SSI INSTITUTONAL RESEARCH & ADVISORY

VIETNAM STRATEGY NOTE 2019

A BUD IN THE MUD

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MACRO's 2018 REVIEW & 2019 OUTLOOK

2018 review: Ended with a high note

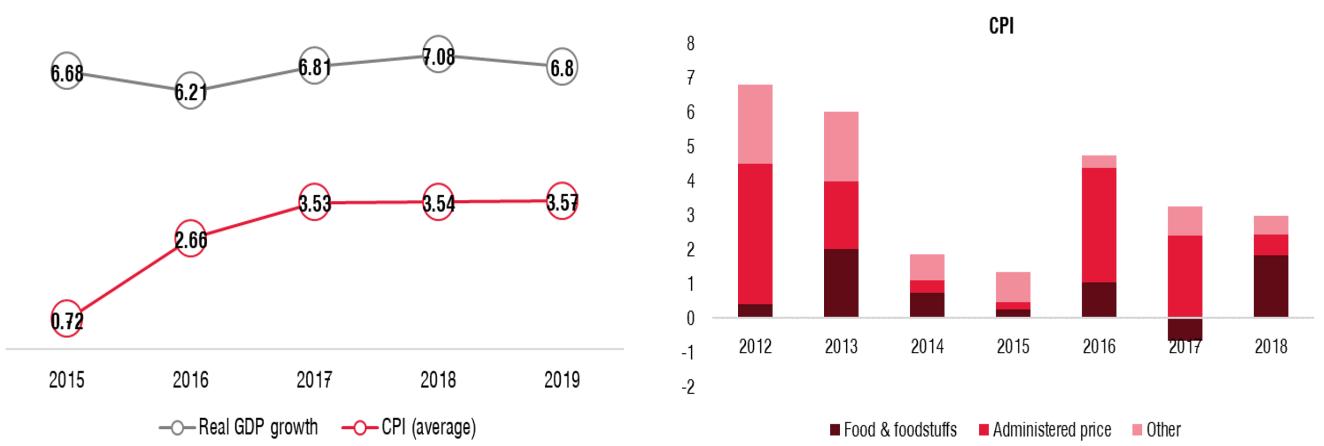
Vietnam economy growth hit a multiple year high in 2018, with a positive surprise in 4th quarter data. Q4 **GDP growth** is extremely high, at 7.31% YoY, only playing second fiddle to growth back in previous quarters in 2018 (7.65% GDP). Such top-tier growth in terms of global growth is more than enough to boost full year growth to 7.08% YoY, a pinnacle achievement and the highest since 2007. By sector, growth drivers originated from manufacturing (+12.98%) and construction (+9.1%), and also from the agriculture sector having posted growth at a 6-year high. By expenditure, final consumption increased 7.17%, and fixed asset formation jumped by 8.22% YoY.

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, another massive increase, this time at +20% YoY.

High growth still remains to be associated with low **inflation**, as December CPI was -0.25% lower MoM, by and large primarily influenced by a lower oil price. For the full year, CPI increased by 3.54% YoY on average, lower than the government target of 4%. Major drivers for the CPI in 2018 include the gasoline price (adding 0.63% to headline CPI on average), healthcare (0.54%), pork (0.44%), and the education fee (0.37%). Core inflation is quite low, just 1.48% YoY on average.

Vietnam GDP growth, CPI and CPI breakdown



Source: GSO, SSI Research

In fact, the level of growth is close to the recent peak last seen from 2005-2007. The major difference resides within the quality of growth. During 2006-2007, the percentage of total factor productivity to GDP growth is quite small (around 5%), while it was 43.5% for 2018 (2016-2018 average: 43.29%). In layman terms, it means Vietnam needs less capital, yet requires a workforce increase in order to achieve a similar level of growth. Looking at the data, it becomes evident that the improvement in manufacturing and the construction sector, along with tamer inflation (as CPI was lower in both Nov-Dec), resulted as key catalysts for this impressive growth.

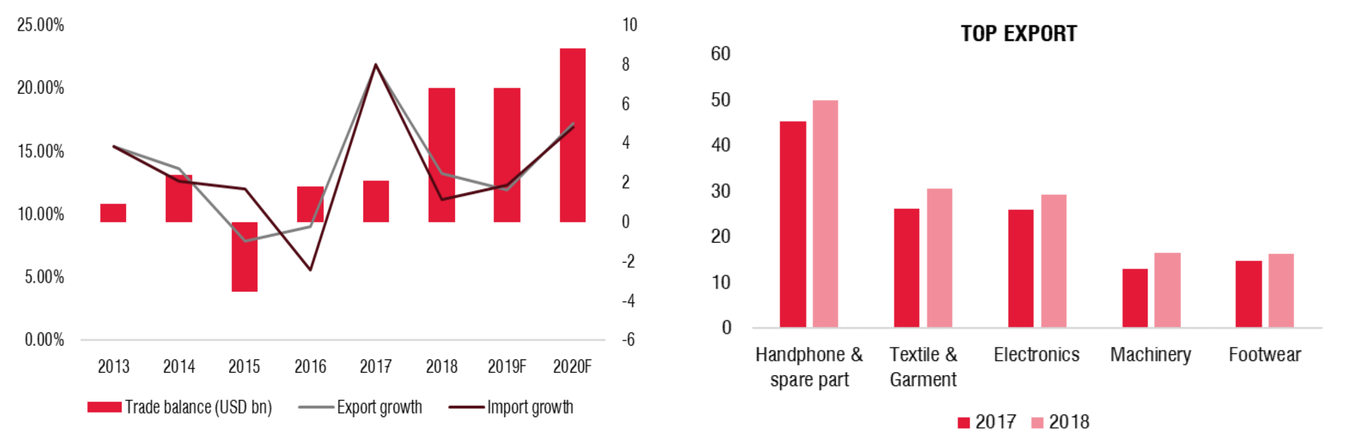
On **the investment** side, in total there was an increase to 11.2% YoY (at about $80 bn, or 33.5% GDP), and once again the private sector led the charge on growth (+18.5% YoY), followed by the FDI sector (+9.6%) and then the public sector (+3.9%). Please note that in the breakdown, the public sector 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, and budget deficit at 3.6% GDP. The government target will be at the higher end of the National Assembly plan, as it wants to push ahead growth 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 2019	Q2 2019	Q3 2019	Q4 2019	1H 2019	9M 2019	2019
	GDP growth	**6.93%**	**6.7%**	**7.03%**	**6.63%**	**6.8%**	**6.89%**	**6.8%**
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%***	***8.57%***
2.1	Industrial	9.31%	8.91%	8.85%	7.2%	9.09%	9%	8.43%
2.1.1	*Mining*	*-1.8%*	*-4.8%*	*-5.2%*	*-5.04%*	*-3.46%*	*-4.05%*	*-4.4%*
2.1.2	*Manufacturing*	*12.7%*	*13.05%*	*12.2%*	*10.86%*	*12.89%*	*12.63%*	*12.09%*
2.2	Construction	6.18%	8.78%	9.7%	10.21%	7.73%	8.56%	9.2%
3	***Service***	***6.57%***	***6.88%***	***6.85%***	***6.92%***	***6.74%***	***6.78%***	***6.83%***

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.

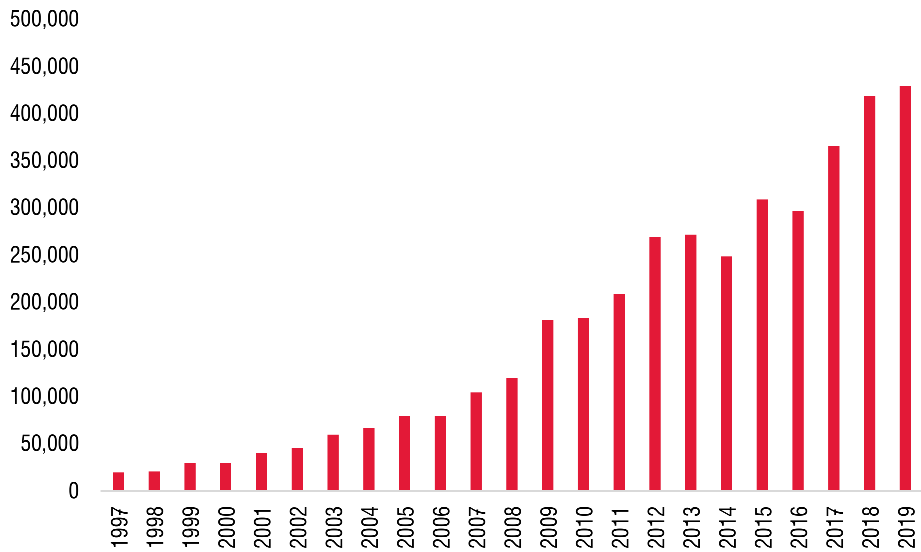
- With less pressure on inflation in the short-term, **monetary policy could see a slight dovish-tinged tightening** which means policy-makers could switch to easing if needed to support growth, which might be feasible with a tamer inflation print. While credit growth limit for 2019 is only 14%, signalling 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

	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
GDP growth (%- 2010p)	5.25	5.42	5.98	6.68	6.21	6.81	7.08	6.8	7
Agriculture (%)	2.68	2.67	3.49	2.41	1.36	2.9	3.76	3.4	3.7
Industry & Construction (%)	5.75	5.43	7.14	9.64	7.57	8	8.85	8.5	8.8
Construction (%)	3.25	5.40	7.07	10.82	10.00	8.7	9.1	8.4	9.1
Manufacturing (%)	5.80	7.44	8.45	10.60	11.90	14.4	12.98	12.1	14.7
Service (%)	5.90	6.56	5.96	6.33	6.98	7.44	7.03	7.3	7.5
Retail Sale (%)	16.00	12.60	10.60	9.50	10.20	10.86	11.7	12.1	12.7
Industrial Production Index (%)	4.80	5.90	7.60	9.80	7.50	9.4	10.2	9.7	10.5
CPI (average, % YoY)	9.21	6.60	4.09	0.72	2.66	3.53	3.54	3.57	3.16
CPI (year-end, % YoY)	6.81	6.03	1.86	1.34	4.74	2.6	2.98	3.65	2.42
Exports (USD bn)	114.60	132.20	150.00	162.40	175.94	213.77	243.5	269.67	307.62
Imports (USD bn)	113.80	131.30	148.00	165.60	173.26	211.1	236.7	262.86	298.79
Trade Balance (USD bn)	0.80	0.90	2.00	-3.20	2.68	2.7	6.8	6.81	8.83
% of Export	0.70%	0.68%	1.33%	-1.97%	1.52%	1.26%	2.79%	2.44%	2.76%
Exchange rate (USD/VND)	20,900	21,250	21,250	22,520	22,790	22,750	23,245	23,880	24350
Current Account Balance (USD bn)	7.00	8.80	9.36	1.00	9.60	4	9	7	9
Foreign reserve (USD bn)	25.40	26.00	34.30	28.40	36.70	50	56	62	70
Foreign reserve/imports (weeks)	11.61	10.30	12.05	8.92	11.01	12.29	13.1	12.39	12.38
Credit growth (%)	8.91	12.50	14.00	17.29	18.80	18.2	14	14	14
Deposit rate (VND -%)	8.00	8.00	6.00	6.00	6.00	6	7	7.5	7

Upcoming IPO list

Company Name	Sector	Market cap	IPO ratio	IPO size	Timeline
Mobifone	Telecom	4,581	30.00%	1,374	2019
Agribank	Bank	3,436	30.00%	1,031	2020
VNPT	Telecom	3,084	30.00%	925	2019
SATRA	Retail	1,982	30.00%	595	2019
Vinacomin	Mining	1,648	30.00%	494	2019
Vinataba	Consumer	881	49.00%	432	2019
VICEM	Construction Material	1,000	40.00%	400	2019
RESCO	Real Estate	1,123	30.00%	337	2019
Saigon Tourist	Hospitality	1,013	30.00%	304	2019
GENCO 2	Utilities	1,804	13.00%	235	2019
Ben Thanh Group	Real Estate	458	49.00%	224	2019
Sawaco	Utilities	344	49.00%	168	2019
GENCO 1	Utilities	1,263	13.00%	164	2019
HUD	Real Estate	330	49.00%	162	2019
TOTAL		22,948		**6,846**	

Upcoming divestment list

USD mil (price as of Dec 7th, 2018)	Market cap	Divestment ratio	Divestment size	Timeline
VNM	10,000	36%	3,600	2019
ACV	7,563	30.40%	2,299	2019
SAB	6,801	36%	2,448	2019
VEA	2,154	88.50%	1,906	2019
BHN	825	82%	677	2019
PLX	3,036	24.90%	756	2019
HVN	1,837	35.20%	647	2019
DHG	474	43%	204	2019
VGC	340	56.70%	193	2019
TVN	279	93.90%	262	2019
MBB	2,085	10%	208	2019
DVN	159	65%	103	2019
VGT	262	53.50%	140	2019
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.

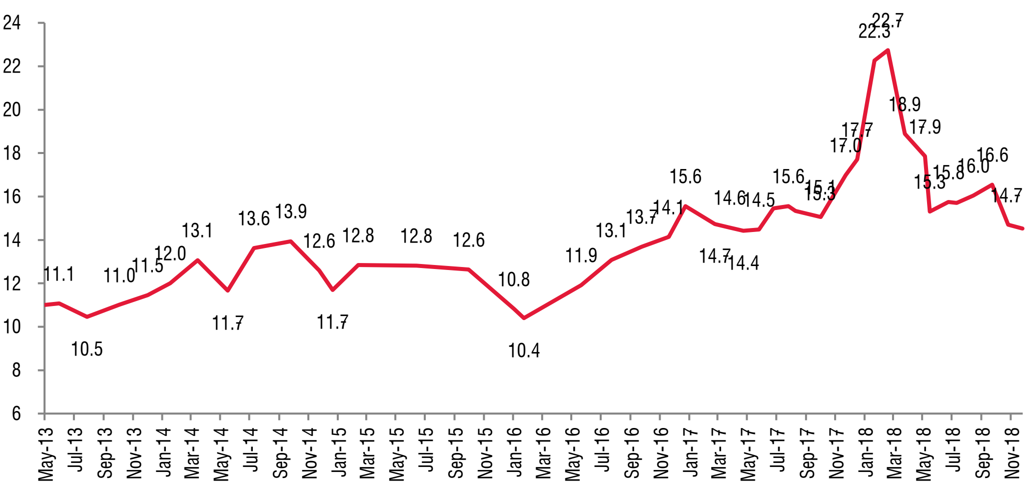
Based on our coverage (*), 2018 net profit growth is expected to reach 20.3% YoY. Although the sector with the highest earnings growth in 2018 is real estate, this is mainly thanks to the new listing of VHM. Therefore, we think that consumer discretionary, banking, and industrials are the 3 sectors that 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, TPB	CTG, LPB	
Property	Residential	Neutral		VHM, DXG, NLG	VIC, KDH, VRE	NVL	
Property	Industrial	Overweight		KBC, IDC	BCM		
Consumer	Staple	Underweight		MSN	VNM, VHC, QNS	SAB	KDC
Consumer	Discretionary	Overweight	MWG, PNJ, MSH	VEA, DGW, STK	FRT, YEG, EVE, TNG	TCM	
Oil & gas		Neutral		PVS	GAS, PLX	BSR, OIL, PVD	
Industrial		Overweight	VTP	ACV, PC1, GEX, PTB, 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.

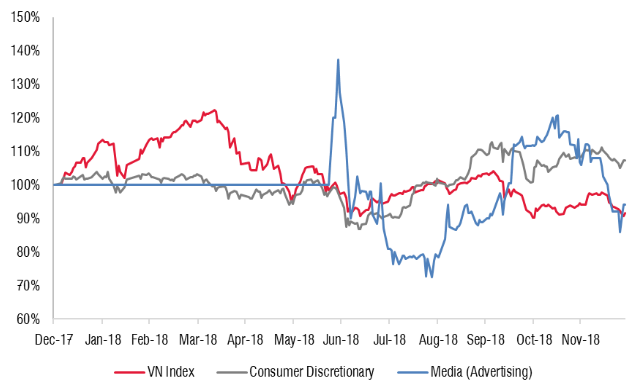
In 2018, the company achieved VND 1.658 tn (+97.3% YoY) in net sales and VND 180 bn (+118.8% YoY) in net profit. This translates into a completion of 103.6% and 104.7% of its net sales and net profit targets for 2018. However, the stock is being traded thinly at an average trading value of VND 4.1 bn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

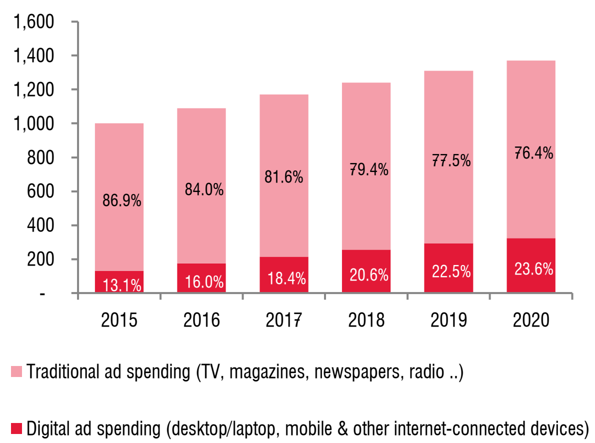
- According to eMarketer, total ad spending in Vietnam is estimated to reach $1.24 bn USD (+6.0% YoY) in 2018. Digital advertising is expected to make a splash and post a

Media industry performance in 2018



Source: Bloomberg, SSI Research

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



Source: eMarketer

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).

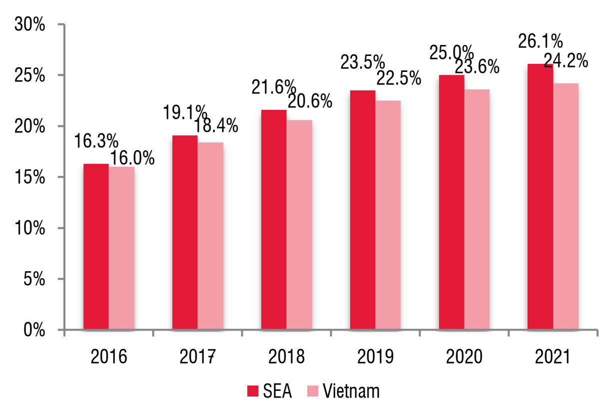
(3) The **digital media**, however, witnessed a slight decrease in profit margin while it continued to grow strongly its revenue at 93.1% YoY. Strong growth in net sales was backed by (i) recent acquisition of 2 new Youtube MCNs (SpringMe and Something Big TV) from higher CPM countries in 2018 and (ii)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

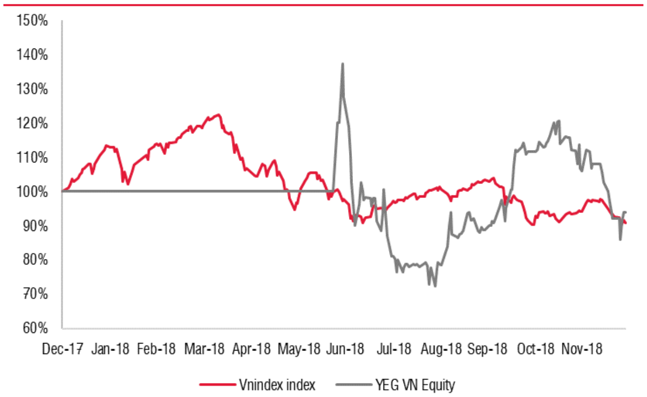
Key drivers to these targets come from (i) healthy growth in the traditional media segment and (ii) sturdy growth in the Youtube MCN business thanks to recent acquisition as well as the Yeah1 Publishing segment (Netlink+ Weface). In early 2019, the company completed acquisition of 2 Youtube MCNs: Scale 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 (%)	48.79%
2019 PE/PB	32x/4.6x
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.

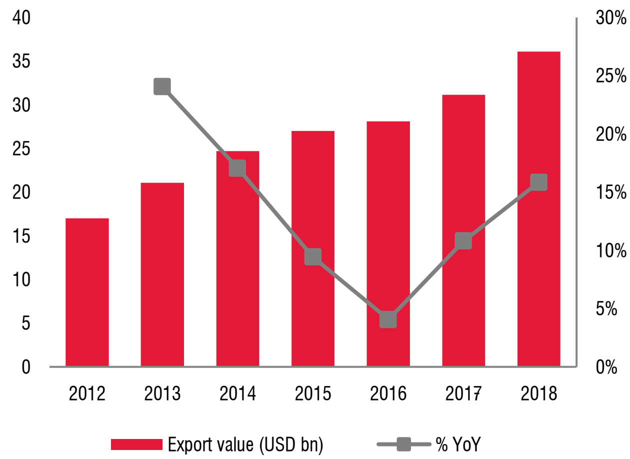
VGT, the largest stock in the sector, increased by 7.25% during the year, in line with its estimated growth in net profit in 2018. GMC and TNG outperformed with gains of 50.1% and 46.5% due to the prior year's low valuation (6x and 4.9x respectively as at year end 2017) and strong net profit growth in 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%	11.2%
EU (28)	4.1	14%	11.5%
Japan	3.8	13%	22.6%
Korea	3.3	11%	26.9%

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)	STK	TCM	TNG	MSH
Net sales	2,408	3,662	3,613	3,950
YoY	20.9%	14.1%	45.2%	19.0%
Net profit	179	260	181	330
YoY	83.3%	34.9%	56.9%	65.0%

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).

Sales growth	2018	2019
Total fashion industry	**4-5%**	**3.5-4.5%**
North America	3-4%	2.5-3.5%
Europe Mature	2-3%	1.5-2.5%
Europe Emerging	5.5-6.5%	4.5-5.5%
Middle East & Africa	5-6%	3-4%
APAC Mature	2-3%	2-3%
APAC Emerging	6.5-7.5%	6.5-7.5%
Latin America	5-6%	4-5%

Source: McKinsey

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.

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.

VND/month	2019	2018	YoY
Area I	4,180,000	3,980,000	5.0%
Area II	3,710,000	3,530,000	5.1%
Area III	3,250,000	3,090,000	5.2%
Area IV	2,920,000	2,760,000	5.8%

Source: Decree 157/2018/NĐ-CP

- 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.

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/1.4x
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.

Retail industry performance in 2018

Source: Bloomberg, SSI Research

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 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.

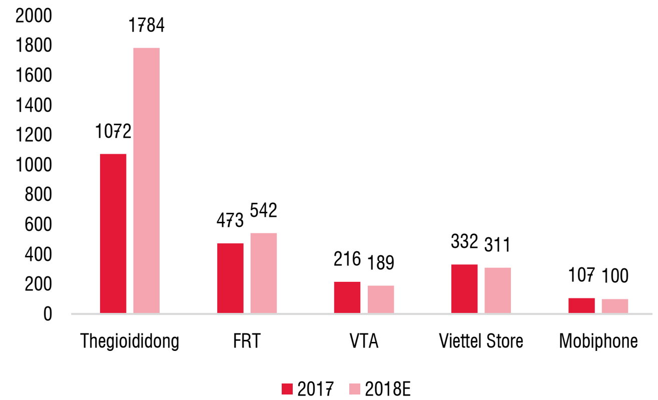
Telecommunications (mobile phones) sales value in 2018 increased by only 1% YoY to reach VND 101.3 tn, much slower compared to 9.3% YoY from 2017 and 39.8% YoY in 2016, signaling that it is approaching its saturation point.

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.

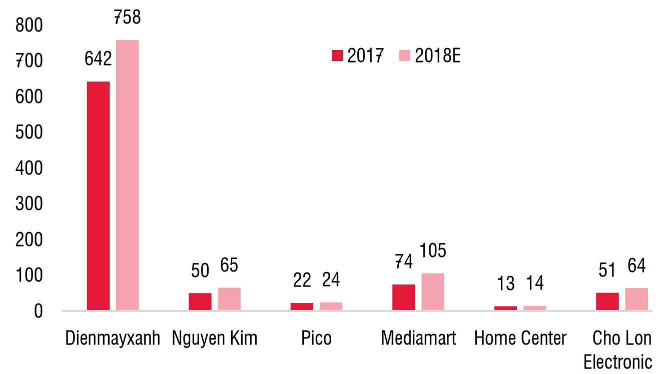
Number of mobile phone stores



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



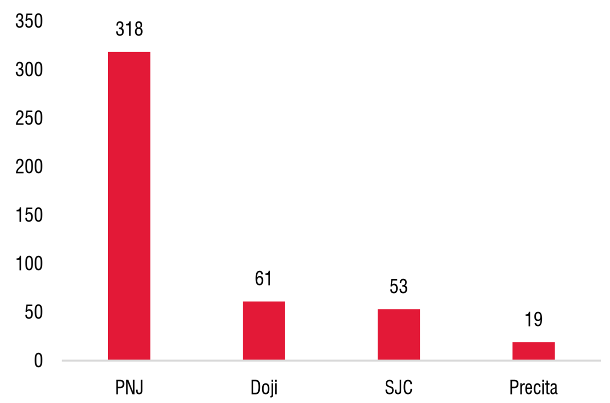
Source: Companies'websites, SSI's collection

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-affluent class, and local currency depreciation, which was also seen across the region.

Key retailers: PNJ (Market share: 28% in 2018), Doji, SJC, Precita

Number of jewelry stores



Source: Companies'websites, SSI's collection

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.

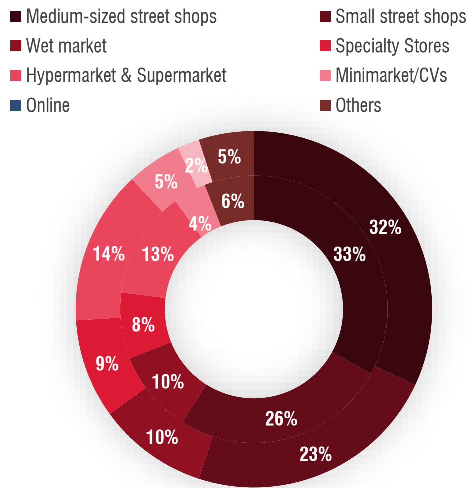
This segment has witnessed strong expansion of many brands. We saw that while domestic players have focused on grocery stores, foreign players have focused more on convenience stores.

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 %)



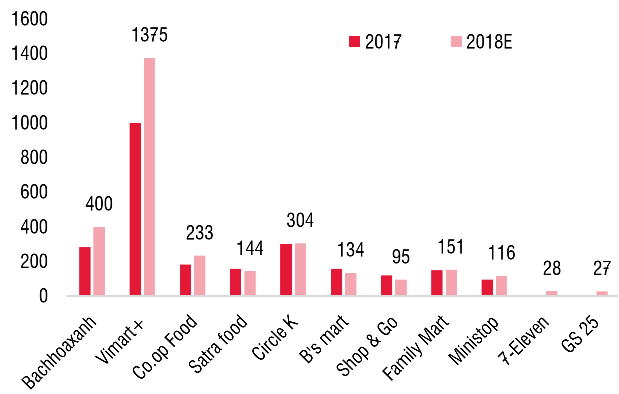
Source: Kantar Worldpannel

Remark:

Inner circle: 12 weeks ending 4 Nov 2017

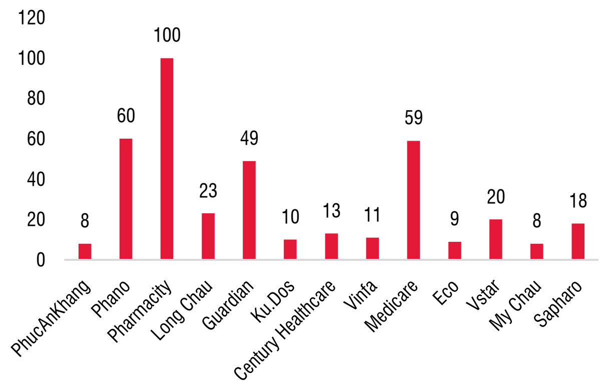
Outer circle: 12 weeks ending 4 Nov 2018

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 Giới Di Động	29.4	#7	#6	527,829	1,970	3.4
5	Sen Đỏ	25.4	#4	#4	43,863	12,480	2.7
6	FPT shop	9.2	n/a	n/a	168,138	8,080	2.5
7	Điện Máy Xanh	9.0	#9	#8	283,806	10	1.4
8	A đây rồi	7.3	#6	#7	n/a	290	0.5
9	CellphoneS	5.8	n/a	n/a	1,687,039	48,960	0.5
10	Vật giá	4.8	#13	#15	1,461	10	0.3

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

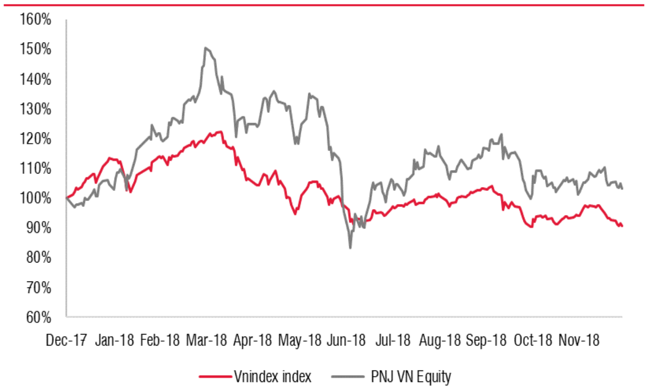
- Investment thesis: PNJ is the leading manufacturer and retailer of jewelry, with an increasing network of 324 stores across the country. We believe there is still scope for PNJ to capture more market share from the large generic jewelry market. We forecast net sales might reach VND 17.7 tn (+21.2% 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/3.6x
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

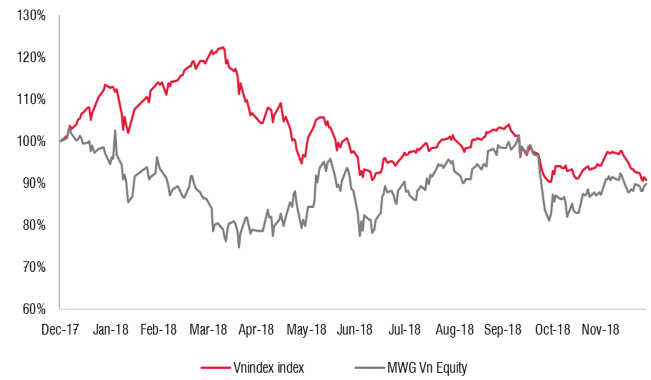
- Investment thesis: MWG is the predominant mobile phone and CE retailer in Vietnam, a multifaceted Group with continuous expansion in not only its core business, but also from the grocery retailing business and pharmaceutical segment. According to MWG, the market share for MWG in the mobile phone segment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

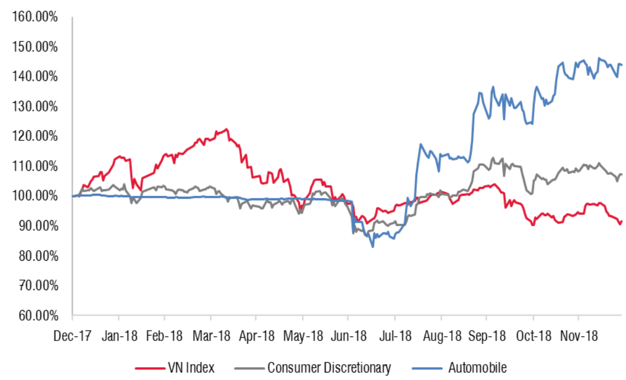
Key highlights on sector

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:

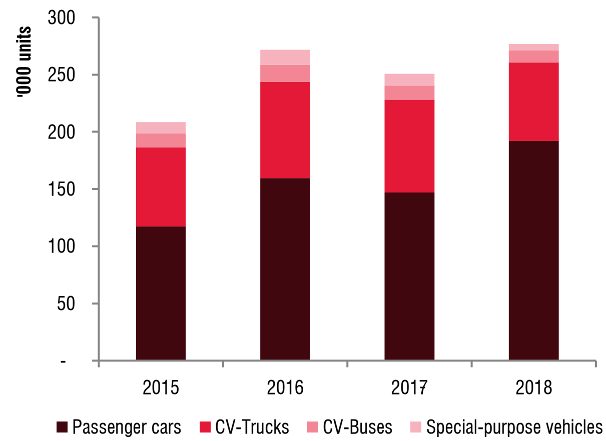
- **Passenger cars** (PC): Sales volume has been boosted by **+30.7% YoY** in 2018, as consumers have decided to wait no longer, and abandoning the idea of waiting out for lower automobile prices, as what happened in 2017. It is worth noting that Hyundai Thanh Cong (HTC) is currently not a member of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

Automobile industry performance in 2018



Source: Bloomberg, SSI Research

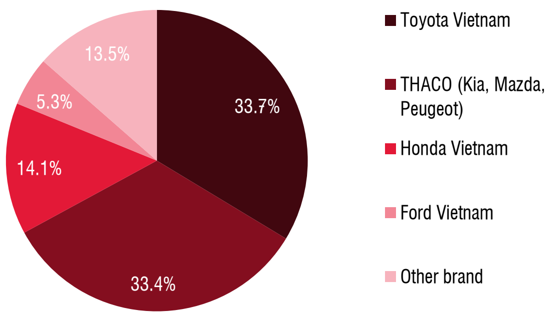
VAMA members' sale volume



Source: VAMA

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).

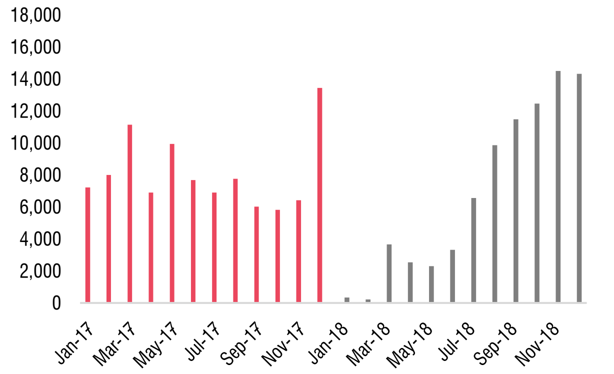
Market share in Passenger car segment in 2018



Source: VAMA, SSI Research

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.

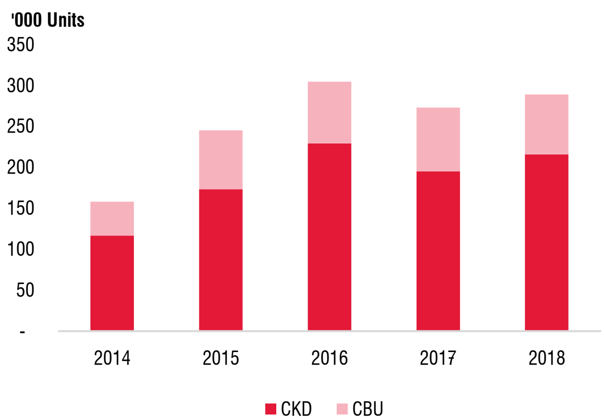
Monthly imported car volume during 2017 - 2018



Source: Vietnam Customs, SSI Research

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.

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.

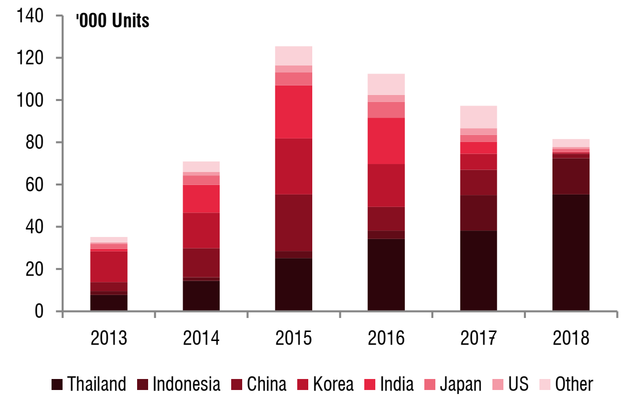
On the contrary, Hyundai Thanh Cong (HTC) has halted imports of several Hyundai models (Grand i10, i20 Active, Creta, Accent, and Sonata) from India and Korea since 2018. This is the reason why CBU vehicles imported from India and South Korea continued to experience a significant slump since 2015 (please 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.

