

3Q19 RECAP – ROBUST EARNINGS GROWTH DRIVEN BY BANKING SECTOR

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As of 4 Nov 2019, 884 listed companies on three bourses have released 3Q results, representing 54% of the total stocks and 96% of market capitalisation.

Strong earnings growth amid solid macro economy

3Q19 aggregate net profit surged 20.8% yoy (vs. 13.6% yoy in 3Q18) on the back of a 7.5% yoy net sale growth (vs. 12.1% yoy in 3Q18) and large gross margin expansions across various sectors. The 3Q19 results firmed the upward trajectory after modest performance in 1H19 (1Q19: NP +0.8% yoy, revenue +3.7% yoy. 2Q19: NP +7.5% yoy, revenue +4.8% yoy). Overall, aggregate 9M19 revenue and net profit grew at decent pace of 6.0% yoy and 10.5% yoy, respectively.

Banking sector is a main driver of 3Q19 market's earnings growth

Banking sector showed impressive growth in 3Q19, with 45.0% yoy in net profit, well above the level 15.9% yoy seen in 3Q18, and alone added 11.5% pts to the 20.8% yoy increase in market net profit. The results were propelled by 72% yoy of VCB's 3Q19 earnings and the decent performances of other banks (VPB: +63.0% yoy; STB: +373.0% yoy). For 9M19, the banking sector's net profit grew 26.4% yoy (9M18: +39.2% yoy) and alone contributed 7.0% pts to the 10.5% yoy increase of market net profit.

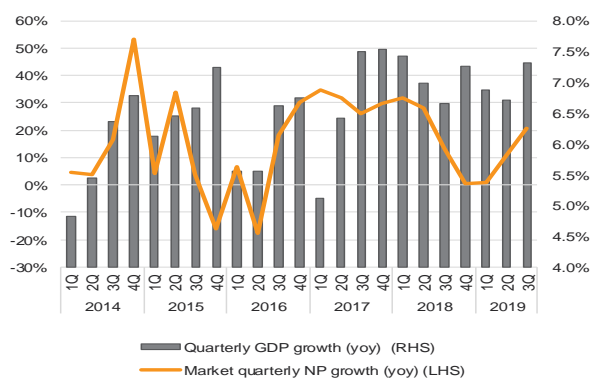
Real estate sector maintained high growth in 3Q19

Real estate, one of the largest contributors on market cap-weighted basis, posted positive 3Q19 results, with total net revenue and net profit jumping 32.9% yoy and 20.7% yoy, respectively. For 9M19, the real estate sector's net profit rose 29.4% yoy, ranking itself as the second-largest contributor to the market's earnings growth, alone adding 3.9% pts to the 10.5% yoy increase in total market net profit in 9M19.

Market sentiment improved but just a blip

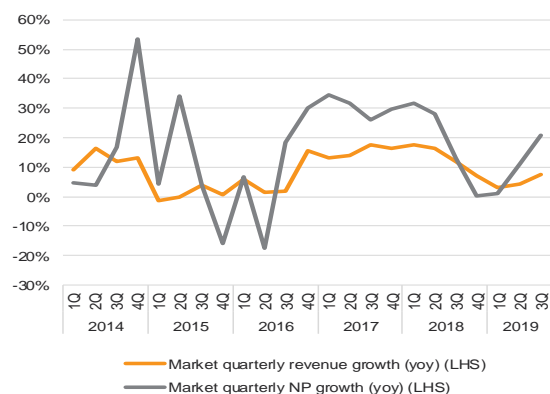
The VN-INDEX successfully broke the 1,000-pt level on 1st Nov, the first time since Mar 2019, as market sentiment was improved by decent 3Q19 earnings growth coupling with cooling U.S-China trade tension. The index is currently trading at TTM P/E of 16.8x, which is quite fair compared to regional peers. We see that market still lacks stronger catalysts to lift the index higher like the period Aug 2017 – Apr 2018. We see there will be no attractive IPO deals (only Masan Meatlife) towards year-end. In addition, the possibility of raising foreign ownership limit (FOL) or passing amended securities laws is unlikely to happen in near future. Thus, we expect that the VN-INDEX could hover in the range of 1,010-1,050 pts towards year-end.

