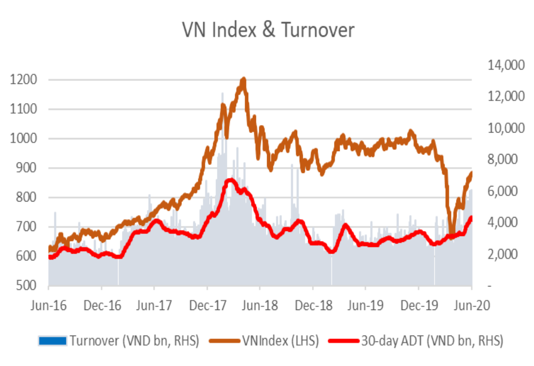
Country Outlook: Tiger in the Making II

5 June 2020



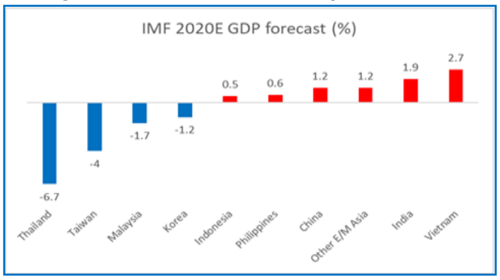
What's new?

- COVID-19 and the US-China trade war have created a demand shock.
- But demographics, urbanization, and increased wealth are incredibly strong long-term drivers.
- FDI has fallen YTD, but will recover to new heights as manufacturers seek diversification from China.
- But… Emerging markets Index inclusion is still probably a few years away.

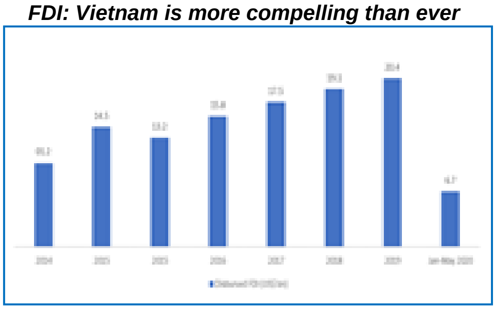
Market outlook

- Vietnam remains an attractive investment destination.
- The VNI has rallied 34% since the panic in March to just under 900 despite persistent foreign net selling.
- Our 2020 VNI target: 1000 points. But stock selection is crucial in Vietnam.
- Investors should focus on quality companies and think long term rather than trying to time the market.

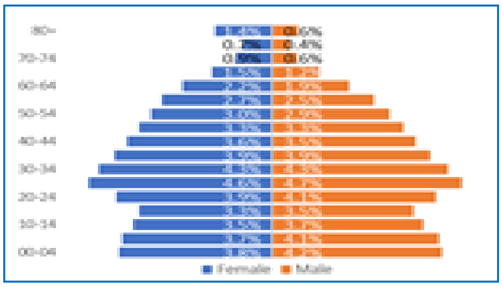
GDP growth to slow but remain positive in 2020



FDI: Vietnam is more compelling than ever



Demographic dividend to continue



Sources: World Bank, IMF, Bloomberg, FIINPro, Yuanta Vietnam

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Structural growth story is intact

The key thematic drivers of the Vietnam investment opportunity are still in place, in our view. Our 2019 report titled "*A Tiger in the Making*" presented four broad themes that support a highly positive long-term country outlook. But this was long before COVID-19 and the resulting economic shutdowns and political fallout sent the global economy—and possibly globalization itself—into a metaphorical ditch.

Investors are now wondering if the structural fundamentals have shifted. In our view, they have not. Of course, the short term global and regional impact negative, but Vietnam is one of the few national that is still likely to post positive GDP growth in 2020. We also expect a sharper-than-average recovery in 2021E. This is after revisiting the four key arguments of our thesis to determine whether they remain valid:

1) Surging foreign direct investment to transform Vietnam into the world's next manufacturing export powerhouse. Despite a YTD decline in FDI, we believe that COVID actually supports this story given Vietnam's successful response and the wider geopolitical fallout.

2) Multi-decade demographic dividend from Vietnam's young, well-educated, and dynamic population. No change here – demographic momentum is incredibly powerful and not easy to shift.

3) Rapid urbanization and middle class growth. COVID has been a setback for wealth creation, but this is temporary rather than structural.

4) MSCI Emerging Markets Index inclusion may require patience. Limits on foreign ownership remain the core issue, not the disease or geopolitics. Although foreign investors have been persistent net sellers, we think this will reverse given the country's strong growth outlook.

We remain bulls on Vietnam and continue to view it as an attractive long-term investment opportunity. However, stock selection is key, as ultimately high-quality companies tend to outperform the overall market. This is especially true in 2020 given the extremely limited visibility on global macroeconomic outcomes. Thus, we recommend focusing on stocks with strong balance sheets, high-quality management teams, solid cash flow, and preferably a domestic focus.

Our top picks are VCB, VHM, KDH, and HCM – all of which are easy for foreign investors to buy and hold. Several other names are outside our official coverage universe but also tick the "quality" box, including VNM, HPG, and FPT.

Vietnam: Stronger for Longer

Structural growth story is intact

Revisiting the arguments underlying our long-term positive country outlook in light of the 2020 pandemic.

Our report published last year titled "*A Tiger in the Making*" (**中文版**) outlined our highly confident outlook on Vietnam in the years ahead. The report presented four broad themes that help support Vietnam as a compelling investment opportunity – perhaps the last of Asia's Tiger Economies to emerge from history.

But this was long before long before the COVID-19 pandemic and the resulting social lockdowns, business closures, and the resulting geopolitical fallout sent the global economy—if not globalization itself—into a metaphorical ditch.

Many investors are now wondering if Vietnam's growth story is no longer so compelling. In our view, the structural fundamentals have not shifted despite the obvious headwinds that exist in 2020. The structural story remains positive given that

- Vietnam's handling of the pandemic has been extremely successful,
- Vietnam is now even more compelling as a manufacturing base than it was previously, and
- Vietnam is one of the few countries in the region that is likely to post positive growth in 2020, and we believe its recovery next year will be much stronger than most countries in 2021.

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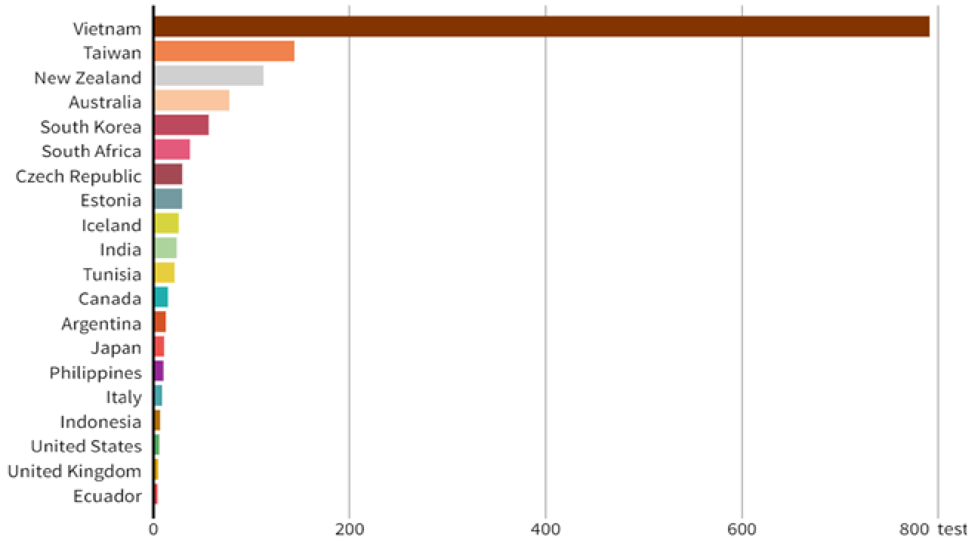
Vietnam's handling of the COVID-19 pandemic has been extremely successful. As of May 31, there were 328 confirmed cases of whom 279 had recovered, 49 were still active, and zero had died. Local transmission of the virus has not occurred for the past 45 days (i.e., all cases diagnosed since April were imported). Meanwhile, approximately 7,900 persons remain under quarantine, which is a mandatory requirement for all international arrivals.