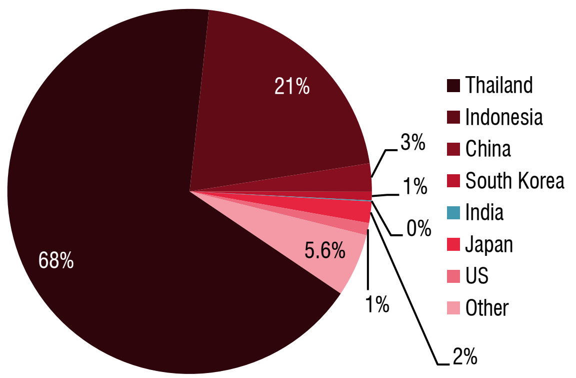
At the end of 2018, Vinfast debuted 3 car models to appeal to 3 different segments (Sedan LUX A2.0, SUV LUX SA 2.0, and Hatchback Fadil), and it is expected to deliver cars to customers in Q4 2019.

Imported cars since 2013



Source: Vietnam Customs, SSI Research

Imported cars shares in 2018



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.

2019 view: Overweight

We viewed the industry with an Overweight recommendation, because we believe VEA, the largest company, can outperform the Index thanks to positive earnings growth in 2019 and a reasonable valuation. Based on our estimates, VEA is trading at 2019 PER levels of 6.9x.

2020 Growth trend: 15-20% YoY

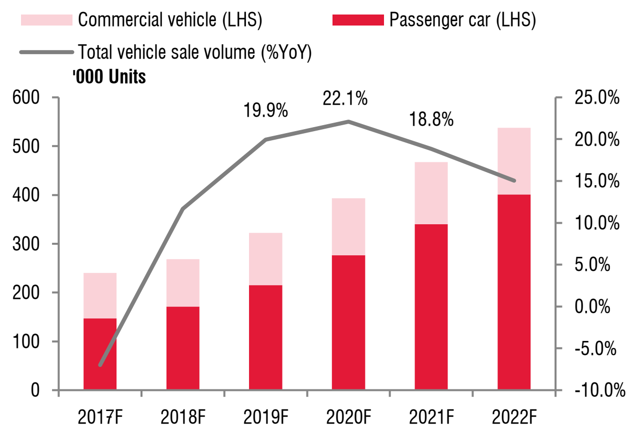
Along with the above reasons, the car ownership rate in Vietnam - 31 vehicles per 1,000 inhabitants in 2017 - is much lower in comparison to other countries in the region. Rates of ownership of other regional countries were respectively at 95 per 1,000 populations in Indonesia, Thailand (196), and Malaysia (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.

Vietnam's vehicle sales



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

Best pick in Automobile: VEA VN

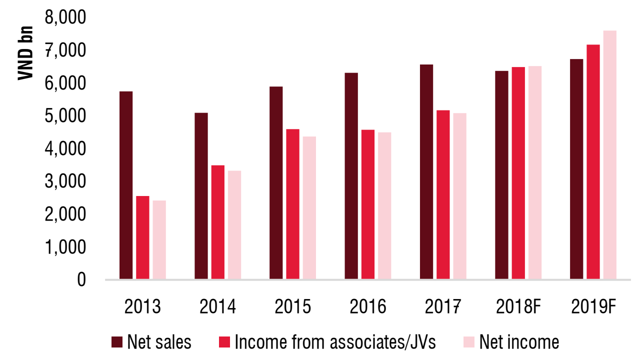
Market cap (USD mn)	2,208
Average 3M value (USD mn)	0.83
Foreign ownership (%)	5.35%
2019 PE/PB	6.9x/2.3x
2019 EPS growth (%)	16.7%
Dividend yield (%)	9.0%
2019 ROE (%)	34.8%

Source: Bloomberg, SSI Research

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%.

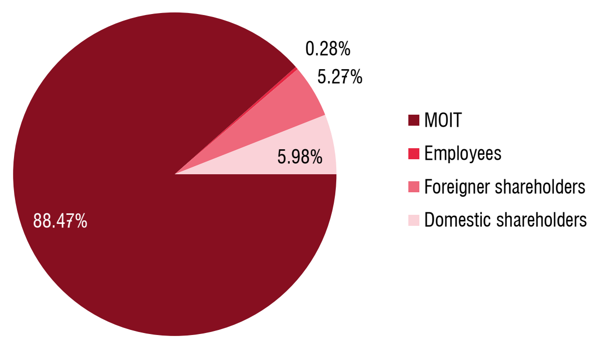
- **Risks:** Risk of restricting private vehicles in Hanoi & Ho Chi Minh City: the authorities set a timetable for restricting and banning motorcycles in the central area of these big cities by 2030.
- **Catalysts:** Its HOSE listing in 2019 and a potential looming MOIT divestment are potential share-price catalysts.

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?

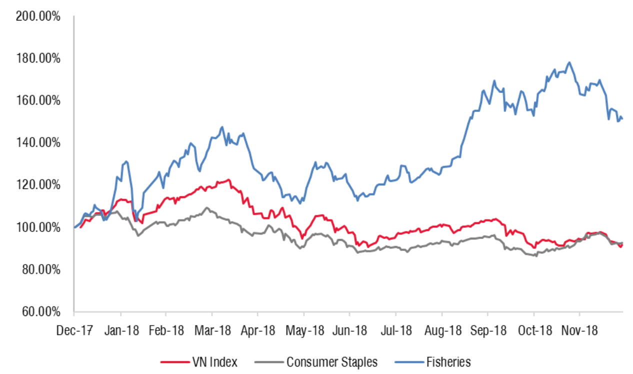
Industry performance

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.

Key highlights on sector/ key companies

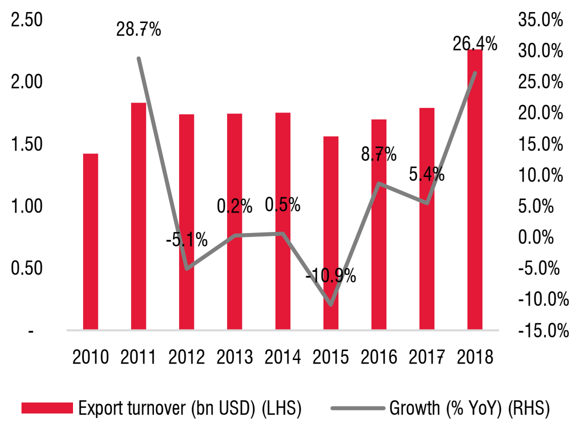
- Vietnam fishery exports reached **$9 bn USD** in 2018, up 8.4% YoY according to VASEP.
- **2018 was particularly a good year for Vietnamese pangasius exports,** for a flurry of reasons. A severe lack of fingerling since the beginning of 2018 led to a significant shortage of pangasius supply being ready for processing

Fisheries industry performance in 2018



Source: Bloomberg, SSI Research

Vietnam pangasius export



Source: VASEP

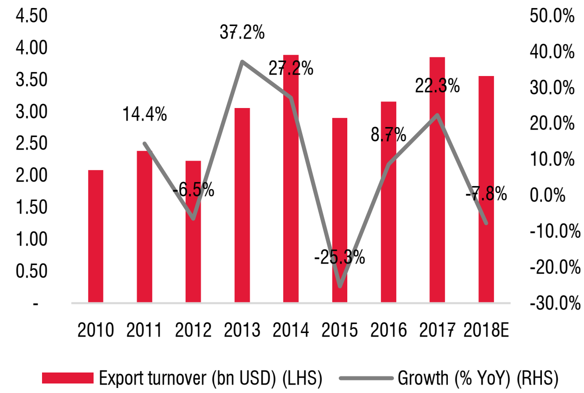
factories. As a result, raw material price jumped by approx. 18.9% YoY to VND 35-36K/kg in Sept 2018 before gradually decreasing to VND 28-30K/ kg as of Dec 2018. An increase in the raw material price has pushed up Vietnam's average export price by more than 21% YoY. **Overall, pangasius exports by value 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 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,**

Vietnam shrimps export



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 (%)	36.54%
2019 PE/PB	7.0x/1.8x
2019 EPS growth (%)	-11.7%
Dividend yield (%)	1.5%
2019 ROE (%)	26.3%

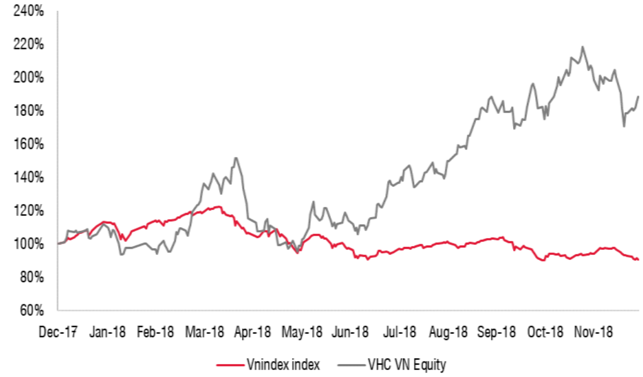
Source: Bloomberg, SSI Research

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.

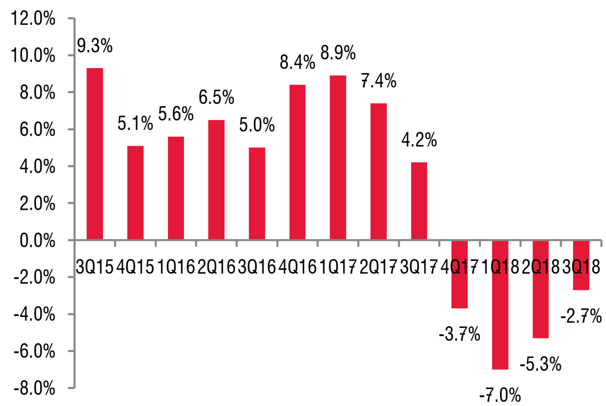
Key reasons for underperformance of the sector can be summarized by the following:

- 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).
- 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,

Dairy industry performance in 2018

Source: Bloomberg, SSI Research

Milk based value growth



Source: AC Nielsen

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

Key highlights on sector

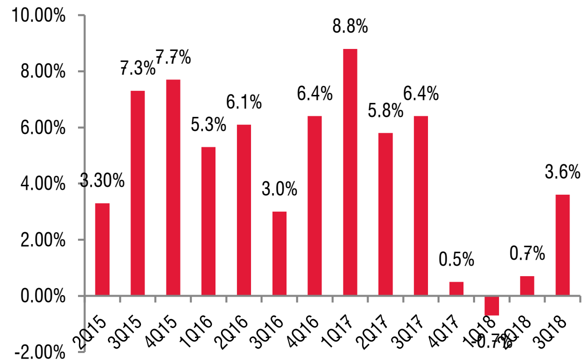
Vietnamese consumers start to spend less on FMCG essentials when their basic needs are all covered. When this is attained, they generally channel their spending on fresh food, indulgence, and discretionary items for pleasure in a general aim to enhance quality of life. While demand in the urban market 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.

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.

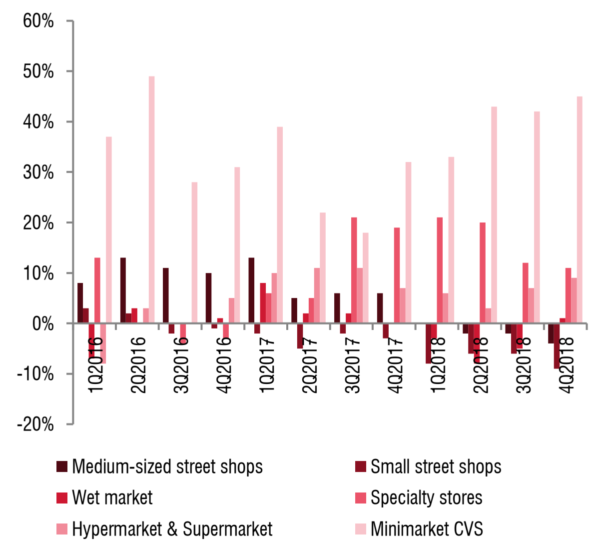
VNM has announced its preliminary results for 2018, in which revenue totaled VND 52.63 tn (+3% YoY) and net profit reached VND 10.198 tn (-0.8% YoY). On a standalone basis, 4Q2018 sales and net profit growth were 5.3% and 30.5% YoY respectively. It should be noted that strong profit growth in Q4 2018 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

FMCG Dynamics



Source: AC Nielsen

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.

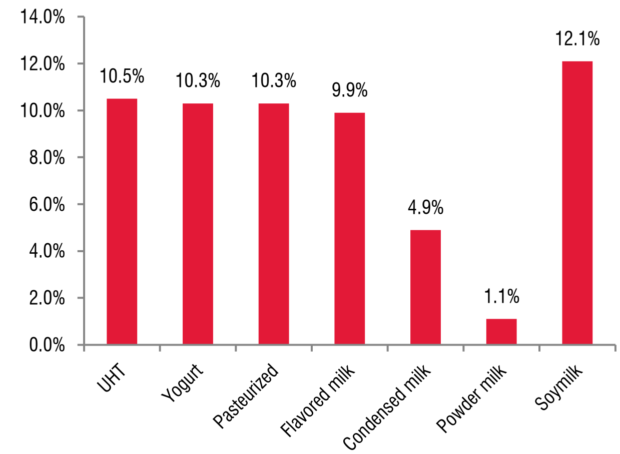
We expect VNM gross margin in 2019 will be equivalent or slightly improved compared to 2018 level (c. 47%) thanks to expected stable global dairy prices. VNM has already hedged raw milk supply and keep prices stable for its 1H2019 production.

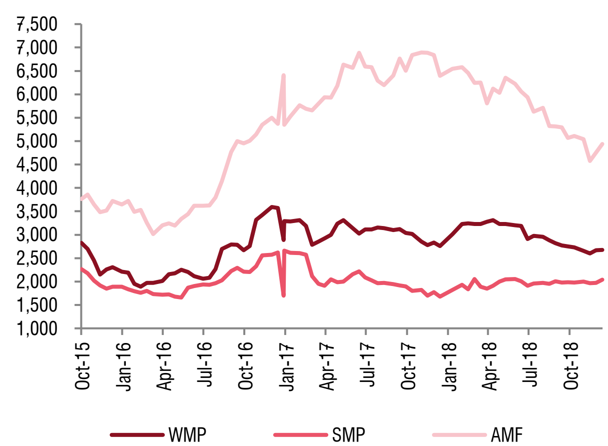
For 2019, we look for VNM to post sales of VND 58.1 tn (+10.4% YoY), and a net profit of VND 11.16 tn (+9.5% YoY). We hold a view that 2019 will be a better year for VNM, primarily from improved domestic sales growth and potential additional revenue streams from the establishment of new export markets

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).

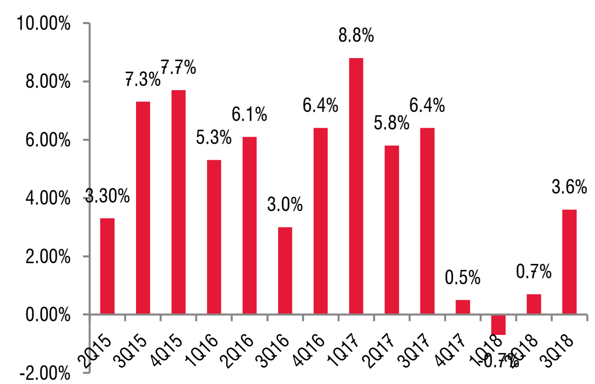
Key highlights on sector

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.

Other F&B industry performance in 2018

Source: Bloomberg, SSI Research

FMCG Dynamics



Source: AC Nielsen

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.

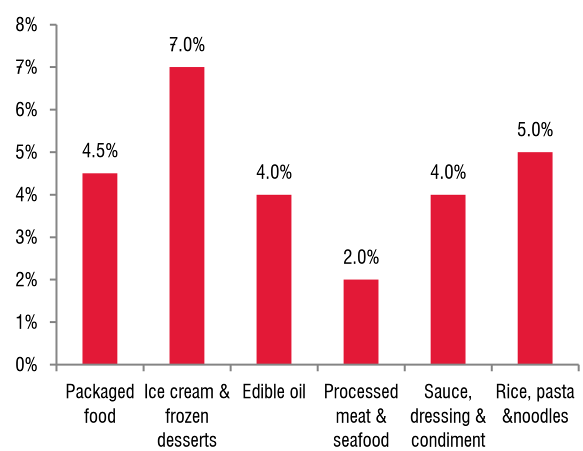
2019 View

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 in the rural market. A full 65% population lives in rural areas, yet accounts for only 50% of total FMCG consumption in the country.

- We estimate MCH revenue and net profit growth to be 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. MSN 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)

2017-2022 CAGR



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?

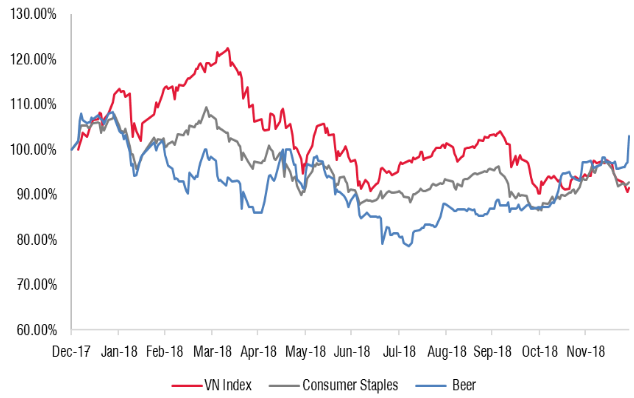
Sector performance

The beer industry outperformed the VN-Index by 3% in 2018, mainly because SAB pulled the industry average upwards with its superior performance. In 9M 2018, SAB underperformed the VN Index, and at its worst period declined by -19% as the stock had been traded at a very high valuation basis since the state-owned divestment news in 2017 (45x at its peak). Despite slower sales growth and decline in net profit, the SAB price started to nevertheless shrug off market challenges and still manage to advance and outperform the VN Index during the last quarter. Such helpful catalysts came in the form of the foreign ownership limit being lifted, investor expectations on company restructuring, and also from the nature of the stock possessing a low free float. Meanwhile, the BHN price declined by -36.5% due to continued disappointing results and delayed government divestment.

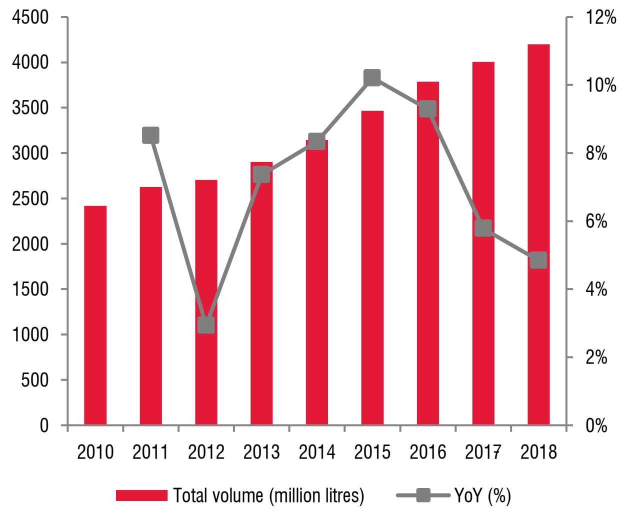
Key highlights on sector

- Vietnamese beer volume reached 4.2 billion liters. This was up 5% YoY in 2018, and was lower than the growth experienced in the last 5 years (6%-10% during the 2013-2017 period).
- ThaiBev taking over Sabeco: Major changes in key personnel and restructuring plans were announced to improve operational efficiencies in production, distribution, logistics, and warehousing, as well as rebuilding 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

Beer industry performance in 2018



Source: Bloomberg, SSI Research

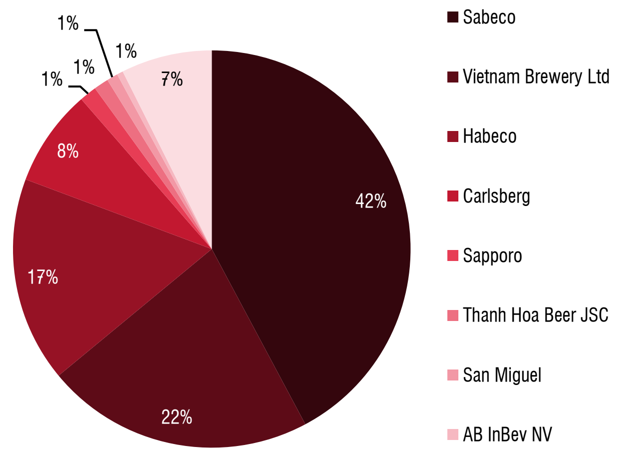


Source: MoIT

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)

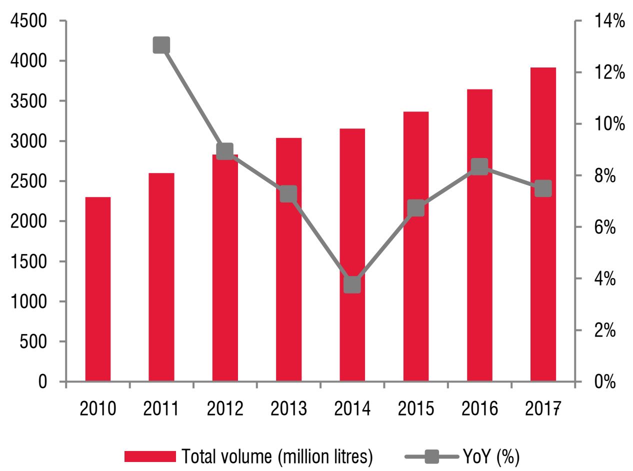


Source: Euro Monitor

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 not included within the National 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 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.

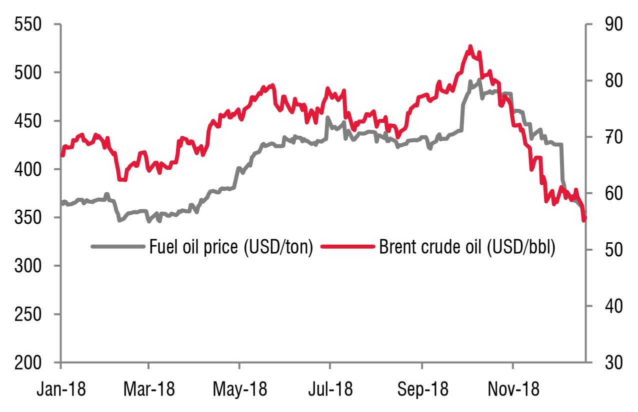
Key highlights on sector

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 demand growth forecast for crude in 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.

Oil & gas industry performance in 2018

Source: Bloomberg, SSI Research

Oil price movement

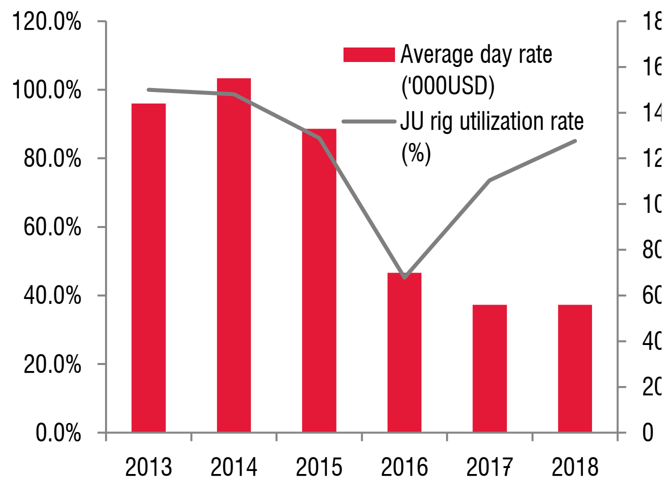


Source: Bloomberg

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 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 & 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

Source	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	

Key metrics of PetroVietnam (Brent oil @USD 65/bbl)	2016	2017	2018	2019	YoY
Brent crude oil price (USD/bbl)	43.7	55.2	71.8	65	-9.47%
Increase oil reserve (mn tons)	16.66	4	12	10-15	
Crude oil exploitation (mn tons)	17.23	15.52	13.97	12.37	-11.45%
Dry gas exploitation (bcm	10.61	9.89	10.01	9.69	-3.20%
Investment (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%

Source: PVN

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

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/0.75x
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?

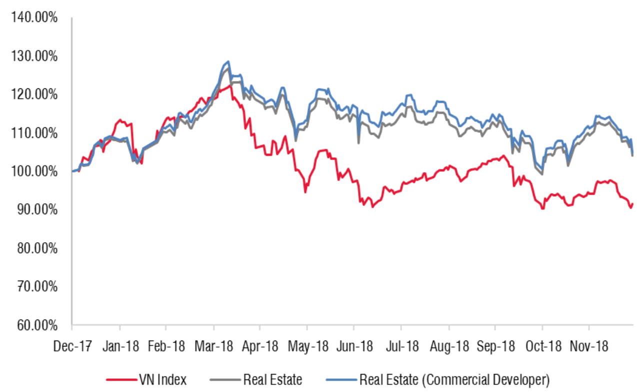
Industry performance: OUTPERFORM

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 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.

Industry performance in 2018



Source: Bloomberg, SSI Research

Key highlights on sector

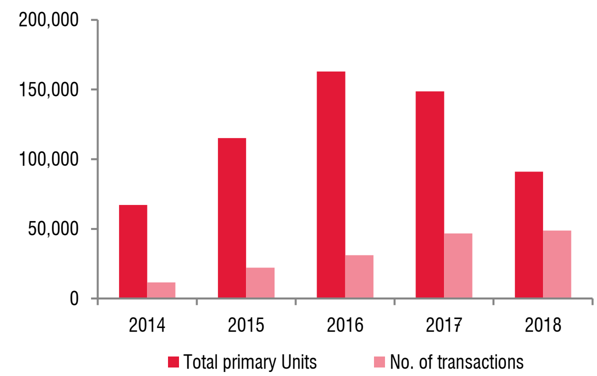
- **Sustained performance**

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.

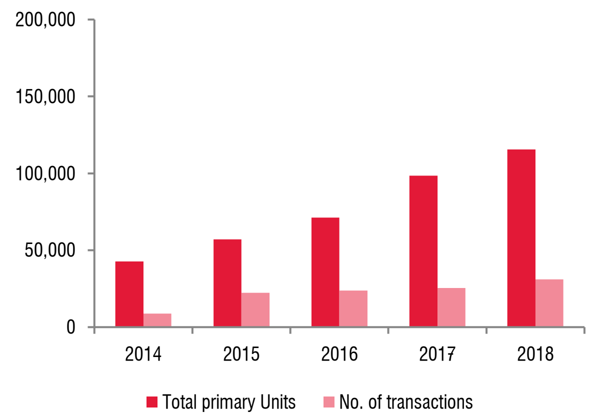
In 2019, Savills expects there would be an additional respective 39,000 units and 37,000 units to be added into primary condo supply within HCMC and Hanoi, in which large scale Vincity projects will likely continue to dominate Hanoi market and may account for a considerable portion in total supply in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

HCMC Condominium (Units)



Source: Savills Vietnam, SSI Research

Hanoi Condominium (Units)



Source: Savills Vietnam, SSI Research

- **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, Japan, and South Korea are known to constantly pour capital into new projects in major cities, and actively partner with local players either under joint ventures or M&A acquisitions.

On the buyer side, many projects filled the allocated 30% foreign quota during launch events, since Vietnamese property prices are relatively low compared with Thailand, Singapore, or Hong Kong. Interest in HCMC properties has been growing among foreign buyers, especially among high-end and luxury condominium segments, even though mortgages are not made available for them. According to CBRE Vietnam, the number of transactions from foreigners accounted for 76% of total CBRE transactions, of which 31% were from Chinese. This data point is very significant, as the mix of Chinese buyers in the sales mix was just 4% in 2017. A combination of relaxed regulations towards foreigners, along with comparatively low property prices, have made Vietnam become a preferred location.

Key highlights on companies

Driven by strong past sales during the 2015 – 2017 period, most commercial real estate developers enjoyed decent earnings growth in 2018 upon delivery of their sold units.

In particular, **VHM** saw triple digit growth of 154% YoY in revenue and 842% YoY in PAT, which was exceptionally high because of the consolidation of various projects into the Company in early 2018 prior to the IPO in May. Vinhomes Green Bay, Vinhomes Central Park, Vinhomes Golden River, Vinhomes The Harmony, Vinhomes Imperial (Hai Phong) were the key projects influencing earnings.

The 2nd listed player, **NVL,** also posted an increase of 31% YoY in net revenue and 59% YoY in PAT, successfully achieving its targeted profit plan in 2018. The majority of NVL earnings were attributable to the delivery of ~4,600 units in various completed projects in HCMC and partial transfer of the Con Au ecotourism project during 2018.

NLG revenue and net profit in 2018 came in at VND 3.554 tn (+12.4% YoY) and 760.9 bn (+42.2% YoY), surpassing 23.9% of the annual plan. Main projects that influenced the bottom line the most include: 130ha of the Waterpoint project, apartments at Flora Kikyo project, and EhomeS Phu Huu project; villas/townhouses at Valora Kikyo and Valora Fuji projects; Land plots at Dalia Garden and Long An 36ha projects.

KDH revenue and net profit in 2018 came in at VND 2.917 tn (-4.5% YoY) and 808.9 bn (+61% YoY), surpassing 1.1% annual plan. Projects most influential within the revenue mix include:

villas/townhouses at Rosita Garden, Lucasta, Venica, Melosa Garden, Mega Village , and Merita, Phong Phu 4 land plot project, and the Jamila condominium project

DXG also announced its consolidated revenue of VND 4.65 trillion (+61% YoY), and NPATMI reached VND 1.2 trillion (+57% YoY), exceeding 10% of the annual profit plan. Such growth was fueled by strong growth of secondary investment and brokerage services and property developers, while construction services also significantly grew in 2018.

2019 View

2019 Growth Outlook

- **No sign of sharp recession in real estate**

In 2019, we expect that positive economic indicators, high foreign investment inflows, a rising middle- class, and strong remittances may continue to be key factors helping to sustain the real estate market. As such, the residential demand will likely continue throughout 2019. We believe that the demand for more affordable housing is still outpacing supply in the low-end market. As such, affordable housing is expected to continue driving the market, backed by a long-term downward trend of overall household size and available mortgage types with flexible schemes.

Meanwhile, foreign investment flows into real estate is also expected to continue with upward momentum in 2019, as a lot of investors are opting for ASEAN, including Vietnam, to be prime candidates for investment amidst the ongoing US-China trade war. That would also be another pillar of support for real estate demand, whether it be in industrial, commercial, or residential properties, and especially the case in the high-end real estate market.

- **Tighter bank credit may cause further capital restructuring challenges**

According to Circular No.19/2017/TT-NHNN issued by the State Bank of Vietnam (SBV), from 1st January 2019, banks are capped and only allowed to use up to 40% of their short term capital funding for medium to long term loans, compared to the previous limit of 45%. This is to reduce risks for the banking sector and restructure the credit portfolio position within Vietnamese banks. However, it is also expected to bring more challenges to real estate developers, because the majority portion of medium and long-term loans are in the form of mortgages.

Such a tightening policy has been rather well telegraphed beforehand, and the news was delivered with a clear roadmap so it may not be a surprise to the market. As such, real estate developers have been preparing for alternative funding sources to lessen their dependence on bank credit. Getting listed on stock exchange, issuing shares, or corporate bonds to raise capital, cooperating with foreign investors, or seeking for partners for particular projects are some of the alternatives that have been rolled out recently. We anticipate that these activities will likely become the mainstream in upcoming time.

- **Maintaining solid earnings growth would be a challenge**

With past sales performance over the 2016 – 2018 period, in 2019, most listed developers, including Vinhomes JSC, Novaland Group, Dat Xanh Group, Khang Dien House Trading and Investment JSC, Nam Long Investment Corporation are expected to continue to recognize positive earnings growth upon delivery of their sold products, but is expected to do so at a slower pace compared with the previous year due to slower-than-expected new launches of various projects in 2018.

In particular, **NLG** issued forward guidance with a 12.5% YoY profit growth projection in 2019, compared with that of 42.2% YoY in 2018. Regarding **DXG**, we expect a 19.4% YoY growth in 2019 NPATMI vs. 57% YoY growth in the previous year. For **NVL**, the Company issued guidance of single digit growth amounting to 3% YoY in net profit in 2019, compared with 59% YoY growth in 2018. We view that these developers and their key focus is the residential market in HCMC, which has been going through a difficult procedural slog due to delayed licensing procedures throughout 2018. Therefore, to maintain higher growth in 2019 is quite challenging for them. In details, earnings of landed property developers in HCMC (like KDH) may encounter heavy pressure in 2019, and earnings of apartment developers in HCMC may decline starting in 2020. As such, DXG and NLG is expanding its exposure to other cities with more landed properties, while NVL is also aggressively expanding to hospitality properties in coastal provinces.

Apart from these names, VHM is a special case since the Company was restructured in the beginning of 2018 with consolidation of various projects into the Company during this year, which pushed its 2018 earnings growth to be exceptionally high compared with 2017 (+842% YoY in PAT). Thus, 2019 earnings growth would be normalized at a more comparable level of 25% YoY as according to our estimates.

Therefore, we hold a Neutral rating on the property sector.

2020 Growth Outlook

We maintain a positive view on macroeconomic and geographic indicators. These, coupled with improving affordability, are likely to continue to support long term property demand. We hold the view that market liquidity will remain at a high level. However, earnings growth of property developers may experience a negative impact from the delay of the legal approval process in HCMC, which has caused lower pre-sales in 2018 and projected to persist until at least 1H19.

Issues and risks

Prolonged administrative procedures, of which caused initial delay in the implementation of new projects in HCMC in 2018, may not be solved quickly in 2019. In the event this drawn out procedural process takes longer than expected, it may further adversely affect the development progress and prospective earnings of real estate developers, especially those who focus in the HCMC market only.

Best pick

Vinhomes JSC: VHM VN**;**

Price: VND 73,400

Target Price: VND 91,400

Investment thesis:

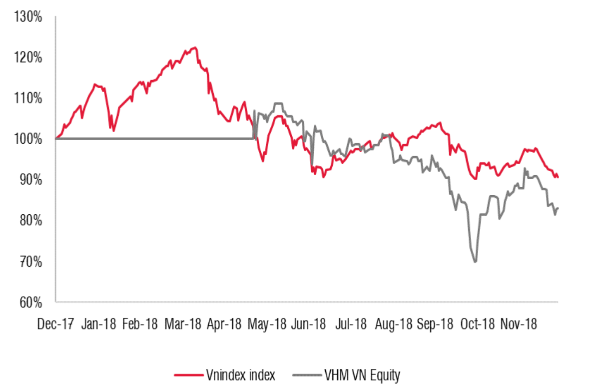
- Vinhomes is the dominant residential developer in the Vietnam market, with an unrivaled land bank nationwide, an extensive track record in execution, as well as a synergistic relationship fueled by Vingroup ecosystem. Together, this trifecta of advantages cannot be replicated by other domestic players.
- Along with high-end properties under the reputable Vinhomes brand, VHM is also aggressively developing the mid-end branded Vincity projects in order to broadly capture huge demand from middle class buyers. Both product lines have exhibited positive sales performance. In particular, Vincity Ocean Park reported 15,000 units sold only in only 2 months after launch, equal to half of the total Hanoi market liquidity on a year round basis. We anticipate that both Vinhomes and Vincity projects will continue strong sales performance in the upcoming time ahead.

Best pick in Real Estate - Commercial Developers: VHM VN

Market cap (USD mn)	10,611
Average 3M value (USD mn)	1.43
Foreign ownership (%)	15.5%
2019 PE/PB	8.5x/4.3x
2019 EPS growth (%)	20%
Dividend yield (%)	0%
2019 ROE (%)	28.4%

Source: Bloomberg, SSI Research

Best pick in Real Estate - Commercial Developers: VHM VN



Source: Bloomberg

Risks:

- Delay in project development and pre-sales may render adverse effects to the Company's business performance and cash flow.
- In the event of unmitigated delay during the handover process, the Company's earnings growth may be adversely impacted.

Valuation: 1-year target price of VND 91,400, as derived from RNAV valuation methodology.

