SSI INSTITUTONAL RESEARCH & ADVISORY

VIETNAM STRATEGY NOTE 2019

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MACRO's 2018 REVIEW & 2019 OUTLOOK

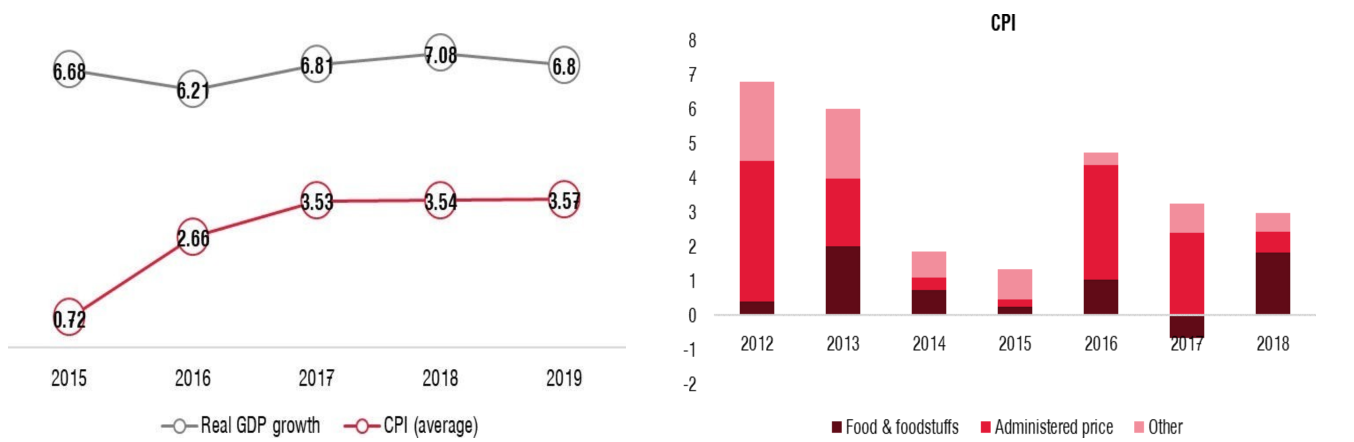
2018 review: Ended with a high note

Vietnam economy growth hit high in 2018. Q4 **GDP growth** is extremely high, at 7.31% YoY. Growth drivers originated from manufacturing (+12.98%) and construction (+9.1%), and also from the agriculture sector.

For **retail sales**, nominal growth is 11.7% YoY, and real growth was similar to last year (9.4% vs 9.3%).
As for the **tourism** sector, Vietnam received 15.5 mil pax of international tourist arrivals, massive increase, at +20% YoY.

High growth remains to be associated with low **inflation.**

Vietnam GDP growth, CPI and CPI breakdown



Source: GSO, SSI Research

The improvement in manufacturing and the construction sector, tamer inflation (as CPI was lower in both Nov-Dec), resulted as key catalysts for growth.

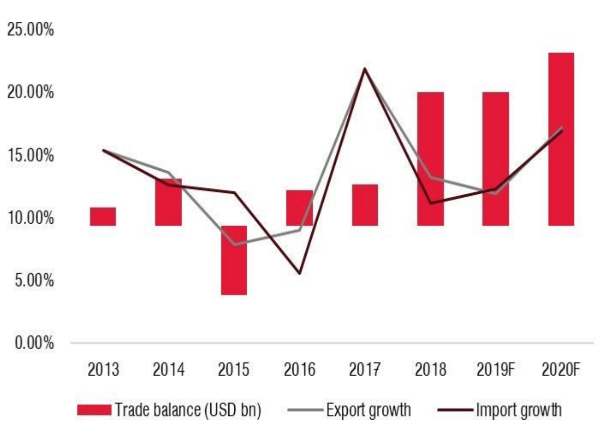
On **the investment** side, the private sector led the charge on growth (+18.5% YoY), followed by the FDI sector (+9.6%) and then the public sector (+3.9%). Please note hat in the breakdown, the public sector only includes 100% state owned enterprises, so there might be some other SOE investment counted in the private sector that comprises of part state-owned enterprises in the mix.

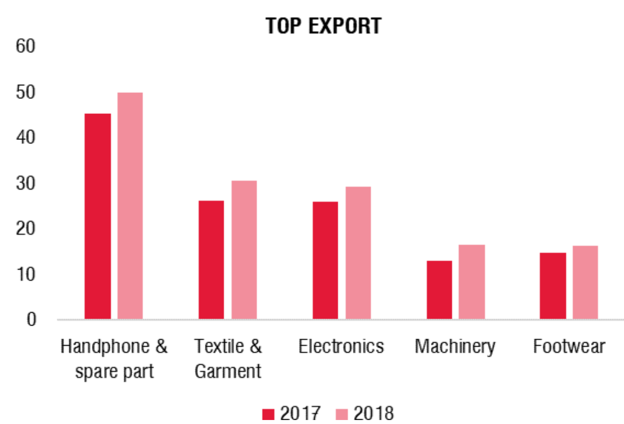
For **FDI** in particular, we saw impressive rebound for FDI into Vietnam during the final month of 2018. In this surprise upside report, newly registered FDI added $2.22 bn USD, and helped to pare the decrease of registered FDI in 2018 to about -13.83% YoY, totaling
$25.6 bn. Disbursed FDI came to approximately $2.6 bn in Dec 2018, leaping by +73% YoY and pushing the full year number to
$19.1 bn, a 9.1% gain from last year's results. With such relatively high registered foreign investment being maintained (1.85x of annual disbursement), it could ensure further growth in terms of FDI implementation in 2019.

For **FII**, 2018 figures are also impressive at $9.89 bn, which also leaped nearly +60% YoY. So all together, registered foreign investment (FDI plus FII) was about $35.46 bn. This was just 1.2% lower than 2017, a bumper crop year for investment into Vietnam.

On the monetary side, **M2** increased by 12.5% YoY (2017: 14.19%), and **credit growth** was 14% (2017: 18.1%). It did show that monetary policy is more on the tightening side, which started from 2H 2018 after growth is in line with expectation and global volatility is rising. On the fiscal side, a **budget deficit** was not in sight, but the full year balance might be reported as deficit, as normally carry- over to 2019 is allowed. Anyway we could still say that state budget is at a surprisingly healthy level by end of 2018. This is mostly owed to the government that spent less than expected (development investment was at 65.1% of the full year plan).

Vietnam trade data and top export





Source: Vietnam Customs

The most impressive factor, amongst other things, for Vietnam is on the trade front, **export** growth was 13.2% YoY ($243.5 bn), and **import** growth was 11.1% YoY ($236.7 bn), pushing the Vietnam trade balance to a **huge surplus of $6.8 bn**, a record high level. Beside decent export growth also seen in Machinery +28.2%; Camera +37.8%; Textile & garment +16.7% YoY, the key drivers for trade surplus come from (1) ***Strong net export of handphone*** (USD 33.21 bn in 2018 vs USD 28.84 bn in 2017), thanks to higher local content of mobile production: The number of factories in Vietnam listed in Apple supplier list increased from 16 in 2015 to 22 in 2018. On the other hand, localization rate of Samsung products jumped from 34% of total product value in 2014 to 57% in 2017 and (2) ***Import substitution effect,*** such as i) Production of Binh Son refineries (maintenance last year) and Nghi Son refineries (newly operated), which replaces imports of refined products. As a result, import of petroleum products reduced by 11.4% and ii) Formosa production, which supplies HRC input for local companies (thus replacing imports). Imports of steel reduced by 9.8% in volume in 2018, while export increased 33.1% YoY.

In short, high growth coupled with ensured macro stability (tamed inflation, strong local currency and relatively low credit growth) is the key summary for Vietnam economy. However, concerns are still on the global volatility (with potential trade war) and locally, the anti- corruption campaign which might result in slower approval for new property or infrastructure projects.

2019 Outlook: A bud in the mud

- **Vietnam's high growth trajectory might well extend into 2019**, thanks to new production capacity and stable FDI. In November, the National Assembly approved the plan for 2019 goals, with GDP growth at 6.6-6.8% YoY, CPI at about 4% on average, a

deficit at 3.6% GDP. The government target will be at the higher end of the National Assembly plan, as it wants to push ah

and reform to mark the completion of the 5 year plan 2016-2020).

Currently, the government is promoting the idea of "fast and sustainable growth". Inspiration might come from 2018, a year in which GDP growth clocked in at a sizzling 7.08%, CPI at 3.5%, and credit growth was just 14%. Other tracked metrics including current account surplus and currency performance were also solid.

We are without a concrete definition for what sustained fast growth means per se. However, when looking at historical data of Vietnam achieving decade-long 6%+ growth sprints, it dares one to imagine the prospect of 7% growth for a decade, resulting in GDP doubling within just a decade's time. It might be a bold idea, but there is regional historical precedent in countries like China, Japan, South Korea, Thailand, Hong Kong, and Singapore to justify making such a claim. For Vietnam, it's not a surprise to see the government is committed towards growth, as for decades they have benefited from a catch-up growth strategy.

With limited natural resources at this moment in time, the government has called for institutional reform, investment into infrastructure, and implementation of digital economy being things that are considered integral components to achieve consistently fast growth. For institutional reform, it's about creating an attractive business environment, promoting the potential of the private sector, and reforming SOEs. These implementations might be sooner than skeptics may think. Vietnam has made it clear that it intends to move forward with implementations of reform sometime in the foreseeable future, and has historically attracted investors with little appetite for political instability. Vietnam has also established itself as having a reputation as a critical manufacturing hub in the global supply chain, with favorable demographics of able, skilled young workers in a region where societies are becoming increasingly geriatric in countries such as China and Japan. While these statements from top political brass espousing a solid vision for the country is certainly a good thing to see, we might need to see further clarification of all on-going or future reforms to see if this ambition could transform from the theoretical realm to actual implementation.

Vietnam 2019 growth scenarios

No		Q1	Q2	Q3	Q4	1H	9M	20
	GDP growth	**6.93**	**6.7**	**7.03**	**6.63**	**6.8**	**6.89**	**6.**
1	**Agriculture**	**2.97**	**2.56**	**3.12**	**3.36**	**2.69**	**2.84**	**3**
2	**Industrial and construction**	**8.87**	**8.89**	**9.01**	**7.84**	**8.88**	**8.93**	**8.5**
2.1	Industrial	9.31	8.91	8.85	7.2	9.09	9	8.4
2.1	Mining	-	-	-	-	-	-	-
2.1	Manufacturing	12.7	13.05	12.2	10.86	12.89	12.63	12.0
2.2	Construction	6.18	8.78	9.7	10.21	7.73	8.56	9.
3	**Service**	**6.57**	**6.88**	**6.85**	**6.92**	**6.74**	**6.78**	**6.8**

Source: Government resolution 01.2019

In the meantime, Vietnam has become **a highly preferred alternative location** where manufacturing conglomerates can diversify their production bases against the backdrop of the trade war of attrition currently ongoing between the US and China. Vietnam is seen as an attractive alternative for a production base, especially given the openness of the economy and its proximity to China.

Therefore, the manufacturing sector could maintain its current momentum, thanks to new production capacity and stable FDI inflow. Construction of infrastructure projects could also bring in support, starting in 2H 2019. There is potential room for growth in this segment if the public investment engine could fire back up after a long lull as Vietnam wraps up its 5-year cycle. This growth cycle is occurring just as there are ongoing domestic reforms afoot within the country. These reforms are not just limited to SOEs sector or the banking system, but also are aimed towards more access to global markets through a number of new free trade agreements, such as the CPTPP or EU-Vietnam FTA, which should bring in additional waves of foreign investment.

- For **inflation,** we believe that pressure is relatively tranquil and along schedule. This relatively lower pressure on inflation in turn paves the way for an acceleration in subsidies removal upon electricity and other sectors. There is a looming 5-7% hike in costs for electricity, possibly taking effect as early as January 2019, as well as price hikes around the corner for such staple costs as domestic coal (Jan), healthcare (Jan), education (2H 2018), plus the imposition of the new environmental tax, also effective starting January 2019. Food & foodstuff prices are already at a high base in 2018, which might translate to a buffer to keep inflation in check. This is worth remembering, as foodstuffs account for nearly 40% of the CPI basket in total.

  Anyways, the rebound on the commodities price, the El Nino impact on agriculture products, and less bang for the buck with VND would be key risks to our assumptions. The National Assembly recently reminded the government that in the 2016-2020 plan, the inflation target for 2020 is "lower than 3%". The stance from the National Assembly essentially sets the tone from the top, one of inflation control, and a stance that will likely continue to remain a national priority for years to come.

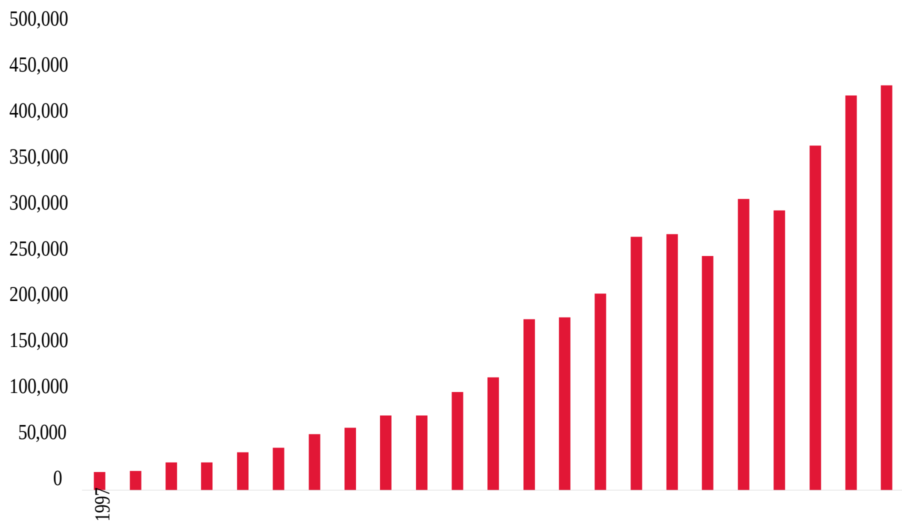
- With less pressure on inflation in the short-term, **monetary policy could see a slight dovish-tinged tightening** which means policy- makers could switch to easing if needed to support growth, which might be feasible with a tamer inflation print. While credit growth limit for 2019 is only 14%, signalling tightening stance, but flexibility is still there if weaker growth being witnessed . Meanwhile, **fiscal policy might be accommodative** given budget surplus in 2018, to allow fuel for public investment to focus on infrastructure projects.

- For **interest rates,** a precedent of a tightening monetary policy would lead to higher lending rates by about 30 to 50 bps in 2019. Inflation risk is not significant, but there is a dynamic of a rising cost of funds (to comply with Basel II and other requirements from the central bank). While we believe the current trend of shifting more towards retail lending (which have higher yields) will continue at most banks, we also expect the lending rate for retail borrowers to increase at a larger scale. This is especially the case for long- term loans such as mortgages, loan instruments of which often carry favorable fixed rates in the first 1-2 years before converting into floating and commercial rates in the following years. On the upside risk, improved recapitalization for the banking system could be a positive catalyst for the manifestation of more stable interest rates.

- As the USD might peak soon, **we believe that forex fundamentals for Vietnam are still alive and well**, with inflows from stable FDI disbursement, FII (on SOE divestment and IPOs, banking system recapitalization, and M&A in private sector), remittance, trade surplus, and other vectors that in aggregate helps to keep the balance of payment in surplus. So, the pressure on exchange rates might be less pronounced than it was in 2018. The X-factor is the trade war intensification, which can have a material impact on the CNY, and on VND indirectly.

- Relating to **public investment**, one of the wild cards for growth in 2018, most of the overhaul in regulation framework was cleared in late 2018 on high expectations of an overclocked boost in the public investment disbursement rate come 2019. We may not only see an increase from the previous 60-70% execution of the annual plan on average, but we may witness an attainment of 90% of the 2019 plan, plus carry-over from last year's undisbursed amount. However, political will is the potential fly in the ointment. While technically ample political will would be all that is needed to give disbursement a boost to these levels, compliance with investment disbursement is mired in complicated procedures. This breeds an over- cautious sentiment from local authorities, which could in turn discourage taking such a path, and derail the process of catching up on public investment disbursement schedules.

Vietnam development investment. Unit: VND bn



Source: CEIC, MoF

- **On the trade front**, Vietnam would be still able to post another trade surplus for 3 years in a row, based on:
  - ✓ Growth in manufactured exports (not just from mobile phone, but also from other electronics)
  - ✓ Improved value-added exports (not just limited to processing, but also with more developed supporting industries, and more build-up of integrated value chains)
  - ✓ Import substitution (steel, petroleum products)
  - ✓ Benefits from potential trade war/new FTAs (CPTPP, EVFTA, etc.)

On the other hand, protectionism, weaker global demand (not just for slower growth in general, but weaker demand for some important sector to Vietnam such as smartphone) could pose a big risk to the growth potential.

On SOE reform, we expect state-owned enterprise (SOE) IPOs and divestments to accelerate in 2019- 2020, a welcome change after a lull starting back in 2Q 2018 (due to weak market conditions, stricter regulations on valuation, and cautious sentiment due to the anti-corruption campaign). 2018 is a disappointing year for privatization. Regarding IPOs, the government ideally plans to equitize 127 SOEs during 2017-2020 (44 in 2018, 64 in 2019), but currently implementation of these equitizations is in actuality quite less than that (with only 24 by 2017 and 3 in 2018). Regarding divestment, the government planned 135 SOE divestments in 2017 (actual: 13) and 181 SOEs in 2018 (18 completed as of November). On listing, by mid-2017 there was then 747 unlisted SOEs. After a lot of efforts, there are still 667 unlisted SOEs as of Nov 2018.

On the positive side, the process for transferring SOEs to Commission for the Management of State Capital at Enterprises (CMSC) progressed at a more rapid clip recently. For a quick recap, CMSC will directly represent state ownership of 19 economic groups and state corporations (including state investment arm SCIC, which also directly represents state ownership in smaller SOEs), PetroVietnam, EVN, Petrolimex, Vinachem, VRG, Vinacomin, VNPT, MobiFone, Vinataba, Vietnam Airlines, Vinalines, VNR, VEC, ACV, Vinacafe, Vinafood I, Vinafood II, and Vinafor. It indeed looks to be that the transfer for this stage would be on time, and most required regulations (i.e. to form a government body to oversee the process, or to allow for book-building), are effective starting late

2018, so we believe it's just a matter of time to see the political will to come back to the fray, resulting in boosted demand from both local and foreign investors (including industrial buyers) for attractive names in hot sectors like retail, banking or industrials.

In short, we believe that Vietnam economy faces a mixed bag of issues in 2019, with more headwinds from global economy slowdown, rising protectionism and a tightening monetary policy. On the other hand, tamed inflation and stronger fiscal position could leave ample room for policy makers in case growth is not on the right track. Political will is there, as always, but implementation is always a risk in practice.