Figure 1: 3Q19 earnings growth of listed companies accelerated thanks to Vietnam's robust economic expansion



Source: VNDIRECT RESEARCH, Fiipro

Figure 2: Aggregate corporate revenue and earnings growth sped up in 3Q19



Source: VNDIRECT RESEARCH, Fiipro

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Embarking on an upward trajectory

3Q19 aggregate net profit surged 20.8% yoy (vs. 13.6% yoy in 3Q18) on the back of a 7.5% yoy net sale growth (vs. 12.1% yoy in 3Q18) and large gross margin expansions across various sectors. The 3Q19 results firmed the upward trajectory after modest performance in 1H19 (1Q19: NP +0.8% yoy, revenue +3.7% yoy. 2Q19: NP +7.5% yoy, revenue +4.8% yoy).

Overall, aggregate 9M19 revenue and net profit grew at decent pace of 6.0% yoy and 10.5% yoy, respectively, however still lagging behind the outstanding performances last year.

Figure 3: Market's earnings snapshot

	3Q19 revenue growth	3Q18 revenue growth	9M19 revenue growth	9M18 revenue growth	3Q19 NP growth	3Q18 NP growth	9M19 NP growth	9M18 NP growth
All market	7.5%	12.1%	6.0%	16.2%	20.8%	13.6%	10.5%	22.6%
VN30	12.4%	12.4%	11.1%	21.2%	25.5%	24.0%	13.3%	38.3%
Large caps	12.6%	16.1%	8.0%	21.2%	29.3%	15.8%	16.3%	30.4%
Mid caps	2.5%	7.2%	4.2%	14.1%	6.3%	6.6%	-0.3%	8.2%
Small caps	1.6%	10.3%	2.9%	8.9%	-20.2%	16.7%	-17.7%	4.8%

Source: VNDIRECT RESEARCH, Fiiipro

Large-cap stocks were the main driver of the overall market earnings growth, recording an impressive net profit growth of 29.3% yoy in 3Q19 (vs. 15.8% yoy in 3Q18). On another note, mid-cap and small-cap stocks witnessed a slowdown in earnings growth, of which 3Q19 aggregate net profit of mid-cap stocks rose 6.3% yoy which is lower than a 6.6% net profit growth in 3Q18 while aggregate 3Q19 net profit of small-cap stocks even slumped by 20.2% yoy in 3Q19, compared to a 16.7% yoy increase in net profit in 3Q18.

9M19 earning growth is better than our expectation

The total net profit under our coverage universe grew 15.4% yoy in 9M19, outpacing the market earnings growth and exceeding our full-year forecast of 12.7% growth. A total of 56% of companies under our coverage posted 9M19 results in line with our forecasts, while 21% beat, and 23% missed our expectations. We believe this better-than-expected performance will trigger earnings upgrades in the next couple of weeks.

Figure 4: Top positive surprise under our coverage

Ticker	9M19 net profit growth	Our latest forecast net profit growth for full year	% complete full-year forecast
LPB	58.7%	42.0%	96.2%
VIB	69.4%	20.4%	88.3%
POW	31.3%	35.9%	84.0%
ACV	19.3%	11.8%	83.0%
VCB	50.7%	21.7%	79.4%

Source: VNDIRECT RESEARCH

Figure 5: Top disappointed ones under our coverage

Ticker	9M19 net profit growth	Our latest forecast net profit growth for full year	% complete full-year forecast
PVD	N/A*	13.0%	21.7%
DPM	-73.9%	-46.4%	38.3%
PVS	-8.7%	8.9%	56.9%
KBC	2.2%	12.0%	59.5%
TCM	-28.0%	-1.8%	60.0%