Dat Xanh Group: DXG VN;

Price: VND 23,800

Target Price: VND 27,400

Investment thesis:

- Differentiating from other property developers in HCMC, DXG runs a resilient brokerage as well as secondary investment businesses across the nation with strong sales capability. Meanwhile, DXG is also expanding its exposure to other cities for project development, especially targeting landed properties. Such properties may require less time for development, while generating a higher margin than that of condominiums. As such, it may help the Company to maintain positive earnings growth in the coming year, despite possible headwind difficulties in launching new projects in HCMC due to the aforementioned prolonged legal approval process.
- DXG has restructured its brokerage service business, and is prepared for a spinoff plan in 2019.

Risks:

- Further delays in the legal review of real estate projects in HCMC may cause a delay in the sales launch and development progress of its ongoing projects.

Valuation: 1-year target price at VND 27,400, based on a target P/E of 12.0x, P/B of 1.0x.

Best pick in Real Estate - Commercial Developers: DXG VN

Market cap (USD mn)	359.3
Average 3M value (USD mn)	2.31
Foreign ownership (%)	48.4%
2019 PE/PB	5.8/x1.3x
2019 EPS growth (%)	19.4%
Dividend yield (%)	n.a
2019 ROE (%)	26.1%

Source: Bloomberg, SSI Research

Best pick in Real Estate - Commercial Developers: DXG VN

Source: Bloomberg

Nam Long Investment Corporation (NLG VN)

Price: VND 25,800

Target Price: VND 34,100

Investment thesis

- Currently, the company owns a large land bank of about 567ha, of which 62% is occupied by the Waterpoint project in Long An province, while the remaining is mainly located in District 9, Binh Tan district and Binh Chanh district. Most land banks of NLG are fully cleared with land compensation

Best pick in Real Estate - Commercial Developers: NLG VN

Market cap (USD mn)	266.28
Average 3M value (USD mn)	0.54
Foreign ownership	49%
2019 PE/PB	7x/1.2x
2019 EPS growth	16.9%
Dividend yield	1.9%
2019 ROE	18.6%

Source: Bloomberg, SSI Research

completed at a low expense basis.

- Affordable products of NLG are expected to be quickly snapped up, because they meet the real demand of the market.

Valuation: Our fair value estimated by RNAV methodology is VND 38,900/share. We used a 2019 target PE of 8x and an RNAV with a ratio of 50:50 to arrive at our 1-year target price of VND 34,100.

Risks: (1) The affordable segment is attracting interests from big real estate companies like VIC, KDH or Him Lam Land. Notably, these companies previously laid their focus on the higher end segment, yet are now targeting the affordable segment as well. As a result, NLG may face more direct competition. (2) Delays in legal procedures of projects located in HCMC may reduce earnings of NLG, as well as their peers starting in 2020.

Growth Catalyst: Big things are in store if the main obstacle procedures of projects located in HCMC is resolved sooner than expected.

Best pick in Real Estate Commercial Developers: NLG VN

Source: Bloomberg, SSI Research

REAL ESTATE – INDUSTRIAL PARK DEVELOPERS

OVERWEIGHT

Best pick: IDC and KBC

What transpired in 2018?

Sector performance

In 2018, Industrial Park Developer (IPD) stocks decreased by -7.54%, slightly outperformed compared with the VN Index (-9.3%).

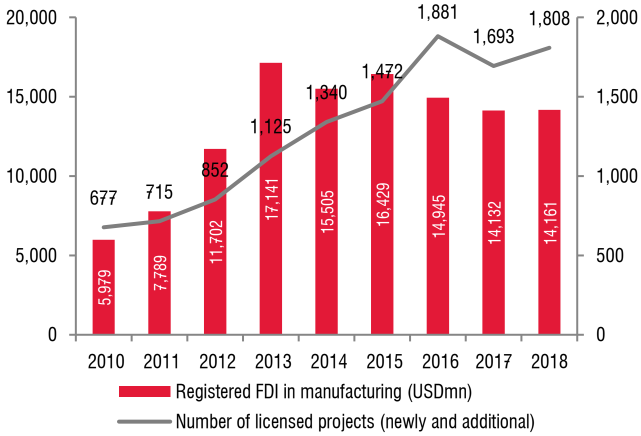
Among IPD stocks, LHG was the best performing stock, with a gain of 17.36% from impressive business performance up to 9M2018 (up +148% YoY in terms of net profit growth). SNZ (down -20.9%) and IDC (down –19.1%) which are traded on UPCOM with low liquidity incurred the highest loss. KBC although slightly declined by -1.87% in 2018, nevertheless outperformed the VN Index thanks to its positive business performance.

Key highlight on sector

The processing and manufacturing sector continued to absorb the largest share of registered FDI. Total capital reached $16.58 bn USD (up by +17.6% YoY), accounting for 46.7% of total 2018 FDI into Vietnam. The sector has always been significantly influential to industrial park (IP) developers, since it normally requires large land areas or factories located in well-established and managed IPs.

Accumulatively in 2018, FDI concentrates mostly in Hanoi (21.2% of total registered FDI), Ho Chi Minh City (16.7%), and Haiphong (8.7%).

Industry performance in 2018



Source: Ministry of Planning and Investment

According to the statistics of the Foreign Investment Agency under the Ministry of Planning and Investment (FIA), cumulatively by the end of 2018, IPs and EZs attracted 7,500 domestic projects, with a total investment capital of $43.5 bn and 8,000 FDI projects, with a total investment capital of $145 bn USD.

Till the end of 2018, there were 326 IPs established, covering a total land area of 93,000 ha nationwide, and 68% of this land area is IP land. Among that, there were 250 IPs in operation covering 68,000 ha, while the remaining were undergoing site clearance and infrastructure construction. The occupancy rate reached 73% of total area of IPs currently in operation.

IP rent has tended to go up this year, ranging from 10% to 30% YoY depending on location.

	Location	Land rent (USD/sqm/term)	Factory rent (USD/sqm/month)
Southern IPs – Q4 2018	HCMC	156.8	3.6
	Dong Nai	85.5	4.5
	Binh Duong	73.6	3.8
	Ba Ria – Vung Tau	60.8	3.5
	Tay Ninh	53.6	2.7
	Binh Phuoc	51.6	2.2
Northern IPs – Q3 2018	Hanoi	137	4.1
	Hai Phong	93	5.7
	Bac Ninh	75	3.7
	Quang Ninh	55	4.0
	Hai Duong	62	4.0
	Hung Yen	81	4.5
	Vinh Phuc	71	30

Source: JLL Vietnam

Recent FDI expansion in Vietnam:

- The country's largest supplier of industrial property, the BW Industrial Development JSC, debuted in the southern province of Binh Duong in the middle of May 2018. BW is a joint-venture between US private equity fund Warburg Pincus and Vietnam's Investment and Industrial Development Corporation (Becamex IDC), with investment of over $200 million USD. Betting on the country's booming manufacturing sector and rising domestic consumption, the company has bought land for eight projects in five localities around Vietnam, with a focus on developing institutional-grade logistics and industrial properties.

- Apple production in Vietnam: The number of factories in Vietnam listed in Apple supplier list increased from 16 in 2015 to 22 in 2018. All of them are FDI companies. We noted that recently an Apple supplier (GoerTek) decided to move its AirPods production base (wireless earphones) to Vietnam.
- Samsung production in Vietnam: The localization rate jumped from 34% of total product value in 2014 to 57% in 2017. Currently 29 Vietnamese companies act as Samsung's Tier-1 supplier. In 2019, there is a target for 42 Vietnamese companies to carry out Tier-1 supplier roles, with an expansion to 50 companies by 2020.
- Manwah Holdings, parent company of upholstery and bedding vendor Manwah USA, has purchased Timberland, one of the largest upholstery factories in Vietnam, and has plans to triple capacity at the 1.2 million-plus-square-foot plant.

Key highlight on companies

KBC: During 2018, KBC has successfully leased more than 100 ha of IP land across its IP projects, while factory leasing activities also delivered good results. Such positive business performance was mainly thanks to increasing FDI inflows into the Northern Vietnam region for various vendors of Samsung and LGE. Meanwhile, the Company also benefited from the movement of manufacturers from China, as well as the expansion of existing clients who may get affected from the US - China trade war.

BCM: Regarding BCM, the company received some large orders from FDI companies this year, of which further details have not been released. The USD rental price offered by BCM fluctuates from $60/sqm to $90/sqm (for 40-50 years), increasing by about 20% compared to the average rental price in 2017. For 2018, the company achieved VND 8.625 tn in revenue and VND 2.196 tn in net income attributable to shareholders. BVPS at the end of 2018 was estimated at VND 12,442.

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IDC: For IDC in 2018, the company rented 52 ha to 10 enterprises, much lower compared to the high base of 180 ha in 2017, but similar to the average of 50-60 ha per year in previous years. Profit before tax in 2018 jumped by 20% YoY to reach VND 647.4 bn, surpassing 30.5% of the 2018 annual plan.

2019 View

Growth trend

We think that in the current circumstance in China given (1) increasingly high labor costs, (2) increasingly high land costs, and (3) increasingly high tariffs imposed on the Chinese side from the U.S., that Vietnam's advantageous positioning located alongside the Chinese border is expected to be one of the top alternative locations for manufacturers to resettle in.

- According to a survey of the Japan External Trade Organization (Jetro), the annual salary of workers located in Vietnam was $3,673 in 2017, ranking 14th out of 19 countries in Asia and Oceania, and much lower than China's average annual salary, which is now $10,131.
- According to JLL Vietnam, industrial land costs in a sample of large cities across China has reached $180 USD/sqm, much higher than that in Vietnam, which are ranging from only $100 –140 USD/sqm.
- U.S. tariffs upon China equivalent to a scenario of Vietnam essentially possessing a free trade agreement with the US.

In Southern Vietnam, Ho Chi Minh City as the economic center of gravity in Vietnam continues to be a top choice for investor FDI inflows into the country. However, as the occupancy rate as well as the rent rate in Ho Chi Minh city has been high for some time, the industrial parks on the outskirts of Ho Chi Minh City have gradually become the best choice for investors. Suggested locations are Long An province, Dong Nai province, Binh Duong province, and Vung Tau province, where infrastructure for transportation meets the strict requirements of demanding investors. Idico (IDC:Upcom), Becamex, Nam Tan Uyen JSC (NTC:Upcom), Sonadezi (SNZ:Upcom), and Tin Nghia Corporation own most of the IP land banks in these areas.

In the North, regardless of high demand in locations such as Hanoi, Bac Ninh, and Hai Phong, the clearance process in the North seems to be more arduous than that of the South, which may limit the potential growth for IPs' area in the region.

2019 view: Overweight

We maintain an Overweight rating for this sector, with an expectation that higher demand for IPs will be clearer and stronger in 2019, resulting in better earnings for IP developers.

Issues and risks

Regarding general demand outlook, IPs tend not to have a clearly defined target regarding expected business from specific customers, and the earnings outlook is generally ascertained when the customer proceeds to the leasing contract phase. Therefore, IP developers tend to have a conservative plan to account for the aforementioned uncertainty between the negotiation and the contract generation phase.

Best pick

Vietnam Urban and Industrial Zone Development Investment Corporation: IDC VN;

Price: VND 22,500

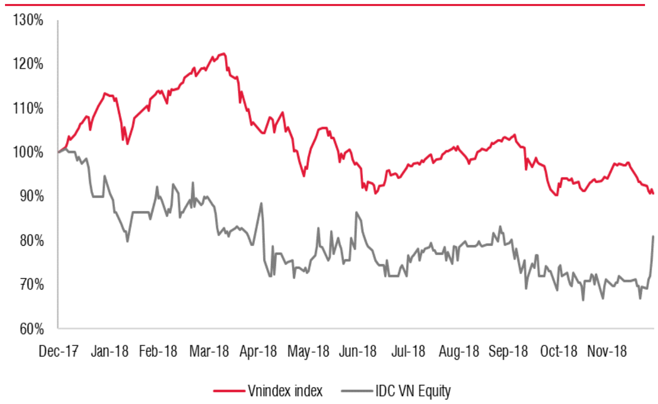
- Investment thesis: (i) The remaining commercial area of about 900ha is sufficient enough for the company to develop over at least the next 5 years; (ii) IDC targets to push forward the compensation process of Huu Thanh IP (524ha) located in Long An province & Cau Nghin IP (184ha) located in Thai Binh province this year to be able to put these IPs into operation, starting in 2019; (iii) CAPEX for the hydropower plants finished in Q3 2017, thus the operation of hydropower plants since then will improve IDC cash flow. Out of VND 3.37 tn of short & long term debt amassed at the end of 2017, 40% was used for the purpose of hydropower plant investment. We estimate that cash flow from hydropower plants is enough to cover both its debt payment as well as interest expenses. Deleveraging will kick in year by year, leading to higher income from this segment.
- Risks: (1) Low liquidity stock; (2) No clear guidance from the management
- Catalyst: (1) The divestment of all remaining 36% stake from the government in 1H2018; (2) Bump in demand of

Best pick in Industrial Park Developers: IDC VN

Market cap (USD mn)	268
Average 3M value (USD mn)	0.1
Foreign ownership (%)	n/a
2018E PE/PB	16x/1.6x
2018E EPS growth (%)	25.4%
Dividend yield (%)	2.2%
2018 ROE (%)	15.8%

Source: Bloomberg, SSI Research

Best pick in Industrial Park Developers: IDC VN



Source: Bloomberg, SSI Research

IPs thanks to trade war will improve earnings of the company.

Kinh Bac City Development Corporation: KBC VN

Price: VND 13,150

Target price: VND 15,600

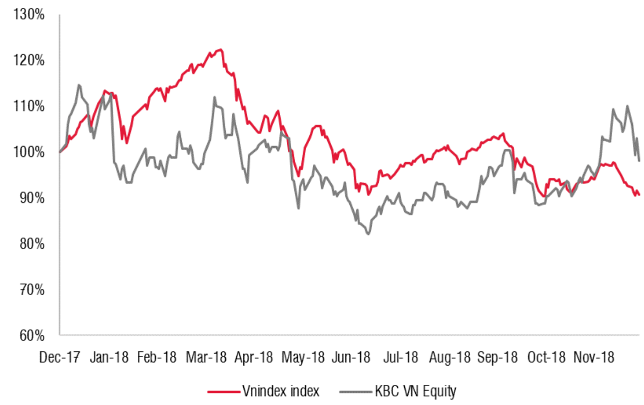
- Investment thesis:
    - (i) KBC possesses a vast land bank of approximately 5,188 ha of IP land (accounting for ~5.5% of total national IP land) and almost 1,100 ha of residential land across the country, including associate companies, which is adequate for another 20 years of development.
    - (ii) The majority of KBC tenants are foreign investors in high tech manufacturing. As a result, FDI plays an important role in the firm's business performance. We believe that KBC will continue to benefit from the positive trend of FDI and the relocation trend of manufacturers from China due to the US – China trade war.
    - (iii) Benefiting from the US – China trade war, KBC is expecting a number of potential commitments signed in Nam Son Hap Linh IP and Quang Chau IP, of which we also expect that these IPs will be key earning drivers for KBC in 2019.
    - (iv) Along with IPs, its Phuc Ninh urban area, which is located in the center of Bac Ninh City, has been exhibiting positive sales performance and is expected to deliver solid earnings for the Company in 2019.
- Valuation: 1-year target price of VND 15,600 is based on a target P/E of 9.0x and P/B of 0.7x
- Growth Catalysts:
    - (i) KBC is looking to transfer its stake in a residential project in Hanoi (Ngoai Giao Doan project). Should it be the case, it would generate a significant degree of extraordinary income for the Company in 2019 (~VND 300 bn)
    - (ii) KBC is further expanding its IP land with a new project (named Binh Giang) located in Hai Duong, covering an area of 860 ha. Once completed, it could be a potential destination for Samsung or LG vendors, and expected rent is approximately $80 USD per sqm, which is higher than the current average rent.
    - (iii) KBC is looking to transfer a part of Trang Cat urban

Best pick in Industrial Park Developers: KBC VN

Market cap (USD mn)	266.6
Average 3M value (USD mn)	1.4
Foreign ownership (%)	19.3%
2019 PE/PB	7.6x/0.7x
2019 EPS growth (%)	34%
Dividend yield (%)	3.8%
2019 ROE (%)	9.4%

Source: Bloomberg, SSI Research

Best pick in Industrial Park Developers: KBC VN



Source: Bloomberg, SSI Research

area, with 511 ha out of 585 ha already cleared. Should it be the case, it could deliver solid proceeds to the Company.

FINANCIALS – BANKING

NEUTRAL

Best pick: VCB, ACB, MBB and TCB

What transpired in 2018?

Industry performance

The banking sector retreated -6.3% as compared to the overall market performance of -9.3%. Most banking stocks yielded negative returns except for BID (+35%), EIB (+11%), and VIB (+10%). BIDV – the best performer was expected to make a comeback after issuing shares to its strategic partner, KEB Hana Bank, although this was not yet accomplished as of the time of writing. After outperforming significantly the VN Index since the beginning of 2018 to April, banking stocks plunged in the second quarter. In general, banks were unable to re-rate despite an outstanding projected sector profit growth at roughly 40% YoY, while sector reported NPL ratios were reduced to less than 2%.

Some JSCBs successfully raised their Tier 1 capital in 2018, namely TCB at roughly $900mn USD (22% of charter capital) and TPB at roughly $104mn USD (15% of charter capital). However, there remain many listed banks that encountered difficulties in realizing their plan for raising additional Tier 1 capital in 2018, namely VPB and SOCBs like VCB, CTG, and BID. Some unlisted banks including OCB, Viet Bank, Viet A Bank, Nam A Bank, etc. planned to list in line with Circular 180/2015/TT-BTC after raising capital. But the listing was then delayed, because the pre-planned capital raise had not been completed yet.

Banking industry performance in 2018

Source: Bloomberg, SSI Research

Key highlight on sector/key companies

2018 Sector overview

Credit growth slowed down vs. 2017

On August 2nd, 2018, the central bank issued Directive No 04/2018, which explicitly stated that the central bank would not approve any proposals regarding credit growth limit extensions (except for banks that participate in restructuring weak banks in 2018). At the same time, supervision will be tightened regarding credit provided to speculative sectors, consumer finance, and BOT and BT infrastructure projects. After several continuous years with credit growth at above 18% YoY, the central bank is concerned about inflation risk. As a result, most banks were assigned to lower credit growth as compared to the previous year.

By the end of 2018, total M2 money supply increased by 12.5% compared to the end of 2017, which was lower than 15% in 2017 and 18.4% in 2016. Actual credit growth reached only 14% YoY. Credit growth rates gradually decreased during recent years (18.25% in 2016, 18.17% in 2017), whereas the GDP growth rate rode a crescendo from 6.21% in 2016, on to 6.8% in 2017 and 7.08% in 2018. From viewing the data, it has become evident that credit has been used in an increasingly more efficient manner.

According to the National Financial Supervision Commission, loans to the real estate business accounted for 16.6% of total credit, whereas consumer loans accounted for 18.8% of total credit.

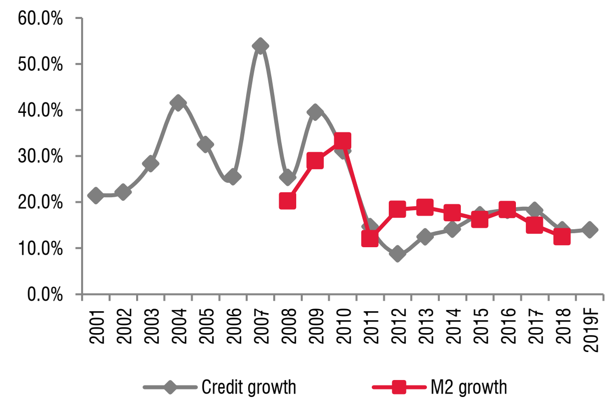
Improved assets quality and operational ratios

The reported on-balance-sheet NPL ratio was 1.89% at the end of 2018, which had declined from 2.46% at the end of 2016, and 1.99% at the end of 2017. Actual NPLs (including reported bad debt, restructured bad debt and debt sold to VAMC) have decreased from more than 10.08% in 2016 to 7.7% in 2017 and 6.3% by the end of 2018.

The restructuring of the banking system has been promoted, with many positive changes to boot. It is estimated that by the end of December 2018, the whole system wrote off VND 149.22 tn or $6.43 bn USD of bad debt. This amounted to 2% of total loans, more than double the amount resolved in 2017 of VND 70 tn or $3.2 bn USD, at 1.1% of the total loan book.

The ratio of short-term funds used for medium- and long-term lending reduced to 28.7% from 30.4% in 2017. At the same time, the average CAR ratio posted 11.1%. This was the same as in 2017, but lower than 11.6% in 2016. This was thanks to a

M2 and Credit growth (% YoY)



Source: SBV & SSI Research

+12.2% YoY rise in capital, while risk-weighted-assets grew at a lower pace of +10.8% YoY. The Tier 1 capital ratio improved to 8.8% vs. 7.8% last year.

According to the National Financial Supervisory Commission, banking sector ROE and ROA were 13.6% and 0.9% in 2018 respectively, improving from 11.22% and 0.73% in 2017.

Capital inflows tamped down interest rates.

Thanks to the supportive policies of the government, coupled with a strong balance of payments in 2018, ample liquidity and stable interest rates were maintained in the first half of the year. This helped average funding costs in 1H 2018 to decline.

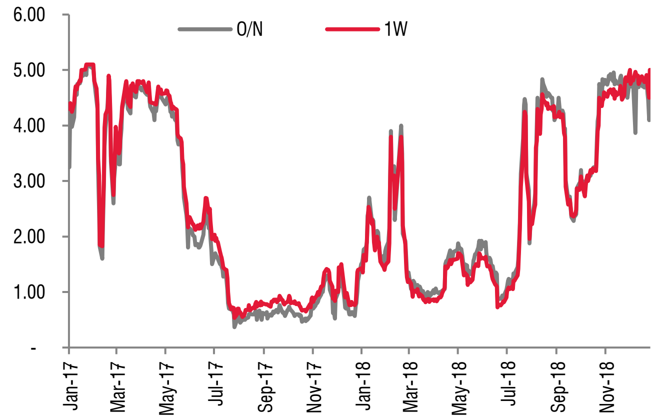
First, refinance rates were cut by -0.25% in Q3 2017, and the OMO lending rate was cut by -0.25% in early January 2018.

Second, the balance of payment was strong in 2018. The trade balance recorded a record high level of surplus of $6-7 bn USD (vs. $2.7 bn USD in 2017). The national financial account continued to record a surplus thanks to robust FDI disbursement ($19.1 bn USD, +9.1% YoY), strong FII ($9.89 bn USD, +60% YoY) and remittances (est. +10% YoY).

Therefore, the central bank in the first 10 months of this year still maintained a policy of net foreign currency purchases, and did so in order to increase foreign exchange reserves from $51.5 bn USD to $63.5 bn USD. Around $12 bn USD was purchased, resulting in an equivalent amount of around VND 278 tn being pumped into the market, improving liquidity in the banking sector in the process.

However, since late October to the end of 2018, this agency had to sell foreign currency. It therefore intervened in the market in order to stabilize the exchange rate. Foreign reserves are estimated to have fallen from the previous $63.5 bn USD, to just $58 bn USD as of recent. The amount of foreign currency being sold recently is estimated at approximately $ 5.5 bn USD, corresponding to the large amount of VND withdrawn from the market, at more than VND 127 tn. Consequently, market interest rates picked up as of recent.

Interbank interest rates 2017-2018



Source: Bloomberg and SSI Research

2018 Business results of listed banks

In reviewing the banking sector in 2018, we note that business results of listed banks up to 9M 2018 were exactly in line with our forecasts as mentioned in our Strategy Note 2018 for the sector. Details are as follows:

Sector's earnings growth peaked in 2018: The banking sector in Q3 continued to maintain strong profit performance recorded earlier in 1H2018 (+52.2% YoY), with the total PBT up to Q3 increasing by **+39% YoY**. Such PBT growth was driven by a robust growth of +19.8% YoY in net interest income (NII), and a +40.5% YoY growth in Non-interest income (Non-NII).

Among the top 12 listed banks under our coverage, only LPB recorded a decline in earnings up to 9M2018, due to rising interest expenses and weak investment results. CTG and VPB are two banks with single digit earnings growth due to soaring costs for credit provisions. Other banks booked very high earnings growth.

Table: Key indicators of business results of listed banks – 9M2018 (Unit: VND bn, %)

Ticker	PBT	% YoY	NII	% YoY	Non NII	% YoY
VCB	11,683	47.2%	20,429	26.4%	8,169	43.0%
CTG	7,596	5.0%	21,948	10.2%	4,678	16.3%
BID	7,254	30.6%	25,616	11.3%	7,250	51.9%
VPB	6,125	8.7%	18,189	21.7%	3,923	49.1%
TCB	7,774	60.6%	8,168	26.4%	5,127	25.2%
ACB	4,776	138.3%	7,424	22.2%	2,445	27.9%
MBB	6,015	50.3%	10,430	30.8%	3,394	66.5%
HDB	2,884	50.8%	5,485	18.5%	1,298	33.8%
VIB	1,720	176.1%	3,530	50.1%	657	40.2%
LPB	1,014	-29.2%	3,587	-8.1%	-114	-27.3%
TPB	1,613	99.9%	3,115	41.4%	920	220.9%
STB	1,315	28.2%	5,524	46.9%	2,435	32.4%
Total	**59,770**	**39.0%**	**133,443**	**19.8%**	**40,182**	**40.5%**

Source: Banks and SSI Research

Although it was said that the central bank provided additional credit growth caps for several banks in the last months of the year, the new credit quota may not have brought about significant interest income right away.

Improved NIM from increased proportions of consumer/retail lending in the credit mixture.

NII growth up to 9M18 for 12 banks under our coverage was strong, at+19.8% YoY. This was thanks to a **higher NIM**, which on average posted 3.93% up to 9M18, **+17 bps higher** than 3.76% in 9M17, and a higher LDR (92.8% as of 30 Sep 2018, vs. 89.9% as of 30 Sep 2017).

NIM and LDR 9M 2018

Ticker	NIM		LDR	
	9M18	9M17	9M18	9M17
VCB	2.78%	2.67%	80.6%	78.1%
CTG	2.69%	2.76%	106.4%	108.8%
BID	2.83%	2.97%	95.9%	92.8%
VPB	9.06%	9.25%	99.2%	94.4%
TCB	4.13%	4.10%	97.1%	84.8%
ACB	3.54%	3.45%	81.2%	76.7%
MBB	4.56%	4.19%	88.8%	85.6%
HDB	3.98%	4.10%	87.1%	80.7%
VIB	3.80%	3.02%	106.9%	105.1%
LPB	3.15%	3.91%	85.3%	75.7%
TPB	4.12%	2.86%	104.1%	111.4%
STB	2.54%	1.84%	80.7%	84.9%
Average	**3.93%**	**3.76%**	**92.8%**	**89.9%**

Source: Banks & SSI Research

In the context of a lower credit growth cap, and in order to meet requirements on safety ratios and CARs (especially at SOCBs like VCB, BID, CTG), banks self-reviewed their loan portfolios. This was undertaken in order to optimize lending yields and reduce loans characteristic of high credit risks.

We witnessed most banks are expanding more aggressively into retail banking, which have higher lending yields. The ratio of retail loans to total loans is rising in many banks from 2017 to Q3 2018, such as MBB (34.1% to 36%), BID (31.1% to 32%), VCB (32.7% to 36.1%), and LPB (42% to 47%). Out of retail loans, mortgage lending has been ramping up at the highest pace yet recorded, such as at VCB (+40% YTD) and VIB (+33% YTD).

Average LDR was 92.8%, higher than 90% as of 9M2017. Higher LDRs were witnessed across banks, except for CTG, TPB, and STB. This trend is reasonably sustainable, because equity funds have been strengthened at most banks thanks to a wave of recently successful capital raises back in Q4 2017 (VPB, HDB, TCB, TPB), and from strong earnings in 2018.

Strong growth in Non NII thanks to bancassurance, investment and write-backs

In total, **Non NII** hiked by **+40.5% YoY**. Non-NII growth rates were the highest at TPB (+221% YoY), MBB (+66.5% YoY), BID (+52% YoY), VPB (+49% YoY), and VCB (+43% YoY), etc. On average, the slice of Non-NII comprising TOI increased significantly from 18.1% up to 9M17 to 23.1% up to 9M18.

The surge in Non-NII was derived from bancassurance fee income, the realization of returns from banks' investment portfolio in both stocks and bonds, as well as the hike in write-backs.

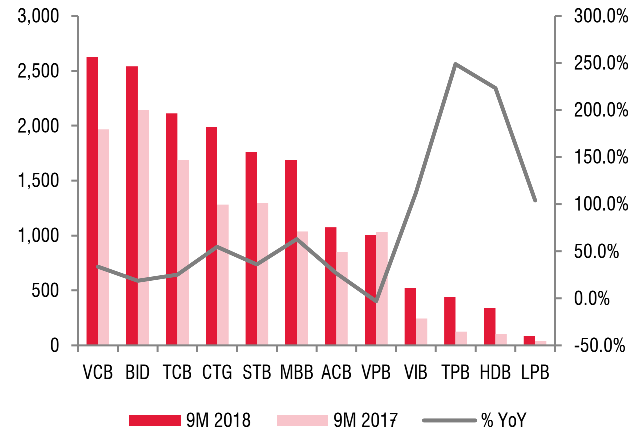
In our banking coverage, total net fee income growth up to 9M2018 came to 37% YoY.

- **Bancassurance improved fee income.**

For 2018 up to September, it's estimated that VND 6.35 tn of gross written premiums of the life insurance sector was sold via the bancassurance channel, a stratospheric rise of approximately 98% YoY. The influence of the bancassurance channel to total gross written premiums (GWP) increased to 10.6% from 7.65% in 2017. The Top 10 banks/consumer finance companies in this segment accounted for 76.7% of total bancassurance GWP, including Techcombank (19.5%), MBB (11.6%), BID (8.9%), CTG (8.3%), VIB (7%), SCB (5.3%), STB (4.8%), VCB (4.0%), MSB (3.8%), and MCredit (3.5%). Manulife, Prudential, MB Ageas Life, BIDV Metlife, and Dai-ichi Life were the Top 5 insurers for new life-insurance premiums sold via bancassurance channels in the first 3 quarters of 2018.

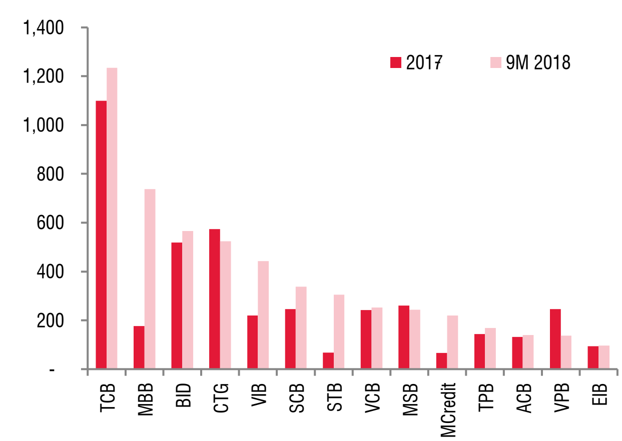
- **2018 investment income hiked from bond and equity**

9M2018 growth of net fee income (% YoY)



Source: Industry bank data, SSI Research

Life Insurance Gross Written Premium distributed via banca by top banks – 9M 2018 (*Unit: VND bn*)



Source: IAV, SSI Research

portfolio investment and trading

Government bond yields had been on a downtrend during 2017 before reverting back to historical norms in Q2. At the same time, the stock market rallied and peaked in early April 2018. We note that for the majority of banks, more investment portfolio-related gains were realized in 1H18, when the stock market peaked and bond yields bottomed at the end of Q1 and early Q2. Additionally, we saw some banks continuing to engage in cross-ownership divestment. This is to meet the requirement of Circular 36, which effectively restricted banks from investing in other peer banks. In the meantime, the divestment would also help enhance the CAR of banks, as the investment in other banks and insurance subsidiary companies will be deducted from the calculation of Tier-1 capital. In 2018, we noted the following transactions:

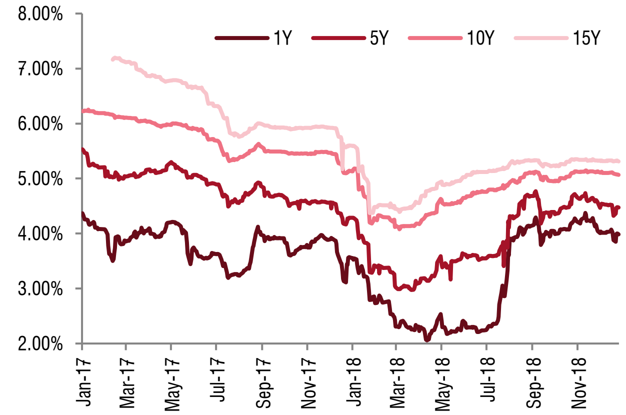
- ✓ Vietcombank sold its stakes in CFC, OCB, MBB, EIB, and HVN, and earned an income of VND 1.5 tn, 3.7% of 2018E TOI.
- ✓ Techcombank sold its consumer finance arm to Lotte Card, and recorded an one-off income of VND 894 bn, equivalent to 4.8% of the bank's 2018E TOI.
- ✓ MBB sold MBLand and recorded over VND 100 bn of income, 0.5% of 2018E TOI.
- ✓ Eximbank liquidated their whole 8.75% stake of the STB portfolio during November 2017 – January 2018, and received income of VND 648 bn, of which VND 126 bn was booked in 2017 and the rest of the VND 521 bn was booked in Q1 2018.
- ✓ LPB sold 3 million shares, or 4.5% of its stake of 66.4 million STB shares, in 1H 2018.

- **Growing income from write-backs**

With Decree 61 and Resolution 42 coming into effect during Q3 2017, the VAMC and banks alike were allowed to seize bad debt collateral for later sale. As the property market was favorable, this brought an amount of earnings to banks from write-backs in 2017, and this trend continued up to 9M2018.

Write-back income up to Q3 2018 soared up strongly at +76.3% YoY. Write-backs recorded highest figures in absolute terms at BID (VND 3.14 tn, +83.1% YoY), followed by VCB (VND 3 tn, +93.3% YoY) and VPB (VND 1.6 tn, +117% YoY). Proportions of write-backs to TOI were the highest at VCB (10.5%), BID (9.5%), ACB (8.7%), and VPB (7.2%). Total write-backs to TOI increased to 6.6% from 4.7% in 9M17.

Government bond yields in the secondary market 2017-2018



Source: Bloomberg & SSI Research

Write-backs and TOI at listed banks (Unit: VND bn, %)

Ticker	Write-backs			TOI			Write-backs/TOI	
	9M18	9M17	% YoY	9M18	9M17	% YoY	9M18	9M17
VCB	3,012	1,558	93.3%	28,598	21,874	30.7%	10.5%	7.1%
CTG	792	1,119	-29.2%	26,625	23,938	11.2%	3.0%	4.7%
BID	3,135	1,712	83.1%	32,866	27,786	18.3%	9.5%	6.2%
VPB	1,596	735	117.1%	22,112	17,575	25.8%	7.2%	4.2%
TCB	817	532	53.6%	13,294	10,557	25.9%	6.1%	5.0%
ACB	856	65	1216.9%	9,869	7,986	23.6%	8.7%	0.8%
MBB	882	582	51.5%	13,823	10,012	38.1%	6.4%	5.8%
HDB	128	114	12.3%	6,783	5,600	21.1%	1.9%	2.0%
VIB	92	81	13.6%	4,186	2,836	47.6%	2.2%	2.9%
LPB	-1	8	-106.5%	3,474	3,746	-7.3%	0.0%	0.2%
TPB	127	3	3938.7%	4,035	2,490	62.0%	3.1%	0.1%
STB	40	1	2549.2%	7,959	5,599	42.2%	0.5%	0.0%
Total	**11,476**	**6,511**	**76.3%**	**173,625**	**140,000**	**24.0%**	**6.6%**	**4.7%**

Source: Banks and SSI Research

Lighter burden of credit provisioning

We note that although NPL ratios up to 9M2018 edged up in 8 out of 12 listed banks, **the total weighted average NPL ratio dropped from 1.88% in 9M17 to 1.76% up to 9M18**, mostly due to the efforts to reduce bad debt at BID and STB. Aside from the above, the growth in total NPLs (at +9.9% YoY or +22.9% YTD) was less than the corresponding growth in provision reserves (at +27.3% YoY or +44.7% YTD), which drove up the LLC ratio from 78.7% back in 9M17 to 91.2% up to 9M18 on average.