Vietnam economy in summary

	201	201	201	201	20	20	201	2019	202
GDP growth (%- 2010p)	5.2	5.4	5.9	6.6	6.	6.	7.0	6.	7
Agriculture (%)	2.6	2.6	3.4	2.4	1.	2	3.7	3.	3
Industry & Construction (%)	5.7	5.4	7.1	9.6	7.	8	8.8	8.	8
Construction (%)	3.2	5.4	7.0	10.8	10.	8	9.	8.	9
Manufacturing (%)	5.8	7.4	8.4	10.6	11.	14	12.9	12.	1
Service (%)	5.9	6.5	5.9	6.3	6.	7.	7.0	7.	7
Retail Sale (%)	16.0	12.6	10.6	9.5	10.	10.	11.	12.	1
Industrial Production Index	4.8	5.9	7.6	9.8	7.	9	10.	9.	1
CPI (average, % YoY)	9.2	6.6	4.0	0.7	2.	3.	3.5	3.5	3.
CPI (year-end, % YoY)	6.8	6.0	1.8	1.3	4.	2	2.9	3.6	2.
Exports (USD bn)	114.6	132.2	150.0	162.4	175.	213.	243.	269.6	307.
Imports (USD bn)	113.8	131.3	148.0	165.6	173.	211	236.	262.8	298.
Trade Balance (USD bn)	0.8	0.9	2.0	-	2.	2	6.	6.8	8.
% of Export	0.70	0.68	1.33	-	1.52	1.2	2.79	2.44	2.7
Exchange rate (USD/VND)	20,90	21,25	21,25	22,52	22,7	22,7	23,24	23,88	243
Current Account Balance (USD bn)	7.0 0	8.8 0	9.3 6	1.0 0	9. 60	4	9	7	9
Foreign reserve (USD bn)	25.4	26.0	34.3	28.4	36.	5	5	6	7
Foreign reserve/imports (weeks)	11.6	10.3	12.0	8.9	11.	12.	13.	12.3	12.
Credit growth (%)	8.9	12.5	14.0	17.2	18.	18	1	1	1
Deposit rate (VND -%)	8.0	8.0	6.0	6.0	6.	6	7	7.	7

Upcoming IPO list

Company Name	Sector	Market cap	IPO ratio	IPO size	Timeli
Mobifone	Telecom	4,581	30.00%	1,374	20
Agribank	Bank	3,436	30.00%	1,031	20
VNPT	Telecom	3,084	30.00%	925	20
SATRA	Retail	1,982	30.00%	595	20
Vinacomin	Mining	1,648	30.00%	494	20
Vinataba	Consumer	881	49.00%	432	20
VICEM	Construction Material	1,000	40.00%	400	20
RESCO	Real Estate	1,123	30.00%	337	20
Saigon Tourist	Hospitality	1,013	30.00%	304	20
GENCO 2	Utilities	1,804	13.00%	235	20
Ben Thanh Group	Real Estate	458	49.00%	224	20
Sawaco	Utilities	344	49.00%	168	20
GENCO 1	Utilities	1,263	13.00%	164	20
HUD	Real Estate	330	49.00%	162	20
TOTAL		22,948		**6,846**	

Upcoming divestment list

USD mil (price as of Dec 7th, 2018)	Market cap	Divestment ratio	Divestment size	Timeli
VNM	10,000	36%	3,600	20
ACV	7,563	30.40%	2,299	20
SAB	6,801	36%	2,448	20
VEA	2,154	88.50%	1,906	20
BHN	825	82%	677	20
PLX	3,036	24.90%	756	20
HVN	1,837	35.20%	647	20
DHG	474	43%	204	20
VGC	340	56.70%	193	20
TVN	279	93.90%	262	20
MBB	2,085	10%	208	20
DVN	159	65%	103	20
VGT	262	53.50%	140	20
TOTAL	35,815		**13,443**	

Source: GOVERnment plan, SSI Research estimates

VIETNAM EQUITY OUTLOOK & STRATEGY

2018 Review: Follow the local sentiments

- The Vietnam stock market has up to now been mainly driven by local investors, with this group comprising 84% of daily market trading in 2018. The market therefore is influenced by the whims and sentiment of local retailed investors, whose behavior could be extreme in a year with a penchant for trading amidst high degrees of volatility. It seems to retail investors that the rally was over when the currency became more vulnerable with a sudden trade war risk and the fact that interest rates already having bottomed out in Q2 further compounded the vulnerability issue of the currency.
- As local investors follow closely both the VND and the interest rate, it is worth zooming out to regional comparisons to better understand the real performance of the local currency for the year. VND outperformed regional peers in 2018, with only a ~2.4% depreciation thanks to higher-than-expected current account surplus and a tightened monetary policy. On the other hand, interest rates increased faster than our expectation, at 70-100 bps for lending rates and 50-70 bps for deposit rates by the end of 2018. Rising interest rates have molded investors' perspective to be more prudent in making investments in both the stock market and property market, and a risk-off mindset has dominated local investor sentiment. It's a wide contrast from when the market P/E was 15-16x, and when the 1-year deposit rate was 6.5% one year ago. Nowadays, market P/E has reduced to 12-13x, as 1-year deposit rates has increased to 8% (please refer to our current P/E chart for Vietnam market below). The average dividend yield of Vietnam stocks has been reduced from 6.8% in 2015 to 4.1% in 2018 and 3.9% in 2019. It also effected a shift in which more individually- held assets pivoted from stocks to corporate bonds, some of which are offered at rates 200 bps higher than 1-year bank deposits.
- While retail investors comprise the main driver of the market at current, they are also keen to watch closely what foreign institutional investors do. This is because foreign institutional investors end up having to buy the stock at a higher price than domestic investors are able to, hemmed in by Foreign Ownership Limits and two-tiered pricing for domestic vs. foreign investors. Investibility has been the key issue for foreign investors to further engage with the Vietnam market for a very long time. It is not only an obstacle for foreign investors, but it is also a key hurdle to address in order for the country to upgrade to emerging market status. Such an upgrade can take steps closer to be being achieved via the privatization of the SOE sector as well as through IPOs of large private companies. Privatization has been considered as a huge potential catalyst for the stock market during 2018, however such progress was unfortunately delayed throughout most of the year from the new regulations on valuation and the IPO/divestment process. While new regulations have been tightened to prevent any potential corruption, SOEs might find it difficult to implement. The relevant SOE management might need more motivation to proceed with the privatization process, especially when favorable timing for divestment like the Sabeco deal in December 2017 might not happen again. On the other hand, private deals in 2018 such as the TCB private placement ended up less than rosy for participating investors. All in all, the Vietnam market might need more time to improve its market access to foreign investors, transparency, and corporate governance in order to attain emerging market status. In this sense, privatization remains a strong catalyst, and a critical part of the investors' narrative, for the next 2 years.

While investors' sentiment has been deteriorated in 2018, both macro conditions and corporate earnings have recorded strong performance this year. The centerpiece highlight of 2018 macro outperformance was the stronger-than-expected trade surplus, which provided key support to the currency and allowed normal functioning of FX processes. More FDI in manufacturing has spelled out a healthier outlook for Vietnamese growth, as well as a key variable towards meaningful employment in the country. In 2018, Vietnam has two big FDI projects being registered in the property sector, including Smart City ($4.14 bn USD by Sumitomo Corp in Hanoi) and Laguna Lang Co ($1.12 bn USD by Laguna Singapore in Hue). Comparatively, the biggest manufacturing projects in 2018 ranged from only

$500 million to $1.2 billion USD (one from Hyosung Corp at $1.2 bn, and the other two from LG Innotek and LG Display, at $500 million USD each). However, we expect the market narrative shift of manufacturing hubs from China to Vietnam will continue.

Aside from more notable names such as Goertek and Manwah, Vietnam is reportedly looking to woo an iPhone assembler – possibly Foxconn and/or

Pegatron - to build a factory in Hanoi, and Samsung might build its 3rd smartphone factory in the country as well. Such developments if realized could further strengthen the country's position as a manufacturing hub.

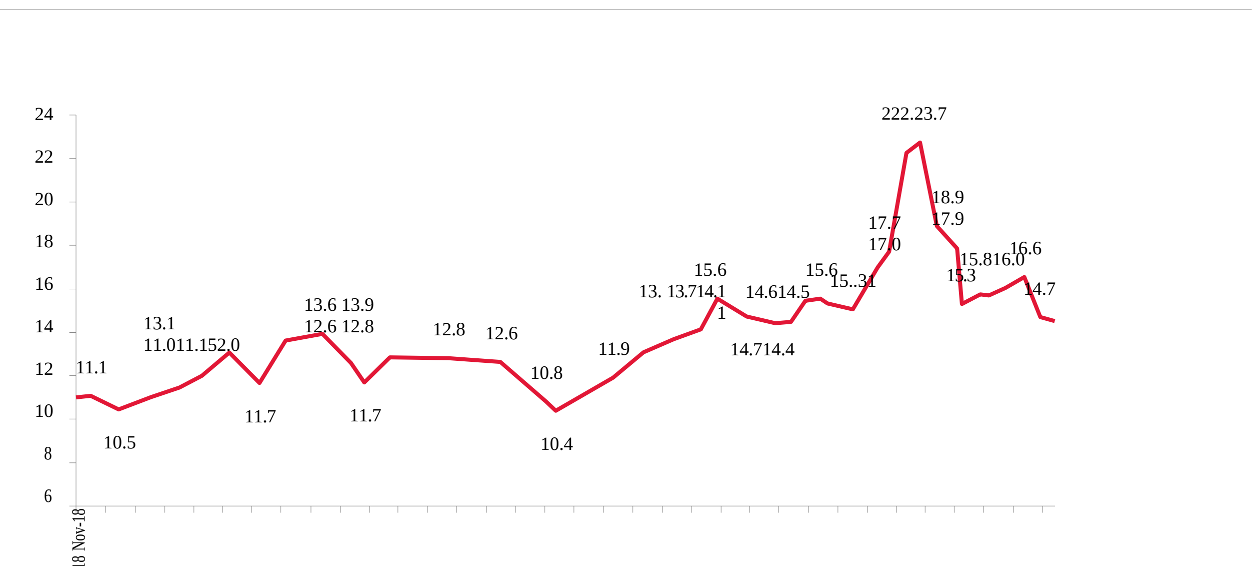
Based on our coverage (*), 2018 net profit growth is expected to reach 20.3% YoY. Although the sector with the highest earnings growth in 2018 is real estate, this is mainly thanks to the new listing of VHM. Therefore, we think that consumer discretionary, banking, and industrials are the 3 sectors that represent the earnings growth of the whole market in 2018.

2019 Outlook: A catalyst-driven market

As 2018 was a disappointing year for the VN Index (YTD VNIndex reduced by 9.3%), it seems that Vietnam fundamentals and stock market performance has experienced a divergence, due to a number of reasons mentioned above. With a protracted US-China trade war of attrition as the base case for 2019, forward-facing stock market valuation has been lowered to reflect weaker sentiment from local investors. Looking forward, the market needs a firecracker of a catalyst to boost investor confidence amid global uncertainties. Privatization remains a strong catalyst for the market in the next 2 years, as it benefits not only the macro side (capital inflow leading to strong currency) but also the stock market as well as corporate governance improvement. If privatization could be implemented in the right way, then an upgrade to emerging market status could be another catalyst for growth. However, words need to translate into action, else these growth catalysts may not be sparked into action for the near term.

Therefore, we still expect the market to be weak in early 2019. Valuation could become more attractive over time, especially as the market overreacts to negative news. When that trough in negative sentiment touches bottom, it could then be the right timing to buy, as Vietnam underlying growth fundamentals are expected to be resilient and two important catalysts remain intact, with an impact for years to come. 2019 earnings growth is forecasted to be 13.3% YoY, lower than 2018 but still at a healthy level in our opinion. The stock market is trading at 2018 and 2019 PERs of ~15x and 13.2x based on the market prices from 28th Dec 2018. Given a positive earnings Outlook in 2019 amid weaker sentiment, we lower our market PER expectation, and forecast that the stock market might edge up around 10%- 15% in 2019 as compared with 2018 levels as our base case assumption. This translates to a market PER target of 13x, which could justify higher uncertainties amid a rising interest rate environment. Please note that during 2013-2016, Vietnam market PER always traded under a 14x level.

Market P/E



Source: SSI, Bloomberg

Sector & stock recommendation

Most sectors that may have experienced high earnings growth in 2018 including property, banking, consumer discretionary, and industrials are expected to experience slower growth next year. However, these sectors continue to lead the market/economy in terms of its profit growth rate. Although the market still favors growth stocks, when gazing into a year with more uncertainties, we ultimately believe stocks with high dividend will be also favored. Some specific sectors might also attract attention, such as potential beneficiaries from US-China trade war (Industrial parks, textile & garment), e-commerce (thanks to a currently low penetration rate in Vietnam), retail or consumer discretionary and electricity as a defensive stock with reasonable valuation.

SSI Research Sector and Stock Recommendation

Sector Tier 1	Sector Tier 2	Sector view	Stock recommendation Buy	Outperform	Neutral	Underperform	Sell
Banks		Neutral	VCB	ACB, MBB, TCB	BID, VIB, VPB, HDB,	CTG, LPB	
Property	Resident	Neutral		VHM, DXG, NLG	VIC, KDH, VRE	NVL	
Property	Industrial	Overweig		KBC, IDC	BCM		
Consumer	Staple	Underwei		MSN	VNM, VHC, QNS	SAB KDC	
Consumer		Overweight	MWG, PNJ, MSH	VEA, DGW, STK	FRT, YEG, EVE,	TCM	
Oil & gas		Neutral				PVS GAS, PLX BSR, OIL, PVD	
Industrial		Overweight	VTP GEX, PTB,	ACV, PC1, PVT	GMD, VSC, VJC, CTD, VGC, PAC		
Material	Steel	Overweight	HPG			HSG	
	Fertilizer	Neutral			DPM		
	Rubber	Underweight		PHR			
	Cement	Neutral		HT1			
Utilities		Overweight		POW, PPC, NT2			
Healthcare		Neutral		DHG	IMP		
IT		Overweight	FPT				

Source: SSI Research

SECTOR IN FOCUS

CONSUMER DISCRETIONARY – MEDIA

NEUTRAL

Best pick: YEG

What transpired in 2018?

Industry performance

The media industry represented by the performance of YEG slightly outperformed the stock market, losing – 6% vs. - 9.3% decline of the VN Index in 2018. This is mainly thanks to (i) strong financial performance of the company in 2018, (ii) the company increased its foreign ownership limit up to 100% in September 2018 and (iii) the company received approval to increase charter capital through bonus share issuance at the ratio of 1:2, which is normally considered to be an upside catalyst for the stock price in the Vietnam stock market.

In 2018, the company achieved VND 1.658 tn (+97.3% YoY) in net sales and VND 180 bn (+118.8% YoY) in net profit. This translates into a completion of 103.6% and 104.7% of its net sales and net profit targets for 2018. However, the stock is being traded thinly at an average trading value of VND 4.1 bn (~$181k USD) per day.

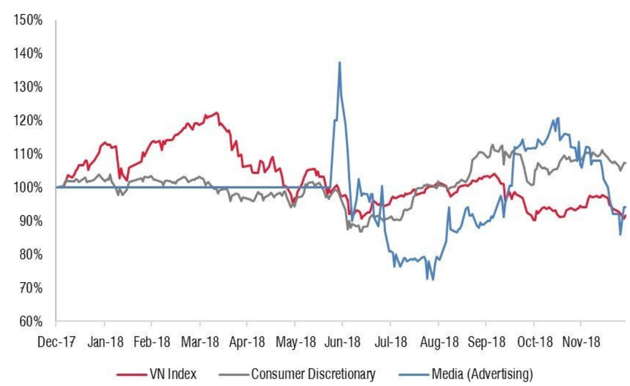
Low liquidity was probably caused by (i) low share float and

(ii) a higher PER than the market average. The YEG management team and institutional shareholders currently owns 74.8% of total shares. The stock is being traded at 2018 PER levels of 44x, much higher than the 2018 PER of VN Index at ~15x. However, this P/E ratio is more comparable to other peer companies in the region, at

an average of 30-35x.

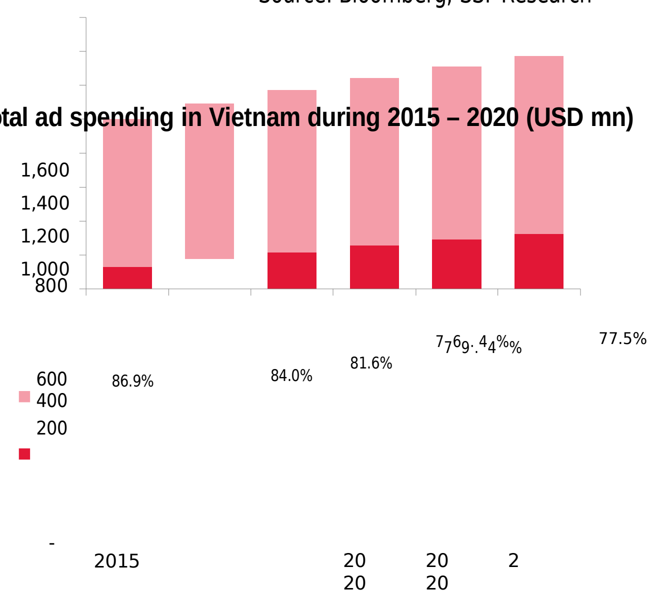
Key highlights on industry

Media industry performance in 2018



Source: Bloomberg, SSI Research

Total ad spending in Vietnam during 2015 – 2020 (USD mn)



Traditional ad spending (TV, magazines, newspapers, radio ..)

Digital ad spending (desktop/laptop, mobile & other internet-connected devices)

Source:
eMarket
er

- According to eMarketer, total ad spending in Vietnam is estimated to reach $1.24 bn USD (+6.0% YoY) in 2018. Digital advertising is expected to make a splash and post a higher growth rate of 19.0% YoY compared with 3.1% YoY for TV advertising and other traditional media, such as magazines, newspapers and radio. While traditional media is expected to drop to below 80% share of spending in 2018, online advertising could rise to 20.6%, reflecting the fact that despite slower growth, TV still offers the greatest exposure. Based on a recent report by ANTS, the two largest players in terms of total ad spend in Vietnam are Facebook and Google, at approx. 66.7% total share of digital ad spending. Strong growth in ads spending through Facebook and Google is supported by the fact Vietnam ranks among the top countries in the world in terms of internet and social media penetration. Vietnam currently ranks among the Top 10 countries with the largest number of Facebook users, with more than 58 mn users in 2018.

- **Law on cyber securit**y: On 12 June 2018, the National Assembly passed the law on cyber security, taking effect on 01 Jan 2019. The law regulates the protection of national security, and ensures content safety in cyberspace to be the responsibility of the relevant government agencies, organizations and individuals. This law is expected to promote a healthy business environment due to some concerns on content safety in the past. Companies (i.e. FMCG brands) are expected to generate a higher impact from digital ads than that of traditional media platforms.
- **YEG performance in 2018**

(1) In 2018, YEG net revenue and NPAT reached VND 1.658 tn (+97.3% YoY) and VND 180 bn (+118.8% YoY) respectively. This translates into 103.6% and 104.7% of its annual net revenue and NPAT plan. The key drivers are (i) a turnaround in profit margin from the traditional TV segment, bouncing back from a loss previously and (ii) strong NPAT growth from the Youtube MCN business at 96% YoY and (iii) the Yeah1 Publishing segment is also a significant component towards revenue growth at 144% YoY, accounting for 28% of Yeah1's net revenue. Such upbeat performance from Yeah1 Publishing segment was thanks to its consolidation of Netllink on

2 Jan 2018 (51% stake on 1 July 2017, and an additional 25% on 2 Jan 2018).

(2) The **traditional media** business witnessed strong revenue growth for most of its business lines, namely:

traditional TV (+113.1% YoY) and TNT media (+108.6% YoY). Under the traditional TV segment, healthy bookings were backed by YEG signing many new contracts, including Group M and barter deals. Besides that, the acquisition of TNT media in Jan 2017 (50.5% stakes) also enables the company to obtain access to inventory from one of the largest state- owned channels (HTV7).

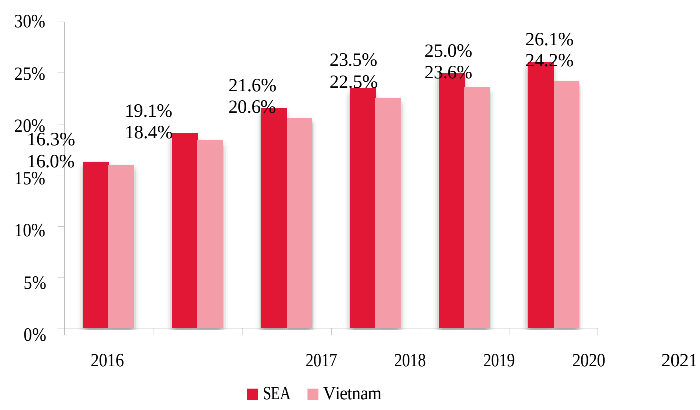
(3) The **digital media**, however, witnessed a slight decrease in profit margin while it continued to grow strongly its revenue at 93.1% YoY. Strong growth in net sales was backed by (i) recent acquisition of 2 new Youtube MCNs (SpringMe and Something Big TV) from higher CPM countries in 2018 and (ii) an increase in the number of publishers in Webface and Netlink platforms.

2019 View

2019 Expected Sector Growth: 15%

Global digital advertising spending is expected to increase at a CAGR of 13.5% in 2017-2020 (Source: eMarketer). In Vietnam, digital ads account for 20.6% of the total domestic advertising market in 2018, lagging behind the global average of 43.5%. With more than 34% of the population having 2 or more connected devices by 2022, we expect digital ads to continue growing strongly at a CAGR of 15% during the 2017 – 2020 period.

Digital Ad Spending Share of total media ad spending in SEA & Vietnam (2016 – 2021)



Source: eMarketer

2019 view: Neutral

While the media industry, represented by YEG, is expected to post high growth in both net sales and NPAT (the management provided guidance at 50% YoY growth for both indicators), it is still lower than the upbeat performance achieved in 2018. As such, we expect it to perform in line with the stock market due to its relative high valuation and illiquidity at the moment. However, we see short term catalysts such as completion of the plan to increase its charter capital via bonus issuance being a variable to uplift the stock price.