Source: VNDIRECT RESEARCH

RESULTS REVIEW BY SECTORS

Banking, Power and Real Estate fueled 3Q19 earnings growth

Figure 6: Revenue and net profit growth review by sectors

	3Q19 revenue growth	3Q18 revenue growth	3Q19 NP growth	3Q18 NP growth	% contribution in Market's 3Q19 profit growth	9M19 NP growth	9M18 NP growth	% contribution in Market's 9M19 profit growth
Automobiles & Parts	28.6%	5.8%	24.4%	20.6%	0.1%	15.3%	-6.7%	0.1%
Banks			45.0%	15.9%	11.5%	26.4%	39.2%	7.0%
Beverage	11.9%	0.9%	34.1%	15.3%	0.8%	19.4%	-1.0%	0.5%
Building materials	2.4%	6.0%	7.7%	3.9%	0.4%	11.7%	-0.1%	0.2%
Chemicals & Rubber	11.5%	11.5%	9.5%	8.0%	0.2%	-1.2%	36.3%	0.0%
Communication	-5.8%	58.4%	-58.0%	8.8%	-0.3%	-109.7%	45.7%	-0.2%
Construction	7.1%	7.8%	1.2%	11.9%	0.0%	-10.1%	-32.5%	-0.2%
Consumer goods	5.4%	14.2%	17.9%	21.6%	-0.3%	4.4%	3.2%	0.0%
Financial Services	3.3%	10.8%	23.8%	16.4%	-0.6%	-30.2%	40.8%	-0.7%
Food Producers	0.5%	7.2%	20.1%	35.7%	2.0%	2.6%	20.5%	0.3%
Forestry & Paper	5.1%	10.1%	50.9%	7.9%	0.1%	7.6%	-80.9%	0.0%
Gas, Water & Multi-utilities	1.1%	22.2%	6.7%	39.6%	-0.4%	3.9%	47.2%	0.2%
Industrial	2.2%	-19.5%	8.8%	11.9%	-0.3%	2.6%	31.4%	0.1%
Insurance			3.0%	7.0%	0.5%	18.3%	-9.1%	0.2%
Media	3.3%	4.5%	65.9%	194.5%	-0.2%	-23.6%	73.4%	0.0%
Medical	24.9%	-0.8%	19.3%	17.5%	0.0%	22.9%	-10.1%	0.0%
Mining	29.2%	22.9%	268.9%	448.1%	0.6%	10.0%	115.8%	0.0%
Oil & Gas	12.7%	31.5%	28.5%	13.3%	-1.1%	-35.6%	-5.0%	-1.6%
Personal goods	8.4%	12.7%	1.9%	26.6%	0.0%	-5.5%	26.0%	-0.1%
Pharmaceuticals	0.9%	3.1%	6.0%	8.3%	-0.1%	-1.2%	-3.2%	0.0%
Power	19.1%	1.7%	252.4%	67.3%	2.7%	22.2%	-9.5%	0.7%
Real estate	32.9%	10.0%	20.7%	54.4%	3.1%	29.4%	77.7%	3.9%
Retail	16.3%	20.9%	21.3%	11.5%	0.3%	26.5%	27.6%	0.5%
Technology	5.2%	-31.3%	30.8%	20.5%	0.3%	22.1%	16.3%	0.2%
Steel	9.0%	10.5%	35.0%	26.9%	-1.4%	-35.0%	7.0%	-1.6%
Support Services	5.8%	8.0%	4.8%	50.6%	0.0%	-0.4%	-23.8%	0.0%
Telecommunication*	14.8%	4.7%	-81.4%		0.9%		-102.7%	1.0%
Tobacco	6.5%	18.8%	14.4%	23.6%	0.0%	20.5%	-12.1%	0.0%
Tourism and entertainment	11.4%	4.7%	26.5%	45.7%	0.1%	-1.1%	-1.2%	0.0%
Transportation	5.0%	29.0%	9.3%	23.6%	1.6%	2.0%	25.3%	0.2%
Market	7.5%	12.1%	20.8%	13.6%		10.5%	22.6%	

* Telecommunication recorded profit in 3Q19 while recorded loss in 3Q18

Source: VNDIRECT RESEARCH, Fiiipro

Banking sector showed impressive growth in 3Q19, with 45.0% yoy in net profit, well above the level 15.9% yoy seen in 3Q18, and alone added 11.5% pts to the 20.8% yoy increase in market net profit. The results were propelled by 72% yoy of VCB's 3Q19 earnings and the decent performances of other banks (VPB: +63.0% yoy; STB: +373.0% yoy). For 9M19, the banking sector's net profit grew 26.4% yoy (9M18: +39.2% yoy) and alone contributed 7.0% pts to the 10.5% yoy increase of market net profit.

