2015

Use a rod, drop the net

MACROECONOMICS & STOCK MARKET

SECTOR OUTLOOK & PREFERENCE STOCKS

EQUITY STRATEGY IN 2015

March - 2015

"The faster the motion, the shorter the cycle"- such a simply principle also applies to the stock market. Keeping that in mind, the slow-moving of the stock market in early 2015 seems to imply for a longer cycle with more tensions that reflect both the opportunities and challenges of the economy. This suggests the conventional investment approach based on the idea that "a rising tide lifts all boats" may be ineffective. Instead, holding on to the fundamentals and investing for the long term could be idea to go with.

"Use a rod, drop the net" – the 2015 Vietnam Stock Market Outlook report, written by RongViet Research, focuses on two key questions: what to pick and how to act. On leading reader to the answers of those questions, we would like to share our perspectives on each industry and the approaches we think most appropriate to select and capitalize on profitable opportunities. In addition, the focuses of the sections on macro-economy and the stock market have been changed from simply forecasting and explaining key indicators to the discussions of the year's main themes. We expect that certain parts of the report will accompany investors not only for a week or a month but all the way until there is an update report.

In final words, we wish the readers of this report good health and fortune and hope to continue receiving your support in the future."

Sincerely,

RONGVIET RESEARCH

MACROECONOMICS

&

STOCK MARKET

CONTENTS

2015 GLOBAL ECONOMY: IMPERFECT PIPELINE

Diem My Tran (my.ttd@vdsc.com.vn)

In our view, 2015's world economy can be imagined as a broken pipeline that carries water so unevenly that some places are overflown while others are left with drainage. The recent plunge in commodity prices can be seen as a powerful flow that could provide an aid to already-improving economies but could also suffocate drowning ones. Without something it can hold on to amidst the strong current, Vietnam's economy is exposed to whatever the global economy brings.

Uneven recovery. According to the IMF's World Economic Outlook Report (Jan 19th, 2015), global growth may reach 3.5% in 2015, down 0.3 percentage points from the previous forecast. There will also be large gaps in the growth rates of countries where the US and India are on the high grounds while the remaining economies would remain on track, either in slight recovery or a slowdown. In the developed world, the US stands out with simultaneous advancement of key indicators such as GDP, non-farm payrolls, consumer confidence and industrial production. Conversely, EU and Japan struggle to recover. The large number of reports with negative views on EU's GDP growth and more importantly unemployment rate, paint a bleak picture for this economy in 2015.

For other economies, the colors are mixed.

Among BRICs, India is the most expected for a breakthrough given its improving inflation rate and budget deficit. According to the World Bank, India's GDP may expand 6.4% in 2015, one of the world's highest rates of economic expansion. On the contrary, China's *growth has begun to stall* after an extended period of overheating driven by government investments and exports. However, the country's latest structural reform program, which focuses on domestic consumption and the service sector, holds the key China's transition to a slower-moving but more stable economy. Meanwhile, it is unlikely that Russia and Brazil will get out of the mud any time soon. Most forecasts say that both countries will face slower growth coupled with high inflation and currency depreciation; piling public debts in Brazil and tension between Russia and the EU would only add to the pain.

The economies in East Asia and Southeast Asia (including Korea, Hong Kong, Singapore and ASEAN-5) are also projected to slow down in 2015. According to IMF, aside from the tumble of crude oil price and the changing global economy, the slower growth of China would also have negative implications for this emerging part of Asia.

Quantitative easing – a new trend. Driven by uneven economic recovery, monetary policies are also expected to diverge in 2015. Inflation (or wage inflation to be precise) could be the decisive factor in the timing of FED's rate raise. According to a recent survey by CNBC, many economists see the FED funds rate taking off somewhere in *September, 2015* and reach about 0.73% in December. Similarly, Brazil and Russia have already started to tighten money supply through in the increases of key interest rates to cope with high inflation and depreciation of the domestic currency.

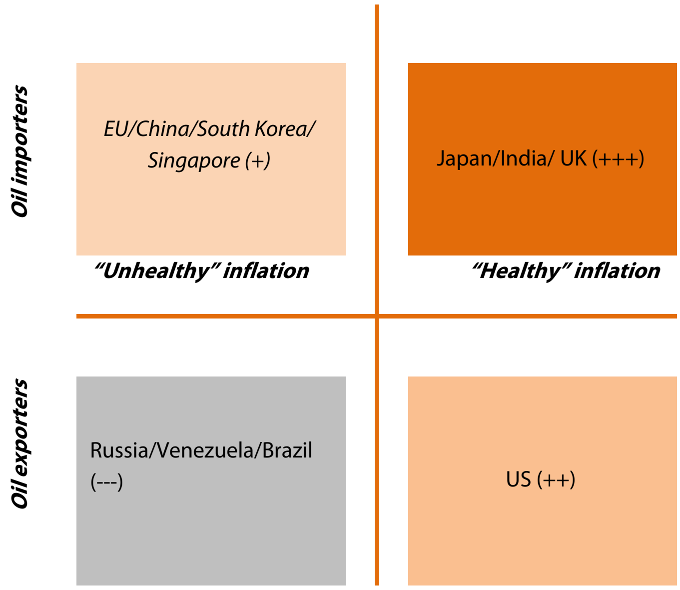
In the meantime, other central banks intend to take one step further in monetary expansion through rate cuts or the introduction of easing programs. For example, the BOJ launched a 30-billion stimulus package of in late 2014 which the ECB followed earlier this year with its own 1.1-trillion-dollar easing program (starting March, 2015). The PBOC (People bank of China) and BOI (Bank of India) have also followed these footsteps. In January 2015, India announced it would cut the key rate by 0.25 percentage points to 7.75%, the first decisive monetary action by the BOJ this year. Economists predict the wave of monetary easing will spread from developed economies such as Switzerland, Canada, Denmark… to developing countries like Thailand and Turkey.

The divergence in economic growth and monetary policies between the US and the majority of other economies leads to the forecast of a appreciation of the USD against other major currencies. *(See Appendix 1 (page 128) - **2015 World Economic indicator forecasts).***

Sharp fall in oil prices exacerbates risk in some nations. According to IMF, the index for commodity prices (except oil) has been in a downtrend since 2012, even before the emergence of oil glut in mid-2014. In the past, it was normal for commodity prices to fluctuate. However, the recent plunge of crude oil has added pressure to the fall in the commodity market. The World Bank predicts nine out of ten commodities will continue to decline in 2015 and the implications for many economies will be significant.

Japan, India and the UK are oil-importing countries, who will largely benefit as low oil price reduces inflation pressure while boosting domestic consumption. For other oil consumers (i.e. EU, China, Korea and Singapore, etc.), weak demand may dominate the benefits of oil price and may even increase the risk of deflation. Conversely, oil-exporting countries such as Russia, Venezuela and agricultural exporters like Brazil are busy dealing with rising prices in the domestic market. (see Table below)

The impact of lower oil price on economies



Source: Themarketmogul.com

Implications for Vietnam

1. **Export will benefit from a rebound in US demand**: The recovery of the US economy have usually had positive effects on Vietnam exports. In a more optimistic scenario, total exports could be bolstered also by the recovery of other major economies such as the EU and Japan.
2. **Cheaper commodities is a perk for Vietnam**: A decline in input costs should improve the profitability of manufacturing firms, especially those relying on imported raw materials. In addition, lower commodity prices would also have a positive effect on disposable income, which in turn would support consumption and bolster aggregate demand.
3. **There are risks for Vietnam from the divergence of global monetary policies**: A "currency war" would put the stability of Vietnam financial system at risk. In addition, as countries put more and more of their currencies into the VND would likely strengthen and the trade balance between Vietnam and these nations will be adversely affected.

2015 VIETNAM ECONOMY: HOPE FOR THE BEST

Ha My Tran (my.tth@vdsc.com.vn)

Key macroeconomic projections

	2013	2014	2015F		
			Scenario 1	Scenario 2	Scenario 3
Economic growth	5.42%	5.98%	5.86%	6.04%	6.21%
Trade balance (USD bn)	+0.09	+1.5	Na	Na	Na
Export growth	15.4%	11.6%	Na	Na	Na
Import growth	16.1%	15.9%	Na	Na	Na
Inflation	6.0%	1.9%	2.0%	3.0%	4.0%
Ceiling interest rate	7.0%	5.5%	5.0%	5.0%	5.0%
M2 growth	18.51%	16.00%	Na	Na	Na
Credit growth	12.51%	12.61%	13-15%	13-15%	13-15%
Budget deficit/GDP	5.3%	5.0%	6.0%	5.8%	5.3%
Exchange rate	21,036	21,246	21,670	21,670	21,670

Source: GSO, RongViet Research

Scenario 1, 2, 3 is corresponding to oil price at 40$, 50$ and 60$ per barrel, respectively

Vietnam is at the threshold of recovery.

In 2014, Vietnam's economy grew 5.98%, the highest rate of expansion since 2011. We see that the improvement in gross domestic product came from both private investment and manufacturing expansion. In 2015, we view the 3 factors below as the main drivers for economic growth:

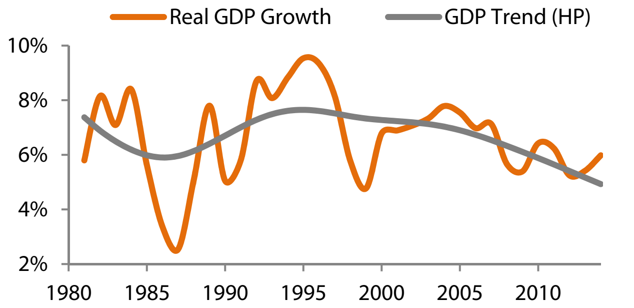
(1) *Manufacturing* has maintained its high growth thanks to the migration of electronic, automotive and textile-garment facilities from around the world to Vietnam. In February, the Vietnam Manufacturing PMI was reported above 50 for the eighteenth consecutive month, suggesting continuous expansion in the manufacturing sector.

(2) *Private investment* started to better last year thanks to a decline in lending rates. Furthermore, we expect *private sector consumption* to be underpinned by lower oil and gasoline prices.

(3) *State investment* could be influenced by constraints in the state budget; however, the decline of commodity prices could also bolster state consumption and contribute to growth of service sector.

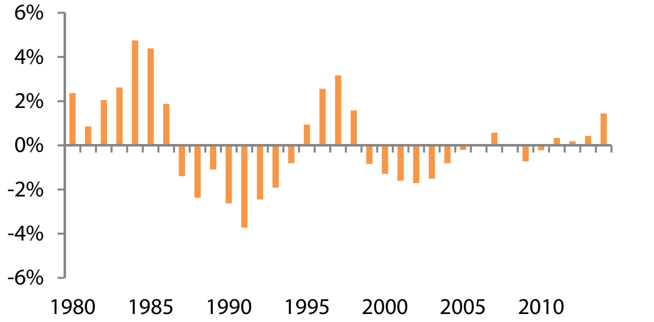
Using Hodrick-Prescott filtering methodology, we estimated long-term trend of Vietnam economic growth during the period of 1990-2014. Though the long-term trend line continued to fall in 2014, the gap between real output and the potential output was being widened, reaching the highest level since 1998. We saw an encouraging improvement in the contribution of total factor productivity (TFP) growth to the expansion of GDP. Since the trend of real GDP growth has reversed and real growth is now higher than long term potential growth, Vietnam economy must be right before the threshold to the expansion phase. Nevertheless, with base case crude oil price at USD50/bbl, our estimate for 2015 GDP growth is rather conservative at around 6%.

Vietnam economic growth trend (1980-2014)*



Source: RongViet Research
* % growth, base year 2010

The gap between real output and potential output (%)



Source: RongViet Research

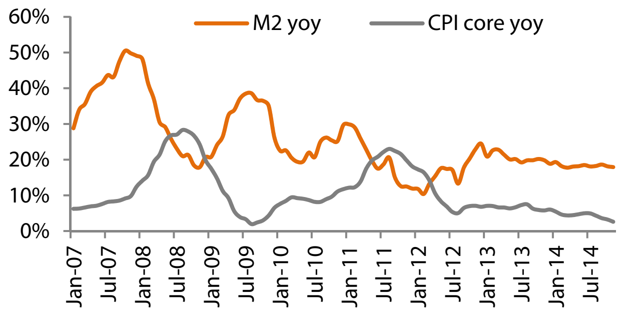
Inflation is at just the right level. We estimate that the long-run average of monthly consumer price index has dropped to 0% in late of 2014, meaning the prices for most goods and services have remained almost unchanged. Considering factors that likely have an effect on 2015 inflation, we suppose that CPI would be around 3% this year due to the improvement of consumer demand. Here are some key arguments:

(1) According to the forecast of World Bank, most commodities may continue to decline in prices in 2015, downtrend for four years running. In addition, low oil price could cause inflation expectation remain constant this year.

(2) Money supply (M2) growth has been stable between 16 and 19% for 3 years now while deposit growth has remained largely constant at 16%. This means that Vietnamese have been cautious about spending money and are instead saving for the future. Based on the movements of M2 and inflation, we suppose the risk of inflation as a result of money supply is relatively low.

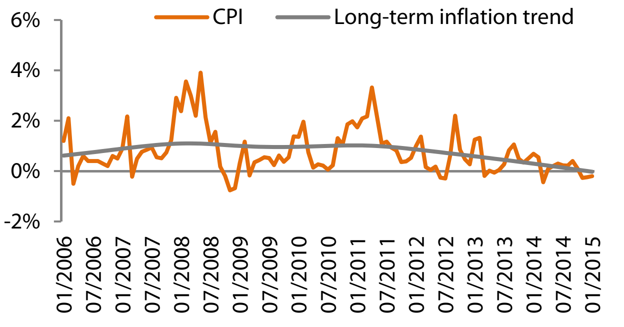
(3) However, inflation would likely increase under the influence of the higher prices for electricity, public services (schools and hospitals) and real estates. Besides, the possibility of oil price reversal is also noteworthy, especially in the second half of 2015.

M2 growth and Inflation



Source: RongViet Research

Inflation and long-term inflation trend



Source: RongViet Research

Investment is improving. We believe current investment environment has improved a lot from a few years ago. Under the new legal frameworks (2014 Investment Law and Enterprise Law), investment activities are expected to be more vibrant in 2015.

(1) State investment: According to the government 2015 budget plan, capital investment, the majority of which will be allocated to transportation infrastructure and public healthcare will be approximately VND195,000 billion, up 15% from 2014.

(2) Private investment: 2014 saw a remarkable increase in capital investment by the private sector, whose values almost dwarfed those of the other two sectors. This year, we expect the elimination of weaker firms would cease while the stable economy and interest rate declines would bring private investment to a higher level.

(3) Foreign investment: With the global economy caught in difficulties, foreign investment flows are not as strong as they used to be during the period of 2007-2008. However, stable growth of FDI disbursement has contributed greatly to overall macroeconomic picture. The migration of large electronics and textile makers to Vietnam would persist in 2015, ensuring steady growth of FDI flows.

Monetary policy:

1. Credit growth has maintained above 12% for the last two years, where we saw a shift of capital flows among sectors. Credit recovered first in agriculture, forestry and fishery then industry and construction, finally arriving at the trade and service sectors. In addition, the VAMC's has made some noticeable progress in its NPL clean-up efforts. By the end of 2014, the asset-management company had bought about VND123,000 bn of NPLs (or 3.2% of total lending). The institution plans to buy from VND70,000 to VND100,000 billion in 2015 to reduce the bad debt level to 3% of total lending. We expect credit growth to reach 13-15% this year.
2. Deposit and lending interest rates has fallen continuously in the last two years, now reaching its lowest level since 2006. The SBV aims to cut lending interest rate by another 1-1.5 percentage point, which goal we think is feasible given low inflation and the gradual disappearance of bad debts from banks' balance sheets. The SBV have also submitted to the government a preferential-rate package of VND50,000 billion for real estate lending, which could be considered as a signal of more easing monetary in 2015.

Fiscal policy:

1. In 2014, the budget deficit/GDP ratio was ~5% in the condition of high oil price, which averaged around USD103/barrel. This year's guidance was around 5%; however, we are concerned that budget deficit would increase because oil sales have been accounting for a large portion of total budget revenue (over 12%). With the base case crude oil price at USD50/barrel, we estimate the budget deficit/GDP ratio will increase to 5.8% this year.
2. Development capital expenditure plan is higher than last year, however, due to the difficulty of the state budget, we suppose that room for fiscal policy expansion will be limited. Investment/GDP ratio of the state owned sector is estimated at 12%, decreased compared to the level of 12.6% in 2014. Finally, the Government will seek private financing for infrastructure.

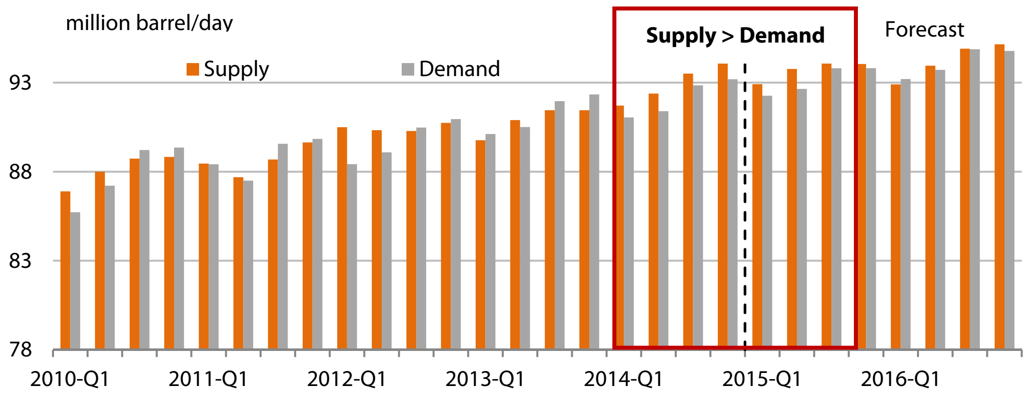
2015 main themes

In this report, we choose three main themes for Vietnam economy, considering the nature of the economy itself as well as external and internal forces that will evolve with it in 2015. We hope the topics below could provide investors with an unbiased insight of this year's economy to understand the impact of each factors on various industry, which is the cornerstone for the building of an efficient investment strategy.

Theme 1: The impact of lower oil price to the economy

EIA expect the current oil glut will last, at least until the late-2015 despite US oil producers decisively cutting rig counts since the beginning of the year. Therefore, a scenario of lower oil price throughout 2015 is more likely. Based on financial institutions' valuations and Bloomberg surveys, we establish a base-case scenario for crude oil in 2015 at about USD50/barrel on average. *(See Appendix 2 (Page 129) - Factors affecting oil price).* *At that price level, Vietnam may witness some remarkable changes from the perspectives of consumers, businesses and the government.*

Global oil supply and demand



Source: EIA

- **Consumers:** At the current level of gasoline prices (proxied by RON92 gas, which is now by 27% than 2014's average at VND17,280/liter), the demand for fossil fuels in 2015 is projected at 5 million tons. Given that number, we estimate that Vietnamese consumers would save ~VND30.000 billion (or nearly 0.8% of 2014's GDP and 10% of last year's increment retail sales). Such a significant amount reinforces domestic consumption and boosts the retail sales of goods such as **household appliances, educational equipment, transportation** and **imported consumer products**… Outside the direct impact on consumers' net income, the effect of lower gasoline price on the price of other goods and services is largely negligible. As evidence, the prices for the basket of consumer goods and services have remained mostly stable in the 6 months after oil started to drop.
- **Businesses:** The impact of lower oil price on businesses depends on the proportion of input costs related to oil and petrochemical products.

  A lasting decline of oil price directly affects the transportation sector (road, airlines, railway and waterway transport). While fuel price having decreased 30-40% in the last six month, freight rates have just dropped only 5-15% on average. Since fuel costs make up about a 25%-45% of COGS, transport companies should see significantly widened profit margins.

  Double tailwinds for producers of consumer goods. Compared to passenger carriage, the freight transport segment has seen rates decreasing at an even slower pace (3-5% on average). Therefore, firms' transportation costs savings have been largely modest. However, since an increase in consumption will expectedly lead to more carriage demand in terms of trip counts and volume, manufacturing companies will be the next beneficiary of falling gas prices.

  Companies that consume large amount of carbon fuels such as **steel, aluminum, aluminum, fertilizer** producers or those whose inputs are based on crude oil such as **plastic, synthetic fiber, rubber tire** companies should also benefit from lower oil price.

  Conversely, firms in oil drilling, production and trading (i.e. PVN-related companies) will feel the heat if oil remain at its current price for an extended period.
- **Government:** Oil revenue made up about 12.6% of the government's 2014 total budget income, a record in relativity to the 2011-2013 period. In 2015 budget plan, a percentage of oil revenue to total budget income is about 10.2%. However, we believe that lower oil price will factor into an increase of this year's budget deficit. Specifically, (1) income taxes paid by Oil&Gas companies make up 35% of total corporate income tax, the largest line of tax in term of budget revenue contribution (~26%). (2) Resource tax on oil exploitation accounts for a 75% of total resource tax or 4.7% of total budget revenue. (3) In early 2015, the Department of Finance raised import taxes on different line of oils and gasoline products to 30-35%, much higher and the average range of 15-20% in 2014; however, with oil now only cost half as much as it did 2014, the increment amount resulting from tariff

increases should not be able to compensate for the larger impact of lower oil price on import tax and VAT revenue. Under 2015's average oil price forecast of USD50/barrel, we estimate oil revenue will decrease by 40% year-over-year while government budget deficit as a percentage of GDP will climb to 5.8%.

Theme 2: Vietnam competitiveness from different angles

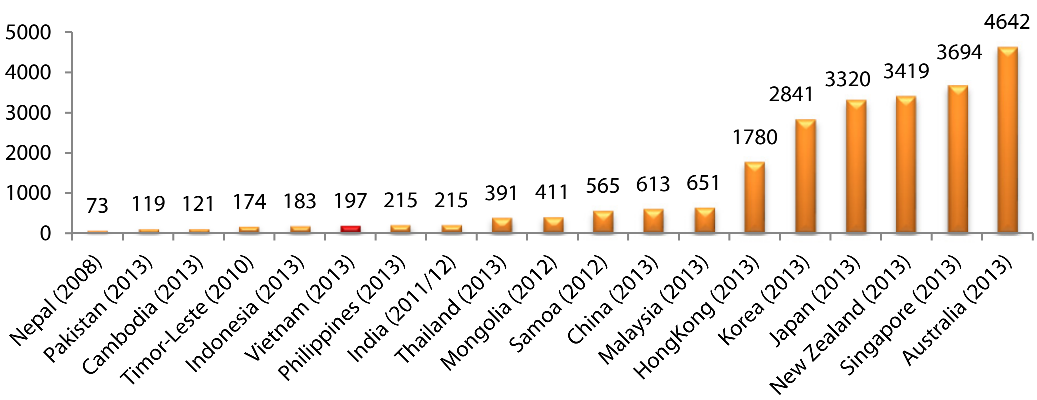
We choose this topic as the main topic for Vietnam economy in 2015 because of the heat of integration into the global economy. In nature, Vietnam is still a country with comparative advantages in low labor cost and resources. Besides, regulatory policy though has good sense of direction but there is no free lunch for stability.

❖ **In region, Vietnam has the advantage of young population and low-cost labor**

According to the 2014 Global Competitiveness Report, Vietnam ranked 6th among emerging and developing Asian economies, up two notches from the previous year. However, the advancements of other countries in region were even better. Among a set of evaluation criteria, Vietnam has the highest rankings in market size and labor market efficiency, also two of the nation's greatest competitive advantages.

At 2014 year-end, Vietnam population was estimated at 90.73 million, up 1.08% from a year earlier where, working-age population accounted for 60% of total population and was 1.4% larger than in 2013. Age dependency ratio was reported slightly below the 50% threshold at 44%, indicating "golden-age" demographics. Meanwhile, according to a report by Morgan Stanley*, many Asia-Pacific economies, including China, Korea, Singapore, Taiwan, Thailand, Hong Kong, whose population is ageing, would face zero growth in the working age population in 2015 and contraction from 2016. This partly explains the high percentage of FDI from those countries to Vietnam (top 10 of pledged capital).

Monthly average wage of some countries in Asia-Pacific region



Source: ILO

Aside from the advantage of young population, low labor cost is one of Vietnam's attractions in the eyes of foreign investors. The latest Global Wage report showed that average monthly wage in Vietnam is just about USD197, below that of most Asia-Pacific countries and considerably lower than China (~USD613). The report also pointed out that China is no longer rely too heavily on its low labor cost but instead competing on productivity a situation where the nation's economic strength has shifted to higher value-added industries such as automotive, telecommunication equipment…) from labor-intensive industries like textile and footwear. The latter group, however, is where Vietnam has the advantage. On a scale from 1 to 7, Vietnam's competitiveness scores 2.6 (the Global Competitiveness Report 2014-2015), reflecting the nation's dependence on lower labor cost and resources.

**Asia Pacific Economics: The 3D Challenge 20/01/2015 – Morgan Stanley*

❖ Integration and its impact on industries

"Free trade is not based on utility, but on justice" – Edmund Burke

Global integration is the term everyone's talking about now that Vietnam has entered the final stage of the Trans-Pacific Partnership (TPP) negotiations. While TPP has yet to conclude, Vietnam finally signed the Free Trade Agreements (FTAs) with Korea and the Custom Union of Russia, Belarus, and Kazakhstan (VCUFTA) in late 2014. In 2015, the conclusion of other important FTAs, in our opinion, will continue to be a vision that keeps the economy optimistic. The underlying principles of integration are free market and fair competition, which we believe will bring both opportunities and challenges for the economy. With regard to export market expansion, industries that are more competitive from a global perspective would benefit while those that have long enjoyed a high level of government protection or subsidies would be caught difficulties.

Concluded FTAs:

- FTA Vietnam-Korea: Korea became the biggest FDI investor in Vietnam in 2014. The prospect of attracting new investment and technology transfer seems much brighter after the FTA was signed. Besides, the **fishery** industry would be one of the first to be advantaged by the lifting of export tariffs.
- VCUFTA: Russia is the most important market in the Custom Union, however, the Russia-Vietnam trade just accounts for a small portion of the aggregate export-import value. Considering recent difficulties faced by Russia on top of the ruble's plunge, we do not expect the VCUFTA to bring consequential benefits for the economy in 2015.

Vietnam trade balance with countries in TPP, AEC and VCUFTA

Data in 2014 (Unit: million USD) (-) Deficit/(+) Surplus

ASEAN	**-6,510**						
Indonesia	-2,208	Myanmar	+211				
Philippines	+1,645	Laos	-331				
Thailand	-6,510	Cambodia	+2,041				
				Kazakhstan		**VCUFTA**	
				Russia	+907	Belarus	
Malaysia	-263	**VIETNAM**					
Singapore	-3,894	Brunei	-68				
		United States	+22,371	Japan	+1,795	Australia	+1,932
		Mexico	+772	Canada	+1,695	New Zealand	-162
TPP	**+24,422**	Peru	+89	Chile	+154		

Source: RongViet Research

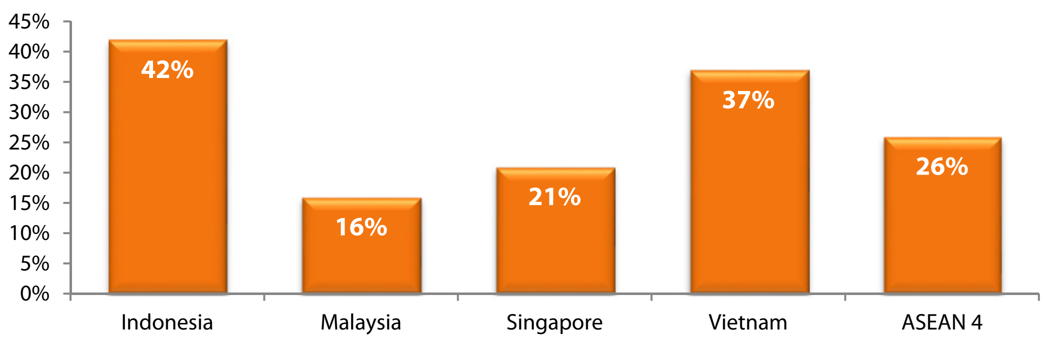
Trade agreements in negotiations:

- TPP: Relative to the other TPP members, Vietnam has an edge in agricultural goods, resources and labor-intensive products**. These merchandises make up a very large proportion of exports and are tied to the country's advantages. However, because Vietnam's agricultural products and export materials are usually subject to pricing and technical barriers, the expansion opportunities brought forth by the TPP will be most material for the more labor-intensive segments of the manufacturing sector (i.e. **textile-garments, handbags, leather and footwear, furniture, fabrics and telecommunication equipment**). On the contrary, the opening of the domestic market could have negative implications for **husbandry and dairy products and animal feed** because there are other economies in the TPP who can make these goods with greater efficiency. Some even have an edge in export seafood, implying that there would be increased competition among seafood producers within the TPP if the trade pact is struck. Besides, stricter protection of intellectual property in the pharmaceutical industry could increase production cost and restrict local firms' accessibility to the technology needed to make essential drugs.

- FTA Vietnam - EU: According to a research by MUTRAP, the boons for Vietnam in this agreement include: (1) more foreign direct investment to the service sector; (2) strengthened export in particular items (i.e. **textile, footwear** and **seafood**); (3) technological advancement through the imports of **electronic equipment** and **machineries**. However, it is important to note that EU now has its own problem and EUR is dropping fast. That means the tailwinds for Vietnam would only come if the ECB's QE program succeeds in re-igniting growth the Eurozone.
- ASEAN Economic Community (AEC): 2015 marks a turning point in economic integration process of the ASEAN region, which has 3 pillars: (1) a single market and production base; (2) a highly competitive economic region and equitable economic development; (4) a region fully integrated into the global economy. Research suggests that the impact of the AEC on Vietnam will be insignificant due to the inherent similarities that have caused Vietnam and other ASEAN economies to compete with each other for both export market and foreign investment **. Under the new tariff scheme imposed by the Ministry of Finance, most lines of tariffs against ASEAN goods will be cut down to zero. Specifically, import duties on at **food, confectionaries, household goods, furniture, jewelries, textile products, garments, footwear, paper, natural rubber and rubber tires** among other merchandises will also be brought down from 5% to 0%, brushing a gray stroke on the landscape of competition. For the **automotive** industry, import duties is maintained at 50% in 2015 but set to retreat to 0% between 2016 and 2018, while import tariffs on automobile parts (i.e. **batteries, engines, etc.)** will be brought down to 0% as soon as this year.

*** Vietnam Economic Annual Report 2014, Vietnam National University, Hanoi** Vietnam Economic Annual Report 2014, Vietnam National University, Hanoi*

Average usage rate of FTAs in ASEAN



Source: EIU, HSBC

The near-future integration could change the face of Vietnam economy in many ways. The primary concern, however, is how (or whether) the opportunities will be capitalized. In accordance with the survey results of the EIU, the average percentage of Vietnam exporters saying they are able to fully utilize the opportunities brought free trade agreements is the second highest in the ASEAN region, yet remains low at 37%. Meanwhile, the Institute of South East Asian Study says the perception of Vietnamese businesses about the AEC is limited where 63% of the surveyed subjects responded that the AEC has little to no impact on their business. Looking forward to the FTAs, foreign companies has already begun to capitalize on the opportunities through increased investment to set up manufacturing facilities in Vietnam. On the contrary, domestic firms and farmers (who may be adversely affected by the trade agreements) have yet to acquire a long-term and integration-oriented vision.

❖ **Concerns on pegged exchange rates**

The current stability would promote instability. - Hyman Minsky -

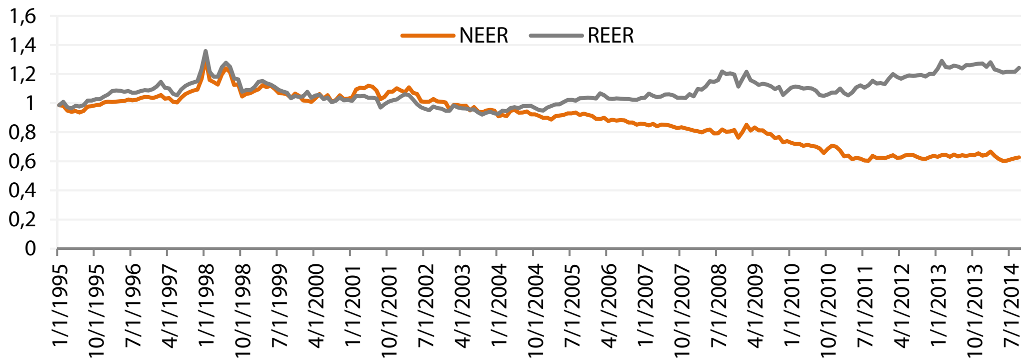
In 2015, the SBV would continue to promote the stabilization USD/VND exchange rate, promising no more than 2% of depreciation (if any). Under current conditions, we suppose that this goal well within the central bank's reach. In this case, however, we find the saying of American economist Hyman Minsky, "Stability is unstable", particularly meaningful when trying to visualize the future path of USD/VND exchange rate.

Earlier this year, the central bank of 12 countries around the world including some of Vietnam largest trade partners, i.e. China, India, Australia, announced monetary easing. Similarly, ASEAN countries such as Singapore, Indonesia and Thailand are inclined to adapt this measure as a tool to spur growth and tackle deflation. The global easing trend, coupled with the rebound of the US economy has pushed the dollar index to its highest since 2003, an 18-percent increase from June, 2014 to the date of this report.

For the past three years, the SBV's monetary policy has unintentionally pegged the VND to the USD, implying that the local currency will appreciate as the USD strengthens against other currencies. We has calculated that after the sharp adjustment in 2011, Vietnam's nominal effective exchange rate (NEER*) has remained mostly stable while the real effective exchange rate (REER**) has been trending upward. The escalation of the REER suggests Vietnamese goods are becoming increasingly expensive and thus less competitive compared to goods produced in other countries.

In early January, the SBV announced a 1% adjustment in the average interbank rate to offset part of the effect of USD appreciation. However, it is undeniable that Vietnam export goods are in fact becoming more and more expensive while our import goods are getting cheaper. This is the type of instability we are thinking of. In order to draw a decision on exchange rate adjustment, we believe SBV is considering others factors, including public debt and foreign investment.

NEER/REER movement (base year: 1995)



Source: RongViet Research

** NEER: the relative value of VND currency compared to the most 20 major currencies being traded*

*** REER: the real value (adjusted for the effects of inflation) of VND currency compared to the most 20 major currencies being traded*

Since 2011, export growth of most major goods has decelerated dramatically, while import growth of some goods has accelerated. *(See Appendix 4 (page 131) - Major export-import goods growth of Vietnam)* According to Vietnam Customs, total export value in Jan, 2015 increased by 17%yoy but total import value grew by 37.4%yoy, trade deficit balance in the first month signals a challenge year for external growth in the context of the FTA negotiations have not been finalized yet. In case of the volatility of global currency affects negatively to Vietnam trade and the stability of macroeconomic, we suppose that it is possible that SBV would change exchange rate policy.

From above analysis, it can be seen that there is more and more competition, especially in the global integration environment, Vietnam economy reveals more and more weaknesses. In order to overcome those weaknesses, there is nothing else to do by modifying inside. Current restructuring process is expected to bring "quality" shifts, though not hoping for an obvious change in 2015, but we think this year will be positive for the whole economy, optimism because of changing, must be changed and continuing to change in order to adapt to world environment.

Theme 3: Restructuring changes quality framework

In this section, we choose some criteria to evaluate some quality changes in terms of restructuring progress during the past three years instead of quantity changes. (Table below)

Change in quality seems that a combination of many factors, however, this is a part of restructuring reform. It contains both benefits and drawbacks when compared with the previous period. Based on below indicators, we supposed that change in quality is relatively humble.

Indicators of quality changes in the restructuring process

	Indicator	Source	Unit	2010	2011	2012	2013	2014	Evaluation
1	Labor productivity	GSO	%	3.6	3.5	3.1	3.8	4.3	Labor productivity improved in the 2013-2014 period; the contribution of total factor productivity (TFP) growth to GDP growth reached 23.6% during 2011-2013, the highest as compared to 2001-2005 and 2006-2010 period.
2	Voice and Accountability	WB	Point	7.6	8.5	9.48	11.8	N/a	The quality of government management improved significantly with an upgrade in voice and accountability in 2013
3	Transparency of government policymaking	WB	Point	45.9	47.4	44.5	44.0	N/a	The efficiency of the government decreased in 2013
4	Efficiency of legal framework	WB	Point	28.2	31.3	27.3	28.2	N/a	Efficiency of legal frameworks advanced in 2013. Even without the survey result of 2014, newly released legislations concerning the business and investment environment are expected to provide an improvement in this factor.
5	Control of corruption	WB	Point	31.4	30.8	35.4	36.8	N/a	The control of corruption criteria witnessed positive movement from 2012 to 2013, which may have led to improvements in the public's confidence in the government.

6	Index of Economic Freedom	Heritage Foundation	Rank	49.8	51.6	51.3	51	50.8	The index of economic freedom slowed between 2011 and 2014 but is expected to improve in 2015 to 51.7, the highest ranking until now.
7	Financial market development	GCI	Rank	65	73	88	93	90	Vietnam's ranking in financial market development improved slightly in 2014; among sub-indicators, loan accessibility ranking advanced while that of banking system transparency remained unchanged.
8	Infrastructure	GCI	Rank	83	90	95	82	81	Infrastructure investment ranking was up one notch from 2013, to 82, the highest ranking in 5 years.
9	Investment efficiency (ICOR)			6.2*		5.6		5.2	Vietnam's ICOR slowed in the three years to 2014, reflecting improvements in public investment and corporate restructuring.

Source: RongViet Research

** 2006-2010 period*

2015 is the last year of the restructuring process. In Resolution No.86, the National Assembly added some important targets regarding the improvement of restructuring efficiency:

(1) The restructuring of industries, sectors and municipals have to finish by 2Q2015. In early 2015, after the restructuring plans for the industrial and trade industry and the transportation industry were passed, the restructuring plan for the construction industry gained the government's approval.

(2) To bring about a change of quality in 2015 with the aim to enhance productivity and develop the labor market in compliance with the restructuring process, which include balancing labor supply and demand, reshaping market structure, nurturing manufacturing, processing and supporting industries and enhancing the links between provinces…

(3) Completing and submitting to the National Assembly the planning of industries and regions.

(4) Constructing the economic restructuring plan for the 2016-2020 period and the National Assembly's review in the October meeting.

(5) Strongly employing solutions to achieve goals and targets in the 2011-2020 Socio-Economic Development Strategy.

We believe the key takeout in 2015's restructuring process is the word "**STRONG**". From this, the economy is set to make important achievements in term of quantitative changes during the process of reforming the banking system, public investment and State enterprises.

STOCK MARKET 2015: SMART MONEY WILL FLOW TO THE LOW

Lam Nguyen (lam.ntp@vdsc.com.vn)

Tuan Huynh (tuan.hm@vdsc.com.vn) – Nam Huynh (nam.hk@vdsc.com.vn)

Under the guidance of leading stocks and the support of the FII, the cash flow in 2014 was active and "healthy" in the 1H/2014. However, the over-excited and the speculation wave increased the risky level of the market, which made Index plummeted in the last months of 2014. In 2015, we believe that the market will face more challenges than 2014. The recovery of macroeconomic and the restructuring of State enterprises will increase the supply for the stock market. Meanwhile, the monetary policy of the State Bank can limit the speculation wave by Circular 36.

However, among the investment channels including real estate and foreign exchange market, the stock market is still the most attractive investment option because:

- *The efficiency performance of listed companies will be improved through lowering borrowing costs as well as manufacturing costs as consequence of the general downward trend of interest rates, oil prices and commodity inputs. Moreover, the enterprises focusing on their core business and promoting their competitive advantage would probably benefit more when the FTAs are signed.*
- *Stable macroeconomic circumstances and recent administrative reforms may contribute to enhance the competitiveness of Vietnam's stock market while the foreign capital inflows are expected to remain plentiful because of the stimulus policy in developed countries. In fact, after the net sold period in the end of 2014, foreign investors have turned to buy strongly on Vietnamese stock market in the first two months of 2015.*

The sharp decline of the VNIndex in the second half has made the Vietnamese stock market with the lowest P/E and P/B compared to the regional markets such as Malaysia, Indonesia, Philippines and Thailand. Our two-stage dividend discounted valuation model have shown that given current macroeconomic conditions, the intrinsic value of VNIndex may be within 561 and 718, corresponding to our worst-case and best-case scenarios. In our base case scenario, VNIndex is valued at 633.23 point, also the level we expect the index will close at the end of 2015.

About the cash flow trend, we believe that instead of simply pouring into the "restructuring" enterprises as 2014, in 2015, cash flow would be more selective and focusing on the business performance, as well as the feasibility of the restructuring plan.

Positive macroeconomic and restructure plan of State Enterprises are expected to become a new supply for the stock market in 2015 from three main sources (1) State Enterprises will be equitized, (2) companies are divested by SCIC and (3) companies have planned to be listed or issue additional shares in 2015. Despite the abundant and diversified supply, ability to attract cash flow will depend on the degree of legal framework improvement as well as the quality of goods.

Improving the legal framework to accelerate the equitation process and sell State Enterprises

In 2014, the number of equitized SOEs is 143 and the number of businesses sold by SCIC is 72. Thus, there will be approximately 67% of SOEs which need to be equitized and 76% of businesses which will be divested by SCIC in 2015, including many leading corporations such as Vinalines, Vinarails, Shipbuilding Industry Corporation and Vietnam Airports.

To ensure implementation of the equitation and divestment as the 2014-2015 plan, the legal framework to address shortcomings such as delay after the IPO, the high holding proportion of the government…. is gradually adjusted and improved such as (1) The Decree 51 (effected from 01/11/2014) allows divestment price under par value and require a higher level for SOEs to be listed (the IPO companies is to be listed on UpCOM and the official stock exchanges after maximum three months and one year, respectively); (2) the Decree 128 (effected from 01/03/2015) is considered to be the solution to overcome those difficulties by permit the method of direct selling agreement if there is only one valid order. According to the provisions of the Decree 128, foreign investors will be allow to purchase Vietnam companies without limited proportion (except for some industries having specified rate limit).

Exhibit: IPO results and SCIC divestment in 2014

	IPO SOEs		SCIC divestment	
	Number	**% performed**	**Number**	**% performed**
2014 – 2015 plan	432	100%	298	100%
2014 performance	143	33%	72	24%
Remaining	**289**	**67%**	**226**	**76%**

Source: RongViet Research

However, in the context of cash flow in 2015 likely to be limited by Circular 36, we believe that the process of equitation of SOEs and divestment would probably be lasting longer than the current plan for 2014-2015.

Wave of additional issues: Goods are not accompanied by quality

The trend of issuing rights to purchase shares for existing shareholders in 2009 - 2010 helped many listed companies to raise capital and obtain large surplus. However, the statistics of RongViet Research shows that after that trend, net profit growth of listed companies has not kept pace with the growth of capital. Accordingly, the 2012 - 9T2014 average growth of equity capital is around 7.2%, but the net profit growth was only 2.2%. The total market ROE in 2011, 2012 and 2013 is respectively 11.2%, 13% and 10%.

Exhibit: Capital and PAT growth (2011-2014)

Billion VND	**2011**	**2012**	**2013**	**Q3/2014**	**3-year average**
Capital	244,893	269,118	291,910	301,585	
% change		9.9%	8.5%	3.3%	7.2%
Profit after tax	48,086	47,018	60,586	48,470	
% change		-2.2%	28.9%	-20.0%	2.2%

Source: RongViet Research

The "limp" between capital increase and net profit growth shows that funds raised from the additional issue has not been utilized effectively and then impacted negatively on those stock prices. This circumstance has made investors be more cautious. The trend tended to come back in 2014, but the success rate was quite low, with only 66.3% while many companies in the covered list of RongViet Research said that they are considering issuing additional shares to existing shareholders in 2015. In the context of the investors having many other choices, the companies need to prove the efficiency of additional fund to achieve a higher success rate.

Exhibit: Additional issues in 2014

	Companies	**Total issued volume**	**Implemented volume**	**Proportion**
Convertible bonds	17	202,343,780	199,449,150	98.6%
Bonus shares	69	1,167,485,201	968,944,195	83.0%
Issued to employees	58	73,239,762	37,081,520	50.6%
Additional issues	93	1,893,646,425	884,376,896	46.7%
Buying right for existing shareholders	**60**	**1,309,436,582**	**868,760,463**	**66.3%**
Dividend by shares	66	1,090,372,416	949,222,568	87.1%

Source: Stoxpro, RongViet Research

While the source of goods for investors is likely to be more abundant and diverse, the banking loans for investing may be decreased due to the State Bank monetary policy through Circular 36.

In short term, the Circular 36 is a barrier to absorption of supply

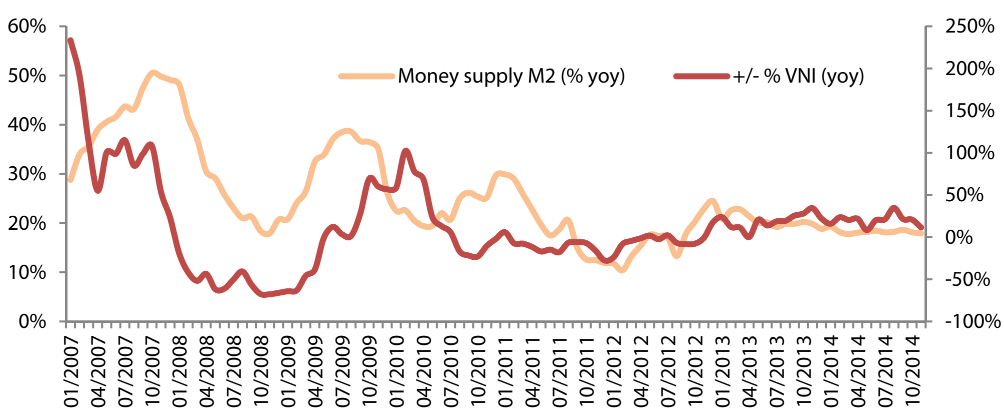
According to the data of the State Bank until 31/11/2014, the total equity capital of the banking system is VND 435,287 billion. According to the Circular 36 and assuming that all banks are eligible for stock investment lending, the total available capital that banks can lend for securities investment is VND 21,764 billion, 7.3 times higher than the average trading value of the two stock exchanges in 2014. By looking through this data, the Circular 36 does not have any impact on the stock market. However, according to the VSD, the total loan portfolio for both banks and securities companies at the beginning of 2014 is VND 38,000 billion, higher than the total capital available for lending by the banking system. So, if including unlisted stocks, credit for business and investments have exceeded the regulated level and will be gradually reduced in the future. However, we believe that the impact of this regulation on the stock market will not be drastic as the Circular is not retroactive. Given low interest rates, the securities company can turn to alternative funding sources.

In the long term, Circular 36 is the necessary solution for securities companies in diversifying sources for funding debt of equity investment.

According to the figure below, the growth of the M2 money supply and VNIndex shows certain correlation between the stock market volatility and M2 of the banking system. In the period 2007 - 2011, when the state bank's monetary policy was expanded/contracted, the stock market's volatility was also increased/decreased sharply, respectively. However, since the end of 2012, the M2 money supply growth has not been fluctuated, the VNIndex has also become more stable. This implies that the recent stock market volatilities have been significantly associated with the state bank's implement on the money market. We suppose that the regulation about reducing the ceiling level of loans for securities in Circular 36 will make the stock market more stable and become a strong motivation for securities companies restructure to be more dynamic in diversifying their funding sources, decreasing their reliance on bank loans.

We find that some large securities companies have taken concrete steps such as (1) Issuance of bonds or (2) issuing more equity capital typically such as SSI with successfully VND 500 billion issuance, VCBS releasing VND 300 billion (increasing the total bonds issued up to VND 500 billion) and expected to issue approximately VND 200-300 billion by the end of second quarter of 2015.

Movement of M2 supply and VNIndex (2007-2014)



Source: RongViet Research

Despite extended pressure from the supply side and further restriction on funding sources for share investing, 2015 equity market still remains an attractive investment channel due to (1) an optimistic perspective on macroeconomics, (2) Positive outlook for listed companies on improving profit margin thanks to declining interest rate and decreasing manufacturing costs as a consequence of falling global commodity prices and (3) Stimulus packages from many developed countries may result in more low-cost funds flowing to Vietnam.