Issues and risks

While digital ads is projected to post high growth and drive overall ads spending in the next few years, a potential risk remains within the reliance of media companies on Google and Facebook's policy technology with regards to partner policies (e.g: Youtube MCN as discussed below), which could have a severe impact on its business. Also, the Ministry of Information and Communication of Vietnam is conducting a review in relation to Facebook's violation in the data management and advertisement of illegal products on the internet. They are expected to introduce new regulation to better control online advertising activities shortly. This not only facilitates a safer environment for online activities, but also has positive impacts on media companies' earnings.

Best pick

Yeah1 Group Corporation Ticker: YEG VN**; Price:** VND 235,000

Investment thesis

Yeah1 is one of the leading companies in a sector with promising prospects. The competitive advantage of Yeah1 is that it is an integrated media ecosystem which covers all platforms, from traditional media (TVC) to digital media (Youtube, Google and Facebook). According to management guidance, we think that the company will be able to continue delivering strong performance in 2019 at a 50% YoY growth for revenue and net profit at VND 2.49 tn and VND 270 bn respectively.

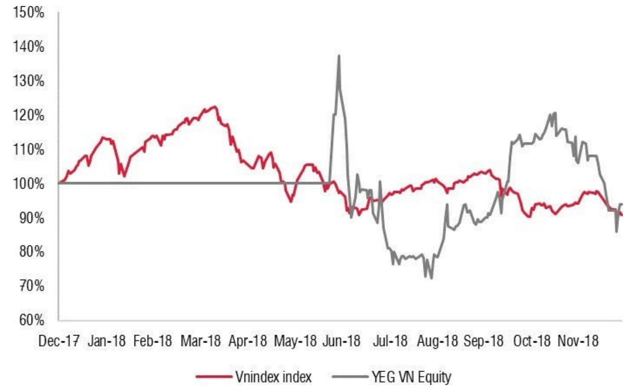
Key drivers to these targets come from (i) healthy growth in the traditional media segment and (ii) sturdy growth in the Youtube MCN business thanks to recent acquisition as well as the Yeah1 Publishing segment (Netlink+ Weface). In early 2019, the company completed acquisition of 2 Youtube MCNs: Scale Lab (US) and Thoughtful Media Group (a Thailand subsidiary of a US-based Youtube MCN). While recent M&A deals are part of their plan to expand global outreach, a transitional period is required for any new partnership before any substantial change can end up being reflected within financial statements. Any unforeseeable headwind from Google and Facebook regarding partner policy could, however, have a negative impact on the company's target profit plan.

Best pick in Media: YEG VN

Market cap (USD mn)	325
Average 3M value (USD mn)	0.12
Foreign ownership (%)	48.7
2019 PE/PB	32x/
2019 EPS growth (%)	50%
Dividend yield (%)	N.A%
2019 ROE (%)	26.6%

Source: Bloomberg, SSI Research

Best pick in Media: YEG VN



Source: Bloomberg

Risks:

- Change in Google's partner policy and Facebook's privacy policy: In 2018, Youtube amended its policy regarding eligibility requirement for monetization to 4,000 hours of watch time in the past 12 months and 1,000 subscribers (up from 10,000 public views previously). This has reduced the number of Youtube channels significantly, and in the case of Yeah1, it was down to 1,222 in Sept 2018 from 1,608 in 2017. Further stringent conditions are expected to be put in place to make the Youtube partner community raise its quality of content.
- Rising concern over content safety in the online platform can lure brands away from ad placement.

CONSUMER DISCRETIONARY – TEXTILE & GARMENT

NEUTRAL

Best pick: MSH

What transpired in 2018?

Industry performance

Textile & garment performance traced closely to the VN Index until September – November 2018 where it strongly outperformed VN Index by 12-21%, only to swiftly correct by year-end with a slight annual gain of 0.65%. The shift of orders from China to Vietnam continued to unfold, which yet again led to impressive financial results for many companies in the sector. Moreover, the impact of existing FTAs, along with the expectation of CPTPP and EVFTA becoming officially effective, were both strong catalysts for the sector to outperform during this period. Investors favored mid-cap stocks during 2H 2018, especially those sectors which are believed to benefit throughout the US-China trade war.

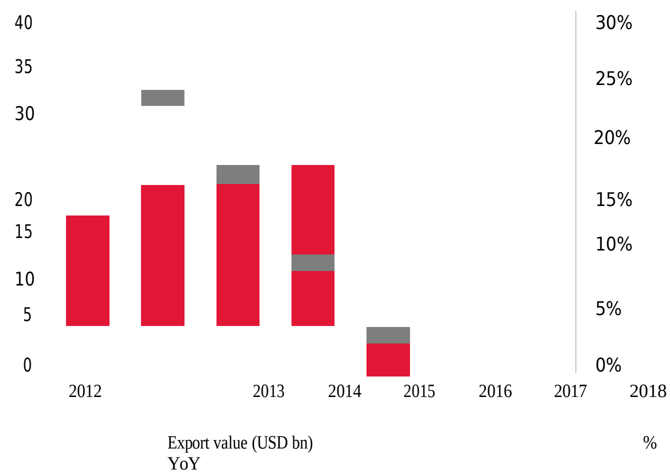
VGT, the largest stock in the sector, increased by 7.25% during the year, in line with its estimated growth in net profit in 2018. GMC and TNG outperformed with gains of 50.1% and 46.5% due to the prior year's low valuation (6x and 4.9x respectively as at year end 2017) and strong net profit growth in 9M 2018 (+64% YoY and +57% YoY respectively). EVE was the worst performing stock, which declined by -18.8% as the company failed yet again to achieve its net income target for the year, sparking questions of viability for the firm.

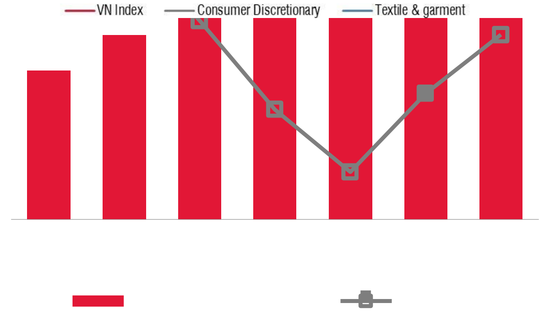
Key highlights on sector

- **According to McKinsey Global Fashion Index, the global fashion industry reached new heights with sales growth of 4-5% YoY in 2018,** compared to 2.5-3.5% YoY in 2017. Better performance has been driven by robust demand for luxury and value brands, solid sales growth in the US, and

Textile & garment industry performance in 2018

Source: Bloomberg, SSI Research





Source: VITAS, SSI Research

miscellaneous tax cuts and growth in emerging markets. North America and Europe (both Mature and Emerging) accounted for ~50% of global sales, gaining 3-4%, 2-3% and 5.5-6.5% YoY in 2018.

- **Vietnam's textile and garment export reached $36.1 bn USD in 2018, up 16.01% YoY** and exceeded the nation's target of $34 bn. This was the highest growth rate achieved in the last 4 years (2015: 12.1% YoY, 2016: 4.1% YoY and 2017: 10.8% YoY). In 2018,
  Vietnam exports to Japan and Korea achieved impressive growth of 23% YoY and 27% YoY.

- Vietnam's apparel exports reached $30.5 bn in 2018, up 16.7% YoY with US being Vietnam's main export destination. According to the US Office of Textile and Apparel (OTEXA), US textile and apparel imports are estimated to increase by 5.3% YoY in 2018. Up to 10M 2018, China's apparel exports to the US increased by 4.85% YoY, while Vietnam's increased by 8% YoY. Vietnam is grabbing regional producer market share thanks to competitive unit prices. In the period 2017-2018, Vietnam's import share to the US has increased from 11.5% to 11.75%, while China's share has declined from 36.6% to 36.4%.

2018	USD bn	% of total	YoY
Total Vietnam apparel export value	**30.5**	**100%**	**16.7%**
US	13.7	45	11.
EU (28)	4.1	14	11.
Japan	3.8	13	22.
Korea	3.3	11	26.

Source: Customs data

- In 2018, the sector attracted $1.7 bn (+6% YoY) worth of registered FDI. There is a growing flow of investments into local yarn and dyeing subsectors.

- **Total sales from VGT and affiliates reached VND 48.69 trillion (+6.6% YoY and 100.8% of target), and total PBT reached VND 1.533 tn (+6.2% YoY and 116.4% of target).** Domestic sales reached VND 12.638 tn (+22.6% YoY) and accounted for 25.9% of total sales.

- Some smaller textile and garment companies also recorded exceptional results thanks to the increasing shift of orders

Vinatex affiliates, financial performance in 9M 2018

VND bn	Net sales	Net profit	Sales YoY	Earnings YoY
10-May	3,008	66	-1.3%	6.4%
Viet Tien	7,424	350	16.8%	15.5%
Viet Thang	1,826	85	-9.0%	23.2%
Hoa Tho	3,365	81	14.7%	88.4%
Phong Phu	2,644	184	24.3%	4.0%

to Vietnam and the strategic change in the sales mix towards more profitable products. STK increased its proportion of recycled yarn in the sales mix from 6.2% in 2017 to 16.2% in 2018. MSH also increased the proportion of FOB sales in total revenue from 62% in 2017 to 69% in 2018.

2018 (VND bn)	S	TC	TN	M
Net sales	2,4	3,66	3,61	3,9
YoY	20.	14.1	45.2	19.
Net profit	1	26	18	3
YoY	83.	34.9	56.9	65.

2019 View

2019 Expected Sector Growth

- **The McKinsey Global Fashion Index forecasts that the global fashion industry sales will grow by 3.5-4.5% YoY in 2019,** compared to 4-5% YoY in 2018. According to the consulting firm, the industry will slightly decelerate after having posted strong performance in 2018. The weaker forecast reflects economic predictions for slightly slower global growth and potential disruption to trade relationships. McKinsey predicts Europe is facing a slowdown, and US growth may have peaked in 2018. Emerging Asia Pacific countries, on the other hand, will continue to concurrently experience strong spending growth, with more global players entering these markets.

- **For Vietnam, the country targets to export $40 bn of textile & garment in 2019, up 10.8% YoY.** VGT and its affiliates target to achieve VND 50.8 tn in total sales (+5% YoY) and VND 1.72 tn in PBT (+12% YoY).

2020 Growth Outlook

In our own view, we expect the industry to grow by approximately 10% YoY in 2020. The industry has been a magnet of global attention lately. Such attraction is partly due to the various FTAs Vietnam has signed, and partly due to the lower cost advantage and adequate infrastructure it can offer to buyers. Export growth can be accelerated as the shift of orders from China to Vietnam continues, and will be buoyed as well

from the upcoming CPTPP and EVFTA.
The CPTPP has taken effect starting 14/1/2019, and the EVFTA is expected to be effective by 1H 2019. Many companies reportedly have received enough orders to adequately produce in 1H 2019.

Sales growth	2018	201
Total fashion industry	**4-5%**	**3.5-**
North America	3-4%	2.5-
Europe Mature	2-3%	1.5-
Europe Emerging	5.5-6.5%	4.5-
Middle East & Africa	5-6%	3-
APAC Mature	2-3%	2-
APAC Emerging	6.5-7.5%	6.5-
Latin America	5-6%	4-

Source: McKinsey

Issues and risks

- **Minimum wage continues to increase 5%-5.8% in 2019, at a slower pace than the 2018 increase of 6.1%-7% YoY.** According to VITAS, Vietnam has increased its minimum wage 11 times since 2008. In addition, rising electricity and logistic costs will also weigh on competitiveness.

- The industry is highly dependent on imports for its machinery, raw materials and accessories. With tough rule of origins from CPTPP (yarn-forward) and EVFTA (fabric- forward), garment companies without a fully- integrated value chain in Vietnam will not see an immediate impact, as those companies heavily depend on raw material imports from China.

Best pick

Song Hong Garment Joint Stock Company Ticker: MSH VN; **Price**: VND 41,000

Target price: VND 57,500

Investment thesis:

MSH belongs to the Top 5 Vietnam textile and garment exporters with export turnover of

$251 million in 2017. We find MSH to possess strong fundamentals in this sector, demonstrated by its solid growth and an increasingly attractive gross margin trend (17-19%). During the 2014-2018 period, MSH experienced a revenue, gross profit, and net profit growth at CAGR of 12.8%; 14.8% and 23.9% respectively, with a stable ROE of 29% (higher than peers average of 20%). The upside for sales and margins stem from:

(i) continued transition from CMT to FOB type to increase gross margins; (ii) factory relocation and restructuring to improve operational efficiency; (iii) new factory to increase capacity by 15% in 2020.

Risk:

(i)slowdown in the global demand and (ii) the stock has been traded at low liquidity.

Catalysts:

The company has been paying out a consistent cash dividend of 35-40% on par, which translates to a relatively high dividend yield of 7-8%. Valuation is currently attractive as

MSH is being traded at 2019 PER of 5.4x, while the industry average PE is 7.5x.

VND/month	201	2018	Y
Area I	4,180,00	3,980,000	5.
Area II	3,710,00	3,530,000	5.
Area III	3,250,00	3,090,000	5.
Area IV	2,920,00	2,760,000	5.

Source: Decree 157/2018/NĐ-CP

Best pick in Textile and Garment: MSH VN

Market cap (USD mn)	84.3
Average 23D value (USD mn)	0.21
Foreign ownership (%)	2%
2019 PE/PB	5.4x/
2019 EPS growth (%)	10%
Dividend yield (%)	7.3%
2019 ROE (%)	29.6%

Source: Bloomberg, SSI Research

CONSUMER DISCRETIONARY - RETAIL

OVERWEIGHT

Best pick: MWG and PNJ

What transpired in 2018?

Sector performance

The retail industry underperformed the VN-Index by -7.8% in 2018, attributed to the decrease of ICT retail stocks. MWG and FRT decreased by -10.2% YoY and -18.5% YoY respectively although these two companies booked strong net earnings growth (up about 30% YoY) in 2018. We think that reasons for underperformance of MWG and FRT revolve around the mobile phone segment getting closer to approaching its saturation point, while new business arms need more time to be solid contributing factors towards earnings of these companies.

The best performing stock in the sector was PNJ, which finished 2018 3.3% higher than that of 2017. Despite excellent financial results of PNJ's core gold jewelry business, the stock price was hit from uncertainty of investigation results of Dong A Bank, which came to an end in December 2018.

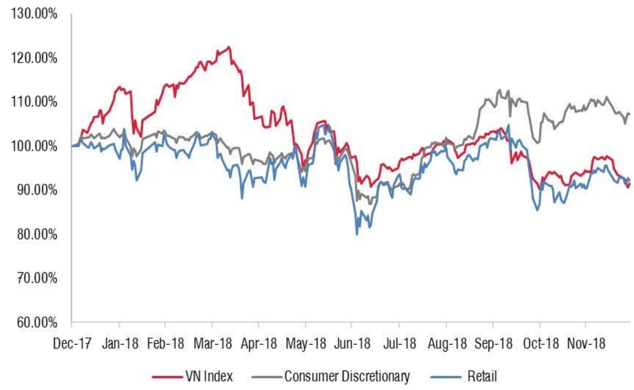
The retail industry is still one of the most favorable choices of foreign investors, driven by its stable growth trajectory. MWG and PNJ were still traded at a premium price among foreign investors, while foreign room for FRT was almost full by the end of 2018.

Key highlights on sector

Retail industry - From a fragmented to a concentrated market share

Vietnam retail sales totaled VND 3.306 tn in 2018 ($148

Retail industry performance in 2018



Source: Bloomberg, SSI Research

bn USD), adding 12.4% YoY.
The modern shopping chain concept continued to consolidate
its market share from a shrinking mom-and-pop store base.
Notable sub-sectors have followed this trend,
including ICT, FMCG, Jewelry, and Pharmacy.

ICT retail sector

As reported by GFK Vietnam, the sales value for tech consumer goods in Vietnam in 2018 increased by only 4.4% YoY to reach VND 218.3 tn, compared to 7.4% YoY in 2017. Growth rate tends to be slower, mainly due to slower growth momentum of the mobile phone segment.

Telecommunications (mobile phones) sales value in 2018 increased by only 1% YoY to reach VND 101.3 tn, much slower compared to 9.3% YoY from 2017 and 39.8% YoY in 2016, signaling that it is approaching its saturation point.

Key retailers: Thegioididong (Market share: 45%), FPT shop (Market share: 18%), Vienthong A, Cellphone S.

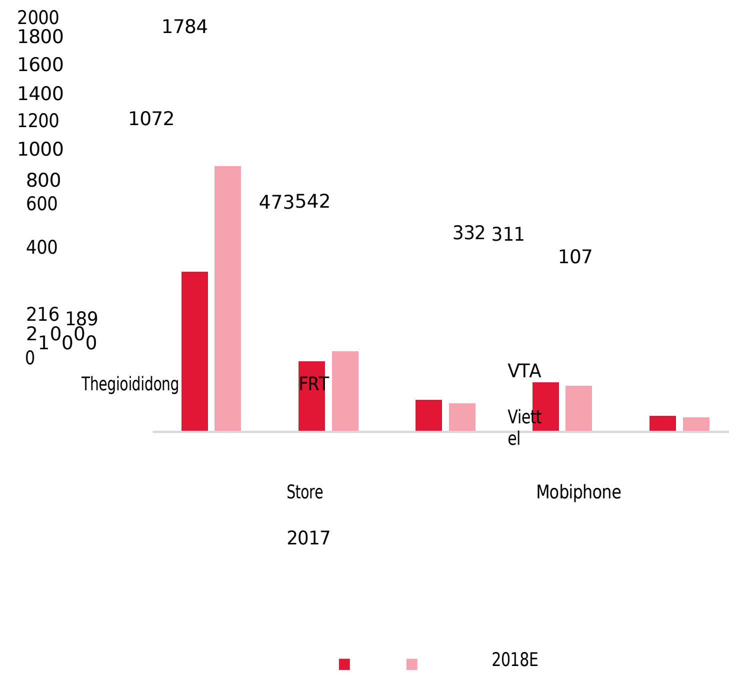
Consumer electronics (panel TVs, home audio systems, Camcorder,…) and domestic appliances (washing machine, cooling machine, microwave ovens, hair dryers, vacuum cleaners, etc.) have been the key sales growth driver lately, with a growth rate of 23.5% YoY (compared to 14.7% YoY back in 2017) and 10.9% YoY (compared to 2.2% YoY in 9M 2017) respectively to reach VND 47tn (accounting for 21.5% of the total sales value of tech consumer goods) and VND 46.6 tn (accounting for 21.3% of total sales value) respectively.

Key retailers: Dienmayxanh (Market share: 35% in 2018 from 30% in 2017), Nguyenkim, Cholon Electronics, Home Center, Pico, Vinpro.

Jewelry

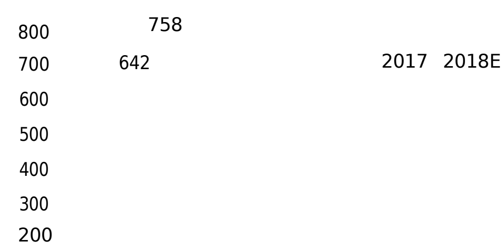
Gold demand: According to the World Gold Council, Vietnamese consumer demand for gold increased 11% YoY, reaching 46 tons up to 9M18. This was much more favorable than the flat growth rate experienced up to 9M17 of 1% YoY. Demand for gold jewelry reached 13.6 tons, an increase of 11.5% YoY (2017: 5.7% YoY), while demand for gold bars and coins advanced 10.9% YoY (2017: -1% YoY) to reach 32.4 tons. The uplift in jewelry demand was supported by lower gold prices, positive income growth of the middle-

Number of mobile phone stores



Source: Companies'websites, SSI's collection Note: 1784 stores of Thegioididong chain comprises of 1037 Thegioididong stores at the end of Nov 2018. The remaining stores is included in Dienmayxanh chain.

