

## Strategy Monthly: Margin leverage driving increased volatility

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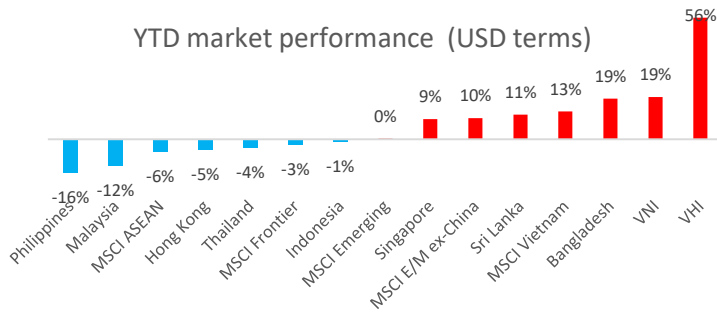
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**Volatility returned in July**, a month that saw several daily declines of 3-4% that coincided with COVID-related events but that may have been exacerbated by margin leverage, which was at a record high as of June 30. Net-net, the VNI fell by 7% in July, outperforming Hong Kong and the Philippines but underperforming the rest of the region. The VNI appears to have been supported at its 100-day moving average, but declining turnover suggests that investor confidence is low.

YTD market performance (USD terms)



### Monthly Index Performance

- **VNINDEX:** 1310 (-7.0% MoM / +18.7% YTD / +64.1% YoY)
- **VHINDEX:** 315 (-2.6% MoM / +55.0% YTD / +192.9% YoY)
- **UPCOM Index:** 86.9(-3.7% MoM / +16.8% YTD / +58.6% YoY)
- **Average daily turnover:** US\$1,061mn (-17.8% MoM)
- **Foreigners net bought US\$221mn** in July.
- **VND:USD rate:** 22,964 (+19bp MoM / +58bp YTD / +88bp YoY)

### VN30 Components

Ticker	Closing price (VND K)	MoM chg	Cont to VN30 (MoM)	TTM PE (x)
BID	41.1	-13.0%	-2%	20
BVH	51.1	-12.5%	-1%	20
CTG	34.4	-15.7%	-9%	9
FPT	94.0	6.8%	8%	22
GAS	89.6	-3.7%	-1%	22
HDB	33.7	-5.1%	-3%	11
HPG	47.3	-8.2%	-17%	12
KDH	40.7	8.4%	2%	20
MBB	28.9	-10.0%	-12%	10
MSN	134.0	21.3%	21%	100
MWG	164.1	8.0%	7%	18
NVL	104.0	-14.0%	-14%	34
PDR	92.5	-1.0%	0%	31
PLX	51.3	-6.4%	-1%	17
PNJ	95.8	-4.3%	-1%	16
POW	10.7	-11.2%	-1%	10
REE	55.0	-4.7%	-1%	9
SBT	18.6	-11.7%	-1%	16
SSI	54.6	-0.7%	0%	19
STB	29.9	-2.3%	-2%	20
TCB	51.1	-3.0%	-6%	11
TCH	19.2	-12.4%	-1%	7
TPB	35.0	-4.8%	-2%	8
VCB	98.0	-15.8%	-11%	17
VHM	108.3	-8.2%	-8%	11
VIC	107.2	-9.9%	-12%	48
VJC	113.0	-7.0%	-4%	51
VNM	86.1	-4.8%	-8%	19
VPB	61.0	-9.9%	-17%	11
VRE	27.7	-12.9%	-4%	23

Source: Bloomberg, Yuanta Vietnam. Price date: July 30, 2021.

**The VNI seems to have found support** at its 100-day moving average, although declining turnover and weak breadth indicate limited investor confidence. Interestingly, the VN30 Index (-5% MoM) outperformed the VNI by 1.6ppt, and foreigners returned as better buyers during July. However, breadth was weak for both the VN30 (4 gainers / 26 losers) and broader VNI (102 gainers / 278 losers)

**Monthly trading liquidity fell (-18% MoM)** in July, when ADT was US\$1.1bn. The monthly figure is skewed to the upside by the first 8 days of trading, when ADT reached US\$1.4bn. Market liquidity has since fallen sharply, with ADT falling to US\$929mn in the third week of July and US\$874mn in the fourth. Ironically, the decline in ADT occurred right after FPT's solution to the trading issues came on line. This suggests that the previous cap on daily order flow might have ironically led to higher trading than would have otherwise been the case.

**Margin leverage leads to increased volatility.** 2Q21 broker balance sheets indicate that margin lending soared (+39% QoQ / +139% YoY) to reach US\$5.1bn. This was obviously a record in absolute terms and also represents 5.6% of the market's free float as at June 30, which is the highest level in history. On the other hand, ADT was also at record highs in 2Q21, so margin loans represented just 5 days of turnover, down from 10 days in 3Q20. This should mollify the obvious concerns, but only partially – ADT has fallen sharply in recent weeks. As such, the margin data supports our expectation for increased day-to-day volatility in 2H21.

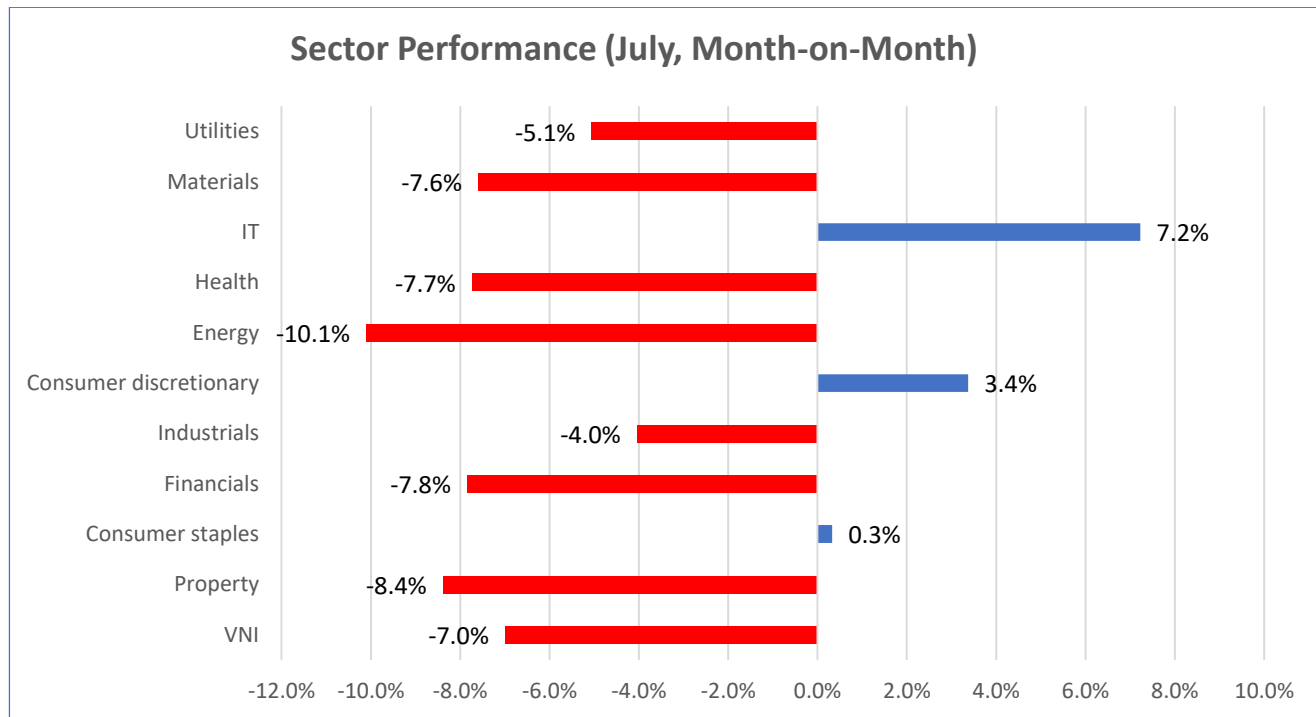
**Monthly Macro Rundown: Recovery interrupted** in July, which shouldn't be a surprise given the widening and increasingly stringent measures to control the COVID outbreak. July industrial production (+1.8% YoY) and manufacturing (+2.9% YoY) managed to post marginal positive growth, but monthly retail sales plummeted (-19.8% YoY). In addition, the July manufacturing PMI came in at 45.1 (vs May's 53.1 and June's 44.1), indicating a severe decline in confidence due to the outbreak. For details on the monthly macro data, please see p. 17-24.

## Yuanta Vietnam Coverage Universe

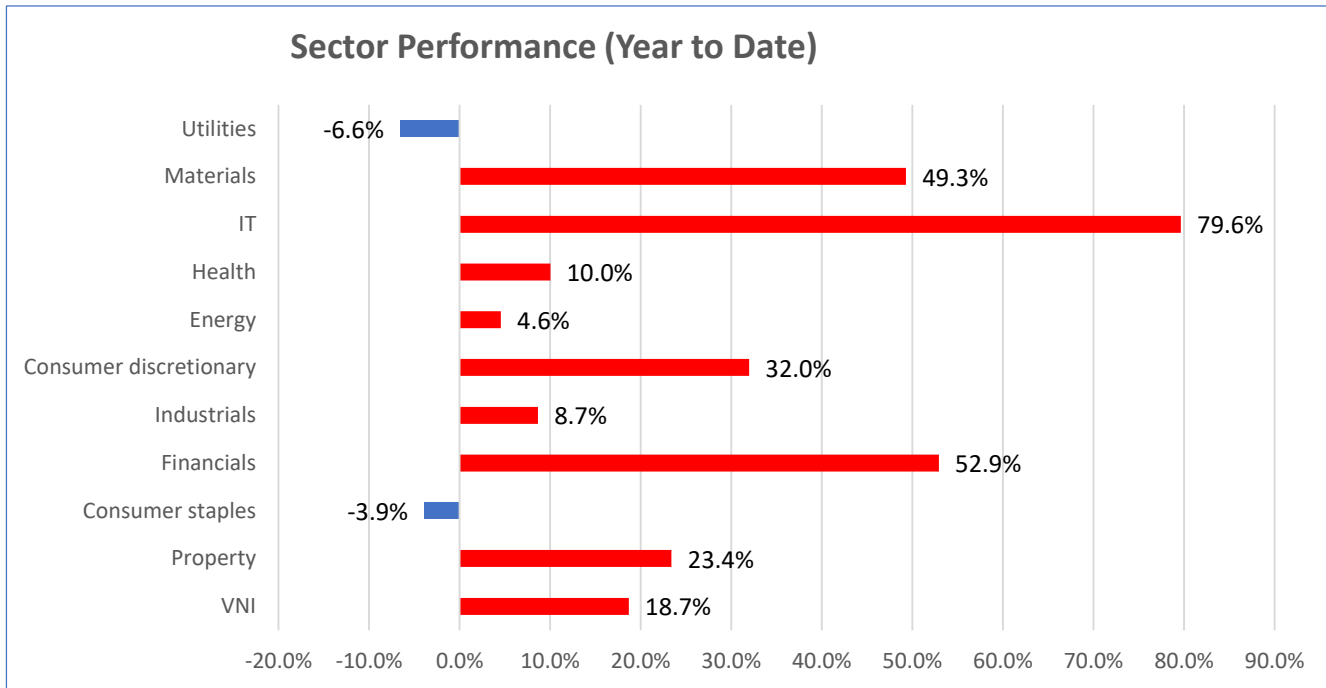
Sector	Company	Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	Up (down) side	2021 E Dividend yield	12-m TSR*
<b>Banks</b>	Asia Commercial Bank	ACB VN	4,253	16.3	BUY	36,150	30,492	-16%	0.0%	-16%
	BIDV	BID VN	7,198	7.6	SELL	41,100	37,300	-9%	3.1%	-9%
	HD Bank	HDB VN	2,339	7.9	BUY	33,700	31,656	-6%	0.0%	-6%
	MB Bank	MBB VN	4,755	36.0	BUY	28,900	34,233	18%	2.0%	18%
	Sacombank	STB VN	2,348	44.5	HOLD-Underperform	29,900	16,790	-44%	0.0%	-44%
	Vietcombank	VCB VN	15,828	9.2	BUY	98,000	114,650	17%	1.2%	18%
	Vietnam Prosperity Bank	VPB VN	6,521	81.5	HOLD-Outperform	61,000	66,485	9%	0.0%	9%
<b>Brokers</b>	HCM City Securities	HCM VN	636	10.9	HOLD-Outperform	47,850	42,317	-12%	2.1%	-9%
	Saigon Securities	SSI VN	1,557	29.1	HOLD-Underperform	54,600	42,706	-22%	1.8%	-20%
	Viet Capital Securities	VCI VN	722	8.3	SELL	49,800	39,653	-20%	2.3%	-15%
	VNDirect Securities	VND VN	861	12.8	SELL	46,100	29,966	-35%	1.4%	-34%
<b>Energy</b>	PV POW	POW VN	1,091	5.6	BUY	10,700	13,137	23%	2.8%	26%
	PV NT2	NT2 VN	232	0.4	HOLD-Outperform	18,500	19,318	4%	10.8%	13%
	PCC1	PC1 VN	224	0.6	BUY	26,850	34,864	30%	0.0%	30%
<b>Consumer</b>	Masan Group	MSN VN	6,889	8.5	BUY	134,000	84,908	-37%	0.0%	-37%
	Phu Nhuan Jewelry	PNJ VN	949	2.4	HOLD-Outperform	95,800	92,197	-4%	2.6%	-2%
	Digiworld	DGW VN	286	2.0	HOLD-Outperform	148,800	31,574	-79%	1.1%	-78%
<b>Oil &amp; GAS</b>	PV Drilling	PVD VN	333	7.2	HOLD-Outperform	18,150	26,598	47%	0.0%	47%
<b>Property</b>	Kinh Bac City	KBC VN	705	12.9	BUY	34,450	55,226	60%	1.5%	62%
	Khang Dien House	KDH VN	1,104	6.4	BUY	40,700	31,081	-24%	1.2%	-22%
	Nam Long	NLG VN	543	5.2	HOLD-Outperform	43,700	30,517	-30%	1.1%	-29%
	Novaland	NVL VN	6,674	13.4	HOLD-Outperform	104,000	95,656	-8%	0.0%	-8%
	Vinhomes	VHM VN	15,514	19.5	BUY	108,300	94,862	-12%	0.9%	-12%
<b>Transport</b>	Airports Corp Vietnam	ACV VN	7,186	0.6	HOLD-Underperform	75,800	76,400	1%	0.7%	1%
<b>Industrials</b>	Dohaco	DHC VN	253	1.0	BUY	83,000	97,871	18%	5.4%	23%

\*Notes: 1) TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends. 2) 3-month ADT refers to matched orders and does not include put-through blocks. 3) Stock ratings and pricing data is as of close on Jul 30 2021.

Source: Bloomberg, Yuanta Vietnam



Source: Bloomberg (Jul 30)



Source: Bloomberg (Jul 30)

*They say you look ten pounds heavier on TV, but it makes your beard look longer.*

—Dusty Hill (1949-2021)

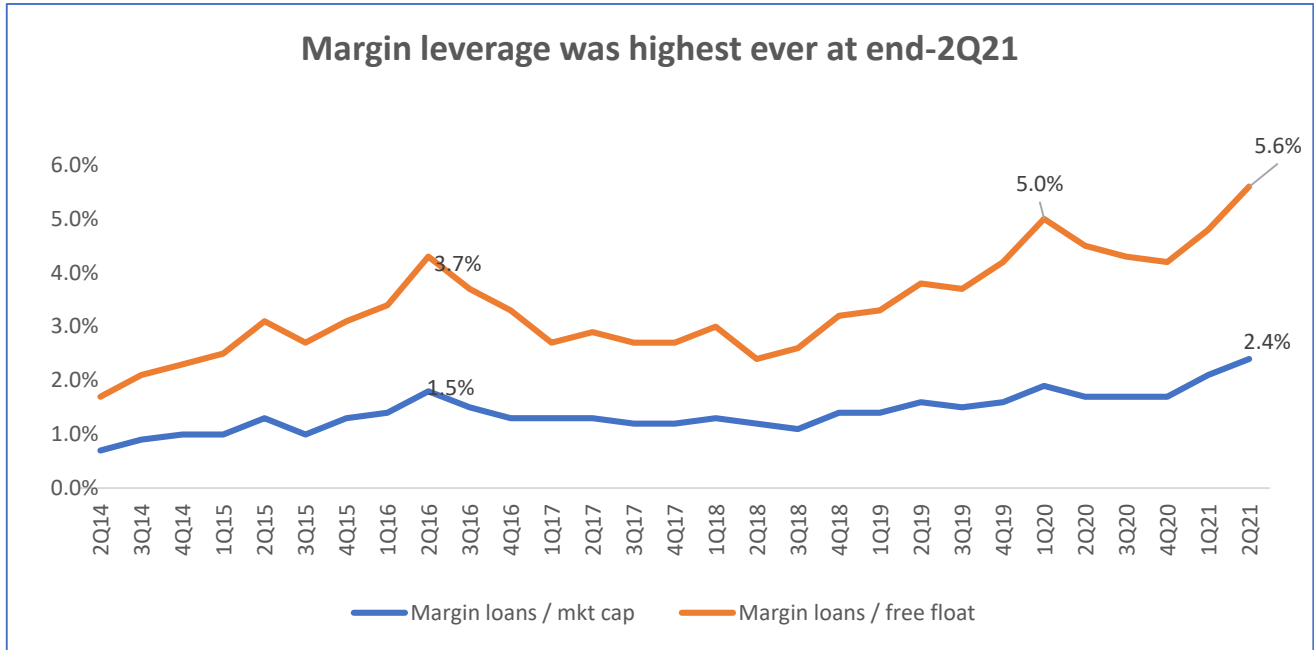
## Margin leverage driving increased volatility

The bull market finally took a rest last month as the major indices all corrected after peaking in early July. The mainboard VNI hit an intraday record high of 1423 points on July 2 before hitting a series of sharp down days to close out the month down 7% from June and down 8% from the peak. Fittingly, the correction came after we finally [capitulated](#) on June 21 and stopped calling for it to happen.