Vietnam continued to collect positive ratings

In particular, ADB has upped Vietnam's economic prospect for 2015 with forecasted GDP of 5.8%. Fitch Ratings, one of the credit rating agencies, also raised Vietnam's long-term foreign and local issuer default rating to B+ from BB-, while the outlook was revised to 'Positive' from 'Stable'. At the same time, Moody's also upgraded Vietnam's government bond rating to B1 from B2 with "Stable" outlook.

On 2015 business prospect, companies whose operations are highly related to commodity price fluctuations would probably have profit margin improved.

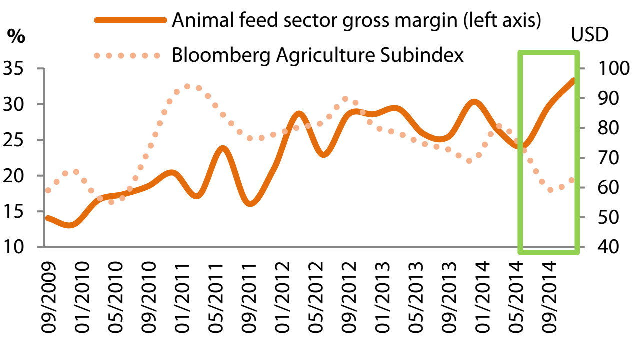
In 2014, Bloomberg commodity index showed a decrease of more than 17%, WTI oil price declined by 45.8% and A92 gasoline also fell by 26%. The downtrend in commodity price is predicted to remain in 2015. To measure the resulting impacts of falling commodity prices on companies' profitability, we have conducted a survey on industries whose commodity expense takes up a large proportion in total expenditure structure *(See Appendix 5 (page 132)- Influence assess of commodity price on some industries).* Through the survey, we found that:

Industries whose selling prices are less correlated to changes in commodity prices are to reap the most benefit. Those are industries that usually have a limited number of players meaning low rivalry of competitors with product selling price easily determined or colluded by several leading companies.

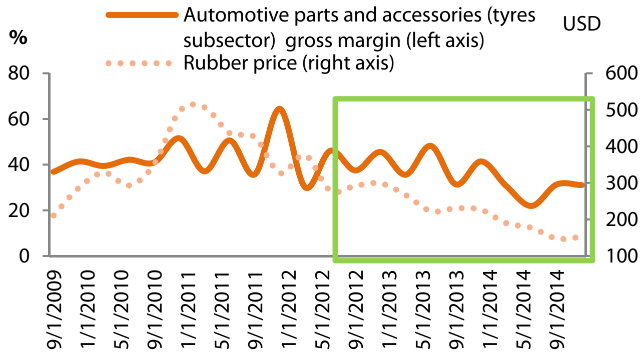
Industries that experienced a decline in input price in the second half of 2014 will have more chances to improve their profit margin. Under our observation, product selling prices are usually adjusted to reflect fluctuations of input prices in the market. In 2015, we believe that those industries that already saw significant decline in price of input before 2014 would have less room to benefit relatively to those that have just experienced input price fall recently. However, companies manufacturing low value-added products, operating in international market, or having low import-export constraints…, could face difficulties when commodity prices continue the downtrend. Gross margins of such industries are usually low, for example, steel industry (5.2%), oil and gas distribution (6.6%).

Relationship between gross margin of industries and relevant input prices

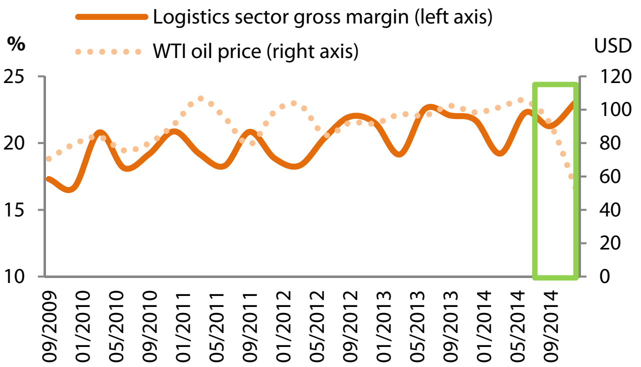
Animal Feed sector



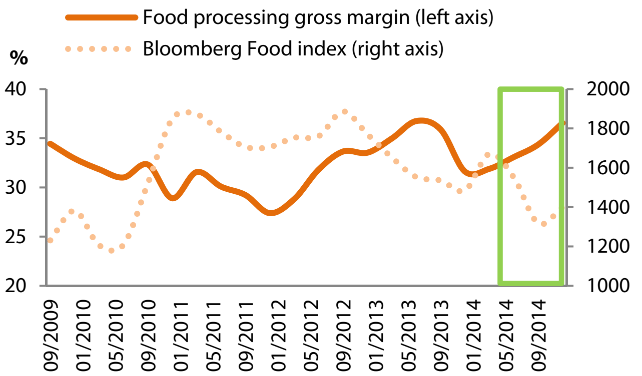
Automotive parts and accessories (tires subsector)



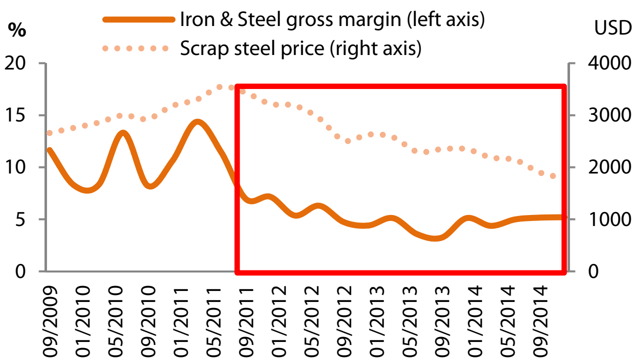
Logistics sector



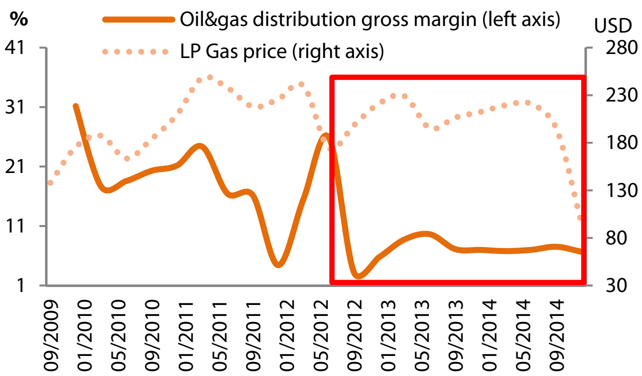
Food processing sector



Iron & steel sector



Oil & Gas distribution



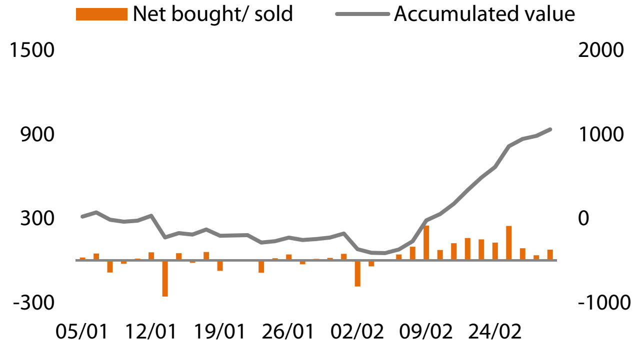
Source: Bloomberg, RongViet Research

Overseas capital flows continue to play an active role in Vietnam share market

With the above analysis, growth opportunities do present for both Vietnam economy in general and enterprises in particular. To speed up the restructuring process, policy framework has been gradually revised to reflect more reality issues and the accessibility of foreign investors to quality companies' shares is becoming less restrictive (IPO of state owned companies and additional issues). Those are vital factors to attract more overseas capital flow to Vietnamese share market.

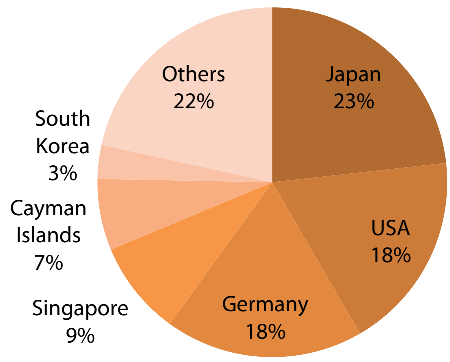
Regarding reciprocal fund source, we highly expect overseas capital flow to come from Japanese and European investors. Our statistics showed Japanese and European capital flow (especially Germany) account significant proportion in the Vietnam share market at 23% and 18%, respectively. In addition, those countries already have plans to implement economic stimulus packages in 2015. Specifically, the European Central Bank (ECB) launched a stimulus program worth EUR 1.1 trillion (~USD 1.3 trillion) and will maintain the record low interest rate at 0.05%. Meanwhile, Japanese Central Bank nearly doubled its stimulus package from Yen 50,000 billion to Yen 80,000 billion. Given the relatively stable and improving macroeconomic conditions, Vietnam is highly likely becoming a destination for that overseas capital flow. Our collected data also shows a net-buying figure of VND 983.2 billion from foreign investors after holding net selling position in the last two months of 2014.

Net daily trading volume and accumulated value of foreign investors (VND billion)



Source: RongViet Research database

The foreign fund structure in Vietnam share market by countries (top 100 largest market cap tickers)



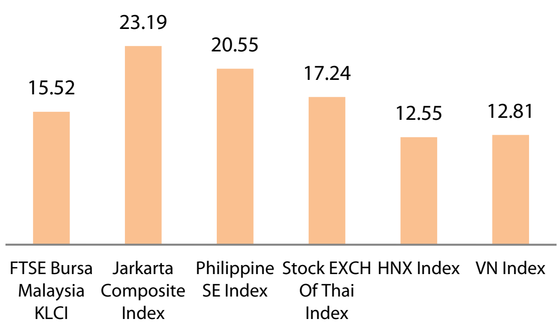
Source: RongViet Research

Vietnam stock market is still attractive and VNIndex is expected to vary between 561 – 718 this year.

VNIndex's PER and PBR are lowest, compared to the other markets in South Asia area. Besides, after collecting PER and PBR data of VNIndex, we see that the ratios at the end of 2014 have slightly increased from 2013 yet lower than the level of 2006 – 2009.

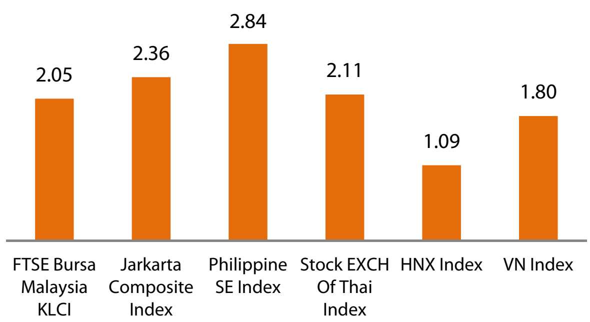
To determine the reasonable range of VNIndex's variation in 2015, we have employed the two-stage dividend discount model, whose results have shown that given current macroeconomic conditions, the intrinsic value of VNIndex may be within 561 and 718, corresponding to our worst-case and best-case scenarios. In our base case scenario, VNIndex may close at 633.23 at the end of 2015. *(See Appendix 6 (page 133) – Define VNIndex index using two-stage dividend discount model)*

Vietnam market's PE relative to other regional markets



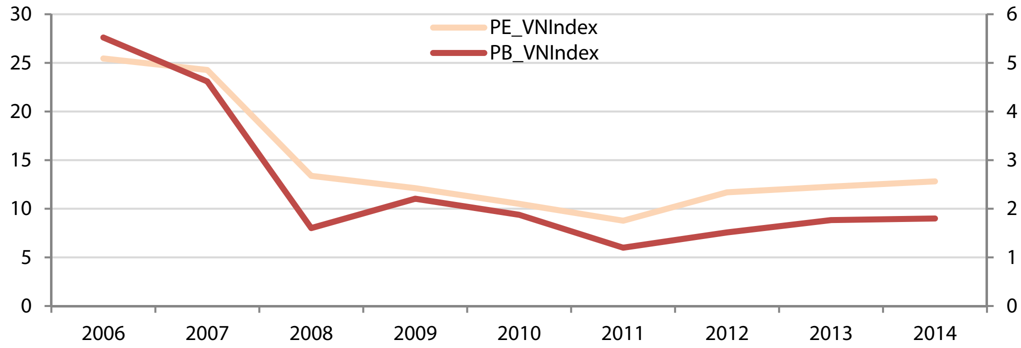
Source: RongViet Research

Vietnam market's PB relative to other regional markets



Source: RongViet Research

Vietnam market's PE and PB in 2006-2014



Source: RongViet Research

Risks

Outcomes of restructure processing. Our economy has been restructured and 2015 is the last year of the 1st stage restructuring, in which banking is the most important point. Looking back to 2012 – 2014, we see that restructuring implementation always results unexpected event, which sometime shocks investors.

Recovery of economy, the possibility of capital sharing among investment categories. In which, we assume that foreign currency investment and risk of forex variation will effect on stock market most due to equivalent liquidity characteristic. Our macro data shows that difference between real effective exchange rate (REER) and nominal effective exchange rate (NEER) has widened, intensity and frequency of exchange rate fluctuations on the free market and the banks are increasingly powerful and more. These signs show that the pressure on the VND devaluation (higher than SBV's plans at 2%) are growing and may create some "crazy" wave, especially in the seasonal periods and negatively impact on the stock market.

Besides, some other worldwide risks should be closely looked at. In which, investors should pay the most attention on 3 factors (1) The territorial dispute between Vietnam and China, (2) economic recession and political turmoil in the Eurozone, which is the largest export market of Vietnam and (3) The uncertainty politics and religion are increasing in many areas of the world.

SECTOR OUTLOOK

&

PREFERENCE STOCKS

SECTOR OUTLOOK

Doan Thi Thanh Truc (truc.dtt@vdsc.com.vn)

At the doorway of recovery, there are plenty opportunities for expansion; however, the challenges are also present. In this picture, capital-intensive businesses will reap the benefits of low interest rate; strengthened consumer confidence will aid to the profits of consumer goods manufacturers; and the TPP, along with other FTAs, will shake up Vietnam's industries of strength, i.e. textile-garments, seafood while providing more subtle support for logistics. That is not to mention banking and real estate, sectors that should advance fast on the path of recovery given their great many incentives and whose revival would help reignite growth for both the construction and building material industries.

For other sectors, competition is on the rise and opportunities are accompanied by growing obstacles. Our five-factor rating system (see below) also shows some changes in our outlook for the various industries.

Sector qualitative ratings

Sector	2015 Supply-demand	Input	Legal environment	Long-term growth potential	Technological development	Competition	Total score	Rating
Personal goods – Textile & Garments	++	+	+	++	+	-	4.3	Positive
Construction	++	-	++	++	+	-	4.2	Positive
Real estate	+	-	++	++		-	4.2	Positive
Logistics	+	+	+	++	+		4.2	Positive
Banking	+	+	+	++	+	-	4.2	Positive
Building materials	++		+	+	+		4.1	Positive
Automobile retail	++	+	+	+		-	4.1	Positive
Packages	+	+		++	+	-	4.1	Positive
Automotive – Rubber tires	+	++	+	++	+	-	4.1	Positive
Utilities	+		+	++		-	4.0	Positive
Household goods	+	++		+	+	--	4.0	Positive
Food & Drinks	+	++	-	++	+	- -	4.0	Positive
Electronic retail	++			+	+	--	3.8	Neutral
Healthcare	-	+	+	++	- -	- -	3.1	Neutral
Fishery	-	+	+	+	-	-	2.9	Neutral
Non-life insurance	+		-	++		- -	2.6	Neutral
Chemicals – Fertilizers	-	+	-	-		-	2.5	Neutral
Oil & Gas	--		-	+		-	2.4	Neutral
Industrial metals		+	-			--	2.4	Neutral
Chemicals – Natural rubber	-	+	-	++	-	+	2.2	Neutral
Mining	-	+	-	+	+	-	1.6	Negative

Source: RongViet Research

Putting next to 2014 ratings result, there is an apparent shift from defensive sectors to those that are sensitive to the business cycle. Cyclical industries also cluster in the upper end of our rating table thanks to high scores in term of supply-demand outlook where sales growth may come not only from the domestic market but also overseas.

High-ranking sectors this year included: **1- Textile-garment**, **2 – Construction**, **3- Real estate**, **4 – Logistics**, **5- Bank**

The next 7 sectors also have positive outlook are thus worth some considerations; they are: **1- Building materials**, **2-Automobile retail**, **3-Packaging**, **4-Rubber tires**, **5-Utilities**, **6- Household goods** and **7- Food and drinks**

In the other sectors, investment opportunities are limited to companies in particular segments or industry leaders.

NOTES

SECTOR QUALITATIVE RATINGS

Our table of qualitative ratings is based upon 5 industry-wide criteria, specifically: 2015 supply-demand outlook, legal environment, long-term growth potential, technological development and competition with rating from 1 to 5 and different criteria weights across sectors.

Positive sectors are sectors we believe will have many growth opportunities and/or optimistic earnings outlook this year. Neutral sectors are driven by favorable factors by also have many external and/or internal risks; we believe these sectors would be more appropriate for investors with moderate-to-high risk tolerance and the ability to follow market fluctuations. For negative sectors, opportunities only open when critical problem(s) are resolved.

RATING/RECOMMENDATION EXPLANATIONS

At the end of each sector, we have included an table of key financial metrics and ratings for individual stocks within the sector. Our rating system is specified as below

For stocks with valid valuations

Rating / Expected returns	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Medium term (to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to - 5%	<-15%
Long term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

For stocks withou valuations

(Ratings are based purely upon the underlying firm's business prospect)

RATING	EXPLANATION
Positive	The firm has substantial growth potential or opportunities to achieve better profitability
Stable	The firm's business is maintained relatively stable
Negative	The firm is about to face difficulties in term of growth or risks of reduced profitability
Not rated	The firm is outside our coverage or the act of rating may have significantly influence on our intergrity, objectivity and independence

SECTOR OUTLOOK

TEXTILE: UP AND UP

Huong Pham (huong.pt@vdsc.com.vn)

2015 Outlook

Textile-garments is one of Vietnam's key export industries, second only to electronics in terms of trade value. Between 2010 and 2014, textile-garment exports witnessed an impressive CAGR of 21.6%.

In 2015, the industry growth look very promising with expected conclusion of the TPP and the signing of free trade agreements with Korea, EU and the Custom Union of Belarus, Kazakhstan and Russia. Except fo the TPP, the prospect of the remaining agreements are almost clear. In recent talks with Vietnam, the US has some proactive moves to foster the negotiation process. If TPP comes into force, tariffs on Vietnamese textile products and apparels in key markets such as the US (currently 17-18%), EU (10-12%), Japan and Korea would be slashed down to zero (of course within a timeframe). This would enhance competitiveness of these mechandises, resulting in more export orders. In fact, textile export turnover has already picked up rise over the last 2 years with annual growth of 17.5% and 19% in 2013 and 2014 respectively. The implementation of the FTAs promises to drive the industry export growth by a additional 16%, or approximately USD28 billion (Vietnam Textile & Apparel Association).

The growth potential of Vietnam textile-garment industry depends largely on major economies' health. IMF's latest World Economic Outlook Report indicated positive recovery of the world's largest economies. The US, the biggest importer of Vietnamese apparels (46.9%), achieved GPD growth of 2.4% in 2014, the fastest pace in four years. Also, textile-garments exports to EU and Japan saw positive growth of 22.8% and 10.3% respectively, despite economic strains in the two importing countries. Hence, recent quantitative easing (QE) packages would expect to put these economies back on the track of growth. In general, Vietnam Textile & Apparel Association forecasts demand for Vietnamese textile products from the US, EU and Japan would projected to grow at 13%, 18% and 9% respectively.

Besides, the continuing downtrend in main inputs such as yarns, fibers and fabrics could improve profit margin of garment and textile companies in 2015. The impact, however, would vary from firm to firm. For example, companies focusing on processed materials like yarns and fibers might not benefit as much as garments companies whose selling price is less elastic to changes in input price. However, the decrease in fabric prices, direct input of garments, would have some lags against yarn and fiber. On the contrary, the rise in labor cost due to base salary increase (up by 15% since January 1, 2015) and growing labor demand might have negative impact on the industry, especially small and medium firms.

Having foreseen opportunities from TPP and FTAs, many foreign companies have started to expand investment in Vietnam textile industry. At the end of 2014, there have been around 20 large FDI projects across the many stages of the textile-garment supply chain including spinning, knitting, weaving, dyeing, designing and sewing. Of these, some large projects will be up and running this year, i.e. Yulun Wang (China) or Nam Phuong Textile (Hong Kong). These projects would increase the supply of materials and enhance localization rate of Vietnamese textile-garment products, a condition for domestic companies to meet the rule of origin stipulated by the trade agreements and reduce the dependency on material imports (currently around 70%). However, in the longer term, the presence of FDI companies would likely heighten competition for export orders. Therefore, domestic enterprises should promptly increase production capability to maintain their market shares.

In fact, many domestic textile enterprises have carried out additional investments in one of four following ways: (1) expand existing processing capacity (sewing, embroidery); (2) create a complete production cycle (spinning, weaving, dyeing…); (3) develop higher value added products (from CMT to FOB and ODM) and (4) build a good domestic distribution channel. Of which, investments to complete the production cycle are the hardest part due to stringent environmental requirements in the textile industry and difficulty in building design teams. Similarly, domestic market business remains tough due to Vietnamese people's comparatively low disposable income and costly distribution channel setup. In other words, low interest rate factor and governments' stimulus conditions can only address the industry's financial burden. Consequently, how effective such investments turn out largely depend on companies' management experience and ability to serve the market.

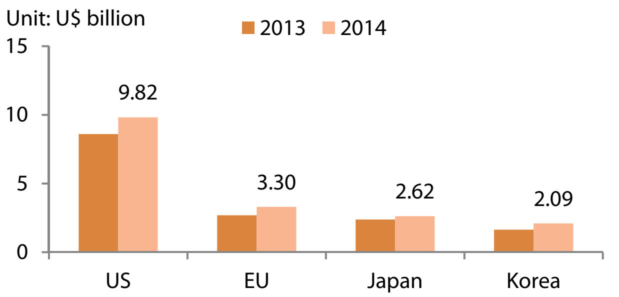
Key drivers

- The buying power of US, EU and Japan could improve as global economy recovers
- Prospect of singing FTAs with Korea, EU and the Customs Union of Russia-Belarus-Kazakhstan as well as possible signing of TPP in 2015 would further assist current trend of shifting textile orders to Vietnam.
- Investments from FDI companies would encourage growth of domestic material industry and therefore enhance the localization level of Vietnamese textile products.
- Input material prices are to prolong the downtrend in 2015 creating chances for companies to improve profit margin.

Risks

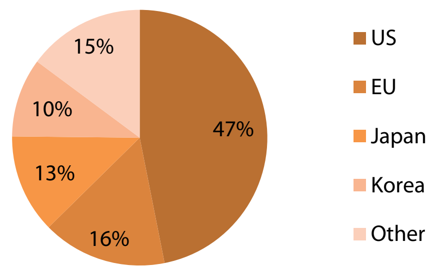
- Domestic enterprises will face increased competition with FDI companies for export orders.
- Prices of inputs such as cotton, fibers, yarns, dyeing chemical and labor cost may rebound.
- Economic growth and purchasing power in large export markets may be lower than expected.
- The strengthen of the domestic currency can lower the price competiveness of Vietnam textile and garment exports.

Textile export to some countries



Sources: Vietnam Customs, Rong Viet Research

Textile export structure market in 2014



Sources: Vietnam Customs, Rong Viet Research

Sector qualitative assessment

Sector price index versus VNIndex

Criteria	Score
Supply– demand outlook	++
Input cost	+
Legal environment	+
Long-term growth potential	+
Technological development	+
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Source: RongViet Research

Company selection

As the above analysis, we reckon potential greater benefits for textile enterprises whose key export markets are member countries of the TPP, EU or Korea. In addition, companies possessing large-scaled operations, advanced technologies and nearly kick-off expansion projects have more advantages than smaller ones with regard to the ability to fulfill large orders, stringent quality and origin requirements. Moreover, being a labor intensive industry, competitive advantage only creates for those firms command efficient production management at all stages reflected through higher productivity.

Stock picks

Thanh Cong Textile Garment Investment Trading JSC (HSX: TCM)

- With a closed garment production process from spinning to final product, TCM is the only listed firm that can satisfy the TPP "yarn origin" condition. More importantly, advanced technology and a closed production process also help TCM products deliver consistently high quality required by difficult US and Japanese market.
- Apart from capital, technology and sales orders support, strategic Korean partner (Eland) also contributes actively to TCM's effective production management and strategy formulation. As a result, profit margin of core businesses has seen positive improvements. A more stable operation of fiber business compared to previously is a clear evidence. Through co-operation with Eland, TCM has more opportunities to penetrate into the Korean market once the FTA Vietnam and Korea is signed.
- The 1st phase of Vinh Long factory (capacity of 6 million units/ year) could start production in 3Q2015. This factory, built dedicatedly for export orders to the US, expects to expand TCM's export revenue by 10% in 2015.
- At the end of 2014, TCM started running 15 new weaving machines (~30% increase in capacity) to produce high-quality fabric for Japanese market. Weaving fabric currently has the highest gross margin among TCM segments (around 25%). Therefore, increasing capacity of this business could lift the whole company's gross profit.

Saigon Garment Manufacturing Trading JSC (HSX: GMC)

- GMC is currently a garment processor (coach, jacket) with stable output and high production capability (100% FOB). The company's annual revenue growth has been stable at 14-16% and dividend payout policy of 20-30%.
- In 2015, GMC plans to increase production capacity at its garment factories: (1) production lines to increase from 20 to 30 at Tan My factory (Vung Tau), (2) Ha Nam factory (Quang Nam)'s production lines are to expand to 15-20 from the current 7. This expansion would thus increase GMCs production capacity. At the same time, GMC is developing products for spring-summer fashion period to make up profits in low

months.

- GMC already tried a new ODM alternative whereby the company would on its own build customer network, design products and arrange for material input at Sai Gon Xanh LLC branch in the US since the end of 2013. This strategy has contributed VND3.2bln (around 5.3%) to GMC's NPAT in 2014. In 2015, GMC plans to further develop this alternative to increase GMC's presence in overseas markets.

TNG Investment and Trading JSC (HNX: TNG)

- TNG is one of the most capable garment manufacturers in Northern Vietnam with over 180 main production lines and 4 supporting lines. TNG's main products are jackets, jeans, shorts, denim… Exports to the US, EU and Japan constitute a significant proportion in GMC total revenue.
- Dai Tu garment factory (capacity 1 million products/year), accommodating 32 production lines, is scheduled for production in early February 2015. Estimated export revenue from Dai Tu plant is about USD10 million/year and VND250 billion/year from domestic market. Besides, TNG is on the planning stage of a new plant in Phu Luong district and another in Thai Nguyen.
- TNG is aslo on the trial stage of ODM alternative and builds retail distribution network to capture more domestic market share.
- TNG usually finances working capital and new investments by relatively high debt. At year-end FY2014, D/E ratio was 307%, significantly higher than its peers. Therefore, TNG could reduce lots of interest payment amid the current low interest environment.

Century Synthetic Fiber Corporation JSC (STK)

- STK is the first Vietnamese company manufacturing long fibers (DTY) from polyester particles. With advanced production technology, STK delivers high-quality product which is used as input for fabrics production supplied to renowned brands like Adidas, Columbia, Reebok ...
- The 3rd phase of Trang Bang factory is expected to begin operation from 3Q2015, raising STK capacity by 10-15% this year. Since 2016, when this plant's production reaches full capacity (15,000 tons DTY per year), STK's fiber volume would go up by 40% compared to 2014's.
- The plunge in oil prices helps reduce STK's input price by a slight percentage. The Company has much power to maintaining a reasonable profit margin, even with a lower selling price.
- Not a listed company yet, though STK's transparency has been highly rated in terms of information disclosure.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
GIL	Positive	Medium term	24	-22	14	1.1	n/a	8.3	1.2	n/a	24	48	502	5.0
GMC	**Positive**	**Medium term**	**95**	**6**	**26**	**0.9**	**0.9**	**7.4**	**2.0**	**2.0**	**32**	**11**	**449**	**4.1**
KMR	Positive	Medium term	3	-54	2	0.2	n/a	30.7	0.6	n/a	-16	548	284	0.0
TCM	**Buy**	**Long term**	**1**	**36**	**22**	**1.1**	**19.4**	**9.6**	**2.1**	**8.1**	**27**	**304**	**1,679**	**-**
TNG	**Positive**	**Long term**	**-95**	**279**	**22**	**3.1**	**n/a**	**7.8**	**2.0**	**n/a**	**180**	**227**	**535**	**7.1**

Source: RongViet Research

CONSTRUCTION: WIDE-SPREAD EFFECT FROM THE RECOVERY OF REAL ESTATE INDUSTRY

Nam Huynh (nam.hk@vdsc.com.vn)

2015 Outlook

The growth of the construction industry has a high correlation with the real estate market situation. Specifically, from 2008 to 2012, the decline in the real estate sector had a strong impact on the construction industry. By 2013, the construction sector has shown signs of recovery at a moderate pace thanks to the support from interest rates, the credit package for the real estate market and increased FDI inflows. 2014 is seen as the start of a new cycle of growth for the construction industry. According to a recent report by BMI, the construction industry value reached 211.2 trillion VND, up 6.2% compared with 2013. There are three main reasons that explain the growth of the construction industry are (1) the focus of the Government's investment with infrastructure; (2) the recovery of real estate and (3) the positive increase in FDI inflows. In 2015, the impetus for the growth of the construction industry still will be these factors. However, the advent of important legal documents such as the Bidding Law in 2013, Public Investment Law no. 49/2014 /QH2013 and some law to support the real estate market will be the new factors, which are expected to have positive impact on the construction industry. The construction sector is expected to remain relatively high growth with an increase of around 6.5% this year.

There are some improvements in the policies of the Government that will have a positive impact on the construction industry. The Bidding Law 2013 and the Decree 63/2014/ND-CP regulate that the foreign contractors must venture or contract with a local subcontractor at least 30% of the package for consultation, construction and mixture. It will improve the competitiveness of domestic contractors as well as increasing the transparency in project bidding. The local construction companies will have many opportunities to participate in projects invested by the State. In addition, the Public Investment Law no. 49/2014/QH13 will also improve the efficiency of capital investment, overcome the debts and create transparency in the resources allocation of the State. According to government reports, the total construction debts were 44,590 billion VND in 1H/2014, down 23% compared to 2013. The creation of mechanisms to deal with the construction debts will settle the cash flow problems for some companies.

In particular, an official guideline for the Public-Private Partnership (PPP) in 2015 is awaited by many infrastructure companies. In 2014, the total investment of the non-state project reached 178,165 billion VND with 65 projects, in which the Ministry of Transport has mobilized 39,077 billion VND for 19 BOT projects, exceeding 22% of the plan. The draft decree on PPP suggests provisions on the terms of cooperation, a clearer and more open mechanism of the project to encourage organizations and individuals to directly invest in infrastructure projects and public services. Thereby, these policies are seen as an important motivation of growth for the construction industry in 2015.

There are some favorable factors to make a positive impact on the civil construction value from real estate market as a demand creation. According to the Ministry of Construction, in 2014, the country completed the construction of 102 social housing projects with nearly 40,000 apartments. The total floor area increased by 92 million m2 in comparison with 2013, the average housing area is approximately 20.6 m2/person, up by 1m2/person compared to 2013. With the supported policies for the real estate market including allowing foreigners to own houses in Vietnam, easing conditions for participating in the package of 30,000 billion and reducing risk of real estate loans, the consumption of the property in 2014 also improved significantly. Ho Chi Minh has sold about 17,000 apartments in 2014; the highest number in history, Hanoi has also had the highest sales figures over the last three years, about 10,700 apartments (CBRE). Thereby, the cash inflow of the investors is also improved, which will make the receivables on the balance sheet be more "realistic". With a low interest rate and improved demand in 2015, the number of projects will continue to increase in both old and new. According to the plan from the Ministry of Construction, the average housing area is going to be about $21.5 m2/person in 2015, an increase of 1m2/person compared to 2014. Thus, the value of construction contracts and the revenue will have a significant growth.

Transport infrastructure investments are still the focal point. In 2015, investment demand for infrastructure is expected to keep increasing. In particular, the Government will focus on allocation of capital for major projects such as railways and airports.

Exhibit: Railway and airport projects in 2015

Project name	Value (USD mn)	Timeframe
Airport		
Cam Ranh International Airport (expansion)	214	2015-2030
Long Thanh International Airport (phase 1)	7,830	2015-2020
Quang Ninh International Airport (phase 1)	166	2015-2020
Van Don International Airport (phase 1)	160	2015-2020
Rail		
Metro line 5	1,850	2015-2016

Source: BMI

With the rapid growth of infrastructure projects in 2015, besides the State budget, the Ministry of Construction will plan to mobilize the social capital such as PPP scheme and low interest rates. Specifically, the Ministry of Transport has recently approved the scheme of social capital mobilization for investment in rail and aviation infrastructure.

The FDI for manufacturing sector will support the growth of the construction industry segment. According to the Foreign Investment Agency, in 2014, cash flow from foreign investors registered to invest in Vietnam was 93.5% compared to 2013 and increased 19% compared to the plan (17 billion USD). In addition, nearly 80% of FDI flowed into the construction industry, real estate market and manufacture sector including Samsung factory in Thai Nguyen (3 billion USD), Samsung factory in Bac Ninh (1 billion USD), Dewan International construction company (1.25 billion USD) and hi-tech electronics manufacture in the HCMC (1.4 billion USD).

We expect that the registered FDI in 2015 will be at the same level of 2014, about 20 billion USD and can be disbursed at 15 billion USD. In addition, the demand for manufacture will continue to increase. Specifically, a number of major projects have been licensed in Jan 2015 such as Worldon Ltd. project at HCMC (300 million USD); Regina Miracle International Ltd project in Hai Phong (90 million USD) and Taekwang MTC Ltd. project in Dong Nai (43.2 million USD). Besides the expansive area of the leasing warehouse for domestic logistics enterprises. The domestical logistics company has some difficulty to compete with foreign companies in technology, capital and management experience but has the advantage of access to the land source. With the signed trade agreements, logistics company will push the warehouse investment to meet the demand growth. This will also be a plus for the construction industry in 2015.

Key drivers

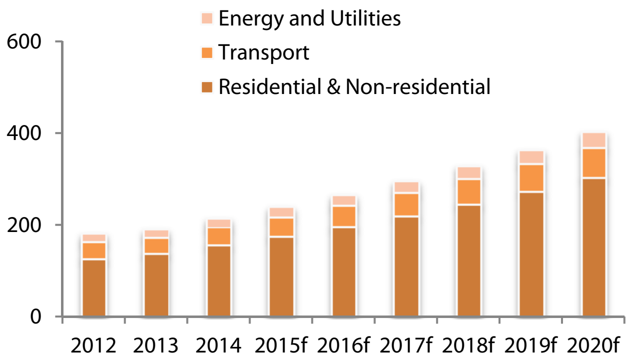
- Realizing TPP will help the value of construction in the area of infrastructure and industry increase.
- The official legal system for PPP to promote source of capital from the private sector.
- The process of "cleaning" nonperforming loan rate is pushing to improve source of credit capital.
- Cost of construction materials remained at stable level.

- The bidding rule 2013 supports competition of domestic bidders to foreign bidders.
- "Conceiving" the recovery of the real estate industry will be a positive factor for the construction industry.

Risks

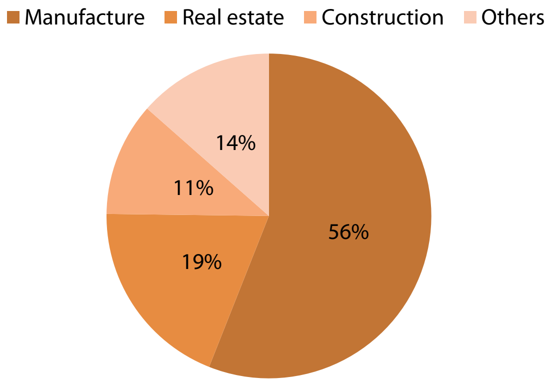
- The legal policy is not implemented or progressing as expected (public investment law and legal system for PPP).
- The signing of the TTP and other FTAs is not as expected.
- The effect of the recovery of the real estimate industry is not as expected.

Construction industry value (VND billion)



Source: BMI

FDI structure by sector in 2014



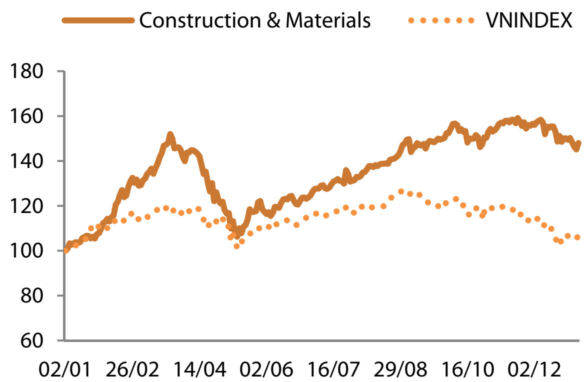
Source: FIA Vietnam

Sector qualitative assessment

Criteria	Score
Supply – demand outlook	++
Input cost	+
Legal environment	++
Long-term growth potential	++
Technological development	
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

With those factors, we believe that construction industry will keep improving. Specifically, infrastructure construction companies own a lot of projects and huge source of capital will get certain advantages in the market. From the other side, the companies have an average capital but in its own strength, especially in some particular areas, they can achieve good results in business this year. However, we also consider some elements of finance as percentage of debt and receivables quality of business.

Stock picks

Cotec Construction Joint Stock Company (HSX: CTD)

- Focus on industrial construction area. Business seized the opportunity of FDI capital inflows to increase proportion of revenue of industrial projects fast and reduce proportion of residential segments, hotels. Part of contracts in 2013 will keep being transferred to 2015.
- Expanding into civil infrastructure construction area to take advantage of opportunities

when the legal system for PPP is completed. CTD has signed a cooperative agreement with The Head of Traffic Construction Company 1 (Cienco1), Fecon Foundation and Underground Construction Joint Stock Company (FCN) to establish a company that specializes in the construction of infrastructure.

- Expanding market share into Southeast Asia. Unicons Company (merged with CTD) founded a representative office in Cambodia and it is preparing to found a representative office in Myanmar.

Hoa Binh Construction & Real Estate Corporation (HSX: HBC)

- It is gradually being transferred from the revenue structure to construction of industries, offices and centers area, because of a lot difficulty in construction of housing area.
- Beside the construction activities, HBC has invested several real estate projects such as Long Thoi social housing project (Nha Be), Phuoc Loc Tho low-rise housing project (Nha Be), Binh An small-area apartment project (District 8) and The Ascent premium apartment project (District 2).
- Enterprises are taking steps to the general contractor model like the models of the largest construction corporations over the world. However, HBC will be in the face of severe competition from CTD and foreign contractors.

Ho Chi Minh City Infrastructure Investment JSC (HSX: CII)

- The company which owns a lot of projects for construction of big transport infrastructure such as Highway 1A through Ninh Thuan, Hanoi highway expansion project, some other BOT projects.
- The company also has some large real estate projects such as 152 Dien Bien Phu, Diamond Riverside, Thu Thiem, and Tan Hiep 2 water factory.
- The company will record the profits from the sale of 20 million shares of CII Bridges & Roads Investment JSC (LGC) of 2015.

Tasco Joint Stock Company (HNX: HUT)

- Revenue growth came mainly from the construction of infrastructure in the form of BT and BIT in 2015.
- To take and check over the BT39 project with the profit after tax is approximately 100 billion in 2015.
- The real estate project of ecological housing in Xuan Phuong ward, West Hanoi potentially contribute to revenue of 2015.

FECON Foundation Engineering & Underground Construction JSC (HSX: FCN)

- FCN is the company which operates in the quite unique construction segment – design, handle soft ground with vacuum cohesiveness technology. FCN is the first and unique company of Vietnam produces international standard centrifugal pre-Mac 800 concrete piles.
- Some large foundations projects have been constructed by FCN are FORMOSA Ha Tinh iron steel factory, Samsung Thai Nguyen electronic factory, and LG Hai Phong. In January 2015, FCN bid many projects a total contract value of more than 123 billion. Those projects were Nghi Son petrochemical combination project, Samsung Thai Nguyen factories combination project, Masan Nghe An factory project and Goldmark City apartment project.
- Expanding the construction of infrastructure. With the previous advantages in the foundation fields, FCN cooperated with Cienco 1 and CTD to establish a company of infrastructure construction. In addition, holding 10% joint stock in Ceinco 1 and 5% joint stock in Tedi, FCN will access to transportation construction projects in the form of

BOT in the future.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BCE	**Stable**	**Long term**	**-42**	**-58**	**6**	**0.4**	**n/a**	**15.5**	**0.9**	**n/a**	**-16**	**32**	**306**	**13.8**
CII	**Positive**	**Long term**	**275**	**351**	**14**	**1.9**	**n/a**	**5.5**	**1.3**	**n/a**	**-18**	**1,417**	**3,574**	**89.6**
CTD	**Positive**	**Long term**	**23**	**27**	**13**	**0.4**	**n/a**	**7.7**	**1.0**	**n/a**	**-2**	**4**	**2,528**	**6.5**
FCN	**Positive**	**Long term**	**12**	**39**	**20**	**0.8**	**n/a**	**6.8**	**1.4**	**n/a**	**-11**	**183**	**988**	**22.4**
HBC	**Stable**	**Long term**	**2**	**169**	**7**	**1.8**	**n/a**	**23.9**	**0.9**	**n/a**	**-22**	**335**	**849**	**25.9**
HUT	**Positive**	**Medium term**	**56**	**1,985**	**20**	**2.0**	**n/a**	**4.6**	**1.1**	**n/a**	**39**	**1,470**	**1,391**	**46.4**
LCG	Positive	Medium term	344	101	0	0.4	n/a	164.2	0.6	n/a	8	419	610	37.0
PVV	Not Rated		75	103	2	1.7	n/a	-1.7	0.6	n/a	6	186	111	14.7
PVX	Not Rated		85	107	10	2.0	n/a	17.6	1.7	n/a	24	3,596	2,080	195.2
PXI	Not Rated		33	996	9	0.7	n/a	7.8	0.7	n/a	22	142	234	14.6
S99	Not Rated		-20	805	14	0.1	n/a	7.9	2.9	n/a	100	223	450	18.2
SD6	Not Rated		12	61	14	0.8	n/a	10.4	1.1	n/a	20	137	556	17.0
SD9	Not Rated		2	4	10	1.7	n/a	7.3	0.8	n/a	15	113	471	15.0
SDT	Positive	Long term	-7	4	9	1.1	n/a	7.8	0.7	n/a	-11	40	645	18.8
VNE	**Stable**	**Long term**	**19**	**422**	**12**	**0.6**	**n/a**	**8.2**	**1.0**	**n/a**	**64**	**492**	**746**	**0.0**

Source: RongViet Research

REAL ESTATE: THE BEGINNING OF A NEW CHAPTER

Nguyen Ba Phuoc Tai (tai.nbp@vdsc.com.vn)

2015 Outlook

The first signs of recovery in the real estate sector emerged to the surface in mid-2014. This sector is expected to pick up substantially in 2015 under favorable economic conditions and refreshed attention from the public. On the other hand, government incentives and loosened credits are crucial to the improvement of real estate firms' financial healthiness and business performance.

Improve capital market conditions will lift the financial burden for real estate firms. Effective early 2015, Circular 36 lower the risk coefficient of real estate lending from 250% to 150%. This aims to provide real estate developers with better access to debt capital and help revive underfunded projects. Meanwhile, lower interest rate should reduce fixed cost for companies who have incurred high financial leverage in the last few years. Many companies have taken advantage of the stock market recovery to issue new equities. There is no reason to say the trend would cease if the equity market remains liquid and active this year.

Low- interest environment supports real estate firms both ways. On the one hand, lower interest expense will have an instant effect on firms' bottom lines. On the other hands, lower mortgage rates, accompanied by loans term will encourage families and individuals of the low income ranges to consider buying a house. Those will benefit the most from this trend should firms with products that meet the market demand and are ready for sale.

Industrial real estate continued showing the brightest prospect in 2015. Given an FDI growth projection of 10%, the tendency of global companies to move manufacturing facilities to Vietnam in anticipation of the TPP and free-trade agreements (FTAs) and the resulting booming of satellite and logistics companies should continue to bolster demand for industrial land. Meanwhile, new supply is rather limited, allowing lease rates to pick up 5-7% this this (Cushman & Wakefield). It should be noted, however, that demand growth is more significant for land in areas wired with infrastructures and appropriate the development of sectors to be favor by the trade agreements such as textile-garment, footwear, electronics… Some major FDI projects in the country such as those of Samsung, Nokia, LG, Texhong, TAL, Itochu… now cluster in the provinces like Bac Ninh, Thai Nguyen, Bac Giang, Hai Phong … where labor are cheap and incentives for foreign investors are plenty. That suggests industrial real estate in these region would still face heightening demand in years to come.

Affordable housing and residential land are to see boosted real demand while there are still risks in the high-end segment. This year, we expect steady growth the demand for the affordable, low-end condominium sizing from 45m^2 to 70m^2 and selling between VND12-17 million/m^2, especially after the eligibility requirements and lending terms of 30-trillion package were revised down. Now participants in the stimulus package can borrow at 5%/year for as long as 15 years. This supports prices and demand for affordable houses, which in turn boost sales and improve cash flows of condo developers. Similarly, the sale prospect seems bright for land plots, driven by the construction/completion of major infrastructures projects such as Ha Noi – Nhat Tan, Ben Luc – Long Thanh, Da Nang - Quang Ngai Expressway… As they require less initial investment than houses and take less time to prepare for sales, land plots can be the major source of income and revenue for many real estate companies this year.

In contrast, fast-developing infrastructure and the lifting of barriers again foreigners' ownership of Vietnamese houses have motivated the initiation of high-end, luxury projects in major cities across the country, vastly increasing potential new supply. Meanwhile, we have not seen much of a rebound of real-buyer demand in this segment except for the increasing employment of buy-to-let strategies. Looking forward, more available mortgage loans via relaxed policies and lower mortgage rates may encourage speculation and kick off a price boom as the government has fewer incentives to control house prices in the high-end segment. In fact, many real estate developers have been passing inventories to secondary investors as a means to boost sales. In increases the risk of return.

Recently, the buy-to-let strategy has emerged as a less risky trend of real estate investing given low interest rates. House buyers are offered renting commitments by developers and even brokers of the projects they are buying into as an incentive for them to cash in. The employment of such tactic on a large scale could lead to supply surplus on the house-for-rent market and the decline of its profitability. This makes us more skeptical about the true recovery of the high-end segment.

Retail and Office real estate face supply surge. Supply in the office and retail space is expected to swell in 2015, at a pace faster than demand could improve. The office segment itself now faces increasing competition resulting from the entries of global retail brands. Anyway, better business condition in overall could help maintain lease rates at grade B offices while solidifying consumer spending could add, though only a little, to demand for retail real estates. In general, many developers look to the longer-term prospect of the retail and office segments rather than improvements in the span of a mere 1-2 years.

Expectations has pushed price beyond what justified by fundamentals. During 2014, our price index for the real estate sector expanded around 20%. Though the industry average EPS growth was about 57% (excluding VIC for this large-cap has a huge item of extraordinary income in 2013 from the liquidation of Vincom Center A in 2013), the average trailing 2014 EPS was about VND560, which translates into a market-cap-weighted industry average trailing P/E of about 44x (29x if including VIC). This reflects how much the market expects in real estate firms' earnings growth in 2015 given the fact that last year's performance was largely unsatisfactory.

From this, we see a wide-spread rally of real estate stocks is unlikely. Instead, the upside potential of individual securities depends on each underlying firm's "story". What has always been an attraction of real estate stocks is that fact many are trading at a large discounts to their per-share book values and/or NAVs. Besides, these stocks account for a large percentage of the market's total securities number and liquidity. We expect that, in combination with the sector's latest upgrade in the government policy focus to attract even wider market attention in 2015.

