Vietcap

Strategy

Vietnam Strategy 2025

December 2024

Macro forecasts	2024F	2025F
Real GDP (% YoY)	6.9	7.2
Nominal GDP (USD bn)	455	496
CPI (Avg, % YoY)	3.8	3.2
VND vs USD (% YoY)	-3.0	0.0
Depo rate cap (<6M %)	4.75	5.00
Credit growth (% YoY)	13.8	14.0
Exports val (% YoY)	14.8	6.5
Imports val (% YoY)	16.6	7.0
Trade bal (USD bn)	26.8	26.8
Disbursed FDI (USD bn)	25.0	26.5

Market forecasts	2024E	2025F
VN-Index*	1,268	1,500
EPS growth** (% YoY)	15%	22%

*VN-Index 2024E is the index on Dec 5 2024
** Vietcap's HSX-listed coverage

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Three themes for 2025

We remain bullish on the Vietnamese equity market for 2025. We trim our year-end VN-Index targets for 2025 from 1,550 to 1,500, respectively, in line with our current bottom-up price targets for stocks under our coverage.

Macroeconomic outlook. GDP growth of 6.8% through 9M 2024 exceeded our expectations at the start of the year, led by recoveries in exports, inbound tourism and foreign direct investment, and we upgraded our 2024F GDP growth forecast to 6.9% in October. Despite the risks to external trade if incoming US President Donald Trump raises import tariffs in 2025, we raise our 2025F GDP growth forecasts from 6.8% to 7.2% in anticipation of more supportive fiscal policy in Vietnam, following the recent announcement of a 30% increase in the 2025F public investment plan. We forecast 7.5% GDP growth in each of 2026F and 2027F, led by further expansionary fiscal policy and ongoing recovery in the real estate sector and consumption.

Corporate earnings. We continue to forecast a strong recovery in corporate earnings growth in 2024/25 based on our aggregate bottom-up forecasts for HSX-listed stocks under our coverage of 15% for 2024 and 22% for 2025.

Interest and exchange rates. We expect the USD/VND exchange rate to remain stable in 2025/26/27. The US presidential election result could continue to support the DXY Index in first quarter of 2025 and could limit Fed rate cuts to some extent. However, according to Bloomberg consensus forecasts, the DXY US Dollar Index will gradually decline toward end-2025 and 2026. In addition, we continue to expect solid foreign inflows into Vietnam from FDI, remittances, a merchandise trade surplus and a narrowing services trade deficit to support the SBV in managing the USD/VND exchange rate. This should enable the State Bank of Vietnam (SBV) to accumulate FX reserves and maintain policy rates at relatively low levels by historical standards.

Valuations. VN-Index P/E and P/B valuations are below their ten-year historical averages and look undemanding vs ASEAN and global emerging market peers.

Theme 1: Impact of Trump presidency. The threat of higher US import tariffs under a 'Trump 2' administration is a material risk for Vietnam, given gross merchandise exports of c.90% of GDP, 30% of which were purchased by the US in 9M 2024. However, Mr Trump's threat to impose substantially higher import tariffs on China relative to other countries could support further growth in Vietnam's share of US imports and global manufacturing value-added. We discuss the impact of potential positive and negative tariff scenarios inside this report.

Theme 2: More expansionary fiscal policy. The 30% increase in the 2025 public investment plan, along with some very upbeat Government targets for growth in the next few years, imply a significant boost for demand for materials, engineering and construction services. Improving infrastructure and transport links should also benefit real estate development over the medium term.

Theme 3: EM upgrade. Vietnam is making progress towards an upgrade to emerging market status by FTSE Russell with the removal of the prefunding requirement for institutional investors at the beginning of November 2024. Our base case scenario is that FTSE could announce an upgrade in September 2025 for implementation in 2026. We highlight opportunities amongst stocks likely to benefit from resultant foreign inflows.

Our top stock picks for 2025, which draw on our analysis of the above three themes are: FPT, SAB, VNM, VHC, MSN, KBC, IDC, SIP, NLG, KDH, HPG, MBB, VPB, VCB, CTG, SSI, PLX, PC1. In addition, our sector teams have identified bottom-up stock picks, which reflect their strong convictions. These include STB, PNJ, MWG, FRT, PVT, ACB.

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Three themes for 2025

Thematic analysis

We believe that three key investment themes will significantly influence investment decisions in Vietnam in 2025: (1) the potential implications of Donald Trump's presidency on Vietnam, particularly concerning possible tariffs, (2) Vietnam's aggressive fiscal spending, and (3) the potential upgrade of Vietnam's stock market.

Consequently, we have conducted an analysis of these three themes and identified our stock picks for each, as illustrated below.

Figure 1: Stock picks on three investment themes

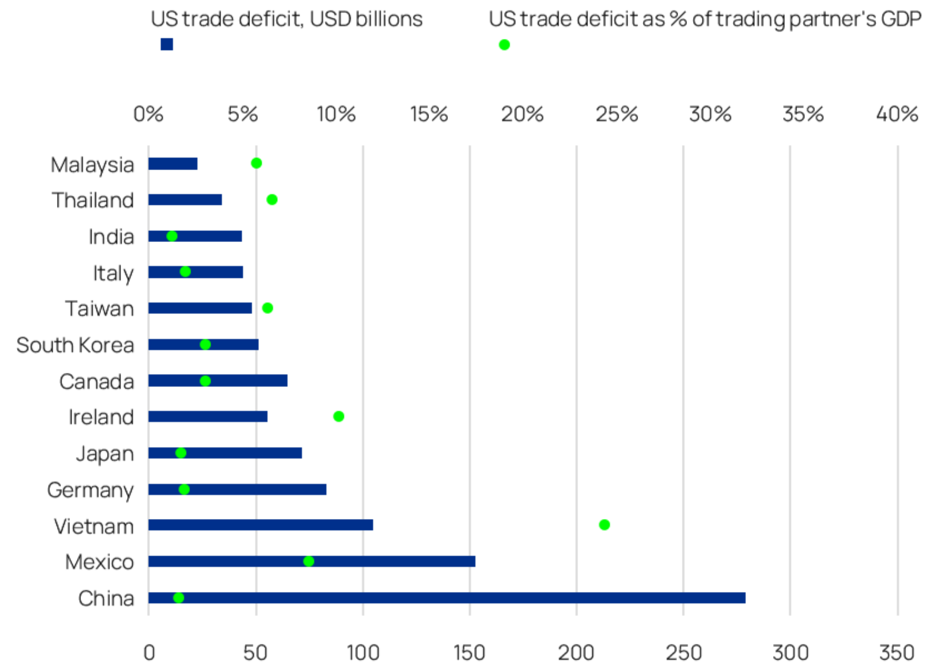
Stock	Theme 1 Trump's tariff and impact	Theme 2 Vietnam aggressive infrastructure spending	Theme 3 Potential market upgrade
FPT			
KBC			
IDC			
SIP			
VHC			
HPG			
NLG			
KDH			
MBB			
VPB			
VCB			
CTG			
SSI			
MSN			
VNM			
SAB			
PC1			
PLX			

Source: Vietcap. Note: The colored boxes represent stocks which benefit from each theme.

Theme 1: Mr. Trump's presidency and impacts

Donald Trump's tariffs appear threatening, with China as the primary target. However, uncertainty persists for other countries, particularly high trade deficit partners like Vietnam. During his presidential campaign, Mr. Trump positioned tariffs as a central component of his trade strategy, proposing blanket tariffs of 10% to 20% on all foreign goods, alongside significantly higher tariffs of 60% to 100% specifically targeting imports from China. This focus on China stems from its role as the largest contributor to the US trade deficit and its competitive stance in critical sectors such as technology and manufacturing.

Figure 2: Top US trade deficits with trading partners in 2023



Source: US Census Bureau

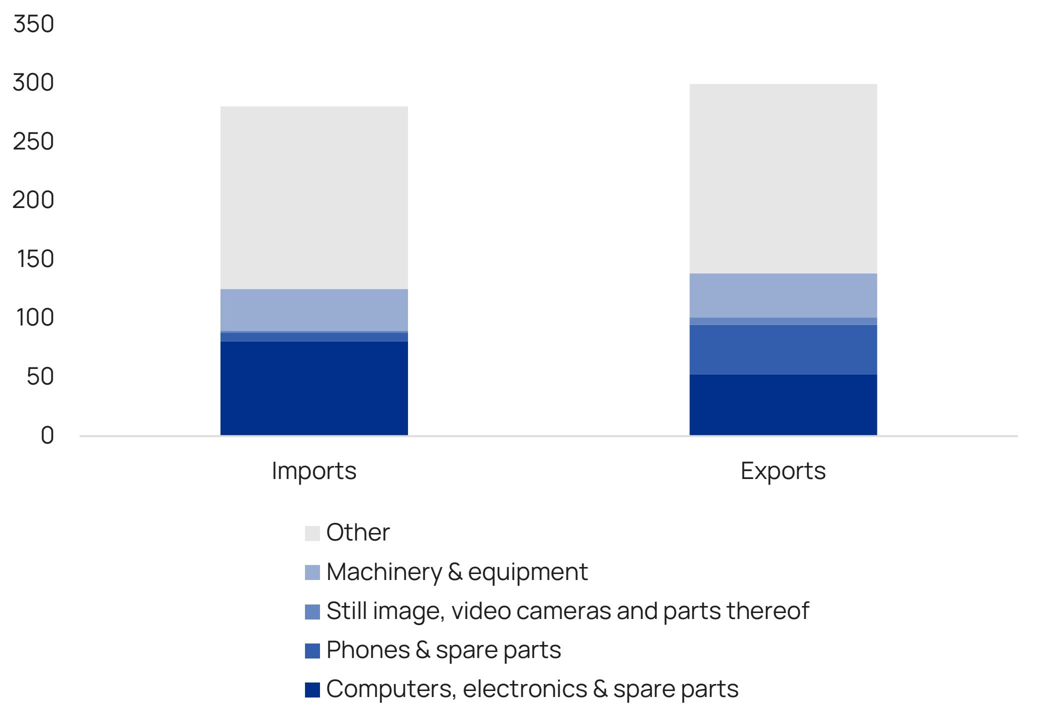
We believe Mr. Trump's tariff policy is motivated by two primary objectives, including rewarding domestic production and gaining negotiation leverage. Firstly, Mr. Trump aims to incentivize American manufacturing by reducing taxes for domestic producers while imposing higher tariffs on foreign companies. He argues that this approach will foster job creation and stimulate the US economy. Secondly, there is speculation that Trump's tariff threats are intended to serve as a bargaining chip in negotiations with other countries. Specifically, the tariffs on imports from Mexico appear aimed at leveraging negotiations focused primarily on immigration and drug trafficking issues. Mr. Trump's past actions indicate a willingness to use tariffs as a negotiating tactic, as seen during his previous presidency when he employed them to influence trade discussions.

The US trade deficit with Vietnam is mainly driven by labor-intensive, and low value-added industries, which are unfit for reshoring.

Vietnam's export structure remains largely dominated by low value-added industries. In 2023, the country's exports were heavily reliant on products such as textiles, electronics, and agricultural goods.

Despite some growth in high-tech exports, a significant portion of these products are still produced by foreign-invested enterprises, which account for approximately 70% of Vietnam's total exports**. Electronics and computers have emerged as leading export categories, enhancing the perception of Vietnam's exports as high-value-added and potentially making them a target for tariffs.**

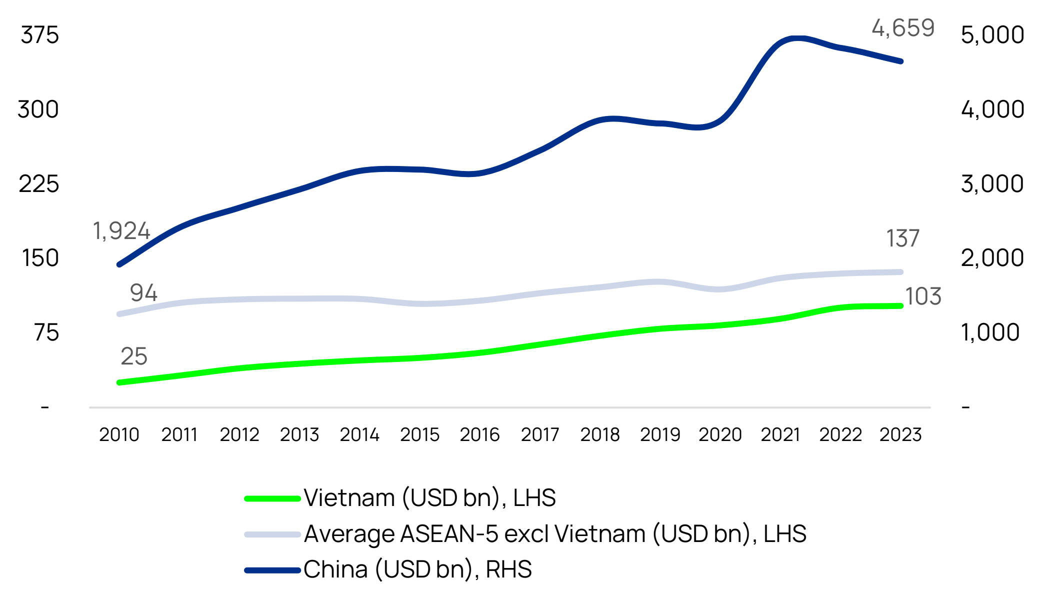
Figure 3: Vietnam's imports / exports by product, 9M 2024 (USD bn) – Vietnam imports a large volume of components for its electronic exports



Source: GSO

However, these products often involve minimal local processing, limiting the domestic value captured. Vietnam's added value in its electronics industry remains low, estimated at only 5-10%, according to the Vietnam Electronic Enterprises Association. While Vietnam is making strides in value-added manufacturing, it is still catching up with regional peers and closing the gap with China. Vietnam's potential for technology and value-added manufacturing advancement, without direct competition with the US, is substantial.

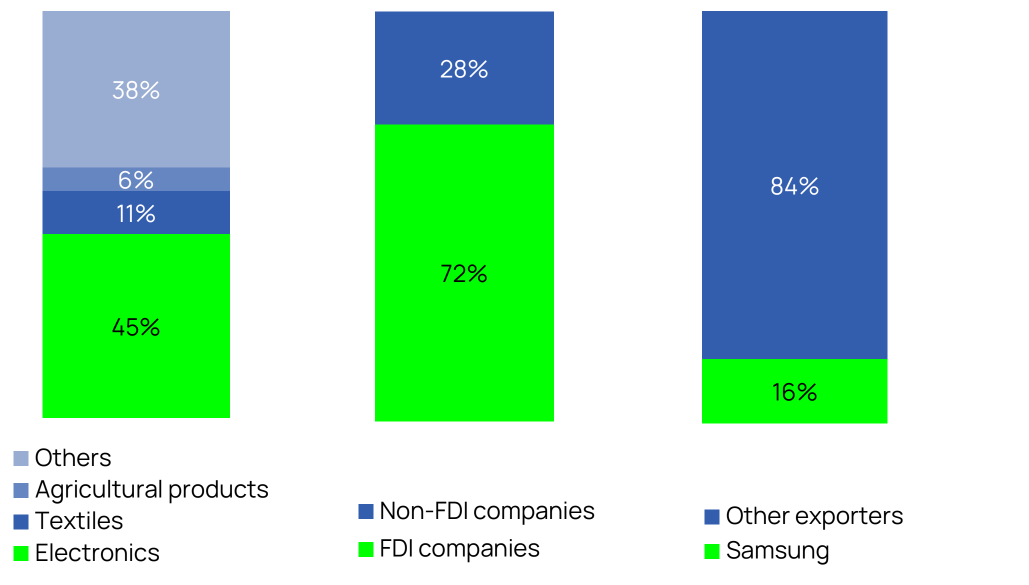
Figure 4: Vietnam is still catching up with peers in SEA in value-added manufacturing and there is a huge gap vs China



Source: GSO, Vietcap. Note: ASEAN 5 excludes Vietnam and is comprised of Malaysia, Indonesia, the Philippines, and Thailand.

Vietnam's electronics exports are significantly influenced by Samsung, the primary contributor to this sector. Currently, Samsung's operations in Vietnam are predominantly focused on assembly, capitalizing on the country's competitive labor costs. Samsung operates six major manufacturing facilities in Vietnam, employing approximately 90,000 workers. Additionally, the company has established a research and development (R&D) center, which employs around 2,500 engineers and researchers. Any increase in tariffs on electronics exports from Vietnam could adversely affect Samsung. Given that the majority of the economic benefits derived from these exports accrue to Samsung, the repercussions would likely extend beyond Vietnam, impacting South Korea—an important US ally in the Asia-Pacific region—more significantly than Vietnam itself.

Figure 5: Breakdown of Vietnam's exports



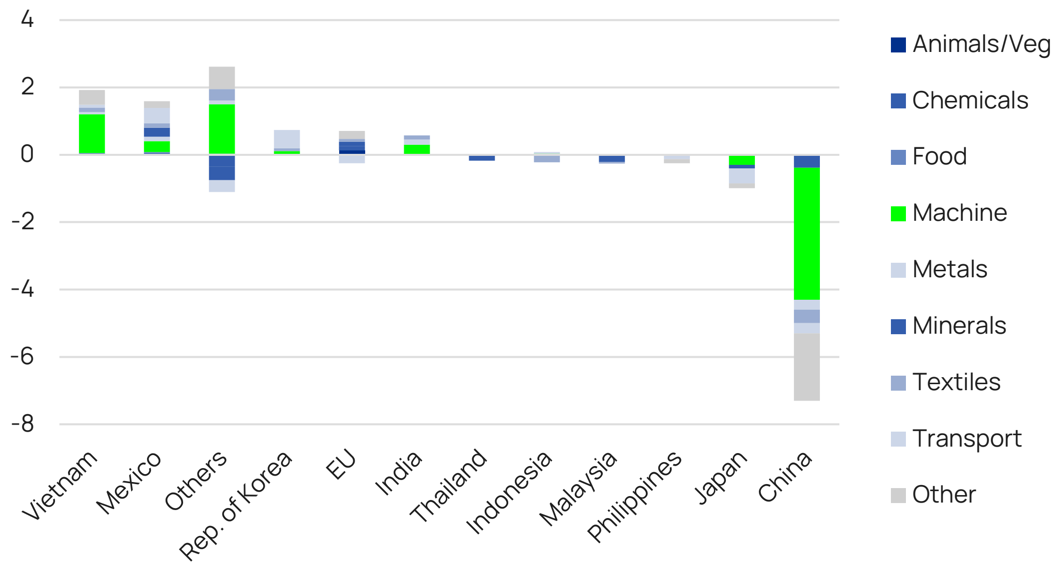
Source: GSO, Vietcap

In terms of Apple's supply chain, major contracted manufacturers such as Foxconn, Luxshare Precision, and Goertek have gradually shifted their manufacturing activities from China to Vietnam over the past five years. However, it is important to note that a significant portion of the output from these companies still originates in China. We anticipate that the escalating trade tensions between China and the United States will further accelerate this shift.

The US may need to maintain manufacturing alternatives to strengthen its bargaining position against China. A key objective of the trade conflict is to counteract China's expanding global influence and preserve US technological leadership. Consequently, efficient manufacturing hubs outside of China, particularly for low value-added products with competitive pricing, benefit the US. Vietnam emerges as an attractive destination for such activities, owing to its traditional advantages: (1) low labor costs; (2) political stability; (3) extensive Free Trade Agreements; (4) strategic location; and (5) supportive policies for FDI companies. Additionally, the new focus of Vietnam's Government on infrastructure development will enhance the country's appeal in attracting manufacturing FDI.

Relocating existing manufacturing operations from Vietnam could be highly expensive and time-consuming for FDI manufacturers. This situation could potentially exacerbate inflation risks in the US economy, especially amid ongoing tariff threats against China. Keeping inflation under control is still a need for the US as it may still consider maintaining monetary expansion options to stimulate the economy, given its limited fiscal policy maneuverability due to the the mounting debt balance of the US after COVID.

Figure 6: Change in shares of US imports in 2018-23



Source: World Bank, UN-COMTRADE, Vietcap. Note: The bars show the change in share of a country in US/China's total exports from 2018-2023.

Due to trade tensions, US importers are replacing Chinese goods with products from Vietnam and Mexico. This shift has accelerated sales growth for Vietnamese firms exporting to the US compared to other markets. It reinforces Vietnam's role as a "connector" country amid trade tensions; however, Vietnam risks tariffs if seen merely as a transshipment point for Chinese goods to the US. A Harvard Business Review study found that the actual re-routing trade is lower than perceived. In 2021, about 16.1% of Vietnamese exports to the US—approximately USD15.5bn—could be considered potential re-routing at the product level. However, when tracking specific products from China through Vietnam to the US, this figure dropped to just 1.8%, or USD1.7bn. The Vietnamese Government has acknowledged this risk and introduced Decree 31/2018/ND-CP, outlining measures against origin fraud. The authority issuing certificates of origin can suspend or revoke these certificates if fraudulent activities are detected.

Vietnam has been proactive in navigating its relationship with president-elect Trump.

During Mr. Trump's 2017-2021 presidency, Vietnam signed deals with the US to narrow its trade deficit, including the MoUs on purchasing of US LNG and agricultural products, and even more notable, the USD12.7bn contract of purchasing Boeing aircraft from Vietjet Air.

We believe there is still room for Vietnam to resume and expand on the aforementioned deals in the near future. Specifically, Vietnam Airlines has potential to further increase its fleet with Boeing's narrow-body planes. Additionally, future orders from Vietnam may extend beyond civil aircraft. According to Nikkei Asia, the US delivered five T-6C trainer aircrafts to Vietnam in November 2024. In late November 2024, Deputy Minister of Foreign Affairs Do Hung Viet announced plans at a business summit in Hanoi for Vietnam to purchase additional high-value items from the US. These include security equipment and AI chips, in addition to possible new orders of aircrafts and LNG.

Vietnam's leaders have showed their proactiveness in strengthening the US-Vietnam relationship in Mr. Trump's upcoming term. General Secretary of the Communist Party of Vietnam, Mr. To Lam, is one of the first world leaders who have conversed with president-elect Trump via phone call after Mr. Trump's election win.

In September 2023, Vietnam and the United States upgraded their bilateral relationship to a Comprehensive Strategic Partnership. With the strengthened tie, we have seen increased investment intentions from US corporations in Vietnam, including the Trump Organization. The firm agreed to invest approximately USD1.5bn in a golf complex project in Hung Yen, a satellite province of Hanoi. Although still in its early stages, the agreement was signed in September 2024, well after Mr. Trump's frequent tariff threats against the US's top-two trade deficit partners, China and Mexico. Apart from statements on blanket tariffs, Vietnam has not been directly mentioned.

In summary, while Vietnam faces tariff risks as the US's third-largest trade deficit partner, we believe recent tariff fears are overestimated. Maintaining strong trade flow between the two countries will benefit both, and we remain cautiously optimistic about the net impact of Mr. Trump's tariff policy on Vietnam. That said, we have conducted a scenario analysis to identify opportunities and threats for sectors under our coverage, as shown in the table below.

Overall, we believe **FPT** is likely to be immune to Mr. Trump's tariffs across all scenarios, while industrial park companies (including **KBC, IDC, SIP**) will benefit from the inevitable need for manufacturing diversification except for the case that Vietnam's tariff is the second highest. **VHC**, the pangasius exporter, will also gain price competitiveness under a blanket tariff or relatively higher tariffs on China. We anticipate that other export companies in textiles and garments (i.e., **STK, MSH, TNG**) and stationery (i.e., **TLG**) will experience net gains if tariffs on Vietnam and other countries are lower than those on China.

Figure 7: Summary of Mr. Trump's tariff scenarios and potential impacts

	Scenario 1	Scenario 2	Scenario 3
Description	Same universal tariff on every nation.	Significantly higher tariffs on China and lower taxes on everyone else.	Tariff rate based on ranking in trade deficit (VN is in the third position).
Possible tariff rate	10-20%	10 – 20% on ex-China, 60% on China	VN to have a higher tariff than other manufacturing alternatives, only lower than China and Mexico.
Industrial Park			
Impacts on sector	* Higher tariffs under Mr. Trump's presidency would be negative for international trade. However, if the US were to raise tariffs on Chinese imports by much more than on imports from other countries (Scenario 2), this could accelerate the shift of manufacturing from China to Vietnam. Even with the blanket tariff of 10-20% (Scenario 1), we believe the migration of manufacturers to diversify outside of China will continue and benefit industrial park developers. We expect the impact to be positive for the overall sector, particularly for IP developers with readily leasable land banks in strategic locations.		* If tariffs are applied on Vietnam more than other peers (which are candidates for manufacturing activities from China), this will likely make Vietnam a less attractive option for manufacturing relocations due to the higher potential relocation costs.
Stock picks	**KBC, IDC, SIP, SZC**		**None**
Global IT services			
Impacts on sector	* Minimal impact as IT and digital-related services are not subject to the expected tariffs by Mr. Trump's administration. We believe Mr. Trump's tariffs would primarily target physical goods. * Additionally, during Mr. Trump's presidency, we expect IT spending in the US to rise, driven by proposed corporate tax reductions and regulatory reforms. These policies are likely to bolster economic recovery, enabling companies across various sectors to allocate larger budgets for IT investments. The administration's emphasis on deregulating emerging technologies further supports innovation and growth in the tech sector. * Although IT services should be exempt from tariffs, the imposition of duties on hardware components, such as Nvidia chips, indirectly impact service providers. However, hardware imports are examined on a case-by-case basis, and FPT has already secured access to the latest Nvidia technologies, ensuring		

	competitiveness. Additionally, IT service providers in restricted countries, including China, face limitations in accessing these advancements, creating an advantage for FPT in the global IT market.		
Stock picks	**FPT**		
	Pangasius		
Impacts on sector	* Vietnam is the main pangasius supplier, accounting for 94% of imported pangasius in the US and the third-most consumed whitefish by American consumers after tilapia and Alaskan pollock. During Mr. Trump's previous administration, under Section 301, Chinese tilapia faced a 25% tariff, while Vietnamese pangasius benefited from a 0% export tariff. Additionally, eight Vietnamese companies, including VHC, qualified for zero anti-dumping duties. VHC, as the largest pangasius supplier to the US, currently holds 44% of the market share by value.		
	* Vietnamese pangasius holds a low-cost advantage over Chinese tilapia, with an ASP before tax of USD3.0/kg vs tilapia's USD3.2/kg in 10M 2024 (ASP after current taxation of USD3.1/kg for pangasius and USD4.0/kg for tilapia). Even with the potential introduction of 10-20% blanket tariffs on pangasius, we expect its ASP to remain lower than Chinese tilapia. This cost competitiveness suggests minimal impact on pangasius demand and there might be a continuous demand shift from tilapia to pangasius, in our view.	* Vietnamese pangasius is poised to benefit from the relatively higher tariff on Chinese tilapia, which currently accounts for 5% of US seafood consumption vs pangasius at 4%, according to the National Fisheries Institute. The higher tilapia ASP, driven by increased tariffs, is likely to shift market share toward pangasius in the long term.	* Vietnam's fishery exports to the US totaled USD1.6bn in 2023, making it the 6th largest fish and seafood import partner. This relatively low share suggests that a higher tariff on Vietnamese pangasius would likely have minimal impact on overall demand, given its competitive pricing and strong market positioning.
Stock picks	**VHC**		
	Textiles & Garments		
Impacts on sector	* Significantly negative impact as the US accounts for approximately 40% Vietnam's textile exports. * However, we believe that additional tariffs should not impact the long-term trend in US companies diversifying away from China to Vietnam, plus others. China and Vietnam are the two dominant sources for apparel imports, accounting for 22% and 18% of US imports in 2023, respectively. The proportion of apparel imports from China to the US has continuously declined over the past decade. On the other hand, Vietnam has been the key beneficiary of this trend with	* Immediate increase in orders to be diverted from China to avoid high tariffs. This would instantly benefit companies that 1) already run at high capacity (i.e., having a good track record with clients), and 2) have capacity expansion in 2024-2025F (STK – an additional 60% YoY capacity in 2025, MSH – an additional 39% YoY capacity in 2025, TNG – an additional 14% YoY in 2024).	* Similar to Scenario 2 in terms of ex-China countries, including Vietnam, to benefit from diversification from China trend. * However, as Vietnam ranks much higher in terms of trade deficit with the US than that of Bangladesh and India – the third and fourth largest apparel exporters to the US – the magnitude of orders increasing will be significantly lower to Vietnam compared to Scenario 2.

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	its share in apparel imports to the US increasing from 10% in 2013 to 18% in 2023.		
Stock picks	**None**	**STK, MSH, TNG**	**None**
	Writing instruments		
Impacts on sector	According to Euromonitor, the retail sales value of writing instruments in the US was USD3.6bn in 2023, of which US companies accounted for 80% of the market share. The remaining 20% market share was equally split between private labels and other small brands. In the same year, the US imported USD1.2bn worth of writing instruments (pens, pencils, and crayons). China was the largest exporter, accounting for 38.2% of the imports, up from 30.2% in 2003. Vietnam's share remained modest at 3%, rising from just 0.2% in 2003. Currently, the US imposes zero tariffs on writing instruments from both countries. Under Scenario 2, we expect a possible shift from China to Vietnam for writing instrument imports to positively impact TLG.		
		Under Scenario 2, we expect a possible shift from China to Vietnam for writing instrument imports to positively impact TLG.	
Stock picks		**TLG**	
	Wooden furniture		
Impacts on sector	* Negative impact as the US accounts for approximately 60% of Vietnam's wood exports. * Vietnam is the major source of the US's imported wooden furniture with a 38% market share in 2024, outpacing China (17%) and other countries. The large discrepancy results from tariffs, ranging from 10% to 25%, imposed on China's wooden products (including raw materials, plywood, furniture, and flooring) during 2018 and 2019. In April 2020, the US imposed a definitive anti-dumping duty, ranging from 4.37% to 262.18%, on imports of wooden cabinets and vanities from China. * The US imposed tariffs ranging from 0% to just under 10% on Vietnamese wood & wooden products.		
	* Most wooden product producers will be negatively impacted, including PTB (50% revenue from exports to the US); and ACG (20% revenue from exports, most of which are to the US).	* As Vietnam is currently the key source of wooden products for the US amid high existing tariffs for imports from China, we expect the negative impact in Scenario 2 and 3 is not significant. In Scenario 2, as China is already facing high tariffs, there is not much headroom for widening the tariff gap between China and Vietnam. In Scenario 3, as China and Vietnam dominant the US market, the significant tariff rate hike will most likely hit US consumers.	
Stock picks		**None**	
	Steel		
Impacts on sector	* Steel has been a targeted sector of Mr. Trump's protectionism. His administration imposed a 25% universal tariff under Section 232 on all sources of steel imports in March 2018 and later imposed tariffs on imported products originating from China under Section 301. This means that steel imports were uniquely subject to both tariffs under sections 232 (25%) and 301 (7.5% to 25%), effectively making steel imports from China subject to the combined tariffs of both sections (32.5% to 50% in total). * While some countries (mainly the US's traditional key sources of steel such as Canada, Mexico, and South Korea) have since then been fully or partially exempted from tariffs under Section 232, while high tariff levels continue to remain in effect for China (32.5% to 50% in total) and Vietnam (25%). * Due to such high tariffs, both Vietnam and China account for a minor proportion of the US's steel imports, with less than 3% market share for each country.		

<table>
<tr><td></td><td>* From Vietnam's perspective, the US remains an important export market. Export volume to the US climbed to 14% of total steel exports in 8M 2024 vs 10%/8% in 2023/2022, respectively.

* Scenario 1 would introduce additional pressure on Vietnam's absolute steel exports, especially companies with high export exposure such as HSG and NKG.</td><td colspan="2">* We believe Scenarios 2 and 3 would create limited reallocation of the US's sources of steel imports as China has already faced high tariffs and the proportion of China in the US's steel imports is low.

* We expect a limited direct impact on the export sales volume of steel companies under our coverage (i.e., HPG, HSG, and NKG) as their export volumes to the US account for around or less than 10% of their total export volume.</td></tr>
<tr><td></td><td colspan="3">* Heightened trade protections on other key steel export markets under all three scenarios can result in an increasing steel export surplus to global markets and hence create some pressure on global steel prices. A stronger USD would also result in higher input materials costs for steelmakers as these companies need to import most of their input materials (i.e., iron ore and hard coking coal for HPG).

* Another concern that excess Chinese steel supply could flood the Vietnamese market since it can no longer access the US is also likely unwarranted as imported steel from China to the US is minimal. The recent increase in China's steel exports to the global market was driven by the country's weak domestic construction demand rather than potentially heightened global trade barriers. In the worst-case scenario in which global steel oversupply threatens Vietnam's steel industry, the Vietnamese Government can consider reinstating trade protections (such as anti-dumping tariffs and trade quotas) to shield local producers from these threats.</td></tr>
<tr><td>Stock picks</td><td colspan="3">None</td></tr>
<tr><td colspan="4">Transportation & Logistics</td></tr>
<tr><td>Impacts on sector</td><td colspan="3">* An introduction of new tariffs under any of the three scenarios would create a negative impact on international trade and Vietnam's exports. This in turn will negatively impact overall revenue and earnings for transportation and logistics companies. For GMD, a more significant impact would happen to the Gemalink deep-sea port as this port mainly serves US-EU routes, while overall weaker international trade would pose pressure on throughput from the Nam Dinh Vu seaport. For air cargo terminal operator SCS, the US and EU markets account for roughly 20% of total cargo volume. Airlines in Vietnam have ordered aircraft from Boeing as part of Vietnam's strategy to reduce the trade deficit with the United States. In 2019, VJC signed a contract with Boeing for the acquisition of 100 narrow-body aircraft. More recently, in 2023, Vietnam Airlines (HVN) entered into a Memorandum of Understanding (MoU) with Boeing for an additional 50 narrow-body aircraft. We believe that HVN has the potential to negotiate further aircraft purchases from Boeing, as the airline plans to expand its fleet by adding up to 100 new aircraft by 2035. Securing additional deals with Boeing could provide HVN with enhanced support from the Government, which may include equity injections or mechanisms for divesting its assets.</td></tr>
<tr><td colspan="4">Banking</td></tr>
<tr><td>Impacts on sector</td><td>The blanket tariff will negatively impact Vietnam's trade volume and resulted in lower system-wide credit demand (primarily corporates). We believe a retail-focused bank with conservative risk appetite, funding cost competitive advantages, and a wide branches network across</td><td>In a scenario where US tariffs primarily target China, we expect Vietnam could benefit from a "nearshoring" strategy, as observed during the 2018 trade tensions. This would create opportunities for increased Vietnamese exports to the US. Although banks might experience</td><td>In scenarios where Vietnam faces relatively higher tariffs, Vietnam could encounter sustained challenges in maintaining export competitiveness, especially if it is subject to higher tariffs than other countries due to its large trade surplus with the US or allegations of facilitating the re-</td></tr>
</table>

	southern Vietnam like ACB would be the most resilient bank in this scenario. In the last ten years, Vietnam's banks have been gradually shifting toward the retail credit segment to seek for credit growth and NIM improvement, though anticipating higher risks from this segment during economic downturns.	a temporary slowdown in credit growth due to initial trade disruptions, the mid- to long-term outlook is more optimistic. Credit demand would likely grow in parallel with expanding international trade and the inflow of FDI, particularly from companies seeking diversification of their supply chains from China.	export of Chinese goods. This would likely lead to reduced credit demand from export-dependent sectors and heightened risks of loan defaults.
Stock picks	**ACB**	**VCB, MBB, ACB, VPB**	**None**
		Consumer & Retail	
Impacts on sector	Impact of Mr. Trump's tariffs on the sector are mostly indirect.	As production continues to shift from China to Vietnam, we anticipate an increase in consumer incomes due to the creation of new jobs and the expansion of existing employment opportunities. This trend is expected to drive growth in modern retail sectors.	While we anticipate a net negative impact on the Vietnamese economy, as well as on companies within the consumer sector, we believe that in this challenging environment characterized by numerous economic headwinds, consumer staples and pharmacy players are likely to outperform.
Stock picks	**None**	**MWG, MSN, PNJ**	**VNM, MSN, FRT**
		Power & Water	
Impacts on sector		Potentially slightly positive on power and water consumption.	Overall, the impact is slightly negative with lower manufacturing activities leading to lower power and water consumption. However, we believe water stocks are the most defensive as water tariffs are subject to provincial authorities, which are in progress of passing a 3% hike p.a. from mid-2025. In addition, these stocks provide a solid dividend yield (~3%).
Stock picks		**TDM, BWE, and PC1**	**TDM, BWE**
		Oil & Gas	
Impacts on sector	Overall, global trade would be negatively impacted under all three scenarios and weigh on oil prices. However, we believe PVT and PVS are defensive. Regarding PVT, Mr. Trump's push for US oil production, and oil and LPG exports, might support crude oil/LPG's tanker rates and offset possible lower global oil demand/transport tonnage. Regarding PVS, the company has diversified to renewable offshore wind power sector M&C contracts. In addition, a sizeable workload from Block B would help to mitigate the impact of lower oil prices.		
Stock picks		**PVS, PVT**	

Theme 2: Vietnam's aggressive fiscal spending plan

Overview

Vietnam has set an ambitious GDP growth target for 2026-2030. According to the report presented by the Prime Minister at the 8th session of the 15th National Assembly, average GDP growth is targeted at 7.5%-8.5% (compared to 6.5%-7.0% for 2021–2025).

Investment and development spending for 2025 has been revised up by 30% from the previous target: State spending for investment and development is targeted at VND790.7tn (USD31.6bn) in 2025, an increase of 16.7% from the 2024 plan. Notably, this target is 30% higher than the figure in the Government's 2024-2026 Finance and State Budget plan submitted to the National Assembly in October 2023.

Ministry of Finance estimates a fiscal deficit of VND389.4tn (USD15.8bn; about 3.4% of GDP) in 2024 and a fiscal deficit of VND471.5tn (USD19.1bn; around 3.8% of GDP) in 2025.

Although stronger fiscal spending will positively impact the whole economy, we believe that construction materials, real estate (including residential and industrial park), and petroleum retailers are prime beneficiaries. We have a detailed discussion on our view and top picks as below.

Construction & Construction materials (conmat): We prefer conmat companies over contractors to play an important role in the recovery theme in Vietnam's construction sector.

Given our projection of Vietnam's construction recovery, led by increasing infrastructure spending, we expect companies to benefit from one or more of the following themes.

1. Construction material manufacturers which stand to gain from the recovery in domestic construction demand and favorable input material prices (due to weak construction demand from China).
2. General contractors with a strong capital base and proven track record.
3. Infrastructure contractors with large backlogs and/or strong connections and capability to secure new contracts.

Stock picks: This leads us to prefer Hoa Phat Group (HOSE: **HPG**) among conmat manufacturers. Given the upstream position of conmat companies which enables them to recognize revenue and profits at the earliest stage in the construction cycle, we believe conmat companies are better positioned vs contractors to capitalize on the construction recovery theme for 2025.

Real estate: Players across the residential, hospitality, and industrial park segments that have well-located land banks stand to benefit from more aggressive fiscal spending.

Vietnam's aggressive fiscal spending plan is set to drive growth in both the real estate and industrial park sectors by improving infrastructure, increasing investment, and addressing demand in the housing market while simultaneously enhancing the appeal of industrial locations for businesses.

- Impact on the Residential Sector: Infrastructure development will enhance accessibility to residential areas, making them more attractive to homebuyers. There may be a surge in the construction of residential projects, helping to meet the growing demand for housing, especially in urban areas.
- Impact on the Hospitality Sector: Infrastructure development will improve accessibility, making destinations more reachable and attracting more tourists, while also enhancing amenities to elevate the overall quality of hospitality services. We believe that hospitality developers who have already established their brand and have available room capacity in the tourism hubs of central Vietnam (such as Vinpearl) will be the earliest beneficiaries.
- Impact on the Industrial Park Sector: Investments in transportation and utilities are expected to improve the logistics and operational efficiency of IPs, attracting businesses.

Vietcap

With increased public funding, there is likely to be accelerated development of new IPs to accommodate growing business needs and industries relocating to Vietnam.

Stock picks: We believe the developers - who have (1) a land bank in southern Vietnam located near upcoming major infrastructure projects and (2) the capacity and brand equity for project development - could be the earliest beneficiaries. **We pick NLG, KDH, SZC,** and **SIP.**

Banking:

We see two primary channels through which this fiscal spending could positively impact bank earnings: (i) lending opportunities and (ii) broader macroeconomic effects.

The broader economic stimulus from fiscal expansion will support strengthening credit demand and improve asset quality, delivering widespread benefits across the industry. We expect the indirect benefits of fiscal expansion to be even more significant. We expect increased government spending on infrastructure to bolster GDP growth, which will have a positive impact on consumer confidence and spending, business expansion, and urbanization. Additionally, a healthier economic environment is expected to reduce NPL, as borrowers face less challenges in servicing their debts.

SOCBs (i.e., VCB, CTG, BID) are likely to be the primary beneficiaries of increased lending demand and opportunities for enriching fee income. Infrastructure development and large-scale projects will generate significant funding requirements, and SOCBs are primary beneficiaries of this demand due to (i) their expertise in financing large-scale infrastructure, (ii) State-owned profile, and (iii) competitive cost-of-funding advantages. However, given the large scale and long-term nature of these projects, private banks with strong capital buffers and sufficient headroom in their LDR and SML ratios (short-term funding for mid-to-long-term loan ratio) can also benefit from these opportunities. Among these, we expect **MBB** and **VPB** could also be beneficiaries. We also expect that NOII will increase, driven by the provision of banking services for these projects.

Energy:

Vietnam's recent commitment to an aggressive fiscal spending plan aims to stimulate economic growth and infrastructure development. While most stocks in the sector may remain unaffected, **PLX**, as one of the largest petroleum retailers in Vietnam, stands to gain from higher petroleum product consumption driven by robust economic activity. The Government's fiscal spending is likely to enhance infrastructure projects, leading to increased fuel demand in transportation and logistics. Additionally, PLX is also poised to grow with higher contributions from Petrolimex Petrochemical Corporation (HNX: PLC). PLC, a subsidiary with a 79% stake (contributing 4-8% of PLX's PBT), is a leading asphalt supplier with a market share of around 25-30% in Vietnam, and should benefit significantly from increased public transport infrastructure spending. **GAS,** as a leading player in the natural gas sector, is poised to indirectly benefit from increased demand stemming from economic expansion.

Consumer & Retail:

Improved infrastructure development in Vietnam is poised to enhance logistics operations for retailers, particularly benefiting modern grocery and minimart chains. These players are currently focused on boosting profitability through logistics cost optimization. We anticipate that **MSN**, via its retail arm Winmart, and **MWG**, through its grocery business BHX, will indirectly benefit from this trend. Logistics costs currently account for 3.5%/2.5% of BHX/WCM's total costs, respectively. Enhanced infrastructure is likely to streamline supply chains, reduce transportation costs, and improve overall operational efficiency for these companies, potentially leading to increased profitability and market competitiveness.

Theme 3: Potential market upgrade

Vietnamese authorities are striving to achieve an upgrade from Frontier Market (FM) to Emerging Market (EM) status by 2025, reflecting their dedication to tackling critical structural challenges within this period. Efforts are being intensified to address key requirements for the upgrade, including issuing guidance on removing the prefunding requirement for foreign investors and improving dual-language information disclosure.

On September 18, 2024, the Ministry of Finance (MoF) issued Circular 68, which took effect on November 2, 2024. The circular addresses key concerns that have previously prevented Vietnam's upgrade to secondary EM status by FTSE Russell, including the elimination of pre-funding requirements, the establishment of procedures for failed trade resolution, and the expansion of information disclosure in English. Starting November 2, institutional brokers in Vietnam are now expected to facilitate non-prefunded trades for foreign investors. FTSE allows a three- to six-month testing period to evaluate the new processes and gather client feedback to ensure efficiency and sustainability.

On the assumption that FTSE and related ETFs experience no issues with the new mechanism after the testing period, we believe there is a high probability that FTSE could announce Vietnam's upgrade to EM status in its September 2025 annual country classification review, with formal inclusion in the FTSE Secondary EM Index likely in 2026. An upgrade to emerging market status would have notable benefits, enhancing foreign institutional participation in Vietnam's market while also boosting domestic retail investor sentiment, potentially driving higher trading activity.

To further improve market efficiency, the MoF has proposed amendments to the Securities Law, introducing several key changes. These include stricter criteria for investors, allowing commercial banks and foreign bank branches to clear and settle transactions across equity and derivative markets, and establishing a legal framework for the Vietnam Securities Depository Corporation (VSDC) to create a subsidiary dedicated to central counterparty clearing (CCP) activities.

Vietnam remains on FTSE Russell's watchlist for reclassification

According to the latest FTSE Equity Country Classification Annual Review published in October 2024, Vietnam remains on the watchlist for a potential upgrade from frontier market to secondary emerging market status. Vietnam has been on this watchlist since September 2018 and currently meets most of the criteria for reclassification. However, Vietnam has yet to fulfil the "Settlement Cycle (DvP)" criterion, which is rated as "Restricted" due to the market's practice of conducting pre-trading checks to ensure fund availability before trade execution, also known as the "prefunding" requirement. As failed trades do not occur under current market practices, the "Settlement – Costs Associated with Failed Trades" criterion remains unrated.

In its October 2024, FTSE also mentioned that "Improvements are also needed in the registration process for new accounts, as current procedures can lead to delays. Furthermore, the introduction of an efficient mechanism to enable trading among non-domestic investors in securities nearing or at their foreign ownership limit (FOL) is also seen as important."

Figure 8: FTSE annual review, released in October 2024

FTSE QUALITY OF MARKETS CRITERIA (Watch List) as of October 2024	SECONDARY EMG WATCH	VIETNAM
World Bank GNI Per Capita Rating (Atlas Method)		Lower Middle
Credit Worthiness		Speculative
Market and Regulation Environment		
Formal stock market regulatory authorities actively monitor the market (e.g., SEC, FSA, SFC)	X	Pass
Fair and non-prejudicial treatment of minority shareholders		Restricted
No or selective incidence of foreign ownership restrictions		Restricted
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	Pass
No or simple registration process for foreign investors		Restricted
Foreign Exchange Market		
Developed foreign exchange market		Restricted
Equity Market		
Brokerage - Sufficient competition to ensure high quality broker services	X	Pass
Transaction costs - Implicit and explicit costs to be reasonable and competitive	X	Pass
*Tax = Imposition of taxes to be reasonable and comparable between domestic and non-domestic investors		Pass
Stock lending is permitted		Restricted
Short sales permitted		Not Met
Developed Derivatives Market		Restricted
Off-exchange transactions permitted		Not Met
Efficient trading mechanism		Restricted
Transparency - Market depth information / visibility and timely trade reporting process	X	Pass
Clearing, Settlement and Custody		
Settlement - Rare incidence of failed trades	X	Restricted
Settlement Cycle (DvP)	X	T+2
Central Securities Depositary	X	Pass
Central Counterparty Clearing House (Equities)		Not Met
Settlement - Free delivery available		Not Met
Custody - Sufficient competition to ensure high quality custodian services	X	Pass
Account structure operating at the Custodian level (securities and cash)		Not Met

Source: FTSE Russell

Potential stock inclusion if Vietnam's market is upgraded by FTSE

Based on float-adjusted market capitalization data from FTSE and MSCI as of August 30, 2024, Vietnam represents approximately 0.5 % of total EM market capitalization. Assuming a 0.5% country weight allocation, we estimate that an FTSE reclassification could result in approximately USD500mn in ETF inflows, while an MSCI upgrade could attract an additional USD1bn. The weighting and associated capital flows will depend on Vietnam's free float and total market capitalization at the time of inclusion.

The following is a list of stocks that meet key criteria essential for potential FTSE EM inclusion. These stocks satisfy requirements for market capitalization, foreign ownership headroom, and liquidity, ensuring they align with the standards set by global index providers.

Figure 9: Potential listed companies to benefit from FTSE EM upgrade

Ticker	GICS Sector	Potential flow from ETFs (USD mn)	Potential flow from ETFs (shares)	1M ADTV (shares)	Total days of trading to build position	Vietcap Rating
SAB	Consumer Staples	33.3	15,241,980	520,890	29.3	BUY
BVH	Financials	8.8	5,025,797	303,775	16.5	M-PF
VIC	Real Estate	69.9	43,289,421	3,651,625	11.9	M-PF
VNM	Consumer Staples	77.6	30,635,533	2,613,598	11.7	O-PF
VCB	Financials	40.9	11,371,830	1,518,577	7.5	BUY
POW	Utilities	14.5	30,226,081	4,431,801	6.8	M-PF
VHC	Consumer Staples	13.7	4,860,431	795,358	6.1	O-PF
VND	Financials	21.8	39,892,761	7,354,301	5.4	N.A.
SIP	Real Estate	8.7	2,869,127	547,846	5.2	BUY
VGC	Industrials	10.0	6,143,033	1,281,147	4.8	N.A.
SSI	Financials	34.2	35,435,783	11,299,289	3.1	BUY
VRE	Real Estate	13.7	19,090,637	6,092,716	3.1	O-PF
VPI	Real Estate	10.7	4,574,103	1,461,643	3.1	N.A.
HPG	Materials	54.2	52,348,097	19,411,629	2.7	BUY
DCM	Materials	10.0	6,768,162	2,542,914	2.7	BUY
VCI	Financials	23.2	17,593,236	6,881,361	2.6	N.A.
VHM	Real Estate	82.0	48,796,486	22,666,072	2.2	M-PF
VJC	Industrials	11.0	2,708,414	1,272,849	2.1	O-PF
DGC	Materials	15.0	3,559,700	1,735,647	2.1	BUY
KDC	Consumer Staples	5.3	2,651,415	1,451,489	1.8	N.A.
GEX	Industrials	8.2	11,084,716	6,477,447	1.7	BUY
KDH	Real Estate	5.3	4,075,490	2,387,762	1.7	BUY
SHB	Financials	12.2	29,990,698	18,178,063	1.6	N.A.
PDR	Real Estate	9.2	11,168,073	7,098,817	1.6	N.A.
EIB	Financials	10.8	15,045,516	11,085,746	1.4	N.A.
FRT	Consumer Discr.	3.3	488,527	398,220	1.2	BUY
MSN	Consumer Staples	28.2	9,929,850	9,834,104	1.0	BUY
KBC	Real Estate	7.4	6,914,906	6,926,968	1.0	BUY
STB	Financials	4.8	3,688,632	14,062,630	0.3	BUY

Source: Vietcap

We believe that the stocks potentially benefiting from Vietnam's upgrade are influenced not only by capital inflows from passive funds but also by potential demand from active investors seeking fundamentally strong companies. Consequently, our top picks to benefit from the FTSE upgrade include stocks that Vietcap currently rates as OUTPERFORM or BUY, which also require the highest number of days for passive funds to accumulate positions. Our selections are **SAB, VCB, VNM, VHC,** and **SIP.**

In our estimate, brokerage stocks are highly correlated with ADTV, and an EM upgrade should lead to capital inflows from both passive and active funds, contributing positively to ADTV. We are bullish on securities given the market upgrade prospect. **SSI** is the only securities stock currently under our coverage.

Despite progress toward meeting FTSE Russell's criteria, we believe Vietnam is unlikely to satisfy all the requirements for reclassification in MSCI's Market Accessibility Review in June 2025. MSCI continues to highlight Vietnam's foreign ownership restrictions as a significant obstacle, alongside the prefunding requirement. While no substantial changes to these ownership limits are expected in the near term, MSCI may reconsider its position following a successful upgrade to EM status by FTSE Russell, as several other EM-classified markets also have similar restrictions.

Vietnam remains in the MSCI Frontier Markets Index

Morgan Stanley Capital International (MSCI) has assessed Vietnam's improvement in its rating for the Transferability criterion, citing increased uptake of off-exchange and in-kind transactions following regulatory changes. Besides this, Vietnam continues to work on market development plans to address certain accessibility issues, such as foreign ownership limits, prefunding requirements, and the lack of English disclosure of market information. MSCI will continue to closely monitor progress on these reforms.

Figure 10: MSCI market accessibility review of Vietnam, June 2024

MSCI Criteria	2024 Evaluation	2024
Openness to foreign ownership		
Investor qualification requirement		++
Foreign ownership limit (FOL) level	Companies in certain conditional sectors and sensitive sectors are subject to the relevant Foreign Ownership Limit.	-
Foreign room level	The equity market is significantly impacted by foreign room issues.	-
Equal rights to foreign investors	Some company-related information is not always readily available in English. In addition, the rights of foreign investors are limited as a result of the stringent foreign ownership limits imposed on both total, as well as individual, foreign investors.	-
Ease of capital inflows/outflows		
Capital flow restriction level		++
Foreign exchange market liberalization level	There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).	-
Efficiency of the operational framework		
Market entry		
Investor registration & account set up	Registration is mandatory and account setup requires the approval of the VSD.	+
Market organization		
Market regulations	Not all regulations can be found in English.	+
Information flow	Stock market information is not always disclosed in English and occasionally is not detailed enough.	-
Market infrastructure		
Clearing and Settlement	There are no overdraft facilities, and the prefunding of trades is required.	-
Custody		++
Registry/Depository		++
Trading		++
Transferability	Following changes in regulations, more types of off-exchange transactions and in-kind transfers can be executed without the need for regulatory pre-approval, leading to volumes for these transactions increasing significantly in recent years. However, VSDC typically takes several days to review required documentation before these transactions can be executed.	+
Stock lending		-
Short selling		-
Availability of Investment Instrument		++
Stability of institutional framework		+

++: no issues; +: no major issues, improvements possible; -: improvements needed/ extend to be assessed.

Source: MSCI

Vietcap

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Vietnam Macro

Summary outlook

Vietnam's exports are vulnerable to Donald Trump's incoming administration's trade policies

During his campaign, President-elect Donald Trump threatened to impose a blanket tariff of 10-20% on all imports and an additional 60%-100% on goods imported from China. On November 25, Mr. Trump announced his plan to charge Mexico and Canada a 25% tariff on all goods and an additional 10% tariff on goods imported from China with his first executive orders.

As we discussed in our Q3 Earnings Update, published on November 4, 2024, the US election result could impact Vietnam via two principal linkages – trade and monetary policy. As Vietnam's exports to the US account for 30% of Vietnam's total exports, Vietnam's exports and its export-oriented manufacturing sector could suffer from the incoming administration's trade policies. In addition, higher tariffs would likely lead to higher US inflation, relatively tighter US monetary policy, and a stronger US Dollar. This would increase the risk of depreciation in the VND vs the USD and relatively tighter SBV policy.

Fiscal stimulus to offset external risks and drive GDP growth in the next five-year period

The Ministry of Finance (MoF) has increased planned State spending for investment & development to VND790.7tn (USD31.6bn) in 2025, +16.7% vs the 2024 plan and 30% higher than the target shown in the Government's 2024-2026 Finance and State Budget plan submitted to the National Assembly in October 2023. In addition, we believe the Government will also revise the budget for investment & development expenditures in 2026 and 2027 to accommodate the ambitious GDP growth target of 7.5%-8.5% for the next five-year period, 2026-2030. Vietnam's public debt is estimated at around 36-37% of GDP in both 2024 and 2025, well below the National Assembly's legislative cap of 60%, implying comfortable room for further fiscal stimulus in the medium term.

We raise our 2025 GDP growth forecast to 7.2% from 6.8%. Factors to support economic growth in 2025 include the following:

1) Strong increase in State spending for investment & development target (+16.7% vs the 2024 plan and +30% vs the previous 2025 target). Extension of the 2% VAT cut to H1 2025 and 50% environment tax cut for petroleum in FY2025.
2) Continuing recovery in real estate and construction.
3) Increased domestic consumption as further growth in manufacturing and inbound tourism drive growth in household incomes, boosting consumer confidence and spending.
4) We expect the SBV to maintain a loose monetary stance to support the economy in 2025 and we forecast one increase in the deposit rate cap (up to 6M) of 25 bps by the end of 2025.

Downside risks to our forecast:

- US imposes high tariffs on imports from Vietnam, which could negatively affect Vietnam's exports, production, and FDI.
- Weaker-than-expected recovery in global growth, particularly a greater-than-expected slowdown in China, which could drag on Vietnam's exports, production, and tourism.
- Slower-than-expected improvement in domestic consumption and the real estate sector.
- Geopolitical and other global uncertainties: (1) The Russia – Ukraine conflict and (2) the Israel – Hamas conflict.
- Stronger-than-expected impact of climate change and La Niña (could extend to January 2025), which could negatively affect the agriculture sector.

Potential upside to our forecast:

- Faster recovery in domestic consumption and the real estate sector.
- Faster-than-expected global growth, especially in the US and China, that could drive a stronger recovery in Vietnam's trade and production.

We forecast GDP growth of 7.5% in both 2026 and 2027. We expect fiscal spending to be the key driver for economic growth in the next five-year period of 2026-2030. In addition, we expect an ongoing recovery of the real estate sector and consumption.

Other key macro forecasts:

- **We expect FDI disbursement to remain solid, with average growth of 7.5% per annum to USD26.5-31bn in 2025/26/27**, due to 1) the recent upgrades of diplomatic ties between Vietnam and the US, Japan, Australia, France, UAE, Malaysia, and potentially Singapore in 2025, 2) ongoing investment diversification out of China from foreign companies amid continued trade tensions between the US and China, and 3) Vietnam's fundamental advantages (e.g., location, low labor costs, and a long list of free trade agreements).
- **We cut our export and import growth forecasts for 2025 from 11.0% and 11.5% to 6.5% and 7.0%, respectively** (equivalent to a trade surplus of USD26.8bn) due to a higher base in 2024 and we believe part of the import demand for 2025 from the US was executed before the new presidential term which will start in January 2025. Additionally, we expect improvement in 2026/27 with respective export and import growth forecasts of 8.5%/8.5% and 8.8%/8.0% (equivalent to a trade surplus of USD29bn/USD33.5bn).
- **We expect lower inflationary pressure in 2025 (avg. CPI 3.2%)** vs 2024 (avg. CPI 3.8%) due to potential declines in prices of rice (-12% YoY – according to the Bloomberg consensus forecast) and oil prices (-12.5% YoY – Vietcap forecast). However, we expect higher inflationary pressure in 2026/27 (avg. CPI 3.8% in 2026/27) as we expect the Government will not continue to extend the VAT and environmental tax cut for domestic petroleum, while the Government might hike prices of other services under its management.
- **We expect the USD/VND exchange rate to remain stable in 2025/26/27.** The US presidential election result could continue to support the DXY Index in the first quarter of 2025 and could limit Fed rate cuts to some extent. However, according to the Bloomberg consensus forecast, the DXY Index will gradually decline toward end-2025 and 2026. In addition, we continue to expect solid foreign inflows from FDI, remittances, a merchandise trade surplus, and a narrowing services trade deficit to support the SBV in managing the USD/VND exchange rate.

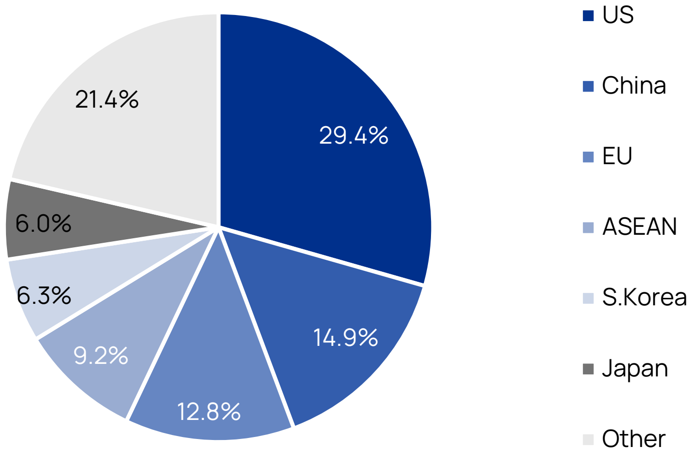
US election outcome and impact on Vietnam

Vietnam's exports are vulnerable to the incoming Trump Administration's trade policies

During his campaign, President-elect Donald Trump threatened to impose a blanket tariff of 10-20% on all imports and an additional 60%-100% on goods imported from China. On November 25, Mr. Trump announced his plan to charge Mexico and Canada a 25% tariff on all goods and an additional 10% tariff on goods imported from China in his first executive orders.

As we discussed in our Q3 Earnings Update published on November 4, 2024, the outcome of the US election could impact Vietnam via two principal linkages – trade and monetary policy. As Vietnam's exports to the US accounts for 30% of Vietnam's total exports, Vietnam's exports and its export-oriented manufacturing sector could suffer from the Trump Administration's upcoming trade policies. In addition, higher tariffs would likely lead to higher US inflation, relatively tighter US monetary policy, and a stronger US Dollar. This would increase the risk of depreciation in the VND vs the USD and relatively tighter SBV policy.

Figure 11: Top export markets in 10M 2024



Source: Vietnam Customs, Vietcap

We look at the impacts of Mr. Trump administration's potential trade policies on Vietnam's macroeconomy in the following three scenarios:

Figure 12: Scenario analysis

	Scenario 1	Scenario 2	Scenario 3
Description	Blanket tariffs on all countries	Higher tariffs on China	Higher tariffs on top trade deficit partner
Possible tariff rate	10% - 20% on all countries	10 – 20% all countries; 60% - 100% on China	Higher tariffs on Vietnam vs other countries (only lower than China)
Impact on Vietnam's exports	Slightly Negative ⬇	Slightly Positive ⬆	Negative ⬇
Impact on Vietnam's FDI inflows	Neutral ➡	Positive ⬆	Negative ⬇

Source: Vietcap

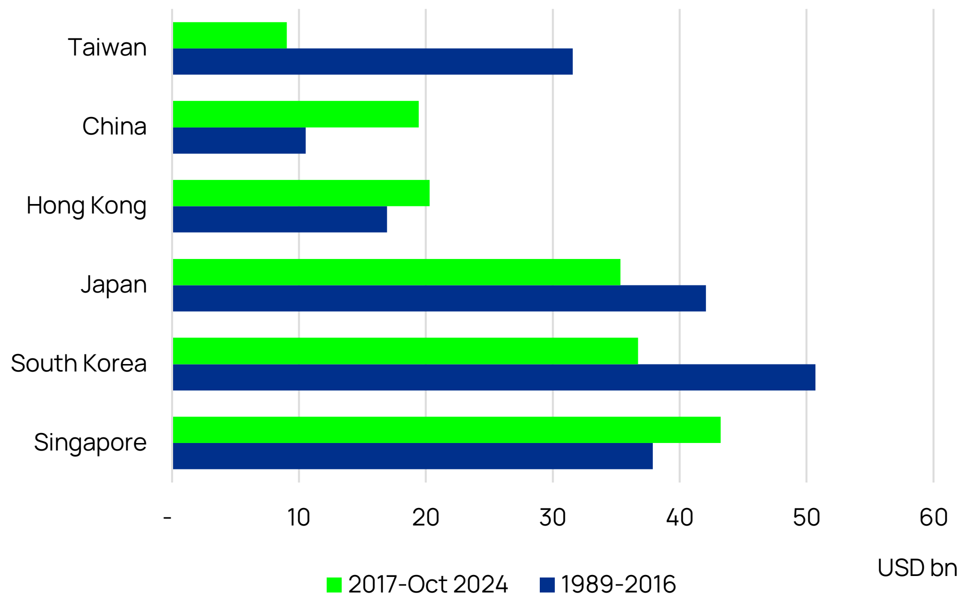
Scenario 1: 20% tariffs on all countries

A blanket tariff of 10% or 20% on all countries would have no impact on the competitiveness of Vietnam's exports relative to other countries. However, higher tariffs mean higher prices for goods selling in the US and a narrower purchasing power from US consumers, which could slightly affect Vietnam's export volume to the US.

Scenario 2: Higher tariffs on China vs other countries

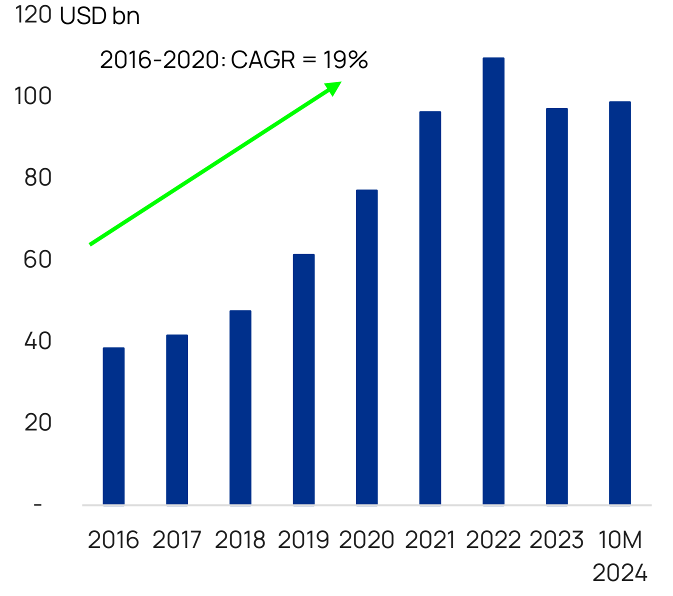
Tariffs would hurt everyone. However, under this scenario, we expect Vietnam could earn a higher share of goods exports to the US, which could help to offset the impact on lower demand from the US overall. In addition, we expect for Vietnam to continue to be a beneficiary from the ongoing shifting trend of FDI moving from China to Vietnam. This scenario would put Vietnam in a similar scenario as in Mr. Trump's first term. Vietnam's exports to the US increased significantly from USD38.5bn in 2016 to USD77.1bn in 2020 (CAGR of 19%). Furthermore, Vietnam's share of US imports expanded from 1.9% in 2016 to 3.5% in 2020. Also, FDI from China to Vietnam has surged impressively since 2017, posting around USD20bn during 2017-10M 2024, nearly double the cumulative figure recorded during 1989-2016.

Figure 13: FDI registration by select countries



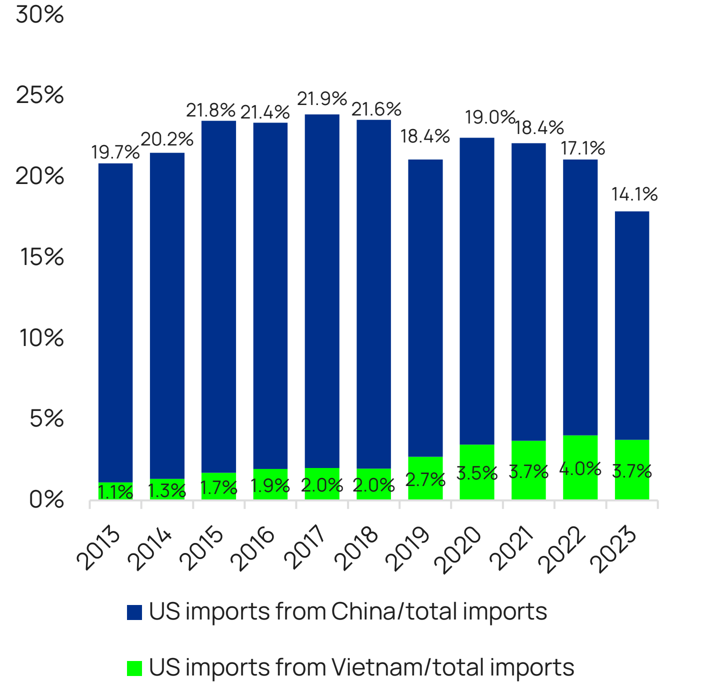
Source: MPI, Vietcap

Figure 14: Vietnam's exports to the US



Source: Vietnam Customs, Vietcap

Figure 15: China and Vietnam's shares in total US imports



Source: ITC, Vietcap

Scenario 3: Higher tariffs on top trade deficit partners

According to the US Treasury's report on "Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States," during the four quarters through June 2024, Vietnam posted a USD113.3bn goods trade surplus with the US (vs USD32bn in 2016), ranking third among the US's top 21 trading partners (after China with USD247bn and Mexico with USD159bn). Given its large trade surplus with the US, Vietnam could be exposed to the risk of higher tariffs compared to other countries. Under this scenario, Vietnam's exports, production, and FDI could be negatively impacted. This scenario would require the Government to implement strong support measures to limit the negative impacts of higher tariffs. Potential measures could include encouraging imports from the US, expanding export markets, raising public investment and other fiscal measures, while keeping a low domestic interest rate environment.

Vietnam sets ambitious economic growth plan for 2026-2030

The Government set a GDP growth target of 7.5% - 8.5% for 2026-2030

Even though the Government set its plan for GDP growth for 2025 at 6.5%-7.0%, which is higher than 2024's plan, the Government aims to achieve GDP growth that surpasses the plan at 7.0-7.5% in 2025, in order to rank 31st-33rd globally in terms of GDP by the end of 2025.

In addition, according to the Government's report presented by the Prime Minister at the 8th session of the 15th National Assembly, the Government set high targets for several main socio-economic metrics, in which average GDP growth is targeted at 7.5%-8.5% (vs 6.5%-7.0% for 2021–2025). Other key targets include GDP per capita (USD7,400–USD7,600 as of 2030), the proportion of the processing and manufacturing industry in GDP (28%-30% vs above 25% in 2021 – 2025), and average growth rate of labor productivity (6.5%-7.5% vs over 6.5% in 2021–2025).

Figure 16: 2024 estimates and 2025 plan for 15 key socio-economic targets

#	Key socio-economic targets	2024 plan	2024 estimates	2025 plan
1	GDP growth	6% - 6.5%	Around 7%	P1: 6.5% - 7.0%
				P2: 7.0% - 7.5%
2	GDP per capita	USD4,700 - USD4,730	Around USD4,647	USD4,980 - USD5,000
3	Proportion of processing and manufacturing industry in GDP	24.1% - 24.2%	Around 24.1%	24.10%
4	Average CPI	4% - 4.5%	< 4.5%	Around 4.5%
5	Average growth rate of labor productivity	4.8% - 5.3%	Around 5.56%	5.3% - 5.4%
6	Proportion of agricultural labor in total social labor	26.5%	26.5%	25%
7	Percentage of trained workers	69%	69%	70%
	In which, the proportion of trained workers with degrees and certificates	28% - 28.5%	28%	29% - 29.5%
8	Unemployment rate in urban areas	< 4%	< 4%	< 4%
9	Reduction in poverty rate (according to multidimensional poverty standards)	> 1%	> 1%	0.8 % - 1%
10	Number of doctors per 10,000 people	13.5 doctors	14 doctors	15 doctors
11	Number of hospital beds per 10,000 people	32.5 beds	34 beds	34.5 beds
12	Percentage of population participating in health insurance	94.1%	94%	95.2%
13	Percentage of communes meeting new rural standards	80%	79% - 80%	80.5% - 81.5%
14	The rate of collection and treatment of urban solid waste in line with standards and regulations	95%	95%	90%
15	Percentage of industrial parks and export processing zones in operation with centralized wastewater treatment systems meeting environmental standards	92%	92%	92%

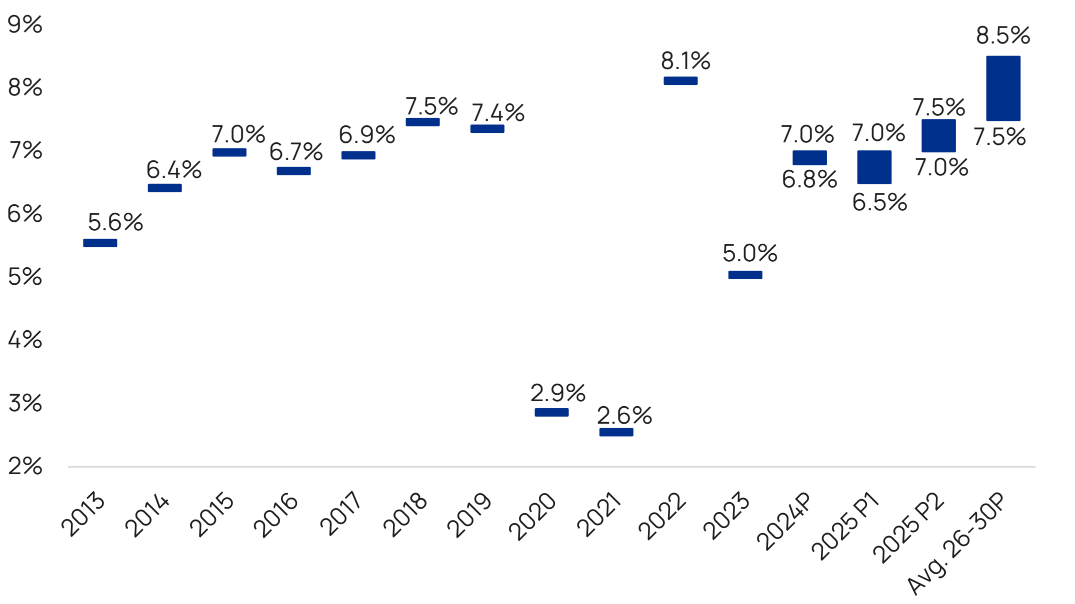
Source: Vietcap compilation

Figure 17: 2021-2025 estimates and 2026-2030 plan for key socio-economic targets

#	Key socio-economic targets	2021-2025 plan	2021-2025 estimates	2026-2030 plan
1	GDP growth	6.5% - 7%	P1: 5.8% - 6.0%	7.5% - 8.5%
			P2: 5.9% - 6.1%	
2	GDP per capita	USD4,700 - USD5,000	USD4,980 - USD5,000	USD7,400 - USD7,600
3	Proportion of processing and manufacturing industry in GDP	> 25%	24.50%	28% - 30%
4	Proportion of digital economy	Around 20%	19% - 20%	25% - 30%
5	Contribution of total factor productivity (TFP) to growth	Around 45%	42%	
6	Average growth rate of labor productivity	> 6.5%	4.80%	6.5% - 7.5%
7	Urbanization rate (Ratio of urban population in the total population of the country)	Around 45%	45%	
8	Average State budget deficit	3.7%	< 3.7%	< 5%
9	Average lifespan	74.5	74.6	
10	Proportion of agricultural labor in total social labor	Around 25%	Around 25%	
11	Percentage of trained workers	70%	70%	
	In which, the proportion of trained workers with degrees and certificates	28% - 30%	29% - 29.5%	35% - 40%
12	Unemployment rate in urban areas	< 4%	< 4%	
13	Reduction in poverty rate (according to multidimensional poverty standards)	1% - 1.5%	1%	1% - 1.5%
14	Number of doctors per 10,000 people	10 doctors	15 doctors	
15	Number of hospital beds per 10,000 people	30 beds	34.5 beds	
16	Percentage of population participating in health insurance	95%	95.16%	
17	Percentage of communes meeting new rural standards	> 80%	80.5% - 81.5%	
18	Percentage of rural households using clean water according to standards	60%	60%	
19	Rate of collection and treatment of urban solid waste in line with standards and regulations	90%	90%	
20	Percentage of industrial parks and export processing zones in operation with centralized wastewater treatment systems meeting environmental standards	92%	92%	
21	Forest cover rate	42%	42%	42%

Source: Vietcap compilation

Figure 18: Vietnam's GDP growth and targets to 2030



Source: Vietcap compilation

Fiscal stimulus to be the main driver for growth in the next 5Y period

Government proposes to extend VAT cut and environmental tax cut on domestic petroleum

On November 30, the National Assembly approved the Government's proposal to extend the 2% VAT cut to H1 2025. In addition, the Ministry of Finance also proposed to extend the 50% environmental tax cut on domestic petroleum until the end of 2025. The extension of the tax cuts could help to restrain inflation, support consumption, and enhance economic growth.

Public investment plan for 2025 increased by 30%

On October 22, 2024, during the 8th session of the 15th National Assembly, the MoF presented a report on the implementation progress of the State budget in 2024 and the State budget allocation plan for 2025. Accordingly, State budget revenue for 2025 is targeted at VND1,966.8tn (USD78.7bn), increasing 15.6% vs the 2024 plan. Meanwhile, the 2025 State budget expenditure plan is targeted at VND2,548.9tn (USD102.0bn), a 20.3% increase vs the 2024 plan. Of the total budget expenditure, State spending for investment & development is targeted at VND790.7tn (USD31.6bn) in 2025, +16.7% vs the 2024 plan. Notably, this target is 30% higher than the target shown in the Government's 2024-2026 Finance and State Budget plan submitted to the National Assembly in October 2023.

Low public debt level offers comfortable room for further stimulus in the medium term

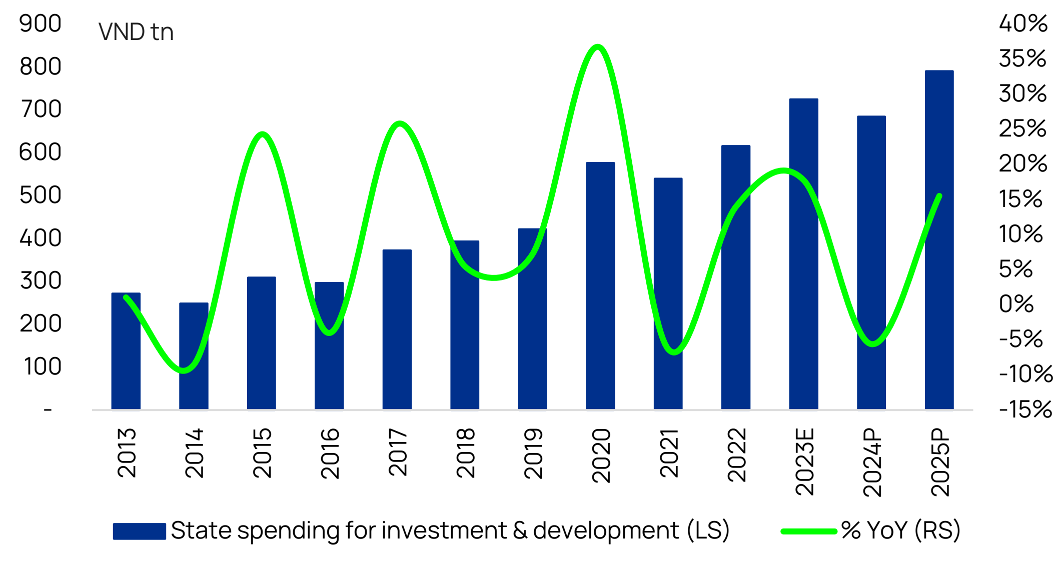
The MoF estimates a fiscal deficit of VND389.4tn (USD15.8bn; representing around 3.4% of GDP) in 2024 and a fiscal deficit of VND471.5tn (USD19.1bn; around 3.8% of GDP) in 2025. In addition, public debt is estimated at around 36-37% of GDP in both 2024 and 2025. We expect that the increase in fiscal expenditures could help to further support economic growth in 2025, while public debt level is well below the National Assembly's legislative cap of 60%, implying comfortable room for further fiscal stimulus in the medium term.

Figure 19: State budget 2025 - new plan vs previous plan

Unit: VND tn	2025 Previous Plan	2025 New Plan	% Change
Budget revenue	**1,714.3**	**1,966.8**	**14.7%**
Domestic revenue	1,456.3	1,668.3	14.6%
Revenue from crude oil	42.0	53.2	26.7%
Revenue from exports-imports	212.0	235.0	10.8%
Budget expenditures	**2,140.0**	**2,548.9**	**19.1%**
Current expenditures	1,221.8	1,554.6	27.2%
Investment & development	605.5	790.7	30.6%
Interest repayment	120.4	110.5	-8.2%
Budget balance	**-425.7**	**-471.5**	**10.8%**

Source: Ministry of Finance, Vietcap compilation

Figure 20: State spending for investment & development



Source: Ministry of Finance, Vietcap compilation

North-South High-Speed Railway could add 1.0 ppts to GDP growth annually

In Vietnam's draft 2026-2030 economic development strategy, the Government has planned to develop many mega infrastructure projects throughout the country, including Long Thanh International Airport, the North-South High-Speed Railway, the Lao Cai - Hanoi - Hai Phong - Quang Ninh Railway, Hanoi Ring Roads 4 & 5, Ho Chi Minh Ring Roads 3 & 4, and the Can Gio International Transshipment Port.

Notably, the North-South High-Speed Railway, which is highly likely to be approved in the 8th session of the 15th National Assembly, with total capital of around USD67bn, is estimated to add 1.0 ppts to GDP growth per year over 12 years.

Figure 21: Select key infrastructure projects during 2025 to 2030

Project	Total investment capital	Total length	Note
Expressway: Aim to have 3,000 km in 2025 and 5,000 km in 2030			
- North-South Expressway - Phase 1	VND88.1tn (USD3.5bn)	666 km	Finished (mid-2024).
- North-South Expressway - Phase 2	VND147tn (USD5.9bn)	721 km	Ongoing, expected to finish in 2025.
- HCMC Ring Road No.3	VND75.4tn (USD3bn)	90 km	Ongoing, launched in mid-2025, expected to finish by 2026.
- Hanoi Ring Road No.4	VND85.8tn (USD3.4bn)		Ongoing, basic completion by 2026, full operations in 2027.
- Hoa Binh - Moc Chau Expressway	VND10tn/USD395.3mn	34 km	Construction started on September 29, 2024, expected to be completed on December 31, 2027.
- Bac Kan - Cao Bang Expressway	VND18tn/711.5mn	90 km	Investment is expected in the period 2026 – 2030.
- Quy Nhon-Pleiku Expressway	VND37.6tn/USD1.5bn	143 km	Basic construction to finish by 2030.
- North-South Expressway West, section Gia Nghia (Dak Nong) - Chon Thanh (Binh Phuoc)	VND25.5tn/USD1.0bn		Construction started in 2024; planned to operate in 2027.
- Hanoi Ring Road No. 5, Hanoi region			
- HCMC Ring Road No.4 - Phase 1	VND122.8tn/USD4.9bn	159 km	Construction to start in Q3 2026.
Railway			
- North-South High-Speed Railway	VND1,714tn/USD67.7bn	1,541 km	Expected to start in 2027 and finish by 2035.
- Lao Cai - Hanoi - Hai Phong - Quang Ninh Railway (connect with China)	VND160.8tn/USD6.4bn (Phase 1)		The Lao Cai - Hanoi - Hai Phong - Quang Ninh railway route could have a single track be completed by 2030.
- Metro Ben Thanh - Tham Luong	VND47.9tn/USD1.9bn (2019 estimation)	11 km	Construction to start in 2025 and is expected to be completed by 2030.
Port			
- Can Gio International Transshipment Port (7 phases)	VND113tn (USD4.9bn)		Expected to start in 2025.
- Lien Chieu Port, Da Nang	Total: VND48.3tn/USD1.9bn - 3 phase		Phase 1 (44.6 ha): VND3.4tn/USD134.4mn (Public investment) - expected to complete by 2025 Phase 2 (106.8 ha) + Phase 3 (80.7 ha): VND44.9tn/USD1.8bn (Private investment) - expected to be completed by 2030 and 2050, respectively.
- Cai Mep Ha Logistics Center	VND50.8tn/USD2.0bn (estimation)		There are several of candidates, including: Gemadept Group and a joint venture of State Capital Investment Corporation (SCIC) - Geleximco Group - International Transport and Trading Joint Stock Company (ITC)
International airport			
- Long Thanh International Airport - Phase 1	VND114.5tn/USD4.5bn		Ongoing, basic construction to be completed by 2026

Source: Vietcap compilation

GDP

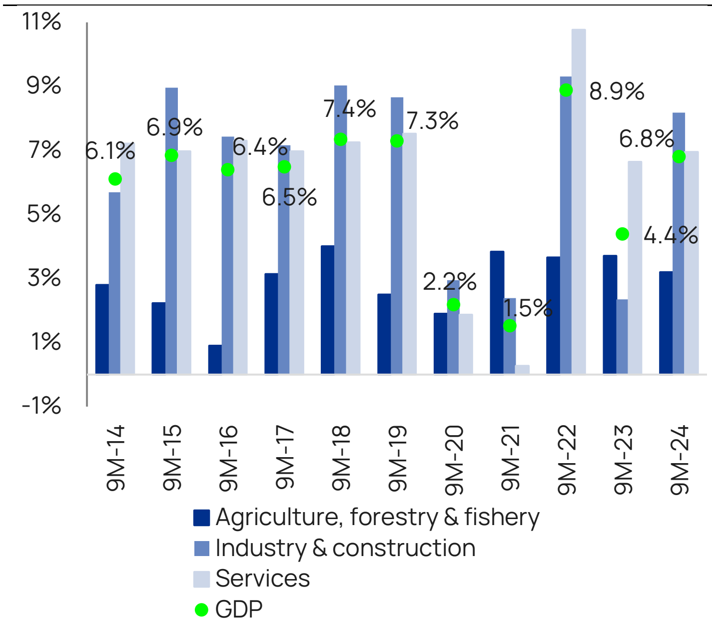
GDP growth reached second highest level in five years

According to the General Statistics Office of Vietnam, Vietnam's GDP increased 7.4% YoY in Q3 2024 (Q3 2023: +5.5% YoY), bringing GDP growth in 9M to 6.8% YoY (9M 2023: +4.4% YoY). The GDP in Q3 and 9M 2024 experienced the second highest Q3 and 9M growth in five years (only lower than 13.9% YoY growth in Q3 2022 and 9.0% YoY growth in 9M 2022).

The performances of the three main economic sectors were as follows:

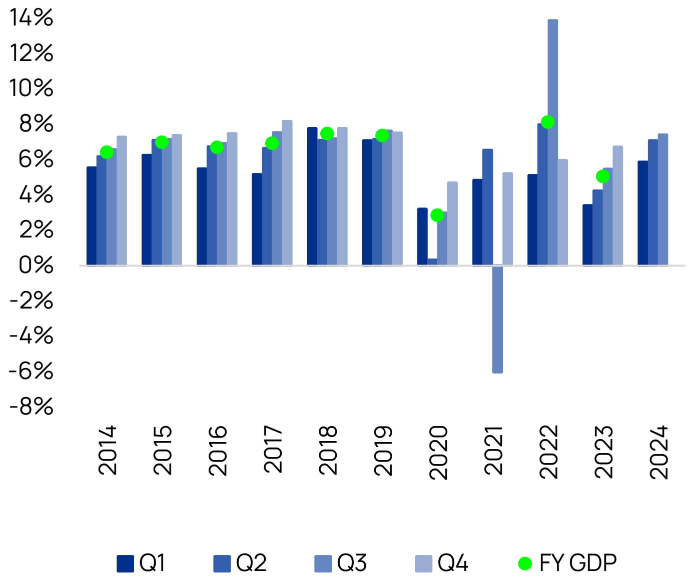
- The services sector remained the largest driver for GDP growth, increasing 7.5% YoY in Q3 and 6.9% YoY in 9M 2024 (Q3 2023: +6.4% YoY & 9M 2023: +6.6% YoY) and contributing 48.4% to GDP growth in 9M 2024. Within the services sector, transportation & storage (+11.1% YoY), administrative & support service activities (+10.2% YoY), accommodation & catering services (+8.8% YoY), financial intermediation & insurance (+8.4% YoY), and wholesale & retail trade (+8.0% YoY) saw strong growth.
- The industrial & construction sector recorded the highest growth with 9.1% YoY in Q3 2024 and 8.2% YoY in 9M 2024 (Q3 2023: +5.2% YoY & 9M 2023: +2.4% YoY), contributing 46.2% to overall GDP growth in 9M 2024. Notably, the manufacturing sub-sector surged 11.4% YoY in Q3 2024 (Q3 2023: +5.6% YoY) – the highest growth in six years, bringing growth in 9M 2024 to 9.8% YoY (9M 2023: +1.9% YoY).
- Additionally, the agriculture, forestry & fishery sector, suffered heavily from Typhoon Yagi, only growing 2.6% YoY in Q3 and 3.2% YoY in 9M 2024 (Q3 2023: +4.3% YoY & 9M 2023: +3.7% YoY), contributing 5.4% to overall GDP growth.

Figure 22: GDP growth by sector



Source: GSO, Vietcap

Figure 23: GDP growth by quarter



Source: GSO, Vietcap

Figure 24: Agriculture, forestry & fishery GDP growth

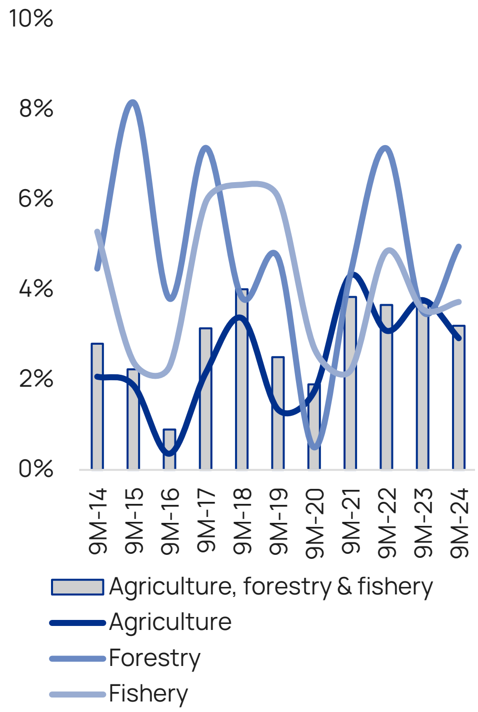


Figure 25: Industry & construction GDP growth

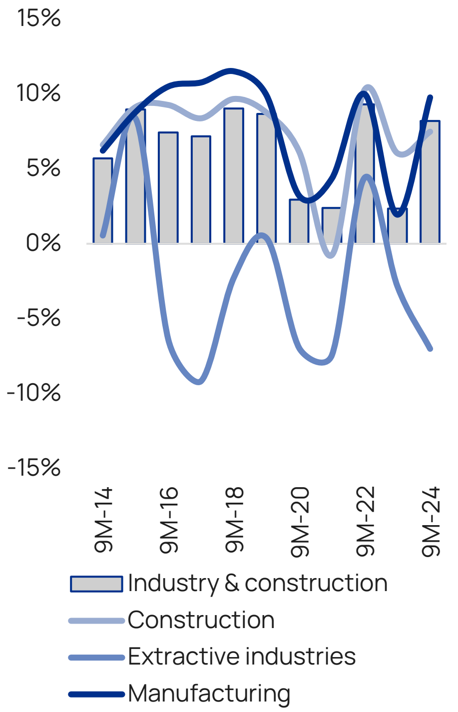
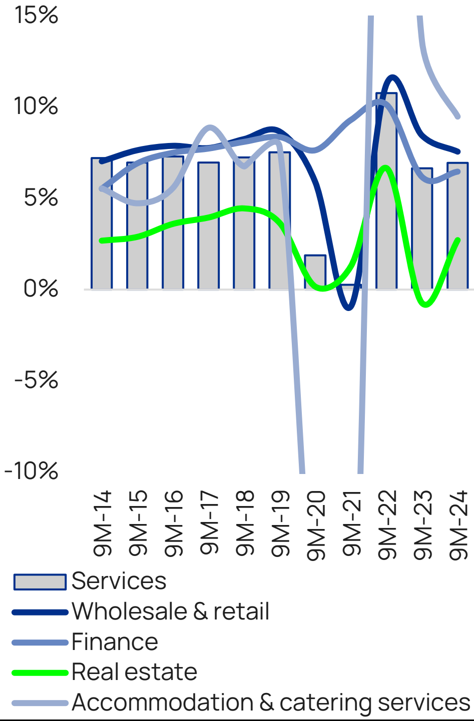


Figure 26: Services sector GDP growth



Source: GSO, Vietcap

Outlook: **We forecast 2024 GDP growth at 6.9% and we raise our 2025 GDP growth forecast to 7.2% from 6.8%.** Key factors to support economic growth in 2025 include the following:

1) **Strong expansion in State spending for investment & development target** (+16.7% vs 2024 plan and +30% vs previous 2025 target - see more in our Macro Note Published on October 23, 2024).

2) **Continuing recovery in real estate and construction:** We project market transactions to strengthen in Q4 2024 and 2025, supported by sustained demand for real living purposes; a return of investment buyers to select landed property products; growth in new primary supply and improving homebuyer confidence (see more in our Sector flash published on October 25, 2024).

3) **Improving domestic consumption:** Increased domestic consumption as further growth in manufacturing and inbound tourism drive growth in household incomes, boosting consumer confidence and spending.

4) **SBV to maintain a loose monetary stance in 2025:** We expect the SBV to maintain a loose monetary stance to support the economy in 2025 and we forecast one increase in the deposit rate cap (up to 6M) of 25 bps by the end of 2025.

Downside risks to our forecast:

- US imposes high tariffs on imports from Vietnam (as discussed in Scenario 3), which could negatively affect Vietnam's exports, production, and FDI.
- Weaker-than-expected recovery in global growth, particularly a greater-than-expected slowdown in China, which could drag on Vietnam's exports, production, and tourism.
- Slower-than-expected improvement of domestic consumption and the real estate sector.
- Geopolitical and other global uncertainties: (1) The Russia – Ukraine conflict and (2) the Israel – Hamas conflict.

- Stronger-than-expected impact of climate change and La Niña (could extend to January 2025), which could negatively affect the agriculture sector.

Potential upside to our forecast:

- Faster recovery in domestic consumption and the real estate sector.
- Faster-than-expected global growth, especially in the US and China, that could drive a stronger recovery in Vietnam's trade and production.

We also raise our 2026F GDP growth forecast from 7.0% YoY to 7.5% YoY and project 2027F GDP growth of 7.5% YoY. We expect public investment will be one of the key factors driving Vietnam's economic growth in the medium term (2026 – 2030). Despite the current plan for public investment in 2026 and 2027 being lower compared to 2025 (2026 plan: -14.8% vs 2025 plan; 2027: -13.4% vs 2025 plan), we expect the Government could revise up its public investment plan in 2026 and 2027 as the interim public investment plans for 2026 and 2027 are not commensurate with the ambitious GDP growth target for 2026-2030 (7.5%-8.5%). Furthermore, in its 2026-2030 economic development strategy, Vietnam's government plans to develop many mega infrastructure projects, particularly the North-South High-Speed Railway with total capital at around USD67bn, which could add 1.0 ppts to GDP growth annually over 12 years.

Industrial Production

Production continued to grow after Typhoon Yagi

In October, the overall index of industrial production (IIP) grew 7.0% YoY, in which the manufacturing sub-sector IIP increased 8.8% YoY. In 10M 2024, the overall IIP and manufacturing IIP increased 8.3% YoY and 9.6% YoY, respectively.

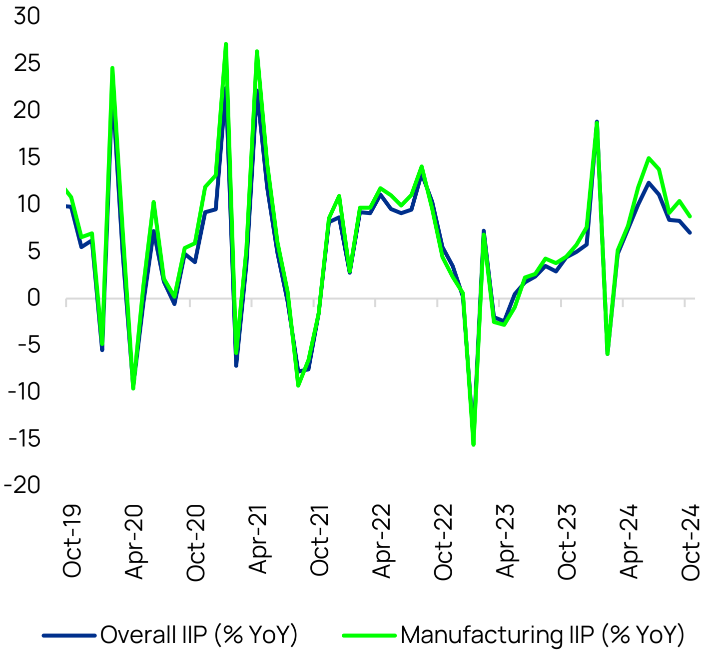
Almost all manufacturing subsectors in 10M 2024 posted growth, in which nearly half posted double-digit growth. Strong growth was seen in production of rubber & plastic products (+26.3% YoY), furniture (+24.8% YoY), coke & refined petroleum products (+16.0% YoY), and chemicals & chemical products (+14.6% YoY). In contrast, two lagging subsectors include production of, repair, maintenance, & installation of machinery (-3.9% YoY) and other transportation vehicles (-0.4% YoY).

Figure 27: IIP growth by sector in October 2024

	MoM	YoY	10M 2024 vs 10M 2023
Overall IIP	4.0%	7.0%	8.3%
Extractive industries	13.8%	-10.4%	-7.2%
Manufacturing	3.6%	8.8%	9.6%

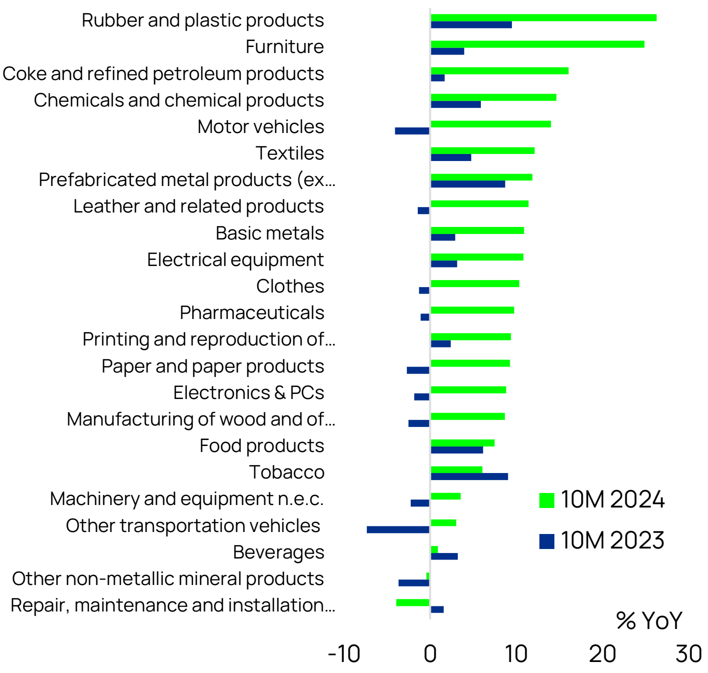
Source: General Statistics Office of Vietnam (GSO), Vietcap

Figure 28: Monthly IIP



Source: GSO, Customs, Vietcap

Figure 29: IIP of manufacturing sub-industries



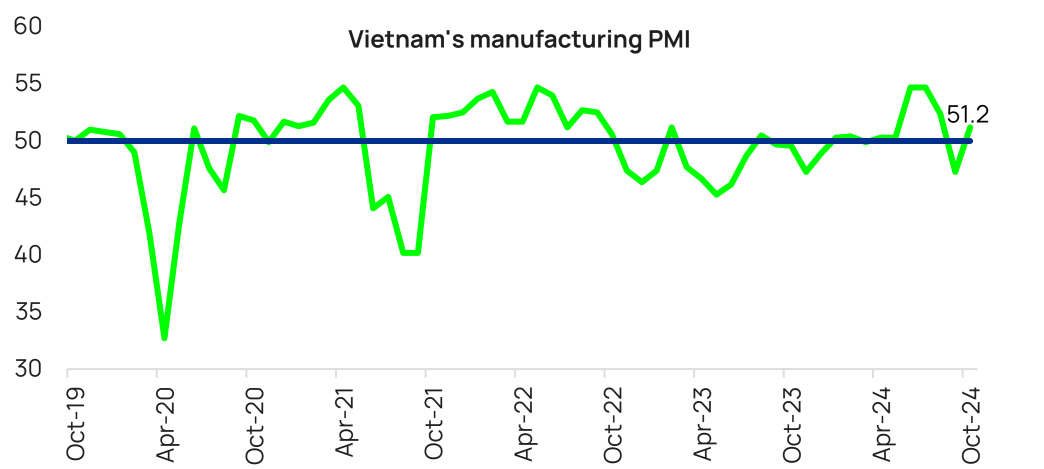
Source: GSO, Vietcap

Vietnam manufacturing recovered after Typhoon Yagi

In line with our expectation, Vietnam's manufacturing began recovering after the impact of Typhoon Yagi in September. In October, the S&P Global Vietnam Manufacturing Purchasing Managers' Index (PMI) rose to 51.2, up from 47.3 in September.

Output, new orders, and purchasing activity all returned to growth, though the rate of growth was marginal due to several companies continuing to experience disruptions following the storm and accompanying flooding in October. Additionally, inventories fell at the fastest rate in three months to meet orders when production was disrupted.

Figure 30: Purchasing Managers' Index (PMI)



Source: S&P Global, Vietcap

Outlook: For the last two months of 2024, we expect production could be supported by the recovery in new orders reported in October's PMI report, while more firms may return to full capacity toward the holiday season (Christmas, the New Year, and Lunar New Year).

In 2025, we expect production could maintain solid growth due to the following factors:

- Exports continue to grow even at a slower pace vs 2024.
- Domestic consumption is expected to improve further in 2025.
- Numerous new factories could start commercial production in 2025 including: (1) Vung Ang 2 Thermal Power Plant (USD2.2bn), (2) Nhon Trach 3 & Nhon Trach 4 Power Plant (USD1.4bn); (3) the Lego Vietnam Factory (USD1.3bn); and (4) Thanh Cong Viet Hung Automobile Factory, among others.
- The 2% VAT cut in H1 2025 and 50% reduction of the environmental protection tax on domestic petroleum in 2025 could help to ease production costs and stimulate demand.
- Spillover effect of increasing construction activities due to higher public investment disbursement.

Consumption

Retail sales continued to post decent growth

Total retail sales of goods & services continued to increase 7.1% YoY in October, bringing total retail sales in 10M 2024 to rise 8.5% YoY in nominal terms (vs +9.8% YoY in 10M 2023) and 4.6% YoY in real terms (vs +7.3% YoY in 10M 2023).

Of the total retail sales of goods & services in 10M 2024, retail sales of goods grew 7.8% YoY and were mainly driven by retail sales of food & foodstuffs (+10.7% YoY), textiles & garments (+8.7% YoY), household equipment (+8.0% YoY), vehicles (except cars) (+7.5% YoY), and culture & education (+6.6% YoY). In addition, retail sales of accommodation & catering services and tourism increased 12.5% YoY and 14.2% YoY, respectively, supported by the ongoing recovery of international arrivals. Notably, the total number of international arrivals reached 1.4 million in October (+27.6% YoY), bringing total international arrivals in 10M 2024 to 14.1 million (+41.3% YoY) – equivalent to 97.5% of the pre-pandemic level (China: 65.8%; others: 112.1%).

Outlook: Toward the end of 2024, we expect the ongoing recovery in international arrivals could continue to support retail sales. In addition, we expect an uptick in retail sales ahead of the holiday season at year-end. Also, several cities and localities have recently reported high recruitment demand towards year-end (HCMC: 47,000 – 50,000 people, Binh Duong: 20,000 - 25,000 people, and Dong Nai: 40,000 people).

We expect domestic consumption to improve further in 2025

We expect domestic consumption could tick up stronger in 2025 vs 2024 as further growth in manufacturing and inbound tourism could drive growth in household incomes, boosting consumer confidence and spending.

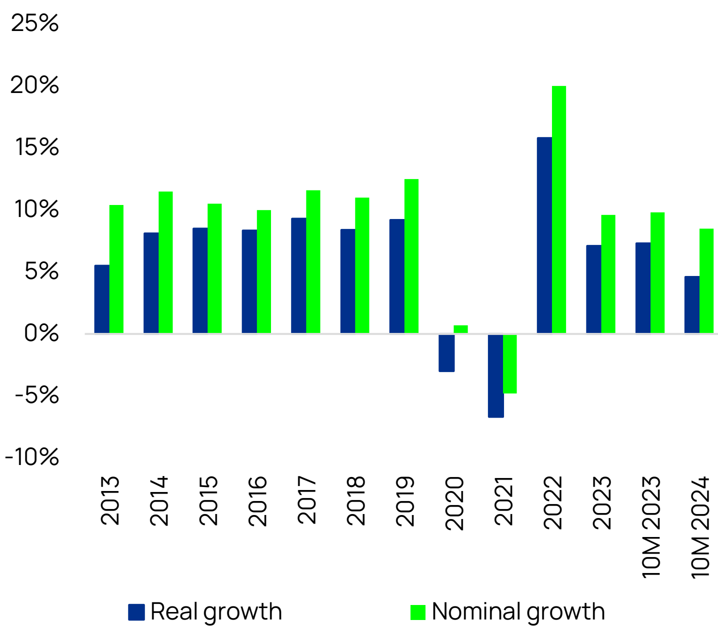
In addition, other factors continue to support domestic consumption including:

(1) Spillover effects of the 30% increase in the base salary of public sector employees effective from July 1, 2024;

(2) Extension of the 2% VAT cut until June 30, 2025, and the potential extension of reduced environmental protection taxes on gasoline and oil until December 31, 2025, could continue to support consumption; and

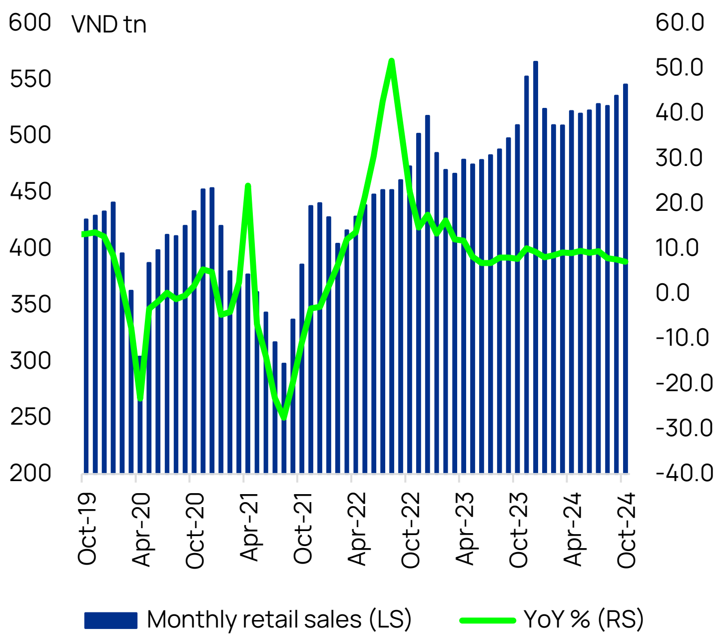
(3) the regional minimum wage could continue to increase in 2025.

Figure 31: Retail sales, YoY



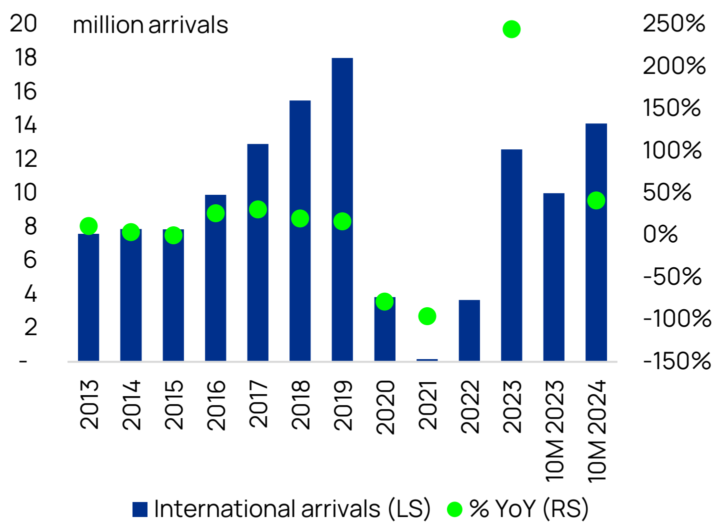
Source: GSO, Vietcap

Figure 32: Monthly retail sales



Source: GSO, Vietcap

Figure 33: International arrivals



Source: GSO, Vietcap

Figure 34: Monthly international arrivals

	Oct 2024 vs Oct 2019	10M 2024 vs 10M 2019
Total international arrivals	87.7%	97.5%
China	51.1%	65.8%
Excluding China	109.2%	112.1%

Source: GSO, Vietcap

State Budget

Budget revenue reached close to the annual target in 10M 2024

According to the MoF's preliminary estimates, total State revenue fell 5.4% to VND1,717.8tn (USD70.8bn), completing 106% of 2023's plan. Meanwhile, budget expenditures increased 10.9% YoY to VND1,731.9tn (USD71.4bn), fulfilling 83.4% of the annual plan. These figures led to a fiscal deficit of VND14.1tn (USD581.0mn), which is much lower than 2023's fiscal deficit plan of VND455tn (USD19bn).

Of the total budget revenue, domestic revenue edged down 0.3% YoY to VND1439.0tn (USD59.3bn). Additionally, revenue from crude oil and revenue from exports & imports dropped 19.5% YoY and 25.4% YoY to VND62.8tn (USD2.6bn) and VND 213.0tn (USD8.8bn), respectively, due to falling global crude oil prices and declines in exports and imports.

In terms of budget expenditures, spending for investment and development surged by 33.1% YoY to VND579.8tn (USD23.9bn), including USD72.7tn from the 2022-2023 recovery package, but this figure fulfilled only 79.8% of the annual plan approved by the National Assembly as 2023's budget plan for investment & development expenditures jumped 38% from 2022's plan. If investments using budgets transferred from previous years are included, total disbursements amounted to VND622tn (USD25.9bn).

Figure 35: Breakdown of State budget

Unit: VND tn	10M 2024	% YoY Growth	% of annual plan	2024E	2025P	2026P	2027P
Budget revenue	**1,654.2**	**97.2%**	**17.3%**	1,873	**1,967**	**1,942**	**2,021**
Domestic revenue	1,377.6	95.4%	18.1%	1,573	1,668	1,653	1,725
Revenue from crude oil	48.9	106.2%	-6.0%	59	53	53	53
Revenue from export-import	227.2	111.4%	18.9%	235	235	232	240
Budget expenditures	**1,399.7**	**66.0%**	**4.1%**	2,282	**2,549**	**2,399**	**2,501**
Current expenditures	956.3	75.9%	9.5%	1,275	1,555	1,538	1,628
Investment & development	355.6	52.5%	-8.7%	684	791	674	685
Interest repayment	85.8	76.8%	8.1%	111	111	125	125
Budget balance	**254.5**			(389)	(472)	(457)	(480)
Budget deficit/GDP				3.4%	3.8%	3.4%	3.2%

Source: Ministry of Finance, GSO, Vietcap compilation

Figure 36: State budget 2023-2024

Unit: VND tn	2023E	2024P	2024E	2024E vs 2024P
Budget revenue	**1,754.1**	**1,701.0**	**1,873.3**	**10.1%**
Domestic revenue	1,470.9	1,444.4	1,572.7	8.9%
Revenue from crude oil	62.0	46.0	59.3	28.9%
Revenue from exports-imports	218.6	204.0	235.2	15.3%
Budget expenditures	**2,109.9**	**2,119.4**	**2,281.7**	**7.7%**
Current expenditures	1,171.8	1,259.6	1,274.6	1.2%
Investment & development	725.0	677.3	684.4	1.0%
Interest repayment	89.3	111.7	111.3	-0.4%
Budget balance	**-355.8**	**-399.4**	**-389.4**	**-2.5%**

Source: Ministry of Finance, Vietcap compilation

Figure 37: State budget 2025 - new plan vs previous plan

Unit: VND tn	2025 Previous Plan	2025 New Plan	% Change
Budget revenue	**1,714.3**	**1,966.8**	**14.7%**
Domestic revenue	1,456.3	1,668.3	14.6%
Revenue from crude oil	42.0	53.2	26.7%
Revenue from exports-imports	212.0	235.0	10.8%
Budget expenditures	**2,140.0**	**2,548.9**	**19.1%**
Current expenditures	1,221.8	1,554.6	27.2%
Investment & development	605.5	790.7	30.6%
Interest repayment	120.4	110.5	-8.2%
Budget balance	**-425.7**	**-471.5**	**10.8%**

Source: Ministry of Finance, Vietcap compilation

Outlook: In Dispatch 85/CD-TTg, the Prime Minister called for 2024 State revenue to exceed the National Assembly's assigned target by 10%. With State revenue completing of 97.2% of the annual plan in 10M 2024, we expect for the Prime Minister's request to be achievable, allowing the Government to be more flexible in implementing fiscal measures to support Vietnam's economy. We also expect that the Government will put more effort in urging public investment disbursement to achieve 95% of the target in 2024.

The Government revised up its 2025 public investment plan: According to the 2025 State budget plan that the Government submitted to the National Assembly in October, 2024, State spending for investment & development is targeted at VND790.7tn (USD31.6bn) in 2025, +16.7% vs the 2024 plan and +30% vs the previous target (see more in our Macro Note Published in October 23, 2024). Furthermore, we expect public investment could be the key factor that drives Vietnam's economic growth in 2026 – 2030. Despite the current plan for 2026 and 2027 being low lower compared to 2025 (2026 plan: -14.8% vs 2025 plan; 2027: -13.4% vs 2025 plan), we expect that the Government could revise up its public investment plan in 2026 and 2027 as the interim public investment plan for 2026 and 2027 is not commensurate with the ambitious economic plan for 2026-2030 (7.5%-8.5%). In addition, Vietnam plans to develop many mega infrastructure projects in 2025-2030 (see Figure 21), with the North-South High-Speed Railway as the largest project with a total investment capital of around USD67bn, equivalent to an average disbursement of USD5.6bn per year over 12 years.

FDI

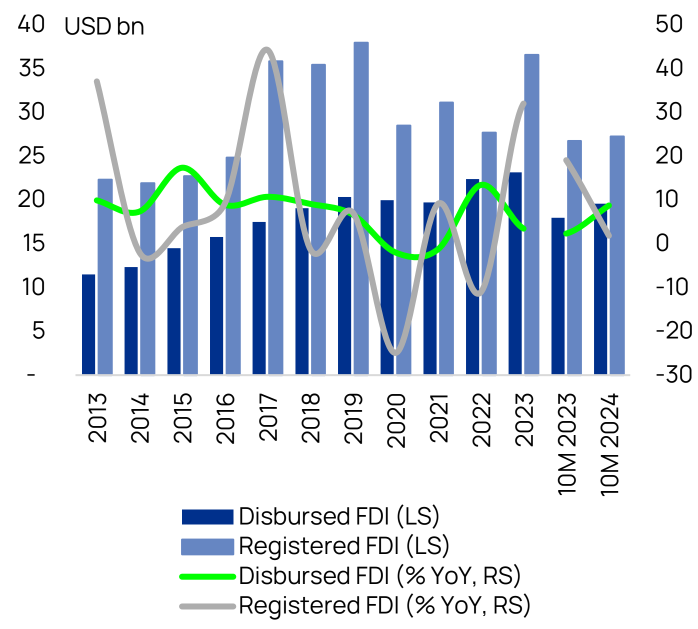
10M 2024 disbursed FDI hit highest level since 2012

In October, FDI disbursement reached USD2.2bn (+7.6% YoY), bringing 10M 2024 disbursed FDI (USD19.6bn; +8.8% YoY) to the highest 10M level since 2012. Additionally, FDI registration in October dropped 45.7% YoY to USD2.5bn due to the high base recorded in October 2023. In 10M 2024, FDI registrations increased 1.9% YoY to USD27.3bn.

Of the total FDI registrations, the manufacturing & processing sector (USD17.1bn) ranked first, accounting for 62.6% of the total FDI pledges in 10M 2024. The real estate sector ranked second with USD5.2bn, accounting for 19.2% of the total FDI pledges in 10M 2024.

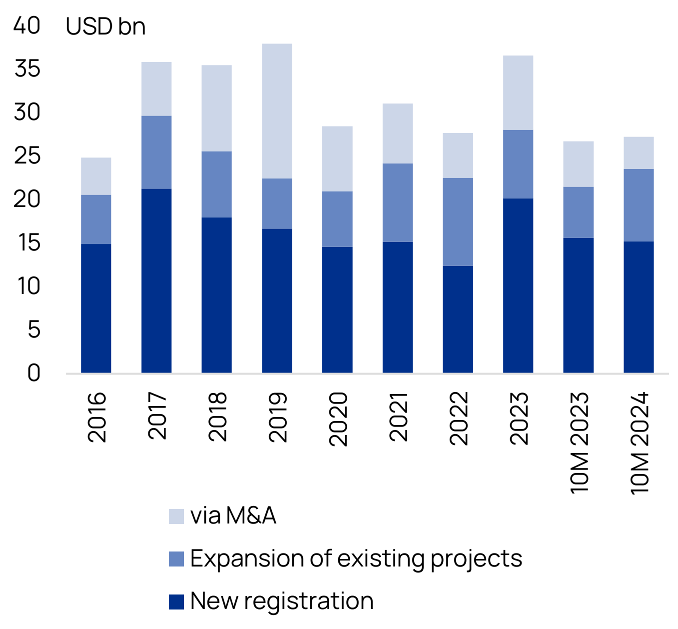
In terms of registration by country/region, Singapore remained at the forefront with USD7.8bn, accounting for 28.6% of the total registrations. Singapore was followed by China (USD3.6bn; 13.3%), South Korea (USD3.6bn; 13.0%), Japan (USD3.0bn; 11.1%), and Hong Kong (USD2.9bn; 10.6%).

Figure 38: Disbursed and registered FDI, growth



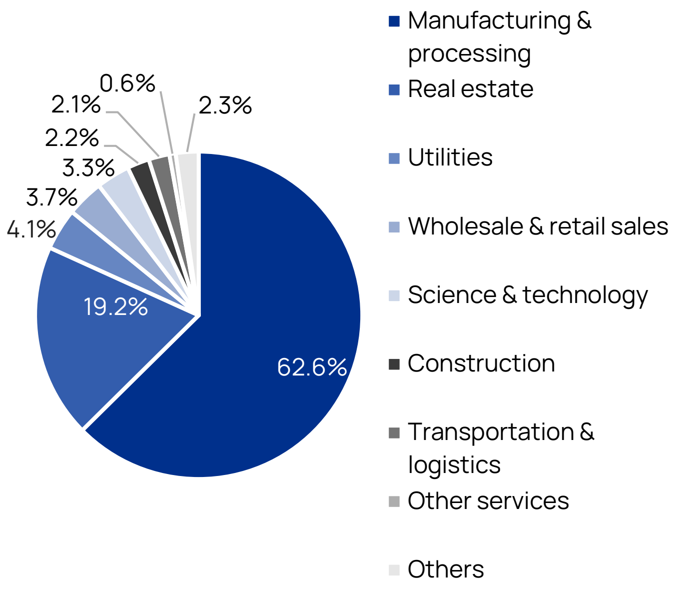
Source: MPI, Vietcap

Figure 39: Registered FDI by type



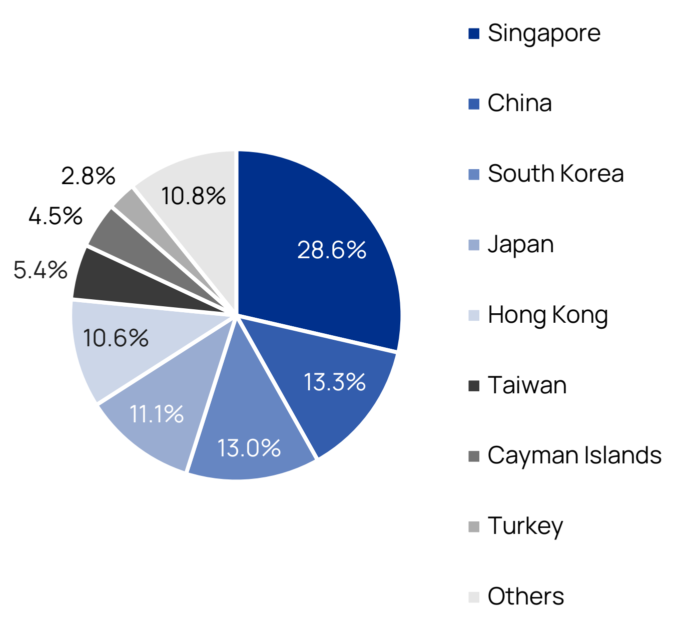
Source: MPI, Vietcap

Figure 40: Registered FDI by sector in 10M 2024



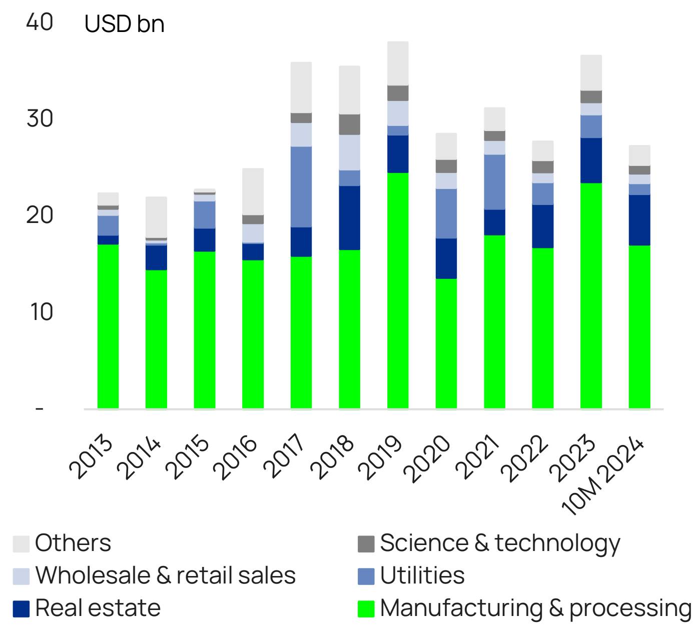
Source: MPI, Vietcap

Figure 41: Registered FDI by country/region in 10M 2024



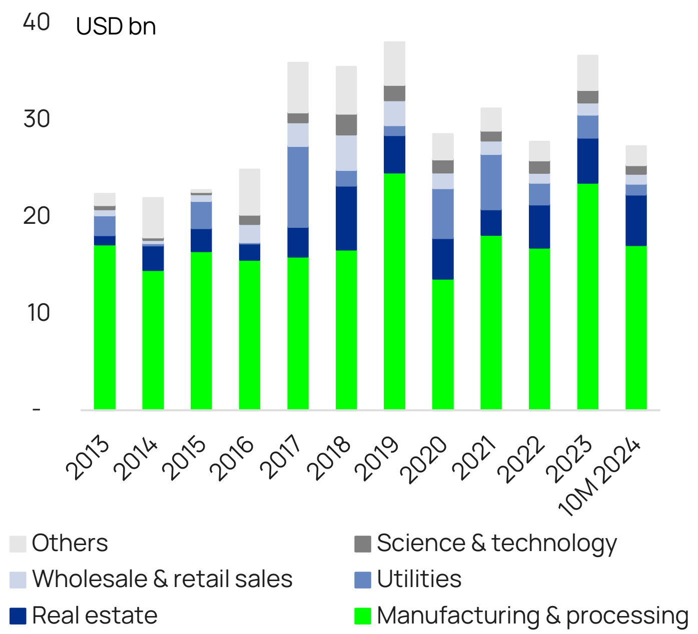
Source: MPI, Vietcap

Figure 42: Registered FDI by sector



Source: MPI, Vietcap

Figure 43: Registered FDI by country/region



Source: MPI, Vietcap

Figure 44: Top FDI projects by registered capital in 10M 2024

#	Project	USD mn	Country	Sector	Location
1	Adjusting investment capital for factory projects for manufacturing, assembling and testing semiconductor materials and equipment - Amkor Group	1,070	South Korea	Manufacturing/processing	Bac Ninh
2	Adjusting capital for LG Group's expansion investment project (LG Display Vietnam Co., Ltd. - Hai Phong)	1,000	South Korea	Manufacturing/processing	Hai Phong
3	Bio-based (1,4 Butanediol) BDO production project	730	South Korea	Manufacturing/processing	Ba Ria - Vung Tau
4	Project of Talway Group	700	China	Manufacturing/processing	Bac Ninh
5	Trina Solar Cell Co., Ltd. Project (Viet Nam)	454	China	Manufacturing/processing	Thai Nguyen
6	Foxconn Bac Ninh FCPV project	383	Singapore	Manufacturing/processing	Bac Ninh

Source: MPI, Vietcap

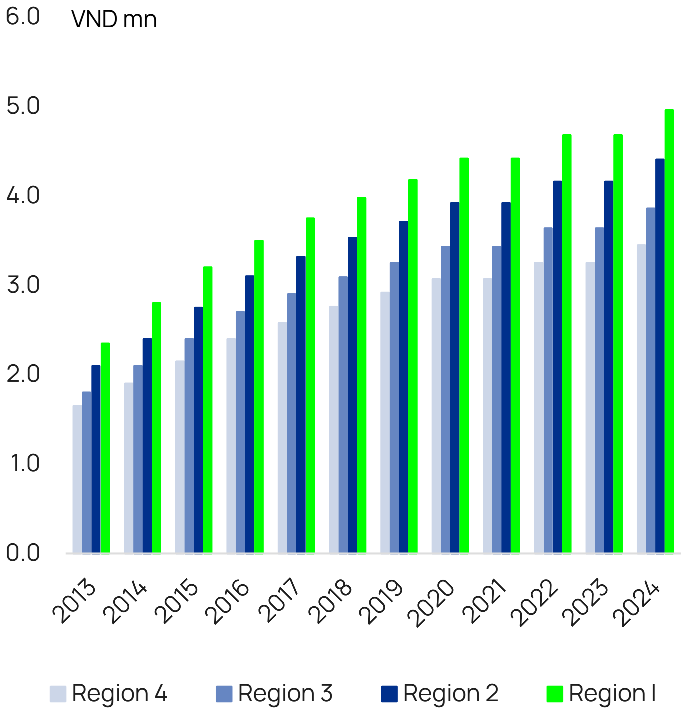
Outlook: We maintain our view that Vietnam's disbursed FDI will grow 10% in 2024, and we expect average growth of 7.5% per annum to USD26.5-31bn in 2025/26/27 due to:

(1) The recent upgrades of diplomatic ties between Vietnam and the US, Japan, Australia, France, UAE, Malaysia, and potentially Singapore in 2025;

(2) ongoing investment diversification out of China from foreign companies amid ongoing trade tensions between the US and China; and

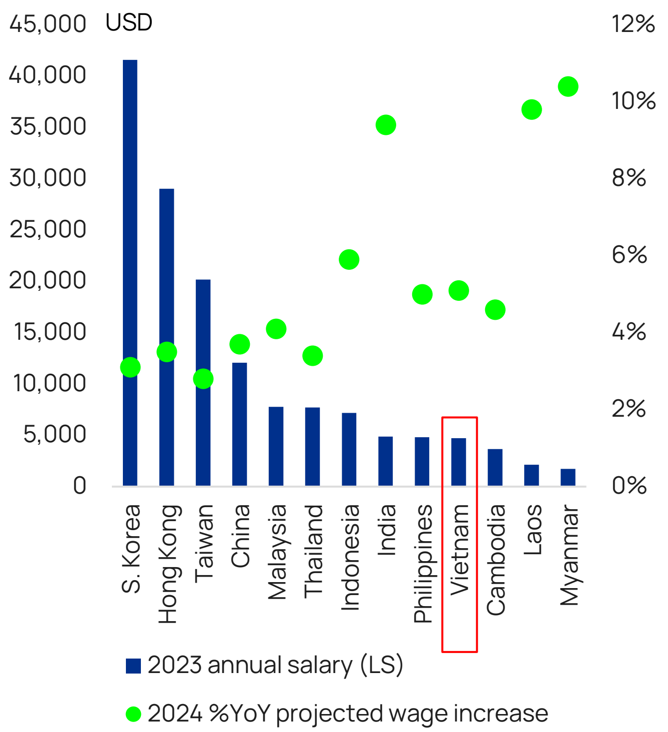
(3) Vietnam's fundamental advantages (e.g., location, low labor costs, and a long list of free trade agreements).

Figure 45: Vietnam monthly minimum wage by region



Source: Vietcap compilation

Figure 46: Annual cost of a manufacturing worker in 2023



Source: JETRO, Vietcap (data incl. bonus, social security, and other obligations)

FDI registration signaled some signs of weakening; investors waiting for GMT support policies

In 10M 2024, FDI registrations reached USD27.3bn, up only 1.9% YoY vs a surge of 19.1% YoY in 10M 2023. Even though the low growth rate of FDI registration in 10M 2024 was partly due to the high base of 2023 (2023 FDI registration reached the second highest level in more than a decade), the FY 2024 figure could end up at around USD34-35bn, which is much lower than USD39-40bn estimated by the MPI at the beginning of the year.

The recent sluggish growth in Vietnam's FDI commitments could be attributed to investors' caution over pending support policies for FDI subject to the Global Minimum Tax (GMT). Despite the GMT coming into effect at the start of 2024 in Vietnam (*), the country has not unveiled alternative support policies for tax incentives as the establishment of support funds require changes in legal frameworks. At the 8th session of the National Assembly 15th meeting, the National Assembly approved an amendment to the Law on Investment, which addresses this issue. The long-term inflows could depend on Vietnam's ability to finalize and implement alternative supports for FDI in the context of GMT.

(*) Accordingly, a tax rate of 15% will be applied to Multinational Enterprises (MNEs) that have a global annual revenue of at least EUR750mn in two of the four most recent years. According to the Vietnam General Department of Taxation, 122 MNEs in Vietnam will be subject to the GMT. The GMT could add VND14.6tn (USD600mn) to the State's budget revenue.

Figure 47: Vietnam's bilateral and multilateral Free Trade Agreements

No	FTAs	Status	Launched	Signed	Effective
1	ASEAN Free Trade Area (AFTA)	Signed, in effect			1993
2	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	Signed, in effect			2003
3	ASEAN-Korea Comprehensive Economic Cooperation Agreement	Signed, in effect			2007
4	ASEAN-Japan Comprehensive Economic Partnership	Signed, in effect			2008
5	Vietnam-Japan Economic Partnership Agreement	Signed, in effect			2009
6	ASEAN-India Comprehensive Economic Cooperation Agreement	Signed, in effect			2010
7	ASEAN-Australia and New Zealand Free Trade Agreement	Signed, in effect			2010
8	Vietnam-Chile Free Trade Agreement	Signed, in effect			2014
9	Vietnam-Korea Free Trade Agreement	Signed, in effect			2015
10	Vietnam-Eurasian Economic Union	Signed, in effect			2016
11	Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	Signed, in effect			Jan-19
12	ASEAN-Hong Kong, China Free Trade Agreement	Signed, in effect			Jun-19
13	Vietnam-European Union Free Trade Agreement (EVFTA)	Signed, in effect			Aug-20
14	UK - Vietnam Free Trade Agreement	Signed, in effect			May-21
15	Regional Comprehensive Economic Partnership (RCEP)	Signed, in effect			Jan-22
16	Vietnam – Israel Free Trade Agreement	Signed, in effect			Jul-23
17	Vietnam - UAE	Signed October 28, 2024			
18	Vietnam-European Free Trade Association (EFTA)	Negotiations launched	May-12		
19	ASEAN - Canada	Negotiations launched	Nov-21		

Source: Vietcap compilation

Vietcap

Trade

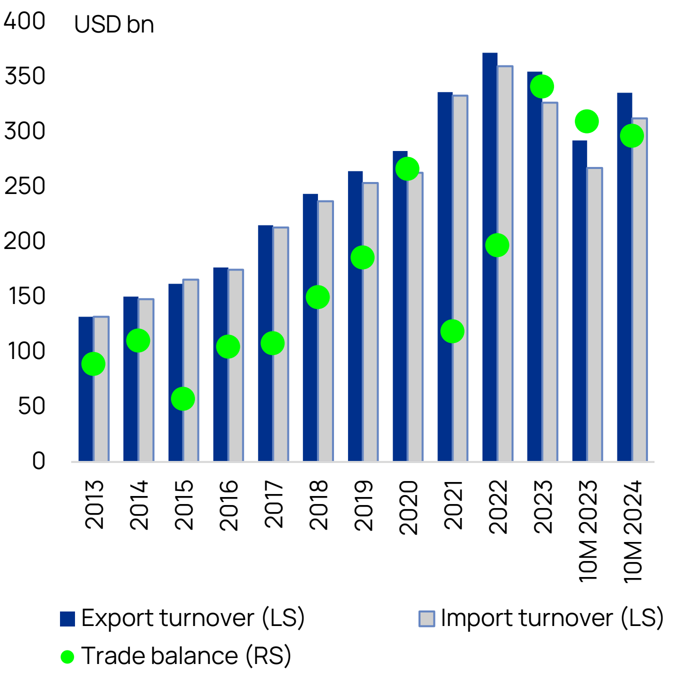
Exports and imports maintained double-digit growth

According to the GSO, in October, exports and imports continued to increase 10.1% YoY and 13.6% YoY to USD35.6bn and USD33.6bn, respectively, resulting in a trade surplus of USD2.0bn. In 10M 2024, while exports surged 14.9% YoY to USD335.6bn, imports sharply increased 16.8% YoY to USD312.3bn, leading to a trade surplus of USD23.3bn in 10M 2024 vs USD24.8bn in 10M 2023.

In 10M 2024, all main key export categories grew including PCs & electronics (USD58.7bn; +26.1% YoY; accounting for 17.5% of total exports), phones & spare parts (USD46.5bn; +4.9% YoY; accounting for 13.8%), and machinery & equipment (USD43.0bn; +21.5% YoY; accounting for 12.8%). Additionally, the top three import categories were PCs & electronic items (USD88.3bn; +23.7% YoY), machinery & equipment (USD39.7bn; +17.0% YoY), and fabrics (USD12.3bn; +14.7% YoY).

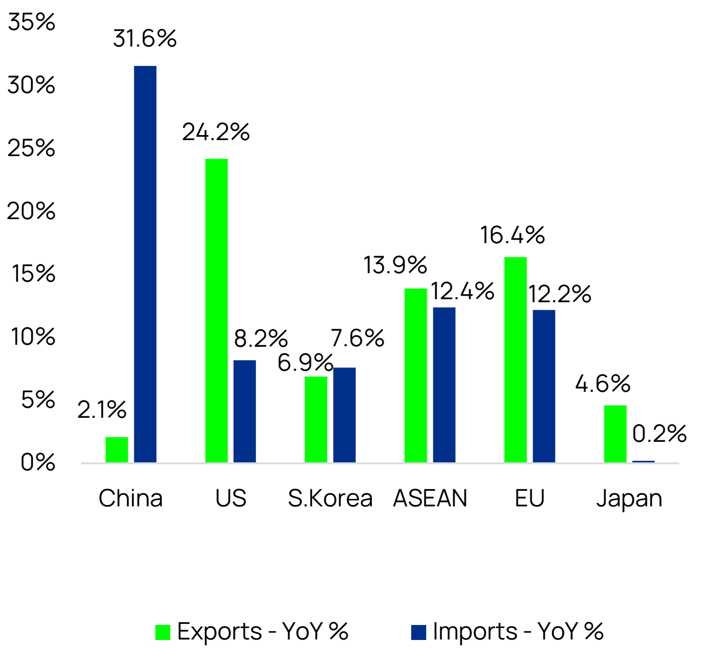
The US continued to be Vietnam's largest export market as exports to the US surged 24.2% to USD98.4bn, accounting for 29.3% of total exports, while China (USD50.8bn; +2.1% YoY) ranked second, and the EU (USD42.3bn; +16.4% YoY) ranked third. Additionally, imports from China - Vietnam's largest import market – jumped 31.6% YoY to USD117.7bn while South Korea ranked second with USD46.3bn (+7.6% YoY).

Figure 48: Export, import turnover, and trade balance



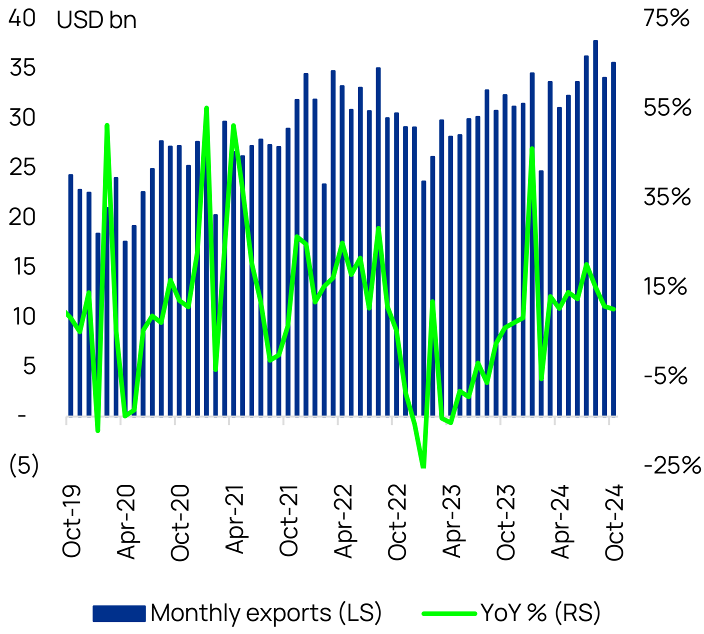
Source: Vietnam Customs, GSO, Vietcap

Figure 49: Top trade markets in 10M 2024



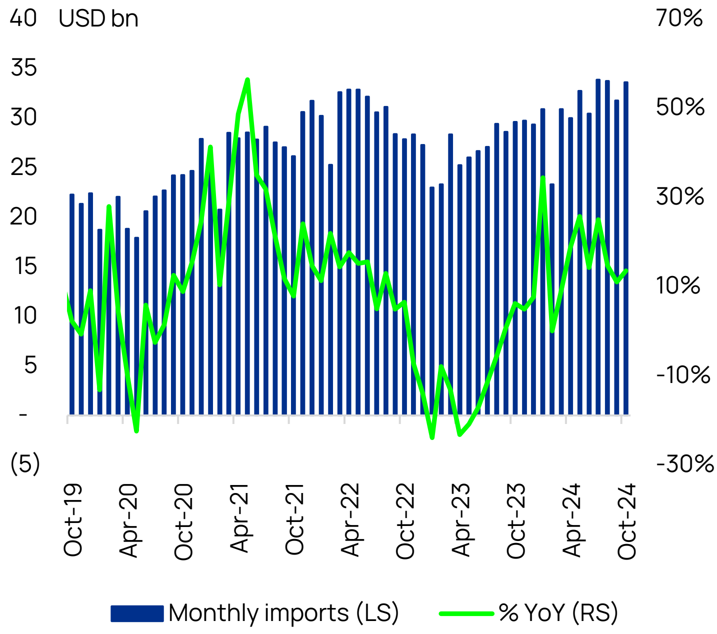
Source: Vietnam Customs, GSO, Vietcap

Figure 50: Monthly exports



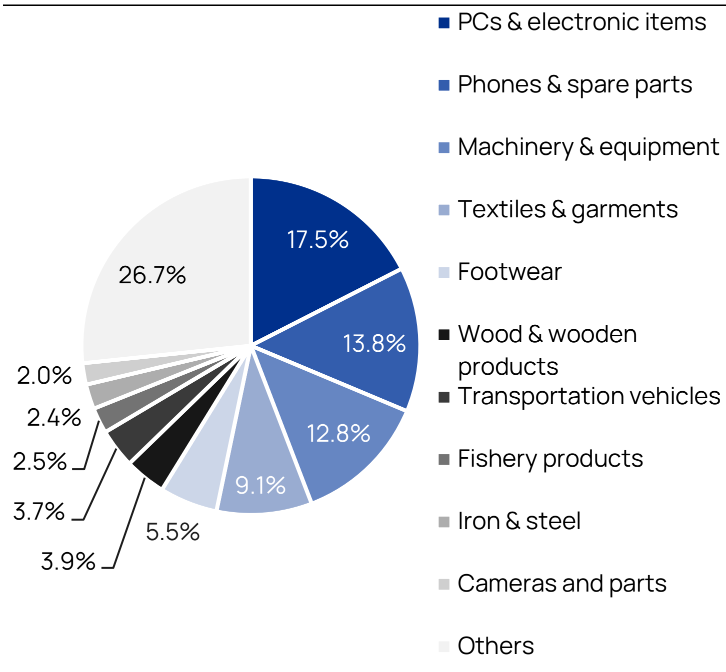
Source: Vietnam Customs, GSO, Vietcap

Figure 51: Monthly imports



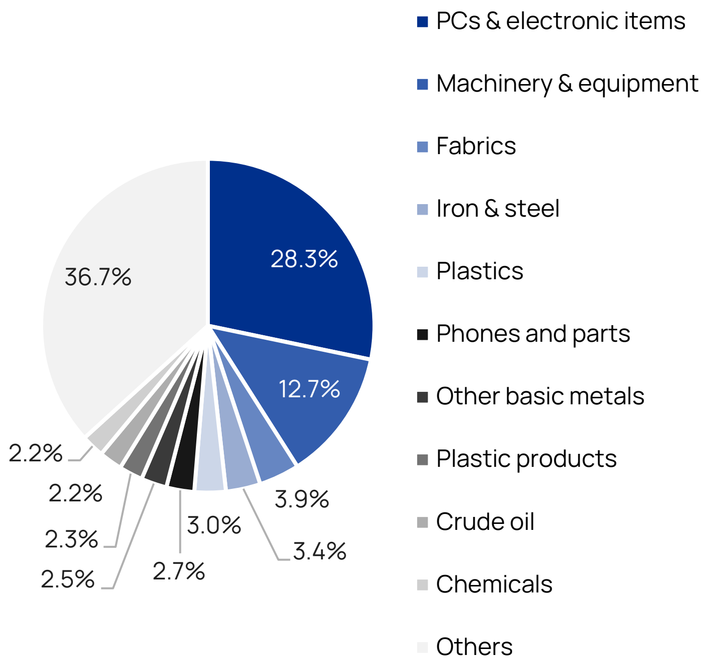
Source: Vietnam Customs, GSO, Vietcap

Figure 52: Top export products in 10M 2024



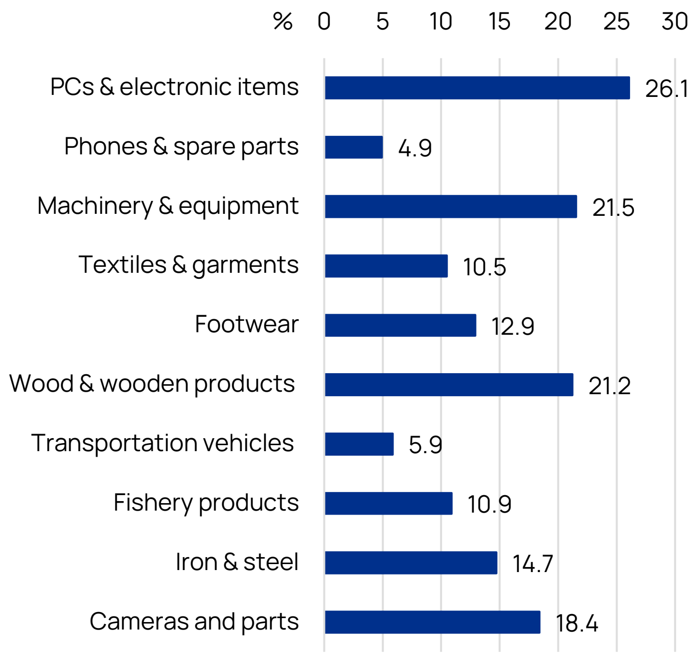
Source: GSO, Vietcap

Figure 53: Top import products in 10M 2024



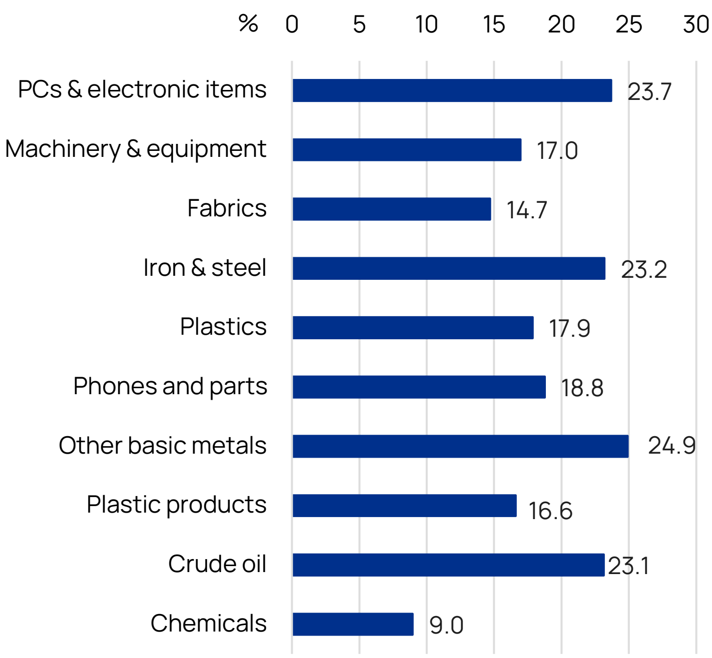
Source: GSO, Vietcap

Figure 54: 10M 2024 top exports (YoY %)



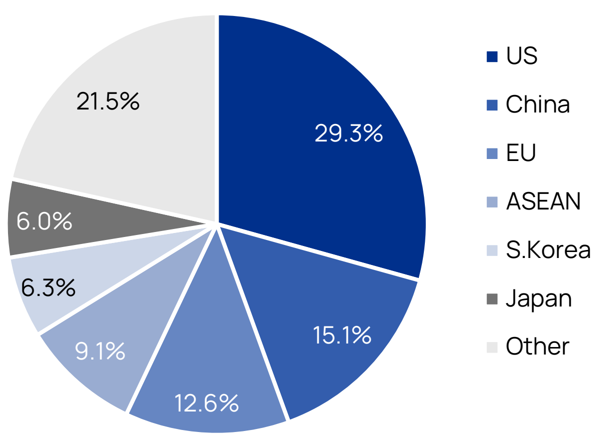
Source: GSO, Vietcap

Figure 55: 10M 2024 top imports (YoY %)



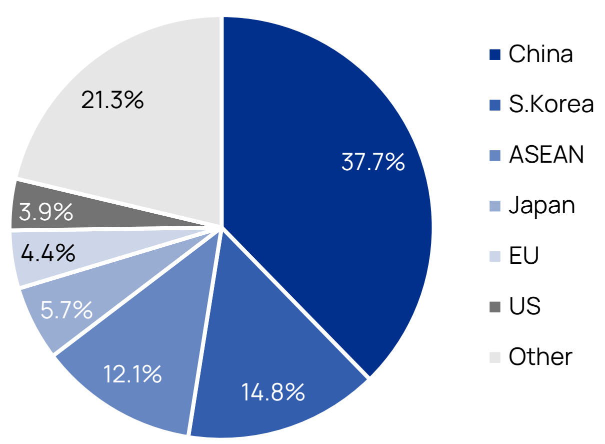
Source: GSO, Vietcap

Figure 56: Top export markets in 10M 2024



Source: GSO, Vietcap

Figure 57: Top import markets in 10M 2024



Source: GSO, Vietcap

Outlook: We expect to see an ongoing recovery in exports toward the year-end. According to the latest PMI report, new export orders recovered after Typhoon Yagi, which could continue to support exports. Also, demand may increase toward holiday events such as Black Friday, Christmas, the New Year, and Lunar New Year 2025.

We lower our 2025F growth for exports and imports to 6.5% YoY and 7.0% YoY, from 11% YoY and 11.5% YoY, respectively (implying a trade surplus of USD26.8bn), due to:

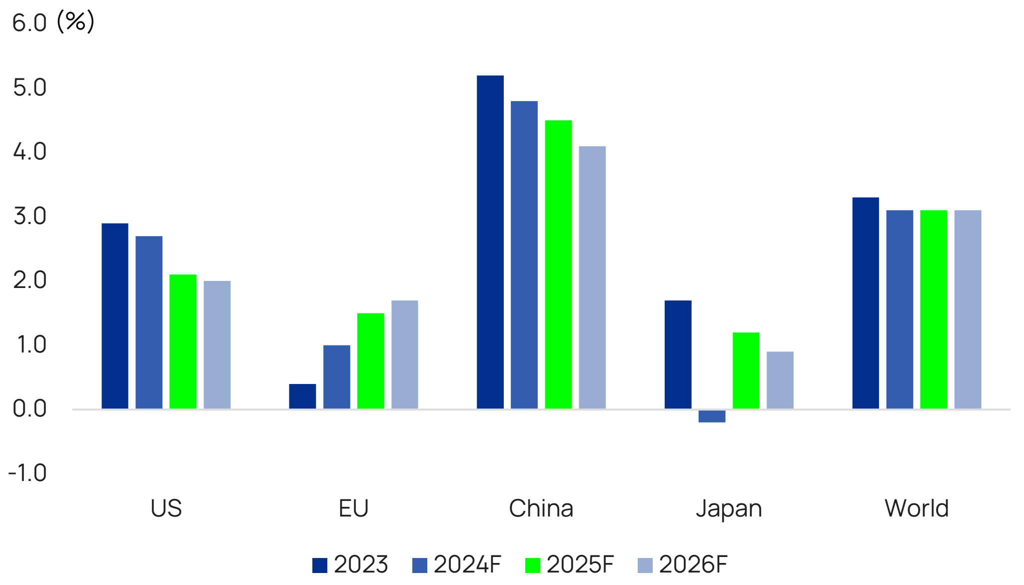
- High base in 2024 (higher-than-expected exports and imports in 2024). We recently revised our 2024F export and import growth forecasts to 14.8% and 16.6% from 9.5% and 11.5%, respectively.
- Lower consensus GDP forecast for the US and China – Vietnam's top-two largest exports markets (accounting for 44.3% of Vietnam's total exports in 10M 2024). Consensus forecast for US GDP growth is expected at 2.1% YoY and 2.0% YoY in 2025 and 2026, respectively (vs 2024F: 2.7% YoY), while that of China is expected at 4.5% YoY and 4.2% YoY (vs 2024F: 4.8% YoY), respectively.
- WTO lowered their global merchandise trade volume forecast for 2025 from 3.3% to 3.0% previously.
- We believe many US companies had already stocked inventories ahead of the US election due to concerns over higher tariffs if Mr. Trump won.

