

VIETNAM COUNTRY REPORT

GIANG TRINH

Vice chairman of the Vietnam Bond Market Association

Asian Securities Forum
Bangkok, November 2014

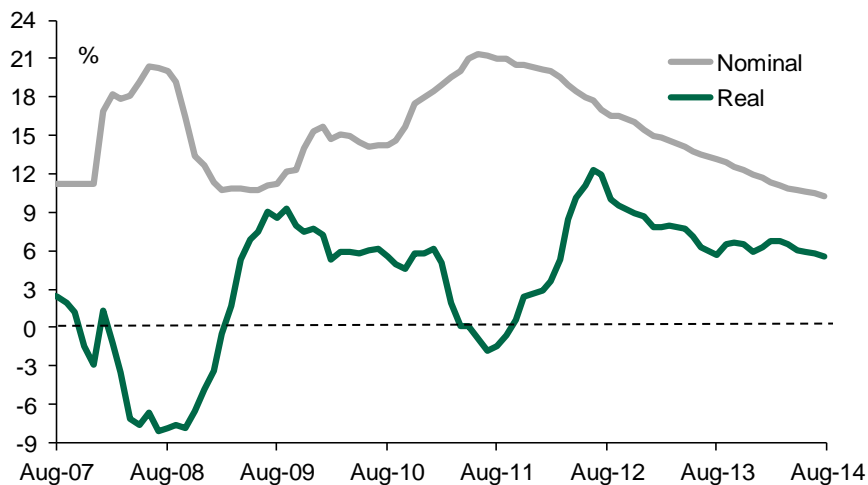
ECONOMY

STABILIZATION PRIMES GROWTH

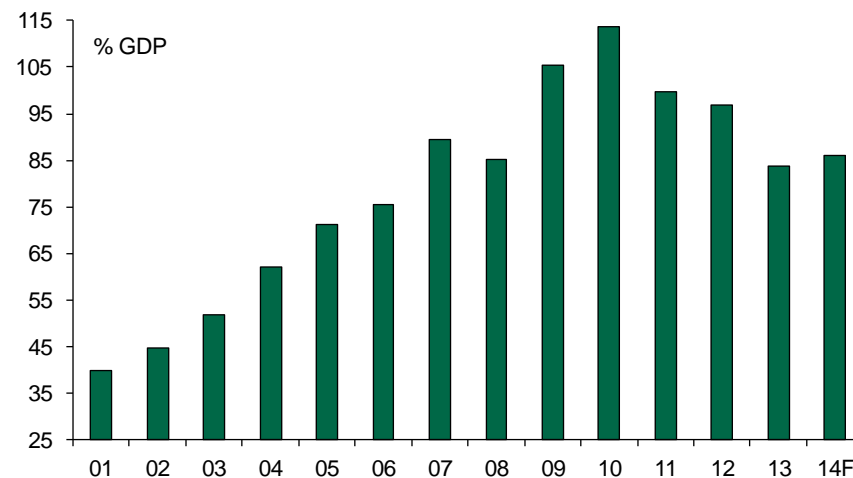
- Vietnam's economy has been fully revamped for stable growth
- GDP is well off its bottom and should reach +5.7% in 2014
- Country's macro outlook is now stable. It has recently been upgraded by Moody's and Fitch, with S&P likely to follow.
- Reform in SoE and Banking sectors are slow, but in firm paces
- Privatization will accelerate in remainder of 2014 and 2015
- The country has moved on from its bubble-economy crisis
- The government is not about to repeat overheating mistakes again

