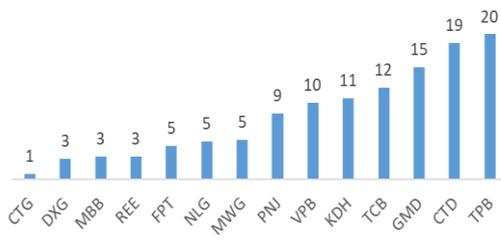


Days of turnover (based on 1m ADT) assuming US\$100 million in ETF inflows



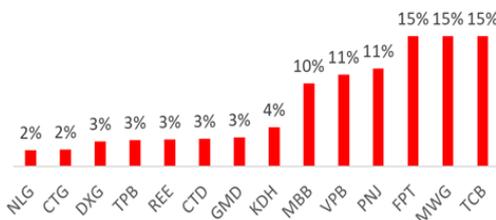
What's new?

- ▶ We screen for the possible liquidity impact of flows into constituents of the VN Diamond Index.
- ▶ The impact appears most meaningful for TPB, CTD, GMD, TCB, and KDH based on the stocks' trailing ADT.
- ▶ For example, we reckon US\$100m in VN Diamond ETF inflows would result in purchasing of TPB, equivalent to 19.6 days of turnover.

Market outlook

- ▶ We expect a seasonal rally around the Tet holidays in late January to be supported by the possible 1Q20 listing of the VN Diamond ETF.
- ▶ The market is postulating Jan as a possible time for the Diamond ETF (aka "FOL ETF") but we think it won't happen until after the holidays.
- ▶ 2020 VNI peak target: 1000.

Estimated VN Diamond Index Weightings



FOLs & Money: The Diamond Edition

Diamond ETF to shine in 2020. The VN Diamond Index of full-FOL or nearly full-FOL stocks was officially announced by HOSE in Nov 2019 but the ETF has not yet been launched. Market chatter is for a January entrance for this product, but we suspect it will be later than that given the early Tet holidays. Regardless, the constituent shares have already rallied (and faded) on domestic investor opportunism. Consensus expectations are currently cautious, but this could change quickly. We believe that the product will attract reasonably strong interest from foreign investors seeking exposure to the full-FOL names.

Knowns & unknowns. We know the index components (see the table at left) but not much else. The weightings in this report are estimates based on the stocks' free float market capitalizations adjusted for the 15% cap on single stocks and 40% cap on single industries. Without these caps, the banks would account for 52% of the index. As for the potential inflows, estimates that have run as high as US\$500m appear overly stretched—we think assuming US\$50-100m is more reasonable for now.

Screening for the liquidity impact. Having deduced that capital flows into low-volume stocks tend to drive share prices up, we ran a screen to estimate the number of days of turnover that a range of possible inflows would represent for each VN Diamond component. Based on our index weighting estimates, the impact appears most meaningful for TPB, CTD, GMD, TCB, and KDH based on the stocks' recent daily turnover.

Domestic investors may start buying these names (again) in the run-up to the ETF's launch. It may be cold comfort to those of us who can't participate yet, but we suspect that fund managers who hold these full-FOL names can look forward to solid performance results in 1Q20.

4Q19: Stick a fork in it. We see no need to belabor the point, but suffice to say that our contrarian call for [a rally in 4Q19](#) has not worked out.

But we believe the market should rally in 1Q20, in part as a seasonal phenomenon but also with potentially extra liquidity for the VN Diamond constituents, from both "early" local punters and later from the ETF itself. We are more cautious on the overall outlook for the remainder of 2020.

Top picks: VHM in property; STB as a longer-term turnaround play in the banks; POW as a proxy on energy demand; and HCM as a long-term play on the development of Vietnam's capital markets—or as a hedge if you're underweight the market ahead of our expected 1Q20 rally.