We expect that trade volume in 2025 could be supported by:

- Consensus forecast for global growth is expected to remain stable at 3.1% YoY in 2025 and 2026 (unchanged vs forecast for 2024). Despite our lower GDP forecast for the US and China, the consensus GDP growth forecast of other key export partners of Vietnam including the EU (2024F: 1.0% YoY; 2025F: 1.5% YoY; 2026F: 1.7% YoY) and Japan (2024F: 0% YoY; 2025F: 1.2% YoY; 2026F: 0.9% YoY) improved in 2025 and 2026 vs 2024.
- New orders could remain strong as the WTO forecasts global merchandise trade volume to grow 3.0% YoY in 2025, slightly higher than 2024F at 2.7% YoY. In addition, several companies in export industries such as agriculture and textiles reported that they already have new orders until Q1 2025.
- Potential expansion to new markets: Vietnam and the United Arab Emirates (UAE) officially upgraded their relationship to Comprehensive Partnership and signed the Vietnam-UAE Comprehensive Economic Partnership Agreement (CEPA) - the first Free Trade Agreement (FTA) between Vietnam and a Middle Eastern country on October 28, 2024. Vietnamese goods could expand to the UAE and other Middle Eastern and African countries (through the UAE with lower prices due to the CEPA) (see more in our Macro Note published on October 29, 2024).

Additionally, we expect improvement in 2026/27 with respective export and import growth forecasts of 8.5%/8.5% and 8.8%/8.0% (equivalent to a trade surplus of USD29bn/USD33.5bn).

Figure 58: GDP growth consensus forecast



Source: Bloomberg; Data as of November 25, 2024.

Inflation

Inflation increased due to vegetable prices and rents

October's CPI increased 0.34% MoM and rose 2.90% YoY, narrowing average CPI inflation to 3.78% YoY in 10M 2024. October's CPI was mainly driven by increases in prices of foodstuffs and rents.

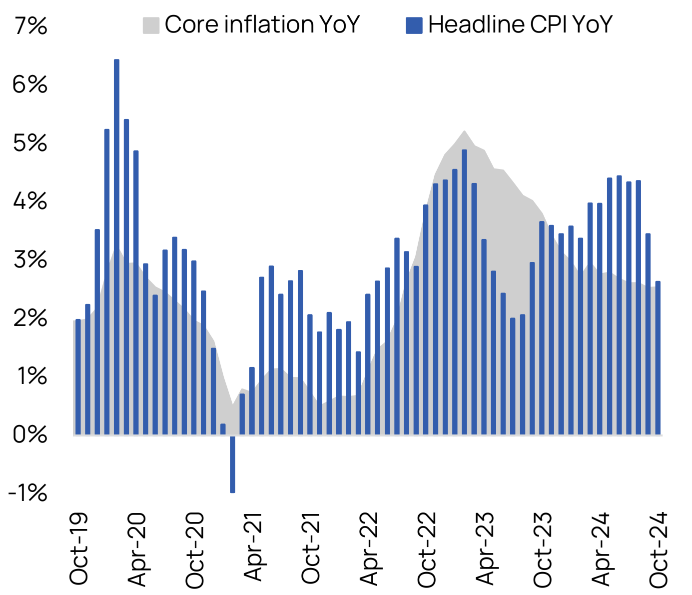
- CPI of food, foodstuffs, and catering services rose 0.55% MoM, which lifted the headline CPI by around 0.18 ppts, in which the CPI of foodstuffs increased 0.66% (lifted the headline CPI by around 0.14 ppts) due to a 3% increase in the prices of fresh, dry, and processed vegetables due to a shortage supply caused by seasonal factors and unfavorable weather.
- CPI of the housing and construction materials category increased only 0.11% MoM. Rents increased 0.73% MoM (which lifted the headline CPI by nearly 0.1 ppts), but it was offset by a 2% decline in electricity prices due to cooler weather.

Figure 59: Inflation in October 2024

	MoM CPI (Oct 2024 vs Sep 2024)	YoY CPI (Oct 2024 vs Oct 2023)	YTD CPI (Oct 2024 vs Dec 2023)	Average CPI (10M 2024 vs 10M 2023)
Headline inflation	0.34%	2.90%	2.52%	3.78%
Core inflation	0.23%	2.68%	N/A	2.69%

Source: GSO, Vietcap

Figure 60: CPI



Source: GSO, Vietcap

Figure 61: CPI by category

Category	Weight	Oct-23 YoY	Oct-24 YoY
Total CPI	**100%**	**3.59%**	**2.90%**
Food, foodstuffs, and catering services	33.56%	2.81%	4.45%
Beverages and tobacco	2.73%	2.84%	2.26%
Garments, footwear, and hats	5.70%	1.97%	1.13%
Housing and construction materials	18.82%	6.88%	4.21%
Family appliances and tools	6.74%	1.70%	1.33%
Medicine and healthcare	5.39%	0.54%	8.28%
Transportation	9.67%	3.90%	-3.25%
Telecommunication	3.14%	-1.34%	-0.37%
Education	6.17%	7.14%	-0.45%
Culture, sport, and entertainment	4.55%	1.34%	2.09%
Other consumer goods and services	3.53%	5.91%	7.03%

Source: GSO, Vietcap

Outlook: The Ministry of Industry and Trade approved a retail electricity hike of 4.8%, effective October 11, 2024 (the impact is delayed by one month) and demand for consumption could increase toward the year-end holidays (the Tet holiday in 2025 will start at the end of January), which could create some inflation pressure toward the year-end. Nevertheless, average CPI in 10M 2024 remained under control at 3.78% YoY, well below the Government's target of around 4% -4.5%. We currently expect average CPI of 3.8% in FY2024.

We lower our forecast for average CPI in 2025 to 3.2% from 3.8% in 2025, due to the following factors:

- Potential declines in global rice prices: According to the Bloomberg consensus forecast, global rice prices could decline by around 12% in 2025, which could also help to lower domestic rice prices. An assumption of a 12% decline in domestic rice prices could help to curb headline CPI by 0.3 ppts.
- Potential declines in global oil prices: Vietcap's Oil & Gas team forecasts a decline of 12.5% YoY in global oil prices in 2025, which could help to curb headline inflation by 0.5 ppts.
- The extension of the 2.0% VAT cut in H1 2025 and 50% reduction of the environmental protection tax on petroleum in FY2025 could help to stabilize inflation.

Additionally, we expect several factors that could place upward pressure on inflation in 2025, including:

- The Government could continue to raise prices of several goods/services under its management, including healthcare service prices, tuition fees, and electricity prices.
- In addition, several unpredictable risks could affect commodity prices such as unfavorable weather, natural disasters, and geopolitical tensions.

Foreign Exchange

SBV announced readiness to sell USD due to FX pressure

US inflation has eased recently, and the Fed's 50-bps rate cut in September supported the VND, which appreciated by 1.5% against the USD in August and 1.2% in September. However, during October 1-18, the VND depreciated 3.3% against the USD due to several reasons, including:

1) The strong increase of the US Dollar Index (DXY), which surged 3.2% in October due to a strengthening US economy and the increasing possibility that former president Donald Trump could win the US presidential election.

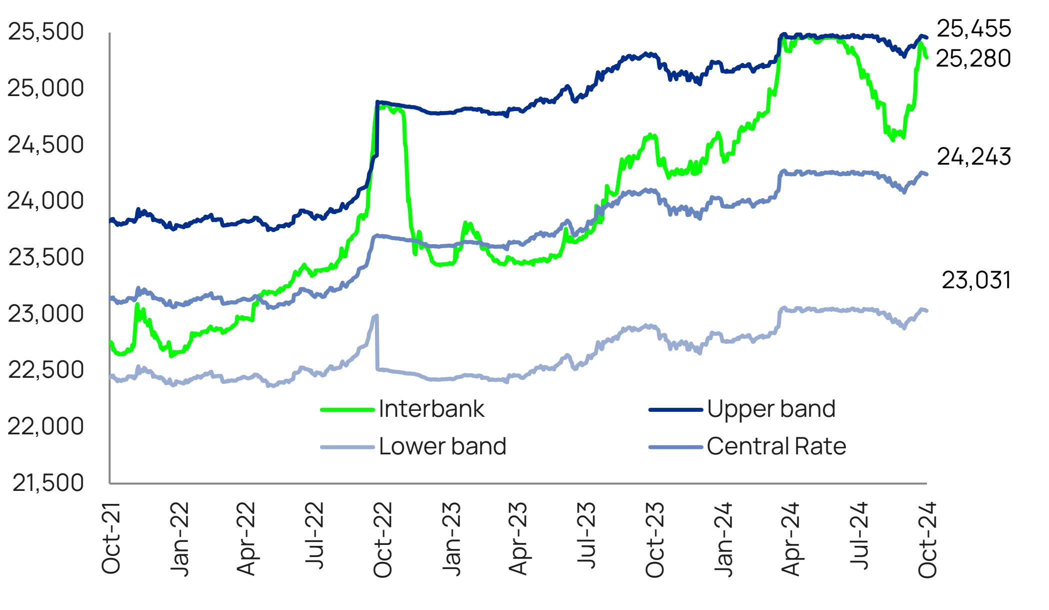
2) Rising gold prices, especially domestic gold prices (as of October 23, gold bar prices at Saigon Jewelry Joint Stock Company – SJC increased 6.6% MTD).

3) Demand from the VST to repay USD1.0bn of 10-year international bonds due in November.

Given rising pressure on FX, the SBV resumed T-bill issuance on October 18 (mentioned above). On October 24, the SBV announced it would sell USD (spot) to commercial banks at 25,450, aiming to ease FX market sentiment amid rising USD/VND pressure.

Subsequently, the VND recovered 0.5% to close at 25,280 in the interbank market on October 31, with the VND depreciating 2.9% against the USD in October.

Figure 62: USD/VND exchange rate



Source: Bloomberg, Vietcap

<u>Outlook</u>: We forecast the VND to depreciate 3.0% against the USD in FY2024.

Domestic demand may pressure the USD/VND exchange rate until the VST completes its purchasing, while the US election result could push the dollar higher. However, the SBV's latest move may ease pressure on the USD/VND exchange rate and sentiment in the FX market. Also, we expect that several factors may help the VND to recover vs the USD towards the year-end, including:

1) We expect the Fed to continue rate cuts towards the end of this year (in line with the current market consensus).

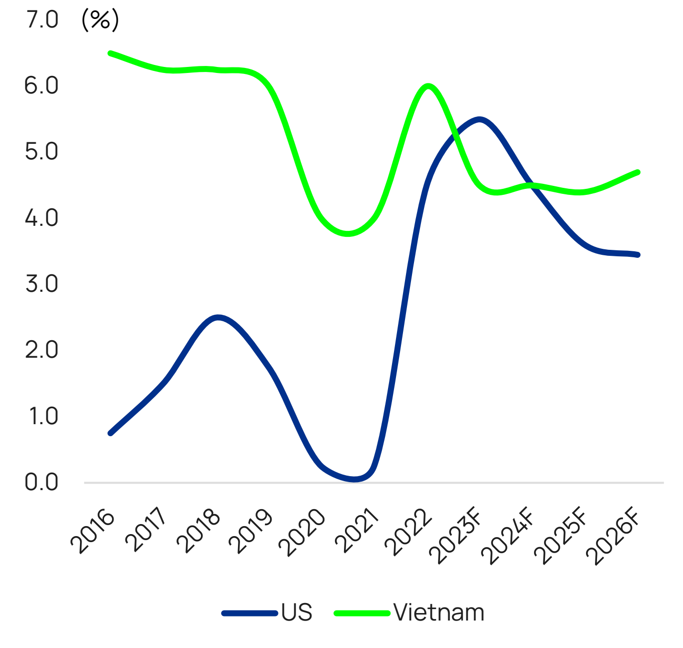
2) Continued strong net FX inflows into Vietnam from a trade surplus, FDI inflows and remittances, and a shrinking services trade deficit.

We expect a stable VND in 2025/26/27

As mentioned above, US President-elect Donal Trump's upcoming tariffs could lead to higher US inflation, relatively tighter US monetary policy, and a stronger US Dollar. This would increase the risk of depreciation in the VND vs the USD.

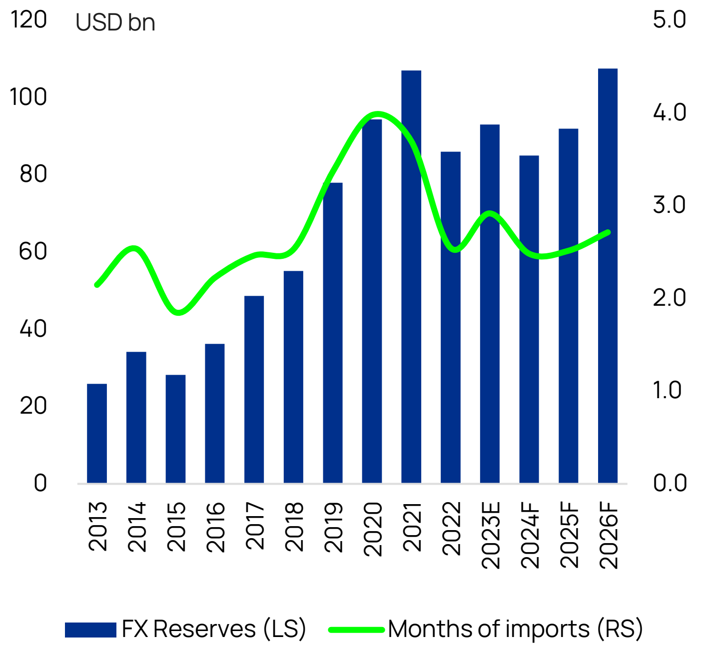
However, a strong greenback could make US trade deficit look worse. According to the Bloomberg consensus forecast, the USD is expected to decline gradually throughout 2025 (avg. 103.8 in 2025 vs 107 in Q4 2024) and 2026 (97.2). In addition, we expect that the Fed's ongoing rate cuts and continued solid inflows could continue to support the stability of the USD/VND exchange rate.

Figure 63: Consensus Central Bank policy rates



Source: Bloomberg

Figure 64: FX reserves



Source: Bloomberg, Vietnam Customs, GSO, Vietcap

Macro Scorecard

MACRO INDICATORS	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	UNITS	Source of historical data
GDP growth (real)	7.4	2.9	2.6	8.1	5.0	6.9	7.2	7.5	7.5	% YoY	GSO
Nominal GDP	334	347	366	409	430	455	496	544	596	USD bn	WB
GDP per capita	3,491	3,586	3,756	4179	4347	4,487	4,853	5,266	5,718	USD	WB
Unemployment rate	2.0	2.5	3.0	2.1	2.2	2.1	2.1	2.0	2.0	%	GSO
FDI disbursement	20.4	20.0	19.7	22.4	23.2	25.0	26.5	28.5	31.0	USD bn	FIA
FDI disbursement (% of GDP)	6.2	5.8	5.4	5.5	5.4	5.5	5.3	5.2	5.2	% of GDP	FIA
Exports (% of GDP)	80.0	82.3	92.7	92.1	82.2	89.5	87.5	86.6	85.8	% of GDP	Customs, GSO
Export growth	8.4	6.9	18.9	10.6	-4.6	14.8	6.5	8.5	8.5	% YoY	Customs, GSO
Import growth	7.0	3.7	26.7	8.0	-9.2	16.6	7.0	8.5	8.0	% YoY	Customs, GSO
Goods trade balance	10.9	19.9	3.3	12.1	28.4	26.8	26.8	29.0	33.5	USD bn	Customs, GSO
Foreign reserves	78.0	94.4	107	86.0	93.0	85.0	92.0	108	133	USD bn	SBV, WB
FX reserves (% of GDP)	23.7	27.6	30.2	21.0	21.6	18.7	18.5	19.8	22.3	% of GDP	SBV
Inflation (average)	2.8	3.2	1.8	3.2	3.3	3.8	3.2	3.5	3.5	% YoY	GSO
VND appreciation (depreciation)	0.0	0.3	1.2	-3.4	-2.8	-3.0	0.0	0.0	0.0	%	Bloomberg
Deposit rate cap (<6 mo)	5.0	4.0	4.0	6.0	4.75	4.75	5.00	5.25	5.50	%	SBV
Credit growth	13.6	12.2	13.6	14.2	13.5	13.8	14.0	13.1	12.4	% YoY	SBV
Budget deficit (excl. principal pmt)	-2.1	-2.7	-2.5	-4.3	-4.0	-3.6	-3.8	-3.4	-3.2	% of GDP	MoF
Public debt	43.1	43.7	43.1	38.0	36.6	36-37	36-37	37-38	37-38	% of GDP	MoF, WB

Note: *Vietcap is the source for all forecasts — except for budget deficit and public debt, which come from the Ministry of Finance (MoF).*

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Appendix: Market data

Two of Vietnam's three bourses delivered positive performance in 11M 2024.

- The VN-Index, which represents all stocks traded on the Ho Chi Minh City Stock Exchange (HOSE or HSX), increased by 11%, and the large-cap VN30 Index increased by 16%,
- The Unlisted Public Company Market (UPCoM) increased by 7%,
- However, the Hanoi Stock Exchange (HNX) declined by 3%.

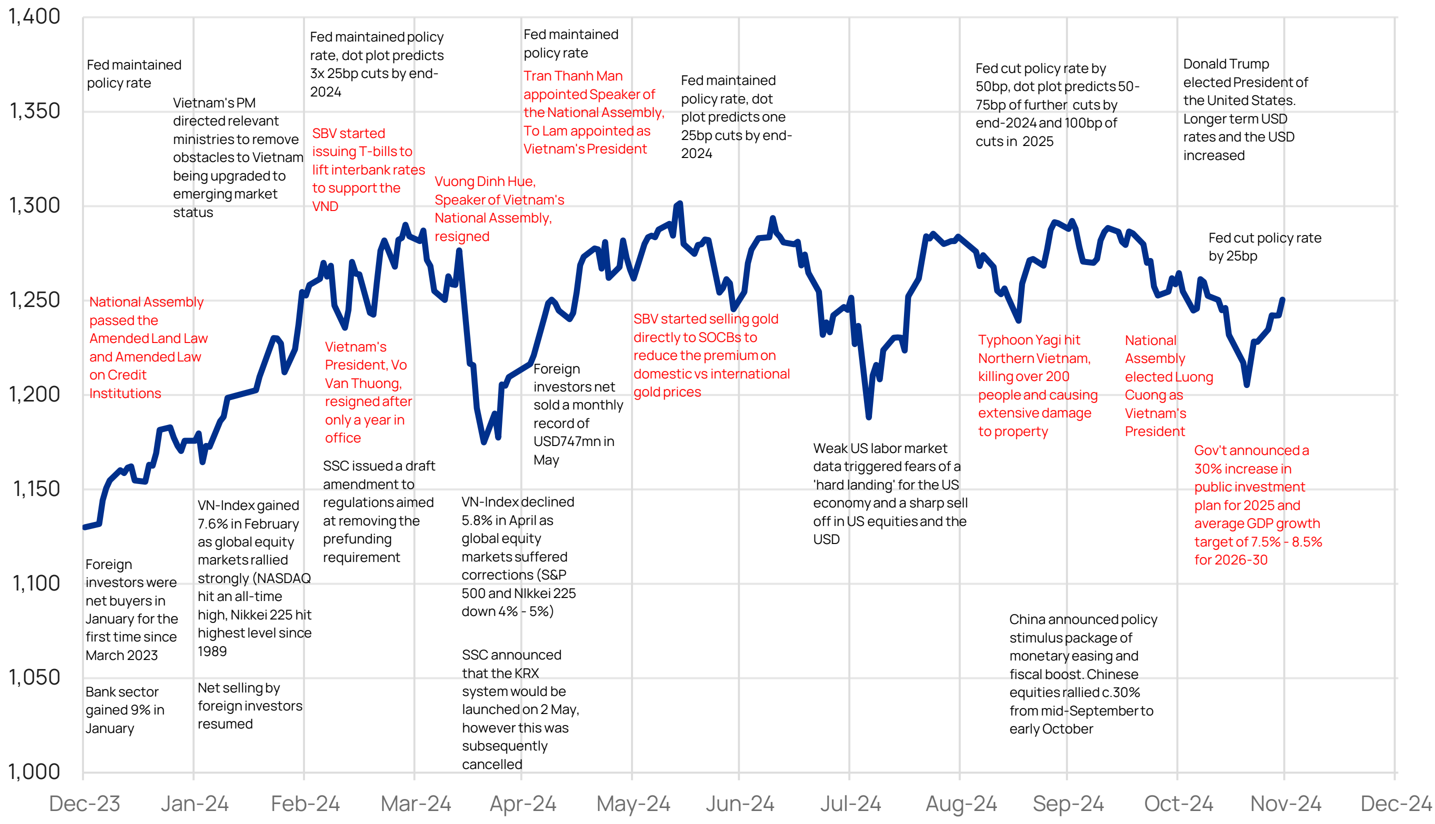
By ICB sector, the leading performers on the HSX were technology, industrials and consumer services, while the laggards were financial services (excluding banks and insurance), real estate and oil & gas.

At the stock level, six of the 10 largest positive contributions to the VN-Index's performance came from banks (VCB, TCB, CTG, LPB, MBB, and ACB), while the other top contributions – FPT, GVR, HVN and MWG - came from various sectors. Real estate stocks VIC, VHM, VRE and NVL featured amongst the largest negative individual contributions to the index's performance.

The chart below illustrates selected key events which we believe were significant drivers of the VN-Index in 11M 2024, including:

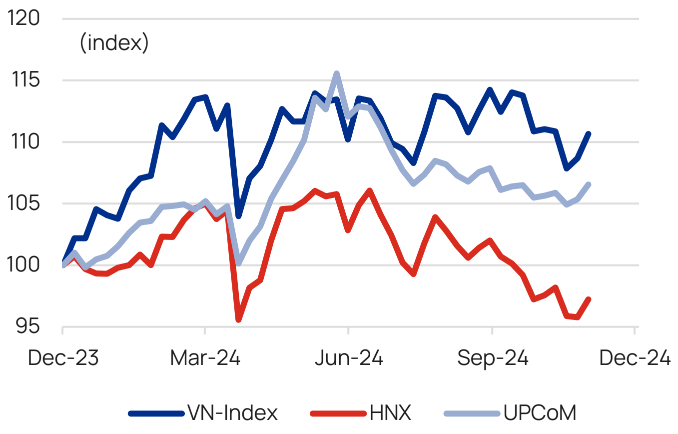
- Passage of new legislation impacting the real estate and banking sectors by Vietnam's National Assembly in Q1 2024,
- Monetary policy decisions from the US Federal Reserve which increasingly built confidence that the Fed's tightening cycle had peaked prior to the first rate cut in September,
- The SBV's response to renewed periods of USD strength and higher gold prices,
- Donald Trump's election as US President in Q4 2024, and
- Announcements of more expansionary fiscal policy by the National Assembly in Q4 2024.

Figure 65: VN-Index performance and key events in 11M 2024



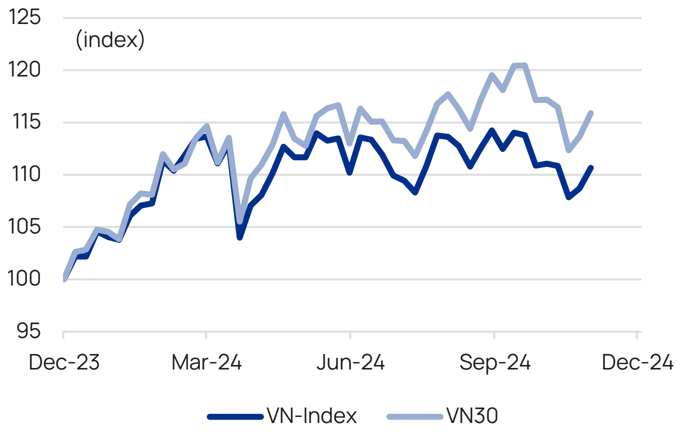
Source: FiinPro, Vietcap compilation

Figure 66: Three exchanges' performance in 11M 2024



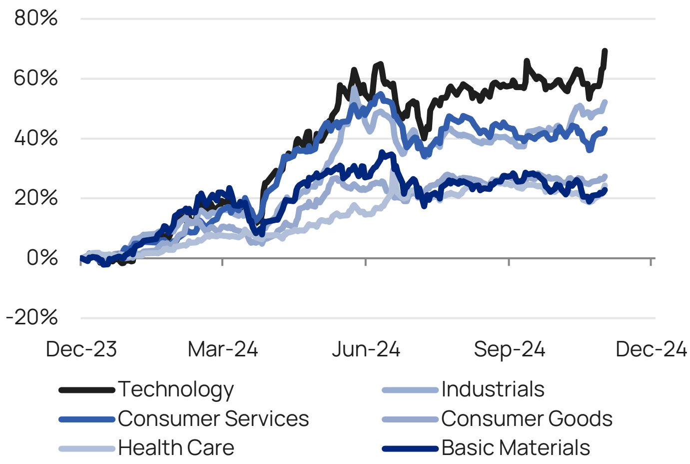
Source: Fiinpro, Vietcap

Figure 67: VN-Index and VN30 Index performance in 11M 2024



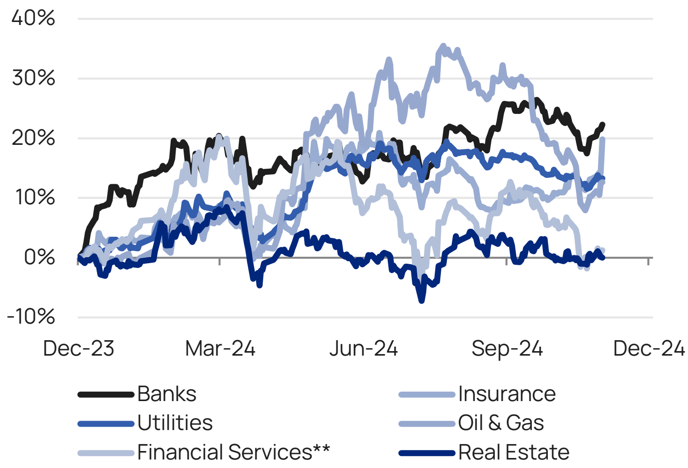
Source: Fiinpro, Vietcap

Figure 68: VN-Index, leading sectors in 11M 2024



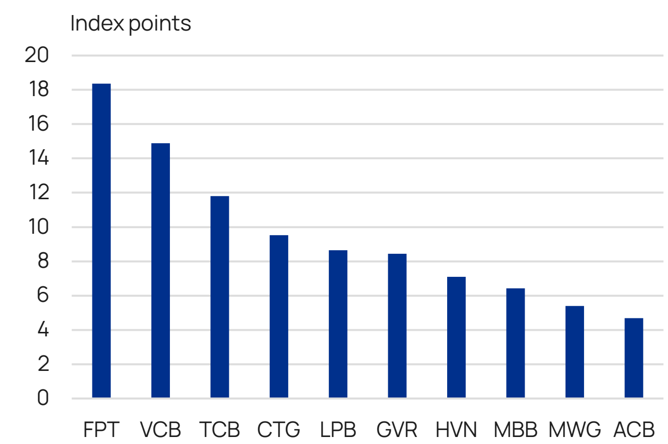
Source: Fiinpro, Vietcap (ICB classification)

Figure 69: VN-Index, lagging sectors in 11M 2024



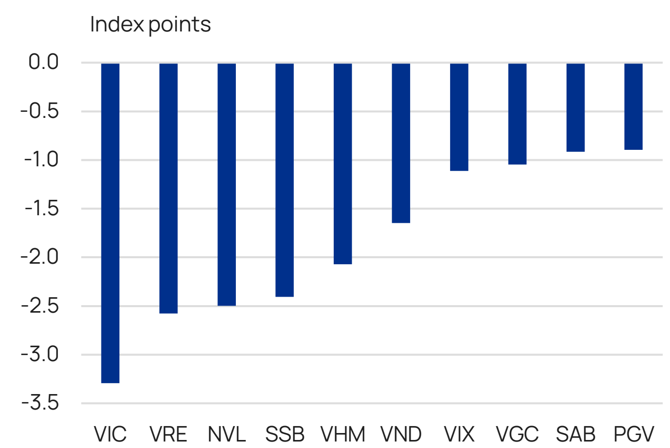
Source: Fiinpro, Vietcap (ICB classification, ** ex banks & insurance)

Figure 70: Top positive contributors to VN-Index in 11M 2024



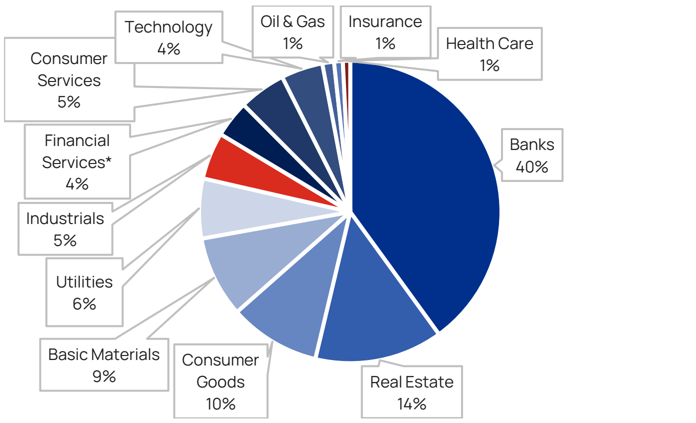
Source: Fiinpro, Vietcap

Figure 71: Top negative contributors to VN-Index in 11M 2024



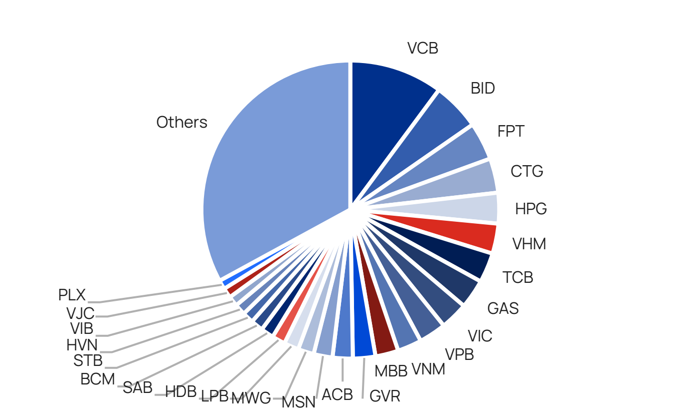
Source: Fiinpro, Vietcap

Figure 72: VN-Index market cap by ICB sector



Source: Fiinpro, Vietcap (* excluding banks & insurance)

Figure 73: VN-Index market cap by stock



Source: Fiinpro, Vietcap

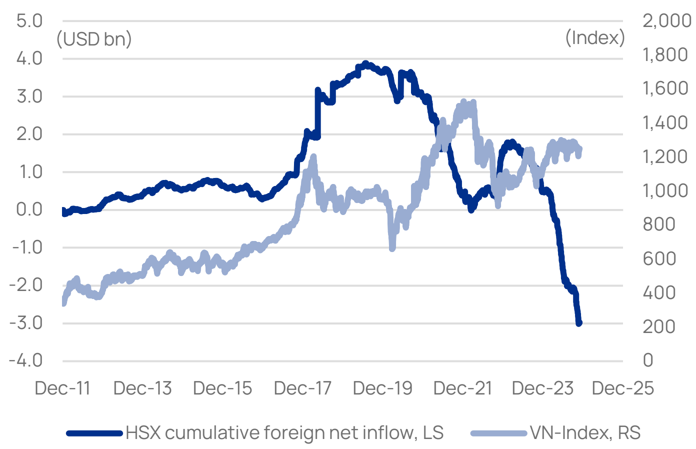
Flows

Foreign net buying/selling

Foreign investors were net sellers of USD3.5bn in 11M 2024. Potential explanations for the exodus by foreign investors include:

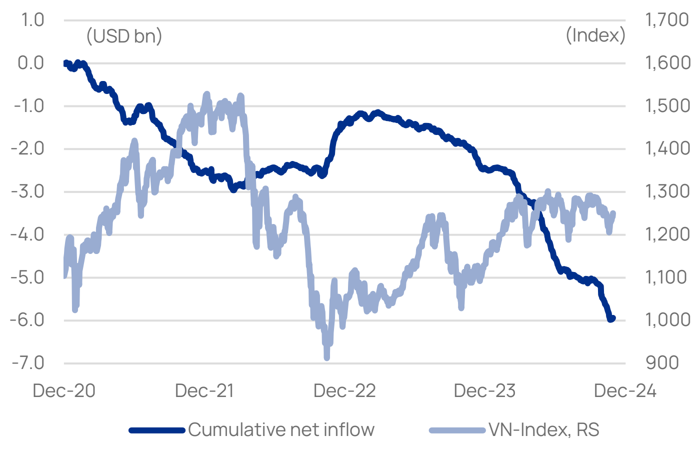
- Profit-taking after the VN-Index gained 14% in Q1 2024,
- Global asset allocation decisions favoring developed markets over developing markets as the USD was strong through most of the year,
- Limited opportunities to play the artificial intelligence (AI) theme in the Vietnamese market
- Some high profile changes amongst top positions in the Vietnamese Government
- Lingering concerns over problems in the real estate and corporate bond markets.

Figure 74: VN-Index and foreign net flows since 2011



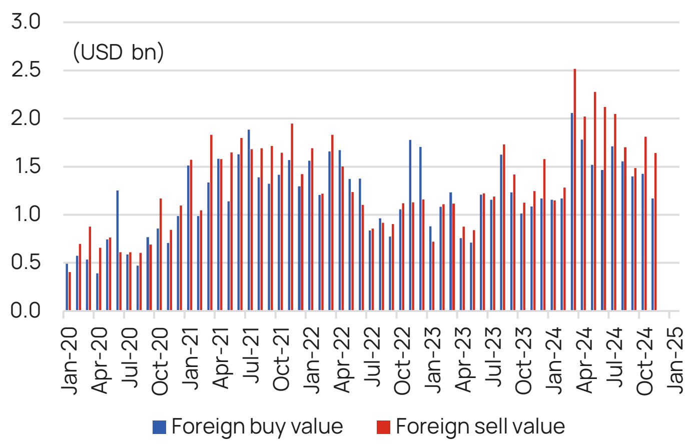
Source: Fiinpro, Vietcap

Figure 75: VN-Index and foreign net flows, 2021-24



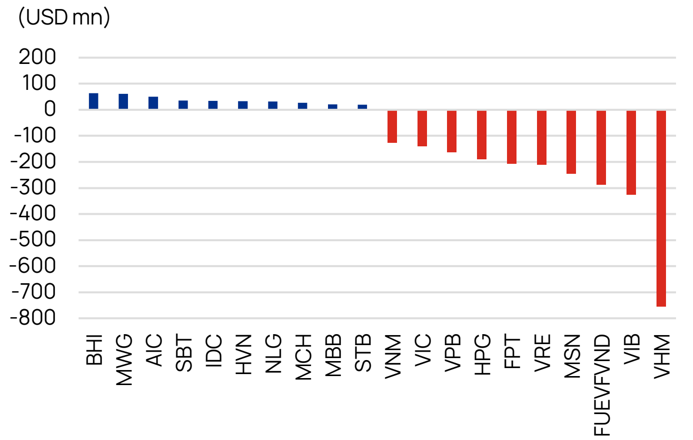
Source: Fiinpro, Vietcap

Figure 76: Gross foreign purchases and sales, monthly



Source: Fiinpro, Vietcap

Figure 77: Top net foreign purchases and sales, 2024 YTD



Source: Fiinpro, Vietcap

Major ETFs

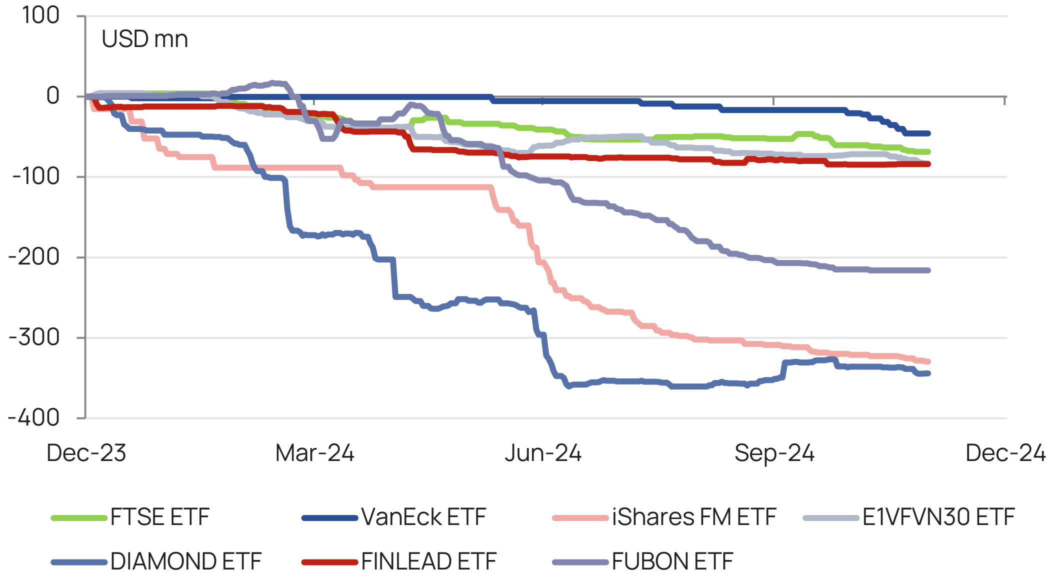
Major ETFs investing in Vietnam are listed in the table below. All these ETFs saw net outflows in 11M 2024, of which the Diamond ETF and iShares Frontier Market ETF experienced the largest.

Figure 78: Major ETFs investing in Vietnam

Type	Fund name	Country	Starting date	Underlying index	AUM (USD mn)	Vietnam weight (%)
Local	VFMVN DIAMOND ETF	VN	27/02/2020	VN Diamond Index	480.8	100%
	VFMVN30 ETF	VN	13/08/2014	VN30 Index	264.2	100%
	SSIAM VNFIN LEAD ETF	VN	19/12/2019	VN FINLEAD Index	18.2	100%
	Mirae Asset VN30 ETF	VN	08/12/2020	VN30 Index	14.7	100%
	SSIAM VNX30 ETF	VN	27/07/2020	VN30 Index	6.6	100%
	SSIAM VNX50 ETF	VN	10/12/2014	VNX50 Index	4.9	100%
Foreign	Fubon FTSE VN30 ETF	Taiwan	30/03/2021	FTSE VN30	595.4	100%
	VanEck Vectors Vietnam ETF	USA	11/08/2009	MVIS Market Vector Vietnam Local Index	435.8	100%
	FTSE Vietnam Swap UCITS ETF	Luxembourg	15/01/2008	FTSE Vietnam Index	259.2	100%
	Premia MSCI Vietnam ETF	Hong Kong	17/07/2019	MSCI Vietnam Index	4.7	100%

Source: Fiinpro, Vietcap

Figure 79: Cumulative ETF flows in 11M 2024



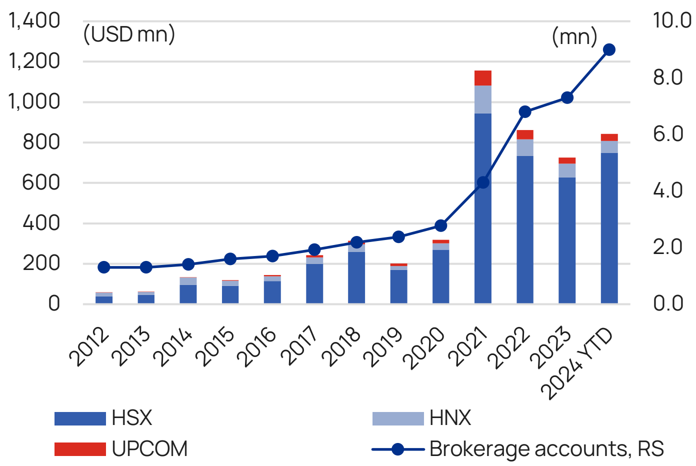
Source: Bloomberg, Vietcap (data to November 2024)

ADTV & velocity of turnover

Average daily trading value (ADTV) on the three bourses combined increased from USD725mn in 2023 to USD843mn in 11M 2024. Meanwhile, the total number of brokerage accounts increased from 7.3 million to 9.0 million. Velocity of turnover (total value of trading/market cap) increased from 78% in 2023 to 81% in 11M 2024.

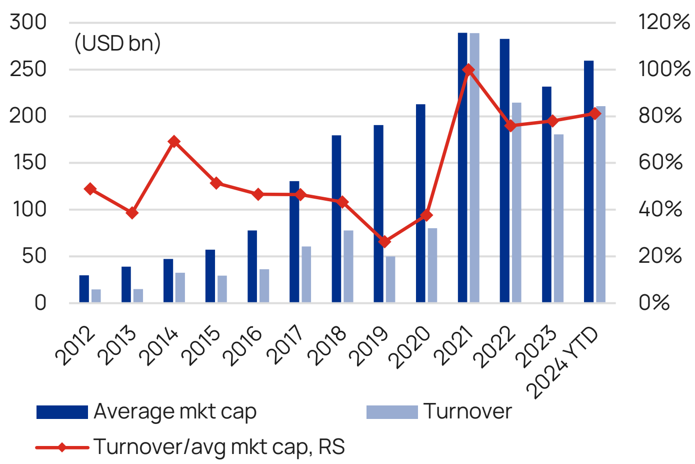
We estimate that total margin loans outstanding increased from USD6.9bn at the end of 2023 to USD8.5bn at the end of Q3 2024.

Figure 80: Average daily trading value & brokerage accounts



Source: Fiinpro, VSD, Vietcap

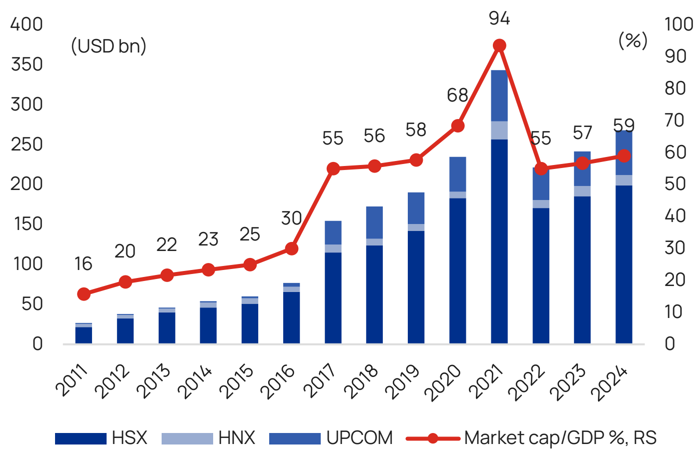
Figure 81: Velocity of turnover



Source: Fiinpro, Vietcap

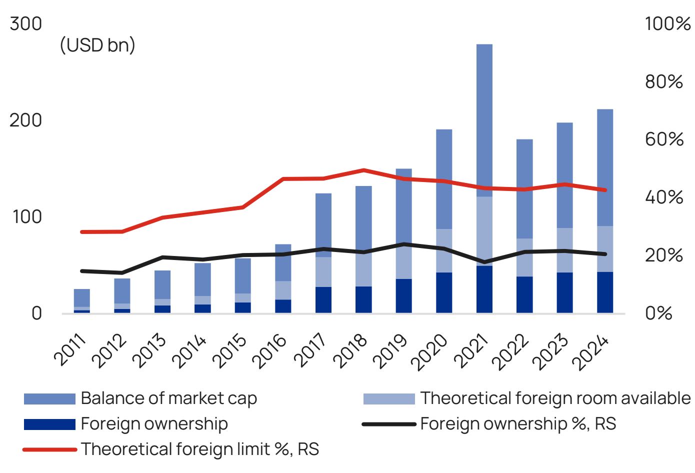
Vietnam's total market cap at the end of November 2024 was USD268bn, representing 59% of our 2024F nominal GDP. The theoretical foreign ownership limit (FOL) on HSX and HNX (the maximum amount of market cap that could be owned by foreign investors, assuming no practical limitations due to major domestic shareholdings) was USD91bn, or just under 43% of combined HSX and HNX market cap.

Figure 82: Total market cap and market cap/GDP



Source: Fiinpro, Vietcap

Figure 83: Foreign ownership and theoretical limit



Source: Fiinpro, Vietcap

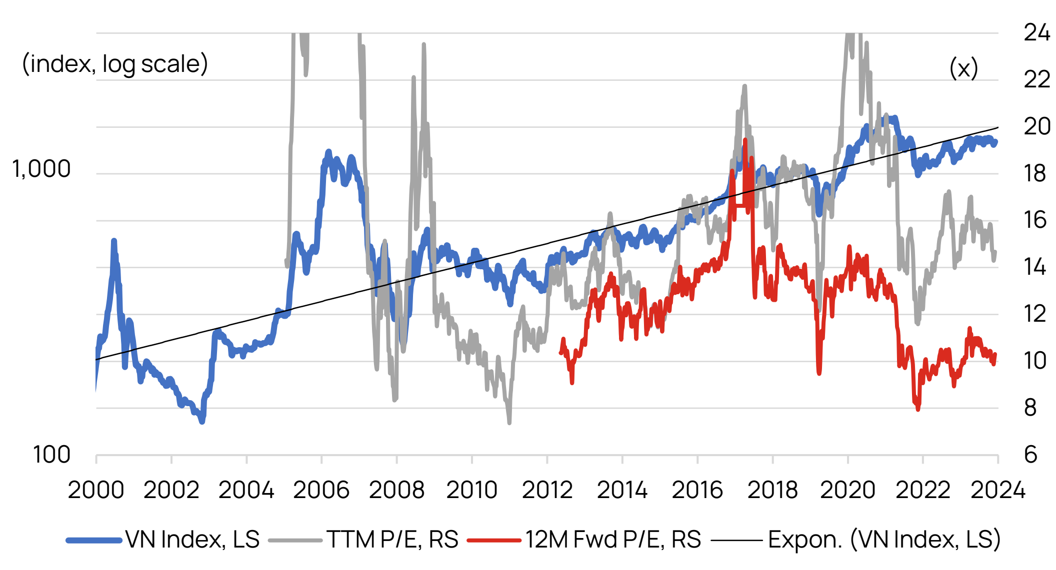
Index earnings and market valuations

TTM & consensus 12M forward P/Es

The VN-Index closed November 2024 at 1,250. The index's trailing 12-month (TTM) P/E (based on Bloomberg's adjusted earnings from sustainable operations) was 14.7x — between 0.5 and 1.0 standard deviations (SD) below the average since the end of 2014 of 16.5x. The 12M forward P/E based on Bloomberg consensus earnings forecasts (which are not adjusted and therefore less conservative than the measure of TTM earnings cited above) was 10.3x — or just over 1.0 SD below the average since the end of 2014 of 12.6x.

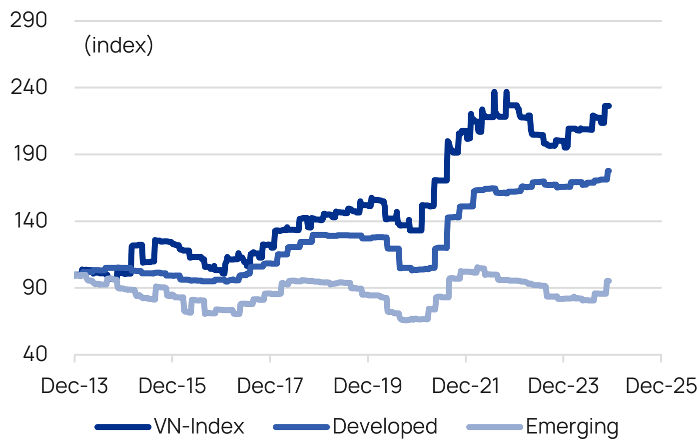
VN-Index earnings have grown faster than the earnings of MSCI global indices and TIPS markets on a cumulative basis since the end of 2013. Rolling 12M forward consensus EPS forecasts show a similar profile. Meanwhile, P/E multiples for the VN-Index look undemanding in comparison with global developed and emerging market indices and TIPS markets.

Figure 84: VN-Index, TTM P/E & 12M forward P/E



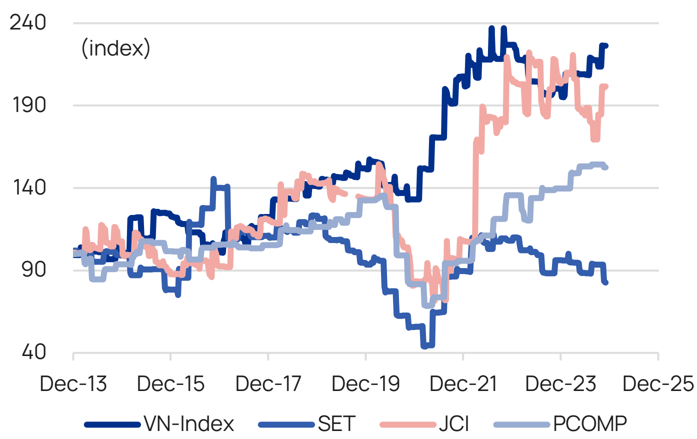
Source: Bloomberg, Vietcap (data to November 2024)

Figure 85: VN-Index & MSCI global indices, TTM EPS



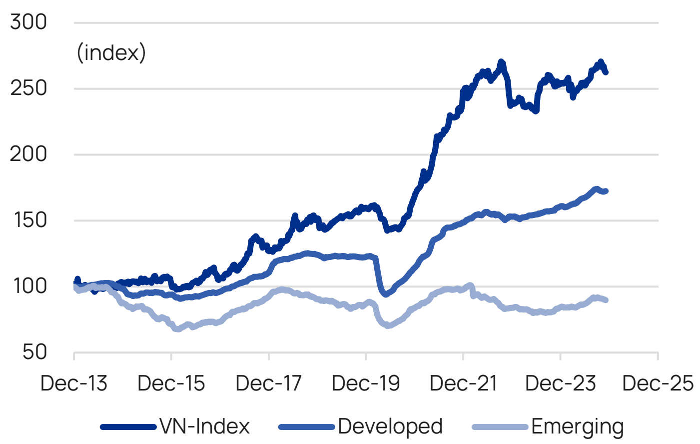
Source: Bloomberg, Vietcap

Figure 86: VN-Index & TIPs markets, TTM EPS



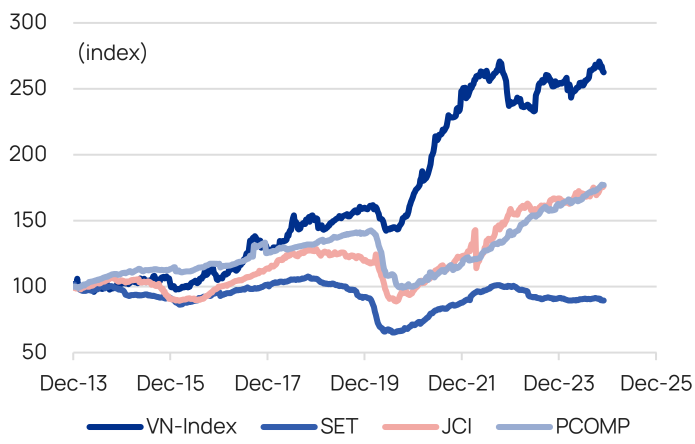
Source: Bloomberg, Vietcap

Figure 87: VN-Index & MSCI global indices, 12M forward EPS*



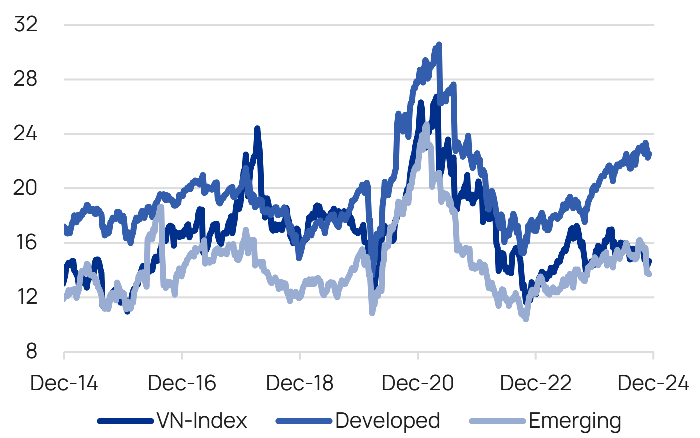
Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 88: VN-Index & TIPs markets, 12M forward EPS*



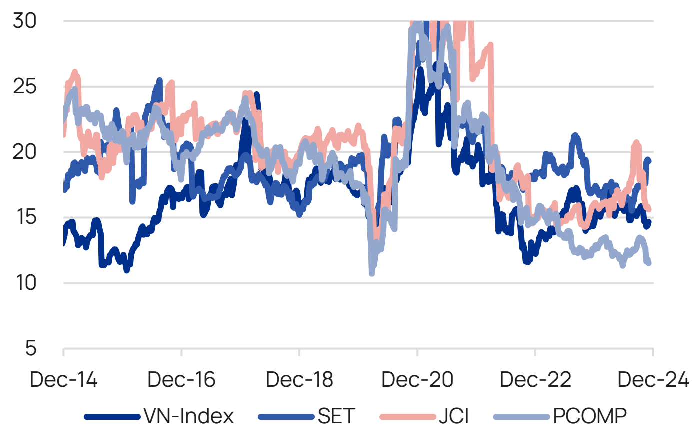
Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 89: VN-Index & MSCI global indices, TTM P/E



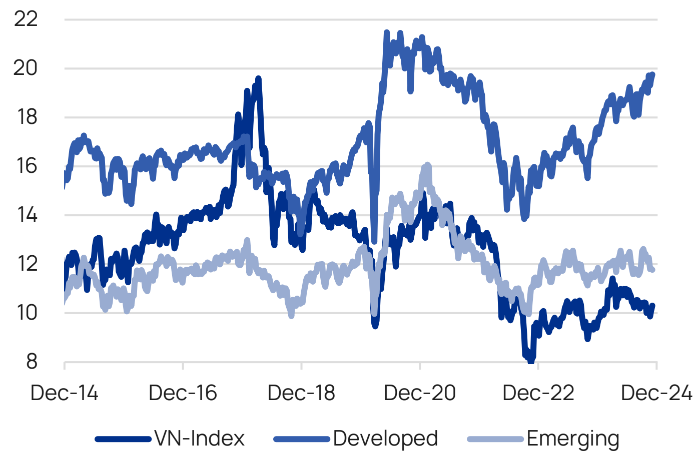
Source: Bloomberg, Vietcap

Figure 90: VN-Index & TIPs markets, TTM P/E



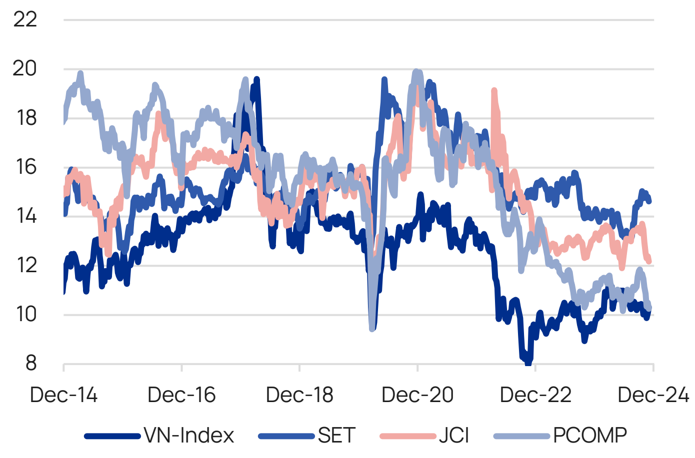
Source: Bloomberg, Vietcap

Figure 91: VN-Index & MSCI global indices, 12M forward P/E*



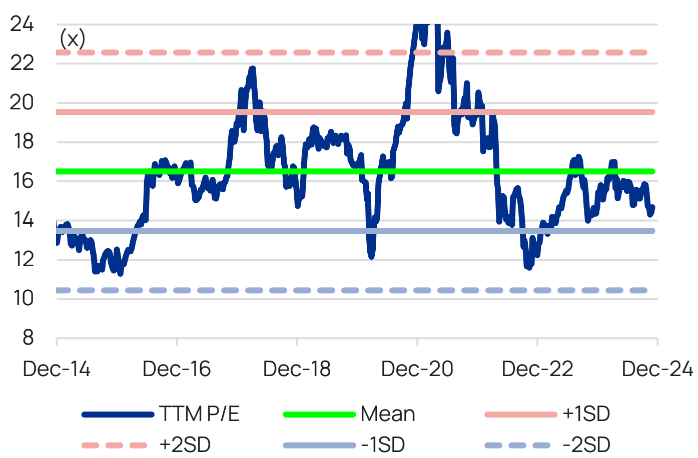
Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 92: VN-Index & TIPs markets, 12M forward P/E*



Source: Bloomberg, Vietcap (* Bloomberg consensus forecasts)

Figure 93: VN-Index TTM P/E since end-2014

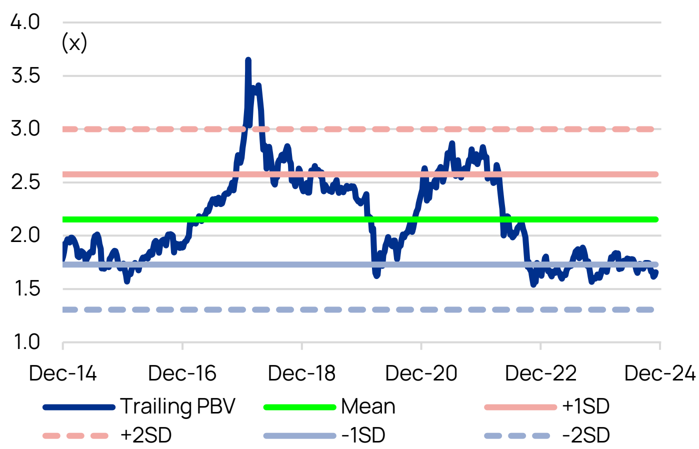


Source: Bloomberg, Vietcap

Figure 94: VN-Index consensus 12M Fwd P/E since end-2014

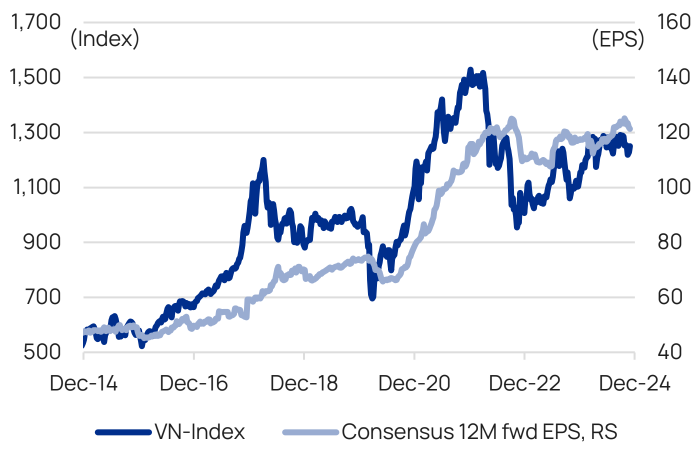
Source: Bloomberg, Vietcap

Figure 95: VN-Index trailing P/BV since end-2014



Source: Bloomberg, Vietcap

Figure 96: VN-Index & consensus 12M Fwd EPS



Source: Bloomberg, Vietcap

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Banks: Strong top-line growth with improvement in asset quality

- We forecast 2025F system-wide credit growth of 13.9%, driven by strong economic growth momentum, a persisting low-interest rate environment, and system-wide deposit growth of 13.4% in 2025, aligning with expected credit growth. We anticipate continued strong credit demand from corporate sectors, while expecting retail lending, including mortgages, to continue recovering.
- We forecast aggregate NIM for banks under our coverage at 3.69% in 2025F (+14 bps YoY), driven by (1) stronger credit demand from retail borrowers, (2) reduced support packages for customers as the economy recovers, and (3) better asset quality.
- We expect improvement in asset quality in 2025F and forecast an aggregate NPL ratio grossed up for write-offs plus Group 2 loans of 3.92% (-45 bps YoY). We forecast most of the private banks under our coverage to strengthen their provisioning buffers in 2025.
- For 2025, we forecast a 22.3% YoY increase in aggregate NPAT, supported by (1) an 18.2% YoY rise in aggregate NII, driven by higher NIM and credit growth, and (2) a 22.5% YoY increase in aggregate NOII.
- Our coverage universe is trading at a 0.5 standard deviation below its seven-year average trailing P/B and we believe valuations are attractive.
- Our top picks for 2025 are ACB, MBB, VPB, and STB. These stocks offer some of the highest projected returns based on our end-2024 target prices as of November 29. We believe these banks offer robust core performance and strong growth outlooks at attractive valuations.

Figure 97: Key data for banks under our coverage

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	TSR %
BID	BUY	10,489	81.0%	30.0%	1,339	8	46,000	57,000	12/02/24	23.9%	0.0%	23.9%
VCB	BUY	21,015	74.8%	30.0%	1,384	10	94,000	114,500	12/02/24	21.8%	0.0%	21.8%
CTG	BUY	7,819	64.5%	30.0%	265	3	36,400	43,000	12/02/24	18.1%	0.0%	18.1%
TPB	BUY	1,738	0.0%	30.0%	0	9	16,450	22,200	12/02/24	35.0%	0.0%	35.0%
ACB	BUY	4,592	0.0%	30.0%	0	6	25,700	33,400	12/02/24	30.0%	3.9%	33.9%
VPB	BUY	6,188	0.0%	30.0%	119	13	19,500	25,000	12/02/24	28.2%	5.1%	33.3%
STB	BUY	2,560	0.0%	30.0%	166	15	33,950	43,700	12/02/24	28.7%	0.0%	28.7%
MBB	BUY	5,211	9.4%	23.2%	0	15	24,550	31,000	12/02/24	26.3%	2.0%	28.3%
TCB	BUY	6,839	0.0%	22.5%	18	7	24,200	28,000	12/02/24	15.7%	3.1%	18.8%
HDB	BUY	3,111	0.0%	20.0%	7	11	26,700	30,000	12/02/24	12.4%	3.8%	16.1%
VIB	O-PF	2,306	0.0%	5.0%	0	7	19,350	21,000	12/02/24	8.5%	5.2%	13.7%
LPB	SELL	3,448	0.0%	5.0%	152	8	33,700	20,000	12/02/24	-40.7%	0.0%	-40.7%

Figure 98: Summary valuations

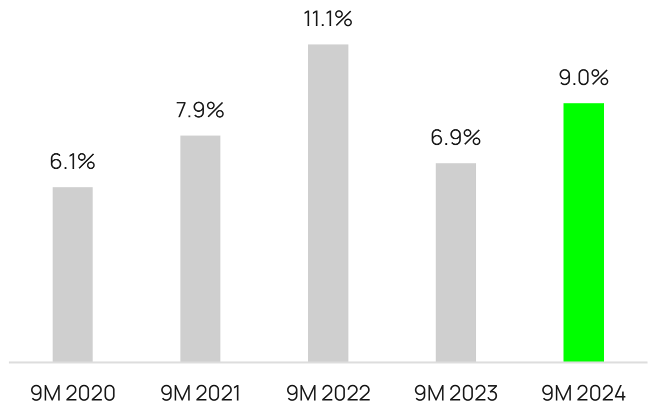
Code	Share Price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/B 2024F x	P/B 2025F x	P/B 2026F x	P/E 2024F x	P/E 2025F x	P/E 2026F x	ROE 2025F %	Assets/ equity LQ x
BID	46,000	11.4%	13.1%	7.2%	1.83	1.57	1.40	12.6	11.1	10.4	17.3%	18.6
VCB	94,000	4.1%	12.4%	18.8%	2.68	2.05	1.86	17.0	15.1	12.7	17.3%	10.2
CTG	36,400	11.2%	30.9%	19.4%	1.36	1.16	1.02	10.4	7.9	6.7	18.6%	15.8
TPB	16,450	30.2%	31.0%	20.0%	1.13	0.94	0.79	7.5	5.7	4.8	18.0%	10.6
ACB	25,700	4.8%	23.7%	14.3%	1.38	1.15	0.96	6.9	5.6	4.9	22.8%	9.9
VPB	19,500	34.8%	15.3%	25.8%	1.10	1.04	0.96	10.5	9.1	7.3	11.3%	6.0
STB	33,950	-1.2%	81.4%	12.9%	1.21	0.97	0.80	9.0	5.0	4.4	25.1%	13.7
MBB	24,550	8.6%	14.5%	21.8%	1.14	0.95	0.78	5.8	5.0	4.1	20.6%	9.4
TCB	24,200	20.6%	20.1%	16.4%	1.17	1.02	0.89	7.9	6.6	5.6	16.7%	6.4
HDB	26,700	23.0%	14.4%	13.7%	1.43	1.18	0.98	6.2	5.4	4.8	23.8%	11.7
VIB	19,350	-31.4%	21.4%	21.7%	1.39	1.23	1.07	8.4	6.9	5.7	19.0%	11.2
LPB	33,700	40.8%	14.5%	1.2%	2.08	1.73	1.48	11.7	10.3	10.1	20.2%	11.2

Source: Vietcap (Share prices as of December 5, 2024)

Sector recap and outlook

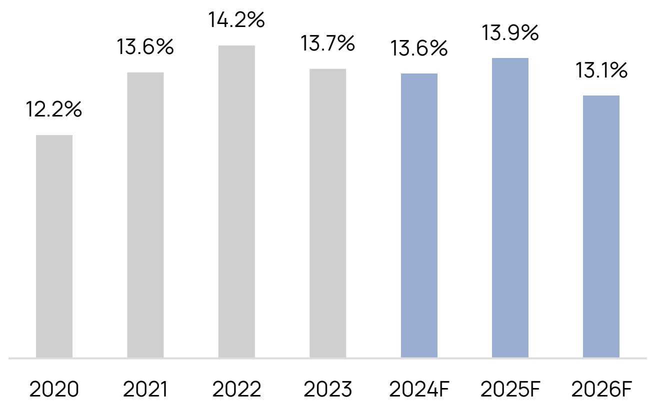
Credit growth

Figure 99: System credit growth (cumulative YTD)



Source: State Bank of Vietnam (SBV), General Statistics Office of Vietnam (GSO), Vietcap

Figure 100: Annual system credit growth



Source: SBV, Vietcap estimates. * 2024F and 2025F represent implied system-wide credit growth, which is calculated based on our forecast for credit growth of banks in our coverage universe minus the average difference in the five years to 2023.

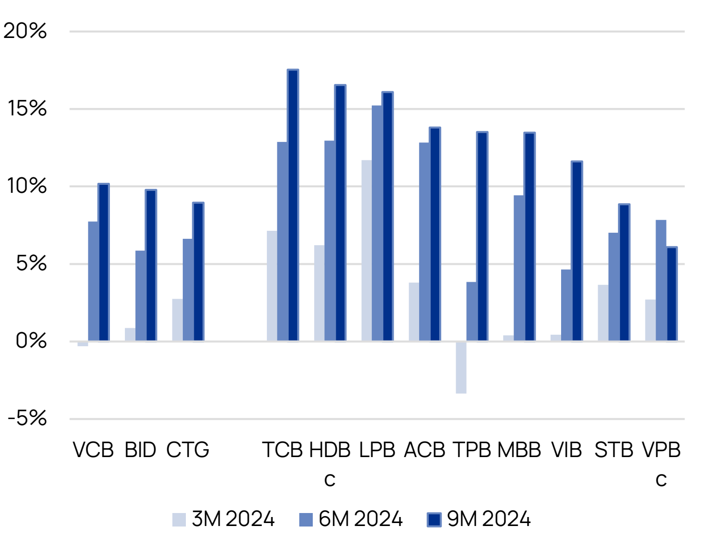
Though QoQ credit growth slowed down in Q3 2024, 9M system-wide credit growth of 9% YTD is encouraging. We attribute 9M strong credit growth to a continual economic recovery amid the current low-interest rate environment. On a QoQ basis, Q3 2024 credit growth eased after strong disbursements in late Q2 2024.

We currently forecast 2024F credit growth of 13.6%, driven by stronger economic activities at the year-end. As of 22 November, the system wide credit growth was 11.12% and the Governor expressed confidence in achieving 2024 credit growth target of 14-15%, partially supported by seasonal factors in late 2024. On November 28, the SBV announced an increase in credit quotas for credit institutions that have utilized at least 80% of their quotas set on August 28. Based on 9M 2024 performance, we expect HDB (9M credit growth of 17%), TCB (9M credit growth of 17.5%), LPB (9M credit growth of 16.1%), ACB (9M credit growth of 13.8%), MBB (9M credit growth of 13.5%), and TPB (9M credit growth of 13.8%) to receive additional credit quotas.

We forecast 2025F system-wide credit growth of 13.9%, driven by strong momentum in economic growth and a steady low-interest rate environment. We expect that the SBV will continue to maintain an accommodative monetary policy. We note that a recent Resolution approved by the National Assembly on November 12, 2024, prioritizes growth, targeting 2025 GDP growth of 6.5-7%.

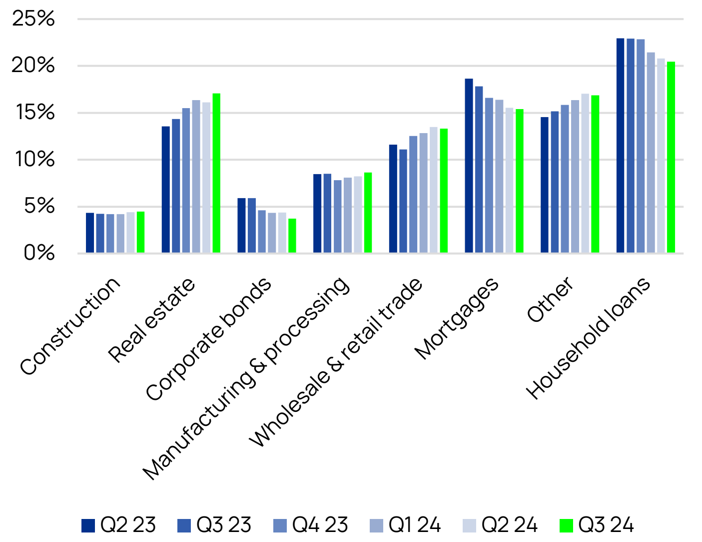
The divergence in credit growth among banks continues to intensify with the new credit quota allocation scheme. Banks under our coverage reported higher credit growth for 9M 2024 compared to the industry average (11.3% vs 9.0%), with standout performances from private banks such as TCB (+17.5%), HDB (+16.6%), ACB (+13.8%), and LPB (+16.1%). Recently, the SBV has allowed banks that have utilized at least 80% of their initial credit quota to increase it automatically, subject to their SBV score. This adjustment may further widen the gap in credit growth between groups of banks.

Figure 101: YTD credit growth of banks under our coverage



Source: Company data, Vietcap; ('c' denotes consolidated)

Figure 102: Breakdown of credit balance of private banks that provide quarterly disclosures (HDB, VPB, MBB, TCB, TPB, VIB)

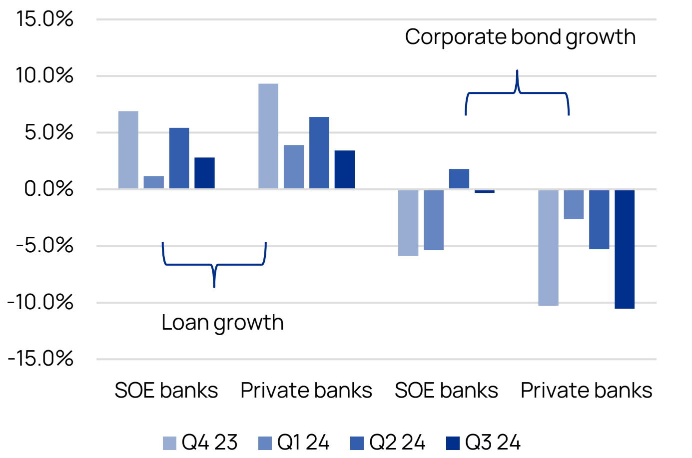


Source: Company data, Vietcap

The corporate segment remained the main driver for credit growth in 9M 2024. The data for private banks under our coverage which provide quarterly breakdowns (including VPB, HDB, MBB, TCB, VIB, and TPB) showed that 9M 2024 credit growth was driven by (1) wholesale & retail trade business (+24.3% YTD), (2) construction (+26.2% YTD), and (3) real estate business (+30.8% YTD). However, the demand for credit in the mortgages and household loans segments showed signs of recovery QoQ in Q3 2024, with respective increases of 8.3% and 9.4% QoQ.

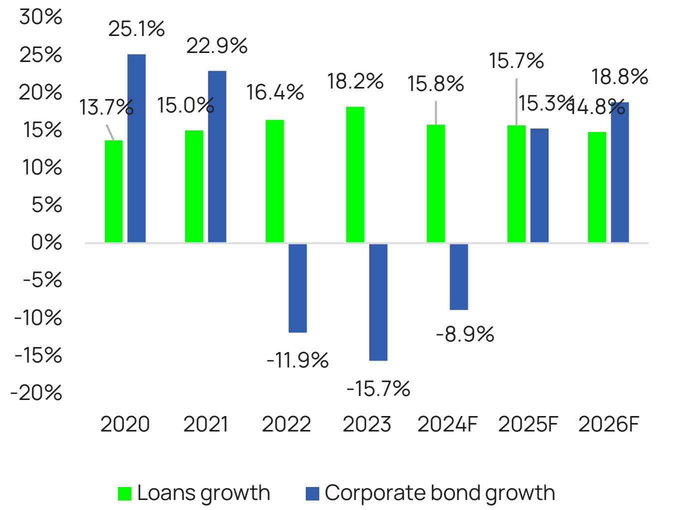
The corporate bond balance at banks under our coverage continued its downward trend in Q3 2024 from Q4 2022. Most of these banks reported declines in the corporate bond balance as of Q3 2024, showing reductions of 15.6% and 22.6% compared to Q4 2023 and Q4 2022, respectively. We attribute this to (1) the limited new issuances of non-financial corporate bonds and (2) potential early redemption by issuers amid tightening regulation. Notably, while corporate bond exposure decreased, these banks increased lending to real estate developers in 2023 and 2024.

Figure 103: QoQ credit growth breakdown by segment



Source: Company data, Vietcap

Figure 104: Annual credit growth by segment



Source: Company data, Vietcap estimates

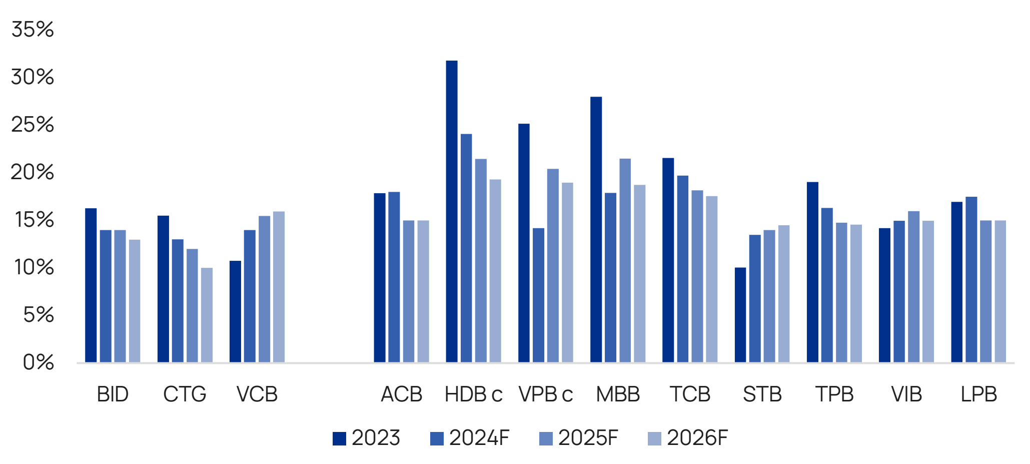
For 2025, among the banks we cover, we expect TCB, MBB, HDB, and VPB to achieve credit growth above the system-wide level. This growth will be driven by (i) their large customer bases, (ii) their distinct competitive advantages, and (iii) potentially higher credit quotas from the SBV, as we have seen in previous years due to their strong capital positions and/or their involvement in supporting weak banks (HDB, VPB, and MBB). Similar to 2024, we expect the SBV to announce the system-wide credit growth target for 2025 and allocate credit quotas to individual banks early in 2025. It will give them more flexibility to make a whole year disbursement plan. In the recent National Assembly meeting, the Governor shared that 2025 system-wide credit growth is projected at around 15%.

We anticipate continued strong credit demand from corporate sectors, particularly that wholesale and retail trade, construction, and real estate will remain key drivers of 2025 credit growth in the corporate segment. In addition, with a more favorable economic outlook, we expect corporates in these sectors to seek mid- to long-term loans to fund further business expansions.

We also expect retail lending, including mortgages, to continue recovering. This trend is supported by (i) improving household incomes and (ii) stronger consumer confidence. Regarding mortgage lending, we have observed (i) increased preparation and launch of new projects in 2024, (ii) acceleration of key national infrastructure projects, (iii) rising homebuyer confidence, and (iv) current attractive lending rates—all of which create a favorable environment for mortgage lending to grow.

We expect the corporate bond market to improve in 2025, with a gradual increase in both transaction volume and outstanding value driven by: (i) increased demand for bonds due to low deposit rates, (ii) continue improving investor sentiment from an ongoing recovery of the real estate market, and (iii) increase in market liquidity supported by enhanced transparency for bond issuance and a new bond trading platform. We maintain our view that corporate bonds will help to diversify the funding sources in Vietnam and forecast 15.3% YoY growth from a low base in the total corporate bond balance of banks under our coverage in 2025F.

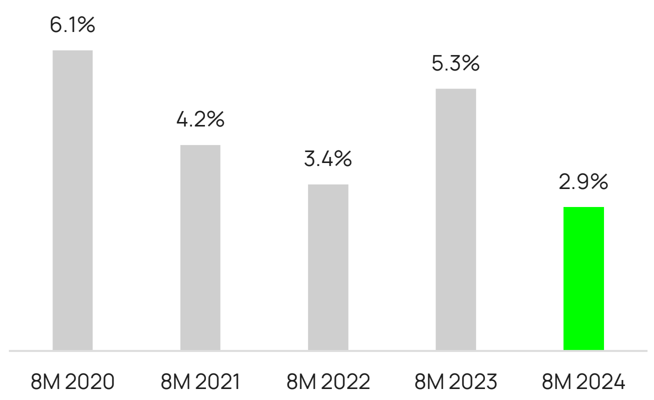
Figure 105: Forecasts for credit growth by bank



Source: Company data, Vietcap; ('c' denotes consolidated)

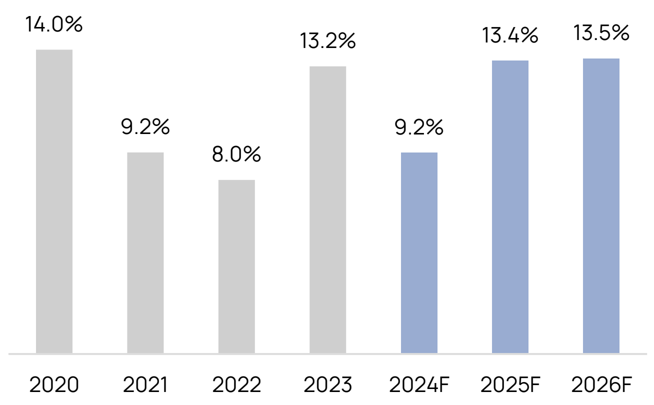
Deposit growth

Figure 106: System deposit growth (cumulative YTD)



Source: SBV, Vietcap

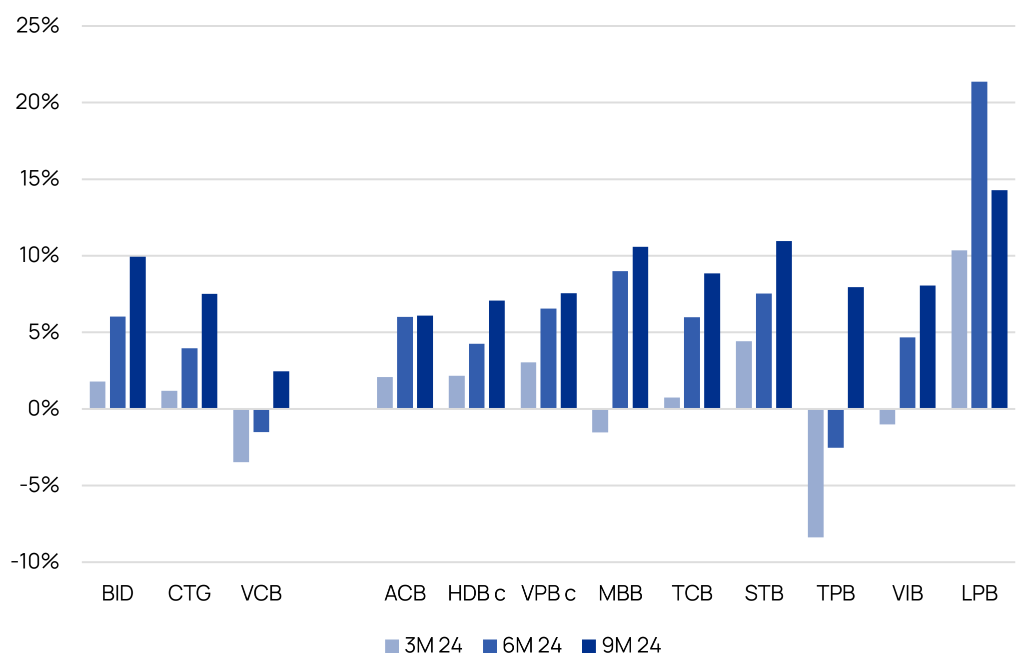
Figure 107: Annual system deposit growth



Source: SBV, Vietcap estimates. * 2024F -2026F represent implied system-wide deposit growth, which is calculated based on our forecast for deposit growth of banks in our coverage universe minus 2.4 ppts (the average difference in the last four years).

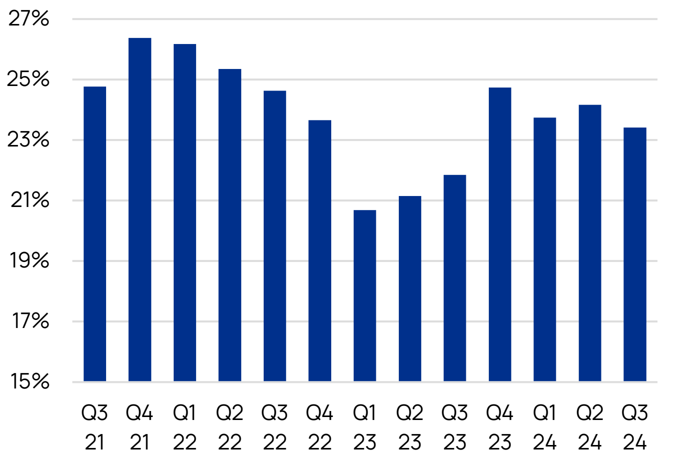
System-wide deposit growth in 8M 2024 remained weak at around 2.9% (the latest data disclosed by the SBV). The breakdown by the SBV indicates that deposits from institutions were weak and decreased by 0.05%, while deposits from individuals increased by 6.0%. In addition, 9M 2024 aggregate deposit growth of banks under our coverage was 7.8% (vs 4.8% in H1 2024), which we believe could indicate that 9M 2024 system-wide deposit growth might be higher than that of 8M 2024. We believe banks try to optimize costs in the context of stiffer competition in lending. Additionally, most disbursements in the first nine months were for short-term loans. While deposit growth remained weak, banks' valuable papers increased 16.8% in 9M 2024 amid the low-interest environment.

Figure 108: Deposit growth of banks under our coverage



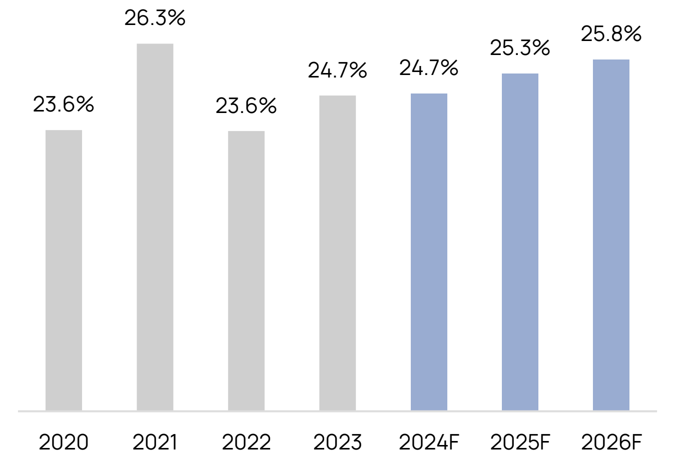
Source: Company data, Vietcap; ('c' denotes consolidated)

Figure 109: Aggregate CASA ratio of banks under our coverage, quarterly



Source: Company data, Vietcap

Figure 110: Aggregate CASA ratio of banks under our coverage, yearly



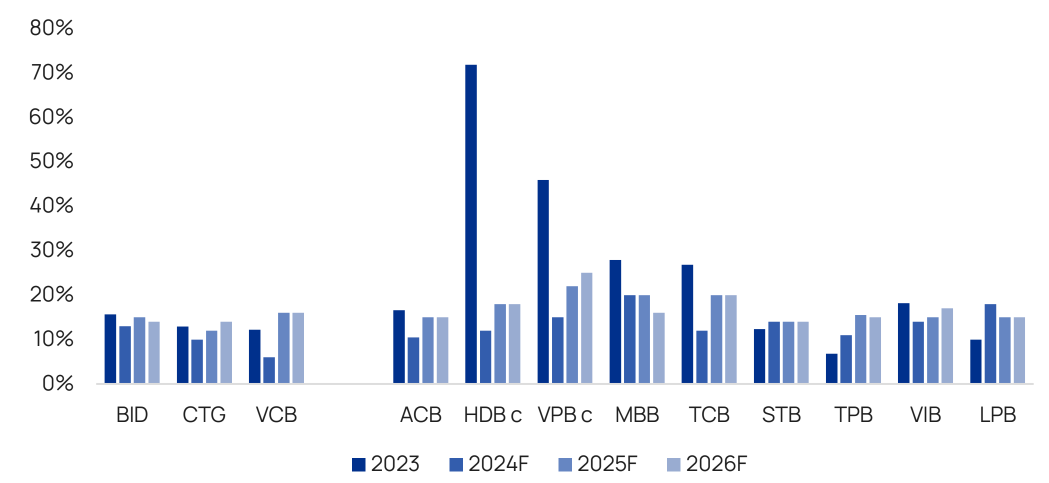
Source: Company data, Vietcap

The aggregate CASA ratio for banks under our coverage rose YoY in Q3 (+1.6 ppts) but dipped slightly QoQ (-75 bps) to 23.4%. We anticipate an improvement in the CASA ratio in Q4 2024, driven by seasonal factors like what we observed in Q4 last year.

We forecast system-wide deposit growth of 13.4% in 2025, aligning with expected credit growth. Some banks may face pressure in attracting deposits due to anticipated strong credit growth in 2025 amid current high LDR. We note that from January 1, 2025, to December 31, 2025, 80% of the State Treasury deposits will be deducted from the deposits base in the regulated LDR calculation, according to Circular 26/2022/NHNH, from the current level of 60%. This implies that SOCBs will need to mobilize more customer deposits to offset the reduction in the State Treasury deposits to maintain their regulated LDR level. We see a challenge for fund mobilization for SOCBs amid the gap deposit rate offered by SOCB and private banks.

Additionally, we expect a modest improvement in the CASA ratio in 2025, supported by (i) a low-interest rate environment combined with stronger economic activity, and (ii) ongoing advancements in digital innovation.

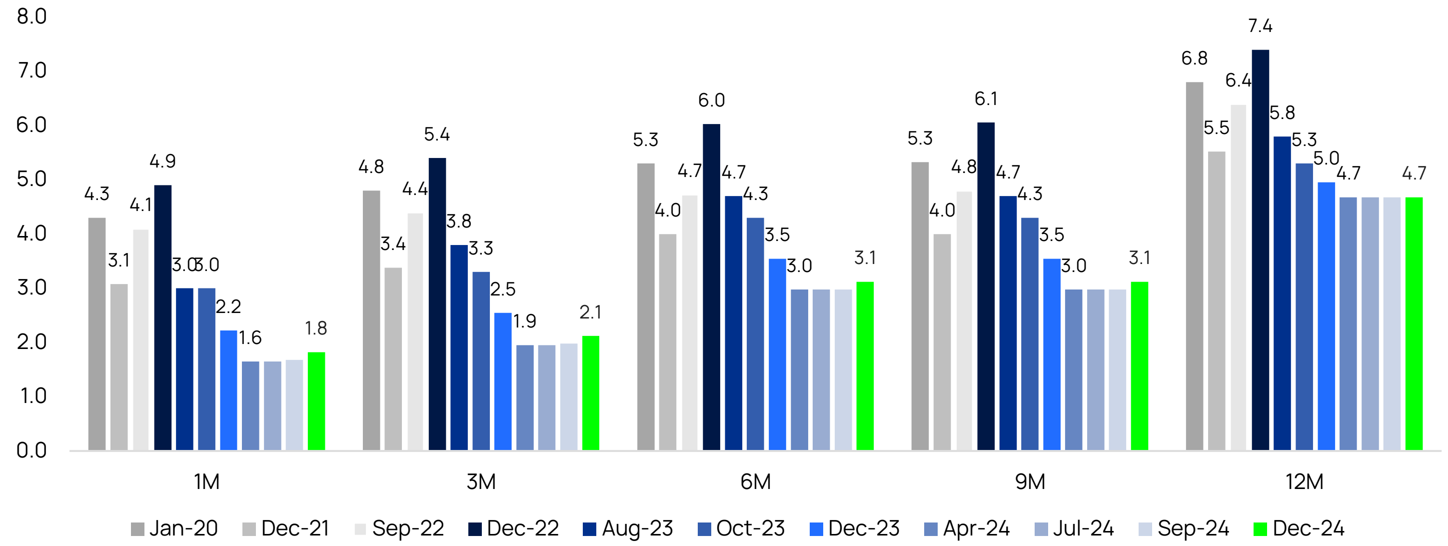
Figure 111: Forecasts for deposit growth by bank



Source: Company data, Vietcap; ('c' denotes consolidated)

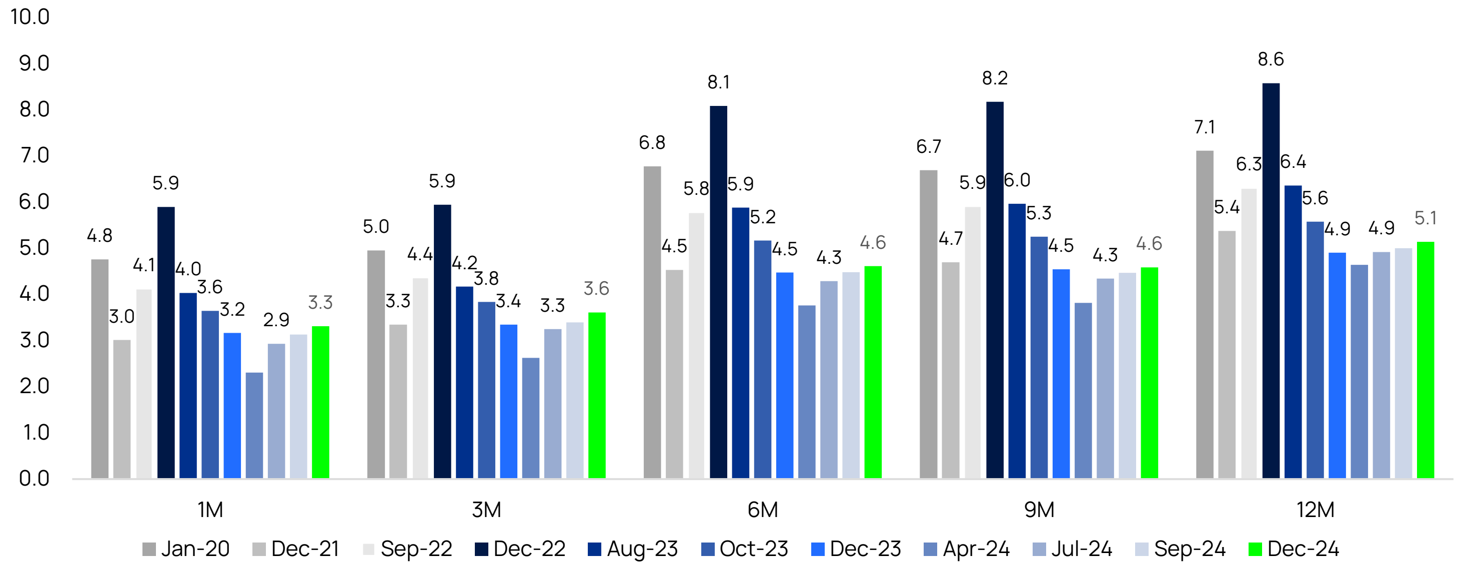
Interest rates

Figure 112: Weighted average deposit rates of SOE banks (%)



Source: Company data, Vietcap. Weighted average rates of covered SOCBs and Agribank.

Figure 113: Weighted average deposit rates of private banks (%)



Source: Company data, Vietcap. Weighted average rates of private banks under Vietcap coverage.

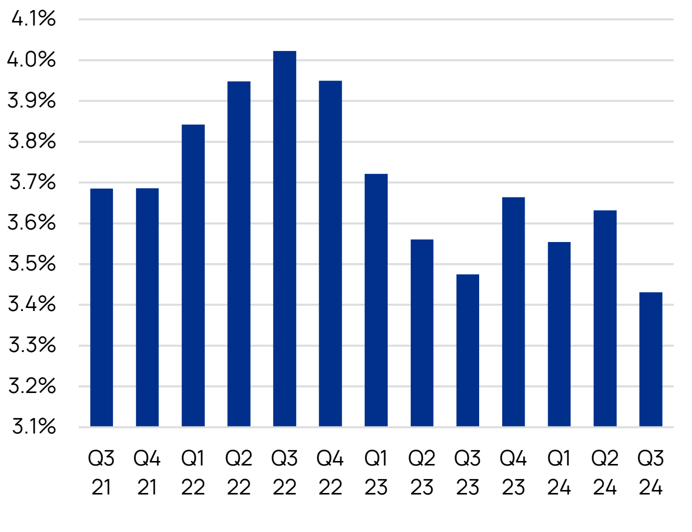
We believe the SBV will maintain a loose monetary policy to support economic growth. However, as the economy continues to recover and credit demand strengthens, we expect a gradual increase in interest rates in 2025, with a forecasted 25-basis-point rise in the deposit rate cap for terms under six months to 5.0%.

Under a Donald Trump administration, the USD could strengthen as higher tariffs could drive up US inflation and prompt a relatively tighter monetary policy from the Fed vs the current consensus for further rate cuts over the next couple of years. A stronger dollar might lead to capital outflows from Vietnam, with exporters potentially hoarding US Dollars, and pressure on the VND, limiting Vietnam's ability to maintain its loose monetary policy.

However, with strong economic growth projected for Vietnam in 2025 and an anticipated Fed rate-cutting outlook, albeit slower, we do not expect the SBV to shift away from its growth-focused monetary policy stance.

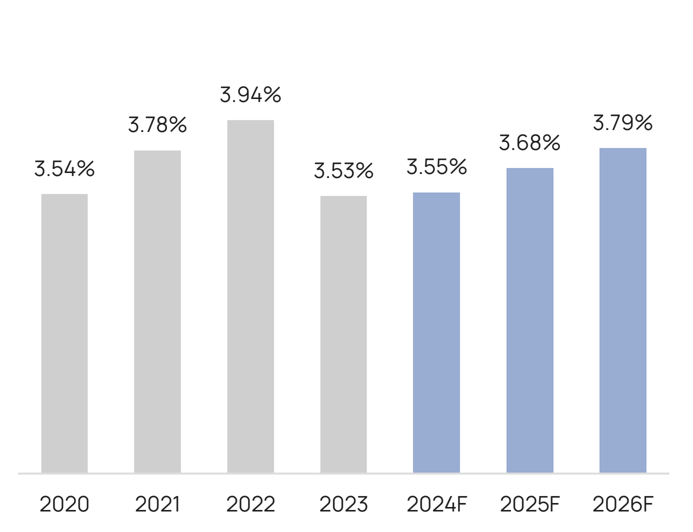
Net interest margins (NIM)

Figure 114: Aggregate NIM, quarterly



Source: Company data, Vietcap

Figure 115: Aggregate NIM, yearly

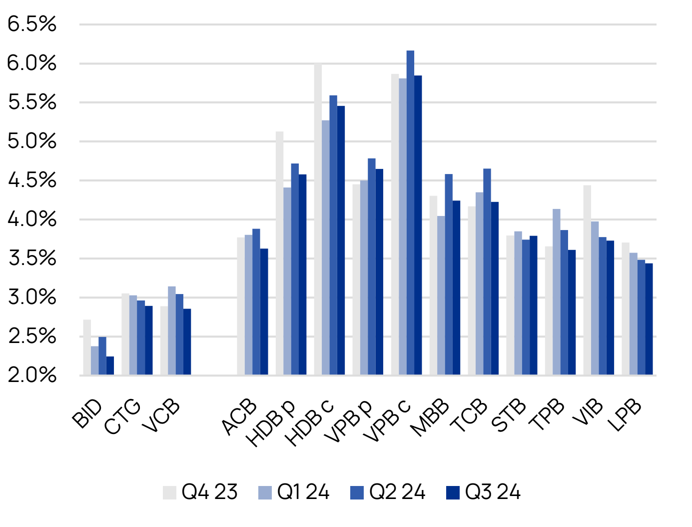


Source: Company data, Vietcap

Aggregate 9M 2024 NIM declined YoY to 3.40% (-14 bps YoY), driven by (1) a sharper drop in IEA yields compared to COF due to intense lending competition and persistently high NPL levels, despite a QoQ improvement in NPL formation, and (2) slow progress in higher-yield segments. We observe a consistent NIM contraction across the banks in our coverage.

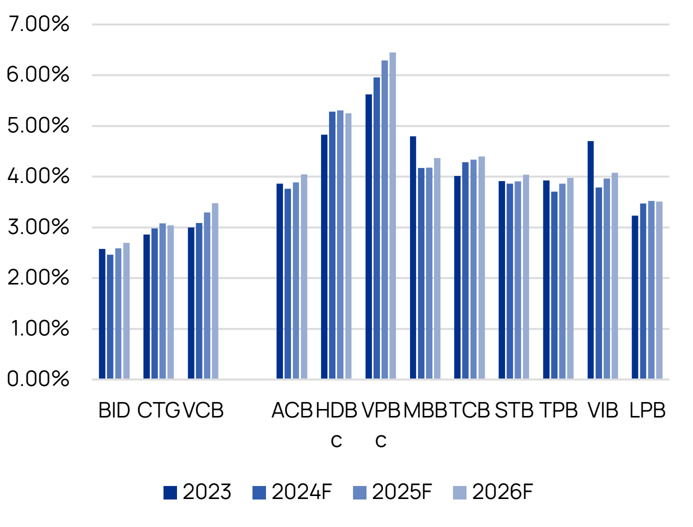
We forecast aggregate NIM for banks under our coverage at 3.55% in 2024F (relatively flat YoY) and 3.68% in 2025F (+13 bps YoY). Our 2024F aggregate NIM forecast reflects an expected QoQ improvement in Q4 2024, supported by stronger credit growth and retail lending influenced partly by seasonal factors. For 2025, NIM improvement is expected to be driven by (1) stronger credit demand from retail borrowers, (2) reduced support packages for customers as the economy recovers, and (3) improvement in asset quality. We project aggregate NIM for SOE banks to increase by 14 bps YoY, and for private banks to rise by 10 bps YoY in 2025F.

Figure 116: NIM by banks, quarterly



Source: Company data, Vietcap; ('c' denotes consolidated)

Figure 117: NIM by banks, yearly



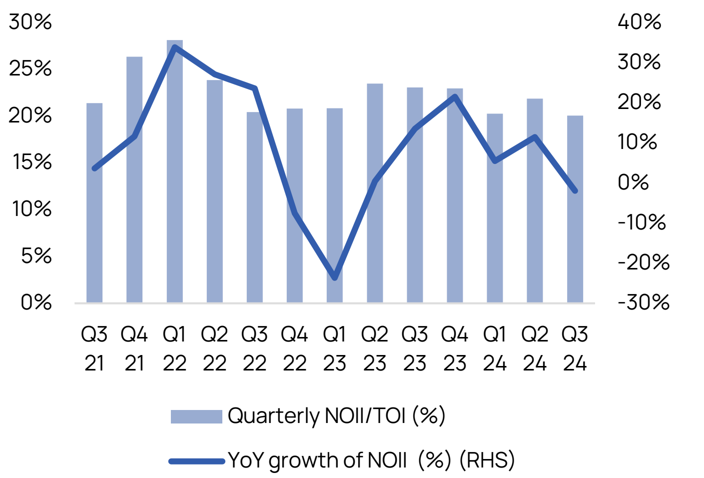
Source: Company data, Vietcap; ('c' denotes consolidated)

Vietcap

Non-interest income (NOII)

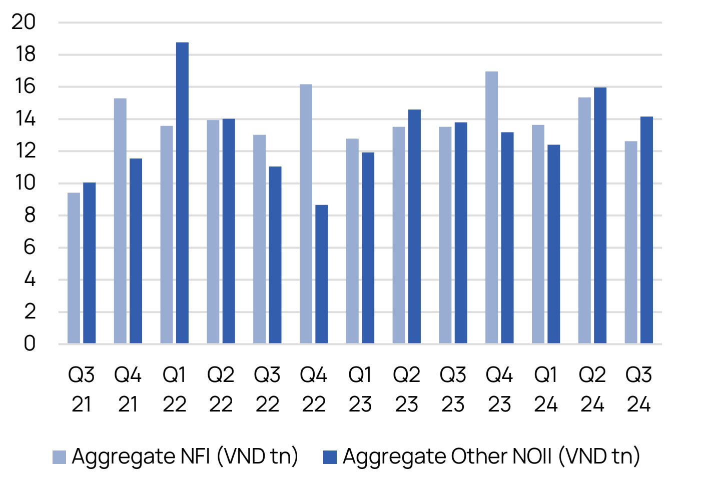
9M NOII showed a slight YoY improvement of 5.5%, driven by (i) an 8.7% YoY increase in pure NFI and (2) a 2.5% YoY increase in other NOII. The lower-than-expected YoY rise in 9M NFI was due to (i) persistent weakness in bancassurance fee income and (ii) reclassification of some fee incomes to interest income by some banks from Q3 2024 (i.e., VIB and TCB), while the lower-than-expected rise in 9M Other NOII was due to (i) low income of recovery from written-off bad debts and (ii) the smaller gains from FX at some banks due to a narrow bid-ask spread, as selling prices approached the upper limit of the USD/VND spot exchange rate band set by the SBV during some periods.

Figure 118: Quarterly aggregate NOII/TOI and NOII growth



Source: Company data, Vietcap

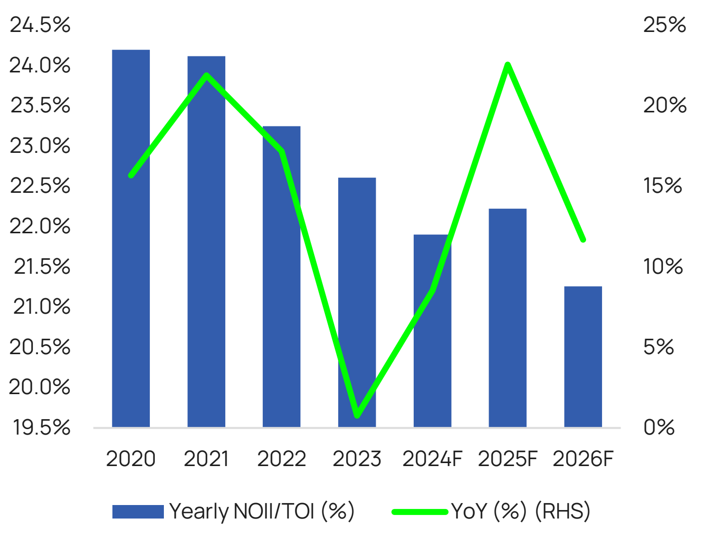
Figure 119: Quarterly NOII breakdown



Source: Company data, Vietcap

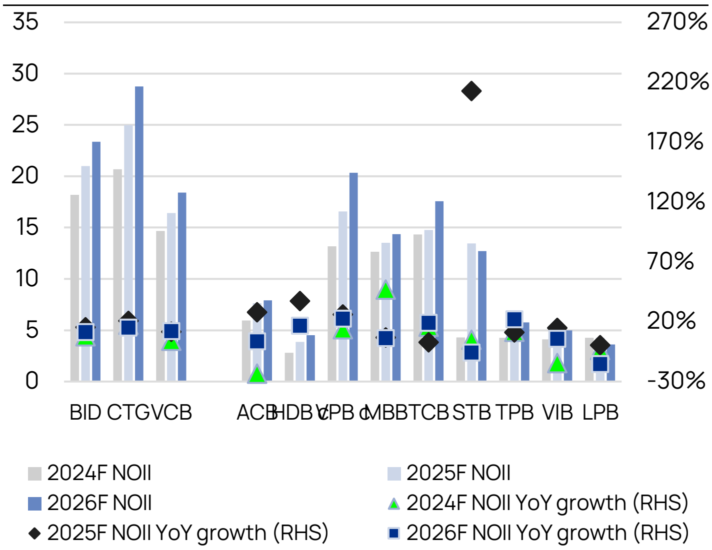
We forecast NOII to increase 22.6% YoY in 2025. Among banks under our coverage, we assume STB will record income of VND7.9tn from selling debt related to Phong Phu Industrial Park in 2025. Excluding STB's one-off income, we forecast NOII to increase 16% YoY in 2025F, driven by our expectation for (1) continual growth in settlement services fees, (2) a modest pickup in bancassurance fee income from a low base in 2024F, and (3) improvement in recoveries from written-off bad debts across all banks amid the recovery of the real estate market.

Figure 120: Aggregate NOII/TOI and NOII growth, yearly



Source: Company data, Vietcap

Figure 121: NOII by banks (VND tn)



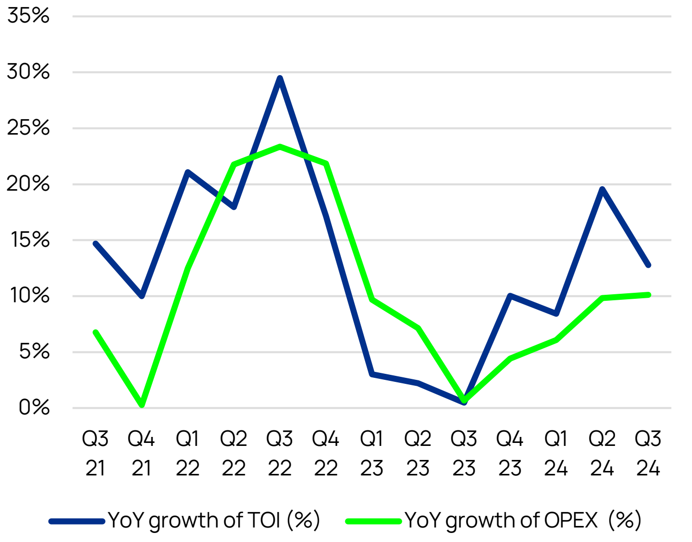
Source: Company data, Vietcap; ('c' denotes consolidated)

Operating costs

9M aggregate CIR remained well managed to support earnings: 9M 2024 aggregate CIR decreased 1.4 ppts YoY to 31.2% with a stronger YoY increase of TOI vs a more modest YoY rise in OPEX, at 13.6% YoY vs 8.7% YoY, respectively.

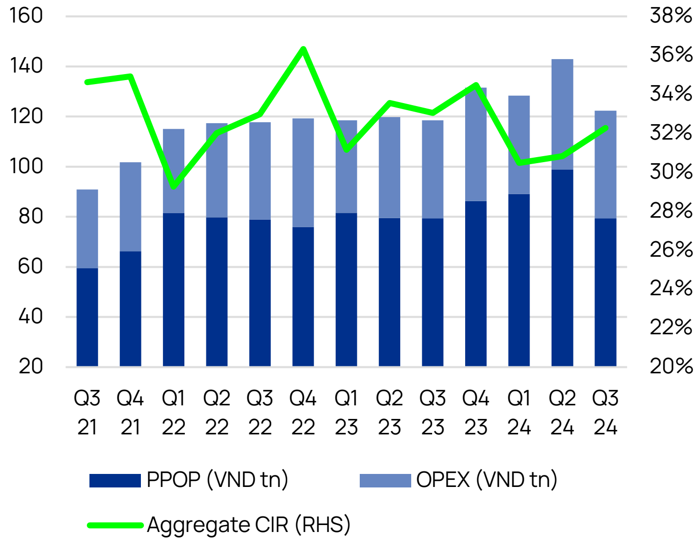
We forecast CIR at 31.7% in 2025, slightly lower than our 2024 estimate of 32.8%. This improvement reflects a 20.8% YoY increase in aggregate TOI, outpacing a 16.6% YoY increase in OPEX. However, excluding projected one-off gains at STB, our 2025 CIR forecast would adjust to 32.1%, remaining relatively flat compared to our 2024 CIR estimate.

Figure 122: Aggregate TOI and OPEX growth, quarterly



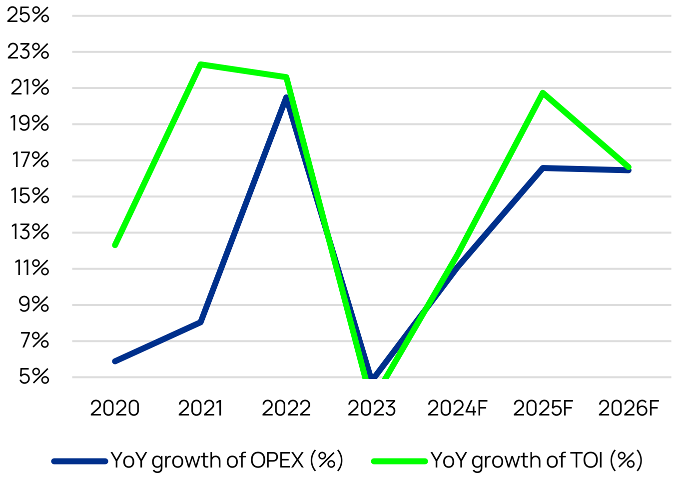
Source: Company data, Vietcap

Figure 123: Aggregate CIR, PPOP & OPEX, quarterly



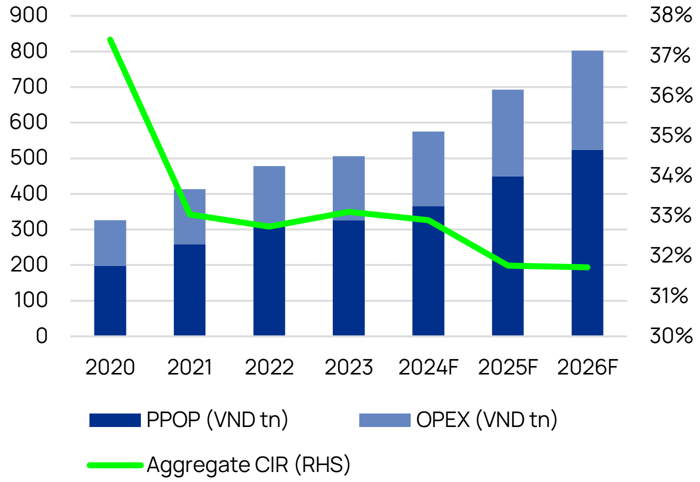
Source: Company data, Vietcap

Figure 124: Aggregate TOI and OPEX growth, yearly



Source: Company data, Vietcap

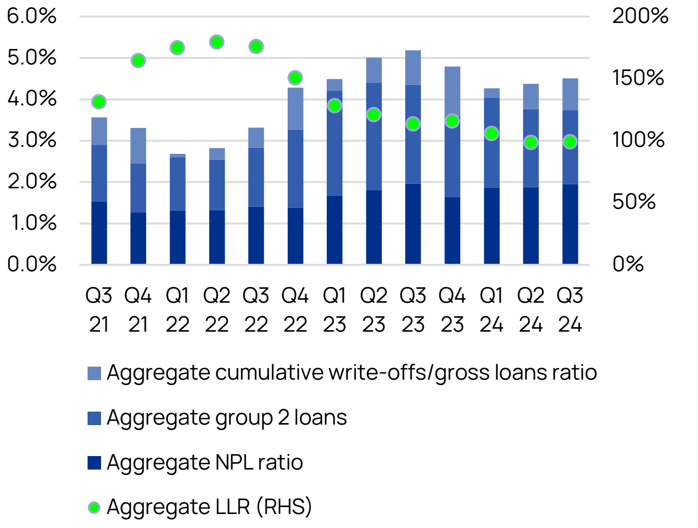
Figure 125: Aggregate CIR, PPOP & OPEX, yearly



Source: Company data, Vietcap

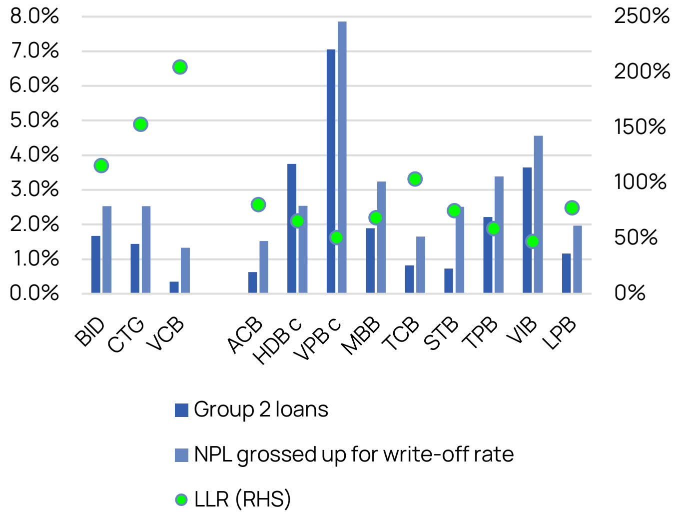
Asset quality and credit costs

Figure 126: Asset quality of Vietcap's banking coverage



Source: Company data, Vietcap

Figure 127: Asset quality of banks in Q3 2024

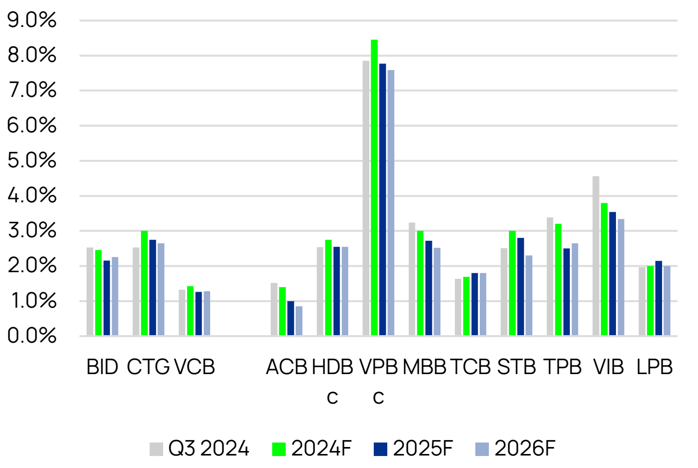


Source: Company data, Vietcap; ('c' denotes consolidated)

The aggregate NPL ratio remained unchanged QoQ in Q3 2024 amid an increase in the write-off of bad debts. The Q3 2024 aggregate NPL ratio remained at 1.9%, unchanged from Q1 & Q2 2024. The 9M 2024 write-off rate was 0.8% (flat YoY; vs 0.6% in H1 2024). The annualized aggregate credit cost remained elevated at 1.2% (-20 bps QoQ), while the aggregate LLR in Q3 2024 was relatively unchanged. However, Q3 2024 NPL formation has eased, and the Group 2 loan ratio continues to improve, showing declines for two consecutive quarters (-10 bps QoQ and -60 bps YoY), suggesting a potential easing of pressure on NPL formation in upcoming quarters.

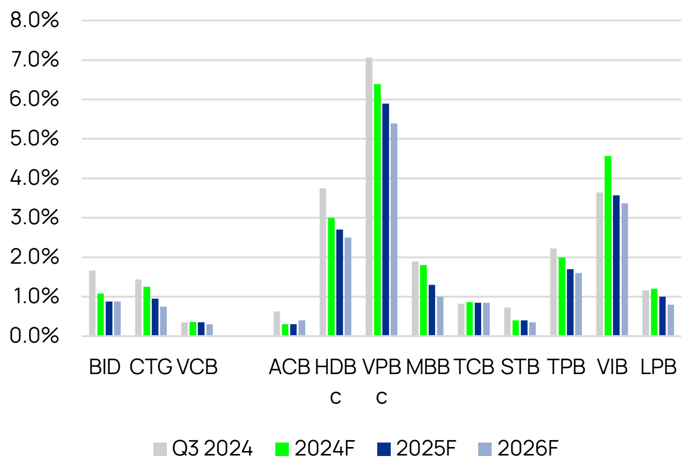
System-wide restructured loans over gross loans under Circular 02 (extended by Circular 06 on June 18, 2024) was nearly 0.9% as of August 31, per the SBV. Banks are proactively provisioning in accordance with regulations. As of Q3 2024, the restructured loans/gross loans at some banks disclosed so far was small, except for TCB (1.3%) and VPB (2.5%). The extended Circular 06 will expire at the end of 2024 and we do not expect a further extension. However, we expect a restructuring scheme for loans affected by Typhoon Yagi to be approved soon.

Figure 128: NPL ratio grossed up for write-offs



Source: Company data, Vietcap; ('c' denotes consolidated)

Figure 129: Group 2 loans



Source: Company data, Vietcap; ('c' denotes consolidated)

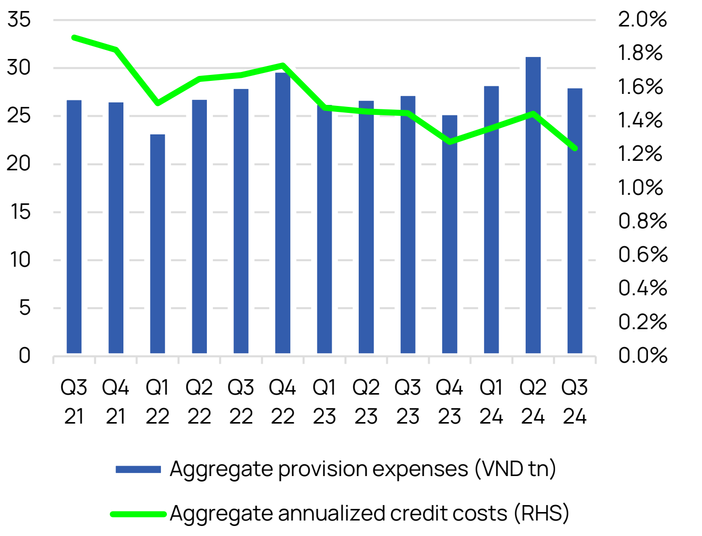
Figure 130: Circular 02 restructured loans over total loan book

Code	Q3 2024
MBB	0.62%
TCB	1.30%
VIB	0.20%
TPB	0.84%
ACB	0.20%
HDB	0.004%
VPB	2.5%
CTG	0.3%
VCB	0.01%

Source: Company data, Vietcap compilation

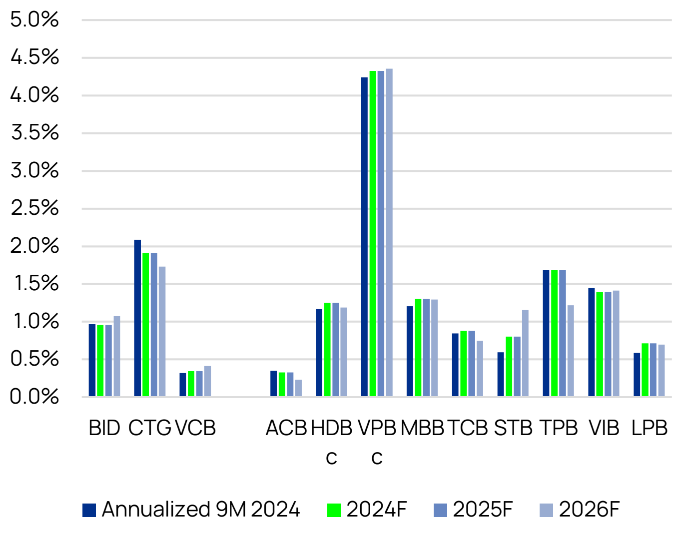
We expect an improvement in asset quality in 2025F. While we forecast NPL ratio grossed up for write-offs for most of the banks under our coverage to slightly increase in Q4 2024, we believe the pressure on NPL formation will be less than in previous quarters. The aggregate Group 2 ratio among these banks has decreased QoQ for two consecutive quarters, indicating a slowdown in NPL formation. We expect asset quality to improve in 2025, supported by a low-interest rate environment and strong credit demand. For 2025, we forecast an aggregate NPL ratio grossed up for write-offs plus Group 2 loans of 3.92% (-45 bps YoY). We anticipate elevated write-off rates as banks continue to clean up their balance sheets.

Figure 131: Aggregate provision expenses (VND tn) and credit costs (%) quarterly



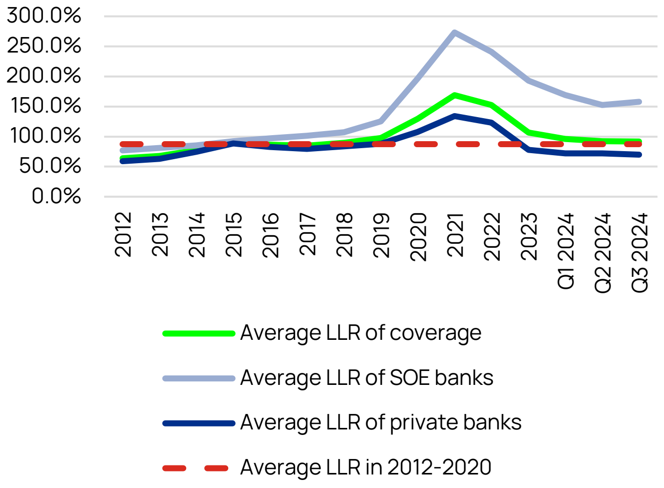
Source: Company data, Vietcap

Figure 132: Credit costs of banks under coverage



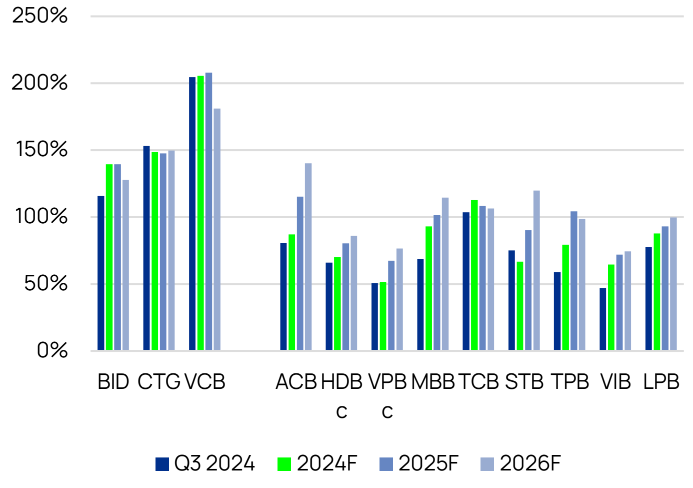
Source: Company data, Vietcap; ('c' denotes consolidated)

Figure 133: Average LLR



Source: Company data, Vietcap

Figure 134: LLR by bank

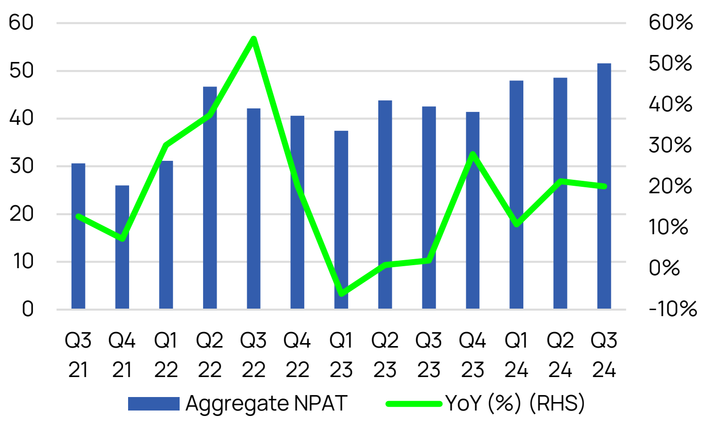


Source: Company data, Vietcap; ('c' denotes consolidated)

We expect most private banks under coverage to continue rebuilding provisioning buffers in 2025F. We have observed SOCBs use their provision buffer to support their earnings amid NIM contraction due to lower lending rates to support the economy, while some private banks start to build up their provision buffers in Q3 2024. We forecast aggregate credit costs to be relatively flat in 2025 YoY at 1.28% and forecast that most of the private banks under our coverage will strengthen their provisioning buffers in 2025.

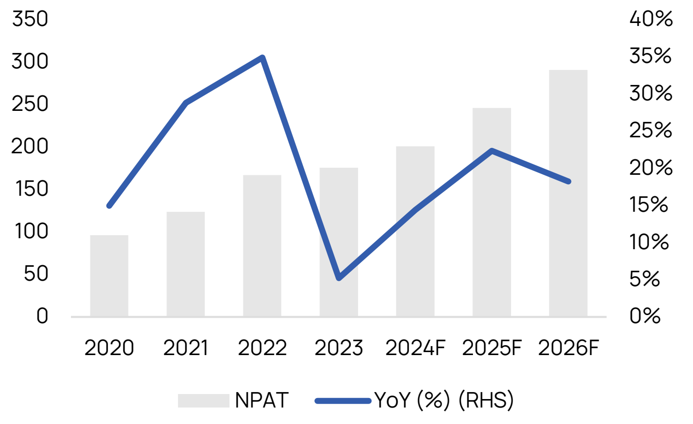
NPAT

Figure 135: NPAT, quarterly (VND tn)



Source: Company data, Vietcap

Figure 136: NPAT, yearly (VND tn)



Source: Company data, Vietcap estimates

The 17.3% YoY increase in 9M 2024 NPAT signals a positive earnings outlook for 2024F, and we expect this earnings growth to continue into 2025F. We forecast 2024F aggregate NPAT for banks under our coverage to grow by 14.4% YoY, implying a 4.1% QoQ and 7.9% YoY increase in Q4 2024, driven by stronger credit growth and NIM improvement QoQ.

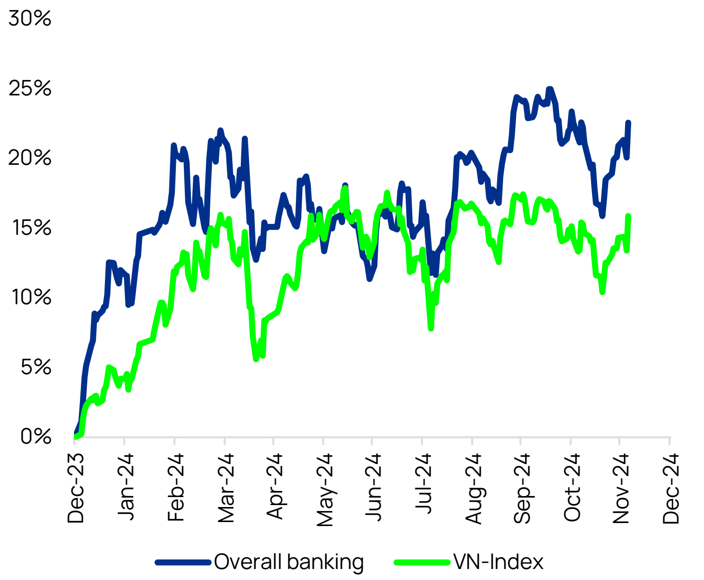
For 2025, we forecast a 22.3% YoY increase in aggregate NPAT, supported by (1) an 18.2% YoY rise in aggregate NII, driven by higher NIM and credit growth, and (2) a 22.5% YoY increase in aggregate NOII, led by a gradual recovery in bancassurance fees from a low base in 2024, higher recovery income from written-off bad debts as the real estate market recovers, and income from the sale of debt related to Phong Phu Industrial Park by STB. These gains will be partially offset by expected high credit costs, due to loan defaults and downgrades in loan classifications when Circular 06 (the extension of Circular 02) expired.

Share price performance and valuations

Both SOE and private banks have outperformed the broader market on a 12-month basis, with 11M 2024 performance of 16.4% and 26.4%, respectively. We note that private banks underperformed both SOE banks and the VN-Index in 2022 due to lingering concerns about their relatively higher exposures to real estate and corporate bonds. However, there was a robust recovery in share prices of private banks in the 2023-2024 period as these concerns eased following a series of new policies promulgated by the Government and the SBV to support the corporate bond and real estate markets, as well as the broader economy.

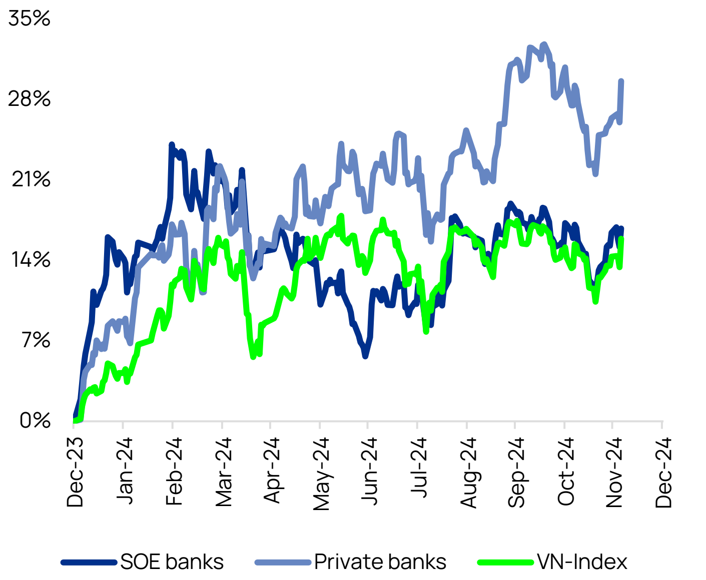
For FY2025, we expect that stronger economic growth will create more favorable conditions for banks. This anticipated growth could potentially alleviate some of the concerns surrounding asset quality. Our coverage is currently trading at close to a 0.5 standard deviation below its seven-year average trailing P/B, which we view as an attractive valuation.

Figure 137: Share price performance, YTD (1)



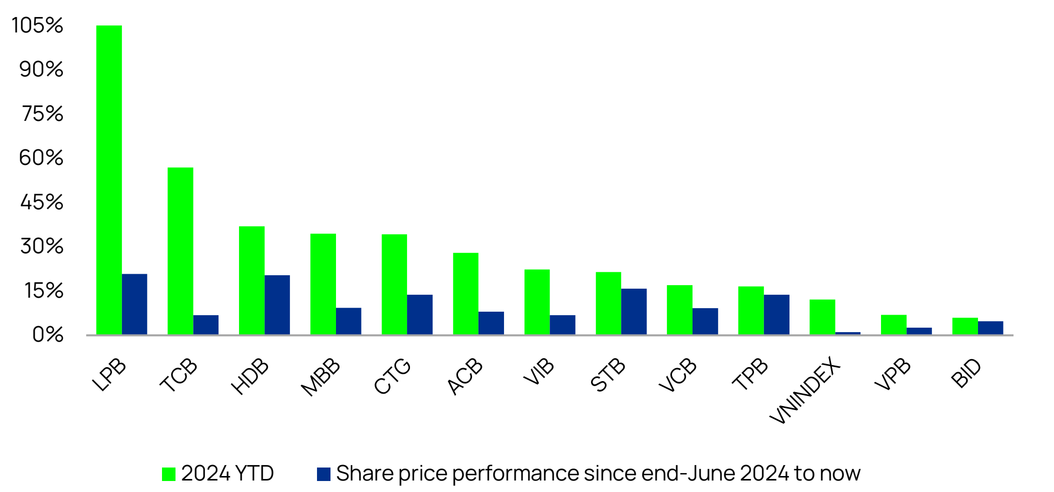
Source: Vietcap, FiinPro as of December 5, 2024 (Note: Overall banking represents all banking stocks under Vietcap's coverage and is weighted by market capitalization)

Figure 138: Share price performance, YTD (2)



Source: Vietcap, FiinPro as of December 5, 2024 (Note: Overall banking represents all banking stocks under Vietcap's coverage and is weighted by market capitalization)

Figure 139: Banks' share price performance in 2024

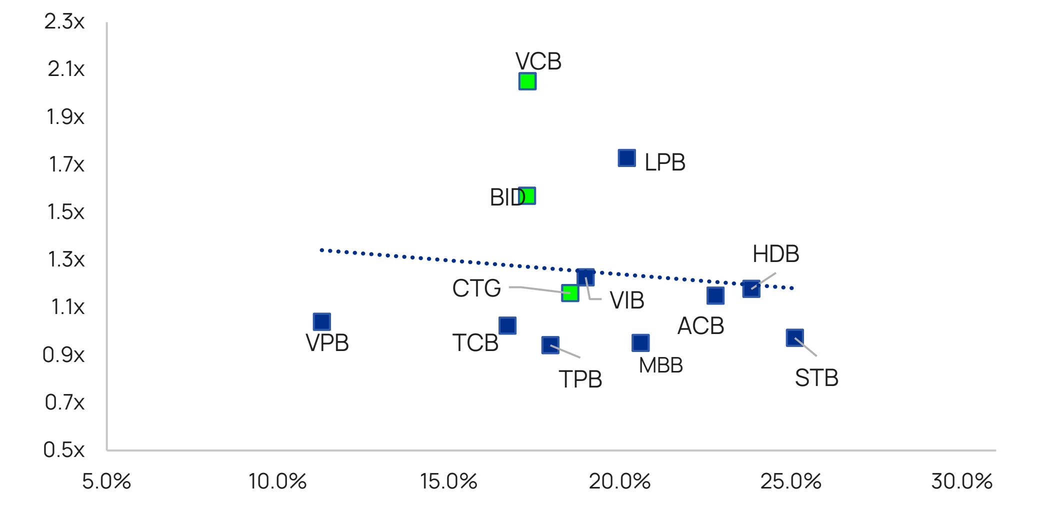


Source: Vietcap, FiinPro as of December 5, 2024

Figure 140: Average trailing P/B of banks under our coverage (November 2017–November 2024)

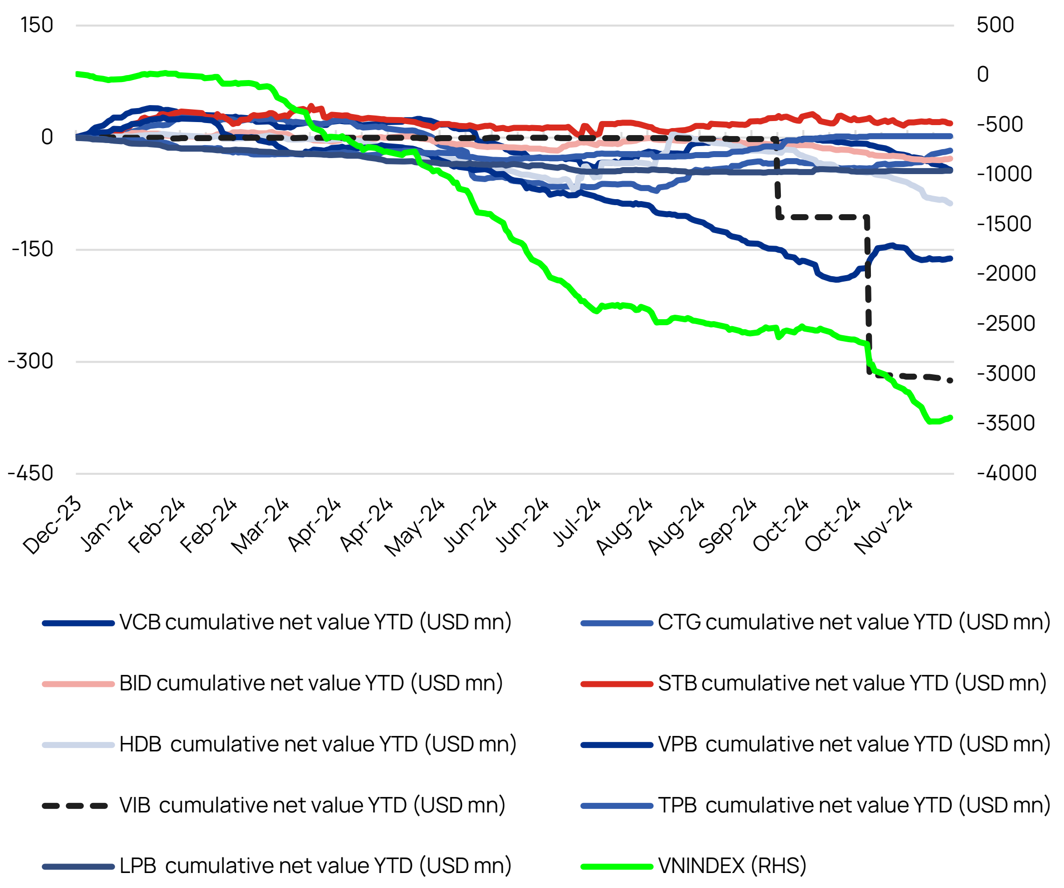
Source: Vietcap, FiinPro as of December 5, 2024

Figure 141: 2025F P/B (y-axis) vs 2025F ROE (x-axis)



Source: Vietcap, FiinPro as of December 5, 2024. Green dots indicate State-owned banks

Figure 142: Cumulative YTD net foreign trading on VN-Index and in FOL-available bank stocks (USD mn)



Source: Vietcap, FiinPro as of December 5, 2024

Top picks

Based on a one-year investment horizon, our top picks are **MBB, VPB, STB, and ACB**. These stocks offer some of the highest projected returns based on our end-2025 target prices as of November 29, 2024.

MBB offers a high NIM adjusted for credit costs, strong credit growth, a diversified ecosystem, a top-tier CASA ratio with sustained CASA deposits from military-related parties and subsidiaries, and a strong provisioning buffer. **VPB** has the highest capital adequacy in our coverage and the bank is heading toward a strong recovery in earnings growth amid a recovery in retail consumption. **STB** has one of the strongest private bank franchises and an attractive valuation. We anticipate that STB will achieve one of the strongest earnings growth trajectories over the next three years, driven by substantial other income from the sale of legacy assets.

For investors who prefer defensive exposure with decent earnings growth, we recommend **ACB.** This bank has delivered impressive ROEs at more than 20%, supported by a conservative lending strategy, competitive funding costs, and a well-established banking franchise in the southern region.

Military Commercial Joint Stock Bank (MB Bank; HSX: MBB – BUY rating with TP of VND31,000/share)

MBB has the most diversified ecosystem among our coverage, including life and non-life insurers, consumer finance, a securities company, and fund and asset management companies, which support its customer acquisition and create more cross-selling opportunities, in our view. In addition, MBB has solid funding cost advantages with a top-tier CASA ratio in the banking system to seize good growth opportunities given its (1) SOE-related background and (2) being the leader in banking digitalization with support from Viettel Group (the biggest telecom group in Vietnam; MBB's major shareholder) in terms of technology and customer data analytics. We attribute the solid CASA contribution from (1) idle funds from military-related parties and its subsidiaries, and (2) robust customer acquisition amid enhancing customized products and services. MBB currently serves 30 million customers (vs only six million customers in 2020). In addition, we assume that MBB will receive a higher-than-average credit quota in our explicit forecast period due to its participation in the scheme to support a weak credit institution. Though we expect certain pressure on MBB's credit costs resulting from relatively high exposure to real estate and corporate bonds, MBB should benefit from the recovery of real estate and corporate bond markets in Vietnam due to its relatively large exposure to these markets given its competitive growth advantage and well-contained risk management.

MBB is currently trading at a 2025F P/B of 1.0x compared to the sector median of 1.2x.

Vietnam Prosperity Joint Stock Bank (VPBank; HSX: VPB – BUY rating with TP of VND25,000/share)

VPB is a private bank with the largest charter capital in the system with a diverse financial service ecosystem including a consumer finance company (FE Credit - FEC), a securities brokerage company (VPBankS), and OPES Insurance Company (a non-life insurer). The bank also has an exclusive bancassurance partnership with AIA Life Insurance in Vietnam. VPB currently has the highest Q3 2024 CAR in the banking industry at 16% after selling capital to strategic shareholder Sumitomo Mitsui Banking Corporation (SMBC) in 2023. With SMBC's support for capital arrangements, developing new customer files (i.e. FDI customers), and improving the risk management model, VPB can seize good growth opportunities in the future, especially when retail consumption and real estate markets recover. Earnings growth to bounce back starting 2024F, which is driven by (1) NIM improvement and strong credit growth, (2) a rebound in NOII and especially recovery income from written-off bad debts, and (3) potential growing profit contributions from its subsidiaries given the turnaround of its consumer finance arm FE Credit (top market share) and dynamic growth of its brokerage arm (VPBank Securities).

VPB is currently trading at a 2025F P/B of 1.0x compared to the sector median at 1.2x.

Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank, HSX: STB – BUY rating with TP of VND43,700/share)

STB owns one of the strongest private bank franchises in Vietnam. In the last nine years, its main objective has been to clear legacy assets related to its merger with Phuong Nam Southern Bank in 2015 via collateral sales and/or provisioning. We expect STB to finish clearing its VAMC balance in 2024, which will unlock further growth potential and shift its focus to enhancing its core business. We believe STB's earnings will soar after its restructuring period. Additionally, we believe that substantial earnings from legacy asset sales will bolster STB's CAR ratio, enabling higher credit growth. Currently, STB has successfully sold debts related to Phong Phu and we expect the plans of selling a 32.5% stake pledge as collateral at VAMC will be finalized by SBV in 2025F. After receiving the full payment from Phong Phu in 2025F, we estimate that STB's earnings can grow 49.6% YoY and STB's CAR can achieve ~11%. As a result, we expect that STB will be granted a higher credit quota and expand its lending market share.

STB is currently trading at a 2025F P/B of 1.0x compared to the sector median of 1.2x.

Asia Commercial Joint Stock Bank (HSX: ACB – BUY rating with TP of VND33,400/share)

ACB is one of the most conservative banks among Vietnamese private banks, with a diversified loan book in the retail and SME segments. As of Q3 2024, 98% of ACB's loan books were secured loans, and only 1.2% of ACB's loan book was to real estate developers. In addition, ACB has been able to achieve stronger credit growth than the system-wide level, expanding market share due to advantages in one of the lowest funding costs, high service quality, and strong branch network across southern Vietnam. With our expectation of strong economic growth during the 2025-2026F period, we anticipate rising credit demand from retail customers, which is likely to drive an increase in ACB's NIM. ACB is a leading bank in the bancassurance segment. The bank has been ranked in the top three for sales value for five years. We expect that the low life insurance penetration in Vietnam and a recovering bancassurance market will support ACB's NOII long term. Additionally, its brokerage arm, ACBS, ranks in the top five for largest equity value, which will strengthen ACB's CASA ratio and diversify NOII. Overall, we believe ACB is a low-risk bank with solid earnings growth. Even during economic slowdown, we expect that ACB can achieve an ROE of above 20%.

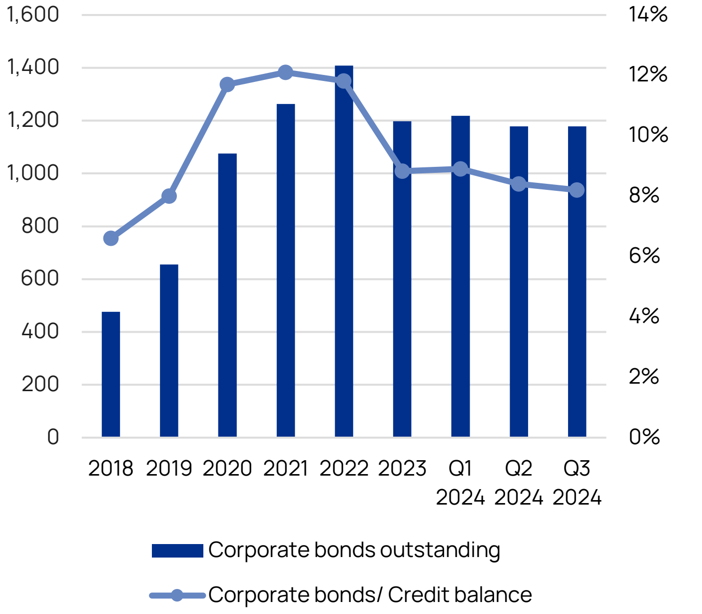
ACB is currently trading at a 2025F P/B of 1.2x compared to the sector median of 1.2x

Sector themes for 2025

The corporate bond market is expected to recover in 2025

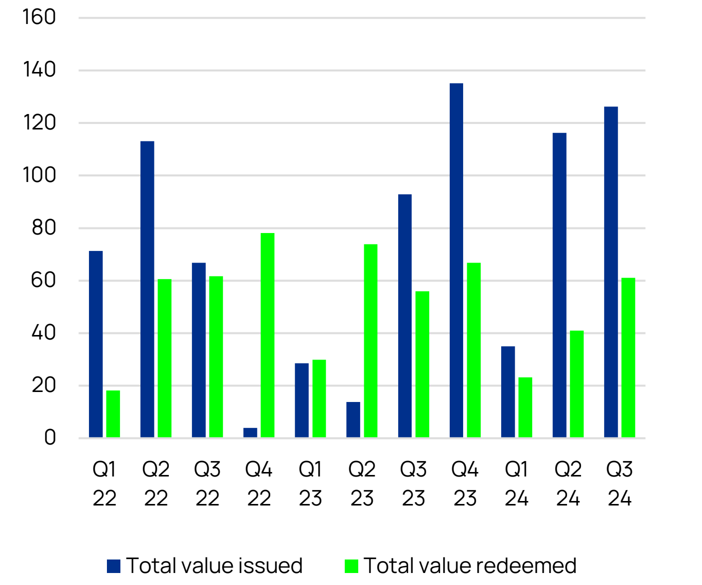
The corporate bond (C-bond) balance was relatively stable over the past few quarters, with new issuances increasing in 9M 2024. In 9M 2024, new issuances reached VND277tn (+47% YoY), surpassing the total issuance value of 2023. Meanwhile, the value of bonds redeemed early in 9M 2024 declined to VND125tn (-22% YoY). Bank bonds comprised 82% of total issuances at VND177 trillion (+244% YoY), as banks sought to strengthen long-term capital for medium- to long-term lending amid low interest rates. Additionally, real estate bonds made up about 13% of issuances, with major developers like VHM, NLG, and PDR contributing most of the issuances during this period.