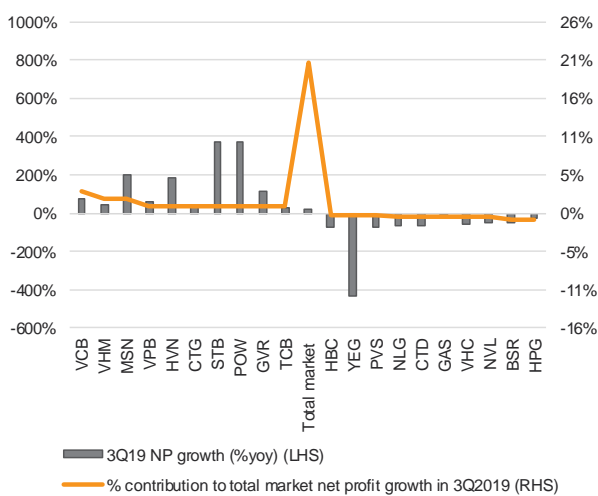
Real estate, one of the largest contributors on market cap-weighted basis, posted positive 3Q19 results, with revenue and net profit surges of 32.9% yoy and 20.7% yoy, respectively. For 9M19, the real estate sector enjoyed a 29.4% increase yoy in net profit and was the second-largest contributor to the market's earnings growth, alone adding 3.9% pts to the 10.5% yoy increase in total market net profit in 9M19.

The power sector recorded 252.4% yoy in 3Q19 net profit, attributing to POW's 4.3 times jump in net profit thanks to stronger electric output and smaller FX loss. Solid performances were seen in other coal-fired and gas-fired plants in 3Q19. NT2 and PPC posted +548% yoy and +18% yoy, respectively, in 3Q19 net profit. In addition, HNG and PGV posted VND92.8bn and VND148.1bn, respectively, of net profit in 3Q19 after recording huge loss in 3Q18.

The consumer-related sectors maintained strong growth momentum. 3Q19 earnings of retailers grew 21.3% yoy (vs. 11.5% yoy increase in 3Q18) thanks to a robust network expansion. Meanwhile top FMCG producers (e.g.: VNM: +5.7% yoy, SAB +22.1% yoy) showed strong recovery against the disappointing performance in the same period last year.

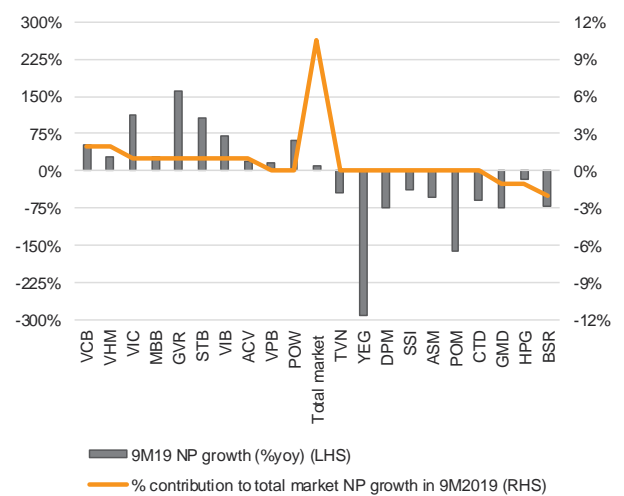
On the other side, 3Q19 market results were offset by earnings drags from: Communication (-158%), Media (-66%), Steel (-35.0%), Oil & Gas (-28.5%) and Financials Services (-23.8%). The lacklustre performance of Oil & Gas sector was mainly due to lower crude oil price but higher other expenses. We believe the weak liquidity of equity market in 9M19 has dented the bottomlines of Financial Services stocks, most of which are securities brokerages.

Figure 7: Contributions to market's 3Q19 NP growth by stocks



Source: VNDIRECT RESEARCH, FiinPro

Figure 8: Contributions to market's 9M19 NP growth by stocks



Source: VNDIRECT RESEARCH, FiinPro

We saw gross margin improves across various sectors in 3Q19

We estimate that market GM climbed to 17.8% in 3Q19, +0.7% pts qoq.

