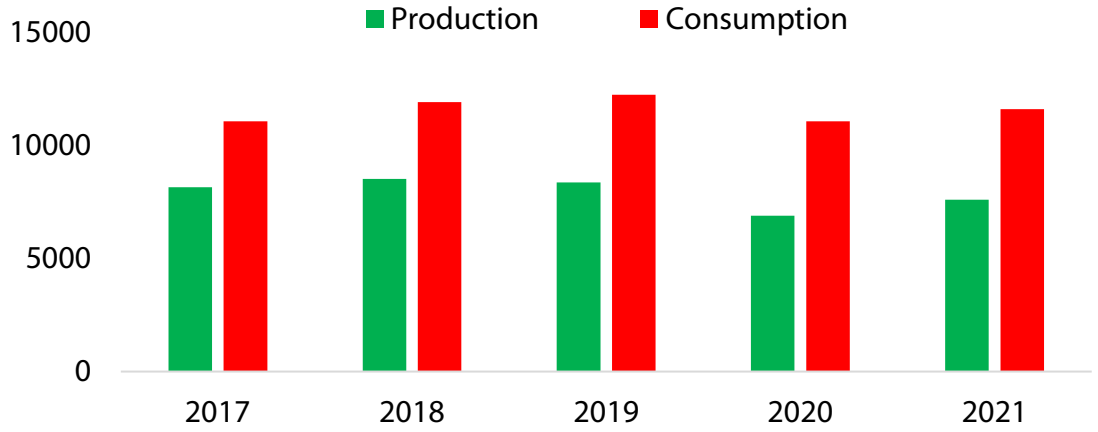
Vietnam exports tire in 2023 will not be as strong as in 2022.

- Global truck supply is below the demand from 2017 until now. Therefore, the easing of input costs and chip shortage problems, truck manufacturing activities is expected to increase, followed by OEMs tire demand. For example, 2021 production and consumption of Truck in the US was 7,064 mn and 11,597 mn units.
- Automotive supply constraints in 2022 led the supply shortage becomes more important. Therefore, the easing of input costs and chip shortage problems, truck manufacturing activities are expected to gradually recover. Backed by this, we believe that Vietnam will be able to capture the increasing OEMs tire demand. However, due to the strong competition from China and Thailand, we predict that Vietnam tire exports will be not as strong as in 2022.

Local consumption of both replacement and OEMs tires will see stronger growth than exports.

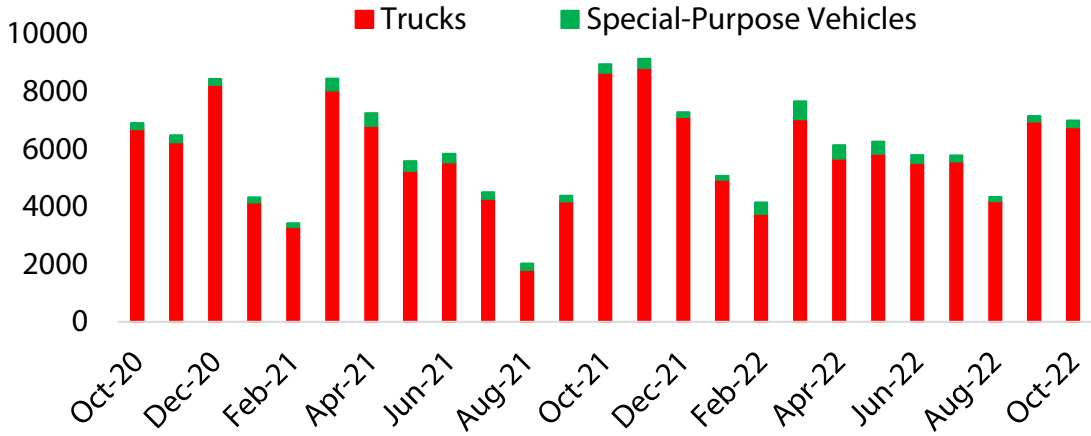
- We expect that domestic logistic activities will become more important from Q4 2022. Due to 1) holiday season; 2) better road infrastructure; and 3) the re-opening of China's economy. Since Sept-2022, the selling volumes of trucks & speciall-purpose vehicles (SPVs) show some signal of recovery (Figure 2). As a result, local truck & SPVs demand is expected to remain strong in 2023, pushing up tire consumption.
- We believe that Vietnam is one of the preferable choice for global automakers who plan to relocate their manufacturing factories. The reasons are 1) competitive manufacturing cost; 2) stable business environment; and 3) tax incentives for electric vehicle production.

Figure 1: Supply – Demand of Truck in the U.S. (Mn units)



Source: Bloomberg, RongViet Securities.

Figure 2: Vietnam truck & SPVs ' selling volumes (units)



Source: VAMA, RongViet Securities.

TAX INCENTIVES FOR ELECTRIC VEHICLE PRODUCTION

Tax benefit for battery electric vehicles (BEVs) manufacturers will support OEMs production activities in Vietnam

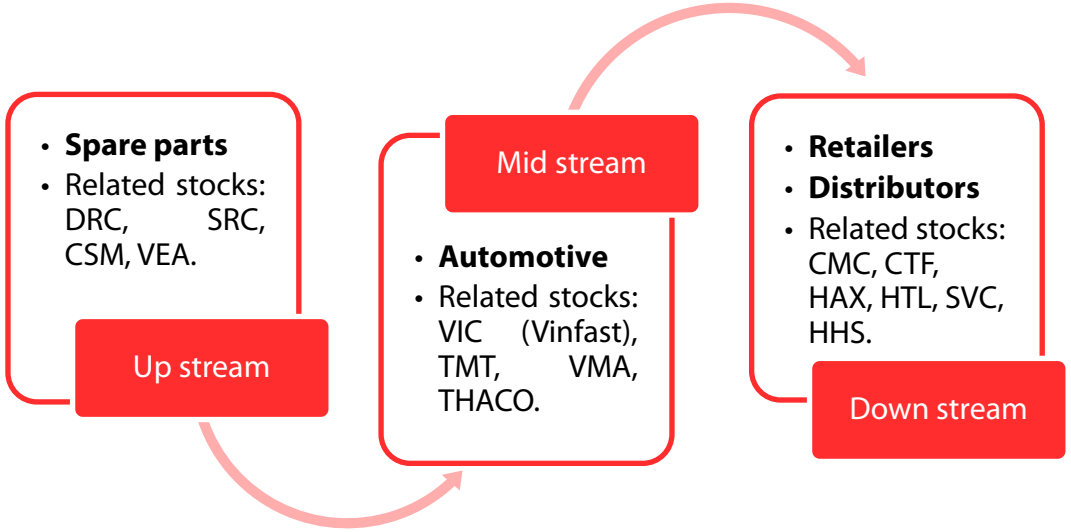
- On Jan 2022, the Vietnam National Assembly announced that "from March 01st 2022, the tax on various types of battery electric vehicles (BEVs) will be reduced by 3-12 percentage points from current levels and be valid until Feb 28th, 2027. In 2027, they will revert to the current level of 5-15 percent." Compared to other Asia countries such as China or Thailand –the two of big automotive hubs in Asia – Vietnam tax rates have a longer effective period (Table 1); thus, we believe that global BEVs manufacturers will prefer a sustainable location to operate.
- The development of the BEVs manufacturing industry supports the sales growth of spare parts producers. Normally, it needs around one year to produce a vehicle, from design step to assembly. Therefore, we expect automakers to gradually rebuild their inventories in 2023, adding value to the long-term growth of Vietnam spare parts producers, including rubber tires companies.

Table 1: Tax incentives for electric vehicle comparison

	Vietnam		China		Thailand		Indonesia	
	Normal	New	Normal	New	Normal	New	Normal	New
Tax incentives for Electric vehicles	5%-15%	2%-3%	10%	0%	8%	0%-2%	0%	0%
Expire year		2027		2023		2025		

Source: Bloomberg, Reuters, RongViet Securities.

Table 2: Value chain of automotive industry



Source: RongViet Securities.

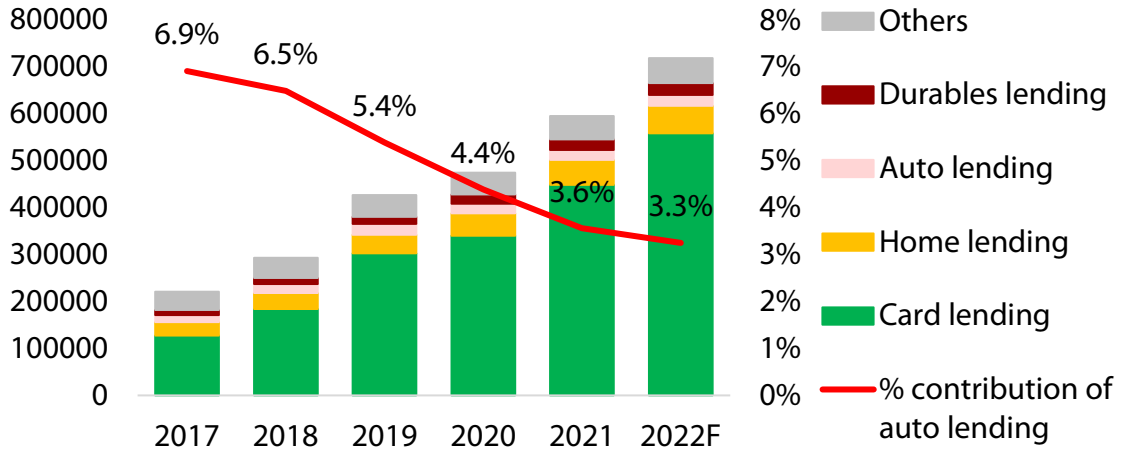
Almost all consumers purchase their personal cars by using bank loans

- According to Euromonitor, auto lending is the third largest contributor to total Vietnam consumer credit in the 2017-2022F period, with 2017-2022 CAGR of 8.9% (Figure 3). However, 2022-2027 CAGR of auto lending is forecasted to be 6.0% based on the assumption that the ability to repay is more limited due to high inflation and rising cost of living.
- Vietnam banks have raised interest rates, thus partly discouraging many consumers from taking a loan to purchase superior goods such as passenger cars (PCs).

High double-digit growth in 2022 sales will generate a diminishing sales growth of Vietnam passenger cars (PCs) in 2023

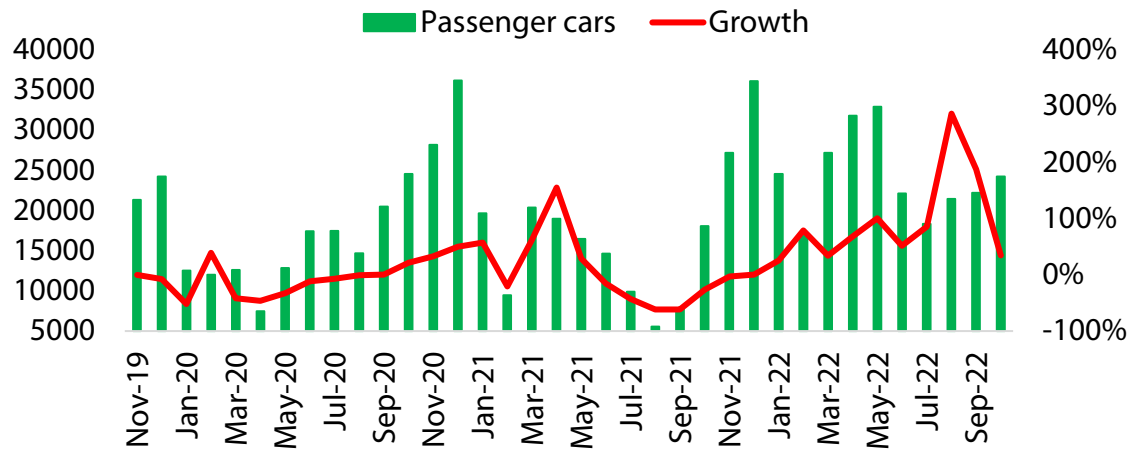
- 10M2022 Vietnam PC sales was 241,224 units (+72% YoY) due to pent-up demand after Covid-19 pandemic and the policy of reduction in registration fee in 1H2022. However, the policy expired in Jun 2022. We expect that 2023 sales of PCs will see a diminishing growth because of the high-base effect and lower purchasing power. In fact, many global PC makers such as Toyota or Nio announced that they plan to cut their annual output target in 2023.

Figure 3: Consumer credit 's gross lending by category (VND bn, LHS) and Contribution of auto lending (%, RHS)



Source: Euromonitor, RongViet Securities.

Figure 4: Vietnam PCs 'selling volume (units, LHS) and growth (% YoY, RHS)



Source: VAMA, RongViet Securities.

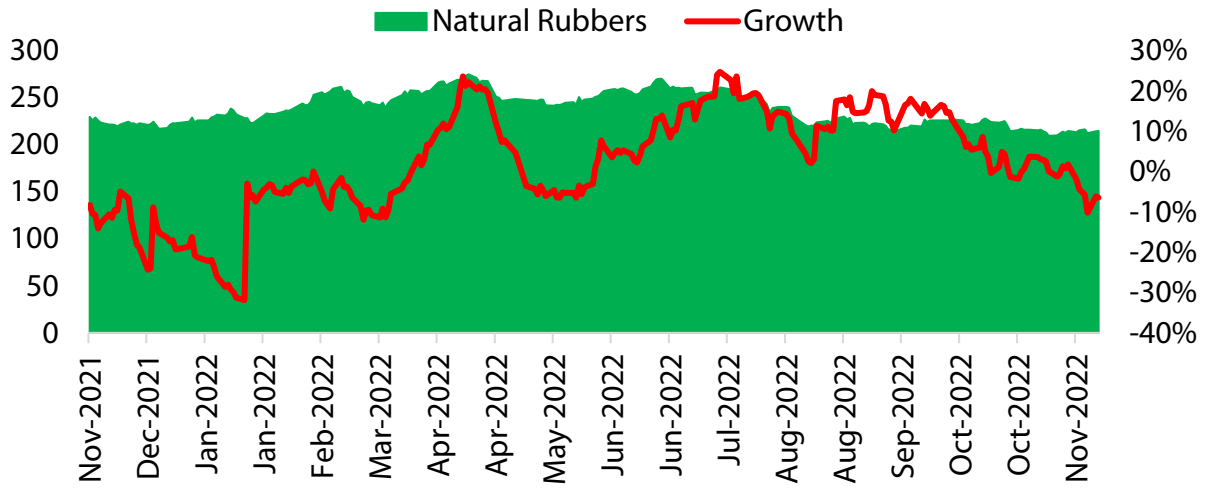
Lower rubber prices amid concerns about oversupply will expand profit margins of automotive & spare parts producers

- Rubber prices, including natural and synthetic rubbers, decreased since Mar-2022. The main explanations are 1) declining crude oil prices; 2) global supply chain disruption eased; and 3) lower demand from PC makers. On 29th Nov 2022, the price of natural rubber was JPY/Kg 214.8 (-6.5% YoY; -0.4% MoM). We expect the trend to continue in 2023.
- In contrast, coal prices are expected to remain at a high level. The primary drivers are 1) fears of shortage of natural gas in Europe; 2) seasonal upturn in coal-fired generation during the winter; and 3) the La Nina phenomenon which will lessen global coal production. On 29th Nov 2022, the price of coal was USD/T 390 (+144.8% YoY; +9.5% MoM).

Decreasing crude oil prices will help to save not only overall production costs but also logistic costs

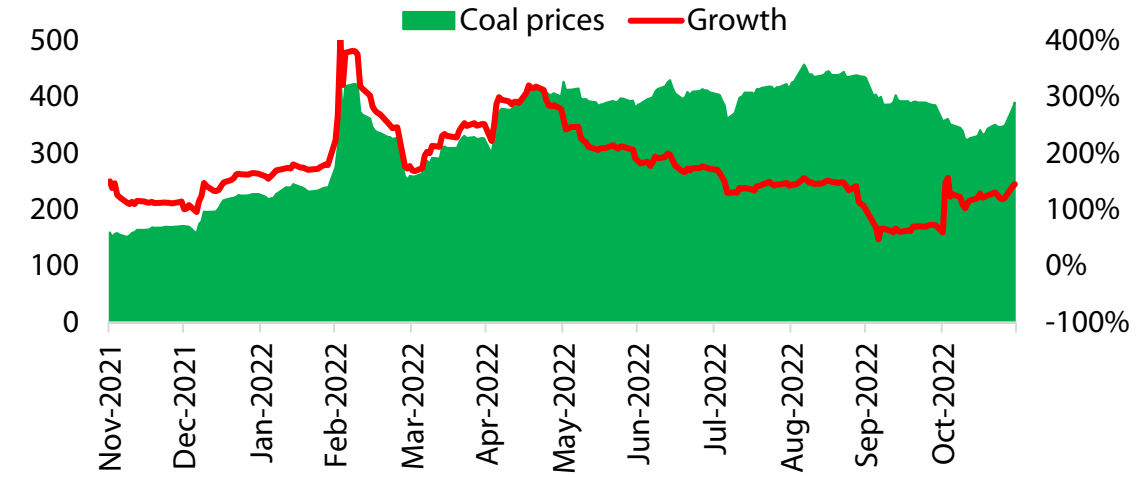
- Crude oil is not only the principal raw material in synthetic rubber but also one that powers to run machines. Thus, decreasing crude oil prices will improve gross margin. In terms of selling expenses, crude oil affects logistic costs of automotive & spare parts companies, mainly export activities. Therefore, the decline of the price also expands operating margin. On 29th Nov 2022, the price of crude oil was USD/bbl 79.1 (+13.1% YoY; -8.6% MoM).

Figure 5: Natural rubber prices (JPY/Kg, LHS) and growth (% YoY, RHS)



Source: Bloomberg, RongViet Securities.

Figure 6: Coal prices (USD/T, LHS) and growth (% YoY, RHS)

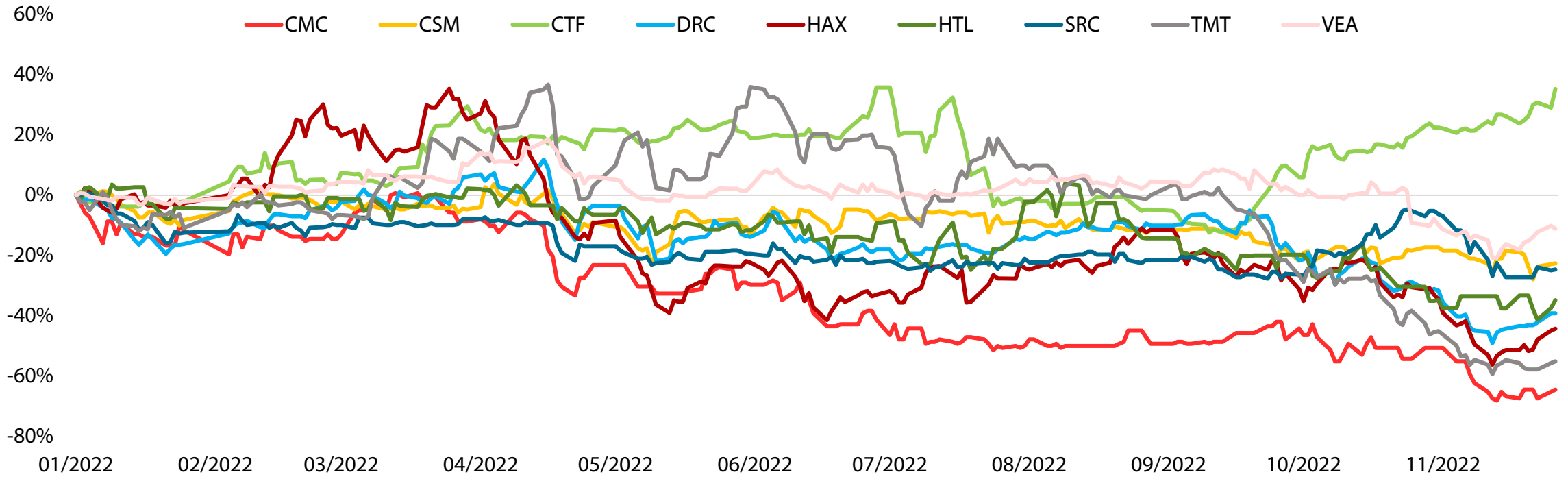


Source: Bloomberg, RongViet Securities.

SHARE PRICES HAD A WEAK PERFORMANCE IN 2022

- In 1H2022, thanks to the support of pent-up demand after the Covid-19 pandemic and the policy of reduction in registration fees, the share price of automotive producers & distributors such as City Auto Jsc. (HSX: CTF), Haxaco (HSX: HAX) or TMT Motors Jsc. (HSX: TMT) showed a positive profit. Meanwhile, spare parts producers likes Casumina (HSX: CSM), Danang Rubber Jsc. (HSX: DRC) or Sao Vang Rubber Jsc. (HSX: SRC) had a weak performance due to strong rising input costs. In 2H2022, all of the shares had gone down on recession fears.
- We expect that the 2022 gloomy outlook is mostly reflected on shares performance during 11M2022 since almost all stock prices decreased by over -50% YTD. In addition, we believe that the 2023 outlook has not yet been reflected on share prices.

Figure 7: Performance of some automotive & spare part shares in Vietnam stock market (% YTD)



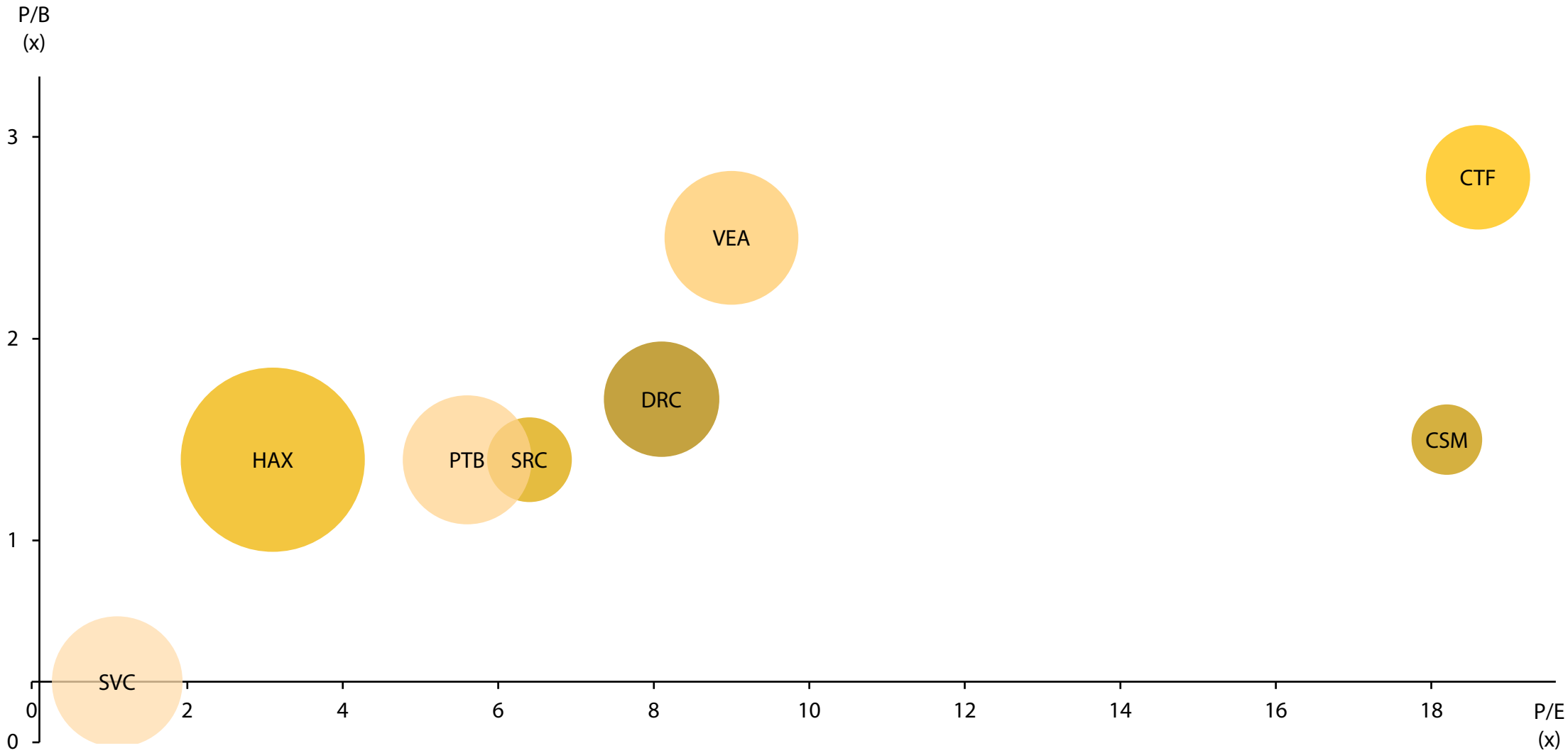
Source: Fiinpro, RongViet Securities.

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022		%	2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
DRC	105	31,000	19,000	1,200	41.0	20.1	18.2	5.4	0.1	7.9	12.7	17.1	10.0	11.5	14.1	1.9	1.8
HAX	41	20,900	17,100	500	19.3	-0.3	21.5	6.3	0.3	70.0	-13.2	28.8	12.3	5.1	8.3	1.2	1.6
SRC	20	N.R	16,800	N.A	48.9	-2.2	N.A	N.A	-0.5	N.A	N.A	9.5	3.1	6.3	15.6	1.1	1.3
CSM	64	N.R	14,700	N.A	49.3	3.1	N.A	N.A	-0.4	N.A	N.A	6.6	1.9	18.1	57.2	1.2	1.3
CTF	89	N.R	27,600	N.A	48.7	-20.1	N.A	N.A	-21.5	N.A	N.A	14.4	5.6	18.5	238.8	2.5	2.1
VEA	2,088	N.R	38,500	N.A	43.9	9.6	N.A	N.A	0.0	N.A	N.A	23.7	22.0	8.9	N.A	2.2	N.A
PTB	125	N.R	42,582	N.A	9.3	15.9	N.A	N.A	0.4	N.A	N.A	22.0	9.8	5.4	8.4	1.1	2.1
SVC	154	N.R	109,800	N.A	47.1	-11.8	N.A	N.A	-0.2	N.A	N.A	22.6	6.5	25.9	14.6	1.4	1.5

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

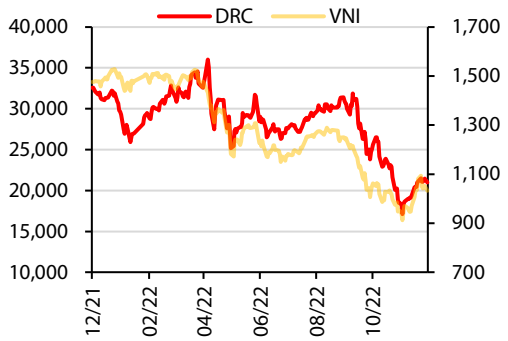


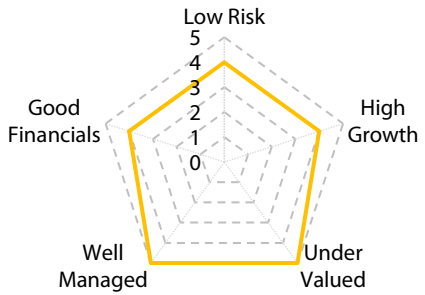
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

EASING RUBBER PRICES PRODUCE STRONG PROFIT GROWTH

HSX: DRC

BUY: +69% **MP: 19,000** **TP: 31,000**





STOCK INFO

Sector	Automobiles & Spare parts
Market Cap ($ mn)	105.7
Current Shares O/S (mn shares)	119
3M Avg. Volume (K)	663.3
3M Avg. Trading Value (VND Bn)	15
Remaining foreign room (%)	41.1
52-week range ('000 VND)	16.1 – 38.9

FINANCIALS

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	4,380	5,179	5,457
NPATMI (VND bn)	291	314	360
ROA (%)	9.2	10.0	10.8
ROE (%)	16.4	17.1	17.8
EPS (VND)	2,205	2,380	2,685
Book Value (VND)	14,934	16,070	17,500
Cash dividend (VND)	1,500	1,200	1,200
P/E (x)	12.8	13.0	11.5
P/B (x)	2.1	1.9	1.7

INVESTMENT RATIONALES

The completion of phase three of radial tire plant opens growth potential for DRC sales

- On the back of increasing logistic activities, 2022-26 CAGR of DRC's radial sales are expected to reach +7.4%. In 2022, DRC's radial plant has operated at 130% production capacity; thus, the higher design production capacity will help DRC to meet increasing radial tire demand.
- Domestic radial tire sales was flat during the 2019-2022E period due to the pandemic and chip shortage problem. Therefore, we expect that it will grow in 2023 when the chip shortage problem eases and logistic activities rise.

Profit margin enters an expansion period

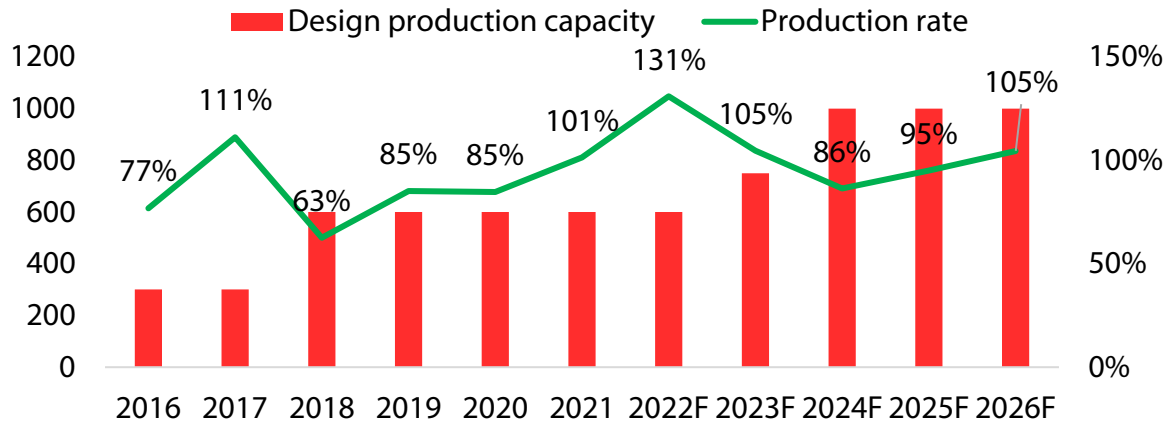
- DRC has bargaining power to negotiate with suppliers at a favorable price. They plan to close new raw material contracts for 2023 within Q4 2022 when prices of raw materials are expected to be at below year-ago levels.
- The gross margin of domestic radial tires is significantly higher than that of exports, thus its higher proportion of total sales will help to rise the profit margin in 2023.

A suitable investment under a "dividend investing strategy" owing to stable cash dividend payment

RISKS TO OUR CALL

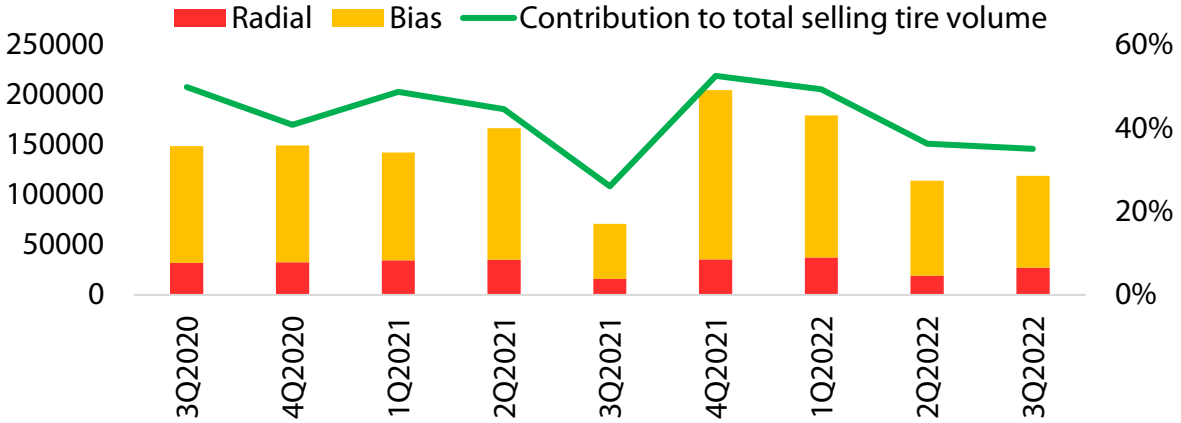
- Chinese tire producers dump truck tires after Covid-19 pandemic eased, putting pressure on prices.

Figure 1: DRC 's design production capacity (tires, LHS) and production rate (%, RHS) of radial plant



Source: DRC, RongViet Securities

Figure 2: DRC 's selling volume of domestic tire breakdown (tires, LHS) and contribution to total selling tire volume (%, RHS)



Source: DRC, RongViet Securities

Higher design production capacity helps DRC to meet rising radial tire demand.

- According to the expansion schedule, after the phase 3 is completed, the design capacity of the radial plant will **reach 750,000 tires (+13.6% YoY) in 2023 and 1,000,000 (+33.3% YoY) in 2024**.
- Despite shortage of automotive chips and rising inflation, the global truck tire consumption continues to grow. In addition, the **domestic tire market is expected to grow in 2022-31F at a CAGR of 20.5%**, as forecasted by www.researchandmarkets.com. DRC is the largest local-based Vietnam truck tire producers; thus, we expect that it will continue to capture further both export and domestic tire demand.

Domestic radial sales will grow from 2023, supported by chip shortage problem easing and logistic activities become increasingly crowded.

- Domestic radial tire sales of DRC fluctuated between 120,000 and 130,000 tires during the 2019-2022F period, equivalent to the contribution to total radial sales of 26.2% in 2019 and 19.9% in 2021. However, it **recovered to 22.3% in 9M2022**.
- DRC has put in place a **new selling program** to boost sales of their domestic agents since Q3 2022. Backed by this, we believe that DRC is able to not only enhance sales per agent but also expand their distribution network. In Q3 2022, domestic radial selling volumes **was 27,209 tires (+43.1% QoQ; +70.6% YoY).**

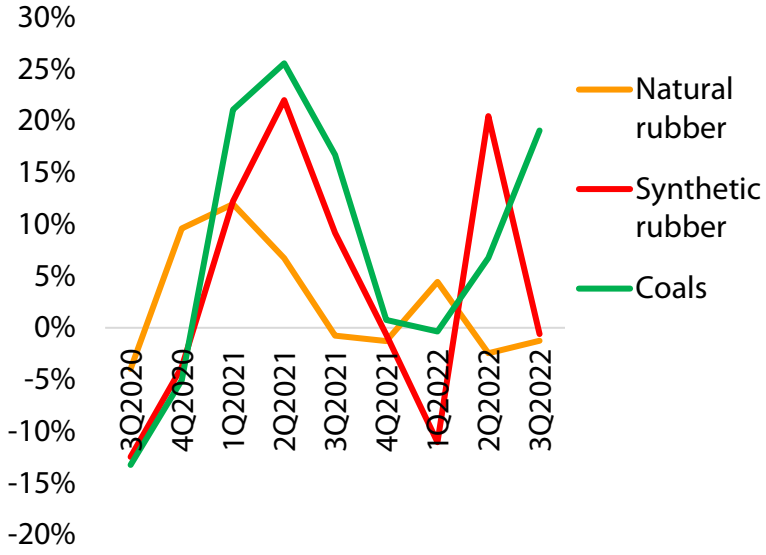
PROFIT MARGIN EXPANDS IN 2023

Gross margin of DRC had been hit by rising input costs from Q1 2021 until now. Expected lower commodity prices will improve profit margins.

- DRC plans to close new raw material contracts for 2023 within Q4 2022 when prices of raw materials are expected to be at below year-ago levels. The main raw materials of DRC are natural & synthetic rubber (c. 35% of COGS) and coal (c. 12% of COGS).
- On Nov 22nd 2022, the prices of natural, synthetic rubber and coal were USD Cents/Kg 126 (-29.6% YoY), RMB/Ton 11,179 (-26.7% YoY), and USD/Ton 347 (+25.4% YoY), respectively.

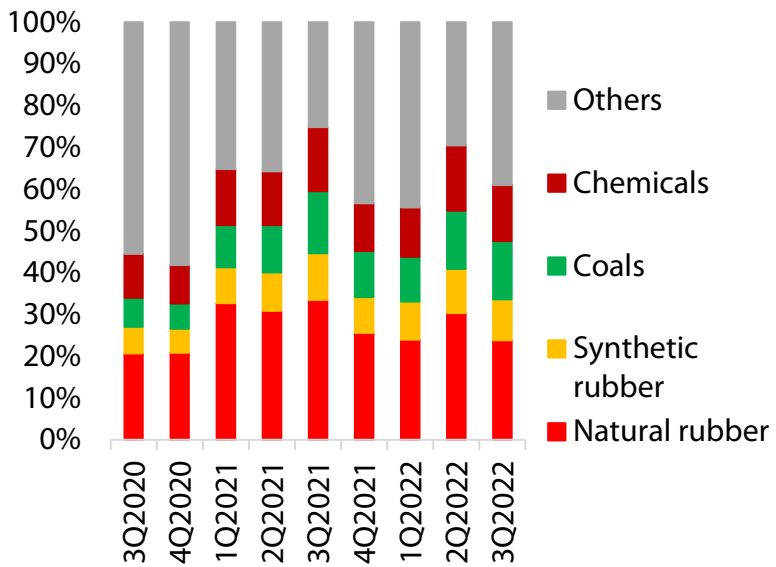
The growth of domestic radial sales is expected to expand the profit margin. The gross margin of local radial channel is significantly higher than that of the export channel. In Q3 2022, radial local/export margins were 46.5%/5.8%.

Figure 3: DRC 's change in raw material costs (% YoY)



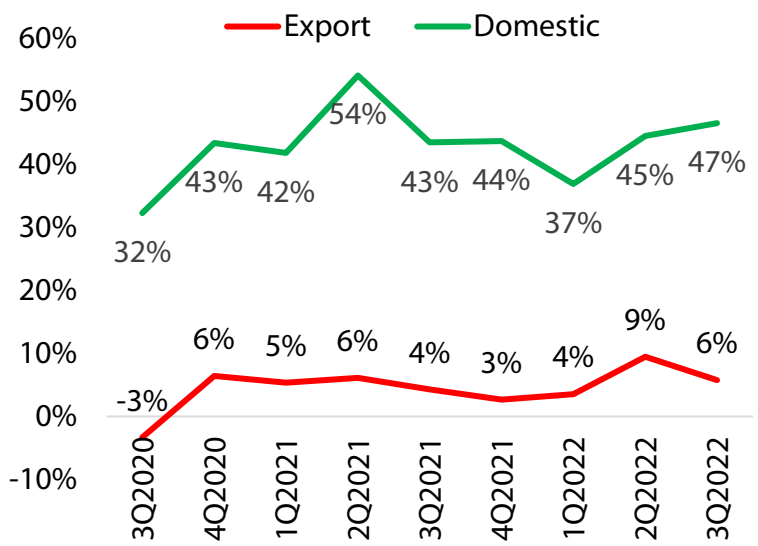
Source: DRC, RongViet Securities

Figure 4: DRC 's COGS breakdown (%)



Source: DRC, RongViet Securities

Figure 5: DRC 's gross margin of export and domestic radial (%)



Source: DRC, RongViet Securities

Stable cash dividend policy.

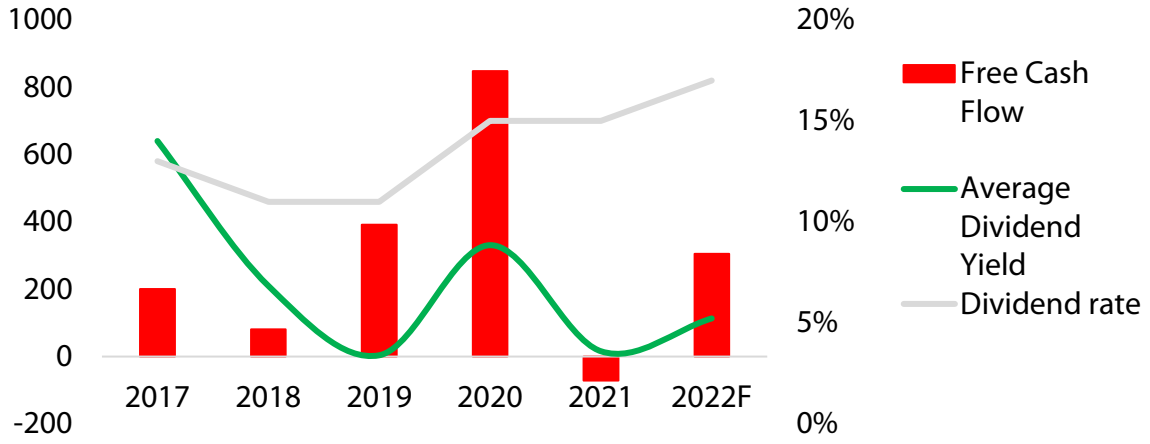
- DRC has a history of a cash dividend rate of 12% on average per year between 2017-2021, equivalent to dividend yield of ~+4.0 - +5.0%.
- The company has a strong ability to manage cash flow which may help to produce a return stream such as cash dividend even during a market downturn. In the period of 2017-2021, DRC still had a positive free cash flow (FCF) despite increasingly spending on phase 2 of Radial plant.

Expected lower debt ratio from 2024.

- We predict that DRC will complete phase three of radial plant project in 2024, then will not spending on further construction projects until 2026.
- The company will reduce its debt from 2024, resulting in lower interest payments, and improving the stability of future dividend payments.

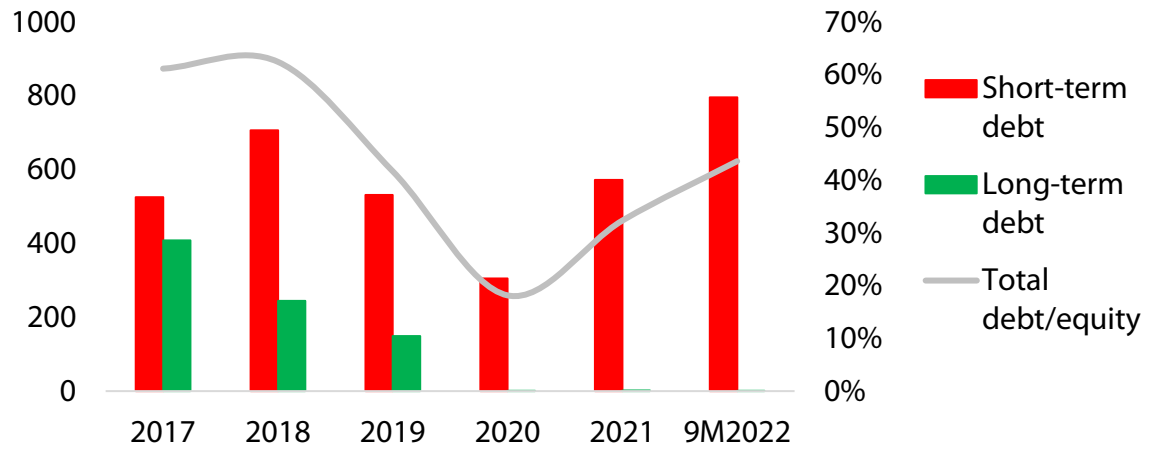
DRC is a suitable investment under a "dividend investing strategy" during a highly uncertain market period. Shareholders will enjoy not only a cash dividend stream but also double-digit bottom line growth in the future, witnessed by a 2023-26F CAGR of 11.3%.

Figure 6: DRC 's FCF (VND bn) and average dividend yield (%, RHS) and dividend rate (%, RHS)



Source: Bloomberg, DRC, RongViet Securities

Figure 7: DRC 's short-term debt and long -term debts (VND bn) and Total debt/equity ratio (%, RHS)



Source: DRC, RongViet Securities

Table 1: Business Forecasts

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**3,784**	**24.2%**	**5,179**	**18.3%**	**5,457**	**5.4%**
Export	2,218	33.5%	2,915	26.8%	2,923	0.3%
Domestic	1,576	13.1%	2,264	8.8%	2,534	11.9%
Gross profit	**634**	**20.5%**	**884**	**18.3%**	**983**	**11.2%**
Export	189	60.5%	264	60.1%	265	0.3%
Domestic	445	8.9%	620	6.5%	718	15.9%
Operating profit	**304**	**14.8%**	**435**	**14.9%**	**500**	**14.7%**
PBT	**282**	**11.0%**	**393**	**7.8%**	**443**	**12.8%**
NPAT-MI	**227**	**11.3%**	**314**	**8.0%**	**354**	**12.8%**
EPS (VND)	**1,907**	**11.3%**	**2,380**	**8.0%**	**2,685**	**12.8%**

Source: DRC, RongViet Securities

Table 2: DRC 's Radial Sales Forecasts

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Total radial sales value	**2,214**	**35.7%**	**3,144**	**36.4%**	**3,301**	**5.0%**
Export	1,722	48.2%	2,452	51.0%	2,476	1.0%
Domestic	492	4.7%	692	1.6%	825	19.3%

Source: DRC, RongViet Securities

Strong growth drove double-digit growth in bottom-line in 9M2022.

- In 9M2022, both sales and net profit showed a double-digit growth (Table 1), fulfilling 82.3% and 88.4% of DRC 's revenue and PBT targets for the year.
- Overseas revenue led the high double-digit sales growth. The ongoing rising global rubber tire demand for replacement after Covid-19 pandemic was the main driver.

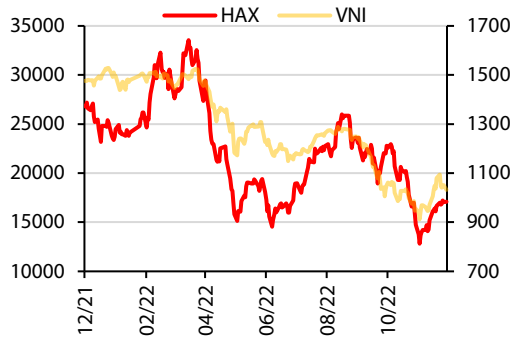
Export sales will drive the 2022 performance, but domestic sales and decreasing input costs will produce 2023 double-digit NPAT growth.

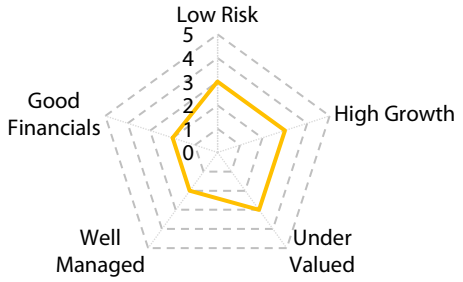
- Increasing **export radial tire** growth of 2022 are in the high double-digit rate, then supporting positive growth in 2022 NPAT despite sharp rising input costs and fluctuation of exchange rates.
- DRC is expected to surpass 2022 sales and profit targets by 17% and 23%, respectively.
- **2023 is expected to present a modest sales growth** due to lower export demand after showing strong continuous growth during 2021-2022F. However, the recovery of domestic radial tire demand will help total sales.
- Based on positive growth of sales, with an expansion of gross margin, **2023 NPAT is expected to see a double-digit growth.**

ON THE WAY TO IMPROVE MARKET SHARE

HSX: HAX

BUY: +25% **MP: 17,100** **TP: 20,900**





STOCK INFO

Sector	Automobiles & Spare parts
Market Cap ($ mn)	41.2
Current Shares O/S (mn shares)	57
3M Avg. Volume (K)	782.5
3M Avg. Trading Value (VND Bn)	15
Remaining foreign room (%)	19.3
52-week range ('000 VND)	12.0 – 35.0

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	5,551	6,746	7,172
NPATMI (VND bn)	160	272	236
ROA (%)	12.5	12.3	10.4
ROE (%)	22.6	28.8	20.6
EPS (VND)	3,164	4,670	4,063
Book Value (VND)	14,279	16,590	20,153
Cash dividend (VND)	500	500	500
P/E (x)	4.5	4.4	5.1
P/B (x)	1.2	1.2	1.0

INVESTMENT RATIONALES

The mix of higher price of Mercedes cars and higher market share leads to low sales volatility over the cycle for HAX in the 2022-2026 period

- In 2022, Mercedes-Benz announced their luxury strategy in the period of 2022-2026. They plan to expand proportion of higher end priced vehicles that will lead to increase average selling price yearly. Backed by this, we believe that HAX will benefit from this trend as they are the Vietnam largest market share Mercedes car dealer.
- HAX aims to increase their market share by implementing two big expansion projects, including launched Can Tho showroom and buy a land to develop a complex of Mercedes-Benz car.

Profitability will present negative growth in 2023 before turning back to positive growth since 2024 due to increased cost burden in 2023 period

- We expect that HAX might raise more debt since 2023 to finance for business expansion plans. As a result, in the context of rising interest rate, they will bear an expensive interest expense.
- HAX is expected to record a stable commission from Mercedes-Benz since 2023. The three main reasons are 1) premium cars is expected to be less affected by high inflation; 2) the leader position of HAX; and 3) the new lower KPI from Mercedes-Benz to get commission since 2023.

Trailing P/E has dropped to the bottom since the first listing day

HAX 's trailing P/E has been dragged to the lowest level (2.8x) since the first listing day. Therefore, we suppose that HAX 's negative outlook has reflected on its stock price movement.

RISKS TO OUR CALL

- Lower than expected return from the ongoing investments, leading to a deterioration in financial health.

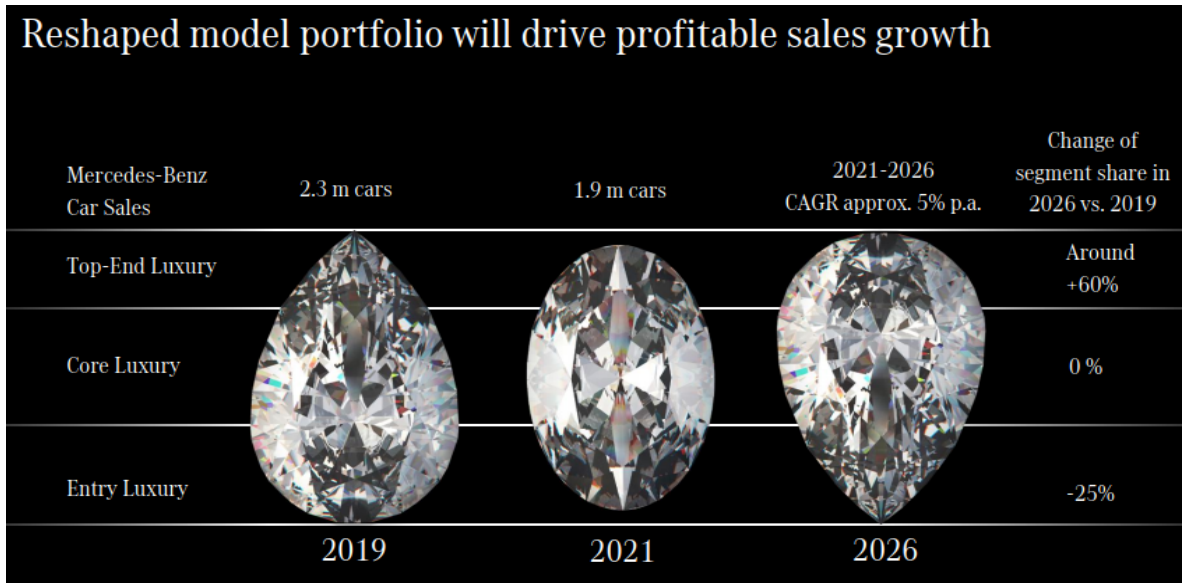
HAX 's average selling prices (ASP) is expected to gradually increase in the next 5 years thanks to luxury strategy of Mercedes-Benz.

- In 2022, Mercedes-Benz announced their luxury strategy in the period of 2022-2026. In detail, they aim to enlarge the proportion of higher end priced vehicles by tapping full potential of top-end customers while exit lower margin products (Figure 1). This action will drive ASP of Mercedes cars higher.
- HAX is the Vietnam largest Mercedes car dealer with 2022 market share of 38.5%, thus we believe that their ASP will move the same trend with Mercedes-Benz strategy. Because Mercedes 'key customers is one of the group who is less affected by rising inflation, we expect that HAX 'selling volume will remain stable even rising ASP.

Higher market share leads to low sales volatility over the cycle

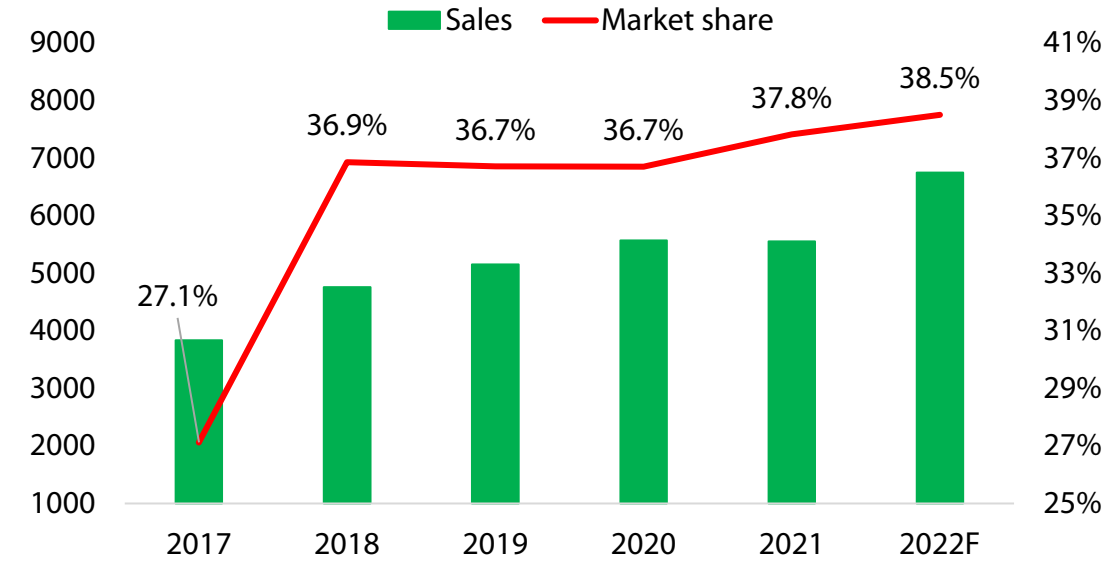
- HAX targets to rise market share by implementing two big expansion projects. The first is the new showroom "Mercedes-Benz Haxaco Cần Thơ" launched in Jul-2022. The second is the project of complex of Mercedes-Benz car combining offices and high-class apartments, expected to be completed in 2026.

Figure 1: Luxury strategy of Mercedes-Benz



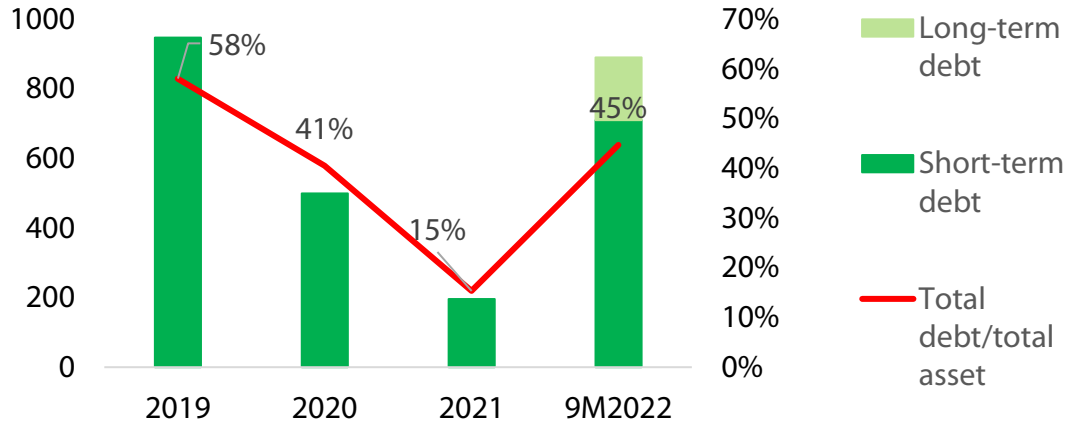
Source: Mercedes-Benz, RongViet Securities

Figure 2: HAX 'sales (VND bn, LHS) and market share (%, RHS)



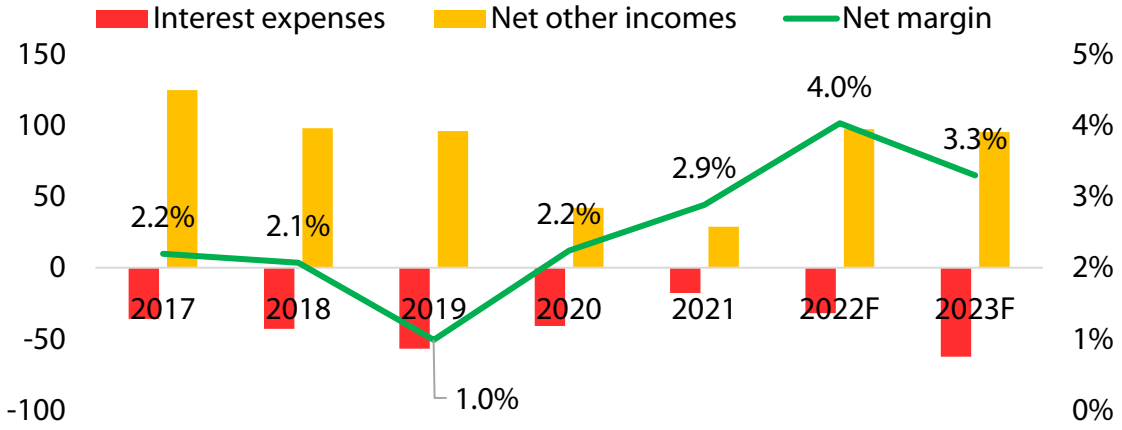
Source: HAX, RongViet Securities

Figure 3: HAX 's Total debt breakdown (VND bn, LHS) and total debt/total asset ratio (%, RHS)



Source: HAX, RongViet Securities

Figure 4: HAX 's interest expenses (VND bn, LHS), net other incomes (VND bn, LHS) and net margin (%, RHS)



Source: HAX, RongViet Securities

Gross margin is expected to slightly decrease in the next five years.

- In 2020-2022 period, HAX 's gross margin benefited from the lower registration fees policy and low supply on the back of chip shortage problem. However, these advantages has expired in 2022. Therefore, we expect that the gross margin will adjust downward in the next 5 years.
- However, the higher ASP will drive up gross margin, thus partly compensating for the downward adjustment, resulting in a **slight decrease in HAX's gross margin only.**

Net profit will experience negative growth in 2023 before turning back to positive growth since 2024 under expensive interest expense burden.

- In 2022, HAX planned to raise capital by ~VND600 bn (or USD23 mn) by issuing shares to finance for its operation activities, including purchase a land, build new showrooms, invest in a new subsidiary, or finance working capital. However, the company cancelled the issuance plan while they kept implementing the projects.
- In 2023, HAX also bear the payment pressure that the convertible bond with the value of VND180 bn (USD7 mn) will expire.
- We forecast that HAX will increasingly borrow. In the context of rising interest rate, they will bear expensive interest expenses in 2023.

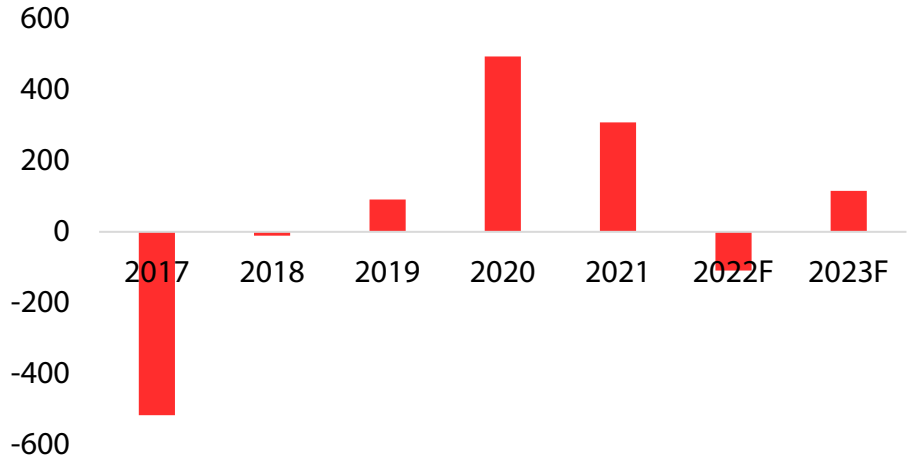
Since 2023, HAX will record a stable Mercedes-Benz 's commission due to new commission policy from Mercedes-Benz, lower KPI in detail, partly compensating for the negative effect of interest expenses.

TRAILING P/E HAS DROPPED TO THE BOTTOM SINCE THE FIRST LISTING DAY

Trailing P/E has dropped to the bottom since the first listing day

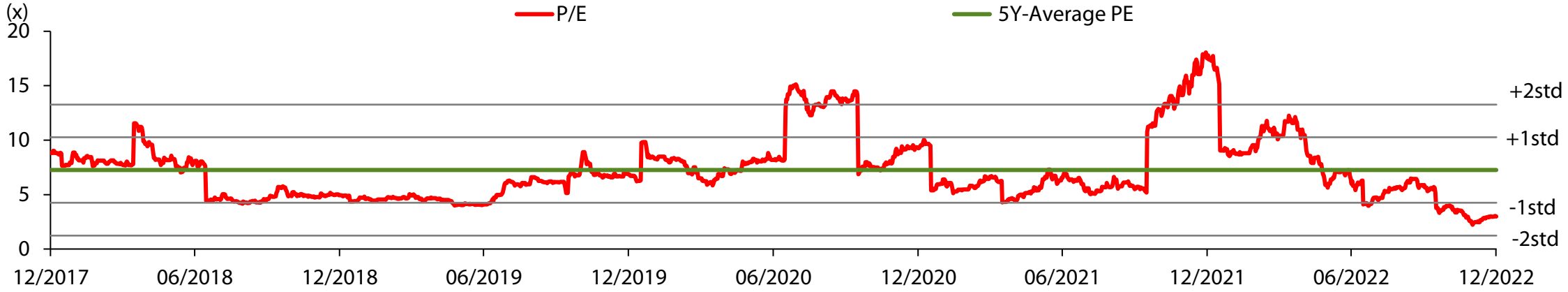
- HAX stock prices has drop by over ~-50% after HAX announced their expansion and financial plans in Mar-2022. Meanwhile, its trailing P/E plunged to the bottom (2.8x) since the first listing day before slightly recovered to 3.1x level (Figure 6).
- We expect that HAX will present thin free cash flow in 2022-2023F period due to their investment projects. Backed by this, we predict that the company will remain their low dividend payout ratio same as 2021 (5% cash dividend per share) in short-term, then back to high dividend payout ratio policy (20% cash dividend per share) in long-term.
- We expect that the negative outlook of HAX has priced in its stock movement. However, based on the expected high leverage ratio but rosy outlook in long-term, we recommend to closely watch HAX 's business operation until it shows positive signals (e.g., generates positive growth in net income, or strong sales growth) to consider to invest.

Figure 5: HAX 's FCF (VND bn)



Source: HAX, RongViet Securities

Figure 6: HAX 's P/E band chart (x)



Source: Bloomberg, RongViet Securities

Table 1: Business Forecasts

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**5,177**	**52.5%**	**6,746**	**21.6%**	**7,172**	**6.3%**
Cars	4,804	50.9%	6,269	29.9%	6,696	6.8%
Others	373	76.8%	477	42.1%	475	-0.4%
Gross profit	**356**	**132.2%**	**463**	**26%**	**480**	**3.8%**
Cars	287	131.1%	374	17.9%	400	7.0%
Others	69	130%	89	77.6%	80	-10.1%
Operating profit	**205**	**422%**	**255**	**34.2%**	**255**	**0.3%**
PBT	**241**	**444%**	**339**	**67.8%**	**295**	**-12.3%**
NPAT-MI	**192**	**583%**	**272**	**69.7%**	**236**	**-13.0%**
EPS (VND)	**3,367**	**303%**	**4,670**	**47.6%**	**4,063**	**-13.0%**

Source: HAX, RongViet Securities

Table 2: HAX 's Debt structure

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Total Debt	**891**	**103%**	**936**	**378%**	**834**	**-11%**
Short-term	711	61.5%	756	286%	834	+10%
Long-term	180	N/A	180	N/A	-	-

Source: HAX, RongViet Securities

Increasing demand drives up both top and bottom lines in 9M2022.

- In 9M2022, HAX 'sales showed double-digit growth due to the strong demand after Covid-19 and the opening of new showroom in Can Tho. Profits recorded triple-digit growth rate base on 2021 low base.
- HAX exceeded their 2022 PBT target by 14%.

In the context of rising inflation, we predict that the 2023 performance of HAX will slowdown.

- 2023 top-line will be driven by modest increase in selling volume and higher selling prices.
- Although HAX confidence that 2023 sales will be boost as they co-operated with the bank to prepare credit room for car loan customers, we conservatively predict that rising interest rates will partly discourage consumers from taking a loan to purchase superior goods such as luxury cars. More than 70% of HAX 's clients buy cars on installment payments.
- **2023 net profit is expected to turn negative,** in the pillar of, 1) modest sales growth; 2) lower gross margin; and 3) higher interest expenses**.**
- On the other hands, 2022 is a most successful year of HAX with the net profit reached the highest peak ever. Consequently, this creates a high base performance for a such challenge year as 2023.

INDUSTRIAL PARK

STAY STEADY AHEAD OF GLOOMY WORLD

Hung Le – hung.ltq@vdsc.com.vn

Rating

Overview

Being an FDI-sensitive industry, industrial park real estate has been expected a new wave of FDI in 2022 after two years of border closure due to the pandemic. However, the geopolitical tension, high inflation causing central banks to tighten monetary policy affected industrial investment flows both globally and to Vietnam. On supply side, the occupancy of existing industrial parks in the North and the South is at a high level, and the new national land use plan and decree for industrial real estate has just issued a favorable orientation in terms of administrative procedures, but it will be more difficult in terms of project approval criteria. Lastly, interest rate hike will not cause much pressure on industrial park developers. Among IP developers, We like KBC, SIP, IDC, LHG due to its land bank and their experience in IP sector. In addition, we also pay attention to the lucrative land use conversion plan of PHR and DPR from raising rubber trees to industrial and residential uses.

Highlights

Industrial investment deployment will slow down due to cyclical factors and expect a new wave of investment when the economy turns back to growth trajectory.

- In the last economic downturns, FDI inflow to Vietnam adjusted slightly. In addition, domestics investment in manufacturing sector will pull back as interest rate hike and lower global and domestic demand.
- For the long-term, we expect a structural shift in FDIs from partners, who signs FTAs with Vietnam in the last 3 years, when economy turns back to growth trajectory. Moreover, industrialization is still the top priority of Vietnam to develop the country, industrial property sector will grow to adapt the industrial investment of Vietnam economy.

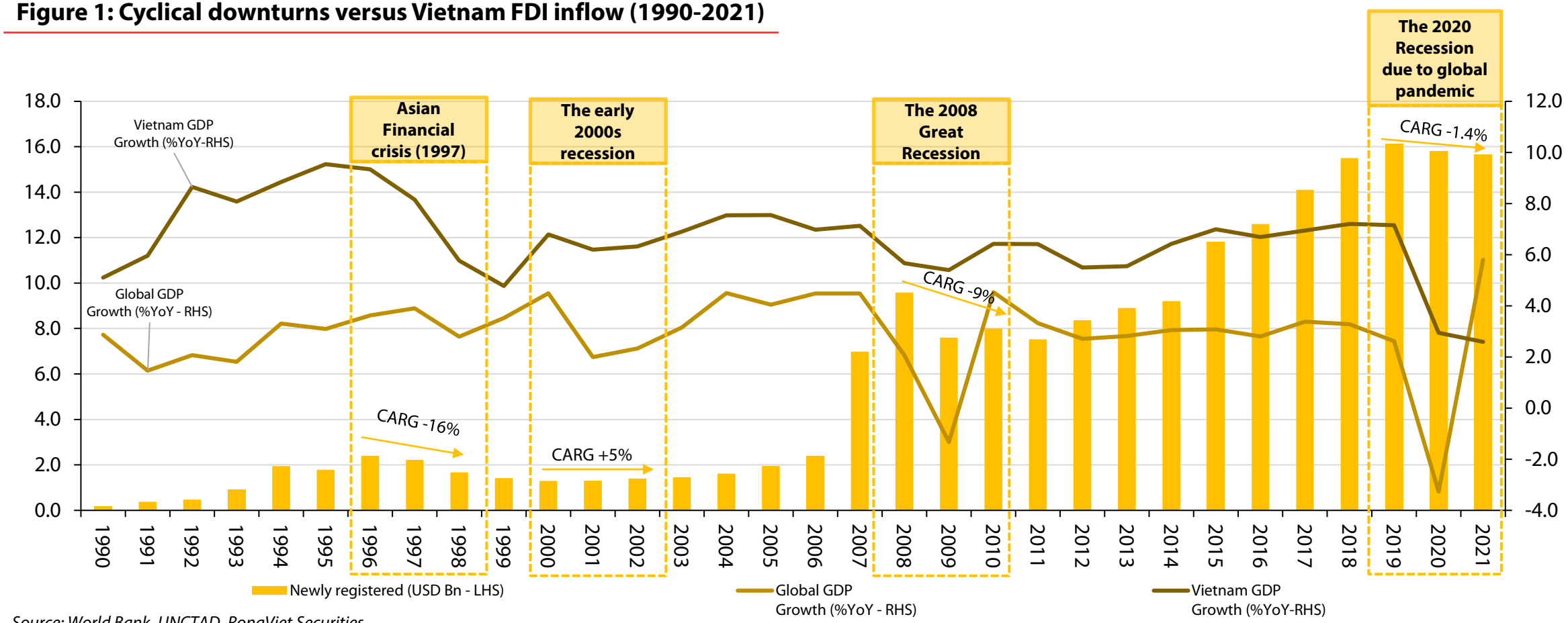
Industrial properties supply still has bottlenecks, pushing leasing price increase in high occupancy regions

- The new decree is likely to encourage investment industrial real estate by reducing the administrative procedures for IP developers. However, integration of the general planning of the province for each 5 years, the investment law in investment policy process makes the game more difficult for players to increase the land bank.
- Total areas of established IPs almost reached 2025 target of the government plan. The occupancy is still high in industrial hubs of the North and the South, while the new approved IPs take a long time to conduct site clearance, leasing price kept increasing in these regions.

The impact of USD/VND change is positive for asset values, while interest rate hike pressure has a slight impact on most of industrial real estate developers.

- All leasing contracts are quotes in USD; thus, a depreciation of VND would positively impact earnings of all developers.
- Majority of IP stocks had negative net debt or low Net debt/EBITDA, their ability to serve debt payable will be fine.

Figure 1: Cyclical downturns versus Vietnam FDI inflow (1990-2021)

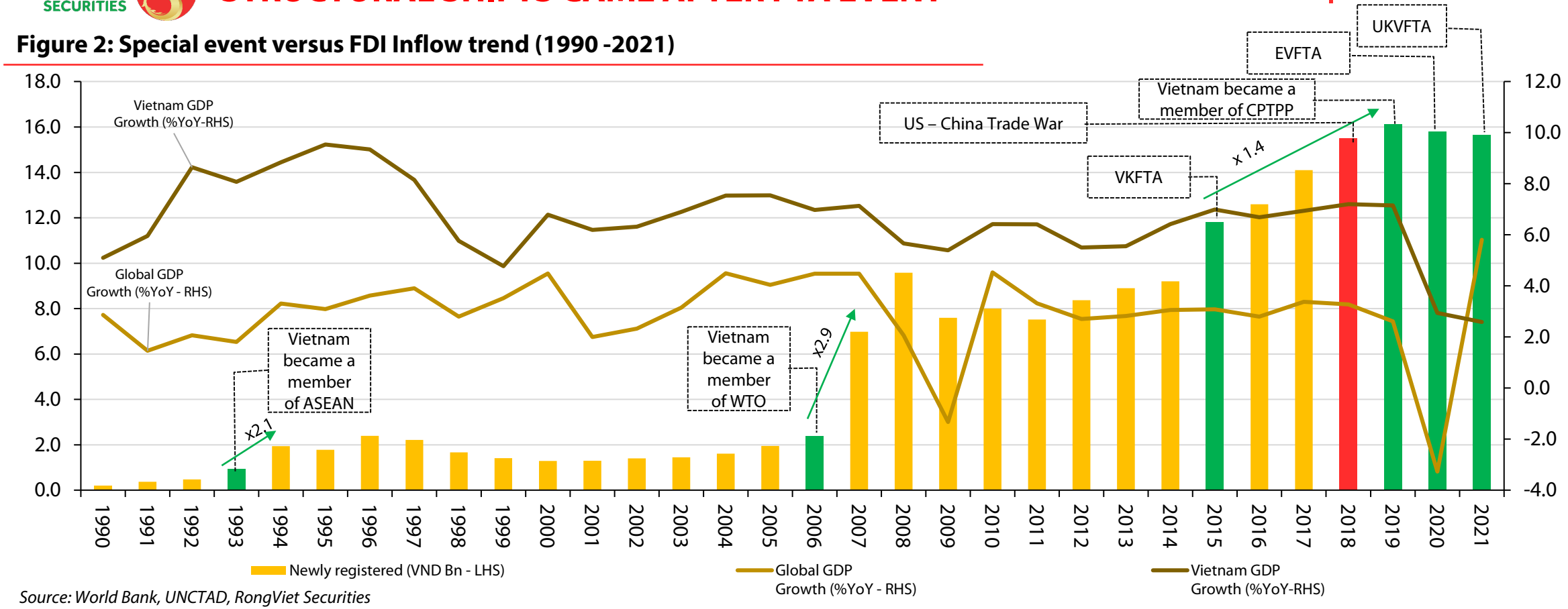


Source: World Bank, UNCTAD, RongViet Securities

- The past data shows that each economic recession cycle had a negative impact on newly registered FDI inflows into Vietnam, but the following year impact was at a moderate level. The trend also show reversion as economy turned into the expansion cycle.

STRUCTURAL SHIFTS CAME AFTER FTA EVENT

Figure 2: Special event versus FDI Inflow trend (1990 -2021)

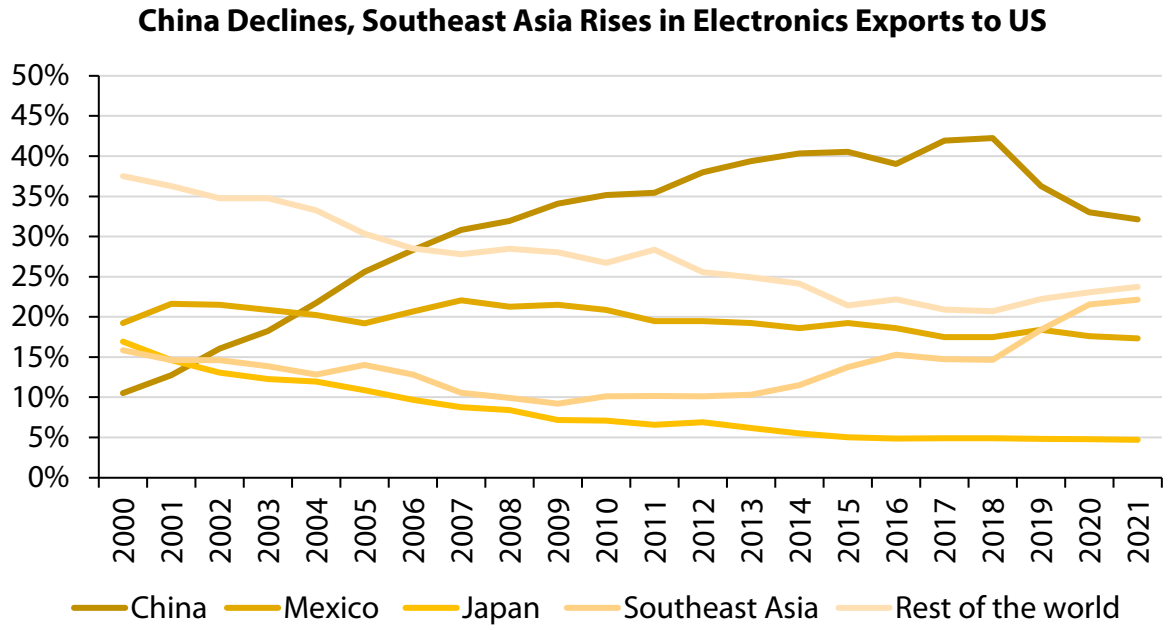


Source: World Bank, UNCTAD, RongViet Securities

FTAs with other developed economies, US vs China Trade war led to significant changes in FDI inflows.

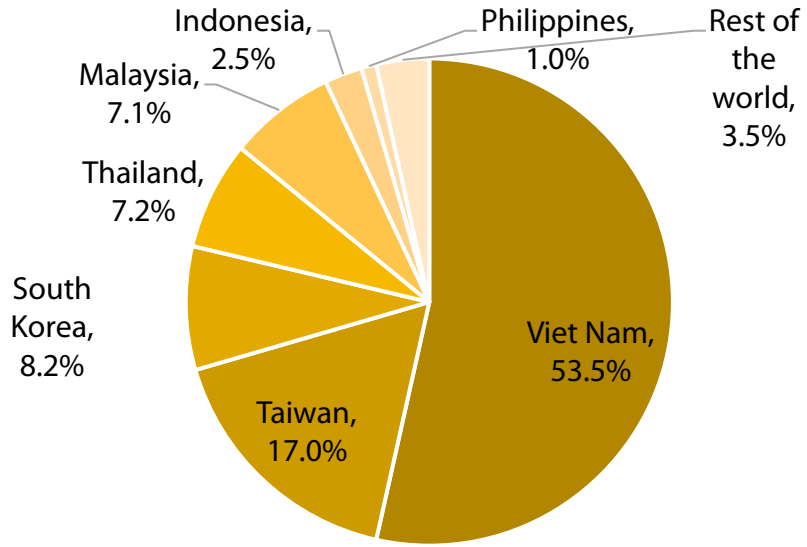
- Whenever having a new FTA, Vietnam saw significant increases in newly registered FDI inflow as. The reason for this could be attractive investment cost, low operating cost, tax, and tariff incentives. From 2019 to 2022, Vietnam continuously had 4 FTAs with developed economies including CPTPP, EVFTA, UKVFTA, and RCEP (2022). Thus, we expect a new wave of FDIs from Vietnam's partners.
- The source of the shifting also came from a series of disruptive events over the last few years — from US-China trade war to the strict Zero Covid Policy leading to supply chains bottleneck—have led to supply chain diversification. The benefit from this accrued to other Asian countries, including Vietnam, as a nearby destination to build up assembly lines. In particular, the electronics and machinery sector would be a useful proxy to examine supply chain shifts….

Figure 3: Electronics import to US breakdown by regions (2000 -2021)



Source: US Census Bureau, Macropolo.org

Figure 4: Breakdowns of US imports increase by countries (2018-2021)



Source: US Census Bureau, Macropolo.org

The electronics and machinery sector would be a useful proxy to examine supply chain shifts, as it is the largest category in global trade by value

•China 's electronics exports to the United States dropped 10 percentage points from 2018 to 2021 (figure 3), with much of that slack picked up by Southeast Asia. In which, Vietnam made up more than half of the export decline from China (figure 4).

DOMESTIC DIRECT INVESTMENT (DDI) WILL SLIGHTLY PULL BACK

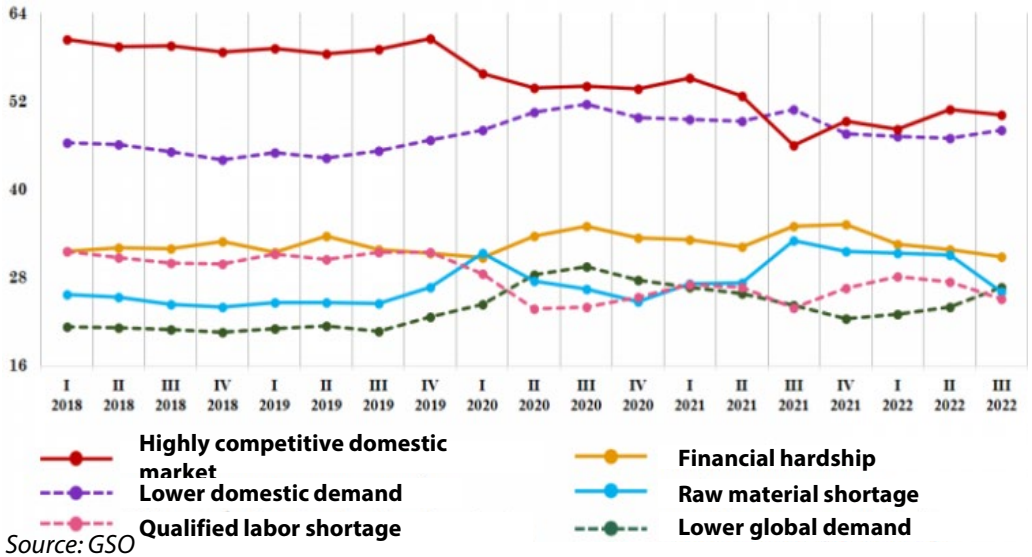
For 2023 outlook, the demand for expansion of DDI enterprises will be slowing down

- Demand in local and global market tended to be lower in the last 3 quarters and was expected to prolong until at least in the first half of 2023. Thus, investment deployment will pull back until there are signals of recovery.
- In addition, tightening monetary policy also impact on investment plan and investment decision of manufactures.

For the long - term, industrialization is still the top priorities of Vietnam, manufacturing sector continues to grow and play a key role in the economy

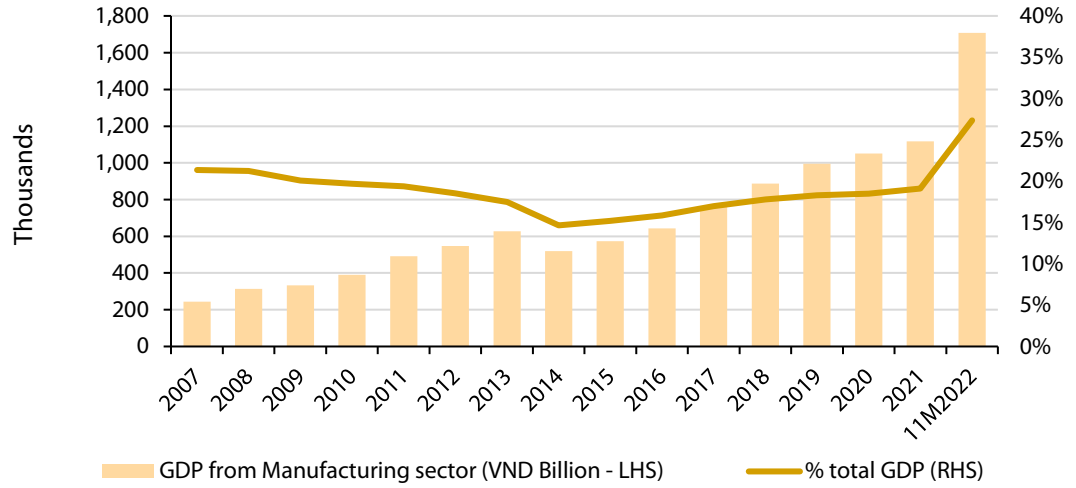
- Besides focusing on attracting FDI to promote local supporting industry, there were appearances of large local manufacturers and they contributed significantly to Vietnam economy. According to the recent top 500 Vietnam private company, 52.4% of that was belong to manufacturing sectors.
- As industrialization continue, demand in investment industrial properties will stay strong in the long-term.

Figure 5: Factors impacting on local manufactures (2018-3Q2022)



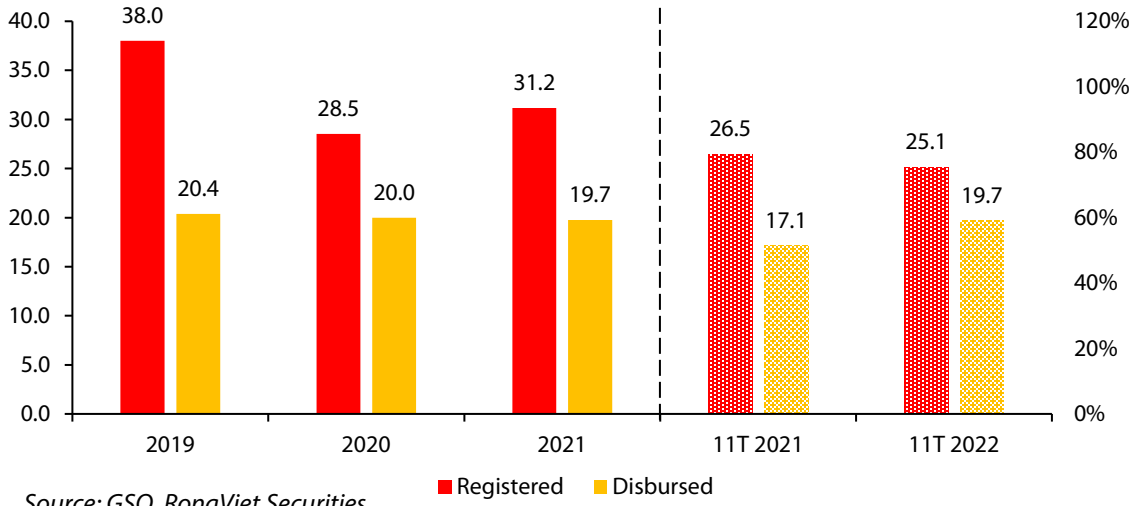
Source: GSO

Figure 6: GDP and % contribution of manufacturing sector



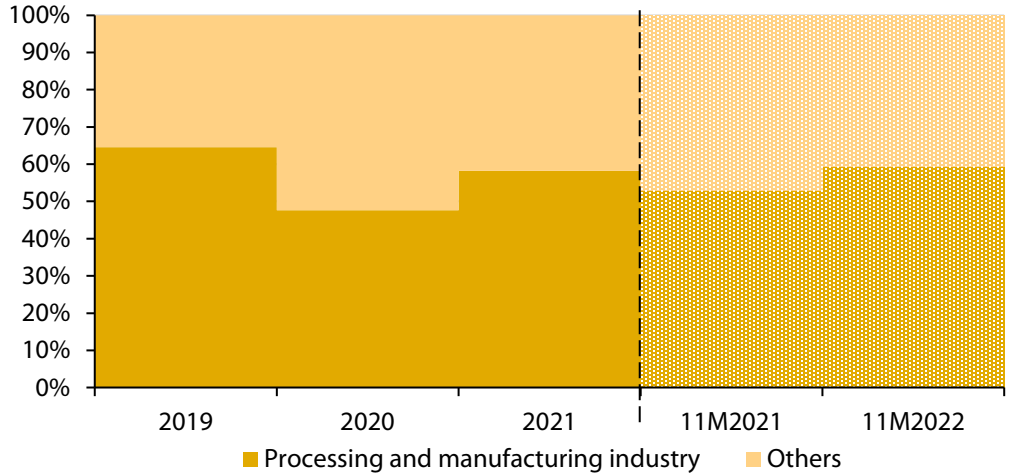
Source: Bloomberg, RongViet Securities

Figure 7: Vietnam 's FDI data (2019-11M2022, USD bn)



Source: GSO, RongViet Securities

Figure 8: Registered FDI Breakdown (%)



Source: GSO, RongViet Securities

Table 1: Pull and push factors summary

Year	Pull factors	Push factors		
		FTAs	Partners	Total partners 's GDP 2021 (USD bn)
2019		CPTPP	Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia	11,483
2020	Global pandemic	EVFTA	EU (27 members)	14,490
2021	Vietnam's strict lockdown	UKVFTA	United Kingdom	3,190
2022	Geopolitical tension, record high inflation in developed economies, fast pace rate hike from Central Banks	RCEP	ASEAN, China, Korean, Japan, Australia, New Zealand	29,251
2023	Global economy is expect a soft landing			

Source: World Bank, RongViet Securities

2022 Recap: the total registered FDI kept slowing down

- Since peaking off in 2019, total registered FDI decreased gradually as global pandemic restricted traveling despite of FTAs with developed economies taken effect.
- In 11M2022, total registered FDI just reached 95% of 11M2021's digit, in which processing and manufacturing sectors still made up more than half. While the disbursement grew 15.1 % YoY.

Outlook: Expect a new FDI wave when recovery signal is clear

- As we expect global economy to see a mild downturn in 2023, the total registered FDI will have a modest adjustment versus 2022. But when global turning back to growth trajectory, a new wave of FDIs from partners, who just having FTAs with Vietnam, is expected to occure.

ONGOING AND NEW INDUSTRIAL TRENDS IS SHAPING INVESTMENT IN BOTH ASEAN AND VIETNAM

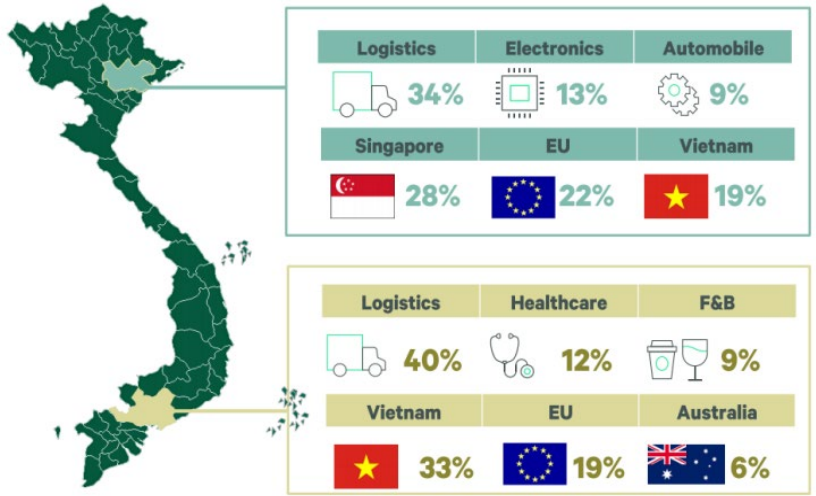
E-commerce kept booming requires strong warehouse (WH) and ready-build factory(RBFs) supply to meet storage demand

- According to statistics from CBRE, logistics was the top asking sector as show in figure 9. We believe trend will stay as Vietnam e-commerce is growing.

EV related industries and Semiconductor Industry are shaping investment landscape

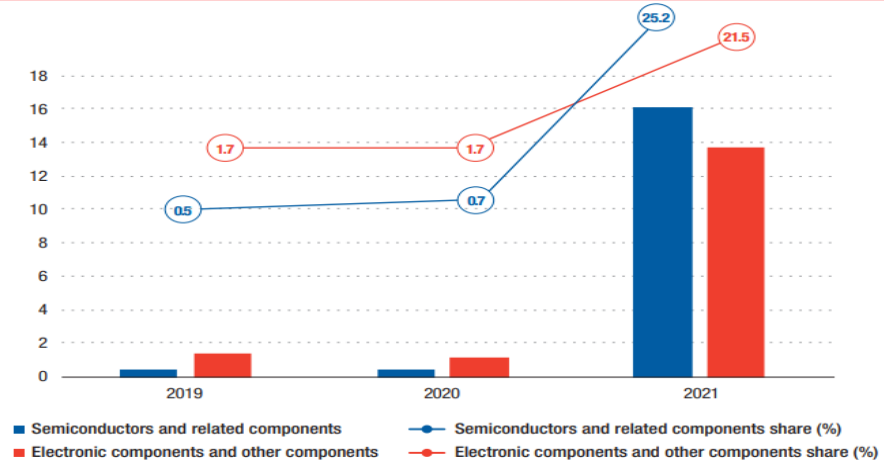
- EV is becoming an inevitable trend both globally and locally as Vietnam committed net zero carbon by 2050 following COP 26 meeting. Some of local companies appeared in the EV value chain.
- The global shortage of semiconductors and supply chain disruptions aggravated by the pandemic led electronics MNEs to shore up production capacity in the ASEAN. Robust FDI in electronics, in particular semiconductors, helped the ASEAN record strong investment growth in 2021.

Figure 9: CBRE's demand statistics in 1H2022



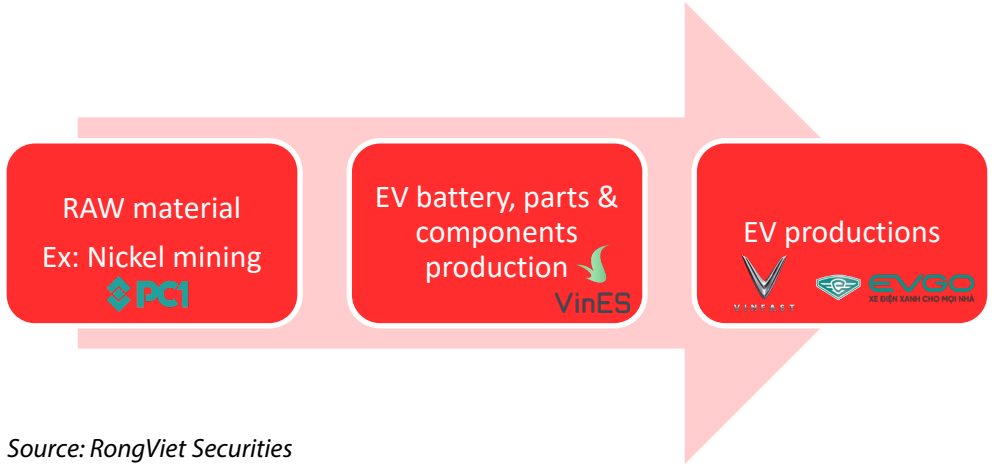
Source: CBRE, as of 1H2022

Figure 10 : ASEAN greenfield investment in semiconductors and electronic parts



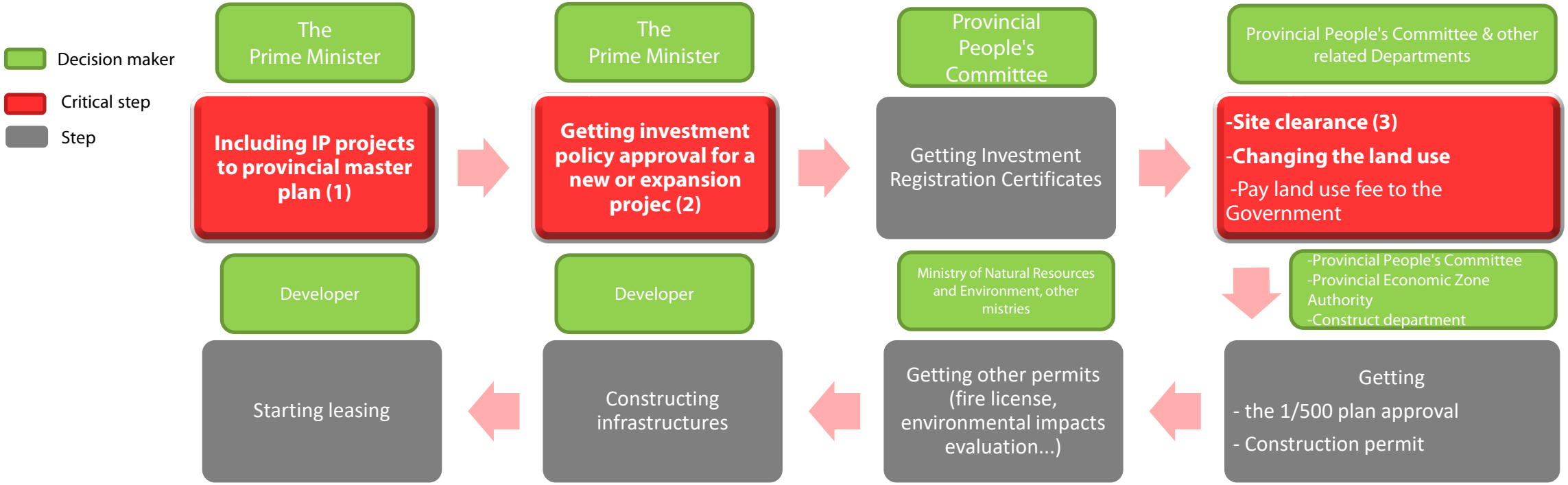
Source: UNCTAD

Figure 11: EV value chain in Vietnam



Source: RongViet Securities

Figure 12: The | INDUSTRIAL PARK establishment process factoring changes in Decree 35/2022/NĐ-CP (Affect 05/22/2022)



Source: RongViet Securities

Although the new Decree are likely to encourage investment industrial real estate by reducing the administrative procedures for IP developers. It decentralizes State management to the MPI and provincial committees. The move means that IPs can now obtain investment policies as they are approved. However, there are still barriers for developers to accumulate land bank:

- (1) New projects or projects adjustment that have yet to be included in provinces master plan have to wait for at least next 5 year to be considered.
- (2) If there more than two investors interested in the same project, they have to compete with each other to be chosen and get investment policy approval.
- (3) Site clearance and compensation procedures remain complex, especially for area with existing properties of many owners. In addition, changing used of the land that related to public property law (Decree 167/2017/ND-CP) is the current an bottleneck for developers.

THE APPROVED | INDUSTRIAL PARK AREA NEARLY REACH 2025 TARGET | INDUSTRIAL PARK

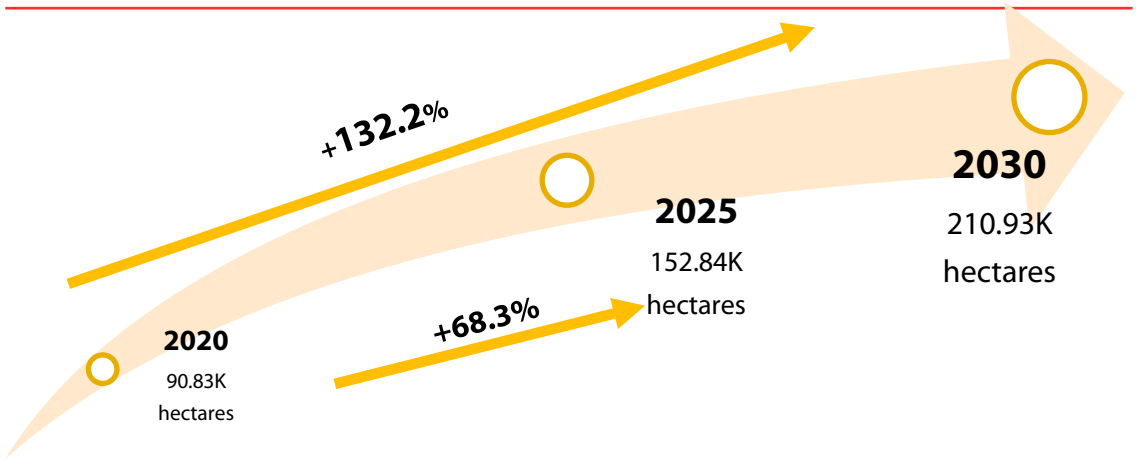
Investment policy approval for IP projects decelerated from 2022

- In 11M2022, there were 21 projects (~ 5,395 ha) that were approved investment policies, accumulated IP area reached 137,017 ha. There would be 15,823 hectares left to reach 2025 target according to Resolution 39/2021/QH15.
- The annual new approved IP area could be ~ 5,274 ha/year on average for next 3 years to reach the congress's target.

The new IP area is still concentrated in the North and the South

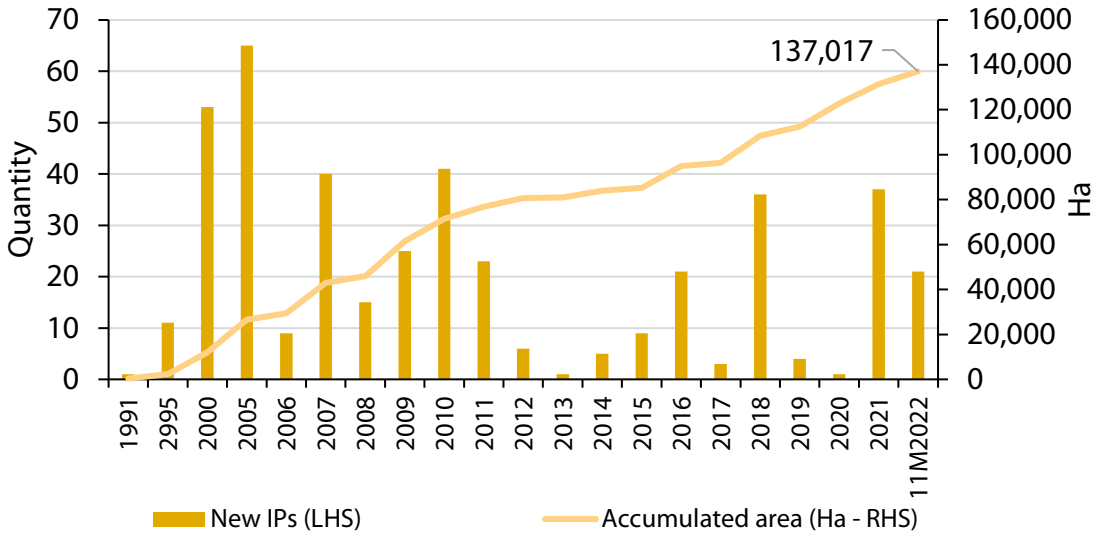
- In 11M2022, 50% of new IP area located in the South. In which, Long An accounted for more than a half as showed in figure 11. Prodezi (400 ha), Tandoland (250 ha), Loc Giang (466 ha), Tan Tap (654 ha) are new approved IPs in Long An

Figure 13: IP land use allocation in Resolution 39/2021/QH15



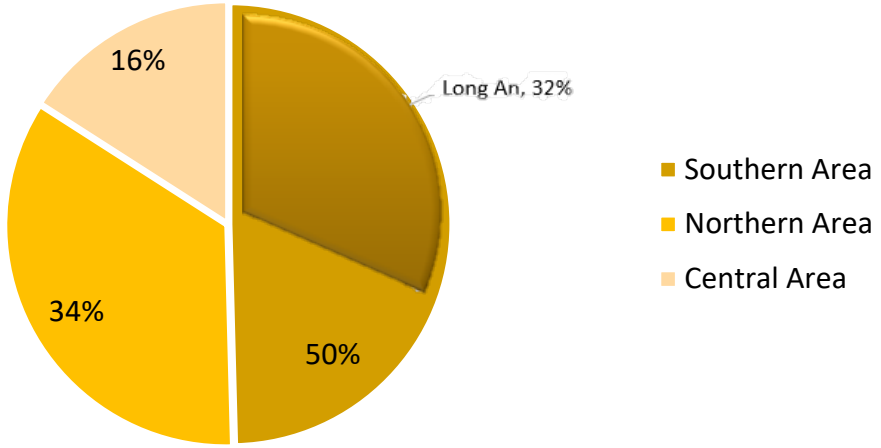
Source:.RongViet Securities

Figure 14: | INDUSTRIAL PARK establishment (1991-11M2022)



Source: MoPI, RongViet Securities

Figure 15: New established IPs in 11M2022 Breakdown



Source: RongViet Securities

OCCUPANCY IS HIGH IN THE INDUSTRIAL HUBS, PRICE KEEP INCREASING

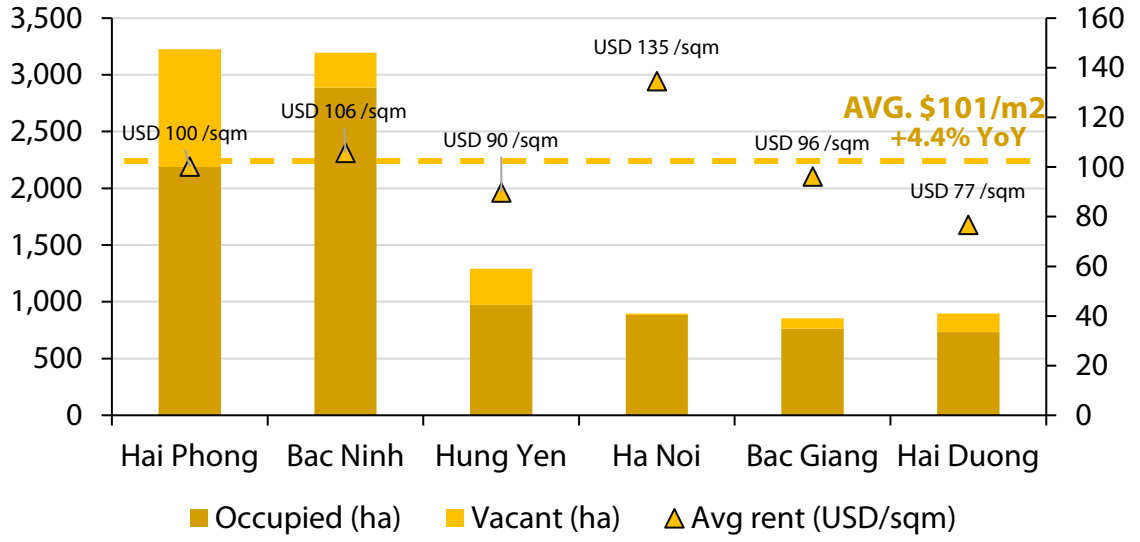
Hai Phong could become the hot spot in the North

- Occupancy of the North is 81%. IP area in Ha Noi, Bac Giang are almost full.
- Due to the new launched | INDUSTRIAL PARK, Deep C Hai Phong III (520 ha), Hai Phong (~1,039 ha - available for lease) has lower occupancy than its nearby provinces. Hai Phong could become the next hot destination in the North.

Long An and Ba Ria – Vung Tau (BR-VT) have the greatest supply in the South

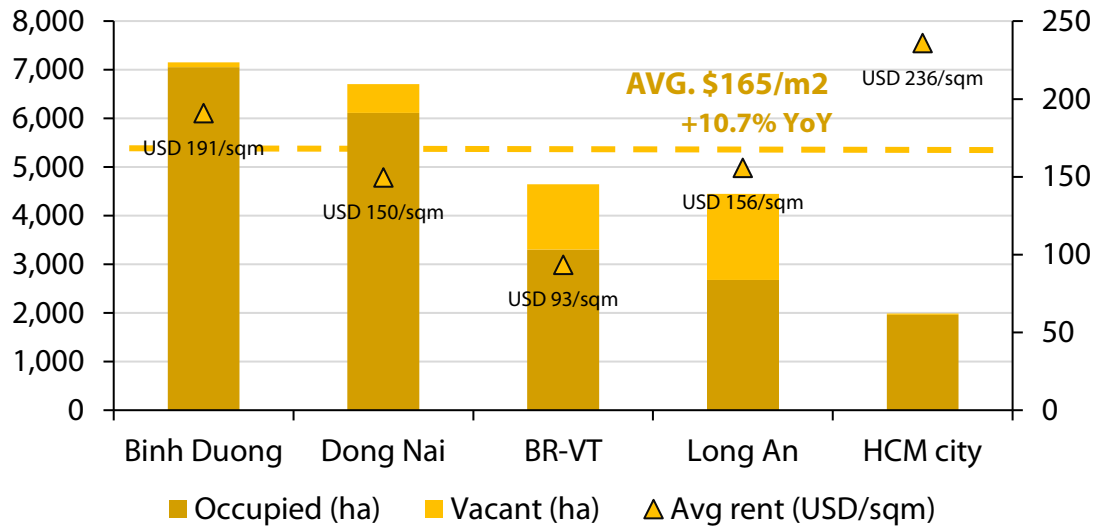
- Occupancy of the South is 85%. IP area in Binh Duong, Ho Chi Minh City, and Dong Nai are nearly full.
- Long An (~1,764 ha - available for lease) and BR-VT (~1,342 ha - available for lease) having the greatest supply and will become the next destinations for FDIs, and DDIs in the South.

Figure 16: Northern supply & leasing price as of 1H2022



Source: Savills, Cushman & Walkerfield

Figure 17: Southern supply & leasing price as of 1H2022



Source: Savills, Cushman & Walkerfield

FX BENEFITS IP DEVELOPERS, HEALTHY FINANCIAL POSITION HELPS MAJORITY OVERCOME MONETARY HEADWIND

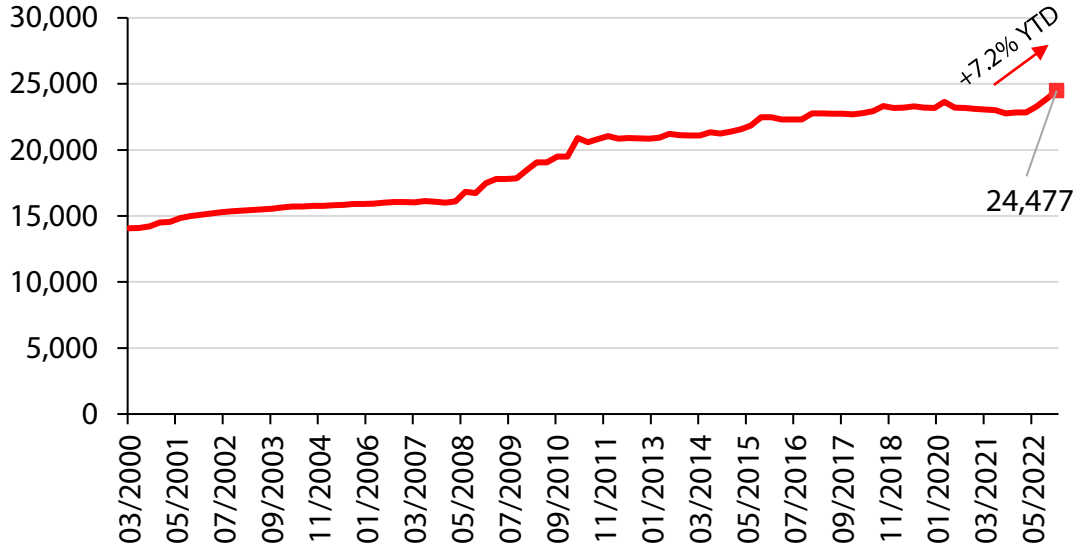
VND/USD climbed up a new high positively affecting IP portfolio of developers.

- All leasing contracts are quotes in USD; thus, a depreciation of VND would benefit the earnings in the futures. A positive change in the VND/USD exchange rate will improve gross margin of IP segment by the same amount as well as increase value of the current land bank of developers.

Low leverage and high interest coverage ratio help majority of IP developers survive through the headwind.

- Majority of IP stocks had negative net debt or low Net debt/EBITDA (<4), thus their ability to serve debt payable will be fine
- As majority had low leverage (<0.5) and high interest coverage ratio, interest rate hike will modestly impact earning outlook.

Figure 18: USD/VND historical data



Source: Bloomberg, RongViet Securities

Figure 19: Leverage and Interest coverage summary

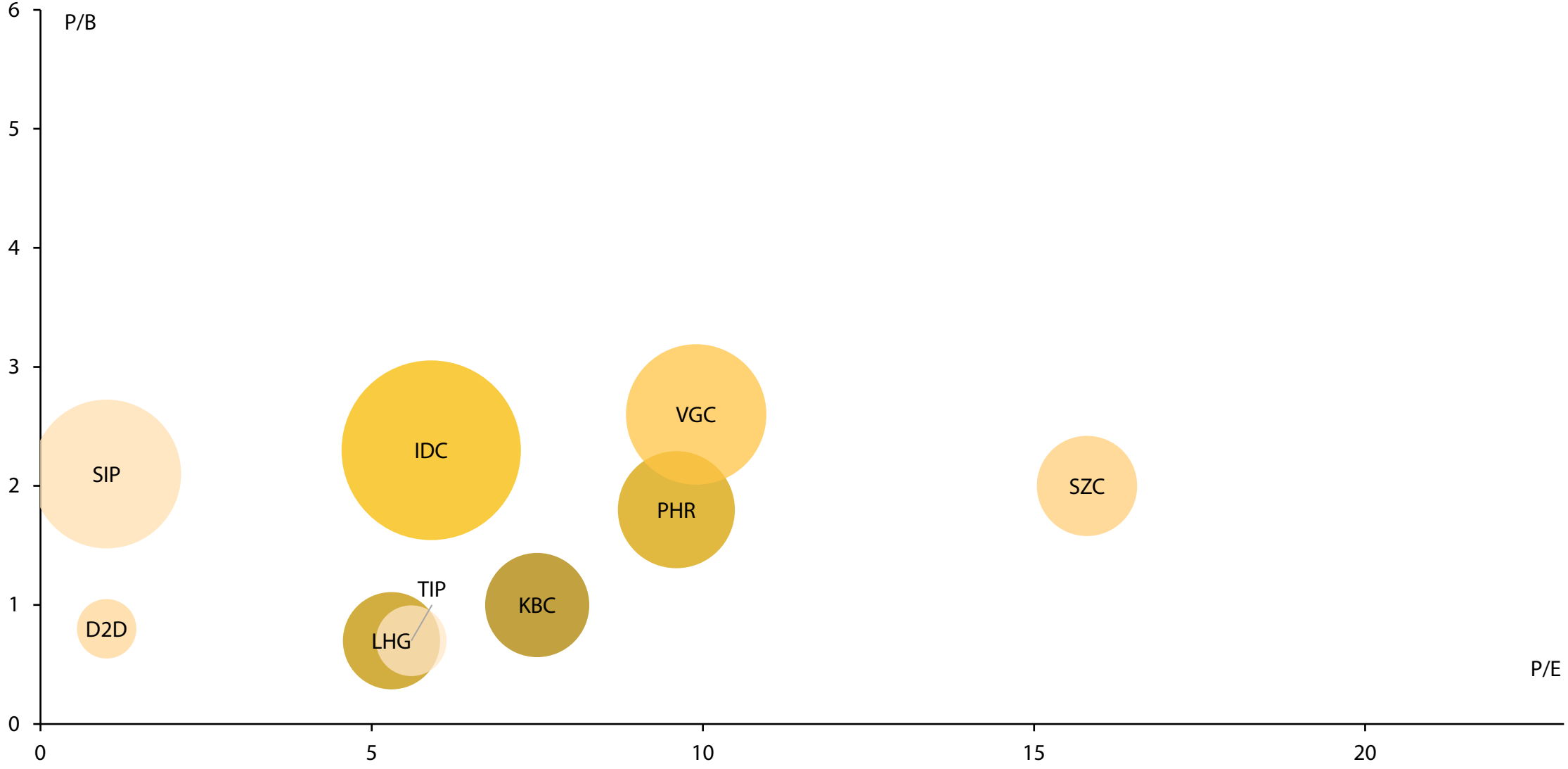
Tickers	Net Debt (VND bn)*	Total Equity (VN bn)	TTM EBITDA (VN bn)	TTM Interest Expense (VN bn)	D/E	EBITDA/ Interest Expense	NET DEBT/ EBITDA
NTC	(1,139)	632	184	2	0.3	105.9	(6.2)
SIP	(3,976)	3,298	871	10	0.1	89.7	(4.6)
DPR	(1,237)	2,743	436	5	0.0	87.4	(3.0)
SZC	1,940	1,466	618	7	1.5	85.8	2.8
LHG	(891)	1,464	403	16	0.1	25.5	(4.3)
PHR	(1,619)	3,109	482	20	0.1	24.5	(3.8)
VGC	247	8,357	3,559	161	0.4	22.1	0.1
IDC	869	5,028	866	173	0.7	5.0	0.4
KBC	2,476	16,171	1,924	481	0.4	4.0	4.4
BCM	13,436	17,145	2,186	769	1.0	2.8	4.6

Source: Bloomberg, RongViet Securities
**Negative net debt mean cash and cash equivalents is greater than total debt and vice versa*

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
KBC	716	25,000	22,100	0	30.3	97.4	-29.7	77.2	2.5	287.9	-38.4	18.7	9.6	9.1	23.3	0.9	1.2
PHR	260	54,000	41,682	4,000	36.4	19.2	-12.9	4.8	-0.6	120.3	-24.4	34.3	17.5	7.7	12.9	2.0	2.2
LHG	44	33,000	21,000	1,900	35.2	21.5	-6.3	11.2	0.4	-32.2	70.5	13.4	6.8	3.4	7.1	0.7	1.1
DPR	97	65,800	53,500	3,000	47.3	7.0	11.4	-10.4	1.7	12.3	-15.9	21.0	11.5	5.6	7.7	1.0	0.9
SIP	261	N.R	68,000	2,000	48.4	9.7	1.6	2.1	-0.2	23.1	15.0	30.8	5.6	6.1	N.A	1.7	N.A
IDC	505	N.R	36,300	0	43.0	-19.7	96.0	1.3	-0.8	335.3	-11.6	28.2	15.5	5.7	N.A	5.6	2.4
VGC	822	N.R	43,450	N.A	42.9	18.7	N.A	N.A	1.1	N.A	N.A	28.0	9.5	9.9	17.0	2.6	1.9
BCM	3,405	N.R	78,000	N.A	46.0	7.4	N.A	N.A	-0.2	N.A	N.A	12.2	4.1	47.2	N.A	4.6	N.A
SZC	124	N.R	29,300	N.A	46.3	64.7	N.A	N.A	0.7	N.A	N.A	14.3	4.0	15.7	N.A	2.0	N.A
NTC	121	N.R	113,950	N.A	45.5	2.9	N.A	N.A	0.0	N.A	N.A	44.7	6.8	9.3	12.9	4.3	5.6

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

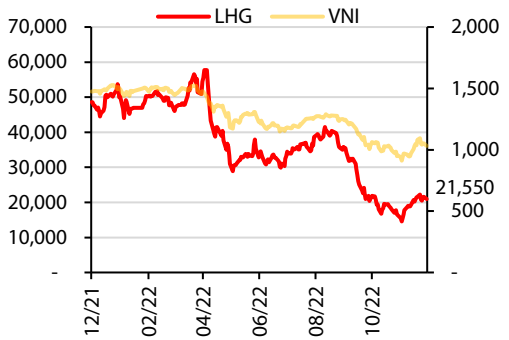


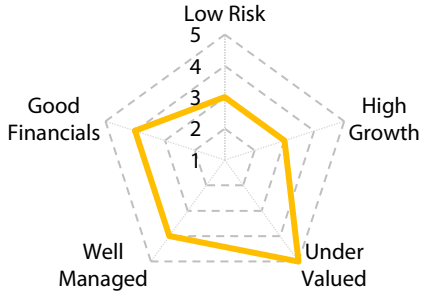
Source: Bloomberg, RongViet Securities. Bubble size equals respective ROE. Share price as of Dec 12th, 2022..

THE HALO IS STILL THERE WHEN THE HEADWINDS FADE AWAY

HSX: LHG

BUY: +53.1% **MP:21,550** **TP:33,000**





STOCK INFO

Sector	Real Estate
Market Cap ($ mn)	44
Current Shares O/S (mn shares)	50
3M Avg. Volume (K)	376
3M Avg. Trading Value (VND Bn)	9
Remaining foreign room (%)	35.3
52-week range ('000 VND)	14.5 – 63.0

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	782	733	815
NPATMI (VND bn)	295	200	341
ROA (%)	10.8	6.8	10.6
ROE (%)	21.5	13.4	21.2
EPS (VND)	5,544	3,752	6,417
Book Value (VND)	29,236	30,416	33,978
Cash dividend (VND)	1,900	1,700	1,900
P/E (x)	3.8	5.7	3.4
P/B (x)	1.8	0.7	0.6

INVESTMENT RATIONALES

Current leasable GFA (~30 ha) in Long Hau 3 phase 1 can ensure LHG's performance for next 2 year while waiting Long Hau 3 phase 2 and An Dinh IPs get approvals

- The ready-to-lease area is estimated at 30 ha, because scattered, area (10 ha) affects ~20 ha GFA of the project. With leasing rate ~ 10 ha/ year on average, the ~30 ha ready-to-lease area can ensure leasing plan of LHG until 2025.
- Prime location of Long Hau is benefiting leasing price of the project as it increased continuously in recent years. The current leasing price is $240 -$250/sqm. Which also helps LHG lease less but still ensure both revenue and earnings target.

Long Hau has an ambitious plan to expand RBFs segment

- Long Hau 's RBF leasing segment expect to have stable income with steady annual cashflow and will show strong growth in next few years as Long Hau plan to expand leasing area aggressively. In 2023-2024, LHG will not only expand RBFs GFA in Da Nang High Tech park and lot 3A in LH 3.1, but also develop warehouse project (10,000 sqm) in LH 3.1.

Upcoming critical projects are expected to boost earnings from 2025

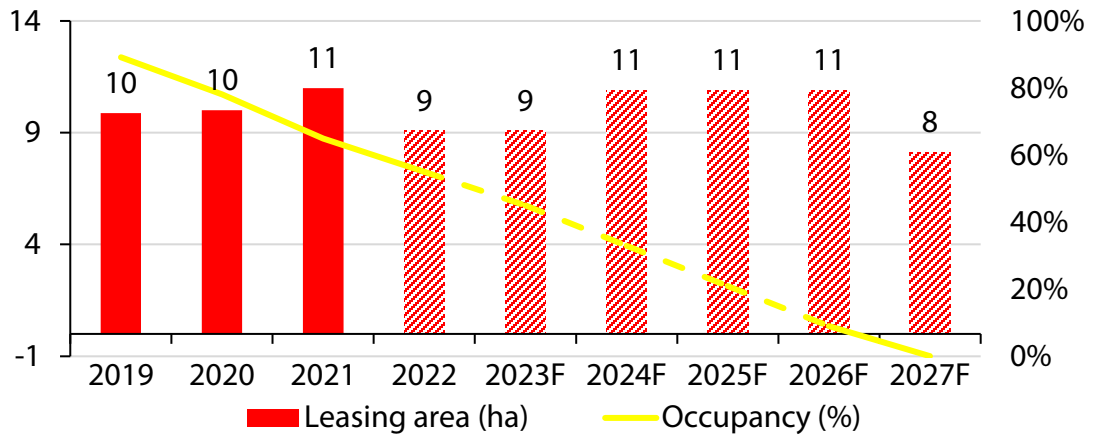
- Long Hau 3 phase 2 IP (90 ha), An Dinh IP (200 ha), and Long Hau 3 Urban project (19 ha) are expected to be completed by the end of 2024 and can be commercialized in 2025.

RISKS TO OUR CALL

- Higher investment costs due to slower than expected progress of land clearance and slower than expected investment policy approvals progress.
- Higher than expected potential payable to IPC due to prolonged settlement process and if the settlement occur and there is no change in payable amount, it will deteriorate approximately one-year LHG's earning. However, we have eliminated that payable in out NAV calculation, our target price will not be impacted much.

LONG HAU 3 PHASE 1 BENEFIT FROM LEASING PRICE BOOSTING

Figure 1: LH3-p1 leasing schedule forecast



Source: LHG, RongViet Securities

Figure 2: Estimate average leasing price of LH3-p1 IP (USD per sqm)

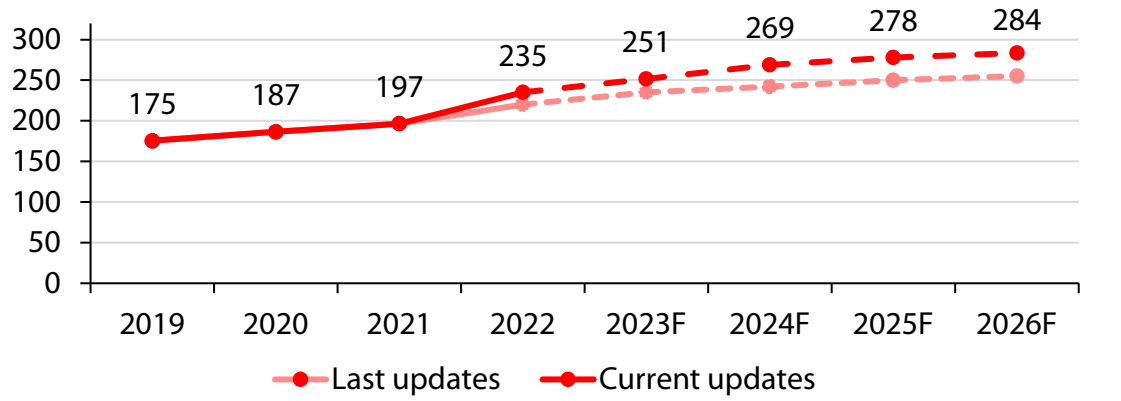
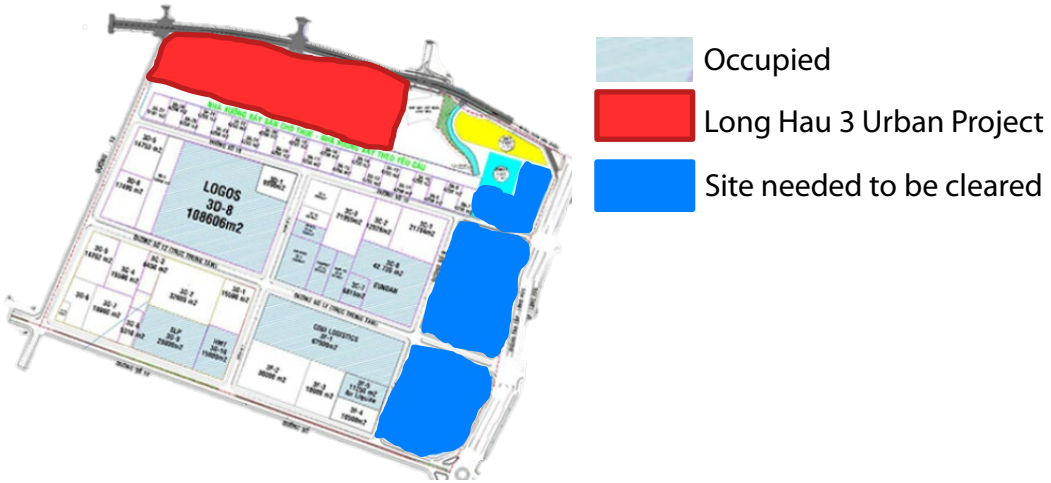


Figure 3: Long Hau 3 –Phase I detail plan

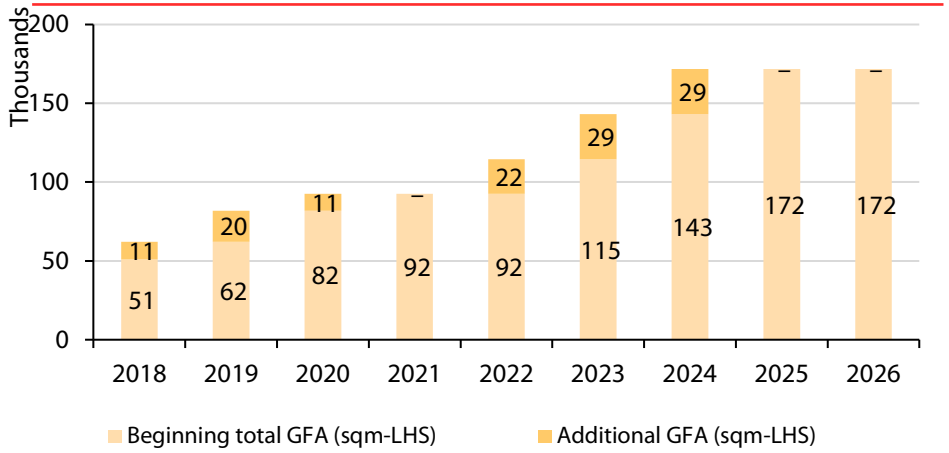


Source: LHG, RongViet Securities

- Long Hau 3 is in prime location, that is close to Hiep Phuoc port cluster and Ho Chi Minh City, the occupancy in nearby area is always high. Taking advantage of surge in IP property demand as Vietnam fully opened for international travel, LHG has adjust leasing price to the new record high - $240/sqm. Which also help Long Hau mitigate upward revision in total development cost due to higher compensation cost in Long Hau.
- The ready-to-lease area is estimated at 30 ha, because a part of the area (~10 ha) that has not been cleared is scattered, affecting ~20 ha of the leasable area. In addition, Long Hau plans to spend about one third of the available area (~10 ha) to develop built-to-suit factories (BTS). We are confident that current leasable area can secure Long Hau 's performance until at least 2025. Besides, thanks to the record high leasing price, and USD appreciation, LHG can adjust its leasing plan target each year (we assume 9ha/year for next year), but still ensure revenue and profit plan, which was set in 5-year plan while waiting for investment policy approvals of LH 3.2 and An Dinh.

AMBITIOUS EXPANSION IN RBF LEASING SEGMENT

Figure 4: Long Hau 's RBFs GFA(sqm)



Source: LHG, RongViet Securities

Table 2: Top developers with large RBFs GFA

RBF developers	GFA (sqm)
Kinh Bac City	577,000
BWID	488,000
Shenzhen Shenyue	263,000
Kizuna JV JSC	222,000
Amata	197,500
Thang Long IP	181,500
KTG Industrial	181,000
Mapletree	181,000
FU CHUAN Ltd	174,000
Tanimex	162,400

Source: Cushman & Wakerfield

Table 1: Ongoing and upcoming RBFs and WHs projects

Projects	Total Area (Sqm)	Available for lease (Sqm)	Leftover (Sqm)	Leasing rate ($/sqm/month)	Note
RBFs in Da Nang High-tech park	289,000	30,863	258,137	3.9	The lot J4-Phase 2 (85,733sqm) will be built next
RBFs in lot 3A	48,268	12,067	36,201	5.3	The area was divided into 20 lots coded from 07 to 26, the 23,24,25,26 will be completed in 4Q2022
Long Hau Warehouse project	10,000	0	10,000	n.a	Expected to be built in 2023
High-rise factory phase 2	19,976	0	19,976	5.3	To be constructed when current project occupancy reach above 60%

Source: LHG, RongViet Securities

- In 2022, LHG added 2.2 ha GFA to its RBFs portfolio including ~ 1 ha RBFs (J4 phase 1 expansion) in Da Nang Hi-tech park and ~ 1.2 ha RBFs in Lot 3A of Long Hau 3 phase 1 IP (LH3.1). By the end of the year, LHG will manage ~115 thousand sqm GFA of RBFs
- Long Hau 's RBF leasing segment expect to have stable income with steady annual cashflow and will show strong growth in next few years as Long Hau plan to expand leasing area aggressively. In 2023-2024, LHG will not only expand RBFs GFA in Da Nang High Tech park and lot 3A in LH 3.1, but also develop warehouse project in LH 3.1.
- We expect that Long Hau will sooner become one of top RBFs properties managers in Vietnam in term of GFA. This is supported by RBFs project in Da Nang Hi –tech Park (29.6 ha).

Figure 5: Long Hau Industrial park detail plan

Source: LHG, RongViet Securities

Figure 6: An Dinh Industrial Park location

Source: LHG, RongViet Securities

An Dinh IP and Long Hau 3 – Phase 2 IP (LH3.2)

LHG has submitted a documents to the Ministry of Planning and Investment to submit to the Prime Minister for approval, progress is slow due to Decree 35/2022. They expected that the projects will be approved in the second quarter of 2023, to process site clearance in the third quarter of 2024, and can be leased in the fourth quarter of 2024.

Long Hau 3 Urban project (19 ha)

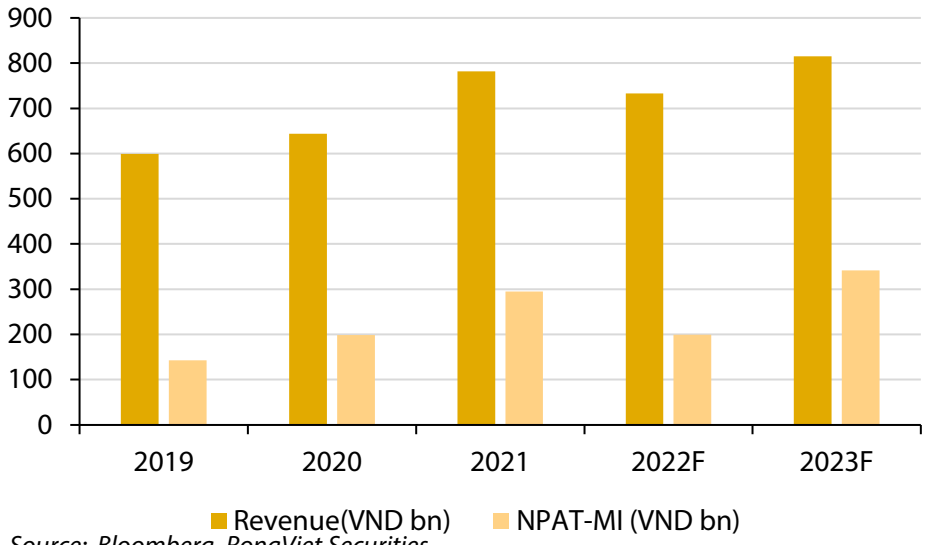
The project includes including 470 townhouses (40,602.54 sqm), 484 shophouses (46,295.96 sqm) will delay until the fourth quarter of 2024 to be completed.

Table 3: 9M2022's performance

(VND Bn)	9M2022	+/- YoY
Revenue	**525**	-27%
Gross profit	**212**	-45%
EBIT	**172**	-61%
NPAT	**172**	-37%

Source: Bloomberg, RongViet Securities

Figure 7: FY22-23 earnings forecast (VND bn)



Source: Bloomberg, RongViet Securities

9M2022 Review: Cannot exceeded high base of 9M2021

- In 9M2022, LHG's revenue declined 27% YoY to VND 525bn (~USD21.8 million) and its NPAT plunged 37% YoY to VND172bn (~USD 7.1 million). Following earnings plan, LHG has completed 67% revenue plan (VND 781 billion or USD 32.5 million) and 155% earnings target (VND 111 billion or USD 4.63 million).
- The reasons that LHG underperform last year revenue and earnings includes (1) high base of 2Q2021 as LHG recorded the historical high in earnings thanks to leasing contract of 10 hectares with LOGOS, and (2) upward cost revision for leased area of LH3.1 in 2Q2022 to reflect the increase in total investment.

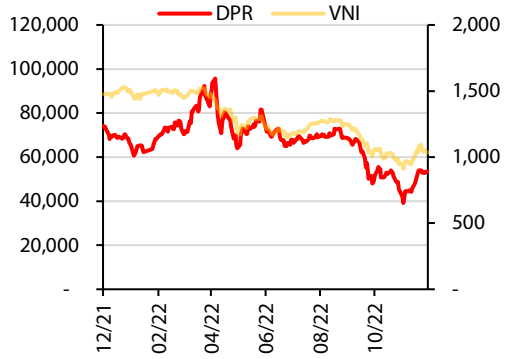
2023 Outlook: Leasing price boosting and additional leased RBFs area will outweigh annual sales adjustment to support earnings growth

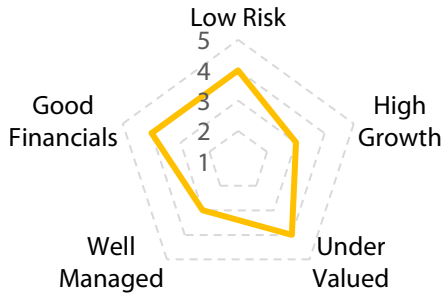
- In our base case scenario for 2023, we estimated that(1) average leasing price in Long Hau is ~$250/sqm (+7% YoY vs. 10% average of Southern area), (2) leasing plan was adjusted the same (9 ha) for 2022 and 2023 to reflect BOD expectation of hardness economic condition, (3) new RBFs in Da Nang Hi-tech park, and lot 3A of LH3.1 will boost RBFs leasing revenue, (4) upward cost revision will no longer recur in 2023 and GPM will bound back. Thus, total revenue is estimated to reach VND 815 bn or ~ $35 mn (+11%) and NPAT-MI will reach VND 341 bn or ~ $14 mn (71%).

GOLDEN VALUE IN THE LAND USE COVERSION PLAN

HSX: DPR

BUY : +23.0% **MP: 53,500** **TP: 65,800**





STOCK INFO

Sector	Industrial Park
Market Cap ($mn)	97
Current Shares O/S (mn shares)	43
3M Avg. Volume (K)	142
3M Avg. Trading Value (VND Bn)	8
Remaining foreign room (%)	0.0
52-week range ('000 VND)	38,3 - 102,1

FINANCIALS

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	1,217	1,356	1,215
NPATMI (VND bn)	431	484	407
ROA (%)	11.0	11.5	8.8
ROE (%)	21.6	21.0	16.0
EPS (VND)	10,025	11,257	9,472
Book Value (VND)	50,973	56,033	62,663
Cash dividend (VND)	3,000	3,000	3,000
P/E (x)	2.9	4.8	5.6
P/B (x)	0.6	1.0	0.9

INVESTMENT RATIONALES

IP supply shortage will pull core earning, land hand over will slowdown in 2023

- China – the world's largest rubber producer and consumer had a plan to reopen economy next year is the main factors expected support rubber segment to recovery. However, Bac Dong Phu expansion project has yet been approved the investment policy leading supply shortage in 2023 and a plunge of IP leasing revenue.
- We believe that the land handover plan will also slow in 2023 due to gloomy residential real estate as interest rates continue to increase, real estate credit is being tightened. Accordingly, DPR may complete land handover of Tien Hung 1 project in our base case scenario.

Binh Phuoc's master plan will benefit DPR's land use conversion plan in the long-term

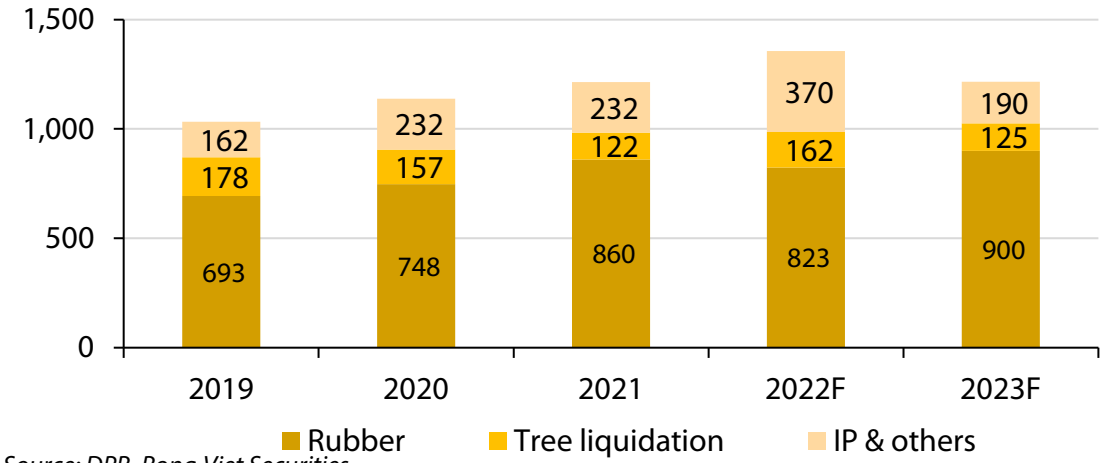
- Binh Phuoc province plans to add 4,200 hectares for industrial park use in Dong Phu district in the period of 2021-2025. At the same time, DPR also plans to convert 4,000 hectares of rubber land to industrial or residential uses. In addition, the Vietnam Rubber Group and Binh Phuoc province have reached an agreement on the compensation price when an investor implements the project, the average price is ~ VND 1.02 bn/ha. With the conversion plan and compensation rate, DPR' land use conversion will bring earnings to a new high in the long-term.

RISKS TO OUR CALL

- Bac Dong Phu expansion investment policy approval is processed faster than expected.
- Land use conversion plan may change in a different direction
- China reopening effect will not happen as expected

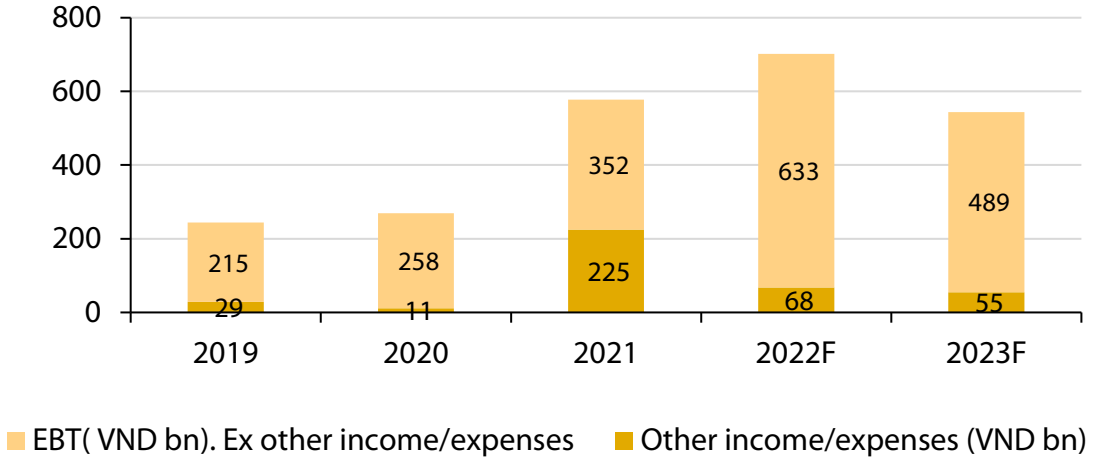
IP SUPPLY SHORTAGE PULLS CORE EARNINGS, LAND HAND OVER WILL SLOWDOWN

Figure 1: Revenue breakdowns by segment (VND bn)



Source: DPR, Rong Viet Securities

Figure 2: Other income/expense versus other EBT sources (VND bn)



Source: DPR, Rong Viet Securities

Lacking supply make IP leasing business outweigh rubber segment's recovery.

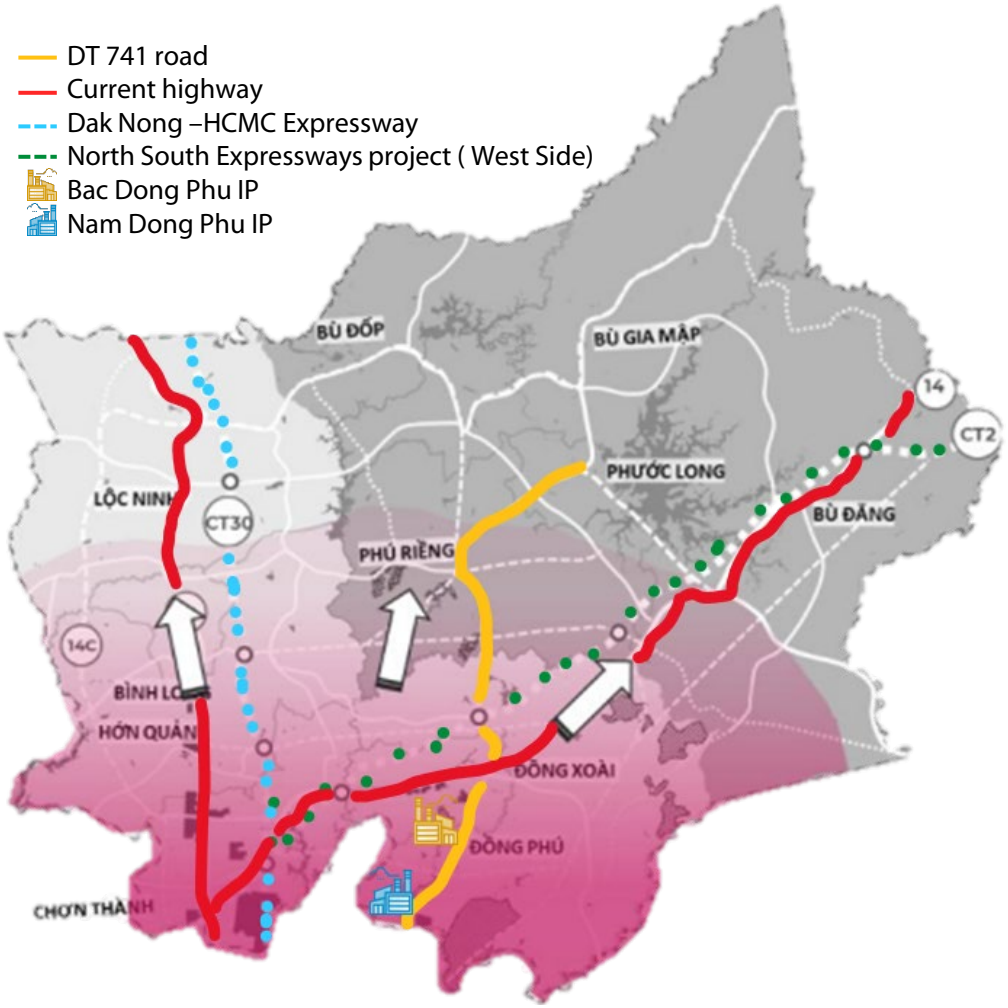
- China – the world's largest rubber producer and consumer had a plan to reopen economy next year, we expect the demand for the raw material will spike up, which support rubber segment 's recovery.
- DPR will no longer allocate liquidation area (56 ha) of the previous year into the new year as 2022. The liquidation area is estimated at ~500 ha, ASP is expected to be VND250mn/ha.
- Bac Dong Phu expansion project has yet been approved the investment policy. Thus, DPR will not have much supply left in 2023. Our base case scenario is that DPR just lease the last ~ 2 ha of Bac Dong Phu IP versus ~ 13 ha in 2022.

Slowing down in real estate market will impact land handover progress

- Only Tien Hung 2 urban project (43 ha) has had the auction result in 2022 and will contribute to DPR's earnings. For Tien Hung 1 urban project, there has had auction result yet.
- We believe that the land handover plan will also slow in 2023 due to gloomy residential real estate as interest rates continue to increase, real estate credit is being tightened. Accordingly, real estate investors will be cautious in investing new projects and DPR's land auction and handover progress will also slowdown in 2023. Thus, DPR may complete land handover Tien Hung 1 project in 2023 in our base case scenario.

BINH PHUOC PROVINCE'S MASTER PLAN BENEFITS DPR'S LAND USE CONVERSION PLAN

Figure 3: Industrial Zone in Binh Phuoc 's master plan



Source: Binh Phuoc Province,Rong Viet Securities

Table 1: Overview of DPR Land Fund

DPR's land bank	Area (ha)	Notes
Rubber plants area	4,800	Down from 5,500 hectares since 2021
Handover to Binh Phuoc province	1,828	Compensation price is 1.042 bn / ha on average
Self-developed IPs & other projects	2258	
• Bac Dong Phu IP	258	10.4/13.14 ha has been leased (plan for 2022), the remaining 2.7 ha has MOU
• Bac Dong Phu expansion IP	317	Plan has submitted to the Ministry of Planning and Investment
• Nam Dong Phu expansion IP	480	Plan has submitted to the Ministry of Planning and Investment
• **Other projects**	1,203	In planning for the period of 2021-2030
Total	**8,886**	

Source: DPR,Rong Viet Securities

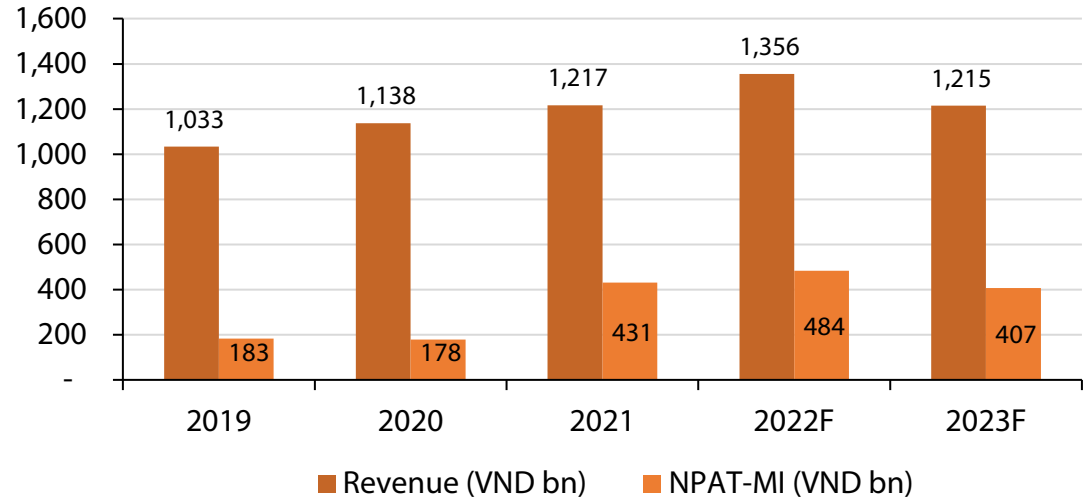
According to the master plan for the period of 2021-2025, Binh Phuoc province plans to add 4,200 hectares for industrial park use in Dong Phu district. DPR also plans to convert 4,000 hectares of rubber land to industrial or residential uses. Of which, 1,828 hectares will be transferred to the province for third-party developers, while the remaining 2,258 hectares will be developed by DPR (Table 1). With the ownership of large rubber land (~9,000 ha), we believe that DPR's conversion is potential and has many advantages as (1) it is located in a convenient location adjacent to the industrial hub, Binh Duong province, the infrastructure linking the region is convenient, while the occupancy in Binh Duong is at high rate, (2) The site clearance will be quick. Besides, the Vietnam Rubber Group and Binh Phuoc province have reached an agreement on the compensation price when an investor implements the project, which is VND 900 mn/ha for the area in Dong Phu district and 1,02 bn VND/ha for the area near Dong Xoai. Thus, we believe that DPR' land use conversion will bring DPR's earnings to a new high in the long-term.

Table 2: 9M2022's performance (VND bn)

(VND Bn)	9M2022	+/- YoY
Revenue	**841**	+16%
Gross profit	**272**	+21%
EBIT	**192**	+26%
NPAT-MI	**187**	+35%

Source: DPR, RongViet Securities

Figure 4: FY22-23 earnings forecast (VND bn)



Source: DPR, RongViet Securities

9M2022 Review: Tree liquidation and IP leasing lifted earnings up

- In 9M2022, the total revenue reached VND 841 bn or $35mn (+15.7%), and profit after tax of parent company shareholders reached VND139bn or $5.8mn (+34.5% YoY).
- The rubber segment generated VND 545.5 bn or $22.7mn (+15.68%YoY) in revenue and VND 113.1 bn or $4.7mn (-18% YoY) in gross profit.
- Tree liquidation business show a robust result, as DPR has liquidated 452 hectares compared to the year plan of 593 hectares, helping DPR bring in revenue of VND 113 bn or $4.7mn (+192% YoY) and a gross profit of VND 105 bn (+207%YoY).
- IP and other services's revenue reached VND 181 bn or $7.5mn (+53%YoY). In which, Bac Dong Phu Industrial Park has leased 10.4/13.14 hectares (target plan), helping DPR to record VND 88.63 bn or $3.7mn.

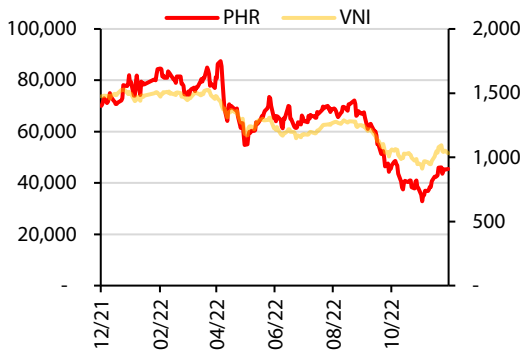
2023 Outlook: Land handover may delay, tree liquidation and IP leasing reduce core earnings

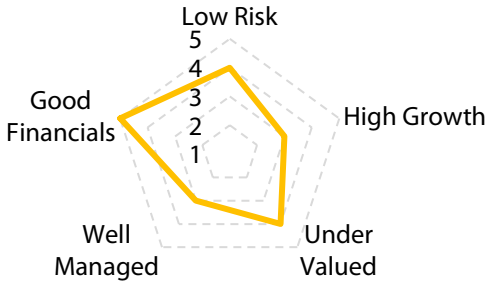
- In 2023, we expect that the tree liquidation area turn back to regular level (~500 ha), while IP leasing could book the last ~ 2 ha of Bac Dong Phu IP. In addition, land handover may slow due to weak demand in real estate market impacting on other income of DPR. On our base case, we estimated that the total revenue will reach VND 1,190 bn or $52mn (-10.4% YoY), and NPAT of VND 393bn or $17.3mn (-15.8% YoY).

CORE BUSINESES ARE EXPECTED TO RECOVER FROM THE LOW BASE

HSX: PHR

BUY: +30.4% **MP: 41,500** **TP: 54,000**





STOCK INFO

Sector	Chemicals
Market Cap ($ mn)	261
Current Shares O/S (mn shares)	135
3M Avg. Volume (K)	693
3M Avg. Trading Value (VND Bn)	31
Remaining foreign room (%)	36.4
52-week range ('000 VND)	26,6 - 86,7

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	1,945	1,694	1,776
NPATMI (VND bn)	478	1,053	796
ROA (%)	7.6	17.5	12.4
ROE (%)	15.4	34.3	22.9
EPS (VND)	3,524	7,768	5,873
Book Value (VND)	22,057	23,301	27,999
Cash dividend (VND)	4,500	4,000	4,000
P/E (x)	12.9	5.9	7.7
P/B (x)	2.1	2.0	1.6

INVESTMENT RATIONALES

Core businesses are expected to recover from the low base of 2022, other income will be still the highlight as contributing nearly a half of earning before tax.

- China – the world's largest rubber producer and consumer had a plan to reopen economy next year is the main factors expected support rubber segment to recover.
- The wood processing segment will stay flat as weak demand will not be over yet.
- Higher leasing price in 2022 will lift revenue of IP segment next year.
- In 2023, we estimate that PHR could record VND 465 bn in other income as PHR continues to receive benefit from the VSIP 3 deal and start to liquidate old rubber tree again.
- BWE's solid waste treatment project is a potential project that PHR could receive compensation in the future.

PHR's Industrial park project portfolio needs more time to tap a higher value

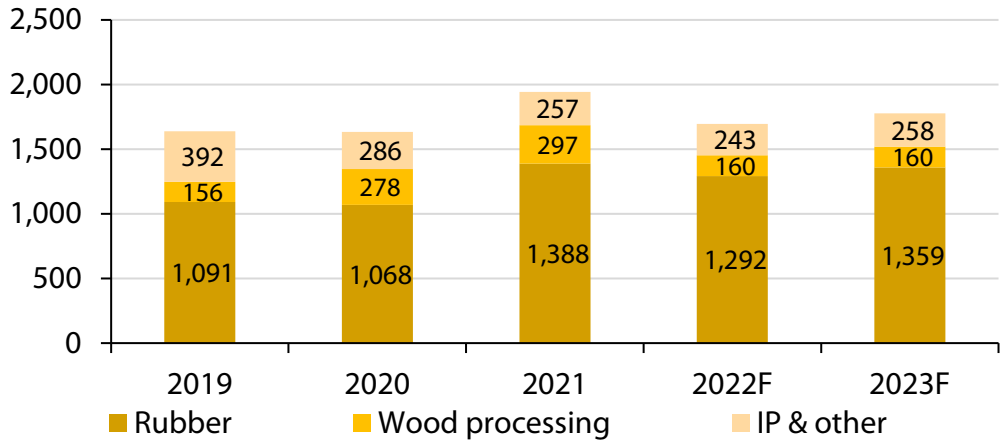
- Decree 67 and Binh Duong master plan for 2021-2025 are the major bottleneck of PHR's IP projects.
- The Vietnam Rubber Group is completing the adjustment of the land use plan and Binh Duong province is trying to get approval for the master plan next year as time passed nearly a halfway. The bottleneck removal in VSIP 3 case enhances the chance that the knots for other IP projects will be soon resolved.

RISKS TO OUR CALL

- Rubber demand recover slower than expected.
- Legal issues stand longer than expected.

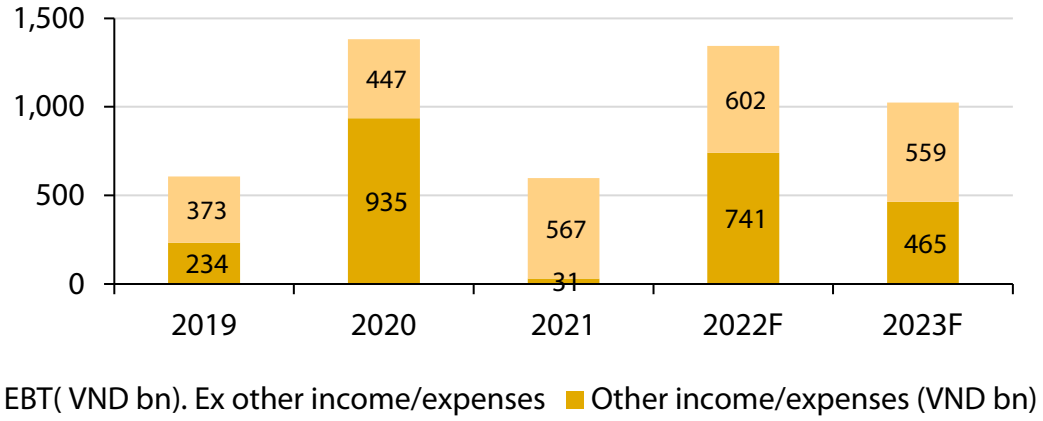
CORE EARNINGS IS EXPECTED TO RECOVER, OTHER INCOME STILL PLAY AN IMPORTANT ROLE

Figure 1: Revenue breakdowns by segment (VND bn)



Source: PHR, Rong Viet Securities

Figure 2: Other income/expense versus other EBT sources (VND bn)



Source: PHR, Rong Viet Securities

We expected core earnings will recover from the low base of 2022:

- China – the world's largest rubber producer and consumer had a plan to reopen economy next year, we expect the demand for the raw material will spike up, which support rubber segment 's recovery.
- The wood processing segment will not yet overcome the headwind as weaker demand in furniture industry. The capacity of PHR's factory is expected to maintain at 50% of normal condition and our sales base case is estimated to be flat next year.
- IP leasing segment started record the last 5 ha signed in 2022 at $135/sqm (~ +42%YoY) by one-off method.

Other income will contribute nearly a half of earnings before tax

- As a part of land transfer agreement, PHR will receive the leftover (VND207bn) of the total fixed compensation and the vary part (VND207bn for ~172 ha) based on sales progress of VSIP3 (at VND1.2bn/ ha).
- In addition, PHR will also witnessed a comeback of tree liquidation income as PHR plan to liquidate 280 ha of rubber tree next year at VND180mn/ ha.
- Besides VSIP 3, PHR can handover 400 hectares to BWE to develop solid waste treatment project in period 2023-2024, which was included in Binh Duong' s master plan in years ago. Accordingly, PHR will receive a compensation of ~ VND 1,000 billion (~VND 2.5 billion per hectare).

Table 1: Progress summary of Industrial Park projects that PHR has interest

Industrial park project	Ownership	Area (ha)	Progress
Tan Binh	80%	352	The last 5 hectares have been leased in 4Q2022
VSIP III	20%	1,000	Phase 1 (196.45 ha) has been approved VSIP 3 has now leased for more than 60 hectares. The compensation following to the leasing progress (~20% profit of the leased area, or not less than 1.2 billion VND/ha) will be recognized in the following year. The BCC (in which PHR contributes 20% of the capital) will be executed next year after VSIP pay the full compensation of VND 898 billion.
Tan Lap I	51%	202	The project has been included in the 2016-2020 province's master plan. It will be processed further after VSIP3 & NTC-3.
NTC-3	32,85%	345.8	Waiting for handover from Binh Duong province until the concern in Decree 67 is cleared
Lai Hung	0%	600	Included in the master plan 2016-2020. If Becamex starts the investment process, PHR will receive compensation for the land handover.
Tan Binh expansion	80%	739	Has been included in the master plan of Binh Duong province for the period of 2021-2025 and is awaiting approval
Tan Lap II	51%	180	Already included in the master plan 2016-2020
Hoi Nghia	100%	715	Has been included in the master plan of Binh Duong province for the period of 2021-2025 and is awaiting approval
Binh My	100%	1,002	Has been included in the master plan of Binh Duong province for the period of 2021-2025 and is awaiting approval

Source: PHR, Rong Viet Securities

Given its large rubber land bank, PHR has an advantage in site clearance which helps create new supply quickly. However, the process of converting land use to industrial purpose is still facing difficulties due to factors exposed to public property and the progress of approving provincial master plan is progressing slowly. However, the Vietnam Rubber Group is completing the adjustment of the land use plan to legalize with Decree 67. In addition, Binh Duong's master plan for the period 2021-2025 is expected to be approved next year when it has gone one third of the way. Fortunately, the bottleneck at VSIP 3 was removed, we believe that the knots at Tan Lap I and NTC-3 will be soon resolved. We also expect that the value of these projects will be unlocked since then.

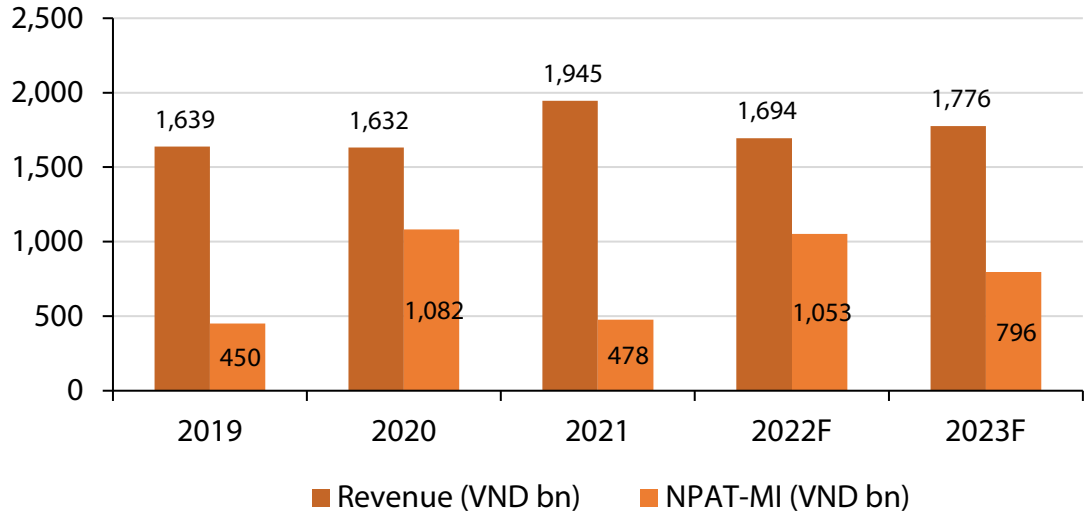
- Tan Binh Industrial Park is currently the project that PHR can record earnings in 2022-2023.
- Meanwhile, the progress of Tan Lap I and NTC-3 industrial parks will likely delay due to issues related to change in the land use of state-owned company (Vietnam Rubber Group) mentioned in Decree 67.
- Other industrial parks including Tan Binh Expansion, Hoi Nghia, Binh My has been included in Binh Duong 's master plan for 2021-2025.

Table 2: 9M2022'sperformance

(VND Bn)	9M2022	+/- YoY
Revenue	**1,133**	-11%
Gross profit	**258**	-22%
EBIT	**165**	-33%
NPAT-MI	**468**	53%

Source: PHR, RongViet Securities

Figure 3: FY22-23 earnings forecast (VND bn)



Source: PHR, RongViet Securities

9M2022 Review: Compensation saved the performance

- In 9M2022, PHR posted VND 1,133 bn or ~$48mn in revenue (-11% YoY), NPAT-MI came at VND 495.36 bn or ~ $20mn (+53% YoY).
- The core businesses were deteriorated because (1) the rubber and wood processing faced weaker demand and total revenue from these businesses reached VND 955 bn ~ $41mn (-8.1%YoY). IP leasing segment recorded revenue from 2021 leasing contracts in Tan Binh IP 9M2022's revenue of VND 165 bn or ~ $7mn (-30.4%YoY).
- However, compensation from VSIP3 deal lifted other income up as PHR has recorded VND 291 bn or ~$12mn in 9M2022.

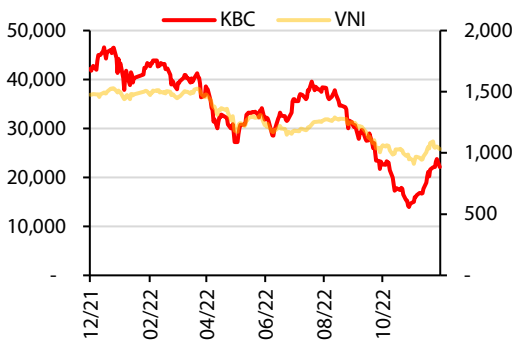
2023 Outlook: Expect core businesses to recover from the low base, while interest from VSIP 3 deal keep contribute a significant part in earnings

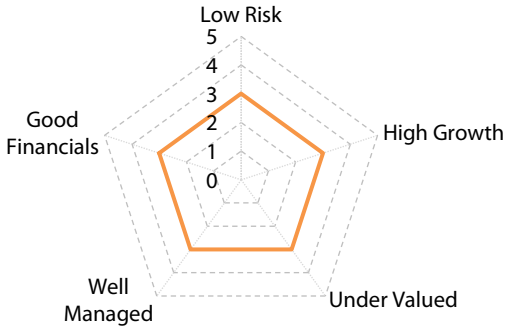
- In 2023, we expect that rubber segment can recover as the biggest market- China had plan to reopen next year. IP segment benefit from higher leasing price in 2022 - $135/sqm (+42%YoY). For the other income/expenses, PHR will liquidate 280 ha rubber trees, receive the leftover of the fixed compensation, and the vary part (including compensation and 20% net profit from BCC) based on sale progress of VSIP 3. On our base case scenario, total revenue is estimated to reach VND 1,776 bn or ~ $76mn (~ +5% YoY) and NPAT-MI will reach VND 796 bn or ~ $34mn (~ -24% YoY).

THE AMBITION OF THE BIG BROTHER

HSX: KBC

NEUTRAL +13% **MP: 22,100** **TP: 25,000**





STOCK INFO

Sector	Industrial Park
Market Cap ($ mn)	719
Current Shares O/S (mn shares)	768
3M Avg. Volume (K)	8,807
3M Avg. Trading Value (VND Bn)	172
Remaining foreign room (%)	30.3
52-week range ('000 VND)	13,3 - 47,2

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	4,246	2,985	5,289
NPATMI (VND bn)	782	3,033	1,869
ROA (%)	2.9	9.6	5.4
ROE (%)	6.6	18.7	9.4
EPS (VND)	1,373	3,952	2,435
Book Value (VND)	24,380	24,171	27,458
Cash dividend (VND)	-	-	-
P/E (x)	33.2	5.6	9.1
P/B (x)	1.9	0.9	0.8

INVESTMENT RATIONALES

The available industrial park area is becoming limited, urban projects have several bottlenecks

- By the end of 2022, we estimate that KBC's remaining leasable land bank in Quang Chau, Tan Phu Trung and Nam Son Hap Linh industrial parks will be ~ 290 hectares. In our base scenario, we estimate that KBC can lease 126 ha in 2023.
- Regarding to residential real estate, Trang Cat and Phuc Ninh are two projects facing legal issues. Trang Due 's commercial area is 22 hectares; the land use right fee has been paid and was the one that sales can be booked.

KBC has a long pending list of IP projects to develop in the long-term

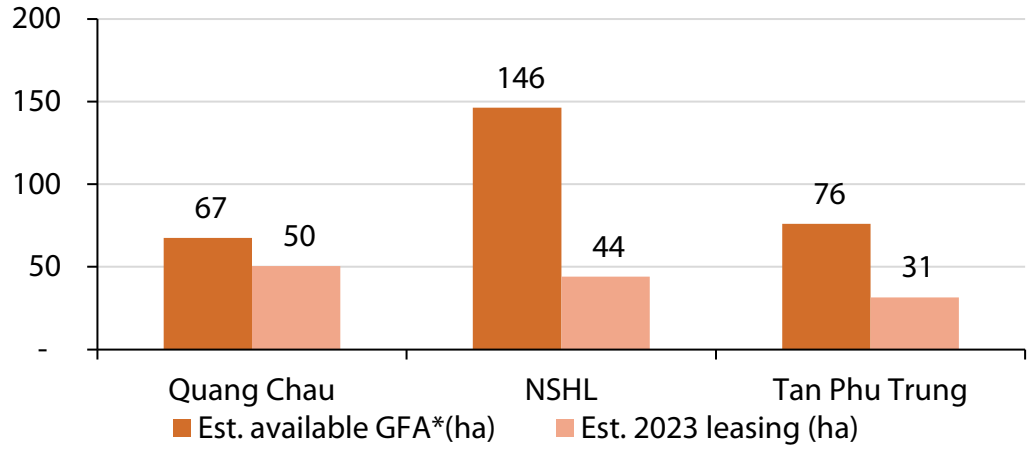
- With the limited available GFA at the current operating IPs, KBC is accelerating in expanding land bank with total area of more than 4,000 hectares in both the South and the North.
- Notably, KBC just received investment policy approvals for two large IPs in Long An, including Tan Tap Industrial Park (654ha) and Loc Giang Industrial Park (466ha). We believe that receiving investment policy approval is a critical step of each project to realize potential value of the project in the future.

RISKS TO OUR CALL

- Hai Phong's master plan for 2021-2025 will be approved faster than expected, which may kick off the potential value of Trang Cat and Trang Due 3 .
- Accelerating commercialize new approved IP projects such as Loc Giang, Tan Tap could boost revenue and profit higher.
- Revaluation of other associate investments may create non – cash income and lift earnings up.

THE AVAILABLE LEASING AREA IS BECOMING LIMITED, URBAN PROJECTS HAVE SEVERAL BOTTLENECKS

Figure 1: GFA estimation of current operating project (Ha)



Source: KBC, Rong Viet Securities
(*) estimated as of 12/31/2022
NSHL: Nam Son Hap Linh

Table 1: KBC 's ongoing residential project summary(*)

Project	Location	Ownership	GFA (ha)	Occupancy	Available area (ha)
Phuc Ninh	Bac Ninh	100%	45	22%	34.6
Trang Due	Hai Phong	87%	22	52%	11.5
Trang Cat	Hai Phong	100%	250	0%	250

Source: KBC, Rong Viet Securities
(*) estimated as of 12/31/2022

The available leasing area is becoming limited at KBC's current IP projects

- By the end of 2022, we estimate that KBC's remaining leasable land bank in Quang Chau, Tan Phu Trung and Nam Son Hap Linh industrial parks will be ~ 290 hectares, including 60 hectares GFA of the Quang Chau expansion area, which was approved for investment policy in 4Q2022).
- In the base scenario, we estimate that KBC can lease 126 ha (Figure 1) in 2023. Of which, 50 hectares in Quang Chau Industrial Park is quite certain as Foxconn has signed an MOU with KBC for this area and is expected to complete the contract in 2023.

The residential real estate segment still had several bottlenecks

- Trang Cat and Phuc Ninh are two projects facing legal issues. Currently, the adjusted 1/500 master plan of the urban area cannot be completed this year due to delaying the approval of the general plan 2021-2025 of Hai Phong city. While the Phuc Ninh project still has an unpaid obligation for 27 hectares. Therefore, KBC may not process further or hard to bulk sale Trang Cat project and hand over to Phuc Ninh project's customers
- Trang Due 's commercial area is 22 hectares, the land use right fee has been paid, and each lot has its own land use right certificate, the sales will not be hard. Each year, there are approximately 6 hectares of shophouses, townhouses, and villas are expected to be recorded.

Table 2: 1Upcoming industrial park projects of KBC

Upcoming project	Location	Ownership	Total area (ha)	Note
The North projects			**2,202**	
Trang Due 3	Hai Phong	87%	687	Waiting for the Hai Phong general plan to be approved, which will be the base for approving the new master plan of this project. It has cleared 150 hectares so far, with a unit cost of 600 thousand VND/m2. Notably, LG Display signed a memorandum of understanding for an area of 80 hectares at a leasing price of 130-140 USD/m2/lease term.
Cluster Dang Le	Hung Yen	75%	75	The investment policy has been approved by the end of 2021
Cluster Kim Dong		75%	75	
Cluster Chinh Nghia		75%	75	
Kim Thanh	Hai Duong	100%	437	The Deputy Prime Minister has agreed to include these industrial parks in the province's overall planning. KBC are completing procedures to apply for investment policy.
Thanh Ha		100%	400	
Binh Giang		100%	453	
The South projects			**1,905**	
Nam Tan Lap	Long An	38%	245	A certificate of investment has been issued. The company is conducting site clearance and investing in infrastructure.
Cluster Dang Le	Long An	87%	72	The 1/500 master plan has been approved. The company is currently undergoing site clearance, and infrastructure investment.
Cluster Phuoc Vinh Dong 1		100%	50	
Cluster Phuoc Vinh Dong 2		88%	48	
Cluster Phuoc Vinh Dong 4		72%	50	
Tan Tap	Long An	65%	654	Had investment policy in 1Q2022
Loc Giang	Long An	74%	466	Had investment policy in 2Q2022
Le Minh Xuan 2	TP HCM	22%	320	A certificate of investment has been issued. KBC is in progress of clearing 300 hectares

Source: KBC, Rong Viet Securities

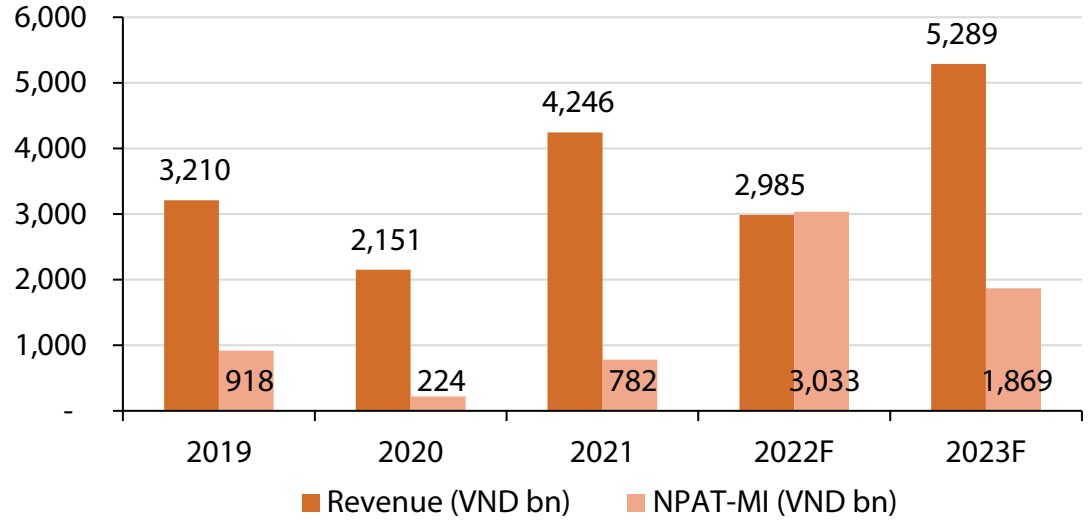
- With the limited available GFA at the current operating IPs, KBC is accelerating in expanding land bank with total area of more than 4,000 hectares in both the South and the North.
- Notably, KBC just received investment policy approvals for two large IPs in Long An, including Tan Tap Industrial Park (654ha) and Loc Giang Industrial Park (466ha). We believe that receiving investment policy approval is a critical step of each project to realize potential value of the project in the future.

Table 3: 9M2022's performance (VND bn)

(VND Bn)	9M2022	+/- YoY
Revenue	**1,289**	-58%
Gross profit	**560**	-68%
EBIT	**237**	-83%
NPAT-MI	**2,034**	+256%

Source:KBC, RongViet Securities

Figure 2: FY22-23 earnings forecast (VND bn)



Source: KBC, RongViet Securities

9M2022 Review: Core earnings plunged, the gain from revaluation lifted profit up

- In 9M2022, the total revenue reached VND 1,289 bn or $53mn (-58%), and NPAT-MI skyrocketed to VND 2,034 bn or $82mn (+256% YoY).
- The top-line business witnessed a downfall mostly driven by weaker IP land leases recognition. In particular, KBC leased 18.8 ha in 9M2022 versus ~83 ha leased in 9M2021.
- KBC has increased its ownership in Saigon-Da Nang Investment JSC to 48% in 2Q2022. After the revaluation of the company NAV made by a Savills and review from EY. The non-cash gain of VND 2,182 bn or $92mnwas booked in 3Q2022.