ECONOMY REBALANCED

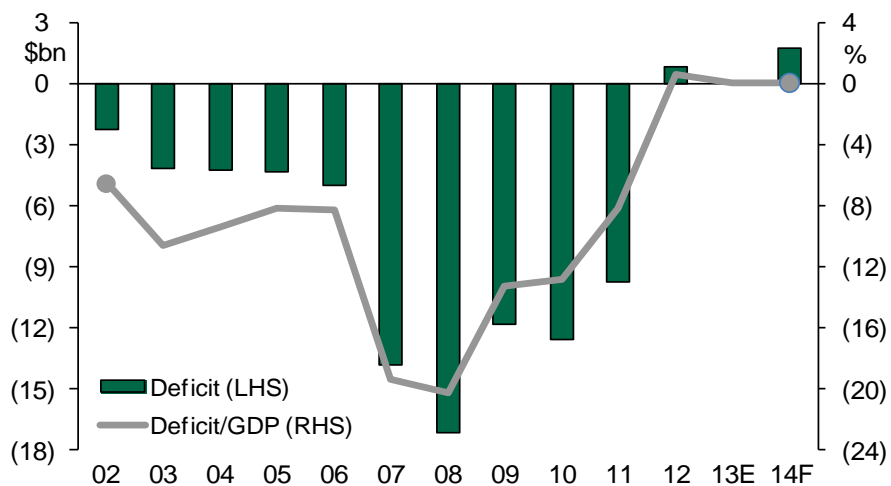
HISTORICALLY HIGH REAL RATES



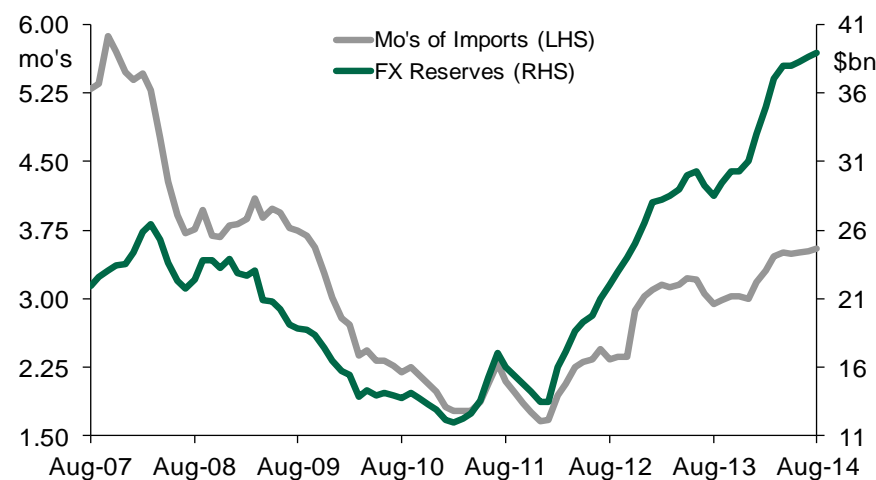
DELEVERAGING NOW A STRUCTURAL TREND



TRADE BALANCE RATIONALIZED

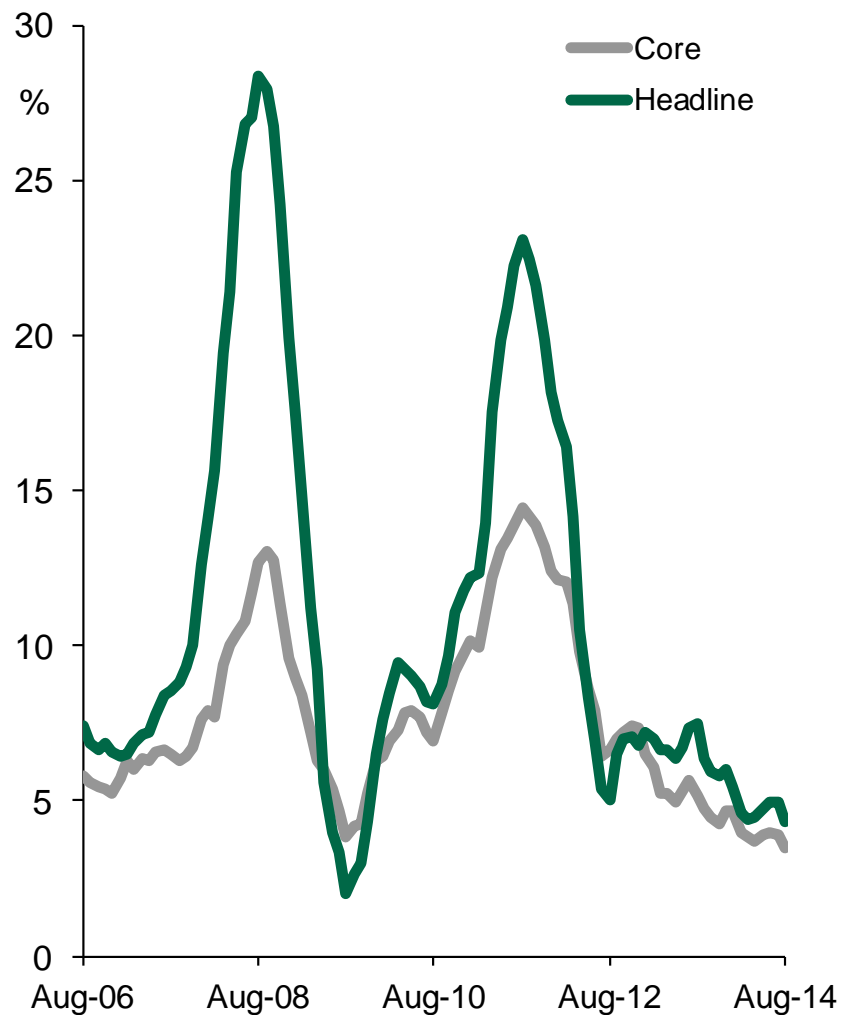


FX RESERVES SEE ONGOING RE-BUILD

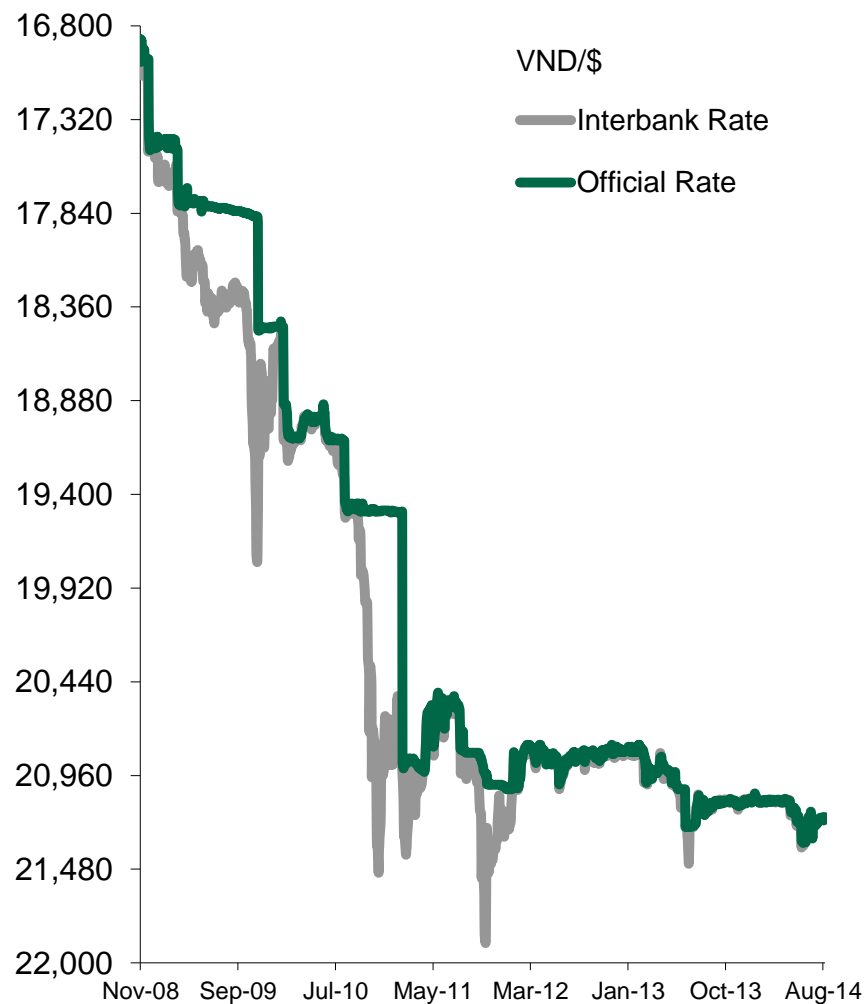


INFLATION WHIPPED / CURRENCY ANCHORED

INFLATION 2006-14



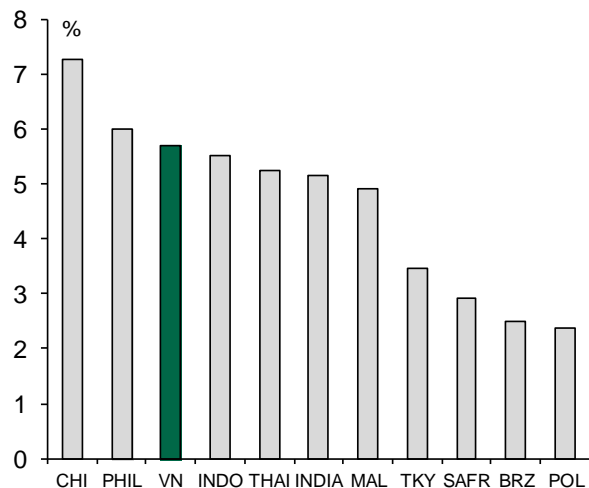
VND 2009-14



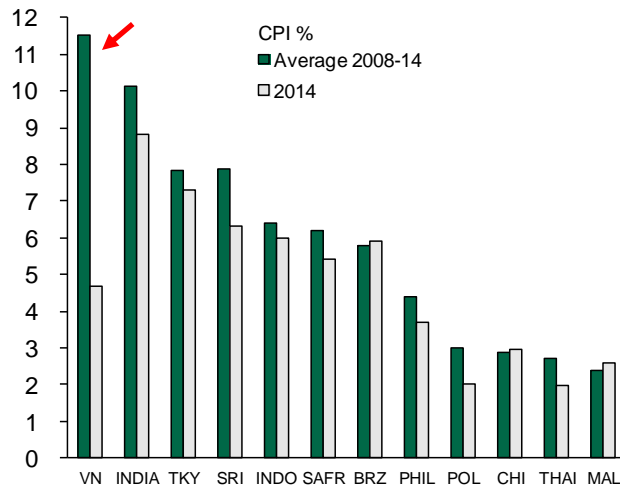
Sources: DC, IMF, GSO, WB

COMPARATIVE MACRO SHINES

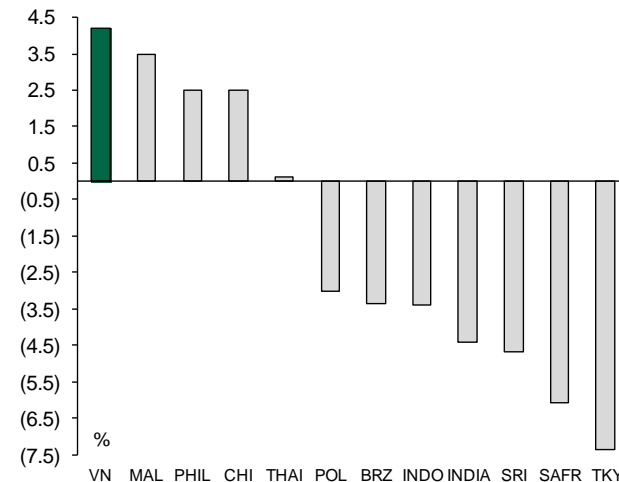
GDP GROWTH, 2014



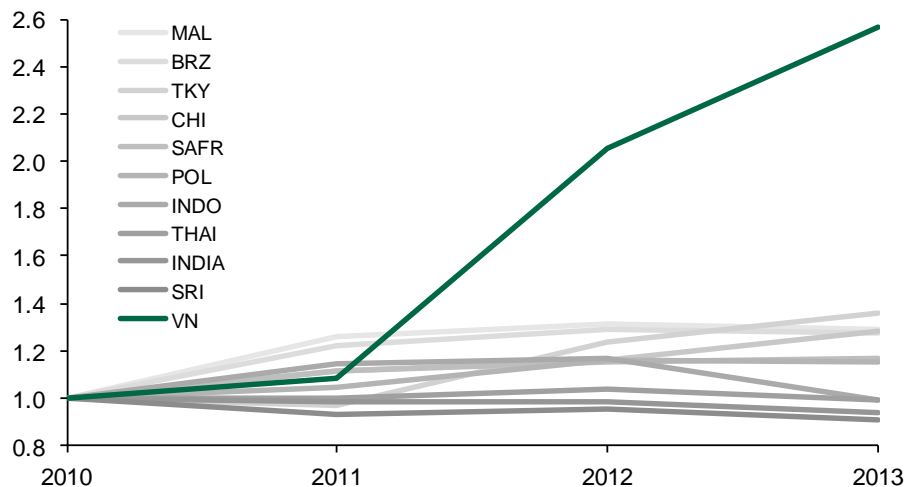
INFLATION, 2008-14



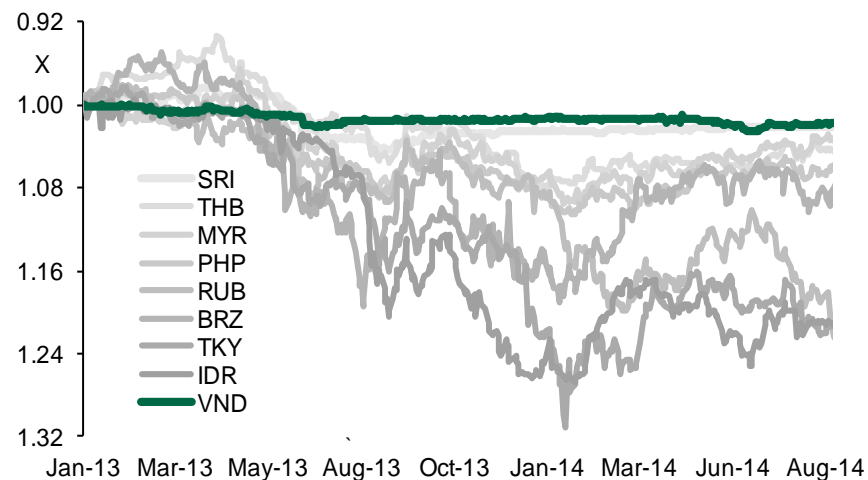
CURRENT ACCOUNT / GDP, 2013



FX RESERVE GROWTH, 2010-13



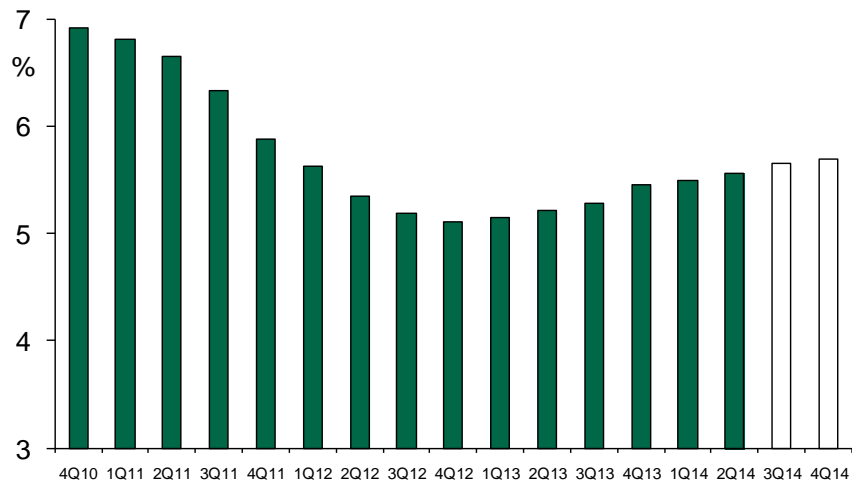
CURRENCY, 2013-14



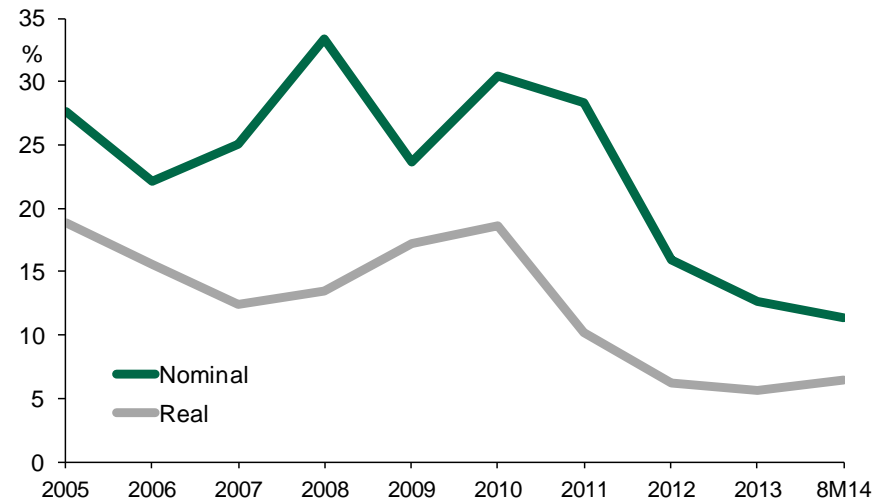
Sources: DC, Citibank, Bloomberg