The VNI appears to have discovered technical support at its 100-day moving average, perhaps aided by very strong 2Q21 results – especially from the market leading financials and materials sectors. However, a sharp decline in daily turnover in the second half of July suggests that investor confidence is weak.

This is perhaps not surprising given the worsening COVID-19 situation and the widening restrictions on daily activity that have been implemented in an effort to control the virus. However, it's not clear that COVID is the only driver here. After all, the market soared into early July despite what were already negative pandemic-related events both domestically and across the region.

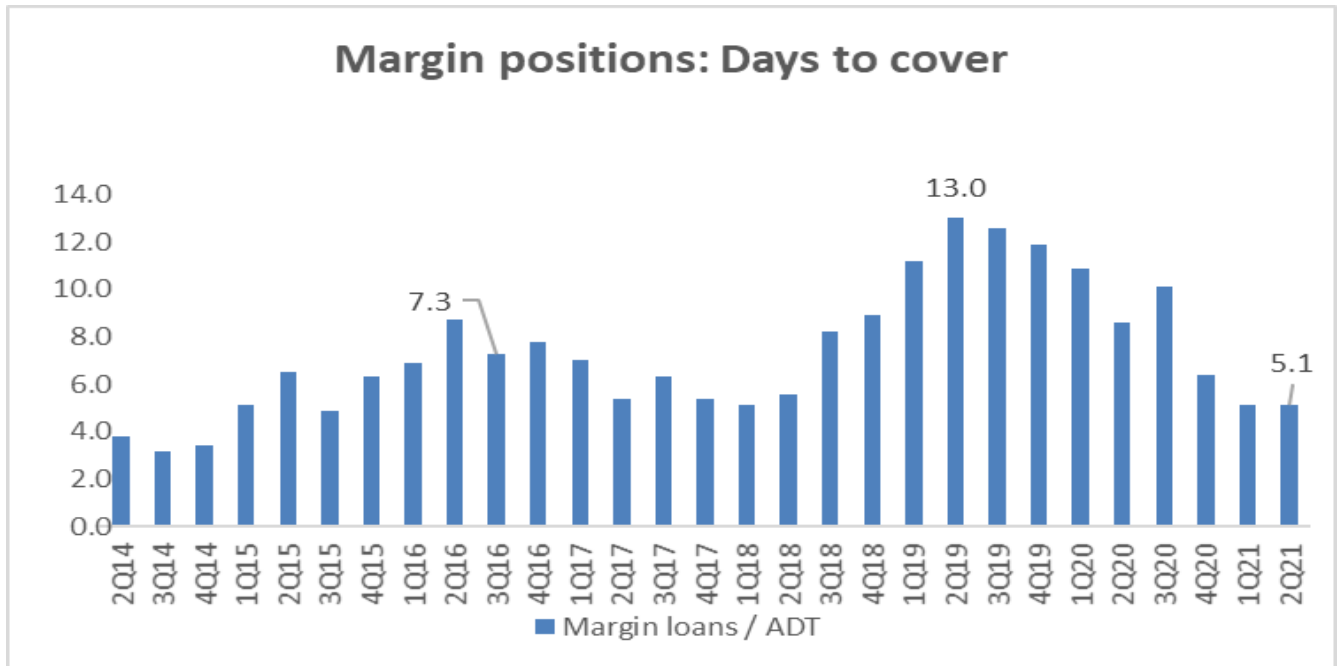
**Margin leverage leads to increased volatility.** 2Q21 broker balance sheets indicate that margin lending soared (+39% QoQ / +139% YoY) to reach VND127 trillion (US\$5.1bn). This represents 5.6% of the market's free float as at June 30 – which is a record high. Although this measure of margin leverage reached more than twice as high in China in 2015, this does not mean that Vietnam's current margin leverage is low – it is (or was) at the highest level in history as at June 2021. As a general statement, we think that market watchers should pay attention to margin positions as a contrarian indicator given that margin borrowers by definition will have to cover their positions at some point in the future, and margin punters are rarely long-term investors. We think that the correct way to gauge the potential market impact is to monitor the margin position / free float ratio rather than using total market cap as the denominator because share prices are set by buyers and sellers (i.e., locked-up shares that never transact do not inform share prices).



Source: FIINPro, Bloomberg, Yuanta Vietnam

On the other hand, ADT was also at record highs in 2Q21, so margin loans represented just 5 days of turnover, less than half of the levels in 2019 and down from 10 days in 3Q20. This should mollify the obvious concerns for the market impact, but not completely. Notably, ADT is a moving target, and turnover's sharp fall in recent weeks highlights the risks. For example, the US\$5.1bn in end-2Q21 margin loans represents 7 days of ADT during the last five trading sessions of July. Thus, as ADT declines, the risks to share prices from a potential margin finance unwind increase. However, we don't want to overstate the risks: 7 days is not a particularly high number relative to history

As such, the margin data overall supports our expectation for increased day-to-day volatility in 2H21. However, our sense is that demand for margin finance remains strong, and capital raising by the brokers should support a continued increase in margin finance heading into yearend.

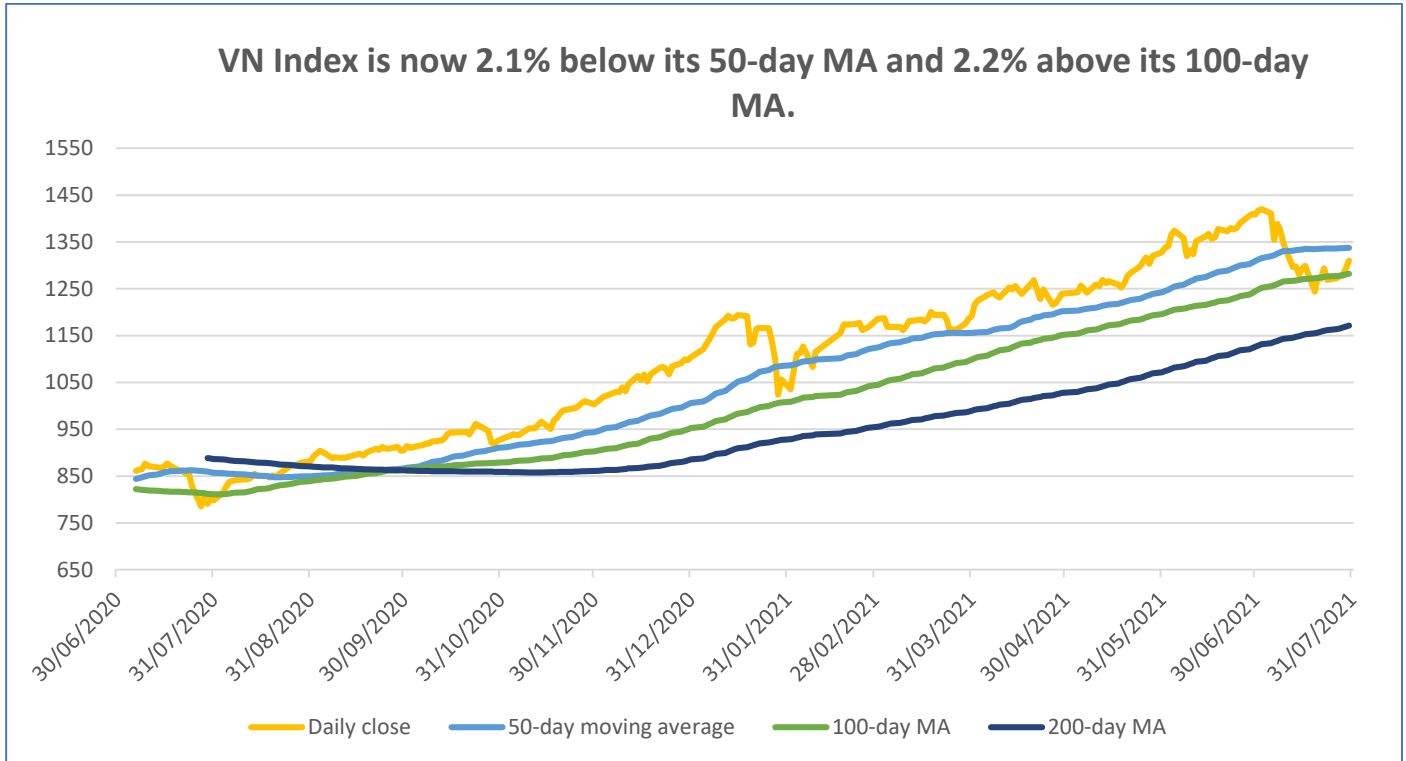


Source: FIINPro, Bloomberg, Yuanta Vietnam

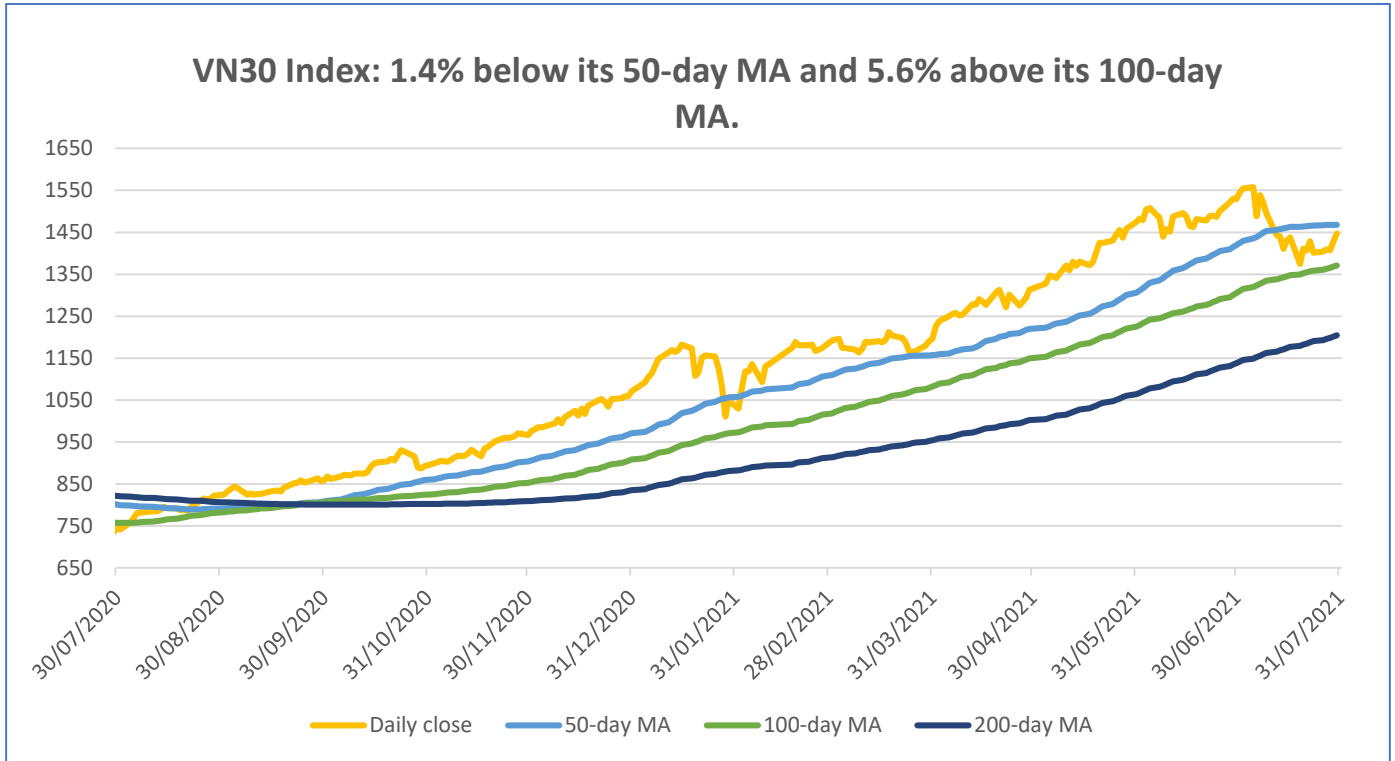
**Increased volatility confirmed.** The VNI fell by a total of 7% in July, but somehow it felt worse. This may be because the downside was largely concentrated in a handful of trading days:

- July 6, when the VNI fell -4.0% DoD after daily COVID cases surpassed 1,000 for the first time;
- July 8-12 (-6.6%) on rumor/fact regarding Directive 16 being implemented in HCMC; and
- July 19 (-4.3%) after COVID cases soared to 5,887 the previous day.

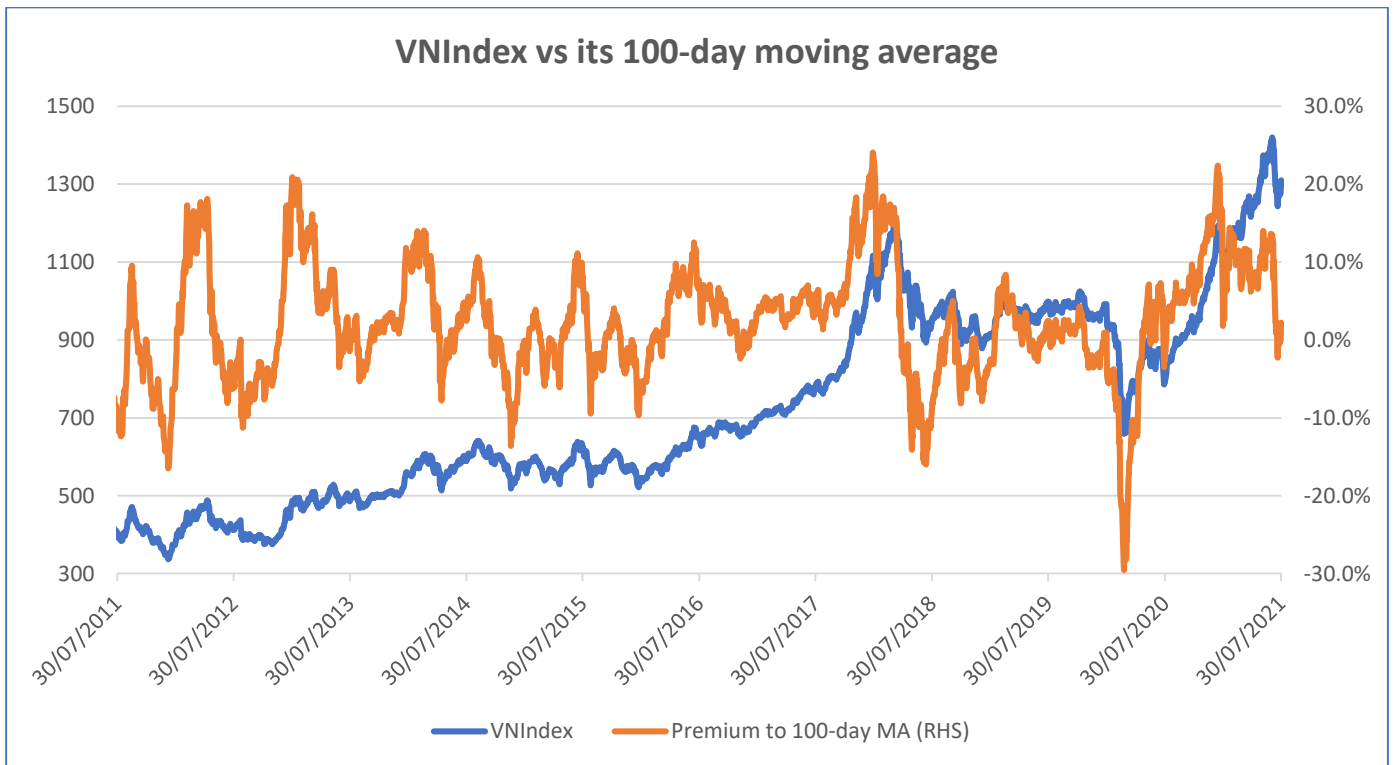
Correlation does not necessarily equal causation, but we suspect that the worsening pandemic will likely continue to pressure the market in the short term. On the other hand, the correction has brought down valuations and attracted a return of foreign investors as net buyers, which indicates that the immediate downside risk is likely limited. Thus, while it may not be time to back up the truck, we think long-term investors should keep their engines idling and consider buying on further weakness in August.