2023 Outlook: Revenue go to the North , earnings head to the South

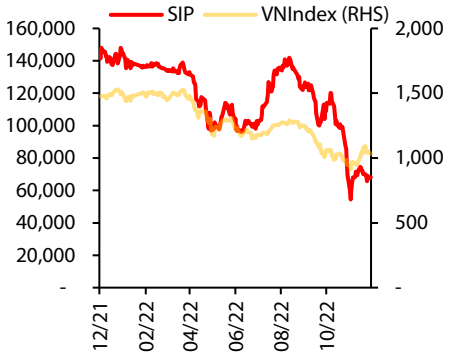
• In our base case scenario, the key assumptions are KBC will lease ~126 ha in the current operating IPs, book 6 ha in Trang Due urban project and may no longer book gain from revaluation. As a result, total revenue and NPAT are estimated to be at VND 5,289bn ($225mn or +77%YoY) and VND1,869bn or $79.5mn (-38% YoY), respectively.

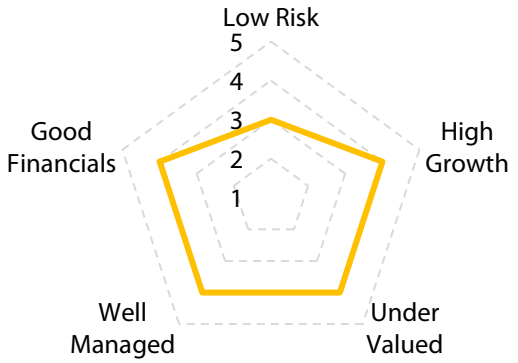
THE HIDDEN LANDLORD

UPCoM: SIP

Positive Outlook

MP:21,550 **TP: Non rate**





STOCK INFO

Sector	Real Estate
Market Cap ($ mn)	262
Current Shares O/S (mn shares)	91
3M Avg. Volume (K)	112
3M Avg. Trading Value (VND Bn)	10
Remaining foreign room (%)	48.4
52-week range ('000 VND)	51,7 - 153

FINANCIALS

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	5,578	5,665	5,785
NPATMI (VND bn)	835	1,028	1,182
ROA (%)	4.8	5.6	5.8
ROE (%)	31.5	30.8	28.7
EPS (VND)	7,913	9,735	11,197
Book Value (VND)	32,046	39,714	48,844
Cash dividend (VND)	2,800	2,000	2,000
P/E (x)	17.4	7.0	6.1
P/B (x)	4.3	1.7	1.4

INVESTMENT RATIONALES

Land bank is abundant and located in prime locations

- In addition to the current leasable area (~ 1,000 ha) from Phuoc Dong, Dong Nam, Le Minh Xuan 3, and Loc An – Binh Son industrial parks, Long Duc IP Phase 2 (294 ha)is the latest project to be included in SIP's portfolio.
- Although there is still some legal and site clearance bottleneck, the residential real estate segment still has a plenty of room to develop, the largest urban project (648 ha) in Phuoc Dong IP is still attractive due to its scale and being ready to develop while waiting for the bottlenecks to be resolved.

Attractive utility segment , ambitious RBFs development plan

- License to distribute power, rooftop solar panel system, water treatment plan in Phuoc Dong are highlights of the utility segment and made SIP different from the others.
- Most of SIP's IPs are in prime locations and close to Ho Chi Minh City . Taking advantage of the heating up of RBFs market, SIP developed 144,232 sqm GFA of RBFs in its IPs.

RISKS TO OUR CALL

- Resolving legal bottlenecks and site clearance is slower than expected or prolong.
- Demand in RBFs market may slow down impacting occupancy of the segment.

LAND BANK IS ABUNDANT AND LOCATED IN PRIME LOCATIONS

Figure 1: SIP's project locations

Source: SIP, RongViet Securities

Long Duc Phase 2 will be the new growth driver

In addition to the current leasable area (~ 1,000 ha) from Phuoc Dong, Dong Nam, Le Minh Xuan 3, and Loc An – Binh Son industrial parks, Long Duc IP Phase 2 is the latest project to be included in SIP's portfolio. According to SIP, this industrial park has a 1/2000 plan in 2020 and is currently in the stage of applying for investment policy approval from the Prime Minister.

The residential real estate segment still has a plenty of room to develop

Besides industrial park projects, SIP is also the investor of other residential projects adjacent to its existing IPs. Although having not much experience in residential real estate development, seeking experienced partners to effectively develop these residential projects is considered. Besides, there are still some legal and site clearance bottleneck which are summarized in appendix 1. However, the largest urban project (648 ha) in Phuoc Dong is worth noting as it is ready to deploy while waiting for the above bottlenecks to be resolved.

Figure 2 : Substation in Phuoc Dong IP

Source: SIP, RongViet Securities

Figure 3: solar panels on rooftop of SIP 's RBFs

Source: SIP, RongViet Securities

Figure 4: Water treatment factory In Phuoc Dong IP

Source: SIP, RongViet Securities

- SIP is one of the few IP developers that has a license to distribute power via their own110kV substations. Thanks to this, SIP enjoy the additional margin. Specifically, the gross profit margin (GPM) of segment ranges between 6%-8% versus other developers, only enjoy ~2%. In addition, SIP is also taking this advantage to develop solar panels system in rooftop of factories, which also positively impact GPM of the business.
- Besides, Water treatment plant in Phuoc Dong IP is a distinction with the others due value-added of the service as it treat raw water bought form Dau Tien Lake before providing to tenants versus retail from a Waco (Water provider company) in the locality.

Table 1: RBF projects summary

IPs	GFA (m2)	Leasing price $/m2/mon.	Service fee $/m2/year
Phuoc Dong	30,600	3.8	1.0
Dong Nam	39,600	5.3	1.0
Le Minh Xuan 3	18,032	5.3	1.0
Loc An-Binh Son	56,000	4.5	1.0
Total	**144,232**		

Source: SIP, RongViet Securities

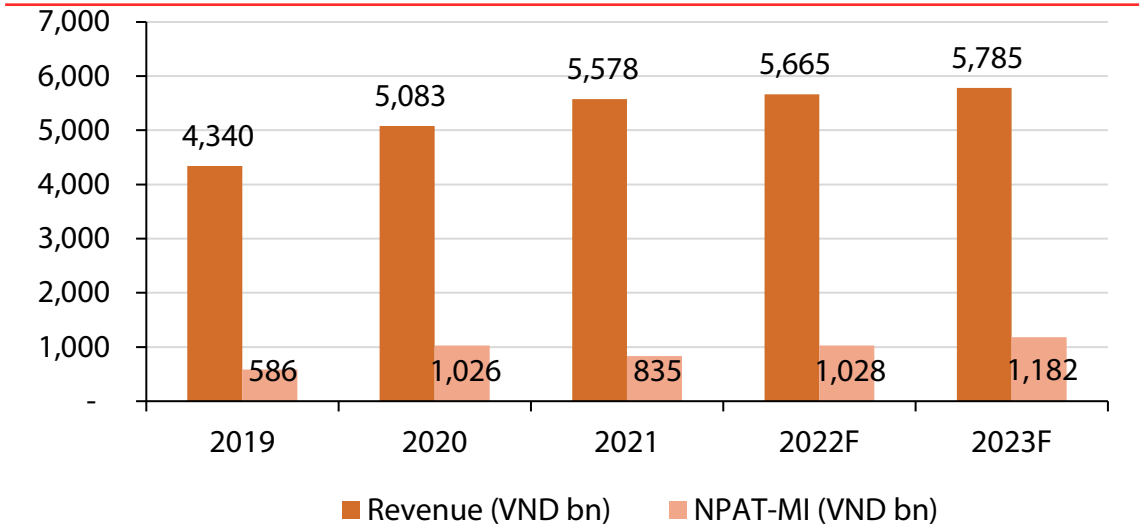
- Most of SIP's IPs are in prime locations and close to Ho Chi Minh City and the RBFs market in Ho Chi Minh City area witnesses the leasing prices of ~$10/m2/month and average leasing price of $6/m2/month in Southern area – according to Savills 's 8M2022 IP real estate report. Taking this factor into account, SIP is developing an RBFs system in its IPs. According to the latest summary based on SIP's RBFS sales documents, the estimated total GFA for lease is 144,232 m2 at the present.

Table 2: 9M2022's performance

(VND Bn)	9M2022	+/- YoY
Revenue	**4,595**	+11%
Gross profit	**631**	-2%
EBIT	**552**	-4%
NPAT	**678**	0%

Source: Bloomberg, RongViet Securities

Figure 5: FY22-23 earnings forecast (VND bn)



Source: SIP, RongViet Securities

9M2022 Review: Revenue grew steadily, utility segment is on a highlight

- In the 9M2022, SIP recorded revenue of VND 4,595 bn ($196mn), up 11% YoY and completing 88.3% of the annual target. Meanwhile, NPAT-MI reached VND 678 bn ($29mn).
- Notably, the utility business 's the revenue reached VND 3,809 bn ($162mn), (+15% YoY). The gross profit margin (GPM) edged up by 0.7% to 8.3%. This positive improvement was contributed by additional consumption of the new tenant, especially from Phuoc Dong– where SIP just operated new substation and supplied treated waste (raw waster from Dau Tien Lake was treated in the water factory before distributing to the tenants).
- Other businesses saw a plunge in revenue (-24%YoY) and the GPM was merely 4.9% as SIP did not book land lease right transfer fee (VND 102 bn -$4.3mn) as it incurred in 9M2021 with zero cost.

2023 earnings projection: Growing steadily

- In our base case, we expect that the company will continue to boost leasing in Phuoc Dong (40 ha) and Loc An Binh Son (22 ha), meanwhile the available GFA of Le Minh Xuan 3 and Dong Nam will be saved for RBFs or for potential price hike. RBFs leasing segment will start account the new leasing. Additionally, the utilities segment will continue to grow following the increase of new tenants. As such, we estimate that SIP's revenue is at VND 5,785 bn ($246mn) and VND 1,182bn ($50mn) in NPAT in 2023.

Appendix1: SIP's real estate projects summary

Projects	Location	%Stake	Total area (ha)	Total GFA (ha)	Total investment (VND bn)	The remaining Capex (VND bn)	Available GFA (ha)	Occupancy	Leasing price ($/sqm)	Site clearance / Total area	Progress
Industrial parks											
Phuoc Dong	Go Dau, Tay Ninh	100%	2,189	1,718	5,906	3,889	808	53%			
Phase 1(A)			1,014	814	2,603	939	40	95%	80-100	100%	Available for lease
Phase 2(B)			1,175	904	3,030	2,950	768	15%		100%	Available for lease
Phase 3(B)										0%	To be site cleared
Dong Nam	Cu Chi, HCM	100%	287	206	1,692	674	50	76%	200	96%	Available for lease
Le Minh Xuan 3	Binh Chanh, HCM	100%	231	155	2,065	13,016	105	32%	~300	96%	Available for lease
Loc An - Binh Son	Long Thanh, Dong Nai	89.9%	497	371	1,858	1,207	149	60%	~170	100%	Available for lease
Long Duc Phase 2	Long Thanh, Dong Nai	75%	293.9	202	1,009	1,009	202	0%	~170	0%	Waiting for investment policy approval
Residential real estate											
Phuoc Dong - Bời Lời	Go Dau, Tay Ninh	100%	648								
Area A		100%	247	180	1,241	959	163			100%	Having the 1/2000 plan, phase 1 got the 1/500 plan
Area B		100%	401	~200,5	n.a	n.a	n.a			0%	To be site cleared
Dong Nam	Cu Chi, HCM	100%	55.77	54	671	599	48			93%	Having the 1/2000 plan and on pending mode
Le Minh Xuan 3	Binh Chanh, HCM	100%	80	n.a	n.a	n.a	n.a	n.a	n.a	n.a	Having the 1/2000 plan, but facing legal issue
Loc An-Binh Son	Long Thanh, Dong Nai	89.9%	39.2	n.a	n.a	n.a	n.a	n.a	n.a	n.a	Having the 1/2000 plan for phase 1 and on pending mode

Source: SIP, RongViet Securities

OIL & GAS

POSITIVE OUTLOOK FOR OIL PRICE

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OIL & GAS – POSITIVE OUTLOOK FOR OIL PRICE

Rating

Overview

Despite the high oil price in 2022, the business results of Oil & Gas sector diverged with positive picture for Midstream and Downstream and negative for Upstream. For 2023, we see both headwind and tailwind for the oil price while the Vietnamese Oil & Gas sector will get benefit in a long run on the back of the new amended law, approved in Nov 2022.

Highlights

Oil balance - Short term surplus but long term back up by China reopening, aviation recovering

- According to the most recent forecasts, macroeconomic headwinds will push the market into an oversupply in 1Q2023. After that, China reopening, aviation recovering will drive the demand up amid constrained supply due to low levels of investment, risks to Russia supply, the end of SPR releases, and slowdown of U.S. shale.
- The IEA, seeing Chinese oil demand recovering next year after a 0.4 mn bpd contraction in 2022. In details, Chinese demand is forecasted to increase by 0.81 mn bdp in 2023.

Oil price is forecasted to be positive from 2Q2023 and stay at a high level, compared to the 2022 average

- We see most of Brent price forecast above 90 USD/barrel, higher than the current of 80 USD/barrel. However, the forecast is much basing on the China reopening than the economic growth. Besides, OPEC+ always shows the signal to support the oil price whenever this commodity falls.

New Oil & Gas law to support the long-term outlook for the Vietnam Oil & Gas sector

- In Nov 2022, Government approved new Oil & Gas law, which will replace the very old version, published in 2008. The new one is expected to attract more investment to Vietnamese Oil & Gas blocks in general as well as frontier wells in particularly. Besides, the new PSC's form will clearly specify the preferential policies applicable to offshore Oil & Gas projects.

Risk

Global economic gets worse and China can not reopen as expectation

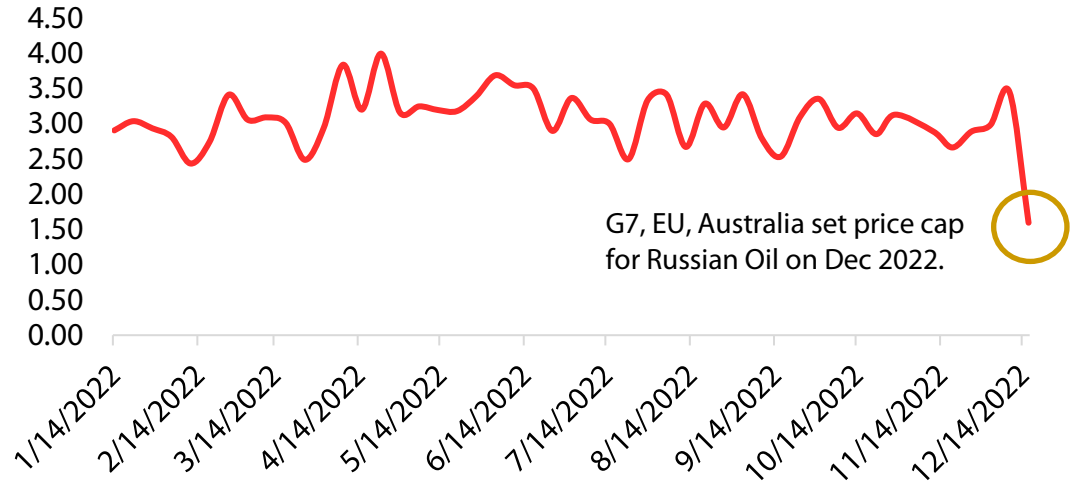
- The demand will be hit, affecting to the oil price.

CONSTRAINED SUPPLY

Supply hit by EU ban on Russia, US Shale Oil to slowdown, low SPR and low levels of investment.

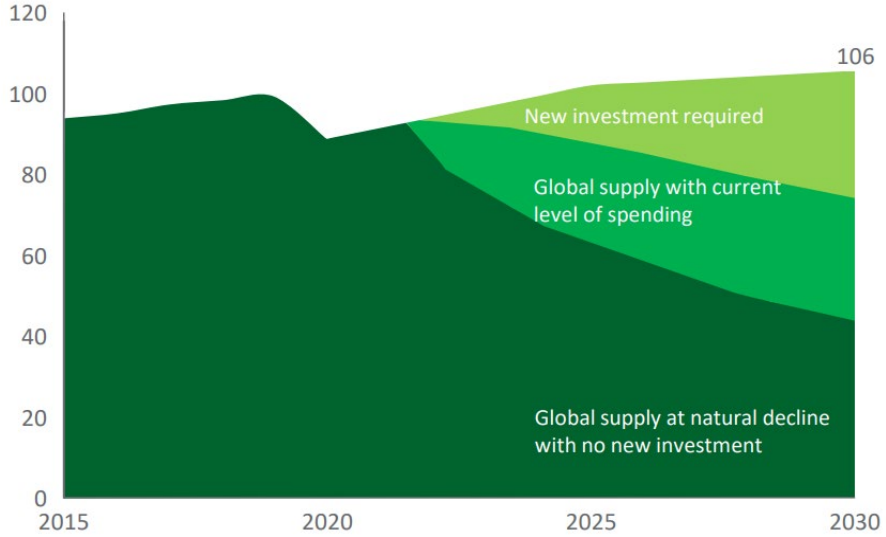
- Russia supply is forecasted to drop in 2023: According to the IEA, Russian oil output is expected to fall 1.4 mbpd in 2023 after the EU's ban on seaborne exports of Russian crude comes into effect.
- US Shale Oil to slowdown: Despite the high oil price, US Shale Oil's output seem not accelerate as Shale companies still prefer the cash flow improvement rather than production growth.
- The end of SPR releases: Recently, SPR (Strategic Petroleum Reserve) of US has hit the lowest level since 1984 after long-pump to cool down the global oil price. However, the US government plans to refill the reserve from early 2023.
- Low levels of investment: Due to the Covid 19 and the transmission to green energy, the investments for upstream are not enough to meet the growing demand after the pandemic.

Figure 1: Russian crude' seaborne export (mbpd)



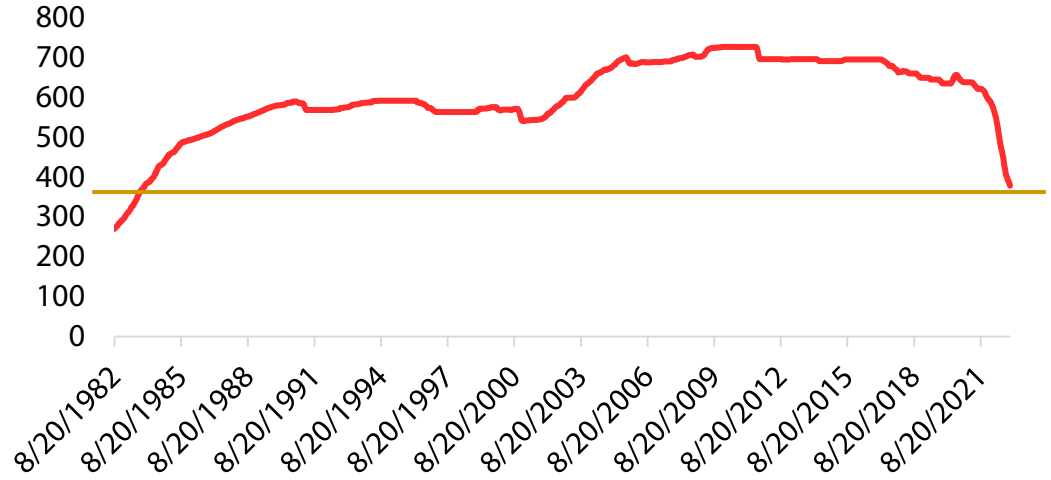
Source: Bloomberg

Figure 2: Oil supply outlook (mbpd)



Source: IEA

Figure 3: U.S. Ending Stocks of Crude Oil in SPR (mn barrels)



Source: EIA

DEMAND DRIVERS - CHINA REOPENING

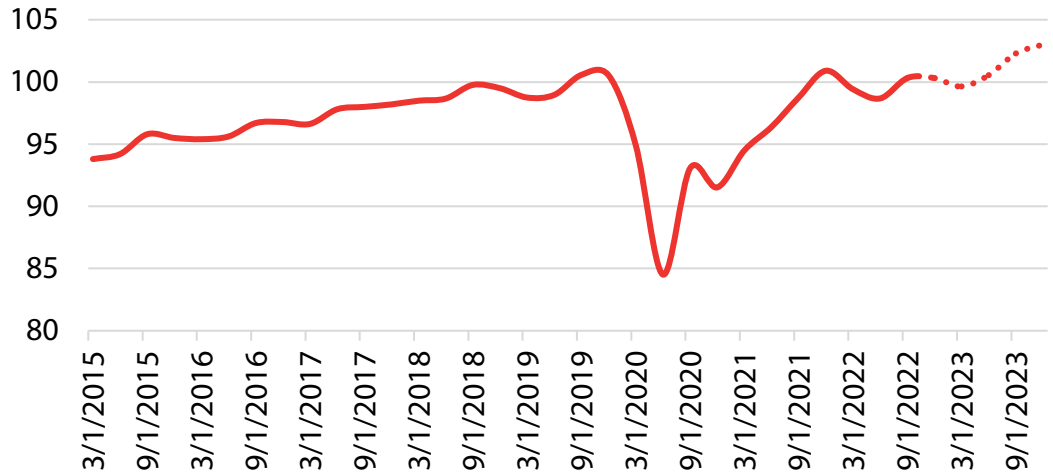
China reopening will be the key for global oil demand growth.

- Owning to the zero Covid strategy, the crude oil demand of China is likely to drop in 2022, impacting the global oil demand. But China Reopening will be the main driver for global oil demand in 2023.
- EIA forecasts that the 2023 global oil demand will increase by 1.7 mbpd (million barrels per day). In which, China will account for 0.81 mbpd.

The US will add more demand to the global.

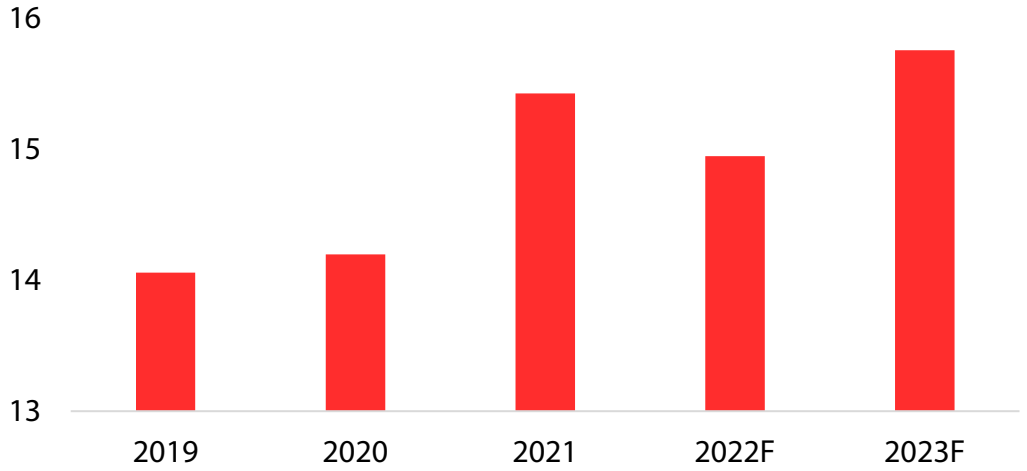
- The Biden administration will begin to fulfill SPR in 2023, adding more demand to the global oil market.

Figure 4: World oil demand (mbpd)



Source: EIA, RongViet Securities

Figure 5: Consumption of China (mbpd)



Source: EIA

Table 1: Change in oil demand by region (mbpd)

	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	Total
Africa	-0.07	0.13	-0.05	-0.03	-0.05	0.15	**0.08**
America	0.35	-0.31	-0.46	0.53	0.44	-0.32	**0.23**
Asia/Pacific	-0.01	1.62	0.52	-0.36	0.18	1.90	**3.85**
Europe	0.68	-0.04	-0.70	0.14	0.57	-0.20	**0.45**
FSU	0.37	-0.23	-0.27	0.01	0.29	-0.08	**0.09**
Middle East	0.34	-0.77	-0.11	0.60	0.34	-0.80	**-0.40**
Total	**1.66**	**0.4**	**-1.07**	**0.89**	**1.77**	**0.65**	

Source: EIA, RongViet Securities

OIL PRICE - TO BE POSITIVE IN 2023

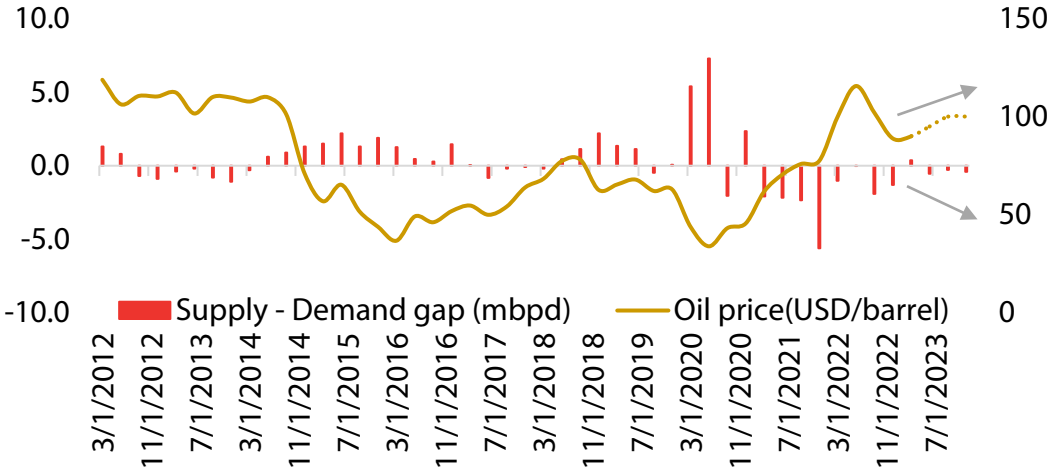
OPEC+'s production plan seem to support the oil price.

- Although the production of group was far below the target in October, OPEC+ still agreed in early October to reduce production by 2 mbpd from November. This shows a signal that the group is always ready to support the oil price whenever this commodity falls.

Brent is forecasted to be positive in 2023.

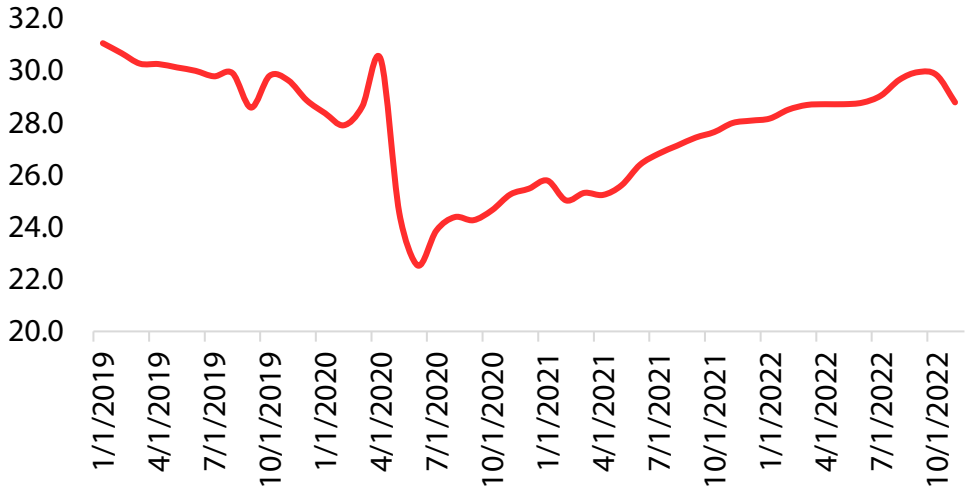
- Goldman Sachs sees Brent oil averaging 98 USD/barrel while Morgan Stanley expects Brent prices to rally to around 110 USD/barrel by mid-2023. Most of the projects are betting the oil price to keep positive in 2023.

Figure 6: Oil supply demand gap (LHS) and the Brent price (RHS)



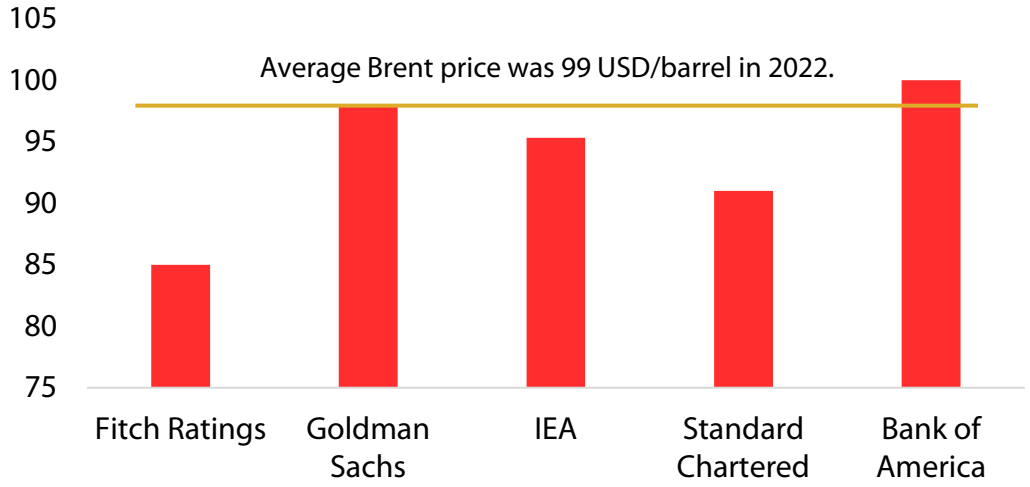
Source: IEA, Bloomberg

Figure 7: OPEC production (mbpd)



Source: RongViet Securities

Figure 8: Brent price forecast for 2023 (USD/barrel)



Source: RongViet Securities

AMENDED LAW TO ATTRACT MORE INVESTMENT FOR UPSTREAM

Focusing on the incentive mechanism

- The amended Petroleum Law includes fundamental legal basis for more effective Petroleum resource exploitation, leading to increased state budget revenue. It helps to attract more investment for upstream.
- The amended Petroleum Law tends to lower the corporate tax for blocks and fields eligible for investment incentives and special investment incentives. Besides, the oil and gas contract period can be extended by 5 -10 years compared to the current regulations (25 years). Of noted, the rights and obligations of related parties, especially PVN, are mentioned.

Expecting more investment for the upstream as well as the sooner kick off key projects

- Many projects have been delayed for a long time due to the quiet E&P activities. Thanks to the amended law, we expect the E&P will be boosted when the rights and obligations in deciding the process of Oil Gas projects are clarified.
- Besides, we see positive movements in some projects that will result in a kick-off in the future.

Table 2: Key points from amended law

Key points	Update
Oil & Gas contract	The oil and gas contract period can be extended by 5 years (conventional projects) or 10 years (projects with investment incentives and special investment incentives).
Tax	Blocks and fields eligible for investment incentives • Corporate income tax rates of 32%, the crude oil export tax rate of 10%, and the maximum cost recovery rate of 70% of the Petroleum output exploited in the year. • Blocks and fields eligible for special investment incentives • Corporate income tax rate is 25%, the crude oil export tax rate is 5%, and the maximum cost recovery rate is 80% of the Petroleum output exploited throughout the year.
Obligations and rights	Adding rights, obligations and responsibilities of PVN into the Law.

Source: RongViet Securities

Table 3: Key Oil & Gas projects

	Update
Block B	Waiting for the FID.
Ca Voi Xanh	Exxon Mobil to finalize the Final Development Plan.
Su Tu Trang Phase 2	Extend the PSC and implement the EPCI in late 2023.
Ken Bau	Keep drilling for exploration.

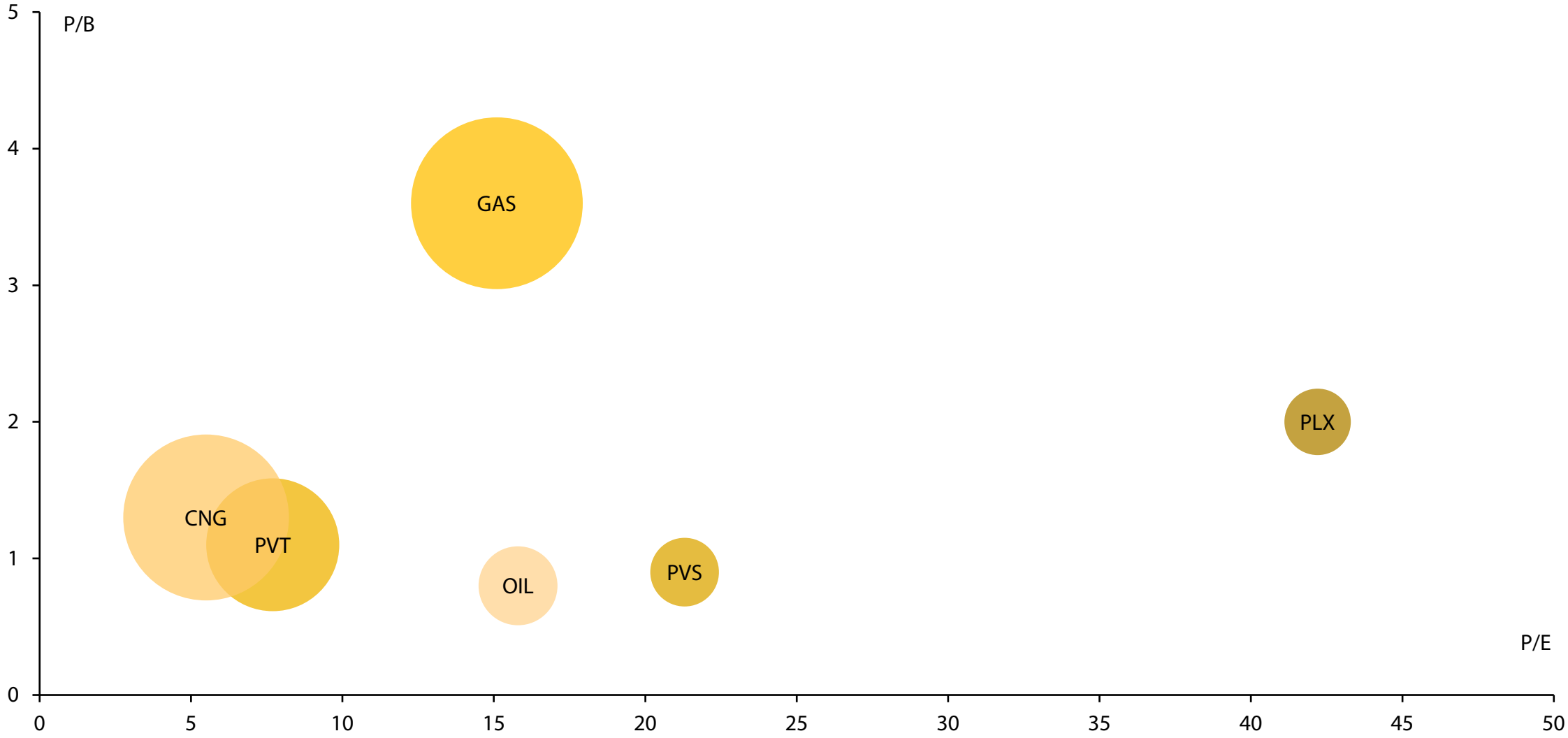
Source: RongViet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
PLX	1,667	34,200	31,100	1,000	2.4	36.4	64.2	-9.0	1.8	-73.5	319.9	3.2	1.1	12.1	34.2	1.6	3.2
PVD	387	21,500	16,500	0	31.7	-23.5	33.1	5.7	-1.1	-940.0	-290.5	N.A	N.A	29.6	N.A	0.6	0.6
PVT	266	23,300	19,500	500	30.4	1.1	22.7	1.3	-0.1	29.4	-3.4	14.2	5.6	8.1	9.4	1.1	1.2
PVS	448	21,500	22,200	700	30.7	-29.6	3.9	7.6	-0.1	4.5	0.5	5.2	2.4	18.7	15.7	0.9	0.8
BSR	1,844	N.R	14,100	N.A	7.6	74.4	N.A	N.A	-3.3	N.A	N.A	19.1	10.9	6.7	N.A	1.2	N.A
CNG	29	N.R	25,050	N.A	42.4	30.8	N.A	N.A	1.1	N.A	N.A	23.8	10.6	5.5	10.4	1.3	1.4
GAS	8,477	N.R	105,000	N.A	46.0	23.2	N.A	N.A	0.1	N.A	N.A	25.5	17.1	15.1	18.6	3.5	3.8

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

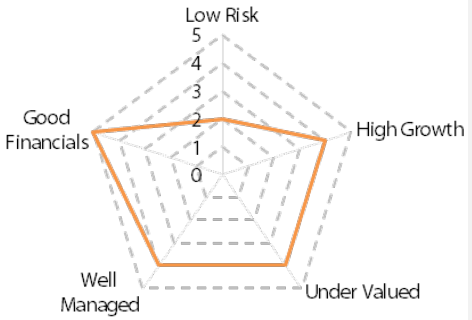


Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

PROFIT TO BOTTOM OUT PLUS ATTRACTIVE VALUATION

HSX: PLX

BUY: +26% **MP: 29,350** **TP: 37,200**



STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	1,674
Current Shares O/S (mn shares)	1,271
3M Avg. Volume (K)	1,106
3M Avg. Trading Value (VND Bn)	34
Remaining foreign room (%)	2.1
52-week range ('000 VND)	22.9 – 65.9

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	169,009	277,469	252,535
NPATMI (VND bn)	2,839	753	3,162
ROA (%)	4.4	1.1	4.8
ROE (%)	11.3	3.2	13.1
EPS (VND)	1,788	579	2,431
Book Value (VND)	19,417	18,113	18,662
Cash dividend (VND)	1,200	1,200	1,200
P/E (x)	30.1	50.7	12.1
P/B (x)	2.5	1.6	1.6

INVESTMENT RATIONALES

The petroleum segment was hit badly in 2022 and is expected to bottom out in 2023

- In 2022, the fluctuation in global petroleum price as well as the rise in exchange and the increase in imported petroleum due to the capacity reduction from Nghi Son Refinery (NSR) have resulted in a low gross profit margin of the petroleum business since PLX's first listed day. We estimate the gross profit margin of this segment to decrease from 6.7% in 2021 to 3.3% in 2022.
- In 2023, on the back of stable domestic petroleum supply and less fluctuation in gasoline selling price when the Russia-Ukraine war will not escalate excessively. We believe that the gross profit margin of the petroleum segment will improve to 4.8%.

One-off profits from the divestment of PG Bank (PGB)

- In the 2022-2023 period, PLX plans to divest in 2 companies, Petrolimex Construction and Trading Corporation (PGCC) and PG Bank (PGB). In which, PGB is the most notable deal. PLX is currently holding 40.57% of the stake of PG bank. The Board of Management informed that the PGB's divestment plan is expected to be completed in 1Q2023 or 2Q2023 at the latest.

Earnings is back to grow and attractive valuation

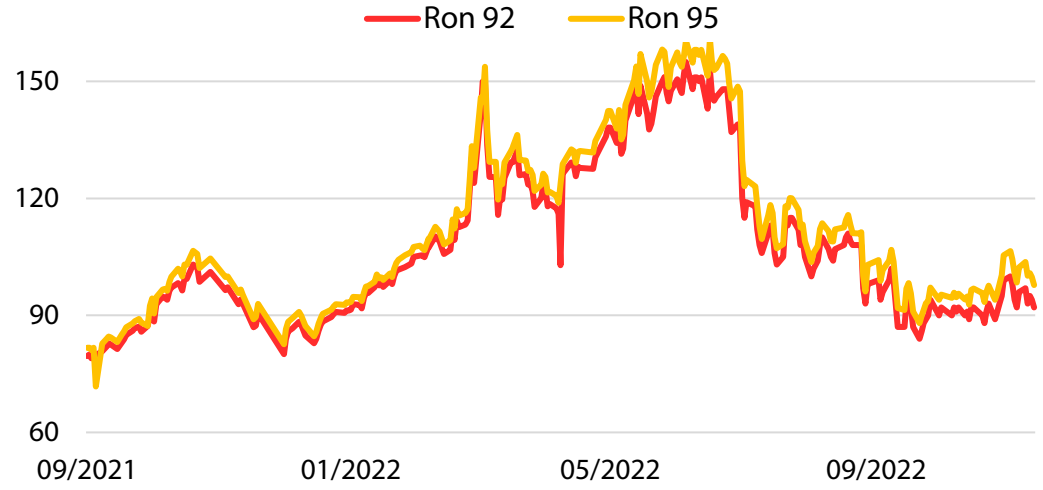
- Not only the recovery in the petroleum segment, we also expect the petrochemical, aviation fuel and LPG products to benefit from public investment disbursement and the aviation sector to continue recover from the pandemic. We estimate that PLX's gross margin will improve to 5,5% in 2023 from 4.0% in 2022. Accordingly, NPATMI will increase by 320% to VND 3,162 bn (USD131.4 mn).
- Currently PLX is being traded at P/B of 1.5 times, the lowest level since the its first listed day and 2.8 times lower than the past median.

RISKS TO OUR CALL

- Oil prices to fluctuate sharply up/down in the short term and the shortage of domestic supply will negatively affect PLX's gross profit margin.
- The government revises regulations, shortens the inventory storage period as well as gasoline price adjustment cycle which may lead to a better result than our forecast.

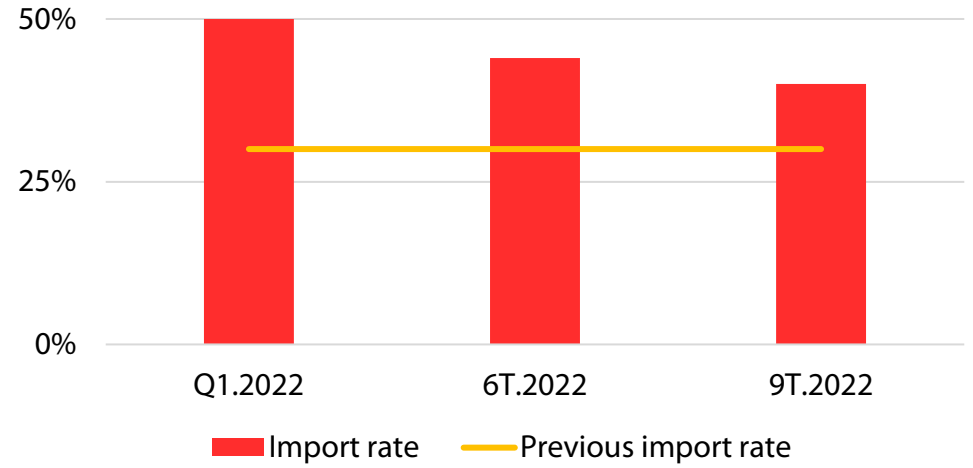
THE PETROLEUM SEGMENT MAY HIT THE BOTTOM IN 2022

Figure 1: Retail price of petroleum in Singapore (USD/barrel)



Source: MoIT

Figure 2: % petroleum Import in Vietnam FY2022

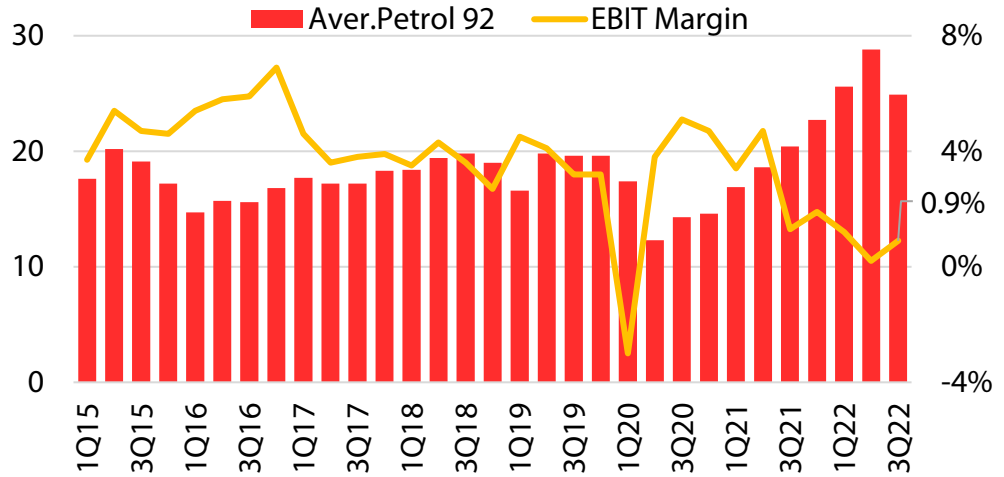


Source: PLX

The import proportion of petroleum increased sharply in 2022 but is expected to decrease in 2023

- In 2022, domestic supply was shortage due to NSR's issue and some distributors stopped operating, causing PLX to increase its import volume at a high price. The rapidly fluctuation in global petroleum price, along with the inventory mechanism, the cycle of adjusting domestic selling prices, and high exchange rates, resulted in low PLX's EBIT margin 9M2022. In details, the EBIT margin decreased to 0.06% compared to the average of 2.5% in the past.
- In 2023, the domestic supply of petroleum is guaranteed, and the gasoline import will return to a low level of around 30%, compared to 40% in 9M2022 despite the turnaround of Dung Quat refinery from Jun to Aug/2023. Moreover, the Russian-Ukrainian war is expected not to escalate excessively, leading to a less fluctuation in gasoline selling price then helping PLX's GPM improve to 4.8% in 2023 from 3.3% in 2022.

Figure 3: Correlation bw petroleum price and EBIT margin



Source: PLX, RongViet securities

ONE-OFF PROFITS FROM DIVESTMENT

Table 1: Divestment plan outside the core business

	Ownership	Inv value in 3Q22 (VND bn)	Divestment plan	% ownership after div
PGBank (PGB)	40.57%	1,796.24	2022-2023	0.0%
PGCC	100%	402.82	2022-2023	0.0%
Petrolimex Petrochemical Corporation	79.07%	570.56	2023-2025	50-65%
Petrolimex Gas Corporation JSC	52.37%	306.66	2023-2025	50-65%
Petrolimex Aviation Fuel JSC	59.00%	88.50	2023-2025	50-65%
Kien Giang Petroleum Comp – Ltd	51.00%	51.00	2023-2025	50-65%
Petrolimex Insurance Corporation	40.95%	725.67	2023-2025	35%-50%
Castrol BP Petco Co., Ltd	35.00%	592.29	2023-2025	35%-50%

Source: PLX, RongViet securities

Table 2: Estimated profit from divestment of PGB (VND Bn)

Scenarios	Standard deviation (Std)	P/B	Divestment value (VND bn)	Added profit (VND bn)
1	-1 Std	1.19	2,171.6	375.4
2	-0.8 Std	1.28	2,339.8	543.5
3	-0.5 Std	1.42	2,592.0	795.7
4	-0.3 Std	1.52	2,760.1	963.9
5	median	1.65	3,012.3	1,216.1

Source: RongViet securities

PGBank's divestment plan will continue in 2023

- In the 2022-2025 period, PLX will restructure the whole group. In which, PLX plans to fully divest or reduce ownership in many related parties that is not the core business. It is noteworthy that PLX plans to divest all 40.57% of the shares of PG Bank. The Board of Management said that the divestment at PGB is expected to be completed in 1Q2023 or 2Q2023 at the latest.
- We notice that the divestment plan has showed lot of positive movements recently. However, we are not sure about the exact time of the divestment plan as it has been delayed before. In case of success, PLX can record a significant profit to the bottom line.
- Recently, PLX has not disclosed any information about the PGB's divestment price. Basing on the book value in 3Q2022, we estimate the profit in table 2 (median P/B is calculated according to the value since the listing).

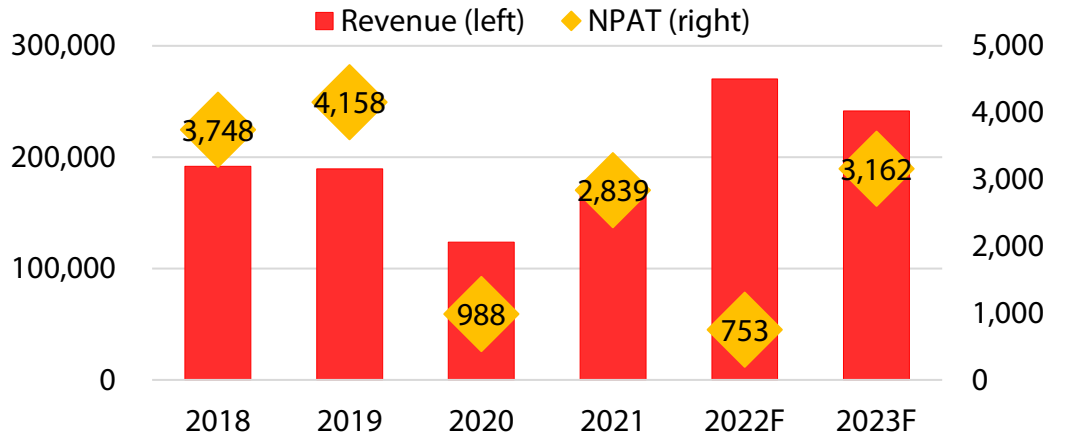
SHORT-TERM TAILWIND BUT STRONGLY IMPROVE IN 2023

Table 3: 3Q2022 results, PLX (VND Bn)

	3Q2022	%YoY	9M2021	%YoY
Domestic sales volume (mil m3)				
Production	*2.48*	52%	7.57	20%
PBT (VND Bn)				
Petroleum	*(198.6)*		(793.4)	
Jet fuel	*159.7*		250.6	217%
Petrochemical	*127.6*	256%	506.7	22%
Gas	*40.0*	185%	119.4	-5%
Transportation	*73.1*		116.5	
Others	*111.0*	-77%	414.2	-53%
Total PBT	**312.8**	**179%**	**614.0**	**-79%**

Source: PLX, RongViet securities

Figure 4: PLX's revenue and NPATMI (VND Bn)



Source: PLX, RongViet securities

Low profitability in 2022 but strong improvement in 2023

- In 9M2022, petroleum prices strongly fluctuated and the import proportion increased, causing PLX's EBIT margin to fall to 0.06% compared to the average of 2.5%. As a result, 9M2022 NPATMI posted VND 315 bn (USD13.1mn), down 85.9% YoY. In 4Q2022, we believe that PLX continues to face the tailwind as petrol prices in Singapore keeps fluctuating and the gasoline import is remaining high. In 2022, we estimate that PLX's domestic consumption of petroleum will increase by 20.1% YoY to 10.12 million m3 and the average price of petrol will increase by 39.5% YoY, translating to VND277,469 bn (USD11.5bn) in revenue (+ 64.2% YoY).
- In 2023, we forecast that the petroleum segment will recover strongly along with good business results from petrochemical, jet fuel, and LPG products. Accordingly, domestic consumption output is expected to reach 10.46 million m3 (+3.4% YoY), the average selling price of petrol is anticipated to decrease by 15.8% YoY to 22,054 VND/liter. Revenue is forecasted to reach VND252,535 bn (USD10,5bn) (-9.0% YoY). EBIT margin can reach 1.52% then pushing NPATMI to reach VND3,162 bn (USD131.4mn) (+320.0% YoY).

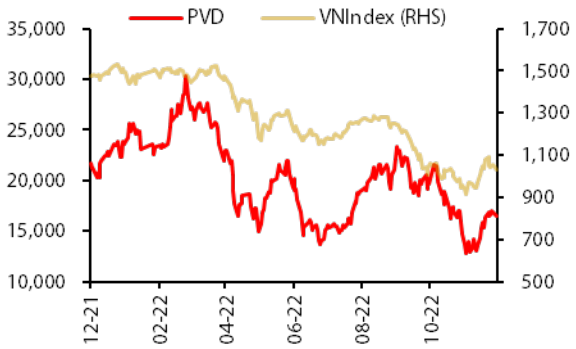
Attractive valuation

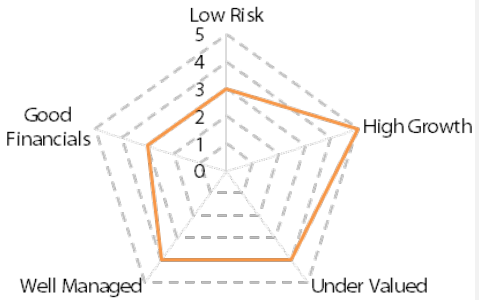
- Currently PLX is being traded at P/B of 1.5 times, the lowest level since the its first listed day and 2.8 times lower than the past median.

RIG DAY RATE RECOVERY TO LIGHT UP 2023 EARNINGS

HSX: PVD

BUY: +30% **MP: 16,500** **TP: 21,500**





STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	388
Current Shares O/S (mn shares)	556
3M Avg. Volume (K)	9,554
3M Avg. Trading Value (VND Bn)	172
Remaining foreign room (%)	31.7
52-week range ('000 VND)	11.9 – 30.5

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	3,995	5,319	5,623
NPATMI (VND bn)	20	-168	320
ROA (%)	0,1	N/A	1.5
ROE (%)	0,1	N/A	2.1
EPS (VND)	-36	-302	570
Book Value (VND)	32,243	26,307	26,876
Cash dividend (VND)	0	0	0
P/E (x)	N/A	N/A	29.6
P/B (x)	0.5	0.6	0.6

INVESTMENT RATIONALES

Day rate in South-East Asia (SEA) to reach the highest level since 2016 due to the strong rig demand from the Middle East

- The high demand for the drilling rigs in Middle East has narrowed down the gap between the supply and demand of drilling rigs in South-East Asia when an estimated 15 rigs have shifted from Southeast Asia to Middle East. As a result, the SEA day rate has been reaching to 90,000 USD - the highest level since 2016.
- Few number of new rigs have entered the market in the past few years and a third of the current rigs are over 30 years old, equivalent to a tight supply. So the high rig demand and the limited supply will stabilize the rig day rate at this current level.

The bottom line will see a significant growth in 2023 owing to the massive improvement in day rate

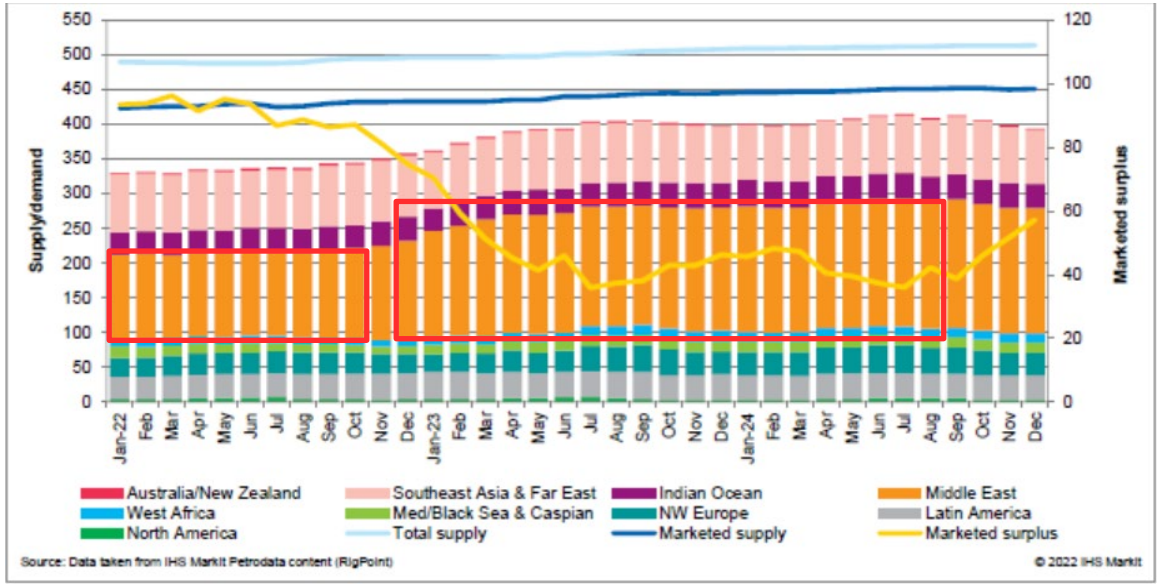
- PVD has fulfilled its 2023 by the full year contract for its fleets. Following that, the average day rate is estimated at 80,000 USD/day, up 27% YoY while the utilization rate is around 92%, higher than the level of 86% in 2022. We forecast that PVD can reach VND5,623 bn (USD234.3mn) in revenue, up 5.7% and VND320bn (USD13.3mn) in NPATMI (compared to the loss of VND168bn in 2022).
- We believe that there will be a re-rate in P/B of PVD in 2023 when the bottom-line hike strongly in 2023 and may be 2024. Currently, PVD is trading at P/B of 0.6x.

RISKS TO OUR CALL

- Demand for drilling rigs in Middle East is not as strong as the forecast, melting down in rig day rate.

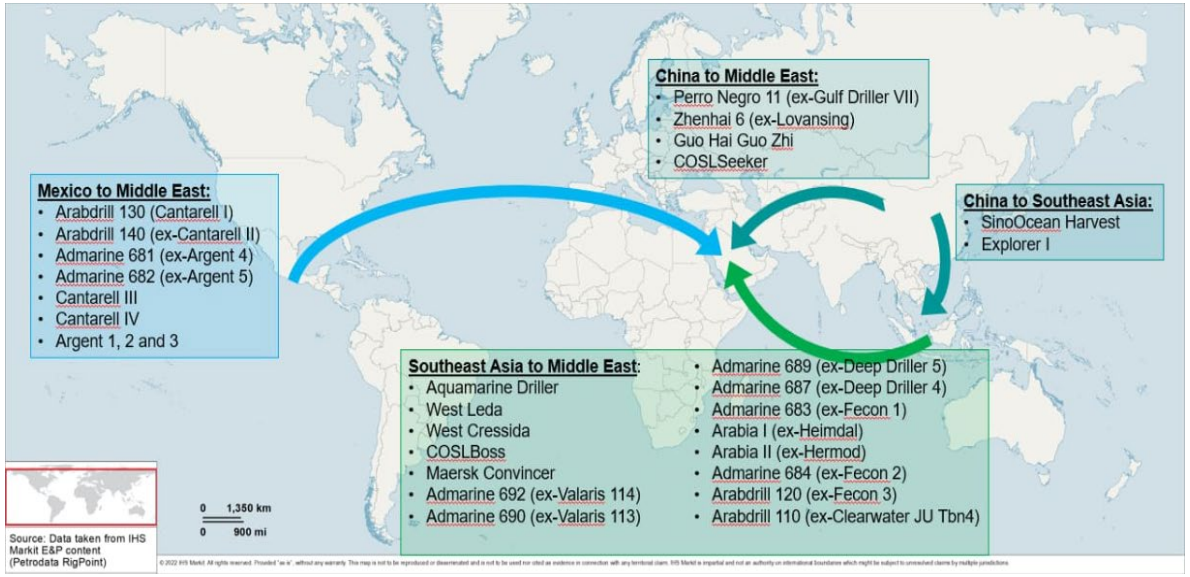
HIGH RIG DEMAND FROM MIDDLE EAST

Figure 1: Global rig demand forecast (units)



Nguồn: IHS Markit

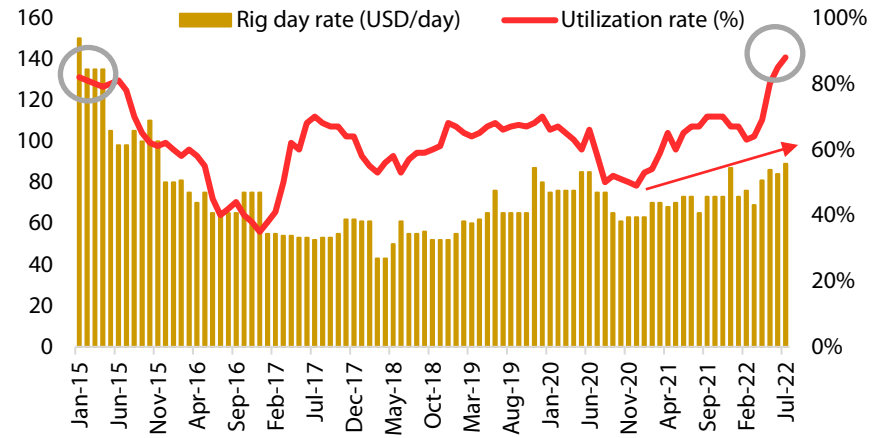
Figure 2: Drilling rig to move to Middle East



Nguồn: IHS Markit

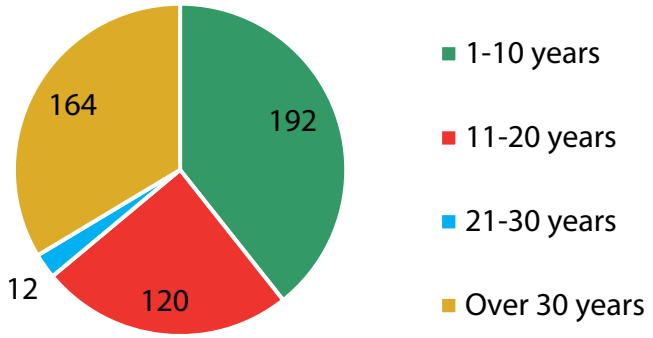
- Amidst the high oil prices in the past 2 years, countries in the region - especially Saudi Arabia and the UAE- have plans to push up the exploration and development of oil projects. Following that, the rig demand is forecasted to reach 169 units (2023) and 183 units (2024) from the current 125 units.
- Per IHS, Saudi Arabia is the main growth driver as the rig demand is anticipated to surge by 60-80% till the end of 2023, correlating to around 40 units.
- With high demand in the Middle East, an estimated 15 rigs have shifted from Southeast Asia to Middle East, causing significant drop in rigs supply in Southeast Asia.

Figure 3: Rig rate and utilization rate in SEA



Source: IHS, RongViet Securities

Figure 4: Global Jack Up rig



Source: IHS

Figure 5: Global Jack Up rig

Source: IHS

Utilization rate to come back the peak time in 2015

- As drilling rigs has been shifting to Middle East, the gap between demand and supply has been narrowed down, pushing the utilization rate to be back to the peak time in 2015. Despite below the highest level (150,000 USD/day), the rig day rate has been rising to 90,000 USD/day.

Increasing demand and tight supply will keep the day rate stable

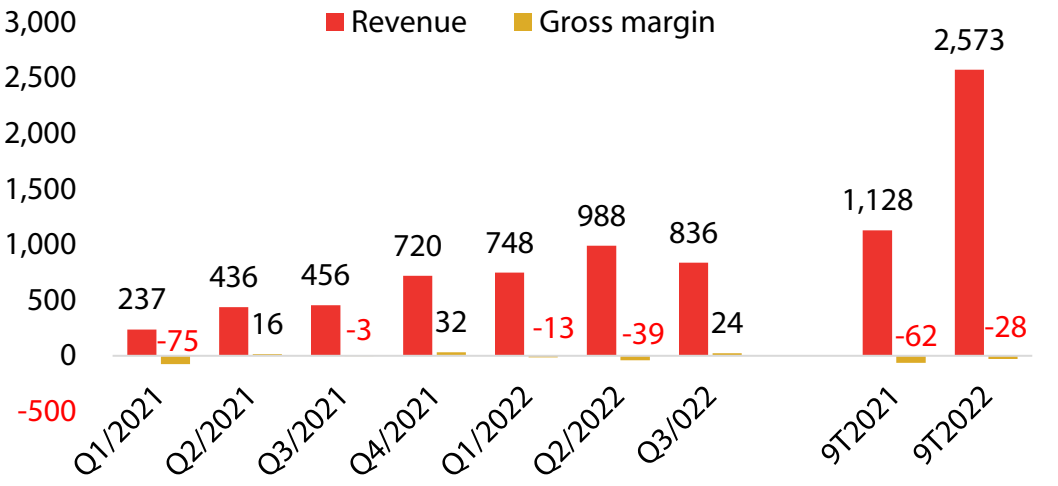
- If including 21 under-construction fleets and 48 non-marketed fleets, the current fleet surplus is lower than the peak time in Apr 2022. Besides, 1/3 of total rigs are over 30 years old, meaning that these may leave the market in the coming times. Coupling with the increasing demand, we believe that the day rate will remain positive.

Table 1: Supply – Demand of global Jack Up rig (unit)

	Apr/2014 (peak time)	Nov/2022
Total fleet (1)	453	431*
Contracted fleet (2)	429	395
Available fleet (3) = (1) – (2)	*24*	*36*
Under construction (4)	141	21
Surplus (3) + (4)	**165**	**57***

*Source: IHS, RongViet securities calculation, * excluding 48 non marketed fleets.*

Figure 6: Drilling segment result (VND bn)

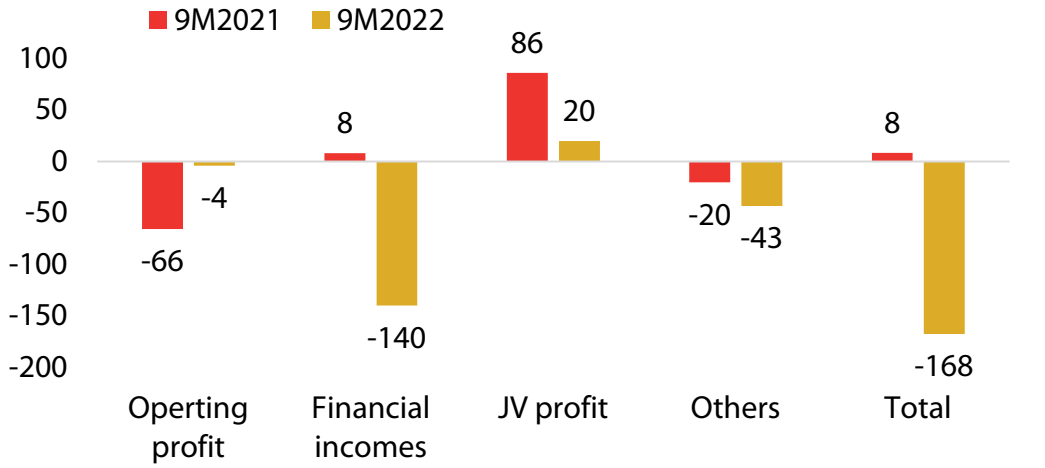


Source: RongViet Securities

9M and FY2022 is anticipated negative

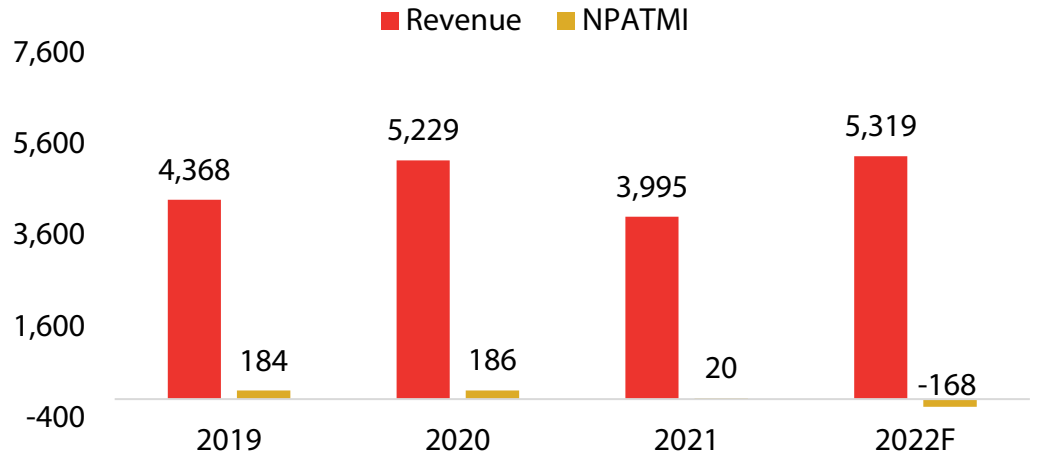
- Revenue of drilling segment increased significantly in 3Q2022 and 9M2022 thanks to the restart of PVD V as well as higher day rate. But the day rate is under operating expense while PVD V can not generate profit, which made PVD loss in 3Q2022 and 9M2022.
- On the back of rising interest rate and exchange rate, PVD recorded higher financial expense, coming from FX loss and huge interest expense.
- For 2022, revenue is projected to post VND5,319bn (USD221.6mn) and NPATMI is likely to post loss of VND168bn (loss USD7.0mn).

Figure 7: Drilling segment result (VND bn)



Source: PVD, RongViet Securities

Figure 8: 2022 result (VND bn)



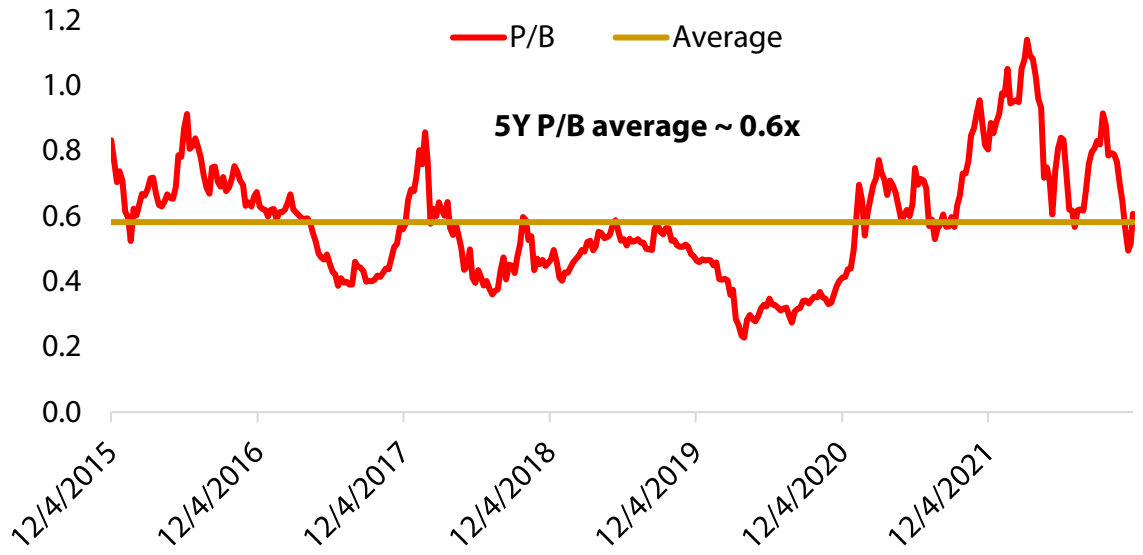
Source: PVD, RongViet Securities

Table 2: PVD drilling schedule in 2023

	1	2	3	4	5	6	7	8	9	10	11	12	Note
PVD I	Vietsovpetro			JVPC				Valeura - Thailand					Day rate 90.000 USD for Valeura.
PVD II	Pertamina - Indonesia												2-year contract, 1-year option.
PVD III	Hibiscus - Malaysia												
PVD VI	Already signed full year												Contract can extend to 2024 and 2025.
PVD V	Brunei Shell Petroleum												6-year contract, 4-year option.

Source: PVD

Figure 9: Historical P/B of PVD



Source: Bloomberg, RongViet securities

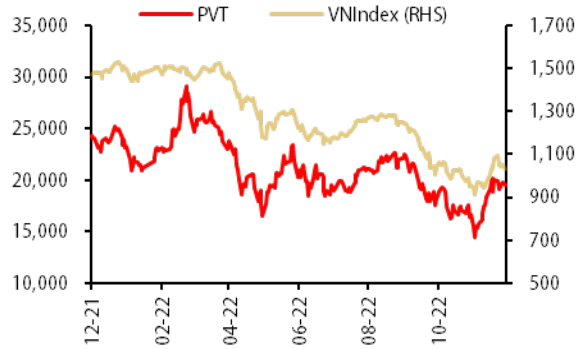
Full year contract will push earnings in 2023

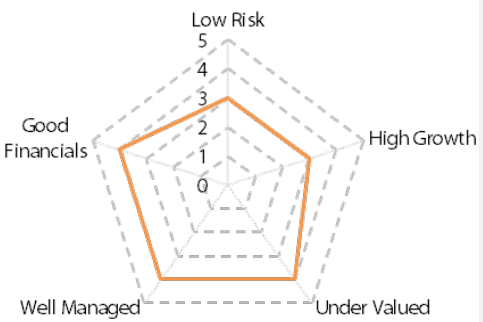
- Thanks to the high rig demand in SEA and young fleets, PVD has signed the contract full year for its fleets. Following that, the rig day rate is estimated at 80,000 USD/day (up 27% YoY) in 2023 and the utilization rate is around 92%, compared to the 86% in 2022.
- NPATMI is forecasted to reach VND 320 bn (USD13.3mn) in 2023, much higher than the profit during 2016-2022. We believe that the P/B of PVD will be rerate in 2023 and 2024 thanks to the improvement in its bottom line.

LOWER EARNINGS BUT CORE BUSINESS TO GROW IN 2023

HSX: PVT

ACCUMULATE: +19% **MP: 19,500** **TP: 23,300**





STOCK INFO

Sector	Oil Gas
Market Cap ($ mn)	267
Current Shares O/S (mn shares)	324
3M Avg. Volume (K)	2,003
3M Avg. Trading Value (VND Bn)	37
Remaining foreign room (%)	30.5
52-week range ('000 VND)	13.5 – 29.5

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	7,460	9,154	9,273
NPATMI (VND bn)	660	854	825
ROA (%)	5.3	5.6	5.0
ROE (%)	12.7	14.2	12.5
EPS (VND)	1,933	2,480	2,396
Book Value (VND)	16,051	18,531	20,427
Cash dividend (VND)	1,000	0	500
P/E (x)	12.5	7.9	8.1
P/B (x)	1.5	1.1	1.0

INVESTMENT RATIONALES

Core business to enjoy the benefit from rising charter rate and the fleet growth in 2023

- In the last few years, PVT has been expanding its fleets by adding vessels to two main segments - oil product/chemical tanker and LPG tanker while liquidating the old ones. As a result, the core business – transportation delivered a CAGR of 7% in revenue during 2018-2021.
- We expect that the transportation segment can post a growth of 22.5% in 2022 and 4% in 2023 thanks to the fleet expansion and the rising charter rate. Moreover, we expect an improvement in gross margin for this segment in 2023.

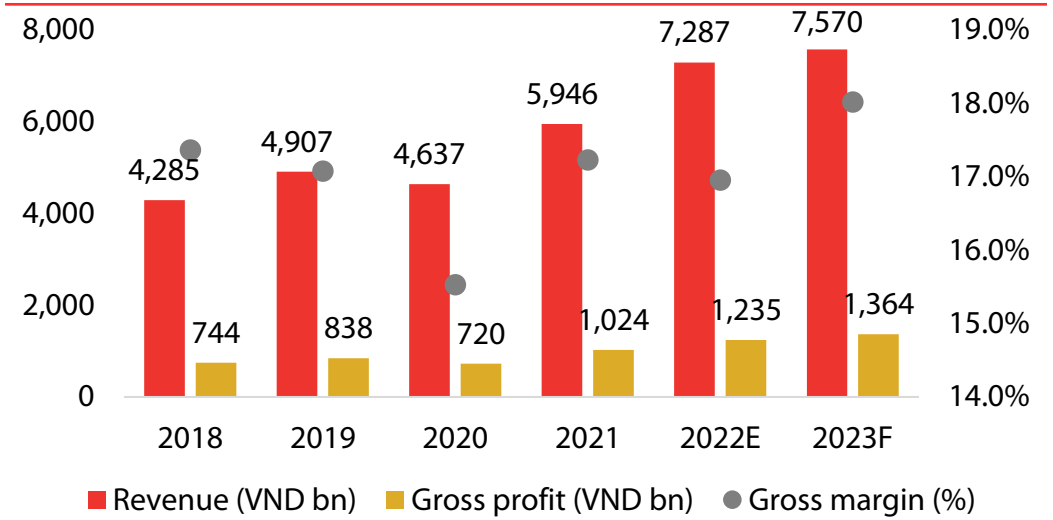
Despite the lower earnings, the valuation is quite cheap

- In 3Q2022, PVT recorded an abnormal earnings from liquidating PVT Athena with VND212bn (USD8.1mn), resulting in a significant growth of 27% in 2022 bottom line according to our forecast. In 2023, there is no longer one-off profit then the bottom line is likely to drop slightly. We project revenue to increase by 1.3% to VND 9,273 bn (USD 394.5 mn) and NPATMI to slightly drop 3.3% to VND 825 bn (USD 35.1 mn) in 2023.
- With that forecast, the 2023 P/E forward is 8.1x at the current price.

RISKS TO OUR CALL

- Fleet expansion is not in line our expectation and the charter rates cool down.

Figure 1: Transportation result forecast



Source: PVT, RongViet Securities

Table 1: Fleet expansion by year

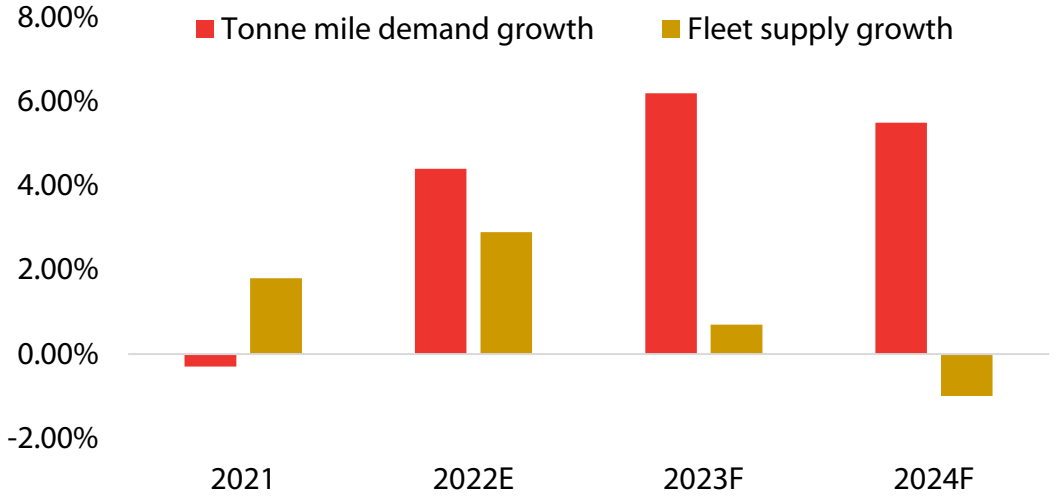
	2019	2020	2021	2022E
Crude oil	1			
Oil product/chemical	3	1	4	5
LPG	3		1	1
Others			1	2
Total	**7**	**1**	**6**	**8***

*Source: PVT, RongViet Securities, * till Nov 2022*

Fleet expansion with the main focus on the chemical tanker

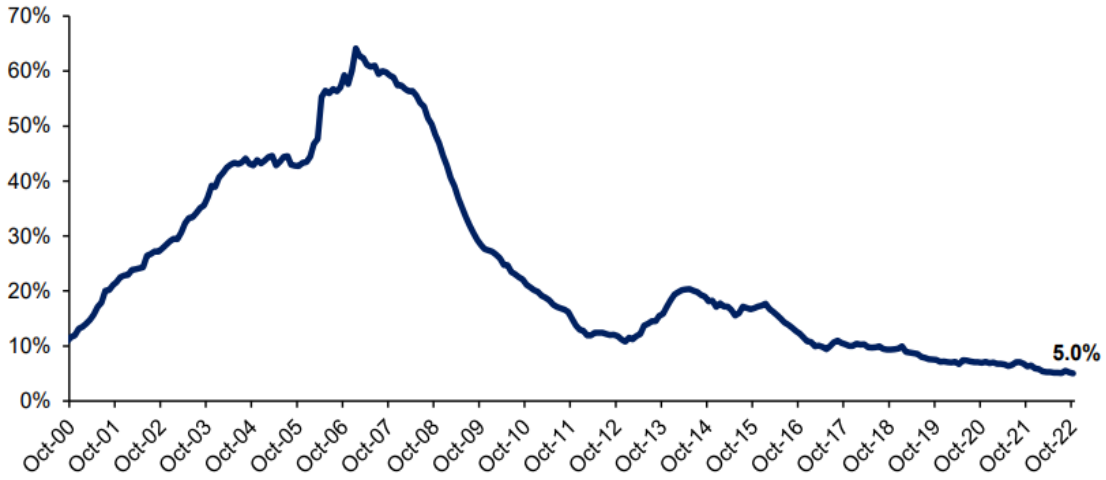
- In the past few years, PVT expanded the fleets, mainly the oil product/chemical tanker. During 2018-2021, revenue of transportation posted a CAGR of 7%. Since early 2022, PVT has been adding 7 vessels and 1 barge to the fleets, which is forecasted to push the revenue to increase by 22.5%.
- For 2023, we expect that PVT can maintain its growth momentum for transportation segment thanks to the full year operation of 2022 new-bought vessels as well as the rising charter rate in crude oil/oil product tankers.

Figure 2: Tonne-mile demand growth, fleet growt (% YoY)



Source: Clarksons

Figure 3: Order book as % of fleet



Source: Clarksons

Charter rates of crude oil/product tanker are expected to remain high

- The orderbook as a percentage of the existing fleet currently stands at a record low ~ 5%. Besides, shipyard capacity is fulfilled with contracts for other shipping sectors (bulk carrier, gas carrier or container ships) through end-2025. So the earliest newbuilding slots are available from 2025. Besides, newbuilding prices are above historical averages, so any new orders will be under consideration.
- In 2023, global oil demand is forecasted to grow and the sanctions on Russia have triggered longer voyage distances then leading to a further increase tanker tonne-mile demand (for crude oil/product tanker).
- On the back of limited tanker supply and higher tonne-mile demand, the charter rate of crude oil/ product tanker are likely to fly high.

Figure 4: Charter rate of crude oil and oil product

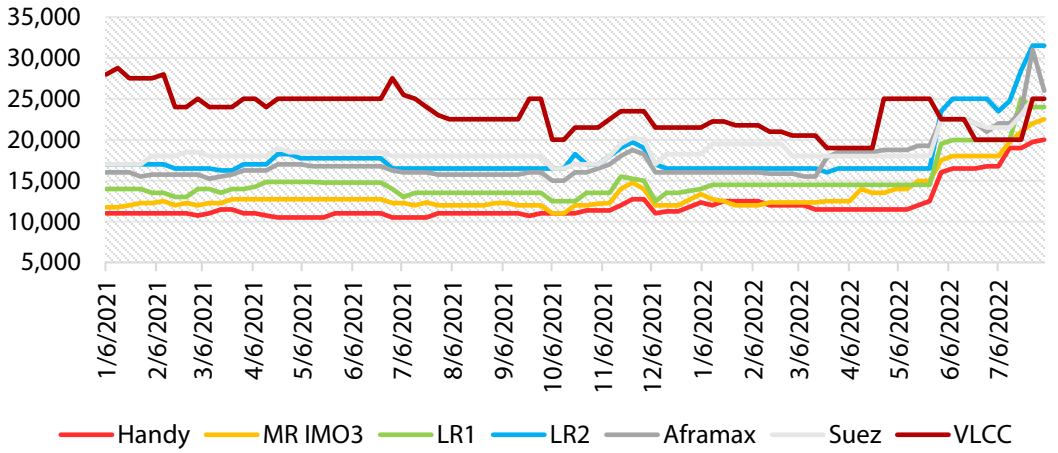
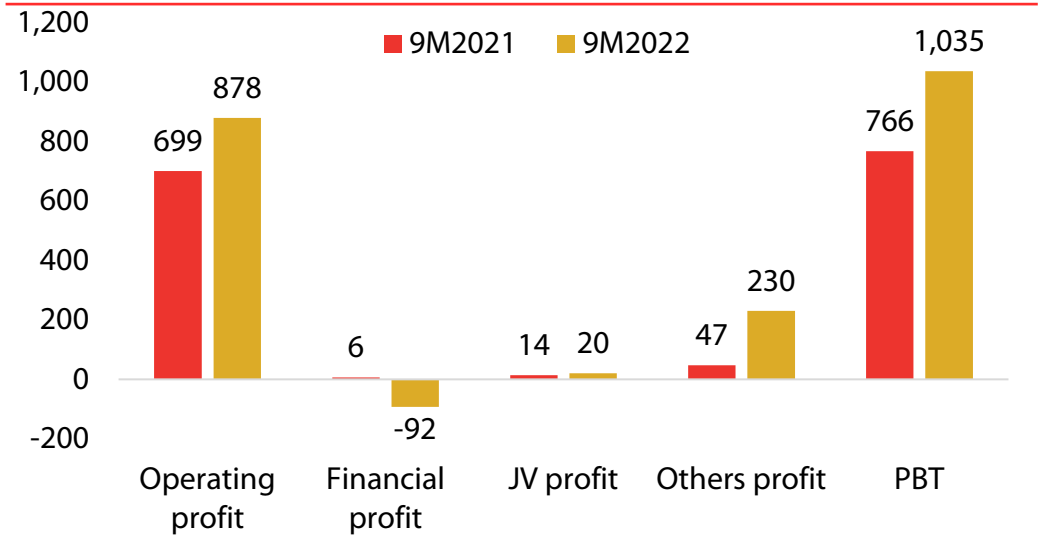
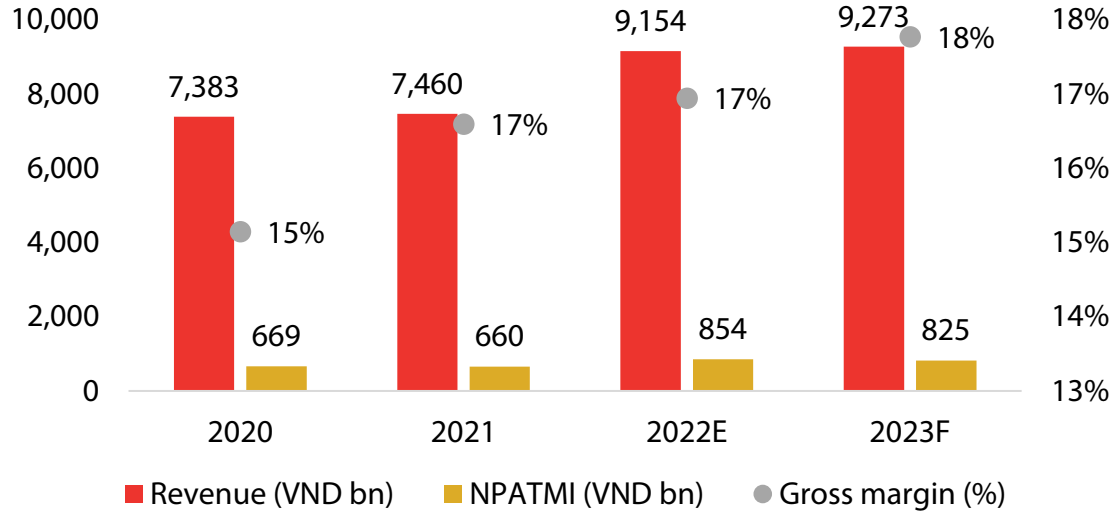


Figure 5: 9M2022 PBT breakdown (VND bn)



Source: RongViet Securities

Figure 6: 2023 forecast



Source: RongViet Securities

Remarkable 9M2022 results thanks to one off profit

- Transportation business posted VND5,054bn (USD215.1mn) in 9M2022 revenue, up 32.8% thanks to good performances from oil product/chemical as well as LPG. Besides, PVT booked one-off profit from liquidating Athena in 3Q2022 with the total amount of VND212bn (USD8.1mn). As a result, 9M2022 NPATMI posted VND630 bn (USD26.8 mn), up 33.5% YoY.

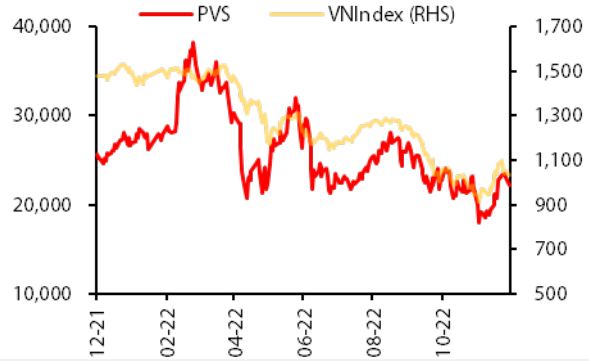
Despite growth of transportation, earnings 2023 will drop as there is no abnormal profit like 2022

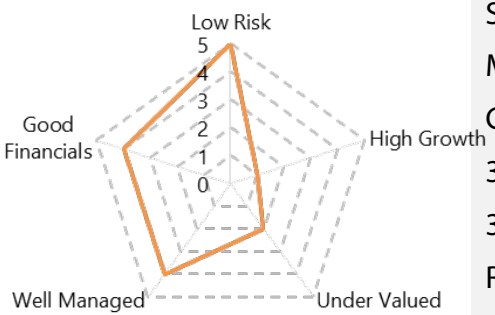
- For 2023, we expect that PVT can maintain its growth momentum for transportation thanks to the full year operation of 2022 new bought vessels as well as rising charter rates in crude oil/oil product tankers. Moreover, PVD will purchase more crude oil tankers, VLGC and MR in 2023. Following that, revenue and NPATMI are projected at VND 9,273 bn (USD 394.5 mn) and VND 825 bn (USD 35.1 mn), respectively which is down 3.3% YoY in term of 2023 bottom line.
- Currently, PVT is being traded at 2023 P/E forward of 8.1x.

TRANSFORMING TO OFFSHORE WIND POWER

HNX: PVS

NEUTRAL: +1% **MP: 22,200** **TP: 21,500**





STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	449
Current Shares O/S (mn shares)	478
3M Avg. Volume (K)	7,937
3M Avg. Trading Value (VND Bn)	180
Remaining foreign room (%)	30.9
52-week range ('000 VND)	16.2 – 41.2

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	14,198	14,755	15,875
NPATMI (VND bn)	601	628	631
ROA (%)	2.4	2.4	2.5
ROE (%)	5.1	5.2	5.1
EPS (VND)	911	1,182	1,188
Book Value (VND)	24,701	25,178	25,659
Cash dividend (VND)	1,000	700	700
P/E (x)	24.4	18.8	18.7
P/B (x)	0.9	0.9	0.9

INVESTMENT RATIONALES

Waiting for Oil & Gas projects in short term but transforming to offshore wind power in long term

- In 2022-2023, PVS will continue implementing the current Oil & Gas projects beside an additional contract value of USD 610 mn from Gallaf Batch 3, SHWE and Hai Long wind projects. In short term, there are still a lot of potential domestic Oil & Gas projects like Block B, Ca Voi Xanh, Su Tu Trang Phase 2 … and PVS is able to add these to the backlog owing to its leading position in the M&C segment.
- For long term, we see the transformation to wind power from PVS, especially offshore wind power as the company is aiming to become the contractor as well as the investor. Recently, PVS has participated in some projects such as Thang Long Wind (installation of wind measuring equipment), La Gan (seismic survey), Hai Long (EPC substation), etc.

JVs profit and warranty construction work (others profit) will be the key contribution to the 2022 – 2023 bottom line

- As PVS has not been awarded any huge EPC contracts, we believe that JVs profit and warranty construction work are still the key contributor for the 2022-2023 bottom line.
- For 2023, revenue and NPATMI are projected at VND15,875 bn (USD661.4 mn) and VND631 bn (USD 26.3 mn), respectively, compared to the number of VND14,755 bn (USD 614,7 mn) and VND628 bn (USD26,1 mn) in 2022.

RISKS TO OUR CALL

- JVs profit may be impacted by FPSO Lam Son and FPSO Ruby.

Table 1: Major domestic oil gas projects

	Update
Block B	+ Waiting for FID
Ca Voi Xanh	+ Exxon Mobil to finalize the Final Development Plan
Su Tu Trang Phase 2	+ Expecting EPCI at the end of 2023.
Ken Bau	+ Keep drilling for exploration.
LNG Thi Vai Phase 2	+ Waiting for Phase 1 to be done in 2022.

Source: RongViet Securities

Short term to depend on Oil & Gas projects but long term is offshore wind

- Recently, PVS has been awarded 3 projects with the total value of USD 610 mn, which will be recorded in 2022-2025. However, gross margin of these projects may be low. There will be major Oil & Gas projects such as Block B, Ca Voi Xanh, Su Tu Trang Phase 2 … and PVS can gain the M&C backlog thanks to its leading position in this segment.
- For long term, we see the transformation to offshore wind power from PVS as the company is aiming to become the contractor as well as the investor. On the back of this, PVS can generate stable cash flows from its owned projects as well as conducting a lot of EPC jobs in this segment. Recently, PVS is trying to fulfill its experience in doing EPC for offshore wind by participating in some projects such as Thang Long Wind, La Gan, Hai Long.

Table 2: PVS's experience in offshore wind segment

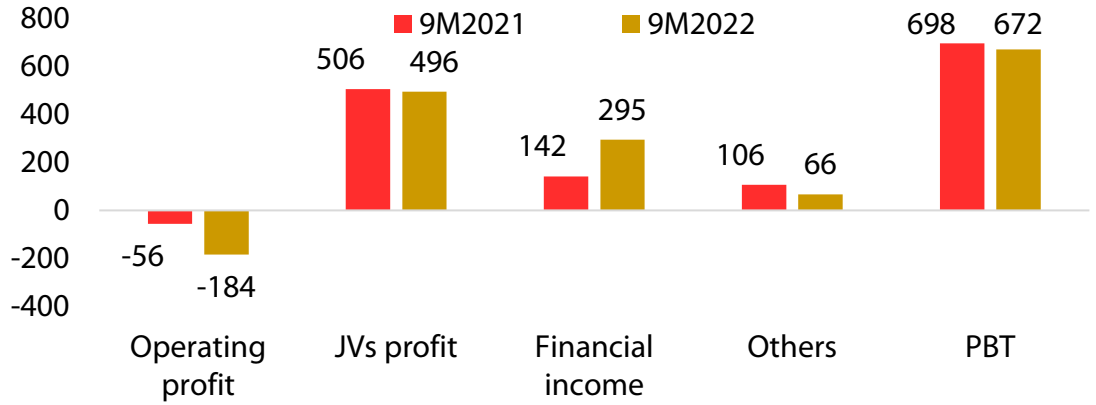
	Scope of work
Geological survey	+ Collect soil rocks sample deep under seabed. + Provision, installation, operation of FLIDAR.
Transportation and Installation	+ Transportation of wind turbines. + Installation of wind turbines towers.
EPC	+ EPC Offshore Substation + Transportation, installation of subsea cable.
Services	+ Supply and operation of CTV (crew transfer vessels).

Source: RongViet Securities

Figure 1: Offshore Wind projects involved by PVS

Source: PVS

Figure 2: 9M2022 PBT breakdown (VND bn)



Source: RongViet Securities

Table 3: Warranty construction work (VND bn)

	2018	2019	2020	2021	3Q22
Sao Vang Dai Nguyet	-	482	573	560	560
Su Tu Trang	275	275	275	165	165
Gallaf Phase 1	-	61	193	251	251
Sao Vang Dai Nguyet pipeline	-	-	-	67	67

Source: RongViet Securities

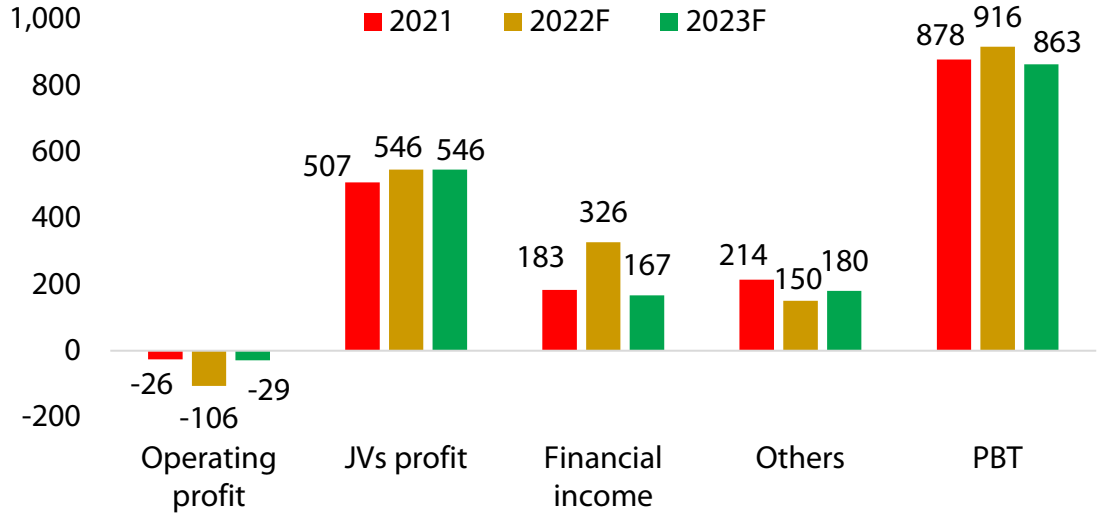
JVs profit and financial income to offset the loss of operating profit in 9M2022

- Low margin of M&C segment impacted the overall gross profit of PVS. Plus high SG&A, the operating profit incurred loss in 9M2022. However, this loss was offset by the JVs profit and financial income. As a result, PVS posted VND415bn in NPATMI for 9M2022, down 19.7% YoY.

Key contributions from JVs profit and warranty construction work in 2022-2023

- As PVS has not been awarded any huge EPC contracts, we believe that JVs profit and warranty construction work will mainly contribute for the 2022-2023 bottom line. We expect that the warranty construction work from Su Tu Trang and Sao Vang Dai Nguyet can be reverted in 2022-2023.
- For 2023, revenue and NPATMI are projected at VND 15,875 bn (USD 661.4 mn) and VND 631 bn (USD 26.3 mn), respectively, compared to the number of VND 14,755 bn (USD 614,7 mn) and VND 628 bn (USD 26,1 mn) in 2022.

Figure 3: 2022 -2023 PBT breakdown (VND bn)



Source: PVS, RongViet Securities

RONG VIET SECURITIES

TECHNOLOGY

IT SERVICES OUTLOOK REMAINS RESILIENT DESPITE RECESSION HEADWINDS

Tung Do – tung.dt@vdsc.com.vn

TECH – IT SERVICES SPENDING REMAINS RESILIENT DESPITE RECESSION HEADWINDS

Rating

Overview

Most of businesses are expecting a fairly moderate recession in 2023 and this will affect their IT budget planning in next year as well. Though there are signs of softening and delays in capital spending on technology, the IT spending will still be more resilient in the coming economic slowdown than in past recession due to increasing share of Software, Cloud services, as a result of the DX progress, which are subscription-based deployment, which brings more stable and recurring type of revenue stream for IT services companies. Since leading IT companies in Vietnam are increasingly ramping up its technology competencies to better capture resilient IT services market, which is also evidenced by their strong pipeline indicator, the outlook of these companies will probably better than concerned. Having said that, it's important to keep track of the booking indicator to prepare for the downside risks in case of worsening economic conditions.

Highlights

Overall IT spending will moderate in 2023F due to economy slowdown but its impacts on IT spending will be non-uniform across segments

- Spending on hardware devices (PC/laptops/tablets) and corporate data infrastructure (servers, DC) will be vulnerable respectively due to the fact that inflation has cut into consumer' purchasing power and delaying on-premise infrastructure upgrades projects is low hanging fruit for businesses to save costs, let alone the transition to Cloud deployment.
- Software and IT services are the bright spot of the industry, which will continue to post double-digit growth, given the robust momentum of subscription booking of Cloud-related products. Per IDC, by 2026, Cloud will represent 2/3 of the servers/storage market, while 40% of IT services will be Cloud-related.

Vietnam IT firms are well-positioned to capture the upcoming state of the IT services market.

- Vietnam tech firms have been devoting large resources to offer reliable IT services to global clients and are still expanding their footprints with increasing IT workforce.
- Cheap hourly rates, plentiful young minded developers who are highly adaptive to new technology are among Vietnam's competitive advantages in this market while the indigenous issues of IT outsourcing powerhouses namely China and Ukraine should bring more opportunities for market share gains.

Tech companies with high concentration to IT services will post more resilient performance than other project-based IT peers. Under out coverage, we favor FPT for its reasonable valuation taken into account a steady high 3Y CAGR, while ELC should offer some short-term trading opportunities amid robust ITS demand in 2023.

Risks

Global economy to lean toward more negative conditions, which translate into reductions of signed revenue or weakening pipeline indicator.

Faster-than-expected raise in IT labor expenses given that Vietnam still lacks of 150-200 thousands of IT developers per year over 2022-2024.

RECESSION IMPACT ON IT SPENDING WILL BE MORE DIVERSE

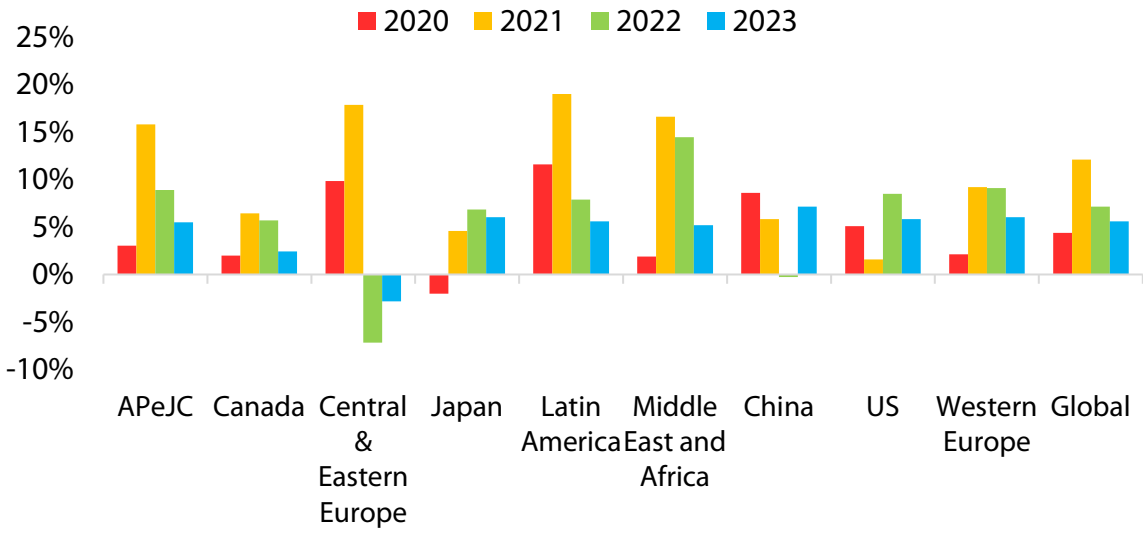
Most of the organizations are currently expecting a moderate recession in 2023.

- Major economies, except for China, are expected to have a "soft-landing" in 2023, which will slow down overall IT spending. But there's still no evidence yet of a severe and broad pullback in IT projects and budgets.

IT spending tended to suffer severely in previous recessions but the structural change of the industry since the Covid will make the impact more diverse.

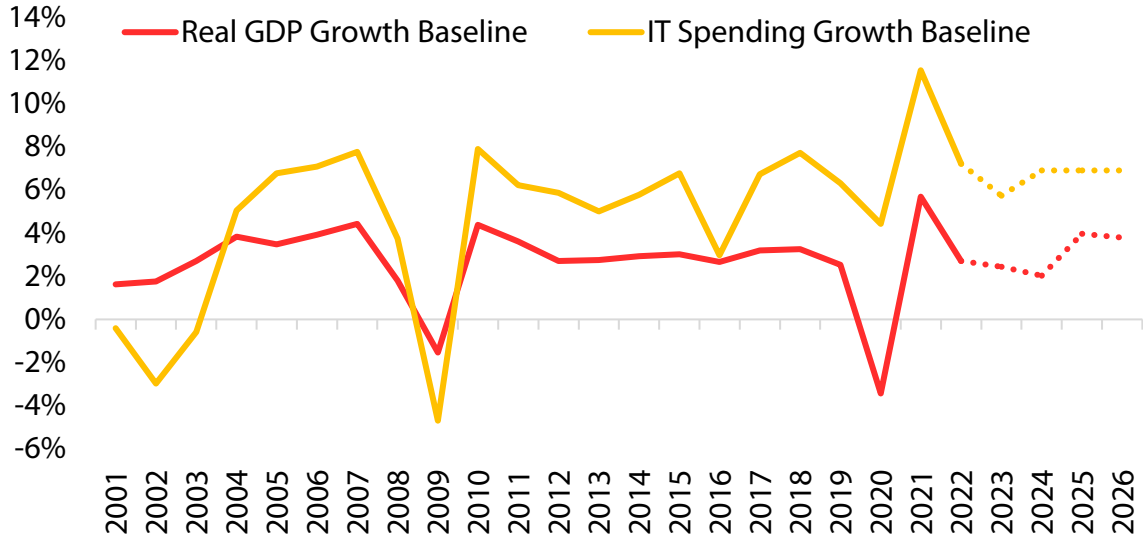
- Since Covid pandemic, Businesses have leaned towards OPEX-typed IT spending (e.g. Subscription-based Cloud services…) to enhance operation efficiency and productivity, and cut spending on on-premise infrastructure (large CAPEX required).
- The decreasing proportion of CAPEX-typed spending in overall IT spending makes spending on areas namely Devices, Hardware and On-premise infrastructure more vulnerable, as they are low hanging fruit for businesses to save money, than software and cloud-related IT services.

Figure 1: Overall IT Spending growth to soften in 2023F



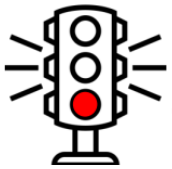
Source: IDC, Rong Viet Securities

Figure 2: IT spending is expected to remain its resiliency since Covid



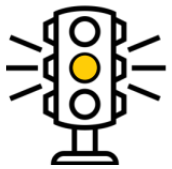
*Source: IDC, Rong Viet Securities, *IT Spending excludes telecom spending and business services*

Figure 3: Spending on Software and Cloud related services will be more resilient in the next recession than other areas



Devices

- Major slowdown in PC/laptops is expected to continue into 2023 as recession delays upgrade cycles.
- Smartphone market is volatile and vulnerable to recession but demand more resilient than PC/tablets.
- Inflation is perhaps not dragging as much on smart phone shipments as it is on PC.



Infrastructure

- Overall spending on cloud infrastructure remains resilient as Service providers are likely to keep investing in Cloud infrastructure to keep pace with the direction of demand for their services.
- On-premise hardware spending from businesses other than services providers are more vulnerable due to the Cloud migration.

Software

- Software continues to post a double-digit rate of growth, which is better than expected, in 2022.
- Growth momentum will carry forward in 2023 given by the nature of subscription bookings of the cloud and software, making the amount of revenue from cloud and software projected for the first half of 2023 seems resilient.

IT Services

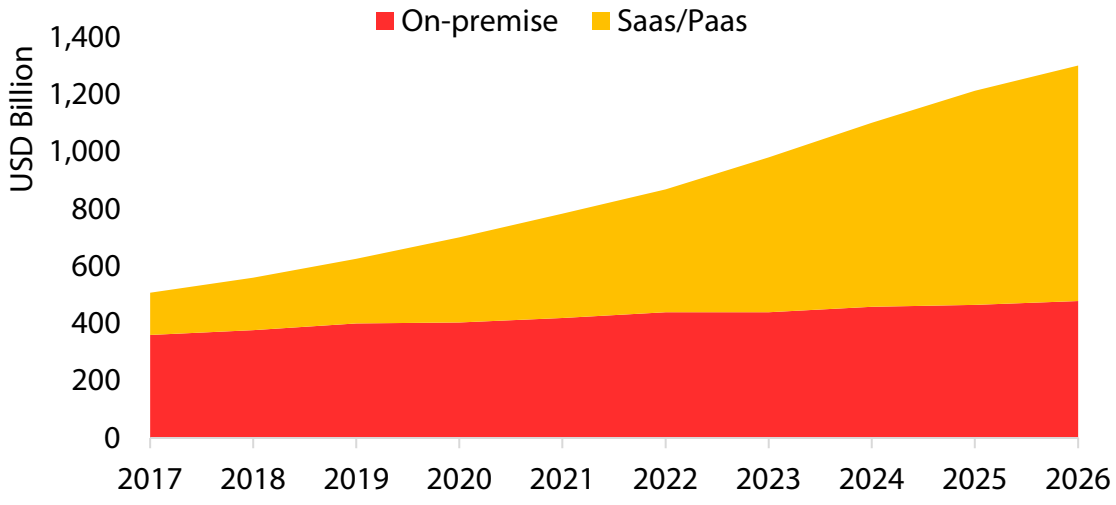
- IT services markets also performed stronger than forecast in 1H22, with strong bookings a positive leading indicator for revenues 1H23.
- Mixed signals from vendors, with many still reporting strong pipelines despite recession worries.
- But project-based services will be vulnerable to recession because it's relatively easy way to save short-term costs.

Source: IDC, Rong Viet Securities

Cloud has been driving the majority of growth of global IT spending and will continue to contribute to the resilience of the Digital transformation spending.

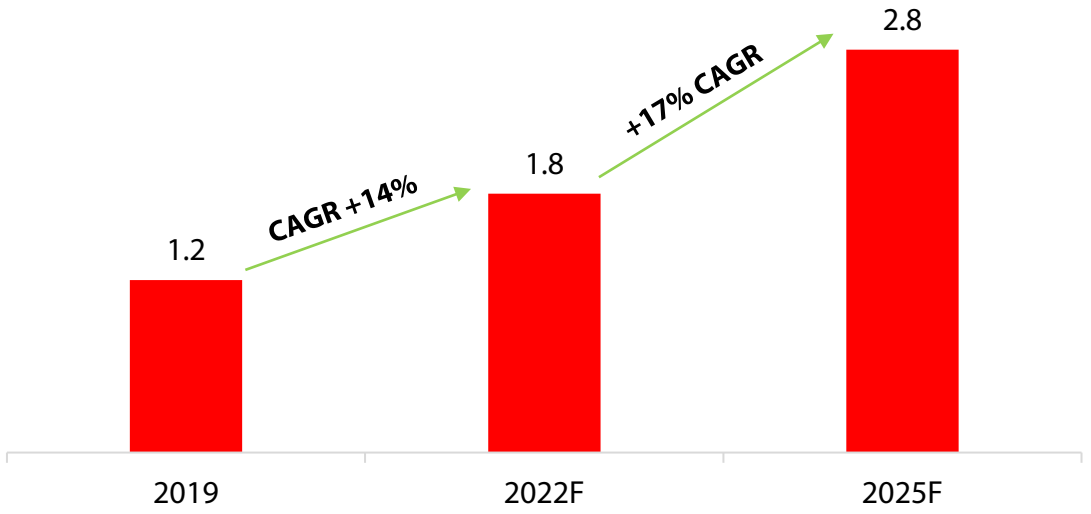
- Cloud subscription-based spending (recurring revenue stream) continues to represent an increasing proportion of overall IT budget.
- There are no strong rationales for businesses to reverse the deployment of Cloud solutions (i.e. pulling out of the cloud and rebuilding their on-premise infrastructure or data center) due to Cloud's benefits: cost saving, increasing agility, efficiency, productivity.
- Two thirds of Storage and Software will be cloud by 2026. On-premise spending will tail off over the next 5 years due to increasing investment in Cloud infrastructure including Public Cloud, Dedicated Cloud deployment.

Figure 4: Cloud software spending is overtaking On-premise



Source: IDC, Rong Viet Securities

Figure 5: Digital Transformation spending (USD trillion)

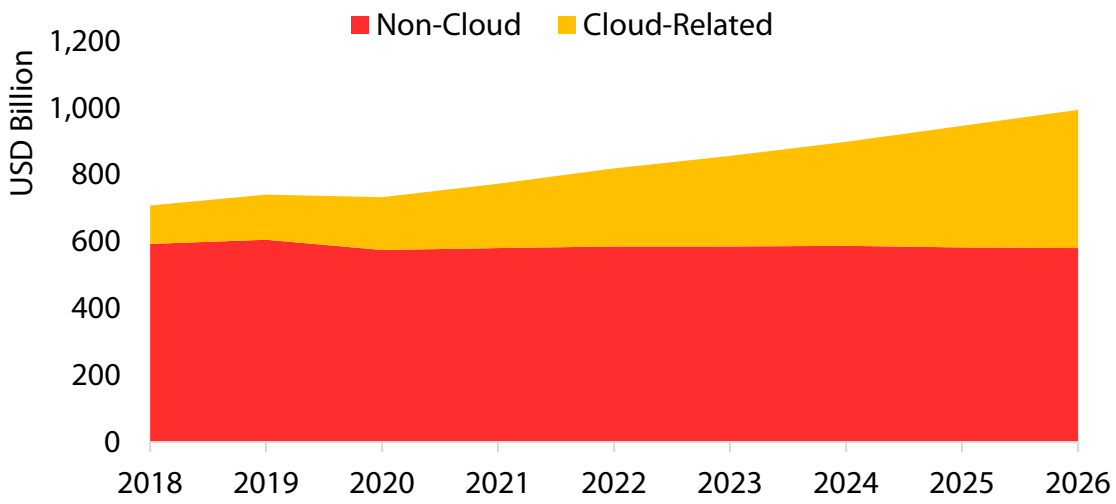


Source: Source: IDC, Rong Viet Securities

Cloud-related IT services will represent more than 40% of the overall IT services by 2026.

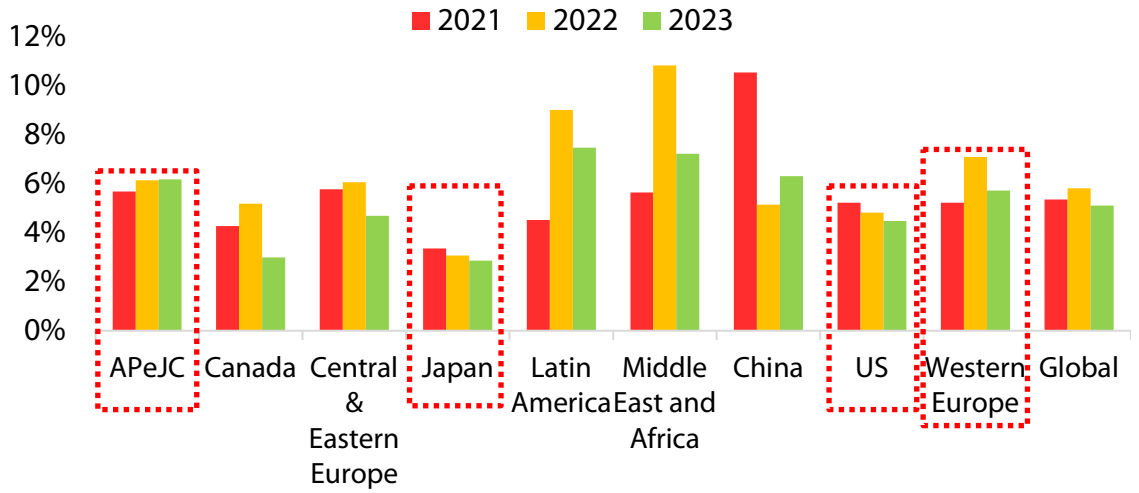
- Cloud-related projects and managed services continue to grow at double digit.
- The non-cloud IT services and some of the traditional services continue to be cannibalized by the movement to increasing growth in managed cloud services.
- Current state of booking shows relatively good momentum in the first half 2023, but IT services tends to be a lagging indicator of the downturn in the economy; hence, the pipeline indicator should be closely watched in 1H2023.

Figure 6: 40% of IT Services Will Be Cloud-Related by 2026



Source: IDC, Rong Viet Securities

Figure 7: IT services spending growth by region



Source: IDC, Rong Viet Securities, red dashed outline represents Vietnam tech companies' main markets

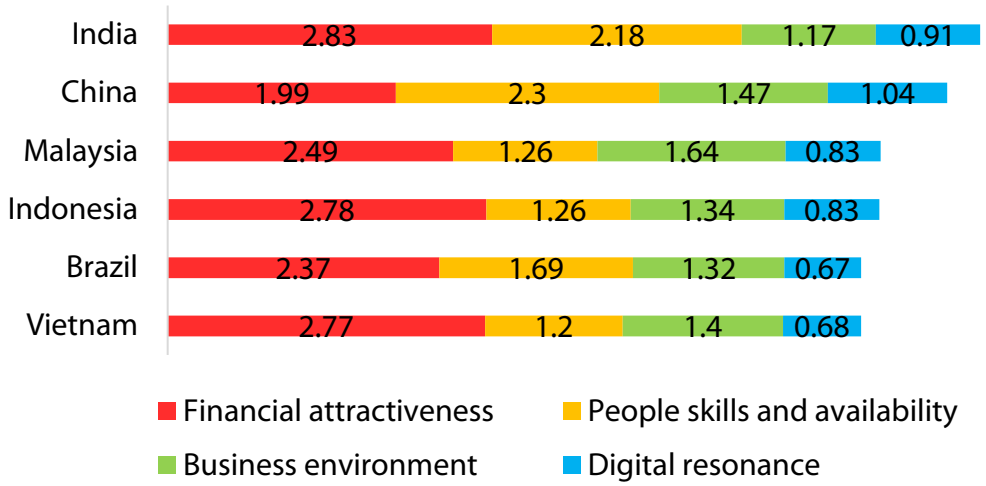
VIETNAM IS WELL POSITIONED TO CAPITALIZE THE RESILIENT DEMAND

Vietnam technology industry holds a strong foundation to deliver reliable IT services.

- **Plentiful high-quality IT Human Resource.** Vietnam's IT labor force is highly adaptive to new software and tech developments that has seen plenty of youths, with vibrant technical background, turn to acquire programming skills to an advanced level. IT institutions train and educate 50,000 IT engineers a year in addition to a proficient talent pool of 400,000 IT engineers.
- **Cost competitiveness.** The price to hire a software developer in Vietnam ranges from USD10-USD25/ hour, while other countries in Asia have a higher salary base, with China's average salary is USD18-USD50/ hour (for junior level), Thailand's is from USD13-USD40/ hour, Philippines' is USD17.5-USD42.5/ hour.
- **Supportive government policies for IT companies.** Decision No. 2205/QD-TTg approving the Intellectual Property Development Program and aw on Cybersecurity.

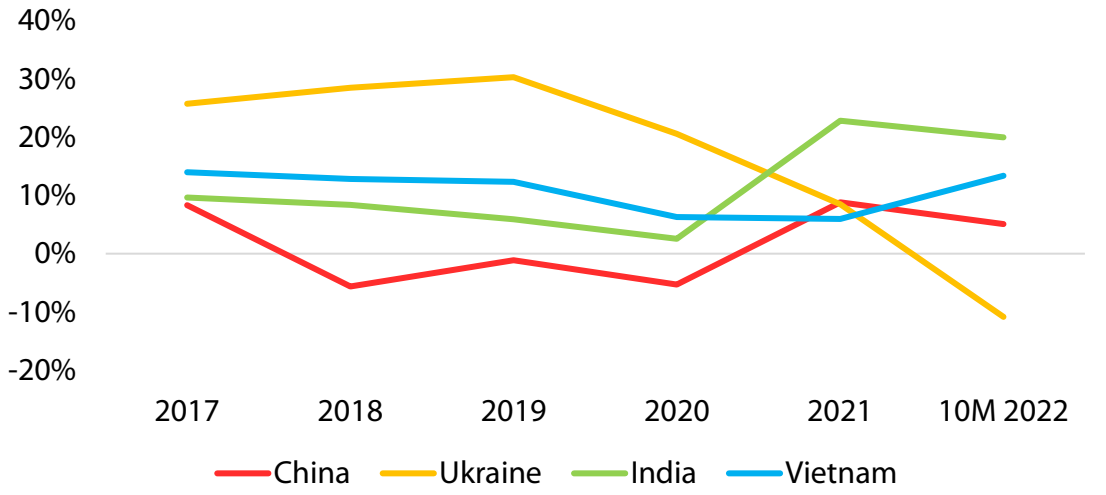
Decelerating growth in other outsourcing powerhouses namely China, Ukraine, due to Unstable business environment, offers great opportunities for Vietnam.

Figure 8: Vietnam ranked 6th in ITO servicing per Global Services Location Index 2021



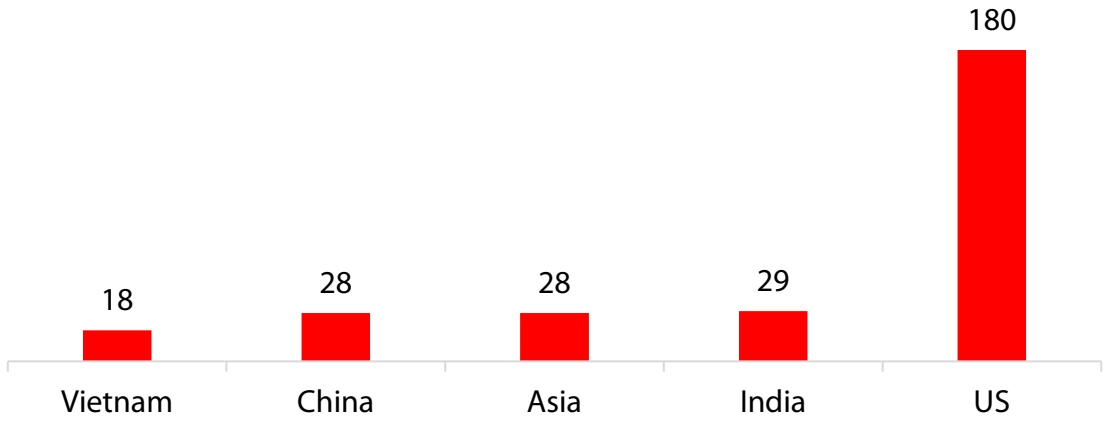
Source: AT Kearney, Rong Viet Securities

Figure 9: IT services exports from China and Ukraine are slowing down



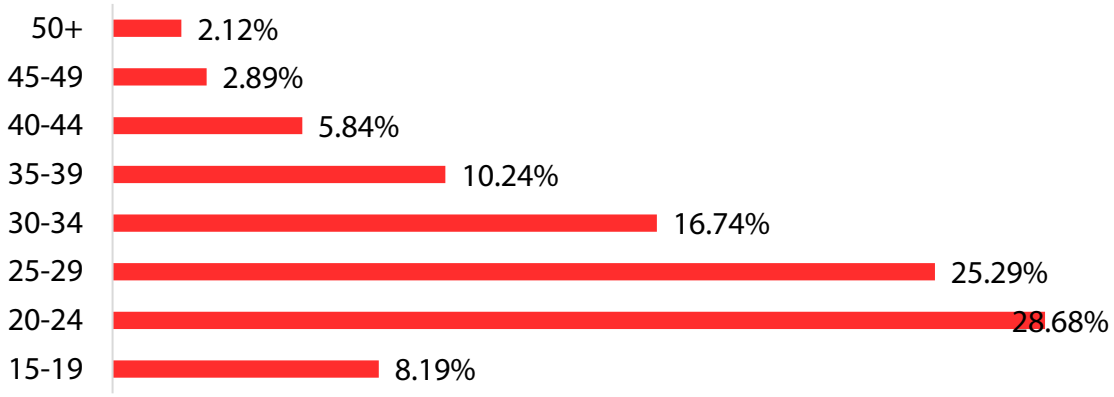
Source: India MEITY, China MOST, Opendatabot, Statista ,Rong Viet Securities

Figure 10: Competitive hourly rate of tech developers



Source: HSBC, Rong Viet Securities

Figure 11: Vietnamese programmers are mainly millennials



Source: TopDev, Rong Viet Securities

Figure 12: Vietnam and its developers'rankings in global context

SKILLVALUE
29TH
Worldwide in Developer Skills Charts of Skillvalue's Report 2019 *(The only one of SEA region in Top 30)*

HACKERRANK
23RD
Worldwide in Developer Skills Charts of HackerRank's Report 2016

TOPCODER
TOP 6
Worldwide in Developer Skills Charts of TopCoder's Report 2016

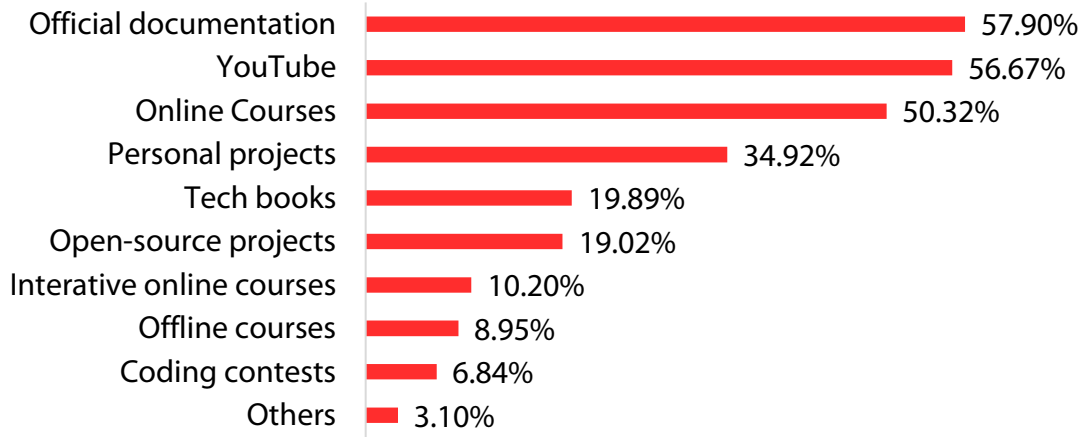
GLOBAL SERVICES LOCATION INDEX
5TH
In 2019 Kearney Global Services Location Index, only after India, China, Malaysia & Indonesia *(Global Outsourcing Ranking - 4 main factors: Financial attractiveness, People skills & availability, Business Environment, Digital resonance)*

TOP 50 DIGITAL NATIONS - THOLON
13TH
In TSGI Top 50 Digital Nations all over the world, according to Tholons Services Globalization Index 2019 (*7 main factors: Talent, Skill & Quality, Busines Catalyst, Cost & Infrastructure, Risk &Quality of Life, Innovation. Digital, Super Cities, Population)*

TOP 100 OUTSOURCING DESTINATION - THOLON
18TH
In the Tholons Top 100 Outsourcing Destination 2016 with Ho Chi Minh City (18th) & Hanoi (19th)

Source: TopDev, Rong Viet Securities

Figure 13: IT workforce's variety of approaches to learn new skills



Source: TopDev, Rong Viet Securities

TECH STOCKS' YTD PERFORMANCE AND VALUATION

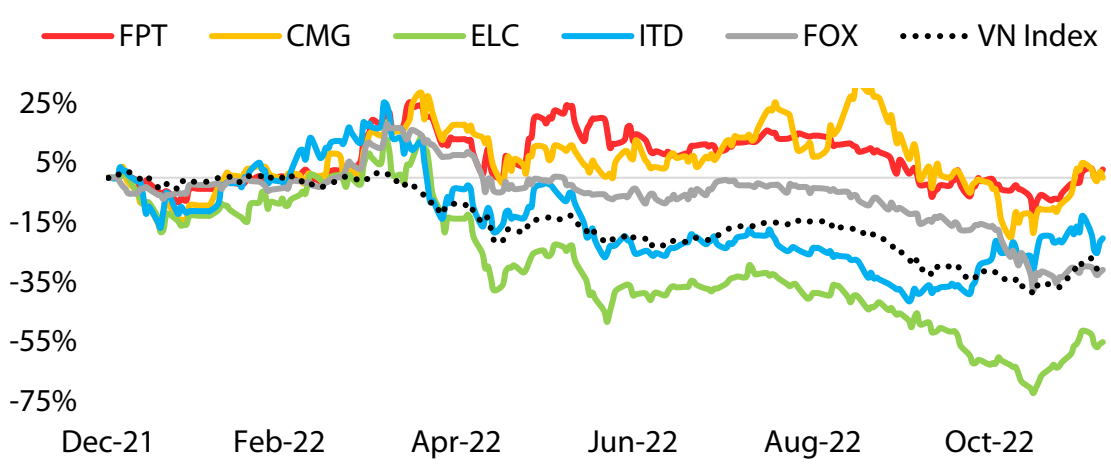
Tech companies with high concentration to IT services tends to post relatively a more resilient performance than other project-based IT peers and outperformed the VNINDEX (-30% YTD).

- FPT and CMG, leading tech companies with high exposure to IT services, have post relatively resilient performance with respective performance of 3% and 0%. The performance of two companies were also bolstered by strong business results, with FPT's NPAT-MI jumped 31% YoY in 10M-2022 and CMG's 6M-FY22 surged by 56% YoY.
- ITD outperformed the benchmark by a decent gap (-20% YTD), underpinned by robust profit growth of 331% YoY in 9M-2022 from the low base of 2021, while its peer in ITS sector, ELC, saw a -26% drop in NPAT-MI due to inflated minority expenses and underperformed VN Index.

In terms of valuation, all companies witnessed derating in 2022.

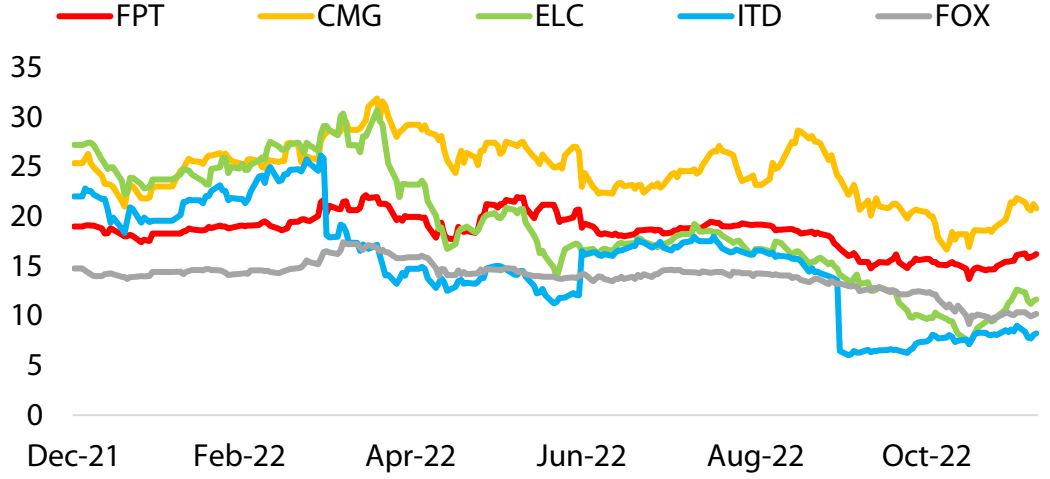
- FPT's and CMG's PE slightly derated by 15% and 18% to 16.2x and 20.8x. Though we favor both for long-term investment due to their strong earnings growth profile in the next couple of years. However, investors should wait for price weakness in CMG to accumulate the stock as it's still trading premium to the market leadership FPT.
- We think that ELC will offer some short-term opportunity given recent price weakness and robust demand for ITS adoption in 2023.

Figure 14: Technology's stock prices YTD performance (%)



Source: Bloomberg, Rong Viet Securities

Figure 15: Tech firms P/E valuation



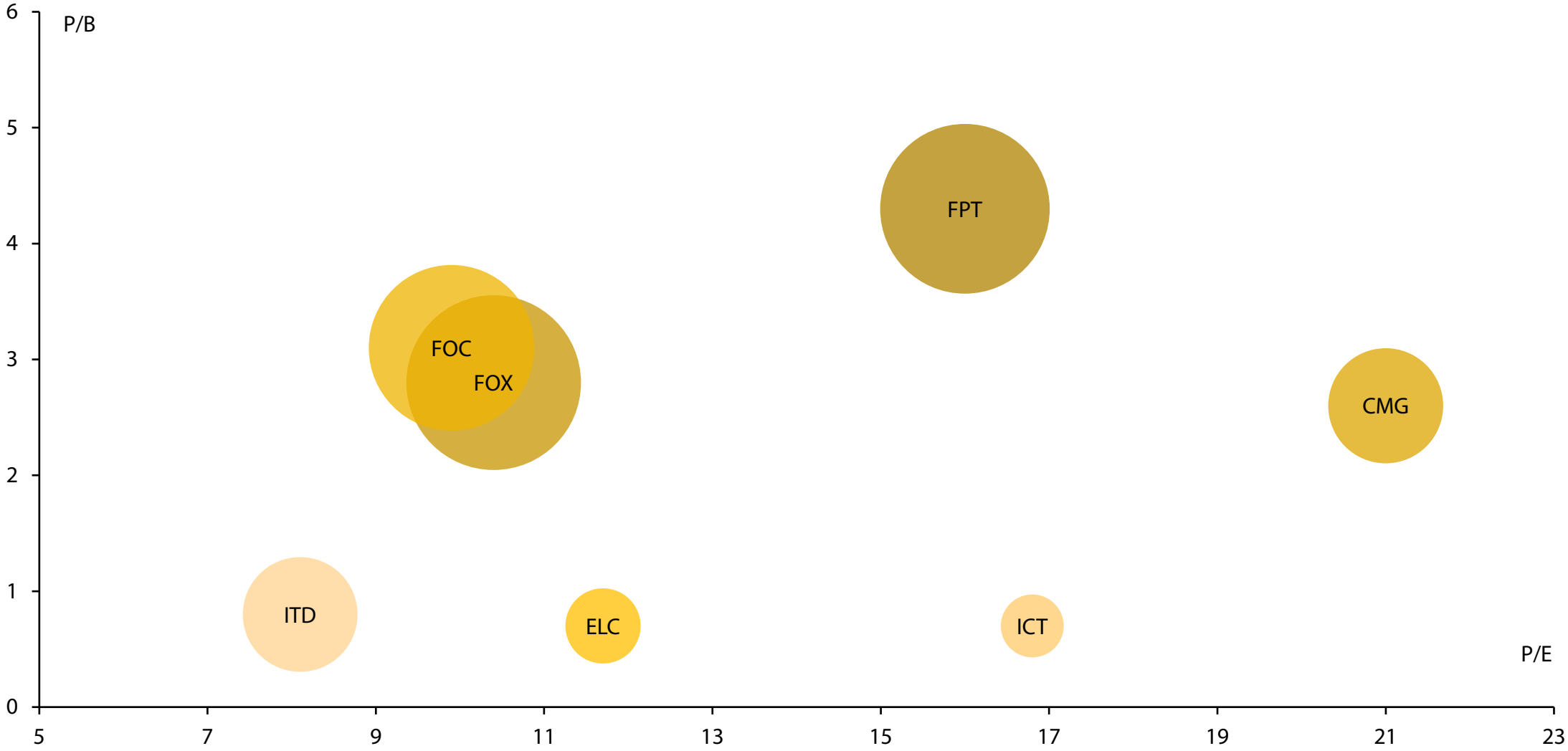
Source: Bloomberg, Rong Viet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
FPT	3,563	107,300	77,000	2,000	0.0	19.5	-29.7	77.2	0.2	287.9	-38.4	18.7	9.6	9.1	14.3	0.9	3.0
CMG	257	36,700	40,400	0	7.6	6.7	-6.3	11.2	0.3	-32.2	70.5	13.4	6.8	3.4	20.5	0.7	2.1
FOX	706	N.R	51,000	N.A	0.0	10.6	N.A	N.A	0.1	N.A	N.A	30.2	9.8	10.4	12.6	2.8	3.3
FOC	82	N.R	106,100	N.A	44.8	1.4	N.A	N.A	0.1	N.A	N.A	27.2	21.5	9.9	N.A	3.0	N.A
ELC	24	12,500	9,650	600	44.7	-17.8	1.6	2.1	0.5	23.1	15.0	30.8	5.6	6.1	21.9	1.7	0.8
ICT	19	N.R	13,800	N.A	99.5	32.3	N.A	N.A	-0.1	N.A	N.A	3.9	1.5	16.8	N.A	0.7	N.A
ITD	11	N.R	11,950	N.A	47.5	52.5	N.A	N.A	0.6	N.A	N.A	13.0	6.5	8.1	8.6	0.8	0.9

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB & ROE (TTM)

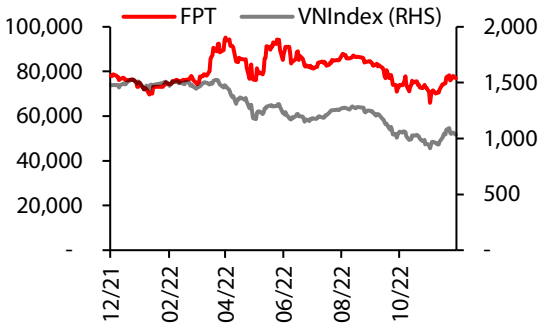


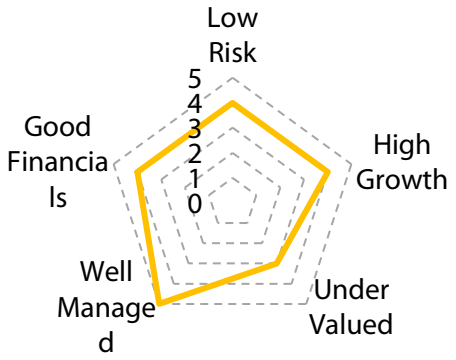
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of Dec 12th, 2022.

DECELERATED IT SPENDING TO WEIGH ON 2023 GROWTH

HSX: FPT

BUY: +38% **MP: 77,500** **TP: 107,300**





STOCK INFO

Sector	Technology
Market Cap ($ mn)	3,578
Current Shares O/S (mn shares)	1,097
3M Avg. Volume (K)	1,332
3M Avg. Trading Value (VND Bn)	97
Remaining foreign room (%)	0.0
52-week range ('000 VND)	61.3 – 99.1

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	35,657	42,657	50,697
NPAT-MI (VND bn)	4,337	5,745	6,527
ROA (%)	8.1%	8.4%	8.2%
ROE (%)	24.2%	24.2%	23.3%
EPS (VND)	4,779	5,217	5,927
Book Value (VND)	19,765	19,765	25,552
Cash dividend (VND)	2,000	2,000	2,000
P/E (x)	19.5	14.8	13.0
P/B (x)	3.9	3.9	3.0

INVESTMENT RATIONALES

Long-term prospects remain intact with projected net profit's 5Y CAGR staying at 19%, though FPT should see some deceleration in 2023F.

- **Global IT services**. We expect main markets (especially US and EU) to witness slower growth in 2023F as we envisage that high inflation in developed markets will defer businesses' IT spending, while Japan market revenue stream is likely to accelerate in 2023F on the back of recovered workload and stronger JPY. Overall revenue growth for 2022F/23F are 26%/23%. However, we believe that long-term outlook for this segment remains strong given that FPT's low-cost competitive advantage will be supportive for securing new contracts going forward and enterprises will inevitably push forward with digital business initiatives.
- **Domestic IT services.** Higher revenue growth can be recorded in 2023F, as we expect demand from banks to recover and the DX progress of government agencies is accelerated. PBT margin will continue to expand slightly due to a larger contribution of technology-related services. In the long-run, the DX story will deliver both revenue growth and profit margin expansion.
- **Telecom division.** Growth will depend mainly on Pay TV services (IPTV) and data center (DC) services, while broadband services will see steady high single-digit growth. While the number of users switching to IPTV along with growing package subscriptions (internet + IPTV) are the drivers for Pay TV services, decree 53/2022 guiding the cybersecurity law, that mandates users's data storage in Vietnam, will bolster demand for DCs services.

2023F P/E of 11.7x valuation looks cheap given 5Y PEF of 0.6, which could provide some protection for downside risks.

RISKS TO OUR CALL

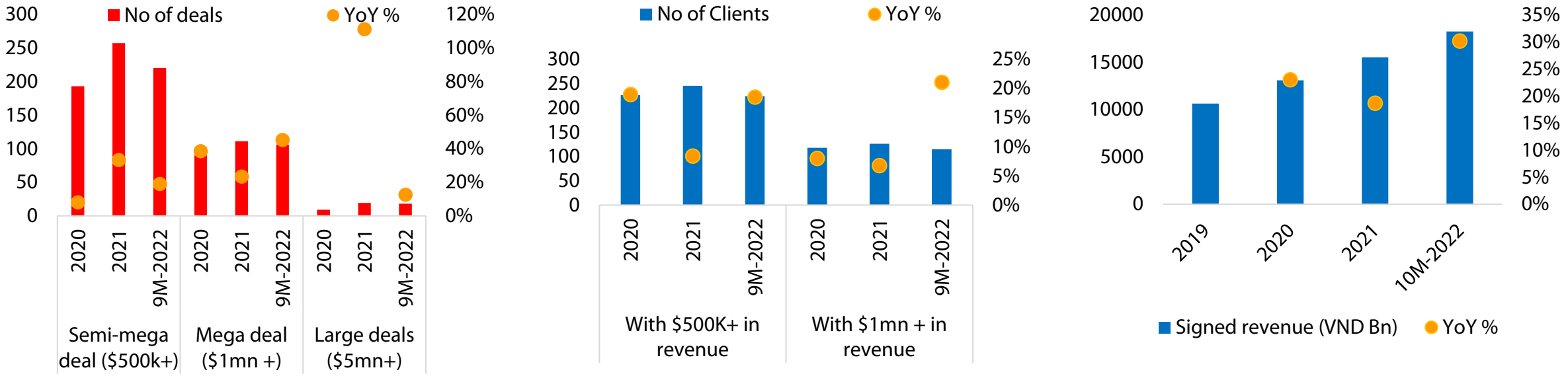
- Slower-than-expected global IT services spending and DX progress.

IT spending will slow down temporarily. Gartner has revised down its forecasts on IT services spending in 2022F/23F to 4.2% and 7.9% amid softer global economic growth. However, businesses tends to delay the investment, implying the resiliency of inevitable trend for IT services and, especially, DX solutions.

FPT Software still has many competitive edges of large and young developer resources, and cheaper rates than Indian and Chinese competitors to mitigate the negative effects of the macroeconomic downturn and even maintain solid growth in the coming years.

Medium term visibility still positive. Signed revenue (new order volume) of the Global IT Services segment up 30% YoY, reaching nearly USD800mn, and is on track toward its USD 1bn target (+58% YoY) by the end of 2022.

Figure 1: The number of large deals, clients with large revenue signed and the value of signed revenue still show a good momentum for 2023F



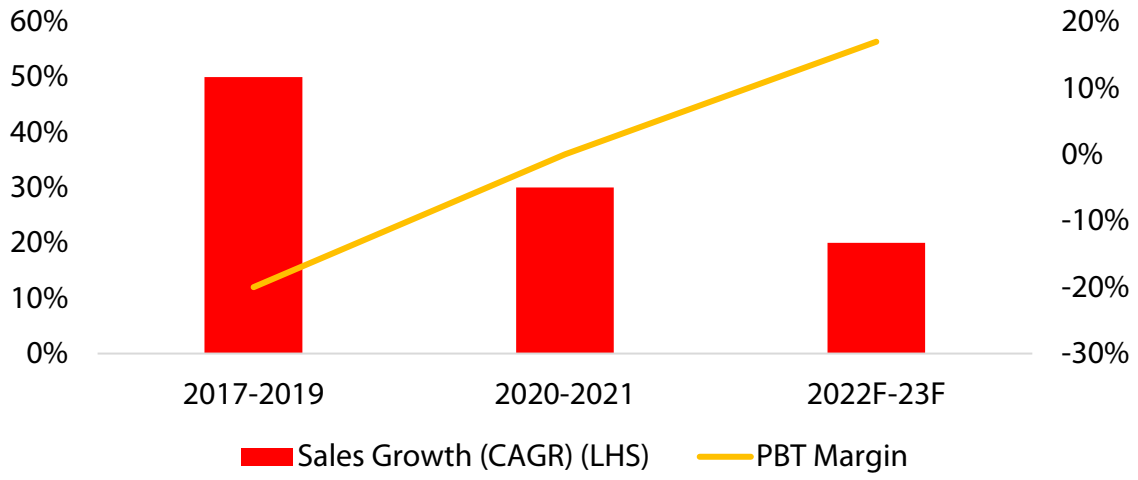
Source: FPT, Rong Viet Securities

Pay TV. 9M-2022 revenue grew by 20% YoY, picking up from last year's growth of 18% YoY, accounting for roughly 20% of Telecom segment's revenue. Its PBT margin improved significantly since breaking even in 2021, at 13%, and targets to reach 17% in 2023F. Growth drivers: (1) Further utilization of IPTV accounts (around 30% broadband subscriptions are non-IPTV subscribed) as households switching from cable TV to IPTV, (2) Organic growth of broadband subscription.

B2B telecom services. F-Tel has been ramping up its DC capacity in the last few years to address robust demand of the market, led by financial institutions, Cloud services users (SMEs and Cloud providers). As the demand for DC and Cloud services will surge going forward since Cyber security regulation mandates the storage of users' data generated in Vietnam must be stored locally, we expect the B2B telecom services to deliver sustainably high growth of over 20% p.a.

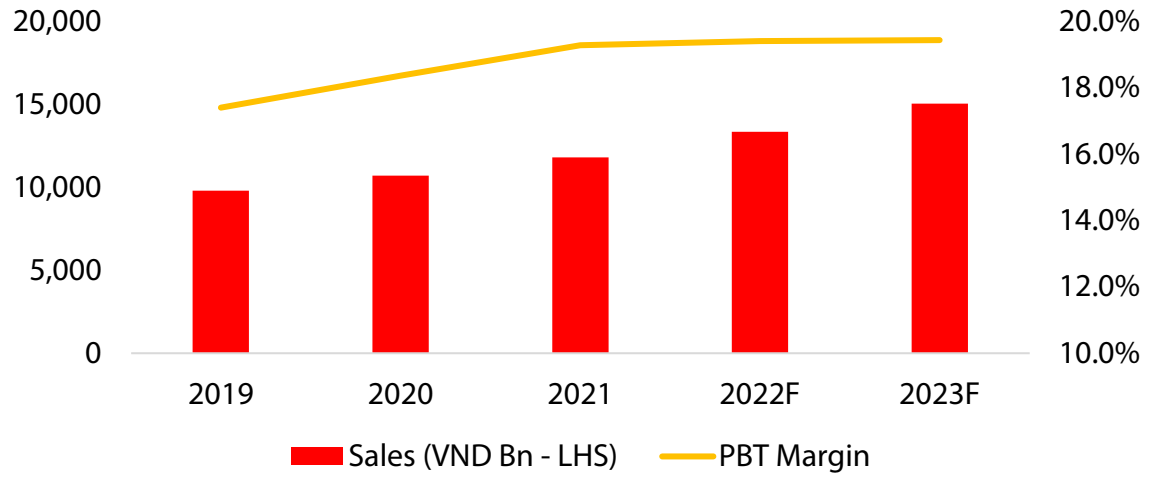
Broadband services will seek opportunities in office/condo buildings in tier-1 cities and tier-2 cities as Tier-1 cities are highly competitive and concentrated, which has limited subscription growth for a while. We expect broadband services to post decelerated single-digit growth in revenue and lower PBT margin in 2023F since the new markets that F-Tel is trying to penetrate are also highly competitive.

Figure 2: Pay TV performance is improving over the years



Source: FPT, Rong Viet Securities

Figure 3: Telecom segment forecasts



Source: FPT, Rong Viet Securities

Table 1: Business Forecasts

Unit: VND Bn	10M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**35,105**	**24%**	**42,657**	**20%**	**50,697**	**19%**
1. Technology	20,047	24%	25,171	21%	30,392	21%
Global IT services	15,249	30%	18,355	26%	22,554	23%
Domestic IT services	4,798	7%	6,816	10%	7,838	15%
2. Telecom	12,064	17%	14,134	14%	15,946	13%
3. Education and others	2,994	80%	3,353	50%	4,358	30%
PBT	**6,456**	**24%**	**7,968**	**26%**	**9,046**	**14%**
1. Technology	2,970	26%	3,540	26%	4,236	20%
Global IT services	2,525	28%	3,029	25%	3,609	19%
Domestic IT services	445	16%	511	36%	627	23%
2. Telecom	2,353	18%	2,742	15%	3,099	13%
3. Education and others	1,133	32%	1,173	3%	1,432	22%
NPAT-MI	**4,550**	**31%**	**5,783**	33%	**6,612**	14%
EPS (VND)	*4,158*	*30%*	5,251	33%	6,005	14%

Table 2: PBT margins

Division/segment	10M-FY22	YoY	FY22F	YoY	FY23F	YoY
1. Technology	14.8%	+18bps	14.1%	56 bps	13.9%	-13 bps
Global IT services	16.6%	-30bps	16.5%	-16 bps	16.0%	-50 bps
Domestic IT services	9.3%	+70bps	7.5%	142 bps	8.0%	50 bps
2. Telecom	19.5%	+77bps	19.4%	12 bps	19.4%	3 bps
Total PBT margin	**18.4%**	**-6bps**	**17.5%**	**-30 bps**	**17.3%**	**-19 bps**

Source: FPT, Rong Viet Securities

10M-2022 Business results

- Technology division continued its vital role in maintaining high growth for the Group, led by delivery in US (+46% YoY) and APAC (+47% YoY) markets and picking up revenue from Japan on the back of ramping up IT spending and stronger JPY.
- Telecom division saw strong performance of Pay TV and B2B services while broadband revenue only witnesses single-digit growth of 9% due to saturation in tier-1 cities.

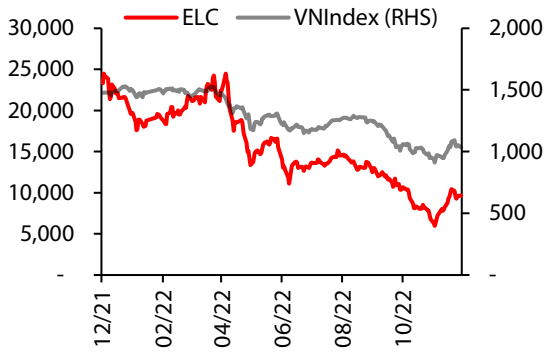
2022E/23F Key expectations:

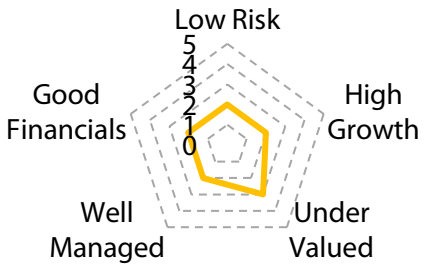
- For Global IT services, we expect revenue growth from Japan to be pick up in 2023F (+25% YoY), from 13% YoY in 2022F, due to recovered workload and stronger JPY, while remaining markets are expected to see deceleration, leading to overall revenue growth for 2022F/23F are 26%/23%. PBT margin is likely marginally reduce due to rising labor costs.
- We believe that Telecom division's growth in 2022F/23F will rely largely on Pay TV and B2B services, since FPT Telecom is seeking new markets for fixed broadband services. Expanding profit margin of former two services will balance broadband's reduced margins.

INTELLIGENT TRANSPORT SEGMENT TO DRIVE GROWTH IN 2023F

HSX: ELC

ACCUMULATE: +18% **MP: 9,650** **TP: 11,400**





STOCK INFO

Sector	Tech
Market Cap ($ mn)	24
Current Shares O/S (mn shares)	59
3M Avg. Volume (K)	247
3M Avg. Trading Value (VND Bn)	2
Remaining foreign room (%)	45.2
52-week range ('000 VND)	5.6 – 25.5

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	659	799	1,107
NPAT-MI (VND bn)	48	41	52
ROA (%)	4.2%	3.6%	4.0%
ROE (%)	5.6%	4.7%	5.9%
EPS (VND)	946	670	854
Book Value (VND)	16,828	14,828	15,116
Cash dividend (VND)	600	600	0
P/E (x)	27.3	14.3	11.2
P/B (x)	1.5	0.6	0.6

INVESTMENT RATIONALES

We expect that ITS investment for upcoming expressways under North-South expressways project and digital adoption in big cities' transport system will be strong, thereby bolstering ELC's ITS segment and overall business earnings growth in 2023F.

- By 2025, the North-South expressway projects will be basically completed with more than 20 expressway projects put into use, leading to a huge demand for ITS given the inevitable trend of adopting technology in transport industry. We estimate that the investment rate for the ITS (AI CCTV camera, operation center) and ETC systems stays at VND 6-8 billion per km. Hence, the total investment scale is about VND 4,500 bn for phase 1 and over VND 5,000 bn for phase 2.
- The deployment, maintenance and upgrading demand of ITS for cities is also expected to increase going forward on the back of digital transformation trend in transport industry.
- Over 2023F-26F, we expect the ELC's ITS segment to generate an average of VND600 billion in revenue, supported by the ITS investment demand for expressways (including ETC) and cities, contributing nearly 60% to ELC's revenue structure.

Telecom and National defense segments are unlikely to post surprising growth due to nature of services provided in these sectors, which are mainly maintenance and upgrades.

RISKS TO OUR CALL

- Slower-than-expected progress of North-South expressways completion or ELC fails to secure meaningful ITS bidding package of these expressways.
- Investments in other entities (as ELC plans to develop Real estate segment), if implemented, will lower operating efficiency of the corporation as evidenced in dozen of past investments.

EXPRESSWAYS' ITS DEMAND WILL SURGE IN THE UPCOMING YEARS

By 2025, the North-South expressway projects will be basically completed with more than 20 expressway projects put into use, leading to a huge demand for ITS given the inevitable trend of adopting technology in transport industry.

- 2023 will be the peak year for the completion of many components in phase 1 of the project, with 5/10 expressways put into operation. In addition, 12 bidding packages in 12 component projects of the phase 2 will be started in December 2022. With the investment preparation progress significantly shortened compared to phase 1 (3 years), the component projects of phase 2 are expected to be completed in 2025-2026.
- We estimate that the investment rate for the ITS (AI CCTV camera, operation center) and ETC systems stays at 6-8 billion VND per km. Hence, the total investment scale is about VND 4,500 bn for phase 1 and over VND 5,000 bn for phase 2.

Government is determined to integrate the ITS into Vietnam transport infrastructure system with the Decision No. 877/QD-TTg, which sets a target that, by 2025, 100% of expressways and major cities under central authority will install intelligent transport management and administration systems.

Figure 1: Many expressways will be completed by 2023

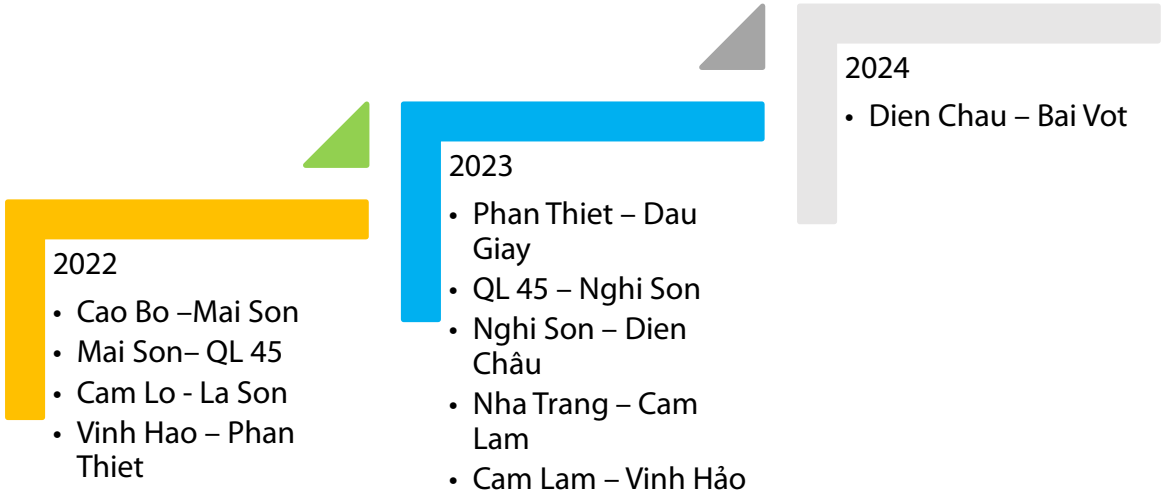
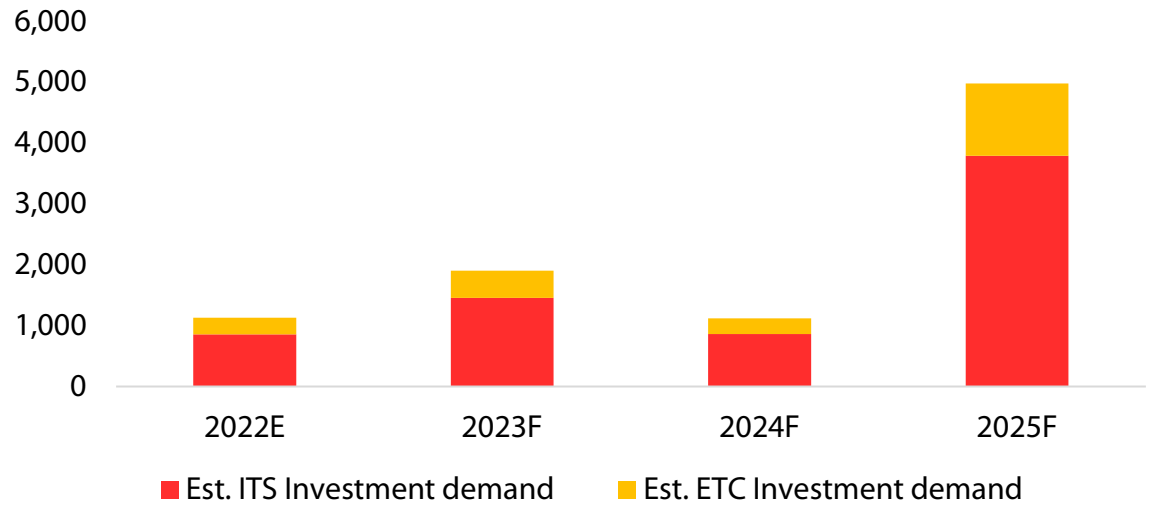


Figure 2: We estimate that ITS market is worth of nearly VND10 trillion

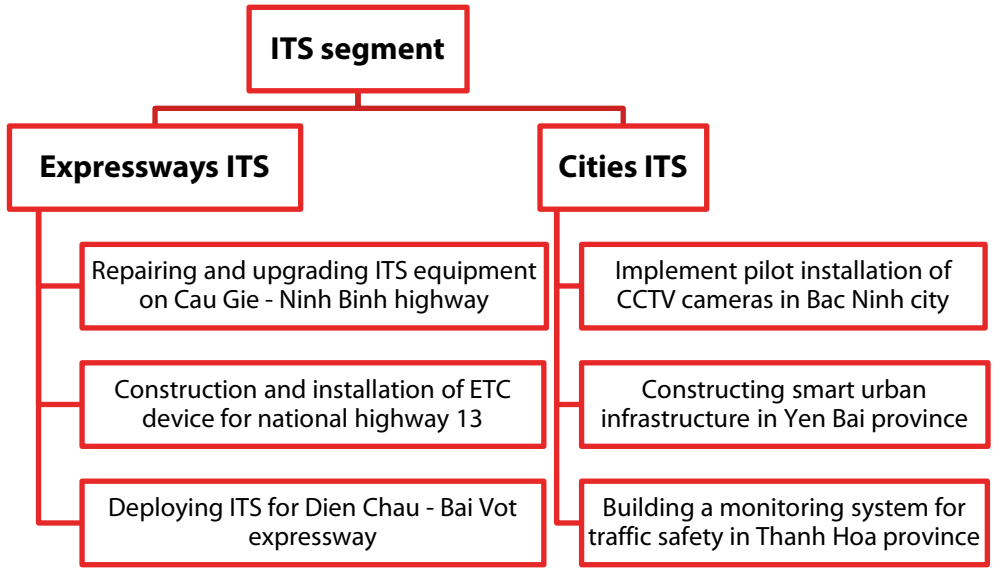


Source: Rong Viet Securities

Over 2023F-26F, we expect the ELC's ITS segment to generate an average of VND600 billion in revenue, supported by the ITS investment demand for expressways (including ETC) and cities, contributing nearly 60% to ELC's revenue structure.

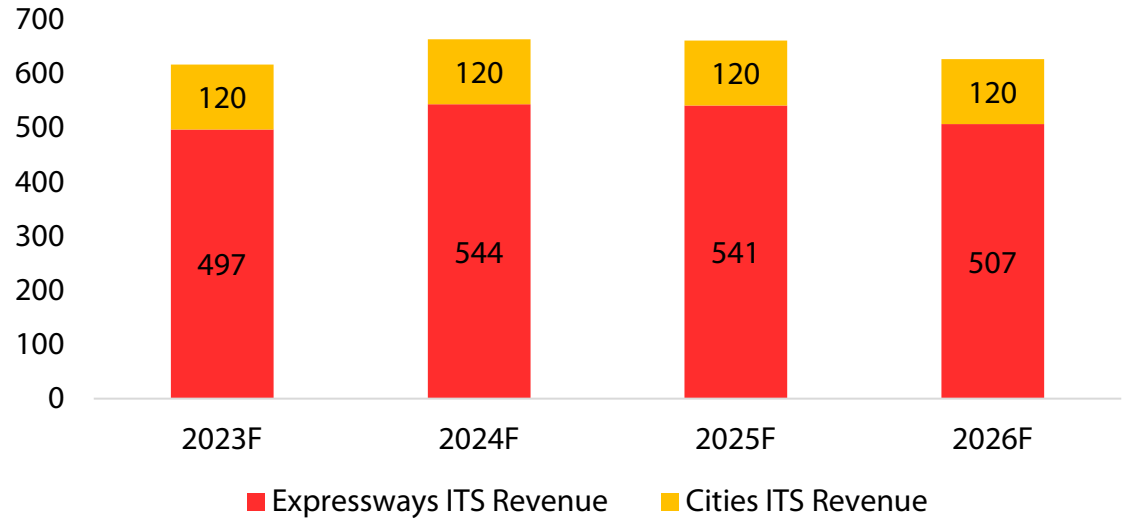
- For the expressway services group, we assume that ELC can win the implementation and installation of ITS equipment packages for two expressways per year, resulting in an average of VND500 bn per annum. In Q3-2022, ELC successfully signed a contract to deploy the ITS for the Dien Chau - Bai Vot segment with a length of 50km and a total value of over VND200 billion.
- In addition, the deployment, maintenance and upgrading demand of ITS for cities is also expected to increase going forward and contribute about VND 100 bn per year to ELC. Historically, ELC has won and implemented ITS projects for Thanh Hoa, Bac Ninh, and Yen Bai provinces.

Figure 3: ITS bids/projects that ELC has won/implemented



Source: ELC, Rong Viet Securities

Figure 4: Stable ITS revenue secured by expressways pipeline



Source: ELC, Rong Viet Securities

Table 1: Business Forecasts

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**376**	**23%**	**799**	**21%**	**1107**	**39%**
1. Telecom	105	40%	261	52%	247	-5%
2. ITS	150	73%	308	61%	617	100%
3. National defense	45	-45%	131	-40%	144	10%
4. Other	75	65%	99	25%	99	0%
Gross profit	64	33%	145	13%	198	36%
Selling expenses	-18	41%	-35	-12%	-57	61%
Administration expenses	-17	37%	-56	3%	-76	35%
PBT	28	11%	56	-5%	67	19%
NPAT-MI	**19**	**-26%**	**41**	**-30%**	**52**	**26%**
EPS (VND)	*836*	*-26%*	*710*	*-30%*	*926*	*+26%*

Table 2: Projected profit margins

Profit margins	9M-FY22	YoY	FY22F	YoY	FY23F	YoY
GPM	17.8%	123 bps	18.2%	-139 bps	18.0%	-24 bps
EBIT margin	6.8%	1 bps	6.8%	151 bps	5.9%	-87 bps
PBT margin	7.0%	-80 bps	7.0%	-190 bps	6.1%	-94 bps
NPM	4.8%	-318 bps	5.2%	-373 bps	4.7%	-43 bps

Source: ELC, Rong Viet Securities

9M-2022 Business results.

- ELC recorded 9M-2022 revenue of VND 626 billion (+23% YoY), mainly led by Intelligent Transport System (ITS) segment (+73% YoY) and Telecom segment (+29% YoY).
- Due to the robust growth of ITS and Telecom segments and the low base in Q3-2021, 9M-2022 gross margin improved by 120 bps YoY to 17.8%.
- However, 9M-2022 NPAT-MI declined by 26% YoY due to the surge in selling and administration expenses +39% YoY and higher minority interest expenses compared to the same period last year.

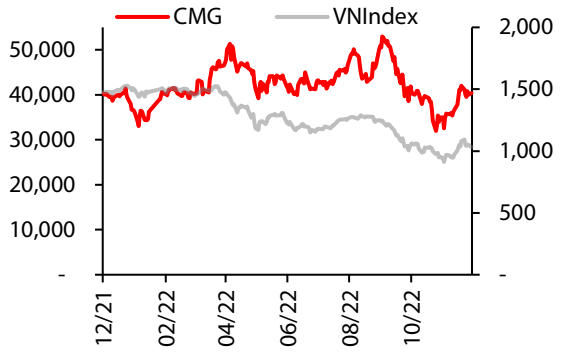
2022F-23F Key expectations:

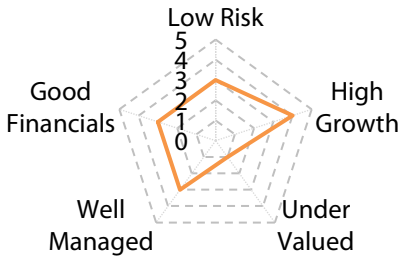
- We expect that ITS segment will be leading ELC revenue with a growth rate of 61% and 100% in 2022F-23F, driven by expressways ITS integration demand as mentioned. From 2023F to 2026F, this segment will generate a stable revenue stream along with Telecom and National defense segments.
- Profit margins will stay nearly the same due to the ELC's unchanged business model.
- As we believe the contribution of ITS will surge in 2023F and then stabilizing, projected 5Y CAGR over 2022F-26F stays at 7%.

INTERESTING GROWTH AHEAD BUT MAY NOT JUSTIFY VALUATION

HSX: CMG

REDUCE: -10% **MP: 40,400** **TP: 36,500**





STOCK INFO

Sector	Technology
Market Cap ($ mn)	258
Current Shares O/S (mn shares)	151
3M Avg. Volume (K)	114
3M Avg. Trading Value (VND Bn)	5
Remaining foreign room (%)	7.8
52-week range ('000 VND)	30.3 – 54.8

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	6,290	7,195	8,324
NPAT-MI (VND bn)	240	274	373
ROA (%)	3.8%	4.4%	4.7%
ROE (%)	11.1%	12.7%	11.9%
EPS (VND)	1,600	1,550	2,107
Book Value (VND)	19,862	19,862	20,823
Cash dividend (VND)	0	0	0
P/E (x)	20.6	19.1	14.4
P/B (x)	1.9	1.8	1.7

INVESTMENT RATIONALES

We are projecting a 5Y CAGR of net profit at 30%, mainly driven by increasing competitive position with ramped up digital infrastructure and IT outsourcing services.

- **Telecom division – key profit contributor to CMG - is poised to ride on the booming Cloud services market.** CMG owns an extenisve telecommunications infrastructure, which consists of its own domestic backbone fiber cable system connected with international undersea cable network, and three Tier-3 DCs. New State-of-the-art DC in Tan Thuan, HCMC will largely enhance CMC Telecom capacity (up to 1,800 racks), capitalizing rapid development of Cloud services in Vietnam.
- **We expect the Global business division to sustain growth above 20% p.a over the next few years, driven by key recently penetrated markets.** This division started to contribute a significant portion to the Group's PBT (24% in FY21 from only 4% in FY20) and will further increase its impact on CMG's profit outlook as it's accelerating on the back of increasing workload from new markets.
- **We believe that CMG is well positioned to realize the growth potential of Vietnam and Global's IT services industry.** CMG is the second largest private Tech enterprise in Vietnam, with main businesses (System Integration, B2B Telecom services and Software outsourcing) ranking in the leading positions. Together with healthy digital adoption trend, CMC has been enhancing its core competence, by investment in core technology R&D, human resources, etc., to achieve revenue goal of nearly 1 billion USD by 2025,.

Current relative overvaluation (CMG's FY23F P/E of 14.4x vs FPT's of 11.7x) is unlikely to leave a meaningful upside for CMG. Buy on price weakness is strongly recommended.

RISKS TO OUR CALL

- Slower-than-expected IT spending from foreign clients and services transforming progress (moving to higher services in IT value chain) of Technology & Solution division.

Per Vietnam Report, **CMG ranks 6th in the list of 10 most prestigious Vietnamese Information Technology - Telecommunications Companies in 2021 and is the second largest private enterprise in this list**.

Given the current position of key business segments, we believe that CMG owns a certain position in Vietnam's IT industry that can be leveraged to realize the growth potential of the industry going forward.

Figure 1: CMG's three main business pillars rank in the top positions of respective field in Vietnam IT industry

Tech & Solution

- CMC T&S ranked second in Vietnam Report's Top 10 Prestigious Service Providers, Software Solutions & System Integration Technology Companies in 2021.
- **CMC T&S accounts for about 22% of the market share of the domestic IT services market, worth VND15 trillion per IDC.**

Telecom

- **CMG is one of the four largest enterprises providing comprehensive telecom solutions for businesses in Vietnam** including Internet services, DC, and managing Cloud services (MSP) for major global Cloud providers.

Global Business

- **CMC is in the top 5 Vietnamese enterprises exporting ITO services & SI solutions.**
- The main international markets of CMC Global include Korea, Japan, and APAC.

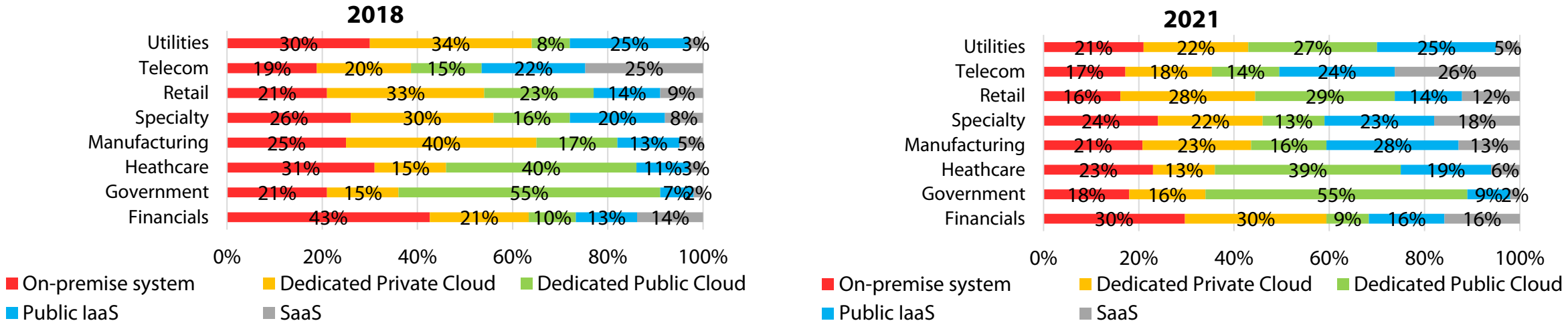
Source: CMG, Rong Viet Securities

In August 2022, CMG officially put the 1200-rack-DC in Tan Thuan, HCMC, into operation, raising total rack capacity to 1,800. This DC infrastructure will help CMC Telecom improve its position and capacity in providing Cloud services, taking advantage of the rapid development of this market, which is expected to post a 5Y CAGR of 19%, per TechSci Research.

In fact, McKinsey's survey indicates that the trend of "cloud" adoption has rapidly developed in recent years, which is clearly seen in banking, financial, and insurance sectors in Vietnam.

CMG will focus on promoting the Cloud services going forward, aiming to contribute up to 50% of total Telecom division revenue.

Figure 2: Cloud services are replacing on-premise systems



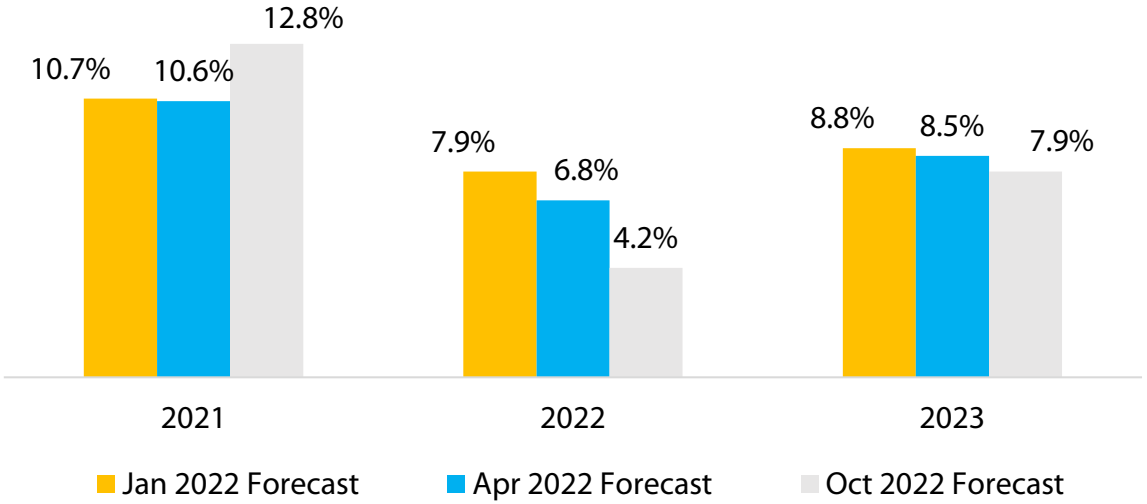
Source: McKinsey Rong Viet Securities

IT spending will slow down temporarily. Gartner has revised down its forecasts on IT Spending in 2022 amid escalating inflation globally. However, businesses, instead of cutting spending on IT services, tends to delay the investment. This implies the resiliency of demand for IT services and DX.

As CMC Global has recently promoted the ITO services in key markets like Japan and Korea, we believe there is still a lot of upside potential in the next few years.

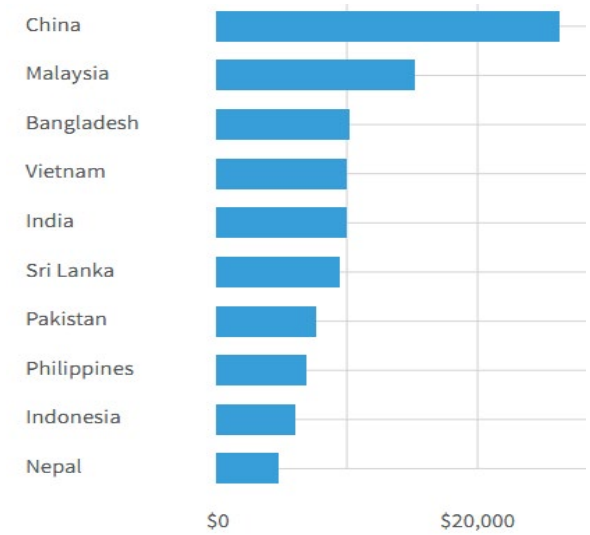
Vietnamese IT companies still have many competitive advantages (young developers, and cheap rates) to mitigate the negative effects of the macroeconomic downturn and even maintain growth.