A reasonable observer might ask whether these officially promulgated numbers are true. Based on our observations and discussions with others, we believe that these statistics accurately depict the situation as it exists on the ground. Of course, a secondary outbreak may still occur, but we have been very positively impressed by the successful (so far) containment of COVID in Vietnam. Domestic restrictions have largely eased, and our understanding is that discussions are now underway to ease the restrictions on international business travel (and possibly highly controlled tourism).

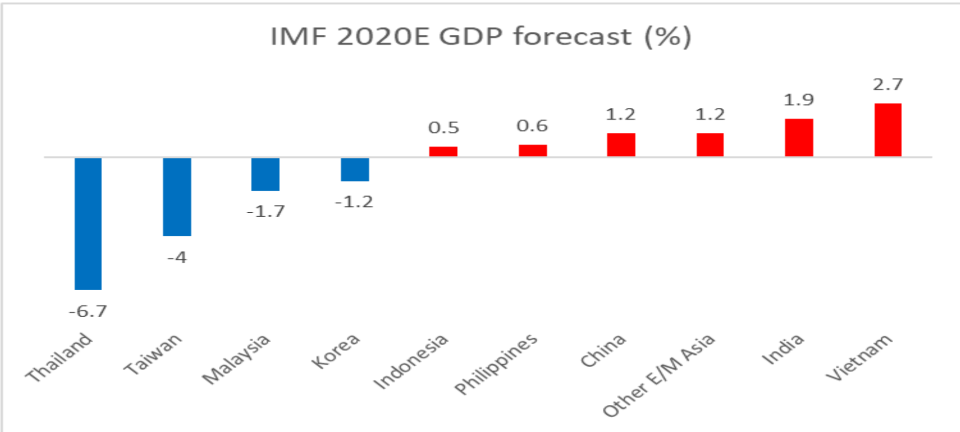
Fig 1: A case study in COVID control: Number of tests administered per confirmed case (data as of April)



Source: Reuters (data is from late April)

Vietnam is also one of the few nations that is still likely to post positive GDP growth in 2020. As illustrated in Figure 1, the International Monetary Fund (IMF) forecasts GDP growth of 2.7% for Vietnam this year. We believe this to be a reasonable estimate. The official government target of 5% GDP growth is likely to be extremely difficult to achieve in the midst of a widespread global depression. We also expect a sharper-than-average recovery in 2021E as Vietnam's growth continues to exceed that of the regional average.

Fig 2: GDP growth will certainly slow in 2020, but Vietnam should still outperform the region



Source: International Monetary Fund, Yuanta Vietnam

COVID-19 has not destroyed the Vietnam story

We have revisited the four key pillars of our bullish thesis published last year to examine whether they are still valid in light of COVID-19 (which was obviously not incorporated into our expectations a year ago) and simultaneous geopolitical tensions (which also existed a year ago, but which have been exacerbated by the pandemic).

Q: Has COVID-19 and its economic and geopolitical effects destroyed the positive long term case for Vietnam?

A: Nope.

In summary, COVID-19 and its surrounding impact fails to dent our confidence in any of these drivers. To be more specific,

- **I) Our confidence is higher than ever in Vietnam's position as a beneficiary of manufacturing diversification away from China**;
- **II) The pandemic has zero impact on the demographic dividend that Vietnam will continue to enjoy for another decade**,
- **III) We think that urbanization and middle class growth is also not affected beyond the very short term**, and
- **IV) Vietnam's inclusion in the emerging markets indexes may not occur as soon as we had hoped**, for reasons that have nothing to do with the pandemic or geopolitics.

We present details to support these conclusions in the following sections.

Theme I: Vietnam as a magnet for foreign direct investment (FDI)

The case for Vietnam as an FDI destination is even stronger now than it was before the pandemic.

Surging foreign direct investment in recent years has been driving Vietnam Inc. as the world's next manufacturing export powerhouse. Although registered FDI fell by 17% YoY in Jan-May 2020, we see this decline as a short-term phenomenon driven by macro uncertainty and travel restrictions. In contrast to the short-term negative impact, we believe the underlying trend of increased FDI is supported by Vietnam's successful handling of the crisis (which has rightly boosted confidence in national governance) and also by the political fallout from COVID-19 (which compels firms to migrate a portion if not all of their manufacturing capacity away from China).

In our view, Vietnam is even more compelling as a manufacturing base now than it was previously given that —

a) **The business rationale for a diversified manufacturing base is now stronger than ever**. This is underlined by the initial supply shock caused by strict lockdowns in response to the initial outbreak in Wuhan, China. This demonstrated the previously obscured fragility of global supply chains created by overconcentration in a single market. Rational economic actors have determined that a more diversified manufacturing base is required for business sustainability. Of course, the cost imperative has resulted in manufacturers shifting to lower cost markets such as Vietnam for the past several years: Chinese labor is not as cheap as it once was.

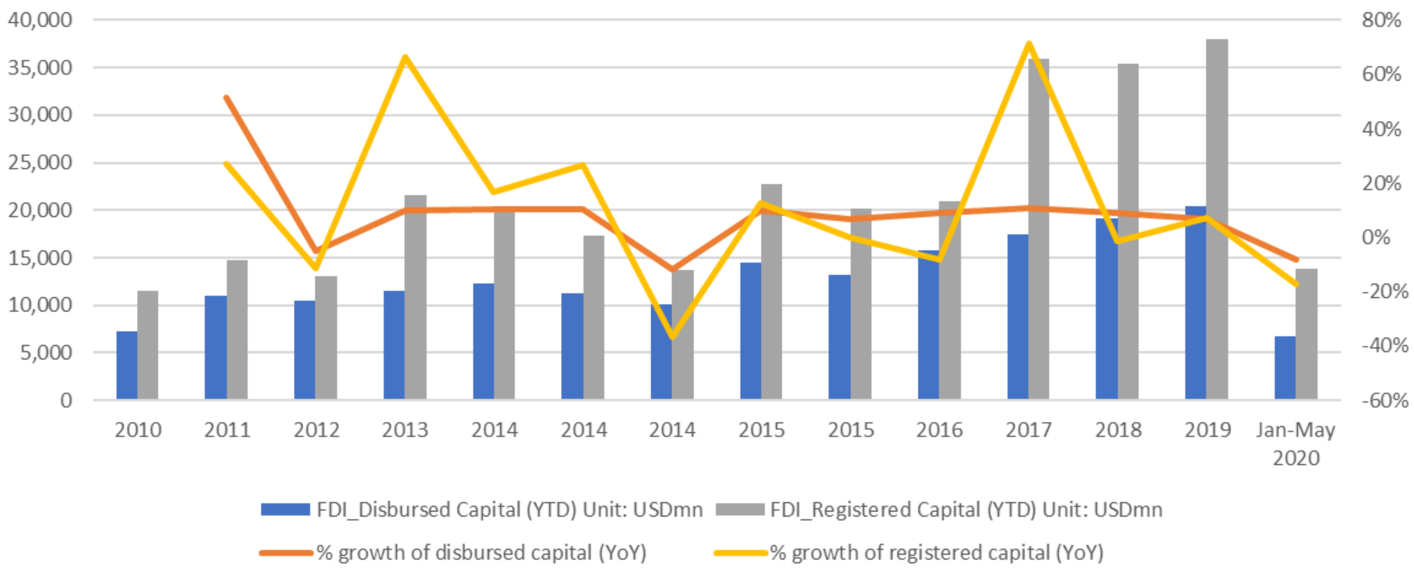
b) **The geopolitical rationale for migrating manufacturing away from China is also stronger than ever**. Unfortunately, US-China relations appear to be a one-way street heading down a steep hill. In our view, this is an historical trend that is extremely unlikely to reverse course, regardless of who wins the US presidential election in November. But arguments that "nobody wins" a trade war / cold war conflict are overly simplistic. Vietnam can't possibly replace China as the world's factory, but it certainly can enjoy a larger piece of what will probably be a smaller global pie.

c) **Confidence in Vietnam's governance** has been boosted by the successful response to COVID and an open mindset among the authorities toward addressing the concerns of foreign direct investors. This is not to argue that direct investors don't encounter problems with administrative and operational bottlenecks (they do). Nor are we suggesting that Vietnam can replace China (it can't). But it can still benefit from multinational manufacturer migration/diversification away from China, and we strongly believe that it will do so in the years ahead.