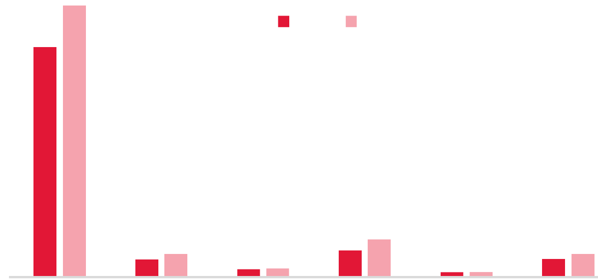
Number of consumer electronics shops



affluent class, and local currency depreciation, which was also seen across the region. **Key retailers:** PNJ (Market share: 28% in 2018), Doji, SJC, Precita

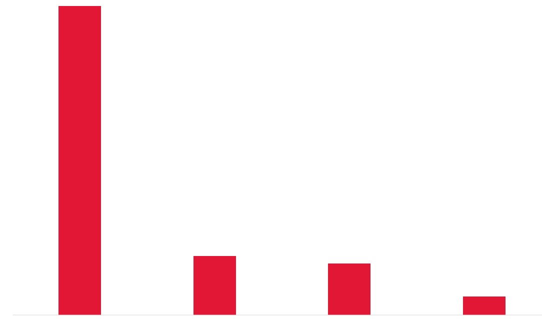
65
74 105
64
100 50 22 24 13 14
0
Dienmayxanh Nguyen Kim Pico Mediamart Home Center Cho Lon Electroni

Source: Companies' websites, SSI's collection



Number of jewelry stores

350 318
300
250



PNJ: The company recorded another successful year, with net sales of VND 14.6 tn (+33% YoY) and net income of VND 960 bn (+32.3% YoY). Such high growth stemmed from existing stores, as well as growth shots upward from newly opened stores. PNJ Gold same store sales growth for existing stores reached 20% YoY. Additionally, PNJ opened 56 new stores in 2018 (vs. 2017: 54 stores), more than the original plan of 40 new stores. Even though PNJ Gold SSSG has slowed down from 23% in 9M18 and decelerated to 20% for full year 2018, results fall in line with our original estimates, particularly brought on by the company's emphasis on aggressive store expansion. The gross profit margin reached a record high at 19.1% in 2018 (2017: 17.4%), mainly driven by a higher proportion of PNJ Gold in the sales mix. Additionally, more premium products are being purchased, leading to the 5% YoY increase in average receipt size.

FMCG retail Sector

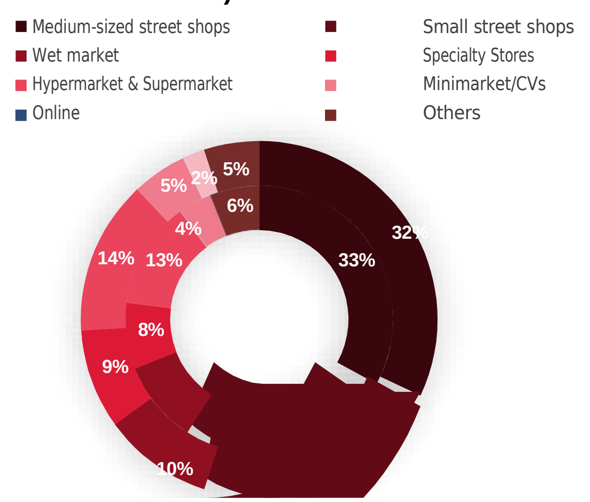
FMCG growth has been lower than total retail sales growth, and started to fall closer in line with CPI starting in 2013. FMCG consumption will grow at only around 5% in 2018, as according to forecasts from Kantar Worldpanel. According to MWG, market size of this segment may reach $ 70bn USD to be the biggest segment for retailers. This segment has witnessed strong expansion of many brands. We saw that while domestic players have focused on grocery stores, foreign players have focused more on convenience stores.

Key retailers:

Grocery stores (Minimarkets): Vinmart+, Bachhoaxanh, Co.op Food, Satra food

Convenience stores: Circle K, B'Smart, Shop & Go, Family Mart, Ministop, 7-Eleven, GS 25.

Retail Landscape 4 main cities (Value share %)



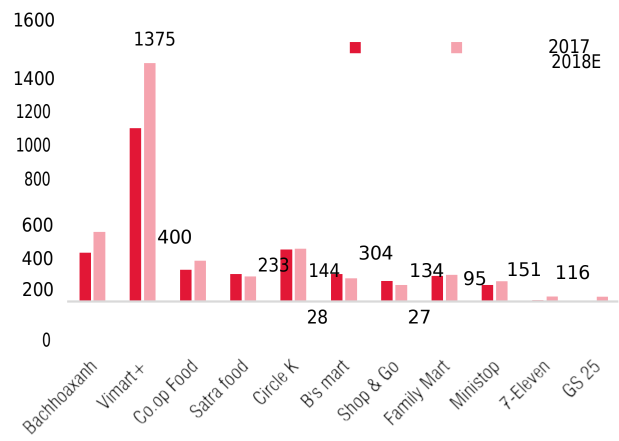
Source: Kantar Worldpannel

Remark:

Inner circle: 12 weeks ending 4 Nov 2017

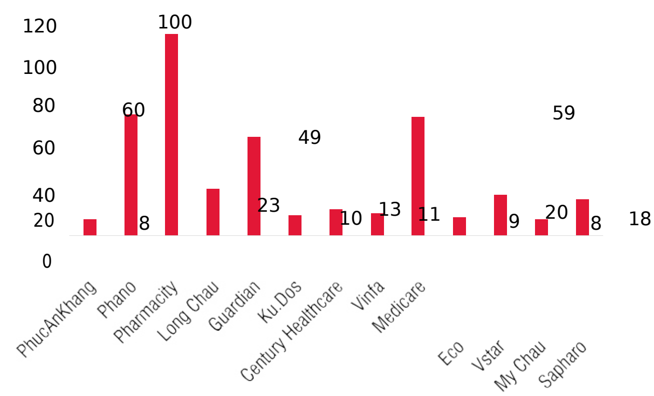
Outer circle: 12 weeks ending 4 Nov 2018

Number of grocery stores & convenience storesv



Source: Internet, SSI research

Number of modern pharmacies



Source: Internet, SSI research

Pharmacy retail sector

According to BMI, annual pharmaceutical sales in Vietnam is estimated at $ 5.3bn USD in 2017, of which the retail sales channel was responsible for 1/3. This channel remains highly fragmented and traditional, with more than 57,000 pharmacies throughout the country or 6.6 outlets per 10,000 people. Per capita pharmacy services are still well below international standards.

On the latest survey of DKSH in September 2018, there are more than 22,000 licensed pharmacies throughout the country. Of which, modern pharmacy chains still represent roughly 1.5% of the total number of licensed pharmacies, but already 5.5% of the total pharmacy channel retail sales value. And this share, which has been growing by more than a percentage point per year over the last two years, is expected to grow faster in coming years. We think that higher demand of consumers on: (1) professional recommendations; (2) good service; (3) and a fixed price will be
the drivers for growth of modern pharmacy.

Moreover, since the third quarter of 2018, Vietnam's Ministry of Health is piloting the application of technology in the sale of medicine to tighten its management of over-the-counter drugs. After being connecting with the system, a pharmacy is asked to update all the medicine it has sold and products kept in its inventory, along with prices and origins of the drugs. Thanks to this system, competent authorities will be able to detect whether the medicine has passed its expiration date and if a drug store is overcharging or selling drugs without a prescription. We think that this system will be beneficial to modern retailers who are already well-prepared than traditional ones.

Mapping Vietnam's Leading E-commerce Players - Q4 2018

No.	Merchant	Monthly Web visits (mn visits)	AppStore Rank	PlayStore Rank	Youtube (visits)	Instagram (visits)	Facebook (mn visits)
1	Shopee	41.1	#1	#1	145,822	116,870	14.0
2	Tiki	36.0	#2	#3	362,589	114,250	2.7
3	Lazada VN	32.5	#5	#2	125,638	63,040	27.9
4	Thế Gi ới Di	29.4	#7	#6	527,829	1,970	3
Sen Đ	ỏ	25.4	#4	#4	43,863	12,480	2
6	FPT shop	9.2	n/a	n/a	168,138	8,080	2
7	Điện Máy Xanh	9.0	#9	#8	283,806	10	1
đây	rồi	7.3	#6	#7	n/a	290	0
Cellph	oneS	5.8	n/a	n/a	1,687,039	48,960	0
Vật gi	á	4.8	#13	#15	1,461	10	0

Source: iprice.vn

Fiercer competition from e-commerce retailers – burning money

Thanks to the rapid increase of internet penetration (66% of the population at the end of 2017, according to Internet World Stats) and smartphone penetration (73% of the population possessing a smartphone, according to Internet World Stats), e-commerce retailers such as Lazada, Tiki, Shopee, Sendo, and social platforms such as Facebook, Zalo, Viber, etc have just started booming in recent time.

Most of these e-commerce players are backed by foreign e- commerce firms which hAVe huge financial capacity.

In 2018, Tiki received $54 mn USD in investment made by Chinese internet giant JD.com and South Korea's STIC Investments. According to DealStreetAsia.com, Tiki plans to collect an additional $50-100 mn USD in capital in 2019, including from JD.com's contribution.

Regarding Lazada, Alibaba Group announced in March 2018 that it will invest an additional $2 bn into the platform, two years after it acquired a controlling stake in the Singapore- headquartered e-commerce site. Thus, Lazada Vietnam will receive a massive capital boost to increase its activities.

Shoppee's parent company Sea Limited announced a great capital expansion for Shoppee to provide ammunition in the prolonged market share war in Vietnam. In the first six months of 2018, SEA poured an additional $50 mn USD into Shoppee.

Along with these names, the Sendo e-commerce platform, which is backed by FPT, mobilized VND 400 bn in 2015- 2016. In August 2018, Sendo received investment capital amounting to $51 mn USD from FPT, SBI Holdings, Econtext Asia, Beenext, Beenos Asia, SoftBank Ventures Korea, Daiwa PI partners, and SKS Ventures.

HowEVer, in order to gain market share, these firms hAVe traditionally opted to burn massIVe amounts of money on sales and promotion programs.

Notably, Lazada reported a loss of VND 1tn ($43.39 mn) in 2015-2016, increasing its accumulated losses to VND 2.7 tn ($117.1mn) by the end of 2016. Lazada's losses in 2017 alone are estimated at VND 1 tn ($43.39 mn USD), and accumulated losses may increase to VND 4 tn ($173.56 million) by the end of 2017.

After 7 years of operation, Tiki has accumulated nearly VND 600 bn ($26.43 mn) in losses, including VND 308 bn ($13.56 mn USD) in 2016 and VND 284bn ($12.5 mn USD) in 2017.

Shoppee was officially launched in August 2016, but just 4 months later in December the end of the year the firm reported a loss of VND 164 bn ($7.1 mn USD), which increased to VND 600 billion ($26.03 million) in 2017, losing twice as much as Tiki.

Such fierce competition may be one of the reasons that MWG has shut down their e-commerce platform vuivui.com to focus priority on 3 main categories, including mobile phones, consumer electronics, and grocery.

Racing to achieve market share expansion of these e-commerce players has resulted in slashed prices of goods, thus creating huge pressure on offline retailers.

Key e-commerce retailers: Shopee, Thegioididong, Lazada Vietnam, Tiki, Sendo, FPT Shop.

2019 View

2019 Expected Sector Growth: 15-20%

- We expect that sales value from mobile phone will slowdown in 2019, as seen from the following variables:
  (1) The mobile phone market has approached its saturation point; (2) Competition from Chinese producers has reduced prices of products for consumers; (3) The market share of the 2 largest retailers is already high (63% in total), strongly implying limiting growth potential.
- Consumer electronics will play the main role in earnings growth of retailers. Modern retailers are expected to acquire more market share from mom & pop shops which accounts for 30-40% current market share.
- Consistency in Jewelry demand: PNJ, one of the largest companies in the sector, will continue to expand its retail network. However, given outstanding gold jewelry sales growth in 2018, we posit that gold jewelry sales might grow at a slower pace at 21.2% YoY in 2019 (2018: 32.8% YoY). The ERP system that will be implemented in Q2 2019 will help the company to generate higher efficiencies in the future.
- Offline channels in general continued to be persistently challenged by online channels, especially in terms of price.

2019: Overweight

We maintain an Overweight rating for this sector due to its more stable growth trajectory compared to other sectors.

2020 Growth trend: 15-20%

- In addition to acquiring more market share from mom & pop shops, consumer electronics retail sales value growth is expected to be driven by IoT products, which is made possible by 5G technology.

- According to the EIU, middle-class earners will grow at a CAGR of 13% to reach 44 million in 2020. They are expected to spend more on high-quality products, and generally demand a better shopping experience. Given PNJ's expansion approach, the company should be able to secure more market share from the unbranded jewelry market. We forecast that growth momentum will continue at 15% for the foreseeable future.

Issues and risks

- Fierce competition from e-commerce retailers.
- Expected rising interest rates might affect demand for higher-valued products, such as jewelry and mobile phones.

Best pick

Phu Nhuan Jewelry JSC Ticker: PNJ VN**; Price:** VND 93,200

Target Price: VND 123,900

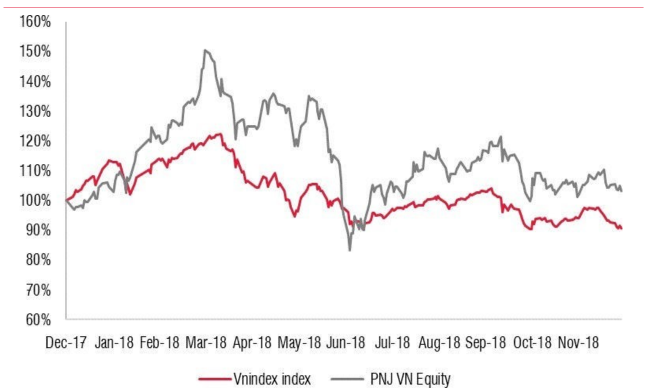
- Investment thesis: PNJ is the leading manufacturer and retailer of jewelry, with an increasing network of 324 stores across the country. We believe there is still scope for PNJ to capture more market share from the large generic jewelry market. We forecast net sales might reach VND 17.7 tn (+21.2% YoY) and net income might reach VND 1.16 tn (+21% YoY), based on our unchanged assumption that SSSG for PNJ Gold might reach 18% and the company will open 40 new stores in 2019. Gross margin will likely expand as the demand for gold jewelry with higher value item such as gems and diamonds is increasing. The ERP system going live in Q2 2019 should improve operational efficiencies as well.
- Risks: The FOL is full, which makes the stock less accessible.
- Catalysts: PNJ could reverse part of its provisioning for the Dong A Bank loan in the event the bank goes through restructuring.

Best pick in Dairy: PNJ VN

Market cap (USD mn)	672
Average 3M value (USD mn)	1.75
Foreign ownership (%)	49%
2019 PE/PB	14.3x/
2019 EPS growth (%)	23%
Dividend yield (%)	2.0%
2019 ROE (%)	29.5%

Source: Bloomberg, SSI Research

Best pick in Dairy: PNJ VN



Source: Bloomberg

Best pick

Mobile World Investment Group Ticker: MWG VN**; Price:** VND 87,000

Target Price: VND 129,200

- Investment thesis: MWG is the predominant mobile phone and CE retailer in Vietnam, a multifaceted Group with continuous expansion in not only its core business, but also from the grocery retailing business and pharmaceutical segment.

According to MWG, the market share for MWG in the mobile phone segment and CE segment has been estimated at 45% and 35% respectively in 2018. The company is aiming for 50% and 45% market share in MP and CE respectively in 2020. The grocery segment commenced operations in 2016, and MWG expects to reach breakeven with its EBITDA at the store level by the end 2018 with a total scaleout of 400 stores. For a longer term perspective, the company targets to acquire 5% of the huge market size of $80 bn. Thus, the company's net profit is expected to grow at 20-30% YoY for the next 2 years.

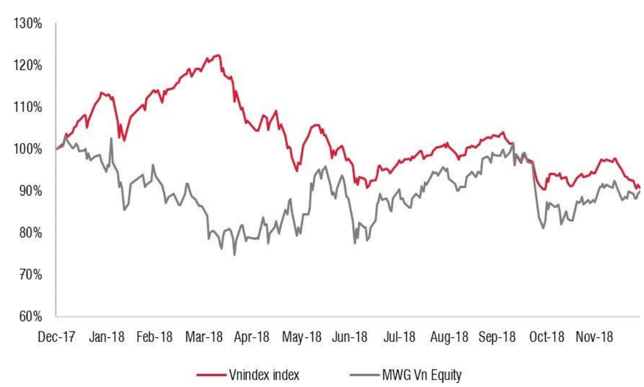
- Risks include: (1) higher-than-expected competition in the grocery segment; (2) slower growth in the mobile phone segment; and (3) increasingly fierce competition from e- commerce players.
- Growth Catalysts: (1) The grocery segment starts to turn a net profit for the company in 2019; (2) Dual-pricing policy (applied for consumer electronics currently, to be rolled out for mobile phones soon) kicked off by MWG is expected to lure price-sensitive customers from other online retailers.

Best pick in ICT Retail: MWG VN

Market cap (USD mn)	1,616
Average 3M value (USD mn)	2.34
Foreign ownership (%)	49%
2019 PE/PB	10.9x/3.1x
2019 EPS growth (%)	19.8%
Dividend yield (%)	1.7%
2019 ROE (%)	32.2%

Source: Bloomberg, SSI Research

Best pick in ICT Retail: MWG VN



Source: Bloomberg

CONSUMER DISCRETIONARY - AUTOMOBILE

OVERWEIGHT

Best pick: VEA

What transpired in 2018?

Sector performance

The automobile sector in 2018 handily outperformed the VN Index with a return of +43.8% YoY. This primarily came from outstanding returns from VEA since its listing date on
02 July 2018. VEA was the best performing stock, with a gain of +48%, mainly thanks to its great business performance up to 9M 2018 (+35.2% YoY in net income), as well as an expectation of upbeat earnings for 2018 and 2019. Among other automobile stocks, CTF has also recorded strong gains with a return of 45.3%, while HAX (- 33%) and SVC (- 11.23%) underperformed the VN Index.

Key highlights on sector

Passenger car sales accelerated with strong growth in 2018, although prices have not been falling as consumers had expected. According to the VAMA, total 2018 auto sales across association members amounted to **276,817 units, up 10.5% YoY** (vs. a contraction of -7.5% in 2017).

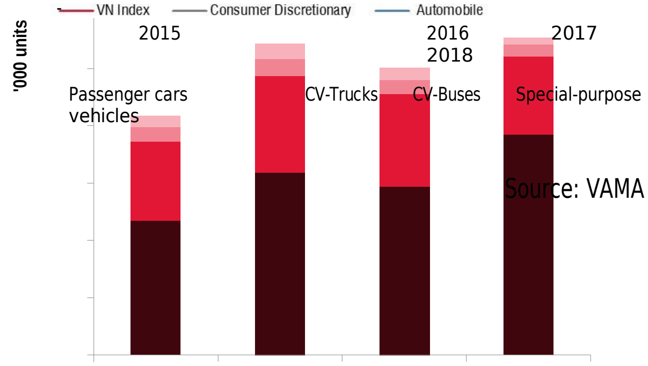
Breaking the data down into further detail:

- **Passenger cars** (PC): Sales volume has been boosted by
  +30.7% YoY in 2018, as consumers have decided to wait no longer, and abandoning the idea of waiting out for lower automobile prices, as what happened in 2017. It is worth noting that Hyundai Thanh Cong (HTC) is currently not a member of VAMA, whose PC sales

Automobile industry performance in 2018

VAMA members’ sale volume

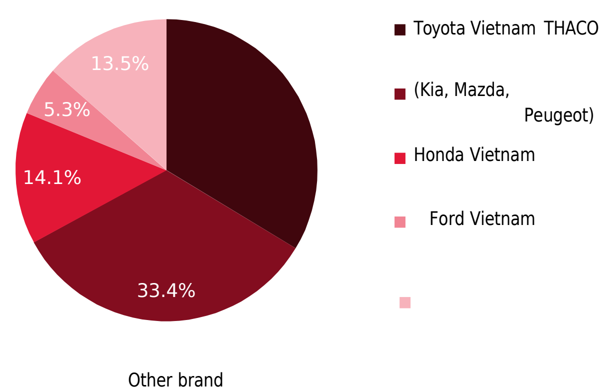
Source: Bloomberg, SSI Research



volume reached 56K auto units in 2018 as per its official announcement (approx. 80% - 85% YoY).

- Commercial vehicle (CV): Sales decreased by -15.5% YoY in 2018 (vs. -5.5% YoY in 2017) due to shrinking consumption of both truck and bus purchases. In particular, truck sales decreased by -15.4% YoY (vs. -4% YoY in 2017), mainly due to a -24% decrease in sales of pick-up trucks. Meanwhile, bus sales dropped by -16.3% YoY (vs. -15% YoY in 2017) which has stemmed from slower growth in international arrivals (+26% in 2016 and +30.5% in 2017 vs. 19% in 2018).

