

# VIETNAM ECONOMY AND STOCK MARKET IN BRIEF

## Macro Outlooks:

- GDP growth – A strong resilience economy, around 6.7-6.9% YoY.
  - Q3 2019 GDP growth was 7.31% which caused the 9M GDP to rise to 6.98%.
  - Consumption remains to be the corner stone of Vietnam economy with total retail sale reached a 9-month growth of 11.6%.
  - Industrial and construction sector remained to be the spear-headed sector of the economy with a sharp increase of 9.36% YoY thanks to the resurgence of the mining and quarry sector along with strong productions in metal sector and oil sector.
  - Strong government incentive to disburse its investment budget to boost GDP growth according to Socio-Economic Development Plan of 2016-2020. Specific details should be provided at the 8<sup>th</sup> National Assembly (20/10-21/11).
- Inflation – 9M2019 CPI average rate is 2.51%, a low level in the three-year period 2017-2019 (monthly average of 3.3%).
  - Decreasing oil price due to fears of global recession along with the returning of Nghi Son's refinery oil production contributed significantly to this 9M CPI results.
  - Other goods and services sector increased slightly with sharp increase in minor weight sectors such as education sector and healthcare service sector.
  - Vietnam's inflation 2019 is likely to be in a range of 2.5% -3.0%
- Stable exchange rate– Since 09/2018, USD/VND only appreciated approximately 2.2%, which is quite stable in comparison to the regional average of 3.5%.
  - SBV set a flexible FX policy and closely follow the market's movements.
  - The Dong's stabilization is supported by rich FX currency supply via ample trade surplus (9M2019 is USD 5.9 billion) and net FI inflow (9M2019 is USD 24.7 billion, +30.3% YoY)
  - Abundant foreign reserves of USD 70 billion.
- Public debt – Reducing public debt ratio.
  - Vietnam's public debt is estimated at 58-59% of GDP, slight change comparing to 58.4% of 2018.
  - SOEs' privatization and fiscal expenditure control are key points.
  - In 9M2019, public budget is at a surplus rate.
  - Healthy fiscal policy is an important attraction for foreign investment.
- Interest rate – Expected interest rate cut in alignment with global central bank rate cut trend.
  - Vietnam is expected to cut policy interest rate in 2019 by 25bps if FED and ECB decided to cut another 25bps of interest rate in Q4.2019. For 2020, SBV is likely to cut an addition of 50-75 bps following global trend.
  - All major commercial banks have lower their lending rate for corporations since August, 01, following worldwide trend of interest rate cut.
  - Credit growth is estimated at 14% in accordance with the SBV's policy of improving credit lending quality.
  - An easing monetary policy operation is not only good for business activities but also lower the investors' expected return for investment calculation.

Table 1  
Monthly macro indicators

Indicator/Month	2019M02	2019M03	2019M04	2019M05	2019M06	2019M07	2019M08	2019M09
PMI	51.2	51.9	52.5	52	52.5	52.6	51.4	50.5
IIP yoy (%)	10.3	9.1	9.3	10	9.6	9.7	10.5	9.7
IIP ytd yoy (%)	9.2	9.2	9.2	9.4	9.1	9.4	9.5	9.5
Retail Sales yoy (%)	11.5	12.1	12.0	11.4	11.5	12.4	12.4	12.7
Retail Sales ytd yoy (%)	12.2	12	11.9	11.6	11.5	11.6	11.5	11.6
CPI mom (%)	0.8	-0.21	0.3	0.59	-0.09	0.18	0.28	0.32
CPI yoy (%)	2.64	2.7	2.93	2.88	2.13	2.44	2.26	1.98
Registered FDI (Bil. USD)	3.30	5.12	7.45	9.09	10.37	11.7	13.2	15.76
Disbursed FDI (Bil. USD)	2.58	4.12	5.70	7.30	9.10	10.6	12.0	14.2
Export (Bil. USD)	13.9	22.4	20.4	21.5	21.4	22.6	25.9	23.0
Import (Bil. USD)	14.7	21.8	20.9	22.8	19.5	22.4	22.5	22.5
Trade Balance (Bil. USD)	-0.8	0.6	-0.5	-1.3	1.9	0.2	3.4	0.5
Exchange rate (USD/VND)	23,252	23,245	23,261	23,420	23,404	23,292	23,284	23,266
Credit growth (%)	-	2.28	-	-	6.09	-	-	8.4