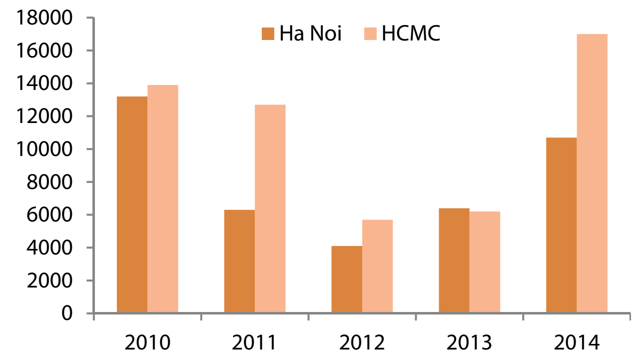
Key drivers

- Accelerating infrastructures could boost real estate sales in prime locations.
- Growing debt capital availability after Circular 36 lower the risk coefficient of real estate lending from 250% to 150%.
- The lifting of foreign ownership limit could bolster demand for high-end properties.
- The new land price frame may favor firms with high-compensation-rate pipelines.

Risks

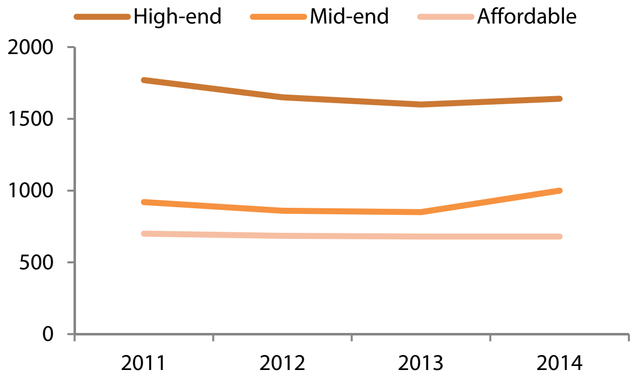
- Fast-growing supply in all segments of the housing market may put a pressure on prices and lease rates.
- The implementation of policies needs to wait a long time for official guidelines and may be not effective as expected.
- Interest rates may rebound sooner than expected, affecting firms' bottom-line profits.

New condominium sales in Hanoi and HCM (units)



Source: CBRE

Secondary market condominium price by unit size in HCM (USD/m²)



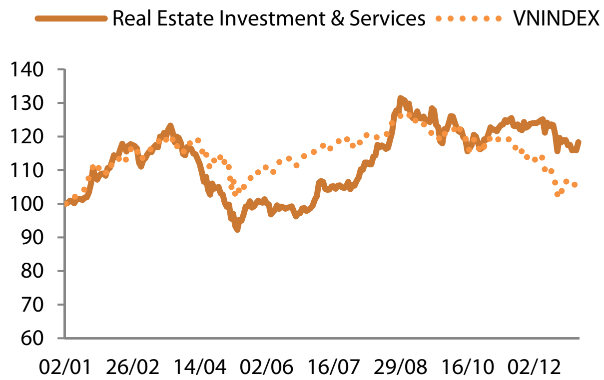
Source: CBRE

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	-
Legal environment	++
Long-term growth potential	++
Technological development	
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

In the housing market, we prefer companies with projects ready to sell and or about to complete, especially land plot and low-end/affordable condominium projects for these are currently the segment with the stronger real demand. Though not too optimistic about higher-end segment, we believe well-located, reasonably priced projects could still attract buyers, including foreigners and expats looking for a second house in Vietnam. Companies who just got out of financial distress thanks to new equity issues or project liquidation and those with in-progress restructuring may be up for some consideration.

In industrial real estate, the current trend of FDI companies is to establish manufacturing in regions adjacent to major cities and trade hubs in the country with cheap labor and plenty incentives (tax, land leases, etc…), Binh Duong, Dong Nai, Long An, Ba Ria- Vung Tau in the South and Hai Phong, Thai Nguyen, Bac Ninh, Bac Giang, Nghe An and Nam Dinh in the North. That means industrial real estate developers who have ready pipelines in these areas stand to benefit from the trend.

For the rental market, new demand for office and retail space, from our opinion, has not grown much. Still, there are plenty opportunities for companies with large, established pipelines and/or M&A potential projects.

Stock picks

Vingroup JSC (HSX: VIC)

- VIC is arguably the leading real estate developer in Vietnam with a capital base, revenue, pipeline and land bank size far exceeding those of its competitors. Fast implementation and the ability to attract capital from overseas are some of VIC distinctive advantages.

- VIC owns and manages a pipeline of malls, department stores and office buildings under the Vincom brand in all major cities' CBDs, including Ba Trieu, Dong Khoi, Long Bien Vincom Centers and Times City and Royal City Mega Malls. These projects have generated steady and solid cash flows for VIC over the years. In 2015, rental revenue will be supplemented with the leasing of nearly 70,000 m^2 of retail space in 2 new projects, Vincom Center Ha Long (4Q2014) and Vincom Hai Phong (1Q2015).
- Apart from the remaining units in Times City, Royal City and Vinhomes Nguyen Chi Thanh, VIC's major residential project for the 2012-2014 period, i.e. Vinhomes Central Park (43ha, Tan Cang, HCMC) would contributed enormously to the Company's cash flows after it opened for sale last October.
- In 2015, VIC will double the room capacity in Vinpearl Nha Trang and Vinpearl Phu Quoc (operating since October 2014), thereby increasing the revenue from its hotel and resort arm.
- Following the acquisition of Vinatex Mart and Ocean Mart chains, VIC will push the expansion of is retail stores under the VinMart brand in 2015. The firm is completing necessary infrastructures to launch its e-commerce business under the VinE-com brand.

NBB Investment JSC (HSX: NBB)

- NBB is advantaged by its large, high-clearance-rate land bank in Central Vietnam. The firm's major residential land project, i.e. Son Tinh – Quang Ngai, is expected to sell better as the progress of Da Nang – Quang Ngai Express way and the LUR issuance speed up.
- NBB will receive the first installments of the proceeds from selling 80% of its stake in City Gate Towers (District 8, HCMC) to Creed Group (Japan) in early 2015. Looking forward, NBB would book substantial profits if it is to continue transferring its stakes in NBB Garden II and NBB Garden III to Creed under the two's Cooperation Framework Agreement.
- The obtainment of the right to tap the Mo Duc titanium mine (Quang Ngai) is expected to speed up NBB stake sale in Quang Ngai Mining JSC (QMI), the subsidiary owning the mine. If concluded, the transaction can bring large profits for NBB.

Khang Dien House Trading and Investment JSC (HSX: KDH)

- KDH owns a medium-sized land bank spreading across District 2 and District 9, two of the areas with the fastest-developing infrastructures and the most liquidity in HCMC. As a common trait, KDH's projects are all "legally-ready" even before sales start. This helps reduce construction time and allows timely liquidation should the needs emerge.
- Mega Ruby, the second of KDH's townhouse brand Mega (the first being Mega Residence) has been selling fairly fast with many units available for revenue recognition in the first half of 2015. Prime locations, modern designs and reasonable pricing are expected to make KDH's Mega projects appealing to foreigners.
- The plan to issue 48.5 million shares of new equity would help KDH strengthen its capital base in preparation for investment in land bank expansion and new project development. KDH intends to start 3 new projects or Tri Minh (5.7ha), Song Lap (14.5ha) and Sapphire in 2015.
- We highly appreciate KDH's management's dynamism in land bank development and marketing.
- The significant presence of institutional investors in KDH's shareholder list is an assuring point in term of corporate governance.

Thu Duc Housing Development JSC (HSX: TDH)

- TDH owns a large number of land plot projects and low-end condos around HCMC (District 2, 9 and Thu Duc) and Long An. The surrounding of established residential areas with ready infrastructures gives TDH's projects fairly good liquidity and wide profit margins.

- TDH has 4 land plot projects in its pipeline that may be commercialized this year: Phuoc Long Spring Town (phase 2), Binh Chieu Residential Area, Long Hoi City and TDH-Tocontap. As the land has been mostly cleared, compensated and wired with infrastructures, leading time would be fairly short.
- TDH has already finished building the basement for affordable condominium project TDH Phuoc Long, making the project available for sale this year. The fact that many units here are eligible for the 30-trillion credit package adds significantly to the project's sale prospect.
- TDH's transparency in term of financial reporting and investor relation is highly appreciated.

Kinh Bac Urban Development JSC (HSX: KBC)

- KBC has nearly 6,000 ha for industrial park development in its pipeline. The firm's land bank concentrates mainly in HCM and Northern cities/provinces such as Hai Phong, Bac Giang, Bac Ninh, areas that have been increasing popular to FDI businesses lately. Huge investments of global brand such as LG Electronics, Cannon, Foxconn (Taiwan) and Wintek (China) in these areas has been a boon to KBC's major IPs such as Trang Due (400ha, Hai Phong), Que Vo (300 ha, Bac Ninh), Nam Son – Hap Linh (402ha, Hai Phong), Tan Phu Trung (590ha, HCMC).
- The conclusion of the FTA between Vietnam and Korea and the expansion of LG and Samung as well as their satellite companies in Hai Phong and Bac Ninh could shore up demand for KBC's industrial land.
- Following the conversion of VND1.2 trillion of convertible bonds this January (fully converted at VND15,000/share), KBC plans to issue an additional 120 million shares in private placements (selling at VND15,000/share) this year. The issuance, if successful, will give KBC have another VND4 trillion to repay its debt, effectively cutting down annual interest expense by a large percentage.

Tan Tao Investment Industrial JSC (HSX: ITA)

- ITA is advantaged by one of the largest land bank among listed companies (2,200 ha); ITA's land is low-cost but has high clearance and compensation rate. The firm makes the majority of its earnings from leasing land, warehouses and providing industrial services at its 3 major IP, Tan Tao (161ha, HCMC), Tan Tao Phase 2 (182ha) and Tan Duc (545ha, Long An).
- Tan Tao IP and Tan Tao Phase 2 already are 90% occupied but the two combined still have 30ha of commercial land that has the potential to attract clean, high-tech, high-value-added manufacturers.
- Tan Duc IP is a highly potential project given its high vacancy rate (30% in phase 1 and 70% in phase 2) and well-developed add-on infrastructures (i.e. college, residential and recreational areas).
- Approved by the government as a BOT project, ITA's Kien Luong Thermal Power Plant Phase 1 (131 ha) has found the investor. The lease payment for the land area of the power plant is about USD120 million, to be discharged as soon as construction begins.
- ITA has been working with potential investor for Phase 2 of the power plant. The lease payment for 120ha of production site and 265ha for auxiliary facilities total USD300 million.

Binh Chanh Construction Investment JSC (HSX: BCI)

- BCI has over 300ha of "clean" land in District 8 and Binh Chanh of HCMC. Apart from land plot and condo sales, the firm makes steady income flows from leasing land and providing industrial services at Le Minh Xuan Industrial Park (phase 1).

- If the investment approval process proceeds smoothly, BCI may initiate Phase 2 of Le Minh Xuan Industrial Park (100.9ha) in 2015.
- BCI is a veteran in low-end/affordable housing development with its signature condo brand Nhat Lan, which sold strongly in 2012-2014. The firm will start the construction of An Lac Plaza (7.553 m^2) and maybe Nhat Lan 5 in 2015.
- The remaining area (~5ha) of Phong Phu 4 Residential Area is now open for sale. The final payment for 14ha of Phong Phu 4's total land area sold to the HCMC Southern Area Management Authority years ago is still up to negotiations and may allow BCI to book substantial profits if the parties can agree on a price soon.
- As compared to peers, BCI has relatively low Debt as a percentage of total Equity, which has resulted in low interest expenses each year and given the Company the ability to increase financial leverage with little difficulty.

Tu Liem Urban Development (HSX: NTL)

- North Highway 32 – Tram Troi Urban Area (16.4ha) has been the main source of NTL's revenue and income in the last 3 years. NTL sold 500 units (land plots sizing around 200 m2/unit plus semi-finished villas) here from 2009 to 2011 and is offering another 300 units at VND14-16 million/m^2. The completion of number of add-on facilities (restaurants, tennis court, convenient stores, etc.) in 2014 was a wise move of NTL to boost sales at this project
- NTL's latest condo project, N04B1 (Dich Vong, Ha Noi) project opened for sale in 3Q2014 at a price starting from VND31.5 million/m2
- NTL plans to start the construction and sale of X2 Low-income Condo (My Dinh, Ha Noi) in 2015. If things go smoothly, the firm may consider starting two other projects, i.e 202 Ho Tung Mau Condo and X3 Phase 2.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BCI	**Stable**	**Long term**	**-31**	**2**	**5**	**0.3**	**17.7**	**16.3**	**0.9**	**13.8**	**11**	**39**	**1,583**	**9.0**
DIG	Stable	Medium term	-76	-62	1	0.6	n/a	52.4	1.0	n/a	1	506	2,359	35.8
DXG	Positive	Medium term	48	103	20	0.1	-44.2	5.6	1.7	10.0	-15	1,160	1,872	32.4
HDC	Stable	Medium term	43	-6	4	0.6	n/a	23.4	1.0	n/a	-7	5	576	6.4
HDG	Postive	Long term	60	11	16	0.1	13.6	14.1	2.3	12.4	-32	52	1,929	17.9
HLD	Not Rated		5	7	21	0,3	n/a	5.8	1.1	n/a	-11	142	488	9.5
HQC	Positive	Medium term	-30	39	2	0.4	n/a	25.3	0.8	n/a	16	2,295	1,380	92.3
ITA	**Positve**	**Medium term**	**2,593**	**79**	**2**	**0.2**	**n/a**	**34.5**	**0.7**	**n/a**	**5**	**4,401**	**5,464**	**240.4**
ITC	Positive	Medium term	109	-103	1	0.1	n/a	60.8	0.4	n/a	13	149	522	14.7
KBC	**Positive**	**Long term**	**0**	**350**	**6**	**0.8**	**31.1**	**18.2**	**1.2**	**13.9**	**-23**	**2,252**	**6,353**	**96.6**
KDH	**Positive**	**Medium term**	**444**	**182**	**8**	**0.9**	**12.1**	**14.7**	**1.8**	**13.1**	**-27**	**106**	**2,785**	**-**
LHG	Stable	Medium term	30	4	4	0.4	n/a	19.7	0.8	n/a	-9	19	368	8.3
NBB	**Buy**	**Long term**	**15**	**37**	**2**	**0.7**	**-9.7**	**17.1**	**0.8**	**18.9**	**2**	**233**	**1,193**	**0.2**
NLG	Stable	Medium term	44	350	5	0.3	4.8	22.5	1.2	21.4	5	38	2,411	6.7
NTL	**Positive**	**Medium term**	**-51**	**-60**	**4**	**-**	**n/a**	**11.1**	**1.0**	**n/a**	**19**	**260**	**854**	**25.2**
NVT	Not Rated		2	-81	0	0,4	n/a	105.3	0.5	n/a	71	308	407	0.6
OCH	Not Rated		17	-78	1	0,5	n/a	183.1	2.4	n/a	27	52	4,940	97.8
PDR	Positive	Short term	948	1,691	3	1.9	n/a	53.4	1.5	n/a	-28	286	2,239	52.4
PPI	Positive	Medium term	242	32,564	12	0.9	n/a	6	1	n/a	70	366	303	12.2
QCG	Positive	Medium term	-46	282	2	0.8	n/a	20.8	0.5	n/a	-21	701	1,196	49.1
SCR	Not Rated		-37	221	1	0,9	n/a	38.8	0.6	n/a	12	4,,068	1,464	89.8
SJS	Stable	Medium term	94	122	9	0.8	n/a	15.9	1.4	n/a	-3	373	2,476	38.1
SZL	Positive	Long term	17	10	9	0.0	n/a	7.7	0.7	n/a	27	26	335	7.4
TDC	Stable	Medium term	0	-25	9	1.0	n/a	9.1	0.9	n/a	7	689	990	44.5
TDH	**Positive**	**Medium term**	**97**	**68**	**3**	**0.4**	**55.7**	**22.1**	**0.6**	**14.2**	**-15**	**120**	**797**	**0.8**
VIC	**Positive**	**Long term**	**51**	**-53**	**16**	**1.6**	**-16.0**	**17.8**	**3.5**	**21.2**	**3**	**761**	**72,001**	**477.2**
VPH	Positive	Medium term	-31	-63	0	1.3	n/a	142.1	0.7	n/a	-8	71	329	9.9

Source: RongViet Research

LOGISTICS: GROWTH OPPORTUNITIES FROM FAVORABLE FACTORS

Hoang Nguyen (hoang.nh@vdsc.com.vn)

2015 Outlook

Logistics sector in Vietnam could be categorised into 3 mainstreams: transportation and warehousing services, port exploitation and marine transportation services. In overall, companies operating in warehousing and port related services have seen stable performance in the past years with annual ROE achieved over 15%. Meanwhile, marine transportation activities are bottoming and expect to recover soon. With the recovering Vietnamese economy, signing prospects of free trade agreements (FTAs) and other supporting government policies, we expect a positive outlook for logistics sector in 2015.

Growing export and import activities plus imminent signings of many FTAs could be spingboards for the logistics sector growth in 2015. The bottoming-out of Vietnam economy in 2014 with annual GDP growth higher than forecast was a positive signal for logistics sector as a whole. Specifically, important sector measures such as total trade turnover and tonnage throughput in 2014 all saw double digit-growth at 12.8% and 13.5% respectively compared to 2013. Besides, the expected signings of FTAs including Vietnam-Korea, Vietnam- Customs Union and TPP as well as the soon to be implemented ASEAN (AGITA) in 2015 would tremendously facilitate trade activities in Vietnam.

In addition, the signing prospects of FTAs also play a role in attracting more FDI investment into Vietnam's export oriented manufacturing business. The most typical example of that has been the relocation of many production plants by multi-national giants such as Samsung, LG and Nokia to Vietnam from China, which subsequently brings along demand for logistics services including transportation, warehousing and port services as well. Vietnam Seaports Association (VPA) projected an annual growth of 10%-12% in 2015 port throughput; in which, container throughput could achieve a 13% annual growth compared to 2014's. Also, road freight tonnage is forecast to see an annualized growth of 8.28% in 2015, higher than 2014 figure of 6.01%, therefore improving the ton-Km measure.

Logistics sector is to benefit from various supporting policies in years to come. In fact, the government has been more active in speeding up investments in public infrastructure to facilitate trade activities in the country. In specifics, the inauguration and highly progressed phases of various highway projects (HCMC-Long Thanh-Dau Giay, Noi Bai – Lao Cai, HaNoi-Hai Phong, HCMC- Can Tho) and the increasing dredging activities of main rivers going to major ports (Soai Rap, river to Hai Phong port) or the opening of domestic sea routes (Quang Ninh-Quang Binh-Mekong Delta or Hai Phong-Da Nang) lay foundations for logistics companies to improve operation effectiveness by saving vehicle's repairing and maintenance expense, travel time, tonnage per Km as well as relieving the congestion problem at major ports.

Road transportation and warehousing operation

To compete against foreign rivals, majority of domestic logistics companies are focusing on expanding warehousing capacity and increase quality services. Despite having a dominant number of firms operating in the sector, domestic logistics companies' market share only accounts for merely 20% with the rest being served by foreign companies. Domestic firm's main weaknesses include deficient financial capability, limited ability to apply technology into operation and insufficient management experience as well as the lack of coordination between firms. Therefore, most domestic firms shall initially improve their services quality to win outsourcing contracts from foreign logistics companies. By doing so, domestic logistics firms could gradually gain experience and access to a potential customer network of FDI firms.

However, domestic logistics firms do have certain advantages, especially the ability to accumulate strategic land bank which is deemed important in logistics operation. In short term, apart from investment in technology and management skills upgrade, many domestic firms also take advantage of the low interest environment to finance warehousing and depot expansion plans. So, companies that have a well prepared financing and expansion plan would certainly have an upper hand.

The recent downtrend in petrol prices which is expected to remain low in 2015 is another supporting factor for road transporting business. However, there witnessed a lag between freight rate adjustment and development in petrol prices. In fact, the number of road transporting companies adjusted freight rate downward has been pretty humble nationwide despite petrol prices already fallen nearly 35% compared to the beginning of 2014. Road freight rate has been adjusted at some extent but still remains quite high. Therefore, road transport companies' margin expects great improvement this year with petrol expense accounting from 30%-40% of COGS.

Truckload control policy would possibly create a fair playing field for road transport companies. The truckload control policy implemented in 2Q2014 is expected to bring positive influences such as: (1) revenue growth for logistics companies due to increasing trip frequency, (2) reduce unhealthy price competition and create a level playing field for all firms and (3) encouraging freight owner to consider inland waterways transporting mode to relieve the current traffic jam situation on road and increase goods quantity per Km. At the meantime, the increase in market freight rate level as a consequence of the truckload control policy would bring first benefit to those firms that so far have abided to the specified truckload allowance. In the long-run, if the government and relevant bodies are keen on implementing this policy, the road transport business would see a promising outlook.

Port services operation

Port utilization differentiation could hike up competition between ports. Disproportionate allocation of port services supply and underdeveloped linking infrastructure have all attributed to the difference in ports' operating effectiveness across the country. In the North, Hai Phong and Dinh Vu port areas posted the highest utilisation rate on average of 80%. According to World Bank, Hai Phong port area would reach full capacity in 2018 (current capacity is 4.8 million TEUS/year), if container throughput continues growing at the pace of 8.5%-9%/ year. However, the oversupply of port services in the North is likely to return once Lach Huyen International port (Phase 1) be completed in 2016 adding to total port capacity about 1 million TEUS/year. Also, the introduction of new ports such as Nam Hai Dinh Vu (GMD), the expansion of Hai Phong 128 port (TCL) and Greenport-VIP (VSC) investment would likely make competition in the area fiercer.

Meanwhile, Cai Lan port area (Quang Ninh province), though situated in the North, has been underutilized for years with utilization rate on average below 30% due to various reasons. In fact, the port is strategically located in the center of Northern region suitable for trade activities with China and ability to receive big vessels up to 3,000TEUS. However, the government decision to divest the entire State ownership at Quang Ninh port would pave the way for private owners with experience in the field to join and hence promises a brighter outlook for this port area in the near future.

In the South, ports and ICD located near industrial centers like Binh Duong, Dong Nai and HCMC claiming up to 2/3 of container throughput nationwide. In which, Cat Lai port (CLL) has been in overloading condition when catering nearly 80% of HCMC's total throughput. Thus, the introduction of Tan Cang-Hiep Phuoc phase 1 (total designed capacity of 500,000TEUS/year) at the end of 2014 and phase 2 due to complete in mid-2015 would solve the overloading issue at Cat Lai port. However, this would also pose a risk to throughput growth of Cai Mep-Thi Vai port area where several mega port investments are undertaking namely Gemadept Hoa Sen and Gemalink.

Marine and Inland waterways transportation (IWT) services

Marine transport is entering recovery phase thanks to numerous favorable factors : (1) a more balancing tonnage supply this year after numerous shipping companies have declared bankruptcy or reduced fleet size in recent years, (2) positive growth forecast in global seaborne trade in 2015, (3) marine transport and IWT would become a more attractive option than road transport with relatively affordable freight charge, (4) opportunity for firms to improve profit margin amid expectedly low petrol prices, (5) low interest rate environment would reduce interest cost burden especially for shipping firms with high debt level. Nevertheless, the on-going unstable political situation in the world consequently poses some foreign exchange risk to firms that require large USD denominated bank loans to finance new vessel purchases.

IWT activities would be benefiting from favorable policies for the sector. In specific, important sector measures such as total throughput and ton.km measure achieved CAGR of 9.2% and 3.3% respectively during 2010-2013 period. Some of the listed companies operating in the field are TCL, GMD, HMH, TMS, STG…The truckload control policy has encouraged IWT mode to develop given its relatively cheaper freight rate to road transport mode. Moreover, the government's intention to develop IWT activities by agreeing the IWT development plan in 2020-2030 period would create a clear path for this particular mode of transport to grow. According to this plan, estimated throughput via inland waterways port is projected of 356 million tons in 2020 with average annual growth rate of 8%. Besides, other policies such as preferential loans for large barges purchases and continuing prohibiting foreign vessels operating on domestic routes would foster IWT operation growth in the coming years.

Listed oil and petroleum transporting companies would hardly see any drastic jump in performance this year. The fact that these firms are subsidiaries of Petrolimex and PVN with the majority of tanker fleets serving their parents on time charter contracts (PVT- crude tankers, VIP & VTO – petroleum product tankers) would lead to a stable revenue source, however, also hampers its ability to enjoy favorable movements in the market.

With the next periodic maintenance of Dung Quat refinery plant scheduled in 2016, revenue of listed oil tankers would therefore have opportunity to grow higher this year compared to 2014. In addition, VIP and VTO's revenue growth look even more positive as Petrolimex would likely increase petroleum import in 2015 to meet higher demand. Nevertheless, our chief concern is PVN could consider adjusting tanker freight rate down as its revenue has been hit hard by the low crude prices in the past months.

In the long-run, oil and petroleum tanker business outlook is quite positive. According to ANZ, Vietnam petroleum consumption is growing at the highest rate in the region surpassing the country average consumption rate witnessed in the last 20 years of 7.5% and even faster than that of China. Additionally, Vietnam refinery capability is projected to increase 10 folds with estimated production of 60 million tons/year from 08 new projects such as Dung Quat refinery expansion plan, Nghi Son, Nhon Hoi, Vung Ro and Long Son refinery plant... This would drive the growth of oil tanker companies in the future.

Key drivers

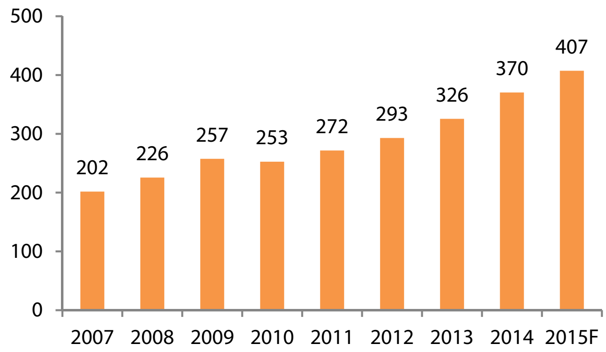
- Increasing public investments to road and IWT infrastructures.
- Low interest rate and stable foreign exchange environment would entice companies to access bank loans for business expansion (warehousing and vehicles).
- Trade activities could increase with signing prospects of FTAs and TPP.
- FDI investment continues to flow into export-oriented manufacturing sectors such as electonics and garments.
- Domestic petrol prices fall as slumping world's oil prices and expects to remain low this year.
- Truckload control policy promises to create a healthy competition environment for

logistics firms.

Risks

- Increasing competition between domestic and foreign logistics companies.
- Possible delays on the signing of various FTAs.
- Forecast tremendous growth in export and import activities may not materialize.
- Possible erupting tension in Bien Dong.

Total marine ports throughput (million tons)



Source: RongViet Research

Total trade turnover (USD billion)

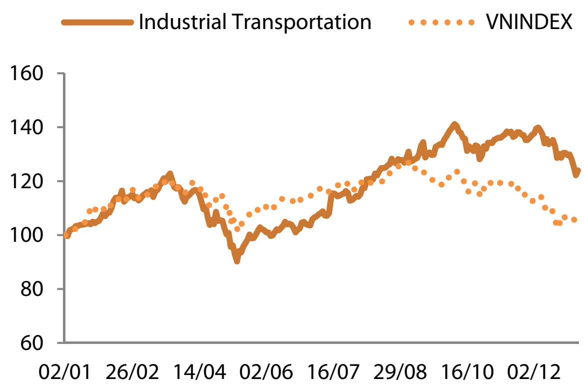
Source: RongViet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	++
Input cost	+
Legal environment	+
Long-term growth potential	++
Technological development	
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

Companies that solely provide ***transportation and warehousing services*** share some similarities such as stable source of revenue, solid financial background, high liquidity and low financial leverage. In 2015, logistics companies of our favorites are those that have plans for expansion and command sound business operating capability. In specifics, we priorities firms that own available land fund for warehousing expansion, having experience in providing services for FDI companies, ability to apply technology into daily operation and provision of high value added services is a plus

Regarding ***port services operation***, location of port is a vital factor for port utilization. Thus, we give high priority to ports that are situated near industrial centers with developed surrounding infrastructure and supporting logistics services (warehousing and transportation services) such as Hai Phong, HCMC, Dong Nai and Da Nang

In ***marine transport operation***, we expect a good recovery of oil transporting companies that operate on spot contracts, having young tankers fleet, high utilisation rate, healthy financial leverage and stable order list.

Stock picks

Gemadept JSC – (HSX: GMD)

- GMD is the leading domestic logistics firm with a relatively complete supply chain created by a large asset base across Vietnam such as Nam Hai port, Nam Hai Dinh Vu port, Dung Quat port, Phuoc Long ICD and Gemalink and other supporting services (truck fleets and warehouses).
- Nam Hai Dinh Vu port's utilisation in 2014 was ~60% and expects to reach full capacity in 2015 as Hai Phong area's throughput grows. Distribution centers (DCs), totalling 30,000m2, posted over 90% utilisation rate.
- In 2015, GMD plans to build another DC3 (about 10,000m2) and starts to provide high value added services such as goods classification, re-packaging, cold storage,… to many MNCs including 7Eleven, Aeon, Jardines, Emart…
- Hotel project in Vientiane (Laos) is to break ground in 03/2015 and expects to complete in 2Q2017 with total investment of USD35 million. Also, Saigon Gem project located in the heart of HCMC in District 1 would impact significantly GMD market price if possible transfer took place.
- Total rubber plantation area at the end of 2014 is 7,800ha. Recently, GMD initiated possible business cooperation with Bridgestone Tire Manufacturing Vietnam LLC in latex consumption and logistics services in the future.

Tan Cang Logistics JSC- (HSX: TCL)

- Being a subsidiary of Saigon Newport Corporation and providing logistics services at Cat Lai port which accounts for nearly 80% of throughput in the South.
- In 2014, TCL invested two new RTG 6+1 cranes and exploited additional 21,205m2 container depot at Tan Cang-Cat Lai. With plan to become ICD Tan Cang-Nhon Trach, TCL continues to invest an additional 4ha depot which increases total exploitation area to 5.2ha and send one more Liebherr crane to operation. These expansions would improve considerably TCL's revenue and NPAT from 2015.
- In 2015, the commencement of Tan Cang – Hiep Phuoc operation (total capacity: 500,000TEUS/year) and expansion plan of Hai Phong 128 port (exploiting additional 75m docking berth and 1 more Liebherr crane) is driver for TCL's revenue growth.
- To solve the current overloading situation at Cat Lai port, TCL began to exploit Depot My Thuy right in 01/2015 with total area of 11ha located in the strategic industrial area in District 2 –HCMC.

Vietnam Container Shipping Corporation– (HSX: VSC)

- Greenport operation (capacity 350,000TEUS/year) has nearly reached full capacity in the past few years despite increasing competition from Gemadept, Dinh Vu and Doan Xa port.
- Total CFS area at the end of 2014 is 20,000m2 with utilisation rate of about 70%. In 2015, throughput in Hai Phong area is forecast to grow strongly which thus helps increase utilisation of this area of operation.
- New VIP-Greenport project (designed capacity 500,000TEUS/year) scheduled to commence operation in late 2015 would be a growth driver for VSC in the long-run. The new port has strategic location (right at seagate and situated on Dinh Vu peninsula) and could receive vessel upto 30,000DWT.

Vietnam Tanker JSC– (HSX: VTO)

- VTO has advantage of stable orders from parent company Petrolimex. At the same time, the time chartering contracts signed with Petrolimex also helps VTO minimise risk of volatile petrol prices.

- VTO is one of the leading petroleum products transporting firms in Vietnam with fleet of 10 tankers (~143,000DWT). Also, a relatively young fleet below 10 years also reduces company's maintenance cost.
- The firm's operating results stand to benefit from low fuel prices and the MOT's decision to continue banning foreign flagged ships to operate on domestic routes.
- VTO share, currently trading at great discount to book value (P/B~0.62), shall be another attractive point. However, risk of foreign exchange rate on USD denominated debts to purchase vessel from 2008 has to be monitored continuously (long-term debt at the end of 2014 is VND920 billion equivalently)

Hai Minh JSC - (HSX: HMH)

- With a relatively small scope of operation, HMH has been able to maintain stable performances, healthy financial position and a quite attractive dividend payout policy.
- Road transport capacity (account for ½ revenue structure) consisting of 90 truck is relatively strong compared with leading firm in Hai Phong area (VSC ~130 heads). In 2015, HMH plans to purchase 10 new tractors to meet increasing demand.
- Total depot area currently in exploitation is 7.5ha. Depot Long Binh (1.5ha) situated near Dong Nai port – one off the busiest port in the South. In 2015, the company's management is keen to invest 2.3ha of Depot in Cam river downstream (Hai Phong)
- Barge fleet restructuring project in 2014 has helped HMH save repairing expense and improve trip operating effectiveness. In 2015, the firm expects to launch one more barge into operation (56TEUS).

Gas Shipping JSC– (HSX: GSP)

- Being a subsidiary of PVT, GSP's operating performance has been very stable and highly effective over the years with the so-called monopoly right to transport LPG for Dung Quat and Dinh Co refinery plant.
- Currently, GSP owns a relatively young fleet of 7 ships and dominates LPG transporting market in Vietnam with total capacity of 21,000m3.
- Ship utilization rate in 2015 would be higher than 2014 given no periodic maintenance would take place in 2015 at GSP's major customer plants.
- In 2015, GSP plans to invest a new LPG ship worth VND253.2 billion, hence, would see total capacity up by 20%.
- Dividend yield is quite attractive given the current market price.
- In the middle term, the new Nghi Son refinery plant, expected operation in 2017 and capacity of producing 32,000tons LPG per year, would drive the firm's growth.

Cuu Long Petro Gas Transportation JSC – (HSX: PCT)

- PCT's main operation is transportation (taxi, office car rental and tank truck) and trading (machinery, parts and LPG products). PCT's transportation business is undergoing restructuring with taxi exploitation right transferred to other taxi companies to save operating cost and focuses resources on tank truck and office car rental business.
- In tanker rental business, PCT would buy additional 2 trucks in the plan to become the leading tanker rental company in the South with target of 20 tank truck heads in 2017.
- By having good connection with other PVN's subsidiaries, PCT's office car rental business is running relatively effective. In 2015, the firm would buy 20 new cars thereby increase the number of cars to 160.
- However, the risk that PVN's subsidiaries also invest in their own office cars could present as a barrier for PCT's office car rental business growth in the long-term.
- To create room for growth in the long-run, PCT's BOM is considering investment in a

quite potential area of transporting LPG for Ca Mau refinery plant (scheduled operation in 2017) on domestic sea routes.

Key financial , valuation and trading metrics

Ticker	Rating		Financial 2014				Financial 2015	Valuation			Trading			
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
CLL	Positive	Long term	18	-7	20	0.2	n/a	9.9	1.9	n/a	n/a	8	758	9.7
DVP	Positive	Long term	8	15	30	0.2	-9	8.5	2.4	9.4	9	4	1,948	13.6
GMD	**Positive**	**Long term**	**18**	**180**	**11**	**0.4**	**-51**	**6.1**	**0.7**	**12.5**	**-16**	**199**	**3,298**	**18.6**
GSP	**Positive**	**Long term**	**8**	**-33**	**8**	**0.3**	**59**	**12.0**	**1.0**	**7.6**	**-3**	**40**	**369**	**11.7**
HMH	**Stable**	**Long term**	**3**	**5**	**19**	**0.0**	**-7**	**6.2**	**1.2**	**6.7**	**14**	**35**	**259**	**3.4**
MHC	Positive	Medium term	9	357	44	0.1	n/a	3.0	1.9	n/a	121	270	382	12.2
PCT	**Stable**	**Medium term**	**14**	**107**	**7**	**-**	**n/a**	**9.8**	**0.7**	**n/a**	**67**	**144**	**189**	**9.9**
PDN	Positive	Long term	33	5	16	0.5	n/a	9.1	1.4	n/a	52	4	432	5.9
PVT	Positive	Long term	6	40	10	1.2	4	9.6	1.1	9.3	5	2,069	3,556	91.1
SFI	Positive	Medium term	34	58	18	0.0	32	5.9	1.2	8.7	-2	26	304	3.4
TCL	**Positive**	**Long term**	**17**	**26**	**21**	**0.3**	**12**	**7.3**	**1.4**	**6.5**	**24**	**39**	**712**	**6.2**
TCO	Positive	Medium term	-2	-8	13	0.1	16	7.6	1.0	6.6	10	34	179	6.5
VIP	Stable	Long term	-11	58	21	0.5	n/a	3.8	0.8	n/a	17	742	826	24.1
VOS	Not Rated		-7	136	6	11	n/a	11.9	0.7	n/a	50	62	840	61.3
VSC	**Positive**	**Long term**	**12**	**3**	**26**	**-**	**10**	**7.1**	**1.7**	**6.4**	**-6**	**26**	**1,753**	**-**
VTO	**Positive**	**Medium term**	**-2**	**17**	**5**	**0.8**	**n/a**	**12.3**	**0.6**	**n/a**	**16**	**639**	**647**	**34.0**

Source: RongViet Research

BANKING: THE MOST DIFFICULT TIME IS BEHIND

Nguyen Thi Phuong Lam (lam.ntp@vdsc.com.vn)

2015 Outlook

After two years of stagnancy dealing with NPLs and stabilizing their operations while the authorities did their job to overhaul the banking system, some of the largest banks show they are ready to grow again.

Whole-system NPL ratio can be reduced to 3% by the end of 2015. This statement is based firstly upon the SBV's imposition of new regulations forcing banks to be more determined in solving bad debts; for example, credit institutes with more than 3% of NPLs must sell bad debts to the VAMC (Decree 53) in order to dodge an inspection and are not allowed to open new branches (Circular 21). Also, only banks with NPL below 3% are accepted to lend on stock investment (Circular 36). Separately, Decree 36 increases the upper limit of short-term-capital-for-long-term-loans ratio from 30% to 60%, allowing credit institutes to restructure risky short-term debts as long-term debts before the provision that allows debt restructuring under Circular 09 expires (03/31/2015). Third, credit growth seems to be accelerating while the growth of bad debts is slowing with the VAMC's bad debt purchases, the two of which combined have effective reduced the whole-system NPL ratio.

Profitability will diverge among banks, depending on (1) how strictly loans were categorized and provided for in the previous years and (2) the each institute's ability of collecting off-balance-sheet debts given economic recovery. According to Circular 02 and the Amendment of Circular 09, from 01 January 2015, CIs must use the categorization provided CIC to adjust their own classifications. Accordingly, banks that have been following CIC's framework to classify and provide for loan will be less affected. In addition, those that have written off bad debts can also recognize profits if they can push the collection off-balance-sheet debts now that the real estate has begun to pick up and businesses are back on track.

New capital and M&A activities are expected to go strong, reducing the pressure to consolidate investments by the CIs under Circular 36. This document states that banks meeting the requirements to invest in stocks, unless it is supporting a weak CI under restructuring, may hold (a) the stocks of no more than two other CIs (excepting their subsidiaries) and (b) less than 5% of voting shares of other CIs. Under this provision, many commercial banks will have to lower their stakes in other banks, for example, Vietcombank, who holds 9.6% of MBB, 5.1% of OCB, 8.2% of EIB, 4.3% of Saigonbank and 10.9% of Cement Finance Company, Maritime, who owns 10.2% of MDBank, 11% of Vietnam Textile-Garment Finance JSC and 9.95% of MBB, CTG with 10.4% of Saigonbank and Techcombank with 10% of Chemical Financial Company... Conversely, we see many plans to issue share purchase right and M&A deals among CIs, many have been announced such as those of BID, VCB, MBB, Saigonbank, Maritime, etc. The increase of equity capital by the investees via new issuance will help reduce the ownership ratio of the non-controlling investors while M&As will reduce the total number of banks. Both approaches will help decrease the pressure on banks to consolidate their investments.

The banking industry has come to the last step of the 5-year restructuring scheme (2011 – 2015), NPL clean-up has also become much easier thanks to (1) the inception and active working of VAMC and (2) the improving pace of debt collection following the government' policies to support the manufacturing and real estate sectors. Besides, banks have actively switched the focus of their services from large corporates to retail clients such as SMEs, households and individuals. This shift has not only helped banks avoid relying too heavily on interest income which is quite sensitive to the SBV's monetary policy, but also to improve their NIMs, the key profitability indicator that has been on a continuous decline since 2011. All these combined has fired up a rally banks' stock earlier this year as investors looked for a new market leader after O&G stocks fell short.

Key drivers

- From Jan 1st 2015, CIs must use CIC's debt classifications and is halted from the reclassification of loans by their own measures as well as the extension of maturing loans.
- A proposal to allow bad debt sales and purchases at market prices, a measure expected to boost NPL clean-up, has been submitted for the SBV's approval.
- M&A activity between CIs will be more vibrant.
- Circular 36, the newest legislation regulating limitations and safety ratios in CIs' operations has come into effect on Feb 1st 2015.

Risks

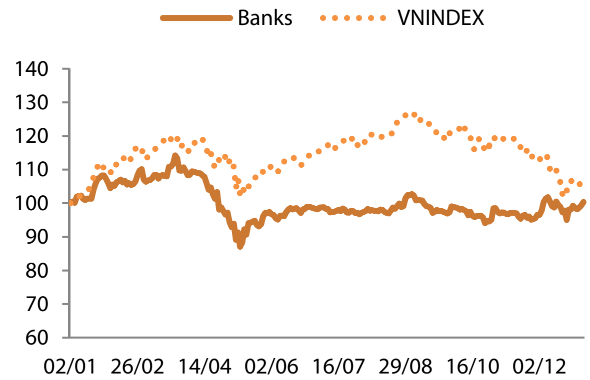
- NPL clean-up may remain slow and the mark-to-market debt transactions may not be as efficient as expected, which renders improvements in CIs' balance sheet quality temporary rather than permanent.
- The real estate market may not recover as strongly as expected, resulting in ineffective handling and recollection of mortgage loans.
- CIs have turned to the government bond market to rid of excess liquidity, resulting in low NIMs and interest income which accounts for a large part of their total income.

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	+
Legal environment	+
Long-term growth potential	++
Technological development	+
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

We believe challenges still await in the banking sector for risks remains in the restructuring of the economy and competitive pressures would likely increase when most banks shift their focus the retail segment. In this context, banks with good risk management and experience in retail service should be able to make it to the front of the line. With this view, the banks we are about to mention below are appreciated for one or all of the following traits of (1) risk management system, (2) experience and adept in retail banking, (3) positive earnings prospect in respond to the recovery of the real estate and construction sectors.

Stock picks

JSC Bank for Foreign Trade of Vietnam (HSX: VCB)

- VCB's loan classification system closely resembles that of CIC and the Bank has also took quite an aggressive stance in NPL provision in 2014. Effectively, its provision balance at the end of 3Q2014 was higher than its bad debt balance. We believe that VCB will be affected the least when Circular 02 and 09 takes effect.
- Operating costs have effectively managed and maintained less than 40%.

- As the leading bank in export-import payments and forex trading, VCB has many chances to grow its non-interest income when Vietnam's foreign trade recovers along with the economy.
- Playing the role of a state-owned commercial bank, VCB must involve in the banking restructure process. Its latest assignments include:
  Taking over SaigonBank in an M&A deal directed by the SBV. The upside about this deal is VCB can expand its current asset base and branch networks without spending tons of time and expenses. The downside is the deal itself may be costly to implement.
  Support the restructuring of VNCB: According to the publicly announced information, the support limits to sharing senior management with VNCB. VCB has had much experience assisting smaller banks' overhauls (those of Eximbank and Giadinh Bank for example) so this should not be too much of a challenge for the CI. However, we suspect that VNCB will be made to merge with another bank once it is healthy again and there is no reason why VCB cannot be the counterparty in this deal.

JSC Bank for Investment and Development of Vietnam (HSX: BID)

- Positive business results in 2013 and 2014 with EBT growing by 56% and 14% in respective years. BID's 2015 PBT-after-provision growth guidance is about 24% with off-balance-sheet debt collection accounts for 24% of PBTAP.
- BID has a relatively strict loan classification system and high provision-to-total-bad-debt ratio (90%).
- In 2014, BID sold more than VND6 trillion in bad debts to the VAMC and wrote off more than VND4 through provision. The NPL ratio thus fell sharply to 1.9% by the end of 2014.
- The capital adequacy ratio can be improved but ROE would possibly decline due to BID's additional equity issuance plan which includes (1) 10% issuance to existing shareholders in 1H2015, (2) 15% private placement for strategic investors and (3) 10% issuance to financial investors.

JSC Bank for Military (HSX: MBB)

- The development of the retail banking arm has brought fruits where the proportions of fee and service income increased to 11.8% in nine months to September 2014 from 9.6% a year earlier. The plan to cooperate with Viettel to take advantage of telco's network to carry mobile-phone-based payment and money transfer services promises to further improve the bank's non-interest income.
- MBB's NIM slightly recovered in 2014 and was the second highest (after STB) among listed banks. MBB is also highly valued for its efficiency in operating cost management.
- MBB's stable dividend policy makes the stock more appealing to income-oriented investors.

JSC Bank for Asia (HNX: ACB)

- In the third year of ACB's overhauling scheme (2012-2015), early restructuring results have proven the reasonableness of the bank's management:
  - The quality of the balance sheet has been improved following ACB's stern measures to address its NPL problem. The NPL ratio at the end of 2014 dropped to 2.2% (based on unaudited financial statements) from 3% by 2013.
  - Operating expenses/Total income has been better controlled (down from 73% in 2012 to 64% in 2014). ACB has also scarified its profits for bad debt provisions with the provision expense/ PBT ratio averaging 41% for the 2012 – 2014 period.
  - Lending growth has recovered strongly and reached 8.6% for the year ending December 2014 and NIM increased slightly to 3.04%. PBT (after provisions) thus increased by 17%.
- After ACB's restructuring process is complete, we expect the bank's strength and experience in retail banking will help it record better growth in the coming years.

Key financial, valuation and trading metrics

Tickers	Rating		@31/12/2014 (VND bn)		2014								Trading			
					Growth(%)											
			Total Assets	Charter Capital	Deps	Crt	PAT (VND bn)	ROAE	NIM (%)	NPL (%)	P/E Trailing	P/B Cur.	+/- Price 1year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (%)
ACB	**Positive**	**Long term**	**179,610**	**12,397**	**11.9**	**8.6**	**952**	**7.6**	**3.0**	**2.2**	**16.1**	**1.2**	**2.9**	**459**	**15,487**	**0.0**
BID	**Positive**	**Medium term**	**650,364**	**33,367**	**30.0**	**14.1**	**5,029**	**15.4**	**2.8**	**1.9**	**10.4**	**1.6**	**16.4**	**1,888**	**52,288**	**29.2**
CTG	Not Rated		661,132	55,013	16.4	16.8	5,712	10.5	3.2	1.1	12.6	1.3	20.0	1,336	72,234	1.1
EIB	Not Rated		161,104	14,068	27.6	4.2	56	0.4	2.1	2.5	289.4	1.2	-2.9	912	16,229	4.5
SHB	Neutral	Long term	169,363	10,516	35.8	36.6	818	7.8	1.9	2.0	9.7	0.8	8.2	4,179	7,975	13.3
MBB	**Positive**	**Long term**	**200,489**	**16,561**	**23.2**	**14.1**	**2,476**	**15.6**	**3.8**	**2.9**	**6.6**	**1.0**	**-2.0**	**2,102**	**16,347**	**20.0**
STB	Neutral	Long term	189,803	18,069	23.9	16.0	2,212	12.6	4.6	1.2	10.0	1.2	-10.6	1,258	22,165	23.9
VCB	**Positive**	**Long term**	**574,260**	**44,181**	**26.1**	**18.1**	**4,629**	**10.7**	**2.4**	**2.5**	**22.1**	**2.3**	**50.8**	**1,020**	**102,337**	**9.0**

Source: RongViet Research

BUILDING MATERIALS: DIFFICULTIES STAY BEHIND

Huong Pham (huong.pt@vdsc.com.vn)

2015 Outlook

The frozen real estate market and the declines in construction activities create a hard time for building material companies during 2010-2013. Due to low demand and high inventory, some businesses, especially cement ones, had to operate at below breakeven point. However, the warming of the real estate market and the recovery of civil and industrial constructions in 2015 could improve quantities of output and thus revenues and profits of building material companies.