Figure 143: Corporate bonds outstanding (VND tn)



Source: VBMA, GSO, SBV, Vietcap estimate

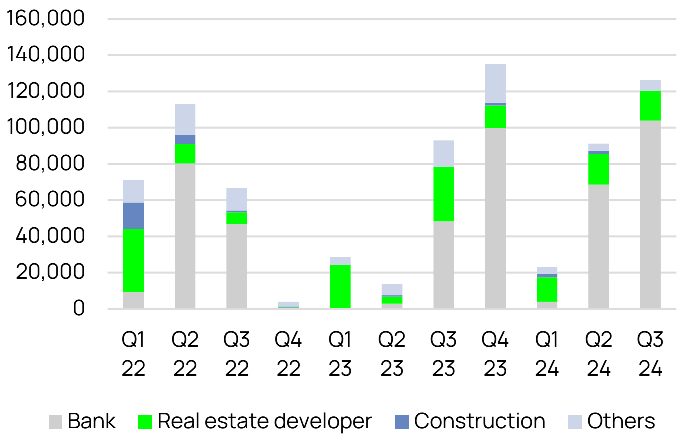
Figure 144: Bonds issued and redeemed, quarterly (VND tn)



Source: VBMA, Vietcap compilation

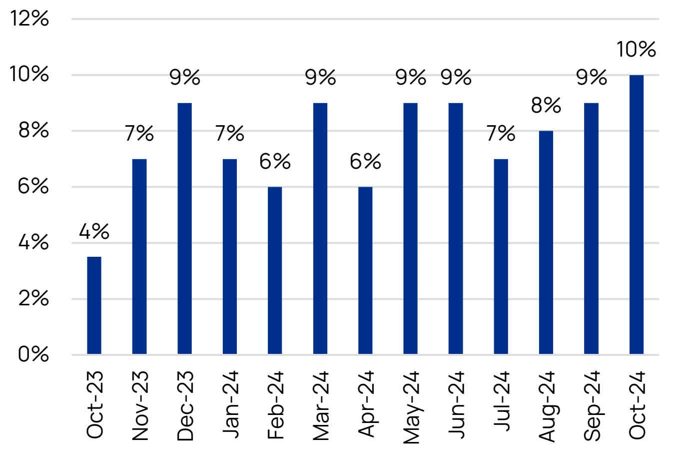
Liquidity has improved QoQ in 2024 in the C-bond market. Trading value reached 10% of overall outstanding value in the secondary market in October 2024— the highest level in the past year. We expect this positive trend to continue, driven by (1) ongoing enhancements of the HNX bond trading platform, with more bonds being listed, (2) increased transparency from bond issuers, (3) a favorable economic growth outlook for 2025, (4) a low-interest-rate environment, and (5) greater foreign investor participation as we expect for the amended Securities Law expected to be approved by the end of 2024, classifying foreign investors as professional investors, which will likely further boost their participation in the C- bond market.

Figure 145: Bonds issued by sector (VND tn)



Source: Source: VBMA, Vietcap compilation

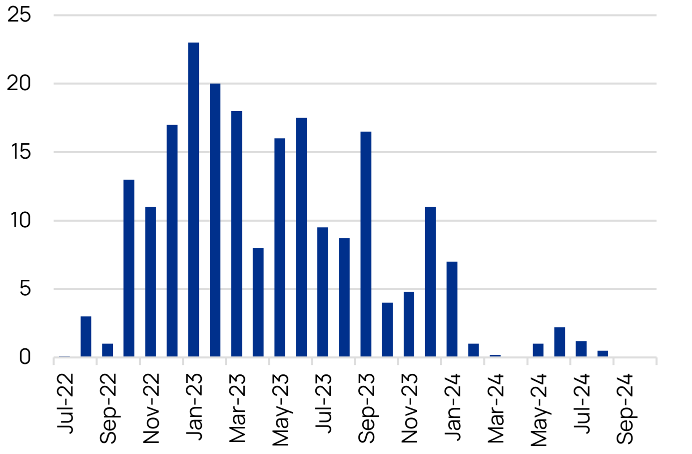
Figure 146: Monthly corporate bond traded/total outstanding corporate bonds



Source: VIS Rating, Vietcap compilation

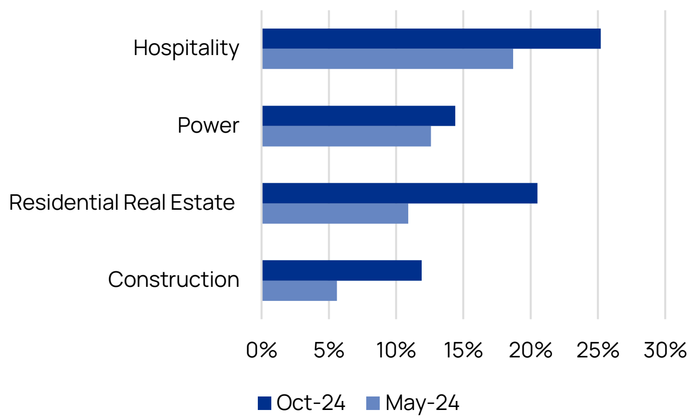
The value of bonds maturing in 2025-2026 is projected to be similar to that in 2023-2024. Our data shows that around VND250tn of C-bonds are set to mature in 2025, comparable to the value in 2023-2024, with nearly half of these bonds linked to the real estate sector. With the real estate market gradually recovering and homebuyer sentiment improving, we believe the financial health of real estate companies will improve accordingly. Additionally, the rate of late-payment bonds was low in the first 10 months of 2024, and many late-payment issuers have begun repaying their principals to investors. As a result, we expect a reduced risk of bond defaults in 2025, with any defaults likely to present primarily idiosyncratic risk and minimal systemic impact.

Figure 147: Monthly value of bonds with new late payment of coupon/principal (VND tn)



Source: VBMA, HNX, Vietcap compilation

Figure 148: Recovery rates of defaulting bonds by sector

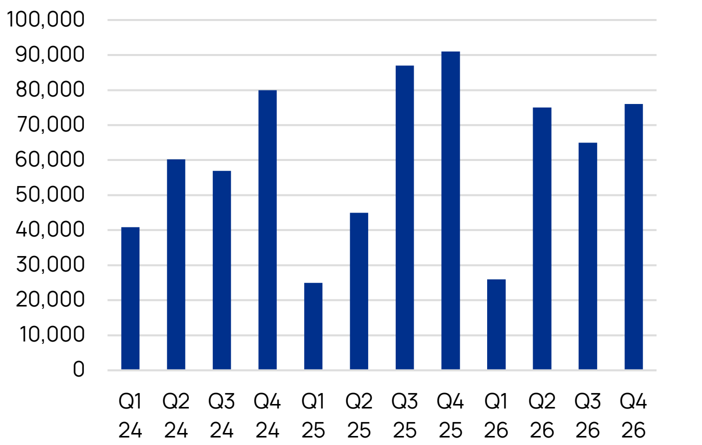


Source: VIS Rating, Vietcap

Banks' exposure to C-bonds has continued to decline as of Q3 2024. Most banks under our coverage also reported a drop in C-bonds balance as of Q3 2024 relative to Q4 2022. We note that the C-bond balance at banks does not include bank bonds. The reduced exposure to C-bonds can be attributed to a limited number of new, non-financial bond issuances.

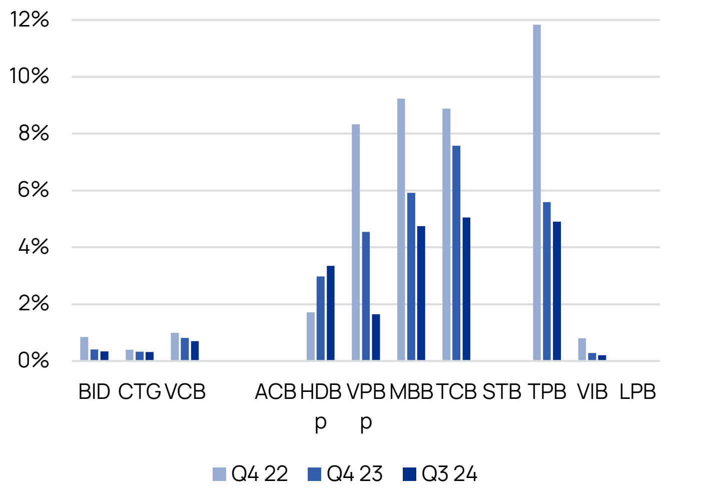
While C-bond exposure has dropped, banks have increased lending to real estate developers in 2024. According to the SBV, credit to the real estate sector rose 9.2% in 9M 2024, in which credit for business purposes (i.e., to real estate developers) increased 16.0% and credit for personal use purposes (mainly mortgages) increased more slowly at 4.6%. Most of the banks under our coverage that have more exposure to C-bonds than their peers were also those that witnessed a high increase in the portion of loans to real estate developers in 9M 2024. We note that banks under our coverage that have relatively high exposure to real estate developers have relatively high capital adequacy ratios (CAR).

Figure 149: Corporate bonds balance coming to maturity to 2026F (VND tn)



Source: VBMA, Vietcap

Figure 150: Corporate bonds over total credit of banks under our coverage

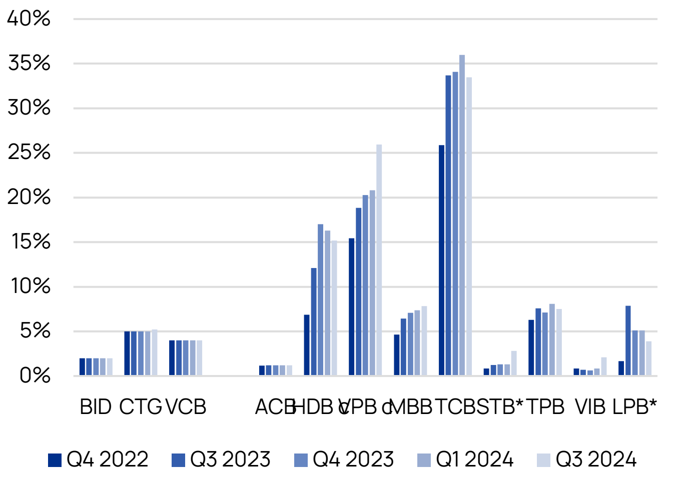


Source: Company data, Vietcap ('c' denotes consolidated)

We expect the C-bond market to improve in 2025, with a gradual increase in both transaction volume and outstanding value, driven by: (1) increased demand for bonds due to low deposit rates, (2) improving investor sentiment from an ongoing recovery of the real estate market, and (3) an increase in market liquidity supported by enhanced transparency and a new bond trading platform. We maintain our view that corporate bonds will remain an important funding channel for Vietnam's economy and forecast 15.3% YoY growth in the total corporate bond balance of banks under our coverage in 2025F.

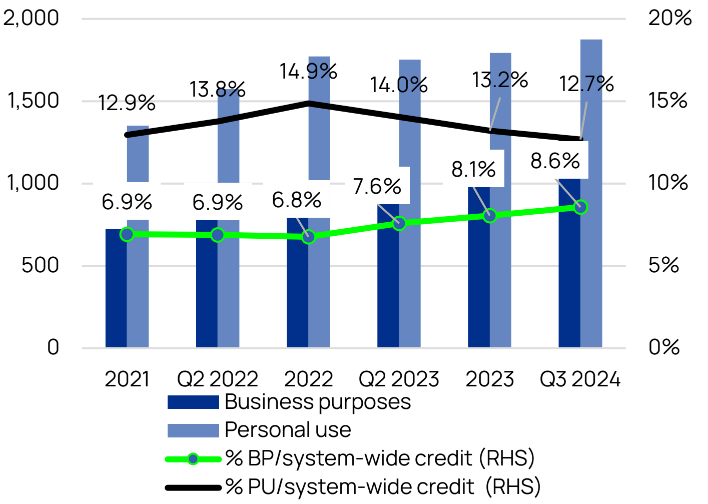
There is concern that the large volume of bonds maturing in 2025 could heighten the risk of defaults and adversely affect banks. However, we believe the risk of bond defaults will be lower compared to 2023 and 2024, due to (i) improving financial health of real estate developers amid real estate market recovery and stronger homebuyer sentiment, (ii) sufficient time for bond issuers to prepare, and (iii) a clearer macroeconomic growth outlook. Any defaults that may occur are likely to reflect idiosyncratic risk with minimal spillover impact on banks. Additionally, banks within our coverage maintain strong capital buffers to mitigate this risk.

Figure 151: Loans to real estate developers over gross loans by bank (%)



Source: Company data, Vietcap; 'c' denotes consolidated; (*) latest data as of Q2 2024

Figure 152: Credit to real estate sector (VND tn) and % credit to real estate sector over system-wide balance



Source: SBV, Vietcap

Figure 153: Select credit exposures for banks under our coverage

Q3 2024	BID*	CTG	VCB*	MBB	TCB	VPB c	ACB	HDB c	VIB	TPB	STB*	LPB*
Mortgages/gross loans	15.5%	10.5%	N/A	~20%	26.6%	13.5%	17.8%	8.2%	50.2%	22.1%	N/A	N/A
Loans to developers/gross loans	2.0%	5.2%	N/A	7.9%	33.5%	26.0%	1.2%	15.2%	2.1%	7.5%	2.8%	3.9%
Corporate bonds/total credit balance	0.3%	0.3%	0.7%	5.0%	5.0%	2.9%	0.0%	3.2%	0.2%	4.9%	0.0%	0.0%
LLR	116%	153%	205%	69%	103%	51%	80%	66%	47%	59%	75%	77%
CAR	9.5%	9.9%	12.0%	11.4%	15.1%	15.7%	11.9%	14.8%	11.5%	13.2%	9.0%	12.2%

Source: Company data, Vietcap; (*) CAR data for BID, VCB, STB, and LPB is Q2 2024 data

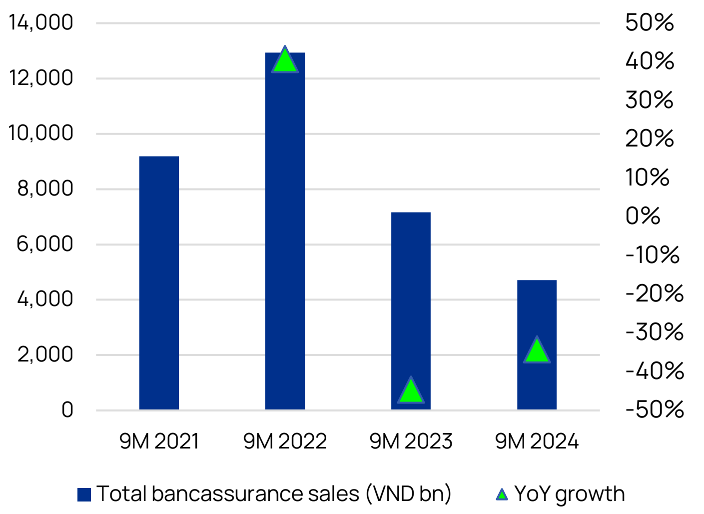
Bancassurance: Long-term potential despite short-term disruptions

Bancassurance sales have continued decreasing in 2024 but at a slower pace. According to our data compilation, 9M 2024 total banca sales decreased 34% YoY vs a 45% YoY decrease in 9M 2023. We believe the persistently weak bancassurance sales were primarily due to (1) subdued retail credit demand, (2) a slow recovery in customer trust, and (3) potential disruptions from restructuring sales processes and organizations to align with the tightened regulatory framework for bancassurance activities.

Bancassurance sales decreased YoY at most banks. Our compilation of bancassurance sales across banks under our coverage shows that VIB, VPB, LPB, and TPB saw the highest YoY drops of more than 50% in 9M 2024. Additionally, total banca sales of MBB and ACB have been at the top of the market for many months, according to our data compilation.

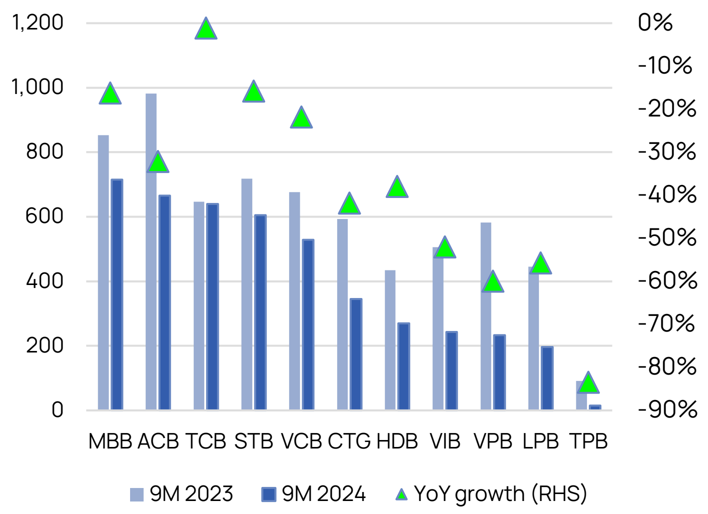
TCB and Manulife have terminated their exclusive bancassurance partnership: TCB and Manulife have ended their exclusive bancassurance partnership, with TCB ceasing distribution of Manulife's insurance products as of October 14, 2024. TCB is set to compensate Manulife with a termination fee of VND1,808bn, which will be recorded as an operating expense in Q4 2024. Management indicated that the decision to terminate the partnership stems from differing strategic orientations between TCB and Manulife. TCB is shifting focus to greater involvement in both life and non-life insurance value chains. While no exclusive partnership is planned yet, the bank expects to announce a short-term life insurance distribution agreement soon. TCB does not expect any negative impact on 2025 bancassurance revenue from this termination. Apart from TCB, HDB is the only bank under our coverage that has not engaged in any exclusive bancassurance partnership yet and we expect a delay in the progress securing an exclusive partnership given the remaining challenges in the bancassurance segment.

Figure 154: Bancassurance sales (9M 2021–9M 2024)



Source: Company data, Insurance Association of Vietnam, Vietcap compilation

Figure 155: Bancassurance sales per bank under our coverage (VND bn)



Source: Company data, Insurance Association of Vietnam, Vietcap compilation

New regulations on bancassurance activities to protect policy holders

Circular No.67/2023/TT-BTC and Decree No.46/2023/NĐ-CP issued by the Ministry of Finance (effective from November 2, 2023) set out guidelines for the implementation of the law on insurance business. Below are some key highlights:

1. Credit institutions are not allowed to advise, introduce, offer, or arrange investment-linked insurance contracts for their customers within 60 days before and after the disbursement date of the entire loan.

2. Records of the consulting process for investment-linked products are required. There must be evidence of customer acknowledgment of documents for long-term life insurance products.

3. More detailed requirements for bancassurance agents regarding human resources, technology capabilities, and organization structure.

4. Insurers are responsible for periodically supervising and inspecting insurance product consulting activities carried out by agents. They must promptly address complaints related to insurance product consultations and handle any violations that arise.

5. Changes in the caps for commissions on some life insurance products.

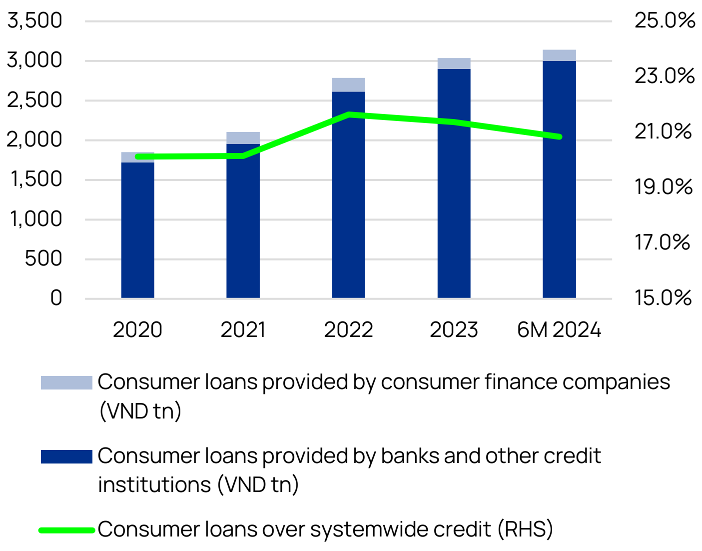
The SBV still allows investment-linked product distribution via credit institutions. In early 2024, in a draft regulation proposal, the SBV proposed that commercial banks would not be allowed to act as insurance agents for investment-linked insurance products. However, according to Circular No. 34/2024/TT-NHNN issued in mid-2024, the SBV still allows commercial banks to act as insurance agents for investment-linked insurance products, which is in line with our expectation, as we believe it is essential for the long-term growth of the insurance industry and similar with normal practice in developed countries.

We expect banca sales growth to resume at a modest level in 2025F. The new regulations are in line with the MoF's guidance to enhance the legal framework for bancassurance activities, which is essential in our view to ensure sales quality and sustainable long-term growth. We think there could be a negative impact on the insurance premium growth rates in the short term and operating expenses for both banks and insurers due to the more stringent regulatory requirements for bancassurance activities. However, we believe that banks have prepared and actively supervise these activities to avoid mis-selling insurance products since the investigations by authorities in late 2022. In addition, we observe that (1) current insurance penetration in Vietnam is low and (2) banks can still promote bancassurance via preferential lending or deposit rates for their customers who buy insurance products. Therefore, we believe bancassurance can grow in the future but at a slower pace compared to the last ten years, while requiring higher standards of regulatory compliance.

Consumer finance companies to rebound with high potential for long-term growth

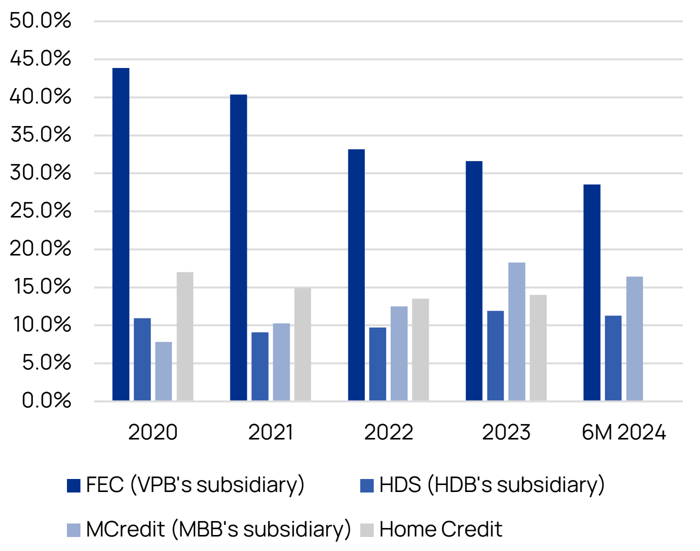
Consumer credit demand has recovered, though at a slow pace. According to the SBV, as of Q2 2024, outstanding consumer loans amounted to more than VND3tn (+3.4% vs 2023), accounting for nearly 21% of the system-wide credit balance of the economy with 84 credit institutions participating in lending activities (including banks and consumer finance companies). Additionally, we estimate that outstanding consumer loans of consumer finance companies (Fin Cos) amounted to VND140tn (+4% vs 2023), accounting for nearly 5% of the system-wide consumer loan balance and 1% of the system-wide credit balance as of Q2 2024. We note that loans provided by Fin Cos decreased 22% YoY in 2023 amid unfavorable economic conditions. We attribute the gradual recovery of retail credit demand in 2024 to a low-interest rate environment and improving economic activities. Additionally, we observed that debt collection activities have gradually resumed throughout 2024 after being disrupted as there was an increasing number of customers in early 2023 intentionally taking advantage of a lack of clarity in the legal framework for debt collection activities to avoid servicing their loans. We expect the recovery momentum will continue, given our expectation for stronger retail consumption in 2025F.

Figure 156: Consumer loans in Vietnam (2020 – 6M 2024)



Source: SBV, Vietcap estimation. Assuming the same loans market share of consumer finance companies in 6M 2024 vs in 2M 2024 at 5%.

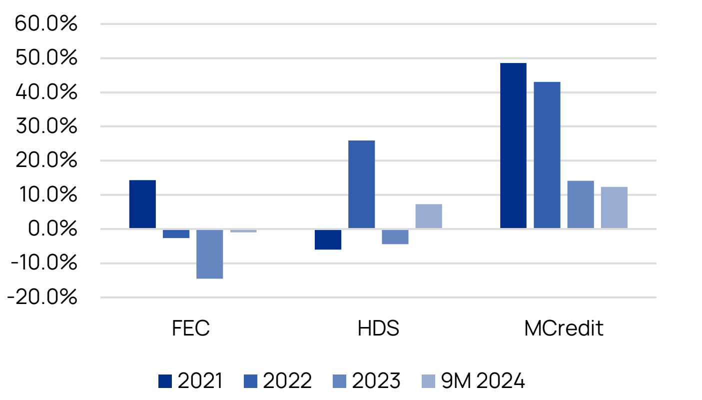
Figure 157: Estimated market share (consumer finance Cos)



Source: Company data, Vietcap estimates

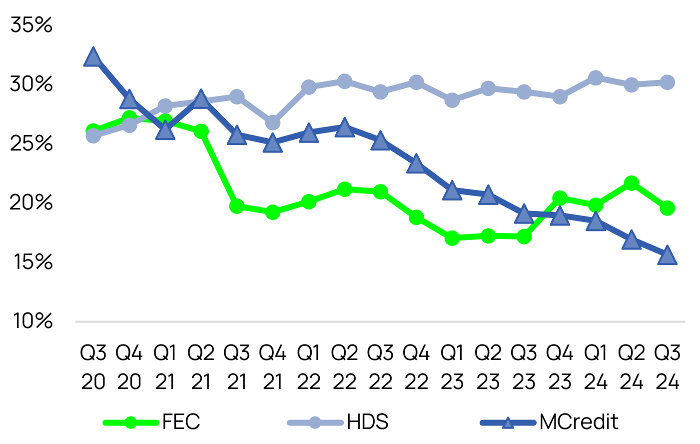
Disbursement activities rebound, as shown by the top players: According to our estimation, as of Q2 2024, FEC remained the biggest player in Vietnam's consumer finance sector in terms of loans with a market share of around 29% (vs around 44% in 2020). We also estimate that MCredit may have gained the top-two position in terms of loan market share from Home Credit. FEC's loans started to decrease in 2022 due to restructuring its business model through reviewing and enhancing product design, credit appraisal processes, sales channels, credit policies, and debt collection. We believe FEC will lean toward a more conservative business model in the future after growing aggressively to gain market share in the past. Though FEC's loan book is relatively flat vs end-2023, new disbursements increased 42% YoY in 9M 2024. Additionally, HDS's loan book grew 7% in 9M 2024 with new disbursement increasing 15% YoY in the same period. MCredit has been the only top player able to grow its loan book consistently from a low base since 2021 and 9M 2024 loan growth was resilient at 12% in our estimation, which we believe could be due to (1) utilizing the nationwide networks of MB Group and Viettel Group, and (2) its strategy to focus on the card segment and partnerships with e-commerce platforms to promote consumer loans.

Figure 158: Loan growth



Source: Company data, Vietcap estimates

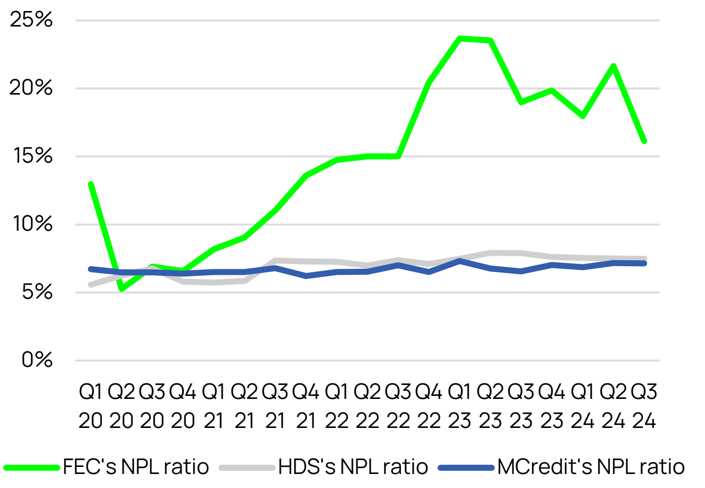
Figure 159: NIMs



Source: Company data. HDS's NIM is reported number by HDB. FEC and MCredit's NIMs are our estimations from consolidated and parent bank financial statements.

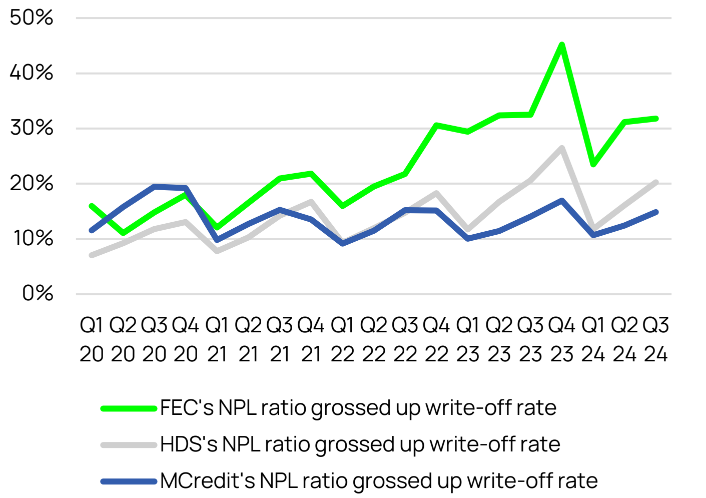
Consumer finance NIMs to recover in 2025F: We believe that (1) limitations in diversifying funding sources in the high-rate environment in H1 2023, (2) high NPL formation, and (3) weak credit growth dragged on NIMs of consumer finance companies in 2023. FEC and HDS saw their NIMs slightly improve in the last four quarters, which we attribute to (1) HDS having a more conservative lending strategy and (2) FEC having its NIM recover from a trough due to a restructuring process. In addition, MCredit's NIM has been decreasing from a high base in the last two years, which could be due to the company offering more competitive loan pricing to gain market share. We believe that (1) lower interest rates and (2) a recovery in the economy should help to improve credit demand and the ability to service loans and therefore support NIM to increase in 2025F. We forecast FEC and HDS to grow their loan books by 8% YoY and 12% YoY, respectively, while we expect that write-off rates could remain at a relatively high level.

Figure 160: NPL ratios



Source: Company data, Vietcap estimates

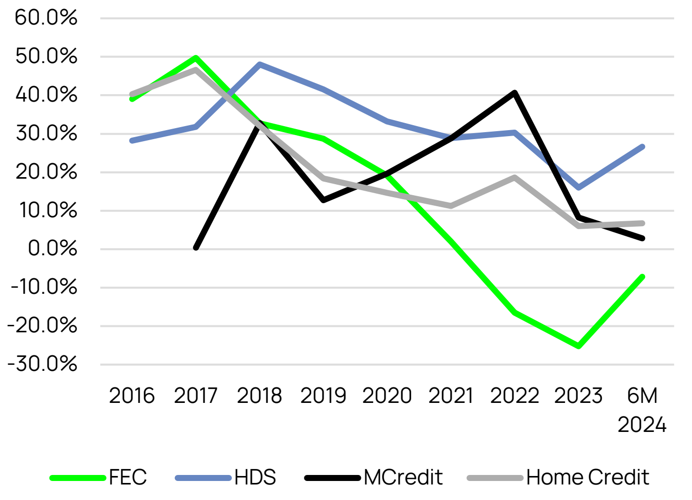
Figure 161: NPL ratios grossed up for cumulative write-offs



Source: Company data, Vietcap estimates

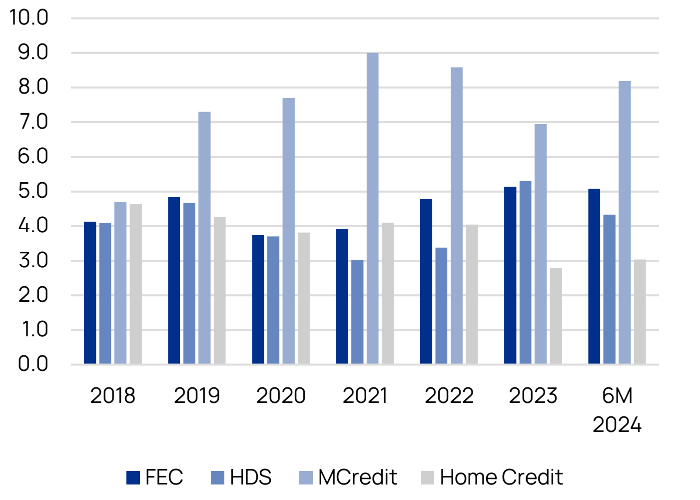
NPL formation easing in mid-2024F prompts us to expect a YoY improvement in 2025F NPL ratios, though certain challenges remain. From our estimation, HDS and MCredit have had their NPL ratios relatively contained at under 8% over the last two years despite the headwinds from the economy while FEC's NPL ratio, though at a high level, also decreased from its peak in Q1 2023. From our observation, NPL ratio grossed up for accumulative write-offs increased at a slower pace throughout 9M 2024 vs last year, which indicates to us a lower NPL formation which should reduce the pressure on future bad debt metrics. Additionally, despite remaining challenges in debt collection activities resulting from an inadequate legal framework to protect lenders' rights, the consumer companies stated that the debt collection activities have gradually resumed with positive results and consumer finance companies shifting toward in-house services rather than outsourcing services to reduce legal risks. We expect an improvement in the NPL ratios of consumer finance companies to gradually improve in 2024-2025F, driven by (1) stronger top-line growth, (2) an enhanced credit appraisal process, and (3) improving economic activities and a YoY-lower interest rate level supporting the repayment abilities of these companies' customers.

Figure 162: ROEs



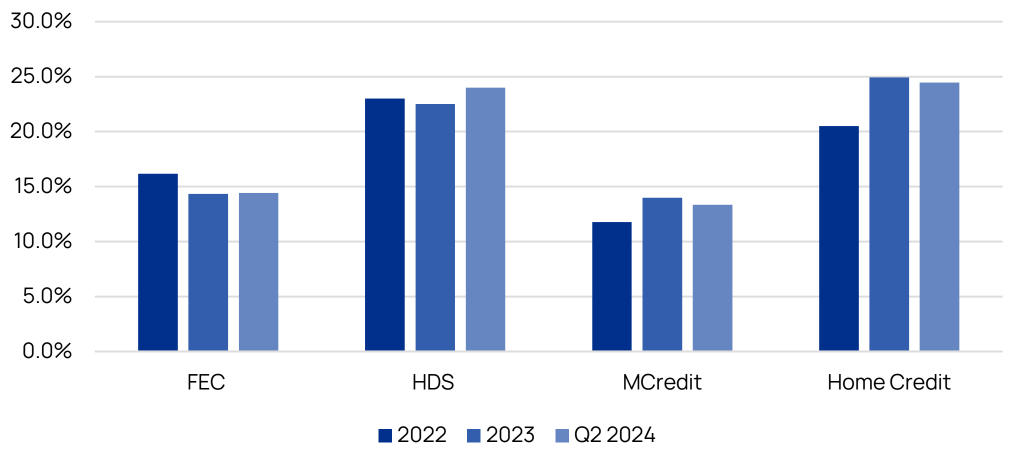
Source: Company data, Hanoi Stock Exchange (HNX), Vietcap estimates

Figure 163: Total debt/Equity (x)



Source: Company data, HNX, Vietcap estimates

Figure 164: CAR of top consumer finance companies

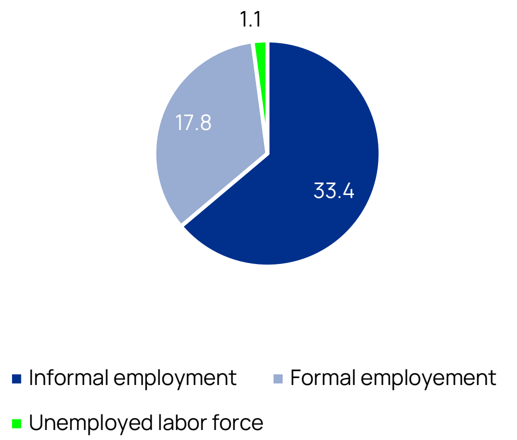


Source: Company data, Vietcap

Most top consumer finance companies saw their ROEs pick up in 6M 2024: FEC had the strongest rebound compared to HDS and Home Credit in 2024, given its low base in 2023. After breaking even in Q2 2024, FEC maintained its profitability in Q3 2024 with substantial improvement in asset quality and stronger top-line growth, which is in line with our expectation that FEC could break even in 2024 with major profit contributions that have started in H2 2024.

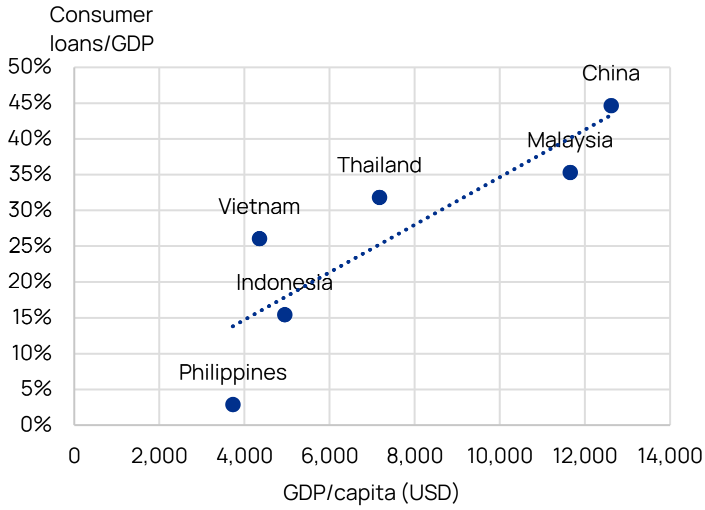
Top consumer finance companies have good capital positions to capture growth: As of Q2 2024, the top-four consumer finance companies (accounting for nearly 70% of the total loan market share) have seen their CARs ranging from 13% to 25%, which are well-above the current regulatory cap of 9% for consumer finance companies in Vietnam. Additionally, though consumer finance companies cannot raise deposits from retail, we believe the top-four players have certain funding competitive advantages due to having banks as their major shareholders.

Figure 165: Vietnam's labor force, Q3 2024 (mn people)



Source: General Statistics Office of Vietnam, Vietcap

Figure 166: Consumer loans/GDP and GDP/capita of Vietnam vs its peers (2023)



Source: World Bank, CEIC data, SBV, Vietcap estimates

Despite short-term volatility, we believe consumer finance offers potential for high growth in the long term. According to the SBV, the CAGR of consumer loans was nearly double the credit growth of the banking system in 2010-2020. We believe that consumer finance remains an attractive business in the long term based on Vietnam's labor force characteristics. According to the General Statistics Office of Vietnam, 33 million people (accounting for nearly 63% of Vietnam's labor force) were informally employed as of Q3 2024, which implies a large potential market of underbanked customers for consumer finance companies to exploit.

M&As at high valuation in the last few years indicates the high potential of the consumer finance sector in Vietnam. We have observed valuations with a P/B ratio of around 3 in recent M&A activities. Notably:

+ In 2021, SMBC Consumer Finance Company (SMBCCF), a subsidiary of Japan's Sumitomo Mitsui Financial Group (SMFG) acquired a 49% stake in Vietnam's largest non-bank financial company, VPBank Finance Company Limited, better known and trading as FE Credit, in a transaction that valued the non-lender at USD2.8 billion, which implied an approximate P/B of 3.4x at the acquisition time vs its average ROE at around 34% in 2016-2020.

+ In mid-2023, Bank of Ayudhya Public Company Limited, branded and commonly referred to as Krungsri, successfully acquired SHB Finance, a consumer finance business in Vietnam. It currently holds a 50% share in SHB Finance and will complete the remaining 50% in the next three years from the first-batch acquisition date. The deal size was approximately VND3.6tn, which implied an approximate P/B of nearly 3x at the acquisition time, per our estimation. We note that SHB Finance's ROE is 2.4% and -11% in 2021 and 2022, respectively.

+ In early 2024, the Siam Commercial Bank Public Company Limited ("SCB") signed a sale and purchase agreement to acquire 100% of the charter capital of Home Credit Vietnam Finance Company Limited ("Home Credit Vietnam"), the consumer finance business of Home Credit N.V. ("Home Credit Group") in Vietnam, for an amount of approximately VND20,973bn (~USD840mn), which implied an approximate P/B of 3.2x at the acquisition time. Home Credit's average ROE was around 13% in 2020-2023.

Capital raising to resume

Among banks that announced or reiterated their intentions to raise new equity through private placements in 2022 for execution in 2023-2024 (including BID, VCB, VPB, MBB, and LPB), only VPB completed raising VND35.9tn (USD1.5bn) of new capital (equivalent to a 15% stake post private placement) from Sumitomo Mitsui Banking Corporation in October 2023. On the other hand, in June 2024, LPB announced postponement of its capital raising plan in 2024. We attribute the slow progress in capital raising to the uncertainty over the domestic and global economy hindering capital raising activities.

Based on our expectation for (1) faster economic growth in Vietnam in 2025 and (2) Vietnam's stock market upgrading to Emerging Market status in September 2025, attracting more foreign funds to Vietnam, we expect that capital-raising activities will start to resume from H2 2025. We currently model for VCB and BID to raise new capital through private placements with an estimated total value of VND65.2tn (USD2.6bn) in 2025F. Additionally, at TCB's 2024 AGM, the Chairman shared that the bank is considering seeking a foreign strategic shareholder.

Capital raising plan in 2024-2025F	Yes/No	% of shares in issue, post money	Target investors	Transaction method	CAR Basel II as of September 30, 2024	Issuing value (VND tn)
BID*	Yes	6.92%	Under private placement: professional investors, domestic & international institutions	Private placement	9.5%	28.9
CTG	No				9.9%	
VCB*	Yes	6.10%	Institutional investors	Private placement	12.0%	36.3
ACB	No				11.9%	
HDB	No				14.8%	
VPB	No				15.7%	
MBB	Yes	1.01%	Viettel Group and other professional investors	Private placement	11.4%	Not yet modelled
TCB	No				15.1%	
STB*	No				9.0%	
TPB	No				13.2%	
VIB	No				11.5%	
LPB*	No				12.2%	

Source: Company data, Vietcap compilation and estimation. Note: CAR data for BID, VCB, STB, and LPB is from Q2 2024.

Appendix: Company names and tickers

Code	Company name
ACB	Asia Commercial Bank
BID	BIDV
CTG	Vietinbank
HDB	HD Bank
MBB	Military Bank
STB	Sacombank
TCB	Techcombank
TPB	TP Bank
VCB	Vietcombank
VPB	VP Bank
VIB	Vietnam International Bank
LPB	LPBank

Source: Vietcap

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Other financials: Foreign inflows and insurance premiums to rebound in 2025F

- **Life insurance** new business premium growth in 7M 2024 remained weak (-19% YoY), although the decline has slowed. This is primarily due to (1) slow recovery in personal spending, (2) a tightening regulatory framework for bancassurance, and (3) prolonged negative sentiment from mis-selling cases in late 2022 and early 2023. We forecast total life premium growth of 8.6% YoY from a low base amid a recovery of personal consumption and higher healthcare awareness among the general population.
- **Non-life insurance** premium growth of 12.8% YoY in 9M 2024 implies to us a positive recovery from a low base in 2023 amid improvement in the economic backdrop, a low-interest rate environment, and increasing export-import activities. Given the current recovery pace, we expect non-life premium growth of 14.7% YoY in 2025F.
- We expect the investment return of the insurance sector to decrease in 2024F mainly due to the deposit rate cuts in mid-2023, which should pick up later in 2025F due to (1) the improvement of the equity market and corporate bond market, and (2) slight upward pressure on deposit rates starting in mid-2024F and continuing through 2025F.
- We think **both life and non-life insurers will face headwinds to earnings growth in 2024** due to (1) weak life premium growth and (2) higher claims due to Typhoon Yagi (especially non-life insurance). However, **we expect stronger earnings growth in 2025**, supported by continuing recovery of premium growth and an improvement in claim expenses from a high base in 2024.
- While we expect the near-term outlook for earnings to remain challenging, we believe in the **long-term potential of the sector** due to our positive outlook for growth in Vietnam's economy over the long term and current low insurance penetration. We prefer non-life over life insurance for 2025 due to a brighter outlook for top-line growth. We have a BUY rating for **BMI** and a MARKET PERFORM rating for **BVH**.
- **Securities stocks** are a high beta play on the equity market. As of November 29, 2024, the 12-month trailing P/E of the VN-Index was 13.1x, below the nine-year average trailing P/E of 15.6x. We believe the **valuation of Vietnam's stock market is attractive** amid our expectation for strong earnings growth over the next three years. With our projection of the VN-Index reaching 1,500 in 2025F, we anticipate securities stocks to rise in tandem in 2025F.
- With brokerage firms implementing non-pre-funding services for foreign investors starting November 2, 2024, we anticipate **FTSE will announce Vietnam's upgrade to Emerging Market status in its September 2025 review**. This development is expected to enhance retail investor sentiment and attract foreign investment inflows into Vietnam, particularly as its 2024F P/E remains lower than other emerging markets in Southeast Asia.
- We forecast 2025F average daily trading value (ADTV) on Vietnam's three trading venues to grow by 27% YoY to USD1,130mn, which should support growth in earnings for securities companies. Additionally, we believe interest rates will remain low and the sentiment of retail investors will improve, thereby encouraging margin lending in 2025F.
- We currently have a BUY rating for **SSI** (the only securities stock under our coverage). Despite SSI's brokerage market share decreasing in 2024F, we expect it to increase in 2025F following our expectation that SSI will benefit from the upgrade to EM status by FTSE in 2025. We expect strong earnings growth for SSI in 2024F and 2025F at 31.8% YoY and 21.4% YoY, respectively. Currently, SSI is traded at a 2025F P/B of 1.4x.

Figure 167: Insurance sector key data

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	12M TSR %
BMI	BUY	113	51.0%	49%	21	0.1	21,300	26,200	4/12/2024	23.0%	2.4%	23.4%
BVH	M-PF	1,541	68.0%	49%	344	11.7	51,900	42,600	3/26/2024	-17.0%	1.7%	-15.3%

Figure 168: Insurance sector summary valuations

Code	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/B trailing x	P/B 2024F x	P/B 2025F x	P/B 2026F x	P/E 2024F x	P/E 2025F x	P/E 2026F x	ROE TTM %	ROA TTM %	Assets/ Equity x
BMI	4.3%	10.6%	16.3%	1.0	0.9	0.8	0.7	7.5	6.7	5.8	12.5%	4.4%	2.9x
BVH	18.6%	6.1%	25.9%	1.8	1.7	1.6	1.4	18.9	17.8	14.1	8.1%	0.9%	10.5x

Source: Vietcap (Share prices as of December 5, 2024)

Figure 169: Securities sector key data

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	12M TSR %
SSI*	BUY	1,859	0.00%	100%	1,155	11	25,700	32,200	19/8/2024	25.3%	3.9%	29.2%
HCM	N/A	769	0.00%	49%	50	8	28,950	N/A	N/A	N/A	N/A	N/A
VCI	N/A	920	0.00%	100%	607	7	34,750	N/A	N/A	N/A	N/A	N/A
VND	N/A	795	0.00%	100%	868	4	13,850	N/A	N/A	N/A	N/A	N/A
MBS	N/A	618	0.00%	49%	199	3	30,000	N/A	N/A	N/A	N/A	N/A

Source: Vietcap (Share prices as of December 5, 2024)

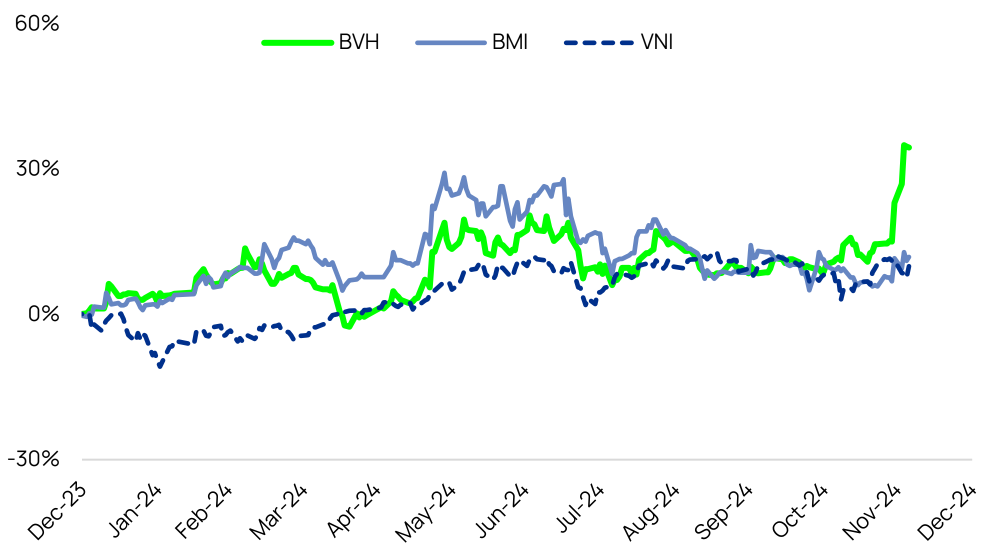
Figure 170: Securities sector summary valuations

Code	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/B LQ x	P/B 2024F x	P/B 2025F x	P/B 2026F x	P/E TTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	ROE TTM %	ROA TTM %	Net debt / Equity %
SSI*	19.8%	28.6%	10.7%	2.0x	1.6x	1.4x	1.4x	16.4x	17.4x	13.5x	12.2x	12.6%	4.8%	184%
HCM	N/A	N/A	N/A	2.0x	N/A	N/A	N/A	20.3x	N/A	N/A	N/A	10.9%	4.0%	76%
VCI	N/A	N/A	N/A	2.3x	N/A	N/A	N/A	24.3x	N/A	N/A	N/A	10.2%	4.4%	113%
VND	N/A	N/A	N/A	1.1x	N/A	N/A	N/A	8.4x	N/A	N/A	N/A	13.0%	5.4%	99%
MBS	N/A	N/A	N/A	2.7x	N/A	N/A	N/A	21.1x	N/A	N/A	N/A	13.3%	4.7%	187%

Source: Vietcap (Share prices as of December 5, 2024). * SSI updated on August 19, 2024

Insurance recap and outlook

Figure 171: BVH and BMI's share prices vs VN-Index



Tickers	Absolute change	Relative to VNI
BVH	+34.5%	+24.5%
BMI	+11.9%	+1.9%

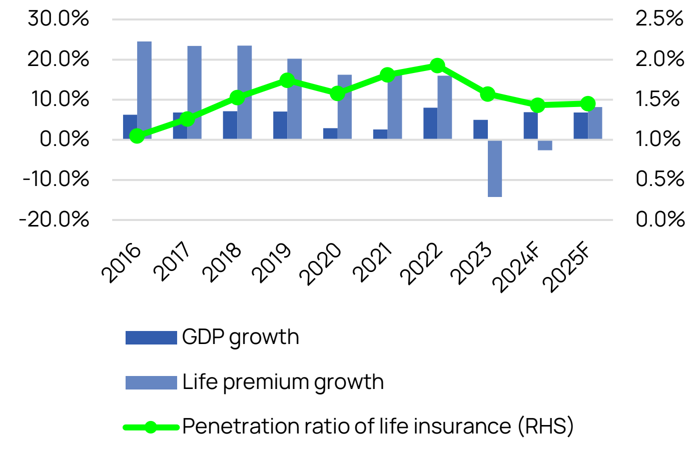
Source: FiinPro, Vietcap (Share prices as of December 5, 2024)

Life insurance

Life insurance premium to bottom out in 2024F: 9M 2024 total life insurance premium decreased 6.4% YoY. Additionally, 7M 2024 new business premium decreased 18.7%, which indicates 9M 2024 total life premium was mainly driven by renewal premium. We attribute the prolonged declines in life premium to (1) the slow improvement in personal spending and (2) remaining weak bancassurance sales amid tightening regulation framework and low customer trust due to publicity of cases of mis-selling of bancassurance policies. We think there will be a negative impact on growth in insurance premiums and operating expenses for insurers in the short term. Though system-wide life premium has decreased for two consecutive years, we observe that the decreasing momentum has eased in the recent months. Overall, we project 2025F total life insurance premium growth of 8.6% YoY, driven by a recovery in personal consumption and sustained heightened awareness of healthcare needs.

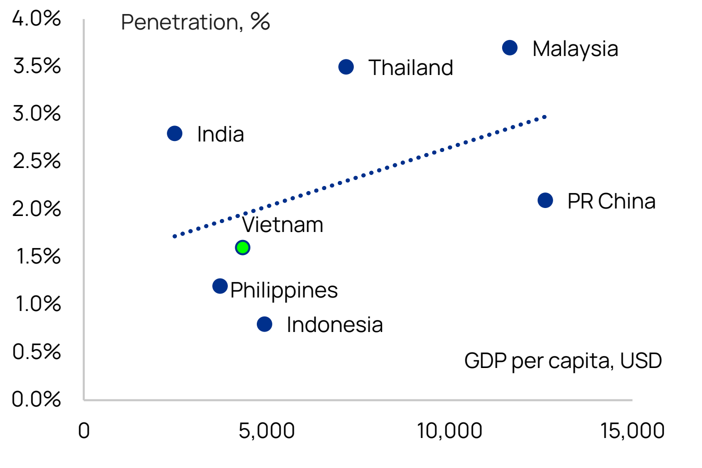
BVH gained the top market share for both new business premium and total premium in 7M 2024. Apart from a plunge in Manulife's market share of new business premium, we observed stiff competition between BVH, Prudential, and Dai-ichi in 7M 2024 with each company's market share ranging around 15%-17%. The top five life insurers' total market share of direct premium in 7M 2024 was 78%, and BVH continued to have the highest market share (23%). We believe BVH's resilient performance was supported by its biggest nationwide traditional agency network, which contributed more than 97% of its total sales in the last few years.

Figure 172: Penetration ratio of life insurance in Vietnam (%) (2017–2025F)



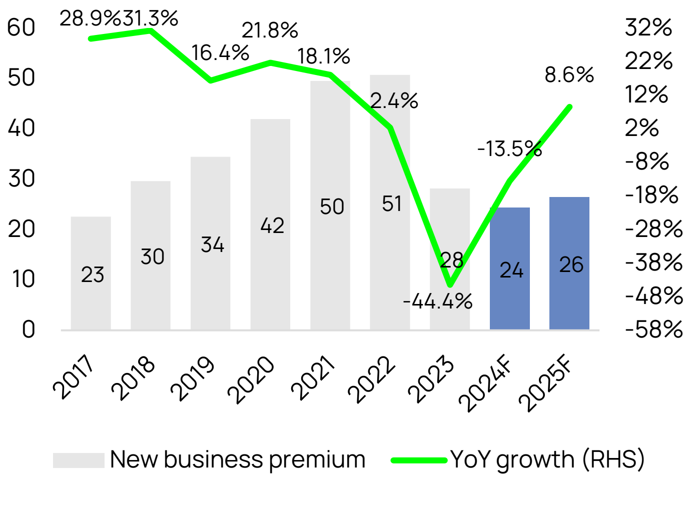
Source: General Statistics Office of Vietnam (GSO), IAV, Vietcap estimation

Figure 173: Life insurance penetration relative to GDP per capita of selected developing countries (2023)



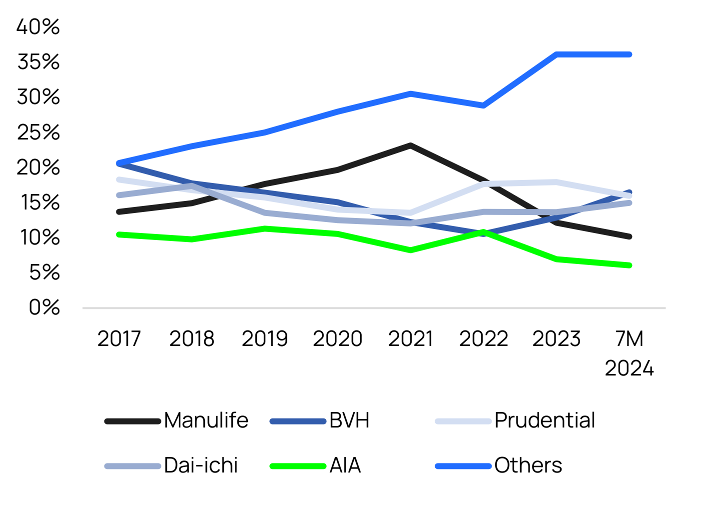
Source: Swiss Re, World Bank, Ministry of Finance (MoF), Company data, Vietcap (PR China stands for People's Republic of China)

Figure 174: New business premiums (VND tn) and growth (%) (2017–2024F)



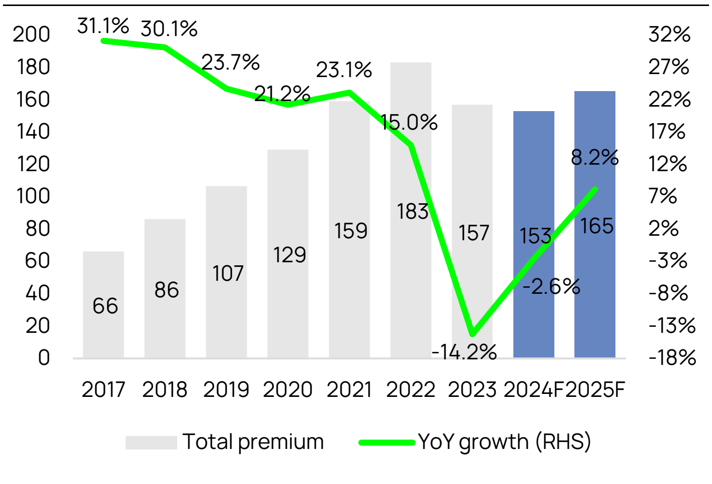
Source: MoF, IAV, Vietcap. *Annualized 7M 2024 new business premium

Figure 175: Market share of life insurers in terms of new business premium (2017–7M 2024)



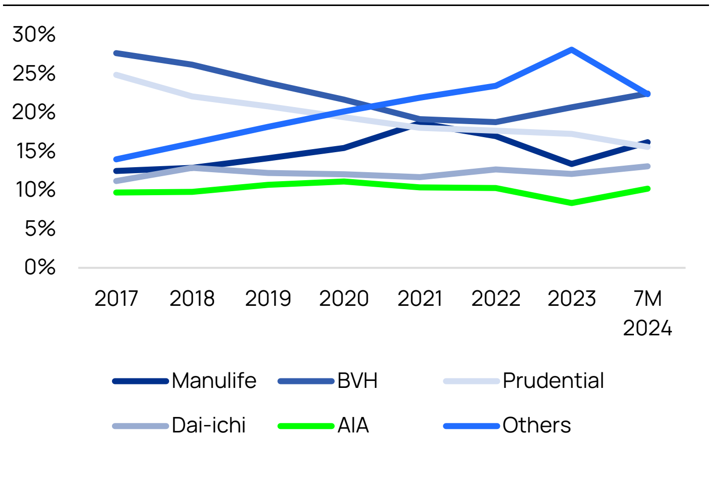
Source: MoF, IAV, Vietcap

Figure 176: Total direct premium (VND tn) and growth (%) (2017–2024F)



Source: MoF, IAV, Vietcap

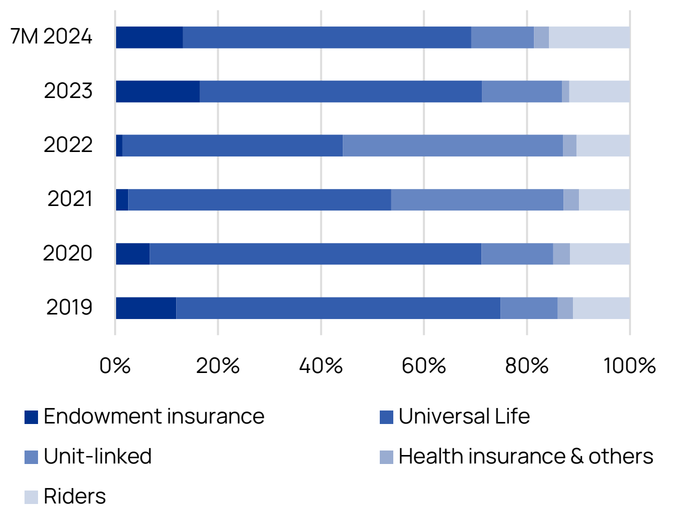
Figure 177: Market share of life insurers in terms of total direct premium (2017–7M 2024)



Source: MoF, IAV, Vietcap

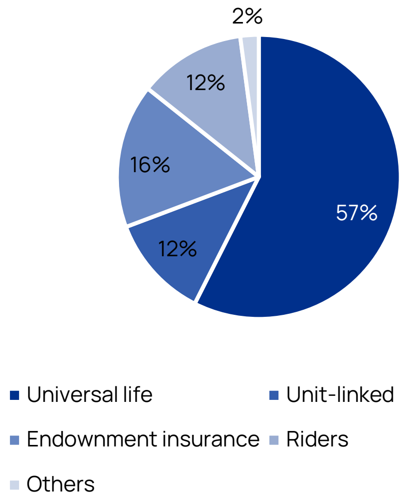
New business premium has shifted toward endowment insurance since early 2023. Before 2023, investment-linked products (including universal life and unit-linked insurance) have been the sector's key growth driver. However, investment-linked products' contribution to total sales has decreased since late 2022 given most mis-selling cases were related to these products. 7M 2024 new business premiums decreased 18.7% YoY which was mainly driven by a 32.3% YoY decrease in investment-linked premium. We anticipate short-term disruptions in investment-linked premium due to enhancing sales processes to meet recent new regulatory requirements and improving customers' sentiment of these products. Nevertheless, we expect the investment-linked product to remain a key product in the long term due to (1) offering a tailored financial solution to individuals given heightened awareness of individual financial management amongst the middle-class population and (2) the potential strong development of capital markets in Vietnam to serve diverse investment risk appetite.

Figure 178: New business premium by product lines



Source: MoF, IAV, Vietcap

Figure 179: Total direct premium by product lines in 7M 2024



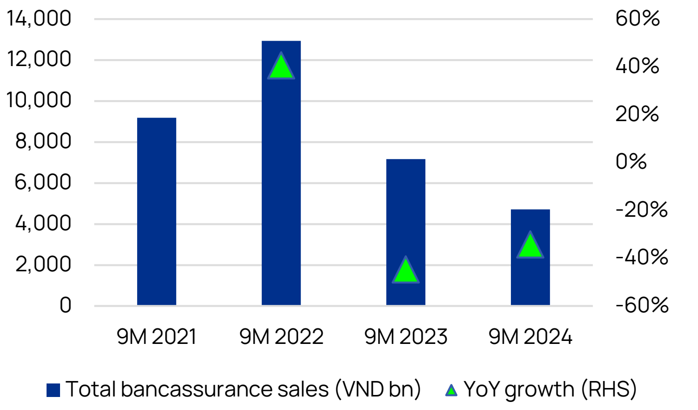
Source: MoF, IAV, Vietcap

Challenges in bancassurance activities remain in the short term. Banca sales declined by 34% YoY in 9M 2024. The remaining subpar retail credit demand in 9M 2024 has reduced bancassurance cross selling opportunities. Additionally, we believe the new regulation framework on bancassurance activities could bring structural changes to the bancassurance agreements relating to compensation scheme and distribution model, which further constrains the banca sales. We expect the decreasing momentum of banca sales to reach an end in 2024 though it would be challenging for banca sales to achieve double-digit growth in 2025F.

We believe strong premium renewals via traditional distribution channels indicates higher sales quality vs the bancassurance channels. The new regulations from the MoF aim to enhance sales quality via requirements such as keeping records of the consulting process for investment-linked products, improved product documents, and evidence of customer acknowledgment and restructuring of bancassurance operations. Despite potential pressure on operating costs, we believe improving sales quality will help lower the incidence of policy surrenders within the first two years, thereby reducing losses for insurers.

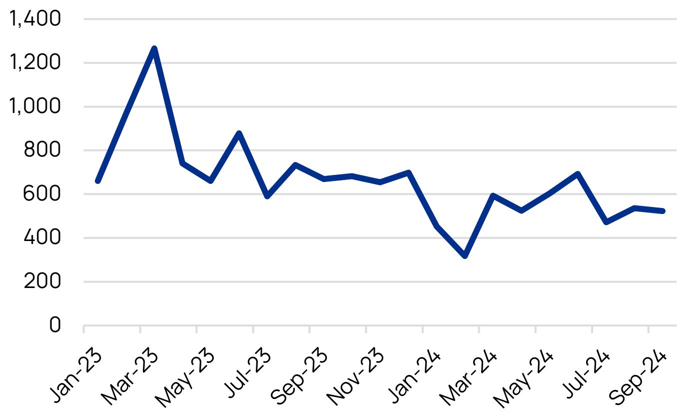
Vietcap

Figure 180: Banca sales (9M 2021–9M 2024)



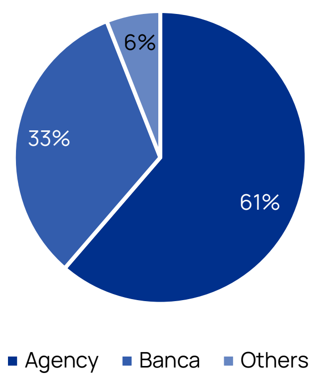
Source: MoF, IAV, Vietcap. 2021 banca sales growth was not available.

Figure 181: Monthly banca sales (January 2023–September 2024; VND bn)



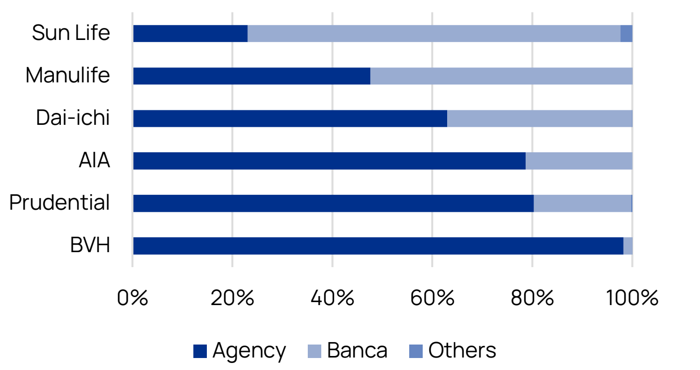
Source: MoF, IAV, Vietcap

Figure 182: Total premium received by distribution channels in 5M 2024



Source: MoF, IAV, Vietcap

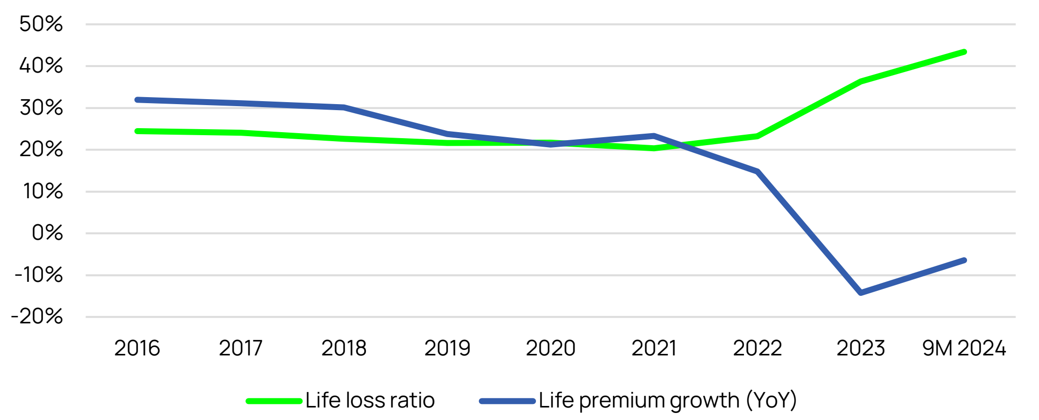
Figure 183: Total premium received by distribution channels of top life insurers in 5M 2024



Source: MoF, IAV, Vietcap

The life insurance loss ratio has surged since 2023 amid weak premium growth. According to our estimation, the life insurance loss ratio gradually improved from 32% to around 23% in 2016-2022 amid a strong premium CAGR of 26% during this period. We attribute the surge in the life insurance loss ratio since 2023 to (1) drastic premium decreases and (2) the surge in surrender cases resulting from losing customer trust and tightened personal spending.

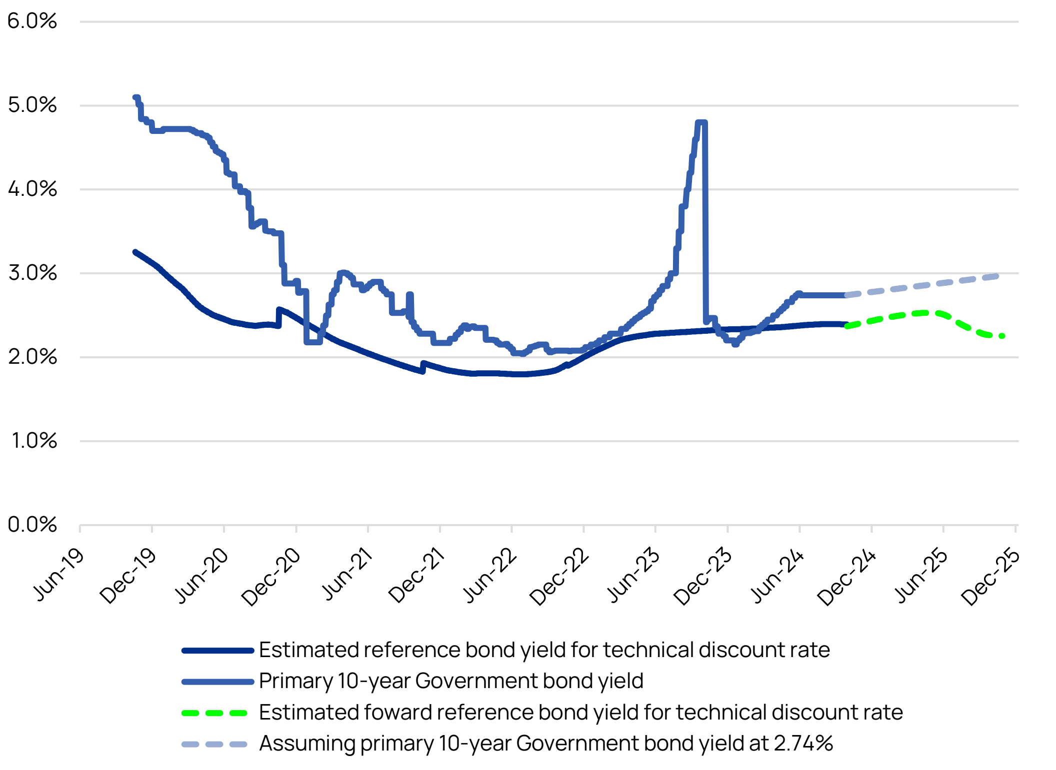
Figure 184: Life insurance premium growth and loss ratio (claim expenses/premium)



Source: MoF, IAV, Vietcap

The technical discount rate has been favorable in 2024F but we anticipate downward pressure on the rate in 2025F. Starting from 2022, the discount rate for the calculation of reserves is based on a maximum of 80% of the average interest rate of Government bonds with a term of more than 10 years that were issued within **24 months** before the reserve is set aside. After increases in late 2022, Government bond yields have plummeted since March 2023 and have been approaching the lows seen in 2021. Our estimates indicate that the reference bond yield for the technical discount rate is on track to increase YoY by the end of 2024F, supporting reduced mathematical reserve expenses for life insurers. However, assuming government bond yields approach 3% by the end of 2025F, the technical discount rate is expected to start declining by mid-2025, potentially pressuring life insurers' profits for the year.

Figure 185: Vietnam's 10-year Government bond yield and estimated reference bond yield for technical discount rate



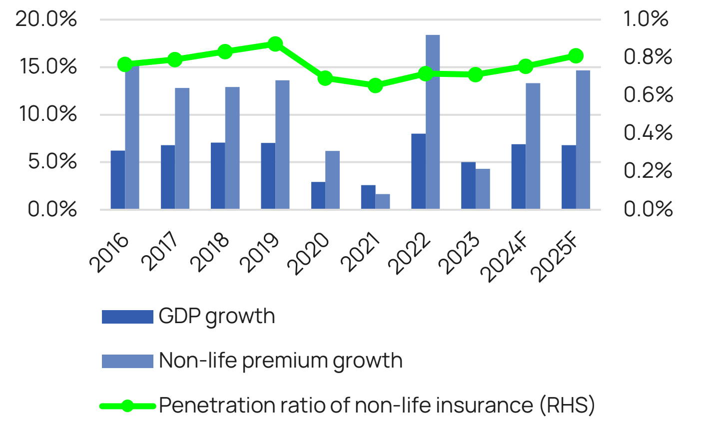
Source: Bloomberg, Vietcap estimates

Non-life insurance

Strong non-life premium growth to continue in 2025F: 9M 2024 premium growth of 12.8% YoY implies to us a positive recovery from a low base in 2023 amid improvement in the economic backdrop, a low-interest rate environment, and increasing export-import activities. Given the current recovery pace, we expect premium growth to achieve 13.3%YoY and 14.7% YoY in 2024F and 2025F, respectively, supporting a slight increase in non-life penetration ratio to 0.8% (vs 0.7% in 2023) assuming GDP growth of 6.9% in 2024F and 7.2% in 2025F. Additionally, we expect heightened awareness regarding healthcare and property damages following the pandemic and natural disasters over the past three years. In the longer term, the development of embedded insurance, which integrates relevant risk protection into customers' purchase journeys amid the growing online e-commerce trend, is expected to further drive premium growth.

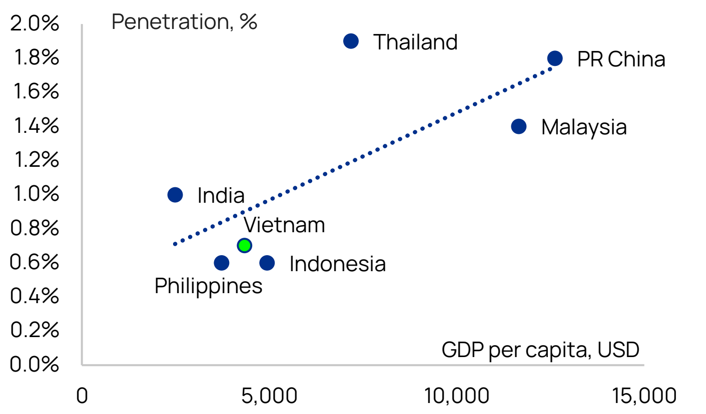
PVI, ABI, and BMI expanded their market shares in premium in 9M 2024. In 2021, PVI took over the top position from BVH, and it has been challenging for BVH to regain market share since then. PVI has further widened the gap vs the other top players via increasing its market share to 18.2% in 9M 2024. Additionally, we estimate that BMI successfully took over the third position from PTI partly due to PTI having its network and business under restructuring.

Figure 186: Penetration ratio of non-life insurance in Vietnam (%) (2017-2025F)



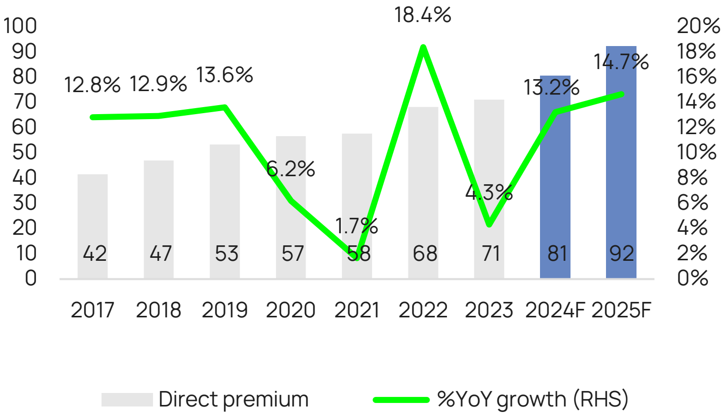
Source: General Statistics Office of Vietnam (GSO), IAV, Vietcap estimations

Figure 187: Non-life insurance penetration relative to GDP per capita of select developing countries (2023)



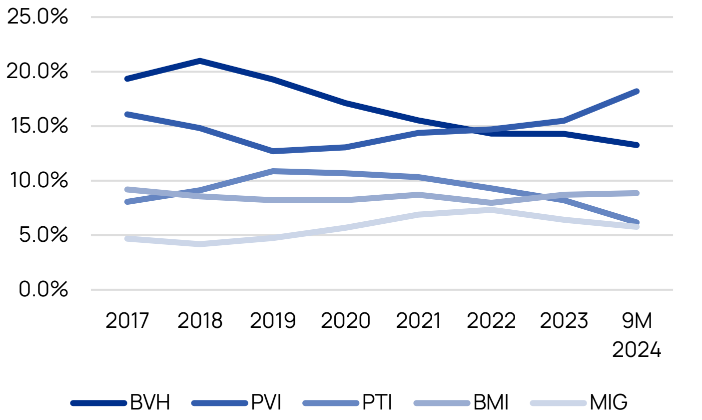
Source: Swiss Re, World Bank, Ministry of Finance (MoF), Company data, Vietcap (PR China stands for People's Republic of China)

Figure 188: Total direct premium (VND tn) and growth (%) (2017-2025F)



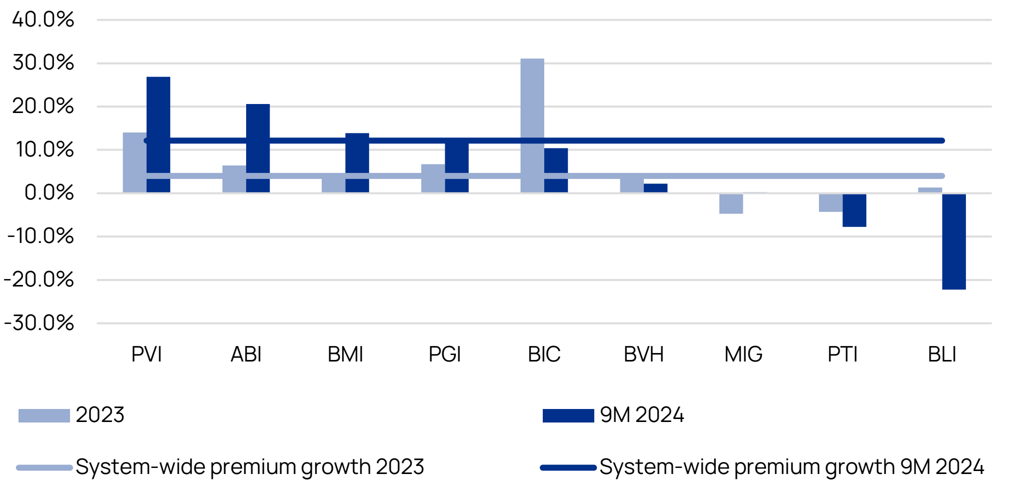
Source: MoF, IAV, Vietcap

Figure 189: Market share of non-life insurers in terms of new business premium (2017-9M 2024)



Source: Company data, Vietcap

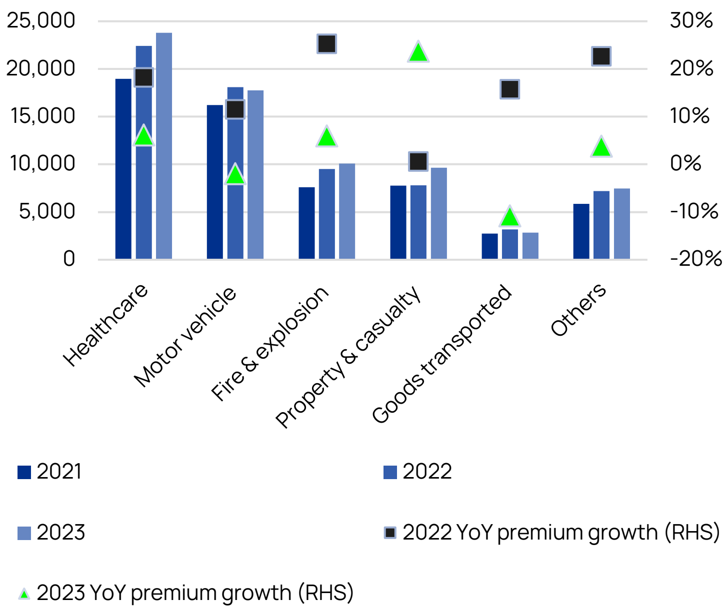
Figure 190: 2023 and 9M 2024 GWP growth of listed insurance companies (% YoY)



Source: MoF, IAV, Vietcap

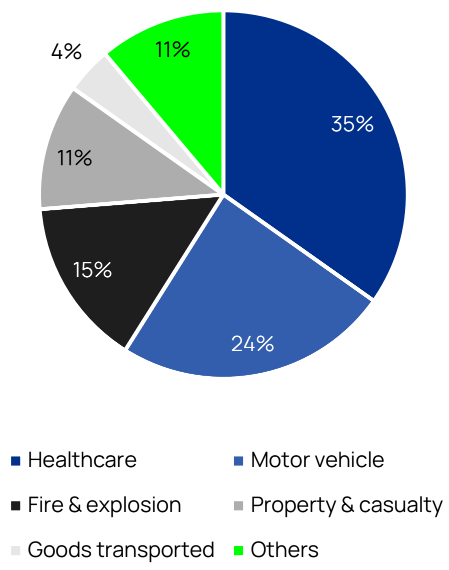
Healthcare insurance and vehicle insurance remained the largest product lines in 9M 2024, with premiums of VND16tn (34.8% of total premiums) and VND11tn (24.1% of total premiums), respectively. Additionally, we observe that healthcare insurance has been the key growth driver in the last two years with its contribution from premium gradually increasing from 33% in 2022 to 35% in 7M 2024.

Figure 191: Total direct premium by lines of business in 2021-2023 (VND bn)



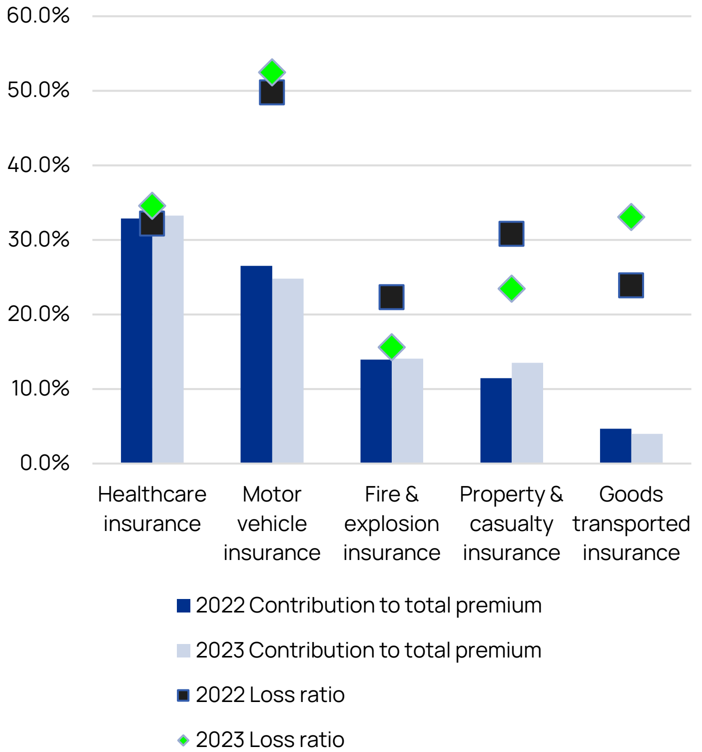
Source: MoF, IAV, Vietcap

Figure 192: Total direct premium contribution by line of business in 7M 2024



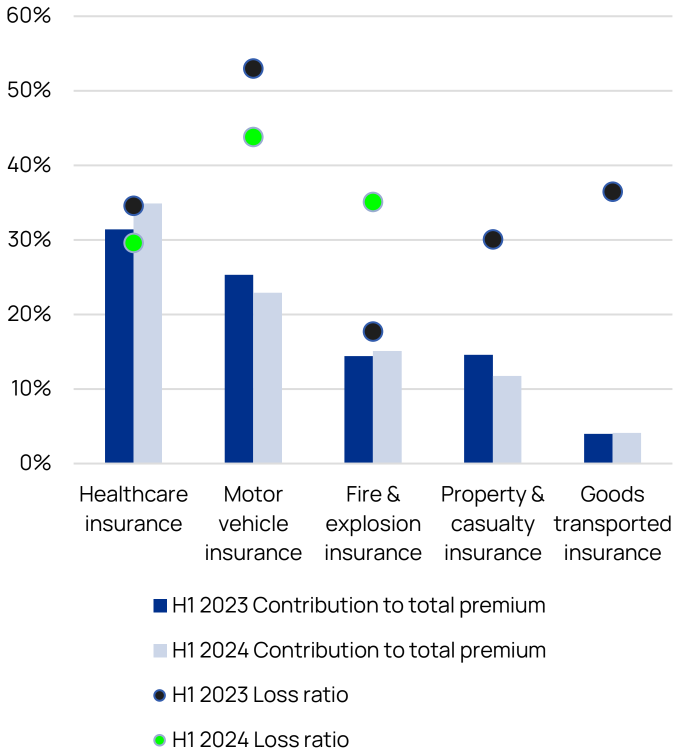
Source: MoF, IAV, Vietcap

Figure 193: Premium share and loss ratio by business line (2022-2023)



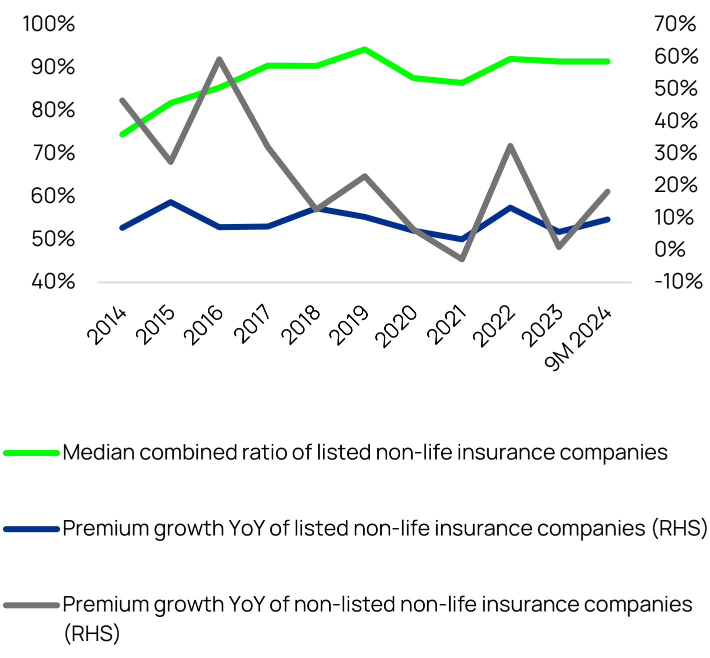
Source: MoF, IAV, Vietcap

Figure 194: Premium share and loss ratio by business line (H1 2023–H1 2024)



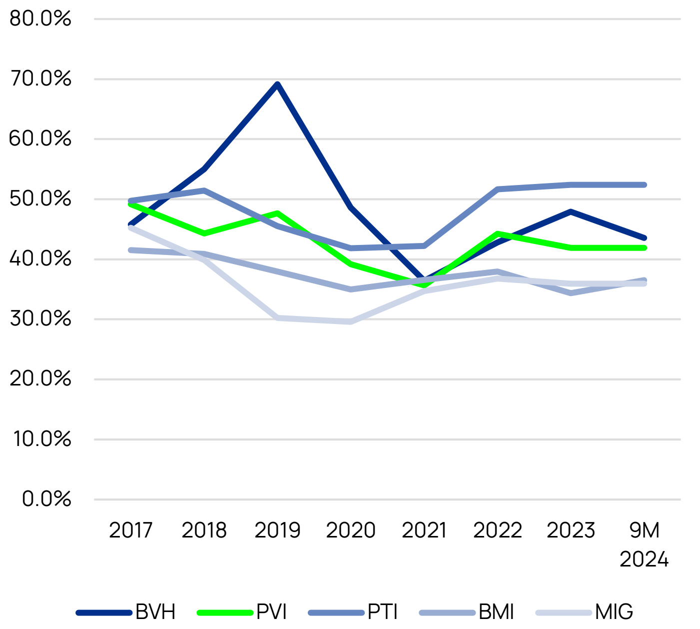
Source: MoF, IAV, Vietcap (H1 2024 loss ratios of property & casualty insurance, goods transported insurance figures are not available)

Figure 195: Median combined ratio of listed insurers and premium growth (%) (2014–9M 2024)



Source: MoF, IAV, Company data, FiinPro, GSO, Vietcap; constituents are BVH (non-life segment with expense ratio estimated by Vietcap), PVI, PTI, BMI, PGI, BLI, MGI, ABI, and BIC

Figure 196: Loss ratios of top five insurers (2017–9M 2024)



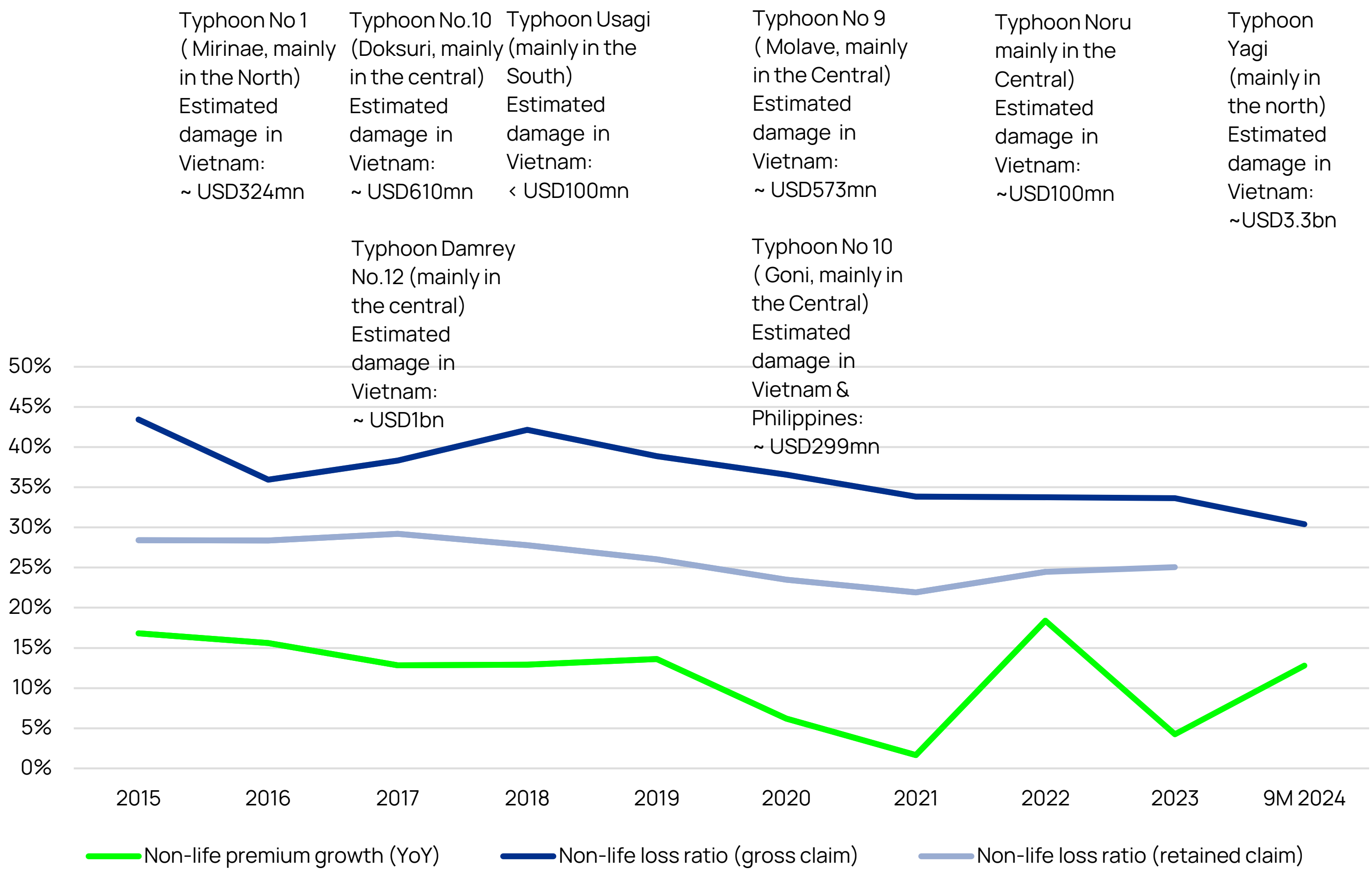
Source: Company data, Vietcap

The median combined ratio in 9M 2024 approached the previous peak level in 2019, which we attribute to (1) the normalization of loss ratios after the COVID-19 pandemic, (2) upward pressure on claim costs from inflation and supply chain disruptions, (3) stiffer competition weighing on insurers' premiums, as well as their selling and operating expenses, and (4) the negative impacts from Typhoon Yagi in mid-September 2024.

Stable loss ratios at the top five insurers in 9M 2024: The data for system-wide claims in 9M 2024 implies a slight improvement in the sector's aggregate loss ratio, which we believe was driven by the improvement in loss ratios of both healthcare and vehicle insurance (based on H1 2024 data).

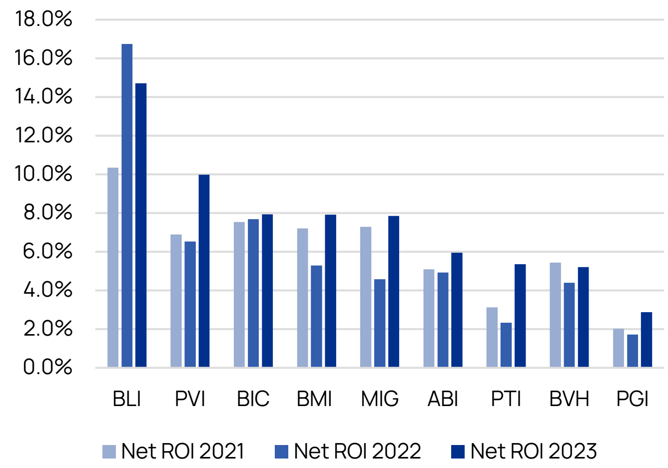
We expect upward pressure on the 2024 system-wide non-life loss ratio due to the negative impact of Typhoon Yagi. From 2015-2022, several major typhoons hit Vietnam, with damages between USD100mn to USD1bn. Meanwhile, the non-life insurance loss ratio generally trended downward. In addition, the estimated damage by Typhoon Yagi of ~USD3.3bn was the highest level in the last decade. Overall, we expect higher pressure on claim expenses for non-life insurers from Typhoon Yagi vs the previous typhoons in recent years due to (1) its size and intensity and (2) its impact on large cities with high population density. We expect (1) improved experience in managing storm seasons over the years and (2) reinsurance coverage (with retained claim expenses averaging 70% of gross claims from 2015-2022) to help reduce claims to some extent.

Figure 197: System-wide non-life insurance loss ratio and premium growth



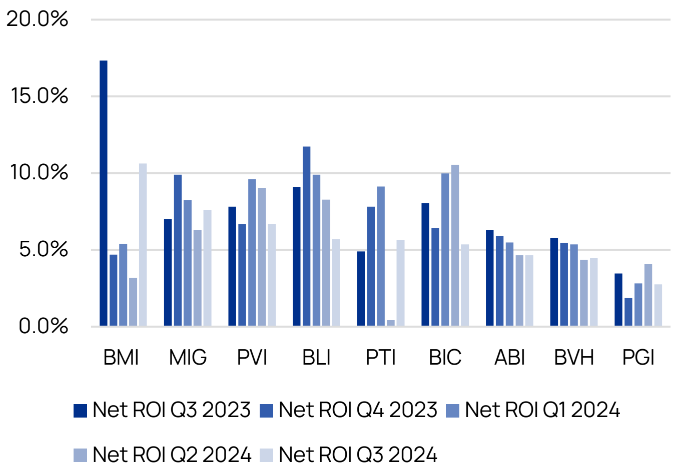
Source: MoF, IAV, Vietcap

Figure 198: Net ROI (%) (2021-2023)



Source: Company data, Vietcap

Figure 199: Net ROI (%) (Q3 2023-Q3 2024)



Source: Company data, Vietcap

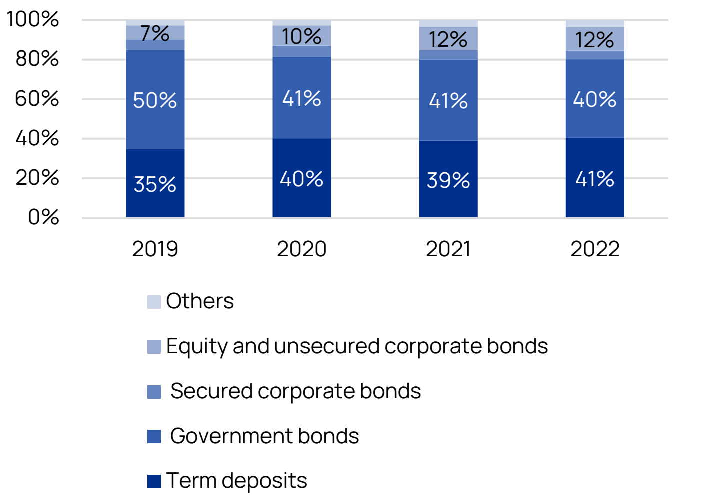
ROI at most non-life insurers decreased in the last two quarters amid low deposit rates offered by commercial banks: BMI, MIG, and PTI are the only three non-life insurers in our data set that experienced a significant QoQ increase in Q3 2024 ROI. We observe that BMI usually receives dividend income from its equity investments in Q3 of each year. Additionally, MIG recorded strong financial income in Q3 2024 from its entrusted fund (managed by MB Capital). In Q3 2024, PTI recorded strong gains from trading bonds.

Deposit rates and returns on investment

Returns on investments for insurers fell in the decreasing interest rate environment in 2011-2021. However, investment returns picked up in 2020 as deposit rates reached new lows, which we believe could have been due to the decision to sell Government bonds and realize one-off gains (like what we observed at BVH in Q2 2020).

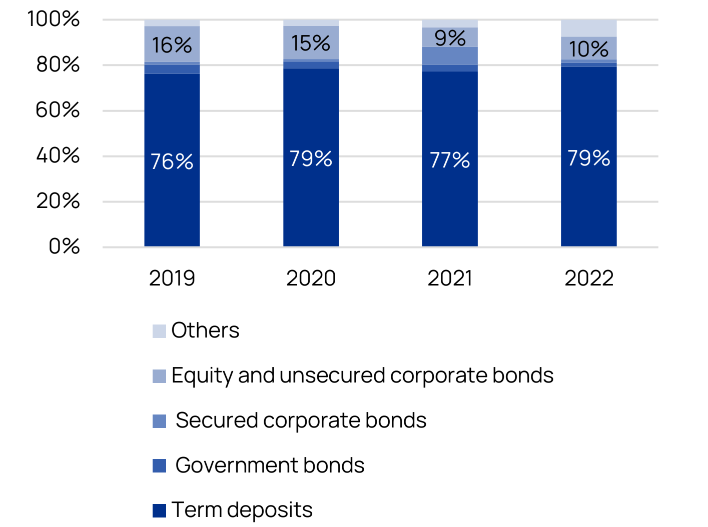
Investment returns reached a new low in 2022, which we attribute to (1) the low-interest rate environment from 2021 to September 2022 and (2) high financial expenses due to provisioning for stock impairments as the equity market fell sharply in 2022. We expect the ROI of the insurance sector to decrease in 2024F due to the deposit rate cuts in mid-2023 and pick up later in 2025F, due to (1) the improvement of the equity market and the corporate bond market and (2) a slight upward pressure on deposit rates starting in mid-2024F and continuing through 2025F.

Figure 200: Investment portfolio of life insurers



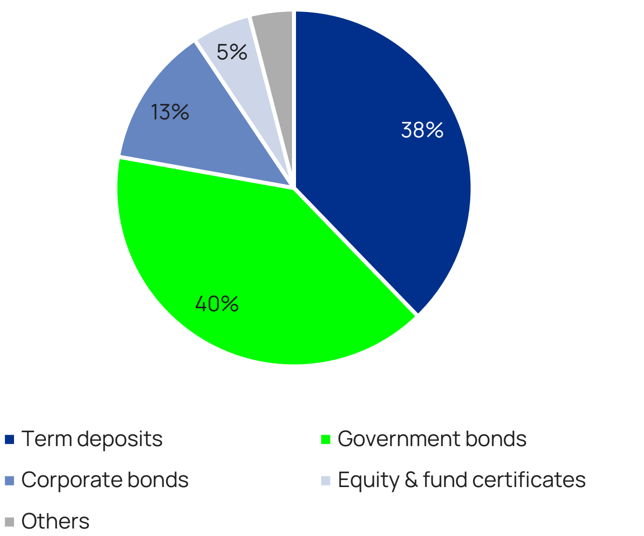
Source: MoF, IAV, Vietcap

Figure 201: Investment portfolio of non-life insurers



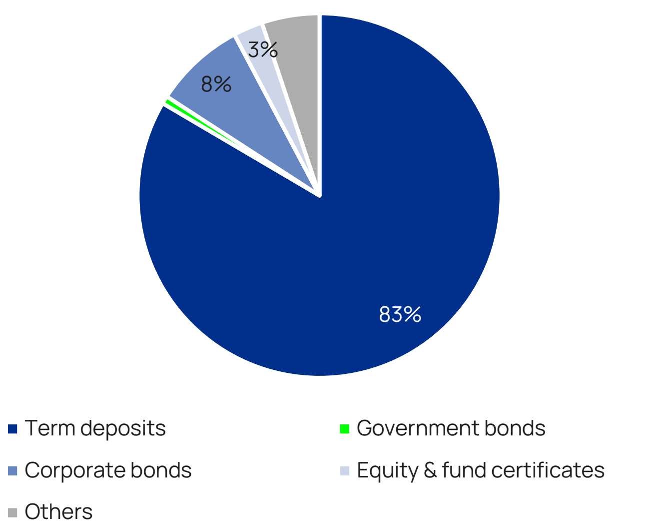
Source: MoF, IAV, Vietcap

Figure 202: Investment portfolio of life insurers in 2023



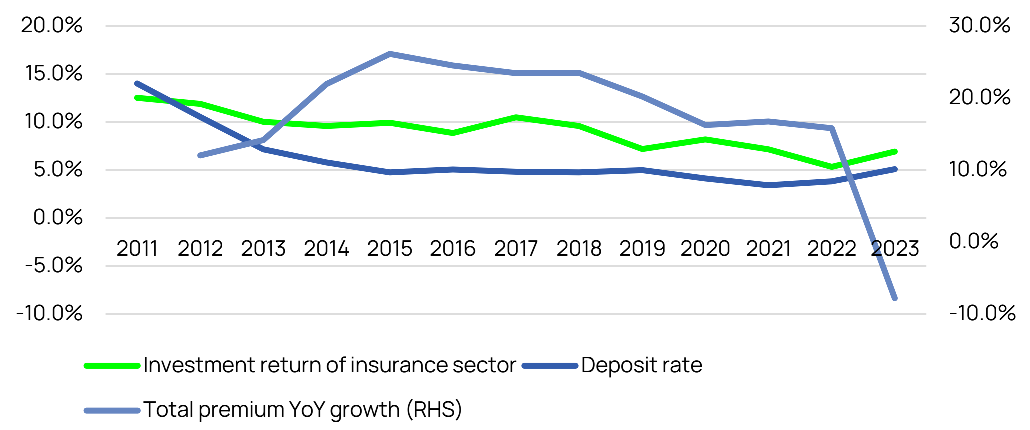
Source: MoF, IAV, Vietcap

Figure 203: Investment portfolio of non-life insurers in 2023



Source: MoF, IAV, Vietcap

Figure 204: Deposit rate* paid by commercial banks and investment return of insurers in Vietnam



Source: World Bank, MoF, Vietcap. * We source the deposit rate indicator from the World Bank. This rate is collected by the International Monetary Fund (IMF) as representative of interest rates offered by commercial banks to resident customers.

Government targets for the insurance sector

Figure 205: Government's targets

	2023	2021-2025	2026-2030
Premium growth	-14.2%	15%/year	10% /year
Premium growth via online channels	N/A	10%/year	10%/year
CAGR of assets, total investments	- Total asset growth: 11.1% YoY - Total investment growth: 12.6% YoY	15%/year	10%/year
Premium/GDP	2.3%*	3.0% - 3.3%	3.0% - 3.5%
Life insurance penetration, as % of population	11%	15%	18%
Premium per capita	VND2.6mn/capita*	VND3mn/capita	VND3mn/capita

Source: Decision No.07/QD-TTg by the Prime Minister of Vietnam in January 2023 (* Vietcap estimation)

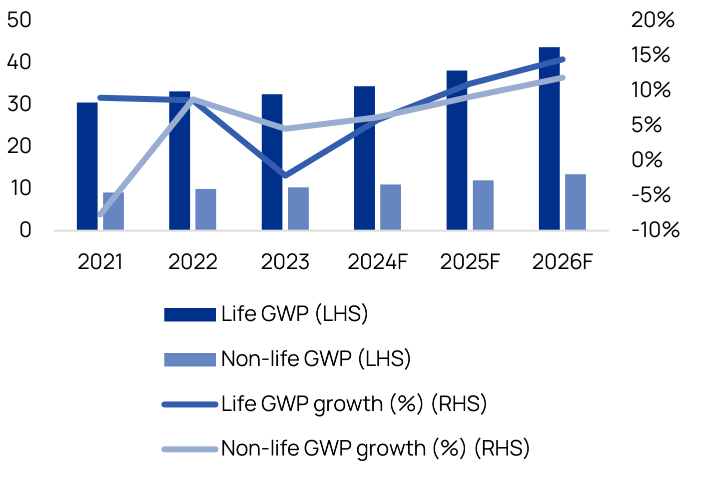
Insurance stocks under coverage

Bao Viet Holdings (HSX: BVH – MARKET PERFORM rating with a target price of VND42,600/share)

BVH is a major player in Vietnam's insurance market and has one of the largest agency networks in terms of headcount. We believe that the agency channel provides better quality of customer consultations vs other distribution channels, which helped BVH to mitigate the negative impact from cases of policy mis-selling. However, life insurance is its largest business, and its life premium growth has been hampered for many years by the company's inability to sign large bancassurance deals like its foreign competitors, as well as its weakness in diversifying its product offerings.

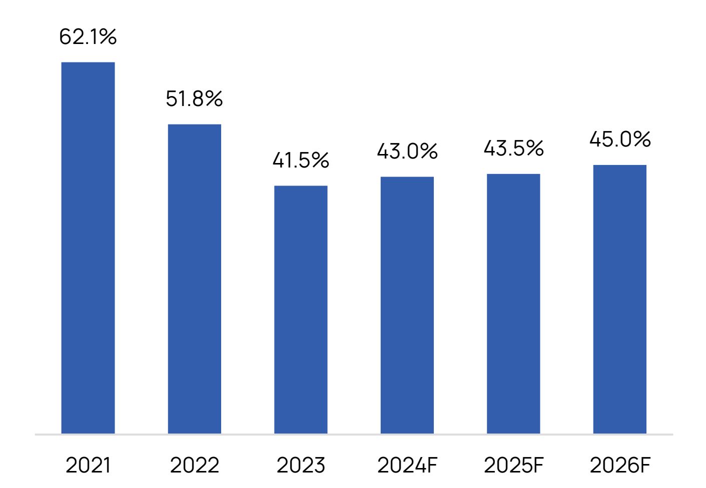
We expect (1) a moderate recovery in premium growth in 2025F, as consumer confidence in insurance products remains weak and we believe it will take time for the industry's reputation to recover, and (2) lower claims, especially surrender cases, to support the bottom line in 2025F. Although there have been short-term challenges for the insurance sector and competition is becoming stiffer, we believe that BVH can continue to grow its business over the long term due to (1) having Vietnam's largest agency network and potential SOE customer base, and (2) our positive outlook for long-term growth of Vietnam's insurance market given current low penetration.

Figure 206: Gross written premium (GWP, VND tn)



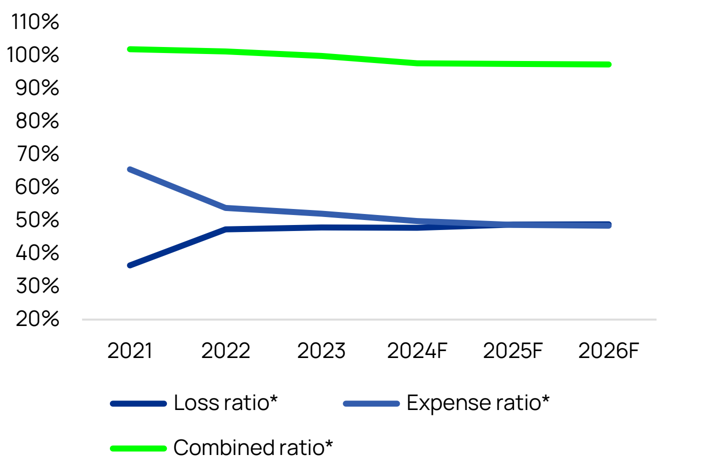
Source: BVH, Vietcap

Figure 207: Mathematical reserve expense as % of life GWP



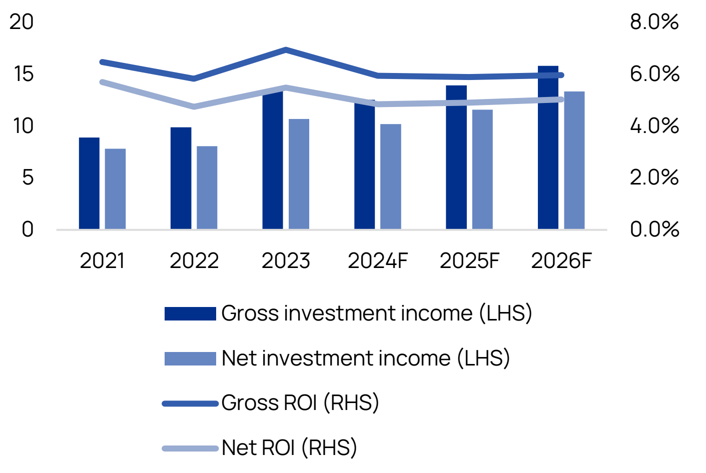
Source: BVH, Vietcap

Figure 208: Loss, expense, & combined ratio (non-life only)



Source: BVH, Vietcap (* non-life only)

Figure 209: Gross and net investment income (VND tn)



Source: BVH, Vietcap

Bao Minh Insurance (HSX: BMI – BUY rating with a target price of VND26,200/share):

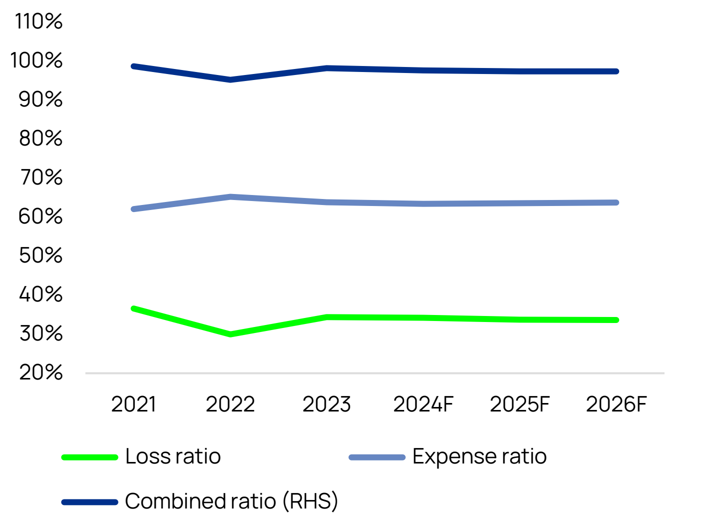
BMI regained a top-three market share in premium after many years in 2024. We believe BMI can defend its market share in the next two years given its management's plan to expand its branch network and promote online sales. Management stated that it targets to establish nine branches and gradually put these branches into operation in the near future. We note that the company currently has one head office and 65 branches nationwide. In addition, we have observed that BMI has upgraded its website in the last few months with a more user-friendly interface that offers online underwriting for some simple products in healthcare & personal accident insurance and vehicle insurance. BMI stated that healthcare insurance in Vietnam still has a great deal of headroom for growth. Additionally, BMI is increasing its partnerships with public hospitals to further exploit its customer base and enhance its capability to provide direct billing services to policy holders. We believe tightening partnerships with medical facilities and enhanced insights from customer data will help BMI and other insurers reduce the pressure from increasing healthcare fraud on claim expenses.

BMI is currently trading at a trailing P/B of 1.0x compared to a peer median of 1.4x.

Figure 210: Gross written premium (GWP - VND tn)

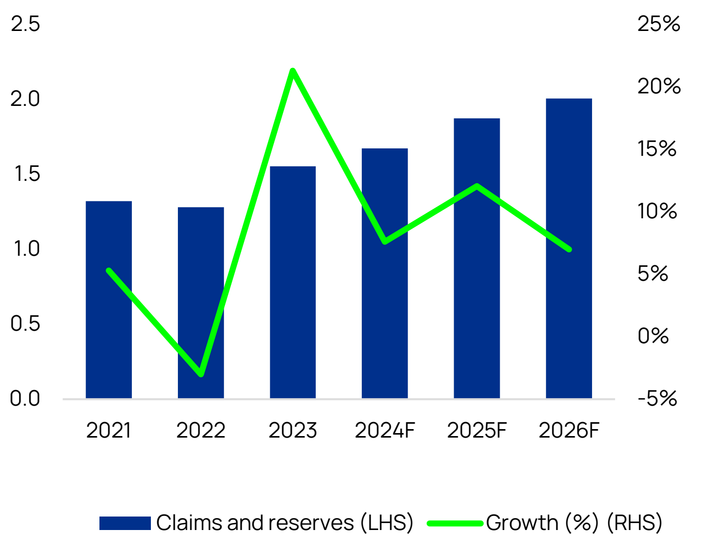
Source: BMI, Vietcap

Figure 211: Loss, expense, and combined ratio



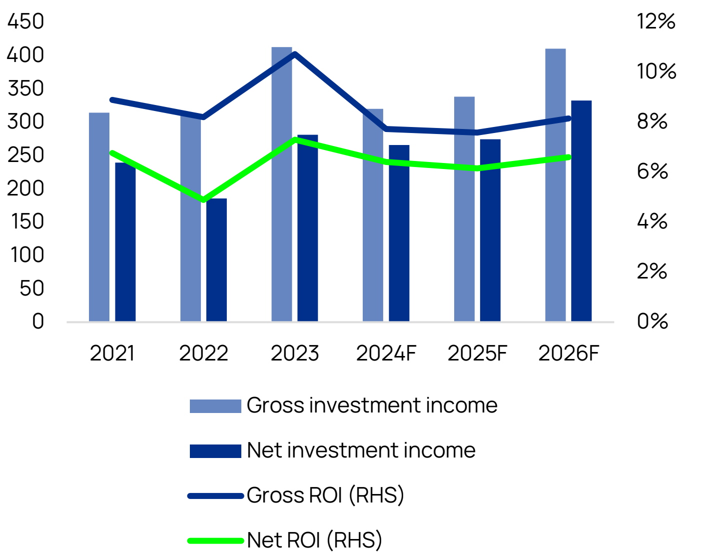
Source: BMI, Vietcap

Figure 212: Total claims and reserves (VND tn)



Source: BMI, Vietcap

Figure 213: Gross and net investment income (VND bn)

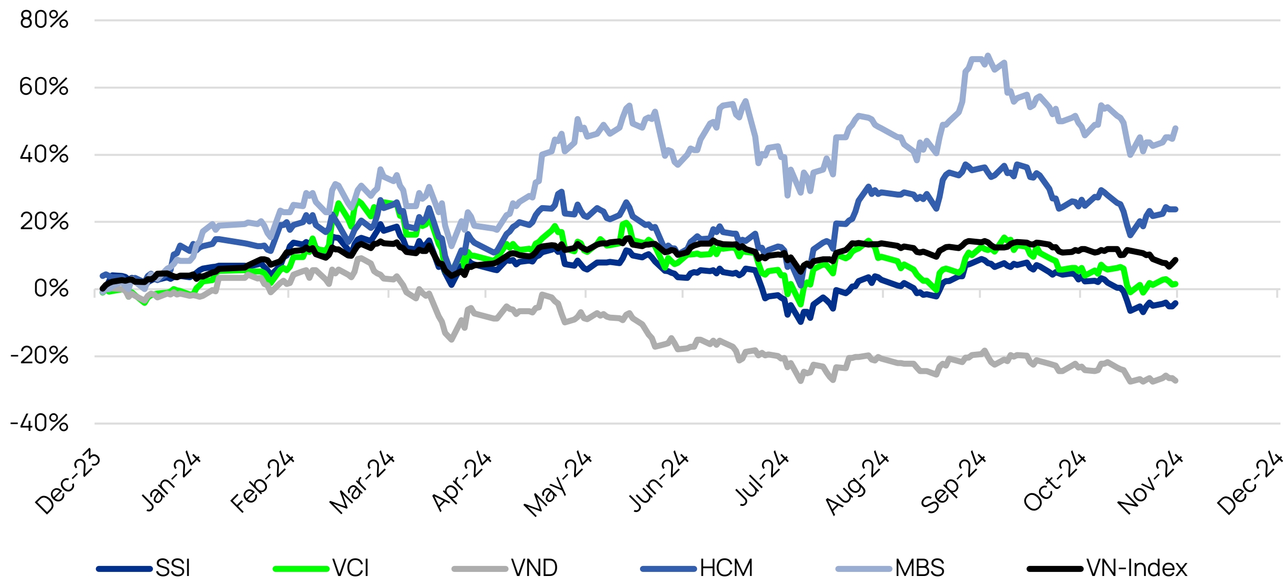


Source: BMI, Vietcap

Securities recap and outlook

Differentiated stock performance between leading securities companies in 2024.

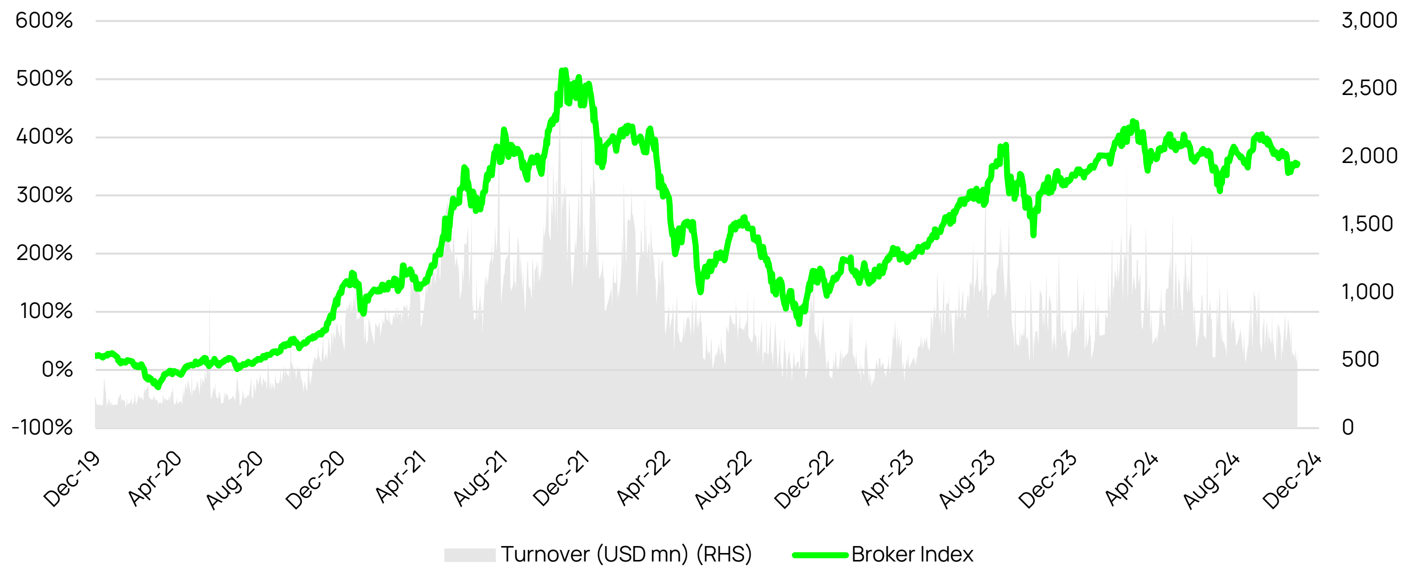
Figure 214: Share price performance of the VN-Index and the top-five listed players in the securities sector



Tickers	Absolute change	Relative to VNI
SSI	-4.1%	-12.8%
VND	-27.3%	-36.0%
VCI	1.6%	-7.2%
HCM	23.7%	15.0%
MBS	47.9%	39.2%

Source: FiinPro, Vietcap (as of November 29, 2023)

Figure 215: Broker index performance and total turnover of three trading venues from 2020



Source: FiinPro, Vietcap (as of November 29, 2024). Note: Broker index is constructed by the weighted average of the share prices of SSI, HCM, VCI, VND, and MBS, with weights determined by their respective market caps.

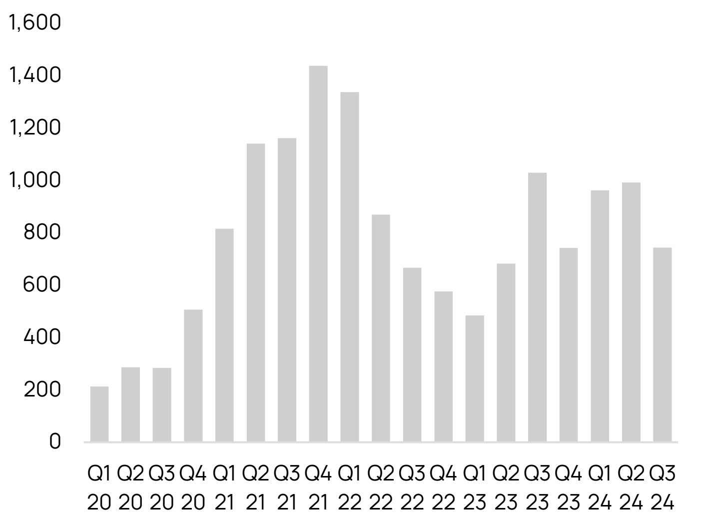
10M 2024 ADTV increased 19% compared to 2023 but has weakened since Q3 2024: The average daily value of trading (ADTV) on the three trading venues combined in 10M 2024 was USD879mn but in Q3 2024 it decreased significantly to USD744mn (-25.1% QoQ) and has not yet recovered in November. The recent decline in ADTV may reflect growing market uncertainty, driven by (i) potential higher tariffs proposed by US president-elect Donald Trump, which could impact Vietnam's exports to the US (30% of total exports in 9M 2024) and affect other sectors, and (ii) expectations of persistently high US inflation and a stronger dollar, which could prompt the Fed to adopt a tighter monetary policy, increasing the risk of VND depreciation and limiting the SBV's ability to maintain a supportive policy. Additionally, ongoing foreign investor selling has created a downward price momentum, weakening sentiment in Vietnam's stock market

Total number of brokerage accounts reached 9 million at the end of October 2024: In 10M 2024, an average of 179,000 new brokerage accounts were opened per month. This pace was higher than in 2023. While we recognize there may be a significant number of duplicate accounts, we expect the actual number of retail accounts to keep growing, supported by a young demographic with rising financial literacy, along with increasing household income and assets driven by economic growth—though we expect growth to be slower compared to 2022 and 2023.

While the number of accounts continued to grow, cash balances in brokerage accounts decreased QoQ in Q3 2024. The total cash balance in brokerage accounts was VND91.6tn (USD3.6bn) in Q3 2024, a 4% decrease QoQ. This decline likely reflects weaker investor sentiment amid the VN-Index's sideways movement over the past six months, along with private banks raising deposit rates to attract customer deposits. However, we believe that Q3 cash balances remain high compared to prior periods, which could help support ADTV (Figure 220).

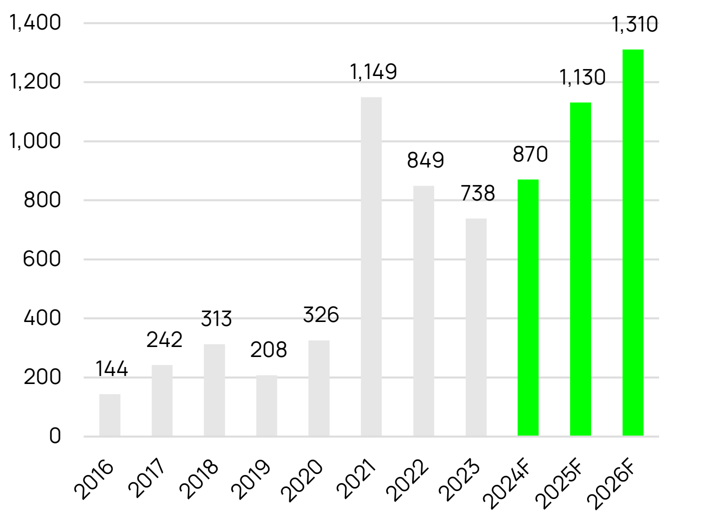
We project a 30% YoY increase in ADTV to USD1,130mn in 2025. As brokerage firms adopt non-pre-funding as per Circular 68, we **expect FTSE to announce Vietnam's upgrade to Emerging Market status in its September 2025 review**, likely boosting retail investor sentiment. Our expectation of improvement in ADTV and turnover is also supported by low interest rates from the SBV and steady economic recovery, with 2025F GDP expected to grow by around 7%. Furthermore, we anticipate a recovery in foreign investor appetite for Vietnamese equities, supported by these positive developments. As a result, we forecast the market turnover velocity to rise to 86% in 2025F from 80% in 2024F and our in-house VN-Index target for 2025F is 1500.

Figure 216: ADTV of three trading venues combined by quarter (USD mn)



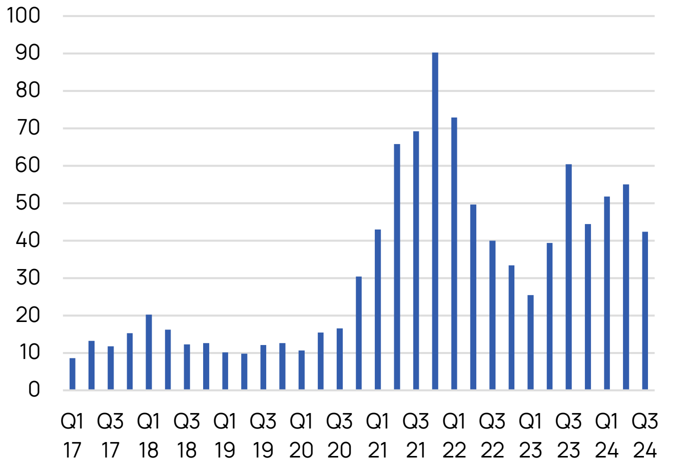
Source: FiinPro as of September 30, 2024, Vietcap

Figure 217: ADTV of three trading venues combined (USD mn)



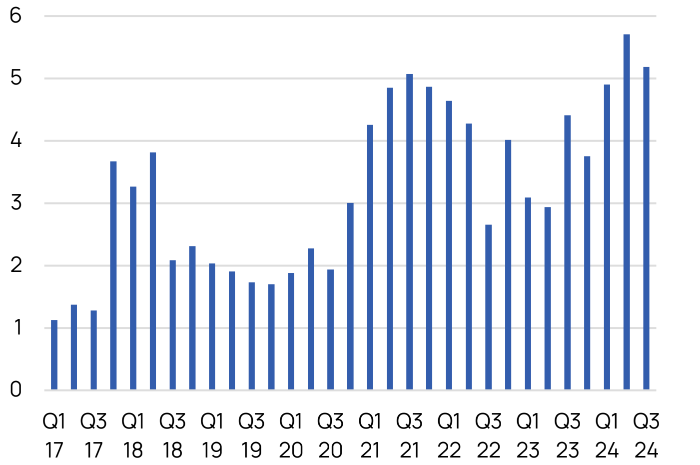
Source: FiinPro, Vietcap

Figure 218: Turnover of domestic investors in three trading venues combined from 2017 to Q3 2024 (USD bn)



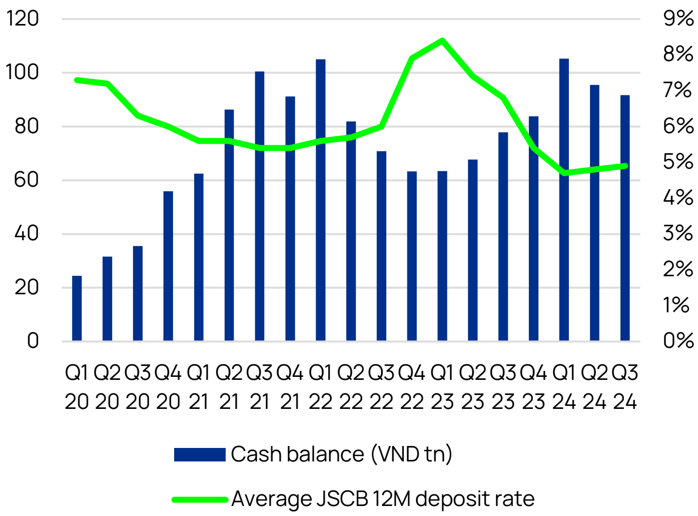
Source: FiinPro, Vietcap

Figure 219: Turnover of foreign investors in three trading venues combined from 2017 to Q3 2024 (USD bn)



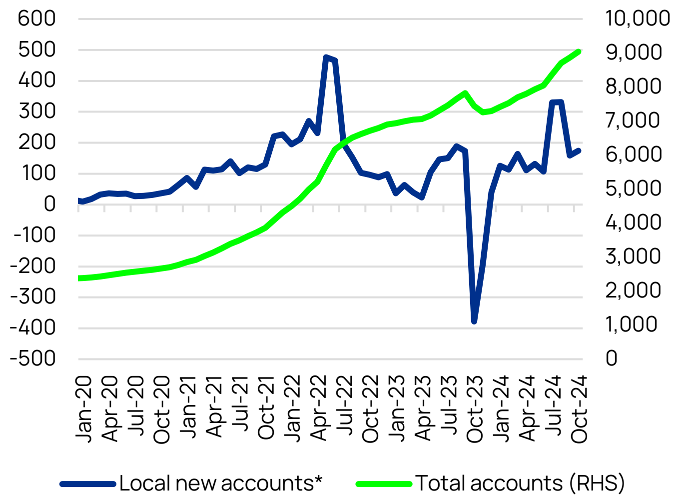
Source: FiinPro, Vietcap

Figure 220: System-wide cash balance at securities accounts



Source: SBV, SOE banks, Vietcap

Figure 221: Total brokerage accounts and new local accounts (thousand)



Source: Vietnam Securities Depository (VSD), Vietcap; * We calculate the implied number of new accounts opened by using the difference in total accounts. Note: In October and November 2023, the VSD deleted inactive accounts.

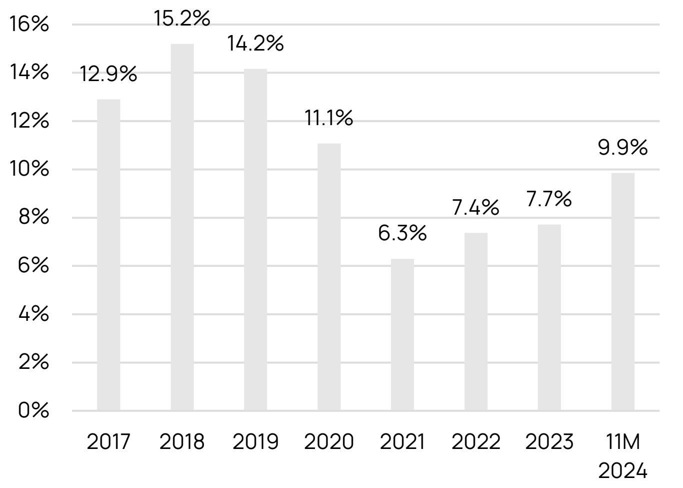
Foreign investors heavily sold Vietnamese stocks in 2024. After a neutral start to the year, selling intensified from March to July due to VND depreciation (driven by a strong USD and negative interest rate differentials), and a lack of technology stocks. Selling eased briefly in Q3 due to improved FX rates amid political clarity following a leadership transition. Foreign investor sell offs resumed in mid-October amid rising uncertainty driven by the potential impact of higher US tariffs and global capital flows shifting toward the US market. We note that this is a common trend in other Southeast Asian markets. As of November 29, 2024, foreign investors net sold USD3.5bn on Vietnam's three trading venues combined.

We expect that foreign inflows will rebound in 2025F. We believe the current valuation of the VN-Index is attractive with a 12-month trailing headline P/E of 13.2x, one standard deviation below the eight-year average trailing headline P/E (Figure 226). The consensus forward P/E of Vietnam as of November 29, 2024, was lower than other emerging markets in Southeast Asia.

Therefore, we expect active foreign funds investing in emerging markets and seeking opportunities in undervalued markets to allocate capital to Vietnam ahead of the potential upgrade period. Please find our Securities Sector Report for our detailed estimation on foreign inflows.

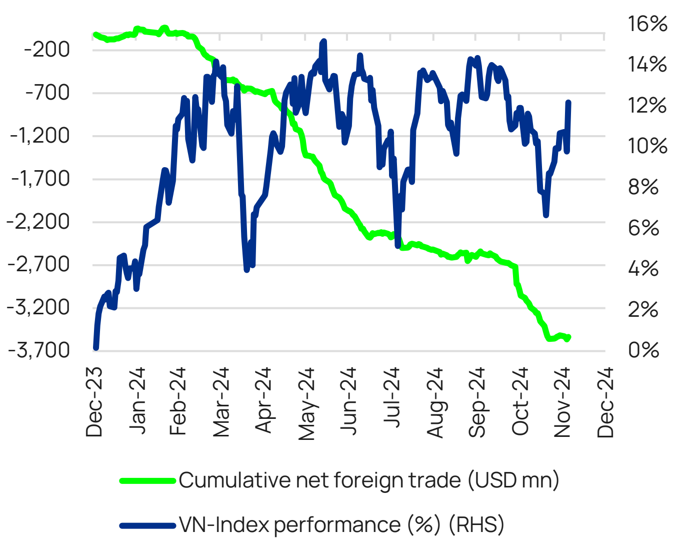
Additionally, we believe the pressure on the depreciation of the VND will reduce in the coming quarters, supported by (1) a narrower spread differential between the VND and USD interbank rate, driven by the expectation of the Fed's rate cut and (2) strong net FX inflows into Vietnam from a trade surplus, FDI inflows, and remittances.

Figure 222: Foreign participation as % of market turnover



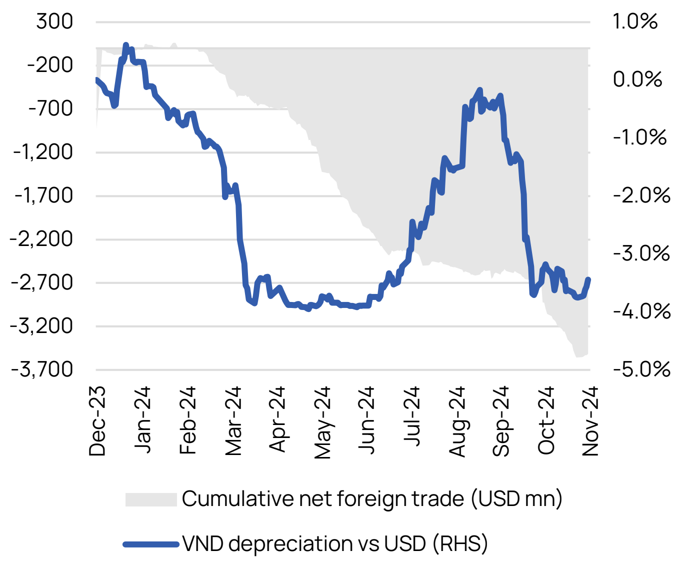
Source: FiinPro, Vietcap

Figure 223: VN-Index performance (%) and cumulative net foreign trading (USD mn)



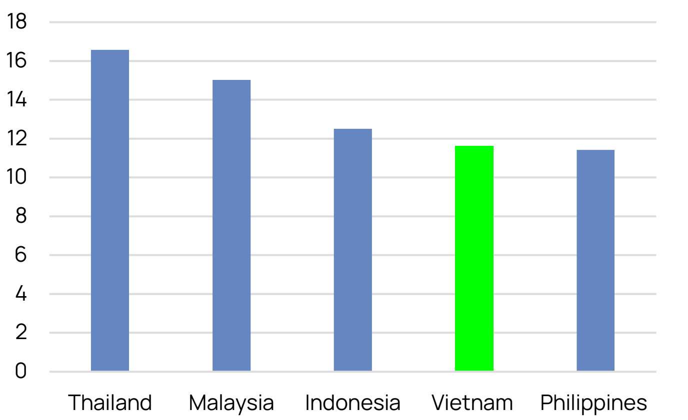
Source: FiinPro as of December 5, 2024, Vietcap

Figure 224: Net foreign sales positively correlated with VND movement



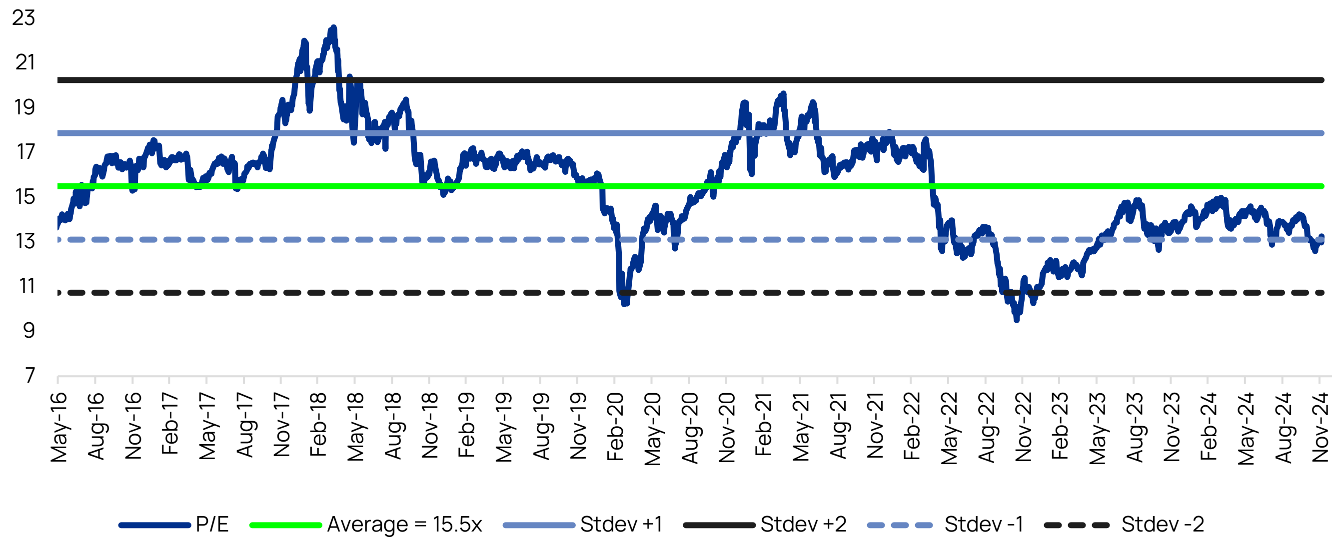
Source: FiinPro as of November 29, 2024, Vietcap

Figure 225: Consensus forward P/E of select emerging markets as of December 5, 2024



Source: Bloomberg, Vietcap

Figure 226: VN-Index 12M trailing headline P/E



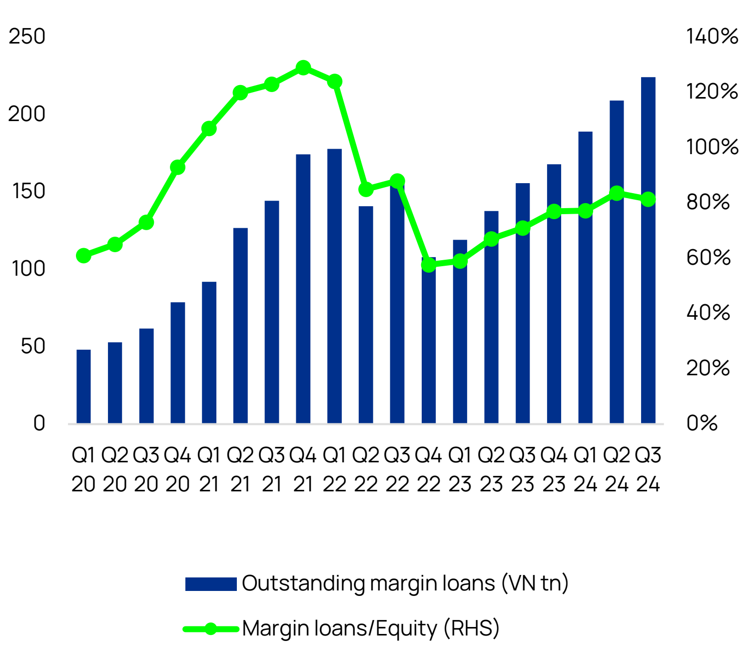
Source: HOSE, Vietcap

Industry-wide outstanding margin loans continued increasing to the highest level in Q3 2024. According to FiinPro, total outstanding margin loans increased 7.2% QoQ in Q3 2024 to VND224tn. While the margin loan-to-equity ratio remained well below the 200% regulatory cap at 81%, the increasing balance (now 3.2% of total market capitalization), coupled with a decline in ADTV and the VN-Index, raises concerns about market vulnerability. However, we view this surge in margin loans appears to be driven primarily by repo activities of corporates rather than increased leverage among retail investors.

As of Q3 2024, TCBS maintained its position as the largest margin lending provider, while HCM overtook SSI to become the second largest. HCM and TCBS also recorded the strongest margin lending growth in 9M 2024, at 59% YTD and 54% YTD, respectively. Additionally, VCI surpassed MBS to secure the 7th position in margin lending balance. We believe competition in margin lending activities has been gradually intensifying. Among the top-eight brokers by market share, HCM, Mirae Asset, and MBS face the greatest pressure to raise new equity to expand their margin lending balances and brokerage market shares. As of Q3 2024, the margin lending-to-equity ratios of these brokers stood at 192%, 185%, and 157%, respectively.

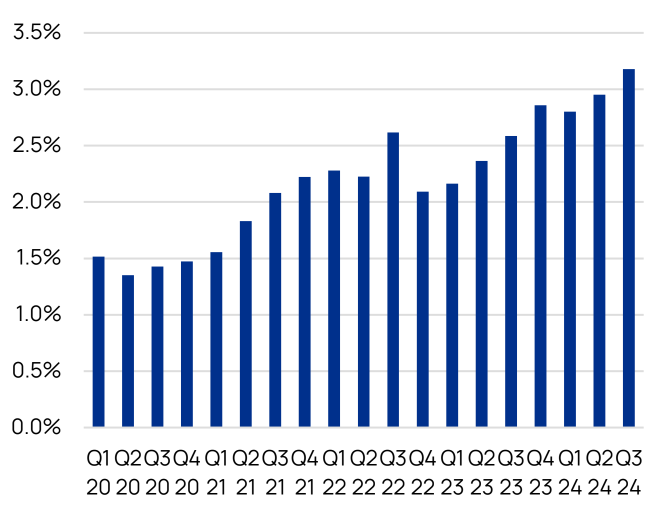
We anticipate an increase in margin loans in 2025F, supported by several factors: (1) the relatively attractive valuation of the VN-Index, (2) the growing penetration of brokerage accounts, and (3) enhanced retail investor activity driven by Vietnam's expected upgrade to EM status in 2025, which is likely to boost margin demand. Additionally, we believe the SBV will maintain a low-interest-rate environment to support economic growth. We do not forecast the total margin loan balance for the overall market as we currently cover only one securities company (SSI), but we expect it to increase. We forecast SSI's margin loans to increase 35% YoY to VND27.2tn in 2025F.

Figure 227: Quarterly total outstanding margin loans



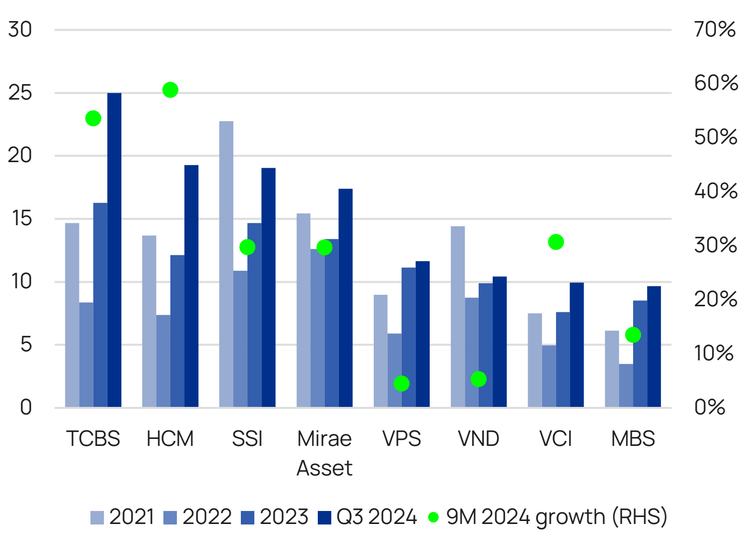
Source: HOSE, Vietcap

Figure 228: Quarterly margin loans balance over market capitalization



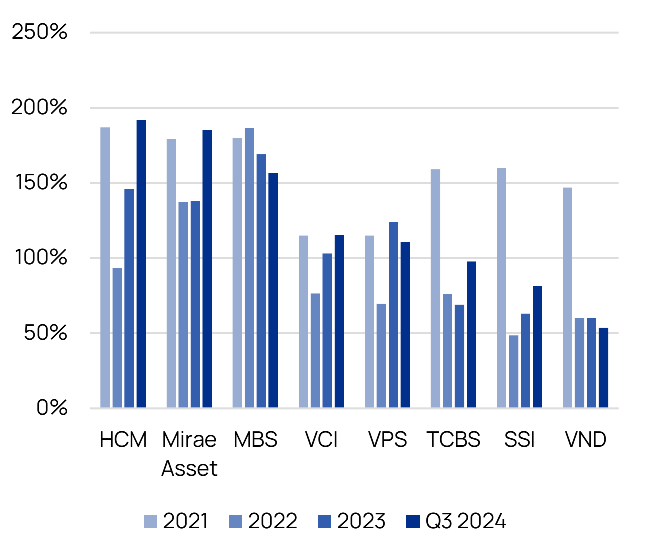
Source: FiinPro, Vietcap

Figure 229: Outstanding margin loans of large balance sheet brokers (VND tn)



Source: FiinPro, Vietcap

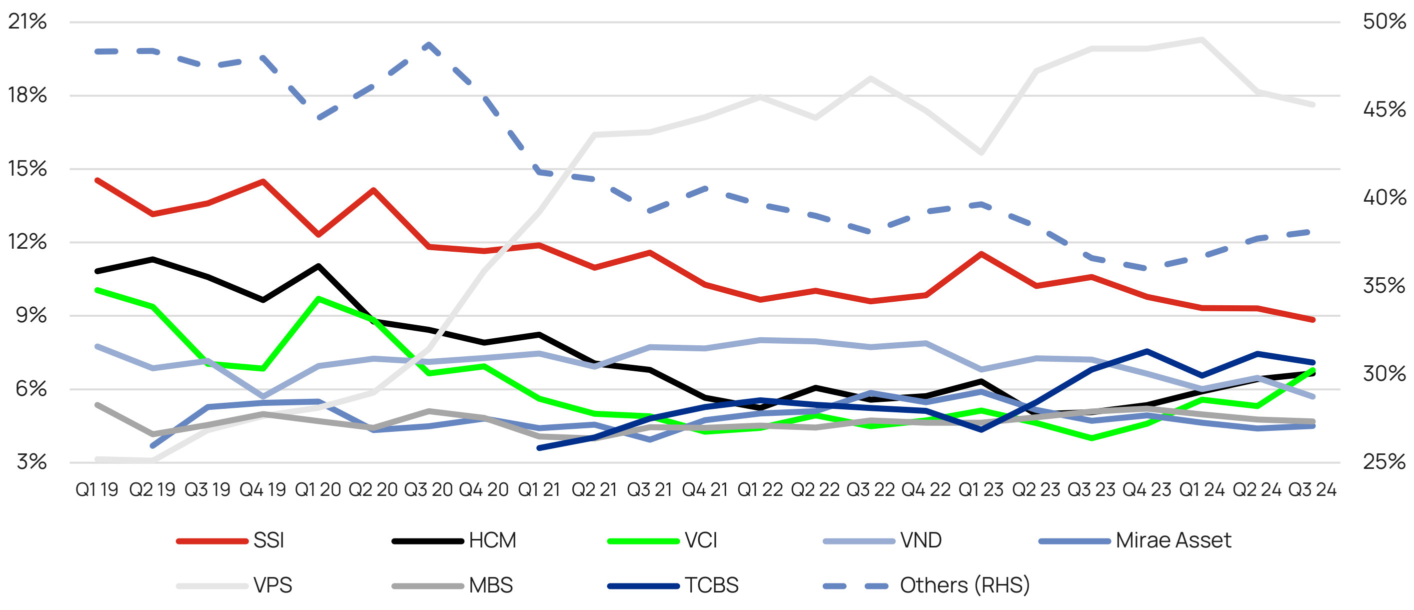
Figure 230: Margin loans/equity of large balance sheet brokers (%)



Source: FiinPro, Company data, Vietcap

Institutional-focused brokers gained market share in 9M 2024. As of Q3 2024, VPS remained the leader in market share on HOSE, though its share declined to 17.6% from 19.9% in Q4 2023. Other retail-focused brokers, including TCBS, VND, MBS, and SSI, also saw reductions in their brokerage market shares. In contrast, HCM and VCI gradually expanded their market shares. In 9M 2024, VCI's market share increased by 2.2 ppts, securing the fourth position in Q3 2024, while HCM's market share rose by 1.3 ppts, maintaining its fifth-place position. We believe the gaining market share among institutional-focus brokers is partly attributable to (1) increased foreign participation in Vietnam's stock market during 9M 2024 and (2) reduced trading activity among retail investors in Q3 2024, as indicated by a 25% QoQ decline in ADTV during the quarter. We anticipate institutional-focused brokers will continue gaining market share, driven by the expected increase in foreign investor participation in Vietnam's market following our anticipated announcement of an upgrade to EM status by FTSE in 2025.