Figure 3: Global IT spending growth forecasts are continuously revised downward



Source: Gartner, Rong Viet Securities

Figure 4: Vietnam's programmer/developer cost is still a crucial advantage of Vietnamese IT companies



Source: Stackoverflow, Rong Viet Securities

Table 1: Business Forecasts

Unit: VND Bn	1H-FY22*	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**3,545**	**32%**	**7.196**	**14%**	**8.325**	**16%**
T&S	1,747	38%	3.422	2%	3.717	9%
Global Business	635	83%	1.199	50%	1.619	35%
Telecom	1,325	22%	2.904	23%	3.430	18%
PBT	**223**	**27%**	**419**	**14%**	**573**	**37%**
T&S	11	34%	51	2%	56	9%
Global Business	83	89%	144	39%	210	46%
Telecom	141	3%	298	4%	408	37%
NPAT-MI	**171**	**56%**	**274**	**14%**	**373**	**36%**
EPS	**2,017**	56%	**1.550**	**-30%**	**2.107**	**36%**

*Source: CMG, Rong Viet Securities, * CMG Fiscal year ended Mar 31st*

For fiscal year 2022F/23F, **we estimate that revenue will reach VND 7,195 billion (or USD 300 mn, +14.4 % YoY)/ VND 8,324 billion (or USD 346 mn, +15.7% YoY).**

- The main growth driver will come from Global business segment, as we expect CMC Global to win more contracts with increasing value, supported by (1) CMC's business centers Japan and Singapore, and (2) rapidly growing IT developers resources.
- We expect high demand for DC and Cloud services to mainly drive Telecom sector's revenue.

NPAT-MI for 2022F/23F is estimated at VND 274 billion (or USD 11.4mn, +14.3% YoY)/ VND 373 billion (or USD 15.5mn, 36% YoY).

- Expanding profit margin. Higher utilization rate of the new DC and growing ITO orders will improve economies of scale of Telecom and Global Business divisions.

POWER

STABLE CASH FLOW

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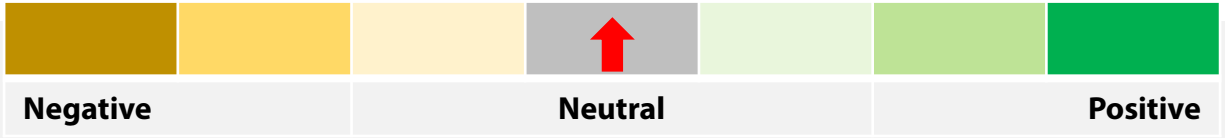
POWER INDUSTRY 2023 – STABLE CASH FLOW

Rating



Overview

We believe that growth in electricity consumption might slow in 2023. However, growth opportunities will shift among power groups. We think that the thermal power will strengthen its position in the coming year, and that the benefits of thermal power plants will be differentiated as well. Renewable energy (wind power, solar power) is being developed in the national power grid over the long term. We expect that the new pricing policy will encourage the development of renewable energy sectors.

Highlights

Electricity consumption growth is expected to slow in 2023

- We expect 4.5-5.0% growth in electricity consumption in 2023. Electricity consumption growth is expected to be lower than our GDP growth base scenario next year, at 5.6%, as the outlook for domestic industrial production slows due to the effects of the real estate's downward cycle and exports activities.

But between the power groups, there will be growth rotation/tipping point

- According to the NOAA forecast, La Nina will weaken in Q1/2023 and become neutral by mid-2023. We believe that thermal power plants will be able to reclaim their competitive advantage after a series of setbacks. However, the benefits of thermal power plants in 2023 will vary depending on region and power plant competitive advantages (efficiency, input material costs).

The average CGM prices in 2023 may stay at the same level of 2022 when the input price of thermal power (thermal coal, gas) remains high

- Due to the high price of thermal power group input materials, the average CGM prices (FMP) in 10M/2022 increased sharply, averaging VND 1,481/kWh (+51% YoY). With an increase in the mobilization scenario for the thermal power sector, we anticipate that the average CGM price in 2023 will be flat (or slightly lower) than the average level in 2022 when input material prices for thermal group electricity decreased slightly/remained markedly lower.
- The new price policy is expected to promote the development of the renewable energy group (wind power, solar power).
- The price bracket for transitional renewable energy projects is 15%-40% lower than before, according to the most recent draft submitted by EVN to the Ministry of Industry and Trade. We believe that price competition and investment costs put pressure on businesses while also differentiating their efficiency and capacity.

Risks

Aside from policy, there are some risks associated with our recommendation for power stocks

- Unexpected hydrological conditions will increase the stock's upside and downside risks.
- Risks of input materials (gas, thermal coal) deviate from our expectations.

POWER CONSUMPTION GROWTH MIGHT SLOW IN 2023

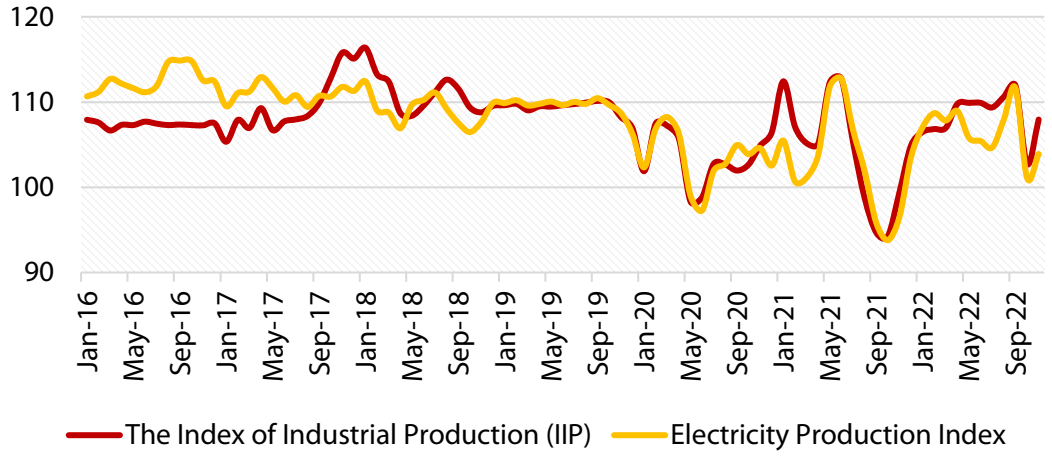
Electricity consumption growth in 10M/2022 reached 6.3% YoY, lower than the target plan for power supply and operation of the power system in 2022.

- Electricity consumption reached 225.98 bn kWh in 10M/2022, inched up 6.3% YoY compared to the 2021 low base, lower than the plan due to (1) electricity-intensive industries gradually shrinking production due to reduced demand, (2) the average temperature is lower than 2021 and the heat wave appears later, less intense and does not last long.

Domestic electricity consumption growth is forecasted to decelerate in 2023

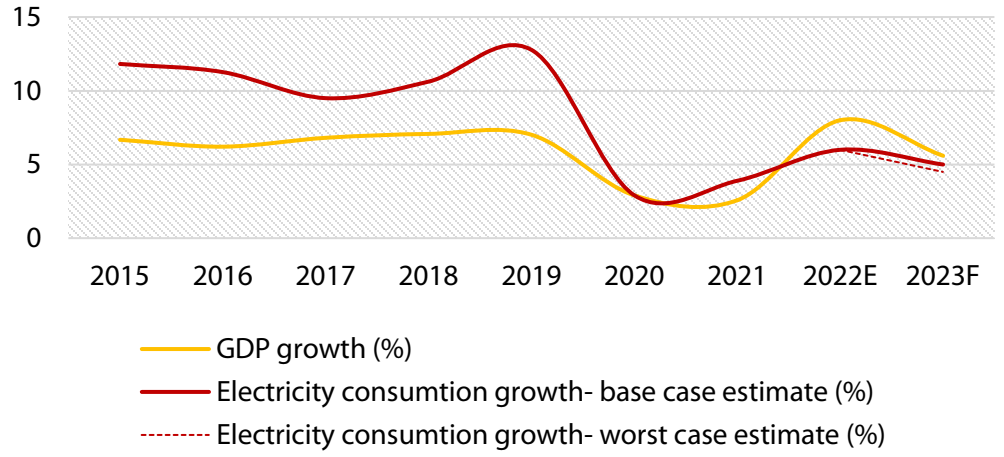
- We expect 4.5-5.0% growth in electricity consumption in 2023. Electricity consumption growth is expected to be lower than our GDP growth base scenario next year, at 5.6%, as the outlook for domestic industrial production slows due to the effects of the real estate's downward cycle and exports activities.

Figure 1: Domestic electricity consumption in 11M/2022 grew slowly compared to the 11M/2021 low base



Source: EVN, Rong Viet Securities

Figure 2: Domestic electricity consumption growth is forecasted to decelerate in 2023 and below GDP growth in 2023

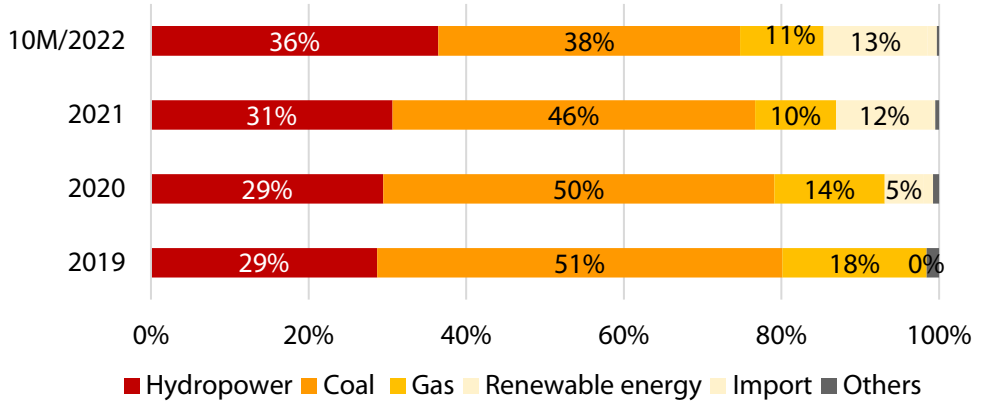


Source: EVN, Rong Viet Securities

Hydropower is expected to cede the mobilization room to the thermal power group

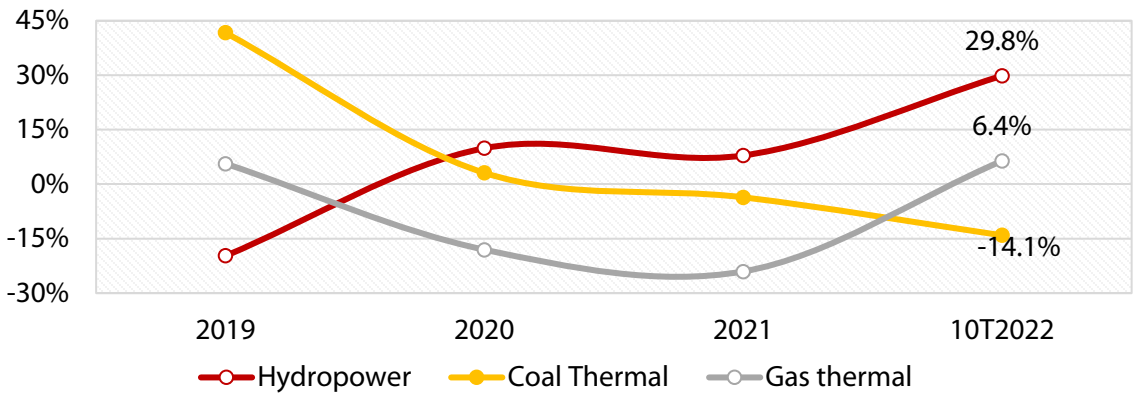
- The hydropower group has recorded strong growth and contributed a high percentage to the national power grid from 2H2020 to the present. Meanwhile, coal-fired and gas-fired thermal power sector recorded a sharp decline in mobilization when coal prices increased sharply, and gas prices remained at a high level. Renewable energy increased its contribution to the power system and reached double digits when adding capacity from wind power.
- However, the probability of ENSO remaining in La Nina state is expected to weaken in Q1/2023 and transition to neutral from mid-2023 according to NOAA forecast. Therefore, thermal power plants are expected to be mobilized at a higher rate when the hydroelectric group is out of a favorable phase.

Figure 3: Structure of electricity production by fuel type



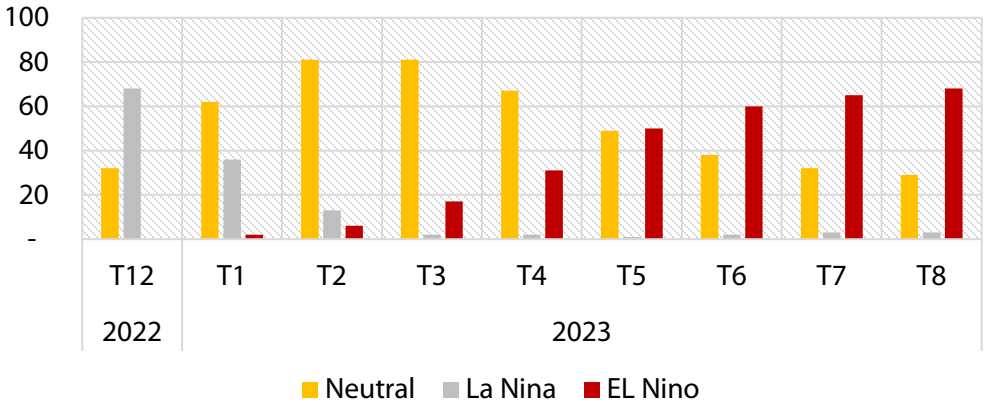
Source: EVN, Rong Viet Securities

Figure 4: Growth output of power groups (YoY)



Source: EVN, Rong Viet Securities

Figure 5: ENSO Probability Forecast

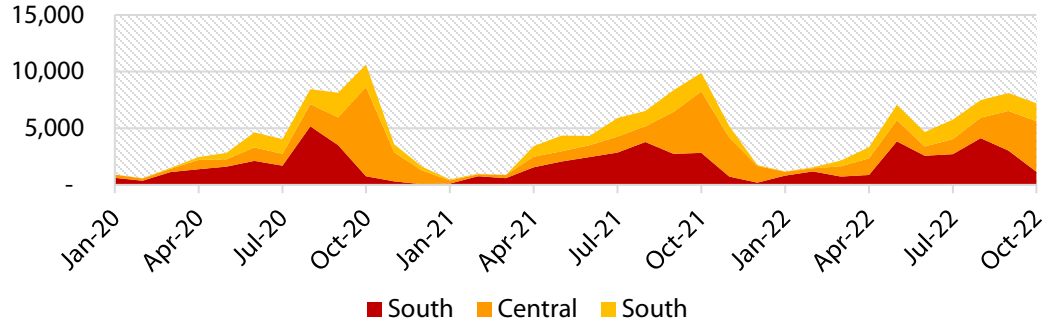


Source: NOAA, Rong Viet Securities

2023 expectation will be difficult for the hydropower group to maintain a positive output like 2022.

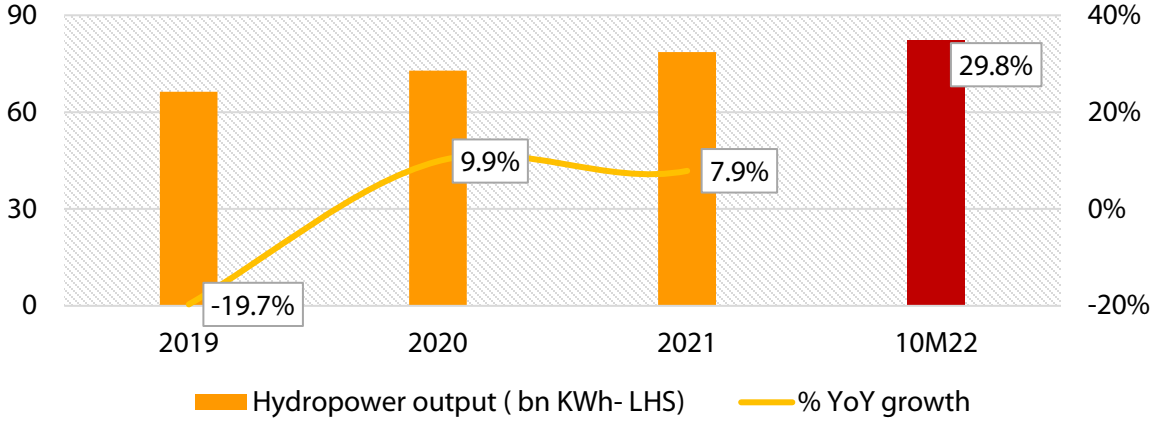
- The hydropower group has been mobilized with high output for 2 consecutive years. In 10M/2022, hydropower plants have been mobilized with an increase of 30% YoY thanks to the competitive advantage of low prices while the thermal power group loses its competitive advantage when coal/gas prices increase sharply/anchor at a high level.
- Hydropower enterprises, especially large hydropower plants including VSH, CHP, TMP, SHP all benefited and recorded impressive business results in 9M/2022.

Figure 6: Rainfall in 10M/2022 has decreased gradually YoY, although still at a high level thanks to 3 consecutive years of La Nina



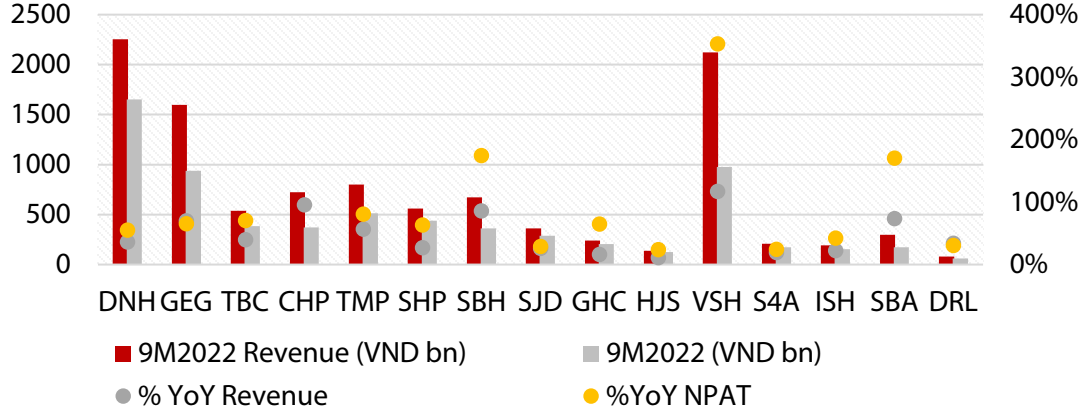
Source: Rong Viet Securities, we combined the rainfall at some typical stations

Figure 7: Hydropower production grows thanks to a prolonged favorable hydrological cycle



Source: EVN, Rong Viet Securities

Figure 8: Hydropower production grows thanks to a prolonged favorable hydrological cycle

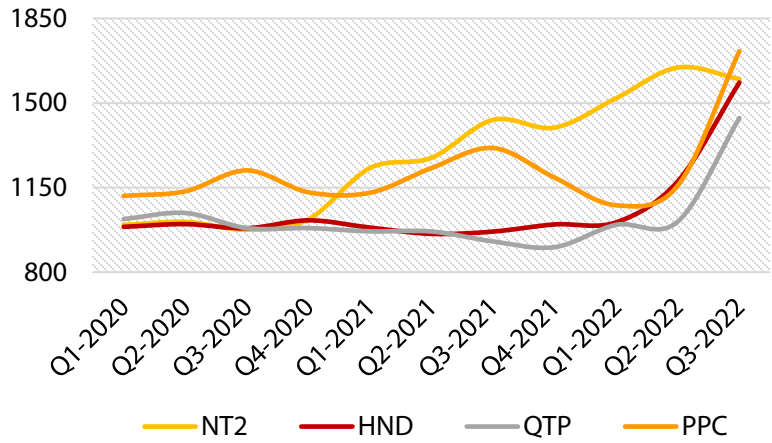


Source: Fiinpro, Rong Viet Securities

Thermal power group is expected to increase mobilized output when La Nina phase ends

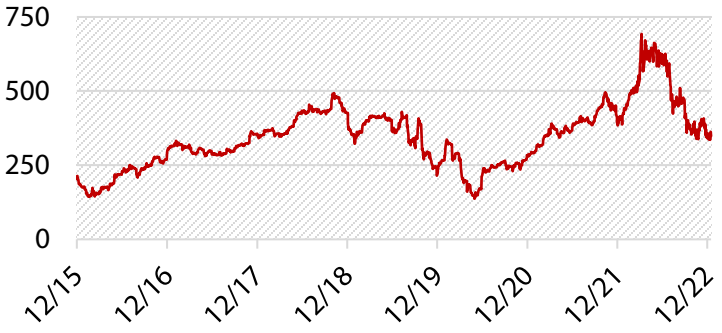
- The hydropower group is expected to give room to mobilize for the thermal power group when the La Nina phase ends after Q1/2023.
- Q3/2022 recorded narrowing gap of raw material cost of the coal and gas power groups (Figure 9) when the price of imported thermal coal has gained momentum from 2021 and increased more strongly in 2022 when a series of adverse events for coal prices occurred. However, according to Fitch Solution forecasts, Newcastle thermal coal prices will decrease significantly (from $350/ton in 2022 to $220/ton in 2023) as overall demand gradually stabilizes, supply from Australia normalizes and demand from Europe – the key consumer market is gradually decreasing
- In case thermal coal prices may remain high, northern thermal power plants using mixed coal (HND, QTP, PPC) will record positive mobilization with competitive advantages over new thermal power plants using 100% of imported coal sources.

Figure 9: Material cost in kWh (VND)



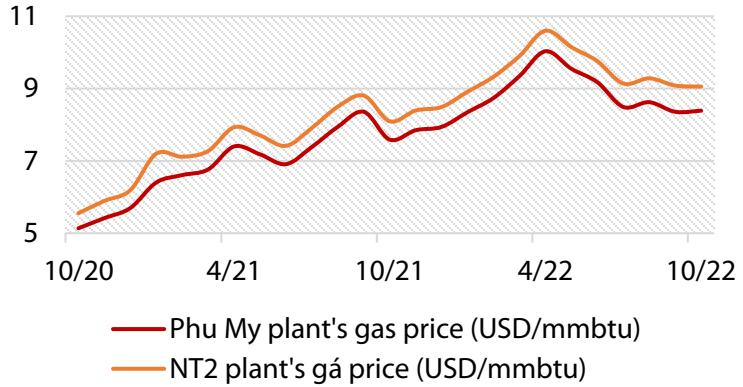
Source: Company data, RongViet Securities

Figure 10: Singapore FO 380 cst oil price has cooled down after a strong increase (USD/ton)



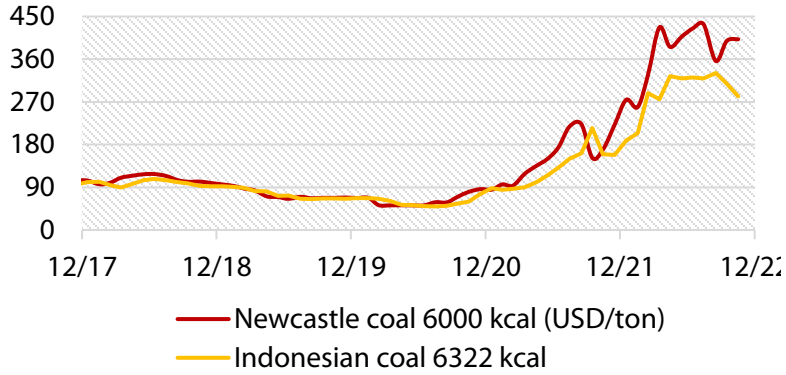
Source: Bloomberg, Rong Viet Securities

Figure 11: Domestic gas prices have dropped but remain at a high level



Source: GENCO 3, NT2, Rong Viet Securities

Figure 12: Indo and Australian coal prices remain high after some negative events

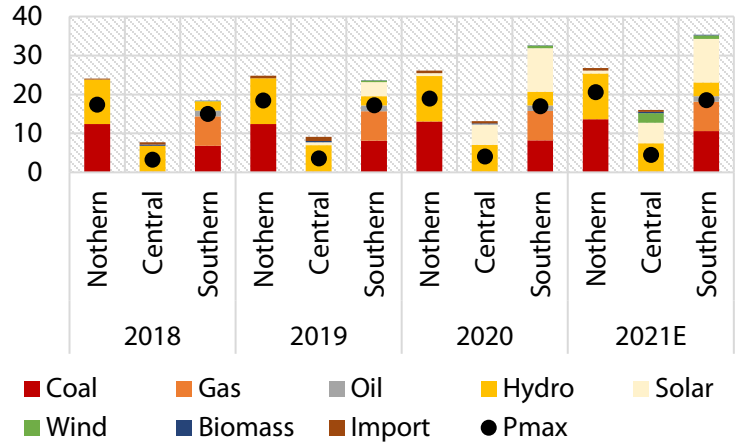


Source: Bloomberg, Rong Viet Securities

Coal power remains its role in 2023, the competitive advantage is from thermal power group using mixed coal (combining imported and domestic coal)

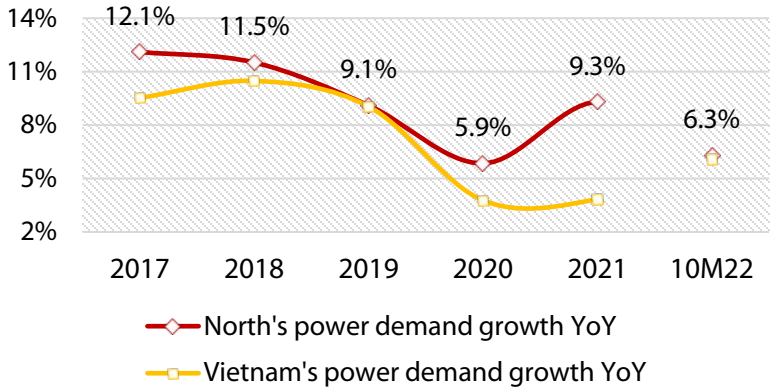
- Electricity demand in the North has a higher growth rate than the average, but always faces the shortage risk. Electricity output in the North comes from two main power groups: hydro power and thermal power. However, the coal power group has been negatively affected in the last 2 years. In 10M2022, the volume of this power group experienced a significant decrease (-14.1% YoY).
- We expect that coal-fired plants will have a higher mobilization rate to catch up with demand by 2023, in order to avoid power shortage in the North in the summer. Then the thermal power plants, using mixed coal, such as HND, PPC, QTP will have a clear competitive advantage next year compared to new coal power ones using 100% imported coal.

Figure 13: Capacity and Pmax (GW)



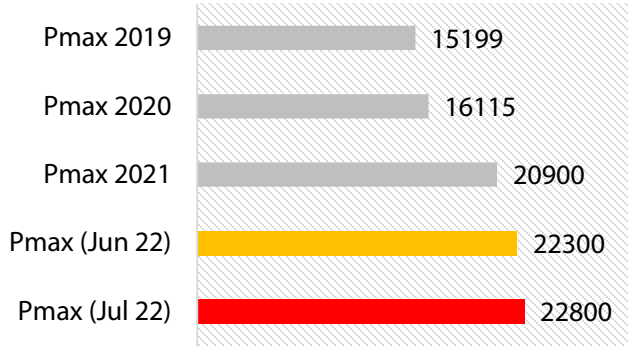
Source: EVN, RongViet Securities

Figure 14: Growth rate of commercial electricity in the North is always higher than the average



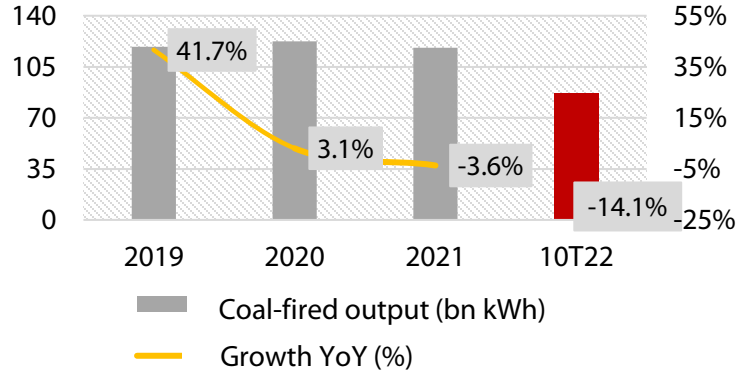
Source: EVN, RongViet Securities

Figure 15: Power consumption (MW) in the North is always high during summer



Source: EVN, RongViet Securities

Figure 16: Coal-fired power output dropped sharply due to unfavorable events

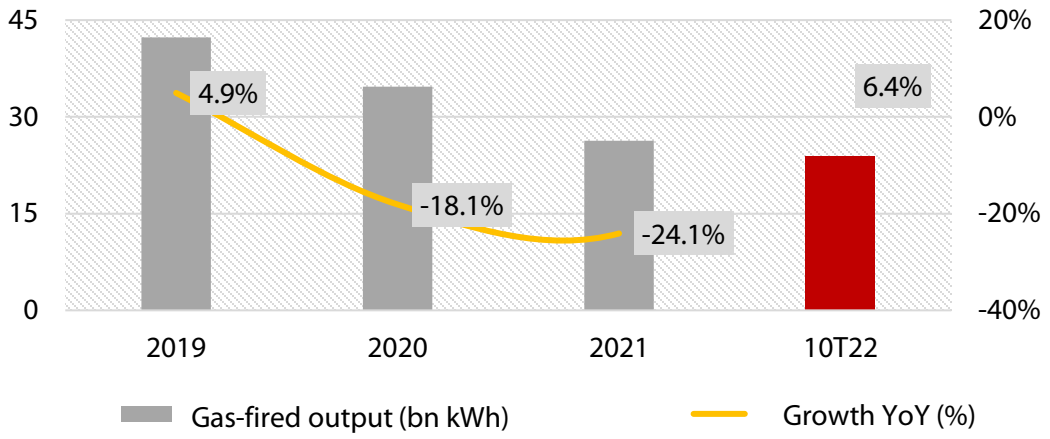


Source: EVN, RongViet Securities

Gas power output is expected to improve in 2023

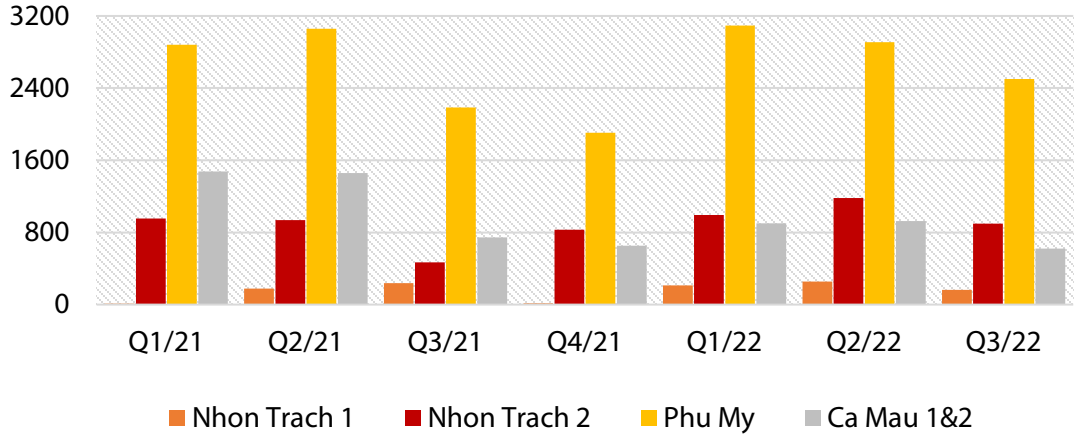
- Gas power consumption reached 23.9 bn kWh in 10M2022, up 6.4% YoY compared to the low base in 2021. Slight increase in consumption volume in 10M2022 was due to demand improvement, price gap between gas price and coal price has narrowed down although gas price are still staying at high levels. However, there was also a high divergence between the output of gas power plants, as NT2 recorded a 30% YoY increase in mobilized volume thanks to the optimal efficiency of the power units.
- In 2023, we expect the mobilized gas power output will increase slightly compared to 2022 but below 2020 (when gas price was still low and renewable energy was rare). In 2023, we expect: (1) La Nina weakening will reduce competition from hydro power, (2) demand will increase slightly while old renewable energy projects may run below its capacity and new renewable energy projects are still waiting for the price policy, (3) the FO price and Brent price tend to decrease, which will enhance competitive strength for gas power plants.

Figure 17: Gas power output remains low despite a slight recovery in 10M22 compared to the 2021 low base



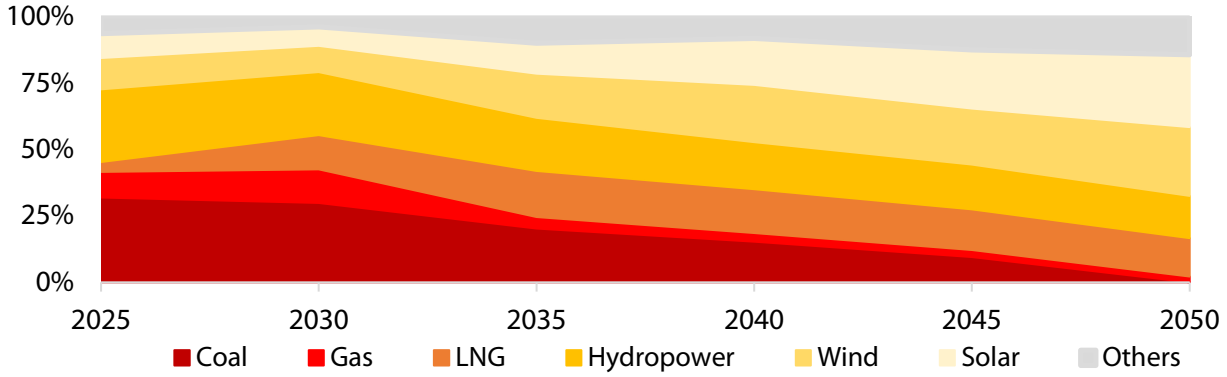
Source: EVN, RongViet Securities

Figure 18: Some gas-fired plants recorded a strong output recovery in 1Q2022 but modestly in 4Q2022



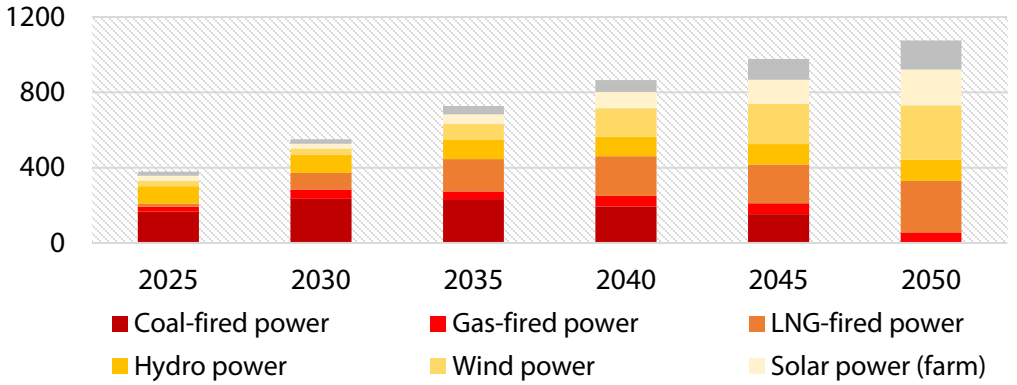
Source: EVN, RongViet Securities

Figure 19: Target capacity by group under the 8th draft version of DPD8 (Nov 2022)– RE continues to strengthen its role in long term



Source: PDP8 , RongViet Securities

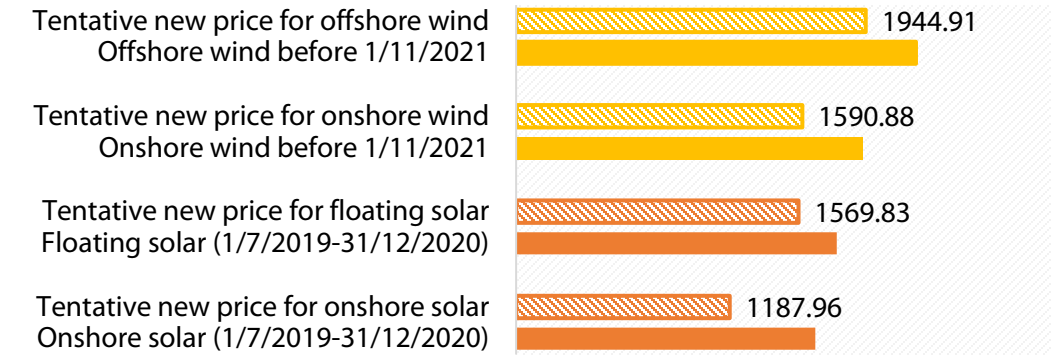
Figure 20: Target volume by group according to draft PDP8 November 2022 (GWh)



Source: PDP8 , RongViet Securities

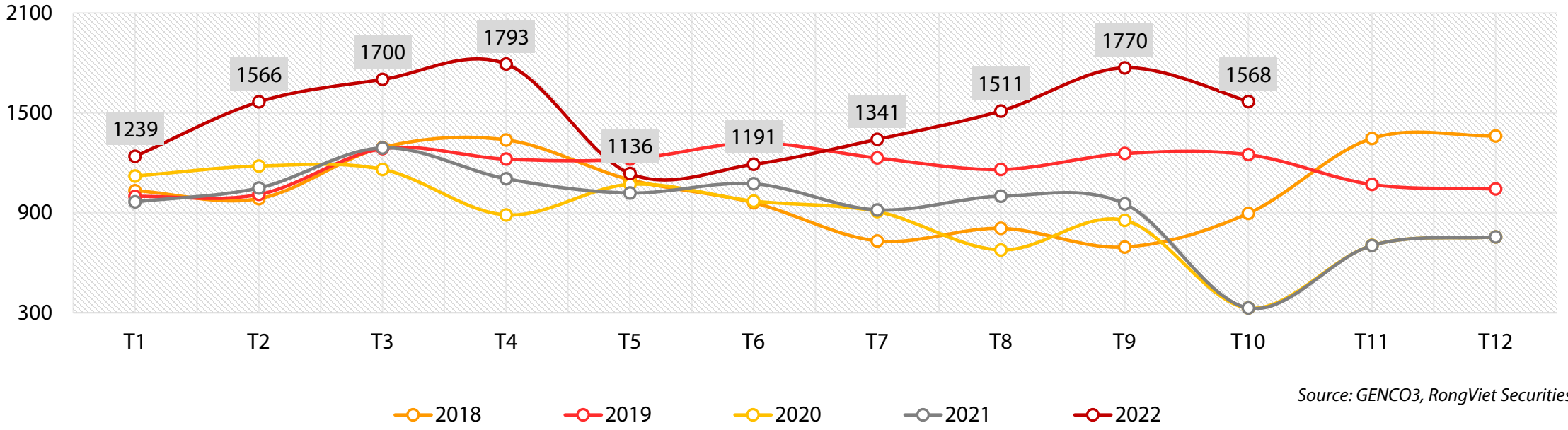
- The 8th draft version of DPD8 continues to support the RE groups (wind power, solar power), especially during the period 2035-2045. We expect the new price mechanism to promote the development of the RE group.
- According to the latest price calculated by EVN and submitted to the MOIT, the price for transitional wind power and solar power projects is 20%-40% lower than the previous FIT price. We believe that price competition and investment costs create pressure but also differentiate the efficiency and capacity of enterprises in the industry.

Figure 21: Proposal price for transitional RE projects - the expected price is lower than the current RE projects (VND/kWh)



Source: EVN, RongViet Securities

Figure 22: CGM prices (FMP) increased sharply in 2022

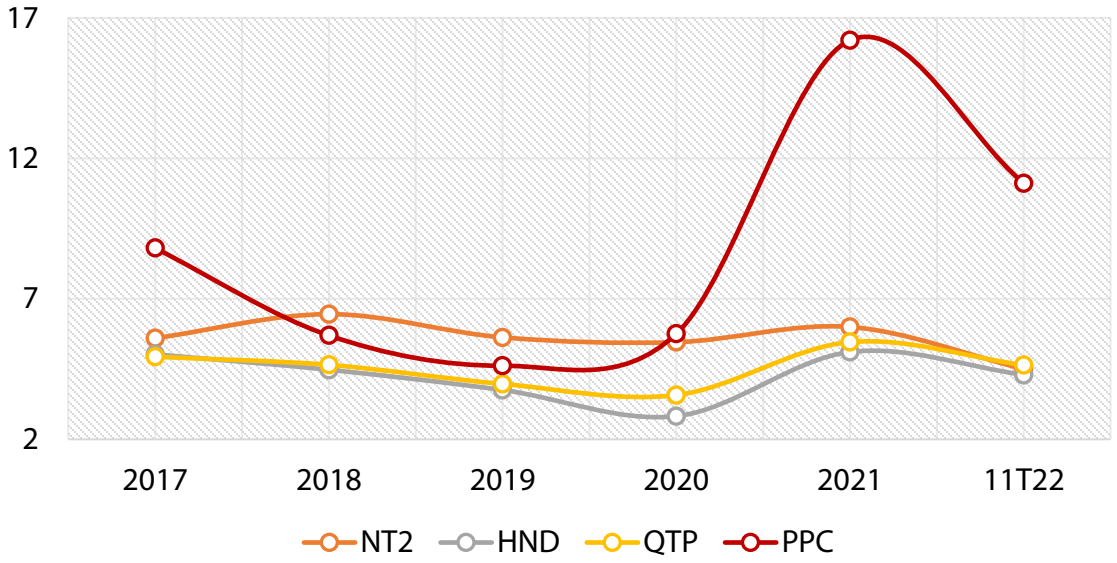


Source: GENCO3, RongViet Securities

When the input price of thermal power (thermal coal, gas) remains high, the average CGM prices in 2023 may remain at the level of 2022

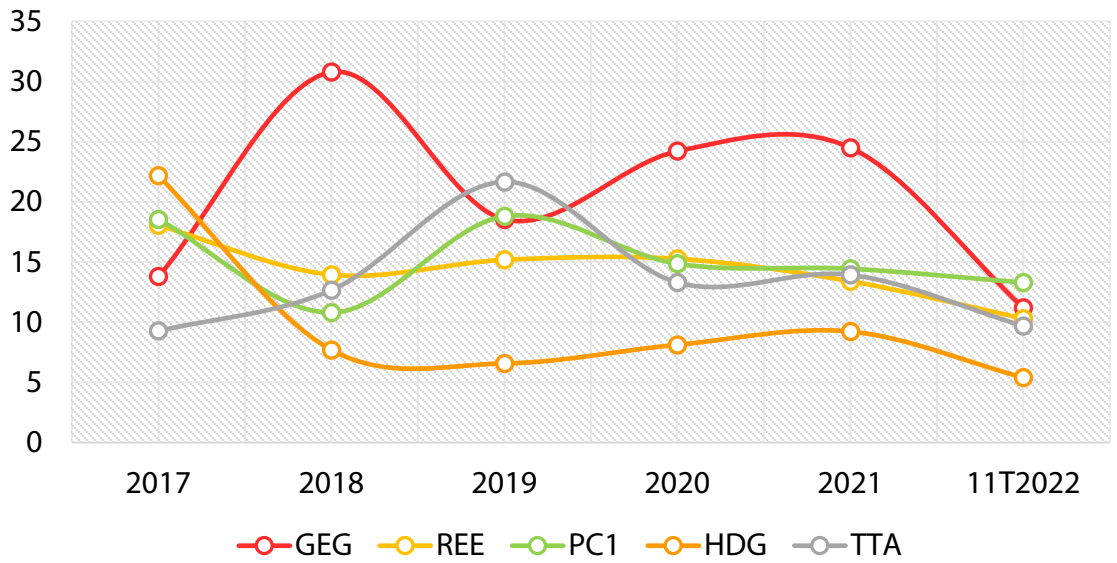
- Due to the high price of input materials from the thermal power group, the average CGM prices (FMP) in 10M/2022 increased sharply, averaging VND 1,481/kWh (+51% YoY).
- With an increase in the mobilization scenario for the thermal power group, we predict that the average CGM price in 2023 will be flat (or slightly lower) than the average level in 2022, when input material prices for thermal group electricity decreased slightly / (maintaining a marked decrease).

Figure 23: EV/EBITDA defensive group



Source: FInnpro, RongViet Securities

Figure 24: PE ratios of growth group



Source: FInnpro, RongViet Securities

Operating cash flow is stable against upcoming volatility risks, but valuations are low

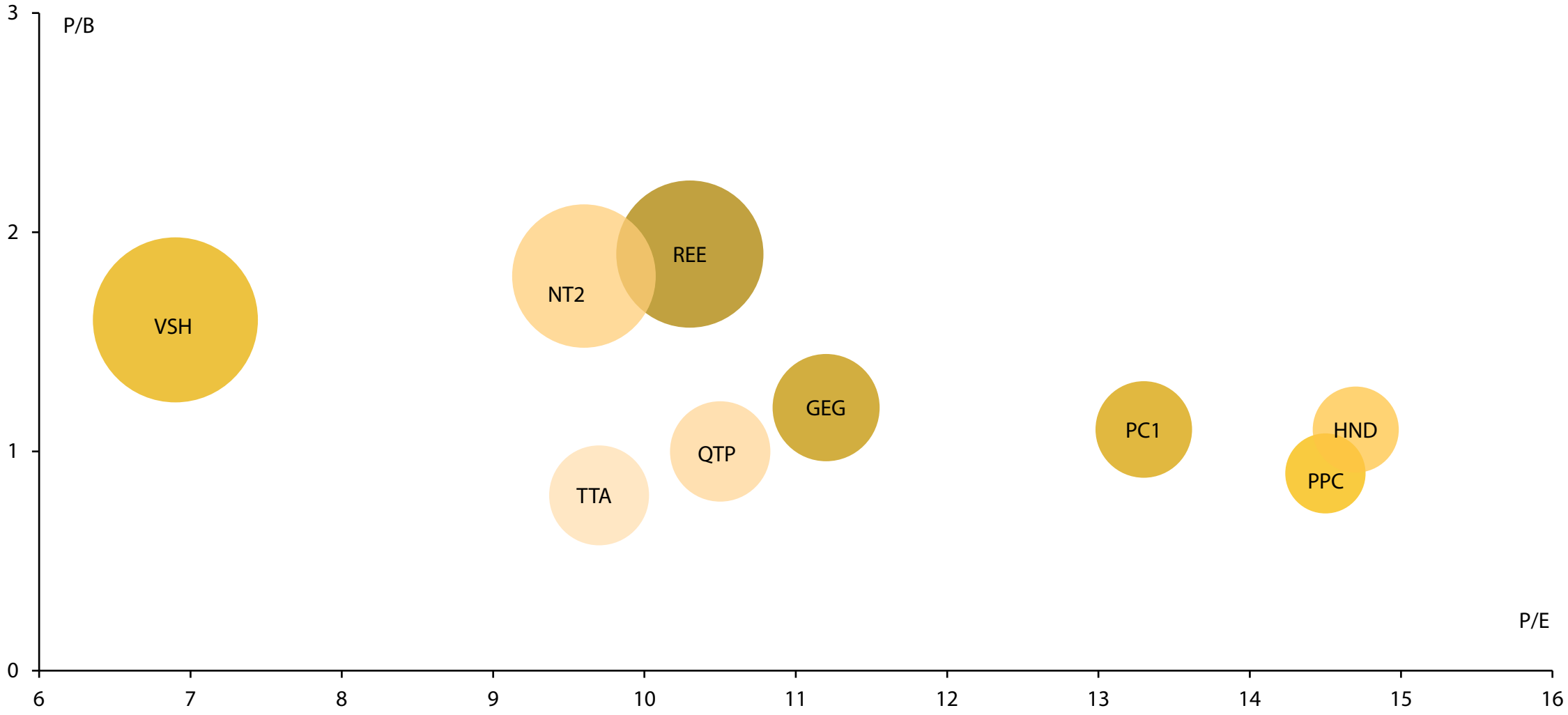
- **Defensive group:** EV/EBITDA of defensive group (most earnings are paid to shareholders) have come to reasonable valuations. Investors can amass this group of stocks in order to receive dividends while waiting for an El Nino. HND and QTP are the companies with the highest deposits in the North, while NT2 is expected to pay a consistent cash dividend in the coming years.
- **Growth group:** In contrast, the majority of the power sector's growth stocks will increase their earnings for investment and capacity expansion in the coming years. In the medium term, we believe GEG, REE, and PC1 will benefit. However, an increase in exchange rate interest rates will have a short-term impact on corporate profits.

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap,	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur,(*)	5 Yr, AVG	Cur,(*)	5 Yr, AVG
REE	28,432	77,000	80,000	1,000	0	3	46.4	-3.1	0	49	-3.9	20.8	8.7	10.7	8.5	1.7	1.3
NT2	7,917	29,300	27,500	2,500	32.9	1.1	45	-0.8	-0.2	42.7	10.1	16.9	11.1	9.8	11.3	1.8	1.8
HND	6,700	16,900	13,400	1,000	49	-17.2	17.6	3.7	-0.7	63.5	30.6	12	8.9	7.2	12.2	1.6	1.2
PC1	5,409	26,000	20,000	-	45.8	47.2	-14.5	20.3	0.3	-41.3	62.7	11.6	3.2	9.1	10.7	1.1	1.3
PPC	4,296	14,300	13,400	900	35.9	-51.2	33.1	39.7	-0.8	67.6	50	7.2	6.2	9.9	12.8	0.8	1.3
GEG	4,185	15,700	13,000	400	14.2	-7.5	53.4	2.6	-0.2	41.5	-2.8	11.6	3.9	13.5	18.6	1.5	1.8
VSH	7,442	N,R	31,500	N,A	37.5	373.1	N,A	N,A	3.2	N,A	N,A	25.4	11	6.9	18.3	1.6	1.3
QTP	6,075	N,R	13,500	N,A	48.1	-6.7	N.A	N,A	-0.5	N,A	N,A	9.4	6	10.5	10	1	1.1
TTA	1,557	N,A	9,890	N,A	48.7	33.4	N,A	N,A	0	N,A	N,A	9.3	4.6	9.7	N,A	0.8	N,A

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

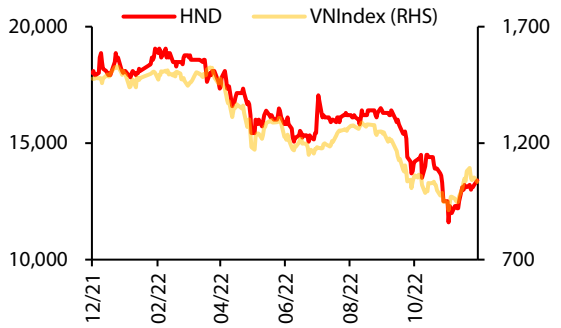
PE, PB AND ROE (TTM)

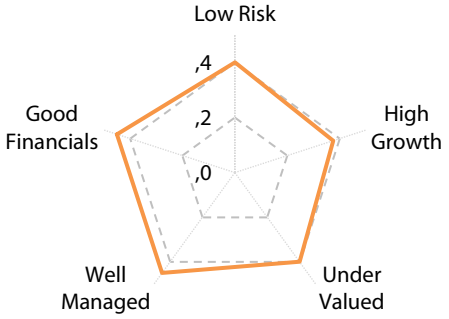


Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

BETTER PROFIT AND DIVIDENDS PROSPECTUS

BUY: 34%(*) **MP: 13,400** **TP: 16,900**





STOCK INFO

Sector	Utilities
Market Cap ($ mn)	283
Current Shares O/S (mn shares)	500
3M Avg. Volume (K)	20
3M Avg. Trading Value (VND Bn)	0
Remaining foreign room (%)	49.0
52-week range ('000 VND)	11 – 20.2

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	9,027	10,617	11,014
NPAT (VND bn)	455	744	972
ROA (%)	4.5	8.9	12.3
ROE (%)	6.2	12.0	15.2
EPS (VND)	911	1,403	1,834
Book Value (VND)	12,452	11,510	12,648
Cash dividend (VND)	400	800	1,000
P/E (x)	14.5	9.4	7.2
P/B (x)	1.5	1.6	1.4

INVESTMENT RATIONALES

The story of profit growth becomes clearer in 2023

- We forecast a 4.0% increase in HND's electricity volume in 2023 as (1) thermal power regains its advantage over hydropower when La Nina fades and (2) HND benefits from its location. The machine is useful in the North's economic center, where the load is still high, and the risk of power outages is always present.
- We expect profit margins to improve further in 2023 as (1) exchange rate losses decrease as USD loan balances decline and the USD/VND exchange rate rises by about 2% on our assumption, and (2) the thermal coal prices cool as its supply and demand gradually stabilize. As a result, we expect net sales and NPAT-MI to be VND 11,014 bn (+3.7% YoY) and VND 972 bn (+30.7% YoY) in 2023, respectively.

Dividend yield begins to attractive, particularly from the debt-free phase

- We expect that HND's dividend yield investment thesis will gradually become clearer as debt payment obligations are gradually completed and the company maintains a consistent dividend payment policy. We expect the dividend yield to be around 6-8% in 2023, equating to a payout of VND1,000 per share.

RISKS TO OUR CALL

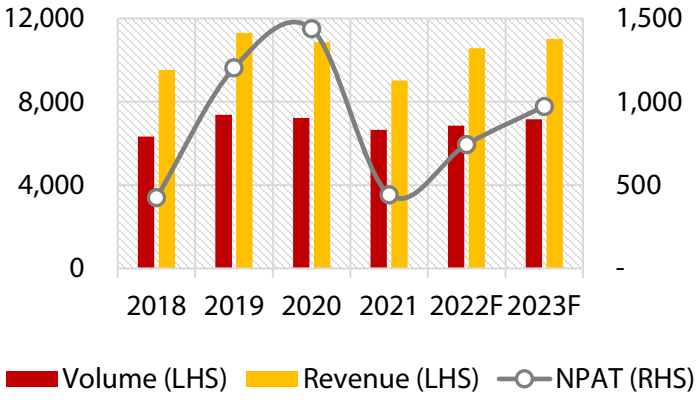
- Input thermal coal prices rose less/more than expected. There is a risk of running out of coal during peak season in the North.
- The unit's maintenance and operation plan may differ from our estimate.

(*) Total return including expected VND 1000 cash dividends in 12 months

SANGUINE PROFIT AND DIVIDEND YIELD GROWTH IN 2023

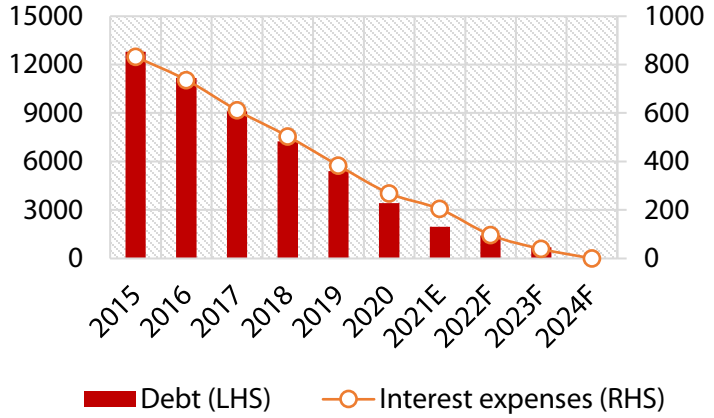
- We forecast a 4.0% increase in HND's electricity volume in 2023 as (1) thermal power regains its advantage over hydropower when La Nina fades and (2) HND benefits from its location. The machine is useful in the North's economic center, where the load is still high, and the risk of power outages is always present.
- We expect profit margins to improve further in 2023 as (1) exchange rate losses decrease as USD debt declines and the USD/VND exchange rate increases around 2% based on our assumptions, and (2) coal raw material costs cool as thermal coal supply and demand gradually stabilize. As a result, we expect net sales and NPAT to be VND 11,014 bn (+3.7% YoY) and VND 972 bn (+30.7% YoY) in 2023, respectively.
- We expect that HND's dividend yield investment thesis will gradually become clearer as debt payment obligations are gradually completed and the company maintains a consistent dividend payment policy. We expect the dividend yield to be around 6-8% in 2023, equating to a payout of VND1,000 per share.

Figure 1: Electricity sales volume (mn kWh) and results forecast (VND bn)



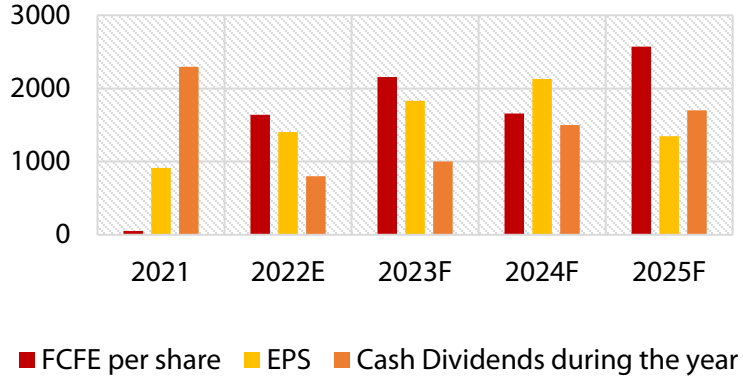
Source: HND, RongViet Securities

Figure 2: Outstanding debt at year end (VND bn)



Source: HND, RongViet Securities

Figure 3: FCFE per share, EPS & cash div payout (VND)



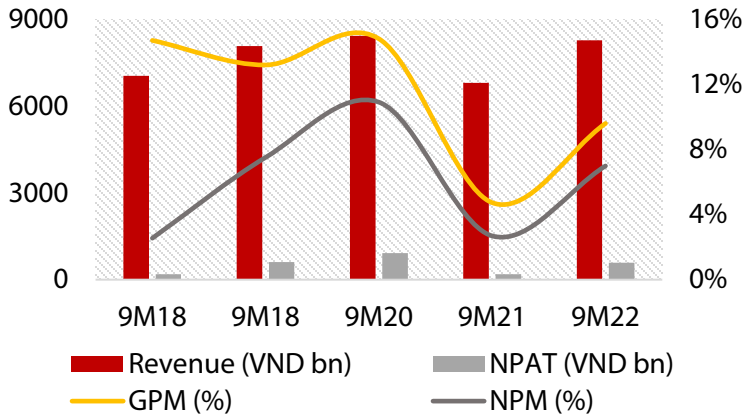
Source: HND, RongViet Securities

9M2022: OUTSTANDING PROFIT GROWTH FROM A LOW BASE

Profit in 9M22 increased from 2021's low due to increased contract power output and the extension of depreciation expense

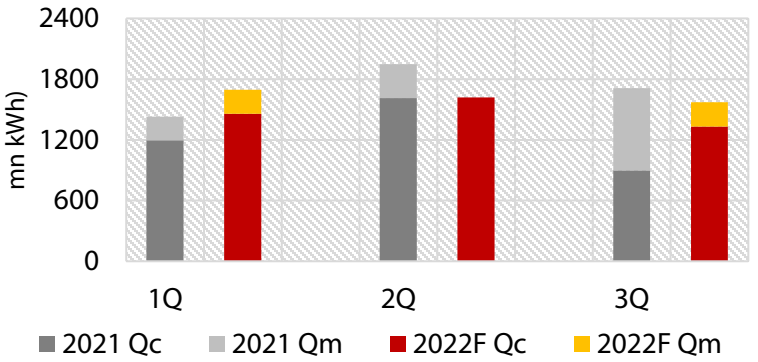
- Cumulated 9M22 recorded a total electricity volume of 4.89 bn kWh (-4.0% YoY). Despite lower YoY volume, 9M/2022 net revenue reached VND 8,273 bn (+22% YoY) thanks to the high Pc. 9M22 NPAT-MI reached VND 578 bn (+215% YoY compared to the 2021 low base), mainly thanks to the increase in contracted volume and the depreciation extension.
- Financial expense is HND's largest expense, primarily due to interest expense and exchange rate fluctuations, though it has decreased significantly since 2019. However, HND also recorded an FX loss of VND73.6 bn due to the USD/VND exchange rate elevated.
- In 2022, we forecast net revenue and NPAT of VND 10,617 bn (+17.6% YoY) and VND 744 bn (+63.3% YoY), with power output of 6.85 bn (+3% YoY).

Figure 4: 9M22 growth owing to the low base



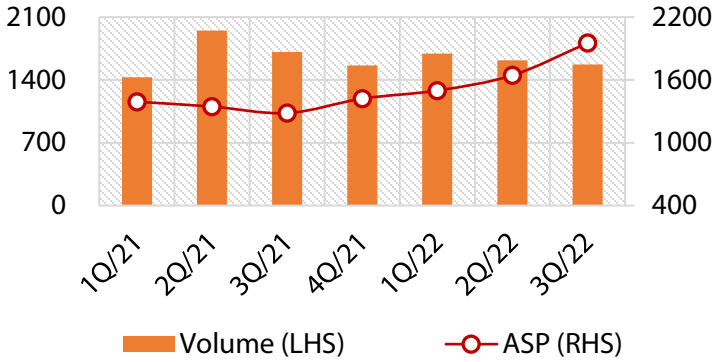
Source: HND, RongViet Securities

Figure 5: Contract (Qc) & market volume (Qm) (mn kWh)



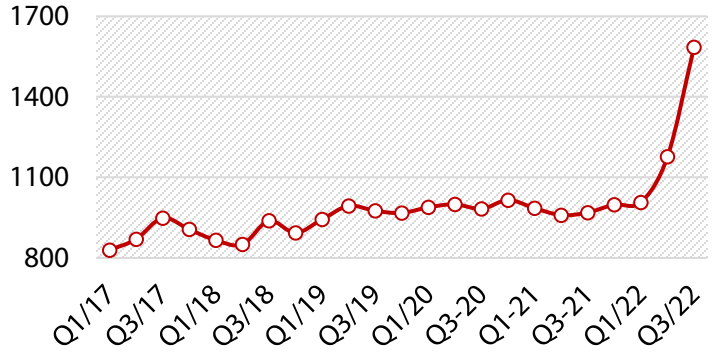
Source: HND, RongViet Securities

Figure 6: Figure 4: Volume (mn kWh) and ASP (VND/ kWh)



Source: HND, RongViet Securities

Figure 7: Average material costs (VND/kWh) increased sharply in 3Q22

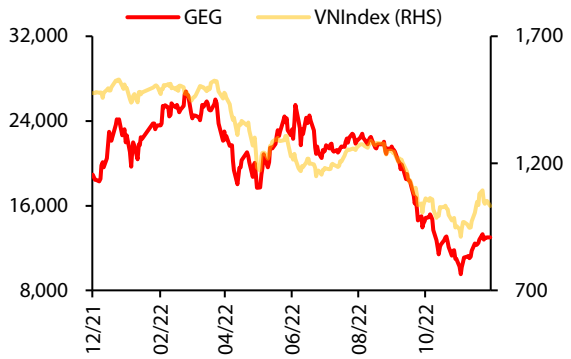


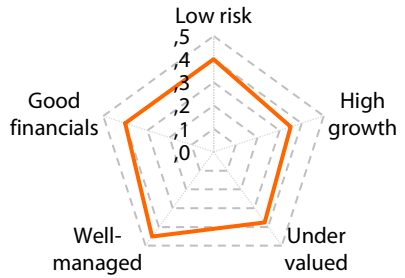
Source: HND, RongViet Securities

WELL PREPARED FOR THE UPCOMING UPTURN

HSX: GEG

BUY: 24% (*) **MP: 13,000** **TP: 15,700**





STOCK INFO	
Sector	Utilities
Market Cap ($ mn)	177
Current Shares O/S (mn shares)	322
3M Avg. Volume (K)	800
3M Avg. Trading Value (VND Bn)	11
Remaining foreign room (%)	14.2
52-week range ('000 VND)	8.88 – 27.36

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	1,381	2,119	2,174
NPAT (VND bn)	277	392	381
ROA (%)	2.1	3.9	4.0
ROE (%)	8.4	11.6	11.2
EPS (VND)	834	1,166	1,042
Book Value (VND)	10,066	10,461	10,595
Cash dividend (VND)	400	400	400
P/E (x)	26.2	12.1	13.5
P/B (x)	2.4	1.5	1.4

INVESTMENT RATIONALE

Strong growth engine from wind power

- GEG is the top player in the renewable energy market. It will capture the wind power trend in Vietnam to add more projects to its green portfolio. The company has two potential wind power projects in its pipeline with 130 MW consisting of Tan Phu Dong 1 and V.P.L 2. Notably, TPD1 (100 MW) is the project that might enjoy referential conditions compared to future plants in Vietnam as it has been signed with EVN.
- In 2023, the company's profitability is anticipated to be driven by the three wind farms. Despite having a high gross profit margin, financial expenses will eat most profits and result in a net profit margin of roughly 17%. We forecast the wind power industry would generate roughly VND 849 bn in 2023 or 39% of GEG's total revenue.

Solar power segment is the stable contributor to earnings.

- Owning 5 solar power projects (259 MWp) with relatively high selling price (FiT1) and 34 MWp of rooftop solar power. Revenue from this segment will reach about VND 917 bn, contributing 42% of total revenue in 2023. Profit and cash flow from this segment will increase year by year thanks to lower interest rates.

Sustainable cash flow from hydropower plants

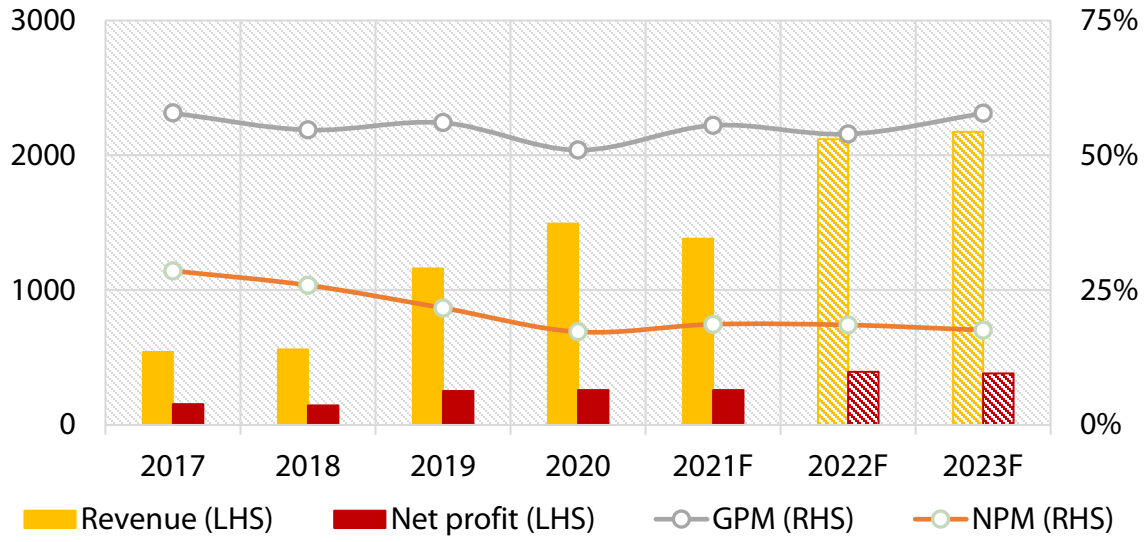
- We believe that the hydropower segment will be less advantageous in 2023 than it was in 2022 when La Nina fades. We forecast that hydropower revenue will fall slightly to VND 393 bn, accounting for 18% of total revenue. Those will contribute to company's finances to build more renewable energy projects.

RISKS TO OUR CALL

- The wind power market might be take-off later than expected, resulting in unattractive growth in the near future.

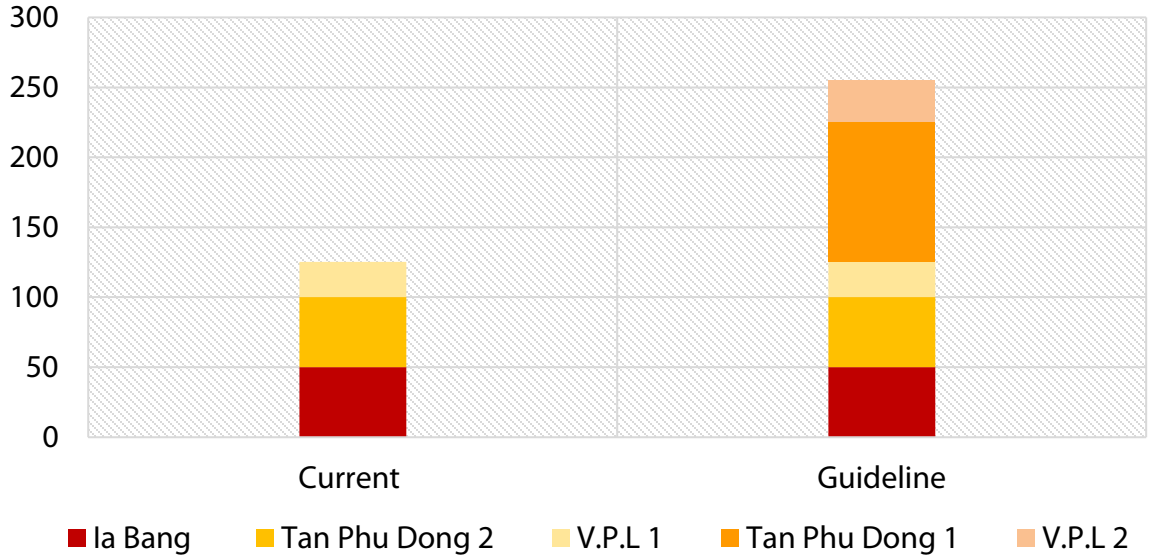
(*) Total return including expected VND 400 cash dividends in 12 months

Figure 1: Business results forecasts



Source: GEG, RongViet Securities

Figure 2: Wind power projects in GEG's pipeline (MW)



Source: GEG, RongViet Securities

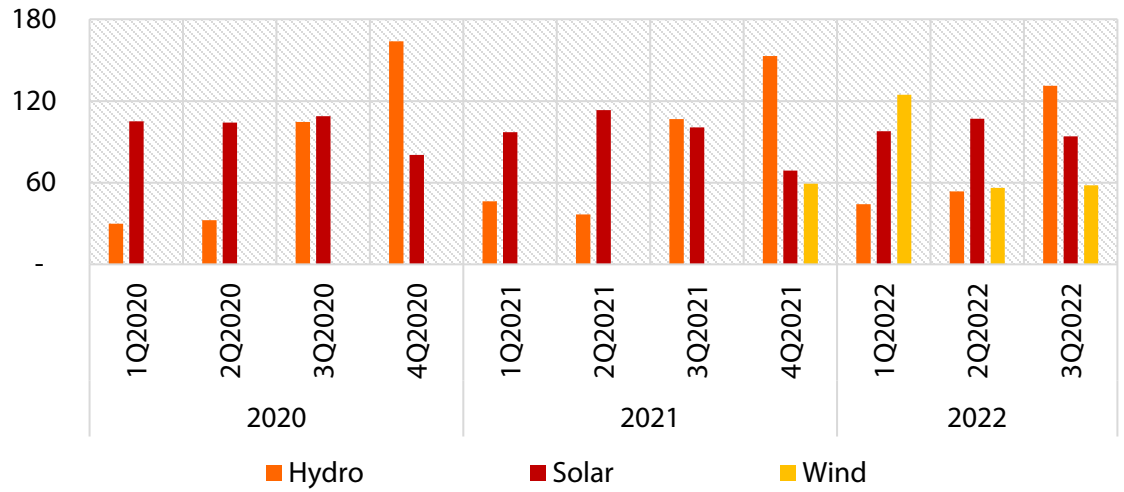
Wind farms operating at full capacity boosting the company's profits in 2023

- While wind power earnings fluctuate quarterly, these projects are expected to continue to drive GEG's profits in 2023. We forecast GEG's net revenue and NPAT to be VND 2,174 bn and VND 381 bn in 2023, respectively (+13% YoY and -3% YoY- in 2022, the company recorded a net profit of VND 143 bn due to divestment in its subsidiary, Renewable Energy JSC No. 1).

Capture wind power opportunities to add more projects to its green portfolio

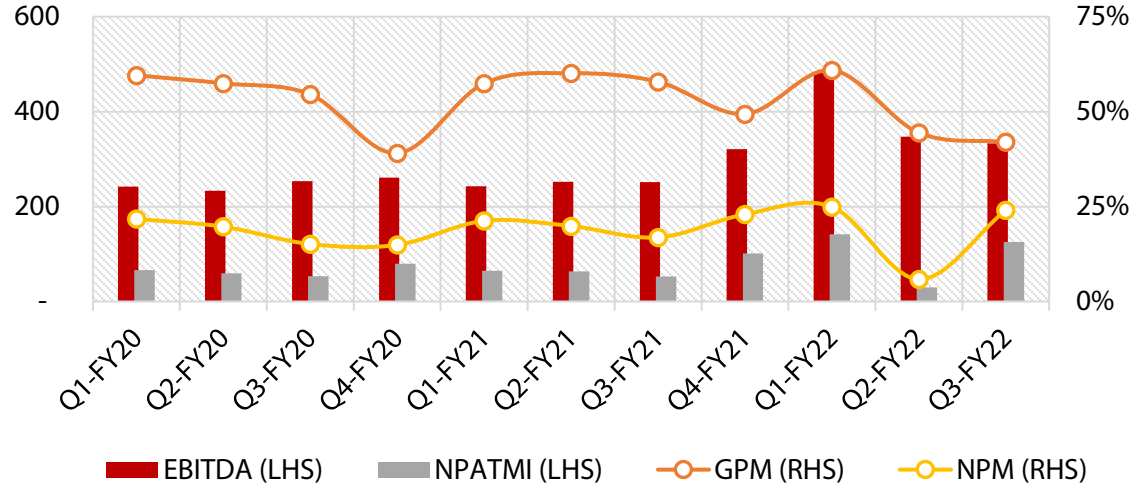
- GEG currently has two potential projects in its pipeline, with total capacity of 130 MW consisting of Tan Phu Dong 1 and V.P.L 2. Notably, Tan Phu Dong 1 project was signed with EVN. This project will be the very first beneficiary if EVN has referential scheme for those that miss the deadline as of Oct 2021. Being an experienced player in the renewable energy market, we foresee that GEG will be able to develop those two projects in the near future, doubling its current capacity in this segment.

Figure 3: Volume (mn kWh) and ASP (VND/ kWh)



Source: GEG, RongViet Securities

Figure 4: Results (VND bn)



Source: GEG, RongViet Securities

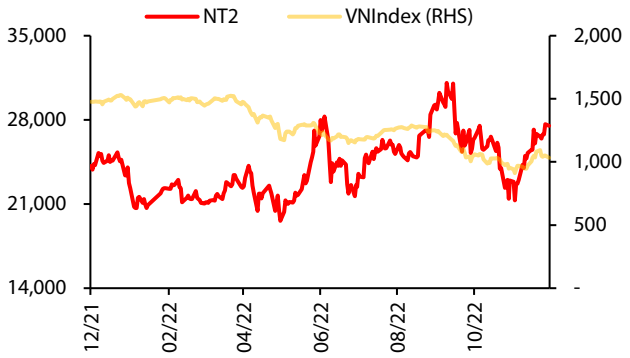
9M2022 profit grew strongly thanks to contributions from wind power and divestment of shares in subsidiaries

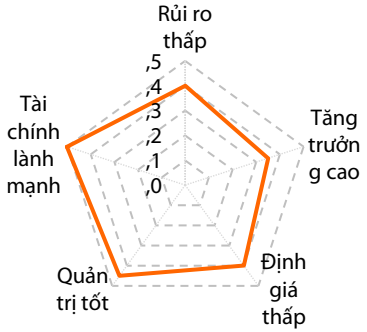
- GEG recorded a total power output of 767 million kWh (+53% YoY) in 9M/2022, with contributions from wind, solar, and hydro power groups. In terms of wind farm operation, these projects performed well in Q1 and Q4 due to seasonal factors, resulting in high output and revenue. Depreciation and financing costs are fixed and account for the majority of a company's revenue due to its capital-intensive nature. As a result, quarterly net profit from wind power projects is relatively volatile. Specifically, NPAT of parent company shareholders doubled in Q1/2022 compared to 2021, while it decreased by 54% YoY in Q2/2022.
- 9M2022 revenue was VND 1,597 bn (+70% YoY), EAT after shareholder benefits was VND 349 bn (+66% YoY), and net income was VND 142,9 bn due to the divestment of subsidiary company No. 1 Renewable Energy JSC. However, the 9M/2022 gross margin fell by 495 basis points due to the lower profit margins of wind power projects versus hydro power projects. and solar energy. We estimate net revenue and NPAT after shareholder benefits at VND2,119 bn (+53% YoY) and VND392 bn (+47% YoY) for the full year 2022, respectively.

PROMISING CASH DIVIDEND IN 2023

HSX: NT2

ACCUMULATE: 16% (*) **MP: 27,500** **TP: 29,300**





STOCK INFO	
Sector	Utilities
Market Cap ($ mn)	334
Current Shares O/S (mn shares)	288
3M Avg. Volume (K)	1,184
3M Avg. Trading Value (VND Bn)	30
Remaining foreign room (%)	32.7
52-week range ('000 VND)	20 – 32.6

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	6,150	8,916	8,849
NPAT (VND bn)	534	762	839
ROA (%)	8.1	11.1	12.1
ROE (%)	12.6	16.9	18.2
EPS (VND)	1,778	2,581	2,841
Book Value (VND)	14,706	15,638	15,561
Cash dividend (VND)	2,000	1,650	2,500
P/E (x)	14.4	10.8	9.8
P/B (x)	1.9	1.8	1.7

INVESTMENT RATIONALES

Profit is expected to rise further in 2023

- We forecast that NT2 will continue to increase commercial power output to 4.36 bn kWh (+6% YoY) in 2023, with contract output (Qc) increasing by 5% YoY. Furthermore, we expect NT2's average gas input price in 2023 to remain around USD 8.8/mmbtu after peaking at USD 10.0/mmbtu in April 2022, giving NT2 a competitive advantage in CGM.
- In addition, we believe that NT2 will record the remaining financial revenue from FX reversal (FX compensation for the period of 2016 to 2020 based on Circular 56). As a result, we expect net revenue and NPAT-MI to be VND 8,849 bn (-1% YoY) and VND 839 bn (+10% YoY) in 2023, respectively. Core revenue and NPAT from electricity production were VND 8,769 bn (+2 YoY) and VND 804.5 bn (+3 YoY), respectively.

Eyes on potential cash dividend, yields around 6-8% in 2023

- We can see that NT2 has entered a period of paying attractive cash dividends when the company's long-term debt obligations are completed in June 2021. With ample cash and positive results, we anticipate NT2 will have a dividend yield of around 9-10% in 2023, equating to a VND2,500/share payout.

RISKS TO OUR CALL

- Input gas prices may rise faster than expected, affecting CGM earnings.
- The provision FX compensation will not be realized in 2023.

(*) Total return including expected VND 2,500 cash dividends in 12 months

2023 OUTLOOK: POTENTIAL DIVIDENDS AND POSITIVE PROFITS

Profit is expected to rise further in 2023

- We forecast that NT2 will continue to increase commercial power output to 4.36 bn kWh (+6% YoY) in 2023, with contract output (Qc) increasing by 5% YoY. Furthermore, we expect NT2's average gas input price in 2023 to remain around USD 8.8/mmbtu after peaking at USD 10.0/mmbtu in April 2022, giving NT2 a competitive advantage in CGM.
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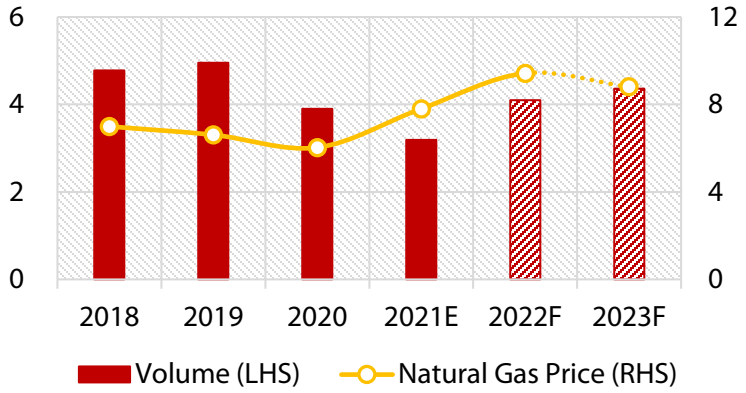
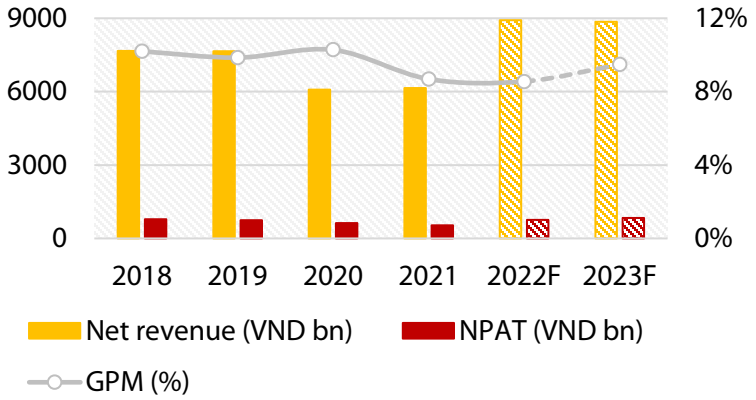
Figure 1: Volume (mn kWh) and input price(USD/mmBTU)



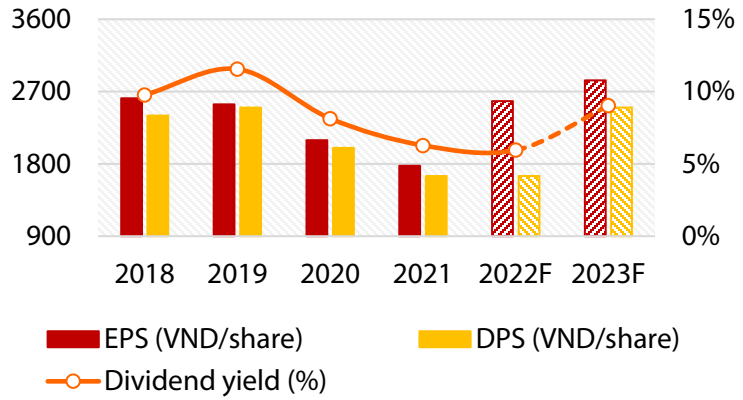
Source: NT2, RongViet Securities

Figure 2: Expecting a better NPAT and profit margins in 2023



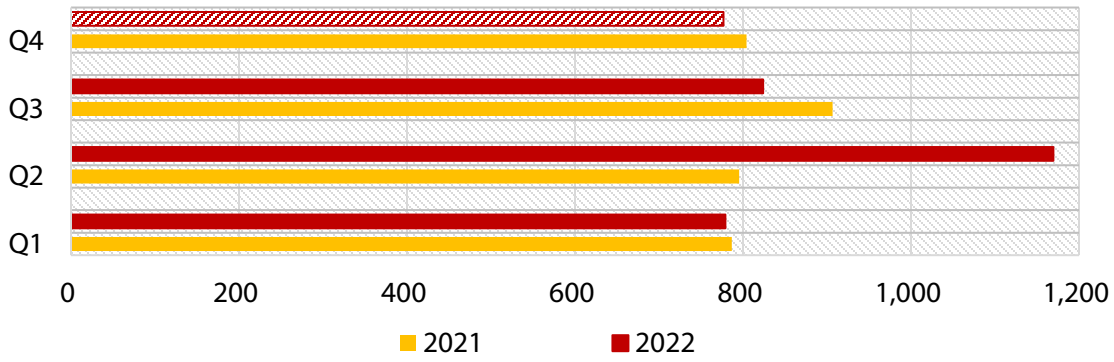
Source: NT2, RongViet Securities

Figure 3: A proven dividend track record and 2023F



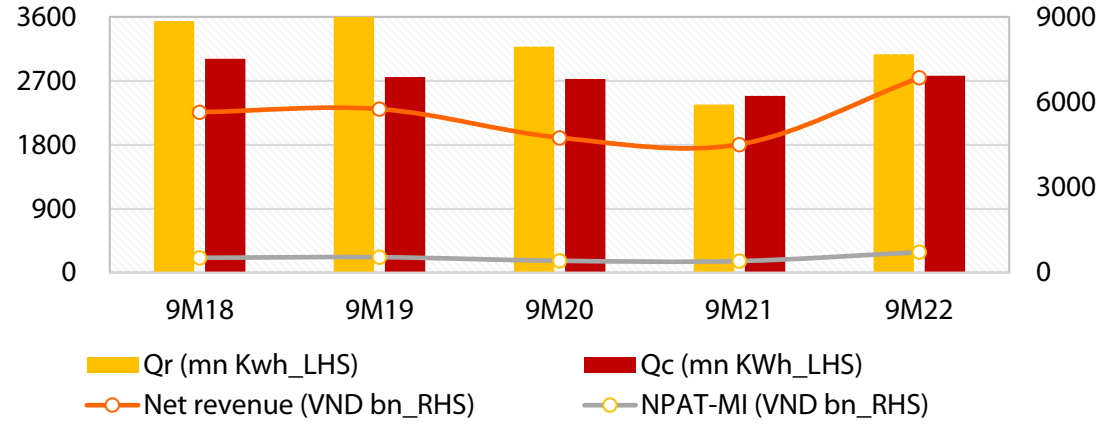
Source: NT2, RongViet Securities

Figure 4: Contracted volume by quarter (mn kWh)



Source: NT2, RongViet Securities

Figure 5: 9M/2022 power output increased, earnings exceeded the full-year target



Source: NT2, RongViet Securities

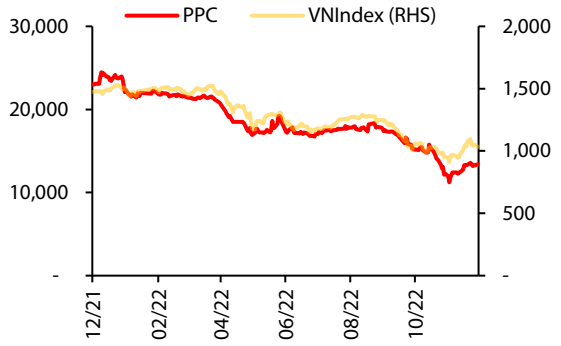
9M2022 output recovers, profit far exceeds the year plan

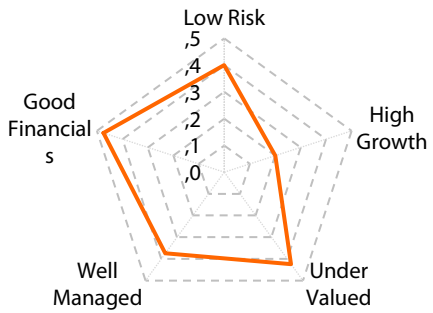
- The significant increase in CGM prices (FMP) also boosted NT2's profit. Accumulated 9M/2022 NT2 recorded a total commercial power output of 3,073 bn kWh (+30% YoY), with contracted volume reaching a record high of 1.17 bn kWh in Q2/2022. Along with that, a new high level of full market price in CGM (FMP) boosted NT2's profit.
- 9M/2022 revenue totaled VND 6,863 bn (+12% YoY), including VND 340 bn of FX revert revenue, completing 85% of NT2's full - year's target.
- Cumulative 9M22 NPAT-MI was 724 bn (+36% YoY), reaching 154% of the guidance. Notably, NT2 recorded an administrative expense of VND 209 bn (+10 times YoY) in Q3/2022 due to an EVN provision of VND 187 bn for bad debts. We expect that this will be reversed in the future if the Government issues new guidance.
- In 2022, we expect net revenue and NPAT-MI to be VND 8,916 bn (+45% YoY) and VND 762 bn (+43% YoY), respectively, assuming that NT2 continues to make the remaining VND 173 bn for bad debt provision in Q4/2022 (total provision in 2022 is VND 360 bn).

RECOVERY AWAITS FY2023

HSX: PPC

ACCUMULATE: 13% (*) **MP: 13,400** **TP: 14,300**





STOCK INFO	
Sector	Utilities
Market Cap ($ mn)	181
Current Shares O/S (mn shares)	321
3M Avg. Volume (K)	107
3M Avg. Trading Value (VND Bn)	1
Remaining foreign room (%)	35,8
52-week range ('000 VND)	10,5 - 25,2

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	3,868	5,147	7,188
NPAT (VND bn)	216	362	543
ROA (%)	4.0	6.2	8.6
ROE (%)	4.5	7.2	10.5
EPS (VND)	513	858	1,289
Book Value (VND)	14,912	15,339	15,724
Cash dividend (VND)	5,665	450	900
P/E (x)	36.4	14.9	9.9
P/B (x)	0.9	0.8	0.8

INVESTMENT RATIONALES

Core earnings are expected to rebound in 2023

- PPC's power output is expected to reach 4.13 bn kWh (+20% YoY) in 2023, thanks to (1) the return of the S6 unit of Pha Lai 2 (26% capacity). (2) PPC finished fixing the generator's problems at the end of Q2/2023 and gained the upper hand as La Nina gradually fades.
- Buoyant results of HND and QTP shore up PPC's sustainable yield. Furthermore, we estimate that when depreciation and interest rates fall, these two associates will contribute VND 273 bn to PPC's financial revenue in 2023. For 2023, we forecast net revenue and NPAT–MI to reach VND 7,188 bn (+33% YoY) and VND 543 bn (+67% YoY), respectively.

Consistent dividend payments; yields around 6-8% in 2023

- We believe that a recovering earnings outlook for next year, combined with associates' stable financial returns, will support a dividend yield of 6-8% and a dividend payout of VND 900/month.

RISKS TO OUR CALL

- Pha Lai 2's S6 generator restarts faster/slower than expected.
- Plans for the unit's maintenance, repair, and operation may differ from our estimates.

(*) Total return including expected VND 900 cash dividends in 12 months

ASSOCIATES' DIVIDENDS AND S6 GENERATOR SPUR 2023F RECOVERY

Earnings to rebound in 2023F

- PPC's power output is expected to reach 4.13 bn kWh (+20% YoY) in 2023, thanks to (1) the return of the S6 unit of Pha Lai 2 (26% capacity). (2) PPC finished fixing the generator's problems at the end of Q2/2023 and gained the upper hand as La Nina gradually fades.
- Buoyant results of HND and QTP shore up PPC's sustainable yield. Furthermore, we estimate that when depreciation and interest rates fall, these two associates will contribute VND 273 bn to PPC's financial revenue in 2023. For 2023, we forecast net revenue and NPAT–MI to reach VND 7,188 bn (+33% YoY) and VND 543 bn (+67% YoY), respectively.

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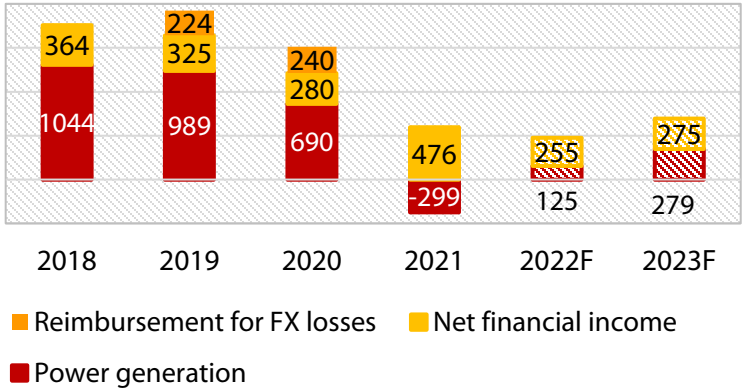
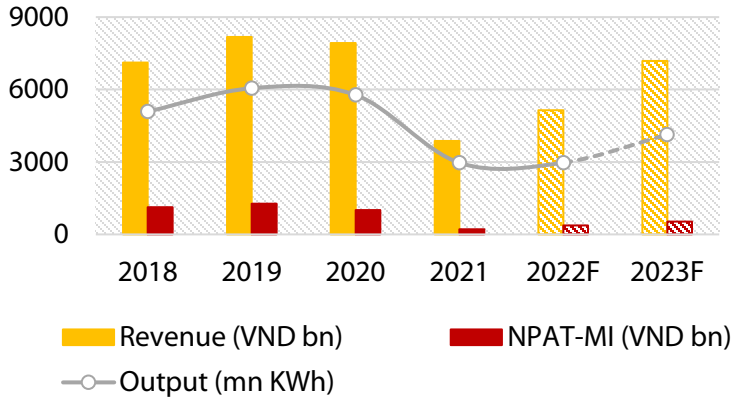
Figure 1: PPC's EBT structure (VND bn)



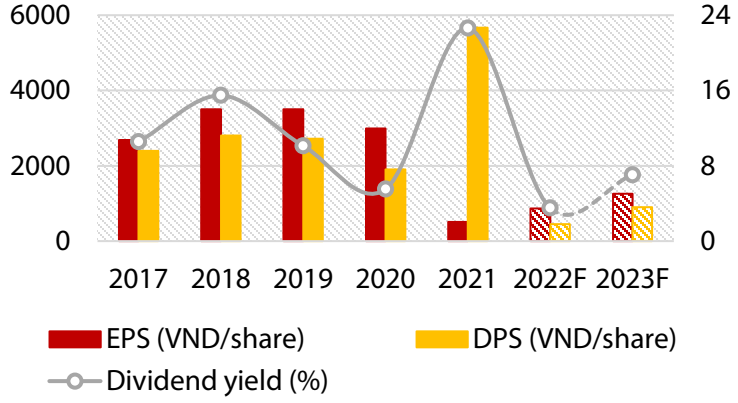
Source: PPC, Rong Viet Securities

Figure 2: Electricity output (mn kWh) and results forecast (VND bn)



Source: PPC, Rong Viet Securities

Figure 3: PPC's proven dividend track record and 2023F



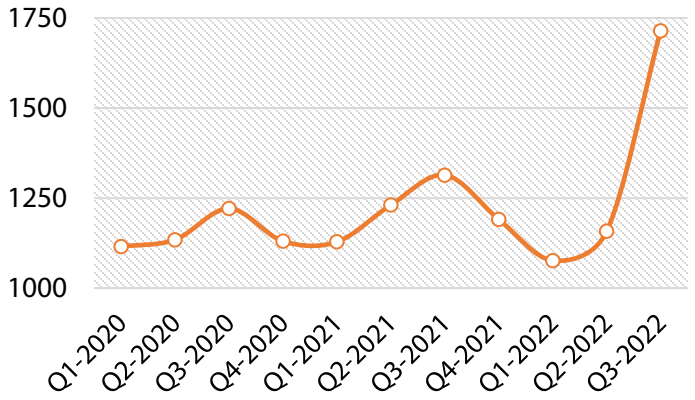
Source: PPC, Rong Viet Securities

9M22 LOW ELECTRICITY OUTPUT, DIVIDEND INCOME SAVES THE BOTTOM LINE

9M22 low electricity output, earnings exceeded the full-year target due to dividend income

- Due to technical issues with the power plant and unit S6, PPC recorded an accumulated power output of 2.1 bn kWh (-20% YoY), reaching 50% of the year plan. However, revenue in 9M/2022 reached VND 3,540 bn (+6% YoY) due to high contract price (Pc) and high CGM price due to high thermal coal costs, completing 65% of the set target in 2022.
- 9M/22 NPAT-MI was VDN 310 bn (+39% YoY), with dividends from associates HND and QTP were VND 241 bn. We estimate PPC's net sales and NPAT in 2022 will be VND 5,147 bn (+33.1% YoY) and VND 364 bn (+68.5% YoY), respectively. Commercial power output will reach 3 bn kWh (+1% YoY), and associates paid no dividend in Q4/22.

Figure 4: Average material costs (VND/kWh) skyrocketed in Q3/2022 due to high unit prices of coal and FO oil



Source: PPC, Rong Viet Securities

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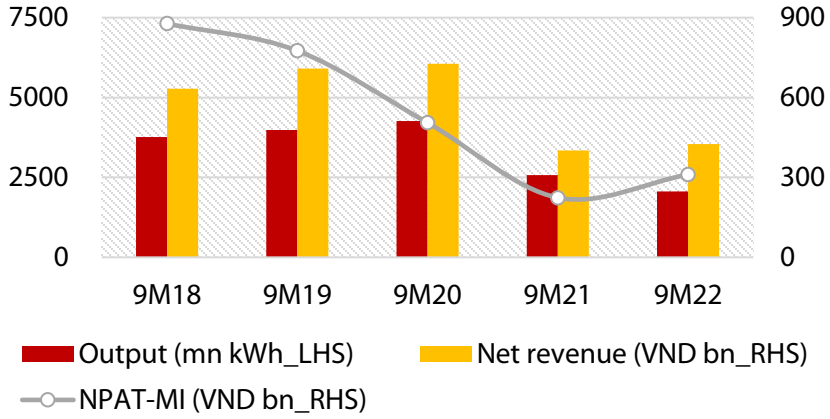
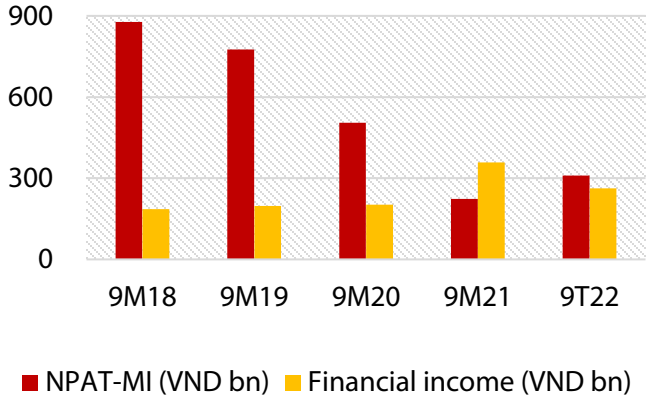


Source: PPC, Rong Viet Securities

Figure 6: Associates' dividend income saved 9M22 earnings

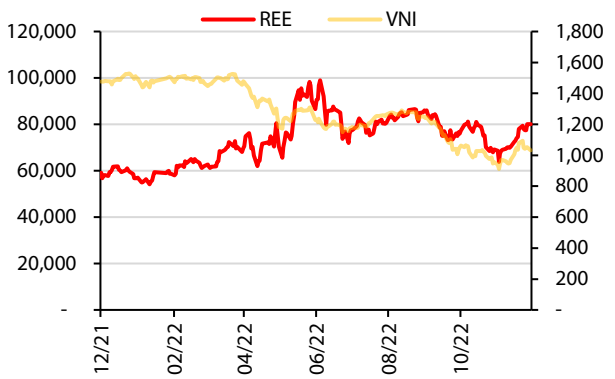


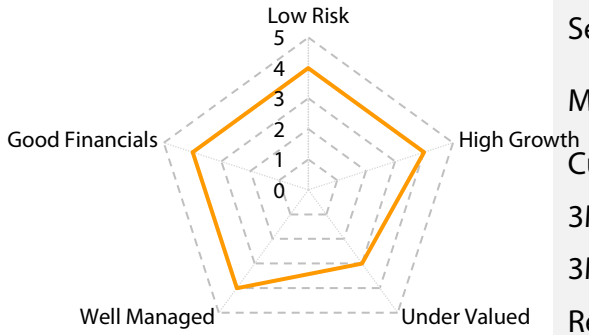
Source: PPC, Rong Viet Securities

MAINTAINING SUBSTANTIAL CASH FLOW

HSX: REE

NEUTRAL: -4% **MP: 80,000** **TP: 77,000**





STOCK INFO

Sector	Industrial Goods & Services
Market Cap ($ mn)	1,204
Current Shares O/S (mn shares)	355
3M Avg. Volume (K)	565
3M Avg. Trading Value (VND Bn)	42
Remaining foreign room (%)	0.0
52-week range (kVND)	54,43 - 100

FINANCIALS

	2021	2022E	2023F
Revenue (VND bn)	5,810	8,508	8,248
NPATMI (VND bn)	1,855	2,764	2,655
ROA (%)	9.0	8.7	7.6
ROE (%)	16.2	20.8	16.1
EPS (VND)	6,003	7,772	7,465
Book Value (VND)	42,903	46,476	53,941
Cash dividend (VND)	1,000	1,000	1,000
P/E (x)	13.3	10.3	10.7
P/B (x)	1.0	1.7	1.5

INVESTMENT RATIONALES

Hydrological conditions may halt growth momentum in 2023 yet cash flow will remain substantial

- Superior return of the power segment might shrunk in 2023 as the hydropower group's advantages are going to fade. Holding 500 MW, accounting for roughly 51% of its total capacity, this segment has outperformed and was the main pillar in 2022.
- Per our estimation, earnings from the power segment in 2022 will double to that in 2021, contributing by 62% total NPATMI while hydropower accounts for roughly 80% power segment's profit. In 2023, we forecast revenue and NPATMI to be VND8,247 and 2,654 bn, -3% and -4%,respectively.
- **Having a substantial cash flow, REE is going to expand its power business.** It will continue raising its capacity and NPAT in coming years through small HPP, solar and wind farms. Renewable energy has a huge potential market when the official 8thMaster plan is released.

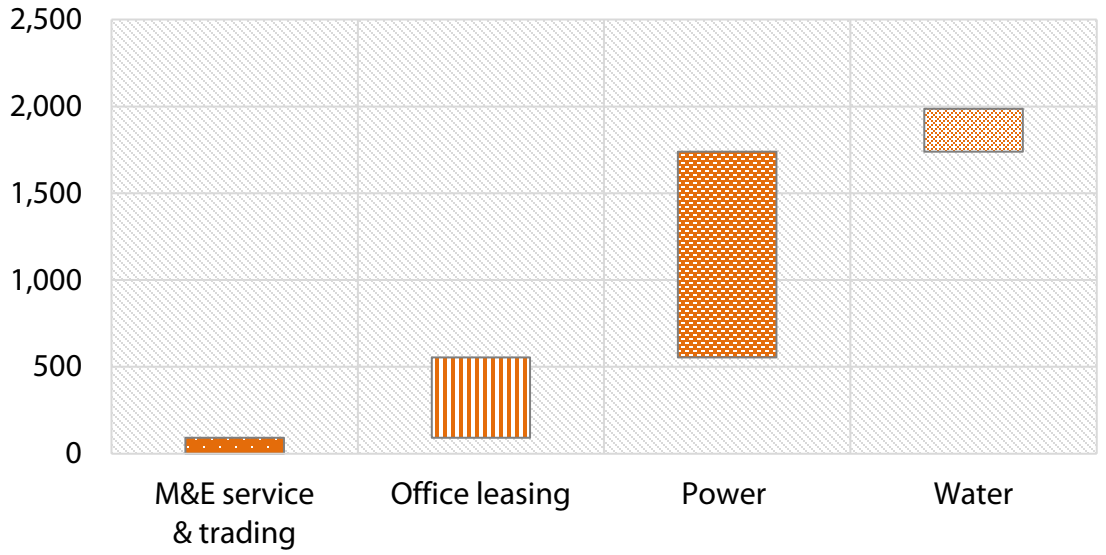
Etown6 will fuel medium-term growth. Solid and stable earnings from this segment will contribute steady cash flow for the company. Furthermore, Etown6 will be the company's growth momentum from 2023, raising its leasable areas by 27% to roughly 200,000 sqm. Nevertheless, Etown6 is forecasted to generate profit from 2024 given occupied rates to reach more than 95% and add around 20% this current segment's NPATMI.

RISKS TO OUR CALL

- The expansion plan in the power segment may be longer than expected due to industry regulations.
- The lower/higher-than-expected ASP if the CGM price goes up/down significantly might directly impact the hydropower segment's profit margin.

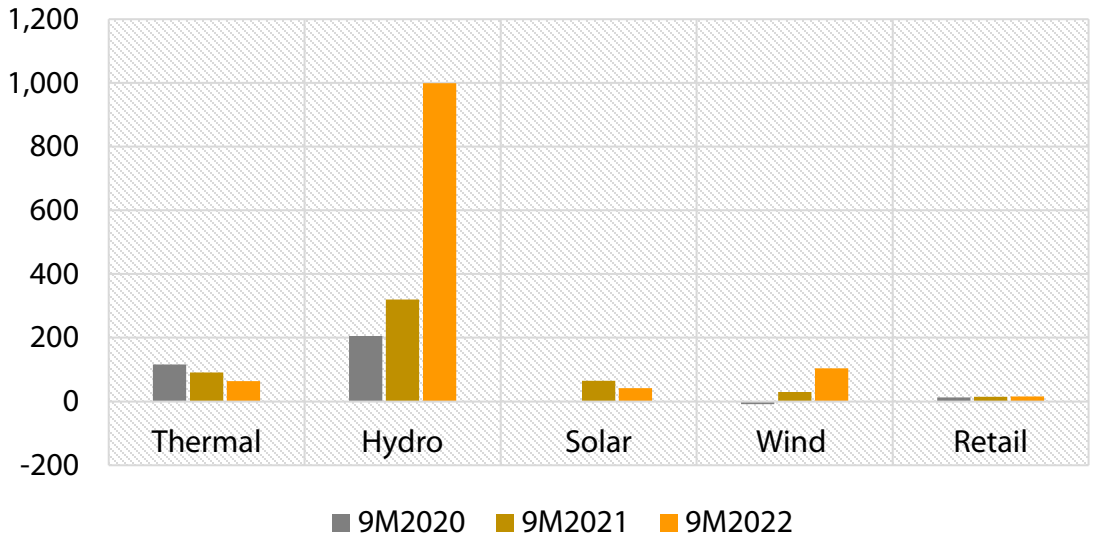
Hydrological conditions may halt the growth momentum in 2023

Figure 1: Power was the main contributor to total NPATMI (VND bn)



Source: REE, Rong Viet Securities

Figure 2: Hydropower was the main pillar of the power segment (VND bn)



Source: REE, Rong Viet Securities

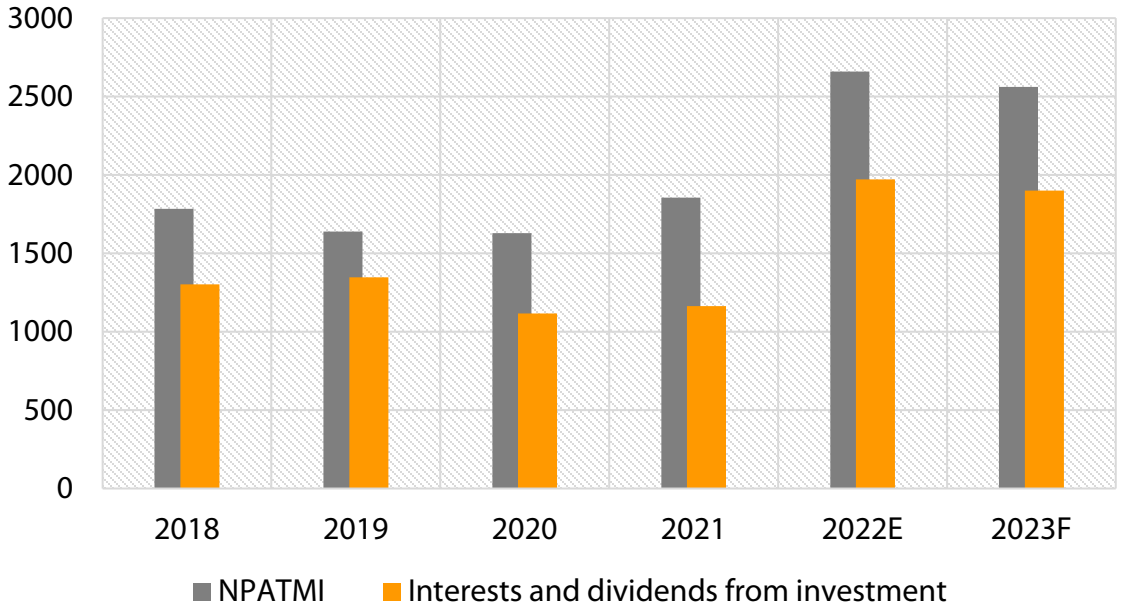
Robust growth in NPATMI in 2022 while the key momentum from the hydropower group will likely fade next year

- The hydropower group has outperformed during 2022 thanks to (1) Tremendous volume boosting by massive rainfall and (2) The selling price in CGM was maintained at a high level during 2022, mainly driven by the thermal material price surge.

Turn to the drought phase, the company retains substantial cash flow

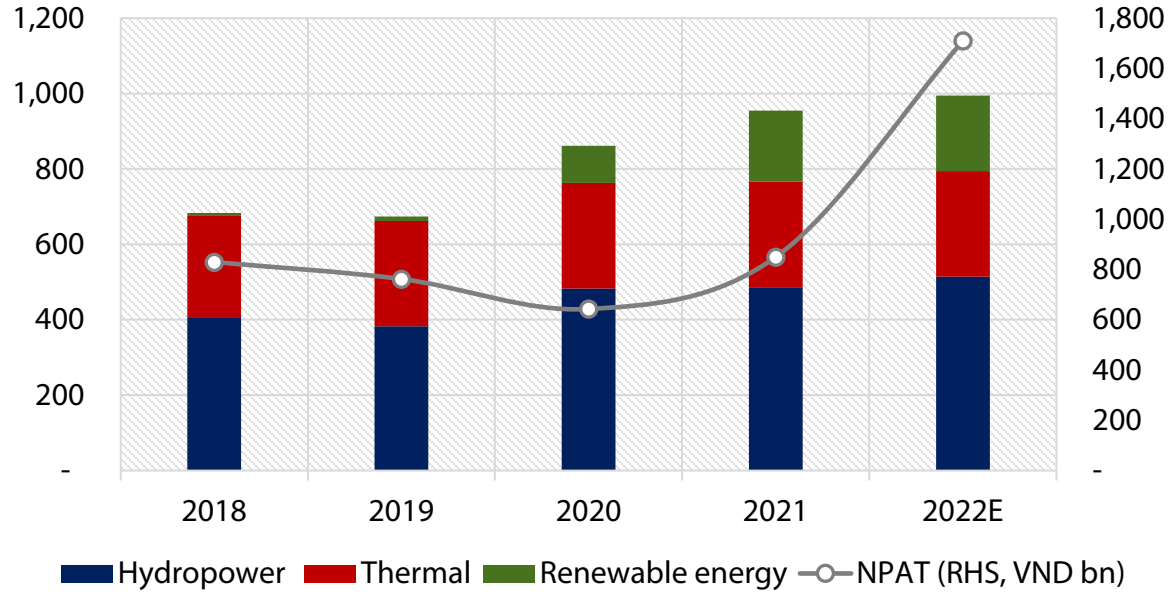
- The company is going to lose those advantages from 2023 owing to (1) Hydrological condition seems not to support hydropower volume in the medium term, (2) Selling price in the Competitive Generated Market will be adjusted sooner as input material price cool down. Hence, earnings in 1H2023 might remain high, and start to drop from 2H2023. During the La Nina phase, REE has accumulated cash flow for the business's expanding vision.

Figure 3: Interest and dividends from investment (VND bn)



Source: REE, Rong Viet Securities

Figure 4: Expansion in the power segment (MW)

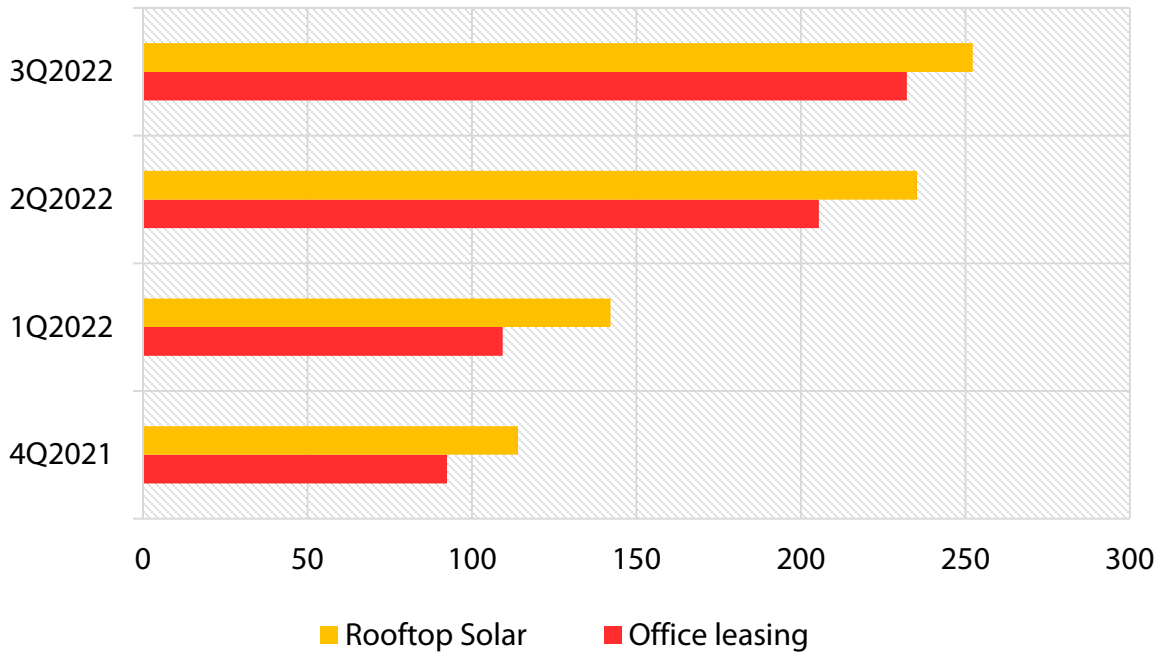


Source: REE, Rong Viet Securities

Having a substantial cash flow in the context of money scarcity, REE is going to expand its business

- Having a substantial and stable cash flow per year from its investment portfolio, hovering around VND 1100 bn (or USD 45 mn), the conglomerate will enlarge its size in the coming years through M&A activities. Year to date, the company has accumulated a small hydropower power plant of 22 MW and a doze of MWp of rooftop solar power.
- Notably, (1) being an experienced player in the renewable energy market in Vietnam, (2) Vietnam remains a huge potential market for renewable energy. REE will likely enjoy those favorable factors to pursue more renewable energy projects consisting of hydropower, solar and wind power plants.

Figure 5: Construction in progress (VND bn)



Source: REE, Rong Viet Securities

Figure 6: Etown6

Source: REE, Rong Viet Securities

Etown6 will fuel the medium-term growth

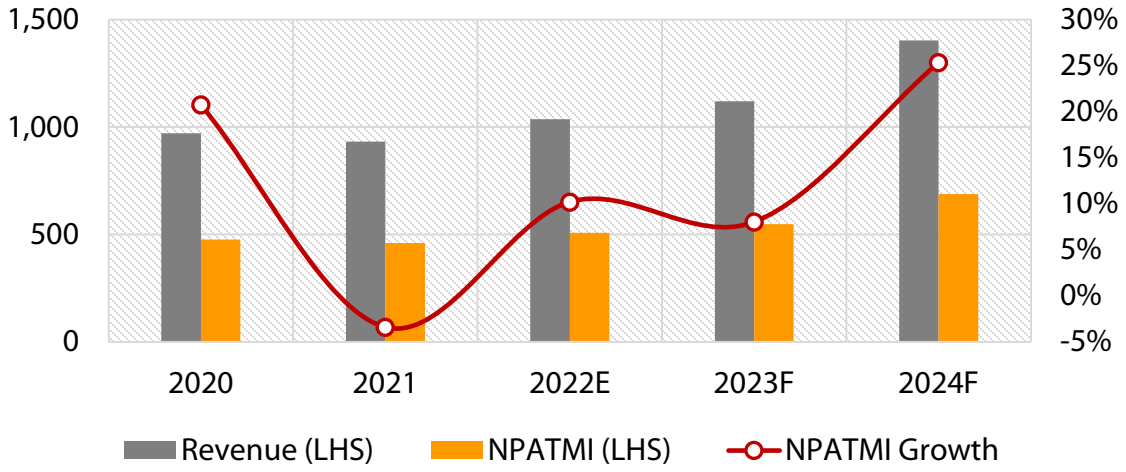
- Earnings from office leasing will gradually grow due to its stable nature. Per our estimation, even with the project kick-off from Nov 2023 the company can earn profit from 2024, adding more than 20% this current segment's NPATMI. Besides, this project is forecasted to bw fully occupied by 2025.
- High net profit margin and cash flow from this segment also raises resources to expand REE's investment portfolio.

Figure 7: NPATMI breakdown

Unit: VND bn	2020	2021	YoY %	2022	YoY %
Total NPATMI	**1,669**	**1,855**	**11%**	**2,752**	**48%**
1. Power segment	694	872	26%	1,710	96%
2. Office leasing & Real estate	513	630	23%	564	-10%
3. M&E	203	103	-49%	137	33%
4. Water segment	259	274	6%	341	25%

Source: REE, Rong Viet Securities

Figure 8: Lay the groundwork for the next drive



Main pillar from the hydroelectricity group

- The hydropower group earnings accelerated in 2022 and it was dominant amongst other groups in the power sector, accounting for 82%/50% of the power's NPATMI/ total NPATMI in 9M2022.
- Office leasing and water segments offer stable profit and cash flow. The first one contributed 30%/34%/23% to total NPATMI while that of the second was 15%/15%/12% in 2020/2021 /9M2022.
- In terms of M&E trading and service, both fierce markets along with severe social distancing hurt since 2021. Profit dropped from VND 240 bn (or USD 9.8 mn) to VND 98 bn (or USD 4 mn) and VND 91bn (or USD 3.7 mn) in 2021/ 9M2022.

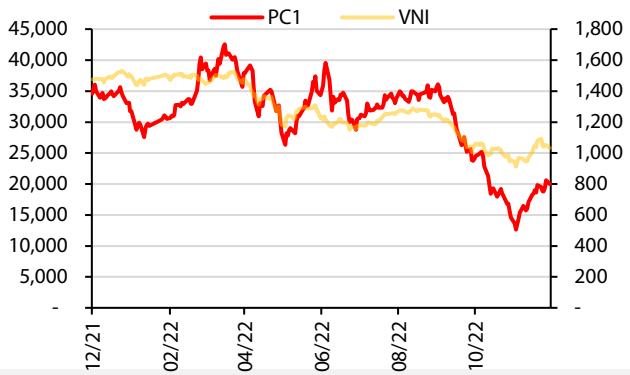
2023 Outlook: Lay the groundwork for the next drive

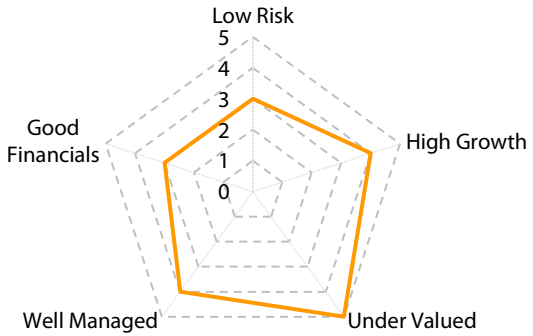
- Net earnings accelerated in 2022, +49% YoY. Those favorable factors driving the company's profit in 2022 are going to fade in 2023 as mentioned before. Profit is forecasted to be a little lower than in 2022 yet substantial cash flow is attractive. Revenue/NPATMI are forecasted to be VND 8,247/ 2,654 bn, -3%/4% in 2023.
- Last but not least, 2023 is the period that the company prepares for the next growth phrase through (1) Etown6 from the office leasing segment; (2) The brand-new power projects are expected to add to REE's portfolio.

Confronting the hazards of rising leverage yet attractive valuation

HSX: PC1

BUY: +30% **MP: 20,000** **TP: 26,000**





STOCK INFO

Sector	Construction & Materials
Market Cap ($ mn)	229
Current Shares O/S (mn shares)	270
3M Avg. Volume (K)	1,914
3M Avg. Trading Value (VND Bn)	44
Remaining foreign room (%)	45.7
52-week range ('000 VND)	11,8 - 43,39

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	9,828	8,400	10,104
NPAT-MI (VND bn)	695	408	664
ROA (%)	2.1	3.2	3.2
ROE (%)	8.0	11.6	11.6
EPS (VND)	2,487	1,357	2,210
Book Value (VND)	17,384	18,851	21,240
Cash dividend (VND)	-	-	-
P/E (x)	8.0	14.7	9.1
P/B (x)	1.2	1.1	0.94

INVESTMENT RATIONALES

The low base in 2022 will lay the foundation for growth in 2023. Utilizing USD-denominated loans at low-interest rates to finance power projects used to be one of the company's edges yet it becomes the headwind in the growing uncertainties. As the result, earnings in 2022 has drop due to (1) VND depreciation and (2) Interest rate hike. It should be noted that most of the financial expenses in 2022 are unrealized losses while the power revenue stream is realized USD-denominated inflow. Therefore, giving the assumption that VND will be depreciated c. 2 – 3% on average in coming years, we believe that part of those unrealized loss will be gradually recovered by the revenue stream. In the best case, if VND appreciates compared to that in 2022, the company will gain financial income.

New adding projects will support growth in coming years

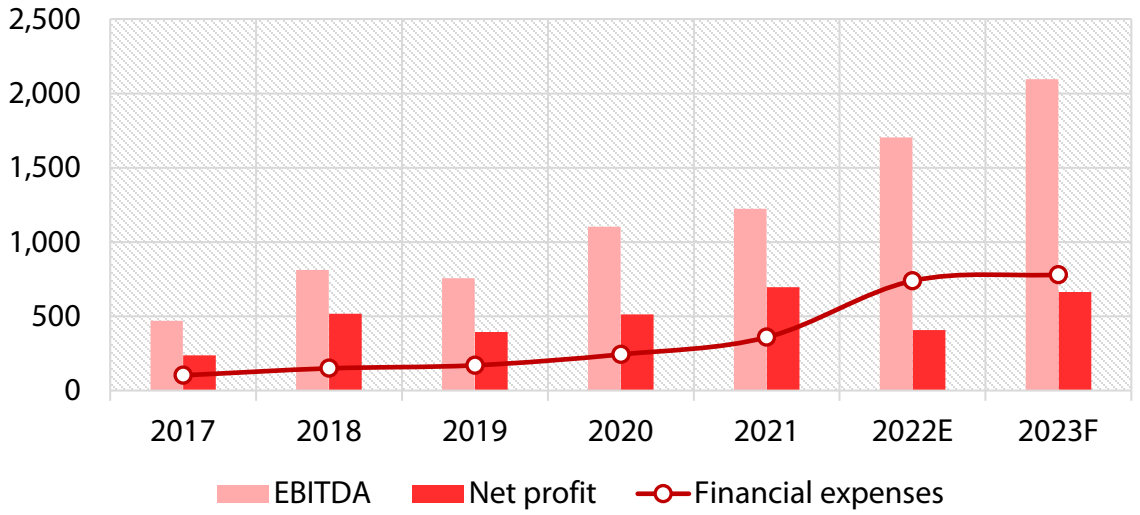
- Nickel mine is expected to be the growth engine in the medium term that expects to kick off in early 2023. In our based case, we expect this sector will contribute to revenue roughly VND950/1300 bn (or USD 39/53 mn) in FY23/FY24 for the 1st phase. The 2nd phase is going to go live by the end of 2025.
- Furthermore, numerous real estate projects will be a plus. PC1 owns four real estate projects and several subsidiaries in industrial parks.

Transient impact by unrealized FX loss making its valuation become attractive. At the market price of VND 20,00, PC1 is trading at the PBR and PER of 1.1x and 14.x, relatively, lower than its 5-year average of 1.3x and 10.3x. Particularly, 2023 forward PBR and PER come at 0.9x and 9.1x, respectively.

RISKS TO OUR CALL

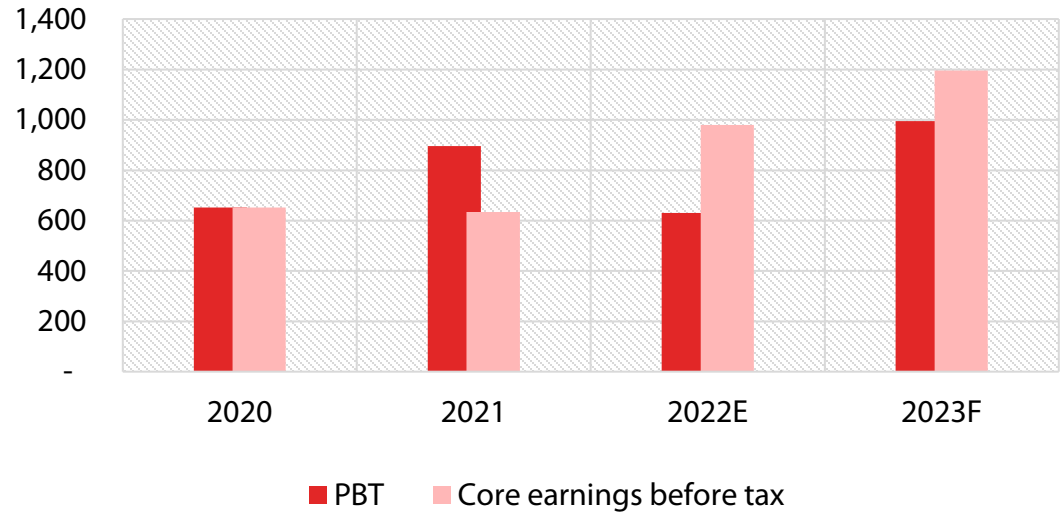
- Downside risk: (1) Nickel ore exploitation might be delayed longer-than-expected. (2) VND depreciated/appeciation steeper than our forecast resulting in higher expenses.
- Upside risk: Power construction and real estate segments' earnings could be recorded sooner and higher than our forecast

Figure 1: Bottom line to reach the 5-year trough in 2022



Source: PC1, RongViet Securities

Figure 2: Core earnings before tax is on an upward trend (VND bn)



Source: PC1, RongViet Securities, we exclude revaluation in 2021 and FX loss in 2022, 2023

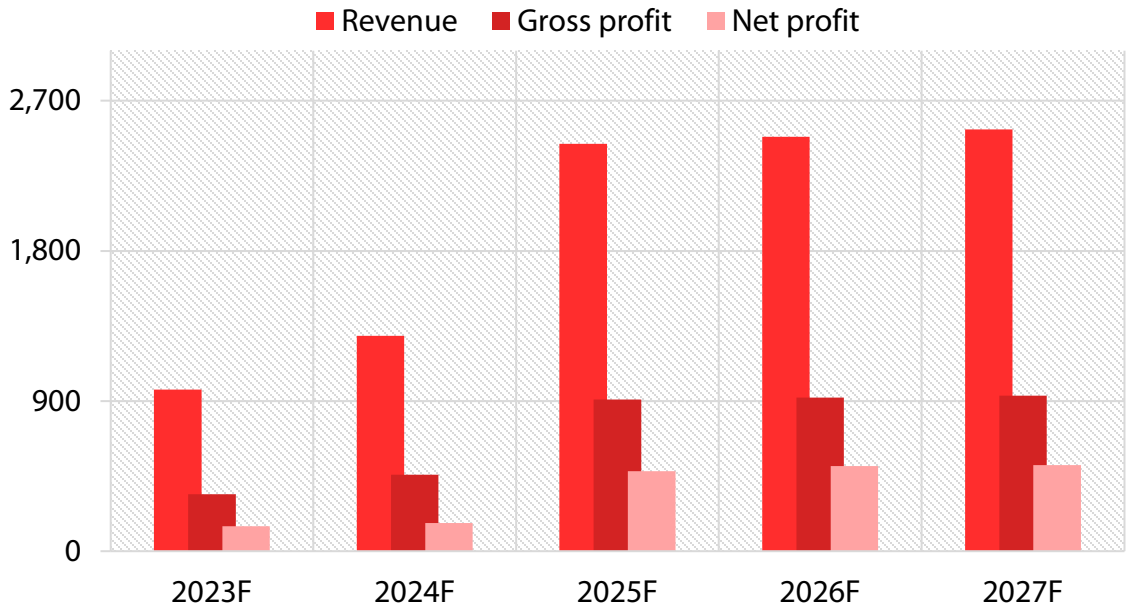
Confronting the hazards of rising leverage in 2022

- Despite the new contribution from the three-wind power farms, NPATMI in 2022 is forecasted to drop by 41% YoY (-6% YoY incase excluding revaluation value in 2021). The surge in financial expenses is the main reason, caused by interest rate hikes and VND depreciation. Notably, most of the financial expenses in 2022 are unrealized losses while the power revenue stream is realized USD-denominated inflow. Hence we believe that part of those unrealized loss will be gradually recovered by the revenue stream.

The bottom line will reach the 5-year trough in 2022 and is set to rebound in 2023

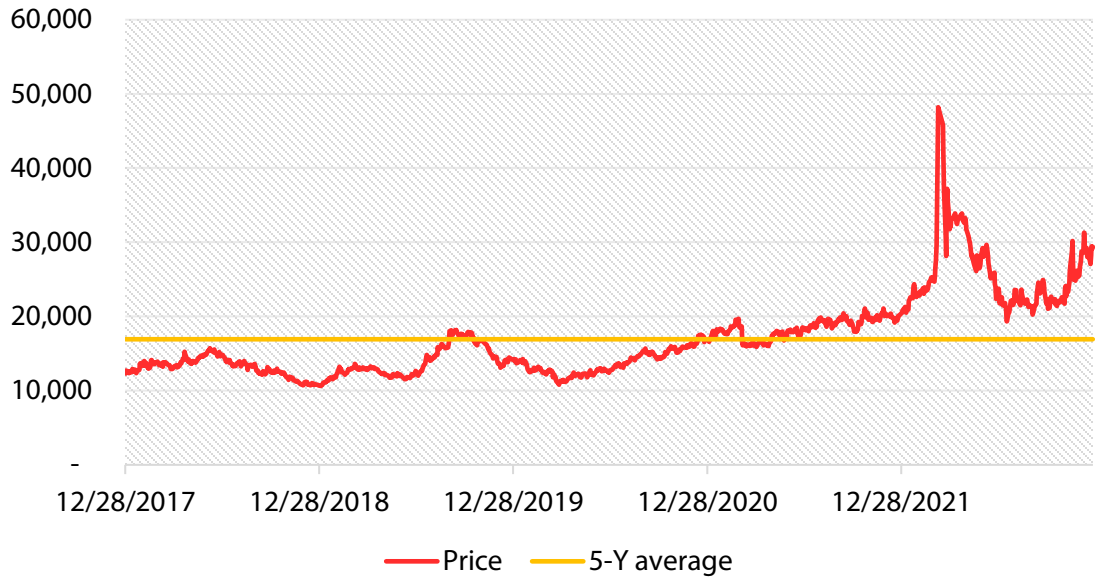
- In 2023, earnings 2023 are forecasted to surge by 60% owing to the new contribution of the Nickel Mine and Industrial Park sectors. The company retains exchange rate risk and high funding cost in the rising uncertainties, yet the magnitude is expected to lower than that in 2022.
- EBITDA has been on an upward trend since 2019, with +39% and 23% in 2022 and 2023, respectively. Meanwhile, the bottom line will likely reach a trough in 2022 and expect to recover from 2023 to VND 549bn (or USD 22 mn, +172% YoY).

Figure 3: Nickel mine revenue and profit projections (VND bn)



Source: PC1, RongViet Securities

Figure 4: London Nickel price (USD/ton)

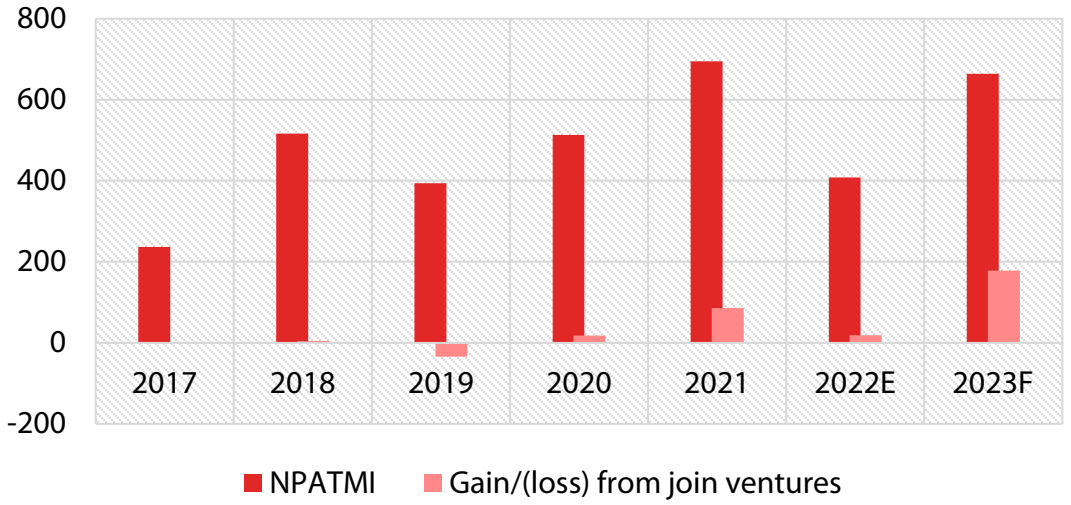


Source: PC1, RongViet Securities

Expect to earn profit from next year

- The nickel-copper mine operated by PC1's subsidiary- Tan Phat Mineral JSC, in which PC1 holds a 58% stake.
- The company expects to kick off 1st phase at the end of 2022, and start to contribute profit from 2023. This sector are forecasted to contribute to revenue roughly of VND950/1300 bn (or USD 39/53 mn) in FY23/FY24, and attribute to the company's NPATMI roughly VND 80-100 bn in FY23 and FY24. However, rising uncertainties of commodity market can lead to unanticipated profit that might distort earnings growth in 2023. We need to closely monitor the company's refined process and its end-product selling price to ensure this segment contribution.
- From 2025, the company plans to bring the 2nd phase of operation, double its volume and earnings.

Figure 5: Industrial park are expected to profit from 2023 (VND bn)



Source: PC1, RongViet Securities

Table 1: Residential real estate projects

Projects	Area (m2)	Description
Gia Lam	7000	54 low-rise apartments
Dinh Cong	15,000	83 low-rise apartments
Vinh Hung	5,160	• Mixed-use high-rise buildings: 27 floors, 3 basements • Mixed-use high-rise buildings: 5 floors, 1 basements
Thang Long	20,000	• Mixed-use high-rise buildings: 27 floors, 3 basements • Low-rise commercial buildings: 4 commercial floors, 1 basement

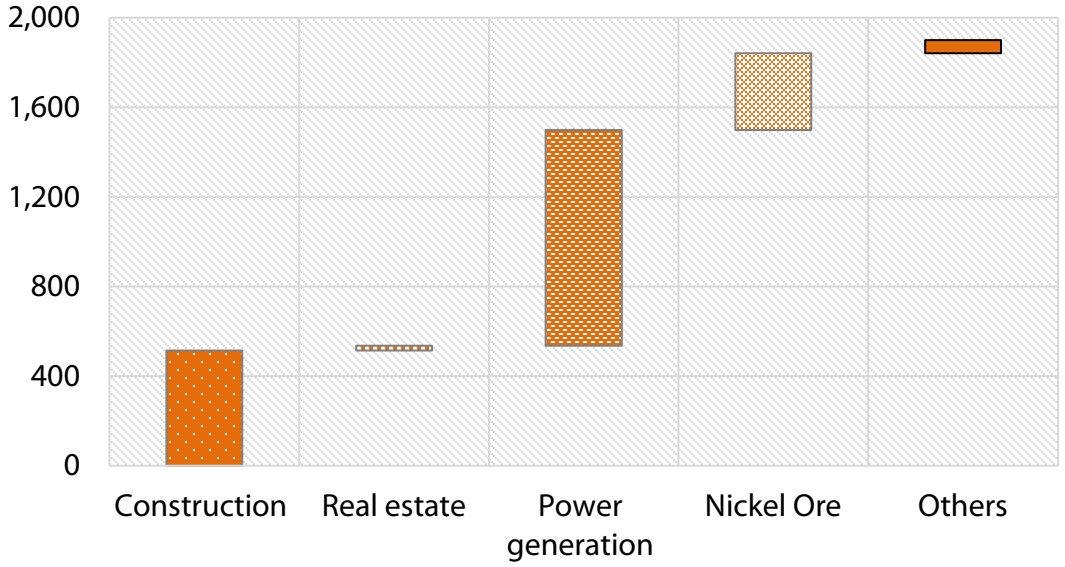
Source: PC1, RongViet Securities

Industrial Park sector

- Holding a 30% stake of Western Pacific, PC1 is going to realize part of the industrial park projects under this group next year. PC1 expects to record Yen Phong II in 2023 and Yen Lenh project in late 2023. Per our estimation, the two projects will contribute roughly VND 150 bn and 90 bn (or USD 6 and 3.7mn) to total NPATMI in FY23 and FY24, respectively.
- Aside from Western Pacific, PC1 also merge an aged industrial park named Nomura and will soon consolidate to its financial statement. The main reason is to hold an experienced license in IP and approach the potential customer base to fuel the industrial park sector in the long run.

Four real estate projects await to unlock. Currently, PC1 has four projects in its pipeline (Table 1) that the company expects to record between 2023 and 2025. The company expects to handover Gia Lam and Dinh Cong in 2023 while the remaining projects might prolong longer than expected. However, there has been no construction permit yet, so we have not reflected those projects in our valuation.

Figure 6: Power is the majority of gross profit in FY23 (VND bn)



Source: PC1, RongViet Securities

Table 2: Business Forecasts

Unit: VND Bn	9M2022	YoY %	FY22E	YoY %	FY23F	YoY %
Gross profit	**1,091**	**32%**	**1,551**	**14%**	**1,950**	**26%**
Construction	369	-11%	514	-7%	585	**14%**
Real estate	19	-47%	20	-49%	22	**12%**
Power generation	678	145%	984	86%	963	**-2%**
Nickel Mine	-	-	-	-	342	-
Others	25	34%	33	2%	37	**10%**
PBT	**303**	-56%	**630**	-30%	**995**	58%
NPAT-MI	**262**	-52%	**408**	-41%	**664**	63%
EPS (VND)	**968**	-77%	**1,299**	-49%	**2,115**	63%

Source: RongViet Securities

Power-related segment dominates earnings. For 9M2022, PC1 earned VND 262 bn (or USD 10.7 mn) in net profit term, -10% YoY. In terms of gross profit, the power generation group grew by 145% thanks to new contribution of wind power farms while other sectors dropped. Power generation and construction accounted for 62% and 34% of total gross profit, respectively. Despite the moderate gross profit, financial expenses outpaced gross profit growth, and edged up 220%, resulting in a fall in NPATMI. Nevertheless, most of the financial expenses are unrealized.

2023 Outlook: Bounce back

Nickel Mine and IP real estate will drive the company's profit in 2023. Financial expenses might ease and NPATMI to surge 60% YoY compared to that in 2022. The company might earn higher earnings than our forecast next year based on the VND exchange rate.

STEEL INDUSTRY

MILDER HEADWINDS

Tam Pham – tam.ptt@vdsc.com.vn

STEEL – MILDER HEADWINDS

Negative	Neutral	Positive

Rating

Overview

After a particularly favorable year for production and selling in 2021, the steel industry has experienced many difficulties in 2022 in both export and domestic markets. Q3/2022 signals the beginning of a downturn with consumption slumping and selling prices weakening amid fierce competition. The challenges will not end soon when the negative effects of political conflicts, post-Covid economic recession and inflation could linger for the next few years.

Highlights

Domestic demand will play a key role in revenue growth in 2023 while difficulties tend to rise in the export markets. We expect consumption in the construction steel and steel pipe segment, which have higher proportions of domestic consumption, to grow faster than GDP, while coated steel production will recover slowly from mid-2023.

- **Domestic consumption in Q4/2022 and 2023 could be supported by public investment**, in line with the Government's goal of ensuring economic growth. Domestic demand weakened in Q2 and Q3/2022 due to the pressure from tight credit inflows and rising interest rates, along with slow disbursement of public investment. However, public investment has become more active recently with disbursements since August increasing significantly compared to the average of 7M 2022. Resident construction is not projected to recover in 2023, given that funding for this sector is still limited.
- **Steel exports will be subdued in the following quarters before gradually increasing from mid-2023** as pressure on interest rates eases globally. Global investment and consumption demand and indirectly steel demand shrank in 2022 because of rising interest rates and weakening purchasing power. This will continue when the wave of tightening monetary policy is forecast to prolong until May 2023. However, it is hard for exports to increase sharply 2H2023, in the context of increasing competition challenges and trade barriers.

Gross profit margin is difficult to recover due to weak consumption. Prices of coking coal, iron ore and scrap steel will fluctuate in a narrow range around the price level at 2022-end because of the low demand for raw materials stockpiling of upstream factories globally. Selling prices will increase gradually from Q3 in both domestic and export markets.

Exchange rate and interest rate pressure on financial expenses. VND will continue to depreciate against the USD and debt interest rates will increase at least until mid-2023, following the Fed's interest rate hikes, creating a burden on financial costs for businesses, who have been struggling with the gloomy business operations. Companies are and will limit the impacts of exchange rate and interest rate issues by tightening borrowing needs and managing working capital more closely.

Risks

- The Russian-Ukraine war ended earlier than expected, reducing the tension on the supply of raw materials for steel production.
- China increased economic stimulus and lessen most of the Covid-19 prevention measures from 2022-end.
- Consumption and investment fell more than expected due to factors of sustained high inflation and rising interest rates.

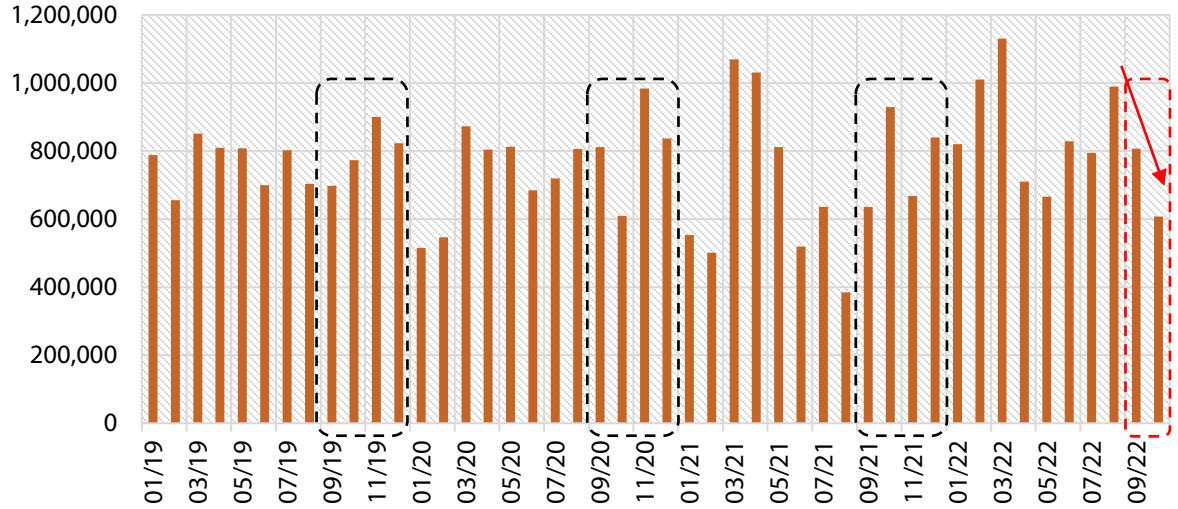
In 2023, Government will speed up investment in infrastructure projects, which will support domestic steel demand, especially construction steel.

- According to the medium-term public investment plan for the 2021-2025 period, the total planned public investment capital for the 2021-2025 period will reach VND 2.87 trillion, up 43.5% compared to the 2016-2020 plan. Disbursement of public investment has accelerated gradually in Q4/2022.
- Traffic projects weighted a large proportion with the total expenditure reached VND 507.4 trillion, accounting for 46.6% of the central budget allocation plan for medium-term investment. Hence, construction steel manufacturers could be benefited. (HPG, Formosa, POM).

The real estate industry was quiet in 2022 and is expected to have not recovered in 2023.

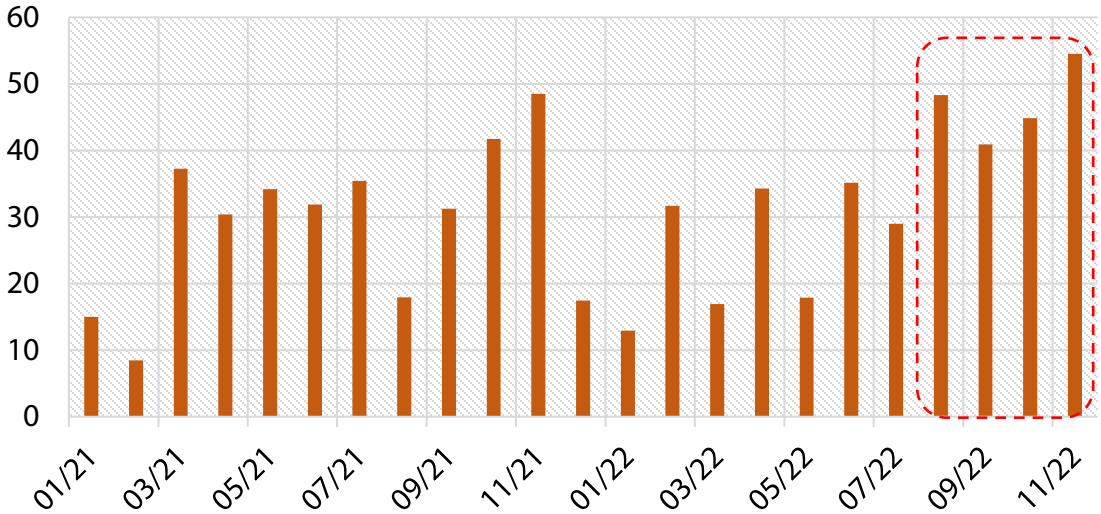
- The capital mobilization channels of residential real estate developers are congested due to the policy of controlling bank credit to real estate sector, the tightening of the private corporate bond issuance mechanism and the decline in investor confidence after legal events related to some large real estate enterprises.
- According to the Ministry of Construction, the number of projects licensed and eligible to open for sale of commercial housing in 9M22 decreased by -49% YoY and -24% YoY. That of land and resort projects fell -56% YoY and -54% YoY. The issue of supply-demand mismatch will not be resolved in the short term, while a rapid increase in home loan interest rates will reduce the absorption capacity of projects.

Figure 1: Domestic construction steel consumption (tons) has gradually decreased in 2022-end due to the correction of the real estate industry, in contrast to the annual seasonality



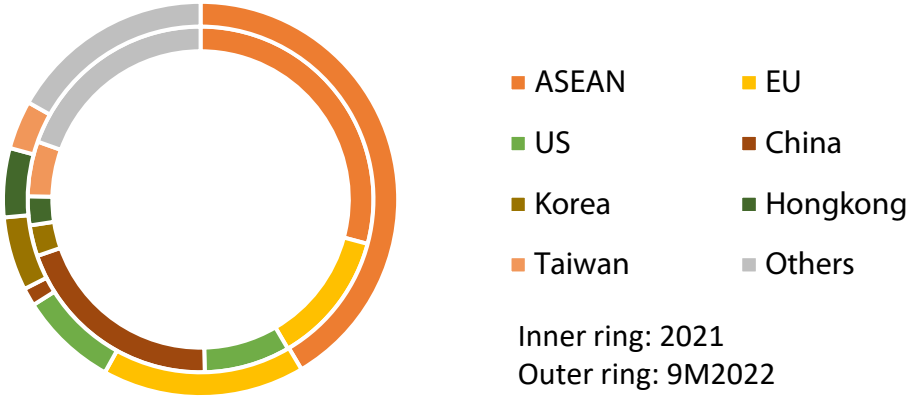
Source: Vietnam Steel Association (VSA)

Figure 2: Accelerating public investment disbursement will drive construction steel consumption in Q4/22 and 2023



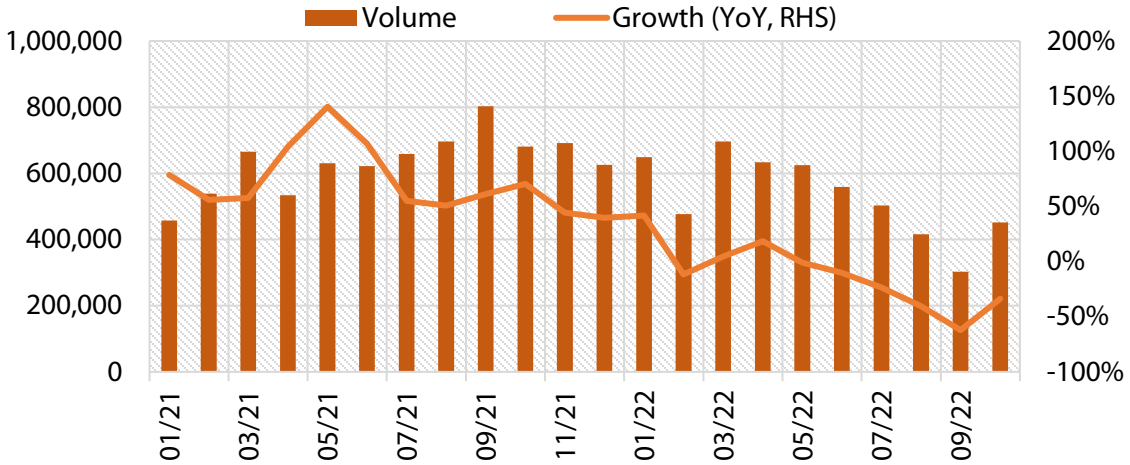
Source: The Ministry of Planning and Investment, RongViet Securities

Figure 3: ASEAN, EU and US are the main steel export markets of Vietnam in 2022



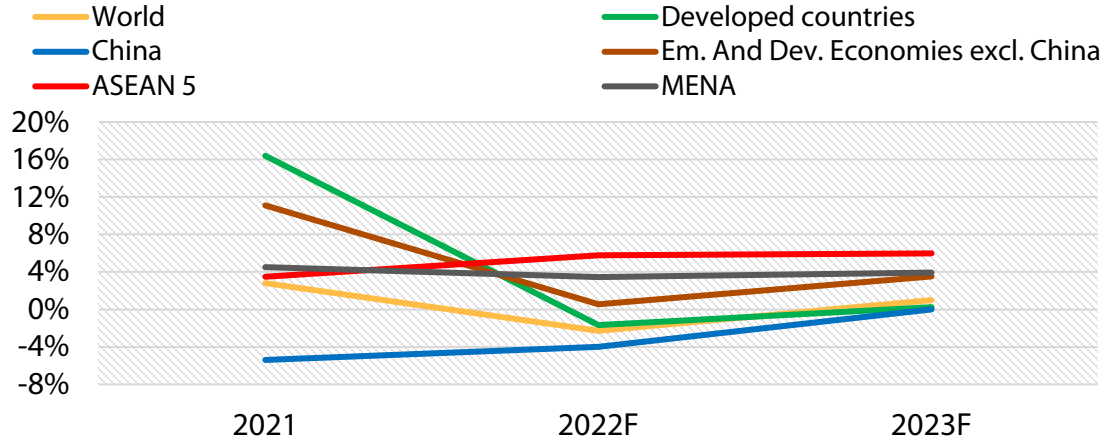
Source: VSA, RongViet Securities

Figure 4: Steel export volume (tons) in 10M2022 down 33% YoY



Source: VSA, RongViet Securities

Figure 5: Global steel demand is forecasted to recover slightly in 2023, Southeast Asia leading growth



Source: World Steel Association (WSA)

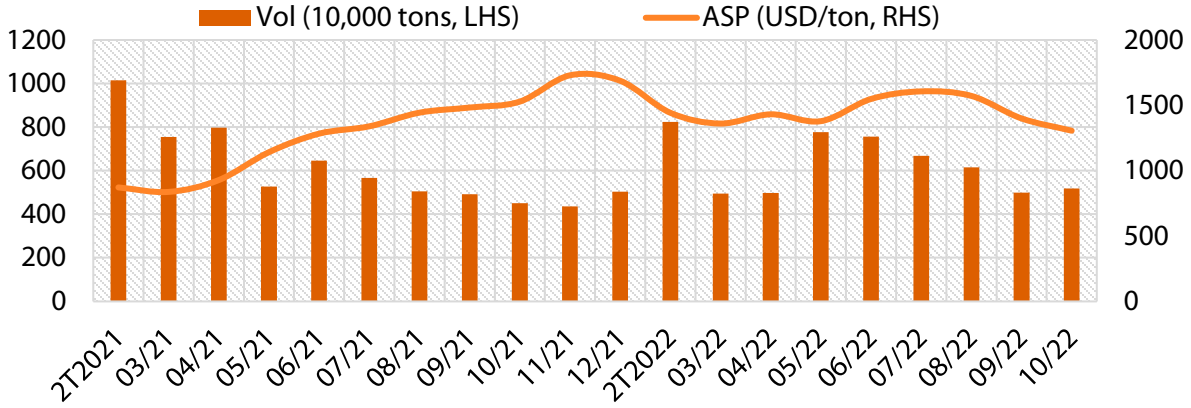
Fast rising inflation and the wave of global monetary policy tightening reduce investment and consumption demand, leading to a weakening of consumption of steel from Q3/2022 and lasting until mid-2023.

- ASEAN is project to lead the growth in steel consumption thanks to the strong investment orientation for infrastructure.
- Europe will enter a mild recession in 2023, causing the region's steel demand to decline for the second consecutive year. European production and consumption growth could be limited for several years due to high energy prices.
- US steel consumption will still grow in 2022 and 2023 thanks to the rebound in car demand after the pandemic, a reduction in supply chain congestion and increasing investment in energy exploitation.

Competition and trade barriers are increasing.

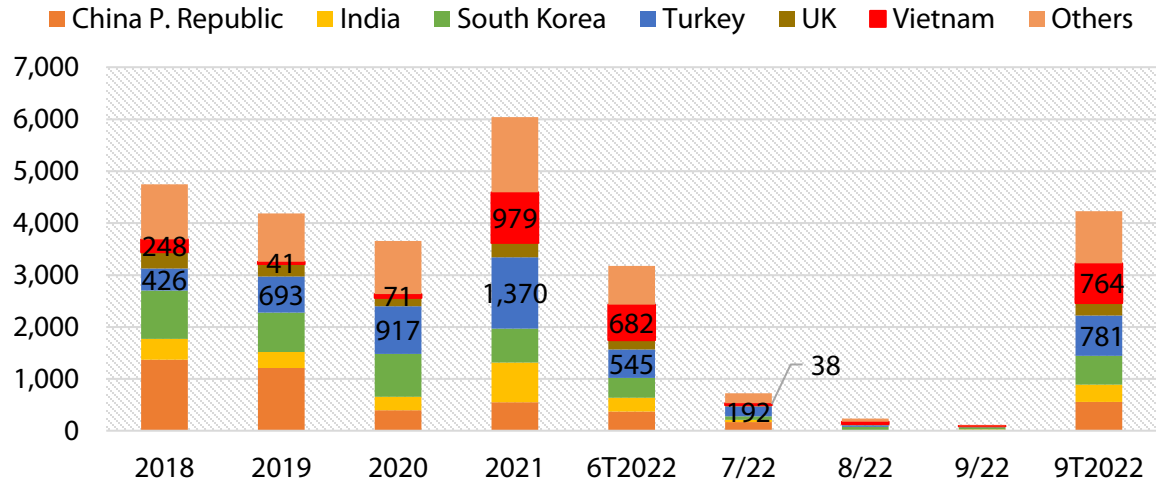
- *China* has increased exports to offset weak domestic demand. Homebuyer confidence declined due to the prolonged Zero Covid policy and many real estate developers went bankrupt. Increasing public investment is a positive factor but not enough to stimulate a strong recovery in domestic steel demand.
- *US* eases import quotas for Japanese, EU and UK steel from early 2022.
- *EU* has tightened protection measures on coated steel (group 4A) of Vietnam from July 1, 2022 to June 30, 2024. From July 1, 2020 to June 30, 2022, the EC exempts Vietnam from quotas, which is a favorable condition for Vietnam to increase its exports of coated steel to the EU in 2021. Additionally, EU steel producers are submitting the EC to impose anti-dumping tax on imported steel.
- *India* in end-Nov removed the export tax of 15% for its steel and signed an FTA with Australia to boost steel export to Australia while removing the import tax on metallurgical coal and thermal coal (2.5%) from Australia.

Figure 6: China boosts steel exports in year end with continuously falling selling prices



Source: China Customs, RongViet Securities

Figure 7: EU imports of galvanized steel (thousand tons) from non-EU countries. The volume from Vietnam skyrocketed in 2021, causing the EU to increase protection measures for the domestic steel industry



Source: EUROFER, RongViet Securities

Table 1: Latest EU import quotas for coated steel (group 4A, thousand tons). Vietnam will compete with Turkey in the group of "Others"

Countries	From July 1, 2022 to June 30, 2023	From July 1, 2023 to June 30, 2024
South Korea	143.3	149.0
India	204.8	213.0
UK	135.0	140.4
Others	1,802.5	1,874.6

Source: EC, RongViet Securities

STEEL PRICES HAVE DROPPED DEEPLY BUT HARD TO REBOUND

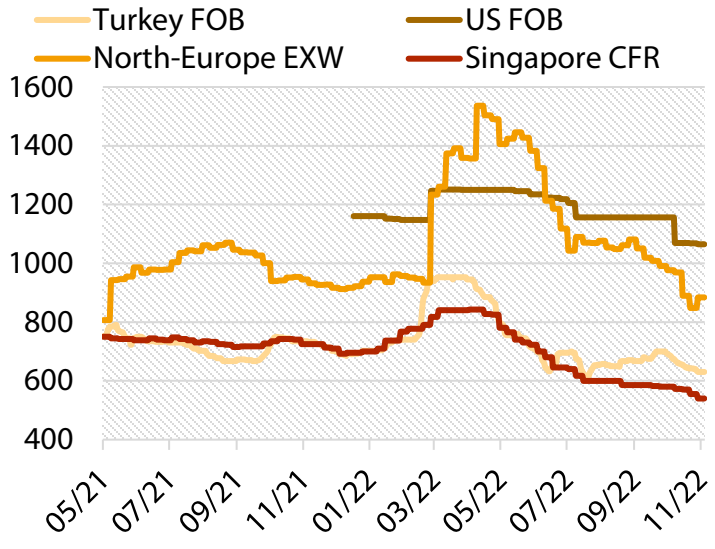
Falling demand pulled steel prices down rapidly from May 2022, but the decline has slowed down. Prices have increased from mid-December.

- Most of the upstream producers such as Formosa Ha Tinh, Hoa Phat, Pomina, etc. have drastically reduced their capacity mobilization. The same situation is also winessed in many parts of the world (China, EU, Japan, etc.). As a result, the falling momentum of global steel prices has been restrained and prices have gradually increased from mid-December when there was news that China will gradually lift quarantine measures. However, not many factors underpin the rise of steel prices in the beginning of 2023 when the number of new infections in China is expected to skyrocket, making it difficult for manufacturing and construction activities, while Vietnam's domestic demand remains low, at least until after Tet holiday.

Declining competition from mid-2023 facilitates a recovery in steel prices.

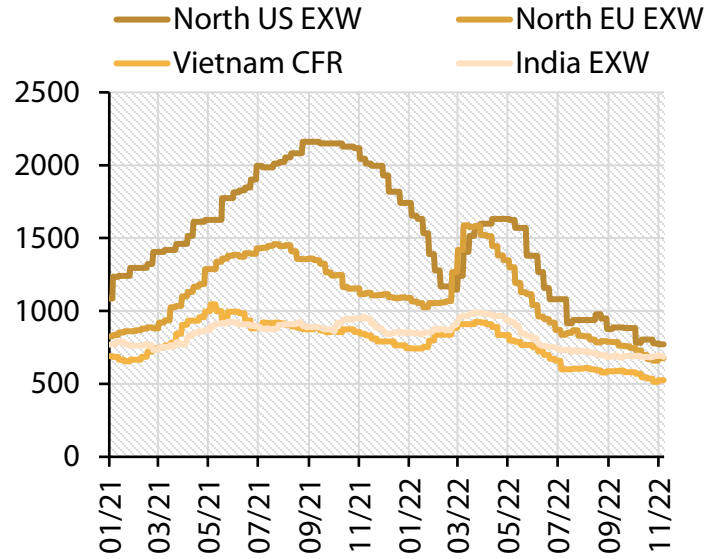
- Domestic price competition among Vietnamese manufacturers will fall as high-priced inventories accumulated in 2022 will be gradually sold out in the coming months.
- Export competition and import competition increased as many major players (China, India) boosted exports to Southeast Asia in the first half of the year. China's economic activities will normalize from Q3/2023, the country's steel consumption will focus on domestic. Accordingly, the steel prices may fluctuate around the current level or decrease slightly before gradually increasing from mid-2023 thanks to the return of demand in the EU and American markets and reduced competition from China.

Figure 8: Construction steel price (USD/ton)



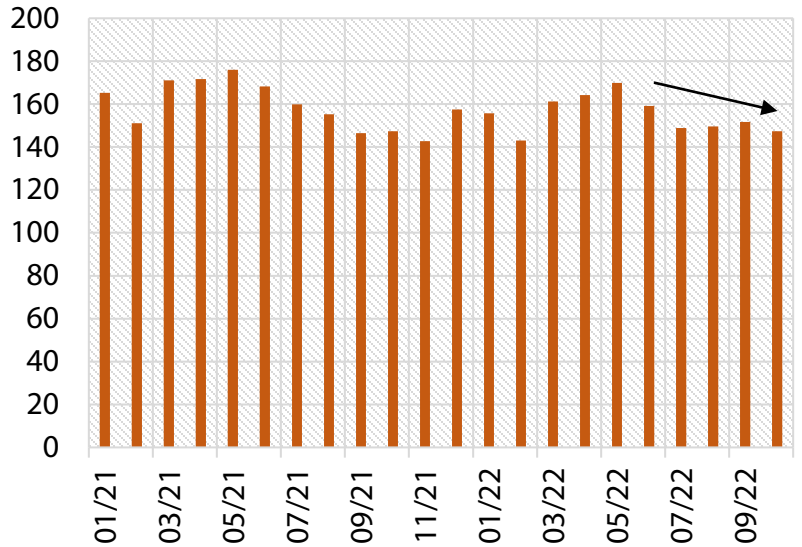
Source: Bloomberg

Figure 9: HRC price (USD/ton)



Source: Bloomberg

Figure 10: World crude steel output (million tons) declined since the beginning of Q2/22, helping to restrained the fall of steel prices



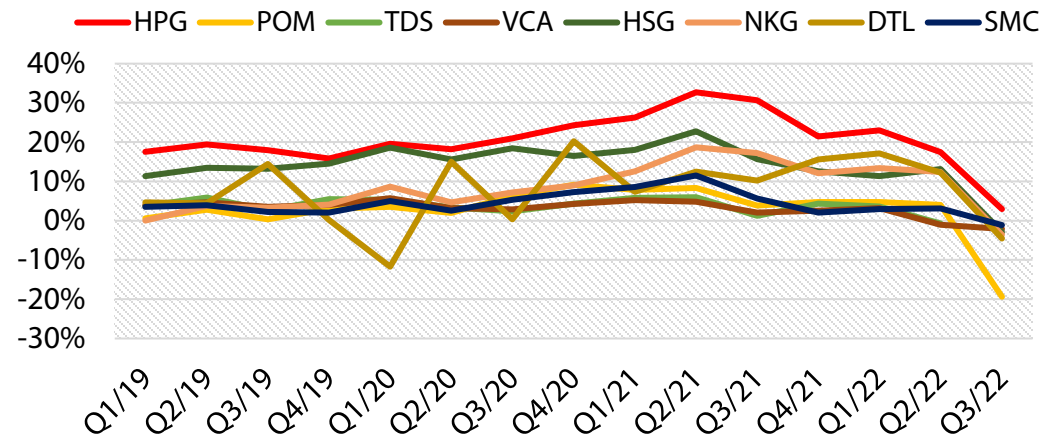
Source: WSA

Profit margin (gross and after-tax) of steel companies gradually declined from Q2 and turned loss in Q3/2022, due to falling steel prices, high raw material prices, combined with exchange rate pressure and interest rates increase. We deem that the profit picture of steel companies will still not better in the short term Q4/2022 in the trend of not much increase motivation for steel prices, weak consumption along with increasing interest rates.

Dim prospect of profit margin recovery in 2023

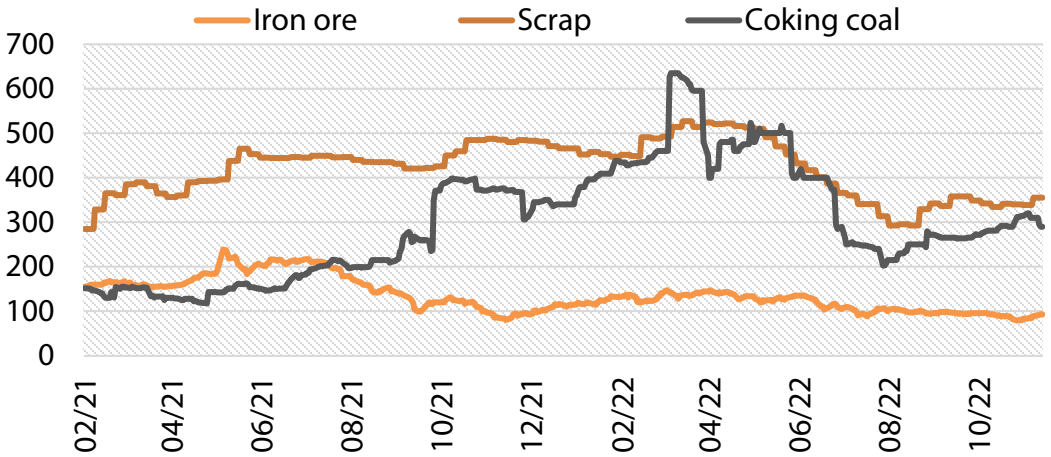
- After a very volatile year affected by the Russian-Ukrainian war, prices of coking coal, iron ore and scrap steel will have a "softer" year when world steel demand is forecasted to be quiet in 2023. Similar to steel prices, prices of steelmaking materials are expected to fluctuate in a narrow range around the price level at the end of 2022 due to the low stockpiling demand for raw materials of upstream mills globally and only marginally higher at the end of the year.
- Gross profit margin of businesses, both upstream (HPG, Formosa, POM, etc.) and downstream (NKG, HSG, SMC, etc.) will expand slightly from Q3 onwards on the basis of recovering exports.
- The burden of VND devaluation and rising interest rates is still considerable. Businesses are and will limit the impact of exchange rate and interest rate issues by tightening borrowing needs and managing working capital more closely.

Figure 11: Profit margin of steel companies fell from Q2/2022



Source: Companies data, RongViet Securities

Figure 12: Raw material prices (USD/ton) will be stable around the end-2022 level



Source: Bloomberg, RongViet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap. ($mn)	Target price (VND)	Closing price (12/12/2022)	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
						2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
HPG	4,562	21,300	18,600	0	27.8	66.1	-6.9	-7.8	1.5	-72.0	53.6	8.7	5.2	13.1	8.3	0.9	2.0
HSG	304	14,300	12,050	0	42.1	77.0	2.0	-30.6	2.7	-94.1	70.1	4.0	2.7	35.3	13.8	0.8	1.1
NKG	138	N.R	12,450	0	40.1	143.7	-23.5	-17.7	6.5	-133.4	-51.7	-16.3	-6.4	-4.4	14.0	0.7	1.0
SMC	32	N.R	10,250	N.A	-20.3	35.5	N.A	N.A	1.9	N.A	N.A	-0.5	-0.1	N.A	4.5	0.3	0.8
DTL	69	N.R	27,000	N.A	49.0	-30.0	N.A	N.A	16.3	N.A	N.A	1.2	0.6	140.9	N.A	1.6	1.8
POM	62	N.R	5,260	N.A	41.1	42.6	N.A	N.A	-3.7	N.A	N.A	-22.5	-5.9	N.A	N.A	0.5	0.8
TDS	8	N.R	14,800	N.A	48.0	7.5	N.A	N.A	1.2	N.A	N.A	14.0	9.3	4.6	5.5	0.6	0.6
VCA	7	N.R	10,550	N.A	40.5	21.0	N.A	N.A	0.8	N.A	N.A	-8.6	-3.7	N.A	6.1	0.9	0.8

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

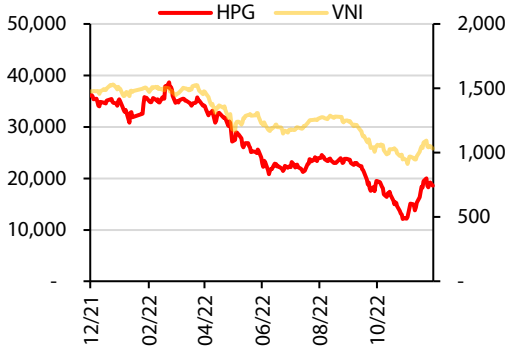
PE, PB AND ROE (TTM)

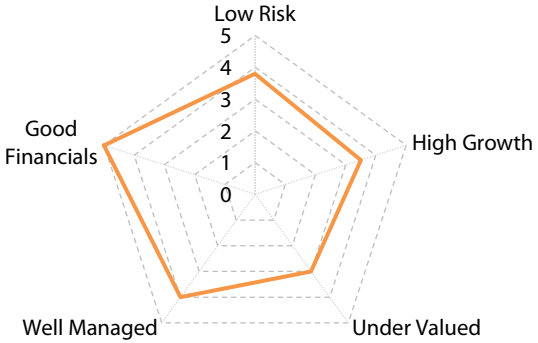
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

RELYING ON PUBLIC INVESTMENT

HSX: HPG

ACCUMULATE: 15% **MP: 18,600** **TP: 21,300**





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	4,581
Current Shares O/S (mn shares)	5,815
3M Avg. Volume (K)	34,781
3M Avg. Trading Value (VND bn)	589
Remaining foreign room (%)	27.8
52-week range ('000 VND)	11.8 – 40.38

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	149,680	139,320	128,476
NPATMI VND bn)	34,478	9,667	14,846
ROA (%)	19.5	5.2	7.0
ROE (%)	38.0	8.7	12.3
EPS (VND)	7,246	1,786	2,743
Book Value (VND)	20,261	21,794	23,657
Cash dividend (VND)	500	500	1,000
P/E (x)	6.0	13.1	8.5
P/B (x)	2.3	0.9	0.9

INVESTMENT RATIONALES

Construction steel to drive sales growth

- The stronger public investment disbursement for GDP growth in 2023 will be the main driver of construction steel consumption. Headwinds will come in the stagnancy of the domestic residential real estate market and prolonged high inflation globally.
- Total steel consumption in 2023 is expected to grow slightly 6% on the low base of 2022. Construction steel will recover sooner than flat steel as flat steel sales depend more on foreign markets while competition and trade barriers have turned tougher.

Profit margin slowly recovers from Q3 2023, supported by export recovery

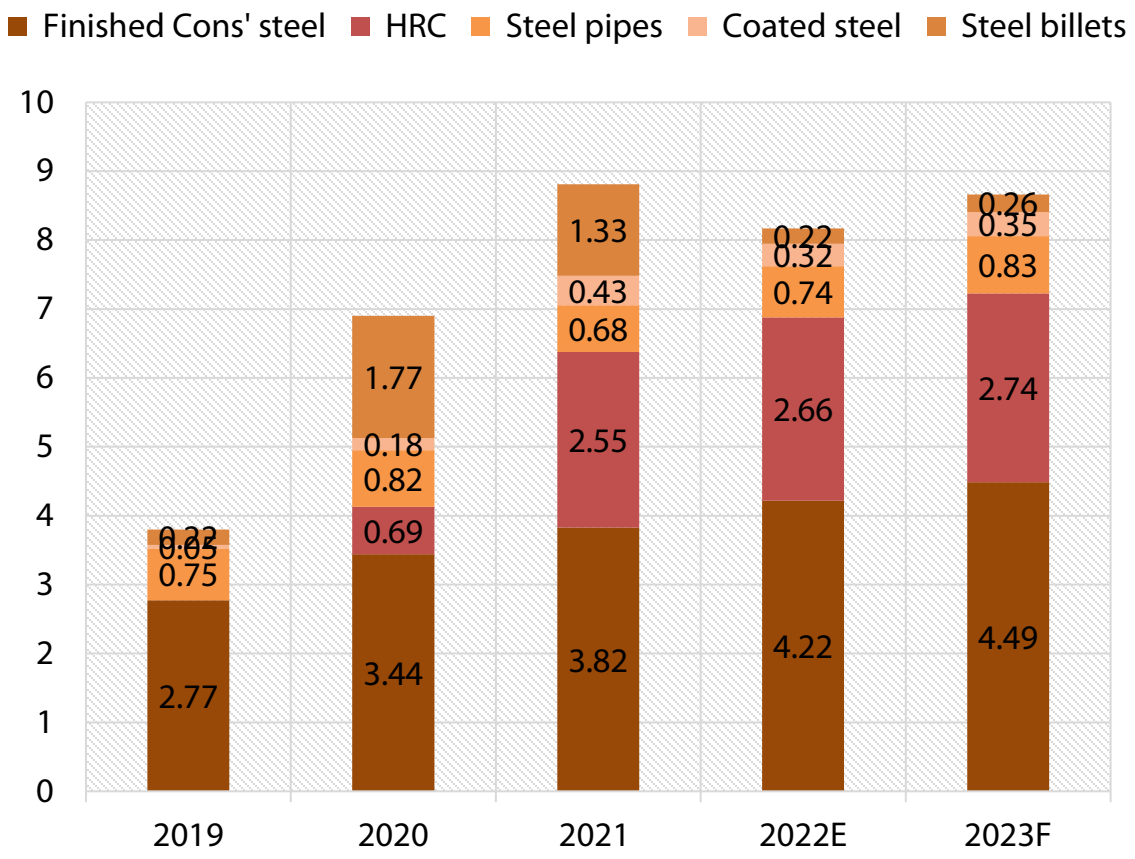
- Prices of steelmaking materials are expected to fluctuate in a narrow band around the price level at the end of 2022 due to the low stockpiling demand for raw materials of upstream mills globally.
- Upstream producers have drastically reduced their capacity mobilization. Construction steel prices could return to the upward trend before flat steel.
- VND devaluation and rising interest rates continue to hurt financial expenses but the magnitude of the impacts will be lower than in 2022.

RISKS TO OUR CALL

- Potential disruptions in China's reopening cause steel consumption and selling price lower than expected.

CONSTRUCTION STEEL DRIVES SALES IN 2023

Figure 1: Construction steel consumption in 2023 is backed by accelerating public investment disbursement while flat steel will grow at a slower rate amid tougher competition and trade barriers (million tons)

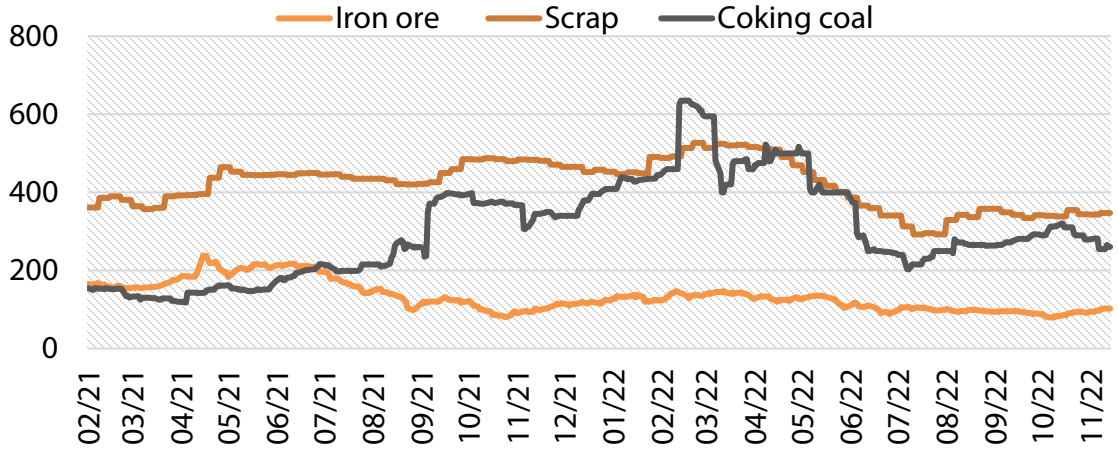


Source: VSA, RongViet Securities

Total steel consumption is forecast to slightly rise by 6% YoY to 8.66 million tons with construction steel leading the growth.