Provision costs as compared to TOI also decreased significantly, especially at banks with low NPLs and cleared-up VAMC bonds like ACB, MBB, VCB, TCB, and VIB. On the other hand, the ratio increased at VPB, where new NPL formations were on the rise. This also occurred at BID, CTG and STB, which are speeding up the resolution of their bad debt. Please note that during the year, we have consistently applied a prudent practice when issuing ratings for CTG because of its hidden bad debt, as well as highlighting the risk of fast new NPL formation in VPB. We also foresaw the speed up in provisions for bad debt restructuring in BID and STB.

We also note that CIR continued to stage a retreat across listed banks compared to Q1-Q3 2017, with growth in TOI +24% YoY higher than the growth in total operating expenses of +17.7% YoY. This was mostly due to the hikes in non-recurring income.

3 banks approved to apply Basel II before deadline

In the last two months of 2018, the central bank decided to allow 3 banks (VCB, VIB and OCB) to apply standard Basel II

Operational ratios at listed banks

Ticker	NPL		LLC		CIR		Provision/TOI	
	9M18	9M17	9M18	9M17	9M18	9M17	9M18	9M17
VCB	1.18%	1.15%	155.5%	164.8%	41.7%	43.1%	17.5%	20.6%
CTG	1.36%	1.21%	130.4%	100.7%	42.0%	42.0%	31.3%	27.8%
BID	1.76%	2.08%	87.0%	84.0%	34.2%	37.2%	43.7%	42.8%
VPB	4.24%	3.06%	41.7%	49.5%	35.2%	36.0%	36.1%	25.9%
TCB	2.05%	1.93%	77.5%	68.0%	28.1%	30.1%	13.4%	24.0%
ACB	0.84%	1.05%	129.5%	151.0%	44.9%	56.2%	6.7%	18.7%
MBB	1.57%	1.33%	106.0%	87.0%	39.9%	40.7%	16.6%	19.3%
HDB	1.50%	1.64%	72.9%	70.7%	48.0%	52.4%	9.5%	13.4%
VIB	2.50%	2.36%	46.6%	49.8%	47.7%	60.8%	11.2%	16.3%
LPB	1.32%	1.19%	84.9%	105.3%	60.7%	49.1%	10.1%	12.6%
TPB	1.24%	0.89%	99.1%	114.6%	49.0%	49.8%	11.0%	17.8%
STB	3.18%	5.95%	47.7%	19.1%	68.7%	77.7%	14.8%	4.0%
Average	**1.76%**	**1.88%**	**91.2%**	**78.7%**	**45.0%**	**47.9%**	**18.5%**	**20.3%**

Source: Banks and SSI Research

benchmarks, including CAR as per Circular 41, ahead of the deadline. These three banks will be granted higher credit growth caps compared to peers in 2019. Seven other credit institutions are currently under consideration to be granted the same benchmark levels in 2019.

The SBV estimates there will be at least 12-15 credit institutions successfully applying for Basel II standardized requirements by the end of 2020. This is not a requirement, but rather a target for the whole system. However, please note that SBV has issued specific Circulars on risk management practices that utilize the Basel II approach well before this deadline, such as Circular 41/2016 on CAR calculation (Pillar I of Basel II), market discipline (Pillar III of Basel II - effective from 1 Jan 2020), and Circular 13/2018 covering internal audit (with regulations on the Internal Capital Adequacy Assessment Process (ICAAP – a component of Pillar II in Basel II), effective from 1 Jan 2021). This led us to understand that Basel II will be applied on a step by step basis, with the deadline being Jan 1st 2021 for 12-15 cohort banks.

2019 View

2019 Growth Outlook: Less credit growth plus stricter supervision

The central bank stated that credit growth origination in 2019 is to be about 14% YoY, which is similar to growth achieved in 2018. This figure was chosen to both meet capital needs for the economy, while avoiding systemic risks in the process. We estimate the ratio of the credit to GDP ratio to be 134% in 2018 and 137.2% in 2019.

Circular 36/2014 is being reconsidered for revision, to be amended towards more tightening of credit for real estate sector. Credit growth for the real estate sector and consumer loans slowed down in 2018 in comparison to 2017, and we expect this to maintain a downtrend momentum in 2019 in accordance with the direction of the central bank to divert credit away from risky sectors. Credit in these sectors has been affected by stricter regulations on operational ratios, as set out in Circular 41/2016 and Circular 19/2017. At the same time, strict control will be exerted upon credit into potential risk areas such as real estate and securities. Meanwhile, risk management will be stepped up for BOT and BT traffic projects and consumer loans.

As per Circular 42/2018, lending activities in foreign currencies will be limited and reduced in a suitable roadmap.

The SBV will complete the legal framework for the development of cashless payment in order to effectively deploy the cashless payment development project in Vietnam pertaining to the 2016-2020 period, as pursuant to government Decision 2545/QD-TTg dated December 30, 2016.

Priority given to banks with early Basel II application

In 2019, the SBV will continue to allocate credit growth targets to each bank, which we estimate will be lower than 2018 levels. Banks that implement Circular 41 (Basel II) before the deadline will be given priority to be granted higher credit growth targets. So far, there are only Vietcombank, VIB, and OCB that have been officially recognized by the SBV in this category, and these banks may be granted a higher credit growth quota as compared to 2018.

As seen in 2018, many large banks switched their emphasis sharply to retail lending, especially mortgage loans. At the same time, consumer finance arms of some banks like VPB and HDB saw a significant slowdown in credit growth, from roughly 20-40% YoY to 10%-20% YoY, due to a high rate of loan rollover and fast NPL formation. We believe this trend will continue in 2019.

Ample liquidity to mitigate pressure on interbank interest rates

We believe the low target of 14% for credit growth this year will definitely ease pressure on the sector's funding demand in general throughout the year.

In our base case scenario, there will be no change in the regulation of interest rates within Vietnam. The U.S. Fed is giving signals to halt rate hikes in 2019, which will lessen the incline of USD strengthening, We expect that 1H 2019 FDI disbursement, FII, and remittance inflows are to remain resilient, similar to what happened in 1H 2018. The central bank will continue to buy a large amount of foreign currencies and net inject liquidity into the banking system, which will keep the market rates flat or even lower in 1H 2019.

If the US – China trade war intensifies, CNY may further depreciate. This would in practice create pressure upon VND to depreciate in response, with the linked expectation of market interest rates to also experience a rise. However, even if this extreme scenario happens, liquidity in the system will continue to be supported by various factors, including faster disbursement of public investments with big infrastructure projects to be launched this year, such as the Long Thanh International Airport, and some segments in the North-South Expressway, as well as additional disbursement in the Urban Railway Project in Ho Chi Minh City, etc. Interbank interest rates will therefore stay below open market operation regulated rates.

Long-term deposit rates expected to step up though

Deposit market rates however will increase at a higher pace, especially in 2H 2019. As mentioned in our previous banking report here, Circular 41/2016/TT-NHNN as issued by the central bank strictly tightened operational safety ratios and CAR based on Basel II guidelines. The subsequent Circular 19/2017, which set a roadmap for banks to get another step closer towards the standards set out in Circular 41, also regulates stricter calculations of Tier 2 capital at banks, as well as the increase of risk coefficients among various asset categories. We believe these regulations will definitely reduce the amount of Tier-2 capital from most banks, especially from SOCBs like CTG and BID, and create more pressure for these banks to raise equity and/or to issue more subordinated debt to economic entities and individuals to supplement the reduction of Tier-2 capital.

We think the interest rates of long-term Tier-2 capital bonds as well as long-term deposits will edge up moderately, at around +50 bps compared to 2018. We believe that the gap of long-term deposit rates among top Tier 1 banks and Tier 3 banks, which widened in 2018 by around 130 bps, will continue to extend in 2019. Interbank lending business of top banks with high CASA ratios, like VCB or MBB, will prosper.

NIM to expand further

Beyond the rise in deposit rates itself, we foresee the industry-wide bank average cost of funds to increase in 2019 due to higher operational safety costs, which was concurrent with a higher proportion of medium- and long-term deposits in total funds raised from customers. This will be advantageous for those banks that raised capital successfully as of recent, and also for SOCB banks that have advantages of low-cost funding as well as high CASA ratios (i.e. VCB, MBB, TCB).

However, the average assets yield will also improve thanks to the following:

- While we believe the current trend of shifting more towards retail lending (which possess higher yield) 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. We think the rise in funding costs can be transferred to mortgage lending rates at the current level without significantly impacting mortgage demand. This will be a key driver towards achieving the improvement of NIM.

- The limitation in foreign currency-denominated lending will likely raise the portion of VND loans in terms of total loans, which is charged with higher interest rates than loans denominated in foreign currencies.

Corporate lending will be given less room for growth than in previous years. Banks will be more selective in extending corporate credit in order to reduce their credit cost. We believe that given the rising cost of funds, medium- and long-term lending interest rates for corporations in VND terms will increase by 50-70 bps in 2019, while short-term interest rates, especially those for priority areas, will remain stable.

Overall, we forecast NII of the top 11 banks to increase by 18.5% YoY in 2018 and 15.7% YoY in 2019.

Fee income

In 2019, we expect bancassurance fees to continue their uptrend momentum. Fee income from retail payment services is also expected to flourish. Resolution 02/NQ-CP issued in 2019 set a roadmap to make cashless payments of public services (schooling, hospital services and medicines, public administrative services, etc) and utility services (electricity, water, postal services, etc.) compulsory in urban areas, with the first deadline in December 2019. We expect these two pillars to be the key drivers for non-NII growth of banks.

Income from securities trading and investment

Last year, many banks have realized enormous gains from a large part of their bond and stock investment and trading portfolio, occurring mostly in 1H18 when the market hit its peak. However, we don't expect this income line to sustain in 2019. This is due to government bond yields on the rise amidst an overall weaker stock market. This income stream will drive down the growth of non-NII for 2019.

One-off income from exclusive banca deals, the selling of subsidiaries and equity divestment

It's foreseeable that the one-off income streams from exclusive bancassurance deals were already finished among banks that don't have life insurance subsidiaries, including TCB (in 2017

Table: NII forecasts (VND bn)

Ticker	NII				
	2017	2018F	% YoY	2019F	% YoY
VCB	21,938	28,453	29.7%	33,553	17.9%
BID	30,955	36,045	16.4%	41,167	14.2%
CTG	27,073	29,120	7.6%	31,537	9.8%
TCB	8,930	10,806	21.0%	12,973	20.1%
VPB	20,614	24,547	19.1%	28,900	17.7%
MBB	11,219	14,236	26.9%	16,532	16.1%
ACB	8,458	10,337	22.2%	12,078	16.8%
HDB	6,375	7,681	20.5%	9,704	26.3%
VIB	3,456	4,582	32.6%	5,054	10.3%
LPB	5,227	4,953	-5.2%	5,763	16.4%
TPB	3,172	3,959	24.8%	4,509	13.9%
Total	**147,418**	**174,719**	**18.5%**	**201,770**	**15.5%**

Source: Banks & SSI Research

with Manulife), VPB (in 2017 with AIA), STB (in 2017 with Dai-ichi Life), CTG (in 2017 with Aviva), SHB (in 2017 with Dai-ichi Life), EIB (in 2016 with Generali), LPB (in 2016 with Dai-ichi Life) and VIB (in 2015 with Prudential).

Among banks that do have life insurance subsidiaries, including VCB, BID and MBB, we expect VCB and MBB to gain strong growth in income from the insurance business in 2019. In particular, VCB plans to liquidate its stake in Vietcombank – Cardif Life Insurance Joint-Venture Company, and sign an exclusive bancassurance deal with a partner. This will render the bank well poised to start recording upfront fee income in 2020. With strong retail customer bases, we believe the value of the bancassurance deal at Vietcombank will be significant in scale.

As for the catalyst of equity divestment, there is an exception for VCB among all listed banks when we expect VCB will continue to take profit from a small part of its investment portfolio in HVN, particularly when the stock will move from the Upcom to the HOSE in late Q1 2019. VCB at present does not have plans to further reduce its 4.5% stake in MBB and EIB this year.

LPB also plans to continue selling its STB portfolio. However, as the buying price was at VND 13,137 per share, quite high compared to the current market price of VND 11,400 per share, the bank had to book provisions for value impairment. It also reversed provisions whenever market price moves above the purchase price. This makes the investment income of the bank rather volatile.

Write-backs

Write-backs brought an enormous amount of earnings to banks from written-off bad debt in 2018, and we expect this trend to continue in 2019 for most banks. However, as the real estate market in 2019 may be relatively weaker as compared to 2018, the growth of this income stream may be slower.

Assets quality and credit cost

After a large number of banks having completed the clearing up of the VAMC bonds on their books over the past 3 years, we expect HDB and BID to follow suit in 2019, clearing their books of the remaining VND 325 bn and VND 6 tn of un-provisioned VAMC bonds respectively.

On the other hand, we think VPB will have to deal with bad debt. This is because NPL levels are somewhat lofty at both the parent bank and FE Credit, and also because VPB still has a large VAMC bonds portfolio that needs provisioning. Meanwhile HDB will be dealing with rising NPLs after merging with PGBank in Q1 2019.

Capital raise

Table: Non NII forecasts (VND bn)

Ticker	Non NII				
	2017	2018F	% YoY	2019F	% YoY
VCB	7,469	11,128	49.0%	10,513	-5.5%
BID	8,061	9,359	16.1%	10,907	16.5%
CTG	5,546	5,647	1.8%	6,370	12.8%
TCB	7,413	7,771	4.8%	8,070	3.8%
VPB	4,412	6,811	54.4%	7,836	15.0%
MBB	2,648	4,345	64.1%	5,080	16.9%
ACB	2,981	3,560	19.4%	3,810	7.0%
HDB	1,153	1,700	47.5%	2,240	31.8%
VIB	637	910	43.0%	1,061	16.6%
LPB	-124	-213	71.9%	-255	19.7%
TPB	437	1,386	216.8%	1,748	26.1%
Total	**40,633**	**52,404**	**29.0%**	**57,379**	**9.5%**

Source: Banks & SSI Research

New capital issuance is an attractive growth catalyst for banks. In 2019, we have the following noteworthy themes:

- In Q1 2019, VCB successfully issued 111.1m shares by way of private placement, increasing its charter capital by 3.088% to VND 37.089 tn. The buyers are GIC Private Limited (GIC – the investment arm of Singapore government), and Mizuho Bank Ltd (current VCB strategic shareholder). VCB would receive proceeds of VND 6.2tn, or approx. $ 265 mn from the issuance. We estimate an issuance price of VND 55,500 per share, which is equal to a 2018E PBR of 3.22x.
- BID is expected to sell a 15% stake to KEB Hana Bank in 1H 2019. Successfully raising tier 1 capital is likely to open up BID credit growth, and increase its minimum CAR. Assuming a price at VND 30,000 per share, the deal size would be $776 mn USD.
- VPB, OCB, MSB and some other small banks have planned for Tier 1 capital issuance in 2019. There is the possibility that MBB will open up its FOL for the purpose of capital raising after purchasing roughly 108 million shares (5% of total outstanding shares) as treasury shares. The bank announced to purchase either via market orders or put-through orders from 29 Jan – 27 Feb 2019.

Forecast

2019 banking sector earnings growth might slow down from the stepped up target set in 2018, but it will remain at high levels for some banks

For 2018 and 2019, we forecast total PBT of banking stocks to grow by 31.6% YoY and 16.7% YoY respectively, while banks for 2019 best in class growth include HDB, VIB, TCB, and MBB. We therefore maintain our positive view on the banking sector's earnings outlook over the next year.

However, as the uncertainty of the market is increasing and growth may have already peaked in 2018, we think that the sector valuation may go down in 2019. In sum, we put a Neutral rating to the banking sector.

Issues and risks

- Key risks include failure of banks to raise Tier 1 capital by way of new issuance. This includes big SOCBs, such as BID and CTG.

- The tightening of regulation towards the application of Basel II in their respective sector would increase the compliance cost for banks.
- Additionally, a new round of NPLs are coming back from newly-issued consumer loans, or from legacy restructured loans being re-rated.

2020 Growth Trend

Looking into 2020, it's evident that Basel II will be applied across the banking sector of Vietnam. The central bank is expected to continue their close supervision on credit growth and asset quality of banks in order to realize inflation-targeting monetary policies, all the while maintaining systemic stability.

Table: Earnings forecasts (VND bn)

Ticker	PBT				
	2017	2018F	% YoY	2019F	% YoY
VCB	11,337	18,356	61.9%	21,004	14.4%
BID	8,665	9,557	10.3%	10,870	13.7%
CTG	9,206	6,874	-25.3%	7,957	15.8%
TCB	8,036	10,511	30.8%	12,617	20.0%
VPB	8,130	9,199	13.1%	10,163	10.5%
MBB	4,616	7,626	65.2%	9,164	20.2%
ACB	2,656	6,389	140.5%	7,371	15.4%
HDB	2,417	3,932	62.7%	5,268	34.0%
VIB	1,405	2,327	65.6%	2,928	25.8%
LPB	1,768	1,213	-31.4%	1,370	13.0%
TPB	1,206	2,258	87.2%	2,629	16.4%
Total	**59,442**	**78,241**	**31.6%**	**91,342**	**16.7%**

Source: SSI Research estimates

Table: Valuation

Ticker	Price as of	PER		PBR		ROAE	
	12/28/2018	2018F	2019F	2018F	2019F	2018F	2019F
VCB	53,500	15.1	13.4	3.11	2.34	22.2%	20.7%
BID	34,400	21.0	18.1	2.19	1.78	14.9%	14.4%
CTG	19,300	16.1	13.9	1.08	1.04	8.5%	9.4%
TCB	25,850	10.7	9.0	1.79	1.49	21.7%	18.2%
VPB	19,950	6.7	6.0	1.40	1.14	22.9%	20.8%
MBB	19,450	6.8	6.1	1.32	1.14	20.4%	21.4%
ACB	29,600	6.9	6.7	1.85	1.44	28.3%	25.8%
HDB	30,300	10.7	8.6	1.95	1.82	18.9%	21.2%
VIB	17,600	7.4	5.9	1.21	1.03	19.5%	20.7%
LPB	9,200	7.1	5.9	0.67	0.66	10.8%	12.7%
TPB	19,950	7.5	6.3	1.60	1.34	21.0%	18.1%
Average		**10.6**	**9.1**	**1.65**	**1.38**	**19.0%**	**18.5%**

Best pick

JSC Bank for Foreign Trade of Vietnam – Ticker: VCB VN

Price: VND 53,500;

Target price: VND 68,600

Investment thesis:

- VCB has delivered steadily solid growth in terms of earnings over the past three year, thanks to its strong advantages over peers in term of low cost of funding. This advantage was no doubt aided by its leading position in interbank and payment services. These advantages will become more apparent in an environment of stricter regulations for the banking sector in the years ahead.

Best pick in Banking: VCB VN

Market cap (USD mn)	8,307
Average 3M value (USD mn)	3.22
Foreign ownership (%)	23.25%
2019 PE/PB	13.4x/2.34x
2019 PBT growth (%)	14.4%
Dividend yield (%)	8%
2019 ROE (%)	20.7%

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

- We believe the bank still has room to improve its NIM while proceeding with its transformational pivot into more retail banking activities. Individual and SME loans accounted for 46% of the total loan book as of 2018, and is targeted at 50% by 2020. Additionally, we expect NIM to improve to 3.17% in 2019 from 2.83% in 2018. Pricing competitiveness will be further strengthened for VCB to gain more retail banking market share from private-bank rivals.
- VCB has a healthy balance sheet, as its NPL ratio was reduced down to 0.97% at end-2018E - the second lowest in the banking sector - and the highest loan-loss coverage ratio of 170% as of year end 2018. We expect an NPL ratio of under 1% in 2019.
- VCB is among the few banks in the industry that have a significant amount of unrealized income from its equity investment in MBB, EIB, and HVN, as well as huge income potential from write-backs. Such advantages are rooted from the bank's steady and prudent lending practices over the past years, and from the addition of the bancassurance line, of which the bank will be getting more actively involved over the coming years.
- The bank's 2018A and 2019F earnings growth are strong, at +62% YoY and +14.4% YoY. We believe a PBR of 3x is suitable given the bank's leading position in the sector, strong earnings outlook, and prominent asset quality. VCB is among a few listed banks considered investible for foreign investors (along with BID and HDB).

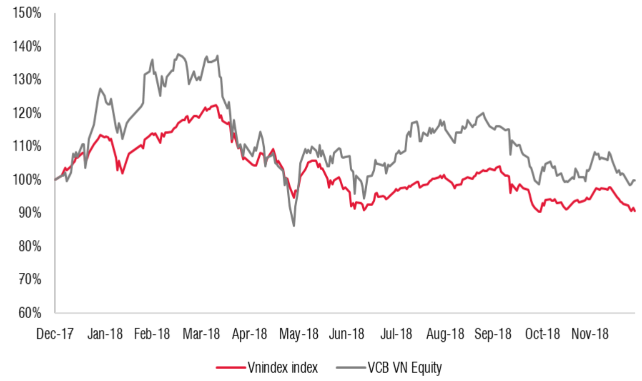
Risks:

Lower-than-expected NIM and worse-than-expected asset quality.

Catalysts:

We expect VCB to finalize negotiations on the sales of its life insurance subsidiary, and from the exclusive agreement on bancassurance in Q2 2019. Starting in 2020, we expect the bank to have a huge upfront income stream from its exclusive bancassurance deals, and strong growth in banca fees.

Best pick in Banking: VCB VN



Source: Bloomberg

Asia Joint Stock Commercial Bank - Ticker: ACB VN

Price: VND 29,600;

Target price: VND 37,000

Investment thesis:

- ACB, with a current NPL ratio of under 1%, has been a well-established retail bank that has built up its long-time reputation of prudency in lending (mostly secured lending) and advanced risk management after its crisis in 2012. In 2017, the bank completed the full unloading of its legacy bad debt, and after a long hiatus returned to its previous growth track.
- Up to 9M2018, NIM was improved from 3.45% in 2017 to 3.54%, thanks to the higher proportion of consumer and SMEs loans in the total loan book. Bank management had a detailed plan for its "Future Bank" concept, with focuses on efficiency improvement, an improved customer service experience, and digital banking. We expect NIM to improve further to 3.56% in 2019, and for bancassurance fee income to grow together with retail banking expansion.
- ACB has managed to reduce its NPL ratio to less than 1% starting in 2016, and remained amongst the lowest in the sector since then. LLR simultaneously has been among the highest in the banking sector at over 120%, showcasing the healthy position of the bank's assets which would in turn lead to a lower credit cost and stronger earnings compared to peers.
- Currently, the principal loans of Group 6 that were written-off remained at over VND 2 tn, which have been mostly collateralized by stocks and real estate. However, despite the write-off, ACB expects to recover this whole amount by 2020. ACB could also book write-backs of resolved VAMC bonds in the coming years, thanks to its prudent secured lending approach.
- ACB delivered VND 6.39 tn of PBT in 2018 (+140.5% YoY), and we expect 2019F PBT at VND 7.37 tn in 2019 (+15.4% YoY). This is equivalent to ROAE of 28.5% in 2018 and 25.7% in 2019, among the highest in the sector. This would translate into BVPS growth of 28.2% in 2019, the second highest in the sector after VCB. We apply a targeted PBR of 1.8x to ACB.

Risks:

Higher-than-expected NPL formation could raise credit costs, and hence impair profitability.

Catalysts:

Best pick in Banking: ACB VN

Market cap (USD mn)	1,593
Average 3M value (USD mn)	3.93
Foreign ownership (%)	30%
2019 PE/PB	6.74x/1.44x
2019 PBT growth (%)	15.4%
Dividend yield (%)	N.a.
2019 ROE (%)	25.7%

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

Best pick in Banking: ACB VN

Source: Bloomberg

- We expect ACB to pay out a stock dividend at 30% in Q1 2019 in order to raise charter capital.
- The bank can also raise capital by selling its 41.4 million treasury shares, (3.2% of its current outstanding shares), thus able to gain a share premium and open up its FOL.

Military Commercial Joint Stock Bank - Ticker: MBB VN
Price: VND 19,450;
Target price: VND 30,800
Investment thesis:

- MBB delivered robust PBT growth of 66.8% YoY in 2018, and we expect an approximate growth of 20% in 2019. Retail expansion and low funding costs remain the key drivers for high NIM and profit. NIM improved from 4.19% up to 9M2017 to 4.56% up to 9M2018, and is expected to be 4.55% and 4.68% in 2018 and 2019 respectively, playing second fiddle only to VPBank. ROAE is likely to be at a 20% level for 2019 unless the bank decides to increase its tier 1 capital by way of equity issuance.
- We expect NPLs to increase to around 1.7 – 1.8% in 2019, as the bank has been engaging in the higher risk consumer finance business.
- MBB is a rare bank choice, as the stock looks cheap (2019 PBR : 1.1x, industry average roughly 1.3x) compared to its healthy fundamentals and outlook. Whereas with Vietcombank, having offloaded its roughly 2% stake to comply with Circular 36, and with the SCIC potentially selling its 10% stake of VCB in 2019, is likely to have multiple vectors of selling pressure upon the stock price and thus, create attractive purchasing points.

Risks:

The bank might face a NIM squeeze, as the bank might not be able to increase its lending rates amid a rising deposit rate environment. Faster than expected increases in NPLs for both the corporate and consumer finance arms also is a variable impacting risk.

Catalysts:

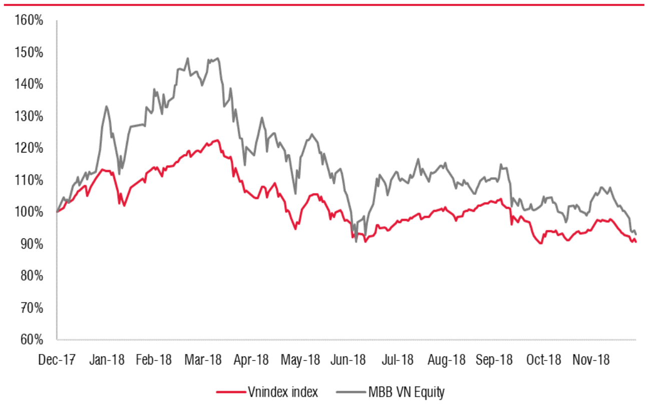
We expect MBB to comply with Basel II standards by 2H 2019. The bank is barely considered sufficient with its current level of CAR. Hence, the bank is likely to raise its chartered capital via rights issuance, or open up its 10% FOL.

Best pick in Banking: MBB VN

Market cap (USD mn)	1,803
Average 3M value (USD mn)	4.05
Foreign ownership (%)	20%
2019 PE/PB	6.1x/1.14x
2019 PBT growth (%)	20.0%
Dividend yield (%)	3.08%
2019 ROE (%)	21.4%

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

Best pick in Banking: MBB VN



Source: Bloomberg

Vietnam Technological and Commercial Joint Stock Bank – Ticker: TCB VN

Price: VND 25,850;

Target price: VND 31,300

Investment thesis:

- TCB delivered robust PBT growth at roughly 32% YoY in 2018, and we expect PBT to grow by roughly 20% in 2019. While Vincity is likely to be a major influencer upon Techcombank's overall loan growth, corporate bond issuance and bancassurance remain key drivers for TOI growth. A high capital buffer is likely to help Techcombank expand amid tighter credit growth control. ROAE is likely to be at a 18% level for 2019, which can be considered sustainable moving forward.
- TCB valuation seems undemanding at a 2019 PBR of 1.5x, especially when compared to the industry average of 1.3-1.4x.

Risks:

NIM squeeze is a possibility, particularly as the bank focuses on short-term loans. Sector concentration is also remains a major risk.

Catalysts:

Techcombank is one of the listed banks that have one of the highest capital buffers, which is likely to enable a higher credit growth limit.

Best pick in Banking: TCB VN

Market cap (USD mn)	3,879
Average 3M value (USD mn)	2.1
Foreign ownership (%)	22.5%
2019 PE/PB	9x/1.49x
2019 PBT growth (%)	20.0%
Dividend yield (%)	0%
2019 ROE (%)	18.2%

Best pick in Banking: TCB VN

Source: Bloomberg

FINANCIALS - INSURANCE

NEUTRAL

Best pick: N/a

What transpired in 2018?

Industry performance

The Vietnamese insurance industry outperformed during 2018, posting a growth of +23% in total vs. a -9.3% loss in the VN-Index and -4.46% decline in the financial sector. The performance was much better than our Neutral rating, mostly thanks to the strong growth of BVH. Its stock rose by 38.1%, and accounted for 76.8% of total market share of the insurance sector, followed by PVI (+10.4%) and VNR (+5.2%). However, while the index at first glance appeared strong throughout, other insurance stocks took some hits that ranged from deep to shallow, such as BMI (-41.7%), BIC (-27.8%), PGI (-14.9%), PTI (-4.13%), etc. We believe the strong rally of BVH stock in 4Q 2018 was driven by the draft revision of Circular 50/2017/TT-BTC, which could enhance the company's earnings into 2019.

The performance of the sector was in general not in line with business results of listed insurers themselves, showing a divergence between real world results and the stock price. In detail, based on estimates of 2018 business results by companies themselves, BVH will likely record a decline of -15.9% YoY in earnings this year, mostly due to high provisioning of mathematical reserves in accordance with Circular 50/2017/TT-BTC. PGI (+11.9% YoY), BMI (+9.8% YoY) and BIC (+8.8% YoY) had decent earnings growth in 2018, not much different to that of PVI (+9.2% YoY) and VNR (+15.4% YoY). MIG and ABI, although the smallest in scale, are the two stocks with the strongest growth in earnings, at 144.2% and 34% YoY respectively. PTI was an adverse outlier in the index, one that had its earnings falling by -89.3% YoY, hit by weak earnings from financial activities.

Insurance industry performance in 2018

Source: Bloomberg, SSI Research

New business premium market share - 9M 2018

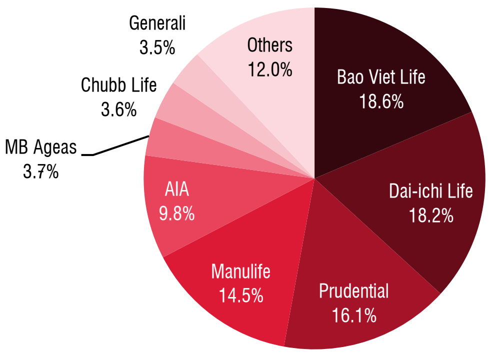


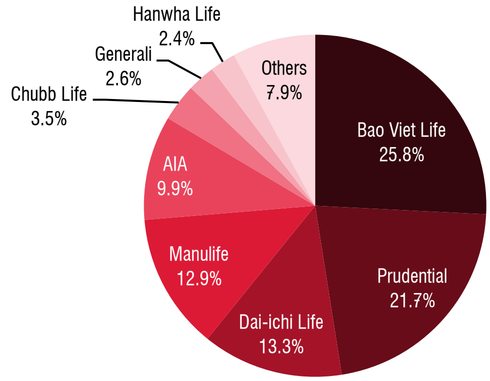
Table: PBT of listed insurance companies

Ticker	2017A	2018E	% YoY
ABI	160.5	215.0	*34.0%*
BIC	186.5	202.8	*8.8%*
BMI	198.3	217.7	*9.8%*
BVH (*)	1,933.7	1,626.0	*-15.9%*
MIG	55.5	135.6	*144.2%*
PGI	156.4	175.0	*11.9%*
PTI	186.4	19.9	*-89.3%*
PVI	683.5	746.3	9.2%
VNR	310.7	358.4	15.4%
Total	**3,872**	**3,697**	**-4.5%**

Source: Companies data

Note: (*) 2018E PBT is the planned number

Total premium market share - 9M 2018



Key highlights on sector

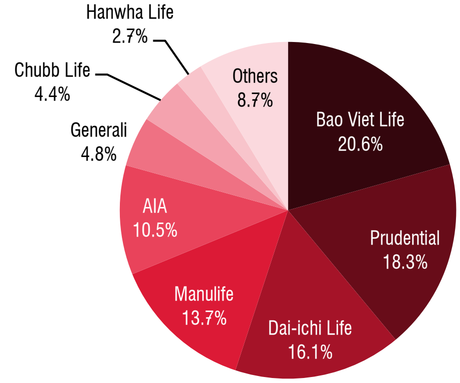
- **The insurance sector continued to maintain strong growth:** According to the Ministry of Finance, total gross written premiums in 2018 is estimated at VND 133.7 tn at +24% YoY, which was stronger than the 21.2% YoY achieved in 2017. This year, the growth of gross written premiums (GWP) from the life and non-life segments are projected at 32.8% YoY and 10.8% YoY, compared to that of 2017 at 31.4% YoY and 12.9% YoY respectively.

  At the end of 2018, total investment of insurance companies is estimated at VND 320 tn, rising by +30% YoY. Total reserves are estimated at VND 241 tn, at +28% compared to 2017.

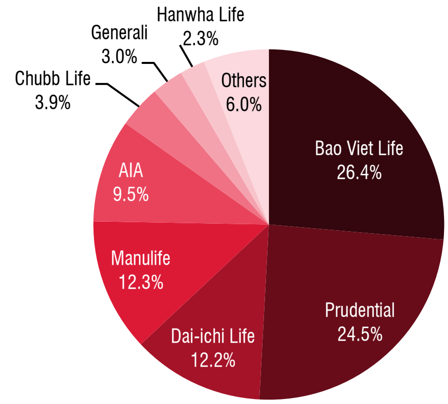
  Two M&A deals recorded: The market saw a wave of M&A momentum in the insurance sector for 2018, with one deal in the life insurance segment and another in the non-life insurance segment. In detail, in the life insurance segment, the Korea-originated Mirae Asset Group completed a 50% purchase in Prevoir Vietnam, and introduced the new brand name Mirae Asset Prévoir (MAP Life) in May 2018.

  In non-life insurance segment, Hyundai Marine & Fire Insurance Company Limited (HMFI), an insurer with the largest market share in South Korea, purchased over 16.67 million shares newly issued by the unlisted VietinBank Insurance Company (VBI) in order to possess a 25% stake in the company.

New business premium market share – 2017



Total premium market share – 2017



Meanwhile, KB Insurance the #4 insurer in South Korea, expressed its interest to buy a 17% stake of BMI from the SCIC divestment.

- **Life insurance:** This sector's fast growth trajectory accelerated further in the first 9 months of 2018, with total new business premiums soaring upwards by 36.2% YoY to VND 20.8 tn, and with gross written premiums picking up by +33.2% YoY to VND 60 tn. Some primary insurance policies remained to be the major drivers for growth, including universal life (+51% YoY), unit link (+241% YoY), riders (+25% YoY) and term insurance (+80% YoY). On the other hand, endowment, which was responsible for originating 25% of total new business premiums, saw a decline this year of -7% YoY.

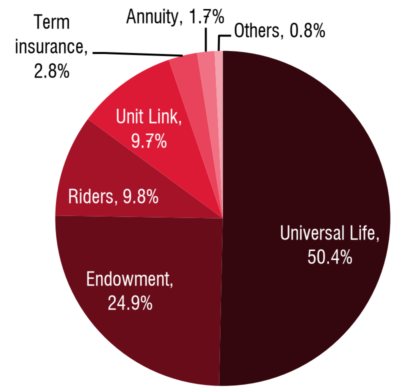
  The penetration rate of the life insurance sector increased from 1.36% of GDP up to 9M 2017 to 1.63% up to 9M 2018, thanks to the improvement in client awareness. We expect this factor to remain as growth drivers for Vietnam's life insurance sector in the long-term.

  Top 5 insurers include old names, but we witnessed Dai-ichi Life jump from the 4th position up to 9M 2017 to the 2nd position up to 9M 2018. New rankings include Bao Viet Life, Dai-ichi Life, Prudential, Manulife, and AIA. These Top 5 insurers have occupied 77.2% of newly acquired market share. The market share of Bao Viet Life was reduced from 20.6% in 2017 to 18.6% up to 9M 2018.