Figure 231: Market share on HOSE of top brokerage companies (%)



Source: HOSE, Vietcap

We believe that competition in the securities sector will continue to intensify. We expect the entry of banks into the brokerage business is further intensifying competition as currently TCB, VPB, ACB, HDB, TPB, and VIB have raised significant new equity for its securities subsidiaries. We believe the competition will be focused on customer experience, brokerage fees, and margin lending rates.

Brokers are raising capital to capture the new growth cycle and maintain a competitive edge. We believe intensifying competition in the sector will drive the need for increased capital to accelerate innovation and improve services at securities companies. Brokers with a strong capital base are likely to capture greater market share in the institutional segment, as they can offer large non-pre-funding services to clients. Notably, nearly all leading listed securities companies have announced capital-raising plans for the 2023-2025F period, as shown in Figure 232.

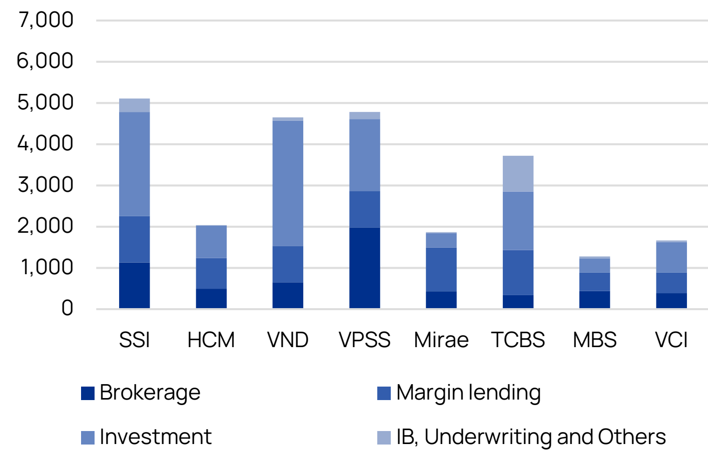
Figure 232: 2023-2025F capital raising plans of select large securities companies

Securities companies	Yes/no	% post-money shares	Method	Share issue (mn shares)	Price	Note
SSI	Yes	9.2%	Rights issue	151.1	VND15,000/share	**Finished in October 2024.**
		0.7%	ESOP	10	VND10,000/share	**Finished in May 2024.**
		6.5%	Private placement	104	The price of the private placement shall not be lower than 90% of the average closing price in 10 consecutive sessions before the date of receiving approval from the BOD, according to SSI's AGM documents. Vietcap's assumption is VND26,700/share.	Expected in 2025F.
HCM	Yes	25.3%	Rights issue	178.2	VND10,000/share	**Finished in April 2024.**
		3.4%	ESOP	16	VND10,000/share	**Finished in February 2024.**
		33.3%	Right issue	360	VND10,000/share	Expected in 2025F.
VND	Yes	16.7%	Rights issue	243.6	VND10,000/share	**Finished in August 2024.**
		16.7%	Public or private placement to professional securities investors	243.6	The offering price is not lower than the average closing price for 10 consecutive sessions before the date of the Board's approval of the resolution on the implementation of the private placement of shares.	Expected in 2024-2025 after getting the SSC's approval.
		2.0%	ESOP	24	VND10,000/share	Expected in 2024-2026.
VCI	Yes	1.0%	ESOP	4,4	VND12,000/share	**Finished in June 2024.**
		20%	Private placement	143,6	VND28,000/share	**Finished in October 2024.**
MBS	Yes	20%	Right issue	109.4	VND10,000/share	**Finished in October 2024.**
TCBS	Yes	51.2%	Private placement	105	VND97,542/share	**Finished in 2023.**

Source: Company data, Vietcap compilation and estimates

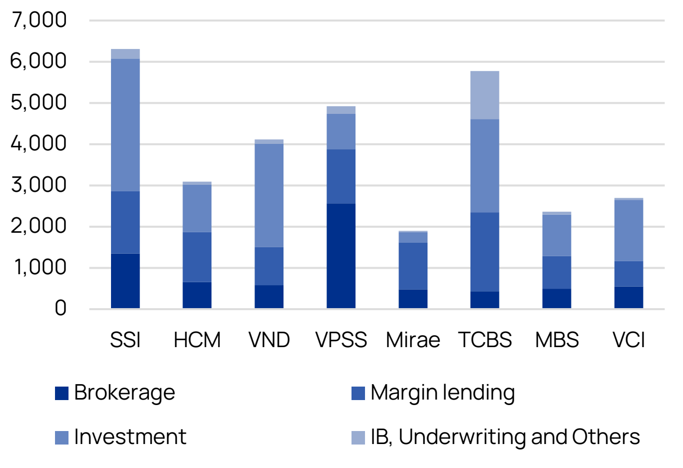
Most of the top brokers recorded YoY increases in operating revenue in 9M 2024: Aggregate revenue data from the top-eight brokerage firms (SSI, HCM, VND, VPS, Mirae, TCBS, MBS, and VCI) shows significant growth across their core activities, including brokerage, margin lending, investment, and investment banking & underwriting in 9M 2024 at 21.4% YoY, 39.3% YoY, 16.8% YoY, and 19.4% YoY, respectively. VND was the only firm to report an 11.2% YoY decline in brokerage revenue and relatively flat margin lending revenue YoY in 9M 2024. This can be attributed to (1) a decrease in VND's brokerage market share during 9M 2024 and (2) a reduction in its average brokerage fee rates, which fell to 0.06% in 9M 2024 from 0.08% in 2023.

Figure 233: Breakdown revenue of top-eight brokers (9M 2023)



Source: HOSE, Vietcap

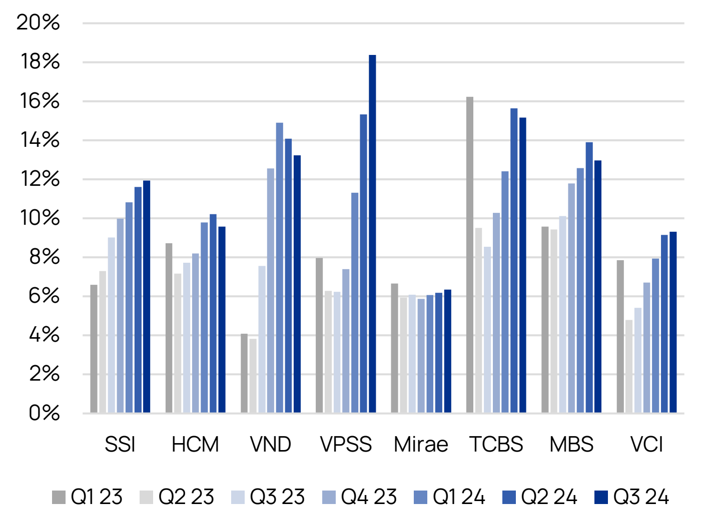
Figure 234: Breakdown revenue of top-eight brokers (9M 2024)



Source: FiinPro, Vietcap

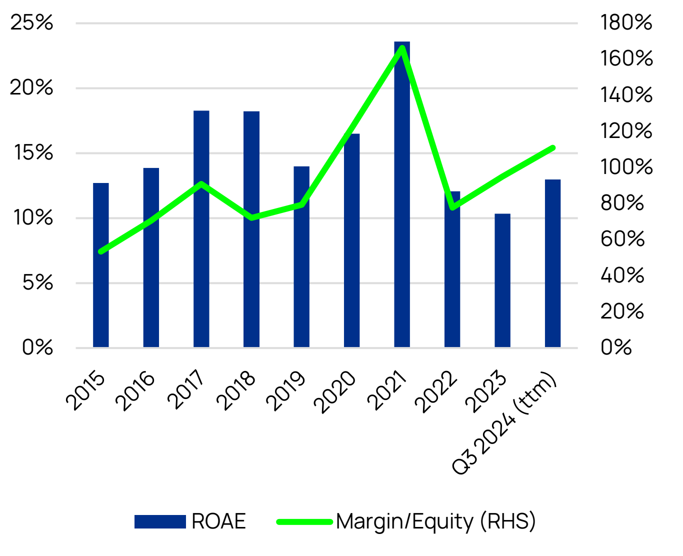
We expect the ROE of broker firms to gradually improve in 2025F. With an improved economic outlook and higher projected ADTV in 2025F, we expect increased revenue across brokerage, margin lending, investment, and IB & underwriting activities, along with higher earnings for brokers. Our data indicates that the aggregate ROE of top brokers bottomed out at ~10% in 2023 and has gradually improved over the three quarters leading up to Q3 2024. In the new growth cycle, we anticipate brokers will better utilize their capital and enhance operational efficiency.

Figure 235: Quarterly TTM ROE of the top brokers



Source: HOSE, Vietcap

Figure 236: Aggregate ROE of top-eight brokers (9M 2024)



Source: FiinPro, Vietcap

We expect the Amended Securities Law to benefit both the stock market and corporate bond market. We also believe these changes will enhance transparency, strengthen protections for individual investors, and increase the appeal of Vietnam's market to foreign investors. For the stock market, this establishes a legal framework for the Vietnam Securities Depository Corporation (VSDC) to create a subsidiary for managing CCP (central counterparty clearing) activities, addressing a key issue that has prevented Vietnam's stock market from being considered for an upgrade to EM status by MSCI. For the corporate bond market, currently the participation of foreign bondholders is limited, we expect the Amended Securities Law will support the demand and liquidity for the corporate bond market.

Figure 237: Summary key changes of Amended Securities Law

	Key changes	Securities Law 2019	Amended Securities Law
1	**Professional investor**	Professional investors are the institutional and individual investors: - Institutional investors such as banks, foreign branch banks, finance companies, insurers, securities companies, fund management companies, securities investment funds, etc... - Individual professional investors must have a minimum income of VND1bn/year in the latest year or holding securities that is worth at least 02 billion VND	Expanding the definition of professional investors including foreign individuals and institutions
		Both individuals and institutions professional investors can participate in private placement of C-bonds	Individual professional investors can participate in private placement of C-bonds if issuers have (i) **credit rating and collateral assets or (ii) credit rating and guaranteed payment by credit institutions**
2	**Responsibility on recording and reporting securities-related documents**		Additional regulations on the responsibilities of individuals/organizations involved in (1) preparation, (2) processing, (3) consulting, and (4) auditing documents related to securities and market activities.
3	**Stock market manipulation**	(1) Using multiple trading accounts and spreading false rumors to manipulate prices and volume. (2) Allowing others to use the account or hold securities to manipulate prices	Additional manipulative behaviors include: (1) Placing orders on the same trading day without altering actual ownership, (2) Placing large orders during the opening or closing periods to manipulate the opening or closing prices, (3) Colluding or enticing others to continuously place buy/sell orders, significantly impacting supply, demand, and securities prices. (4) Providing opinions through mass media regarding securities or issuing organizations with the intent to influence securities prices.
			Insiders of public companies, public funds, and related parties failing to disclose planned share and fund certificate transactions to SSC and stock exchange
4	**Private placement by public companies**	Private placement of shares, convertible bonds and C-bonds is available to strategic investors and professional investors	Additional requirements on individual professional investors participate in private placement of C-bonds including the issuers must have (i) credit rating and collateral assets or (ii) credit rating and guaranteed payment by credit institutions
5	**CCP System**		Establishing a legal framework for the Vietnam Securities Depository Corporation (VSDC) to create a subsidiary to handle CCP activities, reducing financial risks in in case of member payment defaults and aligning with international practices and IOSCO recommendations

Source: MoF, Vietcap

Securities stocks under coverage

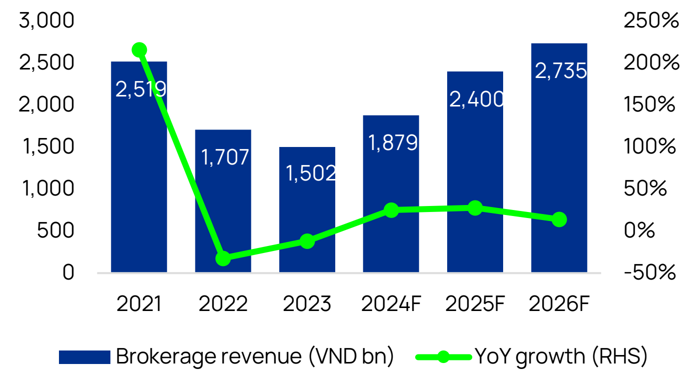
SSI Securities Corporation (HSX: SSI – BUY rating with target price of VND33,300/share)

SSI is one of the top brokerage companies in Vietnam. The company had the second largest market share on HOSE with the third largest margin lending book and the lowest margin lending over equity ratio among large balance sheet securities companies as of Q1 2024. We view SSI as one of the securities companies that can capture the growth of Vietnam's stock market due to its strong capital buffer, solid reputation, large network, and ability to tap offshore funding sources.

We forecast 22.0% YoY growth in 2025F NPAT-MI, driven by: (1) a 25.1% YoY increase in brokerage revenue, supported by our expectation that SSI will achieve a combined trading market share of ~9.0% across the three trading venues and a 30.1% YoY rise in 2024F ADTV; (2) 35.0% YoY growth in margin lending revenue, reflecting improved retail investor sentiment in 2025F; and (3) a 10.2% YoY increase in gains from FVTPL (fair value through profit and loss), as we expect SSI to boost its FVTPL balance following additional equity raised through a rights issue at the end of 2024.

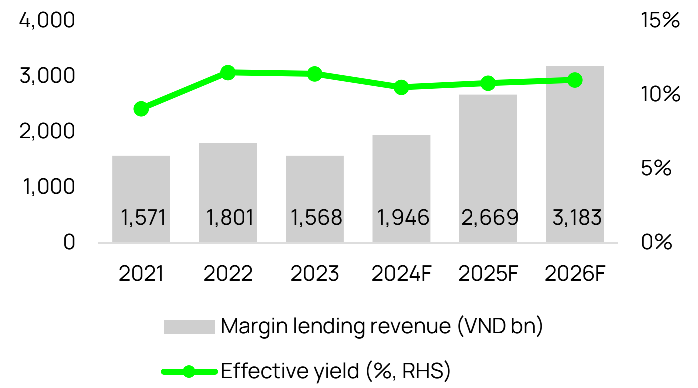
SSI is currently trading at trailing P/B of 2.0x vs its five-year average trailing P/B of 1.8x. However, we believe SSI should be traded at premium as SSI as well as the brokerage sector enters a new growth cycle.

Figure 238: Brokerage revenue and growth



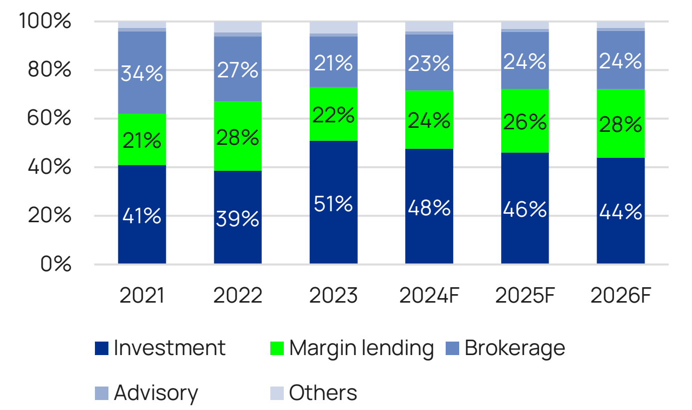
Source: SSI, Vietcap

Figure 239: Margin lending revenue and effective margin lending yield



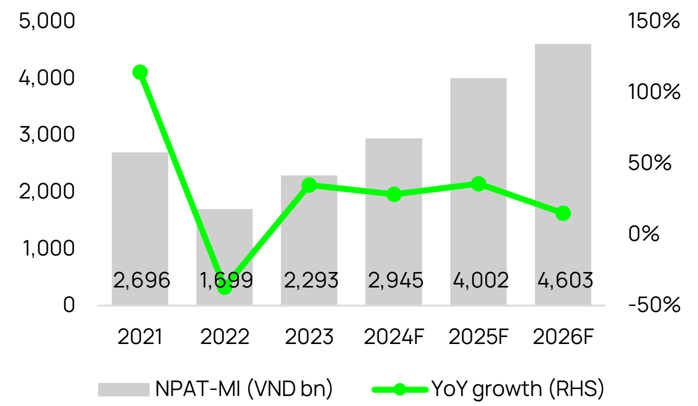
Source: SSI, Vietcap

Figure 240: Revenue mix



Source: SSI, Vietcap

Figure 241: NPAT-MI and growth



Source: SSI, Vietcap

Appendix: Company names and tickers

Code	Company name
SSI	SSI Securities Corporation
HCM	HCMC Securities Corporation
VCI	Vietcap Securities JSC
VND	VNDIRECT Securities Corporation
Mirae Asset	Mirae Asset Securities (Vietnam) JSC
TCBS	Techcom Securities JSC
VPS	VPS Securities JSC
MBS	MB Securities JSC
VPBankS	VPBank Securities JSC
BVH	Baoviet Holdings
PVI	PetroVietnam Insurance Corporation
PTI	Post and Telecommunication Joint Stock Insurance Corporation
BMI	BaoMinh Insurance Corporation
MIG	Military Insurance Corporation

Source: Vietcap

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Consumer: Growth champions in the spotlight

Summary

We anticipate the recovery in consumption to accelerate in 2025, propelled by increased consumer income and confidence stemming from ongoing improvements in manufacturing and export activities. Market leaders in sectors such as grocery minimarts, ICT and consumer electronics retail, FMCG manufacturing, beer brewing, and pharmacy and jewelry retailing are poised to strengthen their positions in the short term and outperform industry growth in the medium and long term. Growth will be supported by strong market positions, financial strength, and effective cost optimization strategies.

The structural trends of a growing middle and affluent class, along with continued urbanization in Vietnam, are expected to drive demand for branded products. These trends will benefit market leaders with innovative manufacturing processes and retailers that successfully implement effective store rollout strategies. Additionally, Vietnam's young and educated population will contribute to the long-term growth of technology companies, particularly as the Government increasingly focuses on technology as a driver of economic development.

Our top picks align with these trends and present compelling long-term growth opportunities. These include PNJ (jewelry), FRT (pharmacy), MWG and MSN (minimarts), SAB (beer), and FPT (IT services and telecom infrastructure).

Figure 242: Key data – Consumer stocks

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail. USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
MSN	BUY	4,240	0.0%	49.0%	966	15.6	73,700	108,000	25/11/2024	46.5%	0.0%	46.5%
VNM	O-PF	5,375	36.0%	100.0%	2,600	5.7	64,300	82,000	19/08/2024	27.5%	6.0%	33.5%
SAB	BUY	2,950	36.0%	100.0%	1,159	1.2	57,500	73,000	08/11/2024	27.0%	6.1%	33.0%
MWG	BUY	3,567	0.0%	49.0%	78	19.6	61,000	79,000	04/12/2024	29.5%	0.8%	30.3%
VHC	BUY	660	0.0%	100.0%	474	2.6	73,500	89,000	05/12/2024	21.1%	2.7%	23.8%
FRT	BUY	986	0.0%	49.0%	122	3.6	181,000	220,800	15/08/2024	22.0%	0.0%	22.0%
VEA	M-PF	2,046	88.5%	49.0%	965	1.5	38,500	42,200	20/09/2024	9.6%	12.2%	21.8%
PNJ	BUY	1,298	0.0%	49.0%	0	3.4	96,000	113,500	29/10/2024	18.2%	2.3%	20.5%
CTR	O-PF	562	65.7%	49.0%	218	6.9	122,900	137,700	05/11/2024	12.0%	1.6%	13.7%
QNS	O-PF	751	0.0%	49.0%	267	0.8	51,100	53,400	30/08/2024	4.5%	7.8%	12.3%
FPT	BUY	8,738	5.8%	49.0%	266	33.8	148,500	159,700	28/10/2024	7.5%	1.3%	8.9%
DGW	M-PF	381	0.0%	49.0%	103	2.1	43,450	46,000	12/08/2024	5.9%	1.2%	7.0%
TLG	O-PF	231	60.7%	49.0%	62	1.3	66,800	55,600	30/08/2024	-16.8%	5.2%	-11.5%

Figure 243: Summary valuations – Consumer stocks

Code	Share price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/E TTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	EV/ EBITDA 2025F x	ROE 2025F %	P/B LQ x	Net D/E LQ x
MSN	73,700	245%	122%	50%	81.6	72.8	32.9	21.9	8.0	10%	3.6	1.2
VNM	64,300	15%	7%	8%	15.6	15.0	14.0	12.9	7.5	33%	4.3	-0.6
SAB	57,500	8%	11%	5%	17.2	17.0	15.4	14.6	8.6	20%	3.0	-0.8
MWG	61,000	2157%	50%	32%	30.1	23.6	15.7	11.9	9.6	19%	3.3	-0.3
VHC	73,500	45%	44%	30%	18.1	14.5	10.0	7.7	6.9	17%	1.9	-0.1
FRT	181,000	N.M.	183%	53%	233.5	101.9	36.0	23.5	18.1	32%	13.7	2.3
VEA	38,500	2%	11%	9%	8.2	8.2	7.4	6.8	5.1	28%	2.0	-0.7
PNJ	96,000	1%	15%	24%	15.9	17.6	15.3	12.3	10.4	20%	3.1	-0.1
CTR	122,900	7%	26%	17%	26.5	34.0	26.9	23.0	11.4	31%	8.3	0.0
QNS	51,100	-4%	0%	1%	7.1	7.4	7.4	7.3	5.7	22%	1.8	-0.5
FPT	148,500	19%	30%	29%	29.0	30.7	23.7	18.4	12.7	30%	7.3	-0.4
DGW	43,450	19%	16%	25%	24.0	18.3	15.7	12.6	14.1	19%	3.4	0.5
TLG	66,800	9%	20%	21%	14.2	14.9	12.5	10.3	7.1	23%	2.4	-0.3

Source: Vietcap (Data as of December 5, 2024)

Key sector trends and outlook

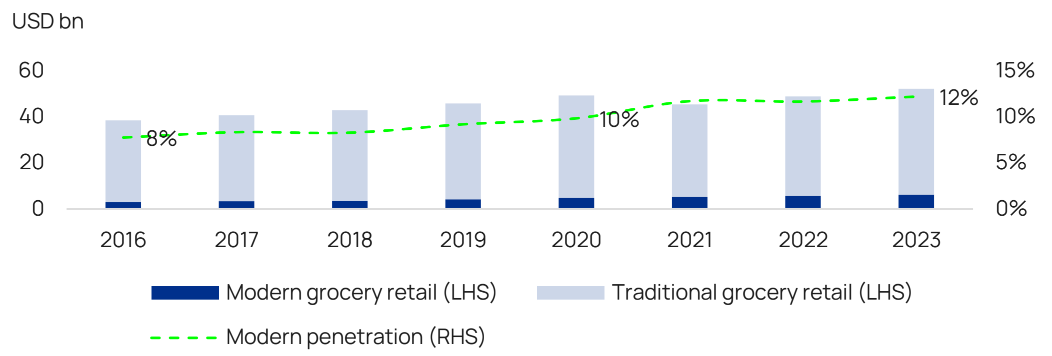
Minimart sales growth has outpaced overall grocery retail revenue

Inflection points in earnings of two leading players at end-Q2 2024 amid strong growth of modern trade in grocery retailing, especially the minimart model

Modern grocery retail has gradually strengthened its market position within Vietnam's total grocery retail sector over the past seven years. By the end of 2023, traditional trade continued to dominate Vietnam's grocery retail market, accounting for 88% of total sales. However, the past eight years have seen modern trade experiencing significant growth, with sales value more than doubling from the end of 2016 to the end of 2023. This significant increase contrasts with traditional trade's revenue CAGR of only 3.7% during the same period.

The COVID-19 pandemic has acted as a catalyst for this shift, accelerating the penetration of modern trade. Consumers have increasingly favored convenience, enhanced food safety standards, and cleaner shopping environments offered by modern retailers. Additionally, rising disposable incomes in Vietnam have further fueled this transition towards modern trade formats.

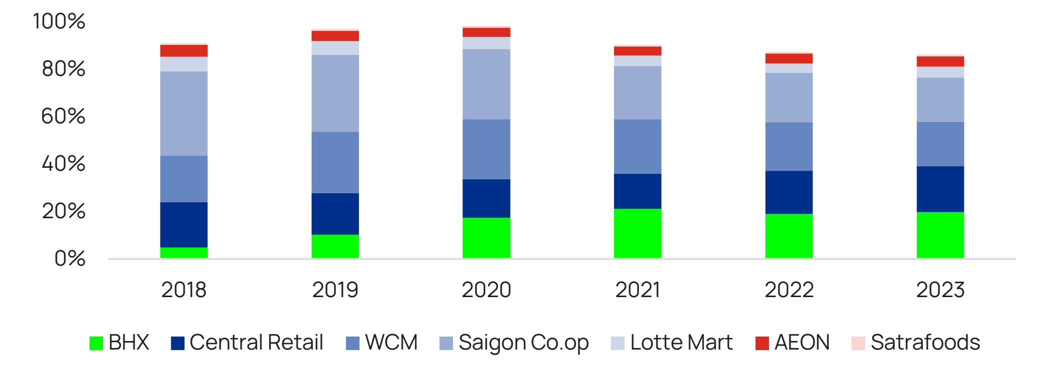
Figure 244: Vietnam's modern vs traditional grocery retail market value in 2016 - 2023



Source: Euromonitor, Vietcap

Morden grocery retail is a concentrated market with six major players, while the minimart sub-segment is dominated by WinCommerce (WCM) and Bach Hoa Xanh (BHX). By the end of 2023, the top six retailers account for 86% of total modern grocery sales. There are two primary formats in modern grocery retail in Vietnam: (1) hypermarkets and supermarkets, and (2) minimarts. The leading players in the hypermarket and supermarket sub-segment include Central Retail (Thailand); Lotte (South Korea); Aeon (Japan); Co.op Mart (State-owned). In the minimart sub-segment, WinMart and BHX dominate the market, with no other significant competitors.

Figure 245: Value market share in modern grocery as of YE 2023



Source: Euromonitor, Vietcap

Focusing on the minimart sub-segment, the national market appears to operate as a duopoly, primarily led by WinMart and BHX. However, a closer examination of Vietnam's two key economic zones— the north and south—reveals different competitive dynamics. In the south, competition is more intense, with both WinMart and BHX competing alongside several relatively small players, including Co.op Food, Satra Food (targeting the middle class), and KingFood Mart (targeting the upper-middle class). Conversely, in the north, WinMart holds a dominant market share with significantly less competition.

Figure 246: Retailing of groceries by channel [1]

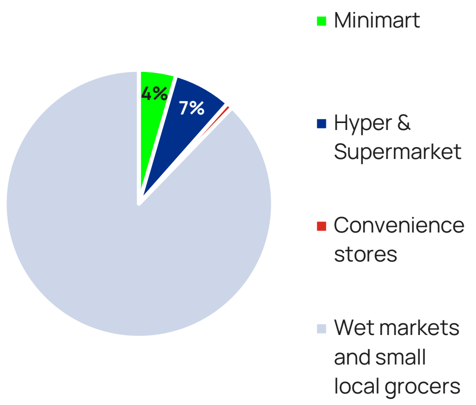
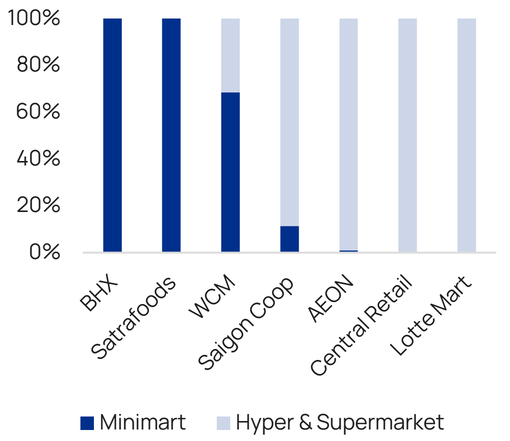
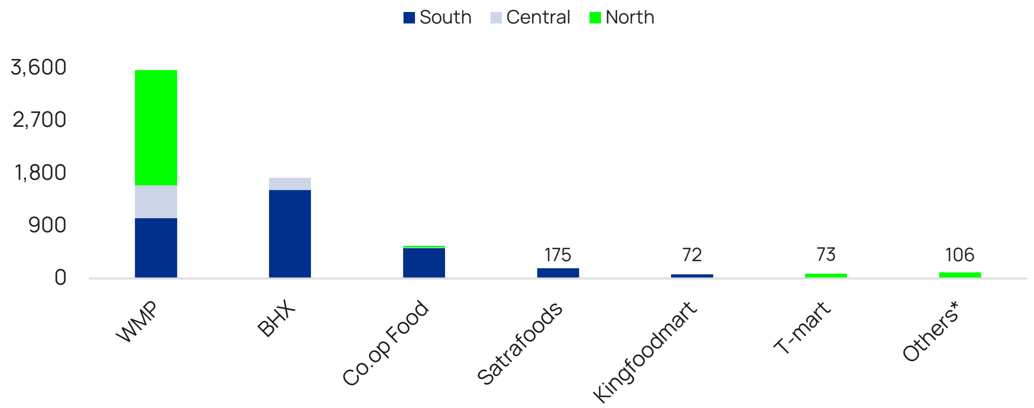


Figure 247: Sales breakdown by formats [1]



Source: Euromonitor, Company disclosures, Vietcap; [1] Data as of 2023.

Figure 248: Minimart store count by region [2]



Source: Euromonitor, Company disclosures, Vietcap; [1] Data as of 2023, [2] Data as of September 2024, * Other players include four chains – AEON MaxValu, HaproFood, Soi Bien, and Bac Tom – each operating more than 20 stores but fewer than 70.

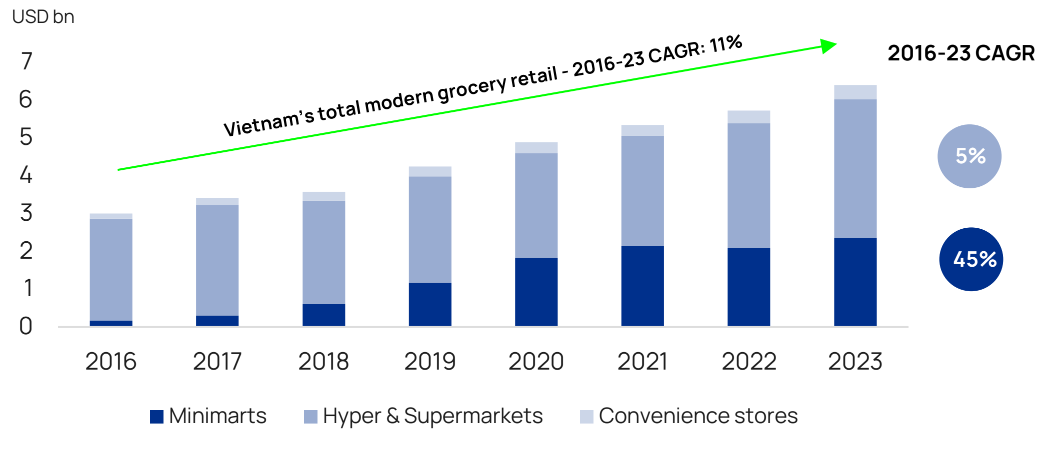
Minimarts have emerged as a key growth driver in the Vietnamese retail market.

While the sales of Vietnam's modern grocery sector experienced a CAGR of 11% from 2016 to 2023, the minimart segment's revenue significantly outpaced this growth, achieving a CAGR of 45%. This rapid expansion has allowed minimarts to capture market share from larger grocery formats, solidifying their role as vital contributors to the evolution of modern retail.

We expect this structural shift to endure, as the mini-supermarket format caters primarily to the growing demographic of young, middle-class, scooter-riding consumers who seek convenient options for quick grocery purchases. The modern lifestyle is increasingly driving consumers away from traditional retail channels towards minimarts.

Fresh meat serves as a key traffic driver for minimarts, along with other fresh food categories. Retail sales from unpackaged food account for over 80% of total retail sales in the fresh food category. Compared to their Asian counterparts, Vietnamese consumers exhibit a strong preference for "freshness" in food consumption, ranking among the top nations in this regard. By offering a diverse assortment of fresh food, minimarts can enhance their overall profitability, increasing the likelihood of cross-selling fresh food purchases with non-food items.

Figure 249: Vietnam's market value of modern grocery retail formats



Source: Euromonitor, Vietcap

Mid-2024 marked a significant inflection point for the bottom-line performance of WCM and BHX

WCM achieved break-even net profit in June 2024, while BHX reported a positive net profit for all Q2 2024. In Q3 2024, the respective EBIT margins for WCM and BHX remained at 1.0% and 0.8%. We anticipate BHX will contribute a full year of net profit to MWG in 2024, while WCM is expected to achieve the same for MSN in 2025.

Growing customer traffic is a key growth driver for the top-line performance of both chains. BHX has successfully increased sales per store following restructuring efforts undertaken in 2022, which involved closing underperforming locations, streamlining product offerings, and enhancing customer service and store experience. In particular, the consistent improvement in fresh food offerings—growing from 23.3% of the sales mix to 35% between the end of 2022 and the end of Q2 2024—has proven effective in attracting customers.

In terms of profitability, BHX has shown steady enhancements in the optimization of store operating costs, logistics costs, and fresh food wastage rate, alongside resilient GPM. WCM's path to profitability has also been driven by the optimization of its store network after MSN's acquisition in 2019. MSN's strong influence in the on distribution network in Vietnam has also helped widen WCM's trade margin. Additionally, WCM underwent a store restructuring process that allowed for fine-tuning of store formats. As of the end Q2 2023, WCM operates three formats within the minimart segment: Winstore, WinMart+ Urban, and WinMart+ Rural, targeting the urban middle-to-affluent class, urban middle class, and rural middle class, respectively. Adjustments to the WinMart+ Rural offerings, combined with SG&A cost optimizations, have enabled WCM's bottom line to surpass the break-even level starting in June 2024.

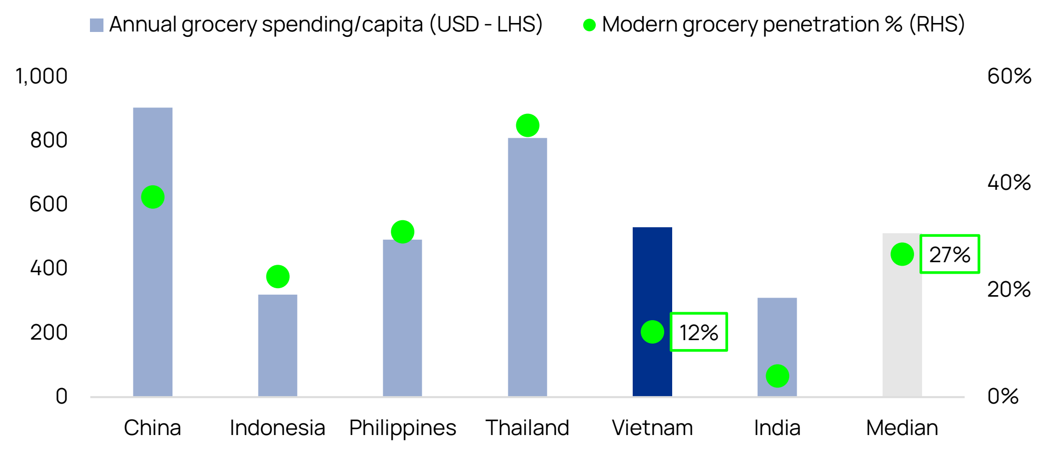
Vietnam's grocery retail is in a sweet spot to capture structural economic and demographic changes

Extensive room for further modern grocery penetration

Large market with low modern penetration compared to other Asian countries

According to Euromonitor, Vietnam's grocery retail market was valued at USD52bn in 2023, with an average annual grocery spending per capita of approximately USD530, slightly above the median for our selected Asian countries. However, modern grocery retail penetration in Vietnam stands at only 12%, compared to a median of 27% among other Asian countries. In Southeast Asia, while Vietnam ranks third in GDP per capita among our four selected peers, it has the lowest modern retail penetration, significantly lagging major peers such as Indonesia and the Philippines, which also have GDP per capita figures in the range of USD3,500 to USD5,000. This disparity indicates substantial potential for growth and expansion for modern retailers in Vietnam.

Figure 250: Modern grocery retail penetration in selected Asian countries



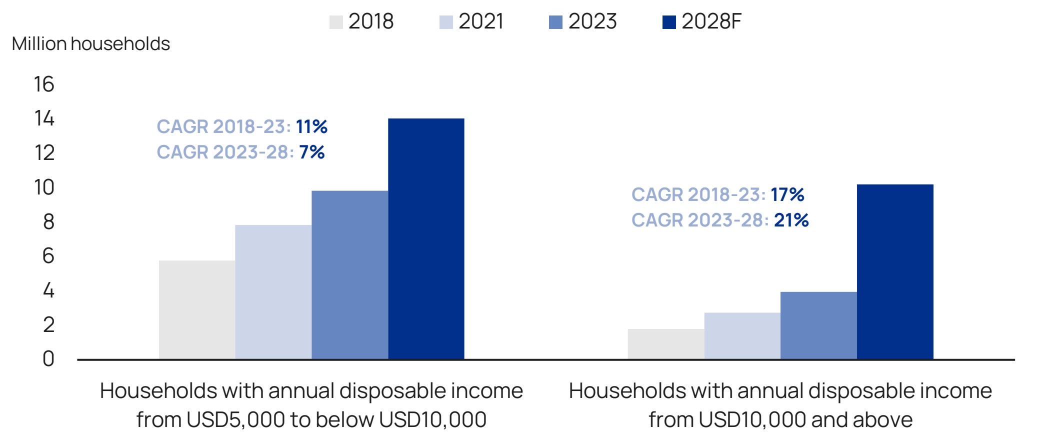
Source: Euromonitor, World Bank, Vietcap

Resilient middle-class growth, rising urbanization, and a sizable young population are set to drive demand for convenience-driven modern retail. Fitch Solutions forecasts that Vietnam's number of middle-income households (i.e., those with an annual disposable income of USD10,000 and above) will grow at a 2023-28 CAGR of 21% and account for 29% of total households by 2028 vs 12% in 2023. Additionally, 38% of Vietnam's population lived in cities in 2023, and the EIU forecasts that this figure will rise to 44% by 2028, while Fitch Solution forecasts it to be 45% by 2030. Furthermore, Vietnam is a young country, with 32% of the total workforce under the age of 35 in 2023, according to the GSO.

We believe that as income rises, customers will pay more attention to the freshness, nutritional content, taste, and origin of food, besides food safety. As a result, there is significant growth potential for the development of minimarts, offering high-quality meat, fruits, vegetables, and imported products. While currently representing a small share of total fresh food consumption, the demand for branded meat, organic fruits and vegetables, and imported products is steadily rising in Vietnam. Euromonitor reported that Vietnam's branded meat retail sales grew at a CAGR of 7% in 2018-23. Additionally, despite weak consumption due to economic headwinds, Vietnam's organic food market achieved a resilient CAGR of 6% in 2020-23.

As discussed earlier, the recent increase in sales per store of the two market leaders (i.e., WCM and BHX) has mainly been driven by traffic and the number of bills. With Vietnam's economy expected to recover further in 2025 and the country's medium- to long-term growth potential, we see opportunities for sustained ticket size expansion in the minimart market.

Figure 251: Vietnam's growth of households by annual income



Source: Fitch Solutions, Vietcap

Figure 252: Household incomes in Vietnam[1]

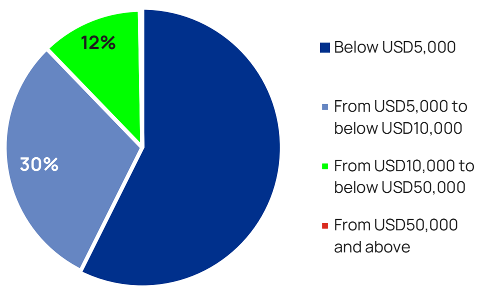
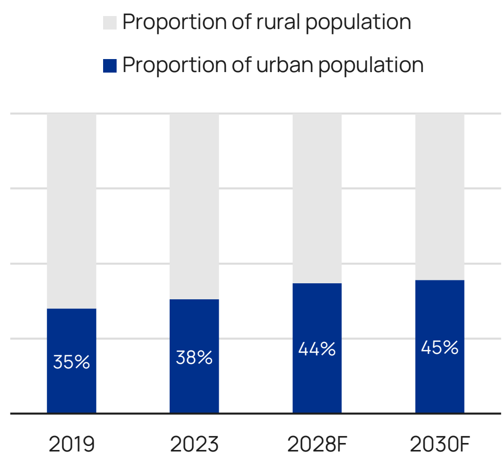


Figure 253: Urbanization in Vietnam



Source: GSO, EIU, Fitch Solutions, Vietcap; [1] Breakdown by annual disposable income in 2023.

Minimarts have advantages to capture a larger share of the market

Convenience plays a critical role in the growth of minimarts in Vietnam. In Vietnam, where a scooter-centric culture prevails, convenience is a crucial driver of minimart expansion. These compact retail formats, typically occupying no more than 500 square meters, can easily integrate into residential neighborhoods, ensuring accessibility for local residents. Their strategic locations allow scooter riders to swiftly enter and exit stores, catering to the preference for light, frequent purchases rather than bulk buying. Minimarts typically stock under 4,000 SKUs, focusing on daily necessities, aligning well with the needs of the community.

In contrast, larger retail formats such as hypermarkets and supermarkets, which require a minimum of 1,000 square meters, encounter challenges in penetrating densely populated areas. The necessity for parking can also deter shoppers, particularly during busy hours. Consequently, consumers often reserve visits to these larger stores for bulk purchases—such as packaged goods, household supplies, and toiletries—where they can take advantage of a broader selection and competitive pricing.

Figure 254: Vietnam's low car penetration [1]

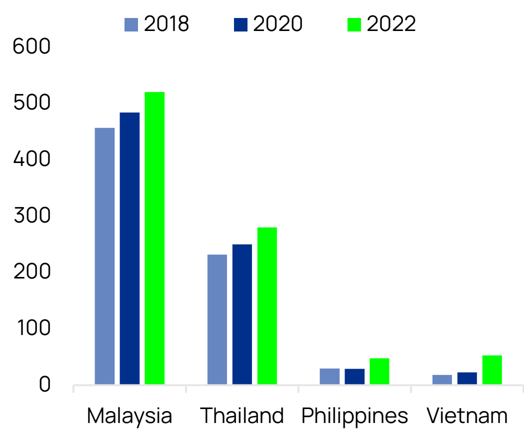
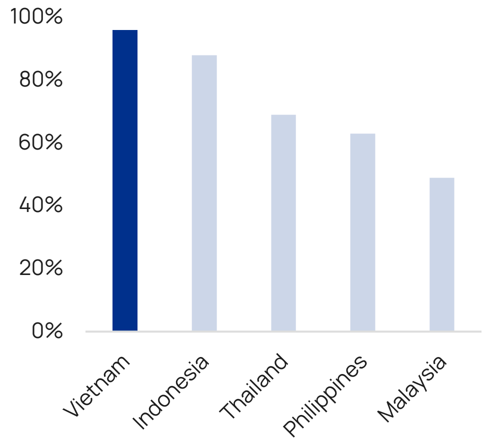


Figure 255: Vietnam's high scooter usage [2]



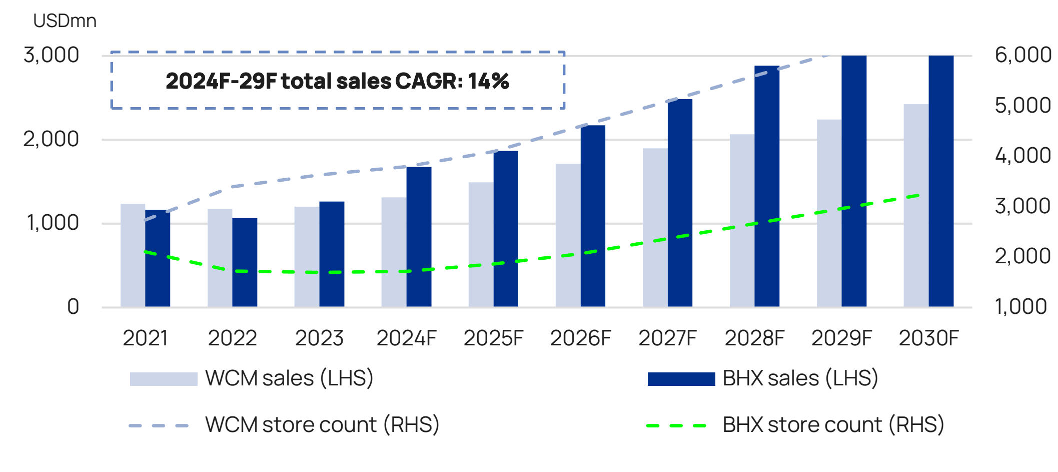
Source: Organisation Internationale des Constructeurs d'Automobiles, ASEAN Stats, Seasia Stats, Vietcap; [1] Number of passenger cars per 1,000 people; [2] The number of motorbike and scooter users among passenger vehicles of all types in 2023.

Figure 256: Scooters parked outside minimarts

Source: Vietcap

We anticipate that WCM and BHX will drive the growth of the modern grocery retail sector, with their combined sales projected to grow at a 2024-29F CAGR of 14% (Figure 16). This growth will mainly be driven by (1) the addition of 450 new stores in 2025 and an average of 800 new stores annually from 2026 to 2029F across the two chains, and (2) an 8% SSSG for the two chains in 2025–2026, supported by stronger consumption, before normalizing to 4% in 2027–2029. With their strong presence in the minimart segment which caters well to the demand for convenience-driven grocery retail, we believe WCM and BHX are well-positioned to outperform the overall growth of the modern grocery industry. Given their scale advantage, with both players accounting for approximately 80% of the minimart segment, and our expectation for accelerated expansion, we expect WCM/BHX's respective EBIT margins to improve to 4%/3% over the next five years. We expect WCM to have a higher EBIT margin than BHX due to its greater focus on non-fresh food (which typically enjoys higher GPM than fresh food) compared to BHX (Figures 17 and 18).

Figure 257: Vietcap's forecasts for BHX and WCM's total sales



Source: Company disclosure, Vietcap

Figure 258: WCM's EBIT margin

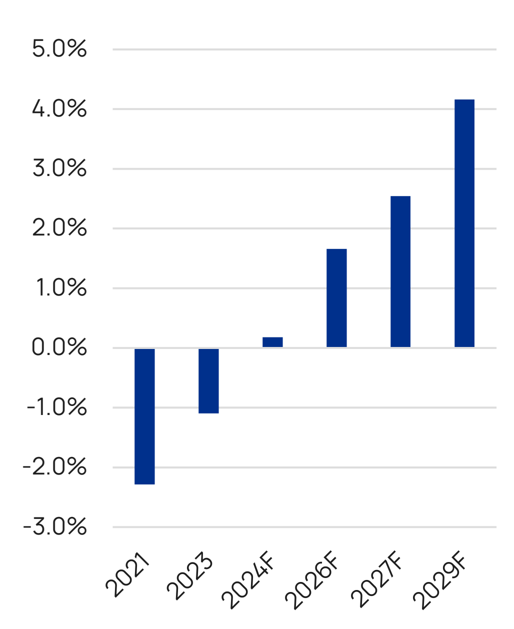
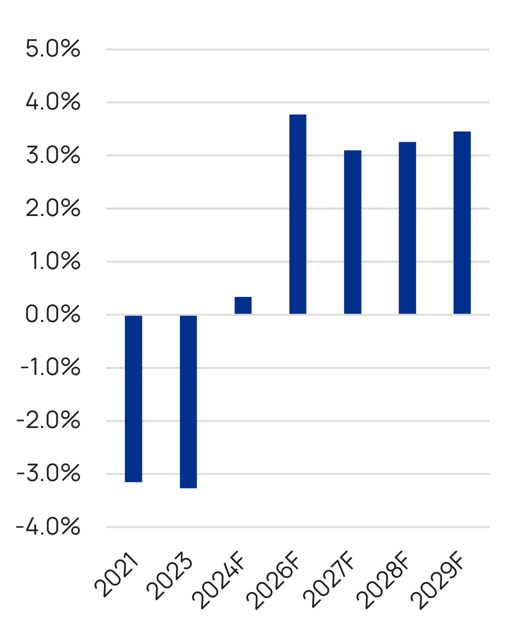


Figure 259: BHX's EBIT margin



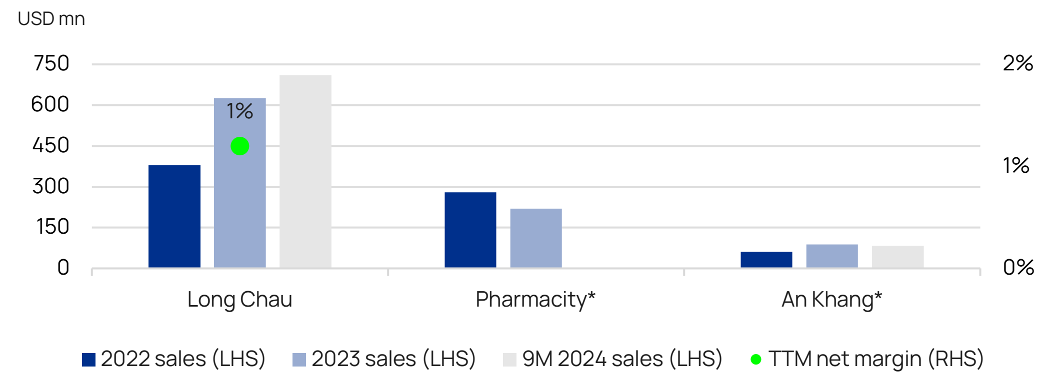
Source: Company disclosure, Vietcap

Pharmacy: Segment leader continues to strengthen its dominance

Long Chau (LC) scaled up profitably amid limited progress among competitors

As the first modern player to adopt a medicine-focused product mix and a pharmacist-as-consultant store approach, along with the shift toward modern pharmacies triggered by the COVID-19 pandemic in 2020-2021, LC has established a robust competitive moat with (1) a sufficient medicine portfolio (including hard-to-source items) and (2) a strong reputation. As of now, LC is well-positioned to stay ahead of other modern pharmacies in the market.

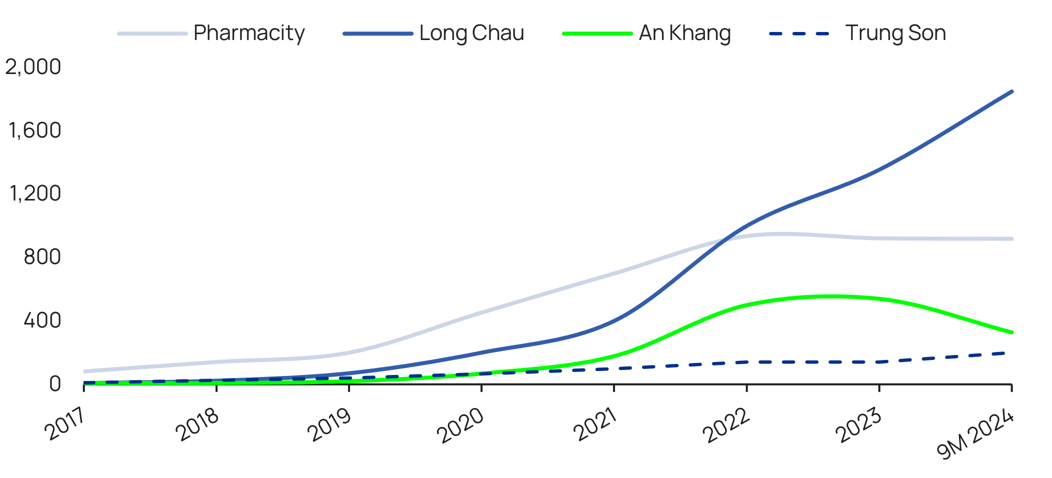
Figure 260: Top players' sales and growth comparison



Source: Company disclosures, Vietcap; * These players have a negative TTM net margin.

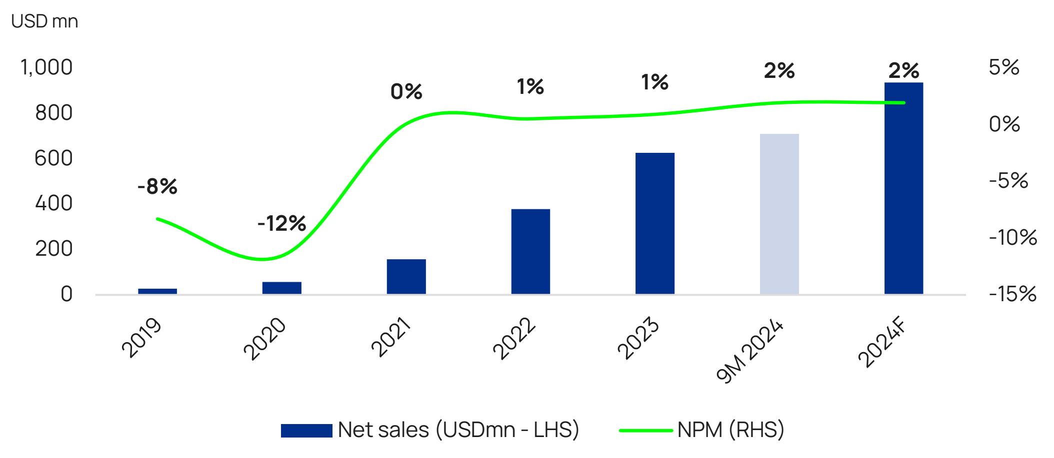
Over the past two years, LC has expanded its pharmacy network significantly, focusing on (1) the central region, (2) northern region, and (3) tier 2-3 cities in southern Vietnam. Meanwhile, other key modern competitors have either slowed their expansion or downsized. Additionally, to strengthen its presence in healthcare retailing, LC has established a nationwide presence of vaccination centers with 115 locations as of September 2024. The chain has managed to achieve steady improvements in both sales and profitability **(Figure 21)**.

Figure 261: Expansion of key modern players



Source: Vietcap compilation

Figure 262: Long Chau's sales and NPAT margin

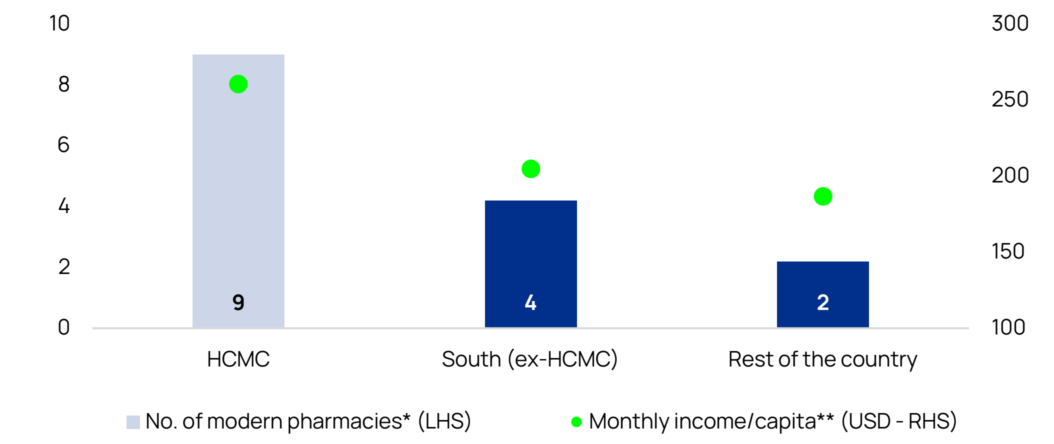


Source: FRT, Vietcap

Significant growth potential with limited competition from chain players

With nine modern pharmacies per 100,000 people, we believe HCMC has limited room for further expansion among modern players. However, the density of modern pharmacies per 100,000 people remains notably lower in ex-HCMC southern regions, as well as in central and northern Vietnam. In the medium term, we anticipate that the second and third largest players, An Khang and Pharmacity, will hold off on new store openings over the next year as they focus on restructuring, particularly refining their value propositions. In addition, other smaller players in the pharmacy market remain relatively insignificant compared to LC's current scale. As a result, we believe LC will continue to strengthen its dominance over the next two to three years, given its current superior (1) cross-regional scale and (2) operational efficiency, in comparison with its peers.

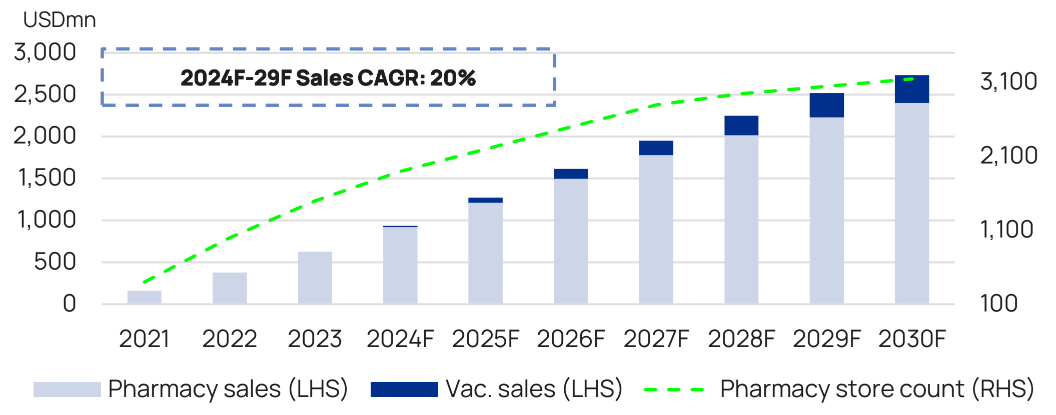
Figure 263: Number of modern pharmacies per 100 thousand people by region [1]



Source: GSO, Vietcap; [1] Number of stores as of September 2024; *Number of locations per 100 thousand people; **Data as of October 2024.

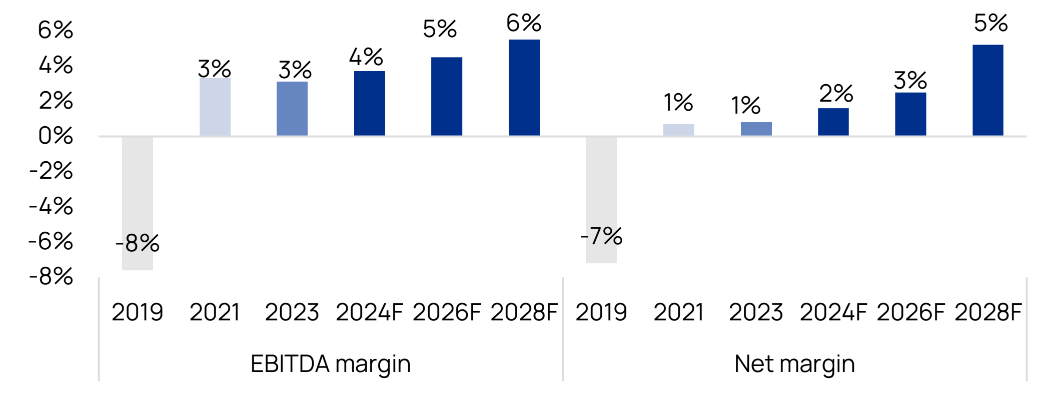
We project LC to achieve a 20% revenue CAGR from 2024 to 2029, primarily driven by (1) rising incomes in Vietnam, which boost demand for higher-quality drug retailers, and (2) LC's rapid expansion in recent years. We expect this growth to outperform the pharmacy industry's sales growth in Vietnam, which grew at a CAGR of 11% in 2019- 23 (during which LC grew 119%).

Figure 264: Vietcap's forecasts for LC's total sales



Source: FRT, Vietcap

Figure 265: Vietcap's forecasts for LC's profitability



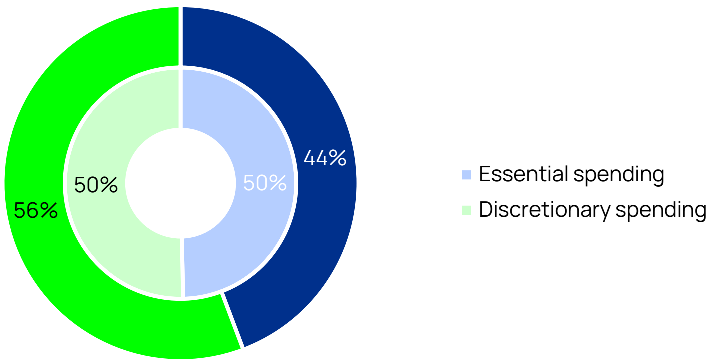
Source: FRT, Vietcap

Jewelry sales to grow with rising incomes in Vietnam

Rising income to drive the rise of discretionary spending, including jewelry

We believe the combination of rising income and an increasing share of discretionary spending will drive jewelry consumption in Vietnam. Fitch Solutions forecasts that Vietnam's number of middle-income households (i.e., those with an annual disposable income of USD10,000 and above) will grow at a 2023-28F CAGR of 21% and account for 29% of total households by 2028F vs 12% in 2023. In addition, Euromonitor projects that Vietnamese consumer spending on discretionary items will increase from nearly 50% of total expenditures in 2023 to 56% in 2028F, signaling a shift toward more consumption of luxury goods such as jewelry.

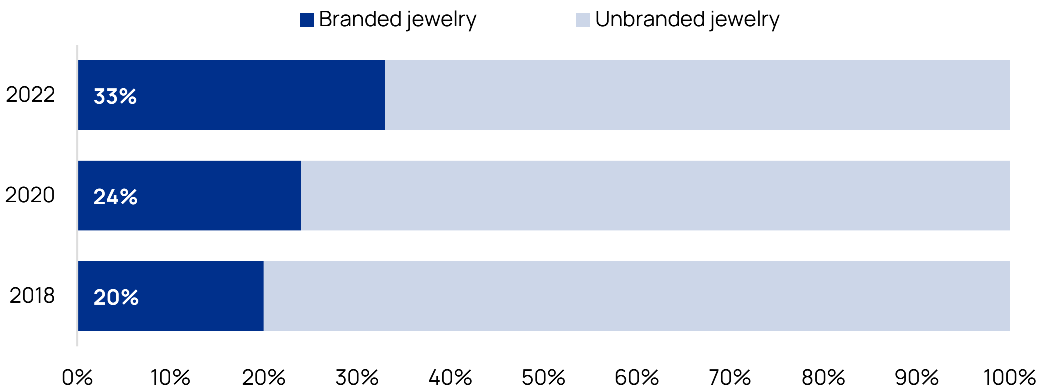
Figure 266: Consumer spending allocation in Vietnam (inner circle: 2023, outer circle: 2028F)



Source: Euromonitor, Vietcap compilation

We expect the growing middle-income class to increasingly favor buying jewelry from reputable brands. According to Euromonitor, the market share of branded jewelry doubled from 16% in 2015 to 33% in 2022. Despite this strong growth, unbranded jewelry still dominated the market with 67% market share in 2022. This presents a substantial opportunity for branded jewelry retailers to capitalize on the rising consumer preference for reputable brands.

Figure 267: Growth in branded jewelry market share



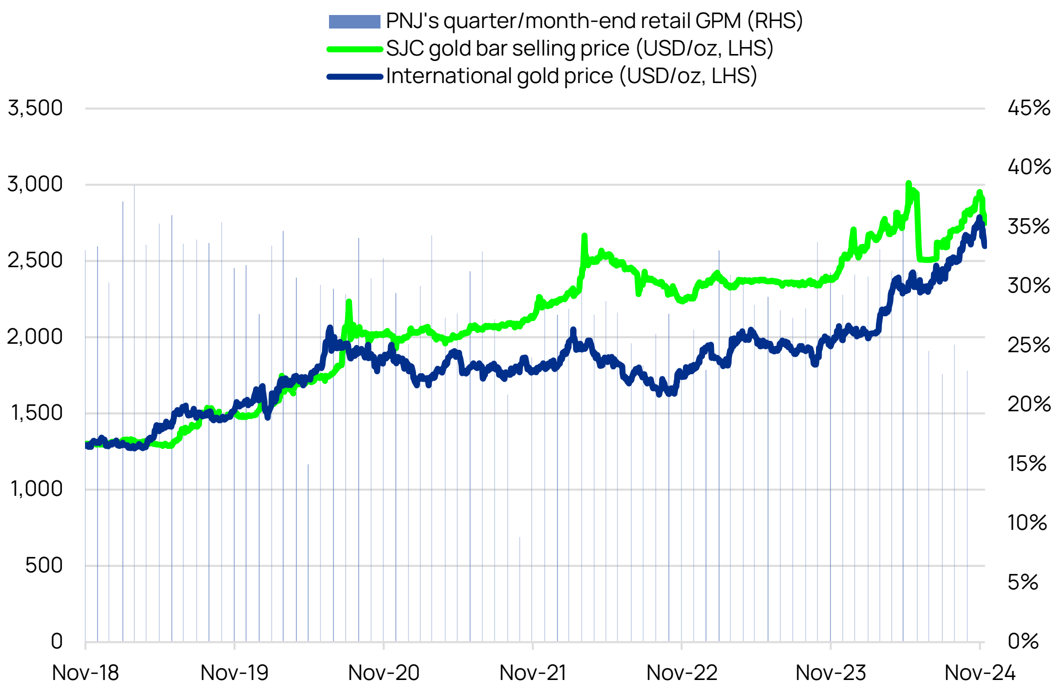
Source: Euromonitor, Vietcap compilation

Short-term headwinds in raw gold material procurement to diminish

In 9M 2024, Vietnam's jewelry industry faced challenges in raw gold material procurement due to limited domestic supply, impacting PNJ's retail GPM, which we estimate will drop by 3.2 percentage points YoY to 26.9%. Despite this, PNJ managed a significant 16% YoY growth in retail sales during the same period, while several smaller competitors, particularly mom-and-pop shops, went out of business. The raw gold shortage can be attributed to three primary factors:

(1) Increased gold accumulation: International gold prices surged 27% as of November 2024 compared to December 2023. Before direct sales of SJC gold bars by State-owned commercial banks (SOCBs) began in June 2024, SJC gold bar prices rose 14% from December 2023 to May 2024, creating a premium of 14% to 34% over international prices during this period. Rising gold prices, coupled with a low interest rate environment, have prompted many Vietnamese to accumulate gold as a safe-haven asset. Additionally, a widening price gap has led to gold smuggling into Vietnam.

Figure 268: International and SJC gold prices vs PNJ's retail GPM



Source: Bloomberg, FiinPro, Vietcap compilation

(2) SBV's monopoly on gold imports and exports: In 2012, the Government enacted Decree 24/2012/ND-CP, establishing the SBV's monopoly on gold imports and exports, as well as SJC's monopoly on SJC gold bar production. Although domestic jewelry producers can import gold raw materials with SBV approval, local media reports indicate that no import license applications have been granted since the decree's implementation.

(3) Gold market inspections: The SBV announced inspections of four gold companies (PNJ, SJC, DOJI, and Bao Tin Minh Chau) and two banks (TPB and EIB) starting in May 2024. The inspections focus on (1) compliance with gold trading regulations, (2) adherence to anti-money laundering laws, and (3) compliance with Vietnamese accounting standards and taxation. Additionally, the Directorate of Market Surveillance in Hanoi conducted a separate inspection of 116 gold-related businesses regarding gold price listings and sourcing from August to October 2024.

The gold market inspection on PNJ ended in Q3 2024, while inspections for others are nearing completion. PNJ was fined VND1.34bn (USD53,600) during a gold market inspection due to two main reasons: (1) the company's internal regulations, customer classification by risk level, large transaction value reporting, and internal audit processes were not sufficiently stringent to comply with anti-money laundering regulations, and (2) there was a lack of necessary data for reporting to the authorities. We believe that the monetary fine is immaterial, while PNJ can adjust its internal regulations and practice to comply with the regulations and requirements. Additionally, the Ministry of Public Security initiated a case involving embezzlement and abuse of power while on duty that occurred at SJC and its related entities on November 9, 2024. The ministry is gathering evidence, expanding the scope of the investigation, and working to recover the embezzled assets.

We believe PNJ is well-positioned to strengthen its market leadership amid the short-term disruption caused by procurement challenges. The exit of smaller, non-compliant players will likely increase market share for larger, more compliant brands like PNJ, particularly as consumer preferences shift from unbranded to branded jewelry.

We expect PNJ's retail GPM to recover with a potential ease in gold material sourcing. As the gold market normalizes following the inspections, PNJ may reduce temporary measures such as recycling slow-moving inventory and encouraging customer trade-ins. Additionally, gold prices have eased since the election of President Donald Trump, which may prompt gold holders to realize profits. These factors should alleviate sourcing challenges for jewelry retailers, including PNJ.

Potentially sustainable solution for gold raw material supply to accelerate medium-term earnings growth

The SBV is currently reviewing revisions to Decree 24 with the direction to facilitate the import of gold raw materials. One of the key areas under consideration is to facilitate imports of gold raw materials. If this revision is implemented, we anticipate that jewelry manufacturers will benefit from a more stable and sufficient supply of gold in the future. This could address the constraints in gold raw material supply, helping sustain PNJ's retail GPM recovery.

Strong competitive advantages to sustain long-term growth

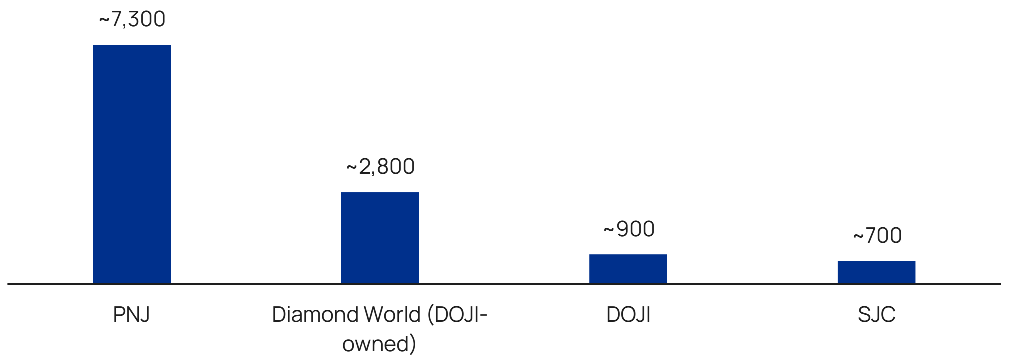
PNJ stands out in the branded jewelry market by offering a diverse product range that caters to all income levels, with a strong emphasis on fashionable and distinctive designs. This sets PNJ apart from competitors, who mainly focus on the mass luxury segment. In the high-end luxury category, PNJ's CAO fine jewelry line competes directly with international brands such as Tiffany & Co. For the young segment, the company provides silver jewelry though PNJ Silver and modern, trendy fashion jewelry via Style by PNJ. In contrast, DOJI, a key competitor in the mass luxury segment, primarily targets middle-aged customers with a more limited range (~900 SKUs compared to PNJ's ~7,300), focusing on 24K-gold-content and diamond jewelry. Similarly, SJC primarily concentrates on high-gold-content products. We believe these strengths position PNJ exceptionally well to attract a diverse customer base and build long-term loyalty.

Figure 269: Major jewelry brands from young to high-end luxury segment in Vietnam

Source: Company disclosures, Vietcap compilation

PNJ's superior in-house design and manufacturing capabilities enable it to produce distinctive, high-quality jewelry and respond swiftly to market trends. PNJ boasts Vietnam's largest artisan team, renowned for exceptional craftsmanship, with 1,500 goldsmiths, including 16 skilled artisans (two-thirds of the country's total). These strengths enable the company to offer significantly more SKUs and trend-aligned designs, better satisfying diverse customer needs compared to competitors.

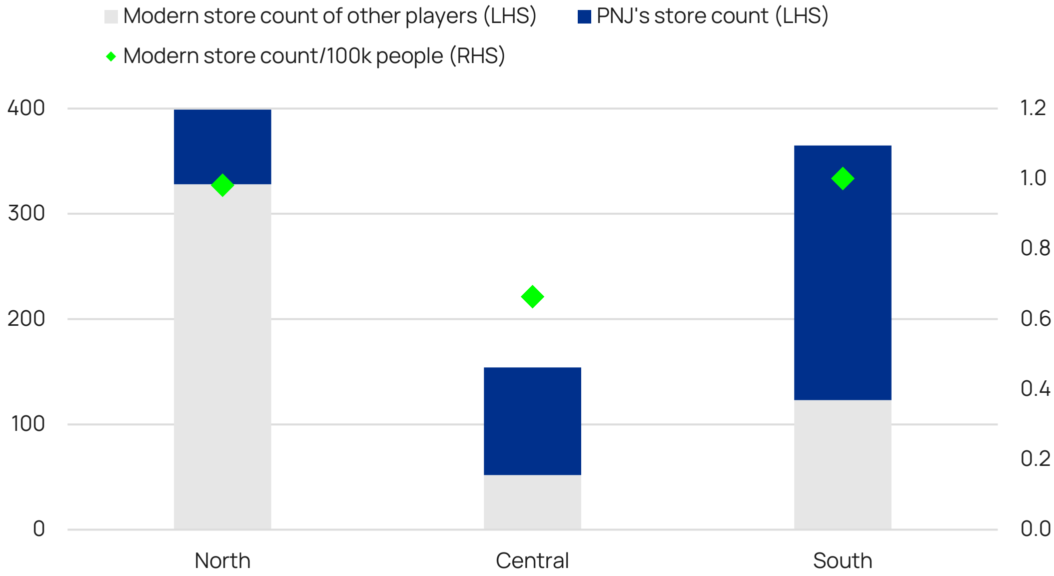
Figure 270: PNJ offers a wider range of SKUs compared with others



Source: Company disclosures, Vietcap compilation

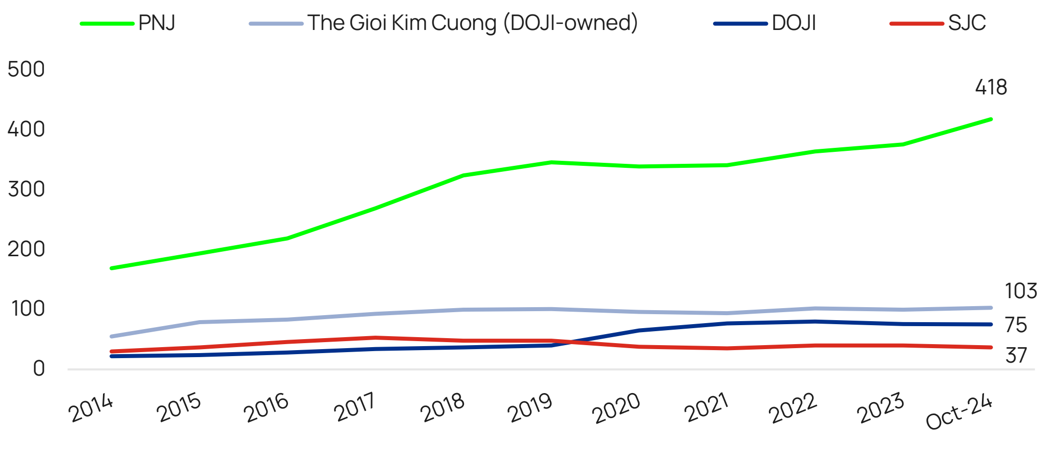
PNJ's significant lead in store count gives it a wider reach and reinforces its market dominance. PNJ's stores account for 45% of the total stores of key modern jewelry chains as of mid-October 2024. In addition, the gap between PNJ's store count and its key competitors has only widened over the past decade. In 2023, PNJ aggressively expanded its store network by opening 50 new stores as its stronger financial position allowed it to seize opportunities and secure prime locations for new stores. Additionally, its competitors faced challenges due to weak consumer spending. YTD, PNJ has continued its expansion, particularly in tier-2 and tier-3 areas, while other modern jewelry retailers have limited expansion, and many mom-and-pop shops have closed due to difficulties in procuring raw gold materials. We believe that PNJ's outperformance in its store network expansion has helped the company to build a customer base and solidify its leading position, while posing challenges for competitors to catch up.

Figure 271: Modern jewelry store[1] presence by region (mid-October 2024)



Source: General Statistics Office (GSO), Company disclosures, Vietcap ([1]Total store numbers of PNJ, DOJI, SJC, and other modern players)

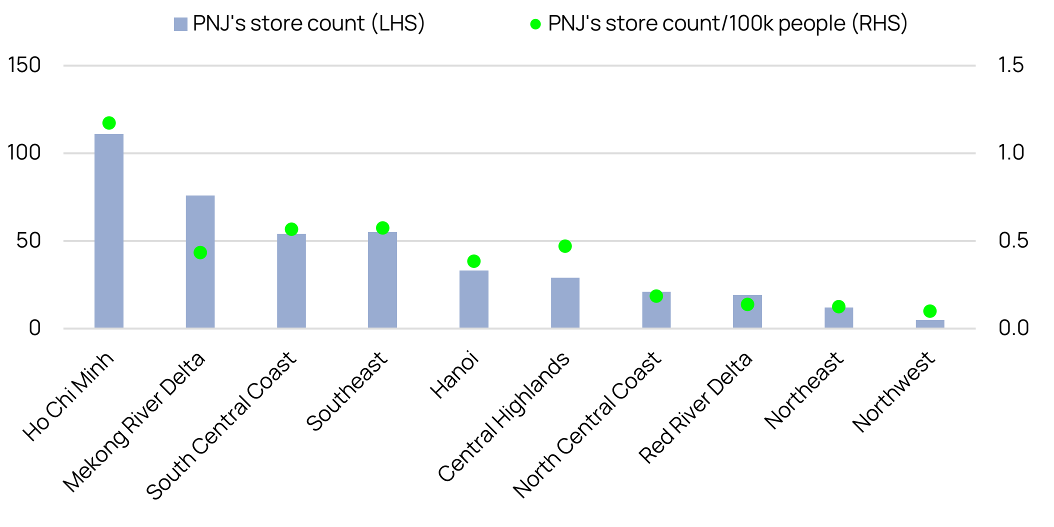
Figure 272: Store count of PNJ vs competitors



Source: Company disclosures, Vietcap

Despite its leading position, there is significant room for PNJ to expand its store network, especially in the north (excluding Hanoi) and tier 2-3 areas. Outside of its mainstay market of HCMC, PNJ's current presence in the north (excluding Hanoi) remains lower than its national average. As of mid-October 2024, the north's density of PNJ stores (ex-Hanoi) of 0.1 stores/100,000 people remains below PNJ's national average of 0.4 stores/100,000 people. By expanding into these areas, PNJ is in a strong position to capitalize on the growing shift from unbranded jewelry to branded jewelry (while unbranded jewelry still dominates the market with 67% market share), particularly in markets with a low density of modern jewelry stores.

Figure 273: PNJ's store density by region (mid-October 2024)

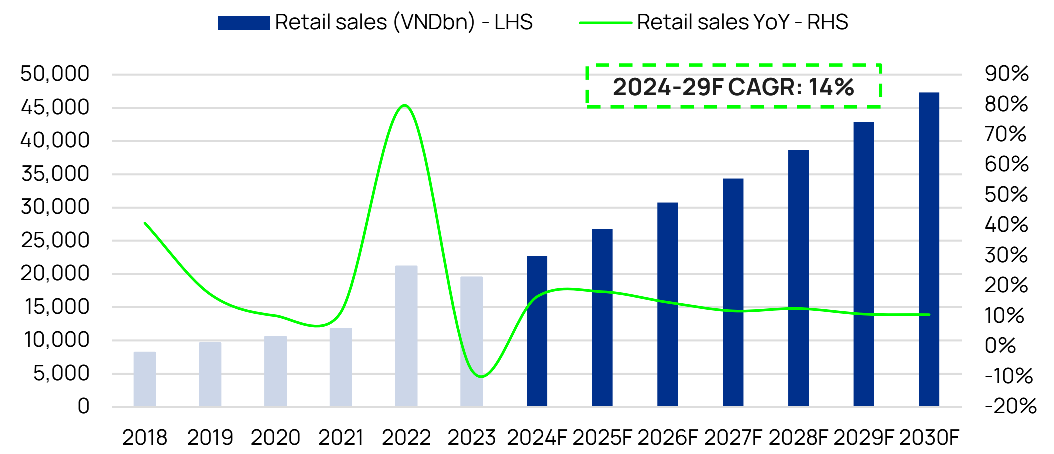


Source: PNJ, GSO, Vietcap

Retail sales to sustain growth trajectory while profitability recovers

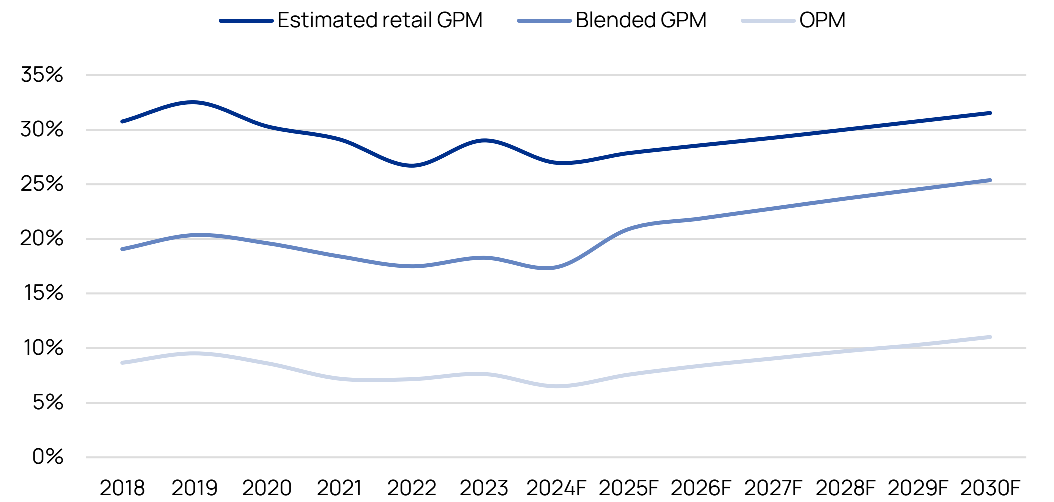
We forecast PNJ to deliver a retail revenue CAGR of 14% in 2024-2029F, which corresponds to our forecast for an EPS CAGR of 18% for this period. We expect PNJ to further develop its customer base due to (1) the potential of further recovery in Vietnam's export and manufacturing sectors bolstering consumer spending in 2025F, (2) PNJ's superior competencies vs competitors in terms of design, production, execution, and store expansion, and (3) gold market inspections further encouraging customers to favor authentic, branded jewelry. In addition, we expect retail GPM to increase by 0.9/0.7/0.7 ppts in 2025/26/27F, respectively, due to (1) a better product mix and (2) easing challenges in sourcing raw materials.

Figure 274: Vietcap's projected retail sales and retail sales growth for PNJ



Source: PNJ, Vietcap

Figure 275: Vietcap's projected profitability for PNJ



Source: PNJ, Vietcap

Product innovation, premiumization, and evolving consumer behavior to drive growth for FMCG manufacturers

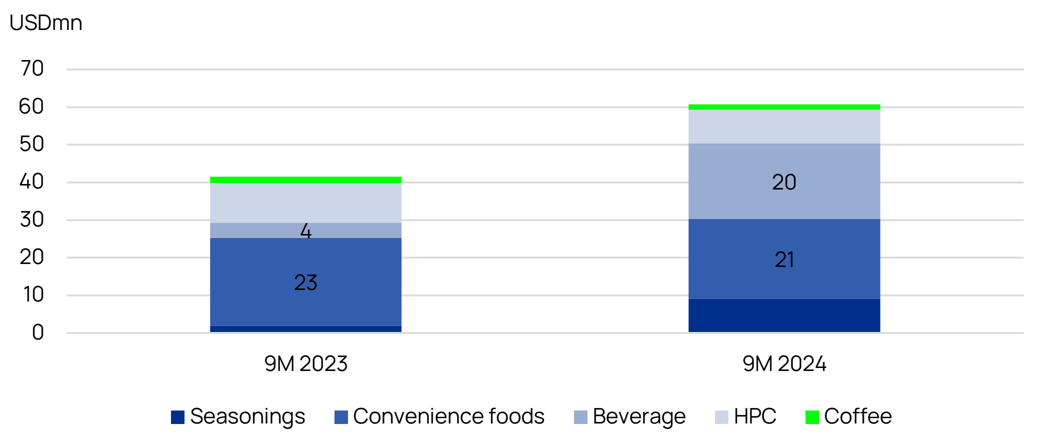
Over the medium term, we expect FMCG sales to grow 5-6% YoY in 2024-29F due to (1) rising urbanization and increasing disposable income, and (2) improving accessibility to FMCG products with growing coverage of modern retail channels in Vietnam. Among FMCG producers under our coverage, we believe MCH and SAB are best positioned to capitalize on these advantages.

MCH: Product innovation and premiumization to fuel industry-beating growth and profitability expansion

Among FMCG players in our coverage, we expect MCH to lead with a 10% CAGR from 2024F to 2028F, driven by strong growth in convenience foods and beverages as Vietnam's consumers prioritize convenience and 'on-the-go' consumption. As for convenience foods and beverages, where MCH is not yet a market leader, we believe MCH could achieve double-digit sales growth through its capabilities in product innovation, food technology that enhances the taste of its products, and broader international reach. As for fish sauce, where MCH holds a substantial volume market share (70%), we expect the company to achieve GDP-aligned growth of 7%

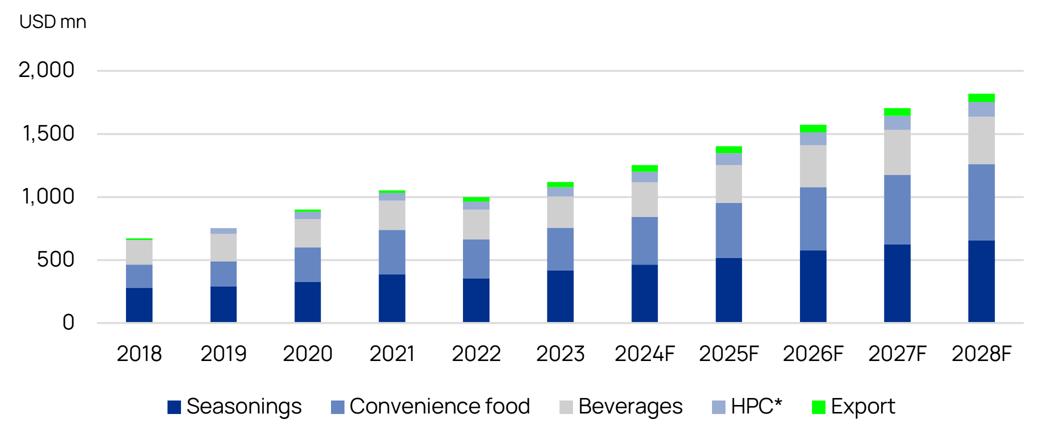
through premiumization efforts. Additionally, in home & personal care, MCH's strategy centers on optimizing channels and pricing to strengthen its market presence.

Figure 276: MCH's innovation[1] sales by category



Source: MSN, Vietcap; [1] Innovation revenue recorded revenue from SKUs that were the last 12 months before the reporting period; * Home and personal care

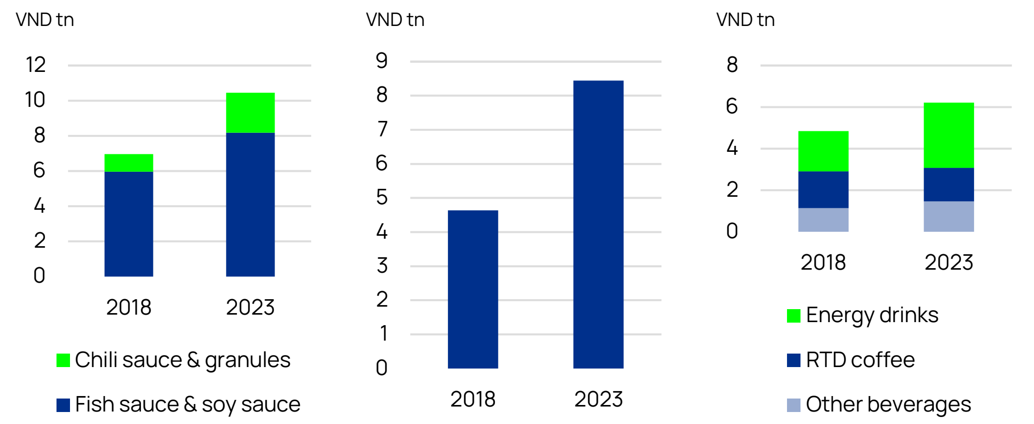
Figure 277: MCH's sales by category; 2024-29 sales CAGR of 9%



Source: MSN, Vietcap; * Home and personal care

Figure 278: MCH's sales of key categories; 2018-23 CAGR outperformed industry

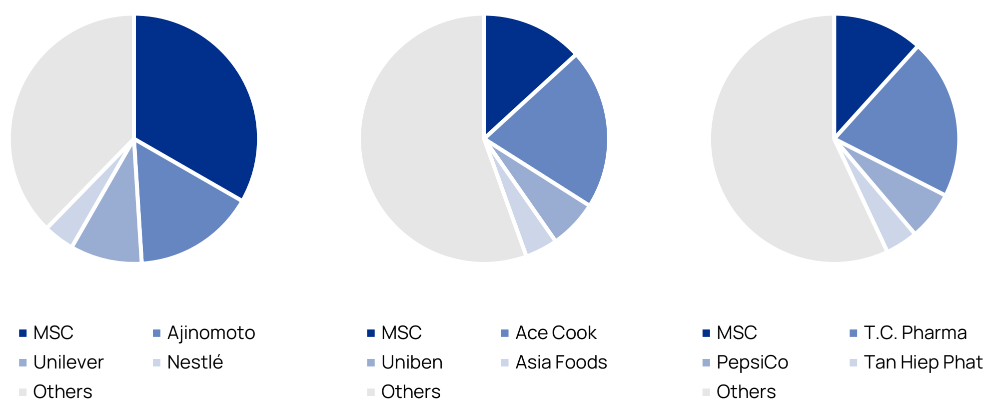
Seasoning	Convenience foods	Beverages
Brands: Nam Ngu, Chin su, Tam Thai Tu	Brands: Omachi, Kokomi	Brands: Wake-up 247 (Energy drink, RTD coffee), Vinacafe (RTD coffee), Vinh Hao (bottled water), Tea 365, among others.
*** 2018-23 CAGR: 8%,** in which chili sauce & granules grew 18%. *** 2018-23 industry growth[1]: 6%**	*** 2018-23 CAGR: 13%.** *** 2018-23 industry growth[1]: 11%**	*** 2018-23 CAGR: 5%,** in which key sub-segment **energy drinks grew 10% - outperforming industry growth[1] of 7%.**



Source: MSN, Vietcap's estimates; [1] Vietnam's industry growth according to Euromonitor

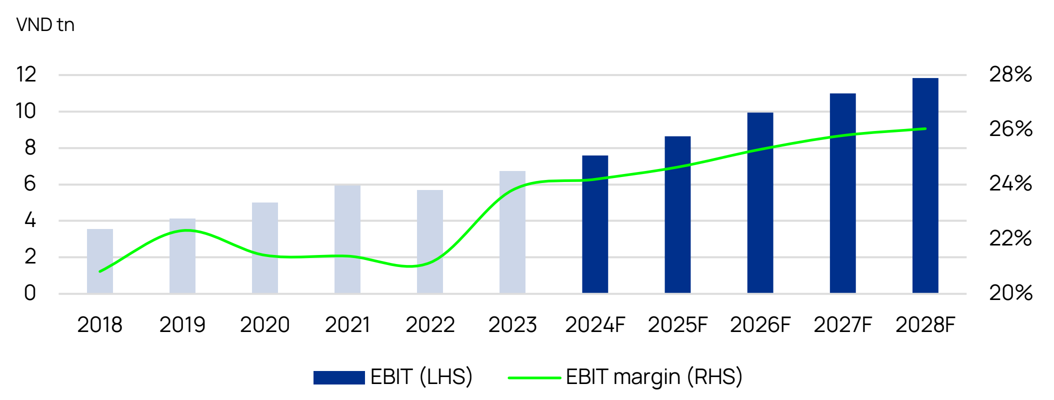
Figure 279: MCH UpCOM's market share in key categories

Seasonings ($1.3bn[1])	Convenience foods ($2.6bn[1])	Energy drinks ($1.2bn[1])



Source: MSN, Euromonitor, Vietcap; [1] Total addressable market

Figure 280: MCH's EBIT; 2024-29F CAGR of 11%; EBIT margin expanding 50 bps p.a. on average



Source: MSN, Vietcap

Profitability improvement to lead growth in medium term – SAB

The Ministry of Public Security has issued four versions of the draft decree on administrative penalties for road traffic offenses, with the latest version issued in December 2024. If the December draft is approved, it will replace administrative penalties for road traffic offenses set in Decree 100 and come into effect from January 1, 2025. In our view, the impact of the proposed changes in the December version compared to the existing Decree 100 varies by level of blood alcohol content (BAC):

- BAC level below 0.05%: The December 2024 draft decree is less severe regarding license suspension than the current Decree 100. We believe this may support the sentiment of light beer drinkers.

- BAC level from 0.05% and above: The December 2024 draft decree increases cash penalties for motorbikes, while maintaining cash penalties for cars. Additionally, it is slightly less severe in terms of license suspension than the current Decree 100. Despite this, we expect minimal impact on beer consumption, as higher penalties will likely be offset by evolving consumer behaviors, such as the shift towards off-trade channels and greater use of ride-hailing services after on-trade drinking.

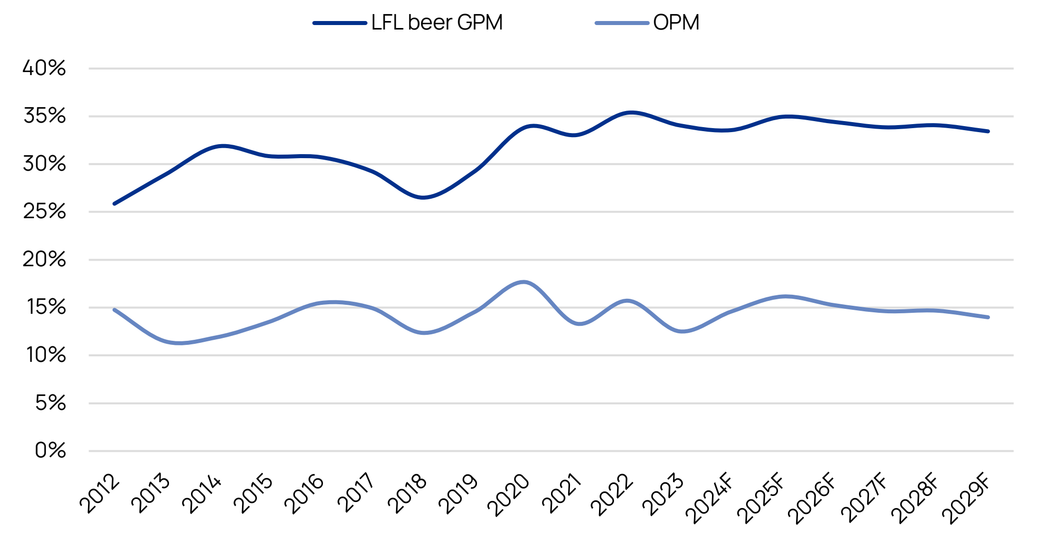
Figure 281: Comparison of penalties for drunk driving in Decree 100 and proposed decrees

	Cash penalties (USD)						License suspension period (months)		Penalty point system (points)			
	Decree 100		Draft decree in Oct 2024		Draft decree in Dec 2024		Decree 100		Draft decree in Oct 2024		Draft decree in Dec 2024	
Blood alcohol content (BAC)	**Motor-bikes**	**Cars**	**Motor-bikes**	**Cars**	**Motor-bikes**	**Cars**	**Motor-bikes**	**Cars**	**Motor-bikes**	**Cars**	**Motor-bikes**	**Cars**
Less than 0.05%	80-120	240-320	80-120	240-320	80-120	240-320	10-12		3		N/A	
From 0.05% to 0.08%	160-200	640-720	160-200	640-720	240-320	640-720	16-18		10		12	
More than 0.08%	240-320	1,200-1,600	240-320	1,200-1,600	320-400	1,200-1,600	22-24		12		12	

Source: Ministry of Public Security, Vietcap compilation

We expect SAB's like-for-like (LFL)/reported beer GPM to improve by 1.4/2.8 ppts YoY to 35.0%/36.4% in 2025F, primarily driven by lower input costs. We anticipate that all high-cost malt, resulting from over-hedging from 2023, will be used up in the in the first few weeks of 2025. After that, SAB should start to realize lower-cost malt as the 10M 2024 average prices of malt decreased 31% vs the 2022 average. In addition, we believe that the consolidation of Saigon Binh Tay Beer Group JSC (Sabibeco, UPCoM: SBB, SAB's 22.7%-stake associate), is on track to finish by end-January 2025, which will support SAB's beer GPM. Despite this, we expect no material impacts on SAB's NPM from the consolidation in the short term. In 2026-2029F, we expect SAB's LFL beer GPM to be 33.4%-34.4% (reported beer GPM to be 33.7%-35.3%) due to (1) operational optimization efforts and (2) our expectation for slight increases in raw materials. We expect an excise tax hike starting in 2026, with rates rising to 80% in 2026, 85% in 2027, 90% in 2028, 95% in 2029, and 100% in 2030. However, we expect SAB to fully pass on these higher excise tax rates to consumers, resulting in minimal impact on the company's profitability. This is feasible due to (1) expected further economic recovery in 2026F, and (2) the fact that beer prices in Vietnam are the lowest relative to GDP per capita compared to Southeast Asian peers with similar GDP per capita. In addition, we expect SAB to maintain its strict control on A&P spending going forward, forecasting A&P expenses to remain at 8.5%-8.8% of beer revenue in 2025-2029F. As a result, we project SAB's OPM to range between 14.0% and 16.2% during this period.

Figure 282: Vietcap's projected profitability for SAB



Source: SAB, Vietcap

Vietcap

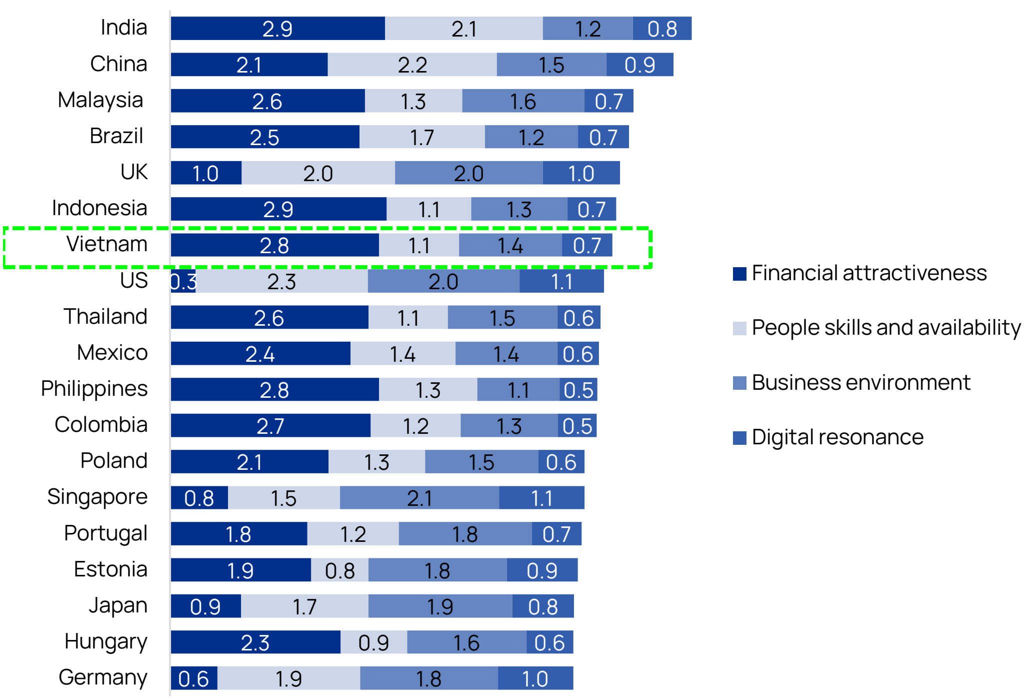
Digital adoption to propel long-term growth of Vietnam's tech players

Sizable, fast-growing IT service sector to boast robust growth of digital transformation

According to the Ministry of Information and Communications (MIC), in 2023, the IT sector contributed approximately 14% to Vietnam's GDP, following a revenue CAGR of 10% in 2019-23. US consulting firm Kearney ranked Vietnam among the top global destinations for IT service offshoring in 2023, citing its financial appeal, skilled workforce, business environment, and digital infrastructure. Vietnam has consistently maintained this high ranking over the past five years.

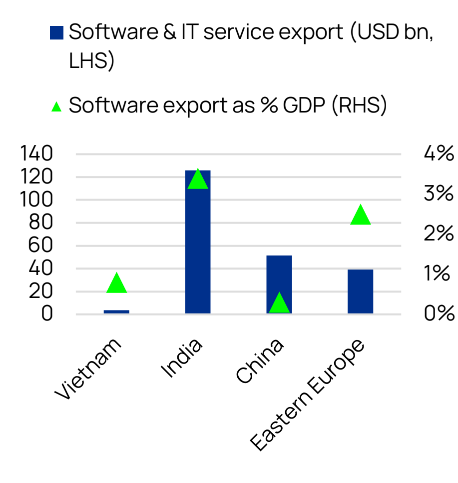
Roughly USD3.5bn of software & IT services were exported from Vietnam in 2023. This success was driven by (1) the country's strategic focus on advancing its high-tech sector, and (2) a competitive IT workforce that offers both skill quality and cost-effectiveness when compared to other established outsourcing hubs like India, Eastern Europe, and China. Despite rapid growth in recent years, Vietnam's IT labor pool remains relatively small compared to that of its global peers and IT service exports contributed only 0.8% to the nation's GDP in 2023 vs that of India/Eastern Europe at 3.4%/2.5%. This indicates substantial growth potential for Vietnam's IT industry in the long term, especially as the Government aims to position the country as the leading IT hub in Southeast Asia.

Figure 283: Vietnam was highly ranked by Kearney's Global Services Location Index of IT services in 2023



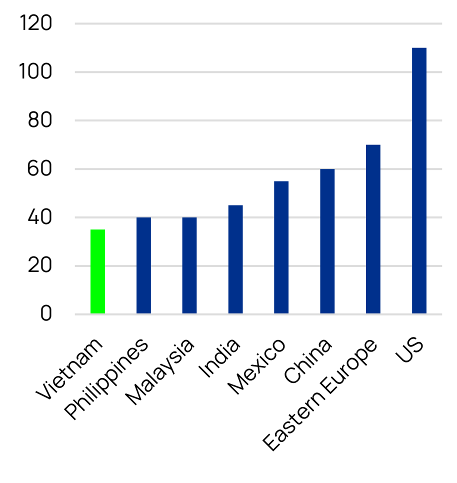
Source: Kearney analysis, Vietcap; Notes: *Financial attractiveness*: cost of labor and infrastructure, *People skills and availability*: quantity and quality of the talent pool, *Business environment*: political, economic, regulatory, and cultural aspects that affect the ease of doing business, *Digital resonance*: digital skills of the labor force and digital output of business activity; the higher the score the better; Kearney's Global Services Location Index includes 78 countries selected based on corporate input, current remote services activity, and Government initiatives to promote the sector.

Figure 284: Software & IT services export value by selected country and region, 2023, USD bn



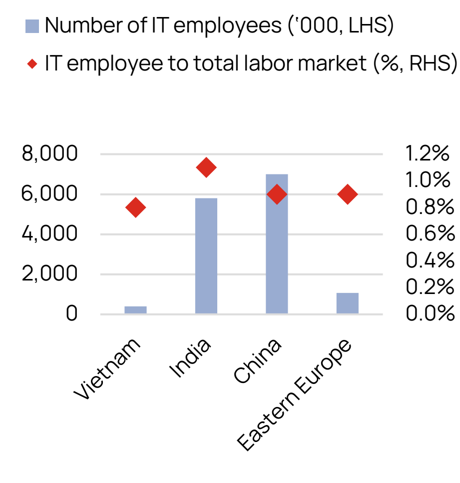
Source: VINASA, Statista, Vietcap

Figure 285: Average hourly software outsourcing rates in Vietnam vs peers, 2023, USD per hour



Source: Payscale, Glassdoor, Vietcap

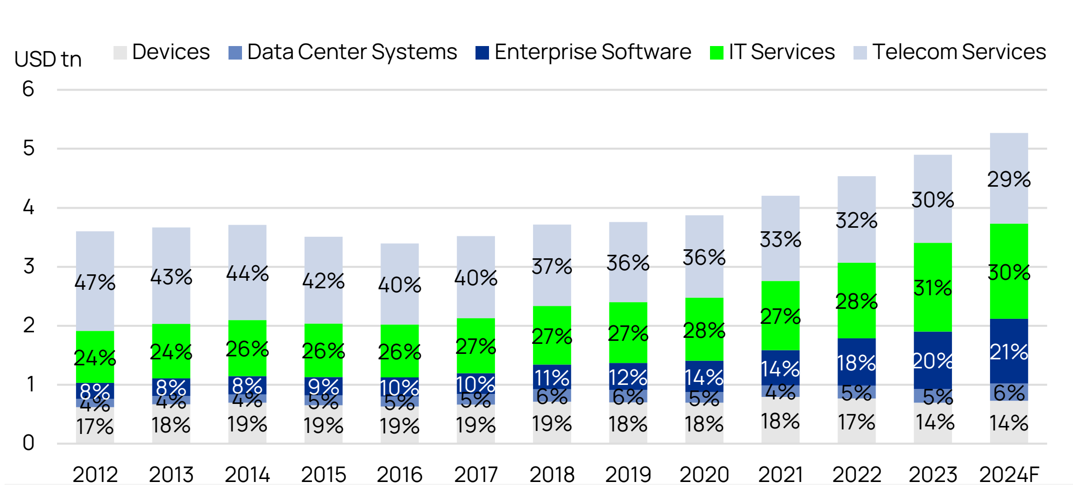
Figure 286: Vietnam's IT labor pool vs peers, 2023



Source: Statista, Vietcap

The spending mix of global IT services has remained stable throughout tech cycles, showing resilient demand for IT service vendors like FPT. In 2023, spending on IT services and software steadily expanded, accounting for 31%/20% of total IT budgets globally. This consistent growth highlights the sector's resilience, despite numerous technological shifts over the years. Each new wave of technology has not diminished the need for IT services. Instead, it has created additional opportunities for IT service providers to innovate and expand.

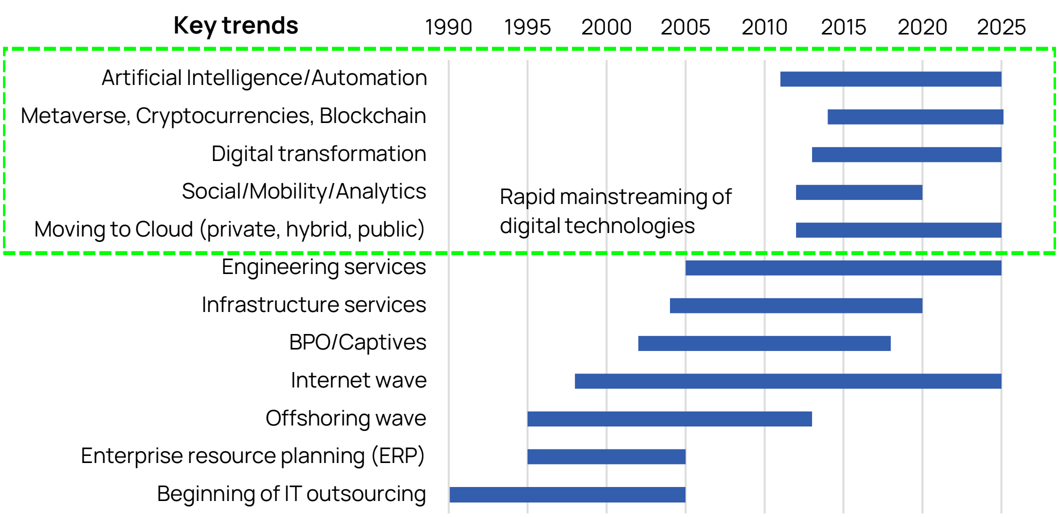
Figure 287: Overall worldwide IT spending by segment, % of total



Source: Gartner, Vietcap

The global IT service sector is on a growth trajectory shaped by the strategic shift toward digital transformation (DX) with AI integration and cloud expansion. According to US IT consulting firms IDC and Gartner, generative AI-integrated services, cybersecurity, and digital infrastructure development were the key drivers of investments in IT services and data centers in 2023. Specifically, organizations increasingly adopt AI-driven tools to enhance operational efficiency, customer experiences, and support data-driven decision-making. This trend parallels a marked expansion in cybersecurity services, a response to heightened risks associated with increased digitalization. Additionally, the push towards cloud-based and hybrid infrastructure has led significant investments in hyperscale data centers to support next-generation technologies. Furthermore, IT service players are able to expand value-added services and capture new revenue streams from these new trends, which have higher profitability compared to traditional IT service offerings.

Figure 288: Key technology trends in IT services in 1990-2025 and beyond



Source: Bernstein analysis, Vietcap; Note: The bar represents the peak adoption/mainstreaming of tech trends.

To facilitate domestic companies keeping pace with global trends, the Government has proactively implemented support policies for tech sectors. In October 2024, the Prime Minister approved Decision No. 1132/QĐ-TTG on Digital Infrastructure Strategy. We think the Government's proactive approach to digital infrastructure development will drive stronger demand for digital adoption among consumers and businesses of all sizes. In addition, the Minister of Information and Communications, Mr. Nguyen Manh Hung, also proposed the draft Law on Digital Technology Industry at the 38th meeting of the National Assembly Standing Committee on October 8, 2024. The highlight of the draft law is to provide regulations and incentives to promote the semiconductor industry and artificial intelligence (AI). Consequently, we see significant opportunities for FPT, who is a provider of digital transformation and data center services to local enterprises.

Figure 289: Decision No. 1132/QĐ-TTG on Digital Infrastructure Strategy

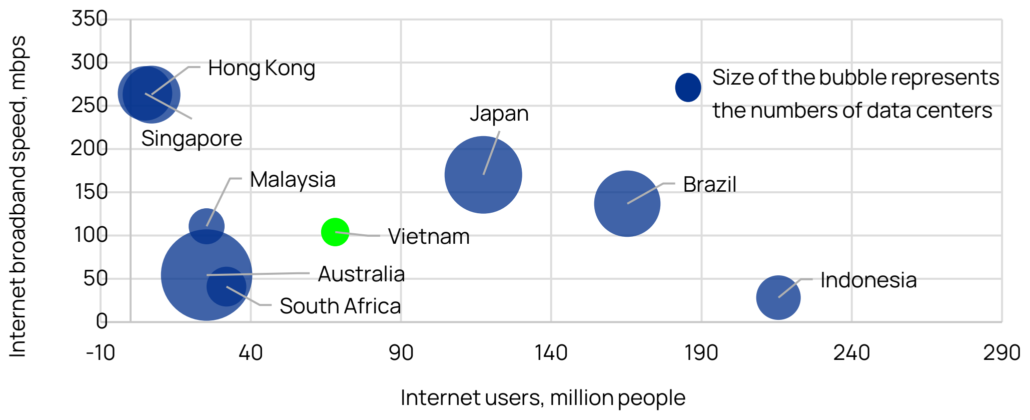
Sector	Goal by 2025	Goal by 2030
Telecom services	* Providing fiber-optic internet to households; 100% of provinces, high-tech zones, research centers, industrial areas, and international ports/airports to have 5G services; deploying at least two new international subsea cables.	* 5G mobile broadband will cover 99% of the population, capacity and readiness for 6G mobile network testing will be established. * At least six new undersea cable routes will be launched, with a design capacity of at least 350 Tbps.
Data centers	* Establishing AI data centers to support AI applications; green data centers meeting international standards with a PUE below 1.4.	* Development of hyperscale data centers, edge data centers, and regional digital hubs will be prioritized.
IT & software services	* Platforms for IoT, AI, big data, blockchain, and cybersecurity as essential digital infrastructures. * Average of one IoT connection per citizen; each citizen has a digital identity; over 50% of the adult population with digital signatures.	* Each citizen will have an average of four IoT connections.

Source: Ministry of Information and Communications, Vietcap

Booming data center sector in Vietnam led by AI and data sovereignty demand

Vietnam's total addressable market for data centers grew 10.5% YoY to USD620mn in 2023, according to Research and Markets. Overall, data center penetration per Internet user is still comparatively low vs developed and other emerging markets, suggesting considerable room for further growth. In 2023, Vietnam hosted approximately 30 data centers with a total commercial capacity of around 90MW, according to Research and Markets. These were primarily colocation data centers, alongside an early presence of hyperscale data centers.

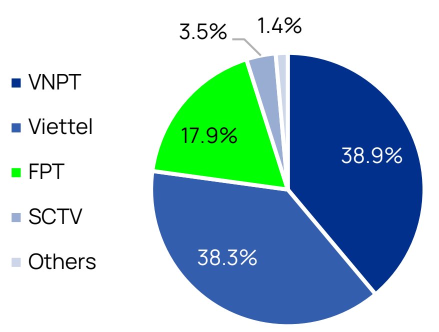
Figure 290: Vietnam has relatively low data center penetration vs other selected countries



Source: World Population Review, Savills, Vietcap

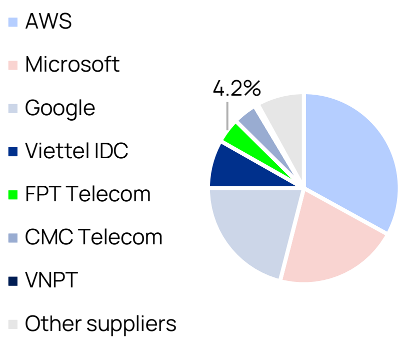
Local companies lead Vietnam's data center market, with FPT as the second-largest operator, holding 20% of market capacity in 2023, according to Vietnam Cloud Computing and Data Center Club (VNCDC). FPT's position as a top-three fixed broadband provider in Vietnam gives it an edge in data center and cloud services due to its extensive internet infrastructure across the country.

Figure 291: Market share of key fixed-broadband telco providers in Vietnam by revenue, 2023



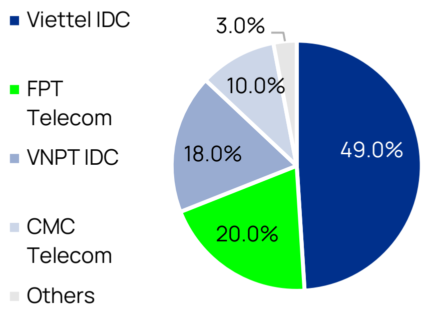
Source: Ministry of Information and Communications, Vietcap

Figure 292: Cloud service providers' market share in Vietnam by revenue, 2023



Source: VNCDC, Ministry of Information and Communications, Vietcap

Figure 293: Data center market share of key players in Vietnam by capacity (MW), 2023



Source: VNCDC, Ministry of Information and Communications, Vietcap

Figure 294: Vietnam's top players in Tier III data centers, as of September 2024

	FPT Telecom	Viettel IDC[1]	VNPT IDC	CMC Telecom
Number of data centers	3	14	8	3
Total designed rack capacity	3,640	11,500	4,520	2,800
Floor area (m^2)	4,473	81,000	57,800	16,500
Average monthly service revenue (MSR, VNDmn/rack/month)	32.7	31.7	27.3	31.5
Power IT load per year (MW)	20	87	18	11
Power usage effectiveness (PUE)[2]		1.5 – 1.6		

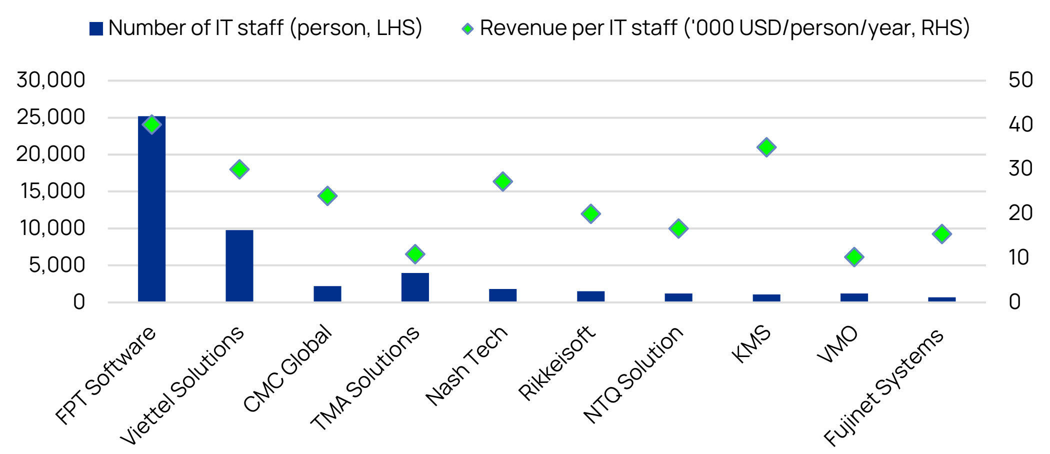
Source: Company websites, Vietcap's compilations and estimates. [1]Viettel's total internal and external facilities, only five of which are commercialized; [2]Industry range in Vietnam.

Data sovereignty and sensitivity requirements, alongside strong digital economy growth, are driving substantial investment into ASEAN countries. "Sovereign AI Cloud" is a nation's ability to develop and deploy AI using its own infrastructure and data. In ASEAN and Vietnam, governments have strengthened/adopted *Personal Data Protection Acts* in recent years. As a result, we believe businesses may opt for sovereign cloud solutions rather than relying on hyper-scalers' (i.e., Microsoft, Google, AWS) cloud services. Traditional telcos and data centers with significant GPU purchasing commitments to build "Sovereign AI Clouds" in their host countries are designated as "Nvidia Cloud Partners" (NCPs) if they base their infrastructure on Nvidia's GPU and cloud ecosystem and meet Nvidia's required commitment level.

Vietnam's IT powerhouse FPT to benefit from robust industry growth

Vietnam's IT service sector is dominated by FPT. Per our estimate from VINASA data, FPT Software recorded the highest productivity (revenue per IT employee) among the top IT service companies in Vietnam in 2022-23. FPT also led the IT service industry both in revenue (accounted for 29% of Vietnam's IT service export value in 2023) and labor scale as the company has the first mover advantage and stable labor supply from FPT University. We believe FPT's strong position in IT services secures its clear, unrivaled leadership, positioning it among the first to benefit from robust long-term industry growth.

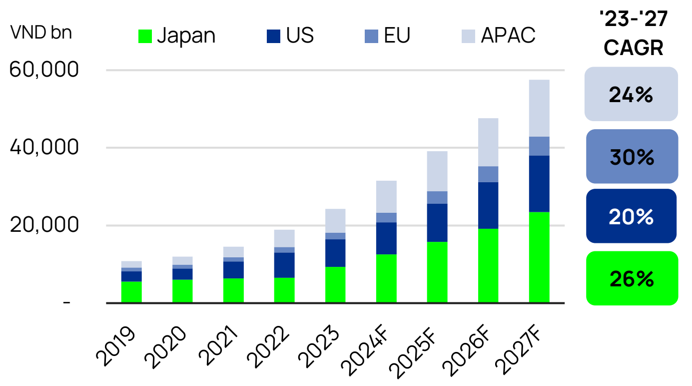
Figure 295: Number of IT employees and revenue per IT employee[1] of Vietnam's leading IT outsourcing companies in 2022-23[2]



Source: CMG, FPT, VINASA, Vietcap compilation; [1] Dividing year-end revenue by year-end labor count; [2] For FPT and CMG we collected 2023 information and data; for other Vietnamese non-listed companies TMA Solutions, Viettel Solutions, Nash Tech, Rikkeisoft, NTQ Solution, KMS, VMO, and Fujinet Systems, the latest data is from 2022; 82% of Viettel Solutions' employees are mobilized/outsourced resources.

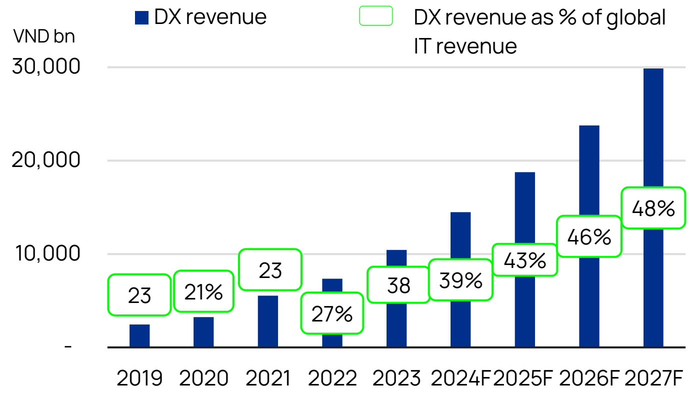
As a result, we expect FPT's global IT segment to experience a 2024F-27F PBT CAGR of 24% due to accelerating global digital transformation (DX) spending across key markets. The US IT consulting firm IDC projects a 19% CAGR in global DX spending from 2024F to 2028F, reinforcing our positive outlook on FPT's growth potential. We expect FPT's substantial global IT service sales growth to primarily be driven by key markets, mainly led by a 26% revenue CAGR in Japan. FPT's DX revenue surged 35% YoY in 9M 2024, accounting for 47% of global IT revenue, and we forecast 39%/30% YoY DX revenue growth in 2024F/25F, respectively.

Figure 296: FPT's global IT services revenue by markets, Vietcap's forecasts



Source: FPT, Vietcap

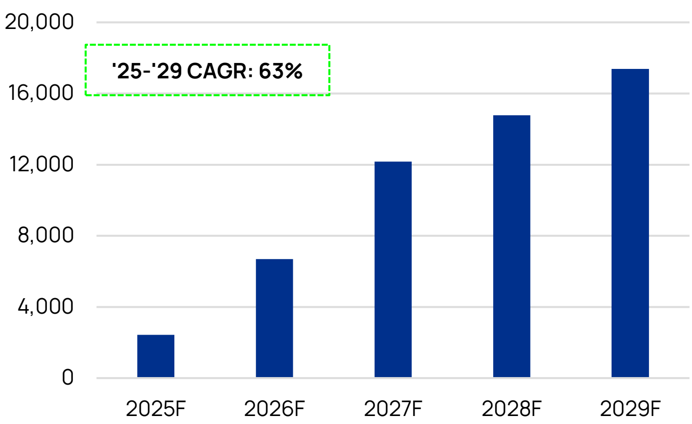
Figure 297: FPT's DX revenue, Vietcap's forecasts



Source: FPT, Vietcap

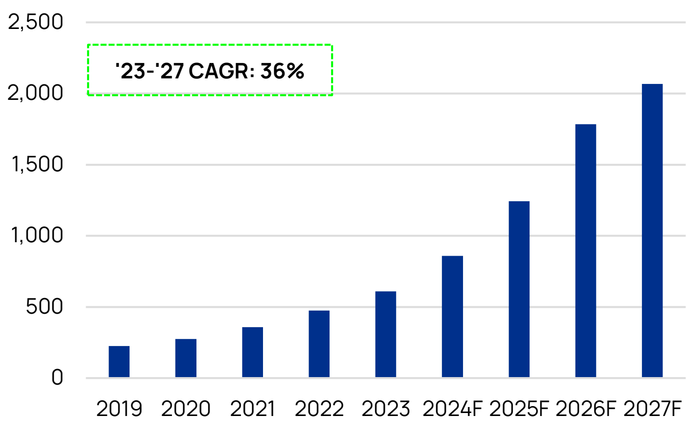
FPT is a pioneer in Vietnam in providing digital infrastructure services using the Nvidia ecosystem. We expect FPT's GPU-as-a-Service (GPUaaS) business to commence revenue generation in Q1 2025, leveraging its early market entry to secure a bulk of reserved contracts for enterprises outsourcing GPU-intensive tasks. We project FPT's GPUaaS PBT to achieve a robust 65% CAGR in 2025F-28F reaching a 70% utilization rate by 2027. FPT's unique position as Nvidia's sole professional delivery service partner (DSP) in Vietnam and Southeast Asia gives it a distinct competitive advantage. This partnership enables FPT to access Nvidia's extensive end-user network, creating opportunities to secure larger contracts with major clients. Unlike typical cloud partners who primarily resell Nvidia cloud platforms online, FPT, as a DSP, offers customized, end-to-end solutions tailored to client needs. This capability is particularly valuable in industries such as healthcare, finance, and government, where data privacy and control over hardware is critical, and demand for AI model fine-tuning/inferencing is massive. FPT's expertise and strong presence in the APAC market positions it well to capitalize on these opportunities and deliver significant growth in its GPUaaS business. We anticipate FPT's upcoming Fornix HCM02 AI data center, set to open in Q1 2025 and host the GPUaaS infrastructure, will increase capacity by 56% and utilized racks by 32% YoY in 2025F, driving projected revenue growth of 41%/45%/43% YoY for 2024F/25F/26F, respectively.

Figure 298: Vietcap's forecasts for GPUaaS revenue



Source: Vietcap

Figure 299: Vietcap's forecasts for FPT's data center revenue



Source: FPT, Vietcap

Stock Recommendations for 2025

Top picks

BUY – Masan Group (MSN): We view MSN as a key beneficiary of consumption growth in Vietnam, fueled by increasing incomes, urbanization, and continued modernization. MSN has a diverse portfolio of consumer businesses, spanning food and beverage production to a nationwide retail network. Each of these sectors is fundamentally robust and also benefits from significant synergies. We view MSN as undervalued with a market cap of VND107tn (USD4.2bn) vs our valuation of the group's consumer-retail businesses of VND141tn (USD5.6bn) after deducting net debt. This represents 77% of our SOTP valuation for MSN (MSR, TCB, and Trusting Social account for the other 23%). We project an EBIT CAGR of 21% in 2024-29, driven by (1) sustainable net profit from WCM from 2025, (2) MCH's EBIT CAGR of 14% and, (3) the recovery of MSR's EBIT from low bases in 2024. We believe the upcoming cash dividend from TCB, and a potential deconsolidation of MSR will support deleveraging to unlock earnings and strengthen MSN's balance sheet.

BUY – FPT Retail (FRT): We believe FRT is well-positioned to benefit from growing pharmaceutical spending in Vietnam, driven by an increasing incidence of non-communicable diseases, an aging population, and rising income. We believe a preventive healthcare ecosystem will be FRT's long-term driver. In addition to dominating Vietnam's modern pharmacy market, FRT, via its chain Long Chau, has expanded into vaccination centers and also partnered with IHH Healthcare Singapore for expertise transfer, particularly in operating clinics for imaging diagnostics. We expect Long Chau's healthcare business to achieve a 5Y NPAT-MI CAGR of 68% and contribute 90% of FRT's NPAT-MI in 2028. Given that LC accounts for 89% of our valuation for FRT, we find the stock attractive, especially as it is currently trading at a 2027F P/E of 17x vs our forecasted EPS CAGR 2024-27F of 81%.

BUY – Mobile World (MWG): As one of the leading players in modern grocery retail and holding more than 50% in the minimart segment alone, we believe MWG is well-positioned to seize the growing demand for convenience-driven modern grocery retail, due to resilient middle-class growth, rising urbanization, and a sizable young population. After NPM turned positive at 0.1% in Q2 2024, BHX delivered an NPM of 0.8% in Q3 2024, with strong sales of fresh food (accounting for 40% of total sales in Q3 2024). Huge expansion opportunities for BHX remain across Vietnam, especially in the south where BHX is a leading modern grocer. We project BHX to reach over 2,100/3,000 stores by YE 2026/YE 2029. We project BHX to open 150/200 in 2025/26, respectively, and 300 stores/year in 2027-29, driving its sales 2024-29F CAGR of 14% and NPM increasing to 3% in 2029. Regarding its ICT & CE business, we expect its NPAT-MI to grow at a 2024-29F CAGR of 15% due to (1) an improved product mix, (2) cost-cutting measures (during 2023-24), and (3) improved consumer spending from 2025 onwards. We anticipate ICT's NPM to be 5.5% in 2025, which approaches the level in 2019. MWG is traded at a 2025F P/E of 16x, which we find attractive vs its EPS 2024-27F CAGR of 29%.

BUY – Phu Nhuan Jewelry (PNJ): PNJ, Vietnam's leading fashion jewelry player, is poised to capitalize on the long-term growth of the industry. We anticipate that rising incomes and an increasing share of discretionary spending will drive jewelry consumption in Vietnam, particularly for branded jewelry, which has seen its market share double from 16% in 2015 to 33% in 2022. In the branded jewelry market, PNJ distinguishes itself with a diversified product range, exceptional in-house design and manufacturing capabilities, and a substantial lead in store count. These strengths enable PNJ to broaden its nationwide customer base, positioning the company to capitalize on the expected recovery in consumer spending in 2025, particularly as we anticipate short-term headwinds related to sourcing raw gold materials to subside. We forecast PNJ to deliver a retail revenue CAGR of 14% in 2024-2029F, which corresponds to our forecast for an EPS CAGR of 18% for this period. Our projected 2025F P/E of 15.3x is below its 15Y average P/E of 17.6x, which we believe undervalues the company's bright growth prospects.

BUY – Sabeco (SAB): With its strong brand name and extensive distribution network, SAB is in a strong position to benefit from the recovery of Vietnam's beer consumption, which is expected to be driven by (1) long-term favorable demographics, including rising incomes, a young drinking-age population, and urbanization, and (2) the potential ease in penalties for drunk driving starting in 2025, which could boost consumer sentiment. While competition remains intense, we believe SAB is poised to regain market share, as the potential excise tax hike in 2026 will result in smaller selling price increases in absolute terms for SAB compared to its main rival - Heineken (which focuses on premium and sub-premium offerings, while SAB targets the mainstream segment). Beyond gaining market share, we also see potential for profitability improvement due to (1) lower input material costs in 2025, (2) ongoing operational and commercial optimization, and (3) strict control of A&P spending. In our view, SAB's valuation is undemanding with a 2025F P/E of 15.4x vs its five-year average of 25.7x.

BUY – FPT Corp (FPT): We believe that FPT stands out as the strongest tech company in Vietnam. FPT's Global IT division leverages Vietnam's competitive labor costs while moving up the value chain to provide high-margin digital transformation (DX) services, supported by partnerships with global technology leaders. FPT Education plays a vital role in providing an engineering talent pipeline for global IT business, apart from its steady lucrative profitability. Telecom Services also has solid growth potential, fueled by increasing demand for AI, cloud computing, and data localization. We project a 27% EPS CAGR for FPT in 2024F-27F, with a favorable three-year forward PEG of 0.9x. In addition, FPT boasts a strong financial position with a net cash/equity ratio of 36% as of end-Q3 2024.

Appendix

Code	Company name
CTR	Viettel Construction
DGW	Digiworld
FPT	FPT Corporation
FRT	FPT Retail
MSN	Masan Group
MWG	Mobile World
PNJ	Phu Nhuan Jewelry
QNS	Quang Ngai Sugar
SAB	Sabeco
TLG	Thien Long Group
VEA	VEAM
VNM	Vinamilk
VHC	Vinh Hoan Corp

Source: Vietcap

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Industrial Parks: IP land sales to rebound in 2025

Summary

- We forecast aggregate IP land sales of select IP developers (stocks shown in Figure 300) to grow by 40%/16% in 2025/26F to 768 ha/891 ha, respectively, compared to a decline of 23% in 2024F and strong growth of 69% in 2023E. We expect that clearer policy directions from the US and more supportive FDI policies from Vietnam will stimulate additional capital investments by manufacturers, which in turn will contribute to a recovery in the outlook for IP land sales in 2025F. Additionally, sustained demand for IP land in Vietnam is likely to be reinforced by the ongoing shift of manufacturing from China to Vietnam, which could increase if the US were to raise tariffs on Chinese imports under a Donald Trump presidency by much more than on imports from other countries, including Vietnam.
- We anticipate that the approval process for IP development will accelerate, particularly for new projects, as most provincial master plans have been approved and the Amended Land Law took effect in August 2024, as well as Decision 227/QĐ-TTg (dated March 12, 2024), which relaxed land quotas in provinces that have or will hit IP land quota bottlenecks by 2025 (like Bac Ninh, Binh Phuoc, and Tien Giang). This expected faster IP project development process could benefit (1) leading IP developers who have strong financial positions and strong tenant-attracting capabilities, such as IDC and KBC, and (2) developers with large rubber land banks to be converted to industrial land, including PHR (~3,400 ha for conversion) and GVR (at least ~30,000 ha for conversion).
- We believe Vietnam is well-equipped to capture the next wave of FDI inflows due to its long-term competitive advantages. These include a variety of free trade agreements (FTAs), relatively low labor costs, rapidly improving infrastructure, and a young, increasingly educated workforce. In 2024, Vietnam has attracted considerable FDI from high-value sectors such as semiconductors, electronics, electric vehicles (EVs), and renewable energy. Notable investments from Talway, Victory Giant Technology, Signetics, and Foxconn highlight the country's rising appeal to high-tech industries. We also foresee favorable prospects for Vietnam if it successfully advances up the value chain through technology transfers and workforce development initiatives.
- We expect that the upcoming legal changes will further enhance Vietnam's competitiveness and reaffirm the country's dedication to supporting FDI. The Investment Support Fund (ISF), anticipated to be finalized by the end of 2024 or early 2025, will mitigate the impact of the Global Minimum Tax (GMT) on foreign investors. Additionally, the Amended Law on Planning and the Law on Investment (approved in November 2024), as well as the proposed Law on Industrial Parks and Economic Zones, aim to streamline administrative procedures and synchronize approval processes for new industrial park projects, which could, in the long run, attract more specialized and higher-value FDI to advanced industrial parks.
- Our top stock picks are **IDC**, **KBC**, and **SIP**. We favor IP developers with large, cleared industrial land areas in tier-1 industrial regions given high occupancy rates and resilient FDI inflows into these regions. We like IDC, KBC, and SIP as these IP developers should be able to leverage their existing land banks to capitalize on current favorable market conditions and have healthy financial positions which should enable them to prepare for future growth phases over the long term. Additionally, we expect positive developments for PHR, which holds a substantial rubber land bank slated for conversion into industrial land in Binh Duong, and SZC, which stands to benefit from infrastructure development in Ba Ria – Vung Tau amid increasing FDI attractiveness.

Figure 300: Industrial parks: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
IDC	BUY	733	0%	49%	192.4	2.7	55,500	71,500	11/21/24	29%	7%	36%
KBC	BUY	881	0%	49%	265.8	8.6	28,700	37,700	11/8/24	31%	0%	31%
PHR	BUY	314	67%	49%	97.2	0.4	58,000	69,300	10/7/24	19%	3%	23%
SIP	BUY	710	2%	49%	324.8	2.3	84,300	95,800	10/7/24	14%	2%	16%
GVR	M-PF	5,016	97%	13%	635.0	3.2	31,350	34,600	10/7/24	10%	1%	11%
SZC	BUY	306	58%	20%	54.4	4.4	42,550	44,200	10/7/24	4%	2%	6%
BCM	NR	2,815	95%	34%	898.3	0.7	68,000	84,700*	7/30/24	N.A.	N.A.	N.A.
VGC	NR	788	39%	49%	357.4	2.6	43,950	51,400*	12/4/24	N.A.	N.A.	N.A.

Figure 301: Industrial parks: Summary valuations

Code	Share price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/E LTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	EV/ EBITDA 2025F	ROE 2025F %	Adj. P/B LQ x	Net D/E LQ %
IDC	55,500	45%	6%	32%	8.4	9.2	8.7	6.6	4.3	36%	2.2	-4%
KBC	28,700	-75%	194%	127%	48.2	43.8	14.9	6.6	8.8	8%	1.2	-8%
PHR	58,000	-45%	18%	65%	24.3	25.7	21.8	13.2	20.2	11%	1.8	-46%
SIP	84,300	5%	6%	11%	16.6	19.1	18.0	16.2	12.5	24%	1.9	-22%
GVR	31,350	24%	9%	16%	34.7	38.4	35.2	30.5	18.7	7%	2.2	-25%
SZC	42,550	13%	42%	32%	30.2	27.5	19.4	14.7	10.0	14%	2.4	41%
BCM	68,000	-4%	N.A.	N.A.	27.6	31.8	N.A.	N.A.	25.1	12%^	3.7	98%
VGC	43,950	-29%	32%	51%	34.4	24.0	18.2	12.0	5.0	14%	2.1	28%

Source: Company data, Vietcap forecast. Note: Share prices as of December 5, 2024; VGC forecasts from our energy team's coverage of GEX; (*) our estimates on fair value; (^) our 2024F forecast.

Sector outlook

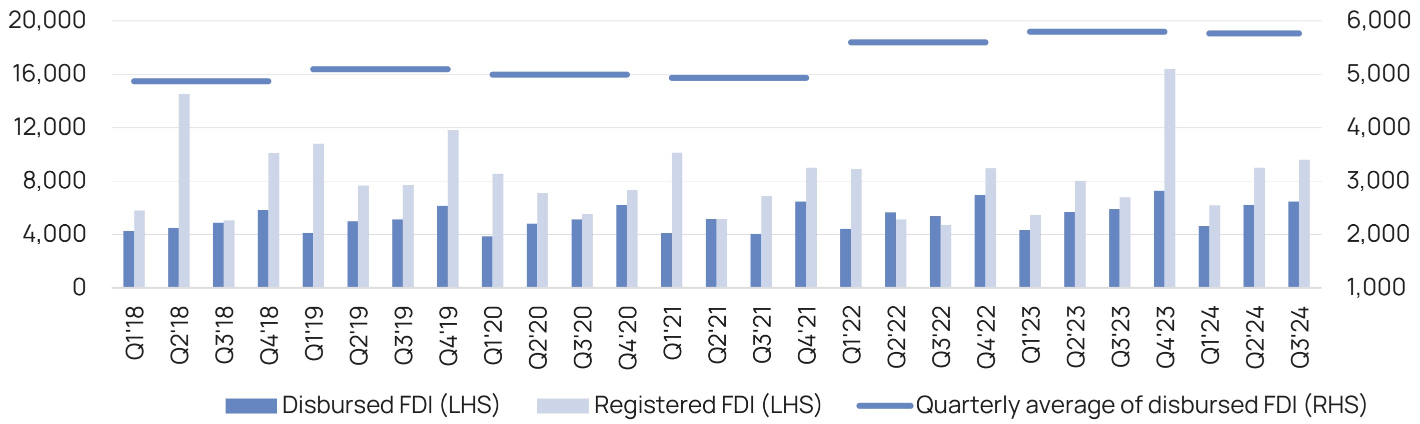
IP land sales to rebound in 2025F

We anticipate that clearer policy directions from the US, especially following the US election, along with more supportive FDI policies from Vietnam, will encourage an IP land sales recovery outlook in 2025F. Additionally, the anticipated increase in supply of leasable area, driven by the completion of provincial masterplans and the conversion of rubber land to IP land, will enable developers to expand their land banks, thus further supporting IP land sales recovery in 2025F.

More favorable macroeconomic outlook: We anticipate a more favorable environment for manufacturers to expand production in 2025F, driven by several macroeconomic factors including an expected gradual easing of monetary policies from key central banks such as the US Federal Reserve (i.e., Fed's two rate cuts totaling 75 bps between September-November 2024), along with ongoing expansionary fiscal and monetary policies in China.

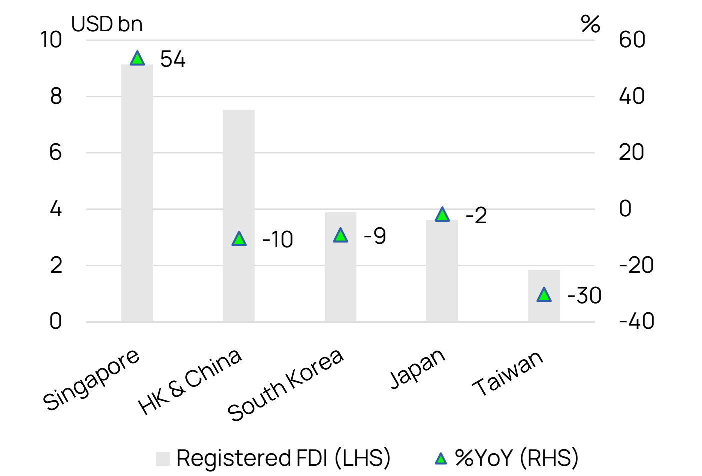
Vietnam's FDI disbursement and registration in 11M 2024 increased 7.1% YoY and 1.0% YoY to USD21.7bn and USD31.4bn, respectively. Among the 11M 2024 FDI registrations, there was a 54% increase in FDI from Singapore but registrations from countries that historically make large investments, including China, South Korea, Japan, and Taiwan saw YoY declines. We expect Vietnam's disbursed FDI to grow at an average rate of 7.5% per annum, reaching USD26.5-31bn in 2025/26/27F.

Figure 302: Disbursed FDI, registered FDI, and quarterly average of disbursed FDI (USD mn)



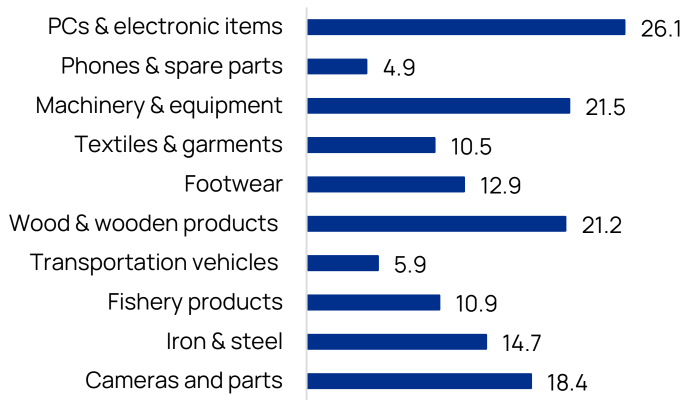
Source: Ministry of Planning and Investment (MoPI), Vietcap

Figure 303: Leading countries by FDI into Vietnam, 11M 2024



Source: MoPI, Vietcap

Figure 304: 10M 2024 top exports (% YoY)



Source: GSO, Vietcap

Vietnam continues to receive major interest from large MNEs: Among notable investments YTD, we observe electronics (printed circuit board/PCB manufacturing, semiconductors, electronics devices), EV production, and renewables equipment to be the most notable investment fields. We continue to expect strong demand from these industries as Vietnam's industrial ecosystem becomes more developed. We expect major investors to follow through on commitments in 2025F, supported by clearer US policy directions after the presidential election and more supportive FDI policies from Vietnam.

Figure 305: Select major manufacturing investments announced in 11M 2024

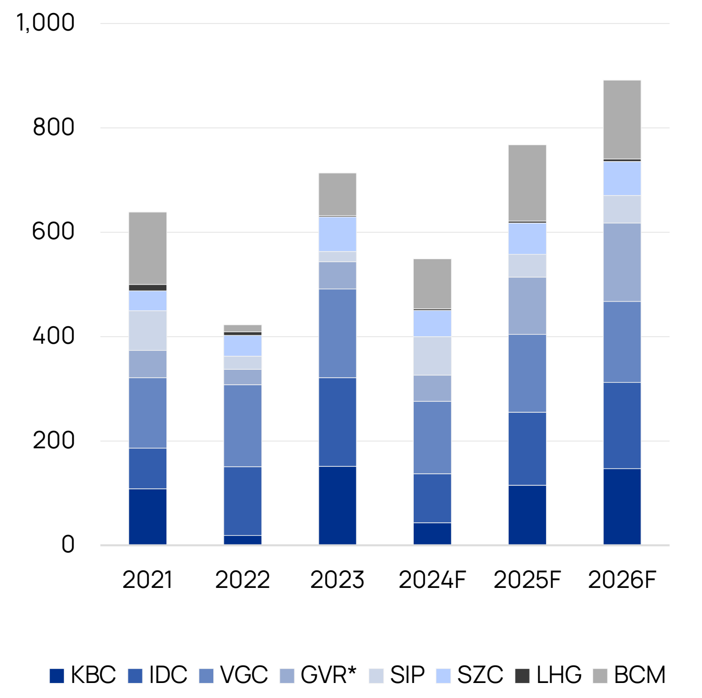
Company	Nationality	Industry	Investment (USD mn)	Total area (ha)	Province*	Industrial park	Developer
New IP leasing contracts/MOUs							
Victory Giant Tech	China	PCB manufacturing	800	10	Bac Ninh	VSIP Bac Ninh	VSIP
Talway	China	EV equipment	700	3	Bac Ninh	Nam Son Hap Linh	KBC
Mega Textile	Singapore	Textile	590	51	Nghe An	Tho Loc	VSIP
Trina Solar Cell	China	Solar panel	454	14	Thai Nguyen	Yen Binh	Yen Binh
Foxconn	Taiwan	PCB manufacturing	383	14.3	Bac Ninh	Nam Son Hap Linh	KBC
Kumho Tire	South Korea	Tire manufacturing	300	5.6	Binh Duong	My Phuoc 3	BCM
Casetek	Singapore	Electronics products	473	11	Nghe An	VSIP Nghe An	VSIP
Sunwoda	China	EV battery	300	N/A	Bac Giang	Yen Lu	Tuan Quynh
Foxconn	Taiwan	Smart products	287	12.4	Quang Ninh	Deep C Quang Ninh 2	Deep C
Gokin Solar	China	Solar panel	275	N/A	Quang Ninh	Texhong Hai Ha	Hai Ha Jsc
Foxconn	Taiwan	Smart products	264	21.5	Quang Ninh	Song Khoai	Amata
Tripod	China	PCB manufacturing	250	18	BR-VT	Chau Duc	SZC
CS Wind	South Korea	Wind power	200	50	Long An	Dong Nam A	Dong Tam
Kine SIC Semi	US	Semiconductor	200	0.75	Bac Ninh	N/A	N/A
Geely Auto	China	Automotive assembling	168	30	Thai Binh	Tien Hai	VGC
SLP	Singapore	Logistics	121	16	Dong Nai	Loc An – Binh Son	SIP
Yuan Long	Taiwan	Machineries (ceiling fan)	120	15.6	Thai Binh	Lien Ha Thai	Green I-park
Nien Made	Taiwan	Furnitures	124	N/A	Phu Tho	Phu Ha	VGC
Signetics	South Korea	Semiconductor	100	5	Vinh Phuc	Ba Thien Subzone 1	HDTC
Johnson Group	Taiwan	Sports equipment	100	20	Bac Ninh	Thuan Thanh 1	VGC
Vina One Steel	Vietnam	Steel	100	12	BR-VT	Chau Duc	SZC
Yangjie Technology	China	Electronics devices	90	8	Bac Ninh	Yen Phong II-C	VGC
Company	**Nationality**	**Industry**	**Investment (USD mn)**		**Notable factories locations**		**Disclosure date****
Potential investment plans by select manufacturers							
Hyosung Group	South Korea	Materials, biofuels	4,000		Dong Nai, BR-VT		Oct-2024
LG Electronics	South Korea	Electronics	4,000		Hai Phong		Dec-2022
Samsung	South Korea	Electronics	1,000/year		Thai Nguyen, Bac Ninh		May-2024
3TI Progetti Asia	Italy	Renewables	700		N/A		Oct-2024
Sailun Group	China	Tier manufacturings	200		Tay Ninh		Jul-2024
Hualian	China	Ceramics	200		Thai Binh		Aug-2024

Source: Vietcap compilation. Note: (*) BR-VT stands for Ba Ria – Vung Tau province; (**) media news

We forecast aggregate IP land sales of select IP developers to grow by 40%/16% in 2025/26F vs a decline of 23% in 2024F, and experience strong growth of 69% in 2023E

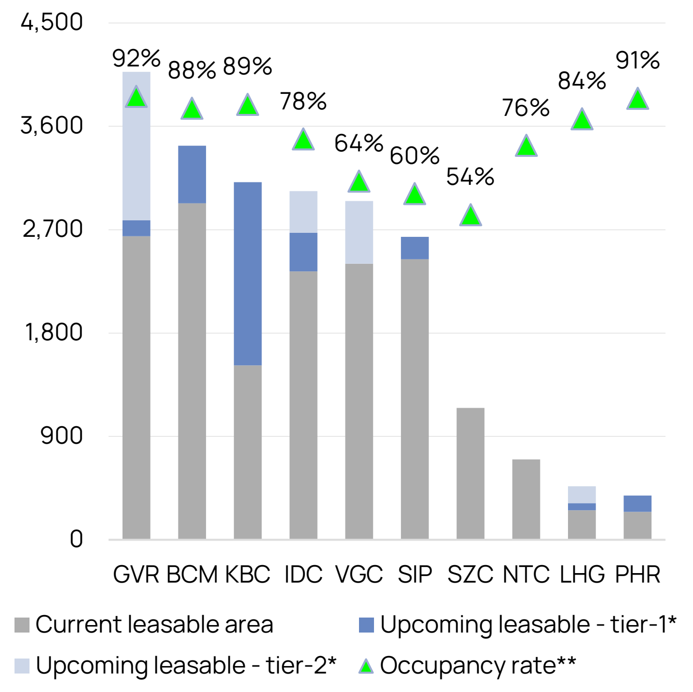
For 2025F, we anticipate a YoY surge in IP land sales for KBC, GVR, and BCM, which will largely be driven by the launches of new IP projects in key industrial regions, including KBC's Trang Due 3 IP, BCM's Cay Truong IP, and NTC's NTU3 IP (GVR's subsidiary). We also expect IDC to see a rebound in 2025F IP land sales, supported by its large, cleared land banks in major industrial regions, positioning it to benefit from expected demand uptick. For 2026F, we forecast YoY growth in aggregate IP land sales of select IP developers, primarily driven by the increase in KBC and IDC's land sales, due to new project launches (Hung Yen IC and Long An IP for KBC; Tan Phuoc 1 IP for IDC). Additionally, we expect resilient IP land sales in the 2025F and 2026F forecasts for SZC and SIP.