VN Diamond Index Constituents

	HOSE Free float	Free float	mkt cap (USD m)	1m trailing ADT (USD K)
NLG	55%		181	362
CTG	8%		1,159	2,679
DXG	75%		288	1,022
TPB	55%		403	155
REE	55%		274	995
CTD	55%		140	170
GMD	85%		249	219
KDH	60%		474	406
MBB	60%		1,666	3,066
VPB	70%		1,473	1,014
PNJ	80%		582	1,259
FPT	80%		1,271	3,271
MWG	65%		2,003	2,778
TCB	65%		2,785	1,211

Source: HOSE, Bloomberg, Yuanta Vietnam

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FOLs and Money: The Diamond Edition

Men grow cold as girls grow old, and we all lose our charms in the end. But square cut or pear shaped, these rocks don't lose their shape. Diamonds are a girl's best friend.

- Marilyn Monroe (1953)

Vietnam Diamond ETF: A fund that will buy full-FOL and nearly full-FOL shares.

Diamond ETF to shine in 2020. The VN Diamond Index of full-FOL or nearly full-FOL stocks was officially announced by HOSE in November, but the ETF (to be operated by VFM) has not yet been launched. Market chatter is for a January entrance for this product, but we suspect it will be later than that given the early Tet holidays. The relevant shares have already rallied (and faded) on domestic investor opportunism. Expectations are currently on the south side of the bipolar spectrum, but we still believe that the product will attract reasonably strong interest from foreign investors seeking exposure to the full-FOL names.

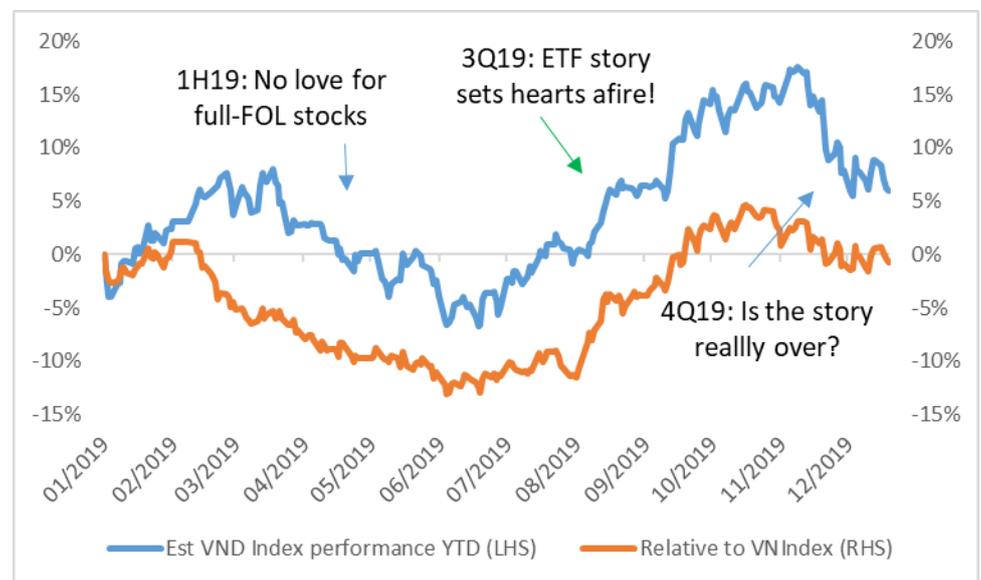
Knowns & unknowns. We know the index components, which were announced by the Ho Chi Minh City stock exchange in November—but not much else.

Specifically, we don't know the timing of the ETF's launch (as mentioned above, we think it probably won't be until after Tet), the official weightings for the stocks, the cash inflows that the fund will attract, the timing of those fund inflows, or the forward ADT of the index components.

Thus, the analysis in this report is based on a range of estimates and is thus very subject to the risk of being wrong. However, market logic dictates that large cash purchases of low-volume stocks tend to push share prices higher, which is relevant for the index constituents after the ETF is listed.

In addition, we expect domestic retail punters to drive at least one more rally in these names prior to the ETF's launch.