Market share in Passenger car segment in 2018

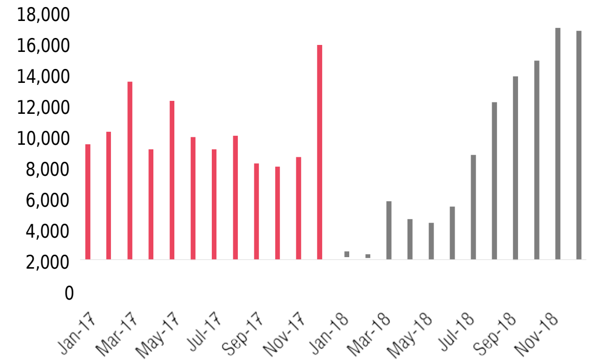


Distinct impact from Decree 116 in 1H 2018: Along with our expectations, Decree 116 created a technical barrier that affected imported cars. Before this Decree, sales had been previously expected to sharply increase given the elimination of import taxes to vehicles originating from the ASEAN region since 1 Jan 2018. We can see visually the number of imported cars that dropped significantly in the first 2 months as seen by the right-hand chart. This was not only caused by additional requirements imposed in relation to vehicle type approval issued by export governments, but also in the form of more stringent qualifications in regard to safety and emission testing for each shipment in the decree. However, CBU-type imported cars started to recover from March, and import activities have normalized since July. As a result, the barrier effect from Decree 116 was gradually removed, and imported volume was robust in the last quarter.

For the whole year of 2018, imported CBU cars decreased by - 16.1% YoY, reaching 81.6k units. This stems from a sharp drop in imported truck volume (-46% YoY) which was mainly due to the impact from Decree 116. We should note that total imported truck volume just reached 3k units in 1H 2018, while the number in 1H 2017 achieved 19.3k units. Total imported trucks reached only 24.2k, a significant drop after 3 consecutive years of an imported range of 44K- 49K units during 2015- 2017. Meanwhile, CBU passenger cars have strongly recovered (+38% YoY), arriving at 53.9K units in 2018, which was the highest post recorded since 2015.

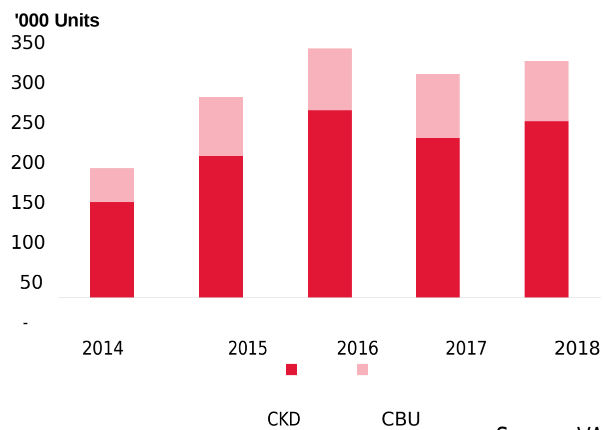
Source: VAMA, SSI Research

Monthly imported car volume during 2017 - 2018



Source: Vietnam Customs, SSI Research

Total automobile market by CBU and CKD sale volume



Source: VAMA

Almost all imported CBU cars originated from Thailand and Indonesia:

According to statistics from the Customs department, most CBU vehicles originated from Thailand and Indonesia. Notably, CBU cars originated from Thailand account for a majority percentage of 68% in terms of total volume imported in 2018, an increase by 45% YoY. This is because Honda Vietnam (HVN) imported almost all of its existing models from Thailand such as CRV, Civic, Accord HRV, and Jazz. The CRV and Civic used to be assembled locally, but HVN has imported two CBU models from Thailand since the beginning of 2017. Similarly, Toyota Vietnam (TMV) imported 3 other models: Avanza, Wigo and Rush from Indonesia since Sep 2018, while Yaris, Hilux, and Hiace continue to be imported from Thailand. We would like to remind our readers that the previous 30% tariffs on automobiles imported from ASEAN members have been completely eliminated since 1/1/2018, which was a key event towards accelerating CBU imports from ASEAN countries such as Thailand and Indonesia as mentioned in our 2018 strategy note.

On the contrary, Hyundai Thanh Cong (HTC) has halted imports of several Hyundai models (Grand i10, i20 Active, Creta, Accent, and Sonata) from India and Korea since 2018. This is the reason why CBU vehicles imported from India and South Korea continued to experience a significant slump since 2015 (please refer to the charts on the right). Given its full capacity of 120K units per annum at its automobile manufacturing complex at Ninh Binh province, HTC also aims to reach its localization rate of above 40%, and export its products to ASEAN countries with a 0% tariff rate.

Vinfast launches new automobiles, electric motorbikes: Vinfast Automotive Complex is located at Dinh Vu – Cat Hai Economic Zone in Haiphong, which covers an area of 335 ha. Total capacity for the first phase will be 250,000 units a year. Phase 1 is expected to be completed in 2019, while Phase 2 is expected to be completed in 2020, with a total capex of $3.5 bn USD.

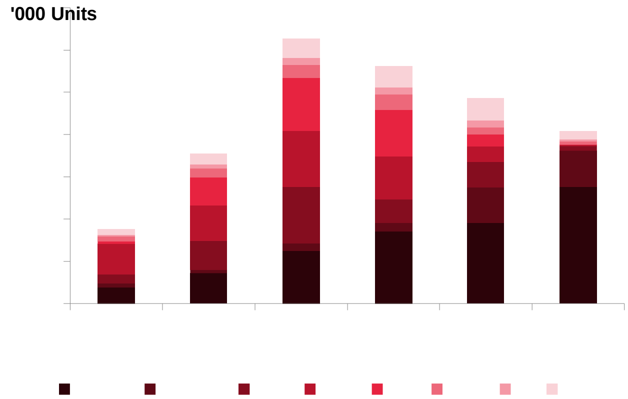
At the end of 2018, Vinfast debuted 3 car models to appeal to 3 different segments (Sedan LUX A2.0, SUV LUX SA 2.0, and Hatchback Fadil), and it is expected to deliver cars to customers in Q4 2019.

Imported cars since 2013

140
120
100
80
60
40
20
0

2013 2014 2015 2016 2017
2018

Thailand Indonesia China Korea India Japan US Other



Source: Vietnam Customs, SSI Research

Imported cars shares in 2018

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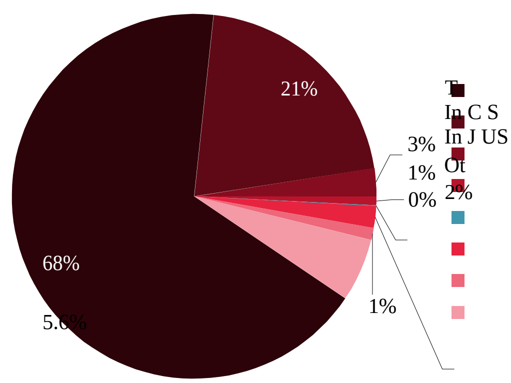


Source: Vietnam Customs, SSI Research

Draft on an amendment of Decree 140/2016/NĐ-CP regarding on registration fee: According to the new draft, pick-up trucks or VAN trucks which are under 5 seats and under 1.5 tons gross vehicle weight will be levied a higher registration fee, which might be at 60% of the registration fee for passenger cars under 9 seats. (~10%-15% of selling price after imported tax, SCT, and VAT). This is equivalent to a fee rate of 6%-9% for first time registration, as previously compared to 2%.

Previously, the Ministry of Finance (MOF) proposed that pickup trucks should bear the burden of a higher special consumption tax rate (SCT) starting in 1/1/2020, which might be at 60% of the SCT for passenger cars under 9 seats with the same cylinder capacity. As stated in the draft, the tax rate will increase to 21%- 30% from the current level of 15% for vehicles under 2,500cc. In addition, the MOF also proposed that the price used for computing the Special Consumption Tax for passenger cars under 9 seats can exclude the total value of domestic parts/ components. This regulation aims to incentivize the local auto industry in Vietnam. According to the Vietnam automobile industry's development strategy to 2025, the government targeted that total production volume will reach 446.4K units in 2025 (~CAGR of 11% in 2017-2025), which can meet 70% of total local demand. However, at present the draft has not been finalized.

Vehicle registration fee for the first time

	Decree 140/2016	New draft
Automobiles, except for:	**2%**	**2%**
Passenger cars ≤ 9 seats	10%-15%	10%-15%
Pick up/ VAN	2%	6%-9%
Motorcycle	**2%**	**2%**

Source: SSI Research

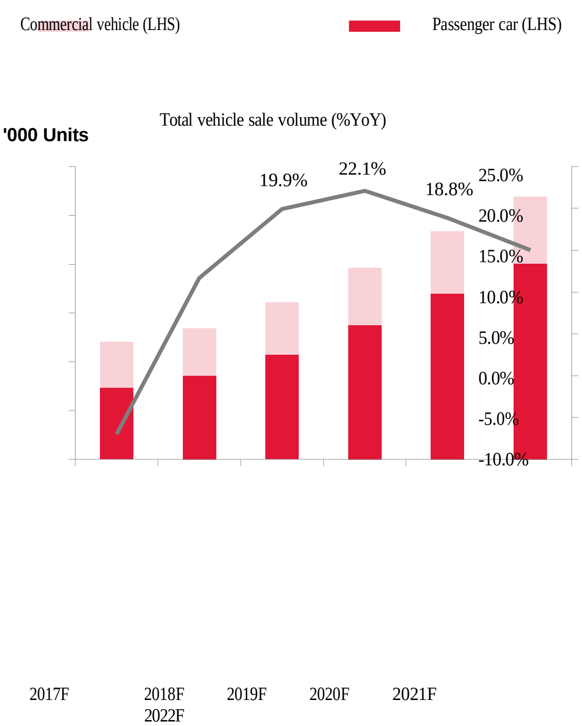
2019 View

2019 Expected Sector Growth: 18%-20% YoY Vietnamese automobile sales are expected to experience high growth in 2019. This is mainly driven by a growing middle class and rising disposable incomes for the foreseeable future. Imported vehicles might be adequately supplied to customers when importers find out how to comply with Decree 116. It should be noted that only a few vehicles were imported in 1H 2018, which sets up a very low base for growth in 2019.

In addition, the number of vehicles expired according to the statistic from the Vietnam Register Department is about 19.3K vehicles in 2019, which is equivalent to ~ 7% of 2018 sales. This implies a replacement rate that is high enough to justify a higher sales target for 2019.

Indeed, BMI estimates that total vehicle sales might amount to 322K units (+19.9% YoY), which is comprised of 215K passenger car units (+25% YoY) and 107K commercial vehicle units (+9.8%) that are estimated to be sold in 2019.

Vietnam's vehicle sales



2019 view: Overweight

We viewed the industry with an Overweight recommendation, because we believe VEA, the largest company, can outperform the Index

2020 Growth trend: 15-20% YoY

Along with the above reasons, the car ownership rate in Vietnam - 31 vehicles per 1,000 inhabitants in 2017 - is much lower in comparison to other countries in the region. Rates of ownership of other regional countries were respectively at 95 per 1,000 populations in Indonesia, Thailand (196), and Malaysia (341). Hence, we believe that robust private consumption and the country's fast-growing construction market will help support double-digit annual average growth in new vehicle sales in Vietnam during 2018-2022. BMI forecasts that total vehicle sales might grow at a CAGR of 19% during this period.

Issues and risks

Political risk: The authorities may issue regulations on purpose to limit private transportation vehicles. This is because of undeveloped transport infrastructure causing overloaded and congestive traffic, especially in big cities.

Source: BMI, Updated in Q4/2018

Best pick

Vietnam Engine and Agricultural Machinery Corp: VEA VN**; Price:** VND 39,000

Target Price: VND 43,700

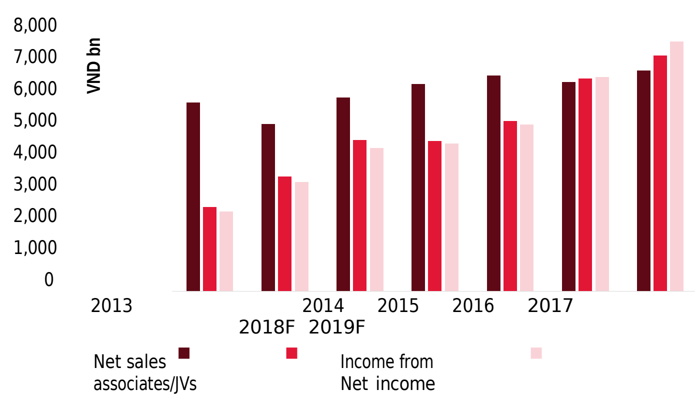
- **Investment thesis:** VEA currently operates as a holding company whose subsidiaries and JVs manufacture and trade dynamics equipment, agricultural machinery, tractors, automobiles, motorcycles, and supporting industry products. However, JVs Honda Vietnam (HVN), Toyota Vietnam (TMV) and Ford Vietnam (FVL) account for 97.6% of VEA net profit up to 9M2018. As such, VEA net profit directly correlates to the motorcycle and automobile market, which is a sector that we expect to benefit from rising income levels in Vietnam. In addition, VEA will pay 35% on par for 2018 dividend payments in Jul 2019, an attractive dividend yield of 9%.
- **Risks:** Risk of restricting private vehicles in Hanoi & Ho Chi Minh City: the authorities set a timetable for restricting and banning motorcycles in the central area of these big cities by 2030.
- **Catalysts:** Its HOSE listing in 2019 and a potential looming MOIT divestment are potential share-price catalysts.

Best pick in Automobile: VEA VN

Market cap (USD mn)	2,208
Average 3M value (USD mn)	0.83
Foreign ownership (%)	5.35%
2019 PE/PB	6.9x/2.3x
2019 EPS growth (%)	16.7%
Dividend yield (%)	9.0%
2019 ROE (%)	34.8%

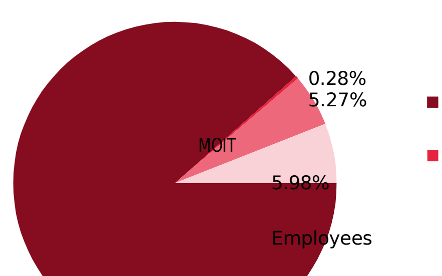
Source: Bloomberg, SSI Research

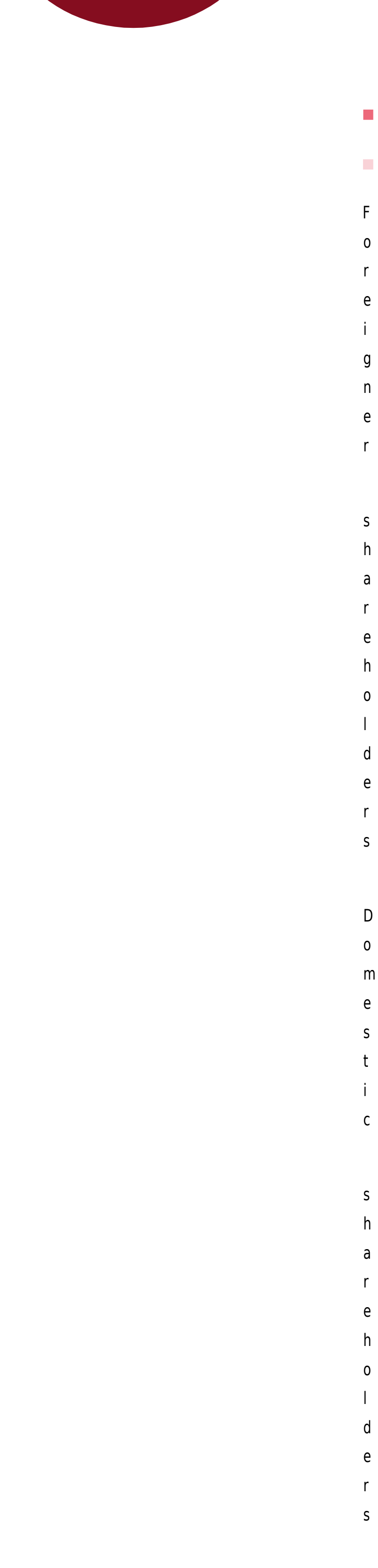
VEA's business results



Source: Company data, SSI Research

VEA's shareholder structure as of 2018-end





Source: VEA, SSI Research

CONSUMER STAPLES - FISHERIES

NEUTRAL

Best pick: VHC

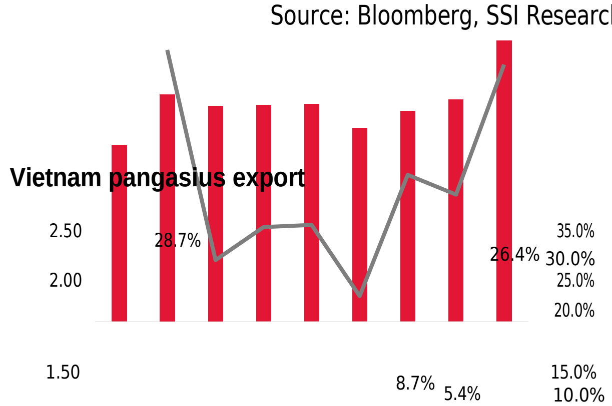
What transpired in 2018?

Industry performance

The fishery industry strongly outperformed the VN Index by 51.3% in 2018, influenced by the performance of VHC (+88.5%) thanks to impressive business results of the company in 9M 2018. The hike in the raw pangasius material price witnessed in 3Q2018 (+18.9% YoY) has increased ASP by more than 21% YoY, also resulting in strong business results for other pangasius exporting companies such as ANV (the best performer in the sector, up (+173.3%). On the contrary, there were companies that strongly underperformed the VN-Index, including HVG (- 39.1%) due to weak financial results for the 2018 financial year. Its 2018 net income attributable to parent shareholders reached VND 1.5 bn, while cumulative losses from previous financial years amounted to VND -424.6 bn. Strong performance came unexpectedly from the fisheries industry, and this surprise to the upside was from constrained supply of pangasius raw material since the beginning of the year. As such, pangasius exporting companies can transfer higher costs on a partial or even full cost basis to the buyer without impacting demand. For instance, VHC recorded its ASP to increase by more than 33% YoY for 2018.

Fisheries industry performance in 2018

Source: Bloomberg, SSI Research



- Vietnam fishery exports reached **$9 bn USD** in 2018, up 8.4% YoY according to VASEP.

Key highlights on sector/ key companies

1.00 0.2% 0.5% 5.0%
-5.1% 0.0%
0.50 -10.9% -5.0%
-10.0%

- 2010 2011 2012 2013 2014 2015 2016 2017 2018 -15.0%

Export turnover (bn USD) (LHS) Growth (% YoY) (RHS)

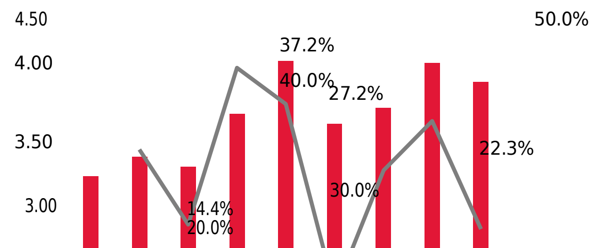
Source: VASEP

- **2018 was particularly a good year for Vietnamese pangasius exports,** for a flurry of reasons. A severe lack of fingerling since the beginning of 2018 led to a significant shortage of pangasius supply being ready for processing factories. As a result, raw material price jumped by approx. 18.9% YoY to VND 35-36K/kg in Sept 2018 before gradually decreasing to VND 28-30K/ kg as of Dec 2018. An increase in the raw material price has pushed up Vietnam's average export price by more than 21% YoY. **Overall, pangasius exports by value achieved $2.26 bn USD in 2018, up 26.4% YoY.** The US market witnessed the highest growth at 59.5% YoY, reclaiming their spot as Top 1 pangasius importer, with a 24.3% market share. This is closely followed by China, at 23.7% market share. China's imports of pangasius have grown at 29.3% YoY, nipping at America's heels for the position of top importer of pangasius.
- **VHC:** In 2018, VHC recorded encouraging export turnover growth of 26% YoY to $378 mn USD on the back of strong increase in ASP of 33% YoY, while export volume was reduced slightly.