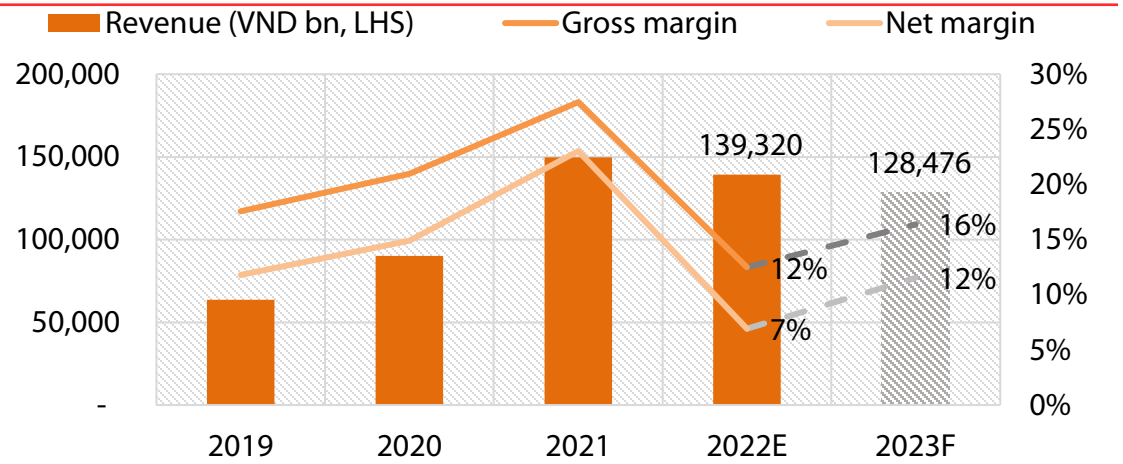
- Construction steel output could reach 4.74 million tons, up 6.9% YoY. Accelerating public investment disbursement in infrastructure projects from end-2022 will be the key driver. The stagnancy in the domestic residential real estate market in 2023 is likely to limit construction activities and consequently the construction steel sold to the sector.
- HRC output rise at a lower rate of 2.8% YoY to 2.74 million tons. Coated steel and steel pipes selling volume will come at 348 thousand tons (+7.6% YoY) and 831 thousand tons (+12% YoY), respectively.
- The HRC market will face stronger competition with Indian HRC as in Dec 2022 the Indian government lifted the export tax of 15% on steel (imposed from May 2022). India used to be the largest HRC exporter to Vietnam in 2021. Export of coated steel is expected to rise gradually from Q3/2023 amid tougher competition and trade barriers in large export markets. The growth of steel pipes will be supported by the high growth of the industrial park construction.

Figure 2: Steel making material prices (USD/ton) will fluctuate in a narrow range from the end of 2022



Source: Bloomberg, RongViet Securities

Figure 3: Margins will recover slowly



Source: HPG, RongViet Securities

Gross profit margin slowly recovers from Q3/2023, supported by export recovery

- The weak and uncertain rally in steel demand in 2023 combined with pressures from currency devaluation and interest rate hikes tend to demotivate steel mills in stockpiling materials. Prices of steelmaking materials are expected to fluctuate in a narrow band around the price level at the end of 2022.
- Steel prices tended to make a bottom at end-Nov 2022 as upstream producers have drastically reduced their capacity mobilization. Due to the larger part of domestic market in sales and higher demand, construction steel prices could return to the upward trend before flat steel.
- High-priced materials has been passed into sales and material discharge during 2022.
- 2023 GPM could come at 17.5%, vs. 13.2% of 2022.

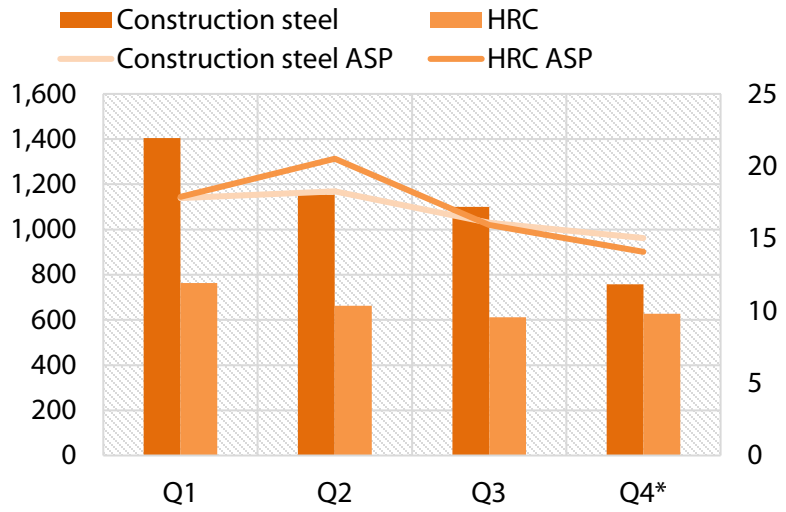
Less stresses on financial expenses

VND devaluation and rising interest rates continue to hurt financial expenses but the magnitude of the impacts will be lower than in 2022 thanks to reduction in borrowings and lower expected VND depreciation compared to 2022.

Steel demand cooled down from Q2 amid the impacts of post-pandemic economic downturn and high inflation, beside the strong adjustments of the domestic real estate sector. **Material prices, especially coking coal, volatiled turbulently** as a result of excessive worry at the beginning of the Russian-Ukrainian war and the consequent disruptive sanctions. Coking coal prices increased sharply in March and April 2022 and fell rapidly from May. Tightened monetary policy to curb inflation caused borrowing costs to rise sharply and strong VND depreciation against USD inflated financial expenses, on the back of HPG's nature of high exposure to material import and USD borrowing in its business model.

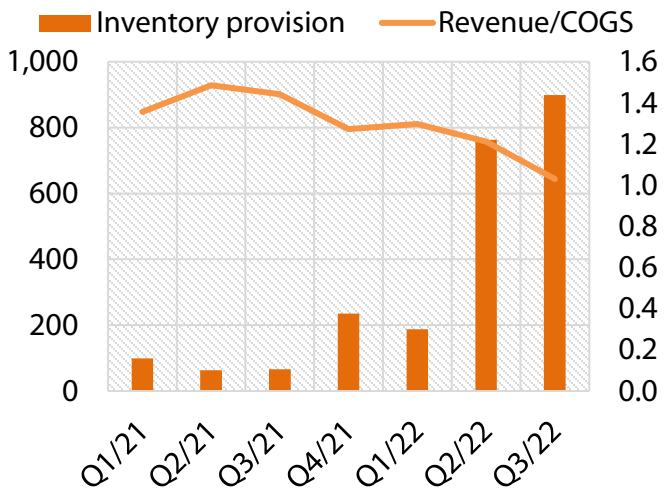
Q4/2022 profit performance is expected to improve from the bottom of Q3, despite the lower steel consumption and prices. Costs related to materials discharge will be lower as materials turnover has contracted from 102 days at end-Q2 to 62 days at end-Q3 and the proportion of materials in inventories has dropped from 59% to 49%. Selling prices have slightly grow, thanks to the reduced capacity mobilization of many upstream producers, including HPG, Formosa, Pomina, etc. The measures of tightening inventories management also help to lower debts. That with the short-term leveloff in the VND/USD FX in end-Q4 could partly relieve financial expenses vs. Q3.

Figure 4: Consumption (thousand tons, LHS) and prices (VND mn/ton, RHS) trended down from Q2



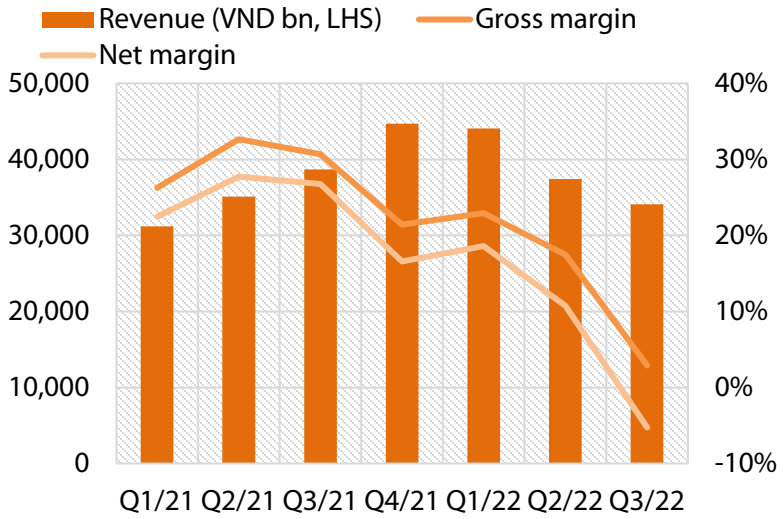
Source: HPG, RongViet Securities. (*) forecast

Figure 5: High provision expense (VND bn) for inventories



Source: HPG, RongViet Securities

Figure 6: Monetary tightening caused surges in financial expenses, worsened net margin

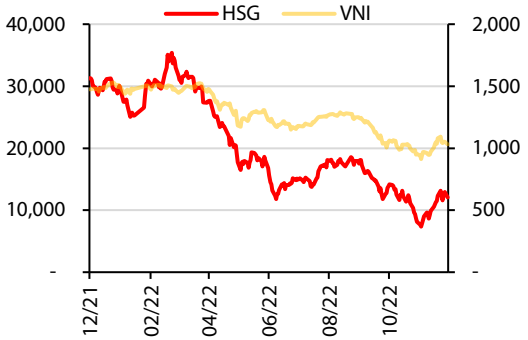


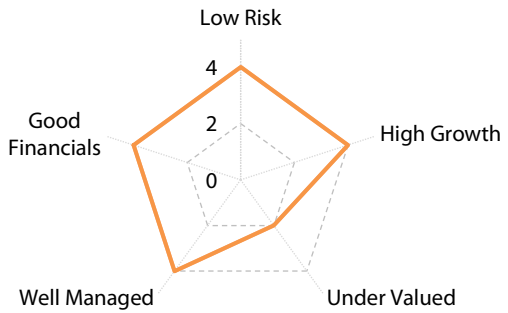
Source: HPG, RongViet Securities

STRENGTHENED FINANCIALS IN A TURBULENT PERIOD

HSX: HSG

ACCUMULATE: 19% **MP: 12,050** **TP: 14,400**





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	305
Current Shares O/S (mn shares)	598
3M Avg. Volume (K)	12,443
3M Avg. Trading Value (VND bn)	152
Remaining foreign room (%)	42.2
52-week range ('000 VND)	6.85 – 36.25

FINANCIALS

	21-22A	22-23A	23-24F
Revenue (VND bn)	49,711	34,518	36,755
NPATMI VND bn)	251	427	498
ROA (%)	1.5	2.7	3.0
ROE (%)	2.4	4.0	4.6
EPS (VND)	420	663	775
Book Value (VND)	17,857	18,021	18,296
Cash dividend (VND)	0	500	500
P/E (x)	35.3	20.4	17.4
P/B (x)	0.8	0.7	0.7

INVESTMENT RATIONALES

Consumption relies on the domestic market.

- Coated steel export could be low in the early months before increasing from mid-2023 when the global inflation ease. However, a rebound in export is not expected due to rising competition and changes in trade policies in major markets. Export in FY22-23 could slump 31% YoY to 592.5 thousand tons due to low exports to the EU and the North America, which the redirection to Asian markets cannot make up for.
- Stronger public investment disbursement will stimulate growth in the domestic market, from Q2/FY22-23. Domestic consumption of coated steel could drop 3% YoY to 577 thousand tons because of the high base in 1H/FY21-22.

Profit margin rebound in 2H2023. The recent selling price increase in the beginning of December 2022 might not hold long. Tightened banking credit and weak demand are forcing the company to sell-off high-priced inventory to free up cash flows. Demand will rise after the Tet holiday, supporting price growth and profit margin from then. Net loss will appear in Q1/FY22-23, then net profit will come. FY22-23 gross margin is estimated to rise to 12.4% from 9.9% of FY21-22.

Financial health has kept improving.

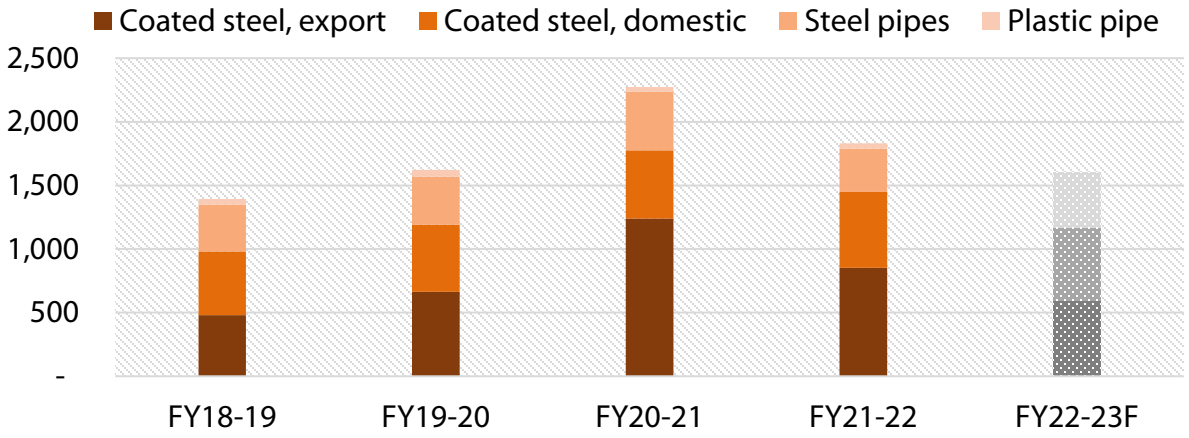
- At the end of Q4/FY21-22, the debt/equity ratio dropped to 55% compared to 94% of Q3/FY21-22 and 133% of Q4/FY20-21. The company aims to be debt-free by FY23-24.

RISKS TO OUR CALL

- Potential disruptions in China's economic reopening makes steel consumption and selling prices lower than expected.

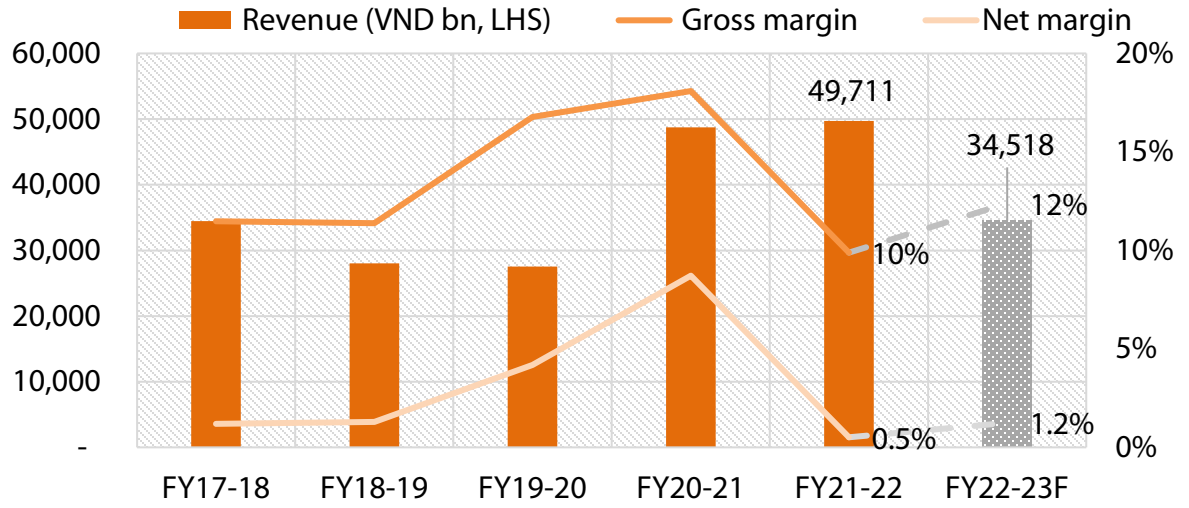
DOMESTIC SALES TO LEAD GROWTH AND MARGIN RECOVERY

Figure 1: Consumption (thousand tons) in FY22-23 depends on domestic market



Source: HSG, VSA, RongViet Securities

Figure 2: Profit margin rebounds in 2H2023



Source: HSG, RongViet Securities

Export slightly recovers from mid-2023.

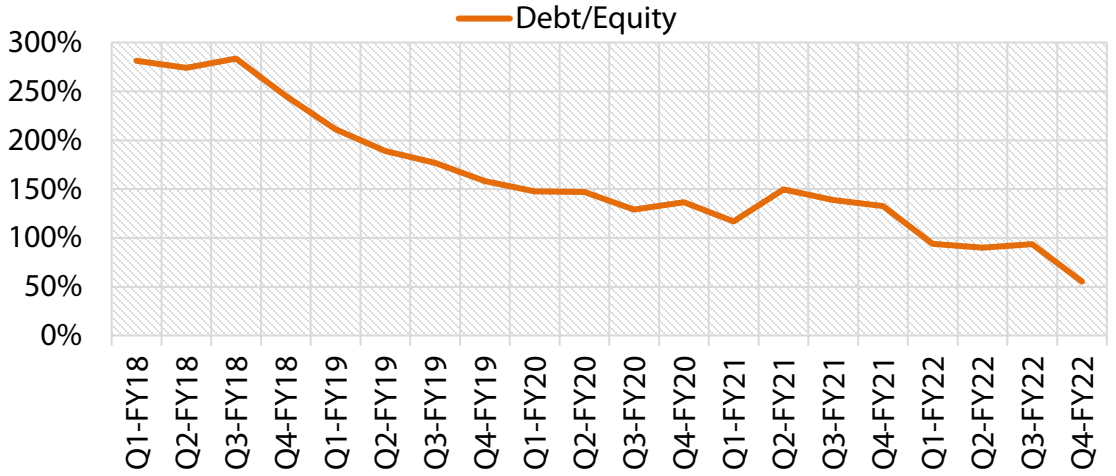
- Milder inflation from mid-2023 will encourage the global demand for coated steel. Nevertheless, the trade policies in Western markets and competition from large steel making countries have been increasingly challenging to Vietnamese producers. Therefore, the shift to the Asian markets might not large enough to make up for the EU and North America markets.
- Demand in domestic market will be supported by public investment disbursement, which will be more robust in 2023.
- Coated steel selling volume is forecast to drop 19%, with export decreasing 31% and domestic falling 3%. Steel pipes could rise 15%.

Profit margin expands in 2H

- Selling prices declined continuously from August to mid-October and have started to increase from the beginning of December 2022 but the uptrend might not hold long. Tightened banking credit and weak demand are forcing producers to sell-off high-priced inventory to free up cash flows, resulting in large losses in Q1/FY22-23.
- Gross margin is expected to return to the positive territory from Q2 when high-priced materials have mostly consumed.
- FY22-23 gross margin could rise slightly to 12.4% (FY21-22: 9.9%).

FY22-23 revenue and PAT-MI could reach VND 34,513 bn (-31% YoY) and VND 427 bn (+70% YoY).

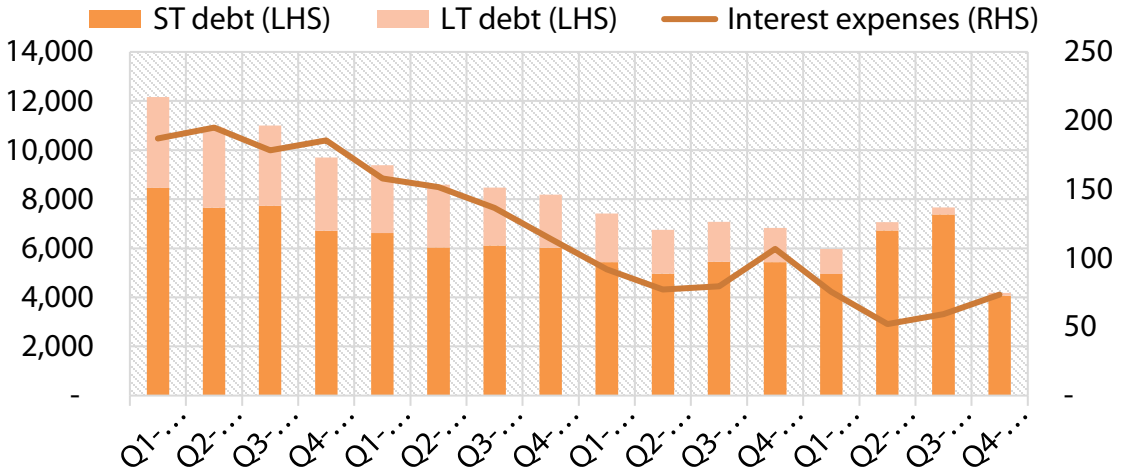
Figure 3: Deleverage continues



Source: HSG, Rong Viet Securities

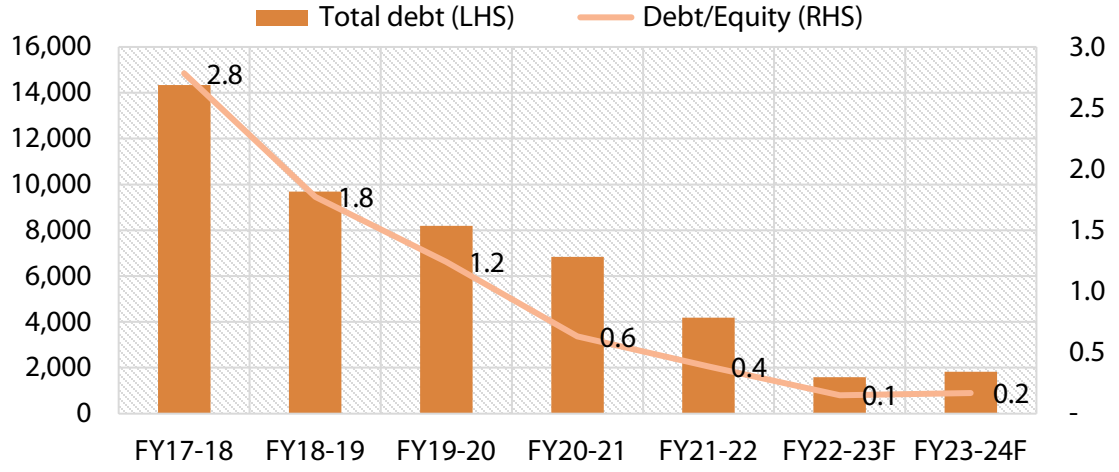
- At the end of Q4/FY21-22, the debt/equity ratio dropped to 55% compared to 94% of Q3/FY21-22 and 133% of Q4/FY20-21. Most of the debts are short-term and approximately 40% is in USD (as of the end of Q2/FY21-22).
- In the short-term, tightened inventory management will help in optimizing working capital, thereby lowering debt usage.
- A less-debt capital structure will help HSG minimize financial expenses in an environment of rising lending rates and VND devaluation against USD.
- The company aims to be debt-free by FY23-24, which is in line with our forecast.

Figure 4: Debt balance and interest expenses (VND bn)



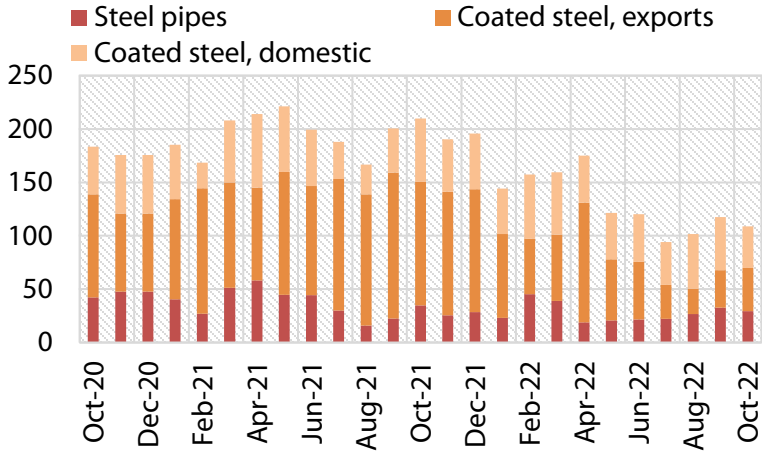
Source: HSG, Rong Viet Securities

Figure 5: Forecast of financial leverage (VND bn)



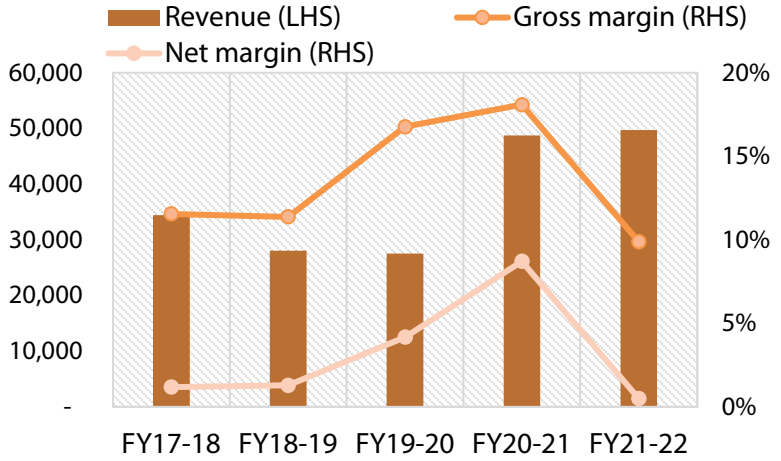
Source: HSG, Rong Viet Securities

Figure 6: Consumption (thousand tons) weakened in Q4/FY21-22



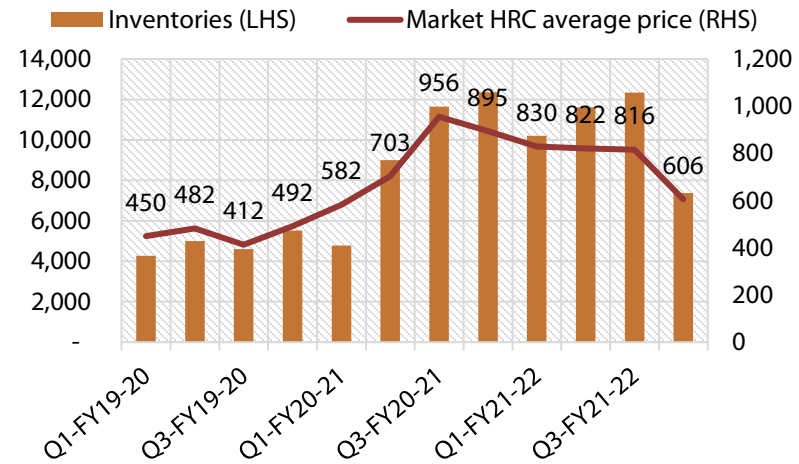
Source: VSA, RongViet Securities

Figure 7: Revenue (VND bn) sustained but margin tumbled



Source: HSG, RongViet Securities

Figure 8: Inventory (VND bn) reduced while market HRC price (USD/ton) kept declining



Source: HSG, Bloomberg, RongViet Securities

- Export started to fall in Q4/FY21-22. Coated steel export volume dropped -76% YoY and -59% QoQ to 90.5 thousand tons, accounting for 39% of total volume, vs. 63% in 9M. Steel pipe export volume fell -31% YoY and -42% QoQ to 4 thousand tons.
- In the domestic market, the adjustments in the real estate sector and the constrained banking credit to the economy limited demand for coated steel in Q4. Nevertheless, thanks to the company's high trade discount (Q4 sales deductions/sales 2.6% vs. the quarterly average of 0.5% in the last five year) and the low base of Q4/FY20-21, sales of coated steel in FY21-22 rose 11% YoY to 595.3 thousand tons. Volume of steel pipe fell 25% YoY to 318 thousand tons. On the quarterly basis, Q4 domestic volumes of coated steel grew 7% while steel pipes climbed 43%.
- FY21-22 GPM decreased to 9.9% (FY20-21: 18.1%), with a slump to -2.9% in Q4, driven by both falling selling prices and high-priced inventory.
- Consumption in Q1/FY22-23 could be higher than Q4/FY21-22 thanks to exports to Asian markets. Coated steel exports could grow 25% QoQ while domestic sales could fall 13% QoQ as a clear sign of demand recovery has not been confirmed. GPM is expected to be -2.8%. Revenue and loss of Q1/FY22-23 is forecast to come at VND 7,077 bn (-58% YoY) and –VND 982 bn (vs. a PAT-MI of VND 638 bn in Q1/FY21-22).

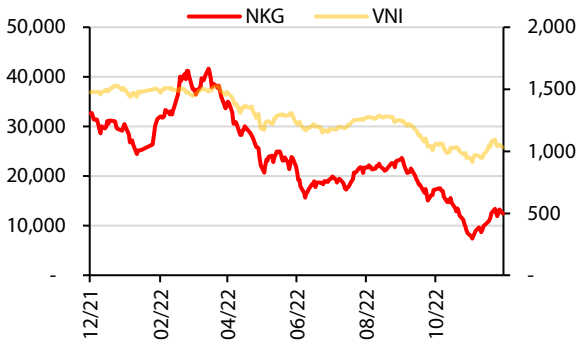
SLOW RECOVERY

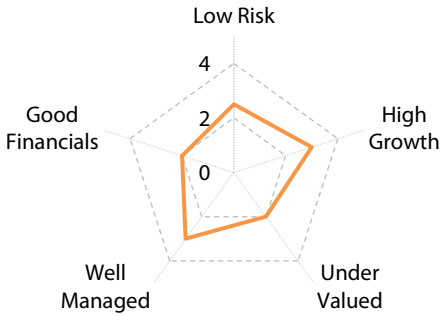
HSX: NKG

MORNITOR

MP: 12,450

TP: N/A





STOCK INFO

Sector	Basic Materials
Market Cap ($ mn)	139
Current Shares O/S (mn shares)	263
3M Avg. Volume (K)	10,030
3M Avg. Trading Value (VND bn)	149
Remaining foreign room (%)	39.8
52-week range ('000 VND)	6.89 – 43.75

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	28,173	21,541	17,730
NPATMI VND bn)	2,225	-744	-359
ROA (%)	14.5	-6.4	-3.4
ROE (%)	38.9	-16.3	-8.5
EPS (VND)	7,278	-2,754	-1,330
Book Value (VND)	23,467	17,417	16,087
Cash dividend (VND)	500	0	0
P/E (x)	3.8	-4.4	-9.9
P/B (x)	1.5	0.7	0.8

INVESTMENT RATIONALES

Consumption relies on the domestic market.

- Coated steel export could be low in the early months before increasing from mid-2023 when the global inflation ease. However, a rebound is not expected due to rising competition and changes in trade policies in major export markets. Export in 2023 could drop 7.6% YoY to 448.7 thousand tons as the redirection to Asian markets cannot make up for low exports to the EU and the North America.
- Stronger public investment disbursement from the beginning of the year will support consumption in the domestic market. Domestic consumption of coated steel is expected to expand 11.7% YoY in 2023 to 216.3 thousand tons

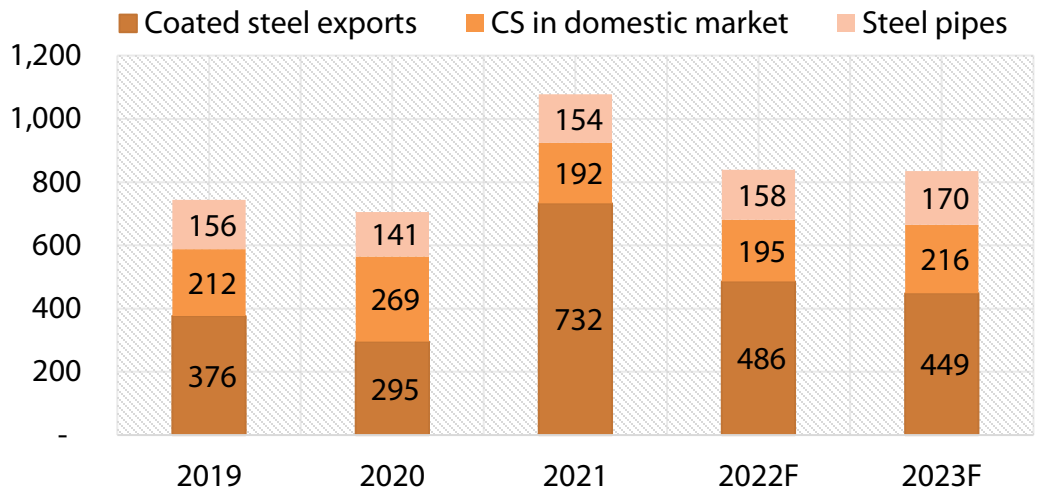
Profit margin recovers slowly due to high-priced inventory.

- The recent selling price increase in the beginning of December 2022 might not hold long. Tightened banking credit and weak demand are forcing the company to sell-off high-priced inventory to free up cash flows. Demand will rise after the Tet holiday, supporting price growth and profit margin from then.
- Net loss will occur in 1H2023, then net profit will come. 2023 gross margin could rise to 4.7%, compared to 4.2% of 2022.

RISKS TO OUR CALL

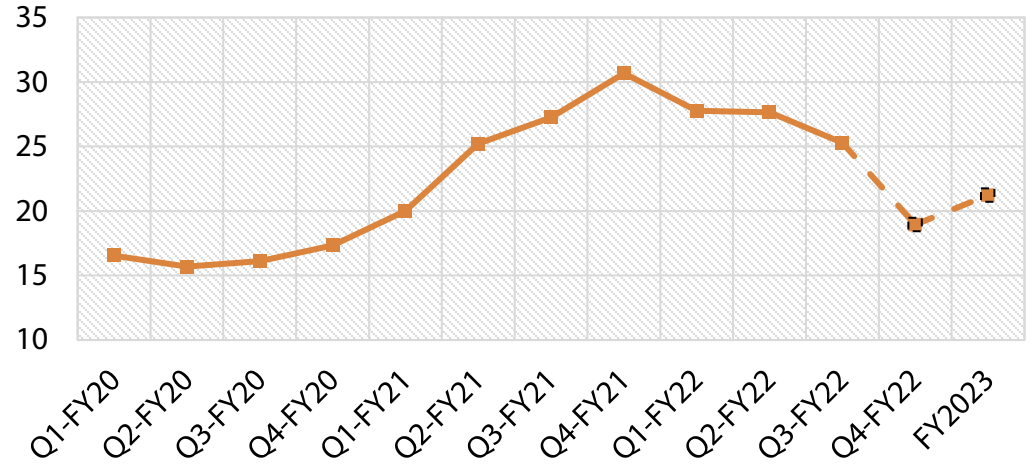
•Potential disruptions in China's economic reopening makes steel consumption and selling prices lower than expected.

Figure 1: Consumption (thousand tons) will not grow in 2023



Source: NKG, VSA, RongViet Securities

Figure 2: Average selling price and forecast (VND mn/ton)



Source: NKG, RongViet Securities

Export slightly recovers from mid-2023.

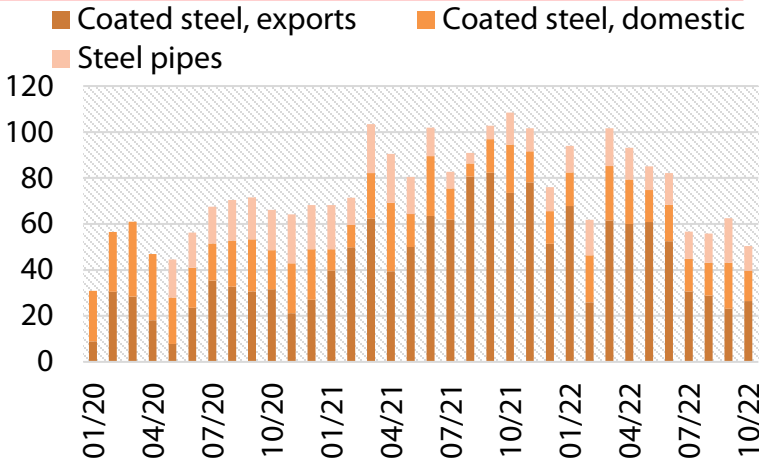
- Milder inflation from mid-2023 will encourage the global demand for coated steel, supporting export volume to inch up. Nevertheless, the trade policies in Western markets and competition from large steel making countries have been increasingly challenging. Therefore, the shift to the Asian markets might not large enough to make up for the EU and North America markets.
- Demand in domestic market will be supported by public investment disbursement, which will be more robust in 2023.
- Coated steel selling volume is forecast to drop -2.4% YoY, with export decreasing -7.6% YoY and domestic growing 10.7%. Steel pipes volume could rise 7.7% YoY.

Profit margin recovers slowly.

- Tightened banking credit and weak demand are forcing the company to sell-off high-priced inventory to free up cash flows. High inventory at the end of Q3 is estimated to be sold out within three quarters.
- Net losses will occur in 1H2023, then net profit will come.
- GPM will reach 4.7%, marginally higher than 4.2% of 2022.

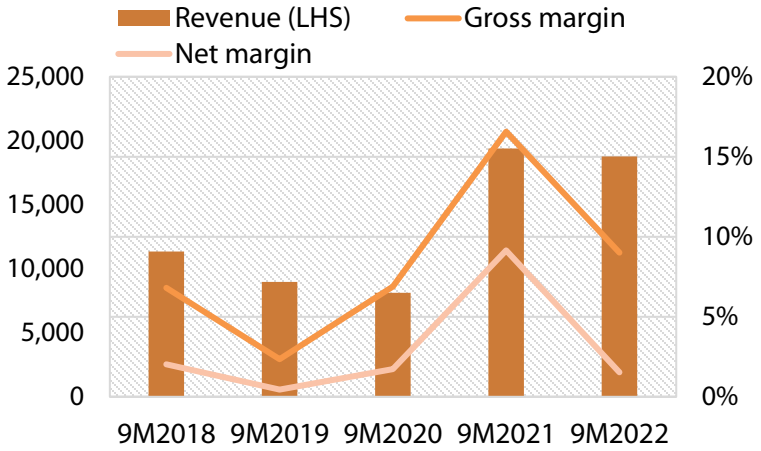
2023 revenue could reach VND 17,730 bn (-18%) and the bottom line will post a net loss of -VND 359 bn.

Figure 4: Consumption (thousand tons) weakened in Q3/2022



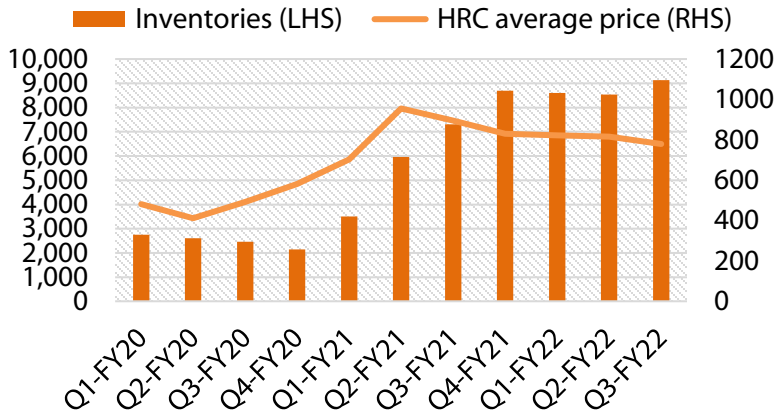
Source: VSA, RongViet Securities

Figure 5: Revenue (VND bn) sustained but margin tumbled



Source: NKG, RongViet Securities

Figure 6: Inventory (VND bn) increased while market HRC price (USD/ton) kept declining



Source: NKG, Bloomberg, RongViet Securities

- Export started to fall in Q3. Coated steel export volume dropped -63% YoY and -52% QoQ to 83 thousand tons, accounting for 47% of total volume, vs. 63% in 1H.
- In the domestic market, adjustments in the real estate sector and the constrained banking credit to the economy limited demand for coated steel in Q3, following the declining trend saw in 1H when the market waited for selling prices to decrease following HRC. Nevertheless, thanks to the low base of Q3/21 (large-scaled lockdown in Southern region), output of coated steel in 9M rose 9.4% YoY to 157 thousand tons and of steel pipe increased 4.4% YoY to 121 thousand tons. On the quarterly basis, domestic volumes of coated steel dropped 1.3% while steel pipes climbed 15%.
- 9M2022 gross margin decreased to 9% (9M2021: 16.6%), with a slump to -3.6% in Q3. The deterioration of GPM was the result of both falling selling prices (due to low exports) and high-priced inventory bought mostly in the beginning of the Russian-Ukrainian war.
- Consumption in Q4 is expected to be higher than Q3 thanks to exports to Asian markets when domestic demand is deteriorated due to tightened banking credit. Exports may drop -9.4% QoQ. Domestic sales fall -22% QoQ. GPM is expected to drop to -28.1%. Revenue and loss of Q4 is forecast to come at VND 2,773 bn (-68% YoY) and –VND 1,035 bn (vs. a PAT of VND 452 bn in Q4/21).

FERTILIZER

HIGHLIGHT FROM CASH DIVIDEND

Vu Tran – vu.thx@vdsc.com.vn

FERTILIZER – SELLING PRICE UNDER PRESSURE

Rating

Overview

The fertilizer price has been benefiting from the supply chain disruption, Russia – Ukraine war as well as the export ban from China for 2 years. However, we believe that these events will be "cool down", which is likely to put pressure on the fertilizer price. As a result, the bottom line of most fertilizer producers will be lower, compared to the high earnings in the past two years.

Highlights

Easing gas price in EU and less restrictions from Russia, China will put pressure on supply side

- Due to the Russia – Ukraine conflict, the gas price has been skyrocketing in EU since 2021. As a result, most of Urea factories have been shut down. However, gas price begins to crash, some European plants will resume production, adding more supply to the market.
- In 2022, Russia and China both applied quotas for fertilizer exports. However, a deal to resume the Russian ammonia exports via Ukraine can happen, which will reduce the global shortage of nitrogen fertilizer. Besides, fertilizer exports from China has been accelerating recently. And China has reopened after long Zero Covid Campaign then they may ease the export ban which has been applied since the early 2022. As a result, there will be likely an increase in supply side from these two countries in 2023.

Fertilizer price will fall in 2023

- In 2022, the export quotas from Russia, China as well as capacity reduction in EU led to a strong increase in fertilizer price. Currently, we see a potential pressure in supply side so the Urea prices as well as others are expected to fall in 2023. Some forecasts say that price of most kind of fertilizers to fall in 2023, although they are set to remain above mid-cycle levels on the back of high crop price, gas input costs and "still restricted, although improving, supply".
- As the fertilizer prices fall, earnings of most fertilizer producers will be lower in 2023.

Attractive cash dividend in 2023

- Owing to a stunning years in 2021 - 2022, fertilizer companies can pay high cash dividend in 2022 – 2023, especially Urea producers.

Risk

Fertilizer price keeps staying higher than expectation

- In case that fertilizer prices keep staying high, the bottom line of fertilizer producers will be better than our forecast.

EU GAS PRICE TO EASE, RESUMING THE FERTILIZER PRODUCTION

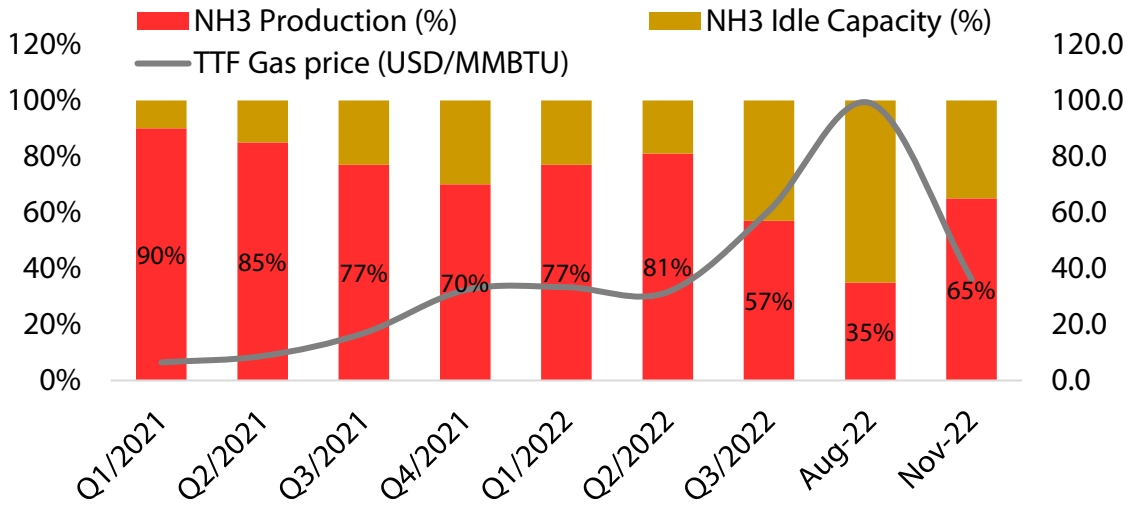
TTF Gas price is about to cool down

- Due to the Russia – Ukraine conflict, the gas price has been skyrocketing in EU since 2021. However, the gas price has been cooling down as the demand is being partly fulfilled by the LNG import in EU.
- Fitch Ratings forecasts that TTF Gas price will be around 38 USD/MMBTU in 2022 and 40 USD/MMBTU in 2023, lower than the historical high 94 USD/MMBTU in August 2022.

Fertilizer production to resume in EU

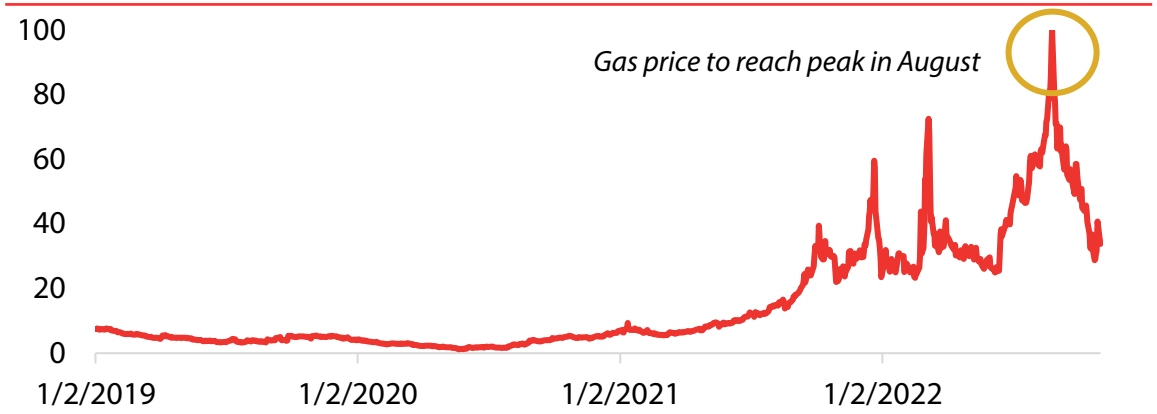
- Due to the high gas price, 63% of regional capacity of fertilizer and chemical capacity has been shut down or is run at reduced rates, according to ICSC data. But the cool down in gas price has resumed the production in EU.
- Yara – one of the biggest manufacturers was back to produce ammonia at around 65% of its capacity in Europe in November.

Figure 1: % Yara's ammonia capacity (LHS) and EU gas price (RHS)



Source: Yara, RongViet Securities.

Figure 2: Gas price in EU (USD/MMBTU)



Source: Bloomberg

Table 1: Fitch Ratings forecast

	2021	2022		2023		2024	
	Actual	Old	**New**	Old	**New**	Old	**New**
Brent (USD/barrel)	70.7	100	**100**	85	**85**	65	**65**
WTI (USD/barrel)	68	95	**95**	81	**81**	62	**62**
Henry Hub (USD/MMBTU)	3.9	7	**6.75**	5	**5**	4	**4**
TTF (USD/MMBTU)	15.8	45	**38**	45	**45**	20	**20**

Source: Fitch Ratings, December 2022.

LESS RESTRICTIONS FROM RUSSIA, CHINA PUT PRESSURE ON SUPPLY SIDE | FERTILIZER

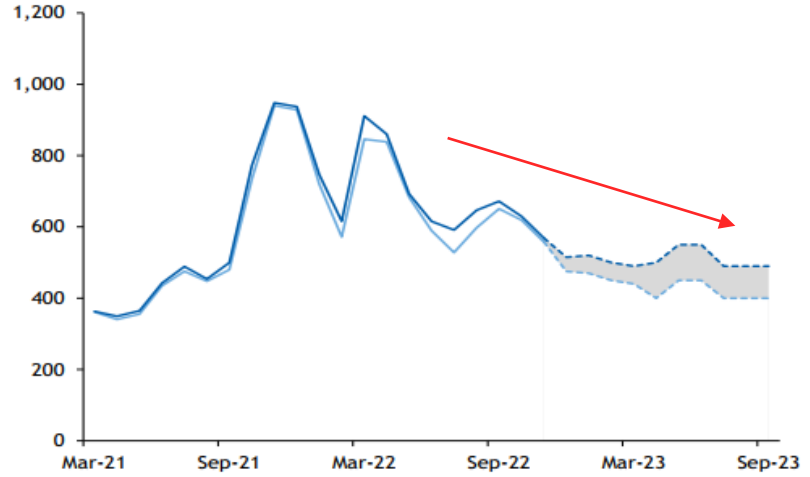
Less restrictions from Russia & China

- In 2022, Russia and China both applied quotas for fertilizer exports, resulting in a tight supply. However, there are some signals for the less restrictions from these two countries.
- A deal to resume the Russian ammonia exports via Ukraine can happen, which will reduce the global shortage of nitrogen fertilizer. While fertilizer exports from China has been accelerating recently, as China has reopened after long Zero Covid Campaign then they may ease the export ban.

As supply side increases, the fertilizer price is likely to drop.

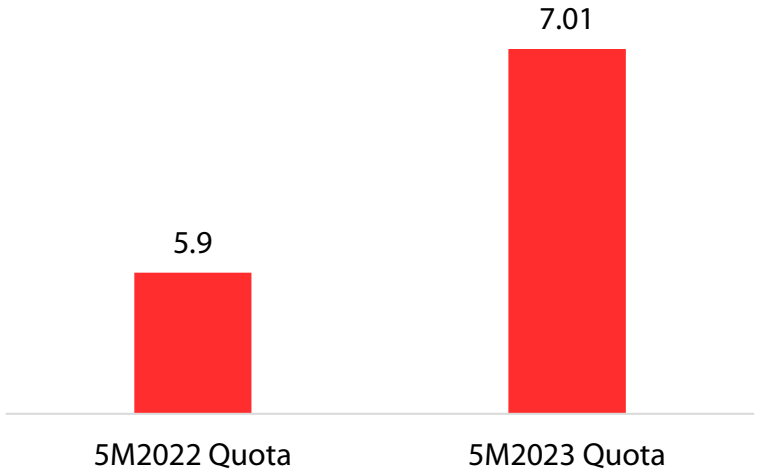
- EU production resume and increasing supply from China and Russia, the fertilizer price is forecasted to drop in 2023, especially Urea. According to Argus, Urea price (the most popular fertilizer) is around 400 USD/ton –500 USD/ton in 2023, compared to the highest level of 1,000 USD/ton in 2022.

Figure 3: Urea price forecast (USD/ton)



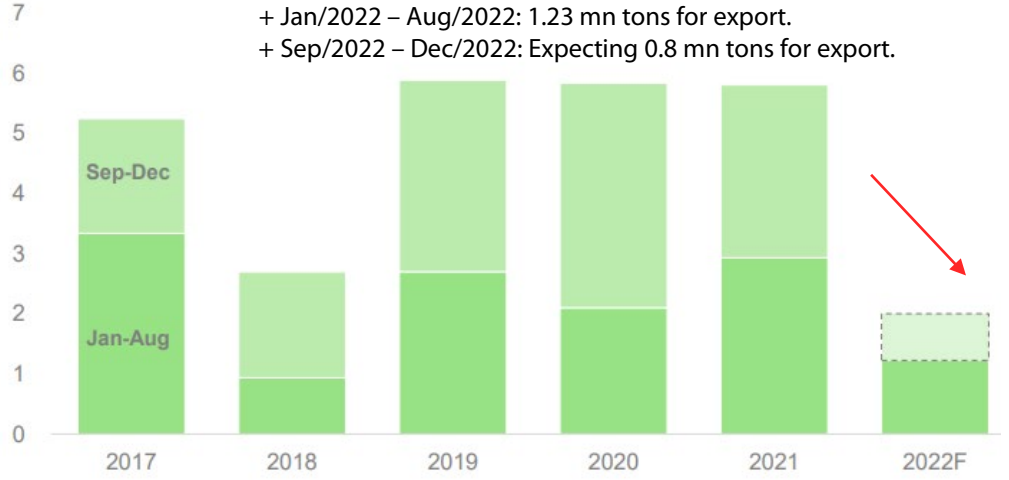
Source: Argus

Figure 4: Russia Nitrogen fertilizer's export quota (mn ton)



Source: RongViet Securities

Figure 5: China Urea Exports (mn ton)



Source: CF Industries

LOWER EARNINGS BUT ATTRACTIVE CASH DIVIDEND

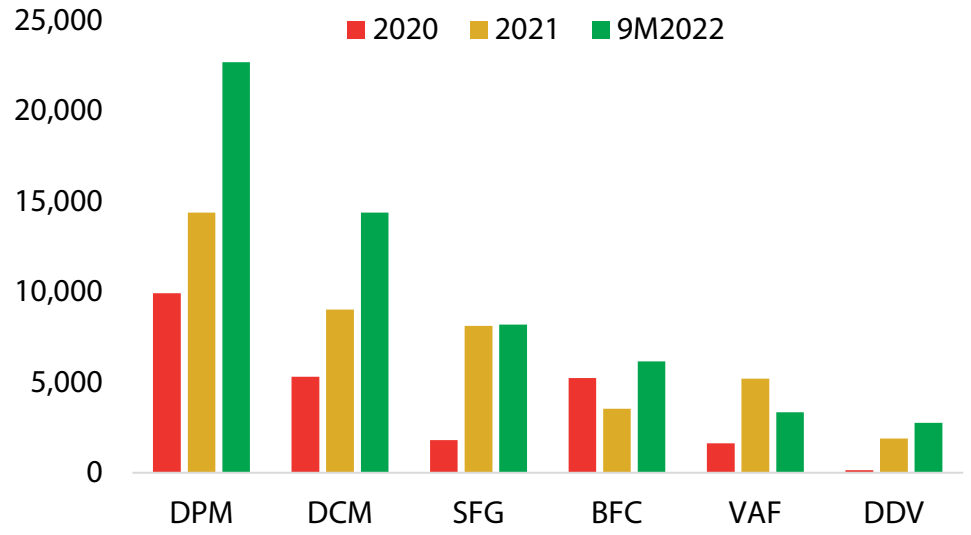
As fertilizer price tends to drop, earnings will be hit in 2023.

- On the back of rising selling price, earnings of fertilizer companies hiked. On the contrary, the gross margin will be hurt, then lowering the bottom line, especially the Urea players.
- In 3Q2022, we saw a decline trend in the gross margin of all fertilizer companies as the selling prices decreased.

Potential to pay high cash dividend.

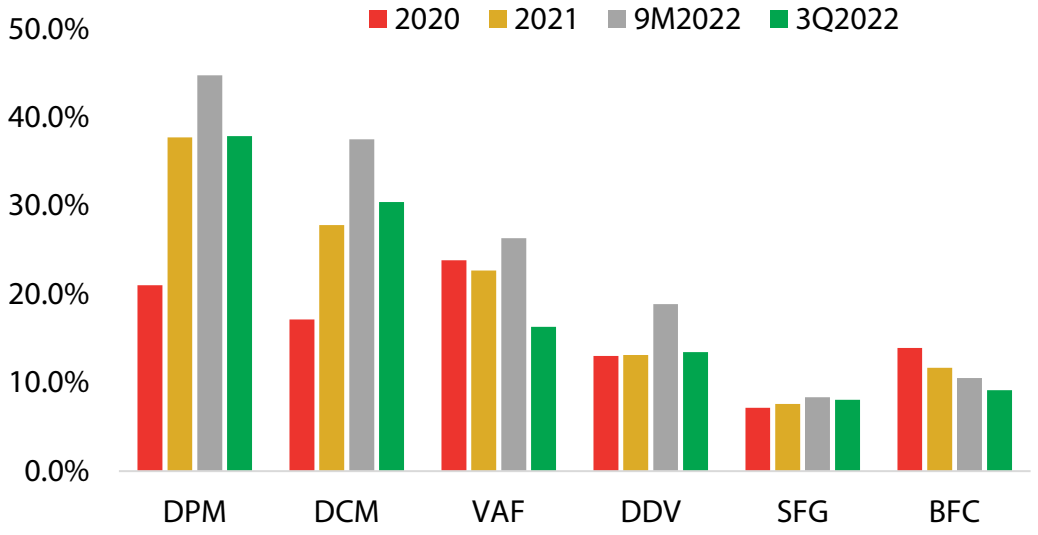
- Despite lower earnings, fertilizer companies can pay a better dividend thanks to a stunning years in 2021 - 2022. At the end of 3Q2022, most of companies showed high cash per share, compared to the period 2020-2021.

Figure 6: Cash per share (VND/share)



Source: RongViet Securities

Figure 7: Gross margin of fertilizer companies (%)



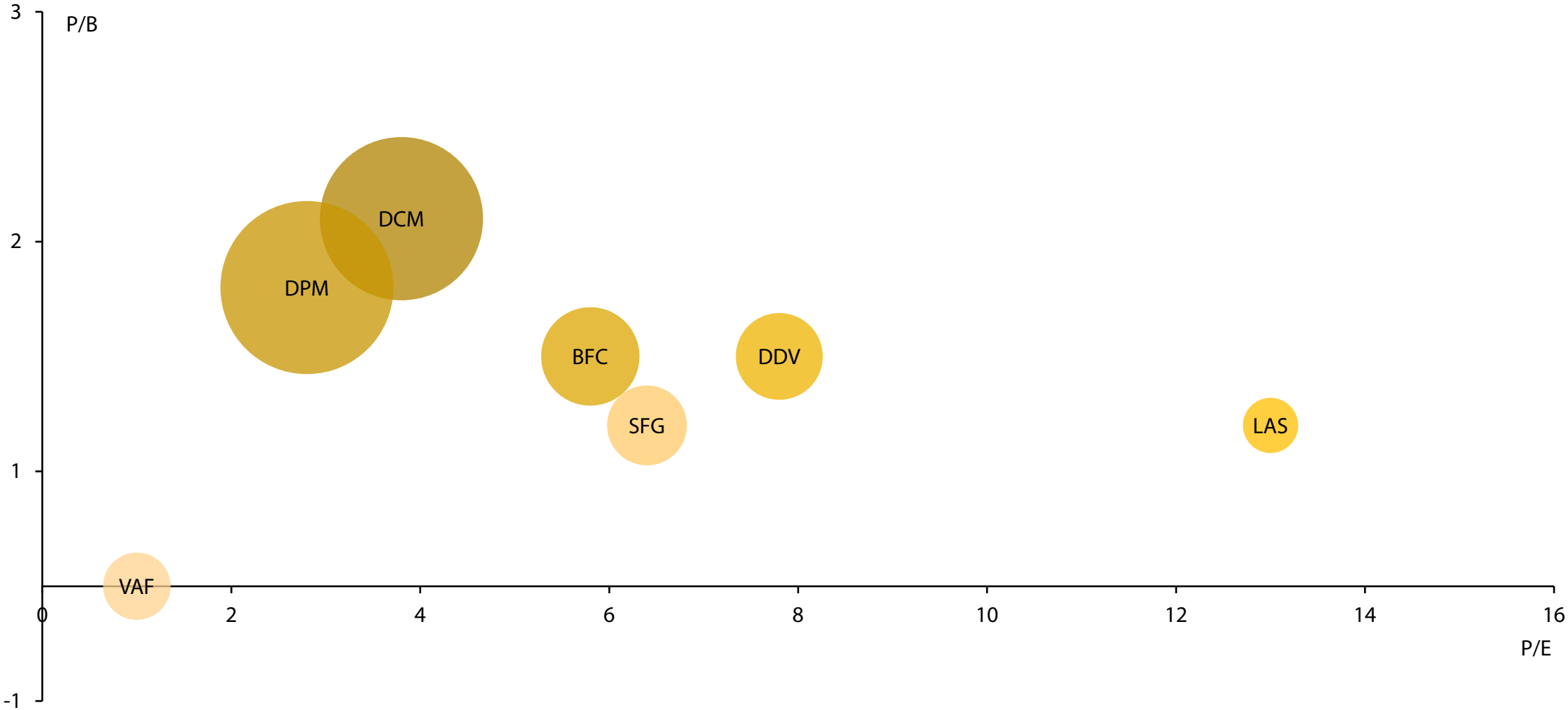
Source: RongViet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
BFC	46	20,800	19,000	2,000	44.3	42.9	20.4	-3.4	0.7	-7.3	-8.8	5.2	17.6	6.5	8.7	0.9	1.4
DPM	710	40,700	43,000	7,000	30.3	64.7	42.4	-21.0	4.4	80.5	-46.2	39.8	36.1	5.6	12.4	1.2	1.1
DCM	647	N.R	28,950	N.A	37.0	30.5	N.A	N.A	2.0	N.A	N.A	49.8	37.0	3.8	11.7	1.6	1.3
DDV	63	N.R	10,200	N.A	49.0	52.6	N.A	N.A	5.7	N.A	N.A	14.1	11.3	7.8	N.A	1.0	1.3
LAS	41	N.R	8,600	N.A	49.0	22.1	N.A	N.A	1.2	N.A	N.A	5.7	3.9	13.0	89.2	0.7	1.1
SFG	19	N.R	9,470	N.A	48.3	51.9	N.A	N.A	11.0	N.A	N.A	11.9	4.6	6.4	69.7	0.7	1.0
VAF	15	N.R	9,330	N.A	49.0	12.6	N.A	N.A	0.3	N.A	N.A	8.5	6.6	7.9	16.5	0.6	0.9

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

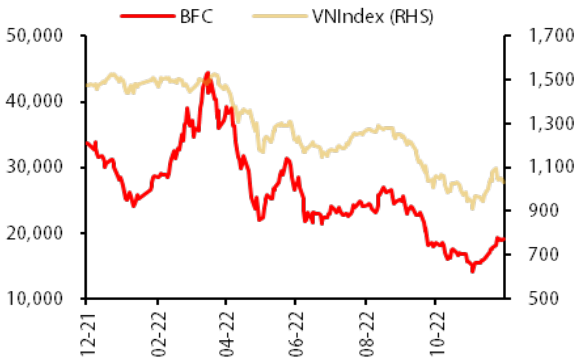


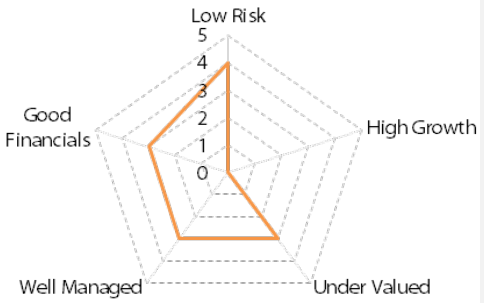
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

FIERCE COMPETITION WILL HIT 2023 EARNINGS

HSX: BFC

ACCUMULATE: +17% **MP: 19,000** **TP: 20,800**





STOCK INFO

Sector	Chemicals
Market Cap ($ mn)	46
Current Shares O/S (mn shares)	57
3M Avg. Volume (K)	191
3M Avg. Trading Value (VND Bn)	4
Remaining foreign room (%)	44.4
52-week range ('000 VND)	13.1 – 48.6

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	7,708	9,277	8,960
NPATMI (VND bn)	220	204	186
ROA (%)	5.7	5.2	5.2
ROE (%)	20.2	17.6	15.4
EPS (VND)	3,536	3,216	2,934
Book Value (VND)	19,049	20,265	21,199
Cash dividend (VND)	1,500	2,000	2,000
P/E (x)	9.7	5.9	6.5
P/B (x)	1.4	0.9	0.9

INVESTMENT RATIONALES

BFC will experience a low sales volume in 2022 but will be up in 2023

- Total sales volume experienced a drop 30.5% to 408 thousand tons in 9M2022. We think that the high fertilizer price has resulted in weak demand as well as the fierce competition from the new players. We forecast that the company can sell 563 thousand tons in 2022, down 22.8% YoY.
- In 2023, we believe that the fertilizer price will cool down which will boost demand. Then BFC can reach the total sales of 655 thousand tons, up 16.3%.

Cash dividend is a notable

- When the rally in fertilizer price is over, BFC will be seen as a cash dividend player. In our forecast, the company can pay at least VND 1,500 cash dividend in 2023 and can maintain at least VND1,000 in next 2 to 3 years after that in case there are no significant changes in business results.

Earnings will be down in 2023 due to thinner gross margin in 2023 as BFC tries to compete in a less favorable year

- In 3Q2022, BFC posted a gross margin of 8%, compared to the average of 11% - 12% in the previous quarters. The company has bartered with its earnings to compete with its rivals. For 2022, we expect a gross margin of 10.6% then drop to 10.2% in 2023. Due to a lower gross margin (maintain selling price lower than its rivals), revenue and NPATMI are forecasted to post VND8,960bn (USD373.3mn) (-3.4% YoY) and VND186bn (USD7.7mn) (-8.8% YoY) respectively in 2023.

RISKS TO OUR CALL

- The fertilizer price to rise higher and the bottom line will be better than our projection.

SALE VOLUME TO BE UP AS FERTILIZER PRICE EASE IN 2023

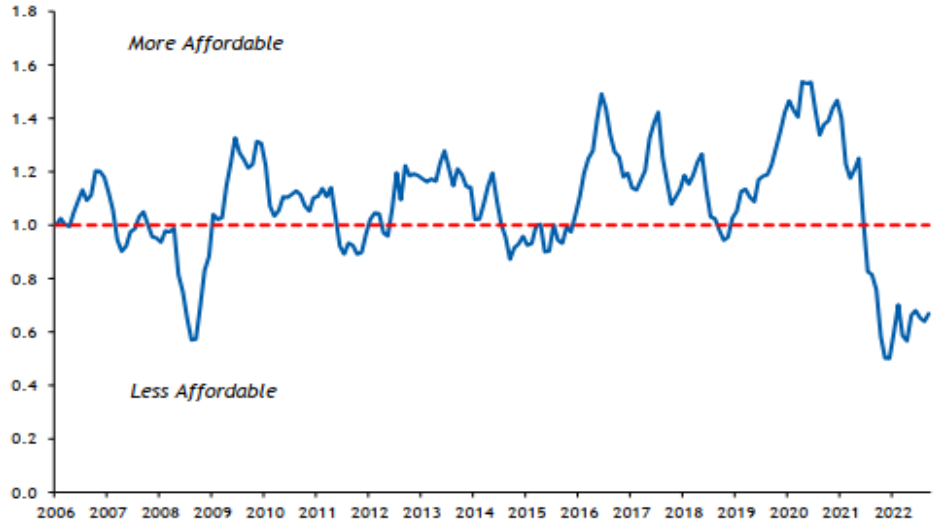
Fertilizer affordability index to bottom out

- From Argus, we learn that the Fertilizer affordability index has stayed at low level for a year and seems to bottom out. This implies that the fertilizer price will cool down in the coming times which we expect to see in 2023.

The decreasing of fertilizer price will be a support to sales volume in 2023

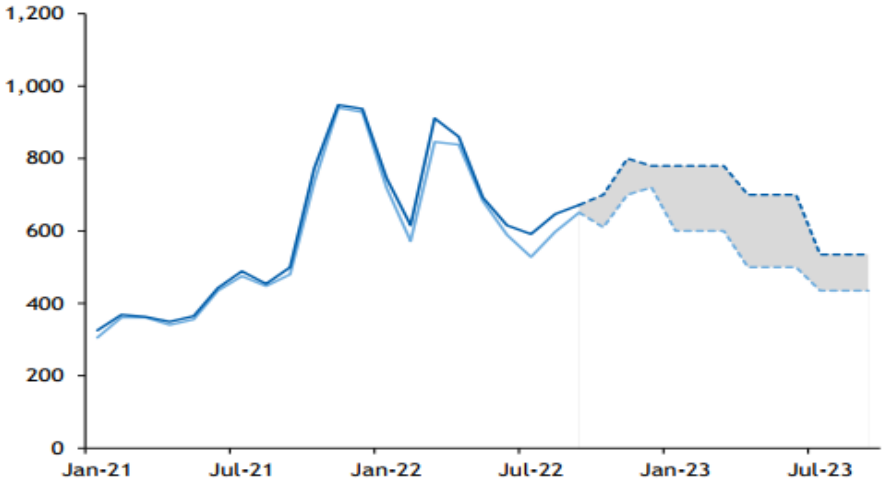
- In 2022, high fertilizer price has impacted to the purchasing power, resulting in a low sales volume. We expect BFC's output to decrease by 22.8% to 563 thousand tons in 2022.
- In 2023, Argus expects that the Urea price will ease, leading to a decrease in other type of fertilizers. Thus, we anticipate an improvement in purchasing power, especially from the domestic market. Coupled with competitive selling price, BFC will experience a hike in sales volume with a quantity of 655 thousand tons NPK.

Figure 1: Fertilizer affordability index



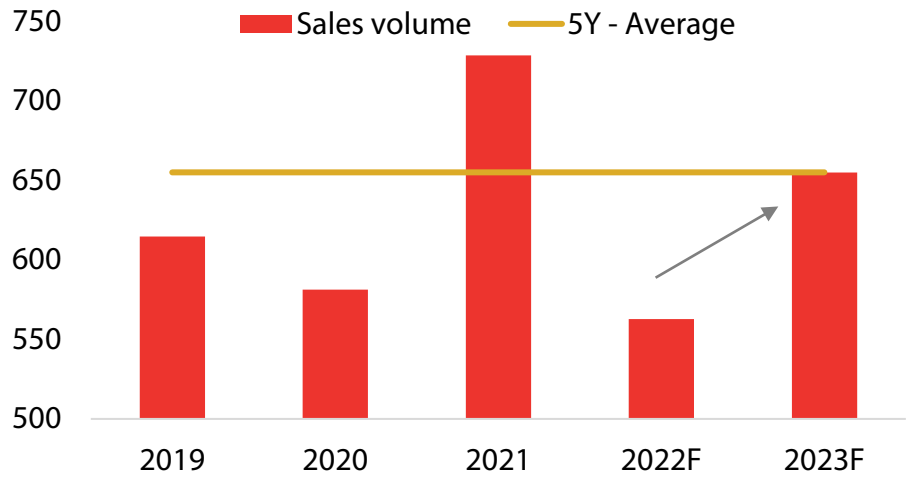
Source: Argus

Figure 2: Urea FOB Middle East projection (USD/ton)



Source: Argus

Figure 3: NPK sale volume of BFC (thousand tons)

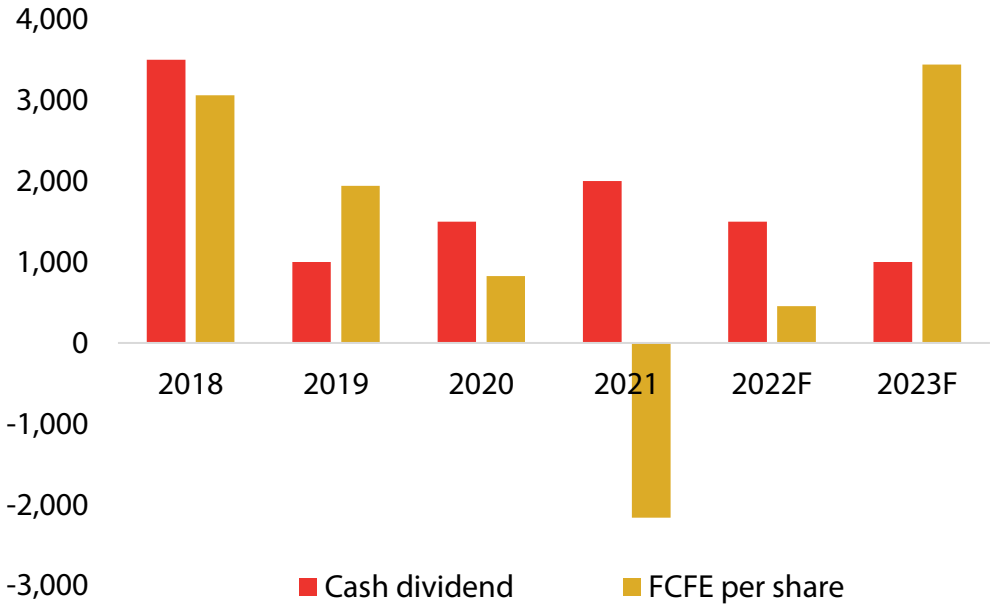


Source: RongViet Securities

BFC can pay cash dividend at least VND 1,500 in 2023 and maintain at least VND1,000 after that

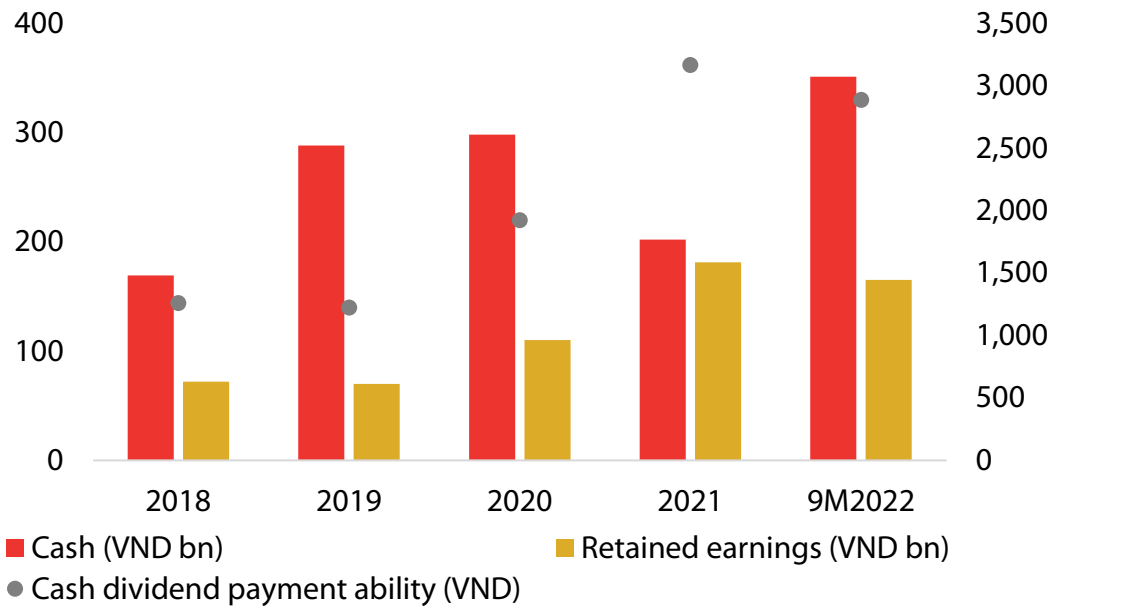
- As approval of 2022 AGM, BFC will pay at least VND1,500 cash dividend. At the end of 3Q2022, retained earnings was VND165bn (USD6.8mn), equivalent to a possible cash dividend payment of VND2,800. So we believe that BFC can fulfill its cash dividend policy in this year. After that, the company can maintain cash dividend at least VND1,000 in 2, 3 years in case of no significant changes in business results.
- When the rally in fertilizer price is over, BFC will be seen as a cash dividend player. Because BFC has no plan for expansion, the company tends to pay cash dividend as much as possible.

Figure 4: Cash dividend payment, FCFF per share (VND/share)



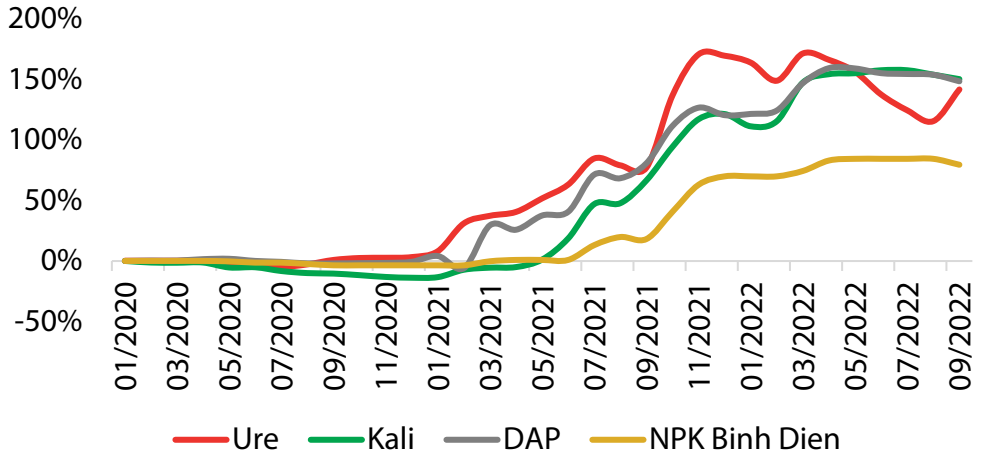
Source: BFC, RongViet Securities

Figure 5: Cash, retained earnings (LHS), cash per share payment ability (RHS)



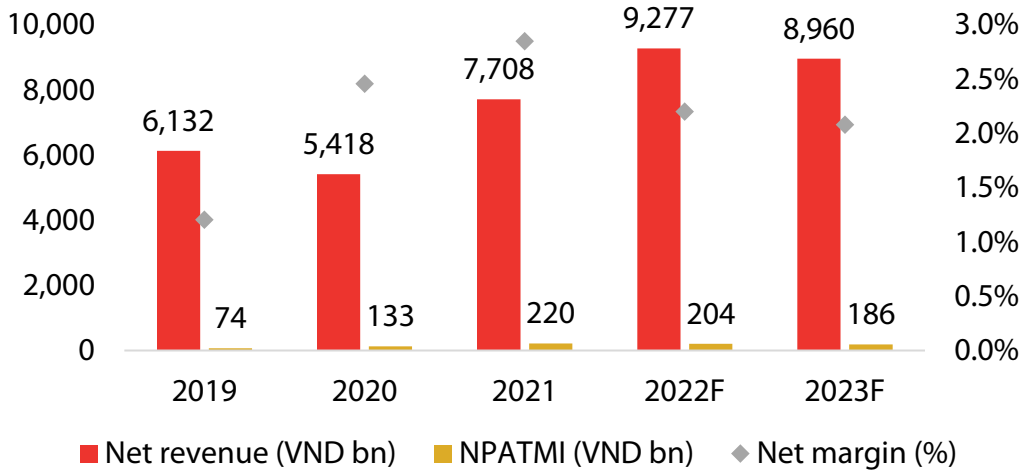
Source: BFC, RongViet Securities

Figure 6: % change in domestic fertilizer price (from 2020)



Source: RongViet Securities

Figure 7: Business results of BFC



Source: RongViet Securities

Low 3Q2022 earnings due to the thin margin

- In 3Q2022, BFC posted a gross margin of 8%, compared to the average of 11% - 12% in the previous quarters. The reason came from the unchanged selling price, mainly to boost sales in the low season while the feedstock cost stayed high. The company recorded a minor profit of VND6bn (or USD0.3mn), down 92.4% YoY.

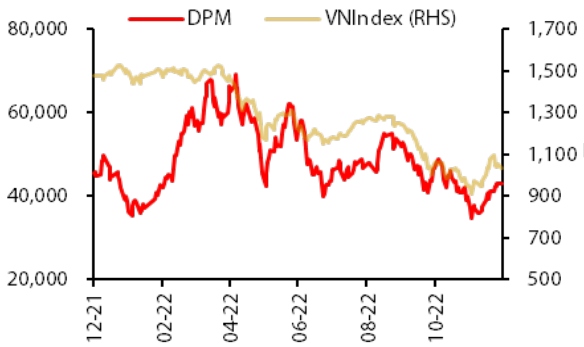
BFC will barter with its earnings to compete with its rivals

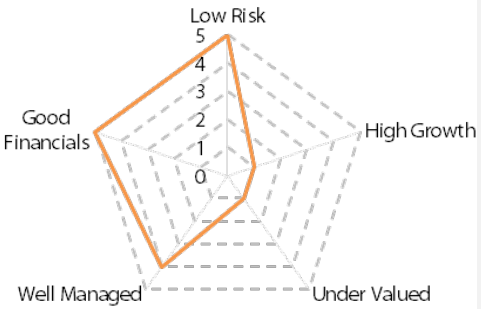
- We believe that the company will make a trade-off between selling price and output volume on the back of fierce competition. Therefore, we expect gross margin to drop from 10.6% in 2022 to 10.2% in 2023.
- In 4Q2022, BFC is likely to experience a higher sales volume owing to the peak season then lifting its bottom line, compared to the low level in 3Q2022 (VND6bn ~ USD0.25mn). Totally, revenue and NPATMI are forecasted to post VND9,277bn (or USD386.5mn, +20.4% YoY) and VND204bn (or USD8.5mn, -7.2% YoY) in 2022.
- For 2023, revenue and NPATMI are forecasted to post VND8,960bn (or USD373.3mn, -3.4% YoY) and VND186bn (or USD7.7mn, -8.8% YoY) respectively. Key assumptions are (1) gross margin of 10.2% (2) sales volume of 655 thousand tons.

ATTRACTIVE CASH DIVIDENDS YIELD

HSX: DPM

ACCUMULATE: +11% **MP: 43,000** **TP: 40,700**





STOCK INFO

Sector	Chemicals
Market Cap ($ mn)	713
Current Shares O/S (mn shares)	391
3M Avg. Volume (K)	2,857
3M Avg. Trading Value (VND Bn)	123
Remaining foreign room (%)	30.2
52-week range ('000 VND)	32.1 – 77.1

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	12,786	18,201	14,373
NPATMI (VND bn)	3,117	5,626	3,028
ROA (%)	22.4	36.1	21.1
ROE (%)	29.6	39.8	20.5
EPS (VND)	7,749	14,313	7,703
Book Value (VND)	26,866	36,152	37,823
Cash dividend (VND)	1,400	5,000	6,000
P/E (x)	6.3	2.5	4.7
P/B (x)	1.8	1.0	1.0

INVESTMENT RATIONALES

Huge cash for dividend payment

- Despite the deceleration in net profit in our forecast, DPM is able to pay high cash dividend based on the positive profit in previous years. The 2022 Annual General Meeting of Shareholders approved a cash dividend of VND 5,000 VND/share for 2022. At the end of 3Q2022, DPM is able to pay maximum cash dividend of VND13,000 per share thanks to the amount of VND5,365bn (USD223.5mn) in the retained earnings. After that, we believe that DPM can maintain the cash dividend of VND1,500 to VND2,000 if the bottom line can remain at VND600bn – VND800bn, which is a reasonable target in our opinion.

Stable sales volume in 2022 – 2023

- Due to the high Urea price, the domestic demand was weak in 9M2022. But 9M2022 total sales volume of DPM still reached 641 thousand tons, which is higher than the 3Y average thanks to the large contribution of export activities. In details, exported volume accounted for 24% of 9M output. For 2023, DPM can maintain its Urea output when domestic demand recovers thanks to the cooling down in the Urea price. We expect DPM to deliver 824 thousand tons Urea for 2022 and the same for 2023.

We anticipate a lower earnings in 2023, compared to 2022 number

- The EU gas price is on the downtrend which will resume the Urea production in the region. In this scenario, the production cost will be down. Plus the additional supply, the Urea selling price will ease. In 2023, revenue and NPATMI are forecasted to post VND14,373bn (USD598.8mn) (-21% YoY) and VND3,028bn (USD126.1mn) (-46.1% YoY) respectively.

RISKS TO OUR CALL

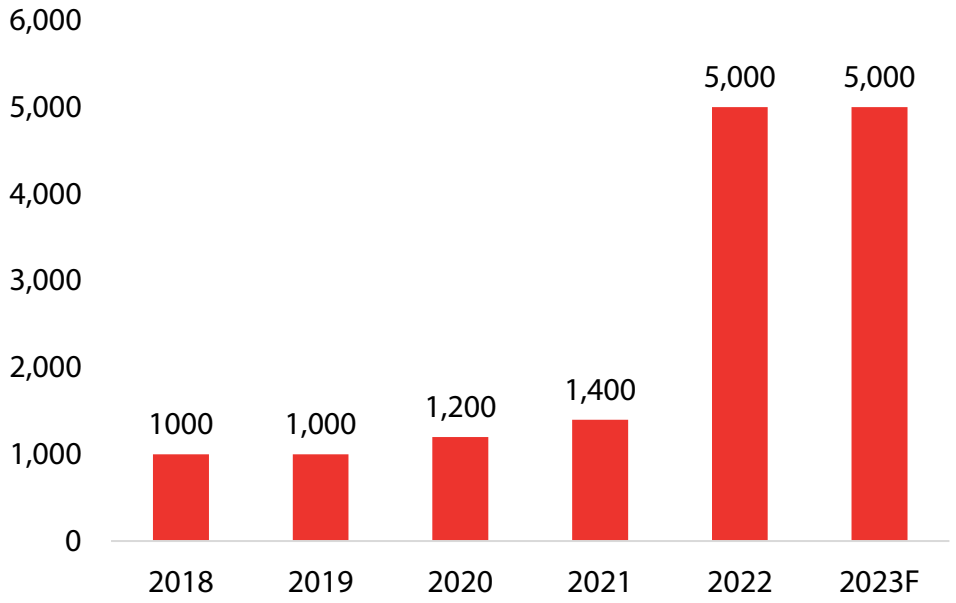
- The Urea price to rise higher and the bottom line will be better than our projection. On the other hand, the Urea falls lower than our expectation then the business result will be worse than forecast.
- DPM will be charged a higher gas input price, including tariff.

HUGE CASH FOR DIVIDEND PAYMENT

DPM will pay cash dividend at least VND 5,000 in 2022 and can maintain at least VND1,500 – VND2,000 after that

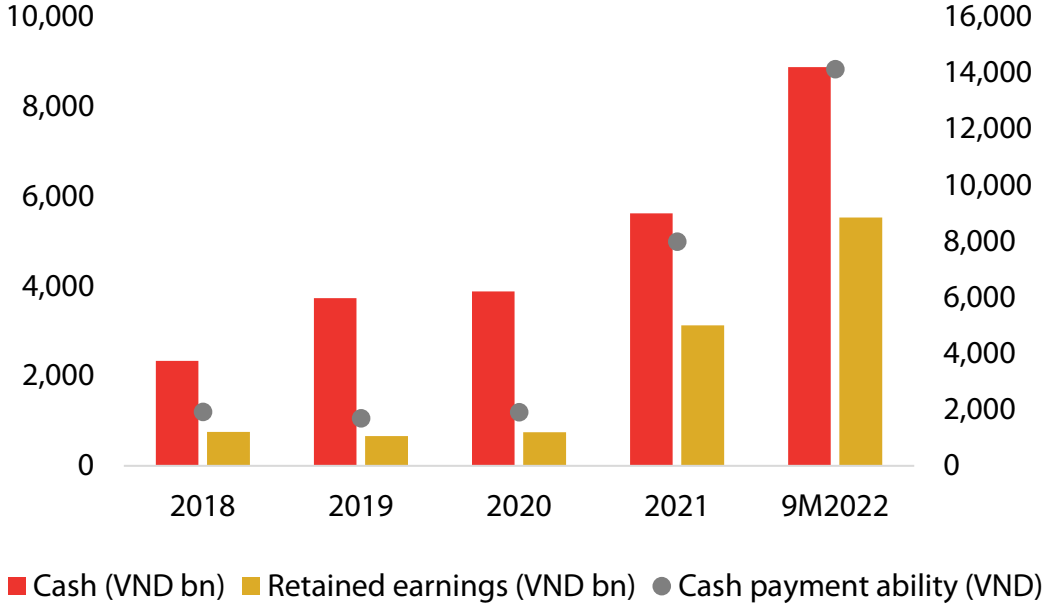
- As approval of 2022 AGM, DPM will pay a cash dividend of VND 5,000 VND/share for 2022. Previously, the company paid VND5,000 cash for 2021 dividend. At the end of 3Q2022, retained earnings of DPM was VND5,365bn (USD223.5mn), equivalent to a possible cash dividend payment of VND13,000 per share. We believe that DPM will offer a higher cash dividend for 2022.
- Despite the lower earnings as our forecast in the next few years, the company can maintain its bottom line at VND600bn – VND800bn, equivalent to cash dividend at least VND1,500 – VND2,000. As a state-owned company, DPM tends to pay cash dividend as much as possible when there are no investment plan. In the past, DPM used to maintain its retained earnings at VND308bn (USD12.8mn) in 2Q2019.

Figure 1: Cash dividend policy (VND/share)



Source: DPM, RongViet Securities

Figure 2: Cash, retained earnings (LHS), cash payment ability (RHS)



Source: DPM, RongViet Securities

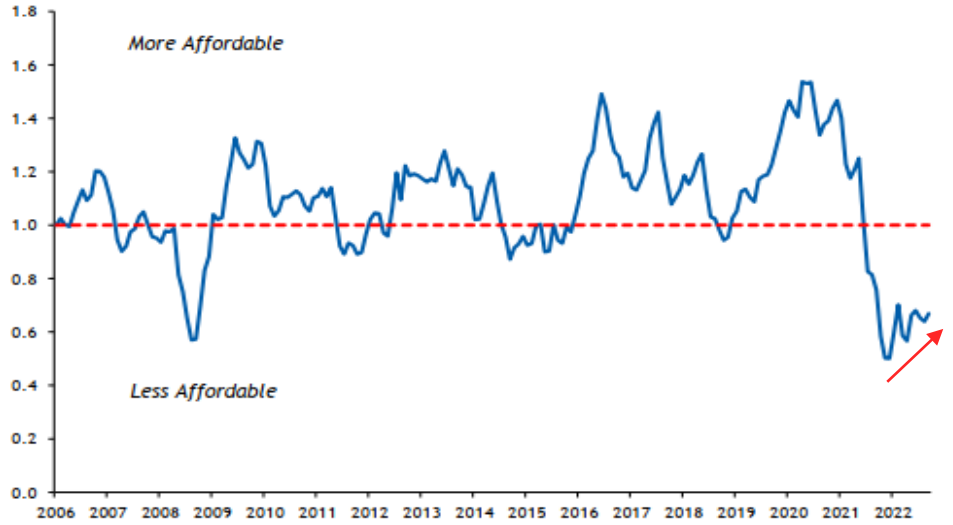
Total sales to be supported by export in 9M2022 as well as FY2022

- Due to the high Urea price, the Urea demand of domestic market was so weak. But the total sales was still high in 9M2022 thanks to the high exported volume. In 9M2022, DPM exported 155 thousand tons, accounting for 24% of total output. For 2022, we expect that DPM will sell 824 thousand tons of Urea, in which 190 thousand tons for exporting.

Urea price is forecasted to be down in 2023, improving the domestic purchasing power

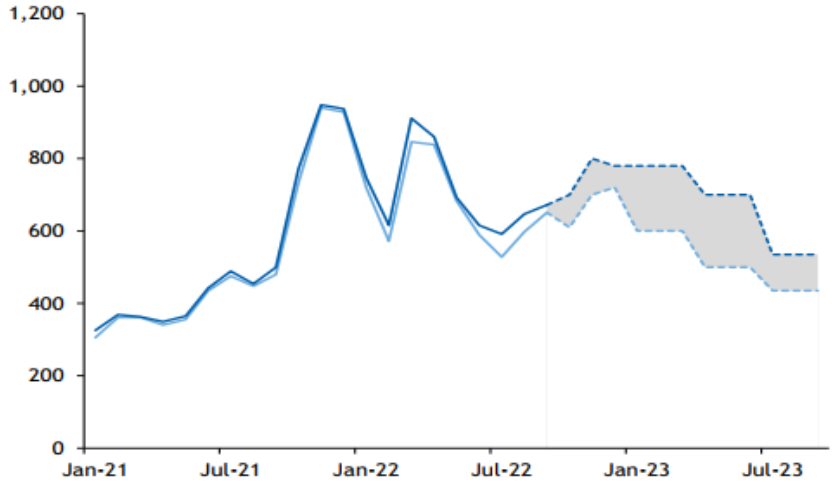
- In 2023, Argus expects that the Urea price will ease. Then, we anticipate an improvement in purchasing power from the domestic market. As a result, DPM will lay on the domestic market as usual. For 2023, the sales volume will be 824 thousand tons, the same as 2022 number.

Figure 3: Fertilizer affordability index



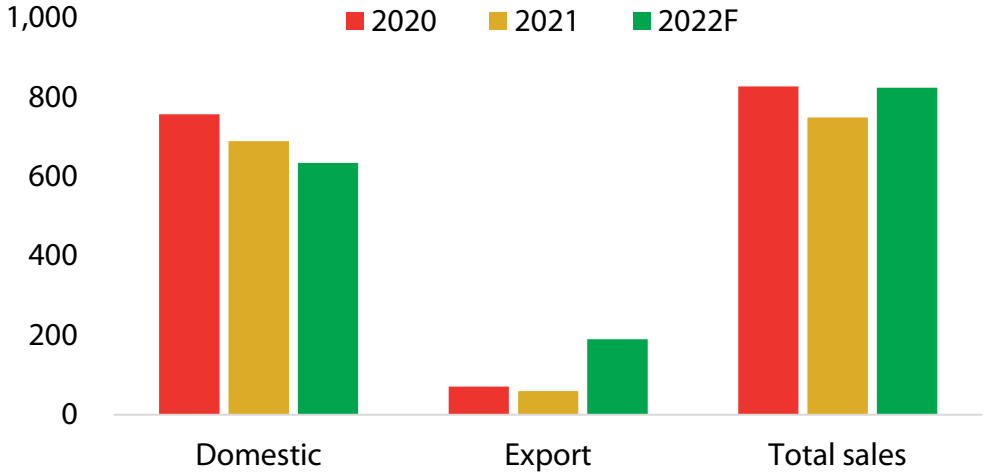
Source: Argus

Figure 4: Urea FOB Middle East projection (USD/ton)



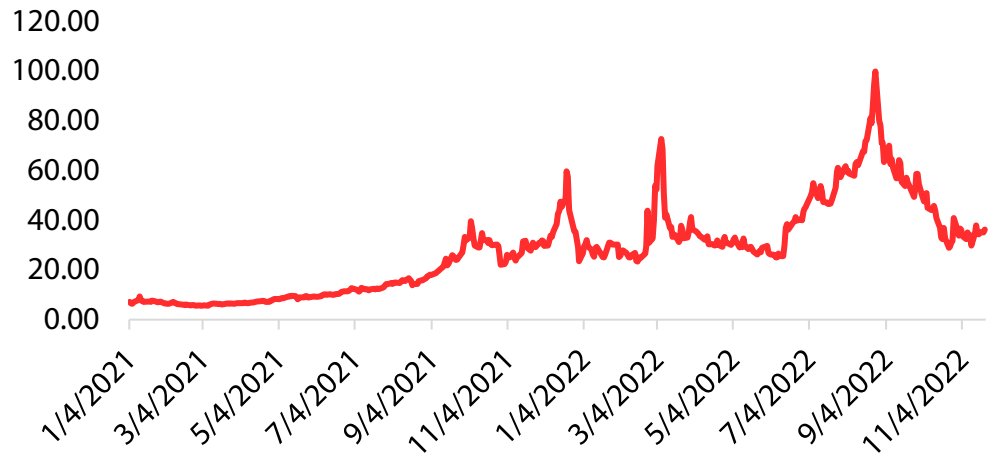
Source: Argus

Figure 5: Urea' sale volume of DPM (thousand tons)



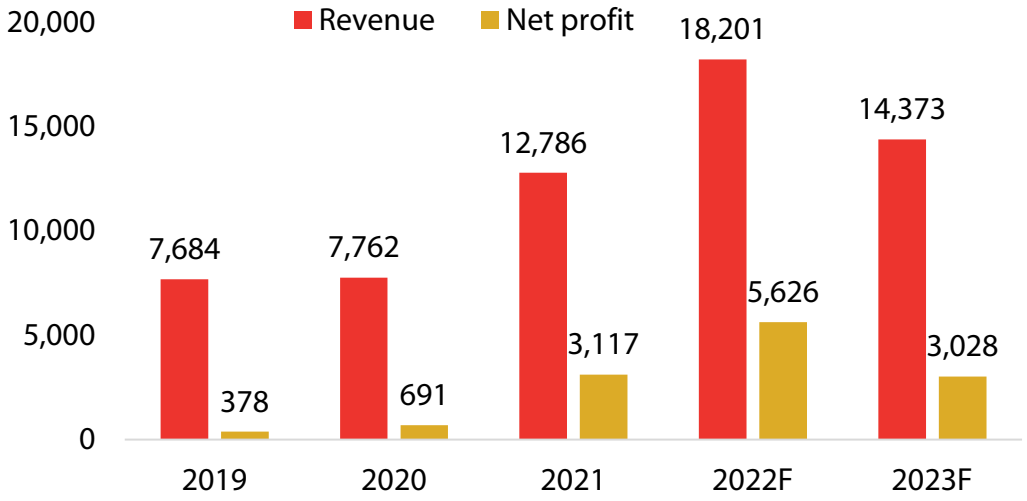
Source: RongViet Securities

Figure 6: TTF Gas Price (USD/MMBTU)



Source: RongViet Securities

Figure 7: Net revenue and NPATMI (VND bn)



Source: RongViet Securities

3Q2022 profit was better than the same period last year

- In 3Q2022, the gross margin of DPM posted 38.3%, compared to 36.9% in 3Q2021. At the same time, revenue recorded VND3,885 bn (USD161.8mn), up 37.6% YoY owning to higher Urea selling price and sales volume. So the net profit increased by 61.4% to VND998 bn (USD41.5mn) in 3Q2022.

Earning to be lower in 2023 but still stay at a high level

- With the upcoming Winter-Spring crop, we expect that the domestic demand will improve but still depend on the export market. We believe that DPM will see a higher profit in 4Q2022, compared to the previous quarter as the input gas price is on the way down (improve the gross margin) and the selling price is likely to be stable. Totally, revenue and NPATMI are forecasted to post VND18,201bn (USD758.3mn) (42.3% YoY) and VND5,626bn (USD234.3mn) (80.4% YoY) in 2022.
- From 2023, we are seeing a pressure in the supply side as the gas price in EU has been cooling down, which is likely to activate the Urea production line in this area. As a result, Urea price will ease. Previously, record high feedstock and energy costs forced the industry to cut 60%-70% its capacity, pushing the Urea price up.
- Revenue and NPATMI are forecasted to post VND14,373bn (USD598.8mn) (-21% YoY) and VND3,028bn (USD126.1mn) (-46.1% YoY) respectively in 2023. Key assumptions are (1) gross margin of 33% (2) Urea price of VND11,000 per kg, down 30% YoY.

BANKING

CONTINUE WITHSTANDING THE STORM

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BANKING – ONGOING FIGHT AGAINST THE HEADWIND

Rating

Overview

During the last decade, the banking industry has experienced ups and downs but currently valuation has come to the attractive level, equivalent to one standard deviation of 10-year average P/B. From 2012 to 2016, the banking industry entered the phase of debt-restructuring caused by the freeze of real estate market along with global economy headwinds. During the period from 2017 to 2020, banking industry started to resume, proactively resolved bad debts, boosted growth of non-interest income through insurance, investment banking while riding on the digital transformation phase to reduce costs, resulting in an accelerate in earnings. Since 2020, although the banking industry has experienced two difficult Covid years, in general, the whole industry has been able to keep the return on equity around 20%.

*In 2023, we foresee that the banking industry will continue to weather the storm in the downtrend cycle of real estate market along with a gloomy outlook for import and export, but the resilience of each bank will depend on their asset quality and prudent policy in recent years. Despite rising uncertainties ahead, we see that the valuation of the banking industry has reached a low level in the past 10 years. Therefore, difficulties ahead will bring opportunities to select and **ACCUMULATE** stocks and hold long-term for the recovery and growth journey from 2024.*

Highlights

Interest income growth is forecasted to slow down due to the impact of modest credit growth and lower NIM in 2023

- In contrast to the aim of 15.5–16% in 2022, credit growth is predicted to be at 11%–12%. Based on their advantages and how they support the economy, we think that the credit quota will be polarized. Additionally, it is anticipated that credit demand will be lower than in the preceding period due to the real estate market's gloomy outlook.
- NIM to dent yet the magnitude to be divergent between banks, leading to the interest income growth below 11%.

Provisioning buffer has been strengthened amid challenges of the economy in the coming uncertain period

- Although being allowed to extend and suspend provision for restructured loans (due to Covid) until June 30, 2022, most banks have made adequate provisions for these restructured loans in advance. As a result, the provisioning buffer was reinforced during this period. Since the third quarter of 2022, banks has reflected actual non-performing loans on their balance sheet, but the increase in credit costs has slowed down.
- In 2023, we believe that asset quality of the banking industry may deteriorate given the downturn of real estate sector coupled with less positive outlook for import and export. However, the decline will differ depending on the level of exposure to corporate bonds and real estate loans. An abundant provisioning buffer will help some banks having prudent policies with these two businesses even avoid the decline in asset quality.

BANKING – ONGOING FIGHT AGAINST THE HEADWIND

Highlights

Total operating income grows modestly amid slowing lending activity

- In our coverage universe, 2023 total operating income is forecasted to grow modestly by +10%YoY as interest income growth is at 11% YoY and fee income growth momentum gradually cools down, at +16% YoY. Asset quality will spot a slight deterioration coupled with the relatively modest increase in credit costs of 18% YoY. Profit before tax is forecasted to be up slightly by 6% YoY.

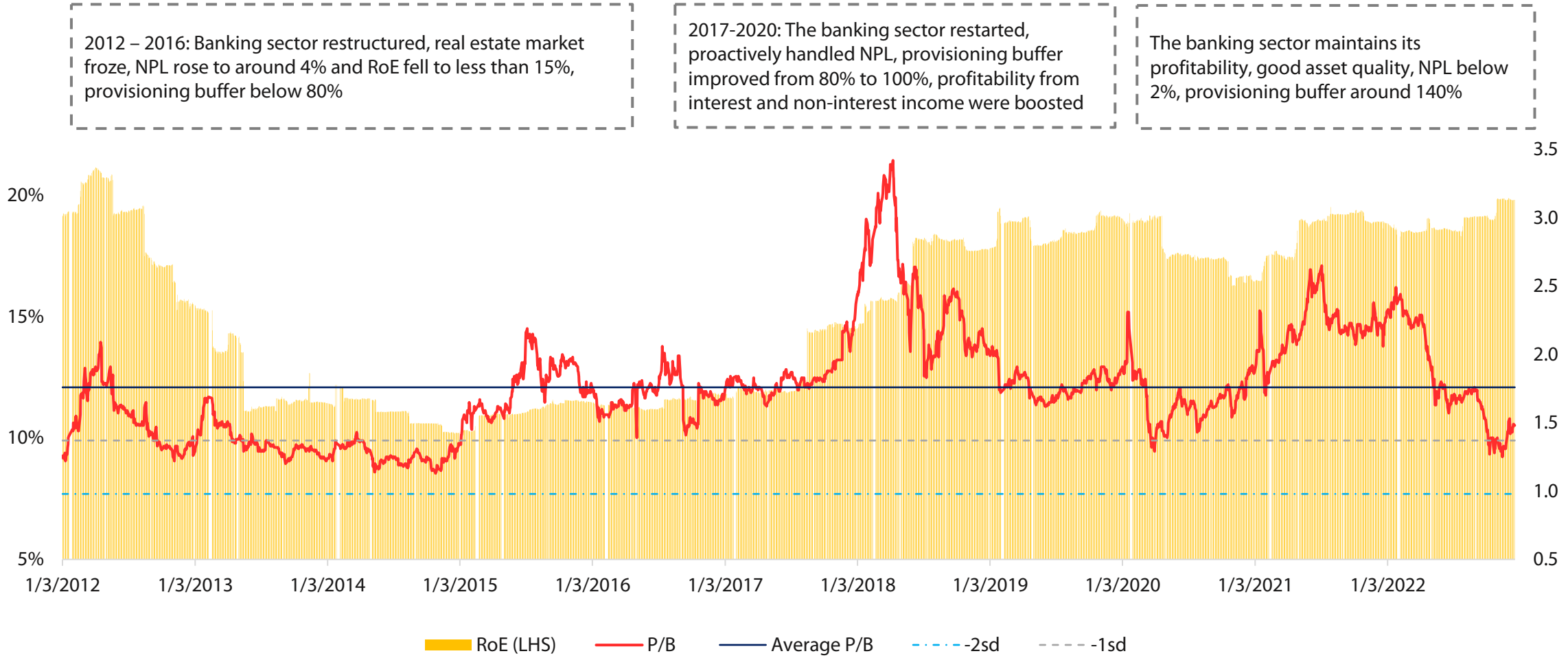
Return on equity will polarize in the coming time

- We estimate that the return on equity of the banks in our coverage will decline slightly in 2023 amid a slowdown in Vietnam's economic growth. However, some banks with adequate provisioning buffers, well-controlled asset quality and low exposure to risky sectors will likely to maintain a moderate RoE level and will recover to the average level from 2024.

Despite facing uncertainties, the valuation of banking sector has reached a low level

- In 2022, banking stocks experienced two sharp declines after the events of Tan Hoang Minh in April and Van Thinh Phat associated with SCB in September 2022. These two declines have brought industry valuations to a 10-year low. We believe that this valuation is partly reflecting the risks that banking industry is and will face in the coming time.
- However, we believe that compared to the restructuring period of 2012 - 2013, the industry's capability to cope with risks has improved significantly when (1) the level of cross-ownership among banks has decreased sharply, (2) High capital adequacy ratio, most banks have met the minimum requirements of Basel II standards, and (3) High provision for non-performing loans. Therefore, although industry earnings growth is projected to slow down considerably in 2023, the recovery will be faster as soon as the global and domestic economy improves, instead of taking many years as seen in the previous restructuring period.
- We prefer VCB and ACB due to their lending policy and prudent provisioning approach. We believe that these two banks will be the "last survivors" in case the banking industry suffers heavy losses due to the economic descent. Therefore, risk-averse investors can consider VCB and ACB for long-term holding.
- Although having lending and provisioning policy less conservative in our opinion, CTG, MBB and VPB are also our favorite banks because of their dynamism and advantages in certain strategic business areas that these banks are pursuing. Therefore, when the stock valuation of these banks drops sharply to the level equivalent to the 2012-2013 restructuring period, investors who prefer banking stocks can consider disbursing.
- Finally, TCB is a pioneer bank in applying digital technology to develop retail business and has achieved certain successes. However, the past advantages of TCB including corporate bonds or the ecosystem with large real estate companies are facing many challenges as both of the above factors are facing many obstacles in short term. We expect that after the above bottlenecks are released, TCB with extensive experience in retail banking will quickly accelerate. Therefore, investors need to closely observe until there are positive developments in relevant events to make investment decisions.

Figure 1: Valuation and return on equity (%)



Source: Fiin, Rong Viet Securities

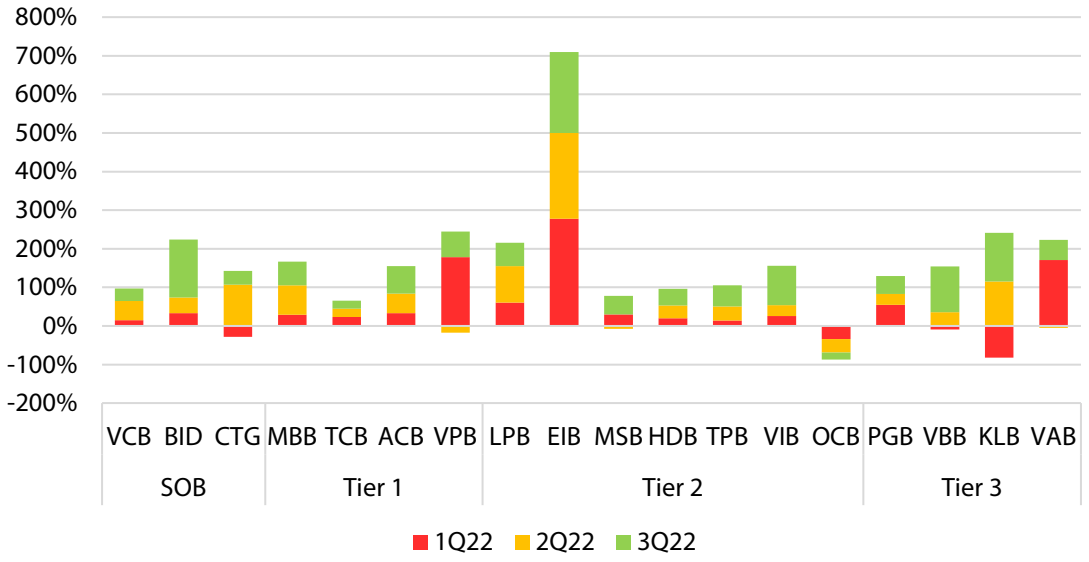
INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Net interest income growth (2023 %YoY)	Net service income growth (2023 %YoY)	Operating income growth (2023 %YoY)	Net profit growth (2023 %YoY)	NIM (TTM)	NPL ratio (%)	ROA (%)	ROE (%)	PE (2023)	PB	Dividend yield (TTM, %)
VCB	366,297	90,200	9%	12%	9%	7%	3.13%	0.90%	1.55	19	14.2	2.5	0
BID	192,730	37,400	9%	8%	7%	5%	2.88%	1.07%	0.95	18	13.9	1.7	0
TCB	95,669	33,000	12%	5%	9%	-3%	5.41%	1.30%	2.93	17	4.5	0.7	0
CTG	131,918	27,300	8%	19%	4%	6%	2.88%	1.55%	0.93	15	10.8	1.3	0
VPB	111,775	20,800	11%	34%	12%	6%	5.24%	2.88%	2.70	19	5.9	1.0	0
MBB	80,252	21,900	11%	44%	12%	8%	3.57%	1.23%	2.60	24	3.8	0.9	0
ACB	75,992	29,400	10%	17%	12%	6%	4.14%	1.12%	2.40	23	5.2	1.1	0
OCB	42,891	15,800	7%	11%	14%	11%	3.11%	2.90%	1.60	12	7.3	0.8	0
HDB	40,747	21,800	16%	28%	18%	10%	4.75%	1.50%	1.84	22	3.8	0.7	0

Source: Fiinpro, RongViet Securities. Share price as of 12 Dec 2022.

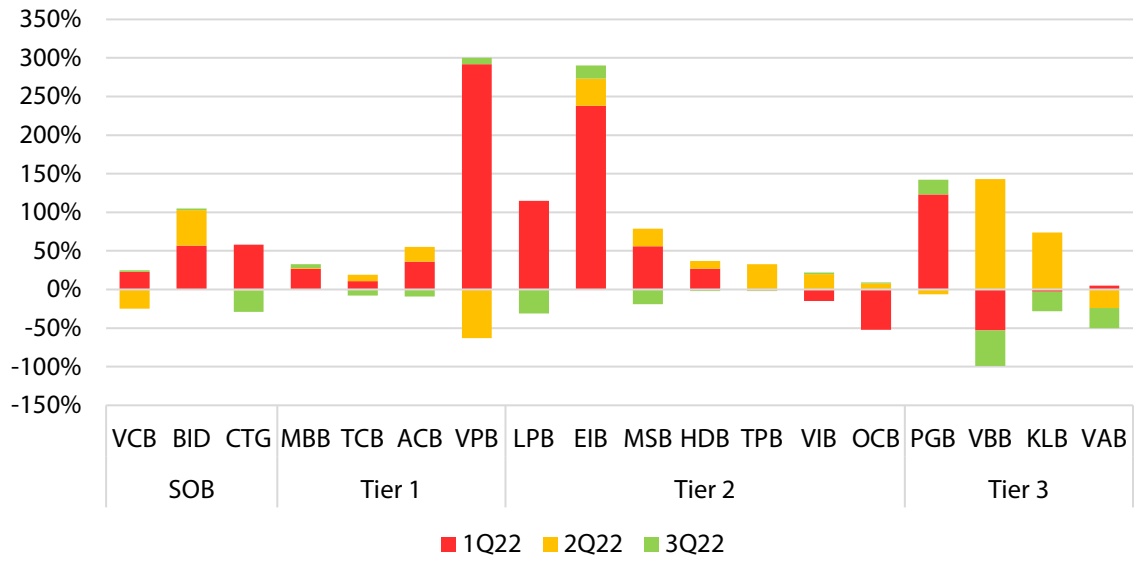
- Industry earnings growth reached 53% YoY in 3Q2022, higher than 31% YoY in 1Q2022 and 36% YoY in 2Q2022 due to a low comparative base effect in 3Q2021, thereby bringing a 39% growth for the first 9 months of the year. After a period of disruption due to Covid 19 in the third quarter of 2021, credit growth has boosted the earnings growth of the banking industry. However, we see signs of slowing down in quarterly earnings growth since 2Q, which is quite similar to the credit growth trend of the whole industry at 5.97%/9.43%/11.04 % (YTD) at the end of 1Q/2Q/3Q this year, respectively.
- In which, the divergence continues in earnings growth between banks, with large banks tending to achieve better results. State-owned and Tier 1 banks have average earnings growth of 33% and 48%, respectively, while that of Tier 2 and Tier 3 banks are 37% and -0.5%. This remains in line with our expectations for a prolonged divergence in sector earnings growth in 2022, mainly due to differences in asset portfolios, customer recovery pace, provisioning buffers, and comparison base.

Figure 2: YoY PBT growth of the whole sector (%)



Source: Banks' FS, Rong Viet Securities

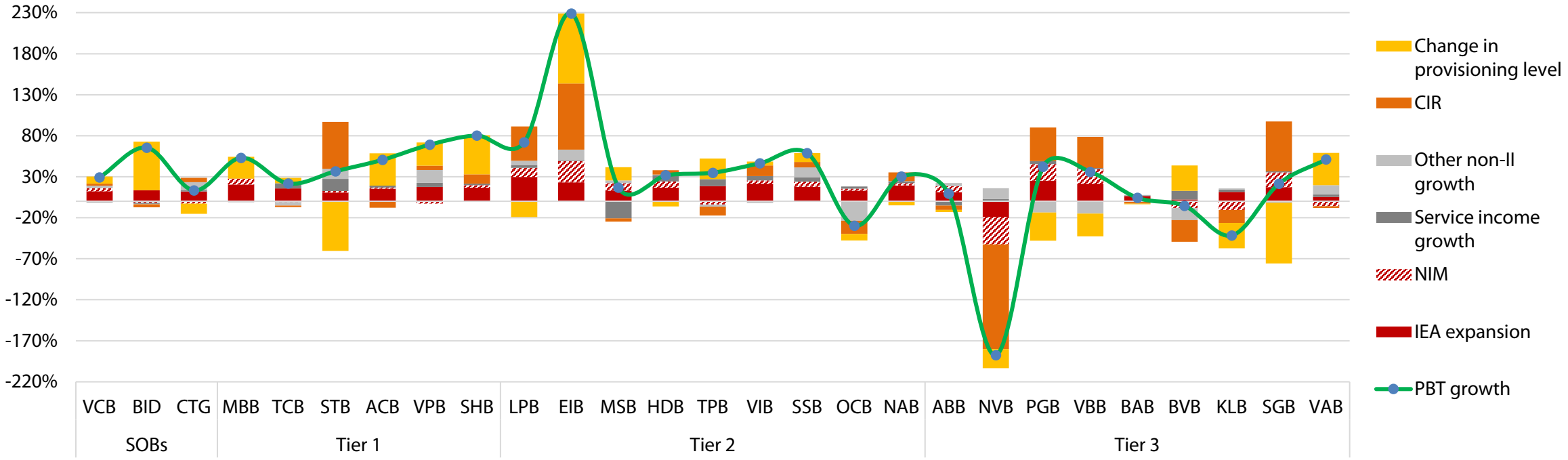
Figure 3: QoQ PBT growth of the whole sector (%)



Source: Banks' FS, Rong Viet Securities

- The main growth factor differs among banks but year-on-year credit growth is still a crucial driver with the highest average contribution to PBT growth (14% YoY).
- NIM did not show a clear trend due to the difference in interest rates, deposit demand compared to credit growth quota and the ability to mobilize non-deposit funds.
- Although credit costs component witnessed a rising average contribution to PBT growth, it showed capability polarization in utilizing provisioning buffers to reduce risk costs among banks, with the edge is still in favor State-owned and Tier 1 banks.

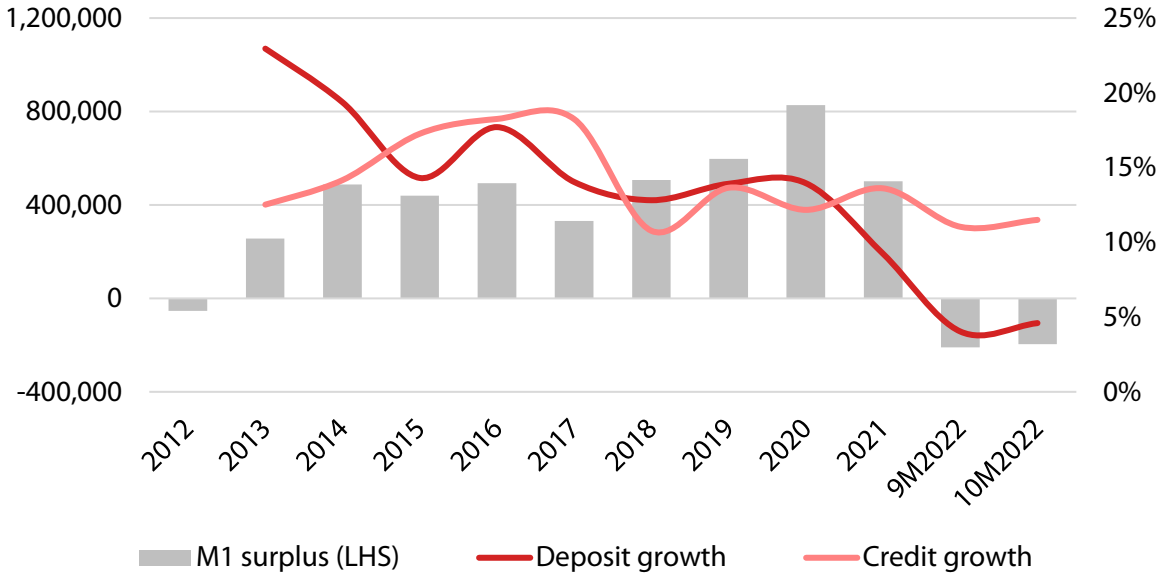
Figure 4: 9M2022 PBT growth component (%, YoY)



Source: Banks' FS, Rong Viet Securities

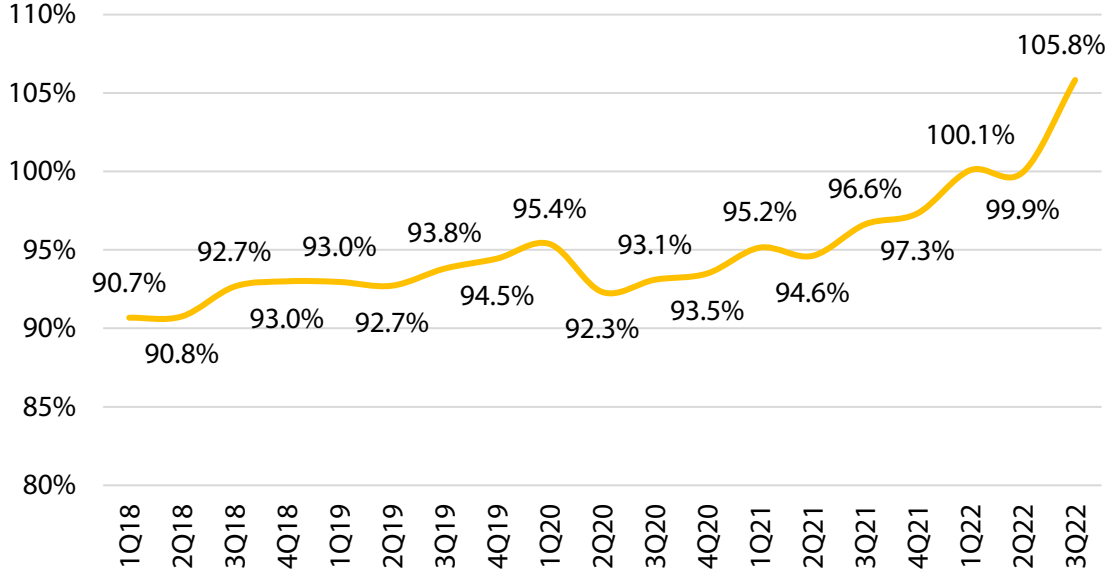
- The widening gap between credit growth and deposit growth in 2022 has indirectly put pressure on Market 1 interest rates. Market 1 surplus has been reversed and become negative since July 2022 (Figure 5) . At the end of November, the difference between deposit growth and credit growth was about -7%.
- From the end of 2Q2022, the pure LDR (loans to deposits) ratio has reached a high level compared to the previous years as banks took advantage of the interbank market to ensure liquidity in the short term. At the same time, strict regulations on the corporate bond market and legal events related to Van Thinh Phat associated with SCB put more pressure on the interbank market, leading to elevating interbank rates and activities (Figure 9 and Figure 10).
- The resonance of Market 1 liquidity, interbank market coupled with the above events has put continuing pressure on deposit rates.

Figure 5: Credit – deposit growth, Market 1 surplus (%, YoY, VND bn)



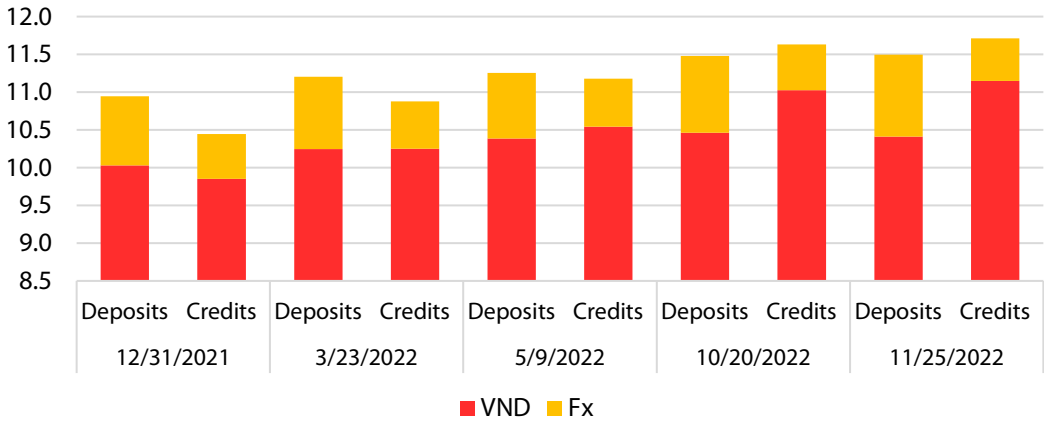
Source: Fiinpro, Rong Viet Securities

Figure 6: Pure LDR of the whole sector



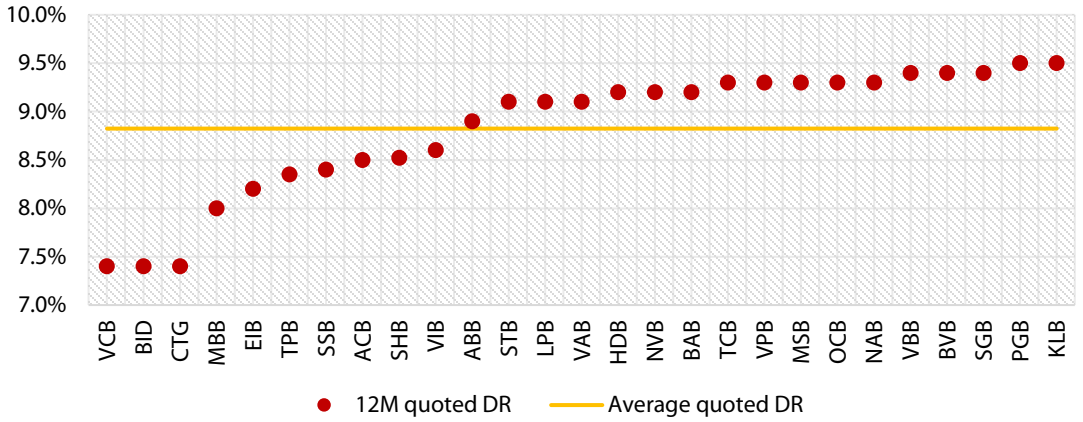
Source: Fiinpro, Rong Viet Securities

Figure 7: Credit – deposit structure of the banking system



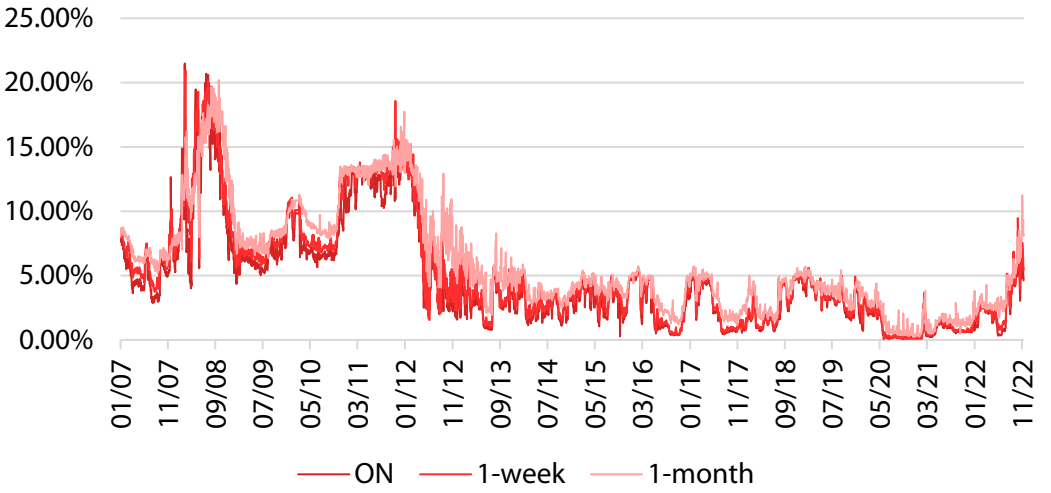
Source: Rong Viet Securities compiled as of December 2022

Figure 8: Dispersion among banks' 12M quoted deposit rates



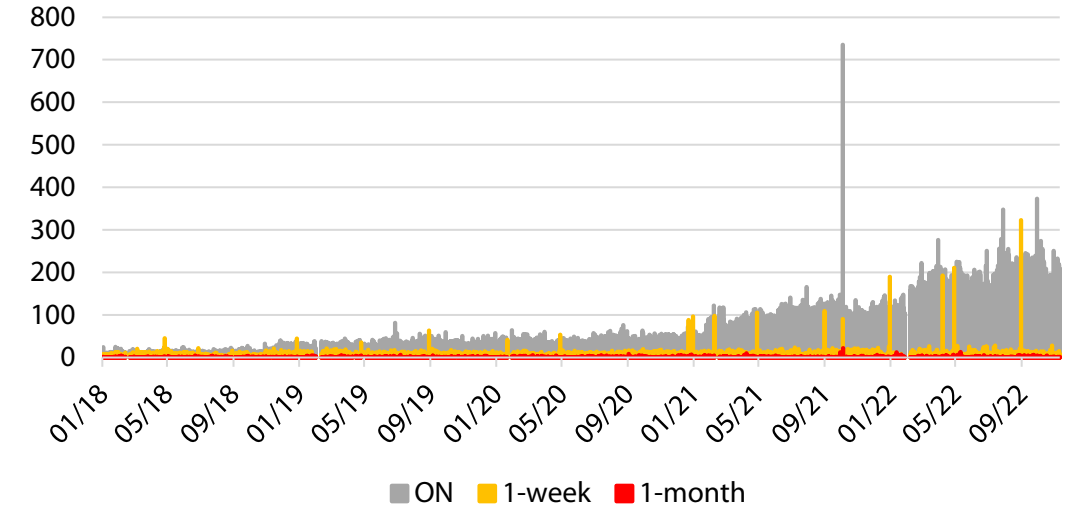
Source: Rong Viet Securities compiled as of December 2022

Figure 9: Interbank rates (%)



Source: Fiinpro, Rong Viet Securities

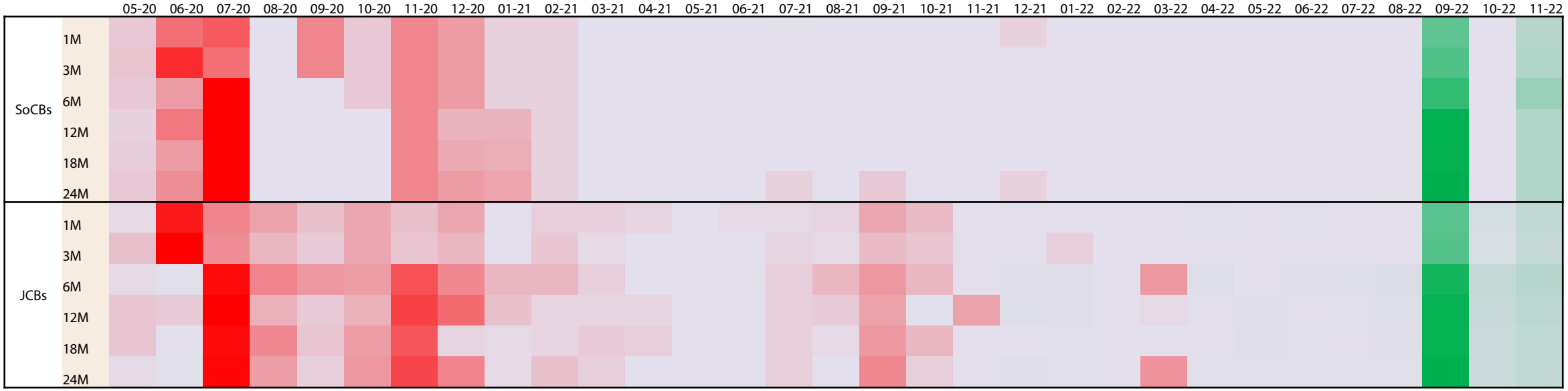
Figure 10: Interbank transaction volume (VND tn)



Source: Fiinpro, Rong Viet Securities

- As of the beginning of December, deposit rates had rose to the pre-epidemic levels and the increase was relatively divergent, reflecting the liquidity condition of each bank. We also noticed a significant divergence in quoted deposit rates among bank tiers after the VTP-SCB event.
- Among our coverage universe, the group of State-owned banks has witnessed an increase of 2% on average for 12-month term, while that of the private sector is up 2.8% year-to-date. The increase for each term is also quite different, specifically, deposit rates of the private sector increased strongly in the terms of over 6-month.

Figure 11: Quoted deposit rates (Quoted DR, %) change month-on-month by bank tier showed an upward trend from the beginning of 2Q and especially surged during the period of liquidity stress at the end of 3Q2022

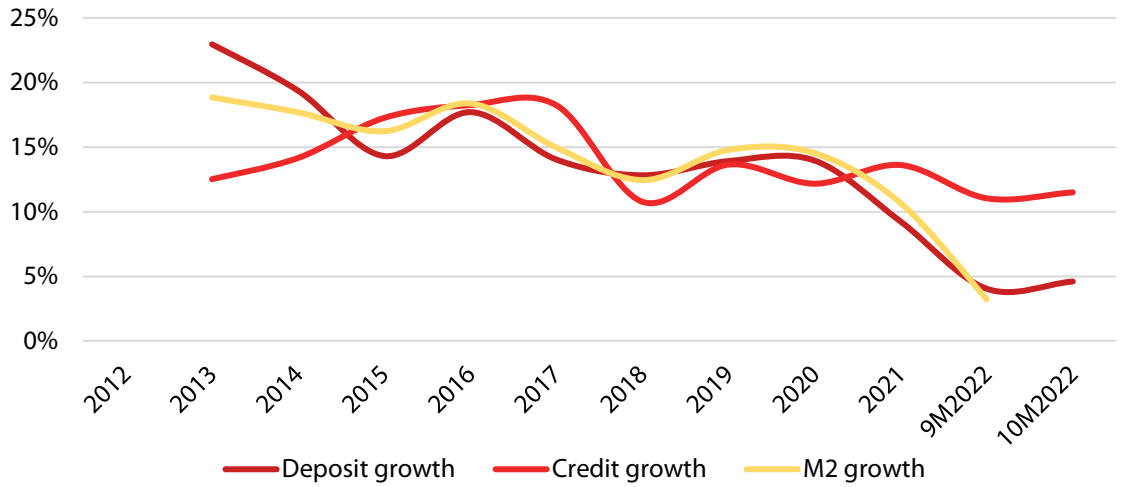


Source: Rong Viet Securities. Table 1: colored by the scale of rate change from the previous month. Rates are the highest possible retail deposit rates for each maturity.

Improved liquidity is expected to mitigate pressure on interest rate hikes

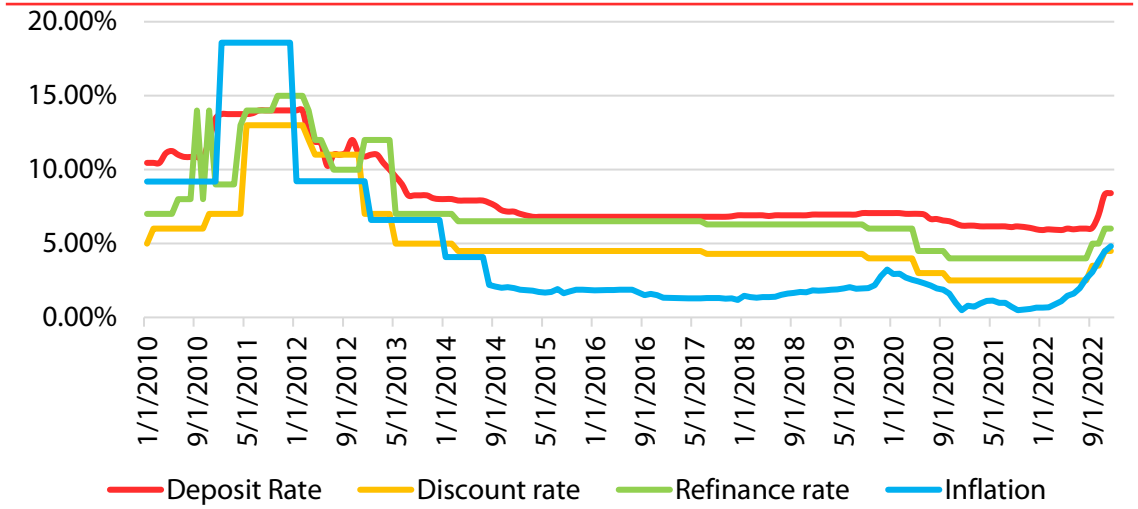
- After the cautious growth in 2022, we expect the money supply growth to be better in 2023 thanks to (1) disbursement of public investment continued to accelerate, (2) global inflation cooled down and The FED's less hawkish policy with interest rate targets will create headroom for the SBV to operate monetary policy more flexibly in the direction of stabilizing macroeconomy and supporting economic growth. (3) The downside of slowing down trade activities is that trade surplus may be higher, around USD 12-15 billion according to the forecast of Rong Viet macro department. This is an opportunity for the SBV to buy foreign currencies to supplement foreign exchange reserves, which have rapidly decreased in 2022, thereby indirectly supplying VND to the market.
- Lower credit demand in 2023 in a high interest rate environment will also contribute to narrow down credit-deposit growth gap, alleviating pressure on deposit rates.
- Therefore, the operating interest rate is less likely to increase yet deposit rates at banks will continue to be differentiated. Of which, the State-owned banks deposit rates will slightly rise, while there will be more noticeable rate hikes in the private group to attract deposits.

Figure 12: The divergence between credit growth and money supply puts pressure on system liquidity (%, YoY)



Source: SBV, Rong Viet Securities

Figure 13: The system average interest rates has increased rapidly to the level of restructuring period 2012 – 2015 (%)



Source: SBV, Rong Viet Securities

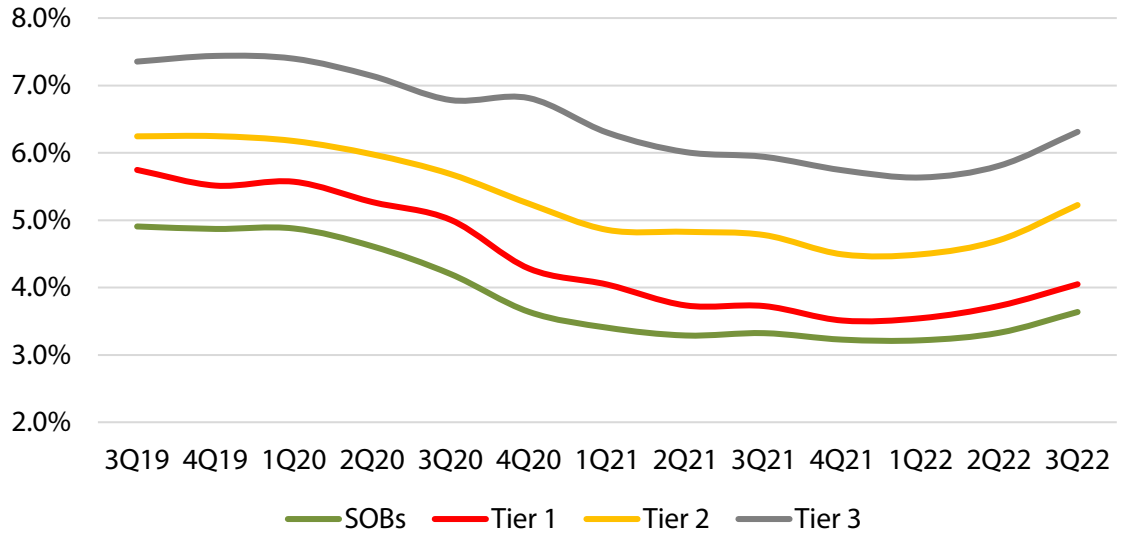
Deposit rates upward momentum will cool down yet costs of funds are expected to rise in 2023

- According to the Fed's monetary policy tightening path until mid-2023, we believe that the interest rate level in general will stay at a high level. Due to low deposit cost in the first 9M of 2022 and CASA remaining high, given that interest rates in 2023 will anchor at current levels and climb locally at some banks while CASA growth remains slow, we forecast costs of funds will increase in 2023. Per our estimates for the coverage universe, costs of funds will be up by an average of 30bps compared to that of 2022.

While lending rates are under downside pressure, at least in the first half of the year

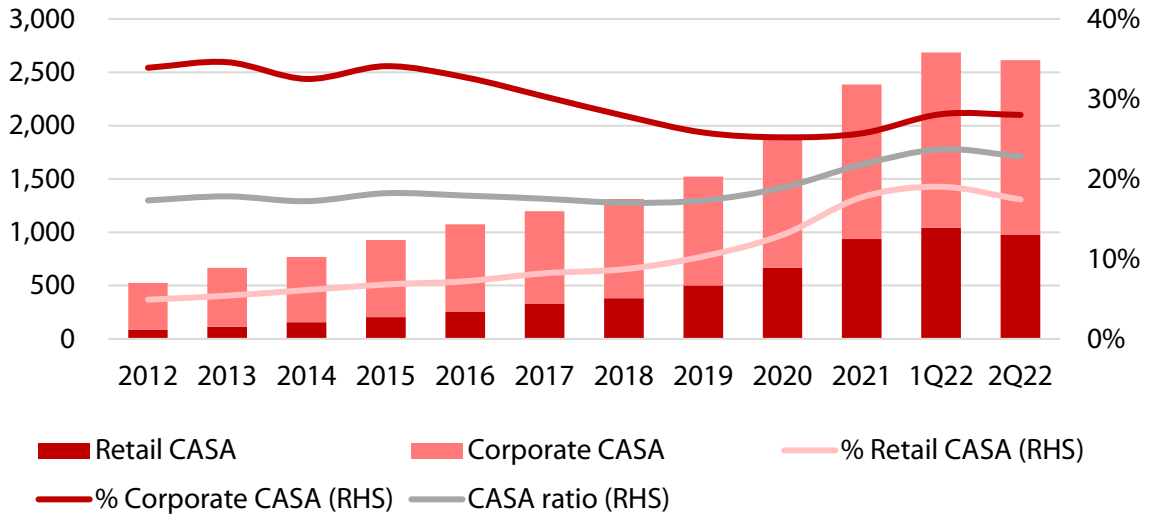
- The proportion of credit for real estate sector will decrease in the coming years according to the policy direction of controlling credit in "potentially risky" fields. As lending rates for this sector are consistently highest among industries, this will reduce average lending yields.
- The pressure of reducing lending rates to support customers in line with the SBV's policy direction when the economy entering a downturn cycle, will also affect lending rates of the whole system when the State-owned group accounts for more than 45% of credit market share.

Figure 14: Average deposit rate (%, annualized)



Source: Rong Viet Securities complied

Figure 15: CASA (VND tn)

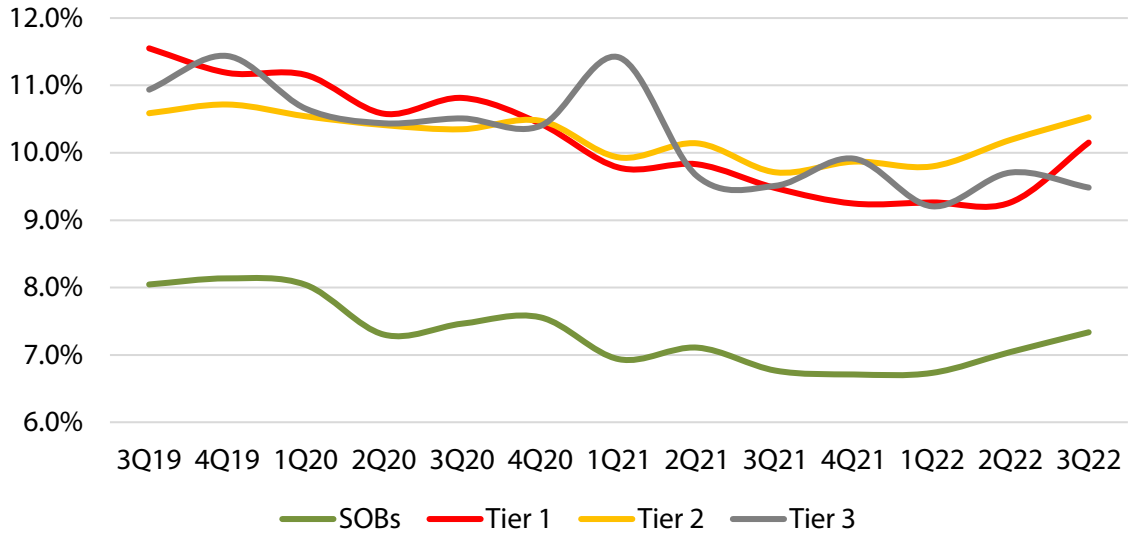


Source: Rong Viet Securities complied

NIM will decline but the extent will be different among bank tiers

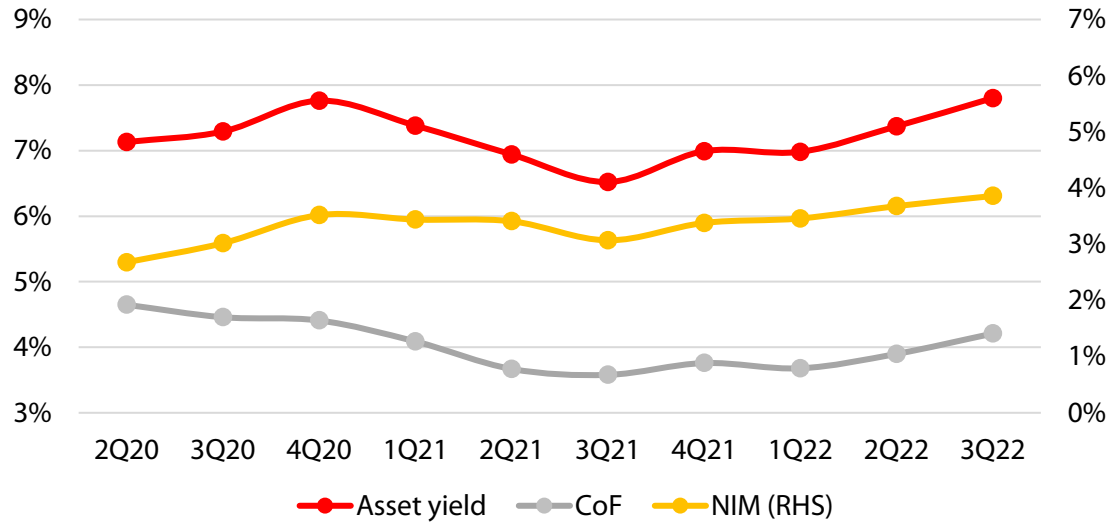
- In 2023, costs of funds will increase yet interest-earning assets yield may increase more slowly, coupled with the 3-6 month lagging re-pricing of lending yield, leading to a slight NIM contraction in the next 1-2 quarters. In the first half of 2023, NIM is likely to continue declining due to the above factors, but from the middle of the year may move sideways or improve slightly with the expectation that world macro pressure will gradually be mitigated, thereby reducing pressure on mobilizing rates. In our coverage universe, the average costs of funds will increase by circa 24 bps while interest-earning assets yield will rise more slowly at 13 bps, resulting in a slight decrease of NIM, roughly 5 bps in 2023.
- State-owned banks will see a greater decline in NIM than joint-stock commercial banks due to the responsibility of "economy supporting" in difficult times. We expect the draft amendment of Circular 22, which allows a part of Treasury deposits to be included in the deposit component of LDR calculation, will be approved soon. In this case, the State-owned banks will be able to optimize the amount of Treasury deposits, partially compensating for sharing the burden of interest expenses with the whole economy.

Figure16: Average lending yield (%, annualized)



Source: Fiin, Rong Viet Securities complied

Figure 17: NIM movement of the whole sector (annualized)

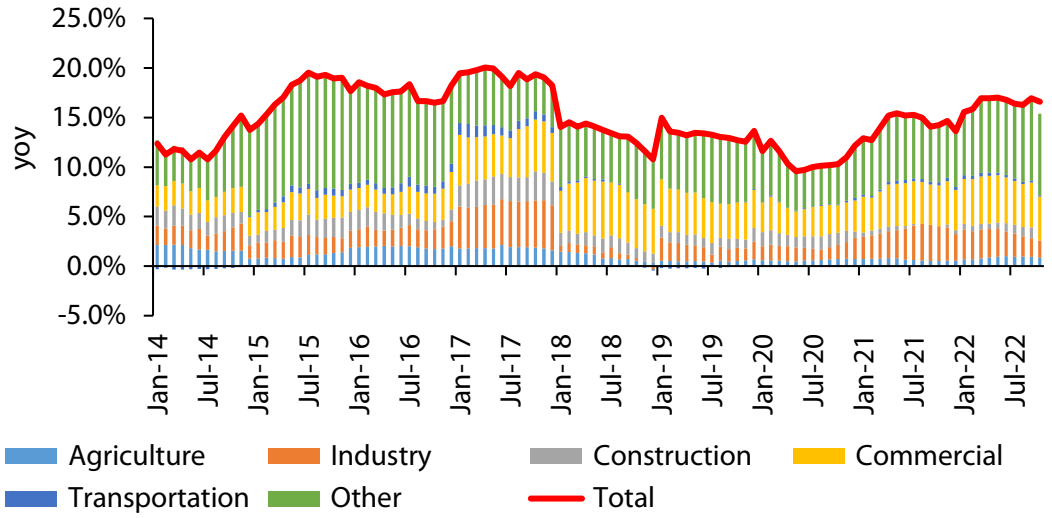


Source: Banks' FS, Rong Viet Securities complied

Credit growth to decelerate in less favorable macro environment

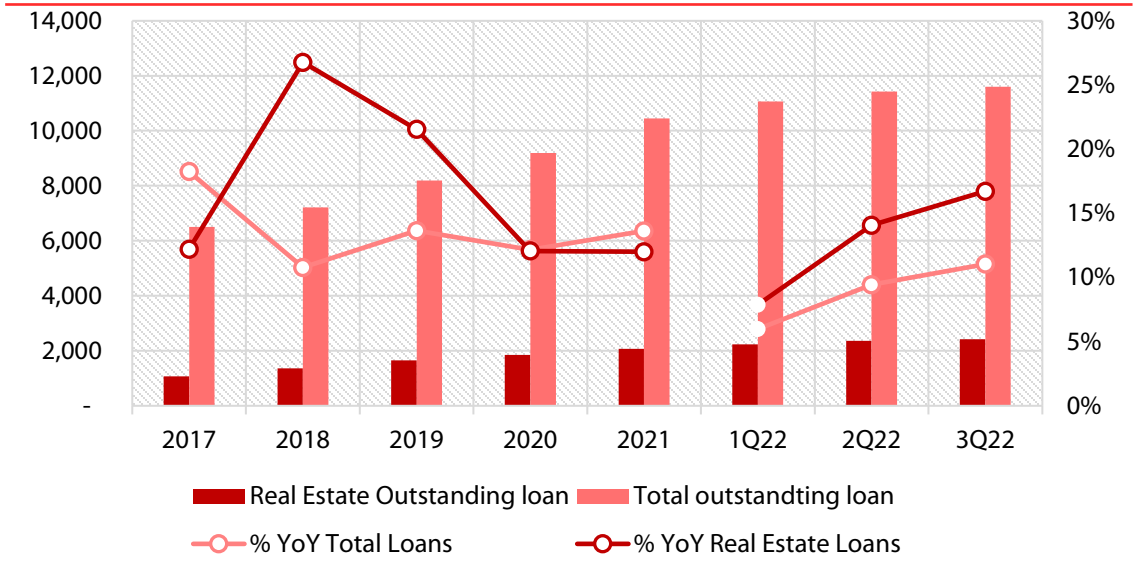
- We estimate that credit growth of the whole industry will be around 11-12% for the year 2023, lower than the target of 15.5-16% for 2022 due to (1) falling credit demand amid interest rates hike along with the economic growth drivers tend to fade out; (2) The regulator's policy direction of limiting credit to risky fields.
- Targeted credit allocation will give some banks advantage while limiting growth opportunities for others. Per our estimation, credit growth will vary between banks with different asset portfolios, in which banks with one of the following factors (1) Supporting the transferring of distressed banks, (2) Supporting the economy's financing costs by reducing lending rates, (3) Having a balance sheet less exposed to risky sectors; 4) Having robust liquidity quality will be granted higher credit growth quota than other industry peers. Accordingly, VCB, MBB, VPB, HDB are likely to be banks with high credit growth quota compared to the industry average.
- With the above view on NIM and credit growth, it is estimated that interest income growth of the banks in our coverage list will decelerate to 11% in 2023, lower than the level of 22% /21% in 2021/forecast 2022.

Figure 18: Credit growth by sector(%, YoY)



Source: SBV, Rong Viet Securities

Figure 19: Real estate loan balance and total credit (VND trillion)



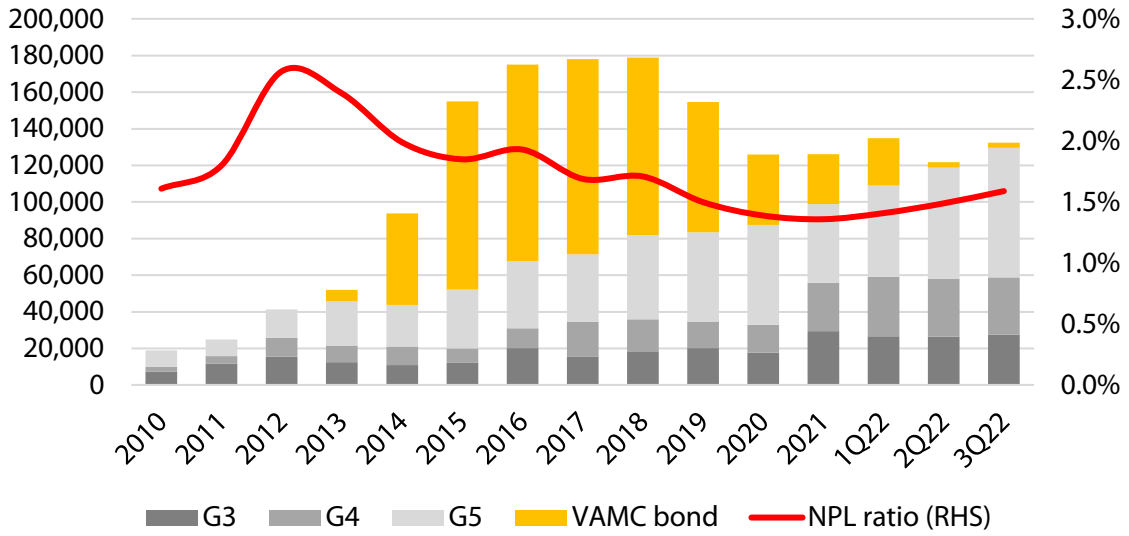
Source: SBV, Rong Viet Securities

NON-PERFORMING LOAN RISK AND RISING PROVISION EXPENSES

Provisioning pressure for non-performing loan arising from Covid-19 restructured loans is not significant for the banks in our coverage.

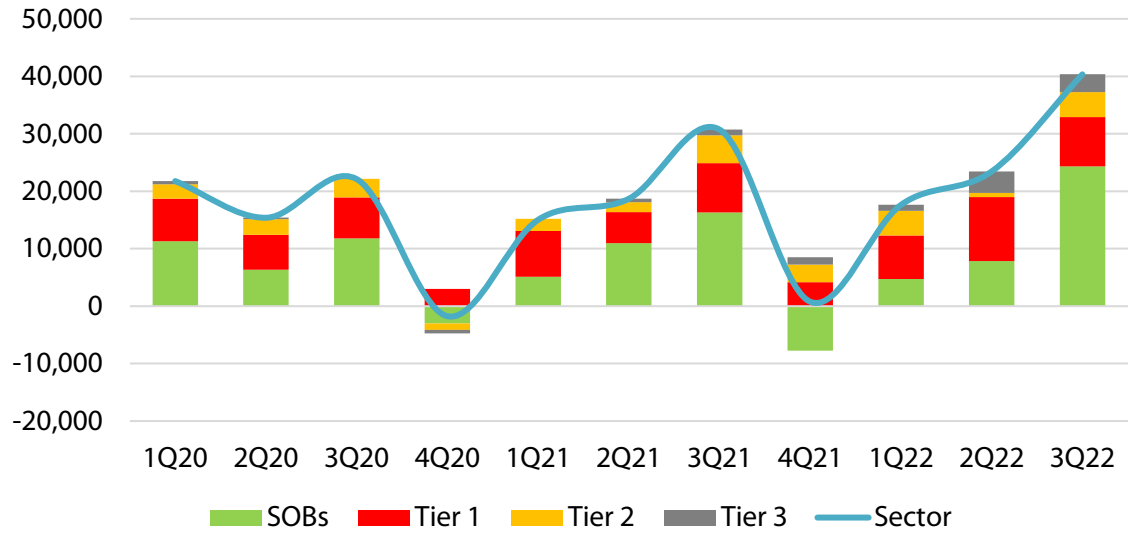
- NPL ratio of banks in our coverage only increased slightly after the Covid-19 restructured loans were transferred to actual loan groups from 3Q2022 due to the expiration of Circular 03. In addition, most of the banks that we observe, including VCB, BID, CTG, ACB, MBB, TCB, HDB, MSB have made enough provisions for restructured and follow-up loans. Credit costs during this period were therefore mostly flat.
- The remaining banks that have not made enough provision will face the possibility of increased credit costs for restructured loans in the coming quarters.
- Banks' asset quality has weakened slightly when Circular 03/2021 expires on June 30, 2022 and non-performing loans are classified according to their nature, but credit costs margin are relatively flatter and provisioning buffer remains high.

Figure 20: On-balance sheet NPL ratio remained around 2% mainly due to aggressive debt write-off



Source: Fiin, Rong Viet Securities complied based on 27 listed banks

Figure 21: Quarterly net NPL formation (VND billion) increased rapidly in 3Q2022 after Circular 03/2021 expired



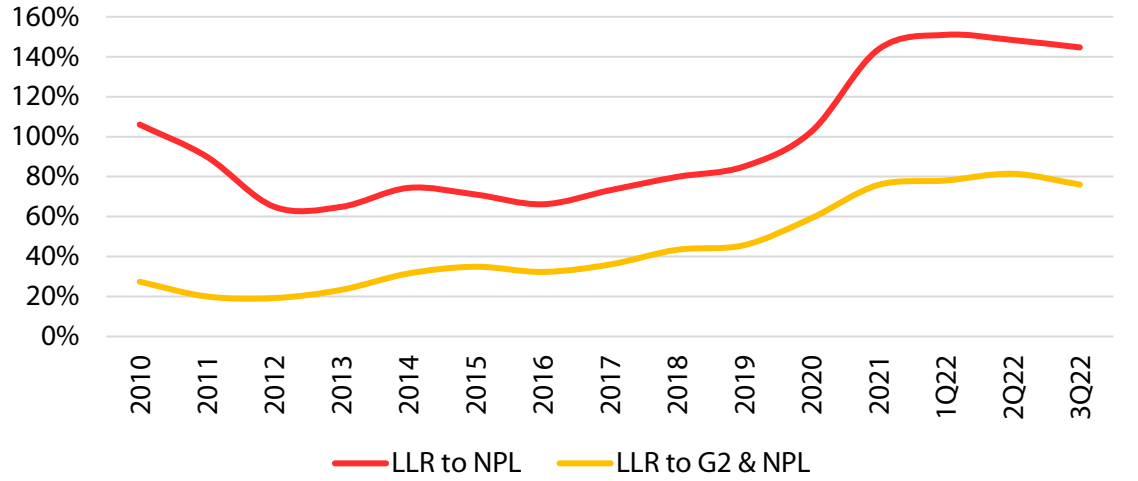
Source: Fiin, Rong Viet Securities complied based on 27 listed banks

NON-PERFORMING LOAN RISK AND RISING PROVISION EXPENSES

The poor macro outlook and downturn of the real estate market put non-performing loans pressure on the whole economy

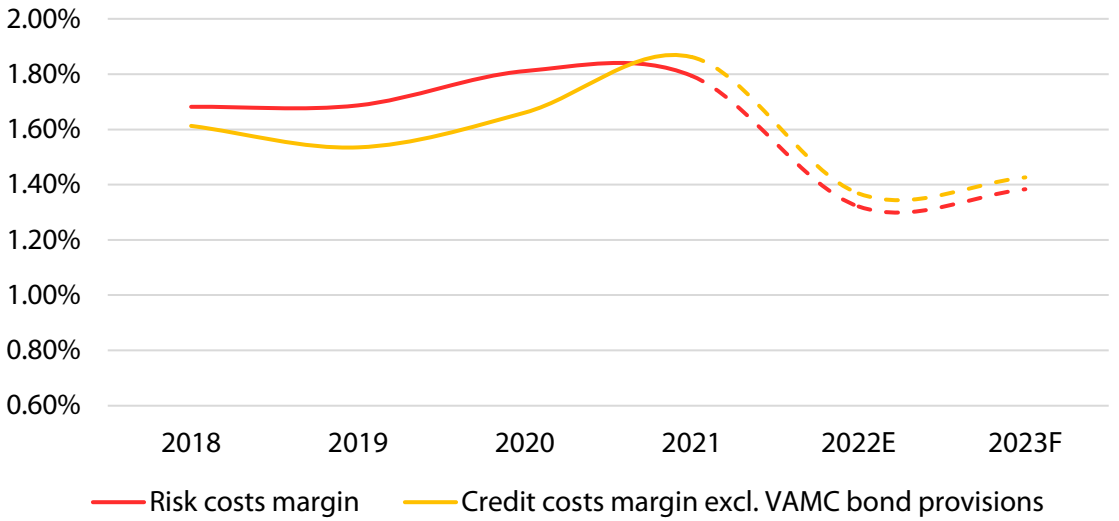
- We believe that there will be an increase in NPL and credit costs in the next few quarters due to (1) Risks of global macro negatively affecting outlook for international trade as well as the prospect of Vietnam economic growth (2) The down cycle of real estate industry and corporate bond risks. With the proportion of outstanding loans in real estate and construction accounting for approximately 30% of the whole industry total outstanding loans, the weakness of real estate market not only affects credit growth but also potential pick up in non-performing loans.
- After the pandemic, we expect **the economy's K-shaped recovery to continue**, with large corporate and high-income individual customers recovering well. By contrast, the ability to meet financial obligations of small and medium-sized enterprises and low-income individual customers will be more exacerbated in the context of rapidly rising interest rates and inflation. Therefore, we believe that **the size of non-performing loans and credit costs will vary between banks**, based on each bank's caution in provisioning and the financial resilience of customers.
- Banks with a diversified customer base, fully provisioning for restructured loans, and less exposed to corporate bonds will have better capability to control the cost of credit risk than others. We find that the group of State-owned banks and some private banks with prudent lending and provisioning policies, such as ACB, will be the banks that meet the above criteria well.

Figure 22: LLR decreased slightly after NPL incurred from restructured loans were fully reflected on balance sheet



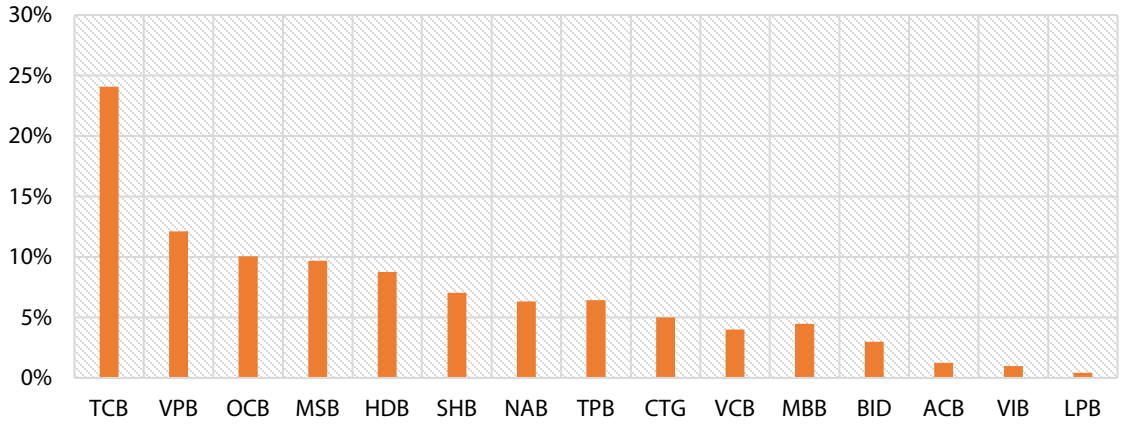
Source: Fiin, Rong Viet Securities complied based on 27 listed banks

Figure 23: Credit cost margin of our coverage



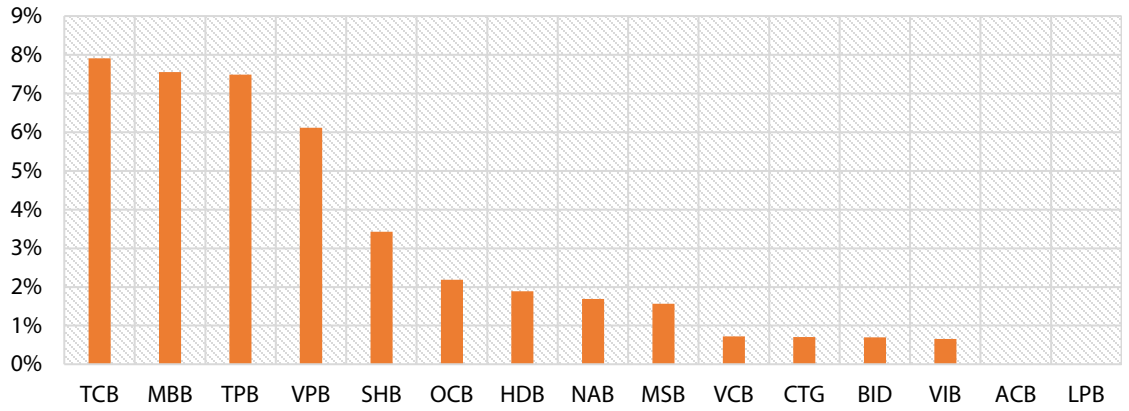
Source: Rong Viet Securities estimated based on 9 banks in our coverage

Figure 24: Ratio of loans to real estate developers/Total loans



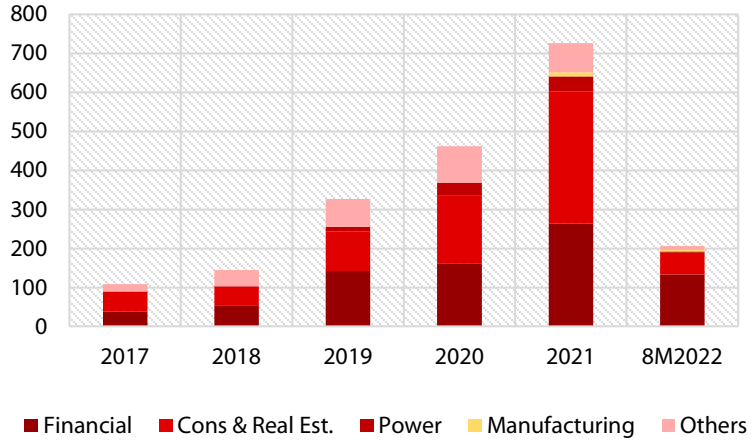
Source: Banks' FS, Rong Viet Securities

Figure 25: Ratio of corporate bonds/Total assets



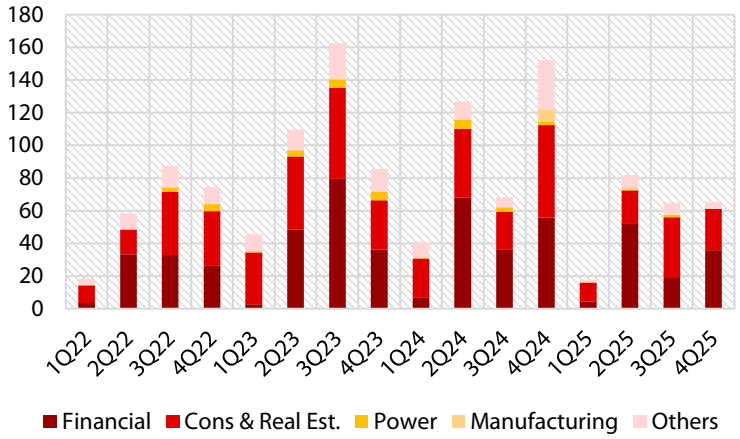
Source: Banks' FS, Rong Viet Securities

Figure 26: Bond issuance value by sector (VND billion)



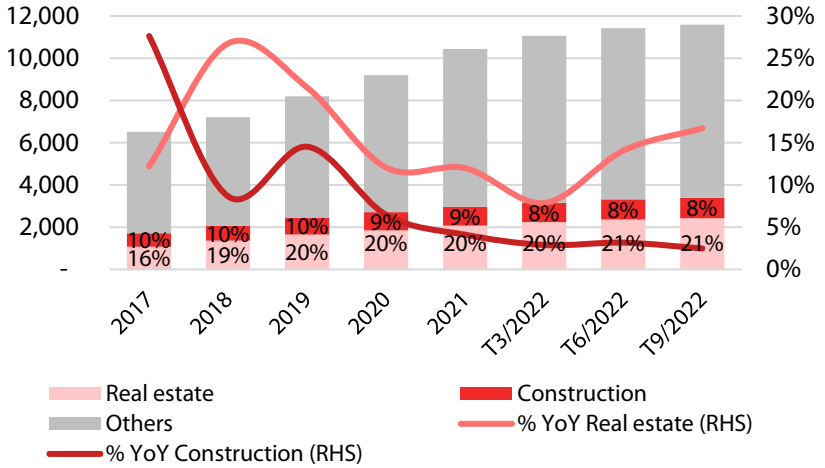
Source: VAMC, Rong Viet Securities

Figure 27: Bonds to maturity value by sector (VND billion)



Source: VAMC, Rong Viet Securities

Figure 28: Real estate & Construction outstanding loans



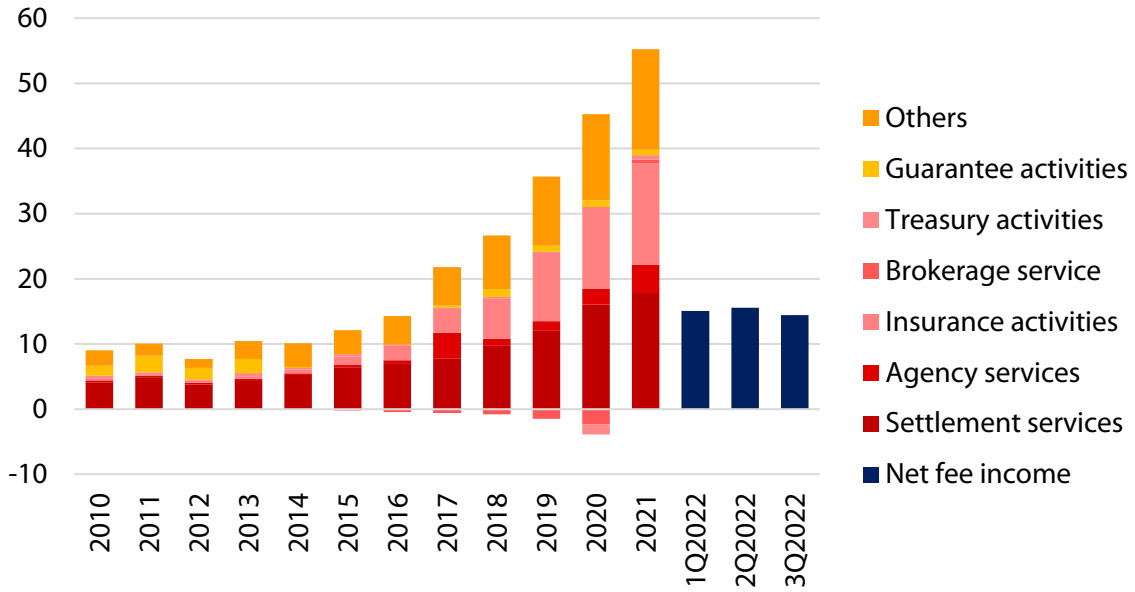
Source: VAMC, Rong Viet Securities

Looking back at 9M2022, 9M2022 service income only increased by 18% YoY with difficulties from the comparison base, fee competition and the headwinds on corporate bond market regardless of the support from card services recovery, increasing contribution from bancassurance and trade finance. Favorable growth in foreign exchange sales could not boost non-interest income growth.

In 2023, the high comparison base effect, customer support programs, and turmoil in the real estate market are projected to reduce non-interest income growth momentum due to the following factors:

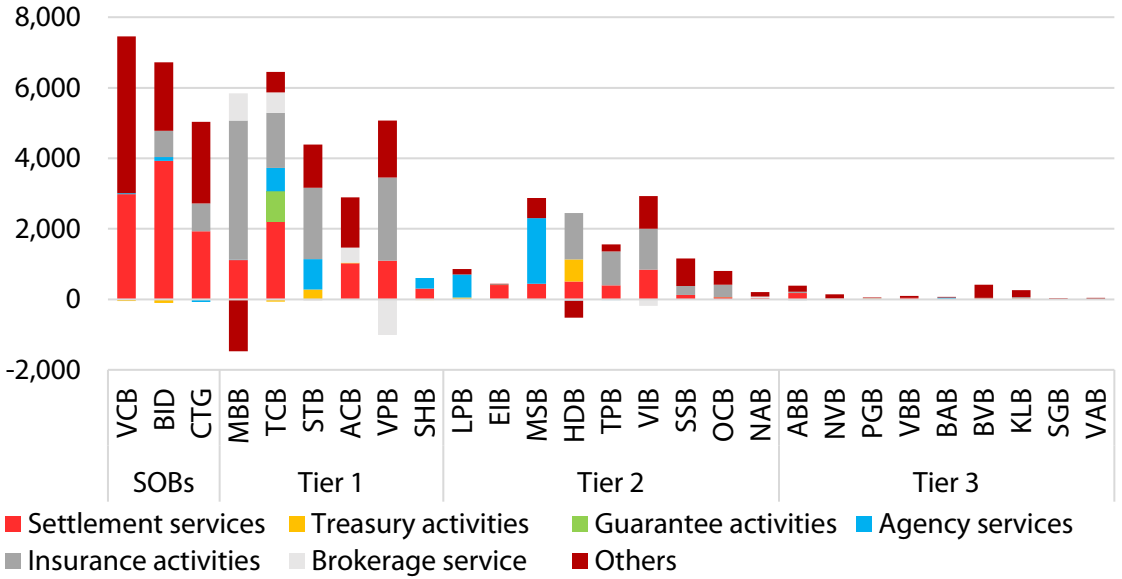
1. Payment activities are likely to decrease, which will decelerate in line with the credit activities in 2023. Besides, the trend of banks implementing the zero-fee program also contributes to slowing down fee income growth.

Figure 29: Nee fee income components of banking sector (VND tn)



Source: Fiin, Rong Viet Securities

Figure 30: Nee fee income components by banks (VND bn)

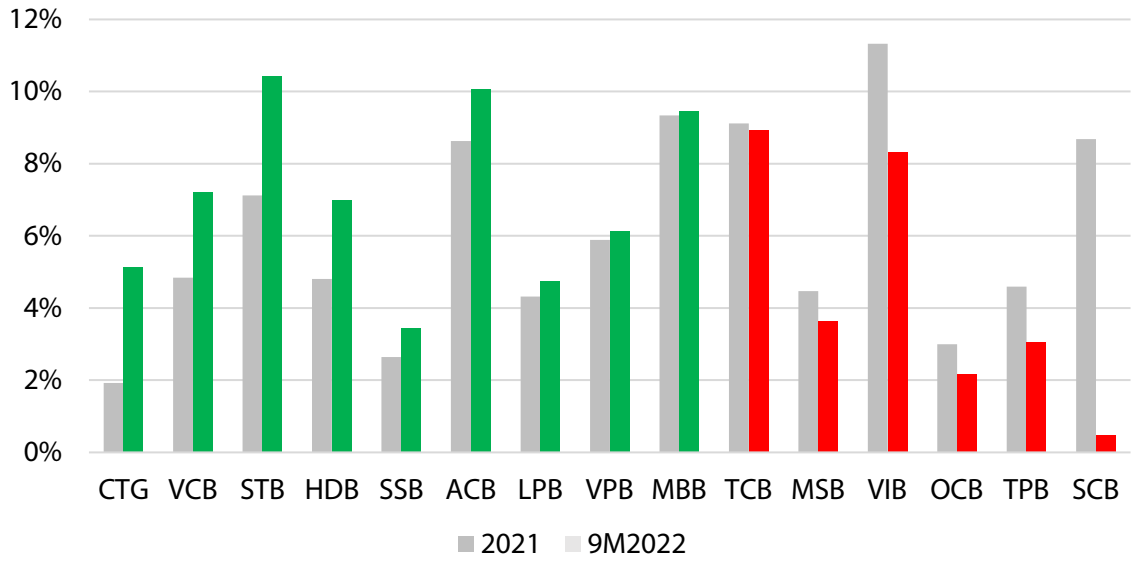


Source: Fiin, Rong Viet Securities

2. Investment banking activities will shrink in size and profit margin as the upcoming issuance volume, though likely to bounce back compared to 2022, will still be lower than the booming period of 2019-2021 due to constrained conditions. Elevated professional investor standards also make it difficult for banks to seek buyers. The costs of complying with the new provisions of Decree 65 will also incurred more. And the most crucial factor is the weakening in investor confidence. Banks whose income source depends on investment banking operations will be more affected by the decline in service fee income.