Figure 306: Vietcap's forecast for 2024-26F aggregate IP land sales (ha) of select IP developers



Source: Company data, Vietcap. Note: (*) Including IP land sales of PHR and NTC, both are subsidiaries of GVR.

Figure 307: Leasable area (ha) and occupancy rate (%) for select IP developers as of Q3 2024



Source: Vietcap. Note: (*) Upcoming leasable area from projects that we expect may start land sales in 2025-26F period; we consider tier-1 industrial areas as having average IP land prices of above USD100/sqm/term; (**) only accounts for currently selling IP projects.

IP land supply to increase with expected pickup in project approvals and rubber land conversions

We anticipate that the approval process for IP development will accelerate, particularly for new projects, as most provincial master plans have been approved and the Amended Land Law took effect in August 2024, as well as Decision 227/QĐ-TTg (dated March 12, 2024) that relaxed land quotas in provinces that had hit IP land quota bottlenecks by 2025 (like Bac Ninh, Binh Phuoc, and Tien Giang). This expected faster IP project development process could benefit (1) leading IP developers who have strong financial positions and strong tenant-attracting capabilities, such as IDC and KBC, and (2) developers with large rubber land banks to be converted to industrial land, including PHR (~3,400 ha for conversion) and GVR (at least ~30,000 ha for conversion).

We expect the IP development approval process to accelerate, driven by (1) streamlined investment approvals for new IP projects, as most provincial master plans are now approved (only HCMC and Hanoi remain as of November 2024), and (2) smoother land compensation and rental fee processes in key southern industrial regions like Binh Duong, Dong Nai, and Long An, supported by the Amended Land Law effective August 2024. Notably, in Binh Duong, the NTU3 IP (345 ha) of NTC received its land rental fee determination decision in October 2024, and BCM's Cay Truong IP (700 ha) is expected to begin land sales in 2025F after completing corresponding legal procedures.

Natural rubber land conversion to be a key source for IP land in Vietnam's southern industrial provinces: Based on the approved masterplans of Ba Ria – Vung Tau, Binh Phuoc, Tay Ninh, Binh Duong, and Dong Nai, at least ~30,000 ha of rubber land can be converted into industrial land. We anticipate the approval process for new IP converted from rubber land to pick up in the medium term now that (1) provincial masterplans for the 2021-2030 period have been completed and (2) natural rubber land conversion to IP development offers an advantage of shortening the land clearance phase, which may require increasingly higher costs and be more time-consuming in developed and urbanizing tier-1 industrial regions.

Updated land bank quota per Decision 227/QĐ-TTg to benefit specific IP developers: In order to bring needed IP supply to the market, in addition to the investment approval, IP developers also need to be granted land in accordance with the industrial land quota available in the provinces. Decision 227/QĐ-TTg (dated March 12, 2024) relaxed the land quotas in provinces that had hit IP land quota bottlenecks by 2025 like Bac Ninh, Binh Phuoc, and Tien Giang. While the overall IP land use quota until 2025 will not change, the Decision has made adjustments by allocating more land quota to provinces that are currently facing bottlenecks but still have strong demand, such as Bac Ninh (KBC, VGC), Binh Phuoc (DPR, GVR, BCM), and Tien Giang (IDC). Additionally, the Government is revising the land use quota for the 2025-2030 period, potentially increasing further supply in the medium term.

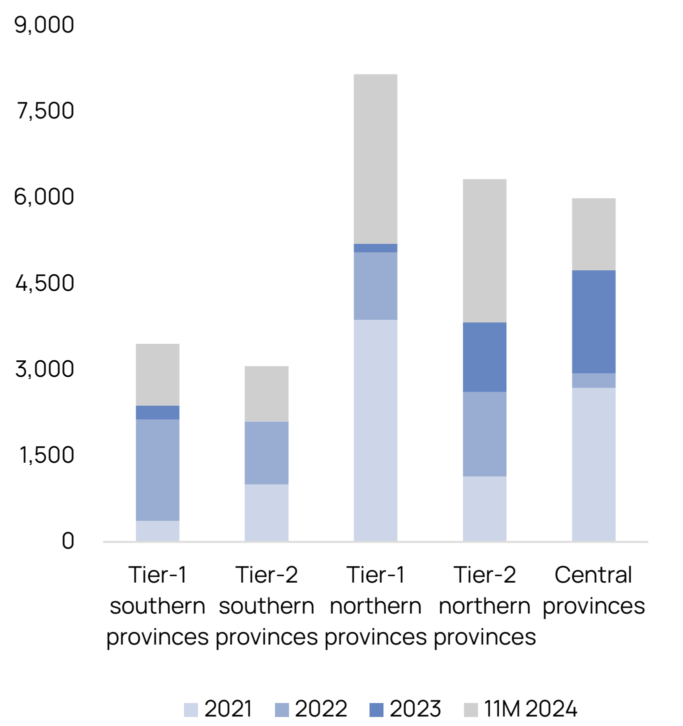
Figure 308: IP land use quota table of select provinces (ha) based on Decision 227/QĐ-TTg and 326/QĐ-TTg

Regions	Listed IP developers that plan/possess land banks in the area	Total site area of established IPs [A]	Land use quota until 2025 [B]	Land use quota until 2030 [C]	[B] compared to [A]**	[C] compared to [A]**
Northern						
Hanoi*	VCG	2,200	2,800	3,800	600	1,600
Bac Ninh	KBC, VGC, IDC, SGT	6,100	5,500	6,400	-600	300
Hai Phong	KBC, IDC	6,100	7,300	8,700	1,200	2,600
Hung Yen*	KBC, VGC, HPG	4,600	4,200	5,000	-400	400
Ha Nam	DTD	3,500	4,200	4,600	700	1,100
Bac Giang	KBC, Western Pacific	3,300	3,400	7,000	100	4,600
Vinh Phuc	IDV, SHI	3,200	3,200	4,800	0	1,600
Hai Duong	KBC, VGC, IDV, AAA	2,800	3,400	5,700	600	2,900
Quang Ninh	KBC, VGC	3,200	3,800	5,900	600	2,700
Thai Nguyen	KBC, VGC, TNG	1,800	3,000	4,200	1,200	2,400
Central						
Da Nang	KBC	1,100	2,000	2,400	900	1,300
Thanh Hoa		2,000	3,300	6,000	1,300	4,000
Ha Tinh		3,500	2,700	6,000	-800	2,500
Nghe An		2,800	3,500	4,400	700	1,600
Quang Nam		3,700	2,700	3,500	-1,000	-200
Thue Thien Hue	VGC	2,000	2,300	2,700	300	700
Southern						
HCMC*	SIP, KBC, KDH, ITA	4,500	5,000	5,900	500	1,400
Binh Duong*	BCM, GVR, PHR, NTC	12,700	12,000	15,000	-700	2,300
Dong Nai*	GVR, SIP, SNZ, TID, IDC	12,200	12,500	18,500	300	6,300
Long An	GVR, IDC, KBC, LHG	9,700	10,500	12,400	800	2,700
Ba Ria – Vung Tau	GVR, IDC, SZC	8,200	8,100	10,800	-100	2,600
Binh Phuoc	BCM, GVR, DPR, MH3	4,100	4,900	7,600	800	3,500
Tay Ninh	GVR, SIP	4,000	3,600	4,300	-400	300
Tien Giang	IDC	1,800	1,700	1,800	-100	0

Source: Vietcap compilation as of early December 2024, Decision 227/QĐ-TTg and 326/QĐ-TTg governing provincial land use quota, provincial masterplans, and draft masterplans for the 2021-2030 period. Note: (*) Based on latest draft 2021-2030 masterplan; (**) positive imply potential available industrial land quota until the period while negative may imply a lack of available land quota.

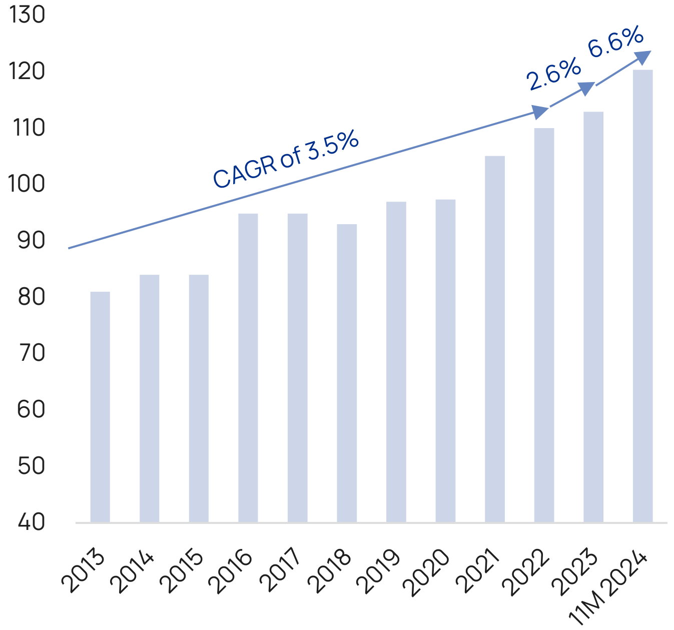
More new IP land supply expected from 2026F: While the Government has significantly sped up IP approvals in 2024F, we anticipate that the newly approved IPs from 2024F will require time for land compensation and other necessary legal procedures, with potential sales launches starting from 2026F. In 11M 2024, Government approval for the new establishment, expansion, and amendment of IPs reached 8,744 ha (+6.6% YoY), compared to 3,411 ha (+2.6% YoY) approved in all of 2023.

Figure 309: Government approvals for expansion and new establishment of IP area (ha) in 2021-11M 2024



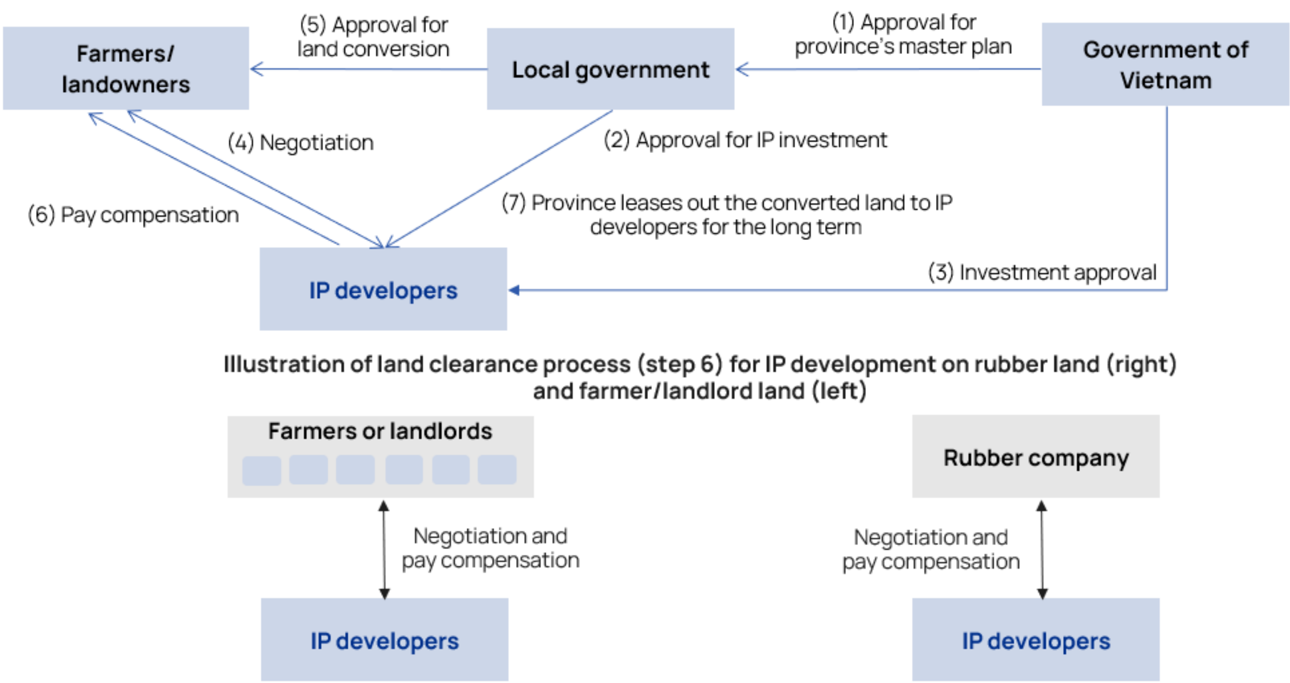
Source: Vietcap, Government portal. Notes: Tier-1 provinces/municipalities include Binh Duong, Dong Nai, and Long An in southern Vietnam and Bac Ninh, Hai Duong, Hung Yen, Bac Giang, and Hai Phong in northern Vietnam.

Figure 310: Total IP site area (ha) of IPs established* in Vietnam in 2012-11M 2024



Source: MoPI, Vietcap. Note: (*) Not including IP site area in coastal economic zones.

Figure 311: Typical procedures for new industrial park approval



Source: Vietcap

We believe established IP developers have advantages in securing new land banks. When considering investment approval for new IP projects, some of the criteria may include (1) financial capability, (2) capability to attract investors and large FDI tenants, and (3) existing experience of executing similarly sized IPs. As such, we believe that established IP developers like KBC, IDC, or SIP will benefit. KBC seeks to expand its total land bank by another ~3,500 ha of IP land and 650 ha of UA land (in Bac Ninh, Thai Nguyen, Hau Giang, Can Tho, Vung Tau, etc.; not including the Trang Due 3 IP) while IDC seeks to expand its total IP land bank by at least another ~1,850 ha via new/extension IP projects in provinces in both northern and southern Vietnam .

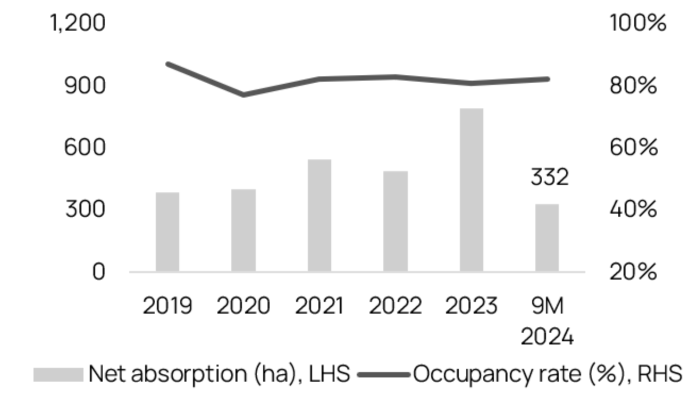
Rubber land IP developers to be one of the chief beneficiaries from the potential new land supply: We believe companies that develop IPs from former rubber plantations stand to benefit the most from the Government's ambitious land bank expansion pipeline, which involves the conversion of a substantial portion of new industrial land in the south from rubber plantations, per the latest provincial masterplans. In Binh Duong, ~3,400 ha of IP land could be converted to industrial land of PHR, a subsidiary of GVR. Additionally, in Ba Ria – Vung Tau, Tay Ninh, and Binh Phuoc, GVR stated that ~25,000 of planned industrial land could be derived from rubber land, benefiting GVR, DPR, MH3, and TRC (DPR and MH3 have land banks in Binh Phuoc; TRC has a land bank in Tay Ninh). However, we note that the rubber land conversion process takes time as it also depends on the allocated quota for IP land in the area.

High occupancy rate and price appreciation to remain in tier-1 industrial regions

Occupancy rates in tier-1 industrial provinces remain high: Per CBRE, the north and south experienced net absorption of ~332 ha (-45% YoY) and ~260 ha (-48% YoY) in 9M 2024, respectively; while occupancy rates were stable at ~82% in the north and ~91% in the south. Among the IP developers we track, the average occupancy rate in northern tier-1 provinces is around 90%, while developers with a higher proportion of land banks centered around tier-2 industrial regions, including SIP, VGC, and SZC, have an average occupancy rate of 57%.

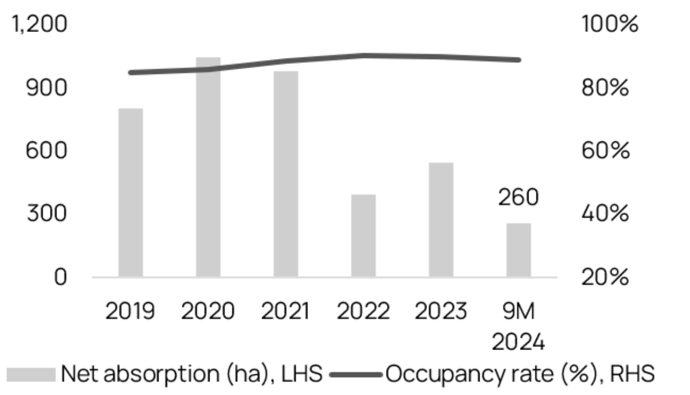
Looking ahead, we anticipate that occupancy rates in the tier-1 industrial regions will remain high due to strong land demand prospects, a relatively lower amount of new investment approvals (compared to tier-2 regions), and more complicated compensation processes. In 11M 2024, tier-1 regions accounted for 61% of total FDI registrations, slightly lower than the figures from 2022 (66%) and 2023 (65%). The dense population and high demand in these areas are contributing factors to the lengthy land compensation and government rental fee determination processes. We believe tier-1 industrial regions will continue to attract FDI and maintain high occupancy levels in the medium term, benefiting IP developers with significant leasable IP land banks, such as BCM, KBC, and IDC.

Figure 312: Net absorption and occupancy rate in tier-1 northern industrial provinces to 9M 2024



Source: CBRE, Vietcap compilation

Figure 313: Net absorption and occupancy rate in tier-1 southern industrial provinces to 9M 2024

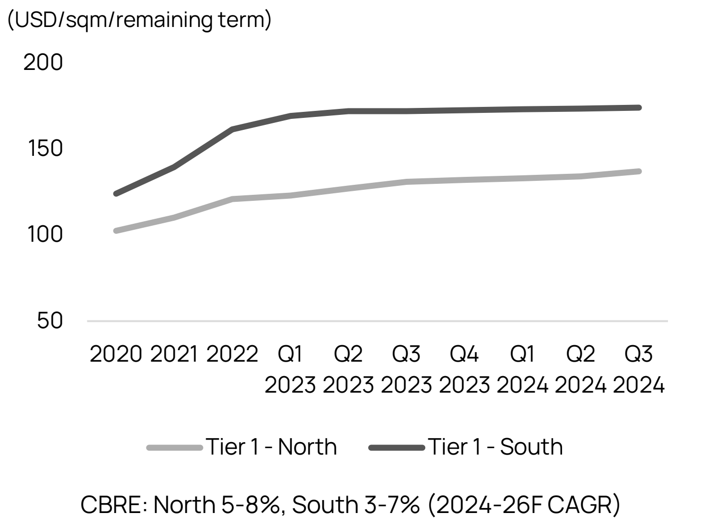


Source: CBRE, Vietcap compilation

IP land's ASP growth eased amid a temporary slow in demand: Per CBRE's data, the average asking rental rates of IP land in Q1, Q2, and Q3 of 2024 increased by 7.8%, 4.5%, and 4.6% YoY in the north, while the south saw respective growth rates of 2.4%, 1.0%, and 1.0% YoY. This reflects a slowdown in asking price growth compared to the ~10% average annual growth rates observed for 2021-2023 in both regions. We attribute this slower YoY growth in 9M 2024 mainly to slower demand from South Korea, Japan, and Taiwan.

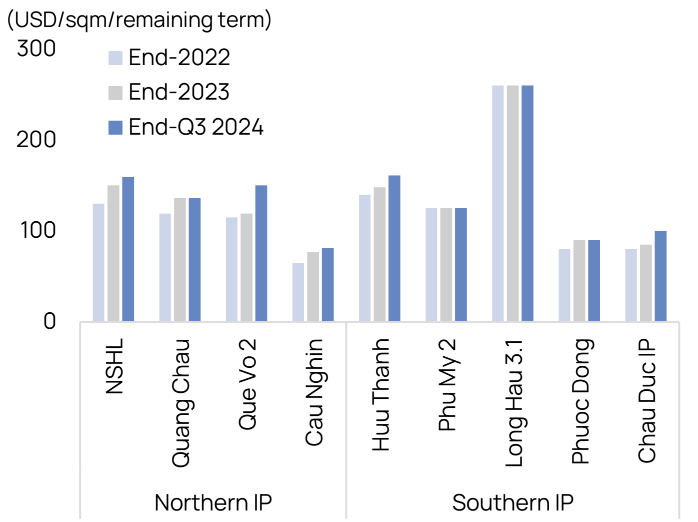
Across the IPs we track, we continue to observe significant price growth in select IPs that have lower-than-average ASP compared to region, such as IDC's Que Vo 2 IP (Bac Ninh; +26% YTD to USD150/sqm) and Huu Thanh IP (Long An;+9% YTD to USD161/sqm), as well as SZC's Chau Duc IP (Ba Ria – Vung Tau; +18% YTD to USD100/sqm). We anticipate average annual price growth of 7% in 2025-26F (vs ~12% YoY growth in 2023E and 6% growth in 2024F), among which we expect higher price appreciation in (1) IPs located in tier-1 industrial regions that are relatively lower-priced compared to regional peers, such as Chau Duc and Que Vo 2 IPs, and (2) tier-2 industrial regions.

Figure 314: Industrial land average asking rental rates



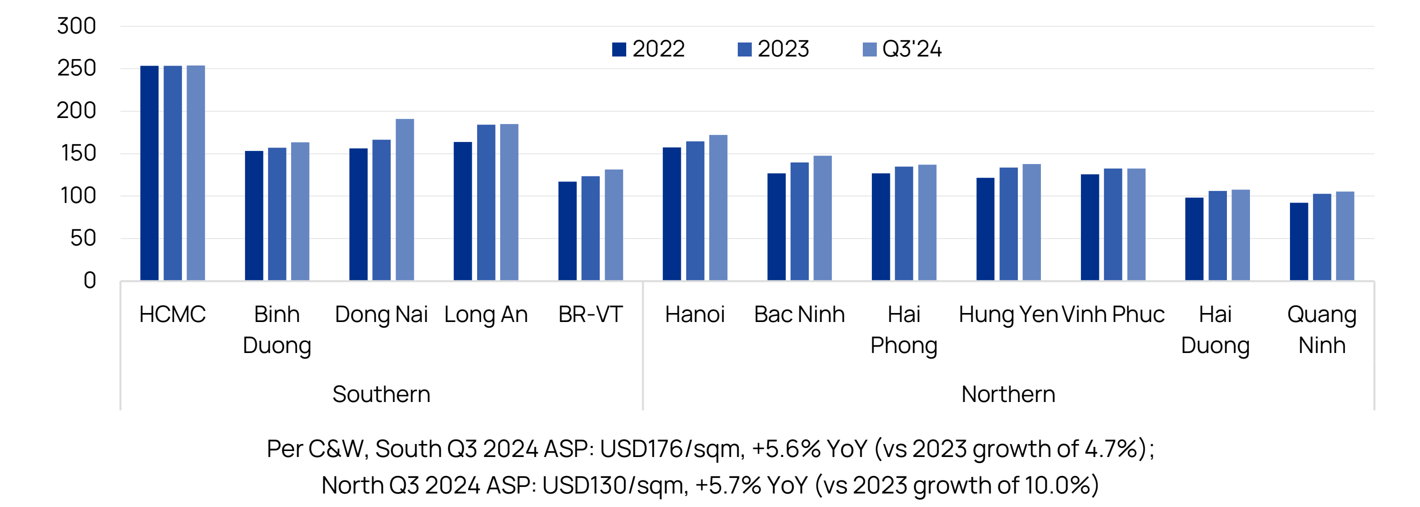
Source: CBRE, Vietcap

Figure 315: ASPs of select IPs



Source: Company data, Vietcap. Note: We only account for projects that are already under sales progress.

Figure 316: Average primary asking rent of IP land (USD/sqm/remaining term) in 2022-Q3 2024



Source: Cushman & Wakefield (C&W), Vietcap

Long-term demand outlook remains bright

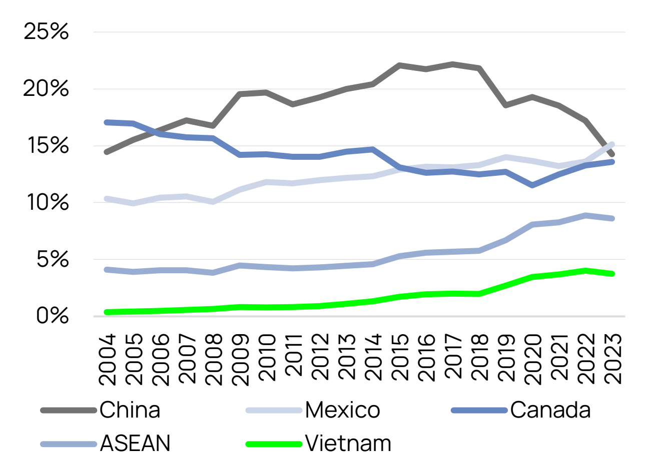
Vietnam's long-term FDI attractiveness remains strong, underpinned by the ongoing trend of global manufacturers relocating to the country, its competitive labor costs, a broad range of free trade agreements, and the transition to advanced manufacturing through technology transfers and upskilling initiatives, particularly in sectors like semiconductors. In addition, the expected upcoming policies to support FDI, including the Investment Support Fund (in order to mitigate the impact of the Global Minimum Tax) and proposed reforms in IP laws, should further strengthen Vietnam's competitiveness and reaffirm the country's commitment to support FDI.

Ongoing structural supply chain shifts to drive long-term IP land demand outlook: As companies seek alternatives to China amid rising costs and geopolitical risks concerns, Vietnam has emerged as a key destination for global manufacturers due to its strategic location, low labor costs, and extensive free trade agreements (FTAs). We expect this demand to remain robust in the medium term, driven by (1) the continued relocation of global manufacturers to Vietnam and (2) the country's efforts to move up the global value chain.

Vietnam's exports to the US have grown significantly, rising from minimal levels in 2004 to account for approximately 4% of total US imports by 2023. We expect this trend to continue as Vietnam maintains strong FDI inflows. Our macro team is forecasting Vietnam's disbursed FDI to grow at an average annual rate of 7.5% during 2025F to 2027F. According to the World Bank, Vietnam's FDI net inflows (on a BoP basis) have increased at an average rate of 7.9% annually from 2011-2023, far outgrowing ASEAN peers' (Malaysia, Indonesia, the Philippines, and Thailand) average of 0.4%.

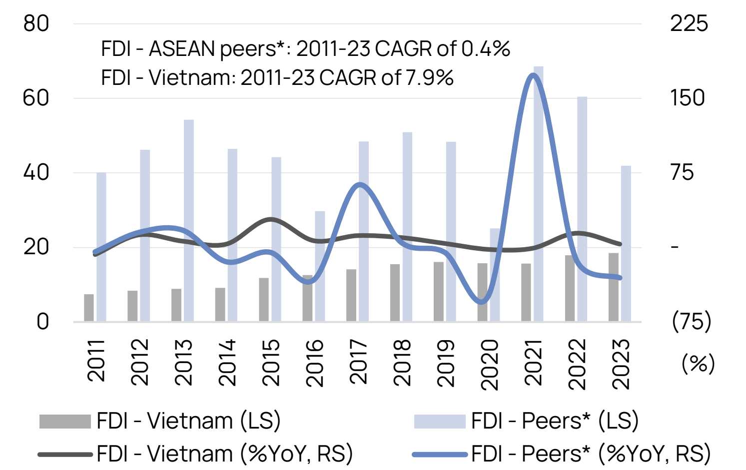
Potential risk: Higher tariffs under a Donald Trump presidency would be negative for international trade. However, if the US were to raise tariffs on Chinese imports by much more than on imports from other countries, this could accelerate the shift of manufacturing from China to Vietnam, helping Vietnam to win a larger share of a smaller pie.

Figure 317: Major sources of US imports (% of total US imports)



Source: World Trade Organization, Vietcap compilation

Figure 318: Foreign direct investment, net inflows (BoP, current USD bn) to Vietnam and peers



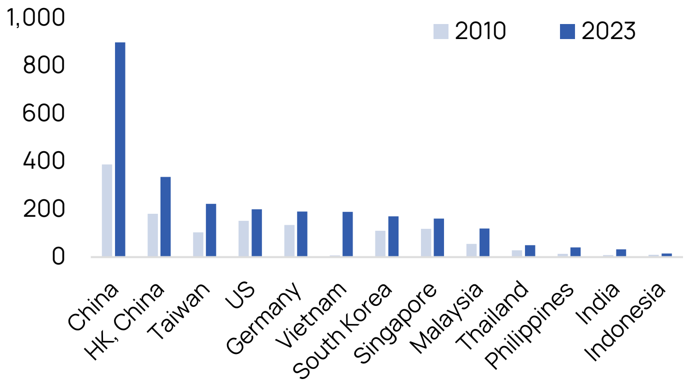
Source: World Bank, Vietcap. Note: (*) Includes Malaysia, Indonesia, the Philippines, and Thailand.

Vietnam's advancement up the value chain is expected to drive long-term growth in IP demand. The country has seen a significant rise in electronics exports, which grew 20-fold from 2010. This growth has been fueled by an influx of high-tech FDI from companies like Samsung, LG, Foxconn, and Goertek, with the latter two being Apple suppliers. Going forward, we expect Vietnam to remain a major beneficiary of this structural manufacturing shift, particularly as placing new factories in established industrial clusters reduces costs and enhances supply chain efficiency.

While Vietnam's electronics export volumes have risen significantly, much of the country's contributions remain in assembly and packaging, which are lower value-added segments. Per the International Trade Center's data, net electronics exports as a percentage of total exports stood at 13% in Vietnam, compared to 32% in China and 37% in South Korea in 2023. However, as the country continues to educate a more skilled workforce and improve its infrastructure, potential improvements in localization and technology transfer are anticipated.

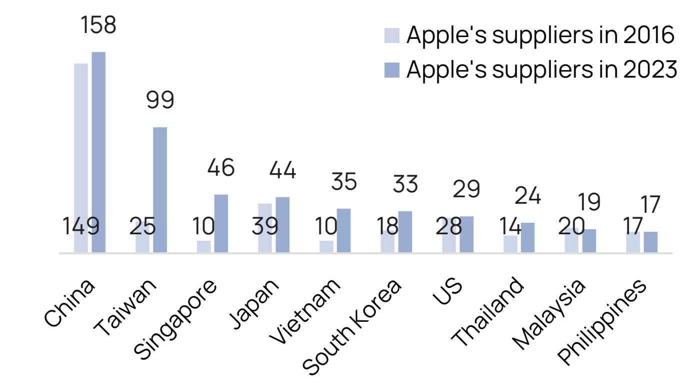
Additionally, Vietnam's growing role in the global technology value chain is demonstrated by the rise in official Apple suppliers. The number of Apple suppliers in Vietnam increased from 10 in 2016 (5% of Apple's total suppliers) to 35 in 2023 (19% of Apple's total suppliers), with most suppliers located in northern Vietnam. In southern Vietnam, diverse and capital-intensive FDI investments have been observed, ranging from Tripod (PCB manufacturing), Hyosung (advanced materials and fabrics) to PepsiCo (F&B), highlighting the country's broadening appeal.

Figure 319: Electronics exports by value in 2010, 2023



Source: World Trade Organization, Vietcap

Figure 320: Number of Apple's official suppliers in 2016, 2023



Source: Apple, Vietcap

Semiconductor industry is a new growth driver: Vietnam has recently received attention as a potential hub for the global semiconductor industry. The upgraded diplomatic relations between Vietnam and the US, Japan, and Australia are expected to create opportunities for Vietnam to play a more significant role in global semiconductor supply chains. In addition, the Government's clear efforts to advance the country's semiconductor industry, via new support policies and initiatives, are expected to support the industry's growth and attract more investment.

While the focus on high-tech and semiconductor growth will benefit Vietnam's FDI attraction as a whole, we anticipate a stronger impact on northern Vietnam's IPs in the medium term, as companies in the semiconductor sector are likely to choose locations with well-established infrastructure and proximity to high-tech manufacturing hubs.

Government targets for the country's semiconductor industry: The Government's Decision No. 1018/QĐ-TTg (September 21, 2024) outlines a strategy to develop the country's semiconductor industry by 2030, with a vision extending to 2050. The strategy's formula is summarized as **C = SET + 1**, where **C** represents Chip production, **S** stands for specialized chips, **E** for the electronics industry, **T** for talent, and **+1** signifies Vietnam as a safe, new destination for global semiconductor manufacturers.

These measures are expected to boost demand for IP land from FDI tenants participating in the semiconductor production process and supporting industries. Major projects such as Amkor's USD1.6bn investment in Bac Ninh, Hana Micron's USD600mn in Bac Giang, and Signetics' USD100mn in Vinh Phuc highlight this trend. Further investments from companies such as Victory Giant Technology and Yangjie Technology in printed circuit boards (PCBs) and electronic devices reinforce Vietnam's growing appeal in semiconductor-related sectors.

Figure 321: Government targets for the semiconductor industry based on Decision No.1018/QĐ-TTg

Semiconductor development target	Current status	2024 – 2030	2030 – 2040	2040 - 2050
Design companies	N/A	100	200	300
Chip manufacturing plants	0	1	2	3
Packaging, testing, and assembly plants	>5	>10	>15	>20
Semiconductor revenue/value added	N/A	USD25bn/year; 10-15%	USD50bn/year; 15-20%	USD100bn/year; 10-15%
Electronics revenue/value added*	~USD142bn in 2023	USD225bn/year; 10-15%	USD485bn/year; 15-20%	USD1,04tn/year; 20-25%
Engineers	~5,600	>50,000	>100,00	Depending on demand

Source: Government portals, Vietcap compilation. Note: (*) Estimate for 2023 per the Ministry of Information and Communications.

Investment Support Fund to drive FDI attraction and boost investor confidence: The Investment Support Fund (ISF), expected to be finalized by the end of 2024 or early 2025, is poised to attract new FDI into Vietnam while encouraging investors with large commitments or those who are still undecided. By pooling additional income tax revenue from the global minimum tax (estimated at ~VND14.6tn/USD584mn per year by end-2023, per the Ministry of Finance) and other state budget sources, the fund will provide financial incentives to ease the tax burdens on enterprises. In November 2024, the National Assembly passed the Amended Law on Investment, which includes provisions for establishing the ISF, laying the groundwork for its implementation.

Law on Industrial Parks and Economic Zones to boost long-term appeal: The Government is drafting a new law to revamp the industrial park and economic zone framework, aiming to attract higher-value FDI. Despite being critical to Vietnam's economic growth, the legal framework governing industrial parks has seen little change for over 30 years. The proposed law seeks to unify and streamline these regulations, creating a more business-friendly environment that encourages the development of advanced, eco-friendly, and high-tech industrial zones.

Figure 322: Updates on notable Laws and Decrees that will impact the IP sector

Decrees & Law	Current status	Aim	Current guiding Decrees and Law	Vietcap's comments
Investment Support Fund (ISF)	Government guides for completion of the Decree by 2024-2025.	Mitigate the impact from the Global Minimum Tax (GMT)* and incentivize high-tech investments in Vietnam.	No guiding decrees on the usage of additional income from GMT currently.	We expect that this draft will have positive effects on investor sentiment and encourage further FDI into Vietnam.
Law on Industrial Park and Economic Zone	No draft released yet.	Establish a comprehensive legal framework to support the development of new industrial parks and economic zones in Vietnam.	Mainly based on guiding decrees, with the most notable being the Decree 35/2022/NĐ-CP signed in 2022.	This upcoming law could streamline administrative procedures for IP approvals. Additionally, the law can potentially incentivize investments in specialized and mixed-use IPs, offering targeted support packages that can attract higher value-added FDI.
Land price regulation (Amended Land Law, approved in January 2024)	The updated annual land price table will be effective from January 1, 2026.	More frequently updated land price table helps it be closer to the market price and facilitates the compensation and implementation of projects.	Per the Amended Land Law, the land price table will be updated on an annual basis rather than a given number of years basis like previously.	This can potentially result in higher land costs for IP developers. However, we expect the development process to smoothen following a closer-to-market land price table. Additionally, IP developers with large cleared land banks, and/or IP developers with large rubber land banks to be converted to IP land, may benefit more from the law.

Source: Vietcap compilation. Note: (*) A minimum 15% tax rate has been applied to multinational enterprises with consolidated revenue of at least EUR750mn in two of the four most recent fiscal years (effective from January 1, 2024, and applied from FY2024).

Vietnam's intact competitive advantages in attracting foreign direct investment

Vietnam possesses substantial land banks in well-connected industrial regions to accommodate mega-scale FDI investors. As of end-2023, Vietnam possesses ~92,000 ha of operational IP land across ~300 parks, the largest area in ASEAN. This vast availability is crucial for MNEs that need substantial land in well-connected locations with robust industrial ecosystems for expanding their production facilities. These mega-scale FDI projects (such as recent FDI commitments by Foxconn, Hyosung, and Trina Solar Cell) tend to be concentrated in industrial parks developed by major players with sufficient land and proven track records, such as VSIP, KBC, IDC, and VGC, ensuring they remain key destinations for high-value investments.

Figure 323: Comparison of IP supply in select Asian countries as of end-2023

Economy	Total IP site area (ha)	Occupancy rate	Total operational IPs	Vietcap's comments
Vietnam	~92,000	72%	296	Current occupancy rate in 1st tier industrial regions reaches ~80-90%+. However, the long-run supply outlook remains solid as the Government guides for ~210,000 ha of total IP land bank by 2030. Established electronics clusters.
Thailand	~30,000	78%	70	Established automotive landscape which accounts for around 10% of GDP. However, the number of zones lag behind peers.
Indonesia	~66,000	46%	135	Large deposits of minerals that are strategic inputs to electric vehicle batteries. However, per research from Tractus, the availability of industrial land for large-scale projects in well-connected areas is limited.
Malaysia	N/A	~90%	247	Established infrastructure and strong source of highly skilled workers. However, industrial land supply is limited, and workers' wages are higher than peers.
Philippines	N/A	N/A	N/A	Development of IP land is challenging due to the Philippines' nature as an archipelago, leading to connectivity issues involving logistics and infrastructure.
China	N/A	N/A	>20,000	World's current manufacturing hub, but manufacturers are diversifying away from China.
India	~471,000	77%	3,857	One of the leading destinations for the "China + 1" manufacturing shift.

Source: Vietcap compilation

Vietnam's government guides for 55% growth in established IP site areas by 2030 per Resolution 39/2021/QH15. The main focus will be on the Red River Delta in the north (Hai Phong, Bac Ninh, Hai Duong, and Hung Yen, among others), the southeast (HCMC, Binh Duong, and Dong Nai, among others) and the Mekong River Delta (Long An and Tien Giang, among others), all of which are established industrial hubs in Vietnam.

Figure 324: Planned supply of IP land (ha)

Regions	2020	End-2023*	2025	2030
National planned IP site area	**90,830**	**135,697**	**152,841**	**210,927**
Regional IP land quotas				
Red River Delta		**30,744**	**36,696**	**46,053**
Northwest		3,593	4,519	6,493
Northeast		10,067	13,204	22,665
North Central		16,515	14,453	23,293
South Central		14,770	15,258	19,447
Highlands		2,733	2,432	3,151
Southeast		**40,782**	**46,048**	**62,059**
Mekong River Delta		**16,492**	**20,231**	**27,766**

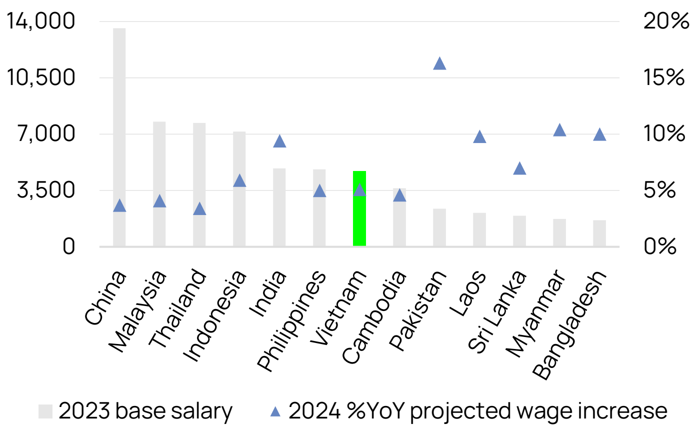
Source: Decision 326/QĐ-TTg, Decision 227/QĐ-TTg, and Resolution 39/2021/QH15 governing national and provincial land use rights, approved 2021-2030 masterplans of individual provinces, Vietcap compilation. Note: (*) End-2023 figures are established IP site areas per the 2021-2030 provincial masterplans.

Vietnam has an advantage in relatively low labor costs. Despite rising land rental costs, Vietnam's labor, infrastructure, and electricity costs remain lower than peers, supporting FDI inflows in the short/medium term. JETRO projects Vietnam's manufacturing wages to grow 5.1% YoY in 2024 vs India's 9.4% and the regional peer median of 5.0%. We expect these cost advantages to continue in the medium term, and combined with Vietnam's proximity to China, make it an attractive destination for 'China + 1' strategies.

Vietnam has the highest number of FTAs among Southeast Asian peers. In addition to advantages in production costs, Vietnam possesses the highest number of FTAs among its Southeast Asian peers. In 2023-24, Vietnam has upgraded its relationship with notable trading partners, including the US, Japan, and Australia, to Comprehensive Strategic Partnership (CSP), which is the highest designated partnership for Vietnam's relations with a foreign country.

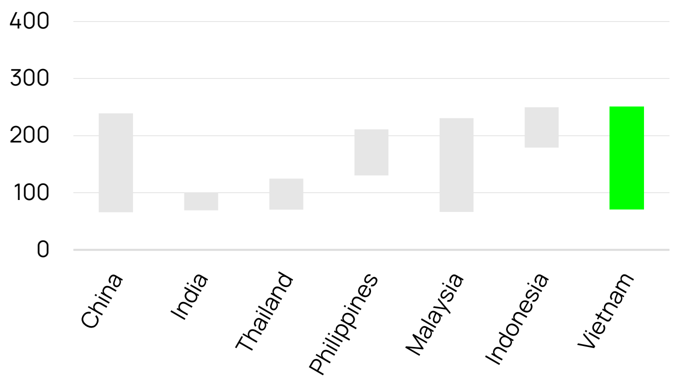
Vietnam's growing focus on infrastructure development: As of October 2024, a portion of the North – South Expressway has been completed, increasing total expressway length to 2,021 km (+74% vs 2022), per the Ministry of Transport (MoT). We expect that infrastructure in Vietnam will continue developing, as the Party Congress identified building a synchronous infrastructure system as one of the three key strategic targets for the Government for the 2021-2030 period, setting targets of 3,000 km of expressways in 2025 and 5,000 km in 2030.

Figure 325: Total cost of a manufacturing worker* in Asia (USD per year)



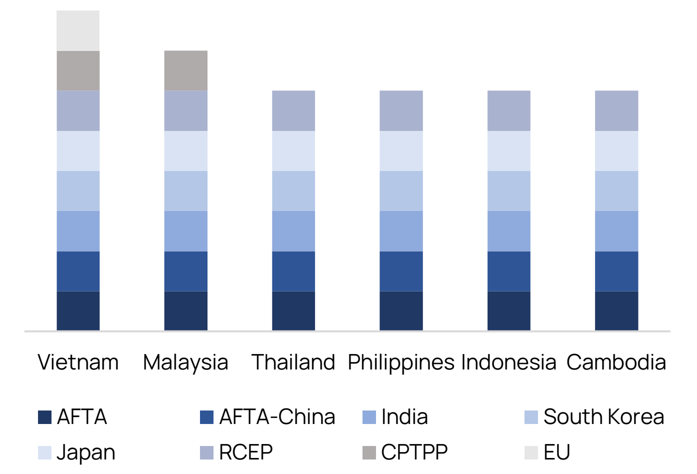
Source: JETRO (data for 2023), Vietcap. Note: (*) Regular general workers with three years of work experience.

Figure 326: Industrial land price range (USD/sqm/term)



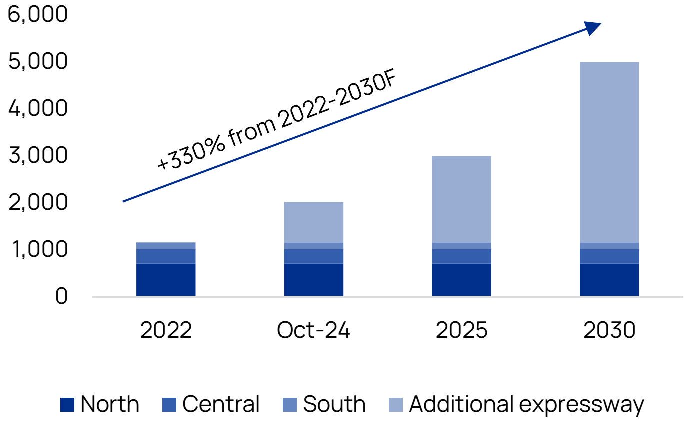
Source: JLL (data as of end-2023), Vietcap

Figure 327: FTAs among Southeast Asian countries



Source: World Trade Organization, CEIC, Vietcap

Figure 328: Expressway kilometers in Vietnam (unit: km)



Source: Ministry of Transport, Vietcap

Potential risks to our positive view

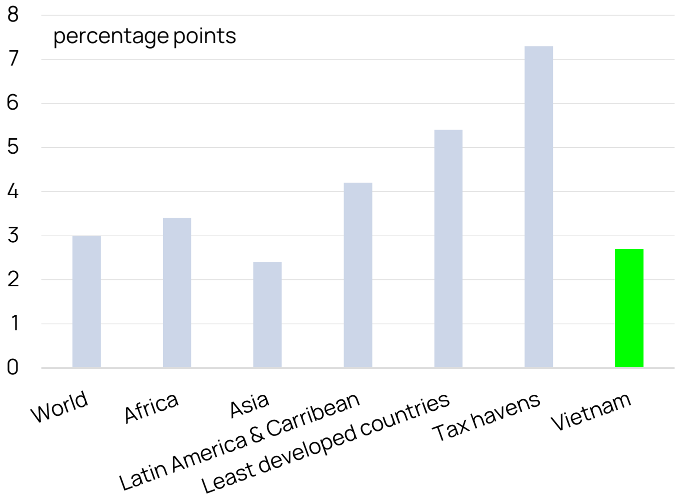
Key risks to FDI attractiveness include slower-than-expected progress in legal reforms, administrative streamlining, and investment incentives to support FDI. Per a Q2 2024 survey by EuroCham (European Chamber of Commerce in Vietnam), which reached over 1,400 business leaders among its members, the primary priorities for enhancing Vietnam's attractiveness to FDI were identified as (1) reducing administrative complexities with clearer laws and (2) advancing infrastructure. While Vietnam's infrastructure improvements are generally progressing, legal reforms related to industrial parks and economic zones may require more time to implement. Additionally, the survey highlighted new factors influencing FDI attractiveness in 2024, such as enhanced political stability, security, and more favorable tax rates for foreign investors. While political stability is expected to improve gradually, we anticipate the rollout of the investment support fund in 2025 to be an important policy for attracting multinational enterprises (MNEs). A delay for this support fund to later than 2025F may pose a downside risk to medium-term FDI prospects.

Figure 329: Q2 2024 survey of criteria for Vietnam to improve to attract FDI

Factors	% of participants	2024 ranking	2023 Ranking*
Reduce administrative difficulties for foreign firms	37%	1st	1
Make laws clearer and more precise to reduce arbitrary interpretation	32%	2nd	N/A
Infrastructure development	23%	3rd	3rd
Reduce visa difficulties for foreign experts	22%	4th	4th
Increase political stability and security	17%	5th	N/A
Improved e-government services and digital infrastructure	17%	6th	8th
More favorable tax rates for FDI firms	16%	7th	N/A
Enhance the enforcement of laws and regulations	15%	8th	N/A
Increasing the quality and availability of skilled labor	11%	9th	5th
Providing more financial incentives for foreign investors	11%	10th	10th
Upgrading the electrical grids and infrastructure	10%	11th	7th

Source: EuroCham, Vietcap compilation. Note: (*) N/A means that these factors were not considered a priority in 2023.

Figure 330: Projected percentage point increase in effective tax rates (ETRs) for FDI investors after application of GMT



Source: World Investment Report 2022, UNCTAD, JETRO, Institute of Policy Administration and Development Strategy, Vietcap compilation

Competitive advantages risks: We think Vietnam still has advantages in cost when compared to China and other peers, and has shown efforts to improve non-cost factors such as infrastructure and worker efficiency. However, if these factors cannot be improved fast enough, Vietnam could potentially lose competitiveness compared to similarly low-cost countries like India, the Philippines, and Indonesia.

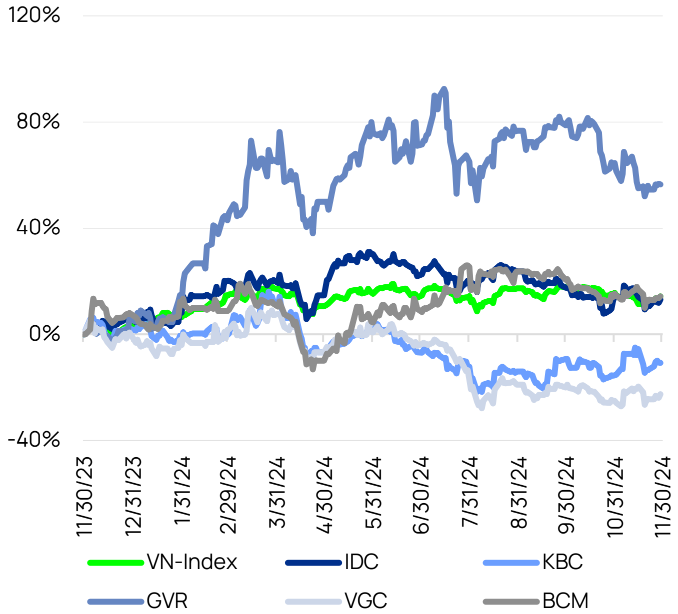
Increasing volatility due to anticipated changes in the US administration and policies: We anticipate that the Trump administration may continue to raise tariffs on Chinese imports more than on those from other countries, potentially accelerating the shift of manufacturing from China to Vietnam. This could allow Vietnam to capture a larger share of a shrinking market. However, any changes in these policy assumptions may pose a risk to our positive outlook for the sector.

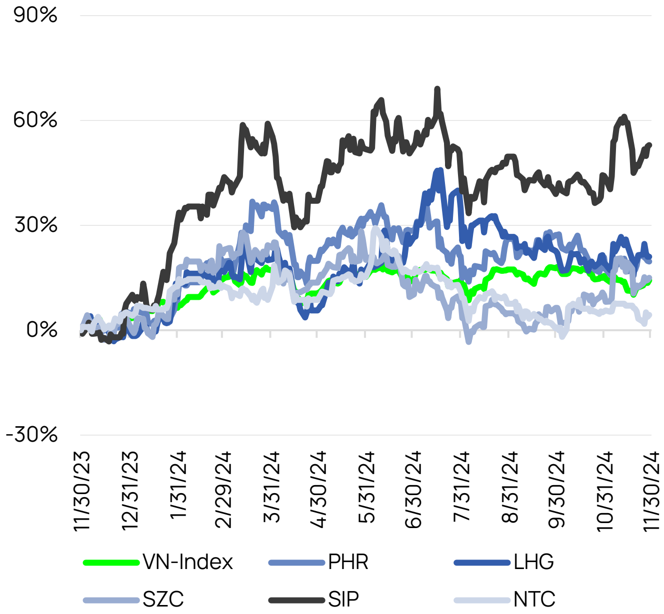
Green energy trends: As Vietnam has committed to achieving net zero emissions by 2050, in line with COP26, and with stricter green energy requirements for exports to the EU and US, it is crucial for IP developers to adapt and reduce their carbon footprint. Failure to do so may result in falling behind their counterparts.

Share price performance

We have observed that the overall performance of IP stocks has been mixed, with GVR and SIP outperforming due to favorable business conditions. GVR has benefited from higher rubber prices due to supply constraints, while SIP has seen growth in its utilities segment and a recovery in IP land sales. PHR has also gained from the approval of Binh Duong's masterplan, which enhances its medium-term rubber land conversion prospects. In contrast, VGC, KBC, IDC, and SZC have had weaker performances mainly due to the YoY lower expected IP land sales. We anticipate a stronger sector performance in 2025F driven by our expectation for a rebound in IP land sales, supported by recent and upcoming land acquisitions by major developers like KBC, IDC, and BCM.

Figure 331: Share price performance of select IP stocks and the VN-Index





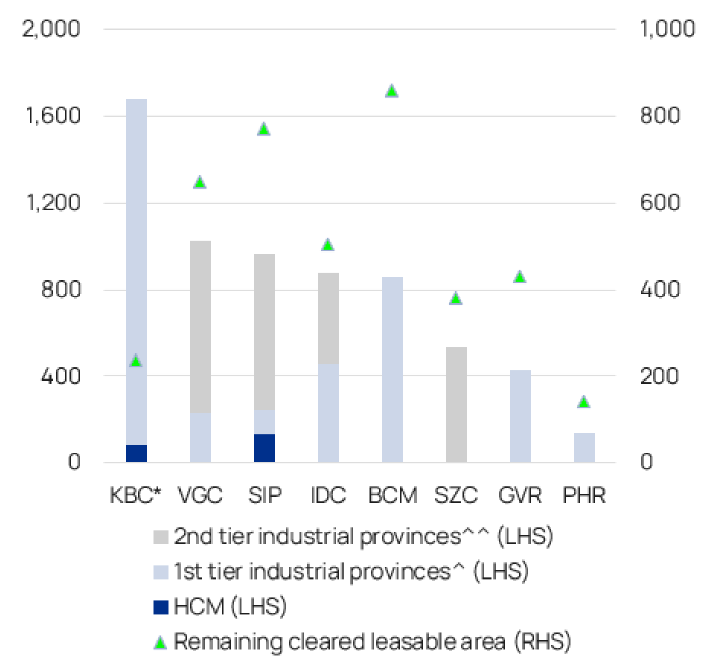
	VN-Index	GVR	BCM	VGC	KBC	IDC	SIP	PHR	SZC	NTC	LHG
H1 2022	-20%	-39%	5%	-1%	-28%	-24%	-26%	-9%	-34%	-12%	-38%
H2 2022	-16%	-39%	20%	-36%	-26%	-37%	-34%	-39%	-42%	-33%	-35%
H1 2023	11%	41%	-2%	26%	21%	34%	67%	18%	38%	46%	25%
H2 2023	1%	9%	-21%	29%	8%	23%	12%	7%	48%	17%	14%
11M 2024	11%	48%	6%	-23%	-13%	6%	42%	13%	11%	-1%	20%

Source: Company data, Vietcap. Note: Data as of November 29, 2024

Top stock picks

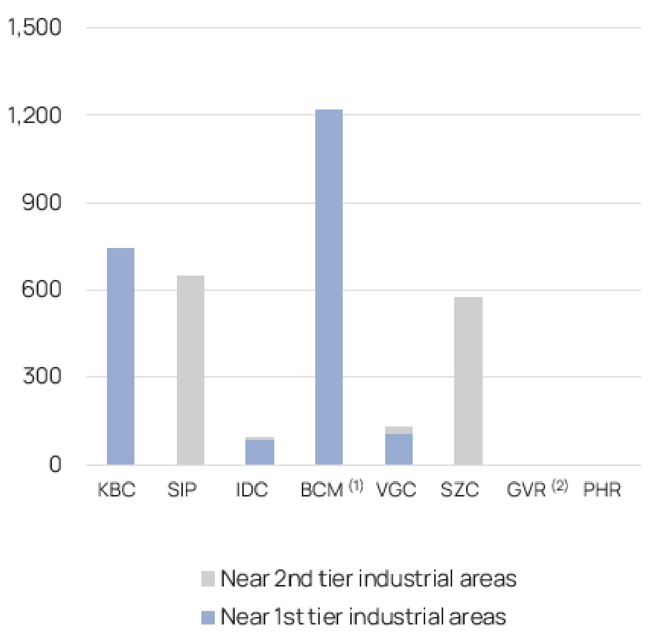
Stock picks: IDC, KBC, and SIP. We believe IDC and KBC are poised to benefit from significant FDI inflows by attracting top tenants and utilizing their financial strength to secure new land banks for future growth. We also like SIP, which possesses ample land banks in both tier-1 and tier-2 industrial regions in the south.

Figure 332: Remaining leasable area of IP projects (unit: ha) of select IP developers that have obtained investment approval as of end-Q3 2024



Source: Vietcap, Government Portal. Note: (*) Including Trang Due 3 IP of KBC which we expect to start IP land sales in 2025F; Not including IPs of the companies' associates/affiliates; (^) We consider key industrial areas as having average IP land prices of above USD100/sqm/term, including in tier-1 provinces or areas with proximity to port systems and tier-1 provinces; (^^) tier-2 provinces have average IP land prices below USD100/sqm/term.

Figure 333: Total site area (ha) of pipeline urban area projects of select IP developers



Source: Company data, Vietcap compilation. Note: Data as of Q3 2024; (1) remaining sellable area; (2) not available.

BUY – IDICO (HNX: IDC)

IDC is a leading IP developer in Vietnam that has a current leasable IP site area of 961 ha in key industrial provinces. The company is able to leverage its leading position and land banks in prime locations in order to attract anchor tenants such as Hyosung, PepsiCo, Hoa Phat, and Kinh Noi.

We project a 2023-26F NPAT-MI CAGR of 27%, which will be mainly driven by (1) resilient 2024-26F IP land sales (133 ha/year on average) and handovers (120 ha/year on average), and (2) an increased contribution from the residential segment during the forecast period.

We forecast 2024F IP land sales to decline to 94 ha in 2024F but to recover to 140 ha/165 ha, respectively, in 2025/26F, as IP land demand recovers while IDC continues to possess a large remaining leasable land bank (~961 ha with ~53% cleared at end-Q3 2023).

Expanding IP land bank: IDC is seeking to expand its overall IP land bank by at least ~1,850 ha in total site area, which includes the Vinh Quang IP (350 ha; Hai Phong; this project has completed the 1/2000 masterplan and is seeking investment approval from the Prime Minister.

Downside risks: Slower-than-expected approval and development of future IP projects.

Please find more details on IDC in our latest Update Report.

BUY – Kinh Bac City (HSX: KBC)

We expect KBC to benefit from the global manufacturing shift to Vietnam, potentially accelerated under a Donald Trump presidency, due to its large land banks (~5,700 ha in total site area) in key industrial hubs and ability to attract anchor tenants such as LG, Foxconn, and Canon.

We forecast NPAT-MI to rebound in 2025-2026F, primarily driven by the expected recovery in IP land handovers and increase in UA land handovers. We project the Trang Due 3 IP (687 ha; Hai Phong) to launch in 2025F while we expect the relaunch and resumed handovers at the Phuc Ninh UA (115 ha; Bac Ninh) in 2025F and the sales launch of the Trang Cat UA (585 ha; Hai Phong) to start in 2026F. LG could be a potential anchor tenant for the Trang Due 3 IP.

In addition to the upcoming TD3 and currently-selling IPs, we estimate that KBC possesses ~1,300 ha of leasable land, located in tier-1 industrial regions.

Downside risks to our positive view: Delays in launching new projects and/or investment delays from potential customers; dilution risk from KBC's private placement plan.

Please find more details on KBC in our latest Update Report.

BUY – Sai Gon VRG (HSX: SIP)

SIP is one of the largest IP developers in Vietnam's southern industrial hub, owning ~3,200 ha of total site area across Tay Ninh, Dong Nai, and HCMC. SIP also operates four electricity substations and provides water and other utilities in its IPs, which generate solid recurring income.

SIP recorded upbeat 9M 2024 IP land sales of 74 ha, exceeding our 2024F IP land sales projection of 30 ha and compared to low land sales in 2023 of ~19 ha. This reaffirms our view for resilient IP land sales expected in 2025F.

As of end-Q3 2024, SIP possesses a remaining leasable IP land bank of ~966 ha, among which we estimate that ~770 ha has been cleared. We expect SIP to broadly complete all land compensation across its land banks in 2024-25F.

IP utility services (electricity, water, and others) is also expected to contribute significantly to SIP's earnings as we project gross profit from this segment at VND820bn (USD33mn) p.a. in 2024-26F, +33% vs 2023.

Downside risks: Slower-than-expected IP land sales and/or revenue from utilities.

Please find more details on SIP on our latest Update Report.

Appendix: Company names and tickers

Code	Company name
GVR	Vietnam Rubber Group – Joint Stock Company
IDC	IDICO Corporation - JSC
KBC	Kinh Bac City Development Holding Corporation
LHG	Long Hau Corporation JSC
PHR	Phuoc Hoa Rubber JSC
SZC	Sonadezi Chau Duc Shareholding Company
SIP	Sai Gon VRG Investment Corporation
BCM	Investment and Industrial Development JSC
VGC	Viglacera Corporation - JSC
NTC	Nam Tan Uyen JSC

Source: Company data, Vietcap

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Real Estate: Demand and supply recovering

Summary

- We expect growth in primary transactions in 2025F compared to 2024, led by our expectations for: (1) sustained demand for real living purposes, particularly targeting mid-end condo projects; (2) a return of investment buyers to select landed property products; (3) growth in new primary supply driven by more project launches and smoother legal procedures; and (4) improving homebuyer confidence as the property market continues to recover, the mortgage rate outlook is stable, and there is an acceleration of key infrastructure development. We believe that homebuyers will continue to favor projects (i) from proven developers with a track record of pink book handovers and after-sales services, (ii) that have clear legal status, and (iii) are strategically located and well-connected with amenities and infrastructure development.

- We expect the net average selling prices (ASPs) for primary condo and landed properties to continue rising in 2025F, with single-digit growth. We have observed that developers continue to focus on the mid-end and high-end segments, offering high-quality handover standards amid limited new supply and potentially higher development costs. To address housing affordability challenges, particularly in Hanoi and HCMC, we anticipate that developers will continue providing flexible mortgage payment schemes and/or increase new supply in surrounding satellite provinces, which have become more appealing due to their better affordability and improved infrastructure.

- We expect that equity issuance and M&A will be favorable capital-raising options for some developers seeking to strengthen their financial positions. Additionally, we expect bank credit and bond channels to continue supporting established developers, with funding from these sources likely to be closely scrutinized based on the projects' legal status, sufficient collateral, and alignment with demand outlooks for their projects' products.

- We anticipate that the implementation of the Amended Land Law (effective from August 1, 2024) will gradually streamline legal procedures and facilitate more project launches in the primary market from 2025F onwards. We also believe that the pace of legal approvals will depend on specific provinces and project statuses. We expect for proven developers like VHM, KDH, and NLG to be well-positioned to navigate upcoming legal reforms.

- We reiterate our view that the long-term structural drivers for Vietnam's housing sector remain positive, including improving infrastructure, a growing urban population, an emerging middle-affluent class, and increasing mortgage penetration.

- We forecast the aggregate presales of KDH, NLG, DXG, and HDC to increase by 178%/25% YoY in 2025/26F, while we forecast VHM's presales to decrease by 13% in 2025F and increase by 11% in 2026F, driven by our projection for new project launches and/or the next phases of existing project launches.

- Our top stock picks are **KDH** and **NLG**, which offer attractive upside to our RNAV valuations. We believe KDH and NLG will be among the first to benefit from the market's recovery due to their strong market positions, which are supported by their proven track records in project development, their financial resilience, and robust brand equity.

Vietcap

Figure 334: Real estate: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
NLG	BUY	589	0%	50%	14	1.9	38,300	48,700	10/29/24	27%	2%	29%
KDH	BUY	1,347	0%	50%	182	3.4	33,300	42,100	11/19/24	26%	0%	26%
VRE	O-PF	1,622	0%	49%	464	4.4	17,850	21,500	11/26/24	20%	0%	20%
HDC	O-PF	193	0%	49%	89	2.2	27,000	29,400	8/30/24	9%	0%	9%
DXG	O-PF	517	0%	50%	166	11.5	17,950	19,000	10/29/24	6%	0%	6%
VIC	M-PF	6,079	0%	48%	2,368	5.4	40,850	43,100	11/26/24	6%	0%	6%
VHM	M-PF	6,802	0%	50%	2,607	27.9	41,400	42,300	11/26/24	2%	0%	2%
DXS	O-PF	180	0%	50%	56	0.7	7,770	6,600	10/29/24	-15%	0%	-15%

Figure 335: Real estate: Summary valuations

Code	Share price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/E LTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	EV/ EBITDA 2025F x	ROE 2025F %	P/B LQ x	Net D/E LQ %
NLG	38,300	-2%	27%	32%	51.1	33.0	26.1	19.8	13.1	6%	1.6	31%
KDH	33,300	18%	3%	30%	68.7	37.2	36.1	27.7	15.0	6%	2.0	24%
VRE	17,850	-6%	3%	20%	9.9	9.7	9.5	7.9	5.3	10%	1.0	-2%
HDC	27,000	74%	36%	1%	40.7	19.8	14.6	14.4	18.0	13%	2.1	72%
DXG	17,950	-36%	97%	58%	91.4	102.2	51.9	32.8	19.2	2%	1.2	27%
VIC	40,850	14%	82%	49%	15.9	63.3	34.7	23.3	32.3	4%	1.1	111%
VHM	41,400	-18%	21%	3%	8.7	6.6	5.4	5.3	8.6	15%	0.8	22%
DXS	7,770	N.M.	93%	51%	1,109.4	34.1	17.7	11.8	11.5	5%	0.8	19%

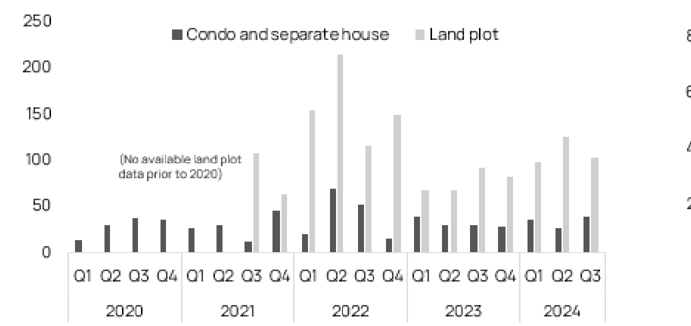
Source: Company data, Vietcap forecast. Note: Share prices as of December 5, 2024.

Sector outlook

New project preparations and launches have ramped up in 2024 YTD

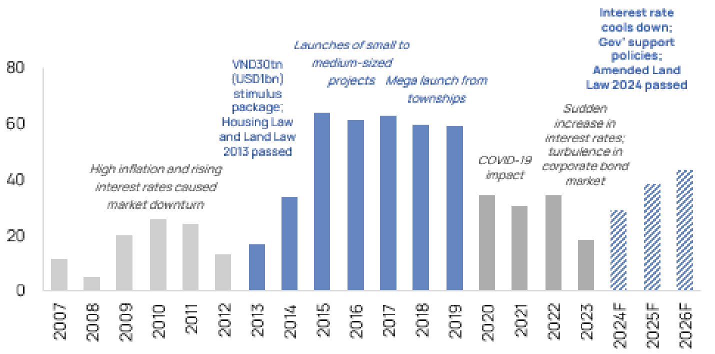
The housing market in Vietnam bottomed out in 2023 and has since shown a gradual recovery in primary transactions, starting from Q3 2023 until throughout 2024 YTD, with the condo segment in Hanoi leading the recovery. Key factors driving the recovery include 1) improving homebuyer confidence, 2) active property brokerage activities and new project launches, and 3) a cooling interest rate environment from H1 2023's peak. The increase in preparation activities for new project launches and improving homebuyer confidence YTD reaffirm our previous expectation for growth in primary property transactions in 2024 compared to 2023 (more details in the 9M 2024 recap of our October 25 Residential Sector Flash).

Figure 336: Number of transactions nationwide ('000 units)



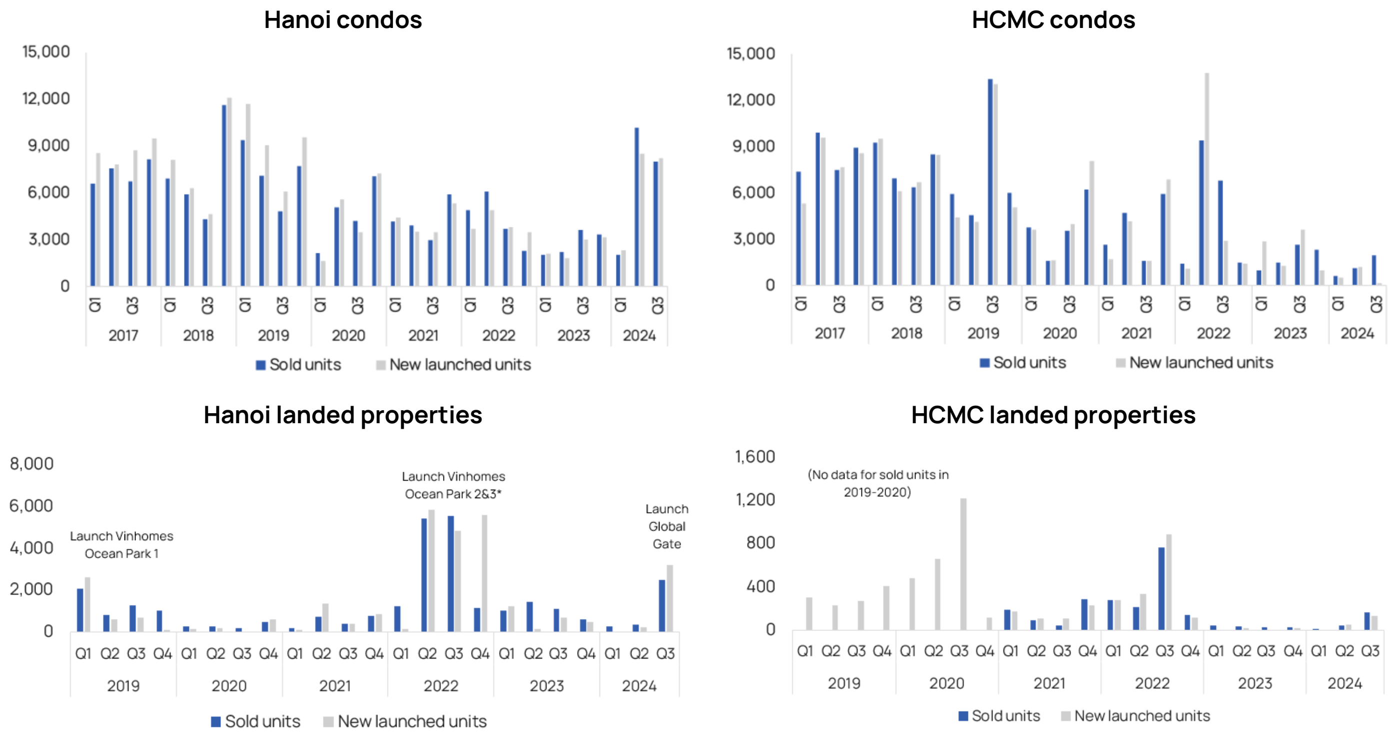
Source: Ministry of Construction, Vietcap compilation

Figure 337: Total primary condo transactions in Hanoi and HCMC combined ('000 units)



Source: CBRE's historical data and forecast for primary condo transactions as of Q3 2024, Vietcap

Figure 338: Transaction volumes in the primary markets of Hanoi and HCMC (units)

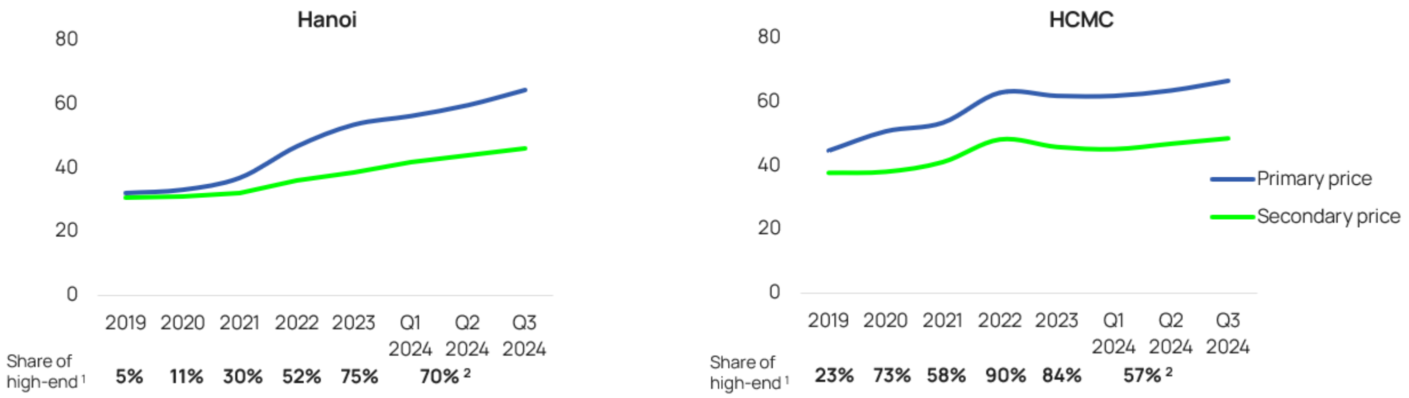


Source: CBRE, Vietcap. Note: (*) CBRE classified Vinhomes Ocean Park 2 & 3 projects (in Van Giang - Hung Yen) as in Hanoi.

The average prices of primary condos in Hanoi and HCMC have continued increasing, driven by the higher price positioning of new supply. Based on our estimates from CBRE's data, the average primary condo prices in Hanoi/HCMC recorded respective CAGRs of 16% and 9% during the period from 2019 to Q3 2024. In Q3 2024, Hanoi's average primary condo price was only 3% lower than HCMC's, narrowing from a 27% gap in 2019.

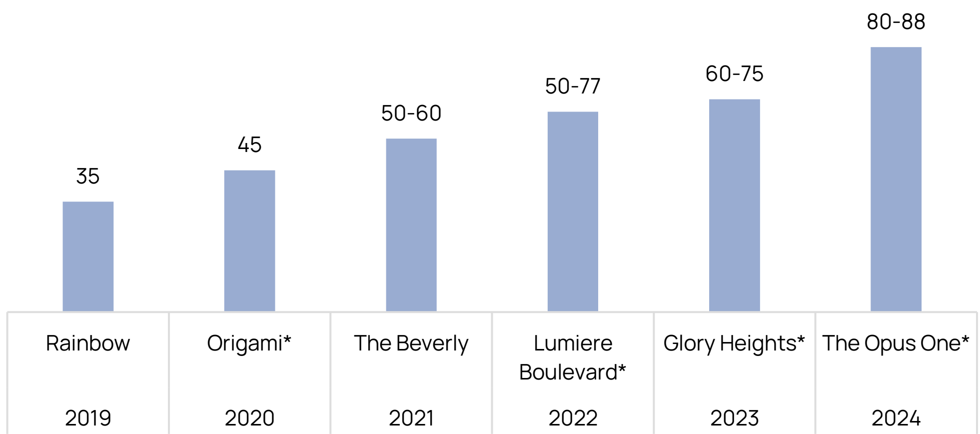
We have observed that the upward trend in prices is largely due to the pricing of new supply in 9M 2024, primarily coming from the next-phase launches of VHM's existing large-scale projects in Hanoi and HCMC. For example, at Vinhomes Grand Park (HCMC; 216 ha), the primary price range for the latest phase, The Opus One (launched in November 2024), is VND80-88mn per sqm (USD3,200-3,520 per sqm). This is compared to the first phase, Rainbow, launched in 2019 at approximately VND35mn per sqm (USD1,400 per sqm), representing a CAGR of ~19%. We have also observed that the newer phase benefits from developed comprehensive amenities, high-quality furniture, and better locations compared to the earlier phases.

Figure 339: Primary and secondary condo prices in Hanoi and HCMC (VND mn/sqm)



Source: CBRE, Vietcap. Note: (*) Average primary prices of launched units, excluding VAT and quoted on NSA; (1) Share of high-end segment in total new primary supply within each given period; (2) Data for H1 2024; data for Q3 2024 not disclosed. CBRE condo classification applied from Q1 2024: Luxury: over VND120mn/sqm (USD4,700); High-end: VND60mn to VND120mn/sqm (USD2,400-4,700); Mid-end: VND35mn to VND60mn/sqm (USD1,400-2,400); Affordable: below VND35mn/sqm (USD1,400).

Figure 340: Primary condo prices at first launch of phases in Vinhomes Grand Park (HCMC)



Source: Vietcap compilation of condo prices (VNDmn/sqm, excluding VAT) through our survey with brokers. Note: VHM first launched retail sales at Vinhomes Grand Park (HCMC) in 2019 with Rainbow phase; (*) launched by sub-developers (VHM's bulk sales buyers). We have observed that these newer phases benefit from developed comprehensive amenities, high-quality furniture, and better locations compared to the earlier phases.

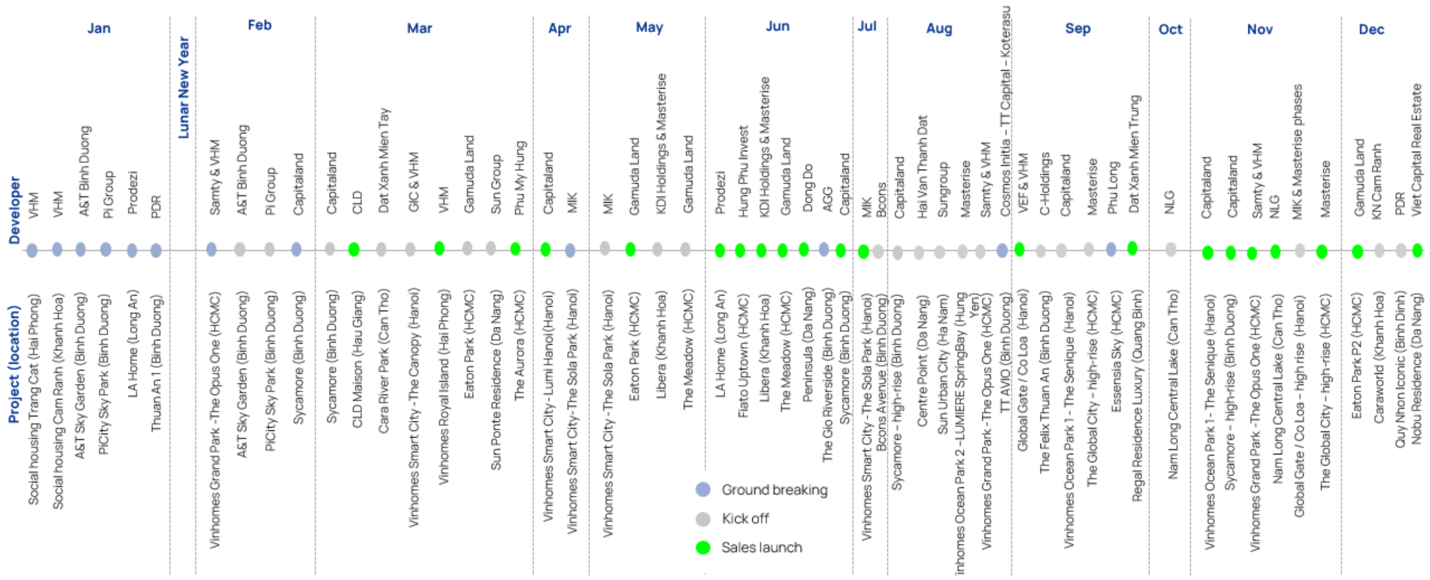
Preparations for project launches nationwide are ramping up as end-2024 approaches: The YTD significant new presales launches include Vinhomes Royal Island in Hai Phong in March 2024 and Vinhomes Global Gate in Hanoi in September 2024, followed by launches from foreign developers like CapitaLand with Lumi Hanoi (inside Vinhomes Smart City) and Sycamore in Binh Duong, marking its first project outside of Hanoi or HCMC, as well as Gamuda Land's Eaton Park and The Meadow in HCMC.

Figure 341: Notable new project launches in 2024 YTD

Project	Developer	Location	Total units	Launch time	Launched units	Absorption rate at end-Q3 2024 (% of launched units)
Vinhomes Royal Island	VHM	Hai Phong	10,000 low-rise units	March 2024	~4,200 low-rise units for retail	90% presold
Global Gate	VEF	Hanoi	4,100 low-rise and 12,600 high-rise units	September 2024	2,600 low-rise units	> 50% presold
The Privia	KDH	HCMC	~1,040 condo units	November 2023	~1,040 units	~100% presold
The Opus One	Samty & VHM	HCMC	~2,000 condo units	November 2024	~890 units	~70% presold within the first 30 hours
Eaton Park	Gamuda Land	HCMC	~2,000 condo units	May 2024	P1: 800 units P2: 550 units	P1: 99% presold P2: ~98% presold*
The Meadow	Gamuda Land	HCMC	212 low-rise units	August 2024	> 130 units	> 90% presold
Lumi Hanoi (Smart City)	CapitaLand	Hanoi	~4,000 condo units	April 2024	~4,000 units	~99% presold
The Senique (Ocean Park 1)	CapitaLand	Hanoi	2,150 condo units	November 2024	2,150 units	92% presold
Sycamore	CapitaLand	Binh Duong	~460 low-rise and ~3,300 condo units	June 2024	368 low-rise units 774 condo units	~70% low-rise presold* ~90% condo presold*
Global City (condo phase)	Masterise	HCMC	~10,000 high-rise units	November 2024	P1: 616 units	~99% presold*
Lumiere Springbay (Ocean Park 2)	Masterise	Hung Yen	~1,800 condo units	September 2024	~1,000 units	~ 50% presold

Source: CBRE, company information, Vietcap. (*) Vietcap compilation from sales agents on first launch date.

Figure 342: Active groundbreaking, introduction, launch events for new projects in 2024 YTD



Source: Dat Xanh Services Economic - Financial - Real Estate Research Institute (DXS-FERI), media sources, Vietcap compilation as of early December 2024.

Strong demand and selective investor interest to fuel 2025F transaction growth

We expect growth in primary property transactions in 2025F compared to 2024, led by our expectations for:

i. Sustained demand for real living purposes (i.e., owner-occupier or buy-to-rent) targeting mid-end condo projects.
ii. The return of investment buyers (i.e., long-term investment for asset storing) towards select landed property products (i.e., townhouses/villas and land plot projects with well-planned infrastructure and amenities) following a period of weak sentiment in 2023-2024.
iii. Growth in new primary supply as we expect there to be a higher number of new project launches and the resumption of previously halted projects to enter the market, supported by smoother legal procedures following the implementation of the Amended Land Law and rising developer confidence in firm project launch times.
iv. Improving homebuyer confidence, which is also driven by the continuous recovery of the overall property market, a stable mortgage rate environment, and the acceleration of key infrastructure development.

Figure 343: Vietcap's views on the 2025F market growth outlook

Main points	Vietcap's views on the 2025F outlook
Transactions	- Growth in primary transactions compared to 2024 driven by solid real living demand and a selective return of investment buyers. - Hanoi market transactions to continue outperforming, HCMC and second-tier regions to gradually recover in 2025F.
Supply	- Growth in new primary supply, supported by smoother legal procedures.
Prices	- Primary prices: Net ASPs for condos and landed properties to continue increasing, but the pace of price increases should slow to single-digit growth from the high base levels of 2024. - Secondary prices: Continued price recovery for condos and landed properties in Hanoi and HCMC, following the upward trend in the primary market. Resale prices of small-sized land plots with land use rights certificates, as well as hospitality real estate in second-tier provinces benefiting from advancing infrastructure development, are projected to begin recovering by late 2025F.
Presales in our coverage	- Aggregate presales of KDH, NLG, DXG, and HDC in 2025F to increase by 178% vs 2024F, while we forecast VHM's 2025F presales to decrease 13% vs 2024F. - Our 2025-26F presales forecasts are driven by new project launches and/or next-phases of existing project launches.
Risks to our positive view	- Higher-than-expected exchange rate pressure under Donald Trump's US presidency could lead to higher-than-expected domestic VND interest rates and mortgage rates while slowing the expected recovery pace for the real estate sector in 2025F.

Source: Vietcap

Hanoi market transactions to continue to outperform, HCMC and second-tier regions to gradually recover in 2025F

We believe primary transactions in Hanoi will continue to outperform in 2025F. We anticipate that momentum in Hanoi will be driven by ongoing presales at the recently launched Global Gate (low-rises and condos), the remaining units from the next-phase condo launches by sub-developers (VHM's bulk sales buyers) within the Smart City and Ocean Park projects, HDG's Charm Villa P3, as well as expected new projects, including VHM's Wonder Park, Sunshine Group's Noble Crystal, and NTL's No11. Specifically, we expect a surge in primary market transactions for landed properties (townhouses and villas) in Hanoi in Q4 2024F and 2025F supported by new projects Global Gate and Wonder Park, reflecting patterns seen in 2019 and 2022 when VHM introduced low-rise phases in Ocean Park 1, 2, and 3.

We expect improvement in HCMC's primary market in 2025F, supported by new projects and next-phase launches of existing projects (i.e., among our coverage, KDH's JV project, NLG's Mizuki Park, the resumed launch of DXG's Gem Riverside, and VHM's Leman Golf; and from several other developers such as Masterise, CT Group, and BCG).

We anticipate that presales activities in second-tier provinces will resume in 2025F, supported by (i) improving homebuyer confidence, which is spilling over from key cities like Hanoi and HCMC, and (ii) smoother legal procedures for large-scale projects, such as NLG's Izumi City, where the Government has indicated a commitment to resolving issues.

Figure 344: Select new project launches/next-phase launches of existing projects in Q4 2024 and 2025

Project	Developer	Location	Total units	Launched units (% presales of launched units)
Hanoi and HCMC				
Global Gate	VEF	Hanoi	4,100 low-rise and 12,600 condos	2,600 low-rise units (>50%)*
Vinhomes Wonder Park	VHM	Hanoi	2,300 low-rise and 600 condos	Not yet launched
Charm Villa	HDG	Hanoi	528 low-rise units	420 units (100%)
Van La-Van Khe	SJS	Hanoi	Includes low-rise and condos	Not yet launched
No11	NTL	Hanoi	364 condos	Not yet launched
Noble Crystal	Sunshine Group	Hanoi	~1,000 condos	Not yet launched
Leman Golf	VHM	HCMC	~200 low-rise units	Not yet launched
Emeria and Clarita	KDH & Keppel	HCMC	220 low-rise units and 600 condos	Not yet launched
Mizuki Park Phase 3 (CC5 & LK11)	NLG	HCMC	817 condos and 24 low-rise	Not yet launched
Gem Riverside	DXG	HCMC	3,200 condos	Recovering presold units for future sales**
The Opus One – Vinhomes Grand Park	Samty & VHM	HCMC	~2,000 condos	~890 units (~70%)
Global City – high rise	Masterise	HCMC	~10,000 condos	~616 units (~99%)
King Crown Infinity	BCG	HCMC	780 condos	Not yet launched
The Forest Gem	C.T Group	HCMC	62 condos	Not yet launched
Second-tier provinces				
Vinhomes Royal Island	VHM	Hai Phong	10,000 low-rise units	~4,200 units for retail presales (90%)
Lumiere Springbay (Ocean Park 2)	Masterise	Hung Yen	~1,800 condo units	~1,000 units (~50%)*
Can Tho	NLG	Can Tho	880 low-rise/land plots and 1,590 Ehomes condos	~1,000 Ehomes condos (~40%)
Izumi City	NLG	Dong Nai	2,700 low-rise and 3,700 condos	270 low-rise units (100%)
Gem Sky World	DXG	Dong Nai	3,900 low-rise units	2,300 units (~100%)
Sycamore	Capitaland	Binh Duong	~460 low-rise and ~3,300 condos	368 low-rise units (~70%) 774 condos (~90%)
The Gio Riverside	AGG	Binh Duong	3,000 condos	Not yet launched
Thuan An 1&2	PDR	Binh Duong	5,900 condos	Not yet launched
Quy Nhon Iconic (Bac Ha Thanh)	PDR	Binh Dinh	1,422 land plots and low rise units	Not yet launched

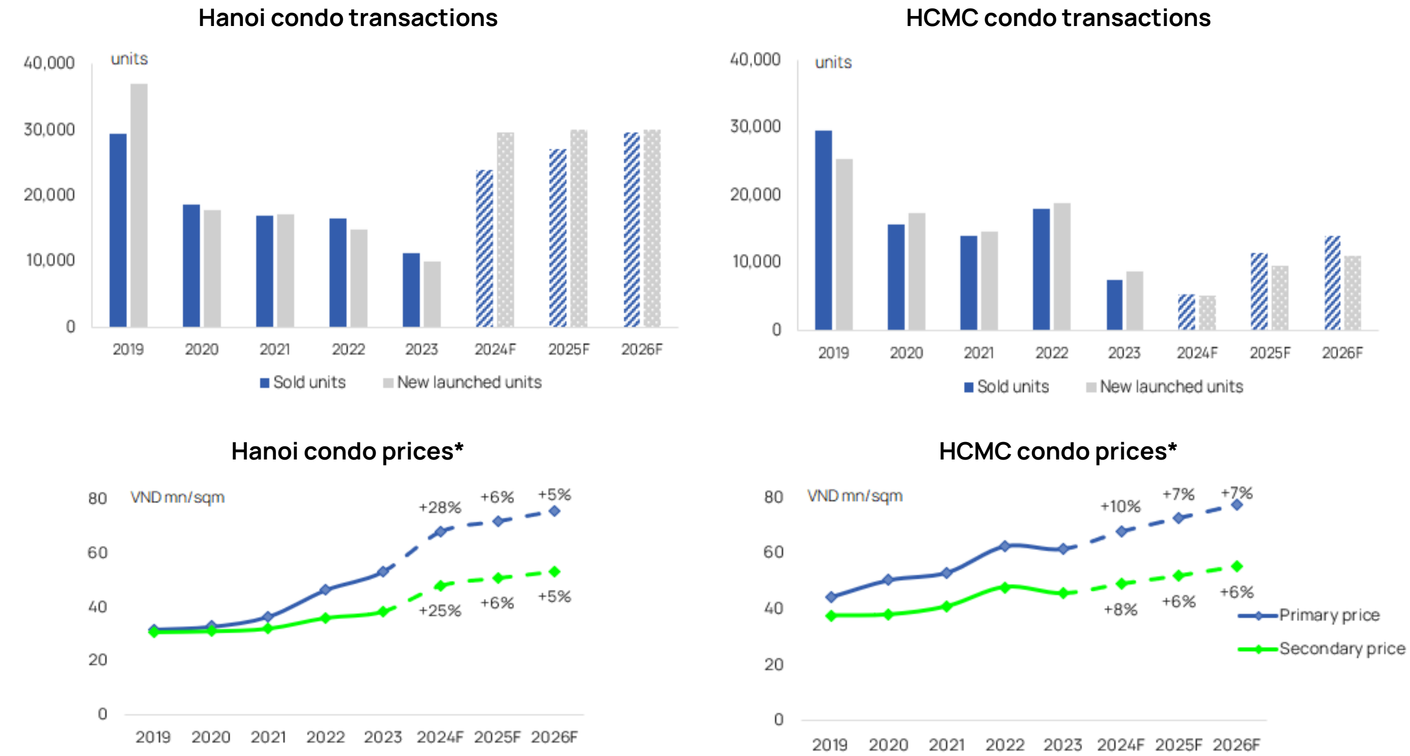
Source: Company data, CBRE, Vietcap compilation as of early December 2024. (*) % presales as presented in CBRE's Q3 2024 report. (**) Previously presold units (~300 units at end-Q3 2024) are expected to be fully recovered for future sales by DXG.

Primary price increases to slow to single-digit growth from 2024's high base level

We expect the net ASPs for primary condo and landed properties in Hanoi and HCMC to continue increasing in 2025F as developers continue to focus on the mid-end and high-end segments, offering high-quality handover standards amid limited new supply and potentially higher development costs. However, we expect the pace of price increases to slow to single-digit growth from the high base level in 2024 for the condo segment, driven by the expected introduction of more supply from new projects.

In the secondary market, we have observed that condos and landed properties in several projects in Hanoi and HCMC have recovered in 2024 YTD, following the upward trend in the primary market seen during the year. We anticipate a continued recovery trend of these segments in 2025F. Meanwhile, we expect the resale prices of smaller land plots, along with hospitality real estate in second-tier provinces where infrastructure development is advancing, to begin recovering by the end of 2025F, although prices will likely be more reasonable vs the levels seen in 2020-2021.

Figure 345: CBRE's forecasts of primary condo market in Hanoi and HCMC in 2024-2026F



Source: CBRE's historical data and forecasts as of Q3 2024, Vietcap compilation. Note: (*) Average primary prices of launched units, excluding VAT and quoted on NSA.

Implementing mortgage packages and expanding into second-tier areas to partially improve housing affordability

Nearly every major city worldwide is experiencing similar challenges regarding the supply of affordable housing, with shortages being the main factor contributing to unaffordability, according to Savills's September 2024 report on housing affordability.

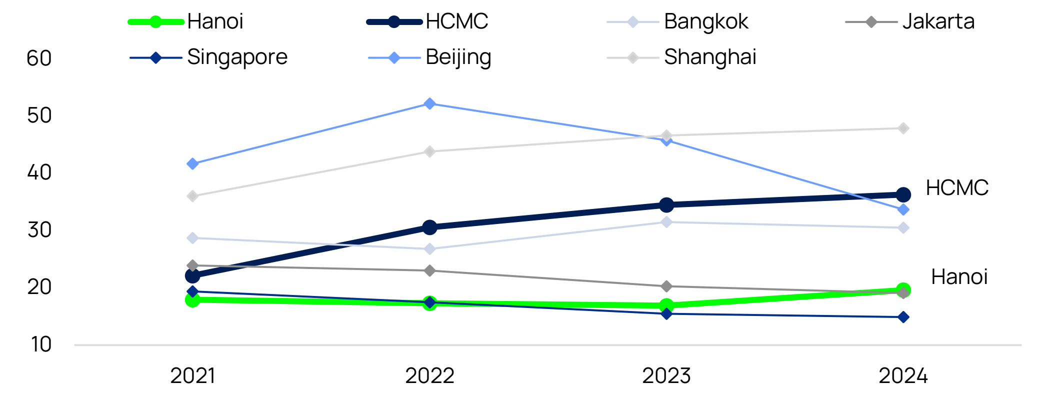
This situation is mirrored in Hanoi and HCMC, where a recent increase in primary housing prices, combined with a lack of new supply, has worsened housing affordability as indicated by rising price-to-income ratios. We anticipate that developers will respond with flexible mortgage payment schemes and increase new supply in surrounding satellite provinces, which have become more appealing due to their better affordability and improved infrastructure.

The price-to-income ratio (PIR) is often used as a proxy of affordability, with Hanoi seeing an increase in PIR in H1 2024, while HCMC has maintained a high level since 2022, according to

Numbeo - a global database for housing indicators. However, one limitation of PIR is that it does not account for the impact of mortgage packages and payment schedules. Developers are now offering more flexible payment schemes and mortgage packages to help ease the payment burden in the first 1-3 years. For instance, Gamuda Land's Eaton Park (HCMC) offers relaxing payment options of up to 5 years with a 30% payment required in the first two years, while Masterise's Global City – condo phase (HCMC) provides bank loan support that allows homebuyers to begin paying the mortgage principal and interest one year after the unit handover, which is a new incentive compared to the traditional approach of starting principal and floating interest payments upon handover.

In addition, since 2019, we have observed that satellite provinces surrounding Hanoi and HCMC (such as Hai Phong and Hung Yen in the north and Binh Duong, Dong Nai, and Long An in the south) with improved infrastructure development have attracted demand from homebuyers with more affordability compared to Hanoi and HCMC.

Figure 346: Property price-to-income ratios of select Asian cities



Note: Price to income ratio is the measure for apartment purchase affordability. Numbeo's formula assumption is calculated as the ratio of median apartment prices to median family disposable income, expressed as years of income, in which the median apartment size is 90 square meters; price per square meter (the formula uses) is the average price of square meter in the city center and outside of the city center and net disposable family income is defined as 1.5 * the average net salary (50% is assumed percentage of women in the workforce).

Source: Numbeo (Data as of early December 2024), Vietcap

Figure 347: Housing affordability challenges in select countries in Asia

Country	Housing affordability issue	Government measures (Savills insights for Vietnam)
China	The issue is concentrated in major cities like Shanghai and Beijing due to migration despite China's population declines. Properties are often left vacant as housing is a preferred investment while the cost of holding property is minimal.	Encouraging the development of rental housing.
Japan	Urban cities like Tokyo and Osaka face high rents and property prices due to increased migration, despite a declining national population and housing supply efforts.	Despite national efforts, the situation remains strained due to limited availability in high-demand urban areas. The practice of frequent housing reconstruction means new builds don't significantly increase overall supply.
Singapore	Public housing serves over 75% of the population, ensuring affordability. Private housing, however, has seen sharp rent and price increases despite a 60% stamp duty on foreigners.	(i) The Housing Development Board, a government agency, is responsible for developing public housing; (ii) Property taxes include Buyer's Stamp Duty (BSD) and Additional Buyer's Stamp Duty (ABSD, since 2011) to curb speculation and regulate affordability. Details in the ABSD Tax Table.
Vietnam	Particularly in Hanoi and HCMC, the housing markets face supply shortages across segments due to legal constraints, developer issues, a turbulent financial market, and government paralysis.	(i) Affordable housing is emerging in satellite locations, supported by improved infrastructure; (ii) Transport-Oriented Developments (TODs) model can give developers access to cheaper land; (iii) Legal reforms are expected to resolve difficulties in accessing land for development.

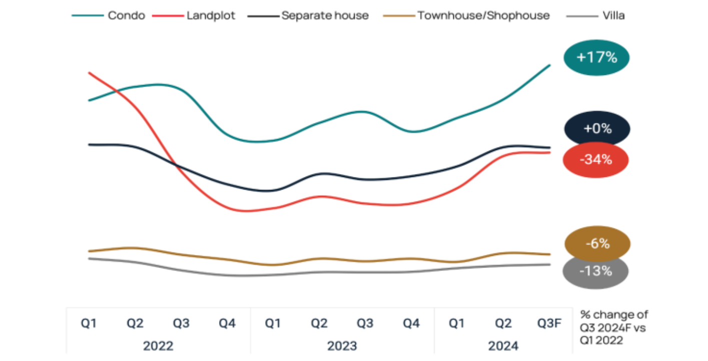
Source: Savills's September 2024 report on housing affordability, Vietcap compilation

Solid real living demand and a selective return of investment buyers in 2025F

For 2025F, we expect sustained demand for real living purposes (i.e., owner-occupier or buy-to-rent) targeting mid-end condo projects, and the return of investment buyers (i.e., long-term investment for asset storing) towards select landed property products. We believe that homebuyers will continue to favor projects (i) from proven developers with a track record of pink book handovers and after-sales services, (ii) that have clear legal status, and (iii) are strategically located and well-connected with amenities and infrastructure development. We define three main homebuyer profiles in real estate transactions: i) real living demand (owner-occupier and buy-to-rent), ii) investor (asset accumulation), and iii) speculator (buy-to-flip).

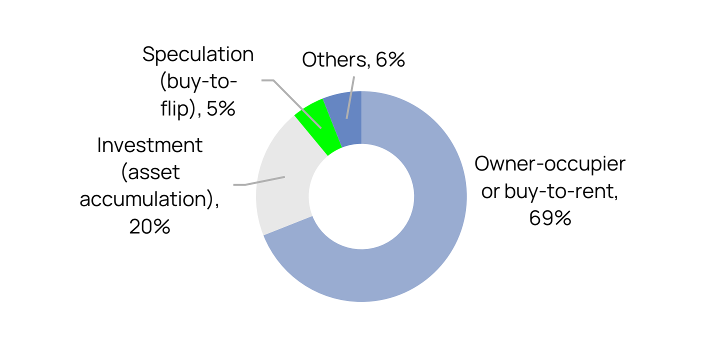
According to DXS-FERI, customers with real living demand accounted for 69% of real estate transactions in H1 2024, while investors and speculators combined accounted for 25%. Additionally, the nationwide interest index (per Batdongsan.com.vn) in 9M 2024 showed the strongest improvement in interest for condo products, which cater more to real living needs, followed by low-rise products. However, demand for land plots remained below the levels seen in 2022. In Q3 2024, we observed signs of returning investment sentiment, particularly in low-rise products, notably with the recent launch of Global Gate in Hanoi.

Figure 348: Batdongsan.com.vn's national interest index for each property segment from 2022 to Q3 2024



Source: Batdongsan.com.vn as of September 2024, Vietcap. Note: Real estate interest index created by Batdongsan.com.vn is based on data collected from user searches.

Figure 349: Homebuyer profiles in six select provinces (as of June 2024)*



Source: Dat Xanh Services Economic - Financial - Real Estate Research Institute (DXS-FERI), Vietcap. Note: (*) Number of observations: 1,804; locations: Hanoi, HCMC, Binh Duong, Da Nang, Nha Trang, and Can Tho.

Figure 350: Homebuyer profile for each property product

Homebuyer profile	Real demand (owner-occupier or buy-to-rent)	Investors (asset accumulation)	Speculation (buy-to-flip)
Property product	Mid-end condos	High-end condos and townhouses/villas	Land plots or deposit-flipping for initial presale launches of condos
Location	Close to existing urban amenities and good infrastructure	Good infrastructure and connectivity; or to benefit from in-progress infrastructure development plans	To benefit from in-progress infrastructure development plans or urbanization
Legal status	Clear legal status with visible construction progress	Clear legal status and visible construction progress	Have lands use rights certificate for land plots
Developer profile	Track record of project development and after-sales services (including pink book handovers)	Track record of project development and after-sales services (including pink book handovers)	Not focused
Price*	Mid-end condo: VND2.5-4.2bn (USD100-168k) /unit with two bedrooms (2BR); affordable mortgage payment	High-end condos: above VND4.2bn (USD168k) for a 2BR unit. Townhouses/villas: varying depending on location and developer profile	Low cost of equity
Holding horizon	Long term	Long term	Short term
2025F outlook (Vietcap's view)	Sustainable solid demand	Recovering; a return of investment buyers to select landed property products	Slowly recovering; demand for land plots will likely shift to land plot projects from proven developers with clean infrastructure and secured legal status

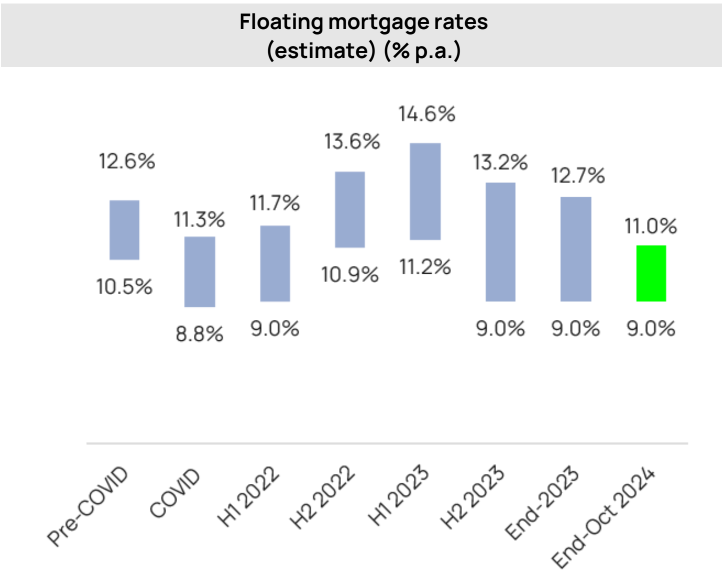
Source: Vietcap. (*) We assume the property unit price by multiplying the typical size of a two-bedroom condo (70 NSA sqm) by the ASP/sqm, based on CBRE's condo segment classification since Q1 2024.

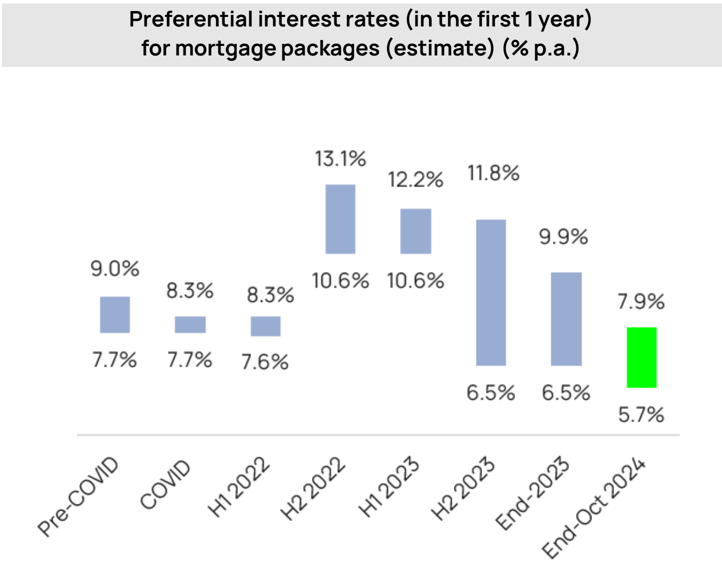
Mortgage rates to remain favorable

We anticipate one increase in policy rates (of 50 basis points in the discount and refinancing rates and 25 basis points in the deposit cap for terms of up to six months) by the end of 2025F. The expected increase is significantly less severe than the 200 bps hike in the refinancing rate seen in late 2022. We estimate that this change could lead to a marginal rise in floating mortgage rates reaching levels similar to those during the COVID period, given that the current floating rates of several banks remain lower than the COVID-levels at end-Q3 2024, per our observations. We believe that these rates remain attractive, which will continue to bolster homebuyer confidence in 2025F.

Risks to our positive view: Higher-than-expected exchange rate pressure under Donald Trump's US presidency could lead to higher-than-expected domestic VND interest rates and mortgage rates and slow the expected recovery pace for the real estate sector in 2025F.

Figure 351: Floating and preferential mortgage rates at select banks





Source: Vietcap estimates and compilation. Note: Banks under survey include VCB, CTG, TCB, MBB, and VPB.

Legal reforms to encourage sustainable development in the sector

We believe that the Government's directive to expedite legal reforms will help to address legal issues and promote sustainable development of the real estate sector over the long run. We continue to anticipate that the implementation of the Amended Land Law (effective from August 1, 2024) will gradually streamline legal procedures and facilitate more new project launches in the primary market in 2025F. We also believe that the pace of legal approvals will depend on specific provinces and project statuses. We expect proven developers like VHM, KDH, and NLG to be well-positioned to navigate upcoming legal reforms.

Government direction for the long-term sustainable development of the real estate market

Since the real estate downturn began in late 2022, we have observed the Government's active role in implementing supportive measures for the sector. These include: (1) expediting the approval of three amended real estate laws in November 2023 and January 2024, along with advancing their effective date to August 1, 2024 (earlier than the initially planned January 1, 2025), (2) stabilizing the interest rate environment, (3) permitting the restructuring of loans and bonds, and (4) demonstrating a strong commitment to resolving project-related legal issues.

Additionally, the Government has demonstrated a continued focus on overseeing the market and curbing speculation. This intent was recently emphasized through:

(1) Investigations into land plot auction events in Hanoi in September 2024, where blowout winning prices signaled speculative activity.
(2) Decree 96/2024/ND-CP (effective from August 2024) further solidifies this oversight by defining the roles and responsibilities of the Government and relevant ministries in market regulation when the transaction price index (developed by the Ministry of Construction) fluctuates by more than 20% within three months, compared to no such specific regulation in accordance with the previous Real Estate Business Law of 2014.

There are ongoing discussions on the measures to curb property speculation and property price hikes via including proposals to tax houses and land separately and impose higher taxes or tighten lending conditions on individuals owning multiple properties. We note that the idea of imposing a real estate tax has been revisited multiple times over the years without reaching consensus. The idea was first introduced in 2009 through the draft Law on Housing and Land Tax, and later resurfaced in the 2018 draft Law on Asset Tax, but both proposals were shelved due to public controversy. As Vietnam's housing market remains structurally undersupplied, especially in Hanoi and HCMC, and housing demand continues to be robust - driven by both real living demand and the cultural preference for real estate as an investment channel (e.g., asset preservation, purchasing properties for children, or for business purposes) - we believe the potential counter-effect of property taxes could result in even higher selling prices, further hurting the affordability for end-buyers. According to the Ministry of Finance's report to the Government in September 2023, they were working on developing a new **Law on Real Estate Tax**, which was previously expected to seek the National Assembly (NA)'s opinions in the NA's October-November 2024 meeting. However, this topic has not yet been included in the October-November 2024 meeting agenda, suggesting that it may take additional time to develop the law comprehensively or to determine an appropriate implementation timeline.

Our observations for legal development following the effectiveness of the amended laws:

Several projects from our covered developers have made positive legal progress from September 2024: (1) NLG's Can Tho (land plot phase) received land allocation approval in February 2023, and the land use rights fee was paid in September 2024; (2) DXG's Gem Riverside (condos) received its construction permit in September 2024 following the completion of the additional land use rights fee payment in Q1 2024; and (3) the approval of Bien Hoa City's 1/10,000 masterplan in November 2024 is a positive step for revising the 1/500 project masterplans for NLG's Izumi City and NVL's Aqua City.

Additionally, since August 2024, several provinces, including HCMC, have issued new land price tables that will be in effect until the end of 2025. These tables will be updated annually from 2026 onwards in accordance with the Amended Land Law. We have observed that the land price table is more used for the Government's land compensation activities. In addition, in practice, the developers usually negotiate with landowners at the higher price, not completely following the land price table. Nevertheless, we believe that the introduction of a new land price table, closer to market prices, will help facilitate the land compensation process and streamline legal procedures for projects, particularly at the land use rights fee determination step. We also observe that most developers are aware of the potential increase of development costs after the Amended Land Law due to annual updates of the land price table.

Figure 352: Crucial steps in the approval process of the Amended Land Law

June 2022
Resolution 18-NQ/TW:
Set the goal for the Amended Land Law to be approved by 2023.

Oct-Nov 2022
Submitted to the NA for first consultation of the proposed amendments.

NA meeting in Oct-Nov 2023
Postponed approval for the Amended Land Law at this session.

Extraordinary NA meeting in Jan 2024
Approved the Amended Land Law with an effective date of January 1, 2025.

Mar 2024
PM issued a document to guide on the proposal of changing the effective date.

NA meeting in May-Jun 2024
Approved three amended real estate laws to be effective earlier.

Aug 2024
Three amended real estate laws took effect.
As of September 2024, 15 decrees and 4 circulars related to the real estate sector have been issued.

NA meeting in Oct-Nov 2024
Approved the pilot program for non-residential land use in commercial housing projects.

Source: Government portals, Vietcap compilation

Figure 353: Summary of notable changes in the Amended Housing Law, Amended Real Estate Business Law, and Amended Land Law

Regulation		Old law	New law (effective from August 1, 2024)	Vietcap's comments
Amended Land Law	Land price	Issue **land price frame** and **land price table every five years.**	**Remove land price frames.** Issue **land price table** on an **annual basis** (starting from 2026).	The more frequently updated land price table should help it be **closer to the market price** and **facilitate land compensation.**
	Land price approval deadline	Not mentioned.	Provinces determine land prices no later than 180 days from the issuance date of the decision on land allocation, leasing, or change of the land-use purpose.	It should facilitate the responsibility of the authorities in terms of determining the timeline and response process to the developers.
	Land price determination method	Not clearly regulated in the old law. Decree 44/2014//ND-CP regulated **five methods.**	**Four methods**: (i) comparison, (ii) income-based, (iii) coefficient, (iv) discounted cashflow method with the removal of the subtraction method.	Provide clearer guidance on which method will be applied to specific land. Government has issued **Decree 71/2024**/ND-CP (effective from August 1, 2024) to comply with the Amended Land Law.
	Basis for land allocation/ leasing/ change of land use purpose	**Based on general guidance**: 1) the annual district-level land-use plans; 2) land-use demands as indicated in investment project documents.	Based on: **1) auction and 2) project bidding.** If not going through auction/bidding: 3) annual district-level land use plan, and 4) investment approval.	The new law **promotes an auction/bidding mechanism,** which should provide more transparency in land allocation procedures.
	Self-negotiation mechanism between LUR holders and developers in commercial housing projects	**Did not clearly state.**	Developers can negotiate with the LUR holders to receive LUR for (1) residential land or (2) **mixed-use land** (including residential land and land for other purposes) to implement commercial housing projects.	Promote developers to be active in land negotiation for project implementation. It could resolve legal bottlenecks for commercial housing projects that involve mixed-use land.
Amended Housing Law	Land allocation for social housing in a commercial project	For commercial housing projects with total land of 2 ha or more in special class and class I cities, or 5 ha or more in class II and III cities, developers **must allocate 20% of the total land for building social housing.**	If developers do not allocate social housing inside a commercial project, they must (1) **allocate social housing land outside** of the commercial project or (2) **pay money to local authorities.**	Developers now have **more flexibility** in fulfilling their social housing development obligation in that they are not required to build social housing inside their commercial projects and **may choose alternative options.**
	Incentives for social housing developers	Net margin for **a whole social housing project** (including commercial component) **cannot exceed 10%** of the total investment.	Maximum net margin of **10% is applied for the social housing construction area.** Developers can **earn all profit from the commercial component** (the developer is entitled to pay LURF for the commercial component).	Developers can **earn more profit** from developing social housing via the commercial component.
Amended Real Estate Business Law	Deposit regulation	**Not mentioned.**	Developers are only allowed to collect deposits of **no more than 5%** of the selling price when the project is qualified for sales.	It should **mitigate the risk for homebuyers** from unqualified-for-sale projects where developers have already collected presales money through deposits.

Source: National Assembly portals, Vietcap

Equity issuances to gain momentum; lenders (loans & bonds) to remain selective

We expect that some developers will raise equity and/or engage in M&A transactions to support their capital positions. Additionally, we expect bank credit and bond channels to continue supporting established developers as we anticipate that funding from these two channels will be closely scrutinized based on projects' legal status, adequate collateral, and alignment with the demand outlook for the projects' products.

Equity issuance to gain momentum: To date in 2024, KDH, PDR, and HDC have obtained SSC approval for their private placement and rights issue plans and successfully completed their offerings. For 2025F, we expect that the listed developers will continue to actively raise capital via equity, supported by the overall recovery outlook of the real estate sector, which should enhance investor confidence in the medium-term prospects of real estate stocks. We believe the choice between bond issuance/bank borrowings and equity issuance will likely depend on developers' strategies on project development and their financial positions. We believe that equity issuance may be preferred under circumstances where developers aim to 1) reduce financial leverage and fixed obligations, or 2) secure funding for early-stage project development and land acquisitions, though it may take time to obtain the SSC's approval.

M&A outlook to remain optimistic despite anticipated volume moderation: The trend of M&A persisted in both Hanoi and HCMC and second-tier provinces in 2024, driven by demand from both foreign and local developers. For 2025F, we expect the M&A outlook to remain dynamic, albeit with moderated volume, driven by sustained interest in Vietnam's housing development sector in the long term. We believe key opportunities will emerge in three areas: 1) strong demand for partnerships offering exposure to large-scale project developments, such as VHM's established bulk sales strategy, 2) increasing interest from foreign developers in second-tier provinces due to their affordability and growth potential, and 3) asset sales by developers under high debt refinancing pressure (for example, NVL disclosed asset sales plans with a total expected value of VND25tn/USD1.0bn in its explanation of the audited H1 2024 results, which we believe could be pivotal to its refinancing strategy).

Established developers to maintain strong position for securing bank loans and bonds: We continue to believe that the bank loan and bond channel will highly depend on specific developers' credit profile and adequate collateral and relationship with banks. Year-to-date, only a few listed real estate companies, such as VIC, VHM, BCM, NLG, DXG, DIG, and VPI, have issued new bonds. Additionally, we have observed a decline in the ratio of total bonds to total debt for select listed developers (including VIC), which averaged 31% as of end-Q3 2024, compared to an average of 46% at the end of 2021 (prior to the introduction of more stringent requirements in the corporate bond market).

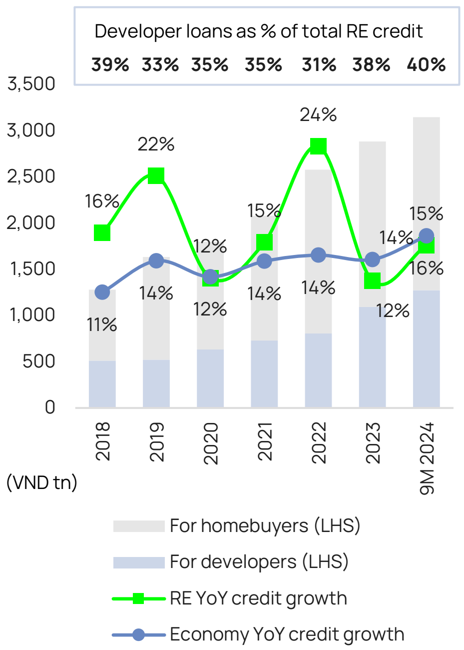
Amended Securities Law aims to tighten corporate bond regulation: The National Assembly approved the Amended Securities Law in November 2024, with new amendments including (1) recognizing foreign individual and institutional investors as professional investors, thereby broadening the base of participants in the corporate bond market, and (2) introducing stricter regulations for individual professional investors, stating that they can only participate in private bond placements if (i) issuers have a credit rating and the bonds have collateral assets, or (ii) issuers have a credit rating and the bonds have guaranteed payment by credit institutions. Meanwhile the regulations on the private placement of equity are unchanged. We believe the adjustment reflects a direction towards increasing transparency and protection for investors (especially individual investors) in the corporate bond market, which broadly aligns with the ongoing trend that began in 2022, and is expected to continue benefiting developers with strong credit ratings and reliable collateral or guarantees. According to the Ministry of Finance, the amendment will be effective from January 1, 2026. We believe the amendment will have a limited additional impact on the developers' bond capital raising as we have observed that the stricter regulations introduced in 2022 have already affected both the demand and new supply of real estate bonds and the reduced proportion of corporate bonds owned by individual investors.

Bond refinancing pressures to re-emerge as several bonds utilize extension limits

The Government issued Decree 08/2023/ND-CP (effective from March 5, 2023), which allows bond issuers to negotiate with bond holders to (1) extend bond maturity of each bond by a maximum of two years from its original date, and (2) exchange the bond payment to substitute assets. The decree has provided temporary relief for bond issuers (developers) facing refinancing pressures.

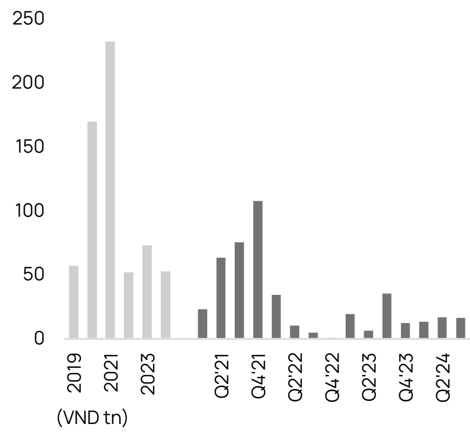
Since its enactment, developers — most notably NVL among listed companies — have actively restructured bond maturities and payment schedules to secure additional time. At end-Q3 2024, NVL's total bond balance was VND38.6tn (USD1.5bn) vs VND43.5tn (USD1.7bn) at end-2022; with a significant volume of bonds now set to mature in 2025, largely due to maturity extensions from 2023 and 2024. At end-Q3 2024, NVL's bonds set to mature in 2025 were around VND14tn (USD560mn), with VND11tn (USD440mn) already extended to the maximum two-year period allowed by Decree 08. Given the limited regulatory capacity for further extensions on bonds that have already reached this two-year extension, we anticipate that NVL will face continued refinancing challenges in 2025F and will likely need to explore alternative financing or restructuring strategies as these bonds approach their extended maturity dates.

Figure 354: Outstanding bank credit to real estate



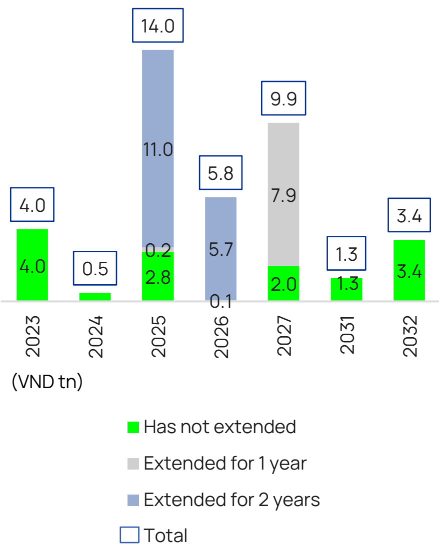
Source: FiinGroup, State Bank of Vietnam (SBV), Vietcap

Figure 355: New real estate bond issuance



Source: Vietnam Bond Market Association (VBMA), Vietcap

Figure 356: NVL's outstanding bond balance by current maturity and maturity extension status in Q3 2024



Source: NVL's financial statements, Vietcap

Figure 357: Capital raising plans of select real estate companies

Ticker	LQ Net D/E	Bond issues	Rights issue	Private placement	Purposes
VHM	22%	Issued **VND18.4tn** (domestic; fixed interest rate 12% p.a.); Up to additional **USD500mn** (international)			Not disclosed - we believe mainly for debt restructuring and project development in the medium term.
Vinpearl	44%*		Up to **VND5.0tn**		To purchase the transfer of stakes in Vinpearl Cua Hoi JSC and the hotel-commercial component of the Ha Giang project, for debt repayment, capital contribution in Vinwonders Nha Trang, and working capital.
BCM	98%	Issued **VND2.1tn** (domestics; interest rate 10.2-12% p.a.). Up to additional **VND1.08tn**	Minimum of **VND15.0tn** (via public auction)		To develop the Bau Bang expansion IP and Cay Truong IP, contribute capital to affiliates, and restructure capital.
KDH	24%			Raised **VND3.0tn**	We believe the private placement, in addition to KDH's expected increased debt financing, should allow KDH to realize more of the value of its substantial land bank in HCMC.
NVL	138%		Up to **VND11.7tn**	Up to **VND2tn**	To restructure debts, pay liabilities coming due, and develop projects.
KBC	-8%			Expected **VND6.25tn**	To meet the capital needs for upcoming projects, and for other financial endeavors such as M&A and investments in subsidiaries or JVs.
PDR	38%		Raised **VND1.34tn**		To fund key projects, including Bac Ha Thanh, Cadia Quy Nhon, Thuan An and Nhon Hoi.
DIG	15%	Up to **VND2.1tn** (domestic; issued VND1.6tn; interest rate 11.25% p.a.)	Up to **VND3.0tn**	Up to **VND3.0tn**	Not disbursed bond proceeds as of September 2024; to fund the Long Tan, Chi Linh, and Cap Saint Jacques Phase 2 & 3, Vi Thanh, Lam Ha Centre Point, and Nam Vinh Yen projects.
NLG	31%	Issued **VND2.5tn** (domestic; fixed interest rate in first year: 9.5-10.11% p.a.)			For project development and debt restructuring.
VPI	133%	Issued **VND650bn** (domestic CBs; fixed interest rate in first year 11% p.a.)			To add capital contribution to subsidiary Van Phu – Giang Vo.
DXG	27%	Issued **VND235bn** (domestic; fixed interest rate 10.2% p.a.)	Minimum of **VND1.8tn**	Minimum of **VND1.74tn**	Bond issue to fund Gem Sky World; equity issues to pay debts, settle bonds, boost working capital, increase charter capital/ ownership in DXG's subsidiary.
HDC	72%	Up to **VND500bn** (domestic)	Raised **VND299.85bn**		The proceeds from the rights issue are to repay loans; bond issue plan to fund business operations.

Source: Company data, HNX, Vietcap compilation as of end-November 2024. Note: (*) at end-Q2 2024.

Figure 358: Select land bank/project divestment and joint ventures in 2024 YTD

Seller	Buyer	Buyer nationality	Project	Deal size	Location	Stage of transaction	Segment
VHM	Undisclosed	Foreign	Royal Island	VND16.6tn	Hai Phong	MOU signed in Q2 2024	Residential
VHM	Undisclosed	Foreign	Ocean Park 3	VND3.4tn	Hung Yen	MOU signed in Q3 2024	Residential
VEF	Undisclosed	Undisclosed	Co Loa (Vinhomes Global Gate)	Expected VND40tn	Hanoi	VEF will adjust/issue the project LURC* to a potential buyer, with an expected deadline in Q1 2025 and with a 90-day extension.	Residential
NVL	Undisclosed	Undisclosed	Undisclosed	VND1.0tn	Undisclosed	Completed	Undisclosed
SkyVenue	SkyWorld Development Berhad	Malaysia	Guocoland (remaining land plots)	Undisclosed, for 49% stakes	Binh Duong	MOU signed in August 2024	Residential & commercial
Keppel	HTV Dai Phuoc & Vinobly	Vietnam	Saigon Sports City	VND7.4tn, for 70% stakes	HCMC	MOU signed in October 2024	Residential & commercial
Kim Oanh	Sumitomo Forestry, Kumagai Gumi, NTT Urban Development	Japan	The One World	Undisclosed	Binh Duong	MOU signed in May 2024, joint venture agreement	Residential

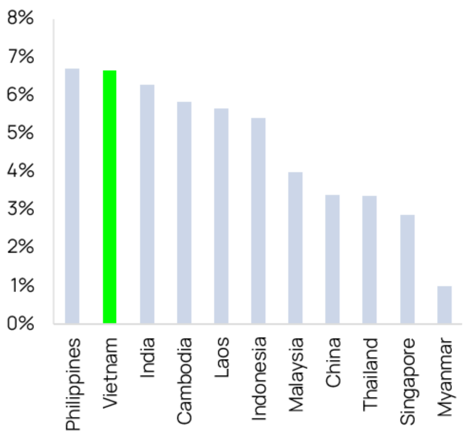
Source: Company data, media sources, Vietcap compilation. Note: (*) land use rights certificate.

Long-term structural drivers of Vietnam's housing sector remain intact

We maintain our view that the real estate sector will benefit from the following structural drivers over the long term: increasing urbanization, an emerging middle-affluent class, a shrinking average household size, improving infrastructure, and increasing mortgage penetration.

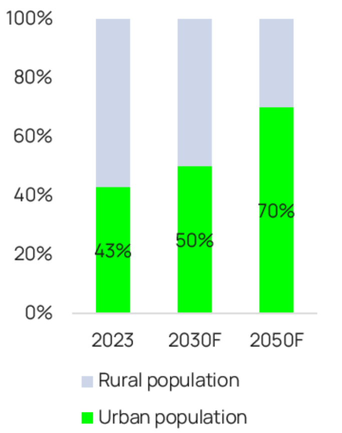
Strong housing demand underpinned by growing affluent and urban population: We believe Vietnam will experience structural growth in the residential real estate market like the experience in more developed countries in the region. In particular, we expect that the substantial projected increase in urban population will lead to a heightened need for new urban development within cities. Additionally, we anticipate an emerging middle-income class will likely follow the lifestyles of regional peers in having smaller household sizes, which should boost demand from first-time homebuyers.

Figure 359: Forecast for average real GDP growth in 2027-2033



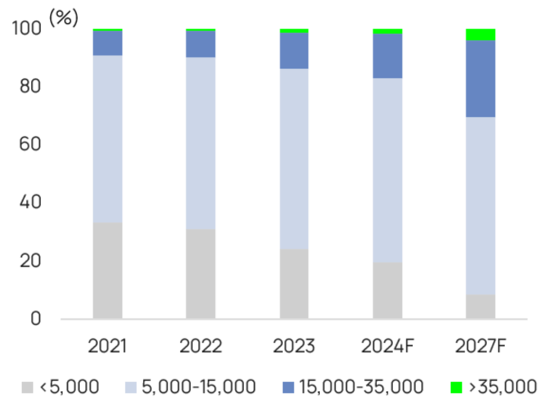
Source: Fitch Solutions, Vietcap

Figure 360: Vietnam's projected urbanization rate (%)



Source: Ministry of Construction, National Master Plan, Vietcap

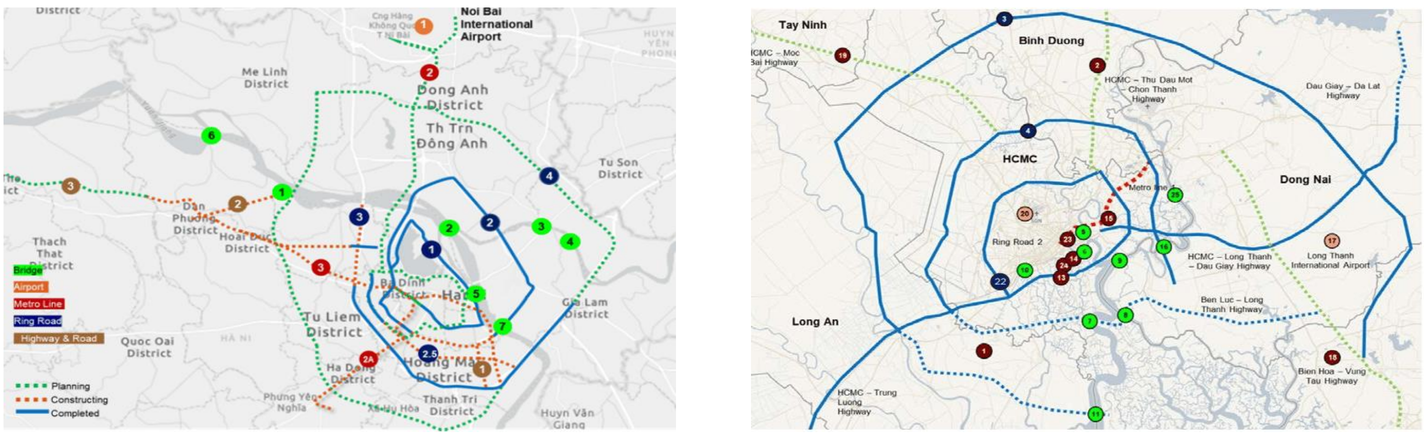
Figure 361: Vietnam's projected household income distribution (%), measured in USD



Source: EIU Forecast, OOSGA Analytics (as of October 2023), Vietcap

Infrastructure improvement to spur demand in areas surrounding the centers of Hanoi and HCMC: We believe future infrastructure will boost the connectivity between Hanoi/HCMC and surrounding provinces, such as Hung Yen, Bac Ninh, and Hai Phong in the north and Long An, Binh Duong, and Dong Nai in the south, in turn enhancing the prospects for new housing development in these locations.

Figure 362: Infrastructure development in Hanoi, HCMC, and surrounding areas

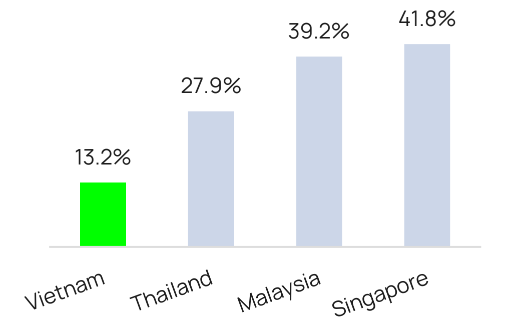


Source: Savills, Vietcap compilation

Vietcap

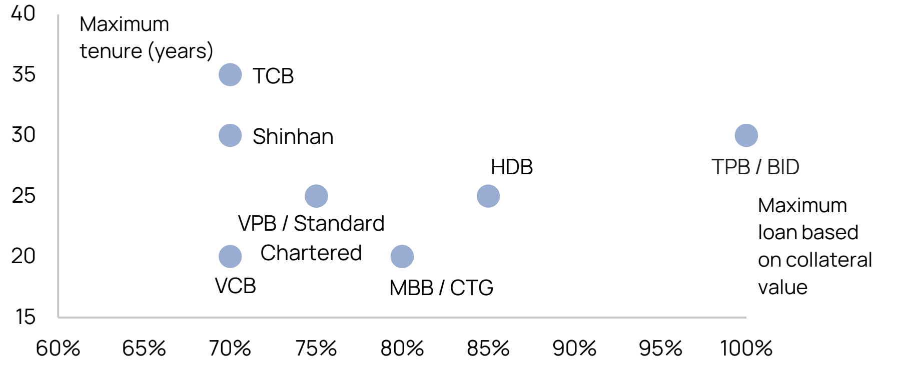
Development of Vietnam's underpenetrated mortgage market set to further support homebuyer demand: Vietnam's outstanding mortgage loans represented 13.2% of GDP in 2023, per our estimates — lower than in Thailand and far below the levels in Singapore and Malaysia. We expect cooperation between developers and commercial banks to offer flexible mortgage packages, which will foster growth in Vietnam's mortgage market and the residential market over the longer term.

Figure 363: Total home mortgage loans outstanding as a percentage of GDP in 2023



Source: Vietcap estimates and compilation

Figure 364: Maximum mortgage loan based on collateral value and maximum tenure (years) of select banks in Vietnam

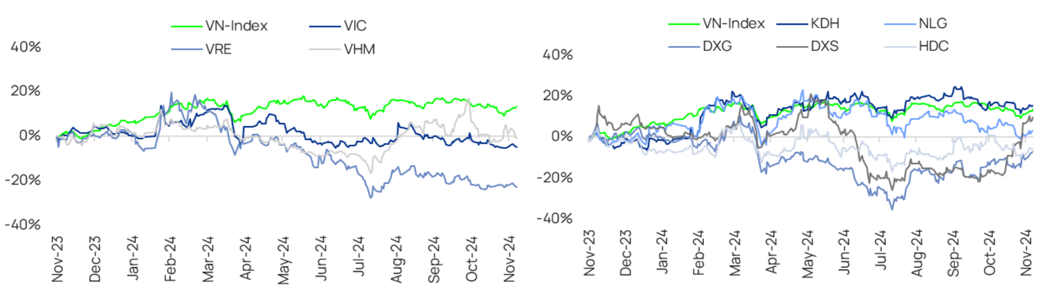


Source: Vietcap compilation

Share price performance

Real estate stock prices followed a generally positive trend in Q1 2024, supported by the approval of the Amended Land Law in January and the Prime Minister's April proposal for an earlier effective date. However, in subsequent quarters, share price performance became more mixed, largely influenced by company-specific news. In 11M 2024, KDH outperformed, while NLG's share price lost momentum in October due to its reported Q3 2024 loss. DXG and DXS were negatively affected in July by bond issues from DXMN (an affiliate of DXG/DXS) but recovered in September as the Gem Riverside project received its construction permit, with DXS experiencing a strong rally in November amid expectations of QoQ earnings growth due to a recovery in property brokerage transactions. HDC saw positive sentiment in Q3 2024 from progress on the Bien Hoa-Vung Tau Expressway project. In Q3 2024, VHM's share price was primarily driven by retail sentiment surrounding share buyback transactions (the stock rose by 16% in August-September when VHM announced the buyback plan but has since corrected by 8% during the October 23-November 21 execution period). In addition, VIC and VRE continued to underperform.

Figure 365: Share price performance of Vietcap's real estate stock coverage



	VN-Index	VIC	VRE	VHM	KDH	NLG	HDC	DXG	DXS
H1 2022	-20%	-23%	-5%	-24%	-24%	-44%	-51%	-44%	-43%
H2 2022	-16%	-27%	-8%	-23%	-25%	-13%	-22%	-35%	-60%
H1 2023	11%	-5%	2%	15%	16%	6%	21%	16%	35%
H2 2023	1%	-13%	-13%	-21%	12%	11%	17%	38%	5%
H1 2024	10%	-8%	-12%	-13%	18%	13%	-5%	-17%	-6%
11M 2024	**11%**	**-9%**	**-23%**	**-6%**	**16%**	**5%**	**-4%**	**-10%**	**3%**

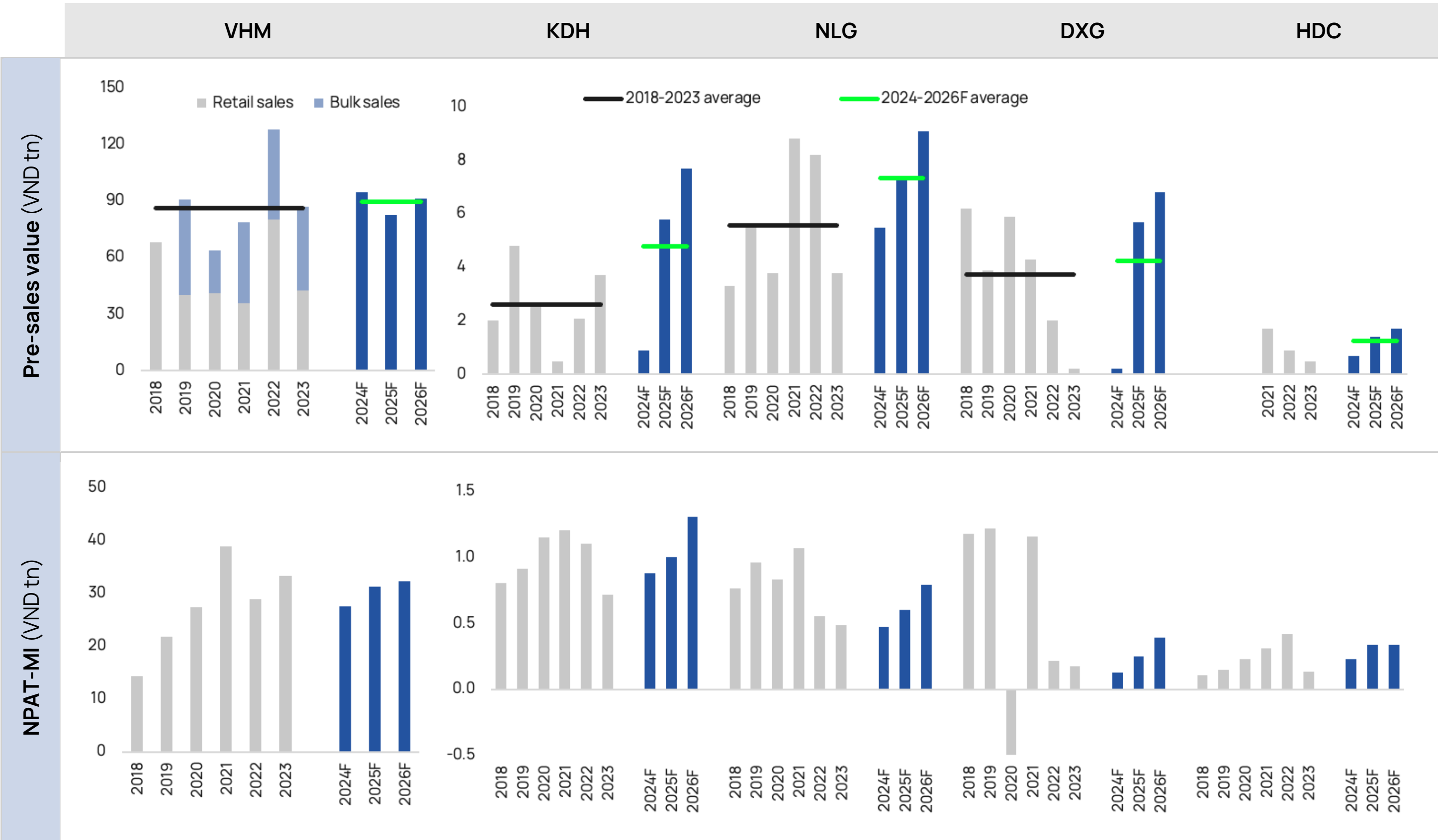
Source: Company data, Vietcap. Note: Data as of November 29, 2024.

Presales outlook

Among residential developers in our coverage, we forecast the aggregate presales of KDH, NLG, DXG, and HDC to grow 178%/25% YoY in 2025/26F following declines of 14%/38% in 2022/23 and 11% in 2024F. We forecast VHM's 2025F presales to decrease by 13% vs 2024F, before increasing by 11% in 2026F, following 62% growth in 2022, 32% decline in 2023, and 9% growth in 2024F.

Our 2025-26F presales forecasts are driven by new project launches and/or next-phases of existing project launches. Expected new project launches include landed property, mid to upper mid-end condos, and land plot products in the key cities of Hanoi and HCMC, as well as second-tier provinces.

Figure 366: Presales and NPAT-MI of Vietcap's residential stock coverage (VND tn)



Source: Company data, Vietcap estimates and forecasts

Earnings outlook

We project the aggregate NPAT-MI of KDH, NLG, DXG, and HDC to increase by 14%/ 28%/29% YoY in 2024/25/26F, following declines of 39%/34% in 2022/23, respectively. We forecast VHM's NPAT-MI growth rates to be -18%/+14%/+3% YoY in 2024/25/26F, respectively, following a 26% decline in 2022 and a 16% growth in 2023.

We anticipate that new presales launches and unbilled bookings will support the earnings for residential developers in our coverage outlook in 2025-26F. Additionally, DXG's NPAT-MI will benefit from the sustained recovery of its property brokerage segment (DXS), while HDC's 2025F earnings will be bolstered by the recognition of stake transfers.

Stock picks

BUY – Khang Dien House (HSX: KDH)

KDH's undervalued land bank, spanning ~600 hectares of mostly cleared land, is one of the largest in HCMC and represents at least ten years of development. We believe housing products from experienced developers with strong brand equity — such as KDH with its dominance in the HCMC landed housing segment — will be among the first to benefit from the recovering market.

We forecast KDH's residential presales at VND5.8tn/VND7.7tn (USD232mn/USD308mn) in 2025/26F, respectively, significantly increasing from VND900bn (USD36mn) expected in 2024F. Growth will be driven by new project launches, including the JV project with Keppel, expected to start sales in 2025F, as well as The Solina and the large-scale project Tan Tao, with presales likely to begin in 2026F.

We forecast 2024F NPAT-MI to grow 23% YoY, with Q4 2024F earnings largely driven by the scheduled handovers of unbilled backlog at The Privia (~1,040 high-rise units; 100% presold). For 2025/26F, we expect NPAT-MI growth of 14% and 30%, respectively, supported by the launch and handovers of the JV project with Keppel from 2025F and The Solina, as well as Tan Tao, starting in 2026F.

Downside risk: Slower-than-expected launches of large-scale projects such as Tan Tao.

Please find more details on KDH in our latest Update Report.

BUY – Nam Long Group (HSX: NLG)

We believe that experienced developer NLG has products that are well-positioned to capitalize on solid owner-occupier demand in the mid-end housing market and a sustainable development strategy of partnering with Japanese developers. We expect that NLG will continue to focus on the mid-range condo and landed property segments, which have been outperformers in past years in terms of price performance and demand. We also expect NLG to continue to succeed in its joint-development strategy with its land banks in HCMC, Dong Nai, and Long An.

We expect launches of next phases at existing projects to drive Q4 2024-2026F presales growth. We forecast NLG's aggregate 2024-26F presales at VND22.0tn (USD880mn; vs VND20.8tn/ USD832mn in 2021-23), fueled by the launches of next phases at existing projects: Can Tho (land plot phase) in Q4 2024F, Mizuki Park Phase 3 (P3) and Izumi City in 2025F, and Akari City P3 in 2026F, along with continued presales at the Southgate project.

We forecast a strong backlog at Akari City P2 and Southgate to support Q4 2024F and 2025F earnings. NLG's end-Q3 2024 backlog was ~VND10.3tn (USD414mn, per NLG), led by Akari City P2 (~60%) and Southgate (~20%); we expect recognition to be split between Q4 2024F and 2025F for Akari City P2 and mainly in 2025F for Southgate. This backlog should contribute ~80% and ~77% to our underlying property revenue forecasts for Q4 2024F and 2025F, respectively.

Downside risk: Slower-than-expected launches of new phases at key projects.

Please find more details on NLG in our latest Update Report.

Appendix: Company names and tickers

Code	Company name
VIC	Vingroup JSC
VHM	Vinhomes JSC
VRE	Vincom Retail JSC
KDH	Khang Dien House Trading and Investment JSC
NLG	Nam Long Investment Corp
DXG	Dat Xanh Group JSC
DXS	Dat Xanh Real Estate Services JSC
HDC	Ba Ria Vung Tau House Development JSC (HODECO)
NVL	No Va Land Investment Group Corp

Source: Company data, Vietcap

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Transportation & Logistics: New capacity across industry

Our coverage includes airlines, airports, cargo handlers, and logistics companies in Vietnam.

Air passengers: Improving consumer spending and lower airfares fuel domestic recovery

- We forecast the number of international passengers, including Vietnamese, for 2025F/26F/27F to reach 49/53/60 million (+8%/+8%/+15% YoY), respectively, supported by favorable visa policies and active tourism development efforts.
- We forecast domestic passengers for 2025F/26F/27F at 69/75/84 million (+9%/+9%/+12% YoY), driven by recovering domestic tourism spending and stabilizing airfares.
- South Korea will remain the top source of Vietnam's international arrivals in the near term. We expect China's weak economy to temper the recovery of Chinese arrivals.
- Declining fuel costs should boost airlines' profitability, such as for Vietnam Airlines and Vietjet, which will in turn help gradually ease pressure on airfares.

Air cargo: Throughput growth to moderate as trade normalizes from 2024's high base

- Our expectation reflects (1) the high base effect from 2024, (2) slower US growth (Vietnam's largest export market), with GDP forecasts falling from 2.6% in 2024 to 1.9% in 2025, and (3) potential impacts of Donald Trump's return to office and his proposed tariffs on Vietnam.
- ACV will invest in Long Thanh International Airport cargo terminal No. 1 (LTA-C1), SCS thus will have no stake in the terminal. We expect LTA-C1 to go online in Q1 2027.

Airports: Long Thanh International Airport (LTA) sees accelerated progress

- Updated completion target: December 31, 2026 (previously end-2025).
- Key package selections: As of November 2024, contractors have been selected for 3/5 key packages. We expect the tender for LTA-C1 and parking lots to open in late Q4 2024.
- Runway No. 3: Advanced to phase 1 (vs initially planned for phase 3).

Seaports: In 2025F, we expect competitive pressure in Hai Phong to intensify as ~2.8mn TEUs of new capacity comes online (+33% from the current 8.4mn TEUs), with 2.2mn TEUs from four new berths at Lach Huyen deep-sea port (HICT) coming in early 2025, and 600,000 TEUs from Nam Dinh Vy seaport (NDV) phase 3 coming in late 2025. In the south, we expect a minor increase in competition due to (1) no new capacity and (2) high demand with high utilization rates.

Global freight rates and Southeast Asian (SEA) port congestion: We expect container freight rates and SEA port congestion to ease in 2025F due to (1) higher water levels at the Panama Canal from La Niña and (2) global ship supply growth of 6.4%, outpacing demand growth of 4.0%. However, several risks remain for our expectations due to global geopolitical uncertainties.

