VIETNAM
COUNTRY REPORT

GIANG TRINH
Vice chairman of the Vietnam Bond Market Association

Asian Securities Forum
Bangkok, November 2014
ECONOMY
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, buy 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**

- Nominal
- Real

**TRADE BALANCE RATIONALIZED**

**FX RESERVES SEE ONGOING RE-BUILD**

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

Sources: HSBC, DC, GSO
INVESTMENT CYCLE ON UPSWING

LOAN GROWTH IS PICKING UP

INTEREST RATES ARE NORMALIZING

INVESTMENT / GDP IS BOTTOMING

GOVERNMENT BORROWING ON THE RISE

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

Sources: DC, IMF, MOF
FOREIGN DIRECT INVESTMENT

FDI HAS STAYED ROBUST AND CONTINUES TO SURGE

FDI/GDP – VIETNAM GREATLY SURPASSES PEERS

Sources: ADB, IMF, GSO, IMF

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

TRANS-PACIFIC PARTNERSHIP

EXPOSURE TO USA IN $BN

- JAPAN $195.0
- VIETNAM $21.8
- SINGAPORE $50.5
- BRUNEI $0.2
- MALAYSIA $40.0
- AUSTRALIA $37.8
- NEW ZEALAND $8.7
- CANADA $597.3
- MEXICO $460.7
- PERU $14.6
- CHILE $4.9
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

Rolling 5mo average

Sources: DC, IMF, SBV
BANKS: PROPERTY SECTOR ON THE MEND

PICK-UP IN HCMC APT’S SOLD

apt's

1Q11 2Q11 3Q11 4Q11 1Q12 2Q12 3Q12 4Q12 1Q13 2Q13 3Q13 4Q13 1Q14 2Q14

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
## MACRO FORECASTS

### GROWTH WITH STABILITY

<table>
<thead>
<tr>
<th>unit</th>
<th>2012</th>
<th>2013</th>
<th>2014F</th>
<th>2015F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>%</td>
<td>5.3</td>
<td>5.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>US$bn</td>
<td>155.8</td>
<td>172.1</td>
<td>190.0</td>
</tr>
<tr>
<td>CPI</td>
<td>%</td>
<td>6.8</td>
<td>6.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Exports (cif)</td>
<td>US$bn</td>
<td>114.6</td>
<td>132.1</td>
<td>154.3</td>
</tr>
<tr>
<td>Export Growth</td>
<td>%</td>
<td>18.2</td>
<td>15.4</td>
<td>16.8</td>
</tr>
<tr>
<td>Imports (cif)</td>
<td>US$bn</td>
<td>113.8</td>
<td>132.1</td>
<td>152.6</td>
</tr>
<tr>
<td>Import Growth</td>
<td>%</td>
<td>6.6</td>
<td>16.1</td>
<td>15.5</td>
</tr>
<tr>
<td>Trade Balance (cif)</td>
<td>US$bn</td>
<td>0.8</td>
<td>0.0</td>
<td>1.7</td>
</tr>
<tr>
<td>FX Reserve</td>
<td>US$bn</td>
<td>26.5</td>
<td>32.1</td>
<td>40.5</td>
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<tr>
<td>FDI Disbursed</td>
<td>US$bn</td>
<td>10.5</td>
<td>11.5</td>
<td>12.5</td>
</tr>
<tr>
<td>USDVND (interbank)</td>
<td>1</td>
<td>20,850</td>
<td>21,115</td>
<td>21,350</td>
</tr>
</tbody>
</table>

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
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

<table>
<thead>
<tr>
<th>31 Aug - VNI 637 unit</th>
<th>2013</th>
<th>2014F</th>
<th>2015F</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E Ratio x</td>
<td>15.4</td>
<td>14.7</td>
<td>12.9</td>
</tr>
<tr>
<td>EPS Growth %</td>
<td>19.1</td>
<td>4.0</td>
<td>14.5</td>
</tr>
<tr>
<td>NPAT Growth %</td>
<td>22.6</td>
<td>5.2</td>
<td>14.7</td>
</tr>
<tr>
<td>PEG x</td>
<td>0.81</td>
<td>3.65</td>
<td>0.89</td>
</tr>
</tbody>
</table>

### TOP 50 RATINGS: EX-PROPERTY

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

BANK DEPOSITS: BARELY ABOVE INFLATION

GOLD: AUCTION DEMAND GOES TO ZERO

BONDS: SAME AS BANK DEPOSITS

Sources: DC, SBV, Bloomberg
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
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

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

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
## PRIVATIZATION

<table>
<thead>
<tr>
<th>Vietnam Airlines</th>
<th>PetroVietnam BSR</th>
<th>mobifone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPECTED IPO 2014</strong></td>
<td><strong>EXPECTED IPO 2014-15</strong></td>
<td><strong>EXPECTED IPO 2015</strong></td>
</tr>
<tr>
<td>114,000 flights</td>
<td>Dung Quat Refinery</td>
<td>32% market share</td>
</tr>
<tr>
<td>15m passengers</td>
<td>Finance capacity expansion: 6.5m to 10.0m MT, and Euro II to Euro IV</td>
<td>No 2 of three carriers</td>
</tr>
<tr>
<td>80% occupancy</td>
<td>Revenue: $7.1bn</td>
<td>Allowed to drop involvement in expensive Gov’t satellite program</td>
</tr>
<tr>
<td>May face valuation challenges</td>
<td>NPAT: $150m</td>
<td>Allowed to drop merger with Vinafone, No 3 carrier</td>
</tr>
<tr>
<td>Revenue: $3.4bn</td>
<td>Charter capital: $905m</td>
<td>Revenue: $2bn</td>
</tr>
<tr>
<td>PBT: $25m</td>
<td>49% of shares in IPO</td>
<td>PBT: $290m</td>
</tr>
<tr>
<td>Charter capital: $426m</td>
<td>25% shares in IPO</td>
<td>Charter capital: $500m</td>
</tr>
</tbody>
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Charter capital: $426m

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Charter capital: $426m
25% shares in IPO
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.
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