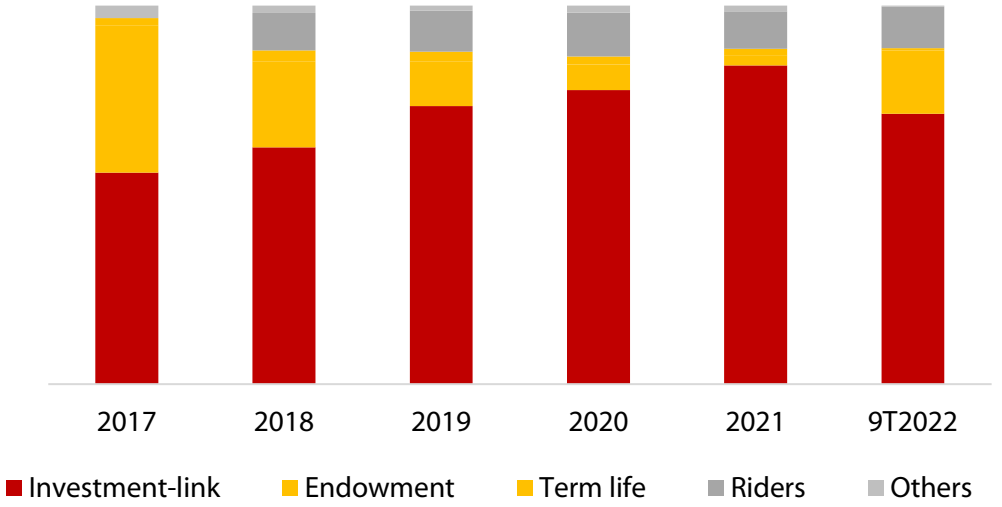
3. Bancassurance fee income growth continues to slow down on the background of lower expected credit growth, reallocation of individual asset portfolio into high-interest savings channel and saturation of the investment-linked insurance market. Exceptions may come from some banks (LPB, HDB) by recording exclusive fees and collecting first-year premiums when signing new exclusive contracts for insurance distribution. The proportion of investment-linked products also shows sign of cooling down in 2022 while this is the segment contributing the most fee income for banks. This trend is expected to continue in 2023, reducing banks' fee income growth momentum next year.

Figure 31: Bancassurance market share (VND tn)



Source: Fiin, Rong Viet Securities

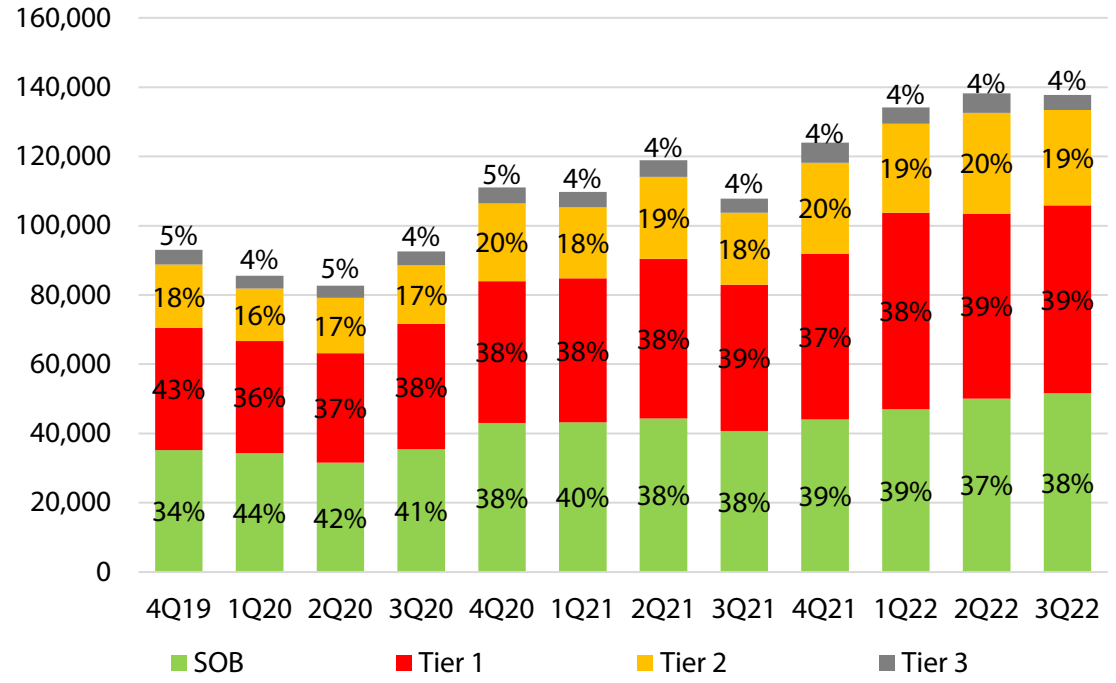
Figure 32: Change in 9M2022 new APE structure



Source: Vietnam Insurance Association, Rong Viet Securities

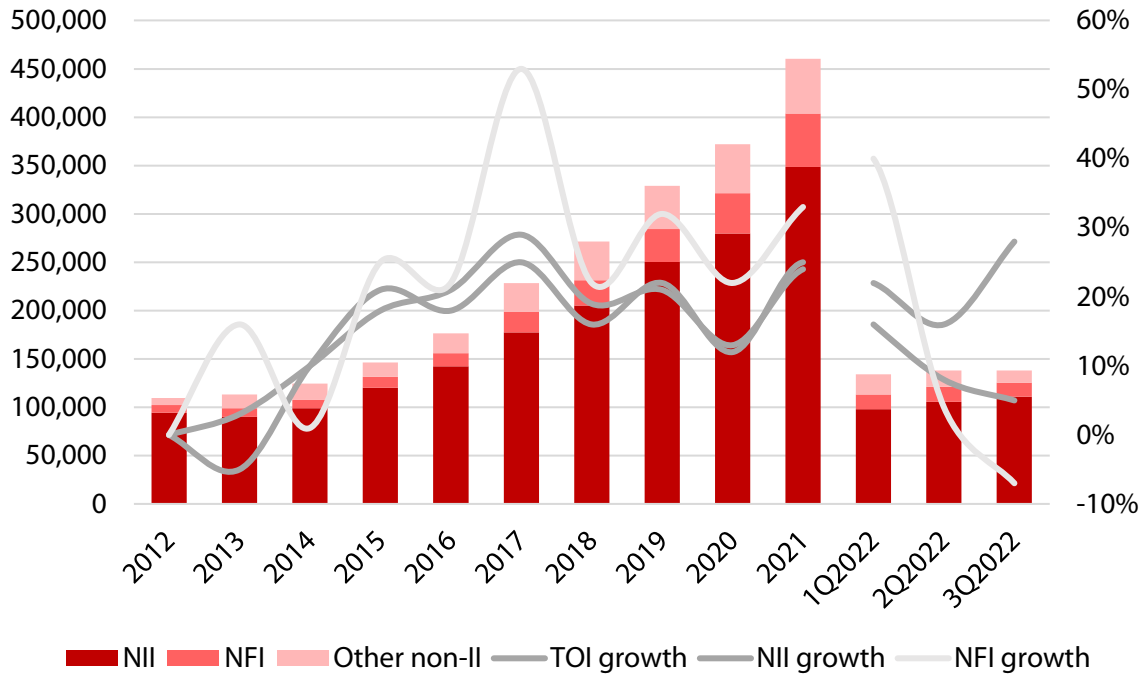
- **To sum up,** with the expectation that total credit of the whole industry will grow at 12% due to the macro-cyclical factor, the decline in NIM is differentiated among bank groups. Non-interest income growth momentum has cooled down, leading to low growth in total operating income compared to the previous period. Asset quality of the whole industry may decline in the coming quarters due to the downward cycle of real estate market and less positive outlook in export-import sector, credit costs may surge in the groups with thin provisioning buffer, affecting the overall profitability of the industry.
- **Based on the banks in our coverage,** 2023 total operating income is forecasted at a modest growth of +10% YoY given **net interest income growth** at **11% YoY** and fee income growth momentum gradually cooling down to an +16% YoY growth. Asset quality will spot a slight deterioration accompanied by the moderate increase in credit costs of 18% YoY. **Profit before tax** is forecasted to be up slightly by **6% YoY.**

Figure 33: Total operating income by bank tier (VND bn, %)



Source: Fiin, Rong Viet Securities

Figure 34: Total operating income of banking sector (VND bn)

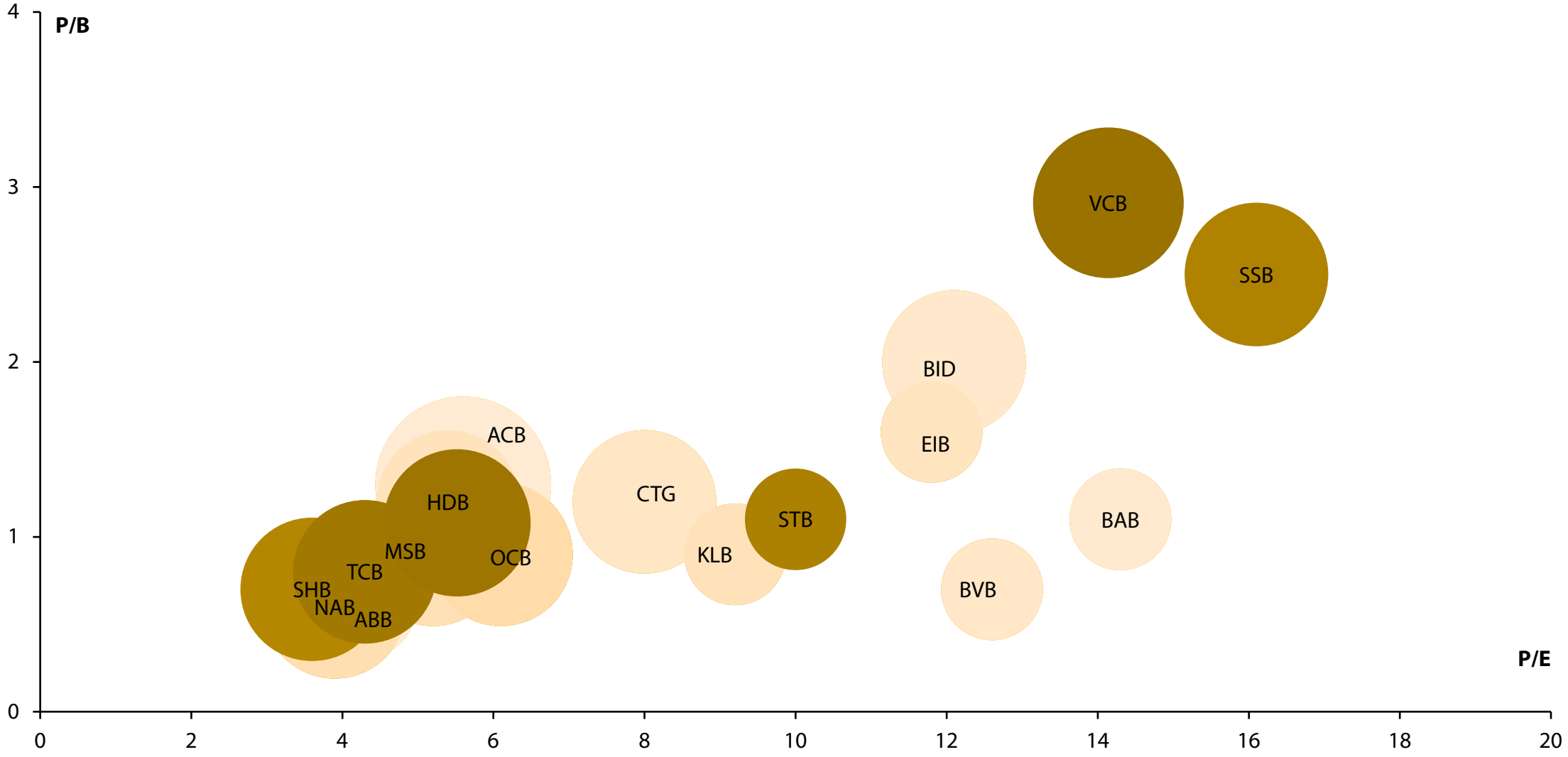


Source: Fiin, Rong Viet Securities

Criteria	Circular22/2019	1st draft compared to Cir.22/2019	2nd draft compared to Cir.22/2019
I) Total loan balance	Loans provided for individuals and organizations (except credit institutions and FBBs in Vietnam)	Loans provided for individuals and organizations (except credit institutions and FBBs in Vietnam)	Loans provided for individuals and organizations (except credit institutions and FBBs in Vietnam)
	Fiduciary loans granted by other credit institutions and FBBs	Fiduciary loans granted by other credit institutions and FBBs	Fiduciary loans granted by other credit institutions and FBBs
		Investments in corporate bonds (excluding bonds issued by other credit institutions)	
II) Total loans do not include:	Loans from trust funds of the Government, individuals and other organizations (including other credit institutions and FBBs in Vietnam; parent banks, foreign branches of parent banks) the risks of which are taken by the trustors	Outstanding loans by entrusted sources of the Government, individuals and other institutions	Outstanding loans by entrusted sources of the Government, individuals and other institutions
	Overseas loans of by the bank or FBB. Overseas loans of an FBB include loans of the parent bank and its overseas branches.	Offshore funding of banks and foreign bank branches. For foreign bank branches, offshore funding sources include both loans form parent bank and parent bank's branches abroad.	Offshore funding of banks and foreign bank branches. For foreign bank branches, offshore funding sources include both loans form parent bank and parent bank's branches abroad.
	Refinancing by SBV, excluding refinancing for temporary solvency recovery.	The State Bank's refinancing loan balance, excluding the refinancing loan balance for supporting temporary solvency	The State Bank's refinancing loan balance, excluding the refinancing loan balance for supporting temporary solvency
		Charter capital (except accumulated losses, historical cost of fixed assets, capital contribution, share purchase)	
		Share premium, retained earning, exchange rate difference due to revaluation of equity in foreign currency	
III) Total deposit includes	Deposits of domestic and foreign organizations (including deposits of other credit institutions and foreign bank branches), except for the following: (i) Deposits of the State Treasury; (ii) Escrows and dedicated capital deposits of clients	Deposits of domestic and foreign organizations, except for: 1) Deposits of credit institutions, branches of other foreign banks; 2) Margin deposits and specialized deposits of customers; 3) Term deposits of the State Treasury according to the following schedule: ➢ 2023: 50% of the State Treasury's deposit balance ➢ 2024: 75% of the State Treasury's deposit balance ➢ After 2025: 100% of the State Treasury's deposit balance	Deposits of domestic and foreign organizations, except for: 1) Margin deposits and specialized deposits of customers; 2) Term deposits of the State Treasury according to the following schedule: ➢ 2023: 50% of the State Treasury's deposit balance ➢ 2024: 60% of the State Treasury's deposit balance ➢ 2025: 80% of the State Treasury's deposit balance ➢ After 2026: 100% of the State Treasury's deposit balance
	Deposits of individuals, except escrows and capital deposits	Deposits of individuals, minus margin deposits and specialized deposits	Deposits of individuals, minus margin deposits and specialized deposits
	Revenue from issuance of promissory notes, treasury bills, certificates of deposit, bonds	Revenue from issuance of promissory notes, treasury bills, certificates of deposit, bonds excluding promissory notes, treasury bills, certificates of deposit, bonds holding by other credit institution.	Fund raised from issuance of promissory notes, bills, certificates of deposit, bonds
IV) Banks must maintain a maximum LDR ratio	LDR less than 85% for all banks	➢ 2023: 90% ➢ 2024: 87% ➢ After 2025: 85%	LDR less than 85% for all banks

Source: Rong Viet Securities complied, green represents new addition, yellow represents change.

PE, PB AND ROE (TTM)

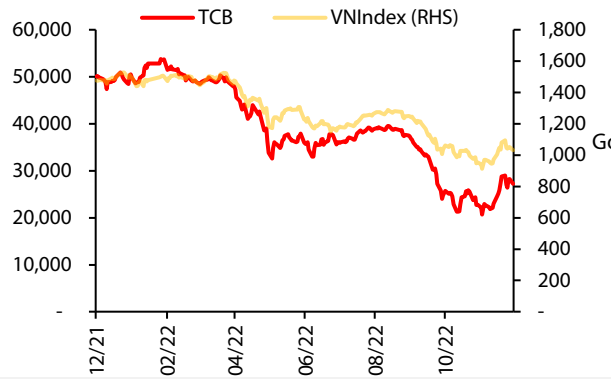


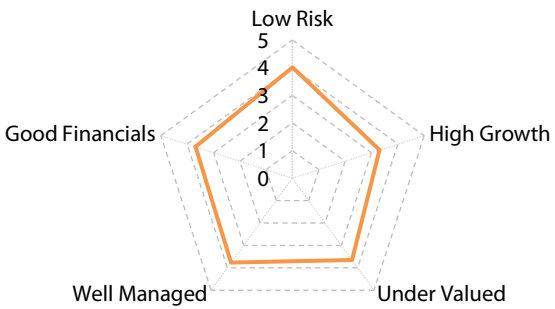
*Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price **as of 12 December 2022**. Exclude SGB and NVB.*

SAFE HEAVEN

HSX: VCB

ACCUMULATE: +16% **MP: 77,400** **TP: 90,200**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	15,514
Current Shares O/S (mn shares)	4,733
3M Avg. Volume (K)	1,247
3M Avg. Trading Value (VND Bn)	90
Remaining foreign room (%)	6.4
52-week range ('000 VND)	62 - 96

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	42,379	50,072	54,807
TOI (VND bn)	56,703	64,898	70,528
NPAT (VND bn)	21,903	25,314	26,994
ROE (%)	20.9	20.7	18.9
ROA (%)	1.6	1.7	1.5
Asset growth (%)	6.6	16.6	11.5
Book Value (VND)	23,491	28,286	32,220
P/E (x)	21.9	15.1	14.2
P/B (x)	3.4	2.8	2.5

INVESTMENT RATIONALES

The consistently and aggressively reinforced provisioning buffer built in the last two years will be a major growth engine in the 2023-2024 period. Although bad debt ratios remained at low level in 2020 and 2021, VCB has been proactive and prudent to build provision buffer. Notably, the bank completed all the provisions for restructuring loans required by Cir.03 in 2021. We expect the bank to be able to weather the storm amid uncertainties ahead and the conservative measures to pay off in 2023-2024 period. Furthermore, holding the best asset quality, VCB is consider to be the last vulnerable bank in our coverage universe.

The bank's broad network and high-quality customers reinforce the advantage of the funding base and promote non-interest income

- Risk-adjusted NIM might be hit in short term due to the support package yet will be soon improved in the long run owing to (1) Low cost of fund and (2) Customer-selection power.
- Backed by its relationships with major domestic exporters and importers and the broad corresponding network, VCB has sustainable advantages in non-interest segments such as payment, trade financing and FX.

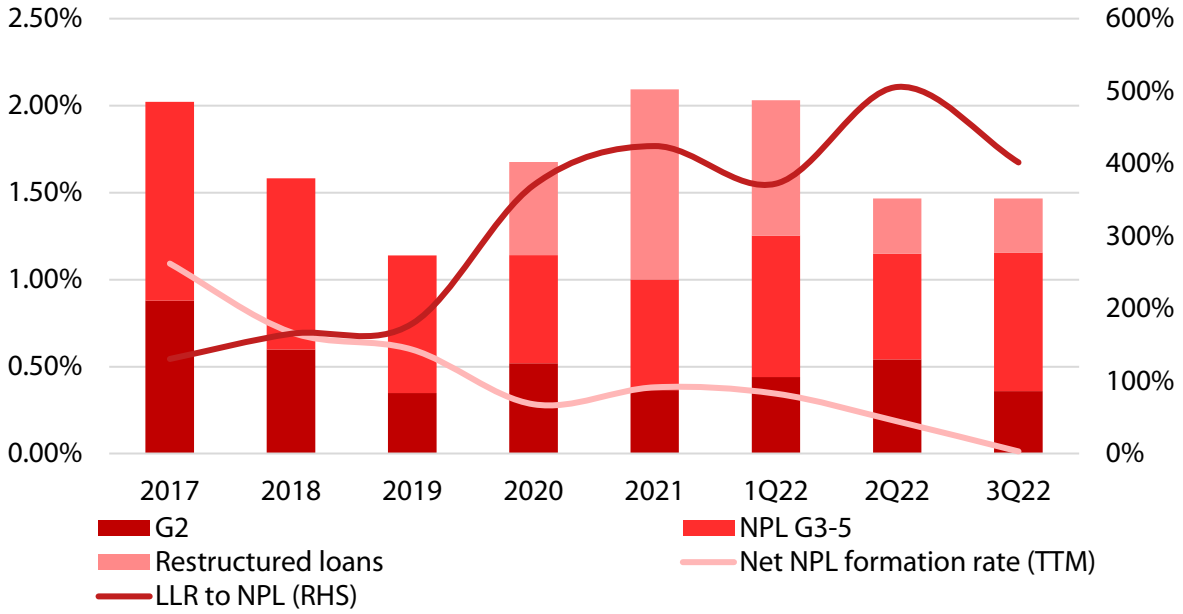
Excellent management, good capital base and strong banking profitability lay the foundations for sustainable growth capacity and scaling ability

- VCB has great ratios of retail loan and deposit beside the largest retail CASA market share. It maintains a conservative approach in loan appraising and provisioning, resulting in a steadily low NPL formation, strong balance sheet and firm provisioning buffer. These factors assure the sustainability of holistic profitability and efficiency which enable high balance sheet growth.

RISKS TO OUR CALL

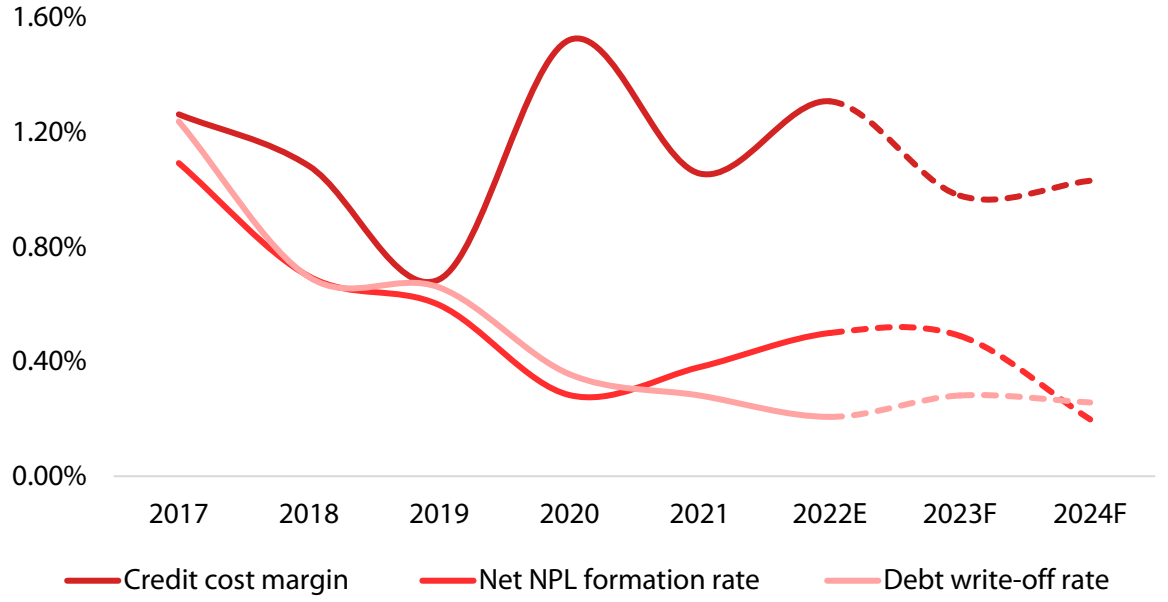
- Downside risks include uncertain macro scenario and potential of further supportive package. Upside risks include the timing of the private placement and benefits of the transfer program.

Figure 1: Asset quality indicators (TTM, %)



Source: VCB, Rong Viet Securities

Figure 2: NPL formation rate has peak up

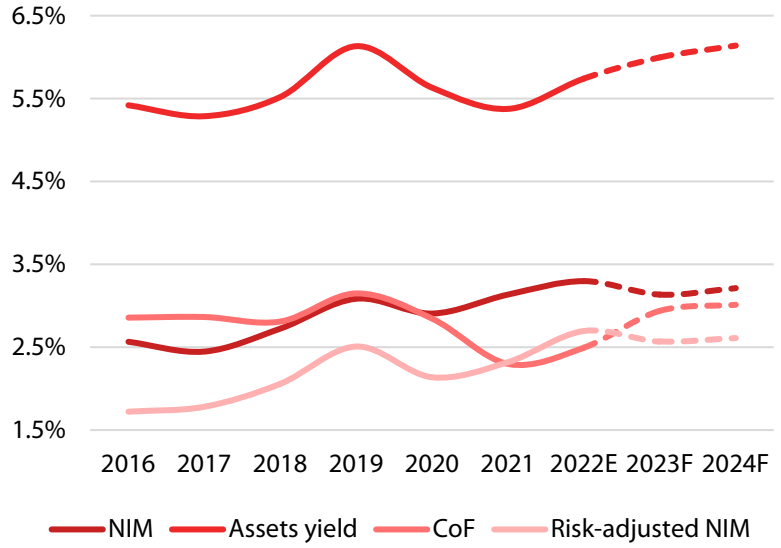


Source: VCB, Rong Viet Securities

The top-tier provisioning buffers will protect the bank from earnings shock in any event

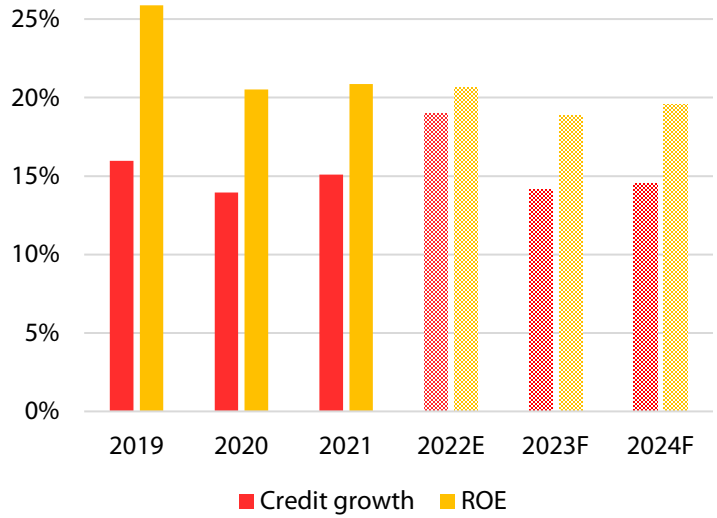
- The bank has been prudent and proactive to build provision buffer that expect ease credit cost in 2023. The best-in-class provisioning buffer will protect the bank from any disruptions including event risk and credit risk, which might have unanticipated impact on earnings. On top of that, VCB less expose to corporate bond (6.5%) and lower risky segment (4% of real estate and 20% mortgage) as of Sep 30th,2022; therefore, the NPL ratio is expected to be well-controlled in 2023. In short, we highly value VCB's earnings estimate and balance sheet health forecast in various planning scenarios.
- This competitive edge plays as pivotal role to maintain earnings growth in 2023. PBT in 2023 is unanticipated and highly based on provision policy, the Bank might decline its LLR to remain profit growth.

Figure 3: Risk-adjusted NIM keep improving after the restructuring phase (annualized)



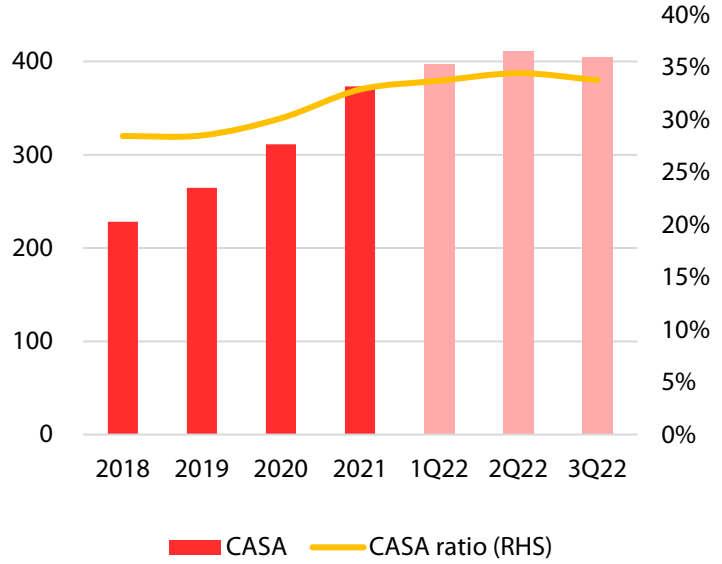
Source: VCB, Rong Viet Securities

Figure 4: Solid capital base to ensure a stable credit growth & high ROE (TTM, %)



Source: VCB, Rong Viet Securities

Figure 5: CASA (VND tn, %)



Source: VCB, Rong Viet Securities

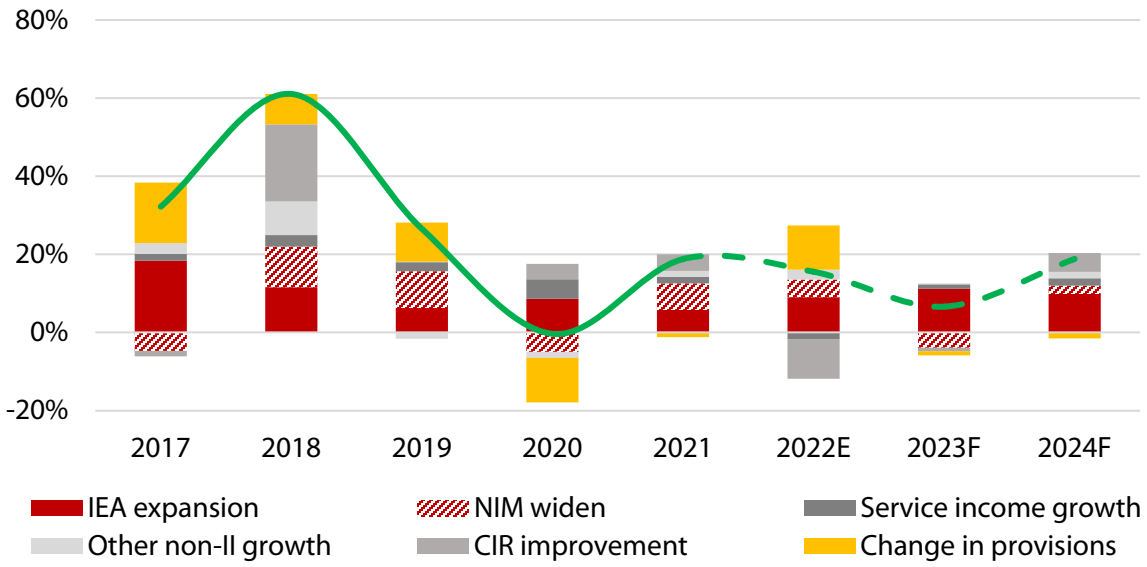
Well-known reputation, wide network and quality customer base strengthen and enhance the advantage of the funding base and promote non-interest income

- VCB is appointed by the SBV as the only clearing bank for Visa transactions for domestic members. Its multi-currency payment system (VCB-Money) plays a key role in the overall payment system. Those are solid pillars allowing VCB to receive low-costs funds from customers and financial institutions in various currencies. It also promotes the growth of FX sales. Besides, VCB improve its CASA ratio quarter over quarter since the Bank launch zero fee at the beginning this year. This stable and large funding base generating the lowest costs of funds in the sector helps the bank to engage with quality customers via competitive lending rates and a substantial network.

To be granted high credit quota to sustainably expand its balance sheet at scale

- We expect VCB achieve high credit quota compared to industry thanks to (1) Healthy balance sheet and top tier provision buffer, (2) Support SBV in zero dong bank transfer program and reduce interest rate to support customers during 2022.

Figure 6: PBT breakdown (%)



Source: VCB, Rong Viet Securities

Table 1: FY23 Forecast

Unit: VND Bn	2021	2022E	2023F	%FY22	%FY23
Profitability					
Credit	973,079	1,158,067	1,321,505	19%	14%
Deposit	1,152,712	1,223,900	1,422,532	6%	16%
NIM (%)	3.14	3.30	3.13	16bps	-16bps
NII	42,379	50,072	54,807	18%	9%
NoII	14,324	14,826	15,721	4%	6%
TOI	56,703	64,898	70,528	14%	9%
CIR	-31%	-35%	-36%	-4bps	0bps
Provision	-11,761	-10,370	-11,605	-12%	12%
PBT	27,372	31,625	33,724	16%	7%
Asset quality (%)					
NPL ratio	*0.64*	*0.80*	*0.90*	17bps	10bps
LLR/NPLs	370	424	404	5401bps	-2056bps
LLR/(NPLs + G2)	202	270	270	6795bps	-52bps

Source: VCB, Rong Viet Securities

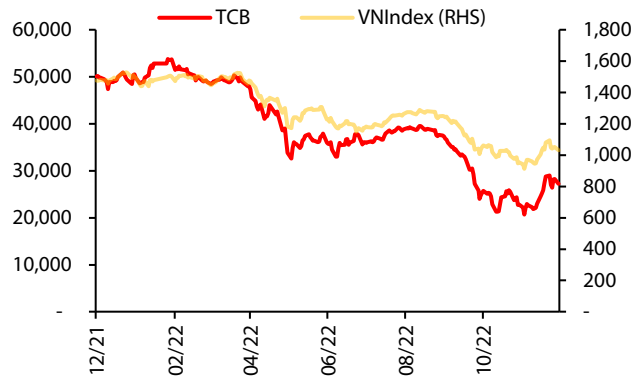
Stably high earnings growth mainly from widened net interest income backed by both credit expansion and NIM improvement. NIM ticked up slightly to 3.41% in 3Q22 owing to the better average loan yield to offset the increase in deposit rates. Q3 2021's low base allows it to post a 26-bps yoy increase, thereby making PBT up by 7%. Interest-earning assets were well enhanced, which contributes a 18% surge in PBT. Credit growth reached 17.3% ytd as VCB has almost fully utilized the top-tier quota granted. As a result, net interest income rose considerably by 31% yoy. Fee income continued to record a negative impact from e-banking services due to the zero-fee campaign while trade finance segment has sustained its market leading position. Overall, TOI and PBT picked up by 26% and 32% yoy, respectively.

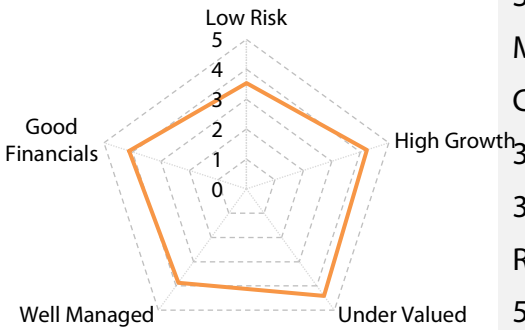
Various potential growth factors to bring up top-tier earnings growth amid uncertainties. We revised our forecasts to factor in (1) the potential of a delayed private placement due to unfavorable market conditions and the decline of 15 bps in NIM due to the support package. Given the high provision balance by Sep 2022, we expect VCB can absorb the shock from uncertainties in the time to come. Furthermore, with the solid funding and be the beneficiary after the Draft of Amendment Circular 22 apply, the Bank will have more headroom to expanding its balance sheet at scale. Balance sheet growth will still be supportive even when further credit growth quota is uncertain. PBT in FY23 slightly increase (+5% YoY) as support package and will back to growth phase of more than 20% from 2024.

REPOSITION IN THE BANKING INDUSTRY / COMPETITIVE EDGES ARE FADING

HSX: TCB

ACCUMULATE: 12% **MP: 29,500** **TP: 33,000**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	4,052
Current Shares O/S (mn shares)	3,517
3M Avg. Volume (K)	6,965
3M Avg. Trading Value (VND Bn)	178
Remaining foreign room (%)	0.0
52-week range (kVND)	19,3 - 54,9

FINANCIALS

	2021	2022E	2023F
NII (VND bn)	26,699	31,712	35,520
TOI (VND bn)	37,076	43,316	47,394
NPAT (VND bn)	18,038	21,534	20,889
ROE (%)	21.5	20.8	16.8
ROA (%)	3.6	3.5	2.9
Asset growth (%)	29.4	18.7	12.0
Book Value (VND)	26,264	32,398	38,347
P/E (x)	9.8	4.3	4.5
P/B (x)	1.0	0.8	0.7

INVESTMENT RATIONALES

High exposure to real estate industry and corporate bond that might hinder balance sheet expansion and surge in credit cost

- Holding strong capital buffer, TCB was granted high credit quota year over year, hovering 20% in the period from 2016 to 2021. The combination of high credit quota, low funding cost and net fee income enhancement, TCB achieves high net earnings growth with the 5-year CAGR of 23%.
- Inevitably, in the downturn phase of real estate industry and stagnant of corporate bond market, TCB might be granted undesirable quota and confront risks concerning asset quality and credit cost in upcoming time. PBT are forecasted to slightly fall in FY23 before recover in FY24.

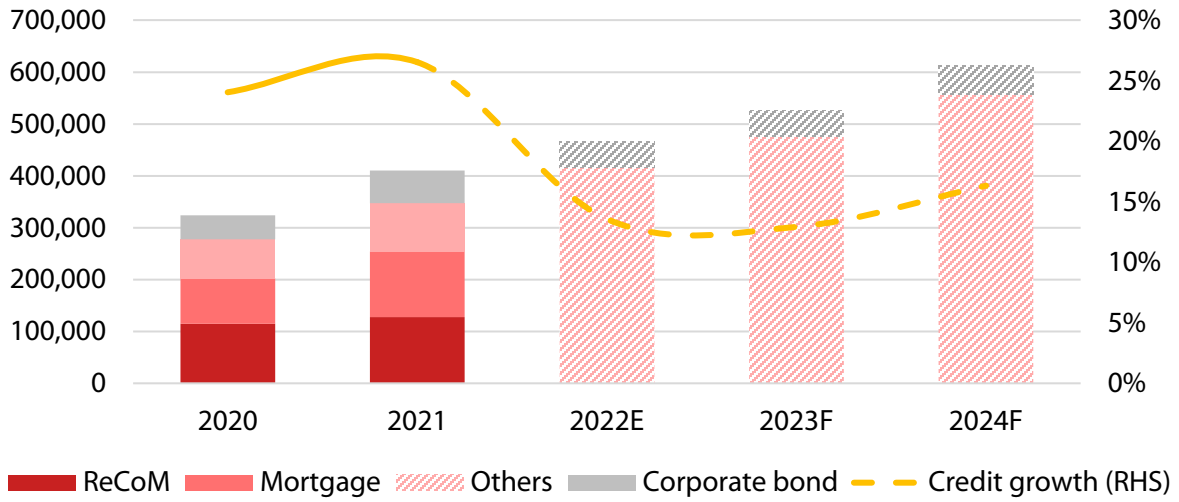
Transient slowdown but resilient long-term balance sheet growth owing to sound competitive advantages. Although TCB could experience a modest growth in 2022 and 2023 due to tight regulatory conditions, we maintain the long-term outlook for its balance sheet growth and ROE enhancement if the bank could withstand the current and upcoming stressful period. The fundamentals remains to boost TCB in the long run: top-tier technology infrastructure, strong capital buffer, and a well-connected ecosystem.

A firmly established funding base and comprehensive business model that will bolster PBT in the long run. Owing to the wide wealth ecosystem which retains money flow, TCB grew the deposit base with stable CASA while seeking offshore borrowings for the competitive longer-term funds.

RISKS TO OUR CALL

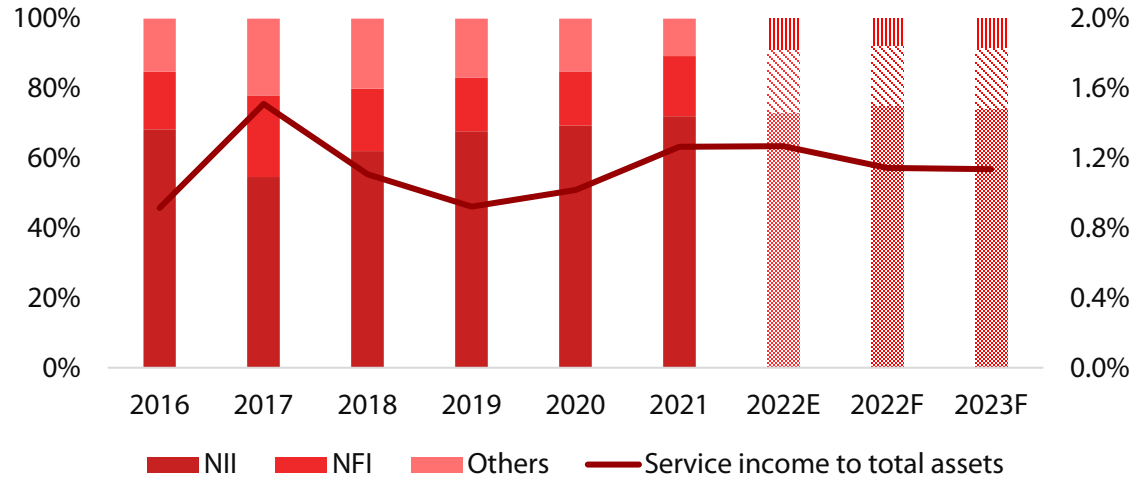
- There are uncertainties in the medium-term due to global macro, and in credit growth quota, real estate and corporate bond outlook due to the regulatory tightening.

Figure 1: Credit mix & Credit growth



Source: TCB, RongViet Securities

Figure 2: Income contribution and service income ratio (%)



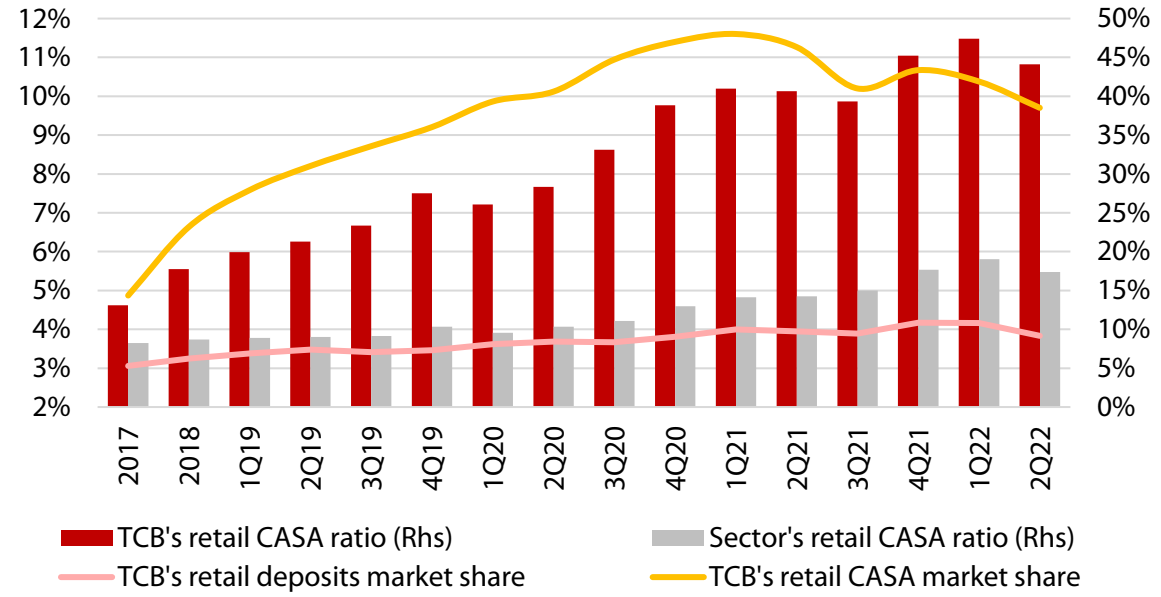
Source: TCB, RongViet Securities

Transient slowdown but resilient long-term

- Riding on the prosperous phase of real estate industry, TCB has expanded its balance sheet with 5-year CAGR of 16%. What bolster earnings during previous phase might be the one hinder growth momentum in short term as growing uncertainties of real estate sector and corporate bond market. By the end of 3Q22, roughly 75% credit portfolio funding to real estate sector (consisting of developers and mortgage loans and corporate bond).
- Modest credit quota in 2022 is the responding to high exposure to real estate industry and corporate bond. Balance sheet will likely expand at lower pace owing to undesirable quota in the upcoming period. Besides, the collapse of confidence of corporate bond will negatively impact TCB's non-interest income, accounting for roughly 20% NFI.
- To sum up, amidst growing uncertainties regarding bond market and real estate industry, growth momentum might be faded temporarily resulting in unanticipated earnings in 2023. Nevertheless, we consider it is transient slowdown while long-term fundamental remains consisting of top-tier technology infrastructure, strong capital buffer, and a well-connected ecosystem.

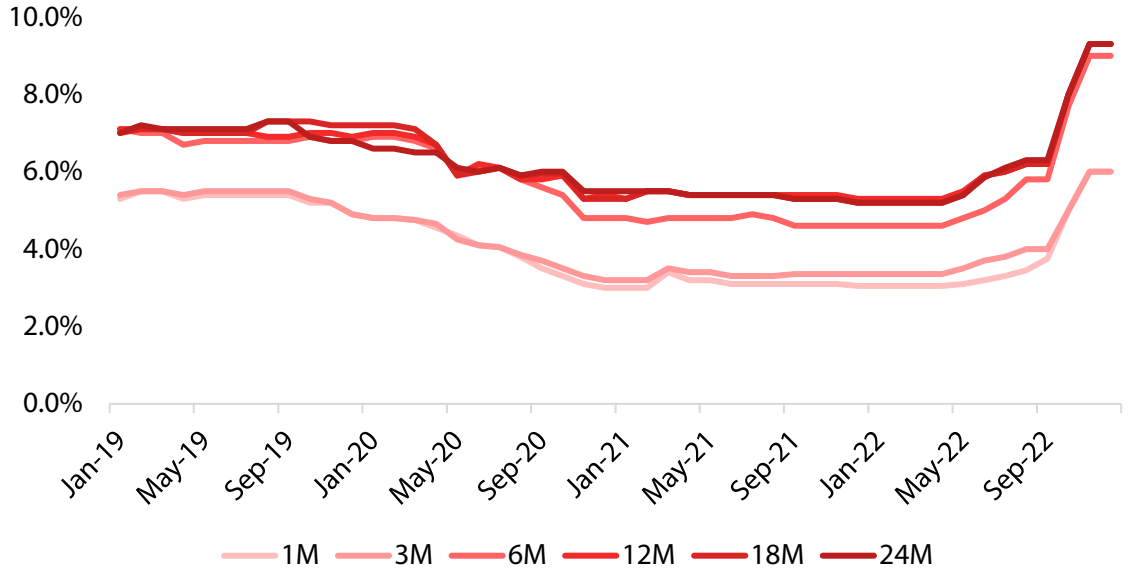
Source: TCB, RongViet Securities

Figure 3: CASA ratio and market shares of TCB's retail segment (%)



Source: TCB, RongViet Securities

Figure 4: Mobilization rate



Source: TCB, RongViet Securities

Firmly established funding structure backed by a leading retail franchise focusing on high-profile customers is its competitive edge

- In the period from 2019 to early 2022, with wide range of products backed by leading technologies, pioneering payment-based initiatives and viable ecosystem, TCB has established reputation, connection and market share in mass affluent and affluent customer segments. Combining with the solid financial ability of the customers, TCB holds core competitive advantage in deposits with high and stable CASA ratio.
- Amidst interest rate hike environment alongside with fund run effect lately, TCB has raise deposit rates of different tenors to tackle liquidity concern. Besides, many banks have been replicated its model to improve CASA from the beginning of the year, TCB also raise its current deposit rates to 1% to be more attractive. In short term, cost of fund might maintain high level and NIM are continues to be under pressure. We suggest to closely monitor its strategy to reconsider this competitive edge in the long run.

Figure 5: NIM, risk-adjusted NIM and yields (annualized, %)

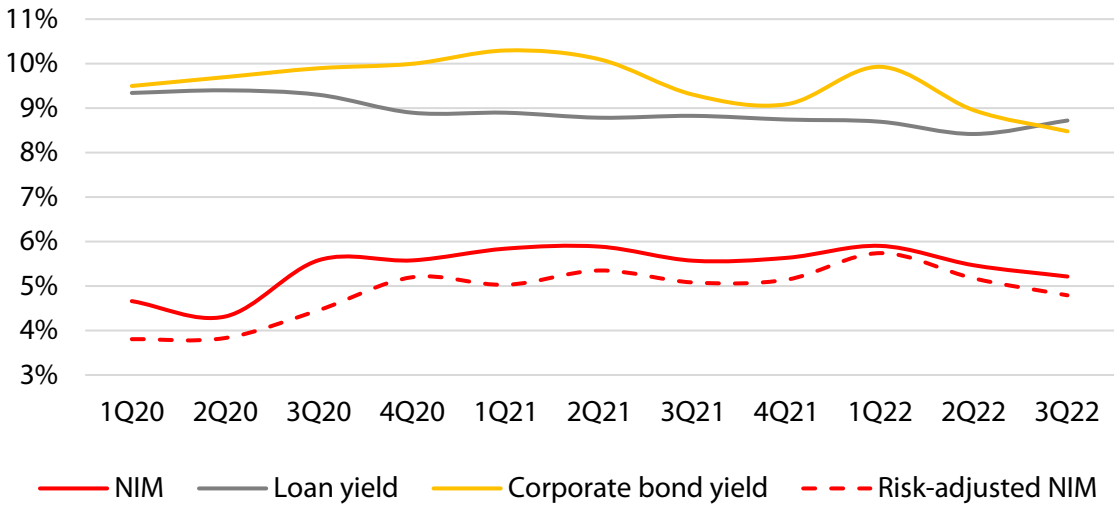


Table 1: FY23 Forecast

Unit: VND Bn	2021	2022E	2023F	%FY22	%FY23
Profitability					
Credit	410,286	465,949	526,158	14%	13%
Deposit	348,432	367,305	413,210	5%	12%
NIM	5.71	5.53	5.41	-18bps	-12bps
NII	**26,699**	**31,712**	**35,520**	**19%**	**12%**
NoII	10,378	11,604	11,874	12%	2%
TOI	**37,076**	**43,316**	**47,394**	**17%**	**9%**
CIR	-32%	-29%	-28%	3bps	1bps
Provision	-2,665	-1,745	-4,193	-35%	140%
PBT	**23,238**	**27,631**	**26,823**	**19%**	**-3%**
Asset quality (%)					
NPL ratio	*0.66*	*0.68*	*1.30*	2bps	61bps
LLR/NPLs	163	176	109	1307bps	-6703bps
LLR/(NPLs + G2)	84	111	83	2671bps	-2762bps

Escalating pressure on NIM led to a moderate earnings growth solely backed by balance sheet expansion and service income sources

- PBT sustainably grew in 3Q2022 driven by interest-earnings assets expansion and fee income, which contributed respectively 14% and 7% to YoY growth. By 3Q2022, customer loans grew by 18.2% while corporate bonds dropped 30%, resulting in credit growth of 10.7%. Average loan yield turned into a supportive factor yet could not mitigate pressure from rising funding costs. Hence, NIM continued to decline by 15 bps QoQ and Market 1 gap shrank to the lowest level since 3Q20. Thriving fee income was attributed by the upsurge of Bancassurance and settlement service while IB fee maintained the declining movement since the beginning of this year due to headwinds on the corporate bonds and real estate market. Overall, TOI and PBT reached VND 10.3 tn (+18% YoY) and 6.7 tn (+21% YoY).

Headwind ahead will likely halt growth momentum in 2023

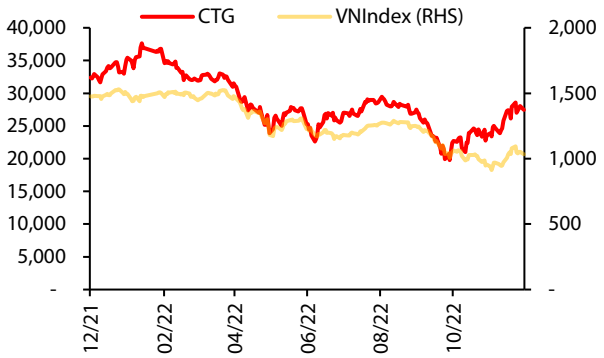
- Growth momentum of net interest income and non-interest income will likely be faded in 2023 owing to the mentioned reason. PBT to slightly fall by 3% YoY in 2023 before recover in later year of 14% YoY.

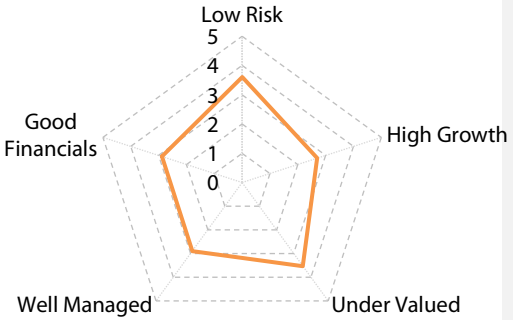
Source: TCB, Rong Viet Securities

UNCERTAIN TIMING OF CREDIT COST NORMALIZATION

HSX: CTG

NEUTRAL: 0% **MP: 27,450** **TP: 27,300**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	5,587
Current Shares O/S (mn shares)	4,806
3M Avg. Volume (K)	6,331
3M Avg. Trading Value (VND Bn)	151
Remaining foreign room (%)	2.4
52-week range ('000 VND)	19,5 - 38,2

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	41,788	48,063	51,856
TOI (VND bn)	53,157	64,619	67,380
NPAT (VND bn)	14,089	15,928	16,856
ROE (%)	15.7	15.9	15.1
ROA (%)	1.0	1.0	0.9
Asset growth (%)	14.2	15.6	6.2
Book Value (VND)	15,905	18,106	19,760
P/E (x)	16.2	11.4	10.8
P/B (x)	1.7	1.5	1.3

INVESTMENT RATIONALES

NIM to dent next year due to the support package and slight deterioration in asset quality will drag down PBT growth in 2023

- CTG is one of SoCB that might execute support package that will dent NIM in 2023. We forecast NIM to decline by 10 bps and will soon recover from 2024, resulting in a climb of 8.4% and 14.4% in 2023 and 2024, respectively. Following the improvement of asset quality since 2020, the pressure on risk costs in upcoming uncertainties is relieved compared to previous distress period. Hence, PBT will witness a one-digit growth in 2023 before the bounce back in 2024.

In the medium-term, improving asset quality, solid funding base, widened risk-adjusted NIM will boost efficiency ratios to new sustainable levels

- Capitalizing on balance sheet utilization post the Draft of Amendment Cir. 22 apply, boosting earnings and profitability ratios to higher levels. Non-interest services and CASA ratio will be further promoted with the support of a wide customer base and strong enterprise partnerships which help diversify income and bring stable and competitive funding costs.
- By investing in technology, combined with the increasing risk-adjusted NIM as costs of funds drops sharply and credit costs are controlled, CTG is capable of growing the balance sheet efficiently despite pressure from the capital base. The upcoming increase in settlement volume and debt collection will contribute to a higher profitability via non-interest income growth.

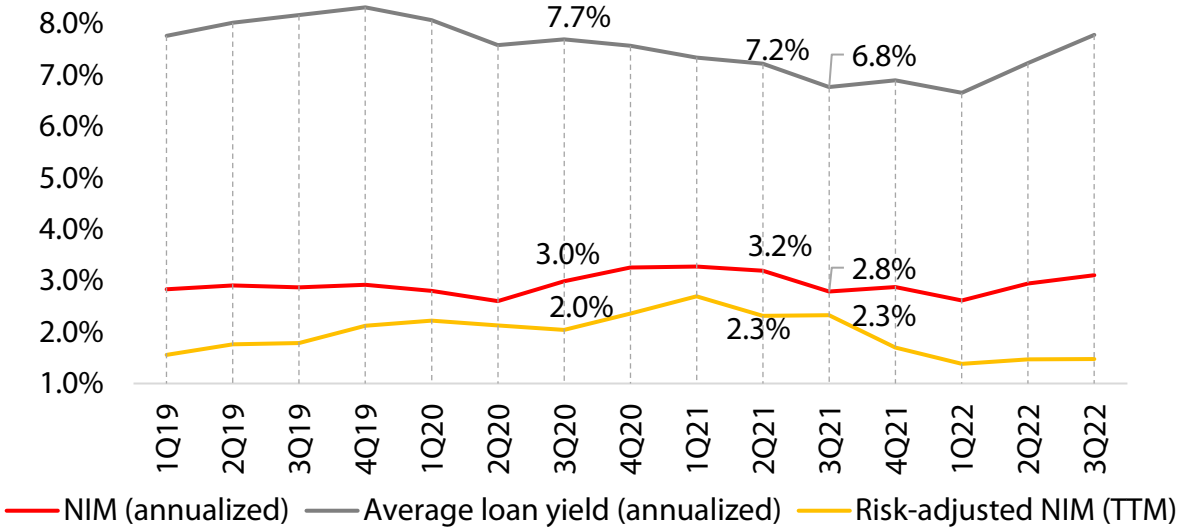
Furthermore, combining an affordable growth strategy with sustained profitability and feasible capital plan will help reinforce the foundations

- We estimate that the CAR could be at a safer level in 2024-2025 given the appropriate balance sheet expansion, sustaining profitability, deleveraging strategy and retail banking orientation.

RISKS TO OUR CALL

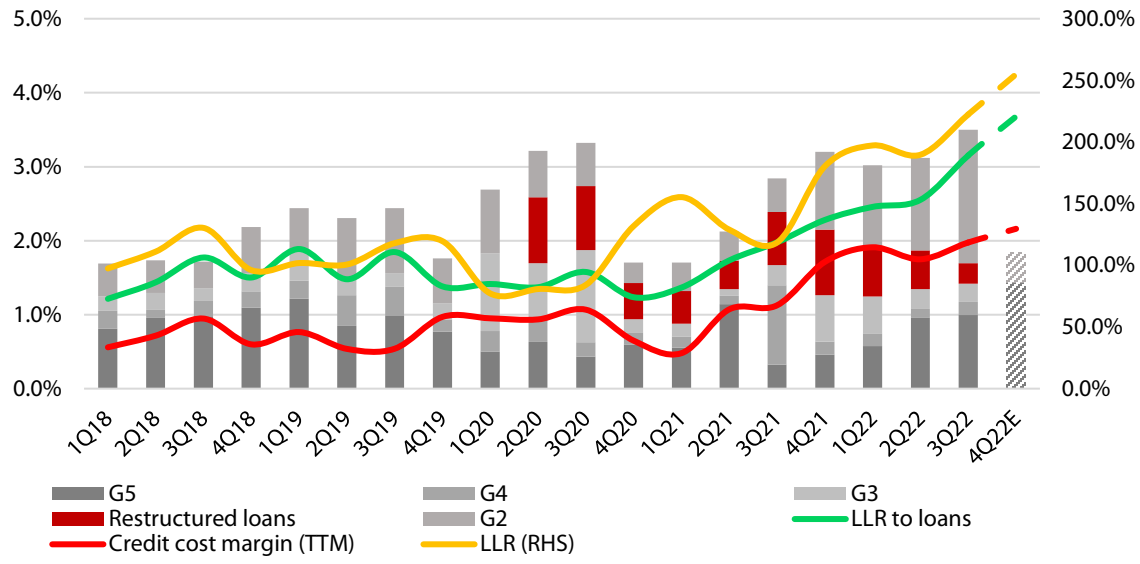
- Downside risks include the uncertainty of the economy and further preferential loan packages. Upside risk includes the higher-than-expected credit growth quota.

Figure 1: NIM, risk-adjusted NIM and loan yield (%)



Source: CTG, RongViet Securities

Figure 2: Asset quality and provisioning buffer indicators (%)



Source: CTG, RongViet Securities

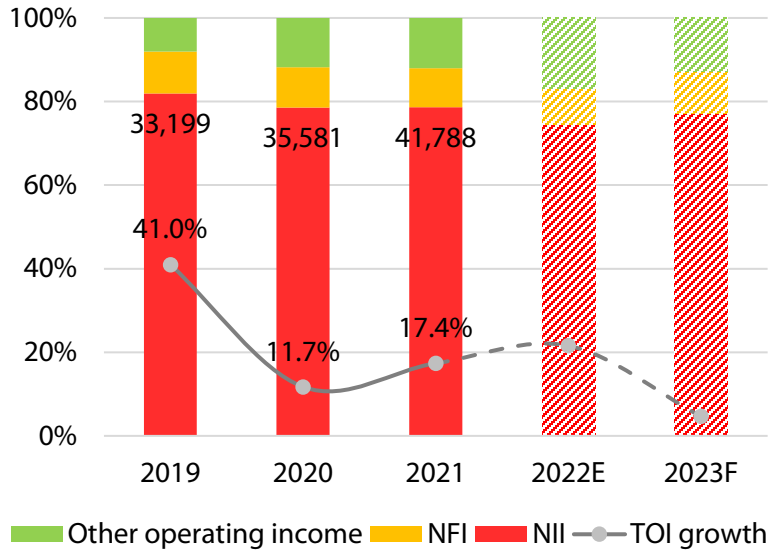
NIM to dent next year due to the support package and net interest income witness a modest rise

- Despite steering towards the sustainable long-term level of around 3%, NIM is likely to shrink in 2023 due to the SoCB's support package and upcoming external headwinds which may result in further costs pressure. That will bring a moderate net interest income growth and encourage widened contribution from non-funded sources to operating profit. Nevertheless, this situation is projected to improve from 2024 as the tensions will be gradually eased.

Asset quality might experience a temporary deterioration in the upcoming uncertainties

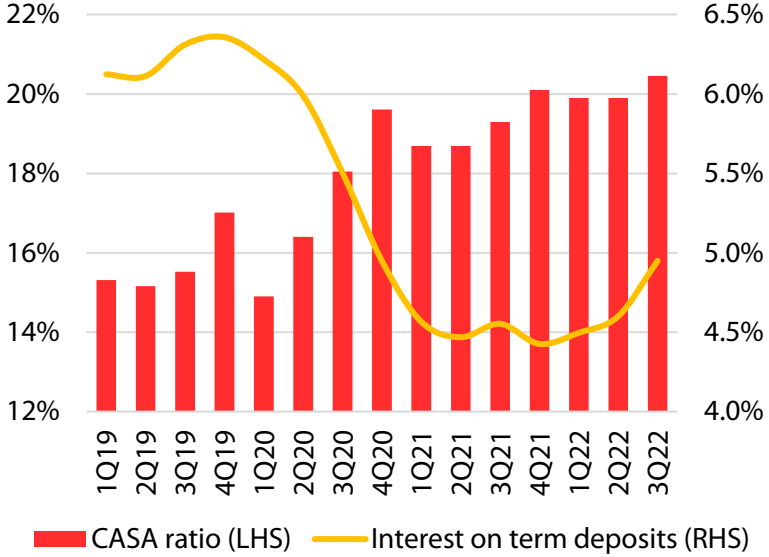
- Although the bank has feasible exposure to risky segments, rising economic descent threat may distress its customers' financial condition while not having fully recovered from the pandemic shock. This will pose elevating pressure on asset quality and hamper the bank's leaning on credit cost reduction as credit cost margin may continue to experience a period of high in 2023, given its questionable rate of unsecured loans. Looking forward the further economic recovery, CTG's well-enhanced provisioning buffer is expected to pay off.

Figure 3: Total operating income breakdown (%)



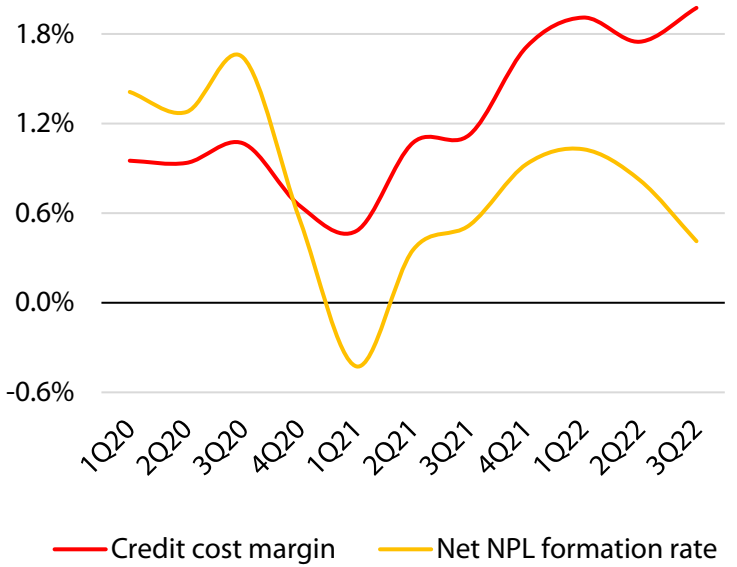
Source: CTG, RongViet Securities

Figure 4: CASA ratio and yield on term deposits (%, annualized)



Source: CTG, RongViet Securities

Figure 5: Credit cost margin and NPL formation rate (%, TTM)



Source: CTG, RongViet Securities

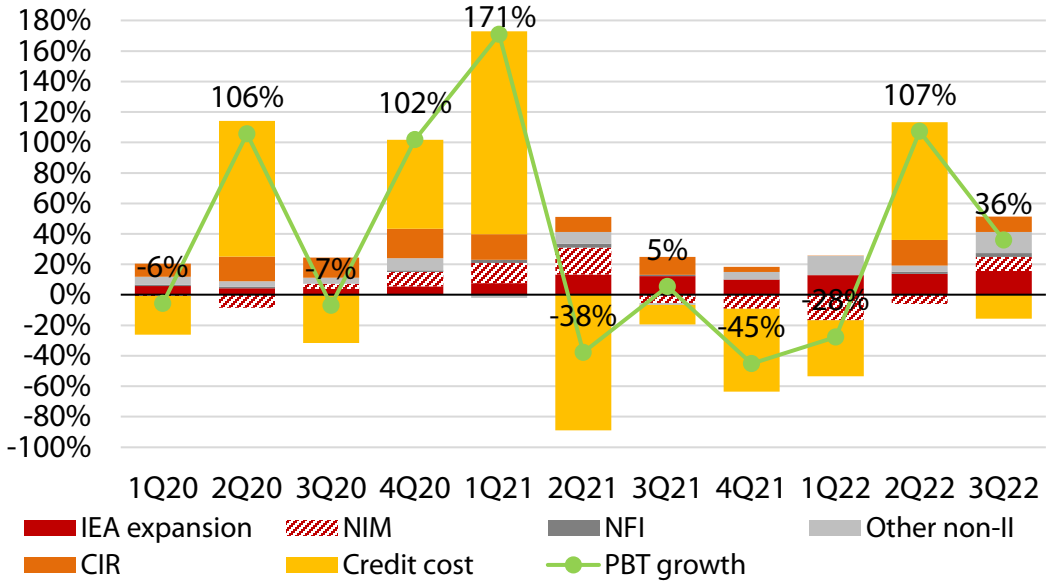
Improving asset quality, solid funding base, widened risk-adjusted NIM and non-funded income sources will boost efficiency ratios to new sustainable levels

- Massive retail and digital transformation is expected to further increase efficiency by promoting non-interest income including bancassurance and reducing cost of funds via CASA expansion, thanks to a wide customer base and strong enterprise partnerships. The application of Draft Amendment Circular 22 will free up more headroom for balance sheet utilization to boost earnings and profitability ratios to higher levels.

In the medium-term, combining an affordable growth strategy with sustained profitability and feasible capital plan will help reinforce the foundations

- The capital enhancement path appeared to be slower than our projection given the unpredictable headwinds on the corporate bond market, which results in the delayed execution of subordinated bank bonds offering to factor in Tier 2 capital. Nevertheless, the capital strengthening catalyst remains favorable as retail-oriented diversification will help control average risk weight ratio and improvement in efficiency will support the Tier 1 capital improvement.

Figure 6: Quarterly PBT growth components (%, YoY)



Source: CTG, RongViet Securities

Table 1: FY23 Forecast

Unit: VND Bn	2021	2022E	2023F	%FY22	%FY23
Profitability					
Credit	1,141,454	1,281,948	1,408,337	12%	10%
Deposit	1,226,294	1,295,989	1,421,638	6%	10%
NIM	3.00	2.98	2.88	-193bps	-981bps
NII	41,788	48,063	51,856	15%	8%
NoII	11,369	16,556	15,524	46%	-6%
TOI	**53,157**	**64,619**	**67,380**	**22%**	**4%**
CIR	-32%	-29%	-28%	3bps	1bps
Provision	-18,382	-25,921	-27,172	41%	5%
PBT	**17,589**	**19,944**	**21,093**	**13%**	**6%**
Asset quality (%)					
NPL	*1.26*	*1.44*	*1.55*	18bps	11bps
LLR/NPLs	132	180	255	4840bps	7457bps
LLR/(NPLs + G2)	102	98	200	-354bps	10117bps

Source: CTG, RongViet Securities

9M2022: Holistic operating income growth with ramping up NIM while high sensitivity to credit cost turned into a negative factor hampering the bottom-line growth

- NIM continued its recovery momentum in 3Q22 to reach 3.1% and contributed to a 9% increase in earnings growth after quarters of pulling back. Overall, net interest income ticked up by 31% yoy. NFI also posted 27% growth as the exclusive bancassurance deal with Manulife is generating 4-time higher sales than the previous one. TOI continued to benefit from strong non-interest income including FX trading and recoveries, thereby delivering a 41% yoy growth. Year to date credit costs have exceeded the bank's AGM plan of VND 15 tn, leading to a 30-bps surge in credit cost margin. This aversely impacted earnings growth and made PBT down by 16% yoy. NPL ratio rose to 1.4% while net NPL formation rate maintained the declining trend. Therefore, 3Q22 LLR stayed abundant at 222.4%.

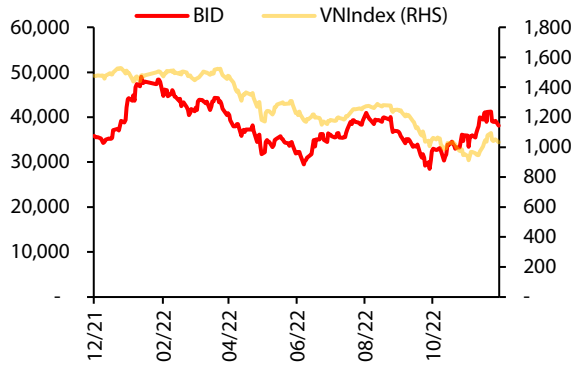
2023: NIM to dent next year due to the support package and slight deterioration in asset quality will drag down PBT growth

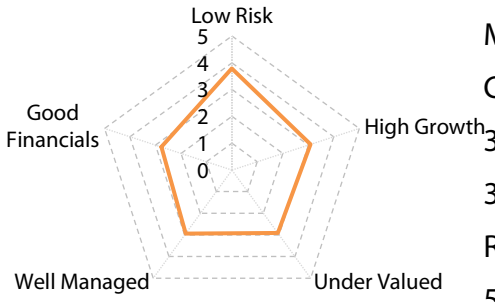
- NIM is forecasted to decline by 10 bps and recover from 2024. Net interest income will also experience the same trend resulting in a climb of 8.4% and 14.4% in 2023 and 2024. Accordingly, PBT will witness a one-digit growth of 6% before bouncing back to 27%. Credit cost may hang around 2% level for 2022-2023 and start to gradually fall from 2024.

TEMPORARY DECCELERATION ON THE TRANSFORMING PATH

HSX: BID

NEUTRAL: -3% **MP: 38,400** **TP: 37,400**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	8,307
Current Shares O/S (mn shares)	5,059
3M Avg. Volume (K)	1,547
3M Avg. Trading Value (VND Bn)	55
Remaining foreign room (%)	13.1
52-week range ('000 VND)	49.95 – 28.95

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	46,818	55,382	60,330
TOI (VND bn)	62,395	70,220	75,075
NPAT (VND bn)	10,573	19,173	20,107
ROA (%)	0.7	0.9	0.9
ROE (%)	12.8	18.0	17.0
Asset growth (%)	16.2	13.0	12.0
Book Value (VND)	17,073	19,376	23,544
P/E (x)	27.9	12.7	12.9
P/B (x)	2.2	2.0	1.6

INVESTMENT RATIONALES

Transitory profitability shrinkage in 2023 due to the support package and rising uncertainties

- Amidst rising cost of fund, the lagging repricing of lending yield and support package will narrow down earnings asset yield, resulting in a decline of NIM in 2023. We forecast NIM to shrink by 10bps in 2023 and will recover in 2024 to 2022' s level.
- Despite asset quality amelioration and enhancement of provision buffer year over year, the Bank's non-performing formation rate surge to 79% TTM and and LLR was down to 214% in 3Q2022 from that of 260% in 1H2022. In coming quarters, asset quality might be deteriorated and credit cost to rise that will drag down PBT growth to single digit.

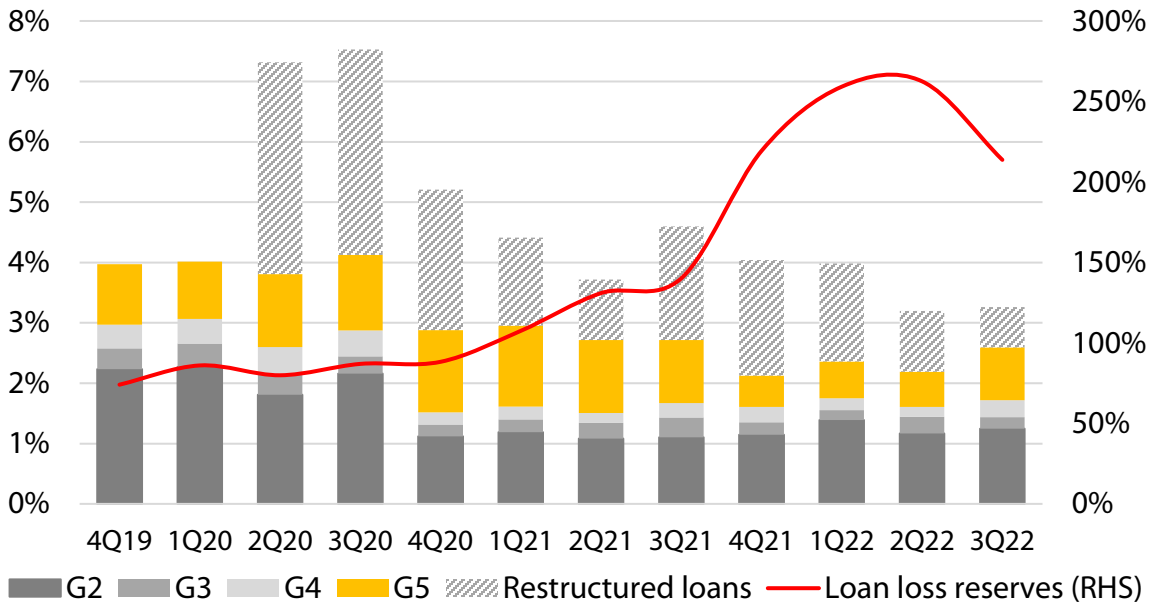
Further capital enhancement following the process of asset quality amelioration will strengthen banking durability and profitability. Asset quality is on track of significant improvement since NPL ratio fell below 1.4% in 4Q21. Due to the expiration of Covid-related loans restructuring policy, NPL ratio bounced back to 1.35% in 3Q22 after 2 quarters of historical low yet remained controllable. The capital plan is expected to consolidate the bank's buffer while encouraging profitable expansion.

Market leader advantages regarding scale and network promotes funding capability in a higher cost environment. BID remains among the top positions concerning total assets, loans and deposits among listed banks. The bank's massive network and deposit franchise ensure funding capability in a more competitive funding environment while its long-lasting reputation as a SoCB and low exposure to headline risks can retain depositors' faith amid turmoil for the whole sector.

RISKS TO OUR CALL

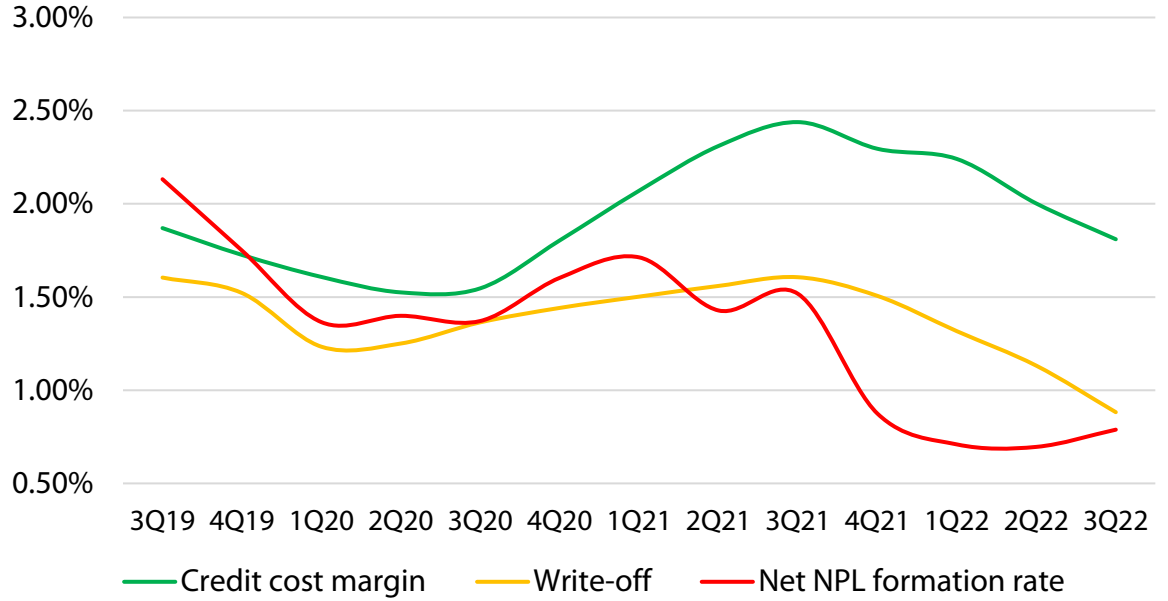
- Upside risks: The approval of Circular 22 Amendment. Downside risks: The pace and level of economic descent due to the bank's large market share of customers. The timing of capital raising execution poses risk on both sides.

Figure 1: Asset quality indicators



Source: BID, Rong Viet Securities

Figure 2: NPL formation, write-off and credit cost margin (TTM)

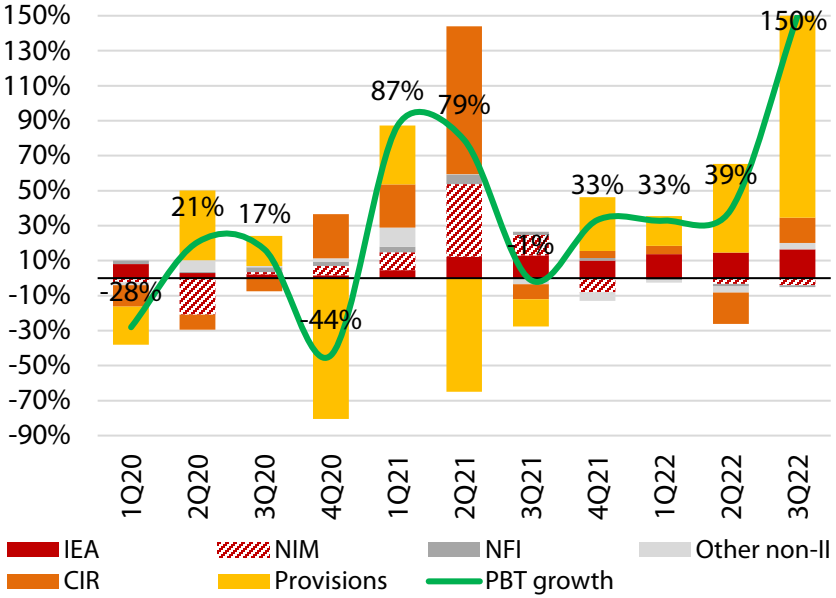


Source: BID, Rong Viet Securities

Further capital enhancement following the process of asset quality amelioration will strengthen banking durability

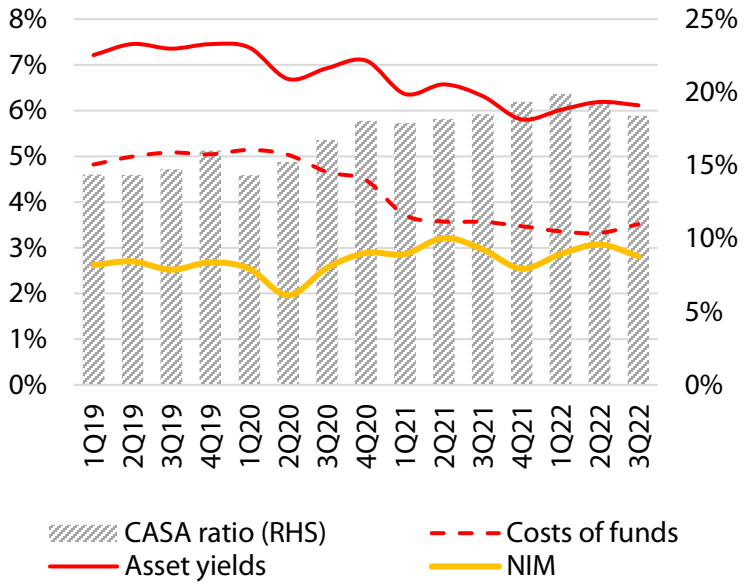
- BID' s asset quality has been well improved since the VAMC bond clearance. Its net NPL formation as well as NPL ratio and Covid-19 restructured loan balance has witnessed a downward movement from the previous high base despite the transitory rebounds during some stressed period. This is attributed to a more prudent approach to provisioning policy as loan loss coverage ratio has turned into the three-figure level since the beginning of 2021 and remained abundant up until now, which promoted the bank's resilience to cope with upcoming uncertainties.
- In the longer term, it is expected that credit cost margin will gradually come down to a more sustainable level thanks to the preceding solid buffer and holistic transformation towards a healthy asset expansion. The potential capital raising plan will also contribute to encourage further expansion along with the asset quality enhancement journey by strengthening banking capital adequacy.

Figure 3: PBT growth components (%, YoY)



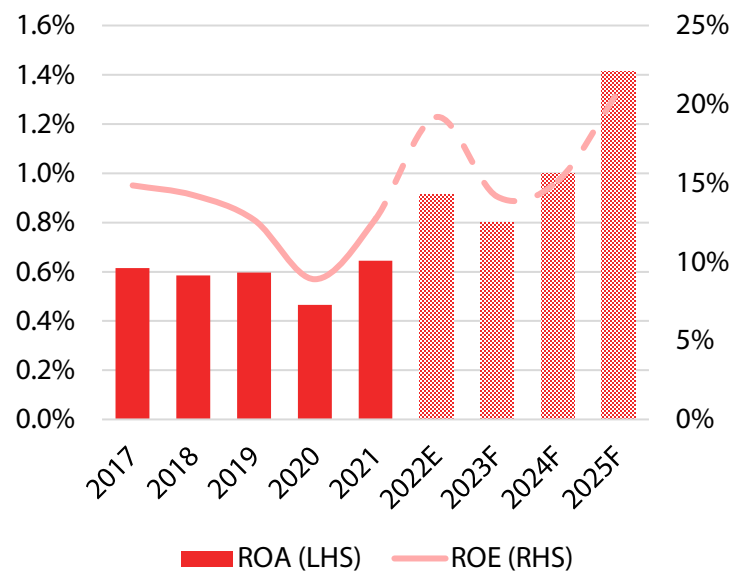
Source: BID, Rong Viet Securities

Figure 4: Asset yield, cost of funds, NIM & CASA ratio (annualized, %)



Source: BID, Rong Viet Securities

Figure 5: Profitability ratios



Source: BID, Rong Viet Securities

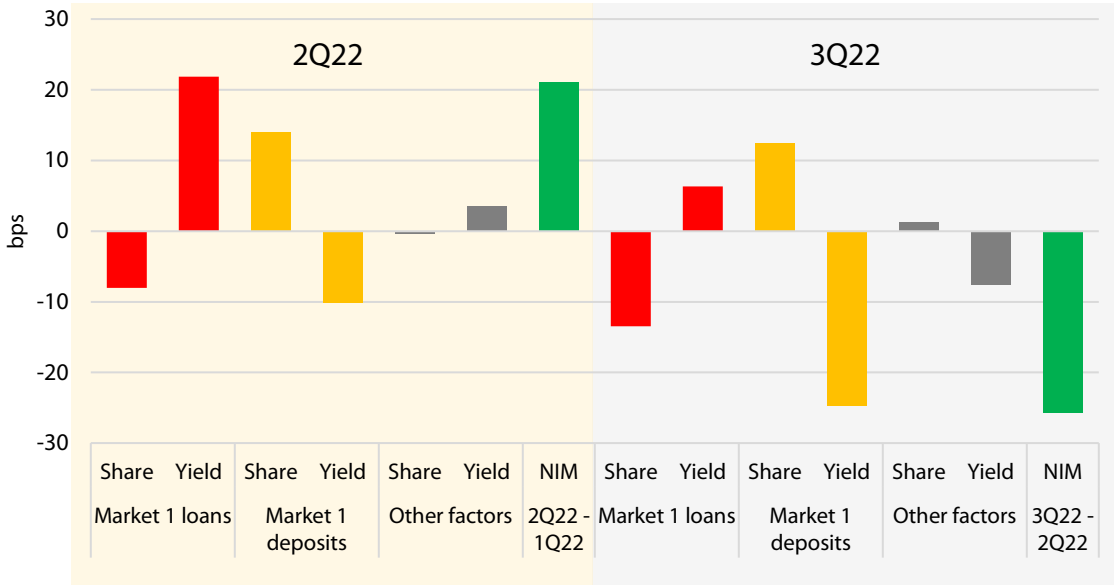
Solid funding base backed by market leader advantages, feasible transformation and regulation tailwinds

- The bank's massive network and deposit franchise help ensure funding capability with competitive pricing power in a higher cost environment, thereby mitigating pressure on cost of funds and supporting NIM. With retail-oriented and digital transformation, BID can also control its average risk weight as well as operating expense and further expand deposit base via retail customers penetration. Should the Draft Amendment to Circular 22 come into effect, mobilizing pressure will be eased somewhat as funding resources are utilized more effectively to encourage banking and economic activities, concerning BID's largest amount of Treasury deposits among listed SoCBs.

Cost-driven growth thanks to the provisioning buffer and low exposure to risky sectors

- The bottom-line sensitivity to credit cost brings about cost reduction growth engine when external conditions become more favorable. Its modest exposure to risky sectors including corporate bonds and real estate market also help alleviate provisioning pressure through controlling expected credit losses.

Figure 6: QoQ NIM change decomposition (annualized, %)



Source: BID, Rong Viet Securities

Figure 7: FY23 Forecast

Unit: VND Bn	2021	2022E	2023F	%FY22	%FY23
Profitability					
Credit	1,368,941	1,524,008	1,683,282	11%	10%
Deposit	1,504,083	1,694,468	1,909,677	13%	13%
NIM	2.90	2.97	2.88	8bps	-10bps
NII	46,818	55,382	60,330	18%	9%
NoII	15,578	14,838	14,745	-5%	-1%
TOI	**62,395**	**70,220**	**75,075**	**13%**	**7%**
CIR	-31%	-33%	-35%	-2bps	-2bps
Provision	-29,481	-22,494	-23,089	-24%	3%
PBT	**13,602**	**24,696**	**25,873**	**82%**	**5%**
Asset quality (%)					
NPL	*0.98*	*0.98*	*1.07*	0bps	8bps
LLR/NPLs	89	219	239	13020bps	1931bps
LLR/(NPLs + G2)	54	101	170	4656bps	6864bps

Source: BID, Rong Viet Securities

9M2022: Credit cost enhancement sustained its driven role in earnings momentum while NIM continued to be the negative factor

- BID's credit growth quota was 10.7% as of 9M22, leading to the moderate contribution from interest - earning assets to 3Q PBT growth. The lagged recovery in loan yield could not mitigate the impact of continuous quoted rate hikes, which made NIM down directly by 25 bps. NII and TOI grew by 16% and 15% yoy respectively, while NFI still has not regained its momentum due to the zero-fee program. PBT expanded by 150% yoy thanks to the base effect and substantial improvement in provisions, regardless of the slight deterioration in asset quality as NPL ratio rose to 1.35% and NPL net formation bounced back to the quarterly high.

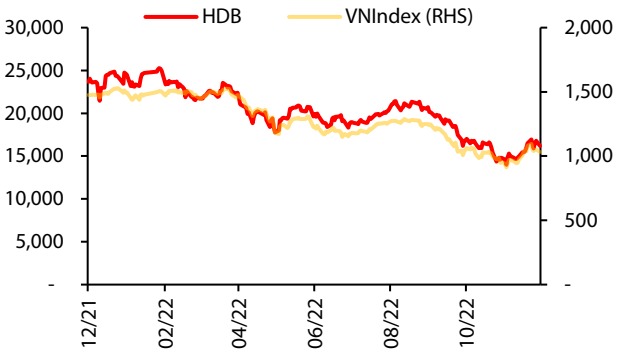
2023: Transitory profitability shrinkage due to the support package and rising uncertainties

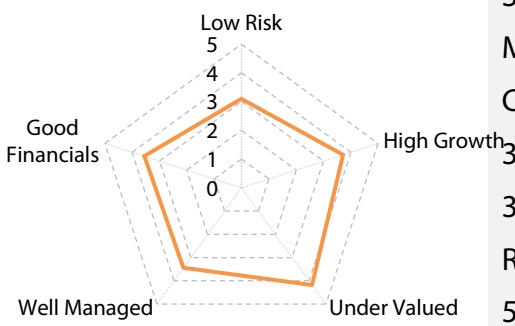
- 9M22 results are expected to lay the foundation for 66% earnings growth in 2022. We revised down 2023 growth to barely 1% due to NIM being affected by the support package and upcoming headwinds for the economy. The stagnant customer recovery will challenge the bank's capability to maintain advantage from risk cost reduction, as credit cost margin is forecasted to stay high before improving to a sustainable level of 1.6-1.7% in 2024. Accordingly, growth will also bounce back to circa 37%.

SUSTAINING HEALTHY GROWTH

HSX: HDB

BUY: +29% **MP: 16,200** **TP: 20,900**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	1,726
Current Shares O/S (mn shares)	2,515
3M Avg. Volume (K)	2,378
3M Avg. Trading Value (VND Bn)	39
Remaining foreign room (%)	0.0
52-week range (kVND)	13,05 - 26

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	13,891	17,800	20,552
TOI (VND bn)	16,758	21,653	25,049
NPAT (VND bn)	6,054	8,336	9,592
ROE (%)	21.8	24.6	23.0
ROA (%)	1.7	2.1	2.1
Asset growth (%)	17.4	13.2	19.2
Book Value (VND)	14,559	18,596	23,232
P/E (x)	10.4	3.9	3.4
P/B (x)	1.1	0.9	0.7

INVESTMENT RATIONALES

High credit quota to net off risk-adjusted NIM in 2023

- On a sector-wide basis, HDB is expected to be granted a top-tier quota given its support for credit funds, loan to prioritized sectors and decline interest rates to support customers. However, the uncertain macro background will cloud the prospect of asset quality given its customer base is mostly mass and lower-mass.
- The rising of NPL ratio and credit cost will drag down PTB growth to 10% YoY.
- Fee income growth remains strong, expanding market share quarter by quarter. Notably, banca upfront fee will play as the main pillar that will boost NFI in the medium term.

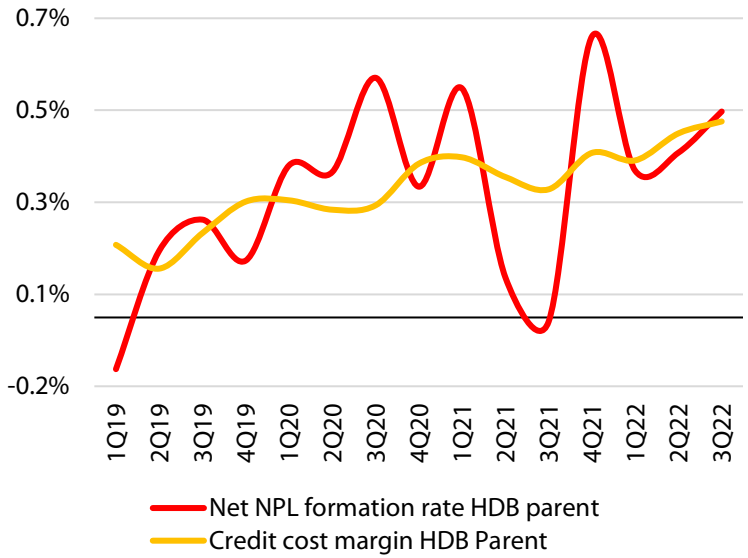
In the long run, good profitability and resilient growth with middle market orientation backed by a leading consumer finance company

- HDB has the capability to sustain its efficiency ratios due to robust risk-adjusted NIM as a result of risk management, appropriate lending yield and stably high balance sheet growth. We expect the bank to further enhance ROA as technology applications help improve productivity, thereby, driving CIR lower and boosting net profit margin.
- HDSaison, one of the leaders in consumer lending, plays a vital part in the wide ecosystem with value chain lending approach in middle segments and enables HDB to approach early-staged customers who will later be served by the parent bank. We expect a stable loan growth and intact market share given the fast-growing demand and the bank's favorable position.
- The stable funding mix with long-term deposits and valued papers is the foundation to deliver stable liquidity and pursue high-yield lending.

RISKS TO OUR CALL

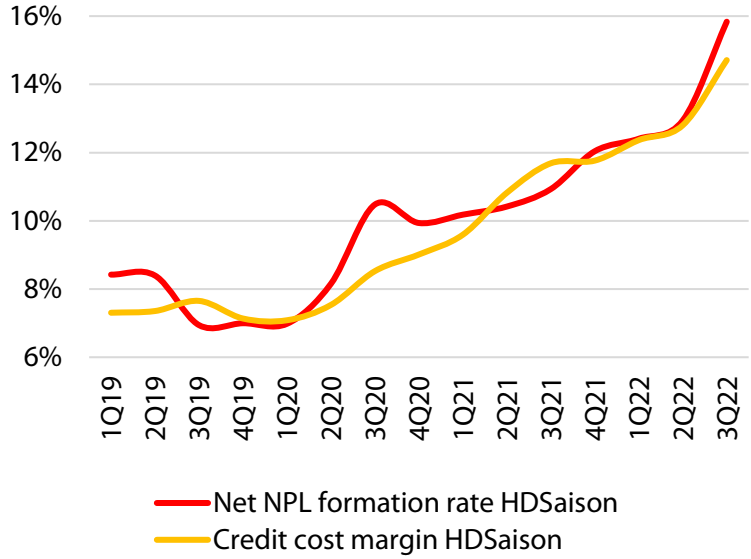
- A pro-cycle business segment is vulnerable to the economic downturn, thus, creating unanticipated NPL formation.

Figure 1: NPL formation & credit cost margin of parent bank (TTM)



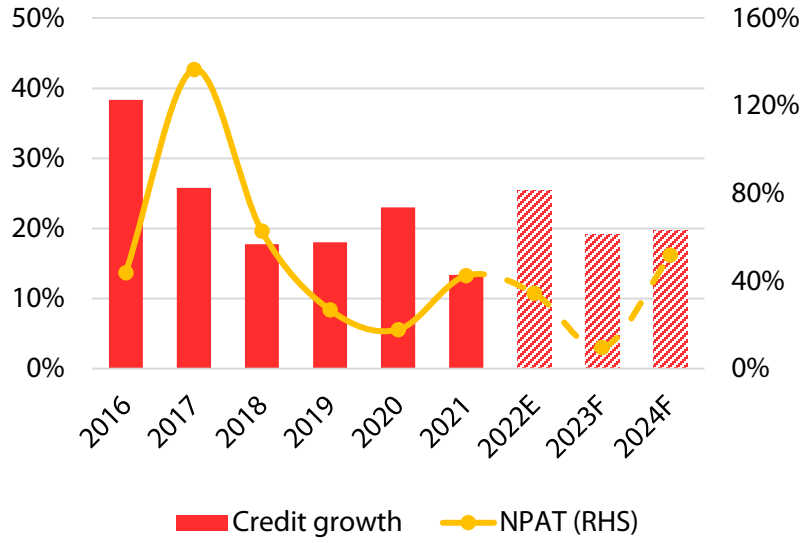
Source: HDB, Rong Viet Securities

Figure 2: NPL formation & credit cost margin of HDSaison (TTM)



Source: HDB, Rong Viet Securities

Figure 3: Credit and NPAT growth

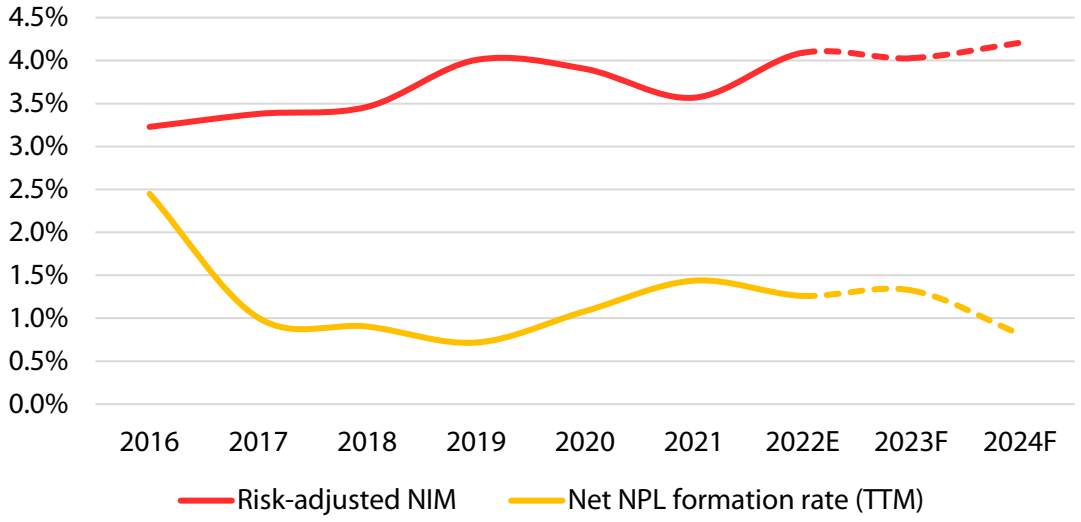


Source: HDB, Rong Viet Securities

Stably high momentum backed by various factors to counter uncertainties. In 2023, we expect the bank's growth momentum to be stable but might slow down compared to that in 2022. On a sector-wide basis, we still think HDB will be granted a top-tier quota given its support for credit funds, decline interest rates to support customer and loan exposure to prioritized sectors. High credit quota will drive net interest income to increase by 17% YoY amidst the rising of cost of fund. NFI is expected to gradually drive by 28% in 2023 and surge by 79% in 2024 driving by the upfront fee.

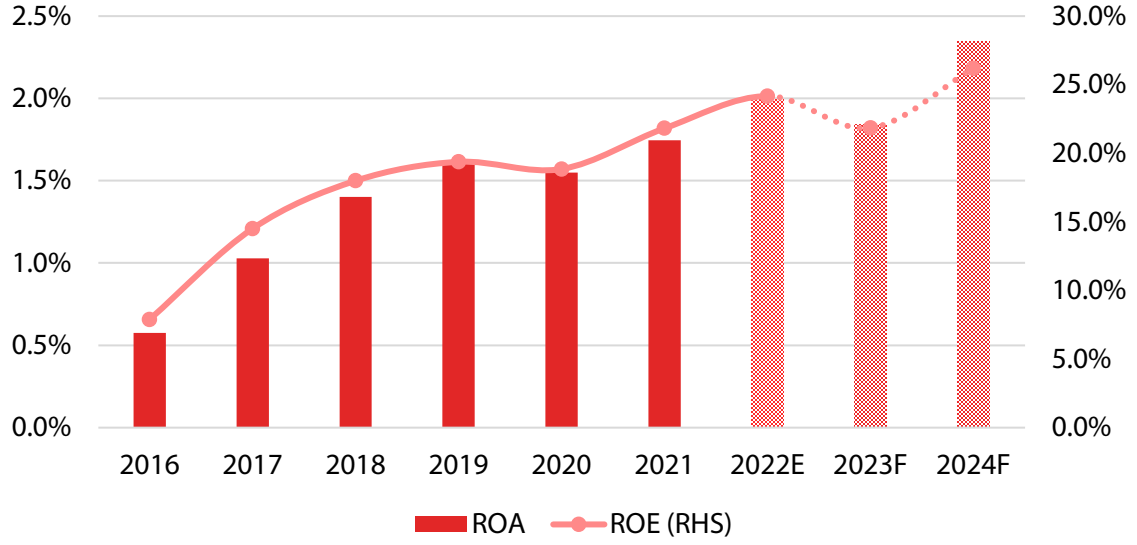
Pressure from the consumer finance segment intensified. The uncertain macro background will cloud the prospect of asset quality, notable the majority of HDB's customers are the low-profile retail and SME segments. NPL will likely be deteriorate and credit cost will drag down PTB to 10% YoY.

Figure 4: Risk-adjusted NIM and NPL formation rate (%, TTM)



Source: HDB, Rong Viet Securities

Figure 5: ROA and ROE estimates (%)

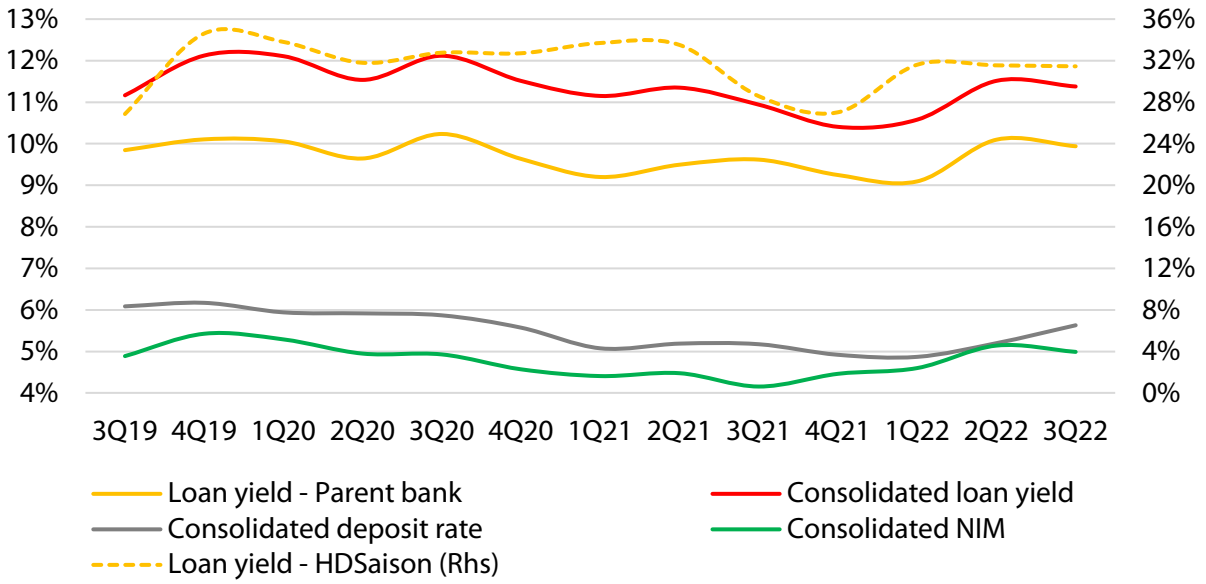


Source: HDB, Rong Viet Securities

Good profitability and resilient growth with middle market orientation backed by a leading consumer finance company

- HDB is expected to be able to improve its profitability. It has robust risk-adjusted NIM with appropriate lending-deposit rate gap. Its NPL formation rate is also controlled at manageable level, alleviating the pressure on credit cost margin and thereby, risk-adjusted NIM. We expect the bank to further enhance ROA as technology applications help improve productivity, thereby, driving CIR lower and boosting net profit margin.
- With a stable funding mix of long-term deposits and valued papers, and the resilient capital base with headroom to be developed via equity issuance, HDB is expected to achieve high credit quota in the upcoming periods.
- HDSaison is among the largest institutions in the consumer lending segment, which promotes the bank's ecosystem and gives it advantages in approaching early-staged customers who will later thrive to upper classes as the economy evolves and become loyal customers of the parent bank.

Figure 6: NIM, average loan yield and deposit rate (annualized, %)



Source: HDB, Rong Viet Securities

Table 1: FY23 Forecast

Unit: VND Bn	2021	2022E	2023F	%FY22	%FY23
Profitability					
Credit	213,424	265,563	316,285	24%	19%
Deposit	226,039	280,411	336,493	24%	20%
NIM	4.28	4.80	4.75	52bps	-5bps
NII	13,891	17,800	20,552	28%	15%
NoII	2,867	3,853	4,497	34%	17%
TOI	**16,758**	**21,653**	**25,049**	**29%**	**16%**
CIR	-38%	-35%	-37%	3bps	-2bps
Provision	-2,306	-3,161	-3,341	37%	6%
PBT	**8,070**	**10,864**	**12,432**	**35%**	**14%**
Asset quality (%)					
NPL	*1.65*	*1.65*	*1.51*	0bps	-14bps
LLR/NPLs	82	73	66	-913bps	-658bps
LLR/(NPLs + G2)	42	28	53	-1373bps	2527bps

Source: HDB, Rong Viet Securities

Diversified income sources ensure stable growth momentum

- Operating income remained the favorable factor for earnings growth in 9M22 backed by a variety of income sources. 3Q22 NII rose 36% yoy due to both stably high NIM (5%) and credit growth (24.3% yoy). The low base of NIM allowed it to record a significant contribution to PBT growth despite the stagnant consolidated loan yield as HDSaison has not passed the pressure on funding costs to borrowers. Robust credit expansion (18.1%) ytd were supported by the higher-than-average increase in deposit base (13.4% ytd). Bancassurance continued to be the main driver for NFI (+111% yoy) as APE sales peaked at VND 145 bn in September. Overall, PBT reached VND 2.7 tn in 3Q22 (43% yoy).

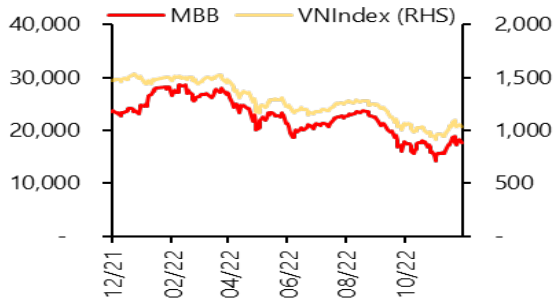
The prolonged pressure on consumer finance segment has yet to be released

- Consolidated NPL ratio bounced back to 1.5% in 3Q22, mainly due to the exacerbation from the consumer finance segment as its NPL surged to 7.4% from 6.9% in 2Q. NPL formation rate and credit cost margin of the parent bank and HDSaison have spotted an upward momentum since the beginning of the year. Nevertheless, HDSaison's loan disbursement witnessed a strong rebound in 3Q22, implying a more optimistic recovery landscape.

GOOD MANAGEMENT CAPABILITY FOR EARNINGS GROWTH

HSX: MBB

BUY: 24% **MP: 17,700** **TP: 22,000**



STOCK INFO

Sector	Banks
Market Cap ($ mn)	80,252
Current Shares O/S (mn shares)	4.534
3M Avg. Volume (K)	11.900
3M Avg. Trading Value (VND Bn)	205
Remaining foreign room (%)	0,0
52-week range (VND '000)	13,2 – 29,08

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	26,200	33,812	37,426
TOI (VND bn)	36,934	43,582	48,992
NPAT (VND bn)	12,697	18,058	19,056
ROA (%)	2.3	2.8	2.6
ROE (%)	22.6	26.2	23.6
Asset growth (%)	22.7	16.2	11.8
Book Value (VND)	16,538	16,648	19,959
P/E (x)	8.0	4.2	3.8
P/B (x)	1.7	1.1	0.9

INVESTMENT RATIONALES

NIM temporarily shrinks due to the impacts of the real estate market

- The bank's level of credit allocation to the real estate sector is high. The decrease in demand for mortgage loans combined with the policy direction of regulators to tighten credit to risky sectors will reduce the proportion of credit to the real estate sector, indirectly dragging down lending yield.
- The changing behavior of depositors and the lag in re-pricing of lending rates compared to deposit rates are also the factors that reduce NIM, but the extent of the impacts may be lower than that of small banks thanks to MBB's liquidity situation and good reputation.

A solid provisioning buffer ensures resilience against risks of rising non-performing loans. Asset quality is forecasted to weaken in short term due to the impact of higher interest rates environment, the downturn in economic growth momentum along with the slowing down real estate and corporate bond markets. As a result, non-performing loans and credit losses pressures will increase. However, a prudent cumulative provisioning buffer over time creates headroom to absorb risk while ensuring growth. Non-performing loans risk related to real estate developers is a factor that has not been reflected in valuation due to its unpredictable nature and dependence on the willingness of regulators to resolve difficulties.

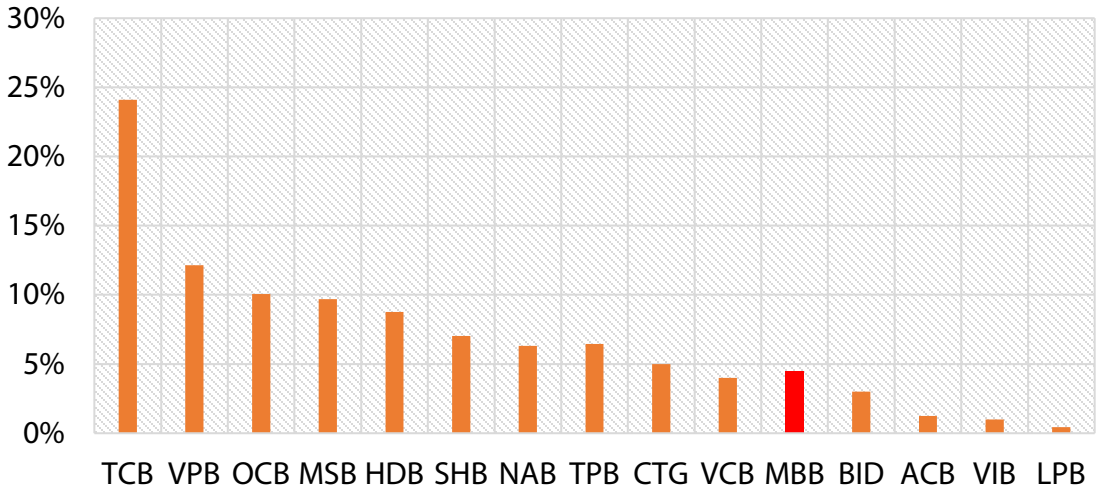
The widespread and comprehensive ecosystem, stable profitability and holistic efficiency on a good capital base make a foundation for long-term investment. 2022-2026 strategy aims to turn the bank into a financial technology corporation with a comprehensive digital scale. Self-built core technologies with in-house personnel enable timely and cost-effective maintenance and updates, ensuring competitiveness. Combined with its edge in customer base and retail expansion orientation, MBB is able to ensure high profitability through improved NIM and credit loss control.

RISKS TO OUR CALL

- Funding source is less stable than expected. Strategic segments are more exposed to risks than expected.

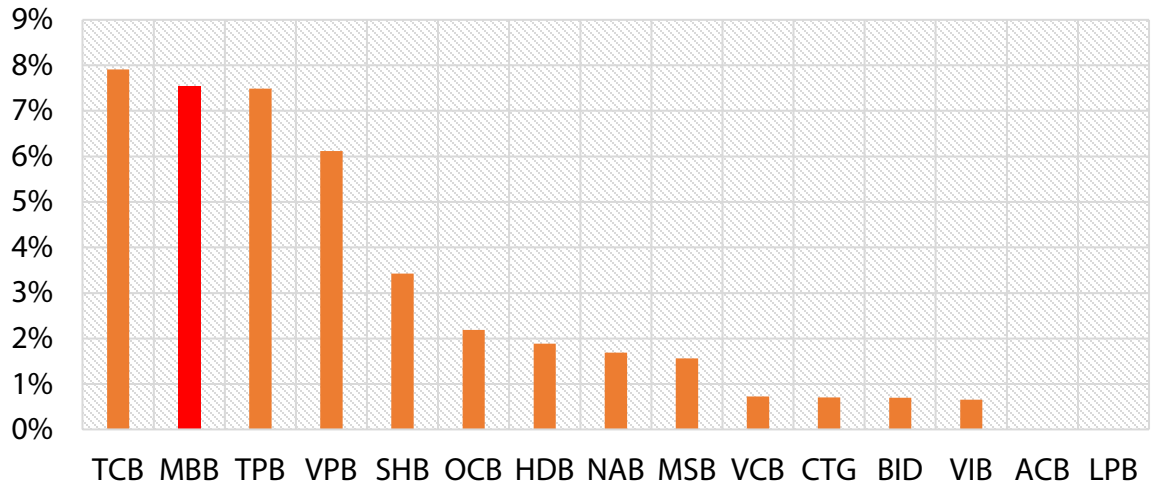
NIM TO BE AFFECTED BY THE GLOOMY REAL ESTATE MARKET

Figure 1: Loans to real estate developers/Total loans as of 2Q2022



Source: Banks' FS, Rong Viet Securities

Figure 2: Corporate bonds/Total assets as of 2Q2022

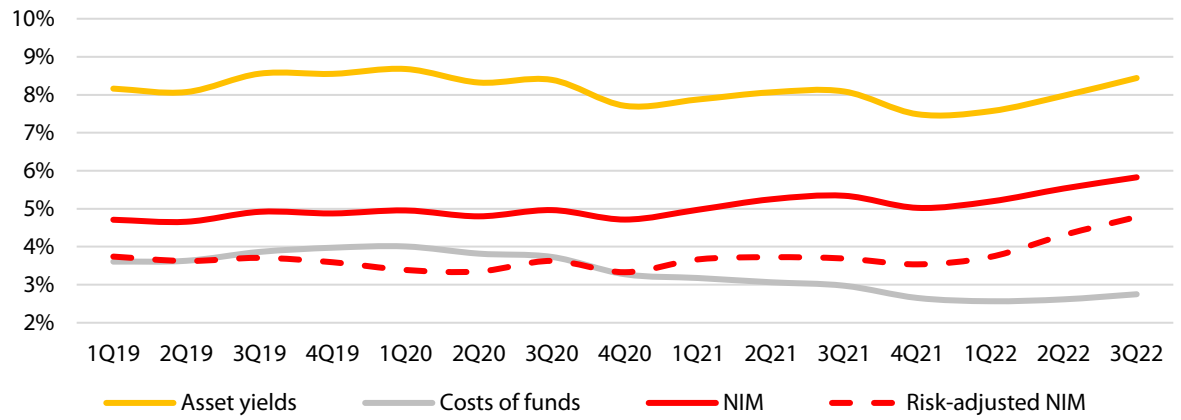


Source: Banks' FS, Rong Viet Securities

NIM may temporarily shrink due to the impact from real estate market

- High exposure to real estate industry: outstanding loans to mortgages and real estate developers accounted for 23.7% and 4.5% of total outstanding loans, real estate corporate bonds accounted for 2.5% of total assets.
- The decrease in demand for mortgage loans due to high interest rates combined with policy direction to reduce lending to risky fields has reduced the proportion of credit allocation to real estate, indirectly dragging down the profitability of loan book.
- The lagging re-pricing of lending rates also hampers NIM, but the extend of impact may be lower than that of small banks thanks to MBB's liquidity condition and good reputation.

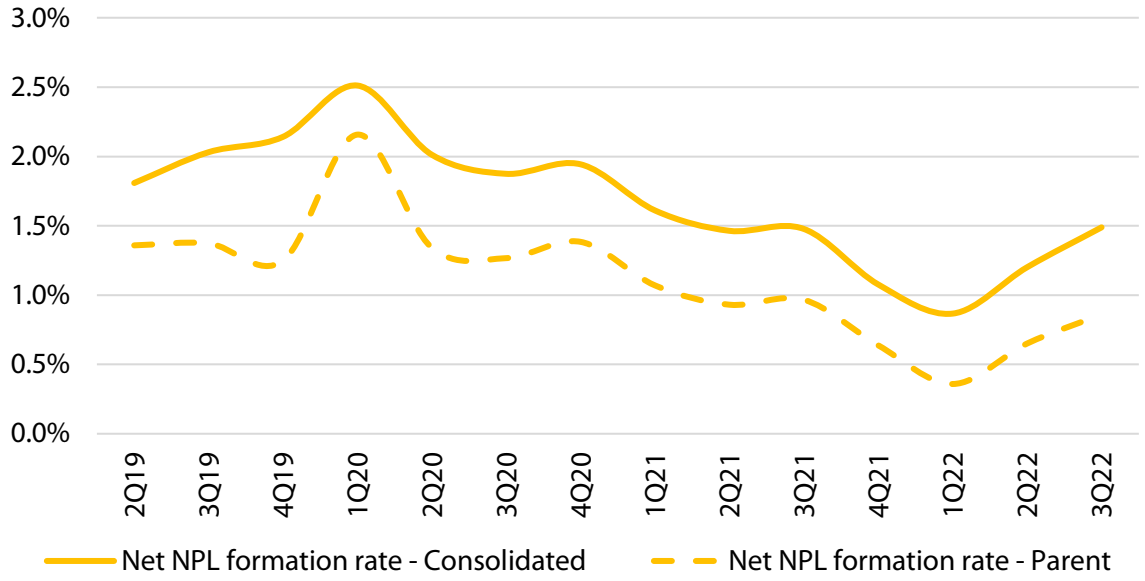
Figure 3: Asset yields, costs of funds, NIM & risk-adjusted NIM (TTM, %)



Source: MBB, Rong Viet Securities

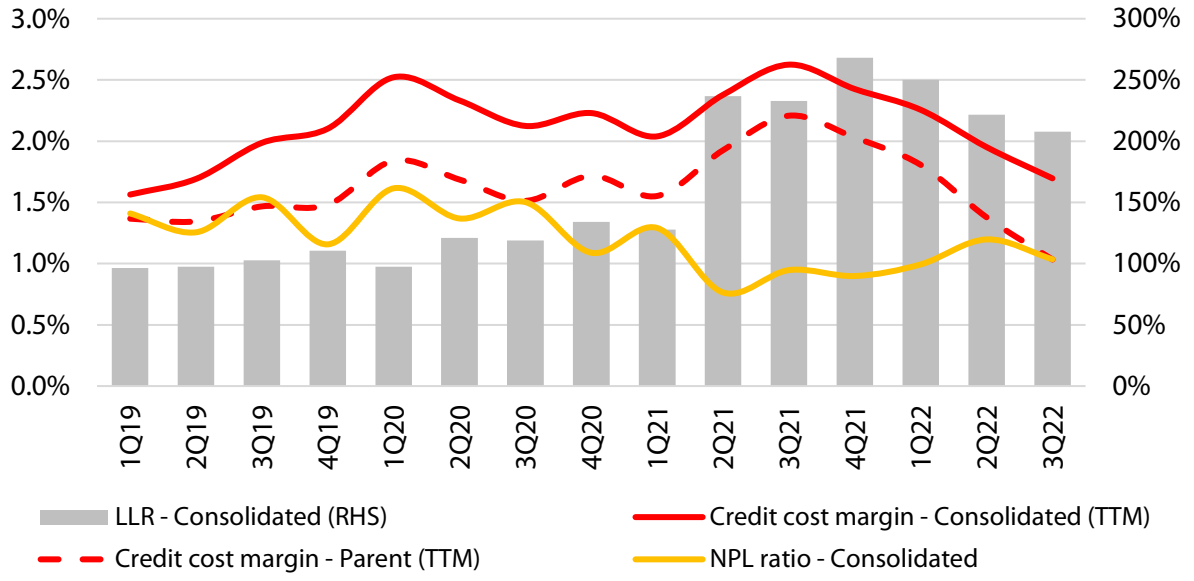
PRUDENT PROVISIONING BUFFER IS AN EFFECTIVE DAMPER

Figure 4: Net NPL formation rate gradually increased from 2Q2022 yet still lower than the Covid-19 level



Source: MBB, Rong Viet Securities

Figure 5: Abundant provisioning buffer boosts resilience

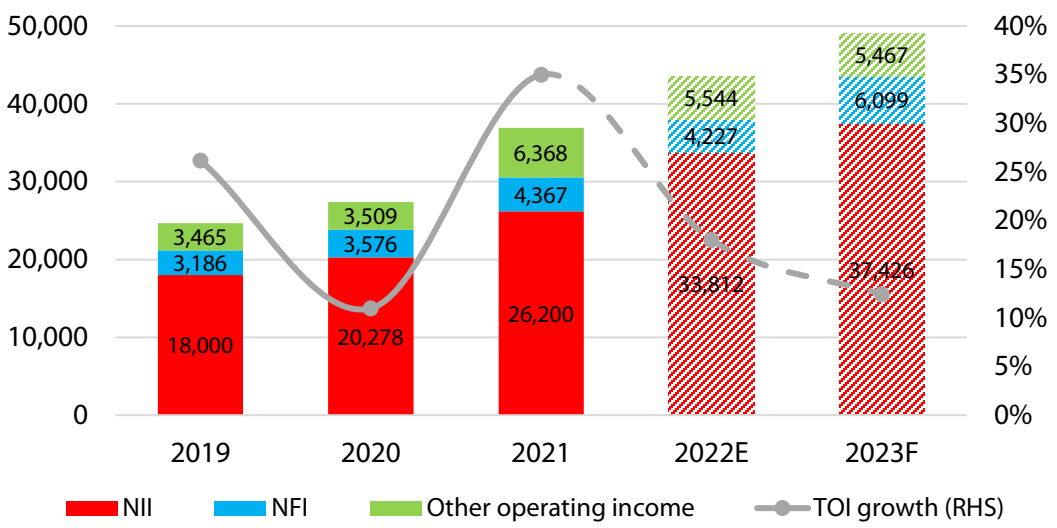


Source: MBB, Rong Viet Securities

A solid provisioning buffer helps ensure earnings growth even with a relatively deteriorated balance sheet health

- Net NPL formation rate gradually increased from 2Q2022, reflecting negative impact from global macro. However, the parent bank's NPL ratio improved in 3Q after surging in 1H2022 thanks to increased write-offs. This ratio of Mcredit continues to climb. Restructured loans decreased by 50% compared to that of 2Q, accounting for 0.5% of total outstanding loans compared to 0.8% in 2Q.
- Credit cost margin dropped stronger than NPL ratio as MBB has accelerated provisioning in the previous quarters. Loan loss coverage ratio reached the bank's historical high and stayed at the second highest position among industry peers last year, creating headroom for debt write-off this year.
- Risk costs management is a key driver for earnings growth in 9M2022, along with high credit growth. Provision expense for credit losses in 9M2022 decreased by 26% YoY while credit grew by 17.1% Ytd.

Figure 6: Total operating income breakdown (VND bn)



Source: MBB, Rong Viet Securities

Table 1: FY23 Forecast

Unit: VND Bn	2021A	2022E	2023F	2022/2021	2023/2022
Credit	406,521	491,618	562,727	20.9%	14.5%
Deposit	453,578	522,082	615,416	14.7%	16.7%
NIM (%)	5.03	5.42	5.26	39 bps	-16 bps
NII	**26,200**	**33,812**	**37,426**	**29.1%**	**10.7%**
Non-NII	10,735	9,771	11,566	-9.0%	18.3%
TOI	**43,583**	**48,992**	**43,583**	**18.0%**	**12.4%**
CIR (%)	33.5	34.0	33.8	54 bps	-27 bps
Provision	8,030	5,280	7,076	-34.2%	34.0%
PBT	**16,527**	**23,464**	**25,370**	**42.0%**	**8.1%**
Asset quality (%)					
NPL	0.9	1.1	1.2	16 bps	18 bps
LLR/NPLs	268.0	200.8	166.4	-6722 bps	-3445 bps
LLR/(NPLs + G2)	122.0	145.6	125.6	2363 bps	-1997 bps

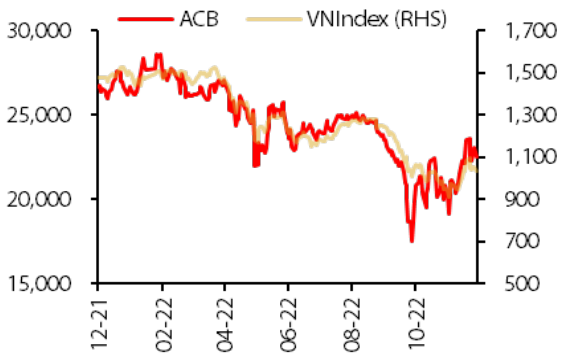
Headwinds can hinder earnings momentum yet there still be broad headroom for management to ensures better-than-average growth in our coverage list

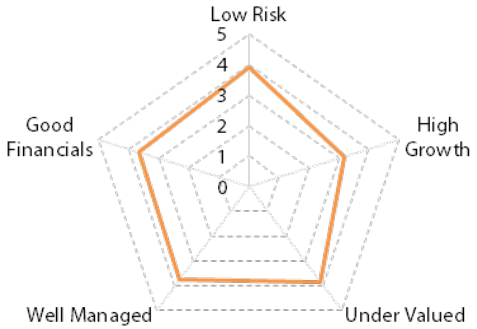
- Credit growth will drive 2023 total operating income growth and offset the transient contraction in NIM and non-interest income. Credit growth quota may be granted higher than the industry average thanks to the bank's participation in the transferring of distressed credit institutions and good liquidity quality. When external macro pressures subside from mid-2023, banking system liquidity and deposit rates are expected to gradually decrease, helping NIM to improve.
- Service income is forecasted to decelerate in the insurance and investment banking segments mainly due to lower credit growth in 2023 compared to that of 2022 and the adjustments of regulators on corporate bond private placement.
- Income from written off debt recoveries will decline due to the combination of high 2022 comparison base with a poor absorbtion outlook in the real estate market.
- Asset quality is forecasted to weaken from 4Q22 due to headwinds in the economy. Credit cost margin is likely to increase in the first half of 2023 before softening in the second half thanks to gradual improvement in macro conditions. The large headroom for provisioning will help MBB maintain high profit growth compared to the rest in our coverage.
- PBT in 2023 will be at VND 25.4 trillion, up 8.1% YoY.

STAND STRONG BY CAUTIOUS STRATEGY

HSX: ACB

BUY: 33% **MP: 22,500** **TP: 30,000**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	3,219
Current Shares O/S (mn shares)	3,377
3M Avg. Volume (K)	3,873
3M Avg. Trading Value (VND Bn)	81
Remaining foreign room (%)	0.0
52-week range ('000 VND)	17,45 - 29,08

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	18,945	22,745	24,957
TOI (VND bn)	23,564	27,716	31,087
NPAT (VND bn)	9,603	14,098	14,914
ROA (%)	2.0	2.5	2.4
ROE (%)	23.9	27.1	23.0
Asset growth (%)	18.7	11.7	11.6
Book Value (VND)	13,294	17,469	20,884
P/E (x)	12.3	5.5	5.2
P/B (x)	2.6	1.3	1.1

INVESTMENT RATIONALES

NIM to fall slightly even despite hikes in deposit rates thanks to strong retail customer and low credit weight to real estate sector

- ACB has a strong retail customer base, focusing on the mid- and high-income ones, ensuring a stable deposit structure and facilitating NIM orientation.
- Low exposure to the real estate sector minimize the negative effects the "cooling down" market on average lending yield.

Lower-than-average balance sheet deterioration but the normalized credit cost margin leads to low profit growth in 2023

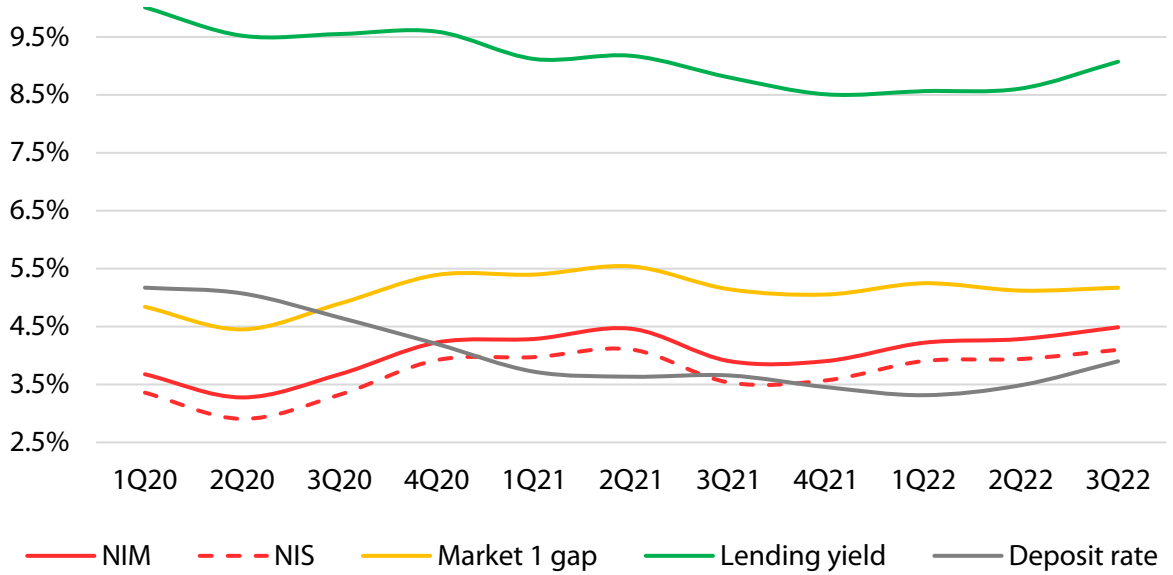
- With the moderate growth, ACB can expand the cautious lending strategy to maintain a healthy balance sheet and efficient capital allocation, resulting in well-controlled risk-profit balance. That helps the bank standstill in different scenarios, especially during the economic downturn in 2023.
- Lowering credit costs is the main driver for a significant profit growth in 2022 (47% YoY in our forecast), thanks to the reversal of fully provisioned restructured debts in 2021. Although overall operating efficiency of ACB is expected to be slightly affected by the macro situation in 2023, a low comparative base in credit costs could lead to low profit growth.

RISKS TO OUR CALL

- Due to the high sensitivity to provisions, the uncertainty in the customer's recovery ability is a downside risk. Credit quota is also a potential risk, even low.

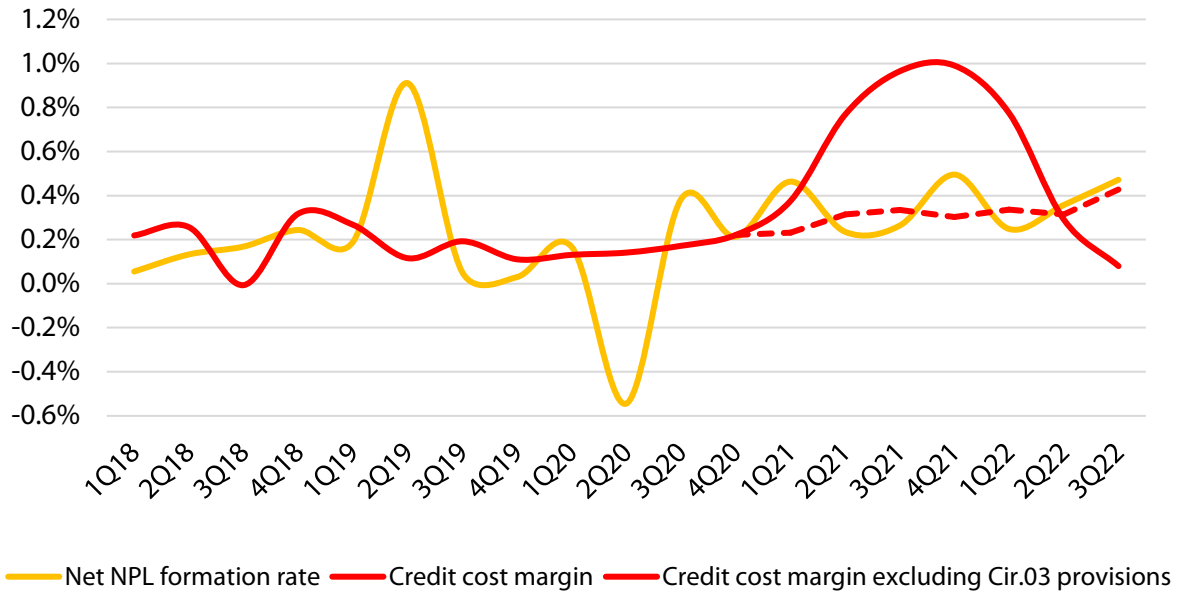
NIM TO SLIGHTLY FALL, STABLE ASSET QUALITY

Figure 1: NIM, asset yields and costs of funds (annualized, %)



Source: ACB, RongViet Securities

Figure 2: Net NPL formation rate and credit cost margin (TTM)



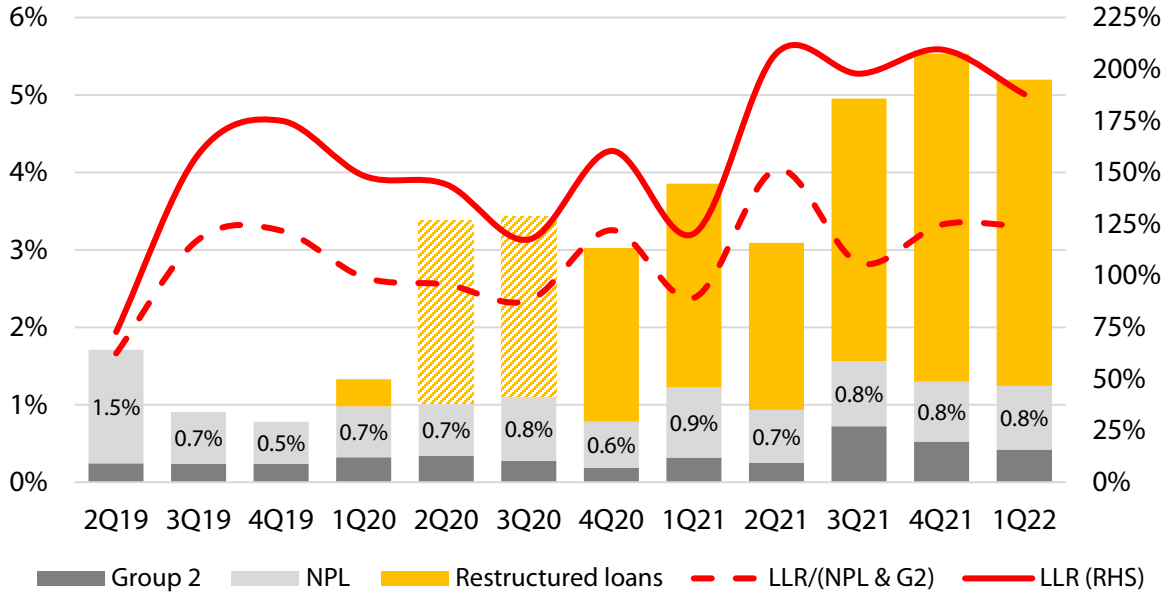
NIM margin to remain despite rising deposit rates

- The high proportion of short-term loans (63% at the end of 3Q22) supports ACB to quickly transfer input costs to customers. NIM at the end of Q3 continued to increase compared to Q2 and compared to the end of 2021, although the deposit rate increased QoQ and the credit growth decreased QoQ in 9M2022
- Demand for home loans is forecast to fall due to high interest rates, which will pressure the average lending yield in 2023. However, the fall in demand is not significant thanks to customers with good financial health, low exposure to real estate and prudent lending policies. The proportion of mortgage loans and real estate developers' loans account for 21.5% and 1.2% of total outstanding loans, respectively, and no exposures to corporate bonds.

Balance sheet health could slightly decline but credit cost margin is expected to reverse sharply

- The good resilience of high-middle-income customers helps the balance sheet quality to be less deteriorated than average when the impacts of the macro situation is inevitable. However, the effect of provision reversal will gradually decrease in 2022 while the ratio of NPLs net formation will gradually increase over the next few quarters, leading to a rapid upward reversal of credit cost margin.

Figure 3: Asset quality and provisioning buffer indicators



Source: ACB, RongViet Securities

Table 1: FY23 Forecast

VND bn	2021	2022E	2023F	2022/2021	2023/2022
Credit	361,913	412,218	461,685	13.9%	12.0%
Deposit	410,555	442,468	490,796	7.8%	10.9%
NIM (%)	4.01	4.18	4.14	16 bps	-3 bps
NII	**18,945**	**22,745**	**24,957**	**20.1%**	**9.7%**
Non-NII	4,619	4,971	6,130	7.6%	23.3%
TOI	**23,564**	**27,716**	**31,087**	**17.6%**	**12.2%**
CIR (%)	34.9	36.6	35.2	167 bps	-137 bps
Provision	3,336	-45	1,504	-101%	-3469%
PBT	**11,998**	**17,618**	**18,633**	**46.8%**	**5.8%**
Asset quality (%)					
NPL	0.8	0.9	1.1	17 bps	17 bps
LLR/NPLs	209.4	161.2	138.0	-4818 bps	-2319 bps
LLR/(NPLs + G2)	124.8	113.2	101.6	-1163 bps	-1156 bps

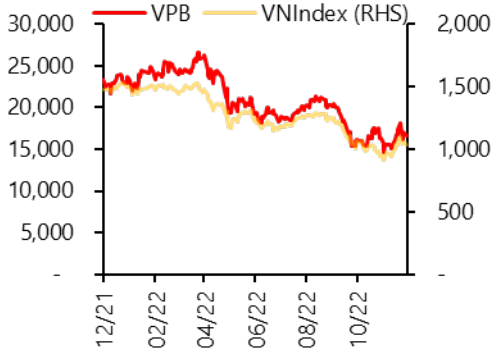
Bottom line growth is expected to normalize while profitability and overall efficiency will be priority

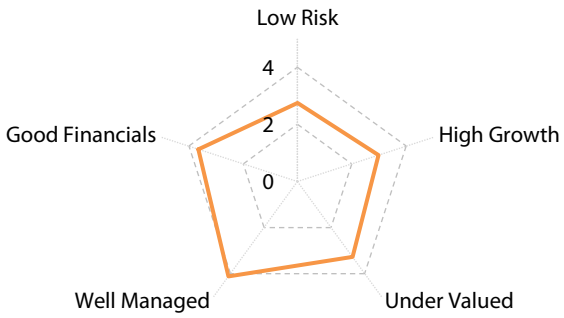
- Balance sheet growth will slow down in 2023 as loan demand declines and assigned credit growth is forecast to be moderate. NIM is expected to remain above 4% despite rising funding costs. The growth in service income slowed down with the biggest segment bancassurance (57% at the end of Q3), whose sales are often accompanied by credit growth and lower insurance demand during the hard times. The income of the securities segment has not recovered strongly as the stock market is likely to slowly rally. Accordingly, total operating income will increase modestly by 12% YoY
- We expect that ACB's debt quality will slightly worsened as the bank's top and prolong priority is to maintain the overall efficiency. On the low comparative base of net provision reversal in 2022, the reversal of credit cost margin will cause PBT to grow only 5.8% YoY in 2023.

PRESSURES ON PROFITABILITY IN MID-TERM

HSX: VPB

ACCUMULATE: +16% **MP: 17,500** **TP: 20,200**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	4,734
Current Shares O/S (mn shares)	6,713
3M Avg. Volume (K)	17,803
3M Avg. Trading Value (VND Bn)	299
Remaining foreign room (%)	0.0
52-week range ('000 VND)	13,65 - 27,37

FINANCIALS

	2021A	2022E	2023F
NII (VND bn)	34,349	40,942	45,942
TOI (VND bn)	44,301	57,835	65,234
NPAT (VND bn)	11,808	19,387	20,633
ROA (%)	2.4	3.1	2.7
ROE (%)	17.0	20.7	18.6
Asset growth (%)	30.7	29.4	14.9
Book Value (VND)	19,447	15,111	17,327
P/E (x)	9.0	6.0	5.9
P/B (x)	1.8	1.2	1.0

INVESTMENT RATIONALES

New capital sources reduce the pressures on mobilization costs, offsetting the asset yields that will be negatively affected by the real estate market.

- The level of credit allocation to the real estate industry is high. The decrease in demand for mortgage loans combined with the direction of regulators to tighten credit to risky areas will reduce the allocation of credit to real estate sector, indirectly reducing the overall lending yield.
- Thanks to increased capital from bancassurance upfront fee and the private placement (expected to be completed in early 2023), in the short-term view, mobilization pressure is expected to be lower than that of other banks. In the long term, the new capital flow will help VPB strongly expand the ecosystem in addition to enhancing the liquidity and capital buffer.

Low provision base limits resilience while the balance sheet health weakens in 2023. High exposure to the real estate and corporate bond markets increases pressure on asset quality, which is not a strength of VPB, for at least the next year. The borrower's ability to meet financial obligations will weaken, but the thin provision buffer does not create room for VPB to withstand the upcoming difficulties. Credit costs are forecast to rise faster than credit growth. Bad debt risk related to real estate developers is a factor that has not been reflected in valuation due to its unpredictable nature and depends on the will of regulators to solve the difficulties.

Competitive advantage in the expanding economic cycle temporarily becomes a burden when the economy enters the recession phase

- During the bumpy post-Covid-19 recovery period, the profitability of low-income customers has been eroded since Q2/2022 when unfavorable foreign macro factors affected the Vietnam economy. Further weakening of macro-growth drivers in 2023 will lead to constraints on growth and asset quality of the consumer finance segment and the mass customers, the most vulnerable groups in a cycle of economic contraction. The slow recovery of the strategic customers is expected to reduce the certainty of maintaining high profitability in the medium term.

RISKS TO OUR CALL

- Price upside risk: better-than-expected contribution from subsidiaries. Downside risk: stronger-than-expected weakening of low-income customers and the closing time of private placement for foreign partners.

NIM – MIXED IMPACTS OF PROS AND CONS; DOWN IS THE MAJOR TREND

Figure 1: Consolidated asset yield, COF, NIM and risk-adjusted NIM (TTM, %)

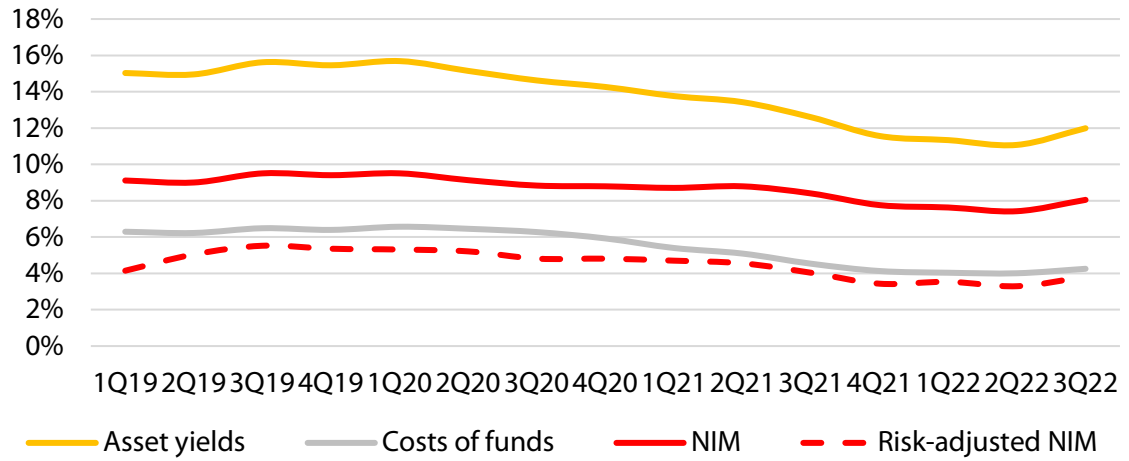
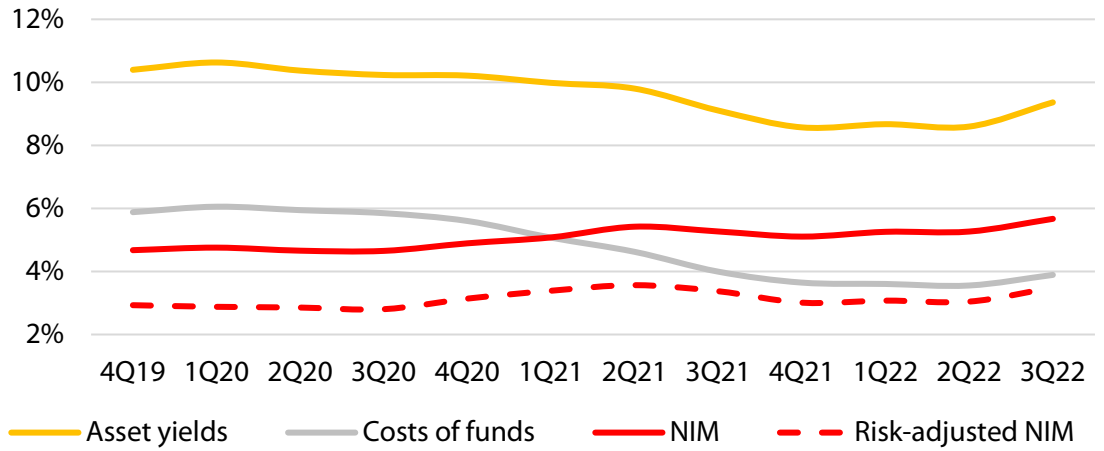


Figure 2: Mother bank's asset yield, COF, NIM and risk-adjusted NIM (TTM, %)



Source: VPB, Rong Viet Securities

New sources of capital can help reduce pressures on mobilization, partly offsetting asset yields forecasted to be negatively affected by the real estate market.

- Thanks to the increased capital from the bancassurance upfront fee and private placement (expected to be completed in early 2023), the low mobilization pressure in 2023 will be a supporting factor for NIM.
- High exposure of the parent bank to the real estate industry: outstanding loans for mortgage and real estate developers account for 17.6% and 12.6% of total outstanding loans, respectively, and real estate corporate bonds accounted for 3.4% of total assets. Meanwhile, the demand for mortgage loans is forecast to decrease due to high interest rates combined with the orientation to reduce lending to risky areas, causing the proportion of credit allocation to real estate to decrease, indirectly reducing average lending yield.
- The repricing lag in lending rates also puts pressure on NIM, but the impact may be lower than that of small banks thanks to VPB's good liquidity. However, VPB may still have to trade off NIM for the purpose of controlling NPL situation when allowing the conversion from floating interest rates to fixed interest rates for some customers.
- NIM TTM at the end of Q3 of both parent and consolidated banks decreased due to pressures from mobilization costs and difficulties of the consumer finance market. The downtrend will continue in Q4/2022 and into 2023.

Figure 3: Bad debt formation, written-off debts and provision of FE Credit (TTM)

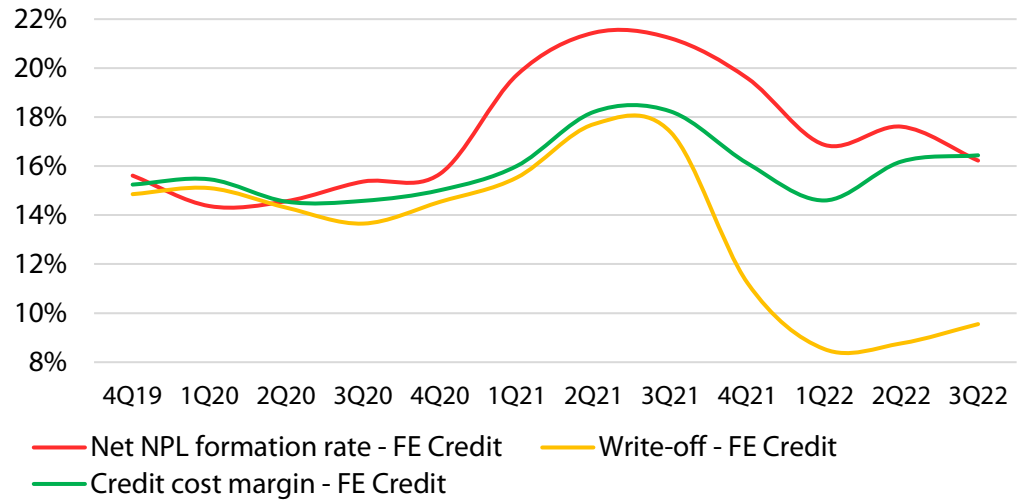
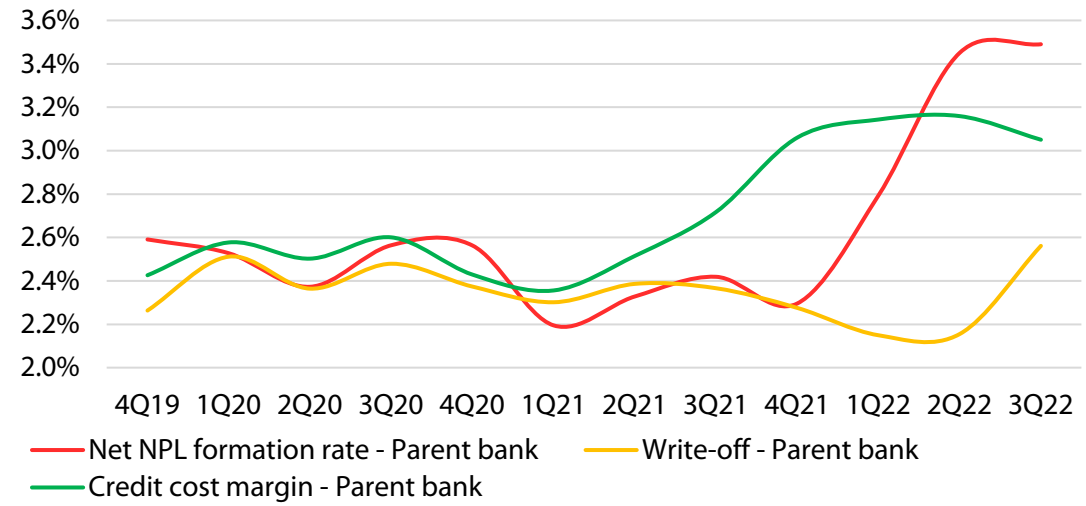


Figure 4: Bad debt formation, written-off debts and provision of mother bank (TTM)



Source: VPB, RongViet Securities

NPL pressure will be high for at least the next year due to a combination of factors:

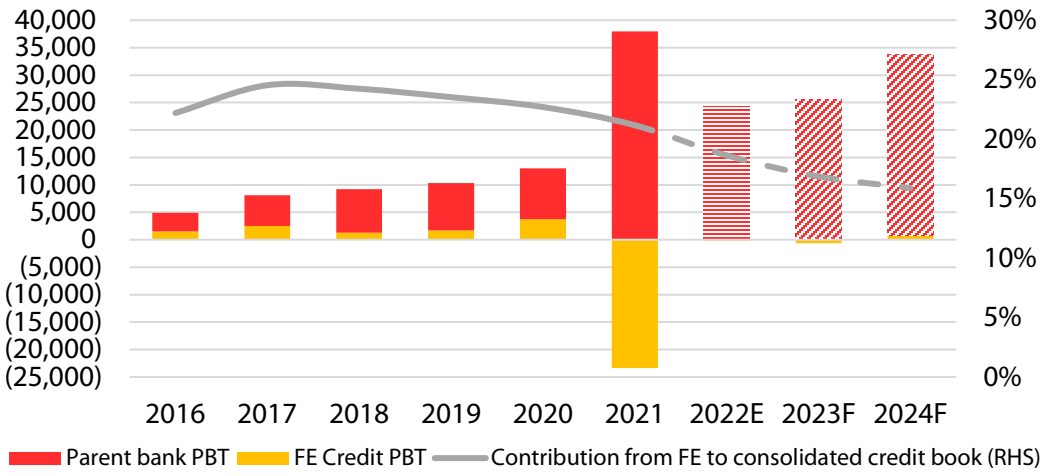
(1) High exposure to the real estate market through outstanding loans and investment in corporate bonds while the real estate market is not expected to recover soon.

(2) The weak macro-growth momentum affects the disposable income of borrowers, especially low-income customers at FEC.

(3) High interest rates erode customers' ability to repay loans.

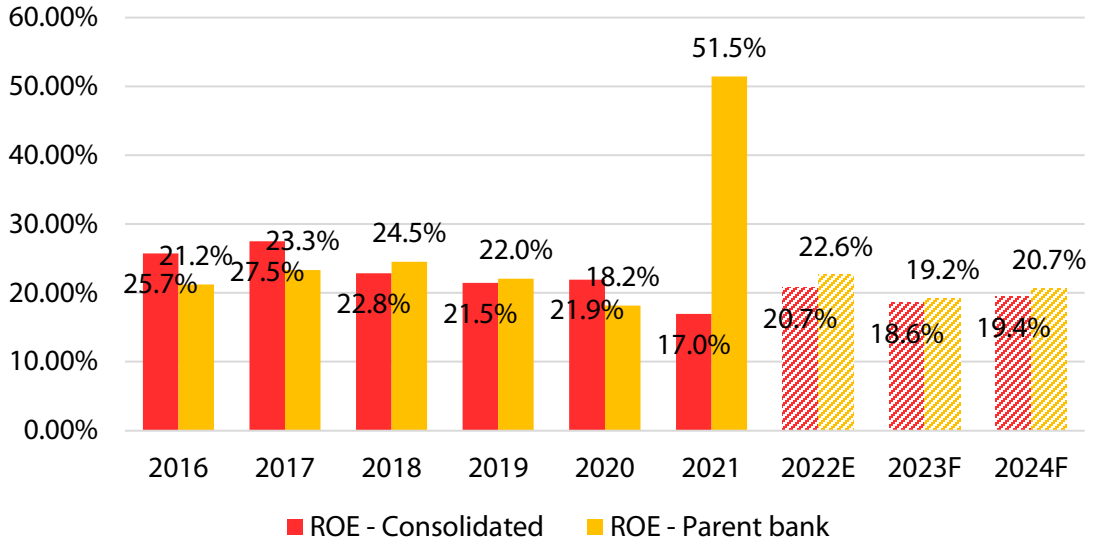
The borrower's ability to meet financial obligations is weak but the provision buffer is thin (the loan loss coverage was 62% at the end of 3Q2022) while the provisioning obligation has not been fulfilled for restructured debts will cause stresses on the next year's income statement. Although the proportion of restructured customers who survived challenging period in Q3/2022 continued to increase at the parent bank, the slowdown in economic growth could quickly reverse this gain. Accordingly, we expect credit cost to grow faster than credit growth in 2023.

Figure 5: FEC's PBT (VND billion) and contribution to consolidated credit (%)



Source: VPB, RongViet Securities

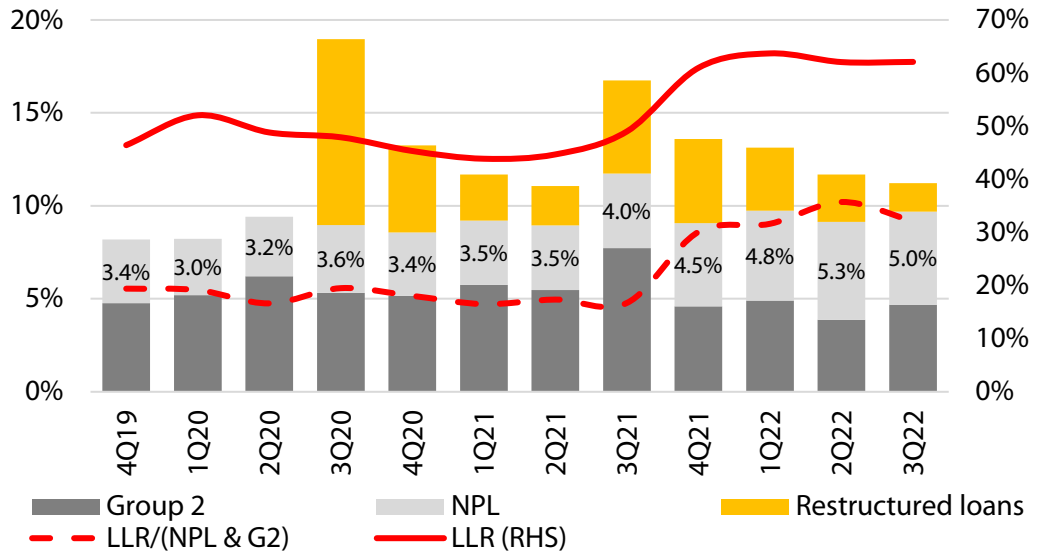
Figure 6: Consolidated and parent bank's ROE



Competitive advantage in a expanding economic cycle temporarily becomes a burden when the economy enters a recession phase

- The loosening monetary policy period 2016-2021 has created favorable conditions for VPB to increase its scale and profit margin rapidly thanks to the consumer finance segment and mass customers.
- In 2022, the profitability of low-income customers has been eroded since Q2/2022 when unfavorable factors of foreign macro and global political instability increase impacts on the Vietnam economy. Further weakening of macro-growth drivers in 2023 will lead to constraints on growth and asset quality of the consumer finance segment and the mass consumer, the most vulnerable groups in a cycle of economic contraction.
- FEC's strategic objective has shifted from focusing on growth to recovery, showing a less positive outlook for strategic customers, reducing the certainty of its ability to maintain high profitability in the medium term.

Figure 7: Consolidated debt groups, LLC and adjusted LLC



Source: VPB, RongViet Securities

Table 1: FY 2023 Forecast

Unit: VND Bn	2021A	2022E	2023F	2022/2021	2022/2023
Credit	384,030	474,402	557,823	23.5%	17.6%
Deposit	323,237	393,978	467,177	21.9%	18.6%
NIM (%)	7.75%	7.09%	6.59%	-66 bps	-50 bps
NII	**34,349**	**40,942**	**45,942**	**19.2%**	**12.2%**
Non-NII	9,953	16,893	19,291	69.7%	14.2%
TOI	**44,301**	**57,835**	**65,234**	**30.5%**	**12.8%**
CIR (%)	24.2	23.1	23.9	-110 bps	85 bps
Provision	19,002	20,583	24,676	8.3%	19.9%
PBT	**14,580**	**23,892**	**24,937**	**63.9%**	**4.4%**
Asset quality (%)					
NPL	4.5	3.9	4.0	-54 bps	10 bps
LLR/NPLs	60.9	52.2	58.2	-874 bps	597 bps
LLR/(NPL + G2)					

- Macro developments in the coming time do not support the recovery of strategic customer segments. Balance sheet expansion will be limited while NIM is forecast to shrink due to low loan demand and policies against the real estate market. The positive point is that the credit quota granted may be higher than the industry average thanks to VPB's large capital buffer and participation in restructuring weak credit institutions. Mobilization costs will increase but capital size will increase thanks to increased capital sources from bancassurance upfront fee and private placement, which helps reduce CoF. Net interest income growth is the main driver of earnings growth.
- Contributions from newly invested subsidiaries in insurance and securities are not expected to increase strongly on the basis that insurance sales are often accompanied by credit growth, insurance demand shrinks in difficult economic times and the stock market is expected to not have much motivation to increase. Corporate bond issuance consulting activities will grow negatively due to changes in corporate bond management policy on private placement.
- Given that the strategic customers are less resilient to adverse macroeconomic developments and the consumer finance segment accounts for a high proportion of consolidated credit, we cautiously forecast a sharp increase in credit cost margin among our coverage. The resilience of this customer group will also be slower than other income segments, leading us to worry that mid-term profitability will not return to high level soon.

SEAFOOD

THE BOOMING PERIOD HAS PASSED

Loan Nguyen – loan.nh@vdsc.com.vn

SEAFOOD INDUSTRY – THE BOOMING PERIOD HAS PASSED

Rating

Overview

Vietnam's seafood exports boomed in 2022 thanks to the post-COVID-19 recovery resonating with the mutating positive factors from Russia-Ukraine war which caused the shortage of white fish supply and boosted the increase in export prices in the past year due to inflationary context. Entering 2023, we predict a slowdown in seafood exports when the above-mentioned positive factors gradually disappear, which can already be seen from the second half of 2022. An expected bright spot is the China's reopening will partly make up for the decline in other markets.

Highlights

Seafood exports in 2023 will decelerate on the record-base of 2022

- After peaking in Q2/2022, seafood export value in recent months has slowed down, although it is still higher than the same period last year. The main reason comes from high inflation, which tightens people's spending in importing countries. We believe that seafood exports will encounter great pressure in 1H2023, especially on the high base of 1H2022, then gradually recover in 2H2023. Seafood export value in 2023 is likely to remain at a higher level than in the period of 2020-2021.
- Raw material prices will remain high while selling prices decrease, which will put pressure on companies' gross margin.

There are still bright sides available

- China's opening is a bright spot to support Vietnam's seafood exports. However, we believe that the opening of China will only help reduce pressure on Vietnamese pangasius exports, rather than an export boom to this market.
- The cooling freight rates will partly relieve pressure on the profit margins. We expect to see a sharp drop in companies' transport costs from Q4/2022.
- Some companies with large profits from favorable exchange rate in 2022 – 2023 can partially support profits.

Focus on stocks with good fundamentals

- Stocks in the industry have reached the near-lowest P/E in 5 years. However, stock prices in the industry could keep under pressure next year due to lack of growth momentum.
- We prefer FMC stock for medium to long term investment.

Risks

(1) China prolongs the implementation of the Zero Covid policy; (2) The deep and prolonged economic recession caused the demand for seafood to decrease more than expected; (3) Competition with Chinese tilapia may cause pangasius export prices to drop more than expected.

SEAFOOD EXPORTS IN 2023 WILL DECELERATE ON THE RECORD-BASE OF 2022 |SEAFOOD INDUSTRY

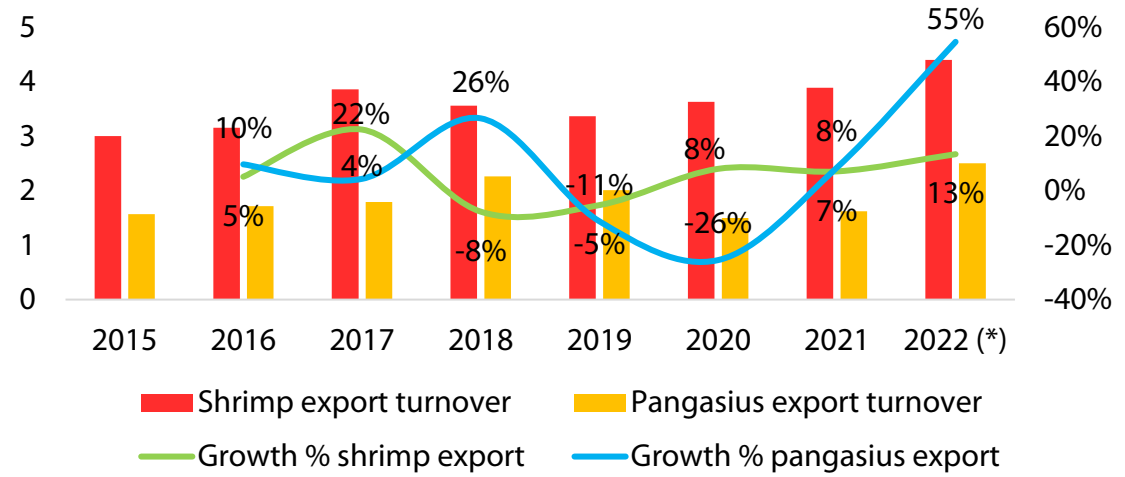
Sudden growth in 2022 puts pressure on 2023 seafood export growth

- In 9M/2022, seafood export value increased to a record 38% YoY, reaching USD 8.5 billion. VASEP forecasts shrimp and pangasius exports to grow by 13% and 55% YoY, respectively, for the whole of 2022.
- This strong growth was supported by many positive factors: (1) post-COVID recovery demand; (2) the Russia-Ukraine war caused a shortage of global whitefish supply; (3) inflation increases the need to hoard food.

Seafood exports have started to slow down from 2H2022

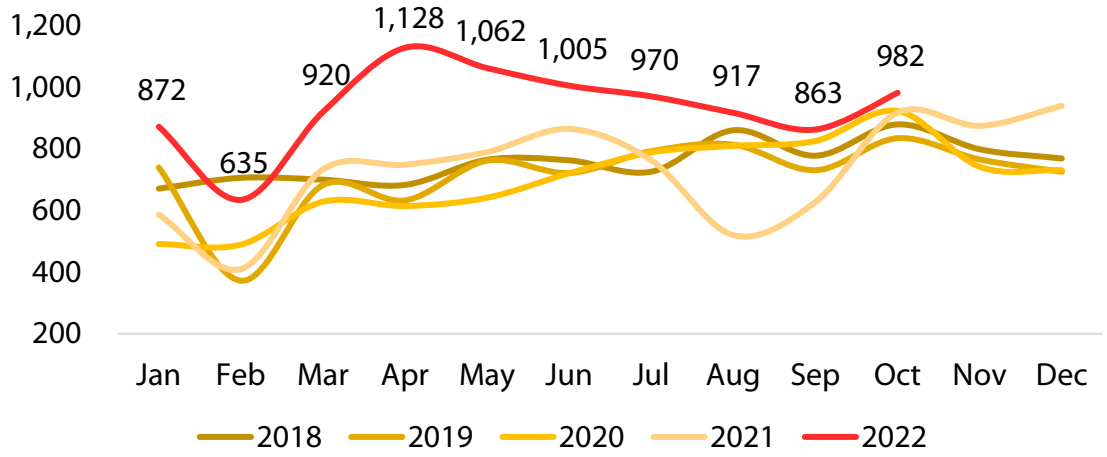
- After peaking in Q2/2022, seafood export value in recent months has slowed down, although it is still higher than the same period last year.
- Because retailers hoarded massively in the first half of 2022, when high inflation tightened people's spending, importing retailers resulted in high inventories. Therefore, Vietnam's seafood exports slowed down.
- We reckon that seafood export value in 2023 will enter a downward cycle when there are no longer favorable factors, but the export value will still remain at a higher level than the period of 2020 - 2021. Because seafood is still an essential food item, the demand will not decrease sharply amid economic downturn. At the same time, the supply of Vietnamese pangasius is also maintained at a moderate level, so there will not be a sharp drop in the price of raw materials leading to a decrease in selling price like in the period of 2018 - 2019.

Figure 1: Shrimp and pangasius exports by year (billion USD)



Source: MoIT, RongViet Securities. (*) VASEP's estimation

Figure 2: Seafood export turnover by month (million USD)

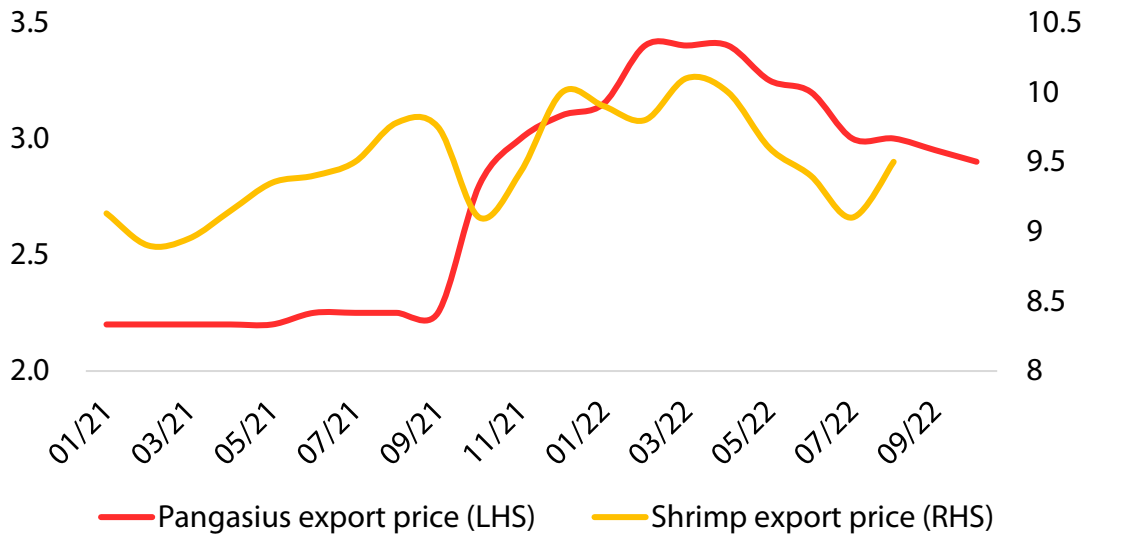


Source: VASEP, RongViet Securities.

Raw material prices remain high while selling prices decrease, putting pressure on the gross margin of businesses

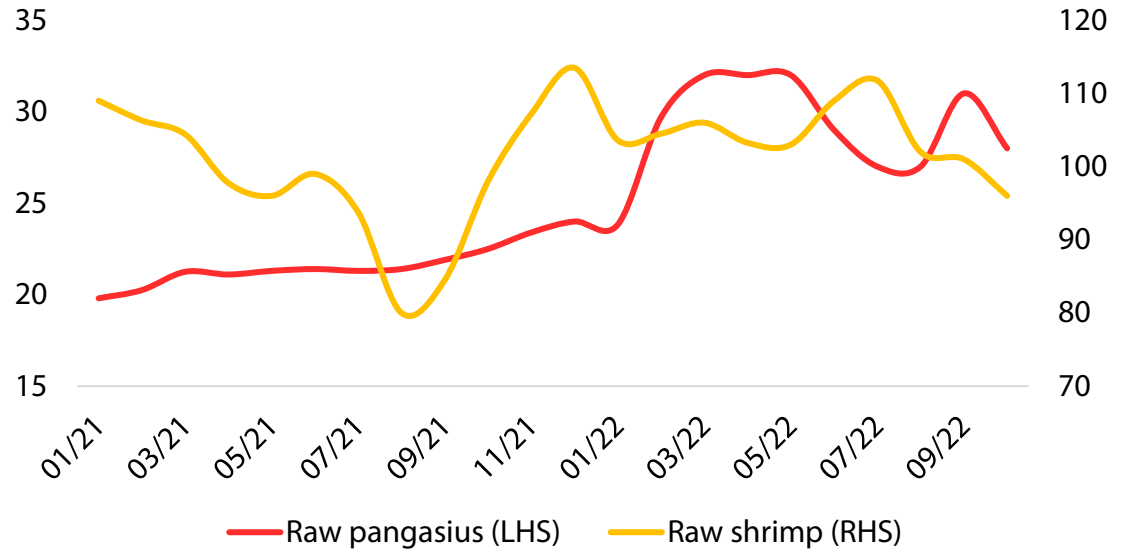
- Raw shrimp and pangasius prices are still high due to low supply and high feeding prices. We expect that raw material prices will likely decline slightly in 2023 due to weak demand, but remain higher than in 2021.
- Export prices of shrimp and pangasius began to decline from mid-2022 when the demand for imports from other countries decreased, causing Vietnamese processors to lower prices. We expect the average export price in 2023 to be on par with the average in 2021.
- The gross margin of companies will see a downward trend next year, as the decline in selling prices is faster than the decline in raw material prices.

Figure 3: Export price of shrimp and pangasius (USD/kg)



Source: MoIT, AgroMonitor, RongViet Securities.

Figure 4: Raw shrimp and pangasius prices ('000 VND/kg)

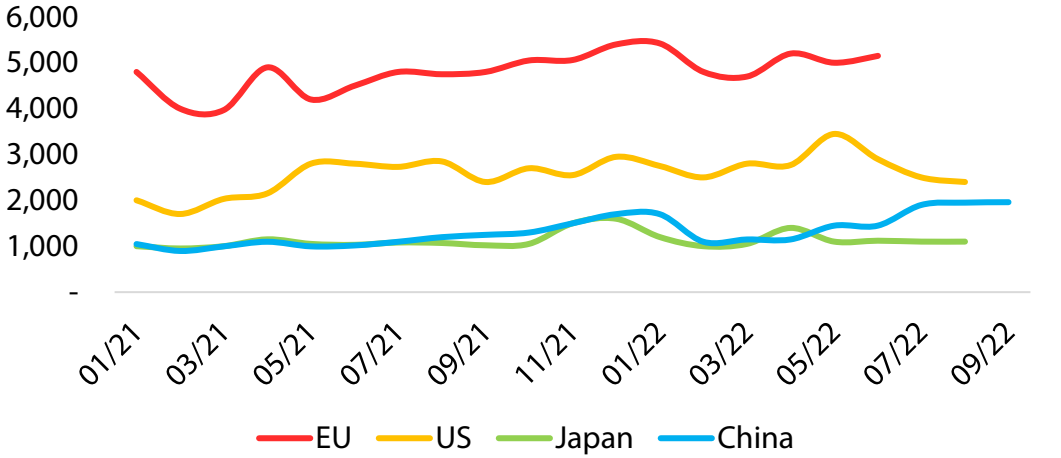


Source: AgroMonitor, RongViet Securities.

China's opening is a bright spot to support Vietnam's seafood exports

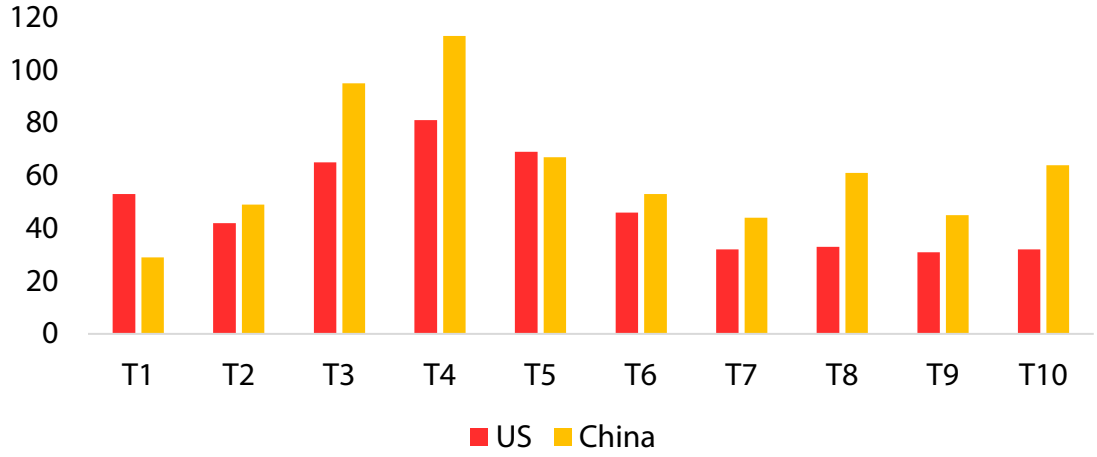
- We expect China will likely reopen in 2023 after the "Zero Covid" policy. When the restaurant channel recovers, we think pangasius exports to this market will accordingly recover.
- From July 2022, although China has no longer quarantined on frozen products, pangasius exports to this market are still relatively weak due to low demand for food services.
- We are also concerned that the abundant supply of tilapia from China will put pressure on import demand for pangasius and export prices due to competition. Therefore, we expect that the opening of China will only help reduce pressure on Vietnamese pangasius exports, rather than an export boom to this market.