Many factors support building material consumptions

The recent statistic of the Ministry of Construction showed that real estate and construction industry are having positive signals of recovery. Specifically, construction sector's production value grew 10.2% in 2014 and was forecasted to increase by 10% in 2015. Many real estate projects such as Vinhomes Central Park Newport, The Landmark, Masteri Thao Dien, building R6 Vinhomes Royal City, Vinhomes Riverside, Imperia Garden...will be launched this year thanks to policy supports to the industry.

In transport infrastructure, there are about 169 projects break ground and inaugurated in 2015. Of which, several key projects such as Ninh Binh - Thanh Hoa - Vung Ang, Trung Luong - My Thuan highways,…are speeding up the progress. In addition, abundant FDI flows and the recovery of the economy also promote the construction of plants and warehouses in Vietnam. Above-mentioned factors would have positive impacts on construction activity and demand for all kinds of building materials, especially cement, plastics, iron and steel.

Input costs are moving in opposite directions

Transportation costs of many building material businesses had strongly increased due to truckload control policy and high fuel prices at midyear 2014. However, the decline in crude oil prices (lost about 40% from the peak) might gradually improve NPAT margin. In particular, firms produce plastic pipes and construction rocks that having long distance markets could benefit more than the ones near consumption markets. Besides, the companies importing clinker, HT1 for example, will also save a considerable part of the cost of transporting gas prices fell due. At the same time, crude oil prices also led to a decrease in the price of crude oil products such as fuel oil, DO (fuel, cement rotary kiln) and the type of resin (PVC, HDPE, PPR - the main raw material in plastic pipe production). In contrast, the prices of electricity, water are expected to be adjusted according to the future route. Meanwhile, the cost of production enterprises will significantly increase. As for the cement industry, electricity costs typically account for about 10-12% of the cost of production. This will increase the difference in margins between the factory has advanced production technology, low power consumption and factory with old technology.

CEMENT

Limited new supply and growing domestic demand could lower inventory and maintain price

By the end of 2014, there were 74 cement projects with total design capacity of about 77.35 million tons/year and the actual capacity could reach 73-74 million tons/ year. According to a recent statistic of Vietnam National Cement Association, the consumption of cement in 2014 was 70.6 million tons, up 15% compared to 2013. It means that the supply - demand gap is significantly narrowing down. In 2015, the Ministry of Construction supposed that domestic demand for cement could rise approximately 3 million tons (+ 6%) and would contribute to improve oversupply in the domestic market.

In 2015, cement supply shall not have much change because only 1 small cement project (design capacity of 0.6 million tons/year) got permission to operate in this year (stated in new plan of the Ministry of Construction). Positive growth in demand but only a little change in supply could help maintain cement inventory at moderate amount and allow businesses to raise prices to improve profitability.

Financial profit of cement companies can improve thanks to the decrease in interest and VND / EUR exchange rate

Using high debt is one of the specific characteristics of the cement businesses. By the end of 2014, debt to equity ratios of the majority of listed cement companies still quite high (HT1: 1,9x, BCC: 2,3x, BTS: 2.5 x...). As a result, enterprises experience considerable financial pressure and some even got negative growth in the period 2011-2013. However, interest rate remains low and still have chance to further decline could be a supporting factor for the profitability of the cement businesses.

Cement businesses relating to Vietnam Cement Industry Corporation (Vicem) often have large euro debts arising from investment for production line. This caused huge foreign exchange losses in the 2009-2010 period when the euro rose sharply against the U.S. currency. At the end of 2014, the amount of EUR outstanding loans of BTS, HT1 and BCC still accounted for nearly a half of the total debt. As mentioned in the "macroeconomic outlook", the ECB's QE bond buying plan (start from March, 2015) might make the VND/EUR fall sharply in 2015. In fact, by February 28, the euro had lost 9.1% compared with the beginning of the year. Thanks to that, many cement enterprises could record high profit from exchange rate differences this year.

BUILDING PLASTICS

Industry competition is getting more and more intense.

Up to now, there are four listed businesses specialize in manufacturing plastic pipes: Binh Minh Plastic (BMP), Tien Phong Plastic (NTP), Da Nang Plastic (DPC) and Dong Nai Plastic (DNP). Of which, two major listed companies BMP and NTP holds more than 50% proportion of plastic construction market. Low barriers to entry raise competitiveness in the industry. Furthermore, many businesses, especially small ones, are struggling for market share by raising agent commissions and lowering their bids on projects, led to affect the growth and profit margin of two leading firms. The recent penetration of Hoa Sen Group, owning wide distribution network and strong financial position, will significantly increase rivalry in the plastic pipe market. In summary, despite of high demand, sales and profit of plastic pipe companies could hardly grow as expected because of fierce competition in the market.

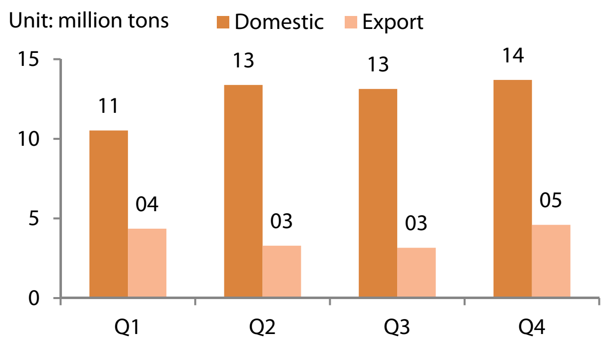
Key drivers

- Positive growth in industrial, infrastructure and residential constructions could promote domestic demand for building materials.
- Interest and VND/EUR exchange rate might continue falling this year. This could help improve profits for financing activities of the businesses.
- The declining tendency of some major fuels (coal, fuel oil, diesel oil) might enhance profit margins for building materials businesses.

Risks

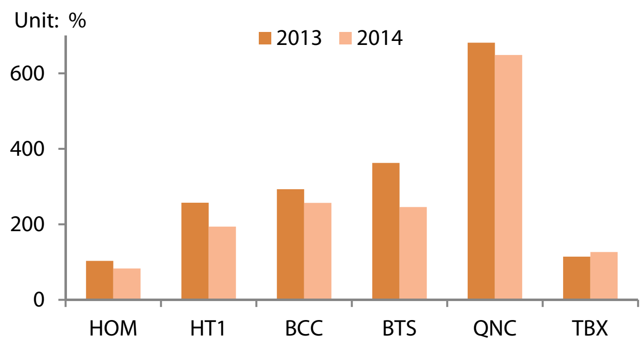
- Demand could lower than expected.
- Prices of raw materials and fuel could significantly rise.

2014 cement consumption



Sources: Vietnam National Cement Association, Rong Viet Research

Debt/Equity ratios of some cement companies



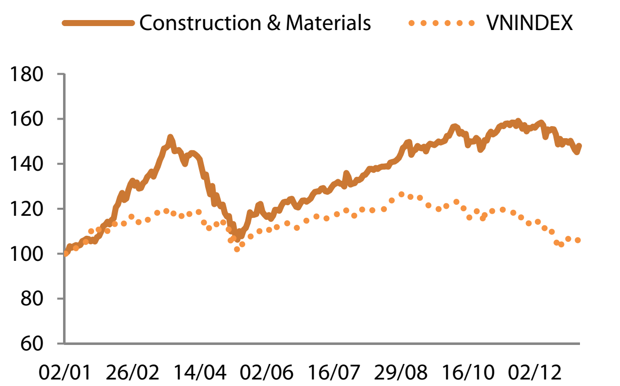
Sources: Rong Viet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	++
Input cost	
Legal environment	+
Long-term growth potential	+
Technological development	+
Competition	
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

For building material industry, while the market demand is recovering, the enterprises that have wide distribution systems, strong brand name and being able to expand capacity within the year could maintain and even increase their market shares. Particularly cement, businesses may get more benefit if having target markets near FDI attracting province or getting many real estate and transportation infrastructure projects such as Hanoi, Ho Chi Minh City, Tay Nguyen, Hai Phong, Binh Duong, Dong Nai, Da Nang, Nghe An, Ha Tinh ...

Stock picks

Binh Minh Plastics JSC (HSX: BMP)

- BMP is one of the largest enterprises in Vietnam's piping construction field with about 1500 distribution stores across the country. Particularly in Southern area, BMP holds the dominate market share (~ 90%).
- The fourth factory in Long An has a design capacity of up to 160,000 tons/year and is expected to operate in early 3Q2015. Phase 1 of the plant could make about 5,000 tons of pine parts, equivalent to an increase capacity of nearly 9% in 2015. Since 2016, Phase 1 could raise approximately 26% overall system capacity compared with the current level.
- The retroactive tax has been reduced by about VND29 billion from the initial one (VND75 billion) and it may have further cut down.
- BMP has a history of regular dividend payments with an annual rate from 20% to 30%. For the fiscal year 2014, BMP plans to pay 35% cash dividend (10% paid in advance at the end of 2014). In addition, retained earnings and capital surplus balance are quite large so the ability to pay dividends by shares is expected.
- Holding large ownership in Da Nang Plastics Company (29%) could be initial steps of

BMP to dominate the market in the middle of Vietnam.
- We appreciate the information transparency of BMP. In addition, the Company's managers are quite actively searching for effective operational strategies; despite major shareholder is a state-owned enterprise.
- SCIC's divestment plans from BMP could improve liquidity and support BMP stock prices.

Tien Phong Plastic JSC (HSX: NTP)

- Like BMP, NTP is a well-known enterprise in piping construction field with over 70% market share in the North and 30% domestic market. One of the most outstanding strength of NTP is that it can produce large size pipes with diameter up to 2,000 mm.
- NTP's Nghe An factory with design capacity of 20,000 tons/year has been working since the end of 2013. Currently, the plant has been operating quite well and can immediately increase capacity; help NTP raise market share in the central markets. Besides, the plant in Nghe An is also entitled to tax incentives (tax exemption for 4 years since earning profit and 50% corporate income tax in the next 9 years).
- High agent's commission and devoted customer care policy can make the greatest competitive advantage for NTP.
- NTP has a history of regular cash dividend payments with the rate of 15-35% per year.
- SCIC's divestment plans (own 37.1%) from NTP could improve liquidity and support NTP stock prices.

Vicem Hoang Mai Cement JSC (HSX: HOM)

- With a design capacity of 1.4 million tons/year, HOM is currently the market leader in cement consumption in the central region (~ 11%).
- HOM has abundant advantage of raw materials. Hoang Mai B limestone mine (reserve 132.6 million tons) and Quynh Vinh clay mine (reserve 4.3 million tons) could be enough for HOM to continuously operate for 70-80 years.
- In the period 2015-2020, HOM plans to build Hoang Mai 2 factory (design capacity of 4.5 million tons/year) in Dong Hoi Industrial Park, one of the major industrial zones in Nghe An. Thanks to locating near Dong Hoi deep-water port, the new plants could have many benefit on transportation of raw materials and finished goods.
- Nghe An and Ha Tinh, two key markets of HOM, are having many industrial and transport infrastructure projects in the period 2015-2020 such as National Highway No. 1A, Dong Ho deep-water port, Cua Lo port and Ton Hoa Sen factory, $20 billion steel plant of Formosa Corporation (Taiwan) ...
- HOM has good financial base, high ROE and the lowest debt ratio in the cement industry (Debt/equity ratio was only 0,8x).

Ha Tien 1 Cement JSC (HSX: HT1)

- HT1 is the largest cement producer with capacity of 7.3 million tons per year, accounting for about 9% of domestic market share (2014). The majority of its technologies are newly invested; therefore, fuel consumption of HT1 is relatively low compared to other firms in the industry.
- Most clinkers of HT1 are imported so low gasoline prices could reduce some transportation costs.
- Ho Chi Minh and some Mekong Delta provinces are main markets of HT1. Some key projects in these provinces are restarted or newly invested such as Ben Thanh - Suoi Tien Metro, Trung Luong - My Thuan Expressway, Vinatex garment factory, etc. In particular, many large investment projects in Phu Quoc Island will support the consumption of HT1 in the long term.
- HT1 uses a large amount of debt to finance fixed assets and business activities

(Debt/ownership equity ratio is 1,94x). If the loan interest rates could continue reducing, HT1 could save a part of interest expenses and enhance profits from financing activities.

- By the end of 2014, HT1still remained a large foreign currency debt in euros in 2014, about 1,806 billion (representing ~ 35% of loans and long-term debt). If the euro continues to weaken in 2015, the HT1 could recognize a foreign exchange gain.

Bim Son Cement JSC (HNX: BCC)

- BCC is now the second largest firm in VICEM group (after HT1) and the fourth corporation in the whole country (after HT1, Holcim and Nghi Son). The production capacity of clinker and cement of BCC turn out at approximately 3.1 and 4.0 million tons/year, respectively.
- The target markets of BCC are some Northern provinces and the Central and Tay Nguyen - the regions having many restarted and new projects such as Samson Beach & Golf Resort FLC, Ninh Binh - Thanh Hoa - Vung Ang Highway...
- BCC owns Yen Duyen limestone mine has a reserve of 3,000 million tons and 2 clay mines with total reserves of 300 million tons. Above material sources are enough for BCC to work in 50 years.
- Dai Viet grinding station in Quang Ngai (design capacity of 0.5 million tons of cement/year) is still likely to increase the capacity.
- BCC still has a big debt in euros, make up 69% short and long term debts. In 2015, if the euro continues depreciating, BCC will be record a gain from exchange rate differences.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BCC	**Positive**	**Long term**	**16**	**851**	**13**	**2.3**	**63**	**10.7**	**1.2**	**6.5**	**166**	**298**	**1,732**	**42.2**
BMP	**Positive**	**Long term**	**16**	**2**	**24**	**0**	**24**	**9.6**	**2.1**	**7.8**	**9**	**37**	**3,638**	**-**
BT6	Positive	Medium term	-27	53	4	1.4	-5	16	0.6	16.9	-5	18	271	13.2
BTS	Positive	Long term	2	-154	12	2.5	n/a	8.8	1	n/a	100	12	1,069	53.4
C32	Not Rated		6	8	30	0.1	n/a	4.9	1.3	n/a	12	6	349	3.5
CVT	Positive	Long term	11	165	26	1.1	n/a	7	1.7	n/a	165	208	448	7.7
DHA	Positive	Medium	16	76	5	5	-	37.5	14.9	0.7	10.8	55	53	221.4
FCM	Positive	Long term	15	-35	6	0.7	n/a	13.6	0.9	n/a	-37	487	402	19.2
GTN	Not Rated		417	272	11	0	9.8	12	1.3	10.9	n/a	1.402	1,047	33.3
HOM	**Positive**	**Long term**	**12**	**2,710**	**5**	**0.8**	**134**	**14.8**	**0.7**	**6.3**	**18**	**28**	**623**	**30.3**
HT1	**Positive**	**Long term**	**6**	**12,099**	**9**	**1.9**	**60**	**20.1**	**1.7**	**12.6**	**103**	**379**	**6,200**	**133.3**
NTP	**Positive**	**Long term**	**21**	**12**	**24**	**0.6**	**8**	**9.1**	**2**	**8.4**	**4**	**71**	**2,947**	**7.3**
SCJ	Not Rated		7	208	12	0.4	n/a	8.4	0.7	n/a	98	20	195	9.4
VCS	Not Rated		57	196	23	2.4	n/a	13.8	1.8	n/a	109	223	1,403	20.6

Source: RongViet Research

AUTOMOBILE RETAIL: BRIGHT FUTURE AHEAD

Van Banh (van.btt@vdsc.com.vn)

2015 Outlook

Based on the statistic published by General Statistics Office of Vietnam (GSO), the Retail Price Index (RPI) shows a positive sign with spectacular growth of 11.9% in January 2015(excluding inflation rate). Such positive signal marks the recovery of retail industry. Of which, thanks to the positive outlook of the automobile industry, we believe automobile retail segment will achieve the highest growth rate in the entire retail industry.

During 2013-2014, automobile industry witnessed an impressive recovery with 2 digit number growth of 20% and 40% respectively (according to VAMA's report). Industry outlook in 2015 is also supported by four optimistic factors from policy and macroeconomics. Firstly, credit demand for automobile industry is higher due to the low interest rate environment (around 7 to 9% for short and medium term loans). Secondly, according to circular No. 06/VBHN_BGTVT, the government keeps tight control on truckload allowance with heavy fine for any breaching found specified through Decree No. 171/2013/NĐ-CP. Thirdly, increased investment in public infrastructure supported by public investment policy (30-35% of GDP is allocated as development investment fund). Lastly, the Consumer Confidence is increased continuously in all four quarters of 2014; compared with corresponding period last year (average growth rate of 2014 is 5%).

Vietnam automobile market can be categorized by the two main product lines: imported cars and locally assembled cars. We believe that retailers who distribute **commercial car (CV)** such as truck, tanker truck and dumper will see the highest growth rate thanks to tightening truck load policy. Besides, the economic recovery also leads to increasing demand for transportation of goods plus imported car tariff was reduced to 50% since 2014. In contrast, in 2015, distribution of **passenger vehicle (PV)** may experience slower growth rate than 2014 when buyers may delay their purchases decision till import tariff is cut to nil as a result of the ASEAN Trade in Goods Agreement (ATIGA. We expect that this segment's growth rate would quicken after Vietnam's import tariff being abolished in 2018.

These factors also impact positively on the distribution of domestically assembled cars segment in both commercial vehicles (CV) and passenger vehicles (PV) segments. In addition, locally assembled cars are more affordable hence more attractive to customers compared to the imported. Hence, locally assembled cars become relatively very competitive on price. Notably, the price gap between imported passenger cars and domestically produced car is expected to widen in the future. The Ministry of Trade proposed cutting tariff on passenger cars (PV) which have low engine capacity of less than 2.0L while raising tariff for passenger cars (PV) with higher capacity (over 3.0L). However, despite some amendments regarding the special consumption tax law staying inapplicable in 2015, the government has announced that they will consider reducing special goods consumption duty for cars and trucks in the next three years.

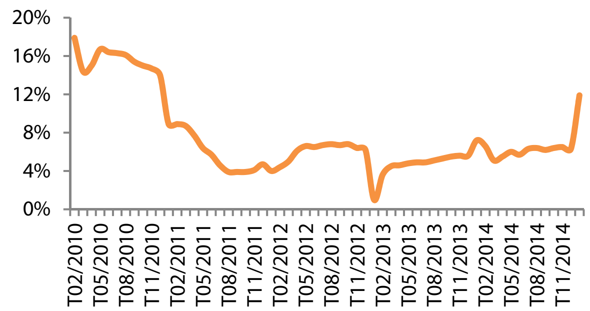
Key drivers

- Low interest rate environment (7-9 % for short and medium-term loans) stimulates demand for consumer loans.
- Increasing investment in public infrastructure supported by public investment policy (30-35% of GDP is allocated as development investment fund).
- Tax cut agreement from ASEAN Trade Agreement (ATIGA) (down about 50% from 2014 and the 0% in 2018).
- Tightening truckload policy (TT 06 / VBHN - BGTVT) encourages demand for commercial vehicles (CV).

Risks

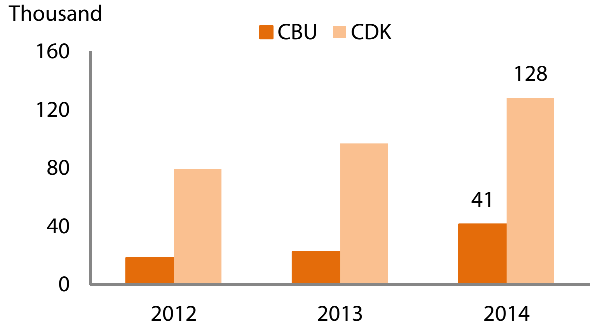
- Automotive retail industry may have a slower growth rate in 2015.
- Intense competition between automobile retailers.

Retail price index (RPI) in 2008-2014



Source: CBRE

Sale volume of imported car and locally assembled car



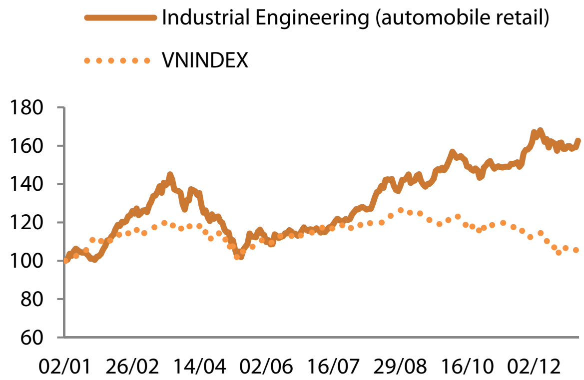
Source: CBRE

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	++
Input cost	+
Legal environment	+
Long-term growth potential	+
Technological development	+
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

Based on the above analysis, we believe that automobile retail stocks will have strong prospects in 2015. In particular, investors should pay more attention to retailers that provide commercial vehicles (CV) with imported brands likes Dongfeng, Hino,... And we also recommend retailers specializing in distributing passenger car assembled domestically such as Toyota, Suzuki, Daihatsu, ...

Stock picks

Hoang Huy Investment Services Joint Stock Company (HSX: HHS)

- HHS is the exclusive distributor for Dongfeng's heavy trucks in VietNam. Tightening truckload policy is a favorable factor for the firm.
- Limited number of employee aids to reduce administrative expenses.
- HHS sets revenue and NPAT target for 2015 equal to VND 1,500 billion , up 5.4% y-oy and VND 140 billion which is 3.7% higher than last year.
- In 2014, GEM has committed to buy around 4 millions HHS shares with total of capital approximately $16 million. However, until recently, GEM only bought ¼ over the committed amount. Disbursement process lacks of transparency and is not considered as a catalyst for HHS in 2015.
- The board of director has strong mangagement skills and a long-time serving at the company. Domestic shareholders account for nearly 99.07% while foreign shareholders

remain insignificant.

Saigon General Service Corporation (HSX: SVC)

- SVC holds a relatively large share of Vietnam vehicle distribution market with distribution of well-known brands such as Toyota, Ford, GM-Daewoo, Suzuki, Honda, …
- Using real estate project to support automobile retail sector.
- Sucessfully possible transfer of two projects SAVICO Plaza in Pho Quang and Ho Tung Mau Street would produce abnormal profit for SVC.
- Expected to withdraw capital from real estate projects to realign focus to higher profit margin segment such as system service , repair and supply of automotive spare parts.
- Stable dividend ratio of 7.3%.
- Dependence on the management strategy of Ben Thanh group.

Truong Long Auto&Technology Joint Stock Company (HSX: HTL)

- The company is a distributor of trucks assembled and imported by Hino Motors Joint Venture Company in Vietnam as well as Tadano- branded cranes. The company is engaged in trading of various types of specialized trucks and spare parts such as garbage truck, lorry, crane truck, …
- The company has an advantage in importing Japanese truck thanks to the drop in Yen (Yen decrease down about 8% in 2014).
- As a distributor for Hino Motor VN, HTL can be rewarded if achieving Hino's annual sale target. In 2014, by surpassing sale's target, HTL is able to increase its others revenues which account for 30% total NPAT.
- In 2015, the company expects to expand its distribution system by establishing a new branch in the North and Central region.
- By specializing in uncommon trucks such as crane trucks, lorry, gabage struck, the firm can avoid direct competition with strong brands like Thaco, Vinamotor,..
- Ownership structure with Sumimotor group accounts for 25.56% shares and the chairwoman holds about 25.32%.
- The dividend yeild ratio is expected to be 20%.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- REV (%)	+/- NPAT (%)	ROE (%)	D/E (lần)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
HHS	**Positive**	**Long term**	**185**	**66**	**18**	**0.0**	**1**	**6.6**	**1.7**	**6.7**	**81**	**1,112**	**1,015**	**26.9**
HTL	**Positive**	**Long term**	**76**	**198**	**43**	**0.0**	**n/a**	**4.8**	**0.8**	**n/a**	**155**	**2**	**299**	**0.4**
PTB	Not Rated		15	21	33	1.2	38	6.2	1.5	6.6	136	26	696	5.5
TMT	Positive	Long term	172	1,288	20	0.6	141	8.4	0.4	9.8	404	100	520	13.7
SVC	**Positive**	**Long term**	**21**	**27**	**7**	**0.6**	**25**	**8.0**	**0.5**	**8.2**	**110**	**88**	**412**	**8.4**

Source: RongViet Research

PACKAGING : ON THE GROWTH TRACK

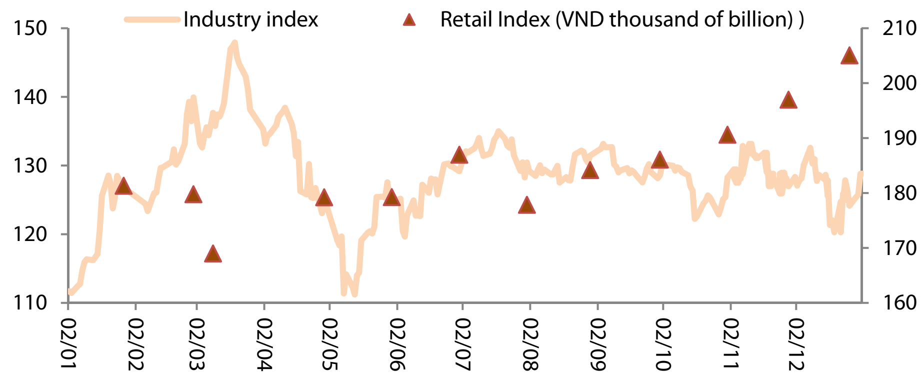
Trien Le (trien.lh@vdsc.com.vn)

2015 Outlook

Classified as auxiliary industry, packaging industry business is highly related to import and export activities and consumer goods industry.

We observe that packaging industry index has been tracking retail sales index with the approximate lag of 2 months.

The correlation between packaging industry and retail sales index



Source: Bloomberg

In this correlation, positive signals in packaging industry could come from improvements in consumer consumption index as well as the general economy. Recently, retail sales index in the first 2 months of 2015 posted spectacular growths of 16.6% and 14.5% (y-o-y) respectively. So, the optimistic 2015 GDP forecast of ~6% could indicate a good recovery of retail sector which could bring positive impact on auxiliary industry such as packaging.

Additionally, the imminent signings of various bilateral and multilateral trade agreements such as TPP, FTA Vietnam-Korea, Vietnam-EU, Vietnam-Belarus-Kazakhstan-Russia could be a stressing point for 2015. As a result, the number of exporting orders including seafood, textile products, is projected to grow considerably leading to increasing demand for packaging products.

Moreover, the industry is poised to enjoy advantage from low input price. In specifics, input price for printing paper packaging (Old corrugated container or "OCC wastepaper") has declined as Chinese economy slows down, reducing Kraft storage demand. Also, PET bottle and plastic packaging production benefit from the downtrend of plastic resin price (ABS, PP, HDPE and LDPE) resulted from the crude oil price slump. We believe the low input price could well remain for the rest of 2015.

Currently, a high number of companies are interested in joining the packaging market with various product lines such as paper, plastic, metal film, PET bottle… However, the majority of these manufacturers only serve a small group of customers; with high-value deals of key customers taken up by long-established packaging companies. For instance, unlisted companies Ngoc Nghia, Bao Van are accounting for 80% market share of PET bottle; Tan Tien Plastic and Rang Dong Plastic Corporation are dominating the environmentally friendly plastic packaging segment, paper packaging segment for liquid milk products is in the hand of technologically advanced companies including Tetra Pak (Sweden), Combibloc (Germany).

We observed the increasing investment in packaging industry since 2013 as the economy bottomed out with expansion plans from both domestic and FDI companies such as Nike

Dragon, Lee&Man, SGC. Particularly, Nike Dragon invested a 300,000 tons/year production plant, Lee&Man committed a USD 1.2 billion worth plant investment with capacity of 600,000 tons/year in Hau Giang province or Vina Kraft raised its FDI registered capital to USD 180 million for production expansion of additional 225,000 tons/year. Nevertheless, competition from FDI packaging producers on domestic companies are not necessarily high because (1) room for growth in the industry is still available with domestic production meeting only 76% of domestic demand, growth opportunity remains for both Vietnamese and foreign companies, (2) FDI and Vietnamese listed companies target different packaging segments, high-quality Kraft paper and medium segment respectively, (3) the expanded production capacity is not all added in 2015, hence, would not oversupply the market this year.

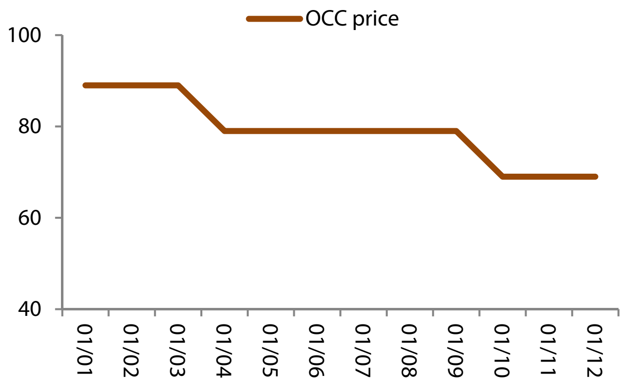
Key drivers

- Economic recovery can cause increased consumption.
- FTA, TPP agreements officially coming into forces will raise export order number (textile, seafood), leading to increasing demand for packaging products.
- Low input material price could be another advantage.

Risks

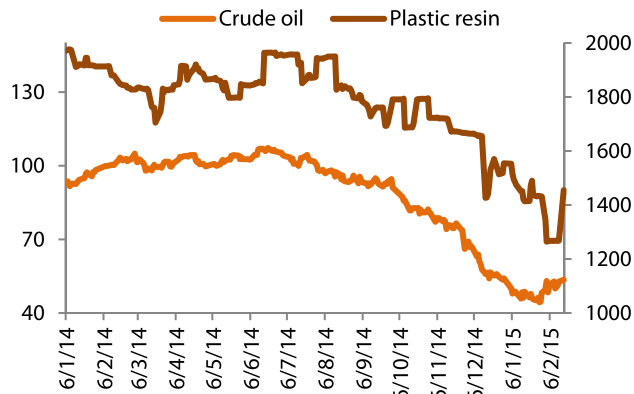
- Recovery of the economy may not go as expected threatening consumer purchasing power.
- Volatile material price.

OCC wastepaper price in 2014



Source: Bloomberg

The correlation between crude oil and plastic resin price in 2014



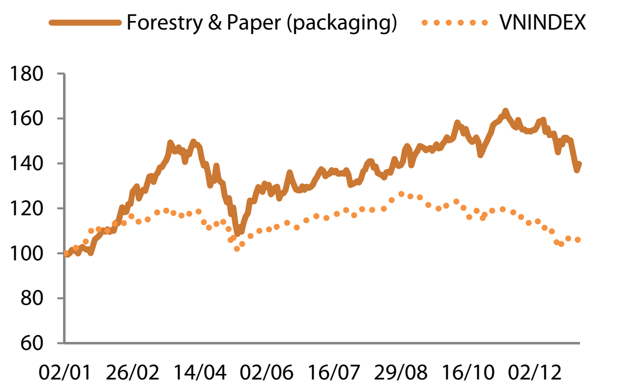
Source: Bloomberg

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	+
Legal environment	
Long-term growth potential	++
Technological development	+
Competition	-
Overall	**POSITIVE**

Source: Bloomberg

Sector price index versus VNIndex



Source: Bloomberg

Company selection

Listed companies selection is rather limited due to the fragmented nature of the industry or the lack of liquidity. Thus, we recommend investors choosing packaging companies possessing a strong and growing customer base, having strategic production plants location and feasible expansion plans.

Stock picks

Dong Hai Joint Stock Company of Ben Tre (HSX: DHC)

- Production plant capacity is increased from 1.7 million boxes/month to 2 million boxes/month.
- Expanding Testliner (high quality kraft) revenue component commanding high gross margin.
- Launching a new higher -quality product (25% paper powder).
- Investing in European electric motors to reduce electricity consumption over 10%.
- Imported paper material price is on declining trend.
- Negotiating with material suppliers to reduce price of input by ~2%.
- Dividend rate is 20% in cash and stock equivalently to dividend yield of ~9.7%

Bien Hoa Packging Company (HSX: SVI)

- One of the three leading paper packaging manufacturers in Vietnam Southeast region.
- In 2015, the carton packaging plant in My Phuoc-Binh Duong will operate phase 1 with capacity of 30,000 tons/year and begins investing machinery for phase 2 (capacity of 15,000 tons/year) of VND 100 billion.
- Customer structure focuses on leading consumer goods brands such as Unilever (15-20% of revenue), Friesland Campina (5%), Masan (5%).
- ***Note***: SVI liquidity has been low with Dong Nai Food Industrial Corporation (DOFICO) holding about 53.72% of the company stake. However, DOFICO has planned to divest investment in SVI from 2018, which would promise to improve the company's liquidity significantly as well as create opportunities for investors who are interested in SVI.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
AAA	Stable	Medium term	35	-15	7	0.6	8	7.7	0.7	7.2	-19	817	515	11.7
CAP	Not Rated		7	6	31	0.2	n/a	6.2	1.8	n/a	24	5	107	1.5
DHC	**Buy**	**Medium term**	**20**	**59**	**18**	**0.4**	**-1**	**7.3**	**1.3**	**7.4**	**71**	**57**	**322**	**5.3**
HAP	Not Rated		1	19	5	0.7	n/a	7.8	0.4	n/a	1	161	260	13.1
SPP	Not Rated		30	-19	4	1.9	n/a	10.2	0.4	n/a	-11	8	87	2.4
SVI	**Stable**	**Long term**	**13**	**-7**	**25**	**0.8**	**9**	**6.4**	**1.5**	**5.9**	**-2**	**0**	**416**	**4.0**
TPP	Not Rated		7	-15	15	2.5	n/a	6.6	1.0	n/a	6	2	69	2.5
TTP	Not Rated		1	-11	6	1.1	n/a	10.3	0.7	n/a	-13	2	360	6.5
VPK	Stable	Medium term	-21	-50	14	0.2	2	7.2	1.0	7.0	-35	4	166	2.3

Source: RongViet Research

RUBBER TIRE: BENEFIT FROM LOW INPUT COST

Trien Le (trien.lh@vdsc.com.vn)

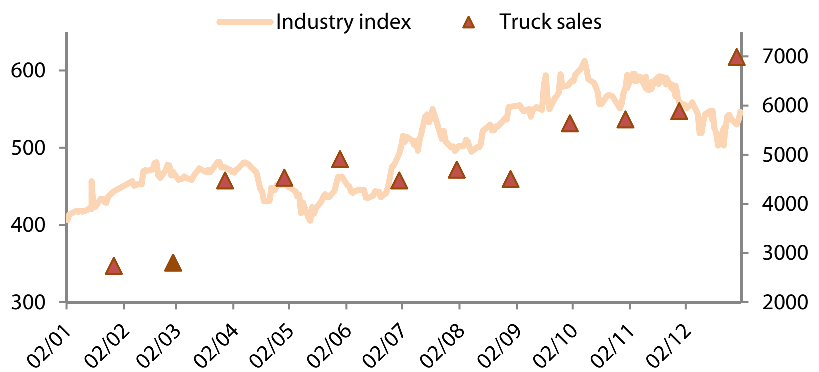
2015 Outlook

The downtrend in rubber price (~57% COGS) has been considered as a key support for tire industry in 2014. According to Indexmundi, rubber price already fell 31% especially at the end of last year. Thus, we expect a substantial reduction in COGS for tire manufacturers in the first half of 2015 based on material inventory turnover of 2-3 months. Recent researches forecast the continuing oversupply of natural and synthetic rubber in 2015. Consequently, tire manufacturers' gross margin is subject to further strengthen in 2015.

Regarding the market share, while Vietnamese tire manufacturers maintain a dominant share of Bias tire in the domestic market, the majority of Radial tire segment is being served by world's renowned tire brands. Despite the fact that more than 80% of Radial tires are imported plus the increasing investment from big brands such as Bridgestone, Kumho, Yokohama in Vietnam, the concern on fiercer competition is not too worried because foreign tire manufacturers target automobile segment and domestic listed tire manufacturers (DRC and CSM) focus on truck tire market. In fact, the main competitors of domestic tire manufacturers come from illegally imported Chinese tires with substantially lower selling price. Meanwhile, as domestic demand only see an initial.

In 2015, we expect a good growth in automobile tire sales, especially for Radial product. We believe that Circular 36 of MOT would bring positive impact to the tire industry sales as logistics companies increase new truck purchases in compliance with the new truckload control condition, which promises higher sales for OEM product. In replacement product segment (~86% is domestically consumed), we also expect increasing trend in Radial tire use thanks to (1) Increasing transport demand leads to higher vehicle utilization especially after TPP, FTA takes effect, entailing higher tire replacement need, (2) the structural shift in demand from Bias tire (~90% at the present) to Radial tire given the growing highway system.

Tire industry index and domestically assembled truck sales in 2014



Source: VAMA, RongViet Research

Despite the concentrated share ownership (44-51%) of Vietnam National Chemical Group (Vinachem) at most listed tire manufacturers, shares of these companies do have relatively good liquidity and attract much attention from foreign investors.

Key drivers

- Material input price, especially rubber, is not expected to recovery in short-term.
- Forecasted strong growth in car and truck sales.

- Significant investment in public transportation infrastructure, noticeably the highway system.
- Circular 06/VBHN-BGTVT increases control on vehicle truckload.
- Road transportation sector is expected to see high growth in 2015.

Risks

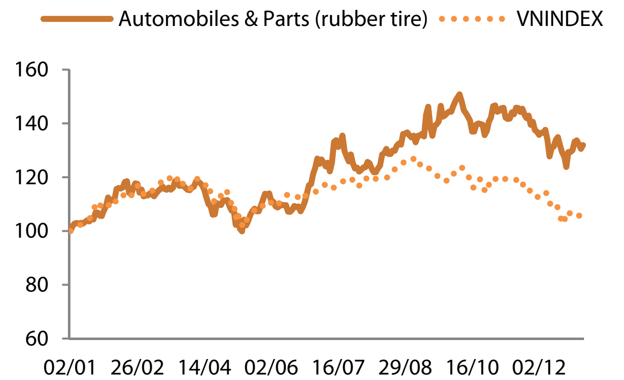
- Competition from illegally imported Chinese and Thailand products through border gates.
- Unexpected hike in rubber price.

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	++
Legal environment	+
Long-term growth potential	++
Technological development	+
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

With the limited number of listed tire manufacturers on the market, we thus suggest investors to keep observing the two leading tickers being DRC, CSM. These two firms reap almost all aforementioned industry benefits like low rubber price and decreasing interest rate. In addition, Radial tire sales have jumped breakeven point and hence gross margin is expected to improve in 2015.

Stock picks

Danang Rubber JSC (HSX: DRC)

- Skilled and stable workforce.
- Expanding distribution system thanks to increasing marketing activities and sales discount program to distributors in 2014.
- Getting initial contracts to supply bus and truck tires to Truong Hai Auto.
- In 2015, Radial production plant is projected to surpass breakeven point in phase 1 (175,000 tires/year), business results thus could improve.
- Exporting Radial tire to the US market through Stamyord Singapore distributor.

Southern Rubber Industry JSC (HSX: CSM)

- P/E is relatively low~ 6.1 compared with DRC (~14.1)
- Signing the contract to export 200,000 radial tires to USA in 2015.
- A new Radial tire production plant started operation in April 2014, so the fixed cost per unit will be greatly reduced in 2015 when production output increases.
- Abnormal profit from transferring land plot on 9 Nguyen Khoai street (~VND 70-80 billion) and 504 Nguyen Tat Thanh (~ VND 20,4 billion) can be recorded in 2015.

Key financial, valuation and trading metrics

Ticker	Rating		Financial 2014				2015	Valuation			Trading			
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
CSM	**Accumulate**	**Medium term**	**1**	**-8**	**26**	**1.1**	**-0.4**	**8.1**	**2.0**	**8.1**	**0**	**99**	**2,846**	**16.8**
DRC	**Positive**	**Long term**	**16**	**-6**	**24**	**0.7**	**12.0**	**14.4**	**3.3**	**12.8**	**42**	**91**	**5,026**	**9.2**
SRC	Not Rated		1	1	22	21.4	0.3	8.6	1.8	8.6	41	50	609	8.1

Source: RongViet Research

ELECTRICITY: STABLE

Nguyen Thi Phuong Lam (lam.ntp@vdsc.com.vn)

2015 Outlook

Hydropower: increasingly advantaged as more output is marked to market. As a power plant enters the competitive market, its offering must be based on its variable costs. Besides, according to Circular 30 (issued on Nov 2014 to replace Circular 03) which regulates the operation of the VCGM, the volume of power offered at market price should account for 5-40% of a plant's total power generation whereas in 2014 this number was fixed at 5-25%. We expect the lower band to increase a maximum 40% in the near future. This gives hydropower plants, which have high initial investment but low variable costs, the advantage to expand their revenue and profit margins.

However, the National Center for Hydro-Meteorological Forecasting has forecasted that weather conditions in 2015 will be quite disadvantageous. Rain levels over the Central and Southern Central coastal areas have been estimated to trail its multiple-year-average. Dryness in Southern Central areas may last until August or September 2015. If the forecasts are true, the output of hydropower plants may be reduced substantially from 2014.

Coal thermal power: Input cost may continue to increase. In some recent years, the subsidies on coal sold to power plants have been gradually lifted in accordance with the lawmakers' market orientation. With the latest increase of 11%, the price of coal for electricity production has been brought to close proximity with Vinacomin's breakeven price. In the future, we suppose that coal price adjustments may occur again. First, according to Vinacomin, the most easily extracted layer of coal in the majority of the existing coal mines has been used up and going for deeper layers will cost money and time and ultimately increase the cost of production and. Second, Vinacomin has forecasted that starting 2016, Vietnam will have import about 20-30 million tons of coal to supply thermal power plants. With input costs on the rise, coal-fired power plants may not benefit much from the participation in the competitive power-generation market.

We believe that power companies can be segregated into three groups according to their 2015 earnings prospect:

- *Companies that grow via expansion*. Though the competitive electricity market is in place, it does not account for the large part of power plant's total sales now that the participation output is still low. Meanwhile, the price of electricity sold under contracts with EVN is just enough to ensure a small profit margin for plants. As the result, revenue and profits of power companies can only grow through increased capacity and investments in more power plants.

- *Companies with potential non-core earnings surprises*. Non-core elements that we would like to mention here include (1) lower interest expenses thanks to lower interest rates and debt restructuring efforts, (2) forex gains, (3) retroactive re-pricing. In 2015, the USD is generally forecasted to continue to strengthen while 8 out of 10 key currencies (including JPY and EUR) will depreciate. This should bring companies with substantial JPY and/or EUR-denominated loans significant forex gains. Before 2014, most power companies failed to strike a deal EVN regarding the selling price of electricity for the 2010-2013 period. As the result, revenue and profits in these periods were based on estimated or assumed prices. Now that the negotiations have concluded, plants having recorded a lower price would likely book extraordinary income from retroactive adjustments of revenue.

- *Companies with stable business*. Earnings of power plants that have not expanded their operation nor have potential non-recurring income will generally be stable thanks to EVN's promise of a fixed profit margin.

Key drivers

- In the government scenario of 6.2% GDP growth 2015, electricity demand in 2015 is estimated about 142 billion kWh, up by 10.4% year-over-year.
- With the complete establishment of the VGMC, the portion of power to be offered at market prices will be higher than that of 2014.
- Hydrological conditions will have mixed effect on hydropower and thermal power plants.
- JPY and EUR are expected to be depreciate against the USD.

Risks

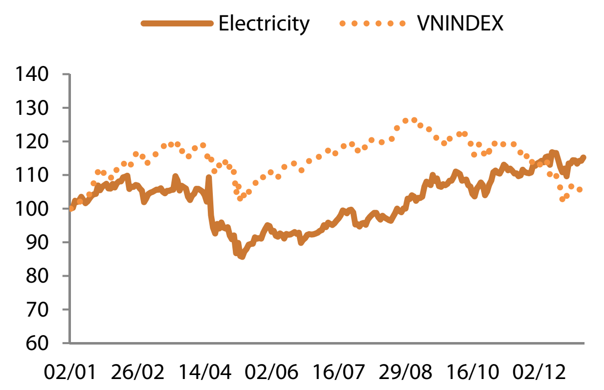
- The amount of electricity offered in the competitive market is still relatively low as compared to total generation.
- The EUR and JPY may appreciate or the extent of depreciation may be less than forecast.

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	
Legal environment	++
Long-term growth potential	+
Technological development	
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

Power stocks played a good role of defensive stocks in 2014. While the stock market was hit hard by "oil price shock", power stock prices remained mostly stable, some ticker even trended upward. We think there will be steady growth in this sector in 2015. The below selected power stocks belong to companies with positive profit growth driven by (1) joint ventures and affiliates profits; (2) organic sales growth or growth as the result of competitive market participation, (3) reduced financial expenses from debt restructuring or forex gains.

Stock picks

Southern Hydropower JSC (HSX: SHP)

- With Da M'bri plant generating power since 3Q2014, SHP's whole year revenue reached VND596.44 billion and NPAT VND214.8 billion, which is doubled from 2013's results and 2.7 times higher than 2014's guidance.
- SHP has reached an agreement with ADB - Lam Dong branch to reduce the interest rate on its VND633 bn long-term debt loan from 12.6% to 9.8%/year, and extend the period of the loan to 10 years. This restructure loan should help SHP save about VND17-18 bn of interest expense in 2015 while easing pressure on principal payment.

PetroVietnam Power NhonTrach 2 JSC (Upcom: NT2)

- With the newly contracted electricity price higher than the reported price, NT2 has about VND800 billion of re-pricing profit, which the Company already reported VND245 billion. NT2 has been working with its auditor to book the remaining amount in 2015.

- The EUR/USD exchange rate may drop to EUR1.05/USD in 2015 (Morgan Stanley), allowing NT2 to book substantial forex gains.
- NT2 has a consistent dividend-paying history with the payout ratio, ranging from 15% to 20% of face equity.
- The Company plans to list its shares in the HSX by the end of 2Q2015.

Thac Ba Hydropower JSC (HSX: TBC)

- TBC has high Cash/Total asset ratio (28%) with low leverage and no long-term debts. The balance of short-term debt by the end of 2014 was only VND51 bn.
- TBC offered a large portion of its output in the competitive market (25 – 30%). As a result, the firm's average selling price is 50% higher than its contract price.
- Stable dividend payouts backed by solid cash flows.

Pha Lai Thermal power JSC (HSX: PPC)

- The depreciation cost for Pha Lai 2 plant is expected to drop in 2015 due to the extension of depreciation period from 2 years to 10 years.
- The increase of stakes in Hai Phong Thermal Power will help PPC to improve its profit.
- Forex gains: the USD/JPY exchange rate is forecasted to grow 8.3% to JPY130/USD (Goldman Sachs) due to Japan's economic strain.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	+/- Rev. (%)	+/- NPT (%)	ROE (%)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BTP	Not Rated		87	169	14	0.6	n/a	6.3	1	n/a	4	73	938	25.4
CHP	Not Rated		19	69	15	1.1	n/a	8.7	1	n/a	50	63	1,848	58.7
GHC	Not Rated		-5	-5	19	0.3	n/a	6.6	2	n/a	27	48	519	10.0
HJS	Not Rated		13	1	11	1.6	n/a	8.4	1	n/a	8	16	177	7.3
NT2	**Positive**	**Medium term**	**9**	**11,251**	**26**	**1.9**	**0**	**6.1**	**2**	**6**	**200**	**759**	**5,683**	**32.4**
PPC	**Stable**	**Long term**	**14**	**-36**	**18**	**0.8**	**2**	**7.6**	**1**	**8**	**11**	**576**	**7,986**	**102.5**
SBA	Accumulate	Long term	-5	-2	10	1.1	5	10.1	1	10	20	41	663	29.3
SHP	**Positive**	**Medium term**	**207**	**106**	**18**	**1.2**	**4**	**8.1**	**1**	**8**	**70**	**45**	**1,743**	**0.2**
SJD	Stable	Long term	26	23	18	0.2	2	7.0	1	7	43	20	1,426	44.5
TBC	**Positive**	**Long term**	**4**	**-4**	**16**	**0.0**	**8**	**11.2**	**2**	**10**	**46**	**8**	**1,619**	**25.2**
TMP	Stable	Long term	38	53	23	0.4	6	7.9	2	7	60	9	1,883	6.4
VSH	Not Rated		95	91	13	0.1	n/a	7.4	1	n/a	-4	444	2,826	14.7

Source: RongViet Research

HOUSEHOLDS: HIGH EXPECTATION FOR EXPORT MARKET

Van Banh (van.btt@vdsc.com.vn)

2015 Outlook

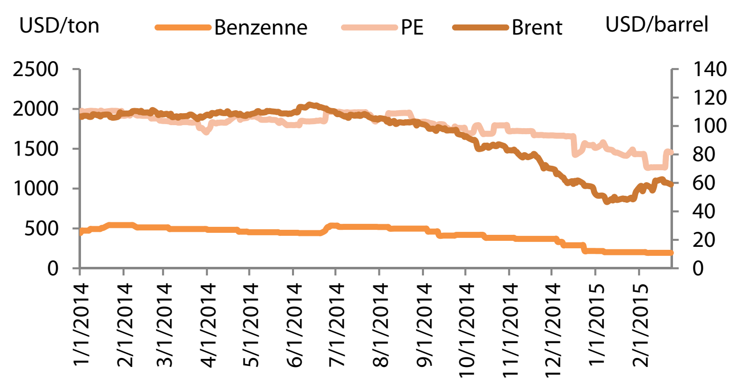
In 2015, households market is expected to recover thanks to (1) economic recovery aids to improve people's disposable income, (2) growing middle-class in the world and (3) Vietnam consumer confidence index rose to 142.3 points in February 2015. Hence, households' product manufacturers can exploit these opportunities from domestic and foreign markets to encourage more earnings growth this year.