Foreign direct investment has been surging for the past decade, initially due to labor costs and more recently as a result of the US-China trade tensions**.** Registered FDI posted CAGR of 13% from 2010 to 2019, when it reached US$38.0 billion, while disbursed FDI saw 11% over the same period to peak at US$20.4 billion last year.

The economic impact of COVID-19 has resulted in a decline in FDI so far this year, however. We think this is partially due to the murky economic outlook and balance sheet damage that global manufacturers have experienced during the one-two punch of the supply shock (from China's shutdown) followed by an ongoing demand shock (from the recession/depression in end markets). As a result, registered FDI in the first five months of 2020 totaled just US$13.9bn, a -17% YoY decline, while disbursed FDI was just US$6.7bn, a smaller decrease of -8% YoY. We don't expect FDI to regain its growth momentum until restrictions on international travel have been eased, and it appears likely that the full-year FDI figures will represent substantial annual declines for the first time since 2014.

Fig 3: Foreign direct investment (FDI) has hit a speed bump, but the longer term trend (11-13% CAGR) remains positive



Source: FiinPro, Yuanta Vietnam

Theme II: The demographic dividend

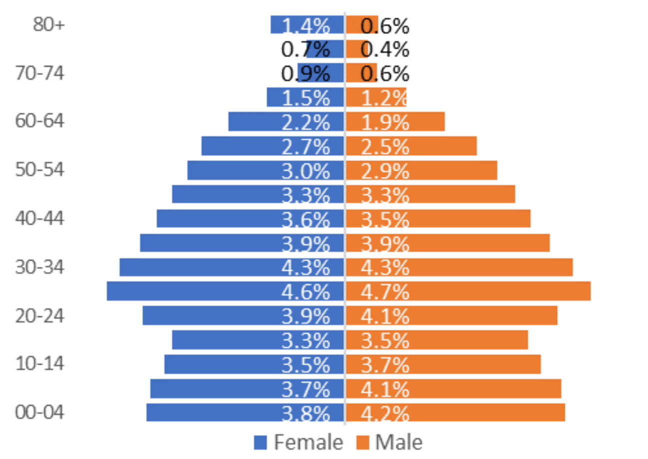
A multi-decade demographic dividend from Vietnam's young, well-educated, and dynamic population is another core pillar of Vietnam's bullish structural story as outlined in last year's report. We see no reason whatsoever to change this view regardless of COVID-19. it represents the most compelling driver of Vietnam's investment appeal, in our view.

Demographics are incredibly powerful and demographic momentum, whether positive or negative, cannot be easily shifted. Vietnam's positive demographic outlook is a sharp contrast to that of more developed countries, especially those in more developed northeast Asian countries. Japan is the most obvious example, but Taiwan, Korea, and China also face demographic challenges with no easy solutions.

In truth, Vietnam's demographic dividend has been paying out since roughly 2010 and this is set to persist for another two decades. Vietnam's current population is over 96 million, the 15th largest in the world according to the World Bank. The population is starting to age but is still relatively young, with a median age of 30.9 years. Currently, c. 70% of the population falls within the working-age bracket.

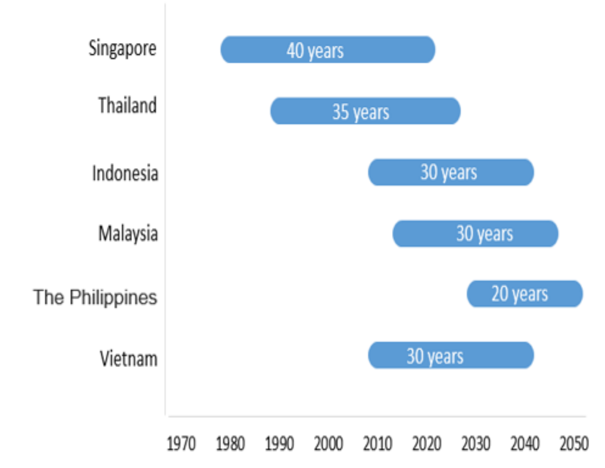
During this period, a relatively low (albeit rising) dependency ratio amidst increased urbanization and rising wealth bode well for economic growth and domestic demand overall, and the property market in particular. Not only are incomes on the rise, but the demographic pyramid's shape suggests that public social expenditures (i.e., elderly health care services and pensions) should be relatively low for another 20 years. The government can thus make use of available resources to foster job creation and to improve the national infrastructure during this period.

Fig 4: Vietnam Population Pyramid in 2018



Source: World Bank, Yuanta Vietnam

Fig 5: Demographic dividend periods for ASEAN countries

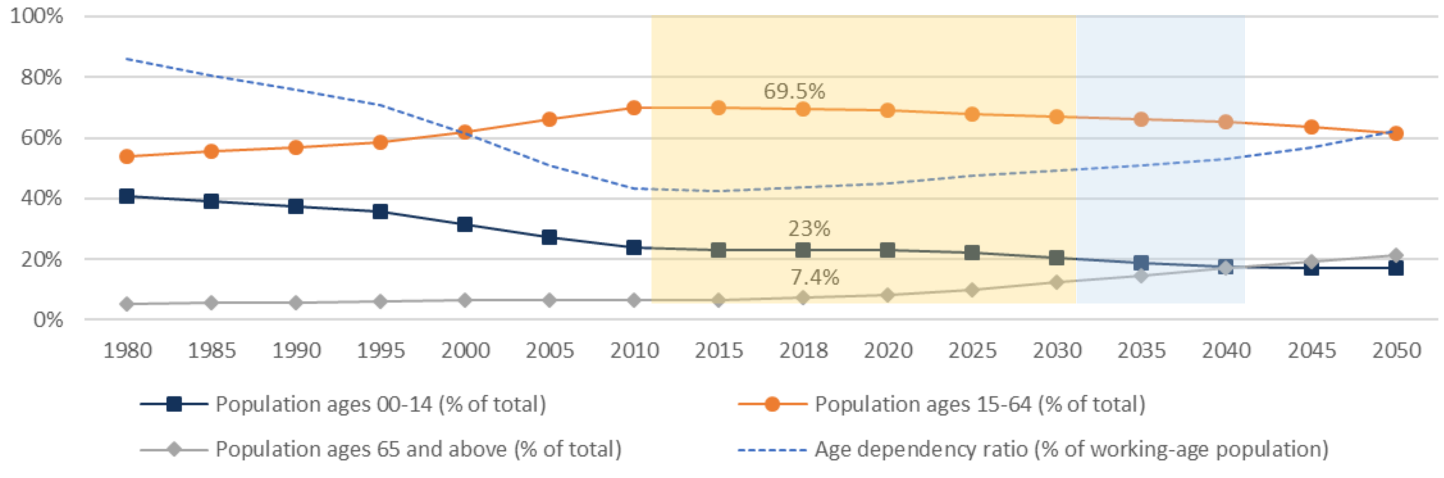


Source: United Nations, Yuanta Vietnam

Vietnam's demographic dividend is a decades-long economic and social tailwind.

As noted previously, the demographic story is not perfect. The rather pear-shaped demographic pyramid exhibited in Figure 30 points toward a rapidly aging population in the 2030s-40s. Vietnam society overall has less time to grow its wealth than many advanced economies had, and the risk is that the country grows old before it grows rich. In this sense, comparisons with China in 1995 are appropriate—the demographic dividend should not be thought of as a permanent feature of Vietnam's development. However, concerns of an aging society are still many years away, especially in relation to housing demand.