GROWTH SMACKED, BUT RECOVERING

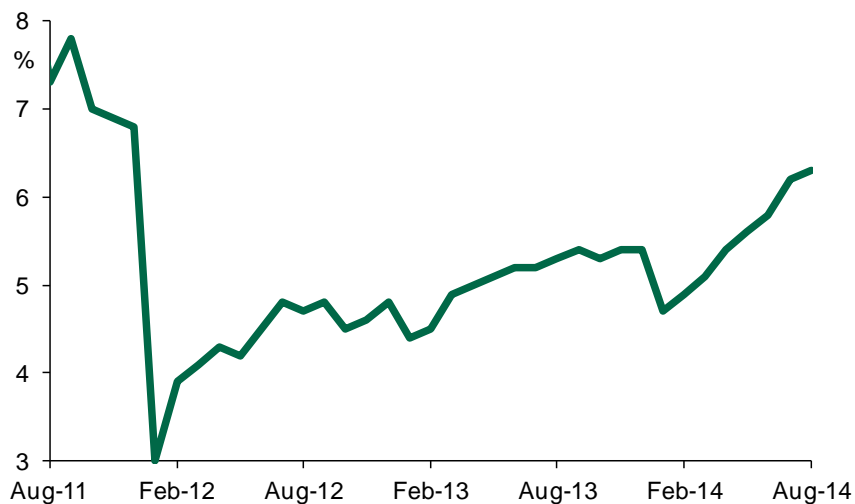
QUARTERLY ROLLING GDP, YOY



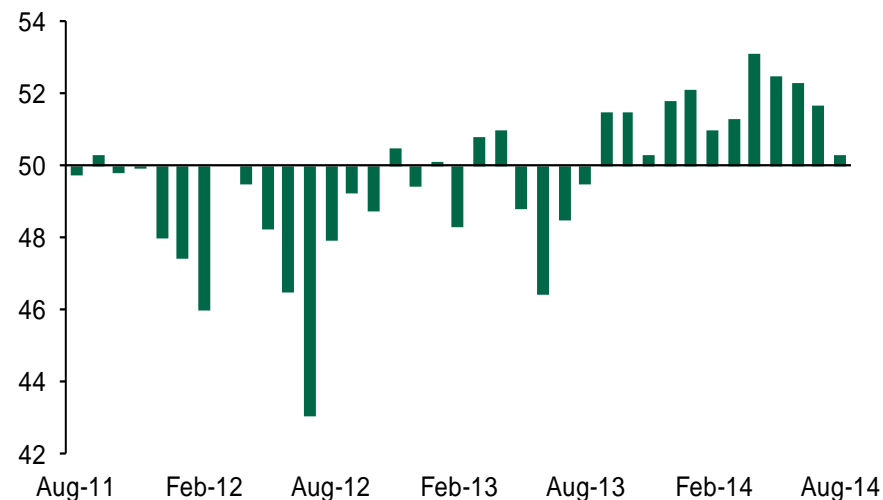
RETAIL SALES



INDUSTRIAL PRODUCTION

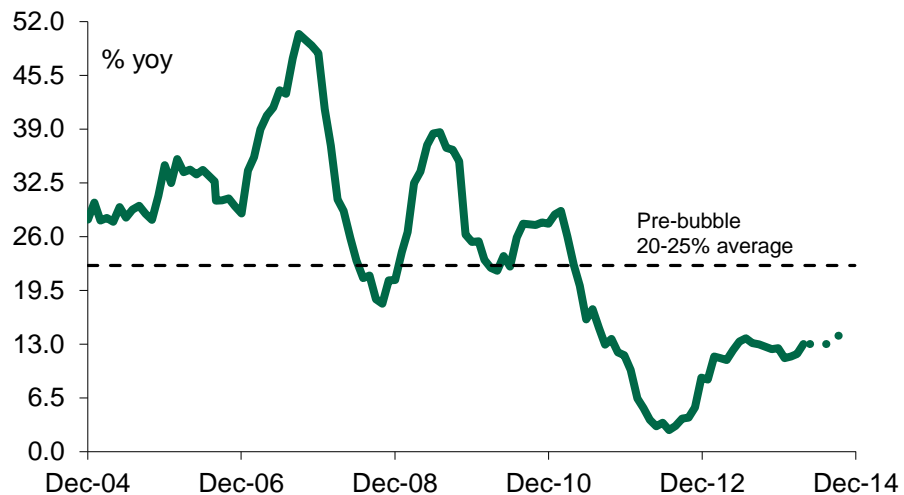


PRODUCTION MANUFACTURING INDEX

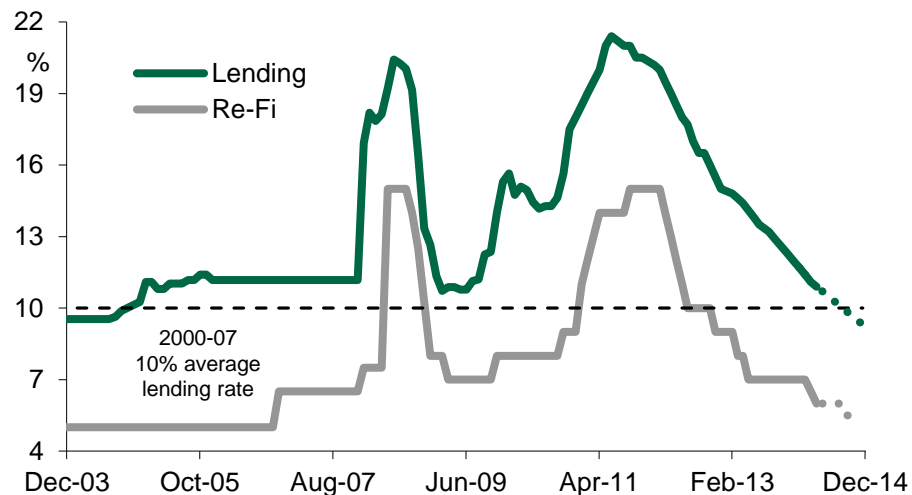


INVESTMENT CYCLE ON UPSWING

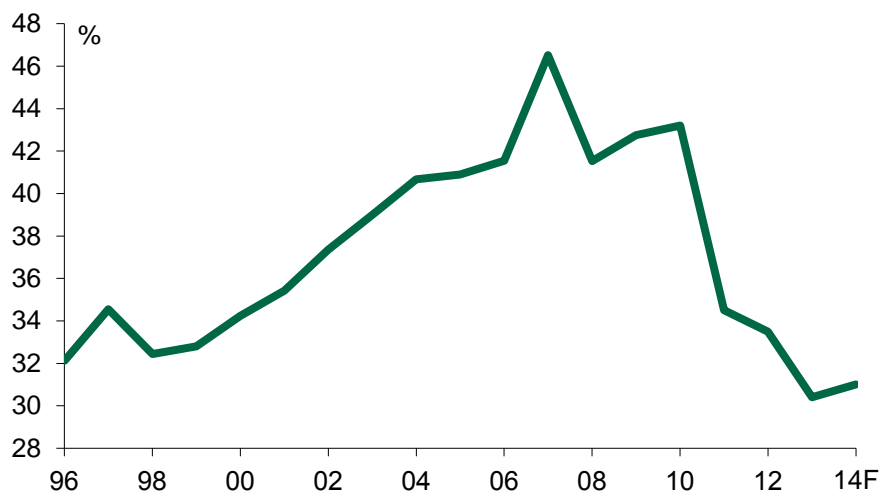
LOAN GROWTH IS PICKING UP



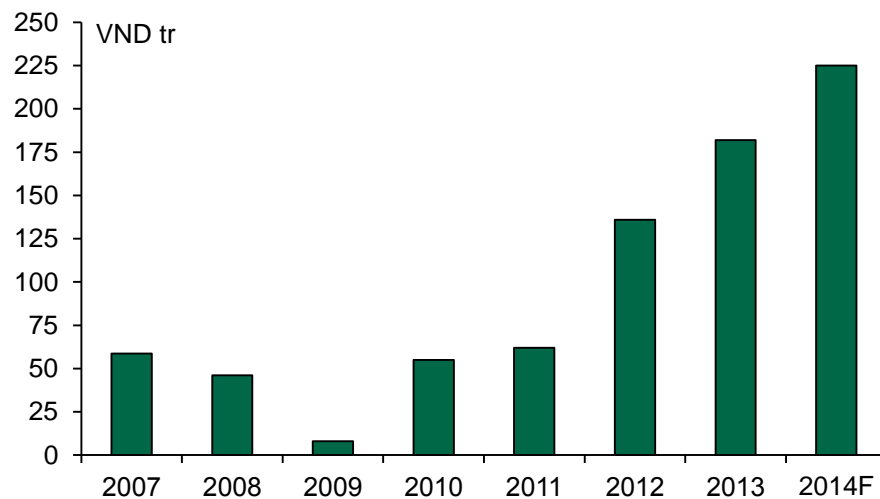
INTEREST RATES ARE NORMALIZING



INVESTMENT / GDP IS BOTTOMING



GOVERNMENT BORROWING ON THE RISE

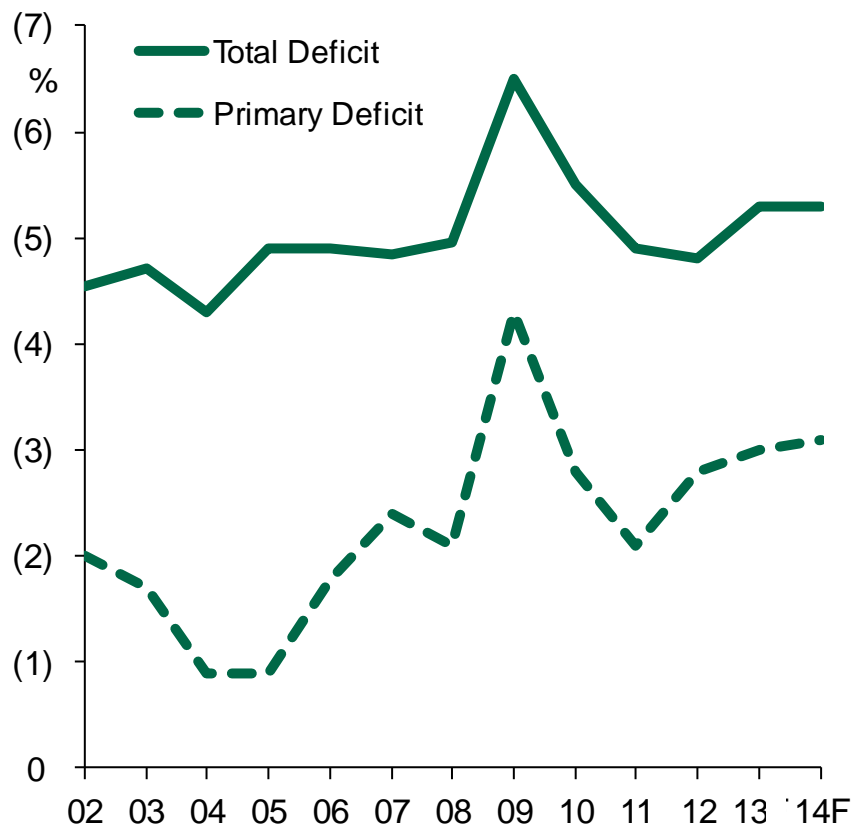


Sources: DC, GSO, IMF, MOF, SBV

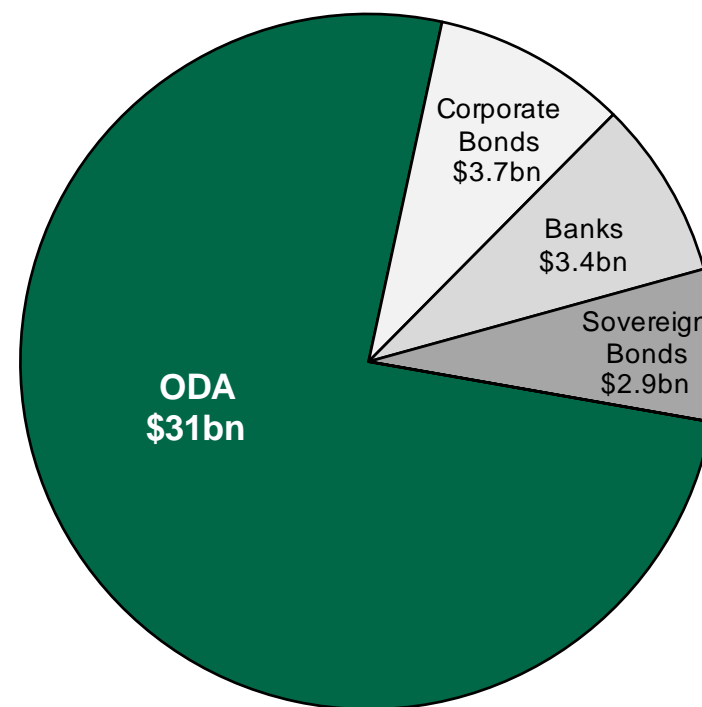
FISCAL / FOREIGN DEBT

RENEWED OVERHEATING IS HARDLY A CONCERN

FISCAL DEFICITS ARE UNDER CONTROL, WITH MUTED INFLATION



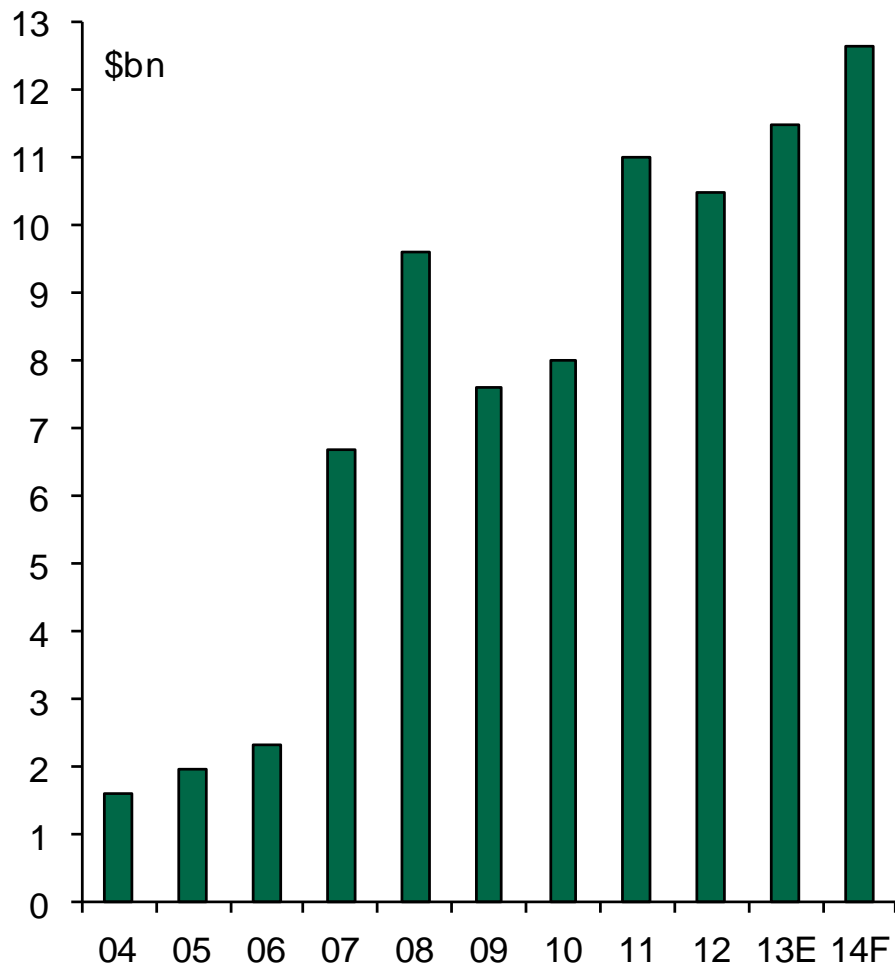
FOREIGN DEBT IS MINIMAL AND IS MOSTLY ODA ANYHOW (2013E)