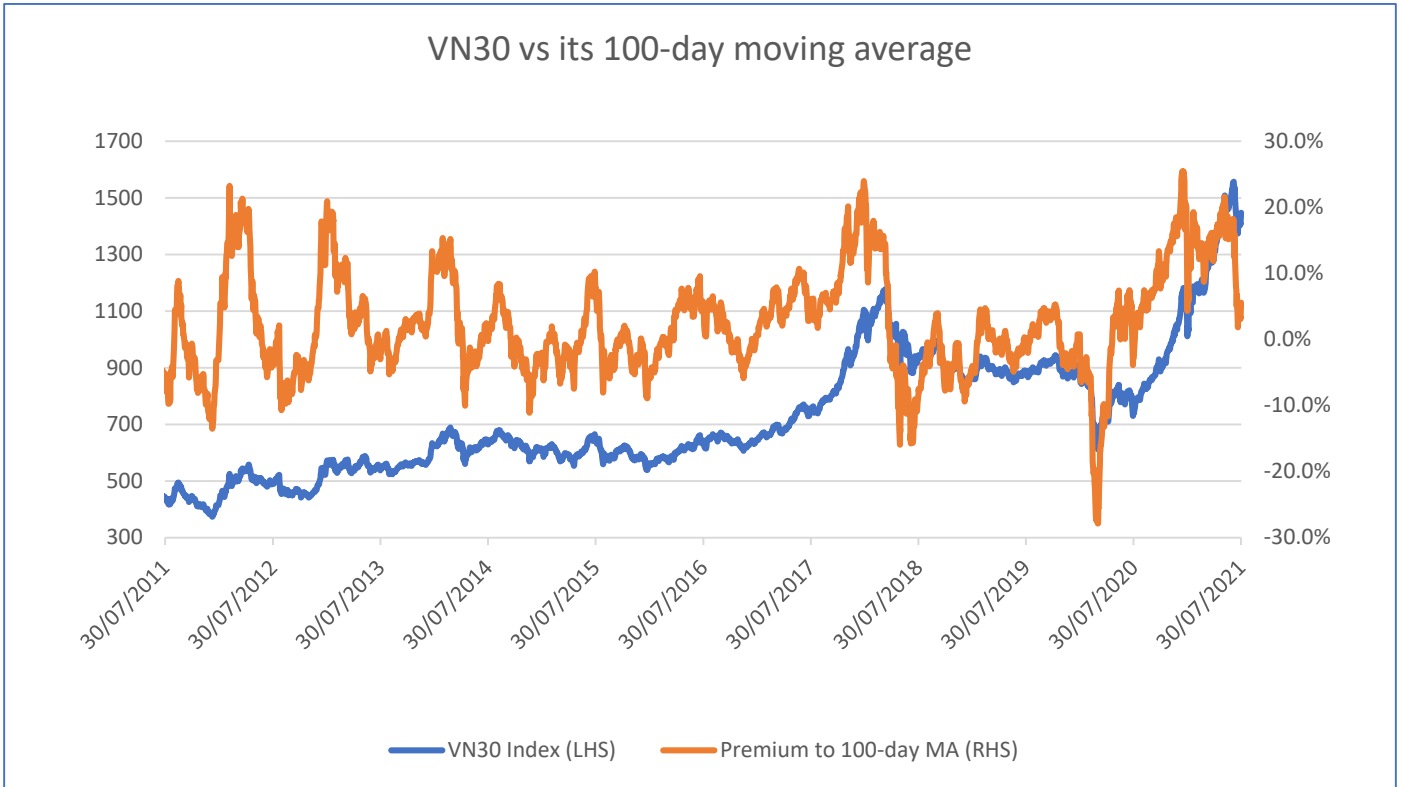
Source: Bloomberg, Yuanta Vietnam



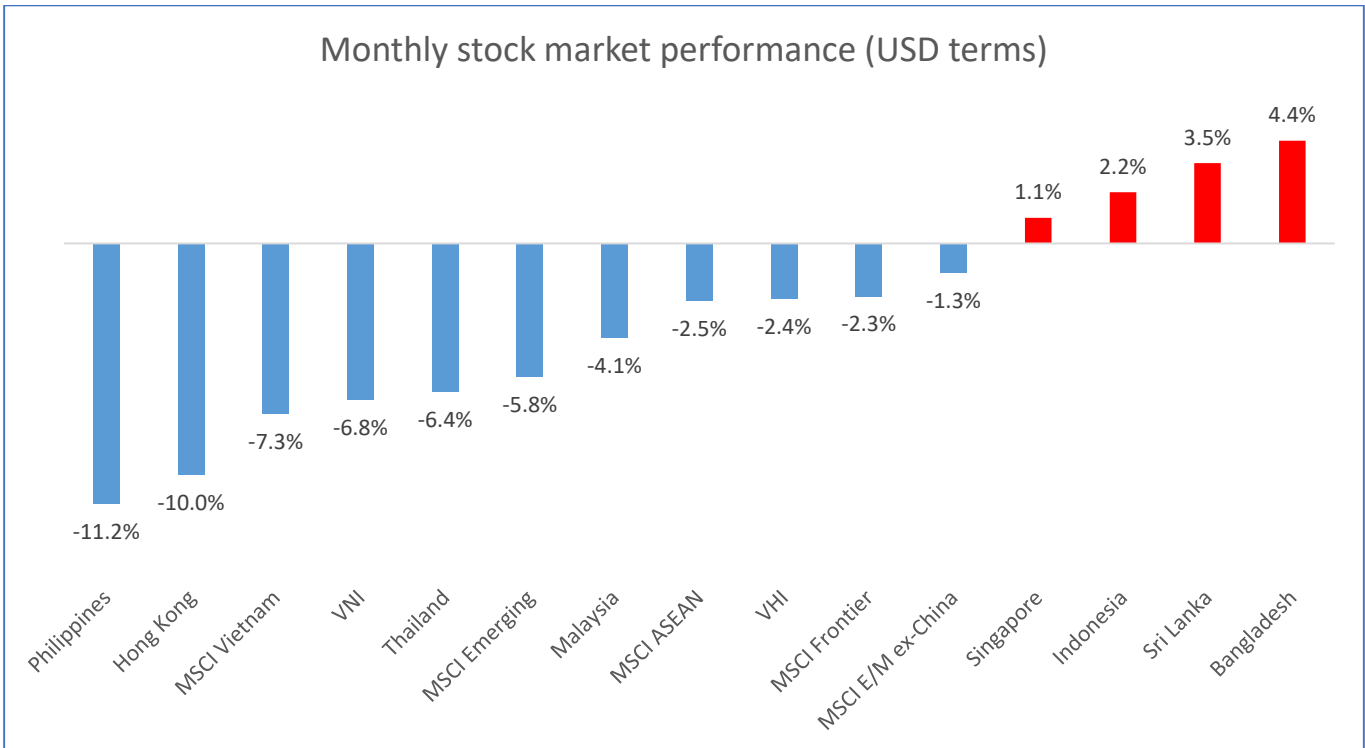
Source: Bloomberg, Yuanta Vietnam



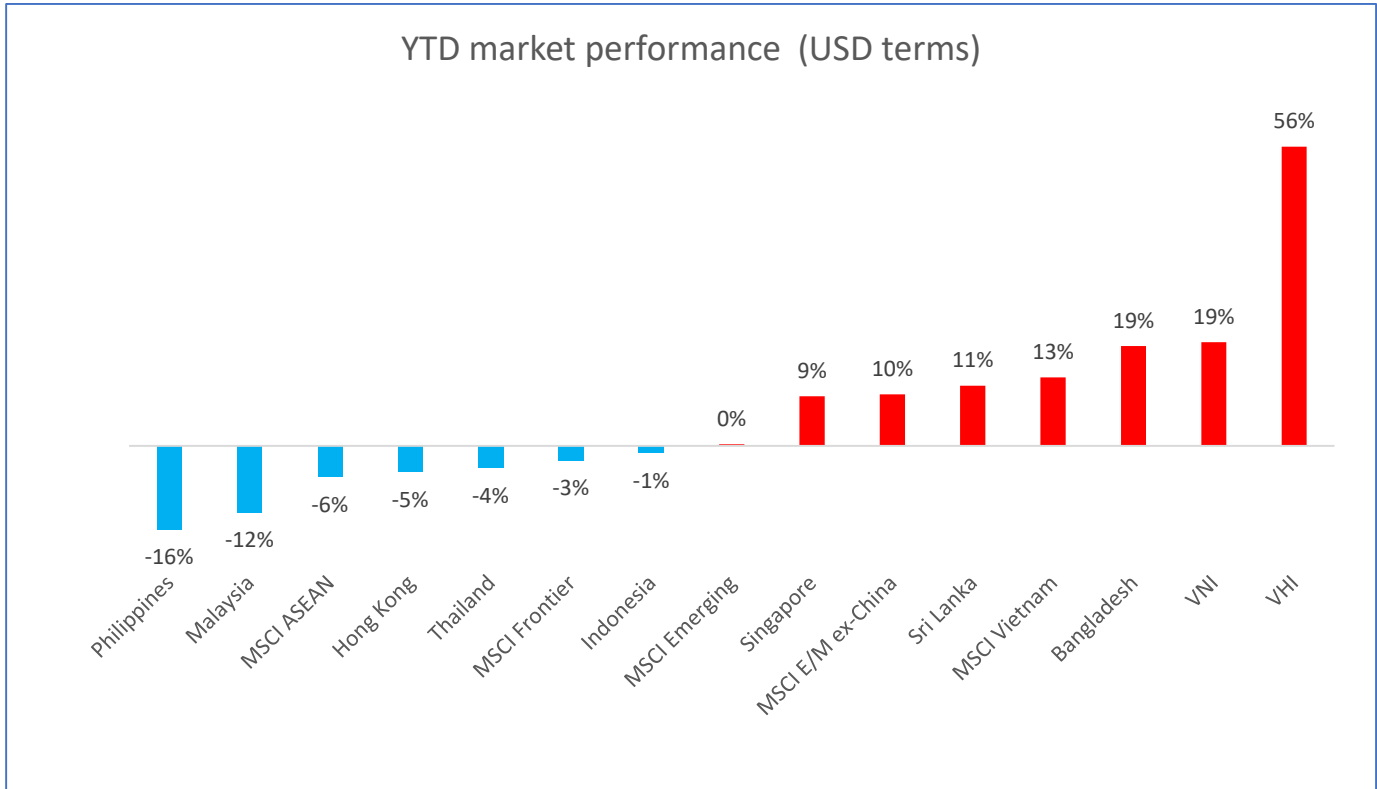
Source: Bloomberg, Yuanta Vietnam



Source: Bloomberg, Yuanta Vietnam



Source: Bloomberg (Jul 30)

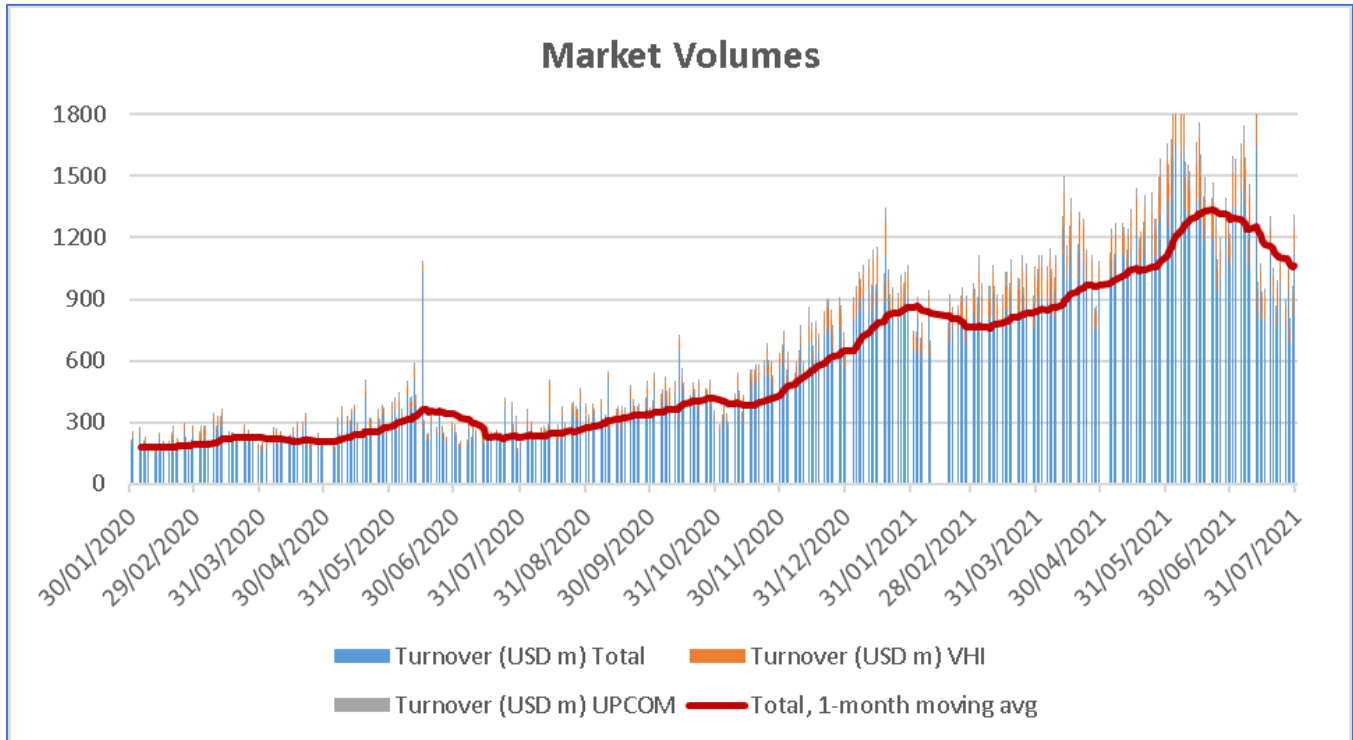


Source: Bloomberg (Jul 30)

**Trading liquidity dropped just when the HSX's capacity issues were resolved.** Monthly trading liquidity fell (-18% MoM) in July, when ADT was US\$1.1bn. The monthly figure is skewed to the upside by the first 8 days of trading, when ADT reached US\$1.4bn. Market liquidity has since fallen sharply, with ADT falling to US\$929mn in the third week of July and US\$874mn in the fourth. Ironically, the decline in ADT occurred right after FPT's solution to the trading issues came on line.

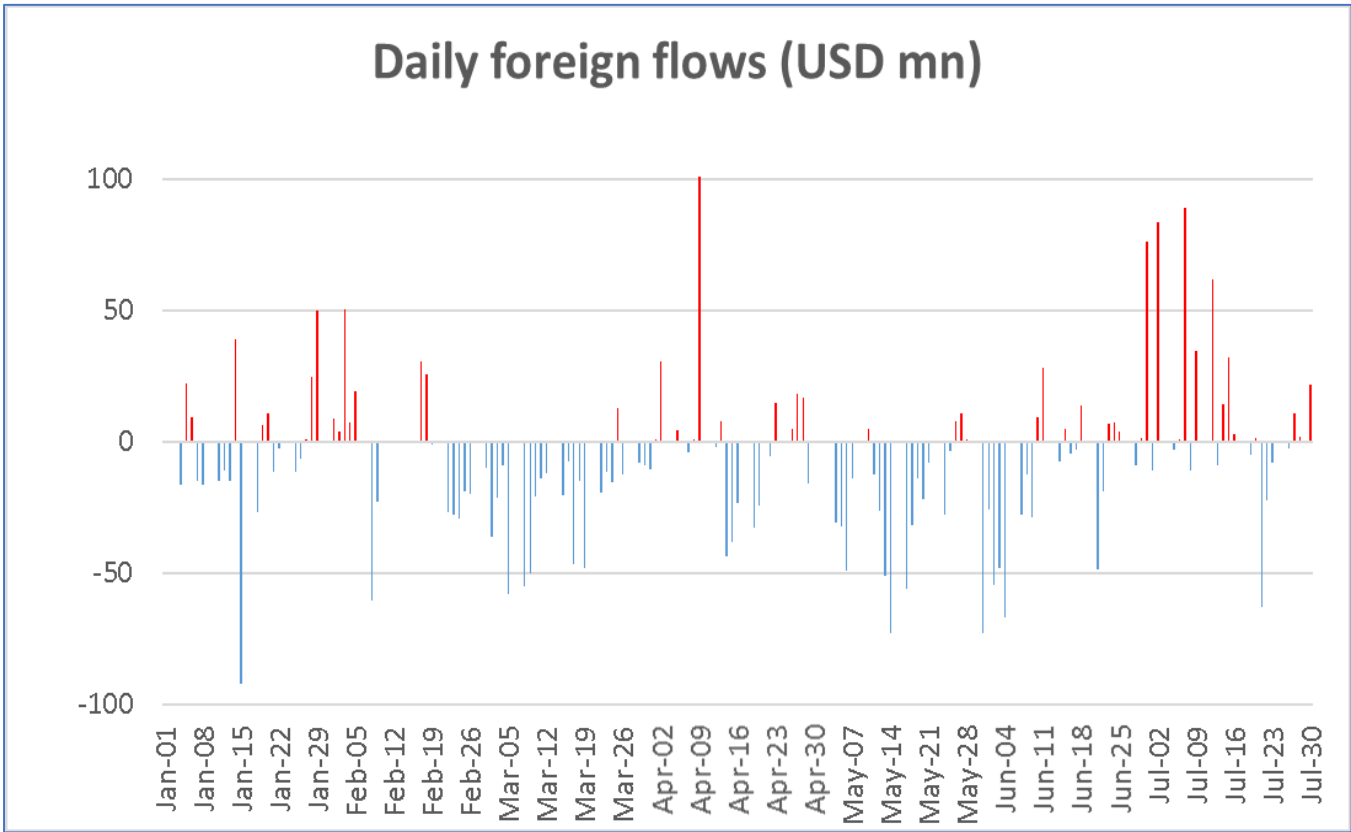
This suggests that the previous cap on daily order flow might have ironically led to higher trading than would have otherwise been the case. This assertion may sound counterintuitive, but here us out. If traders were concerned about their ability to execute orders in the afternoon (which they were, prior to FPT's fix), such concerns might have incentivized them to trade more aggressively in the morning, thus leading to spiraling turnover. Now that the effective cap is no longer an issue, the race to enter orders ahead of quotas being filled is no longer occurring. The logic here is somewhat similar to the effect seen across all markets that limit daily trading ranges: research has indicated that prices tend to converge rapidly toward daily up- or down-limits as they approach these levels, thus increasing daily volatility (i.e., the exact opposite result from what daily limits are hoped to achieve).