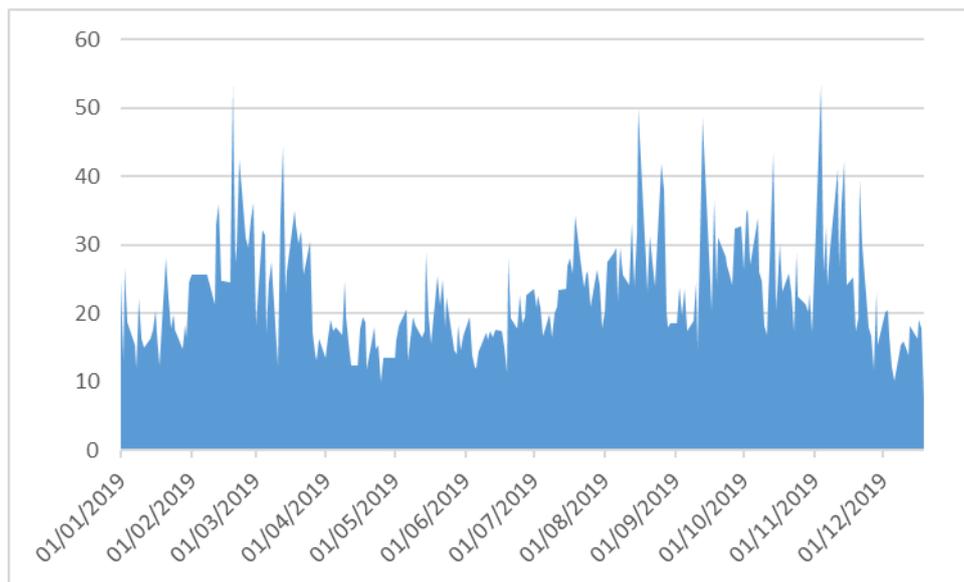
Fig 1: Vietnam Diamond Index* YTD performance



*Note: The data depicted in this chart is based on our estimated weightings for the Vietnam Diamond Index.

Source: HOSE, Bloomberg, Yuanta Vietnam

Fig 2: VN Diamond Index constituents: Total turnover (US\$ million)

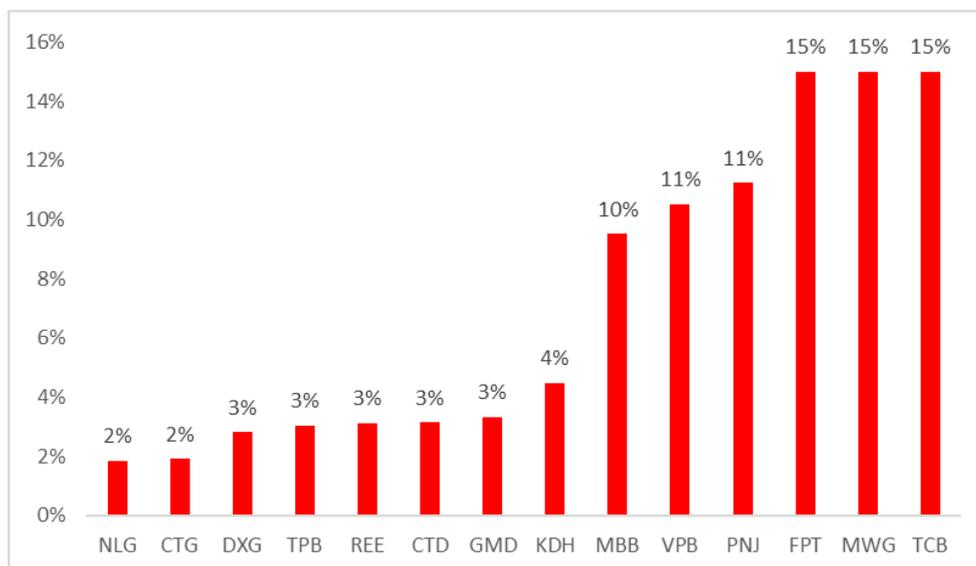


Source: HOSE, Bloomberg

We have estimated the index weightings for the 14 constituent stocks.

For the index weightings, we rely on our internal estimates which are based on the stocks' free float market capitalizations adjusted for the 15% cap on single stocks and 40% cap on single industries. Interestingly, without these single-stock and single-industry caps, the five bank constituents would account for a combined 52% weighting in the VN Diamond Index. In our view, this highlights the FOL cap's influence on the banking sector, which is clearly a very capital hungry industry (please see [CAMELS: The good, the bad, and the chronically mispriced](#)).