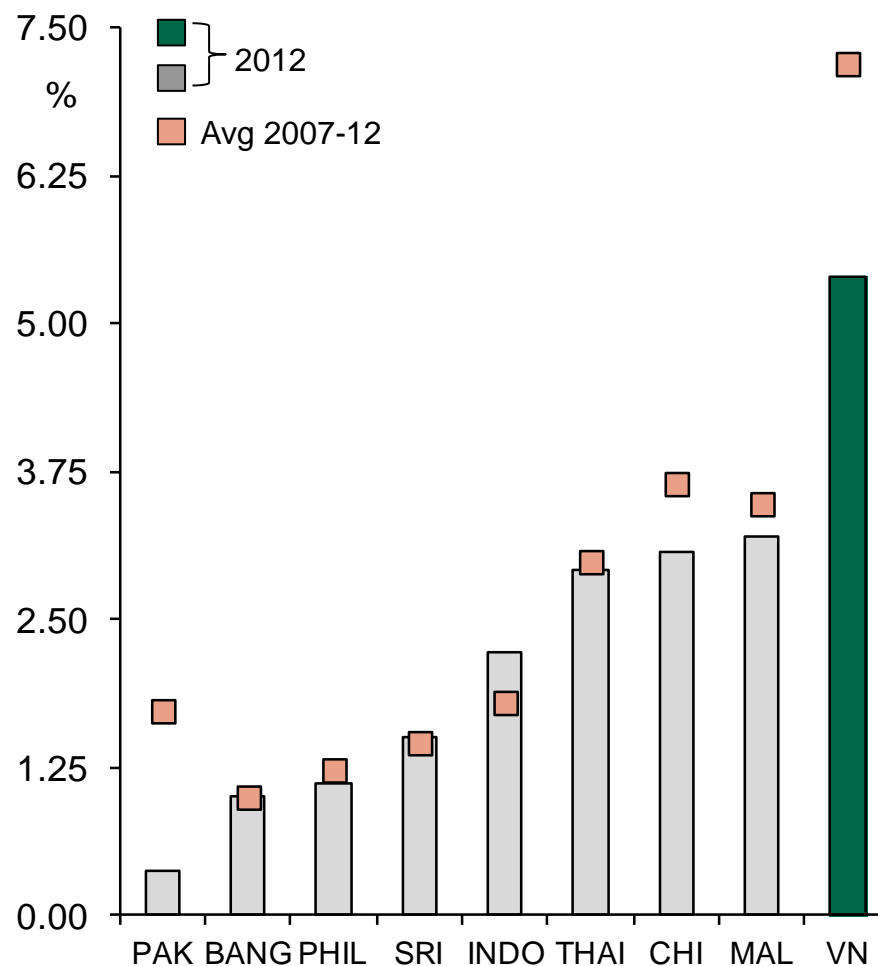
\$41bn foreign debt = 21% of GDP
 \$31bn ODA = 76% of foreign debt

FOREIGN DIRECT INVESTMENT

FDI HAS STAYED ROBUST AND CONTINUES TO SURGE



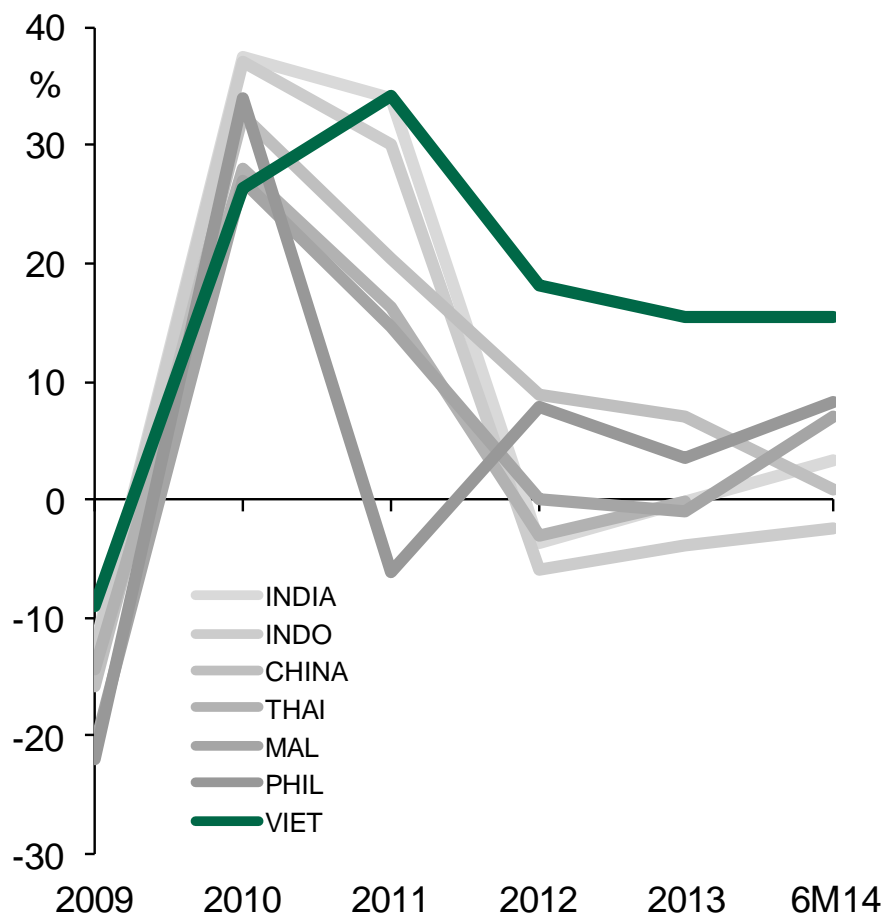
FDI/GDP – VIETNAM GREATLY SURPASSES PEERS