Figure 6: Total seafood imports by countries (USD Mn)



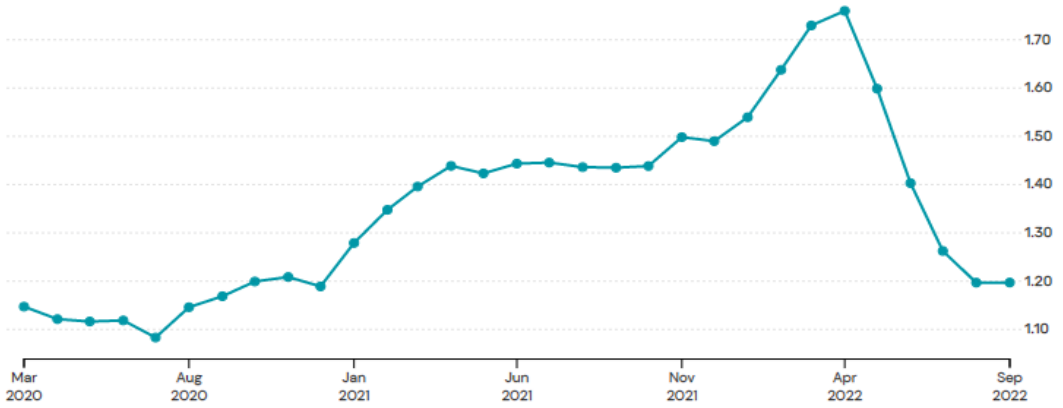
Source: ITC, RongViet Securities.

Figure 5: Vietnam pangasius export value to the US and China in 2022 (USD Mn)



Source: VASEP, RongViet Securities.

Figure 7: Price of harvested Chinese tilapia (USD/kg)



Source: Undercurrent News, RongViet Securities

Shrimp exports in general remain stable

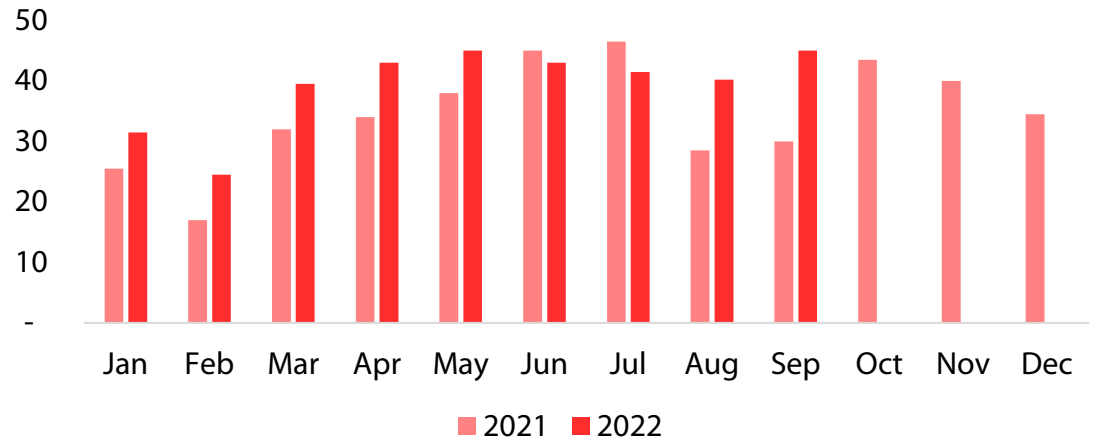
- Based on the export history of the shrimp industry, the most influential factor on Vietnam's shrimp exports is the anti-dumping tax from importing countries, rather than the supply-demand effect like other seafood products. As for demand, we still think demand for Vietnamese shrimp remains relatively stable given the few alternatives and advantages of Vietnamese shrimp in deep-processed products.
- Shrimp export volume in recent months has decreased significantly less than that of pangasius.

Freight rates plummeted

- High logistics costs have been a bottleneck in the profit growth of seafood businesses in recent years. The reduction in freight rates helps to offset profit margins of businesses affected by falling selling prices.
- We expect the shipping costs of seafood businesses will start to see a sharp decrease from Q4/2022. The shipping costs of businesses will return to normal from 2024.

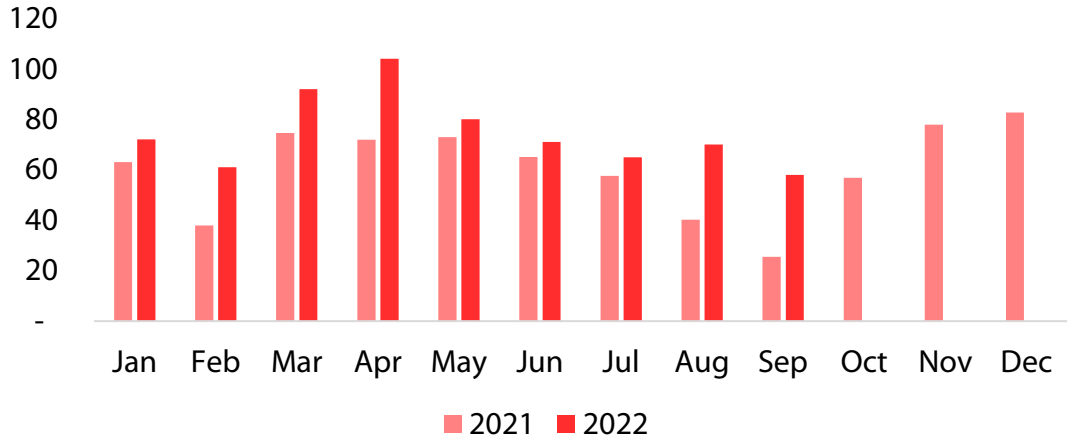
Some businesses enjoy large exchange rate profits in 2022 - 2023 thanks to the appreciation of the USD

Figure 8: Shrimp export volume (thousand tons)



Source: AgroMonitor, RongViet Securities

Figure 9: Pangasius export volume (thousand tons)



Source: AgroMonitor, RongViet Securities

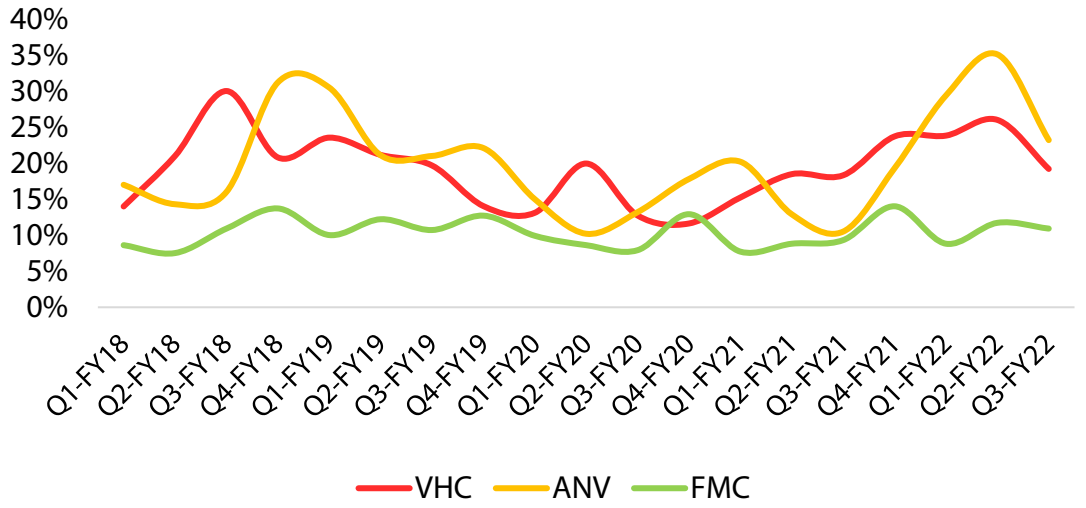
Profits peaked in Q2/2022

- Businesses have recorded peak business results in Q2/2022. The gross margin of businesses has begun to decrease due to the sharp drop in selling prices, which is a signal that the industry has entered a downward cycle.
- We expect seafood exports in 2023 to decrease compared to 2022, but still maintain a higher level than the period of 2020-2021.
- Businesses with stable export markets like Japan or still have room to recover after COVID-19 like China, will be able to limit the impact of the downward industry trend next year.

Valuation deems attractive, a good opportunity for gradually accumulating stocks which have solid fundamentals.

- Stocks in the industry have reached the lowest P/E in 5 years.
- As for pangasius stocks, we think the prices could go under pressure in 2023 when business results recorded a sharp drop from the high base level of 2022. Therefore, investors can wait for a more attractive price level or watch for signals from the demand side that could mark the industry rally again.
- For the shrimp industry, we expect 1H2023 export figures to be under pressure on the high base of the first half of 2022. However, we expect demand to gradually recover clearly in the second half of 2023.
- We recommend FMC stock for medium to long term investment.

Figure 10: Gross margin of seafood businesses by quarter (%)



Source: FiinPro, RongViet Securities.

Figure 11: 2023 export outlook of seafood companies by market

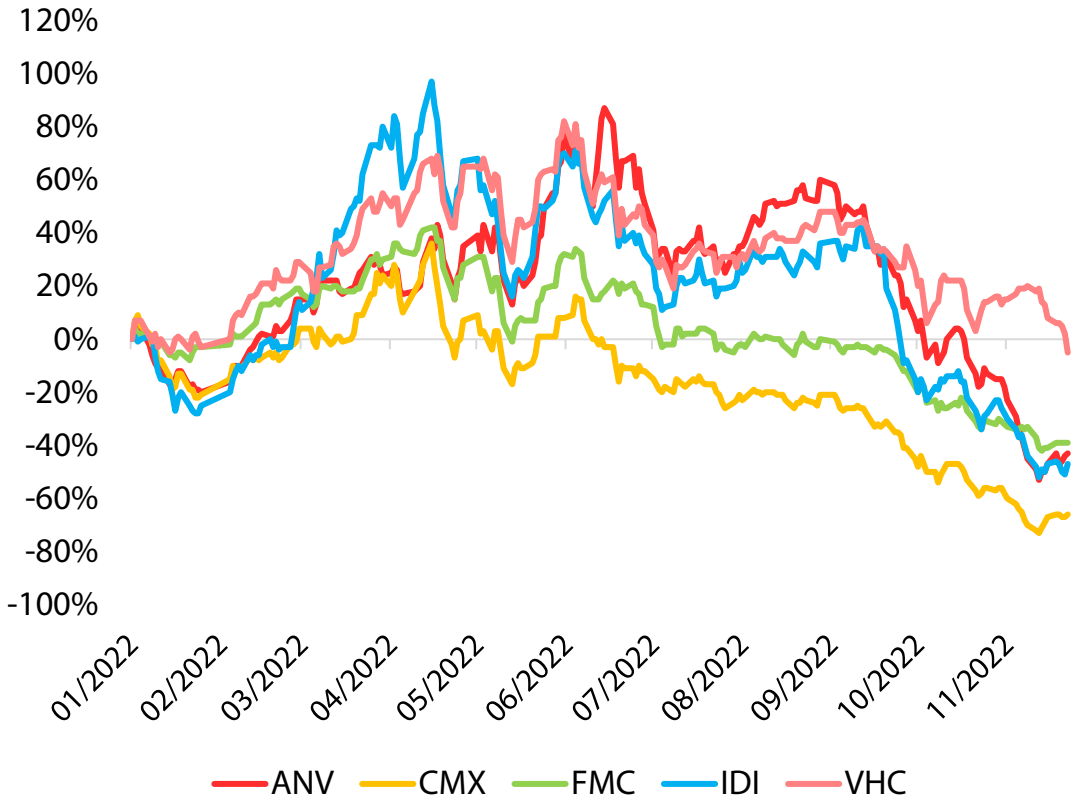
	US	EU-UK	China	ASEAN	Japan
VHC	X	X	X		
ANV		X	X	X	
IDI		X	X		
FMC	X	X			X

X: export revenue ≥ 10% company's revenue

Negative Neutral Positive

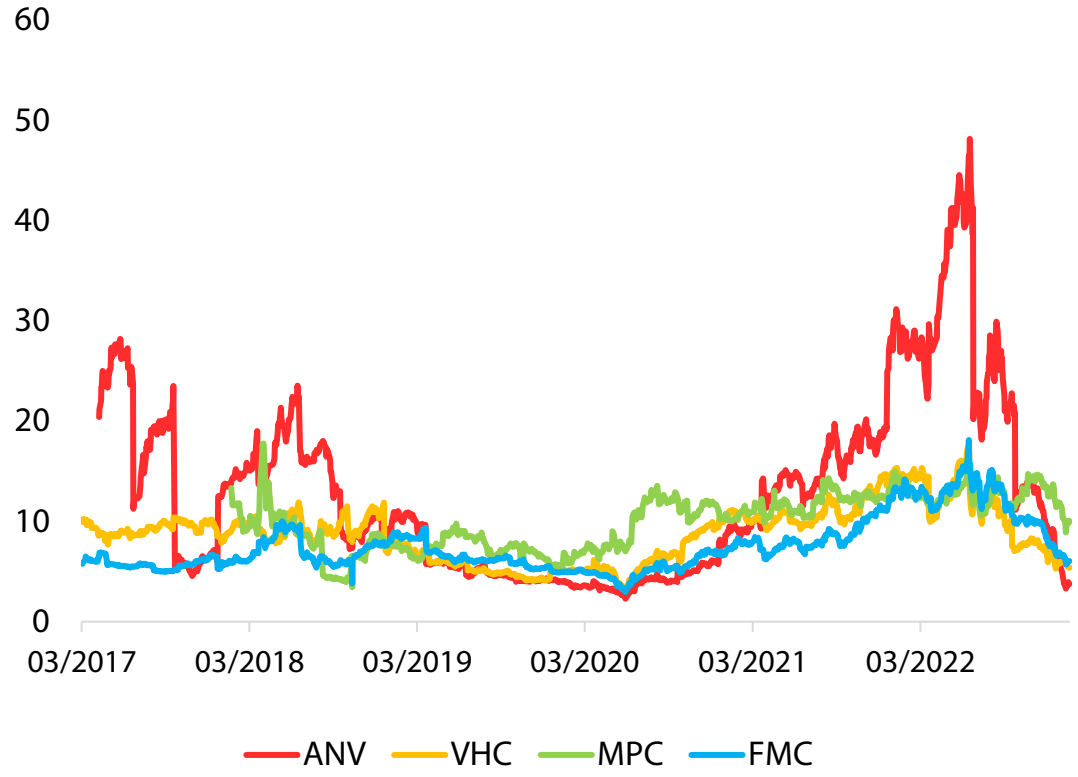
Source: Rong Viet Securities

Figure 12: YTD stock price performance (%)



Source: FiinPro, RongViet Securities.

Figure 13: Historical five-year PER of stocks in the industry



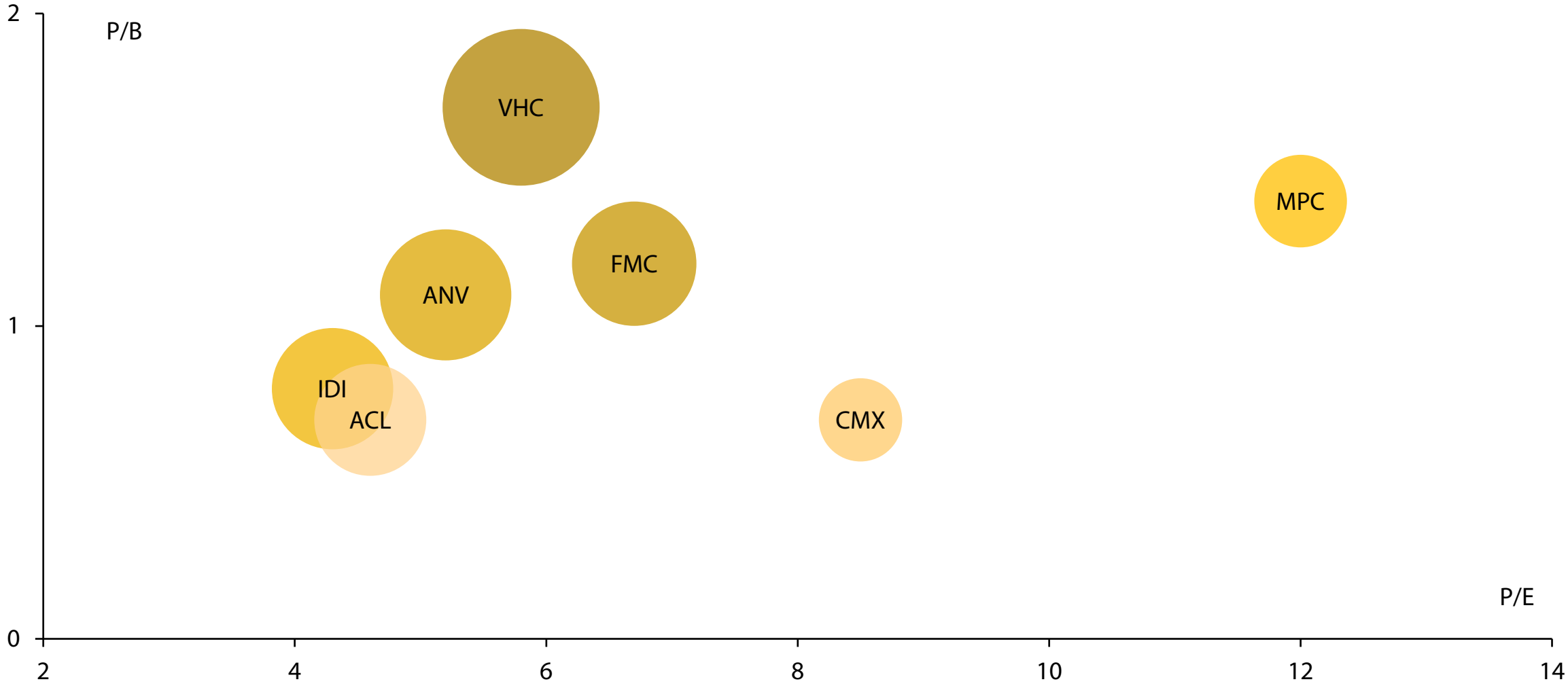
Source: FiinPro, RongViet Securities.

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
VHC	554	70,500	62,500	2,000	70.0	28.7	56.2	-14.8	0.5	108.3	-30.8	27.9	19.9	7.4	7.7	1.5	1.8
FMC	96	45,000	34,950	2,000	18.4	17.8	17.1	4.0	0.2	22.5	9.2	18.8	13.2	6.1	7.6	1.2	1.6
ANV	137	N.R	25,550	1,000	45.0	1.6	46.2	-14.8	-0.4	455.5	-43.7	24.4	11.4	6.9	13.7	0.9	1.5
IDI	109	N.R	11,400	N.A	48.2	-10.2	N.A	N.A	0.4	N.A	N.A	20.0	7.7	4.3	11.2	0.8	0.7
CMX	36	N.R	8,310	N.A	39.4	47.0	N.A	N.A	0.4	N.A	N.A	9.4	3.6	8.5	6.6	0.7	1.3
ACL	26	N.R	12,150	N.A	36.6	27.5	N.A	N.A	0.5	N.A	N.A	17.0	9.3	4.6	12.6	0.7	1.0

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

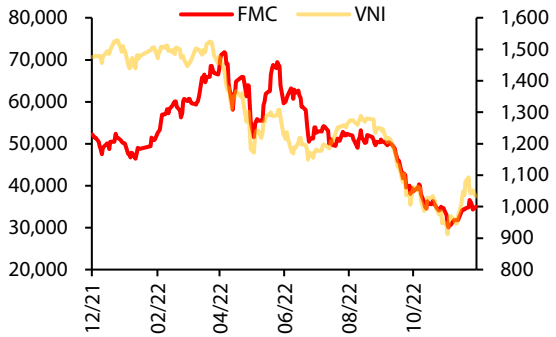


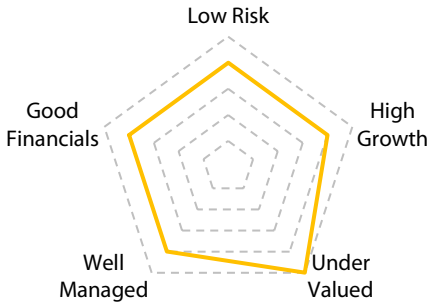
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

IMPROVING PROFIT MARGINS TO CUSHION SLOW REVENUE GROWTH

HSX: FMC

BUY: +45% **MP: 32,000** **TP: 45,000**





STOCK INFO

Sector	Food & Beverage
Market Cap (USD Mn)	97
Current Shares O/S (Mn shares)	65
3M Avg. Volume (K)	65
3M Avg. Trading Value (VND bn)	2
Remaining foreign room (%)	18.3
52-week range ('000 VND)	28.6 – 74.4

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	5,199	6,059	6,249
NPATMI (VND bn)	267	323	356
ROA (%)	9.9	12.2	12.6
ROE (%)	15.0	17.4	18.2
EPS (VND)	4,080	4,933	5,444
Book Value (VND)	27,248	28,365	29,993
Cash dividend (VND)	2,000	2,000	2,000
P/E (x)	11.8	6.7	6.1
P/B (x)	1.6	1.2	1.1

INVESTMENT RATIONALES

Boosting exports to Japan market to offset the weak demand of other markets

- We expect export revenue to Japan will account for 35% in FY2023, compared to that of 32% in FY2022, alleviating the weak demand of the EU and US markets.
- We forecast FMC's shrimp export volume to grow by 5% YoY and 7% YoY in FY2022/2023 respectively. In terms of average selling price, we expect it grow by 7% YoY and decline by 6% YoY in FY2022/2023 respectively.

Improving profit margins is the company's target in FY2023

- Even though selling prices are likely to fall in FY2023, we expect raw material prices to fall at the same time, partly due to an increase in self-supplied rate, to help shrimp gross margin improve by 30 bps to 10.5% and total gross margin to reach 11.2% in FY2023.
- Logistics costs, accounting for roughly 4% of revenue in FY2021-22, will start showing a strong decline from Q4/2022. As a result, net margin improve 37 bps YoY to achieve 5.7% in FY2023

New projects to come online in 2023

- FMC increased its capacity through expanding two processing factories, Tam An and Sao Ta, which will help shrimp export volume to grow by 7% YoY.
- FMC expanded 200 hectares of new farming area in July 2022 to bring the total to 520 hectares, supporting FMC to maintain the material self-sufficiency rate and stabilize the gross margin.

RISKS TO OUR CALL

- Delay in order resumption in case of global economic downturn to linger.

BOOSTING EXPORTS TO JAPAN MARKET TO OFFSET THE WEAK DEMAND OF OTHER MARKETS

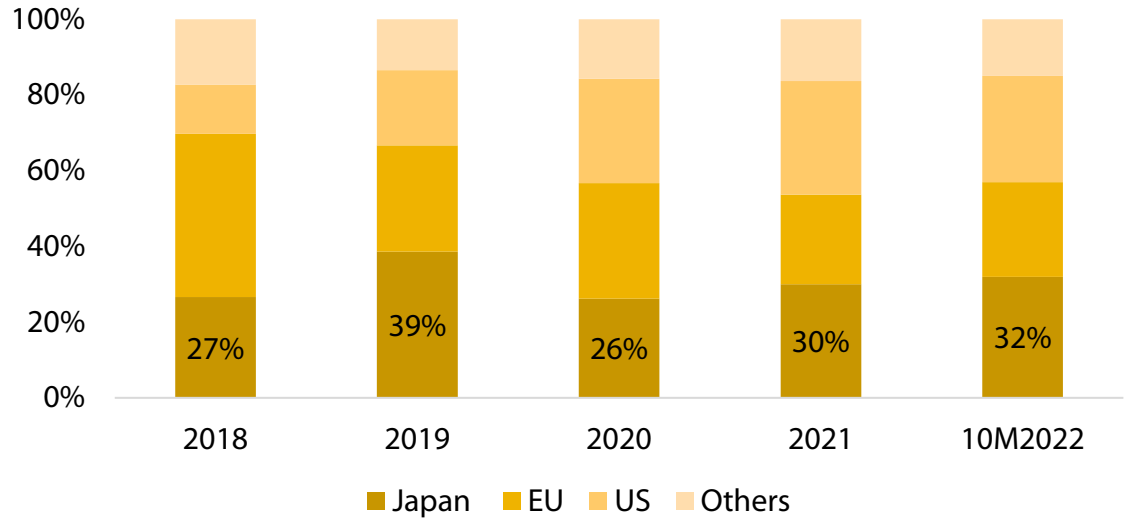
Shrimp demand of Japan market is still strong

- In 10M2022, Japan made up 32% total revenue. We expect this figure will increase to 35% in FY2023. Thanks to the long-term loyal customer base and stable shrimp demand, FMC can boost exports of value-added shrimp products to this market, which will bring higher selling prices and better profitability.
- We forecast FMC's shrimp export volume to grow by 5% YoY and 7% YoY in FY2022/2023 respectively.

Come-down in FY2023 shrimp selling price

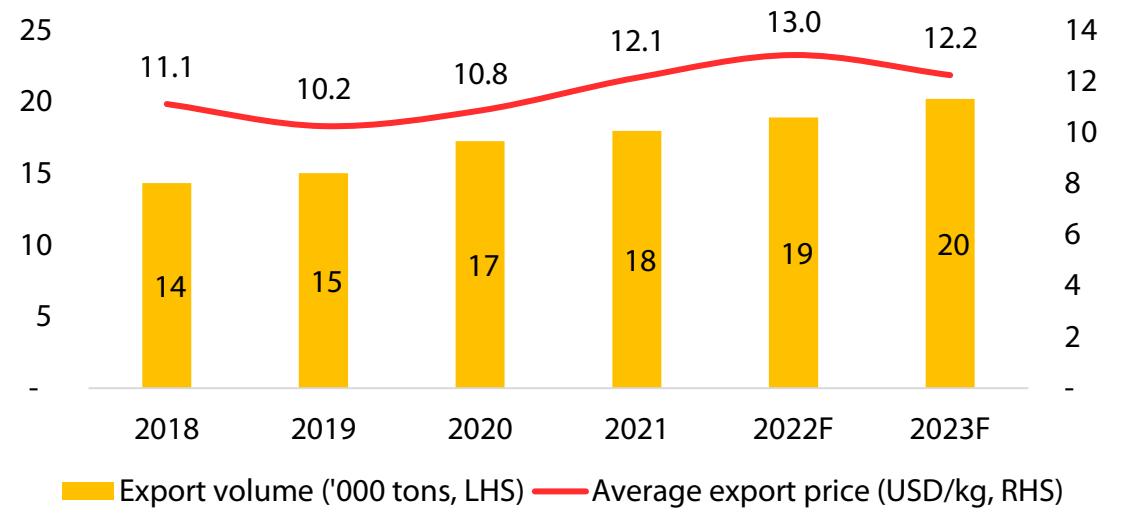
- In FY2023, average selling prices (ASP) are expected to decline, deriving from the slump in logistics costs and the weak consumption demand in importing countries.
- We forecast FMC's shrimp ASP to grow by 7% YoY and decline by 6% YoY in FY2022/2023 respectively.

Figure 1: Revenue structure by market (%)



Source: FMC, RongViet Securities

Figure 2: FMC's export volume and export price



Source: FMC, RongViet Securities

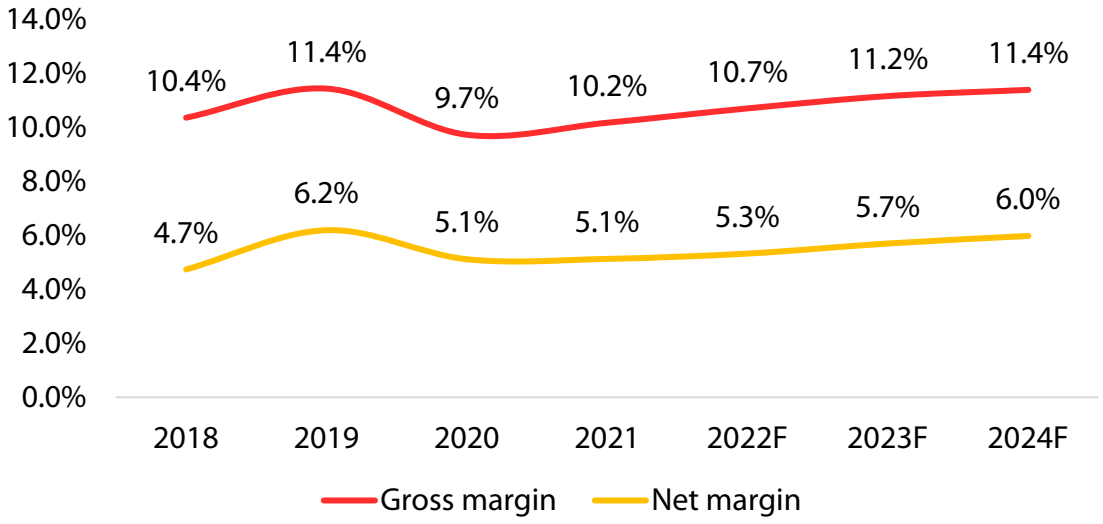
Dragging raw materials prices down to offset the selling price decline

- Even though selling prices are likely to fall in FY2023, we expect raw material prices to fall at the same time, partly due to an increase in self-supplied rate, to help shrimp gross margin improve by 30 bps to 10.5% and total gross margin to reach 11.2% in FY2023. Raw materials prices decrease in line with the supply increase and the weak demand from shrimp processors.

Logistics costs to cool off

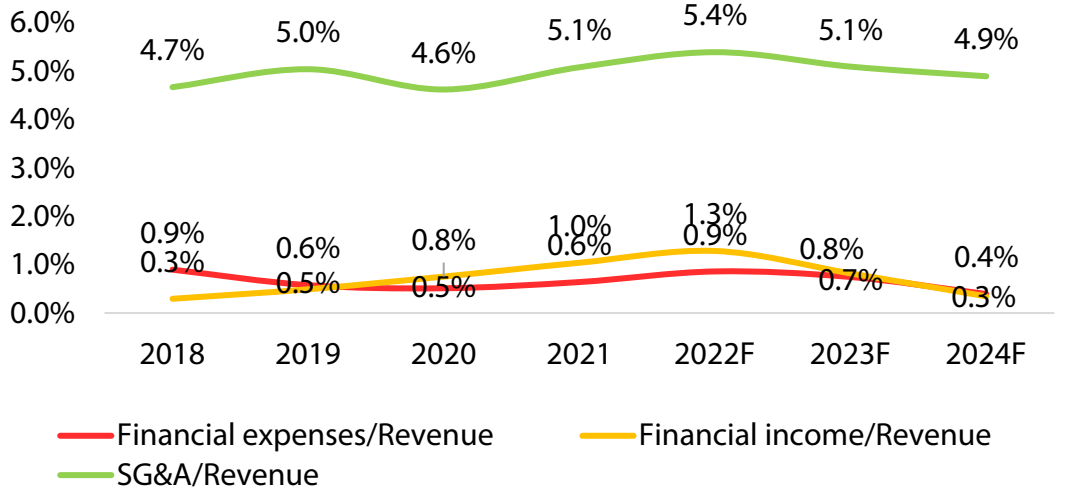
- Logistics costs, accounting for roughly 4% of revenue in FY2021-2022, will start showing a strong decline from Q4/2022 in line with the global cooling-down freight rates.
- In FY2023, we expect FMC's selling expenses/revenue will decrease from 4.0% in FY2022 to 3.7% in FY2023. On the other side, net FX gain will contribute less in FY23 profits next year due to slow growth rate of USD appreciation. As a result, net margin improve 37 bps YoY to achieve 5.7% in FY2023, in our estimate.

Figure 3: Gross margin and net margin forecasts



Source: FMC, RongViet Securities

Figure 4: Financial expenses/Revenue, Financial income/revenue, and SG&A/Revenue



Source: FMC, RongViet Securities

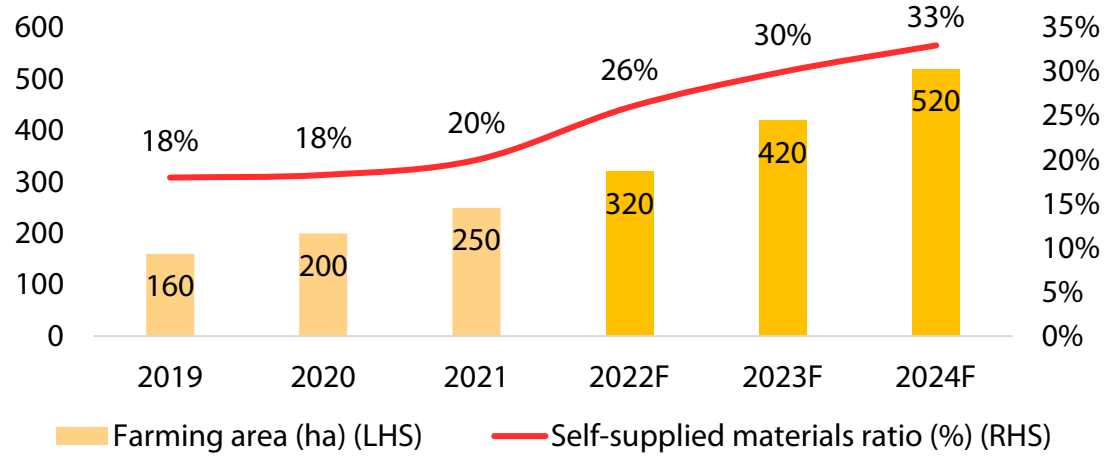
FMC increased its capacity through expanding two processing factories

- FMC's old factories are now operating beyond their design capacity. Two new factories including Tam An of 5,000 tons/year and Sao Ta of 15,000 tons/year.
- We expect Tam An factory could run at full capacity in FY2023 while the large one – Sao Ta factory will gradually increase the capacity by 5%/20% in FY2022/2023 then reach full capacity in FY2027.

Farming area expansion to maintain gross margin

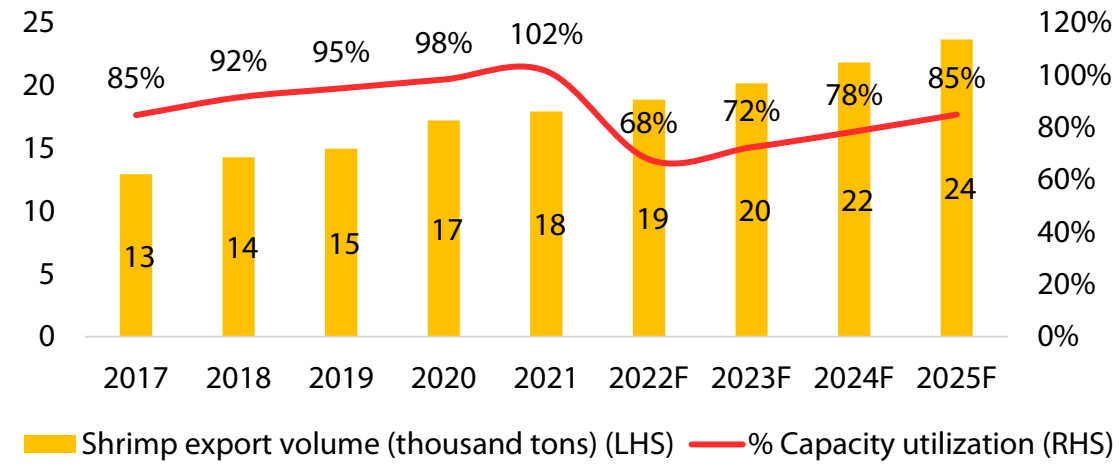
- FMC expanded 200 hectares of new farming area in July 2022 to bring the total to 520 hectares. We expect the company to put into operation 100 hectares in 2023 and another 100 hectares in 2024.
- We believe that the expansion of the farming area will help maintain the material self-sufficiency rate and stabilize the gross profit margin, instead of expecting a strong improvement in the gross margin, because the scale of processing output also will increase accordingly. We therefore estimate that the self-supplied materials rate will only increase from about 26% in 2022 to 30% in 2023 and 33% in 2024.

Figure 5: Forecast of farming area expansion



Source: RongViet Securities

Figure 6: Shrimp export volume and capacity utilization rate



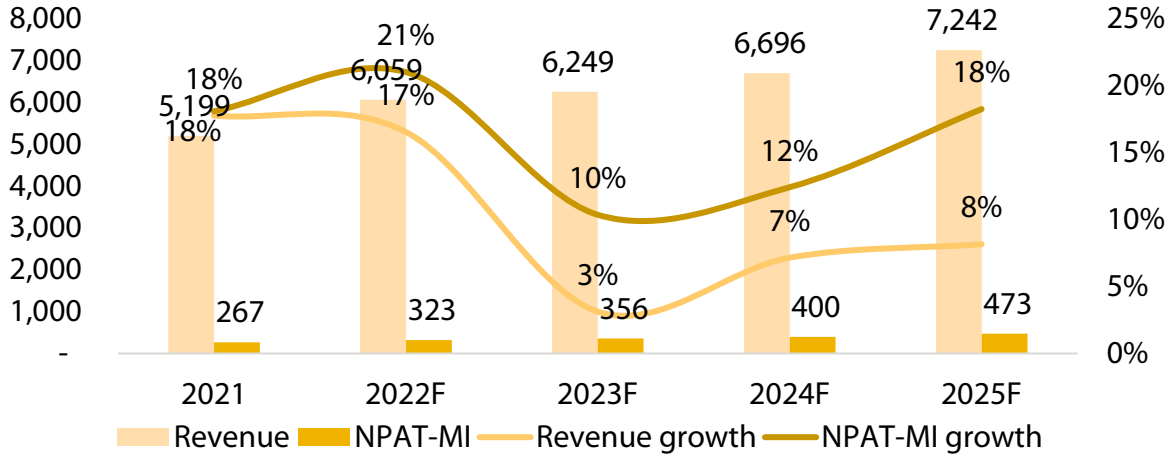
Source: RongViet Securities

Table: Shrimp revenue forecast

	2019	2020	2021	2022F	2023F	2024F	2025F
Volume (tons)	14,998	17,241	17,941	18,882	20,178	21,848	23,666
% growth	5%	15%	4%	5%	7%	8%	8%
ASP (USD/kg)	10.2	10.8	12.1	13.0	12.2	12.1	12.1
% growth	-8%	6%	12%	7%	-6%	-1%	0%
Revenue (VND Bn)	3,557	4,300	5,048	5,899	6,071	6,498	7,032
Shrimp GPM (%)	10.5%	9.1%	9.6%	10.2%	10.5%	10.7%	10.8%

Source: RongViet Securities

Figure 7: Revenue and NPAT forecasts in FY2022-2025F



Source: RongViet Securities

2023 business results could only grow at single digit under the pressure from demand side

- In FY2023, we project that revenue and NPAT-MI to reach VND 6,249 Bn (or USD 260 Mn, +3% YoY) and VND 356 Bn (or USD 15 Mn, +10% YoY). We expect the company's shrimp export volume to increase by 7% in FY2023, lower than FMC's original plan of 20% level due to the above negative impacts. This increase in output is driven by an increase in output customers for the new factory that we cautiously forecast will operate at only 20% of capacity in FY2023.
- FMC's ASP to drop by 6% YoY due to cooling-down logistics costs and decreasing materials prices.
- Selling costs/sales possibly will decrease by 30 bps due to lower freight rates.
- Net margin will increase by 28 bps to 5.7% in 2023.

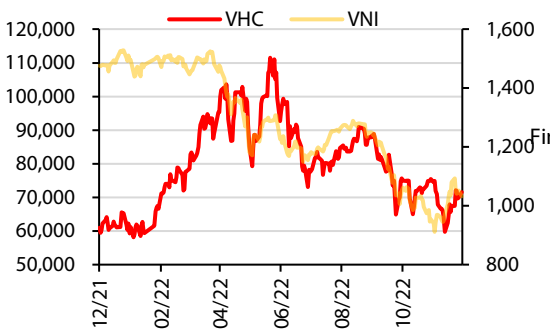
Attractive valuation for long-term holding

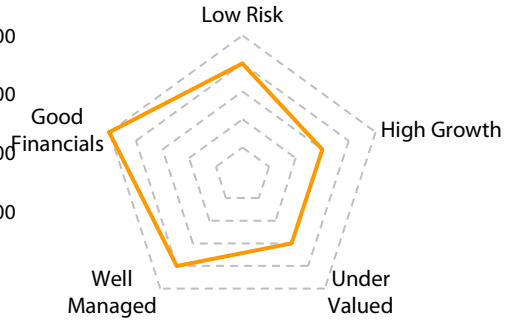
We use a combination of FCFF (40%) and P/E (60%) to derive a one-year target price of FMC. For the FCFF method, we applied a WACC of 13.4% and terminal growth rate of 2.3%. For the P/E method, we apply a 2022 target P/E of 8.0x, which is 30% lower than the average five-year P/E to reflect the short-term headwinds in FY2023.

WEAK DEMAND PUTS HUGE PRESSURE ON 2023 GROWTH

HSX: VHC

ACCUMULATE: +16% **MP: 62,500** **TP: 70,500**





STOCK INFO

Sector	Food & Beverage
Market Cap (USD Mn)	556
Current Shares O/S (Mn shares)	183
3M Avg. Volume (K)	616
3M Avg. Trading Value (VND bn)	45
Remaining foreign room (%)	70.0
52-week range ('000 VND)	58.5 - 118

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	9,054	14,146	12,050
NPATMI (VND bn)	1,103	2,293	1,586
ROA (%)	12.6	19.9	13.0
ROE (%)	18.7	29.7	17.9
EPS (VND)	6,040	12,253	8,473
Book Value (VND)	30,076	41,953	40,048
Cash dividend (VND)	2,000	2,000	2,000
P/E (x)	10.4	5.1	7.4
P/B (x)	2.0	1.5	1.6

INVESTMENT RATIONALES

Exports nosedive on weak demand from importing countries

- Consumer spending tightening amid inflationary pressure and high whitefish inventory after two quarters of massive imports squeeze new orders from 2H2022, especially in the US market. Hence, VHC's revenue and NPAT peaked in Q2/2022.
- We currently forecast VHC's selling prices and export volume to decline by 11.7% YoY and 7.3% YoY in FY2023. Accordingly, 2023 pangasius-related revenue will shrink 16% YoY to VND 11,487 Bn (or USD 478 Mn).

Gross margin will shrink on the selling price drop

- Selling prices are likely to slip while raw materials prices still remain high, putting a large pressure on FY2023. We project gross margin to decline from 23.2% in FY2022 to 19.6% in FY2023.
- VHC is one of the companies benefiting the most from the USD appreciation, resulting from almost all of its receivables in USD. We forecast that VHC can record net FX gain of VND 179 Bn and VND 57 Bn in FY2022 and 2023 respectively. However, this advantage has little compensation for gross margin contraction.

Can wait for a more attractive pricing discount

Although VHC's business model has become less volatile with the presence of other segments (C&G, Sa Giang), VHC's growth still depends mainly on the fillet segment, which has passed its growth cycle. We think the stock price will continue to be under pressure in 1H2023 due to the lack of growth momentum on the high base of the same period. Our target price reflects a 2023 P/E at 8.3x, which equates to the 5-year average. We recommend that investors can wait for a more attractive price and can gradually accumulate when the pangasius industry shows signs of returning to a new uptrend.

RISKS TO OUR CALL

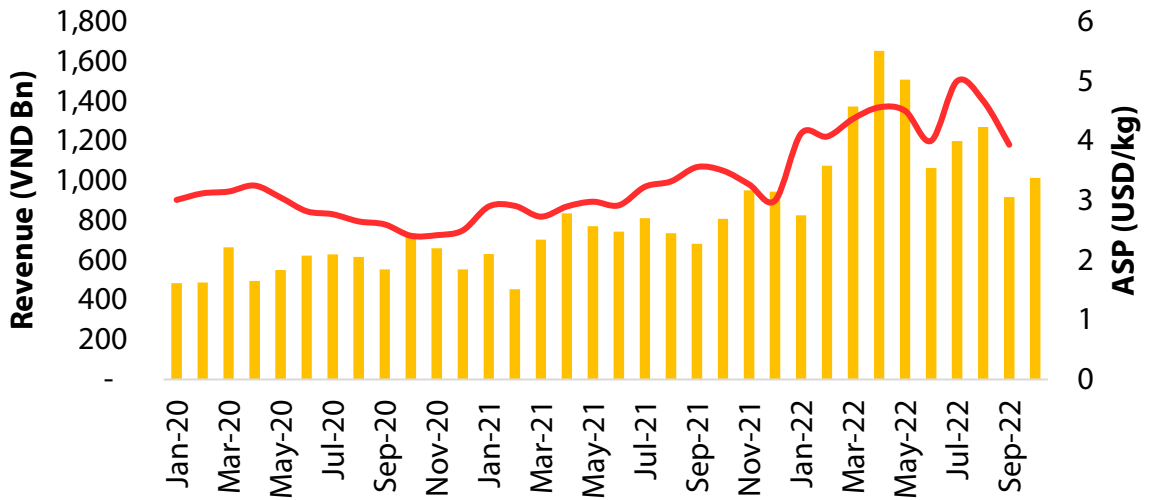
(1) Delay in order resumption in case of global economic downturn to linger; (2) China still maintains the Zero Covid policy, making export revenue to this market lower than our forecast.

EXPORTS NOSEDIVE ON WEAK DEMAND

Exports to the US market plummet due to weak demand

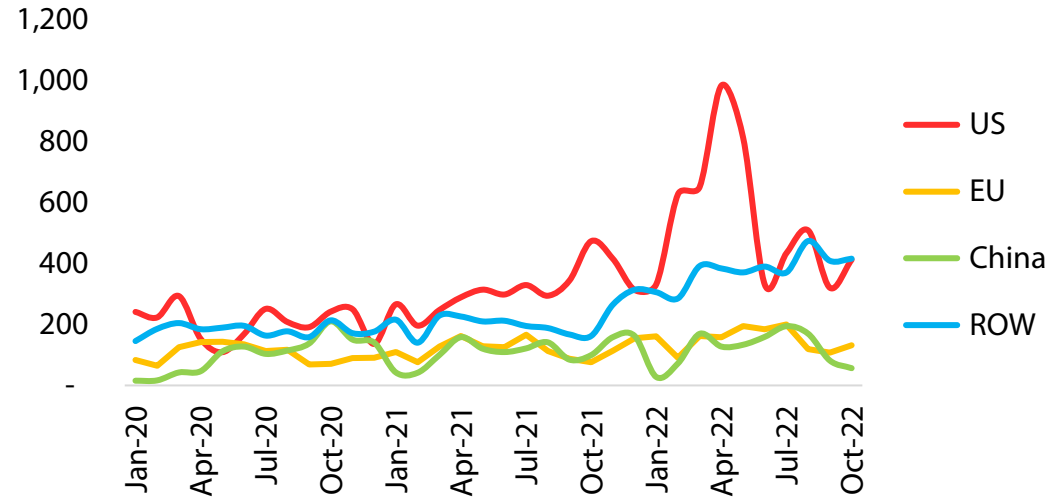
- Due to consumer spending tightening amid inflationary pressure and high whitefish inventory after massive imports, exports to the US market plunged significantly from Q2/2022.
- VHC's revenue and NPAT peaked in Q2/2022.
- In FY2023, we expect that the US market could not recover yet amid persistently inflationary pressure. VHC is likely to boost exports to China market which has potential to recovery, but it is still difficult to compensate for the decline of the US market, which accounts for the largest proportion of VHC's revenue and has the highest selling price.
- We currently forecast VHC's selling prices and export volume to decline by 11.7% YoY and 7.3% YoY in FY2023. Accordingly, 2023 pangasius-related revenue will shrink 16% YoY to VND 11,487 Bn (or USD 478 Mn).

Figure 1: Monthly revenue (VND Bn) and average selling price (USD/kg)



Source: VHC, RongViet Securities

Figure 2: Monthly revenue breakdown by market (VND Bn)



Source: VHC, RongViet Securities

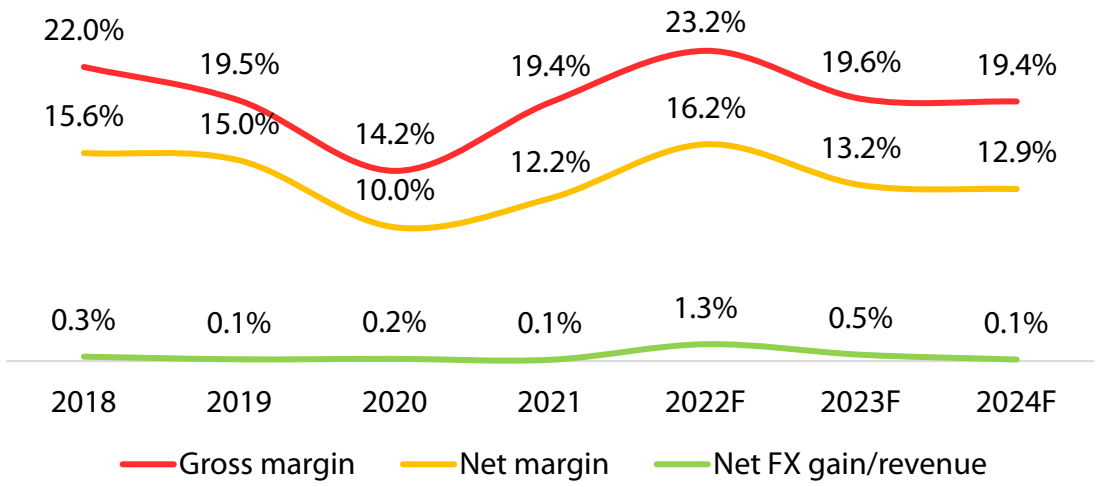
2023 profit margins will barely catch up with the 2022 level

- Selling prices are likely to slip in FY2023 while raw materials prices still remain high, putting a large pressure on FY2023. We project gross margin to decline from 23.2% in FY2022 to 19.6% in FY2023.
- Logistics costs continue to drop. We expect selling expenses/revenue will go down from 2.8% in 2022 to 2.5% in 2023. However, cost-cutting cannot fully offset gross margin decrease, leading to a 300 bps YoY slide in net margin to reach 16.0% in 2023.

FX gain can partly support 2022-2023 earnings

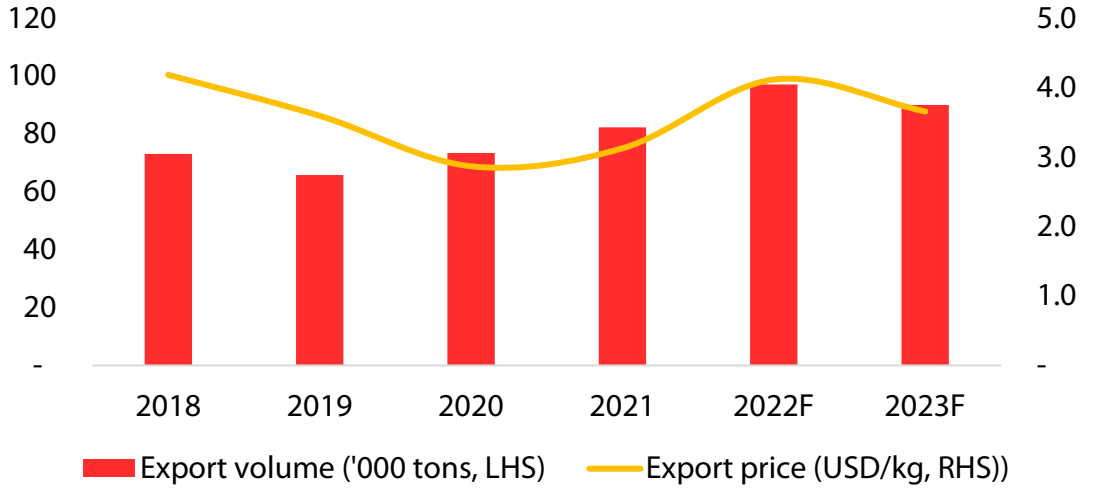
VHC is one of the companies benefiting the most from the USD appreciation, resulting from almost all of its receivables in USD. We forecast that VHC can record net FX gain of VND 179 Bn and VND 57 Bn in FY2022 and 2023 respectively.

Figure 3: Gross margin, net margin, Net FX gain/revenue



Source: VHC, RongViet Securities

Figure 4: VHC's export volume and export price

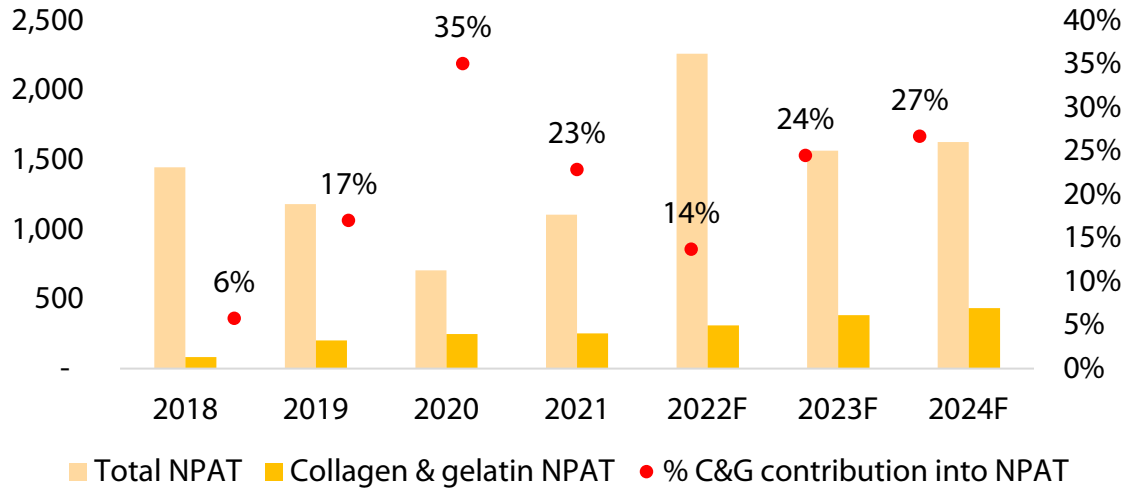


Source: VHC, RongViet Securities

NEGATIVE PROFIT GROWTH MIGHT SEE IN FY2023, BUT PROFIT STILL REMAIN HIGHER PRE-2022 LEVEL

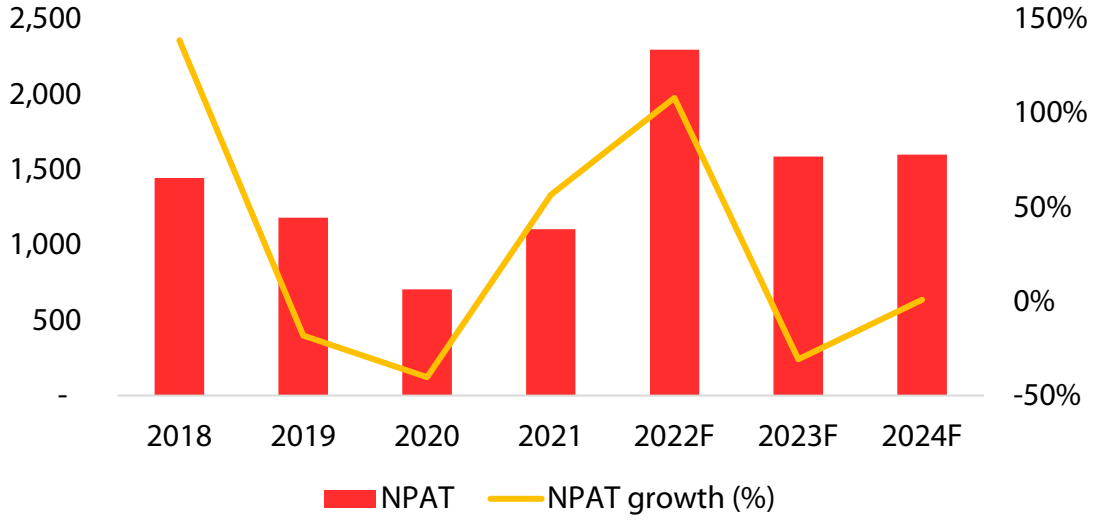
- We believe that profit in 2023 will likely grow negative, but still higher than pre-2022 level because (1) selling price and volume are difficult to decrease sharply in the context of inflation that helps increase consumption of cheap food such as pangasius; (2) collagen and gelatin (C&G) segment alleviates the degree of profit reduction in tough years of the pangasius segment; (3) No oversupply of raw materials currently like the period of 2018-2019 helps the price of raw materials and selling price not to decrease suddenly.
- In FY2022, we forecast revenue and NPAT to be VND 14,146 Bn (or USD 589 Mn, +56% YoY) and VND 2,293 Bn (or USD 95 Mn, +108% YoY) respectively.
- In FY2023, revenue and NPAT are forecasted to drop by 15% YoY and 31% YoY, at VND 12,050 Bn (or USD 502 Mn) and VND 1,586 Bn (or USD 66 Mn).

Figure 5: C&G NPAT forecast (VND Bn)



Source: RongViet Securities

Figure 6: NPAT forecast (VND Bn) and NPAT growth (%)



Source: RongViet Securities

Table 1: Valuation summary

Method	Weight	Valuation (VND/share)
FCFF	50%	68,800
SoTP	50%	72,800
Total	**100%**	**70,500**
2022F P/E at target price		5.8x
2023F P/E at target price		8.4x

Source: RongViet Securities

Table 2: SOTP Valuation

SOTP	Method	VND/share
Pangasius	P/E @ 5x	51,370
Collagen & Gelatin	P/E @ 11x	18,163
SGC	P/E @ 10x	3,281
Valuation		**72,800**

Source: Rong Viet Securities

Table 3: 2022-2023F forecast

VND Bn	2021	2022F	2023F	%2022/2021	% 2023/2022
Net revenue	**9,054**	**14,146**	**12,050**	**56%**	**-15%**
Gross profit	1,752	3,282	2,363	87%	-28%
(-) SG&A	556	730	596	31%	-18%
EBIT	**1,196**	**2,552**	**1,767**	**113%**	**-31%**
Non-operating income	94	117	92	25%	-21%
NPAT-MI	**1,103**	**2,293**	**1,586**	**108%**	**-31%**
GPM	*19.4%*	*23.2%*	*19.6%*	*385 bps*	*-359 bps*
SG&A/net revenue	*-6.1%*	*-5.2%*	*-4.9%*	*-98 bps*	*-21 bps*
EBIT Margin	*13.2%*	*18.0%*	*14.7%*	*483 bps*	*-338 bps*
Net margin	*12.2%*	*16.2%*	*13.2%*	*403 bps*	*-305 bps*

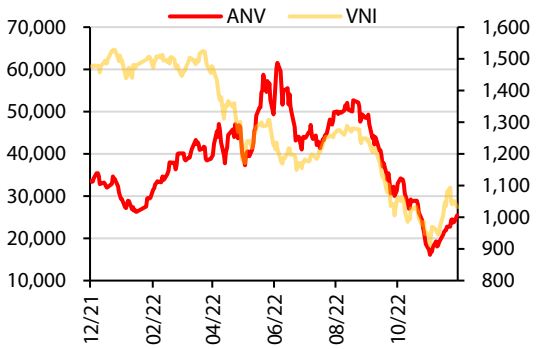
Source: Rong Viet Securities

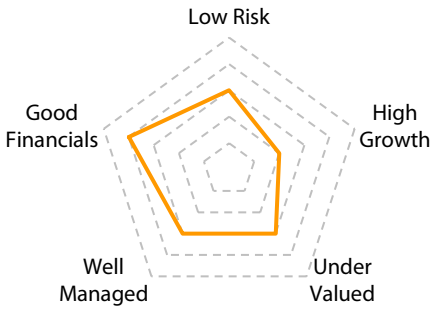
- Selling prices and selling volume of pangasius to decline by 12% YoY and 7% YoY, at 3.6 USD/kg and 90 thousand tons in 2023, respectively. Raw materials prices will go down by 5% YoY. As selling prices will drop sharper than raw materials prices, gross margin in 2023 could shrink by 359 bps to 19.6%.
- 2023 C&G NPAT to reach VND 382 Bn (or USD 16 Mn), up 24% YoY, contributing 24% into total NPAT, driven by the demand recovery.
- Thus, 2023 revenue and NPAT are forecasted to drop by 15% YoY and 31% YoY, at VND 12,050 Bn (or USD 502 Mn) and VND 1,586 Bn (or USD 66 Mn).
- In terms of valuation, profits coming out of the bull cycle in 2023 will put a lot of pressure on stock prices until there are signs that demand is back and the pangasius industry enters a new growth cycle. Hence, we think that investors can wait for a deeper discount on the stock price. At the target price of VND 70,500/share, 2023F P/E is 8.4x, equivalent to the five-year average P/E.

INDUSTRY HEADWINDS TO SQUEEZE 2023 EARNINGS

HSX: ANV

MONITOR **TP: N/A** **MP: 21,600**





STOCK INFO

Sector	Food & Beverage
Market Cap (USD Mn)	138
Current Shares O/S (Mn shares)	127
3M Avg. Volume (K)	1,157
3M Avg. Trading Value (VND bn)	34
Remaining foreign room (%)	44.9
52-week range ('000 VND)	15 - 65

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	3,494	5,109	4,352
NPATMI (VND bn)	128	711	400
ROA (%)	2.6	11.4	6.8
ROE (%)	5.5	24.4	12.5
EPS (VND)	1,006	5,591	3,144
Book Value (VND)	18,363	21,914	23,019
Cash dividend (VND)	1,000	1,000	1,000
P/E (x)	29.8	3.9	6.9
P/B (x)	1.6	0.9	0.9

INVESTMENT RATIONALES

Gross margin to sink on the slump of selling prices

- In spite of a minor decrease in Q3-FY22 revenue, this quarter's NPAT halved QoQ. Falling gross margin has been the main reason for the profit deceleration.
- We estimate that average selling prices will drop by 15% YoY in FY2023. Accordingly, gross margin to reach 27.6% in 2022, then shrink to 20.8% in 2023.

China's reopening could be a bright spot for 2023

- The reopening of China could create an opportunity for ANV to increase exports to this market to partly offset the decline of other markets. However, we are still cautiously projecting a 5% YoY decrease in export volume in 2023. Logistics costs to cool down also can help alleviate the net profit decline.
- In 2023F, we forecast revenue and NPAT decline by 15% YoY and 44% YoY on the high base of 2022, at VND 4,352 Bn (or USD 181 Mn) and VND 400 Bn (or USD 17 Mn), respectively.

Exports to the US market trails its plan

In 2022, ANV exports very little to the US market (<1% of revenue), far below the set plan. We believe that the delay in this US market, even though ANV has received 0% anti-dumping tax, is due to the bottleneck in finding customers who have long cooperated with other Vietnamese pangasius processors. The opening of new opportunities in this market was a catalyst for stock prices. When this factor falls short of investor expectations, it will lead to a revaluation of the stock price to the downside. Because ANV's outlook turns dim for 2023, we recommend investors to keep an eye on this stock until selling price and export volume recover reliably.

RISKS TO OUR CALL

(1) Delay in order resumption in case of global economic downturn to linger; (2) China prolongs its Zero Covid policy, causing export volume to drop sharper than expected.

GROSS MARGIN TO SINK ON THE SLUMP OF SELLING PRICES

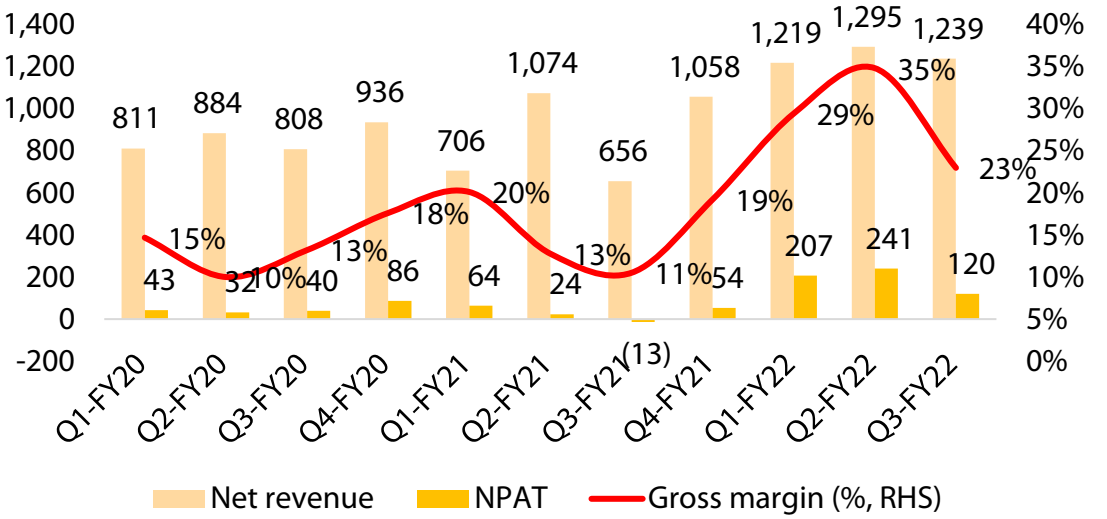
Despite resilient sales, NPAT dropped sharply from Q3-FY22

- In spite of a minor decrease in Q3-FY22 revenue, this quarter's NPAT halved QoQ. Falling gross margin has been the main reason for the profit deceleration. As ANV is completely self-sufficient in input materials, GPM fluctuates strongly according to output selling price. Due to little bargaining power, the selling price of ANV also dropped sharply in parallel with referenced price of the industry.

Gross margin will continue to be hit as the 2023 selling price will decrease

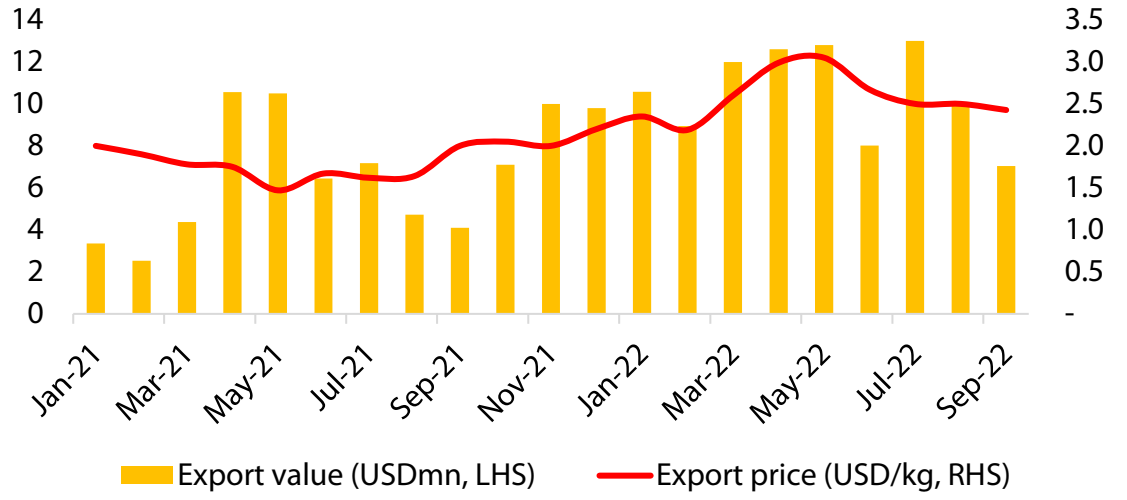
- In FY2023, we are not optimistic about the company's exports in both of selling prices and selling volume. We estimate that the former will come down by 15% YoY while the latter will also drop by 5% YoY in FY2023. Selling volume is forecasted to decrease only slightly as we expect the opening of the Chinese market to partly relieve pressure on demand from other markets.
- We currently forecast gross margin to reach 27.6% in 2022, then shrink to 20.8% in 2023.

Figure 1: Quarterly net revenue and NPAT (VND Bn)



Source: ANV, RongViet Securities

Figure 2: ANV's export value and export price



Source: AgroMonitor, RongViet Securities

Increasing exports to China can partly offset for the decline of other markets

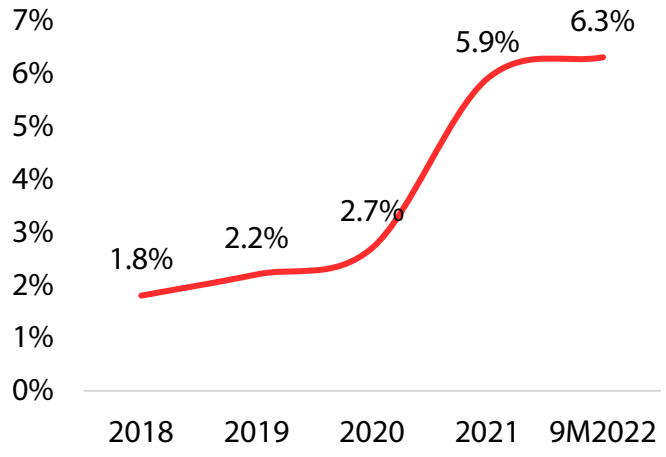
China market, which accounted for 20-30% export revenue in 2018-2019, decreases to less than 10% revenue contribution. In addition to Zero Covid's effect, ANV has lost its main customers – Shanghai Fenglei since 2021. The reopening of the Chinese market will boost demand for the food service channel, which is the main output of Vietnamese pangasius. Therefore, ANV will have the opportunity to increase exports to this market while consumption in other markets cools down. However, we are still cautiously projecting a 5% YoY decrease in export volume in 2023 because (1) there is no clear signal on when China will open its economy, (2) China is not ANV's largest market, so it cannot fully compensate for the decline from the rest, (3) a fierce competition with Chinese tilapia.

Logistics costs to cool off

Logistics costs, which severely harmed ANV's profit in FY2021-2022 will gradually come down next year, thereby alleviating the net profit decline. We expect logistics costs/revenue will drop from 6.5% in FY2022 to 5% in FY2023.

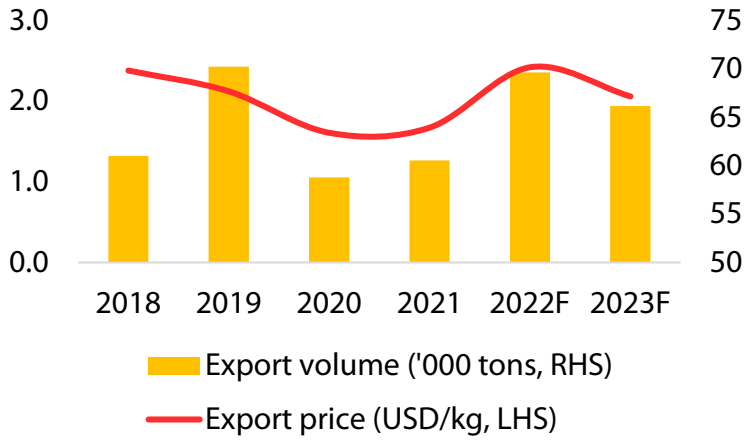
In general, a negative growth in ANV's 2023 profit is quite certain, but the extent of the decrease will depend on two factors: China's economic reopening and selling price trend. These factors are difficult to foresee, so we think investors should temporarily monitor this stock.

Figure 3: Logistics costs/revenue (%)



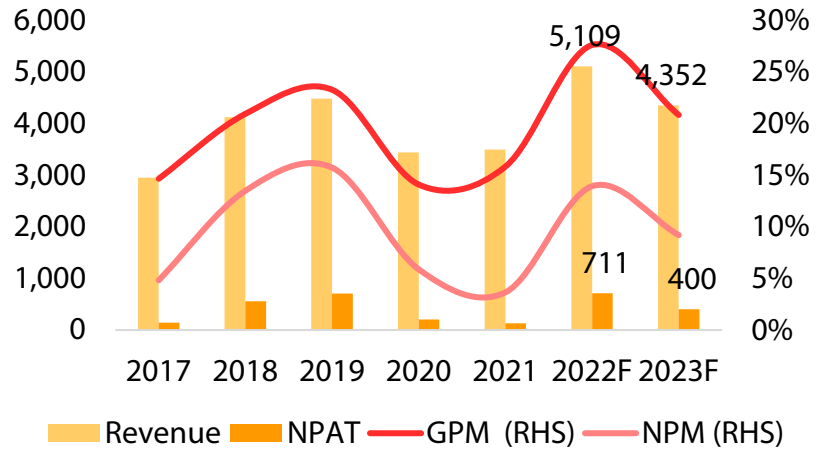
Source: ANV, RongViet Securities

Figure 4: ANV's export price and export volume forecast



Source: RongViet Securities

Figure 5: Revenue and NPAT forecast (VND Bn)



Source: RongViet Securities

RETAIL

KEEP A WATCHFUL EYE ON FALTERING CONSUMER DEMAND

Loan Nguyen – loan.nh@vdsc.com.vn

RETAIL INDUSTRY – KEEP A WATCHFUL EYE ON FALTERING CONSUMER DEMAND

Rating

Negative	Neutral	Positive

Overview

Looking ahead to 2023, what concerns us the most is that the economic slowdown will deteriorate consumer purchasing power, which, combined with the high base of 2022, will put pressure on retailers' business results in next year. However, we expect to see non-uniform effects across retailers. Allocations will shift away from the less vital non-essential spending categories into more essential spending categories. Concern about the industry's short-term dull outlook has dragged stock prices down, offering attractive long-term investment opportunities. We expect the right time to invest in the industry can be from mid-2023 after the economy shows signs of improvement.

Highlights

Tightening economic policy put pressures on consumer's budget, thereby affecting the retail industry. However, we expect a diverge allocation between essential and non-essential spending.

The economic slowdown that puts pressure on consumer's budget is the biggest risk of the retail industry in 2023. We expect to see a rebalancing of consumer priorities. As such, essential goods (FMCG, pharma) and expensive non-essentials will still fare well, while non-essential products of the mid-end segment, especially tech devices which reaped benefits from pent-up demand, could suffer the most severe slowdown over 2023.

Protecting sales from reduced consumption demand is what Vietnam's retailers aim for in 2023.

A fierce price competition could arise next year. We view that sustaining sales will be the most focused objective of retailers, by launching more discount and marketing program to inflation-proof. Hence, the retailers' gross margin will be under pressure next year.

Strategic upheavals are seen across sub-sectors.

Each retailer will set out different strategies depending on the business characteristics. However, a general movement we are seeing is that many retailers will become more cautious about store rollout, especially new business segments which are currently retailers' financial burden.

Short-term hiccups offer attractive opportunities to invest going forward.

The industry valuation comes down to the nearly lowest five-year PE ratio. Once the economy bounces back, we believe that retail will be one of the most attractive investment opportunities, given its strong growth potential. Stock prices are likely to remain under pressure in the short term from Q4/2022 to Q1/2023 following a doubt in retailers' quarterly earnings. We expect stock prices will rally solidly from mid-2023 after the economy shows signs of recovery.

Risks

- Consumer budgets will be hit harder than expected.
- Delay in store rollout/Lower-than-expected demand resulting in a halt in existing stores will affect the long-term growth outlook and lead to a stock re-valuation.

The revival of post-COVID-19 retail sales in 2022 may put pressure on 2023 growth, amid the economic downturn to tighten consumers' spending.

- Vietnam's retail sales have bounced back since Q4/2021. 2022 retails sales even surpassed the level of pre-COVID-19. However, short-term hiccups of domestic spending are accompanied with the economic slowdown in 2023. Retail industry is prone to the economic situation. In the context of economic slowdown and tightening monetary policy, shrinking household budget can put pressure on the consumption demand. Although retail value remains high until end-2022, we realize that negative impact of the economy on retailers is appearing and will become more obvious next year.
- A couple of sub-sectors which benefited most from the lockdown, such as modern grocery, pharma and tech devices, have left the peak of Q4/2021.

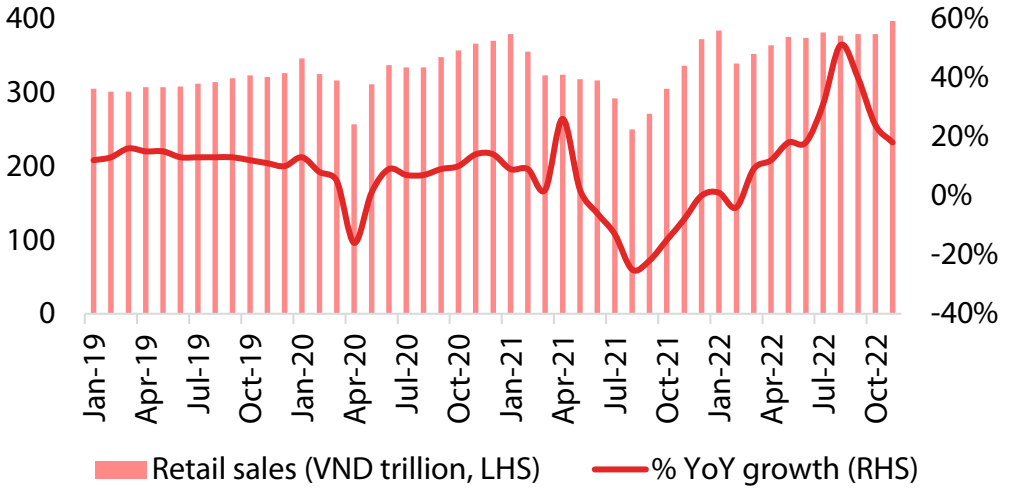
Main customer base of MT channel is suffering an income reduction

The wave of job cuts in labor-intensive industries will continue until at least Q2/2023, especially workers in industrial zones in big cities. It is noticeable that they are the main customers of the modern trade channel. This will directly lead to a negative impact on some modern retailers in 2023.

We expect the consumer spending to relax its grip on the retail industry in 2H2023

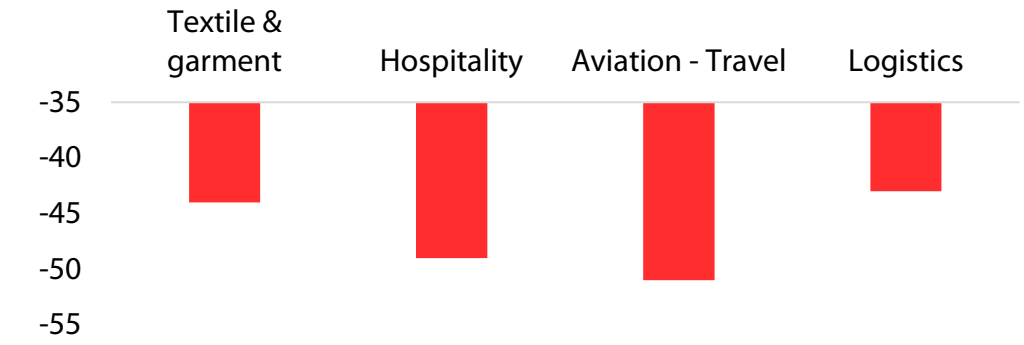
The dull economy is expected to gradually uplift from 2H2023 in case of resumed orders and improved labor income, per our view. Accordingly, pressure on retailers could appear in 1H2023 and then gradually ease in 2H2023.

Figure 1: Vietnam's monthly retail sales for goods



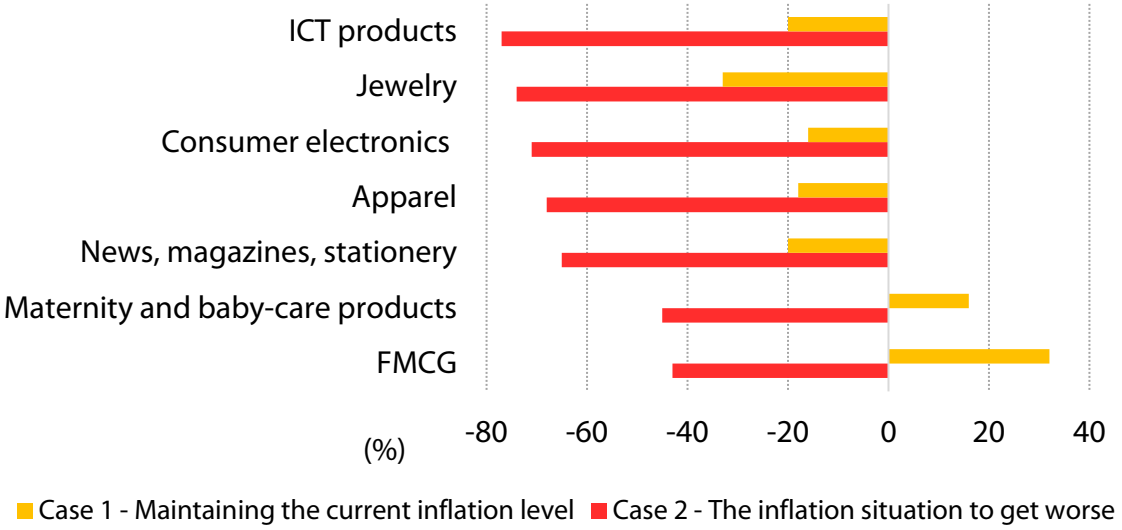
Source: GSO, RongViet Securities.

Figure 2: Survey on the reduction level of recruitment demand of some industries (%)



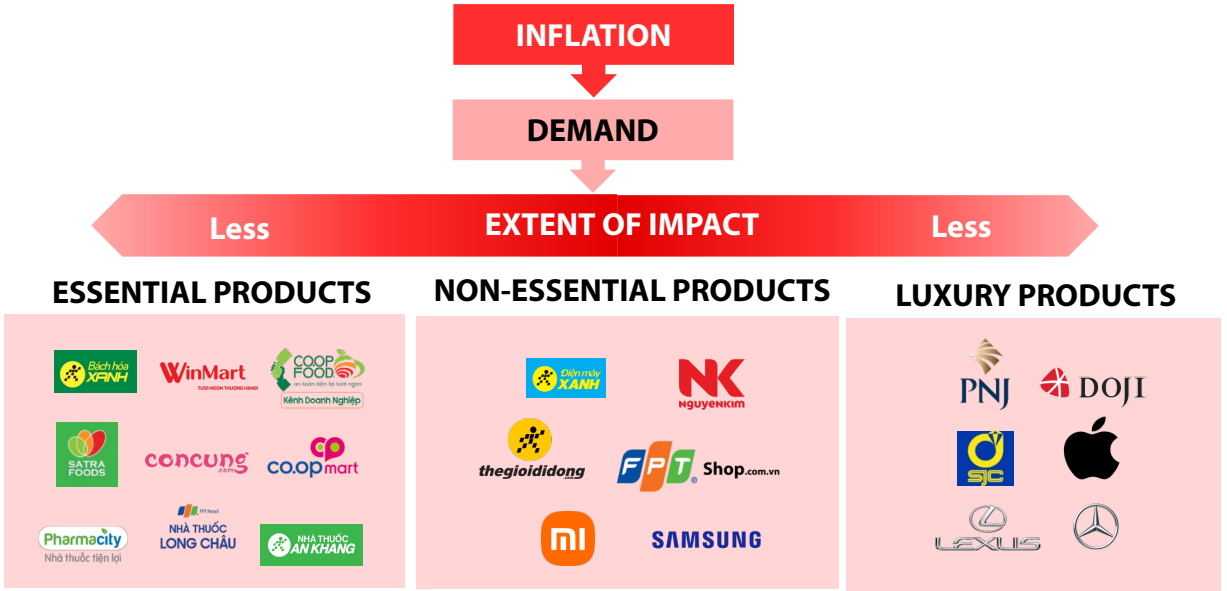
Source: Navigos, RongViet Securities.

Figure 3: The proportion of consumers to increase or decrease spending on some products when inflation goes up



Source: Vietnam Report (Survey in Aug 2022), RongViet Securities.

Figure 4: Assessing the impact of inflation on several retail chains



Source: RongViet Securities.

We expect a rebalancing of consumer priorities

In this backdrop, we expect that consumers tend to allocate their budget from the less vital non-essential spending categories into more essential spending categories. Per the survey of Vietnam Report, FMCG can weather the storm better than other sub-sectors.

The extent of impact to diverge across companies

- In line with the change in consumer behavior, we expect a non-uniform impact on Vietnam's modern retailers.
- While essential goods (FMCG, pharma) and expensive non-essentials will still fare well, non-essential products in the mid-end segment, especially tech devices which reaped benefits from pent-up demand, could suffer the most severe slowdown over 2023.

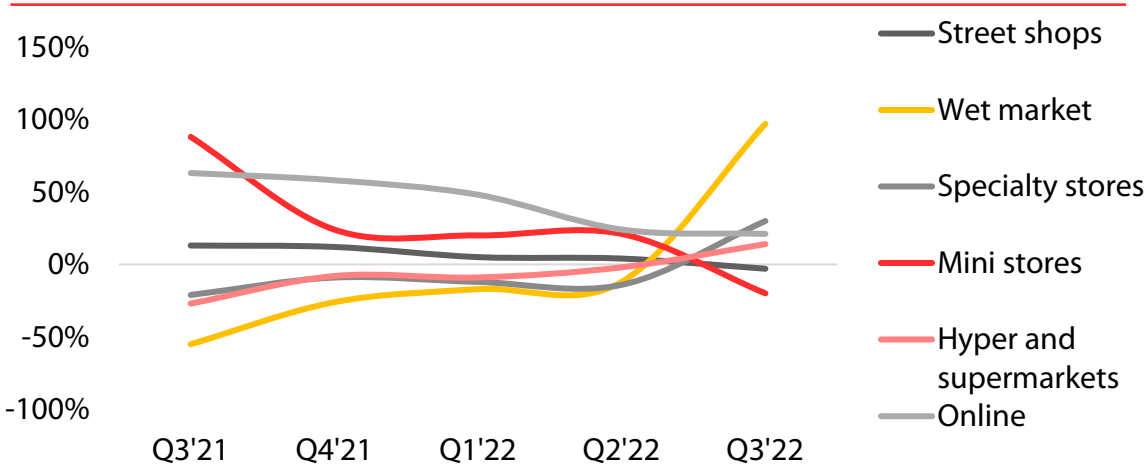
Retail sales of general trade (wet market, street shops) have recovered but will not return to pre-COVID-19 levels

- The post-pandemic recovery of general trade (e.g. wet market) helps it to gain market share again from modern trade (e.g. mini stores). However, the lockdown has played a role in accelerating the transition of consumer behavior to MT. Thus, market share of GT will no longer return to the pre-COVID-19 level, we believe.

We foresee a fierce price competition next year

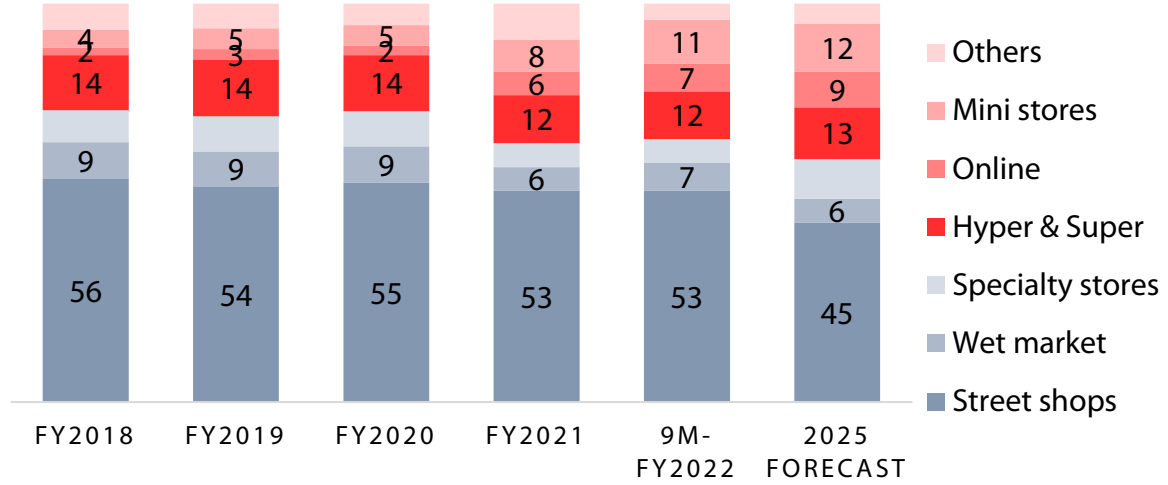
- In the short-term, given the consumer's income shrinkage, GT could act as an alternative with more reasonable prices, leading to a higher competition in modern retailers who positioned themselves as direct competitors of GT (e.g. BHX). It is highlighted that price consciousness is a longstanding behavior of Vietnamese people.
- In this context, we expect that these retailers tend to launch more discount and marketing program to inflation-proof.

Figure 5: % YoY value change by channel (*)



Source: Kantar, RongViet Securities. (*) Urban 4 Key Cities Vietnam

Figure 6: % Market share of retail value by channel (*)

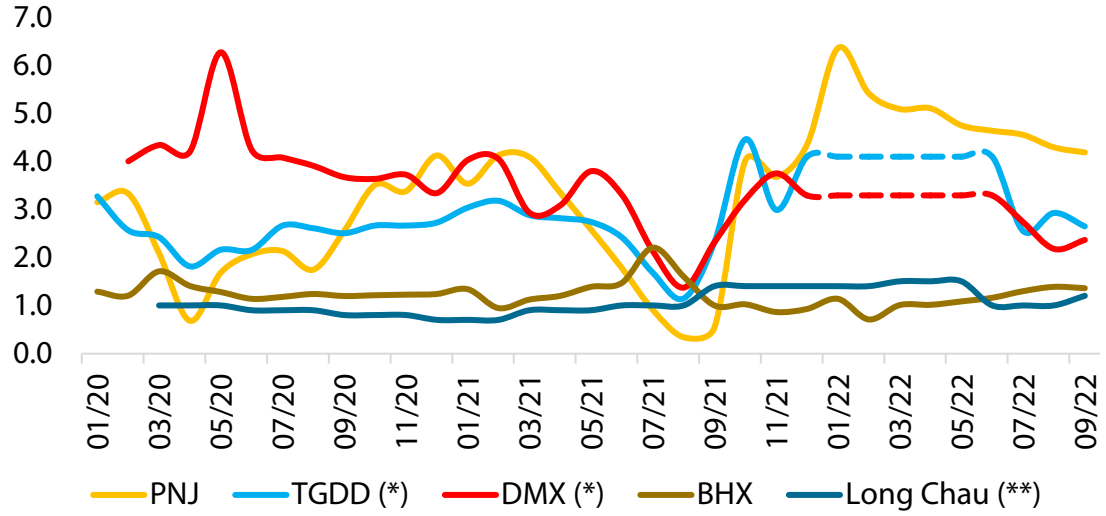


Source: Kantar, RongViet Securities. (*) Urban 4 Key Cities Vietnam

Gross margin is likely to be sacrificed for securing sales

- Due to the increase of many promotions, while there is little room to increase selling prices, we expect that retailers' gross margin will be under great pressure next year. Some have started implementing this strategy in 2022. This trend will gradually become clearer in 2023, especially retailers with large inventories.
- In order to safeguard gross margin, many retailers may carry out a couple of strategies such as cutting operating costs, slowing down the expansion plan to reduce cost burden, or improving the gross margin of business segments less affected by the declining consumption trend next year.

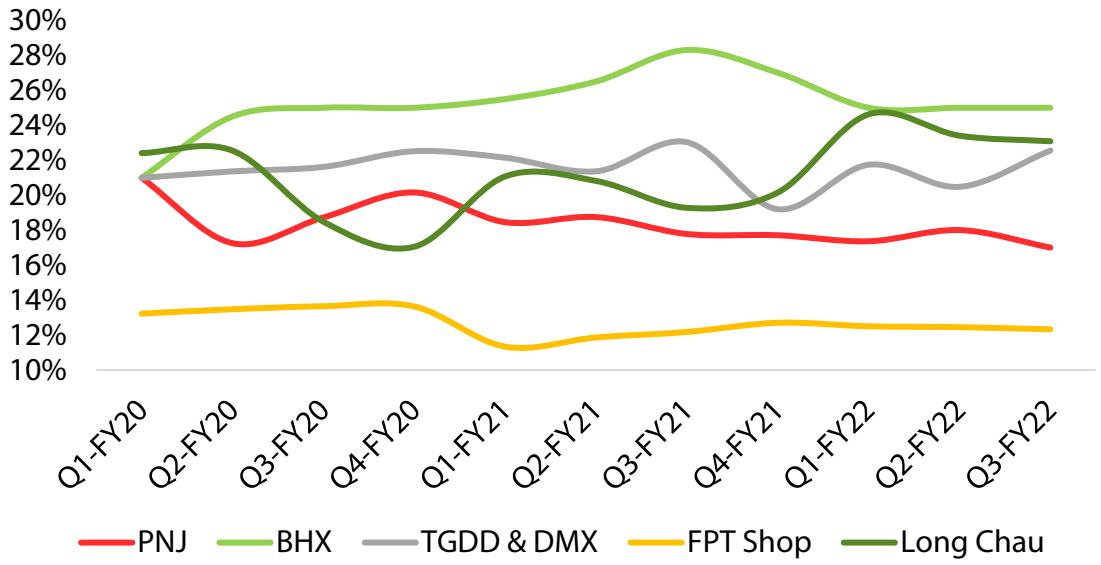
Figure 7: Monthly sales per store of retail chains (VND Bn)



(*) Data of monthly sales per store in 1H2022 has not been provided by the company.
(**) Quarterly data

Source: Companies filings, RongViet Securities.

Figure 8: Gross margin of retail chains (%)



Source: Companies filings, RongViet Securities.

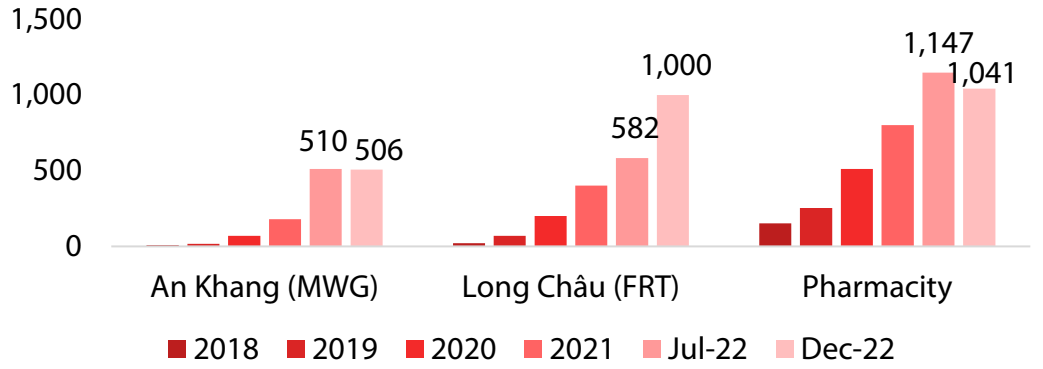
Pharma - Expanding advantage is leaning in Long Chau

- Based on the inflated demand in the lockdown period to speed up the shift toward drug chains, a booming expansion of new drug stores has been seen in big names such as Long Chau, An Khang, Pharmacity.
- However, perhaps a faster-than-expected cooldown in demand is going against the rapid outlet growth, worsening the bottom line of some retailers. Accordingly, we perceive that some drug chains (such as An Khang and Pharmacity) have tended to narrow down new store rollout, even have closed inefficient stores since mid-2022. This trend could persist next year to shore up the financial resource.
- Long Chau surprisingly continues its strong expansion plan, aided by its well-managed new opened stores.

Grocery – Striving to remain sales steady after pent-up demand in Q3-FY21

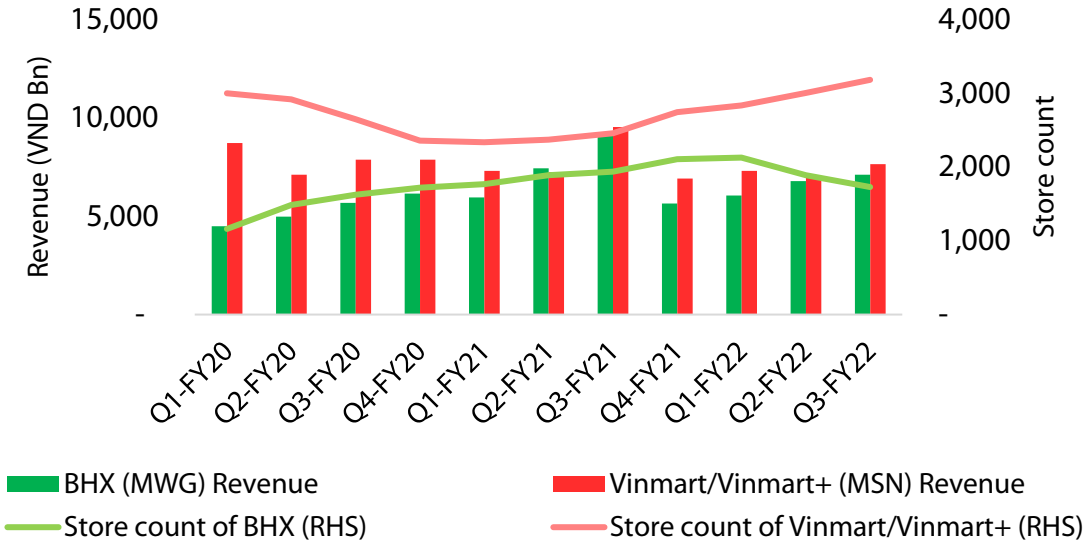
- The recovery of wet market and the squeezing labor market in big cities pose significant risks to modern grocery retailers in 2023. BHX and WinCommerce have spared no effort to remain sales since the lifting of lockdown.
- While BHX follows a strategy of sacrificing revenue growth in exchange for improved operational efficiency, WCM increases cross-selling strategy to remain sales. In 2023, despite the demand slowdown, we do not expect that grocery retailers will be shy to open new stores, but the pace will be slower than previous aggressive plans.

Figure 9: Store count of pharma chains in Vietnam



Source: Company Filings, RongViet Securities.

Figure 10: Store count and revenue of grocery chains



Source: Company Filings, RongViet Securities.

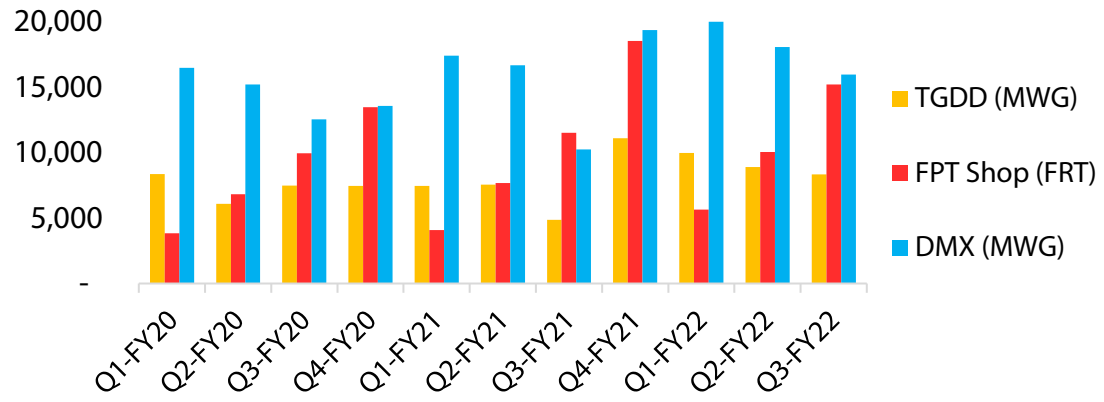
ICT and CE retail – A foreseen slowdown

- Sales of most retailers in this sub-sector have nosedived since the boom in end-2021. The falloff will continue in 2023 when signs of narrowing demand appear.
- We expect a bulk of discount programs will be provided from Q4/2022 onwards to stimulate demand and boost sales.
- Iphone 14, considered as a silver lining, is facing a supply shortage due to China's lockdown. We expect this bottleneck to be solved in 1Q2023, partly contributing to improving sales.

Luxury retail – Boosting sales from resilient demand

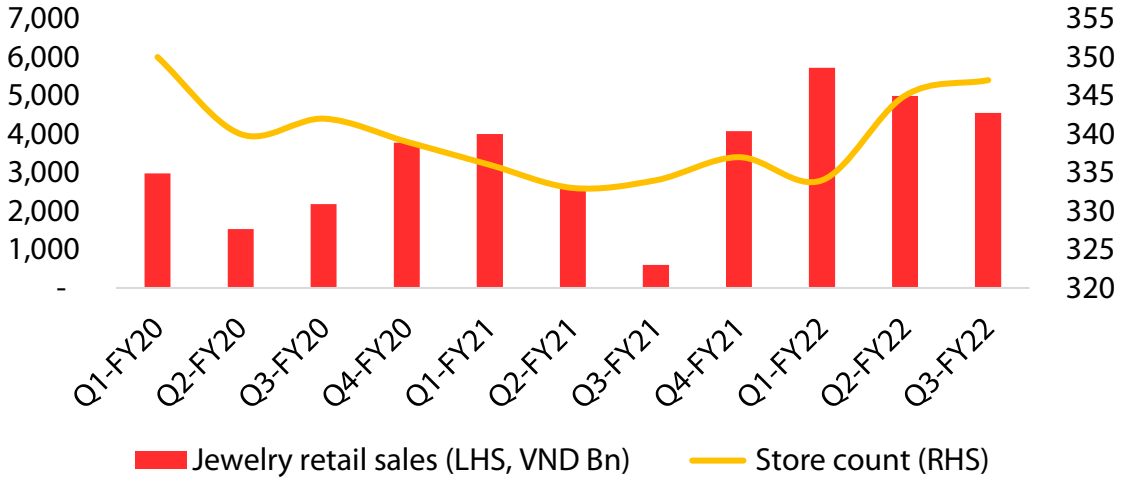
- High-end retail, which PNJ represents in our stock monitoring, outperforms other industries thanks to its financially resilient customer base.
- Looking to 2023, we expect the industry to be less affected than other products, but the high 2022 base will limit a strong growth in 2023. We expect retailers to continue maintaining a strategy of increasing discounts to retain middle-class customers.

Figure 11: Revenue of ICT and CE chains in Vietnam (VND Bn)



Source: Company Filings, RongViet Securities.

Figure 12: Store count and revenue of PNJ retail sales

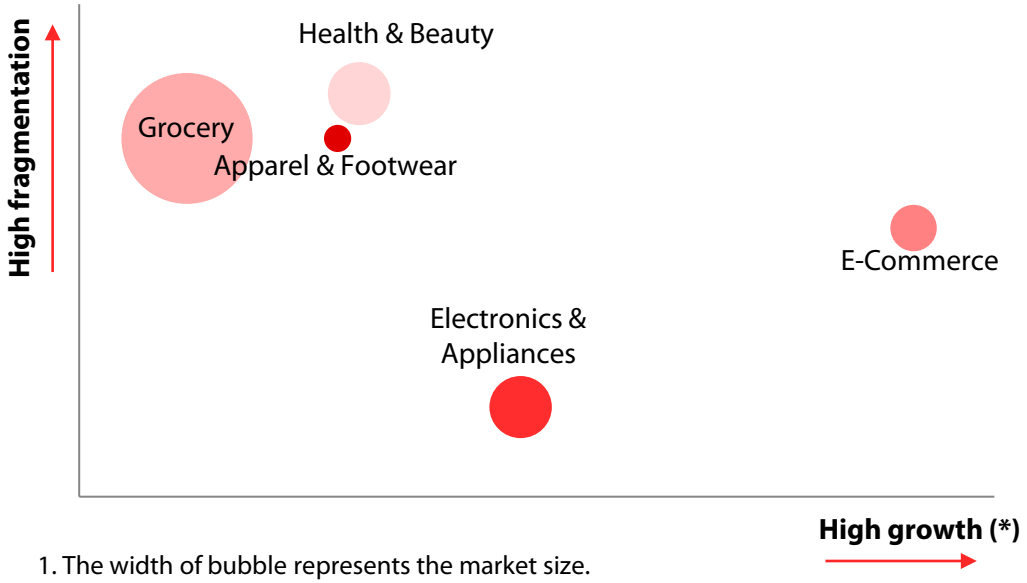


Source: Company Filings, RongViet Securities.

SHORT-TERM HICCUPS OFFER ATTRACTIVE INVESTMENT OPPORTUNITY |RETAIL INDUSTRY

VIETNAM'S RETAIL LANDSCAPE IS STILL BURGEONING AHEAD

Figure 13: Comparison of retail sub-sectors in relation to growth potential and market fragmentation



1. The width of bubble represents the market size.
2. (*) Expected retail value growth of FY2021-2026F period

Source: Euromonitor International, RongViet Securities

Table: Growth drivers and Key players of sub-sector in Vietnam's retail

Sub-sector (market size of 2021)	Top 3 brands	Market share of retail value	Growth drivers in FY21-26F
Grocery (USD 48 Bn)	Co-opMart	3.1%	• Outlet expansion • Young population • Wider range of products • Discount
	Bach Hoa Xanh	2.2%	
	WinMart	1.8%	
Electronics & Appliances (USD 10.7 Bn)	Dien May Xanh	19.1%	• Fewer needs for new and big outlets • Online channel • Consumer's preference toward specialist retailers
	The Gioi Di Dong	11.5%	
	FPTShop	4.9%	
Health & Beauty (USD 11 Bn)	Pharmacity	1.0%	• Outlet expansion • Consumer's preference toward chained outlets • Highly fragmented market
	Long Chau	0.7%	
	An Khang	0.1%	
Apparel & Footwear (USD 2 Bn)	Blue Exchange	1.7%	• Ecommerce • The rise of local brands
	Canifa	1.6%	
	Viet Tien	1.6%	

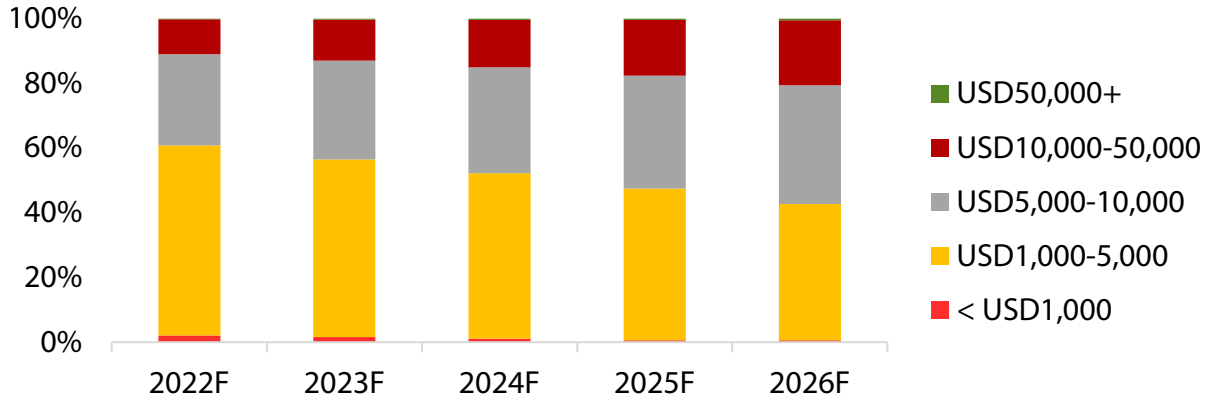
Source: Euromonitor International, RongViet Securities

Tapping into potential and fragmented sub-sectors continues an intriguing trend in Vietnam's retail industry

- Grocery and Healthcare, which are both high fragmentation and high market value, become fascinating objectives that modern retailers aim for. Gaining more market share from mop-and-pop stores is the key trend in these markets.
- Electronics and Appliances Industry has been dominated by MWG and FRT, hence, there is little room for pursing the strategy of gaining more market share. Instead, increasing demand of non-essential products, especially Vietnamese people's technology preference, will drive the growth of this sub-sector.
- Ecommerce plays an increasingly important role in the growth of modern retailers.

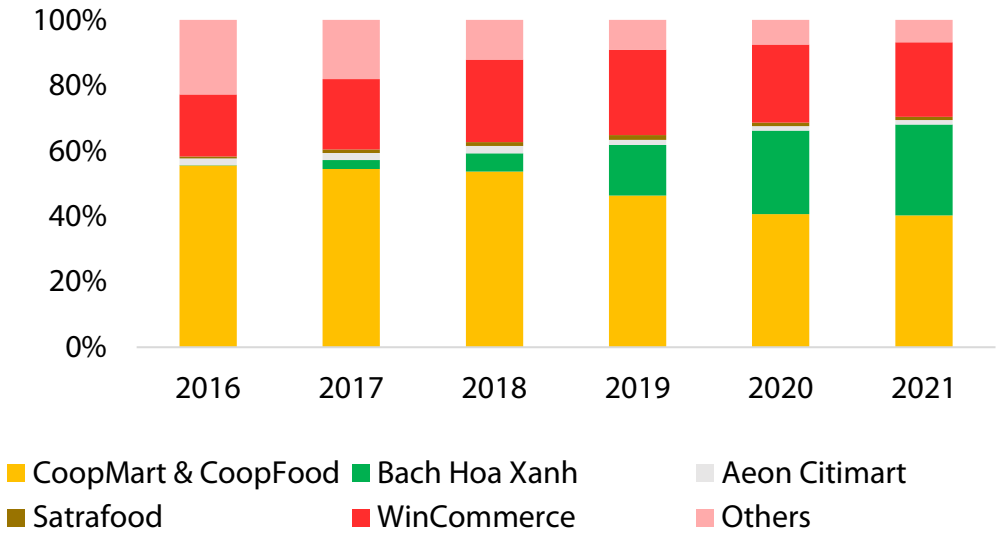
VIETNAM'S RETAIL LANDSCAPE IS STILL BURGEONING AHEAD

Figure 14: Household disposable income breakdown (income per year)



Source: Fitch Solutions, RongViet Securities

Figure 15: Market share (*) of grocery chain in Vietnam (%)



The rise of middle and affluent class continues a mainstay of retail industry

People having the income bracket of USD5,000-50,000/year is increasing swiftly, boosting consumption of non-essential products and modern trade channel.

Newer players have gained market share at the expense of older players, especially in the grocery market.

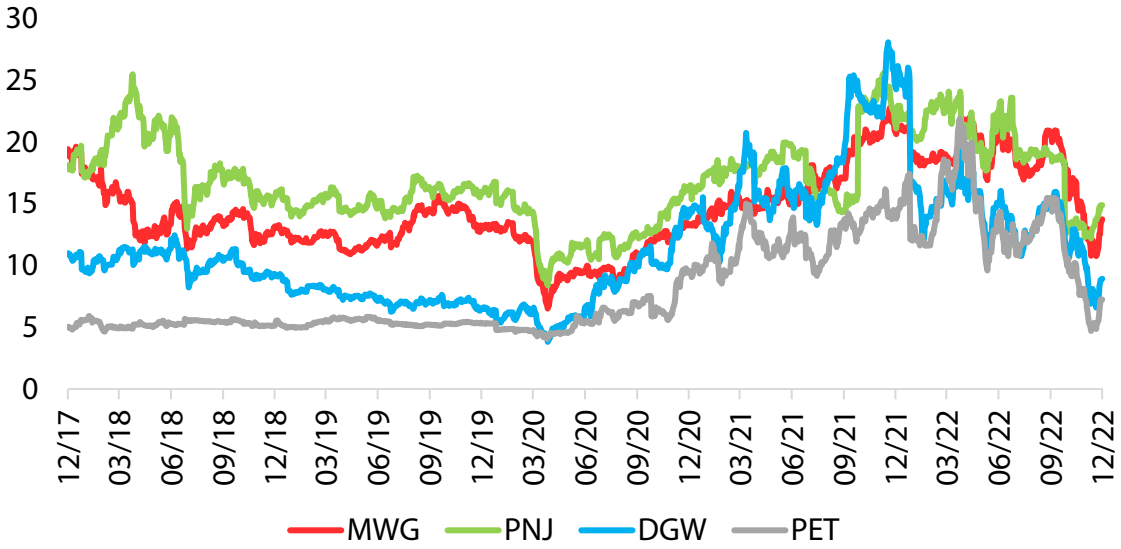
- Mom-and-pop stores have been gradually replaced by new giants.
- BHX and WinCommerce, with extensively retail-associated experience and financially strong resource, are increasingly gaining more market share.
- This trend is similar for the pharmaceutical retail.

Years of operation, as at end of 2022

Source: Euromonitor International, RongViet Securities.
(*) Market share is calculated on % retail value rsp excluding sales tax

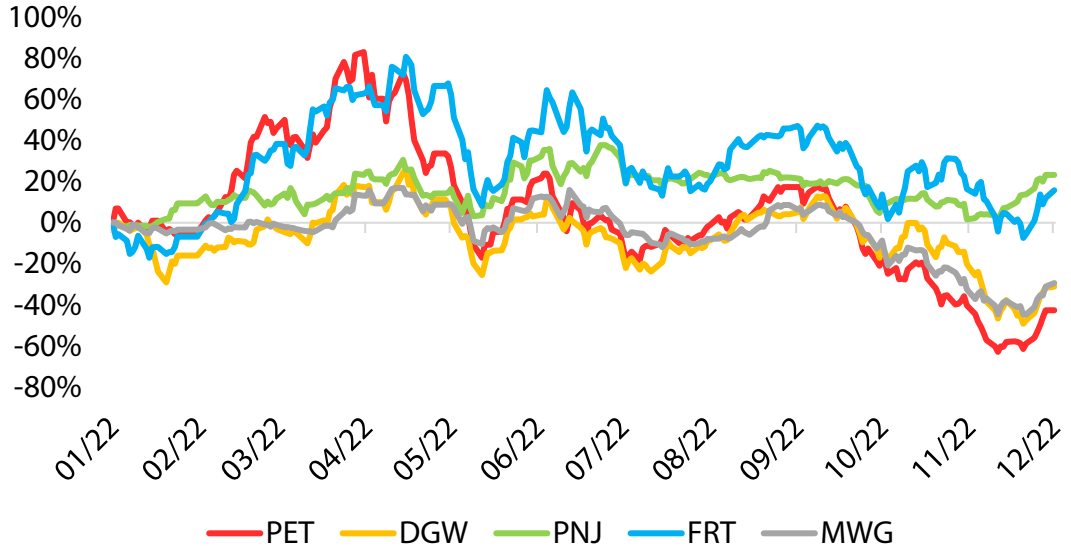
ATTRACTIVE VALUATION BUT TIMING IS KEY

Figure 16: P/E ratio of retail companies



Source: Bloomberg, RongViet Securities. Market data as of Dec 09th 2022

Figure 17: Stock price performance of retail companies



Source: Bloomberg, RongViet Securities. Market data as of Dec 09th 2022

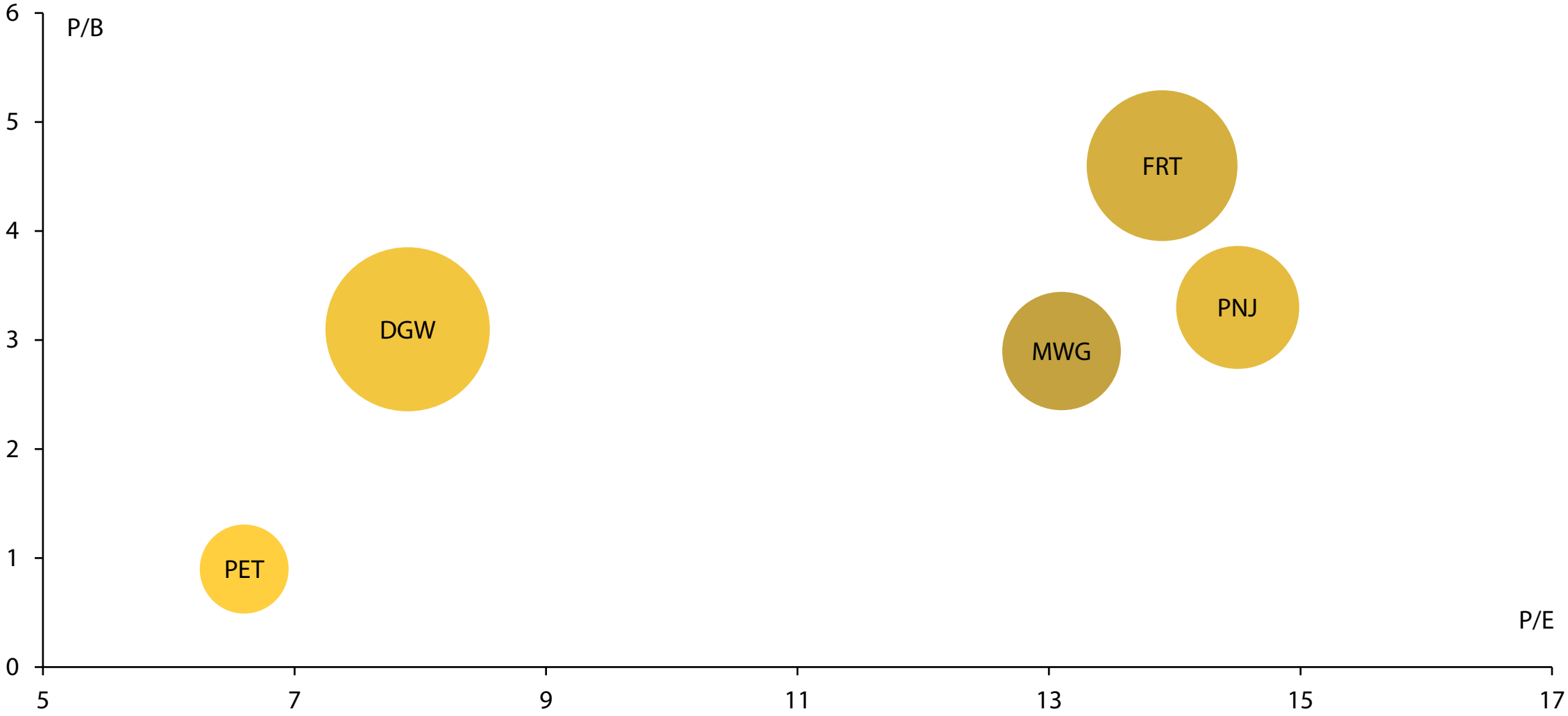
- Stock price correction makes the industry valuation come down to the nearly lowest five-year PER. Once the economy bounces back, we believe that retail industry will be one of the most attractive investment opportunity, given its strong growth potential.
- However, despite attractive valuation of the industry, we view that investment timing is key to maximize returns for investors in 2023. Stock prices are likely to remain under pressure in the short term from Q4/2022 to Q1/2023 following a doubt in retailers' quarterly earnings. We expect stock prices will rally again from mid-2023 after the economy shows signs of recovery. It is notable that the recovery reflected in business results of retailers often trails many leading indicators of the economy.

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
MWG	2,834	61,900	45,900	2,000	0.0	13.3	13.2	0.7	0.2	-13.0	22.5	18.8	6.3	13.2	15.6	3.0	4.7
FRT	370	80,300	74,000	2,000	23.4	53.4	29.7	22.5	20.1	-11.9	7.9	16.2	3.7	20.8	N.A	3.6	N.A
PNJ	1,160	128,000	111,800	1,000	0.0	11.6	73.3	7.9	0.0	71.6	8.2	19.8	11.8	14.3	19.5	3.1	4.1
DGW	288	N.R	41,800	N.A	22.7	66.9	N.A	N.A	1.5	N.A	N.A	46.1	16.4	7.9	11.0	3.0	2.6
PET	74	N.R	19,450	N.A	-1.5	30.8	N.A	N.A	1.0	N.A	N.A	13.5	3.1	6.6	8.7	0.9	0.9

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

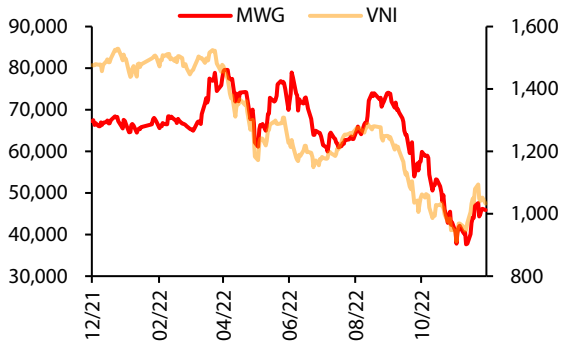


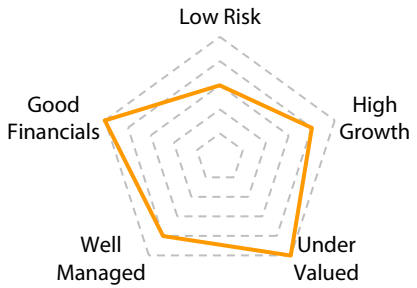
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

TAPERING BHX'S LOSS TO IMPROVE BOTTOM LINE NEXT YEAR

HSX: MWG

BUY: +38% **MP: 45,900** **TP: 61,900**





STOCK INFO

Sector	Retail
Market Cap ($ mn)	2,845
Current Shares O/S (mn shares)	1,464
3M Avg. Volume (K)	3,670
3M Avg. Trading Value (VND Bn)	190
Remaining foreign room (%)	-
52-week range ('000 VND)	35.25 – 81.4

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	122,958	139,206	140,144
NPATMI (VND bn)	4,899	4,264	5,222
ROA (%)	7.8%	6.3%	7.7%
ROE (%)	24.1%	18.8%	20.4%
EPS (VND)	6,870	2,906	3,489
Book Value (VND)	28,562	15,439	17,126
Cash dividend (VND)	1,500	1,500	1,500
P/E (x)	11.5	15.8	13.2
P/B (x)	2.8	3.0	2.7

INVESTMENT RATIONALES

ICT & CE weak demand in correlation with the economic headwinds hints a muted sales growth.

- In the short term, we concern that Q4/2022 ICT & CE's earnings will shrink on the high base of Q4/2021, resulting from poor discretionary spending and Apple's supply shortage. Consumer purchasing power can remain sluggish until at least mid-2023.
- Backed by the contribution of new stores in 2022 to partly offset SSSG come-down in 2023, we expect a low-single-digit YoY drop in 2023 revenue of the segment. However, because of GPM contraction and high OPEX/Sales, net profit of the segment is forecasted to sink by 13% YoY.

BHX's net loss to narrow on-year

- In 2023, with the absence of one-off restructuring expenses, along with an increase in sales per store, we expect BHX to narrow its loss by 66% YoY to VND 937 Bn (or USD 39 Mn). This will completely offset for the net profit drop of ICT & CE segment. MWG's consolidated net revenue is expected to flatten YoY and net profit can grow by 22% YoY in FY2023.

The most attractive upside potential in the retail industry, but a doubt on the short-term outlook to put a grip on the stock price.

- Currently, MWG is trading at a P/E lower than 5-year average level. With ample room for growth in long-term outlook, we attribute the current price to be attractive enough for long-term investors, while short-term investors should revisit at a deeper discount or when there are positive signals from business results.

RISKS TO OUR CALL

- **Upside:** Successful capital raising for BHX.
- **Downside:** Weaker-than-expected non-essential spending; Lower-than-expected improvement in BHX's profitability.

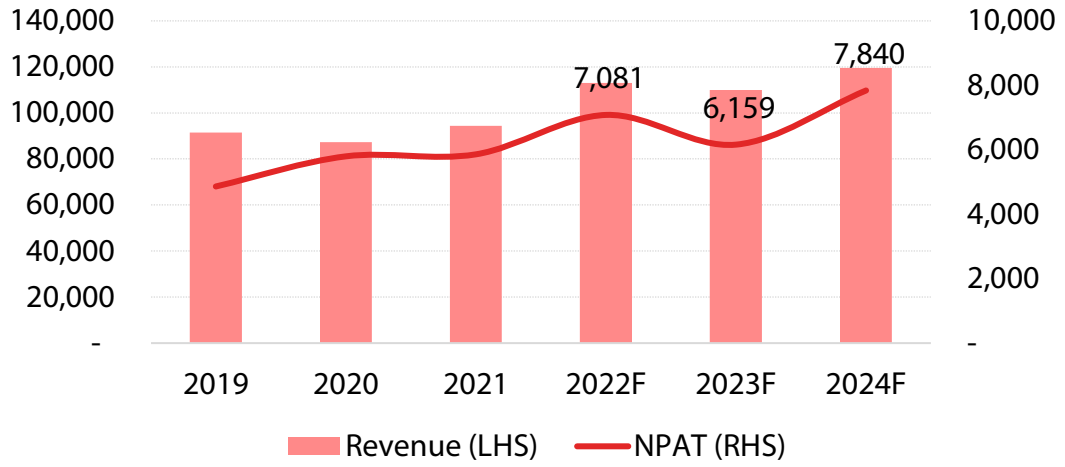
TGDD & DMX – POOR DISCRETIONARY SPENDING TO HURT THE SEGMENT'S EARNINGS IN FY2023

HSX: MWG

An unexpected-for drop in ICT & CE spending can gradually emerge from Q4/2022.

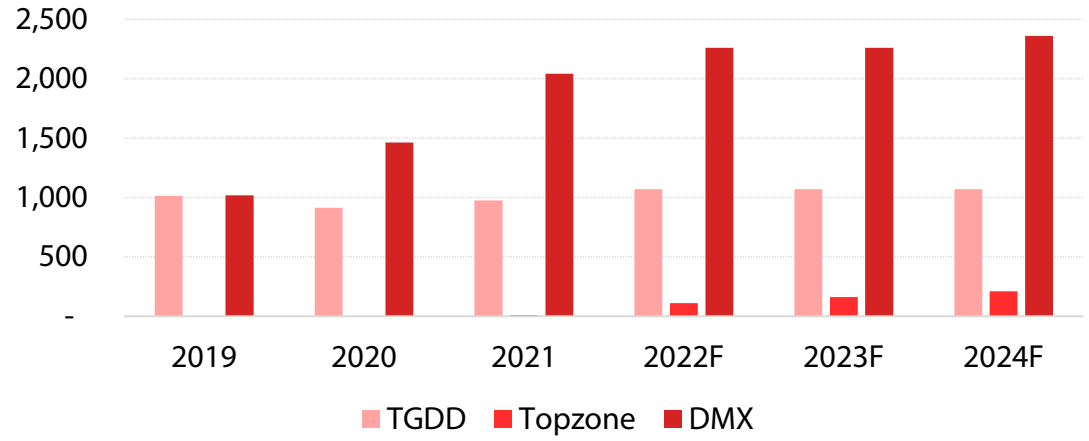
- We concern that ICT & CE's earnings in Q4/2022 will shrink on the high base of Q4/2021, resulting from poor discretionary spending and Apple's supply shortage. Moreover, huge FX losses of foreign debt resulting from USD appreciation also weigh on Q4/2022 NPAT, which we currently forecast a 50% YoY plummet. Consumer purchasing power can remain sluggish until at least mid-2023. We view that DMX's SSSG is likely to be hit harder than that of TGDD & TopZone, given that the demand for CE products will witness both hard-hitting factors of tightened spending and plunging real estate market.
- We also expect a significant GPM contraction next year in accordance with the willing of the management to prioritize healthy cashflow over profitability, a strategy that implies more promotional activities to be provided. This strategy also suggests that almost no store-rollout will see next year.
- Backed by the contribution of new stores in 2022 to partly offset the SSSG come-down in 2023, we expect a low-single-digit YoY drop in 2023 revenue of ICT & CE segment. However, because of GPM contraction and higher OPEX/sales, net profit of the segment is forecasted to dwindle by 13% YoY.

Figure 1: TGDD & DMX's revenue and NPAT forecast (VNDbn)



Source: RongViet Securities

Figure 2: Store count forecast of TGDD, Topzone and DMX



Source: RongViet Securities

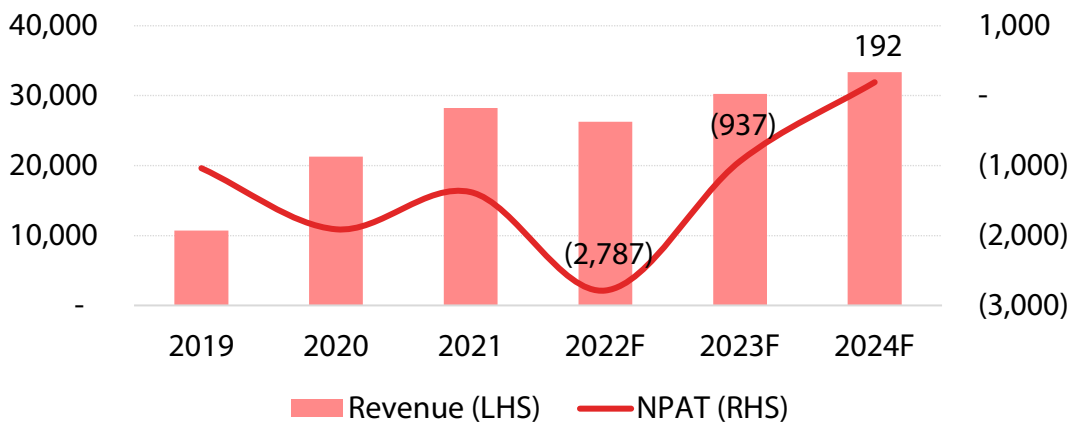
"One step back, two steps forward" strategy

- In 2022, BHX underwent a drastic restructuring through the closure of inefficient stores and the layout rearrangement, resulting in a huge loss which weighs on the consolidated net profit. However, we consider this an inevitable turning point to help reshape long-term strategy and sustainable profitability, instead of rapidly scaling up. If the company continued to keep the previous fast-opening strategy without efficiency, it would be difficult for BHX to reach the breakeven point of net profit.

Smaller loss in 2023 to support the bottom line

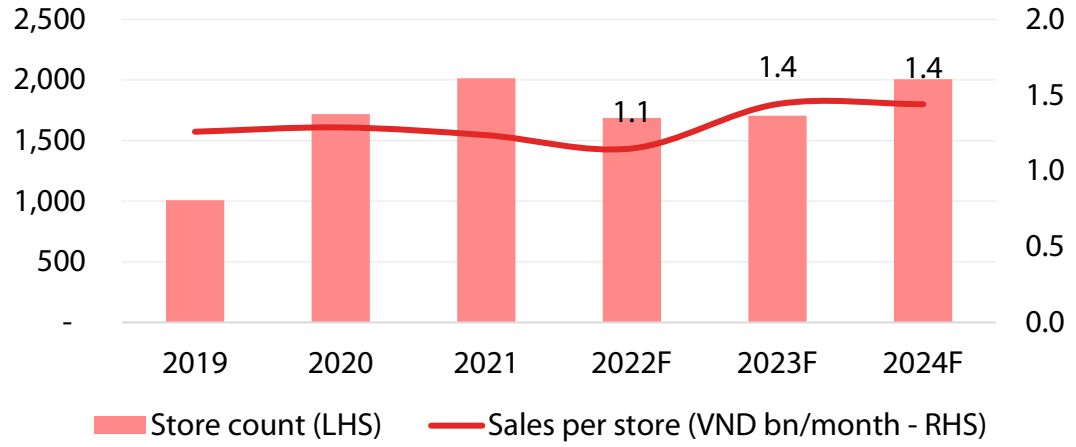
- Looking to 2023, with the absence of one-off expenses, along with an increase in sales per store, we expect BHX to narrow its loss by 66% YoY to VND 937 Bn (or USD 39 Mn). Weak purchasing power from BHX's financially sensitive customer base could be a major risk in 2023. However, we expect a shift in focus to product mix and shopping experience to help the chain grow can attract customers from other modern chains. We expect BHX to open 100/300 new stores in FY2023/2024. Accordingly, the chain will start to break even in terms of net profit in FY2024.

Figure 3: BHX's revenue and NPAT forecast (VNDbn)



Source: RongViet Securities

Figure 4: BHX's store count and sales per store forecast



Source: RongViet Securities

Table 1: 2022 & 2023 Forecast (VND Bn)

	FY2022	FY2023	%2022/2021	%2023/2022
Net revenue	**139,206**	**140,144**	**13%**	**1%**
- TGDD & BHX (in-store)	94,188	89,270	16%	-5%
- BHX (in-store)	25,464	29,324	-8%	15%
- Online	19,555	21,551	40%	10%
Gross profit	**30,717**	**30,090**	**11%**	**-2%**
Selling expenses	20,744	20,520	16%	-1%
G&A expenses	3,298	3,210	-14%	-3%
EBIT	**6,675**	**6,360**	**13%**	**-5%**
Abnormal expenses from BHX's closed stores	-487	0	-	-
NPAT	**4,264**	**5,222**	**-12%**	**22%**
GPM	*22.1%*	*21.5%*	*-41 bps*	*-60 bps*
EBIT margin	*4.8%*	*4.5%*	*1 bps*	*-26 bps*
SG&A expenses/Sales	*17.3%*	*16.9%*	*-41 bps*	*-34 bps*
NPM	*3.1%*	*3.7%*	*-92 bps*	*66 bps*

Source: RongViet Securities

TGDD & DMX forecast for FY2023:

- We expect that neither TGDD nor DMX will have new store next year, excluding the contribution of 50 new stores from TopZone.
- ICT & CE in-store revenue will drop 5% YoY mainly due to a significant SSSG decline.
- GPM to narrow 1 pps YoY to 20.5% by virtue of promotional activities.
- Online sales will grow 10% YoY.

BHX forecast for FY2023:

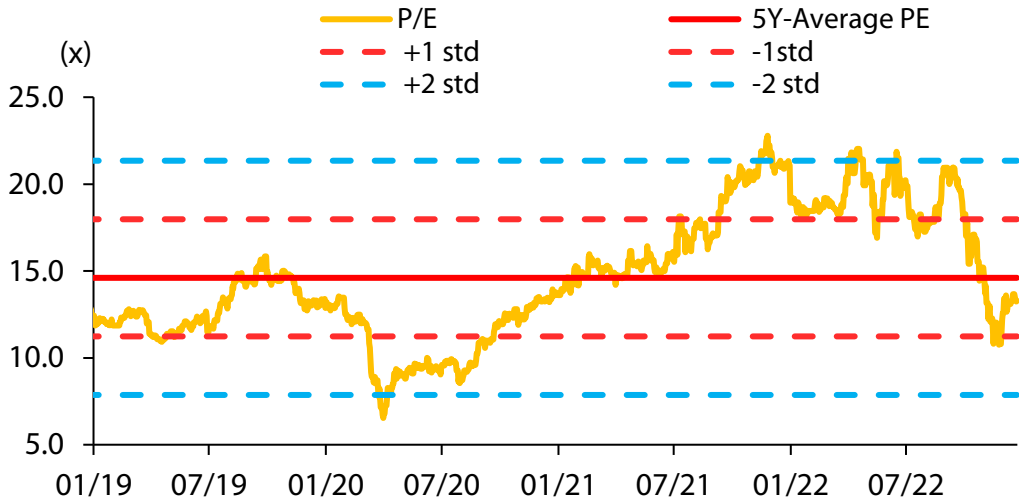
- BHX's in-store revenue will rise 15% YoY driven by higher sales per store and 100 new stores.
- GPM is expected to improve 50 bps YoY.

Muted sales growth but positive NPAT growth in 2023.

The absence of the one-off restructuring expenses from BHX's store halt in 2022 will narrow the loss of BHX in 2023. This will completely offset for the net profit drop of ICT & CE segment. Moreover, exchange rate losses due to USD debt will not be severe next year in the context of a more stable exchange rate. Consolidated net revenue is expected to flatten YoY and net profit can grow by 22% YoY in FY2023.

- Q4/2022 earnings are likely to be more dismal than market expectations, along with the slowdown in store expansion in all segments of MWG. The deterioration has casted doubts upon investors and is the main source of the stock price correction. Currently, MWG is trading at a P/E lower than the 5-year average. However, an attractive valuation alone is hardly a reason to invest, but to choose the right investment time.
- Given the gloomy ICT & CE outlook, we apply a P/E of 2023 at 10x, 11% higher than the P/E ratio of 2023 we apply to this segment of FRT. We also downgraded BHX's 2023 P/S ratio from 1.5x to 1.0x to reflect the delay of net profit breakeven. We arrive at a target price of VND61,900/share for a one-year horizon. However, we believe that once BHX starts to break even on net profit, MWG's valuation will be strongly re-rated.
- We view that the grip on stock price will only be released when there are more positive signals from business results, especially BHX chain. With ample room for growth in long-term outlook, we attribute the current price to be attractive enough for long-term investors, while short-term investors should revisit at a deeper discount or when there are positive signals from business results.

Figure 5: Historical P/E ratio



Source: Bloomberg, RongViet Securities

Table 2: Valuation summary

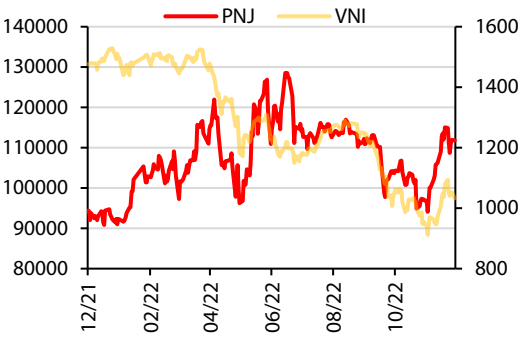
Unit: VND Bn	Valuation approach	% Contri-bution	Equity Value (VND Bn)	Equity Value (USD Bn)	Value per share
BHX	10Y FCFE (Ke: 15%, g: 5%)	25%	30,239	1.3	9,700
	P/S @ 1.0x 2023F Sales	25%			20,200
TGDD/DMX	5Y FCFE (Ke: 15%, g: 0.5%)	25%	61,708	2.6	52,700
	P/E @ 10x 2023F EPS	25%			41,200
Target price (VND)			**91,946**	**3.8**	**61,900**
Cash dividend					**1,500**
Current market price (VND) @ 12/12/2022					45,900
Total stock return					**38%**
TP / 2023F EPS					17.7

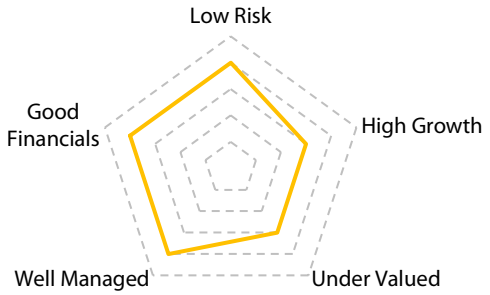
Source: RongViet Securities

RESILIENT GROWTH, BUT NOT SEEING NEW CATALYSTS ADDED IN 2023 YET

HSX: PNJ

ACCUMULATE: +16% **MP: 112,500** **TP: 128,300**





STOCK INFO

Sector	Retail
Market Cap (USD Mn)	1,165
Current Shares O/S (Mn shares)	246
3M Avg. Volume (K)	363
3M Avg. Trading Value (VND bn)	38
Remaining foreign room (%)	-
52-week range ('000 VND)	90 – 131.1

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	19,547	33,883	36,559
NPATMI (VND bn)	1,029	1,766	1,911
ROA (%)	9.7%	11.8%	12.3%
ROE (%)	20.5%	19.8%	19.0%
EPS (VND)	4,521	7,279	7,879
Book Value (VND)	22,061	36,810	38,795
Cash dividend (VND)	2,000	2,000	2,000
P/E (x)	21.1	15.5	14.3
P/B (x)	3.6	3.1	2.9

INVESTMENT RATIONALES

2023 profit continues to grow, but at a much slower pace.

- The high base of 2022 will put pressure on 2023 earnings growth.
- The pent-up demand to ease and the economic downturn to reduce purchasing power could be worrisome for the company's 2023 growth. However, we expect that PNJ is more resilient to cope with the industry headwinds than other retailers, given its leading position and its financially resilient customer base.
- Little headroom for strong gross margin improvement.
- In FY2023, we forecast revenue and NPAT will reach VND 36,559 Bn (or USD 1.5 Bn) and VND 1,911 Bn (or USD 80 Mn), up 7.9% and 8.2% YoY, respectively.

Upside not attractive enough, but likely "a safe haven" in the year of unfavorable stock market.

- The absence of new catalyst in 2023 against the record-high base of 2022 coupled with its low-volatility amid recent stock market crash will provide little incentive for stock price to climb in the short term.
- However, PNJ's organic growth is still attractive in the long term. Moreover, given the stable prospect of 2023 business results amid economic slowdown, we expect PNJ's stock price will continue to stand firm, thereby possibly becoming "a safe haven" during the storm.

RISKS TO OUR CALL

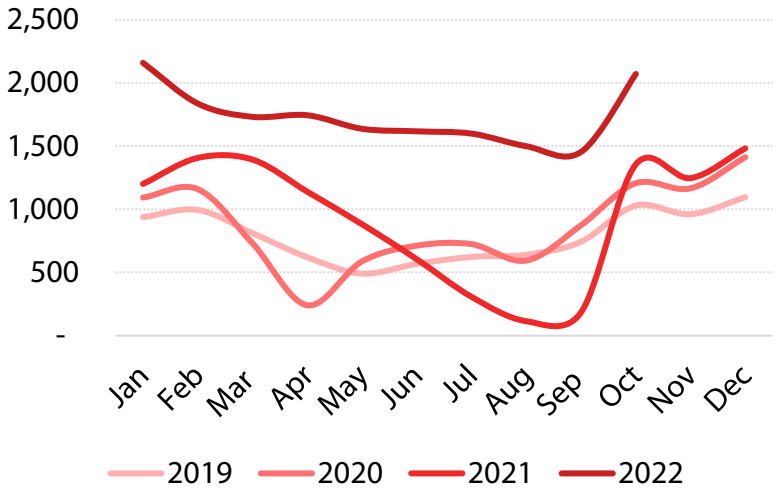
- Stronger/lower-than-expected demand for jewelry products will deviate our 2023 earnings projection.
- Slower/Faster-than-expected store rollout.

2023 PROFIT CONTINUES TO GROW, BUT AT A SLOWER PACE

Resilient customer base continues remaining a positive earnings growth next year, but at a slower pace.

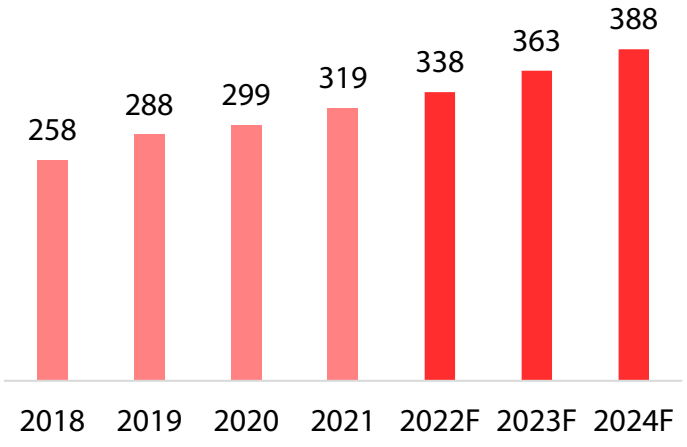
- The full-speed recovery of consumer demand after the lifting of lockdown has driven a stellar growth in 2022 business results. Accumulated 10M-2022, revenue surged 96% YoY in accordance with a rebound across all segments. We believe that these impressive figures were driven by: (1) customer base has been financially resilient against the effects of COVID-19 and inflation, (2) demand from wedding celebrations delayed by COVID-19; and (3) increasing desire for gold bar products, known as a "safe-haven" asset, amid geopolitical tension. The high base of 2022 will put pressure on 2023 earnings growth.
- The pent-up demand to cease and the economic downturn to reduce purchasing power could be worrisome for the company's 2023 growth. However, we expect that PNJ is more resilient to cope with the industry headwinds than other retailers, given its leading position and its financially resilient customer base. Therefore, **we project that 2023 revenue can grow by 8% YoY, driven by store expansion and multiples discount programs to stimulate sales.**

Figure 1: Monthly retail sales (VND Bn)



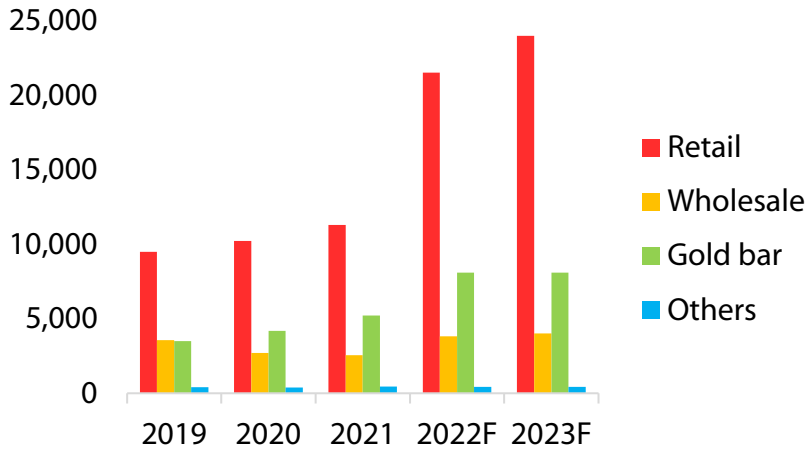
Source: PNJ, RongViet Securities

Figure 2: Gold store count forecast



Source: RongViet Securities

Figure 3: Revenue forecast in FY22-23 by product (VND Bn)



Source: RongViet Securities

LITTLE HEADROOM FOR STRONG GROSS MARGIN IMPROVEMENT

Boosting discount and marketing programs to stimulate sales will continue squeezing gross margin

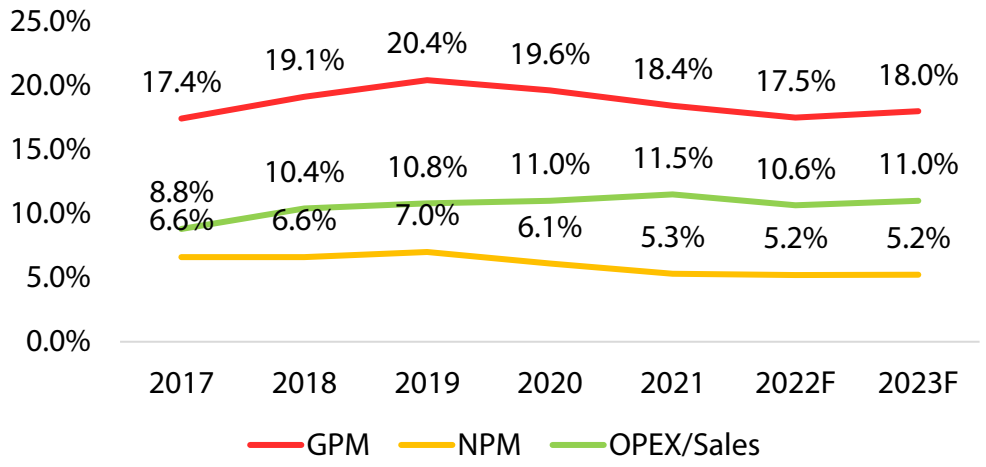
To remain retail sales next year, we expect that PNJ continues to pursue the strategy of boosting discount program to retain consumer purchasing power of middle class. Moreover, the ability to increasing selling prices will be limited amid inflation backdrop. Thus, we do not expect to see a strong recovery of gross margin next year.

Reducing the product mix toward gold bar can support gross margin

However, the cool-down of gold bar demand can lower its revenue contribution in 2023, helping gross margin to rise slightly. We currently forecast 2023 gross margin will be 18%, widening 50 bps YoY.

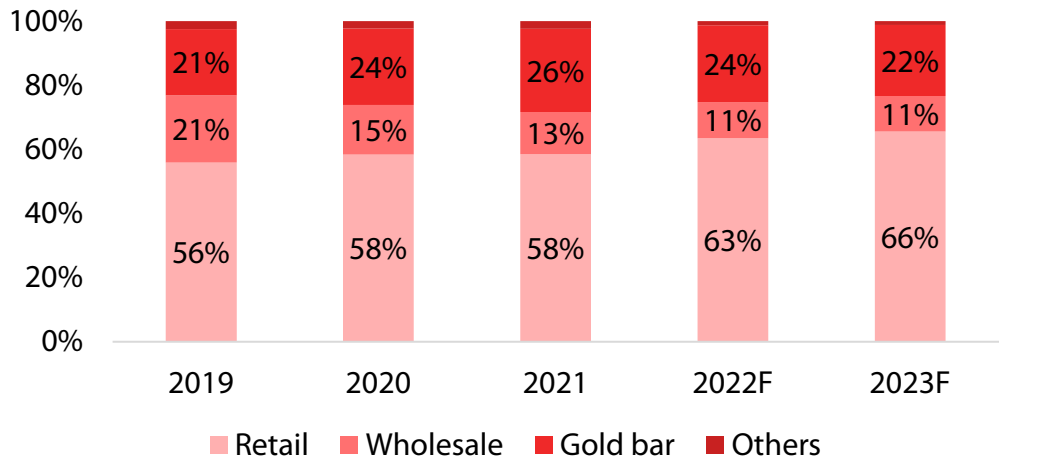
In FY2023, we forecast revenue and NPAT will reach VND 36,559 Bn (or USD 1.5 Bn) and VND 1,911 Bn (or USD 80 Mn), up 7.9% and 8.2% YoY, respectively.

Figure 4: Forecast of GPM, NPM and OPEX/Sales(%)



Source: RongViet Securities

Figure 5: Forecast of revenue breakdown(VND Bn)



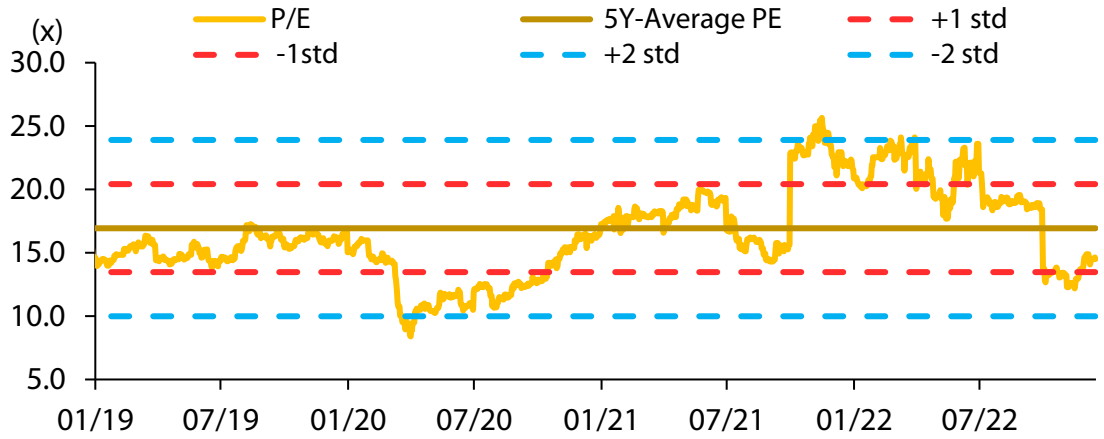
Source: RongViet Securities

UPSIDE NOT ATTRACTIVE ENOUGH, BUT LIKELY "A SAFE HAVEN" IN THE YEAR OF UNFAVORABLE STOCK MARKET

The unlooked-for growth of 2022 has priced in. We expect a positive profit growth in 2023, but lack of new catalyst to continue pushing stock price up.

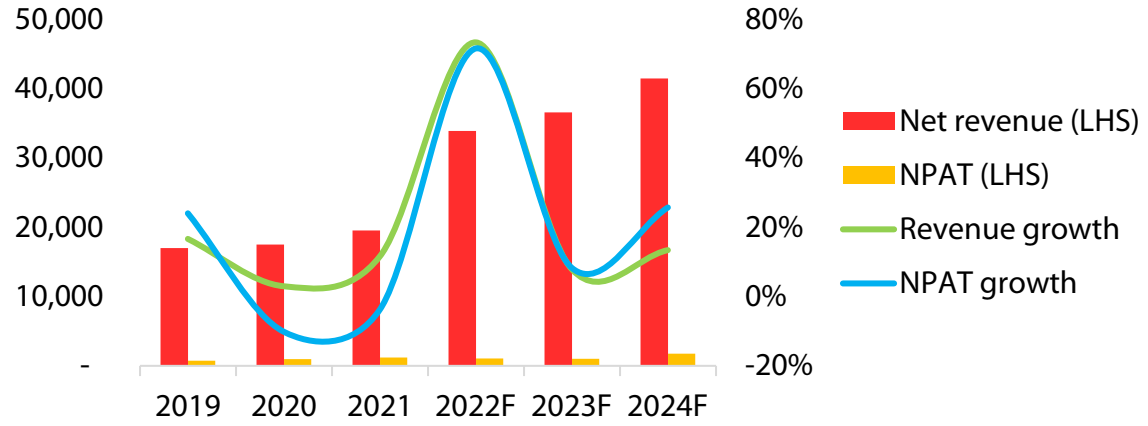
- Given the surprising growth of 2022 and expectation as an inflation-proof investment, PNJ's stock price has been less volatile than the market as a whole. This offers little upside potential for PNJ compared to many undervalued stocks in the market over a one-year horizon. The absence of new catalyst in 2023 against the record-high base of 2022 will provide little incentive for stock prices to climb in the short term.
- However, PNJ is still an attractive growth stock in the long term as PNJ's long-term organic growth continues heading to capture young generation, increasing middle-affluent class and store expansion in Tier 2 & 3. Moreover, given the stable prospect of 2023 business results amid economic slowdown, we expect PNJ's stock price to continue to stand firm, thereby possibly becoming "a safe haven" during the storm.
- Using a 50/50 mix of P/E and FCFE methods, we arrive at a target price of VND128,300/share. Of which, the former gives a 15% discount compared to the later as we apply a P/E 2023 target of 15x – lower than 5-year average P/E of 17x, while we expect a higher price of DCF method to capture the company's long-term growth potential.

Figure 6: PNJ's historical P/E (x)



Source: Bloomberg, RongViet Securities

Figure 7: Revenue and NPAT forecast (VND Bn)

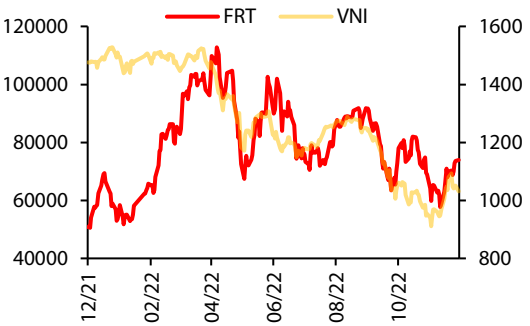


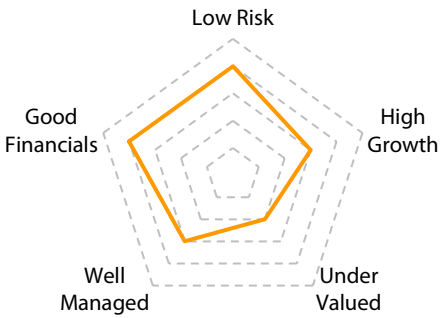
Source: RongViet Securities

LONG CHAU IS LIKELY TO PROP UP 2023 EARNINGS GROWTH

HSX: FRT

ACCUMULATE: +9% **MP: 80,300** **TP: 74,000**





STOCK INFO

Sector	Retail
Market Cap ($ mn)	371
Current Shares O/S (mn shares)	118
3M Avg. Volume (K)	1,741
3M Avg. Trading Value (VND Bn)	125
Remaining foreign room (%)	23.8
52-week range ('000 VND)	47.93 – 116.67

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	22,495	29,169	35,722
NPATMI (VND bn)	444	391	422
ROA (%)	4.1%	3.7%	3.7%
ROE (%)	26.7%	16.2%	15.2%
EPS (VND)	5,618	3,298	3,562
Book Value (VND)	21,045	20,328	23,289
Cash dividend (VND)	500	500	1,000
P/E (x)	17.8	22.4	20.8
P/B (x)	4.7	3.6	3.2

INVESTMENT RATIONALES

FPT Shop – Confronting with industry headwinds

- The moderation of consumer purchasing power, the ceasing use of work-from-home tech and Apple supply shortage will pose a huge challenge on FPT Shop's growth next year. We project a 6% decline in FPT Shop's SSSG in FY2023. The chain's NPAT will come at VND 323 Bn (or USD 13.5 Mn, -10% YoY).

Long Chau – Aggressively scaling up

- We project a 5% rise in 2023 LC's SSSG given an inelastic demand for medicines. Long Chau's revenue will jump 121%/42% YoY in 2022/2023, in line with the rapid store expansion in 2022 (full-year contribution of 600 new stores). Accordingly, we forecast 2023 NPAT will be VND 113 Bn (+3 times YoY).
- The profit growth of Long Chau is likely to offset the negative profit growth of FPT Shop next year. Therefore, 2023 total revenue and NPAT are expected to come at VND 35,722 Bn (or USD 1.5 Bn) and VND 422 Bn (or USD 17.5 Mn), growing by 23% YoY and 8% YoY.

Long Chau is the key growth driver in the long term

- FRT's long-term growth outlook will hinge on Long Chau whose NPAT is expected to surge 107% CAGR in FY2022-2026, on the over-break-even base of 2022. We expect that Long Chau will start contributing over 50% into total NPAT from 2025F.

RISKS TO OUR CALL

- Stronger/lower-than-expected demand for ICT products and supply of Apple products.
- Long Chau's profitability of new stores to underperform our expectation.

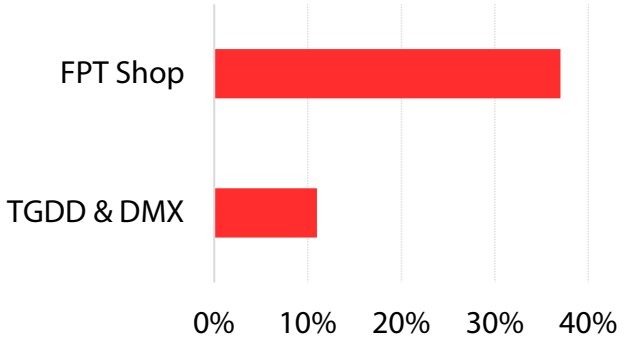
Revenue – Struggle with weak demand

The deceleration of consumer purchasing power in conjunction with the ceasing use of work-from-home tech will pose a huge challenge on FPT Shop's growth next year. In addition, Apple products, which significantly contribute into the chain's sales (37% in 2021), have faced a supply disruption to prolong the order lead times. This will directly cause a strong reduction in sales volume from Q4/2022 to at least Q1/2023. Thus, we project a 6% decline in FPT Shop's SSSG in FY2023. However, despite sales-per-store reduction, new stores opened in 2022 can support for ICT revenue next year. This leads us a projection of 8% YoY revenue growth of FPT Shop in 2023.

Gross margin – Remain low

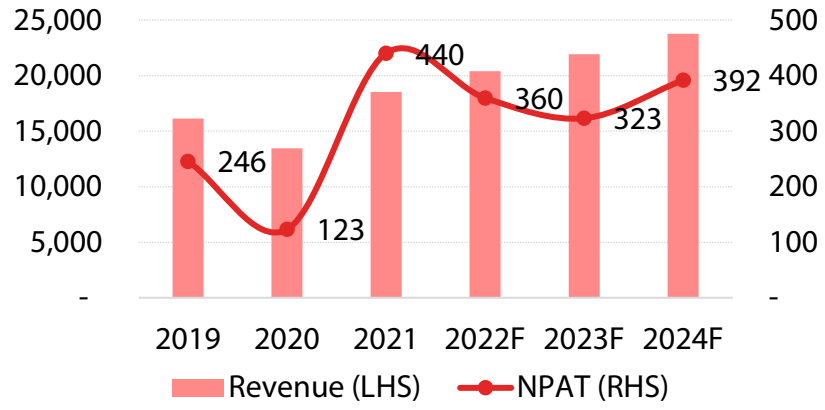
We expect that multiple discount programs will be launched next year can continue suppressing the chain's GPM. Moreover, higher contribution of Apple products (especially Iphone 14) with low-GPM could be a contributing factor to the low of 2023 GPM. We conservatively forecast FPT Shop's 2023 GPM to remain at the same level of 2022 while net margin will contract 30 bps YoY because of higher OPEX and interest expenses. Thus, the chain's NPAT will come at VND 323 Bn (or USD 13.5 Mn, -10% YoY).

Figure 1: Revenue contribution of Apple products in 2021



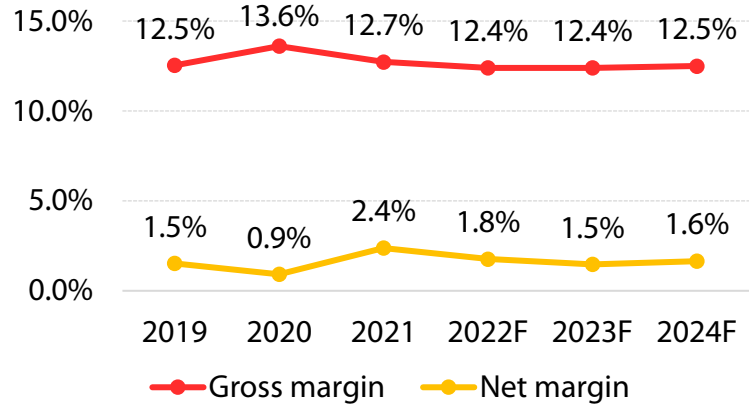
Source: Company Filings, RongViet Securities

Figure 2: FPT Shop's revenue and NPAT forecast (VNDbn)



Source: RongViet Securities

Figure 3: FPT Shop's GPM and NPM

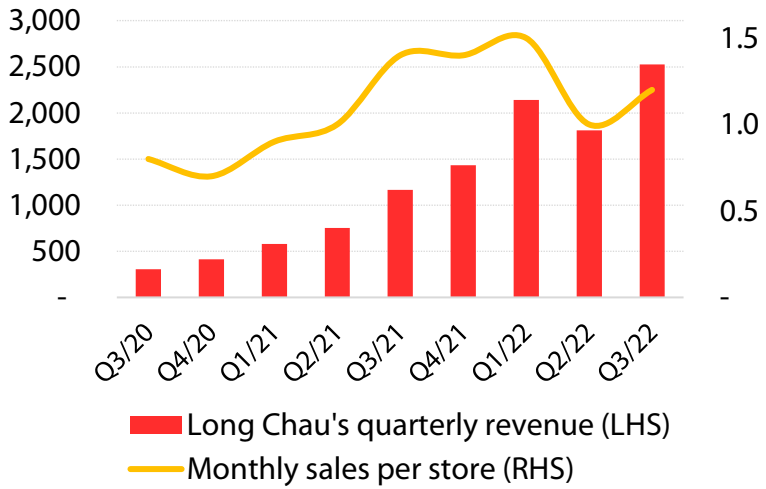


Source: RongViet Securities

Astonishing store-rollout pace

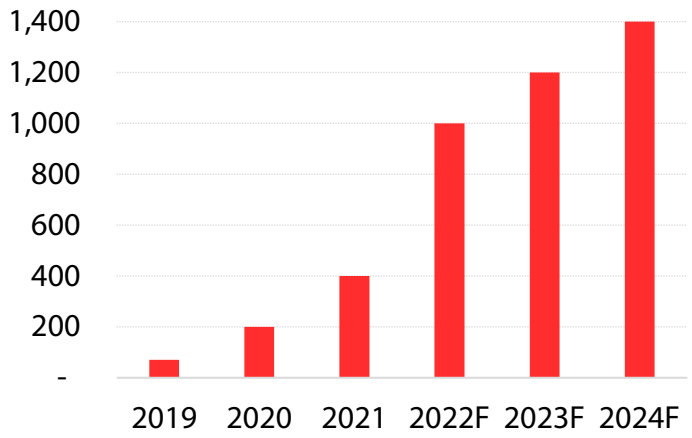
- We expect that Long Chau's revenue will jump 121%/42% YoY to reach VND 8,781/12,484 Bn (or USD 366/520 Mn) in 2022/2023, respectively, in line with the rapid store expansion in 2022 (full-year contribution of 600 new stores).
- We project a 5% rise in 2023 LC's SSSG given an inelastic demand for medicines. In terms of store rollout, we expect the company will slow down to 200 stores for full-year FY2023, adding up to a total of 1,200 by YE2023. Accordingly, we forecast 2023 NPAT will be VND 113 Bn (+3 times YoY).
- The profit growth of Long Chau is likely to offset the negative profit growth of FPT Shop next year. Therefore, 2023 total revenue and NPAT are expected to come at VND 35,722 Bn (or USD 1.5 Bn) and VND 422 Bn (or USD 17.5 Mn), growing by 23% YoY and 8% YoY.

Figure 4: Long Chau's revenue (VND Bn)



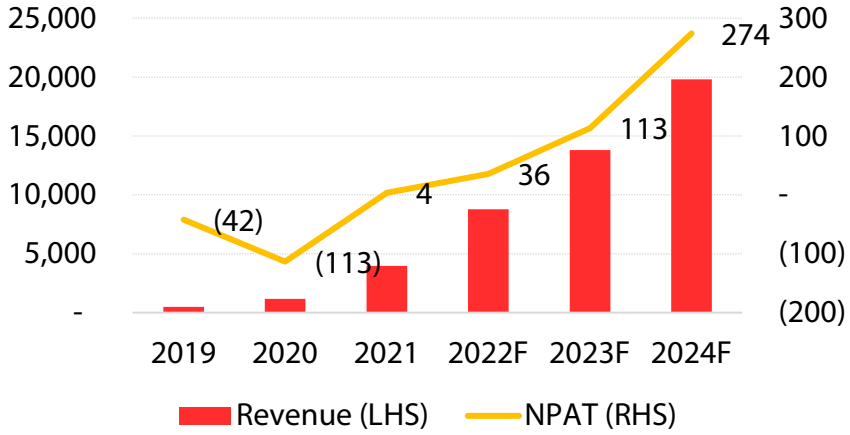
Source: FRT, RongViet Securities

Figure 5: Long Chau's store count forecast



Source: FRT, RongViet Securities

Figure 6: Long Chau's store count, revenue and NPAT forecast (VND Bn)



Source: RongViet Securities

Long Chau is on track to become the key contributor into the company's profit

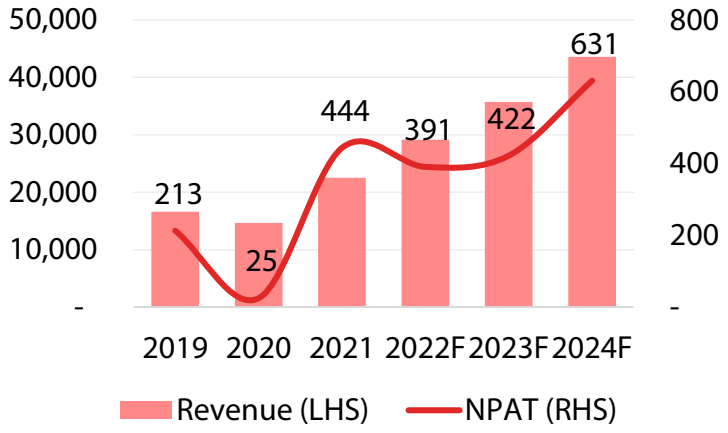
- Due to the saturation of ICT sub-sector, we view that FRT's long-term growth outlook will hinge on Long Chau whose NPAT is expected to surge 107% CAGR in FY2022-2026, on the over-break-even base of 2022. We expect that Long Chau will start contributing over 50% into total NPAT from 2025F. Compared to rivals, Long Chau seems to outperform in term of the store-rollout pace and profitable revenue growth.
- We apply a P/E of 9x in 2023 for FPT Shop chain, given its profit slowdown and potential risks of consumer purchasing power. We maintain a 10Y FCFF valuation for Long Chau to better capture the long-term growth outlook. Our target price comes at VND 80,300, implying a much higher 2023 PER than its peer group in retail industry, justified by the fast-growing potential of Long Chau.
- The current market price of FRT provides it little upside potential, especially amid the pressures of unfavorable bottom line for next two quarters. We expect a deeper discount will likely bring a better investment opportunity. Overall, we view that the lack of supportive information will make the stock price move sideways in the short term, until seeing more positive factors from the recovery of consumer demand, the relief from the lack of Apple supply, or the more profit contribution from Long Chau.

Figure 6: Valuation summary

Unit: VND Bn	Valuation approach	%Weight	Valuation
FPT Shop	5Y FCFF (WACC: 11.2%, g: 2.0%)	50%	41,100
	P/E @ 9x 2023F EPS	50%	24,500
Long Chau	10Y FCFF (WACC: 15%, g: 2.0%)	100%	47,500
Target price (VND)			**80,300**
Cash dividend			**500**
MP (VND) @ 12/12/2022			74,000
Total stock return			**9%**
2023F P/E at TP			**22.5x**

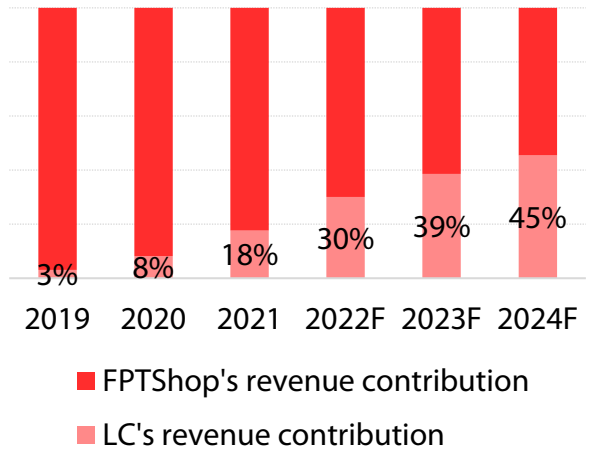
Source: RongViet Securities

Figure 7: Revenue & NPAT forecast (VNDbn)



Source: RongViet Securities

Figure 8: Revenue contribution



Source: RongViet Securities

RONG VIET SECURITIES

SEA PORT AND LOGISTIC

CHALLENGES IS COMING

Quan Cao – quan.cn@vdsc.com.vn
Tung Do – tung.dt@vdsc.com.vn

LOGISTICS – CHALLENGES WAITING FORWARD IN 2023

Negative	Neutral	Positive

Rating

Overview

Declining demand for consumer goods or production materials is signaled by low economic growth and low PMIs in countries that are key trading partners of Vietnam. Declining export demand will also affect the outlook of import activities, leading to difficulties in import-export container volume in 2023. Maritime transport activities are also not bright when freight rates are likely to remain at a lower rate than in 2022 under pressure from domestic transport supply increases, while domestic transport demand is forecast to be weaken.

HIghlight

Volume of import and export containers and seaport operations are under pressure when the demand for import and export of goods is forecasted to be weaker in 2023.

- Vietnam's exports are affected when (1) foreign companies do not intend to expand production in the context of the deceleration/recession of key economies and (2) the tight monetary policy to control inflation will reduce consumption/shopping demand in countries that are our key trading partners.
- Many export orders have been cut, causing domestic manufacturers to downsize their scales. This will also affect import demand.

China's easing of Covid restrictions will have little impact on seaport activities as seaborne import & export activities from China were not interrupted by the lockdown in 2022.

Developing deep-water ports is the orientation of Vietnam seaport industry to catch up with the world trend when shipping lines prioritize investment in new generations of modern ships, with increasing scale and tonnage, that will increase competition, which is already tense, in the Hai Phong area.

Sea freight rates are forecasted to be difficult to return to the old peak. Domestic production activities tend to shrink, which will reduce the demand for domestic container transportation. At the same time, domestic transport supply has increased to 38% in 2022 with the addition of 2 large vessels (total capacity of 3,500 TEUs).

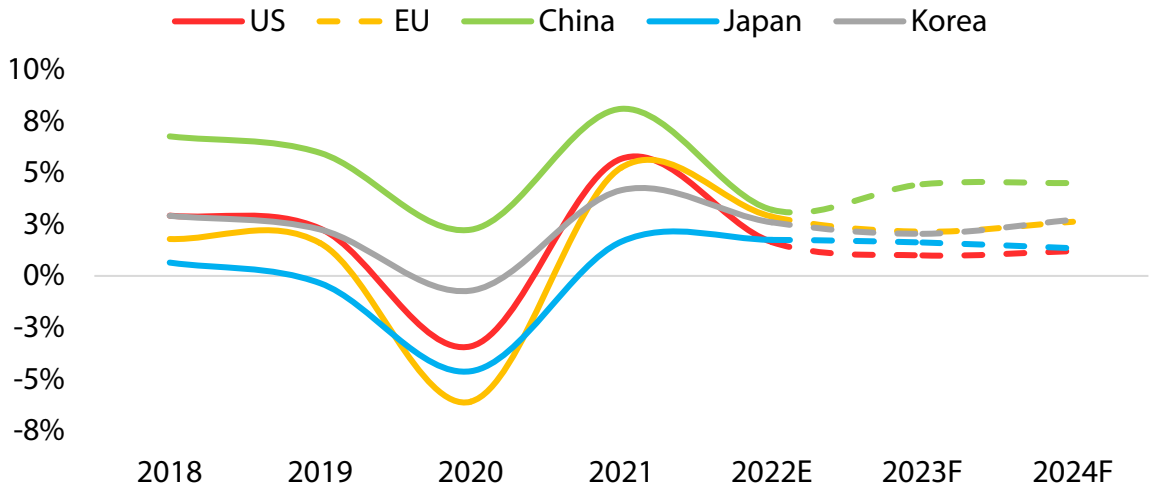
Risk

- The economic situation of trading partners may be worser than forecasted, not excluding the possibility that Vietnam's import-export turnover will grow negative in 2023.
- Charter rates have dropped sharply leading to the ability that companies will bring ships to run domestically route when the lease contract expires. B which will increase domestic supply, causing domestic freight rates to fall deeply.

The slow economic growth of key trading partners will negatively affect Vietnam's exports.

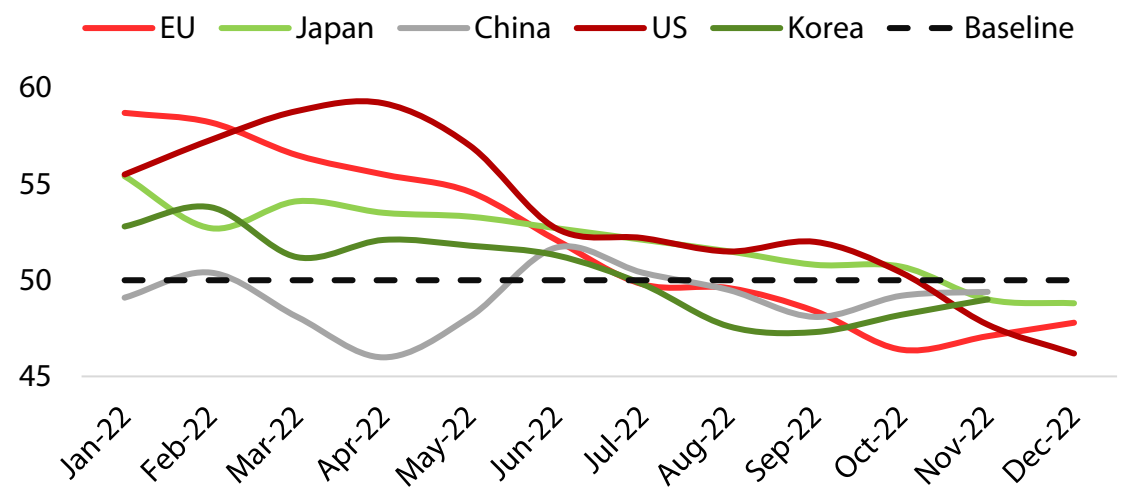
- The IMF forecast that GDP growth will decelerate in the countries that are key trading partners of Vietnam (except China) (figure 1). In addition, tight monetary policy to control inflation will also reduce consumer demand in these markets.
- In 2023, the export value of Vietnam's machinery, equipment, spare parts and production materials to these countries will also face difficulties when foreign companies do not expand production, as shown through PMI indexes of the US, China, Japan, Korea, EU (figure 2), continue their downtrend with the value of below 50 points in the Nov 2022 report and has not shown any signs of improvement.
- At the same time, the number of working hours of employees was reduced and the Vietnam PMI index in Nov 2022 (figure 14) reinforces the fact that companies have reduced export orders for 2023.