In term of export markets. USA, currently the largest goods trading partner of Vietnam, is predicted to maintain a positive growth rate in 2015. World Bank report forecast the US economy could expand 3.0% and unemployment rate would go down to 5% from 5.8% in 2015. Thus, US household goods exports is forecast to see positive growth too. Among household's products, we believe wood related households products would likely experience the greatest growth due to Vietnamese wood industry's high export turnover (~ VND 6 billion in 2014) with average growth rate at 10% since 2009. In particular, US is the largest export market of Vietnamese wood industry, accounting for 37% of the industry's entire export turnover (~USD 2.2 billion). In 2015, the signing prospects of TPP and other FTAs with Korea, EU and Customs Union of Russian promise further growth in household goods industry.

In term of domestic market, despite seeing recovering household demand, such FTAs also imply greater competition from foreign products as domestic market becomes more open. Hence, that pressure may cause companies to (1) raise their selling and marketing expenses, (2) focus on their respective specialized products commanding higher profit margin, and (3) complete the retail and distribution system.

Notably, detergent powder producers can expect for a greater NPAT in 2015 thanks to falling crude oil prices. In fact, main inputs for detergent powder production are LAS detergent (benzene) and plastic bag (account for 70% of COGS) both originating from oil and petroleum. So, the downtrend of oil price helps reduce production cost leading to an increase in NPAT.

Correlation between crude oil, Benzene and PE price



Source: Bloomberg

Key drivers

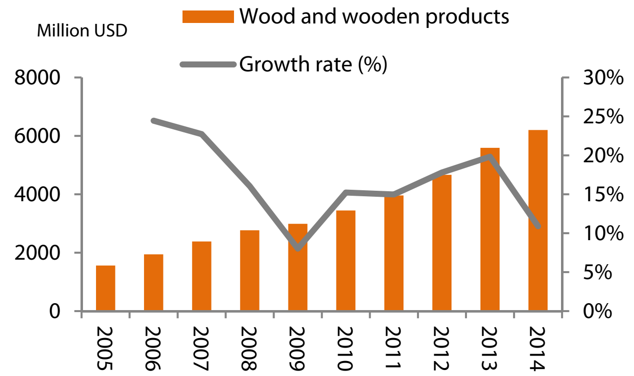
- Consumer demand from the US, the largest trading partner of Vietnam, shows sign of recovery and expects positive growth in 2015.
- The FTAs Vietnam-Korea and Vietnam-Customs Union of Russia, Belarus and Kazakhstan, and TPP.

- Low oil price could lead to decrease in prices of chemical inputs for household goods.

Risks

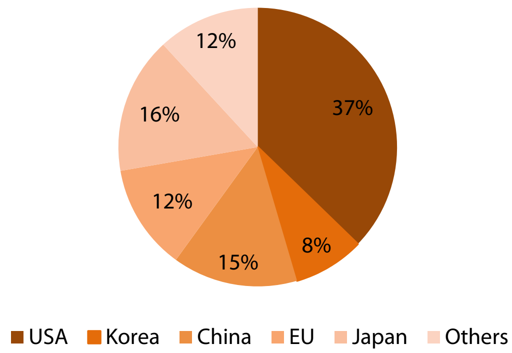
- The government foreign exchange policy in pegging VND to USD may reduce Vietnamese export competitiveness.
- Global economic prospect may not be as good as predicted.
- Intense competition from FDI investments in domestic market.

Annual export revenue of wood industry and growth rate



Source: GSO, RongViet Research

Revenue structure from main export market



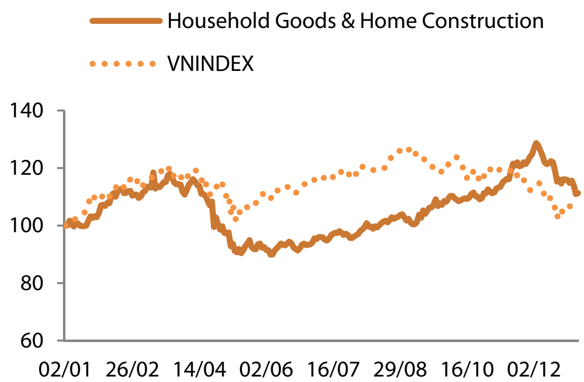
Source: Customs, RongViet ResearcH

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	++
Legal environment	++
Long-term growth potential	+
Technological development	+
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

In overall, households industry has a very optimistic outlook this year. Thus, in 2015, we recommend investors to heed to shares of firms that export wood households products or involve in light bulb and detergent powder manufacturing. Besides, we also prioritize firms that focus on value added products; strong brand awareness, stable market share with high and modern technology.

Stock picks

Dien Quang Joint Stock Company (HSX :DQC)

- DQC manufactures and trades lighting products, electric equipment and currently the market leader in lighting industry. Presently, DQC holds 40% market share of lighting market.
- Revenue from export market constitutes half of its total revenue. Thus, if FTAs are successfully signed, DQC can expect to expand its market share and revenue in 2015.
- DQC also follows the global lighting industry trend by concentrating on products with higher profit margin and energy saving such as LED types and double wing super-

bright bulbs instead of compact fluorescent lamps.

- Stably collections from the Cuban credits (Consumimport) and the profit recording of favorable foreign exchange movement plus other collectible debts.

Rang Dong Light Source and Vacuum Flask JSC (HSX: RAL)

- One of the leading companies in lighting industry with market share approximately of 25%. It has a strong brand awareness in the North region and holds about 80% market share of Vacuum flask's market.
- A high and stable dividend yeild at 20%.
- Focus mainly on developing LED type and energy saving products.
- Leading lighting product manufacturing capacity in the industry with an average output per year equaling to 150 millions products. Thus, RAL can satisfy increasing demand for lighting products.
- In term of price competition, compared with others companies, RAL possesses competitive advantage thanks to its lead-free glass furnace factory located at Que Vo, Bac Ninh province. This factory can produce CFL bulbs instead of relying on imports as others. Companies can also produce high quality product that meet EU and Japan's standard.

Duc Thanh Wood Processing JSC (HSX: GDT)

- GDT has a high and stable dividend yeild (20-25%)
- Expecting a higher profit from expansion of Binh Duong factory. The expansion aids to increase GDT's annual revenue by 20% from its current level.
- GDT has a prestigious brand awareness and it focuses mainly on kid toys, kitchen utensils segment; households' goods so they can avoid direct competition from big companies.
- GDT generates most of its revenues from sales to overseas market such as EU, Japan, Asia. Therefore, it expects to expand revenue and market share if the FTAs is signed.

LIX Detergent JSC (HSX: LIX)

- Having strong brand awareness and currently the leader in domestic washing powder industry ranking thirds in the market (after Unilever and P&G) with about 10% of market shares.
- CARG in 5 years is to 13%.
- Gross profit margin could increase about 2% as continuing low oil prices
- Export makes one thirds of total revenue. In order to increase its export revenue, LIX is penetrating into different markets such as Taiwan, Singapore, Korea and Austria through other brand names.
- Investing to develop their own products along with processing washing powder and washing liquid for Unilever.

Phu Nhuan Jewelry JSC (HSX: PNJ)

- Firm has a strong brand awareness and it is the leading jewelry maker in Vietnam. It speciliazes in gold and silver jewelries.
- Strengthening retail channel through store expansion in remote area. In 2014, 15 new stores are successfully opened.
- Concentrate on developing jewelry retail sector with gold and silver jewelry contributing 80% in gross profit structure.
- Concentrate on core business and begin to divest investment from subsidiaries such as Liberty, SFC and East Asia in 2014.
- Possible risk includes share trading's low liquidity due to consolidated ownership structure of where PNJ internal and foreign shareholders holding nearly 90% stakes.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- REV (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	+/- REV (%)	+/- NPAT (%)	ROE (%)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	+/- REV (%)	+/- NPT (%)
DCS	Not Rated		64	-33	0.3	0.1	n/a	32	0.4	n/a	20	481	296	29.5
DQC	**Positive**	**Long term**	**54**	**105**	**25**	**0.3**	**-19**	**7**	**0.9**	**6.5**	**96**	**66**	**1,649**	**8.5**
GDT	**Positive**	**Medium term**	**11**	**46**	**26**	**0.2**	**11**	**7**	**1.2**	**7.2**	**59**	**3**	**375**	**2.5**
LIX	**Positive**	**Long term**	**14**	**18**	**22**	**0.2**	**29**	**9**	**1.8**	**9.4**	**12**	**10**	**737**	**6.2**
NAG	Stable	**Medium term**	32	1,157	10	0.4	n/a	6	0.3	n/a	129	225	95	7.2
PNJ	**Positive**	**Long term**	**3**	**49**	**9**	**0.0**	**39**	**12**	**0.7**	**12.5**	**35**	**4**	**2,812**	**-**
RAL	**Not Rated**		**13**	**-24**	**13**	**2.0**	**n/a**	**8**	**1.1**	**n/a**	**-16**	**3**	**534**	**4.7**
TTF	**Positive**	**Medium term**	-4	2,816	9	1.2	164	17	0.7	18.1	36	1,704	1,211	43.2

Source: RongViet Research

FOOD & BEVERAGE: ACCELERATING COMPETITION

Tam Bui (tam.bt@vdsc.com.vn)

2015 Outlook

Consumer confidence index surveyed by Nielsen Viet Nam rose over 100 points for the first time in 3Q and 4Q/2014 after two years. Soaring positive consumer sentiment demonstrates that shoppers are loosening grip on spending and feel optimistic on economy prospects. That incipient signal is likely to be a driver for Food and Beverage industry in 2015. Moreover, the industry is to benefit from demographic changes, especially growing middle class. Food consumption rate in 2012-2014 maintained two-digit number growth of average 14% and forecasted to keep that momentum to 2015-2018 period, according to BMI. In spite of the potential growth, only a few companies can materialize such advantages as competition has increased. Increasing advertising expense and M&A activity have been strong evidences of higher competitive pressures in the industry since 2014. We believe that industry trend would carry on in 2015 even at a higher speed as Viet Nam economy becomes more integrated.

With Vietnamese spending habit dictated strongly by product price difference, competition on price between firms could take place in the short-run. However, according to Nielsen, Vietnamese consumers are currently caring more about the quality of products, especially for health issues. Thus, the common industry theme now is domestic companies are racing to introduce new products with advanced health features and increase advertising expense to enhance brand awareness. Based on these factors, we believe that domestic companies that are highly adaptable and have a well-prepared strategy would surely have advantage in current competitive environment.

Dairy

Vietnamese dairy industry is highly concentrated in which Vinamilk dominates over 50% of the market share. However, that market set-up is subject to change rapidly with the emergence of fast grown dairy firms financed by foreign investors' capital. The M&A activities taken place recently are result of the self-elimination process and restructuring for firms operating in highly competitive industry. Consequently, dairy firms that possess strong financial potential, effective advertising campaign and wide distribution network would gain more market share.

Dairy industry's business performance in 2015 would likely improve thanks to declining input prices such as skim milk and whole milk. Thus, gross profit margin of dairy companies might benefit if material input price remains low as forecast by international organization. However, we believe that price cap on dairy products is more likely to adjust in upcoming 6 months. Additionally, increasing competition could make selling expense soar and affect adversely dairy companies' NPAT in 2015.

Beer

We believe Vietnamese brewery industry's potential growth still remains very positive in 2015:

(1) The recovery of Vietnam economy is a key driver for industry demand growth. Growth rate in 2014 was better at 8.1% relatively to 7% in 2013. According to the Association of Tobacco and Beverage Vietnam, industry's growth rate would be around 6-8% in the next 10 years. (2) Vietnam ranked fifth in Asia average beer consumption in Vietnam at 30-32 liters/per head/year, after Japan, China, Korea, Laos and Thailand. Globally, the ratio of the average beer consumption in the Czech Republic is quite high at 149 liters/per head/ year, Germany 106 liters per head/year, the United States to 77 liters /per head/ year. With Vietnamese people drinking habit combined with improvement in per capita income, we believe that the average beer consumption in Vietnam would have potential growth in the future. (3) Beer price in Vietnam is cheap compared to other countries around the world. According

Numbeo.com, the average beer price in Vietnam is only about $ 0.59 /bottle, ranking second after Ukraine in the list of the cheapest beer markets.

(4) Foreign capital keeps flowing into Vietnamese market. Specifically AB InBev Budweiser brand is expected to build factories in the Pacific in early 2015. Sapporo also plans to build a factory in Long An province, raising capacity from 40 million liters to 100 million liters/year. There is information about the two corporations and Singha Thai ThaiBev intending to buy shares of SABECO with total assets valued at $ 2.4 billion.

Vietnamese brewery market is concentrated by state-owned companies with the two biggest businesses of Habeco (19%) and Sabeco (34%). In spite of a number of foreign brands such as Carlsberg, SAB Miller, Diageo, these two state-owned enterprises hold the majority market shares in the North and the South. However, we believe that along with demographic changes and increasing per capita income, consumers are more likely to prefer foreign brands despite higher prices. On the other hand, we believe that Vietnamese brewery industry would see many changes in 2015, especially under increasing foreign investment. Recently, ThaiBev and Singha Thailand have intended to acquire 40% of Sabeco's stake. If successfully, the current domination of state owned breweries could change with hiking competition from foreign brewery products. Therefore, domestic brewers and Food and Beverage industry should be proactive to adapt to new environment.

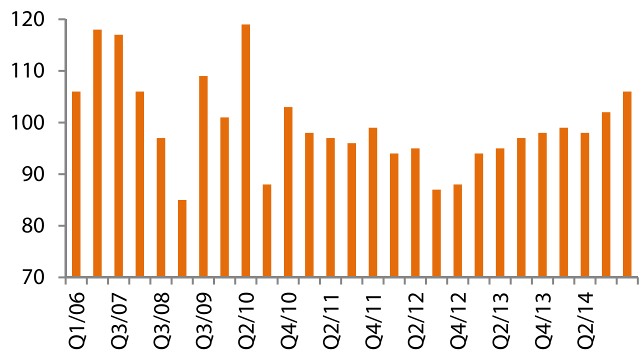
Key drivers

- Young population, demographic changes and the rise of the middle class
- Consumer confidence rate surged.
- Economic integration from AEC, TPP, FTA makes companies more proactive.
- M&A activities seem to be overwhelming in 2015.
- Declining input price improves gross profit margin of brewers

Risks

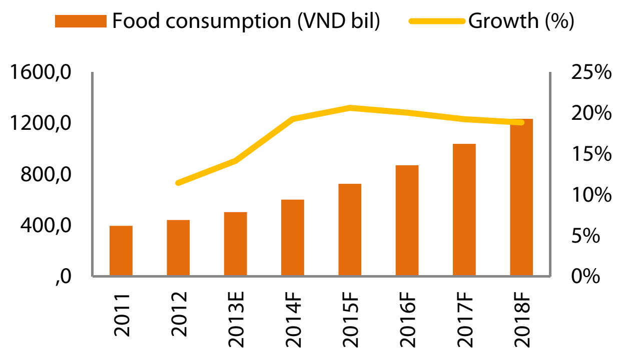
- Intensified competition affects the market share of domestic companies.
- Volatile price of raw materials can affect the gross profit margin of businesses.
- Policy: imposing price cap on dairy products, increasing beer consumption tax up to 55% since 01/01/2016.

Consumer confidence surveyed by Nielsen VN



Source: Nielsen Viet Nam

Food consumption in Vietnam from 2011-2018



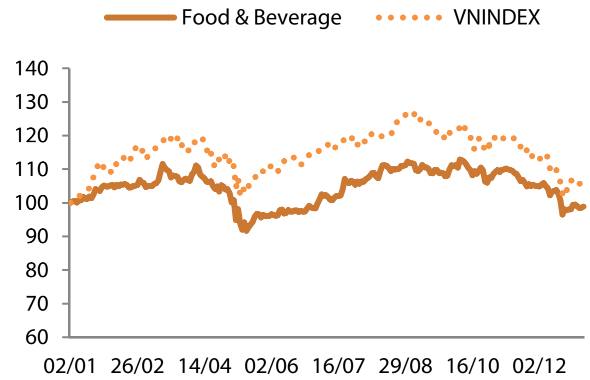
Source: BMI

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	++
Legal environment	+
Long-term growth potential	++
Technological development	+
Competition	--
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

As competition hiking up in 2015, especially from foreign investment, some domestic companies are likely to lose dominant market share. Confronting the upcoming trend, we highly evaluate companies that already have short-term and long-term strategies such as increasing self-controlled production line, researching new products, increasing marketing campaigns or changing management to be more proactive.

Stock picks

Viet Nam Dairy Joint Stock Company(HSX: VNM)

- Promoting marketing campaigns to enhance brand awareness and focusing on "brand elevation".
- VNM plans to invest VND3,000 billion to establish 4 new farms with about 30,000 cows.
- The Company has considered M&A with a European powdered milk manufacturer.
- Broad distribution network (224,000 retail points and 266 distributors) is considered the key to ensure ability of product supply, especially yogurt segment.
- Plant capacity has doubled since 2013, ensuring production growth in the next few years.

Long An Food Processing Export Joint Stock Company (HSX: LAF)

- LAF operates as cashew nuts manufacturer and exporter with well-known brand (Lafooco). Its dominant export markets are China, American, Australia, Netherland, UK, Germany.
- A transfer of 23.03% stake from SCIC to Trans-Pacific Corporation (PAN) and a change in BOD are likely to lead to drastic changes since 2015.
- Value added products such as dried, roasted cashew nuts only constituted about 5-6% of total revenue in prior years. Thus, expansion in this segment and increase in its contribution to revenue are in the company's medium-term plan.
- Along with export expansion, the company also plans to increase domestic cashew nuts sales especially value added products in domestic market by developing distribution agents in Southeastern provinces and distribution channels in the North.
- Difficulty in working capital was solved in 2014; thus, raw material purchases are expected to speed up and encourages export expansion in 2015.

Nam Dinh Export Foodstuff & Agricultural Products Processing JSC (HNX: NDF) (*)

(*) Stocks for observation

- NDF operates as frozen meat processor and exporter to markets such as Malaysia, Singapore, Hong Kong. The main segment constitutes about ~80% of revenue and expects to enjoy tailwinds as Vietnam joins the Asean Economic Community (AEC) in 2015.

- An issuance plan of over 20 million shares to strategic shareholders in 1Q2015 would provide VND20 billion, that would be used for investment in sausage production line.
- De 'ville sausage brand with technology transferred from Germany launched in 4Q2014, is projected to add more revenue in 2015.
- Increase in self-sufficiency of materials by cooperating with a pig farm in Ha Lan, Hai Hau-Nam Dinh (contributing 30% capital), supplying 8.200 pigs per year and another pig farm Hai Ha, Hai Hau-Nam Dinh (contributing 30% capital), providing 4.000 pig per year.
- The company schedules to use newly raised charter capital of over VND56.5 billion to restructure short-term and long-term debts. An initial result is that total debts in 2014 declined by 59%.

HAGL Joint Stock Company (HSX: HAG)

- In 2015, beef segment would contribute revenue to HAG as Australian beef products from the cooperation between HAG and Vissan have been launched in Feb 2015. The number of cows will rise to at least 100,000 heads by the end of 2015.
- Palm oil segment also generate revenue in 2015 and expects to contribute about 4% of total revenue.
- Net profit of VND1,292 billion from the second private share issuance of Hoang Anh Construction and Development House JSC has not been booked in 4Q2014. That profit is expected to record in 1Q2015
- HAG is in process of lobbying for sugar exporting right in season 2014-2015 to Vietnam market. With a huge difference to Vietnamese sugar price, if successfully, HAG would receive more profits in 2015.
- HAG signed an agreement to sell 50% stake in Hoang Anh Land with total value of USD275 million (equivalent to VND5,900 billion) for a real estate group namely Rowsley Limited Singapore. That capital is used for financing agricultural segment of HAG in following years.
- Phase 1 of the project "Hoang Anh Gia Lai Myanmar Complex Center" will finish in 1Q2015; including a commercial center, two office buildings for lease, a five-star hotel. The project leasing is expected to start from April 2015 with projected rental price at Yagoon around USD88 per square meter.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2014							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BHS	Not Rated		-54	-3	4	1.3	n/a	18.4	0.8	n/a	-7	32	668	26.2
HAG	**Positive**	**Long term**	**10**	**74**	**11**	**1.3**	**52**	**12.2**	**1.3**	**8.0**	**-9**	**2,623**	**18,010**	**186.0**
HNM	Not Rated		-7	-95	0	0.3	n/a	1,134.4	0.9	n/a	51	114	183	6.0
KDC	Positive	Medium term	9	11	10	0.1	-28	18.6	1.8	25.9	2	1,125	10,982	51.8
LAF	**Positive**	**Medium term**	**29**	**-65**	**10**	**0.6**	**n/a**	**17.5**	**1.6**	**n/a**	**-7**	**89**	**203**	**6.7**
LSS	Not Rated		-6	14	3	0.3	n/a	10.1	0.4	n/a	-21	28	602	25.4
NHS	Not Rated		38	93	18	0.7	n/a	3.7	0.6	n/a	-6	42	650	25.8
VNM	**Accumulate**	**Long term**	**13**	**-7**	**33**	**0.1**	**22**	**17.8**	**5.5**	**14.6**	**-6**	**107**	**108,013**	**-**
MSN	Stable	Medium term	35	139	6	1.6	188	58.2	4.2	20.2	-13	171	62,912	106.7
NDF	**Stable**	**Medium term**	**26**	**443**	**11**	**0.2**	**n/a**	**8.6**	**0.8**	**n/a**	**n/a**	**267**	**51**	**2.7**

Source: RongViet Research

TECHNICAL CONSUMER GOODS (TCG) RETAILING: CURRENT HIGH DEMAND WITH HIGHER INTENSITY OF RIVALRY

Tuan Huynh (tuan.hm@vdsc.com.vn)

2015 outlook

According to a report by Economist Intelligence Unit, Vietnam retail sector is forecasted to grow by a CAGR of 13% between 2013 and 2018. For that, the TCG retail sector is expected to remain in significant growth in years to come.

Surging in 2013, this sector's annual growth rate stabilized around 24% last year (Gfk's report – 3Q2014). Telecommunication products not only accounted for the largest proportion of the sector's product sales but also the most impressive sales growth. The three other major product lines (i.e. IT, consumer appliances, consumer electronics), which constituted over 50% of total sector revenue, also saw positive expansion. This good demand has been generally supported by macroeconomic factors, i.e. middle-class growth and fast pace of urbanization. ANZ estimates Vietnam would probably have 2 million more middle-class consumers each year.

In the telecommunication product group, Vietnam mobile phone retail sales are predicted to continue growing in 2015 because: (1) the country's current smartphone penetration rate is just about 36% and projected to grow to 50% in 2015 (2014 Global Connected Consumer Study of TNS), (2) recent leaps in smart phone technologies have caused declines in phone prices and encouraged more consumers to shift to smartphones and (3) per-capita income growth has accelerated in line with GDP growth while inflation has remained low.

For IT products, tablet sales are expected to grow at a pace nearly the same as that of the telecommunication group where unit sales may increase by 55% and 38% in 2014 and 2015 (Business Monitor Intelligence), respectively. However, desktop and laptop sales may not pick up just as fast since the market for these products seems saturated, especially in urban areas. Future demand would most likely come from rural area, driven by projects of the government and NGOs such as: Project for improvement of computer usage and public Internet accessibility in Viet Nam and BMGF-VN project.

Meanwhile, sales growth of most key consumer appliance products are predicted to steady below 10% (Euromonitor). Euromonitor noted that urban demand for these products has also stalled and consumption in provinces would emerge to be main driver of sales growth in the coming years.

The main driver of growth in the electronics group would still be television products. The continuing shift from CRT (Cathode Ray Tube) to TV panel (Plasma, LCD, LED…) will be one of two key growth factors for this group. On the other hand, the government's project to switch from analogue to digital broadcasting (total investment VND 1,300 billion) should boost TV sales. BMI predicts the needs of LCD and Plasma TV will increase by 13.8% in 2015.

Aside from what we mentioned above, there are other factors supporting this industry. First, the expense of store rent (generally constituting 40% of an appliances store's monthly expenses) has been trending down ward and is lower than the average of recent years (according to CBRE, retail space rents at the end of 4Q2014 declined by 12% from a year earlier. Second, low and stable interest rate would allow firms to fund their working capital at lower cost.

However, TCG retail stores may operate below their breakeven points for an extended period, which has led to firm-wide bankruptcies as rivalry intensified and a price war and other business-specific risks became the problems. Also, as firms' expand to provincial markets, they have also become bulkier. With a high level working capital, financed mainly by bank loan, TCG retail firms seem quite vulnerable to interest rate changes. Furthermore, because of the quickly-out-of-fashion nature of high-tech products and their ambitiousness to expand their market share in a short time, industry players may accept low profit margins and even losses in certain periods to compete against each other.

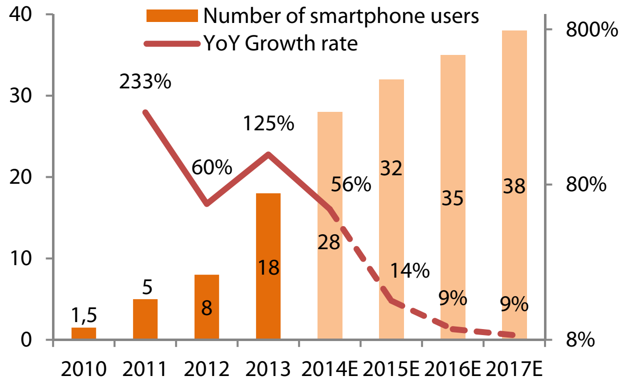
Key drivers

- Positive growth of the retail sector in overall with forecasted CAGR of 13% between 2013 and 2018.
- A growing middle-class, which is estimated to add 2 million people each year.
- Fast development of technology has made TCG product more affordable for the majority of consumers.
- Main operating expense (interests, rents…) should remain stable at reasonable levels.

Risks

- Growth of per-capita income may be not as high expected
- Intensifying rivalry among larger companies with strong financials, especially foreign-funded companies.

Number of users and growth of smartphones in Vietnam



Source: Emarketer

Some indicators of Vietnam telecommunications market

Population	93 million
Cellphone penetration rate	130% (2013)
Smartphone penetration rate	36% (2014)
Number of 3G subscribers	27 million (E2014)

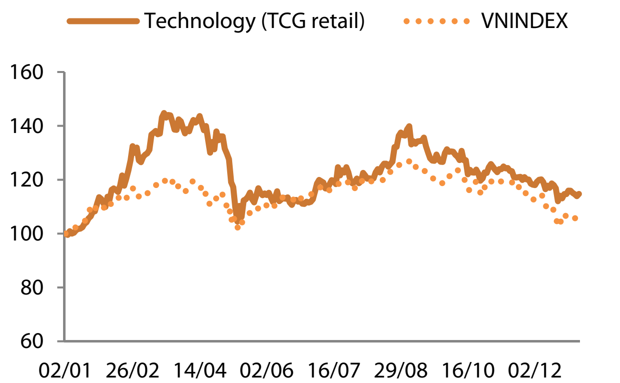
Source: World Bank (WB), TNS, BMI Research

Qualitative criteria assessment

Criteria	Score
Supply– demand outlook	++
Input cost	
Legal environment	
Long-term growth potential	+
Technological development	+
Competition	-
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index vs VNIndex



Source: RongViet Research

Company selection

Given heightening competition, we suppose that thriving companies will have the following traits: (1) large market shares, (2) good brand awareness, (3) strong financials and (4) an efficient system of working capital management.

Stock picks

Mobile World Investment Corporation (HSX: MWG)

- The 2015's revenue and NPAT are forecasted to increase 39% and 22% year-over-year thanks to a good number of new stores that opened in 2H2014 and positive growth of the overall market.
- The strategy to launch smaller stores may help MWG's appliance arm (i.e. dienmay.com) reduce risk in its start-up and the expansion stage.
- The thegioididong.com chain should continue expanding to reach 40% of the cellphone market share while boosting promotion programs to enhance customer loyalty.
- MWG have relatively better working capital management and higher profitability as compared to the industry average thanks to the internally-built ERP system.

Petrovietnam General Services JS Corporation (HSX: PET)

- The Company sets the 2015 NPAT target at VND 188 billion, 4.5% higher than last year's guidance. With stable operation after shifting from cell phone distribution to providing services for Samsung in late 2013, PET should see its 2015 EPS largely stable as compared to the 2014 at around VND2,900. Currently, PET is trading at a below-industry-average trailing PE ratio of approximately 7.8x.
- The gross margin would probably improve then stabilize at a higher level.
- PET has maintained a stable and relatively lucrative cash dividend policy, making it a selection worth considering for value investors.
- If the firm proceeds to liquidate its stakes in the Thanh Da real estate (Binh Thanh, HCMC), the transaction would generate a large extraordinary income.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
MWG	**Positive**	**Short term**	**66**	**161**	**45**	**0.4**	**20**	**21.4**	**10.2**	**17.9**	**n/a**	**102.4**	**15,002**	**1.8**
PET	Stable	Medium term	1	24	14	1.9	4	7.6	1.1	7.3	0	987	1,488	21.8
PSD	Not rated		1	12	41	8.2	n/a	8.3	3.4	3.4	17	13.2	745	7.0
TIE	Not rated		14	-77	5	0.3	n/a	10.9	0.5	0.5	-25	6.7	140	4.4
UNI	Not rated		-26	8	1	0.1	n/a	136.9	0.9	0.9	-1	54.3	126	6.7

Source: RongViet Research

PHARMACEUTICAL & HEALTHCARE: SHIFTED AS COMPETITION RISES

Tam Bui (tam.bt@vdsc.com.vn)

2015 Outlook

In the period of 2010-2013, the pharmaceutical industry growth in Vietnam maintained 2-digit rate, CARG of 20%; specially, the Generic products were accounted for the highest sales (~51%), increase by 22.3%. However, the growth rate has being decreased, recently.

Forecasting the Pharmerging group, including Vietnam, the growth of Generic product has contributed more than 80% of this industry growth according to IMS's report. Thus, in the following year, the key trend is subjected to develop this product; meanwhile, according to BMI, the growth of the pharmaceutical industry will also remain 2-digit rate (15-17%) for at least 3 following years. Compared with the global growth of 4-7%, Vietnam will be able to attract the large number of foreign investment.

On the other hand, with the positive prospect of signing some agreements in 2015 including TPP, FTA, the foreign investment flow can be larger than before because of the decrease in average-preference tax from 2.5% to 0%. The Decision No.10/2007/QĐ-BTM, which relates to goods trading of foreign-invested enterprises, does not allow these enterprises to directly distribute pharmaceutical product in Vietnam. This regulation seemed to be removed in 2013 since MOT published a draft of the circular allowing FDI enterprises to distribute certain product in Vietnam, including medicament. However, there is no specific effected-date, so the distribution will be in charged by local agents in 2015. Thus, the entry of foreign investors will follow with M&A activities, especially the ones having the wide distribution channel.

Cooperating with foreign companies encourages Vietnamese pharmaceutical industry to improve quality, technology; the prices, thus, are adjusted to reasonable levels. As a result, it will bring tougher competition. The soaring proportion of sales expense in recent years shows persuasive evidences for the domestic enterprises' preparation as confronting competitive pressure.

As our view, in short term, this activity will keep going with expanding distribution system. Consequently, net profit margin will be affected significantly. Nevertheless, the remove of 15% advertising spend cap (as the Law 71/2014/QH with effective date 1/1/2015) recently, has supported them to reduce non-tax deductible expenses. This regulation also makes a chance for them to "branding" the particular group of products and exclusive products.

Currently, there have been many firms finding new strategies. The functional food or natural origin drug segments have been a focal point of pharmaceutical companies as taking advantage of domestically cheap-material. However, it require a certain period of time to establish distinct position among many other segments in the industry; meanwhile, developing and professionalizing distribution channel is also focused to invest by a number of pharmaceutical companies in order to seize the opportunities of cooperating with leading companies in the future.

In 2015, pharmaceutical companies will be in the phase of choosing compulsorily the strategy to create own competitive advantage.

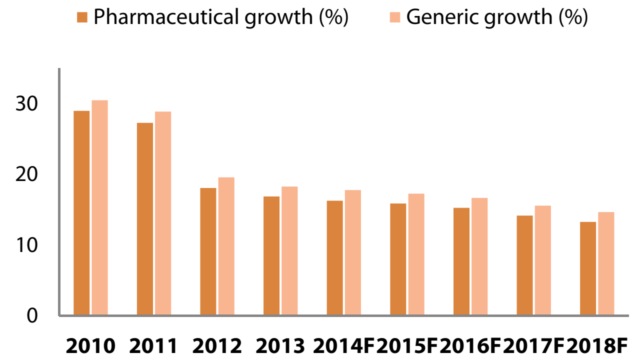
Key drivers

- The association and M&A deal between domestic and foreign enterprises, especially the ones having popular brand and wide distribution system.
- The law 71/2014/QH relating to the lifting off 15% advertising spend cap.

Risks

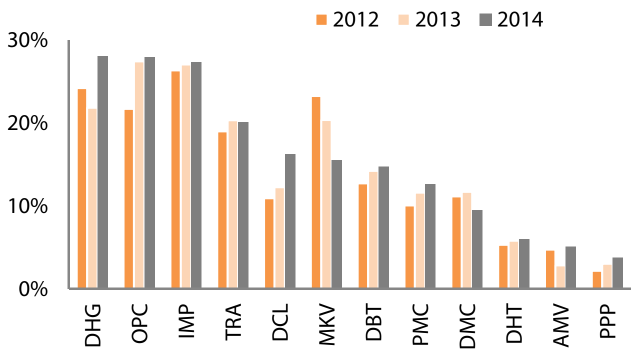
- Increasing competitive pressure when the TPP, FTA agreement take effect.
- Depending enormously on raw material imported (~90%).
- The negative impact of soaring cost of sales on net margin.
- The draft of the MOT's circular allowing FDI to distribute in Vietnam.

Pharmaceutical and Generic growth in VN from 2010-2018F



Source: BMI

Selling expenses to net sales in certain pharmaceutical companies from 2012-2014



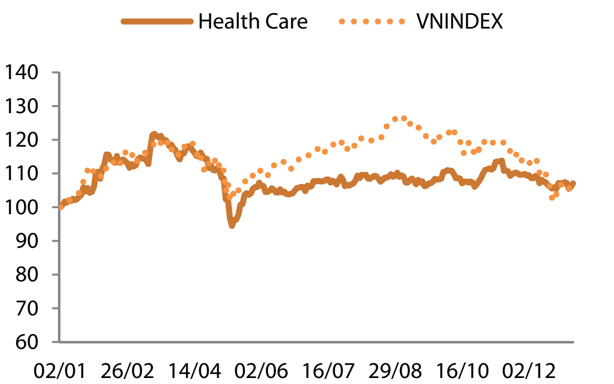
Source: RongViet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	-
Legal environment	+
Long-term growth potential	++
Technological development	--
Competition	--
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

With the tougher competition and the more customer requirements, we recommend the stocks having transparency orientation of product segment and competitive advantage. In short-term, we recognize that the companies owning strong distributors will remain stable business performance.

Stock picks

DHG Pharmaceutical Joint Stock Company (HSX: DHG)

- Doubling in capacity from 4.6 billion to 9.6 billion units per year thanks to 2 new plant, Non-Betalactam plant (operated since 20 April 2014) and Betalactam plant (will operate in the beginning of 2015 as estimated).
- Transferring 80% of production to 2 new plants having the preferential tax rate of 0% in first 4 years, 5% in next 9 years and 10 % in the rest.
- Receiving positive feedback for the natural origin product – Naturentz, one of the 10 largest revenue contributors for DHG.
- Wide and professional-orientated distribution channel.
- Signed the exclusive distribution contract for MSD (Merck Sharp & Dohme-USA).

Traphaco Joint Stock Company (HSX: TRA)

- Holding the largest market share in herbal drug segment.
- Orientating to expand material growing areas in Thai Binh, Sapa, Phu Yen to control quality, as well as demand of raw material.
- Changing in sales policy to the common retail price instead of the price for specific distributor level as previous. As the result, this will promote revenue in 2015.
- Disadvantage: the tough competition in herbal drug and high risk of counterfeit.

Japan Vietnam Medical Instrument Joint Stock Company (HSX: JVC)

- Accounting for the largest market share of radiology equipment segment (20-30%).
- The capital from successful issue of VND 750 billion for existing shareholders will invest in new project in 2015.
- Spending expectedly VND 500 billion to purchase equipment for investment contracts associating with hospitals. Up to January 2015, JVC has reached agreements to invest 25 radiology equipment for 21 hospitals and being negotiated to invest 46 dialysis machines for 18 hospitals.
- Planning to invest 100 mobile examination cars with value of VND 140 billion, increasing the number of cars to 130 units.
- Cooperating with 3 public hospitals in HCMC to build 3 CNC centers (private healthcare facility) with the total investment of VND 158 billion and revenue receiving expectedly VND 50 billion per year
- Planning to invest VND 210 billion and cooperating with Japanese partners to implement SPD model (including material supply contract) for 2 public hospitals and 8 private hospitals.

Domesco Medical Import-Export Joint Stock Company (HSX: DMC)

- The third largest revenue and capitalization in Vietnamese listed pharmaceutical industry.
- The Cephalosporin and Non-Betalactam plant reached benchmark GMP- GMP-Columbia and GMP-PIC/S in 2014; thus, having competitive advantage in tenders.
- Planning to restructure product portfolio, focusing on high revenue and profit margin product.
- New chairman of BOD- a representative of CFR Pharmaceutical SA can bring positive change in DMC management system.

Key financial, valuation and trading metrics

Ticker	Rating		Financial 2014 +/- Rev. (%)	Financial 2014 +/- NPAT (%)	Financial 2014 ROE (%)	Financial 2014 D/E (x)	Financial 2015 +/- EPS (%)	Valuation P/E Trailing (x)	Valuation P/B Cur. (x)	Valuation P/E 2015F (x)	Trading +/- Price 1 year (%)	Trading Avg. vol. 3-month (1K shares)	Trading Market cap (VND bn)	Trading Foreign room (1M shares)
DBT	Not Rated		-1	3	13	1.4	n/a	12.6	1.5	n/a	32	141	144	3.3
DCL	Stable	Medium term	5	5	11	0.7	-10	14.8	1.5	11.2	59	52	468	4.0
DHG	**Positive**	**Long term**	**11**	**25**	**23**	**0.1**	**34**	**15.0**	**3.5**	**11.2**	**-4**	**11**	**7,931**	**-**
DMC	**Positive**	**Long term**	**4**	**20**	**18**	**-**	**11**	**8.5**	**1.6**	**7.6**	**-1**	**21**	**1,143**	**-**
IMP	Stable	Medium term	7	11	11	-	6	14.3	1.7	13.5	34	26	1,389	1.4
JVC	**Positive**	**Long term**	**55**	**15**	**12**	**0.4**	**3**	**8.3**	**1.7**	**8.1**	**37**	**792**	**2,419**	**1.0**
OPC	Not Rated		9	17	17	0.1	n/a	11.4	1.9	n/a	-4	9	752	6.3
SPM	Not Rated		26	189	7	0.2	n/a	7.3	0.5	n/a	16	10	368	5.8
TRA	**Stable**	**Medium term**	**-2**	**19**	**19**	**0.0**	**24**	**13.2**	**2.4**	**10.6**	**-9**	**8**	**1,925**	**0.8**

Source: RongViet Research

FISHERY: LIGHTS AND SHADOWS

Tam Bui (tam.bt@vdsc.com.vn)

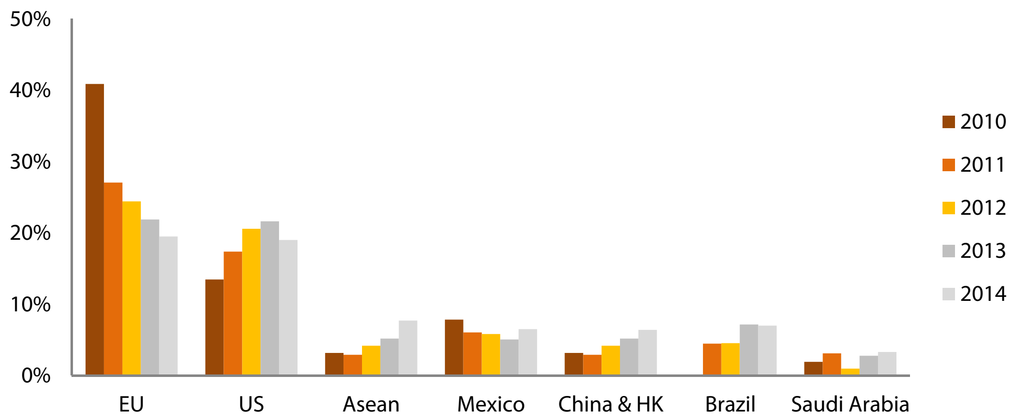
2015 Outlook

Pangasius

Currently, Vietnam is considered the world's largest pangasius exporting country, accounting for about 80-85% the world's total production. EU and the US have remained the main export markets during 2009-2013 period. However, while export to the US increases, EU demand is shrinking.

The proportion of EU contribution in total export turnover declined to 20% (2013) from 40% (2009) due to (1) weak demand due to the European recession, (2) unhealthy competition among pangasius processors damaging Vietnamese product image (3) reported case of low quality pangasius product lead to customer's negative perception. In 2015, the forthcoming signing of FTA Vietnam – EU would see more preferential tax rate for Vietnamese pangasius export; though quality issue remains the main issue to be addressed for the industry. Therefore, export to EU is not projected to a strong recovery.

The export market structure in Vietnam fishery from 2009-2013 (%)

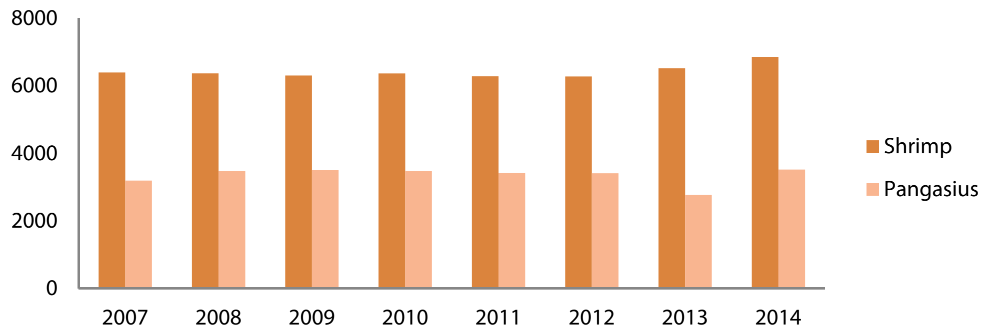


Source: RongViet Research

Demand from US market is relatively better as pangasius product is one of the most favorite seafoods here. Hence, contribution of seafood export to the US has gone up from 13% (2010) to 19% (2014). However, the anti-dumping tax remains an important barrier to Vietmese pagasius exporters. The latest review result of POR10 increased the anti-dumping tax rate to USD 0.97/ton from USD 0.42/kg (POR9). Actually, the anti-dumping tax rate has increased since Indonesia, instead of Bangladesh, is selected as reference base for the rate calculation. This particular change would likely cause the anti-dumping tax to remain high in years to come and hence has negative impact on Vietnamese seafood exporters.

Pangasius farming area in Vietnam has been declining in 2008-2013 period due to substitute products (cod farming..). Despite the recent 27% increase in pangasius raising area in 2014, harvested area actually reduces by 9.32% y-o-y. We believe that the regional plan on seafood farming area recently helps minimize chances of sudden increase in supply as previously.

Fish and shrimp farming area in Vietnam from 2008-2014 (thousand ha)



Source: RongViet Research

In addition, credit support decisions for shrimp, fish famers including Dec.540/QD-TTg, Dispatch 5249/NHNN-TD and other preferential policies have also been issued recently as below:

- Circular 344/TB-VPCP on VAT exemption for feed products.
- Preferential income tax for seafood companies declines from 20%(2015) to 17%(since 1 January 2016).
- Circular 198/2014/TT-BTC on management of fish material price calculating method an adjustment if necessary.
- Decision 36/2014/ND-CP on farming, processing, exporting pangasius relating to ice glazing ratio and moisture level is delayed until 31 December 2015.

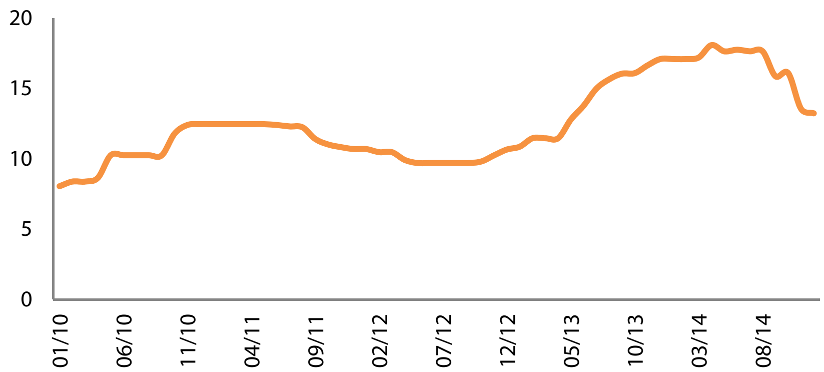
In 2015, pangasius industry can benefit from the downtrend in feed product price similar to the trend of falling commodity prices lately. In 1Q/2015, feed product price already declined 5-7% in comparison with the average price in 2014.

With such advantages, the seafood industry has reasons to achieve positive performances in the forthcoming years. Nevertheless, pending issues such as quality, breed, and distribution system remain to be addressed for a sustainable development. In that process, we observe the trend of leading seafood companies increasing M&A actitivities with small firms in the same industry to strengthen their position. Especially, we highly appreciate such companies that made efforts in expanding farming region over the past difficult years.

Shrimp

Enjoying similar industry advantages including low material price and Government support policies, Vietnamese shrimp sector has also witnessed noticeable changes. Specifically, the world's largest shrimp exporting countries including China and Thailand, plagued by EMS disease, suffered a significant decline in shrimp output causing a soar in shrimp price from the end of 2013 to mid 2014. For example, Thailand shrimp output was reduced by nearly 8% equivalent to 230,000 tons.

Global shrimp price from 2010-2014 (USD cents/pound)



Source: Indexmundi

However, shrimp supply in Thailand in 2015 forecasts to achieve solid growth after getting EMS disease under control. The output is estimated to reach ~200,000 – 300,000 tons which helps cool world's shrimp price as a result from the end of 2014. Most likely, shrimp price would prolong this trend as EMS disease is better controlled.

Besides, shrimp price increase has also resulted in the expansion in farming area in Vietnam since 2013. At the end of 2014, shrimp supply has gone up by more than 20% which can cause a surplus in supply in 2015. The latest preliminary review result of POR9 came out with a far lower tax rate of 0.93% compared to POR8 (6.37%). Despite being good news, the risk of substantial change on official tax rate released in the next 6 months does exist. We do not project a strong growth in shrimp sector this year as previously because (1) Japan – one of the largest export markets has seen its currency depreciating greatly against many currencies posssibly making Vietnamese shrimp export expensive, (2) the shrimp supply in the world is subject to grow well this year.