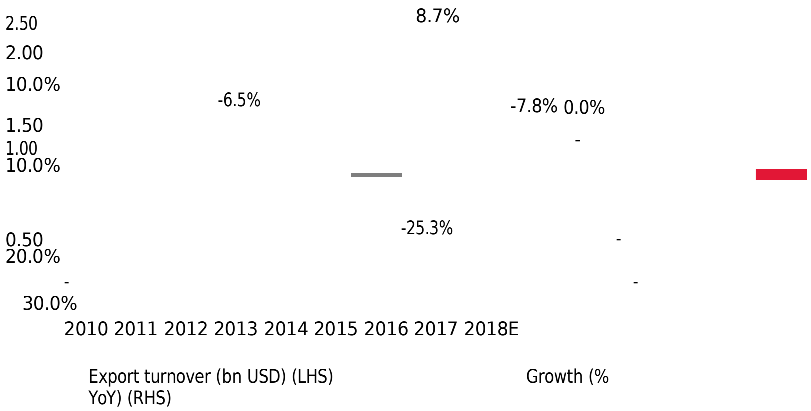
In 2018, VHC recorded a net revenue of VND 9.3 tn, up 14.4% YoY. GPM significantly expanded to a record high level of 29.9% in Q3 2018 from 14.3% back in Q3 2017. This was thanks to a higher increase in VHC's ASP of 33% YoY in 2018, compared with a 18.9% YoY growth in raw pangasius material price to VND 34-36K/kg. Amidst a rising raw material input price, VHC and other exporters have been able to pass through the increasing cost to importers, especially to the US market. Despite an increasing price, consumers still have been purchasing pangasius as they are getting more used to it compared to other white fish, such as Alaska Pollock. The US has a relatively higher ASP compared to other pangasius importing countries, and accounts for 64% total export turnover of VHC in 2018. As a result, VHC net profit in 2018 reached VND 1.452 tn, up 140.2% YoY and exceeded its 2018 net profit target by 134%.

On the contrary, 2018 has been a tough year for shrimp exports. Raw tiger black shrimp price fell by more than - 23% YoY to bottom out at below VND 200K/kg in June 2018 before gradually picking up to VND 210K/kg in Nov

Vietnam shrimps export



2018. Raw white leg shrimp prices also fell at the same pace of - 22% YoY to VND 100K/kg before finishing the year at VND 120K/kg in Dec 2018. An abundant domestic supply of tiger black shrimp (+3.9% YoY) and white leg shrimp (+9.9% YoY) in volume was harvested in 2018, and the low shrimp price globally compressed shrimp prices domestically as well. In total, **shrimp exports accounted for 39.8% of total fisheries exports,**



Source: VASEP

achieving $3.55 bn USD (-7.8% YoY). The value of white leg shrimp exports fell slightly by -3.5% YoY and reached $2.44 bn USD, compared with tiger black shrimp at $817.3 mn USD at - 7% YoY. Demand for shrimp suffered in traditional mainstay markets for various reasons such as (i) the US and Canada due to snow storms, (ii) high inventory levels already stockpiled in Japan, South Korea, and the EU and (iii) China strictly controlled importing shrimp via border trade. This coupled with increasing supply from major shrimp exporting countries such as India, Thailand, and Ecuador made it a challenge for Vietnamese shrimp exporters in 2018. As a result, shrimp export turnover to most markets witnessed a sharp decline such as the US ($637.7 mn USD,
-3.3% YoY), the EU (-2.8% YoY), Japan (-9.2% YoY),
and China (-28% YoY). Thanks to the Korea-Vietnam FTA (effective since the end of 2015), Korea trade maintained forward momentum with a 1.0% YoY growth in export value.

2019 View

2019 Expected Sector Growth: 11% YoY in value

According to the Vietnam Association of Seafood Exporters and Producers (VASEP), Vietnamese fishery exports may reach
$10 bn USD, up 11.1% YoY in 2019.

- In particular, total pangasius export turnover is expected to run sustainably at a level of $2.2 – 2.3 bn USD (vs $2.26 bn USD in 2018), on the back of stable increase in export volume and a slightly lower ASP. We believe that the ASP for pangasius has peaked in 2018 due to the significant supply shortage of raw pangasius experienced this year. As a result, ASP is expected to slightly decrease due to (i) more abundant supply of raw material and (ii) possible final results of POR14 (April 2019 for the review period pertaining to the period of 1 Aug 2016 to 31 Jul 2017), with an anti- dumping tax being much lower than POR13- a potential key greenlight regarding Vietnamese pangasius producers and their access status to the US market. Since the peak in Sept 2018, we have observed the raw material price decrease by almost 15-20% to VND 28-30K/kg in Dec 2018. Besides, under preliminary results of POR14, duties are significantly lower than POR13. Of which, Hung Vuong Corporation (HVG: HOSE) will be exempt from duties, while most other Vietnamese exporters will pay $0.41/kg. This is a major slash in duties compared with $3.87/kg in POR13 that most Vietnamese exporters (including HVG) previously paid. Low duties will thus attract new entrants to the market, and in aggregate create the effect of more exports from Vietnam to the US market, thereby compressing ASP.

- According to VASEP, shrimp export turnover is expected to reach $4bn USD (+11.4% YoY) in 2019 This is based on an expectation of (i) a recovery in the average export price and (ii) higher volume thanks to the final results of POR12 (w.e.f. Sept 2018 for the review period from 1 Feb 2016 to 31 Jan 2017). POR 12 results concluded that the anti- dumping tax for Vietnam shrimp exporting companies is 4.58%, much lower than the preliminary result of POR12 at 23.59% and POR11 at 25.76%. However, these rates are still higher than the anti-dumping duty for Indian shrimp at 1.35% (under POR12). Export prices are also expected to recover, as there is a reasonable expectation ahead for a lower supply from India and Ecuador. While Ecuador faces trade barriers related to regulations on food safety quality, Indian shrimp exporters face SIMP regulations in the US (w.e.f. Jan 1 2019), a ruling of which is expected to affect half of all shrimp export to the country.

View: Neutral

We believe that Vietnamese pangasius exporters who have been able to transfer higher costs from a squeezed raw material supply will see their gross profit margin to also become compressed compared with the peak in Q3 2018. The shortage of raw pangasius material is expected to be less acute of an issue compared with the year before. On the contrary, shrimp exporters are expected to benefit in the markets where FTAs are effective such as VKFTA, CPTPP, EVFTA, and so on.

2020 Growth trend:

According to the Master Plan on Fisheries Development of Vietnam to 2020 dated 16/09/2010, the Ministry of Agriculture and Rural Development have provided the following guidance:

- Vietnamese total fisheries' export value may reach approx. $11 bn USD in 2020, translating to a CAGR of 10.6% during the 2018 – 2020 period. Of which, the export value for shrimp is expected to reach

$5.5 bn USD, translating to a CAGR of 10.8% during the 2017–2020 period. Pangasius export turnover is also expected to reach $3 bn USD, translating to a CAGR of 20% during 2017 – 2020 period

- To achieve such an ambitious plan, Vietnamese exporters need to maintain and develop traditional markets, as well as expand to new potential markets.

- Vietnamese exporters have also been advised to target an increase of value-added product portions in terms of their total exports, which generates a higher GPM as compared to frozen raw products. Examples of value-added products include breaded shrimp, fried breaded shrimp, seasoned shrimp, and so on.

Issues and risks

- US Farm Bill: On 23 Feb 2018, the USDA (US Department of Agriculture) announced that Vietnam had completed documentation demonstrating equivalency under the US Catfish Inspection Act. In Sept 2018, the Food Safety and Inspection Services (FSIS) already submitted to the Federal Reserve a draft proposal regarding the recognition of 3 countries eligible for exporting fishery products and catfish into the USA, namely Vietnam, China and Thailand. However, there has still no final conclusion about the status of the proposal as of yet.
- Possible high antidumping tax on Vietnamese pangasius and shrimp to the US market.
- Illegal, unreported and unregulated fishing (IUU) yellow penalty cards imposed on Vietnamese fishery exports due to material shortages in fishery processing, high levels of antibiotic in seafood products, high production prices, and other miscellaneous tail risks.

Best pick

Vinh Hoan Corporation Ticker: VHC VN**; Price:** VND 93,500

Target Price: VND 102,000

- Investment thesis: Being the leading pangasius exporting company in Vietnam, and a flagship supplier to the US market, VHC has an absolute competitive advantage in the US market. This is of great strategic advantage, stemming from the company's exclusive exempt status from US anti-dumping tariffs. VHC focuses on producing hygienic and premium quality products to differentiate its products from other markets. The company accounts for approx. 44% of total pangasius exports to the US market in 2018. Along with this status achieved in the US market, the company has been expanding into producing value added products with a higher profit margin than that of fish fillets. Under the

Best pick in Fisheries: VHC VN

Market cap (USD mn)	373.1
Average 3M value (USD mn)	1.21
Foreign ownership (%)	36.5
2019 PE/PB	7.0x/
2019 EPS growth (%)	-
Dividend yield (%)	1.5%
2019 ROE (%)	26.3%

Source: Bloomberg, SSI Research

company's guidance, VHC expects to post a 15-20% YoY growth in export volume while improving its ASP in non-US markets, as the company has maintained a low selling price in 2018. While GPM is expected to be reduced compared with this peak achieved in Q3 2018, we still expect VHC to maintain this bottom line level into 2019.

- Catalysts & risks: If antidumping duties remain unchanged as per final results of POR14, we expect **ASP to be reduced significantly,** by at least 10% YoY. This would come from strong competition in the US market.

On the other hand, if the final results of POR14 is different from preliminary results, which deters new entrants from entering the market, VHC might be able to maintain its high level of ASP in 2018. As a result, its GPM would not be impacted considerably.

Best pick in Fisheries: VHC VN

Source: Bloomberg

CONSUMER STAPLES - DAIRY

NEUTRAL

Best pick: N/a

What transpired in 2018?

Sector performance

The Dairy sector declined -28.5% in terms of market capitalization in 2018, grossly underperforming the VN Index, which dropped by just -9.3%. The VNM share price decreased by -29.5%, and the QNS share price dropped by -5.3%.

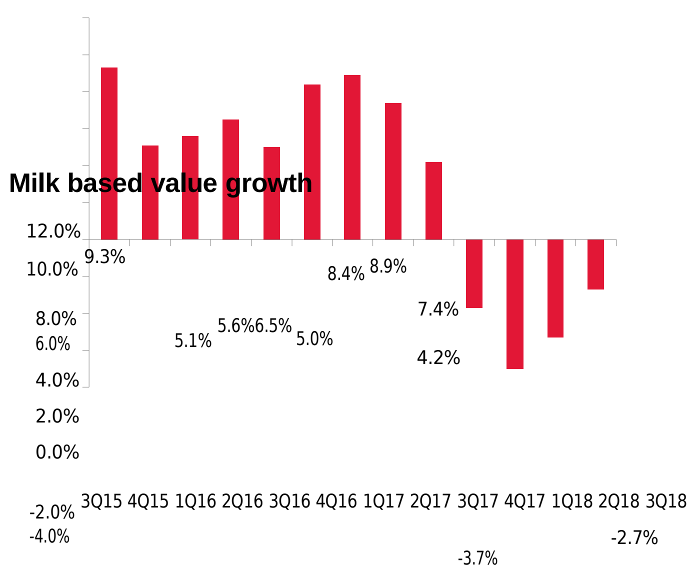
We had recommended an Overweight positioning regarding this sector at the beginning of 2018, buoyed by expectations of positive demand growth and a possible continuation of SCIC divestment.

Key reasons for underperformance of the sector can be summarized by the following:

- Unlike our expectations at the beginning of 2018, domestic dairy demand actually was very weak during the year. This led to poor business results of dairy companies, as well as a slumping share price in the stock market. Bringing market conditions into closer focus, dairy and soymilk consumption was respectively estimated to drop -5% and - 7%YoY within the first 3 quarters of 2018 as according to AC Nielsen. While VNM has gained market share of nearly 1% in 2018 to 59.5%, it nevertheless still posted a slight decline in profit (-1% YoY) due to comparatively weak sales growth (3.3% YoY) and a lower gross margin (46.7% in 2018 vs. 47.5% in 2017).

Dairy industry performance in 2018

Source: Bloomberg, SSI Research



- Furthermore, a continuation of state divestment to reduce its ownership in VNM from the current level of 36% did not materialize in 2018, as state interests declined to sell given unfavorable market conditions during the year. As a result,

-6.0%

-8.0%

-7.0%-5.3%

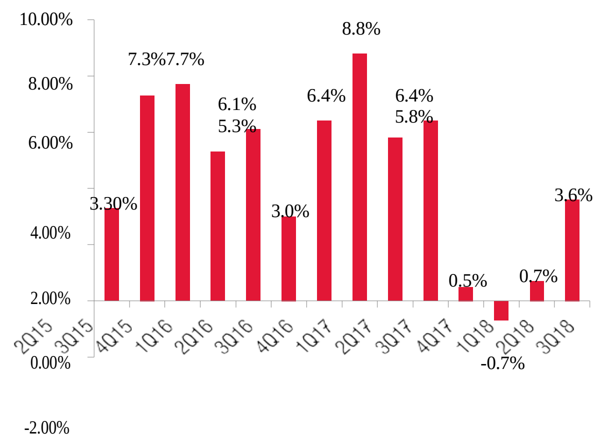
Source: AC Nielsen

the stock valuation also did not experience a re-rating as we had originally expected.

Key highlights on sector

Vietnamese consumers start to spend less on FMCG essentials when their basic needs are all covered. When this is attained, they generally channel their spending on fresh food, indulgence, and discretionary items for pleasure in a general aim to enhance quality of life. While demand in the urban market has already approached the market saturation point, consumption in the rural market has been largely fluctuating due to increasing dependence on farmer incomes on agricultural commodity prices. In 2018, prices of key agro products according to Bloomberg all panned out at low levels: coffee (-15% YoY), pepper (-36% YoY), sugar (-22% YoY), and rubber (-21% YoY). Although domestic hog prices had recovered by +42% YoY, farmers had already reacted by the earlier price trough by cutting their herd sizes during low price periods (2017), and have not yet aggressively reinvested in hogs yet.

FMCG Dynamics



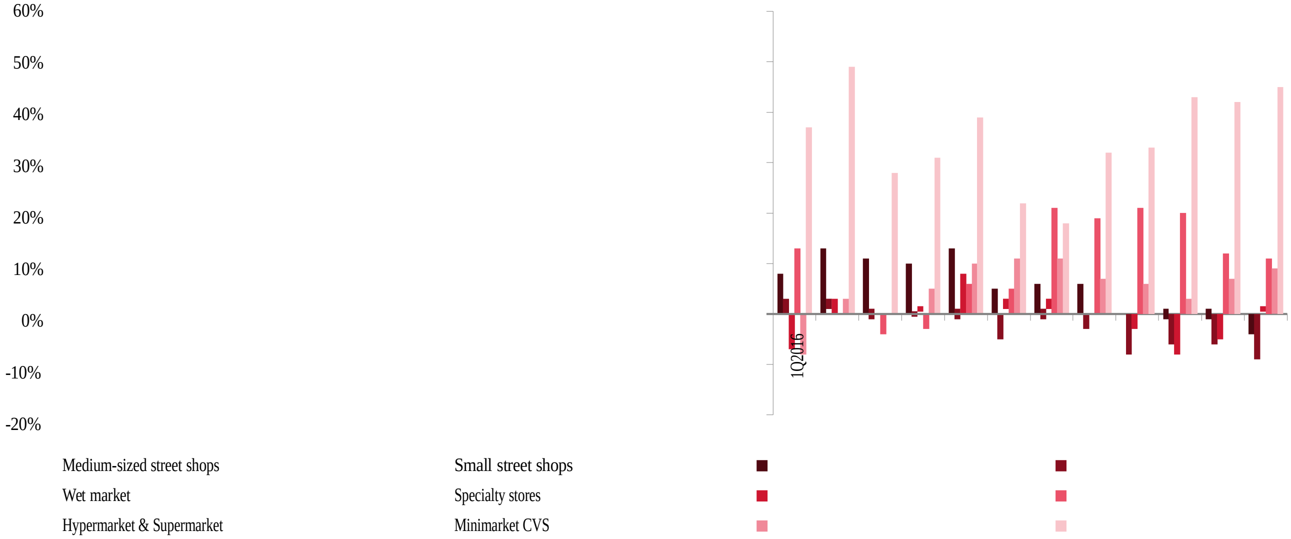
Aside from the above, there are some key consumer trends that possibly have impacted dairy consumption in Vietnam:

- Substitute goods: there is a wide degree of selection of new substitutes such as plant-based milk, milk tea, and other nutritional foods and drinks for dairy products that attract consumers, especially young people. Plant-based consumption rose 41% YoY by volume in 2018 according to Kantar Worldpanel, while malt-based drinks value advanced 16% YoY up to 9M 2018 according to Nielsen.
- Modern trade rapidly took off: MT accounted for only 17% of total retail sales, yet posting rapid growth in recent years, especially from the convenience stores and minimarts channel, while the revenue from the traditional trade channel staged a decline. For most of F&B companies like VNM, MSN, QNS, and KDC, more than 85% of sales still come from the traditional trade channel.

Source: AC Nielsen

VNM has announced its preliminary results for 2018, in which revenue totaled VND 52.63 tn (+3% YoY) and net profit reached VND 10.198 tn (-0.8% YoY). On a standalone basis, 4Q2018 sales and net profit growth were 5.3% and 30.5% YoY respectively. It should be noted that strong profit growth in Q4 2018 came from a low base set back in 4Q2017, which comes from our expectation in SG&A expenses for Q4 2018 to be lower YoY. Last year, sales growth picked up in Q4 2018, posting at

Quarterly FMCG growth by channel in urban market



Source: Kantar Worldpanel

5.3% YoY after posting only 2.2% YoY sales growth up to 9M 2018. According to VNM, sales growth also partially came from changes in the sales mix shifting towards more premium products such as 100% fresh milk, Optimum Gold, etc.

QNS: QNS to post a 5.2% sales growth, thanks to higher sugar volume and 20.5% net profit growth in 2018. Soymilk volume was flat YoY.

2019 View

2019 Expected Sector Growth:

While the dairy sector has slogged through a somewhat sour year, long-term prospects for the Vietnam dairy sector are nevertheless still optimistic. Rationale for future growth can be seen by examining the comparably low domestic dairy consumption per capita (Vietnam: 16 kg, Thailand: 26 kg, China: 21 kg, Malaysia: 21 kg, South Korea: 28 kg, Japan: 34 kg). Such gapped consumption rates as compared to the region, compounded by rising disposable income, favorable demographic factors, and a higher awareness of nutrition for children and the elderly turns dairy into a compelling proposition for the long-term investor.

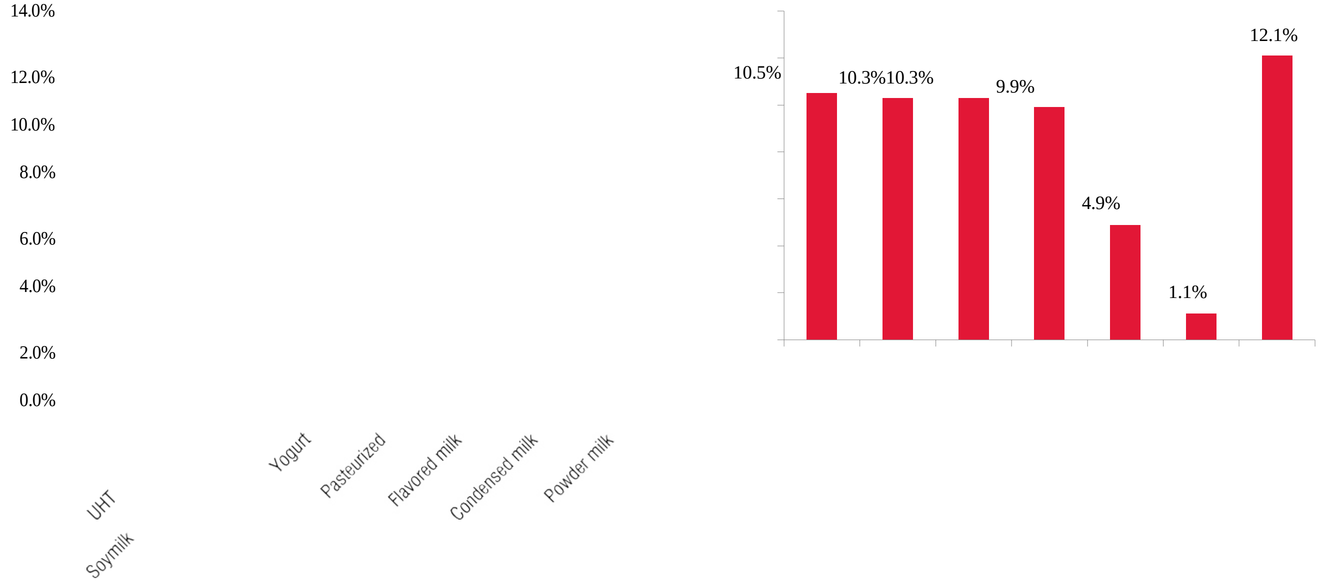
VNM as the predominant industry leader will continue to consolidate market share, especially in the rural market where its distribution network has a deep presence. However, due to shifts in consumer trends as we mentioned above, dairy producers like VNM must actively focus on fast-growing demand of premium products and utilize modern trade channels in order to boost revenue.