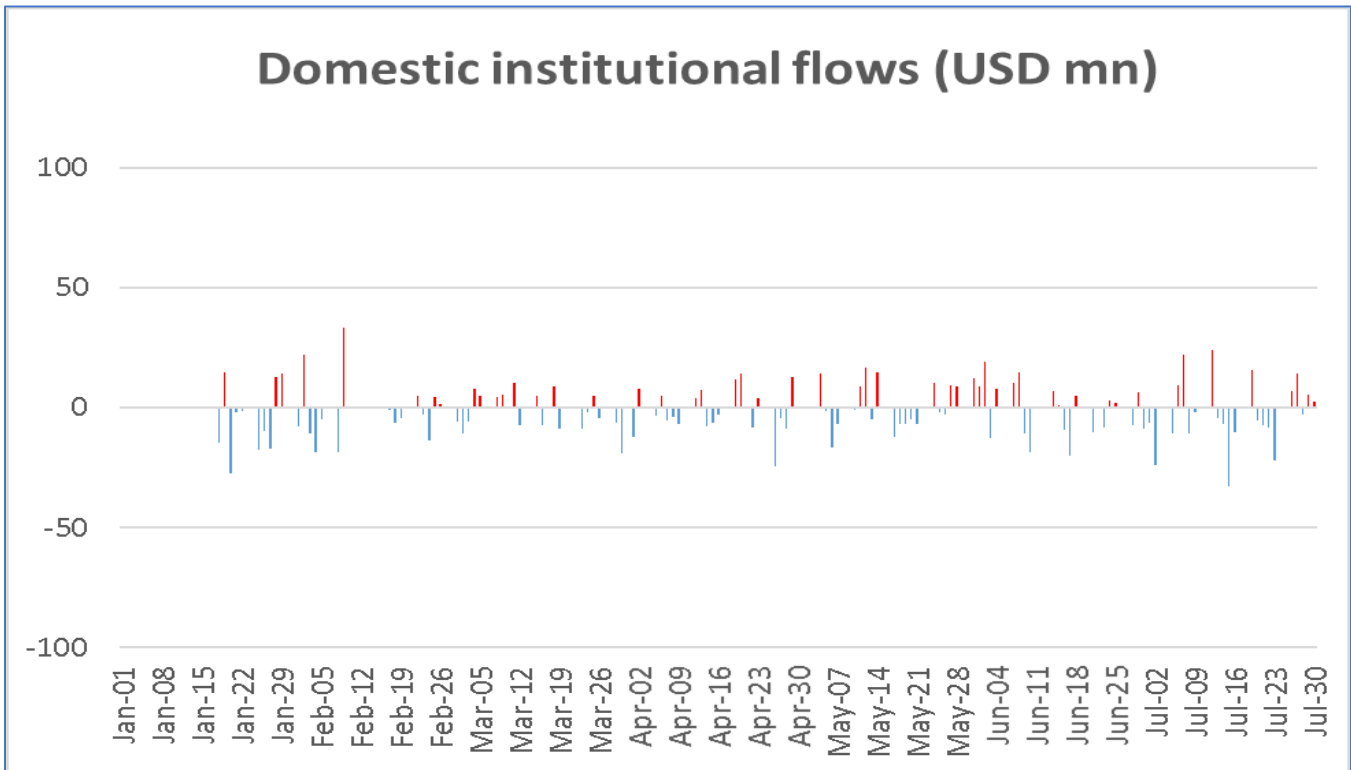


Source: FiinPro, Bloomberg, Yuanta Vietnam (Jul 30)

The drop in volumes bolsters our [brokerage sector downgrade](#) of July 16, although this call is largely based on valuations after the brokers rather extreme outperformance YTD and YoY. The brokers have been firing on all cylinders amid the remarkable bull market of 2020-21, and we don't think the party is over just yet. However, trees don't grow to the sky; brokerage stock valuations have exceeded all fundamental support and we view this as an opportunity to take profit. Given the high correlations of brokerage share prices with turnover and index levels, we suspect that valuations will come down with market activity, which would give investors an opportunity to re-enter positions in the brokers at more favorable valuations.



Source: FiinPro, Yuanta Vietnam (Jul 30)



Source: FiinPro, Yuanta Vietnam (data updated to Jul 30)

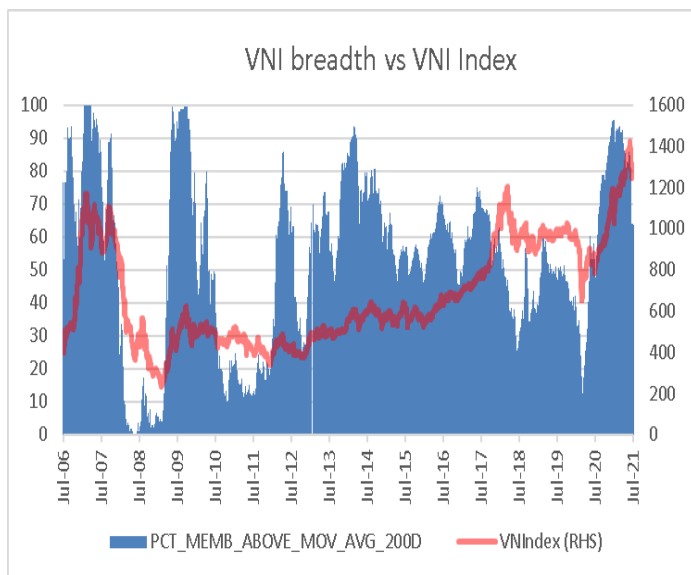
## VN30 large caps: Share price performance in Jul and 7M2021

Ticker	Closing price (VND K)	MoM chg	Contribution to VN30 Index		Contribution to VN30 Index performance		TTM PE (x)
			performance in July	YTD chg	in 7M21		
BID	41.1	-13.0%	-2%	-14.2%	0%	20.0	
BVH	51.1	-12.5%	-1%	-22.6%	0%	19.8	
CTG	34.4	-15.7%	-9%	28.5%	2%	9.2	
FPT	94.0	6.8%	8%	84.7%	11%	22.3	
GAS	89.6	-3.7%	-1%	6.7%	0%	22.0	
HDB	33.7	-5.1%	-3%	41.9%	3%	10.9	
HPG	47.3	-8.2%	-17%	55.1%	12%	11.7	
KDH	40.7	8.4%	2%	52.8%	1%	20.5	
MBB	28.9	-10.0%	-12%	71.2%	9%	10.3	
MSN	134.0	21.3%	21%	52.0%	5%	99.7	
MWG	164.1	8.0%	7%	38.0%	4%	18.0	
NVL	104.0	-14.0%	-14%	116.2%	11%	33.7	
PDR	92.5	-1.0%	0%	120.7%	4%	31.4	
PLX	51.3	-6.4%	-1%	-4.0%	0%	17.5	
PNJ	95.8	-4.3%	-1%	19.4%	1%	16.1	
POW	10.7	-11.2%	-1%	-21.3%	0%	10.3	
REE	55.0	-4.7%	-1%	12.4%	0%	9.1	
SBT	18.6	-11.7%	-1%	-11.5%	0%	16.4	
SSI	54.6	-0.7%	0%	68.1%	3%	19.3	
STB	29.9	-2.3%	-2%	76.9%	7%	19.9	
TCB	51.1	-3.0%	-6%	62.2%	13%	11.1	
TCH	19.2	-12.4%	-1%	-4.0%	0%	7.5	
TPB	35.0	-4.8%	-2%	30.6%	1%	8.4	
VCB	98.0	-15.8%	-11%	0.1%	0%	17.1	
VHM	108.3	-8.2%	-8%	21.0%	2%	10.9	
VIC	107.2	-9.9%	-12%	-0.9%	0%	48.3	
VJC	113.0	-7.0%	-4%	-9.6%	-1%	50.7	
VNM	86.1	-4.8%	-8%	-19.2%	-3%	18.5	
VPB	61.0	-9.9%	-17%	87.7%	16%	11.4	
VRE	27.7	-12.9%	-4%	-11.9%	0%	23.3	

Source: Bloomberg, Yuanta Vietnam, Pricing date: Jul 30, 2021

**Market breadth was highly negative in July.** This is perhaps not a big surprise given the market's performance during the month. Breadth was actually more negative among the big caps than it was for the entire market, although the VN30 fell by slightly (i.e., 1.6ppt) less than the VNI. A total of 64% of HSX-listed stocks are still trading at above their 200-day moving averages, but this is the lowest level since August 2020. Additionally, just 37% of stocks are trading at above their 50-day moving averages.

## Breadth was highly negative across the market in July



VN 30 breadth			
	WoW	MoM	YTD
Gainers	28	4	20
Losers	2	26	10

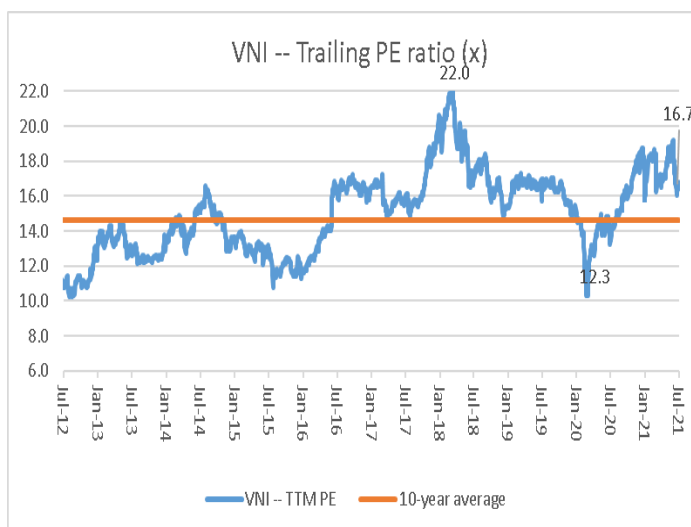
Source: Bloomberg (Jul 30)

VNI breadth			
	WoW	MoM	YTD
Gainers	270	102	238
Losers	98	278	131

Source: Bloomberg (Jul 30)

Source: Bloomberg, Yuanta Vietnam (Jul 30)

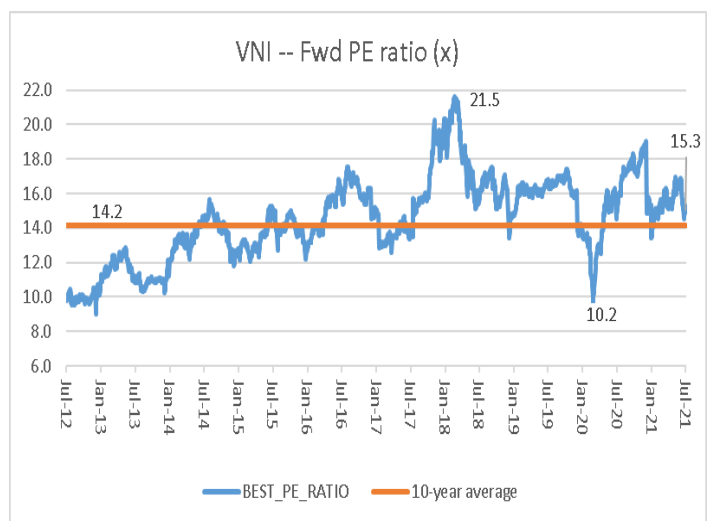
**The VNI's trailing PE ratio as of July's close was 16.7x.**



Source: Bloomberg, Yuanta Vietnam

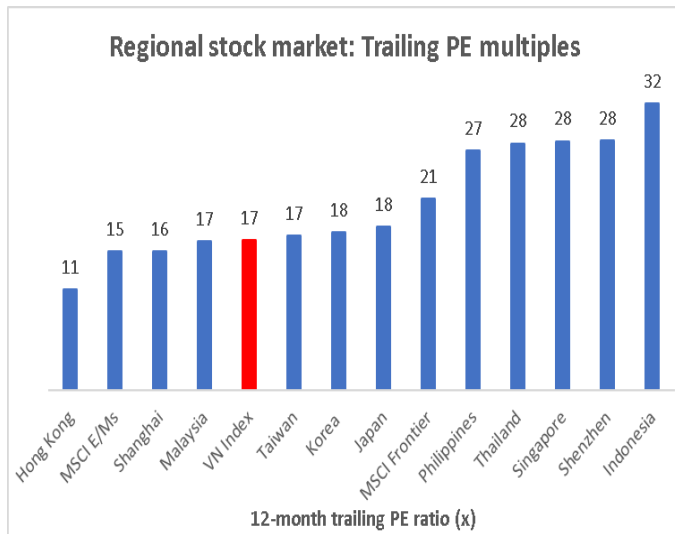
Source: Bloomberg, Yuanta Vietnam

**The mainboard's forward (2021E) PE is now 15.3 x, based on Bloomberg consensus.**



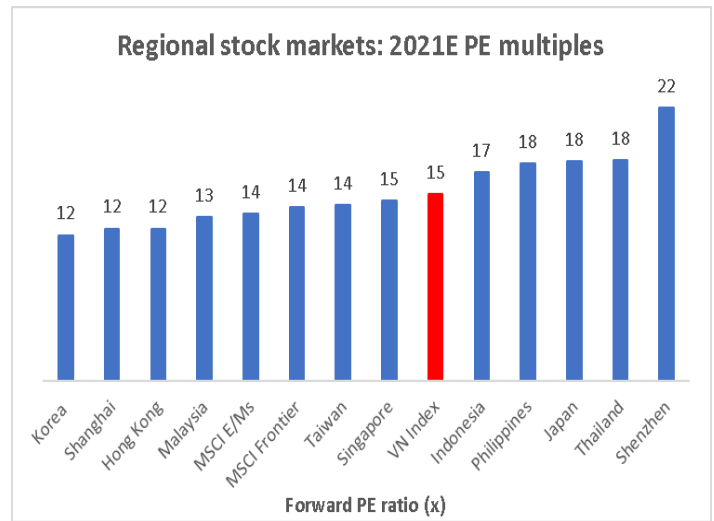
Source: Bloomberg (2021E consensus PE), Yuanta Vietnam

**Vietnam stocks are not as cheap vs. the region as they used to be, on trailing P/E basis...**



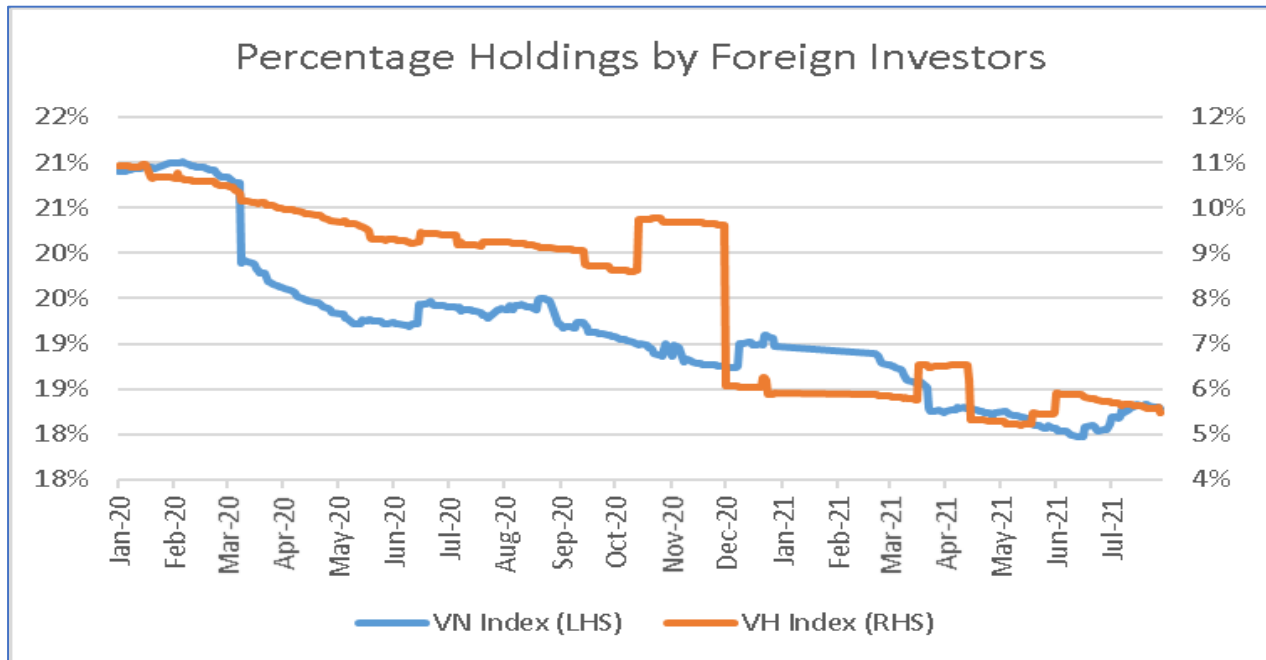
Source: Bloomberg, Yuanta Vietnam (Jul 30)

