Market strategy

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WHICH SECTOR WILL BENEFIT FROM CHINA'S REOPENING?

- China eased some of its Covid restrictions from the beginning of Dec-22 and we expect China to fully open in 2Q23F.
- Sectors that will benefit from Chinese economic opening include: Aviation, Fisheries, Cement, Rubber, Steel, Textile, Retail, and Rice production.
- On the contrary, the fertilizer sector will be negatively affected.

Sector	Stocks	Impact	Our perspective
Aviation	ACV, HVN, VJC, AST		Currently, China is gradually resuming international air traffic by relaxing travel restrictions for international tourists. In particular, overseas arrivals are required to have one negative test result in 48 hours instead of 2 times as before, and visitors only need to quarantine at home for 5 days instead of centralized quarantine for 7 days. From the beginning of Dec-22, China has allowed Vietnamese airlines to operate regular routes to/from China with the frequency of 15 flights per week instead of 2 flights per week. Therefore, many Vietnamese airlines like Vietnam Airlines, Bamboo, and Vietjet have rapidly operated routes to China. We expect the frequency of international flights between Vietnam and China will recover soon. Accordingly, it is estimated that the international pax going to/from China will recover to 20%/40%/ 60%/80% of the pre-pandemic level in 1Q/2Q/3Q/4Q of 2023. Thus, the time when China's international arrivals increase strongly will be in 2Q and 3Q23. Chinese international arrivals account for 35% of Vietnamese total international arrivals in the pre-pandemic; therefore, the opening of China will be a tailwind of Vietnamese international aviation's outlook.
Fisheries	ANV, IDI, VHC		Although there were several headwinds in the 1H22, China market is still an important pillar for Vietnamese pangasius industry. Accumulated 10M22, the export value of Vietnamese pangasius hit US$2.1bn. In which, China & Hongkong market import value increased 58% yoy to US$638m which accounting for c.30%. As a result, we believe that the reopening of China will be one of the biggest catalysts for the output growth of exporting aquaculture product companies in 2023F. However, the companies with a large proportion of revenue and market share in China will have more benefits, especially: • ANV (Chinese market accounts for 14% of total revenue), • IDI (Chinese market accounts for 40%), • VHC (Chinese market accounts for 10%).

Note: ● = "Positive", ● = "Negative"

Source: VNDIRECT RESEARCH

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Sector	Stocks	Impact	Our perspective
Cement	BCC		China is the biggest export market of the Vietnamese cement sector, accounting for 54% of total sales volume in 2021. The re-opening of China will resume construction activities and boost infrastructure investment, thereby leading to cement demand recovery in China. Moreover, the possibility of an increase in exporting sales volume will persuade Vietnamese cement companies to improve the factories' utilisation, therefore, improving the gross margin in the near time (thanks to depreciation per unit decreases). BCC will be the listed cement company to benefit as China is the company's long-standing export market, accounting for about 15-20% of the company's total annual consumption.
Rubber	PHR, DPR		China is the largest natural rubber consumer of Vietnam, accounting for 70-80% of Vietnam's total rubber exports value. Vietnam is also one of the largest rubber suppliers to China with a market share of 16.7% in 10M22, just behind Thailand with market share of 33.6%. The reopening of China's import activities not only tackle bottleneck in rubber output, but also creates price hike thanks to high demand of rubber for China's tire production… Leading companies with large rubber exports to China such as PHR and DPR will benefit the most.
Steel	HPG		The reopening of China's economy will aid in resuming construction activities and boost infrastructure investment, supporting the recovery of the country's construction steel demand. Steel prices are also expected to bounce back. Rising demand for industrial manufacturing in China will also aid in the restoration of global supply chains. Thus, it indirectly benefits companies exporting galvanised steel. The leading galvanised steel companies such as HSG and NKG will have the opportunity to increase export volume as global industrial production recovers. HPG is able to export steel to China because of its low production costs. In 2020-21, the company sold 1.7-1.2 million tonnes of billet to China, respectively.
Textile	ADS		China is Vietnam's most important yarn export market, accounting for 48% of total yarn export value. As a result, China's reopening will stimulate demand in the Vietnamese textile and garment (T&G). Furthermore, we forecast that the US inflation to fall to around 2-4% in 2023 which will play a vital role in the recovery of Vietnam's textile and garment industry, particularly the yarn segment. Yarn manufacturers will benefit, of which ADS is the biggest beneficiary as China is the main export market of ADS, accounting for 80% of export revenue in 2021.
Consumer Goods	DGW, MWG, FRT		The ICT distributor will benefit from the recovery of Apple's products supply. China reopening the economy will ensure the supply of Apple products to help ICT distributors/retailers reduce the impact of the decline of consumption as demand for Apple products remains better than other ICT products. We expect ICT distributors/retailers will have a better result in the next coming months than in the period of Oct-Nov 22 when there was no supply of Apple products. The stocks with large expose to Apple products can be mentioned DGW (about 25-30% of revenue), FRT (about 20% of revenue), MWG (about 11% of electronics and phone revenue).
Rice production	LTG, TAR		The value of Vietnam's rice exports to China currently accounts for about 12% of the total rice export value, ranking second after the Philippines. Therefore, with China reopening, the demand for rice will also increase. This will have a positive impact on rice exports to China. Currently, listed companies that export rice to China include LTG and TAR. However, this segment's structural revenue proportion is very low (only about 5-10%). Furthermore, the gross profit margin for this segment is very low, at around 5-7%. As a result, the positive impact of China's opening to these businesses is limited.
Fertilizer	DPM, DCM		China is the world's second largest fertilizer exporter, accounting for approximately 13% of total global export value. As a result, China's reopening will provide a significant amount of supply to the market. Fertilizer prices will continue to fall as a result of this. Furthermore, this downward trend will accelerate as Russia (the largest exporter, accounting for approximately 15% of total global export value) will begin export turnover in early 2023. Fertilizer manufacturers will be negatively affected by the fall in selling prices, which will directly affect revenue.

Note: = "Positive", = "Negative"

Source: VNDIRECT RESEARCH

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Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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