Key drivers

- Shrimp importing tax can be cut as schedule subject to signing completion of TPP, FTA-EU, FTA-Vietnam-Russia- Kazakhstan-Belarus.
- Circular on VAT exemption for feed products.
- Reducing seafood companies's corporate income tax to 20% (2015) and then 17% in following years.
- Circular 198/2014/TT-BTC about management of fish material price calculation method an adjustment if necessary.
- Decision 36/2014/ND-CP about farming, processing, exporting pangasius relating to ice glazing ratio and necessary moisture level.
- The slump in feed product price.

Risks

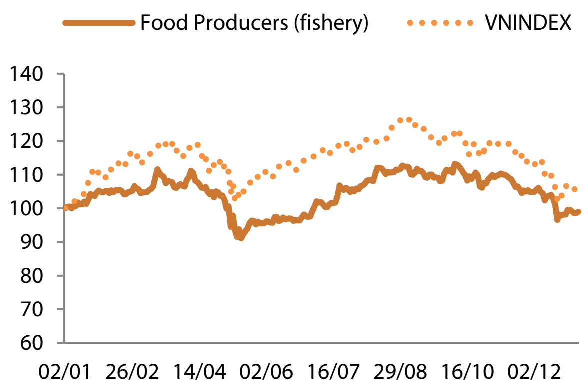
- Free trade agreements could not be finalized this year.
- The volatile and high anti-dumping tax rate in US market.
- EMS disease could occur.
- An sharp increase in Thailand shrimp supply.
- The depreciation of the YEN makes Vietnamese product to be less competitive.
- The current USD/VND rate can make Vietnamese goods be more expensive at markets whose currencies are depreciating recently.

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	-
Input cost	+
Legal environment	+
Long-term growth potential	+
Technological development	-
Competition	-
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

We recommend shares of companies possessing integrated manufacturing process or professional quality control system from breed to final product. Especially, we prioritize companies having plans to increase farming self-sufficiency and production capacity as well as added-value for their products.

Stock picks

Vinh Hoan Corporation (HSX: VHC)

- VHC specializing in farming, processing and exporting seafood has the largest pangasius export value of USD 207.2 million (2014) in Vietnam.
- Planning to increase the proportion of high value-added products to improve gross margin, gross margin of pangasius processing segment in 2014 increased to 13.5% from 12.5% (2013).
- Acquiring Van Duc Tien Giang with total farming area including 83 ha pangasius and 43 ha seabass fish. After M&A, total pangasius farming area reached 383 ha, constituting 60% of material supply ability of the whole company.
- VHC's processing capacity is to increase from 350 tons/day to 600 tons/day in 2015 thanks to (1) the Van Duc Tien Giang processing capacity is 100 tons/day, (2) investment of VND 230 billion for 2 new production lines with processing capacity of 200 tons/day.
- Anti-dumping tax rate of POR9, POR10 are nil. Thus, export to the US would schedule to increase in 2014-2015 with proportionate market share in the US of 60-65%. Additionally, the relatively higher selling price in USA to other markets helps maintain 2015 gross margin.
- The collagen manufacturing plant started operation with estimated revenue contribution of VND140 billion and VND 28 billion in PAT in 2015.

Hung Vuong Corporation (HSX: HVG)

- HVG is a seafood farming, processing and exporting company which ranked 2nd in Vietnam in terms of pangasius export value of USD 139.8 million (2014).
- Investing an integrated supply chain from feed product to final output by increasing ownership stake at feed producers VTF to 80.74% and AGF to 74.9%
- Expanding shrimp business by increasing stakes at FMC from 39.3% to 51%, as well as cooperating with Faquimex to expand shrimp farming area in Ben Tre province.
- Plan to import whiff from Russia and distribute in Vietnam, which has been tried in 2014. This activity could help improve the company's profit margin. However, we do not expect it to have significant revenue contribution in 2015 yet.

Sao Ta Foods Joint Stock Company (HSX: FMC)

- Ranked number six among domestic shrimp processing companies specialisng in shrimp farming, processing and exporting.
- US and Japan market account for 80% of export value with relatively higher shrimp price.
- High utilization of current processing plant (~90%). New processing plant in 2014 added 14,300 frozen shrimp tons/year processing capacity or 20%.
- Total farming area of 160 ha supplies only 5,5% of material demand.
- FMC could have more capital at hand to develop its shrimp sector as HVG increases stake at FMC to 50%.

Seafood Joint Stock Company No.4 (HSX: TS4)

- Specialising in seafood farming, processing and exporting with main products being pangasius, squid, crab, whiff and other value-added products.
- Main export markets are USA, Thailand, Euro, constituting over 60% in TS4's total export value. Thus, the participation in AEC (2015) as well as the signing of FTA-EU agreement could be the opportunity for future growth.
- Total farming area of 60ha, situated near fish processing plant in Dong Thap, can guarantee 100% material supply for the plant.
- Having 3 processing plants located in Kien Giang province (capacity of 150 tons/month), Dong Thap (capacity of 20,000 tons/year), HCMC (capacity of 100 tons/month) all operating at 60%-70% capacity.
- Gross margin (~21%) is higher than others in the same sector.
- Stable ROE over the past 3 years, approximately 5-6%.
- Relatively high dividend yield, over 7%.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
AAM	Stable	Medium term	-18	7	3	0.1	n/a	15.1	0.5	n/a	-10	5	133	4.8
ACL	Not Rated		-13	141	5	1.7	n/a	14.4	0.6	n/a	4	6	179	8.3
ANV	Positive	Medium term	8	802	4	1.1	n/a	31.9	0.5	n/a	24	34	715	31.4
FMC	**Positive**	**Long term**	**32**	**75**	**19**	**1.8**	**2**	**5.6**	**1.2**	**5.5**	**64**	**65**	**466**	**8.6**
HVG	**Positive**	**Medium term**	**35**	**42**	**13**	**2.0**	**9**	**9.2**	**1.7**	**8.5**	**18**	**833**	**4,106**	**68.5**
IDI	Not Rated		17	121	15	1.7	n/a	5.6	1.4	n/a	36	892	861	40.6
SJ1	Not Rated		16	50	11	1.1	n/a	8.6	0.9	n/a	-5	10	112	2.7
TS4	**Positive**	**Medium term**	**8**	**27**	**6**	**1.9**	**n/a**	**9.9**	**0.6**	**n/a**	**-16**	**62**	**173**	**7.7**
VHC	**Positive**	**Long term**	**24**	**163**	**24**	**1.1**	**22**	**9.2**	**2.1**	**7.5**	**154**	**205**	**3,872**	**21.7**

Source: RongViet Research

NON-LIFE INSURANCE: STILL IN DIFFICULT INSPITE OF A GROWTH IN PREMIUM REVENUE

Tam Bui (tam.bt@vdsc.com.vn)

2015 Outlook

The growth rate of direct insurance premium for the first time showed improvements after three straight years of decline. The result was derived from economy recovery accompanied by restructuring efforts in non-life insurance business during hardship.

Vehicle, property and health insurance sustain as major contributors over the past years; meanwhile, the best pace of growth are fire, health, cargo insurance. In 2015, we expect on positive prospects of motor vehicle, property & casualty insurance thanks to:

(1) As regards motor vehicle insurance, a surge in new vehicles, especially automobile is likely to provide direct premium income with favorable conditions. In 2014, automobile industry recorded a significant rise (+43%) and in January 2015, a growth rate of over 80% to the same period has been announced.

(2) In accordance with property and casualty insurance, there are support elements such as: (i) real estate rallies (ii) production expansion, notably FDI (in preparation for TPP, FTA).

Non-life insurance this year is forecasted to witness remarkable changes. Particularly, insurers have been made ready for the requirements of Circular 194/2914 published by the Ministry of Finance amending and supplementing Circular 124 and 125 and takes into effect from February 1 2015. Accordingly, companies must separately monitor charter capital, premium income (circulation application on 1/1/2016). As a result, insurers might suffer more administration expense this year. Moreover, as following the roadmap, the divestment capital from non-core business of State-own enterprises as well as transfer State stakes of SCIC at the insurance company will have to complete in 2015. Many insurers have proceeded to launch capital increase since 2014 and strived to complete at the end of the year in order to strengthen finance ahead of tightening management by government.

Currently, 70% market share of non-life insurance are controlled by leading companies such as PVI (23%), on Vietnam (21%), Bao Minh City (10%), PJICO (7%), PTI (6%). The remaining is shared by 24 other companies.

Despite of a potential growth in premium revenue, key driver in non-life assurance depends on investment income in which risk aversion is the main strategy. As a result, most investment earnings are derived from interest income (over 60%). Declining interest rate in recent years, thus, significantly affect insurers' business results. Consequently, we believe that remarkable improvement on business results is less likely to occur this year in spite of a rise in premium revenue. On the other hand, in purpose of offsetting a decline in interest income, a variety of insurers have seek investment chances beyond Vietnam such as establishing joint ventures, associated companies in foreign countries namely Laos, Cambodia. Moreover, insurers would balance investment portfolio by eliminating the inefficient investments.

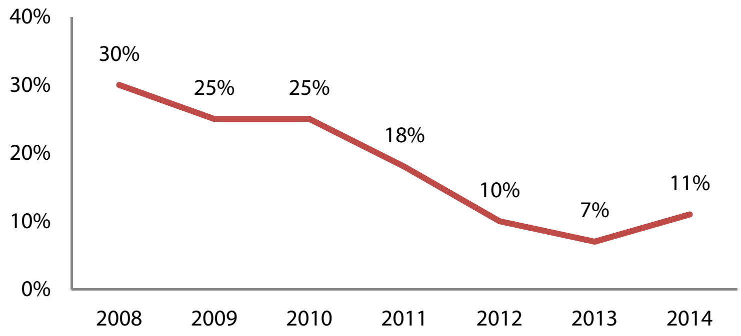
Key drivers

- Economy recovery.
- Circular 194/2014 ruled by the Ministry of Finance tightens accounting record and management of insurance activities.
- Removal restrictions on the number of branches encourage for insurers to increase market share.

Risks

- Administrative expenses might increase as companies are in process to prepare for Circular 194 published by the Ministry of Finance.
- Low interest rates affect the financial income of the insurers.

The growth of direct premium insurance from 2008-2014



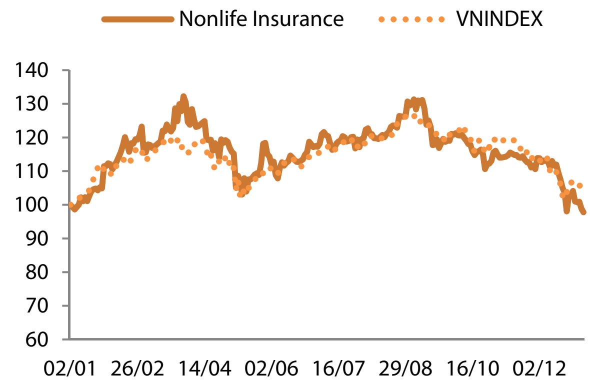
Source: RongViet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	
Legal environment	-
Long-term growth potential	++
Technological development	
Competition	--
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

Accompanied by the potential growth, particularly the segments as above analysis, we appreciate insurers having large market shares in the segments: motor vehicle and property insurance. In addition, along with the government's policy, the insurance industry would develop in depth, in favor of increasing service quality and diversify products. Therefore, we also pay much attention to the good distribution system, efficient and able to better control costs.

Stock picks

Petrolimex Insurance Corporation (HSX: PGI)

- PJICO is one of the largest insurers with leading market share in motor vehicle insurance.
- Cargo and marine insurance segments have competitive advantage compared to other dominant insurers such as PVI, BVH, PTI thanks to closed relationships with the large shipping companies such as VIP, VOS, Vinalines, Vinashin… that its substantial shareholder (Petrolimex) settles with.
- Unanimous plan to increase charter capital by individual stock issuance with maximum ratio of 20%.
- Portfolio is relatively prudent; thus, in case of increasing charter capital (by issuance for existing or strategy shareholders), PGI would rise higher risk proportion such as stocks.

- ROE is quite high in comparison with other insurers.

Bank For Invesment And Development Of Vietnam Insurance JSC (HSX: BIC)

- Property and cargo insurance have advantages to develop thanks to substantial relationship of its large shareholder namely Bank for Investment and Development of Vietnam (BIDV).
- Planning to expand inssurance market in Lao by a schedule to increase capital in its venture in Laos (LVI) up to USD5 million (2015).
- Projecting to issue a maximum rate of 30% of charter capital for strategy shareholders, expected capital after issuance is about VND1,400-1,500 billion.
- The growth rate of revenue is relatively good, about 25% (2014) and expected to rise at least 16% (2015).
- ROE rate is quite high (11-14%).
- Dividend ratio is stable and good, around 10%.

PVI Holdings (HNX: PVI)

- PVI has the largest market share in non-life insurance industry in Viet Nam and also the largest insurers in motor vehicle insurance.
- Major shareholder namely Petroleum Corporation of Vietnam (Petro Viet Nam) provides huge contracts; thus, a plan to boost exploration and exploitation of PVN will bring benefit for PVI in following years.
- Net profit margin is relatively high (8%) in comparison with other companies.
- Portfolio proportion is flexible to be in line with declining interest rate; thus, financial income is not remarkably affected. The proportion of bond increased by 13% meanwhile the proportion of short-term also shifted to long-term deposit.

BaoMinh Insurance Corporation (HSX: BMI)

- Ranked 3th in the largest non-life insurers with stable performance and the competitive advantages of property, vehicle and health insurance.
- Whereas BMI belongs to the liquidation list of SCIC, the stock has been trading significantly below its book value.
- Vinachem's withdrawing 1.61% of shares is subject to occur in 2015.

BaoViet Insurance Corporation (HSX: BVH)

- Ranked 2nd in the largest non-life insurers (20.7% of market share) with key segment as vehicle and health insurance.
- Expecting the business transformation in 2015 due to the BVH's restructuring drastically and the change in BOM. Controlling compensation as well as accelerating sales is the main strategies.
- Enhancing risk management concerns through establishing risk administration department, monitoring all 6 its subsidiaries.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BIC	**Stable**	**Medium term**	**17**	**6**	**12**	**-**	**n/a**	**11.1**	**1.3**	**n/a**	**22**	**94**	**1,136**	**29.0**
BMI	**Stable**	**Medium term**	**11**	**31**	**5**	**-**	**n/a**	**10.6**	**0.6**	**n/a**	**11**	**85**	**1,246**	**5.5**
BVH	**Stable**	**Medium term**	**53**	**12**	**10**	**-**	**4**	**20.1**	**2.1**	**19.4**	**-17**	**471**	**25,518**	**168.9**
PGI	**Stable**	**Medium term**	**0**	**34**	**10**	**-**	**n/a**	**7.9**	**0.8**	**n/a**	**5**	**9**	**696**	**33.7**
PTI	Not Rated		17	21	10	-	n/a	12.4	1.2	n/a	59	16	822	24.5
PVI	**Stable**	**Medium term**	**16**	**-16**	**4**	**-**	**n/a**	**13.2**	**0.7**	**n/a**	**-3**	**39**	**4,120**	**-**
VNR	Not Rated		36	0	12	-	n/a	10.5	1.2	n/a	18	10	3,146	18.2

Source: RongViet Research

CHEMICAL-FERTILIZER: STABLE

Tran Thi Diem My (my.ttd@vdsc.com.vn)

2015 Outlook

Persisting oversupply. According to FAO, global fertilizer demand in 2015 is expected to increase by ~2% (191 million tons), whereas supply could be growing around 4.9% (212.7 million tons). So, the industry is likely to face oversupply condition, further dampening fertilizer prices consequently. For urea fertilizer (accounting for ~60% of total demand), JP Morgan expects four massive urea plants (total capacity ~5 million tons) to start operation in 1H2015, hence adding ~3% to total global supply. Thus, urea price is subject to hiking pressure this year.

The picture of Vietnamese fertilizer market looks similar to that of the world. While fertilizer demand remains stable, domestic supply of urea, Phosphate and NPK (accounting for ~74% of total demand) is well above market need. In 2015, fertilizer supply is forecast for significant growth due to expanding domestic production capacity, especially in the North (Table below). Therefore, fertilizer prices would remain diminishingly low.

Table: Fertilizer supply source in 2015

Projects	Product	Capacity (tons/year)	Location	Investors
Ninh Binh urea fertilizer (*)	Urea	560,000	Ninh Binh	Vinachem
Ha Bac Nitrogenous fertilizer	Urea	500,000	Bac Giang	Vinachem
Binh Dien Ninh Binh NPK	NPK	400,000	Ninh Binh	BinhDien
Lao Cai DAP Fertilizer	DAP	330,000	Lao Cai	Vinachem

Source: RongViet Research

(*) In 2014, Ninh Binh urea fertilizer stopped operation in 3 months, therefore the real capacity reached at about 360,000 tons per year (target 560,000 tons per year).

Apart from the oversupply situation, rising competition between domestic producers and imported products is another concern. Recent change in Chinese fertilizer export tax would likely foster this country's fertilizer export activity. Moreover, the new value-added-tax (VAT) regime whereby fertilizer products become VAT exempted would save imported fertilizer about 5% in tax compared to previously. As a result, domestic producers 's 2015 earnings results would likely be affected due to increasing competition and loss of tax refund.

Short-term tailwind. With those analyses, fertilizer industry's performance would be barely positive this year. Nevertheless, investors still can consider companies that benefit from current decline in prices of oil and material inputs (gas price, SA, K,..). Moreover, we believe shares of listed fertilizers producers presumably suit the risk-averse investing style with the following elements such as fertilizer producers' established branding, currently serving large market share, having stable operation and high dividend yield.

In 1H2015, two of the largest fertilizer producers namely Binh Dien Fertilizer JSC and PetroVietnam Ca Mau Fertilizer JSC both schedule respective share listings on the HSX. The two's strengths include dominant market share in Mekong Delta and Central Highland region and a diversified client network through export. Thus, we expect the imminent listings of these producers to provide more options for investors in general.

Key drivers

- Current oversupply in domestic market and intense competition from Chinese imported product.
- Input prices are in a downtrend.
- Planned investments in fertilizer industry could delay.
- Dispatch No. 17709/BTC-TCT (issued on Dec 04th, 2014) reclassified fertilizers to be 5%

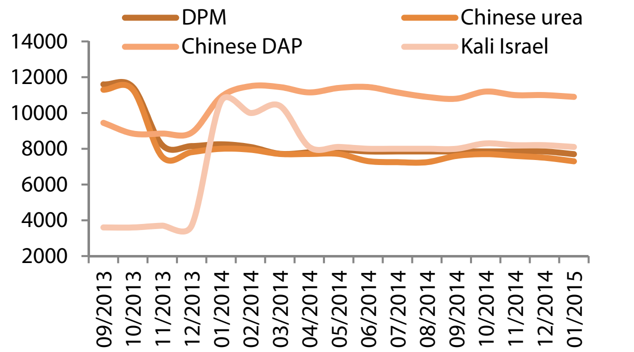
VAT exempted products.

- Dispatch No. 87/BTC-QLG (issued on Jan 06th, 2015) requires urea and NPK producers to decrease selling prices.

Risks

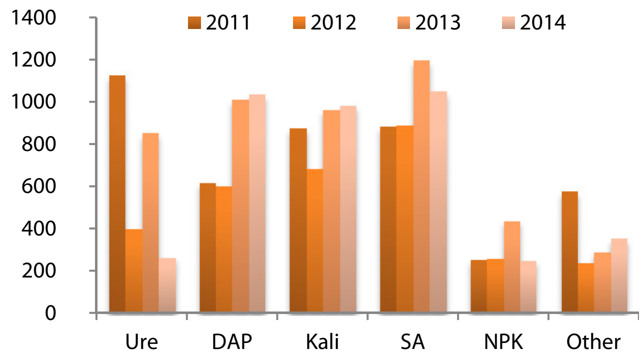
- Volatile oil price developments.
- Possible change in VAT tax policy.

Fertilizer price movement (VND/kg)



Source: Vinacam, RongViet Research

Vietnam's import fertilizer volume (million tons)



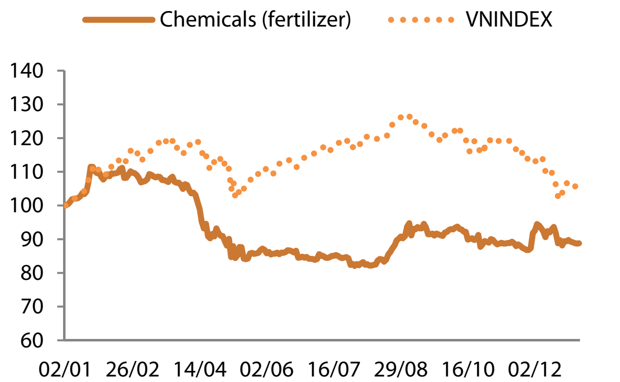
Source: MARD, RongViet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	-
Input cost	+
Legal environment	-
Long-term growth potential	-
Technological development	
Competition	-
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

In the short run, fertilizer industry's outlook remains less positive. However, we reckon investors to continue monitoring those fertilizer companies having advantages of COGS reduction from falling input prices and a strong distribution system, especially as producers still hold dominant position to determine fertilizer selling price. Beyond that, dividend yield is another plus for the industry.

Stock picks

LamThao Fertilizers and Chemicals JSC (HNX: LAS)

- LAS is the largest domestic phosphate producer with the main target market in Northern Vietnam. The sharp plunge in price of major inputs (Kali, SA, Urea…) and relatively little changes on phosphate selling price promise to benefit LAS' profit margin this year.
- Having comparatively large storage capacity of Sulfur (~50,000-60,000 tons) enables LAS to minimize material input price volatility.
- Appropriate debt structure and favorable lending rate (~5.5%).
- Information disclosure transparency is another plus.

- Attractive dividend yield ~10-14%.

PetroVietnam Fertilizer and Chemicals Corporation (HSX: DPM)

- DPM has the largest gas-powered urea manufacturing capacity in Vietnam, possessing 40% of domestic urea market share. In 2015, DPM's COGS could benefit from falling oil prices. However, we concern the new VAT policy could adversely affect the firm's profit margin.
- DPM expects to reduce losses from investment in PvTex whose operation becomes more stable in 2015.
- High dividend yield (~12-14%) and positive cash flow.
- Two new projects (UFC85/Formaldehyde and NPK) are considered to be main growth driver for DPM from 2016 onwards. In particular, the NPK project (~250,000 tons per year) would produce high quality NPK products using newly advanced chemical technology. When this project put into operation, DPM is believed to dominate high quality NPK market share domestically and subsequently increase the firm's earnings results.

The Southern Fertilizer Company(HSX: SFG)

- SFG is the fourth largest NPK producer in Vietnam with diversified products structure (including Phosphate, NPK, sulfuric acid, packaging…). Apart from having large market share, SFG's well-known "Con O" product brand enables SFG to consolidate its market position amid increasing industry's competition.
- Likewise, declining input prices (urea, K...) allows SFG to strengthen gross profit margin.
- Company is restructuring the Foliar and liquid fertilizer segment and plans to transfer the segment operation to Hiep Phuoc plant. Hence, the company's total profit margin is likely to improve despite the relatively small contribution from this segment (2% in total revenue).
- High dividend yield (~12%).

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
DPM	**Buy**	**Medium term**	**-8**	**-49**	**12**	**0.0**	**12**	**11.0**	**1.4**	**8.4**	**-21**	**873**	**12,044**	**92.8**
LAS	**Stable**	**Medium term**	**5**	**-2**	**30**	**0.2**	**-7**	**5.7**	**1.7**	**n/a**	**-25**	**104**	**2,506**	**30.1**
QBS	Stable	Medium term	37	207	26	0.9	n/a	4.4	0.9	n/a	n/a	608	397	15.7
SFG	**Stable**	**Medium term**	**-15**	**-12**	**17**	**0.8**	**5**	**7.1**	**1.2**	**7.1**	**n/a**	**78**	**727**	**21.3**

Source: RongViet Research

OIL & GAS: NOT ALL DOOM AND GLOOM

Tran Thi Ha My (my.tth@vdsc.com.vn)

2015 Outlook

Oil & gas industry was the most noticeable in 2014 not only for its optimistic business performance but also soaring stock prices and volatility. On many occasion, if not to say the entire of 2014, O&G stocks were leaders of the stock market. In 2015, the picture is no longer rosy in the presence of the oil glut.

Oil companies around the world are slimming down for the oil slump. There is unspoken consensus among market watchers, analysts and even O&G contractors that crude will not return to USD100/barrel in 2015. Since November, a wave of capex and payroll cuts has swept across of a great many oil companies around the globe. The substantial loss of rig counts is the most solid evidence that oil price at USD50/barrel (WTI) has had significant influence on oil companies. In the Asia-Pacific region, the total cost to suck crude oil from the reserve and send them to the market (full cycle cost) is 30% lower than world average price (USD36/barrel). But that did not shelter O&G producers in the region from the downsizing trend. Moody's estimated crude oil averaging below USD60/barrel could drive earnings of the O&G service industry down by 25-30%. In addition, capex cuts would make it difficult for midstream operators (distribution, transportation and storing) to maintain growth.

** Evaluate Energy Research in the period 2008-2013 (2015) – Full-Cycle Cost includes: (1) selling general and administration expense, (2) sink cost (finding and developing, property acquisition…), (3) production cost, (4) transportation, (5) taxes, (6) return on capital and risk premium.*

Vietnam oil & gas industry is coping with oil price risk. According to PVN's 2015 plan, the oil reserve expansion and production targets are both lower 2014 where domestic oil production drops 5.2% to 810,000 tons and gas production 4% to 0.4 billion m^3. At 100-dollar-per-barrel crude oil, PVN's revenue guidance decreases by a slight ~3.6% from 2014 while capital expenditure increases sharply to VND116 trillion. However, as we mentioned above, that scenario appears to be more optimistic than realistic which causes us to that think PVN would change the plan sooner or later. If crude stays at USD50/barrel, PVN's revenue and consolidated NPAT could decrease by 34.2% and 48.3% as compared to the original guidance, a significant decline from last year. The group Chairman said if oil price went lower than USD60/ barrel, PVN would consider cut production at 4 high-cost fields, totaling ~450,000 tons or 3.1% the original 2015 oil production target.

	Unit	2010	2011	2012	2013	2014	2015P
Average oil price (WTI)	**USD/MMBTU**	**79.6**	**95.1**	**94.2**	**98.1**	**92.9**	**100.0***
Oil reserve expansion	million tons	43.0	37.2	48.0	35.6	48.1	35-40
Oil & gas production	million tons	24.4	23.9	26.1	26.5	27.6	26.6
Oil	million tons	15.0	15.2	16.7	16.7	17.4	16.8
Gas	billion m3	9.4	8.7	9.4	9.8	10.2	10.0
New discoveries		7	3	2	5	9	3-4
New fields		5	5	7	9	8	6
PVN's revenue	VND1,000 bn	478.4	675.3	773.7	762.9	745.5	718.4
State budget contribution	VND1,000 bn	128.7	160.8	187.0	195.4	178.1	159.0
Capital spending	VND1,000 bn				76.5	82.8	116.8

Source: PVN
**PVN's assumption*

Upstream – Oil field services (drilling, trading, oil & gas services…)

Vietnam oil production peaked in 2004 but has since then stepped down on a zigzag pattern until now. Given Vietnam's energy high demand, the drop in output makes oil exploration more important. In 2015, the exploration plan is largely unchanged while exploitation decreases from 2014. The prices of oil service will have to fall corresponding to the drop of oil price; rig leasing day rates have fallen for three straight years (25% for jack-up rig) though oil price just dropped in mid-2014. For other services, we also expect upstream firms to lower the prices to support oil contractors; the cuts would depend on service types (~2-10%).

In 2015, there will be more works for onshore engineering and construction (thermoelectricity, oil refinery…) than for offshore. Companies who focus stays with onshore projects will be less affected by lower oil price. However, once new Auction Law takes effect (July 01, 2014), the competition between domestic and foreign oil companies will intensify.

Midstream – Trading, distribution and storing of oil and gas.

Given the recovery of manufacturing and consumption, energy demand in Vietnam is expected to keep on growing in 2015. However, midstream companies will face the risk of slowed or negative earnings growth as their output price should follow the oil price downtrend. Meanwhile, in the new oil price environment, the process of marking gas price for electricity, urea and industrial customers to the market (Dispatch N.2175/VPCP-KTTH) could be quicken. The upgrade plan for gas pipelines will continue with unfinished works (Nam Con Son Phase 1, Ham Rong – Thai Binh) while big projects would likely be delayed or simply stretched for longer period.

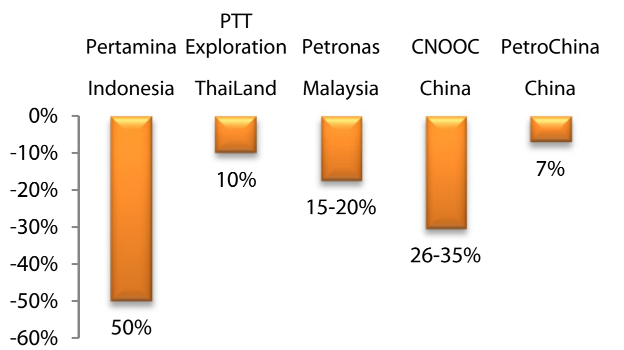
Key drivers

- The volatility of oil price.
- Exploration activities will be stable in order to ensure energy security.
- The progress of oil-related EPC projects could be delayed or stretched out.
- 2013Auction Law makes it more difficult for EPC companies as it thicken the red tape while increasing competition.
- Regulations on gas price imposed by Dispatch N.2175/VPCP-KTTH could be changed in response to the new level oil price.

Risks

- Oil price may fall lower than predicted.
- Territorial tension with in the South Sea.

Region oil & gas companies cut spending plans



Source: RongViet Research

Compare to 100$-a-barrel oil scenario

	Oil price scenarios ($/barrel)		
	60	50	40
Revenue	-28.3%	-34.2%	-39.5%
Contributing to the State Budget	-34.5%	-41.4%	-49.8%
Consolidated NPAT	-40.0%	-48.3%	-59.3%

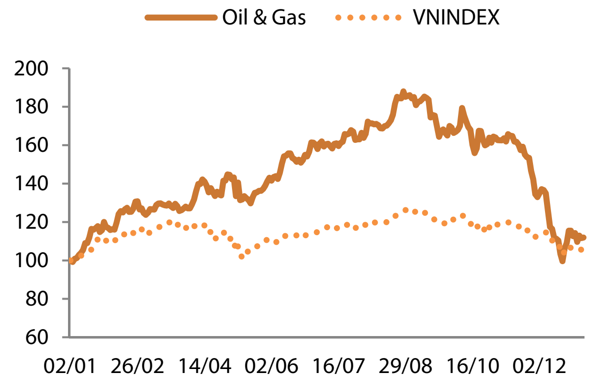
Source: RongViet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	--
Input cost	
Legal environment	-
Long-term growth potential	+
Technological development	
Competition	-
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

At 50-dollar-per-barrel crude oil, it is obvious that the fundamentals of Oil&Gas companies could be negatively influenced, which would put a pressure the valuations of those O&G stocks. However, looking at a different perspective, we think there are still stocks that are worth investors' consideration as the negatives have been mostly reflected in market prices (assuming no more surprises in oil price). In the short-term, we prefer stocks of firms that are less affected by the plunge of crude or tickers that have negative beta with oil price. In the long-term, it may be reasonable to expect the recovery of crude oil where stocks with positive return correlation with oil price would likely see valuations reverting to mid-cycle levels (PVD, PVS, PVC). *See more at Equity Strategy – Contrarian Investing (Page 122)*

Stock picks

PetroVietnam Gas JSC. (HSX: GAS)

- As a midstream company, GAS has been less influenced by oil price drop than other industry players (~70% gas output receives only transportation fee).
- Electricity clients: According to Dispatch N.2175, the price of gas sold to electricity plants above the contract volume will be set to equal market price in 2015.
- Urea clients: The Company only receives freight charges for transporting gas to the manufacturing facilities; in early 2015, freights charged to Phu My plant was increased by USD0.29 /MMBTU.
- Industrial clients: Selling prices for industrial clients are not regulated by the government; however, GAS has considered changing the pricing method for these clients, given lower oil price.
- Earnings from the adjustment of gas price for electricity under Dispatch No.2175 were not recorded in 2014 but may reflect in GAS' bottom-line profit this year.
- The construction of Ham Rong-Thai Binh project and NCS2 – Phase 1 (Thien Ung – Dai Hung field) is set to complete in 3Q2015 so that the volume of dry gas could increase. However, the Company also has many maintenance plans this year, especially in Q3.
- Earlier in 2015, the GAS said it was planning to increase its charter capital by 51%; the plan likely finishes in 3Q2015.
- The Company has submitted a buyback plan (10 million shares at a price no higher than VND100,000/share) in 1Q2015. Besides, this year dividends will about 33% of charter capital (2014's third-time payment plus 2015's first-time). Given GAS' encouraging earnings in 2014 and the state budget hardship, PVN has a good reason to require higher dividends.

** Market price: Gas price = 46%MFO + tariffs*

PetroVietnam Drilling and Well Services Corporation (HSX: PVD)

- 2015 is a "soft landing" for the PVD because rig lease day rates would likely drop (usually lags and the decrease does not correspond to oil price) along with growth in other business segments as a result of lower oil price.
- PV Drilling I and III have been scheduled for maintenance this year.
- PV Drilling VI will operate in early March, which would add to revenue and earnings.
- The Company maintains its stance in penetrating the overseas/regional rig market. After setting up the PVD Oversea joint-venture in Singapore, PVD intends to establish another one somewhere in the region (probably Malaysia) in order to invest and start operating its new jack-up rig (PV Drilling VII). However, this plan has been delayed by the oil plunge.
- 2014 was a successful year for PVD Baker Hughes JV, one of PVD's biggest joint ventures. Due to different accounting system, PVD's share in the JV's earnings will be booked in 2015 (~VND200 bn NPAT).
- The Company announced to a share buyback plan (~2 million shares) from February 01 to March 02, 2015. If the transaction is carried out, the average purchasing price will be between VND58,000 and VND60,000/share. This price range can increase the likelihood of the plan's success if oil keeps trading at USD50/barrel.

PetroVietnam Technical Services Corporation (HNX: PVS)

- As a provider of various oil field services, the drop in oil price has had direct and adverse impact on PVS' businesses, from marine service, O&M, survey and repair to port and construction services. Luckily, FPSO/FSO services would be outside the blast radius thanks to long-term contracts with fixed price.
- Marine ship services: the Company plans to purchase 2 ships in 2015 for USD60 million with cutting the number of leased ships to enhance gross profit. However, the prices of marine ship services could fall in line with the decline of oil production, and reflect negatively on the segment's revenue and profit growth.
- Construction services: the number of projects up for revenue recognition in 2015 will decline against the previous year. Even so, we think long-term outlook for offshore projects is still positive. This year, the Company will involve more in onshore projects (Nghi Son, Long Hau, Long Phu...); however, it is necessary to note that those projects are mostly behind schedule and have lower profit margins than offshore projects.
- In 2015, FPSO Lam Son's contribution to the FPSO/FSO business would nearly double that in 2014.
- With regard to Bio-Ethanol project, E5 gasoline has been distributed but BSR-SF (a subsidiary of Binh Son Oil Refinery) is still struggling with financial difficulties. Under low oil price condition, we do not expect the revision of the project's EPC contract to be an important driver for PVS' 2015 results; yet, it is still something to look out for.
- The Company taking steps to gain full control of high-tech services and improve its engineering, designing and constructing ability in overseas markets (ASEAN region). Due to the complex nature of many services, we believe the Company will more need time to ramp up for a breakthrough. However, we appreciate that the Company's still sticks to this strategy.

Petroleum Equipment Assembly & Metal Structure JSC (HSX: PXS)

- In 2015, PXS would continue with the projects in progress such as EPCC Thai Binh (USD16 million), Thai Binh II Thermal Power (VND600 billion), EPCC P5P6 (VND902 billion), Thien Ung (VND90 billion). 2015 revenue is projected at VND 1,750 billion (+5% yoy).
- Starting 2015, PXS will take on thermal plant project such as Kinh Ngu Trang, GPP Ca Mau, Long Son…

- PXS is on track with the negotiations for the 200-billion-VND Su Tu Trang project; the result may come in Q3or Q4.
- Interest expense is no longer a burden for PXS as in the past. At the end of 2014, the Company long-term debts totaled VND292 billion, 84% lower than a year earlier.
- PXS has higher gross margin than other construction companies at over 17%.
- Risk: 2015 performance may be not as good as expected due to the delay of some projects. Moreover, the gross margin might be affected by the implementation of such projects as EPCC P5P6, Thai Binh and Long Son Thermal Plant.

Petrolimex Petrochemical Corporation (HNX: PLC)

- As a subsidiary of Vietnam National Petroleum Group, PLC is sheltered from the impact of the oil dip. In fact, we think the Company could even benefit from lower oil price.
- The decline of raw material prices and import tariff cutting schedule would improve the profitability of the lubricant segment.* The Company also expects a volume increase of 6-10% in 2015 thanks to better domestic and export demand (Myanmar), which would make up for the loss of Nippon Oil's mixing volume last year.
- The expansion of Nha Be Lubricant Plant could finish in 2015 which will be lift the capacity of this facility from 25,000 tons/year to 50,000 tons/year.
- The volume of asphalt could grow by 10-15% this year thanks to the encouragement of PPP (Public-Private Partnership) projects in infrastructure development; many projects have already put into motion such as Trung Luong – My Thuan Highway, Bac Giang – Lang Son, Nha Trang-Phan Thiet, Quang Ngai – Da Nang and National Road 01 upgrade project.
- Doubtful receivables in the asphalt segment created many difficulties for the Company the previous year but may be substantially reduced by the increased participation of the private sector in infrastructure project.
- At the end of 2013, Petrolimex signed an MOU with Nippon Oil Group – Japan, opening the door for PLC to raise its charter capital to VND1,000 billion in 2015.
- The Company increased its dividend payout to 30% of share capital in 2014, with a better earnings outlook and the influence of Petrolimex, such high payout ratio may be maintained in 2015.

** According to ICIS, base oil prices have decreased by 20-30% compared to the corresponding period. Meanwhile, lubricant oil price has been stable and still no hint of falling with oil price.*

According to Circular 165/2014/TT-BTC, import duty of materials to produce lubricants will be zero in 2016. In addition, import duty of lubricant with 70% base oil could be 0% instead of 18-20%. In 2016, lubricant with Bitume component, 70% base oil will be applied the import duty of 0% instead of 5% like before.

PetroVietnam Engineering Corporation (HNX: PVE)

- Some field projects could be delayed due to the oil price slump, which would affect PVE's business. However, in early 2015, the Company signed a 6.7-million-dollar (~VND142,000 billion) FEED engineering contract for the development of Su Tu Trang field.
- The Company is also participating in smaller construction packages in the development of Nghi Son Refinery, an important project that would contribute significantly to this year's revenue. Therefore, achievability PVE's earnings target will depend a lot on the progress of this project.
- For Con Dao Wind Power Plant project, where PVE is the main contractor, the Company could book ½ of the project's total revenue this year (the plant is expected to go into operation in Q3/2015).
- 2015 revenue guidance is the same as the previous year's; yet the Company shows ambition for 30% growth of NPAT. The expected dividend payout is ~10% of share capital.

PetroVietnam Southern Gas JSC (HNX - PGS)

- The Company seems cautious when building the plan for 2015 CNG and LPG output. However, we believe the output growth will be better targets thanks to improvements in consumption and the manufacturing sector. Besides, last year the Company just invested in a system to bring CNG to new customers.
- The implementation of operating and safety standards in the LPG segment is the opportunities for CNG to acquire smaller, less efficient gas distributors. The Company has already planned to purchase 2 LPG companies in 4Q2015, thereby increasing its market share in the LPG business.
- In the previous plan, CNG input gas price would be increased 8% in 2015. However, GAS is considering changing the input price calculation method for its subsidiaries (the rate of discount from FO price) following the drop in oil price. Meanwhile, selling price for customers has already been marked to market such that PGS' profit margin could be negatively affected, at least in 1Q2015.
- In March, 2015, the Company increased its share capital to VND500 billion through the payment of stock dividends. This means stock price will not be affected in the upcoming quarters.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
ASP	Not Rated		-8	-65	1	0.7	n/a	40.6	0.6	n/a	-4	43	235	0.1
CNG	Stable	Medium term	14	-9	26	0.1	-4	7.6	2.0	7.9	-19	42	853	6.6
GAS	**Stable**	**Medium term**	**12**	**15**	**39**	**0.2**	**-29**	**10.6**	**4.2**	**14.9**	**1**	**504**	**149,705**	**881.0**
MTG	Not Rated		-35	-1,163	-20	0.5	n/a	-1.8	0.4	n/a	-36	14	44	5.8
PGC	Not Rated		-3	7	14	1.7	n/a	8.2	1.1	n/a	0	73	684	22.0
PGD	Not Rated		8	-21	14	-	-46	9.8	1.5	18.2	-18	48	1,746	25.8
PGS	**Neutral**	**Short term**	**8**	**-24**	**15**	**0.5**	**11**	**7.9**	**1.1**	**7.1**	**-22**	**276**	**1,075**	**10.7**
PLC	**Positive**	**Medium term**	**10**	**41**	**24**	**1.0**	**11**	**8.4**	**2.0**	**7.6**	**76**	**201**	**2,234**	**32.5**
PVC	Stable	Medium term	19	130	20	0.6	-17	5.9	1.3	7.1	46	1,189	1,170	19.8
PVD	**Accumulat**	**Medium term**	**40**	**26**	**21**	**0.4**	**-4**	**7.4**	**1.5**	**7.7**	**-17**	**836**	**17,576**	**27.9**
PVE	**Stable**	**Medium term**	**28**	**64**	**8**	**0.8**	**37**	**10.0**	**0.8**	**7.3**	**10**	**182**	**253**	**7.0**
PVG	Not Rated		4	-38	-1	1.0	n/a	-76.4	0.7	n/a	-37	103	250	12.0
PVS	**Stable**	**Medium term**	**23**	**12**	**19**	**0.3**	**-24**	**6.9**	**1.3**	**9.0**	**-5**	**2,393**	**12,196**	**105.3**
PXS	**Neutral**	**Medium term**	**65**	**62**	**19**	**0.7**	**8**	**8.7**	**1.6**	**8.0**	**-9**	**662**	**1,070**	**19.0**

Source: RongViet Research

STEEL: BOILING COMPETITION

Tran Thi Ha My (my.tth@vdsc.com.vn)

2015 Outlook

In compliance with a recovery of construction industry, the demand growth in steel industry in 2014 recorded better-than-expected, reaching ~5.6 million tons, ups 10% as compared to previous year. However, the figure was not reflected the challenges in domestic steel industry. According to VSA, domestic steel producers' capacity only reached at 60% of designed capacity, lowering than the average capacity in the world (~76%). Domestic oversupply in compliance with intense competition with import steel, especially Chinese steel product, raised a concern. In 2014, import steel increased by 15% as compared to previously, notably, Chinese import steel doubled. We suppose that steel market will face more intense competition in 2015.

Domestic persisting oversupply – More intense competition with imported steel. Although forecasting to up 15% in steel demand in 2015, supply will increase by a rise in domestic and import products. According to VSA, many projects will put into operation this year (Table below) and the rate of progress related to Formosa project will be notable. Regarding to SEASI, Chinese steel demand is expected to slow down in 2015 (~0.8%), therefore, oversupply in China will lead to a sharp rise in Chinese import steel.

In addition, Russian steel should be considered as a risk for domestic steel producers. It seems that Russia is likely to become beaters after Ruble's slide, second only to China. Although a Russian steel demand in Vietnam downs recent years, VCUFTA and a drop in ruble could bound back this movement.

Projects put into operation in 2015

	Company	Capacity (tons/year)	Product	Place
1	Special steel POSCO SS plant	1,000,000	Billet Section steel Bar steel	Ba Ria Vung Tau
2	Vinakyoei Steel Ltd	1,200,000	Billet Bar Steel Rolled steel	Ba Ria Vung Tau
3	Hung Nghiep Formasa Ha Tinh steel corporation*	4,350,000 (Phase 1)	Billet Bar steel Rolled steel	Ha Tinh
4	Ton Phuong Nam	150,000	Color coating	Dong Nai
5	Kyoei steel Viet Nam	500,000	Bar steel	Ninh Binh
6	Hoa Sen Group	200,000	Steel pipeline	Nghe An Binh Dinh
7	Thai Nguyen Iron and Steel Jsc	500,000	Cast iron	Thai Nguyen

Source: VSA

**1st Blast furnace is expected to put into operation in May, 2015*

Tailwind and not tailwind in input price – The case of each company. Input prices recently plunged (iron ore, coking coal and HRC price downs 47%, 18% and 26% respectively in 2014). Meanwhile, sales price decreased from 6-15%, notably, domestic construction steel price downs lower and long steel witnessed a higher decline. This led to an improvement of construction steel producers' profit margin while stagnation in long steel companies. In 2015, it is project that sharp plunges in important input, but the rate of decline lower. We suppose that a domestic sales price will slow down due to a rise in competition. Moreover, in March, electricity price will up 7.5% which put a pressure on steel electricity producers which consuming sustainable electricity.

Bleak export outlook. With an intense competition in domestic market, export prospect face more challenges due to trade defences by anti-dumping in regions. Many anti-dumping investigations recently happened in Indonesia and Malaysia.

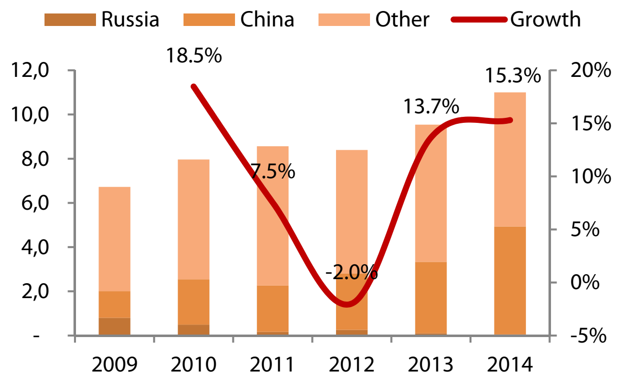
Key drivers

- Movement in input prices.
- The rate of progress related to domestic steel projects.
- Trade defence in Vietnamese export steel markets.
- More intense competition with Chinese steel and a rise in the risk of Russian import steel.
- The route of cut tax rates due to VCUFTA.

Risks

- The rise in input prices affect plan of importing materials.
- Real estate and construction market recover lower than expectations leading to lower demand.

Steel import (2009-2014)



Source: RongViet Research

Gross profit margin of steel companies

Unit: %	2009	2010	2011	2012	2013	2014
NKG	9.4	10.0	8.0	4.0	6.5	5.4
POM	18.2	12.1	10.1	4.0	3.5	4.0
SMC	2.7	3.6	3.5	2.7	2.8	3.0
TLH	11.2	8.7	9.7	4.5	2.0	5.5
VGS	9.8	5.0	3.5	2.8	4.6	3.8
VIS	15.6	7.5	6.6	6.5	6.7	6.6
HPG	24.3	17.2	16.1	14.8	17.3	20.3
HSG	19.6	19.0	12.9	13.9	14.5	11.7

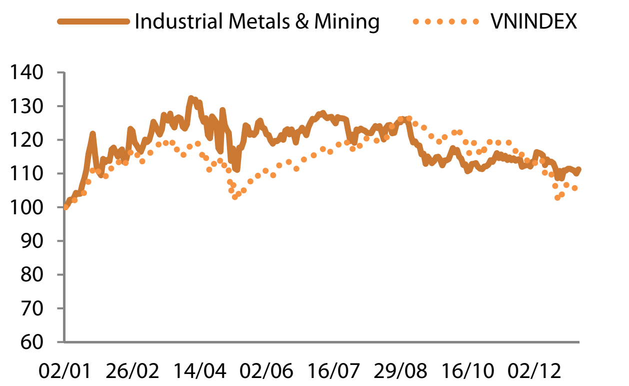
Source: RongViet Research

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	+
Input cost	-
Legal environment	++
Long-term growth potential	++
Technological development	
Competition	-
Overall	**POSITIVE**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

In listed companies, HPG and HSG both remained considerable profit margins, meanwhile others witnessed a drop in profit. The more intense competition, the more price competition while steel quality is not a decisive factor. Thus, companies with brand-name, market shares and cost controls have chance to operate.