**...or on a forward basis. Still, valuations do not appear to be stretched – yet.**



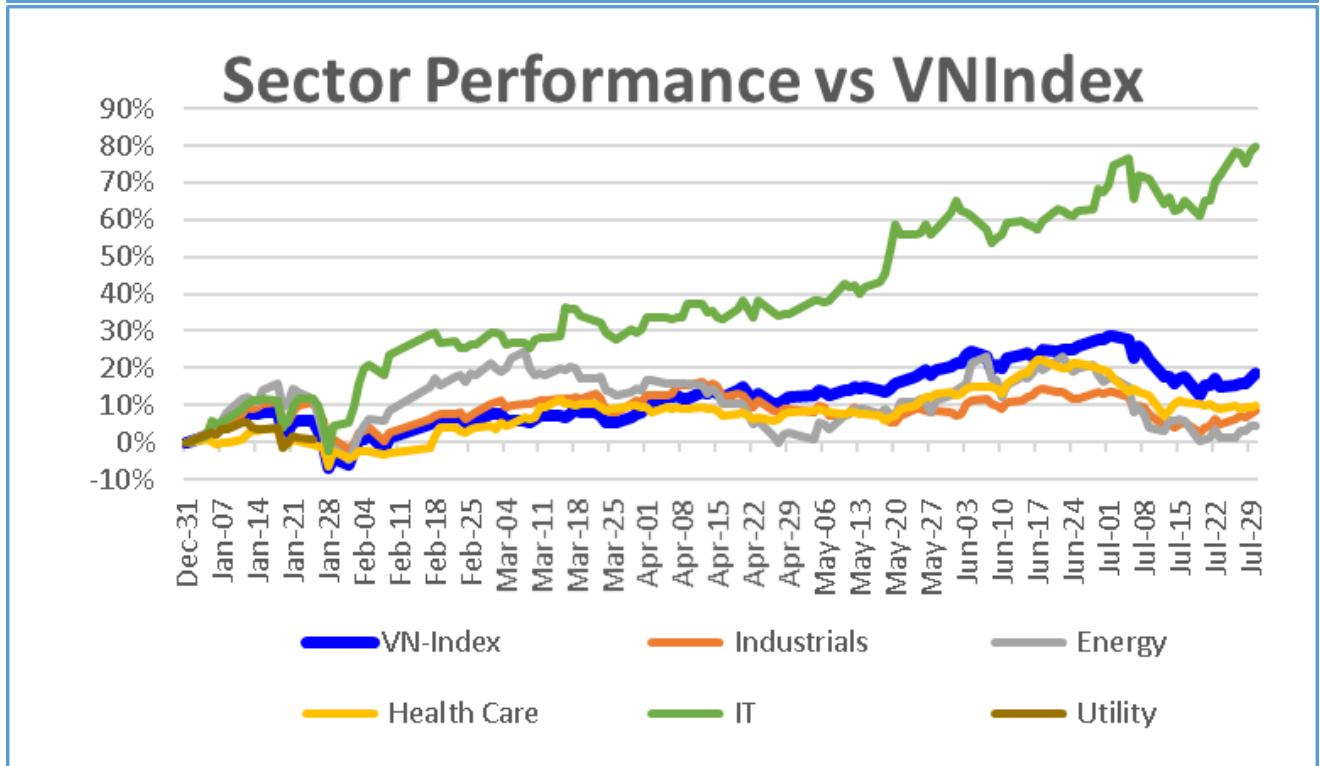
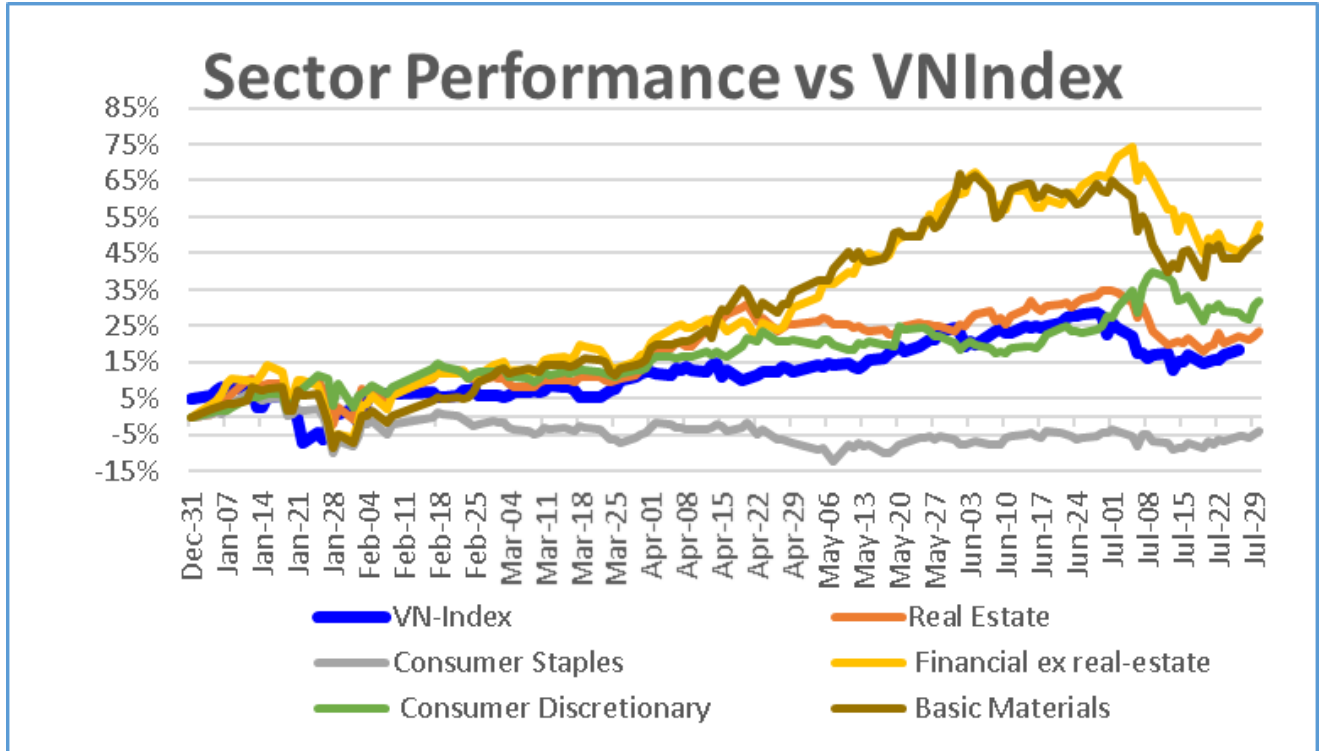
Source: Bloomberg (2021E consensus PE), Yuanta Vietnam (Jul 30)

**Foreigners returned as better buyers in July** after seemingly relentless net selling as the market roared higher in the previous months. FINIs net bought US\$222mn of Vietnam stocks in July, bringing YTD net portfolio outflows to US\$1.1bn. As we highlighted in our latest [Know the Flows](#) update, of June 25, net selling in 1H was concentrated in four large-cap outperformers – HPG, CTG, VPB, and MBB, implying profit-taking and portfolio reallocation as positions in these names pressed up against portfolio limits. By contrast, VNM, which rounded out the top five most sold stocks, was the single worst performing stock on the VN30 in 1H21.

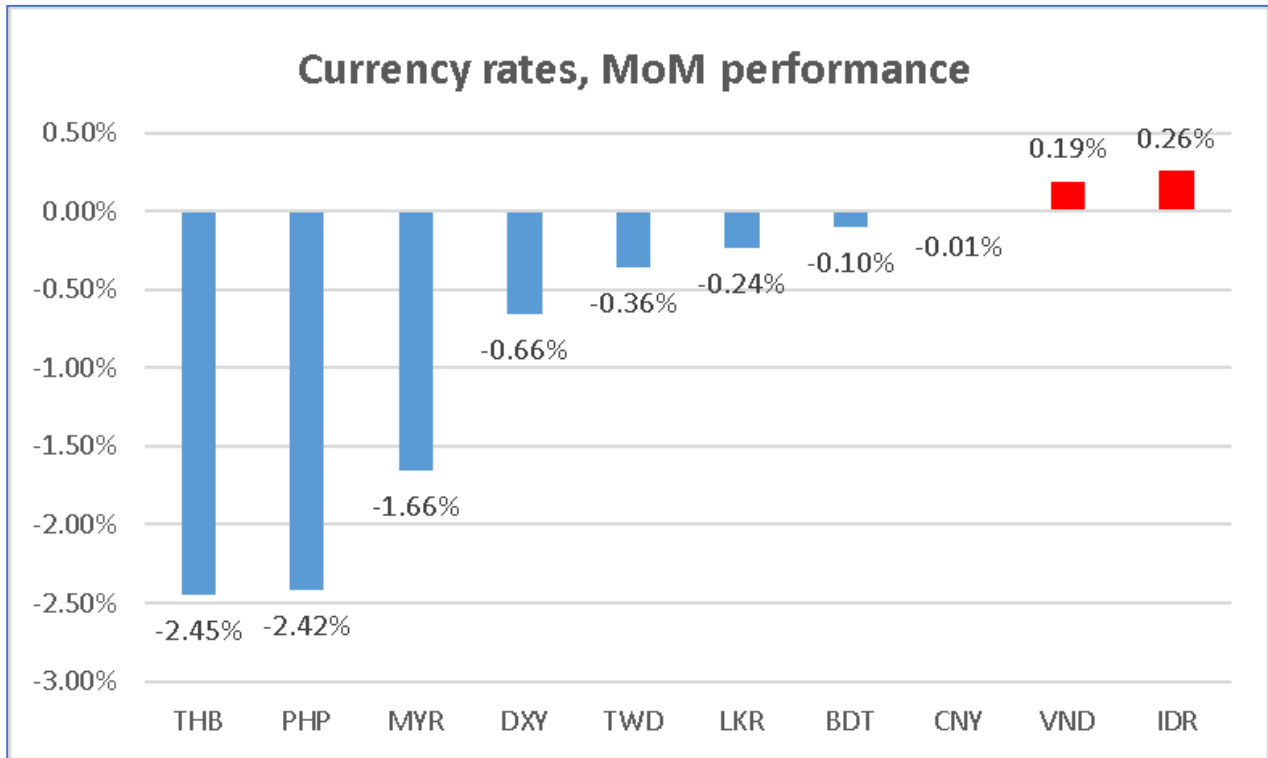


Source: FiinPro, Yuanta Vietnam (Jul 29)

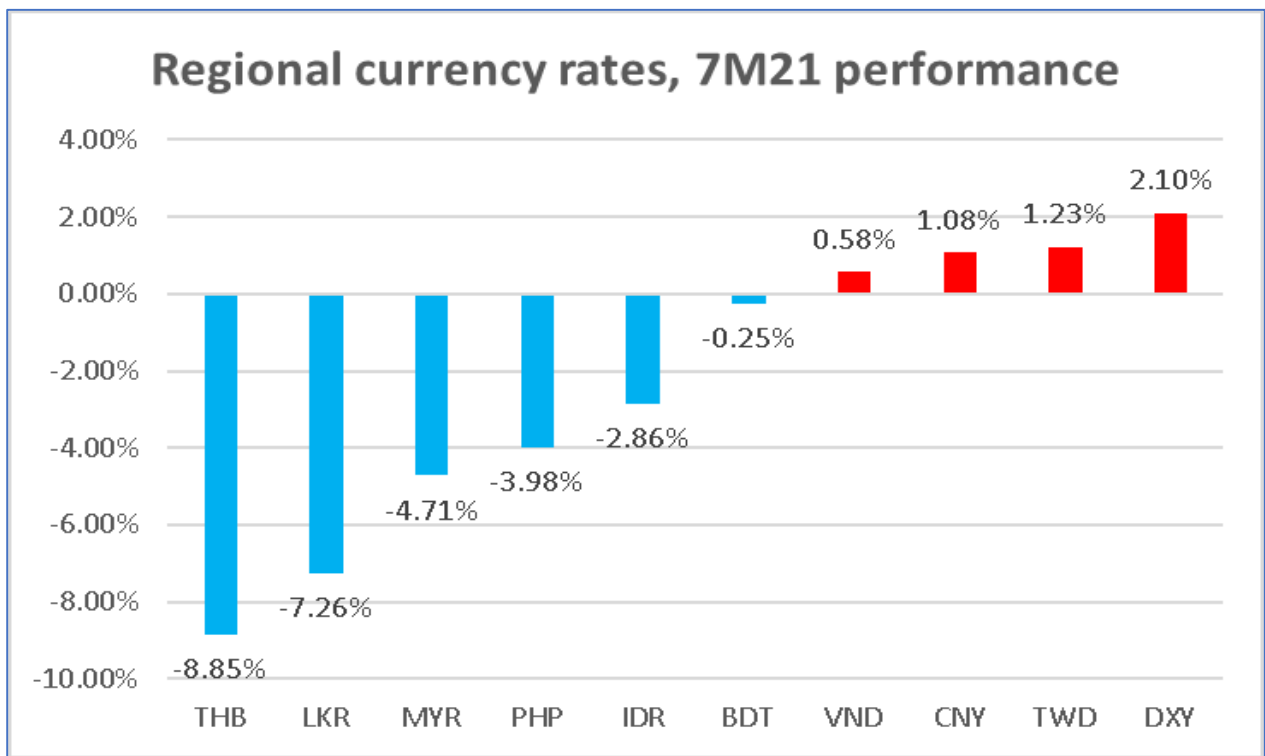
**YTD Sector performance: Property finally caught a bid, taking its rightful place as the fourth horseman of the bull market along with banks, materials, and IT (i.e., FPT).**



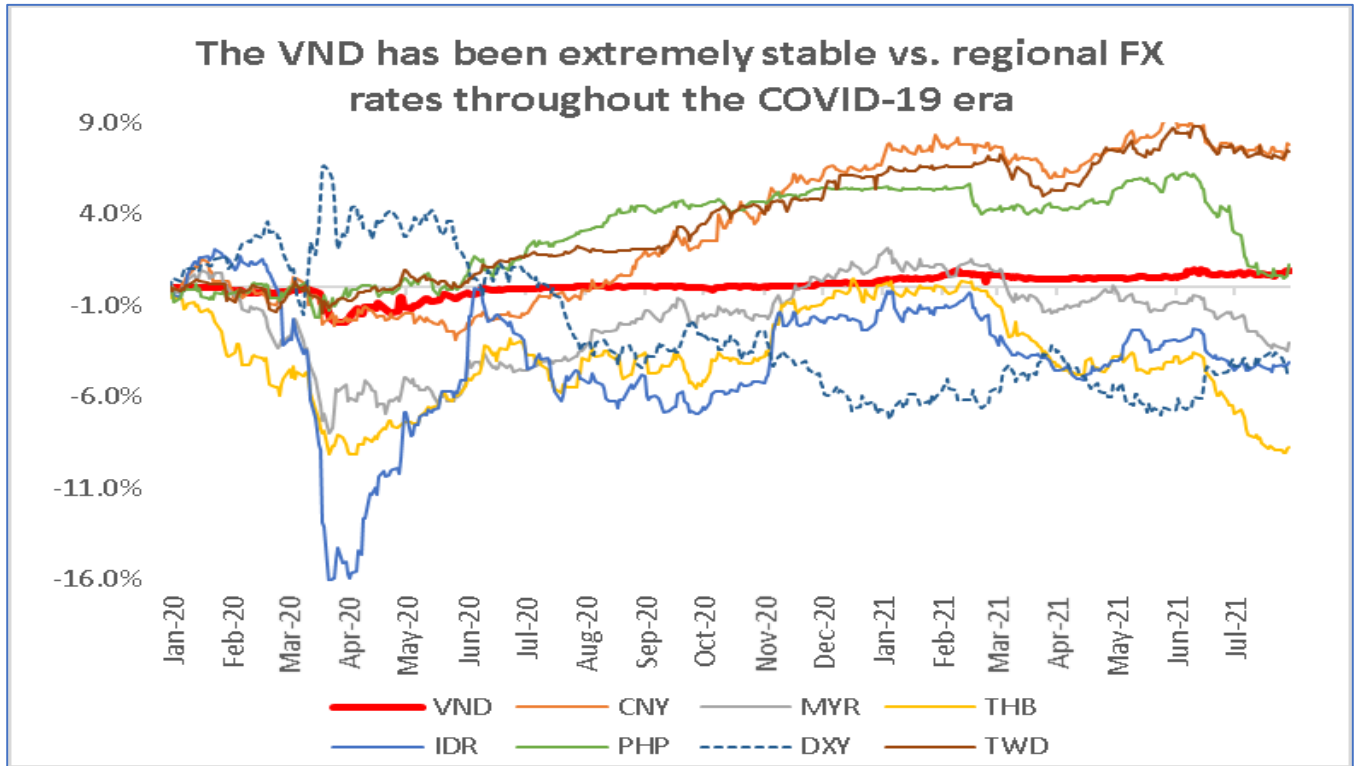
Source: Bloomberg (data through Jul 30)