Figure 1: GDP growth forecast of main import-export partners



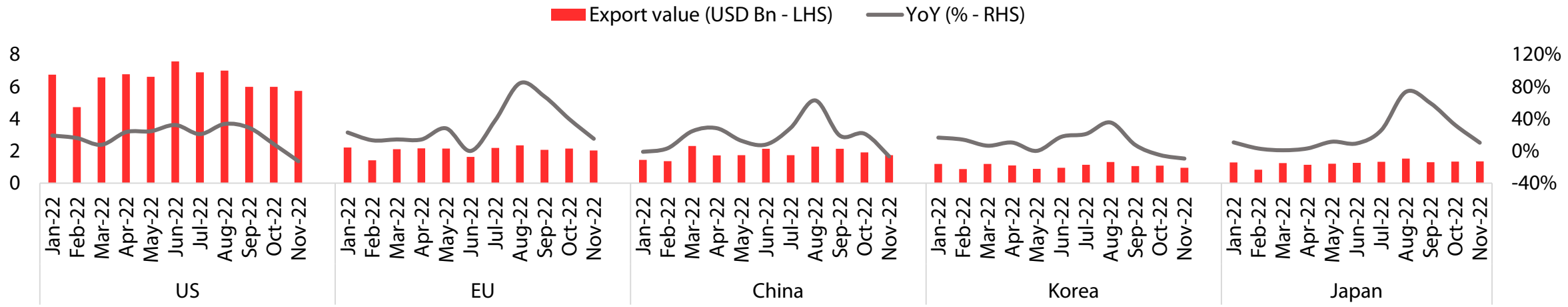
Source: Vinamarines, Vietnam Customs, RongViet Securities

Figure 2: PMI of main import-export partners



Source: Vinamarines, RongViet Securities

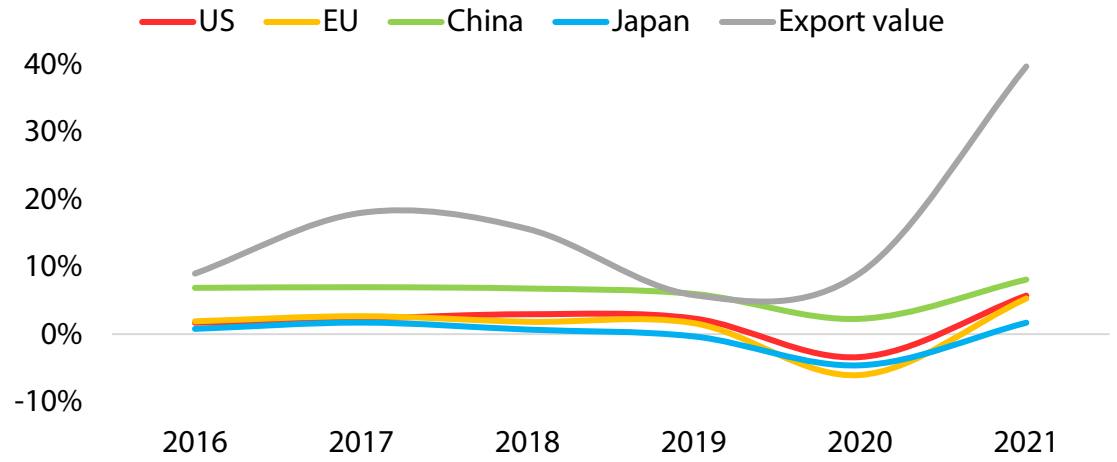
Figure 3 : Export value of goods by sea containers through major trading partners



Source: Vietnam Customs, RongViet Securities

- **The growth rate of sea container export value has been significantly affected in 2H2022** as operating policies are gradually seeping into the economy, we believe that this will be more visible in 2023.
- The correlation between the growth rate of export good value by container and the growth rate of GDP in the main export markets (figure 4) led us to believe that export turnover and volume of sea containers will decelerate in 2023 as global economic growth weakens.

Figure 4: The correlation between the growth rate of GDP and the growth rate of export value (YoY - %)

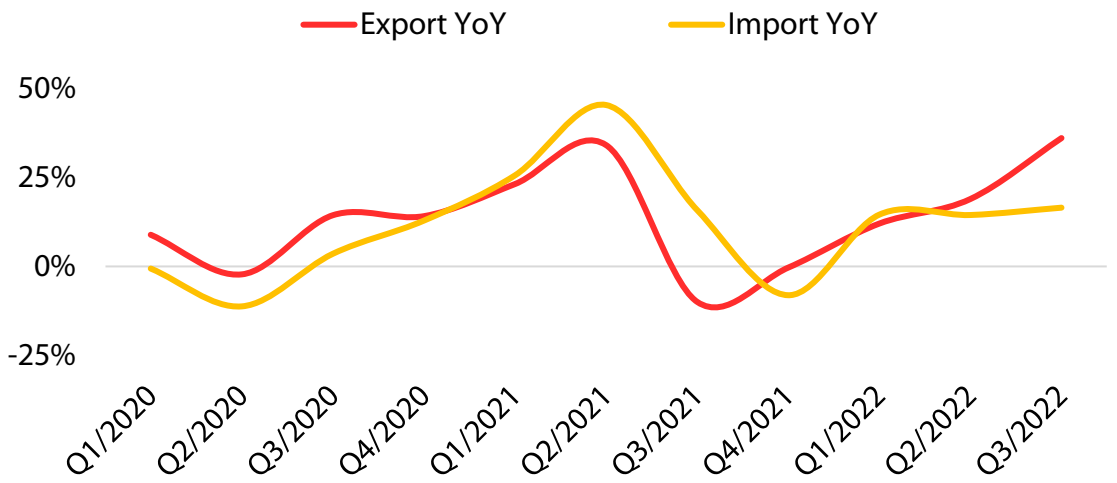


Source: Vinamarines, RongViet Securities

The volume of imported goods by container will also find it difficult to grow in 2023.

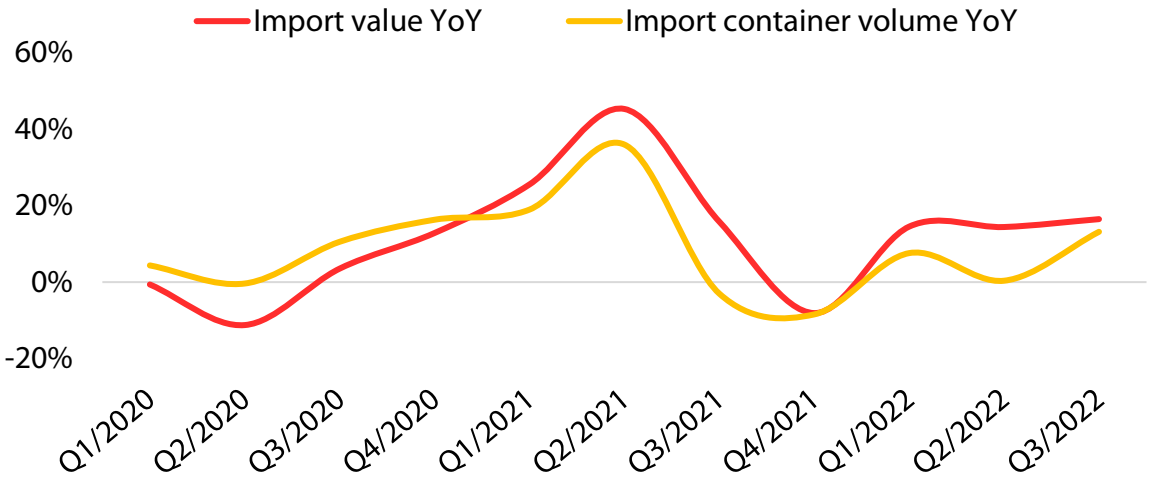
- Some of the main imported goods via containers such as machinery, equipment, spare parts, textiles and accessories, leather and footwear are input materials for the production of machinery, equipment, garments, etc.
- The decline in export demand will lead to a weakening of the demand for imported goods, machinery, equipment, spare parts and production materials.
- Growth in import container volume is also forecasted to decelerate in 2023 as import demand weakens.

Figure 5: The correlation between the growth in value of major seaborne containerized EX-iM (YoY - %)



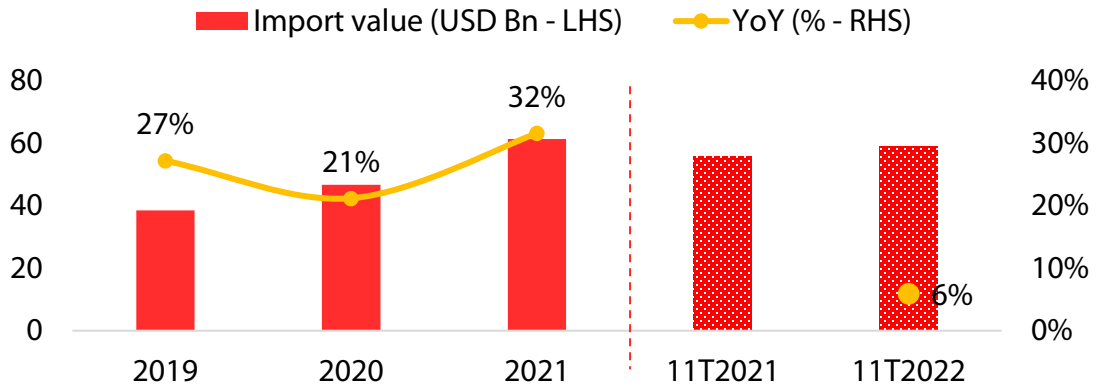
Source: Vinamarines, Vietnam Customs, RongViet Securities

Figure 6 : Synchronous movement between import growth rate and import container volume (YoY - %)



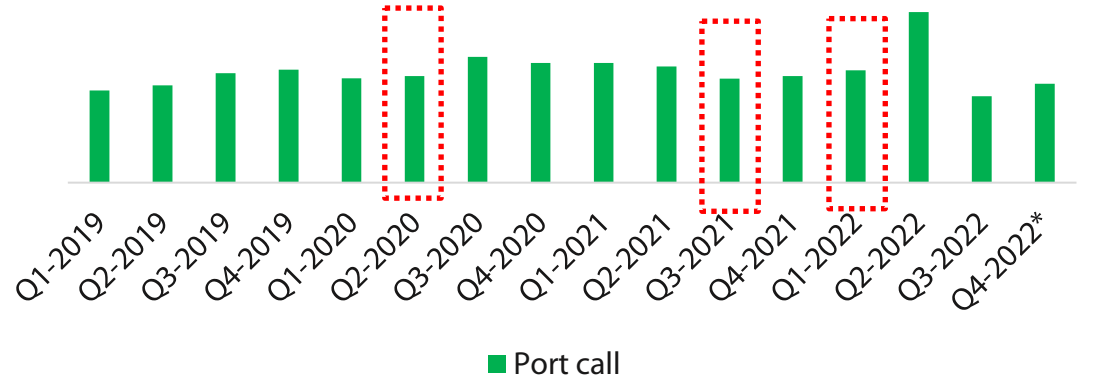
Source: Vinamarines, RongViet Securities

Figure 7: The value of major seaborne containerized imports from China



Source: Vietnam Customs, RongViet Securities

Figure 8 : The number of port calls from China increased sharply after easing



*Source: Hai Phong maritime port authority, RongViet Securities, * except December*

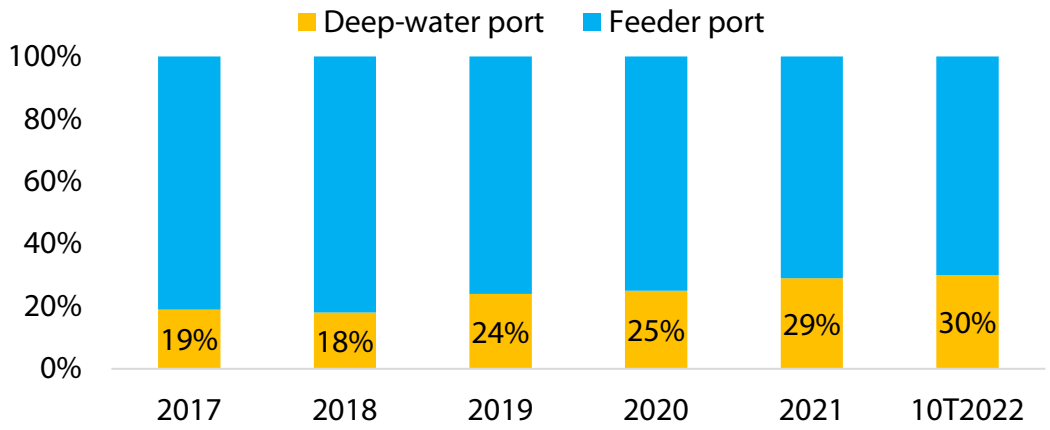
China's easing of Covid restrictions will have little impact on seaport operations as seaborne import and export activities from China will not be interrupted by the lockdown in 2022.

- China's industrial production was not strongly affected by the application of the policy of "quick tightening - quick easing". In Shenzhen, the lockdown period is about one week, and the longest closing time is Shanghai, which is only about 1 - 1.5 months. At the same time, the manufacturing industry is supported by the government in investment to expand the scale and postpone/reduce the tax burden.
- COVID-19 appeared in Jan 2022 caused cargo congestion in Ning Ba Port (one of the largest ports in the world), the port's operation reduced capacity. However, then the Chinese Government decided not to close the seaport operation, applying separate management policies helping to ensure the supply chain.

Since imports from China out of the total import value of Vietnam account for 33%, of which, mainly are machinery and spare parts so the guaranteed supply chain will help the supply chain and commodity prices become more stable in 2023.

DEEP-WATER PORT PLAYS AN IMPORTANT ROLE IN THE SEAPORT SYSTEM

Figure 9: Deep-water port's market share increases year by year



Source: VPA, RongViet Securities

Table 1: New deep-water port projects

Terminal	Total investment (VND Bn)	Estimated time of completion	Design capacity (million TEU)
Lien Chieu – Da Nang	3,420	12/2025	2.5
Lach Huyen berth 3&4	6,946	2025	1.1
Lach Huyen berth 5&6	8,950	2025	N/A
Gemalink phase 2	USD 300 Mn	2024 - 2025	1.5

Source: Decesion No. 435/Q – TT, No. 299/QD– TTG, No. 1323/QD – TTG, Gemalink, RongViet Securities

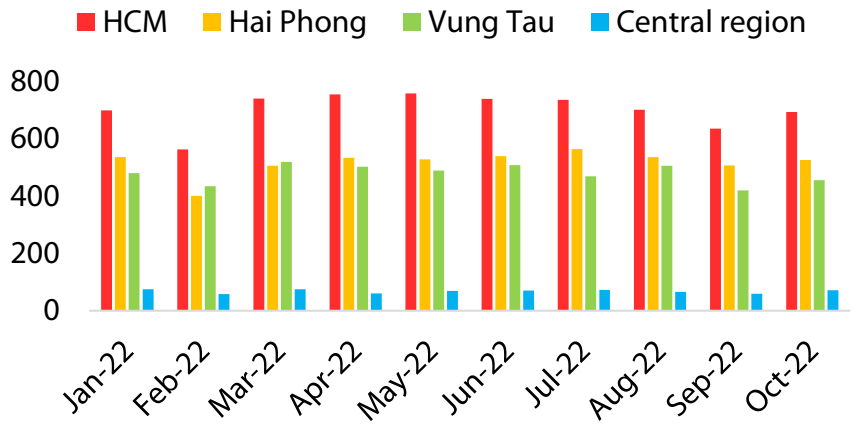
The market share of deep-water ports is increasing year over year, showing an important role in the seaport system of Vietnam. Develop deep-water ports to serve to connect Vietnam with major global trading partners, meeting Europe and America routes directly by mother ships, and at the same time keeping up with development trends of new generations with large-scale and modern ships in the world.

Total deep-water port volume in 10M2022 reached 6.7 million TEU (+16% YoY), led by HICT port in Lach Huyen and GML in Cai Mep.

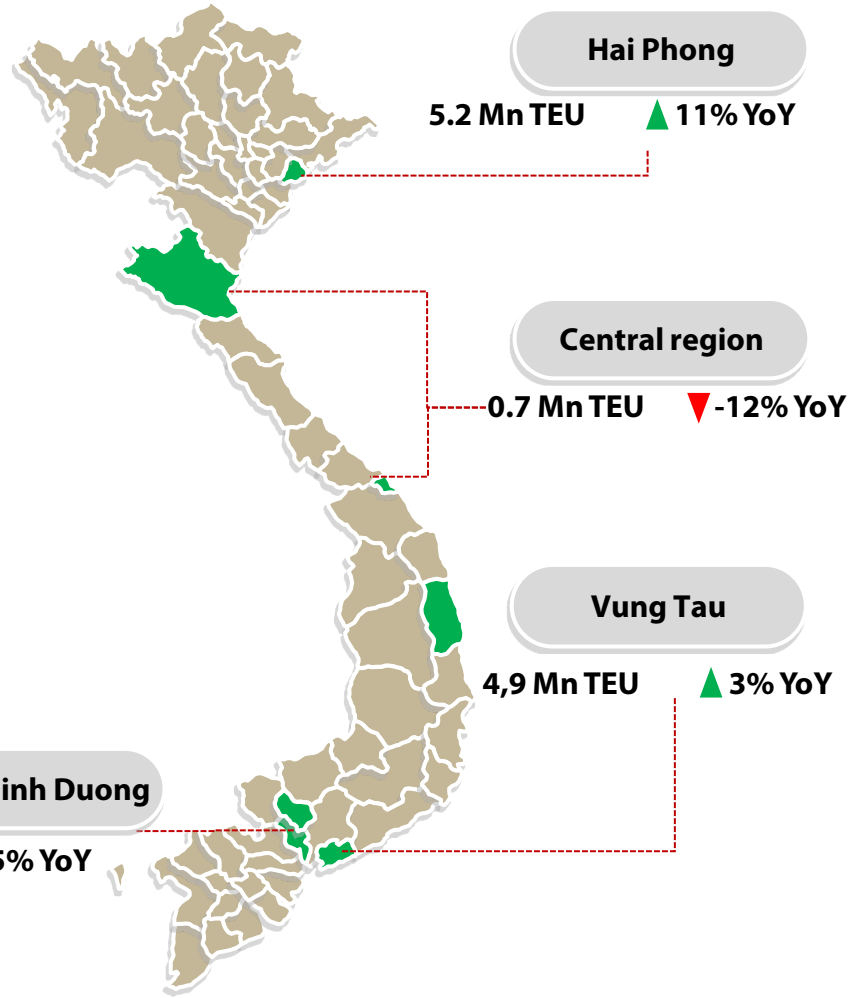
While the competitive context in the deep-water ports in Cai Mep and the Central region has not changed much, the competition in Hai Phong will become more intense when the new deep-water terminals at Lach Huyen come into operation in the next 2 years.

- The market share of small ports in Hai Phong area has been eroded in 2022 when HICT port after completing dredging in front of the pier and be able to receive large vessels.
- In 2024-2025, two more deep-water ports, Lach Huyen pier 3&4 and 5&6, will come into operation. This will increase competitive pressure for small ports.

Figure 10: Throughput in key port clusters in 10M2021 ('000 TEU)



Source: VPA, RongViet Securities



Terminal	Volume ('000 TEU)	YoY %	MS
HICT	994	74%	21%
Tan Vu	892	0%	19%
VIP green	556	6%	12%
Dinh Vu	460	-7%	10%
NHDV	458	2%	10%

Terminal	Volume ('000 TEU)	YoY %	MS
Cat Lai	4,591	2%	69%
ITC – Phu Huy	475	0%	7%
VICT	467	6%	7%
Dong Nai	435	24%	7%
Binh Duong	403	44%	6%

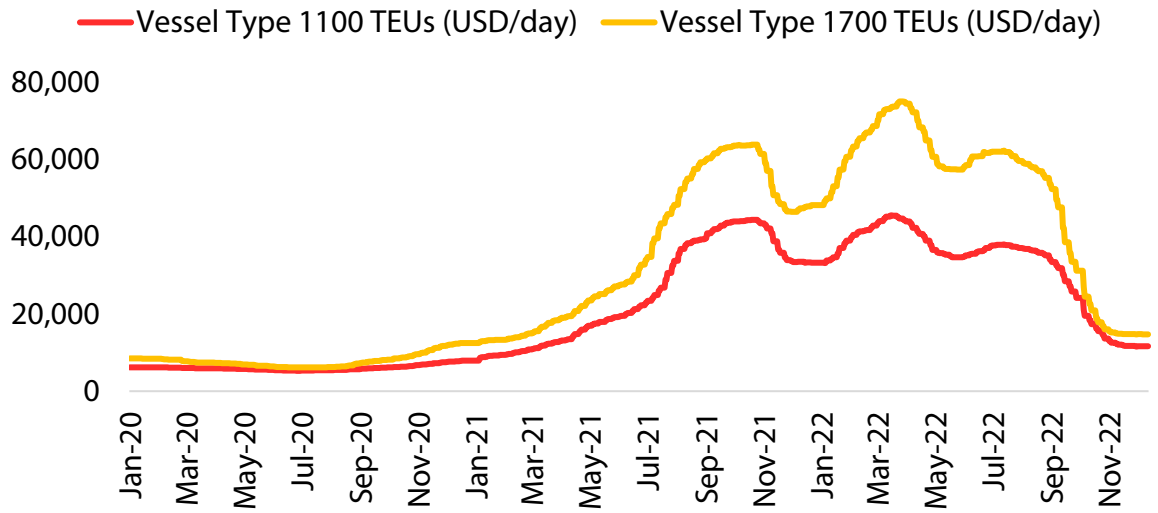
Source: VPA, Vinamarine, RongViet Securites

Terminal	Volume ('000 TEU)	YoY %	MS
TCIT	1,654	-3%	35%
Gemalink	1,361	31%	28%
CMIT	713	-4%	15%
SSIT	615	-8%	13%
TCTT	444	-9%	9%

Domestic carrying capacity is forecast to grow rapidly…

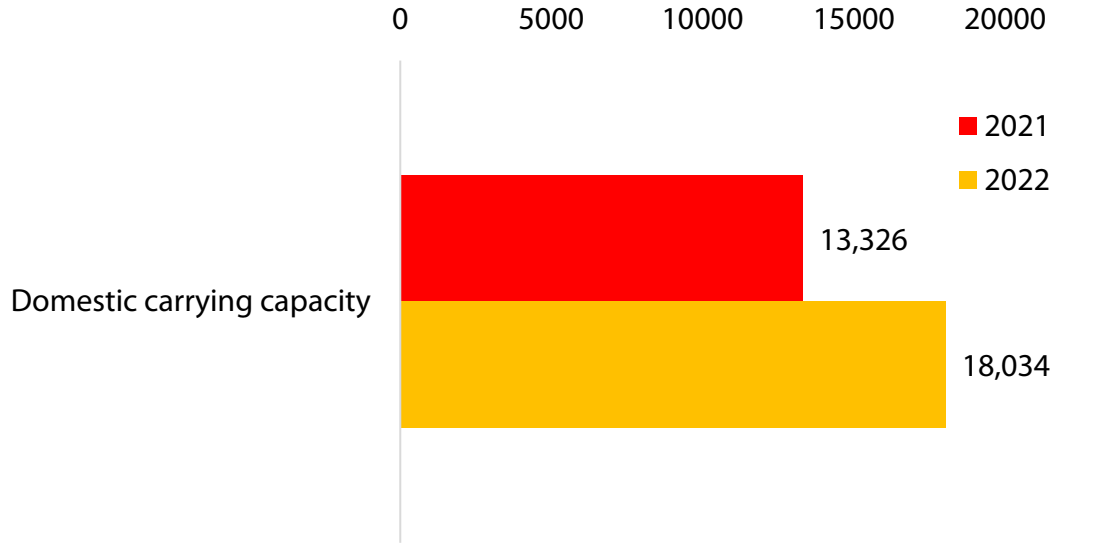
- Vietnam's PMI and IIP tend to decrease in the last months of the year (figure 13&14), signaling that domestic companies are tending to reduce production, which will reduce the demand for domestic transport by container.
- Two large ships HAIAN ROSE and VINASHIN EXPRESS 01 with a maximum capacity of 1,708 TEU and 1,730 TEU, respectively, are invested by Hai An and Van Son Investment and Trade Development Co., Ltd in 2022 to transport domestic containers. In addition, a number of ships on time charter were brought back to domestic operation, increasing the supply from 13,000 TEU in 2021 to 18,000 TEU in 2022 (+38% YoY).
- **The charter rate of container ships in the international market has dropped sharply since 2H2022** (figure 11) and is forecasted to be difficult to increase again when the demand for container cargo declines, **domestic transport supply may continue to increase if transport companies bring ships to run inland when the lease contract expires or is canceled.**

Figure 11: Charter rate (USD/day)



Source: Vietnam Register, RongViet Securities

Figure 12: Domestic carrying capacity increased



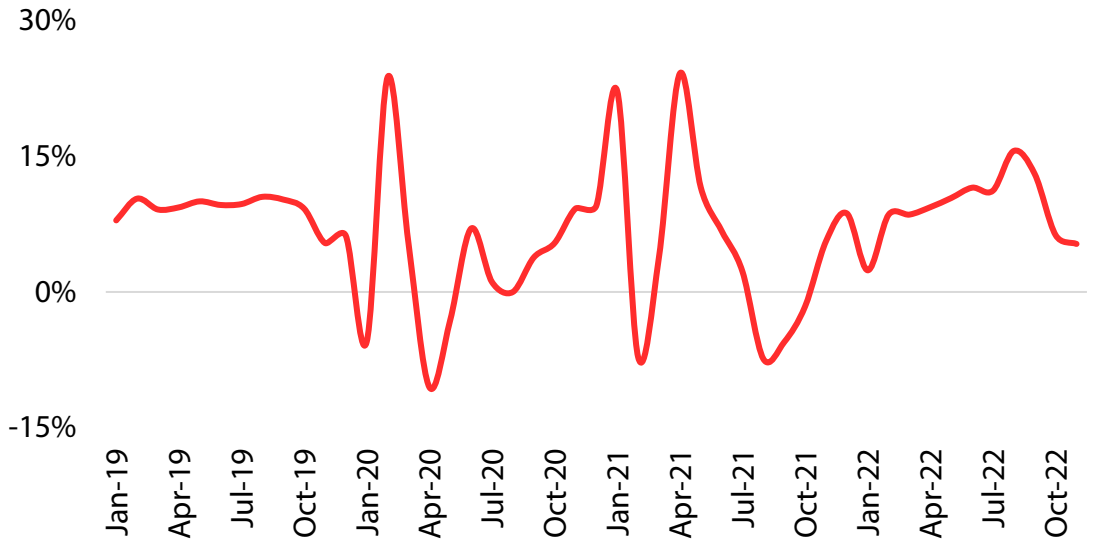
Source: HAH, Vietnam Register, RongViet Securities

SIGNAL OF DECREASE OF DOMESTIC PRODUCTION ACTIVITIES

… While the not really bright demand for domestic sea freight transport will be an obstacle to the domestic sea freight rates.

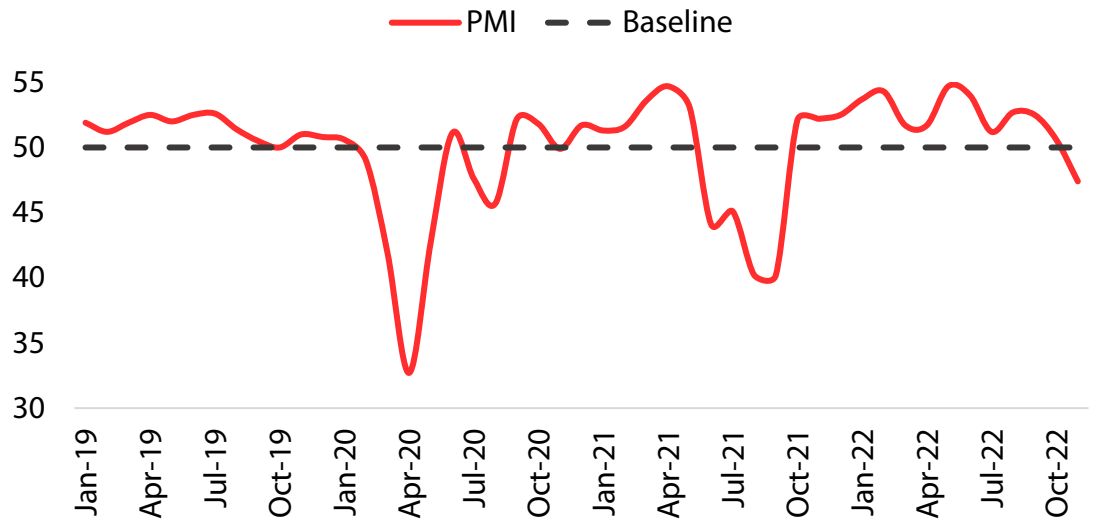
- Vietnam's PMI and IIP tend to decrease in the last months of the year (figure 13&14), signaling that domestic companies are tending to reduce production, which will reduce the demand for domestic transport by container.

Figure 13: Vietnam's IIP % YoY



Source: Fiinpro, RongViet Securites

Figure 14 : Vietnam's PMI is lower than 50 point



Source: Fiinpro, IHS Markit, RongViet Securites

Figure 15: GMD stands out in the group of seaports with the ability to maintain revenue growth and NPAT thanks to increasing contribution of GML

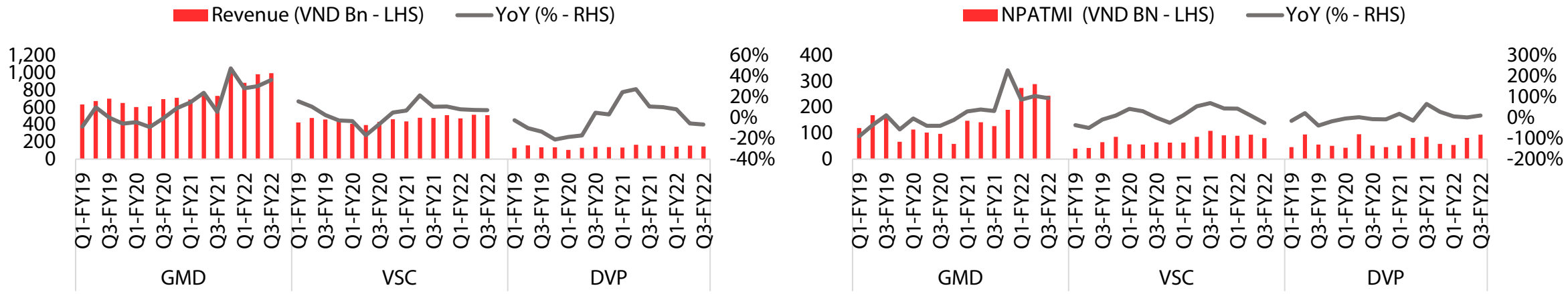
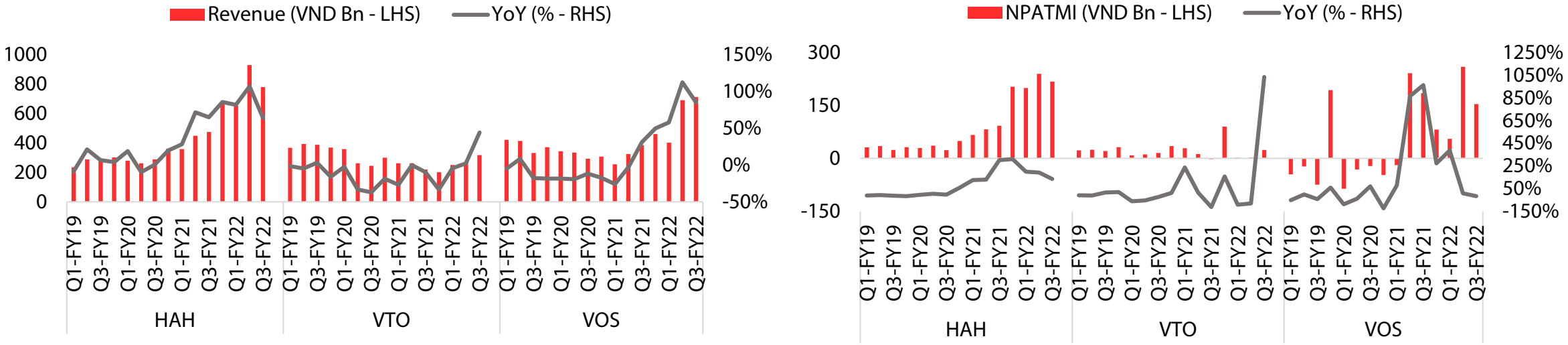


Figure 16: In general, the growth rate of revenue and NPAT of shipping group decelerated in Q3/2022



Source: Fiinpro, Bloomberg, RongViet Securities

During the DOWNTREND period of VNINDEX:

- The performance of shipping stocks has dropped sharply since 2H2022 due to deceleration in NPAT growth, freight rates had gone through a "glorious" period, and is expected that will be difficult to rise again to the old peak.
- Seaport stocks in general have better performance than VNINDEX because they still maintain the ability to grow in revenue and NPAT, especially GMD with profit contributions from GML.

Figure 17: Shipping group performance dropped sharply in 2H2022

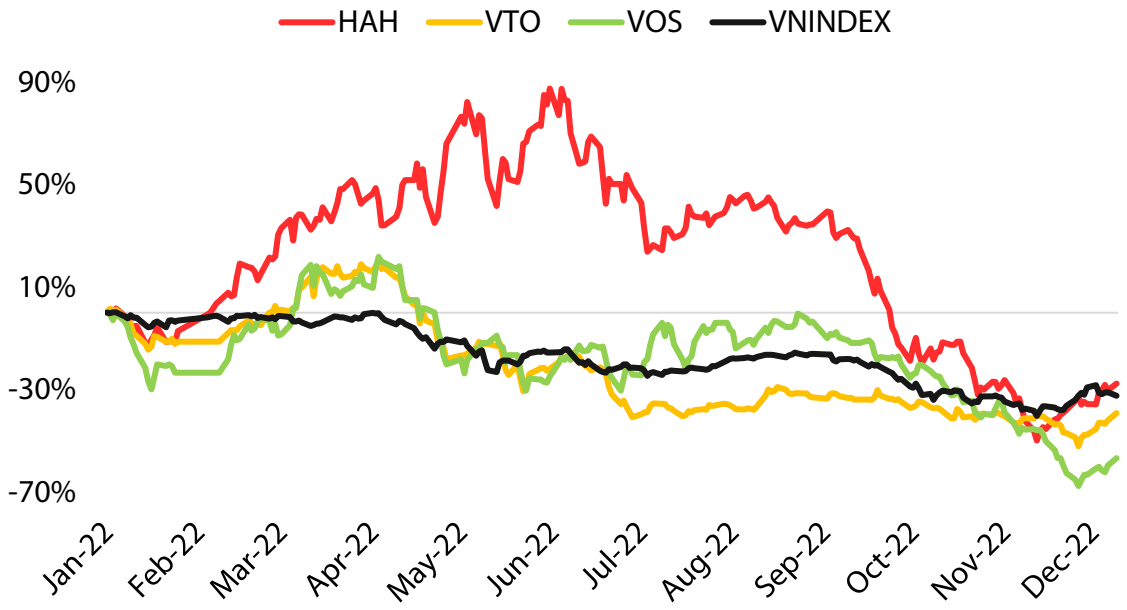
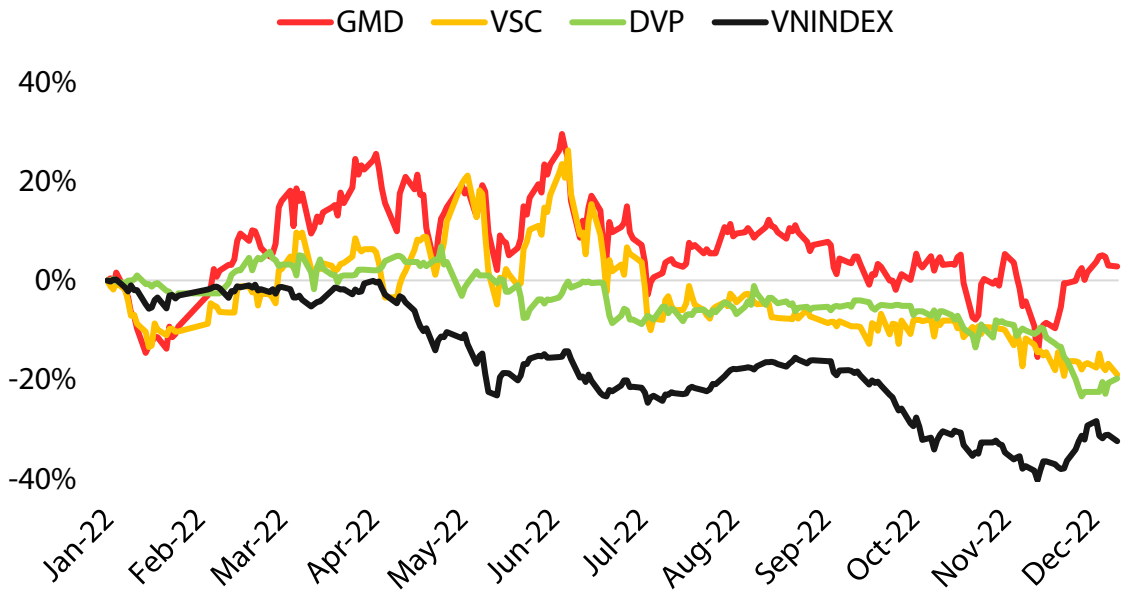


Figure 18: Seaport group shows better performance than VNINDEX

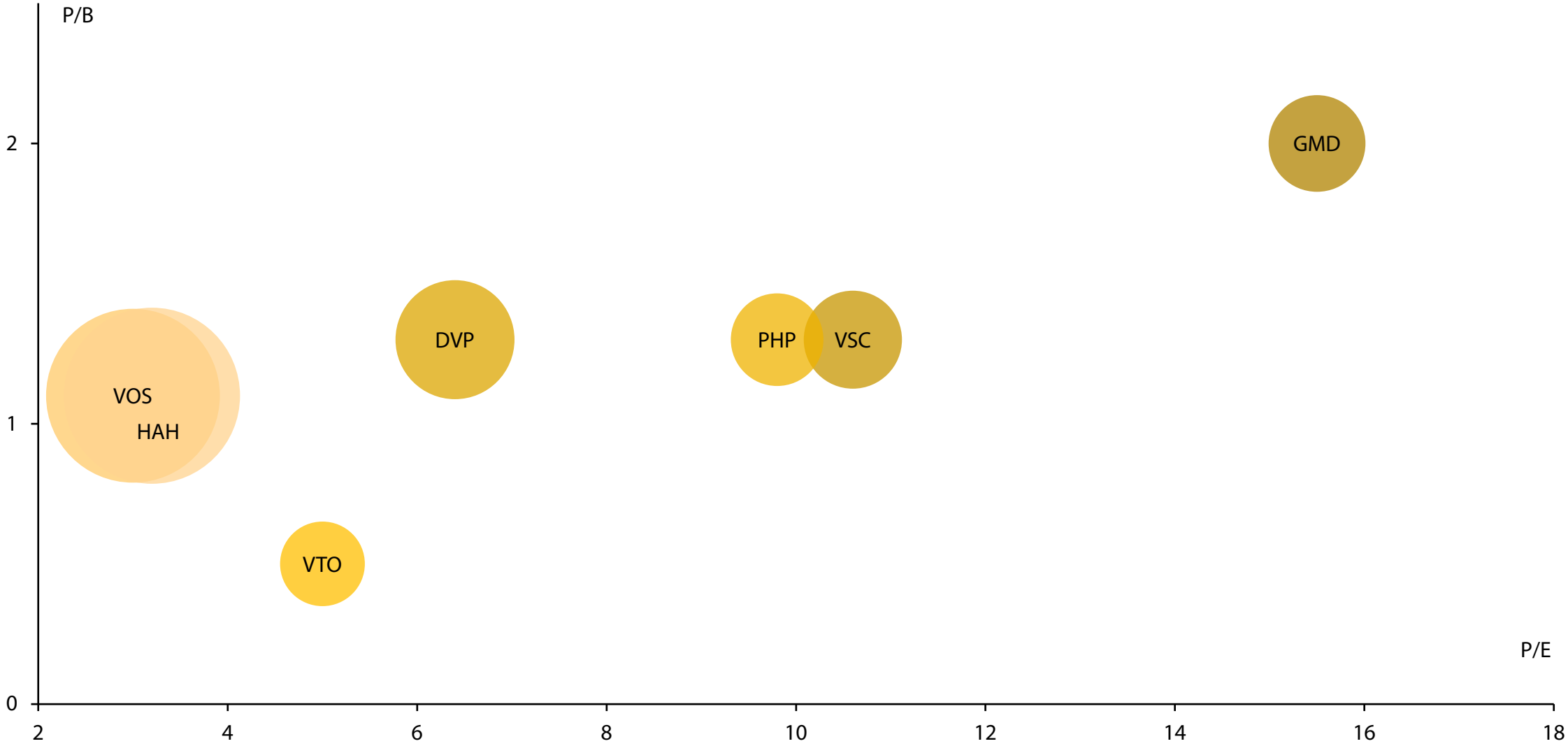


Source: Bloomberg, RongViet Securities

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022			2021A	2022 E	2023F	2021A	2022 E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
GMD	14,331	53,300	47,550	0	0	23.1	-29.7	77.2	0.6	287.9	-38.4	18.7	9.6	9.1	18.6	0.9	1.6
HAH	2,441	32,500	34,700	0	35.6	64.1	96.0	1.3	2.1	335.3	-11.6	0	15.5	5.7	5.7	5.6	1.0
VSC	3,778	N.R	31,150	N.A	45.0	12.0	N.A	N.A	0.5	N.A	N.A	14.6	11.4	10.6	10.7	1.3	1.5
PHP	5,460	N.R	16,700	N.A	48.9	12.5	N.A	N.A	0.2	N.A	N.A	18.7	9.6	9.1	11.2	0.9	1.3
DVP	1,836	N.R	44,902	N.A	36.9	17.4	N.A	N.A	0.2	N.A	N.A	21.5	19.7	6.2	7.4	1.3	1.7
VOS	1,659	N.R	11,850	N.A	47.9	11.2	N.A	N.A	-2.1	N.A	N.A	45.9	19.8	3	N.A	1.1	0.9
VTO	600	N.R	7,510	N.A	48.0	-18.0	N.A	N.A	-0.5	N.A	N.A	10.9	6.8	5	8.8	0.5	0.6

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

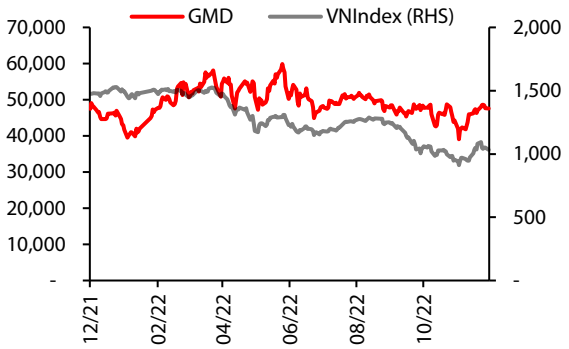


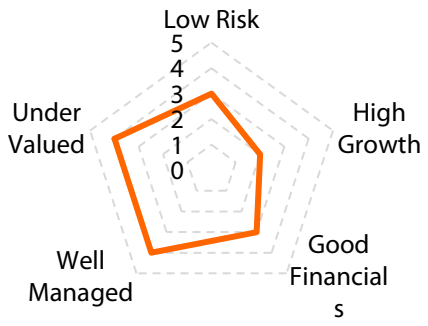
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

NOT ATTRACTIVE WHEN THE ROOM FOR GROWTH IS RESTRICTED

HSX: GMD

ACCUMULATE: +14% **MP: 47,550** **TP: 53,300**





STOCK INFO

Sector	Seaport
Market Cap ($ mn)	607
Current Shares O/S (mn shares)	301
3M Avg. Volume (K)	812
3M Avg. Trading Value (VND Bn)	37
Remaining foreign room (%)	0.1
52-week range ('000 VND)	36.4 – 62.2

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	3,206	3,747	3,936
NPATMI VND bn)	605	1,063	1,080
ROA (%)	5.6	9.9	9.2
ROE (%)	9.6	15.1	13.9
EPS (VND)	2,007	3,527	3,583
Book Value (VND)	20,942	23,360	25,839
Cash dividend (VND)	1,200	1,200	1,200
P/E (x)	24.7	13.5	13.3
P/B (x)	2.1	2.0	1.8

INVESTMENT THESIS

GMD's main ports in Hai Phong and Cai Mep - Thi Vai areas maintain stable performance in the context that import and export growth is forecasted to be slow.

- Accumulated 11M2022 in Hai Phong area reached 1 million TEU (+15% YoY) due to the reception of new routes (receiving more than 115 trains, up 12% YoY), and arriving ships have tonnage at an average of 18,000 DWT, higher than 15,000 DWT in 2021. GMD's Hai Phong volume will decelerate in 2023 to 1.2 million TEU (+4% YoY).
- Estimated cumulative volume of Gemalink (GML) in 11M2022 will reach 1.1 million TEUs (+59% YoY), equivalent to 78% of design capacity, still supported mainly by strategic partners is CMA – CGM and new shipping lines COSCO (previously at rival port TCIT). GML's volume is forecasted to operate at 95% capacity in 2023, reaching 1.4 million TEUs (+13% YoY).

In the medium term, the NDV and GML port expansion project will face many challenges ahead.

- Expanding the scale of the NĐV phase 2 maynot be effective due to (1) Phase 1 has only reached over 60% of its design capacity after four years of operation (2) Lach Huyen port, berth 3&4 and 5&6 are expected to come into operation after 2025 will threaten the market share of feeder ports in Hai Phong. Meanwhile, the GML phase 2 expansion project is still in the process of applying for a construction permit.
- Uncertainty from the time of issuing shares to existing shareholders, which is slower than the original plan.

GMD is trading at a 2023F P/E valuation of 13.3x, 32% lower than 5Y average of 17.6x. The valuation has been deeply discounted, suitable for investors who prefer to hold in the medium and long term.

RISKS TO OUR CALL

- Container cargo volume at GMD's ports may grow negatively due to the general risks of the port industry when import and export demand weakens.
- It may take longer than expected to obtain construction permits and raise capital for GML phase 2.

GMD'S MARKET SHARE IN HAI PHONG MAY BE "WORN DOWN"

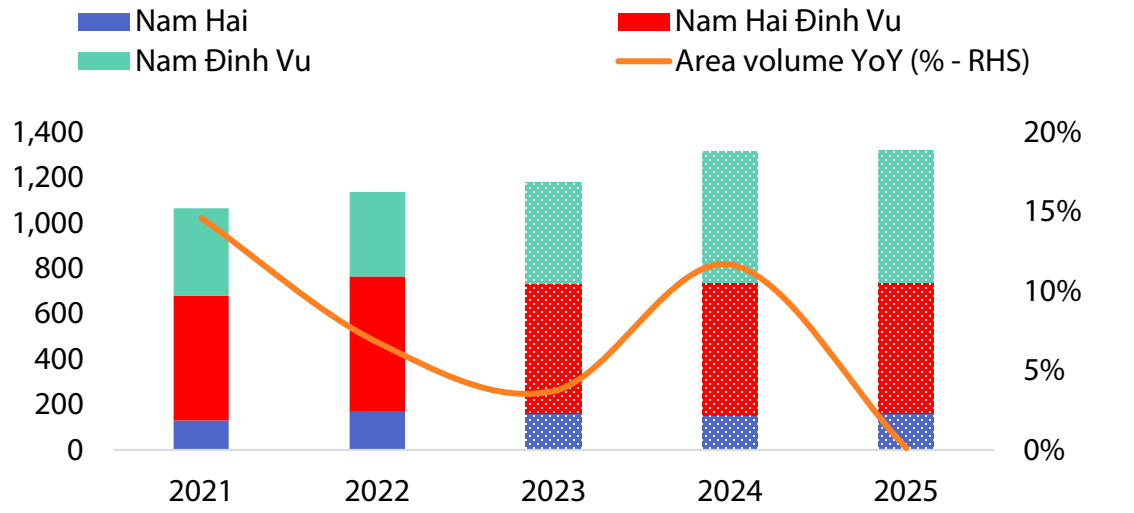
Container volume has grown rapidly in 2022…

- The three ports of GMD received 114 more ships than last year and had an average tonnage of 18,000 DWT, greater than the 15,000 DWT of 2021. Accumulated 11M2022, container throughput in Hai Phong area reached 1 million TEU (+15% YoY), in which volume of Nam Hai, Nam Hai Dinh Vu and Nam Dinh Vu reached 346 thousand TEU (+10% YoY), 507 thousand TEU (+13% YoY) and 150 thousand TEU (+ 37% YoY), respectively.

…However, GMD's market share in Hai Phong will face many pressures in the medium and long term.

- HICT port, after completing dredging, has attracted more shipping lines (MSC, Wan Hai, YM) to open new routes, affecting the market share of small ports.
- By 2025, two key deep-water port projects, Lach Huyen berth 3&4 and 5&6, will come into operation, increasing the already tense competition in Hai Phong and may "threaten" GMD's market share. .

Figure 1: Forecast container throughput of GMD ports in Hai Phong



Source: GMD, RongViet Securities

Table 1: GMD's market share in Hai Phong area shrinks

Terminal	11M2021 (%)	11M2022 (%)	Market share change (YoY - bps)
HICT	11,6	19,1	*+752*
Nam Hai	2,2	2,6	*+40*
Nam Đinh Vu	6,4	6,1	*-34*
Nam Hai Đinh Vu	9,1	8,9	*-25*
Other	70,7	63,4	*-733*
Total in Hai Phong	**17,7**	**17,6**	***-19***

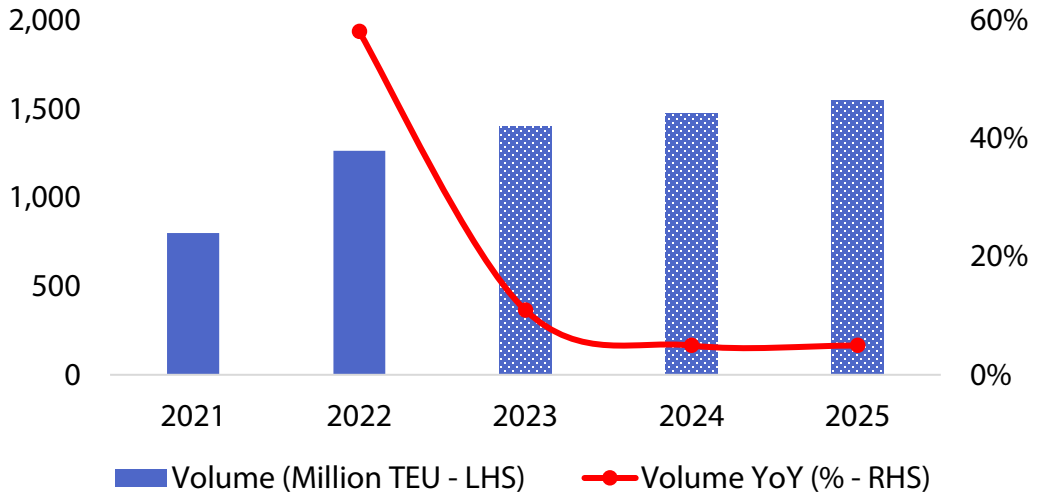
Source: GMD, RongViet Securities

NARROWING GROWTH MOMENTUM WHEN GML NEARS MAXIMUM CAPACITY

The long-term growth story will only be written when GML Phase 2 officially comes into operation.

- The cumulative volume of 11M2022 is estimated at 1.1 million TEU (+59% YoY), still heavily dependent on strategic shareholder CMA – CGM, followed by COSCO (previously docked at rival TCIT).
- GML's container cargo volume is forecast to reach 1,265 TEU (+58% YoY) and 1,430 TEU (+13% YoY) for 2022/2023, respectively, 84% and 95% of design capacity, respectively. The growth rate of GML slowed down due to (1) being affected by the weakening of import and export demand for goods (2) the high base level of 2022. However, it still achieved double-digit growth thanks to the full one-year contribution of the COSCO shipping line (starting cooperation with GML from July 2022).
- By 2025, we forecast that GML will reach its designed capacity, and require Phase 2 to be completed by this time to ensure good service to the market demand. However, this project has not yet completed the procedures to apply for a construction permit and the time to issue shares to the existing investor to invest in phase 2 is also a bit delayed.

Figure 2: Forecast the volume of GML port



Source: GMD, RongViet Securities

Figure 3: GML P2 expansion project has a total investment of USD 300 Mn

Source: GMD, RongViet Securities

Tabe 2 : Forecast of business results

Unit: VND Bn	9M2022	YoY%	FY22F	YoY%	FY23F	YoY%
Net revenue	**2,805**	**29%**	**3,747**	**17.40%**	**3,936**	**5%**
Container handling	2,271	21%	3,171	15%	3,334	8%
Logistic and others	534	88%	576	30%	518	-10%
Gross profit	**1,146**	**36%**	**1,503**	**31%**	**1,549**	**3%**
GPM	*40.9%*	*200 bps*	*40.1%*	*439 bps*	*39.1%*	*-77bps*
SG&A exenses	351	2%	564	23%	586	4%
Operating profit	1,041	74%	1,358	58%	1,405	3%
PBT	**1,057**	**84%**	**1,378**	**71%**	**1,425**	**3%**
NPAT-MI	**805**	**94%**	**1,049**	**73%**	**1,053**	**0%**
NPM	*28.7%*	*956 bps*	*28.0%*	*950bps*	*26.7%*	*-124bps*
EPS	**2,224**	**94%**	**3,480**	**73%**	**3,494**	**0%**

Source: GMD, RongViet Securities

In 2022F/23F, we expect revenue to reach VND3,762 billion (+17.4% YoY)/VND3,852 billion (+2.4% YoY) respectively.

- Revenue from container handling services accounts for the main proportion of GMD's business, reaching VND 3,186 billion (+15% YoY) for 2022 and decelerating in 2023 to VND 3,334 billion (+5% YoY). GMD's total volume will reach 2.1 million TEU (+13%) and 2.2 million TEU (+5% YoY), respectively.

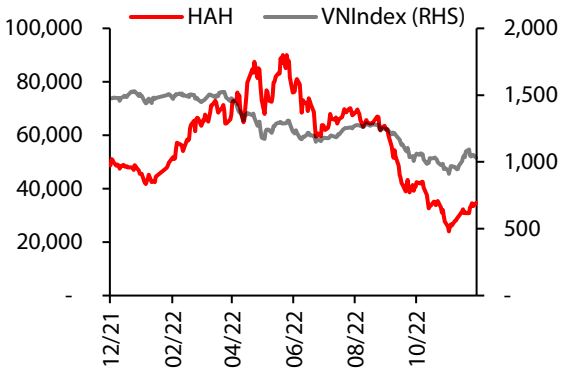
PBT for 2022/23F is expected to reach VND 1,400 billion (+74% YoY)/VND 1,426 billion (+3% YoY) due to the additional contribution from GML's profit.

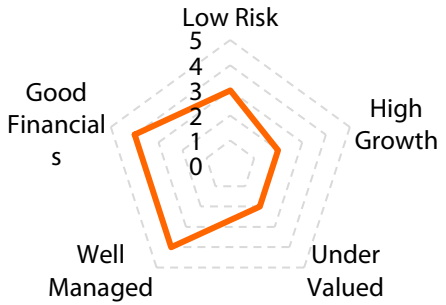
- PBT from GMD's associates contributed VND 494 billion (+104% YoY) and VND 507 billion (+3% YoY) respectively for 2022/23F. In which, GML will increase its contribution from 10% in 2021 to 31% in 2022 and 28% in 2023.
- PBT of the parent company and its subsidiaries remained stable, reaching VND 830 billion (+3% YoY) and VND 869 billion (+5% YoY).

INDUSTRIAL CYCLE PUTS PRESSURE ON GROWTH

HSX: HAH

ACCUMULATE: 0% **MP: 34,700** **TP: 32,500**





STOCK INFO

Sector	Industrial Good & Services
Market Cap ($ mn)	2,441
Current Shares O/S (mn shares)	70
3M Avg. Volume (K)	2,135
3M Avg. Trading Value ($ mn)	80
Remaining foreign room (%)	35.8
52-week range ('000 VND)	22.4 – 92.9

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	1,955	2,516	2,150
NPATMI VND bn)	446	834	537
ROA (%)	16.7	23,0	12.5
ROE (%)	34,0	44.5	22,0
EPS (VND)	9,133	11,030	7,104
Book Value (VND)	31,809	31,234	38,225
Cash dividend (VND)	1,000	1,000	1,500
P/E (x)	7.4	3.1	5,0
P/B (x)	1.7	1.1	0.9

INVESTMENT THESIS

The "golden" period of HAH has passed, revenue and NPAT of parent company's shareholders are forecasted to grow negatively because freight rates and ship rental prices are difficult to return to the old peak.

- The deep drop in domestic and international freight rates will narrow HAH's profit margin. Freight rates are forecasted to remain at a low level due to (1) domestic supply increases (2) vessel congestion and lack of empty containers have been resolved (for international transport) when the demand for import and export of container goods decreases.
- Two ships HAIAN EAST and HAIAN CITY will be leased at the price range of 16,000 - 18,000 USD/day (about 50% lower than the previous rental price) which will reduce HAH's profit. Three out of five charterers have long-term contracts at high prices that protect HAH's profits against dropping sharply in 2023F.

The container volume of Hai An port is still guaranteed due to the stable vessel schedule of the internal fleet and SM Line's partner. Thereby, revenue from seaport activities of HAH will not have many mutations. In addition, as Hai An port has been operating beyond its design capacity for a long time, the growth potential seems to be gone.

The valuation corresponding to P/B 2023F of 5.0x, is 40% higher than the mean P/B 2Y from 2017 to 2019 of 0.7x (before the outbreak of COVID-19, train congestion and the lack of empty containers has led to an unprecedented increase in shipping freight rates and charter rates). We believe that HAH is relatively overvalued due to the forecast of negative growth in NPAT. Investors should observe more when the downside risk is still quite large.

RISKS FOR RECOMMENDATION

- Shipping freight rates and charter rates continued to fall deeply.

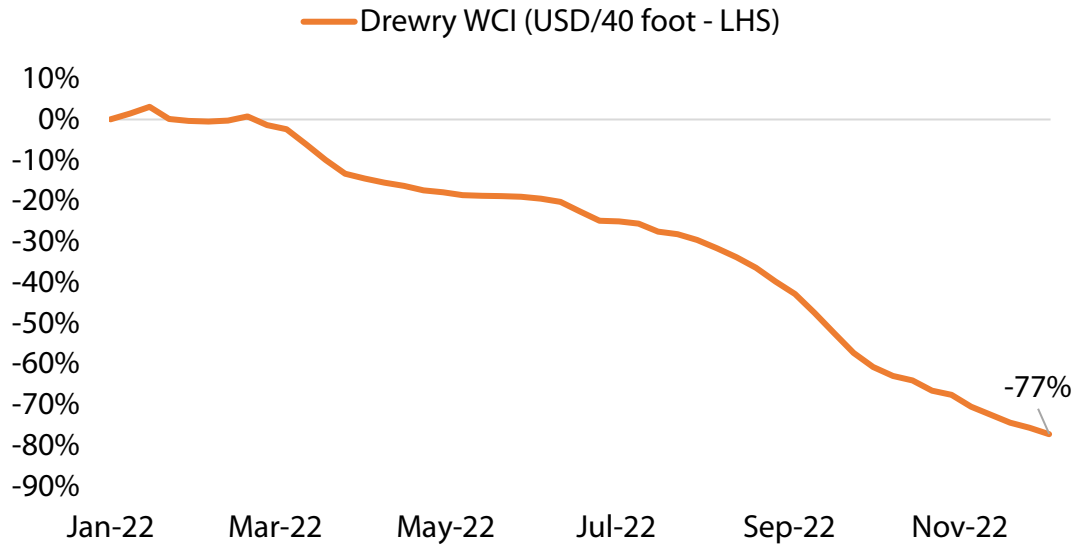
THE LESS POSITIVE OUTLOOK OF SEA TRANSPORTATION ACTIVITIES

HAH's container shipping revenue will grow negatively as it will be strongly affected by the low sea freight rates forecasted.

- Domestic transport activities are also not positive as domestic sea freight rates will also decrease due to (1) decrease in domestic production demand and (2) increase in domestic carrying capacity.
- Container cargo transported on intra-Asia routes of HAH, accounting for 25% of total volume, will be affected when international freight rates have decreased by 77% YTD (figure 1). It is difficult for international freight rates to return to high levels due to (1) the demand for import and export goods has weakened, (2) ship congestion and lack of empty containers have been resolved.

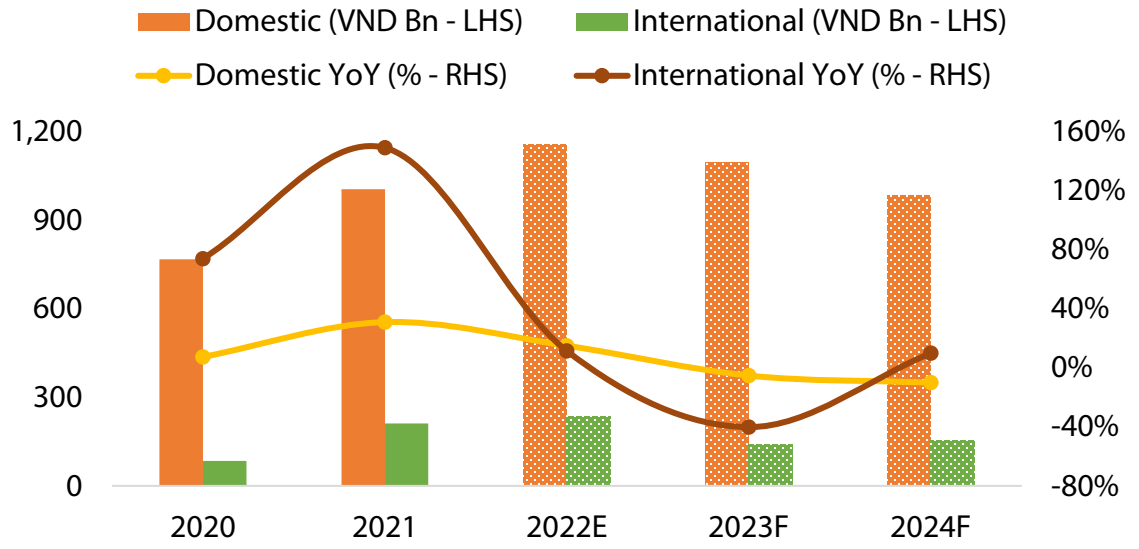
Forecast revenue from shipping container segment for 2022F and 2023F reach VND 1,391 bn (+14% YoY) and VND 1,095 bn (-40% YoY), respectively.

Figure 1: International freight rates have fallen sharply in 2022



Source: HAH, RongViet Securities

Figure 2: Revenue from shipping container segment

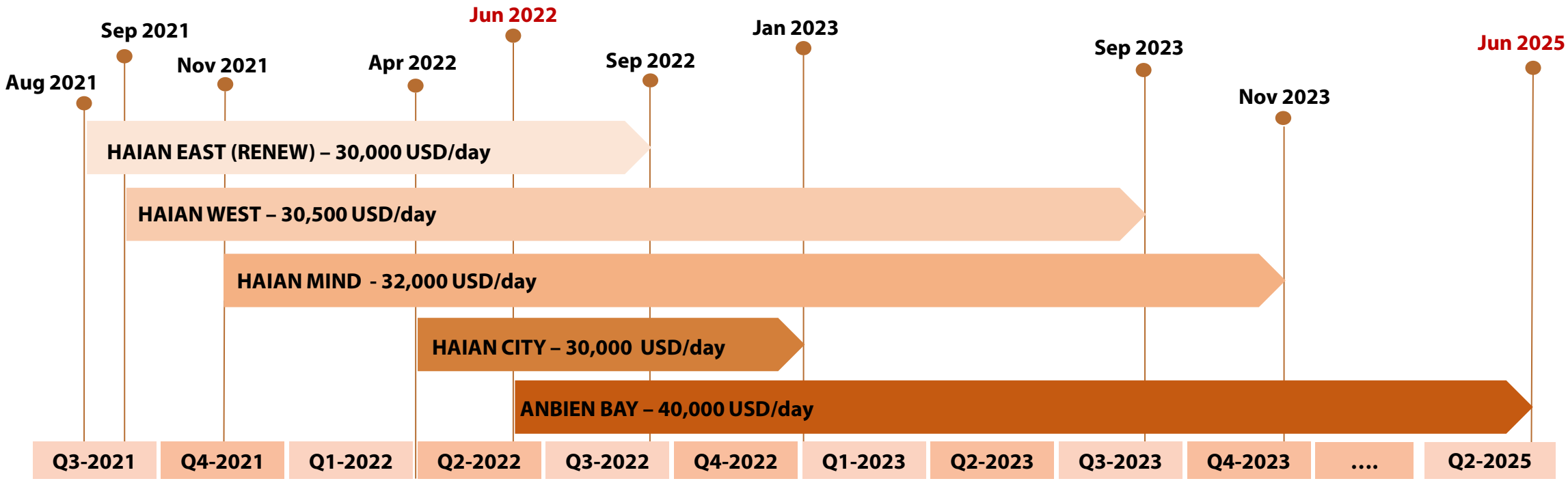


Source: HAH, RongViet Securities

The long-term lease contracts of the three ships HAIAN MIND, HAIAN WEST and ANBIEN BAY have a fairly high fixed price, which partly slows down the decline in chartering activity when new charter vessels recently have rental rates that are much lower.

- Two vessels HAIAN MIND and HAIAN WEST are leasing at a high rate of about 31,000 USD/day until the second half of 2023 while the charter rate for ANBIEN BAY (24% owned by HAH) is more than 40,000 USD/day with a long-term contract to 2025.
- HAIAN EAST (which is running as a replacement for HAIAN MIND train and is about to replace HAIAN WEST) and HAIAN CITY have charter rates reduced by more than 50% compared to the previous one, ranging from 15,000 - 17,000 USD/day.

Figure 3: Charter timeline and corresponding charter price

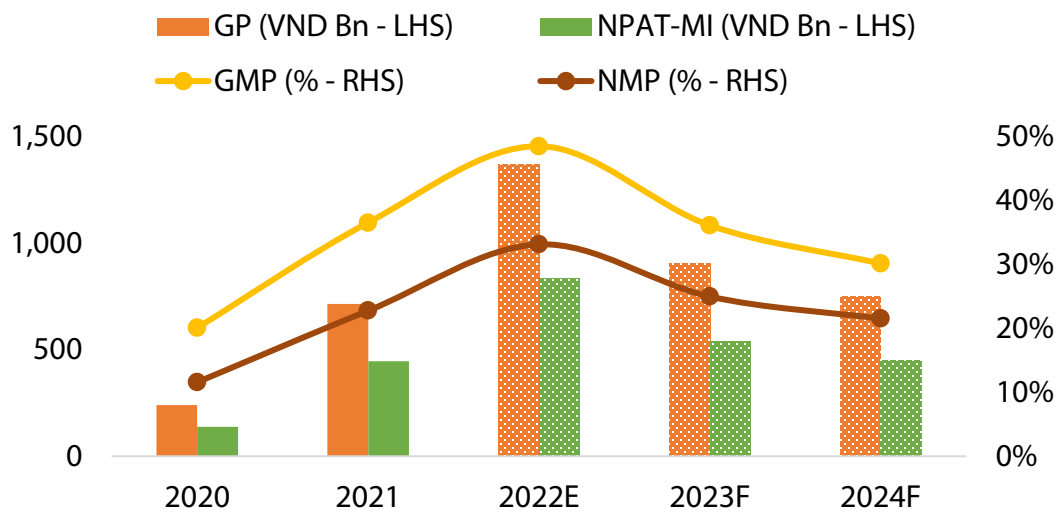


Source: HAH, RongViet Securities

The current valuation still contains many downside risks as NPAT is forecasted to grow negative in 2023.

- Shipping freight rates and charter rates both fell sharply from the peak, HAH's profit margin will shrink significantly in 2023. Forecast revenue/NPAT-MI for 2022F and 2023F will reach VND 2,516 billion (+29% YoY)/VND 834 billion (+87% YoY) and VND 2,150 billion (-15% YoY)/VND 537 billion (-36% yoY), respectively.
- The valuation corresponding to P/B 2023F is 0.9x, which is 30% higher than the mean P/B 2Y from 2017 to 2019 of 0.7x (at the time before the COVID-19 outbreak, congestion of ships and the lack of empty containers has led to an unprecedented increase in sea freight rates and charter rates). We believe that HAH stock is being valued relatively high compared to the forecast of negative NPAT growth in 2023F. Investors should observe more when the downside risk is still quite high.

Figure 4: HAH's profit margin narrowed significantly



Source: HAH, RongViet Securities

Table 1: HAH valuation multiples

Period	P/E Mean (x)	P/B Mean (x)	EV/EBITDA Mean (x)	ROE Mean (%)	Average charter rate (USD/ngày)
2017 – 2019	3.8	0.7	3.4	16.5	8,580
2020 – 2022	7.1	1.5	4.6	29.2	31,420

Source: Bloomberg, RongViet Securities

AVIATION

TIME FOR A MEANINGFUL UPWARD IN FINANCIAL PERFORMANCE

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AVIATION – TIME FOR A MEANINGFUL UPWARD IN FINANCIAL PERFORMANCE

Rating

Overview

2022 was a robust recovery year in terms of traffic but not financial performance for most players due to the slower-than-expected recovery pace of the international flights, as a result of China's zero covid policy (ZCP). Looking forward, we expect China to gradually take steps in easing its ZCP in early 2023, including opening its border to international flights. Though it may take some time to bring Chinese travelers back to dominant position of Vietnam tourism inbound arrivals, this is still the most potential and strongest catalyst in 2023, since strong international flights and passenger, subjected to much higher services charges compared to domestic, largely bolsters aviation industry in terms of financial performance.

Highlights

Domestic traffic is likely to grow moderately over the next year; positive long-term prospect still intact.

- Supported by the strong pent-up travel demand, 10M-2022 domestic traffic already equaled 2019 full-year figure. We estimate that domestic market will set new all-time high at 86 mn pax, 15% above pre-covid level.
- We expect a resilient GDP growth, which has been a critical driver to air pax volume, in 2023 will compensate dissipating pent-up demand in 2023 to help support domestic air travel demand, while expanding disposable income will be a reliable driver for the industry in the longer run.

China relaxation on zero covid policy will be a strong catalyst for the industry.

- For now, China's border is still tightly shut to foreign nationals and the lack of Chinese travelers is the main reason for the slower-than-expected recovery of the international market in 2022. However, it also provides headroom for growth when China eases its international travel restrictions as the pent-up travel demand is huge.
- Improving international markets, and flights from/to China in particular, will reflect on better financial performance for most of industry players due to much higher services charges. However, the improvement will vary across segment: a clear improvement for industry players with high fixed costs mix (ACV, SGN, NCS), followed by airports retailers (SAS, AST). Still, high jet fuel costs volatility will make airlines' profitability recovery bumpy.

Most companies' valuations are still much higher than 5Y historical levels, with exception for air logistics services providers and ground handling agent SGN. We expect that these valuations will be justified in 2023 on the back of high profit growth trajectory, driven by the expanding international markets.

Risks

Geopolitical tension heightens between China-Taiwan or other parts of the world that could hinder flights to Vietnam.

Deeper-than-expected recession and sharp rises in unemployment rates in major economies to affect international inbound of Vietnam.

NEW PEAK FOR THE DOMESTIC MARKET IN 2022

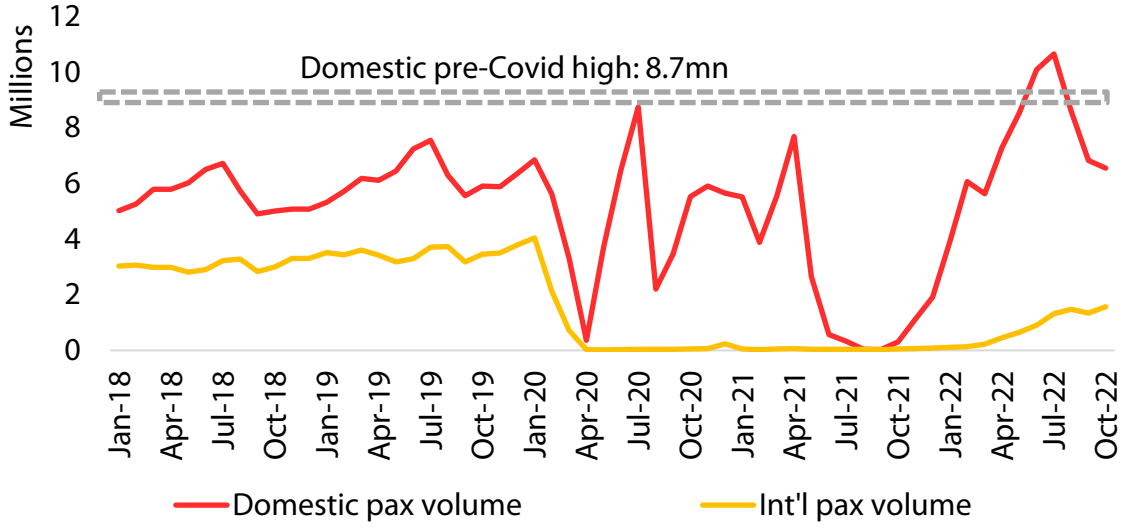
Moderation after the peak in summer flight season.

- Domestic traffic moderated to 6.5mn in October after breaking the all-time high record in July 2022 (10.6 mn pax) but still higher than pre-covid level of around 5.6mn.
- International market continued its steady recovery, maintaining over 1mn pax since July 2022, but remains some 50% lower than pre-pandemic figures. The improvement pace is slow due to the lack of the main international inbound market namely China.

2022 will see new peak of the domestic market.

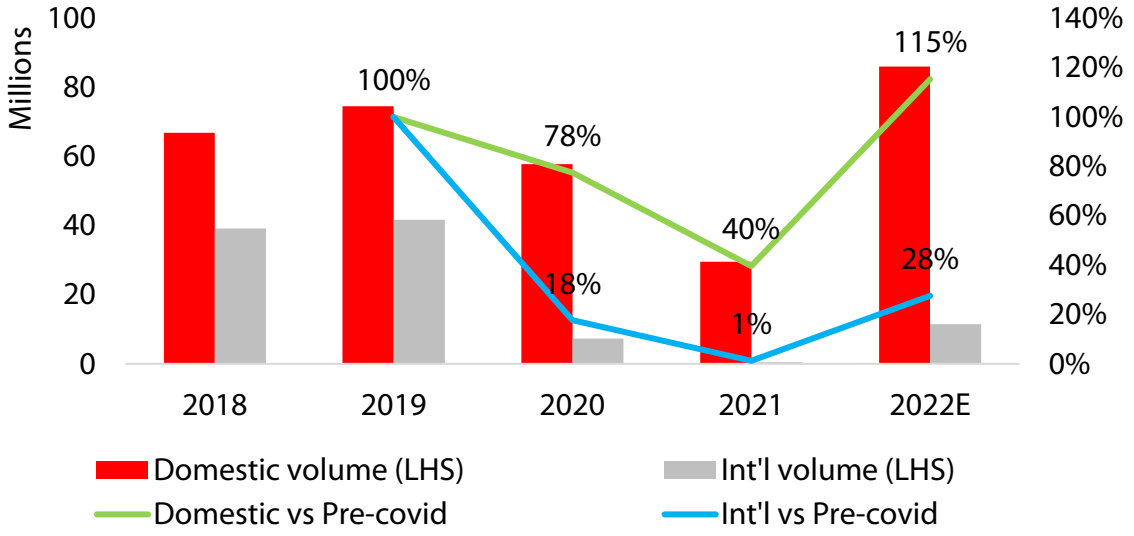
- Supported by the strong pent-up travel demand, 10M-2022 domestic traffic already equaled 2019 full-year figure. We estimate that domestic market will set new all-time high at 86 mn pax, 15% above pre-covid level.
- However, such pent-up demand seen in domestic market is likely to wane gradually over the next year.

Figure 1: Domestic pax peaked in Jul 2022, and moderated recently



Source: ACV, Rong Viet Securities

Figure 2: Domestic air travel will set new high in 2022



Source: ACV, Rong Viet Securities

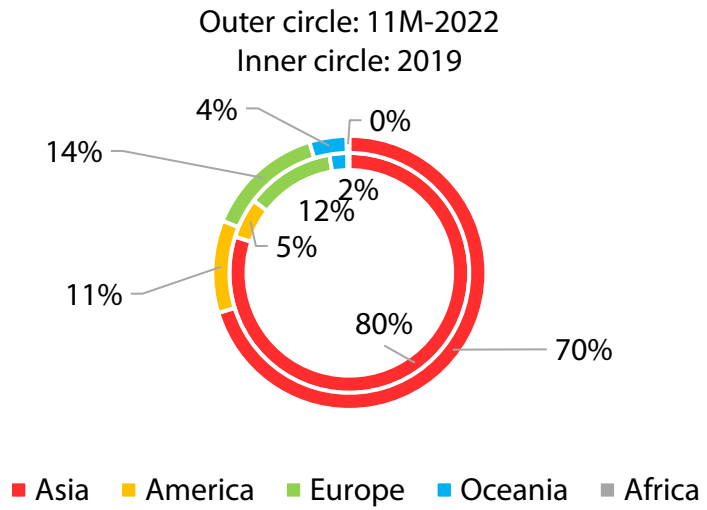
The lack of Chinese travelers is the main reason for the slower-than-expected recovery of the international market …

- China's Zero-Covid policy (ZCP), Taiwan-China geopolitical tension and the Ukraine war have resulted the low recovery rate of inbounds from China, Taiwan and Russia. These countries used to be the large source of international tourists inbound of Vietnam.
- The regional composition of international tourist arrivals is noticeably different in 2022 (January – October) compared with the pre-pandemic one, in which Europe and America have increased their market shares in Vietnam's international inbound.

… But the international flights outlook in 2023 looks more potential when China eases travel restriction policy.

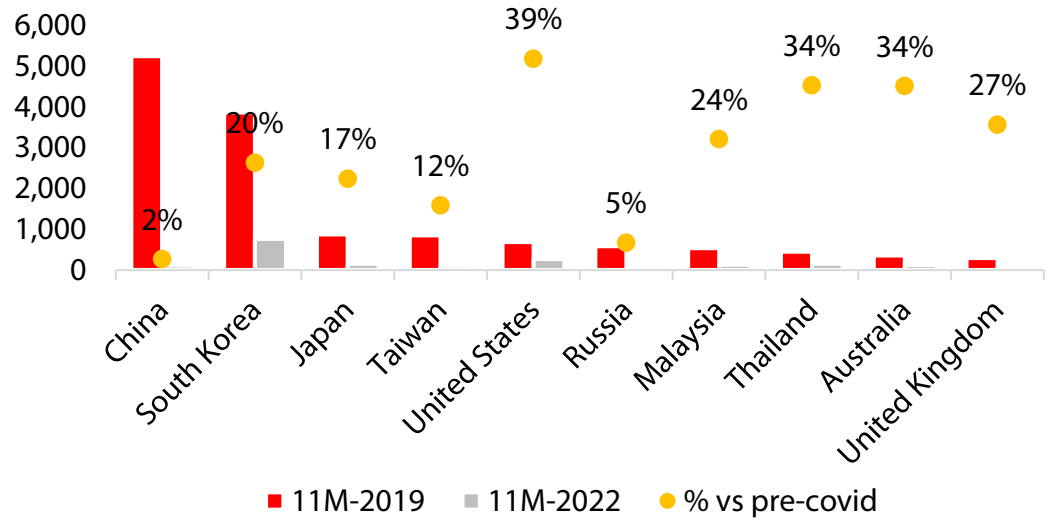
- We believe that the inbound from China will bounce back strongly as soon as ZCP is relaxed on the back of huge pent-up demand, as seen in other regions, and regain its dominant position in Vietnam's total international arrivals.

Figure 3: International arrivals mix



Source: GSO, Rong Viet Securities

Figure 4: Top 10 int'l arrivals by nations in pre-covid vs now



Source: GSO, Rong Viet Securities

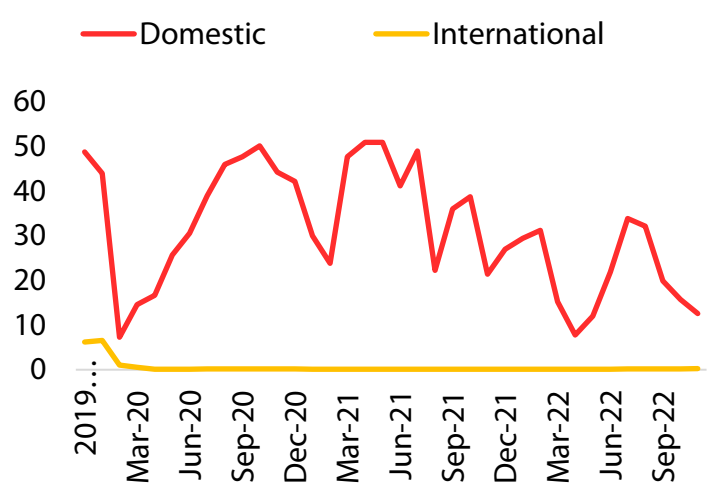
Chinese flights surge as the country has taken further steps to ease travel restrictions, just not overseas yet.

- **In Dec 2022, China eased covid restrictions for domestic travel** with the scrap of travel tracing app and people will no longer need to show negative virus tests or health codes in order to travel between different parts of the country. **China's domestic flight activity jumped to around 65% of pre-pandemic levels on Dec 12th from just 22% in Nov 29th per VariFlight.**

We believe the pent-up travel demand is huge when restrictions are lifted, given decreasing new cases.

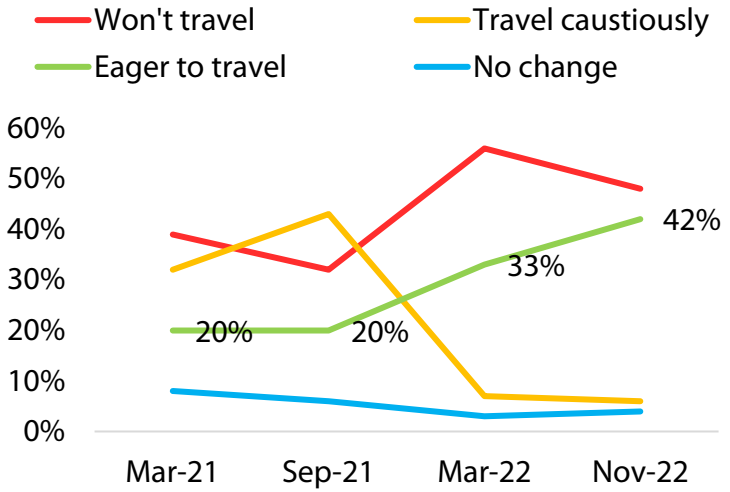
- Per Dragon Trail International's survey, Chinese's sentiment around "eager to travel" has increased over the survey period while more than half of respondents would travel outside China within one year of reopening.
- We expect the timing of China's travel restrictions lift to be around Q1-2023, brightening int'l traveler arrivals to Vietnam in 2H-2022 and beyond as it will take a while for Chinese consumer confidence to return.

Figure 5: China air passenger traffic volume (mn pax)



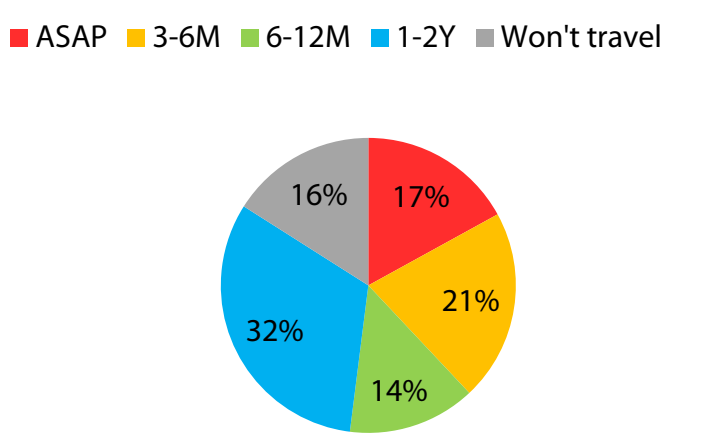
Source: CAAC, Rong Viet Securities

Figure 6: Chinese's eagerness to travel increased



Source: Dragon Trail International, Rong Viet Securities

Figure 7: Chinese is likely to take outbound travel within one year of reopening



Source: Dragon Trail International, Rong Viet Securities

PROFITABILITY TO FURTHER IMPROVE AS INT'L TRAFFIC RECOVERS

Per circular 53/2019/TT-BGTVT regulating prices of aviation services charges, premium of services charges/product prices related to international markets ranges from 200%-500%.

- Aviation services charges of international flights/passengers are usually 3-5 times higher than that of domestic.
- Non-aviation services charges (business area leasing, F&B products) in international terminals are 2-3 times higher than domestic ones.

The surge of international traffic in coming years will lead to more rapid revenue growth rate and bring profitability closer to pre-pandemic levels, but the improvement will vary across segments.

- We expect to see a clear improvement in EBIT margin of Industry players with high fixed costs mix, namely Airport operator ACV, ground handling company SGN, and air meal producer NCS, followed by airports retailers (SAS, AST). Still, high jet fuel costs volatility will make airlines' profitability recovery bumpy.

Figure 8: International vs Domestic aviation services charges

Aviation services	Est. Avg premium
Landing/Take-off	265%
Security services	264%
Cargo security services	290%
Passenger services charges	560%
Apron parking charges	317%
Check-in counter lease	245%
Luggage conveyor belt lease	237%
Airlines' office leasing	168%
F&B products	240%

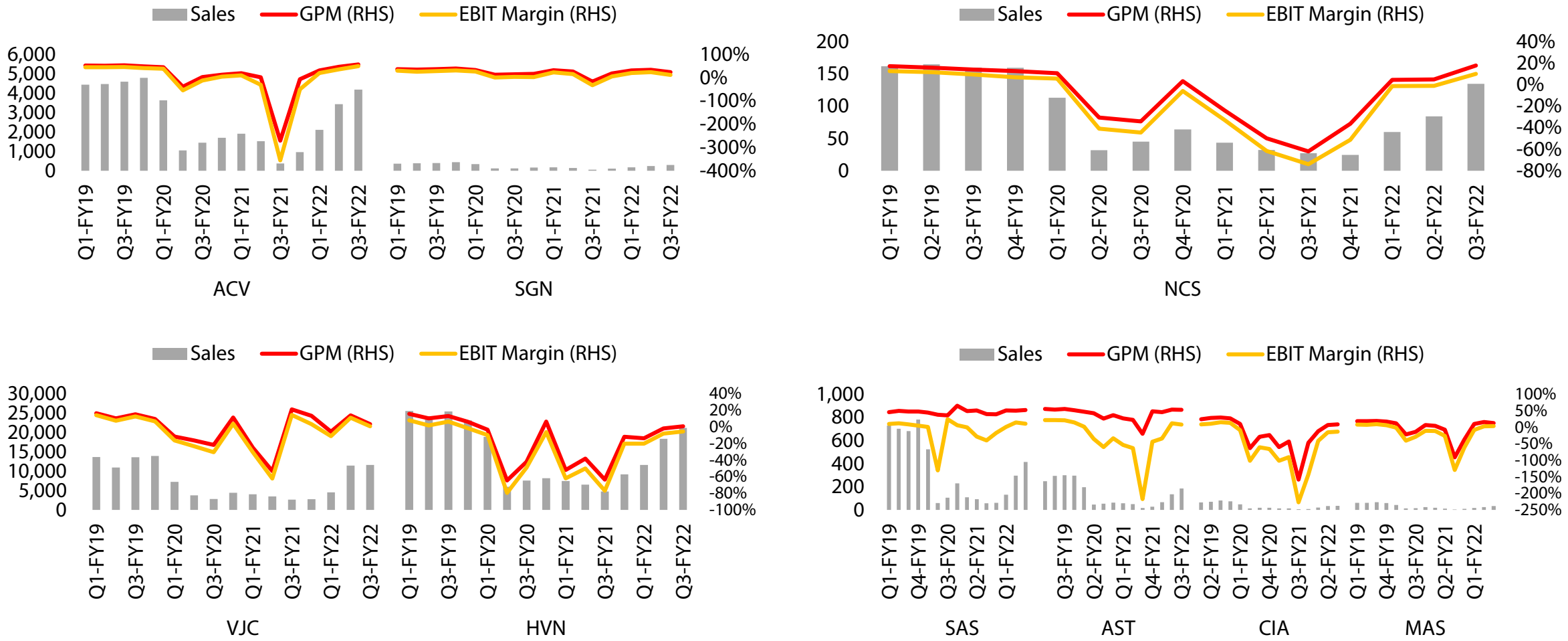
Source: MoT, Rong Viet Securities

Figure 9: Lease rates/m2 in int' terminals vs domestic ones in the largest airports

Airport	After security			Before security	
	F&B	Lounges	Others	F&B	Others
Noi Bai	~200%	300%	>100%	200-300%	
Tan Son Nhat	260%	333%	>160%	120%-130%	
Da Nang	180%	160%	>170%	208%	>120%
Cam Ranh	160%	150%	>100%	127%	>100%
Phu Quoc	240%	280%	>130%	120%	>100%
Can Tho	180%	336%	>120%	160%	>100%

Source: MoT Rong Viet Securities

Figure 10: EBIT margin of ACV, SGN, NCS turn positive more quickly than airport retailers and airlines admid rising sales, an evidence of higher operating leverage; This state will recur in next year when sales will be further underpinned by more international flights resumptions



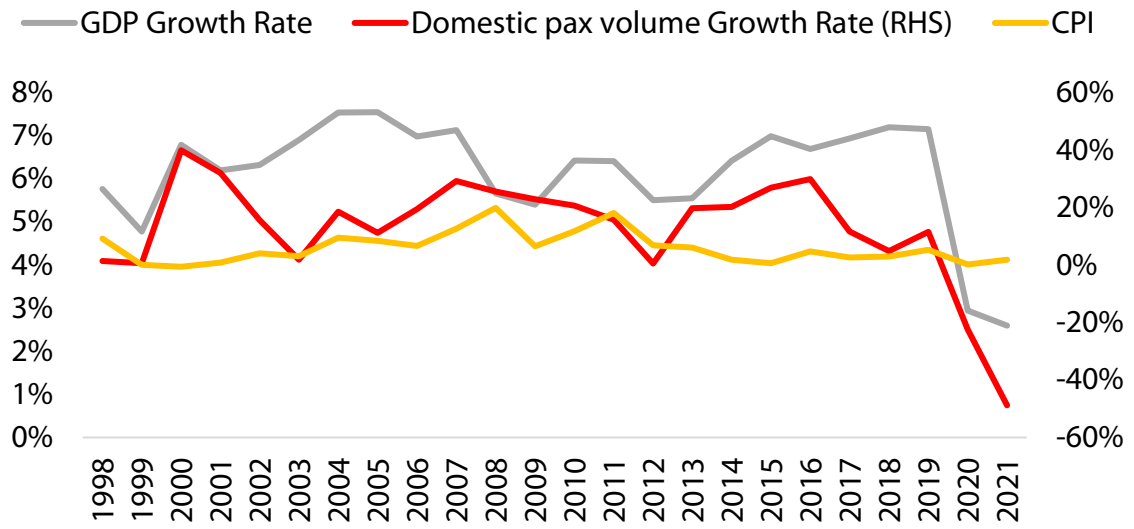
Source: Companies filings, Rong Viet Securities

Prospective GDP growth, which has been a critical driver to air pax volume, will compensate dissipating pent-up demand in 2023 to help support domestic air travel demand.

- Over 1998-2021 period, the number of domestic airline passengers displayed an annual average growth of 11.3%, buoyed by favorable income growth and demographic factors, coupled with the development of low-cost carriers, while GDP's CAGR was 6.2%. There has been a strong positive correlation of 0.73 between two variables. With 2023 GDP forecasts consensus at above than 6%, we believe domestic air traffic to remain healthy in 2023.
- Though air traffic has not been very sensitive to inflation with historical correlation of 0.23, the moderating inflationary pressures over the coming 12 months, in part due to the tightening monetary policy undertaken by Central banks around the world, could add support for the market.

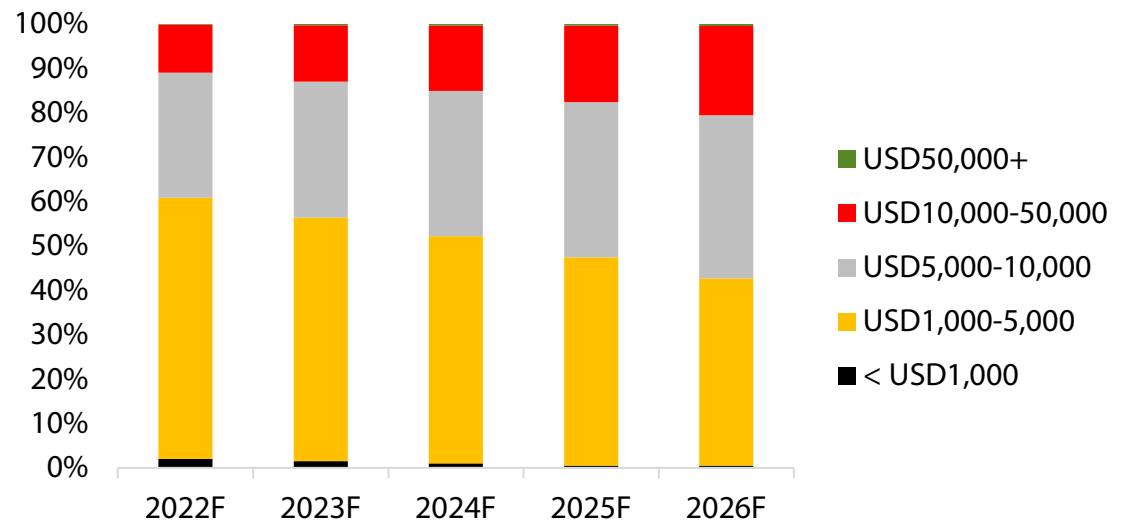
The expansion of the middle class in Vietnam will continue to underpin the passenger growth over the long-term. Households having the income bracket of USD5,000-50,000/year is projected to account for nearly 60% of total population, thereby supporting traveling demand over the forecast period.

Figure 11: Vietnam domestic air traffic vs GDP Growth and CPI



Source: ACV, GSO, Rong Viet Securities

Figure 12: The middle class will continue to expand in Vietnam



Source: Fitch Solutions, Rong Viet Securities

AVIATION STOCKS' PERFORMANCE AND VALUATION

Most aviation stocks outperformed VN Index in 2022 (-30% YTD), as the robust recovery of domestic underpinned business results, except for HVN.

- The industry, represented by listed companies, has shown a significant improvement in business results, reducing its loss by 93% YoY in 9M-2022. As a result, most of aviation stocks outperformed the VN Index. HVN was an exception due to its huge losses in 9M-2022 and negative owner's equity situation.
- NCT, AST, ACV were the most resilient stocks YTD. Although the dynamic for these performance was varied, improved profit has been the main reason supporting stock prices. Meanwhile, laggards are mainly companies having (1) limited improvement in business results or (2) too low liquidity to reflect profit turnaround.

Most companies' valuations are still much higher than 5Y historical level, with exception for air logistics services providers and ground handling agent SGN. We expect that these valuations will be justified in 2023 on the back of higher profit growth.

Table 1: Aviation stock prices YTD performance and valuation

Stock	Sales 9M-2022	Sales YoY %	NPAT-MI 9M-2022	NPAT-MI YoY %	YTD performance	P/E	5Y P/E	P/B	5Y P/B
NCT	546	4%	170	1%	13.4%	9.7	6.9	4.8	3.4
AST	387	207%	5	-105%*	4.2%	n.a	143.5	6.5	5.2
ACV	9,725	156%	5,838	1582%	-2.3%	234.3	91.2	4.9	5.2
SCS	655	14%	489	21%	-11.4%	10.6	12.4	4.7	6.5
NCS	279	172%	-3	-95%*	-11.8%	n.a	11.9	4.9	2.9
SGN	697	86%	109	146%	-12.4%	17.0	22.2	2.5	3.3
VJC	27,535	170%	184	-6%	-12.5%	982.7	226.4	3.5	4.7
SAS	841	224%	121	39598%	-15.3%	1,000.0	234.9	2.2	2.2
ASG	1,402	177%	110	177%	-18.0%	14.1	28.1	1.6	2.1
MAS	75	105%	0	-98%*	-23.7%	n.a	4,597.1	6.0	4.3
CIA	89	168%	-8	-74%*	-30.0%	n.a	36.1	0.8	0.9
HVN	51,107	173%	-7,790	-34%*	-42.3%	n.a	16.4	36.6	13.2
Total	**93,340**	**165%**	**-775**	**-93%***					
VN Index					**-29.9%**	**11.0**	**16.1**	**1.7**	**2.4**

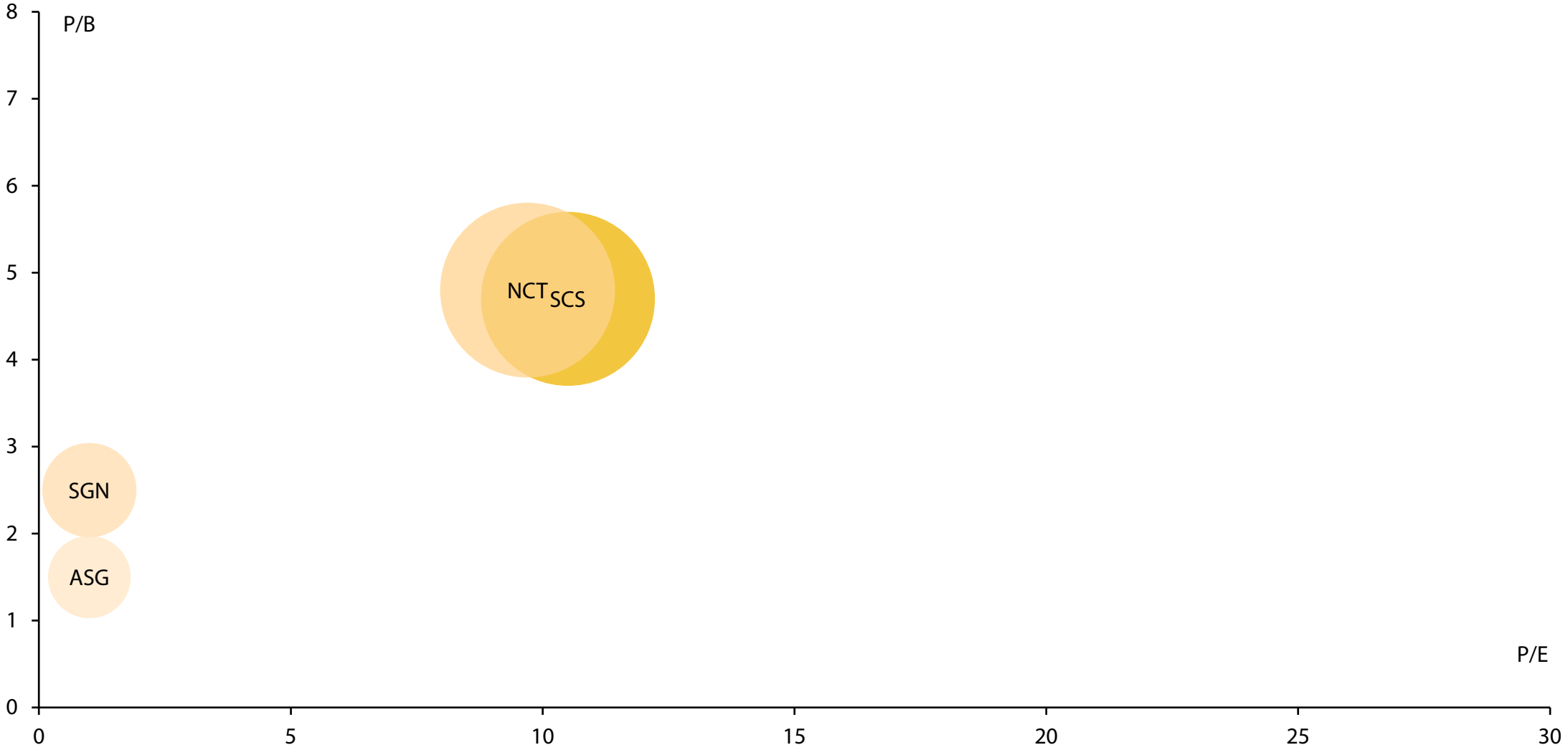
*Source: Companies filings, Bloomberg, Rong Viet Securities, * net loss last year*

INDUSTRY COMPARABLES (TTM)

Ticker	Mkt Cap. ($mn)	Target price (VND)	Closing price (12/12/2022	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
						2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
ACV	7,714	96,600	84,000	0	45.2	-38.8	-29.7	77.2	-0.4	287.9	-38.4	18.7	9.6	9.1	99.1	0.9	5.8
SCS	286	76,500	72,200	3,600	1.0	21.1	11.4	-10.4	0.1	12.3	-15.9	21.0	11.5	5.6	15.7	1.0	7.3
VJC	2,545	N.R	111,400	N.A	13.1	-29.3	N.A	N.A	12.7	N.A	N.A	0.4	0.1	975.7	384.6	3.4	4.9
HVN	1,172	N.R	12,550	N.A	24.1	-31.1	N.A	N.A	0.2	N.A	N.A	N.A	-13.7	N.A	N.A	N.A	9.7
SAS	127	N.R	22,500	N.A	48.6	-65.0	N.A	N.A	-1.0	N.A	N.A	0.2	0.2	978.3	254.4	2.1	2.5
AST	104	N.R	54,700	N.A	4.5	-57.1	N.A	N.A	1.2	N.A	N.A	-3.2	-2.3	N.A	N.A	6.5	N.A
NCT	92	N.R	83,400	N.A	17.6	10.9	N.A	N.A	0.1	N.A	N.A	52.4	43.1	9.7	9.6	4.8	4.8
SGN	83	N.R	59,000	N.A	27.5	-33.2	N.A	N.A	-0.4	N.A	N.A	15.2	11.5	16.7	22.2	2.5	4.5
ASG	76	N.R	23,800	N.A	29.1	5.0	N.A	N.A	-0.4	N.A	N.A	11.7	4.9	13.8	N.A	1.5	N.A
NCS	N.A	N.R	N.A	N.A	47.3	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
CIA	9	N.R	10,800	N.A	29.1	-58.7	N.A	N.A	0.1	N.A	N.A	-7.4	-5.2	N.A	N.A	0.8	1.2
MAS	6	N.R	N.A	N.A	33	-53.7	N.A	N.A	0.3	N.A	N.A	-10.4	-1.3	N.A	N.A	N.A	4.8

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB & ROE (TTM)

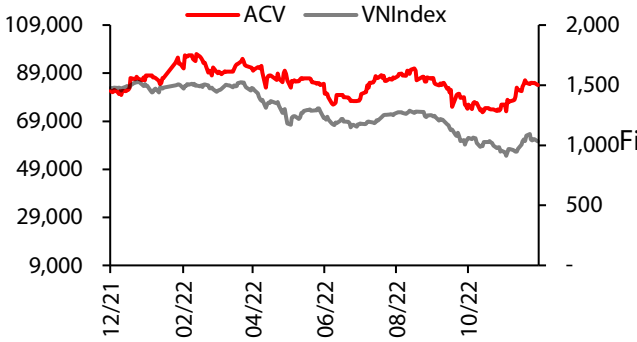


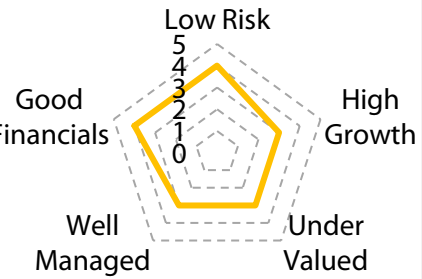
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of Dec 12th, 2022.

CLEARER IMPROVEMENT OF INT'L TRAFFIC IS IN SIGHT

UPCOM: ACV

ACCUMMULATE: 14% **MP: 85,000** **TP: 96,600**





STOCK INFO

Sector	Aviation
Market Cap ($ mn)	7,745
Current Shares O/S (mn shares)	2,177
3M Avg. Volume (K)	142
3M Avg. Trading Value ($ mn)	3
Remaining foreign room (%)	45.2
52-week range ('000 VND)	68 - 99

FINANCIALS

	2021A	2022F	2023F
Revenue (VND bn)	4,752	12,911	16,481
NPATMI VND bn)	790	7,176	6,949
ROA (%)	1.4%	11.8%	8.8%
ROE (%)	2.1%	16.0%	13.6%
EPS (VND)	363	3,296	3,192
Book Value (VND)	17,275	20,604	23,477
Cash dividend (VND)	0	0	0
P/E (x)	220.5	25.8	26.6
P/B (x)	4.6	4.1	3.6

INVESTMENT RATIONALES

Though the net profit growth rate, due to the low base effect and JPY depreciation, will slow in next year, projected core operating income growth remains robust at 55% YoY/49% YoY in 2023F/24F, on the back of the stronger resumption of international flights.

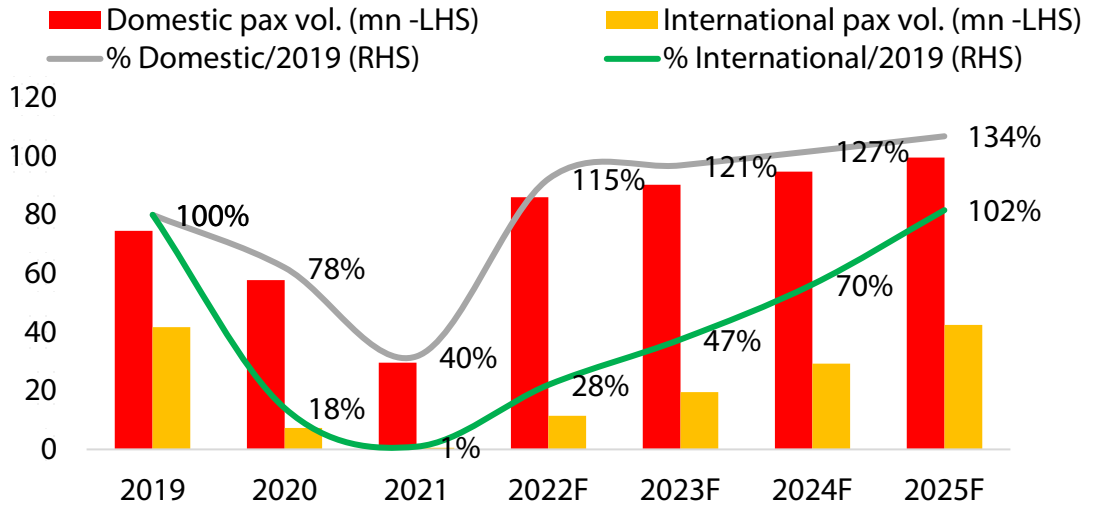
- We project that the domestic traffic will set new high in this year, reaching 86 million, but the 3Y CAGR over 2023F-26F will decelerate to slightly over 5% as the pent-up demand and the low base effect dissipate.
- We expect China Government to further ease international traveling restrictions in Q1-2022, thereby, underpinning the traffic of international air arrivals to Vietnam. We now expects a 3Y CAGR of 33% over 2023F-26F. In this scenario, international market will reach its pre-pandemic level by 2025 (42 mn pax).
- Higher contribution of international market volume leads to higher ASP of aviation services charges and aviation revenue (~80% of total revenue) as well. This favorable market mix should enhance average ASP of aviation services by 20%/21% in 2023F/24F. This is the main driver for revenue and core operating income going forward.

But a huge unrealized FX gain (est. at over VND 4 trillion) in 2022 will pressure on PBT growth in 2023F, while in longer run, major projects construction, namely Long Thanh Int'l Airport and Tan Son Nhat T3 Terminal, in 2023-25 will inflate depreciation expenses, and lower profit growth in 2025F.

RISKS TO OUR CALL

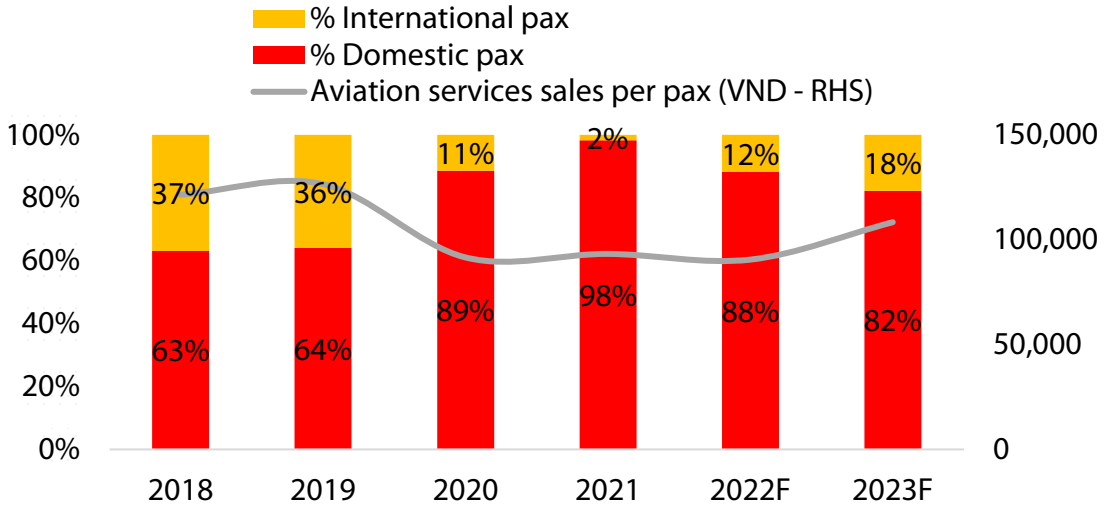
- Uncertainty relates to timing of lifting ZCP; rising geopolitical tensions that result affects flight path of international flights from/to Vietnam.

Figure 1: Domestic pax growth to moderate but international traffic growth will accelerate from 2023F



Source: ACV, Rong Viet Securities

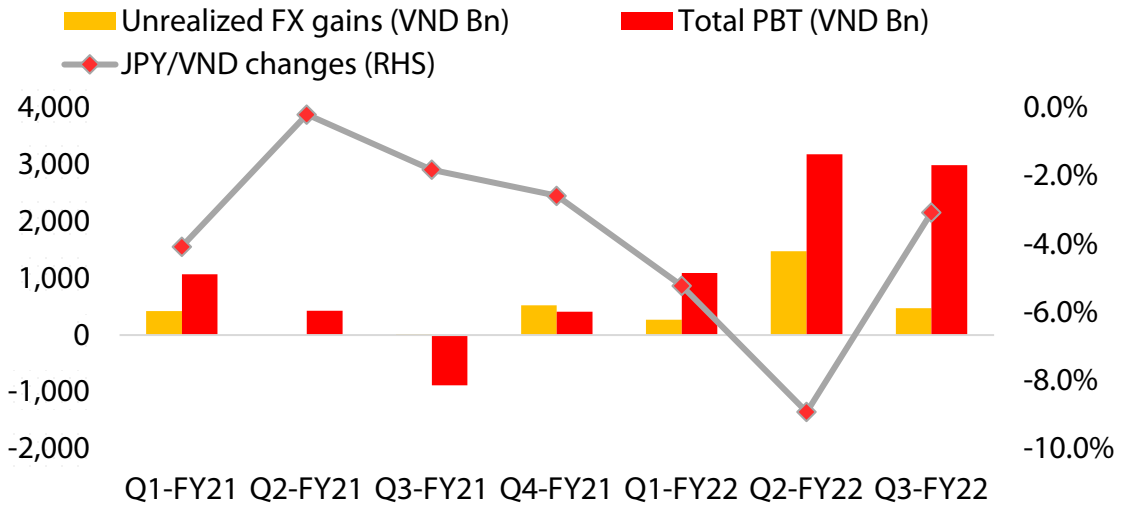
Figure 2: Aviation services revenue per pax to improve owing to higher international traffic contributiton



Source: ACV, Rong Viet Securities

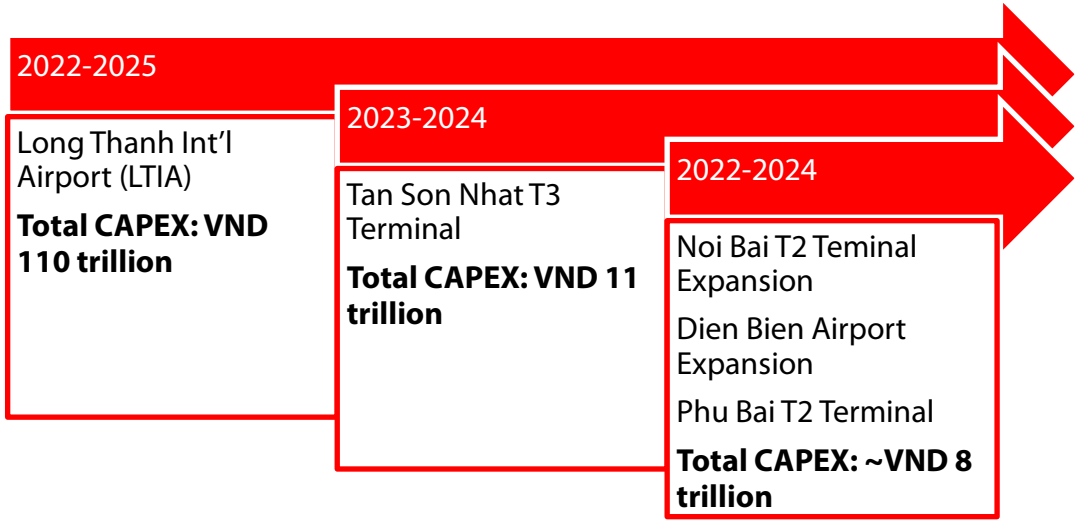
- The domestic traffic has been stronger-than-expected, and will set new high by the end of this year. Due to the waning pent-up demand, we expect this market to maintain single-digit growth rate of 5% of in the next three years.
- The recovery progress of the international market should be accelerating in 2023 as we believe that China will lift international travel restrictions by the end of Q1-2023. In this scenario, international market will jump by 70% YoY/50% YoY in 2023F/24F and return to pre-covid level by 2025F with geopolitical tensions are the downside risks.
- Strong international traffic will bolster ASP of aviation services charges and aviation revenue as well, thereby, spurring EBIT to grow by 55% YoY/49% YoY in 2023F/24F.

Figure 3: ACV has benefited a lot from the depreciation of JPY



Source: ACV, Rong Viet Securities

Figure 4: Huge CAPEX demand ahead



Source: ACV, Rong Viet Securities

- The depreciation of JPY in 9M-2022 (-16%), due to the dovish monetary policy of the BoJ, has been a strong support for ACV's PBT over the same period. However, in Q4-2022 JPY has advanced by more than 5% vs VND, as the Japanese Government spends record USD43 bn in October to prop up the Yen. Though we think the BoJ's monetary policy will remain loose as the government and BOJ are of the view that monetary easing is still necessary, **we also think that room for more depreciation of the Yen should be limited in 2023 due to the less hawkish policy of the Fed in next year.**
- In 2023, ACV will start construction of the Tan Son Nhat T3 Passenger terminal with a total CAPEX of nearly VND 11 trillion (or USD 460 mn), adding more than 20 mn pax in capacity for Tan Son Nhat Airport by Q3/2024. Also, the construction of passenger terminal of LTIA will begin in 2023, requiring dozens of trillion VND to be disbursed as total CAPEX of the project is estimated at nearly VND 100 trillion (or USD 4.2 bn).
- **Financial income will plummet in 2023 due to (1) large CAPEX spending will decrease ACV's term deposit by around VND 15 trillion, (2) a more resilient JPY compared to 2022.**

Table 1: 2023F Net profit to flat due to weaker financial income

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Revenue	**9,725**	**144%**	**12,913**	**161%**	**16,483**	**28%**
1. Aviation services	6,588	189%	10,731	283%	13,833	29%
PSC	4,270	256%	5,317	284%	7,686	45%
SSC	727	212%	919	245%	1,124	22%
GHS	447	135%	675	204%	676	0%
Landing/Take-offs	1,517	105%	2,049	102%	2,279	11%
2. Non-aviation services	1,180	78%	1,565	99%	1,827	17%
3. Retailing	445	193%	617	215%	823	33%
Gross profit	4,625	-842%*	5,982	-1282%*	8,722	46%
GPM	*47.6%*	*63.2 pps*	*46.3%*	*56.6 pps*	*52.9%*	*6.6 pps*
Selling expenses	-138	69%	-207	143%	-264	28%
Administration expenses	-794	-12%	-1,162	-12%	-1,318	13%
EBIT	**3,694**	**-330%**	**4,613**	**-321%**	**7,140**	**55%**
EBIT margin	*38.0%*	*78.3 pps*	*35.7%*	*78.0 pps*	*43.3%*	*7.6 pps*
Financial income	3,486	52%	4,219	30%	1,717	-59%
Financial expenses	-62	-54%	-79	-62%	-432	450%
PBT	**7,255**	**1088%**	**8,937**	**777%**	**8,644**	**-3%**
PBT margin	*74.6%*	*59.3 pps*	*69.2%*	*48.6 pps*	*52.4%*	*-16.8 pps*
NPAT-MI	**5,838**	**1582%**	**7,176**	**960%**	**6,949**	**-3%**
Net margin	*60.0%*	*51.3 pps*	*55.6%*	*41.9 pps*	*42.2%*	*-13.4 pps*
EPS	**2,833**	**786%**	**2,966**	**854%**	**2,873**	**-3%**

*Source: ACV, Rong Viet Securities, *losses last year*

Robust pent-up demand and weaker JPY drove 9M-2022 profit.

- Total passenger volume jumped by 176% YoY to 74.2 mn pax, largely contributed by the domestic traffic (67.6 mn pax, +155%). Int'l traffic was up 1845% YoY to 6.6 mn pax.
- This has driven revenue to grow by 144% YoY and EBIT quickly turned positive (VND 3,694 bn) vs a loss of VND - 1,602 bn.
- A -16% depreciation of JPY in 9M-2022 additionally supported profit.

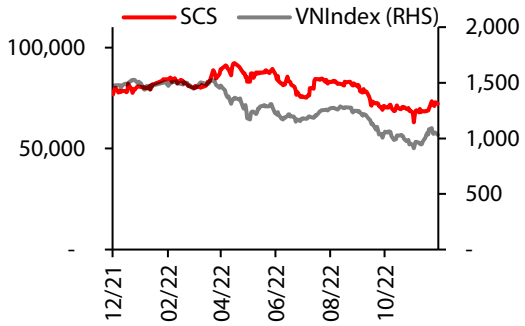
2023F: Core profit growth rate still high but weak financial income will dampen bottom line growth

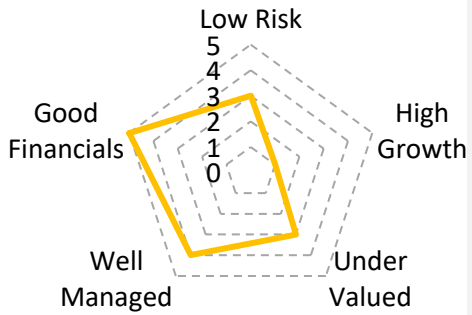
- We expect revenue to continue delivering high growth, driven by (1) strong international traffic, with the potential resumption of Chinese travelers after China lifts its ZCP, and (2) higher ASP.
- Also, EBIT is expected to post high double-digit growth rate of 55% YoY/49% YoY in 2023F/24F before large depreciation expenses of major kicks in by 2025F.
- Financial income will mainly come from interest income as FX gains will be limited, assuming that JPY/VND will depreciate by 1% in 2023F.

A SOFT GROWTH IN 2023F

HSX: SCS

ACCUMULATE: 10% **MP: 72,000** **TP: 76,500**





STOCK INFO

Sector	Air Freight Terminal
Market Cap ($ mn)	287
Current Shares O/S (mn shares)	94
3M Avg. Volume (K)	27
3M Avg. Trading Value ($ mn)	2
Remaining foreign room (%)	0.0
52-week range ('000 VND)	60.6 – 98.1

FINANCIALS

	2021A	2022F	2023F
Revenue (VND bn)	839	856	886
NPATMI VND bn)	564	575	595
ROA (%)	39.8%	31.1%	29.2%
ROE (%)	45.1%	32.0%	30.0%
EPS (VND)	11,106	5,385	5,578
Book Value (VND)	24,619	19,097	21,096
Cash dividend (VND)	3,000	3,600	3,600
P/E (x)	13.5	13.5	13.0
P/B (x)	6.1	3.8	3.4

INVESTMENT RATIONALES

Inflationary pressure in Vietnam's key trading partners' economies is the main headwind to the air cargo throughput outlook in 2023F.

- We concern that the high inflation will remain in large part of the coming year, and impact the Vietnam trade outlook and air cargo flow as well.
- Moreover, the sea freight shipping rates are down 80% from its peak (World container index retraced to just above USD 2,100 vs early 2020 level of around USD 1,600), while air cargo shipping rates remain near its high (Drewy Air freight rates only decreased by 35% to USD4.5/kg from USD7/kg). This relative movement makes air cargo shipping much less competitive to maritime shipping.

The long-term outlook will rely on (1) how long the high inflation will remain and (2) the possibility of joining air cargo operation with ACV (Air cargo terminal No 1) or winning bid of Air cargo terminal No 2 of the Long Thanh International Airport. We are projecting a 3Y CAGR of int'l volume at 5% over 2023F-26F.

- Though the inflation rates in the US and EU are likely to remain above their target ranges in 2023, we also think that inflation will moderate over the next two year, with some clearer improvement beginning in last months of 2023. This should support the growth rate of international volume in late 2023 and 2024.

With increased CIT rate the next three years will flatten projected NPAT-MI to 5% over 2023F-26F, current 2023F P/E of 13.0x leaves limited upside for the stock.

RISKS TO OUR CALL

- Worse-than-expected impact from inflation on global consumption and air cargo shipping demand.

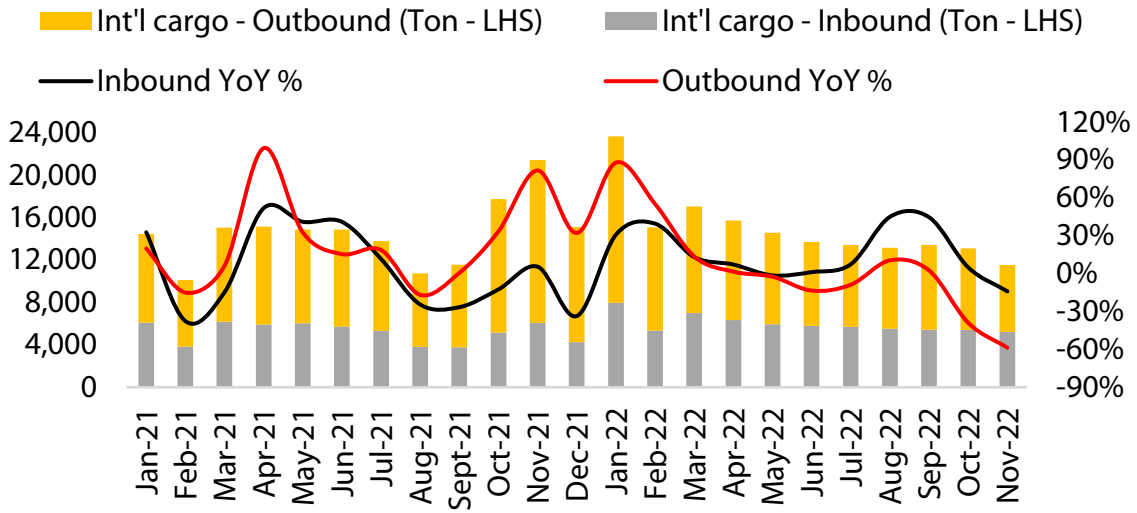
INT'L CARGO THROUGHPUT TO REMAIN FLAT

As expected in our 2H-2022 outlook report, SCS int'l volume throughput has dwindled in Q3 and Q4 from recent highs.

- Inflationary pressure in major economies (the US, EU), which are also Vietnam's key trading partners, has weighed on their consumption demand, and therefore, air cargo shipment.This has been evidenced by the easing trend of outbound cargo volume since mid-year. Outbound volume in Q4-2022 is estimated at around 23 thousands tons, down more than 40% YoY, and equals 2018 level.
- Meanwhile, the inbound throughput has stayed relatively resilient, with 11M-2022 average 15% higher than last year's. We attribute this to relatively resilient consumption demand of domestic market.

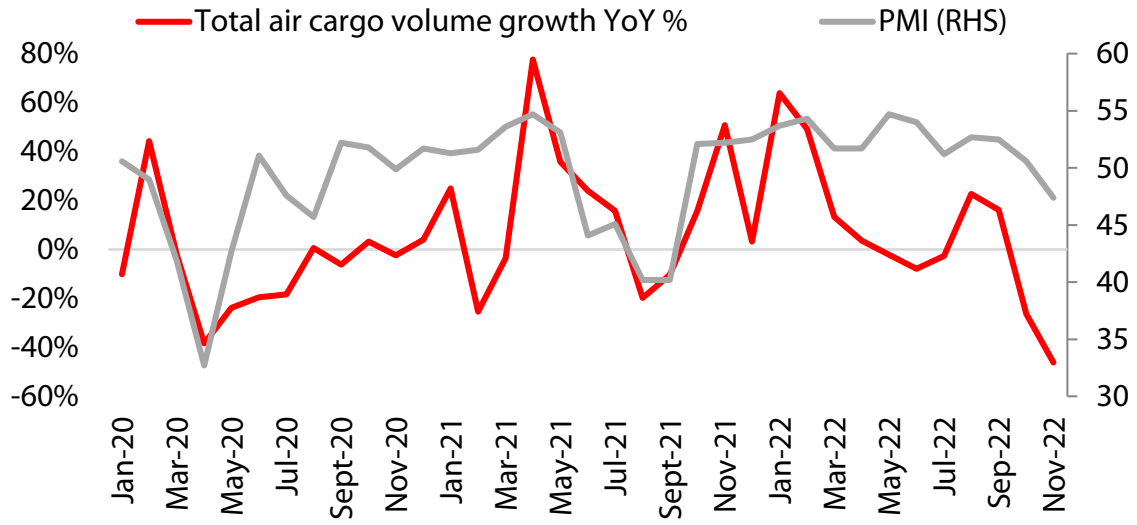
We expect a flat air cargo growth rate in next year due to soft exporting demand. Global trade demand is forecasted to be weak in 2023, feeding through to the Vietnamese exports. In fact, new export orders, which historically is a leading indicator for air cargo shipments, get weaker in November, per S&P Global.

Figure 1: Int'l cargo volume normalized in 2H-2022



Source: SCS, Rong Viet Securities

Figure 2: PMI is trending lower, darkening SCS's int'l cargo outlook



Source: SCS, Rong Viet Securities

Table 1: 2023F Net profit to flat due to weaker financial income

Unit: VND Bn	9M-FY22	YoY %	FY22F	YoY %	FY23F	YoY %
Cargo volume ('000 ton)	**173**	**6.9%**	**219**	**-3.9%**	**229**	**4.4%**
International	140	15.9%	177	1.0%	182	3.0%
Domestic	33	-19.4%	43	-20.0%	47	10.0%
Blended ASP (VND Mn/ton)	3.6	6.6%	3.7	5.9%	4	-1.0%
Net Sales	**655**	**13.7%**	**856**	**2.0%**	**886**	**3.5%**
Cargo terminal operation	616	14.0%	804	1.8%	831	3.3%
Leasing	38	9.6%	49	6.0%	52	6.0%
Gross profit	533	16.2%	651	-0.2%	677	4.0%
SG&A	-45	-1.2%	-86	9.5%	-92	7.7%
EBIT	**488**	**18.2%**	**565**	**-1.5%**	**585**	**3.5%**
Financial income	41	68.5%	52	51.6%	76	44.6%
PBT	529	21.5%	618	1.8%	661	7.0%
NPAT-MI	**489**	**20.5%**	**575**	**1.7%**	**595**	**3.5%**
EPS	**6,901**	**21.3%**	**5,747**	**-4.5%**	**5,962**	**3.7%**

Source: SCS, Rong Viet Securities

9M-2022 profit grew well on the back of (1) the low base of int'l cargo volume in the same period in 2021 and (2) stronger interest income.

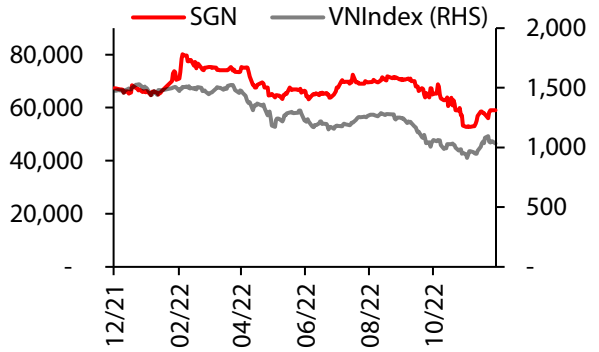
2023F: Moderation in cargo volume growth and higher CIT rate to flatten earnings growth

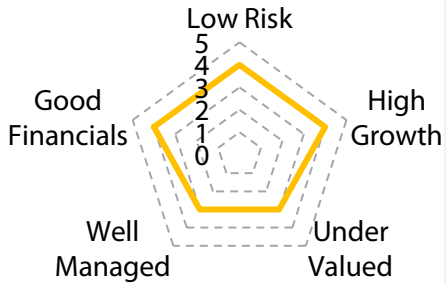
- We expect international cargo volume, SCS's main source of profit, to remain nearly unchanged in 2023F due to impacted trade flow, and the reduced relative competitiveness vs maritime shipping.
- After nine years of benefiting from favorable CIT rate of 5%, the CIT rate will increase to 10% in 2023F-24F, followed by normal CIT rate of 20% from 2025F.
- As a result, we project that NPAT will post a 3Y CAGR of 5% over the period 2023F-26F.

ALL SET FOR ACCELERATING PROFIT GROWTH

HSX: SGN

<NON-RATED> **MP: 59,000**





STOCK INFO

Sector	Aviation services
Market Cap ($ mn)	83
Current Shares O/S (mn shares)	34
3M Avg. Volume (K)	3
3M Avg. Trading Value ($ mn)	0
Remaining foreign room (%)	27.5
52-week range ('000 VND)	49.5 – 85.0

FINANCIALS

	2019A	2020A	2021A
Revenue (VND bn)	1,585	731	488
NPATMI VND bn)	346	88	54
ROA (%)	28%	8%	6%
ROE (%)	39%	11%	7%
EPS (VND)	9,481	2,414	1,469
Book Value (VND)	26,428	24,692	23,102
Cash dividend (VND)	4,000	2,500	2,500
P/E (x)	8.3	10.8	17.8
P/B (x)	2.7	1.1	1.1

INVESTMENT RATIONALES

We believe that SGN is one of the most beneficiaries from the fast recovery of international flights in 2023, experiencing accelerated net profit growth.

- SGN offers aviation ground handling services at three major airports of Vietnam, namely Tan Son Nhat (SGN), Da Nang (DAD) and Cam Ranh (CXR), which are leading airports in terms of international passenger traffic with respective contribution to Vietnam's international passenger of 37%, 17%, 16%. This, coupled with an expectation that China will further relaxing its travel restrictions in next year - which will largely brighten international traffic outlook – will be very supportive for SGN's growth profile in 2023.
- Duopoly nature of the ground handling market - VIAGS is the only rival of SGN in SGN and DAD, while VIAGS's subsidiary named AGS is the SGN's only competitor in CXR - makes the company easily benefit from the accelerating international flights to Vietnam as mentioned.
- Due to the high degree of operating leverage (ranging from 1.2x-1.5x), profit will be growing more rapidly amid surging revenue, mainly driven by international flights with high services charges.

Valuation will correct to a more reasonable level in 2023, though current TTM P/E of 17x seems reasonable enough given robust profit growth outlook going forward.

RISKS TO OUR CALL

- Slower-than-expected reopening progress in China, impacting number of international flights to SGN, DAD and CXR Airports.

Figure 1: SGN generates revenue from offering ground handling services at three major airports of Vietnam

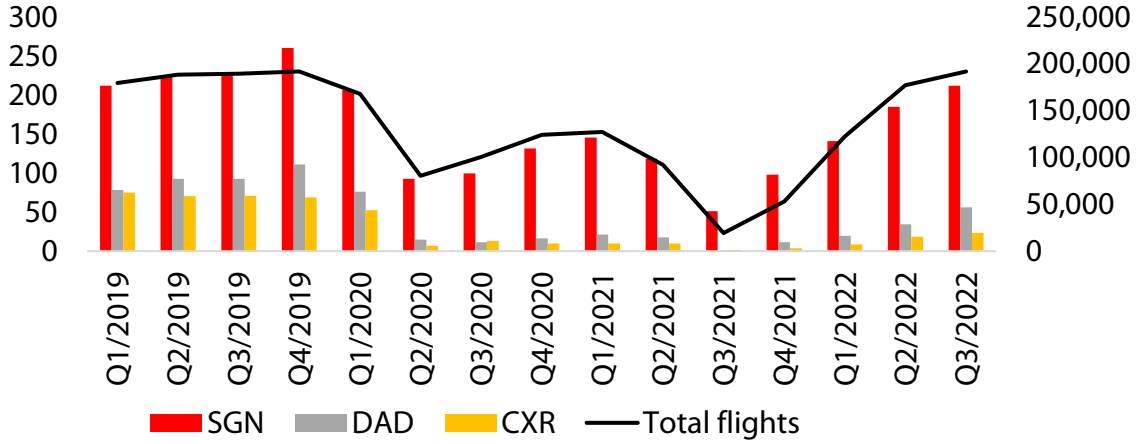


Figure 2: Revenue contribution from SGN increased even higher post-covid due to the slow recovery of air traveling trips

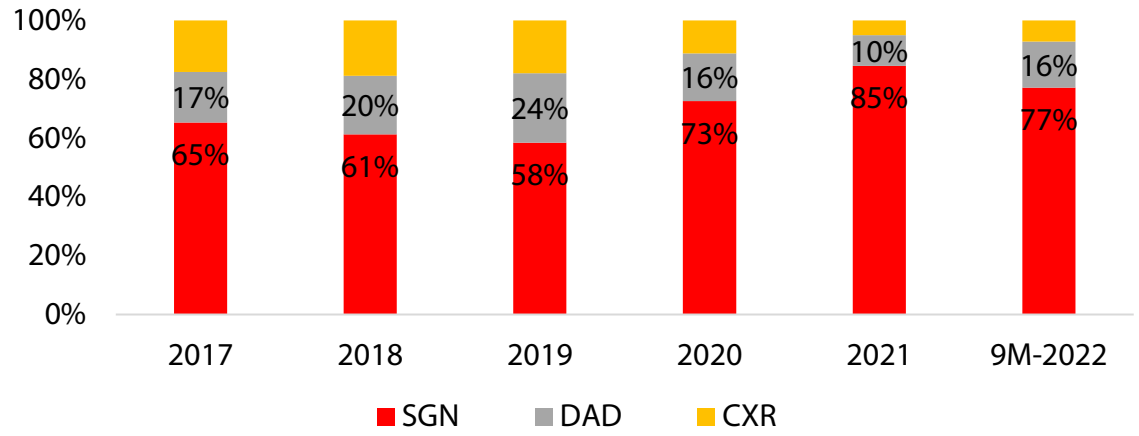
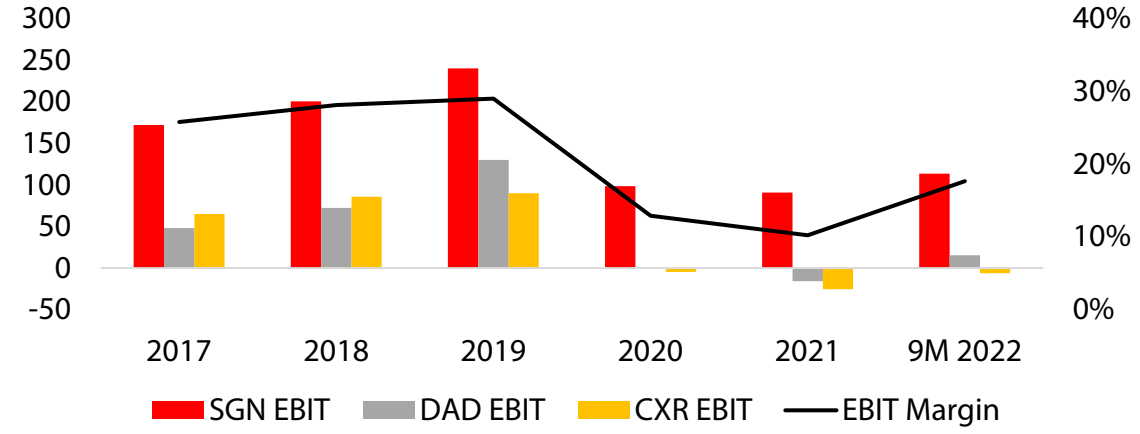
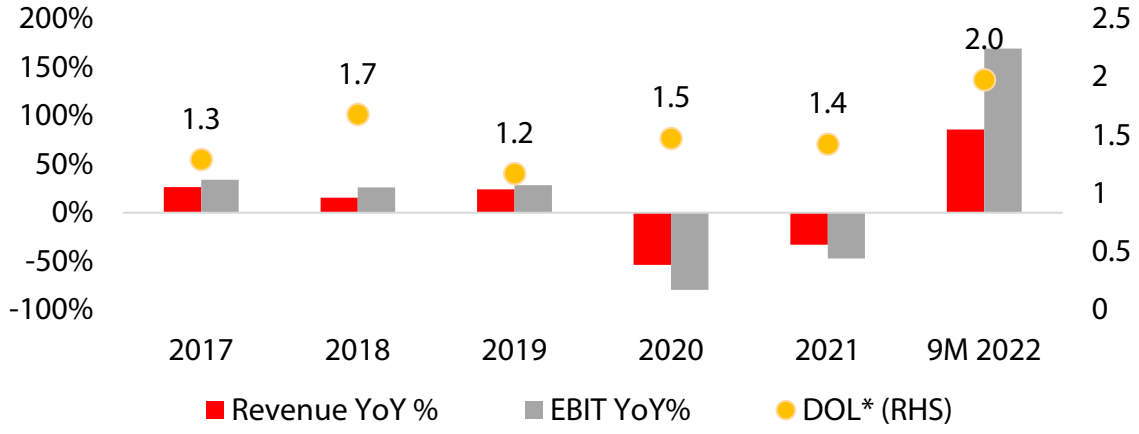


Figure 3: SGN has never incurred losses thanks to high traffic and services charges at SGN – main profit contributor



Source: SGN, Rong Viet Securities

Figure 4: High DOL* will accelerate profit growth since we expect China to reopen in 2023, boosting int'l flights to SGN's markets

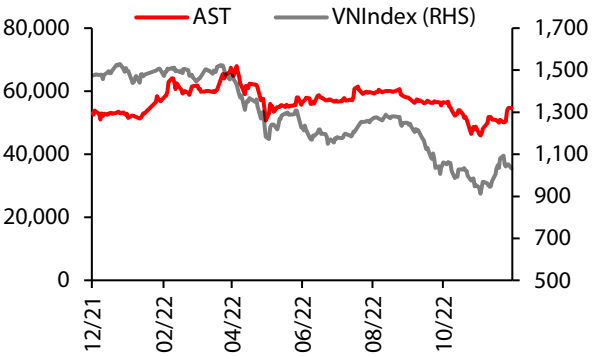


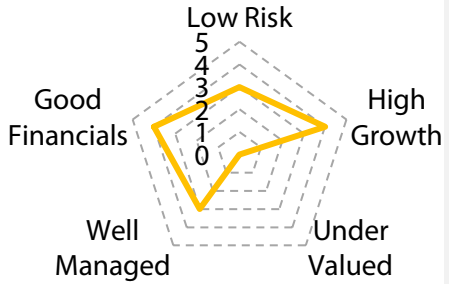
*Source: SGN, Rong Viet Securities, * DOL: degree of operating leverage*

EARNINGS PROFILE SET TO FURTHER IMPROVE IN 2023

HSX: AST

<NON-RATED> **MP:55,500**





STOCK INFO

Sector	Airport retailer
Market Cap ($ mn)	104
Current Shares O/S (mn shares)	45
3M Avg. Volume (K)	21
3M Avg. Trading Value ($ mn)	1
Remaining foreign room (%)	4.4
52-week range ('000 VND)	44.7 - 68.1

FINANCIALS

	2019A	2020A	2021A
Revenue (VND bn)	1,141	359	154
NPATMI VND bn)	191	-49	-118
ROA (%)	22%	-8%	-23%
ROE (%)	32%	-10%	-32%
EPS (VND)	4,241	-1,089	-2,623
Book Value (VND)	13,107	10,896	8,289
Cash dividend (VND)	1,000	0	0
P/E (x)	19.6	-47.7	-19.8
P/B (x)	5.8	4.8	6.3

INVESTMENT RATIONALES

The stronger recovery of international passenger traffic in 2023, supported by the resumption of Chinese travelers, will further underpin earnings profile in 2023, since 95% of its stores in international terminals were reopened and the purchasing power/services prices of international markets are generally more favorable than domestic market.

- AST now operates a total of 115 retail stores at seven largest airports of Vietnam, namely Tan Son Nhat, Noi Bai, Da Nang, Cam Ranh, Phu Quoc, Phu Bai and Van Don with respective contribution to total air passenger traffic in 2019 of 35%, 25%, 13%, 8%, 3%, 2% and 1%. By now, AST has fully reopened its retail stores in domestic terminals (around 60 points-of-sales) while 95% of those in international terminals were reopened, with remaining stores are bound to reopen in 2023.
- AST's revenue jumped to VND 185 bn in Q3-2022, equivalent to 62% of pre-pandemic performance, on the back of robust recovery of domestic aviation market. Though this revenue was 38% higher than Q2-2022, Q3-2022 PBT remains at VND 17 bn, equal Q2-2022 PBT due to surging selling expenses (labor costs and rent expenses).

As the company operation will reopen all of its stores in next year and brighter outlook for international pax volume, we believe in the positive upside potential for 2023 earnings, hence, better justifying current valuation.

RISKS TO OUR CALL

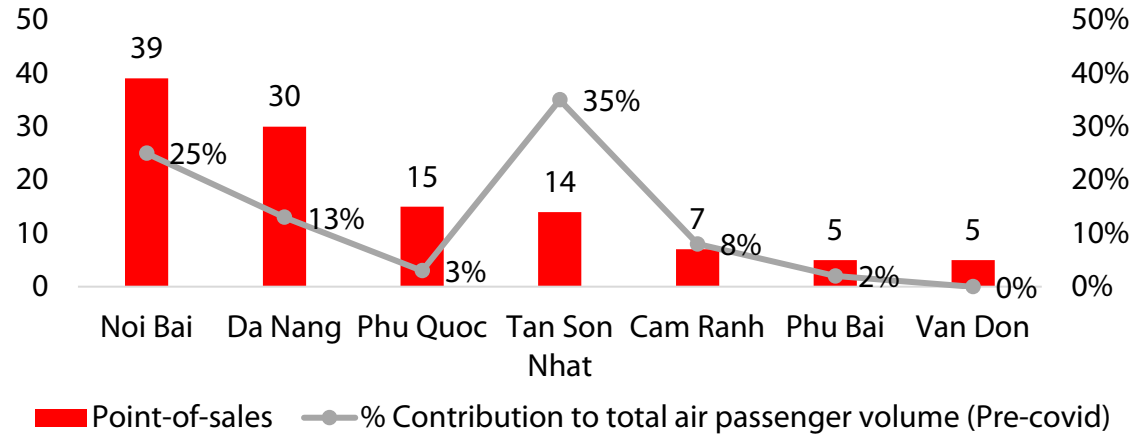
- Softer-than-expected purchasing power of air travelers and slower-than-expected reopening of China's international flights.

LOW INT'L TRAVELERS SLOWED RECOVERY PROGRESS OF PROFIT MARGINS

The lack of international travelers slowed the recovery progress of operating profit margin.

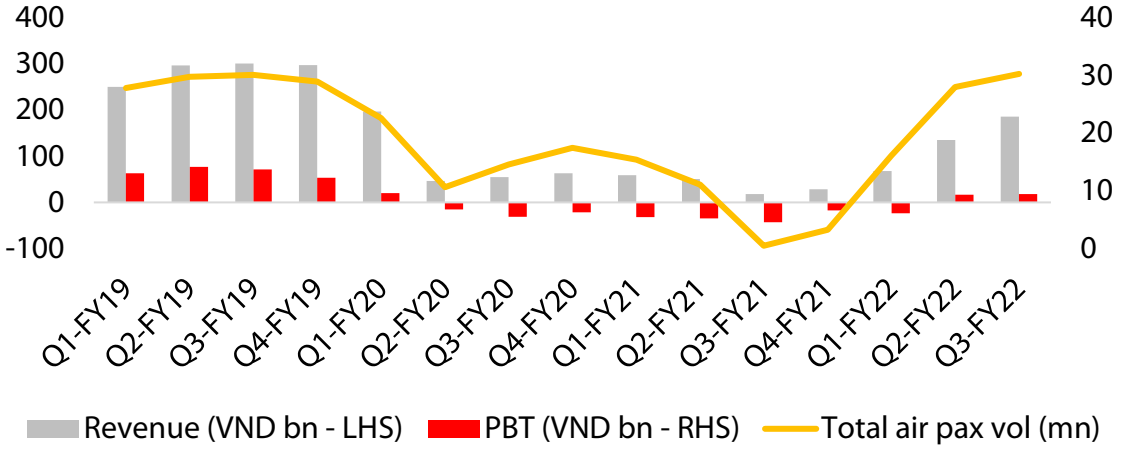
- Q3-2022 revenue trended upward, up 38% QoQ, which was even faster than the improvement of air passenger volume of 8% QoQ.
- GPM remained above 50% in Q3-2022, nearly reaching 2018-2019 levels, but variable operating expenses relating to labor costs and rent expenses pull EBIT margin back to 8.0% vs 12.4% in Q2-2022.
- Net margin, therefore, did not show a continued improvement despite air traffic and revenue were favorable.

Figure 1: AST has its footprint at nearly all major airports of Vietnam



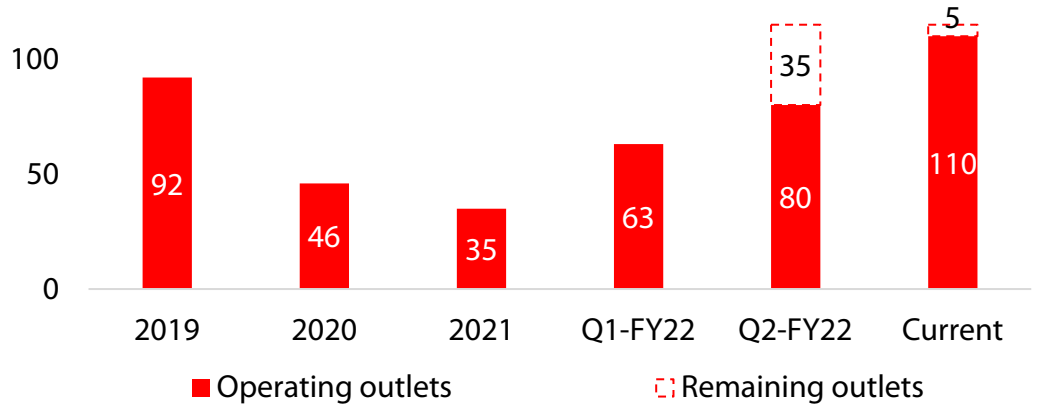
Source: AST, Rong Viet Securities

Figure 2: Profit turned positive on recovering air traffic



Source: AST, Rong Viet Securities

Figure 3: Continue to reopen remaining stores going forward



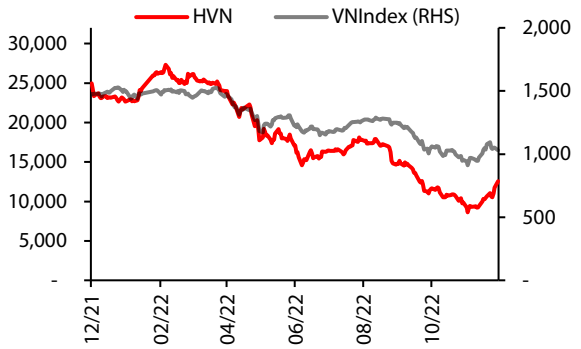
Source: AST, Rong Viet Securities

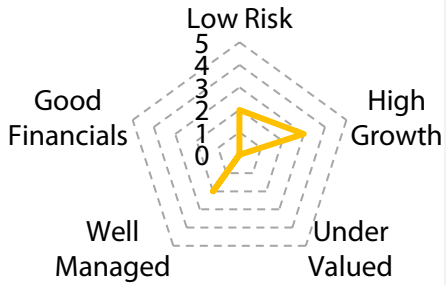
STILL STRUGGLE TO MAKE SOME PROFITS OUT OF A STRONG AIR TRAFFIC

HSX: HVN

<NON-RATED>

MP: 12,550





STOCK INFO

Sector	Airlines
Market Cap ($ mn)	1,177
Current Shares O/S (mn shares)	2,214
3M Avg. Volume (K)	906
3M Avg. Trading Value ($ mn)	11
Remaining foreign room (%)	24.1
52-week range ('000 VND)	8.0 – 27.5

FINANCIALS

	2019A	2020A	2021A
Revenue (VND bn)	98,228	40,538	27,911
NPATMI VND bn)	2,346	-10,927	-12,907
ROA (%)	3.1%	-17.5%	-20.5%
ROE (%)	12.9%	-172.6%	-856.8%
EPS (VND)	1,654	-7,704	-5,829
Book Value (VND)	12,795	4,464	680
Cash dividend (VND)	1,000	0	0
P/E (x)	16.1	-2.9	-4.0
P/B (x)	2.0	5.2	97.8

INVESTMENT RATIONALES

Robust traffic has driven 9M-2022 sales well but not the profits, putting HVN at the risk of delisting from HOSE in next year.

- By Q3-2022, air transport revenue of parent company (including two brands namely Vietnam Airlines and VASCO) and consolidated report (Vietnam Airlines, VASCO and Pacific Airlines) recovered to 79% and 83% compared to pre-covid levels, respectively. This recovery was largely supported by (1) all-time high domestic traffic in summer flight season, with additional boost from the pent-up demand, and (2) the trending upward international air passenger volume.
- Despite the peak in air passenger traffic, HVN wasn't be able to turn the losses around, due to high jet fuel costs and aircrafts leasing costs, which make up 80% of total parent's OPEX. As a result, HVN still incurred losses in operating income of more than VND 1,3 trillion in Q3-2022, let alone higher interest expenses, which made PBT recorded even larger loss. Therefore, HVN will likely be delisted from HOSE in next year due to negative owner's equity.

The resumption of Chinese travelers, expected in 2H-2023, should further enhance HVN's revenue via increased international flights, but we don't expect the company to record a huge earnings in next year amid highly volatile jet fuel prices due to the vulnerability to fuel costs of operating income.

Figure 1: Parent revenue rapidly recovered in line with pax volume

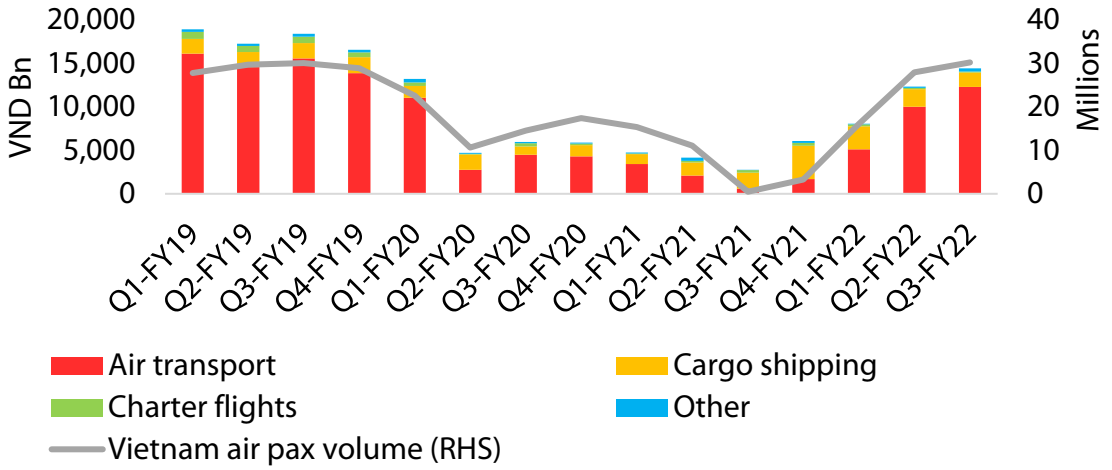


Figure 2: Consolidated revenue reached to 83% of pre-covid level

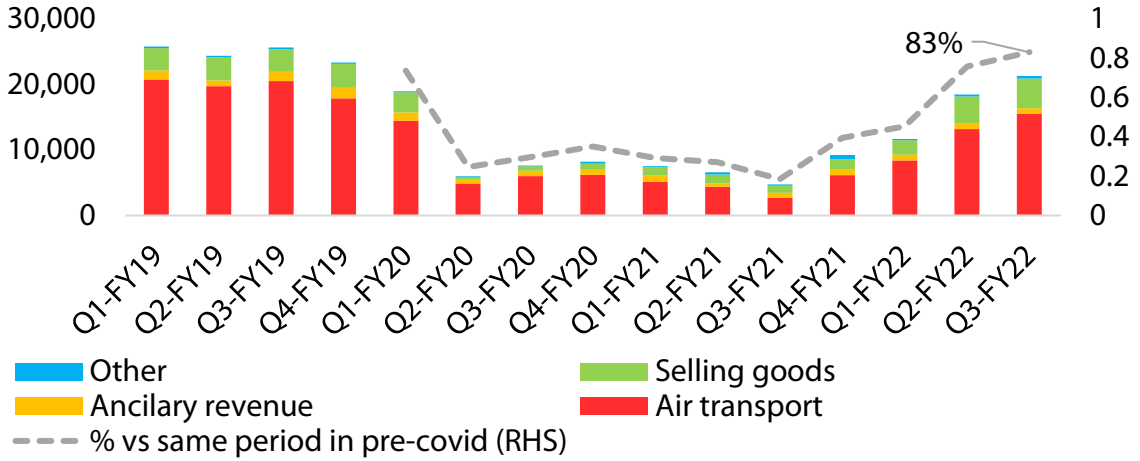
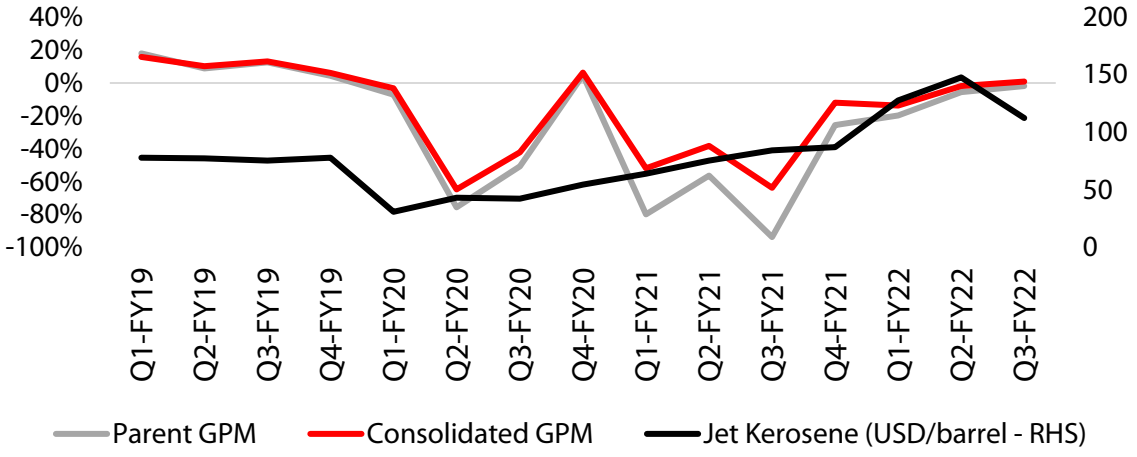
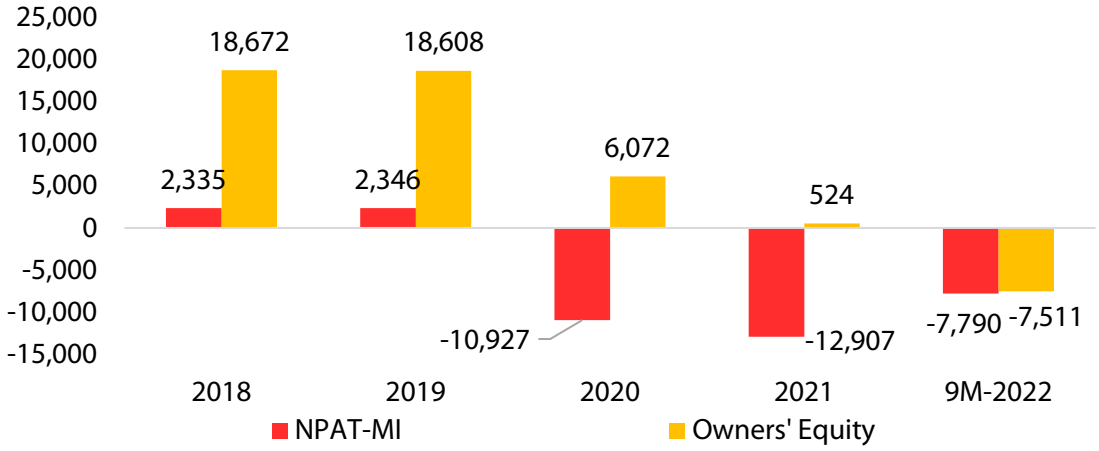


Figure 3: Despite all-time high traffic, HVN still incurred loss



Source: HVN, Rong Viet Securities

Figure 4: HVN will be delisted from HOSE due to negative equity



Source: HVN, Rong Viet Securities

REAL ESTATE

A CHALLENGING YEAR

Anh Tran– anh.tk@vdsc.com.vn

REAL ESTATE – A CHALLENGING YEAR

Evaluate

Overview

Under the high interest rates circumstance, the real estate sector in 2023 will generally face many challenges. However, there are still some outstanding opportunities in 2023, in which Hanoi & HCM are forecast to record positive growth focusing on the actual demand segments and scarcity of land funds. In addition, the Government's orientation to promote public investment in 2023 and an increasingly transparent legal regime are expected to create opportunities for the industry to recover quickly and create a driving force for growth in the medium and long term. On the basis of these considerations, we think the companies have solid financial base and cautious strategy in land bank development are likely to be safe to overcome the storm. These are also advantages to make ones to grow better when real estate market comebacks. In which, NLG and KDH are stocks we like the most.

Highlight

Supply and demand in the commercial real estate segment are expected to decrease in 2023

- Supply and demand in the land plot & resort segment have shown signs of decline since 2Q2022 when home loan interest rates started to increase rapidly, in addition to credit restrictions. Besides, interest rate risk is forecasted to be not cool down next year yet, it will make projects of investment segment will face difficulties in terms of liquidity.
- In addition, purchasing power from the group of customers with actual demand is not expected to improve significantly until 2023-24, because most of the key traffic works connecting Hanoi/Ho Chi Minh with suburban areas is still under development.
- This leads to the risk that many real estate businesses will face difficulties while the majority of projects are opened for sale and land banks are concentrated in this segment.

Hanoi – Ho Chi Minh City 2023: The absorption rate and selling price are forecasted to remain high due to the scarcity of land banks.

The Government accelerates disbursement of public investment in 2023, which is expected to help real estate activities recover faster.

- Total investment capital in 2023 is planned at 793 trillion, up 29% compared to the 2022 plan. This is also the strongest growth in the past three years. In addition, the projects have also started transitioning to the construction phase after more than a year of preparing documents, bidding and site clearance. In addition, the price of construction materials (crushed stone, cement, steel) is low at the moment, which also creates favorable conditions for the construction of projects.

Real estate in the suburbs of Hanoi and the south is forecast to benefit from key projects in 2023

- A number of key inter-regional projects that are important to create driving force for economic development will be started construction in 2023, including: Ring Road 4 (north), Ring Road 3 (south), Long Thanh airport, the expressway system in the South is expected to help real estate projects in these areas benefit in the short, medium and long term.

The legal mechanism is increasingly aiming for transparency

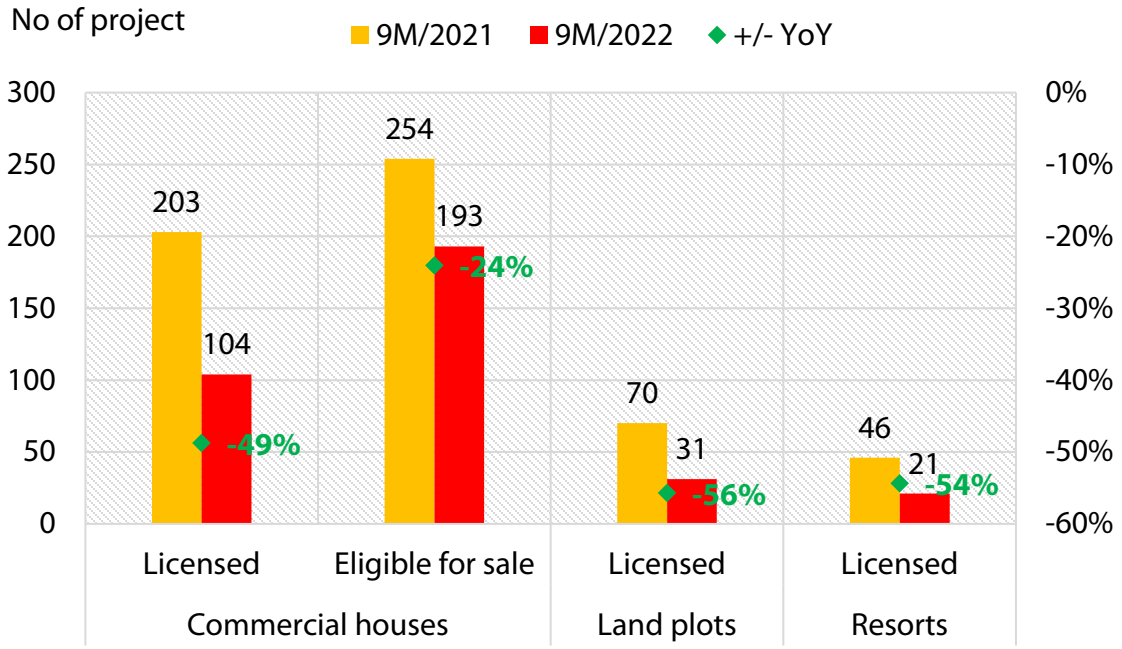
- The act of removing the land price bracket and determining land prices at market prices is one of the most important amendments to the draft Land Law 2023. It is expected that future project supply will be improved when difficulties of financial obligations are easier.

SUPPLY AND DEMAND IN PROJECTS OF INVESTMENT SEGMENT FORECAST TO SLOWDOWN IN 2023

Supply and demand in the land plot & resort segment have shown signs of decline since 2Q2022.

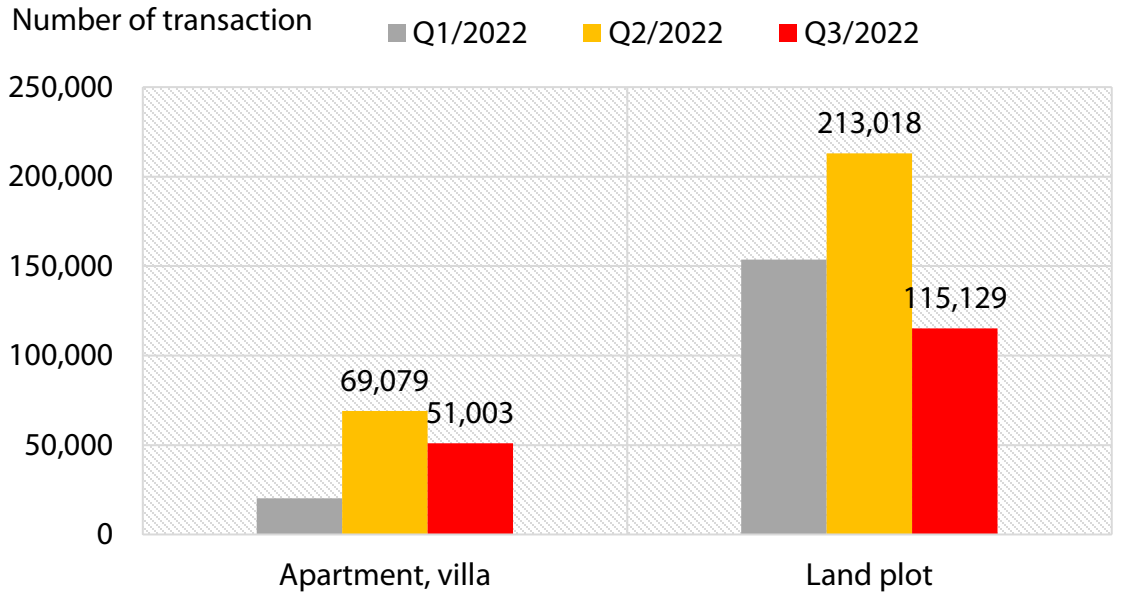
- Specifically, the number of commercial projects that are licensed and eligible for sale decreased by 49% and 24%, respectively. The number of the land plot and resort projects also recorded a decrease of 56% YoY and 54% YoY.
- Number of transactions have also shown signs of slowing down since 3Q2022. Which, land plot transactions recorded a sharp decrease of 46% compared to 2Q2022, besides housing transactions also recorded a decrease of 26% QoQ.

Figure 1: Business development activities nationwide 9M2022



Source: Ministry of Construction, RongViet Securites

Figure 2: Real estate transactions nationwide 9M2022



Source: Ministry of Construction, RongViet Securites

SUPPLY AND DEMAND IN PROJECTS OF INVESTMENT SEGMENT FORECAST TO SLOWDOWN IN 2023

The liquidity of projects in investment segment will face difficulties to improve under the pressure of a high level of home loan interest rate in the following year.

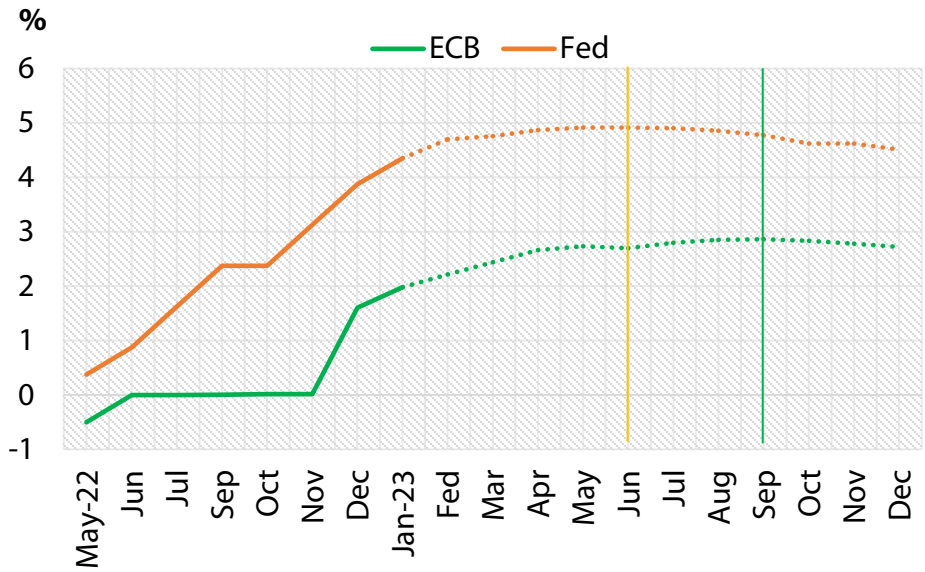
- Home loan interest rates are currently high at 11-14%, having increased faster than 4% in just the 1H2022.
- At the same time, under pressure: (1) Fed and ECB are expected to continue to raise interest rates until at least the next two years. (2) liquidity problem in the current system. So, we forecast that home loan interest rates will be not likely to cool down until the end of 1H2023.

Table 1: Home loan interest rates in Dec-2022

Bank	Interest rate	Yield	Preferential Interest Rate	Loan Rate	Loan period (years)
VCB	11,20%	3,50%	13,50%	70%	20
BIDV	11,40%	4,00%	13,00%	90%	20
ACB	10,50%	3,50%	13,50%	70%	25
MB	11,10%	4,10%	12,90%	80%	20
VIB	13,90%	3,70%	13,90%	90%	30
TPB	14,20%	4,10%	14,20%	70%	20
SC	10,25%	1,50%	10,25%	75%	25
UOB	8,69%	1,30%	10,50%	75%	25

Source: Fina, RongViet Securities

Figure 3: Fed & ECB's forecasts of Regulatory Interest Rate



Source: Bloomberg, RongViet Securities

Table 2: Traffic works connect Hanoi with suburban areas

Infrastructure	Connect Hanoi with suburban areas	Status	Expected Operating period
No 6 national highway (expanded)	Connect Hanoi and Hoa Binh	Expected commence in 4Q22	2027
Thăng Long highway (expanded)	Connect Hanoi and Hoa Binh	Processing for planning stage	2027
Ring road 4	Connect Hanoi to Hung Yen, Bac Ninh, Bac Giang	Processing for planning stage	NA
Upgrade street No.70	Increase traffic capacity at the eastern gateway	Processing for planning stage	NA
Thuong Cat bridge	Connect ring road 3, Bac Tu Liem, Dong Anh	Processing for planning stage	NA
Van Khuc bridge	Connect Hanoi to Vinh Phuc	Expected commence in 06/23	06/2026

Table 3: Traffic works connect Ho Chi Minh City with suburban areas

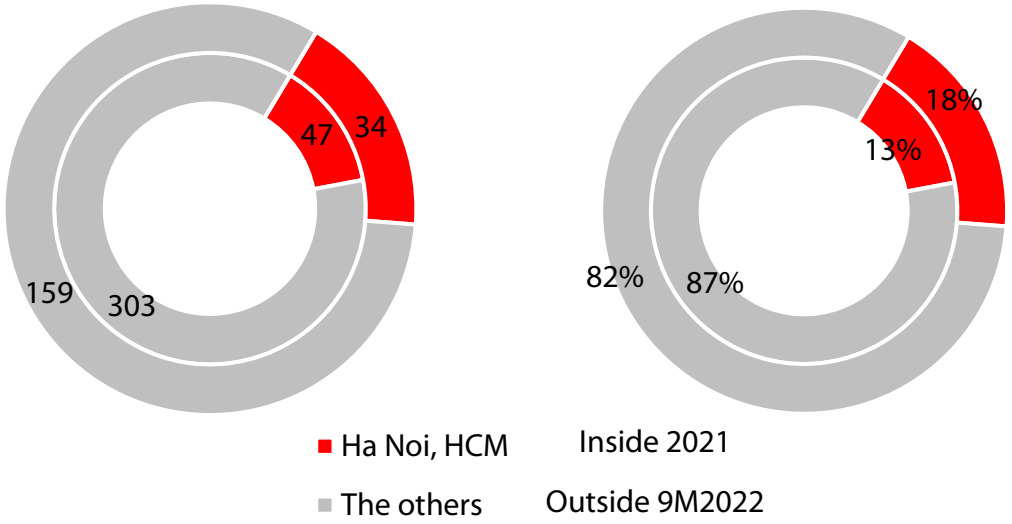
Infrastructure	Connect HCMC with suburban areas	Status	Expected Operating period
Metro line 1	Connect HCM and Dĩ An, Binh Duong	Completed 82%	2024
Metro line 5	Connect HCMC and Can Giuoc commute, Long An	Not impleted	2025
Cat Lai bridge	Connect HCMC and Nhon Trach commute, Dong Nai	Processing for planning stage	NA
Expand Hanoi highway	Increase traffic capacity at the eastern gateway	Processing for planning stage	NA
Relocate Truong Tho ports	Increase traffic capacity at the eastern gateway	Processing for planning stage	NA
Ring road 3	Connect HCMC – Binh Duong – Dong Nai – Long An	Expected commence in 06/23	06/2026
Vo Van Kiet street	Connect HCMC and Duc Hoa commute	completed 12%	NA
Rach Doi bridge	Connect HCMC and Can Giuoc commute, Long An	Processing for planning stage	NA

Source: RongViet Securities

The connection infrastructure is not synchronized to create attractiveness for projects in the periphery after the heating period in recent years

- In the period 2018–21, credit growth was expanded, interest rates remained low and investment demand increased sharply during the Covid-19 pandemic, project development activities in the periphery of Hanoi & Ho Chi Minh City and areas with potential for tourism development recorded a boom, although in terms of demand, these projects have not really focused on the segment of customers who have real needs to buy houses to live in.
- However, up to now, the purchasing power from investment activities has decreased significantly due to the interest rate factor, we see that the purchasing power of customers with real demand has not improved significantly in 2023-24, because most of the key traffic works connecting Hanoi/Ho Chi Minh with neighboring areas are still in the construction phase, which has not created much motivation for homebuyers to have the need to buy houses in Hanoi.

Figure 4: Number of projects eligible for sale



Source: Ministry of Construction, RongViet Securities

Table 4: Total number of projects of some listed companies

Enterprises	Hanoi & HCMC		Suburban areas	Other areas
VHM	5	Ocean Park, Smart City, Grand Park, Cổ Loa, Wonder Park		3
NVL	-		4	6
KDH	6	Classia*, Privia, Clarita, Solina, Đoàn Nguyên, Tân tạo	-	-
NLG	2	Mizuki*, Akari*	2	2
PDR	-		1	3
DXG	2	Lux Star**, Gem Riverside**	5	1
AGG	1	Westgate*	1	2
DIG	-		5	5
VPI	-		1	3
HDG	5	Charm Villas*, Greenlane, Minh Long, 62 Phan Đình Giót, Dịch Vọng Complex, CC3	-	2
Total	**21**		**19**	**27**

Source: RongViet Securities
Suburban areas: Bien Hoa City, Di An, Thuan An, Long An, Bac Ninh, Hung Yen, Ha Nam, Hoa Binh, Phu Tho, Vinh Phuc
** Each project has only one subdivision, ** The project has not been granted a construction permit*

The risk that the commercial real estate segment will face many difficulties in 2023 as analyzed above will significantly affect the business results of real estate businesses in the year after most projects open. sale and land bank of companies are concentrated in this segment.