Implications of Donald Trump's presidency: Mr. Trump's presidency poses a threat of trade disruption between Vietnam and the US via higher tariffs, negatively impacting revenue and earnings for ports and logistics companies. GMD's Gemalink deep-sea port is exposed as it mainly serves US-EU routes, while weaker overall international trade would threaten throughput at the Nam Dinh Vu seaport. For air cargo terminal operator SCS, the US and EU account for roughly 20% of its total cargo volume. However, the reverse will be true if tariffs imposed on Vietnam are lower compared to other countries in the region, on a relative basis.

Stock recommendation: AST is one of Vietnam's top airport retailers, with a presence in seven of the country's busiest airports. For 2024F/25F/26F, we project 26%/30%/20% YoY growth in NPAT-MI, respectively, led by recovering air passenger numbers and new stores opening. Despite the implementation of ACV's revenue-sharing scheme that began in 2023, AST's strategic initiatives to improve operational efficiency have partially offset the impact, driving a PBT margin of 18.6% in 9M 2024 (vs 15.8% in 9M 2023; 23% pre-COVID19). AST's valuation looks attractive at 2025F/26F P/Es of 13.1x/10.9x vs its 2018-2019 average TTM P/E of 15.0x.

Vietcap

Figure 367: Transportation & Logistics: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
AST	BUY	96	0%	49%	5	0.0	53,400	60,600	03-Dec-24	13.5%	4.7%	18.2%
VJC	O-PF	2,231	0%	30%	373	3.7	103,000	114,000	15-Mar-24	10.7%	0.0%	10.7%
GMD	M-PF	1,093	0%	49%	1	3.2	66,000	69,800	12-Nov-24	5.8%	2.3%	8.0%
ACV	M-PF	10,667	95%	49%	4,836	1.6	122,500	130,800	12-Nov-24	6.8%	0.0%	6.8%
SCS	O-PF	304	0%	30%	26	0.8	80,200	71,400	07-Nov-24	-11.0%	8.7%	-2.2%
HVN	M-PF	2,316	0%	30%	514	3.6	26,150	14,700	25-Mar-24	-43.8%	0.0%	-43.8%
VTP	M-PF	684	61%	49%	284	6.4	140,400	69,000	06-Sep-24	-50.9%	1.1%	-49.8%

Figure 368: Transportation & Logistics: Summary valuations

Code	Share price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/E LTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	EV/ EBITDA 2025F x (*)	ROE 2025F %	P/B LQ x	Net D/E LQ x
AST	53,400	26%	30%	20%	17.7x	17.0x	13.1x	10.9x	8.5x	25%	3.7x	-0.1x
VJC	103,000	586%	59%	29%	30.8x	23.7x	14.9x	11.5x	7.3x	18%	3.3x	2.3x
GMD	66,000	-26%	-23%	17%	20.4x	15.7x	20.3x	17.4x	11.6x	11%	2.3x	0.1x
ACV	122,500	35%	11%	12%	26.6x	25.2x	22.7x	20.3x	14.7x	19%	4.7x	0.2x
SCS	80,200	49%	0%	7%	11.7x	11.6x	11.6x	10.9x	6.4x	52%	4.9x	-0.7x
HVN	26,150	N.M.	N.M.	164%	14.6x	N.M.	172.0x	65.0x	7.4x	N.M.	-5.2x	-2.0x
VTP	140,400	30%	15%	13%	56.8x	55.5x	48.4x	41.3x	23.3x	23%	10.6x	-0.1x

Source: Company data, Vietcap forecasts. Note: Share prices as of December 5, 2024.

Figure 369: Transportation: Company names and tickers

Code	Company name	Service
ACV	Airport Corporation of Vietnam	Airport operator
AST	Taseco Airs	Airport retailer
HVN	Vietnam Airlines	Airline
GMD	Gemadept	Seaport operator, container shipping, logistics
SCS	Saigon Cargo Services	Air cargo terminal operator
VJC	Vietjet Air	Airline
VTP	Viettel Post	Delivery services

Source: Vietcap

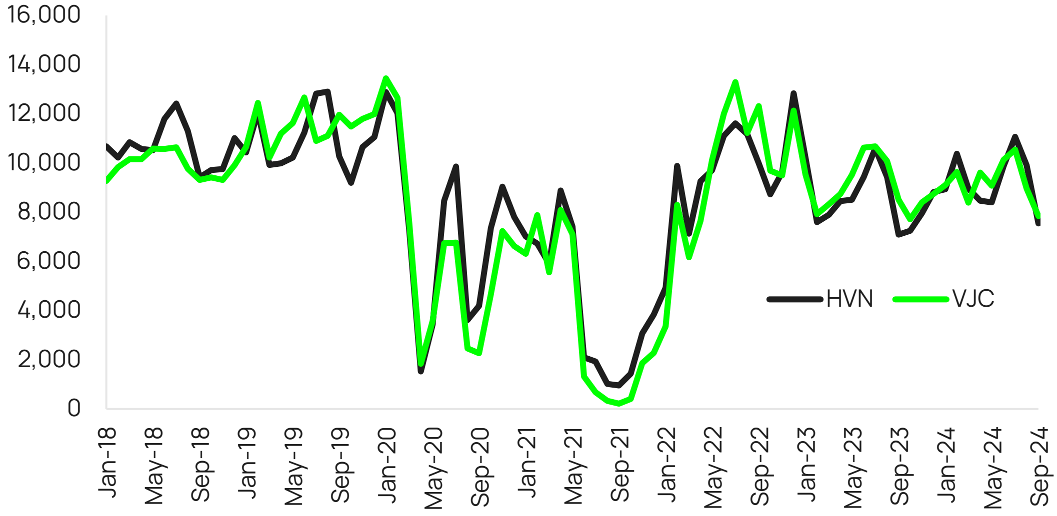
Vietcap

Key sector themes and 2025 outlook

International passengers: South Korea remains strong; China on track for recovery

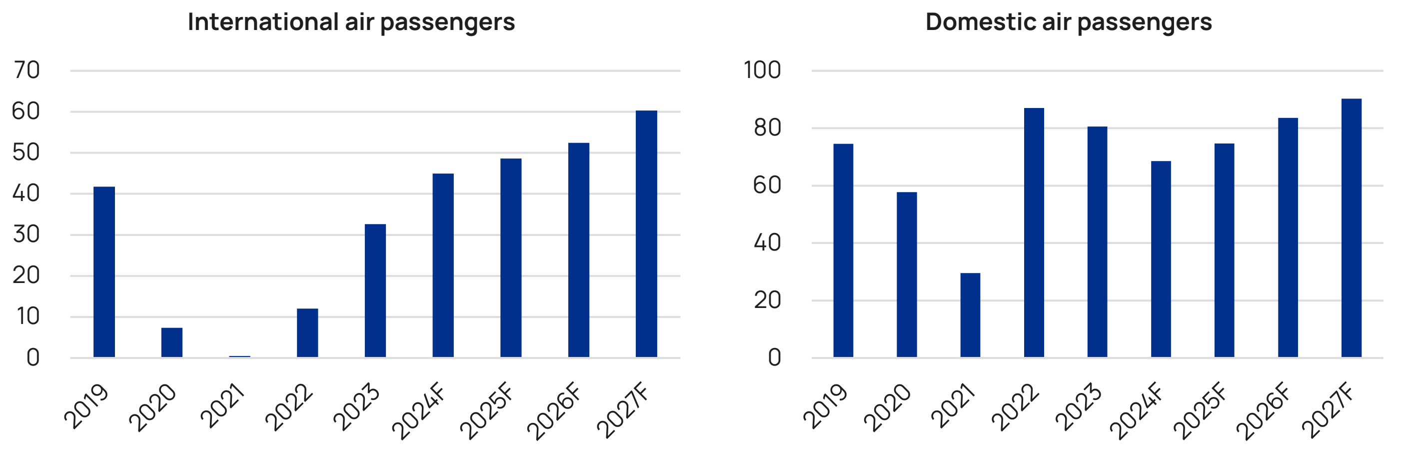
International pax recovery have nearly completed. In 10M 2024, international passengers (including Vietnamese) surged 29% YoY to 34 million, reaching 98% of the pre-COVID-19 levels. This is supported by favourable visa policies and active tourism development efforts. Looking ahead, we forecast international passengers in 2025F/26F/27F to reach 49/53/60 million (+8%/+8%/+15% YoY), respectively, supported by a gradual recovery in consumer confidence and spending, alongside more affordable airfares which should booster travel demand.

Figure 370: Number of monthly flights of Vietnam's two leading airlines during 2018-10M 2023



Source: CAAV, Vietcap

Figure 371: Vietcap's forecasts for domestic and international air passenger numbers (million)

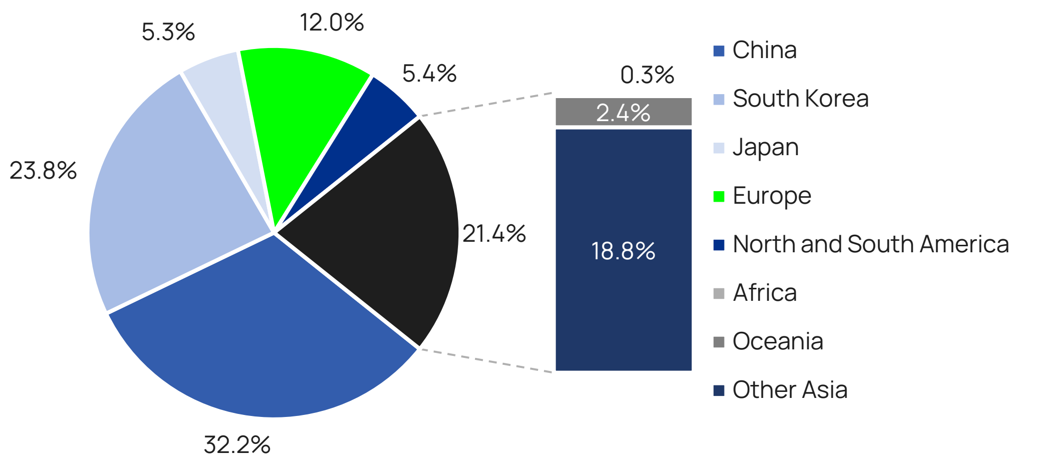


Source: ACV, Vietcap

South Korean arrivals remain strong, leading Vietnam's international arrivals in the near term: Since 2023, South Korea has emerged as the top source market of international visitors, contributing 29%/27% of total arrivals in 2023/10M 2024, respectively. According to GlobalData, Vietnam ranked as the second-most popular destination for South Korean travelers in 2023 alongside Thailand, their pre-pandemic favorite, which was driven by proximity, convenient flights, and affordable costs. We expect the South Korean market to continue being a key driver in Vietnam's international tourism near term growth.

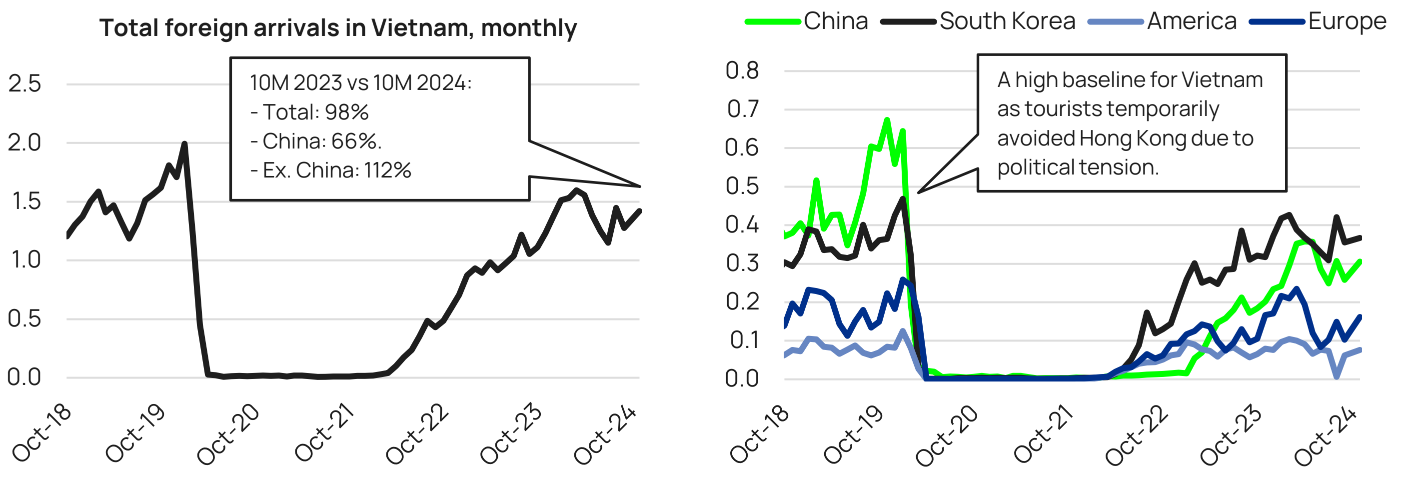
Chinese arrivals are on track to recover, but economic challenges persist: Prior to COVID-19, China was Vietnam's largest source of international visitors, comprising 32% of total arrivals in 2019. However, in 10M 2024, this share had fallen to 21%, reflecting a slow recovery of Chinese arrivals amid its subdued economic conditions. Looking ahead to 2025F, we anticipate ongoing economic challenges to persist, likely continuing to constrain the pace of recovery for Chinese tourism in the near term. Despite this, we believe the return of Chinese tourists will remain a critical growth driver for Vietnam's tourism sector over the medium to long term.

Figure 372: 2019 foreign arrivals by country



Source: Vietnam National Administration of Tourism, Ministry of Culture, Sport and Tourism, Vietcap

Figure 373: Monthly foreign arrivals in Vietnam rebounded strongly in 2024 (million)

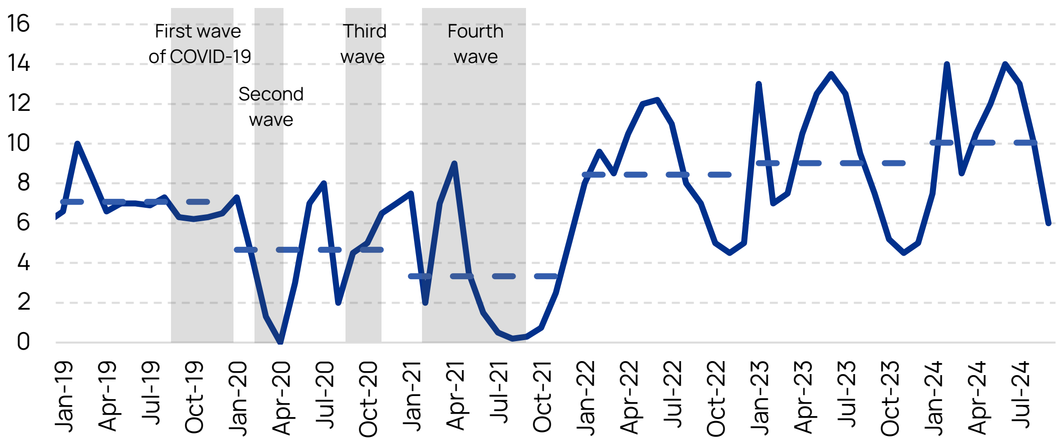


Source: General Statistics Office of Vietnam, Vietcap

Domestic passengers: Recovery fueled by rising consumer spending and lower airfares

In 10M 2024, Vietnam's number of domestic tourists increased 2% YoY, reaching 139% of the pre-COVID level. However, ACV's domestic air passenger numbers dropped 17% YoY to 58 million, impacted by high airfares and a structural change in spending patterns among Vietnam's growing middle class, which tends to opt for shorter trips and prioritize road transportation over air travel. Nevertheless, for 2025F, we believe Vietnam's ongoing economic recovery will provide a tailwind for spending on domestic tourism, including spending on airfares to reach more distant destinations. We currently forecast the number of domestic passengers to increase to 69/75/84 million (+9%/+9%/+12% YoY) in 2025F/26F/27F.

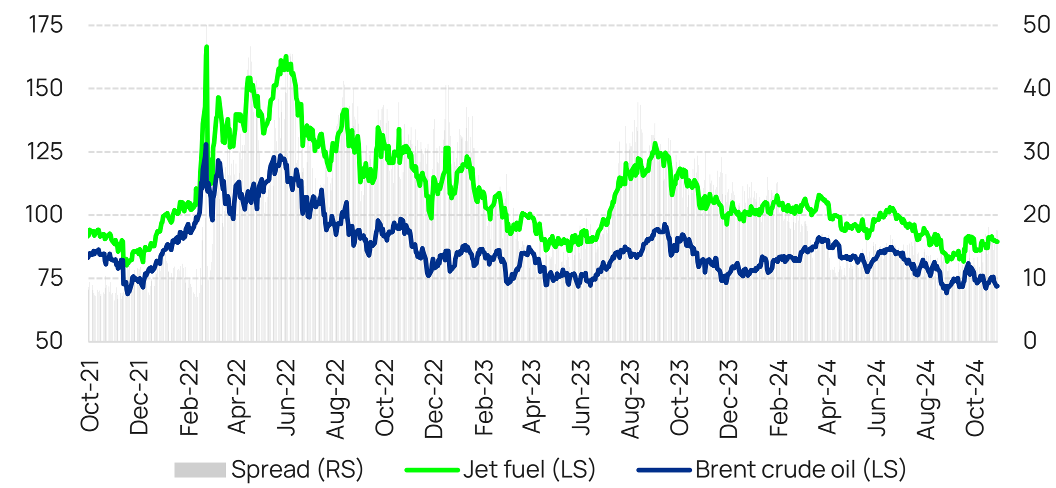
Figure 374: Monthly number of domestic tourists in Vietnam (million)



Source: Vietnam National Administration of Tourism, Vietcap

Declining fuel costs to boost airlines' profitability, supporting gradually easing pressure on airfares. As of November 11, 2024, the YTD average Jet fuel price is USD96/bbl (-7% vs 2023). In 2024/25/26/27F, our updated in-house Brent oil price forecast is USD80/70/70/70/bbl (-3%/-13%/0%/0% YoY, respectively). In addition, our in-house energy team expects that the Jet fuel crack spreads will decrease following 2022's high base.

Figure 375: Jet fuel and Brent crude oil prices, October 2021 – October 2024 (USD/barrel)



Source: Bloomberg, Vietcap

Figure 376: Current domestic economy class airline ticket price ceilings and the new regulations in Circular 34

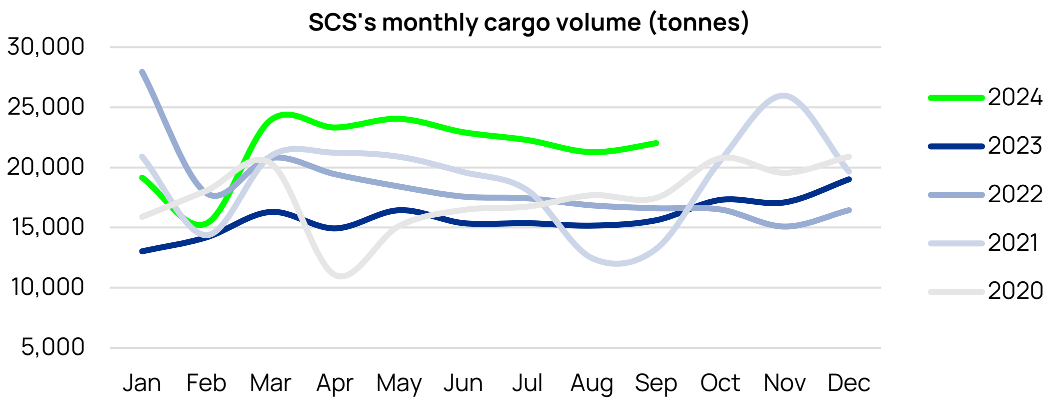
Group	Flight distance	Maximum fare ('000 VND/one-way ticket) - Old	Maximum fare ('000 VND/one-way ticket) - New	% Change
I	Under 500 km			
1.	Group of routes contributing to socio-economic development	1,600	1,600	0%
2.	Group of routes under 500 km	1,700	1,700	0%
II	From 500 km to under 850 km	2,200	2,250	2%
II	From 850 km to under 1,000 km	2,790	2,890	4%
IV	From 1,000 km to under 1,280 km	3,200	3,400	6%
V	Over 1,280 km	3,750	4,000	7%

Source: Circular 17/2019 TT-BGTVT, Circular 34/2023/TT-BGTVT, Vietcap

Cargo: Throughput growth to moderate as trading activities normalize from 2024F's high base

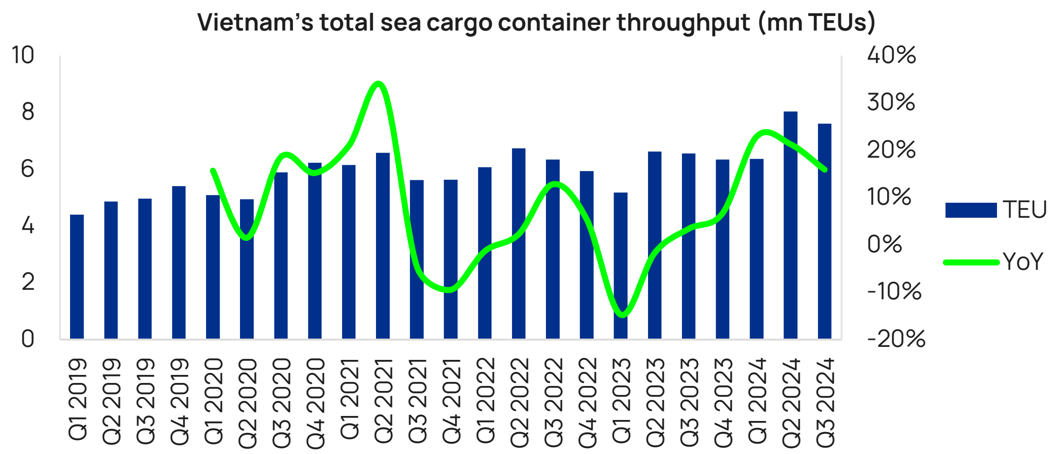
We expect 2025F throughput growth to moderate to a single-digit level: Our projections reflect (1) the high base effect from 2024, (2) slower US growth (Vietnam's largest export market), with GDP forecasts falling from 2.6% in 2024 to 1.9% in 2025, and (3) potential impacts of Donald Trump's return to office and his proposed tariffs on Vietnam.

Figure 377: SCS's 9M 2024 cargo volume improved 42% YoY to 194,300 tonnes



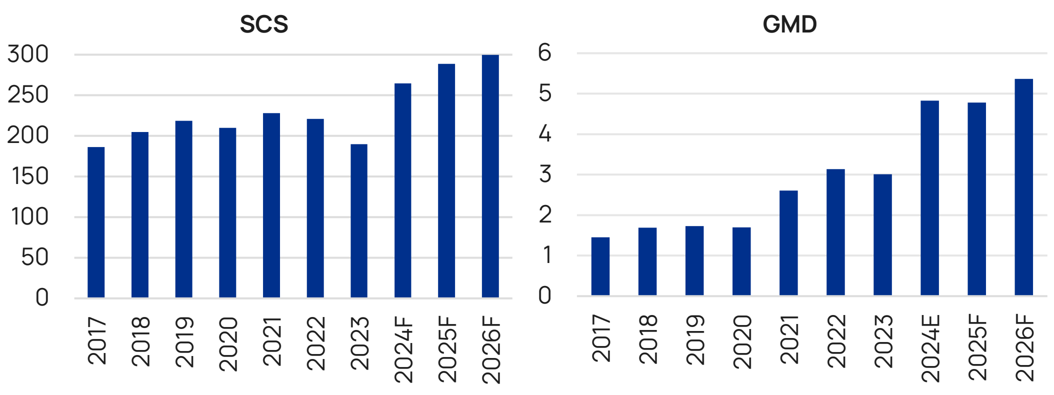
Source: SCS, Vietcap

Figure 378: Vietnam's 9M 2024 total container throughput grew 20% YoY to 22mn+ TEUs



Source: GMD, Vietcap

Figure 379: SCS's cargo throughput ('000 tonnes) & GMD's container throughput (mn TEUs)



Source: SCS, GMD, Vietcap forecasts

Long Thanh International Airport (LTA) sees accelerated progress

In southern Vietnam, Tan Son Nhat International Airport (SGN) currently serves as the primary gateway for both domestic and international flights. However, SGN has been operating over capacity since 2016, with total passenger number of 41 million in 2023 — well above its designed capacity of 28 million. This situation has catalyzed the development of LTA - Vietnam's most ambitious infrastructure project to date.

Located 40 km northeast of Ho Chi Minh City in Dong Nai Province, LTA is set to become the country's premier airport and a major aviation hub for southern Vietnam and Southeast Asia. The new airport is intended to relieve congestion at SGN (20km to Ho Chi Minh City's center) and meet rising demand for air travel. According to the Government's master plan, LTA will primarily cater to international flights, allowing Tan Son Nhat to focus on domestic traffic. Once completed, LTA will rank among the largest airport construction projects in the Asia-Pacific region. At ACV's 2024 AGM, management stated that LTA will serve ~80-90% of international flights for HCMC and surrounding provinces. ACV will be able to collect take-off and landing (T-O/L) fees at LTA because ACV is the developer of LTA's third sub-project (which includes runway and apron infrastructure).

Update on phase 1's progress:

Construction of LTA began in late 2020, with the passenger terminal, the largest package of the project, breaking ground on September 1, 2023. ACV now expects phase 1 to be completed by late 2026, ahead of our expectation of 2027 and LTA phase 1's updated target of December 31, 2026 (previously end-2025). Notably, the construction of Runway No. 3, initially planned for phase 3, has been moved to phase 1. Set for completion in approximately 24 months by end-2026, this runway will significantly enhance LTA's operational efficiency, particularly as a backup to Runway No. 1 in case of operational issues.

Please find more details regarding the potential impact of this package and Long Thanh International Airport in our Thought Piece, "Long Thanh International Airport (LTA) - Mega airport project to impact multiple sectors," dated July 17, 2023.

Figure 380: Top-ten new ongoing airport construction projects in Asia-Pacific region

Airport	Estimated opening date	Investment (USDbn)	City	Country
Long Thanh International Airport (LTA)	**Early-2027***	**13.5****	**HCMC**	**Vietnam**
New Manila International Airport	End-2025	14.0	Manila	The Philippines
Gadeok Island Airport	End-2029	10.1	Busan	South Korea
Western Sydney International (Nancy-Bird Walton) Airport	End-2026	8.4	Sydney	Australia
New Daegu Airport	End-2030	7.1	Daegu	South Korea
New Jakarta Airport	End-2028	7.0	Jakarta	Indonesia
Bangabandhu Sheikh Mujib International Airport	End-2025	6.4	Dhaka	Bangladesh
Pearl River Delta International Airport	End-2035	5.1	Foshan	China
Dalian Jinzhou Bay International Airport	End-2025	4.3	Dalian	China
New Melbourne Airport	End-2030	3.7	Melbourne	Australia

Source: Centre for Aviation (CAPA), Vietcap (All data as of July 2024). *Note: Expected opening date for Phase 1, Vietcap's expectation (vs ACV's expectation of mid-2026). **At USD/VND of 25,000.

Figure 381: LTA and existing domestic airports

Projects	Status	Expected completion	Additional designed capacity (per annum)	Estimated cost (USD mn)
LTA	**Construction**	**2050**	**100 million passengers 5 million tonnes of cargo**	**14,930**
LTA - Phase 1	Construction	ACV: late 2026 Vietcap: 2027	25 million passengers 1.2 million tonnes of cargo	4,670
LTA - Phase 2	N/A	2035	25 million passengers 0.3 million tonnes of cargo	N/A
LTA – Phase 3	N/A	2050	50 million passengers 3.5 million tonnes of cargo	N/A
Vietnam's existing airports	**Operation**	**N/A**	**107 million passengers 1.6 million tonnes of cargo**	**N/A**
Tan Son Nhat International Airport (SGN)	Operation	N/A	28 million passengers 800,000 tonnes of cargo	N/A
SGN – Third passenger terminal	Construction	2025	20 million passengers	475
Noi Bai International Airport (HAN)	Operation	N/A	25 million passengers 800,000 tonnes of cargo	N/A
HAN – Second passenger terminal expansion	Initial construction	2025	5 million passengers	210
Other existing airports	Operation	N/A	54 million passengers	N/A

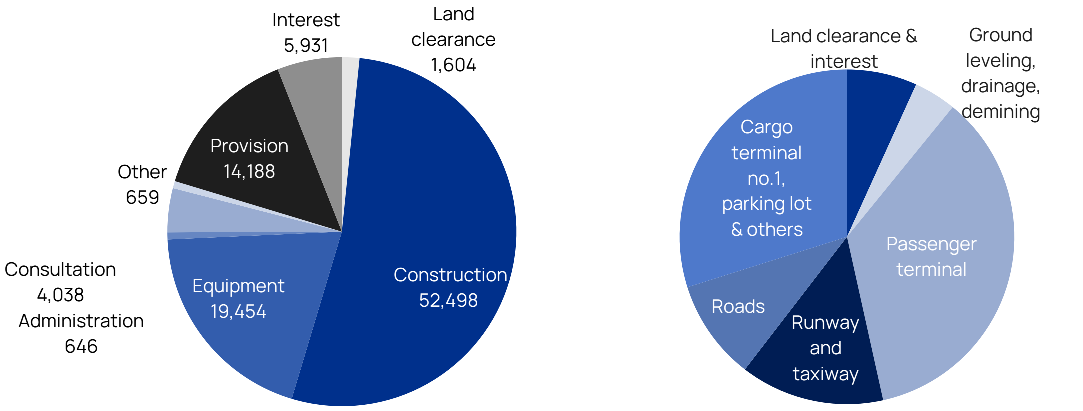
Source: ACV, Ministry of Transport, Vietcap compilation

Figure 382: Summary of LTA's Phase 1 investors and total investment costs for sub-projects

	Sub-project No.1	Sub-project No.2	Sub-project No.3	Sub-project No.4	Total
Category	Government buildings	Buildings for air traffic management	Essential airport construction, including general infrastructure and cargo terminal no. 1	Buildings for additional aviation services, including cargo terminal no. 2	
Investors	Government authorities and/or PPP investors if Government authorities cannot arrange capital	Vietnam Air Traffic Management Corporation	ACV	Ministry of Transport will oversee the bidding for the fourth sub-project	
Total investment cost (VND bn)	293	3,435	99,019	6,364	109,112
Total investment cost (USD mn) at VND/USD of 23,390)	13	147	4,233	272	4,665

Source: Decision No.1777/QD-TTg, ACV, Vietcap

Figure 383: Investment cost breakdown of LTA Phase 1 sub-project No.3 (VND bn)



Source: ACV (left), Vietcap estimates based on ACV's data (right)

Figure 384: Notable construction packages of LTA sub-project No.3

Category	Package	Value (VND bn)	Status	Winners/Bidders/ Potential listed beneficiaries
Ground leveling & drainage	3.4	4,412	Under construction	Winners Truong Son Construction & Consulting ACC Aviation Construction Phuc Loc Group Cienco 8 Vinaconex (HOSE: VCG)
Passenger terminal	5.10 - Passenger terminal body	35,234	Under construction	Winner: VIETUR consortium IC Istas Construction Industry and Trading (Turkey) Vinaconex (HOSE: VCG) HOSE: PHC, UPCOM: HAN Other potential listed beneficiaries: HOSE: DHA UPCOM: VLB
Cargo terminal	7.8	N/A	To be tendered in Q4 2024, construction to begin in Q1 2025	Potential listed beneficiaries: UPCOM: ACV
Infrastructure	4.6 – Runway, other apron	8,136	Under construction	Winner (one consortium) Vinaconex (HOSE: VCG) Truong Son Construction & Consulting ACC Aviation Construction Cienco 4 (UPCoM: C4G) Viet Nam Investment Development Construction JSC Six Four Seven Aeronautics Project Construction JSC
	4.7 – Passenger terminal apron	6,268	Under construction	Winners Truong Son Construction & Consulting ACC Aviation Construction Vietnam Export Import and Construction Corporation Vietnam Investment and Development Construction Corporation Cienco4 Group JSC Six Four Seven Aeronautics Project Construction JSC
	4.8 – Internal roads	11,066	Construction to begin in Q4 2024	Winners Truong Son Construction & Consulting Phuong Thanh Transportation Construction and Investment JSC Vietnam Export Import and Construction Corporation Construction Corporation No. 1 Asia Industrial Engineering JSC Information Technology Application and Development JSC Vietnam Investment and Development Construction JSC Dacinco Investment and Construction Company Limited 368 Construction and Installation Joint Stock Company
	4.9 – Fuel supply infrastructure	2,880	Under construction	PetroVietnam Technical Services Corporation (PTSC) BCA Thang Long One-Member Limited Liability Company
	6.12 – External roads T1, T2	2,785	Under construction	Winners Deo Ca Group (HOSE: HHV) Thang Long JSC (HNX: TTL) Khang Nguyen Infrastructure Construction Hoang Long Trading, Construction & Consulting 368 Construction
	11.5 – Parking lot	N/A	To be tendered in Q4 2024, construction to begin in Q1 2025	N/A

Source: ACV, Local media, Vietcap compilation

Update on planned cargo terminals at LTA phase 1

In conjuction with the development of the passenger terminal at LTA Phase 1, two cargo terminals—LTA Cargo Terminal No. 1 (LTA-C1) and No. 2 (LTA-C2)—are planned. These terminals will have respective capacities of 550,000 tonnes/year and 600,000 tonnes/year. The bidding process for LTA-C1 is expected to occur in late Q4 2024. However, no detailed plans have been announced for LTA-C2 yet. We anticipate that LTA-C2 will only be constructed once LTA-C1 achieves a high utilization rate. Further details for the two terminals are presented below.

Figure 385: Planned cargo terminals at LTA phase 1

	Cargo terminal No.1 (LTA-C1)	Cargo terminal No.2 (LTA-C2)
Ownership	ACV will invest in LTA-C1	Ministry of Transport to oversee bidding
Operation	Three possible scenarios: - ACV operates LTA-C1 independently - ACV partners with a professional company to co-operate the terminal - ACV hires a professional company to operate the terminal	N/A
Capacity (tonnes/year)	550,000	600,000
Required capex	~VND4tn (USD160mn)	N/A
Progress	Bidding expected in late Q4 2024 Construction to start in Q1 2025 Operation expected in Q1 2027	Bidding has not started

Source: ACV, SCS, Vietcap compilation

Timeline of LTA-C1: Bidding is expected to open in late Q4 2024 and construction will start from Q1 2025. Under normal conditions, construction will last 18 months, after which another 3-6 months is required for testing, commissioning, and receiving the license. As such, we expect the new terminal to start operations and recognize earnings in Q1 2027.

Investment: ACV will invest in the new terminal.

Operations: There are three potential scenarios:

1. ACV operates LTA-C1 independently.
2. ACV partners with a professional company to co-operate the terminal.
3. ACV hires a professional company to operate the terminal.

Scenario 1: We believe this scenario is unlikely, given ACV's lack of expertise in cargo terminal operations.

Scenario 2: We think the available options for ACV are SCS and Air Cargo Service of Vietnam (ACSV). SCS expressed its confidence in being selected as ACV's partner. Over the last three months, SCS has been consulting closely with ACV on the new terminal LTA-C1, with positive feedback from ACV.

Scenario 3: If this scenario materializes, we think SCS is likely to be the operator. This means SCS would generate fees from terminal operations but would be required to pay ACV a fee for using the infrastructure.

Potential upside, not factored in SCS's valuation: Although scenarios 2 and 3 represent upside potential to our forecasts for 2027F onward from operational fees income, we have not factored either into our valuation for SCS due to (1) uncertainty about which scenario will materialize, and (2) the absence of a revenue-vs-fee structure between SCS and ACV (if scenario 3 occurs).

Impact of LTA-C1 on SCS's earnings: ACV aims to shift 80%-90% of international passenger flights from Tan Son Nhat (SGN) to LTA, which will impact SCS's cargo throughput considerably, given that (1) 60%-70% of SCS's cargo volume is carried by passenger planes (while the remaining amount is carried by cargo planes), and (2) international cargo accounts for 90%+ of SCS's total throughput. However, we think ACV's plan is overly ambitious, and so we currently assume that 30%/40%/50% of international cargo will be relocated from SGN to LTA in 2027/28/29F, leading to respective declines in SCS's projected international throughput of 23%/6%/6% YoY and corresponding NPAT-MI reductions of 25%/7%/7% YoY during those years.

Please refer to our latest SCS Update Report, dated November 7, 2024, for more details on our assumptions and projections for SCS's earnings, taking into account the latest developments for LTA-C1.

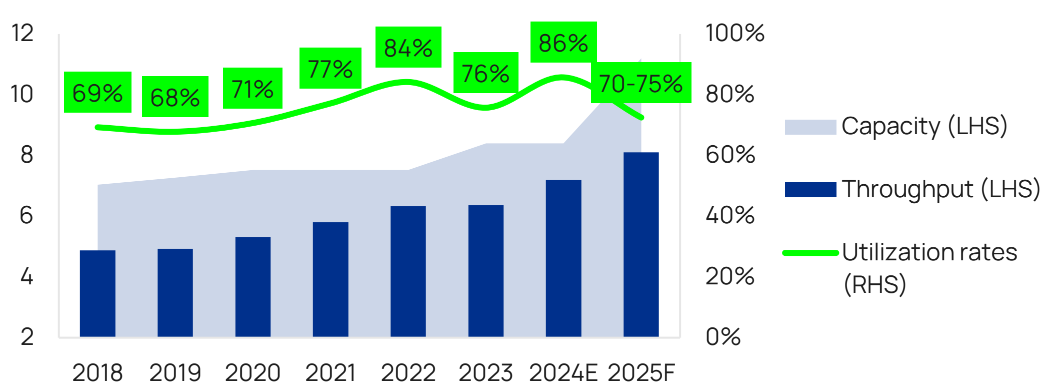
Seaports: We expect more intense competition in the north as new capacity comes online

In 2025F, Hai Phong will add ~2.8mn TEUs of new annual capacity (+33% vs 8.4mn TEUs currently), intensifying competition in an already competitive region. This includes (1) four berths at Lach Huyen deep-sea port (HICT) which will go online in early 2025 and add a total of ~2.2mn TEUs of annual capacity, and (2) the Nam Dinh Vu (NDV) phase 3 expansion which will become operational in late 2025 and add 600,000 TEUs in annual capacity.

The new berths at HICT consist of berths No. 3 & 4 (invested by Port of Hai Phong (PHP), in partnership with MSC, the global No. 1 container shipping company with a 20.1% market share in terms of fleet capacity, November 2024) and berths No. 5 & 6 (invested by Hateco, in partnership with Maersk, the No. 2 player with a 14.3% market share). We expect these shipping giants to shift some capacity to these new berths, boosting overall total demand growth in Hai Phong, but with a higher market share for HICT. However, we expect capacity additions to outstrip demand growth, lowering overall utilization rates in the region. Assuming a 10-15% demand growth rate (vs a 2019-23 CAGR of 7%), we estimate that the average utilization rate will drop to 70-75% vs 86% in 2024.

Regarding the impact on GMD, despite intensified competition, we project NDV's throughput and ASP to grow 7% and 3% YoY in 2025, respectively. Firstly, NDV and HICT serve different market segments. NDV serves medium-sized feeders on intra-Asia routes, while HICT targets large vessels for western markets. Secondly, NDV has a price advantage. HICT's ASP is 40-50% higher due to its deep-sea port facilities, discouraging smaller ships from using its services. Thirdly, NDV has a geographical edge in being located at the river mouth of the region. Coupled with the canal dredging project recently completed in July 2024, NDV can accommodate larger vessels (up to 48,000 DWT, higher compared to ~40,000 DWT of other ports in the region), reducing time and costs for clients and further boosting its competitiveness.

Figure 386: Container throughput, capacity, and utilization rate in Hai Phong (mn TEUs)



Source: VPA, Vietcap. 2024E throughput is Vietcap's calculation based on 9M results.

Figure 387: Overview of HICT berths No. 1 to No. 6

	Berths No. 1 & 2	Berths No. 3 & 4	Berths No. 5 & 6
Ownership	Saigon Newport (SNP), ONE, Itochu, Wan Hai	PHP	Hateco
Partner*	ONE (Top-6 market share, 6.3%), Wan Hai (Top-11, 1.7%)	MSC (Top-1, 20.1%)	Maersk (Top-2, 14.3%)
Operational timeline	May 2018	Q1 2025	Q1 2025
No. of berths	2	2	2
Length (m)	750	750	900
Designed capacity (mn TEUs)	1.0	1.1	1.1
Maximum ship size (TEUs)	12,000	8,000	8,000
Capex (VNDbn)	7,580	6,950	8,950
Capex (USDmn)	303	278	358

Source: Local media, Vietcap compilation. *Fleet capacity market share as of November 2024.

In the south, we expect an insignificant increase in competition as (1) demand is still solid, with 9M 2024 utilization rates of the region reaching 92%, and (2) there will be no capacity expansion in 2025F – the only upcoming one is Gemalink (GML) 2A but that will not be online until Q2-Q3 2026.

Figure 388: 9M 2024 throughput in the Cai Mep – Thi Vai region

'000 TEUs	Capacity	9M 2023 throughput	9M 2024 throughput	YoY	Utilization rates (9M)
TCIT	1,800	1,400	1,440	3%	107%
TCTT	1,000	460	710	54%	95%
CMIT	1,100	600	810	35%	98%
SSIT	1,500	390	490	26%	44%
GML	1,500	660	1,300	97%	116%
Total	**6,900**	**3,510**	**4,750**	**35%**	**92%**

Source: VPA, Vietcap

Impact of Circular 39 on increasing container handling fees on port operators and GMD's 2025F ASP outlook:

Port service fees for all port operations in Vietnam, including container handling fees, are regulated by the Ministry of Transport (MoT). The MoT sets a floor and cap for these fees, which means the actual fee charged can be set anywhere in between. According to the MoT, Vietnam's international container handling fees were materially lower than in other countries in the region. Therefore, an increase in the floor for international container handling fees should not diminish the competitiveness of Vietnamese ports.

On December 25, 2023, the MoT released Circular 39/2023/TT-BGTVT to replace Circular 54/2018/TT-BGTVT, regulating sea cargo handling fees. The Circular took effect from February 15, 2024, raising the floor and cap for cargo handling fees for import/export/transit/transshipment in all key regions by around 10%.

According to GMD, GML successfully increased handling tariffs beyond the new floor rates following the implementation of the regulation, which we believe was driven by the deep-sea port's unmatched competitive edge in the Cai Mep-Thi Vai area. This has been incorporated into our model, reflecting projected 15% ASP growth in 2024F. For 2025F, we anticipate GML's ASP to grow further by 10% YoY.

In contrast, NDV raised handling tariffs by 10% in compliance with the new regulation. However, GMD highlights that intense regional competition has forced NDV to reduce prices for other services and/or offer additional value-added services to retain customers. As a result, NDV's effective ASP growth remains limited despite the regulatory change. We currently estimate NDV's ASP to grow 3% YoY for both 2024F and 2025F.

Figure 389: Container handling service fees range for port clusters in Region 1*

	Circular 39/2023/TT-BGTVT		Circular 54/2018/TT-BGTVT		Change (%)	
	Floor	Cap	Floor	Cap	Floor	Cap
Domestic containers (VND/container)						
20-foot container	260,000	427,000	260,000	427,000	0%	0%
40-foot container	439,000	627,000	439,000	627,000	0%	0%
Container > 40 feet	658,000	940,000	658,000	940,000	0%	0%
Import, export, temporary import, and re-export (USD/container)						
20-foot container	36	53	33	53	+9%	0%
40-foot container	55	81	50	81	+10%	0%
Container > 40 feet	63	98	57	98	+11%	0%
Transshipment and transit (USD/container)						
20-foot container	28	40	25	40	+12%	0%
40-foot container	42	61	38	61	+11%	0%
Container > 40 feet	47	74	43	74	+9%	0%

Source: MoT, Vietcap. Note (*): Region 1 includes seaports located north of the 20-degree north latitude line, including seaports in Quang Ninh, Hai Phong, Thai Binh, and Nam Dinh, excluding the HICT deep-sea port.

Figure 390: Container handling service fees range for deep-sea ports (including HITC & GML)

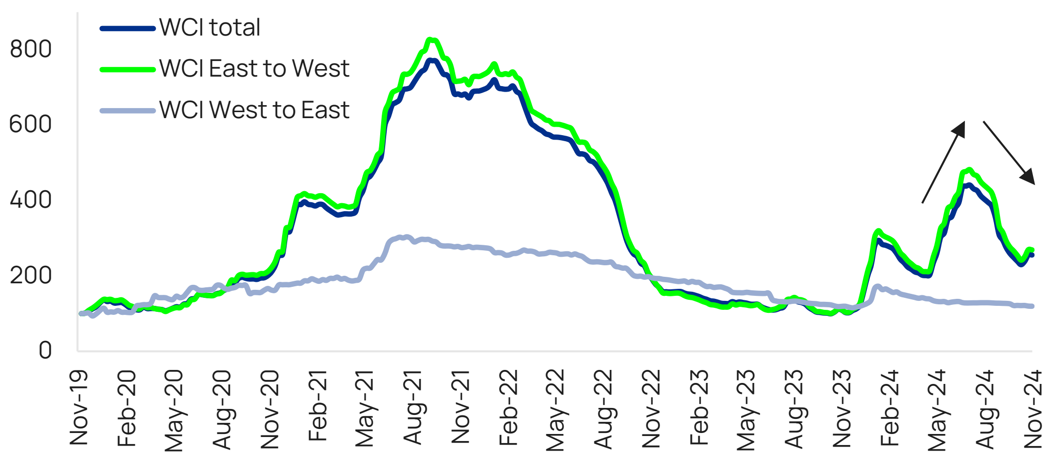
	Circular 39/2023/TT-BGTVT		Circular 54/2018/TT-BGTVT		Change (%)	
	Floor	Cap	Floor	Cap	Floor	Cap
Import, export, temporary import, and re-export (USD/container)						
20-foot container	57	66	52	60	+10%	+10%
40-foot container	85	97	77	88	+10%	+10%
Container > 40 feet	94	108	85	98	+10%	+10%
Transshipment and transit (USD/container)						
20-foot container	35	40	31	36	+13%	+11%
40-foot container	51	58	46	53	+11%	+9%
Container > 40 feet	56	65	51	59	+10%	+10%
Connecting barge services (USD/container) — not included in August 2023 draft						
20-foot container	8	15	6	15	+33%	0%
40-foot container	13	23	10	23	+30%	0%
Container > 40 feet	13	23	10	23	+30%	0%

Source: MoT, Vietcap

Seaports: We expect container freight rates and Southeast Asian port congestion to ease in 2025F

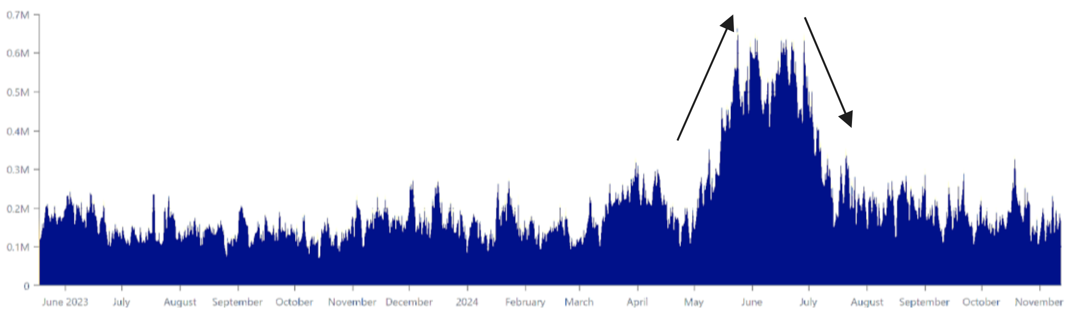
During H1 2024, **East-West container freight rates surged** due to disruptions on both the supply and demand sides. On the supply side, the Red Sea conflict and a drought at the Panama Canal forced ships to divert away from the Suez and Panama canals and take the longer route around the Cape of Good Hope or switch to trans-Pacific routes in the case of Asia–North America trade, resulting in increased transit time, slower reloading, and reduced shipping capacity availability. On the demand side, the reduced capacity prompted importers to frontload cargo to ensure timely deliveries. Additionally, a spike in demand for Chinese exports from the US, driven by fears of the new Biden-led US tariffs in Q3, intensified the strain. These factors caused severe port congestion in Southeast Asia, notably at Singaporean and Malaysian ports, further fueling higher freight rates. Among those, the Red Sea conflict was the greatest contributing factor. We note that container rates only surged on trade from the east to the west, whereas rates on the backhauls remained flat.

Figure 391: Drewry World Container Index (Index of November 2019 = 100)



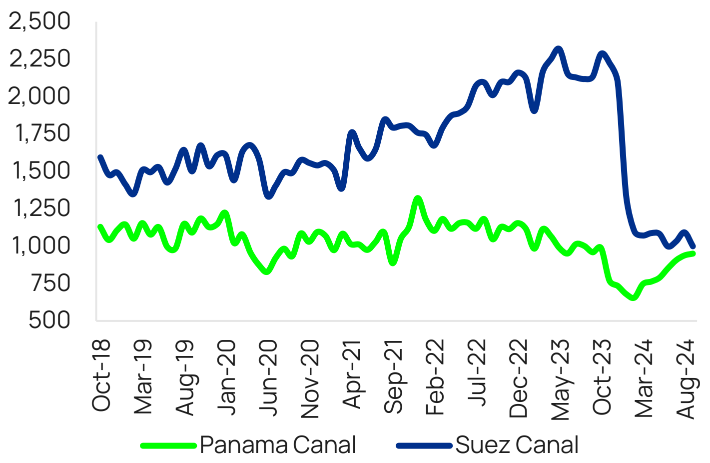
Source: Bloomberg, Vietcap. WCI Shanghai to West is average of WCI Shanghai to Rotterdam, Genoa, New York, and Los Angeles. WCI West to Shanghai is average of WCI Rotterdam and Los Angeles to Shanghai.

Figure 392: Port congestion in SEA surged in Q2 and eased in Q3 2024 (mn TEUs at anchorage)



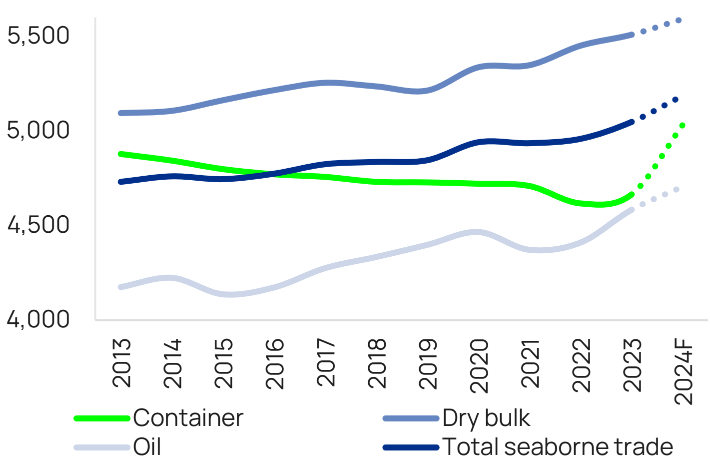
Source: Linerlytica, Vietcap

Figure 393: Number of ship transits through the Panama Canal and Suez Canal



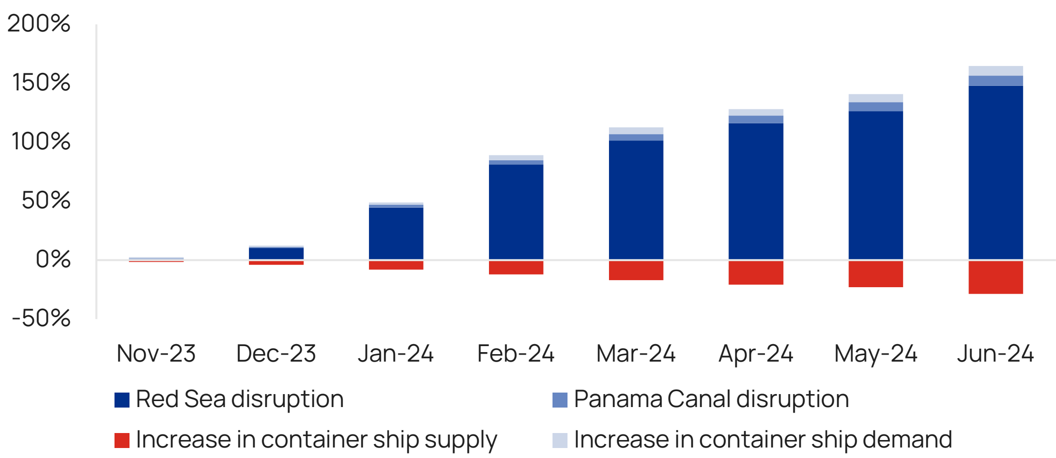
Source: UN Trade and Development (UNCTAD), Clarksons Research, Vietcap

Figure 394: Red Sea and Panama Canal disruptions increase shipping distances (nautical miles)



Source: UNCTAD, Clarksons Research, Vietcap. 2024F is the forecast number by UNCTAD.

Figure 395: Cumulative change of China Containerized Freight Index & breakdown by drivers



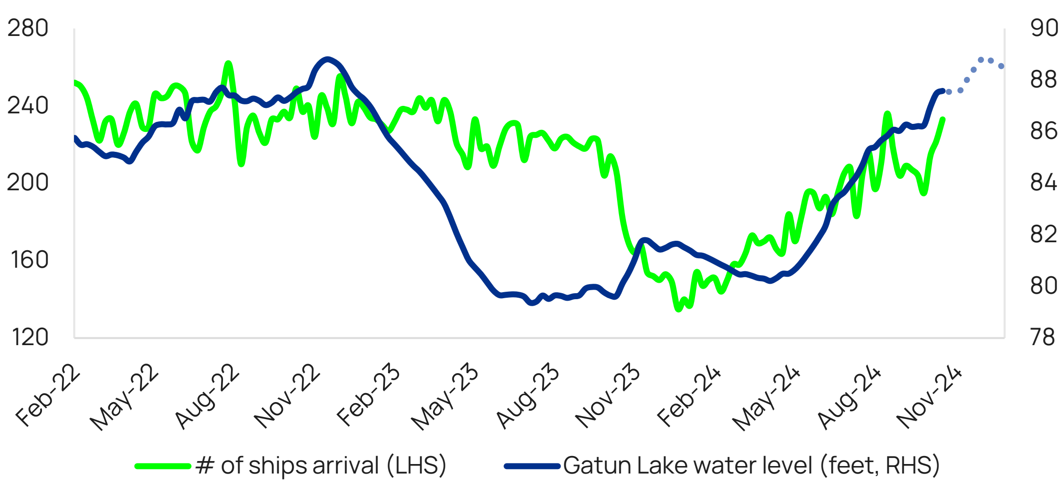
Source: UNCTAD, Vietcap

By early Q3 2024, **the situation improved** as (1) shippers adapted to the longer routes, purposefully bypassing the Red Sea, and (2) Panama Canal water levels normalized due to fading El Niño effects and the Government's water-saving measures. Additionally, 2024 ship capacity is set to expand significantly, with a record 3.1mn TEUs delivered in 2024 (+8.7% YoY), equivalent to 2.8mn TEUs to be added. Per BIMCO (an international association of shipowners and operators), this surge in supply is projected to outpace demand growth of 3.5% YoY. These factors have eased SEA port congestion and lowered freight rates.

Looking forward, **we expect container freight rates and SEA port congestion to ease in 2025F** vs 2024 as (1) La Niña raises the water level at the Panama Canal and (2) global ship supply is projected to grow at 6.4%, exceeding demand growth of 4.0%, per BIMCO. However, given global uncertainties, we note several key drivers that could impact our forecasts:

- **Upside:** The Israel-Hamas conflict improves, which eases tensions in the Red Sea region. This situation would allow ships on the East-West route to take shorter trips.
- **Upside:** Mr. Trump delivers on his promise to end the conflict between Russia and Ukraine, thereby alleviating pressure on the global supply chain.
- **Downside:** New tariffs on Chinese goods under Mr. Trump's presidency would prompt US importers to pull orders forward, causing a surge in East-West freight rates similar to 2018.
- **Downside:** US port strike resurfaces in Q1 2025 as East and Gulf Coast ports' workers, and their employers, fail to secure a final agreement, disrupting US port operations.

Figure 396: Number of vessels traveling through the Panama Canal and water level at its lake



Source: CEIC, Canal de Panama, Vietcap. Dotted line is projected figures by the Panama Canal authorities.

Vietcap

Figure 397: Ships diverting around the Cape of Good Hope

Source: Xeneta, Marine Benchmark, Vietcap (image taken on October 8, 2024)

Figure 398: Total capacity of container ships globally (mn TEUs)

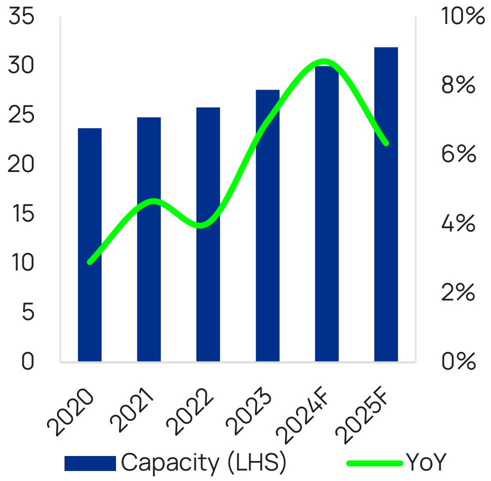


Figure 399: Changes in global container fleet capacity (mn TEUs)

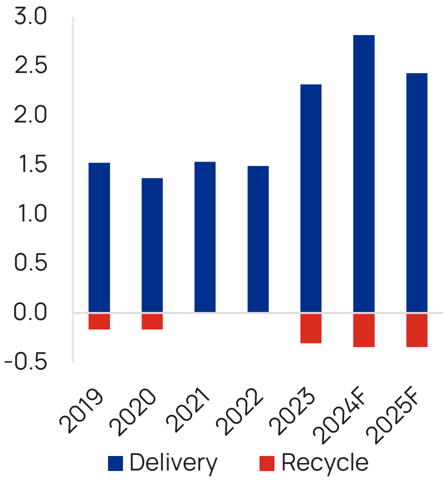
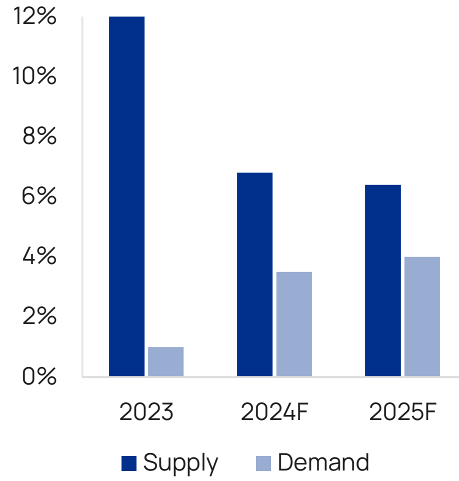


Figure 400: Container ship supply and demand growth (%)



Source: BIMCO, Clarksons Research, Vietcap

Top stock picks

OUTPERFORM – Taseco Air Services (HSX: AST)

AST is one of Vietnam's top airport retailers, with a presence across seven of the country's busiest airports.

For 2024F/25F/26F, we project 26%/30%/20% YoY growth in NPAT-MI, respectively, due to recovering air passenger numbers and new stores opening. Despite the implementation of ACV's revenue-sharing scheme that began in 2023, AST's strategic initiatives to improve operational efficiency have partially offset the impact, driving a PBT margin of 18.6% in 9M 2024 (vs 15.8% in 9M 2023; 23% pre-COVID-19).

AST's valuation looks attractive at a 2025F/26F P/Es of 13.1x/10.9x vs its 2018-2019 average TTM P/E of 15.0x.

Please find more details on AST in our latest Update Report.

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Industrial manufacturers: Steady rebound driven by cautious restocking

Restocking among major markets drives Vietnam's export rebound

- Export orders for Vietnamese manufacturers are on track to rebound, largely due to restocking activity amid healthier inventory levels among distributors and retailers.
- ASPs for export orders remain subdued, as distributors/retailers are exerting pressure on price reductions to stimulate demand, and to share the costs burden (i.e. shipping costs).
- Manufacturers have seen orders gradually coming back.
- Consensus reflects an improving outlook for the US, while maintaining a cautious stance for China.

Other indicators suggest a gradual recovery of exports in 2025

- Recovering chip sales, coupled with manufacturers' improving inventory levels, should boost yellow phosphorus demand.
- US mortgage rates are cooling but remain high, setting the stage for a gradual recovery in housing permits and, consequently, furniture imports.
- Cooling inflation is supporting US consumer confidence while weak consumer sentiment threatens deflation in China.
- Our in-house forecast anticipates 6.5% growth in Vietnam's 2025F exports. Additionally, we expect mid-to-high-single-digit growth for textiles and mid-teen growth for wooden furniture products.

Commodity prices are set for a modest recovery in 2024, with stronger momentum anticipated from 2025. Our forecasts for YoY changes in ASPs for 2025 are as follows:

- DGC's industrial phosphorus chemicals: +10%
- DHC's packaging paper: +10%
- DRC's heavy truck tires: 0%
- VHC's frozen filets: +6%

Downside risks:

- Weak Chinese demand resulting in prolonged deflation and softer commodity prices.
- Weaker-than-expected global growth hurting medium-term demand and orders.
- Higher shipping costs due to the Red Sea crisis hurting exporters' costs and importers' demand more than anticipated.
- Vietnam: Weaker VND could lead to large FX losses for companies with unhedged exposure.

Stock recommendations:

- **DGC** is a top-two yellow phosphorus global exporter. For 2024F/25F, we project NPAT-MI to remain flat in 2024F before increasing by 37% YoY in 2025F. This growth is driven by recovering yellow phosphorus demand and contributions from new factories, expected to account for 5% and 11% of NPAT-MI in 2024F and 2025F, respectively. Its resource and technological advantages support our average projected ROE for 2020-2025F of 34%. DGC's valuation remains compelling, with 2024F/25F P/Es at our target price (TP) of 14.5x/10.6x, implying an attractive PEG of 0.4/0.5.
- **DHC** accounts for 10% of Vietnam's packaging paper capacity and possesses superior cost advantages. For 2025F, we project a 39% YoY increase in NPAT-MI given an improving price spread (paper price – OCC price) and a higher carton box factories utilization rate – currently 75%. DHC's valuation looks attractive at a 2025F P/E of 8.1x vs its 10-year average of 10.7x.

Figure 401: Industrial manufacturers: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
STK	O-PF	95	0%	100%	79	0.0	24,450	32,200	25-Jul-24	31.7%	0.0%	31.7%
PTB	O-PF	172	0%	25%	2	0.5	64,100	80,700	09-Jul-24	25.9%	5.3%	31.2%
ACG	M-PF	246	0%	50%	28	0.0	40,800	48,800	27-Jun-24	19.6%	5.4%	25.0%
DRC	M-PF	135	51%	49%	54	0.6	28,500	33,800	28-Aug-24	18.6%	5.3%	23.9%
DGC	BUY	1,671	0%	49%	525	7.8	110,000	132,000	30-Oct-24	20.0%	2.7%	22.7%
DHC	O-PF	117	0%	50%	12	0.2	36,200	42,100	11-Sep-24	16.3%	4.7%	21.0%
TLG	O-PF	231	0%	100%	180	1.3	66,800	55,600	30-Aug-24	-16.8%	5.2%	-11.5%

Figure 402: Industrial manufacturers: Summary valuations

Code	Share price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/E LTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	EV/ EBITDA 2025F x	ROE 2025F %	P/B LQ x	Net D/E LQ x
STK	24,450	-42%	383%	67%	39.7x	45.8x	9.5x	5.7x	5.7x	4.6x	13%	1.4x
PTB	64,100	100%	32%	6%	13.0x	9.4x	7.1x	6.7x	7.2x	3.7x	19%	1.5x
ACG	40,800	21%	21%	15%	12.5x	12.2x	10.1x	8.8x	8.8x	6.6x	14%	1.5x
DRC	28,500	3%	13%	4%	14.0x	14.9x	13.2x	12.7x	8.0x	14%	1.8x	0.3x
DGC	110,000	0%	37%	22%	14.2x	14.2x	10.4x	8.5x	9.1x	9.5x	28%	3.0x
DHC	36,200	-14%	39%	26%	10.9x	11.2x	8.1x	6.4x	6.4x	5.3x	17%	1.5x
TLG	66,800	9%	20%	21%	11.6x	14.9x	12.5x	10.3x	10.3x	6.8x	23%	2.2x

Source: Company data, Vietcap forecast. Note: Share prices as of December 5, 2024.

Figure 403: Company names and tickers

Ticker	Company name	Products
ACG	An Cuong Wood-Working Materials	Decorative wood panels
DHC	Donghai of Bentre	Packaging paper, carton boxes for export goods, and domestic consumer goods
DGC	Duc Giang Chemicals	Chemicals for electronics and agrochemicals, fertilizers
DRC	Da Nang Rubber	Radial tires
PTB	Phu Tai JSC	Wooden furniture, paving stones, real estate
STK	Century Synthetic Fiber	Yarn for fabric makers
VHC	Vinh Hoan Corp	Pangasius fish filets, collagen, and gelatin for beauty products

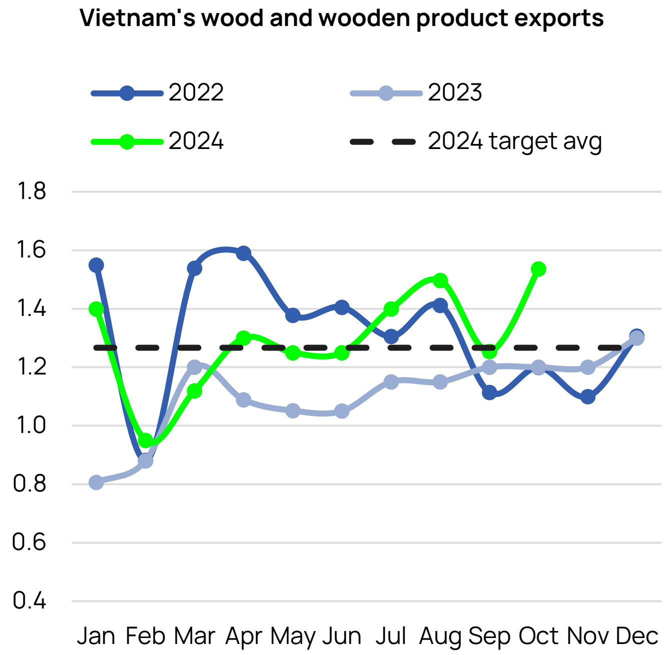
Source: Vietcap. Note: Please see the Consumer section of this report for data on VHC, which is discussed in this section due to its high exports/total sales.

Key sector themes and 2025 outlook

Restocking in major markets drive Vietnam's export rebound

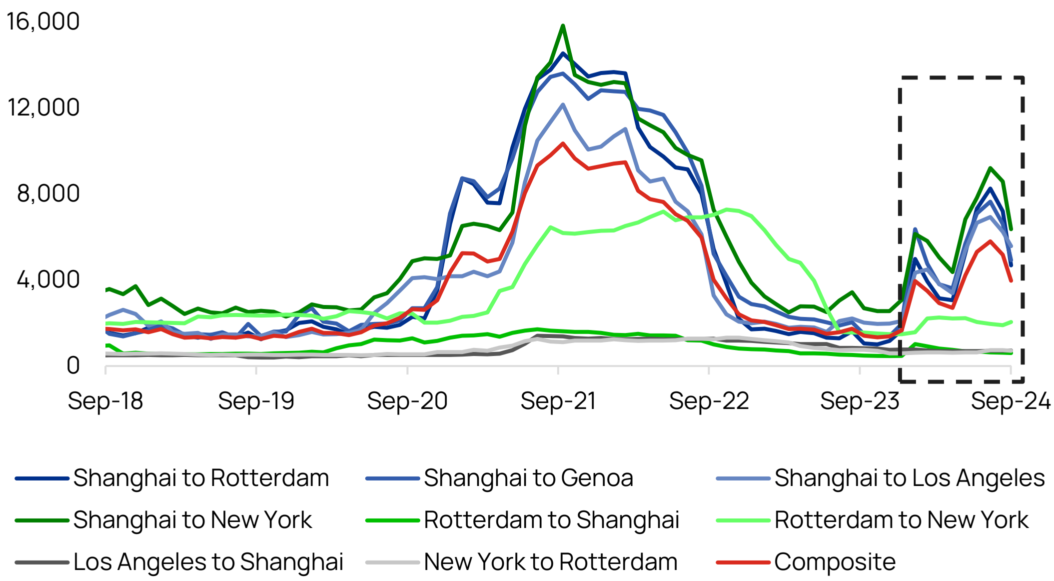
Our industrial manufacturer coverage is mostly export oriented. YTD 2024, key export products — textiles and wood/wooden categories — saw 8% and 20% YoY increases, respectively. This increase is largely due to restocking activity amid healthier inventory levels among distributors and retailers. However, ASPs for these products remain under pressure, as distributors/retailers are exerting pressure on price reductions to stimulate demand, and to share the burden of high shipping costs. Looking ahead to 2025, we anticipate a continued recovery in exports, supported by gradually improving economic conditions in key markets such as the US and EU. Additionally, as shipping costs are declining, pricing pressure on exporters should ease.

Figure 404: Select major Vietnamese export products (USD bn)



Source: Vietnam Customs, Agromonitor, Vietcap

Figure 405: World Container Index (WCI)



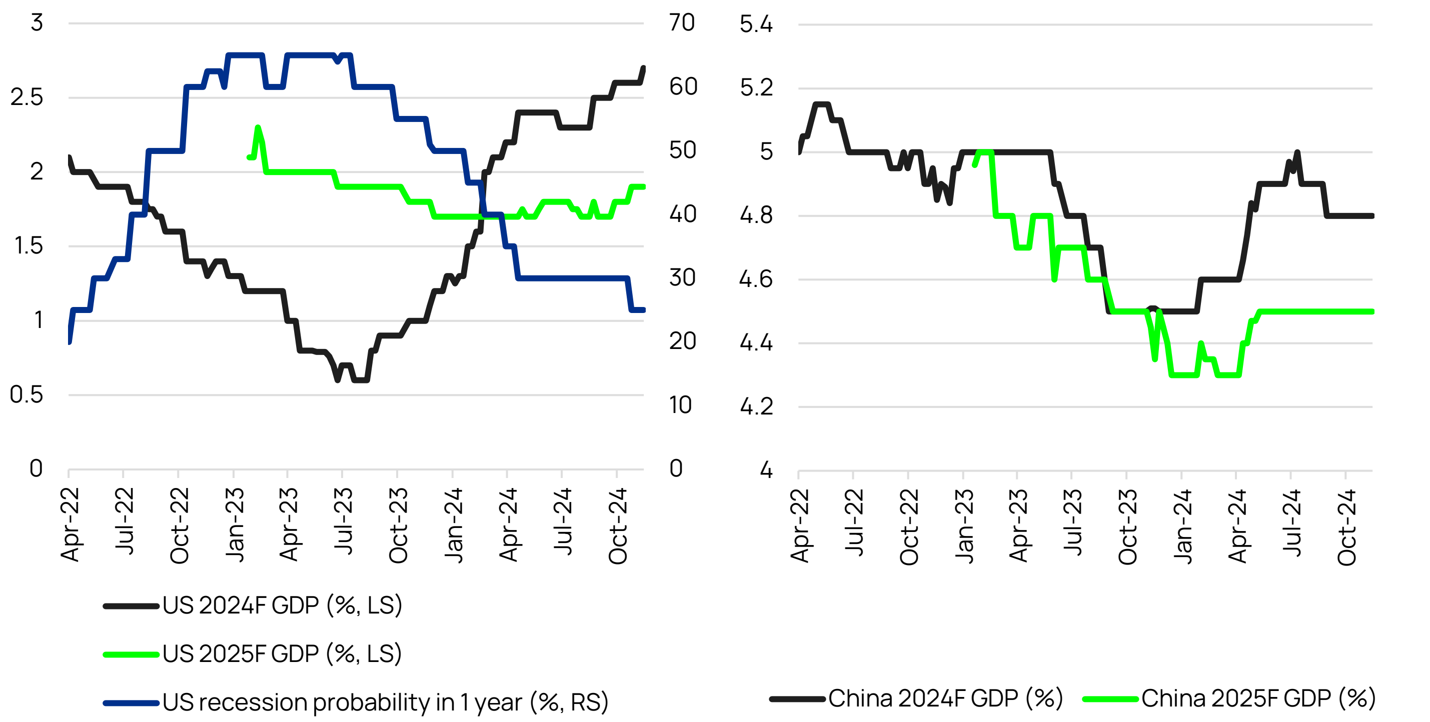
Source: Bloomberg, Vietcap

Consensus reflects an improving outlook for the US, while maintaining a cautious stance for China

Figure 406: US Leading Economic Indicators (LEI) signaled recession in September, but The Conference Board anticipates economy may slow in the near term

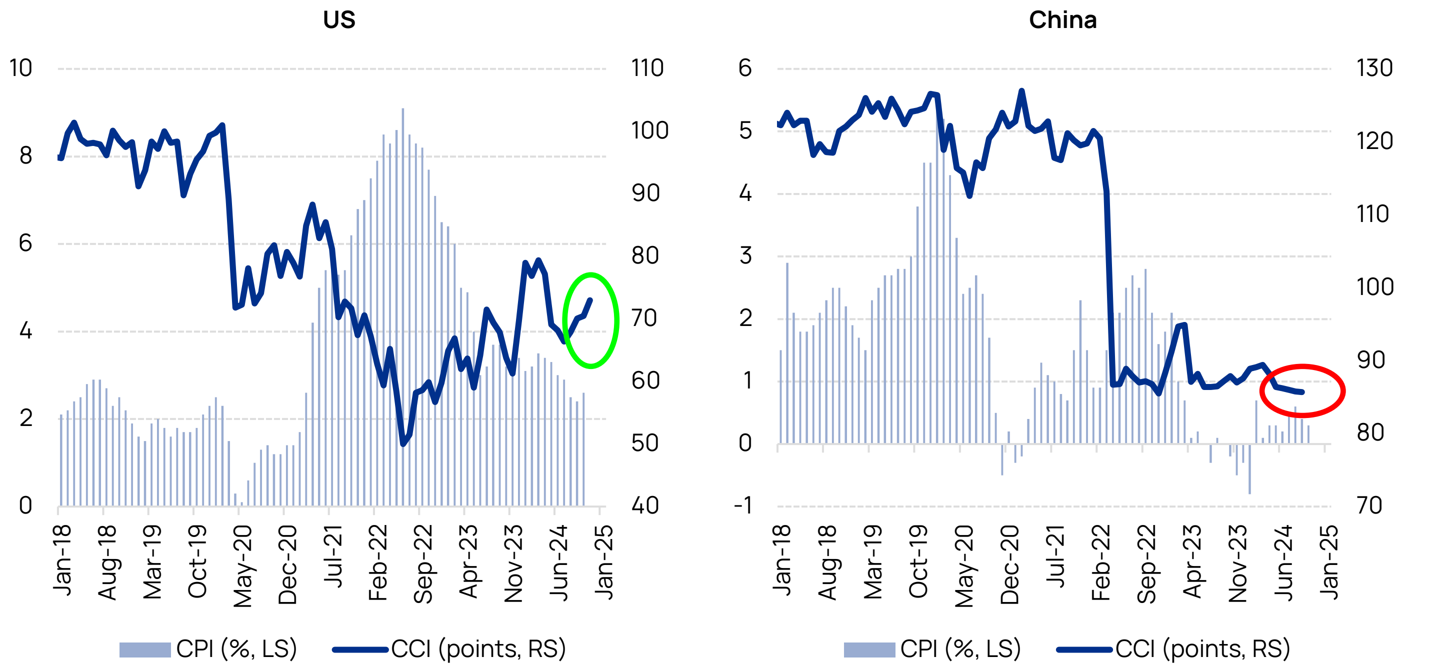
Source: The Conference Board, Vietcap

Figure 407: Bloomberg consensus indicates an improving global outlook, contrasted by a more cautious view on China's economic trajectory



Source: Bloomberg, Vietcap

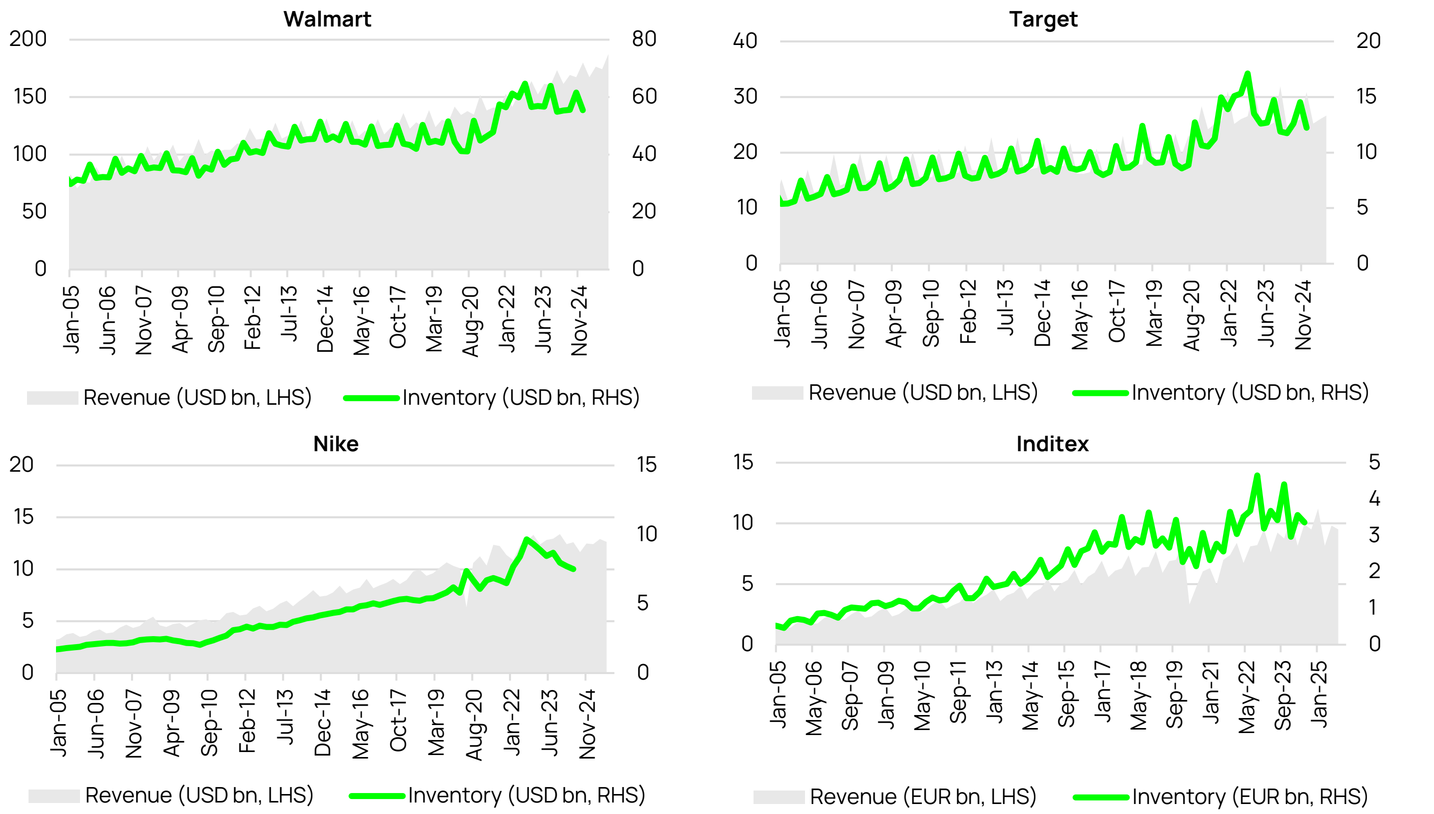
Figure 408: Consumer Confidence Index (CCI) and CPI: Improving inflation supports US CCI, while China grapples with prolonged deflationary pressure



Source: Bloomberg, Vietcap

Manufacturers' inventory levels are entering healthy territory, end-customers remain cautious

Figure 409: Brand owners and retailers project single-digit 2025 sales growth, but remain cautious about restocking despite healthy inventory levels



Source: Bloomberg, Vietcap. Note: Data for forward periods are Bloomberg consensus estimates.

Figure 410: Comments from Vietnam's textile associations and company management teams

VND bn	H1 2024 sales	YoY	2024G sales	YoY	Management comments on orders/demand outlook
VGG	4,933	20%	8,360	-3%	N/A
TNG	3,527	6%	7,900	11%	On track to meet its 2024 targets. 2024 orders have been fulfilled with an increase in FOB orders from major customers (i.e., Decathlon, Asmara, and Columbia Sportswear) as inventory levels in the US have decreased. For 2025, the company is receiving orders, with expectations driven by a recovery in demand and a shift of orders from Bangladesh.
MSH	2,104	-3%	5,200	14%	On track to meet its 2024 targets. Expecting gradual order and price increases in Q4 2024, with full recovery by 2025. Major brands such as Express, Nike, and Adidas are restructuring and exerting pressure on prices amid high shipping costs.
HTG*	2,273	0%	4,500	-4%	On track to meet its 2024 targets. Expecting no major improvement in Q4 2024.
M10*	1,979	4%	4,500	9%	2024 orders have been fulfilled. Expecting further improvements in 2025, mainly driven by a shift of orders from other countries (i.e., Bangladesh).
TCM	1,781	12%	3,707	11%	On track to meet its 2024 targets, having secured orders through end-2024 and is working on orders for Q1 2024. However, ASP has remained flat YoY.
Eclat Textile**	13,316	20%	N/A	N/A	Optimistic, driven by stronger order growth from mid-sized and high-priced brand clients. Rush orders are declining, and clients are place more of long-term orders.
Makalot**	12,601	8%	N/A	N/A	Expecting orders to remain strong, with low-teens YoY growth in Q4 2024 and GPM improving QoQ.
PPH*	1,042	33%	2,600	49%	N/A
STK	569	-18%	2,290	61%	STK is off track to meet its guidance. Expecting orders to slightly improve QoQ in Q4 2024, driven by revived demand and its direct customers' (fabric makers) expanded capacity. Expecting improved GPM driven by a higher contribution from recycled yarn.
GIL	367	-14%	1,500	60%	GIL still suffers from its concentration of revenue to Amazon, which canceled major orders to GIL. Current orders are also under pressure from customer price reductions.

Source: Company data, FiinPro, Vietcap. Note: *Vinatex's associates and subsidiaries; **FDI companies that also operate outside Vietnam — data converted from TWD to VND.

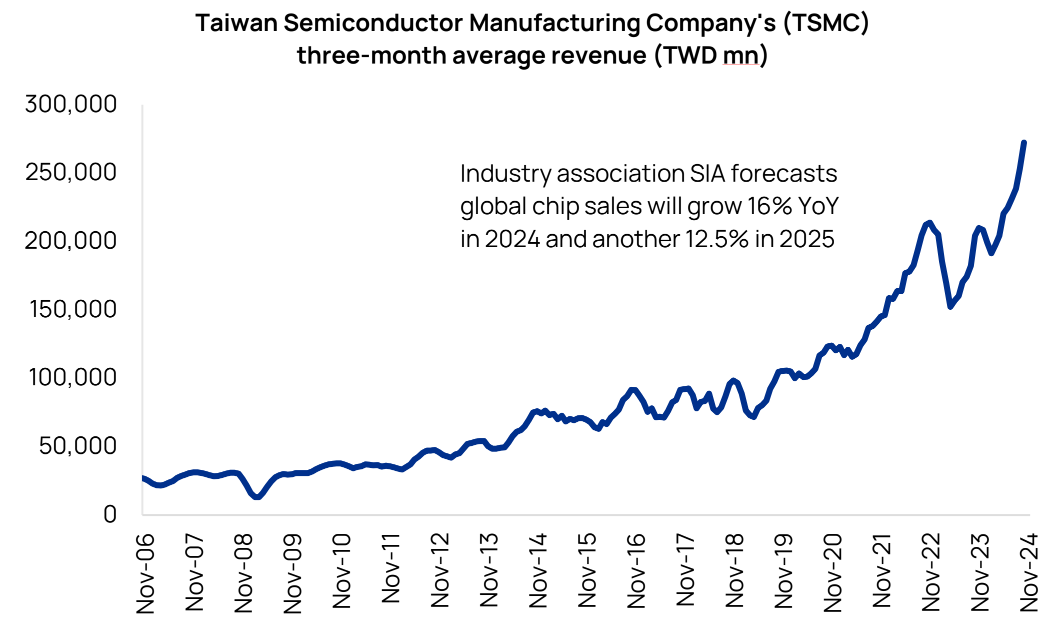
Figure 411: Comments from Vietnam's wooden product associations and company management teams

Company/Association	Comments on business outlook
Vietnam Wood and Forest Product Association Ho Chi Minh City Handicraft and Wood Industry Association	- Despite facing challenges such as stricter regulations on deforestation, anti-dumping investigations, and increased import costs due to rising global shipping rates, the wood export industry reports growth in all product categories, with a 20.2% YoY increase in total export value in 10M 2024. - Many companies have secured production orders through mid-2025. - Expecting further growth in the US market (54% total export value) in 2025, driven by Donald Trump's potential policy of imposing high tariffs on imports from China.
Vietnam Chamber of Commerce and Industry - Ho Chi Minh City Branch	- Acknowledges that Mr. Trump's policies led to trade balance adjustments, impacting Vietnamese exports to the US in his previous term. - Expecting positive impacts from potential regulatory adjustments in the wood sector as Mr. Trump returns.
Hiep Long Ltd. (Wooden product, Binh Duong Province)	- Expecting positive impacts from Mr. Trump's return as US president. - The US might impose high import tariffs (10-60%) for Chinese wooden products. Expecting Vietnamese products may benefit from relatively lower tariff rates.
PTB (Wooden products & paving stone, southern Vietnam)	- Wood segment: Remaining optimistic, expected to be 2024's primary growth driver. Expecting to continue its upward trajectory into 2025 amid the US market's demand recovery. - Stone segment: Facing challenges from high shipping costs amid intense competition. Revenue of ~VND100bn (USD4mn) is anticipated in Q1 2025 from paving stone supply contracts for Noi Bai Terminal 2, with upcoming bids for paving stone supply contracts at Long Thanh Airport (LTA) and Tan Son Nhat Airport (SGN) still pending.

Source: Vietcap compilation

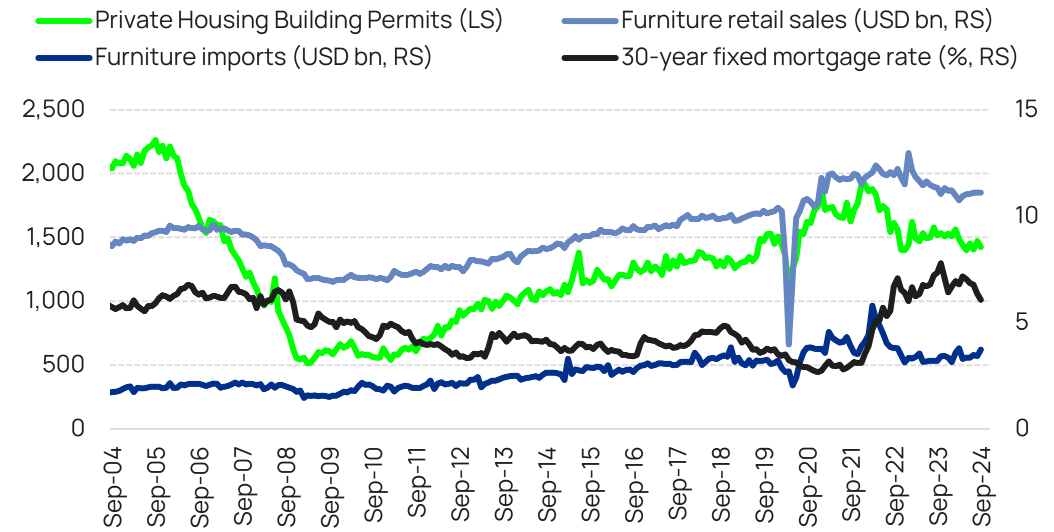
Other indicators suggest continued recovery in exports in 2025

Figure 412: Recovering chip sales, coupled with improving manufacturers' inventory levels should boost yellow phosphorus demand



Source: TSMC, SEMI, Vietcap

Figure 413: Cooling, but still high US mortgage rates, set the stage for gradual recovery in housing permits, and furniture imports as a result



Source: US Census Bureau, Freddie Mac, Vietcap

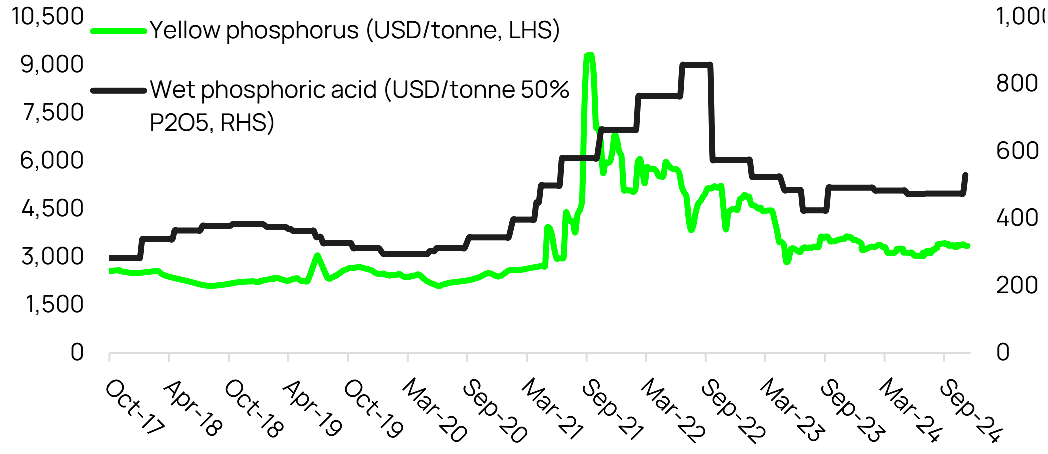
Figure 414: Vietcap's 2025F revenue forecasts for industrial manufacturers (VND bn)

Company	Commodity	2024E revenue	2025F revenue	YoY	Vietcap's comments on 2025F
DGC	Industrial phosphorus chemicals	5,780	7,358	27%	* Volume: +16% YoY, ASP: +10 % YoY * We expect recovering demand to help the company to fulfill phosphorus capacity of 70,000 tonnes/year.
DGC	Agricultural phosphate	3,746	3,907	4%	* Volume: +18% YoY, ASP: -11% YoY * We expect fertilizer demand to bounce back as fertilizer prices become more affordable going forward.
DHC	Packaging paper	2,873	3,146	10%	* Volume: +0% YoY, ASP: +10% YoY * We expect Vietnam's trade and consumption to increase, bolstering demand for packaging paper.
DRC	Heavy truck tires	5,042	5,501	9%	* Due to the recovery of domestic and overseas markets and expectations for a new radial tire factory to operate in Q1 2024.
PTB	Wooden furniture	3,537	4,103	16%	* We expect continued recovery in furniture exports, particularly in US demand.
PTB	Stone products	2,005	2,171	8%	* Led by higher quartz exports, coupled with revenue contributions from airports' paving stone supplements (i.e. Noi Bai Terminal 2).
STK	Polyester yarn	941	1,853	97%	* Supported by recovering orders. * STK is expanding its capacity by 60% in Q4 2024. We forecast STK's capacity utilization for all its factories in this period at 55%. * We foresee downside risk to our 2025F, given STK's ongoing automatic quality control system issues, pending a fuller review.
VHC	Frozen fish filets	12,168	14,949	23%	* Volume: +18% YoY, ASP: +6% YoY * We project that VHC's sales volume should continue to have strong momentum in Q4 2024 into 2025 as global food service operators increase restocking activities for the festive season, followed by a more vibrant consumption recovery that drives higher filet ASP in 2025.

Source: Vietcap

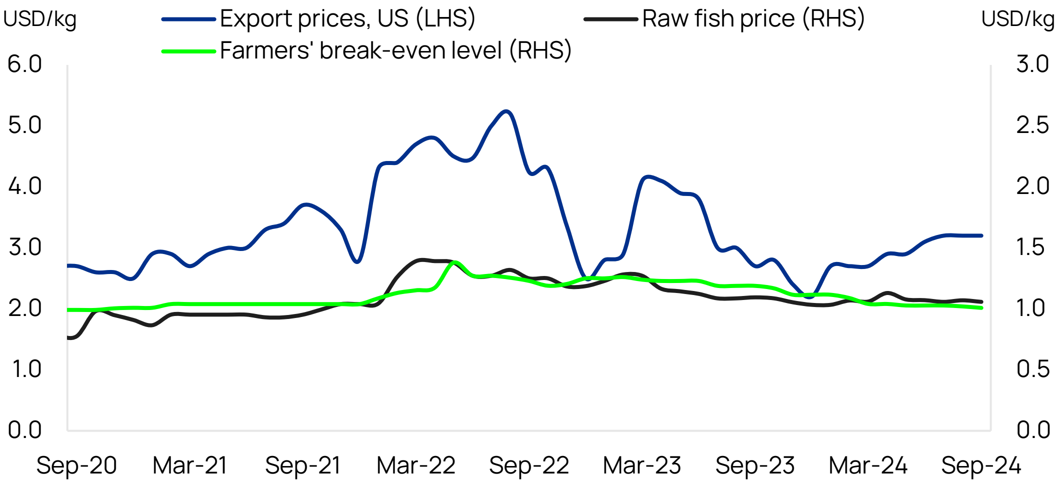
Commodity prices are set for a modest recovery in 2024, with stronger momentum anticipated from 2025 as demand continues recovering

Figure 415: Yellow phosphorus (P_4) and wet phosphoric acid (WPA) prices show modest recovery from mid-2023, with further increases anticipated in 2025 as demand recovers



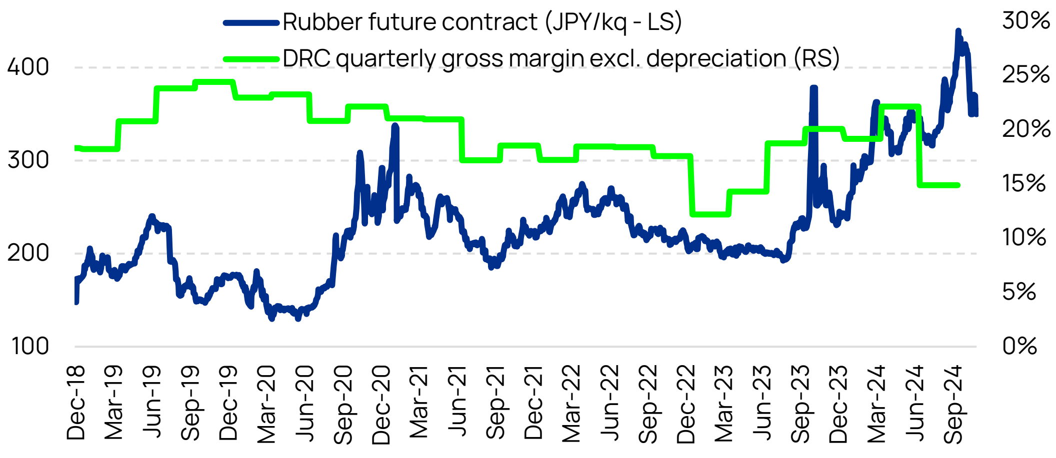
Source: Sunsirs, Bloomberg, Vietcap

Figure 416: VHC's monthly export prices to the US, Vietnam's raw pangasius prices* and farmers' break-even level



Sources: Agromonitor, Vietcap (Data to September 2024; * raw fish is the main input material in finished filets)

Figure 417: DRC normally stocks up on raw material inventory one quarter ahead



Source: Bloomberg, Vietcap compilation

Figure 418: Vietcap's 2025F ASP forecasts for commodity producers

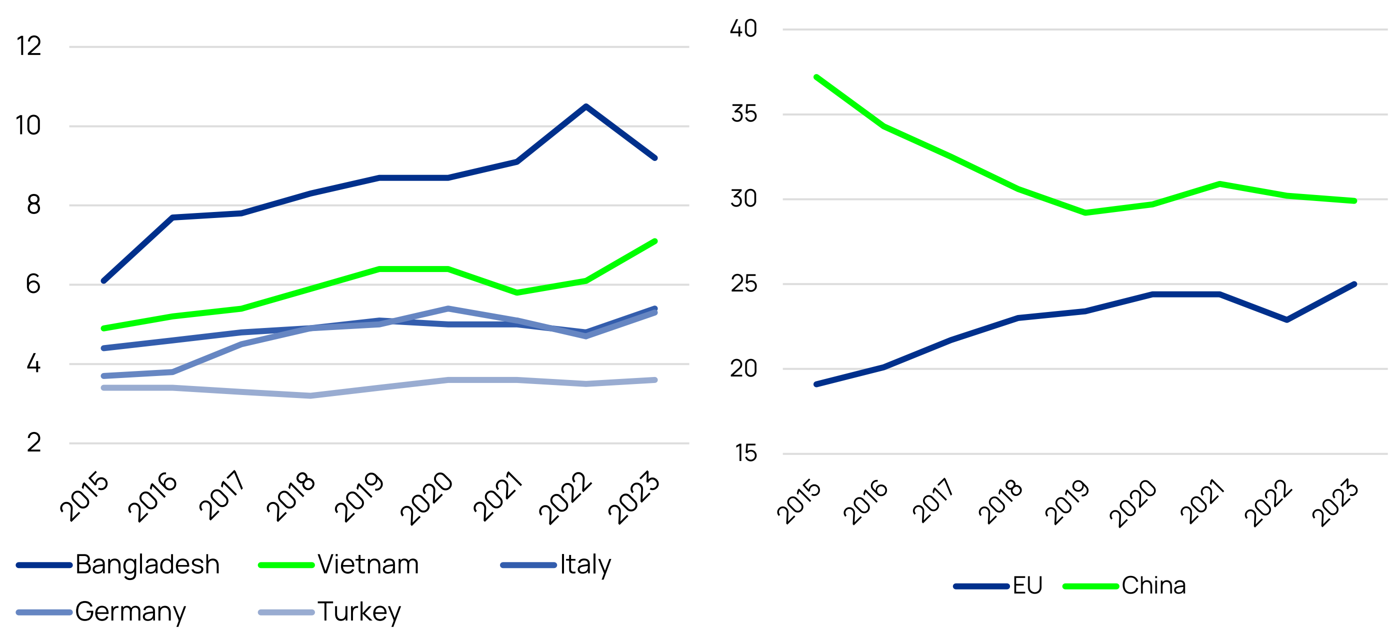
Company	Commodity	2024E ASP (VND/kg)	2025F ASP (VND/kg)	YoY	Vietcap's comments
DGC	Industrial phosphorus chemicals (on phosphorus content)	96,000	105,000	10%	Driven by continued recovery in demand. DGC increased phosphorus prices by 5-10% in September 2024 and expects further increases in 2025.
DGC	Agricultural phosphate (on phosphorus content)	52,000	46,000	-11%	Fertilizer prices remain elevated compared to pre-COVID levels. Going forward, falling oil prices could dampen the price of sulfur and thus, phosphate fertilizer prices.
DHC	Packaging paper	9,426	10,322	10%	Driven by rebound in Vietnam's trade and consumption. However, ongoing dumping from FDI companies amid weak consumption in China could limit the price increase.
DRC	Heavy truck tires (VND/unit)	3,824,982	3,831,367	0%	We project ASP to remain flat YoY in 2025F due to intense competition in both domestic and overseas markets.
VHC	Frozen fish filets	77,500	82,500	6%	We project ASP to rebound 6% YoY in 2025F from a low base in 2024F.

Source: Vietcap

Textiles: Vietnam can continue gaining market share by expanding upstream

Garment export shares left by China have been picked up mostly by Vietnam and Bangladesh. Looking ahead, we believe Vietnam can further expand its market share by leveraging (1) competitive sourcing costs highlighted by the USFIA, which include labor, transportation, and tariffs—offering a more comprehensive perspective beyond simple labor cost comparisons, and (2) its geographic proximity to China, making it an attractive alternative for businesses diversifying supply chains amid China's rising production costs and trade tensions. According to the USFIA, 80% of US fashion companies plan to reduce their sourcing of apparel from China in 2024-2025. Additionally, we anticipate (3) that Bangladesh's political unrest could drive short-term market share gains, especially during the peak season of winter holidays.

Figure 419: World's major apparel exporters and market shares (%)



Source: International Trade Center, Vietcap compilation

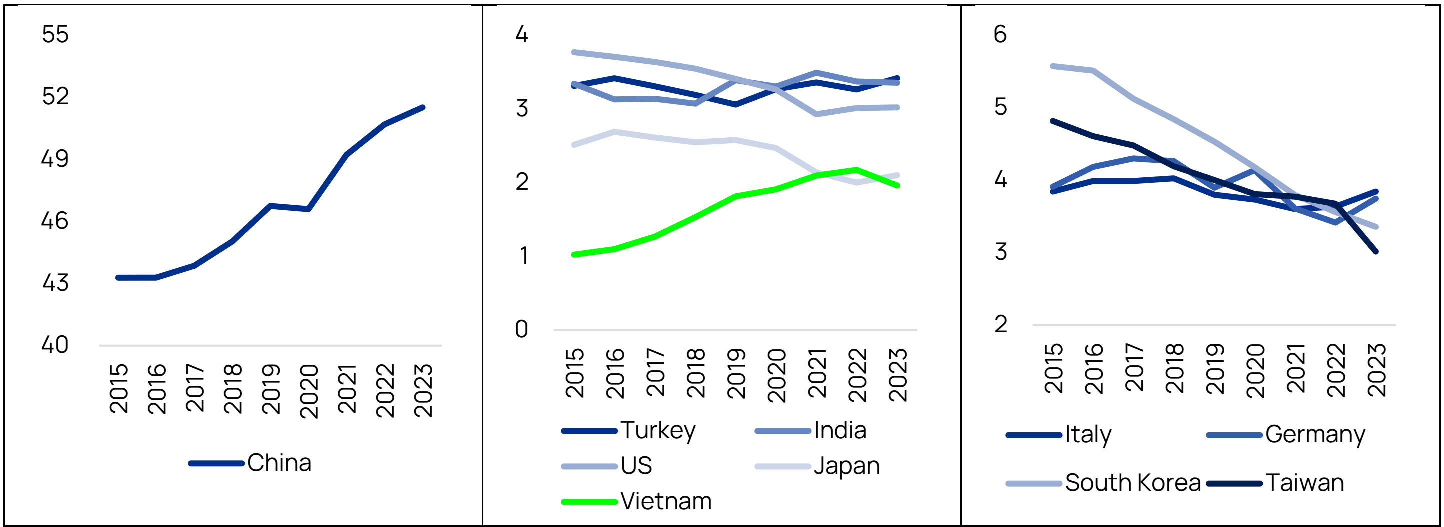
Figure 420: Strengths and weaknesses of primary textile and apparel sourcing bases in 2024 by country

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Minimum order quantity (MOQ)	Vertical integration	Risk of labor and social compliance	Risk of environmental compliance	Geopolitical risk
Western Hemisphere	USA	● 4.0	◆ 1.5	▲ 3.0	● 4.0	◆ 2.5	● 4.0	● 4.0	● 4.0
	Mexico	● 4.0	▲ 3.0	▲ 3.5	▲ 3.0	▲ 3.0	▲ 3.0	▲ 3.0	▲ 3.0
	CAFTA-DR	● 4.0	▲ 3.5	▲ 3.0	◆ 2.5	▲ 3.0	▲ 3.0	▲ 3.0	▲ 3.5
	Colombia	▲ 3.5	▲ 3.0	▲ 3.0	▲ 3.5	▲ 3.5	▲ 3.0	▲ 3.0	▲ 3.5
Asia	China	▲ 3.5	● 4.0	● 4.0	▲ 3.5	● 4.5	◆ 2.0	◆ 2.0	◆ 1.5
	Vietnam	▲ 3.0	▲ 3.5	▲ 3.5	▲ 3.0	▲ 3.0	▲ 3.0	▲ 3.0	▲ 3.0
	Bangladesh	◆ 2.0	● 4.0	▲ 3.0	◆ 2.5	▲ 3.0	◆ 2.5	◆ 2.5	▲ 3.0
	Indonesia	◆ 2.5	▲ 3.5	▲ 3.5	▲ 3.0	◆ 2.5	▲ 3.0	◆ 2.5	▲ 3.5
	India	◆ 2.5	▲ 3.5	▲ 3.5	▲ 3.0	● 4.0	◆ 2.5	◆ 2.5	▲ 3.5
	Sri Lanka	◆ 2.0	▲ 3.5	▲ 3.5	▲ 3.0	◆ 2.5	▲ 3.0	▲ 3.0	▲ 3.5
	Cambodia	◆ 2.5	▲ 3.5	▲ 3.0	◆ 2.5	◆ 2.5	◆ 2.5	◆ 2.5	▲ 3.0
Rest of the world	Europe	▲ 3.5	◆ 2.0	▲ 3.0	▲ 3.5	▲ 3.0	● 4.0	● 4.0	● 4.0
	Türkiye	▲ 3.0	▲ 3.0	▲ 3.5	▲ 3.0	● 4.0	▲ 3.0	▲ 3.0	▲ 3.0
	AGOA	◆ 1.5	● 4.0	◆ 2.5	◆ 2.5	◆ 1.5	▲ 3.0	◆ 2.5	▲ 3.0
	Egypt	▲ 3.0	● 4.0	▲ 3.0	◆ 2.5	▲ 3.0	▲ 3.0	▲ 3.0	▲ 3.0

Note: The figures in the table reflect respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); ▲ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author's evaluation of each country's competitiveness.

Source: United States Fashion Industry Association, Dr. Sheng Lu

Figure 421: Market share of world's top-ten fabric exporters (%)



China's exports of fabric grew as garment production left the country much faster than fabric production. The country remains dominant in fabric making.	Many Taiwanese and Chinese FDI firms plan to keep/establish a fabric/yarn presence in Vietnam to benefit from FTAs, while diversifying garment manufacturing to other countries. Vietnam has emerged as one of the top-ten countries in terms of fabric exports and was the only country apart from China that recorded significant growth over the past five years.

Source: International Trade Center, Vietcap

Figure 422: Vietnam's 2021-2030 development plan for the textile industry targets single digit export growth and more domestic raw materials

	2020	2022	2025G	2030G
Exports (USD bn)	33.5	42	50-52	68-70
	2021-2025		**2026-2030**	**2021-2030**
Exports growth per annum	7.5%-8.0%		N/A	6.8%-7.2%
Localization rate*	51%-55%		56% - 60%	N/A

Raw materials	**Garment**
- Reduce imports, grow local production - Functional yarn, high value-added yarn, eco-friendly yarn - Knitted fabric, woven fabric, functional fabrics - Centralized industrial parks that focus on textiles - Prioritize investors with large capacity and good reputations - Prioritize synchronized and closed production and waste treatment	- Develop higher value-added garments - Relocate to regions with favorable labor sources and infrastructure - Invest in automated machines and expanding production to all garment-making tasks

Source: Ministry of Industry and Trade, Vietcap (* Locally produced raw materials/raw materials used)

Top stock picks

BUY – Duc Giang Chemicals (HSX: DGC)

DGC is a top-two global exporter of yellow phosphorus. Its advantages in its resources and technology support our average 2020-2025F forecast ROE of 34%.

We forecast 2024F/25F NPAT-MI of VND3.1tn/VND4.3tn (USD125mn/USD171mn; flat/+37% YoY), respectively, driven by recovering yellow phosphorus demand, coupled with contributions from new factories - ethanol starting from Q4 2024 and chlor-alkali from Q4 2025. We currently forecast these projects to contribute 5%/11% to NPAT-MI in 2024F/25F, respectively.

DGC's valuation remains compelling, with 2024F/25F P/Es at our target price (TP) of 14.5x/10.6x, implying an attractive PEG ratio of 0.4/0.5. We currently have a BUY rating for DGC with a TP of VND132,000/share.

Please find more details on DGC in our latest Update Report.

OUTPERFORM – Dong Hai Ben Tre (HSX: DHC)

DHC accounts for 10% of Vietnam's packaging paper capacity and possesses superior cost advantages.

We forecast 2024F/25F NPAT-MI of VND266bn/VND369bn (USD10.6mn/USD14.8mn; -14%/+39% YoY), respectively, driven by an improving price spread (paper price – OCC price) and a higher carton box factories utilization rate – currently 75%.

DHC's valuation looks attractive at a 2025F P/E of 8.1x vs its 10-year average of 10.7x. We currently have an OUTPERFORM rating for DHC with a TP of VND42,100/share.

Please find more details on DHC in our latest Update Report.

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Construction materials: Recovery gains traction

Demand recovery gained traction throughout 2024 despite opposing forces at play

- Construction steel has recorded positive monthly YoY growth since December 2023, driven by strong infrastructure spending and a gradual uptick in industrial construction, outweighing sluggish civil construction demand due to a weak real estate market.
- Flat steel products (i.e., hot-rolled coil, galvanized steel sheets, and steel pipes) have seen 20% monthly YoY growth due to a recovery in export demand from 2023's low base.

We expect 2025F domestic volume growth in the low teens across construction materials and remain cautiously optimistic for steel export demand

- **Domestic demand:** We expect infrastructure spending to remain the key driver for construction materials demand in 2025F. At the recent 15th National Assembly, the 2025 public investment plan was raised by 30% compared to the previous target set in the Government's 2024-2026 Finance and State Budget plan submitted in October 2023, equivalent to a historically high amount of VND791tn (USD31.6bn; +17% YoY).
- **Exports:** Leading indicators for construction materials demand from the US and EU show that construction demand should gradually recover in 2025F. This optimism is partially offset by our belief for more anti-dumping (AD) tariffs being imposed on Chinese steel exports, which will increase competitive pressure on Vietnamese steel exports due to higher excess supply of low-priced Chinese steel in the global market.

We cautiously expect a slow recovery in commodity prices in 2025F, supporting margin expansion for Vietnamese steelmakers

- While China's private property sector remains under pressure, we are cautiously optimistic about a gradual recovery in steel-related commodity prices in 2025F. This outlook is supported by: (1) stabilization in China's demand decline as 2024 policy measures take effect, (2) efforts to curb capacity expansion, (3) gradual construction demand growth outside China, and (4) improved market sentiment driven by continued intervention by the Government to support the property sector. However, we anticipate a bumpy recovery as market sentiment adjusts to real economic data from China.
- For 2025, we currently assume that steel output prices will increase by more than input prices due to strong infrastructure spending and gradual growth in export demand.
- For BMP, we conservatively assume a slight margin compression from 2024's record-high base as input plastic prices recover from a low base.

Downside risks:

- Slower-than-expected construction demand recovery in the US and EU.
- Prolonged weak demand in China, extending commodity price deflation.
- Extended slowdown in Vietnam's property market.
- Delayed budget disbursement for infrastructure projects.
- Intensified global AD tariffs on Chinese steel, escalating competitive pressure in exports.

Stock recommendations:

- **HPG** offers a solid growth investment opportunity, with projected 2025/26/27F NPAT-MI growth of 27%/28%/20%, driven by rising domestic construction demand and increased HRC capacity from DQSC2. Our current target price implies a 2025F P/E of 15.1x, vs a 2024-27F CAGR of 25%, equaling an attractive PEG ratio of 0.6x. The 2025-27F average P/E is 12.3x (+1 std. dev vs HPG's 10Y average P/E) which we think is justified given strong 2025-27F growth.
- **BMP** remains our preferred defensive pick due to its stable earnings vs steelmakers, solid dividend yield (9.5% based on the next 12M projected dividends), and low financial risk. For 2025F, we project +1% YoY NPAT-MI vs 2024's high base as we expect (1) a further recovery in the southern property market, and (2) BMP raising its ASP to partially offset a projected increase in input prices, given its strong market position in the south (~50% market share).

Figure 423: Construction materials: Key data

Code	Rating	Market Cap USD mn	State O'ship %	Foreign Limit %	Foreign Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target Price Updated	Upside %	Dividend Yield %	12M TSR %
HPG	BUY	7,125	0%	49%	1,946	22.0	27,850	35,700	07-Nov-24	28.2%	0.0%	28.2%
NKG	M-PF	203	0%	50%	87	2.9	19,300	22,400	12-Sep-24	16.1%	0.0%	16.1%
BMP	BUY	413	0%	100%	66	1.2	126,000	130,300	16-Sep-24	3.4%	9.5%	12.9%
HSG	M-PF	467	0%	49%	182	4.0	18,800	19,600	12-Sep-24	4.3%	0.0%	4.3%

Source: Company data, Vietcap forecast. Share prices as of December 5, 2024.

Figure 424: Construction materials: Summary valuations

Code	Share price VND ps	EPS g 2024F %	EPS g 2025F %	EPS g 2026F %	P/E LTM x	P/E 2024F x	P/E 2025F x	P/E 2026F x	EV/ EBITDA 2025F x	ROE 2025F %	P/B LQ x	Net D/E LQ %
HPG	27,850	80%	27%	27%	15.2x	15.0x	11.8x	9.3x	7.3x	13%	1.6x	0.5x
NKG	19,300	466%	31%	8%	12.6x	8.9x	6.8x	6.3x	6.1x	15%	1.0x	0.9x
BMP	126,000	-2%	1%	-6%	10.2x	10.2x	10.1x	10.7x	5.2x	38%	3.5x	-0.8x
HSG	18,800	2689%	47%	28%	15.7x	15.0x	10.2x	7.9x	6.5x	10%	1.1x	0.4x

Source: Company data, Vietcap forecast. Share prices as of December 5, 2024.

Figure 425: Company names and tickers

Ticker	Company name	Products/Services
BMP	Binh Minh Plastics	Plastic pipes
HPG	Hoa Phat Group	Long steel (rebar, wire rods) and flat steel (hot-rolled-coil and galvanized steel sheets)
HSG	Hoa Sen Group	Galvanized steel sheets and steel pipes
NKG	Nam Kim Steel	Galvanized steel sheets and steel pipes

Source: Vietcap

Key sector themes and 2025 outlook

Demand recovery gained traction throughout 2024 despite opposing forces at play

Despite the sluggish domestic real estate sector, construction materials sales volume has experienced double-digit growth overall in 9M 2024 from 2023's low base, mainly driven by demand from infrastructure and industrial construction as well as export recovery. Nevertheless, the recovery path of construction materials demand has been suppressed by rising exports from China to the global market amid weak demand in mainland China.

Construction steel recorded positive monthly YoY growth since September 2023 after twelve consecutive quarters of declining sales. Since then, sales volume of this key construction material has become a reflection of the bumpy recovery process of construction material demand throughout 2024. We believe such large swings in monthly YoY sales growth of construction steel was a result of different opposing forces coming into play in 2024. On the positive side, continued efforts from the Government to push for infrastructure spending has been the key driver for demand recovery, coupled with a gradual uptick in industrial construction. On the downside, the domestic real estate sector remains sluggish, with limited new project launches and slow commencement of construction activities. Additionally, the negative impact of Typhoon Yagi has further pressured demand. For 9M 2024, total construction steel sales volume recorded 12% YoY growth.

Domestic demand has remained the major driver of improving construction steel sales volumes in 2024, growing 10% YoY in 9M 2024 and contributing 83% of total construction steel sales volume. On top of that, export volume recorded impressive growth of 19% YoY in 9M 2024 and contributed 17% of total construction steel sales volume vs 16% in 9M 2023.

HPG, the market leader in construction steel, continued to shine with industry-outperforming sales volume growth of 29% YoY in 9M 2024, increasing its market share to 38% in 9M 2024 from 35% in full-year 2023.

Figure 426: Total industry annual construction steel sales volume and YoY growth

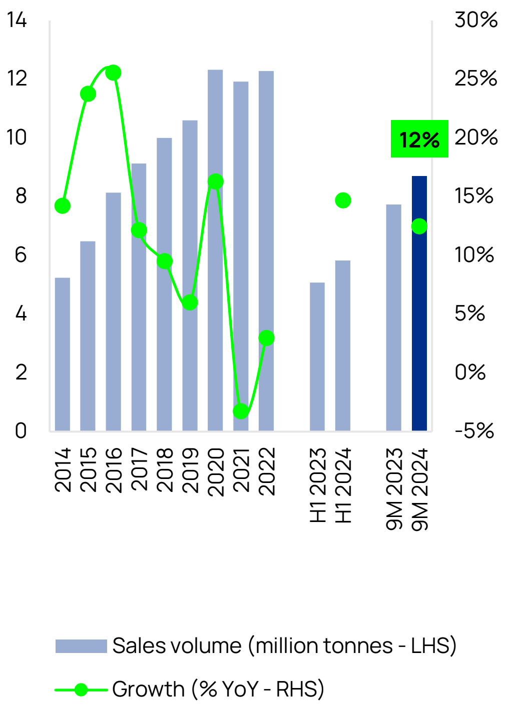


Figure 427: Total industry monthly construction steel sales volume and YoY growth by market

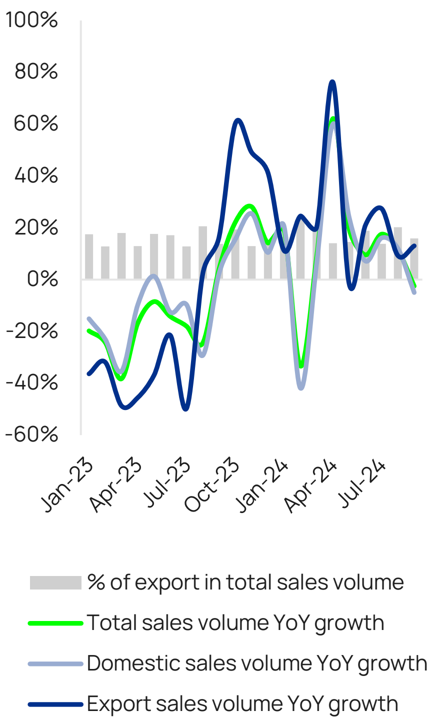
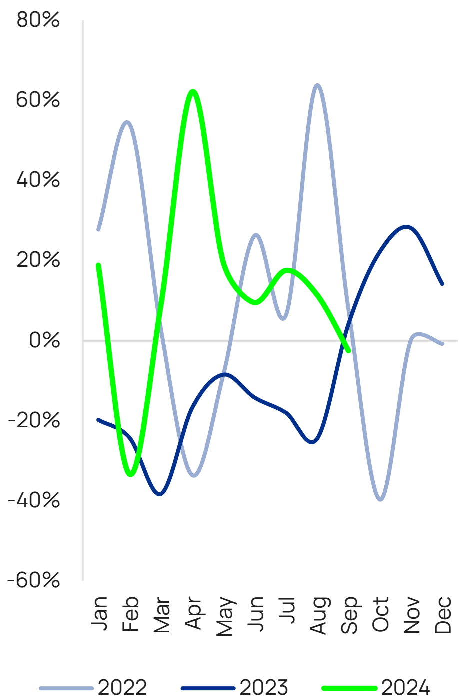


Figure 428: Total industry monthly construction steel sales volume YoY growth



Source: Vietnam Steel Association (VSA), Vietcap

Galvanized steel sheets and steel pipes, continued to achieve strong sales volume growth, primarily driven by a strong recovery in export demand. For 9M 2024, export sales volume of galvanized steel sheets and steel pipes surged 40% YoY from 2023's low base while domestic sales volume grew 12% YoY.

Hot-rolled-coil (HRC) recorded strong growth for domestic sales of 32% YoY in 9M 2024 and a 25% YoY decline in export sales volume. We note that such a discrepancy in HRC sales growth in the domestic market and export market was partly due to a re-routing of sales to the domestic market. HRC serves as the primary input for galvanized steel sheet manufacturing. As galvanized steel sales grow, the demand for HRC within Vietnam also rises.

Figure 429: Total industry annual galvanized steel sheets & steels pipe sales volume

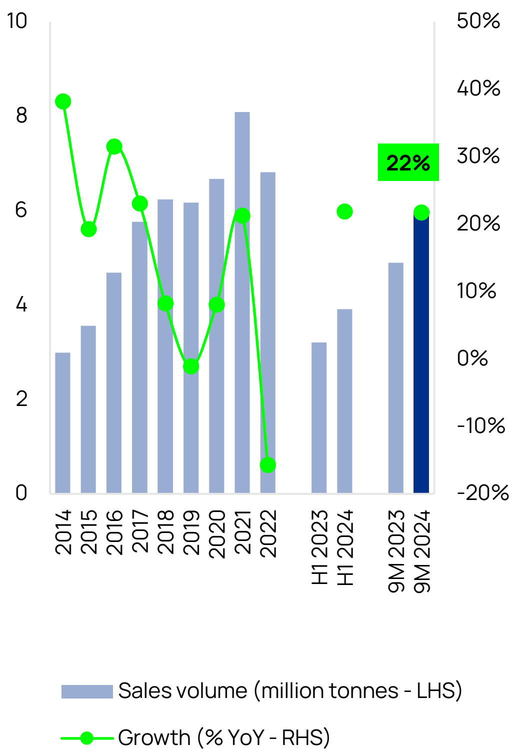


Figure 430: Total industry monthly galvanized steel sheets & steel pipes sales volume by market

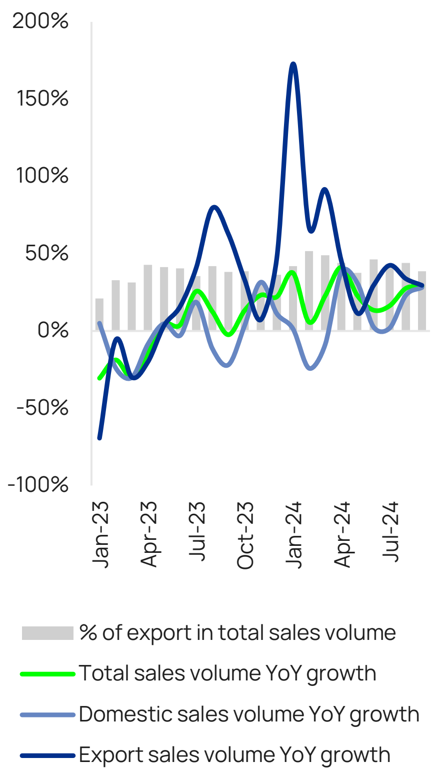
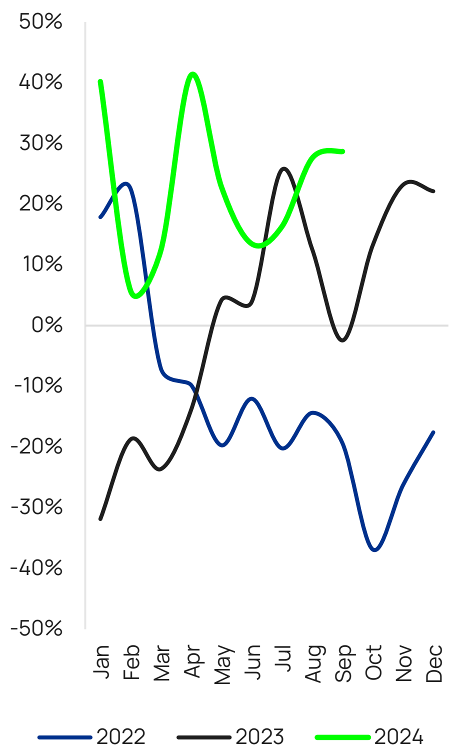


Figure 431: Total industry monthly galvanized steel sheets & steel pipes sales volume YoY growth



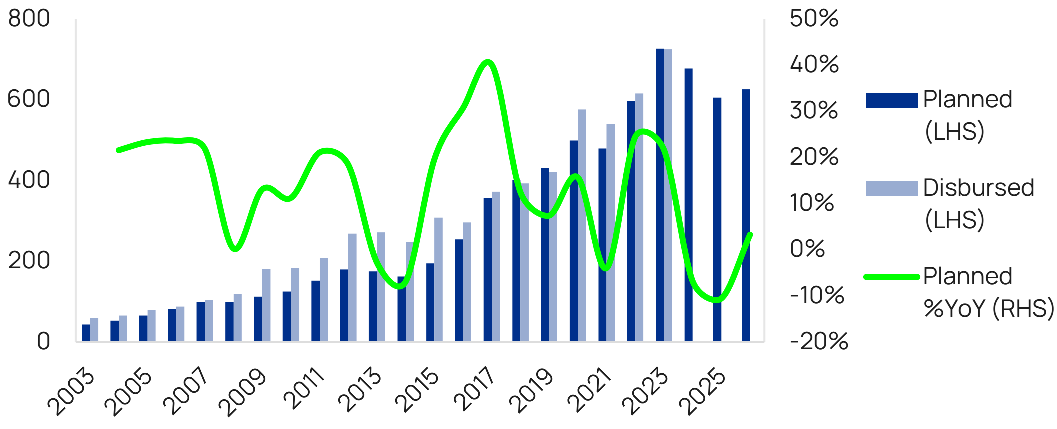
Source: VSA, Vietcap

Domestic market: We expect volume growth in the low teens in 2025 across construction materials, led by demand from infrastructure development

Domestic: Infrastructure spending remains the key driver for 2025F construction materials demand

The Government's push for public investment during 2021-2025 is one of the country's key growth drivers. For 2024, the Ministry of Finance (MoF) estimates that State spending on investment and development could reach approximately VND684.4tn (USD27.4bn; -5.6% YoY). This would fulfill 101% of the National Assembly's annual plan and about 95% of the target set by the Prime Minister. For 2025, State spending for investment & development is targeted at VND790.7tn (USD31.6bn) in 2025, +16.7% compared to the 2024 plan. Notably, this target is 30% higher than the target shown in the Government's 2024-2026 Finance and State Budget plan submitted to the National Assembly in October 2023.

Figure 432: State expenditure budget for investment & development (VND tn)



Source: Ministry of Finance, Vietcap

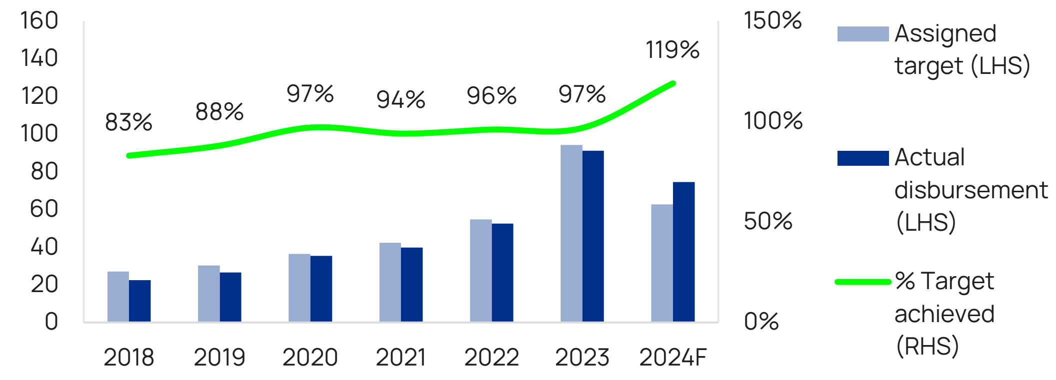
Figure 433: State expenditure budget for investment & development in 2019-2025G

	2020	2021	2022	2023	2024	2025G
Amount planned for the year	VND471tn (USD18.8bn) +10% vs 2019 planned budget	VND477tn (USD19.1bn) +1% vs 2020 planned budget	VND526tn (USD21.0bn) +10% vs 2021 planned budget	VND727tn (USD29.1bn) **+38% vs 2022** planned budget	VND677tn (USD27.1bn) **-7% vs 2023** planned budget	VND791tn (USD31.6bn) **+17% vs 2024** planned budget
Actual disbursement	VND576tn (USD23.0bn)	VND516tn (USD20.6bn)	VND530tn (USD21.2bn)	**VND725tn** (USD29.0bn)	**VND356tn** (USD14.2bn) in **10M 2024**	
Actual disbursement vs amount planned for the year	**122.5%**	**108.1%**	**100.8%**	**99.8%**	**52.5%** in **10M 2024**	

Source: GSO, Ministry of Finance, Vietcap compilation

Within the State expenditure budget for investment & development, the Ministry of Transport (MoT) has consistently disbursed over 90% of its allocated budget over the last four years (2020-2023). In 2023, despite a record-high target of VND95.2tn (USD3.8bn), the MoT had a 96.8% disbursement rate. This success helped to nearly double the speed of Vietnam's expressway construction to an average of 189 km per year during 2021-2023, bringing Vietnam's total expressway length to nearly 1,900 km in 2023 - ranking third in Southeast Asia. This speed of development was also in line with the 13th National Congress's goal of 3,000 km of expressways by 2025 and 5,000 km by 2030. For 2024, the MoT was allocated VND62.6tn (USD2.5bn) and is on track to meet 119% of its full-year target.

Figure 434: Public investment disbursement rate of the Ministry of Transport (VND tn)



Source: Ministry of Finance, Local media, Vietcap

Major infrastructure projects are being put in motion, reflecting the Government's determination in national infrastructure development

Currently, there are seven major infrastructure projects that are under construction or in planning, including the **(1)** North-South Expressway, **(2)** HCMC Ring Road No. 3, **(3)** Hanoi Ring Road No.4, **(4)** Long Thanh International Airport, **(5)** the North-South High-Speed Railway, **(6)** Cai Mep Ha Logistics Center, and **(7)** Can Gio International Transshipment Port.

Among these, Long Thanh International Airport – Phase 1 (LTA Phase 1) is the most significant for the 2025-2026 demand outlook for the construction sector as its construction is expected to be completed by end-2026. As of October 2024, contractors have been selected for most of the key packages. The remaining two construction packages include cargo terminal No. 1 (LTA-C1) and the parking lots, for which we expect tenders to open in late Q4 2024, with construction commencing in Q1 2025.

Over the longer term, the North-South High-Speed Railway project is in the spotlight as it represents Vietnam's ambition and determination in national infrastructure development. The investment plan for the North-South High-Speed Railway was approved by the 15th National Assembly in late November 2024.

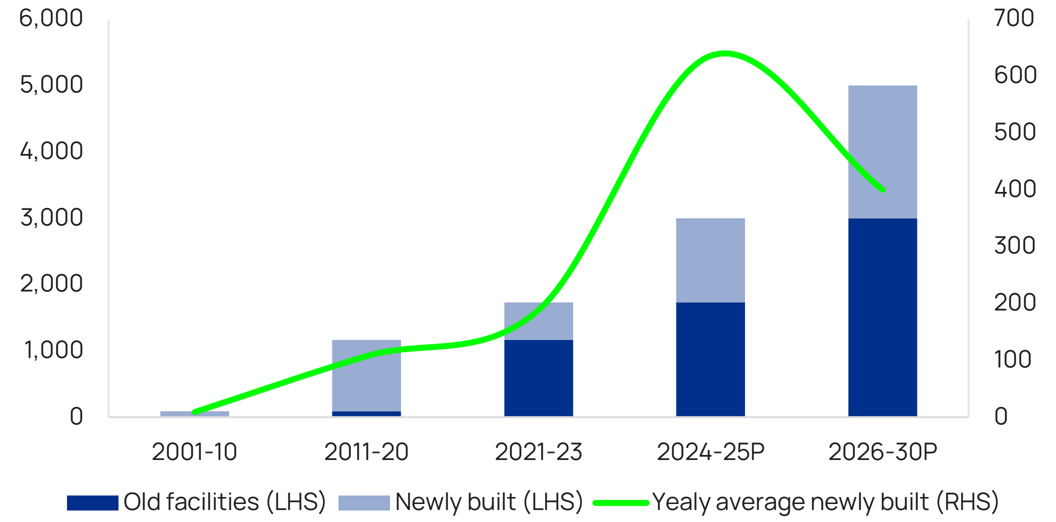
More details regarding the aforementioned seven major infrastructure projects can be found in our report, Construction Sector - Industrial, infrastructure projects leading sector recovery, dated October 18, 2024.

Figure 435: Major infrastructure projects

No	Project	Capacity/Length	Capex	Status	Expected construction time
1	North-South Expressway				
	- Phase 1	666 km	VND88.1tn (USD3.5bn)	Finished (mid-2024)	
	- Phase 2	721 km	VND147tn (USD5.9bn)	**On going**	2021-2025
2	HCMC Ring Road No.3	90km	VND75.4tn (USD3bn)	**On-going**	Open in mid-2025, complete in 2026
3	Hanoi Ring Road No.4	112.8km	VND85.8tn (USD3.4bn)	**On-going**	Basic completion in 2026, full operations in 2027
4	Long Thanh International Airport	100mn passengers (p), 5mn tonnes of cargo (c)	VND336.6tn (USD13.5bn)		
	- Phase 1	25mn p; 1.2mn tonnes c	USD5bn	**On-going**	Operational by early 2027 (Vietcap's expectation)
	- Phase 2	25mn p; 0.3mn tonnes c		Not started	
	- Phase 3	50mn p; 1.5mn tonnes c		Not started	
5	North-South High-speed Railway	350km/h max speed, connecting HCMC-Hanoi	USD67.3bn	Approved by the National Assembly	2027-2035
6	Cai Mep Ha Logistics Center	2,200ha, able to receive world's largest ship (250,000 DWT)	USD6.7bn		
7	Can Gio International Transshipment Port (7 phases)	4.8mn TEUs/year (2030), 16.9mn TEUs/year (2047)	VND129tn (USD5.2bn)		

Source: Vietcap compilation

Figure 436: Construction progress of Vietnam's highways (km)



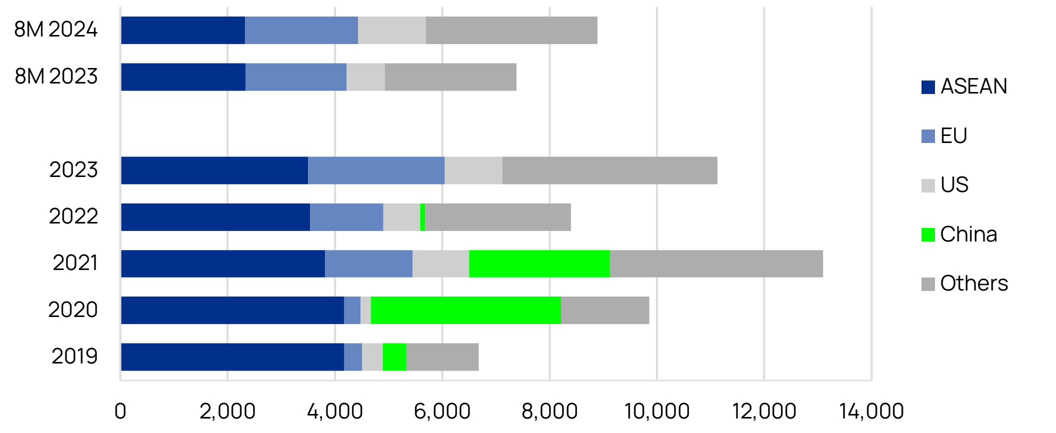
Source: Ministry of Transport, Local media, Vietcap

Exports: Leading indicators for construction materials demand in key markets show slow demand recovery, with increased competition from Chinese steel likely

The composition of Vietnam's exports of steel products by destination has changed significantly over the last five years with a boom and bust in demand from China in 2020/21 and 2022, respectively. Increasing demand from the US and EU has partially compensated for the decline in exports to China. Export volume to the EU accounted for 24% of Vietnam's total steel exports in 8M 2024 vs 23%/16% in 2023/2022 and the share of exports to the US also climbed to 14% of total steel exports in 8M 2024 vs 10%/8% in 2023/2022, respectively.

As a result, we expect demand from the US and the EU to be a key swing factor for Vietnam's steel exports while recovery in Chinese demand would have more impact on commodity prices.

Figure 437: Vietnam's steel exports by destination ('000 tonnes)



Source: VSA, Vietcap

We cautiously expect steel export demand to grow at a low rate, driven by a gradual construction demand recovery in the US and EU. In the US, we expect the housing supply shortage (driven by the limited availability of previously owned homes as most homeowners locked in low mortgage rates) and the outlook for lower mortgage rates (current consensus: five FED rate cuts totaling 125bps in 2025F) to drive demand for new housing construction. However, while these factors are promising, we remain cautious about the pace of growth as building permits and the homebuilders' sentiment index, though improving, remain at subdued levels. In

Europe, we expect construction demand to recover gradually from 2024's low base, given signs of bottoming out in key indicators such as construction PMI, new QoQ growth in building permits, and QoQ growth in housing prices. Nevertheless, caution persists, as the construction PMI remains in contractionary territory, while the absolute value of new building permits and housing prices are still low compared to historical records.

However, more AD tariffs will likely be imposed on Chinese steel exports in 2025F. We believe an increase in the number of AD tariffs being imposed on Chinese steel exports globally in 2025F is highly likely, which will increase competitive pressure on Vietnamese steel exports due to lower Chinese steel prices to offload higher excess supply. However, the silver lining is that lower prices might lead to capacity reductions in China, as loss-making steel mills are unable to sustain operations.

Figure 438: US housing inventory* and 30-year fixed mortgage rates

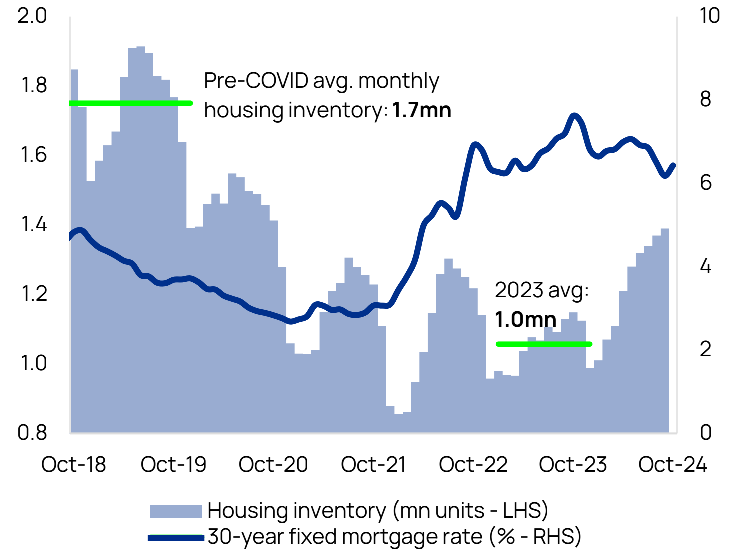
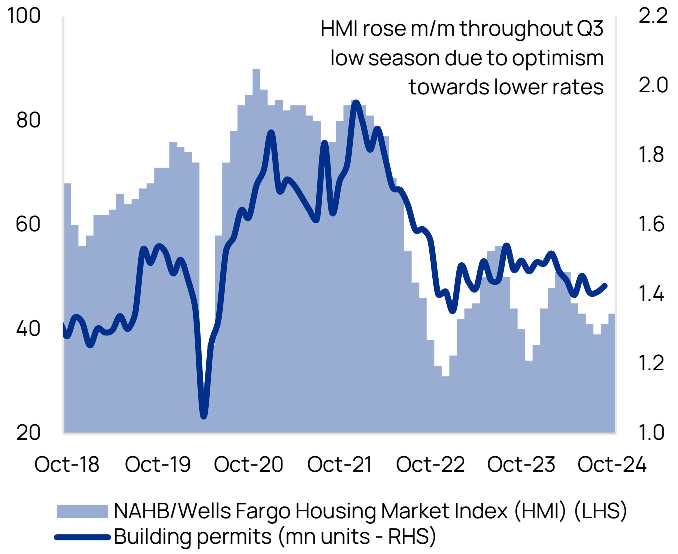


Figure 439: US privately-owned housing permits and US single-family homebuilders' sentiment index (HMI)



Source: FRED, National Association of Realtors (NAR), Vietcap. *Note: NAR's reported inventory includes properties marked as "active" and pending sales. A property is counted as inventory when listed and as a pending sale when under contract.

Figure 440: Eurozone construction PMI

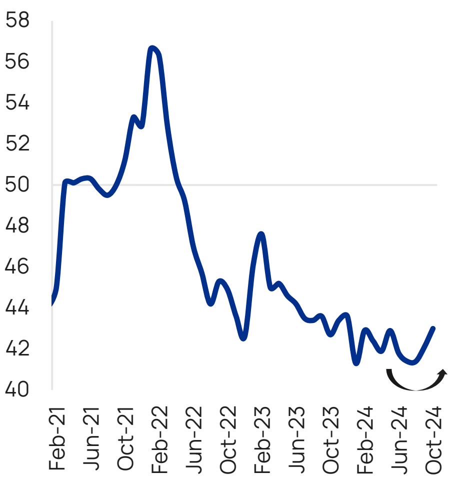


Figure 441: European Union new building permit QoQ (%)

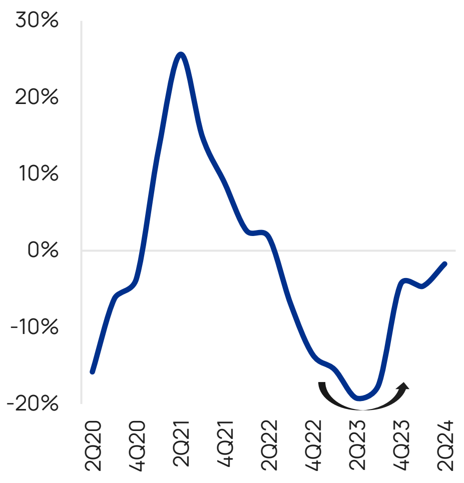
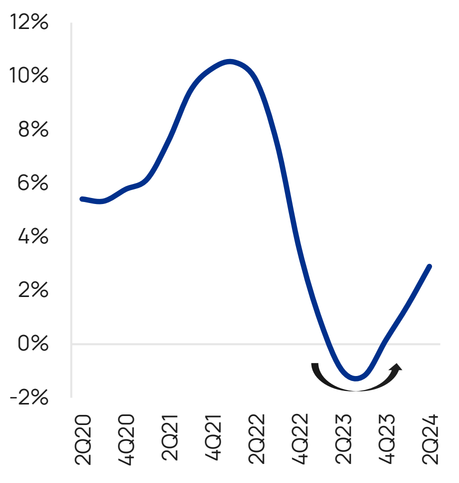


Figure 442: European Union housing price QoQ (%)

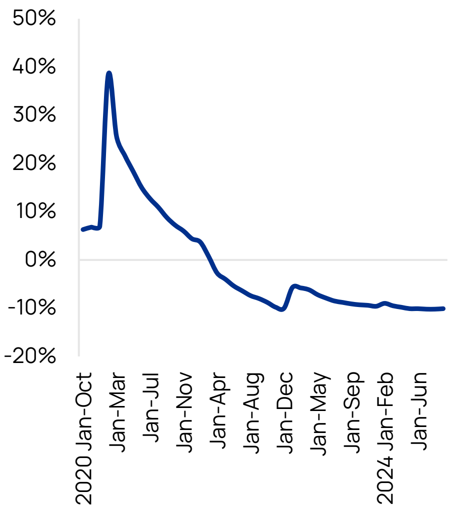


Source: S&P Global, Eurostat, Vietcap compilation

We cautiously expect slow recovery in commodity prices in 2025F

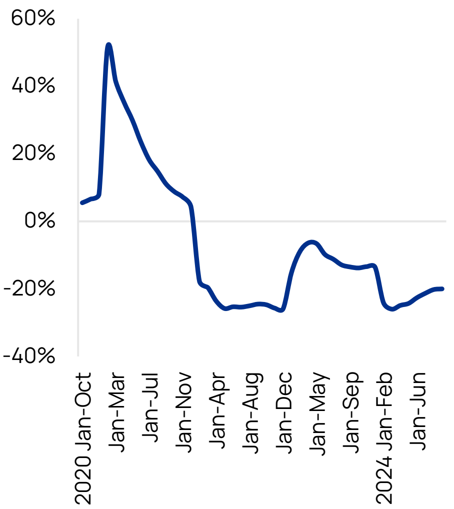
China's 2024 review: The country's private property sector remains under significant pressure, prompting the government to introduce a series of policy measures in 2024 aimed at spurring recovery, with two major initiatives standing out. The first was substantial monetary stimulus introduced by the in late September 2024. This included (1) a 20bps cut to the seven-day reverse repo rate, (2) a notable reduction in mortgage rates, and (3) the injection of CNY1tn (USD139bn) into the interbank market through a lower reserve requirement ratio. These measures were designed to lower borrowing costs, enhance liquidity, and ease mortgage payments for households. The second key initiative was a CNY10tn (USD1.4tn) package to alleviate local governments' "hidden debt" burdens. As the most aggressive measure since COVID, the monetary stimulus beat market expectations and initially sparked positive sentiment toward a potential recovery in real economic activity, driving commodity prices higher. However, prices have since stabilized, as underlying demand remained weak.

Figure 443: China YTD investment in real estate development (YoY)



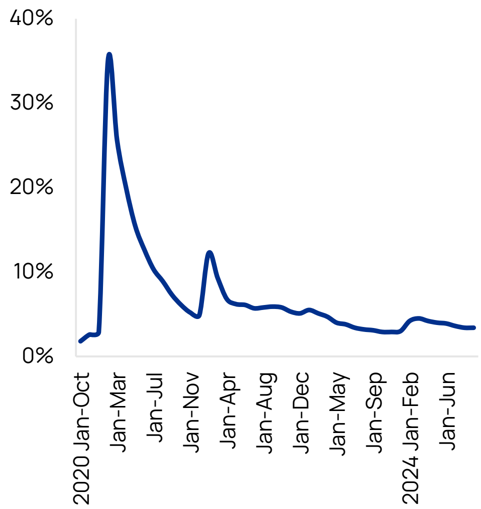
*** Total (Jan – Sep 2024): -10.1%**
- Residential buildings: -10.5%
- Office buildings: -6.5%
- Commercial buildings: -13.4%

Figure 444: China YTD investment funds for real estate developers (YoY)



*** Total (Jan – Sep 2024): -20.0%**
- Domestic loans: -6.2%
- Foreign investment: -19.9%
- Self-raised funds: -9.1%
- Deposits & advance receipts: -29.8%
- Individual mortgages: -34.9%

Figure 445: China YTD investment in fixed assets (YoY)



*** Total (Jan – Sep 2024): +3.4%**
- State-owned/holdings: +6.1% → *Strong*
- Private investment: -0.2% → *Weak*

Rising State investment is insufficient to turn the situation around.

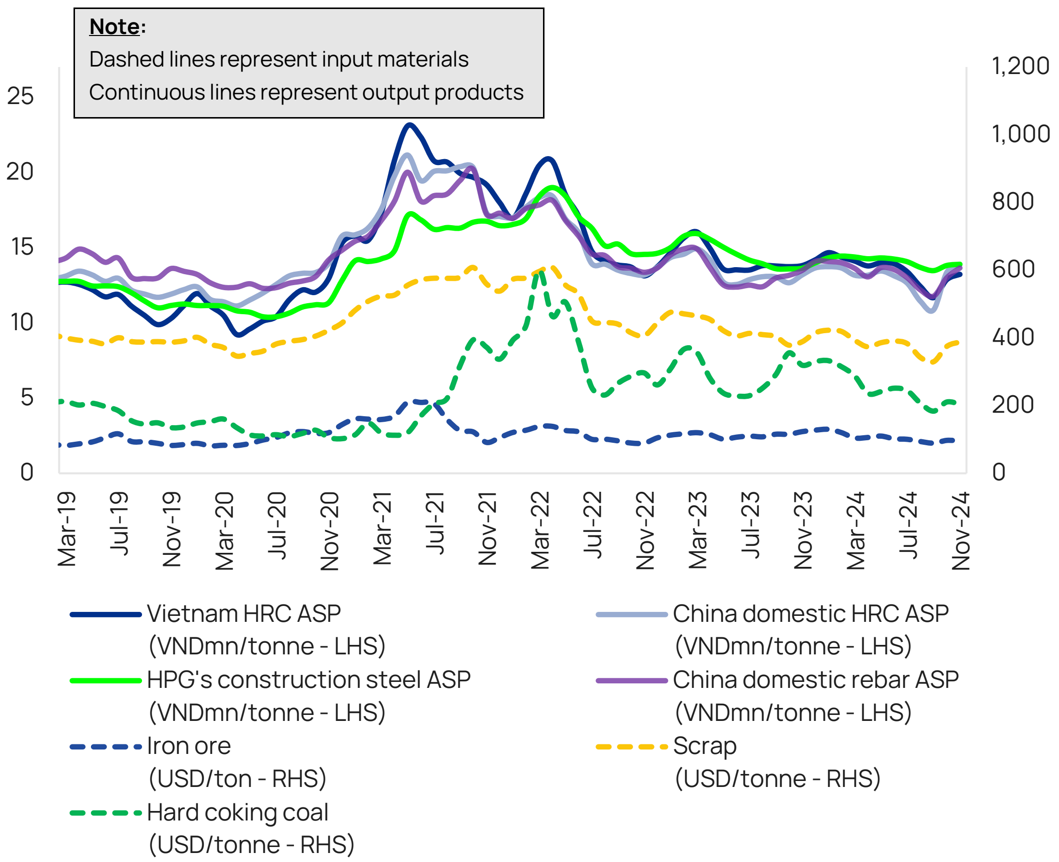
Source: National Bureau of Statistics of China, Vietcap (Note: Italic text is Vietcap's comments)

We expect steel-related commodity prices to experience a gradual, but bumpy recovery throughout 2025F. In 8M 2024, steel prices followed a downward trend, driven by (1) weaker-than-anticipated recovery in China's underlying demand and (2) a rise in anti-dumping (AD) investigations targeting Chinese steel exports across several countries. Sentiment further deteriorated after Baoshan's Chairman issued a bearish outlook for the global steel market, pushing China's rebar and HRC prices down 5-7% to COVID-era lows within two weeks. Over the same period, hard coking coal prices dropped 14%, and iron ore prices fell 6% to similar lows. By late September, the aggressive monetary stimulus from the PBOC revitalized market sentiment, lifting steel input and output prices back to mid-2024 levels. However, prices remained subdued compared to historical averages.