Source: Bloomberg (Data is as at Jul 30)

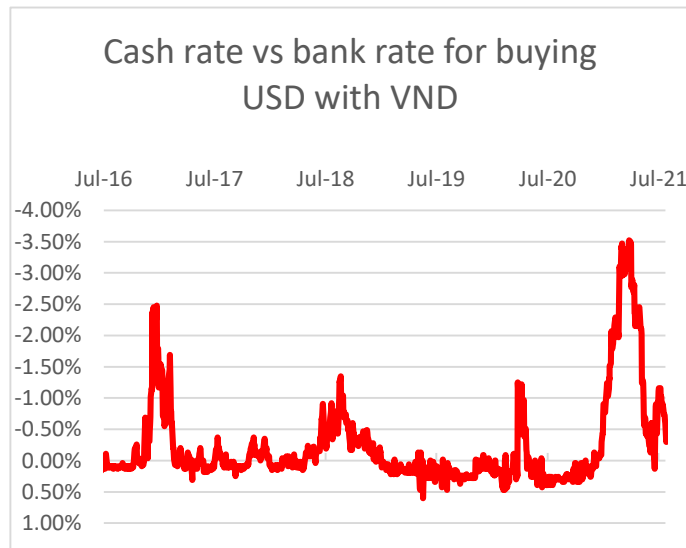


Source: Bloomberg (Data is as at Jul 30)



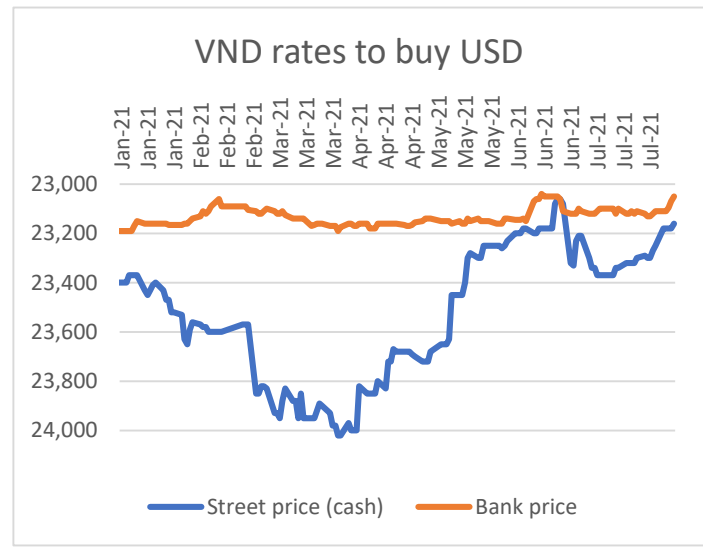
Source: Bloomberg

**Grey market US dollar cash premium has returned to normalized levels in July.**



Source: FiinPro, Yuanta Vietnam. Bank data refers to VCB's published electronic selling price vs. the "free market" price for USD notes.

**...after a wild YTD ride that we attribute to gold arbitrage trading.**

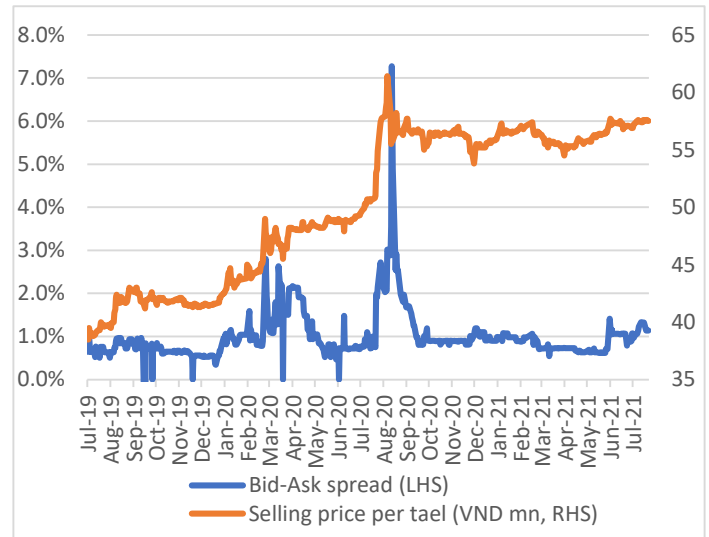
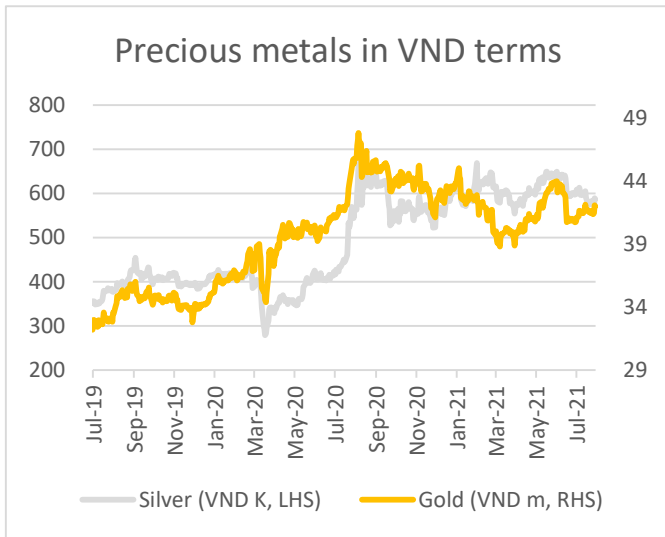


Source: FiinPro, Yuanta Vietnam

**Global precious metals prices recovered marginally in July.**

**But the SJC's official gold price never really moved, even when XAU tanked in June.**

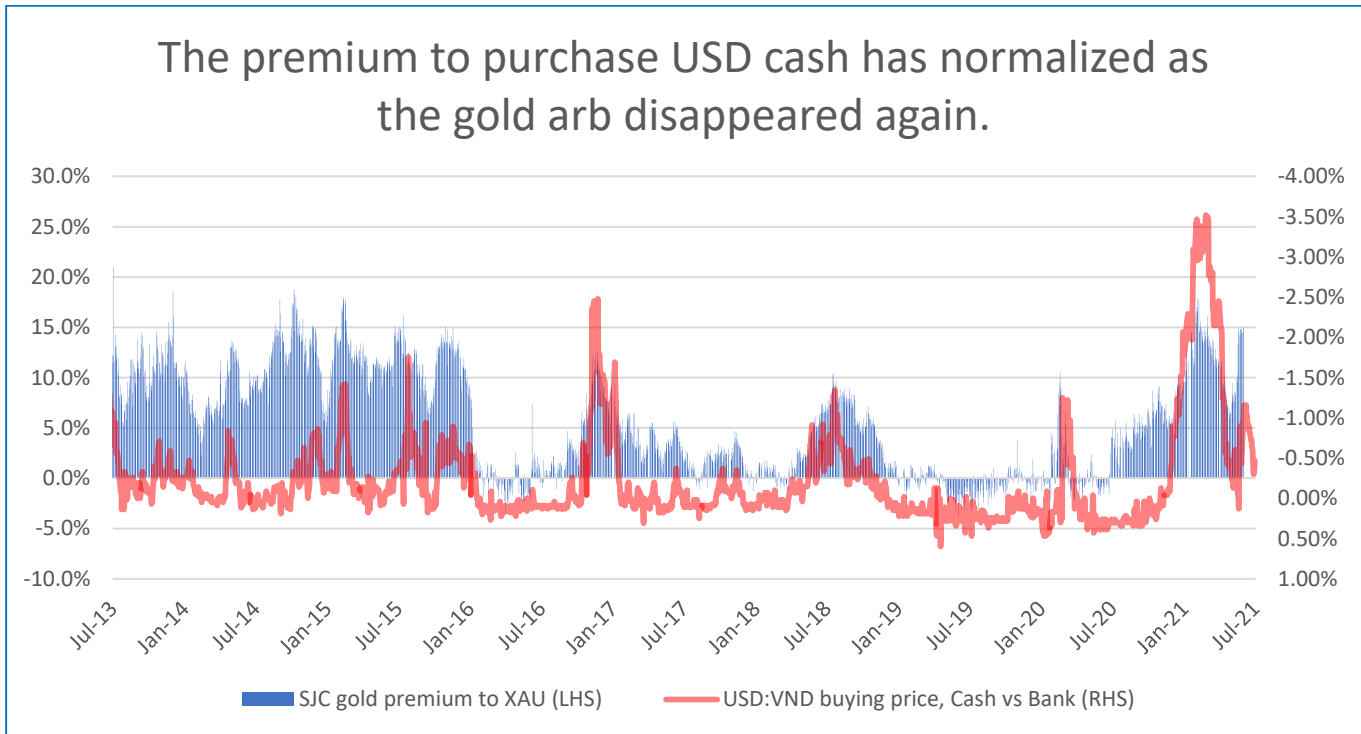




Source: FiinPro, Yuanta Vietnam. Bank data refers to VCB's published electronic selling price vs. the "free market" price for USD notes.

Source: FiinPro, Yuanta Vietnam

**The gold arbitrage was resurrected in June but went dormant again in July.** As a result, demand for USD cash has apparently dwindled, leading to a closure of the gap between FX rates at the bank and in the grey market. We have been tracking this since the premium spiked in late 2020, at first out of concern that it might have been reflecting broad financial stress, but later out of interest in the mechanics that drive this very active market and the specifically influence of gold trading. We have heard a few other theories for the change in the premium: lack of tourists bringing in cash (true, but there haven't been international tourists since February 2020 so this hasn't changed) and crypto speculation (maybe, but are they still speculating today?). In our view, the opportunity – or lack thereof – for gold arbitrage is indeed the key driver of the Vietnam price for paper greenbacks.

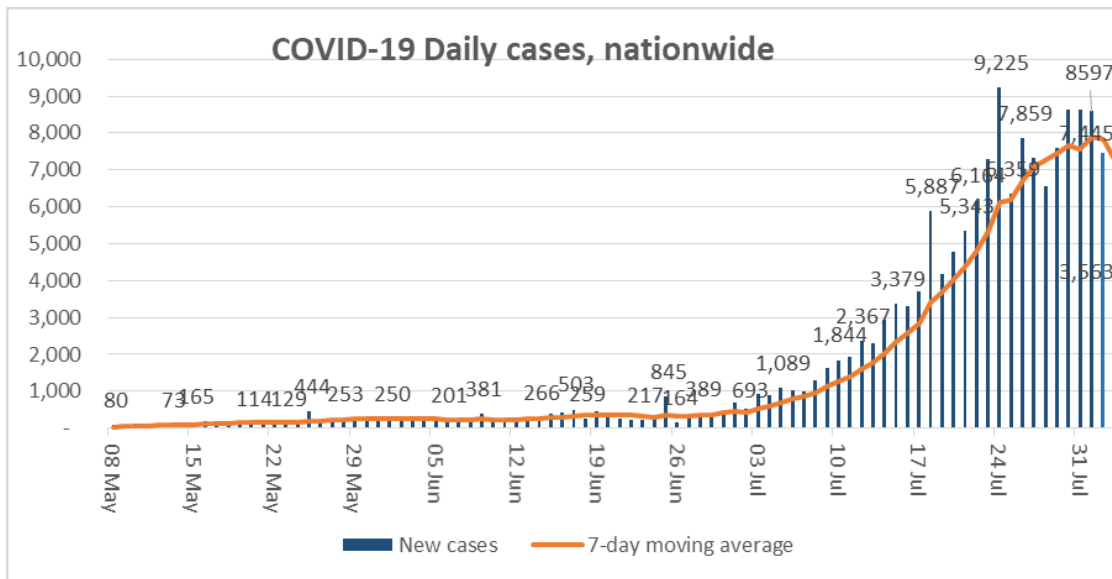


Source: FiinPro, Bloomberg, Yuanta Vietnam

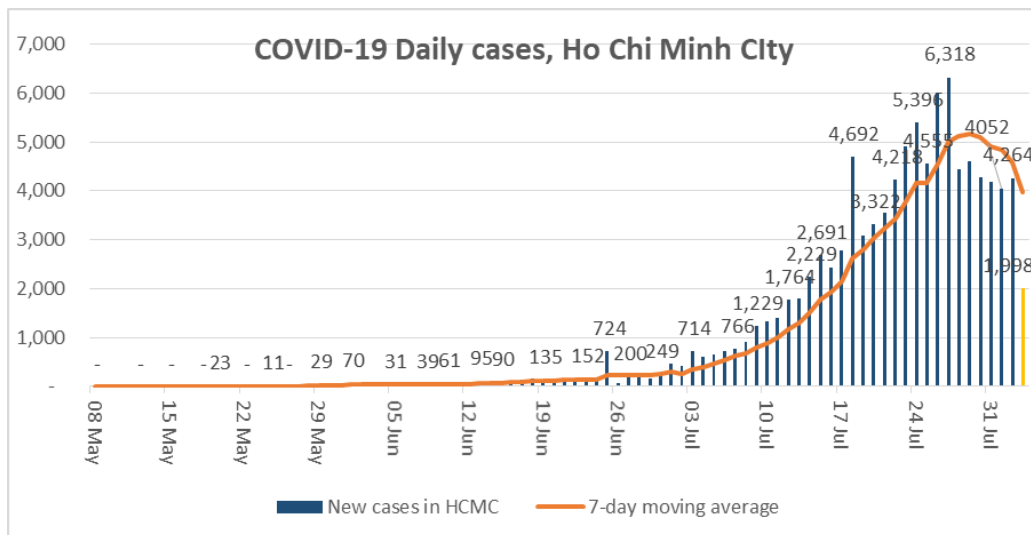
## Covid-19 outbreak worsened in July

As of the Morning of August 2, the nation has identified 159,809 new cases of COVID-19 since April 27, with over 146,000 cases identified since July 1. The outbreak was originally centered on several areas of northern Vietnam, but more recently Ho Chi Minh City (HCMC) has emerged as the predominant red zone. The southern metropolis accounts for 66% the total number of COVID cases in July. But the good news is that new cases in HCMC, the biggest GDP contributor, have reached the peak and started falling since the end of July. But the risk still remains since the new cases in other provinces (exclude HCMC) seem to pick up.

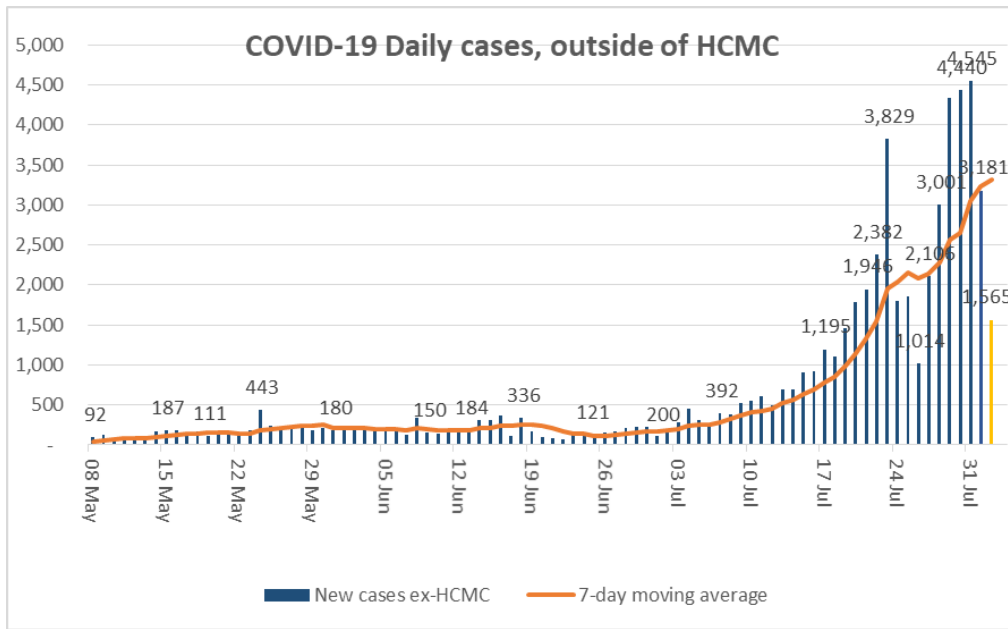
**The peak of the Covid new cases = the trough of the market?** The surge in Covid-19 new cases may deteriorate sentiment in the short term but we believe that short-term trough in the stock market may be identified once the number of Covid-19 new case hit the peak, further underpinned by lower interest rates. This trend is observable in India in May when the Covid-19 reached the peak but at the same time the country's benchmark index hit the trough.