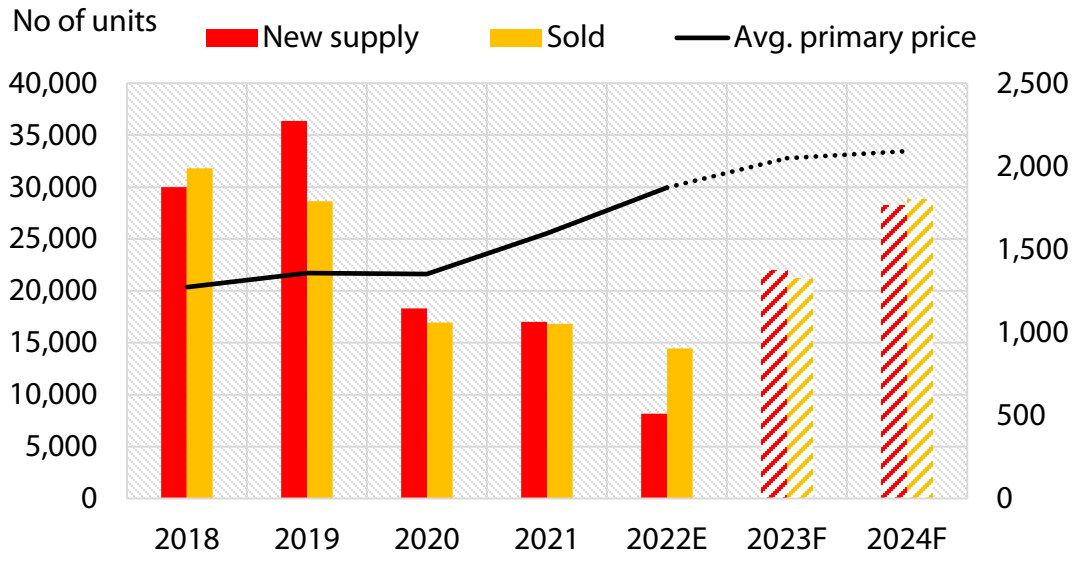
The real estate market is facing many challenges, we believe that in 2023 commercial housing projects that meet real demand, especially in Hanoi and Ho Chi Minh will likely to be affected the least.

Hanoi Market

Forecast of housing supply and demand in both townhouses - villas and apartments is still quite positive

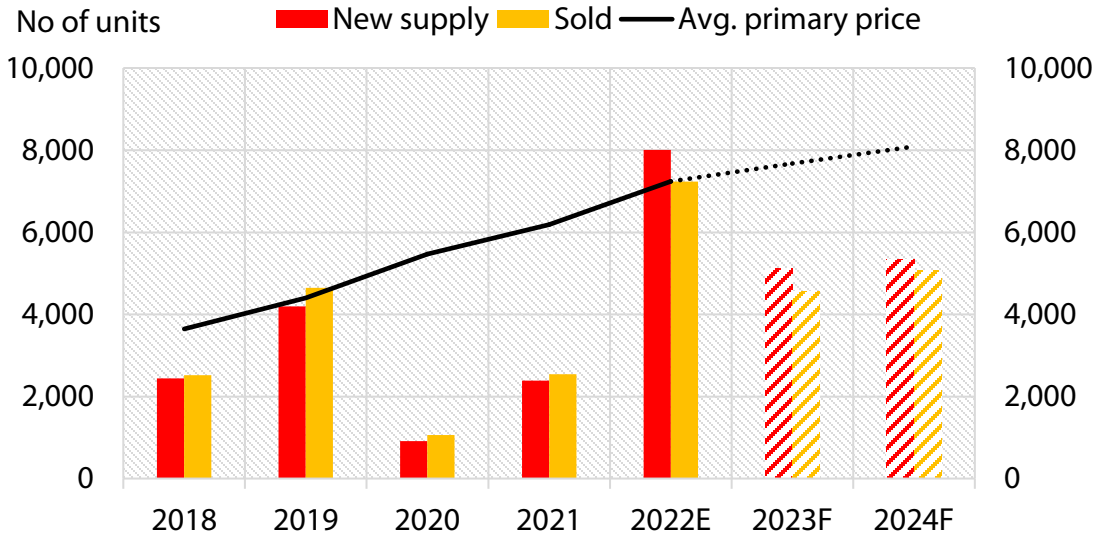
- According to CBRE data, the number of new apartment supply in Hanoi in 2023 is estimated at 22,000 units, 2.7 times higher than in 2022. The expected absorption rate is still at a high level of over 96%. Besides the expected selling price, it still maintains a positive increase of +9% thanks to the low number of products supplied to the market in the period of 2020-22.
- Although the townhouse and villa project segment is expected to record a decrease in supply in 2022, the number is still in a recovering trend compared to period before the epidemic in 2019. Absorption rate of the housing segment towns & villas are forecasted to decrease slightly in 2023, estimated at 89% (2022: 90%) due to a rapid increase in supply in 2022, however, the selling price is forecasted to still be in a positive uptrend +6 % YoY from the scarcity of large land bank in Hanoi.

Figure 5: Supply/demand and apartment price in Hanoi



Source: CBRE, RongViet Securities

Figure 6: Supply/demand and selling price of townhouses and villas in Hanoi

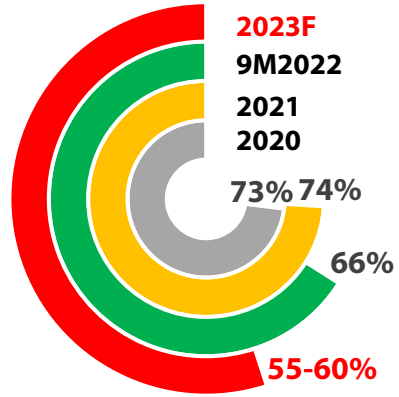


Source: CBRE, RongViet Securities

Ho Chi Minh Market

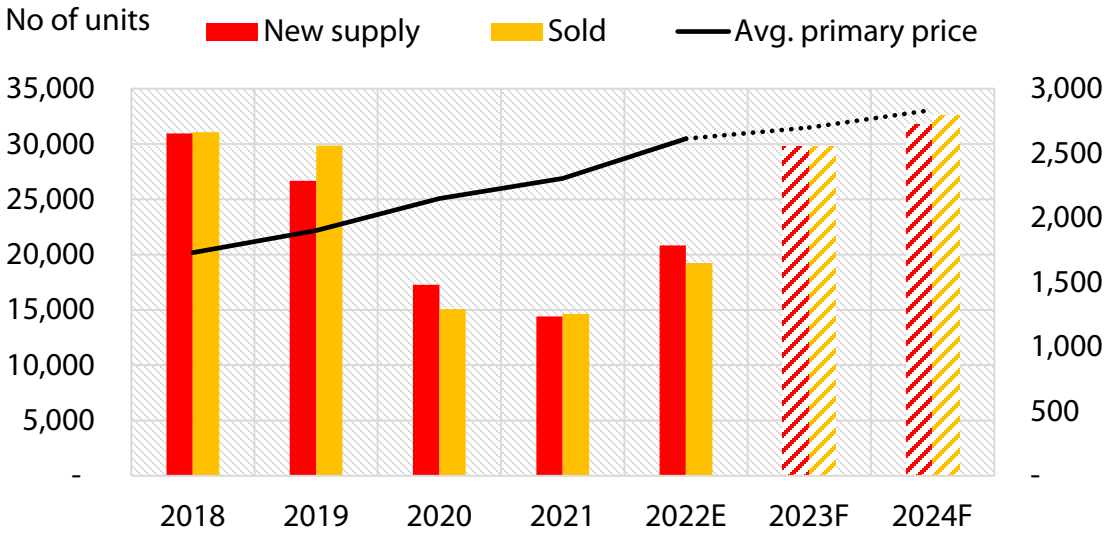
- According to CBRE's forecast, the number of new apartment supply in Ho Chi Minh in 2023 will be about 30,000 units, increased 43% YoY. The expected absorption rate is still at 100%. However, due to the rapid increase in supply in 2022-2023, which gives customers many options, the primary selling price is forecasted to slow down, besides the successful launch rate of projects in the first quarter may decrease, continue to keep at low level of 55-60%.
- Large land fund in HCM is increasingly scarce, in the period of 2018-2019, the new supply of townhouses and villas is only 1000 products/year. In 2022, the supply will be somewhat more active from the cumulative offering projects due to the Covid-19 epidemic, in 2023, it is expected that the new supply will return to normal levels compared to the pre-epidemic period. In which, mainly from projects Senturia An Phu (355 units), Van Phuc City, Pananomax River (43 units), The Classia (76 units), The Clarita (160 units), Zeit Geit (138 units)...

Figure 7: Successful opening rate in the first quarter



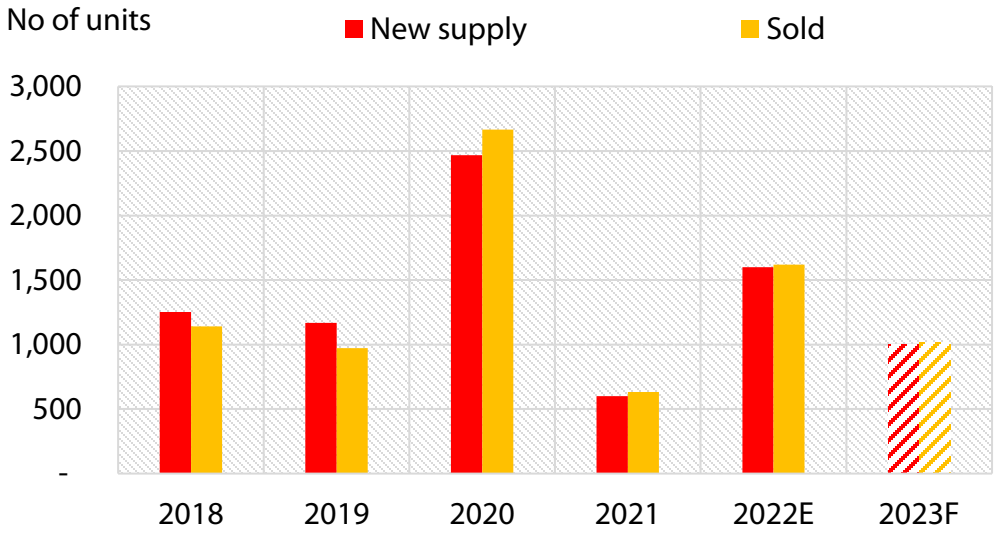
Source: CBRE, RongViet Securities

Figure 8: supply/demand and apartment price in HCMC



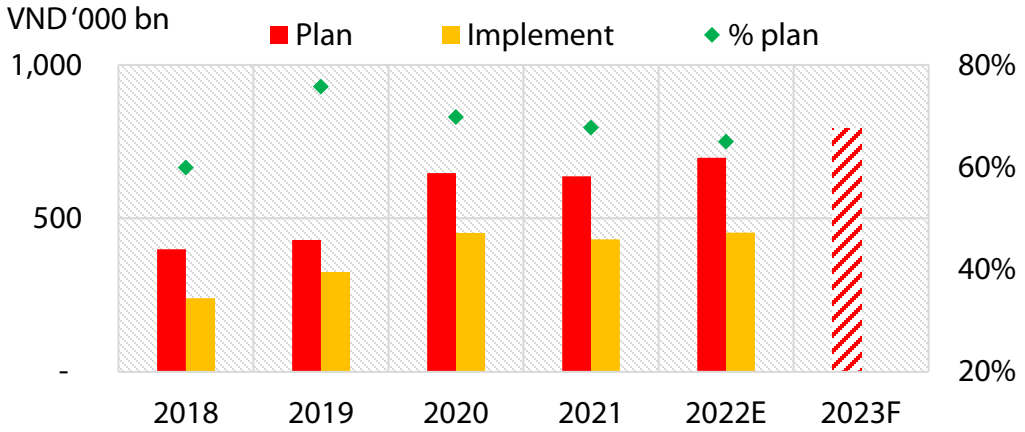
Source: CBRE, RongViet Securities

Figure 9: Supply/demand of townhouses and villas in HCMC



Source: CBRE, RongViet Securities

Figure 10: Other expressway projects in the South



Source: Ministry of Planning and investment, RongViet Securites

The Government promotes public investment to create a driving force for the development of the real estate industry in the medium-long term

- According to the operating target, the Government is oriented to accelerate public investment disbursement in 2023. In which, the total investment capital in 2023 is planned at 793 trillion VND, up 29% compared to the 2022 plan. It's also the strongest growth in the past three years.
- In addition, the projects have also begun to transition to the construction phase after more than a year of preparing documents, bidding, site clearance.
- The price of construction materials (building stone, leveling land, steel) has cooled down, creating favorable conditions for the implementation of projects.
- The completion of highway and infrastructure projects is expected to help the real estate market quickly return to stability, besides, benefiting from rising prices and real demand in the medium-long term.

Figure 11: North-south expressway projects in the east side, 2021-2025

Source: Ministry of Transport, RongViet Securites

Figure 12: Key infrastructure projects in regions in 2023

Ring Road 4 – Phase I

- Expected commence in the end of 2Q2023
- Total investment: VND 85,800bn
- The project is a key project linking the Red River Delta region. Passing through Hanoi, Hung Yen, Bac Ninh, Bac Giang and Vinh Phuc.
- Projects benefit:
  - Districts and suburban areas around Hanoi: Soc Son, Me Linh, Dan Phuong, Hoai Duc, Ha Dong, Thanh Oai, Thuong Tin.
  - Hung Yen: Van Lam Yen My.
  - Bac Ninh: Thuan Thanh, Tien Du, Tu Son, Yen Phong.

Ring Road 3

- Expected commence in Jun-2023
- Total investment: VND 75,000bn
- The project is a key project linking the Southeast region. Passing through Ho Chi Minh, Binh Duong, Dong Nai and Long An province.
- Projects benefit:
  - *Districts and suburban areas around HCMC : district* 9, Cu Chi, Hoc Mon, Binh Chanh.
  - *Binh Duong: Di An, Thuan An*
  - *Dong Nai: Nhon Trach*
  - *Long An: Ben Luc, Can Giuoc*

Long Thanh Airport – Phase I

- Expected commence in 1Q2023
- Total investment: VND 110,000 bn
- To develop and expand the aviation industry in the southern region. Combined with Cai Mep - Thi Vai port to develop comprehensively the domestic logistics chain. In the long term, it is oriented to become a regional transhipment place for goods.
- Projects benefit:
  - *Cities and commutes in Dong Nai province (especially Long Thanh).*

Local expressway project system in the South

- Expected commence in 2023
- Total investment: VND 93,000 bn
- In 2022, in the southern region, 5 more expressway projects will be built (Dau Giay - Tan Phu, Bien Hoa - Vung Tau, Moc Bai - HCM, An Huu - Cao Lanh, Chau Doc - Can Tho. - Soc Trang). The Government's increase in investment in construction in the coming years will help strengthen connectivity between provinces, increase investment attraction, and create a driving force for regional economic development.

LEGAL MECHANISM IS INCREASINGLY AIMING FOR TRANSPARENCY

CONTEXT	IMPACTS	RESPOND
LAND LAW AMENDED 2022 **Remove the land price bracket, determine the land price according to the market price**	**Expected future project supply will be improved** • Along with the approval of investment policy, determining financial obligations related to land is one of the two biggest legal issues in project development activities of enterprises. • Currently, the market price of land is usually at least 30% higher than the regulated price bracket. Especially in localities with rapid urbanization, the disparity is much higher. The compensation in the regulated price bracket is not close to the market movements, leading to the inadequacy of land clearance time longer than expected. In addition, the actual land price is much higher than the price prescribed by the Government, which also causes the authorities to face difficulties in determining the land price. • Therefore, if the draft is approved, it will help shorten the project development schedule, in addition to adding a stagnant project supply to the market when one of the two major issues is removed. **However, it is expected that the selling price of projects in the coming years will be somewhat higher when the cost of land bank development increases.**	• The draft revised land law is seeking opinions on: Abolish the land price bracket promulgated by the Government every 5 years, allowing localities to be autonomous and decentralized to issue land price lists at market prices annually. This information on land prices updates quickly and is more marketable
RECOMMENDATIONS FROM THE REAL ESTATE ASSOCIATION **Standard process on investment procedures for urban projects, commercial housing**	**Expect to shorten project development time, reduce investment costs** • Currently, the legal completion time for real estate projects in VietNam lasts from 3-5 years. Compared to developed countries, it only takes 6-24 months. Part of the reason comes from the fact that there are still many overlapping legal documents, which are not completely unified and explained in detail, causing each functional agency to enforce different laws or each locality with different procedures. perform differently.	• HOREA has submitted a proposal to the Prime Minister to consider promulgating a standard process on investment procedures for urban and commercial housing projects.

Source: Land Law amened 2022, HOREA, RongViet Securites

LEGAL MECHANISM IS INCREASINGLY AIMING FOR TRANSPARENCY

CONTEXT	IMPACTS	RESPOND
SOME RECOMMENDATIONS OF REAL ESTATE ASSOCIATION	**If this proposal is approved, it will help real estate businesses increase liquidity under the context that the real estate sector is facing difficulties in capital.**	
Transfer of all or part of the project when the project has a certificate or a decision on land allocation or land lease	• According to the provisions of the Real Estate Law (Clause 2, Article 9), at the present time, it is necessary to own a certificates of land use rights, which is a mandatory condition for the transfer of real estate projects. Allowing the project to be transferred before the completion of financial obligations facilitates developers to significantly shorten the project holding time, thereby increasing the liquidity of real estate companies. **In addition, this proposal also helps boosting the project implementation progress from new investors with strong financial position.**	• HOREA submitted a proposal to the Prime Minister • However, we think that the proposal will likely not be approved in the short term in 2023, due to changes related to the Real Estate Law that need the approval of the National Assembly.
Permit to issue and re-issue the Condotel House Ownership Certificate with a land use term of 50 years (excluding the time the project has not been put into use).	**Contributing to stimulating investment in the Condotel segment** • In recent years, the development of resort tourism projects has taken place quite strongly on a national scale. However, investment demand has tended to decrease in the context of rapidly increasing interest rates from 2Q2022. • To contribute to increase the demand and benefits for customers. HOREA is proposing to increase the project's useful life to 50 years excluding the time when the project under development has not been put into operation. Compared to the present, the actual extraction time of condotel projects is only about 45-47 years, from the time of land use calculated from the time of land allocation/lease decisions (Clause 8, Article 126 of the Land Law 2013) and took 3-5 years to develop the project	• HOREA submitted a proposal to the Prime Minister • However, we think that the proposal will likely not be approved in the short term in 2023, due to changes related to the Land Law that need the approval of the National Assembly.

Source: HOREA, RongViet Securites

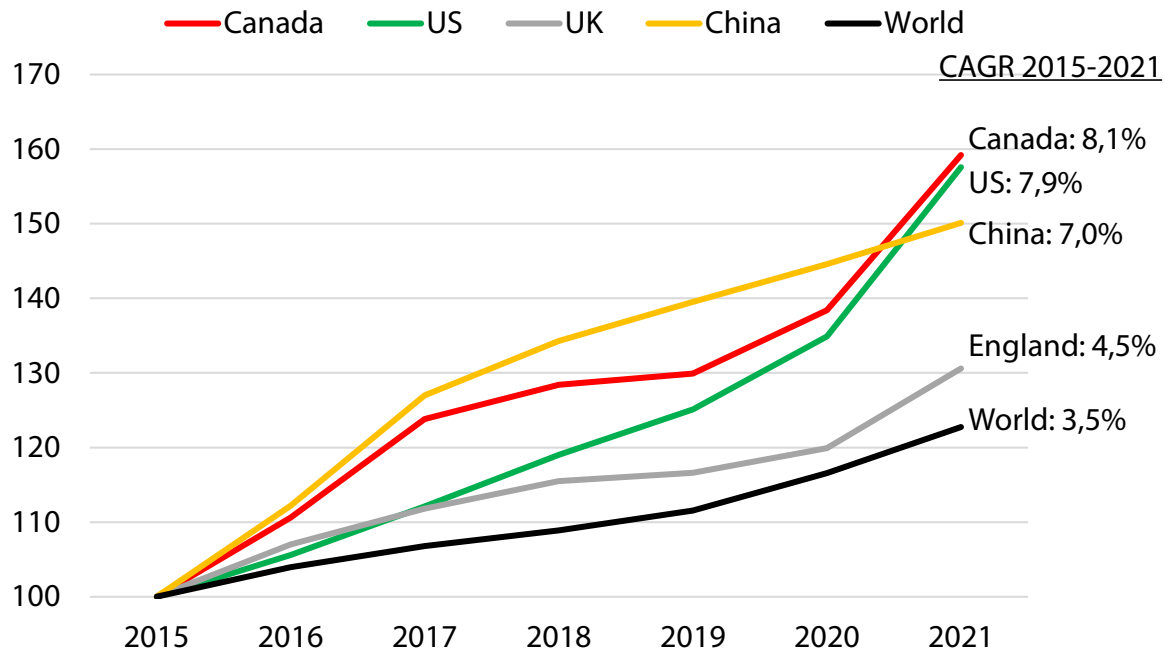
PROPOSAL OF HCMC PEOPLE'S COMMITTEE

Pilot tax collection with land use rights and property ownership on the land of the second real estate or more

Imposing a second property tax could result in faster increase of property price.

- In December, HCMC proposed a pilot policy to collect tax on land use rights & property ownership on the land from the second properties in order to limiting real estate speculation. Taxation methods and rates have not yet been determined.
- However, compared to countries in which imposes a low second real estate tax like China (~1.2%), it helps increase state budget revenue, but it has not brought much efficiency in speculation prevention.
- As for countries that have imposed high tax rate on second property such as the UK (progressive tax: 2-12%), Singapore (5%), the US (1-5%), Canada (50% of transfer profits), property prices are still among the fastest growing groups in the world, making speculative activities profitable.

Figure 13: Index of home price increases in some countries (2015=100%)

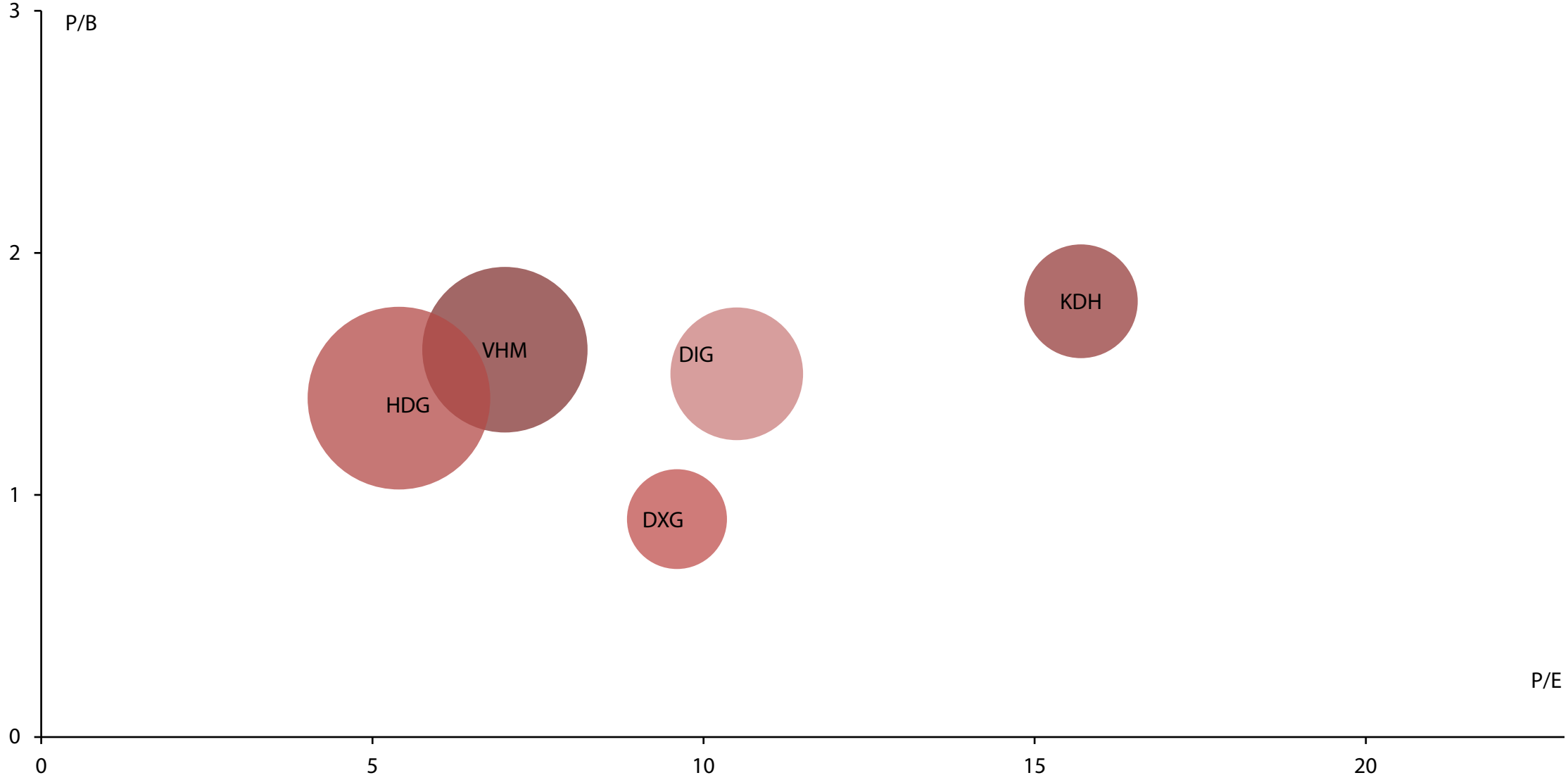


Source: OECD, RongViet Securities

Stock	Market cap	Target price	NPAT Growth	Net margin	Cash/total asset	Accounts Receivable/total asset	Inventories/total asset	prepayments from customers/total asset	Debt/total asset	ROA	ROE	TTM P/E	P/B	Dividend Yield
	(VND bn)	(VNĐ)	(% YoY)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(x)	(x)	(%)
KDH	20,035	37,300	19.3	61.6	12.8	23.4	62.7	200.0	33.6	7.8	11.9	15.7	1.8	-
HDG	7,619	35,900	78.4	36.7	6.6	10.7	14.9	6.6	41.6	9.0	30.7	5.4	1.4	2.7
NLG	10,965	27,100	-64.0	6.7	16.4	10.1	63.7	15.0	18.0	1.9	4.8	28.1	1.3	2.1
VHM	219,896	N.R	-17.5	57.7	4.7	29.0	33.4	2.5	11.8	11.2	25.2	7.0	1.6	4.0
DIG	10,825	N.R	41.7	41.1	13.0	42.1	36.3	9.3	33.5	6.7	16.2	10.5	1.5	-
DXG	8,144	N.R	7.6	12.1	4.0	41.8	47.3	7.0	19.1	2.8	9.2	9.6	0.9	-

Source: Bloomberg, RongViet Securities

PE, PB, and ROE (TTM)

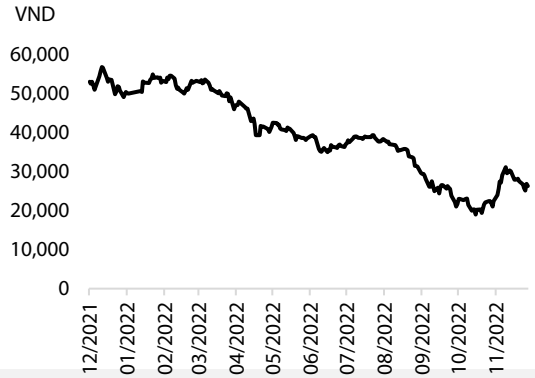


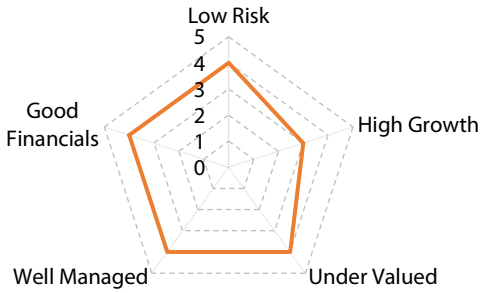
Source: Bloomberg, RongViet Securities

LONG-TERM BENEFITS FROM LAND FUND

HSX: KDH

BUY: 44% **MP: 25.800** **TP: 37.300**





STOCK INFO

Sector	Real Estate
Market Cap ($ mn)	665,45
Current Shares O/S (mn shares)	708,83
3M Avg. Volume (K)	2154
3M Avg. Trading Value (VND Bn)	57
Remaining foreign room (%)	0.00
52-week range ('000 VND)	41.448

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	3,738	2,779	3,291
NPAT (VND bn)	1,205	1,449	1,357
ROA (%)	8,5%	8,6%	6,0%
ROE (%)	13.1%	13.6%	11.7%
EPS (VND)	1,788	1,954	1,830
Book Value (VND)	15,898	15,708	17,107
Cash dividend (VND)	0	0	0
P/E (x)	13.2	11.0	11.7
P/B (x)	1.6	1.4	1.3

INVESTMENT RATIONALES

Substantial land fund in HCMC

- KDH is among the top 3 listed real estate developers with the largest land fund in Ho Chi Minh City with the remaining land fund currently expected to be 429 (ha), where the amount of "clean" land is estimated approximately 118 ha. In the context of the supply of Ho Chi Minh City's real estate market is becoming scarce while demand is rising, KDH has a significant advantage over other companies in the same industry thanks to a sizable precious land bank.

Sales plan accelerating in 2023-2024

- In contrast to the years 2020–2022, when KDH typically only opens one project or project subdivision for sale each year, it is anticipated that KDH's sales will pick up in the years 2023–2024. We highly appreciate KDH project's ability to absorb as the supply situation in Ho Chi Minh steadily becomes scarce.
- In 2023, the Company plans to continue to open the second phase of The Classia project, phase 2 (1Q2023). The Privia, a high-rise apartment project, is anticipated to begin selling in (1H2023), while The Clarita, a townhouse and villa project, is anticipated to begin selling in (2H2023). The infrastructure construction phase for both of these projects is now currently in progress.
- Furthermore, the projects The Solina -11A low-rise area (H1/2024), Doan Nguyen residential area (2024), and Le Minh Xuan industrial park expansion (2024) will be deployed in 2023 to construct infrastructure in order to open for sale in 2024.

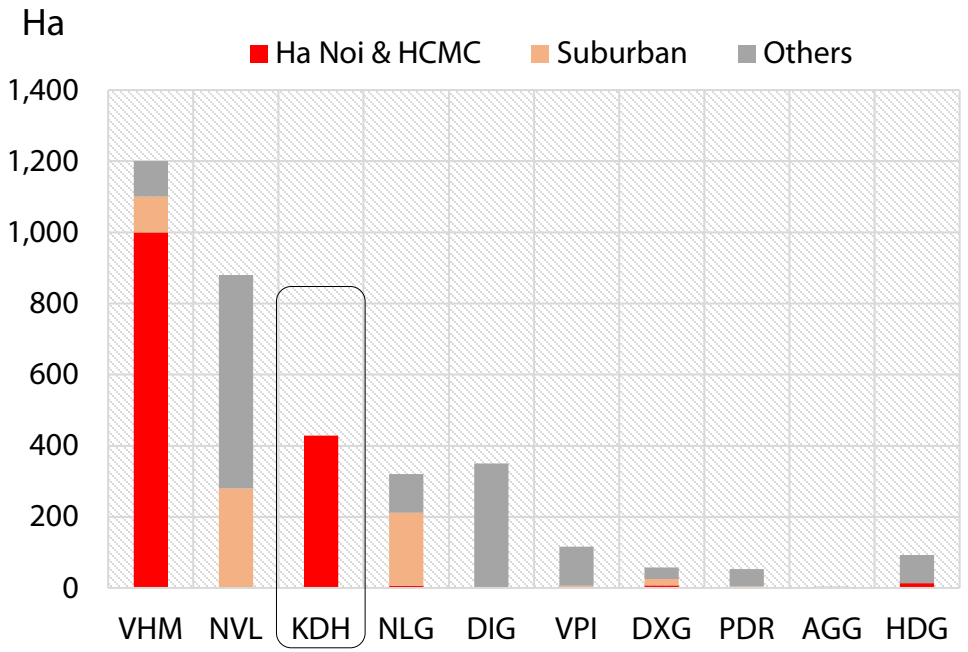
RISKS TO OUR CALL

- Delays in legal completion of projects as well as the implementation of site clearance for large projects such as Tan Tao, Phong Phu 2, and the Le Minh Xuan Industrial Park expansion, may have an impact on KDH's future cash flow.
- Rising interest rates may affect the progress of these projects.

Competitive advantage from precious land bank

The precious land bank provides a competitive advantage. KDH is one of the top three listed real estate developers in the country, with the largest land bank. The remaining land fund of KDH is currently estimated to be 429 (ha), which is extremely noteworthy when all projects are located in Ho Chi Minh City. In the context of the real estate market in Ho Chi Minh where supply is becoming increasingly scarce while demand is increasing, owning a large land bank provides KDH with significant advantages over other businesses in the same industry.

Land fund comparison of KDH and other listed companies



Source: KDH, Rong Viet securities

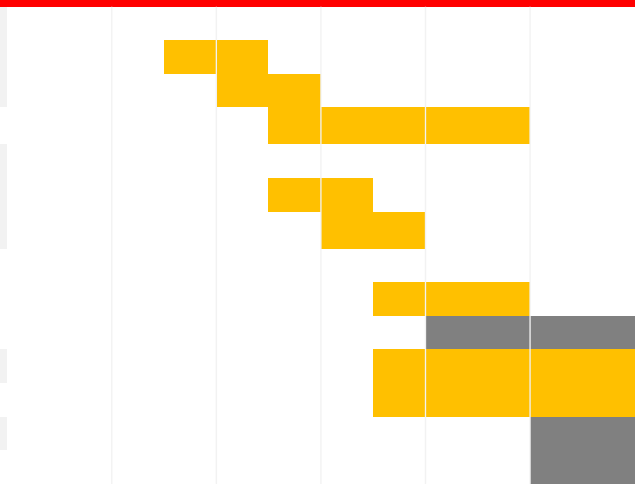
Table 1: List of KDH's projects from 2022-2025

Project	Area (ha)	Location	Current Status
The Classia	4,3	District 9, HCMC	On sales
The Privia	1,8	Binh Tan, HCMC	Construction started from 06/2022. Expected to open for sale in early 2024
The Clarita	5,8	Thu Duc, HCMC	Licensed to build infrastructure. Expected to open for sale in 2H2023
11A	16,5	Binh Chanh, HCMC	Phase 1 subdivision has an area of 13ha, 100% compensation, currently waiting for a decision on approval of land use
KCN Lê Minh Xuân MR	109,9	Binh Chanh, HCMC	Investment policy has been approved in September 2016. Currently waiting for the decision to approve the land use fee for the area of 90ha
Phong Phú 2	132,9	Binh Chanh, HCMC	Processing for land clearance
KDC Tân Tạo	330	Binh Chanh, HCMC	Processing for land clearance
KDC Đoàn Nguyên	6,0	Thu Duc, HCMC	Consolidated from 1Q2022, had land use rights

Source: KDH, Rong Viet securities

Table 2: Pipeline of KDH projects, 2022-2025

No	Project	Location	Possession	Area (ha)	2021	2022	2023	2024	2025	After 2025
1	The Classia	District 9, HCMC	100%	4,3						
	- GĐ1									
	- GĐ2									
2	The Privia	Binh Tan, HCMC	100%	1.8						
3	The Clarita	Thu Duc, HCMC	100%	5.7						
	- P1									
	- P2									
4	The Solina 11A	Binh Chanh, HCMC	100%	16.4						
	- P1		100%	14.0						
	- P2		100%	2.4						
5	Expanded Le Minh Xuan IP	Binh Chanh, HCMC	100%	109.9						
6	Doan Nguyen	Thu Duc, HCMC	85%	6.0						
7	Phong Phu 2	Binh Chanh, HCMC	100%	132.9						
8	Tan Tao	Binh Tan, HCMC	100%	330.0						



Source: KDH, Rong Viet securities

On the basis of a fully legal land bank and a scarcity of supply in Ho Chi Minh City, projects opening and selling activities begin to accelerate in 2023 - 2024.

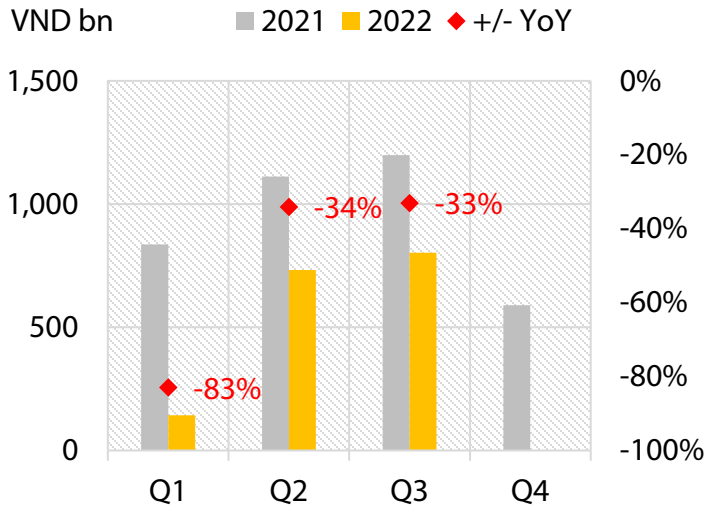
- In comparison to the period 2020-2022, KDH opens for sale one project or one subdivision of a project on average each year (2020-2021: Verosa Park, 2022: The Classia - Phase1) due to its strategy of focusing on land bank development and waiting for the ideal time to open for sale.
- In the period of 2023-2024, KDH sales plan has started to become more active as the supply in Ho Chi Minh gradually becomes scarce.
    - In 2023, the Company plans to continue to open the second phase of The Classia project, phase 2 (1Q2023). The Privia, a high-rise apartment project, is anticipated to begin selling in (H1/2023), while The Clarita, a townhouse and villa project, is anticipated to begin selling in (2H2023). The infrastructure construction phase for both of these projects is now currently in progress.
    - Furthermore, the projects The Solina -11A low-rise area (H1/2024), Doan Nguyen residential area (2024), and Le Minh Xuan industrial park expansion (2024) will be deployed in 2023 to construct infrastructure in order to open for sale in 2024.

Table 2: 9M 2022 business results (VND billion)

(VND Bn)	9M 2022	+/- YoY
Revenue	1,678	-47%
Gross Profit	1,085	-17%
Operating profit	861	-21%
NPAT-MI	983	25%

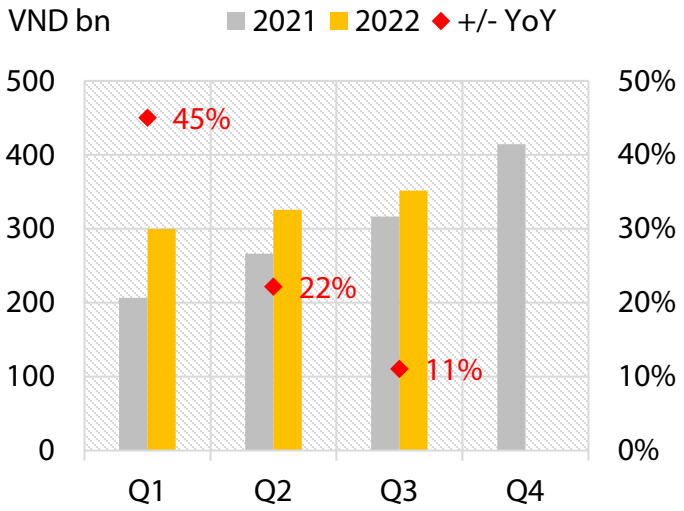
Source: KDH, Rong Viet securities

Figure 2: KDH revenue by quarter



Source: KDH, Rong Viet securities

Figure 3: KDH's NPATMI by quarter



Source: KDH, Rong Viet securities

9M2022, handover and sale activities recorded a slowdown. However, the NPAT-MI increased over the same period thanks to extraordinary profits.

- In 9M2022, KDH recorded revenue of 1,678 billion VND, decreaseing 47% YoY due to the low number of products delivered over the same period, mainly from 80 The Classia of townhouses in 2Q and 3Q.

- A profit of VND 269 bn from reassessing the consolidation of Phuoc Nguyen Investment Real Estate JSC arising in 1Q2022 and VND 160 bn from contract termination compensation, as well as an improvement in gross margin in 9M2022 due to The Classia villa project's higher gross margin than high-rise projects delivered in 2021, contributed to the NPAT-MI recording a growth of +25% yoy, reaching VND 983 bn (Safira, Lovera Vista).

Sales activities starting to flourish from 3Q2022

- In the first 8 months of 2022, KDH's sales performance was quite dismal as there were no new projects open for sale in the market. However, in September 2022, sales activities have started to be active again with the official opening of the first phase, 100 villas - townhouses on September 11, 2022, sales results recorded in quite high level of 96%. According to the plan, the project will open for sale in the second phase in 1Q2023.

Figure 4: Progress of on-going projects of KDH

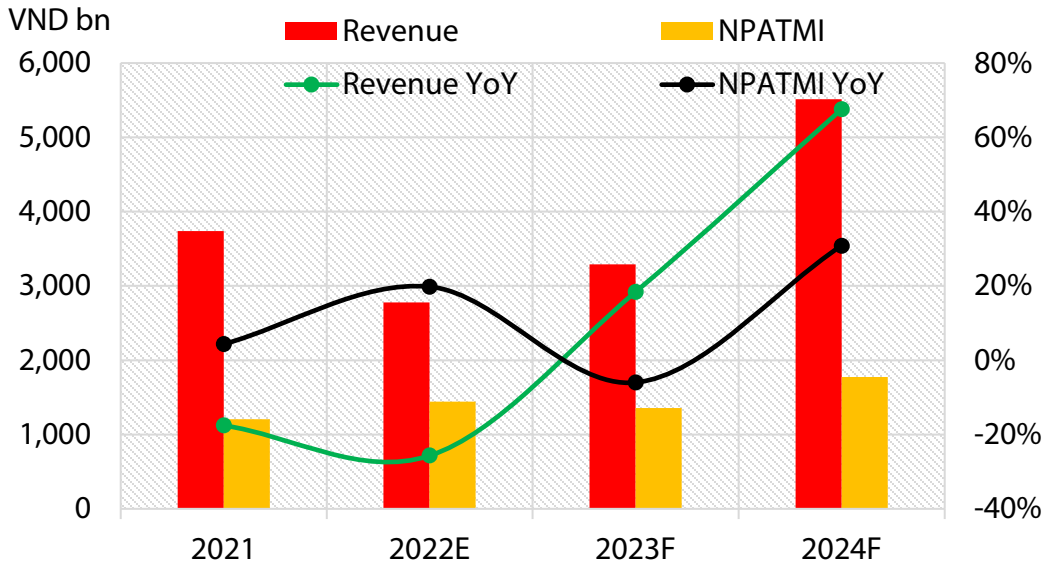
The Classia

The Privia

The Clarita

Source: KDH, Rong Viet securities

Figure 5: NPATMI forecast, 2022-2024F



Source: KDH, Rong Viet securities

Sales activities expected to spring in 2023

- Phase 2, The Classia project is expected to open for sale in 1Q2023.
- The Clarita townhouse and villa project will begin to officially open for sale after completing the construction of the first phase of the project from the second half of 2023 (similar to the opening process of The Classia project). Currently, the project has an infrastructure construction license and is in the ground filling phase.
- The Privia, a high-rise project has started from June 30, 2022. It is expected to be eligible to open for sale in the first months of 2023, but at the moment some real estate brokers have started to carry out advertising programs for the project.

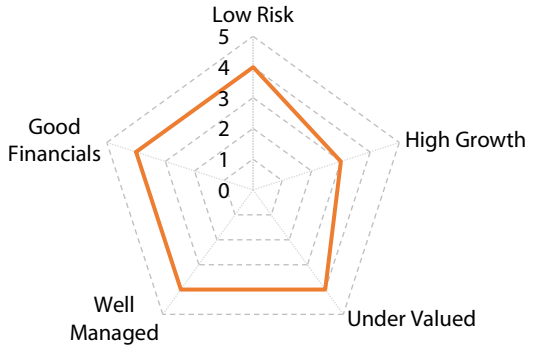
Business results in 2023 are forecast to be flat, but expect strong growth from 2024

- In 2023, we estimate the revenue and NPAT-MI at VND 3,291 bn and VND 1,357 bn VND, respectively, equivalent to the growth of +18% and -6% compared to 2022.
- In which, the majority comes from the handover of a portion of The Clarita project at the end of 4Q2023 and a portion from the handover of the remaining apartments in The Classia project in 1H2023.
- In 2024, we estimate that KDH's business results will start to turn positive from the realization of a large amount of revenue and profit from the handover of the Privia high-rise project and the villa-townhouse products of the two projects: Clarita and 11A.

PROSPECTIVE IN THE LONG TERM, BUT FACING CHALLENGES IN THE SHORT TERM DUE TO INDUSTRY DIFFICULTIES

HSX: NLG

HOLD **MP: 30.700** **TP: 27.100**



STOCK INFO

Sector	Real Estate
Market Cap ($ mn)	371,84
Current Shares O/S (mn shares)	384
3M Avg. Volume (K)	2,883
3M Avg. Trading Value (VND Bn)	82
Remaining foreign room (%)	6,47
52-week range ('000 VND)	44,597

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	5,206	4,403	6,951
NPAT (VND bn)	1,478	349	1,377
ROA (%)	7.9%	1.4%	5.0%
ROE (%)	14.6%	2.6%	9.9%
EPS (VND)	2,658	608	2,516
Book Value (VND)	23,318	22,809	24,449
Cash dividend (VND)	1,000	0	0
P/E (x)	8.3	36.2	8.8
P/B (x)	0.99	1.02	0.95

INVESTMENT RATIONALES

A substantial land bank - a solid foundation for medium and long-term development.

- NLG's remaining land fund is approximately 321ha, placing it among the top five listed real estate companies with the largest land fund, which is primarily concentrated in high-demand cities such as Ho Chi Minh, Dong Nai, Long An, Can Tho, and Hai Phong. This is a significant advantage for NLG's medium and long-term business development.
- Besides, owning more than 6ha of land bank in Ho Chi Minh and the strategy of dedicating a part of the land bank in projects for the affordable segment towards customers with real needs will help NLG stabilize its operations and sales in the context of difficult real estate market 2023-2024.

Revenue - profit peak in 2023

- According to the construction schedule, many projects will be completed in 2023. The revenue and NPAT-MI are estimated to be VND6,951 bn (+58% YoY) and VND1,013 bn (+314% YoY), respectively. Profit comes primarily from (1) 350 billion dong from the divestment of the Paragon Dai Phuoc project and (2) the handover of Mizuki projects, CC3 subdivision, Southgate-GD1, Izumi-GD1A, and land for the Can Tho project.

RISKS TO OUR CALL

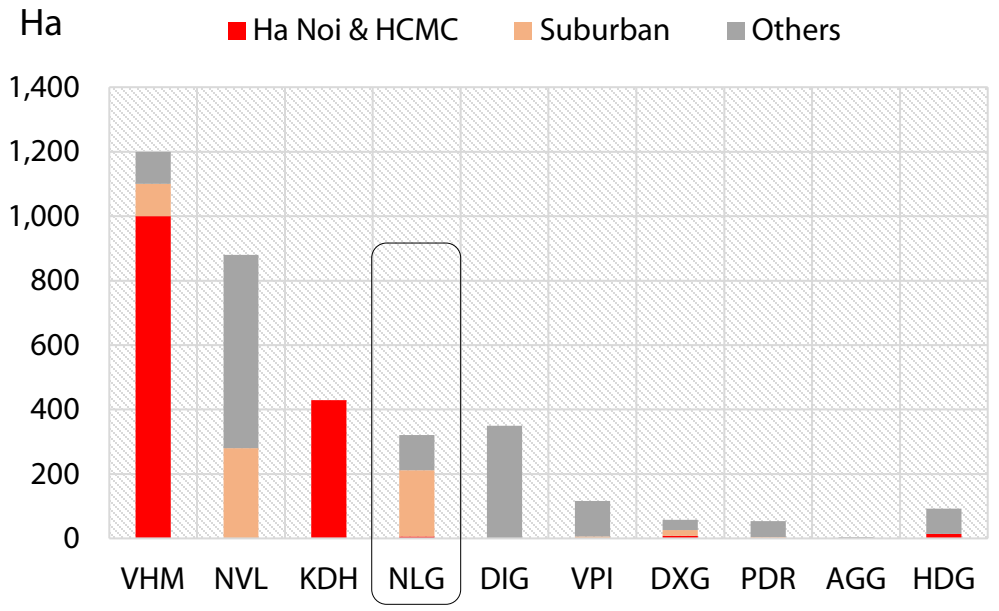
- Sales in 2023 are expected to face many challenges.
- The delay in legal completion of Can Tho and Paragon Dai Phuoc projects greatly affects the revenue, profit and sales results in 2023.

STRONG FOUNDATION FOR MEDIUM LONG-TERM DEVELOPMENT STRATEGY THANKS TO HUGE LAND FUND

Massive land fund

- NLG's remaining land fund is approximately 321ha, placing it among the top five listed real estate companies with the largest land bank, which is primarily concentrated in high-demand cities such as Ho Chi Minh, Dong Nai, Long An, Can Tho, and Hai Phong. This is a significant advantage for NLG's medium and long-term business development..
- Besides, owning more than 6ha of land bank in Ho Chi Minh and the strategy of dedicating a part of the land bank in projects for the affordable segment towards customers with real needs will help NLG stabilize its operations and sales in the context of difficult real estate market 2023-24.

Figure 1: Comparison of NLG's land bank and some listed companies



Source: RongViet Securities

Table 1: List of NLG projects in the period of 2022-2025

Project	Total area (ha)	Remaining area (ha)	Location	Status
Mizuki Park	26	3.5	Binh Chanh, HCMC	On sales
Akari City	9	2.9	Binh Tan, HCMC	On sales
Waterpoint - South Gate	165		Ben Luc, Long An	On sales
Waterpoint – P2	190	190.0	Ben Luc, Long An	Expected to construct from the end of 2023
Izumi City	17	15.3	Bien Hoa, Dong Nai	On sales
Nam Long Dai Phuoc	45	45.0	Dai Phuoc, Dong nai	Processing for legal completion
Central Lake	43	43.0	Can Tho	Waiting for approval of land use fee
Nam Long Hai Phong	21	21.0	Thuy Nguyen, Hai Phong	Processing for legal completion
Total	**516**	**321**		

Sources: NLG, RongViet Securities

Figure 2: Progress of NLG's ongoing projects

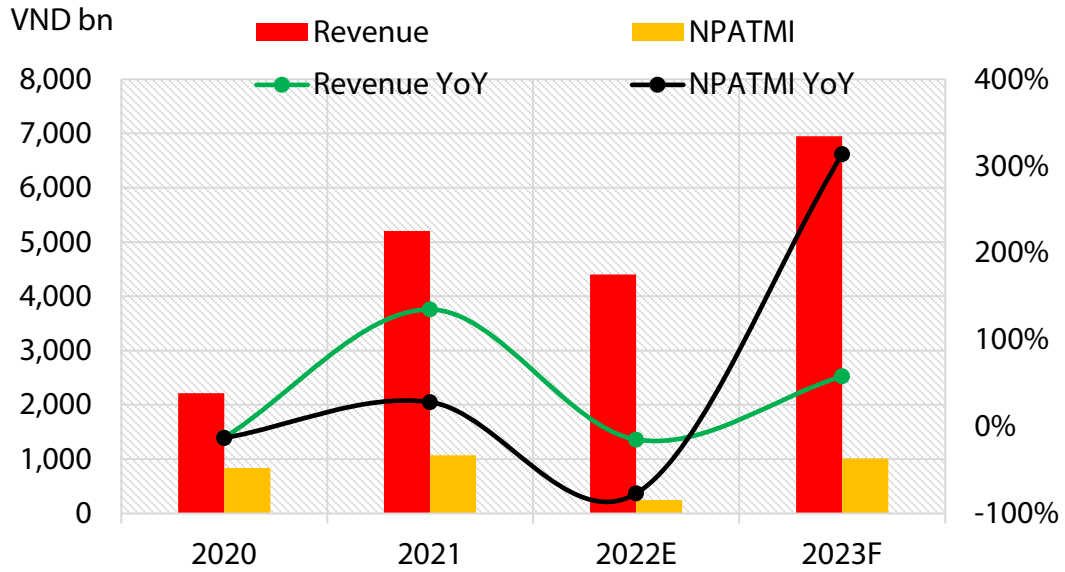
Southgate

Izumi – 1A

Mizuki – CC3

Source: NLG, RongViet Securities

Figure 3: NPATMI forecast, 2022-2023F



Source: NLG, RongViet Securities

Business results 2023 forecast to be positive growth thanks to handover of projects

Revenue is estimated at VND 6,951 bn (+58% YoY), according to the schedule, in 2023 NLG will hand over the following projects:

- Mizuki project, CC3 subdivision, about 740 products and some low-rise products, is estimated to record about 3,272 billion VND in revenue in 2H2023.
- Southgate-Phase 1, about 278 valora products in Rivera 2, Aquaria 2 and The Aqua 1 and The Aqua 2 subdivisions with an estimated revenue of VND 2,033 billion.
- Izumi- Phase 1A, about 100 products are expected to record revenue in 2H2023.
- Some land products of the Can Tho project after the approval of land allocation.

At the same time, we estimate NPAT-MI at VND1,013 bn (+314% YoY). In which, profit is mainly contributed from (1) VND 350 bn from divestment of Paragon Dai Phuoc project and (2) handover of the above projects.

Figure 2: 9M2022 business results

(VND Bn)	9T 2022	+/- YoY	%Plan 2022
Revenue	2,710	244%	38%
Gross Profit	1,170	402%	
Operating profit	400		
Parent NPAT	119	-83%	10%

Source: NLG, RongViet Securities

Figure 3: Sales activities in 9M2022

Project	2021		6M2022		9M2022		Plan 2022 adjusted
	No, of units	Value (VND bn)	No, of units	Value (VND bn)	No, of units	Value (VND bn)	Value (VND bn)
Southgate	615	2,394	245	1,553	433	2,205	2,584
Akari	91	450	605	1,999	867	2,859	2,963
Mizuki	778	2,418	390	2,813	390	2,813	2,813
Can Tho	181	663	27	116	27	116	1,316
Izumi			271	1,929	271	1,929	2,629
Total	**1,665**	**5,925**	**1,538**	**8,410**	**1,988**	**9,922**	**12,305**

Source: NLG, RongViet Securities

Compared to the plan at the beginning of the year, the revenue and NPAT-MI in 9M2022 has only been completed at a low rate, mainly due to the delay in the opening and selling of Can Tho and the transfer of a part of the Paragon Dai Phuoc project.

In 1H2022, NLG recorded revenue of VND 2,710bn (+244% YoY). In which, the project handover activity recorded VND2,545 bn, a sharp increase over the same period from the handover of Southgate valora products (242 units, VND 1,389bn), Southgate ehome (252 units, VND 263bn) products, Akari project apartment products - Phase 1 (block 6, 244 units, VND 759bn) and some other project products (VND 137bn).

However, compared to the target revenue at the beginning of the year at VND 7,151bn, accumulated 9M2022, the company only completed 38% of the plan. The main reason comes from the Can Tho land plot project, which was initially expected to open for sale in Q2 with an expected revenue of VND 2,000bn, which may have to be delay to 2023 because the land allocation approval has not been completed.

NPAT-MI recorded VND 119bn, decrease 83% YoY. The main reason for the period was that it no longer generated other income, compared to 9M2021 NLG recorded VND 790bn from the revaluation of two projects Izumi (2Q2021: VND 429bn) and Southgate (3Q2021: VND 361bn)). In addition, the fact that the transfer of 50% of the share of Paragon Dai Phuoc project has not been recorded and the delay in opening sale of the Can Tho project mentioned above are also the two main reasons why the NPAT-MI has only completed 10% of the year plan.

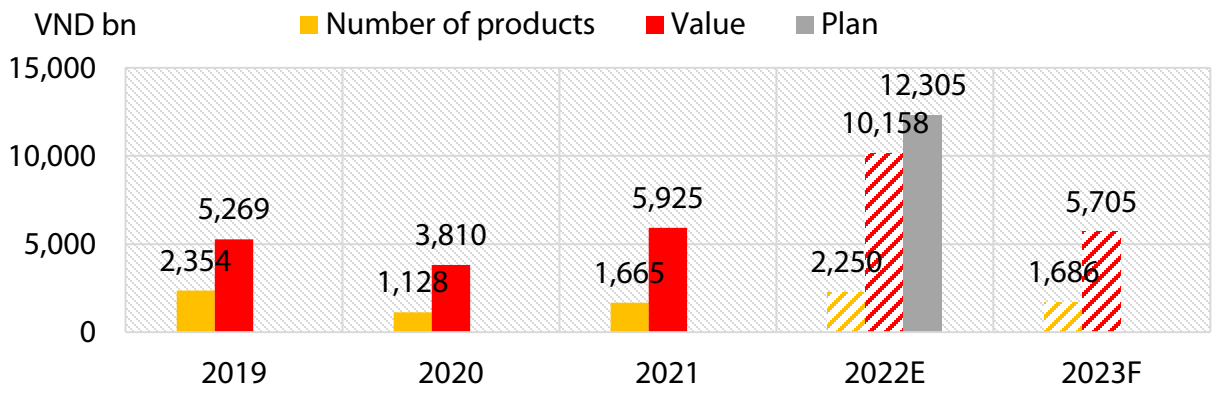
Sales in 9M2022 recorded VND 9,922bn, although increased 1.7 times compared to 2021, but compared to the target of VND 23 trillion at the beginning of the year, only 43.4%. During the period, there were 5 new subdivisions opened for sale including: Ehome Southgate MR2 (08/22), Southgate - The Aqua 1 (01/22), Akari City building 7-8-9 (03-07/22), Mizuki park- phase 3 (04/22), Southgate - The Aqua 2 (06/22). In addition, there are two new subdivisions opened for sale in December: Southgate - Park Village and Izumi-2C.

Figure 4: Pipeline of NLG projects 2022-2025

No	Project	Location	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1	**Mizuki Nguyên Sơn**	**Bình Chánh, HCM**										
1.1	Valora Island		10/17	Q4/18								
1.2	EhomeS Nam Sài Gòn		10/17									
1.3	Mizuki Park											
	Phase 1A		11/17									
	Phase 1B			01/18								
	Phase 2					08/20						
	Phase 3							04/22				
2	**Akari City**	**Bình Tân, HCM**										
	Phase 1				09/19		09/21					
	Phase 2							03/22				
	Phase 3											
3	**Waterpoint**	**Bến Lức, Long An**										
3.1	South Gate 1											
3.1.1	Aquaria & Rivena											
	- Aquaria 1				10/19	Q4/2020						
	- Rivena 1				10/19	Q4/2020						
	- Aquaria 2						04/21					
	- Rivena 2						04/21					
	- The Aqua 1							01/22				
	- The Aqua 2							06/22				
3.1.2	Ehome South Gate											
	- Phase 1						09/21	Q4/2022				
	- Phase 2							06/22				
	- Phase 3											
3.2	South Gate 2											
	The Marina											
	Central park							12/22				
4	**Izumi City**	**Long Hưng, Biên Hòa, Đồng Nai**										
4.1	Phase 1A						10/21					
4.2	Phase 1B											
4.3	Phase 2A											
4.4	Phase 2B											
4.5	Phase 2C							12/22				
4.6	Phase 3A											
4.7	Phase 3B											
4.8	Phase 4											
5	**Nam Long Hải Phòng**	**Thủy Nguyên, Hải Phòng**										
6	**Nam Long Đại Phước**	**Đại Phước, Đồng Nai**										
7	**Cần Thơ**	**Cần Thơ**										

Source: NLG, RongViet Securities

Figure 5: Number of products and sales value(billion VND) 2019 – 2023F



Source: NLG, RongViet Securities

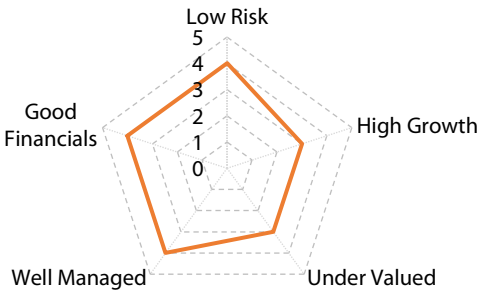
The pre-sales target of over VND 12,000 bn in 2023 will be a challenge when most of the projects are concentrated in the suburbs and invest in the context of high interest rates.

- According to the sharing from the leadership at the Nam Long Day seminar (December 12, 2022), although there is no specific plan for the pre-sales value in 2023, the management board expects the pre-sale value in the year to be higher than the figure of VND 12,000bn. Based on the analysis of the real estate market situation and NLG's projects that are likely to open for sale next year, we believe that this will be a challenging target for NLG in 2023.
- Southgate, Izumi, Paragon Dai Phuoc & Can Tho projects all have new subdivisions open for sale in 2023. However, the majority of these projects are in the suburban, land plot, and second home segments, they are currently facing difficulties in the short term due to rapidly increasing interest rates and incomplete infrastructure.
- Although the Akari-phase 3 project is eligible to go on sale next year, we believe the subdivisions will be available in 2024, when the market need time to absorb 1,690 apartments of phase 2, (block AK7-8-9-10) launched in 2022.
- We believe that the remaining project in Hai Phong (Thuy Nguyen) will be available for sale after 2023, when the project is still in the early stages of legal completion.

MODEST GROWTH PROSPECTS IN 2023

HSX: HDG

HOLD: 12% **MP: 32.000** **TP: 35.900**



STOCK INFO

Sector	Real Estate
Market Cap ($ mn)	273.72
Current Shares O/S (mn shares)	244
3M Avg. Volume (K)	2,062
3M Avg. Trading Value (VND Bn)	79
Remaining foreign room (%)	37.97
52-week range ('000 VND)	54,662

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	3,777	3,515	3,565
NPAT (VND bn)	1,344	1,416	1,422
ROA (%)	9.0%	9.0%	8.3%
ROE (%)	28.7%	24.4%	19.8%
EPS (VND)	5,455	4,759	4,637
Book Value (VND)	22,070	21,475	25,398
Cash dividend (VND)	1,000	0	0
P/E (x)	4.9	4.5	4.6
P/B (x)	1.5	1.2	1.1

INVESTMENT RATIONALES

Annually stable cash flow from energy business

- Currently, HDG owns 8 power plants with totaling 462 MW, all of which have been running at maximum efficiency since 3Q 2022. As a result, there will not be much potential for growth in the next years. However, the energy segment is projected to generate about VND 1,200 bn in net profit annually with a stable output of 1,400–1,500 million Kwh/year.
- In the period of 2023F-2025F, according to the plan, HDG is expected to invest in 5 more renewable power plants, bringing the total expected capacity to 2025 at 959 MW. These new projects, though, are still in the pre-feasibility stage.

High-value land fund

- Although HDG's land bank is not large compared to other real estate companies, the remaining land is only 93ha. However, most of the projects are located in Hanoi, Ho Chi Minh and Nha Trang cities, which are currently of high value while the land supply is gradually scarce. This will create a foundation for the HDG's real estate segment to maintain stable the business in the medium term.

RISKS TO OUR CALL

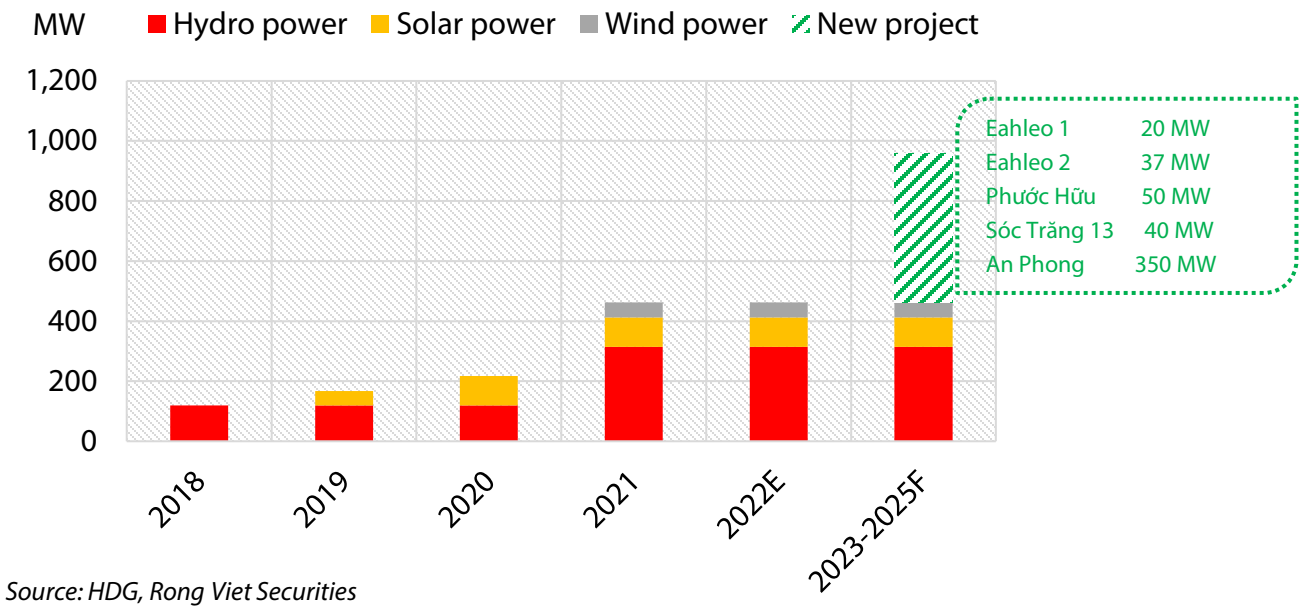
- Slow implementation of real estate projects will significantly affect revenue and profit in the following years.

ANNUALLY STABLE CASH FLOW FROM ENERGY SEGMENT

Stable cash flow from energy segment

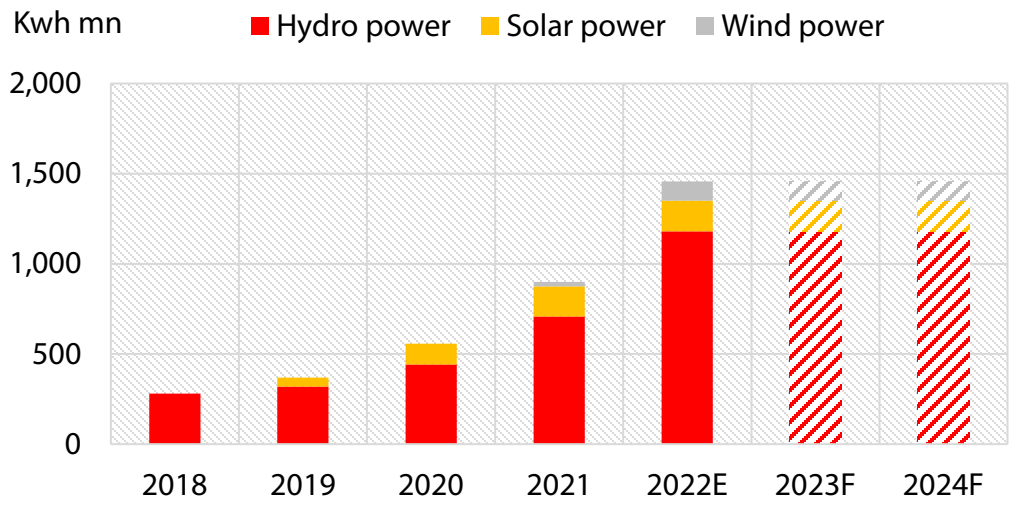
- Currently, HDG owns 8 power plants totaling 462 MW, all of which have been running at maximum efficiency since 3Q2022. As a result, there will not be much potential for growth in the next years. However, the energy segment is projected to generate about VND 1,200 billion in net profit annually with a stable annual electricity output of Kwh1,400–1,500 mn.
- According to the plan, HDG intends to invest in 5 additional renewable power plants from 2023 to 2025, bringing the total estimated capacity to 959 MW by 2025. These new projects, though, are still in the pre-feasibility stage.

Figure 1: Design capacity of HDG's power plants



Source: HDG, Rong Viet Securities

Figure 2: Projected electricity production from current plants



Source: HDG, Rong Viet Securities

High-value land fund

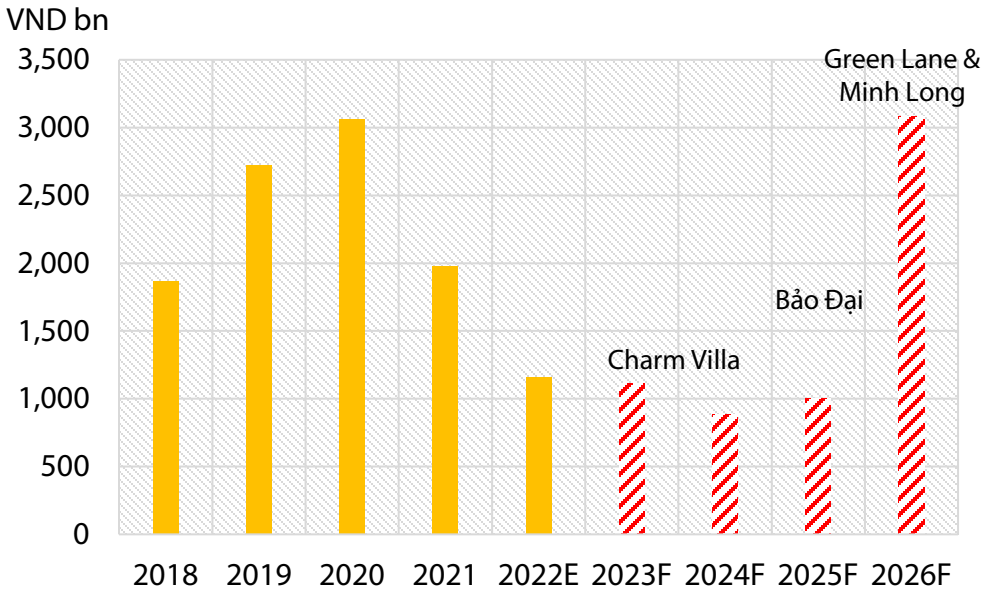
- Although the remaining land bank of HDG is not substantial compared to other companies in the same industry, the remaining land is only 93ha. However, most of the projects are located in Hanoi, Ho Chi Minh and Nha Trang, which are currently of high value and while land supply is gradually scarce.
- There may not be much incentive for the real estate segment to generate a significant profit stream similar to the period of 2019–20 based on the existing land fund, but it can still assist the business in maintaining a stable level of revenue and profit as 2022 to the medium term.

Table 1: HDG's projects in 2022-2025 period

Project	Remaining area (ha)	Location	Status
Charm Villas	5.0	Hoai Duc, Hanoi	Handing over phase 1 and 2. Expected to open sale phase 3 in Q1/2023
Green Lane	2.3	Q.8, HCMC	Clean land, plan to open for sale in 4Q2023
Bao Dai	8.9	Nha Trang, Khanh Hoa	Clean land, plan to open for sale in 1Q2023
Minh Long	2.7	Thu Duc, HCMC	Clean land, plan to open for sale in 2Q2023
62 Phan Dinh Giot	2.2	Thanh Xuan, Hanoi	Processing for legal completion
30 Ta Quang Buu	0.1	Thanh Xuan, Hanoi	Processing for legal completion
Dich Vong Complex	1	Cau Giay, Hanoi	Processing for legal completion
CC3	0.5	Cau Giay, Hanoi	Processing for legal completion
Noongtha Central Park	70.4	Vientiane, Laos	Processing for legal completion
Total	**93.1**		

Source: HDG, Rong Viet Securities

Figure 3: Forecasts revenue of real estate segment, 2023-2026F



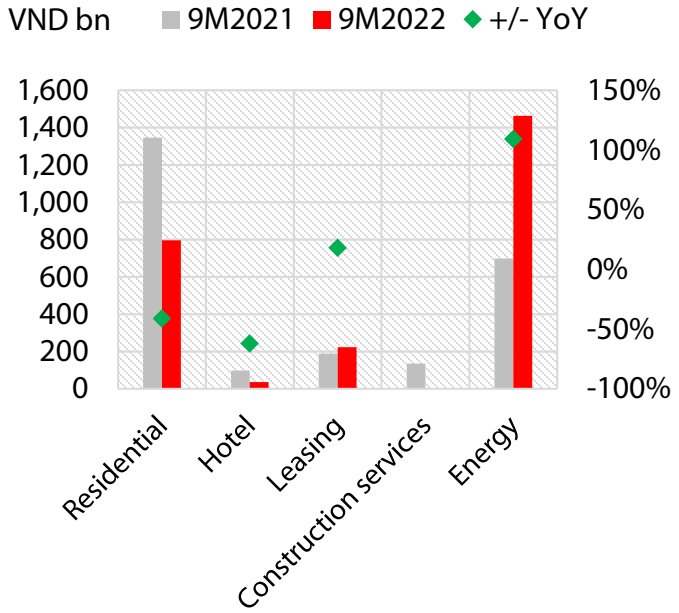
Source: HDG, Rong Viet Securities

Table 2: Business Performance 9M2022 (VND bn)

(VND Bn)	9M2022	+/- YoY
Revenue	2,492	2%
Gross profit	1,631	22%
Operating profit	1,502	35%
NPAT	1,040	43%

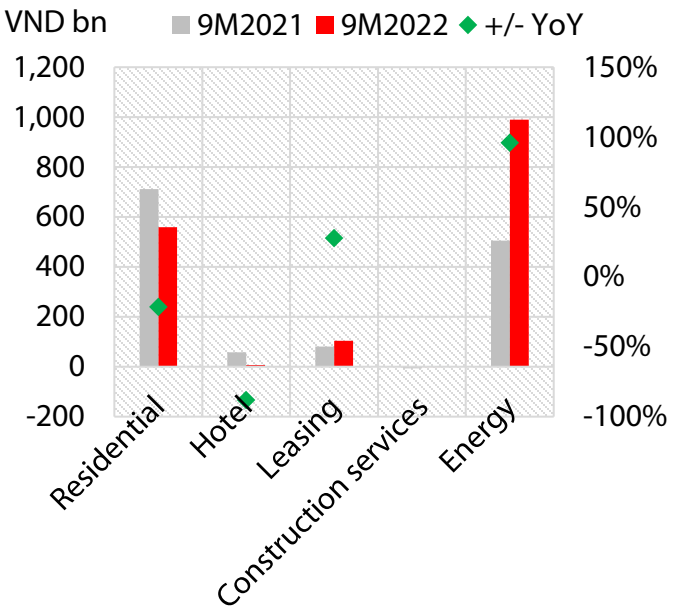
Source: HDG, Rong Viet Securities

Figure 4: Segmented revenue



Source: HDG, Rong Viet Securities

Figure 5: Segmented gross profit



Source: HDG, Rong Viet Securities

In 9M2022, HDG's NPAT recorded a positive growth of +43% YoY, with VND 1,040bn. Meanwhile, revenue only slightly increased due to a decrease in the number of products handovers.

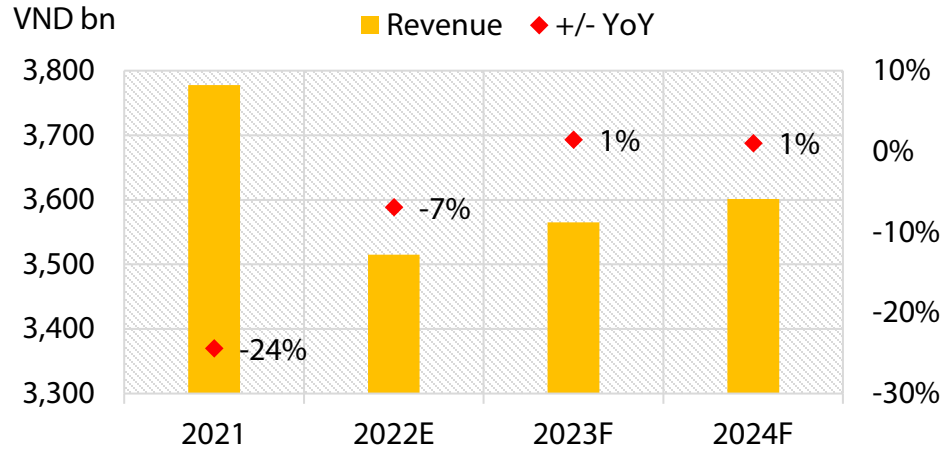
Real estate segment recorded revenue from the handover of Charm Villas project

- In 9M2022, the real estate segment recorded VND 796bn in revenue from the handover of 20 villas and 45 shophouses. According to the schedule from now to the first half of 2023, HDG will hand over the remaining 93 units, with an estimated revenue of VND 1,500bn. At the same time, HDG is expected to open the third phase of sale, the remaining 136 Charm villas in 1Q2023.

Energy segment maintains positive growth momentum

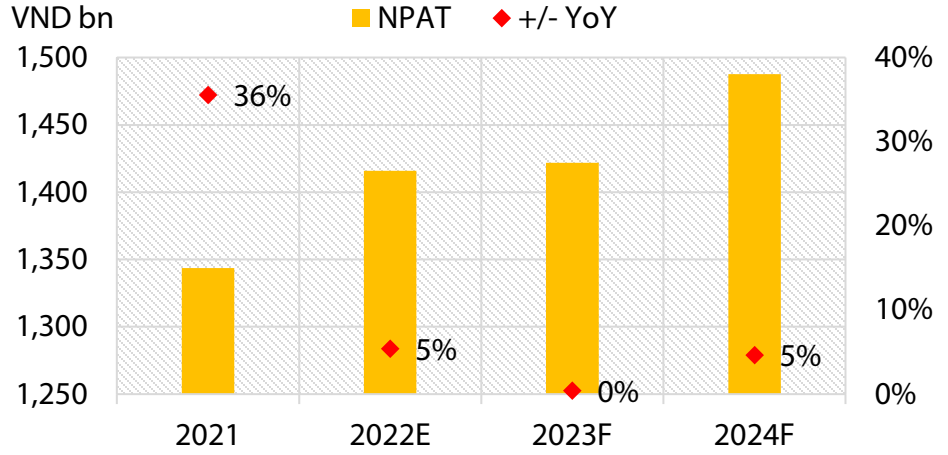
- In 9M2022, the energy segment recorded a revenue of VND 537 billion, up 177% YoY on a low basis of 2021. Besides, favorable hydrological situation also positively supports hydropower activities in 2022. The cumulative amount of electricity produced in the first nine months of the year was Kwh 999 mn, an increase of 2.3 times over the same period.
- However, it is projected that after plants almost started producing electricity from 4Q2021, the growth rate of power output will likely slow down at 5-15% yoy (estimated). Dakmi 2 project has been operating from September 2021 and project 7A - unit 1-2 has been operating from August 2021, unit 3 has been operating from February 2022).

Figure 6: Revenue forecast, 2022-2024F



Source: HDG, Rong Viet Securities

Figure 7: NPAT forecast, 2022-2024F



Source: HDG, Rong Viet Securities

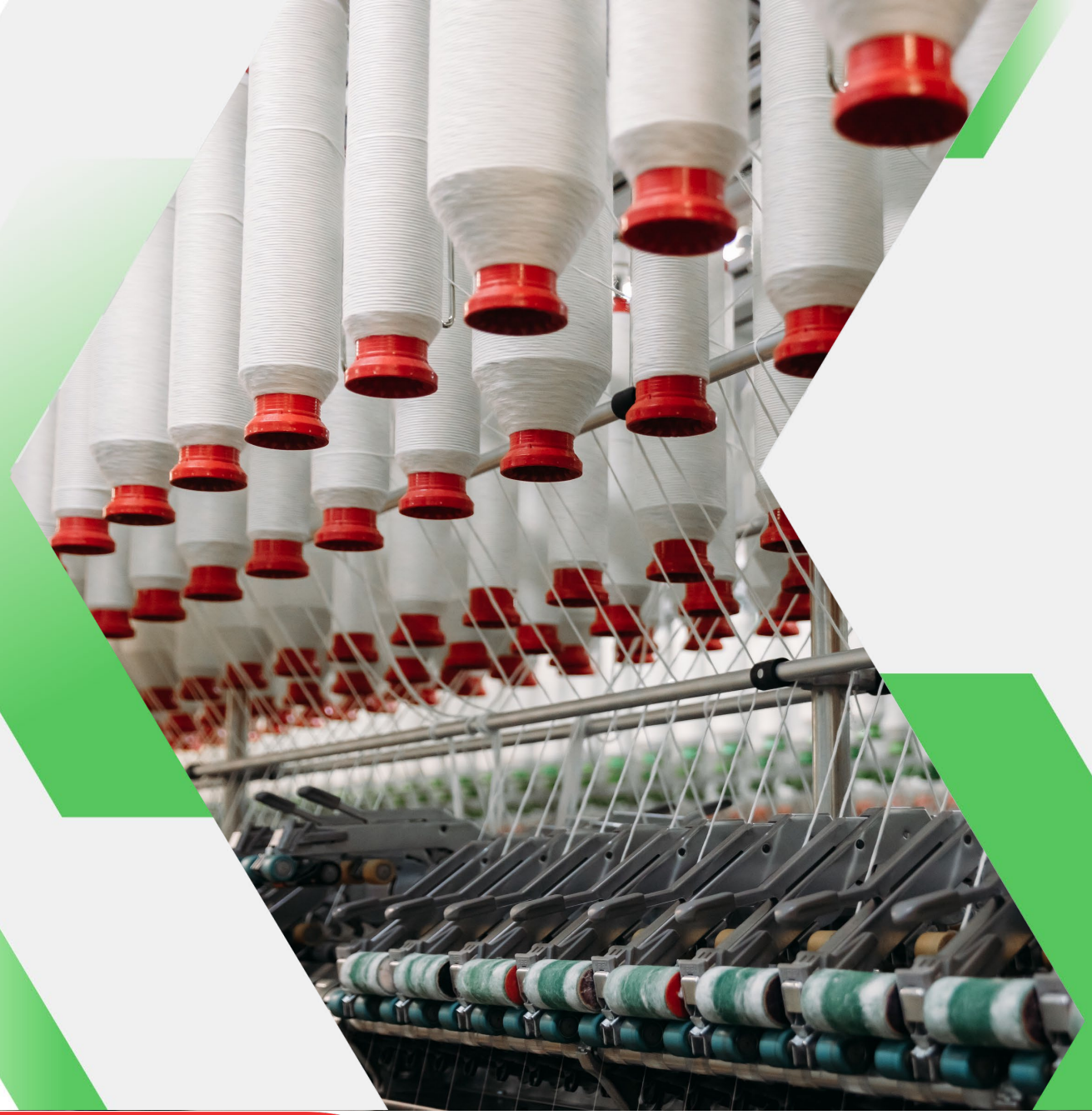
In 2022, revenue and NPAT are projected to be VND 3,515bn (-7% yoy) and VND 1,416bn (+5% yoy), respectively.

As planned, HDG will hand over an additional 35 units of Charm villas projects, the recorded value of about VND 560bn in 4Q2022. It is anticipated that the final products of the second phase will be handed over in 2023. When revenue and profit in the energy segment are only expected to grow at a rate of 5-15% yoy due to the plants have operated at stable capacity from 3Q2022,

- **In 2023, revenue and NPAT are projected to be VND 3,565bn (+1% yoy) and VND1,422 billion (+0% yoy) respectively.**
- Energy segment: there will be no significant growth as plants have stabilized their capacities.
- In the meantime, it is anticipated that the real estate segment will generate VND1,112 bn in revenue, or the same amount as in 2022, thanks to the transfer of the roughly 58 remaining apartments in Charm Villas Phases 1-2 and some of the Phase 3 apartments, which are expected to be opened for sale in 1Q2023.
- Furthermore, it is projected that the two projects Minh Long and Green Lane will open for sale in 4Q2023 and 2Q2024, respectively. While the remaining projects are currently under legal completion.

TEXTILE & GARMENT

PREPARING FOR A TOUGH SEASON AHEAD



Hoai Trinh – hoai.ttt@vdsc.com.vn

TEXTILE & GARMENT INDUSTRY: PREPARING FOR A TOUGH SEASON AHEAD

Rating	Negative	Neutral	Positive

Overview

Vietnam's textile and garment sector proved to be relatively resilient over the past two years, with a rebound in 2022 after a rough period impacted by the pandemic. However, recent macro headwinds such as record high inflation, especially in Western countries, are unfavorable for consumer demand. Along with the risks of orders being cut due to clients' high inventory levels, customers negotiating lower order prices will also weigh on textile companies. For FY23, we believe that it will be hard for Vietnamese OEMs to maintain margins in what might be a challenging year ahead. We recommend investors to wait on the sidelines for signs of an improving sector outlook and consumption recovery.

Highlights

1H23: Headwinds are still blowing

- We are turning more cautious about the order outlook for Vietnamese OEMs due to inflation-led consumption weakness in the export markets while customer inventories remain high. The inflation rate in the US (our largest importer) is expected to ease slowly, boding ill for the sector sales outlook. Due to the faster-than-expected easing of shipping bottlenecks and late order cuts, US apparel & footwear imports rose to record highs in Aug 2022, bolding bleak for inventory digestion in 4Q22 or even until 1Q23. Hence, we believe that trend will fully reflect in 1H23, with lower order/revenue visibility for Vietnamese OEMs.
- In our view, the yarn business is likely to maintain a more stable profit margin than the garment business, as costs are mostly passed through to customers via higher ASP with less competitive pressure on output selling prices.

2H23: Looking for a bounce back

- We expect export-market inflation to ease from 3Q22 to help retail sales to bounce back after consumption peak-out concerns arise. Global brands are actively burning through their inventories to be depleted by 1H23 to help sales bounce back, and the orders situation for Vietnam OEMs will gradually improve.
- As 3Q23 begins, we expect Vietnamese OEMs to prepare for the back-to-school season in the US market. Next is the festive season in 4Q23 in export markets.

Hopes and hurdles

- We expect that FTAs with higher tariff tax reductions in 2023 will enable Vietnam's textile and garment exports to keep growing (10M22 export value of Vietnam through agreement signatories recorded double-digit YoY growth). Nevertheless, input prices in 2023 are expected to decline from 2022 levels, helping ease material costs of textile/garment producers.
- Our top favor for FY23 is STK due to (1) Being less affected by client negotiation pressure to lower selling prices as a medium and high-end PFY producer, (2) being well-positioned in a supply chain with a stable customer base, and (3) a continued shift toward high-margin yarn types coupled with capacity expansion.

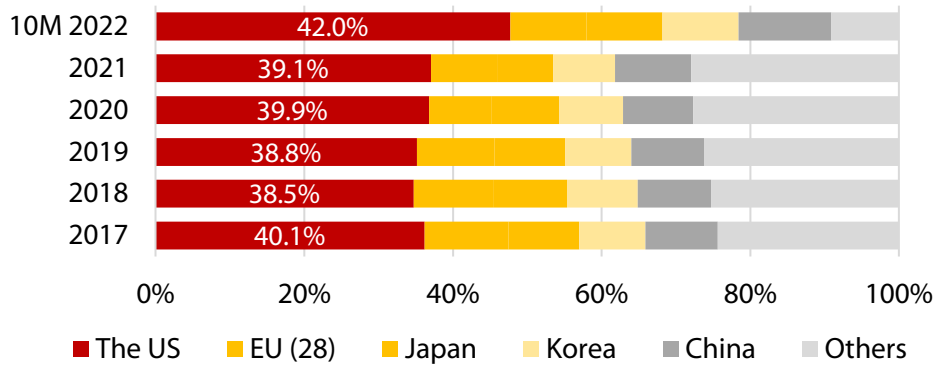
Risks

- Choppy consumption in export markets, notably the US, is driven by inflation-eroding purchasing power. Faster/lower-than-expected brands' inventory digestion.

Murky outlook due to inflation-led consumption weakness in export markets

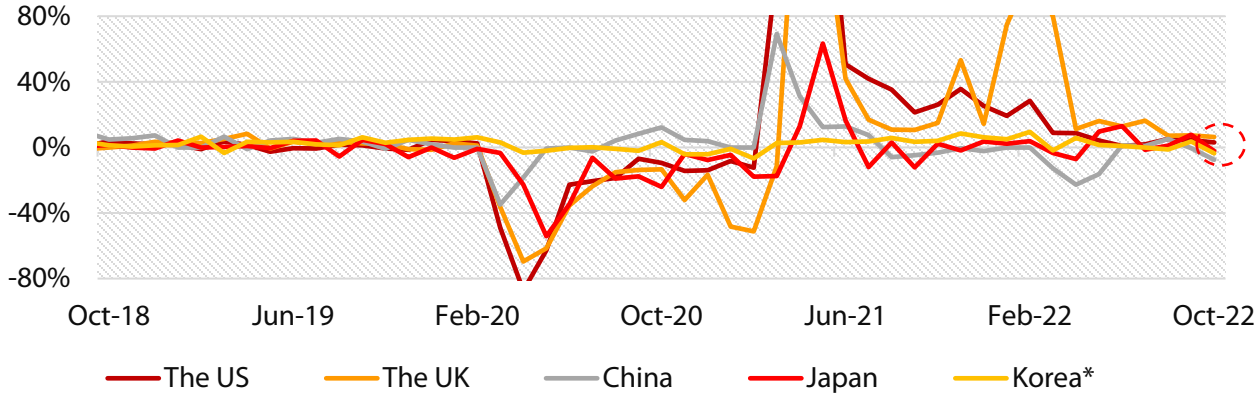
- Vietnam's textile and garment sector is export-oriented. However, we see the risks of a worsening demand outlook in Vietnam's export market as (1) Lingering economic slump continues to pressure consumption, and (2) Retail sales of clothing and footwear in export markets have signaled deteriorated or negative growth since Oct 2022. In the three months to Oct 2022, clothing was amongst the worst categories of non-food retail sales in the UK.
- Consumers are expected to decrease their spending for apparel and footwear products, to prioritize other necessities, especially the low-income group.

Figure 1: Vietnam's textile & garment export by region



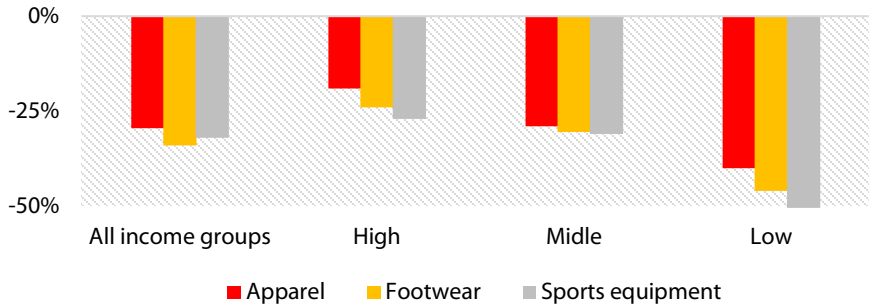
Source: Customs, RongViet Securities

Figure 2: Retail sales of clothing & clothing products growth of Vietnam's main importing country (YoY)



*Source: Bloomberg, RongViet Securities. *Korea: data for non -durable goods*

Figure 3: Spending decrease expectation of Europe consumers (net change %)



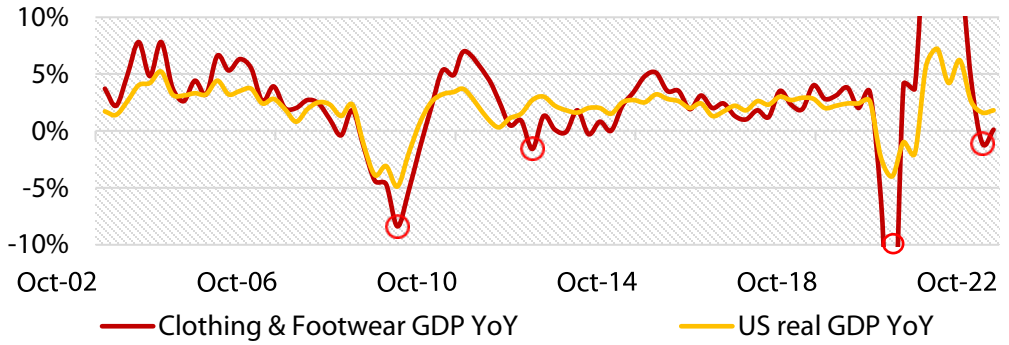
**Low income =<25,000; middle income = 25,000-50,000 (GBP in UK and EUR for France, Germany, Italy, and Spain)*

Source: McKinsey Europe consumer pulse survey in Apr 2022

The US market is our peak-out worries for order contraction in 1H23

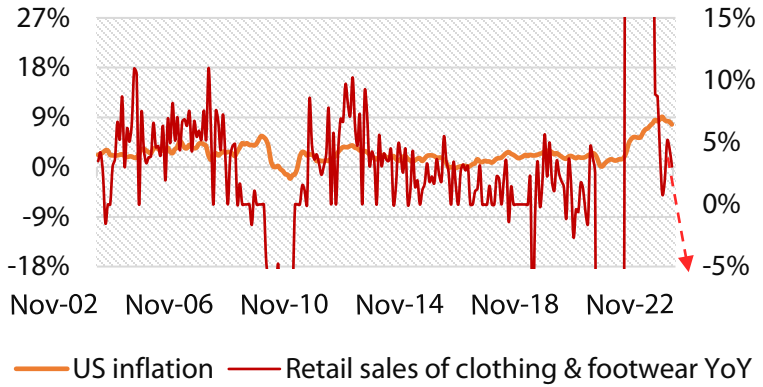
- The US is by far Vietnam's largest textile importer. However, the GDP of the US consumer discretionary sector usually falls deeper in the mid to late stages of economic downtrends, especially in longer down cycles due to inflation. US inflation is expected to ease slowly, boding ill for consumer discretionary sales outlook.
- Historical data shows that retail sales of clothing and footwear usually take 9-11 months to bounce back after inflation peaks. Hence, we expect their sales to bounce back from the early 2H23, and the orders situation for Vietnamese OEMs will gradually improve.

Figure 4: Deep drop in the US Clothing and Footwear GDP in the mid to late stage of the economic downtrend



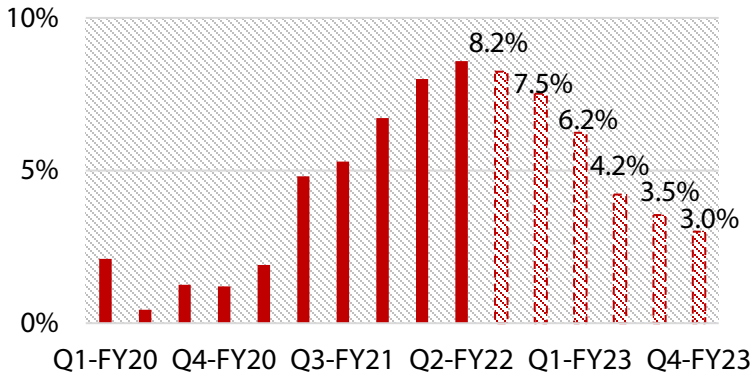
Source: US Customs, RongViet Securities

Figure 5: Prolonged high inflation is negative for Clothing and Footwear sales outlook in the US



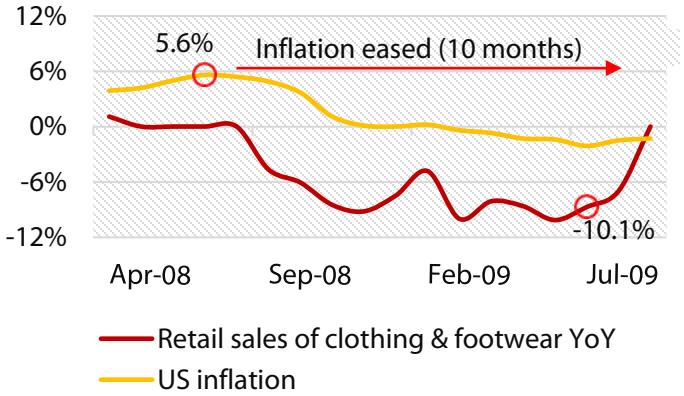
Source: Bloomberg, RongViet Securities

Figure 6: Market expects inflation to ease to 7.5% and 6.2% in 4Q23 and 1Q23



Source: Bloomberg, RongViet Securities

Figure 7: Retail sales of Clothing and Footwear pulled back after inflation peaked in the US (9-11 months)

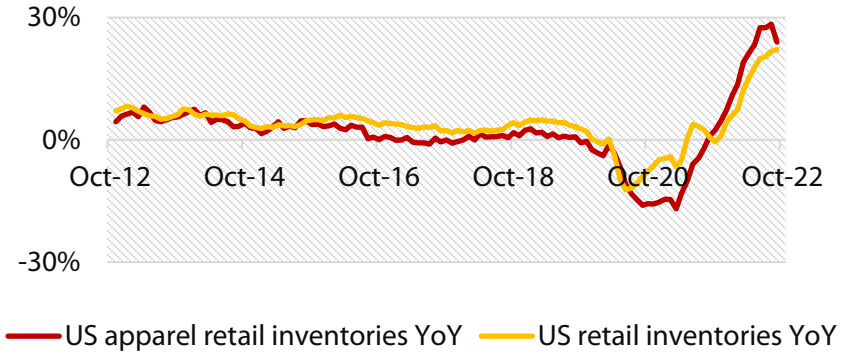


Source: Bloomberg, RongViet Securities

While the export market's demand has slowed down, retail inventories have gone up, accumulating headwinds for Vietnamese OEMs' order outlook

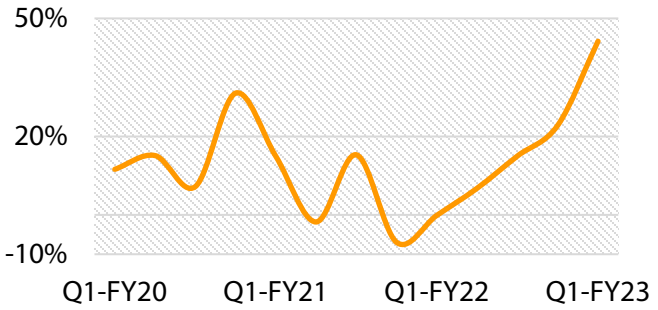
- Due to the faster-than-expected easing of shipping bottlenecks and late order cuts, US apparel & footwear imports rose to record high in Aug 2022. Hence, we believe that trend will fully reflect in 1H23, with lower order/revenue visibility for Vietnamese OEMs.
- Most brands and retailers' inventory days rose to post-pandemic highs since 2Q22. They guide higher inventory reduction, as well as expand promotions that will extend into at least late 4Q22 and 1H23.
- We think rising macroeconomic uncertainties have led brands to lower inventories and turn more conservative in placing orders for 4Q22 and possibly 2023. For example, Nike intends to reduce inventory in China despite sales recovering post reopening. Inevitably, export market's downward demand and slower inventory rotation will overshadow Vietnam's T&G outlook in 2023.

Figure 8: US apparel retail inventories growth YoY recorded an all-time high



Source: Bloomberg, RongViet Securities

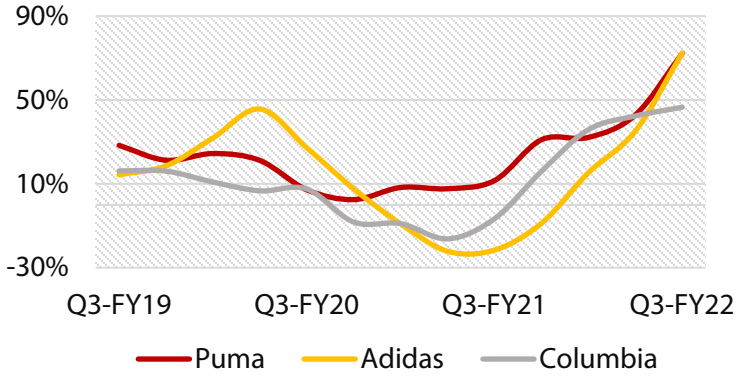
Figure 9: NIKE Q1-FY23 inventory accelerating (YoY growth)



Note: Nike FY ends in May

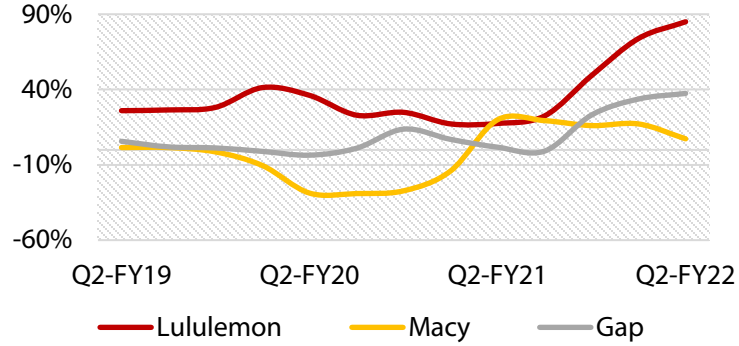
Source: Bloomberg, RongViet Securities

Figure 10: Sportswear brand inventory (YoY growth)



Source: Bloomberg, RongViet Securities

Figure 11: Clothing brand inventory (YoY growth)



Note: Lululemon, Gap & Macy FY ends in Jan

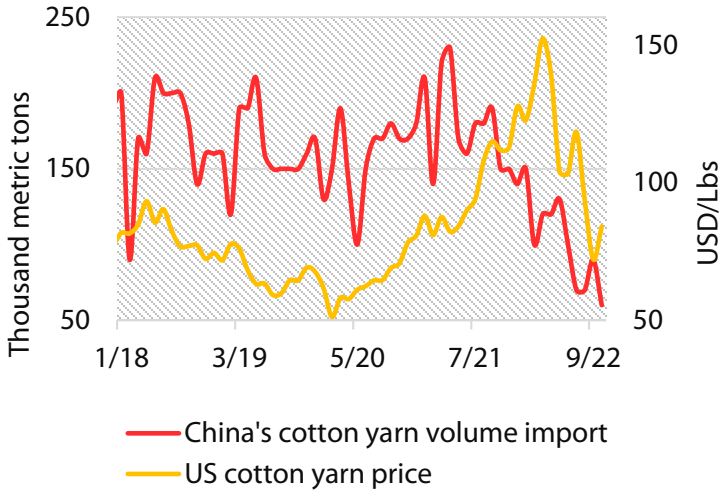
Source: Bloomberg, RongViet Securities

INPUT COSTS TO EASE WILL RELIEVE PROFIT MARGIN PRESSURE

Input prices are expected to decline from 2022 levels, helping ease material costs of textile/garment producers

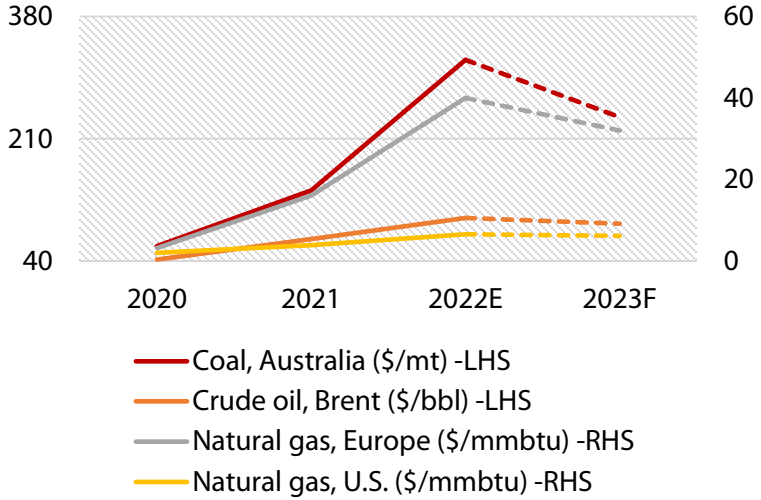
- Global cotton yarn prices are plummeting due to China waning demand. China is by far the world's largest cotton consumer. Currently, this country has a strategy to lower yarn imports and increase domestic cotton consumption driven in part by domestic COVID lockdowns, and foreign trade policies barring imports of China's cotton products. Hence, China's dwindling yarn import lowers the cotton export prices of the yarn-exporting country include India, Vietnam, Pakistan, and Uzbekistan. Cotton yarn prices are expected to remain low after a roller coaster ride in 2021-1H22 will help Vietnam's textile/apparel producers to relieve pressure on material prices.
- Polyester yarn is made up of fiber derived from coal, oil, and natural gas. These energy prices are also expected to decrease from 2022 levels.
- We expect that declining raw material costs will offset the lower ASP due to weak demand, helping T&G producers to relieve profit margin pressure.

Figure 12: China's decade-low import of cotton yarn drives US cotton yarn price to 2-year low



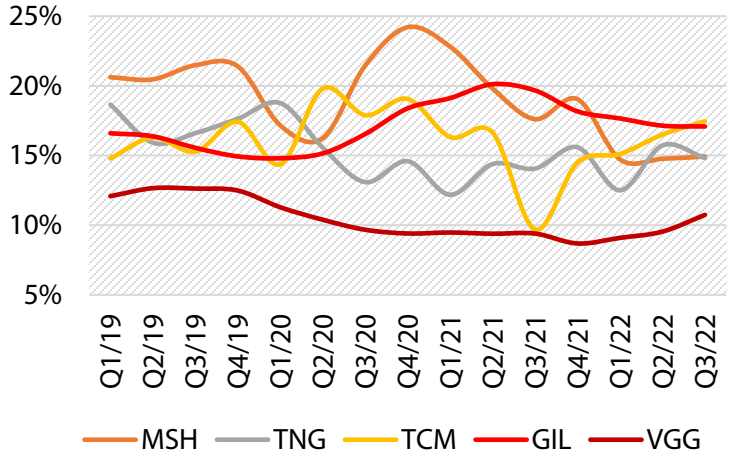
Source: Bloomberg, RongViet Securities

Figure 13: Energy prices in 2023 are expected to decrease from 2022 levels



Source: Bloomberg, World Bank

Figure 14: Lower input costs to help T&G producers to relieve GPM pressure



Source: Company data, RongViet Securities

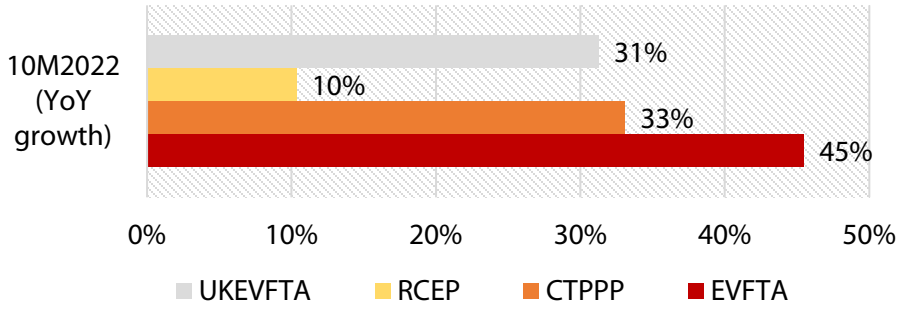
Tariff reductions boosted Vietnam's textile and garment exports in 10M22

- 10M22 export value of Vietnam through agreement signatories such as EVFTA, UKVFTA, CPTPP, and RCEP recorded double-digit YoY growth.

Higher tariff reductions in 2023 coupled with competitive advantages will support Vietnam to gain market share in the EU market

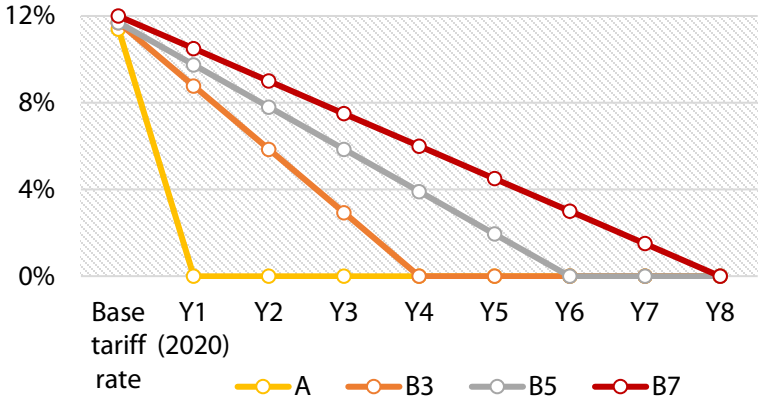
- 9M22 shares of Vietnam export value in the EU market breached the pre-FTAs level.
- The tariff tax reductions in 2023 will give clearer benefits for Vietnamese textile/ apparel producers. Given competitive advantages, Vietnam's textile and garment sector is expected to have room to gain market share in the EU market.

Figure 13: 10M22 T&G export value of Vietnam through FTAs signatories recorded double-digit YoY growth



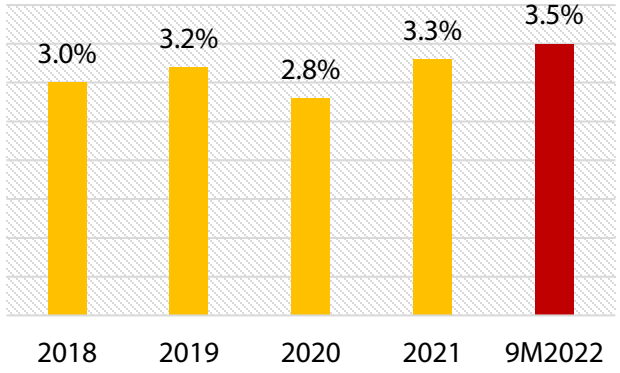
Source: Customs, RongViet Securities

Figure 14: Higher tariff tax reductions in 2023 will support Vietnam's exports growth



Source: Shenglufashion, RongViet Securities

Figure 15: Shares of Vietnam T&G export value in the EU market



Source: Eurostat, RongViet Securities

Figure 17: Competitive advantages of primary sourcing bases in 2022

Country	Speed	Cost	Flexibility & agility	Labor & social compliance risks	Environmental compliance risk
China					
Vietnam					
Bangladesh					
Cambodia					
Indonesia					
India					

**Color code: the bolder the color, the more positive the rating*

Source: US.FIA, RongViet Securities

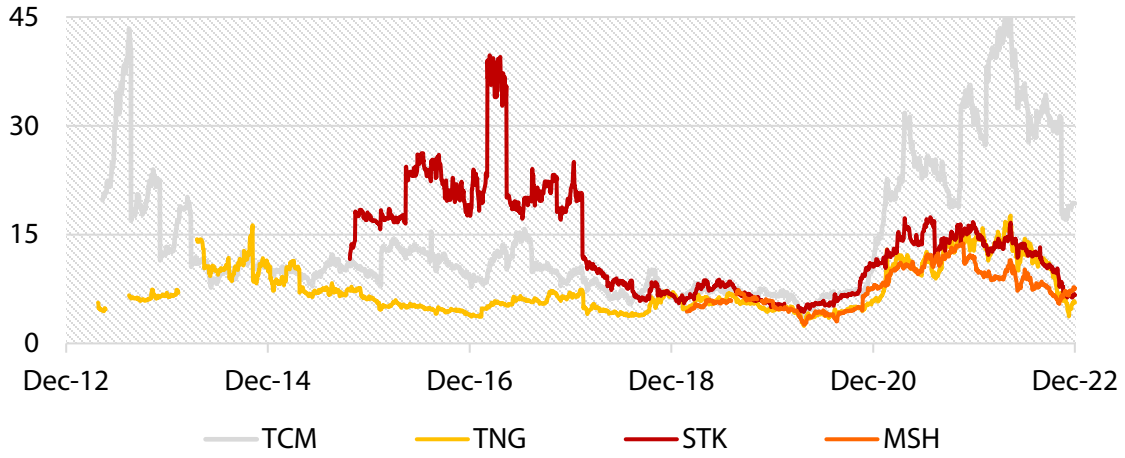
We prefer Buy-rate STK, trading on attractive multiples relative to growth

- Textile and garment producers' share prices have been under pressure recently, and it may persist near term until updates on the sidelines for signs of an improving sector outlook and consumption recovery.

On 12-month forward multiple:

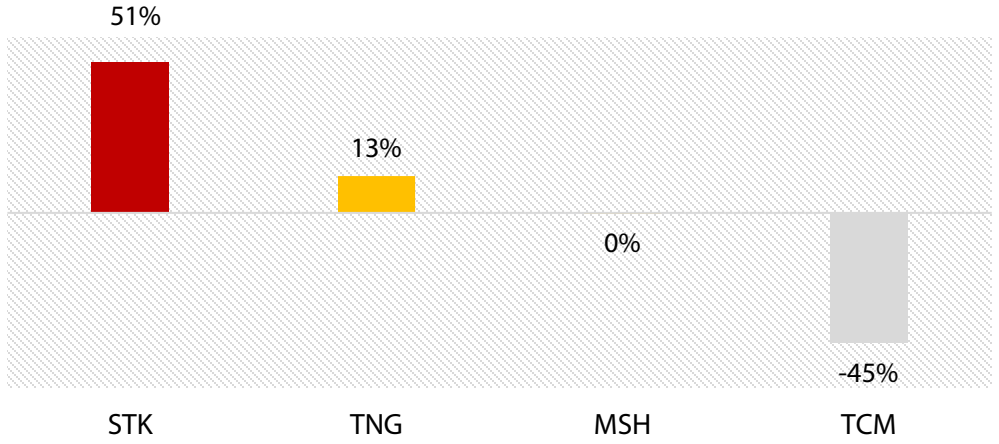
- TNG is now trading at 5.6x (26% discount vs 5-year average of 7.3x, 13% discount vs its historical average P/E of 11.9x since the stock listing), but with the macro headwinds, it is still risks in our view.
- STK's 12-month forward P/E multiples is now trading at 6.6x (51% discount vs its historical average P/E of 11.9x since the stock listing, 34% discount vs its 5-year historical average P/E of 9.9x), thus providing some valuation support.

Figure 19: 12-month forward P/E multiple for STK, MSH, TNG, TCM



*Source: Capital IQ, RongViet Securities. *Priced as of 8 Dec 2022.*

Figure 18: 12-month forward P/E multiple discount (%) vs historical average P/E since the stock listing



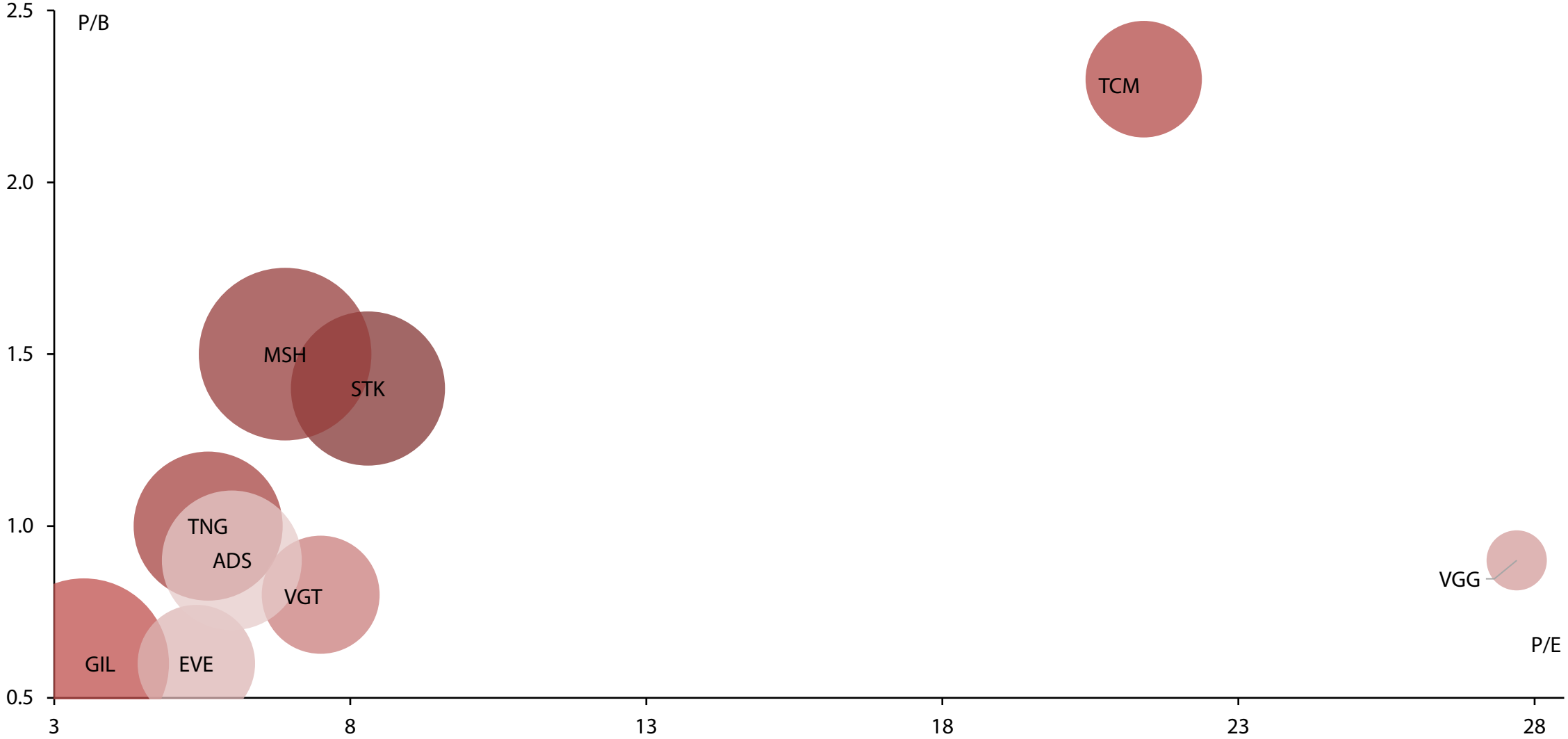
*Source: Capital IQ, RongViet Securities. *Priced as of 8 Dec 2022.*

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap.	Target price	Closing price	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2022 's Profitability		P/E		P/B	
	($mn)	(VND)	(12/12/2022)			2021A	2022E	2023F	2021A	2022E	2023F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
STK	2,136	32,500	26,100	500	87.0	15.7	7.1	6.3	0.9	-11.9	15.1	16.1	11.4	7.3	9.2	1.3	1.6
MSH	2,671	40,000	35,600	2,500	44.3	24.5	11.9	-3.1	0.9	-19.7	1.7	19.4	9.2	7.9	N.A	1.5	N.A
TNG	1,577	17,100	15,000	800	41.9	21.5	24.1	-6.2	0.5	27.0	-7.4	17.5	6.2	5.6	6.2	0.9	1.2
TCM	4,343	39,400	53,000	500	2.0	1.9	19.3	-4.0	-0.5	83.9	-4.2	13.8	7.0	19.2	14.6	2.2	1.6
GIL	1,822	N.R	26,400	N.A	46.9	20.1	N.A	N.A	0.1	N.A	N.A	24.8	13.0	3.0	4.1	0.7	1.0
VGT	5,500	N.R	11,000	N.A	35.9	15.1	N.A	N.A	2.1	N.A	N.A	11.9	4.2	7.0	14.4	0.8	1.0
VGG	1,521	N.R	34,500	N.A	34.0	-15.6	N.A	N.A	-0.4	N.A	N.A	3.1	1.7	27.2	15.6	0.9	1.3
EVE	571	N.R	13,600	N.A	26.2	1.2	N.A	N.A	0.1	N.A	N.A	11.8	8.8	4.9	10.6	0.6	0.6
ADS	455	N.R	10,400	N.A	49.4	13.0	N.A	N.A	8.5	N.A	N.A	16.7	4.5	5.4	16.8	0.9	1.2
PPH	1,516	N.R	20,300	N.A	0.0	-21.3	N.A	N.A	0.2	N.A	N.A	20.3	10.1	4.3	6.3	0.8	0.9

Source: Bloomberg, RongViet Securities. Data was updated as of Dec 12th ,2022.
**For covered stocks: ROE, ROA, and P/B was estimated for 2022, P/E is estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

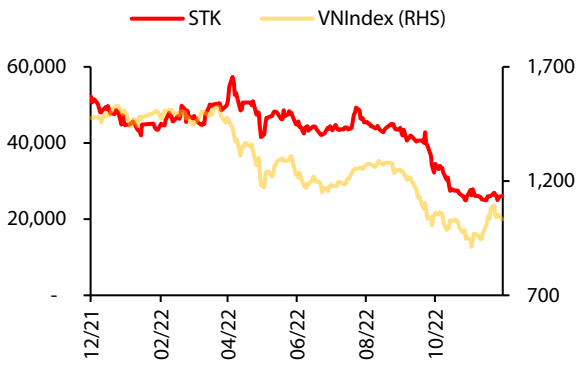


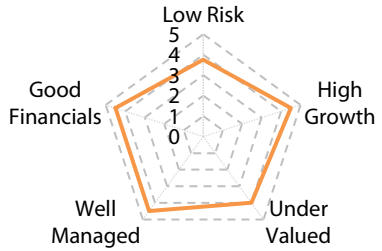
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 12 Dec 2022.

2023 AWAITS A BOUNCE BACK

HSX: STK

BUY: 26% **MP: 26,100** **TP: 32,500**





STOCK INFO

Sector	Textile
Market Cap ($ mn)	90
Current Shares O/S (mn shares)	82
3M Avg. Volume (K)	10`
3M Avg. Trading Value (VND mn)	329
Remaining foreign room (%)	89.8
52-week range ('000 VND)	23,55-59,60

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	2,042	2,187	2,325
NPAT-MI (VND bn)	278	245	282
ROA (%)	14.1%	11.4%	8.5%
ROE (%)	22.1%	16.1%	16.8%
EPS (VND)	4,069	2,997	3,448
Book Value (VND)	18,464	18,675	20,563
Cash dividend (VND)	1,500	1,500	500
P/E (x)	14.0	8.4	7.3
P/B (x)	3.0	1.3	1.2

INVESTMENT RATIONALES

Sportswear brands shifting their order sourcing volume from China to Vietnam and sportswear brand's inventory digestion could support the FY23 order outlook

- Despite lower 2023 earnings guidance, sportswear brands are among STK's main indirect customers, with plans to shift orders from China to Vietnam as China's covid lockdowns continue to disrupt manufacturing. Per the management, STK's largest customers expect a 15% YoY growth in their orders to Vietnam in 2023.
- Sportswear brands are trying to destock in the upcoming holiday seasons, expect their inventory to return to normal levels in early 2Q23.

Earnings expected to turn around in 2023 after a tough 2H22

- We see risks of murky 4Q22 results when brands are dealing with excess inventory and canceling a large portion of their made-for-retail orders. The Cu Chi factory also closed on Oct 22 and is expected to reopen in 1Q23 when the order outlook improves. STK's current strategy is to focus on high-value-added orders to offset volume declines.
- We estimate FY23 EPS growth of 13%, driven by (1) improved order volume, (2) average chip costs for both virgin and recycled yarn returns to around 4Q21 levels after peaking in 2Q22, and (3) FX losses ease based on our estimate 2% VND/USD depreciation in 2023.

Mid- and long-term earnings growth will be driven by a continued shift toward high-margin yarn types and a capacity expansion plan. The Unitex project aims to increase recycled yarn production volume when the factory's phase I starts in 1Q24. In the period 2023-2026, we expect sales and NPAT to grow at a CAGR of 22.9% and 24.6%, respectively.

RISKS TO OUR CALL

- Faster/lower-than-expected earning rebounds due to consumer demand and brands' inventory digestion.

(*) Upside include cash dividends in the next 12 months

ORDER VOLUME EXPECTED TO RECOVER IN 2023

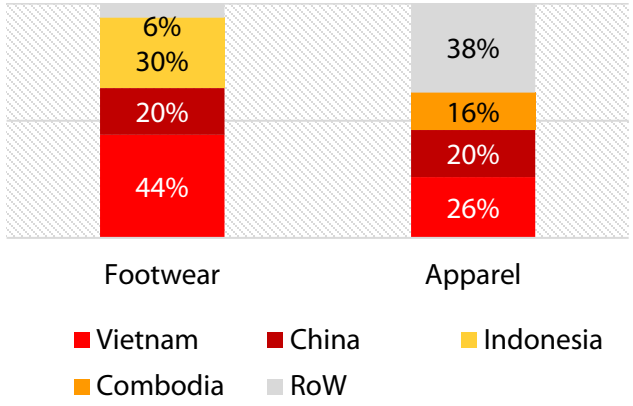
STK will get a bigger slide from the trend of Sportswear brands shifting their order sourcing volume from China to Vietnam

- Global sporting goods brands source and manufacture the majority of their products in Asia including China, Vietnam, Indonesia, etc. They are STK's main indirect customers. In 2023, these brands plan to shift orders from China to Vietnam as China's covid lockdowns continue to disrupt manufacturing.
- Per the management, STK's largest customers expect a 15% YoY growth in their orders to Vietnam in 2023.

Brands inventory issue will get resolved soon and will support the FY23 order outlook

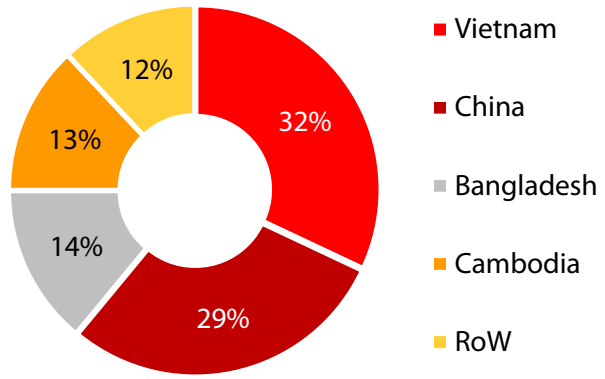
- As an upstream producer, STK's order volume will be impacted sooner than textile/apparel producers, which has been reflected in business results since 3Q22 and 4Q22 order volume.
- However, sportswear brands are attempting to destock ahead of the upcoming holiday seasons, with inventory expected to return to normal levels in early 2Q23. Hence, we expect STK's order volume to rebound in the next season.

Figure 1: Nike production volumes by country in 2021



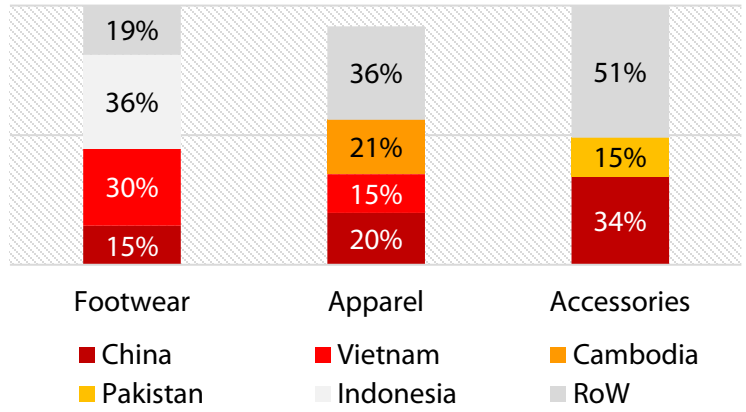
Source: Company data, RongViet Securities

Figure 2: Puma production volumes by country in 2021



Source: Company data, RongViet Securities

Figure 3: Adidas production volumes by country in 2021



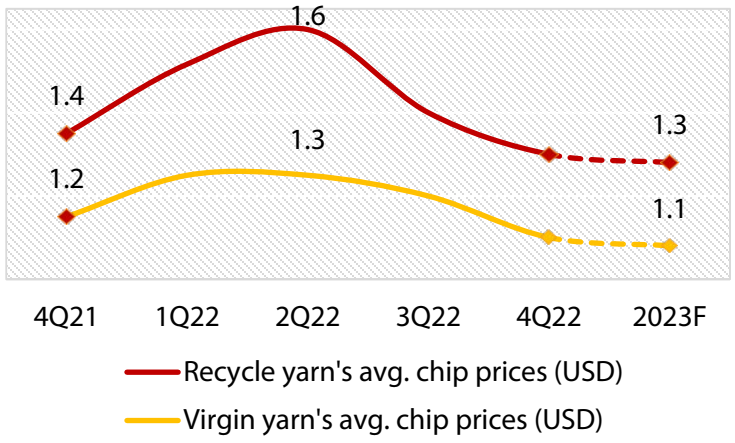
Source: Company data, RongViet Securities

EARNINGS ON THE ROAD TO REBOUND IN 2023

Still not out of the woods but earnings expect to rebound in 2023

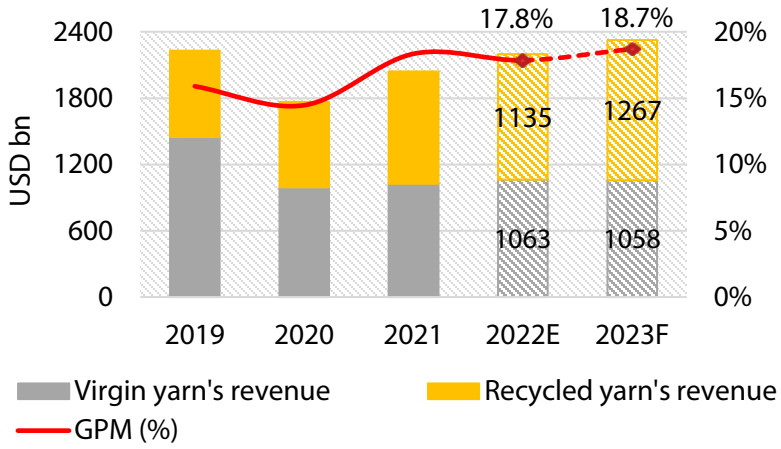
- STK might experience negative earnings growth in 1H23 if order volume does not return to 1H22 levels. Nonetheless, order volume will increase in 2H23 as the brand's inventory levels return to normal and preparations for the Fall/Winter season are made. To get through these tough times, STK prioritizes higher-value-added orders to compensate for lower order volume received.
- For FY23, we expect net revenue and NPAT-MI to be VND 2,325 bn/ USD 95.4 mn (+6.3 % YoY) and VND 282 bn/USD 11.6 mn (+15% YoY), respectively. Our assumptions are (1) improved order volume, (2) average chip costs for both virgin and recycled yarn have returned to around 4Q21 levels after peaking in 2Q22, and (3) FX losses to ease based on our estimated 2% VND/USD depreciation in 2023.
- We note that the rising interest rate trend and the USD/VND appreciation will affect FY23 earnings because STK purchases input materials and pays interest expenses on short & long-term debt in USD. STK will incur long-term debt in 2023 to finance the Unitex project.

Figure 4: Avg. chip costs for virgin & recycled yarn have returned to 4Q21 levels



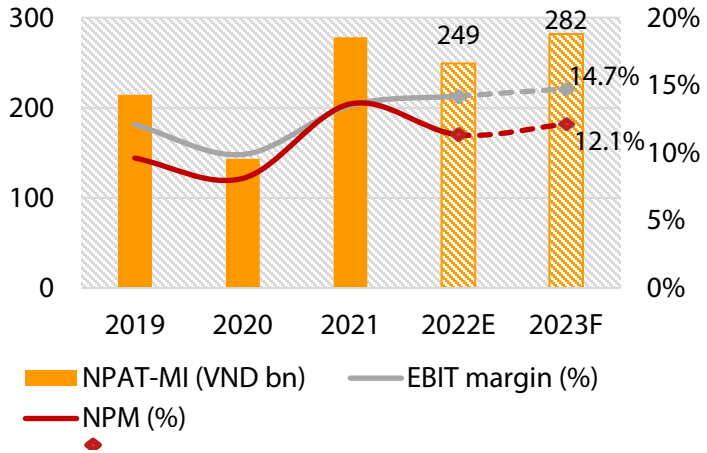
Source: STK, RongViet Securities

Figure 5: STK's focusing on higher-value-added order approach to get higher GPM



Source: STK, RongViet Securities

Figure 6: Expecting a rebound in 2023 earnings



Source: STK, RongViet Securities

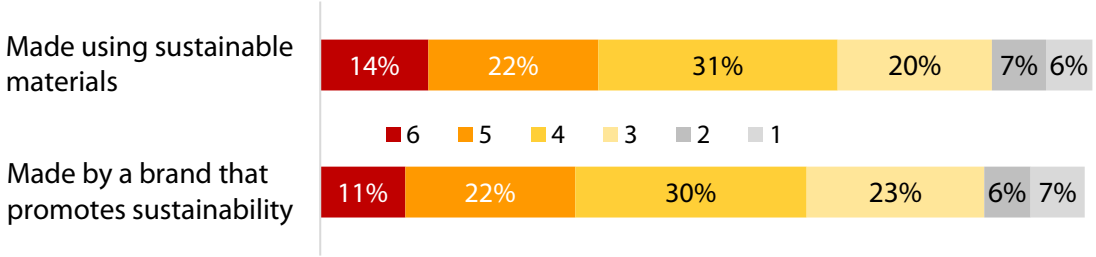
MID & LONG-TERM GROWTH DRIVEN BY UNITEX PROJECT

The Unitex factory could contribute significantly to STK's mid and long-term growth

- STK is benefiting from eco-fashion as a new tendency in the fashion industry. Brands also have commitments to sustainability, which include reducing their carbon footprint by 50% by 2023 and reaching net zero emissions by 2050.
- Fashion brands' action plan is based on two main pillars: (1) achieving energy efficiency in the supply chain and system, and (2) purchasing primary materials such as recycled polyester, and organic cotton.
- Grasping global market demand, the Unitex project aims to increase recycled yarn production volume. The foundation for the new factory has been completed. The company is awaiting the release of the construction permit as well as the completion of the necessary legal procedures with authorities. Phase I of the project (with a capacity of 36,000 tons per year) is expected to begin official production starting in 1Q24.
- In the period 2023-2026, we expect sales and NPAT to grow at a CAGR of 22.9% and 24.6%, respectively.

Table 1: Brand attitude towards sustainability highlights the need to maintain sustainability commitments

"How important are the following factors to you when selecting which fashion brand to buy from?" (percentage) _ Note: 6 to 1 = Very important to Not important



Source: McKinsey sporting goods report 2022, RongViet Securities

Table 2: Income statement forecast for 2023F-2026F

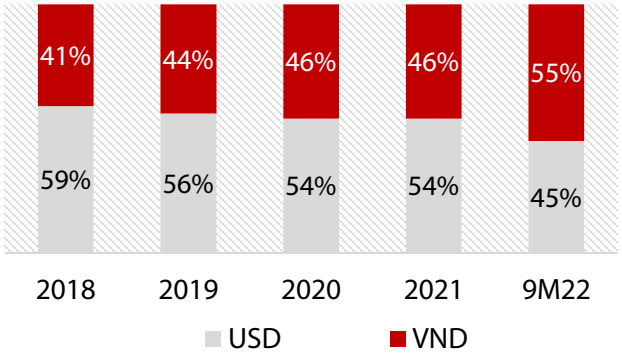
VND bn	2023F	2024F	2025F	2026F
Design capacity (tons/year)	63,000	99,000	123,000	123,000
Revenue	2,325	3,299	3,974	4,319
% YoY growth	5.7	41.9	20.4	8.7
% Recycled yarn revenue contribution	54.5	54.6	57.6	59.6
Gross profit	435	615	733	810
% YoY growth	11.0	41.2	19.2	10.6
GPM (%)	18.7	18.6	18.4	18.8
NPAT	282	387	468	546
% YoY growth	13.1	37.1	21.1	16.5
NPM (%)	12.1	11.7	11.8	12.6

Source: STK, RongViet Securities

2H2022 ORDER PROSPECTS ARE BELLWETHER FOR A NEAR-TERM CHALLENGE

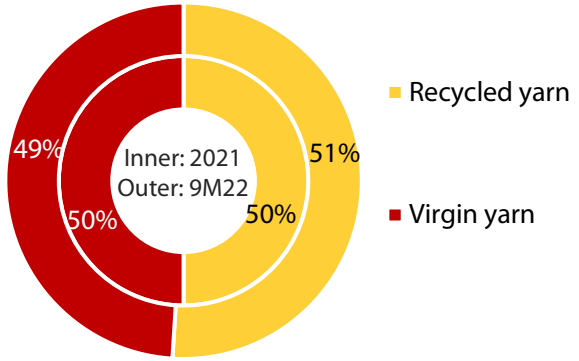
- **9M22 results:** As an upstream producer, STK was hurt earlier than textile/apparel producers. 3Q22 net revenue recorded a 10% YoY compared to 3Q21 low base, reflecting subbed demand. While recycled yarn sales inched up 21% YoY due to a 13% increase in ASP, virgin yarn sales & ASP remained flat. Cumulative 9M22 sales came to VND 1,685 bn (+9%YoY) and NPAT-MI to VND 196 bn (-4% YoY), fulfilling 65% of the company's sales and NPAT-MI targets. GPM shrank 109 bps YoY as the overall price gap (ASP less average chip cost) dropped about 5.5% YoY, mainly due to a 28% decline of virgin yarn price gap.
- Despite having a portion of its revenue quoted in USD, STK recorded a net FX loss of VND 30.6 bn/USD 1.26 mn due to an 8% the USD/VND appreciation. STK's input materials and VND 450 bn in short-term debt repayment, both recorded in USD in USD.
- **4Q22 outlook:** We believe that STK will not be immune to macro headwinds. Per the management, the delay in direct customer orders following manufacturers' & wholesalers' high inventory levels will create a tough backdrop for the company in 4Q22 and until 1H2023 if the current situation persists. As a result, STK plans to focus on high-value-added orders to offset the volume decline. For 4Q22, we forecast net revenue and NPAT-MI of VND 502 bn/ USD 21.3 mn (+1 QoQ, +1 YoY) and VND 49 bn /USD 2.1 mn (-1% QoQ, -34% YoY), respectively, as orders momentum decelerate and the weak VND.

Figure 7: Lower revenue proportion quoted in USD in 9M22



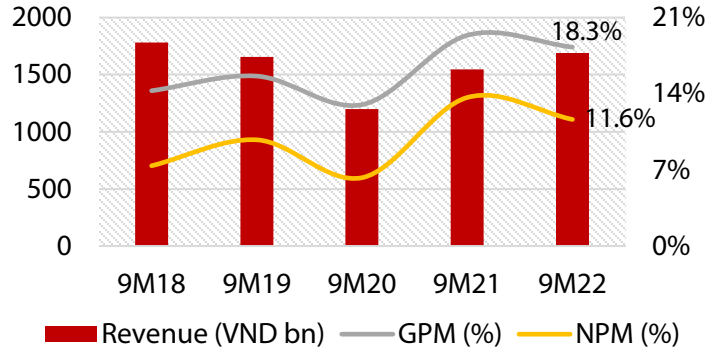
Source: STK, RongViet Securities

Figure 8: Higher contribution of recycled yarn in 9M22



Source: STK, RongViet Securities

Figure 9: Lower price gap led 9M22 GPM shrank despite revenue growth

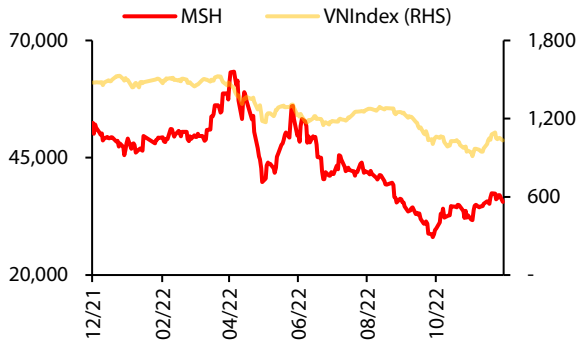


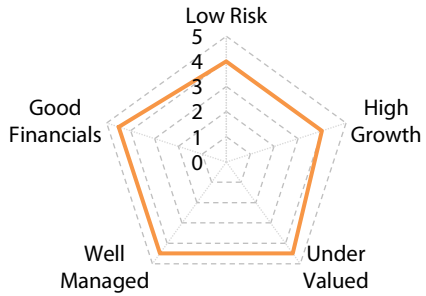
Source: STK, RongViet Securities

EARNINGS GROWTH SLOWS AMIDST THE GLOOM

HSX: MSH

ACCUMULATE: 19% **MP: 35,600** **TP: 40,000**





STOCK INFO

Sector	Textile
Market Cap ($ mn)	
Current Shares O/S (mn shares)	
3M Avg. Volume (K)	
3M Avg. Trading Value (VND Bn)	
Remaining foreign room (%)	
52-week range ('000 VND)	

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	4,748	5,313	5,146
NPAT-MI (VND bn)	442	355	361
ROA (%)	13.8%	9.2%	9.3%
ROE (%)	31.1%	19.4%	18.1%
EPS (VND)	8,846	5,507	4,665
Book Value (VND)	28,432	24,381	26,545
Cash dividend (VND)	4,500	2,500	2,500
P/E (x)	8.9	6.7	7.9
P/B (x)	2.6	1.6	1.5

INVESTMENT RATIONALES

2023 order volume to moderate off 2022 levels, but GPM is expected to improve slightly

- We see a cautious tone from brands and retailers when they revised down 2023 earnings guidance, echoing the murky industry outlook with lower order visibility for MSH in 2023. Along with that, MSH's total number of consolidated employees remained unchanged in Q3 (compared to Q2), possibly indicating a pause in the production expansion of the SH10 factory.
- We expected MSH's GPM pressure also to be relieved as (1) input costs decrease from 2022 levels in 2023, and (2) MSH's high-end brands (Tommy Hilfiger, Calvin Klein, etc..) will help MSH to maintain GPM in the tough season ahead.

A healthy financial structure coupled with a stable cash dividend payment

- We believe that the rising deposit interest rates and the USD/VND appreciation continue to benefit MSH in 2023. Furthermore, with ample cash resources and healthy operating cash flow, we expect MSH to maintain a consistent cash dividend yielding 6%-8%.
- For FY23, we expect net revenue and NPAT-MI to be VND 5,146 bn/ USD 218.8 mn (-3% YoY) and VND 361bn/USD 15.4 mn (+2% YoY), respectively. Our assumptions are that (1) lower order volume compared to 2022 levels, (2) material costs to ease, and (3) rising deposit interest rates will continue to benefit the company in 2023.

RISKS TO OUR CALL

- Faster/slower-than-expected recovery in demand for textile and apparel products.
- Higher- or lower-than-expected input material prices (cotton, fabric).

(*) Upside include cash dividends in the next 12 months

EXPECTING TO GET BETTER PROFIT MARGIN IN FY23

2023 order volume to moderate off 2022 levels, but GPM are expected to improve

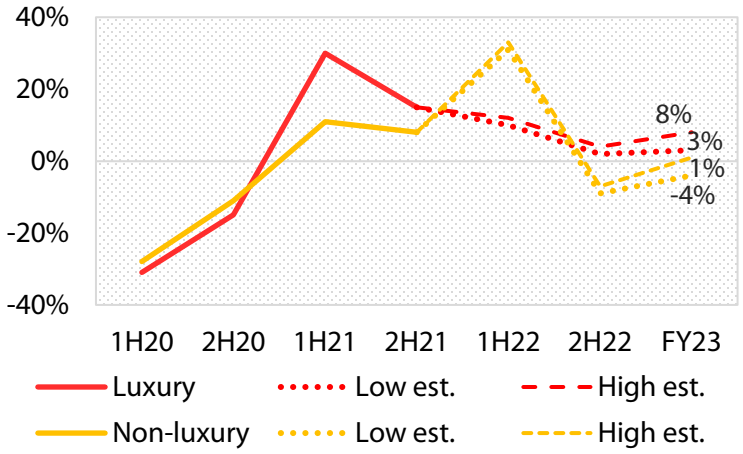
- We see cautious tone from brands (MSH's indirect clients) and retailers such as Walmart when they revised down 2023 earnings guidance, echoing the murky industry outlook with lower order visibility for MSH in 2023.
- On the positive note, we believe that MSH will benefit from a high-end customer, because (1) luxury fashion's 2023 sales outlook is less affected than non-luxury fashions, and (2) ASP is less influenced by client negotiation pressure to lower selling prices.
- 2023's GPM pressure is also expected abate as input costs decrease from the 2022 levels.

Table 1: MSH's current primary clientele

MSH's clients	Brand
Haddad Brands (supplier)	Nike, Converse, Jordan, Levi's
G-III (supplier)	* Tommy Hilfiger, Calvin Klein, DKNY
Columbia Sportswear	Columbia Sportswear
Sea-A Trading	
Walmart	

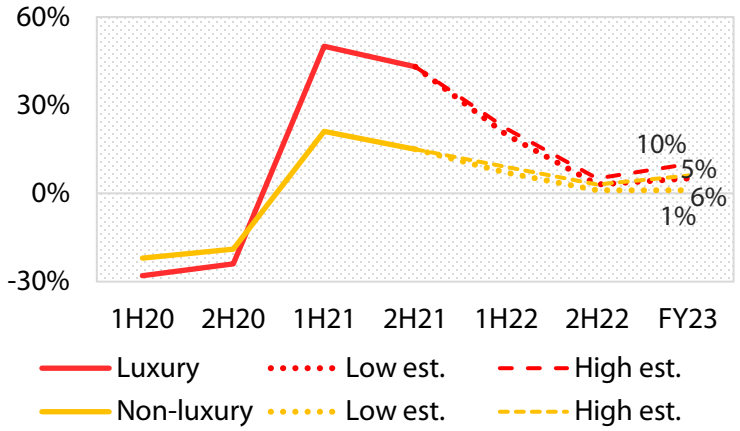
*Source: MSH, RongViet Securities. *: Luxury brand*

Figure 1: Europe 's luxury fashion retail sales are projected to grow slowly, while non-luxury sales may decline in 2023



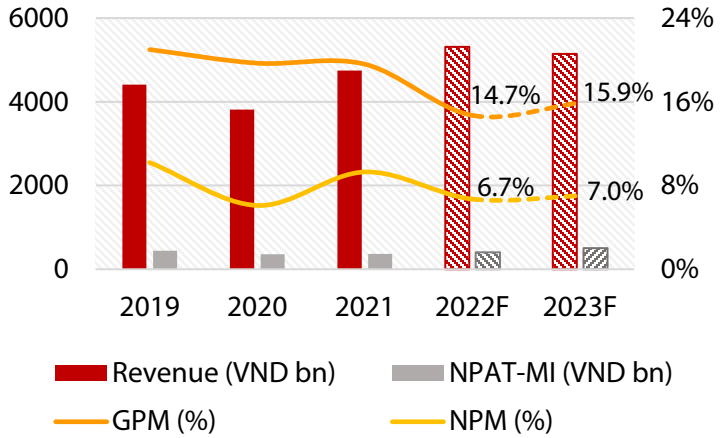
Source: The state of fashion 2023 report, Mc Kinsey

Figure 2: U.S. luxury fashion retail sales expected to recover faster than non-luxury sales in 2023



Source: The state of fashion 2023 report, Mc Kinsey

Figure 3: Expecting a slight margin improvement in 2023 despite revenue being moderately off from 2022



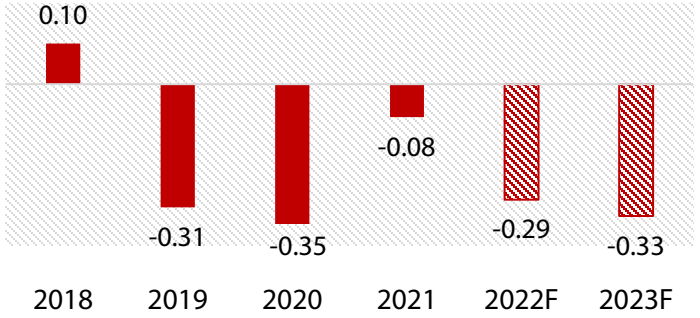
Source: MSH, RongViet Securities

SOLID FINANCIAL POSITION, STABLE CASH DIVIDEND TRACK RECORD

A healthy financial structure coupled with a stable cash dividend payment

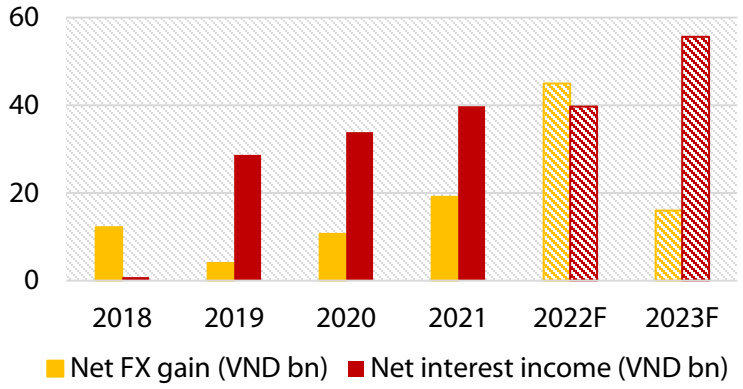
- We believe that the rising deposit interest rates and the USD/VND appreciation continue to benefit MSH in 2023. Furthermore, with ample cash resources and healthy operating cash flow, we expect MSH to maintain a consistent cash dividend yielding 6%-8%.
- For FY23, we expect net revenue and NPAT-MI to be VND 5,146 bn/ USD 218.8 mn (-3% YoY) and VND 361 bn/USD 15.4 mn (+2% YoY), respectively. Our assumptions are that (1) lower order volume compared to 2022 levels, (2) material costs to ease, and (3) rising deposit interest rates might continue to benefit the company in 2023.

Figure 4: MSH's net debt/equity ratio



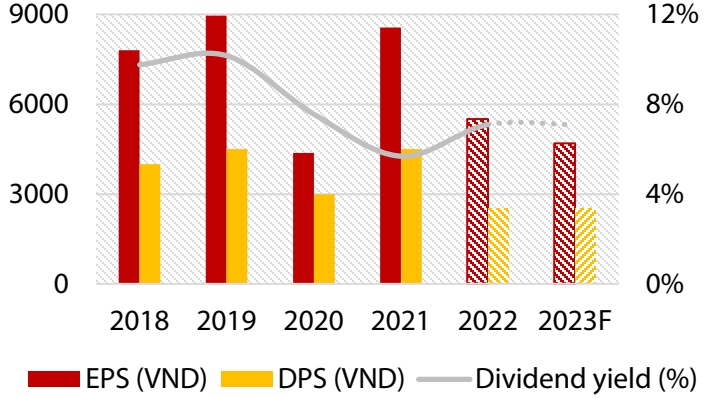
Source: MSH, RongViet Securities

Figure 5: Rising deposit interest rates & the USD/VND appreciation continue to benefit



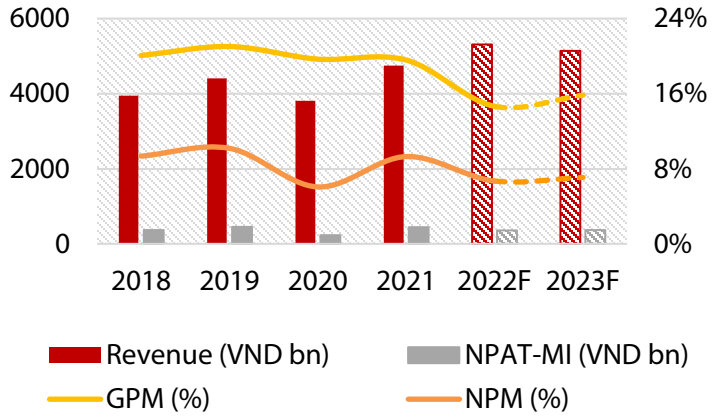
Source: MSH, RongViet Securities

Figure 6: MSH's proven cash dividend track record and 2023F



Source: MSH, RongViet Securities

Figure 7: Expecting a slight earnings rebound amidst a revenue decline in FY23

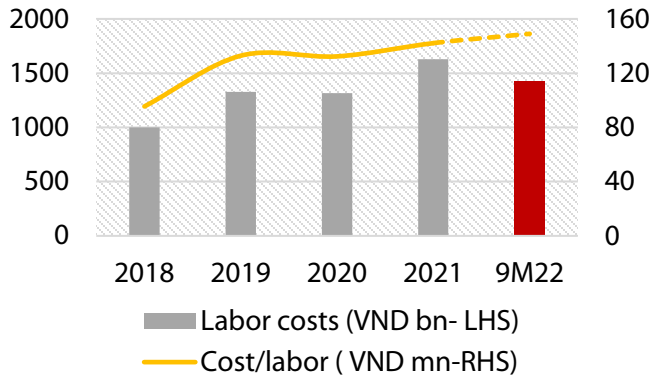


Source: MSH, RongViet Securities

9M22 GPM PLUMMETS TO THE LOWEST LEVEL IN OVER EIGHT YEARS

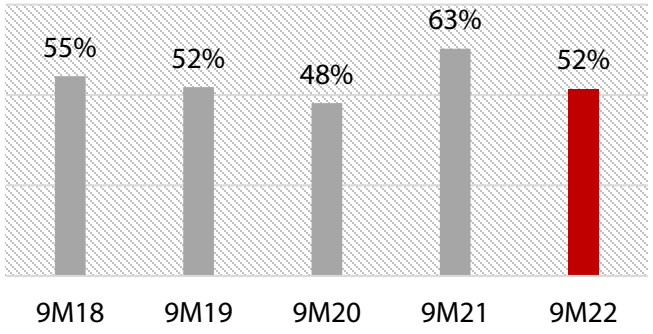
- **9M22 results**: 3Q22 net revenue recorded a 27% YoY growth when the SH10 factory began operation in early Mar 2022 with an increase in orders. Cumulative 9M22 net sales reached VND 4,421 bn/ USD 187.5 mn (+28%YoY) and NPAT-MI was VND 297 bn/ USD 12.6 mn (-12% YoY), fulfilling 90% of the company's sales and NPAT-MI targets. However, 9M22 GPM shrank 499 bps YoY mainly driven by (1) the low operational efficiency of the SH10 factory, and (2) a 10% increase in average labor wages. On a positive note, financial income reached VND 92 bn (+66% YoY) in 9M22, owing primarily to a 103% increase in net FX gain and a 49% increase in net interest income.
- **4Q22 outlook**: In the near term, we believe it will take time for the new SH10 factory to become profitable and achieve a higher utilization rate. On the negative side, MSH's total number of consular employees remained unchanged in Q3 (compared to Q2), possibly indicating a pause in production expansion at the SH10 factory. For 4Q22, we forecast net revenue and NPAT-MI of VND 892 bn/ USD 37.8 mn (-46% QoQ, -40% YoY) and VND 61 bn /USD 2.6 mn (-45% QoQ, -36% YoY), respectively, as orders momentum decelerate and the low operational efficiency of the SH10 factory.

Figure 8: Cost/labor in 9M22 rose around 5% in 9M22 vs 2021



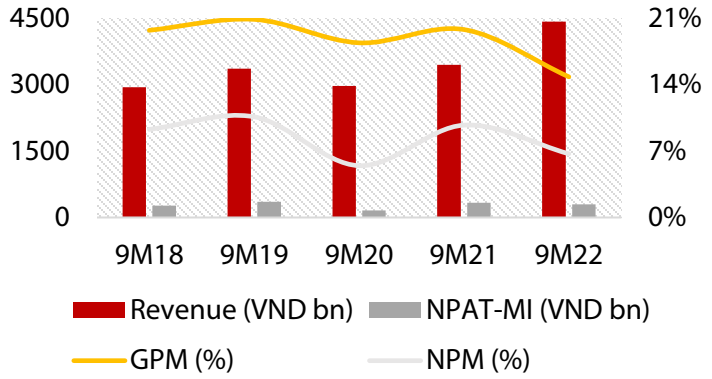
Source: MSH, RongViet Securities

Figure 9: MSH's raw material costs/total production costs



Source: MSH, RongViet Securities

Figure 10: 9M22 revenue climbed but GPM tumbled

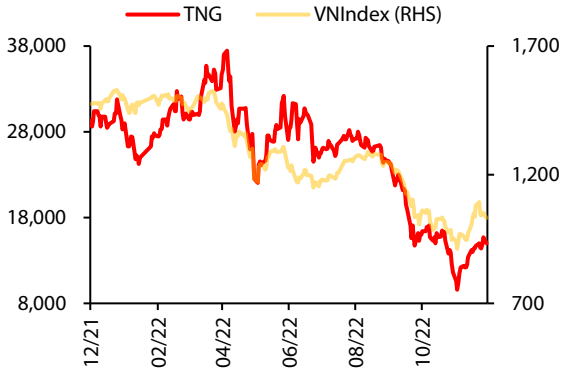


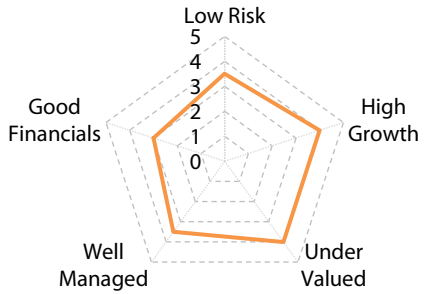
Source: MSH, RongViet Securities

GEARING UP FOR THE BUMPY RIDE AHEAD

HSX: TNG

ACCUMULATE: 18% **MP: 15,000** **TP: 17,100**





STOCK INFO	
Sector	Textile
Market Cap ($ mn)	
Current Shares O/S (mn shares)	
3M Avg. Volume (K)	
3M Avg. Trading Value (VND Bn)	
Remaining foreign room (%)	
52-week range ('000 VND)	

FINANCIALS	2021A	2022E	2023F
Revenue (VND bn)	5,444	6,756	6,338
NPAT-MI (VND bn)	233	296	274
ROA (%)	5.3	6.2	5.9
ROE (%)	15.9	17.5	14.8
EPS (VND)	2,384	2,992	2,547
Book Value (VND)	15,514	15,780	16,081
Cash dividend (VND)	400	800	800
P/E (x)	13.6	4.8	5.6
P/B (x)	2.1	0.9	0.9

INVESTMENT RATIONALES

FY23 order outlook and ASP will not be immune to macro headwinds

- TNG garment factories are currently taking orders for 1Q23. However, we turn more cautious about the FY23 outlook on export destinations & domestic demand, and brand inventory issues when they need to adjust orders in 1H23 to ensure healthy inventory flow.
- TNG's biggest client is DCL, which is also facing accumulation headwinds as (1) consumers in China are down trading due to favoring local brands, resulting in market share losses, and (2) inventory management issues and the FIFA World Cup is expected to make up for much.

Financial expenses continue to hurt the bottom line in FY23

- We believe that the rising interest rates will continue to hurt TNG's earnings in 2023 when more than half of the company's operating profits were used to cover financial expenses.
- For FY23, we expect net revenue and NPAT-MI to be VND 6,338 bn/ USD 267.1 mn (-6.2% YoY) and VND 274 bn/USD 11.5 mn (-7.3% YoY), respectively. Our assumptions are that (1) lower order volume & ASP and (2) financial expense will continue to hurt 2023 earnings, and (3) excluding revenue/profit recognition from Son Cam I IP.

RISKS TO OUR CALL

- Faster/slower-than-expected recovery in demand for textile and apparel products.
- Higher- or lower-than-expected input material prices (cotton, fabric).

(*) Upside include cash dividends in the next 12 months

KEEPING ITS HEAD ABOVE WATER

FY23 order outlook and ASP will not be immune to macro headwinds

- We turn more cautious about the FY23 outlook on export destinations & domestic demand, and brand inventory issues when they need to adjust orders in 1H23 to ensure healthy inventory flow. TNG's biggest client is DCL, which is also facing accumulation headwinds as (1) consumers in China are down trading due to favoring local brands, resulting in higher market share losses, and (2) inventory management issues and the FIFA World Cup is expected to make up for much.

Profit margins can maintain but financial expenses continue to hurt the bottom line in FY23

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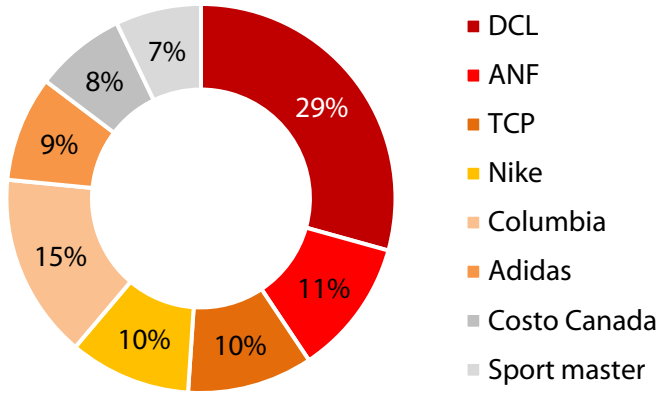
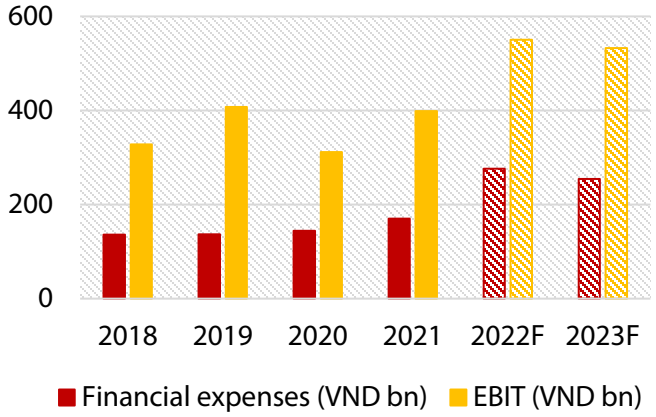
Figure 1: TNG's target primary clientele for 2022-2025 period



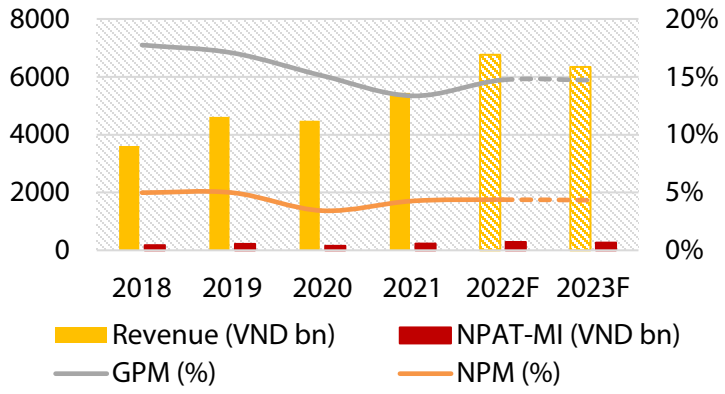
Source: TNG, RongViet Securities

Figure 2: Financial expenses continues to hurt EBIT



Source: TNG, RongViet Securities

Figure 3: Might maintain profit margins despite a slight earnings decrease



Source: TNG, RongViet Securities

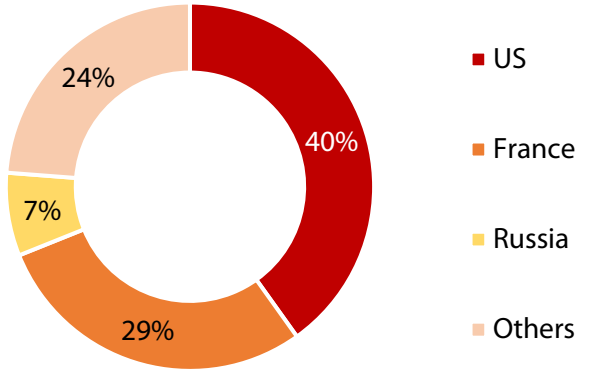
RESILIENT SALES GROWTH IN 9M22

9M22 sales ahead of expectations, profit margins improved slightly but financial expenses continue to hurt earnings: Cumulative 9M22 sales came to VND 5,262 bn (+29%YoY) and NPAT-MI to VND 231 bn (+37% YoY), fulfilling 88% and 83% of the company's sales and NPAT-MI targets. GPM in 9M22 inched up 70 bps as TNG is self-sufficient in raw materials such as cotton, while fabric is mostly purchased domestically. On the negative note, 66% of 9M22's operating profits were used to cover financial expenses.

4Q22 forecast: Per TNG, Dong Hy 2 factory started operating with 10 sewing lines from Nov 2022. Currently, TNG has received full orders for 4Q22 despite sector woes. Due to the negative market impact of high inflation in major importing countries, coupled with customers' high inventory, orders for garment products started to slow down in 3Q2022. Regarding the real estate segment, the company does not expect to record any revenue/profit from Son Cam I industrial park in 4Q22. For 4Q22, we expect TNG's net revenue and NPAT–MI to be VND 1,493 bn (+5% QoQ, +133 %YoY) and VND 65 bn bn (+5% QoQ, +134% YoY), respectively, as the company received full of orders.

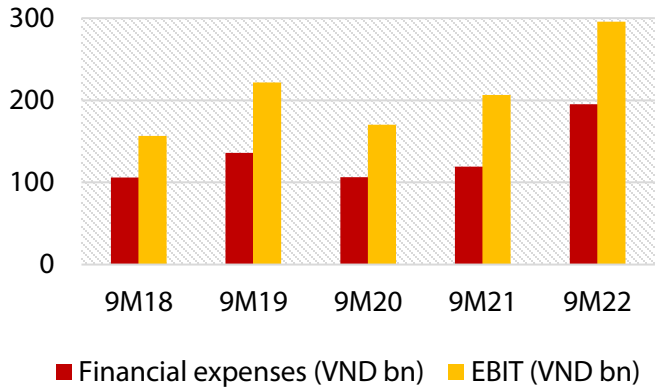
Updates on bond: TNG completed its obligations for TNG119007 bonds (total par value of VND 136bn) on Oct 25, 2022, and continued to pay interest for TNG122017 bonds (total par value of VND 300bn, 4-year term, issue date of 16/05/2022).

Figure 4: TNG's primary market export in 9M22



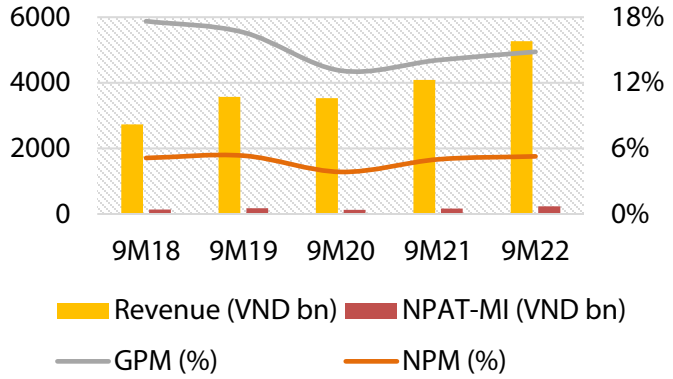
Source: TNG, RongViet Securities

Figure 5: Financial expenses continued to hurt EBIT in 9M22



Source: TNG, RongViet Securities

Figure 6: Might maintain profit margins despite a slight earnings decrease

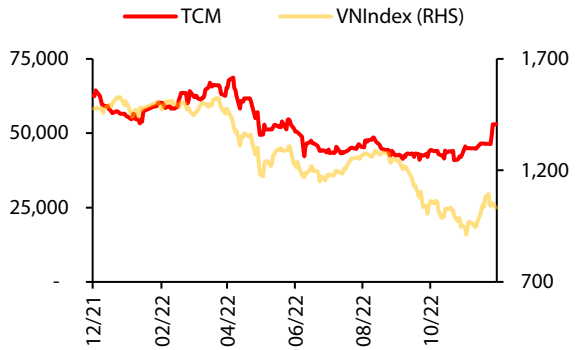


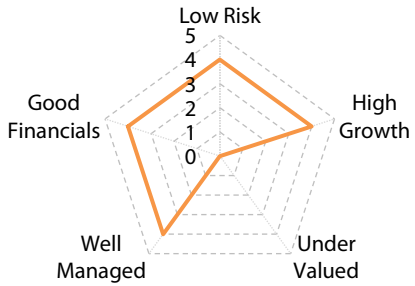
Source: TNG, RongViet Securities

HIGH PRICED WITH LIMITED CATALYSTS IN SIGHT

HSX: TCM

SELL : -24% **MP: 53,000** **TP: 39,800**





STOCK INFO

Sector	Textile
Market Cap ($ mn)	
Current Shares O/S (mn shares)	
3M Avg. Volume (K)	
3M Avg. Trading Value (VND Bn)	
Remaining foreign room (%)	
52-week range ('000 VND)	

FINANCIALS

	2021A	2022E	2023F
Revenue (VND bn)	3,535	4,197	4,050
NPAT-MI (VND bn)	143	263	252
ROA (%)	4,0	7,0	6,5
ROE (%)	8,4	13,8	12,1
EPS (VND)	1,700	2,885	2,754
Book Value (VND)	26,402	23,942	23,107
Cash dividend (VND)	500	500	500
P/E (x)	30.3	18.4	19.2
P/B (x)	2.2	2.0	2.1

INVESTMENT RATIONALES

Weakening consumption outlook in 2023 slows capacity expansion plan

- We believe that TMC's volume orders will decline slightly owing to sector woes. Per TCM. Due to the negative market impact of high inflation in major importing countries, coupled with customers' high inventory, orders for garment products started to slow down in 4Q22. The Vinh Long 2 factory is expected to continue operating 9/29 sewing lines due to low order volume. Hence, we expect net revenue and NPAT-MI to be VND 4,050 bn/ USD 171.6 mn (-4% YoY) and VND 252 bn/USD 10.7 mn (-5% YoY), respectively for FY2023.

TCM's stocks is not attractive at the current price

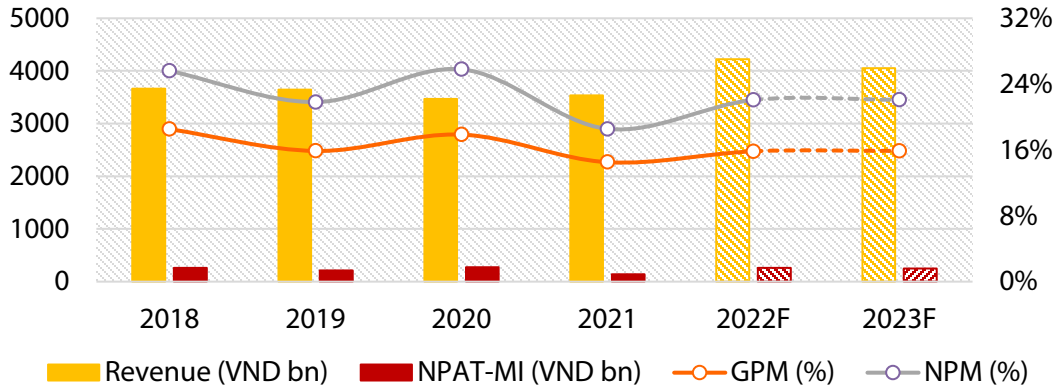
- TCM is currently trading at a P/E TTM of 18.7x and a 2023 forward P/E of 19.2x, which is normalized from pricey level in the previous year but significantly higher than its 10-year average P/E of 14.0x. and its peers.
- Using a 60% of P/E multiple and 40% of DCF methods, we arrive at a one-year target price of VND 39,800 (-25% from the market price), which translates to a 2023F P/E of 14,4x, which are fair, in our view, considering that TMC's earnings might decline slightly in 2023.

RISKS TO OUR CALL

- Faster/slower-than-expected recovery in demand for textile and apparel products.
- Higher- or lower-than-expected input material prices (cotton, fabric).

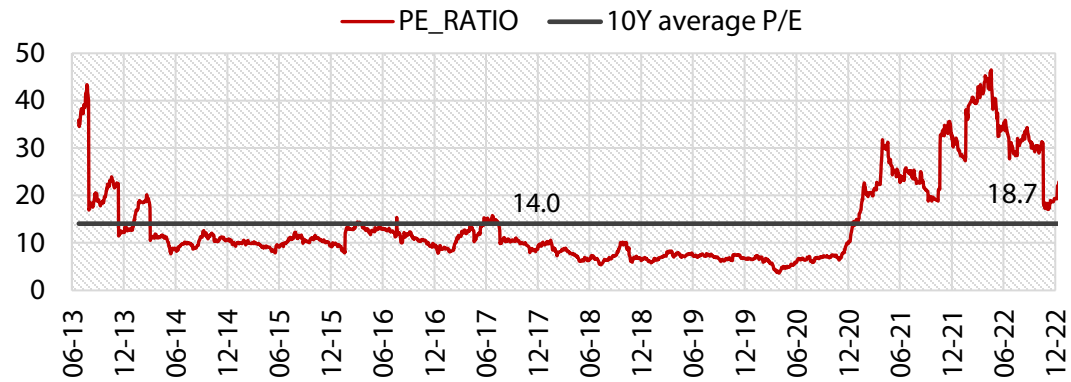
(*) Upside include cash dividends in the next 12 months

Figure 1: Profit margins maintained despite a slight earnings decrease



Source: TCM, RongViet Securities

Figure 2: TCM's 12-month forward P/E vs 10-year historical average P/E



Source: TCM, RongViet Securities

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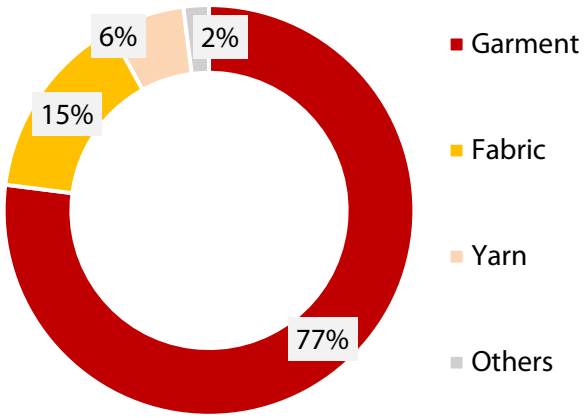
9M22 EARNINGS SHINE FROM A LOW BASE

9M22 results: Cumulative 9M22 sales came to VND 3,400 bn (+26%YoY) and NPAT-MI to VND 220 bn (+86% YoY), fulfilling 81% and 87% of the company's sales and NPAT-MI targets. GPM in 9M22 inched up 190 bps to 15.8%, close to the pre-pandemic levels. The US remains a major export market, accounting for 39% of total revenue, followed by Japan (21%), and Korea (21%), led by strategic partner E-land.

4Q22 forecast: TNG's results have begun to decline since October/22 due to weakening orders as a result of lower consumption in the export market. The Vinh Long 2 factory is expected to continue operating 9/29 sewing lines due to low order volume. For 4Q22, we expect TCM's net revenue and NPAT–MI to be VND 819 bn (-31% QoQ, -1%YoY) and VND 43 bn bn (-55% QoQ, +77 %YoY), respectively.

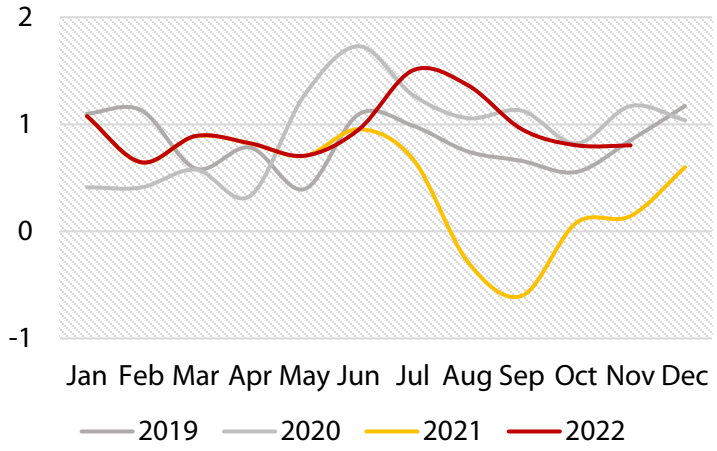
Updates on TC1 Project : The project is still in the legal process and expected to begin construction at the end of Q4/2022 or no later than Q1/2023.

Figure 3: 9M22 revenue by products



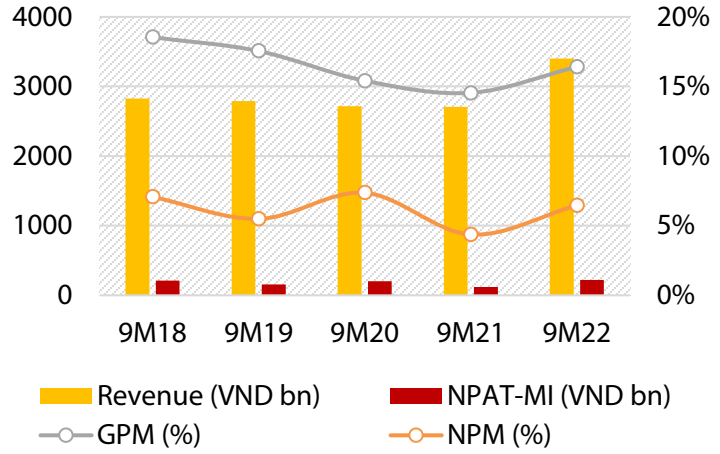
Source: TCM, RongViet Securities

Figure 4: Monthly NPAT results (USD mn)



Source: TCM, RongViet Securities

Figure 5: 9M business results



Source: TCM, RongViet Securities

RONG VIET SECURITIES

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