Looking ahead to 2025, we expect China to continue as the primary driver of global steel commodity price trends. We are cautiously optimistic that 2025F steel-related commodities prices will recover at a slow pace, supported by (1) stabilization in the decline of China's underlying demand as new policies introduced in 2024 are gradually absorbed, (2) the suspension of China's system for approving new steel plants (effective August 2024), which curbs capacity expansion, (3) construction demand growth in markets outside China, though at a gradual pace, and (4) continued intervention from the Government to support the property sector, boosting market sentiment. Nonetheless, we expect the recovery to be bumpy, as market sentiment adjusts to real economic data from China.

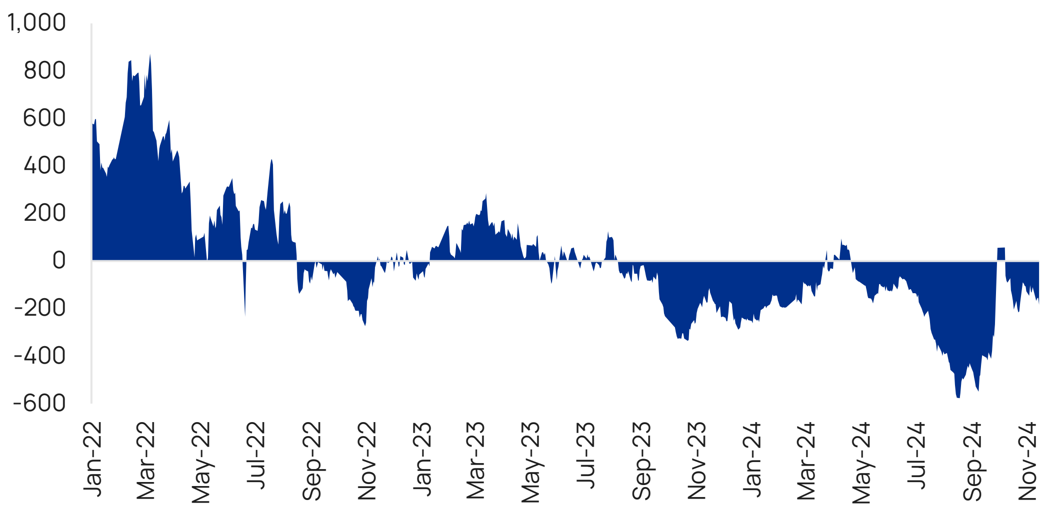
We also expect an increase in AD tariffs to be imposed on Chinese steel exports globally, which should put downward pressure on global steel prices. However, we believe this development could be mitigated if lower prices lead to capacity reductions in China, as loss-making steel mills are unable to sustain operations.

Figure 446: Prices of key steel input and output materials



Source: Bloomberg, VSA, Vietcap compilation

Figure 447: Profit of Chinese BOF steel producers (CNY/tonne)



Source: Bloomberg, Vietcap

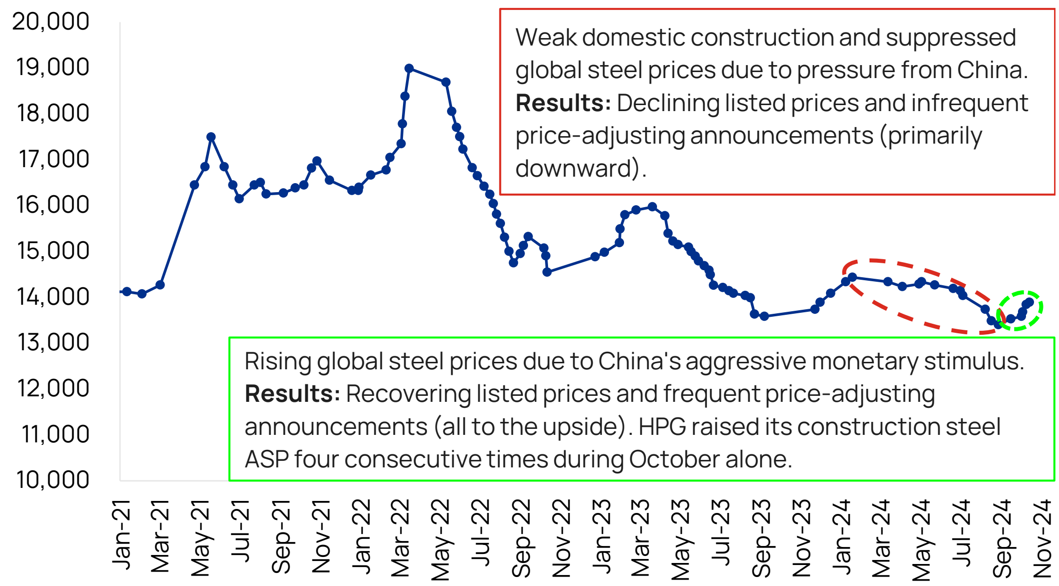
We expect the recovery in steel prices to support margin expansion in 2025F

There are two scenarios for manufacturers' margins in a commodity price uptrend (i.e., both input and output prices increasing):

- **Output prices increase by more than input prices**, translating into strong margin expansion driven by (1) higher absolute selling prices, (2) wider price spreads, and (3) tactical accumulation of input inventory. However, this scenario can only happen when there is strong demand. An extreme example of this scenario occurred in 2021 when steel-related commodities rallied to historical highs, driven by surging demand globally after the first wave of the COVID-19 pandemic and limited supply from China.
- **Output prices increase by less than input prices**, resulting in margin compression. This can be partially offset by producers keeping low inventory by buying input materials on the spot market in sufficient amounts for short periods of production. This scenario is typically caused by cost-driven price rallies or supply disruption.

We currently assume the first scenario as our base case for Vietnam in 2025 as we expect that strong infrastructure spending and export demand growth will support overall demand for construction materials. In favorable market conditions, such as a price rally driven by lower input costs and stronger demand, leading companies like HPG can secure low-cost materials through forward contracts, boosting margins.

Figure 448: HPG's average construction steel prices movement (VND/kg)



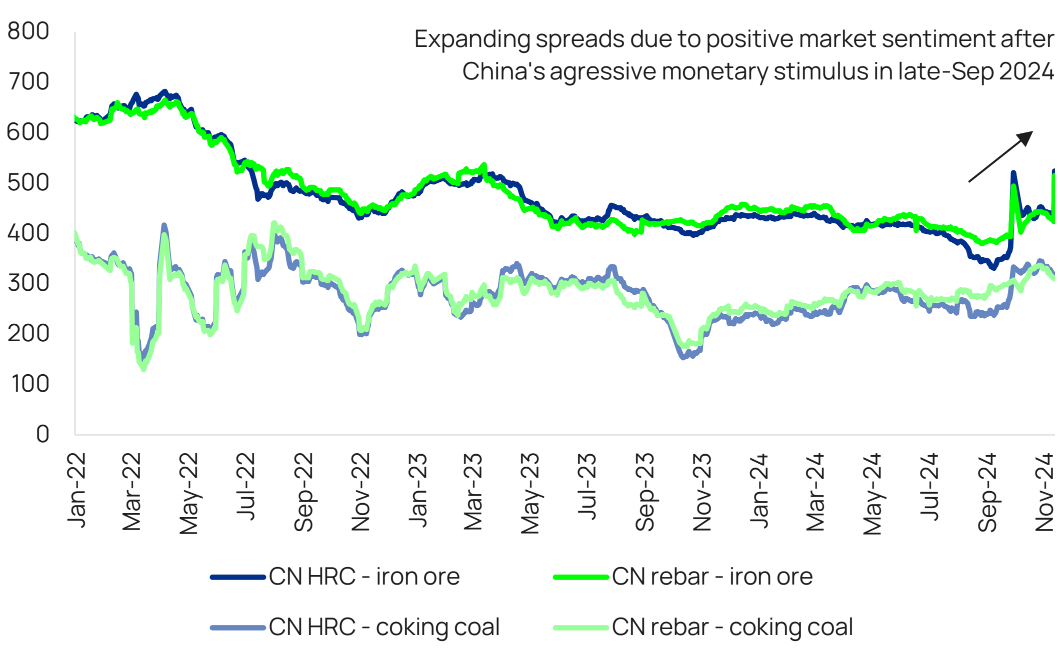
Source: VSA, Vietcap compilation (Note: Each dot represents a price-adjusting announcement from HPG)

Figure 9: Price performance: Steel input prices have dropped faster than output prices YTD

% Price change	YTD	MTD	Sep 24* to date	YTD average YoY
Inputs				
Scrap	-14.9%	1.2%	7.9%	-9.5%
Hard coking	-37.2%	0.4%	11.4%	-13.9%
Iron ore	-28.9%	-2.9%	4.7%	-6.8%
Outputs				
Chinese HRC	-11.8%	-1.1%	10.4%	-8.2%
Vietnam HRC	-14.0%	-0.5%	10.1%	-10.6%
China domestic rebar	-15.3%	-1.3%	0.2%	-5.2%
HPG's construction steel	-1.4%	0.0%	2.7%	-4.9%
Chinese galvanized steel	-11.7%	-0.8%	3.2%	-9.8%

Source: Bloomberg, Vietcap (Data as of November 15, 2024) *Note: Sep 24 was the day when China's central bank announced aggressive monetary stimulus packages which positively impacted commodities prices.

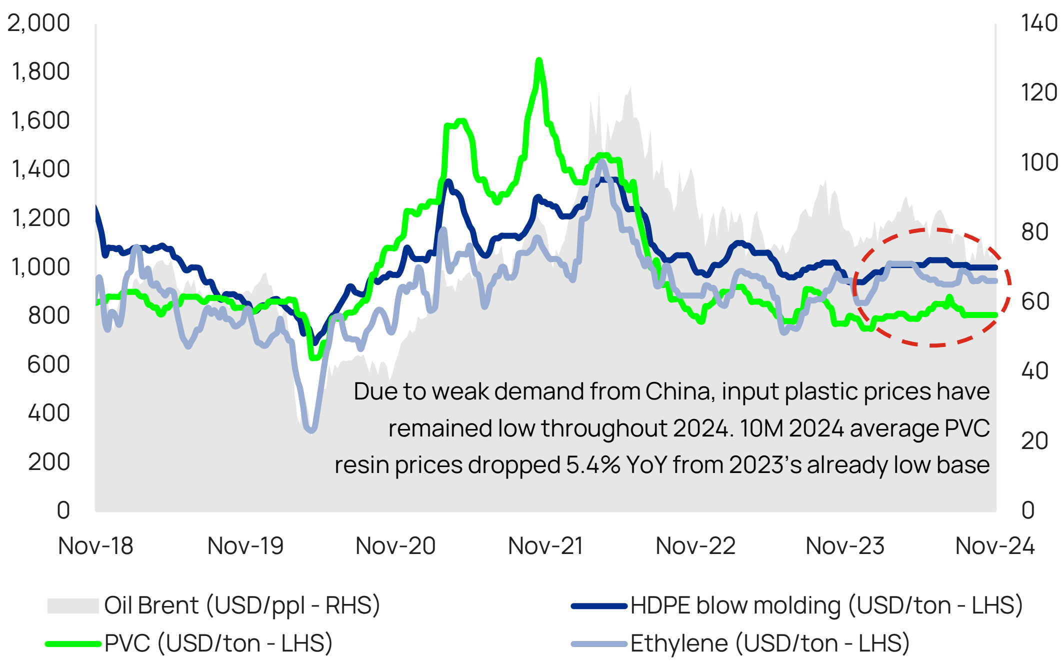
Figure 449: Steel output (HRC, rebar) vs input price (iron ore, coking coal) spreads (USD/ton)



Source: VSA, Vietcap compilation

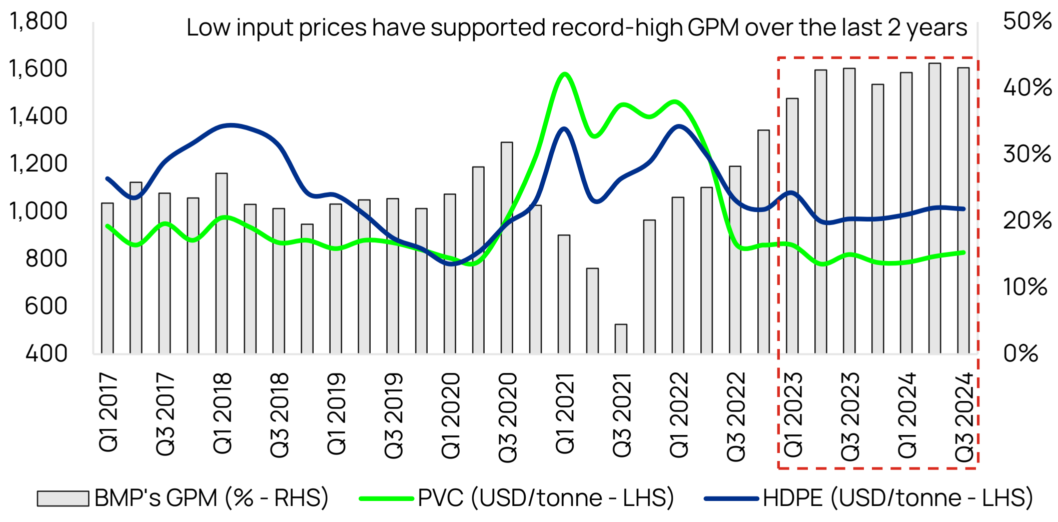
BMP: We expect 2025F GPM to narrow slightly from 2024's record-high base. BMP's quarterly gross margins continued to remain elevated throughout 9M 2024, expanding to a record high of 43.8% in Q2 2024 – even from 2023's historic high. We attribute this surge in GPM to favorable PVC resin prices (BMP's main input) which have remained low YTD (due to weak construction demand in China) and BMP's cost optimization initiatives. Given the above discussion about China, we conservatively expect input PVC plastic prices to recover modestly in 2025F and thereby lower 2025F GPM to 42.3% from 2024F's 43.6%. We emphasize that 42.3% GPM is still an elevated level vs BMP's pre-2023 performance.

Figure 450: BMP's main input plastic prices compared to oil and ethylene prices



Source: Bloomberg, Vietcap

Figure 451: BMP's GPM and input material prices



Source: BMP, Bloomberg, Vietcap

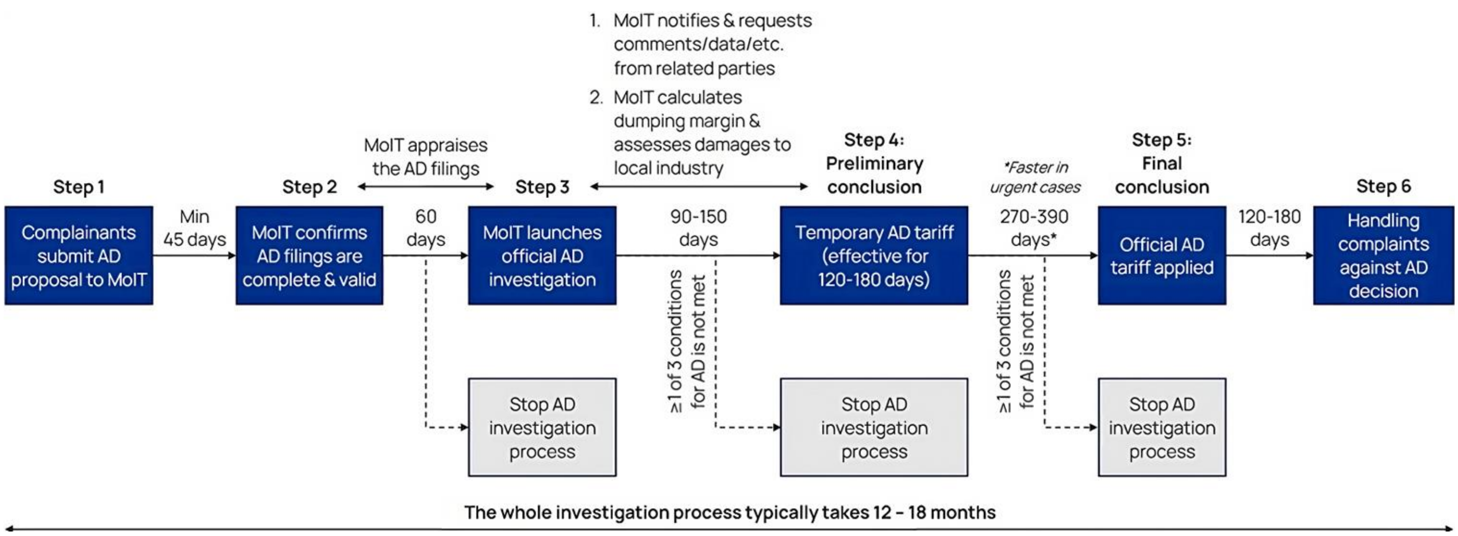
Anti-dumping (AD) investigations into steel imports

Timeline:

Currently, there are two major ongoing AD investigations for steel imports into Vietnam, one on HRC from China and India, and one on galvanized steel originating from China and South Korea. We outline the typical AD investigation process in Vietnam and give more detailed information about the six key steps below. For more detailed information, please refer to our Anti-dumping tariff proposals on steel imports into Vietnam Thought Piece, dated July 9, 2024.

- **Step 1:** Domestic producers (complainants) submit a filing to the MoIT proposing the imposition of AD tariffs.
- **Step 2:** The MoIT reviews the filing to confirm its completeness and validity.
- **Step 3:** The MoIT decides whether to launch an AD investigation or terminate the process.
- **Step 4:** The MoIT announces whether a temporary AD tariff will be imposed, typically effective for 120-180 days.
- **Step 5:** The MoIT determines whether to impose an official AD tariff, which can be valid for up to five years and is extendable.
- **Step 6:** The MoIT addresses any complaints against the final AD decision.

Figure 452: Summary of AD investigation process in Vietnam



Source: Trade Remedies Authority of Vietnam (TRAV), Vietcap summary (Note: The TRAV is under the MoIT)

Regarding the case on HRC imports, the MoIT initiated an AD investigation in late July. This means that **the HRC case is currently between step 3 and step 4**, awaiting the preliminary investigation results from the MoIT. As of the latest update, at the Q3 press conference on October 23, 2024, **the MoIT said that preliminary results are expected by November 2024**, following regulations and a typical AD investigation process. If evidence of dumping is found and the impact is quantified, a temporary AD tariff will be imposed. However, we think the actual decision might be delayed vs this timeline as we have not heard any new announcements from the MoIT so far

Regarding the case on galvanized steel imports, the MoIT initiated an investigation in mid-June. This means that **the galvanized steel case is also between step 3 and step 4**, currently awaiting the preliminary investigation results from the MoIT. Following a typical AD investigation process, we expect the latest application of a temporary tariff, if applied, in mid-November 2024 (150 days after the launch of the investigation). However, we think the actual decision might be delayed vs this timeline as we have not heard any new announcements from the MoIT so far.

Impacts, if applied, on listed steelmakers:

HPG will be the greatest beneficiary among listed steelmakers if both AD tariffs are applied as HPG produce and sell HRC and is capable of self-supplying HRC to manufacture their own galvanized steel. The AD tariff on HRC will shield HPG from intense competition from low-priced Chinese HRC by giving HPG the opportunity to shift sales to the undersupplied domestic market, where HRC demand (12-14mn tonnes/year) exceeds the maximum production capacity (8-9mn tonnes/year). We expect the AD tariff on galvanized steel, if applied, to have a limited positive impact, as galvanized steel accounted for ~5% of HPG's 9M 2024 total steel sales volume.

For galvanized steel producers such as NKG, HSG, and Dong A (UpCOM: GDA), the AD tariff on HRC will hurt them as they use HRC as an input material. For the AD tariff on galvanized steel, they will all benefit, with HSG benefiting the most as the largest producer of galvanized steel in Vietnam. During 9M 2024, HSG's galvanized steel sales volume sold to the domestic market ranked highest with a 27% market share, GDA ranked 2nd with 15%, while NKG ranked 3nd with 11%. In terms of total sales volume, HSG ranked 1st (29%), NKG ranked 2nd (17%), and GDA ranked 3rd with a 16% market share during 9M 2024.

Top stock picks

BUY – Hoa Phat Group (HSX: HPG)

We reiterate HPG as our top stock pick for exposure to Vietnam's construction sector. HPG offers a leading market position, established scale, and proven operational efficiency.

HPG offers a solid growth investment opportunity, with respective projected 2025/26/27F NPAT-MI growth of 27%/28%/20%, driven by domestic construction demand growth and new HRC capacity from DQSC2. We currently expect the first and second blast furnace of DQSC2 to come online in early 2025/26F, with each adding 2.3mn tonnes of annual HRC capacity to the existing 2.8mn, raising the total HRC capacity to 7.4mn tonnes per annum once the whole complex goes online.

As HRC is a product with high export exposure, we have accounted for a more conservative global outlook for HRC demand by assuming DQSC 2 phase 1 to reach 50% capacity in 2025F (vs 90%+ utilization in the first year after DQSC 1 comes online), with the HRC ASP projected to recover by only 3% YoY, following a 5% YoY decline in 2024F. For the second blast furnace, we assume commercial operations in 2026F and conservatively expect a 50% utilization rate in the first year of operation (i.e. 2026F).

We expect strong 2025F NPAT-MI growth of 27% YoY to VND15.6tn (USD625.7mn), as we project (1) construction steel sales volume to grow 12% YoY, (2) HRC sales volume to grow 28% YoY as DQSC2 phase 1 comes online, and (3) a slight 2-3% YoY recovery in ASPs across steel products from 2024's lows.

Our current target price implies a 2025F P/E of 15.1x vs a 2024-27F CAGR of 25%, equivalent to an attractive PEG ratio of 0.6x. At our TP, the 2025-27F average P/E is 12.3x (+1 std. dev vs HPG's 10Y average P/E) which we think is justified given strong 2025-27F growth.

Please find more details on HPG in our latest Update Report.

BUY – Binh Minh Plastics (HSX: BMP)

BMP is our top defensive pick in the construction material sector due to its more stable earnings compared to steelmakers, solid dividend yield, a net-cash balance sheet, and its dominating 50% market share in southern Vietnam.

We forecast NPAT-MI to improve 1% YoY in 2025F from 2024F's historic high as we expect 11% revenue growth from 2024's low base as the southern real estate market continues recovering. This outweighs a slight YoY compression in GPM to 42.3% from 43.6%'s historic high as we expect input prices to recover modestly, partially offset by a slightly higher ASP to pass on higher costs.

BMP's defensive characteristics include a high next-12M dividend yield and minimal financial risk, with no long-term debt and strong liquidity ratios. With strong 2024F earnings and a track record of 100% dividend payouts over 2019-2023, we expect BMP to pay a total cash dividend of VND12,000/share in the next 12 months, implying an attractive cash dividend yield of 9.5% at the current share price.

Given BMP's robust earnings and high dividend yield, we see the stock as attractively valued, with a 2025F P/E of 10.4x at our TP, still below the company's 3-/5-/10-year average P/Es of 12.1x/10.8x/11.1x, respectively.

Please find more details on BMP in our latest Update Report.

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Oil & Gas: Domestic E&P recovery to continue despite lower oil prices

We forecast the average Brent oil price at USD70/bbl (-12.5% YoY) for 2025F. In 11M 2024, Brent oil averaged USD81/bbl (flat YoY). In addition, we forecast the average Brent oil price for 2026-2029F at USD69-70/bbl. On average, our 2026-2029F Brent oil price assumption of c.USD70/bbl is ~5% lower compared to the consensus of USD73/bbl. We note that our oil price assumptions for 2025-2029F are still ~20% higher compared to the average pre-COVID level (2015-2019), which should support exploration & production (E&P) activities domestically and internationally. We note that PetroVietnam Group plans for a Brent oil price of USD70-75/bbl in 2025. This expectation strongly supports our forecast as the company is usually conservative in guidance.

Vietnam's E&P activities to recover in 2024 and accelerate from 2025F: We project domestic E&P capex of USD14bn for the 2023-2033F period. We estimate for domestic E&P spending to improve 14% YoY in 2024 to USD0.8bn, increase further to USD1.3bn in 2025 (+63% YoY), and peak at USD2.8bn in 2027. This implies USD2.1bn p.a. on average for the 2025-2029F period, 2.6x of the average p.a. level in the previous cycle (2016-2023). This is mainly driven by Block B Phase 1's official groundbreaking in September, and further development of the Yellow Camel and White Lion phase 2B oil & gas fields. This should benefit PVS, GAS, and PVD.

PVS (our top pick) to benefit from global/domestic E&P recovery and the huge potential of offshore wind power projects: PVS has secured three contracts of Block B (EPCI#1-3, totaling USD1.1bn) and started construction. Additionally, PVS stands to benefit from global offshore wind growth. We project a 19% EPS CAGR for 2023-26F, driven by our mechanical & construction signed and unsigned backlog assumption of USD5.1bn and profit from FSO/FPSO JVs of VND822bn p.a. in 2024-28F. PVS looks attractive at a 2025 P/E of 13.2x, implying a three-year PEG of 0.7.

We remain confident that petroleum consumption will continue to grow strongly in Vietnam, even with increasing penetration of electric vehicles. According to the Ministry of Industry & Trade (MoIT), in 8M 2024, petroleum consumption grew by 4% YoY. We project Vietnam's petroleum consumption to grow at a 4.1% CAGR in 2023-2028F. This rate is ten times the International Energy Agency (IEA)'s projected CAGR in global consumption of 0.4% in the same period, which should benefit PVT, BSR, and PLX. **We like PVT (our second top pick)** as it potentially benefits from Donald Trump's presidency. Mr. Trump's policies of increased production and oil exports could shift oil trade flows as the US exports more oil to markets in Asia. This would lead to more demand for longer-haul routes (from the US to Asia and from the US to Europe). This could sustain tonne-mile demand for tanker classes and support tanker rates, even with potentially lower transport volumes. Additionally, PVT expects positive impacts on LPG tanker rates. We forecast 2025 recurring NPAT-MI to grow by 36% YoY due to (1) tanker fleet expansion by ~18% in 2024, transport volume for BSR to grow 18% YoY, (2) a 2% YoY rate increase of PVT's overseas crude oil and chemicals, and (3) a 30% lower financial expense to outweigh 2% lower rates of oil products. PVT's valuation looks attractive with a 2025F EV/EBITDA of 2.5x, 62% below the five-year average of our selected regional peer median. We project the 2025 P/E and P/B at 6.6x and 1.1x, respectively.

We also like PLX: We expect the new decree on the petroleum sector (which might be approved late this year or H1 2025) to have a positive impact on PLX and OIL's earnings. The new decree will allow petrol distributors to set their own prices and switch from a base price mechanism to a ceiling price mechanism. We expect this to improve margins for petrol distributors. We observe that petroleum distribution in Asia is subject to three main pricing mechanisms: market-determined price, base price, and ceiling price. From 2015-2023, countries with market-determined pricing or ceiling prices averaged OPMs of 3.0% and 3.9%, respectively, while PLX averaged 2.1% and PV OIL averaged 0.6%. We believe that switching to a ceiling price mechanism should help to improve the OPMs of PLX and OIL in recovering to their pre-COVID-19 levels and potentially increasing, thereby matching with the OPMs of regional peers.

We like DPM and DCM, who deliver a solid yield (~8%) and potentially benefit from VAT Law changes. The 5% VAT on the selling price of fertilizers was approved at the National Assembly meeting on November 26, 2024, and is effective from July 1, 2025. We estimate this will help DPM save ~VND370bn p.a. over the 2025-2028F period in COGS (equivalent to ~ 23% of projected NPAT during this period). We also estimate this will help DCM save ~VND300bn p.a. over the 2025-2028F period in COGS (representing ~13% of projected NPAT-MI over this period). We see insignificant changes to our forecast impact of the 5% VAT on DPM/DCM's NPAT for 2025-2029F, as lower Brent oil and fuel oil (FO) prices (as we forecast in our recent Oil & Gas Sector Update released on November 14, 2024) could reduce DPM/DCM's input costs, offsetting the 6-month delayed effective date, pending a fuller review.

Figure 453: Oil & Gas and Petroleum stocks – Key data

Code	Rating	Market Cap, USD mn	State O'ship %	Foreign Limit %	Foreign Avail, USD mn	ADTV 30D, USD mn	Share price, VND ps	Target price, VND ps	Target price, updated	Upside %	Div yield %	12M TSR %
PVS	BUY	632	51.4	49	177	2.9	34,100	48,800	11/6/24	43.1	2.1	45.2
PVT	BUY	378	51.0	49	139	1.9	27,350	37,300	11/4/24	36.3	3.0	39.3
PLX	BUY	2,016	75.9	20	48	1.0	40,600	49,300	11/22/24	21.4	5.0	26.4
DCM	BUY	765	75.6	49	326	4.5	37,300	43,100	10/16/24	15.6	8.0	23.6
DPM	BUY	552	59.6	49	220	4.3	36,300	39,700	10/16/24	9.3	8.3	17.6
GAS	O-PF	6,327	95.8	49	2,986	1.7	68,900	77,300	11/29/24	12.1	4.4	16.5
PVD	O-PF	507	50.5	49	193	3.1	23.800	26,600	11/20/24	11.8	0.0	11.8
BSR	O-PF	2,373	92.0	49	1,120	2.1	20,000	21,200	11/26/24	5.9	3.6	9.5

Source: FiinPro, Vietcap (Data as of December 5, 2024)

Figure 454: Oil & Gas and Petroleum stocks – Summary valuations (*)

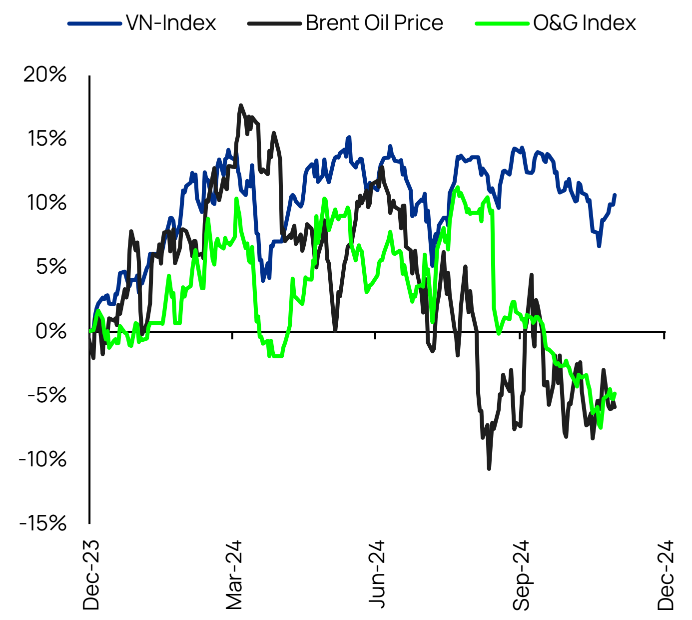
Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E TTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ x
PVS	34,100	-6.7	16.3	31.6	17.2	20.1	17.3	13.1	9.0	7.7	1.2	-68.2
PVT	27,350	13.5	24.6	25.7	9.1	10.5	8.4	6.7	3.4	16.5	1.3	7.5
PLX	40,600	95.5	8.8	20.4	19.0	20.0	18.4	15.3	8.3	10.3	2.0	-35.8
DCM	37,300	-74.3	42.3	42.8	12.8	19.4	15.4	9.5	8.0	15.4	2.0	-70.6
DPM	36,300	-90.3	41.7	82.9	21.4	33.0	23.3	12.7	6.6	6.4	1.3	-64.9
GAS	68,900	-21.6	-5.5	0.3	14.0	13.9	14.7	14.7	9.1	17.9	2.7	-69.1
PVD	23.800	N.M.	42.7	25.5	23.4	25.9	21.0	14.5	5.6	4.7	0.8	-6.4
BSR	20,000	-42.2	-84.7	311.1	20.7	7.3	47.7	11.6	16.7	2.3	1.1	-54.3

Source: FiinPro, Vietcap (* Earnings growth and P/E based on reported earnings; data as of December 5, 2024)

Oil & Gas Stock Performance in 2024

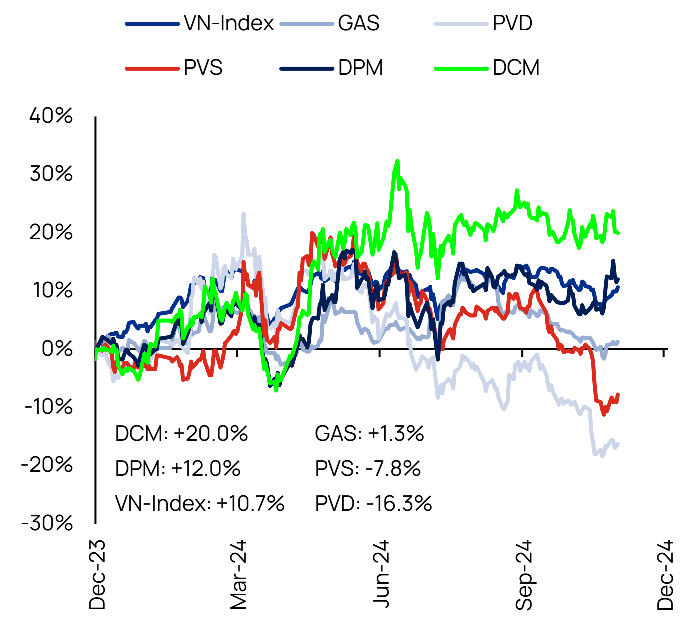
Upstream oil & gas companies

Figure 455: Vietcap Oil & Gas Index vs VN-Index



Source: Bloomberg, Vietcap. Note: Our Oil & Gas Index is based on market cap weighted performance of oil & gas stocks GAS, PVD, and PVS and fertilizer stocks DPM and DCM. (Data as of November 29, 2024)

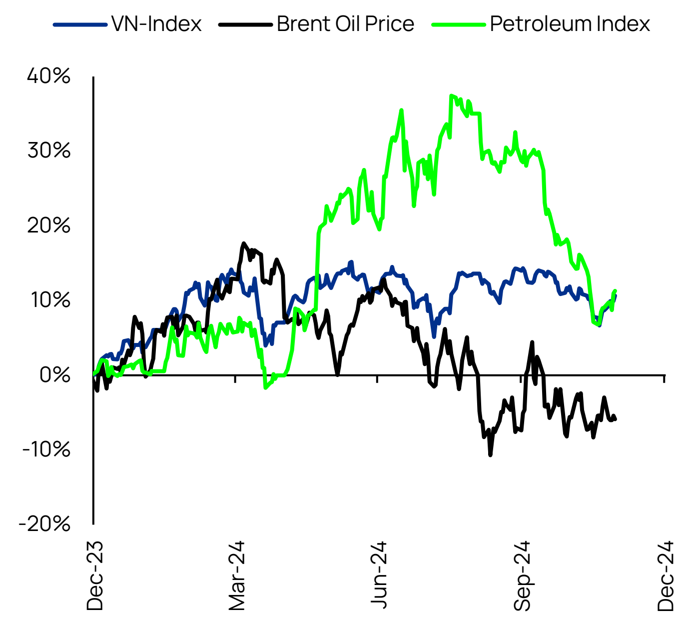
Figure 456: Oil & Gas stocks vs VN-Index



Source: Bloomberg, Vietcap (Data as of November 29, 2024)

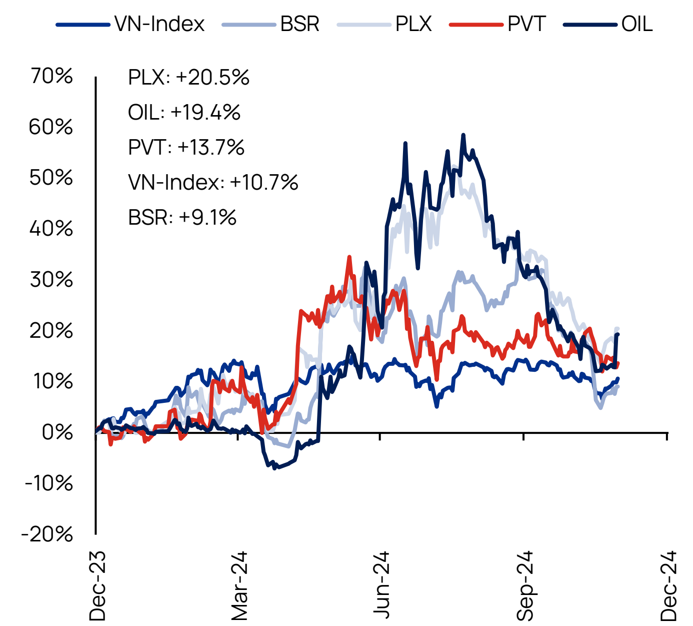
Petroleum stocks

Figure 457: Vietcap Petroleum Index vs VN-Index



Source: Bloomberg, Vietcap. Note: Our Petroleum Index is based on market cap weighted performance of refiner BSR, petrol distributors PLX and OIL, and oil transporter PVT (Data as of November 29, 2024)

Figure 458: Petroleum stocks vs VN-Index



Source: Bloomberg, Vietcap (Data as of November 29, 2024)

2024 Recap

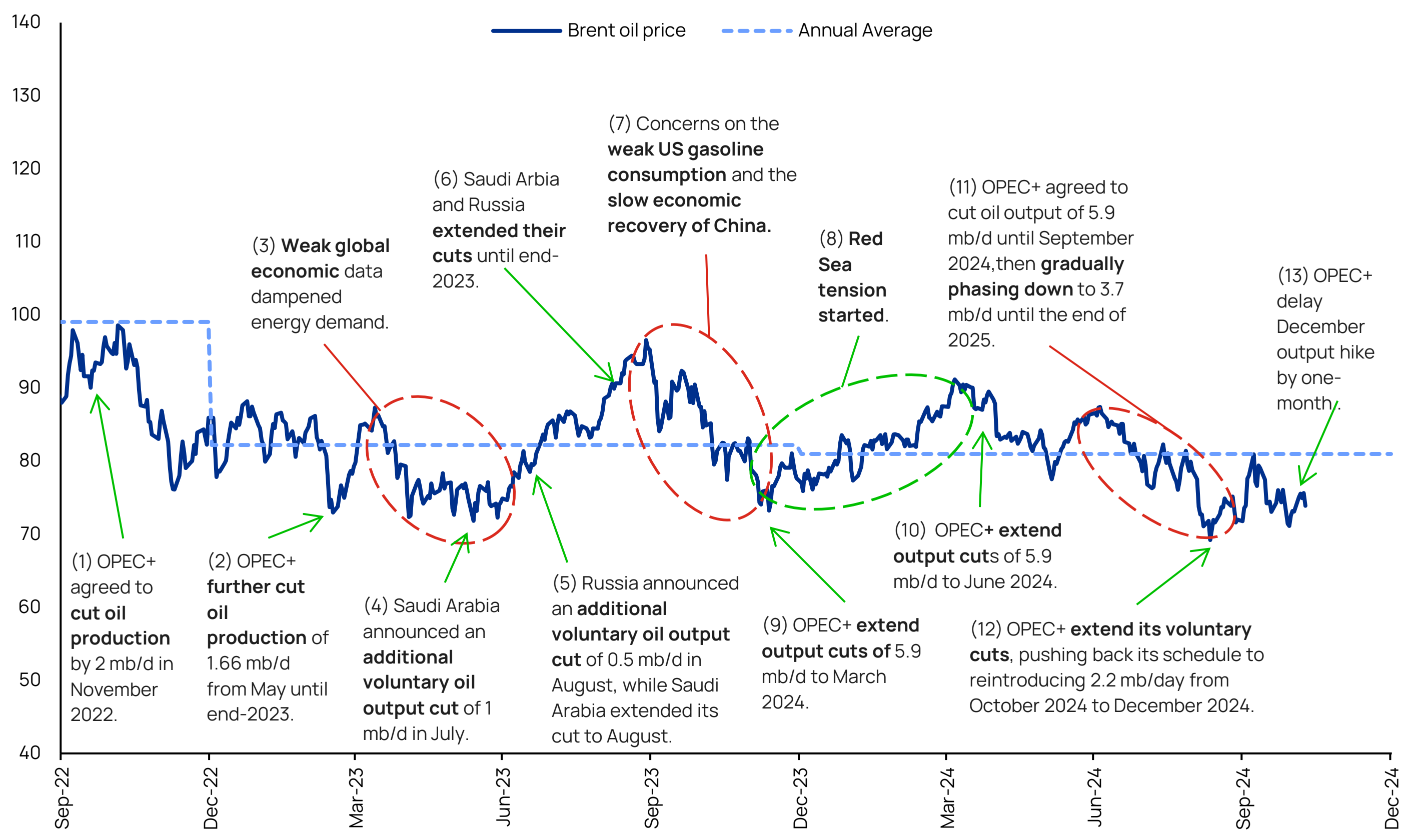
Brent oil prices: Climbed in H1 but sharply corrected in Q3; expecting to stabilize in Q4

In early 2024, Brent oil prices rose, driven by Red Sea tensions and OPEC+'s decision to extend production cuts of 5.9 mb/d until March 2024. This reduction in supply initially pushed prices higher.

However, from May onward, prices declined despite OPEC+ extending its cuts through the year-end. This was due to (1) weak demand—especially in China, and (2) market speculation that global oil supply would not be threatened, even with OPEC+'s actions.

As of November 8, 2024, the YTD average Brent price was USD81/bbl, slightly higher than our previous 2024F forecast of USD80/bbl. As of the date of this report, OPEC+ continues to uphold its existing cut of 5.9 mb/d, representing 5.8% of global demand, through the end of 2024.

Figure 459: Brent oil price movement (USD/bbl)



Source: FiinPro, Vietcap

2025 Outlook for oil & gas prices

Brent oil price outlook

We forecast a 12% YoY lower Brent oil price in 2025

We maintain our average 2024 Brent oil price forecast of USD80/bbl. The YTD average price stands at USD81.0/bbl. The current Brent oil prices fluctuate between USD70-75/bbl and we expect the average price for the remainder of 2024 to be around USD72/bbl, resulting in a full-year average of USD80/bbl.

We maintain our average 2025 Brent oil price forecast of USD70/bbl (-12.5% YoY), as stated in our Oil & Gas Sector Update (dated November 14, 2024). The YoY lower oil price reflects the EIA's forecast of a 0.3 mb/d supply surplus in 2025 vs a 0.5 supply deficit in 2024.

For the longer term, we also maintain our 2026-2029F Brent oil price forecast of USD69-70/bbl. This reflects the potential impact of the new US presidential administration. Mr. Trump may increase tariffs, particularly in China, which could slow global economic growth and reduce oil demand. On the supply side, higher oil production is expected not only from the US, but also from OPEC+. Mr. Trump's policies, such as tax cuts and reduced regulations on the US energy industry, could boost US domestic oil production. Additionally, his influence may prompt OPEC+ to ease production cuts quicker, thereby increasing global supply. Strategists also note that Mr. Trump may take a less aggressive approach to sanctions than during his first term.

Figure 460: Brent oil average price forecasts (USD/bbl)

Institutions	2024F	2025F	2026F	2027F	2028F	2029F	Forecast as of
Bloomberg consensus	81	76	75	75	72	N/A	Nov-24
EIA	81	76	N/A	N/A	N/A	N/A	Nov-24
World Bank	80	73	72	N/A	N/A	N/A	Oct-24
Average of above forecast	**81**	**75**	**74**	**75**	**72**	**N/A**	
Vietcap's oil price base case	**80**	**70**	**70**	**70**	**69**	**69**	**Nov-24**

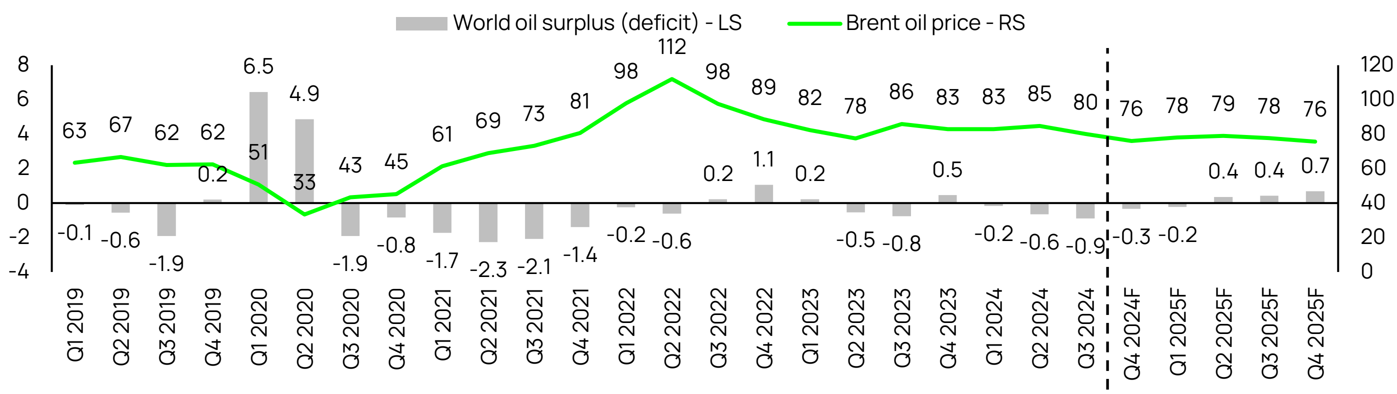
Source: Institutions in the table, Vietcap

EIA forecast a 0.3 mb/d oil surplus in its November-2024 report

For 2024, the EIA projects a full-year oil deficit, with total production of 102.6 mb/d (up 0.6 mb/d YoY) and demand of 103.1 mb/d (up 1.0 mb/d YoY), implying a 0.5 mb/d average deficit.

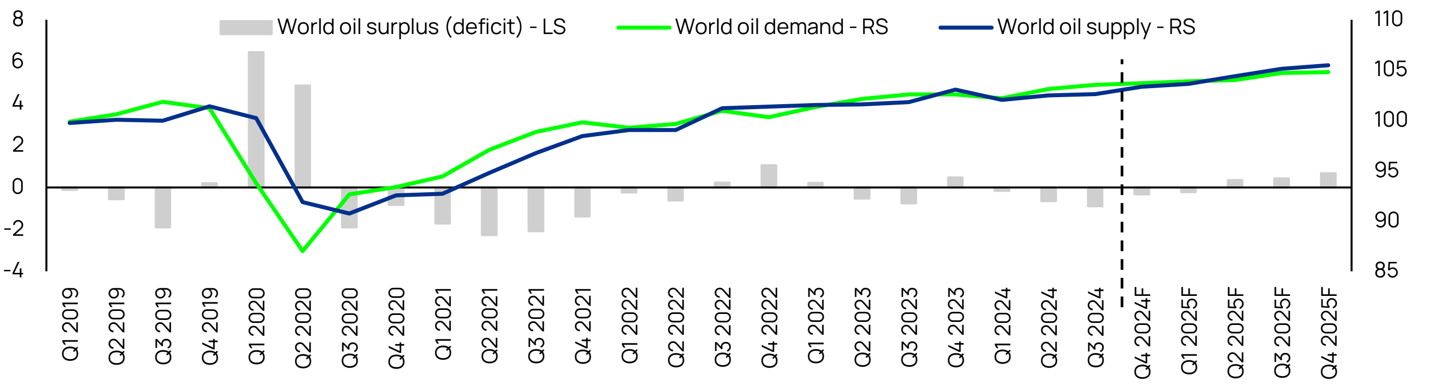
In 2025, the EIA expects a slight surplus market, projecting a supply surplus of 0.3 mb/d as production increases to 104.7 mb/d (up 2.0 mb/d YoY, largely from OPEC+ easing cuts and non-OPEC+ supply growth) and demand reaches 104.3 mb/d (up 1.2 mb/d YoY).

Figure 461: EIA's world crude oil balance (mb/d) (*) vs Brent oil prices (USD/bbl)



Source: EIA's short-term energy outlook (November 2024 Report), Vietcap. (*) World oil supply includes the production of crude oil and a small amount of natural gas plant liquids, biofuels, and other liquids.

Figure 462: World liquid oil supply and consumption forecasts (mb/d) (*)



Source: EIA's short-term energy outlook (November 2024 Report), Vietcap. (*) World oil supply includes the production of crude oil and a small amount of natural gas plant liquids, biofuels, and other liquids.

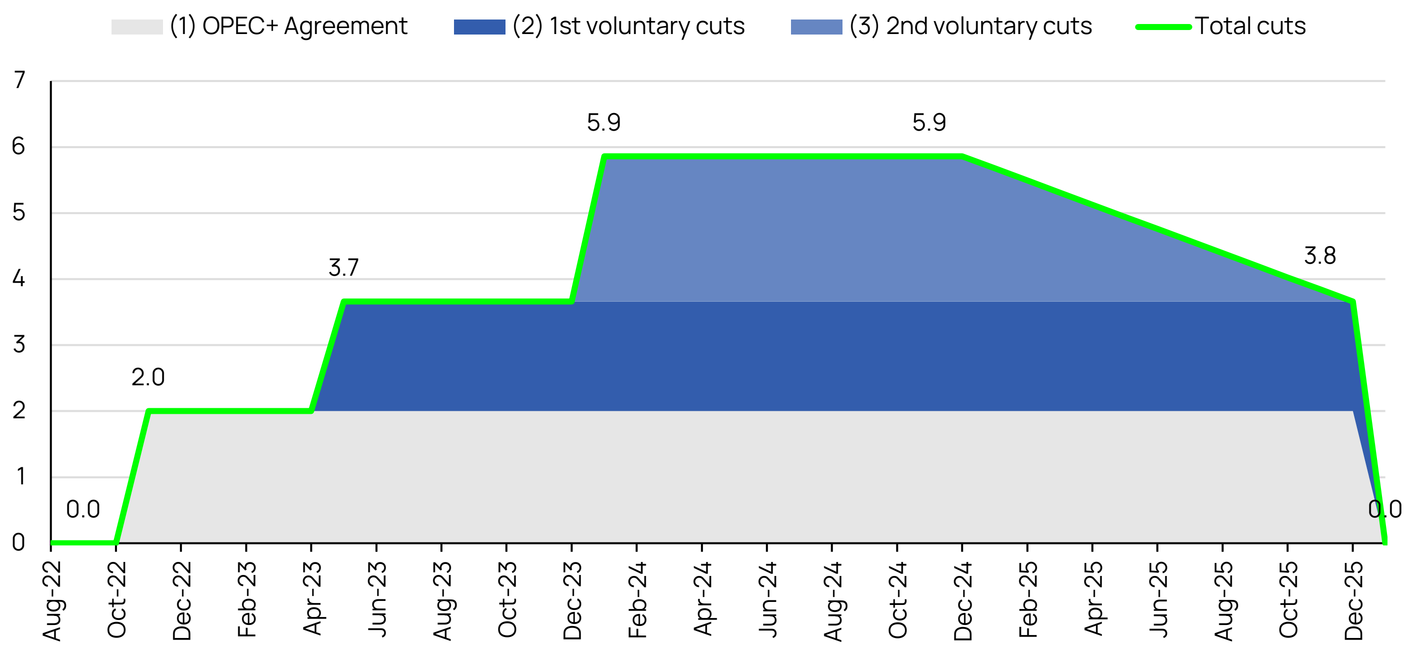
OPEC+ production cuts, averaging 5.9/4.7 mb/d in 2024/2025 is a key support for oil price

OPEC+ has made a series of output cuts since late 2022 amid slow demand growth. Currently, the average of OPEC+ output cuts in 2024 is 5.9 mb/d (5.7% of global demand), with plans to decrease to 3.7m b/d at the end of 2025. This implies an average cut of 4.7 mb/d (4.5% of global demand) in 2025, which increases its production by ~1.2 mb/d on average vs 2024.

The cuts consist of:

- 2.00 mb/d from the OPEC+ official agreement, extended until the end of 2025 (originally set to expire at the end of 2024).
- 1.66 mb/d from the first round of voluntary cuts, extended until the end of 2025 (originally set to expire at the end of 2024).
- 2.2 mb/d from the second round of voluntary cuts, set to gradually ease from January 2025 to December 2025 (originally set to expire in June 2024).

Figure 463: OPEC+'s plan for production cuts (mb/d)



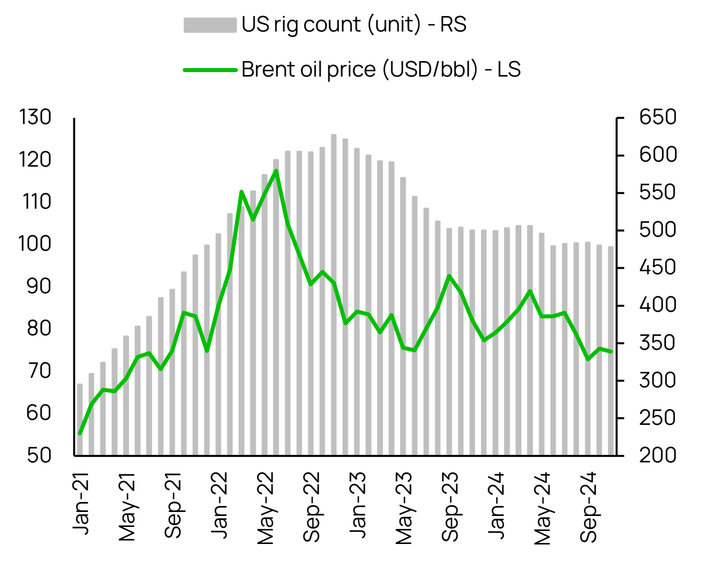
Source: OPEC+, Public media, Vietcap (Data as of OPEC+ current plans, released in early November 2024)

2025F US oil production continues to rise

The number of US drilling rigs declined following the Brent price drop in 2023, with the average rig count down to 546, a 6% YoY decrease (-32 rigs). This trend continued into 2024, with the 11M average YTD rig count at 490, down 10% YoY (-56 rigs).

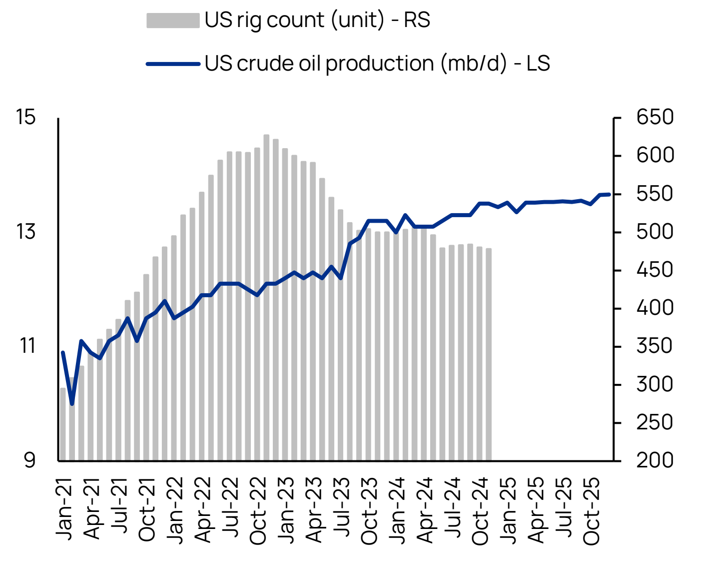
Despite fewer rigs, the EIA projects rising US crude oil production, forecasting an average of 13.3 mb/d in 2024 (+0.67 mb/d or 5.3% YoY) and 13.5 mb/d in 2025 (+0.27 mb/d or 2.0% YoY). Although this growth was slower than in 2022 and 2023 (with respective growth of 0.79/0.68 mb/d or 7.1%/5.7% YoY), it indicates sustained US production increases.

Figure 464: US rig count and Brent oil price



Source: Bloomberg, Baker Hughes, Vietcap (Data as of November 18, 2024)

Figure 465: US crude oil production and number of rigs



Source: EIA's short-term energy outlook (November 2024 Report; actual data to November 18, 2024; forecast data from December 2024 to December 2025), Baker Hughes, Bloomberg, Vietcap

Oil demand to increase in 2025

The IEA, EIA, and OPEC have lowered their 2025 oil demand growth forecasts in their latest reports, driven by weaker-than-expected oil demand from China.

For 2025, these institutions still project an increase in oil demand, driven by expectations of global economic recovery, particularly in China. Forecasts for oil demand in 2025 are 103.8/104.4/105.6 mb/d for IEA/EIA/OPEC, respectively.

Figure 466: Global oil demand growth forecasts (mb/d)

		Forecast as of November-2024		Forecast as of October-2024		New vs Old	
Institution	**2023A**	**2024F**	**2025F**	**2024F**	**2025F**	**2024F**	**2025F**
IEA	2.1	0.9	1.0	0.9	1.0	0.0	0.0
EIA	2.3	1.0	1.2	0.9	1.3	0.1	-0.1
OPEC	2.5	1.8	1.6	1.9	1.7	-0.1	-0.1
Median	**2.3**	**1.0**	**1.2**	**0.9**	**1.3**	**0.1**	**-0.1**

Source: Institutions in the table, Vietcap

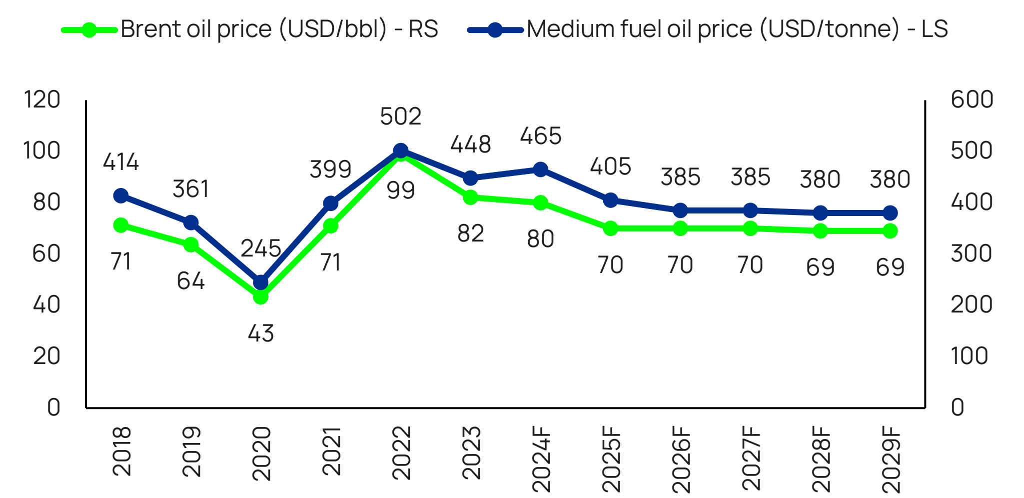
Fuel oil price outlook: We forecast a lower YoY FO price in 2025

We maintain our 2024 FO price assumption of USD465/tonne (+3.8% YoY) as we expect FO to continue its stronger performance vs the Brent oil price (USD80/bbl, -2.6% YoY) in 2024. As of November 12, the YTD average FO price was USD467/tonne, in line with our assumption of USD465/tonne for 2024.

We also maintain our 2025F FO price assumption of USD405/tonne (-12.9% YoY). We expect FO to share the same movement with Brent in 2025 (USD70/bbl, -12.5% YoY) after two consecutive years of outperformance.

We project 2026/27/28/29F FO prices at USD385/385/380/380 per tonne, implying similar movements with our respective Brent oil price forecasts.

Figure 467: Vietcap's Brent oil and fuel oil price base case assumptions



Source: Vietcap. Note: Medium fuel oil is the average of HSFO 380 cst and HSFO 180 cst prices.

LNG price outlook – Asian LNG prices to rebound in 2025F (+9% YoY) and decrease in subsequent years

In 9M 2024, Japan's LNG import prices (USD12.1/MMBTU, -13% YoY) underperformed vs Brent oil prices (USD82/bbl, flat YoY). In its July 2024 gas report, the IEA revised up its 2024 average gas price forecast in Japan, the EU, and the US by 14% from USD7.3/MMBTU to USD8.3/MMBTU (yet still declining -18% YoY) vs its April 2024 report, mainly due to slowing LNG supply growth in Q2.

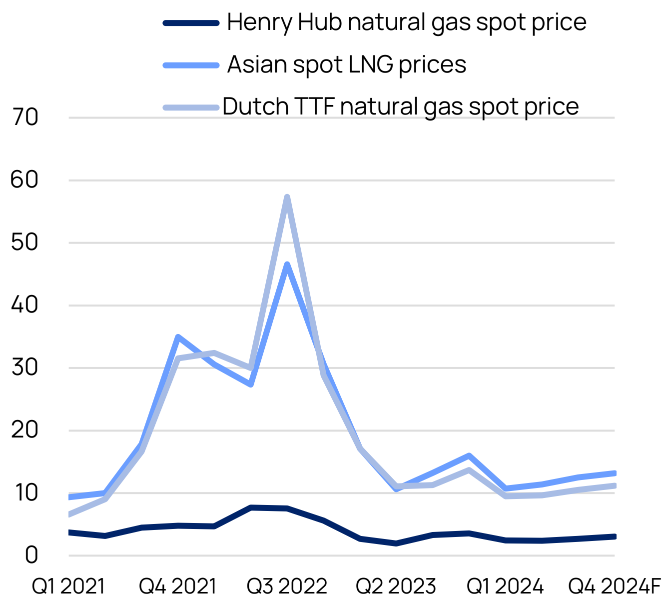
Chicago Mercantile Exchange (CME) futures as of November 2024 imply average Asian spot LNG prices of USD13.7/11.8 per MMBTU in 2025/26F, respectively, similar to that of the World Bank's projections in October 2024 of USD13.5/12.5 per MMBTU. This suggests that LNG prices will increase YoY in 2025 due to (1) strong Chinese gas demand following an expected economic rebound, and (2) the LNG market is not anticipated to normalize before 2026 in the wake of the Russian-Ukraine conflict that began in early 2022, per S&P Global.

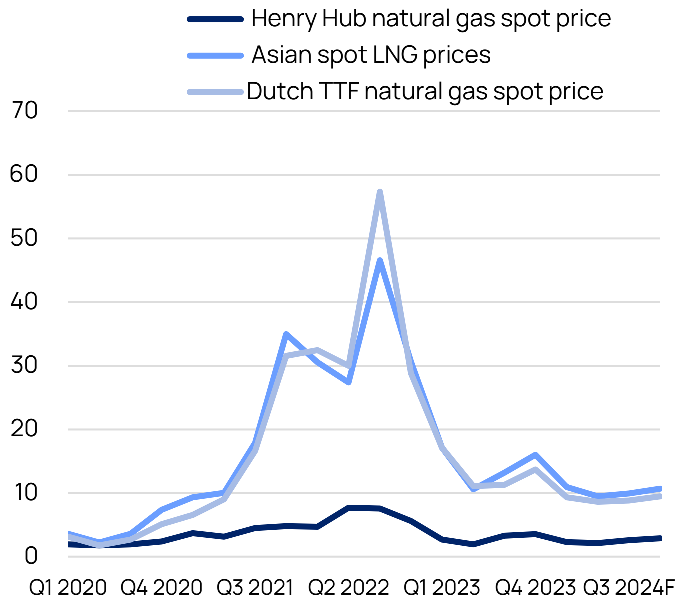
However, Bernstein Research expects the global LNG supply to increase by more than 30% in the next three years, starting from 2025, driven by the capacity expansion in Qatar and North America. In addition to the slower demand growth from China due to its growing renewable energy and EV adoption, these factors should lead to lower LNG prices from 2026F onward.

Vietcap

Figure 468: IEA gas price forecasts in April 2024 and July 2024 gas reports (USD/MMBTU)

IEA's forecasts as of July 2024	IEA's forecasts as of April 2024





Source: IEA, Vietcap

Imported LNG price to remain competitive with prices from Vietnam's new gas fields

Methodology:

- **LNG import price (tariff exclusive):** International practice is based on Brent, the Asian LNG price, and US Henry hub price. For our 2024 projection, we base it on GAS's actual import price. For 2025/2026F, we estimate GAS's LNG import prices using a weighted average approach: 60% weight for the consensus price (CME and World Bank) and 40% weight for 13% of Brent oil prices. This reflects GAS's current practice of primarily importing LNG at spot prices, which are more volatile than term contracts. From 2027F onward, we assume that GAS's imported LNG prices will be 100% benchmarked against Brent oil prices, with LNG prices equivalent to 13% of Brent oil prices. This assumption is based on expectations that GAS will secure long-term commitments for LNG volumes from power plants, enabling more stable pricing through term contracts.
- **Tariff**: Our LNG term price forecast (tariff inclusive) includes the LNG import price and tariff (storage, regasification, and transportation). We maintain our expectation that GAS could record 70% of the tariff (USD3.1/MMBTU) in 2024/25F (as it has not yet received approval, per industry players), and receive 100% of the tariff from 2026F onward.

Outlook:

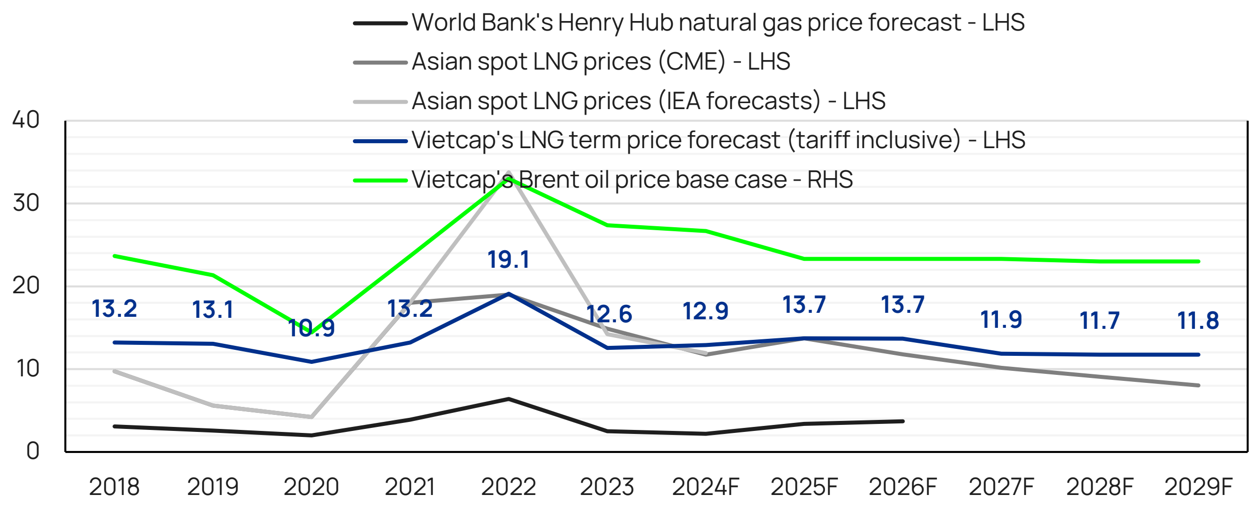
For 2024, we maintain our import price (tariff inclusive) assumption of USD12.9/MMBTU (see our GAS Update Report, dated November 29, 2024). This reflects our import price (tariff exclusive) projection of USD11.0/MMBTU, aligning with GAS's actual import prices.

For 2025F, we maintain Vietnam's LNG import price (tariff inclusive) projection of USD13.7/MMBTU (+6% YoY), implying USD11.8/MMBTU (+7% YoY, tariff exclusive). The higher import price assumption (which is driven by the market consensus of prolonged supply constraint) offsets our lower Brent oil price forecast (USD70/bbl, -12.5% YoY).

We maintain our Vietnam LNG import price (tariff inclusive) for 2026F and onward.

We expect Vietnam's LNG import price in the next five years to be competitive with prices of domestic new gas fields (~USD12-14/MMBTU) despite the potential peaks of USD13.7/13.7 per MMTBU in 2025/26F.

Figure 469: Brent oil price (USD/bbl) and LNG price forecasts (USD/MMBTU)

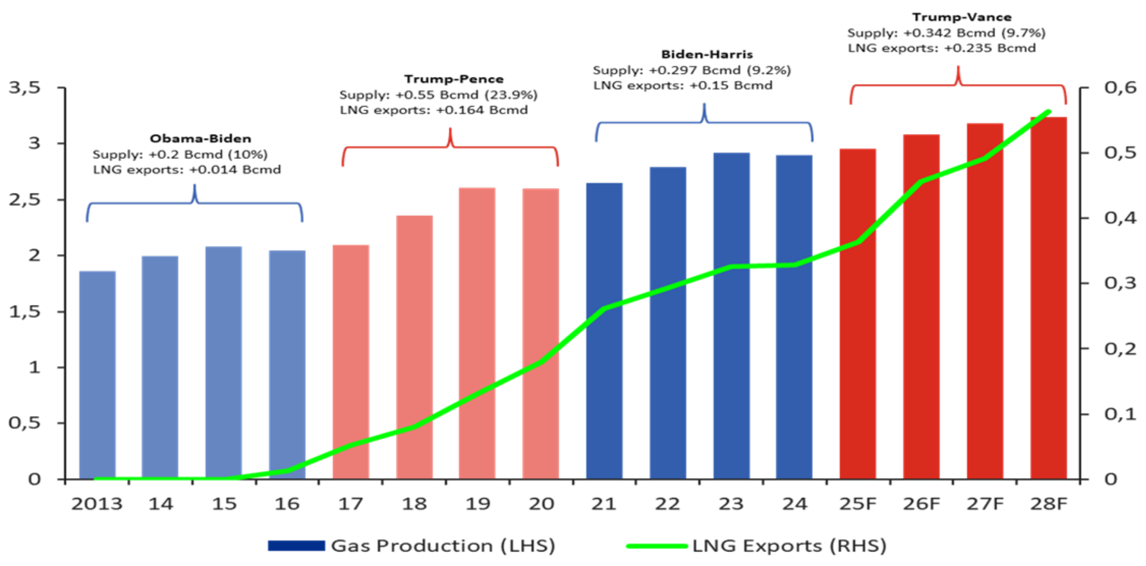


Source: World Bank, IEA, CME, Vietcap. Note: Vietcap's LNG price forecast (term contract) is calculated based on 13% of the Brent oil price + tariff for 2027-2029F, according to industry players. The World Bank's forecast is as of October 2024, CME's consensus is as of November 2024, and IEA forecasts are from July 2024.

Opportunity to source cheaper LNG from the US compared to Japan or Korea

Rystad Energy (an independent research firm specializing in global energy market analysis) anticipates that US LNG export capacity will double from 0.4 billion cubic meters per day (bcm/d) in 2023 to 0.8 bcm/d by 2030, enabling the US to meet ~37% of global LNG demand, which is projected to reach nearly 780 bcm (~600 million tonnes) by then. This projected growth is underpinned by Mr. Trump's pro-energy initiatives, such as expediting permits for large-scale projects like Texas LNG and Calcasieu Pass (CP2) and expanding federal land leases for gas production.

Figure 470: US LNG export and gas production outlook (bcm)



Source: Rystad Energy, Vietcap compilation

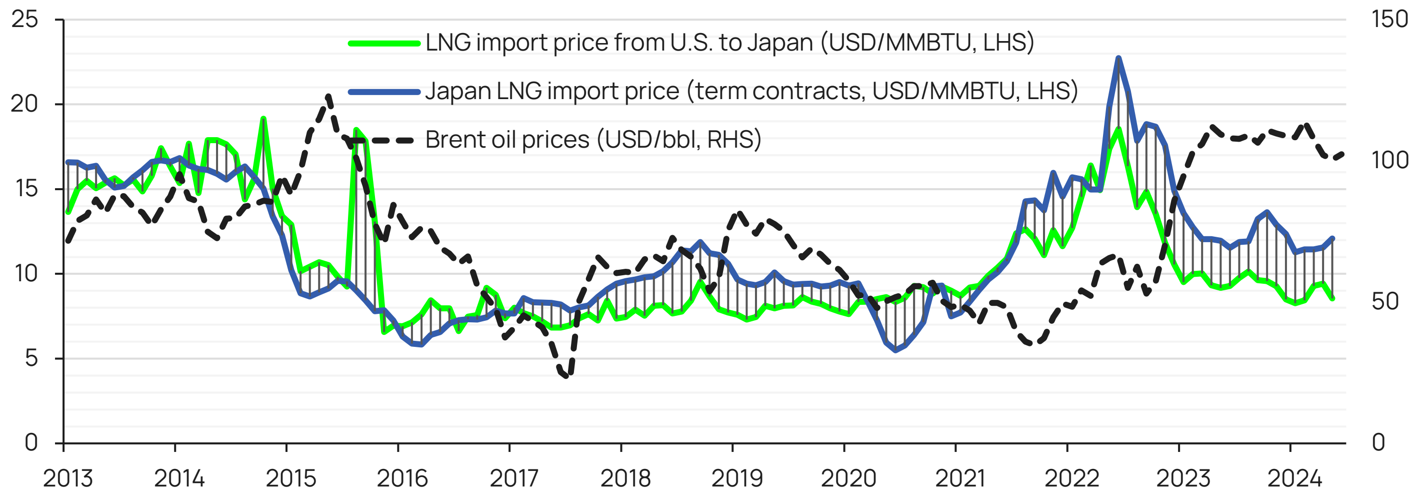
Rystad Energy has noted that Mr. Trump's LNG production policies could have a mixed impact on US LNG export prices.

+ **Prices could decline** due to an oversupplied market, as the global LNG industry remains highly sensitive to supply-demand imbalances. The likelihood of oversupply increases if multiple U.S. LNG projects progress simultaneously.

+ **Conversely, several factors could push prices higher**: (1) the potential reimplementation of a 25% steel tariff, akin to the 2018 tariff, which would raise project costs and, in turn, export prices; (2) the reliability of US LNG supply unlocking new demand, particularly from price-sensitive Asian markets like Vietnam; and (3) Europe's focus on securing US LNG to reduce dependency on Russian gas, strengthening transatlantic relations and ensuring steady demand.

We estimate over the past three years, the average LNG import price from the U.S. is 19% lower than from Japan. Specifically, LNG imported from the US to Japan has averaged ~USD11.6/MMBTU, comprising a terminal price of USD8.3/MMBTU and a freight cost of ~USD3.3/MMBTU, compared to USD14.4/MMBTU import from Japan. This pricing advantage presents Vietnam with an opportunity to source US LNG at lower costs than Japan (POW's management also shared the same view), particularly as US export capacity expands. ***Furthermore, importing LNG from the US could help narrow Vietnam's trade deficit with the US, further enhancing bilateral economic relations.***

Figure 471: LNG import prices from the US and Japan (USD/MMBTU), Brent oil prices (USD/bbl)



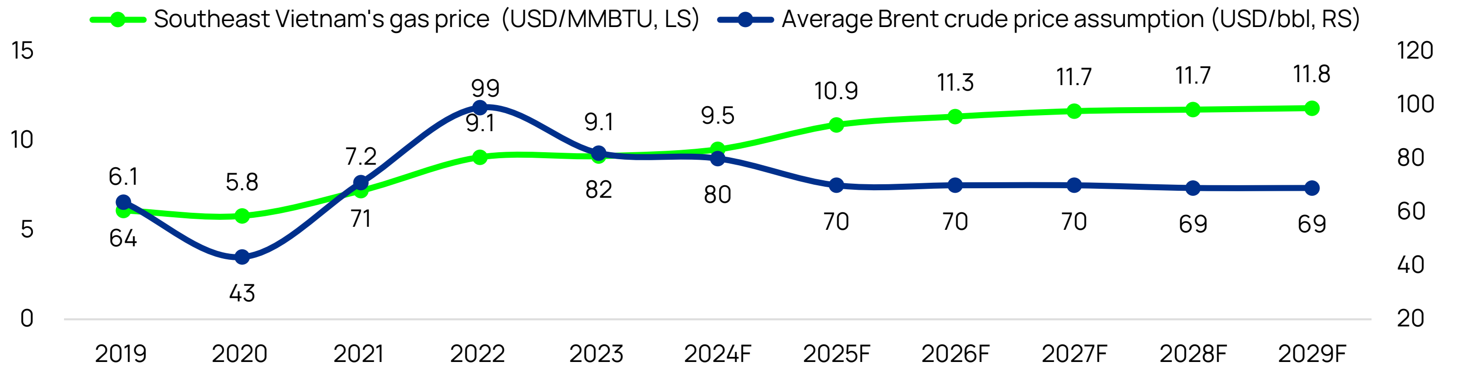
Source: U.S. Energy Information Administration, Bloomberg, S&P Global, Vietcap

Vietnam's domestic gas price outlook

Historically, Vietnam has self-supplied all gas feedstock for its power plants, fertilizer plants, and industrial parks. The domestic gas price is partly based on 1) a fixed price (well-head gas price plus regulated return), 2) FO prices, and 3) transportation tariffs. Starting in 2024, as domestic gas production drops, Vietnam's gas prices will be a blend of domestic and imported LNG prices.

We maintain our domestic gas price forecasts for 2024-2029F, as pointed out in our GAS Update Report, dated November 29, 2024. We forecast this price to increase by 14% YoY to USD10.9/MMBTU in 2025 and rise further in the following years to USD11.8/MMBTU by 2029F. The share of cheap domestic gas (~USD5-7/MMBTU) in total supply is expected to drop from 66% in 2019 to 20% in 2024 and just 4% by 2029. Similarly, more expensive domestic gas (~USD7-15/MMBTU) is expected to drop from 71% in 2024 to 23% by 2029. The domestic supply shortfall will be offset by imported LNG (~USD12-14/MMBTU), rising from 9% in 2024 to 73% by 2029, pushing costs higher.

Figure 472: Gas price outlook for power plants in southeastern Vietnam (USD/MMBTU)



Source: GAS, Industry players, Vietcap

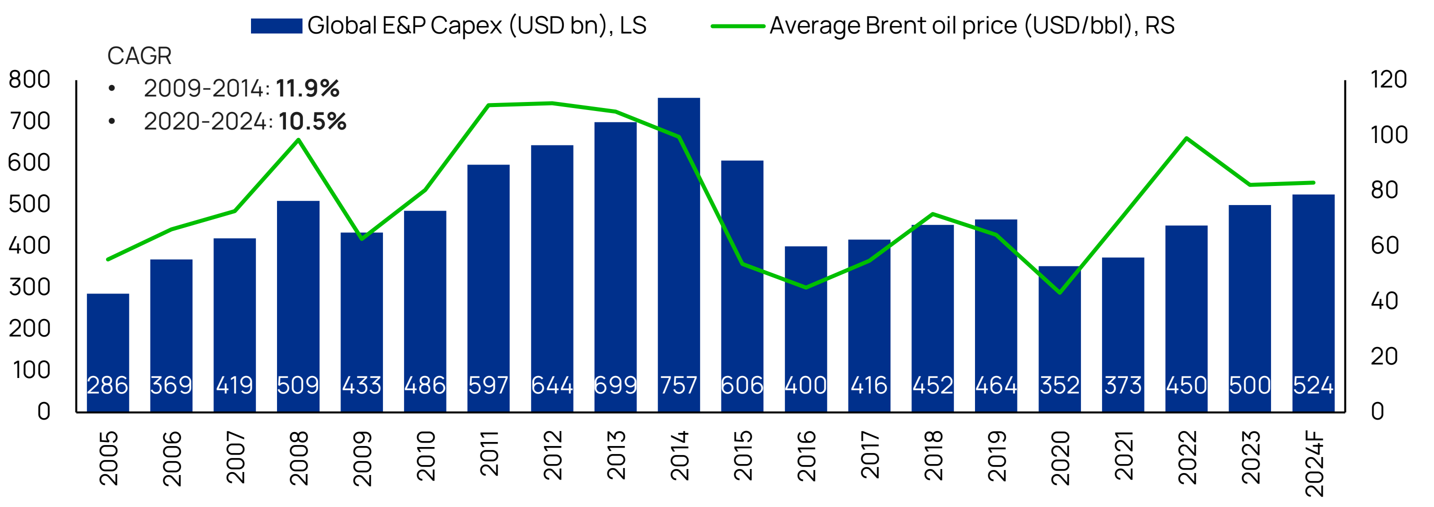
Global exploration & production outlook

Increasing spending for global E&P

We expect Brent oil prices to average between USD69-70/bbl for 2025-2029, a range we believe is high enough to sustain E&P activities by oil & gas operators.

After an 11% rise in 2023, S&P Global forecasts E&P spending to grow 5-7% in 2024, with a long-term CAGR of 4% from 2024-2027. This outlook points to a positive future for global E&P investment.

Figure 473: Global oil & gas upstream capital spending (USD bn)



Source: S&P Global, Vietcap

Middle East to lead the recovery of global E&P

S&P Global states that the Middle East will experience a significant increase in demand. The demand drivers in the Middle East are Saudi Aramco (Saudi Arabia's public petroleum and natural gas company) and Abu Dhabi National Oil Company (ADNOC). Together, these two companies will account for about 70% of the region's demand, attracting a significant number of jack-up rigs to the Middle East.

- **ADNOC** plans to raise its output from 4.2 mb/d to 5 mb/d by 2027 (6% CAGR in 2024-2027F), with up to USD150bn in capex over the next five years.

- **Saudi Aramco had initially planned to boost its oil production capacity from 12.2 mb/d to 13.2 mb/d by 2027.** However, in January 2024, the company deferred these expansion plans. Specifically, Saudi Aramco has scrapped tenders for over USD10bn in EPCI contracts for the expansion of its massive Safaniyah oilfield, following the Ministry of Energy's request to cancel plans to boost maximum sustainable capacity from 12 mb/d to 13 mb/d by 2027.

Saudi Aramco has shifted its focus to gas while maintaining oil capacity. The company has revised its plans by deferring a 1 mb/d capacity expansion and implementing 12-month suspension contracts of 18 jack-up rigs, signaling a shift in priorities.

- **Maintaining oil capacity:** Despite scaling back its 1 mb/d oil production capacity, Saudi Aramco emphasizes maintaining its current 12 mb/d oil capacity through ongoing investments to offset natural production declines. We note that without ongoing investment, its current oil production capacity of 12 mb/d will drop to about 10.5 mb/d by 2027, highlighting the importance of the expansion projects. We thus believe that the investment is still necessary in the long term and may be reconsidered by Saudi Aramco.
- **Increasing focus on gas production, not E&P slowdown:** Capex initially allocated for oil expansion will now be directed toward gas, liquids, and chemicals. Despite the shift, Aramco's overall capex remains robust with full-year 2024 capex guided to be between USD48-58bn, which represents a ~6% increase from the USD50bn allocated in 2023. In 9M 2024, Aramco's capex reached USD36bn (+20% YoY; 62-75% of its full-year guidance), with upstream spending of USD29bn (+22% YoY). This spending reflects efforts to sustain its maximum crude oil capacity of 12 mb/d and to advance multiple gas projects. As a result, we believe this investment shift to gas does not have a material impact on global E&P activities or spending.
- **The postponement of jack-up rig contracts is temporary, aligning with OPEC+ production cuts and Aramco's strategic focus on gas diversification.** As per PVD, some rigs will continue operating, while others will be adapted for gas drilling. The probability of relocating these rigs from the Middle East is minimal, as the suspension is only for a 12-month period.

Southeast Asia has a similar upbeat outlook

The countries with the largest E&P activities in Southeast Asia are Malaysia, followed by Indonesia, Thailand, and Vietnam. Petronas (the Malaysian national oil & gas company) targets for capex of RM113bn (USD24bn) for the oil & gas sector for 2023-2027F, which is 12% higher vs 2018-2022. In addition, PTT Exploration and Production (PTTEP) – the national petroleum exploration and production company in Thailand – guides for a 5.0% CAGR increase in production in 2023-2028F. The company also targets to spend USD20.8bn on E&P activities in 2023-2028F. These targets are higher than our forecast of USD14bn capex for Vietnam over the 2024-2033F period.

China E&P Outlook

Chinese oil and gas companies plan to boost production capacity over the next three years, indicating higher capital expenditures in upstream operations. CNOOC targets a total production of 780–800-million-barrel oil equivalent (mn boe) (+11% YoY) in 2024, and 810-830 mm boe in 2025 (+5% YoY), respectively. The company also expects natural gas to increase from 25% of total output in 2023 to 30% by 2025, while crude oil production will be adjusted based on market conditions. Similarly, Sinopec and PetroChina aim to increase natural gas production by 55% of their current output by 2025.

North America E&P Outlook

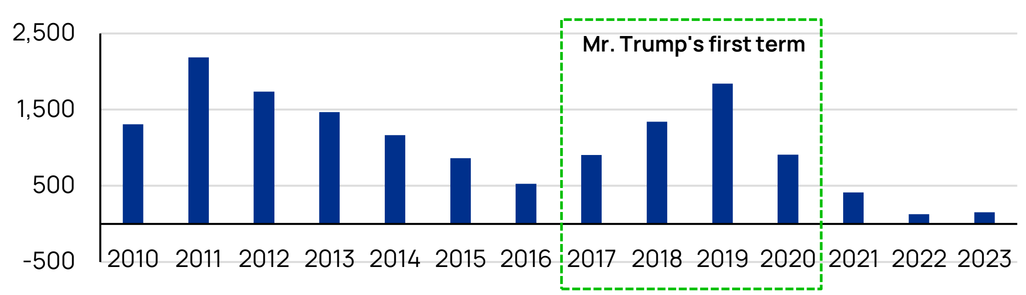
The IEA forecasts North America's upstream spending to grow at a CAGR of 5.5% from 2024 to 2030. In 2023, North America's upstream spending grew 17% YoY. The IEA projects this spending to continue rising from USD205bn in 2024 to USD282bn by 2030. This growth is driven by major oil & gas players like ExxonMobil, Shell, and Chevron, contributing around 30% of the regional E&P capital expenditure.

- **ExxonMobil targets a 3% CAGR in production from 2024 to 2027**, with annual upstream spending of USD22-27bn.
- **Chevron also targets a 3% CAGR in production from 2024 to 2027.** The company guides for upstream capex of USD14bn in 2024 and expects to allocate USD14-16bn annually for upstream activities thereafter.
- **Shell plans to maintain its production capacity**, spending USD22-25bn yearly on upstream operations.

Mr. Trump's focus on boosting US oil production should support US E&P demand

- **Mr. Trump's focus on boosting US oil production over renewable energy** is expected to maintain steady long-term fossil fuel demand and push drilling activity in the US. This might reduce supply in some regions. Some rigs could be relocated to the US, potentially lowering availability elsewhere.
- **US oil lease issuances surged under Mr. Trump's previous administration** (over 4,000 in his first three years) but have slowed significantly under President Biden (just 1,400 in the same period of three years). However, on the downside, higher US production could put downward pressure on oil prices, potentially reducing the profitability of drilling projects, lowering rig demand, and decreasing drilling day rates. Despite room for US production growth, a significant drop in oil prices is unlikely. According to the Dallas and Kansas Fed Energy Surveys, producers need around USD64/bbl to profitably drill a new well, and a forward price of USD70/bbl for 2025 and USD67/bbl for 2026. We note that the oil price benchmark used by the Dallas and Kansas Fed Energy Surveys is WTI Crude Oil, which has historically been priced lower than the Brent oil price by USD3-5/bbl.

Figure 474: Oil & gas lease issuances on federal land



Source: Bureau of Land Management (BLM - a US federal agency), Vietcap

Vietnam's E&P activities to recover in 2024 and accelerate from 2025F

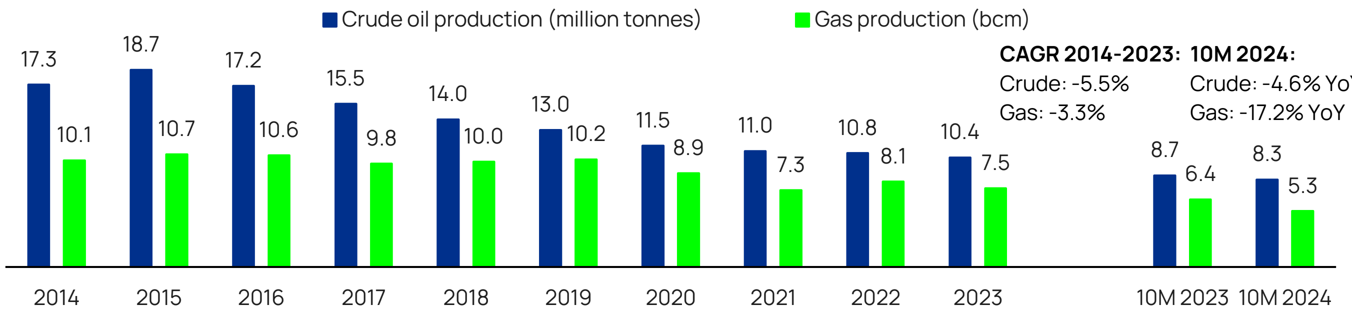
Crude oil & gas production outlook

Crude oil production and natural gas production has decreased YoY since 2015. We attribute the decline in crude oil & gas production to dwindling reserves of existing fields and slow investments into new projects.

On May 7, 2024, PetroVietnam announced new oil discoveries, slightly boosting oil production by 5% and reserves by 2%. According to PetroVietnam, these findings are a positive development, as the group had only achieved two discoveries in a single year before, in 2023, following a slow period from 2019-2023.

- Rong oil field (Cuu Long basin, southeast Vietnam): Preliminary oil production of 6,300 barrel per day (b/d) with additional reserves of 16.5 million barrels.
- Bungar Aster oil field (PM3 Ca Mau basin southwest Vietnam): Preliminary oil production of 2,100 b/d with additional reserves totaling 84 million barrels.

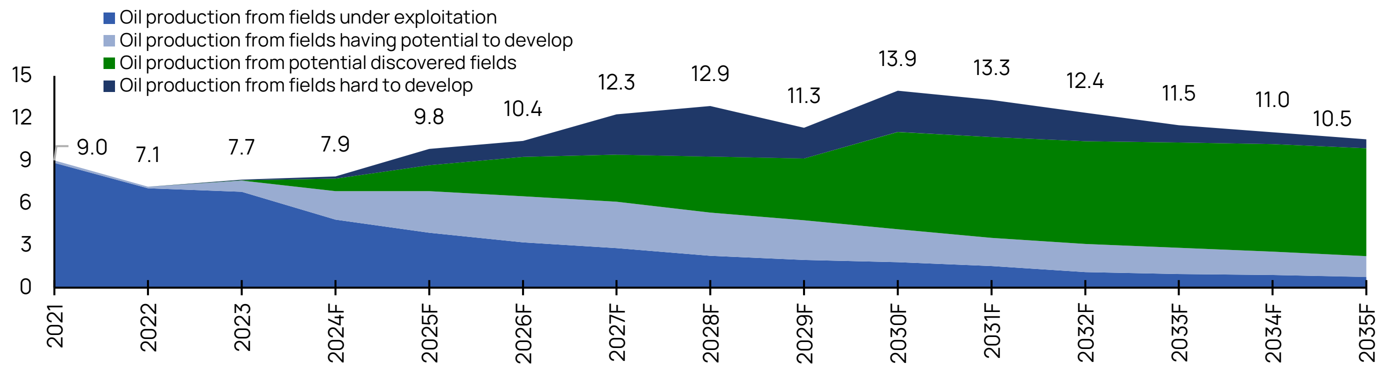
Figure 475: Crude oil and gas production in Vietnam



Source: PetroVietnam Group (PVN), General Statistics Office of Vietnam (GSO), Vietcap

Vietnam targets a crude oil production CAGR of 5% in 2020-2030. Recovery is expected from 2024, as outlined in the National Energy Development Plan 2021–2030. This relies on output from "potential discovered fields" and "fields hard to develop" to offset the sharp decline in aging "fields under exploitation."

Figure 476: Crude oil production forecasts (million cbm)



Source: National Energy Development Plan for 2021-2030, Vietcap

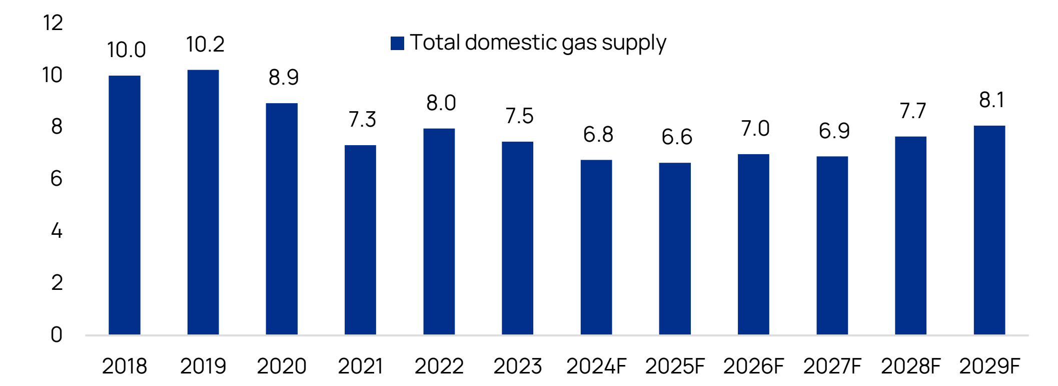
Vietnam targets a gas production CAGR of 13% in 2020-2030. The National Energy Development Plan for 2021-2030 projects gas production to more than double in 2031-2050 compared to 2021-2030. This will be driven by contributions from new gas fields — mostly in central and southern Vietnam. Gas production over 2021-2030 is targeted to reach 118 bcm, which is 10% higher vs the 2010-2020 period with contributions from Block B (in the southwest) and Blue Whale (in the central). Production from the southeast region is guided to reach 60.7 bcm in the 2021-2023 period with While Lion phase 2B, Thien Nga-Hai Au, and others.

Figure 477: Gas production forecasts (bcm)

	2020G	2025G	2030G	2050G
Power	6.6	7.8	25.5	14.1
Fertilizer	1.2	1.1	2.4	2.4
Industrial	0.9	1.4	2.3	6.2
Total	**8.7**	**10.4**	**30.1**	**22.6**
CAGR		*2020-25G: 3.7%*	*2020-30G: 13.2%* *2025-30G: 23.7%*	*2020-50G: 3.2%* *2025-50G: 3.2%* *2030-50G: -1.4%*

Source: National Energy Development Plan for 2021-2030, Vietcap

Figure 478: Vietnam's domestic gas production forecasts (bcm)



Source: GAS, Vietcap

Vietnam's Revised Oil & Gas Law

Overall, we believe that the revised law is marginally positive for the sector as it could facilitate E&P activities and accelerate domestic oil & gas projects.

- On November 14, 2022, Vietnam's National Assembly approved the Revised Oil & Gas Law, which came into effect on July 1, 2023.
- According to the management of PetroVietnam Technical Services (HNX: PVS), the Revised Oil & Gas Law allows oil & gas operators to bolster their E&P activities through lowering the profit-sharing ratio of the host country and lowering taxes for critical projects.
- According to the CEO of PetroVietnam Exploration Production Corporation (PVEP), the Revised Oil & Gas Law outlines a clearer investment procedure and sets preferred investment terms that should help PVEP and other field operators to develop small/frontier oil & gas fields. As such, PVEP estimates that at least 12 projects can be executed due to the revised oil & gas law.

Apart from the Revised Oil & Gas Law, Vietnam's PDP VIII, which was approved on May 15, 2023, should provide a strong legal framework for the development of two large gas fields in Vietnam, including Block B and Blue Whale.

Figure 479: Comparison between the old and revised Oil & Gas Law

	Old Oil & Gas Law	Revised Oil & Gas Law	Vietcap's comments
Extend contract term of oil & gas contracts	Not more than 25 years.	Not more than 30 years.	Provides more flexibility for investors' investment horizons; encourages longer-term investment.
Tax incentives	No rule on preferred tax rates for special projects.	For oil & gas blocks/fields receiving special preferred/preferred investment policy, the corporate income tax rate is 25%/32% and crude oil export tax is 5%/10%, respectively.	Reduces tax burden for investors and encourages investment in oil & gas projects.
Cost recovery and profit sharing	Cost recovery ratio and profit-sharing ratio are negotiated and stated in oil & gas contracts.	Industry players expect the profit-sharing ratio (50%-80%) between Vietnam and foreign investors to be higher. The maximum cost recovery ratio for oil & gas contracts receiving preferred investment policies and receiving special preferred investment policies is 70% and 80%, respectively. According to industry players, the revised cost recovery ratios are higher than the previous ratios.	Creates a more favorable business environment for investors as higher cost recovery ratios will allow investors to recover more capex and opex.

Source: Vietnam's National Assembly, Vietcap

Vietcap

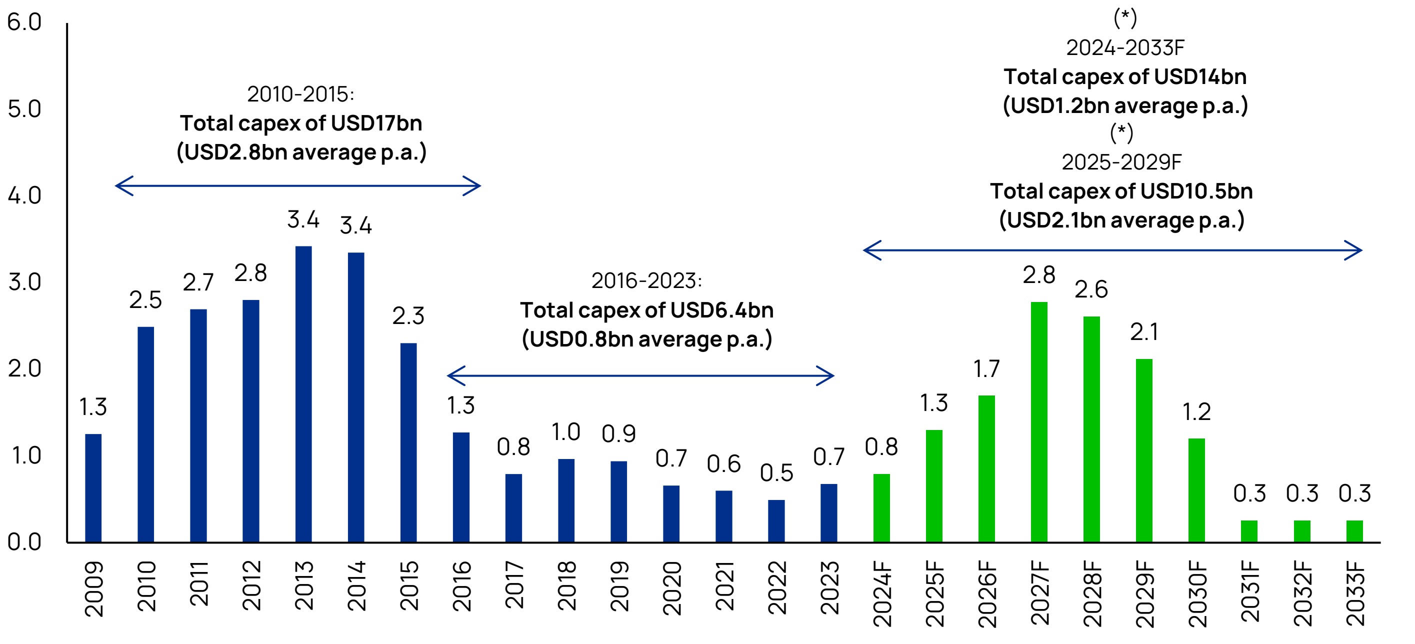
Domestic E&P activities to enter a new cycle

Robust E&P activities in Vietnam in 2008-2014, supported by the Brent oil price, averaged USD95/bbl. According to industry players, Vietnam's E&P capex during 2010-2015 of USD17bn (USD2.8bn average p.a.) was supported by favorable oil prices. However, the oil price drop in 2015-2016 caused a significant slowdown in E&P activities, with further setbacks during 2020-2022 due to the COVID-19 pandemic. As a result, Vietnam's E&P capex from 2016 to 2023 dropped to USD6.4bn (USD0.8bn average p.a.)

Vietnam's E&P is set to enter a new cycle starting from H2 2024, with a substantial surge in capex during 2024-2033F, reaching USD14bn (2.2x vs the 2016-2023 period; 82% of the peak period 2010-2015). The official groundbreaking of the Block B O Mon project in September 2024 is the foundation for increased activities. In addition, White Lion – Phase 2B and Yellow Camel will fuel growth. We estimate domestic E&P spending to improve 14% YoY in 2024 and project E&P spending to accelerate to reach USD1.3bn in 2025 (+63% YoY) and peak at USD2.8bn in 2027. This implies USD2.1bn p.a. for 2025-2029F period, 2.6x of average level p.a. in the previous cycle.

It's important to note that this projection excludes the capex for the Ken Bau project, which is currently in the discovery phase and awaiting confirmation of proven gas reserves. Additionally, we have not factored in capex for two new oil discoveries, which potentially boost national production by 5% and reserves by 2%. For the 2031-2033F period, the projected decline in E&P spending is based on currently announced commercial projects. However, actual spending could exceed these estimates as additional projects are likely to be announced in the coming years.

Figure 480: Vietnam's E&P capex (USD bn)



Source: Industry sources, Vietcap estimates (*This projection excludes Ken Bau's capex; a decline in capex during 2028-2033 is due to our estimation based on capex for announced projects, most of which are expected to extract the first gas/oil in 2027. The actual capex could be higher than these projections as more projects are announced.)

Vietcap

Figure 481: Jobs for oil & gas companies from notable domestic projects, 2023-2033 period

Companies with potential workload	White Lion - Phase 2B	Yellow Camel	Block B	Blue Whale
GAS	Pipeline investment and gas transportation	No	Pipeline investment and gas transportation	No
PVS	1 CPP + 1-2 WHP	1 CPP + 1 WHP + 1 FSO	1 CPP + 46 WHPs + 1 FSO	1 WHP
PVD	1 JU rig	1 JU rig	1-2 JU rigs	1 semi-submersible rig
Vietsovpetro + PXS	No	No	No	1 CPP (sub-contractor)
PVB	Pipeline coating			
PVC	Mud and chemicals for drilling			
Contract value* (USD mn)	**White Lion - Phase 2B**	**Yellow Camel**	**Block B****	**Blue Whale**
GAS	350	N/A	N/A	N/A
PVS	250	283	3,313	830
PVD	220	294	857	N/A
Vietsovpetro + PXS	0	N/A	N/A	N/A
PVB	17	N/A	130	N/A
PVC	15	N/A	N/A	N/A
Others	248	N/A	886	N/A
Total capex (USD mn)	**1,100**	**700**	**5,186**	**4,600**

Source: Vietcap (* Vietcap's estimated capex for upstream & midstream segments for 2023-2033F, ** GAS has a 51% stake in the gas pipeline which is included in PVS's contract value; PXS: Petroleum Equipment Assembly & Metal Structure; PVB: PetroVietnam Coating; PVC: PetroVietnam Chemical & Services; CPP: central processing platform; WHP: well head platform; FSO: floating storage and offloading unit)

Figure 482: Select oil & gas projects in Vietnam expected in 2023-2033

No.	Block	Project	Capex* (USD mn)	Oil/gas reserves	Investors	Status	Expected first gas/ oil	Location
				GAS PROJECTS				
1	52/97; 48/95	Block B	5,186	107 bcm	PVN (42.9%), PVEP (26.8%), MOECO (22.6%), PTTEP (7.7%)	Started work in September 2024, following the full award of EPCI#1 and EPCI#2.	2027	Malay Tho Chu Basin
2	117-119	Blue Whale	4,600	150 bcm	ExxonMobil (64%), PVN (36%)	Implementation plan of PDP VIII guides COD in 2028 but we forecast 2030 given its current status of ExxonMobil's potential withdrawal and PVN's self-development. PVS potentially secure USD830mn contract	2030	Song Hong Basin
3	15-1	White Lion - Phase 2B	1,100	24 bcm	Cuu Long JOC including PVEP (50%), ConocoPhillips (23.25%), KNOC (14.25%), SKI (9%), Geopetrol (3.5%)	Expected to get an FID in 2024. PVS is bidding to get contract (USD250mn) in H1 2025. Other beneficiaries includes PVD (potential USD220mn contract) and GAS (via a gas pipeline).	2027	Cuu Long Basin
4	112-113	Bao Vang - Bao Den	1,321	58 bcm	PVN (50%), Gazprom (50%)	Exploration.	2030	Song Hong Basin
5	114	Ken Bau	N/A	200-250 bcm	Eni Vietnam B.V. (50%), Essar E&P Limited (50%)	Ken Bau is in the discovery phase, waiting for the finalization of proven gas reserves. After unsuccessful appraisal of wells KB-2X and KB-3X, Vietnam is reassessing exploration plans, with future appraisals potentially occurring in 2024-2026.	After 2030	Song Hong Basin
6	46/07; 51	Nam Du - U Minh	750	5.6 bcm	Jadestone Energy (100%)	In January 2024, GAS signed an HOA with Jadestone Energy.	2027	Malay Tho Chu Basin
7	46/13	Khanh My – Dam Doi	250	4.0 bcm	PVEP, PV GAS	In May 2024, PV GAS and PVEP signed an MOU on GSPA.	2027	Malay - Tho Chu Basin
8	19/11	Thien Nga – Hai Au	349	10.0 bcm	Zarubezhneft JSC (100%)	In May 2024, Zarubezhneft, PVGAS, and PVEP began partnering in project development.	2027	Nam Con Son Basin
				OIL PROJECTS				
1	15/1-05	Yellow Camel	700	63 mn bbl	Murphy Oil (40%), PVEP (35%), SKI (25%)	PVS was awarded USD250mn of contracts in June 2024. PVD might get USD294mn contract	2026-2027	Cuu Long Basin
2	09-2/09	Kinh Ngu Trang - Kinh Ngu Trang Nam	650	6 mn bbl	Vietsovpetro (40%), PVEP (30%), AO Zarubezhneft (30%)	In development.	2025	Cuu Long Basin
		Total	**14,906**					

Source: Public media, Vietcap (*Vietcap's estimated capex for upstream & midstream segments for 2023-2033F; bcm: billion cubic meters; FID: final investment decision)

Block B officially broke ground in September 2024

According to Petrotimes, PetroVietnam Group (PVN) CEO, Mr. Le Ngoc Son, met with Mr. Harada Hidenori, Chairman & CEO of Mitsui Oil and Gas (MOECO), and announced that the Block B - O Mon project officially began construction on September 18, 2024.

- On September 3, Phu Quoc POC (PetroVietnam Group's subsidiary – the operator of upstream segment of Block B) officially awarded full EPCI 1 contract (Engineering Procurement Construction & Installation) (approximately USD1.1bn) to US-based McDermott and PVS contractors. According to PVS, its proportion value is approximately USD550mn, roughly in line with our forecast. This follows previous Limited Letter of Agreement signed in October 2023.
- On September 18-19, 2024, Phu Quoc POC held the cutting ceremonies for the HUB/Wellhead platforms (WHP) topsides and HUB/WHP jackets on September 18 & 19 to mark key milestones in the EPCI#2 project. According to PVS, its contract value in EPCI #2 is USD400mn. This development implies that the PQPOC awarded a full EPCI#2 contract to PTSC M&C (PVS's 100%-stake subsidiary). This follows the Limited Letter of Agreement (LLOA) awarded in November 2023.

The full award of EPCI#1 and EPCI#2 contracts means that the Block B - O Mon project officially started in September 2024 and implies a full Final Investment Decision (FID).

We expect that the Block B project will provide a sustainable workload for Vietnam's oil and gas stock.

- PVS is set to be the earliest beneficiary of Block B as we expect it to gain USD5.4bn of M&C contracts starting in 2024 and an FSO leasing contract starting in 2028.
- PVD has the potential to lease two rigs and gain drilling-related service contracts for the Block B project (total estimated contract value of USD2.5bn).
- GAS will earn potential revenue and NPAT-MI of USD1.0bn and USD278mn in 2028-2033F, respectively, from gas transportation for the Block B project.
- PVB (non-rated) should experience a surge in 2025-2027F earnings from the potential USD100-130mn gas pipeline coating contract for Block B. Please see our Non-Rated Report (dated May 20, 2024).
- PVC (non-rated) is well-positioned to capture the huge workload from Block B (estimated USD600mn revenue). Please see our Non-Rated Report (dated May 20, 2024).

Figure 483: Estimated revenue and NPAT for beneficiaries of Block B (USD mn

Beneficiaries	Potential revenue	Potential NPAT	Details
PVS	5,357	393	We forecast profit of at least USD393mn from the below five contracts in 2024-2050F. We also forecast that these contracts will on average contribute 24% to PVS's 2024-2028F NPAT-MI. We have not yet included any contract value from gas field clearance at the end of the project's life cycle. Contract details: 1. EPCI#1 for 1 CPP + 1 living quarters platform + 1 flare tower (USD500mm) 2. EPCI#2 for 4 WHPs (USD400mn) 3. EPCI #3 for onshore gas pipeline (USD257mn) 4. EPCI for 42 WHPs (USD4.2bn) 5. FSO leasing contract
PVD	2,498	294	We estimate profit from drilling & well-related services to contribute USD37mn to PVD's NPAT-MI in 2026-2028F (18% of its 2026-2027F aggregate NPAT-MI). We expect profit from Block B to contribute USD257mn to PVD's NPAT-MI in 2029-2050F
GAS	1,000	278	We estimate profit from Block B gas transportation to account for an average ~4% of GAS's NPAT-MI in 2028-2033F.
PVB	100-130	13	Contract for gas pipeline coating.

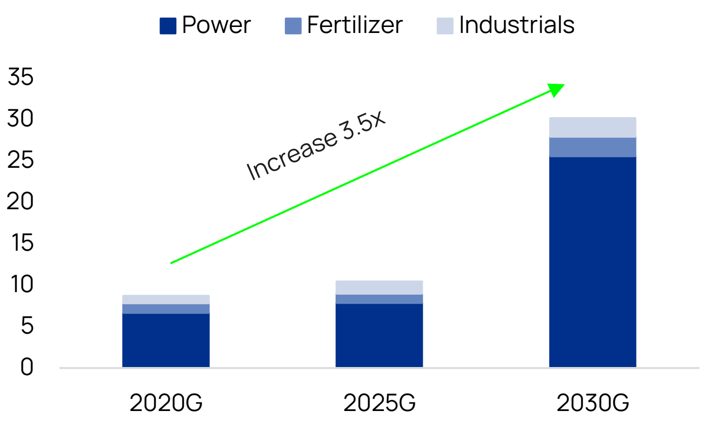
Source: Vietcap. Note: EPCI: Engineering, procurement, construction, and installation; WHP: wellhead platform; FSO: floating oil storage.

See more details on the Block B project in our Energy Sector Flash, published October 30, 2023.

Importing LNG is inevitable to meet growing national power demand

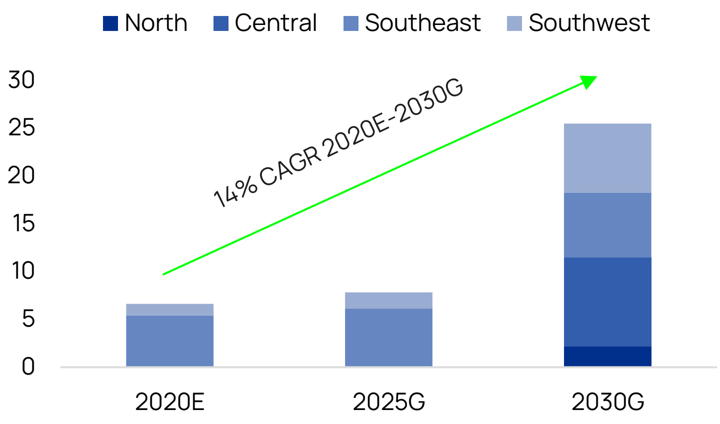
In the National Energy Development Plan for 2021-2030, the Government guides for a 3.5x increase in Vietnam's gas demand over the 2020-2030 period, mainly driven by robust power demand to supply the growing economy. However, the domestic gas supply from major domestic gas fields including Sao Vang – Dai Nguyet, White Lion – Phase 2B, and Block B is not enough to feed national demand. As a result, according to our estimates, Vietnam ended its gas self-supply in 2023, began importing LNG in 2024, and is expected to continue these imports to address the gas shortage. We project the share of LNG in the national gas supply structure to steadily increase, from 9% in 2024 to 73% by 2029F.

Figure 484: Vietnam's gas demand by segment (bcm)



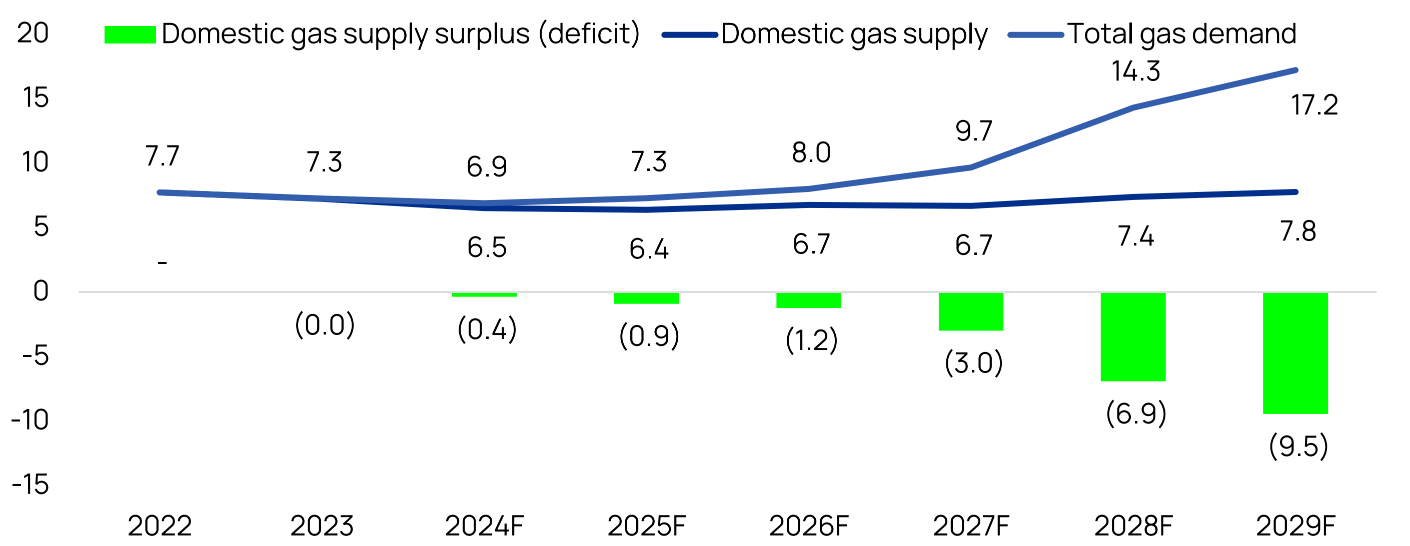
Source: National Energy Development Plan for 2021-2030, Vietcap

Figure 485: Vietnam's gas demand from power plants by region (bcm)



Source: National Energy Development Plan for 2021-2030, Vietcap

Figure 486: Gas shortage outlook (bcm)



Source: GAS, Vietcap estimates

Total capex of USD23bn for LNG infrastructure in the next ten years

According to the National Energy Development Plan for 2021-2030, the Government aims to import 2.2 bcm of LNG by 2025, rising to 15.7 bcm by 2030. The Implementation Plan for PDP VIII, released in April 2024, prioritizes the development of 13 LNG-fired power plants with a total capacity of 22,524 MW.

Figure 487: Pipeline of Vietnam's LNG infrastructure including 13 projects listed in PDP VIII implementation plan and backup projects highlighted in red

Region	Project	Capacity	Capex (USD mn)	Timeline	Potential investors	Status
Southern (from 8,600 MW)	Nhon Trach 3 & 4 LNG-fired power plants	1,500 MW	1,400	2021-2026	POW	Expecting COD in June and September 2025.
	Hiep Phuoc LNG-fired power plant – Phase 1, 2	1,200-2,700 MW	N/A	2021-2025	Hai Linh Co Ltd	Hai Linh LNG terminal came online.
	Bac Lieu combined-cycle power plant	3,200 MW	4,000	2027-2029	Delta Offshore Energy Pte. Ltd	Preparing for FS.
	Long An I, II LNG-fired power plants	1,500-3,000 MW	3,130	2029-2030	VinaCapital & GS Energy	Preparing for FS.
	Thi Vai LNG terminal – Phase 1, 2, 3	1-6 MMTPA	686	2019-2028	GAS & foreign partners	Phase 1: COD Phase 2: Submitted FS to MoIT Phase 3: N/A
	Long Son LNG Phase 1 plant & terminal	1,200 – 1,500 MW	1,750	Beyond 2030	PGV, AMATA-SCG, Rawabi, Equatoriale Energy	N/A
	Ca Mau LNG terminal – Phase 1, 2	1-2 MMTPA	N/A	N/A	PVN/foreign companies (potentially POW)	A backup plan in the Implementation of PDP VIII.
Central (from 10,500 MW)	Son My I, II CCGT plant	4,500 MW	4,300	2027-2029	AES Corporation	Received approval for the investment plan. Preparing for FS.
	Ca Na I LNG-fired power plant	1,500 MW	2,238	2029-2030	Gulf Energy	Selecting investors.
	Hai Lang LNG-fired plant Phase 1	1,500 MW	2,300	2028-2029	T&T Group, HANWHA, KOSPO, KOGAS	Preparing for FS.
	Quang Trach II LNG-fired plant	1,500 MW	N/A	2029-2030	N/A	N/A
	Quynh Lap LNG-fired plant	1,500 MW	N/A	2029-2030	N/A	N/A
	Son My LNG Terminal – Phase 1, 2, 3	1-6 MMTPA	1,350	2023-2035	GAS & AES Corporation	Submitted FS to the MoIT.
Northern (from 4,500 MW	Thai Binh LNG-fired plant	1,500 MW	N/A	2029	N/A	Selecting investors.
	Nghi Son LNG-fired plant	1,500 MW	N/A	2029-2030	N/A	Selecting investors.
	Quang Ninh I LNG-fired power plant	1,500 MW	2,040	2028-2029	POW, Colavi, Tokyo Gas, Marubeni	Preparing for FS.
	Thai Binh FSRU	0.2-0.5 MMTPA	N/A	2026-2030	N/A	N/A
	Hai Phong LNG Terminal	1-3 MMTPA	N/A	2030-2035	N/A	N/A
	Ha Tinh LNG Terminal	2-3 MMTPA	N/A	2031-2035	N/A	N/A
	Total	**6 MMTPA & 23,600 MW**	**23,194**			

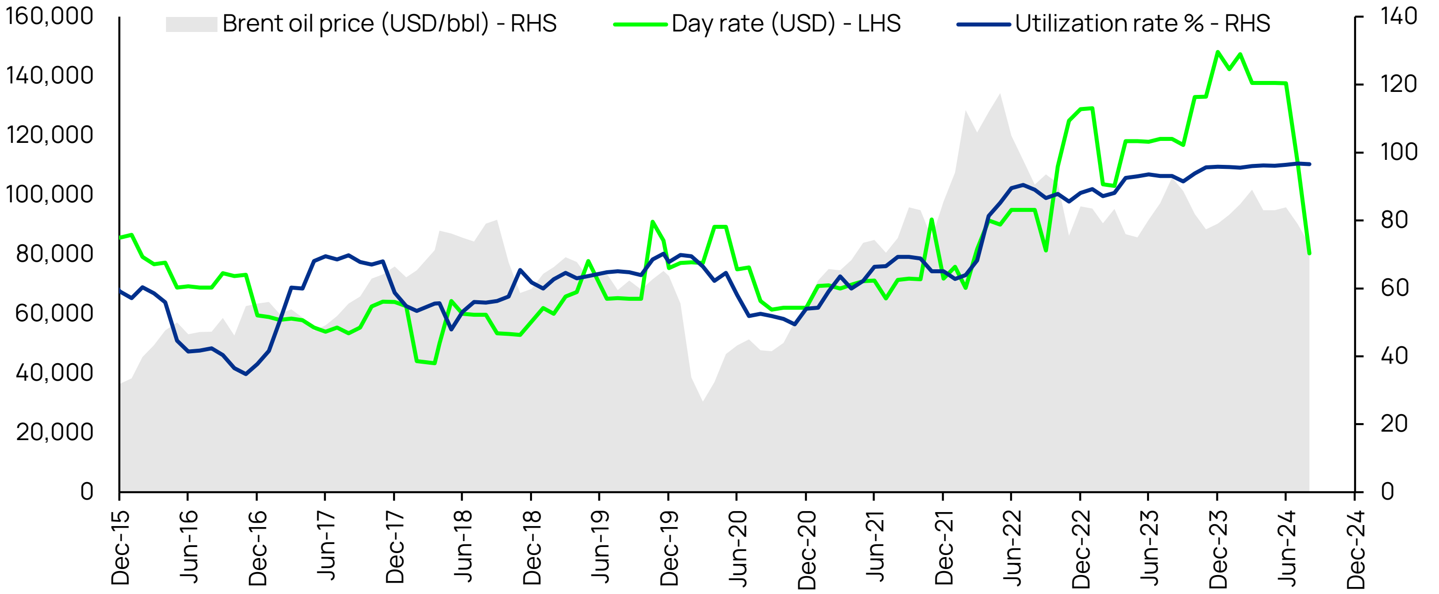
Source: Vietnam's Gas Master Plan, PDP VIII, Public media, Vietcap (FSRU: floating storage regasification unit, CCGT: combined-cycle gas turbine)

Southeast Asia's jack-up market outlook remains favorable in 2025-2026

In Q3 2024, the average Southeast Asian jack-up day rate was weak at USD109,500/day (-8% YoY; -21% QoQ), despite the market remaining tight with a utilization rate of 96.6% (+3.3 ppts YoY; +0.5 ppts QoQ). The rate drop resulted from Saudi Aramco's temporary suspension of its jack-up rig contracts, pushing additional rigs into the Southeast Asian market and leading to charters negotiating lower day rates. Particularly, one low-cost rig gained an advantage, the COSLSeeker jack-up rig, which entered into a five-year contract with PTTEP Thailand, replacing incumbent TAR Sapura T17 with a substantially lower day rate. These factors led to the regional average day rate declining, according to PVD.

In 9M 2024, the average Southeast Asian jack-up day rate was USD131,000 (+12% YoY) and the average utilization was 96.1% (up 5.3 ppts YoY).

Figure 488: Day rate of JU 361-400 IC in Southeast Asia



Source: S&P Global, Vietcap (data to September 2024) (Note: JU 361-400 IC is a jack-up drilling unit capable of operating in water depths of 361 to 400 feet, equipped with an independent cantilever system, which we use as a benchmark for jack-up day rates)

S&P Global's October 2024 report presents a less favorable outlook for the Southeast Asian jack-up rig market compared to previous projections. The October update forecasts a surplus of 6 and 5 marketed jack-up rigs for 2025 and 2026 (up from the June forecast of 1 and 3). This points to a less tight market, with utilization rates projected at 85% for 2025 and 88% for 2026 (lower than the June estimates of 97% and 93%).

S&P Global's October 2024 report expects the marketed surplus to decline after peaking in September 2024, and the favorable market condition to remain in 2025-2026. September 2024 marked the period of the highest marketed surplus, with approximately 11 JU units remaining uncontracted. S&P expects this surplus to decline gradually through mid-2026 as drilling demand rises and Aramco's released rigs might come back into operation. They project the marketed surplus to average 6/5 in 2025/2026 (implies utilization rates of 85%/88%), higher than the 2022 level (80%) and the 2015-2019 average (61%).

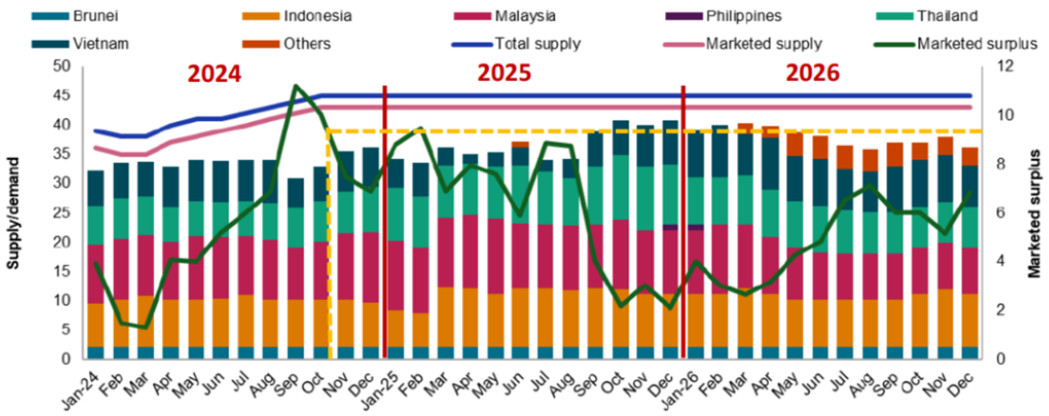
While a reduction in surplus is projected by mid-2026, we attribute the uncertainty to the fact that many countries have yet to announce their long-term E&P plans. The marketed surplus is thus subject to decrease after the approval of E&P plans. Fear of inadequate rigs for drilling campaigns has prompted oil & gas operators in these countries to shift from short-term to long-term contracts. Indonesia, Malaysia, and Thailand are collaborating on a series of drilling jobs to retain foreign drillers long term.

Southeast Asia's outlook for drilling remains positive: The countries with the largest E&P activities in Southeast Asia are Malaysia, followed by Indonesia, Thailand, and Vietnam.

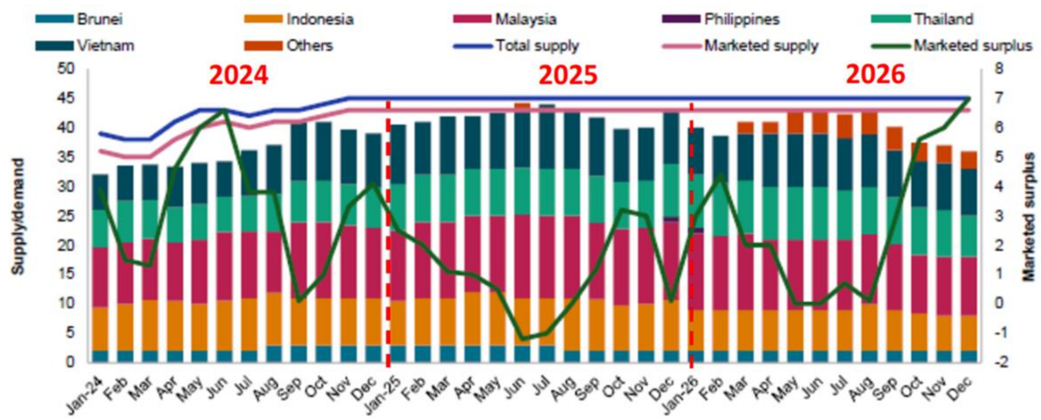
- Petronas (the Malaysian national oil & gas company) targets for capex of RM113bn (USD24bn) for the oil & gas sector for 2023-2027F, which is 12% higher vs 2018-2022.
- PTT Exploration and Production (PTTEP) – the national petroleum exploration and production company in Thailand – guides for a 5.0% CAGR increase in production in 2023-2028F. The company also targets to spend USD20.8bn on E&P activities in 2023-2028F.
- These targets are higher than our forecast of USD14bn capex for Vietnam over the 2024-2033F period.

Figure 489: Southeast Asian jack-up rig count forecast

S&P Global's October 2024 Report



S&P Global's June 2024 Report



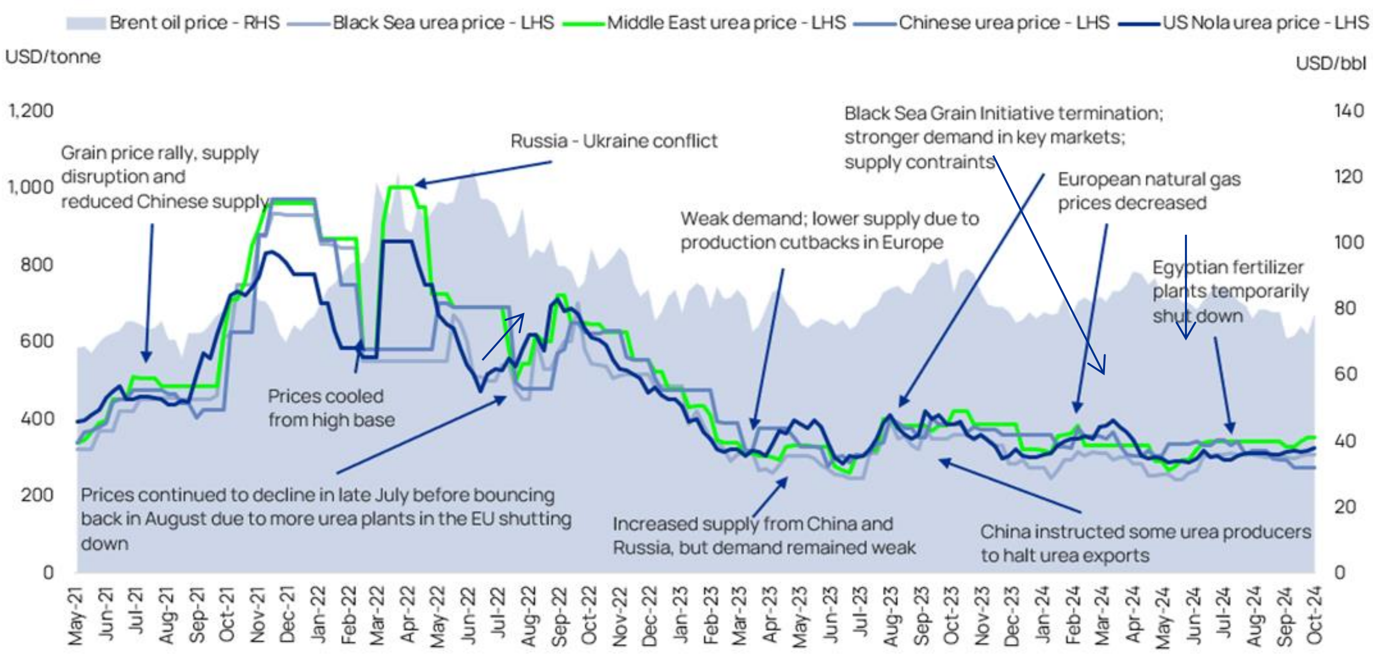
Source: S&P Global (June 2024's report), PVD. Note: The bar chart represents rig demand, units for both axes are rigs.

Global urea prices to improve 9% YoY in 2025F

Global urea prices continued cooling down in 2024 due to weak demand

We maintain our average Middle East urea price forecast for 2024F at USD320/tonne (-10.5% vs 2023 and ~20% higher vs the pre-COVID level). The average Middle East urea price in 9M 2024 was USD331/tonne (-5% YoY). In Q3 2024, Middle East urea prices rose to an average of USD341/tonne (+9% QoQ, -7% YoY), driven by: (1) India's urea import tender of ~2.5 million tonnes, with prices ranging from USD364 to USD390 per tonne; (2) escalating geopolitical tensions in the Arab Gulf, affecting key producers such as Saudi Arabia, Qatar, and Iran; and (3) increasing natural gas prices.

Figure 490: Global urea price movements



Source: Bloomberg, Vietcap (Urea price is weekly data and as of October 4, 2024)

Global urea price outlook

See more in our Urea Sector Update, dated October 16, 2024.

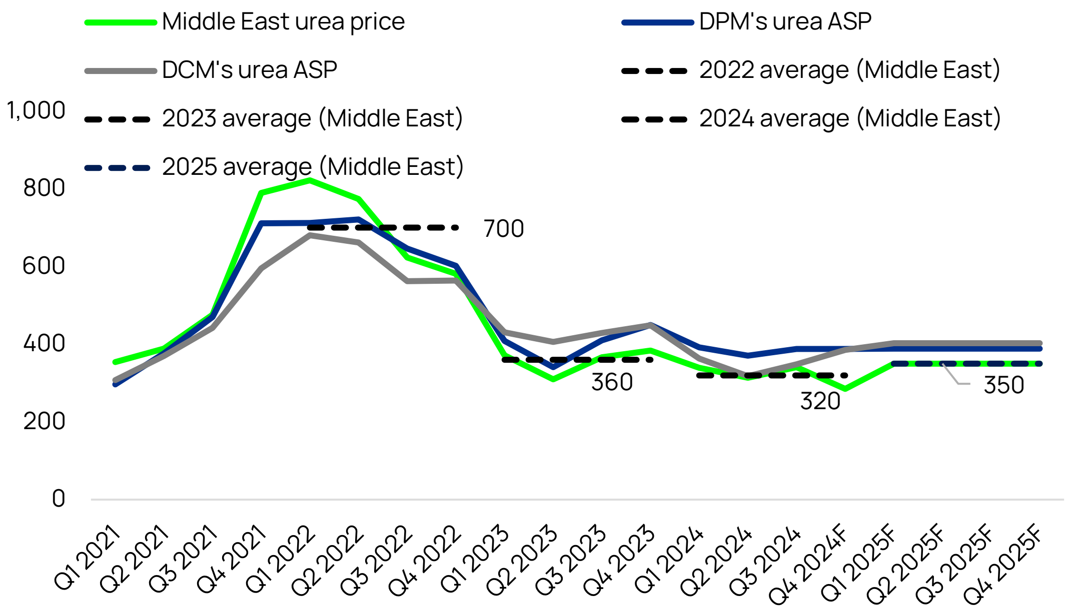
We maintain our forecast for the average Middle East urea price at USD350/tonne (+9%) in 2025F. According to industry players, the urea price could rebound ~9% in 2025F. We expect 9% YoY growth in urea prices in 2025F due to (1) a projected 3% YoY decline in total global exports to 53.7 million tonnes, driven by lower exports from Russia (-1%) and others offsetting a 20% YoY increase from China, and (2) an anticipated rise in gas prices. Additionally, the World Bank forecast a 46% YoY increase in the Henry Hub gas price. These factors outweigh a 3% YoY projected decline in the Newcastle coal price, according to Bloomberg consensus.

For 2026-2028F, we maintain our price projection of USD330/tonne, which is 6% lower than our 2025F projection of USD350/tonne. In addition, according to Yara (one of the leading fertilizer companies in the world), global urea capacity expansion (excluding China) already peaked in 2022 at 6.2 million tonnes per annum (TPA). Capacity expansion is expected to decline to 2.7 million TPA and 0.4 million TPA in 2024F and 2025F, respectively. In summary, even if China lifts its urea export restrictions in early 2025 and Russia resumes higher exports under the new quota, the global urea supply may not see a significant increase.

Domestic urea price outlook in 2025

We assume respective premiums of 11%/15% for DPM/DCM's urea ASPs vs the average Middle East urea price for 2025-2029F.

Figure 491: Middle East urea prices vs domestic urea prices (USD/tonne)



Source: Vietcap, Industry players (Actual data for 2021-Q3 2024; Vietcap forecasts for Q4 2024 and 2025F)

National Assembly approved 5% VAT on fertilizers

On November 26, 2024, the National Assembly approved the Amended VAT Law, introducing a 5% VAT on fertilizers that replaces the previous tax exemption. This is in line with our expectations but will take effect from July 1, 2025, six months later compared to our latest forecast. We currently estimate that this 5% VAT will save DPM/DCM ~VND370bn and VND300bn p.a. over the 2025-2029F period, equivalent to 18%/11% of their projected PBT, as they are qualified for input tax deductions.

According to local media citing government agencies, DPM and DCM could save a potential total of VND433bn (tax refund amount) and up to VND1,326bn (input tax deductible amount), averaging of VND880bn – 31% higher than our projection of VND670bn. However, the net gain for DPM and DCM would be subject to how much they lower their selling prices to support farmers.

Vietnam's petroleum sector outlook

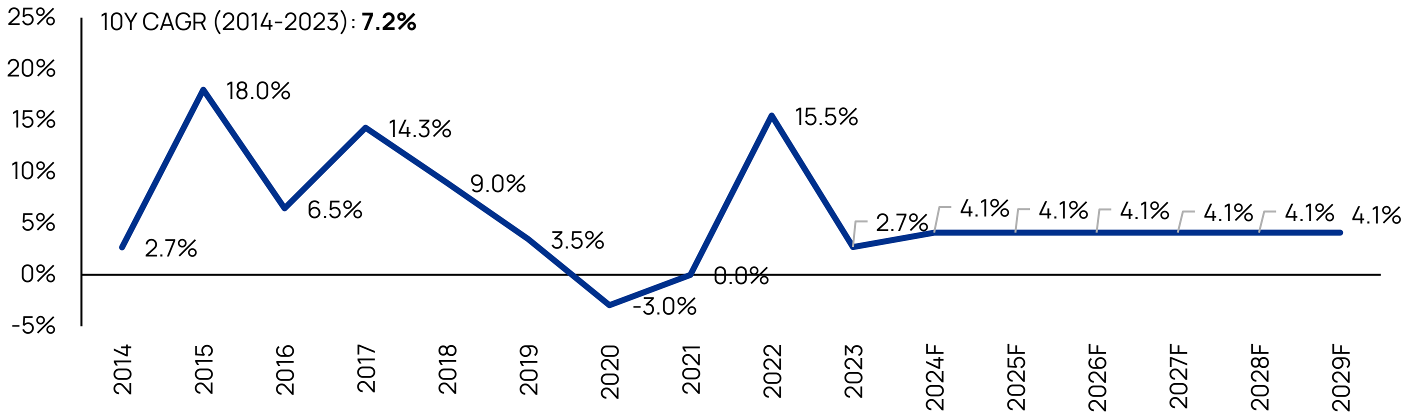
For more comprehensive information, please see our Petroleum Sector Update Report (dated September 24, 2024).

Vietnam's robust petroleum consumption growth

We project Vietnam's petroleum consumption to grow at a 4.1% CAGR in 2023-2029F, ten times higher than the IEA's global forecast of 0.4%. While consumption grew at a 7.2% CAGR over the past decade, it remains low at 353,000 barrels per day, one fourth of the average in the Asia-Pacific region, indicating ample room to grow. Growth will be driven by:

- **Vehicle growth:** Automobiles and motorbikes grew at 12% and 5% CAGRs during 2017-2022. We expect automobiles and motorbikes to grow at 18% and 6% CAGRs from 2023-2028F, boosting petroleum demand, especially for transportation.
- **Shift to automobiles:** Automobiles consume significantly more fuel (7.0-9.0 liters/100 km) than motorbikes (1.5-2.0 liters/100 km), supporting higher petroleum consumption per vehicle.
- **Industrial production:** Rising industrial activity will drive demand for fuel oil and diesel used in transportation and machinery.

Figure 492: Vietnam's petroleum consumption growth



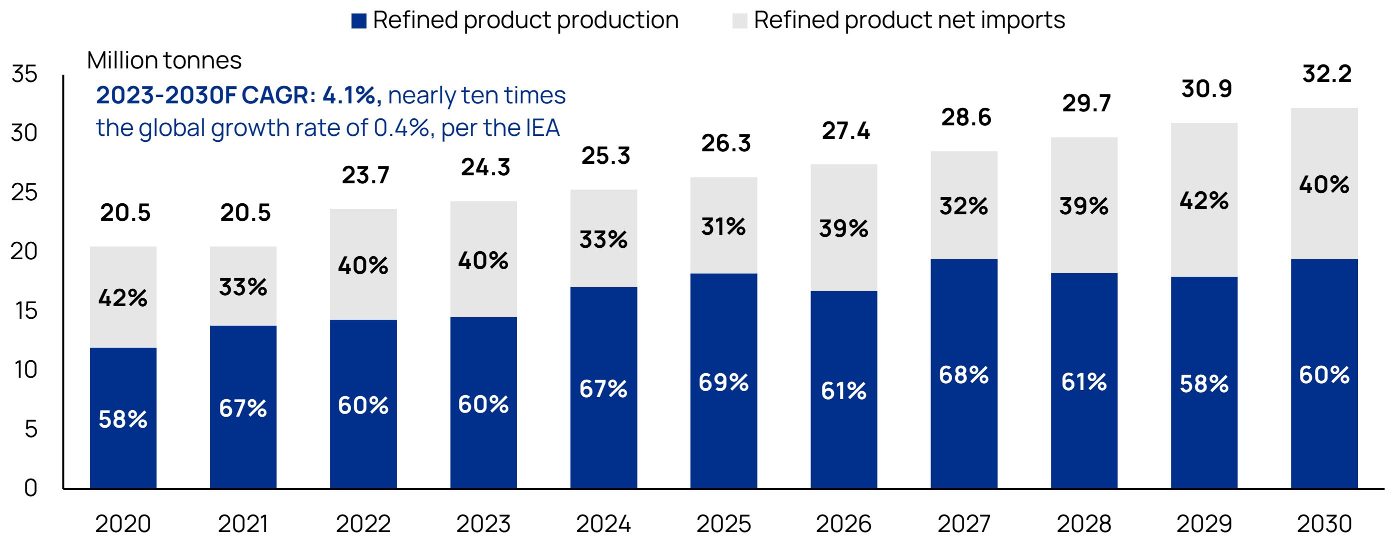
Source: MoIT, Vietcap estimates (Note: Vietcap's estimates are based on production and import and export numbers from the MoIT)

The electric vehicle (EV) market in Vietnam is still in its early stages and poses minimal threat to petroleum consumption in the near term. Per industry players, the dominance of gasoline-powered vehicles is likely to continue until at least 2030. In 2023, only 1.0% of total automobiles (50,000 units) were electric. Additionally, in November 2024, the Vietnam Automobile Manufacturers Association (VAMA) projected that the country will have 1 million EVs by 2030 (largely from VinFast's taxi fleet vs our internal forecast for Vinfast's accumulated EV sales of 600,000 units by 2030), representing 10% of total vehicles, still minimal compared to gasoline-powered cars.

USD19bn oil refinery complex and national oil reserve confirm Vietnam's near-term demand for petroleum products

PVN projects Vietnam's petroleum consumption to grow to 33 million tonnes by 2030 (102% of our forecast) from 18 million tonnes in 2020 (implies a CAGR of 6.2%). We estimate that the domestic petroleum supply in 2024 is 17 million tonnes, which covers only about 67% of domestic demand. As a result, Vietnam needs to import ~33%. We forecast that the share of imports will increase to 40% by 2030.

Figure 493: Vietnam's petroleum consumption and import forecasts



Source: Vietcap estimates, MoIT, BSR, PLX

Further revisions to petroleum regulations to boost earnings

New decree allows distributors to set their own prices, with the regulated operating cost adjusted based on CPI

In early August 2024, the MoIT released a fourth draft of its decree revising Decrees 83/2014, 95/2021, and 80/2023. The key proposals in this draft aim to give petrol distributors more pricing flexibility, making them more responsive to market conditions, while maintaining Government oversight.

1. **Pricing flexibility:** The draft proposes a shift from a base price mechanism to allowing distributors to set their own prices, provided they remain below the Government-set ceiling. This also allows major distributors to negotiate aviation fuel prices based on market mechanisms.
2. **Annual adjustment of regulated operating costs based on CPI:** The draft suggests that regulated operating costs be adjusted annually based on Vietnam's CPI. This is a significant change from the current regulation, where these costs have remained stagnant from 2015 to 2022 despite rising expenses. Annual adjustments based on CPI would better cover actual operating costs for petrol distributors.

In our view, these changes provide petrol distributors the opportunity to set a competitive price in less competitive areas to improve the margin. The most supportive policy is the ability to adjust annually based on Vietnam's CPI index. We anticipate that the combined regulated operating cost and profit will increase by 2% p.a. in the 2025-2028 period (equivalent to VND30/liter p.a.), enabling petrol distributors to cover their actual operating costs.

Since our latest comments on the third draft of the new decree in our PLX Update Report (dated August 8, 2024), the fourth draft is broadly similar to the third draft in terms of pricing mechanism, which aims to give petrol distributors flexibility to set their own prices, adjust regulated costs and profits annually based on Vietnam's CPI, and reduce the number of intermediaries in the market. Key changes from the third draft are:

1. The Petrol Stabilization Fund (PSF) will be managed by the Government, rather than by petrol distributors. The MoF will oversee PSF and ensure its transfer to the State budget with an aim toward transparency.

2. The 'premium,' a component of the base/ceiling price (details in Figure 4), will be reviewed every three months (similar to current regulations), rather than every seven days as per the third draft.

Industry players have stated that they are supportive of the fourth draft decree and approval is expected soon. We note that the new decree is anticipated to be approved in H2 2024, according to PV OIL (UPCOM: OIL).

Figure 494: Comparison between drafts 3 & 4 of the new decree vs the current decree

	Decree 83/2014	Decree 95/2021	Decree 80/2023 (Current)	New decree (Drafts 3 & 4)
Participants of petroleum value chain	1. Major distributors 2. Wholesale distributors 3. General Dealers 4. Retail distributors (Dealers)	1. Major distributors 2. Wholesale distributors 3. General Dealers 4. Retail distributors (Dealers)	1. Major distributors 2. Wholesale distributors 3. Retail distributors (Dealers)	1. Major distributors 2. Wholesale distributors 3. Retail distributors (Dealers)
Retail price formula	Base price	Base price	Base price	Ceiling price
Premium	Not mentioned.	The MoF will review every six months.	The MoF will review every three months.	Draft 3: Calculated on average every seven days (every Thursday), announced by the MoIT along with the international price. Draft 4: The MoF will review every three months.
Regulated transportation cost	Not mentioned.	The MoF will review every six months.	The MoF will review every three months.	The MoF will review every three months.
Regulated operating cost	Gasoline: VND1,050 Diesel: VND950	The MoF will review every year.	The MoF will review every year. Current regulated operating cost under Dispatch No. 6808/BTC-QLG dated July 1, 2024. A95 gasoline's regulated cost: VND1,140/liter. Diesel's regulated cost: VND1,170/liter.	Regulated operating cost adjusted annually based on the CPI. This will be reviewed every three years to ensure accuracy (based on our understanding).
Regulated profit	VND300/liter	VND300/liter	VND300/liter	VND300/liter
Petrol price adjustment cycle	15 days	10 days	7 days	7 days
Inventory days	30 days' supply	20 days' supply	20 days' supply	20 days' supply
Maximum number of wholesale distributors per retail distributor	One	One	Three	One

Source: MoIT, MoF, Vietcap

Figure 495: Current retail petrol price formulas

Decree 80/2023 and Decree 95/2021
Base price = (1) Import price * weight of import petroleum (%) + (2) Domestic price * weight of domestic petroleum (%) **(1) Import price** = International price +/- **premium + regulated transportation cost** (freight from overseas to Vietnam) + **Regulated operating cost + Regulated profit** + Amount to "Petrol price stabilization fund" + Other fees and taxes **(2) Domestic price** = International price +/- **Premium (if any) + regulated transportation cost** (freight from refinery to port of distributors) + **Regulated operating cost + Regulated profit** + Amount to "Petrol price stabilization fund" + Other fees and taxes

Source: MoIT, PLX, Vietcap

Figure 496: Current elements of base prices

VND/liter	Gasoline	Diesel oil	Kerosene	Mazut/FO
(1) Regulated cost*	1,140	1,170	1,180	430
(2) Regulated profit	300	300	300	300
(1) + (2) Combined regulated cost & profit	**1,440**	**1,470**	**1,480**	**730**
(3) Stabilization fund	300	300	300	300
(4) Import tax*	5.62%	0.58%	0.08%	1.38%
(5) Special consumption tax	10%	N/A	N/A	N/A
(6) Environmental tax**	2,000	1,000	600	1,000
(7) VAT	10%	10%	10%	10%

Source: MoIT, Vietcap (*Applied since July 4, 2024; ** environmental tax is applied from January 1, 2023, to December 31, 2024)

Flexible pricing mechanisms can enhance profitability

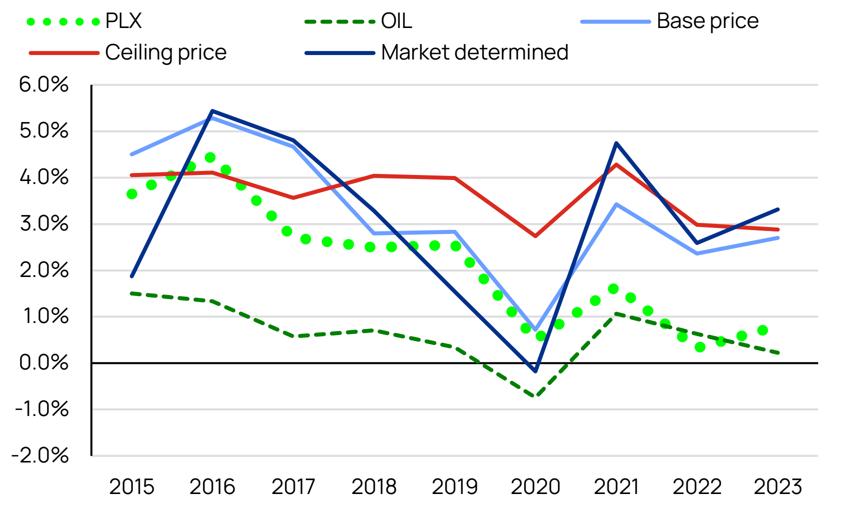
Vietnamese petrol distributors have underperformed in operating profit margins compared to regional peers. We have sampled 19 companies in Asia including in Thailand, Malaysia, the Philippines, China, and Korea, and see that there are three main pricing mechanisms in these countries: market-determined price, base price (fixed price), and ceiling price (**Error! Reference source not found.**44). From 2015-2023, countries with market-determined pricing or ceiling prices have respective average OPMs of 3.0% and 3.6%, while PLX has an average OPM of 2.1% and OIL has an average OPM of 0.6%. This gap is mainly due to market-determined pricing, which allows distributors to pass on all inputs and operating costs to consumers, while China's ceiling price system also helps by reviewing all components accurately to calculate retail prices every ten days to reflect actual costs. Malaysian distributors benefit from government control despite its government setting a base price with an OPM of ~3% during the period mentioned above. In contrast, Vietnam's base pricing system, with unchanged operating costs from 2014-2022 and slow adjustments, has pressured local distributors' profitability before and after the pandemic.