Source: VNexpress, Yuanta Vietnam (Note: the August 3 data point reflects new cases as of 8 a.m.)



Source: VNexpress, Yuanta Vietnam (Note: the August 3 data point reflects new cases as of 8 a.m.)



Source: VNexpress, Yuanta Vietnam (Note: the August 3 data point reflects new cases as of 8 a.m.)

# Macro Update – Recovery Interrupted in July

- **Binh Truong, Deputy Head of Research**

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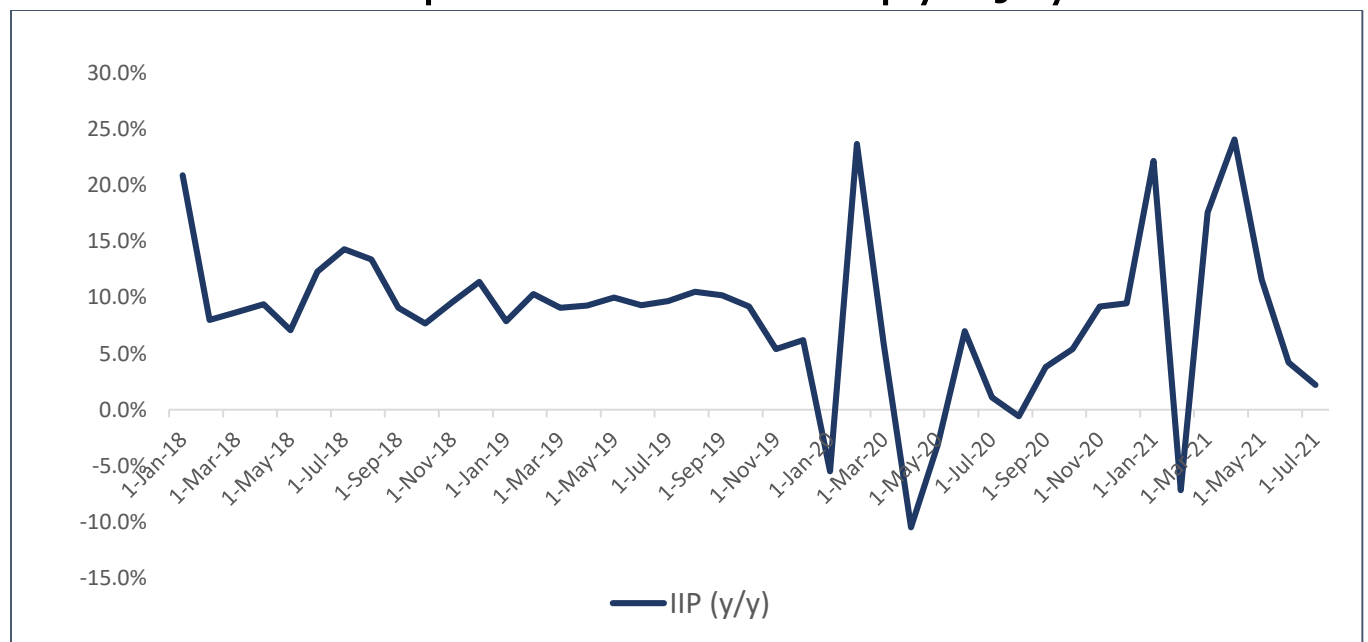
## Expanding social distancing dampens industrial production

According to the GSO, the Index of Industrial Production (IIP) increased by 1.8% YoY in July, a dramatic decline from the low-base peak of 24.1% YoY in April, 11.6% in May, and 6.8% in June. Clearly this is well below trend and while not good news, should not come as a surprise given the widening and increasingly strict COVID-19 related restrictions. Manufacturing, which has been the key driver of overall GDP, expanded by 2.9% YoY in July (vs May's growth of 8.1% YoY). This is a result of the fact that the secondary outbreak has been especially impactful in industrial centers: specifically, Ho Chi Minh City, as well as Bac Giang and Bac Ninh Provinces. On a YTD basis, 7M21 IIP rose by 7.9% YoY (vs 8.9% YoY in 5M21).

The key manufacturing sector increased by 9.9% YoY in July. In addition, electricity production and distribution rose by 6.7% YoY; waste and wastewater management/treatment rose by 4.4% YoY; and mining decreased by -8 YoY. Noticeably, HCMC, the largest contributor to the nation's GDP, recorded a -19.4% decline in its municipal IIP; the city has enforced increasingly strict restrictions in accordance with Directive 16 following since July 9.

A total of 19 southern provinces and others across the country have adopted Directive 16 social distancing including the second and the third largest regional GDP contributors, Hanoi and Dong Nai provinces. This is extremely likely to further dampen industrial activity as the measures are likely to be extended well into August at least. We would expect a more decent recovery in industrial production once the government's vaccination efforts are rolled out more broadly, possibly as early as September.

## Industrial production slowed sharply in July



Source: GSO

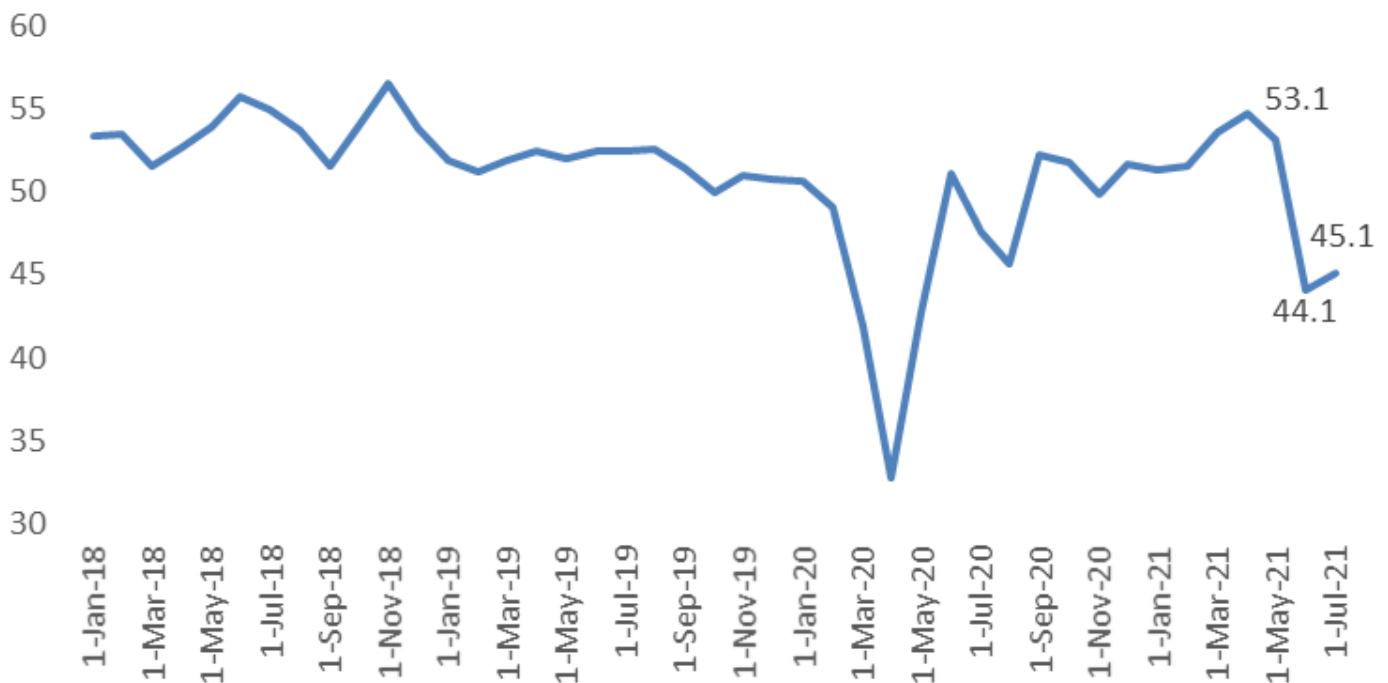
## July Manufacturing PMI remains low

**The manufacturing PMI fell deep into contraction territory in July.** According to IHS Markit, the manufacturing PMI was just 44.5 in July, down from 53.1 in May and 44.1 in June. This is the second reading below 50 in a row indicating deterioration in manufacturing.

Unlike the previous month, the business conditions were hit in both supply and demand side. Specifically, a large number of businesses have been forced to temporarily lockdown, some operated at reduced capacity. In addition, the survey respondents informed that the total new orders also dropped also impact the manufacturing production in July. Orders from abroad also declined but at the lower rate, some respondents reported high orders due to demand improvement in international markets.

The manufacturers reported disruption in logistics that results in delay in delivery time. In addition, they also faced with the surge in input price as costs of materials and logistic increased. The output prices, however, rose softer than the input given the weak demand.

### Vietnam's Manufacturing PMI



Source: IHS Markit (July 1)

Extending Lockdowns, factory closures, and constraints on logistical systems might dampens August production again but with current vaccination programs in place, we hope that industrial production to resume growth territory in September.

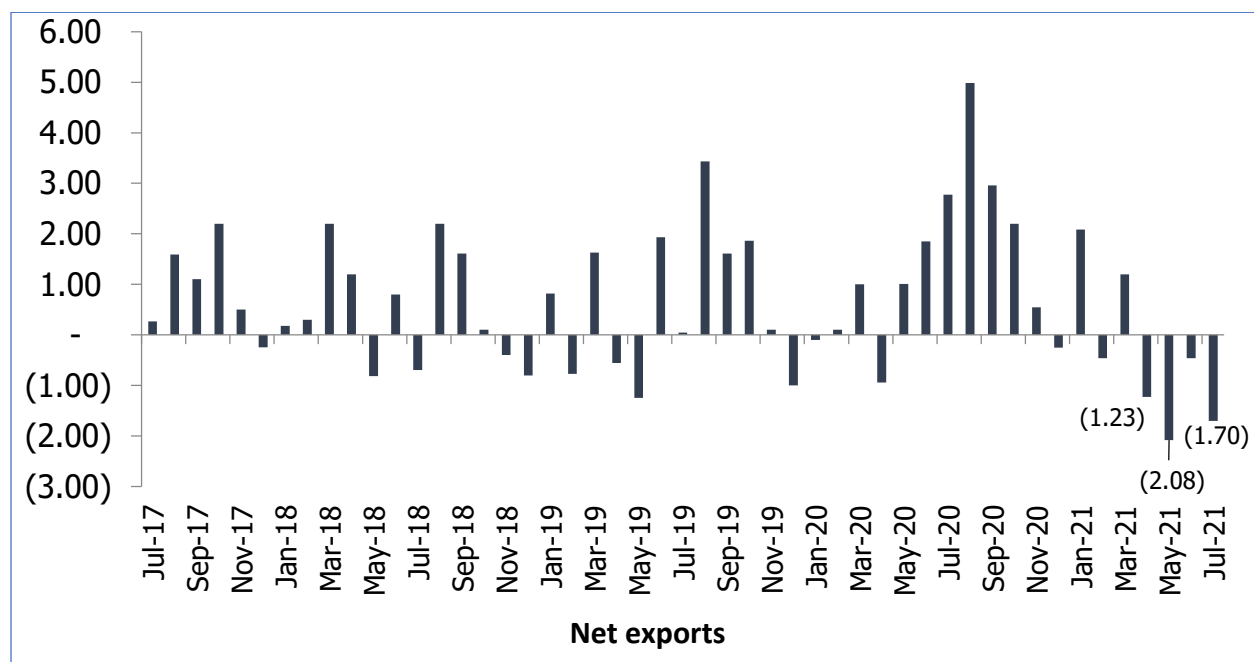
## Trade deficit expanded as industrial parks hit by Covid outbreak

The GSO states that international trade activities have also experienced interruptions since industrial centers adopted strict social distancing in accordance with Directive 16. Specifically, Vietnam posted a goods trade deficit of US\$1.7bn, expanding from June's deficit of US\$0.46bn. July's export turnover reached US\$27bn (+8.6% YoY, -0.8% MoM) and import turnover reached US\$ 28.7bn (+29.9% YoY, but +3.8% MoM). Looking closer to the data breakdown, we can observe that the increase in import turnover is mainly attributable to a +33.7 % YoY jump in machinery imports (to US\$4.2bn) and a +35.2% YoY surge in mobile phones and parts imports (US\$ 1.6bn), which we believe is mostly comprised of manufacturing inputs in response to strong export orders. Thus, the surging imports are likely to materialize in very strong export growth later this year, and we remain positive that the full year will see another trade surplus.

However, the 7M21 goods trade deficit reached US\$2.7bn as imports outgrew exports. 7M21 export turnover reached US\$185.33bn (+25.5% YoY) and 6M2021 import turnover reached US\$188.03bn (+35.3%YoY). Again, Vietnam is likely to remain a structural net importer of services for the foreseeable future; in addition, inbound international tourism is the nation's only major service export, and a recovery in tourism arrivals is clearly nowhere in sight.

Given that social distancing measures have been extended into August, we do not expect a quick recovery this month. However, we should emphasize that the surge in component and material imports in 2Q21 will eventually reverse the trade deficit toward yearend, driving another current account surplus for 2021.

## July's trade deficit was mainly attributable to electronics imports



Source: GSO

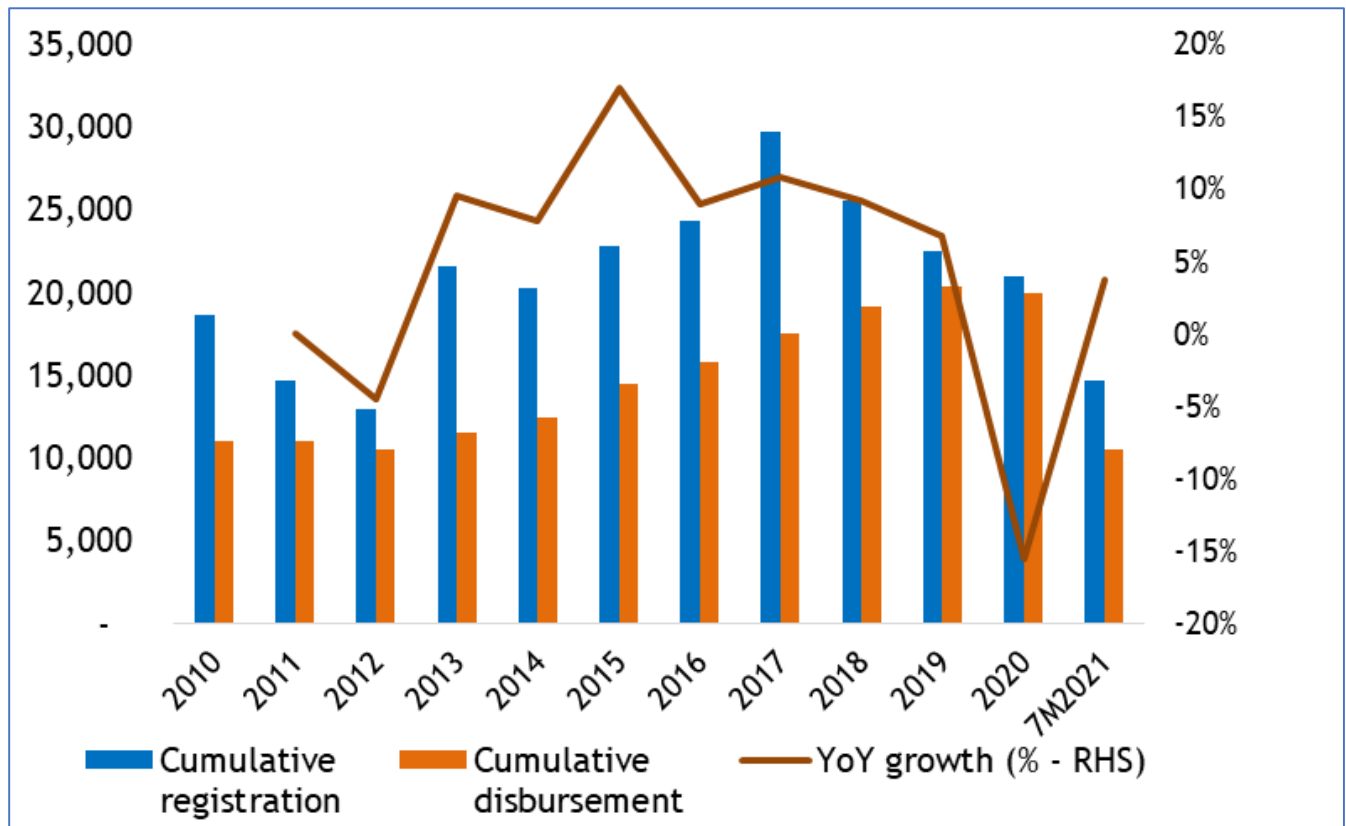
## Investment should remain the main growth engine toward yearend

**Social distancing has also impacted state investment in the short term.** Specifically, total state investment declined by 12.4% YoY to VND38.3tn in July. As already discussed last month, public investment should escalate in 2H21 given that the prime minister announced that the government would achieve 95% to 100% of its investment target by the end of the year, which should fuel economic growth toward yearend and should also address transportation bottlenecks going forward.