Fig 6: Age structure of Vietnam population, history and projection



+ demographic dividend period original; demographic dividend period may be narrowed due to rapid population aging.

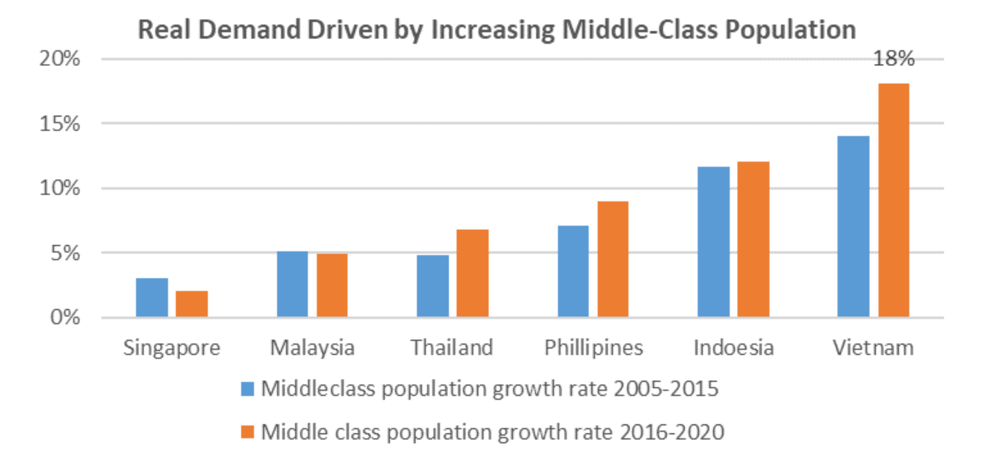
Source: IMF, World Bank, Yuanta Vietnam

Additionally, several government policies are being implemented to tackle this problem. (1) The National Assembly passed an amendment to the labor law that increases the legal retirement age. Specifically, the ordinary retirement age of employees is now 60 years for male workers and 55 years for female workers. These ages will increase by three months for men and four months for women every year after 2020, with the process set to end in 2028. (2) Vietnam's efforts to promote access to primary education and to ensure its quality has paid off. For example, Vietnam ranked 8th out of 72 participating countries in the 2015 OECD Programme for International Student Assessment (PISA)—which tests high school students in math, science, and other disciplines. (3) Trade and investment liberalization should foster higher-productivity occupations, thus moving the national industrial and service base higher up the value chain.

Theme III: Urbanization & growth of the middle class population

Rapid urbanization and middle class growth complement and reinforce the demographic dividend, and both themes underlie the solid outlook for domestic demand. The COVID crisis has been a setback for wealth creation given job losses and business failure that has resulted. The official unemployment number of slightly more than 2% likely understates the impact given the number of workers who have had their employment hours reduced as well as the extremely hard hit to certain industries (e.g., tourism/hotels/F&B). However, confidence is strong and unemployment is not likely to be a long-term issue, in our opinion.

Fig 7: Middle-class growth rates: Vietnam compared with ASEAN-5

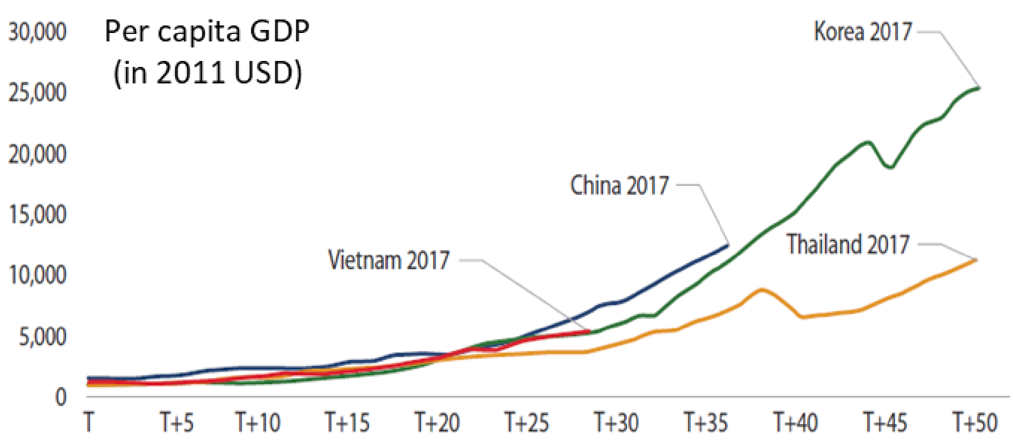


Source: Brookings Institute, Yuanta Vietnam

Based on World Bank estimates, Vietnam's middle class accounts for 13% of the population but is growing by 18% YoY, equivalent to 1.5 million Vietnamese joining the middle class each year. Thus, the middle class should account for 26% of the population by 2026.

The growth of middle-class should continue to support domestic demand going forward.

Fig 2: GDP per capita: Vietnam is still in an early stage of economic development



Source: World Bank, Yuanta Vietnam

Vietnam's GDP growth has exceeded regional peers' GDP growth rates since 2017. This is partially due to demographics, although we wouldn't want to overplay this as a driver (i.e., key GDP growth drivers such as export manufacturing output are only indirectly linked to the nation's demographics). Nevertheless, GDP per capita has nearly doubled since 2010.

The unemployment rate decreased significantly from 4.29% in 2010 to 2.21% in 2018 and the official numbers were below 2% at the end of 2019. Working-age adults are rapidly driving the growth of Vietnam's middle class, which we estimate at c. 18% per annum vs 1% overall population growth. Of course, this expansion is very likely to slow along with GDP growth in 2020. Sharp increases in unemployment in certain services industries (e.g., tourism) will clearly have a negative impact, but unemployment for such workers is likely to be a temporary experience. A sharp increase in the number of SMEs going out of business could be a more critical drag on middle class growth this year: the GSO indicates that "temporary" business closures in the first five months of 2020 reached 26,000, an increase of +36% YoY. However, we believe that the worst is behind us already, and that Vietnam's recovery will likely keep the nation at the top of the regional list in terms of GDP growth and middle class expansion over the next several years at least.

Fig 9: Rapid GDP growth exceeds that of peers (note: 2020-21 numbers are pre-COVID forecasts)

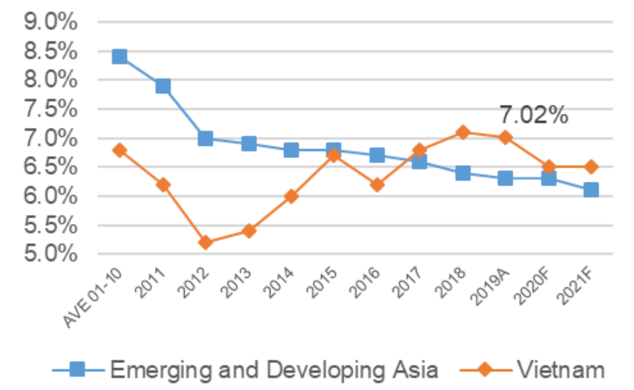
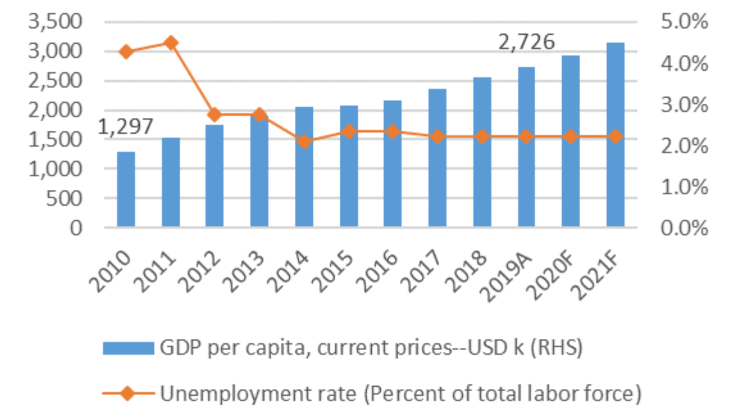


Fig 10: Improving income and employment



Note: The figures for the year 2020-2021 are based on the IMF's pre-COVID detailed estimates. The IMF in April revised down its forecasts for EM/DM Asia to 1.0% for 2020 and 8.5% for 2021. It forecasts Vietnam's GDP to expand by 2.7% in 2020 and 7.0% in 2021. The results of the IMF's forecasts for unemployment and GDP per capita in Vietnam will likewise be impacted in the short term, but we think the overall trend will persist in the years ahead.
Source: IMF, Yuanta Vietnam

The pandemic and its resulting economic damage have zero impact on Vietnam's demographics…

… and the negative impact on middle class growth is a temporary hit, in our view.