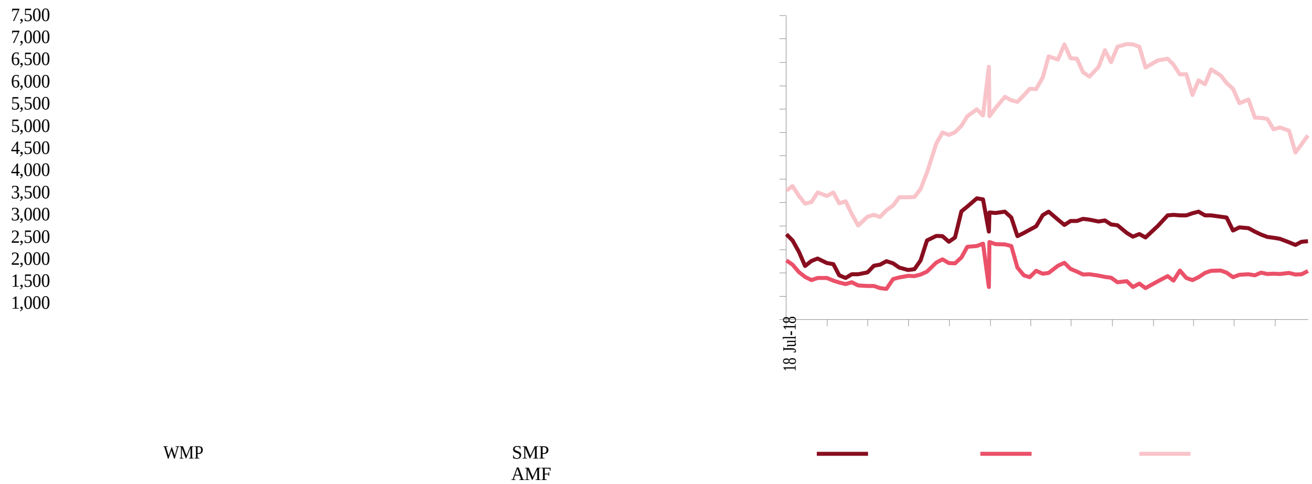
We expect VNM gross margin in 2019 will be equivalent or slightly improved compared to 2018 level (c. 47%) thanks to expected stable global dairy prices. VNM has already hedged raw milk supply and keep prices stable for its 1H2019 production.

For 2019, we look for VNM to post sales of VND 58.1 tn (+10.4% YoY), and a net profit of VND 11.16 tn (+9.5% YoY). We hold a view that 2019 will be a better year for VNM, primarily from improved domestic sales growth and potential additional revenue streams from the establishment of new export markets **View: Neutral**

At the end of 2018, VNM was trading at 2019P/E levels of 20.8x. This was lower than average regional peers' valuations of 23- 24x, yet was 60% higher than overall market valuation. Compared to the market's net profit growth of 13.3% (based on

2017-2022 CAGR forecasts-Euromonitor by value





Source: Global Dairy Trade

top 70 companies under our coverage), VNM 2019 net profit growth of 9.5% has become less attractive. Unless there is a solid catalyst in the form of state divestment, we hold a Neutral view for VNM and dairy sector for 2019.

2020 Growth trend:

We expect revenue growth will be in the range of 8%-12%, and net profit growth will be in the range of 8.5%-11.8% in 2020. The higher end growth estimates reflect the scenario of additional export sales from new markets in China and Myanmar. Meanwhile, we assume raw material prices to be flat YoY.

Catalysts

- State divestment to continue in 2019
- Domestic dairy consumption to recover stronger than expected.

Issues and risks

- **Prolonged weak domestic demand for dairy products and lower than expected export sales.**
- **Milk powder price to increase:** Rabobank forecasts dairy prices to slightly drop YoY in 2019 on uncertainties such as US-China trade conflict, Brexit, and a possible weakening in emerging market currencies.
- **Concerns over food safety** in the industry have been heightened upon increasing consumer awareness. Thus, any incidents related to product quality will tarnish the companies' reputation and its business.

CONSUMER STAPLES – Other F&B

NEUTRAL

Best pick: N/a

What transpired in 2018?

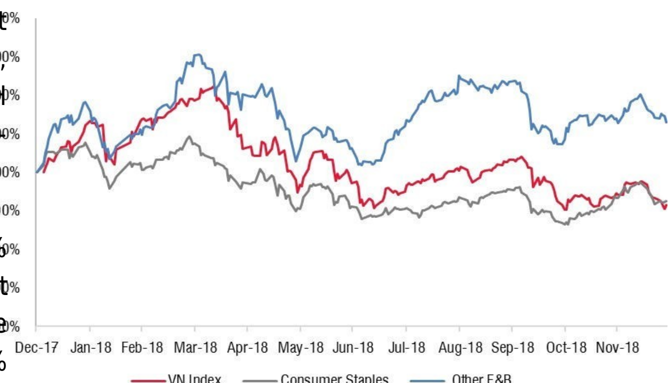
Sector performance

Other F&B sectors gained 12.9% in terms of market capitalization in 2018, outperforming the VN Index, which dropped 9.3%. Key stock performances are: MCH (+70%), MSN (+1%), HNG (+67%), PAN (+20%), KDC (-35.7%), GTN (-36.4%), VCF (-30%).

MCH was the best performer of the sector, gaining 70% YoY thanks to impressive respective sales and net profit growth of 21.3% and 50%, largely higher than peers in the sector. But the stock is very illiquid. MSN gained 1% thanks to strong growth from the consumer business (MCH) and banking business (TCB).

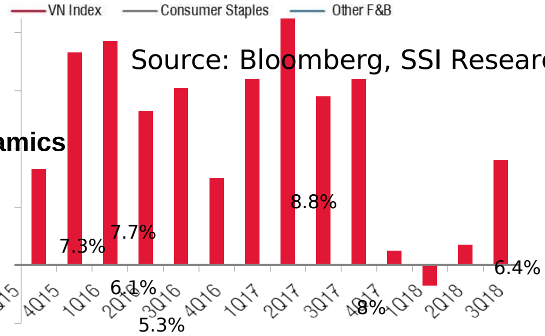
PAN gained 20% YoY thanks to a successful private placement at a premium, and from strong growth of the fisheries business. KDC was amongst the worst performers due to disappointing business results (net profit dropped by -70% YoY).

Other F&B industry performance in 2018



Source: Bloomberg, SSI Research

FMCG Dynamics



Source: AC Nielsen

Key highlights on sector

FMCG consumption softened in 2018: Vietnamese consumers started to spend less on FMCG when their basic needs become all covered. Instead, they channel their spending on fresh food, indulgence and discretionary things for pleasure purposes and to enhance quality of life. In the urban market, demand has become saturated, and consumption in the rural market has been largely fluctuating since farmer incomes are very much dependent on agricultural commodities prices. In 2018, prices of key agricultural products were all at low levels, such as coffee (-15% YoY), pepper (-36% YoY), sugar (-22% YoY), and rubber (-21% YoY) according to Bloomberg.

Premiumization - A defining trend: Consumers have been now willing to spend more on premium FMCG products as the way to improve their living standards. Masan Consumer posted strong sales growth of ~33% YoY up to 9M2018, driven by the successful implementation of its premiumization strategy (its premium seasonings and instant noodle sales grew by 50%- 60% YoY up to 9M2018). Other companies such as VNM and Pan Food also have been focusing on premium products to win consumer's pockets, especially in urban areas.

- MCH for full year 2018 is estimated to post 21.3% sales growth and 50% net profit growth thanks to a low base from 2017 and successful premiumization
- PAN is estimated to obtain its 2018 net profit target (+7% YoY) on the consolidation of BBC (full-year) and FMC (Q2)
- KDC & KDF 2018 business results have been utterly disappointing, with net profit of KDC and KDF decreasing by -70% YoY and -81.6% YoY respectively in 2018. Rising competition (both from mass-market products in rural as well as imported/premium products in the modern trade channel) caused a massive sales decline. Bloated sales- related expenses are key reasons for poor performance.

2019 View

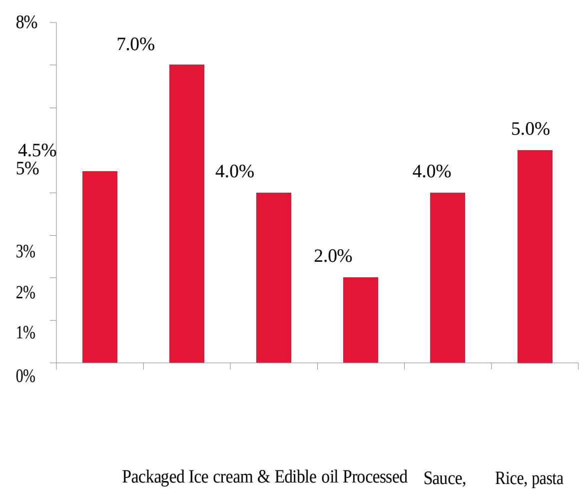
2019 Expected Sector Growth

FMCG consumption showed the early signs of recovery from starting in Q3. For 2019, we expect farmer's income to improve thanks to a higher price of agricultural commodities (especially from hogs), leading to healthier FMCG demand

consumption in the country.

at 15% and 11% in 2019, led by a higher share of premium products in the sales mix, rather than overall sales volume growth. We estimate MSN to post 40.3% YoY net earnings post-MI growth thanks to interest expenses saved from
deleveraging and a 17.7% YoY core earnings growth.

2017-2022 CAGR



net profit post-MI is forecasted to advance by 40.5% YoY in 2019, backed by 14.5% core profit growth and interest expense savings of ~1tn from deleveraging actions starting at year end 2018. Viewed from market prices by the end of 2018, MSN is traded at a 2019P/E level of 17.8x, which is lower than peers like VNM (21x, KDC: 50x)

food frozen desserts meat & seafood dressing& condiment &noodles

Source: Euromonitor

- For PAN we estimate the group to post ~21% in net profit growth thanks to strong growth in the confectionery business (on premiumization and a higher utilization of the new plant). At a market price by the end of 2018, PAN is traded at 2019 P/E levels of 19x, which is relatively lower than peers like VNM and KDC.
- KDC: We currently forecast net earnings to parent shareholders to grow by 57.7% YoY in 2019. This is mostly as we expect recovery from bad business performance in 2018. We see that KDC is traded at a 2019 P/E level of 50x, very pricey in our view.

2019 view

Neutral: Given the on-going trend of Vietnam consumer switching from basic necessities to discretionary products, we have a Neutral view on consumer staples names.

2020 Growth trend

PAN sales growth will come from continued premiumization and exports.

While overall packaged food demand is forecasted to grow at only 4.5%/year in the 2017-2022 period, there is still fast- growing demand for healthy alternatives (such as fortified products), high quality (organic, fresh products) and premium products. Therefore, F&B producers that successfully cater to this trend will be the winner in the market.

Issues and risks

Weak demand due to unfavorable weather in rural areas. **Rising commodity prices** should supply become tightened from adverse weather and curbed production
Safety: As consumers' awareness about health and safety grows, any incident affecting product quality or any event harmful to health might cause serious impact on sales. Moreover, in urban markets, consumers are becoming more health conscious and prefer home-made and organic foods with low fat content over instant and packed foods/fast foods.

CONSUMER STAPLES - BEER

UNDERWEIGHT

Best pick: N/a

What transpired in 2018?

Sector performance

lo

The beer industry outperformed the VN-Index by 3% in 2018, gi mainly because SAB pulled the industry average upwards st with its superior performance. In 9M 2018, SAB underperformed ic

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the VN Index, and at its worst period declined by -19% as the

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stock had been traded at a very high valuation basis since the n state- owned divestment news in 2017 (45x at its peak). d Despite slower sales growth and decline in net profit, the w

SAB price started to nevertheless shrug off market challenges a

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and still manage to advance and outperform the VN Index during

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the last quarter. Such helpful catalysts came in the form of the h foreign ownership limit being lifted, investor expectations on o company restructuring, and also from the nature of the stock

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possessing a low free float. Meanwhile, the BHN price si

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declined by -36.5% due to continued disappointing results and delayed government divestment. g,

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Key highlights on sector

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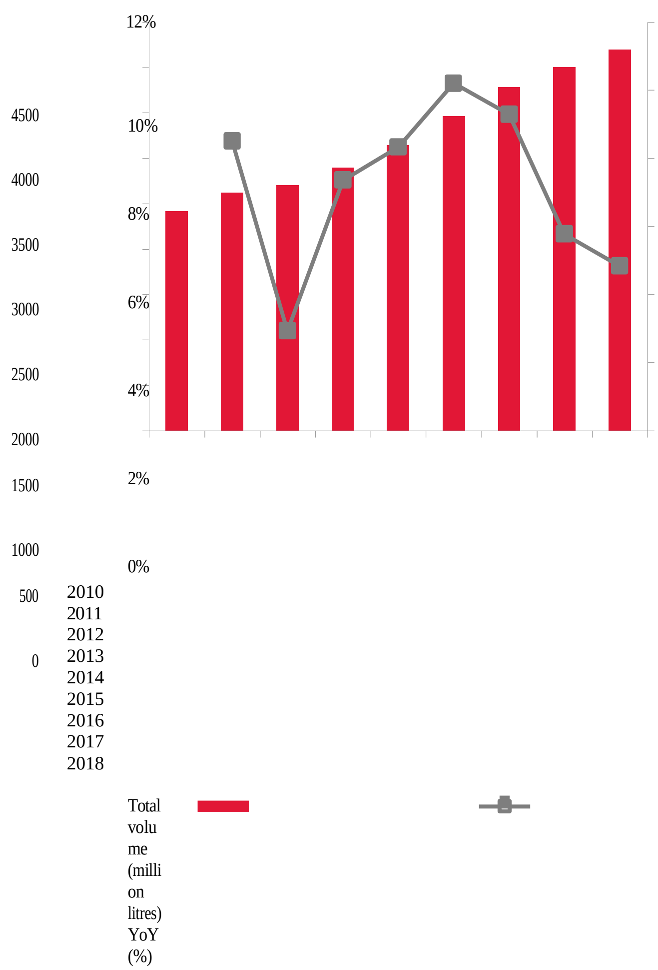
Beer industry performance in 2018

- Vietnamese beer volume reached 4.2 billion liters. This was lower than the in the last 5 years (6%-10% 2013- 2017 period).
- ThaiBev taking over Sabeco: Major changes in key r personnel and restructuring plans were announced to e improve operational efficiencies in production, distribution,

uilding SAB market share in urban areas. This should be done over a long-term horizon, and we expect to see incremental improvement in SAB profitability and its bottom line from

Source: Bloomberg, SSI Research



Source: MoIT

this year going forward. Recently, a removal of foreign ownership limits for SAB got

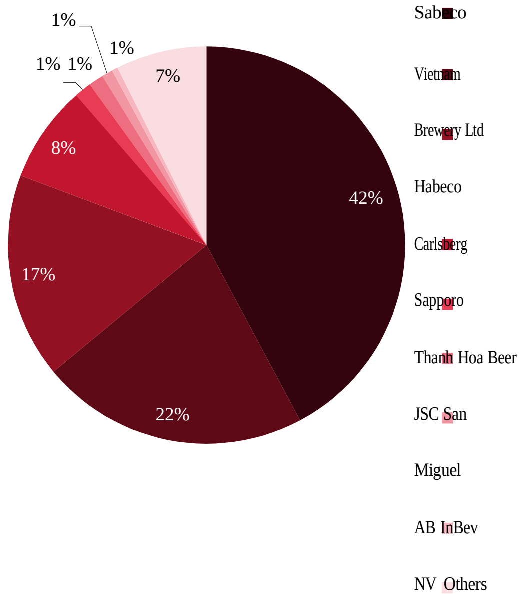
approved on 3/12/2018, which

helped ThaiBev become a direct

stakeholder at SAB. Previously, when SAB foreign ownership was restricted at 49%, BeerCo (a wholly-owned subsidiary of ThaiBev) held 49% of Vietnam F&B, which in turn owns 100% of Vietnam Beverage, which also is the company that holds 53.59% of Sabeco. The loan from BeerCo to VietBev to finance the acquisition of SAB was now converted into additional capital for VietBev. As a result, BeerCo now holds 99.4% of VietBev, which has effectively increased its stake in SAB from 26.3% to 53.5%.

- SAB total sales reached VND 35.9 tn (+5.1% YoY and below its target by 0.4%), and net profit reached VND 4.4 tn (-11% YoY but exceeding its target by 9.8%) in 2018.
- BHN total sales reached VND 9.3 tn (-5% YoY). Net income reached VND 519 bn (-21% YoY) in 2018.
- For 2017-2018, both companies experienced declining gross margins (from 26% to 22.5% for SAB, and from 27% to 24% for BHN). This is due to the average malt barley price having increased by 30% YoY as a result of shortage in supply. This was in turn due to challenging weather conditions in the EU and US. Accordingly, the SCT increased from 60% in 2017 to 65% in 2018, which could not be fully passed on to consumers in terms of a higher ASP.

Vietnam's beer market (2017)



Source: Euro Monitor

2019 View

2019 Expected Sector Growth Outlook: 5%

- Beer volume sales growth has showed signs of slowdown, from a CAGR of 7.4% in the 2010-2015 period to a CAGR of 5.3% during 2015-2018. As such, we expect the sector to grow at 5% YoY in 2019.
- As per Decision 1092/QĐ-TTg approving the national health program, we expect SCT might increase further from the current rate of 65%. However, this is not to occur until 2020, as the revision of SCT law is

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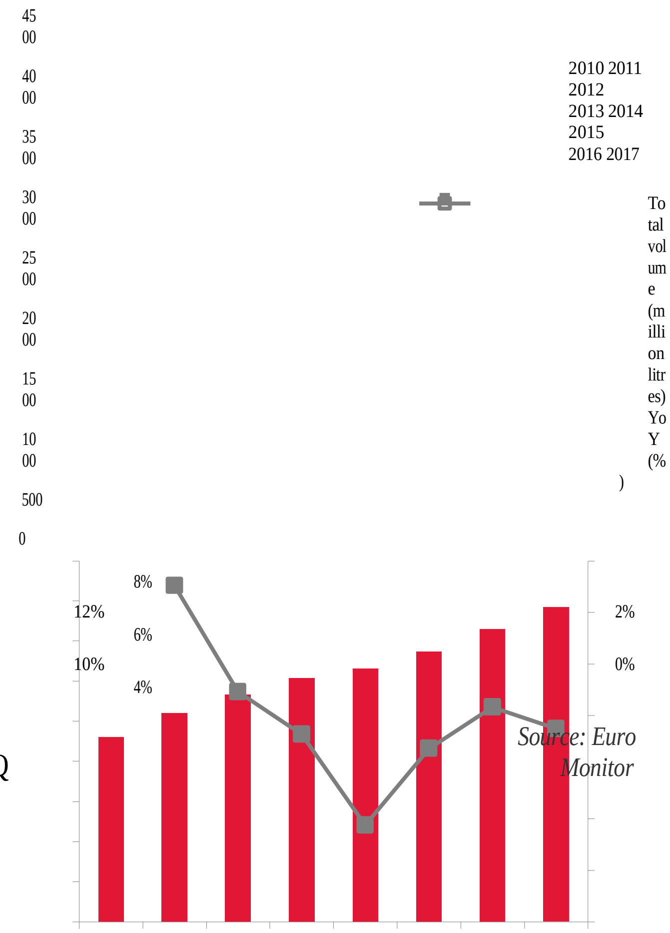
tional Assembly program agenda for 2019.

- For SAB, we currently estimate 2019 sales and net profit to reach VND 37.9 tn (+5.5% YoY) and VND 4.6 tn (+5.3% YoY) respectively. We assume average malt barley price to

14 %

decline 5% YoY in 2019 as price has dropped gradually in 4Q 18 compared to its peak in 2Q 18, As such, we expect



Source: Euro Monitor

gross margin to improve from 22.5% in 2018 to 23.9% in 2019. The company also plans to maintain its 42% market share from 2017 (vs. 40.9% in 2016).

- BHN targets to sell 632 million liters of beer in 2019 (+3% YoY).
- **Our Investment stance: Underweight,** due to high valuation. Based on our estimate, SAB is being traded at 2019 P/E levels of 35.4x. Based on the company's target, BHN is being traded at a 2019 P/E of 29.4x which is higher than regional peers (~24x). However, a potential upside catalyst exists in the form of the possibility of further government divestment in SAB, with the prospect of whittling down the remaining current MoIT stake of 36%.