Source: BSC Research

Table 2  
Quarterly macro indicators

Indicators/Quarter	Q3/2017	Q4/2017	Q1/2018	Q2/2018	Q3/2018	Q4/2018	Q1/2019	Q2/2019	Q3/2019
GDP yoy (%)	7.46	7.65	7.38	6.73	6.88	7.31	6.79	6.71	7.31
IIP yoy (%)	9.7	14.4	11.6	12.3	10.7	9.4	9.2	9.2	10.3
Retail Sales yoy (%)	11.6	10.9	9.9	10.7	12.5	12.9	12	11.1	12.7
CPI yoy (%)	2.54	2.73	2.66	3.23	3.57	3.44	2.63	2.65	2.23
Registered FDI (Bil. USD)	4.98	5.00	3.91	12.3	3.4	5.68	5.12	5.18	5.46
Disbursed FDI (Bil. USD)	4.1	8.4	3.88	4.5	4.9	5.18	4.12	4.98	5.1
Export (Bil. USD)	56.4	58.8	55.8	58.2	64.3	63.9	58.7	63.9	71.8
Import (Bil. USD)	54.2	56.9	52.9	57.0	62.0	62.9	57.0	65.3	67.8
Balance of Trade (Bil. USD)	2.2	1.9	2.8	1.2	2.3	1.0	1.7	-1.4	4.0
Exchange rate (USD/VND)	22,743	23,720	22,820	22,967	23,260	23,351	23,245	23,404	23,279
Credit growth (%)	7.54	18	3.5	6.35	9.52	14	2.28	6.09	8.4

Source: BSC Research

### Stock Market Outlooks:

- VN-index recovered, being supported by positive macro factors domestically and internally: GDP growth by 7.31% in Q3/2019, interest rate cuts by major central banks and policy rate cut by State Bank of Vietnam as well as improvement in negotiation between China and U.S.
- VN-index and HNX-index' market capitalization, by the end of September, were VND 3,563 trillion, or USD 152.9 billion, increase 1.57% MoM, 5.4% QoQ, and 16.2% Ytd.
- VN-index's P/E increased to 17.00 (1.53% MoM, 5.37% QoQ, 13.02% Ytd) while HNX-index's P/E increased to 7.54 (2.75% MoM, 1.33% QoQ, and -13.38% Ytd). P/E increase were supported by expectation of profit growth being maintained in Q4/2019. VN-index' P/E remained at 10<sup>th</sup> place and HNX-index remained at 20<sup>th</sup> place in Asia. However, VN-index's P/E are high relative to others in MSCI Frontier Market.
- In Asia, in September, Singapore and Vietnam were the only two growing market at 1.3% and 0.4% respectively. In Q3/2019, Vietnam market was the only one growing at 4.9%.
- Vietnam market continues to attract foreign capital. And loose policy by major central banks is expected to increase capital flow to emerging markets like Vietnam. However, capital flow is not expected to affect the market until next year. Thus, Q4/2019, the market is likely to be supported in short-term thanks to business results of Q3 as well as world macro factors including trade tension between China – U.S., geopolitical tension between countries in Middle East, and Brexit.