Figure 497: Pricing mechanism comparison

Country	Pricing mechanism	Retail price adjustment cycle
Korea	Market determined	7 days
India	Market determined	Daily
Japan	Market determined	7 days
Philippines	Market determined	7 days
Thailand	Market determined	4 days
Malaysia	Base price	7 days
China	Ceiling price	10 days
Vietnam	Current: Base price Target: Price Ceiling	7 days

Source: Above countries, Vietcap compilation (Note: **Market-determined**, where distributors set prices freely with minimal government involvement, leading to price differences between stations; **Price Ceiling**, where distributors can set prices but cannot exceed a government-set maximum; **Base price**, where the government fixes retail fuel prices, and all retailers must follow these mandated prices)

Figure 498: Operating profit margin comparison



Source: Bloomberg, Vietcap

We expect that the new decree revision will help petrol distributors better reflect their actual operating costs. Key changes include allowing distributors to set retail prices, adjusting regulated operating costs annually. In our understanding, this new pricing mechanism is like China's price-ceiling mechanism. We believe these revisions will support distributors in recovering their pre-COVID operating profit margins and potentially improve their profitability to match regional levels.

Tanker market outlook

Tanker market remains favorable with higher rates expected in 2024-2026 vs 2022-2023's high base

For more comprehensive information, please see our PVT Update Report (dated November 4, 2024).

Crude oil, oil product tanker supply and demand

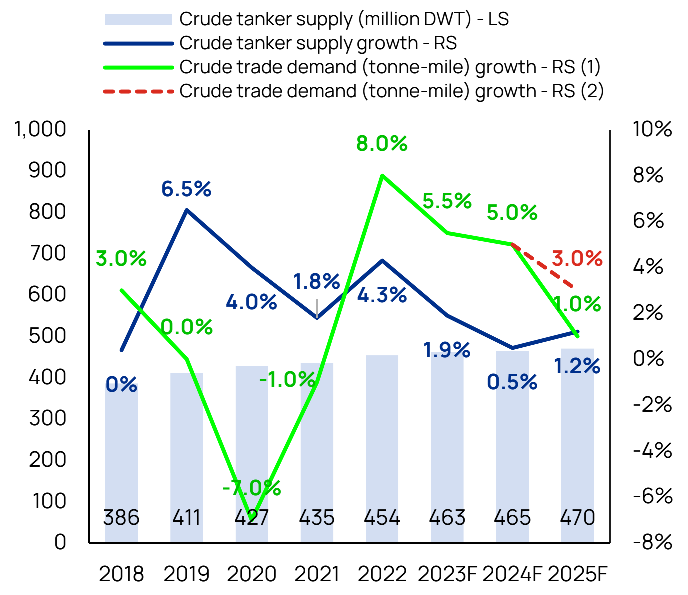
Crude oil tanker market to remain tight in 2025/2026:

- BIMCO's August 2024 report forecast tonne-mile demand growth of 5% YoY in 2024, driven by longer sailing distances due to Red Sea tensions and a regional mismatch in crude oil supply and demand. With tanker supply rising by just 0.5% YoY, this implies a widening supply-demand gap.
- In 2025, tonne-mile demand is projected to grow 1% YoY if Red Sea tensions ease, or 3% YoY if tensions persist. With supply growing by 1.2% YoY, we expect the market to remain tight under both scenarios.

Oil product tanker market less tight due to higher order book, but remains favorable compared to before the Russia-Ukraine conflict:

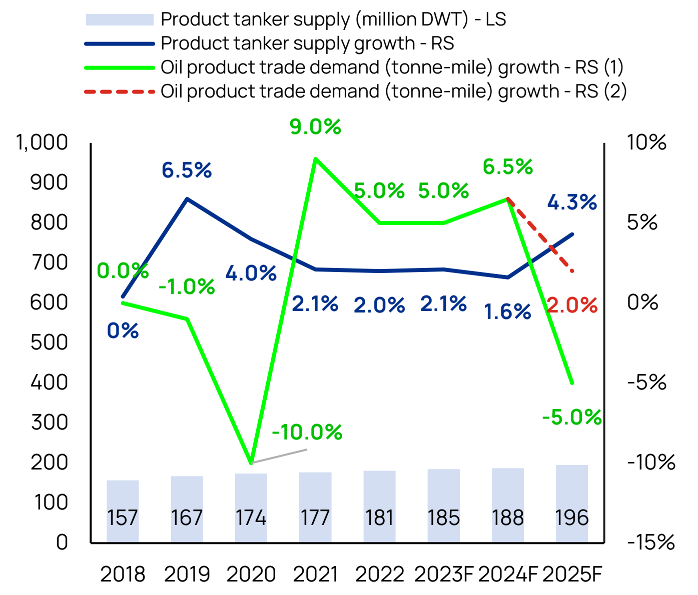
- BIMCO's August 2024 report forecast tonne-mile demand growth of 6.5% YoY in 2024, driven by Red Sea tensions and rerouting of tankers. Supply is forecast to grow 1.6% YoY, implying a widening supply-demand gap.
- In 2025, tonne-mile demand is expected to decline 5% YoY with easing tensions but could grow 2% if tensions persist. Supply is projected to rise 4.8% YoY, surpassing demand growth. Despite this, tonne-mile demand is expected to remain 22-31% above 2021 levels, with supply up only 13%. This imbalance is likely to keep tanker rates high vs the 2019 levels.

Figure 499: Crude oil trade supply and demand



Source: BIMCO, Clarksons, PVT, Vietcap (Data forecast as of August 2024) (1) BIMCO assumption for Red Sea tensions to ease in late 2024, leading to ships being able to return to normal routing in 2025. (2) BIMCO assumption for Red Sea tensions to continue and not allow ships to return to normal routing in 2025.

Figure 500: Oil product trade supply and demand



Source: BIMCO, Clarksons, PVT, Vietcap (Data forecast as of August 2024) (1) BIMCO assumption for Red Sea tensions to ease in late 2024, leading to ships being able to return to normal routing in 2025. (2) BIMCO assumption for Red Sea tensions to continue and not allow ships to return to normal routing in 2025.

Crude oil and oil product tanker rates

Figure 501: Summarizing the tanker rates in 9M 2024

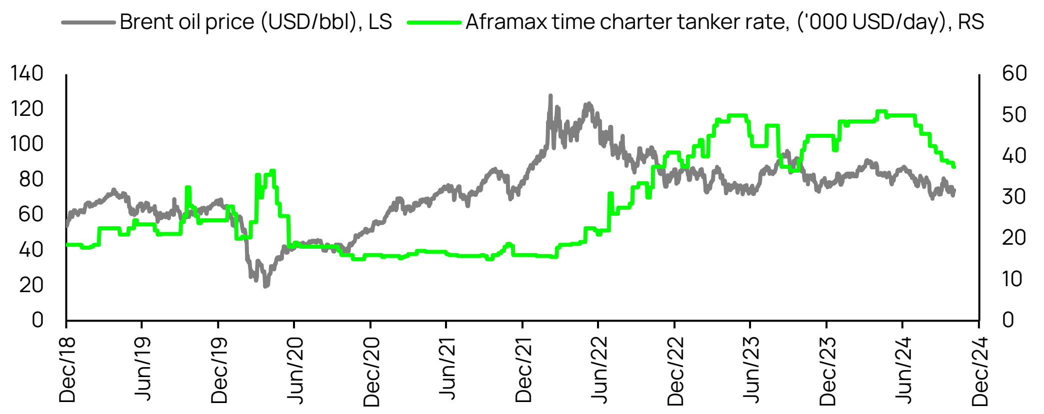
'000 USD/day	Q3 2024	QoQ	YoY	Q3 2024 vs 2019	11M 2024	YoY
Aframax	46.0	-7%	8%	2.1x	46.2	6%
Medium Range (MR)	28.2	-8%	16%	1.8x	28.6	6%
Handymax	27.6	-5%	33%	2.1x	27.1	13%

Source: Alibra, Bloomberg, Vietcap (Note: We use the Aframax tanker rate as a benchmark for the crude tanker rate, MR for oil product tanker rates, and Handymax for petrochemical tanker rates)

Crude oil tanker rates:

- We anticipate crude tanker rates to rise by 9% YoY in 2024, driven by tonne-mile demand growth outpacing tanker supply growth.
- Looking ahead to 2025, the crude tanker market is expected to remain tight, supporting tanker rates to remain high.

Figure 502: Brent oil price and Aframax (100,000 DWT) crude time charter rates

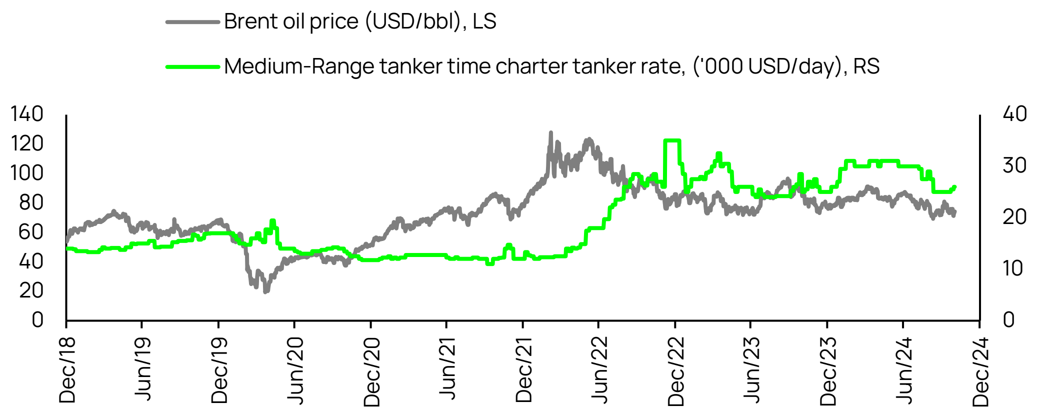


Source: Alibra, Vietcap (Data as of November 1, 2024)

Oil product tanker rates:

- We anticipate oil product tanker rates to rise by 7% YoY in 2024, as tonne-mile demand growth continues to outpace supply for the fourth consecutive year.
- For 2025, we forecast a 2% YoY decrease in oil product tanker rates; however, these rates remain ~2x the levels seen before the Russia-Ukraine conflict.

Figure 503: Brent oil price and Medium-Range tanker (45,000 DWT), oil product tanker rates



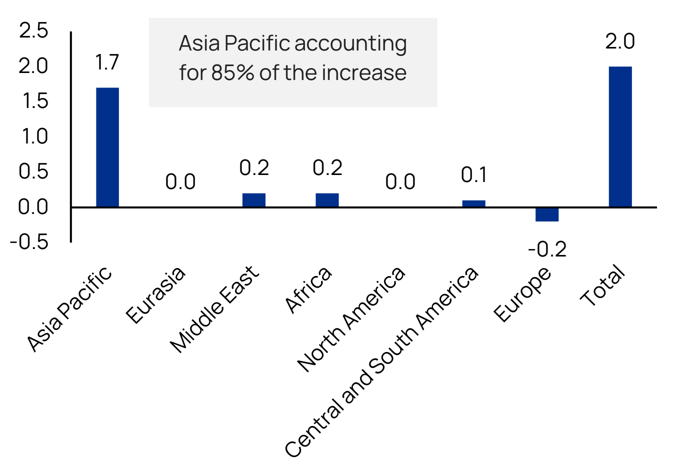
Source: Alibra, Vietcap (Data as of November 1, 2024)

The possible positive impact from increasing US crude oil and oil product output

Mr. Trump's plan to boost US crude oil production and exports could intensify the regional supply-demand imbalance. As noted in our PVT Update Report (November 4, 2024), the current supply-demand situation is that the Asia-Pacific region is driving global oil demand growth, while most supply comes from the Americas and the Middle East. This imbalance is expected to increase as more US oil is shipped to Asia and Europe, supporting high tonne-mile demand.

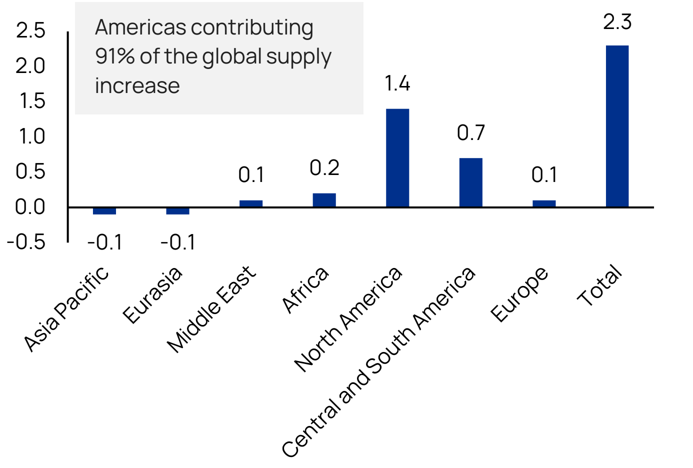
- **Crude oil transport:** This imbalance is expected to increase as more US oil is shipped to Asia and Europe, supporting high tonne-mile demand (Figure 504 andFigure **505**).
- **Oil product transport:** Although Asia and the Middle East primarily meet Asia's demand, increased US refinery output could lead to higher US oil product exports, potentially creating a need for longer-distance shipments to Asia (Figure 506 andFigure **507**).

Figure 504: Cumulative crude oil demand growth by region, 2023-2025F (mb/d)



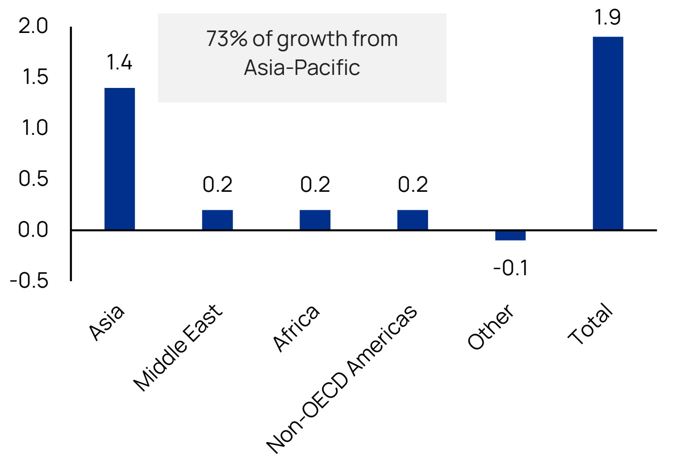
Source: IEA (June 2024 report), Vietcap estimates

Figure 505: Non-OPEC cumulative crude oil supply growth by region, 2023-2025F (mb/d)



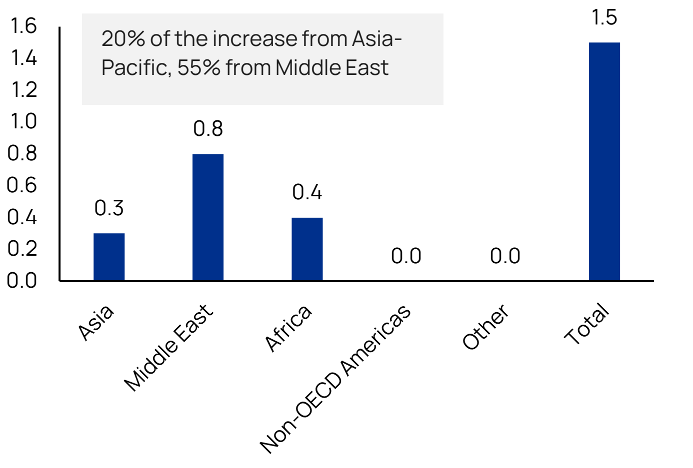
Source: IEA (June 2024 report), Vietcap estimates (not including processing gains and global biofuels)

Figure 506: Cumulative oil product demand growth by region, 2023-2025F (mb/d)



Source: BIMCO (August 2024 report), Clarksons (June 2024 report), Vietcap estimates

Figure 507: Cumulative oil product supply growth by region, 2023-2025F (mb/d)

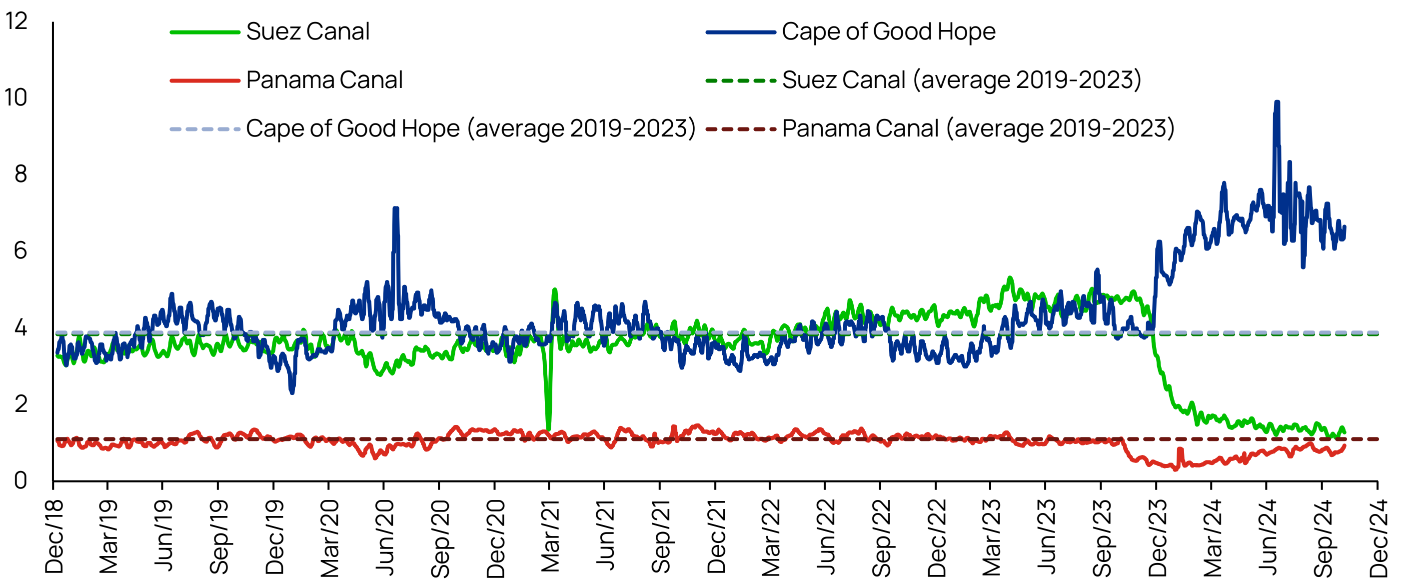


Source: BIMCO (August 2024 report), Clarksons (June 2024 report), Vietcap estimates

Red Sea tension may persist beyond 2025 if Mr. Trump adopts an aggressive stance, supporting tanker rates

Heightened tensions in the Red Sea, which began in late 2023, have led many ships to reroute via the Cape of Good Hope, resulting in increased sailing distances. 2024 YTD transit trade volume through the Suez Canal dropped to 1.6 million metric tonnes (-65% vs the 2023 average), while volumes from the Cape of Good Hope rose to 6.7 million tonnes (+67% vs the 2023 average). We note that the Suez Canal's YTD volume remains at 42% of the pre-tension levels (2019-2023 average), indicating that further disruptions could reduce this traffic even more.

Figure 508: Daily transit trade volume (million metric tonnes)



Source: MacroMicro, Vietcap

In addition, if Mr. Trump were to intensify sanctions on Iran, Iran might respond by exerting more pressure on Red Sea trade routes. Recent activity by Iran-backed Houthi militias has further heightened risks in the Bab-el-Mandeb Strait and Hormuz Strait. Such tensions at these chokepoints are likely to elevate tanker rates due to higher insurance premiums and force more oil shipments along the longer Cape route. The Strait of Hormuz is a critical chokepoint in global energy trade. Roughly 33% of crude tankers, 13% of oil product tankers, 9% of chemical tankers, and 21% of LPG tankers go through this narrow passage. Any disruptions here would significantly strain global supply.

Stock recommendations for 2025

Top picks

BUY - PetroVietnam Services (HNX: PVS): Earnings to accelerate from Q4 on substantial M&C backlog

- **PVS is the leading provider of non-drilling technical services in Vietnam's oil & gas sector.** PVS provides various oil & gas technical services, including seismic survey, mechanics & construction (M&C), operation & maintenance (O&M), and ship, port, and floating oil storage (FSO/FPSO).
- **We expect PVS to benefit from the global/domestic E&P recovery and the huge potential of global offshore wind power projects.** In addition, it is a direct beneficiary of PDP VIII from constructing/developing domestic offshore wind farms in the long term.
- **For 2025, we expect reported NPAT-MI to grow 32% YoY**, driven by a 1.2x increase in M&C gross profit (with revenue up 80% and GPM increasing to 3.5%).
- **PVS looks attractive at a 2025 P/E of 13.1, an implied three-year PEG of 0.7**, and cash on hand of USD460mn as of the end of Q3 2024 (64% of its market cap).

BUY - PetroVietnam Transportation (HSX: PVT): Aggressive fleet expansion, firm outlook for tanker rates

- **PVT is a leading tanker company in Vietnam**, operating in both domestic and international markets. Its business model consists of two segments: transportation and floating oil storage.
- **PVT owns the largest liquid tanker fleet in Vietnam** and holds a major market share for the crude oil transportation of Binh Son Refinery (BSR) (312,800 DWT), 30% for oil products (543,800 DWT), 100% for liquefied petroleum gas (157,300 DWT), 10% for coal transportation (299,400 DWT), and 10% for floating oil storage (FSO).
- **We forecast 2025 recurring NPAT-MI to grow by 36% YoY** due to (1) tanker fleet expansion by ~18% in 2024, with transport volume for BSR growing 18% YoY, (2) a 2% YoY rate increase of PVT's overseas crude oil and chemicals, and (3) a 16% lower financial expense to outweigh 2% lower rates of oil products. Given projected nominal one-off profit in 2025 in contrast to 2024, we forecast 2025 reported NPAT to increase 26% YoY.
- **PVT's valuation looks attractive with a 2025F EV/EBITDA of 2.5x**, 62% below the five-year average of our selected regional peer median. We project the 2025 P/E and P/B at 6.7x and 1.1x, respectively.

BUY – Petrolimex (HSX: PLX): New decree to be approved, supporting profitability

- **PLX is the market leader in petrol distribution in Vietnam**, with a 50% market share.
- **PLX has the highest gross profit per liter in the industry**, with an average gross profit of VND850-1,250/liter during 2019-2023, compared to competitors' VND400-750/liter.
- **We forecast 2025F reported NPAT to grow 20% YoY and core NPAT to grow 12% YoY** based on stable volume growth of 4.1%, the full-year impact of a higher regulated cost since July 4, 2024, as well as the slight positive impact of new petroleum regulations allowing petrol distributors to set their own prices.
- **PLX's valuation looks attractive at a 2025F P/E of 15.3x**, 25% lower than its historical 5Y average P/E. We forecast DPS to double in 2025 vs 2023 (implied yield of 7.5%) given PLX's increasing net cash position

BUY – PetroVietnam Fertilizer & Chemicals (HSX: DPM): Tax savings, lower input gas price to boost 2025F earnings

- **DPM is the leading urea producer in Vietnam** and has ~35% market share, a trusted brand name, and strong nationwide distribution network of ~3,000 points of sale.

- **We forecast NPAT-MI to jump 83% in 2025** to VND1.3tn (still ~11% lower vs the 2013-2023 average), mainly due to (1) savings in COGS as we incorporate the 5% VAT law, (2) a projected 2.7% lower average input gas price, and (3) a slight increase in the urea ASP.
- **DPM has a strong financial profile** with net cash of VND7.3tn (USD292mn) and a net cash/equity ratio of 65% as of end-Q3 2024, which should help the company to offer robust and sustainable cash dividends of VND3,000/share (~8.9% yield) in 2024-2028F.
- **DPM looks attractive at a 2025F P/E of 12.7x**, implying a PEG of 0.3 based on our projected EPS CAGR of 43% over 2024-2026F. Its 2025F EV/EBITDA of 4.1x is 23% cheaper than that of peers.

BUY – PetroVietnam Ca Mau Fertilizer (HSX: DCM): Tax savings, NPK segment to boost 2025F earnings

- **DCM is one of Vietnam's two largest urea producers (~32% market share)** and has a strategic location, trusted brand name, and high-quality urea products. Vietnam is the world's third-largest rice exporter, leading to stable urea demand growth of 2% p.a. (according to AgroMonitor). Coupled with rising export potential, these support a stable urea sales volume of ~850,000 tonnes p.a. (~106% utilization rate) for DCM in 2024-2029F.
- **We forecast a 43% surge in NPAT-MI in 2025**, primarily due to (1) reduced COGS due to our assumed passage of the 5% VAT law on fertilizers, a projected 2% decrease in the input gas price, (3) a forecast 5% increase in urea ASP, and 56% YoY volume growth in the NPK segment.
- **DCM's valuation looks attractive as it is trading at a 2025 P/E of 9.5x**, with an implied PEG of 0.4 based on our projected 2024-2026 EPS CAGR of 22%.

Other stocks

OUTPERFORM – PetroVietnam Gas (HSX: GAS): Lower oil prices to boost long-term LNG volume

- **GAS is the monopoly operator of gas transportation and trading in Vietnam**. It provides input feedstock for 100% of Vietnam's gas thermal power plants, 70% of urea producers, and 100% of industrial parks. GAS also has a 70% market share in the LPG wholesale business. We believe GAS's long-term growth will be bolstered by growing LNG import volume, driven by robust power demand and our projected LNG price cooling from 2027F onwards. Together with volume from Block B and White Lion Phase 2B gas fields, this should help to double sales volume in 2023-2028F.
- **We project GAS's NPAT-MI to stay flat YoY in 2025F**, fueled by (1) higher gas sales volumes, primarily from LNG, and (2) a reduced loss from Thi Vai LNG (VND118bn vs VND628bn in 2024), and (3) no provision expenses as in 2024. These factors offset the negative impact of a forecast 12.8% YoY decline in FO prices.

OUTPERFORM – PetroVietnam Drilling (HSX: PVD): Slower day rate recovery outlook due to lower oil prices

- **PVD is the leading domestic provider of drilling services** for the oil & gas industry and has a 50% market share in drilling services.
- **PVD has a high efficiency drilling fleet and well-managed cost control**, which we believe will help the company to benefit from rising drilling demand in the region.
- **We forecast 2025F recurring/reported NPAT-MI to grow by 26%/45% YoY**, driven by a projected 2% YoY increase in the average jack-up (JU) day rate, projected 25% top-line growth from well services, and our expectation for no VND depreciation in 2025. We expect domestic exploration and production (E&P) activities to accelerate in 2025, boosting well-related services, associate profits, and day rates in the tight Southeast Asia jack-up market, despite our slightly slower than expected day rate recovery.
- **PVD's valuation looks undemanding at a 2025F P/E of 14.5x** (three-year PEG of 0.5 based on our projected 2023-2026F reported EPS CAGR of 41%).

OUTPERFORM – Binh Son Refinery (UPCoM: BSR): Declining oil price pressures BSR's NPAT-MI, share price

- **BSR operates the Dung Quat Refinery, the first refinery in Vietnam** with a capacity of 148,000 bbl/day (6.5 million tonnes).
- **BSR is a key player in Vietnam's petroleum market, holding a 30% market share** in petroleum products.
- **We forecast 2024F NPAT-MI to decrease 85% YoY**, driven by (1) 15% YoY lower sales volume because of the 5th turnaround (TA5) and (2) 34% YoY lower crack spreads. In 9M 2024, reported NPAT-MI was VND715bn (-89% YoY), primarily impacted by the losses in Q3 2024
- **We forecast 2025F NPAT-MI to quadruple**, driven by (1) 18% YoY higher sales volume, assuming BSR operates at a 100% utilization (vs 88% in 2024F), and as we expect BSR to operate at a 114% efficiency rate after turnaround (vs 110% in 2024F), (2) a projected 11-14% YoY higher gasoline spread, and (3) 10% higher diesel spreads

Company names and tickers

Code	Company
GAS	PetroVietnam Gas
BSR	Binh Son Refinery
DCM	PetroVietnam Ca Mau Fertilizer
DPM	PetroVietnam Fertilizers and Chemicals
PLX	Petrolimex
PVD	PetroVietnam Drilling
PVS	PetroVietnam Technical Services
PVT	PetroVietnam Transportation

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Power & Water: Investment set to rise to meet robust power consumption

Water sector outlook

Strong water volume growth to drive earnings: We forecast water volume to grow at double-digit rates over the 2025-2029 period in BWE's and TDM's home province Binh Duong, 1.4x of Vietnam's water volume growth rate following approval of the provincial master plan in August 2024. In addition, BWE and TDM expect to get approval for water tariff increases of 3% p.a. in H1 2025, which should further help boost their double-digit NPAT CAGRs. We like management's aggressive M&A beyond its hometown to provide sustainable growth. In its recent analyst meeting, BWE highlighted capacity expansion opportunities across the markets, especially in Dong Nai Province with the Long Thanh Highway water project (capex of VND5tn, capacity of 600,000 cubic meters per day, 70% of BWE's current capacity, potential 50% stake belong to BWE and TDM) to start preliminary work in late 2025. We prefer TDM compared to BWE for 2025 due to its surging NPAT.

Power sector outlook

We forecast that power supply will be sufficient in 2025. We forecast electricity consumption growth of 9.5% YoY. We project national installed capacity to grow 3.5% and 4.5% in 2024F and 2025F, respectively. We believe that neutral weather conditions in 2025, compared to the slight El Niño effect (resulting in low rainfall) in 2024, will support sufficient power output to meet demand. Additionally, the completion of national transmission line no.3 in August 2024, which doubled transmission capacity from 2,500 MW to 5,000 MW, will potentially help to provide more electricity from the central region to the north during the 2025 dry season. Finally, we forecast sufficient coal and gas supply in 2025F. However, the risk of electricity shortages remains for the northern region with demand potentially surging during the dry season, per Vietnam Electricity (EVN). EVN is gearing up for robust electricity consumption growth of up to 13.2% YoY.

We expect the revised plan for PDP VIII to be issued in 2025. In September, the Ministry of Industry and Trade (MoIT) proposed revisions to PDP VIII. The revisions ensure sufficient electricity supply for 2025-2030, as 9M 2024 power consumption rose 11.3% YoY, exceeding the 2021-2025 target of 9.1% p.a. In addition, power demand in the next five years should continue to be strong, partly driven by growing consumption from data centers, EVs, and the semiconductor sector. In contrast, development of new power plants might not meet the approved schedule.

The Amended Electricity Law was approved in November National Assembly meeting, which creates a solid legal framework for power investment return. This establishes a legal foundation for two-component retail electricity pricing, which is comprised of a capacity charge (kW) and an energy charge (kWh). This is designed to reflect more accurately Vietnam's electricity production costs and reduce subsidies. This approach is expected to facilitate increases in retail electricity prices, potentially reducing EVN's accumulated loss and indirectly benefiting all power plants. Furthermore, it provides a pricing framework for renewable power as well as minimum contracted volume for LNG and offshore wind power to ensure financing schemes and decent IRR. Finally, it further specifies the privatization of transmission lines at 220kV and below to attract investments and accelerate development.

We expect the details of the Direct Power Purchasing Agreement to be released in H1 2025 and a new pricing mechanism for renewable power in H2. We expect a strong recovery in investments in renewables once details of the DPPA (released in July 2024) and its service fees are announced. We believe investments will jump when a new price mechanism is released. We anticipate that this will be a bidding mechanism with price caps (ceiling prices), which should be higher than tariffs for transitional renewable power plants to encourage investment in the sector.

We forecast the 2025 CGM price to increase 8% YoY due to: (1) our projection of strong power consumption growth of 9.5% YoY in 2025F (vs 2024F's high base), (2) our projection of higher YoY coal and gas prices, and (3) support from a 4.8% retail electricity price increase in October 2024.

Stock picks

Given declining capex in all types of renewable power globally, we forecast Vietnam's renewable power sector to enter a new growth cycle from mid-2025. We like PC1 – a proactive power contractor who was successful in expanding into the Philippines market to strengthen the growth outlook of its power construction segment. We project 2025F NPAT-MI to surge by 84% YoY. PC1's valuation looks attractive with a 2025F P/E of 10.2x, ~47% lower than its historical 4-year P/E, and an implied PEG of 0.1 based on a projected 2024-2026 EPS CAGR of 71%.

Coal-fired power plants remain competitive and benefit from robust electricity consumption in the north. We are positive on QTP – a 16%-owned associate of PPC. QTP's valuation looks attractive with (1) a 2025F PER of 7.7x, 54% lower compared to the 4Y median of our selected regional peers, and (2) projected robust dividend yields (13-16%) which are supported by strong operating cashflows (estimated at VND1.5tn p.a.).

Figure 509: Power & Water stocks – Key data

Code	Rating	Market Cap, USD mn	State O'ship %	Foreign Limit %	Foreign Avail, USD mn	ADTV 30D, USD mn	Share price, VND ps	Target price, VND ps	Target price, updated	Upside %	Div yield %	12M TSR %
PC1	BUY	322	0	50	119	1.3	23,300	31,200	11/7/2024	33.9	0.0	33.9
PPC	O-PF	142	51	49	42	0.1	11,250	13,300	10/30/2024	18.2	8.9	27.1
GEX	BUY	631	0	50	280	4.9	19,300	23,600	12/4/2024	24.9	0.0	24.9
QTP	BUY	249	64	49	120	0.1	14,100	15,700	10/30/2024	11.3	12.8	24.1
TDM	BUY	219	0	50	94	0.1	49,600	58,800	11/8/2024	18.6	3.0	21.6
BWE	O-PF	410	19	50	152	0.3	47,100	51,400	11/8/2024	9.1	3.0	12.1
REE	O-PF	1,246	5	49	0	1.8	68,400	72,300	11/9/2024	5.7	1.5	7.2
TV2	M-PF	85	51	15	5	0.4	31,150	32,200	9/10/2024	3.4	3.2	6.6
NT2	M-PF	223	62	49	79	0.2	20,000	19,700	10/30/2024	-1.5	5.0	3.5
HDG	O-PF	382	0	50	122	4.1	30,450	31,000	11/25/2024	0.2	1.6	1.8
POW	M-PF	1,134	80	49	513	3.0	12,500	12,600	10/30/2024	0.8	0.0	0.8

Source: FiinPro, Vietcap (Data as of December 5, 2024)

Figure 510: Power & Water stocks – Summary valuations (based on reported earnings)

Code	Share price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/E TTM x	P/E 2023F x	P/E 2024F x	P/E 2025F x	EV/EBITDA 2024F x	ROE 2024F %	P/B LQ x	Net D/E LQ x
PC1	23,300	-83.2	578.3	67.4	16.5	116.4	17.2	10.2	7.7	10.1	1.5	104.9
PPC	11,250	-22.0	-15.0	102.4	11.1	9.9	11.6	5.8	14.9	7.7	0.8	-0.3
GEX	19,300	-10.5	255.2	-37.3	16.0	50.7	14.3	22.8	6.8	9.2	1.2	69.8
QTP	14,100	-8.2	16.3	22.1	9.7	10.9	9.4	7.7	8.1	13.7	1.2	-2.5
TDM	49,600	28.5	-41.0	79.9	26.1	19.0	32.2	17.9	14.5	8.4	2.2	1.4
BWE	47,100	-9.2	6.1	45.4	16.1	18.5	17.4	12.0	8.6	13.6	2.2	75.0
REE	68,400	-18.7	-17.3	37.5	18.1	14.7	17.8	12.9	11.9	10.1	1.8	20.2
TV2	31,150	6.1	29.1	58.9	38.8	39.7	30.7	19.3	15.9	5.1	1.7	2.0
NT2	20,000	-47.8	-91.5	742.1	21.8	12.9	152.9	18.2	12.9	0.9	1.4	-28.1
HDG	30,450	-39.3	-11.2	49.3	14.8	15.9	18.0	12.1	8.7	9.6	1.7	58.6
POW	12,500	-49.6	31.1	55.4	20.9	29.7	22.7	14.6	7.2	4.2	0.9	-13.2

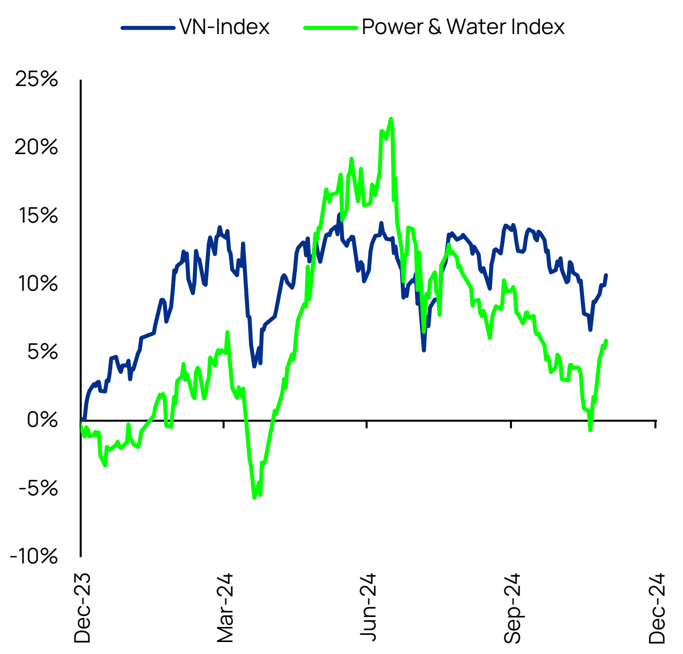
Source: FiinPro, Vietcap (Data as of December 5, 2024)

Vietcap

2024 recap

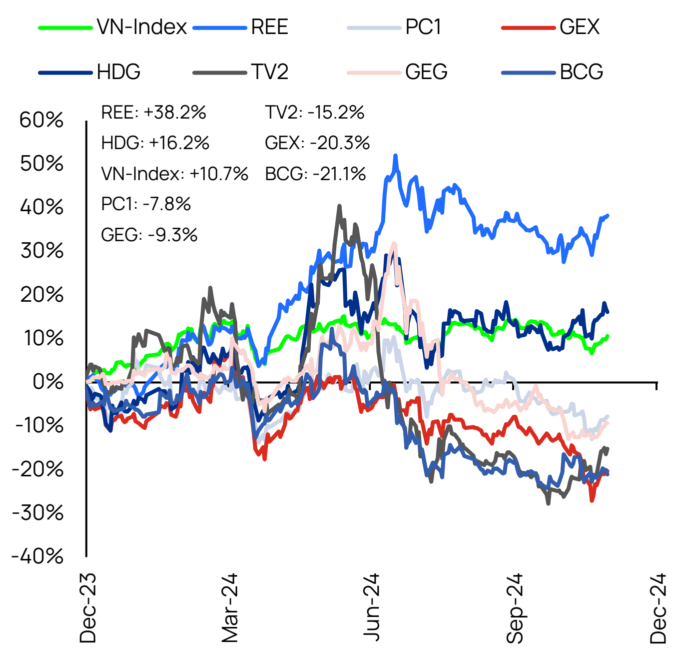
Share price performance

Figure 511: Vietcap Power & Water Index (*) vs VN-Index



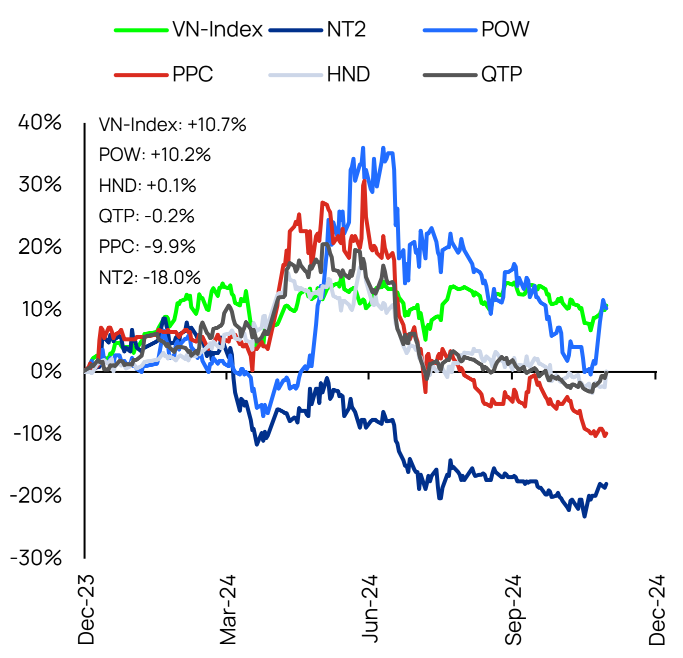
Source: Bloomberg, Vietcap (* Our power & water index is based on market cap weighted price performance of power & water stocks under our coverage - REE, HDG, PC1, GEX, POW, NT2, PPC, TDM, and BWE - and non-rated stocks GEG, BCG, TV2, HND, and QTP; Data as of November 29, 2024)

Figure 512: Renewable power stocks



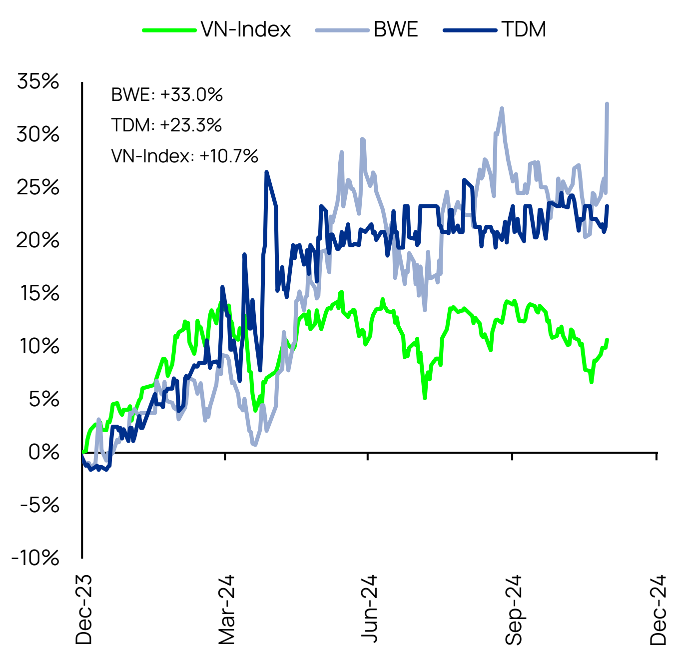
Source: Bloomberg, Vietcap (Data as of November 29, 2024)

Figure 513: Other power generation stocks



Source: Bloomberg, Vietcap (Data as of November 29, 2024)

Figure 514: Water stocks



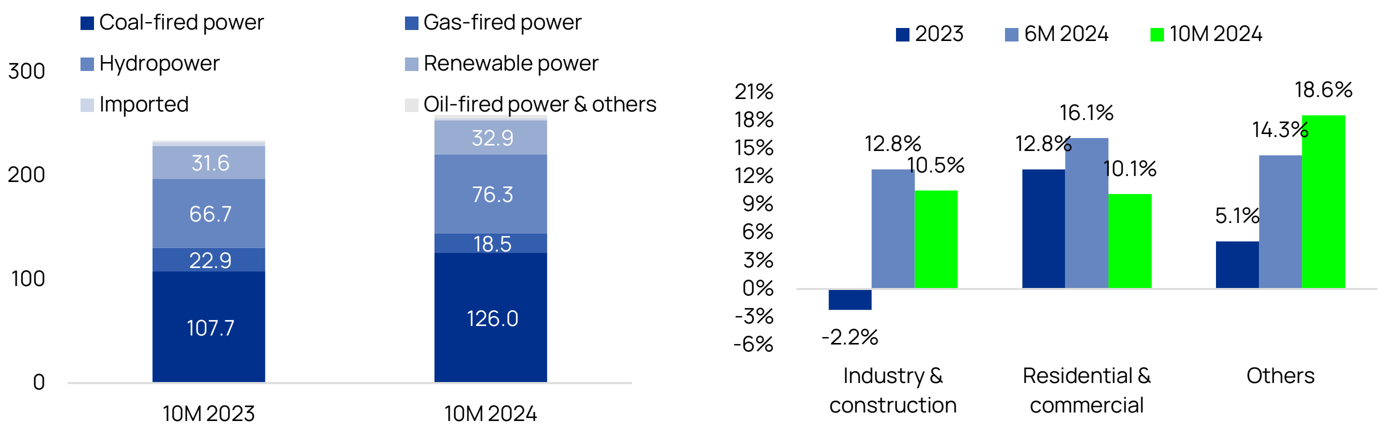
Source: Bloomberg, Vietcap (Data as of November 29, 2024)

Power production and consumption was strong in 10M 2024

In 10M 2024, total national power production surged by 10.5% YoY, mainly driven by 17%/14% higher YoY volume from coal-fired and hydropower generation; these together outweigh 19% lower YoY gas-fired production. We attribute this to 1) higher rainfall YoY in Q2 and Q3 2024, and 2) the cost advantage of mixed coal (+9.9% YoY in 2024F) vs gas (+4.4% YoY in 2024F). Looking toward 2025F, we expect higher volumes from hydropower while mixed coal (+5.3% YoY) maintains its cost advantage vs gas (+15.5% YoY).

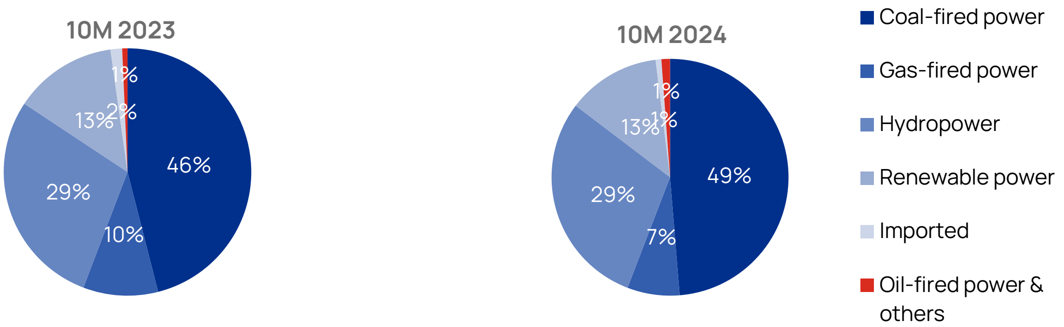
In 10M 2024, we estimate power consumption to spike by 11.0% YoY, driven by 10.5%/10.1% YoY growth in the industry & construction and residential and commercial segments. This strong demand growth was driven by 6.8% YoY GDP growth in 9M and the hot weather conditions in Q2, which were tempered in Q3 with the onset of the rainy season.

Figure 515: 10M 2024 electricity production (billion kWh) and YoY consumption growth (%)



Source: EVN, Vietcap estimates

Figure 516: Vietnam's power production breakdown by type



Source: EVN, Vietcap

2025 and long-term outlook

We expect the revised plan for PDP VIII to be issued in 2025

In April 2024, the Government approved the Implementation Plan of PDP VIII, which provides details for renewable power capacity with specific names by province and region.

However, in September 2024, the Ministry of Industry and Trade proposed that the Prime Minister approve adjustments to Power Development Plan VIII (PDP VIII) to ensure sufficient electricity supply during the 2025-2030 period, as power consumption increased by 13.5% YoY in 7M2024, surpassing the 2021-2025 guidance of 9.08% growth p.a., and new power plants development might not meet the approved schedule. Accordingly, we expect the Government to release the revised PDP VIII in 2025F to accelerate capacity expansion to ensure sufficient power supply in 2026-2030F.

- **Overview:** Per PDP VIII, gas & LNG-fired/coal-fired/wind/solar/biomass & waste-to-energy (WTE) power plants will account for 24%/19%/18%/13%/3% of the total national installed capacity by 2030, respectively.
- **Gas-fired:** The MoIT expects only O Mon I (660 MW) and Nhon Trach 3 & 4 (1,624 MW), which together will account for 7.5% of the total additional gas-fired capacity (23 plants, total capacity of 30,424 MW) by 2030, to begin commercial operations in the same year. Other gas-fired power plants may face difficulties reaching COD before 2030 without timely LNG mechanisms (mainly Qc and pass-through).
- **Coal-fired:** Many plants are facing significant challenges due to a lack of support from local authorities and financial institutions. Specifically, five coal-fired projects (total capacity of 7,220 MW, ~5% of national installed capacity by 2030) are delayed by funding issues and shareholder changes.
- **Wind**: Only 3,000-5,000 MW of onshore and nearshore capacity has been installed, representing just 14-18% of the planned target. Achieving the additional 21,880 MW capacity goal by 2030 is becoming increasingly unlikely, per the MoIT.
- **Solar**: PDP VIII projects an additional 1,500 MW by 2030. However, per the MoIT, given the delays in large-scale power sources like gas-fired and coal-fired plants, raising solar power generation capacity in the short term is essential. Specifically, the Deputy Prime Minister suggested lifting the northern region's rooftop solar additional capacity to 7,000 MW, which is ~3x of the 2,600 MW national capacity proposed in the PDV III.
- **Transmission infrastructure:** Per the MoIT, reviewing the implementation status of power grid projects is essential as a basis for implementation, to align with the progress of power sources and updating/supplementing power grid projects.

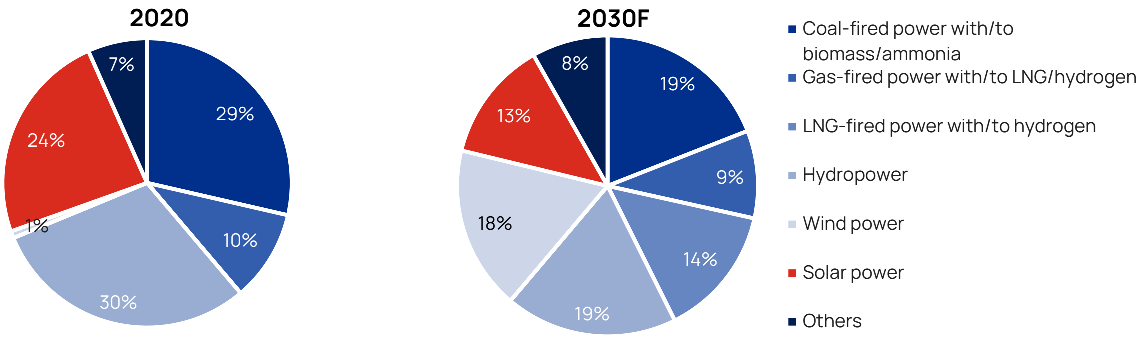
Figure 517: Ministry of Industry and Trade's forecasts for Vietnam's power capacity

MW	2020A	2025F	2030F	2035F	2040F	2045F	2050F
Onshore wind power	539	13,416	21,880	30,400	46,100	62,250	77,050
Offshore wind power	-	-	6,000	18,000	45,500	79,500	91,500
Solar power	16,491	17,891	20,591	56,866	94,866	135,824	189,294
Biomass, cogeneration & others	1,750	2,630	4,970	6,590	9,460	9,710	10,515
Hydropower	20,789	26,795	29,346	33,654	34,414	35,139	36,016
Pump-storage hydropower & energy battery storage	-	50	2,700	9,450	19,950	33,750	45,550
Gas-fired power (domestic gas) switching to use LNG	7,076	7,076	14,930	7,900	7,900	7,900	7,900
Gas-fired power (domestic gas) switching to use LNG and hydrogen (*)	-	-	-	7,030	7,030		-
Gas-fired power (domestic gas) to hydrogen	-	-	-	-	-	7,030	7,030
LNG-fired power	-	2,700	22,400	22,700	12,200		
LNG-fired power (with hydrogen)	-	-	-	2,700	13,200	21,900	4,500
LNG-fired power to hydrogen	-	-	-	-	-	3,500	20,900
Coal-fired power	19,825	28,757	30,127	23,137	15,337	3,635	-
Coal-fired power (with biomass/ammonia) (**)	-	-	-	6,990	14,790	18,642	-
Coal-fired to biomass/ammonia	-	-	-	-	-	6,900	25,632
Oil-fired power	1,596	1,221	-	-	-	-	-
Imported power	1,272	4,453	5,000	7,742	10,242	11,042	11,042
Flexible power plants	-	-	300	9,000	23,100	33,900	46,200
Total installed capacity	**69,338**	**104,989**	**158,244**	**242,159**	**354,089**	**470,622**	**573,129**
Five-year CAGR		**8.7%**	**8.6%**	**8.9%**	**7.9%**	**5.9%**	**4.0%**

Source: MoIT (PDP VIII), Vietcap (* Hydrogen: An alternative fuel for natural gas; when burned with oxygen for energy generation, it only produces steam instead of carbon dioxide. (**) Biomass: Made of material from living organisms such as plants, animals, and waste. Ammonia: A fuel that helps to reduce carbon emissions)

Vietcap

Figure 518: Vietnam's power capacity breakdown by type



Source: PDP VIII, Vietcap

Figure 519: Additional solar and wind power capacity by 2030, by region

MW	Rooftop solar	Onshore wind	Offshore wind
Northern	927	3816	2500
Central	567	8360	2500
Northern-central	*231*	*1948*	*0*
Central	*168*	*1229*	*500*
Highlands	*32*	*3062*	*2000*
Southern-central	*136*	*2121*	*0*
Southern	1,109	5720	1000
Total	**2,603**	**17,896**	**6,000**

Source: MoIT (Implementation Plan of PDP VIII, April 1, 2024), Vietcap

Figure 520: Capex requirements for the power sector

USD bn	2021-2025	2026-2030
Power generation	48.1	71.7
Power transmission	9.0	5.9
Total	**57.1**	**77.6**

Source: MoIT (Implementation Plan of PDP VIII, April 1, 2024), Vietcap

National Assembly approved Amended Electricity Law

On November 30, 2024, the National Assembly approved the Amended Electricity Law (AEL), set to take effect on February 1, 2025. This approval is critical for ensuring power development and aligns with national targets to ensure energy security. While the official version has not yet been released, our insights are based on the latest drafts, highlighting the following key changes:

1) Codification of the two-component retail electricity pricing framework:

The AEL establishes a legal foundation for two-component retail electricity pricing, which is comprised of a capacity charge (kW) and an energy charge (kWh). This is designed to more reflect accurately Vietnam's electricity production costs and reduce subsidies. This approach is expected to facilitate increases in retail electricity prices, potentially reducing EVN's accumulated loss and indirectly benefiting all power plants. In November 2024, EVN submitted a report on two-component retail electricity pricing to the MoIT in proposing a pilot program, targeting Direct Power Purchase Agreement (DPPA) customer groups.

2) Pricing mechanisms for renewable energy, which are poised to benefit renewable energy stocks such as REE, PC1, HDG, TV2, and GEX:

The Law legalizes forward contracts as stated in DPPA mechanisms and stipulates the service fees to be announced by MoIT. We expect these service fees to be released in H1 2025 for DPPA to come into practice. In addition, the AEL empowers the Government to define a new pricing mechanism for renewable energy, which we believe to be the ceiling price mechanism, and expect it to be launched in H2 2025.

3) Minimum contracted volume for gas and LNG which benefits POW, GAS, and PVS:

The AEL creates a legal framework for a minimum contracted volume mechanism for gas and LNG-fired power plants. Additionally, it prioritizes the development of gas-fired power using domestic gas which implies high mobilization from the Block B gas field. The law emphasizes the concentrated development of LNG port infrastructure and pipelines to minimize costs, potentially favoring the LNG Thi Vai terminal and existing pipelines, benefiting GAS.

4) Legal framework for offshore wind power established which benefits PVS, POW, and REE:

- The AEL establishes a minimum contracted volume mechanism, ensuring financing schemes and adequate IRR.

- State-owned enterprises (SOEs) are assigned by the Government to conduct surveys. Other cases, including private and foreign investors, are subject to Government approval.

- Foreign investment participation: Allows foreign investors to contribute capital and transfer shares, subject to approval from the Ministry of Foreign Affairs, the Ministry of National Defense, and the Ministry of Public Security, and other assigned Ministries.

5) Approval for restarting research and development of nuclear power:

This to provide a stable, cost-competitive baseload energy source to meet high electricity demand growth, following its suspension in 2016. Technologies under consideration include Generation III + Light Water Reactors (LWR) and Small Modular Reactors (SMR).

6) Privatization of transmission lines:

The AEL further specifies the privatization of transmission lines at 220kV and below to attract investments and accelerate development. This is expected to benefit PC1.

We view the approval of the AEL as a positive milestone for Vietnam's power sector. By codifying and establishing legal frameworks, the law aims to liberalize and enhance transparency in the industry, thereby encouraging and accelerating investment. Following this approval, we anticipate that the subsequent DPPA guidance, new pricing mechanisms for renewable energy, and the Revised PDP VIII — expected in 2025 — will address legal bottlenecks and translate into tangible investments in the power sector. *This should slightly benefit all power stocks and PVS.*

Pilot of two-component retail electricity pricing

In November 2024, EVN submitted a report to the MoIT proposing a two-component electricity pricing structure, comprised of a capacity charge (kW) and an energy charge (kWh). Initially, this structure will apply to customers under Decree No. 80/ND-CP, concerning the DPPA mechanism (large end-users including industrial parks and manufacturing plants with a monthly average consumption of 200,000 kWh and above).

Price increase: EVN proposes that adjustments to capacity and energy charges align with the adjustment rate of the average retail electricity price, within a range of ±2%.

Impacts:

- Reduces cross-subsidization among customers.
- Discourages customers registering high capacity without usage, or factories demanding infrastructure (lines, transformers) but delaying operations, leading to years of wasted costs burdening other customers.

- Allows for more flexible price adjustments, as energy costs fluctuate significantly while investment costs change more slowly.

Implementation roadmap:

- **Simulation**: By 2024, conduct simulations of electricity bills using the two-component pricing structure, and compare them with actual bills based on the current retail tariff.
- **Pilot**: From January 1, 2025, apply the two-component pricing structure to standard industrial customers within the DPPA customer group.
- **Official implementation (partial):** Roll out the two-component electricity pricing structure for all standard industrial customers under the DPPA mechanism, while other customer groups will continue using the current one-component retail tariff.
- **Full implementation:** The expansion of the two-component pricing structure to other customer groups requires careful evaluation of subsequent implementation, therefore there is still no predetermined deadline yet.

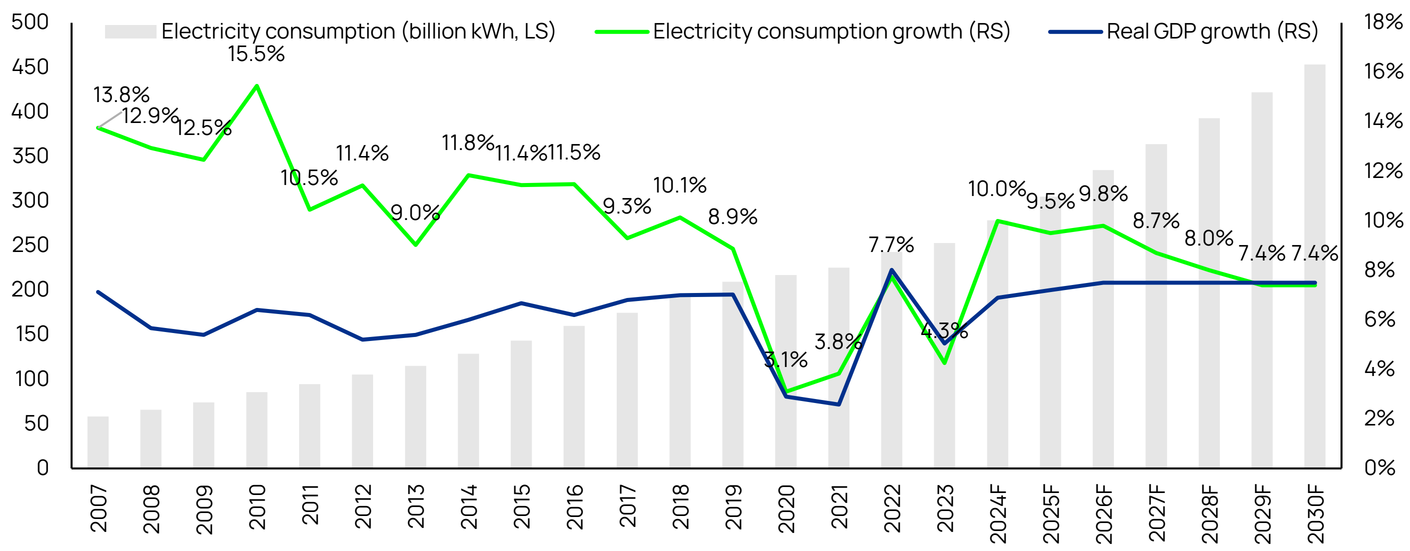
We forecast 2025F electricity consumption growth of 9.5% YoY

We maintain our 2025F electricity consumption growth forecast of 9.5% YoY, consistent with our projection in Thermal Power sector update, dated October 30, 2024. This reflects our assumption for the elasticity ratio between GDP growth and electricity consumption at 1.3x, equivalent to a 10-year average. Our base case for demand growth for 2025F is close to EVN's projection of 9.4% YoY.

However, the risk of electricity shortages remains for the northern region with demand potentially surging during the dry season, per EVN. Additionally, EVN is preparing for a strong case with electricity consumption growth up to 13.2% YoY.

Assuming Vietnam's annual GDP growth rate at ~7.5% from 2026 to 2030 (based on the 8th Session of the 15th Assembly's minimum target and Vietcap), we estimate that electricity consumption will likely grow by ~7% to 9% p.a. during this period.

Figure 521: Vietnam's electricity consumption growth vs GDP growth*



Source: Vietnam Electricity (EVN), Vietcap (*The real GDP growth rates shown for 2024/25/26F are from Vietcap's GDP growth forecasts; numbers for 2027-2030F are based on the 8th Session of the 15th National Assembly meeting's minimum target)

Vietcap

We forecast sufficient power supply for 2025 vs a power shortage in 2023

EVN supplied sufficient power in 10M 2024

For 10M 2024, EVN recorded significantly higher power supply growth (including self-supply and imports) of 10.5% YoY, much higher compared to 2022 and 2023's growth of 6.1% and 4.6% YoY, respectively. Per our understanding, EVN successfully managed to deliver an adequate power supply for 10M 2024 without any significant electricity cuts despite ERAV recording a new maximum capacity (Pmax) of 49,533 MW (+8.8% vs the 2023's highest Pmax) in June. We consider this a success for EVN in managing a sufficient power supply, especially given our estimate that the national installed capacity will increase at a slower pace of 3.5% YoY in 2024.

Overall, we expect no power shortage in 2025F due to EVN's capabilities and our estimation of sufficient national installed capacity in 2024/25F of 3.5% and 4.5% YoY, respectively. We believe with neutral weather conditions in 2025 vs the slight El Niño effect in 2024, this should support sufficient power output to meet up with demand. In addition, the completion of national transmission line no.3 in August 2024 will potentially help to provide more electricity from the central region to the north during the 2025 dry season.

In late August 2024, the 500kV Line 3 was inaugurated, spanning 519 km from Quang Trach (Quang Binh Province, central region) to Pho Noi (Hung Yen Province, northern region). The project was completed in just six months vs a typical construction period of three to four years, driven by the Government's strong determination to finish construction quickly. This project has doubled the electricity transmission capacity from the central region to the north from 2,500 MW to 5,000 MW. It alleviates the risk of overload on existing 500kV lines, while also reducing the risk of power shortages in the northern region.

By September 2024, 1,578 MW of transitional power capacity went into COD (34% out of the total ~4,600MW), of which 431MW got approval in 9M2024. This partially increases the usable capacity for EVN in tackling power shortage risks. For 2025F, we project the national installed capacity to tick up 4.5% YoY to 87,100 MW, mainly driven by additional coal-fired and renewable capacity following our expectation for a new pricing mechanism for renewables.

However, the most uncertainty comes from higher-than-expected unscheduled technical shutdowns. Looking ahead to 2026-2030, we believe that the Government needs to resolve policy bottlenecks to meet the power capacity expansion target and ensure sufficient electricity supply.

Figure 522: Vietcap's forecasts for Vietnam's power generation capacity (MW)

MW	2021	2022	2023E	2024F	2025F
Hydropower	21,836	22,544	22,872	23,139	23,235
Coal-fired power	24,671	25,312	26,757	27,957	29,357
Gas-fired power	7,125	7,160	7,160	7,910	8,660
Solar power (farm)	8,736	8,736	9,115	9,194	9,344
Solar power (rooftop)	7,954	7,954	7,954	7,954	8,104
Wind power	3,980	3,980	4,802	5,154	5,936
Others	2,318	2,114	1,895	2,052	2,464
Total capacity	**76,620**	**77,800**	**80,555**	**83,360**	**87,100**
YoY growth	10.5%	1.5%	3.5%	3.5%	4.5%

Source: EVN, Vietcap forecasts

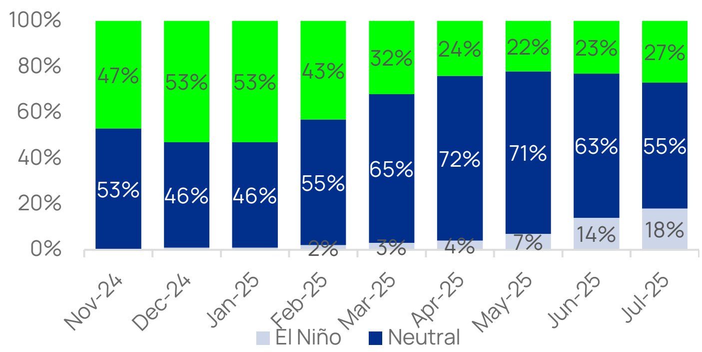
We anticipate neutral weather conditions for 2025

In late Q2 and Q3 2024, rainfall was higher than expected compared to the forecast of Vietnam's National Center for Hydro-Meteorological Forecasting (NCHMF) in May 2024, resulting in strong hydropower mobilization and eventually putting downward pressure on CGM prices.

Currently, NCHMF forecasts rainfall levels to be slightly higher than the multi-year average (~1-20% higher) throughout November 2024 to April 2025.

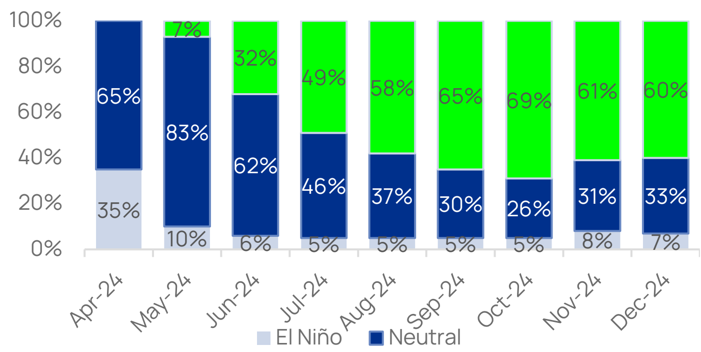
However, the International Research Institute for Climate and Society (IRICS) raised the probability of neutral weather conditions for H1 2025 to 60-70% in its October report, implying the dominance of neutral weather conditions over La Niña. Overall, we expect neutral weather conditions for 2025, transitioning to a slight La Niña effect in late 2025.

Figure 523: Probability for weather conditions as of October 2024



Source: International Research Institute for Climate and Society, Vietcap

Figure 524: Probability for weather conditions as of April 2024



Source: International Research Institute for Climate and Society, Vietcap

We forecast mixed coal prices to rise by 5% YoY in 2025F

Our current forecasts for coal prices in Vietnam are illustrated in Figure 525. Please see our Thermal Power Sector Update, dated October 30, 2024, for more details.

We project domestic 5a coal prices to rise by an average of 5% p.a. in 2024-29. In 2023, the price was VND1.8mn/tonne (-2% YoY), following decisions by the MoIT and Vinacomin. There was a 7.5% increase in retail electricity prices in 2023 and a further 4.8% increase YTD 2024. We anticipate that the MoIT will greenlight a 5% hike in domestic coal prices, deviating from TKV and Dong Bac Corporation's proposed 10% increase, to help ease EVN's financial burden. This 5% annual increase is expected to continue in response to rising coal production costs.

We expect mixed coal prices to increase by 10% YoY in 2024 and 5% YoY in 2025, driven by a 5% rise in domestic coal prices and an increasing share of imported coal (more expensive than domestic coal), which outweighs the lower imported coal price. In 2026, we project a decline in mixed coal prices, driven by a 12% YoY decrease in imported coal prices. In 2027-2029, mixed coal prices are set to rise again due to an increasing share of imported coal. We estimate the share of imported coal will gradually grow from 45% in 2024 to 51% by 2029, following industry guidance.

Figure 525: Forecast of average prices of 5a domestic coal and its mixed coal equivalent

VND mn/tonne	2022	2023	2024F	2025F	2026F	2027F	2028F	2029F
Domestic coal, 5a (5,500 kcal/kg)	1,845	1,808	1,898	1,993	2,093	2,198	2,308	2,423
YoY growth	0.0%	-2.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Mixed coal, 5a equivalent (*)	**2,738**	**2,238**	**2,460**	**2,591**	**2,420**	**2,424**	**2,511**	**2,559**
YoY growth	48.4%	-18.3%	9.9%	5.3%	-6.6%	0.2%	3.6%	1.9%

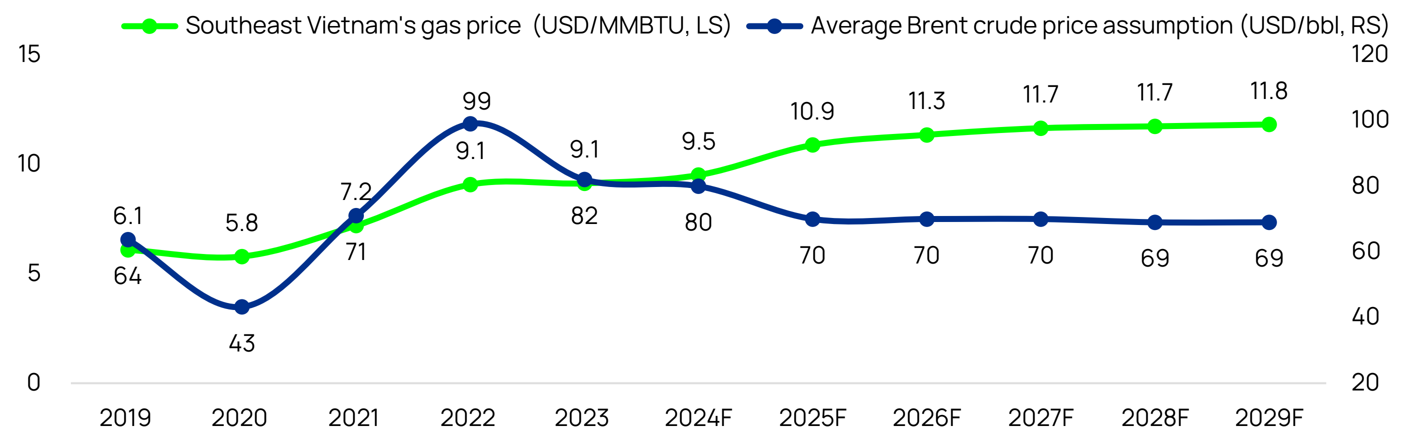
Source: MoIT, Vietcap forecasts (*: A mix of imported coal and domestic coal 6a)

Gas prices to increase by 14% YoY in 2025F

Historically, Vietnam has self-supplied all gas feedstock for its power plants, fertilizer plants, and industrial parks. The domestic gas price is partly based on 1) a fixed price (well-head gas price plus regulated return), 2) FO prices, and 3) transportation tariffs. From 2024, Vietnam's gas prices will mix domestic and imported LNG rates as domestic production declines.

In our GAS Update Report, dated November 29, 2024, we forecast for rising gas prices for power plants, driven by the depletion of cheap domestic gas supplies. We forecast this price to increase by 14% YoY to USD10.9/MMBTU in 2025 and rise further in the following years to USD11.8/MMBTU by 2029F. The share of cheap domestic gas (~USD5-7/MMBTU) in total supply is expected to drop from 66% in 2019 to 20% in 2024 and just 4% by 2029. Similarly, more expensive domestic gas (~USD7-15/MMBTU) is expected to drop from 71% in 2024 to 23% by 2029. The domestic supply shortfall will be offset by imported LNG (~USD12-14/MMBTU), rising from 9% in 2024 to 73% by 2029, pushing costs higher.

Figure 526: Gas price outlook for power plants in southeastern Vietnam (USD/MMBTU)

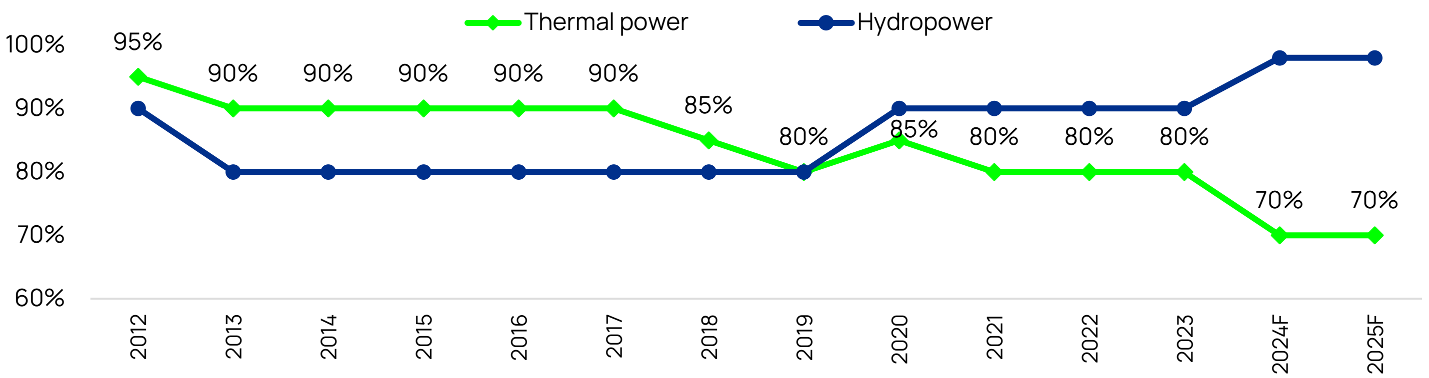


Source: GAS, Industry players, Vietcap

Contracted volume (Qc) ratios for thermal power and hydropower plants at 70% and 98% in 2025F, respectively

According to industry players, the contracted volume ratio for thermal power plants is anticipated to remain at 70% for 2025, similar to previous years. This potentially prolongs challenges for thermal plants, especially gas-fired power plants. Similarly, the contracted volume ratio for hydropower plants is expected to stay unchanged at 98%, which limits the profitability of hydropower plants in 2025 given our expectation for more favorable weather conditions.

Figure 527: Contracted volume ratios (%, Qc)



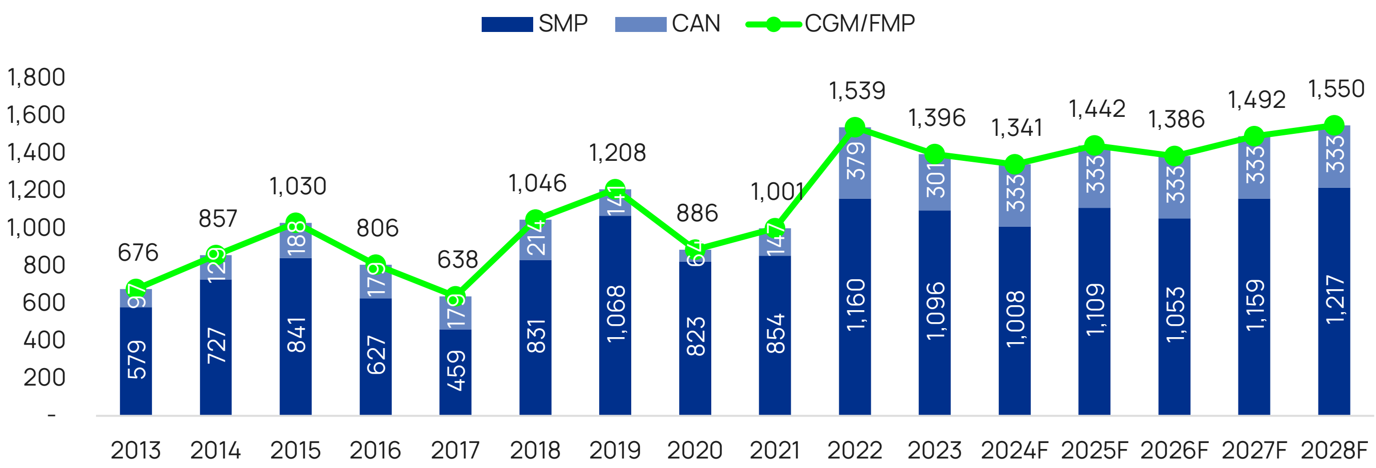
Source: MoIT, Industry players, Vietcap

Average CGM price to increase 8% YoY in 2025

In our Thermal Power Sector Update, dated October 30, 2024, we lowered our 2025F CGM price projection by 18% to VND1,442/kWh (+8% YoY), following our 17% lower 2024 forecast. However, we maintain growth of 8% YoY in CGM prices for 2025 mainly due to (1) our projection for strong power consumption growth of 9.5% YoY in 2025F (vs 2024F's high base of 10% YoY, ~3x of 2023), (2) our projection for 5% and 16% YoY higher coal and gas prices, and (3) support from a 4.8% retail price increase in October 2024.

We also lowered our CGM price assumptions by 11% on average across the remainder of our forecast period following our lower projections for 2024/25F. Our forecast implies a CAGR of 3.7% in CGM prices for the 2024-2028F period, which is roughly in line with expected CPI inflation.

Figure 528: Average CGM prices (VND/kWh)



Source: MoIT, EVN, Industry players, Vietcap. Note: CGM price = FMP (full market price) = SMP (system marginal price) + CAN (capacity-add-on price). SMP: the highest auction price required to balance system supply and demand; CAN: the extra price paid in order for the best new entrant power plant to break even.

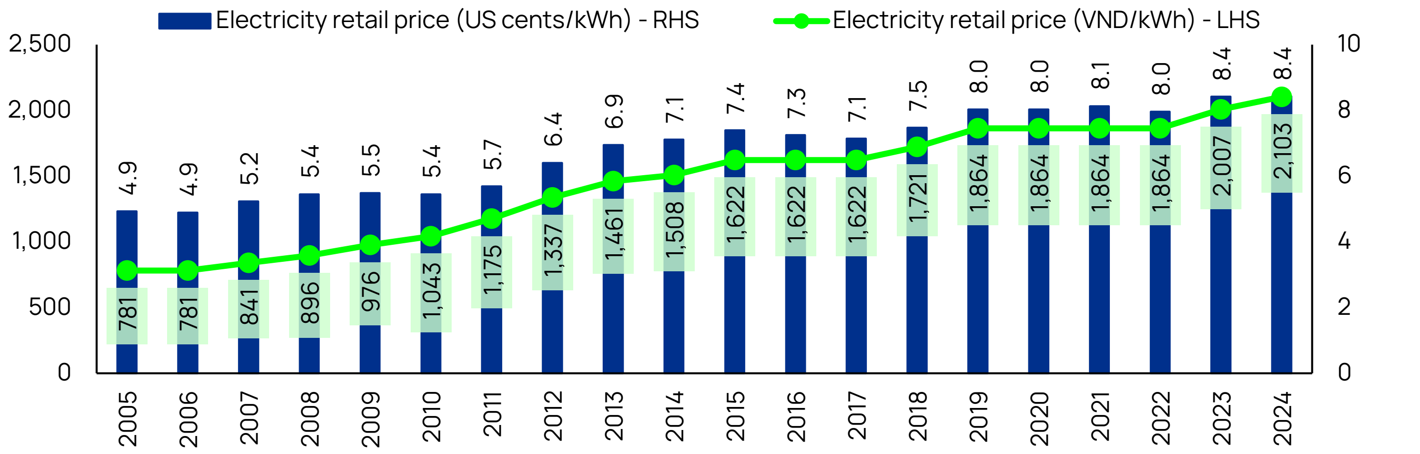
We expect retail electricity prices to increase 5%/10% in 2025/26F

The MoIT approved a 4.8% increase in retail electricity prices to an average of VND2,103/kWh (US 8.4 cents/kWh, VAT exclusive), which came into effect on October 11, 2024. This follows a cumulative 7.5% hike in 2023. While this price hike will not immediately boost power plants' earnings, it will help alleviate EVN's financial difficulties and improve its cash flow, which will in turn benefit power plants. Additionally, as EVN's financial situation improves, the higher retail electricity prices will allow more flexibility for EVN to purchase electricity at higher prices, ultimately benefiting power plants.

Due to the cumulative 7.5% electricity price increase in 2023, EVN's net loss in H1 2024 significantly decreased to VND 8.1tn, compared to a net loss of VND 29.1tn in H1 2023. By the end of H1 2024, EVN's cumulative net loss stood at VND56tn, equivalent to 29%/9% of its equity and total assets. We believe EVN will have minimal losses in 2024 and generate profit in 2025. However, EVN still needs further increases in selling prices to clear its cumulative losses.

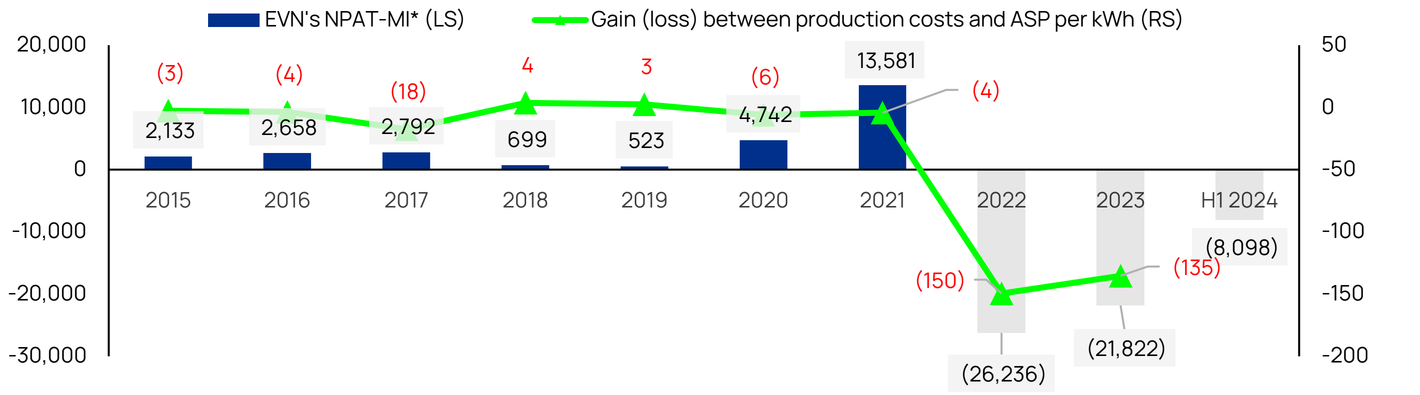
We expect 5%/10% YoY price hikes in 2025/26F. We believe these hikes are necessary to (1) help EVN gradually clear its cumulative losses in 2022-2023, (2) be able to afford higher input costs (gas price changes of +16%/+2% YoY, mixed coal price changes of +5%/-6% for 2025/26F, respectively), and (3) fund capex investment.

Figure 529: Vietnam's historical retail electricity prices (base price) in VND/kWh and US cents/kWh*



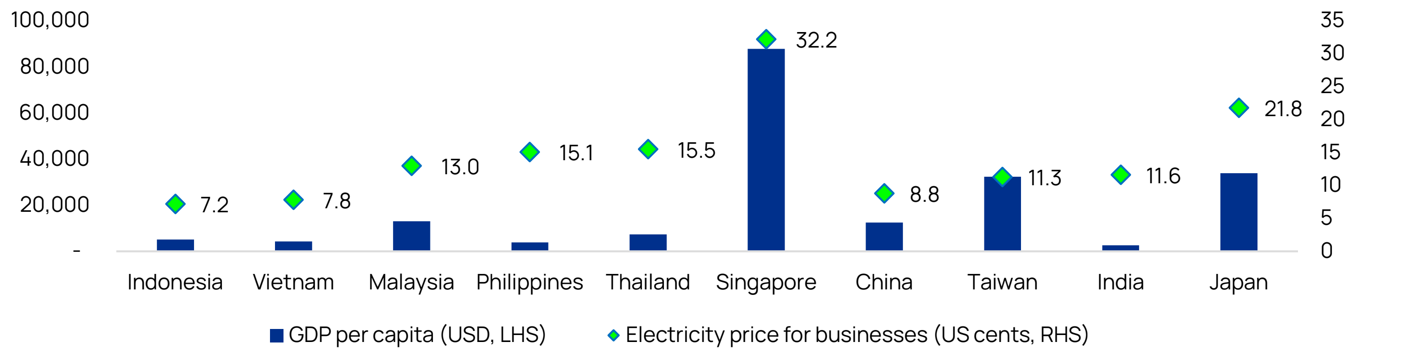
Source: MoIT, Vietcap compilation (*Prices are converted into US cents/kWh at the average VND/USD exchange rate for each year)

Figure 530: EVN's reported NPAT-MI (VND bn) and gain (loss) VND per kWh



Source: EVN, MoIT, Vietcap (*EVN's NPAT-MI after the production & business costs review by the MoIT)

Figure 531: Electricity prices for businesses in select countries



Source: IMF, EVN, Public media of mentioned countries, Vietcap (Electricity prices for businesses as of end-2023 for Vietnam and March 2023 for all other countries; GDP per capita data as of 2023)

Power demand for data centers, EVs, and semiconductor industries

We estimate Vietnam's data center industry to require an estimated 1.9 billion kWh, accounting for approximately 0.8% of national electricity consumption in 2023. This estimate is based on a total IT load capacity of 145 MW and an average Power Usage Effectiveness (PUE) of

1.5, derived from disclosures by FPT Telecom, Viettel IDC, VNPT IDC, and CMC Telecom. With an anticipated 28% CAGR from 2022 to 2028, according to S&P Global Ratings and Bloomberg Intelligence, we project that the data center sector's power demand will reach approximately 6.6 billion kWh by 2028, representing 1.7% of total electricity consumption in Vietnam—more than doubling its proportion from 2023. This growth reflects the sector's rapid expansion, fueled by rising demand for digital and cloud-based services nationwide.

Figure 532: Data center power consumption in Vietnam

	FPT Telecom	Viettel IDC[1]	VNPT IDC	CMC Telecom	Total
Number of data centers	3	14	7	3	**27**
Power IT load per year (MW)	20	87	18	20	**145**
Power usage effectiveness (PUE)[2]			1.5		
Power consumption (million kWh)	263	1,143	239	263	**1,908**
Percentage of national power consumption	0.10%	0.45%	0.09%	0.10%	**0.8%**

Sources: EVN, Company disclosures, Vietcap compilations and estimates. [1]Viettel IDC's total internal and external facilities, six of which are commercialized; [2]Industry range in Vietnam.

We estimate Vietnam's electric vehicle (EV) charging demand to be 1.5 billion kWh, accounting for 0.6% of national power consumption in 2023. According to the Ministry of Transport (MoT), Vietnam had approximately 2.3 million electric motorcycles on the road at the end of 2023 and 50,000 electric cars, based on information from the MoT and Vinfast's sales report. Based on an average battery capacity of 3.5 kWh for electric motorcycles and 73 kWh for electric cars (aligned with the dominant models by VinFast), we estimate the total electricity demand for charging these vehicles per year to be 1.5 billion kWh. This figure is expected to increase alongside the growth of the EV sector in Vietnam.

Figure 533: Power consumption by EVs in Vietnam

Vehicle Type	Number of vehicles	Battery capacity (kWh)	Annual power consumption (million kWh)	Percentage of national power consumption
Electric Motorcycle	2,300,000	3.5	966	0.38%
Electric Car	50,000	73	527	0.21%
Total			**1,493**	**0.6%**

Source: Ministry of Transport, VinFast, EVN, Vietcap

Vietnam's entry into semiconductor manufacturing could drive national electricity demand higher. Semiconductor production is a power-intensive industry, as illustrated by TSMC, the world's leading semiconductor manufacturer, which used 16 billion kWh of electricity in 2020—equal to 6% of Taiwan's total power consumption that year. Similarly, in 2021, Samsung's semiconductor manufacturing in South Korea consumed 17 billion kWh, equivalent to 3% of the nation's power usage, or equivalent to 7% of Vietnam's total electricity consumption in 2023. Expanding into this sector will require substantial energy resources, highlighting the need for robust power infrastructure to support Vietnam's ambitions in semiconductor production.

Figure 534: Share of global semiconductor manufacturing capacity* by country, 2020

Taiwan	Korea	China	Japan	US	Europe	Other
22%	21%	15%	15%	12%	9%	6%

Source: EIA, Vietcap compilation (*Capacity is measured by the number of chips produced)

Renewable energy

We anticipate DPPA guidance to be released in H1 2025, accelerating investment into renewable power

The Government released Decree 80 in July 2024 on the Direct Power Purchase Agreement (DPPA) mechanism. The key points are as follows.

Applicable subjects: Large end-users including industrial parks (IPs) and manufacturing plants with monthly average consumption of **200,000 kWh and above**. Additionally, IPs could represent their customers as electricity retailers.

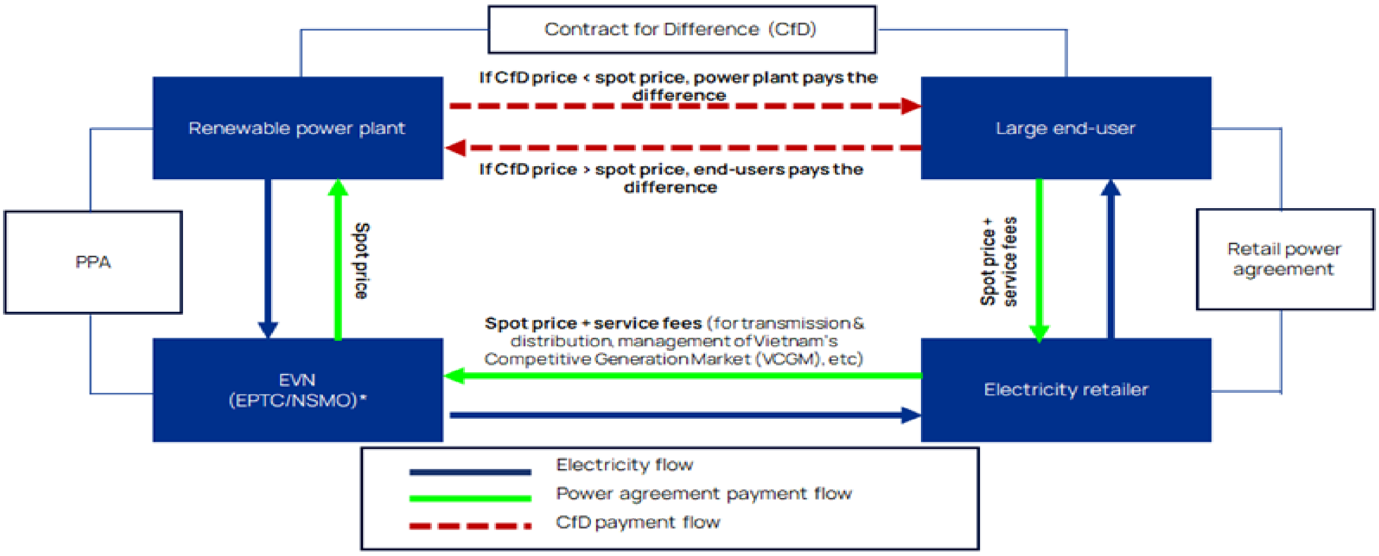
Case 1: Off-grid DPPA:

- Renewable power plants include solar, wind, small hydropower, biomass, geothermal, wave energy, and tidal energy.
- Renewable power plants sell electricity directly to large end-users through their transmission infrastructure. If renewable power plants sell additional volume (beyond their internal production), their selling price must adhere to EVN's retail price.

Case 2: Grid-connected, synthetic DPPA

- Applies to wind and solar power plants with a capacity of **10 MW and above**.
- We note that EPTC/EVN will need to develop a legal framework for calculating **annual service charges**, scheduled to be announced by **December 15, 2024**. End-users will pay service fees covering transmission, distribution, and management of the competitive generation market, among other services.
- Renewable power plants enter a forward contract, called a **contract for difference (CfD)** with end-users at a price and volume agreed upon by the parties ("CfD price and volume"). At the same time, renewable power plants secure a PPA with EPTC to sell electricity in Vietnam's competitive generation market (VCGM) at the spot price.
    - If the CfD price is higher than the spot price, end-users will make up for the difference based on the actual volume consumed, up to the plant's output. For consumption volume exceeding the renewables plant's output, end-users will be charged EVN's retail price.
    - If the CfD price is lower than the spot price, renewable power plants will make up for the difference based on the actual volume consumed by end-users, up to the plant's output. For consumption volume exceeding the renewables plant's output, end-users will be charged EVN's retail price.
- Therefore, **the effective price** to large end-users under this DPPA mechanism is the CfD price + service fees, while the effective price to renewable power plants is the CfD price.

Figure 535: Draft DPPA mechanism, case 2



Source: MoIT, Vietcap (*EPTC: EVN's Power Trading Corporation, NSMO: National System and Market Operation)

We expect the guidance of the DPPA to be released in H1 2025, providing sufficient details to make investments into renewable power again. DPPA creates a win-win scenario, fostering renewable energy investments while supporting end-users in achieving cost stability and sustainability targets.

For renewable power plants:

- **Direct power sales:** The DPPA allows these plants to sell electricity directly to end-users at mutually agreed prices, shielding them from delays and fluctuations in government-set pricing policies.
- **Potentially higher profit:** The effective price (CfD price) for renewable power plants could exceed government-issued rates. If the sum of the CfD price and service fees is lower than the prevailing retail electricity price for businesses, large end-users still benefit from DPPA while renewable plants gain higher earnings.
- **Enhanced financing opportunities:** Securing agreements with reputable large end-users can improve the bankability of renewable projects, facilitating easier access to financing with potentially better terms.

For end-users:

- **Price stability**: The DPPA enables users to lock in a CfD price — the primary component of their electricity cost — providing predictability and shielding them from market volatility.
- **Sustainability goals:** Access to clean energy supports manufacturers' efforts to reduce greenhouse gas emissions and aligns with compliance requirements like the EU's Carbon Border Adjustment Mechanism (CBAM) and similar policies.

One challenge for DPPA implementation is the current power transmission network's overload, which may hinder new capacities from connecting to the grid, particularly due to the concentration of wind and solar power development in the central region. However, the Amended Electricity Law further specifies the privatization of transmission lines at 220kV and below, potentially accelerating grid construction compared to EVN-led investments.

We expect a new pricing mechanism for renewable power in H2 2025

Vietnam's renewable power sector has faced short-term challenges in 2022-2023, primarily due to the lack of a new pricing mechanism. The country experienced exponential solar and wind power capacity growth, surpassing 20,600 MW by 2021, driven by favorable FiT policies from 2017-2021. However, post-expiration (December 2020 for solar, October 2021 for wind), there were minimal capacity additions.

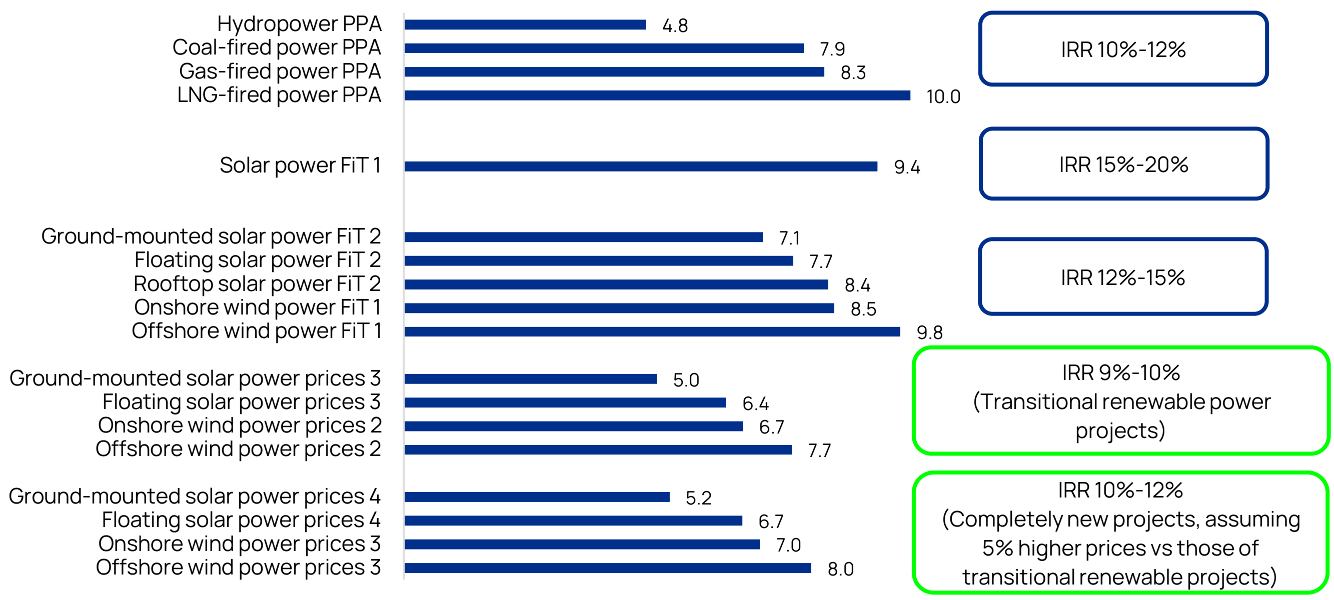
Transitional renewable power plants:

- In January 2023, the MoIT issued ceiling prices for transitional renewable power plants, which were 17%-29% lower compared to the previous favorable FiTs. There are 85 transitional renewable power plants with a total capacity of 4,736 MW. Nearly half of this capacity has finished construction but missed the FiT deadlines, while the remainder is still under development.
- By October 2024, 1,785 MW of capacity was connected to the national grid at temporary prices, set at 50% of the ceiling prices, leaving 2,951 MW (40 MW solar, 2,911 MW wind) unconnected to the national grid. These rates, proposed by EVN, are interim until official prices are agreed upon. Commercial operations for transitional renewable plants face delays mainly due to complex paperwork.

Although the Implementation of PDP VIII was released in April 2024, we believe a significant recovery will only materialize after the introduction of a new pricing mechanism, in addition to the anticipated capacity expansion driven by the DPPA mechanism. We currently expect DPPA guidance to be approved in H1 2025, followed by the rollout of a new pricing mechanism in H2 2025. The DPPA framework eliminates financial risks for EVN, as prices are directly settled between end-users and power plants without EVN's commitment to purchasing.

We anticipate higher new ceiling prices for renewable power in 2025 from the MoIT, incentivizing investors beyond transitional plant rates. With a projected 5% increase over transitional project prices, we estimate project IRRs at ~10%-12%, matching traditional power sources' returns (including medium and large-scale hydropower and thermal plants).

Figure 536: Contracted Power Purchase Agreement (PPA) prices of traditional power vs FiT and Vietcap's assumptions for new prices for renewable energy (US cents/kWh)



Source: MoIT, Vietcap

Approved rooftop solar self-production and self-consumption decree to encourage investment in small projects

The Government issued Decree No. 135/2024/ND-CP, effective from October 22, 2024, outlining mechanisms and policies to encourage the development of rooftop solar power (RTS) for self-production and self-consumption (SPSC) on rooftops of residential properties and business facilities (including industrial parks). This decree outlines key points as follows:

1. Applicable subjects: Organizations and individuals produce to supply only their demand.

2. There are two main cases:

Case 1: Off-grid installations

Systems not connected to the national grid are exempt from requiring a power operation license and are not subject to any limitations on installation capacity.

Case 2: On-grid installations (connected to the national grid)

+ Below 100kW: These installations are also exempt from requiring a power operation license and are not subject to capacity limits. The excess volume can be sold to the national grid, capped at 20% of the actual installed capacity.

+ 100kW to less than 1,000kW: These installations must be reported to local regulatory authorities for capacity monitoring, in accordance with regulations. The percentage for selling excess volume is not specified.

+ 1,000kW and above: These systems require a power operation license and must adhere to specific procedures, with a limited capacity addition of around 2,600MW (as outlined in the PDP VIII Execution Plan). However, we expect this capacity limit to increase in the upcoming amended PDP VIII Plan due to slower-than-expected additional capacity development nationwide. The percentage for selling excess volume is not specified.

3. Price: Per our understanding, the selling price for the excess volume will be based on the average spot market price (SMP) from the previous year, as determined by EVN and the National System and Market Operator (NSMO). This might be 44% lower than the previous FiT.

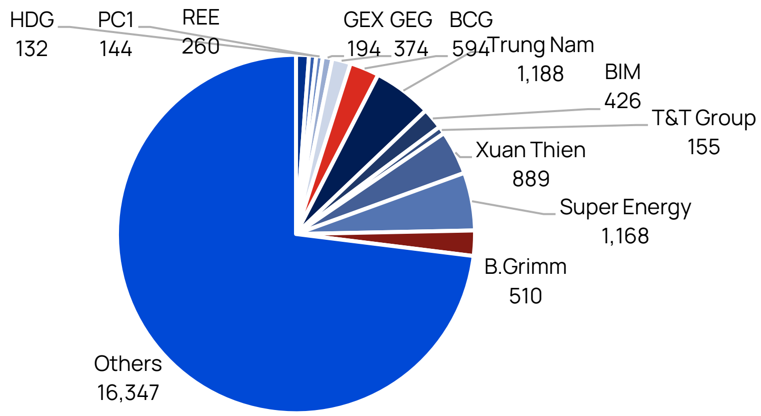
4. Implications:

- We believe this will partly help to relieve power shortage risks for Vietnam during the 2025-2030F period. In addition, this will have a positive impact on stocks, including PC1 and BCG, in the medium term, as contractors. Regarding BCG, it claimed to develop 30MW in 2024 for several clients, including MWG. The company expects to develop ~50MW p.a. in the coming years with the new government decree.
- However, we believe the significant investment back into RTS only occurs through the release of guidance on implementing the DPPA in H1 2025, per our expectation.

Renewable power capacity expansion outlook of power companies

Vietnam's renewable power industry is fragmented, with most companies coming from the private sector. The two biggest domestic players are Trung Nam Group and Xuan Thien Group with respective operational solar and wind power capacity of 1,188 MW and 889 MW at end-2023. Notable foreign investors include Super Energy (1,168 MW) and B.Grimm (510 MW), both from Thailand.

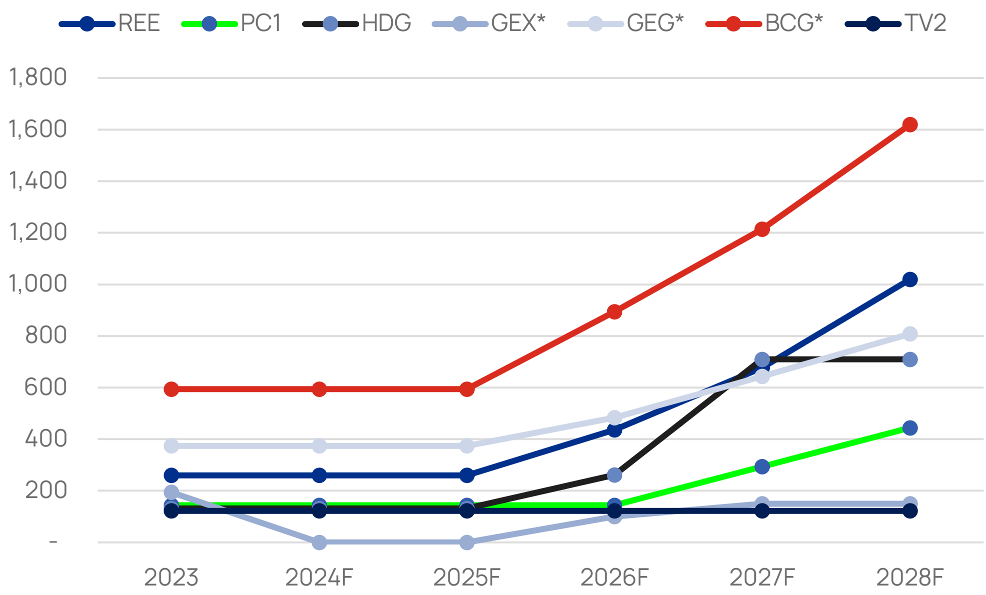
Figure 537: Operating solar and wind power capacity of select companies at end-2023, MW



Source: Companies shown, Vietcap

Most companies under our coverage aim to significantly expand their renewable power capacity, primarily focusing on wind power, through self-development, M&A, and strategic partnerships. For instance, we project REE and 0HDG to add approximately 750 MW and 600 MW, respectively, of solar and wind power capacity during 2024-2028F. REE, HDG, and PC1 adopt a build-to-operate strategy, while GEX pursues a build-to-sell approach.

Figure 538: Wind & solar power capacity expansion outlook of select power companies (MW)



Source: Companies shown, Vietcap forecasts (* Based on companies' guidance and have not been incorporated in our projections)

Amended Electricity Law establishes a clearer legal framework for offshore wind development

Current situation: Vietnam's offshore wind power industry is in its infancy, with no current operating capacity or established local supply chain. Up to the date of this report, the country does have a handful of near-shore wind farms, such as GEG's Tan Phu Dong 2 (50 MW, total capex of VND2.2tn, commercial operation in late 2021), VPL 1 (30 MW, total capex of VND1.3tn, commercial operation in late 2021), and Tan Phu Dong 1 (100 MW, total capex of VND4.5tn, commercial operation in mid-2023). In addition, PetroVietnam Technical Services (HNX: PVS) –

the only Vietnamese provider of technical services for the oil & gas industry – has recently joined the offshore wind mechanical & construction (M&C) field, undertaking construction of tower foundations/jackets and offshore substations for four offshore wind power projects in Taiwan and Poland.

Potential: Vietnam's PDP VIII highlights 600 GW of offshore wind potential, the largest in Southeast Asia. Targets: 6 GW by 2030 and 91.5 GW by 2050. It also promotes unlimited offshore wind development for green hydrogen production for domestic use and export.

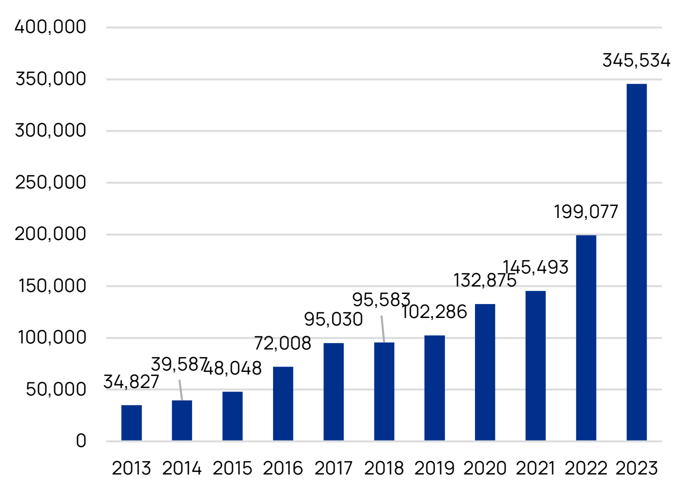
Potential investors: Many investors are drawn to Vietnam's offshore wind potential. Copenhagen Infrastructure Partners (CIP) is developing the 3.5 GW La Gan project (USD10.5bn), while Enterprise Energy (EE) is advancing the 3.4 GW Thang Long project (USD11.9bn), both in Binh Thuan Province. At COP28, these two companies reaffirmed their commitment and called for clearer government policies.

Challenges: The lack of clear laws and policies has driven recent withdrawals from Vietnam's offshore wind sector, including Ørsted, which had previously signed a 2021 MOU with T&T Group to develop 10 GW of capacity (USD30bn capex). Similarly, Equinor and Enel exited in 2024, citing regulatory challenges.
On November 30, 2024, the National Assembly approved the Amended Electricity Law (AEL), introducing the following framework for offshore wind to attract investment:

- The AEL establishes a minimum contracted volume mechanism, ensuring financing schemes and adequate IRR.
- State-owned enterprises (SOEs) are assigned by the Government to conduct surveys. Other cases, including private and foreign investors, are subject to Government approval.
- Foreign investment participation: Allows foreign investors to contribute capital and transfer shares, subject to approval from the Ministry of Foreign Affairs, the Ministry of National Defense, and the Ministry of Public Security, and other assigned Ministries.

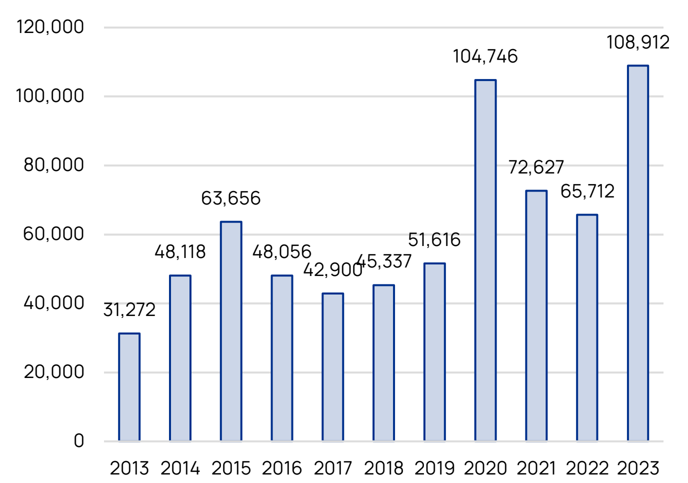
Global solar and wind power capacity to continue increasing in 2023

Figure 539: Global additional solar PV capacity, MW



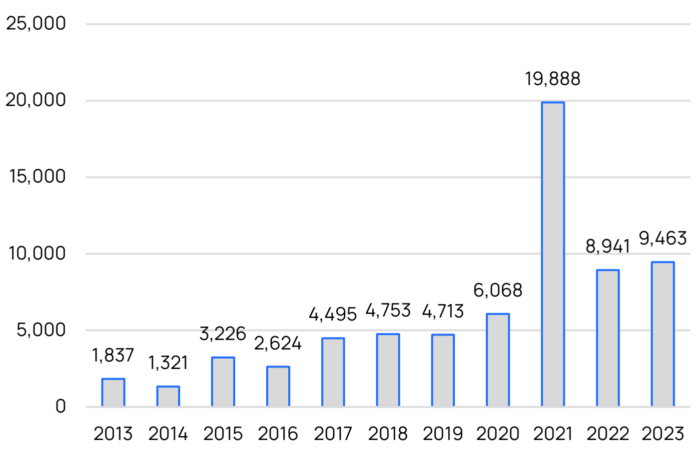
Source: IRENA (2024), Vietcap

Figure 540: Global additional onshore wind capacity*, MW



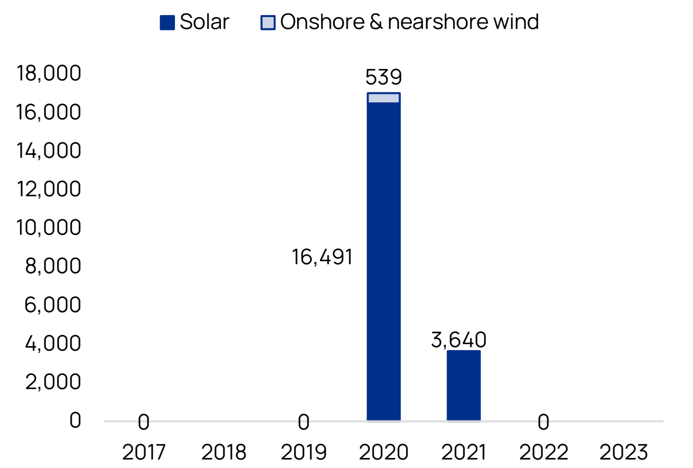
Source: IRENA (2024), Vietcap (* 2020's peak was mainly driven by a 66% contribution from China as 2020 was the last year of the FiT policy for onshore wind in China)

Figure 541: Global additional offshore wind power capacity*, MW



Source: IRENA (2024), Vietcap (*87% of the 20 GW offshore wind power capacity added globally in 2021 was from China as FiTs for offshore wind power were completely phased out from 2022)

Figure 542: Vietnam's additional solar PV and wind power capacity, MW



Source: EVN, Vietcap

In 2023, global solar PV capacity grew by 346 GW (+74% YoY), reaching 1,412 GW—10x 2013 levels—driven by the Government's support (e.g., FiT schemes) and falling costs. Asia, led by China, accounted for 238 GW (69%) of new installations.

The global wind industry also achieved record growth, with onshore/offshore additional capacities rising 66%/6% YoY. However, high financing costs, especially outside China, remain a challenge. A 1% rise in WACC increases offshore wind CAPEX by ~8%, exacerbated by rising interest rates (e.g., SOFR at 5.4% in May 2024). However, with the ongoing Fed rate cuts, financing costs are expected to decrease, fostering a more supportive environment for investments.

Global wind outlook: In its 2024 report, GWEC Market Intelligence raised its 2024-2028 additional global wind capacity forecast by 16% to 158 GW p.a. (vs 136GW in its 2023 report), driven by stronger outlooks in China and Europe. Onshore wind is projected to grow at a 6.6% CAGR (130 GW annual additions), while offshore wind is expected to triple by 2028, with a 28% CAGR over the next five years.

Vietnam's renewable energy growth has stalled since the end of FiT policies (solar: Dec 2020, wind: Oct 2021). A new growth cycle is expected with the release of DPPA guidance or a new pricing mechanism, anticipated in H1/H2 2025.

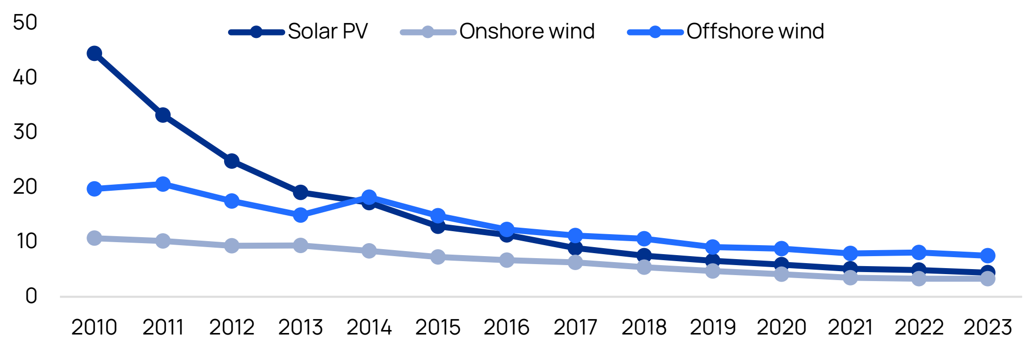
LCOE continues declining across solar, onshore, and offshore wind power

In 2010-2023, global solar and wind power experienced remarkable cost reductions. According to IRENA, the global weighted average levelized cost of energy (LCOE) declined the most for photovoltaic solar (solar PV) by 90% between 2010 and 2023, followed by onshore wind and offshore wind power by 70% and 63%, respectively.

The LCOE of a given project is the ratio of its lifetime costs to the amount of electricity generated over the project's life cycle, both of which are discounted to a common year using the project's discount rate. The total costs of a project include project development costs, equipment, civil engineering, installation, grid connection, operations & maintenance (O&M), and financing. Additionally, the lifetime electricity generation of a project is determined by its capacity factor (or utilization rate), which in turn is affected by factors such as the project's siting (solar/wind resources at the site), technology improvements, and the quality of engineering design.

$$LCOE = \frac{PV\ of\ lifetime\ costs}{PV\ of\ lifetime\ electricity\ generation}$$

Figure 543: Global weighted average LCOE of solar PV, onshore wind, and offshore wind power (US cents/kWh)



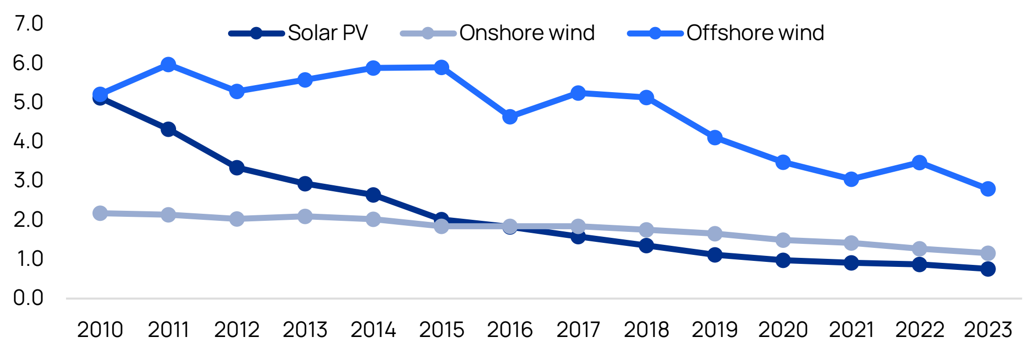
Source: IRENA, Vietcap

LCOE declined YoY in 2023 across renewable power sources: In 2023, solar PV saw a 12% YoY decline in LCOE, driven by eased supply chain constraints and reduced commodity price inflation, alongside a drop in total installed costs across major markets. Offshore wind experienced a 7% reduction in the global weighted average cost of electricity for new projects. Onshore wind also recorded a 3% YoY decline in LCOE during the same period.

According to IRENA, Vietnam's LCOE for solar PV and onshore wind has significantly decreased in recent years. Solar PV's LCOE in Vietnam fell by 38% from 2019 to 2021 to 4.6 US cents/kWh. We expect Vietnam's renewable LCOE to continue aligning with the global downward trend in renewable energy costs.

Investment costs for renewable energy to continue declining globally

Figure 544: Global capacity-weighted average total installed cost of solar PV, onshore wind, and offshore wind power (USD mn/MW)



Source: IRENA, Vietcap

The installed costs of solar PV and onshore wind have consistently declined over the past decade, while offshore wind costs have fluctuated. Between 2010 and 2023, the global weighted average cost of onshore wind fell 49%, from USD2.3mn/MW to USD1.2mn/MW, including a 12% YoY drop in 2023, driven by lower turbine prices and balance-of-plant costs. Solar PV projects reached USD 0.76mn/MW in 2023, 17% lower YoY and 86% below the 2010 levels. Offshore wind costs decreased to USD2.8mn/MW (-19% YoY) in 2023.

In Vietnam, onshore wind costs dropped 36% YoY to USD 1.65mn/MW in 2021 but rose 5% YoY to USD 1.72mn/MW in 2022 (56% higher than China's).

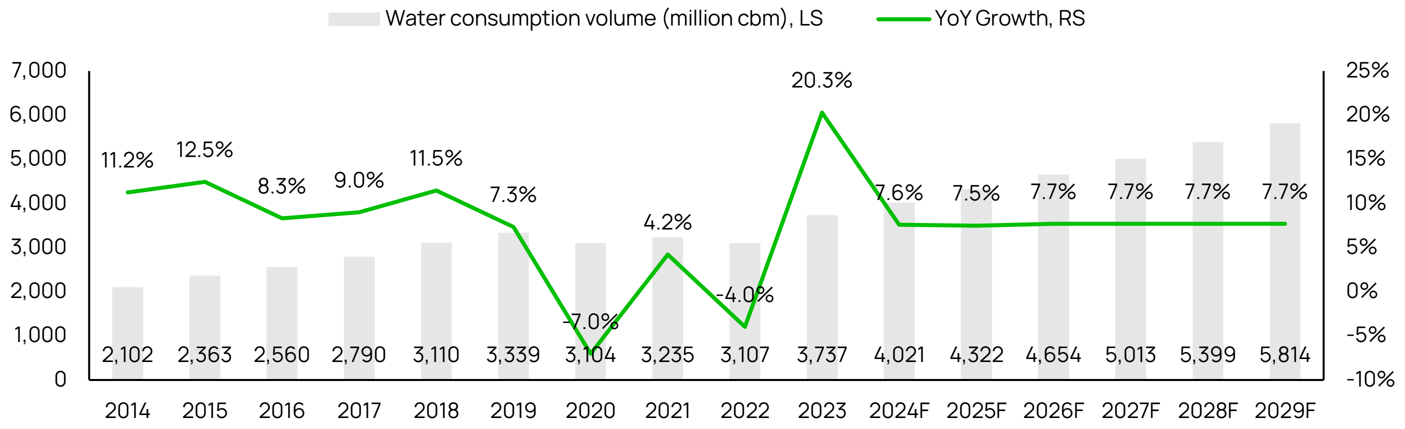
Bright outlook for clean water in Vietnam

Vietnam's water demand outlook

Vietnam's water consumption grew at a CAGR of 7.1% in 2013-2023, aligned with a 6.0% CAGR in real GDP growth.

We expect Vietnam's water consumption to grow by 7.5%-7.6% p.a. in 2024-2029F, based on our real GDP growth assumption of 6.9%/7.2%/7.5%/7.5% in 2024/25/26/27F, and assumptions for Vietnam's annual GDP growth rate at 7.5-8.5% in 2028-2029F (based on the 15th National Assembly meeting's minimum target). Key support includes a low piped-water penetration rate, favorable demographic, and the strong expansion of the industrial sector.

Figure 545: Vietnam's water demand in 2014-2029F



Source: General Statistics Office of Vietnam (GSO), Vietcap

Water tariff mechanism

According to Decree 117/2007/ND-CP, issued July 11, 2007, water rates for end-users in a province must be approved or determined by provincial authorities. These tariffs also need to fall within the price range that the MoF has set. Wholesale and retail water supply firms should come to an agreement on wholesale clean water prices. In the event of a dispute, either party (or both parties) may request the intervention of provincial authorities. Additionally, Circular 44/2021/TT-BTC, dated June 18, 2022, which outlines the guiding principles, procedures, and legal frameworks for establishing clean water rates, was put into effect by the Ministry of Finance. According to this circular, each province shall have its own water tariff, which must be approved by provincial authorities and fall within the regulated range shown in **Figure 546**.

Figure 546: Regulated tariff range for clean water, including VAT

VND/cbm	Minimum	Maximum
Special municipalities and Tier 1 cities	3,500	18,000
Tier 2, 3, 4, & 5 cities	3,000	15,000
Rural areas	2,000	11,000

Source: Circular 44/2021/TT-BTC, Vietcap

We understand that the water tariff is set based on the unit cost of producing clean water plus a predetermined return, as shown below (Circular 44/2021):

$$\text{Cost per cbm} = \frac{\text{Material cost} + \text{Labor cost} + \text{Depreciation cost} + \text{SG\&A expense} + \text{Financial expense} + \text{Safety fee} - \text{Non water revenue}}{\text{Total sales volume (*)}}$$

In which:

(*): Total production volume minus water loss. According to the circular, a maximum water loss ratio of 20% shall be included in the water tariff calculation. In 2025, a maximum water loss ratio of 15% shall be included in water tariff calculations unless otherwise determined by the Prime Minister.

The water tariff is then regulated by the formula below:

Water tariff (VND per cbm) = (Cost per cbm + P) * Hi

P: Regulated profit, which is regulated to range from VND360 to VND1,500 per cbm.

Hi: Coefficient, which is subject to approval by provincial authorities. Hi = 1 for wholesale clients.

Figure 547: Water tariffs in Binh Duong Province vs other provinces/municipalities in 2023

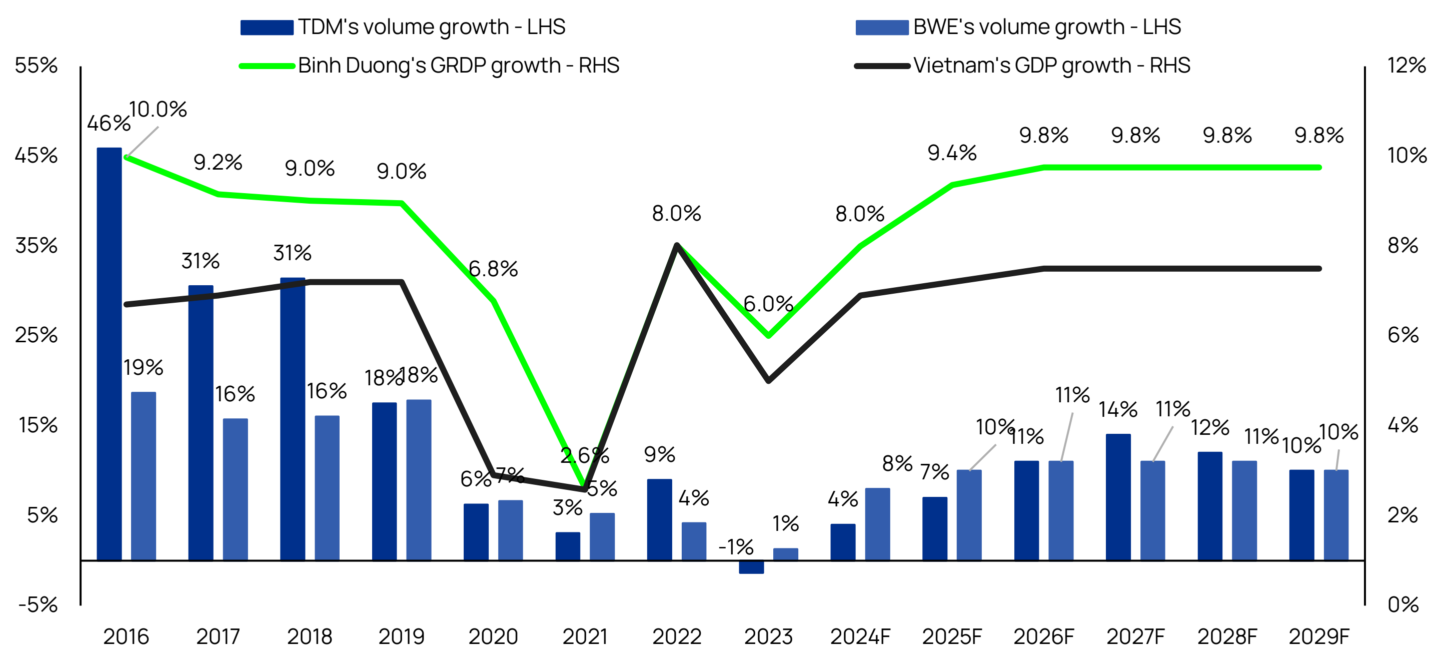
VND/cbm	Binh Duong	Binh Phuoc	Ba Ria – Vung Tau	Dong Nai	HCMC	Hanoi	Can Tho	Long An
Residential	10,500	8,047-14,240 on ladder scale basis	4,500-12,500 on ladder scale basis	5,800-12,800 on ladder scale basis	6,700-14,400 on ladder scale basis	7,500-24,000 on ladder scale basis	5,500-8,700 on ladder scale basis	9,196 (wholesale price)
Industrial (wholesale price)	13,100	14,660	11,500	10,300	12,100	15,000	8,900	12,702

Source: BWE, Vietcap. Note: Prices do not include VAT (5%) and environmental protection fee (10%). Water tariff in Hanoi was effective since July 1, 2023. We use the water tariff in Long An Water Supply Sewerage JSC (UPCoM: LAW) to represent the water tariff in Long An Province.

Binh Duong Province's water demand outlook

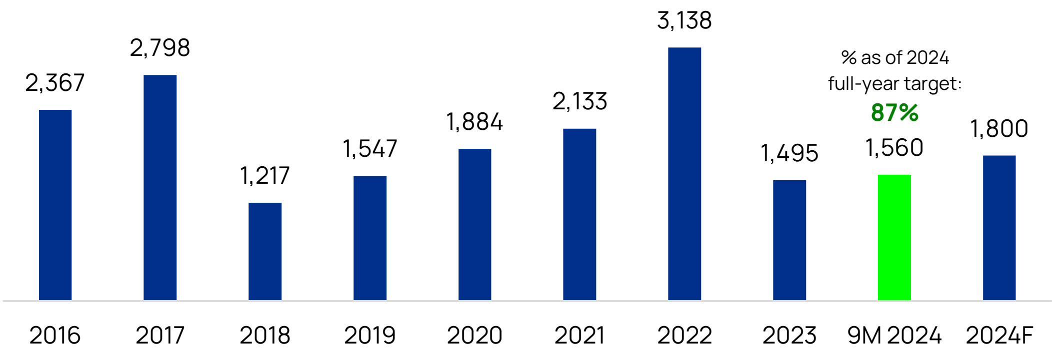
We project Binh Duong's water demand to grow at a CAGR of 10.4% from 2023-2029, outpacing Vietnam's overall water demand growth of 7.6% by 36%. This is driven by Binh Duong's strong FDI attraction and expanding industrial sector, as multiple new industrial parks, such as VSIP III (1,000 ha) and Cay Truong (1,000 ha), begin operations in 2022-2025. The province's approved master plan further supports sustained, double-digit growth in water supply, positioning Binh Duong for significant demand expansion over the long term.

Figure 548: Binh Duong's water demand vs GRDP



Source: BWE, TDM, Binh Duong provincial authorities, Vietcap (GDP growth rates shown for 2024/25/26F are from Vietcap's GDP growth forecasts; numbers for 2027-2030F are based on the MoIT's guidance)

Figure 549: Registered FDI in Binh Duong Province (USD mn)



Source: Ministry of Planning and Investment (MoPI), Vietcap

Binh Duong's master plan (approved on August 3, 2024), sets a strong foundation for double-digit water supply growth, supporting BWE and TDM's strategies.

- The approved master plan maintains the target of 10% GRDP growth from 2021-2030 (worst case scenario of 9.1%). Historically, Binh Duong Province has a track record of meeting its GRDP guidance (except during the COVID-19 pandemic and in 2023).
- Clean water consumption rates are set at 100%/80% for municipal/rural areas.
- Water production capacity target of 1.9 million cbm/day by 2030. This implies a 14% CAGR over 2023-2030, nearly 2.5 times the 2023 capacity.
- As a result, the master plan gives huge growth potential for both BWE and TDM's water generation capacity and explains both companies' current proactive investments in capacity expansion. By 2030, the companies' water supply plants in key regions will double their 2023 capacity, with the Bau Bang plant increasing nearly sixfold.

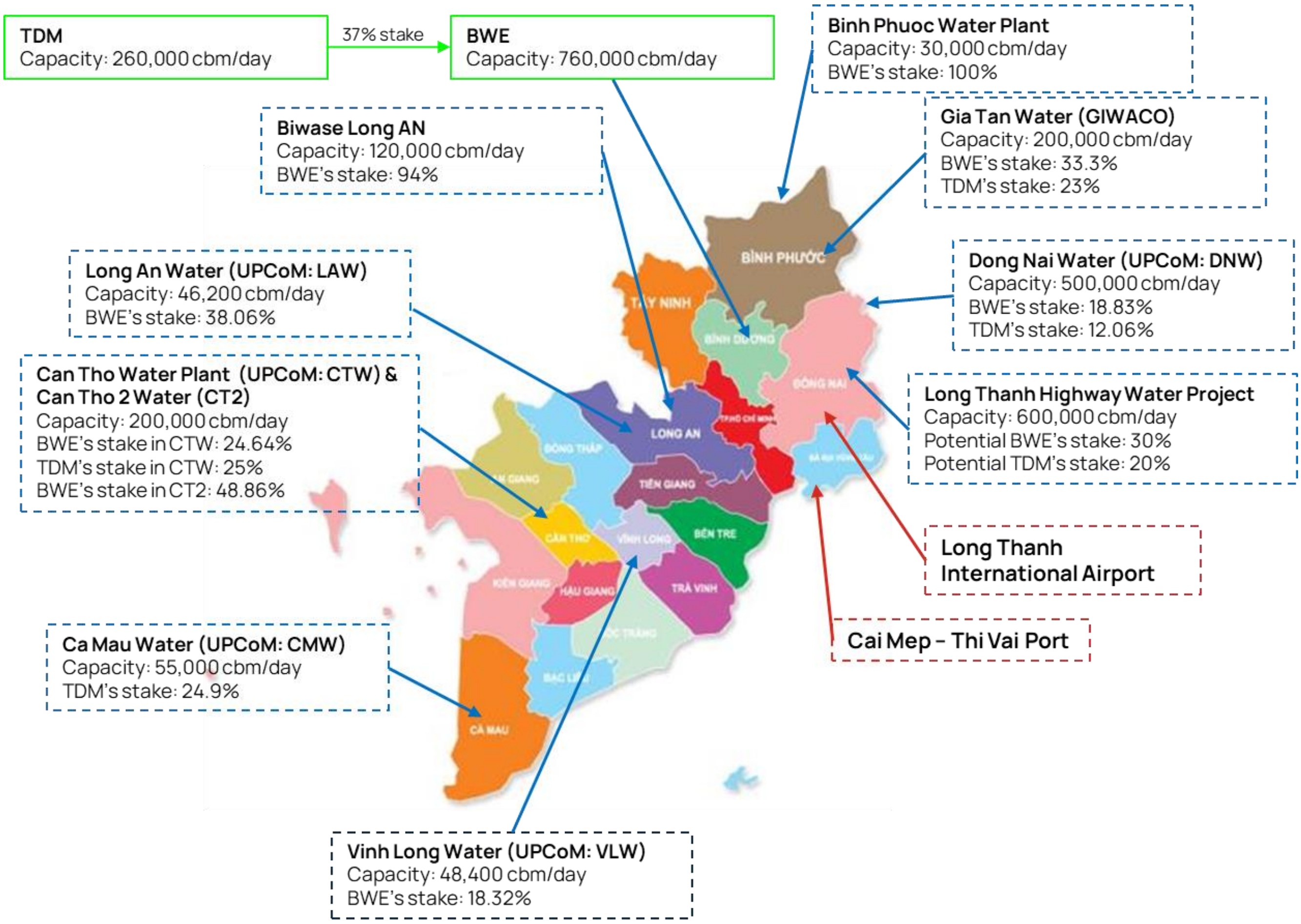
Figure 550: Water supply system in Binh Duong for the period of 2023-2030 (cbm/day)

Water Supply Area	2023	2030G (Approved in August 2024)	CAGR 2023-2030G	2030 (November 2023 Draft)	New vs old
Di An (in which BWE has 100,000 cbm/day and TDM has 200,000 cbm/day end 2023)	300,000	550,000	9.0%	550,000	0.0%
Tan Hiep Ward	250,000	500,000	10.4%	500,000	0.0%
Bau Bang District (TDM's location)	60,000	350,000	28.7%	220,000	59.1%
Other areas	150,000	495,000	18.6%	280,000	76.8%
Total	**760,000**	**1,895,000**	**13.9%**	**1,550,000**	**22.3%**

Source: BWE, TDM, Vietcap

BWE & TDM have expanded their water businesses beyond Binh Duong

Figure 551: Locations of BWE & TDM's projects and acquired water companies



Source: BWE, TDM, Vietcap. Note: BWE has a 41% stake in Quang Binh Water (UPCoM: NQB) and TDM has a 42.45% stake in DNP Quang Binh Water Infrastructure Investment JSC, which are not illustrated on the map.

More details of the outlook for the water industry in the provinces where BWE has a presence are available in our Water Sector Update, published November 8, 2024.

Vietcap

Stock recommendations for 2025

BUY – PC1 Group (HOSE: PC1): Transmission lines, real estate sales to boost 2025F earnings

We believe that PC1 will be one of the earliest beneficiaries of the implementation DPPA and PDP VIII, from investments in power transmission infrastructure from both the public and private sectors while waiting for the investments back into renewable power from 2025 onward. PC1 also has a positive market expansion outlook via signing renewable EPC contracts in the Philippines.

We project 2025F NPAT-MI to surge 84% YoY, driven by: (1) 45% YoY revenue growth in power construction, supported by a guided 2.8x increase in 500kV transmission line length during 2026–2030 compared to 2021–2025, along with an anticipated recovery in renewable investments following our expected DPPA rollout in H1 2025 and the introduction of a new pricing mechanism in H2 2025; (2) real estate revenue, absent in 2024F; and (3) no expected FX loss.

In our view, PC1's valuation looks attractive with a 2025F P/E of 10.2x, ~47% lower than its historical 4-year P/E and implied PEG of 0.1 based on a projected 2024-2026 EPS CAGR of 71%.

Downside risk: Lower-than-expected power construction revenue and margin in 2025F.

BUY – GELEX Group (HOSE: GEX): Core NPAT to double in 2025F

We are optimistic about GEX's long-term earnings growth outlook as we project a 2024-2029F core NPAT-MI CAGR of 19%. This is driven by GEE and VGC's core NPAT-MI CAGRs of 10% and 25% respectively, a higher contribution from Song Da Water (HSX: VCW) after doubling capacity in 2025F, and contributions from the ready-built-factory business from 2025F (via 49%-stake associate, Titan Corp.) and the Tran Nguyen Han hotel from 2026F.

We forecast 2025F reported NPAT-MI to drop by 37% YoY to VND735bn, as 2024F divestment gains of VND1.1tn will not recur. However, we forecast core NPAT to double to VND1.1tn due to (1) 14% YoY growth in electrical equipment revenue despite a high base in 2024, (2) 26% YoY growth in IP revenue (contribution from Thuan Thanh), and (3) lower interest expenses.

GEX's 2025F PER of 22.8x seems high but reflects a PEG of 0.5, based on the 2024-29F core EPS CAGR.

Upside catalysts: Higher-than-expected profit from VGC/Titan Corp and contributions from further VGC IP and residential projects.

Downside risk: Securities investment losses.

BUY – Quang Ninh Thermal Power (UPCOM: QTP): Forecasts lowered while QTP remains attractive vs peers

QTP (a 16%-stake associate company of PPC) owns and operates two coal-fired power plants in Quang Ninh Province with a total capacity of 1,200 MW. These coal-fired power plants are young, with Quang Ninh 1 (2x300 MW, 14 years old) and Quang Ninh 2 (2x300 MW, 10 years old) both utilizing high-quality Chinese turbines. Due to its young coal-fired power plants, coupled with a sufficient coal supply from the largest coal mine in Vietnam in Quang Ninh Province, we believe QTP will benefit from high power capacity utilization in northern Vietnam.

We forecast 2025F NPAT-MI to grow 22% YoY, supported by (1) a 1% YoY increase in sales volume, (2) a projected 10% YoY wider spread between ASP and the average material cost due to an anticipated 8% YoY rise in sector CGM prices, and (3) reduced financial expenses, as QTP is expected to fully repay its total debt by 2024.

QTP's valuation looks attractive with (1) a 2025F PER of 7.7x, 54% lower compared to the 4Y median of our selected regional peers and (2) projected robust dividend yields (13-16%), supported by strong operating cashflows (estimated at VND1.5tn p.a.).

Upside potential: Lower-than-expected maintenance cost, FX loss compensation of ~VND600bn to be received over the next few years; SCIC's divestment; EVNGENCO1's IPO; moving to HOSE in the long term.

Downside risks: Higher-than-expected heat rate (coal consumption per kWh) and technical generator shutdowns.

BUY – Thu Dau Mot Water (HOSE: TDM): Earnings to surge in 2025

TDM is a private water supply company in Binh Duong Province with a designed capacity of 260,000 cbm/day.

We expect TDM to benefit from robust water demand growth in Binh Duong Province along with a favorable water tariff that is expected to increase 3% p.a. for the next five years starting on July 1, 2025. In addition, TDM has a 37% stake in Vietnam's second biggest water player, BWE, as well as an ample land bank to expand capacity. Over the long term, the company targets to expand its Di An plant's capacity from 200,000 cbm/day to 500,000 cbm/day with a secured land bank and increase its Bau Bang plant's capacity from 60,000 cbm/day to 160,000 cbm/day.

We forecast NPAT from water generation to grow 32% YoY in 2025, driven by a 3% higher water tariff from July 1, 2025, and sales volume growth of 7% YoY. We expect 2025F reported NPAT to surge 80% YoY mainly due to a 4x increase in financial income with BWE's cash dividend.

We view TDM's valuation as attractive, with respective 2025F parent and consolidated P/Es of 17.9x/9.5x (implied PEG of 0.5/0.3)

Upside potential: Sooner/higher-than-expected water tariff hikes.

Downside risks: Weaker-than-expected recovery of water demand.

OUTPERFORM – Ha Do Group (HOSE: HDG): Charm Villas sales to boost 2025F earnings

HDG is a play on Vietnam's real estate and green energy sectors with VND4.9tn of projected NPAT-MI from real estate handovers in 2025-2029F, and contributions from a substantial ~580 MW from new wind power projects entering commercial operation in 2026-2028F. HDG is a small, but reputable real estate developer with a 121-ha land bank. The company aims to quadruple its land bank. It also possesses a sizable renewable energy portfolio with highly profitable projects (project IRRs range from 10% to 30%).

We project 2025F NPAT-MI to grow 49% YoY, primarily driven by (1) 3.7x real estate earnings due to sales recognition of Charm Villas phase 3, and (2) 34% YoY energy segment earnings growth, primarily driven by strong hydropower.

HDG's valuation looks fair at a 2025F P/E of 12.1x vs its power peers' 4-year average P/E of 13.4x.

Upside catalysts: Legal risk removal for Hong Phong solar and new industrial park business (~450 ha).

OUTPERFORM – REE Corp (HOSE: REE): Hydro, real estate to drive earnings growth in 2025

REE remains one of our favorite stocks as it is a leader in Vietnam's green energy sector with strong financial capacity in a capital-intensive sector and profitable projects supported by REE's effective cost management. We are optimistic about REE's potential capacity expansion in Vietnam's promising renewable energy sector via rooftop solar & wind power as well as REE's aggressive target to double its power capacity in 2023-2028F vs our projected 72% increase.

We see a solid long-term outlook for REE with an 18% EPS CAGR for 2023-2026F, driven by 1) 16% growth in power capacity (162 MW of additional wind capacity) and rising hydropower earnings,

2) recovery in the M&E segment from 2023's low base, and 3) the E-town 6 building starting operations in Q3 2024.

REE's valuation looks undemanding with a 2025F P/E of 12.9x, 6% lower than its average one-year P/E of 13.7x. The upward rerating from the four-year average of 10.3x is due to 1) REE's shift to a pure renewable power generator (ongoing divestment from thermal power), and 2) the higher four-year average of regional renewable peers at 23.0x.

Upside catalysts: Potential of a VND240bn gain from selling held-for-trading securities (VIB) and an expected VND200bn provision write-back for the M&E segment.

Downside risk: Delay of new wind projects.

OUTPERFORM – BIWASE (HOSE: BWE): Strong volume growth to drive earnings growth

BWE is the second largest water distribution company in Vietnam and had a capacity of 760,000 cbm per day as of 2023. The company claimed to have a water loss ratio — or non-revenue water ratio (NRW) of 4.9% in 9M 2024, making it the third most efficient water plant in the Asia-Pacific region.

We are optimistic about BWE's growth outlook as a leading player in Vietnam's water sector due to the following reasons: (1) the company is poised to benefit from robust water demand growth in Binh Duong Province with our projected water sales volume growth of 10.4% CAGR in 2023-2029F; (2) BWE has a favorable water tariff in Binh Duong Province with an expected increase of 3% p.a. for the next five years starting on July 1, 2025; and (3) the company has a significant market share in the water industry in other provinces in Vietnam.

We forecast a 45% YoY surge in NPAT-MI to VND1.0tn in 2025, driven by 10% YoY water volume growth, a 3% water tariff hike mid-year, the nine-month impact of 20% higher residential waste tariffs, and lower financial expenses. These factors more than offset the projected ~35% decrease in NPAT for the trading & other segment. We forecast volume growth to accelerate to 11% in 2026-27F to boost continued bottom-line growth.

Upside potential: Sooner/higher-than-expected water tariff hikes.

Downside risks: Higher-than-expected forex loss, operating costs/depreciation expense.

OUTPERFORM – Pha Lai Thermal Power (HOSE: PPC): REE's continued divestment weighs on PPC's share price

PPC owns and operates the Pha Lai Thermal Power Plant, a coal-fired power plant in Vietnam with a total capacity of 1,040 MW. PPC also has stakes in two other power plants, Hai Duong Thermal Power Plant (HND – 1,200 MW) and Quang Ninh Thermal Power Plant (QTP – 1,200 MW), which are well-positioned to capture strong expected growth in electricity demand in northern Vietnam, driven by the fast-growing manufacturing sector.

We forecast 2025 NPAT-MI to double YoY supported by 14% sales volume growth, a 5% ASP increase, and a doubling of dividend income.

PPC's valuation looks attractive with (1) a 2025F PER of 5.8x, ~64% lower compared to the 4Y median of our selected regional peers, and (2) projected robust dividend yields of 9-14%. However, we believe REE will continue to reduce its stake in PPC, which weighs on PPC's share price.

Upside potential: Lower-than-expected coal price.

Downside risks: Technical generator issues, suspension for environmental pollution; lower-than-expected DPS from HND and QTP.

MARKET PERFORM – PetroVietnam Power (HOSE: POW): Strong earnings recovery despite start-up losses at NT 3 & 4

POW is the largest non-EVN electricity producer in Vietnam. We view POW as a solid play on growth in Vietnam's power consumption and structural transition to LNG with its upcoming Nhon Trach 3 & 4 LNG-fired power plants targeted to come online in mid-2025 and late 2025.

We project 2025F NPAT-MI to grow by 55% YoY, due to 31% YoY volume growth to 20.7bn kWh (8% lower vs the pre-COVID-19 levels, excluding contributions from Nhon Trach 3 & 4), +80% YoY NPAT growth from Ca Mau, a recovery at NT2, and VND700bn of insurance compensation.

POW's valuation looks full at a projected 2025F P/E of 14.6x.

Upside potential: A VND400bn payment from EVN for O&M expenses at the Ca Mau plant. **Downside risks:** FX losses/cost overruns/delays at Nhon Trach 3 & 4.

MARKET PERFORM – Nhon Trach 2 Thermal Power (HOSE: NT2): Earnings to recover in 2025 while valuation looks fair

NT2 is one of the most modern and efficient gas thermal power plants in Vietnam and has a gas consumption per unit of power produced that is ~3% lower than other plants.

We forecast 2025F reported NPAT-MI of VND329bn (+8x YoY), primarily driven by (1) 25% YoY sales volume growth, (2) a 3% higher price spread between ASP and gas input prices, and (3) a projected VND155bn of FX loss compensation.
We view NT2's valuation as fair at a 2025F PER of 18.2x vs the 4Y average median multiples of its single power plant peers of 16.3x.

Upside catalysts: Higher-than-expected 2025 volume, receipt of VND89bn of revenue from forest environmental service fees.

Downside risk: Lower-than-expected 2025F dividends.

Company names and tickers

Code	Company name
BCG	Bamboo Capital Group JSC
BWE	Binh Duong Water Environment JSC
GEG	Gia Lai Electricity
GEX	GELEX Group JSC
HDG	Ha Do Group
HND	Hai Phong Thermal Power JSC
NT2	PetroVietnam Nhon Trach 2 JSC
PC1	Power Construction No.1 JSC
POW	PetroVietnam Power JSC
PPC	Pha Lai Thermal Power JSC
QTP	Quang Ninh Thermal Power JSC
REE	Refrigeration Electrical Engineering Corporation JSC
TDM	Thu Dau Mot Water
TV2	Power Engineering Consulting JSC 2

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UNDERPERFORM	If the projected TSR is between -10% and -20%
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