Fig 3: Vietnam Diamond Index: Estimated constituent weightings



Source: HOSE, Bloomberg, Yuanta Research

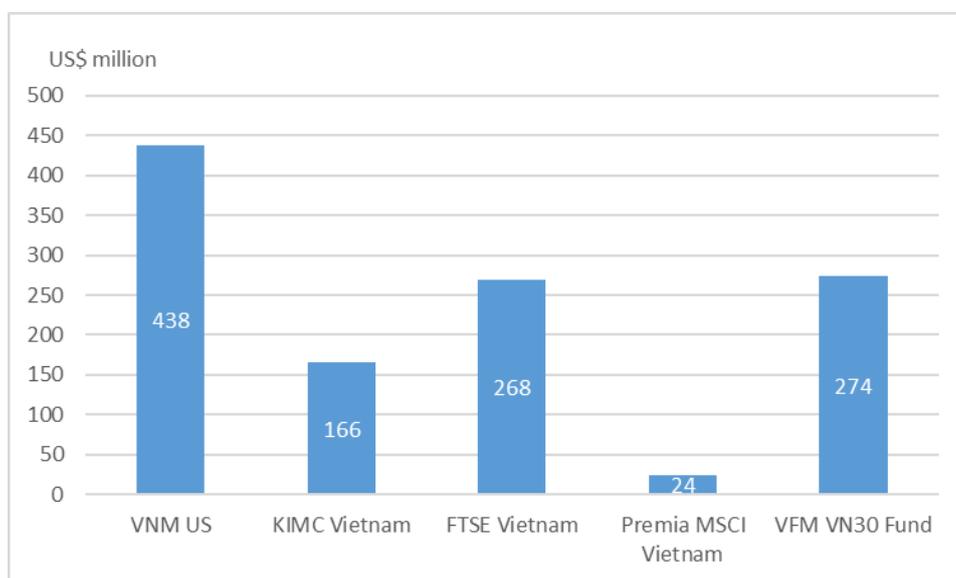
We apply US\$50-100 million in fund inflows when gauging the share liquidity impact.

We have seen estimates of the potential inflows into the ETF running as high as US\$500m, although presumably the bullish prognosticators don't expect such levels of inflows to enter the market immediately after the ETF is launched. For the sake of this report, we think US\$50-100m is a more reasonable guess given that 1) we are consciously not trying to inflate expectations and 2) US\$500m would be almost half the AUMs of the five Vietnam-focused ETFs that are already in operation.

According to Bloomberg, the combined AUMs of the five Vietnam-focused ETFs is currently approximately USD1.2bn. More specifically, the VFM VN30 ETF, which is

operated by the same asset manager that will launch the Vietnam Diamond ETF and which has established offshore funding channels in other Asian countries (e.g., Korea and Thailand), currently has US\$274 million in total AUMs. We can't say that US\$500m is an impossible figure, but assuming that the new product will attract double the AUMs of the existing ETF would be a stretch, in our opinion.

Fig 4: Current Vietnam ETF AUMs total US\$ 1.2 billion



Source: Bloomberg

Thus, the two screens below present the liquidity impact on the VN Diamond Index components based on total AUMs for the new ETF of US\$50m and US\$100m. Fortunately, the math is linear, so believers in the bull case guess of US\$500m in AUMs can simply tack on a zero (i.e., multiply the numbers by 10) to the days-of-trading calculations based presented in Fig. 7, which is based on the assumption of US\$50m in fund inflows to the VN Diamond ETF).