**Table 3. Stock market fundamental Sep\_ 2019**

Indicators	2018	Sep_2019
<b>Market indicator</b>		
- VN-Index	892.5	996.6
<i>% growth</i>	-9.3%	11.7%
- HNX-Index	104.2	105.1
- UPCOM-Index	52.8	56.8
Number of listed companies	1,623	1,663
<i>% growth</i>	14.5%	2.5%
- VN-Index	384	388
- HNX-Index	356	370
- UPCOM-Index	883	905
Number of accounts (thousands unit)	2,167	2,340
<i>% growth</i>	5.0%	8.0%
- Domestic account	29	32
- Foreign account	2,138	2,308
Market capitalization (bil USD)	173	195
<i>% growth</i>	16.5%	12.7%
Net of foreign purchase/sale on listed market (mil USD)	1,875	360
<b>Market liquidity</b>		
Avg transaction value/session including put-through trading value of 3 exchanges (mil USD)	280.1	197.3
<i>% growth</i>	28.6%	-29.6%

Market liquidity turn-over (stock turn over/year)	0.5	0.5
Average trading session above 1 mil USD/days	58	53
<b>Fundamental ratios</b>		
VN-Index		
- P/E	15.6	17.0
- P/B	2.4	2.4
HNX-Index		
- P/E	9.0	7.6
- P/B	1.0	1.0

Source: BSC Research

### **Sector Outlook:**

- Entering the third quarter of 2019, Vietnam stocks are expected to show complicated movements depending the events regarding:** (1) Global economy prospects, (2) Actions of Central Banks from influential countries, (3) US-China trade war and geopolitical tension and (4) Business performance of 6M2019 being published would provide investors with more information of the performance of the late half 2019.
- The story of upgrade to Emerging market is dilatory and difficult to happen within 2019.** The ability of the Vietnamese market to be upgraded in September 2019 has dropped significantly after the latest update at 03/2019 of FTSE Russell. In addition, MSCI upgraded Kuwaiti to emerging market status while mentioning nothing about Vietnam's market. Therefore, the ability for MSCI to upgrade the market in 2020 is difficult to happen.
- Secondly, the change in order of VN30 basket and forecast will have a big impact on Vn-Index in 2019.** In the second quarter of 2019, VN30 basket had a big change with 2/2 stocks we noticed in the sector report will be added which are BID và BVH. Accordingly, with CII and DHG being excluded, the total weight of the VN30 group as of 21/07/2019 accounted for 78.2% of the total market capitalization, up from 63.9% at the end of 2018.
- Thirdly, listing / equalization and exchange transfer plans are expected to accelerate due to the sluggish progress in 2018.** In the second quarter of 2019, HOSE received two new members with a large market capitalization shift from Upcom - HVN and VGC. It is expected that in the third quarter of 2019, there will be one more member with significant market capitalization - GVR, other stocks with transferring plan are VEA, BCM... With the tickeres with large capitalization ratios approved for trading on HOSE, VN30 portfolio is expected to have significant updates and additions in 2019.
- Fourth, the opportunities from divesting State capital from leading enterprises.** SCICI has just announced the list of [108 enterprises in divestment plan](#) such as BMI,LIC, FPT... expected to be divested in 2019. However, depending on enterprise, the divestment progress of some Insurance companies might be adjusted such as PVI, BMI to be delayed until 2020.
- Fifth, bank stocks expected to be the center of attention during the latter half of 2019 with their current attractive valuation.** In our opinion, bank stocks with attractive valuation (Average PE trailing =9.65x and Average P/B trailing = 1.34x – excluding VCB) would be the leading stocks for the latter half of 2019.