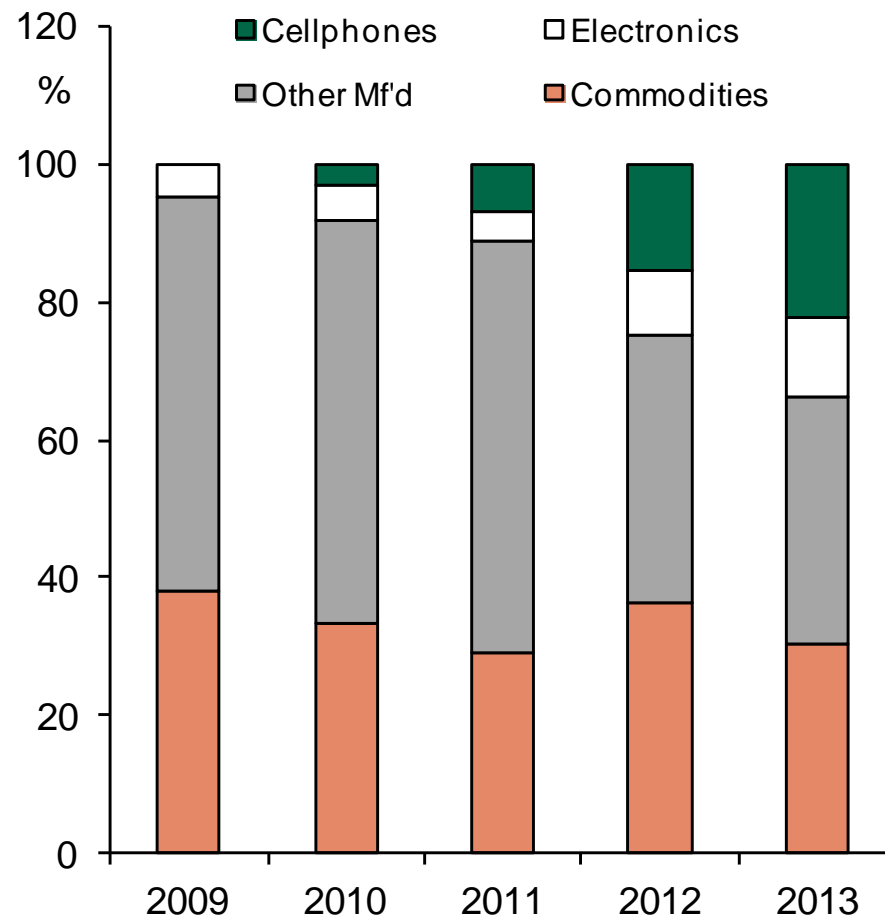
Sources: ADB, IMF, GSO, IMF

EXPORTS

GROWTH STRONG AND AHEAD OF PEERS, AS FDI FLOWS



PLUS THERE IS STEADY SHIFT INTO HIGHER-VALUED-ADDED GOODS

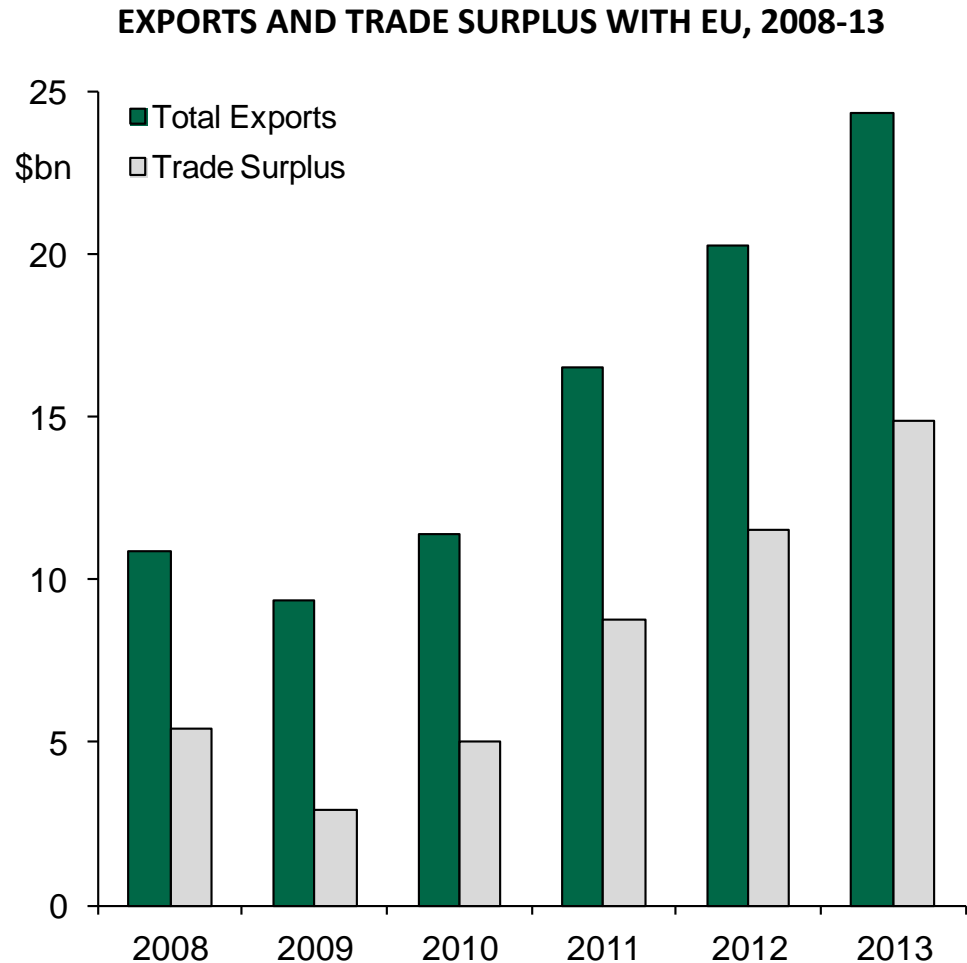


Sources: DC, GSO, BBG

EXPORTS

EU -VIETNAM PARTNERSHIP

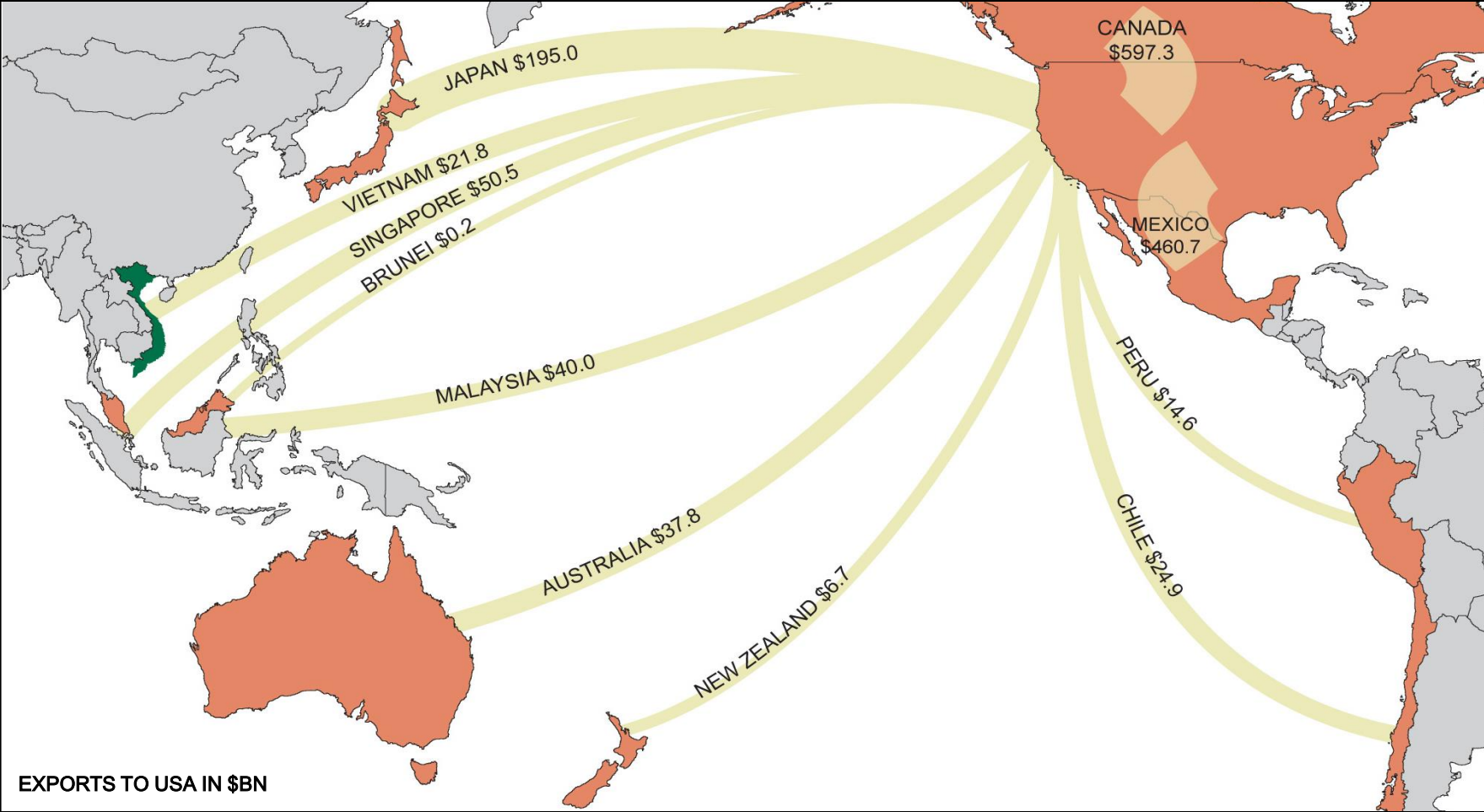
- Likely to be finalized by late 2014
- Vietnam's exports to EU have more than doubled since 2010
- EU is now Vietnam's No. 1 export market at \$24.7bn in 2013
- Despite tariffs averaging 11% on textiles, seafood, footwear, garments



EXPORTS

TRANS-PACIFIC PARTNERSHIP

US-CREATED FREE TRADE BLOC WITH 30% OF GLOBAL EXPORTS

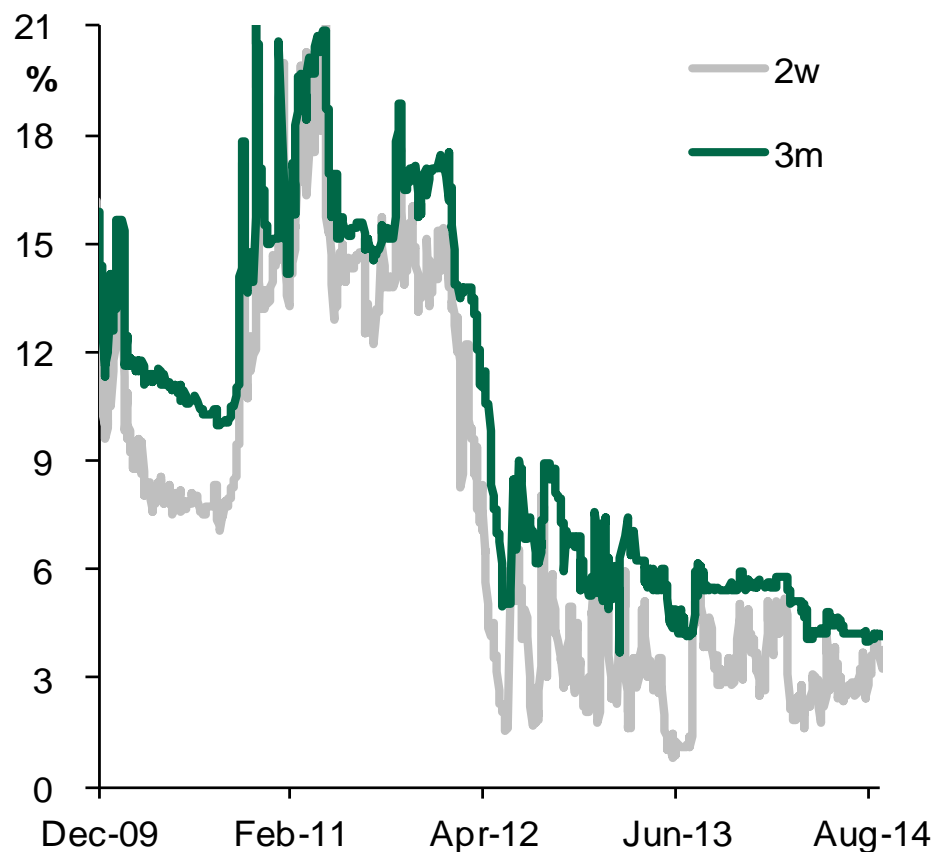


BANKS: OVERVIEW

- Banks' problem moribund new lending rather than insolvency
- That reflects sluggish domestic economy / high rates – not NPLs
- NPLs have fallen quickly, from 18% in 2012 to ca 13% now
- CB has tolerated “amortization” of NPLs via recovering economy
- Meanwhile property market has bottomed, and turned up in places
- Proper accounting practice will be applied on NPLs
- Bank profits will drag in 2014-15, while underlying health improves