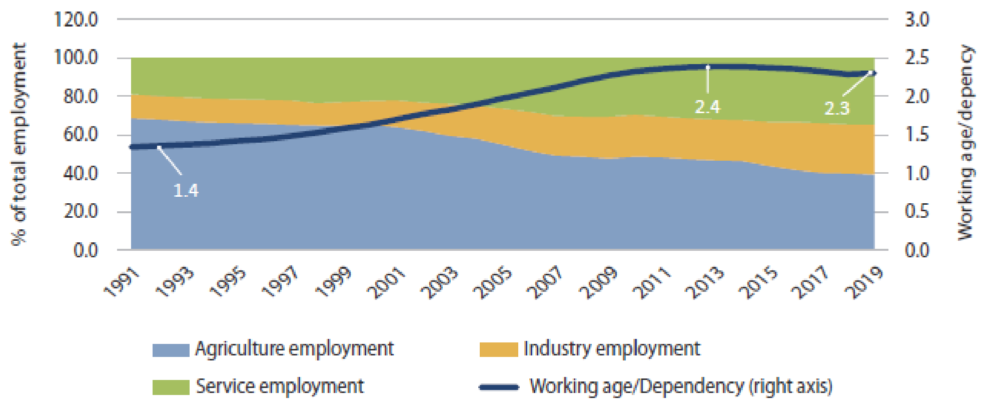
Themes II (demographics) and III (urbanization and growth of the middle class) are related to each other. They represent a trend that we believe to be inalterable by day-to-day events, including black swans such as COVID-19. These are trends in human development that are typically multigenerational in duration and are extremely difficult to derail by anything other than complete social collapse.

From our view on the ground, the pandemic never came close to having that sort of impact. Although we can't rule out a secondary outbreak, which would likely catalyze another sharp decline in stock prices, such an event would not result in a sea change for the development of Vietnamese society and its steady climb up the ladder from low middle-income status (where it is now).

The following chart from the World Bank clearly illustrates these two trends, which are typical of economies in Vietnam's early stage of development.

Over the past 20 years, the percentage of agricultural sector employment in Vietnam has fallen steadily from c.70% to just c.40% of total employment. By contrast, the bulk of new employment has been attributable to services and industrial sectors. At the same time, the inverse dependency ratio (i.e., the percentage of the working age population to that of dependents) has gradually risen.

Fig 11: Services & industrial sectors are driving employment, as agriculture recedes in importance.



Source: World Bank, Yuanta Vietnam

Dependency ratio is still low, but it hit a trough in the early 2010s and has been rising since.

As the chart illustrates, the inverse dependency ratio peaked in 2012 at 2.4 workers for every one dependent. It has since been gradually falling and stood at 2.3 as of 2019. This indicates that on current (low, and declining) birth rates, Vietnam will eventually (i.e., in another 20 years) face the same "aging society" problems that are so prevalent in Northeast Asia today.

This will result in "aged" society problems in twenty years, which requires policy preparation now.

The experience of Northeast Asia suggests that reversing the declining birth rate in an increasingly wealthy society is not likely to happen. Today's senior decision makers will not remain in office long enough to see the demographic challenges that loom in 2040s. But this future issue presents a clear need for preparatory policies today. This implies substantial opportunities for industries such as the educational, healthcare, and financial services sectors.

Theme IV: Inclusion of Vietnam in the MSCI Emerging Markets Index

MSCI Emerging Markets Index inclusion may take longer than we thought it would last year. Specifically, we wrote that it was "likely" to happen by 2022 – but we now think this is overly optimistic. However, our less optimistic view on this theme has nothing to do with the pandemic or geopolitics.

We still believe that Vietnam will be included in the emerging markets indexes eventually (first FTSE and then MSCI), but we don't see this as an imminent catalyst. Indeed, it may take longer than we predicted in our country outlook last year, when we said inclusion was "likely in the next three years" (i.e., by 2022).

Our view on the capital markets is not unflinchingly bullish. Emerging markets index inclusion may take longer than we hoped.

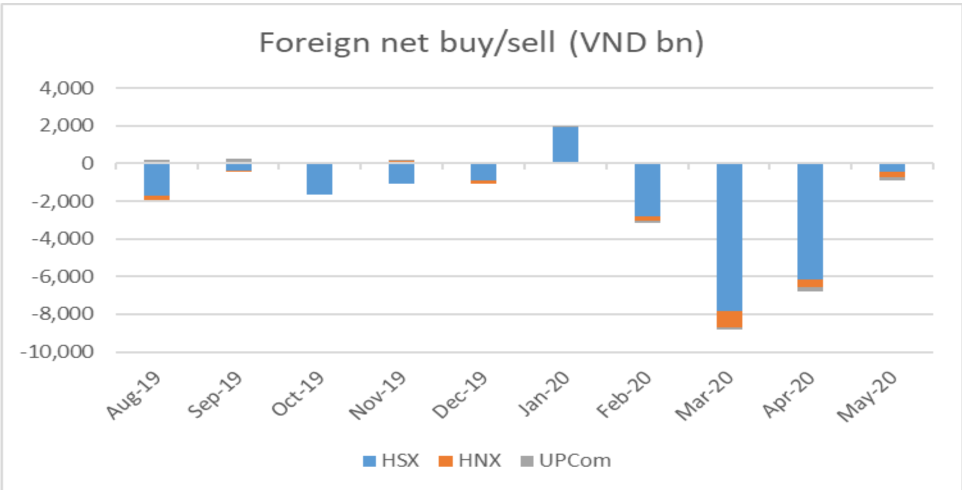
The FOL rules remain the core issue, with settlement a secondary problem and other items (e.g., transparency of information to non-Vietnamese speakers) probably tertiary on the list of the index providers' stated concerns.

In our view, neither the coronavirus pandemic or the geopolitical tensions that it has exacerbated are direct drivers of what looks likely to be an extended delay. But the large institutions who drive these decisions (i.e., MSCI's major fee-paying clients) likely have more pressing concerns than whether Vietnam is a component of the frontier or emerging markets. Additionally, and in contrast to China, Vietnam lacks the leverage of a large asset base to incentivize such asset managers to demand its inclusion in the broader emerging markets indices.

We consider the foreign ownership issue to be the key stumbling block. We were thus pleased by the discussion last year of introducing nonvoting depository receipts (NVDRs). If based on the Thai model, NVDRs would allow foreigners to obtain economic exposure to companies without granting them control or voting rights. However, such a solution is not likely to be implemented for several more years, and MSCI would likely want to observe a certain period of implementation before deciding that the issue has been resolved. Thus, E/M inclusion may not be in the cards by 2022.

On balance, we view this as an unfortunate but realistic outcome. Frontier market funds have seen substantial outflows over the past year, which we consider to be a key driver of the extremely heavy FINI net selling of Vietnam stocks since August 2019.