Stock picks

Hoa Phat Group JSC (HSX: HPG)

- HPG is the leading structural steel producer with wide-spread brand name and efficient cost control

- According to the guidance, steel volume expects to up 20% in 2015, however, profit downs due to a decrease in Mandarin project's profit and a rise in competition.
- Regarding a decline in material price, we expect HPG could save cost due to buying lower imported iron ore.
- Integrate Steel Complex II Phase 3 started in October, 2014 and when 3rd blast furnace put into operation in Q12016, volume will up 750,000 tons per year (+60%).
- Hoang Mai real estate project expects contribute to earnings but as a third of profit from Mandarin project in the coming 2-3 years. (~VND 500 billion)
- HPG expects to pay a 30% divedend for year 2014, 10% by cash and 20% by stock. Moreover, HPG intends to issue preferred stocks for common shareholder with a rate of 30% to increase capital in Q22015.

Hoa Sen Group JSC (HSX: HSG)

- HSG is the leading steel sheet producer and intends to be a leading steel pipe market share when putting on operation two new lines (~200,000 tons/year) in the 2014-2015 fiscal years.
- In the 2014-2015 fiscal years, company will focus on domestic market, decreasing a proporation of import revenue to 37% due to a defensive trade.
- Input prices (HRC) are in a downward trend in the beginning year of 2015. We expects profit margin improve in the 2014-2015 fiscal year.
- With a restructuring direction to become a leading sheet steel producer, it seems that it is suitable direction but taking 1-2 years to put into practice when a worsen growth room for steel industry.
- Because of an expansion of scale production, distribution and different cash management, net debt reached a second record (after Pomina) and investment and marketing cost will affect cash flow.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
HPG	**Accumulate**	**Medium term**	**35**	**61**	**26**	**0.6**	**-2**	**7.2**	**1.9**	**7.4**	**12**	**461**	**23,015**	**29.8**
HSG	**Accumulate**	**Medium term**	**27**	**-29**	**41**	**7.8**	**15**	**9.2**	**3.7**	**8.8**	**-27**	**152**	**3,756**	**3.5**
NKG	Not Rated		25	47	15	2.1	60	6.8	1.2	4.3	29	168	599	18.8
SMC	Not Rated		13	28	6	4.8	5	8.8	0.5	8.3	-13	13	292	11.2
TLH	Not Rated		22	-35	7	0.8	n/a	7.7	0.5	n/a	-5	576	589	38.6
VGS	Not Rated		24	70	4	1.3	n/a	10.9	0.5	n/a	-15	365	234	16.8
VIS	Not Rated		10	-65	3	2.3	n/a	17.6	0.6	n/a	-18	112	394	23.5

Source: RongViet Research

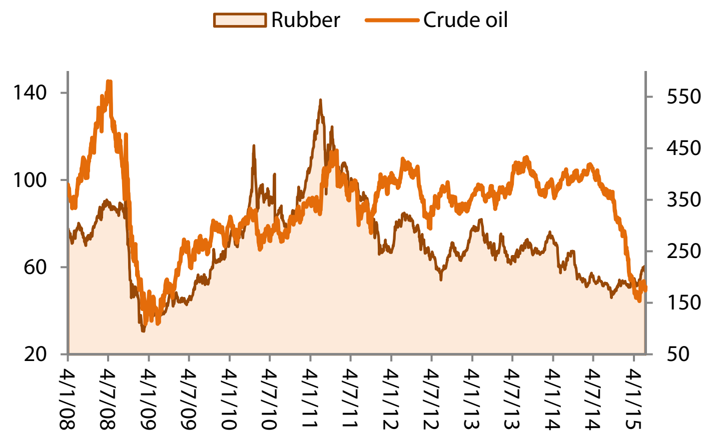
NATURAL RUBBER: DEMAND COULD IMPROVE AMID EXPECTED SLOW RECOVERY IN PRICE

Trien Le (trien.lh@vdsc.com.vn)

2015 Outlook

Vietnam natural rubber industry has experienced oversupply situation over the past 4 years with rubber price on the downtrend since 1Q2011. Many researchers suggested this situation could still pose problem in 2015 but at a lesser extent. According to International Rubber Study Group (IRSG), rubber demand is expected to rise by 1.8% (y-o-y), while supply can level off suggesting a possible recovery in rubber price this year. However, the drastic decline in oil prices in the last 6 months could hinder that recovery effort. It shall be noticed that both oil (relating to synthetic rubber) and rubber price are declining to their lowest level established in 2008. For all those reasons, we think that the pace of rubber price recovery would remain slow despite some light pick-up in demand in 2015.

Correlation between crude oil and rubber price



Source: Bloomberg

Since the sector's core operation is exploiting and supplying raw rubber latex, rubber companies' performance would hardly see positive results in 2015. In replacement, we could expect profits derived from non-core investment to improve these companies' bottom line. Also, the relatively higher dividend yield of natural rubber shares of approximately 7.8% compared to bank deposit rate is another attractive point.

Vietnam Rubber Group (VRG) has expressed interest in developing the rubber industry at greater depth by expanding the rubber value chain to minimize adverse impact of volatile rubber price. However, this plan would possibly take a while to materialize given the current orientation. What VRG should do now is reducing the current proportion of raw 3L latex export and increasing SV10, SV20 latex supply for the highly potential tire industry, especially when 2 recent Radial tire manufacturing plants of DRC and CSM commenced operation recently.

Key drivers

- Potential growth of automobile industry in Vietnam and Asia will increase rubber demand.
- Radial tire manufacturing plants of DRC, CSM have commenced operation recently.
- Rubber plantation restriction policies of the main rubber exporting countries as Thailand, Indonesia, Vietnam.

Risks

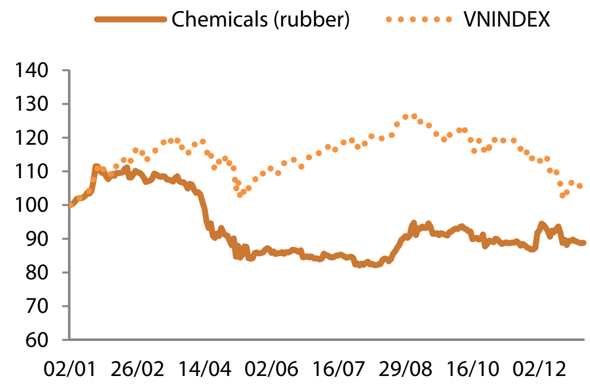
- Expected recovery of major economies may not be as scheduled.
- China, the largest latex consumption country in the world, could experience a slow-down in growth.
- New rubber plantation areas in Cambodia and other places in recent year could be exploited soon, which could break the supply-demand balance.

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	-
Input cost	+
Legal environment	+
Long-term growth potential	+
Technological development	-
Competition	-
Overall	**NEUTRAL**

Source: RongViet Research

Sector price index versus VNIndex



Source: RongViet Research

Company selection

Though not recommending rubber industry as favorite in 2015, investors that prefer dividend yield could still consider including rubber related shares in their 2015 portfolios. If so, we suggest investors to pick shares of company that not only supplies raw rubber latex but also involves in the manufacturing of value-added products, such as mattresses.

Stock picks

Dong Phu Rubber JSC (HSX: DPR)

- 1000 ha of Katie rubber plantation in Cambodia can begin to yield in 2015.
- By having rubber products manufacturing arm, DPR can boost sales of its rubber related products to take advantage of low rubber price.
- Investment divestment plan at The VRG Infrastructure investment Ltd and The Rubber Trade, Service and Tourism Corporation (RUTRATOCO) will support DPR's bottom-line in 2015.
- The relatively high dividend yield ~ 7.9%.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
DPR	**Stable**	**Long term**	**-6**	**-42**	**9**	**0.1**	**2**	**7.3**	**0.7**	**7.1**	**-15**	**18.0**	**1,541**	**9.5**
HRC	Not Rated		-60	-14	11	0.3	n/a	14.1	1.6	n/a	3	8.9	791	7.5
PHR	Stable	Long term	-15	-29	12	0.3	-30	6.5	0.8	9.2	-28	6.1	1,962	23.1

Source: RongViet Research

MINING: NOT THE RIGHT TIME TO INVEST

Trien Le (trien.lh@vdsc.com.vn)

2015 Outlook

The mining industry was previously known for its high profitability due to stable growth in world's raw material demand and low production cost. However, the industry started facing many difficulties after Directive 02/CT-TTg promulgated in 2012 banning export of raw commodities (except crude oil and coal). The combination of increasing raw mineral stockpile due to low export demand and limited processing capability of domestic firms have led to the oversupply situation and distressing sales. In addition, the increase in mining tax in 2014 and the slump of world commodity price just compounded the situation. According to some researches, the mining industry continues to face a difficult outlook in 2015 due to persisting oversupply condition.

The adjustment of mining tax rate by minerals implemented in February 2014

Mineral	Before	After
Iron ore	10%	12%
Titan	11%	16%
Vonfram	10%	18%
Copper	10%	13%
Antraxit Coal	7%	9%
Other coal	5%	7%

Source: RongViet Research

Coal: Hard take the advantage of over demand.

Vietnam, previously known to have large coal reserve in Asia, would possibly have to import coal for energy security reason after period of massive exploitation and export. In fact, Vietnam National Coal And Mineral Industries Holding Corporation Limited (Vinacomin) has imported 41,500 tons of coal from Russia on trial. According to Vinacomin, Vietnam's current mining capacity can still meet the 2015 demand (~56.2 million tons); however, the country would have to import about 20-30 billion tons of coal per year with increasing demand from coal powered electricity plants. Nevertheless, companies still could not make use of that opportunity to improve their bottom line. The reasons are (1) the easily obtainable coal layers have nearly been exploited, (2) investment in new mines requires large capital outlay and remains a time consuming process (7-8 years) and (3) the mining resource tax rate has increased 2%.

Iron ore: Abundant supply plus sluggish demand jeopardize recovery

The oversupply situation causing iron ore price decline in 2014 is likely to remain this year. Goldman Sachs forecasts 2015 iron ore surplus could increase by three folds, reaching 163 million tons, as global miners like Rio Tinto, BHP Billiton Ltd increase exploitation activities. Meanwhile, stalling steel demand growth in China which imports nearly 67% of the world's iron ore has hampered the recovery of iron ore price in 2015. In addition, Vietnamese iron ore miners also have to deal with steel import from China amid sluggish domestic steel demand. With the introduction of iron ore exporting ban, this year iron ore demand is expected to be only 7.2 million tons, much lower than the Government 's mining exploitation target of 13 million tons.

Titanium: Suitable time for investment in slag processing plant

Titanium exploitation industry in Vietnam still faces many difficulties despite the country possessing the world's sixth largest titanium reserve (~650 million tons). The ban on raw metal export and limited capacity of domestic titanium slag processing plants result in rising inventory at mining companies. However, according to JP Morgan's forecast, titanium ore (ilmenite) and slag price could recover in 2015 after a strong decline period. So, that would present opportunities for companies in the industry.

Despite domestic ilmenite price (input) being 20% cheaper than world price's, performance of slag processing companies have not seen positive signs. Actually, the low quality processed slag has contributed to a high reliance on export to China and that could be detrimental when China slag demand went down causing high slag inventory in 2014.

We recognize that investment in high-quality titanium slag processing plants could be the main trend this year in the industry. Due to its special nature, titanium companies can only set up processing plant in a specialized industrial zone from 2015. It is expected that slag processors could see a double benefits from the high titanium inventory in the industry and expected recovery of titanium slag price in the near future. However, there remains a concern on these companies' cash flow which could only occur in 2016 since it would take a while from constructing plants to production and more importantly finding strategic buyers. Therefore, we recommend investors to monitor listed titanium companies that are to break ground slag processing projects in 2015

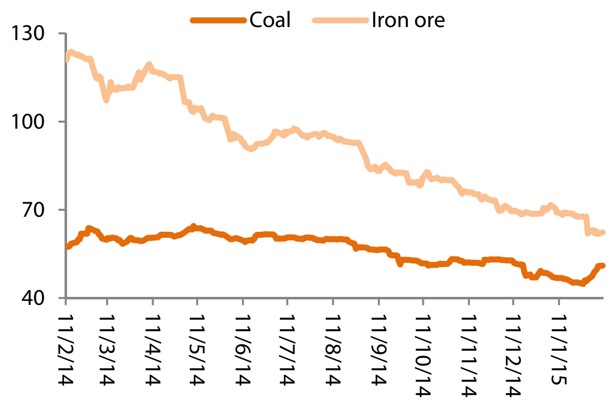
Key drivers

- Demand for minerals could increase as the economy is recovering
- Tightening the licensing of new mining projects can make barrier to entry higher.

Risks

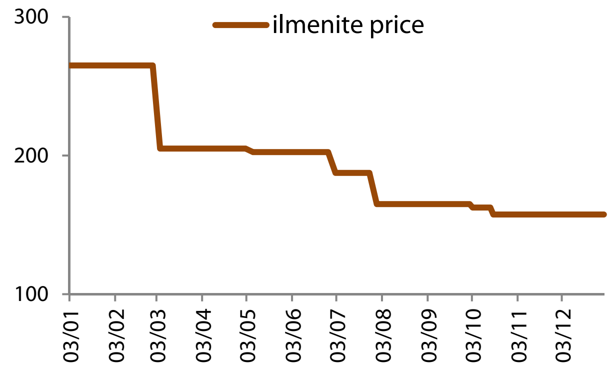
- Recovery of the economy and the growth of industrial sectors are not as planned.
- Price of material inputs such as petroleum, electricity, chemical, explosive went volatile

The iron ore and coal price



Source: Bloomberg

The ilmenite price in 2014



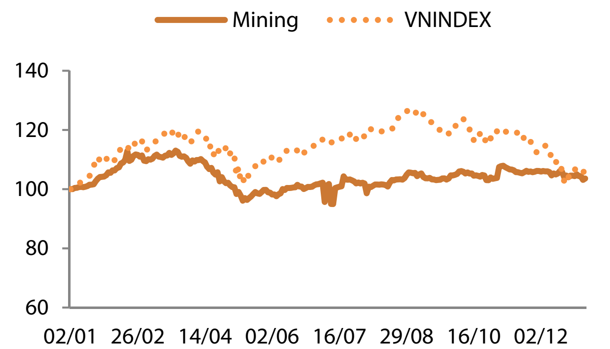
Source: Bloomberg

Sector qualitative assessment

Criteria	Score
Supply– demand outlook	-
Input cost	+
Legal environment	-
Long-term growth potential	+
Technological development	+
Competition	-
Overall	**NEGATIVE**

Source: Bloomberg

Sector price index versus VNIndex



Source: Bloomberg

Company selection

The mining industry's picture is not expected to be positive in 2015. Besides, concern on cash flow generation ability by listed slag processors remains a doubt. This industry is therefore not in our recommendation list this year. However, investors if interested could still monitor shares of mining companies with high liquidity, that begin to receive stable income source from recent investments.

Stock picks

Vinacomin – Vang Danh Coal JSC (HNX: TVD)

- Exploiting output in 2015 is expected to increase by 25.6% y-o-y to 4.1 million tons.
- The Vang Danh II project with capacity of 2 million tons/year will be put into operation in 2015.
- Having the largest equity value among listed coal companies and key shareholder-Vinacomin (~62.66%) could help TVD in capital raising plan as well as legal assistance in coal mines exploitation activity.

CMISTONE Vietnam JSC (HNX: CMI)

- Stable income source from Tran Hung-Yen Bai iron ore mine (4,000-7,000 tons/month) and Van Xuan-Ha Tinh stone quarry (8,000-25,000 tons/month).
- The iron ore project in Khoam Bang – Laos with the investment of VND 30 billion can soon go into operation.
- Restarting 3 projects in 2015 after a delay period due to capital constraints (Quy Hop white stone quarry, stone crushing plant and artificial ashlar tile plant) may improve CMI's revenue and profit in 2015.

Key financial, valuation and trading metrics

Ticker	Rating		Financial					Valuation			Trading			
			2014				2015							
			+/- Rev. (%)	+/- NPAT (%)	ROE (%)	D/E (x)	+/- EPS (%)	P/E Trailing (x)	P/B Cur. (x)	P/E 2015F (x)	+/- Price 1 year (%)	Avg. vol. 3-month (1K shares)	Market cap (VND bn)	Foreign room (1M shares)
BMC	Not Rated		-59	-74	10	-	n/a	14.1	1.3	n/a	-45	18.5	295	4.7
CMI	**Positive**	**Medium term**	**115**	**112**	**27**	**0.5**	**2**	**5.3**	**1.2**	**5.2**	**-24**	**83.4**	**152**	**4.8**
KSA	Positive	Long term	230	19	5	-	73	14.8	0.8	8.6	-10	745.6	355	18.1
KSB	Not Rated		16	16	21	-	n/a	5.7	1.1	n/a	15	27.8	531	4.6
KSH	Not Rated		80	468	6	-	n/a	11.2	1.0	n/a	45	517.6	308	13.3
KSQ	Not Rated		839	3,141	6	-	n/a	5.3	0.7	n/a	58	181.0	174	7.1
KTB	Not Rated		250	102	1	-	n/a	42.4	0.4	n/a	-28	331.0	177	19.3
NBC	Not Rated		-21	12	24	0.9	n/a	4.3	0.9	n/a	5	10.2	364	12.0
TVD	**Stable**	**Long term**	**26**	**5**	**24**	**2.2**	**n/a**	**4.7**	**1.1**	**n/a**	**19**	**12.9**	**492**	**20.4**

Source: RongViet Research

OTHERS

An Phu Irradiation Joint Stock Company (HSX: APC)

- Having large market share in radiation industry, particularly, 70% in seafood segment and 40% in fresh fruit segment.
- Total capacity of 2 plants in Binh Duong and Vinh Long provinces reaches 250 tons/day, in which, the plant in Binh Duong has run almost full productivity, and the plant in Vinh Long has run 50% of capacity.
- The demand of irradiating fresh fruit, as estimated, is capable of increasing 19% when US Department of Agriculture has allowed importing fresh fruit from Vietnam (lychee, longan) since 6 October 2014.
- Initially gaining positive result of restructuring, especially in debt issue. In 2014, total loan decreased ~60% yoy.
- The revenue structure does not depend completely on seafood as previous. The present proportion does distribute evenly among seafood, spice, dry product (over 70% of revenue).
- Risk: the ability of delisting after Thai Son Corp takes over and control.

Dabaco Group (HNX: DBC)

- Having integrated system from feed product to final product.
- Higher gross margin than others in this sector, over 17%.
- Having an appreciated quality and a recognized brand.
- Focusing on core business by ceasing to implement and liquidate real estate projects as Den Do.
- Changing in capital structure, particularly SCIC shares replaced by SSI, might make management to be more proactive.

FPT JSC (HSX: FPT)

- The performance of ICT distribution and retail segments is better than expected with combined revenue growth as strong as 21% from 2013. As of the end of 2014, FPT has 163 ICT retail stores, up by 63% yoy and even higher than its target of 150 shops.
- 2015's profit margin may not recover as an amount of VND450 billion of for the fiber optic conversion project will be recorded in 2015.
- Highly cyclical business like IT is expected to recover strongly following increasing IT investment in the domestic market. Besides, FPT's globalization strategy will contribute to push sales growth.
- As the leader of Vietnam's IT sector and having a lot of interest from foreign institutional investors, FPT's foreign ownership room has already reached its limit. Therefore, if foreign room expansion is approved, it will be catalyst for FPT's stock price.

Dry Cell and Storage Battery JSC (HSX: PAC)

- PAC is a leading domestic storage battery and dry cell producer with strong brand awareness.
- Introducing new product with many strong features (ex: PTX) is the key factor helping PAC to earn an exclusive contract with new customers such as Honda and Piaggio.
- Car accumulator sector recorded an impressive growth rate thanks to (1) PAC's two big clients, named Thaco Truong Hai and Ford, have made a great stride in 2014, (2) automobile industry has also witnessed positive development in 2014 and (3) tightening truckload policy.
- Restructuring the current Dong Nai 2 plant in Nhon Trach to be able to accommodate the battery operation. This implication would resolve the plant relocation concern and

also leaving the depreciation expense unaffected.

- The drop in price of raw materials, especially lead price (below 1,900 USD/ton) positively affect COGS PAC cost of goods sold.
- Barcode system supports the company in term of saving VND 5-7 billion, maintenance cost and prevents counterfeit products.

ReeCorp JSC (HSX: REE)

- REE owns and manages 6 B-grade office buildings in HCMC with over 100.000 m^2 of GFA and an occupancy rate near 100% at all of the buildings. The firm intends to develop another building in District 4, HCM for an estimated investment of VND700 billion between 2015 and 2017.
- REE is currently the leading M&E constructor and air-con manufacturer in Vietnam. The Company order book now includes landmark projects across the country, such as ACE Sanofi Factory, Khataco Khanh Hoa Hotel, Delta Saigon Tower, Saigon Centre phase 2&3, etc. whose values total over VND3 trillion.
- REE's heavy involvement in the coal mining, power and infrastructure (water supply) sectors through its investments in affiliates such as PPC, TMP, TBC … is expected to continue bringing substantial profits and income in 2015. Separately, the forex gains from the revaluation of PPC's JPY-denominated may add significantly to REE profits this year should the yen continues to depreciate.

Speedboat Corporation Superdong – Kien Giang JSC (HSX: SKG)

- SKG is leading the market share in passenger transportation by high-speed boats from KienGiang province to Phu Quoc island and vice versa. Simultaneously, being included in the government's national development strategy until 2020, islands and coastal lands in Thailand Bay expect to see large investment pouring into the tourism industry here, effectively boosting tourist travel demand in the area.
- The company's market position has been strongly consolidated with regard to passenger transportation to PhuQuoc island thanks to discount programs for agents. Currently, SKG is regarded as holding the exclusive operation right in Rach Gia – Phu Quoc route.
- SKG competitiveness position and revenue growth outlook remain very positive with stable operation of two new boats VII and VIII (put in operation in July 2014 and January 2015).
- Due to a decline in oil prices, profit margin would have chance to improve (FO constitutes 50-60% of COGS). Based on the baseline scenario of FO price at USD50/barrel, SKG's profit margin is expected to benefit greatly.

Vinasun Green JSC (HSX: VNS)

- VNS is the largest cab operator in Ho Chi Minh City with 44% of market share. The firm possesses an advanced call center serving up to 40,000 calls per day and a stable customer base made up of relatively high proportion of corporate clients (12-14%).
- Obtaining license to operate in Can Tho city in 2Q2014, VNS has applied on the initial 50 cabs since late 2014. The company is also applying for permission to operate in Hanoi this year.
- VNS plans to expand its market share in HCMC to 52%-55% by acquiring additional 1000 cabs in three years starting from 2015.
- Around 400 cabs would schedule for replacement in 2015 with estimated liquidation profit of VND72 billion.
- VNS intends to install GPS system on its cab fleet to increase management and operating coordination effectiveness (shortening pick-up time and increase trip frequency). The firm is trialing the system for 260 cabs in Da Nang.

Key financial, valuation and trading metrics

Ticker	Rating		Financial 2014 +/- Rev. (%)	Financial 2014 +/- NPAT (%)	Financial 2014 ROE (%)	Financial 2014 D/E (x)	Financial 2015 +/- EPS (%)	Valuation P/E Trailing (x)	Valuation P/B Cur. (x)	Valuation P/E 2015F (x)	Trading +/- Price 1 year (%)	Trading Avg. vol. 3-month (1K shares)	Trading Market cap (VND bn)	Trading Foreign room (1M shares)
APC	**Accumulate**	**Short term**	**7**	**61**	**15**	**0.2**	**6**	**8.4**	**1.3**	**8.0**	**35**	**86**	**219**	**4.7**
DBC	**Accumulate**	**Short term**	**9**	**8**	**12**	**0.8**	**18**	**8.9**	**1.0**	**7.6**	**24**	**409**	**1,838**	**10.7**
PAC	**Accumulate**	**Medium term**	**8**	**21**	**15**	**0.7**	**10**	**8.5**	**1.1**	**8.6**	**13**	**30**	**636**	**6.7**
FPT	**Buy**	**Long term**	**21**	**1**	**21**	**0.9**	**11**	**10.3**	**2.1**	**9.3**	**1**	**333**	**16,782**	**0.0**
SKG	**Positive**	**Long term**	**36**	**75**	**34**	**0**	**14**	**8.7**	**2.6**	**8.6**	**n/a**	**29**	**900**	**1.2**
REE	**Neutral**	**Long term**	**10**	**9**	**18**	**0.1**	**-25**	**6.9**	**1.3**	**6.9**	**-10**	**722**	**7,399**	**0.1**
VNS	**Positive**	**Long term**	**19**	**40**	**24**	**0.6**	**14**	**7.8**	**1.9**	**6.9**	**21**	**17**	**2,449**	**-**

Source: RongViet Research

EQUITY STRATEGY

2015

EQUITY STRATEGY 2015: BUY-AND-HOLD UPON DISCRETE STOCK-PICKING

Nguyen Ba Phuoc Tai (tai.nbp@vdsc.com.vn)

2015 Outlook

Following a volatile year, 2015 stock market under crisscrossing impact of contradicting factors, should not see neither a high jump nor widespread growth as it did last year. Stock prices in general will be driven equally by the growth of the P/E ratio and the market's EPS. A decline in interest rates should add the expansion of the market P/E given the two factors' inverse relation. EPS may also grow in line with corporate earnings, yet we do not expect a huge leap.

Stock price growth also depends enormously on market sentiment. In 2014, the first half of the year in particular, it was expectations on the government's stern commitment regarding structural reform of the economy as well as announcement of new policies favoring the various sectors that launched stock prices and market indices to multiple-year high. The landscape in 2015 is changing, however, as the market will scrutiny what the government will actually do to meet its promises. The lack of such "news" should keep optimism within limit to make room for prudence and cautiousness.

What Vietnam achieved in 2014 was noteworthy and has given businesses a motivation alongside new opportunities to grow. However, the economy in overall will face the opportunities brought forth by bilateral and multilateral trade agreements, lower input cost as well as challenges with regard to competition, capital decentralization, SMEs' bankruptcy, dependence on FDI flows, NPL clean-up and hiking sovereign debts. Apparently, opportunities are not equal for everyone. Since growth prospect will diverge even in the brightest-looking sectors, picking the right stock is has become much more difficult in 2015.

On the one hand, Vietnam has begun to emerge from the trough of its business cycle. On the other hand, the economy will be steered by both internal (i.e. reform) and external forces (i.e. global trade integration). This leads us to come up with three following investment strategies:

(1) Opportunistic investing
(2) Cyclical stock investing
(3) Contrarian investing

Opportunistic investing

Opportunity 1: The prospect of signing important trade agreement should support the stocks of textile-garment, seafood and industrial real estate companies

Textile-garment and seafood: Industry leaders has an edge

There is still plenty upside for seafood and textile-garment stocks in the long term. Positive price growth for many seafood and textile-garment stocks in 2014 reflected the market's general expectations in the firms' earnings growth once the trade agreements like the TPP and FTAs are strike. However, they are rational expectations indeed. First, the investment community in general has remained partly prudent regarding the possibility of the TPP being concluded soon. Second, the fact that the TPP and 2 FTAs have yet to conclude, their actual impact on firms' cash flows and earnings is hard to quantify. In the long term, however, even without the TPP, we still see positive outlook for these two industries as access to markets like the US and Japan, the largest in the TPP, has become increasingly open for Vietnamese firms and the FTA for other potential markets like the EU and Korean, are almost ready.

The TPP and FTAs impose many technical barriers on Vietnamese goods including strict rules of origin, product quality, working condition and environment. Export garments would be subject to the "yarn-forward" rule under the TPP whereas seafood still faces anti-dumping tax in the US market (POR9 for shrimps and POR10 for pangasius). As only a few companies can meet these requirements and reap the benefits from the trade agreements, investors will have an edge betting on industry leaders. Separately, as textile-garment and seafood stocks already advanced significant in 2014, any signs suggesting the TPP may not be concluded this year could have a dramatic negative impact on stock prices.

For those reasons, it is advisable to find opportunities (and shelter) in stocks of firms whose long-term growth prospect is positive independently of the TPP. These companies are characterized by large and growing shares in the export markets, efficient and complete production lines and feasible expansion plans. Given fundamentals cushion, investors will have more confidence increasing their holdings of these stocks if prices fall during periods of high market volatility. Our top picks in this theme are TCM and VHC. Next in line, TNG, HVG, FMC and maybe GMC could make good opportunities at lower prices. The options for more risk exposures include GIL, KMR and EVE.

Industrial real estate: brightened but still risky

The growth prospect of the industrial real estates does not have much dependence on the conclusion of the TPP. Of course, the number of FDI projects and demand for industrial land will swell if the trade pact is strike. However, the how successful an industrial park developer in attracting investments is also determined by the state and local government's incentives and planning as well as the speed of infrastructure development and the trend of FDI where the land locates. This should give industrial real estate stocks some upside but leave them less exposed to the risk of TPP conclusion being delayed.

Unlike their counterparts in the housing market, IP developers can do little to boost sales. Therefore, to be better position, investors can look for companies with large land bank and established pipelines in FDI-friendly areas. In this sector, our top pick is **KBC**. Separately, **ITA** is also worth some consideration if the company can boost the sale of Kien Luong Thermal Power Plant.

The logistics industry of Vietnam is characterized by: (1) excessive demand and (2) small-to-medium-sized local companies operating in niche markets. As the result, listed logistics companies generally have healthy financials, high and stable profitability and are consistent cash dividend payers. The logistics sector is considered to benefit hugely from robust foreign trade and robust FDI in manufacturing. Historically, however, logistics stocks have showed limited correlation to those in other sectors and the market in general with a beta ranging from 0.2 to 0.7. Allocating to these stocks can help reduce portfolio risk while enhancing income returns.

The price stability of stocks like TCL, HMH, SFI, TMS… over the years partly reflect the market's opinion about the firms' stalled growth and conservative expansion plans. Nevertheless, low interest rate, fast-developing infrastructure and the prospect of signing the TPP and FTAs have provided refreshed incentives for these companies to enlarge their fleets and storage facilities. We expect fairly good top-line growth for these companies in 2015 and better bottom-line growth in the following years. Our top picks for logistics stocks are GMD, VSC, TCL and HMH.

Opportunity 2: Acceleration on NPL clean-up and banking reform can send a "wave" to real estate and bank stocks

Real estate: firms who are actually selling make good investment but there is also opportunities for more risk exposure

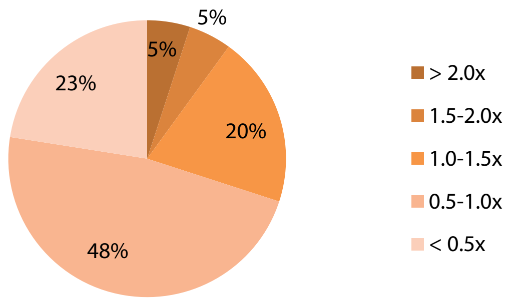
The 3-year downturn of the property market has curbed stock investors' expectations in the potential of real estate firms' pipelines. Most list real estate stocks are trading at some discounts to theirs book value per share (VIC is an outstanding exception). We estimate around 71% real estate stocks are trading at P/B ratios under 1.0x and 23% under 0.5x. This is the sign that stock prices have finally found some harmony with the fundamentals in the real estate sector.

Aiming to increase the pace of NPL clean-up, the state government has introduces various measures, including cuts of mortgage rate, real estate lending risk coefficient and extension of favorable loan term, to help real estate sales. These measured should affect real estate projects by: (1) reducing the discount rate and (2) enhancing project cash flows. This process at the same time will also improve the developers' earnings, financials and valuations. However, the size and timing of cash flows also depend greatly on each firm's implementation ability and sales strategy.

In general, we still recommend a conservative approach to real estate stocks. Investors might want to set their focus on firms with selling like land plots, low-end condos and affordable townhouses since these are segments the incentives are aiming at and also those with the most ample demand. For these firms, the upside is not substantially large but so is the downside risk. Potential stocks in this category include VIC, KDH, NBB and TDH. Besides, BCI and NTL should have also a place in the watch list.

On the other hand, the emergence of the real estate market from its low also increases the chances that poor-performing firms will turn around and the availability of investment opportunities for risk-seeking investors. There are some real estate firms with sizable land bank whose stocks are trading at significant discount to their book value (20%-50%) such as ITA, QCG, LCG, SJS, ITC and VPH. Should the firms be able to liquidate the whole or a part of the equity portion of one of their major projects, it could provide them with the necessary cash flows to turn around. This event-driven strategy is not for the majority investors but those with above-average risk tolerance or long investment horizon. Given their risk characteristics, these stock should be accumulated at low price levels and compose only a minor portion of the overall portfolio.

Distribution of real estate stocks by P/B ratios



Source: RongViet Research

Banks: appropriate for medium-and-long-term investment

Having been flat and down for two years, bank stocks have recently soared, driven by expectations about the outcomes of the banking system reform. Overall, banks' earnings in 2015 remain heavily dependent on the results of the NPL clean-up process in relativity with the banks' conservatism in NPL provision. By the end of 3Q2014, real estate NPLs were report at around 4% of total real estate lending or nearly 50% of whole-system NPLs. Improved real estate sales are crucial to the cash flow prospect of real estate developers and will allow banks to write-off bad loans. Recent measures to support house prices and attract house buyers apparently aim to help the real estate market back on its feet and boost the clean-up of NPL on a system-wide basis.

Separately, banks are striving to enhance their non-interest income by expanding fee-based services.

We suppose that the most difficult time for the banking sector is behind yet do not expect bank stocks to continue rising steeply; instead, they may soon slow down for some corrections. Concerns over transparency and asset quality have always imposed a ceiling on the stocks of commercial banks. As a result, short-term traders of these securities can expect only reasonable returns whereas long-terms investors may open new position when stock valuations retrace to a more attractive zone. Our top picks for bank stocks in 2015 are VCB and MBB. The second-best selections are ACB and BID.

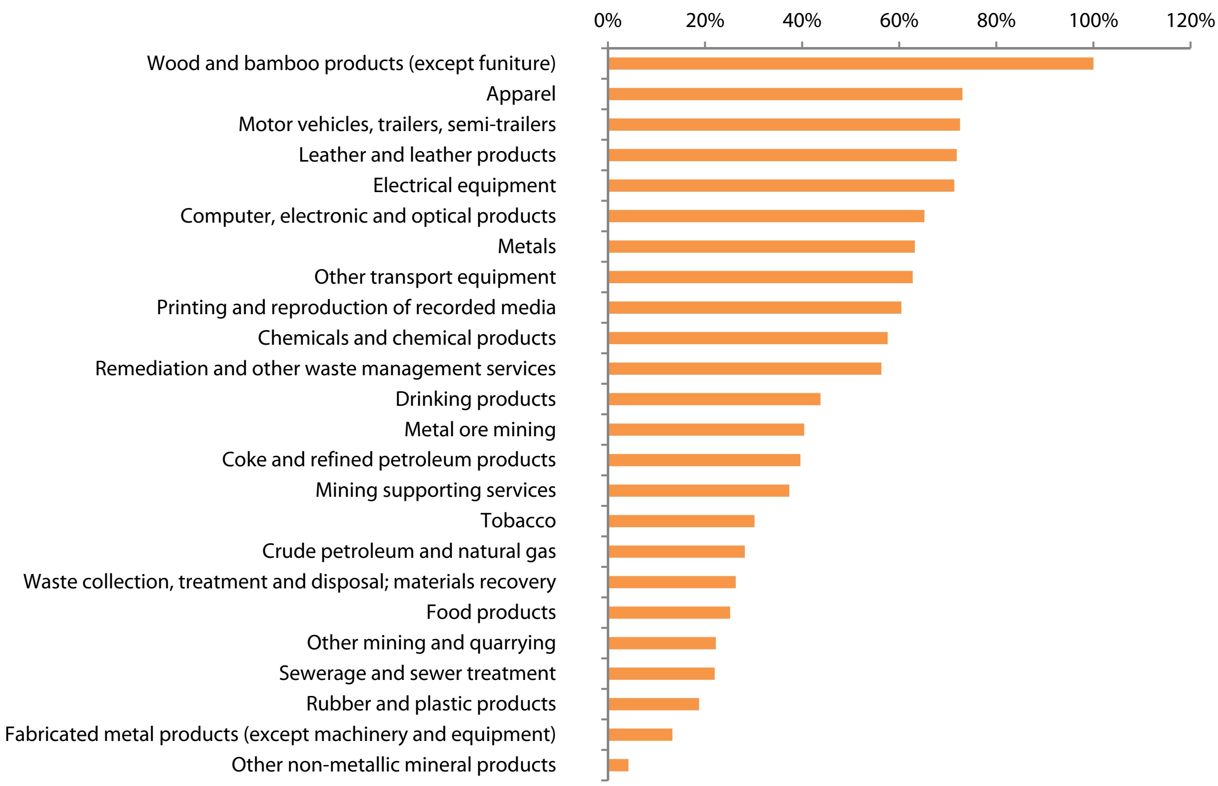
Cyclical stock investing

When the economic escaped a slowdown is the appropriate time for cyclical stock investing

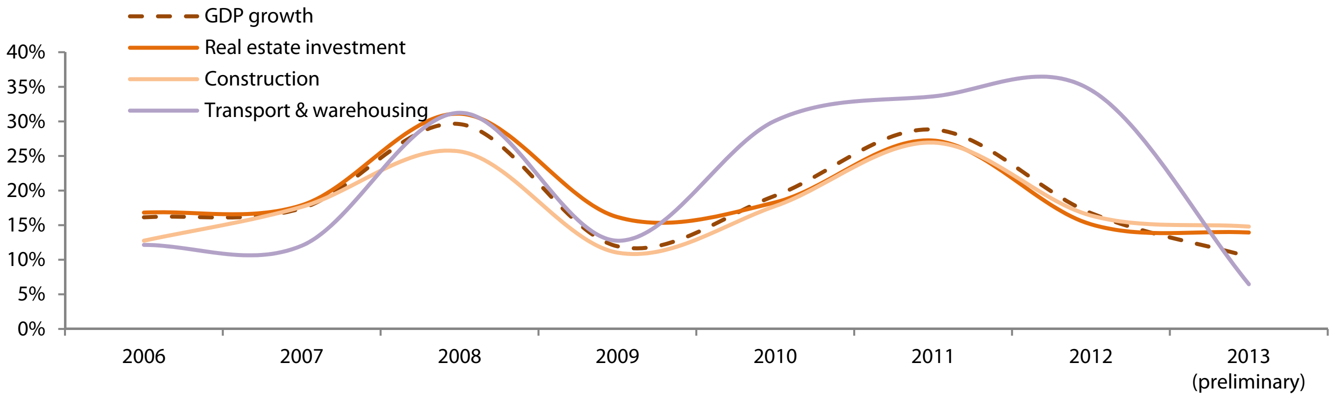
Our analyses in the "Economic Outlook" section determine that Vietnam has just stepped out of an economic slowdown to enter a new phase of expansion. The signs include improved GDP growth, strengthened consumption, accelerating credit growth and declining interest rates. Positive real income growth, accompanied by lower gasoline prices should boost households' expendable income and the consumption of luxury and durable/discretionary consumer goods. For the corporate perspective, lower interest rate should motivate new investments in plant and equipment as well as material purchases.

In the manufacturing sector, which includes textile-garment, wood (not including furniture), automobiles and parts and electronics are industries whose output growth has the most correlation with GDP growth. Services industries such as real estate, logistics and construction also exhibit high sensitivity to the health of the economy. The gross product of real estate expanded more quickly than the GDP during economic boom (2007-2008) but slowed significantly during period when the economic growth subdued (2010-2012). Under optimistic forecasts for the economy in 2015, we expect to see substantial recovery in all of these sectors.

Correlation between selected manufacturing sectors' production growth and GDP growth (2005-2013)



Selected service sectors' product growth vs GDP growth (2005-2013)



Source: GSO, RongViet Research

What seems expensive may be cheap

Aside from sector growth prospect, valuation is the key consideration stock-picking. For cyclical stocks, P/E ratios usually peaked at the end of an economic downturn where companies' profits are the lowest and the probability of turnaround is the highest. Once the economy picks up speed again, earnings improvements will lower the stocks' P/Es. In term of earnings volatility, it is usually small and medium-sized firms that see earnings fluctuating the most across the business cycle. Also, they attracted less public attention due to relatively lower trading volume thus are less covered by analysts. As the result, risk-seeking investors can often more opportunities in these stocks than they do large-caps, as long as the timing is right. To filter out cyclical stocks with investment potential, we use the following criteria:

- 12-month trailing P/E ≥ 5-year average trailing P/E
- Current P/B ≤ 5-year average P/B
- Market capitalization ≤ VND4,000 billion
- 52-week daily trading volume ≥ 20,000 shares

List of selected cyclical stocks

Ticker	Sector	Free float (27/02/15)	P/E trailing 12M (27/02/15)	5Y Average P/E	P/B (28/02/15)	5Y Average P/B
BCI	Real estate	28,196,000	16.26	12.37	0.89	1.17
CCL	Real estate	16,913,000	46.12	35.03	0.37	0.52
CLG	Real estate	6,712,000	14.73	9.62	0.62	1.04
DIG	Real estate	70,381,000	50.57	30.17	0.98	1.16
HQC	Real estate	114,165,000	25.30	17.92	0.66	0.80
ITC	Real estate	54,185,000	60.79	40.23	0.35	0.60
NBB	Real estate	32,673,000	17.10	13.07	0.74	1.00
NTL	Real estate	46,947,000	11.13	8.91	1.07	1.83
NVT	Real estate	30,507,000	105.34	54.09	0.48	0.61
QCG	Real estate	64,972,000	154.10	85.34	0.51	0.68
SJS	Real estate	15,708,000	38.66	21.29	1.54	1.96
TDC	Real estate	98,173,000	9.10	6.15	0.85	0.89
TDH	Real estate	30,843,000	22.13	12.49	0.57	0.76
VPH	Real estate	16,978,000	142.15	51.25	0.68	1.20
AGR	Financial services	46,630,000	30.39	22.73	0.57	0.88
DPR	Chemicals	15,968,000	7.26	6.16	0.68	1.50
TNC	Chemicals	16,823,000	12.54	8.88	0.73	0.89
BMC	Resources	6,292,000	14.06	10.94	1.33	2.67
KSA	Resources	35,804,000	14.84	12.84	0.78	1.13
KSS	Resources	37,368,000	37.15	30.20	0.37	0.71
KTB	Resources	38,467,000	42.37	30.94	0.42	1.12
VIS	Resources	22,843,000	17.60	0.82	0.60	1.22
ASM	Construction & Materials	80,536,000	14.85	14.20	0.81	0.94
CDC	Construction & Materials	5,237,000	18.86	17.95	0.59	0.82
DHA	Construction & Materials	11,809,000	14.91	8.74	0.71	0.73
DIC	Construction & Materials	19,881,000	22.36	11.88	0.76	0.85
DXV	Construction & Materials	3,377,000	9.07	8.09	0.42	0.65
LCG	Construction & Materials	49,930,000	164.17	34.46	0.65	0.85
PAC	Automobiles & parts	22,585,000	8.53	7.78	1.24	1.68

Source: Bloomberg, Stox, RongViet Research

The filtering results show the majority of potential cyclical stocks lie in the real estate sector where the underlying firms share some common traits such as poor business records in the last 2-3 years and high Debt/Equity ratio and interest expenses. To streamline their business, the firms employ the same strategies (1) liquidate shares in some of their major but no-longer-profitable projects, (2) issue new equities to pay back debts, (3) reduce unit size and lower prices to boost sales.

In the above list, TDH, NBB, BCI and HQC have showed at least some signs of recovery. Then, there are QCG, SJS, VPH, LCG and ITC, who have yet to reach the turning point but are not far from it either. These firms stand to receive the cash flows needed to turn around once they finish selling their stakes in major but underfunded projects such as 39 Ben Van Don project (QCG), Nam An Khanh (SJS), Lacasa (VPH) and Nhon Duc (ITC).

The common risk cyclical stock investing is that the underlying firms' fundamentals may be slow to change or the improvements may not occur entirely. This makes the strategy more suitable for investors with above-average risk tolerance or a long investment horizon. In fact, given their substantial discount to book value of net assets, these securities look relatively attractive from long-term investor's standpoint. Those with average risk-tolerance can also allocate at small percentage of their total portfolio value to cyclical stocks. However, the purchases are better made during downturns while profits should be taken once the stocks' P/E and P/B ratios have return to their historical averages.

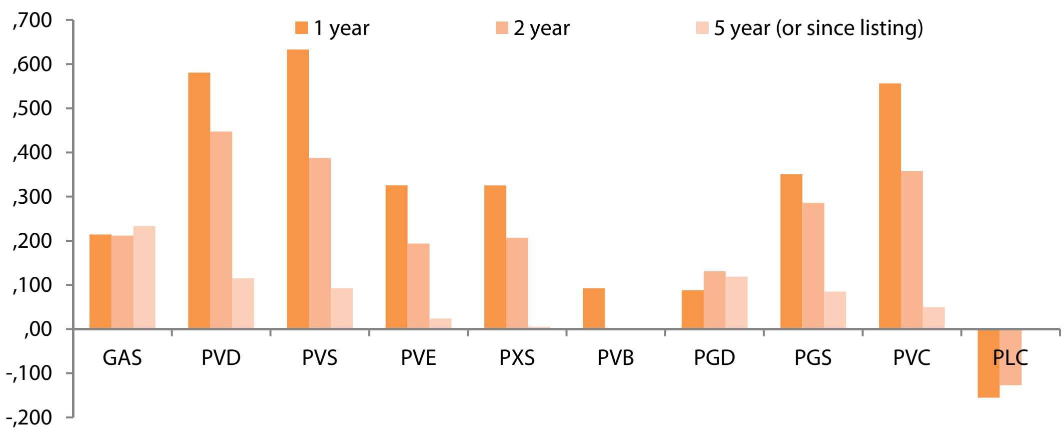
Contrarian investing – oil & gas industry

Contrarian investing is based upon opinions that contradict that of the majority. In the simplest way, it is buying when others want to sell and selling when others want to buy. In most of the times, this strategy takes advantage of (1) the underlying firm's or sector's temporary difficulties or (2) adverse market conditions to identify undervalued securities. Contrarian investing based on the expectation that unfavorable factor will soon diminish, allow stock prices to recover. This means the steeper the drop, the higher the expected returns. Nonetheless, there is a risk that the investor's forecasts are not correct or the underlying factor(s) do not improve as quickly as predicted.

Having tumbled from their all-time highs in late 2014 as crude oil hit historical low, Oil & Gas stocks seem to be the perfect candidates for this strategy, especially if investors believe oil price will recover. *(See Appendix 3 (Page 130) – Oil price should not remain at low level for too long)*

In order to identify the correlation of Oil & Gas stock returns with the returns of crude oil, we have computed the beta for a number of O&G stocks against the WTI. The group of stocks with relatively higher return correlation with oil price included PVD, PVS, PVC and PGS. Given this relationship, it was no surprise that the stocks' P/E and P/B ratios have all fallen below multiple-year averages where PVD and PVE are trading with lowest P/E and P/B ratios from historical perspective. However, we notice that O&G stocks generally have higher EV/EBITDA ratios than historical averages. We believe an agreement across these valuation metrics will make theaw securities more attractive.

Beta of selected O&G stocks against oil price



Source: RongViet Research

As 2014 earnings has yet to reflect effects of the current oil glut, O&G stock prices though having been hit hard, have only returned to the average price levels at the beginning of 2014. What can drive O&G stock prices down further is the market's adverse reaction to (1) deterioration in business result of O&G companies in coming quarters and (2) confirmed decline in E&P activities in Vietnam. That is the time the contrarian investor steps in. In that scenario, the recommend picks are stocks with historically low P/E and P/B and high correlation with oil price (expressed as beta against the WTI).