BANKS: INSOLVENCY RISK A NON-ISSUE

INTERBANK RATES



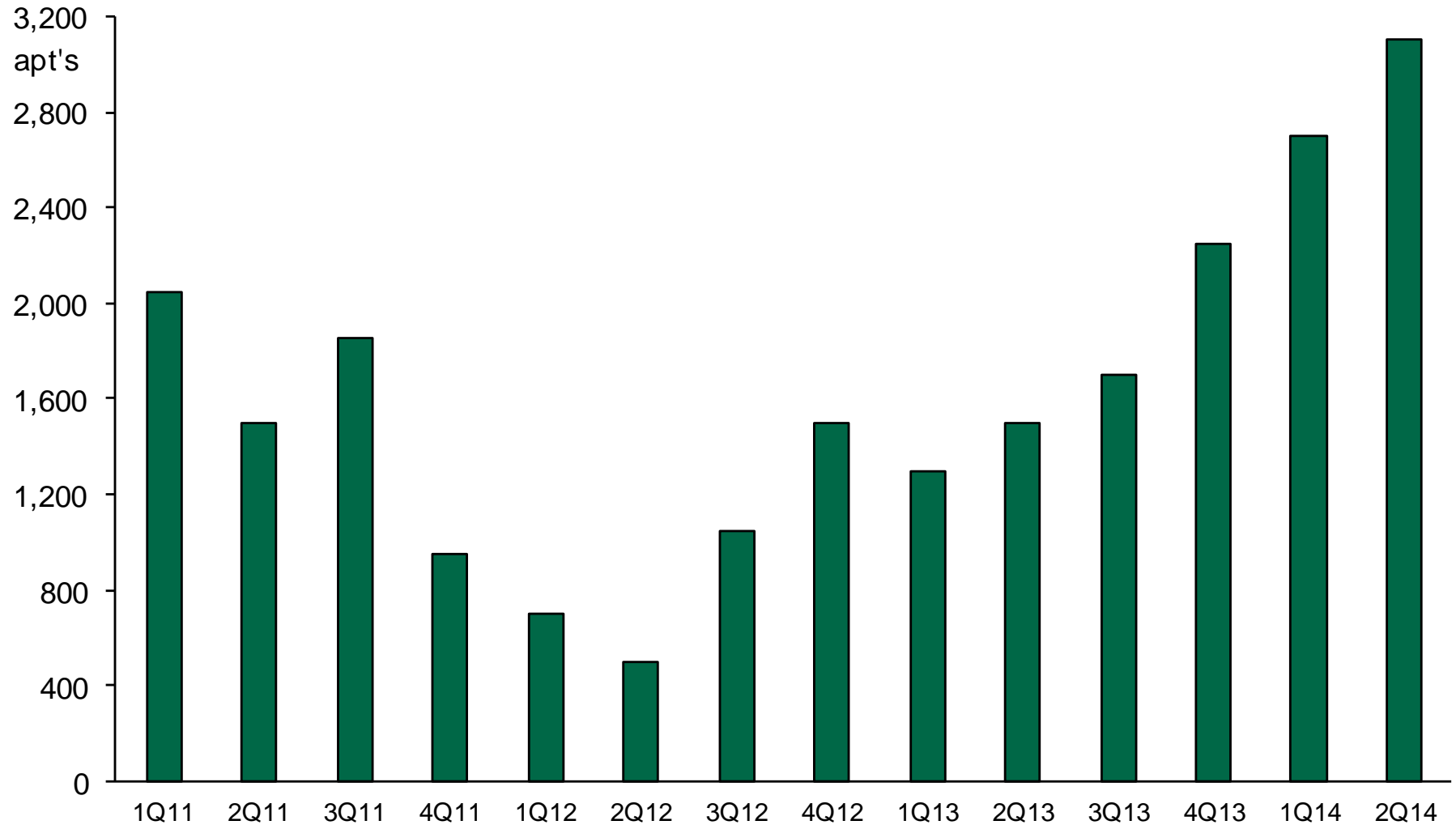
LOAN/DEPOSIT RATIOS



Sources: DC, IMF, SBV

BANKS: PROPERTY SECTOR ON THE MEND

PICK-UP IN HCMC APT'S SOLD

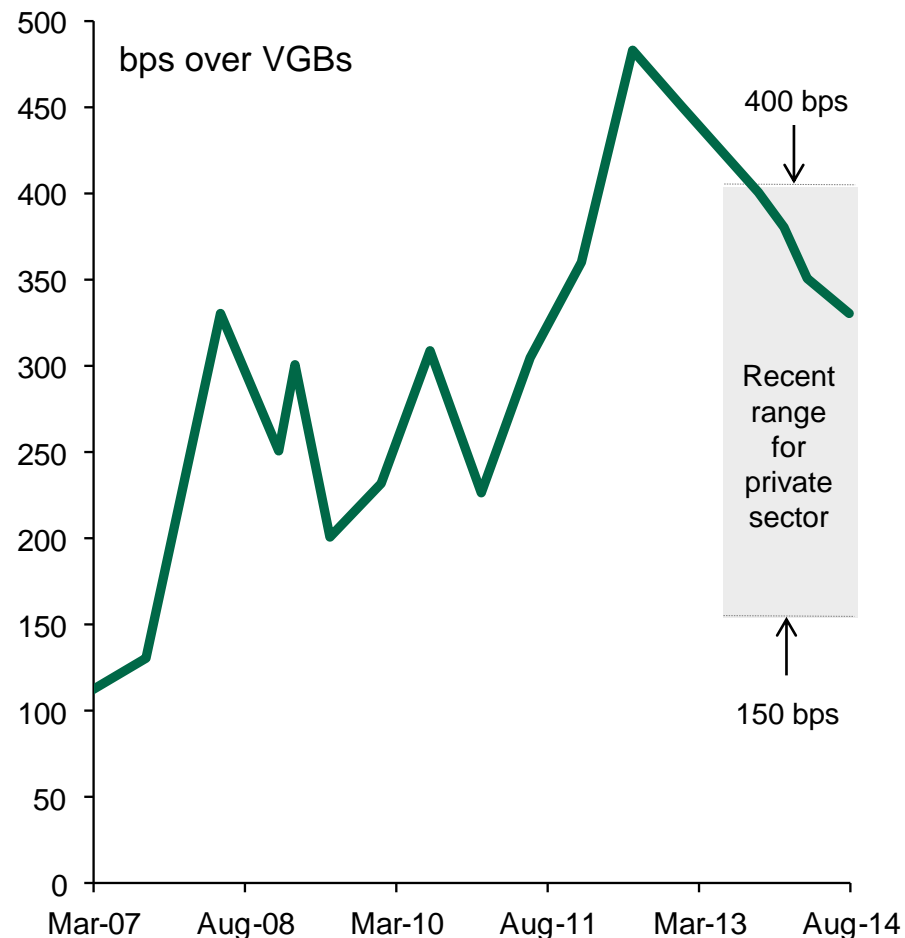


Sources: DC, CBRE

SOE'S: CONTAINMENT NOW, PRIVATIZATION NEXT

- SOEs have been rolled back after nearly blowing up the economy
- Most have been turned into limited-liability companies
- Top exec's have been investigated, jailed, placed under house arrest
- Non-core assets are being divested
- Funding has been cut and must be secured at top commercial rates
- Now privatization impends, with important deals already under way

**SOE NON-GUARANTEED SPREADS
AT TOP OF COMMERCIAL RANGE**



MACRO FORECASTS

GROWTH WITH STABILITY

	unit	2012	2013	2014F	2015F
Real GDP Growth	%	5.3	5.4	5.7	6.0
Nominal GDP	US\$bn	155.8	172.1	190.0	211.5
CPI	%	6.8	6.0	4.7	5.0
Exports (cif)	US\$bn	114.6	132.1	154.3	180.6
Export Growth	%	18.2	15.4	16.8	20.0
Imports (cif)	US\$bn	113.8	132.1	152.6	180.1
Import Growth	%	6.6	16.1	15.5	18.0
Trade Balance (cif)	US\$bn	0.8	0.0	1.7	0.5
FX Reserve	US\$bn	26.5	32.1	40.5	50.5
FDI Disbursed	US\$bn	10.5	11.5	12.5	13.0
USDVND (interbank)	1	20,850	21,115	21,350	21,350

Sources: DC, IMF, GSO, WB, SBV

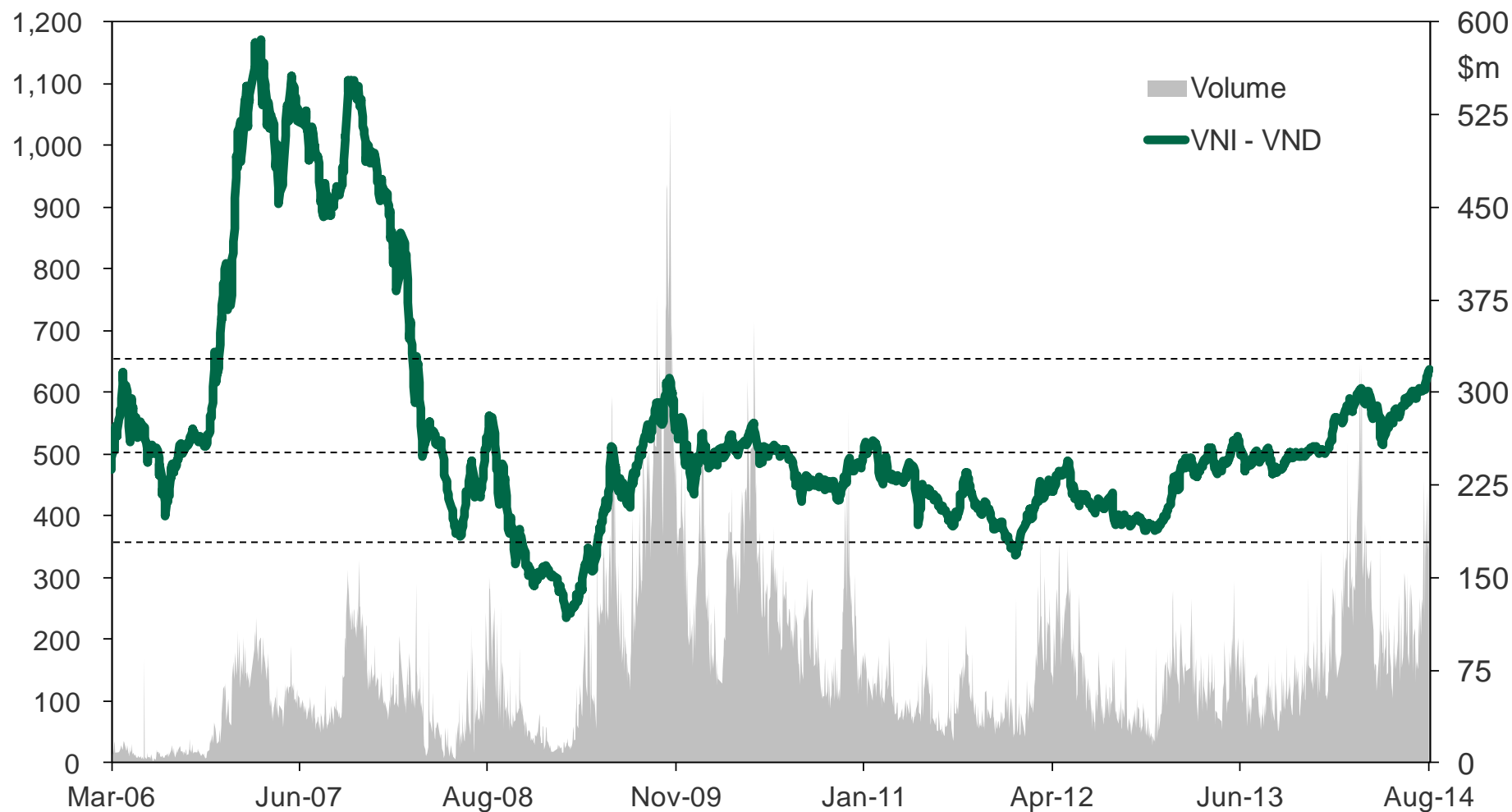
SECURITIES MARKET

EQUITY MARKET

- The equity market is up 20% YTD.
- With daily turnover is double to VND3,000 billion/day (USD140 million/day)
- Valuations no longer absurdly low but they still hold own with peers
- SoEs privatization is under way, slow in this year, but in firm steps.
- Retail clients' trading accounts for 90% of total turnover.
- Slight foreign inflow

MARKET 2006 -14

**INTO A NEW TRADING RANGE OF 500-650 FROM PREVIOUS 350-500,
BUT WITH MACRO POWER TO BREAK OUT RATHER THAN JUST LANGUISH**



FORECASTS AND VALUATIONS

TOP 50 RATINGS: ALL-IN

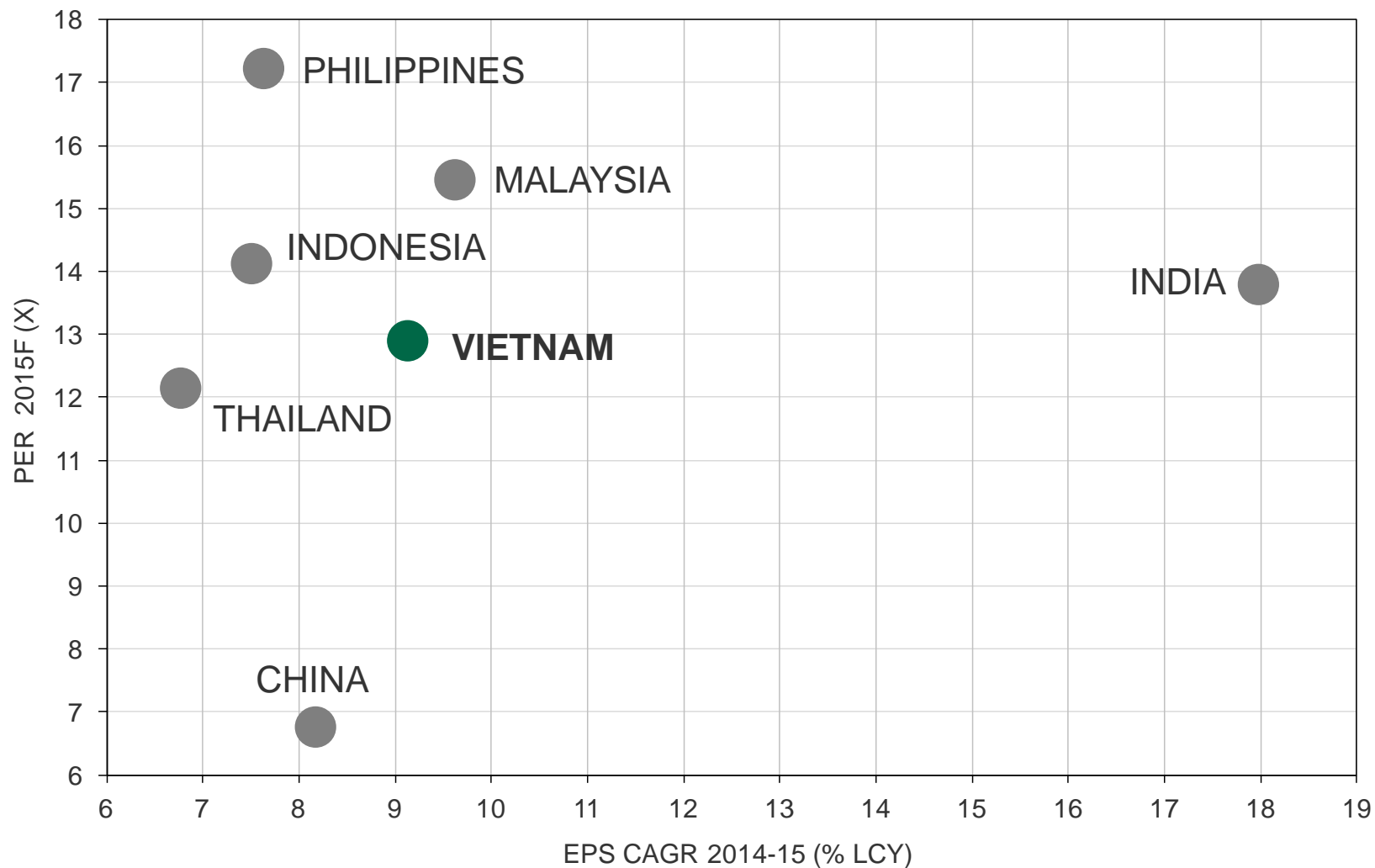
31 Aug - VNI 637	unit	2013	2014F	2015F
P/E Ratio	x	15.4	14.7	12.9
EPS Growth	%	19.1	4.0	14.5
NPAT Growth	%	22.6	5.2	14.7
PEG	x	0.81	3.65	0.89