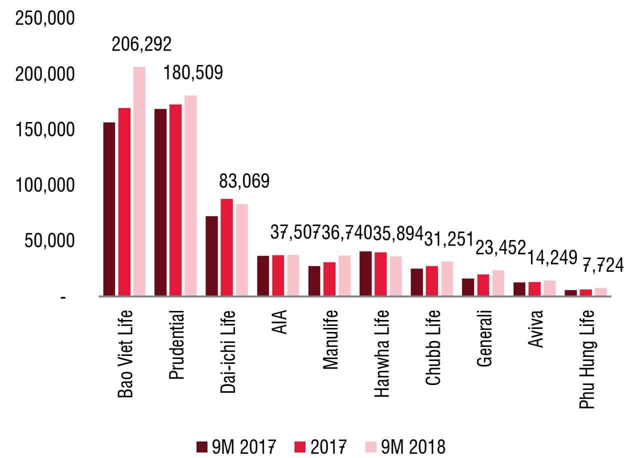
Among the biggest players, Bao Viet Life and Manulife have been the most aggressive in terms of expanding its agent network, with total agents growing by +21.7% YTD and +19.1% YTD respectively. The YTD growth of Prudential, Dai-ichi Life, and AIA were modest at +4.5%, -5.4% and 1.1% on a respective basis.

For 2018 up to September, it's estimated that VND 6.35 tn of gross written premiums of the life insurance sector was sold via the bancassurance channel, a rise of over 98% YoY. The influence of bancassurance channel to total gross written premiums (GWP) increased to 10.6% from 7.65% in 2017. The Top 10 banks/consumer finance companies in this segment accounted for 76.7% of total bancassurance GWP, including Techcombank (19.5%), MBB (11.6%), BID (8.9%), CTG (8.3%), VIB (7%), SCB (5.3%), STB (4.8%), VCB (4.0%), MSB (3.8%), and MCredit (3.5%). Manulife, Prudential, MB Ageas Life, BIDV Metlife, and Dai-ichi Life are the Top 5 insurers for new

New business direct premium by product – 9M 2018

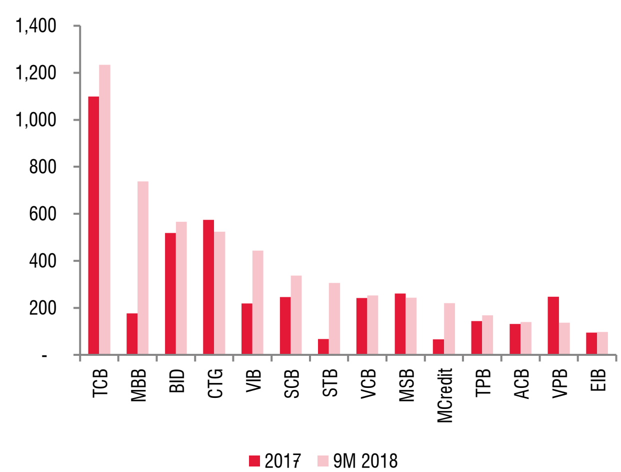


Total agents as of 9M 2018



Source: IAV, SSI Research

Life Insurance Gross Written Premium distributed via banca by top banks – 9M 2018 *(Unit: VND bn)*



Source: IAV, SSI Research

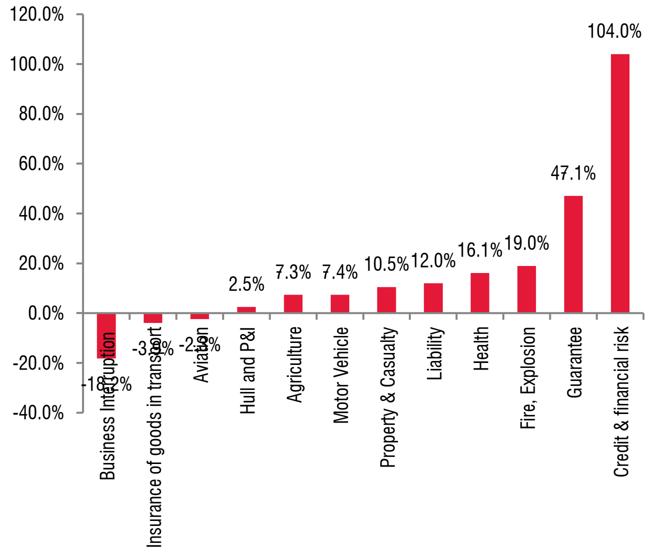
premiums sold via bancassurance channels in the first 3 quarters of 2018.

- **Non-life insurance:** Direct premiums for the first 9 months of 2018 picked up by +10.8% YoY to VND 33.4 tn, which was lower than the 12.5% YoY achieved in the same period of 2017. The slowdown was mostly attributable to weaker growth in the top two products, namely Motor Vehicle insurance (+7.4% YoY) and Health insurance (+16.1% YoY) compared to the respective +10.9% YoY and +31.4% YoY recorded in 2017. On the contrary, there was improvement in Property and Casualty insurance (+10.5% YoY vs. 1.1% YoY in 2017) and Fire and Explosion insurance (+19% YoY vs. 9.6% YoY in 2017).

  On the other hand, the loss ratio maintained rising momentum from previous years, increasing from 35.3% up to 9M 2016 to 36.3% up to 9M 2017 and 41.7% up to 9M 2018. The rise in the loss ratio was seen across the range of products, with the highest changes highlighted in motor vehicle (56.9%), health (29.4%), property and casualty (41.4%), hull and P&I (75.6%), and fire & explosion (+39%), among others.

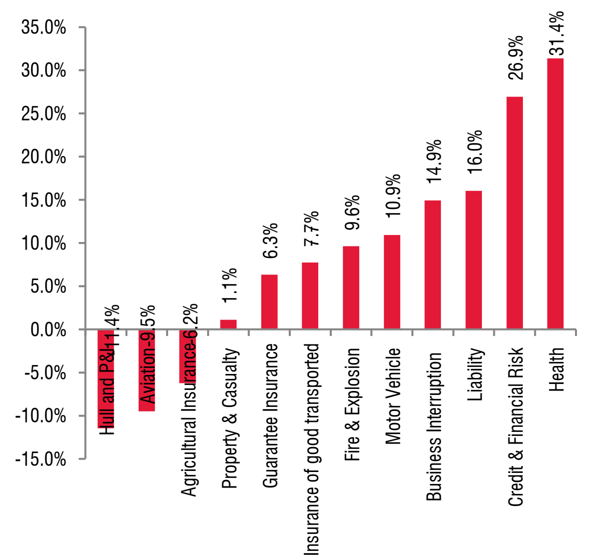
  The Top 5 biggest insurers accounted for 60.6% of total market share, which is an increase compared to 57.7% up to 9M 2017. BVH firmly maintained its No.1 position, and continued to regain additional market share by 2.5 percentage points compared to the first 9 months in 2017. In the meantime, PTI gained 0.9 percentage points of market share, while most other listed non-life insurers lost their individual market share, including PVI (-0.3%), BMI (-0.2%), VASS (-0.7%), and MIC (-0.9%), etc.

Non-life direct insurance premium 9M 2018 growth (% YoY) – by insurance line



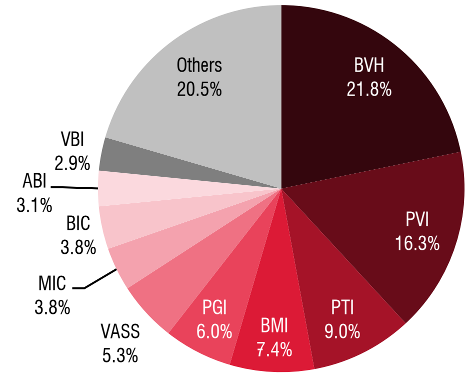
Source: IAV, SSI Research

Non-life direct insurance premium 9M 2017 growth (% YoY) – by insurance line

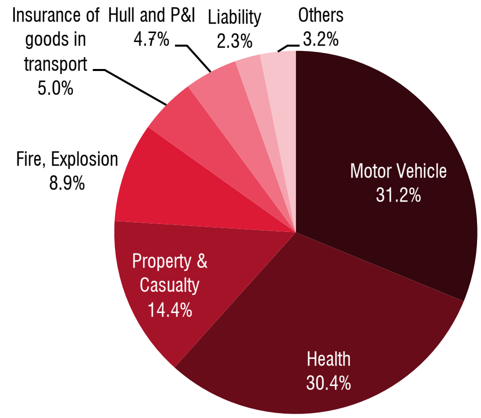


Source: IAV, SSI Research

Non-life direct insurance premium market share - 9M 2018



Non-life direct insurance premium structure by product - 9M 2018



Source: IAV, SSI Research

2019 View

2019 Expected Sector Growth

We expect the insurance sector to attain higher growth in 2019 compared to 2018. According to the Insurance Association of Vietnam (IAV), the total sector is expected to grow at +25% YoY, in which non-life and life insurance segments are forecast to increase more than 10% and 35% YoY. In comparison, these respective segments in 2018 grew by 24%, 10.8% and 32.8% YoY.

In general, we expect that life insurance, non-life motor vehicle, and personal health insurance will continue to be the major drivers of the sector. Strong economic growth (expected to be 6.9% YoY in 2019), a low penetration rate (2.4% of GDP in 2018), and increasing income and awareness of the population will continue to be a major driver for this sector's growth.

The credit growth target of the central bank in 2019 is moderate at 14% YoY, which can be considered a supportive factor for the life insurance segment as most commercial banks would rather scale down their customer deposit targets and expand bancassurance sales.

Other factors that will support demand for non-life insurance include:

- The rising adjusted price of public health services during the past 6 years. Starting January 15, 2019, prices of more than 1,900 public medical and health services will be raised by an average of 3%. This is expected to push up demand for health insurance.
- There may be a wave of manufacturing factories moving into Vietnam due to the US – China trade war. This would create more demand for transportation insurance for goods, and property and casualty insurance, etc.

Sales via the bancassurance channel is expected to continue to prosper for both life and non-life insurance. Many life insurers and banks signed exclusive and non-exclusive agreements during 2016-2017, setting the stage for insurers to exploit the untapped customer base of commercial banks. Banks are also packaging their credit loans with non-life insurance products, especially in the area of compulsory fire and explosion, and credit and financial risk insurance. Similar to 2018, we expect income sourced from the banca channel to increase as a share of total GWP, which is projected to post 10.6% up to 9M 2018 to increase further to around 13% for full year 2019. **Stronger growth is expected in life insurance sales as compared to non-life insurance.** Besides, we also noted that some big players in the market are developing digital sales channels via mobile app, websites, and other technological platforms and methods, of which are expected to play a greater role in coming years.

Rising interest rates to enrich investment portfolio. The market deposit interest rates edged up at the end of 2018 by 50-70 bps compared to the year's beginning. We expect deposit interest rates and government bond yields to stay stable in 1H 2019 before marching upwards in 2H 2019. According to the National Financial Supervisory Commission, assets of life insurance businesses are mainly invested in government bonds (accounting for 74% of total assets). Assets of non-life insurance enterprises are mainly comprised of deposits at credit institutions, cash and cash equivalents, and reinsurance assets (accounting for a total of 81% of total assets). Rising interest rates therefore will have positive impacts on investment income of insurers. Also, increasing government bond yields will help life insurers to reduce the provisioning requirements for their mathematical reserves, and boost earnings in the process.

Life insurers' earnings outlook would be bright with the revisions of Circular 50/2017/TT-BTC.

The Ministry of Finance has recently issued draft amendments affecting Circular 50/2017/TT-BTC. Currently, Circular 50 regulates that the technical discount interest rate (used to calculate the mathematical reserve) shall not exceed 70% of the average interest rate of 10-year or longer term government bonds issued in the last 6 months prior to the time of provisioning. The technical interest rate used to set up a reserve must not exceed the average investment rate of the preceding 4 consecutive quarters of the insurer. The technical interest rate also must not exceed the interest rate charged for each insurance product. With the yields for newly issued government bonds having trended downwards since Q3 2017 to the end of 2017, life insurers increased their mathematical reserves accordingly, resulting in a write-down event impacting profit by -9% YoY in 2017.

In this draft amendment, the MoF revised upwards the cap for the technical discount interest rate from the previous 70% to 80% of benchmark interest rates, which now factor in the average interest rate of 10-year or longer term government bonds issued in the last 24 months prior to the time of provisioning. The draft revisions also lay out the detailed formula for calculating the benchmark interest rates, which was not included in Circular 50. The draft provides a roadmap for the new regulations to be applied to policies issued before the amendment takes place.

Regarding the change in the mathematical reserve calculation, we believe the new timeframe standard of 24 months prior to the time of provisioning will make the discount rate more stable in contrast to the previous timeframe standard of 6 months. Moreover, the winning interest rates of government bonds bottomed out in Q2 2018, and has on average moderately recovered since then. We estimate that the new timeframe standard of 24 months for life insurers will increase the average interest rates of bonds used for calculation to 6.13% by the end of 1H 2018, a noticeable departure from the previous 4.89% figure corresponding to the previous 6-month average timeframe standard.

Given the new timeframe guidance matrix with a higher cap of 80% vs. the previous 70%, the new requirements will raise the technical discount interest rate. This will help life insurers to reduce their provisioning per the new mathematical reserves calculation requirement, improving their profit in the process. Based on data up to the end of 1H 2018, we estimate the technical discount interest rate based on government bonds to increase by 148 bps from 3.43% to 4.91%.

Currently, BVH is the only listed insurance stock that operates in the life insurance business. According to a BVH representative, when the draft amendment is applied, it would add up about 50 bps to BVH's current technical discount interest rates to 3.3%.

Rising loss ratios to erode earnings of non-life insurers

When viewing preliminary statistics, we see that in 2018 there were about 19 cases of property loss with large claims of over VND 200 bn, in which there were 3 cases with claims over VND 300 bn. The major causes include fires involving commodity and factory damage, and flood damage. According to many non-life insurers of Vietnam, increasing loss ratios in various asset insurance products have prompted re-insurers to tighten re-insurance policies applied to direct local insurers. Vietnam non-life insurers may have to increase the payment expenses for their direct insurance, and pay a higher re-insurance fee for re-insurers.

Earnings outlook: For 2019, while we expect decent growth in the GWP of non-life insurers, we are concerned about the rising loss and claim ratios across a wide range of products. However, a market with rising interest rates and improved operating expense ratios from a more efficient bancassurance sales channels would support their earnings. In all, we expect stable growth in the bottom lines of non-life insurance companies of around 8-10% YoY. In the meantime, life insurance companies are expected to have falling provisions for their mathematical reserve requirements via the effects of the revised Circular 50, which would enhance their earnings.

2020 Growth Outlook

Looking forward to 2020, we expect the total sector to grow at more +25% YoY, in which non-life and life insurance segments are forecasted to increase more than 11% and 35% YoY respectively. Strong economic growth (expected 6.9% YoY in 2019), a low market penetration rate (2.73% of GDP in 2018), and increasing income and awareness of the population in general will continue to be major drivers for this sector's growth.

In general, we expect that life insurance, non-life motor vehicle, and personal health insurance will continue to be the major drivers of this sector. Besides, the compulsory insurance requirements imposed upon construction and compulsory fire and explosion insurance will likely repeat strong momentum seen in 2018.

Issues and risks

Fierce competition and insurance fraud are inherent risks of Vietnam's non-life insurance industry, industry elements of which we do not expect to vanish over the next 2-3 years. A contaminated living environment is also driving up environment-related disease and claim ratios in personal health insurance. Therefore, in our opinion it is hard for insurers to earn considerable income from the insurance business alone.

Our investment stance: Neutral

Vietnam listed insurance stocks are trading at 2018 PBR levels of 1.39x – which was equivalent to the level of 2015, but lower compared to 1.65x as of 2017 and 1.6x as of 2016. ROE for 2018 was deteriorated to 10% from 10.5% for 2017. At the same time, regional peers possess a higher ROE at 11.3%, while PBR was lower at 1.24x.

Although the average ROE of listed insurance companies is admittedly not very lofty, the industry nevertheless holds long term growth potential. BVH as the only listed company that operates a life insurance business may experience a large jump in earnings, but this earnings outlook seemed to be reflected and priced in via the strong rally back in December 2018. Therefore, we hold a Neutral view on the sector.

Valuation & ROE of Vietnam's listed insurers

Ticker	ROAE 2017A	ROAE 2018E	Trailing PE	Current PB
ABI	20.4%	24.4%	5.53	1.27
BIC	6.6%	6.9%	20.34	1.36
BMI	7.6%	8.2%	10.75	0.84
BVH	11.6%	8.6%	48.19	3.98
MIG	5.1%	11.5%	10.09	1.10
PGI	18.1%	11.0%	9.38	0.98
PTI	8.2%	0.9%	105.37	0.90
PVI	7.3%	7.9%	14.62	1.08
VNR	9.5%	10.5%	10.80	1.04
Average	**10.48%**	**9.98%**	**26.12**	**1.39**

Note: Prices as at Dec 28, 2018

Source:Comapnies and SSI Research

Valuation & ROE of regional peers

	Company	Trailing PE	Current PB	ROE (%)
1	AIA Group	21.11	2.75	12.65%
2	China Life Insurance	12.46	1.39	11.54%
3	China Pacific Insurance	15.95	1.83	11.80%
4	China Taiping Insurance Holdings	8.62	1.11	13.56%
5	New China Life Insurance	9.8	1.18	12.46%
6	PICC Property & Casualty	8.09	1.16	14.91%
7	Ping An Insurance	8.41	2.12	20.93%
8	Cathay Financial Holdings	8.63	0.94	10.79%
9	Fubon Financial Holding	7.5	0.9	12.43%
10	Japan Post Insurance	23.96	0.76	6.01%
11	Samsung Life Insurance	9.36	0.52	5.39%
12	Tokio Marine Holdings	14.79	1.03	7.13%
13	Samsung Fire & Marine Insurance	13.07	0.89	6.59%
14	Hyundai Marine & Fire Insurance	7.11	0.81	12.51%
	Average	12.06	1.24	11.3%

FINANCIALS - BROKERAGE

NEUTRAL

Best pick: N/a

What transpired in 2018?

Sector performance

Brokerage is one of the most price sensitive sectors to overall market movement, as brokerage earnings are positively correlated to stock market performance. The brokerage sector highly outperformed the overall market when it rallied during February – March, June, and September, but underperformed the overall market in the end of 2018 as the market dipped. The sector retreated by -12% as compared to VnIndex's performance of -9.3% by FY18.

Only FPT Securities (FPT: HOSE) and Thien Viet Securities (TVS: HOSE) gained, while other brokerage firms dropped in value. Ironically, being the best performing stock in the sector back in 2017, Saison Hanoi securities (SHS: HNX) was the worst performer in 2018, cratering by -40% YoY. Amongst the 3 leading brokers, SSI Securities (SSI: HOSE) outperformed average performance when it declined only by -4.6% YoY. Other than a solid strong growth narrative, brokerage firms that have unstable earnings get punished the most during market turbulence.

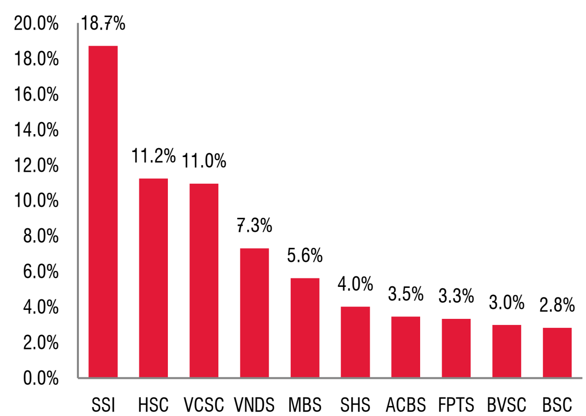
Key highlights on sector

Further increased in depth. Following a 66% YoY increase in 2017, average daily turnover (ADT) for 3 exchanges surged 26% YoY in 2018 to VND 5.24 tn (~$226mn USD) from VND 4.16 tn (~$179mn USD) in 2017 (order-matching). Increased average trading value was primarily driven by (1) a record high trading volume in the first 4 months of 2018, when market sentiment and valuation peaked; (2) many large-cap stocks first listed on HOSE and UPCOM, including VHM, TCB, VEA, POW, BSR, etc.

Brokerage industry performance in 2018

Source: Bloomberg, SSI Research

Top 10 brokers took 70.5% market share in HOSE by 2018



Source: HOSE

Total market cap reached 75% of GDP compared to 2017 being 70.2% of GDP.

Foreign investors net-bought $1.9 bn USD. Many big equity deals occurred during the market peak in April. Notably, Vinhomes (VHM: HOSE) raised roughly $1.3 bn USD; Techcombank (TCB: HOSE) sold its shares for roughly $922 mn USD; Triplet oil & gas related firms held their IPOs in March – April, Binh Son Refinery (BSR: UpCom), PVOIL (OIL: UpCom), and PVPower (POW: UpCom), totaled roughly $700 mn USD in size. At the end of 2018, foreign investors held 22% and 15% of listed companies on HOSE & HNX.

Booming derivatives market. The ADT was VND 954 bn in 2017, but increased 7.8x to VND 7.4 tn in 2018. However, most trading accounts (i.e. 99%) belong to retail investors, totaling roughly 57 thousand accounts. It appears speculative money flowed from the stock market to the derivatives market, and we think this was due to the high leverage nature of the financial product, along with the ability to short the stock index.

Improved financials metrics. The net profit growth of 3 leading brokerage firms averaged 46.7% YoY up to 9M 2018. The sector average ROE improved from 16% last year to trailing 9M of 18.3%. According to the NFSC, sector net profit increased by 15.3% YoY.

2019 View

2019 Expected Sector Growth: 10-20%

The brokerage sector failed to re-rate in 2018, although year-end earnings growth is likely to be higher than our expectation of 30% YoY, stated in our earlier 2018 Strategy Note. We forecast a 10-20% YoY growth in 2019 amid increased risk in the global economy, with several key drivers still being intact. First, a stable macro environment with high GDP growth is likely to support domestic consumption and corporate expansion, although expected growth is less than originally expected. Second, we expect 13.3% earnings growth for listed companies under our coverage. Thus, stock market is likely to deliver 10-15% returns. Our base case is that the two important catalysts for the stock market, i.e. privatization process will not yet reach its peak, and Vietnam stock market is not included into EM status in 2019. Furthermore, competition is expected to rise. New Circular 128/2018 allows no floor price to commission fees. We expect that this new regulation will drive up the

Expected IPOs and new listings in 2019 – 2020

	Market cap (USD mn)
Mobifone	4,581
SATRA	1,982
Genco 2	1,804
Genco 1	1,263
RESCO	1,123
Saigon Tourist	1,013
Vicem	1,000

Source: SSI Research

Expected divestments and equity raising in 2019 – 2020

	Deal size (USD mn)
Vinamilk	2,700
Sabeco	2,500
GAS	2,000
Petrolimex	700
BIDV	800
VCB	265

Source: SSI Research

competition in the sector, which reduces brokerage core margins.

In the bull case, if Vietnam distinguishes itself from peers with its above-average growth outlook, stronger-than-expected privatization process and stable political environment then brokerage sector will benefit from foreign capital inflows and improved local investors' sentiment. Although the final list of IPOs and divestment has not yet been announced by the CMSC (the Commission for the Management of State Capital at Enterprises), we expect 7 out of 15 companies with more than a $1 billion market cap to continue their IPO plans in 2H 2019 and 2020.

Brokerage sector 9M2018 trailing valuation

Tkr & Exch	Mkt Cap (USD)	P/E	P/B	ROE LF
SSI VN	570.9	9.0	1.4	15.8
VCI VN	312.1	10.4	2.4	30.5
HCM VN	245.3	7.2	1.9	27.8
VND VN	146.1	8.4	1.1	14.4
FTS VN	77.8	7.7	1.1	14.8
MBS VN	72.7	9.3	1.2	13.3
SHS VN	55.9	3.2	0.7	24.8
BSI VN	48.6	4.7	0.8	17.8
CTS VN	44.5	5.6	0.8	15.0
BVS VN	38.9	7.7	0.5	6.9
VDS VN	35.7	7.2	0.7	11.1
TVS VN	35.0	4.9	1.0	21.3
VIX VN	31.8	3.0	0.7	24.8
Median	**55.9**	**7.2**	**1.0**	**15.8**
Average	**131.9**	**6.8**	**1.1**	**18.3**

2020 Growth trend: 20%

The brokerage industry has solid prospects to grow because of a low penetration rate in terms of transaction accounts, and a high dependence on banking deposits. Bond derivatives and covered warrants are expected to increase market breadth. These events are supportive variables towards Vietnam being included into the MSCI EM watch list, which will boost market sentiment and performance.

Compelling valuation

The brokerage sector is traded at 6.8x trailing PER and 1.1x trailing PBR, which is comparable to 2016 valuation levels and lower than 13.5x PER / 1.7x PBR in 2017. ROE improved from 14.5% to 18.3% on average. Regional peers are traded at 13.3x trailing PER and 1.2x trailing PBR, while average ROE is 11.5%.

Market sentiment plays an integral role in brokerage stock performance. A lackluster market outlook results in low market trading turnover, which in turn negatively impacts brokerage stock performance and earnings. However, we think the sector might come back when the market is excited again. Therefore, the current market weighting is a reasonable recommendation.

Issues and risks

We pointed out an external shock as a major risk to the equity market and brokerage sector in our 2018 Strategy note. Unfortunately, this risk has matured in 2018. Moving forward, an escalated trade war between the US and China might further exacerbate this risk. Higher-than-expected increases in cost of funding is likely to squeeze brokers' margins, as it is harder for brokers to increase lending rates amid fierce competition. However, a stable economy with a market upgrade down the road are likely to offset these downside risks.

HEALTHCARE - PHARMACEUTICALS

NEUTRAL

Best pick: DHG

What transpired in 2018?

Sector performance

The pharmaceutical industry significantly underperformed the VN-Index, losing -24.3% in 2018, as most stocks in this segment underperformed compared to the overall market.
There are some key reasons for the sector's underperformance. First, the pharmaceutical market seemed to grow at a slower rate due to the governmental directive in 2018 to lower drug prices by 10%- 15%. Secondly, the rising raw material price on the global market did not ease costs, resulting in lower margins. Lastly, SCIC divestment at DHG and DMC did not happen in 2018, so these stocks were not re-rated as we had originally expected.

DHG, the largest stock which accounts for 30% of total industry market capitalization, dropped by -30.3% along with TRA (-39.4%), DMC (-34%), DVN (-20%), and PME (-11%). A few stocks had positive performance, including DHT (+0.8%), IMP (+6.1%), DP3 (+18%). Up to 9M 2018, DHG and TRA net income decreased by -10% YoY and 35% YoY respectively, which brought a negative impact onto these stocks, while IMP net income added 11% YoY. We should note that DHG did not distribute MSD (since 04/2018) or Eugica products (since 06/2018) due to its FOL extension.

The best performing stock was DP3 thanks to its 2018 earnings up to Q3 rocketing +20% YoY, while the worst performer was TRA due to its disappointing level of net income up to 9M 2018 (-45% YoY). During the year, TRA 's profit margin was

Pharmaceuticals industry performance in 2018

Source: Bloomberg, SSI Research

squeezed mainly due to higher material cost as well as operating cost.

Key highlights on sector

Mixed earning results, overall lower gross margin:

9M18 result of listed pharmaceutical companies

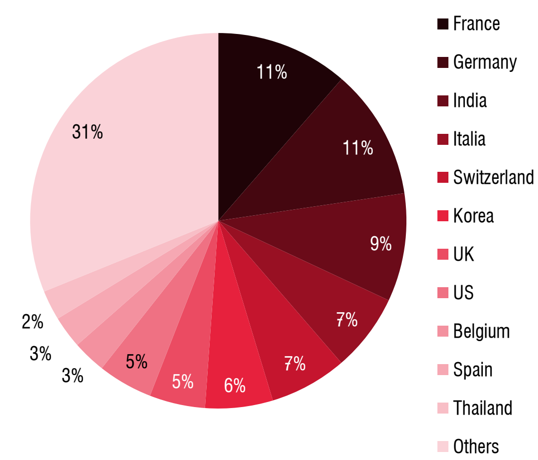
Unit: VND bn	DVN	DHG	PME	TRA	DMC	DHT	DBD	MKP	IMP	OPC	DP3
Net sale	4,290	2,670	1,231	1,266	974	1,282	1,011	858	810	748	362
%YoY growth	-13%	-1%	3%	-3%	3%	18%	1%	-13%	8%	3%	44%
Net income attributable to shareholders	160	450	228	91	163	60	127	62	99	74	81
%YoY growth	-6%	-10%	6%	-45%	3%	36%	6%	-36%	11%	6%	200%
12M Trailing P/E	18	17	17	17	12	10	13	16	23	14	6

Source: Company data, SSI Research

Drugs import was almost flat in 2018: The total value of imported medicines and pharmaceutical products amounted to $2.8 bn USD (-0.8% YoY) in 2018, of which more than 50% originated from the EU (France: $318 mn USD, accounting for 11.4%; Germany: $315 mn USD). Other two exporters in Asia include India ($260 mn USD) and South Korea ($162 mn USD). From 2011-2018, the total imported drug value exhibited a CAGR of 9.5%.

According to data of IMS Health for the first 6 months of 2018, the Top 10 market share belonged to most foreign pharmaceutical companies such as Sanofi, Novartis, GSK, Roche, and Pfizer. These 5 pharma companies just held a total of 13.8% market share. The only domestic pharma firm is DHG, ranked No.6 with a market share of 1.9%.

Vietnam's drug import in 2018 ($2.8 bn USD, ~ -0.8% YoY)



Source: Vietnam customs, SSI Research

Local drugs used in hospitals set to increase: Local drugs have only penetrated into 10% of central hospitals, and at 35.4% and 69.4% for provincial and district level facilities. The Ministry of Health aims to raise the proportion of domestic medicine consumed to 30% in central hospitals, and 50% and 75% in the remaining health facilities by 2020.

It should be noted that 50% of the overall drug market demand is currently met by local production, according to BMI.

Currently, Vietnam has manufactured drugs classified into 27 pharmacological effects, with 520 active pharmaceutical ingredients represented in Vietnamese drugs out of the 953 outstanding APIs in the world.

Strategic partners increased stake as the companies lifting its FOL: In 2018, DHG and PME FOLs were removed. Taisho

Company	State ownership	Strategic partner ownership
DHG	SCIC (43.31%)	Taisho (34.29%)
DMC	SCIC (34.71%)	Abbott Laboratories (51.69%)
TRA	SCIC (35.67%)	
PME		Stada Service Holding (62%)
MKP	DVN (18.17%)	Nipro Pharma (18.58%)
DBD	Binhdinh Investment fund (13.34%)	

Source: Company data, SSI Research

Pharmaceuticals Co. Ltd increased its stake in DHG to 34.29% via its public offering in Aug 2018, and via put-through transaction in Oct 2018. Meanwhile, Stada Service Holding also increased their ownership in PME to 62% from 49% previously.

Companies are looking to expand/upgrade manufacturing standard from GPM-WHO to GPM-EU or PIC/S: In 2018, the DHG effervescent line was officially upgraded to PIC/S-GMP standard, while IMP is still waiting for a EU-GMP certificate for its new factory in Vinh Loc, with an expectation of obtaining this certificate in Q1 2019. Other pharma companies such as DBD, PME, and MKP are also continuing to invest in new factories that are fully compliant with EU-GMP or PICS standards.

Currently, Vietnam has 222 pharma factories with WHO-GMP standards which are owned by more than 160 pharmaceutical companies. Companies face increasingly fierce competition in both the hospital and pharmacy channel. So, the leading companies have responded to this by actively upgrading its existing factories, or even building new factories that meet stricter standards in order to be able (1) to gain access to a less competitive bid group and (2) to aim to achieve export quality.

	2017	2018	Target by 2020
Vinfa (VIC)	0	11	N.a
Long Chau (FRT)	4	20	200
An Khang (MWG)	16	10	N.a
Phano	67	51	N.a
Pharmacity	54	158	500

Source: Forbes Vietnam

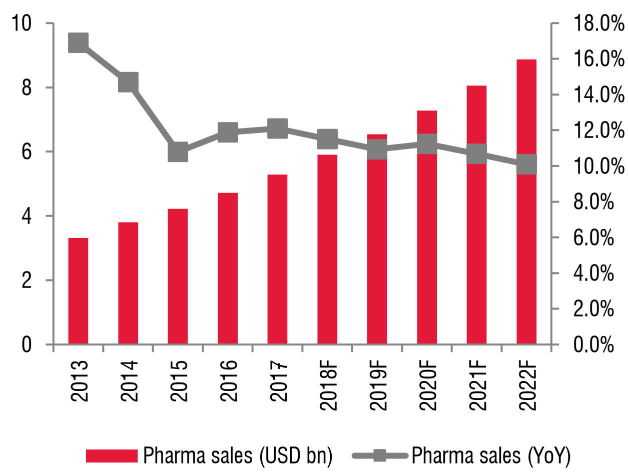
2019 View

2019 Expected Sector Growth: +10%YoY

We expect Vietnam pharmaceutical market value to grow at 10% YoY in. This is thanks to the expansion of the Social Health Insurance Scheme, a rising middle class, and widespread improvements afoot towards better healthcare delivery service. Vietnam currently aims for a sweeping increase of 100% full health insurance coverage in 2020, up from 88.5% in 2018 and 60% in 2010. Such healthcare improvements come as people have been paying more for healthcare services. A larger variety of healthcare services has been met with an increasing average income per capita, but has also come with rising environmental pollution that causes more diseases.

In addition, an aging population is another supportive driver to the sector. According to BMI, the number of Vietnamese aged 65 and older is projected to be 7.9 mn by 2020, and the 65-and-older age group will rise to nearly 8.1% of the total population by 2020 and 10.1% by 2025; a leap from just 6.7% in 2015.

Pharmaceutical consumption



Source: BMI

2019 view: Neutral

We provide a Neutral recommendation for the sector based on a long-term outlook and earnings upside of major stocks, along with high dependence upon imported raw materials and a high policy risk.

2020 Growth trend: 10-12% YoY in value

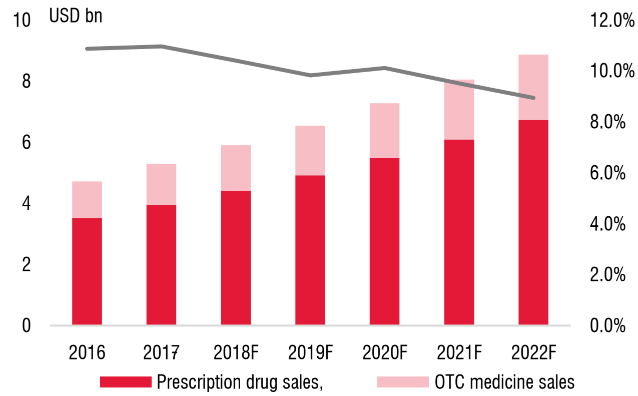
Pharmaceutical sales per capita in Vietnam is now only about $61.1 USD, while that of Thailand and Malaysia are $78.9 USD and $73.3 USD based on BMI estimates.

Drivers/catalysts to watch: An amendment of Circular 11 regarding the bidding for supply of drugs for public health facilities, and a divestment of SCIC and M&A activities within the industry.

According to Circular No. 11/2016/TT-BYT related to the bidding procurement for supply of drugs funded by state expenditures and the health insurance fund, generic drugs will be divided into 5 groups or categories based on technical criteria and licensed technology requirements. Drugs manufactured by production lines that fulfill EU-GMP or PIC/s-GMP standards can join in Group 1 and Group 2. Whereas, drugs manufactured by a WHO-GMP product line can join in Group 3, a cohort with more market participants and stronger competition. Hence, in recent years some leading local pharma companies have upgraded its existing plants or even invested in new factories complying with EU-GMP or PICS standards such as DHG, IMP, PME, DBD, and MKP. Most of them aim to join bidding at Group 1 or 2, with higher GMP standards but with less competition. This is because as domestic drugs are characteristic of a generally lower 20%-30% price than that of foreign products, the domestic drug can take advantage of price competition. We expect the revised circular will address the bias in the current bidding procurement, and achieve the target of both higher quality and reasonable price for patients.