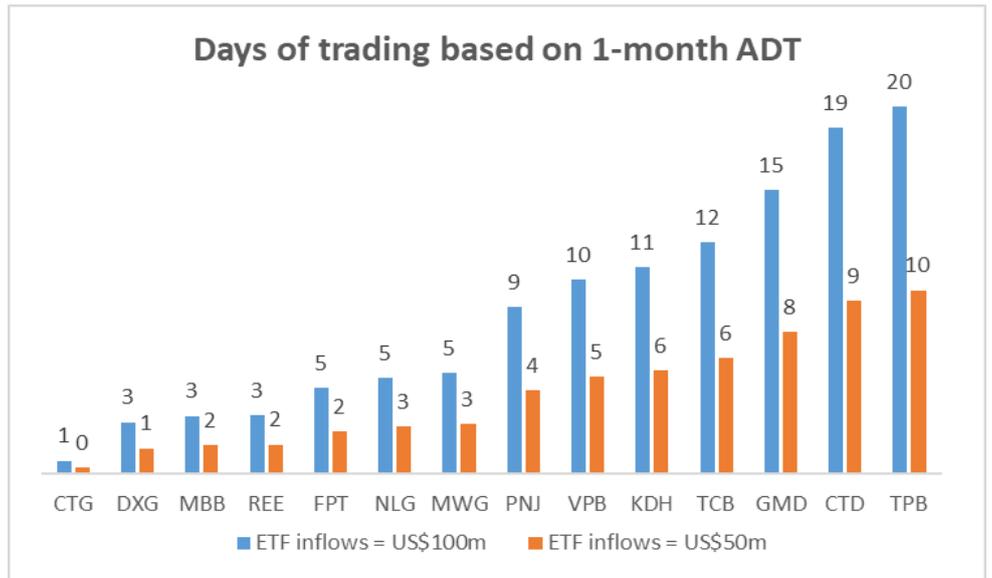
Capital inflows into the VN Diamond Index constituents could drive the share prices higher (again) in 1Q20.

Screening for the liquidity impact of the ETF. On the inference that capital flows into low-volume stocks tends to drive share prices up more sharply than they do in higher-volume stocks, we ran a screen to gauge the share price impact of the VN Diamond ETF on its constituent members. Using our estimated index weightings, we estimated the number of days of recent daily turnover that the fund flows would represent for each VN Diamond component.

As noted previously, based on our index weighting estimates, the impact appears most meaningful for TPB, CTD, GMD, TCB, and KDH based on the stocks' 1-month ADT. For example, we estimate that inflows of US\$100m into the ETF would translate into an allocation of US\$3.0 for TPB, which represents almost 20 days of 1-month trailing ADT (see Fig 5 and Fig 8).

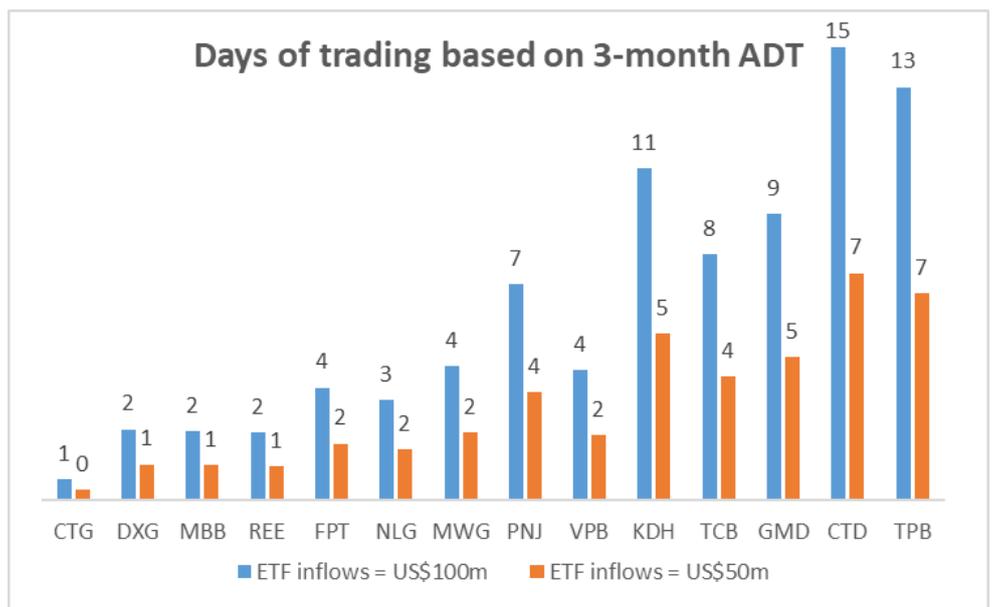
Of course, turnover is volatile, and it has been even more volatile in these names since the VN Diamond ETF entered the scene. Thus, we present the number of trading days on a 1-month, 3-month, and 6-month lagging basis in the figures below.