TOP 50 RATINGS: EX-PROPERTY

31 Aug - VNI 637	unit	2013	2014F	2015F
P/E Ratio	x	15.7	14.2	12.4
EPS Growth	%	6.9	8.3	15.3
NPAT Growth	%	10.0	9.8	15.5
PEG	x	2.27	1.71	0.81

COMPARATIVE VALUATIONS: MARKETS

FORWARD REGIONAL PER/EPS – 31 AUG 2014



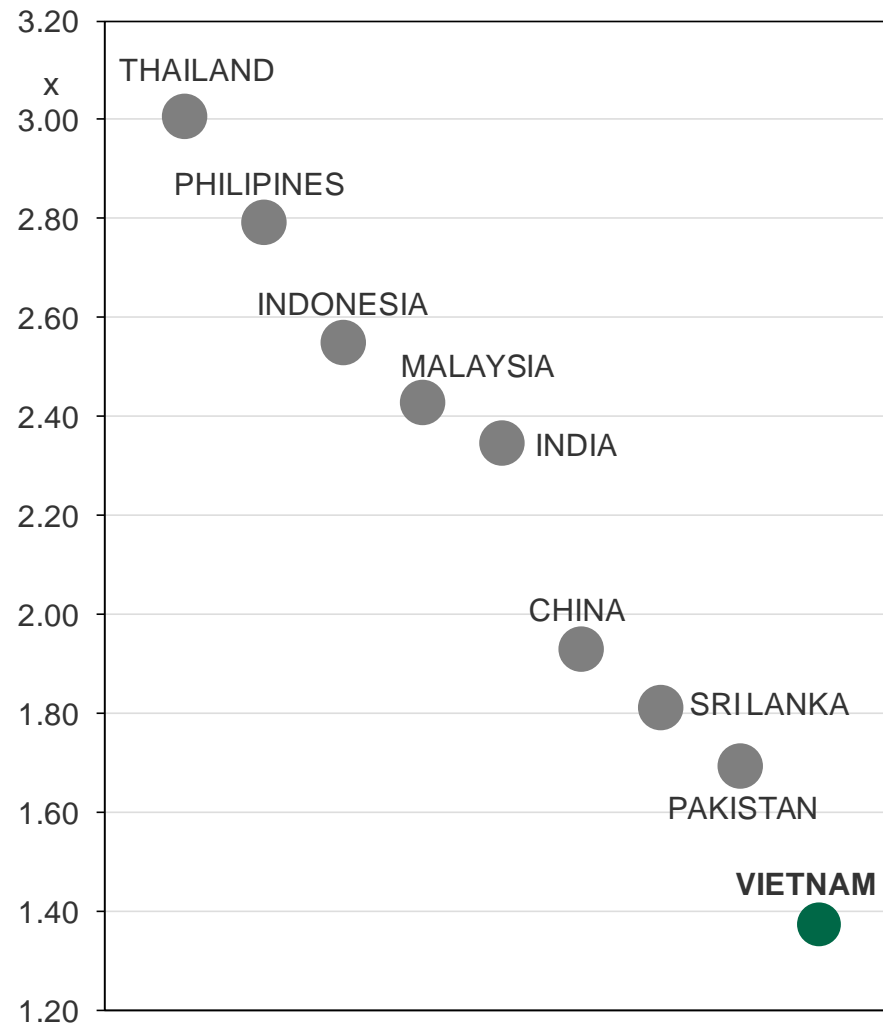
Source: DC for Vietnam, CLSA all others

COMPARATIVE VALUATIONS: MARKETS EX TOP 5

TRAILING PERs – 31 AUG 2014



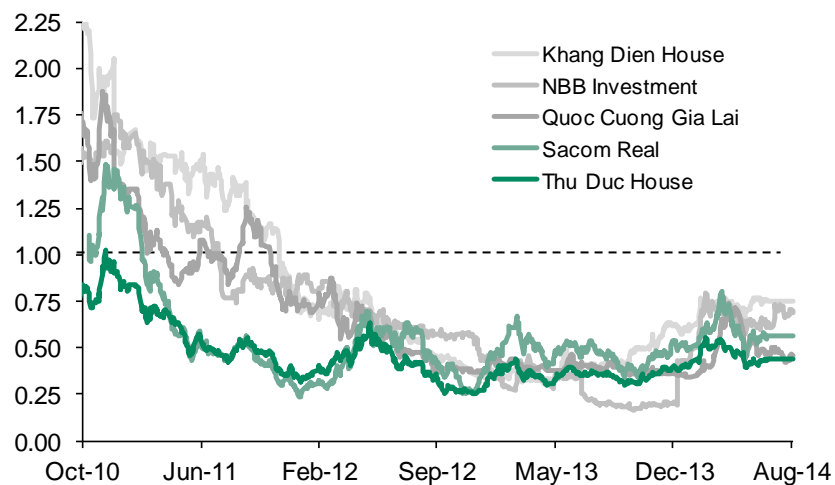
TRAILING PBVs – 31 AUG 2014



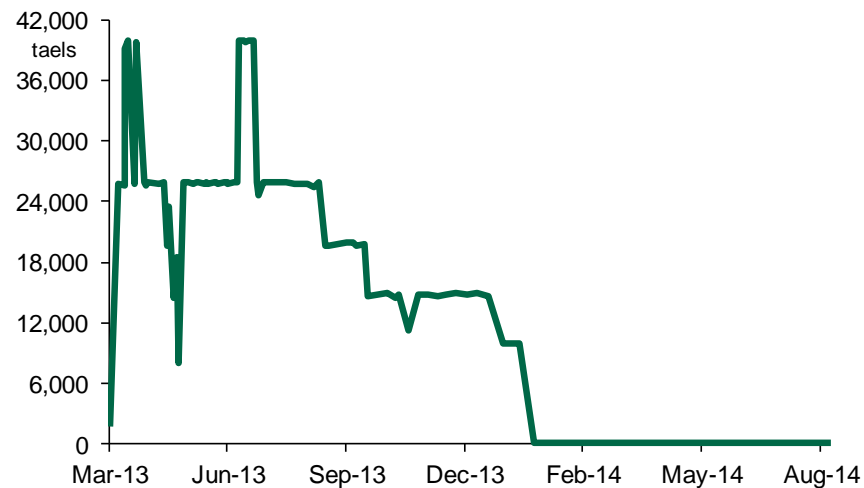
Source: Bloomberg

ALTERNATIVE ASSETS: OUT OF FAVOR

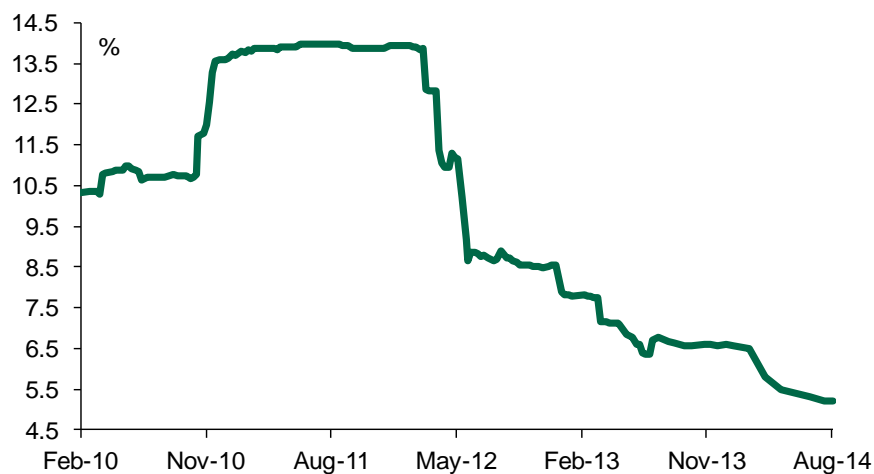
PROPERTY: LOW LISTED PBVs AS PROXY FOR THE INDUSTRY



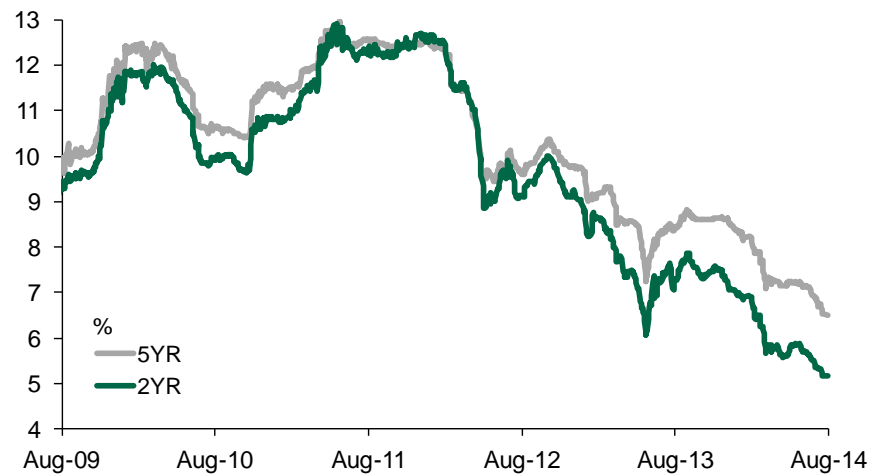
GOLD: AUCTION DEMAND GOES TO ZERO



BANK DEPOSITS: BARELY ABOVE INFLATION



BONDS: SAME AS BANK DEPOSITS



EQUITY MARKET DEVELOPMENT

- Hochiminh Stock Exchange (HSX) and Hanoi Stock Exchange (HNX) are to merge in 2015 or 2016.
- First ETFs tracking equity indexes are traded
- Intraday trading is to be allowed in 2015
- New infrastructure for securities trading, clearing, and settlement are prepared for derivatives market.
- Stock index futures and bond futures are to be traded in 1H2016.
- Government is also mulling plans to force OTC companies to list
- And SoE privatization is already getting underway, slowly but surely



SASCO

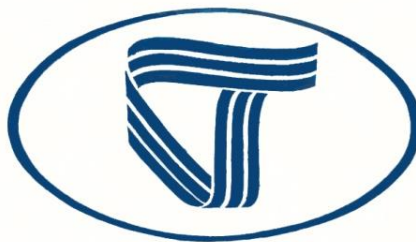
SCHEDULED 20 SEP 2014

Monopoly airport services in Saigon: duty-free shops, restaurants, lounges, taxis, etc.