The GSO estimates that government investment in 7M21 reached VND 175.6tn, up +4.3% YoY. This is equivalent to 44.8% of the annual budget, (vs 36.8% of the annual budget in 6M21). This implies that public investment should gain momentum in 2H21 if the target is to be achieved. For 7M21, central government budget investment reached VND 35.2tn, up +12.7% YoY.

The GSO estimates that disbursed FDI in 7M21 grew by 3.8% YoY to US\$10.5 bn despite the tight travel restrictions. Manufacturing attracted c.US\$7.54bn, accounting for 71.8% of total disbursed FDI. Real estate disbursed FDI reached US\$1.3 bn, accounting for 12.3% of the total. Production/distribution of electricity, gas, hot water, steam, and air-conditioning reached US\$984.2mn, accounting for 9.4% of total disbursed FDI. Vietnam provides a manufacturing gateway to global markets due to its 15 FTAs and another 2 FTAs under negotiation, which should attract further FDI investment in the years ahead.

## FDI is solid, will likely surge after travel restrictions are eased



Source: GSO

## Domestic demand: Not much to cheer about

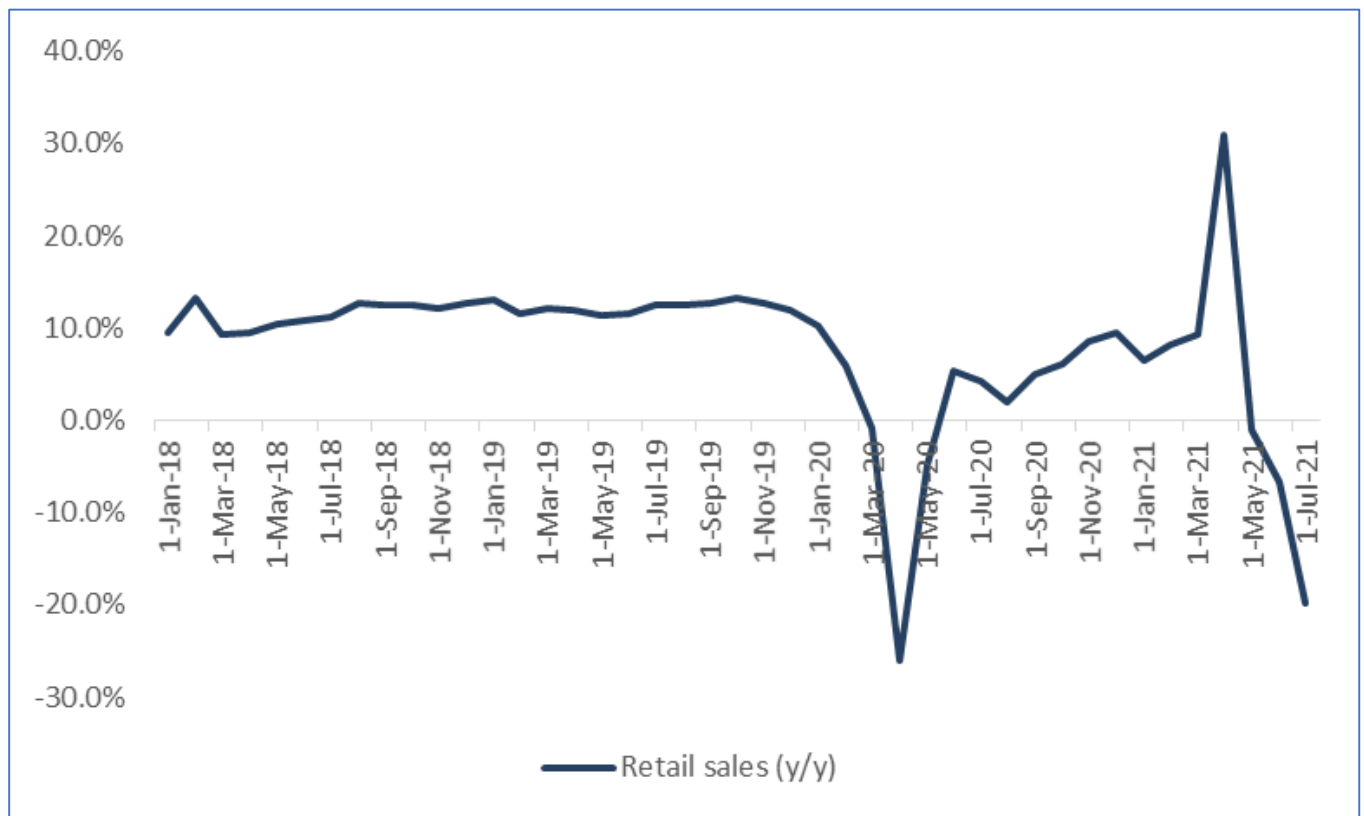
Temporary store closures as part of the social distancing policies certainly hit retail sales. The GSO reported that total estimated retail sales of consumer goods and services in July reached VND 339 trillion, down by -8.3% MoM and -19.8% YoY. As with manufacturing, this comes as a disappointment relative to the extreme strength of recent months (+30.9% YoY in April).

7M21 retail sales of goods and services reached VND 2,791 trillion, up 0.7% YoY (vs. +4.9% YoY for 6M2021). By comparison, 7M20 retail sales declined by -5.0%, indicating that YTD retail consumption has yet to get back on trend with 2019 (i.e., normalized) levels of growth.

In terms of the mix, 7M21 retail sales of goods reached VND 2.269 trillion (up by 3.2% YoY). This segment accounts for about 81.3% of total sales. By contrast, hospitality and catering sales declined by -11.8% YoY to VND 244 trillion; this segment accounts for 8.7% of overall retail sales

In July, 16 southern provinces and Hanoi have adopted Directive 16 social distancing measures, which are very likely to remain in place until at least the middle of August, suggesting a further slowdown in domestic demand this month. In our view, the pace of the rollout of vaccines will play the crucial role in reopening the economy. Some experts forecast that 50% of the population of big cities will be vaccinated by the end of August, which would enable a strong recovery of retail sales in September if it happens. Our understanding is that roughly 10% of HCMC's population has been vaccinated (largely one jab) so far.

### Domestic demand was clearly hit by the COVID outbreak



Source: GSO



## CPI still remains low, in contrast to on-the-ground experience

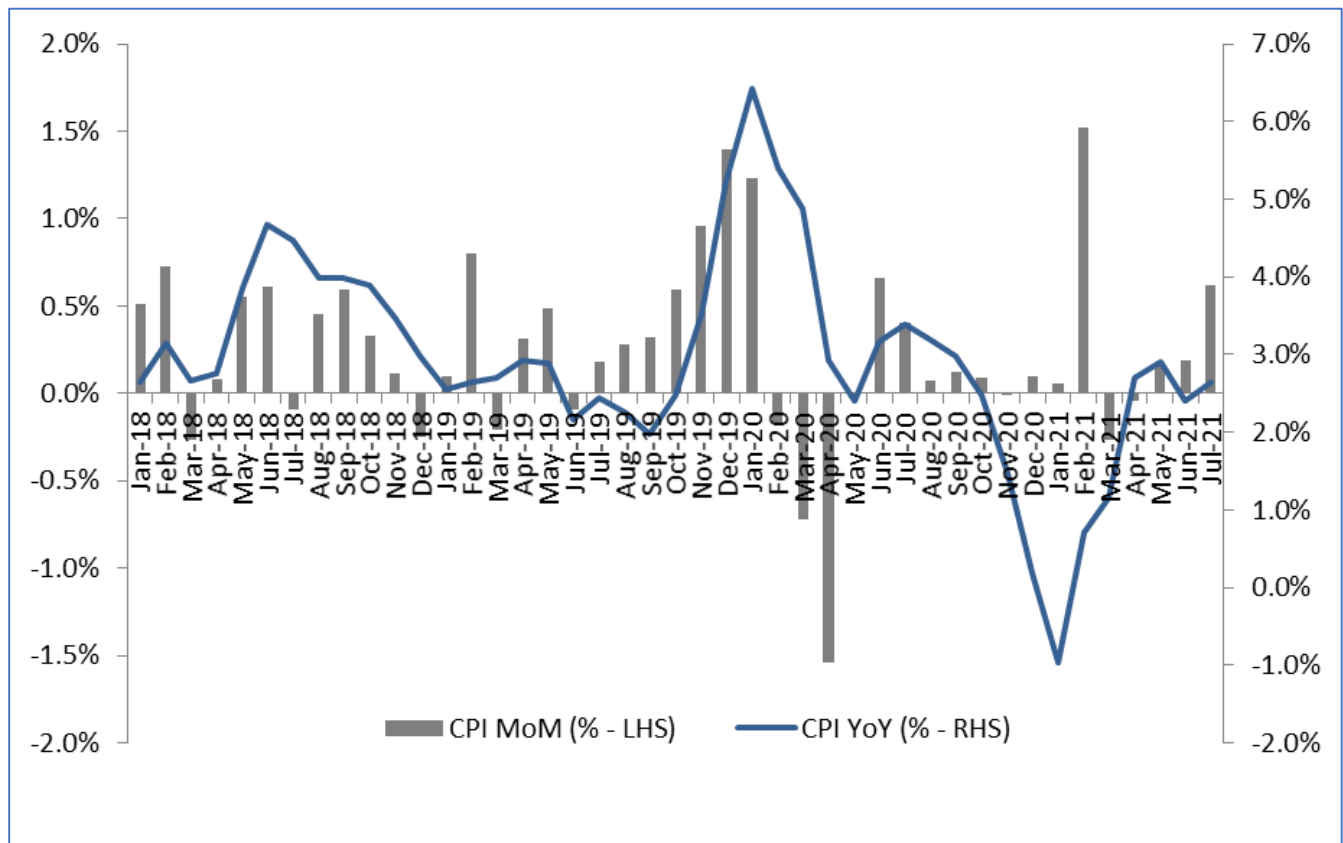
We have witnessed food prices surge sharply in our local community as HCMC adopted Directive 16 social distancing, but our limited observation may not represent the price situation across the whole country. Despite recent advances in commodity prices and other wholesale prices, we were still surprised to see that CPI remains quite low. This implies ample room for continued expansionary monetary policy.

We still believe that CPI faces upside risk going forward as producers must either take the pain of higher input costs or attempt to share this unpleasantness with consumers by increasing their selling prices. Low inflation figures will create ample room for accommodative expansionary policies to trigger economic growth (and credit stresses mean that rates will be kept low for the foreseeable future, in our opinion).

Specifically, the consumer price index (CPI) in July 2021 increased by 0.62% MoM and 2.64% YoY. The CPI has thus risen by 2.25% YTD, indicating considerable headroom under the annual target of sub-4%. Prices of seven of the 11 items in the CPI basket increased in July on a MoM basis, whereas three items saw decreased prices.

Breaking down the CPI basket, housing and building materials, which account for 15.7% of the CPI basket, posted an increase of 0.88% MoM; transportation, which accounts for 9.37% of the basket, rose by 2.4% MoM due to a 7.1% increase in the petroleum price. Surprisingly to us (and our empty wallets), food and foodstuff, which accounts for 36% of the CPI basket, rose by 0.67% MoM; specifically, the GSO reported pork prices declined by 1.5% MoM.

## Inflation (as measured by CPI) has bucked the global trend



Source: GSO

**Yuanta Universe: Valuations and ratings**

Sector	Stock Code	PER (x)			EPS Growth (%)			PEG (x)			PBV (x)			ROE (%)			ROA (%)		
		2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
<b>Banks</b>	ACB VN	10.0	10.3	9.6	18.1	(3.3)	6.9	0.6	n/a	1.4	2.2	2.2	2.2	24.2	24.0	22.8	1.7	1.8	1.9
	BID VN	23.1	19.8	16.3	9.1	16.5	21.4	2.5	1.2	0.8	2.1	2.0	1.9	10.5	10.9	12.4	0.5	0.5	0.6
	HDB VN	15.1	12.6	10.1	(26.4)	19.4	24.7	n/a	0.7	0.4	1.7	2.3	1.9	19.3	18.8	19.2	1.6	1.5	1.5
	MBB VN	10.5	9.7	7.4	14.1	8.5	31.2	0.7	1.1	0.2	1.8	1.7	1.4	19.8	18.4	20.1	1.9	1.8	2.1
	STB VN	26.7	24.2	18.0	43.3	10.5	34.3	0.6	2.3	0.5	2.0	1.9	1.7	7.9	8.0	9.8	0.5	0.5	0.6
	VCB VN	21.9	22.0	16.8	34.8	(0.6)	31.4	0.6	n/a	0.5	4.5	3.9	3.3	23.2	18.8	21.0	1.4	1.3	1.5
	VPB VN	18.1	14.3	12.7	11.6	26.1	13.0	1.6	0.5	1.0	3.5	2.8	1.8	21.5	21.9	17.5	2.4	2.6	3.1
	<b>Brokers</b>	HCM VN	32.7	27.5	16.5	(49.0)	18.7	66.9	n/a	1.5	0.2	3.4	3.3	3.2	11.7	12.1	23.8	6.2	5.3
	SSI VN	29.2	24.1	34.8	(22.9)	21.0	(30.7)	n/a	1.1	n/a	3.0	3.3	4.0	10.3	13.1	13.9	3.7	4.0	4.2
	VCI VN	12.0	10.9	15.2	(16.3)	9.5	(28.2)	n/a	1.1	n/a	2.0	1.8	3.3	18.0	17.0	23.2	9.9	9.0	11.5
	VND VN	25.6	14.5	17.5	(0.7)	75.7	(17.0)	n/a	0.2	n/a	3.0	2.5	2.9	12.7	19.7	22.4	3.4	5.1	6.7
<b>Energy</b>	PVD VN	40.5	43.2	69.1	(4.0)	(1.3)	(40.6)	n/a	n/a	n/a	0.5	0.5	0.5	17.1	1.3	0.8	0.9	0.9	0.5
	NT2 VN	7.2	8.7	11.6	(2.7)	(17.1)	(25.3)	n/a	n/a	n/a	1.3	1.2	1.4	14.8	7.4	15.9	9.2	9.0	7.4
	PC1 VN	12.0	8.9	10.1	(32.1)	34.7	(11.3)	n/a	0.3	n/a	1.2	0.9	0.8	10.2	11.9	9.0	4.8	5.3	3.6
<b>Consumer</b>	MSN VN	28.0	31.0	25.2	4.8	(9.6)	22.9	5.9	n/a	1.1	4.5	3.9	3.4	17.3	13.5	14.5	8.4	7.0	8.0
	PNJ VN	22.5	24.6	18.0	(20.2)	(8.2)	36.8	n/a	n/a	0.5	3.6	3.1	2.7	28.7	25.9	20.3	17.8	16.0	13.2
	DGW VN	43.9	35.6	32.8	24.5	23.3	8.5	1.8	1.5	3.9	7.2	6.4	5.7	17.1	18.9	18.4	6.1	7.1	7.1
<b>Oil &amp; GAS</b>	POW VN	12.7	11.1	10.3	(18.0)	14.1	7.5	n/a	0.8	1.4	0.7	0.8	0.7	6.8	7.4	7.6	3.9	4.5	4.5
<b>Property</b>	KBC VN	12.1	11.2	8.7	23.0	(54.0)	400.0	2.4	n/a	0.3	2.1	1.8	1.5	10.0	3.0	20.0	6.0	1.0	9.0
	KDH VN	27.5	20.1	18.2	(15.8)	37.0	10.6	n/a	0.5	1.7	2.9	2.6	2.3	11.9	14.5	14.2	7.5	8.9	9.4
	NLG VN	9.8	15.1	18.6	27.0	(35.0)	(19.0)	0.4	n/a	n/a	2.2	2.2	2.2	18.0	13.0	12.0	10.0	7.0	6.0
	NVL VN	29.4	26.4	44.4	1.0	12.0	(42.0)	29.4	2.2	n/a	4.7	4.0	3.0	15.0	14.0	10.0	4.0	3.0	2.0
	VHM VN	19.8	15.5	11.6	20.4	27.1	33.5	1.0	0.6	0.3	1.7	1.3	0.9	30.0	28.7	28.5	11.6	11.9	12.7
<b>Transportatio</b>	ACV VN	26.7	24.6	19.1	5.0	8.3	28.8	5.3	3.0	0.7	4.6	4.0	3.3	20.7	18.8	20.2	12.1	11.4	11.3

Stock ratings and pricing data is as of close on Jul 30 2021.

Source: Bloomberg, Yuanta Vietnam

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