Fig 5: Number of days required to absorb possible ETF inflows based on 1-month daily turnover



Source: Bloomberg, HOSE, Yuanta Research

Fig 6: Number of days required to absorb possible ETF inflows based on 3-month daily turnover



Source: Bloomberg, HOSE, Yuanta Research

Fig 7: Stock liquidity impact of US\$50 million of fund inflows into the VN Diamond ETF

	Inflows ETF (USD m)	%ge of BBG free float	%ge of HOSE free float	Days of ADT (1-month)	Days of ADT (3-month)	Days of ADT (6-month)
TPB	1.5	0.4%	0.4%	9.8	6.7	5.5
CTD	1.6	1.1%	1.4%	9.3	7.4	4.8
GMD	1.7	0.7%	0.6%	7.6	4.7	3.1
TCB	7.5	0.3%	0.3%	6.2	4.0	3.9
KDH	2.2	0.5%	0.6%	5.5	5.4	6.4
VPB	5.3	0.4%	0.4%	5.2	2.1	2.7
PNJ	5.6	1.0%	0.9%	4.5	3.5	3.0
MWG	7.5	0.4%	0.5%	2.7	2.2	2.0
NLG	0.9	0.5%	0.6%	2.6	1.6	1.1
FPT	7.5	0.6%	0.6%	2.3	1.8	2.0
REE	1.6	0.6%	0.6%	1.6	1.1	1.1
MBB	4.8	0.3%	0.4%	1.6	1.1	1.2
DXG	1.4	0.5%	0.6%	1.4	1.2	1.3
CTG	1.0	0.1%	0.4%	0.4	0.3	0.4

Source: Bloomberg, HOSE, Yuanta Research

Fig 8: Stock liquidity impact of US\$100 million of fund inflows into the VN Diamond ETF

	Inflows ETF (USD m)	%ge of BBG free float	%ge of HOSE free float	Days of ADT (1-month)	Days of ADT (3-month)	Days of ADT (6-month)
TPB	3.0	0.8%	0.7%	19.6	13.5	11.0
CTD	3.1	2.3%	2.8%	18.5	14.8	9.6
GMD	3.3	1.3%	1.3%	15.2	9.3	6.1
TCB	15.0	0.5%	0.7%	12.4	8.0	7.8
KDH	4.5	0.9%	1.2%	11.0	10.8	12.9
VPB	10.5	0.7%	0.7%	10.4	4.2	5.4
PNJ	11.2	1.9%	1.7%	8.9	7.1	6.1
MWG	15.0	0.7%	1.1%	5.4	4.4	4.0
NLG	1.9	1.0%	1.2%	5.1	3.3	2.2
FPT	15.0	1.2%	1.1%	4.6	3.7	3.9
REE	3.1	1.1%	1.2%	3.1	2.2	2.3
MBB	9.5	0.6%	0.7%	3.1	2.3	2.4
DXG	2.8	1.0%	1.2%	2.8	2.3	2.6
CTG	1.9	0.2%	0.7%	0.7	0.7	0.7

Source: Bloomberg, HOSE, Yuanta Research

Full-FOL shares haven't been our favorites, but maybe we have been wrong...

Risks to our "FOLs and money" commentary. Our cautious stance against full-FOL stocks, which is also based entirely on technical factors related to market liquidity, may no longer be applicable going forward. Please see our April strategy note "[Of FOLs and money](#)", our follow-up report of July titled "[Is the market FOL efficient?](#)", and our more focused bank sector report titled "[CAMEL Analysis: The good, the bad, and the chronically mispriced](#)" for details.

It is possible that the "domestic market" prices of full-FOL stocks (i.e., the price that a Vietnam investor pays to buy them on the exchange) will be pushed up to the "foreign market" prices (i.e., the premium price that a FINI must pay to acquire FOL shares from an existing FINI shareholder or from the company itself in an off-exchange transaction) due to ETF inflows, but we do not expect full convergence from this product alone.

We still think that NVDRs offer greater potential to drive price convergence in the full-FOL names.

We think that the non-voting depository receipt (NVDR) system is a superior means of driving convergence assuming a Thailand-style structure for the NVDR system. This is because FINIs could purchase individual NVDRs at the exchange-traded market price rather than investing into a basket with a Vietnam-domiciled fund manager. However, this could be a story for 2021-22.