Revenue: \$95m

NPAT: \$6m

25% of shares in IPO



VINATEX

EXPECTED SEP/OCT 2014

20% of country's textile exports, revenues \$2.5bn

First attempt in Jul was unsuccessful, second attempt due in Sep

Confusing accounts hide very significant value in subsidiaries, land bank

49% of shares in IPO

ACV

**AIRPORTS
CORPORATION
OF VIETNAM**

EXPECTED IPO 4Q14

Monopoly on airport services nationally

Issue primed by listing of subsidiary SASCO

22 facilities in operation

Revenue: \$400m

Profit before tax: \$64m

25% of shares in IPO



EXPECTED IPO 2014

114,000 flights

15m passengers

80% occupancy

May face valuation challenges

Revenue: \$3.4bn

PBT: \$25m

Charter capital: \$426m

25% shares in IPO



EXPECTED IPO 2014-15

Dung Quat Refinery

Finance capacity expansion: 6.5m to 10.0m MT, and Euro II to Euro IV

Revenue: \$7.1b

NPAT: \$150m

Charter capital: \$905m

49% of shares in IPO



EXPECTED IPO 2015

32% market share

No 2 of three carriers

Allowed to drop involvement in expensive Gov't satellite program

Allowed to drop merger with Vinafone, No 3 carrier

Revenue: \$2bn

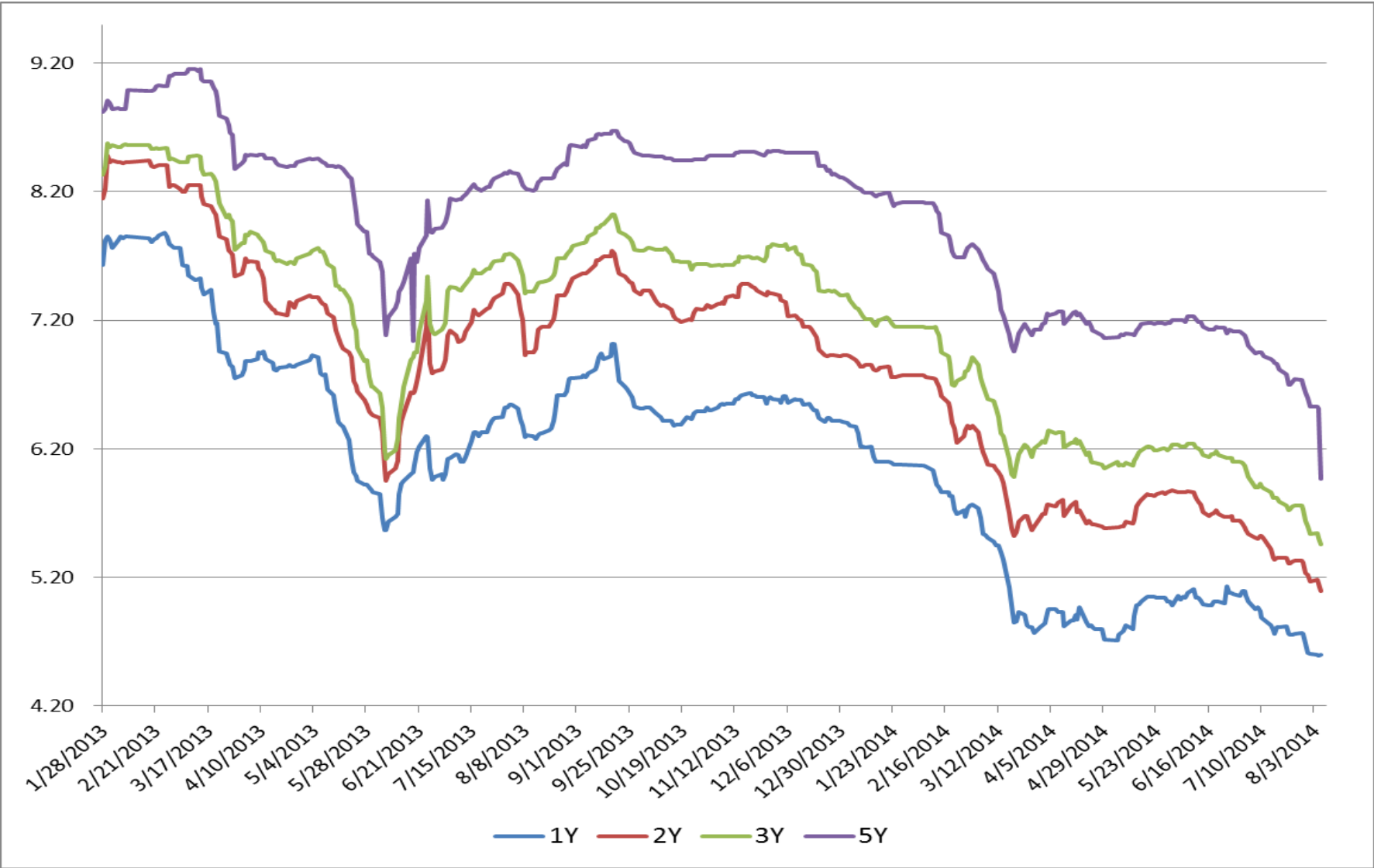
PBT: \$290m

Charter capital: \$500m

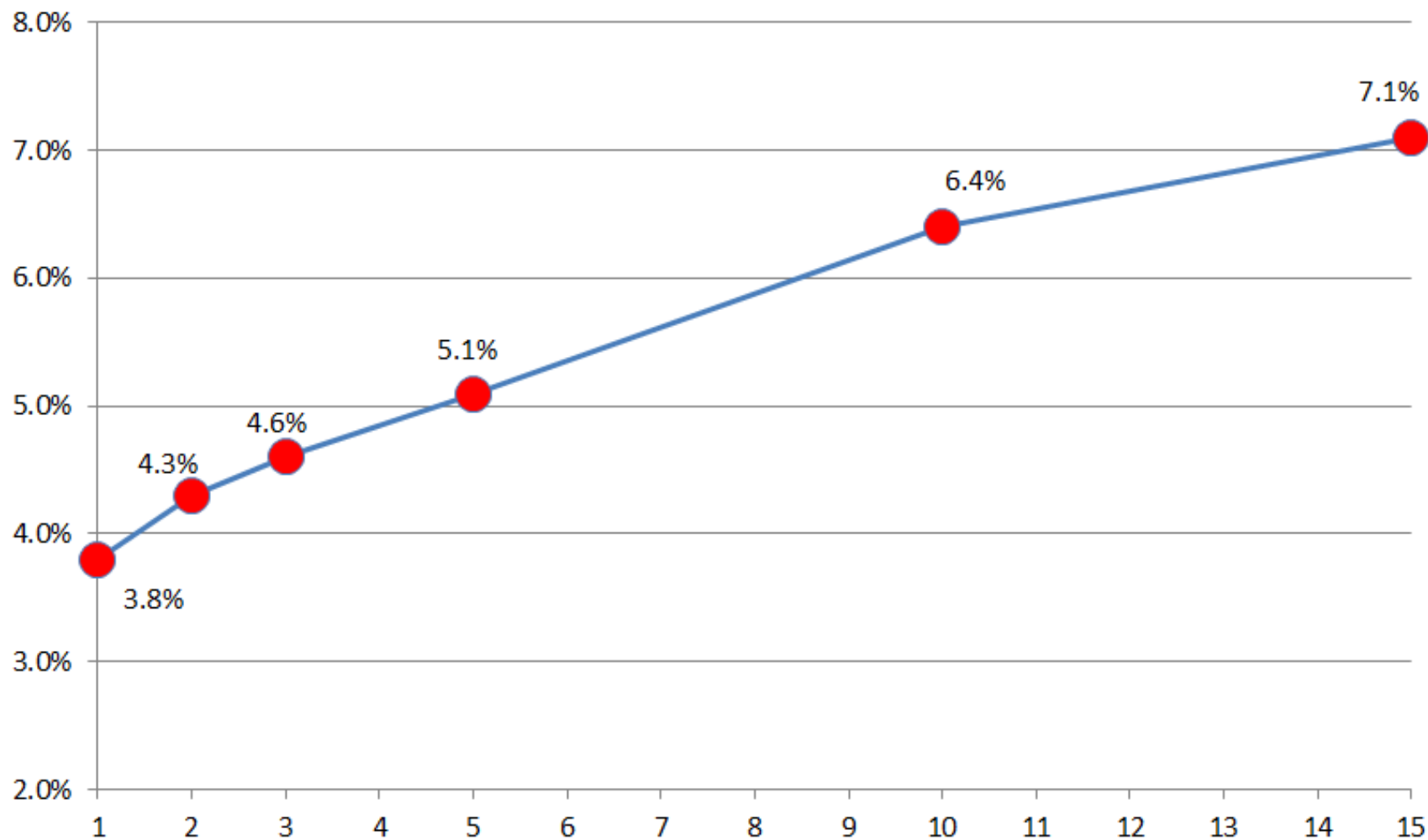
BOND MARKET

- Government bond market holds strong growth this year with VND210 trillion (USD10 billion) in new issuances.
- Average daily turnover is double to VND4,200 bil (USD200 mil)
- Bond yields drop sharply, both in the short and long ends of the yield curve. The benchmark 3-year yield reaches 4.2%.
- FX rate is stable. Foreign investors now are back to Vietnam and bought 25% in the new G-bond issuances this year.
- G-bond average duration moved up to 3.2 years from around 2.4 years 1 year ago.

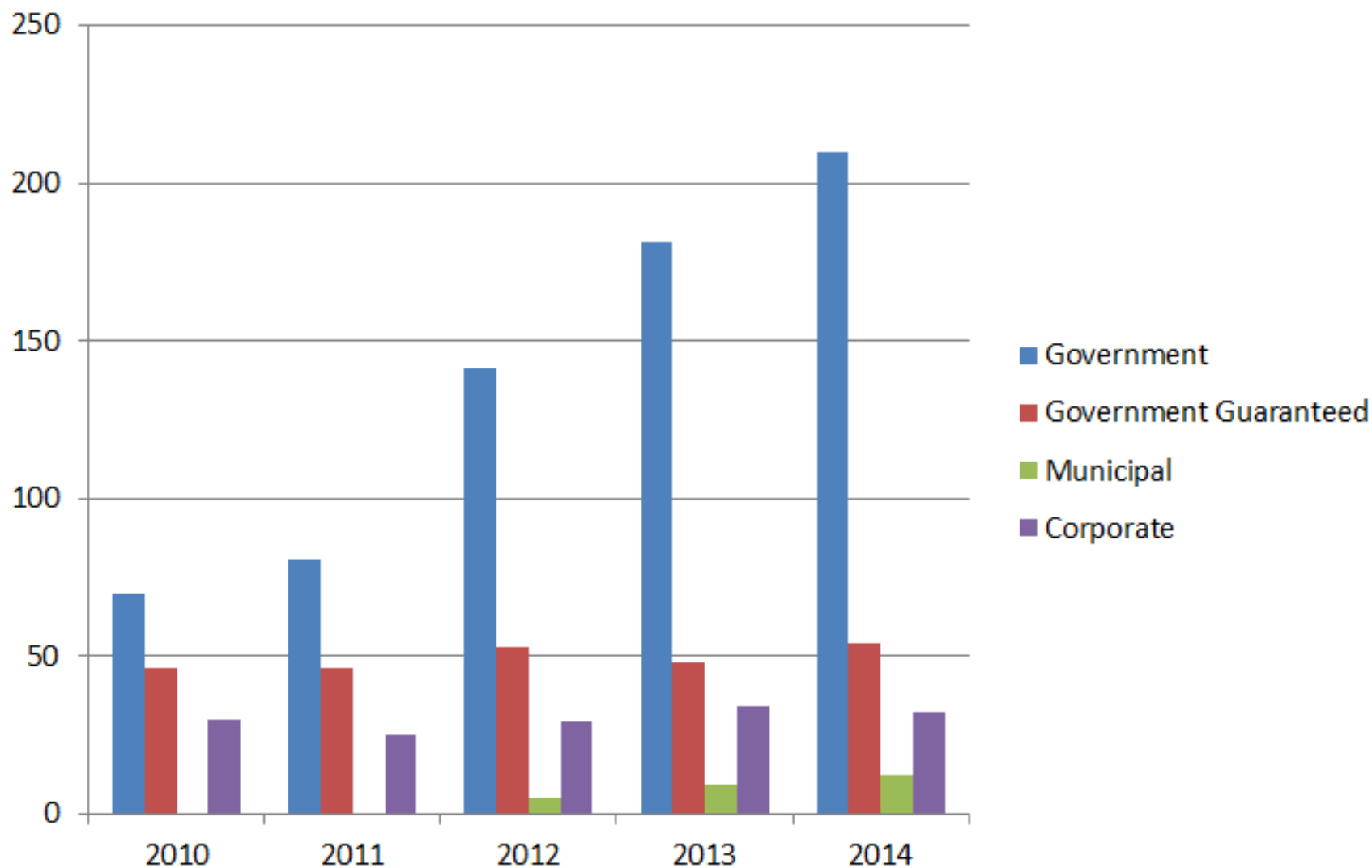
BENCHMARK YIELDS



THE YIELD CURVE as of 5 November 2014



NEW BOND ISSUANCES (in Trillion VND)



BOND MARKET DEVELOPMENT

- The reopening system starts to work well, helping the number of G-bonds drop sharply to 90 bonds with the average size of USD200m/bond.
- PD system is to be improved. At present 22 PDs actively bid in every bond auctions.
- New bond trading, clearing, and settlement system is prepared. The central bank will be in charge of cash settlement for bond trading.
- G-bond futures are to be traded in 1H2016
- Credit rating companies are prepared to launch in 2016.

THANK YOU

VIETNAM BOND MARKET ASSOCIATION
www.vbma.org.vn