- **Sixth defensive and high-income stocks (electricity) and sectors with stable growth potential (retail, consumer, drinks) outperformed VN-Index** during 6M2019 and would continue to be a safe choice in such a risky market when the global situation is still complicated.
- **Seventh, public investment is also one of the government's key plans to be promoted in 2019.** In the first half of 2019, the estimated disbursement amount of public investment capital was only 28.6% of the plan assigned by National Assembly, lower than that of 32.53% for the same period of 2018.
- We maintain **OUTPERFORM** rating for the following sectors: **Non-life Insurance, Technology – Telecommunication, Textile, Industrial Park and Banking.** These are businesses that are expected to have strong growth in 2019 thanks to the demand for sustainable growth, benefiting from the trend of moving manufacturing industries to Vietnam, supported by the US-China trade war.
- We value **NEUTRAL** as: **Commercial Property, Seaport, Rubber, Oil&Gas, Pharmaceuticals, Electricity, Tiles, Aviation, Chemicals, Plastics, Fertilizers, Tires, Steel, Aquaculture, Transportation, Construction and Cement.** These are the sectors showing signs of slowdown in profit growth. We raise our recommendation for the Cement Industry to Neutral based on positive consumption growth, supported by export performance.
- For the **OUTPERFORM** sector, we believe that the **Sugar** industry will face many difficulties in 2019 due to the oversupply industry, commodity prices have not recovered from the downtrend.

Table 4. Influence of macroeconomic factors on sectors

	Trade war	Oil recovery	Fed – interest rate cut	EU economy slow down/ Brexit/EUR depreciation	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	CPTPP	Other FTAs
Marine	(-)	(+/-)		(+)	(-)	(-)	(-)	(+)	(+)
Real estate						(-)	(-)		
Construction						(-)			
Cement				(+)		(-)			
Textile	(+/-)	(-)		(-)	(+)	(-)		(+)	(+)
Electricity		(-)		(+)	(-)	(-)			
Pharmaceutical						(-)			
Plastic		(-)				(-)			
Tires	(+)	(-)			(-)		(-)		
Banking	(-)		(+)	(-)			(-)		(+)
Steel	(-)					(-)	(-)		
Aquaculture	(+)			(-)		(-)	(-)	(+)	(+)
Sugar						(-)	(-)		
Oil & Gas	(-)	(+/-)				(-)	(-)		
Fertilizer		(-)				(-)	(+)		
Rubber		(+)			(-)		(-)		
Tiles		(-)				(-)			
Technology				(-)					(+)
Seaport	(+)					(-)		(+)	(+)
Automobile								(+)	(+)

Insurance	(-)	(-)		
Retail		(-)	(+)	(+/-)
Food		(-)	(+/-)	(+/-)

Source: BSC Research

Table 4. Sector Outlook for Q3/2019 and FY2019

No.	Sector	Outlook in 2019	Mid&Long-term recommendation	Tracking
1	Non-life insurance	Outperform		BMI
2	Technology - Telecommunication	Outperform	FPT	CMG, VTP
3	Textile	Outperform	STK	MSH, TNG, VGT, TCM
4	Industrial Park	Outperform	LHG, KBC	BCM
5	Banking	Outperform	ACB, MBB, VIB	VCB, TCB
6	Consumer	Outperform	MWG, PNJ	VNM, FRT, MSN
7	Commercial Property	Neutral	DXG, NLG, HDG	
8	Seaport	Neutral	GMD	VSC
9	Natural Rubber	Neutral	PHR, GVR	DPR
10	Oil&Gas	Neutral		GAS, PVD, PVS
11	Pharmaceutical	Neutral		IMP, DHG
12	Electricity	Neutral	PC1, GEX, POW	REE
13	Tiles	Neutral		VGC, CVT
14	Aviation	Neutral	AST	ACV, HVN, VJC
15	Chemicals	Neutral	DGC	CSV
16	Plastic	Neutral	BMP	NTP, AAA
17	Automobile	Neutral	VEA	
18	Fertilizer	Neutral		DPM, SFG
19	Tires	Neutral		DRC
20	Steel	Neutral	HPG	HSG, NKG
21	Aquaculture	Neutral		VHC
22	Transportation	Neutral	PVT	
23	Construction	Neutral	LCG	CTD, HBC
24	Cement	Neutral	HT1, BCC	
25	Sugar	Underperform		SBT, QNS

Source: BSC Research