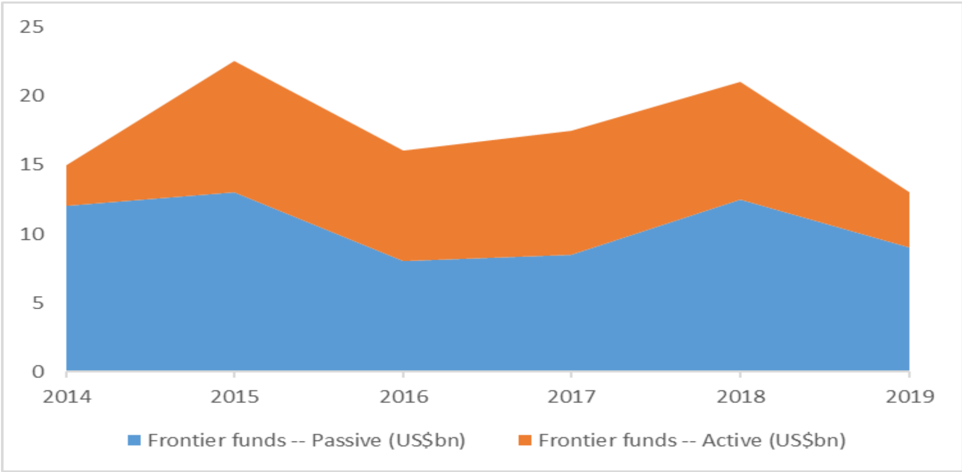
Fig 12: Foreigners have been persistent net sellers despite the market's strength



Source: Bloomberg, Yuanta Vietnam

We believe that the net selling was not primarily due to investor fatigue toward Vietnam, but rather a structural shift out of the broader frontier markets. Our understanding is that global frontier market funds saw AUMs decline by roughly 35-40% in 2018-2019.

Fig 13: We estimate that global frontier market AUMs fell by c.35-40% YoY in 2018-2019



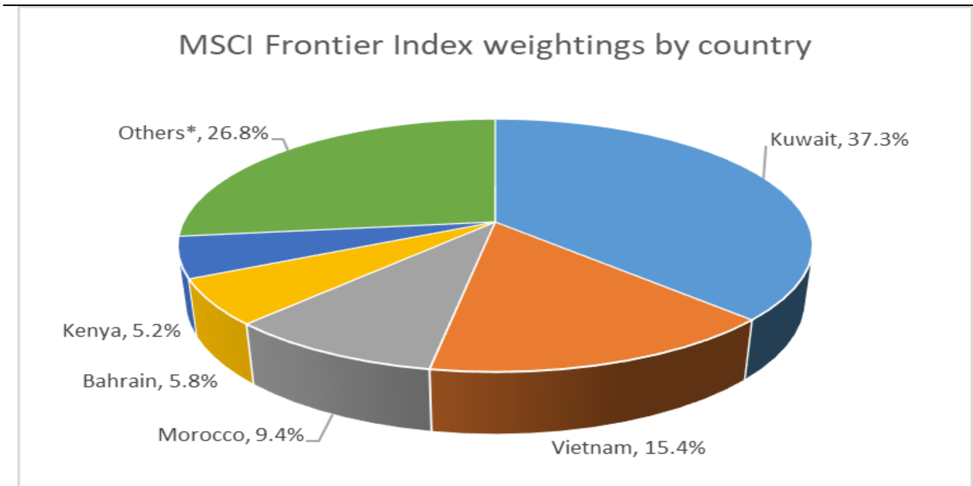
Source: Yuanta Vietnam

We see this as a structural rejection of frontier markets as an asset class, which could be due to –

- 1) Frontier markets' poor performance (especially relative to developed markets and *especially* the US) in recent years, and
- 2) Frontier markets have failed to provide portfolio diversification benefits. In theory, frontier markets were supposed to be relatively uncorrelated with global markets, a key attraction for modern portfolio theory. However, the actual results may have disappointed many investors, especially given the expenses of investing in many frontier markets.

Vietnam's frontier market index weighting of 15.4% is clearly not a strength when frontier funds are faced with redemptions.

Fig 14: Vietnam is 15.4% of the MSCI Frontier Index



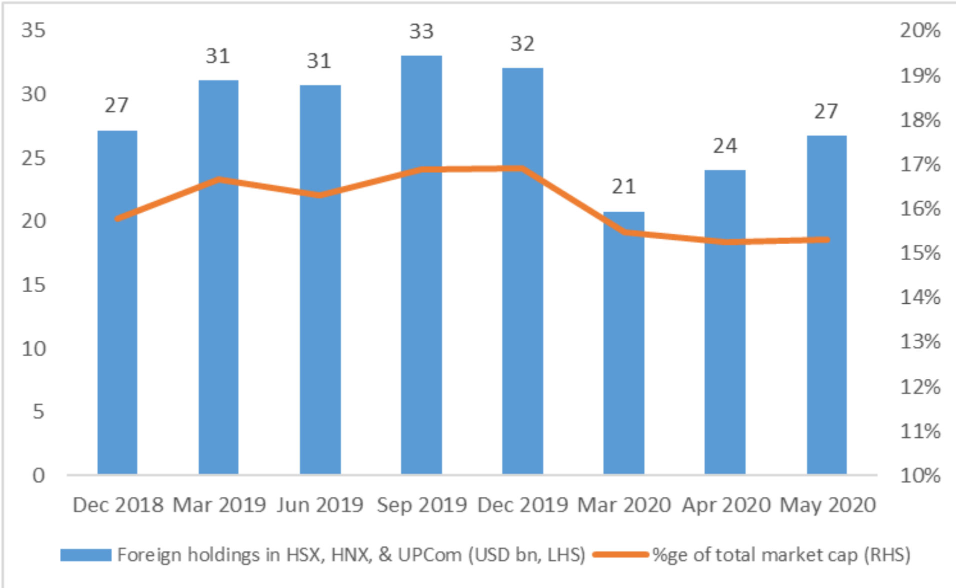
Source: MSCI, Yuanta Vietnam

It may come as a surprise, but despite the abysmal daily/weekly/monthly net foreign selling data during this rout, foreign ownership of Vietnam stocks in percentage terms has not changed dramatically.

Foreigners still own 20% of the VNI and 16% of the three markets combined.

According to FiinPro, foreign holdings in the VNI fell from 20.9% at the start of the year to 19.2% as of June 1. Factoring in the other two indexes (i.e., the HNX and UPCOM), we reckon foreign ownership of all Vietnamese stocks was about 17% at the end of 2019 and fell to 15% at end-May. In aggregate financial terms, foreign holdings in the VNI declined from US$30bn at the start of the year to just US$19bn at the end of March, but foreign-owned market cap has since climbed to reach US$25bn as stock price reflation in 2Q20 has more than offset the continued net selling by foreigners. The chart below exhibits the trends for all three indexes combined.

Fig 15: Total foreign stake in the three indices



Source: FiinPro, Bloomberg, Yuanta Vietnam

These results for the Vietnam stock market may not justify a celebration, **but they also indicate that foreigners continue to view Vietnam's longer term story in an optimistic light.** Domestic investors typically view foreign institutional investors simply in terms of the money they bring to the table (and attempting to front-run foreign flows is almost a national pastime).

However, in markets where institutional investors are more prevalent, they can also act as a structural stabilizing force during selloffs such as the one we are currently enduring.

Summary and Top Picks

For the above reasons, we reiterate our bullish long term view on Vietnam, which we continue to view as a uniquely attractiveve long-term investment opportunity.

However, stock selection is key to success when investing in this market. In our view, high-quality companies will continue to outperform the overall market in the long run. This preference for fundamentally sound companies over chasing technical momentum indicators or rumors is especially cogent for 2020 given the extremely limited visibility on global macroeconomic outcomes.

Thus, we recommend focusing on stocks with strong balance sheets, high-quality management teams, solid cash flow, and preferably a domestic focus.

Our top picks are all "antifragile" sector bellwethers: VCB (the nation's best quality bank), **VHM** (by far the largest property development firm), **KDH** (a pure play on Ho Chi Minh City residential property) and **HCM** (the most solid brokerage house, in our view)—all of which are easy for foreign investors to buy and hold.