Top picks for a 1Q20 rally

Full-FOL shares will probably be in focus in 1Q20. But unless you own them already, it's tough for a FINI to participate.

Our top picks are all "open-FOL" stocks.

Property: VHM. We continue to like VHM in the property space given its undeniable dominance in the market and its shift in its recently mega-project launches toward greater product affordability – where we think market demand is likely to be more sustainable in the years ahead.

Banks: VCB. For longer term investors, we revert to our recommended “banks barbell” with a core position in VCB and a separate position in STB as a longer term turnaround play. Among the full-FOL names, MBB is a high quality bank that trades well below its fair value, but foreign investors can't buy it at its market value and we hesitate to recommend off-exchange transactions as top picks.

Energy: POW. The combination of an undersupplied and market liberalization will be the support of long term selling price for energy companies. POW plans to capture the undersupplied market by expanding its installed capacity by at least 33% via two additional gas-fired thermal power projects, which we expect to be operational by 2023. Reduced depreciation in 2020 could be a short term catalyst. Please see our recent initiation report [here](#).

Don't forget the brokers: HCM is our top pick among the brokers. Brokers trade as market proxies and thus are likely to outperform if our call for a rally to 1100 in 4Q19 is correct. We certainly recognize that not everyone will agree with a bullish view on the market in the current environment. Such investors might still consider holding HCM as a dividend-paying hedge against defensive/underweight allocations, because it's just possible that we may be right.

Yuanta Vietnam Coverage Universe										
Sector	Company	Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	Up (down) side	2019E Dividend yield	12-m TSR*
Banks	BIDV	BID VN	7,324	1.6	Hold-Outperform	42,200	38,713	-8%	2.1%	-6%
	HD Bank	HDB VN	1,109	2.2	Hold-Underperform	26,200	30,970	18%	0.0%	18%
	MB Bank	MBB VN	2,077	4.2	BUY	20,700	29,880	44%	3.4%	48%
	Sacombank	STB VN	773	1.6	BUY	9,930	14,049	41%	0.0%	41%
	Vietcombank	VCB VN	14,084	2.7	BUY	88,000	92,035	5%	1.1%	6%
Brokers	HCM City Securities	HCM VN	281	1.1	BUY	21,300	29,931	41%	4.5%	45%
	Saigon Securities	SSI VN	397	1.6	Hold-Underperform	18,100	23,525	30%	5.3%	35%
	Viet Capital Securities	VCI VN	213	0.1	Hold-Outperform	30,000	32,437	8%	4.1%	12%
	VNDirect Securities	VND VN	131	0.2	BUY	14,550	13,231	-9%	4.1%	-5%
Energy	PV POW	POW VN	1,258	1.0	BUY	12,450	17,457	40%	2.4%	43%
	PV NT2	NT2 VN	277	0.3	Hold-Outperform	22,300	29,195	31%	9.0%	40%
Consumer	Masan Group	MSN VN	2,805	2.3	BUY	55,600	84,143	51%	0.0%	51%
	Phu Nhuan Jewelry	PNJ VN	783	1.6	Hold-Underperform	81,500	86,300	6%	2.5%	8%
	Digiworld	DGW VN	41	0.7	Hold-Outperform	22,700	31,574	39%	5.2%	44%
Oil & GAS	PV Drilling	PVD VN	276	1.2	BUY	15,200	19,896	31%	0.0%	31%
Property	Nam Long	NLG VN	286	0.6	BUY	26,500	36,400	37%	1.9%	39%
	Novaland	NVL VN	2,281	1.0	Hold-Ourperform	55,700	65,073	17%	0.0%	17%
	Khang Dien	KDH VN	618	0.4	BUY	26,300	31,081	18%	1.9%	20%
	Vinhomes	VHM VN	11,909	5.0	BUY	83,900	94,862	13%	1.2%	14%
Transport	Airports Corp Vietnam	ACV VN	7,055	0.2	Hold-Underperform	75,100	76,400	2%	1.2%	3%

*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends.

Pricing data as of close on Dec 19, 2019.

Source: Bloomberg, Yuanta Vietnam

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