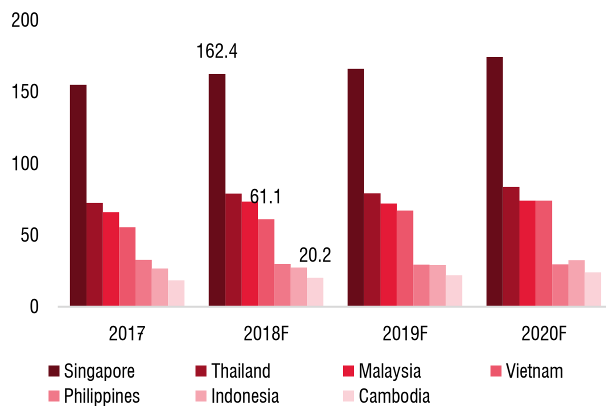
Along with the policy, the Ministry of Health also aims to prioritize local drugs, especially in hospitals from the center to provincial levels. As stated in the Pharma Law issued in 2016, Vietnam public hospitals and clinics will not offer foreign medicines funded by the state budget and health insurance fund if at least 3 local pharma companies can sufficiently supply medicines while meeting standards of quality as well as quantity. Recently, the Ministry of Health proposed to expand

Prescription and OTC drug sales



Source: BMI

Pharma sales per cap (Unit: USD)



Source: BMI

the list of domestic drugs to be funded by public budget and insurance fund from 146 to 652 products.

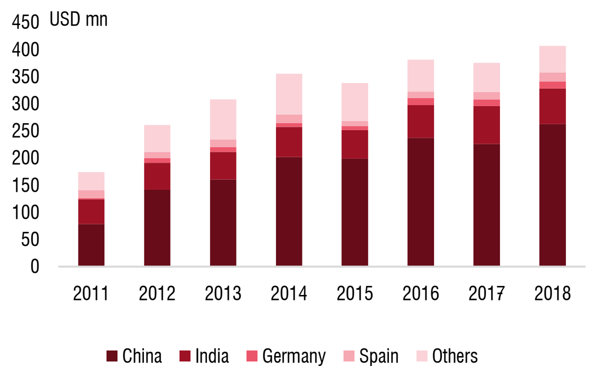
Issues and risks

Largely reliance on imported raw materials: According to the department of Vietnam Customs, Vietnam imported $406.8 mn USD of pharmaceutical ingredients in 2018, increasing by 8.5% YoY. In particular, the proportion of imported materials from China almost increased consecutively to arrive at 64.5% in 2018 from 45% since 2011. Vietnam spent $262 mn USD to import active pharmaceutical ingredients from China (+16% YoY) in 2018. Aside from China, India still is the second largest exporter to Vietnam, with a value of $ 66 mn USD (-6% YoY), which is followed by Spain ($ 16.5 mn USD, +25% YoY) and Germany ($12.6 USD, +3% YoY).

Given the above figures, we see that Vietnam is still largely dependent on imported materials, at about 80%-85% of demand. This is still a long-term issue for Vietnamese pharmaceutical companies, as local pharma companies are exposed to a volatility of imported raw material prices as well as exchange rate risks.

Weak R&D activities: No significant R&D projects have been executed, which still largely depend on foreign products.

Imported materials majorly from China (Unit: USD mn)



Source: Vietnam customs, SSI Research

Best pick:

DHG Pharmaceutical JSC: DHG VN;

Price: VND 79,000

Target Price: VND 96,900

- Investment thesis: DHG is known as the largest local pharma company, possessing the most extensive distribution system in Vietnam. Given its strategic partner Taisho Pharmaceuticals Co. Ltd, we expect that Taisho's experience and support will help DHG manufacture more efficiently and better exploit the extensive distribution channel of a leading local firm. We see that this is different from other pharmaceutical companies, which tend to more focus on hospital channels like IMP, PME, and MKP. DHG has completely upgraded their effervescent line complying with PIC/S-GMP standards in October 2018 . Recently, DHG declared that the Company registered for PMDA – GMP inspection (Pharmaceuticals and Medical Devices Agency) for its tablet product line, with Taisho's support. Several

Best pick in Automobile: DHG VN

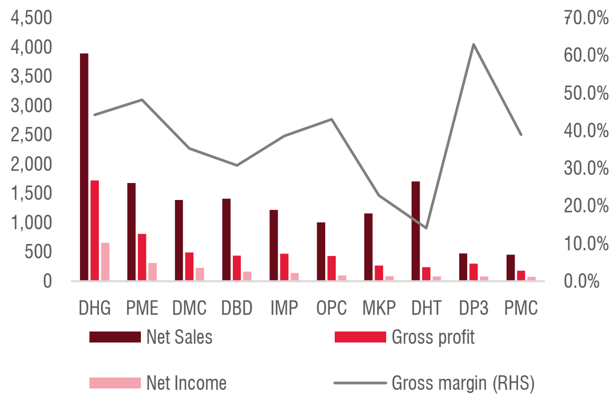
Market cap (USD mn)	445.79
Average 3M value (USD mn)	0.43
Foreign ownership (%)	49%
2019 PE/PB	17.3x/3.5x
2019 EPS growth (%)	10.4%
Dividend yield (%)	3.6%
2019 ROE (%)	23.5%

Source: Bloomberg, SSI Research

medicines manufactured in this product line might be exported to Japan when DHG obtains the PMDA – GMP standard.

- Risks: High dependence upon imported raw materials and policy risk
- Catalysts: SCIC divestment and Taisho increasing its stake.

2018 Listed companies' performances



Source: Fiin, SSI Research

INDUSTRIALS – SEAPORT & SHIPPING

NEUTRAL

Best pick: VSC

What transpired in 2018?

Sector performance

Seaport & Shipping industry performance outperformed the VN-Index, tracing its baseline and losing only -3.7% of its market capitalization in 2018 while VN-Index declined by -9.3%.

The industry started the year by initially underperforming against the VN-Index, as it did not get caught in the frenzy which sent the VN-Index to more than 1,200 points. However, it started outperforming again when the broad market went down from the peak, as the shipping segment on an index basis traced sideways with the market.

The best performer of the industry in the year is MVN (+12%), while all other stocks in the sector declined. The worst performer of the industry was DVP (-27%), while other big names also dropped like GMD (-16%), VSC (-0.39%), and PVT (-11.63%).

Key highlights on sector/key companies

Vietnam import and export increased by 11.5% YoY and 13.8% YoY in 2018. The growth rate is lower than the higher rate in 2017 of 21% YoY.

Total seaport throughput continued to rise: According to Vinamarine, total Vietnam cargo throughput in 2018 is estimated at 524 million tons, a +19% YoY rise (including bulk, container, and liquid cargo). This growth surpasses the 2017 growth rate of 17% YoY. In that, international container grew at a slower rate of 8% YoY to 12.1 mil TEU. This growth rate is thanks to:

- Strong FDI inflow: Disbursed FDI in 2018 reached $19.1 bn USD, at +9.1% YoY. FDI continued to reach new peaks, following a similarly impressive 10% YoY growth in 2017. Growth of FDI continued to boost current and future

Sea Port & Shipping industry performance in 2018

Source: Bloomberg, SSI Research

export/import activities in the area of machinery, raw materials, and finished goods.

- In 2018, we see new seaports launched into operation, providing new capacity for trade activities: GMD's Nam Dinh Vu port (capacity of 600K TEU), Lach Huyen deep seaport (first 2 berths, capacity of 1.2 million TEU). This increase is equivalent to 30% of total Haiphong capacity.

Tariff for seaports has been adjusted upward by 10% YoY. To avoid over-competition among ports, Vietnam issued a price floor of $30 USD/TEU for handling charges at seaports. This tariff is 10% YoY higher than 2017 tariffs, and serve to enhance ports' profit margin. This policy has come at the right time, because shipping lines have overcome their most difficult time and are in a recovery phase.

Oversupply was still the main theme in 2018. As we have forecasted, seaports still encounter pressure from general oversupply in the industry, as new ports like Nam Dinh Vu and Lach Huyen deep seaports commenced operation. These new commencements resulted in increasing Haiphong's capacity by 30% YoY, yet demand only increased at 10% YoY, signaling overzealous expansion and the need to temper the industry.

Viconship JSC (HSX: VSC) recorded impressive NPAT growth up to 9M2018 of 37% YoY, thanks to a higher service price and cost control. This result was in line with our estimates. Total volume up to 9M2018 reached 719K TEU, of which the VIP Green handled 472K TEU, while the Green port handled 247K TEU. The average price increased by 10% YoY, as shipping lines have improved their financial performance and have not balked at the current rate of price increases by the ports.

2019 View

2019 Expected Sector Growth: 10% YoY

In 2019, we expect a positive outlook for the sector's seaport stocks (GMD, VSC, DVP), thanks to:

- CPTPP coming into effect from 2019: This will boost Vietnam's exports to member markets by being more competitive from lower tariffs compared to non-member's goods.
- The VN-EU FTA is reaching its final phase: If this FTA can be signed and come into effect in 2019, this will be another

boost for trade volume to the EU market, as no CPTPP member is a EU member.

- US-China trade war: If China and US attrition prolongs into 2019, Vietnam may end up being the main country (up to Vietnam's capacity) that can benefit from being an intermediary for trade activities among US and China.
- Tariff increase: In 2019, floor tariffs for seaport handling of international cargo will increase by 10% YoY ($33 USD/TEU), setting a minimum revenue bar for seaports when dealing with shipping lines.

However, only ports with good location (GMD, VSC, DVP) will benefit from volume growth, while others might still see volume shrinkage. Therefore, ports and port companies with less desirable locations must find other ways to be competitive to attract shipping volume.

2019 view: Neutral. We expect the industry to be caught up in a mix of higher demand and increasing supply. This might bring price competition back and reduce margins, even though the topline for companies can grow to a certain level. This leads to our expectation for top line and bottom line growth for this sector to reach 10% YoY and 10-15% YoY respectively, in line with the market estimated earnings growth of 13.3% YoY (according to our SSI Research estimate). Thus, we place a Neutral view on the industry.

2020 Growth trend: 8% YoY

Growth might be lower in 2020, as we see possibly a more pronounced risk of slower global demand, and with the spectre of protectionism looming, it might affect trade activity across borders.

Issues and risks

Low capacity utilization at deep water ports. In the Cai Mep-Thi Vai deep water port system, capacity utilization is still at 20% on average. Even though we see better volume in some ports with good locations (CMIT, TCIT), overall demand is still very weak at these ports. The main reason is the lack of infrastructure connection to main industrial zones, which renders higher total costs for carriers and logistic providers compared to traditional river ports (Cat Lai, Sai Gon, Dong Nai, etc.).

Best pick

PetroVietnam Transportation Corporation Ticker: PVT VN;

Price: VND 15,700

Target Price: VND 17,500

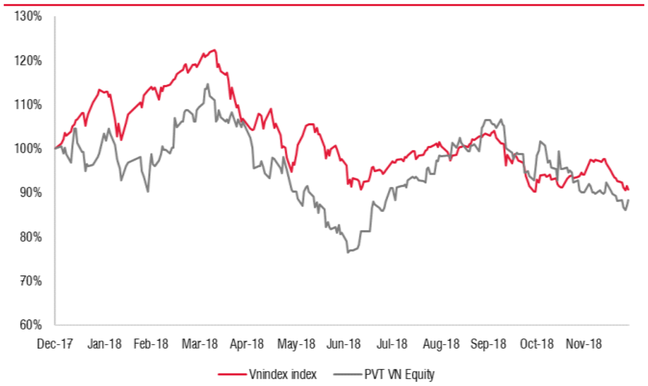
- Investment thesis: PV Trans is the leading company in Vietnam operating in the oil&gas shipping industry. It is poised to receive huge long-term growth from the Nghi Son Refinery Plant when it comes into commercial operation in 2019.
- Risks: New investment for equipment to operate in the Nghi Son project can lead to higher foreign-denominated debt, which can make earnings more volatile in a fluctuating forex environment and rising interest rate from July 2018.
- Catalysts: Core earnings growth can reach 10% YoY in 2019 and 18% YoY in 2020.

Best pick in Sea port & Shipping: PVT VN

Market cap (USD mn)	190.7
Average 3M value (USD mn)	0.16
Foreign ownership (%)	33.5%
2019 PE/PB	8.8x/1.07x
2019 EPS growth (%)	-1.1%
Dividend yield (%)	6.4%
2019 ROE (%)	12%

Source: Bloomberg, SSI Research

Best pick in Sea port & Shipping: PVT VN



Source: Bloomberg

INDUSTRIALS - AIRPORT SERVICES

OVERWEIGHT

Best pick: ACV

What transpired in 2018?

Sector performance

The Airport Services sector underperformed the VN INDEX by -7.8% due to the decline of ACV (94% indexed weight, down -17.7%). ACV's plan to be listed on HOSE in 2018 has been postponed to 2019 due to delays regarding the company's decision on runway areas.

SCS outperformed the VN INDEX by 35% thanks to a 2018E NPAT of VND 415bn (up 20.5% YoY) and a net margin increase to 62.1% from 58.6% in 2017.

Key highlights on sector

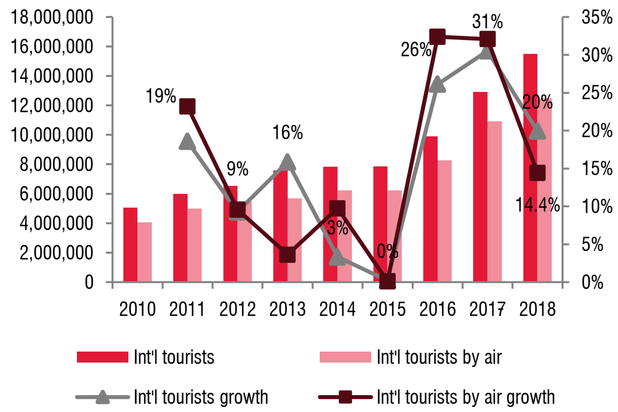
In 2018, total ACV passenger volume is estimated to reach 104 mn pax, up 11% YoY (vs. +16% YoY in 2017). The number of flights is estimated to reach 654k, up 8.3% YoY (vs. +9.1% YoY in 2017), while total air cargo volume is estimated to reach approx. 1.5mn tons, up 8.9% YoY (vs. +26% YoY in 2017).

Passenger volume growth is lower than 2017, partly due to overcapacity at the two main airports Tan Son Nhat (Utilization rate: 136%) and Noi Bai (105%), and partly due to lower growth in international visitor arrivals (+20% YoY vs 30% YoY in 2017). In February 2017, Vietnam started to relax visa requirements for 40 countries, including China, Korea, and Japan, which had driven growth of international tourists in 2017. Total passenger volume growth is however still driven by international visitors to Vietnam, of which international visitors through airports increased by 14.4% YoY.

Total air cargo volume growth slowed down partially due to lower Vietnam export growth in 2018: +13.8% YoY vs 21.1%

Airport Services industry performance in 2018

Source: Bloomberg, SSI Research



Source: Vietnam National Administration of Tourism

YoY in 2017. However, air cargo is expected to attain stable growth thanks to continuous FDI in manufacturing such as LG Display ($500 mn USD in Feb 2018) or LG Innotek ($500 mn USD in Aug 2018).

In 2018, ACV revenue reached VND 16.136 tn, up 16% YoY, while net profit reached VND 6.215 tn, up 51% YoY. Strong topline growth was thanks to 11% YoY growth in passenger volume and fee hikes. Notably, international visitors to Vietnam by air increased by 14% YoY. Bottom-line growth was supported by gross margin expansion (48% vs. 41% in 2017) and higher net financial income (+29% YoY).

2019 View

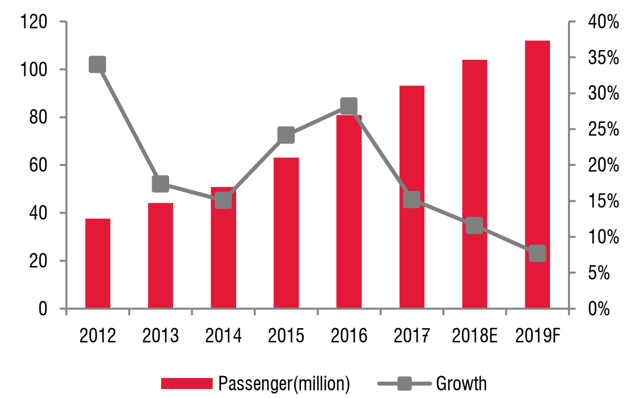
2019 Expected Sector Growth:

ACV forecasts 2019 traffic volume to maintain positive momentum. Particularly, total passengers through its airports may reach 112 mn pax in 2019, up 8.2% YoY. Flight movements are expected to grow by 5% YoY, reaching 687k flights while cargo volume may grow by 5% YoY to 1.6mn tons. 2019 growth will be slower than 2018 partly due to capacity constraints inherent at both Tan Son Nhat and Noi Bai Airports. Further major expansions at Tan Son Nhat and Noi Bai are planned for 2020-2021.

Drivers for continuing growth in 2019 includes:

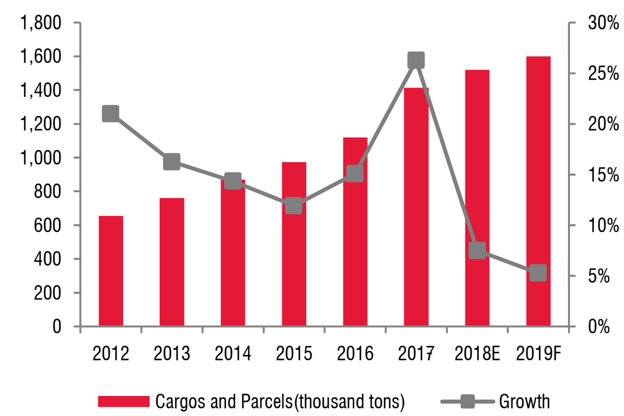
- 2019 GDP growth forecasted at 6.6-6.8% will be the main driver for travel demand and air cargo transportation. The 2019 export growth target of 7-8% YoY will spur demand for cargo transportation. We expect international tourists to Vietnam to reach 17.8mn, up 15% YoY, of which 14mn will travel by air, up 12% YoY.
- Capacity expansion of domestic airlines: Vietjet Air targets to increase its fleet by 22 aircraft in 2019 reaching total 75 aircraft, up 17% YoY, while Vietnam Airlines plans to increase its fleet by 12 aircraft, reaching a total of 98 aircraft, up 14% YoY. Furthermore, newcomer Bamboo Airways begins to fly starting in Jan 2019, and will debut with a fleet size of 20 aircraft.
- Opening and expansion of airports: New Van Don international airport (w/ direct connection to Ha Long Bay) has a capacity of 2.5 mn pax/year, and commenced operation in Dec 2018. In addition, Phu Quoc international airport expanded capacity from 2.7 mn to 4 mn pax/year in

Total passenger volume through airports



Source: Ministry of Construction

Total cargo volume through airports



Source: Ministry of Finance, GSO, SSI

Dec 2018.

2019 view:

We have an outperform rating on Airport Services given ACV's attractive valuation in term of EV/EBITDA (13.7x for 2019), as well as the ACV catalyst to be listed on the HOSE.

2020 Growth trend:

From Dec 2018, the Ministry of Transportation transferred ACV to the Commission for the Management of State Capital at Enterprises (CMSC). CMSC will lower the amount of state capital in ACV from 95.4% down to 65% by 2020, which allows for strategic investors to participate in ACV. With these strategic investors, ACV might be able to increase efficiency, transparency, and also its non-aeronautical revenue. Non-aeronautical revenue accounted for only 17% of total revenue up to 9M2018, which is lower than the ratio of global peers at 30-40%.

Issues and risks

Infrastructure constraints at Tan Son Nhat and Noi Bai Airport, the main airport hubs, will limit capacity expansion of passenger volume and cargo volume alike.

Best pick

Airport Corporation of Vietnam JSC: ACV VN;

Price: VND 84,500;

Target Price: VND 95,200

Investment thesis:

ACV is mostly a monopoly airport operator in Vietnam, operating in 22 out of the 23 airports within the country. Both a positive outlook on international tourists to Vietnam (Forecast: 10% CAGR in 2019-2020F), as well as positive outlook on cargo traffic which is driven by a stable export outlook (7-8% YoY growth target for 2019), will boost ACV passenger and cargo traffic. In addition, a low percentage of non-aeronautical revenue (17% as of 2018) gives ACV room to boost its non-aeronautical revenue to a more normalized ratio aligned with global peers, between 30-40%. CAGR EBITDA 2019-2020F is expected to

Best pick in Airport: ACV VN

Market cap (USD mn)	8,447
Average 3M value (USD mn)	0.21
Foreign ownership (%)	3.61%
2019 EV/EBITDA	13.7x
2019 PE/PB	26.8x/5.0x
2019 EPS growth (%)	8.6%
Dividend yield (%)	1.0%
2019 ROE (%)	20.9%

Source: Bloomberg, SSI Research

reach 7.2%, achieving VND 12.804 tn and VND 13.918 tn respectively.

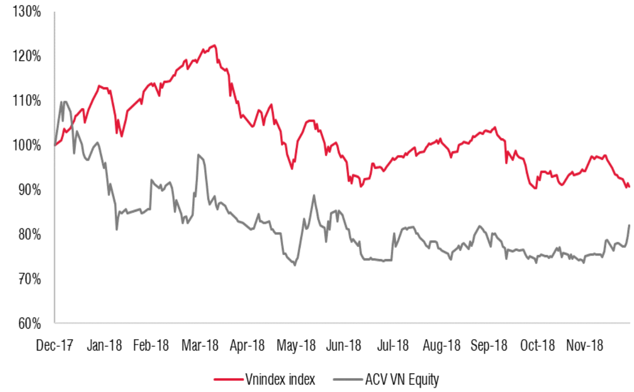
Catalysts:

The government's divestment plan of state capital from 95.4% to 65% has been postponed from 2018 into 2019, and is mandated to be completed by 2020. Given that ACV was transferred to the CMSC, the divestment process could be speed up during the 2019-2020 period.

Downside Risk:

Privatization of airports will reduce ACV's monopolistic status in Vietnam. The new Van Don International Airport is owned by private company Sungroup, which won the project through a Build-Operate-Transfer project.

Best pick in Airport: ACV VN



Source: Bloomberg

INDUSTRIALS - AIRLINES

NEUTRAL

Best pick: N/a

What transpired in 2018?

Sector performance

The airline sector was down by -4.6% YoY, yet still outperformed the VN INDEX by 4.7% thanks to stable performance of VJC, up 0.57% YoY. VJC 2018 core net profit was up by 32% YoY.

HVN 2018 consolidated revenue was estimated to reach VND 102 tn. This is a rise of 23% YoY, while PBT is estimated to reach VND 2.8 tn, up 18% YoY. Despite solid results, HVN stock performance was down -11.7% YoY, partly due to the delay of the HOSE listing from 2018 into 2019.

Key highlights on sector

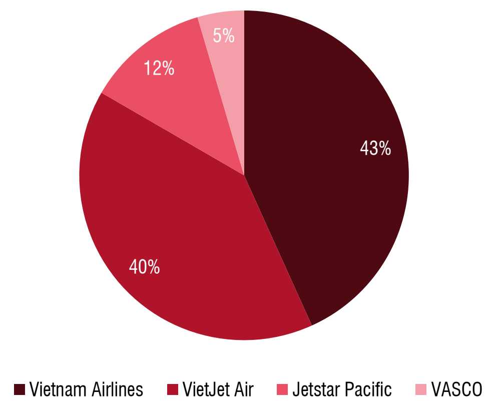
In 2018, domestic airlines conducted in total 296k flights, up 9% YoY. VJC expanded the most to 119k flights, up 22% YoY thanks to a fleet increase of 16 aircraft and an increase of 27 routes, 26 of which are international routes. VJC amassed a total of 65 aircraft and 110 routes by the end of the year. The number of HVN flights was almost flat at -0.6% YoY to 128k flights. Flat performance in flight frequency was partly due to a delivery delay of new Airbus aircraft. In 2018, HVN received only 5 new aircraft instead of 12 as planned, bringing total fleet size to 86 by the end of the year.

Growth in commercial flights was driven by an increase of airline passengers, up 10.4% YoY to 49mn pax. International tourists to Vietnam reached 15.5mn pax, up 20% YoY, of which 80% arrived by air. Among international tourists, Chinese tourists ranked first in terms of arrivals and accounted for 32%, with arrivals having increased by 24% YoY. Korean tourists were ranked second, amounting to 23% of all arrivals, yet at a startling 44% increase in 2018.

Airline industry performance in 2018

Source: Bloomberg, SSI Research

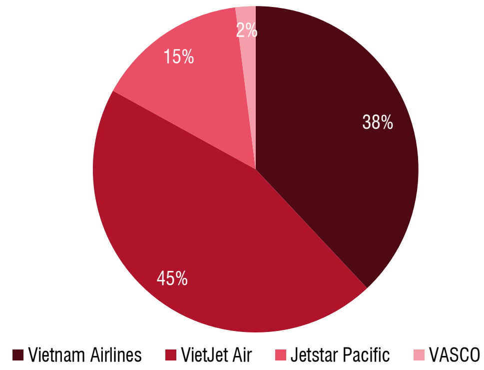
Domestic market share by number of flights



Source: Civil Aviation Administration of Vietnam, SSI Research

In 2018, the jet fuel price increased 25% until Q3 2018 to $ 99 USD/barrel, which weighed down 9M 2018 core GPM of VJC (15% vs. 18.4% up to 9M2017) and HVN (13.6% vs. 15.7% up to 9M2017). However, in Q4 2018, the price of jet fuel dropped by -32% YoY, correlating closely to the -36% drop in the Brent crude oil price.

Domestic market share by number of passengers



Source: Civil Aviation Administration of Vietnam, SSI Research

2019 View

2019 Expected Sector Growth

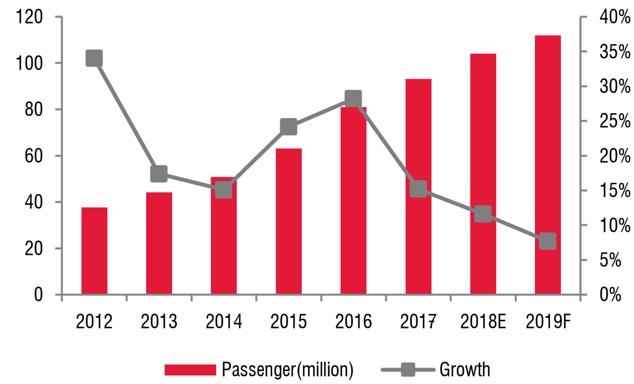
We estimate that total domestic airline fleet size reached 172 aircraft as of the end of 2018, up 15% YoY (HVN: 86 aircraft, VJC: 65, Jetstar Pacific 16, VASCO: 5). In 2019, we expect competition to increase significantly compared to years before due to 1) newcomers in the market and 2) a fleet increase of existing players. Total domestic airline fleet size is estimated to reach 216 aircraft, up 26% YoY.

Newcomer in the market: Bamboo airways (FLC Group) commenced the first commercial flights in January 2019, debuting with 7 aircraft, and the airline intends to increase its fleet size to 20 aircraft by the end of 2019. Bamboo is positioned as a Hybrid airline, offering full service similar to HVN, but doing so at lower cost as similar to VJC. In addition, an Air Asia JV with Thien Minh Group are applying for a domestic airline license. Tour operator Vietravel also has announced their application for a domestic airline license.

Fleet increase of existing players: HVN is expected to receive 12 aircraft in 2019, as compared to 5 in 2018. Out of these 12, 10 will be single-aisle aircraft which will serve Vietnam-Northeast Asia routes. VJC is expected to receive 12 aircraft compared to 16 back in 2017.

When considering demand, however, growth is tending to slow down as of late. Still, 2018 total passenger volume through airports was estimated to increase by 10.4% YoY. While these figures are positive, it is still nevertheless lower than 2017 (16% YoY) and 2016 (28% YoY). International tourists by air in 2018

Total passenger volume through airports



Source: Ministry of Construction

increased by 14.4% YoY, which is less than half the growth of 2017 (32.1% YoY) and 2016 (32.4% YoY) according to data from the Ministry of Tourism. The CAAV (the Civil Aviation Authority of Vietnam) set the target that in 2019, growth in total passenger volume will further slow down to 8.2% YoY due to overcapacity at the country's two main airports Tan Son Nhat and Noi Bai. In our view, 2019 growth in international tourists by air might decelerate to a cruising speed of 10-12% YoY. Back in 2017, Vietnam relaxed visa requirements for 40 countries. At the same time, the number of Chinese tourists increased by 49% YoY and 24% YoY in 2017 and 2018 respectively.

In total, we expect competition to fill the skies in 2019, which will weigh down on individual planes' passenger yields. On the other hand, we expect the average 2019 jet fuel price to further decline by -8.3% YoY per our in-house Brent crude oil price forecast of $65 USD/barrel, which will lower cost per available seat kilometers (ASK).

Therefore, we hold a **Neutral** view on Airlines in 2019. At a current stock price of VND 123,000/share, VJC is trading at 2019 EV/EBITDAR levels of 7.9x and core PER levels of 19.4x. While at a current stock price of VND 39,200/share, HVN is trading at TTM EV/EBITDAR of 8.1x. HVN plans to be listed on the HOSE by 1H2019. Given the current market cap of $ 2.3bn USD, HVN will be one of the Top 21 largest stocks on the HOSE, accounting for ~1.8% of total market capitalization on the HOSE.

2020 Growth trend

Growth of the airline industry will mainly be supported by the government's focus on developing the national tourism industry, of which it is forecasting total international tourists to Vietnam to reach 17-20 mn pax by 2020. This translates to a 7%-15% CAGR during 2018-2020. The MT also targets total passenger volume to record 131 mn pax by 2020, translating to a 12.5% CAGR.

Issues and risks

Infrastructure constraints at Tan Son Nhat and Noi Bai Airport, the main airport hubs, will limit capacity expansion in both passenger volume and cargo volume.

Rising oil price is always the major risk for airlines as fuel accounts for approx. 32% of HVN's and VJC's total costs. We estimate that average Brent Crude will be $ 65 USD/ barrel in 2019, down 8.5% comparing to 2017.

INDUSTRIALS - DELIVERY

OVERWEIGHT

Best pick: VTP

What transpired in 2018?

Sector performance

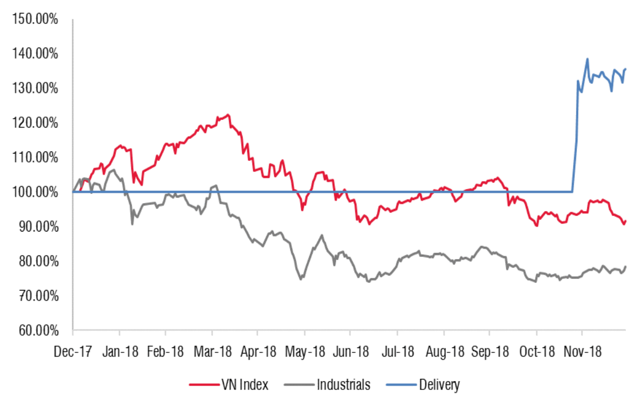
The delivery industry handily outperformed the VN-Index, increasing by 35.5% in 2018 vs VN-Index's drop of -9.3% in the same period. While impressive, it is important to note that the main reason was the listing of Viettel Post JSC (UPCOM:VTP) at the end of the year. After listing, it sharply increased due to its low listing price. VTP is the only stock in this industry.

Key highlights on sector

E-commerce growth is the main driver for the industry. According to IDEA (Vietnam e-Commerce and Digital Economy Agency), the B2C e-commerce market size has increased at a CAGR of 28% in the 2014-2017 period, with 2017 market size reaching $6.2 bn USD, +24% YoY. The number of online shoppers is estimated at 33.6 million people, at +3% YoY. Online shopping value per shopper also increased by 9.4% YoY to reach $186 USD/year. Overall, e-commerce has accounted for 3.6% of total Vietnam retail sales in 2017, an increase from 2.8% in 2015.

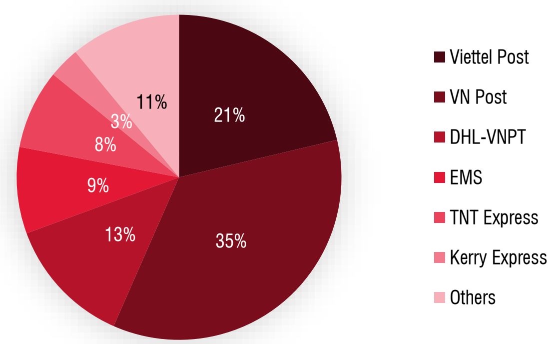
The express delivery market welcomed many new entrants in 2018, and these players have not yet hit the stock market. Nevertheless, on the ground there has been an intensification of competitiveness, especially visible in the intracity market. Besides local players like VNPost, Viettel Post (UPCOM:VTP), Giao Hang Nhanh (GHN) and Giao Hang Tiet Kiem (GHTK), the market has seen new entrants in the last several years, such as: Lalamove (Hong Kong), Lex (Lazada Express), Tiki Now, DHL-VNPT JV, Grab Express, and Ahamove. Most of these players

Delivery industry performance in 2018



Source: Bloomberg, SSI Research

Delivery market share, 2016



Source: SSI Research, IT & Telecom Whitebook 2017 compete in the intracity market, pushing pricing to a very low level.

2019 View

2019 Expected Sector Growth: 20%

In 2019, we see the conversion trend from offline shopping to e-commerce to continue at a swift pace, as the penetration rate of internet and smartphone usage are high. Specifically according to Niesel in 2017, the number of smartphone users in key cities in Vietnam accounts for 84% of total phone users. Also according to IDEA, the Vietnam e-commerce market size can grow at 20% YoY in 2018-2020, fueling top line growth for Delivery companies at that same speed.

VTP as the only listed stock in the industry can grow its earnings at about 50% YoY, for 3 reasons:

- The e-commerce market expected growth of 20% YoY
- Market share expansion: We expect VTP can grow its market share from 23% in 2017 to 30% in 2020
- Margin expansion: We expect a wider margin as well thanks to larger scale, as VTP can enhance its gross margin by 1% from 2018 to 2020.

Therefore, we have an Overweight rating on this sector.

2020 Growth trend: 20%

As discussed above, we expect 2020 to continue to see impressive growth, thanks to the above reasons.

Issues and risks

Pricing risk: Due to competition, VTP might face pricing pressure from new entrants, especially from firms with strong backing from other bigger giants (for example, GHTK is under its parent company (Garena) with Shoppee, or the case of Lazada Express being a subsidiary of Lazada). However, this risk is not likely to materialize as a large concern until market growth decelerates from the current level.

Best pick

Viettel Post JSC Ticker: VTP VN;

Price: VND 129,000

Target Price: VND 190,200

- Investment thesis: We like VTP as it offers proxy exposure to the e-commerce market, which is one of the fastest-growing industries in Vietnam at the moment. The company has a strong balance sheet (net D/E as of 9M2018 is negative), and is poised for strong and sustainable growth over the next 2-3 years. The company is now ranked 2nd in terms of market share, and has the potential to reach 1st position in the next few years.
- Risks: Pricing risk due to competition; VTP does not have the intention to list on the main bourse (HOSE), which limit its investibility to foreign investors.
- Catalysts:
  - ✓ We expect VTP to post 65% YoY growth in NPAT in 2018, and might set its earnings growth target at about 40-50% YoY in 2019 according to management's guidance.
  - ✓ Viettel Group has a plan to divest part of their stake to a strategic investor. The criteria of divestment includes having global network, and possessing experience in managing a large chain of logistic services.

Best pick in Delivery: VTP VN

Market cap (USD mn)	232
Average 3M value (USD mn)	0.64
Foreign ownership (%)	12.2%
2019 PE/PB	13.5x/5.2x
2019 EPS growth (%)	47.4%
Dividend yield (%)	1.1%
2019 ROE (%)	48%

Source: Bloomberg, SSI Research

Best pick in Delivery: VTP VN

Source: Bloomberg

INDUSTRIALS - CONSTRUCTION

UNDERWEIGHT

Best pick: CTD

What transpired in 2018?

Sector performance

The construction sector underperformed the VN INDEX by -1.3% (adjusted sector index, excluded by ROS). ROS had a 33% index weighting, and dropped by 75% in 2018, which brought the unadjusted sector index to be down by 52%.

Market leaders CTD and HBC declined by -27% and -41% respectively due to the following business condition variables in the construction market: (1) restrictive governmental measures in the housing market led to delay in new launches, (2) rising material prices, as the average construction steel price increased by 10% YoY.