2020 Growth Trend

According to Euromonitor, Vietnamese beer volume will reach 4.6 billion liters in 2020, which is equivalent to a CAGR of 5%. Standard and premium beer volume will grow at CAGR of 6% and 3.8% respectively, in which imported premium products are expected to register their highest volume growth, at 10.8%.

Issues and risks

The Ministry of Health submitted the draft law on prevention of alcohol abuse to the National Assembly for consideration in November 2018. The first draft law had banned the sale of alcohol after 10 pm, as well as bans on advertising and campaigns on mass media, social platforms, and TV channels for liquids with less than 15% alcohol by volume. However, the provision was found to have major consequences on the economy, and not feasible for implementation. The appraising bodies were requested to continue working on the revision to ensure its feasibility before presenting it to the upcoming National Assembly session for approval in May 2019. If the law were passed, all breweries sales by volume will be negatively impacted and likely to be slower in the coming period.

OIL & GAS

NEUTRAL

Best pick: PVS

What transpired in 2018?

Sector performance

The energy sector's market capitalization decreased by

- 25.1% in 2018, underperforming the VNIndex (-9.3%) which was below our expectation. Performances, however, diverged amongst stocks. While GAS outperformed the VNIndex (losing only -7%) last year, a top pick thanks to its 24% net profit growth

- other key stocks largely underperformed the VNIndex such as BSR (-56.3%), OIL (-37.2%), PLX (-25.8%), and PVD (- 37.5%).

BSR and OIL prices were exaggerated at time of their IPOs on overly bullish market sentiment in the first quarter of 2018 before the correction starting April 2018. In addition, a sharp oil price drop of ~40% in the last 2 months of the year put more pressure on oil & gas stocks.

Key highlights on sector

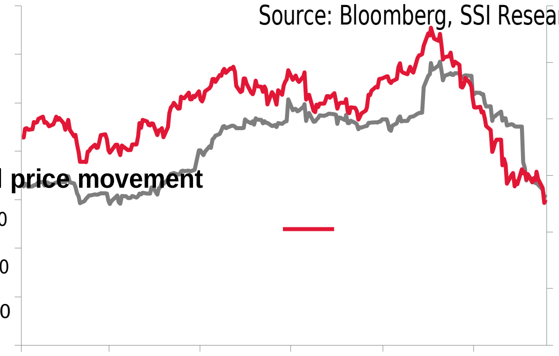
The Brent crude oil price averaged $71.76 USD/bbl (+30% YoY) in 2018. The oil price has been largely fluctuating in 2018. From the short-term peak in early October 2018, the Brent

crude oil price plunged by almost -40% to its current level of below $60 USD/bbl. The sharp oil price drop could be attributed to the following: (1) Iranian output did not decrease significantly, as per US sanctions the US still allows a number of its allies to continue importing crude from Iran and (2) the

Oil & gas industry performance in 2018

Source: Bloomberg, SSI Research

Oil price movement



demand growth forecast for crude in

400
350
300

250
200

Fuel oil price (USD/ton) (USD/bbl)

Brent crude oil

70
60
50
40
30

Jan-18 Mar-18 May-18 Jul-18 Sep-18 Nov-18

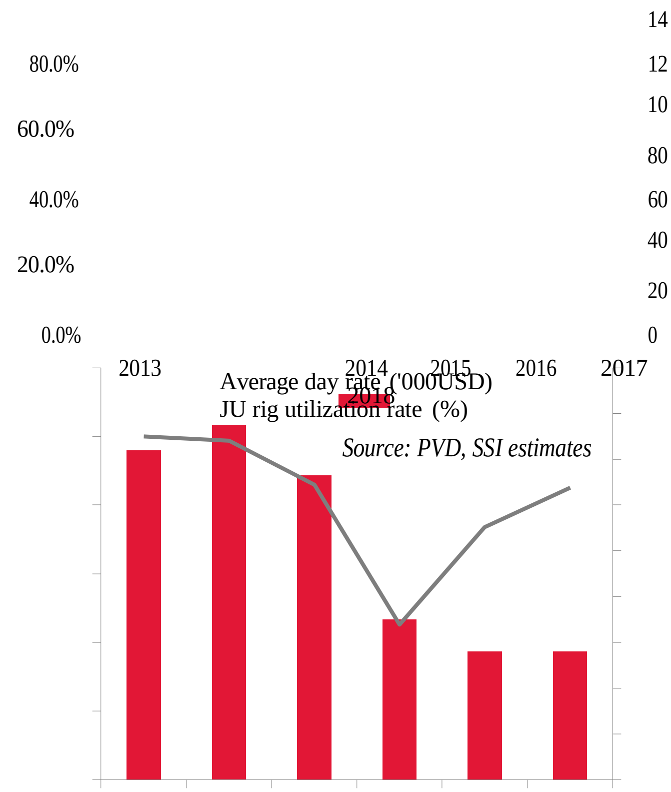
Source: Bloomberg

2018/2019 was trimmed by both OPEC and IEA, as these organizations both forecasted slower global economic growth amid trade war concerns and (3) the market has become more skeptical regarding the effectiveness of the agreement to cut 2019 output by OPEC and its allies, while there is always a potential supply hike from shale oil.

2018 earnings diverged amongst oil&gas companies. GAS, PVS, PVD posted positive earnings growths while PLX, OIL only achieved modest growths. BSR's profit witnessed a sharp drop YoY:

- GAS: Consolidated revenue and net profit for 2018 arrived at VND 75.6 tn (+17.2% YoY) and VND 12.36 tn (+24% YoY) on higher fuel oil prices (+30% YoY) and increased profitability of in-house LPG production (from GPP Ca Mau).
- PVS generated VND 14.67 tn in revenue (-13.3% YoY) and VND 549bn net profit (-46.9% YoY). However, net earnings to parent shareholders totaled VND 1.023 tn (+1.7% YoY) since its 51% held subsidiary PTSC-CGGV incurred a big loss in 2018, resulting in negative minority interest.
- PVD: It is estimated that PVD will record VND 5.5tn revenue (+41% YoY) and VND 187 bn in net earnings to parent shareholders (+315% YoY). Enhanced profitability was thanks to (1) a higher utilization rate of the jack up rig (from 74% in 2017 to 85% in 2018) (2) payment from PVEP for overdue receivables, and (3) that PVD also reverted its Development fund. Still, PVD incurred operating losses due to lack of jobs for the TAD rig, and day rates of some jackup rigs fell under the break-even level.
- PLX: 2018 consolidated revenue and PBT were VND 190 tn (+22% YoY) and VND 5 tn (+5% YoY) on the back of a higher crude oil price (+20% YoY on average) given the crude oil recovery, and a 4% increase in total sales volume.
- OIL: The company expects to earn VND 57.1 tn (-5% YoY) in revenue and VND 562 bn in profit (+4% YoY). Total crude oil export volume declined by - 13% YoY while petroleum products sales volume increased by 4% YoY.
- BSR: The company expects to deliver VND 113.5 tn (+39.5% YoY) in revenue. The Mogas 92 crack spread hit its lowest level of 0.5 points in October – December. BSR realized VND 1 tn in losses in Q4 alone, leading to 2018 PBT of VND 3.79 tn (-53.2% YoY).

PVD’s average rig utilization and day rate



Source: PVD, SSI estimates

Outlook

There are key factors in the oil & gas industry/market that will impact outlook of the sector in 2019 and in upcoming years:

- **Oil price:**

Most updated average of market consensus forecasts for Brent oil price average at $65 USD/bbl (-9% YoY), and we take it as our base case assumption for 2019.

- **E&P activities must be accelerated in upcoming years due to the urgency of the energy security issue.**

According to PVN, Vietnam crude output is expected to decline

at an average annual rate of -10% through to 2025 due to rapidly declining reserves of existing oil&gas fields such as Bach Ho, Hai Su Trang, Te Giac Trang, Su tu Vang, Lan Tay, Lan Do fields, and others; and also amid a lack of investments in new projects in recent years to which to compensate for the above declines in reserves .

According to the Revised Power Development Planning VII, there will be a number of big gas-fired power plants coming online from 2023, starting with Nhon Trach 3&4 (750MW each),

and then Kien Giang 1&2 (750 MW each) Mien Trung

1,2&3 (750MW each), and Son My 1&2 (2100MW each). Gas demand CAGR in 2018-2028 is estimated at 9%. Meanwhile, additional gas supply from major upcoming gas fields such as Sao Vang- Dai Nguyet (first gas extraction by 4Q 2020 - 1Q 2021), Su Tu Trang phase 2 (first gas extracted in 2021), Block B (first gas extracted in 2023) and Blue Whale could not satisfy demand growth in time.

In the meantime, the supply shortage will be filled by imported LNG. LNG Thi Vai (PVGas, TokyoGas, Bitexco), with a capacity of 1mil ton of LNG (~1.3bcm) will be the first terminal coming into operation starting at the end of 2021.

We are of the opinion that PVN must accelerate the

Construction (as main contractor or sub-contractor) as well as Operating & Maintenance contracts. PXS will benefit as a sub-contractor for PVS. PVB earning prospects are contingent upon

Brent crude oil price forecasts in 2019

ce	2019F	Day of published forecast
Bloomberg consensus	70	01/14/2018
Goldman Sachs	62.5	01/07/2019
Morgan Stanley	61	01/10/2019
JP Morgan	73	12/20/2018
EIA	61	12/11/2018
Reuter Polls	61.3	11/30/2018
Average	64.8	
SSI assumption	65	

metrics of oVietnam (Brent oil SD 65/bbl)	2016	2017	2018	2019	YoY
Brent crude oil price (USD/bbl)	43.7	55.2	71.8	65	- 9.47%
Increase oil					

developments of megaprojects in the coming time, as otherwise a gas supply shortage would hit the market in 2023.

2019-2020 Earnings outlook:

- **Upstream: PVS, PXS, PVB, PVD**

Upstream companies will benefit from upcoming projects, such as Sao Vang Dai Nguyet (2018-2021, capex of $1.3 bn USD), Su

Tu Trang phase 2 (first extraction in 2022, capex of $2 bn USD), Block B (first extraction in 2023, capex of $10bn), and Blue Whale (first extraction in 2025- capex of $10bn). With these projects, we surmise that PVS will be one of the biggest beneficiaries, as we assume PVS will win Mechanical &

reserve (mn tons)	16.66	4	12	10-15	
Crude oil exploitati on (mn tons)	17.23	15.52	13.97	12.37	-11.45%
Dry gas exploitati on (bcm	10.61	9.89	10.01	9.69	-3.20%
Investme nt (VND tn)	47.3	39.2	40.9	57.2	39.85%
PVN revenue (VND tn)	249.4	292.7	325.5	307	- 5.68%
PVN net profit (VND tn)	16.6	38.3	47.1	31.3	- 33.55%

State divestment plan

Company	Current state ownership	Targeted state ownership	Timeline
GAS	95%	65%	2019-2020
PLX	84.7%	51%	2019-2020
PVS	51%	below 30%	2020-2025
PVD	50.50%	36%	2020-2025
OIL	80.5%	35.1%	2019-2020
BSR	92.1%	43%	2019-2020

Source: PVN

Source: PVN

GAS investments in new pipelines, such as Nam Con Son 2 Phase 2, Block B from 2H2019.

PVS: We estimate PVS to post 0.6%/20.3% net earnings growth in 2019/2020, thanks to recognition from Sao Vang-Dai Nguyet, Gallaf – Al Shaheen, Salman Development, Su Tu Trang phase 2, etc.

PVD: 2019 will be a brighter year for PVD, thanks to (1) the jack rig utilization will increase (from 85% in 2018 to expected 90- 92% in 2019) (2) an expected slight improvement in the day rate from a squeezed rig supply in the Vietnam market and busier E&P activities and (3) From 2018, PVD started to expand the depreciation lifetime of its JU rigs from

20 years to 35 years, which will help PVD to avoid operating losses in 2019.

- **Midstream: GAS**

We expect GAS earnings to post -3.3%/9% growth rates in 2019/2020 on assumed Brent crude of $65/bbl for 2019-2020 (-9% lower compared to the average Brent price in 2018). As the price of approximately 25% of dry gas volume is directly linked to the fuel oil price, we estimate GAS net profit will increase by ~VND 1.5-1.7 (13-15% of 2018 net profit) should the Brent oil price increase by $10/bbl or vice versa. Meanwhile, dry gas volume will go flat at the 10 bcm level in 2019-2020.

- **Downstream: Petroleum retail (PLX, OIL), BSR**

PLX: We do not expect robust growth in core petroleum distribution operation in 2019 given the current high levels of volatility in the global crude oil price. Given the assumption of a 4% increase in total sales volume coupled with growing retail & premium products, we expect that PLX will earn roughly VND 5.2 tn (+5% YoY) in 2019.

OIL: Facing many obstacles in the state divestment process, we do not think any industry investors will be able to purchase PVOIL shares by the end of 2019. Therefore, it is likely that PVOIL will not benefit from private investors' deep pockets and efficiency any time soon. Therefore, 2019 earnings will be primarily driven by the low base set in 2018, and management's effort in lowering operating expenses.

BSR: It is likely that BSR is recovering from the Mogas 92 crack spread level, possibly set to normalize in 2019. However, the fact that the refiner cannot raise its total capacity, which is already at 105%, which gives the firm's operating result a mixed outlook.

Catalysts: State divestment will serve as a strong upside catalyst for oil&gas companies, since it helps the company to enhance its efficiency and transparency across the sector.

2019 view: Neutral

In this sector, we have an Overweight view on PVS based on solid earnings outlook in the coming years from approx. a

$2bn USD EPC/EPCI backlog. Meanwhile, for the largest tickers in terms of market capitalization like GAS and PLX, we have a neutral view on forecasted modest earnings growth. We also have a neutral view on PVD from expected fundamental improvements, and hold an Underweight view for BSR and OIL.

Issues and risks

Global oil prices could decline on weaker than expected demand or miscellaneous geopolitical issues.

Possible delays in implementing above-mentioned large offshore projects is also possible.

Best pick

PetroVietnam Technical Services

Ticker: PVS VN**; Price:** VND 17,600;

Target Price: VND 21,300

Investment thesis:

- M&C activity will be a key growth driver. We estimate PVS will post strong earnings starting from 2020 thanks to its huge offshore project backlog in 2018- 2022 exceeding $2 bn USD from key projects as we mentioned above. We also expect that the PTSC-CGGV JV will be totally dissolved in 2019, helping PVS to avoid a net loss of minus 200-300 bn VND a year. Furthermore, FSO Sao Vang-Dai Nguyet will start to generate earnings for PVS from 2021.
- Relatively cheap valuation: 2020 P/E of 9.7x (discount 25% to regional peers), with a cash dividend of
~5.6%

Upside catalyst to our forecast includes: (1) higher profit from the JV (from FPSO Lam Son should the official contract with PVEP be signed at a higher day rate),

(2) higher than estimated provision reversals for projects that have already completed the handover process.

Downside factors to our forecast are (1) lower margin of PVS business segments due to oil price correction and rising competition; (2) any delay that may arise in the implementation of large PVN projects, especially for upcoming projects like

Best pick in Media: PVS VN

Market cap (USD mn)	363
Average 3M value (USD mn)	4.25
Foreign ownership (%)	21%
2019 PE/PB	10.7x/
2019 EPS growth (%)	0.6%
Dividend yield (%)	5.6%
2019 ROE (%)	7.5%

Source: Bloomberg, SSI Research, Data on 28 Dec 2018

Best pick in Media: PVS VN

Source: Bloomberg

Block B, Su Tu Trang phase 2, both of which will impact PVS' revenue stream.

REAL ESTATE – COMMERCIAL DEVELOPERS

NEUTRAL

Best pick: VHM, NLG and DXG

What transpired in 2018?

Industry performance: OUTPERFORM

The commercial real estate developer sector traced closely along the VN Index until early April, where it peaked upwards with a 28% gain, then corrected to a lower gain of 4.9%. While small in terms of positive gains, it still handily outperformed the VN-Index with a -9.3% drop in 2018. This was mainly thanks to the outperformance of VIC, whose market cap accounted for 37.4% of total industry market capitalization. The VIC share price topped out at a 75% gain in April then reduced altitude down to a respectable gain of 49.2% by year end. Such strong performance of VIC can be attributed to the listing of its residential arm – Vinhomes JSC (VHM: HOSE) in May 2018, not to mention the completion of its entirely new Vinfast Automotive Complex, with the official launch of its automobiles and e- scooters debuting in the market by the end the year.

QCG was the worst performing stock which declined -67%. However, QCG has very weak weighting in the overall index. Such poor performance was mainly due to its modest earnings and several uncertainties related to its ongoing projects.

Meanwhile, we think that weak market sentiment after the peak in April, coupled with the delay of licensing for real estate projects in HCMC, have caused fluctuation of share prices for real estate developers during the year, especially for those who focus in the HCMC market including NLG, KDH, DXG, or NVL. As for VHM, the stock after listing in

Industry performance in 2018

Source: Bloomberg, SSI Research

May underperformed the VN Index with a decrease of -17% at year-end due to high selling pressure from foreign investors and low liquidity during the year. This decline was baked into market sentiment, despite strong earnings growth prospects ahead.

Key highlights on sector

- **Sustained performance**

According to Savills Vietnam, the total primary supply of condominiums in Hanoi during 2018 continued to grow by +17% YoY. Meanwhile, data diverged and sharply declined by

-39% YoY in HCMC due to lengthened licensing processes for project development, which caused limited new launches in this market throughout the year.

However, the number of transactions grew in both cities, with 21% YoY in Hanoi and 5% YoY in HCMC. This implied sustained and healthy housing demand. The affordable and mid-end segments kept leading both markets, which accounted for more than 60% of total transactions. However, due to a lack of supply of lower end segments, it was witnessed that the high-end segment occupied a higher portion of 39% in sold units in HCMC in 2018, while it was just 21% in 2017, according to CBRE Vietnam.

In 2019, Savills expects there would be an additional respective 39,000 units and 37,000 units to be added into primary condo supply within HCMC and Hanoi, in which large scale Vincity projects will likely continue to dominate Hanoi market and may account for a considerable portion in total supply in HCMC given the legal approval process that is to conclude this year.

- **Primary selling prices stayed steady**

According to CBRE Vietnam, real estate prices in HCMC remained flat in most segments. The exception was with luxury condos, with a 17% YoY increase in 2018. However, this segment merely accounted for 3% in total sold units.

Prices of condos in Hanoi saw a slight increase of 3.2% in the affordable segment, while other segments remained almost steady.

In 2019, CBRE anticipates that the prices of high-end, mid-end, and affordable segments in HCMC would remain steady, yet luxury condo prices may further increase with new launches of luxury projects in the CBD. Meanwhile, prices are expected to be stable in Hanoi across most segments.

- **Strong foreign inflows from both developers and buyers in real estate sector**

According to the Ministry of Planning and Investment, total

registered FDI in Vietnam stayed flat at $35.5 billion USD, and real estate continued to be among the sectors which attracted the most FDI in Vietnam with $6.6 billion USD, accounting for 18.6% of total FDI and ranking 2nd. Investors from Singapore,

HCMC Condominium (Units)

200,000

150,000

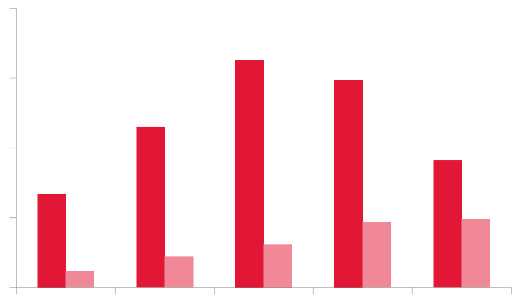
100,000

50,000

0

2014 2015 2016 2017
2018

Total primary Units No. of
transactions



Source: Savills Vietnam, SSI Research

Hanoi Condominium (Units)

200,000

150,000

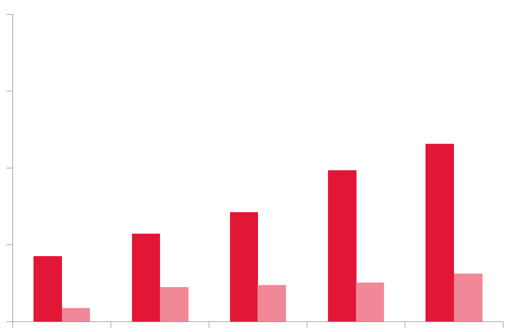
100,000

50,000

0

2014 2015 2016 2017
2018

Total primary Units No. of transactions



Source: Savills Vietnam, SSI Research