Trailing P/E and P/B ratios of selected O&G stocks

	GAS	PVD	PVS	PVE	PXS	PVB	PGD	PGS	PVC	PLC
					P/E					
Current	11.07	**7.25**	**6.93**	**9.99**	8.66	5.62	9.98	**8.36**	**6.29**	8.22
Average (2008-15)	12.51	**10.21**	**7.88**	**18.50**	6.90	7.07	7.09	**6.34**	**6.51**	6.05
Median	10.86	**9.34**	**6.65**	**8.79**	5.17	6.44	6.12	**5.29**	**5.90**	5.87
					P/B					
Current	4.16	**1.53**	**1.30**	**0.79**	1.62	2.05	1.50	**1.15**	1.27	2.03
Average (2008-15)	3.91	**2.57**	**1.72**	**1.30**	1.20	2.12	1.79	**1.41**	1.54	1.38
Median	3.67	**1.98**	**1.49**	**0.95**	0.94	1.97	1.71	**1.20**	1.23	1.18

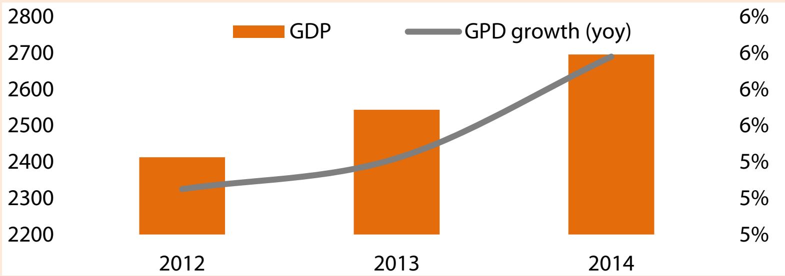
Source: RongViet Research

On the other hand, we see little chance for another dip in the O&G sector without a surprise in the global oil market. However, a lot of fluctuations since late 2014 have form solid resistance levels on their way up of many stocks, especially large-caps like PVD, PVS and GAS as well as last year's strong gainers like PVB and PXS. Therefore, if the stocks rebound, it would be safer to buy during corrections when prices react to the said resistance levels than at the bottom.

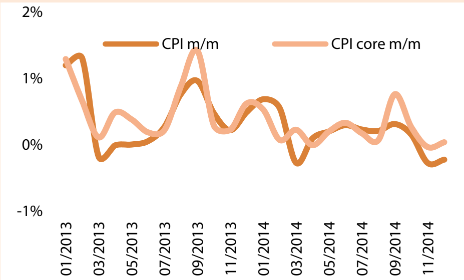
2014 IN A GLIMPSE

VIETNAM ECONOMY 2014

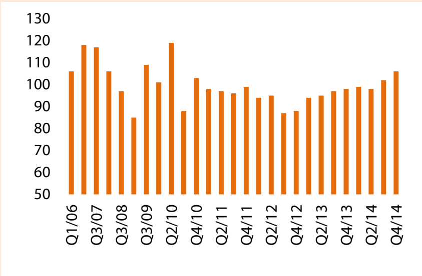
GDP reached 5.98%



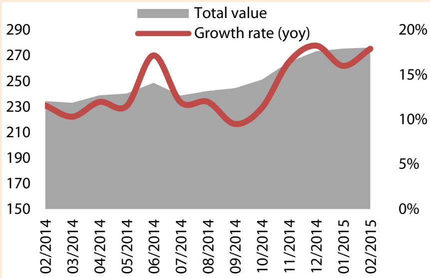
CPI lowest since 2012



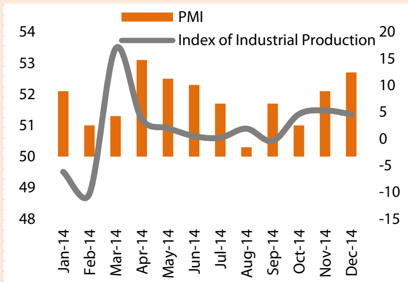
Improved Consumer confidence



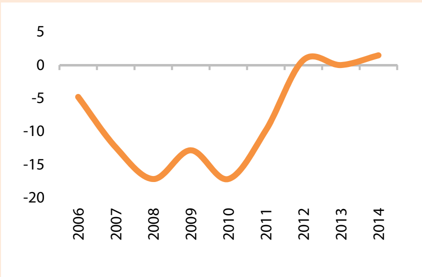
Stronger retail sales



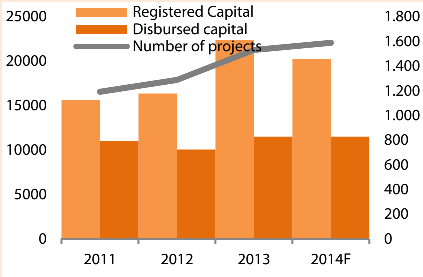
Recovered industrial production



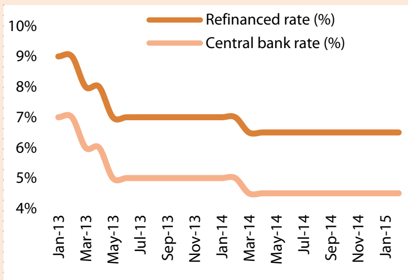
Higher trade surplus



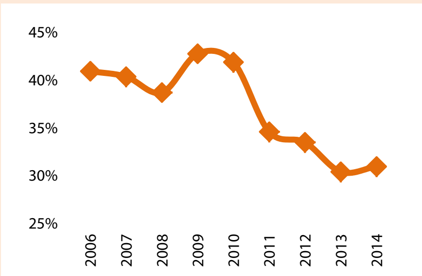
Increasing disbursed FDI



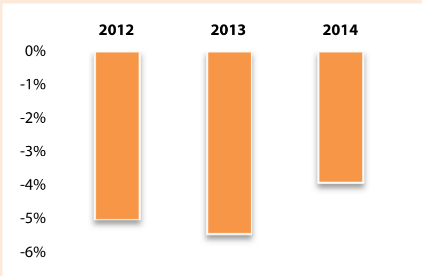
Stable interest rate



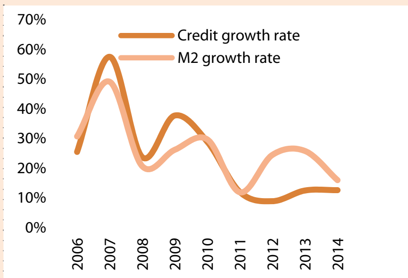
Investment/GDP jumped 31%



Budget deficit lowered than expect



Credit met target

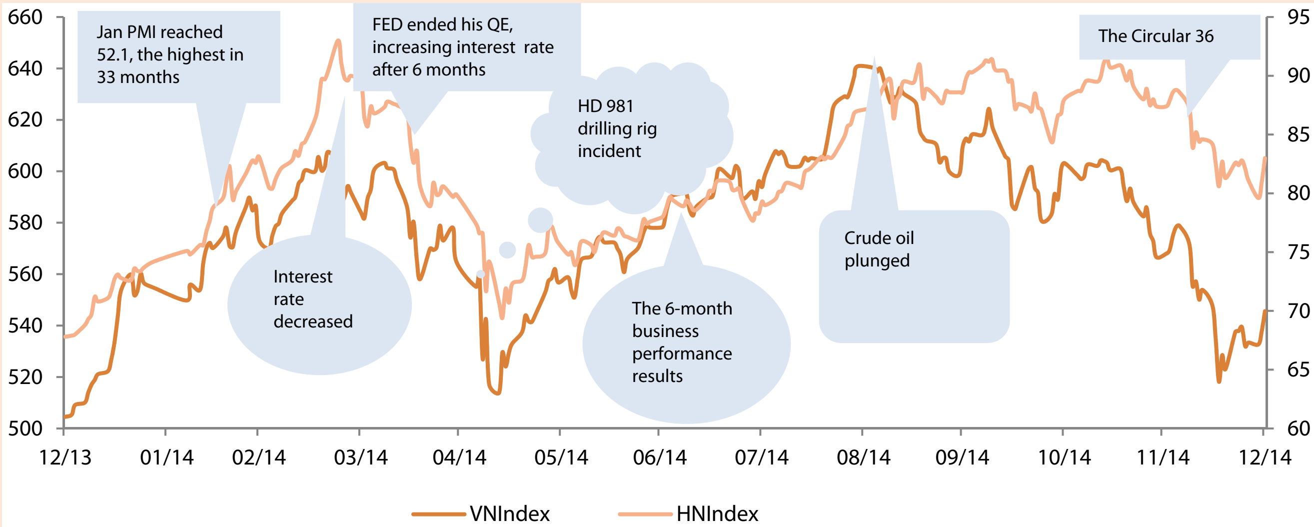


Corporate performance

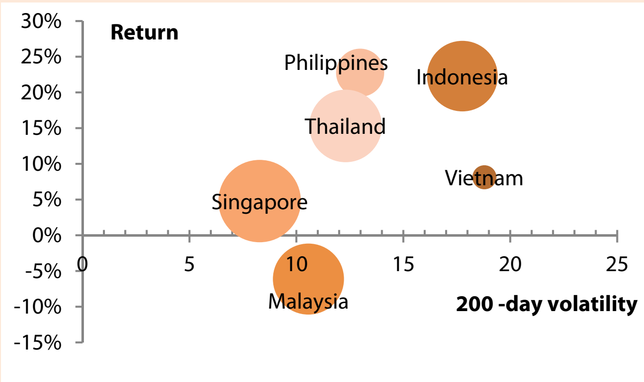
Year	Number of active enterprises	Employees (people)	Capital (billion VND)	Fixed Asset & Long-term investment (billion VND)	Revenue (billion VND)
2012	6.8%	1.7%	8.0%	9.1%	8.3%
2013	6.4%	2.5%	13.9%	31.2%	8.3%
2014E	8.8%	4.1%	20.3%	26.4%	16.3%

2014 VIETNAM STOCK MARKET

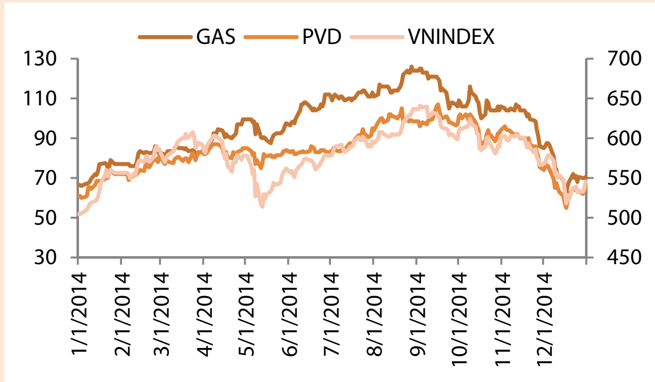
In 2014, the stock market's fluctuations corresponded with many economic and geopolitical events



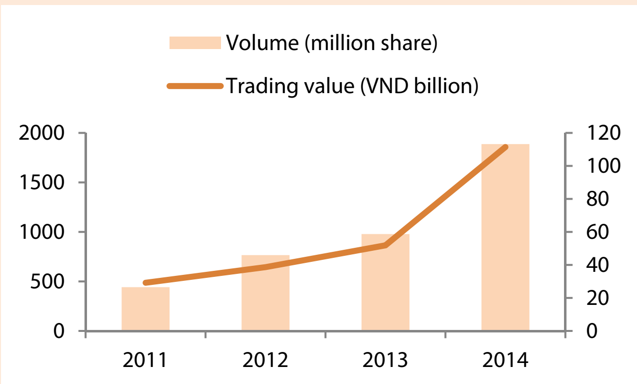
Vietnam stock market showed high volatility

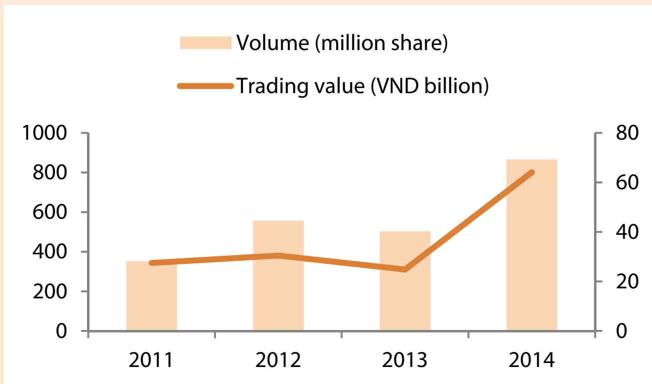


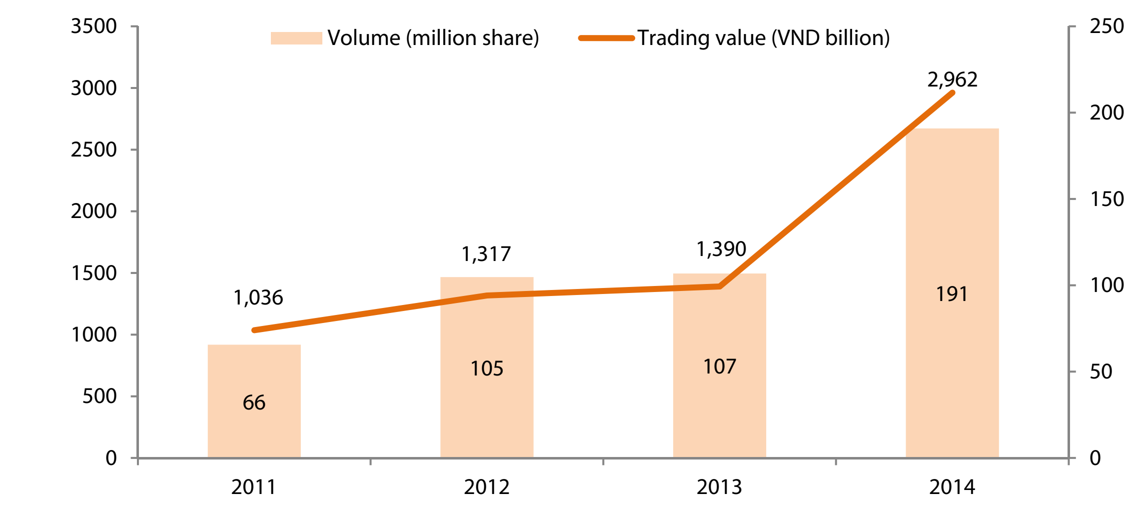
Major O&G ticker led the 2014 market



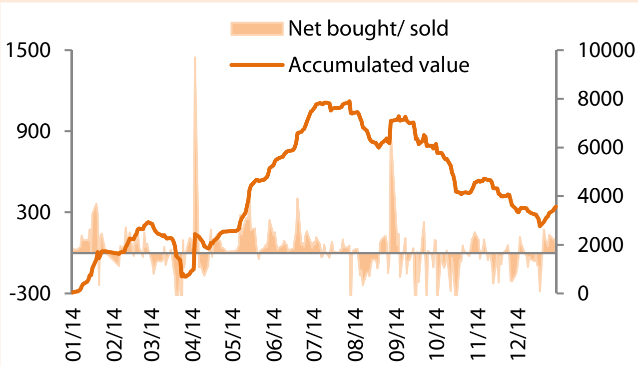
Liquidity been reaching a new height)

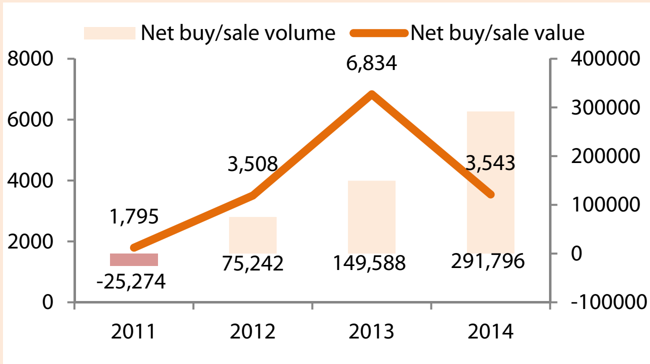






Foreign investors maintained a net-buying position but the cash flows were unstable





Top ten largest tickers by market cap (as of 22/01/2015)

	Ticker	Company name	EV/EBITDA	P/E	P/B	Market capital (million USD)
1	GAS	Petrovietnam Gas Joint Stock Corporation	7.5	12.9	4.2	6,959
2	VNM	Vietnam Dairy Products Jsc	12.7	17.5	5.6	4,726
3	VCB	Vietcombank	N/A	19.3	2.2	4,389
4	VIC	Vingroup Jsc	11.0	16.3	3.6	3,205
5	MSN	Masan Group Corp	21.9	N/A	4.3	2,857
6	CTG	VietinBank	N/A	11.8	1.0	2,648
7	BID	BIDV	N/A	9.9	1.4	2,065
8	HPG	Hoa Phat Group Jsc	5.8	8.1	2.2	1,195
9	BVH	Baoviet Life Corporation	N/A	19.1	2.0	1,114
10	STB	Sacombank	N/A	8.6	1.3	989

APPENDIX 1: 2015 World Economic indicators' forecasts statistics

	2013	2014	2015F
GDP growth(%) (*)			
World	3.3	3.3	3.5
Developed countries			
US	2.2	2.4	3.6
EU	-0.5	0.8	1.2
Japan	1.6	0.1	0.6
Developing countries			
China	7.8	7.4	6.8
India	5.0	5.8	6.3
Brazil	2.5	0.1	1
ASEAN-5	5.2	4.5	5.2
Inflation rate (%) (*)			
Developed countries	1.4	1.4	1.0
Developing countries	5.9	5.4	5.7
Currency exchange rate (**)			
EURUSD	1.38	1.21	1.05
USDJPY	105.20	120.00	125.00
USDBRL	2.36	2.66	2.85
USDCNY	6.05	6.21	6.10
USDRUB	32.89	60.70	64.50
Key interest rate (%) (**)			
FED	0.25	0.25	1.00
ECB	0.25	0.05	0.05
BOJ	0.10	0.10	0.00
PBOC	6.00	6.00	5.60

(*)IMF forecast, (**)Scotianbank forecast.
Source: IMF, Scotiabank, RongViet Research

APPENDIX 2: Factors affect oil price

Supply side factors		
OPEC Policy	OPEC oil output is approximately 30 million barrels per day, equals to 1/3 global demand. Arab Saudi is the world largest exporter of petroleum.	- According to IEA, the oil price decline will cost all 12 OPEC members a total of $257 bn in lost revenue in 2015. - In OPEC November 27, 2014 Meeting, OPEC decided to keep output target to protect the group's market share. - The OPEC next meeting will be on June 05, 2015; however, many declarations show that OPEC could leave the production target unchanged.
US shale oil boom	Since 2010, US oil production has dramatically increased thanks to advances in technology (fracking and horizontal drilling).	- Fracking companies will not be closed because exploited fields are now operating at just 10-20$ per barrel, still lower than current oil price. - Because of the typical character of shale oil, production will be quickly decelerated (1-2 years), so oil & gas companies who use fracking technology must continuously invest to maintain production. - Thus, because oil price is lower than average production cost of shale oil (65-70$ per barrel), new investment would be limited causing production decrease in the next 1-2 years. (according to Economist) - According to EIA, US will continue to increase its oil production to 9.3 million per barrel in 2015 (+7.8% compared to the average level in 2014). - Shale oil plays an important role in US economy recovery, we cannot rule out the possibility that the Government will support oil producers to exist longer than they have to.
Oil exporting countries are facing negative impacts from low oil price.	Canada is one of the five largest oil exporters in the world. Venezuela is the nation with the largest oil reserve and was in the eighth position regarding exporting oil. Iran is the second largest oil exporting country in OPEC and holding 10% of global oil reserve.	- In Canada, Investment and Production in sand oil have dramatically dropped since the beginning of 2015 while supply risk is increasing because low oil price forces Venezuela and Iran, countries with budget constraints, to raise the oil production output. - Iran: Oil revenue for 50% of country budget and Iran needs oil price to maintain at 130$/barrel in order to achieve balance in budget. - Venezuela: Oil revenue takes part in 47 % of this country budget and Venezuela needs to maintain the oil price at 114.5$/barrel in order to achieve balance in budget (according to FT)
Political intensity in Libya, Iraq, Russia, Ukraine.	Except Ukraine, other three nations have enormous impact on the global supply of oil.	- The risk from Russia and Iraq when they increased oil drilling for the compensation of the loss from price deduction of crude oil in order to deal with the instability not only in economy but also in political aspects. - The production output of oil in Iraq in 12/2014 increased to 3.7 million barrels per day, highest number over the last 35 years. - The production output of oil in Russia in 2014 achieved 10.58 million barrels per day, reaching a peak since 1988. - In contrast, Libya oil production declined due to the assault on the oil fields of this country. However, according to IEA, the increase in term of oil production from other countries is high enough to compensate the production loss from Libya.
Demand side factors		
Global economic prospects	Energy demand heavily depends on the prospects of the countries which consume high level of oil.	- In early-2015 report, IMF forecasted global economic growth in 2015 and 2016 and also warned about the poor growth of global economic despite the decrease of oil price and positive recovery from US economics. - Decline in term of China economic growth. On the other term, this country is on the new development step, consuming less energy and focusing more on the national demand rather than international demand.
The appreciation of USD	Value of USD continuously rises (~18%) over the last 6 months in contrast to the price of crude oil.	- The appreciation of USD will deteriorate the profit to the oil importing countries which coming from low oil price. As a result, this issue could affect the oil demand reservation.
Climate change and technology development	Long-term factors but should be considered.	- Climate is becoming harsher. The commitment to cut the greenhouse gas emissions could improve the efficiency of fossil energy consumption in long run. - On the other hand, technology development helps decreasing the energy expenditure from machines. This is also the long-term element which could affect the demand of oil and oil products.

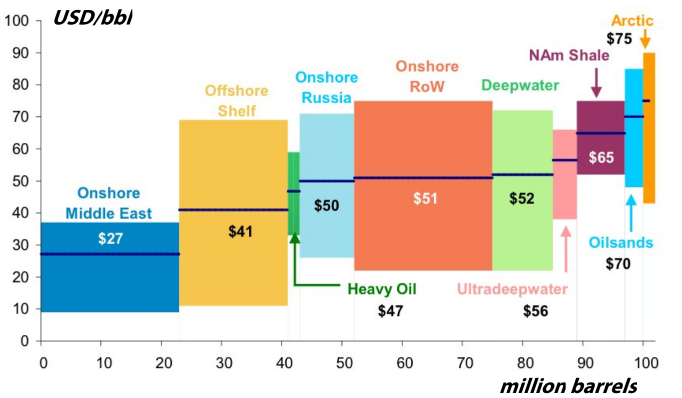
APPENDIX 3: Oil price should not remain at low price for too long

For the rebound of crude, what concerns us is not how much oil price will bounce back but when. According to consulting firm Rystad Energy, almost one third of the world's supply crude oil is being produced at an average cost above USD50/barrel where Canadian oil sands and US shale oil producers need oil price to be as high as USD65/barrel to break even. At the current price, many conventional rigs in Russia, Venezuela and Iran are suffering. If oil price holds at USD50/barrel, the number of rigs needed to be laid off will certainly picked up fast. Not only operating rigs but also planned project, most of which were built on the 100-dollar-or-higher oil price scenario, face deep cuts. Surveys show that US E&P oil companies have trimmed their 2015 capex plan by 20% since oil price plunged and about one third of US oil rigs have been taken offline the last three months. Consulting firm Schroders expect US rig counts to drop as many as 800 rigs in 2015, which would slash 0.7 to 1 million barrels off the world supply if remaining rigs do not increase production. With rig counts already going down, crude should not remain at its current price for too long.

Yet, that does not mean oil price will bounce back right away. First, the abrupt and significant drop of crude oil has cause oil future prices and expected spot prices to diverge, creating opportunities for contango play, which in turn has motivated traders to stock oil and increased demand for floating storage. And there has to be some time to free up this inventory. Second, given the low oil price environment, it has been the older, higher-cost and less profitable rigs that face the cuts whereas newer, more efficient ones including horizontal rigs using fracking have been doing better. As the results, more oil is being produced by fewer rigs. To put it in a nutshell, oil price will have the biggest chance of recovery when storage facilities and online rigs near their maximum capacity (expected 3Q2015).

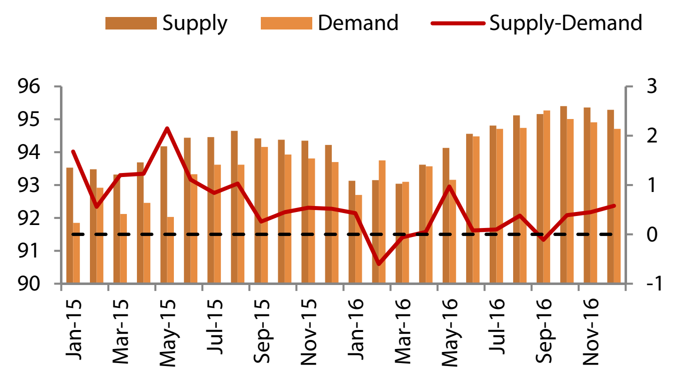
The June 2015 WTI future contract averaged at USD53.89/bbl and the December 2015 contract at USD59.5/bbl for the five trading days ending 05/03/2015. From prices and the implied volatility, it can be backed out a probability of 68.9% that the December contract will exceed USD50/bbl and 23% it will close above USD65/bbl at expiration. Given a 95-percent confidence interval, WTI spot price in December 2015 is bounded by an upper limit of USD101.9/bbl and a lower limit of USD33.75/bbl.

Breakeven prices for major crude oil supplies



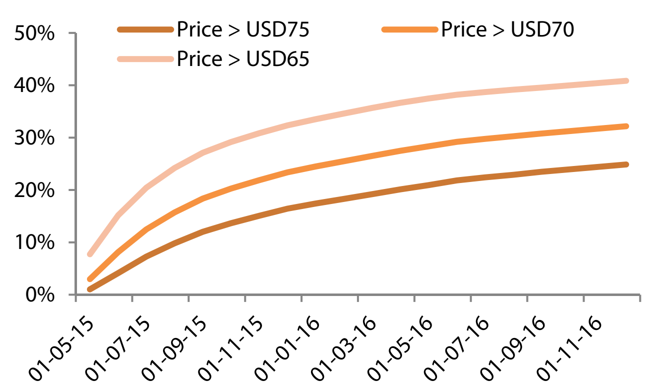
Source: Rystad Energy, Morgan Stanley

Monthly crude oil demand-supply balance forecasts



Source: EIA

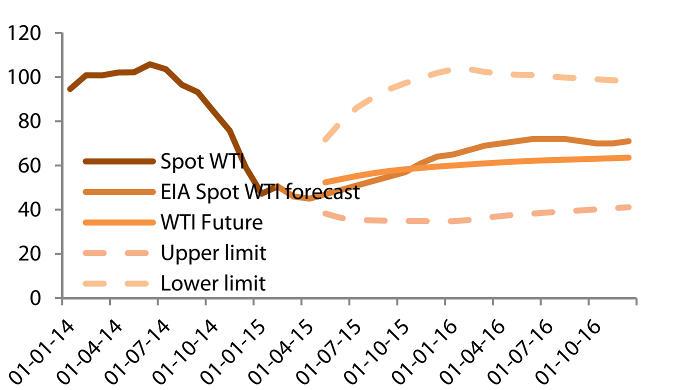
Probabilities of WTI exceeding various price levels



Source: EIA, CME, RongViet Research

Notes: Probability values calculated using NYMEX market data for the five trading days ending March 5, 2015.

Forecasts of WTI based on future contract and spot prices

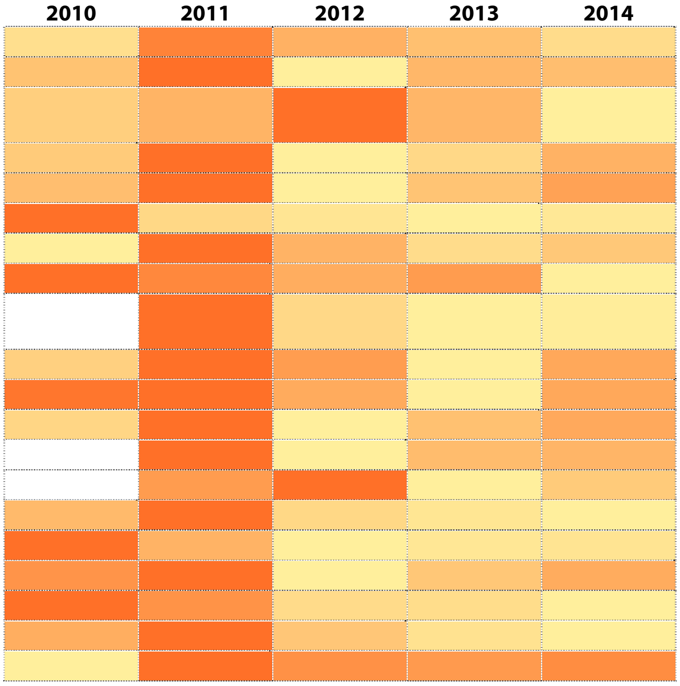


Source: EIA, CME, RongViet Research

Note: Confidence interval derived from options market information for the 5 trading days ending Mar. 5, 2015.

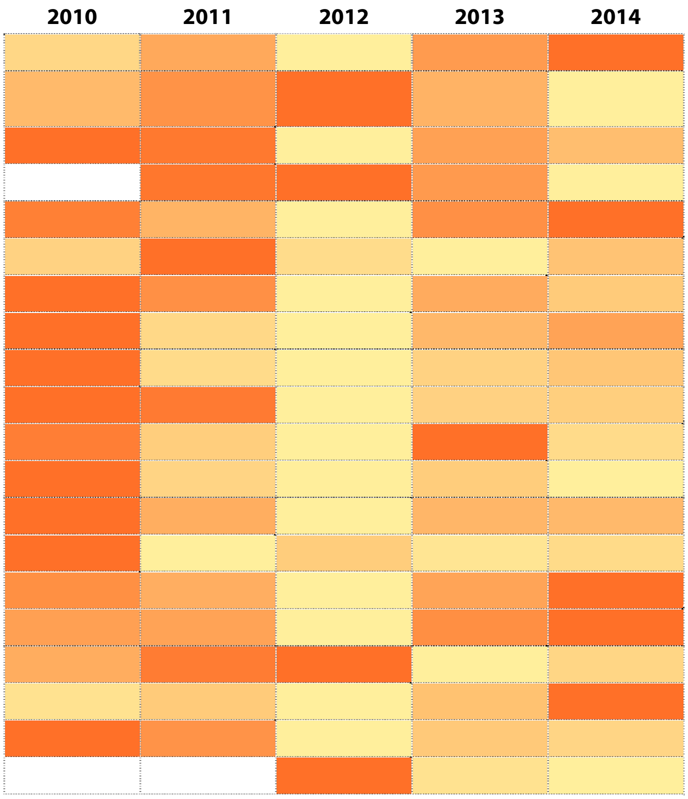
APPENDIX 4: Vietnam export and import growth of some goods (2010-2014)

Table: Growth of top 20 export goods



1. Telephones, mobile phones and parts thereof
2. Textiles and garments
3. Computers, electrical products, spare-parts and components thereof
4. Foot-wears
5. Fishery products
6. Machine, equipment, tools and instruments
7. Crude oil
8. Wood and wooden products
9. Other means of transportation, parts and accessories there of
10. Coffee
11. Rice
12. Handbags, purses, suit-cases, headgear and umbrellas
13. Yarn
14. Still image, video cameras and parts thereof
15. Plastic products
16. Iron and steel
17. Cashew nut
18. Rubber
19. Iron and steel products
20. Fruits and vegetables

Table: Growth of top 20 import goods



1. Machine, equipment, tools and instruments
2. Computers, electrical products, spare-parts and components thereof
3. Fabrics
4. Telephones, mobile phones and parts thereof
5. Iron and steel products
6. Petroleum products
7. Plastic materials
8. Textile, leather and foot-wear materials and auxiliaries
9. Other base metal products
10. Chemicals
11. Animal fodders and animal fodder materials
12. Iron and steel products
13. Chemical products
14. Plastic products
15. Wood and wooden products
16. Parts and accessories of motor vehicles
17. Pharmaceutical products
18. Motor vehicles
19. Yarn
20. Still image, video cameras and parts thereof

Source: RongViet Research

Note: Lowest to Highest growth in the period 2010-2014

APPENDIX 5: Influence assess of commodity price on some industries

Industry	Related commodities	Proportion of commodity cost to COGS	Commodity price trend in the earlier of 2014	Forecasting commodity price trend on 2015	Output price variation in 2014	Assessment of commodity price effect on gross profit margin
Feeding food	Corn, soya bean, wheat	Heavy significant	Reducing from the early 2014	Still in down trend	Note adjusted yet	Positive
Beverage (milk)	Milk	Average	Reducing from late 2014	Still in down trend	Preparing for adjustment	Very positive
Construction materials (Plastic)	Plastic pellets	Significant	Reducing from late 2014	Slightly reduce	Note adjusted yet	Very positive
Fertilizer	Potassium, urea, SA,..	Heavy significant	Reducing from late 2014	Still in down trend	Adjusted yet	Positive
Trucks' and cars' spare parts (accumulator)	Lead	Heavy significant	Reducing from late 2014	Still in down trend	Note adjusted yet	Positive
Trucks' and cars' spare parts (tire and tube)	Manufactured rubber	Heavy significant	Maintaining downtrend from before 2014	Expected a slight and slow recovery	Note adjusted yet	Positive
Textile	Cotton	Significant	Reduce from late 2014	Slightly reduce	Note adjusted yet	Positive
Logistic	Oil	Average	Reduce from late 2014	Slightly reduce	Preparing for adjustment	Positive
Steel	Steel scrap, iron ore	Heavy significant	Maintaining downtrend from before 2014	Still in down trend	Adjusted yet	Positive
Gas supply (gas, utilities)	Gas	Heavy significant	Reducing from the early 2014	Still in down trend	Adjusted yet	Positive

Source: RongViet Research

APPENDIX 6: Define VNIndex index using two-stage dividend discount model

To define VNIndex index, we use two-stage dividend discount model with two following methods:

- Method no. 1: 1st phase (2015 – 2019) has had steady growth around 11-12% and 2nd phase (after 2019) has been regressed with a stable growth of 5%.
- Method no. 2: H-model with 1st phase lasts 14 years in which growth steady reduces from 12% to 0.5% and 2nd phase has sustained growth of 5%.

Our sensitive analysis have shown that given current macroeconomic conditions, the intrinsic value of VNIndex may be within 561 and 718, corresponding to our worst-case and best-case scenarios. In our base case scenario, VNIndex may close at 633.23 at the end of 2015. However, although the analysis is based on conservative assumptions, the valuation model still has to use the static parameters while the economy's factors always move in time. Therefore, the valuation Index purposes only partial support for the overall assessment of the market.

Table: Intrinsic value's sensitive analysis of VNIndex at the end of 2015 in 1st method

Dividend growth 2015-2019 (CAGR)	Discount rate			
		10.49%	**10.99%**	11.49%
	11.0%	631.56	580.29	536.93
	12.0%	658.14	604.52	559.18
	13.0%	685.63	629.59	582.20

Source: RongViet Research

Table: Intrinsic value's sensitive analysis of VNIndex at the end of 2015 in 1st method

Dividend growth 2015-2019 (CAGR)	Discount rate			
		10.49%	**10.99%**	11.49%
	11.0%	686.29	631.85	585.80
	12.0%	718.97	661.94	613.69
	13.0%	751.65	692.03	641.59

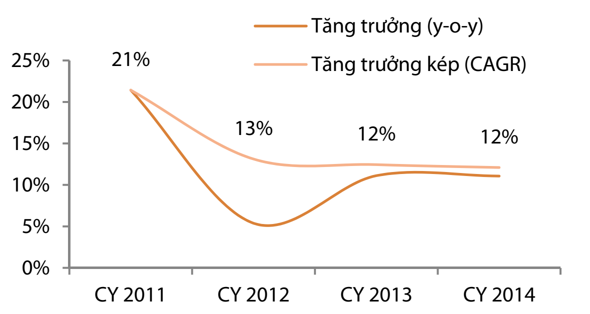
Source: RongViet Research

Table: Intrinsic value's sensitive analysis of VNIndex at the end of 2015 by average 2 methods

Dividend growth 2015-2019 (CAGR)	Discount rate			
		10.49%	**10.99%**	11.49%
	11.0%	658.93	606.07	561.36
	12.0%	688.55	633.23	586.44
	13.0%	718.64	660.81	611.90

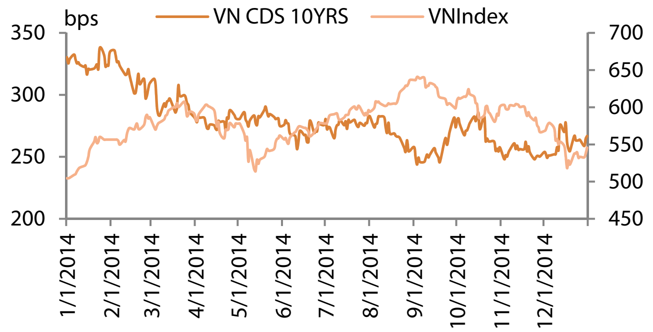
Source: RongViet Research

VNIndex's dividend growth (2010 – 2014)



Source: Bloomberg, RongViet Research

Co-related between Vietnam's CDS and VNIndex



Source: Bloomberg

Table: Assumptions and parameters used in both methods

	Method no. 1	Method no. 2
1st phase growth of dividend	Dividend grows 2-digits and around 11-12% in 1st phase. This assumption bases on the 2-digits growth in 2010 – 2014. In this period, the dividend growth varies in 12-13% and is expected to maintain in 2015-2019, in case the economy has not witnessed a significant change.	Dividend growth gradually decreases from 12% milestone. Observe dividend growth in period 2010-2014, we has found that dividend has growth at a descending rate with average 0.5%/year. Accordingly, the decline is assumed to extend 14 years until getting sustained growth rate.
2nd phase growth of dividend	In long term, we assume that VNIndex's dividend growth rate will be close to Vietnam's growth rate of potential GDP. According to our macro experts, Vietnam's potential GDP (based on regression models) is estimated to grow by about 5%.	
Discount rate	We use Aswath Damodaran's model to estimate country risk premium (country-to-risk premium) based on CDS spreads. According to Damodaran's model, Vietnam's discount rate calculated at Feb 26th 2015 is about 11% (US's risk-free interest rate is 1.97% and Vietnam's equity risk premium is 9.02%).	
VNIndex's dividend	VNIndex's dividend for 2014 is 23.2% (Source: Bloomberg).	

Source: RongViet Research

APPENDIX 7: Financial metrics by sector

Sector	Market cap (VND bn)	ROE	ROA	ROS	P/E (27/02/2015)	P/B (27/02/2015)	EV/EBITDA	+/- Price (27/02/2015 - 27/02/2014)
Industrial Goods& Services	148,641	14%	5%	6%	27.03	2.73	13.43	7.1%
Food & Beverages	176,403	17%	9%	7%	15.87	4.09	11.56	2.4%
Banks	306,996	11%	1%	24%	17.30	1.64	-	13.0%
Construction & Materials	59,204	10%	3%	4%	12.80	1.27	17.33	26.4%
Financial Services	29,174	10%	6%	26%	13.50	1.35	6.79	-9.3%
Basic Resources	20,116	4%	1%	1%	33.70	4.24	N/A	1.4%
Retail	5,351	19%	8%	2%	14.54	0.99	7.50	-24.5%
Healthcare	17,808	17%	8%	6%	12.51	2.47	7.97	1.7%
Oil&Gas	185,824	31%	16%	13%	10.00	3.64	5.62	-3.1%
Utilities	28,060	15%	8%	8%	10.90	1.39	6.93	5.4%
RealEstate	123,447	8%	3%	11%	24.75	2.55	18.63	5.9%
Media	1,040	11%	6%	5%	13.43	1.00	5.88	1.5%
Insurance	36,683	9%	3%	10%	17.50	1.73	12.01	-6.5%
Personal & Household Goods	16,167	16%	7%	5%	10.91	1.61	7.73	11.0%
Travel & Leisure	6,197	8%	4%	5%	20.53	2.21	10.56	12.5%
Technology	34,451	21%	8%	3%	15.80	5.53	10.85	-7.1%
Chemicals	25,720	15%	9%	9%	9.56	1.34	5.68	-15.8%
Automobiles & Parts	9,050	22%	10%	9%	11.66	2.65	8.33	20.1%
Telecommunications	15	0%	0%	3%	1.80	0.27	0.35	-41.6%

Source: RongViet Research

APPENDIX 8: RongViet Research stocks of preference by sector

Telecomunications	KST
Automobiles & Parts	**CSM**	**DRC**	**PAC**	SRC	TSB
Insurance	**BIC**	**BMI**	**BVH**	**PGI**	PTI	**PVI**	VNR
Banks	**ACB**	**BID**	CTG	EIB	**MBB**	NVB	SHB	STB	**VCB**
Oil&Gas	APP	**GAS**	PGD	**PLC**	PPE	**PVC**	**PVD**	**PVS**	**PXS**	PXT
Technology	CKV	CMG	CMT	ELC	**FPT**	ITD	LTC	POT	SGT	SRB	ST8	TST	VAT	VIE	VLA	VTC
Travel & Leisure	BSC	CTC	DSN	FDT	GTT	HOT	MNC	PCT	PDC	PVR	RIC	SGH	SKG	STT	TCT	VNG	VNS
Retail	AME	BTT	CMV	COM	FDC	HAX	HTC	KHA	OGC	PID	SHN	SVC	SVT	TH1	TMC	TNA	VPC
Healthcare	AMV	DBT	DCL	**DHG**	DHT	**DMC**	DNM	IMP	**JVC**	LDP	MKV	OPC	PMC	PPP	SPM	**TRA**	VMD
Chemicals	CPC	DPC	**DPM**	**DPR**	HAI	HDA	HRC	HSI	HVT	**LAS**	NET	NFC	PHR	PVB	QBS	RDP	**SFG**	TNC	TRC	TSC	VFG
Media	BDB	BED	BST	DAD	DAE	DST	EBS	ECI	EID	HBE	HEV	HST	HTP	LBE	ONE	PNC	QST	SAP	SED	SGD	STC	TPH	VNN
Utitilities	ASP	BTP	CHP	CLW	CNG	DNC	DRL	HJS	KHP	MTG	NBP	NLC	PCG	PGC	**PGS**	**PPC**	PVG	SBA	SFC	**SHP**	SII	SJD	**TBC**	TDW	TIC
	TMP	VSH
Financial Services	AGR	APG	API	APS	ASA	BSI	BVS	CTS	EFI	FIT	HBS	HCM	HHS	HPC	IDJ	IVS	KLS	ORS	PSI	SEB	SHS	SSI	TVC	VDS	VIG
	VIX	VND	WSS
Personal & Household Goods	BRC	CLC	DCS	DGC	DHP	DQC	DTT	EVE	GDT	GIL	**GMC**	GTA	ITQ	KMR	KSD	LIX	MHL	NAG	NPS	NST	PNJ	PTB	RAL	SAV	SFN
	SHA	SHI	**TCM**	TET	TLG	**TNG**	TPC	TTF
Basic Resources	ALV	AMC	BAM	BGM	BKC	BMC	BVG	CAP	**CMI**	DHM	DNY	DTL	HAP	HGM	HLA	HLC	KHB	KKC	KMT	KSA	KSB	KSH	KSK	KSQ	KSS
	KTB	LCM	MDC	MIM	NBC	NKG	POM	PTK	SMC	SPI	SQC	TC6	TCS	TDN	THT	TKU	TLH	TNT	**TVD**	VGS	VID	VIS	VMI
Food & Beverages	AAM	ABT	ACL	AGF	AGM	ANV	ATA	AVF	BBC	BHS	BLF	CAN	CMX	**DBC**	**FMC**	HAD	**HAG**	HAT	HHC	HNM	**HVG**	ICF	IDI	KDC	KTS
	LAF	LSS	MCF	MPC	**NDF**	NGC	NHS	NSC	SAF	SBT	SCD	SEC	SGC	SJ1	SLS	SSC	TAC	THB	**TS4**	VCF	VDL	**VHC**	VLF	VNH	VNM
	VTF	VTL
Construction Materials	ACC	**BCC**	**BMP**	BT6	BTS	C32	CCM	CVT	CYC	DAC	DAG	DCT	DHA	DNP	DXV	FCM	GMX	GTN	HCC	HLY	HMC	HOM	HPS	HT1	HVX
	KHL	LBM	MAX	MCC	NAV	NHC	NNC	**NTP**	PPG	QNC	SCJ	SDG	SDN	SDP	SDY	TBX	TCR	TMX	TSM	TTC	TTZ	TXM	VCS	VHL	VIT
	VTS	VTV	VXB
Real Estate	BCI	C21	CCL	CLG	D2D	DIG	DLR	DRH	DTA	DXG	HAR	HDC	HDG	HLD	HQC	HU1	ITA	ITC	KAC	KBC	KDH	KLF	LGL	LHG	NBB
	NDN	NDX	NHA	NLG	NTL	NVN	NVT	OCH	PDR	PFL	PPI	PTL	PV2	PVL	QCG	RCL	SCR	SIC	SJS	SZL	TDC	TDH	TKC	UDC	UIC
	VCR	VIC	VNI	VPH	VRC
Construction	ASM	B82	**BCE**	BHT	BII	C47	C92	CCI	CDC	CEO	CID	**CII**	CMS	CSC	CT6	CTA	**CTD**	CTI	CTM	CTN	CTX	CX8	D11	DC2	DC4
	DIC	DID	DIH	**FCN**	**FLC**	HAS	**HBC**	HHG	HTI	HU3	**HUT**	ICG	IDV	**IJC**	KTT	L10	L14	L18	LCG	LCS	LHC	LIG	LM8	LUT	MCO
	MDG	PEN	PHC	PHH	PTC	PVV	PVX	PXA	**PXI**	PXL	QTC	S12	S55	S74	S99	SC5	SCL	SD1	SD2	SD4	SD5	SD6	SD7	SD9	SDD
	SDH	SDT	SDU	SJC	SJE	SKS	SVN	THG	THS	TV1	TV2	TV3	TV4	V12	V15	V21	VC1	VC2	VC3	VC5	VC6	VC7	VC9	VCC	VE1
	VE2	VE3	VE4	VE8	VE9	**VNE**	VSI
Industrial Goods & Services	AAA	ADC	ALP	ALT	**APC**	ARM	BBS	BPC	BTH	BXH	CIG	CJC	CLL	CMC	CTB	CVN	**DHC**	DL1	DLG	DVP	DXP	DZM	EMC	GLT	GMD
	GSP	HCT	HDO	HLG	**HMH**	**HPG**	**HSG**	HTL	HTV	INC	INN	L35	L43	L44	L61	L62	LCD	LGC	LM3	LM7	LO5	MAC	MAS	MCG	MCP
	MEC	MHC	MSN	**MWG**	NHW	PAN	PDN	**PET**	PGT	PIT	PIV	PJC	PJT	PMS	PPS	PRC	PSC	PSD	PTM	PTS	**PVE**	PVT	QHD	REE	SAM
	SBC	SDA	SDC	SDE	SFI	SMA	SMT	SPP	SRA	SRF	SSG	SSM	STG	STP	**SVI**	TAG	**TCL**	**TCO**	TIE	TIG	TIX	TJC	TMS	TMT	TPP
	TTP	TYA	VBC	VBH	VCG	VCM	VFR	VGP	VHG	VIP	VKC	VMC	VNA	VNC	VNF	VNL	VNT	VOS	VPK	VSC	VST	VTB	VTH	VTO	WCS
	UNI

HỘI SỞ TẠI TP.HCM

Tầng 1-2-3-4, tòa nhà Viet Dragon
141 Nguyễn Du, P.Bến Thành, Q.1, TP.HCM

- T +84 8 6299 2006
- F +84 8 6291 7986
- E info@vdsc.com.vn
- W www.vdsc.com.vn

CHI NHÁNH HÀ NỘI

2C Thái Phiên, Q.Hai Bà Trưng, Hà Nội

- T +84 4 6288 2006
- F +84 4 6288 2008
- E info@vdsc.com.vn
- W www.vdsc.com.vn

CHI NHÁNH NHA TRANG

50 Bis Yersin, TP.Nha Trang, Khánh Hòa

- T +84 058 3820 006
- F +84 058 3820 008
- E info@vdsc.com.vn
- W www.vdsc.com.vn

CHI NHÁNH CẦN THƠ

08 Phan Đình Phùng, Q.Ninh Kiều, TP.Cần Thơ

- T +84 0710 381 7578
- F +84 0710 381 7789
- E info@vdsc.com.vn
- W www.vdsc.com.vn

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securites from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.