Several other names are outside our official coverage universe but also tick the "quality" box, including **VNM** (the dominant branded dairy product supplier with Vietnam's premier consumer distribution system), **HPG** (the No.1 steel producer and a play on national infrastructure development), and **FPT** (a high quality ITC company). All of these companies should emerge from the pandemic's economic damage in a stronger position than they had before the crisis.

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	2020E Dividend yield	12-m TSR*
Banks	BIDV	BID VN	7,225	2.3	SELL	41,800	37,300	-11%	0.0%	-11%
	HD Bank	HDB VN	1,154	1.5	HOLD-Underperform	27,800	30,970	11%	0.0%	11%
	MB Bank	MBB VN	1,865	5.2	BUY	18,000	25,900	44%	0.0%	44%
	Sacombank	STB VN	822	4.9	BUY	10,600	12,950	22%	0.0%	22%
	Vietcombank	VCB VN	14,186	4.4	BUY	89,000	77,600	-13%	0.0%	-13%
	Vietnam Prosperit	VPB VN	2,514	4.7	BUY	24,000	25,530	6%	0.0%	6%
Brokers	HCM City Securiti	HCM VN	258	1.4	BUY	19,700	26,532	35%	6.7%	41%
	Saigon Securities	SSI VN	405	2.3	HOLD-Outperform	15,700	18,328	17%	3.9%	21%
	Viet Capital Secur	VCI VN	178	0.4	HOLD-Underperform	25,200	26,449	5%	3.3%	8%
	VNDirect Securitie	VND VN	122	0.4	HOLD-Underperform	13,600	13,150	-3%	5.1%	2%
Energy	PV POW	POW VN	1,067	2.1	BUY	10,600	17,457	65%	2.8%	68%
	PV NT2	NT2 VN	261	0.3	HOLD-Outperform	21,100	29,195	38%	11.8%	50%
	PCC1	PC1 VN	125	0.4	BUY	18,200	24,092	32%	0.0%	32%
Consumer	Masan Group	MSN VN	3,190	4.7	HOLD-Outperform	63,500	84,908	34%	0.0%	34%
	Phu Nhuan Jewelr	PNJ VN	616	2.3	HOLD-Underperform	63,700	86,200	35%	3.1%	38%
	Digiworld	DGW VN	55	0.5	HOLD-Outperform	29,900	31,574	6%	4.8%	10%
Oil & GAS	PV Drilling	PVD VN	203	2.5	HOLD-Outperform	11,200	10,429	-7%	0.0%	-7%
Property	Nam Long	NLG VN	261	0.9	BUY	24,300	36,400	50%	2.1%	52%
	Novaland	NVL VN	2,271	1.9	HOLD-Outperform	54,500	65,073	19%	0.0%	19%
	Khang Dien	KDH VN	519	0.5	BUY	23,000	31,081	35%	2.2%	37%
	Vinhomes	VHM VN	10,957	5.3	BUY	77,500	94,862	22%	0.0%	22%
Transport	Airports Corp Viet	ACV VN	5,979	0.6	HOLD-Underperform	63,900	76,400	20%	0.8%	20%

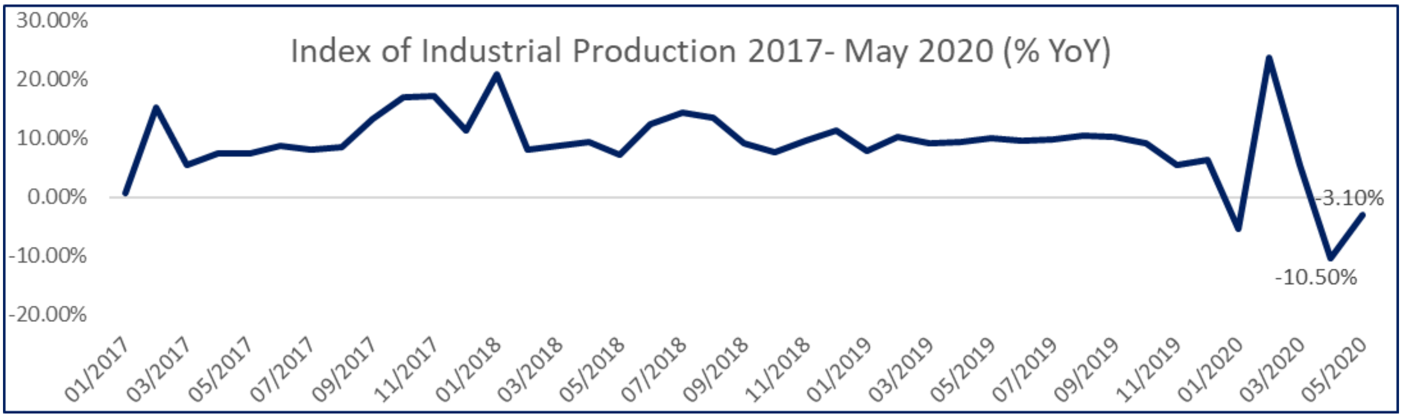
*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends.

Stock ratings and pricing data is as of close on June 4, 2020.

Source: Bloomberg, Yuanta Vietnam

Macro Update –

The economic data for May remains in the doldrums but shows a recovery following the COVID-19 closures of April. Vietnam's Industrial Production Index in May rose by 11.2% MoM (-3% YoY), of which manufacturing increased by 12.8% MoM. Meanwhile, the total estimated retail sales of consumer goods and services increased by 26.9% YoY (-4.8% YoY).



Source: FiinPro

Consumer price index fell into the negative from April to May, but is still higher on average YTD. Specifically, the May 2020 CPI declined by 0.03% MoM, as the prices of four of the 11 items in the basket declined sequentially during the month. This was mainly attributable to a sharp 4.98% reduction in gasoline prices (transportation items decreased 2.2% MoM). However, CPI was still up +2.4% YoY in May, and the average CPI in 5M2020 increased by 4.39% YoY- the highest increase in 2016-2020 period.

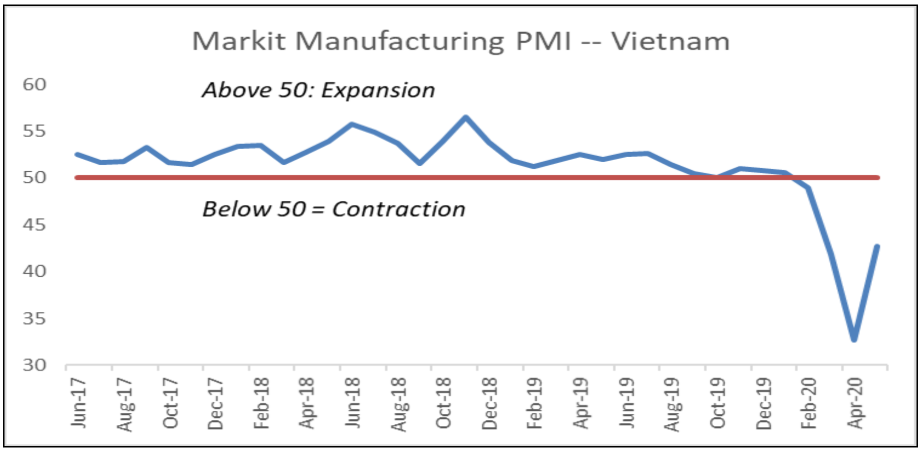
Source: FiinPro

International trade rebounded MoM. Trade estimates point to a deficit of USD900 million in May. Exports are estimated at US$18.5 billion, up by 5.2% MoM and imports are estimated at USD19.4billion, +4.7% MoM. However, the estimated trade balance of goods in the first five months of 2020 is still positive at USD1.9billion. 5M2020 exports reached US$99.36bn (-1.7% YoY) against imports of US$97.48bn (-3.8% YoY). The US remains the largest YTD export destination at US$24.6bn (+8.2% YoY), followed by China US$16.3bn (+20.1% YoY), and the EU US$12.9bn (-12% YoY).