The third largest construction company in terms of market cap, VCG, was up by 6% thanks to successful privatization after complete divestment by the SCIC.

The best performer was TV2, with an increase of 197% thanks to strong results and the intention to move onto the HOSE. TV2 NPAT up to 9M18 was up by 44% YoY, while shareholders approved the listing onto the HOSE in Aug 2018.

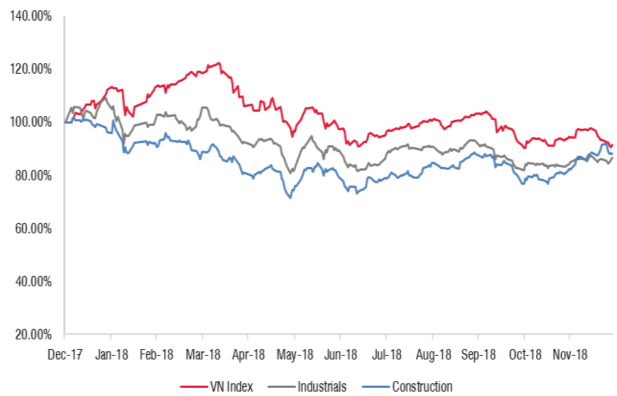
Key highlights on sector

The sector grew at a rate of 9.16% YoY, which was higher than the 2017 growth rate of 8.7% YoY. Construction of industrial and tourism projects were key contributing factors towards this year's growth. Main industrial projects under construction this year includes: Hoa Phat steel factories, Vinfast car factories, LG Display, and LG Innotek factories, while main tourism projects include: Sheraton Ha Long Bay, MGallery Sapa, Pullman Hai Phong, and Corona Casino Phu Quoc, among others.

Construction industry performance in 2018

Source: Bloomberg, SSI Research

Industry Performance (ex. ROS)



Source: Bloomberg, SSI Research

On the other side, residential projects were impeded for the time being by new measures issued by governmental authorities. The government in HCMC has applied stricter controls regarding new project launches, such as residential projects in Thu Thiem, the future CBD downtown area of Ho Chi Minh City.

SCIC successfully divested from VCG on its second attempt, leading VCG to become a fully private construction company. Given SCIC's stake worth $296 mn USD and Viettel's stake worth $87 mn USD, this VCG deal was the largest transaction in 2018 that occurred within the construction sector.

2019 View

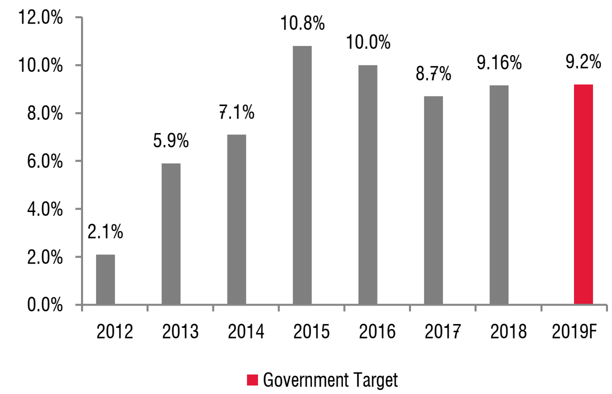
2019 Expected Sector Growth: 9.2%

The construction sector is expected to maintain a solid growth rate in 2019, yet will do so at a slower pace than past years of 2015-2016.

Growth in 2019 will be driven by (1) expectations of increased government spending for infrastructure, (2) the ongoing shift of factories from China to Vietnam and (3) rising investments in tourism-oriented real estate. The housing market, which propelled the construction sector in 2015-2016, is currently weak. The government maintained a 9.2% growth forecast for the construction sector in 2019, similar to the forecast in 2018.

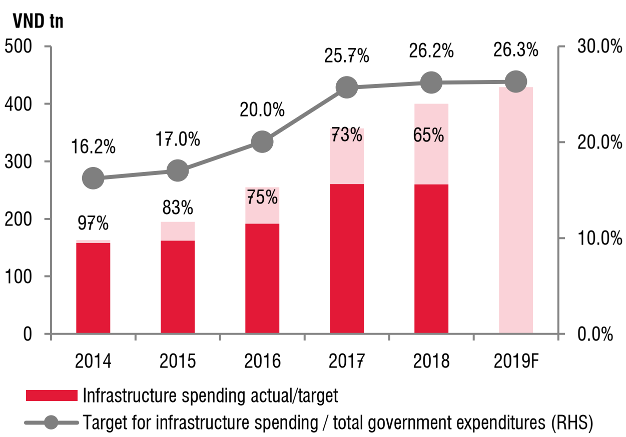
- The government's 2019 annual plan for infrastructure spending is set at VND 429 tn ($18.4 bn USD), up 7.3% from the annual plan in 2018 and up 65% compared to actual spending in 2018. Moreover, the government maintained an emphasis upon infrastructure in 2019, as the infrastructure spending to total government expenditure ratio is set at the highest level of 26.3% as compared to the 5Y-average of 21%. Actual infrastructure spending in 2017-2018 was low (<75% vs plan) due to a lack of guidelines on public-private-partnerships (PPP) and concrete details regarding Build-and-Transfers (BT) project payments. Even though Decree 63/2018 on PPP-projects (replacing Decree 15/2015) has been issued in Jun 2018, the "new BT-Payment"-Decree to replace the ineffective Decision 23/2015 has not been issued. We expect the "new BT-Payment" Decree to be issued by 1H 2019, which will drive significant investments in infrastructure thereafter.
- Looking back, we can see that the US-China-Trade war

Construction sector growth



Source: Ministry of Construction

Government spending for infrastructure



Source: Ministry of Finance, GSO, SSI

ignited the shift of factories from China to Vietnam. In 2018, some manufacturers which moved their production included Texhong (Textile) and Manwah (Furniture). We expect this shift to further accelerate in 2019. Companies announcing such a move includes: Foxconn (Electronics) and H1 Corp (Bike Producer).

- Tourism-oriented real estate is expected to further drive the construction market. Notable projects to commence construction in 2019 are the Laguna Lang Co Casino Resort (total investment value: $2 bn USD) and Casino Hoi An South phase 2 ($2 bn USD).

2020 Growth trend:

The housing market is expected to maintain its liquidity thanks to more new launches, which will in turn support the construction market. Transparent guidelines in infrastructure construction will boost private investments through PPPs.

Issues and risks

Finding investable stocks in the construction sector

The construction sector is not well represented on the stock market, with only few investable stocks in terms of market capitalization and liquidity for foreign investors such as CTD, HBC, CII, FCN, and VCG. New listings in 2018 such as Cienco 4 (C4G VN Equity) and Hung Thinh Incons (HTN VN Equity) were tiny, and had respective market caps of only $40 mn and $28 mn USD.

Volatile construction steel prices

The construction steel price has declined by -12% from the 2018 peak (the second quarter), yet is exposed to high volatility due to the US-China trade war. Total material prices account for approx. 70% of general structural construction, of which construction steel is the main input.

Best pick

Coteccons Construction JSC: CTD VN;

Price: VND 160,000;

Target Price: VND 185,000

Investment thesis

Market leader in the construction sector, with a no-debt policy and a net cash position of $192 mn USD as of Q4 2018. The company has attained an excellent track record in industrial projects, such as the Hoa Phat steel plant, the Vinfast car factory, and the Manwah furniture factory, to name a few. Industrial projects accounted for 28% of total revenue as of 9M 2018, as compared to 47% originating from housing projects. With such positioning, CTD will be less affected by the current slowdown in the housing market. 2019F organic NPAT growth is forecasted at +8% YoY . 2019F dividend yield is forecasted at 3.2%.

Catalyst Scenario

CTD considers to merge its associate company Ricons (2018 NPAT growth +50% YoY), thus increasing transparency within the group.

Downside Risks

Volatile material prices, notably steel. Slowdown in the construction market.

Best pick in Construction: CTD VN

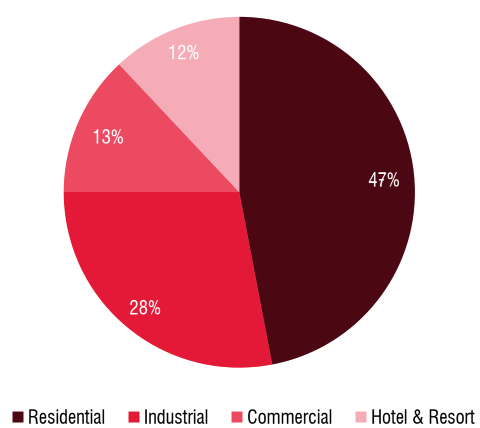
Market cap (USD mn)	425
Average 3M value (USD mn)	1.2
Foreign ownership (%)	47%
2019 PE/PB	7.0x/1.2x
2019 EPS growth (%)	8%
Dividend yield (%)	3.7%
2019 ROE (%)	19.8%

Source: Bloomberg, SSI Research

Best pick in Construction: CTD VN

Source: Bloomberg

CTD's revenue structure as of 9M2018



Source: CTD, SSI Research

INFORMATION TECHNOLOGY - IT

OVERWEIGHT

Best pick: FPT

What transpired in 2018?

Sector performance

The Information Technology sector lost -10.6% in 2018, slightly **underperforming** the VN Index which declined by -9.3%. The performance missed our expectation that investors would stand to benefit by overweighting the IT industry in 2018.

The key stock of the industry (FPT), which accounts for ~90% of the industry's total market capitalization – decreased by -10.8% in 2018. Despite a strong core pretax profit growth (+30.3% YoY in 2018), the stock lacked upside catalysts/developments as it did in 2017 (when it sold stake in FPT Retail, FPT Distribution, and the listing of FPT Retail & TPB). Reported PBT still dropped by 9% YoY in 2018 and the free float is high. Its valuation has not been re-rated to the level of a pure IT company as we originally expected.

The best performer in the industry is DGW, which gained 11.8% in 2018 thanks to upbeat earnings growth (+39.4% YoY in 2018) as well as from distribution results of Xiaomi and Eaton products.

Key highlights on sector

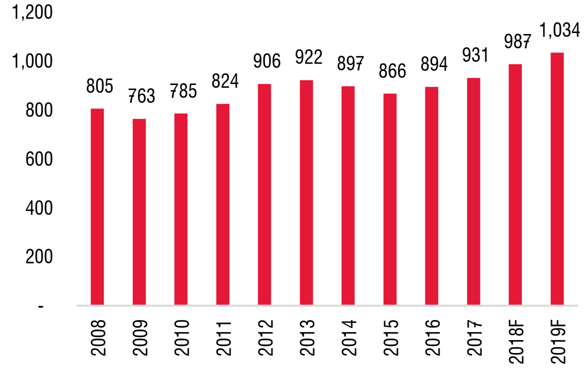
IT services market: According to Statista, global spending on IT services is expected to amount to $987 bn USD ***(+6.0% YoY) in 2018***. The growth rate is estimated to be higher than 4.1% YoY in 2017. Digital business continued to drive growth in the IT services market.

According to the Ministry of Information & Communication (MIC), Vietnamese software revenue reached $4.3 bn USD in 2018 (+13.8% YoY), in which exported software turnover was

IT industry performance in 2018

Source: Bloomberg, SSI Research

IT Services Spending Worldwide ($bn)



$3.5 bn USD (+39.1% YoY which was higher than 2017 growth of 4.4% YoY). Currently, there are 10k software providers with 120K employees in Vietnam.

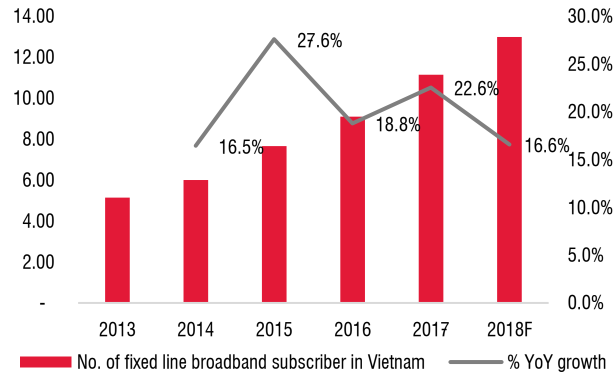
In 2018 2018, FPT software outsourcing revenue totaled VND 8.443 tn (~$361 mn, +35.3% YoY), outperforming other global competitors (India companies: 7.5%-10% YoY).

Telecom: According to GSO, Vietnam's telecom revenue reached VND 396 trillion ***(+7.3% YoY) in 2018*.** The number of fixed line broadband subscribers was 13 million (**+16.6% YoY**).

In 2018, FPT telecom services revenue increased by 16.3% YoY. The number of subscribers grew by 18-19% YoY to an estimated figure of approx. 2 million.

Source: Statista, Gartner

No. of fixed line broadband subscriber in Vietnam (mn)



Source: Ministry of Information & Communication

2019 View

2019 Expected Sector Growth:

According to Statista, global spending on IT services may reach $1.034 tn USD *(**+4.8% YoY**)* in 2019. For FPT, it expects software outsourcing revenue to increase by 25% YoY organically in the next 3 years across all markets.

2020 Growth trend:

Year on year, IT services spending is expected to increase at a rate of around **5.5%** worldwide.

It is believed that in the event of a downturn in the business cycle, or a global economic slowdown, these factors would not have a significantly negative impact on the IT budgets of global corporations. This is because investment in IT is also a way for corporations to reduce their costs in economic downturn cycles. Furthermore, there are more and more new business models that utilize innovative technology to achieve a competitive edge.

Like other countries, Vietnam's government also focuses on the 4th Industrial Revolution by changing itself and encouraging enterprises toward the digital government and economy which will create high demand for IT services in domestic market.In the next 5 years, the number of internet users in Vietnam is expected to grow by 3-5% p.a.

Issues and risks

Thanks to increasing demand for IT human resources as a result of strong growth of the IT services sector, the gap between Vietnamese and Indian engineers' salary is narrowing, from 20% previously to 15% recently. The gap between Vietnamese and Chinese engineers has stayed the same, at 25%. The increase in labor cost may reduce the competitiveness and profit margin of Vietnam's software outsourcing companies in the global market. However, we believe that some large companies including FPT are enhancing their technology capability in various ways (i.e. M&A, training, R&D, etc.). And while the pay gap is steadily narrowing, there still exists a competitive advantage in terms of labor cost in Vietnam.

Best pick

FPT Corp Ticker: FPT VN;

Price: VND 42,200

Target Price: VND 65,000

- Investment thesis: FPT is the leading IT company in Vietnam with 2 key strong/stable growth businesses (IT services and Telecom, accounting for ~80% of PBT) in the next 3 years.
  - ✓ For IT services, we expect it can grow by 19%/year on average thanks to high growth of software outsourcing services to overseas markets (organically & M&A). The profit margin of software outsourcing is expected to improve thanks to more contribution of digital services with higher margin, economy of scale, higher productivity, and M&As targeting foreign IT companies with higher technology capability.
  - ✓ For Telecom, the growth rate is around 12%, brought on by stable growth of fixed line broadband revenue and high growth of telecom services to enterprises and the IPTV segment. The profit margin of telecom services is also expected to be higher, and less influenced by way of shallower losses from the IPTV segment.
  - ✓ Valuation is attractive, with 2019 PER levels of 9.0x and a dividend yield of 4.7%. 2018 ROE is estimated to be 22.6%, and FPT has a strong balance sheet (estimated D/E ratio of 0.14x at the end of 2018).

Best pick in IT: FPT VN

Market cap (USD mn)	1,117.5
Average 3M value (USD mn)	1.11
Foreign ownership (%)	49%
2019 PE/PB	9.0x/1.16x
2019 EPS growth (%)	20%
Dividend yield (%)	4.7%
2019 ROE (%)	23.4%

Source: Bloomberg, SSI Research

Best pick in IT: FPT VN

Source: Bloomberg

- Risks: Salary for IT engineers are increasing. FPT's associate (FPT Synnex and FPT Retail – FRT: Upcom) may experience lower growth due to the slowdown of ICT product sales.
- Catalysts: Strong net profit growth of 19.8% YoY in 2019. FPT may acquire 1-2 more IT service companies in the US and Japan.

MATERIALS - STEEL

NEUTRAL

Best pick: HPG

What transpired in 2018?

Industry performance

The steel industry underperformed the VN Index, dropping by 16% in 2018 after having gained 54% in 2017. Steel consistently outperformed the index until Oct, with a gain of 7% YTD in line with expectations. However, the steel index then dropped faster than expected, dropping by 21% in the last 2 months of the year due to the sharp correction in the domestic steel price, tracing performance in the Chinese steel industry.

Best performer: HPG, with its share price dropping by -8% compared to the sectoral average downside of -16%, slightly outperforming the VN Index's -9.3% drop. The company's growth in net profit in 2018, its substantial market position, and positive long term outlook are the catalysts helping HPG to outperform the sector.

Worst performer: HSG and NKG, with share prices both having dropped by -70%. Although steel volume still attained encouraging growth of around 10% YoY, the bottom line was substantially dampened by high volatility in the HRC price, stronger competitive pressure in the domestic market, and difficulty in exports due to the spread of protectionism across global markets.

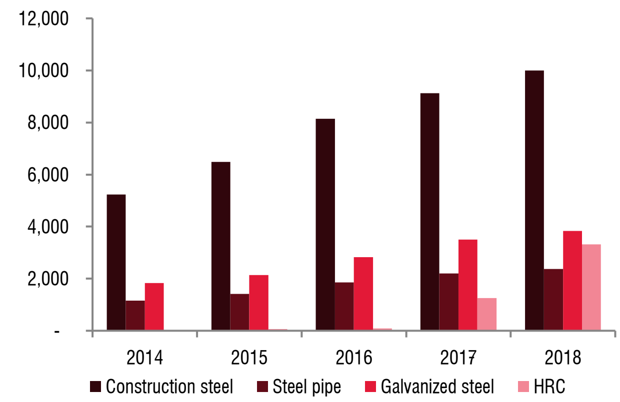
Key highlight on sector/key companies

Demand maintained positive growth, but slowed down compared to previous years: Steel sales remained upbeat in 2018, with finished products volume growth posting 12% YoY in 2018 thanks to stable economic growth and positive performance in the construction sector. All three main steel product lines, including construction steel, galvanized steel, and

Steel industry performance in 2018

Source: Bloomberg, SSI Research

Steel sale volume 2014-2018 ('000 tons)



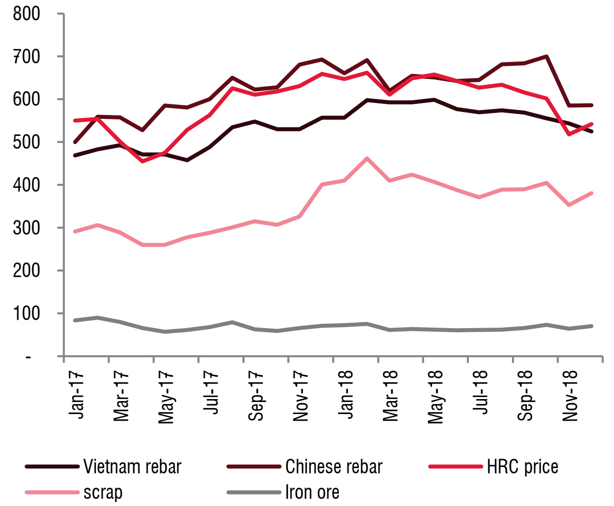
Source: Vietnam Steel Association (VSA) steel pipe, attained encouraging volume growth by 12%, 10%, and 11% YoY last year, in which total domestic sales volume of finished steel grew by 7% YoY. However, compared to the average growth of 22% from 2015 to 2017, demand in 2018 has experienced a slowdown.

Export hurt by the spread of protectionism across foreign markets: Cumulatively, the export volume of construction steel and steel pipe attained substantial growth of 33% and 23% YoY in 2018 thanks to the low base of export volume of these product types in the previous year, as export accounts for just a small proportion of 11-12% of total sales volume of construction steel and steel pipe. However, growth in export volume of galvanized steel dropped significantly from an average of 34% in 2016-2017 to 7% in 2018. This was due to the spreading protectionism trend across countries to impose restrictive measures on steel import. This was particularly the case in both the US and EU markets, which are the 1st and 2nd largest respective markets, accounting for 20-25% of Vietnamese steel exports. After the US imposed a import tariff of 25% on steel imported from almost foreign countries in 2Q19, the EU also put import tariff quotas of 25% in Jul on steel imports that exceed the average volume of the last three years.

Steel price corrected in Q4 after hitting peak

The domestic price of construction steel increased by 9% up to October, only to corrected back to the levels seen at the beginning of the year. This was largely from the market reacting to business conditions in China affecting the steel price in that country. Although the competitive pressure from imported Chinese products has been rendered null from protectionist tariff barriers imposed on long steel imported into Vietnam, the construction steel price trend in Vietnam is still indirectly affected by the movement in the Chinese steel price to some extent. This is due to general sentiment of distributors and the fluctuation in raw materials. On the other hand, the import volume of flat steel is still high, accounting for 30-40% of domestic consumption.

Steel and raw materials price (USD/ton)



Source: Bloomberg, SSI Research

Profit of most steel companies declined despite strong revenue growth: Net sales of steel manufacturers maintained encouraging growth up to 9M18 driven by overall industry-wide growth and an increase in ASP. Further growth is expected from such a low base being set in 2017. However, the bottom line of almost all companies except HPG experienced considerable decline compared to last year due to higher competitive pressure and higher fluctuations in the raw material price. As the net margin of most producers is low due to the lack of a fully integrated production chain and a high leverage ratio, a modest decline in the gross margin can lead to a significant change in the bottom line.

Business results of steel companies up to 9M2018

	2018 revenue	*% growth YoY*	*2018 gross profit*	*% growth YoY*	*2018 net profit*	*% growth YoY*	2018 Gross margin	*% change YoY*	2018 net margin	*% change YoY*
HPG	55,836	21%	11,671	10%	8,601	7%	20.90%	-2.1%	15.4%	*-1.6%*
HSG	34,100	21%	3,403	-25%	136	-89%	9.98%	-6.0%	0.4%	*-3.6%*
NKG	14,812	17%	793	-42%	57	-92%	5.35%	-5.7%	0.4%	*-5.6%*
POM	13,467	18%	773	-30%	434	-38%	5.74%	-4.3%	3.2%	*-2.8%*
VIS	1,492	-76%	13	-94%	-24	-155%	0.88%	-2.1%	-1.6%	*-2.6%*
TIS	10,935	12%	533	-5%	28	-72%	4.88%	-1.1%	0.3%	*-0.7%*

Sources: Companies, SSI Research

2019 View

Domestic demand is expected to slow down but attain an encouraging growth rate of 9-10% YoY in 2019. FDI investment and the expected recovery in infrastructure investment can be supportive catalysts for steel demand.

Leading companies may continue to consolidate market share, which may push downward pressure on steel price for a period of time: Fueled by rising profitability along with the steel price since early 2016, all major steel manufacturers has rapidly ramped-up production capacity in the recent 3 years. The increase in capacity amid a slowdown in demand can lead to significant changes in steel market structure for 2019, especially in construction steel, in favor of bigger companies possessing advantages in production costs and its distribution network.

Capacity ramp-up of galvanized steel (Unit: ktons)

	Type	2016	2017	2018	2019
HPG	Construction steel	2,000	2,000	2,000	4,000
	Galvanized steel	0	0	400	400
HSG	Galvanized steel	1,700	2,280	2,500	2,500
NKG	Galvanized steel	540	800	800	1,200
DongA	Galvanized steel	400	580	1,000	1,000

Source: Companies, SSI Research

A higher degree of competition in the coming year will no doubt dampen prospects for a high steel price, and will knock upon the profitability of steel manufacturers. However, we are of the opinion that the steel price downside, assuming a constant raw material price, is limited at around 3-5% decrease. We make the assumption that the profit margin of steel companies has already declined to a very low level, and thus a number of small players may cease operations if the profit margin drops by another 3-5%.

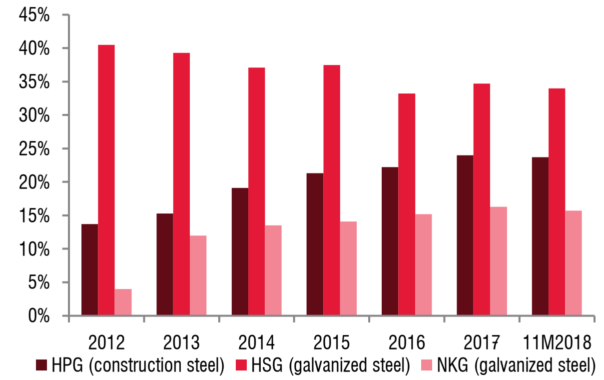
Looking for more protectionist measures on the domestic market: Although Vietnam has imposed numerous safeguard tariffs on imports steel, the volume of steel imports still remain high especially for galvanized steel, with more than 30-40% of supply exposed as trade fraud. In 2019, the government may impose further tariffs with stricter inspections, which may hopefully better shield domestic manufacturers from the turbulence in the global market and help to offset a decline in export volume.

Interest rates on the rise could raise concern for steel producers, especially galvanized steel companies: Interest rate increased by 100 basis points in 2018 and is expected to rise by another 25-50 basis points in 2019. This may directly increase financial expenses of steel companies, especially for galvanized steel companies that have a high debt ratio such as HSG (D/E 2.3x) and NKG (D/E 1.5x at the end of 2018). HPG, who has a much stronger balance sheet with a D/E at 0.6x and healthy operational cash flow, would be less affected.

2019 view: Growth in industry demand may be offset by a further correction in the profit margin due to increasing competitive pressure and increasing volatility of the global steel price.

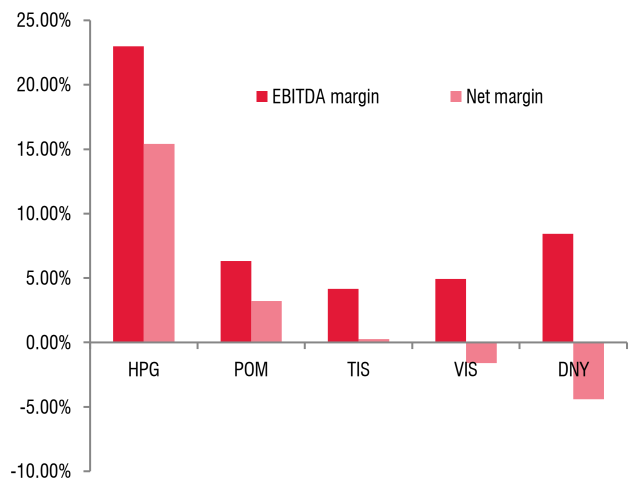
Among steel stocks, HPG is still our favorite stock considering the company growth outlook in the long term driven by Dung Quat Integrated Complex commencing in 2019 and the company's substantial competitive advantage compared to its competitors. The stock performance in the short term of 1-2 quarters can be volatile due to weak sentiment on cyclical stock, the high fluctuation in steel and raw materials price and the slowdown in market demand. However, the full operation of the first phase after 2Q19 can help to boost the company's earnings as well as stock price in the later half of the year.

Market share of leading producers



Source: VSA, SSI Research

Profit margin of long steel manufacturers in 2018



Source: Companies, SSI Research

2020 Outlook

Vietnamese steel consumption is expected to maintain at an annual rate of 8-10%/year. With no foreseeable new capacity coming online in late 2019-2020, the overall market and profit margin of steel producers may have a high chance to return to normal growth levels in 2020.

Issues and risks

The global steel price faces downward pressure due to weakening demand and ramped up supply to kickstart after a lull period in production: China has basically accomplished its capacity cut plan of 150mn tons in 2016-2020 in 2018, so the amount of capacity shutdown in 2019 will be much smaller. Estimates fall at less than 10 mn tons compared to 30 mn tons in 2018 and 115 mn tons in 2016-2017, and not to mention the closing down of over 100 mn tons of induction furnaces in the previous 2 years. In addition, the general slowdown in China steel demand amid a cooling economy can also place downward pressure on the steel price. The high fluctuation in the Chinese steel price in turn may pose negative impact on the profitability of Vietnamese producers.

Exports may face more challenges in 2019: In 2018, the escalation of the trade war led to a significant slowdown in steel export volume. In 2019, as US tariffs for steel imports will take effect for the full year, coupled with the capacity ramp-up of steel producers in export markets such as in the US, may compound factors and lead to further decline in demand for Vietnamese steel.

Best pick

Hoa Phat Group: HPG VN

Price: VND 29,300;

Target Price: VND 40,000

Investment thesis:

- Market demand is expected to grow by 8-10% annually over the next 5 years.
- The commencement of Dung Quat in 2019 may help HPG profit to attain an annual growth rate of 25% over the next 3 years.
- HPG is the industry leader in construction steel, with significant advantages in production cost, its distribution network, and market positioning.

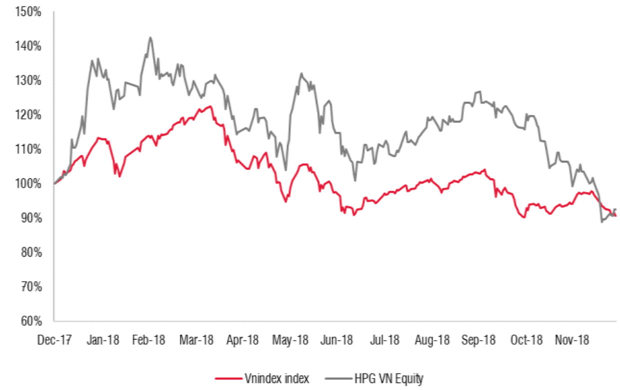
Best pick in Steel: HPG VN

Market cap (USD mn)	3,129
Average 3M value (USD mn)	7.53
Foreign ownership (%)	41.4%
2019 PE/PB	7.2x/1.5x
2019 EPS growth (%)	12%
Dividend yield (%)	0%
2019 ROE (%)	23.9%

Source: Bloomberg, SSI Research, Data on 28 Dec 208

- The market share for construction steel has increased gradually from 14% in 2012 to 24% in 2018, and expected to continue to improve in the coming years.
- Safeguard duties are expected to be imposed on construction steel and steel billet until 2020, and can be extended for 2 years. These tariffs help to shield domestic manufacturers from Chinese long steel products in the long term.
- Risks: The increasing volatility in the steel price and raw materials may affect the profit margin of HPG in 2019. Our base case assumption is that the steel gross profit margin may drop by 3% in 2019.
- Catalysts: The commencement of Dung Quat Integrated Steel is expected to boost company growth over the next 3 years.

Best pick in Steel: HPG VN



Source: Bloomberg, SSI Research

MATERIALS - CEMENT

NEUTRAL

Best pick: HT1

What transpired in 2018?

Industry performance

While the cement industry dropped by -3% in 2018, it nevertheless outperformed the VN Index. The recovery in both cement demand and price, as well as shrinking financial expenses, were the primary supportive catalysts for cement stocks, especially from the second half of the year.

Best performer: HT1, with a decline of only -3% in 2018. After hitting its trough in early July, the stock price rebounded by 43.6% until year-end from a sustained recovery in earnings.

Key highlight on sector/key companies

Recovery in domestic demand: According to the Ministry of Construction, total domestic cement sales volume for domestic manufacturers in 2018 was estimated to grow by 9% YoY to 65 mn tons. This can be attributed to positive performance in construction activities, which posted a growth of 9.2% in 2018 compared to 8.7% in 2017. In addition, there was a recovery from somewhat lackluster cement consumption in 2017. During this time, domestic sales only had increased by 1% YoY due to heavy rainfall, and was further compounded by the surge in sand prices, a critical input material that affects the progress of household and infrastructure projects.

Export surge driven by the China market: Export volume however shone out as the bright spot in 2018, soaring by 55% YoY to 31.65 mn tons. Green shoots for the industry came by way of exemption for export taxes of 5%. Other supportive variables include input VAT refunds of 10% for cement exports applied in Feb 2018, coupled with the surge in demand from China.

According to the 13th Five-year plan of the China Cement Association regarding Chinese domestic capacity issued in 2017, China would cut 400 mn tons of capacity for clinker, equivalent to around 20% of the countries' clinker capacity. The

Cement industry performance in 2018

Source: Bloomberg, SSI Research

Vietnam cement and clinker export volume (tons)

	11M2017	11M2018	YoY growth
China	428,590	8,745,379	1941%
Bangladesh	7,112,991	6,156,161	-13%
Phillipines	4,238,806	6,029,417	42%
Total	17,479,243	29,003,028	66%

Source: GSO

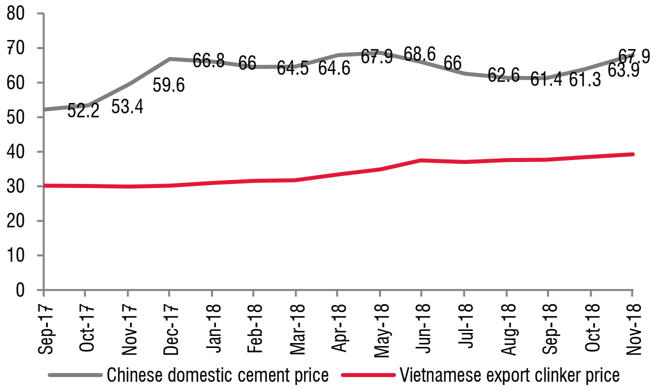
capacity cut in China has driven up its domestic cement price by 32% since early 2017, and led to the increase in China clinker import demand. Such supply primarily comes from Vietnam because of close proximity to China, as well as Vietnamese clinker being competitively priced.

In addition, China's drop in cement and clinker's export volume also relieved the competitive pressure for Vietnam cement in other export markets.

Domestic clinker prices rose thanks to demand recovery and the trend in China price: Besides supporting cement sale volume of Vietnam producers, the jump in China import demand has also pushed up the Vietnam clinker price by 30%. The cement price in Vietnam also rose by a slower rate of 3% in 2018, as Chinese imports mainly clinker for their grinding plants. However, we believe that the cement price may increase in the coming time, especially in the Southern region as many manufacturers there have to purchase a significant portion of their clinker demand from the North and Central area. With their input price going up and stable market demand, these manufacturers may gradually pass the increase in input on the cement price.

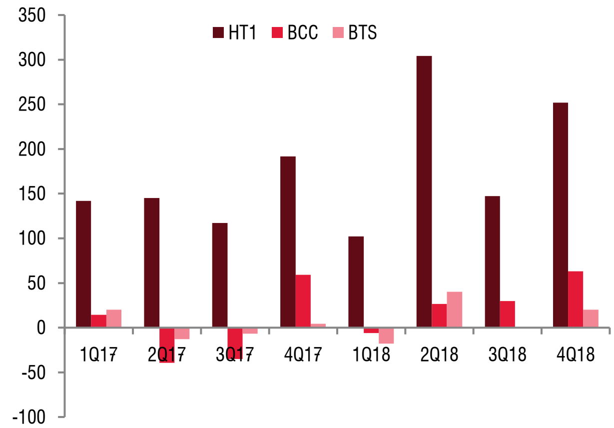
Business results of cement producers recovered from 2Q18 onwards thanks to profit margin improvement and lower financial expenses: Revenue from the largest listed cement producers in 2018 did not attain significant growth in line with the overall market due to the capacity ramp-up of other producers in 2016-2017. However, the improvement in gross margin, especially from the second quarter on the back of cement price rebounce, and the decrease in financial expenses backed by deleveraging activities assisted bottom line to improve from the second quarter in 2018.