Source: FiinPro

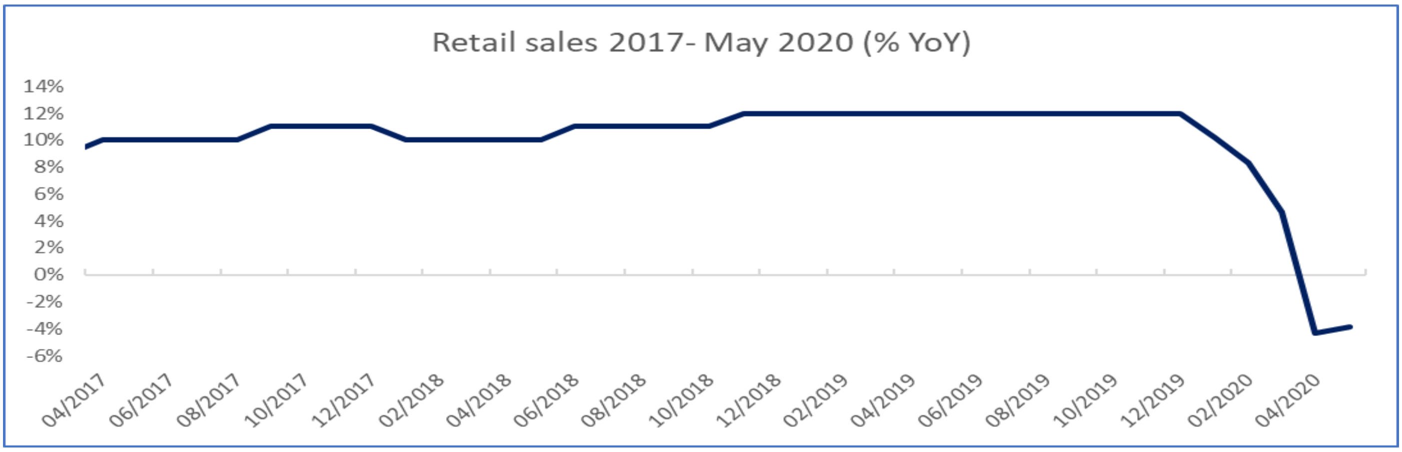
Foreign investment remains slow. Disbursed foreign direct investment in the first five months of 2020 was estimated at USD 6.7 billion, declining 8.2% YoY. Total foreign investment in Vietnam as of May 20, 2020 (including newly registered capital, adjusted registered capital, and value of capital contribution and share purchases of foreign investors) reached USD13.9 billion, down 17% YoY. We would not expect to see a sharp recovery in FDI until international business travel opens up, which could happen (for travelers from certain countries) in upcoming months.

Overall manufacturing activity remains in the doldrums although it is off the trough. The Markit manufacturing PMI has been below 50 since January, indicating contraction. However, the May number (43) was substantially higher than it was in April (33), indicating that the worst has passed. This view on activity remaining weak but improving from April is also in line with the anecdotal evidence that we have gathered from our discussions with industry practitioners and perusals of various reports.



International visitors in May only reached 22,700, plummeted 16.6% MoM and 98.3% YoY. In 5M2020, international visitors to Vietnam reached 3.7 million, fell by 48.8% YoY.

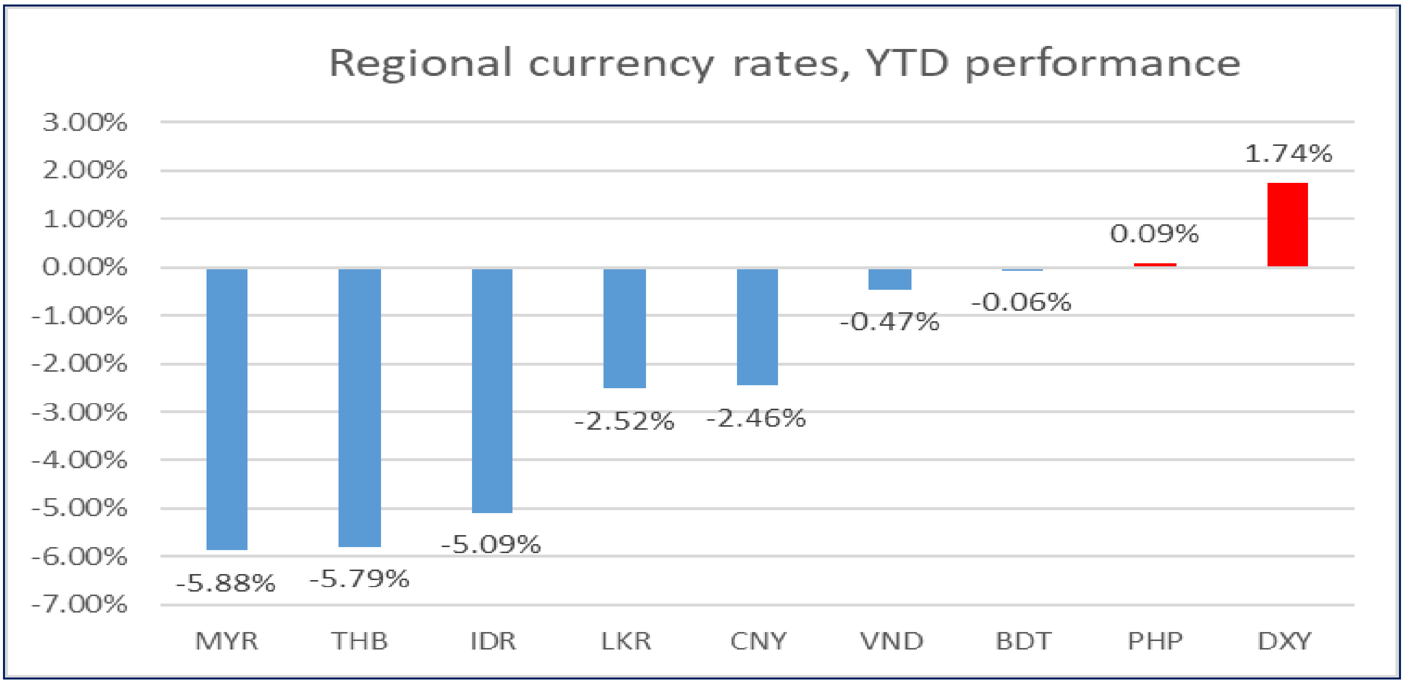
In 5M2020, the number of enterprises temporarily suspending business is 26,000, jumped by 36.4% YoY.



Source: FiinPro

Global demand outlook: Most of the European countries (the second largest export market) have partly ease the social distancing since middle of May which is a good news for exports in the coming months. The production diversification trend, in which Vietnam is the natural winner, should channel the FDI inflow sooner or later.

View on the VND. Overall the fundamentals remain strong for the domestic currency given relatively subdued inflation and credit growth, as well as a solid base of foreign exchange reserves that we think exceeds US$80bn as of May and continued strength in foreign direct investment that we believe will be bolstered, in the medium term at least, by the economic and geopolitical fallout from COVID-19.



Source: Bloomberg

We believe the currency's main risks are:

1) A sharp decline in the RMB's exchange rate with the US dollar. The SBV manages the domestic currency for stability against a weighted basket of the currencies of its main trading partners. This obviously includes the Chinese RMB. A move by the PBOC to devalue the currency would imply downside risk for the VND in our view.

2) A significant and sustained deterioration in Vietnam's current account balance. We can't rule it out, especially in the midst of dual global crises brought about by the US-China trade war and the coronavirus pandemic. Vietnam's relatively persistent trade surplus in recent years (including the first five months of 2020) could be susceptible to the global demand shock. But in the medium and long term we think the FDI story points toward Vietnam emerging as the next export manufacturing powerhouse of Asia. In addition, Vietnam's largest export market – the United States – is not likely to tolerate excessive weakness in the VND without imposing reactive trade measures. As such, we expect a structural current account surplus to be the norm in the years to come.

Appendix I: Important Disclosures

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HOLD-Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.
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