Chinese cement price and Vietnam clinker export price (USD/ton)



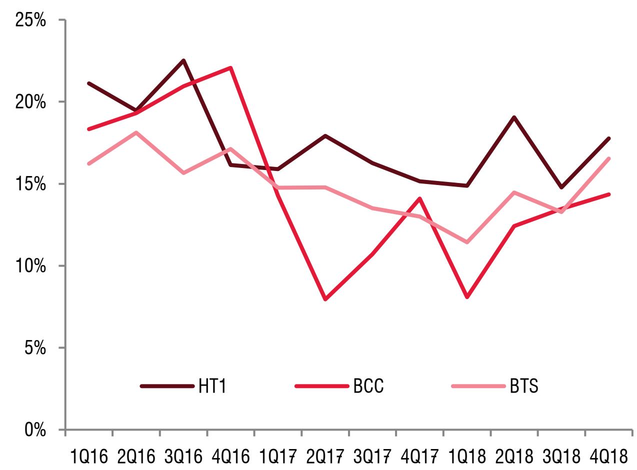
Source: Bloomberg, SSI Research

Quarter PBT (Unit: VND bn)



Source: Companies, SSI Research

Quarterly gross margin of cement companies



Source:Companies, SSI Research

Key financial items of cement companies in 2018 (Unit: bn)

	Revenue	% growth YoY	Gross profit	% growth YoY	Net profit	% growth YoY	Financial expense	% growth YoY	Long term debt year end	% change YoY
HT1	8,376	2.0%	1,403	4.5%	645	32.7%	314	-34.3%	3,838	-16.9%
BCC	3,679	5.8%	451	9.3%	89	N.a	86	-26.5%	1,549	-16.4%
BTS	3,085	-2.1%	438	-0.7%	20	509.4%	124	-41.8%	1,540	-21.9%

Source: Companies, SSI Research

2019 View

2019 Growth Outlook

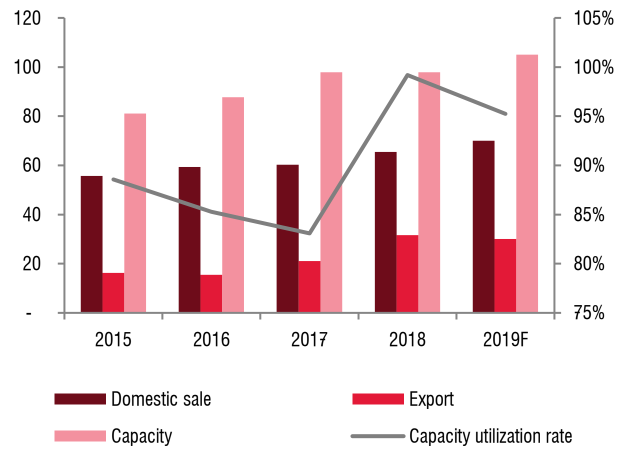
Overall market demand is expected to maintain positive growth driven by export and domestic infrastructure investment: According to the Ministry of Construction, total cement sales volume is expected to reach 98-99 mn tons, maintaining a positive growth of 6-8%YoY. Domestic consumption is projected to attain encouraging growth of 6-8% YoY in 2019 to 69-70 mn tons, driven by FDI inflows and the recovery of infrastructure investments. Some huge infrastructure projects in the coming time can include the North-South Express way with total investment value of 5 bn, of which 3 projects with investment of USD 740 mn would be lauched in 2019, and Ben Thanh Suoi Tien – Line 1 with total investment value of 2bn that would be accelerated in 2019.

On the other hand, exports are expected to be stable at 29-30 mn tons. Demand from China is expected to remain strong thanks to the China Cement Association's plan to cut capacity, lasting until 2020.

Domestic cement price still has chance to increase: As the capacity utilization rate in 2019 is still projected at a sufficiently adequate level of around 95%, we think that there is a high chance that the Vietnam cement price may further increase in 2019. This is especially the case in the Southern region, where there is still a persistent shortage of clinker available.

View: Neutral, given encouraging volume growth and potential price increase. However, dependency still exists regarding exports to China, which to some extent we think is not sustainable in the long term.

Cement sale volume (mn tons) and utilization rate



Source: Ministry of Construction, SSI Research

2020 Growth Outlook

According to the Vietnam Cement Association, domestic demand is expected to attain single-digit growth at 5% per year over the coming years, reaching 80-82 mn tons in 2020. The inflow of FDI and recovery in infrastructure investment are supportive catalysts for future industry growth.

Issues and risks

Competitive pressures do remain, and render cement producers vulnerable to any kinds of export volatility: Export demand, especially originating from China, can benefit Vietnamese cement manufacturers. However, supply surplus in the domestic market is still present, rendering domestic producers vulnerable to exports from China. In 2019, domestic capacity may add roughly 5-10 mn tons in 2019. This is equivalent to 5-10% of current capacity, thereby raising total domestic capacity to over 100 mn tons/year.

Rising input cost: The cost of electricity and coal, which accounts for 45-50% of clinker production costs, may rise by 5-10% in 2019. This is likely to negatively affect the profit margin of cement, and otherwise render null various positive effects from the increase in cement prices.

Best pick

Ha Tien 1 Cement JSC, Ticker: HT1 VN;

Price: VND 16,350;

Target Price: VND 16,200

Investment thesis:

- HT1 is the leader in supplying market demand across Southern Vietnam, and its advantage allows it to command a higher sales price by a margin of 20-30% in this region compared to the price in the North and Central regions.
- **Catalysts**: The increase in the market cement price coupled with decreasing financial expenses on the back of deleveraging may help the bottom line to attain encouraging growth of 15-20% YoY in 2019. The approval of the Truong Tho property project, although still not confirmed yet, is still a significant catalyst given its large area of 10.6 ha located across from Metro line 1 in Thu Duc district, HCMC. The market land price around this area is $2,000-3,000 USD/sqm.

Best pick in Cement: HT1 VN

Market cap (USD mn)	229
Average 3M value (USD mn)	4.3
Foreign ownership (%)	5.6%
2019 PE/PB	7.8/0.9
2019 EPS growth (%)	19.3%
Dividend yield (%)	4.8%
2019 ROE (%)	13.6%

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

Best pick in Cement: HT1 VN

Source: Bloomberg, SSI Research

MATERRIALS - FERTILIZER

NEUTRAL

Best pick: DPM

What transpired in 2018?

Sector performance

The fertilizer industry (-4.4%) outperformed the VN-Index (-9.3%). The largest influencer pulling the biggest weight in the industry was DPM, gaining 9.7%, while other stocks declined, i.e. DCM (-17.6%), BFC (-13.9%) and LAS (-10%).

The surge in oil price significantly reduced earnings of DPM (the largest influencer of the industry) from Q1 to Q3, thus explaining the underperformance of the fertilizer industry during the period. However, this did fall in line with our underweight call for the sector in 2018.

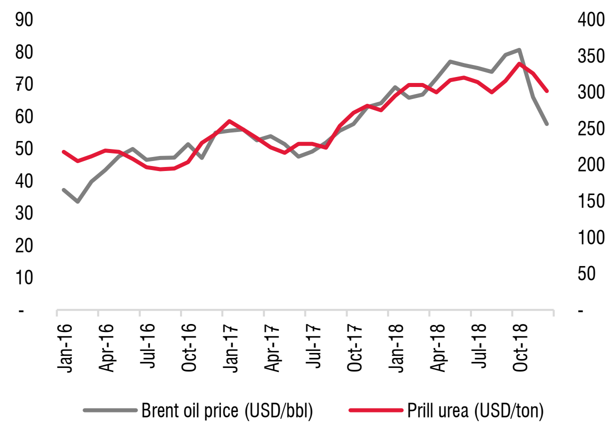
Nevertheless, DPM earnings in Q4 started to angle upwards and improve. The oil price has corrected sharply from the peak of $84 USD/bbl in October 2018 to just $54 USD/bbl as of year end. Meanwhile, although the urea ASP moved along mostly with the oil price trend, it declined at a slower rate than that of oil price, hence explaining a wider margin and consequent improvement in Q4 DPM earnings. As a result, the fertilizer industry slightly outperformed the VN-Index by year end.

Key highlights on sector

Overall, 2018 fertilizer consumption diverged. While urea consumption volume picked up by 4.4% YoY in 2018, it did so after a sizable drop of -14% YoY in 2017. DAP consumption volume increased by 2.5% YoY, slowing down slightly compared with the 2017 growth exhibited of 3.9% YoY. Meanwhile, NPK consumption volume decreased by -2.5% YoY, contrasting with an increase of 5.3% YoY in 2017.

Fertilizer industry performance in 2018

Source: Bloomberg, SSI Research



Source: Bloomberg, SSI Research

Antidumping tax on DAP

After temporarily imposing an anti-dumping tax of VND 1,855,790 per ton of DAP-type fertilizer from August 19th 2017 to March 6th 2018, the MOIT has issued Directive 686/QĐ-BCT regarding the official imposition of antidumping tax on DAP and MAP type fertilizers as according to the following timeline:

- March 7th 2018 – March 6th 2019: VND 1,128,531 per ton
- March 7th 2019 – March 6th 2020: VND 1,072,104 per ton
- March 7th 2020 onward: Zero anti-dumping tax.

As the official tax rate is lower than the temporary tax rate (VND 1,128,531 per ton vs VND 1,855,790 per ton), the difference gets returned back to the taxpaying business entity.

The anti-dumping tax has effectively reduced DAP import volume by -21% YoY, while also encouraging domestic production (+23% YoY).

Update on VAT

In June 2018, the Ministry of Finance (MOF) expressed its willingness to change its VAT status for foreign-origin fertilizer producers from “VAT non-taxable” to “5% VAT taxable”. This is meant to support domestic fertilizer producers’ financial position amid fierce competition from imported substitutes. In November 2018, the matter was presented to the National Assembly, but was not approved. Undeterred, the Fertilizer Association of Vietnam will continue to propose this matter again in the next National Assembly meeting, which is in June 2019.

Import situation

DAP import volume dropped by -21% YoY due to the imposition of the antidumping tax. Domestic DAP-type fertilizer prices are -20% cheaper than imported ones, although this is due to difference in quality. After the application of the antidumping tax, the imported DAP price increased by 9-10%. Concurrently, this allows domestic DAP producers to raise its sales price by this same margin, hence maintaining a pricing gap of around 20%. With such an increase in price, some farmers chose to switch from imported DAP to domestic DAP to maintain their profit from crops, regardless of the drop in quality. As a result, domestic production surged by 23% YoY, while imports were slashed by -21% YoY.

2018 NPK import volume declined by -13% YoY on the back of low domestic consumption (consumers switched from NPK to urea-type fertilizer), a drop in NPK exports (import and re-export) and from a 2017 high base. In addition, in 2018 DPM started to

Fertilizer import

	2017		2018		YoY change	
	Volume (ton)	Value (USD)	Volume (ton)	Value (USD)	Volume	Value
Urea	476,815	121,271,809	499,006	146,743,850	5%	21%
NPK	495,238	177,593,353	430,933	167,927,834	-13%	-5%
DAP	880,087	321,512,247	693,947	293,679,139	-21%	-9%
SA	1,098,759	131,507,534	1,053,900	137,066,079	-4%	4%
Kali	1,267,459	330,435,269	1,014,940	287,679,154	-20%	-13%

Source: General Department of Vietnam Customs, SSI Research produce NPK using chemical processing technology, hence reducing NPK import of similar type. Kali-type import volume slid by -20% YoY, following the same direction with NPK import downtrend as Kali is an precursor input in the NPK production process.

Concurrently, urea and SA import volume did not change much, settling in at +5% YoY and -4% YoY.

2019 View

2019 Expected Sector Growth: Limited growth

Due to limited growth potential for agricultural land and the currently high fertilizer consumption rate in Vietnam (430 kg/ha in Vietnam vs 269 kg/ha from the regional average in 2016), we do not expect a significant rise in fertilizer sales volume for 2019. However, we still expect sales volume growth for firms that are actively engaged in investing new technology to produce differentiated fertilizers. An example could be DPM which has invested in chemical processing technology to produce compound NPK, which is better absorbed by plants than traditional blended NPK.

We expect the fertilizer ASP trend to closely follow that of input materials. We assume the 2019 oil price to average at about $65/bbl (-10% YoY). Given the expected ongoing competition with imported fertilizers, the downtrend in the oil price would likely encourage producers to trim the fertilizer ASP, although there might be some time lag before this manifests in the marketplace.

We continue to keep watch for a possible ratification of VAT change.

State divestments to continue

Having not been completed in 2018, the following state divestments will continue from 2019 onwards:

- DPM: divestment by PVN, from 60% to below 51%
- DCM: divestment by PVN, from 75% to 51%
- LAS: divestment by Vinachem, from 70% to 50%-65%
- BFC: divestment by Vinachem, from 65% to below 50%

View: Neutral

Given limited growth in both sales volume and the profit margin, we have a neutral view on the fertilizer industry in 2019, supported by (1) an expected decrease in the oil price and (2) state divestment catalysts.

Issues and risks

China's 2019 export tax for fertilizers are as follows:

- Export tax for NPK was reduced from 100 CNY/ton to 0
- Export tax for Kali was also slashed from 600 CNY/ton to 0
- Export tax for Urea, DAP and SA remained at 0 CNY

We therefore expect more intense competition from Chinese NPK fertilizer companies, which may reduce the demand for domestically produced NPK. Imported NPK is normally cheaper than domestic ones. However, the transportation costs involved helps to make the price gap negligible. The reduction in China's export tax for NPK would enlarge the price gap, hence encouraging farmers to use Chinese NPK. Imported NPK currently accounts for 11% of the total demand in Vietnam. Meanwhile, cheaper imported Kali for precursor manufacturing purposes may help domestic NPK producers to become more price competitive.

Change in export tax of China

	2018	2019
NPK	CNY 100/ton	0
Kali	CNY 600/ton	0
Urea	0	0
DAP	0	0
SA	0	0

Source: Agromonitor, SSI Research

Best pick

Petrovietnam Fertilizer and Chemicals Corporation

Ticker: DPM VN;

Price: VND 22,300

Target Price: VND 23,400

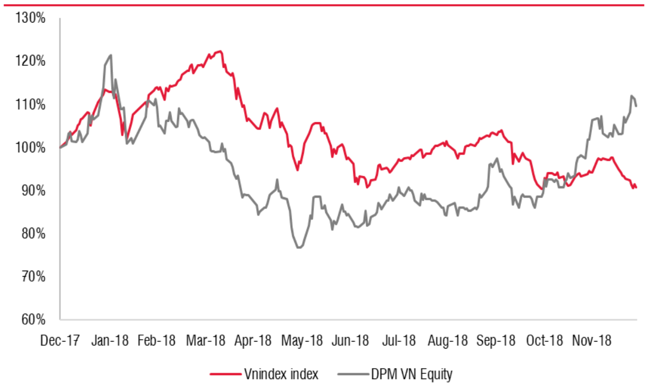
- Investment thesis: We forecast 2019 revenue and pretax profit at VND 10.478 tn (+13% YoY) and VND 954 bn (+10% YoY). Factors helping to impove gross profit margin are (1) a lower 2019 oil prive and (2) the shift to selling in-house NPK with a higher margin, rather than trading NPK. Concurrently, the increase in revenue primarily stems from raising in-house NPK sales volume, which has lower gross profit margin compared with urea (roughly 30% for urea and below 20% for in-house NPK). This would likely narrow gross profit margin. Hence, overall pretax profit growth is slightly less than that of revevue (10% vs 13%)
- Risks: (1) intense competition for both urea and NPK, (2) a possible rise in the oil price and (3) an unfavorable gas input policy change, effective from 2020, which is unclear at the moment
- Catalysts: Losses from the past two years may turn around to achieve a positive earnings growth of 10% YoY thanks to

Best pick in Fertilizer: DPM VN

Market cap (USD mn)	376.64
Average 3M value (USD mn)	0.48
Foreign ownership (%)	21.38%
2019 PE/PB	13x/1.1x
2019 EPS growth (%)	10%
Dividend yield (%)	4.5%
2019 ROE (%)	9.6%

Source: Bloomberg, SSI Research

Best pick in Fertilizer: DPM VN



Source: Bloomberg

(1) an expected oil price downtrend, (2) 80% utilization rate of domestic NPK plants, (3) state divestment from 60% to below 51% and (4) a possible change in VAT regulation from “non-taxable” to “5% taxable”

MATERIALS – NATURAL RUBBER

UNDERWEIGHT

Best pick: PHR

What transpired in 2018?

Sector performance

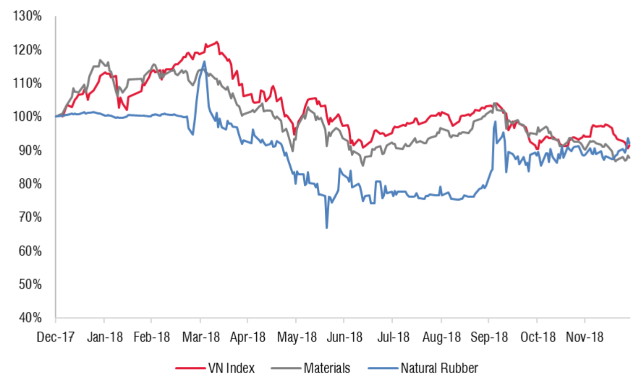
Having declined by -8% in 2018, the natural rubber industry correlated closely with VN-Index performance (-9.3%), in line with our NEUTRAL call for 2018. Gaining 42.4% and 4.7% respectively, PHR and DPR outperformed the VN-Index. The PHR share price rocketed by 42.4% thanks to (1) the rise in income from selling rubberwood and (2) the expectation that land compensation income may be recognized in 2019. Yet their small scale in the overall natural rubber industry could not compensate for the poor performance of newly listed GVR, which dropped by -12% in 2018.

Key highlights on sector

The Association of Natural Rubber Producing Countries (ANRPC) expects 2018 consumption at 14.2 mn tons (+7.5% YoY), outpacing the production of 13.9 mn tons (+2.6% YoY). Yet, undersupply coupled with a surge in the oil price did not translate into a natural rubber price increase. Instead, the natural rubber price declined by roughly -20% YoY, while the oil price rallied by 31% YoY.

Although the 2018 oil price on average was 31% YoY higher than in 2017, it nevertheless could not salvage the decline in the natural rubber price, which can be attributed to (1) slowdown in the Chinese economy, fueled further by the ongoing US-China trade war and (2) favorable weather conditions for bountiful natural rubber production in Thailand and Vietnam.

Natural rubber industry performance in 2018



Source: Bloomberg, SSI Research

TOCOM Rubber Future Contract, JPY/kg

Source: Bloomberg, SSI Research

Vietnam rubber export

Up to 11M2018, Vietnam natural rubber export volume and value reached 1.4 mn tons (+14% YoY) and $1.9 bn USD (-7% YoY) respectively. Export prices averaged at $1,352 USD per ton, tumbling by -18% YoY.

Vietnam Rubber Group (GVR: Upcom) IPO

Following on the heels of the massive state divestment wave at the beginning of 2018, the government conducted an IPO for GVR (the leader in domestic natural rubber production, accounting for 1/3 of total Vietnamese rubber plantation area) on February 2nd 2018. 475 mn shares (equivalent to 12% of total outstanding shares) were placed on auction at a starting price of VND 13,000 per share. However, investors only bought 99 mn of these shares, which were later listed on Upcom.

2018 consolidated revenue and pretax profit of GVR are expected at VND 20.822 tn and VND 4.552 tn, hence accomplishing 95% and 90% of the 2018 target respectively. Dividends for 2018 will be 2.5% on par value.

PHR: For 2018, the parent company achieved VND 1.044 tn in revenue (-13% YoY) and VND 622 bn in pretax profit (+49% YoY). Consolidated revenue and pretax profit reached VND 1.561 tn (-6% YoY) and VND 760 bn (+84% YoY).

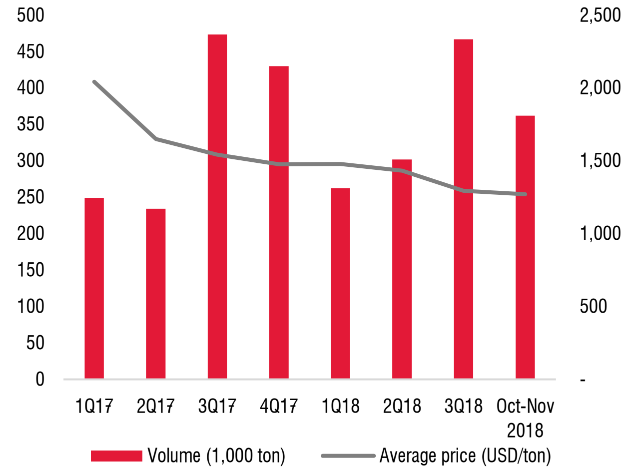
Natural rubber sales volume and ASP were 31.6k tons (+7% YoY) and VND 32.97 mn per ton (-18% YoY) respectively. However, during a year with a depressed natural rubber price, income from JV firm NTC and favorable rubberwood conditions helped the company to achieve impressive bottom line growth. Income from disposal of old rubber trees was recorded at VND 425 bn (+2.1x YoY). Income from JVs climbed to VND 70 bn (+2.7x YoY). The improvement in cash flows from higher dividend payments paid out by NTC also helped PHR to reduce their borrowing, and hence their interest expenses (from VND 49bn to VND 28 bn).

2019 View

2019 Expected Sector Growth:

ANRPC forecasts world production at 14.7 mn tons (+5.8% YoY), which is similar to consumption.

Vietnam natural rubber export volume and price



According to ANRPC, demand-supply fundamentals do not favor a recovery of natural rubber prices in 2019. Factors dragging down prices in 2018 may likely to further exert their impacts onto 2019. Improvement in the rubber yield of major rubber producing countries and shrinking Chinese consumption due to high US tariffs do not support a price uptrend at this given time. Not only that, the correction in the global oil price ($65 USD/bbl expected in 2019 vs $72 USD/bbl in 2018) may also interfere with natural rubber price recovery. As such, we think that the natural rubber price may flatline in 2019.

Having said that, International Tripate Rubber Council (ITRC) member countries may intervene by cutting supply to lift the natural rubber price. However, it is difficult to reach an agreement between the members.

Natural rubber industry is mostly affected by the performance of GVR. The company sets 2019 revenue target at VND 18,400 bn (-7% YoY), in which VND 12,450 bn (flat YoY) stems from natural rubber. The company targets 320K ton (vs 307K in 2018) of rubber tapped volume and 395K ton of sales volume. This implies an ASP of VND 31.5 mn per ton of natural rubber.
2019 pretax profit is planned at VND 4,800 bn (+13% YoY), in which VND 720 bn is from natural rubber. The remaining pretax profit of VND 4,080 will come from rubber wood, divestment from non-core businesses and land compensation income.
Assuming that GVR will achieve its 2019 target and a bonus and welfare fund at 15%, 2019 EPS would be VND 816. At the price of VND 10,300, GVR is being traded at 2019F PER of 12.6x, which is expensive in our view given its commodity nature, flat earnings prospect for 2019 and the fact that the majority of 2019 earnings stem from non-core activities.

Therefore, for the time being we have an Underweight rating on the sector.

Issues and risks

Vietnam is a price taker rather than a price maker in terms of natural rubber exports due to its limited exposure to the global market (does not trade on rubber future markets and does not actively participate in any cartels which serve the purpose of maintaining rubber price like ITRC). In addition, a prolonged lower price may encourage labor in this industry to look for alternative jobs, hence reducing the labor supply and raising the cost of labor. This may further squeeze profit for natural rubber producers.

Best pick

Phuoc Hoa Rubber JSC Ticker: PHR VN;

Price: VND 33,450

Target Price: VND 35,500

- Investment thesis: Assuming a flat natural rubber price at VND 34 mn per ton, 2019 net sales is estimated at VND 1.406 tn (flat YoY). However, 2019 pretax profit (excluding land compensation income of VND 292 bn) is projected at VND 682 bn, declining by -10% YoY. As such, 2019 total consolidated pretax profit including land compensation income is estimated at VND 974 (+28% YoY).

- Risks: (1) decline in natural rubber ASP and rubberwood price, (2) delay in recognition of land compensation.
- Catalysts: (1) income from selling rubberwood (VND 400 bn in 2019F vs VND 425 bn in 2018) and (2) land compensation income of VND 292 bn to be recognized in 2019.
- Additional possible catalysts: (1) a potential rise in the land compensation rate from VSIP3 and Nam Tan Uyen to VND 1.2-1.5 bn/ha from the current rate of around VND 1bn/ha, (2) the gain from selling PHR stakes in NTC to GVR and (3) long term potential income from Tan Binh II industrial park

Our target price for the time being is at VND 35,500 per share (target PER of 8.5x on 2019 core EPS plus VND 6,060 per share from land compensation). Yet, this target price has not incorporated the potential upside from the additional possible catalysts mentioned above, as information is not concrete and is rather limited at the moment.

Best pick in Natural rubber: PHR VN

Market cap (USD mn)	195.62
Average 3M value (USD mn)	0.51
Foreign ownership (%)	7.76%
2019 PE/PB	9.2x/1.5x
2019 EPS growth (%)	15%
Dividend yield (%)	20-25%
2019 ROE (%)	20%

Source: Bloomberg, SSI Research

Best pick in Natural rubber: PHR VN

Source: Bloomberg

UTILITIES - Electricity

OVERWEIGHT

Best pick: POW

What transpired in 2018?

Sector performance

The industry underperformed the VN-Index in 2018, reducing -21.5% in market capitalization compared to the VN-Index decline of 9.3%. The key reason for such underperformance is the inclusion of PGV, with a 19% weighting in the sector. PGV fell by -51% in market capitalization after listing with virtually no liquidity.

If we exclude PGV, the industry only declined by -6.3%, beating the VN-Index by 3% in 2018.

The best performers in the industry are S4A (+40%) and QTP (+30%), while the worst performer is PGV (-51%). The 2 best performers have virtually no liquidity, so the stock price at this time is likely to be highly volatile and unpredictable in nature.

Key stocks in the industry include POW (-14%), NT2 (-8.6%) and PPC (-7.3%). The reasons for their lukewarm performance was due to high rainfall in 2018, leading to less demand for thermal power, which dragged the price of thermal power downwards.

Key highlights on sector

Total electricity output of Vietnam in the first 11 months of 2018 reached 201.12 bn kWh, at +10.97% YoY according to EVN, which is higher than 2017 growth of 9.1% YoY. In the long-term, EVN expects Vietnamese output to increase by an average of 9% p.a.

Retail electricity prices remained constant throughout 2018. The average price for the year was VND 1,720/kWh, or $0.074 US /kwh. This was part of the Vietnam government's efforts to tame inflation in 2018.

Electricity industry performance in 2018

Source: Bloomberg, SSI Research

IPO of giant electricity producers. In 2018, the 4 largest power companies in Vietnam, including PV Power, as well as Genco 1,2,&3 were originally scheduled for IPO. In those, only PV Power (HOSE: POW) and Genco 3 (UPCOM:PGV) completed their IPO process. Genco 1 and Genco 2 was rescheduled to debut in 2019.

These 4 companies account for 53% of total electricity generation capacity in Vietnam (20,880 MW out of 39,400 MW) during 2017.

Shortage of coal. Domestic coal supply has been under temporary shortage in 2H 2018, as there was a sudden increase in demand from coal-fired power plants due to a lower supply of gas and very low rainfall level from El-Nino. According to Vinacomin (Vietnam Coal and Mineral Corporation), they will need to import coal starting in 2019 to mix with domestic coal.

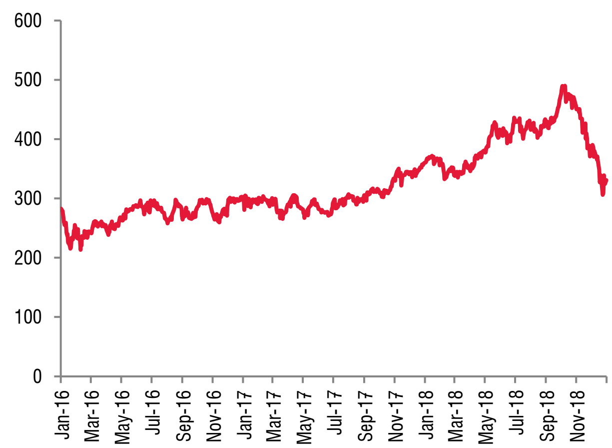
Higher gas price and shortage of gas. In 2018, the Singapore monthly fuel oil (FO) price averaged $397 USD/ton, +31% YoY, whose price is used to set the selling price of gas onwards to power plants. Most gas plants in Vietnam use the following formula to determine the gas price they take from PV Gas:

*Gas price = 46% * Monthly FO price + transportation tariff*

Thus, the FO price increase in 2018 directly affected gas-fired plants (like Nhon Trach 1, Nhon Trach 2…).

Also in 2H2018, the Southeastern Vietnam gas field started seeing a decrease in gas flow, reducing its supply to power plants in the region. Constrained gas supply resulted in a limitation on these plants from reaching max capacity at peak hours. The electricity price at these hours has also been much higher than at normal time.

380 CST Monthly FO Singapore price, USD/Metric



Source: Bloomberg

The beta trial for the Wholesale Electricity Market (VWEM) has succeeded. By of the end of 2018, 87 power plants joined the VWEM trial, totaling up to 23,000 MW, and accounting for 49.12% of total electricity capacity in Vietnam. VWEM is set up and implemented in order to increase competitiveness of the electricity market, by reducing the involvement of government authority (EVN) into the market. In VWEM, power plants (asking parties) will sell electricity to power companies (bidding parties) by means of bidding method. By 2018, three important requirements of VWEM were met: a completed legal system, trained human resources, and finished hardware and software infrastructure. While the trial has been successful, VWEM still faces challenges ahead in building a cross-compensation mechanism for power plant companies for a 2019 launch. This mechanism will allow low cost buyers (municipal power companies, for example) to compensate for high-cost buyers (for example, mountainous area power companies).

A renewable energy boom faces transmission capacity challenges. Renewable energy in Vietnam has expanded rapidly in 2018, with 100 solar power plants (total registered capacity of 4.7GW by 2020) and 748 solar rooftop projects (total registered capacity of 11MW). Wind electricity is encouraged by the price change averages from USD 7.8 cents/kWh to 8.5 cents/kWh for inland and 9.8 cents/kWh for offshore according to Decision No. 39/2018 / QD-TTg, effective from November 2018. The fast growth of renewable energy in 2018 meets the standards of the 2020 goal of renewable energy to account for 9.9% of total electricity produced (800MW from wind and 850MW from solar). However, this development faces challenges of limited transmission lines causing overloads, and non-automated power grids leading to wasted production power. Specifically, the long distance between solar power plants and high demand locations requires 220KV and 500KV power grids, both of which are currently in shortage.

2019 View

2019 Expected Sector Growth: 10-15% YoY

El Nino is forecasted for 1H 2019. According to the US National Oceanic and Atmosphere Administration (NOAA), the El Nino cycle formed in December 2018 will persist through June 2019, with a probability of decreasing from a 90% to 60% odds of occurrence. Forecasts then predict a switch to the neutral/La Nina cycle from July onwards. Rainfall volume in 2019 is expected to decrease, limiting production capacity of hydropower and allowing thermal power to become the dominant source of electricity in Vietnam.

El Nino will drive sector earnings growth, as most listed names are thermal plants. We expect the sector's earnings to be higher this year from the growth of POW (+35% YoY), NT2 (+36% YoY) and PPC (17.9% YoY).

IPOs of Genco 1 and 2 might attract investment allocation from listed players if successful. In 2019, EVN plans to hold IPOs of both Genco 1 and Genco 2. Both companies are of similar size as Genco 3, which has a charter capital of VND 1.26 trillion. The IPO size of these 2 companies have not been determined as of yet.

Retail electricity is expected to increase by 5% YoY from the beginning of 2019. According to government sources, there has been an approval for EVN to increase its electricity retail price by 5% YoY, after a period of it being unchanged in 2018 in order to control inflation.

2019 view: We placed an Overweight rating for the industry in 2019 based on the view that thermal power companies will benefit from rising demand in dry weather, leading to more volume at a higher market price. Hydropower companies will however likely slog through challenging business conditions. As most large cap companies on the market are thermal power plants (POW, NT2, PPC, PGV), the overall view for the sector is Overweight.

2020 Growth trend: 5-10%

We expect the industry to continue to grow thanks to Vietnam's expected annual demand growth of 10% YoY and limited supply in the short-term. However, El Nino in 2019 will set a high base in terms of both electricity demand and sales price basis for 2020 growth, so we expect a mild growth of 5-10% YoY in earnings for thermal power listed tickers.

Issues and risks

Gas supply drop is a potential risk. Southeastern gas fields like Nam Con Son, and White Tiger have witnessed a sharp and sudden decline in volume during 2018. We expect this to continue in the future, because these fields are closer to scraping the bottom of their final reserves. The Wild Orchard well adds to PV Gas supply from 2019, but this well can only last for 2 years. In the long-term, natural gas supply is a tantamount issue which can only be resolved by switching to imported LNG in 2022. In the meantime, gas supply is still facing the risk of reducing to a trickle at any time.

Best pick

PV Power Corporation Tiker: POW VN;

Price: VND 16,000

Target Price: VND 17,800

- Investment thesis: POW is the largest electricity producer on the HOSE in terms of market capitalization, with 97% of its capacity being thermal power. Thus, we expect it to be the beneficiary of El Nino weather in 2019, with high earnings growth of 35% YoY according to SSI Research estimate.
- Risks: The gas supply chain can be disrupted suddenly without warning, as discussed above.
- Growth Catalysts: POW earnings growth of 35% can be a good catalyst to spark the stock price into a rise. Another catalyst can be the addition of POW into the VN30 index, which is tracked by various index funds. The inclusion into the index could happen in Q2 2019 (6 months after listing).

Best pick in Electricity: POW VN

Market cap (USD mn)	1,617
Average 3M value (USD mn)	1,03
Foreign ownership (%)	14.8%
2019 PE/PB	14.3x/1.3x
2019 EPS growth (%)	35.3%
Dividend yield (%)	3.8%
2019 ROE (%)	9.6%

Source: Bloomberg, SSI Research

Best pick in Electricity: POW VN

Source: Bloomberg

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Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

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SAIGON SECURITIES INC.
Member of the Ho Chi Minh Stock Exchange, Regulated by the State Securities Commission

HO CHI MINH CITY
Floor 18th, Office Tower 2, Saigon Centre, 67 Le Loi Street, Ben Nghe Ward, District 1, Ho Chi Minh City
Tel: (84-28) 3636 3688
Fax: (84-28) 3636 3668
Email: info@ssi.com.vn

HANOI
1C Ngo Quyen Street, Ha Noi City
Tel: (84-24) 3936 6321
Fax: (84-24) 3936 6311
Email: info@ssi.com.vn

4. CONTACT INFORMATION

Phuong Hoang	Deputy Managing Director	Strategy	409	phuonghv@ssi.com.vn
Hung Pham	Associate Director	Macro	637	hungpl@ssi.com.vn
Giang Nguyen, ACCA	Associate Director	Equity Research	430	giangntt@ssi.com.vn
Trang Pham	Research Manager	Consumer Goods & Services, Oil & Gas	537	trangph@ssi.com.vn
Linh Nguyen	Research Manager	Fixed income & Banking	679	linhntt1@ssi.com.vn
Anh Dinh	Senior Analyst	Real Estate	670	anhdtm@ssi.com.vn
Giang Hoang Nguyen, CFA	Senior Analyst	Transportation & Logistics	676	giangnh@ssi.com.vn
Nga Nguyen	Analyst	Fertilizer, Sugar, Natural rubber	124*	ngantp@ssi.com.vn
Chau Dao, CFA	Senior Analyst	Steel, Cement	624	chaudm@ssi.com.vn
Huy Nguyen, CFA	Senior Analyst	Banking	680	huynd1@ssi.com.vn
Ny Nguyen	Senior Analyst	Real Estate	125*	nyntn@ssi.com.vn
Bao Doan, CFA	Analyst	Real Estate & Construction	123*	baodv@ssi.com.vn
Phuong Nguyen	Analyst	Consumer	688	phuongnt1@ssi.com.vn
Anh La	Analyst	Banking, Fisheries	126*	anhlc1@ssi.com.vn
Trang Tran, ACA	Analyst	Consumer	688	trangtt2@ssi.com.vn
Viet Luong	Team Assistant		775	vietlt@ssi.com.vn

Those extension with (*) please dial (84-28) 3 636 3688
Those extension without (*) please dial (84-24) 3 936 6321

SAIGON SECURITIES INC.
Member of the Ho Chi Minh Stock Exchange, Regulated by the State Securities Commission

HO CHI MINH CITY
Floor 18th, Office Tower 2, Saigon Centre, 67 Le Loi Street, Ben Nghe Ward, District 1, Ho Chi Minh City
Tel: (84-28) 3636 3688
Fax: (84-28) 3636 3668
Email: info@ssi.com.vn

HANOI
1C Ngo Quyen Street, Ha Noi City
Tel: (84-24) 3936 6321
Fax: (84-24) 3936 6311
Email: info@ssi.com.vn