Real estate's GM jumped to 34.2% in 3Q19, from an average of 27.0% in the past four quarters, thanks mainly to VHM's 3Q19 GM that expanded 17.7% pts to 62.0% from 43.7% in 2Q19. Food producer and Beverage sectors also enjoy higher GM in 3Q19 thanks to products premiumisation progress and reduced packing costs as oil price slumped in 3Q19. The transportation sector witnessed gross profit margin improved thanks to lower oil price. The power sector posted higher 3Q19 GM thanks to a higher utilisation rate of coal and gas-fired power plants amid El Nino-induced weather. The technology sector saw strong improvement in 3Q19 GM, mainly thanks to FPT's 1.4% pts expansion in 3Q19 GM to 39.2%, from 37.8% in 2Q19.

Figure 9: Gross margin performance of sectors

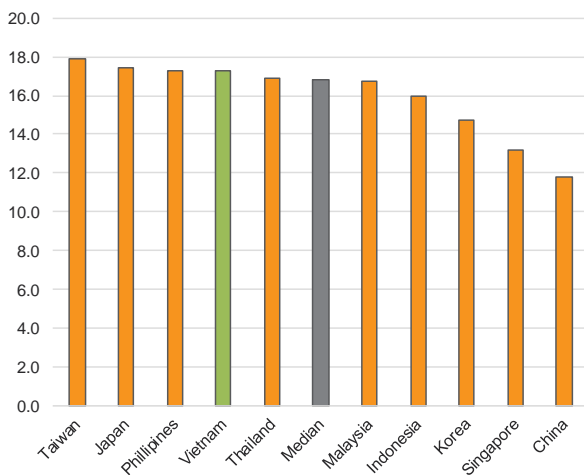
	3Q18	4Q18	1Q19	2Q19	3Q19
Retail	14.3%	15.0%	15.2%	15.0%	16.3%
Real estate	29.2%	24.1%	23.8%	30.9%	34.2%
Beverage	21.6%	20.6%	22.2%	24.7%	24.8%
Financial services	59.0%	37.9%	55.9%	45.5%	54.2%
Transportation	16.2%	13.7%	17.7%	14.5%	17.1%
Pharmaceuticals	19.6%	21.6%	19.1%	19.3%	19.4%
Personal goods	14.1%	11.7%	12.8%	13.0%	12.8%
Industrial	9.8%	12.1%	12.5%	9.1%	9.9%
Consumer goods	18.0%	17.8%	18.9%	19.8%	18.5%
Chemicals & Rubber	15.4%	15.2%	14.6%	14.8%	15.8%
Mining	11.5%	15.5%	11.8%	11.9%	8.1%
Steel	9.8%	7.6%	8.5%	9.8%	8.6%
Gas, Water & Multi-utilities	22.1%	21.4%	20.9%	20.3%	21.7%
Automobiles & Parts	9.0%	7.8%	7.8%	8.7%	9.5%
Technology	28.6%	27.4%	33.5%	29.3%	35.4%
Power	14.9%	17.4%	15.1%	14.8%	15.5%
Oil & Gas	6.9%	3.9%	7.6%	5.4%	5.2%
Food producers	27.7%	25.1%	27.1%	25.5%	26.4%
Communication	36.9%	48.4%	24.8%	23.2%	23.9%
Telecommunication	35.8%	35.9%	41.9%	38.9%	38.9%
Construction	11.8%	10.9%	12.4%	11.2%	12.2%
Building materials	17.5%	18.6%	17.7%	19.6%	19.2%
Market	15.7%	14.9%	15.1%	17.1%	17.8%

Source: VNDIRECT RESEARCH, Fiipro

MARKET OUTLOOK: MARKET SENTIMENT IMPROVED BUT MIGHT BE A BLIP

The VN-INDEX successfully broke the 1,000-pt level on 1st Nov, the first time since Mar 2019, as market sentiment was improved by decent 3Q19 earnings growth coupling with cooling U.S-China trade tension. The index is currently trading at TTM P/E of 16.8x, which is quite fair compared to regional peers, in our view.

Figure 10: TTM P/E of regional markets



Source: BLOOMBERG

Figure 11: VN-INDEX performance and TTM P/E



Source: BLOOMBERG

We believe that a strong uptrend across the market is unlikely as the market still lacks stronger catalysts to lift the index higher like the period Aug 2017 – Apr 2018. We see that there will be no attractive IPO deals (only Masan Meatlife) towards year-end. In addition, the possibility of raising foreign ownership limit (FOL) or passing amended securities laws is unlikely to happen in the near future. We forecast the VN-INDEX to trade in the range of 1,010-1,050 pts in the second half of 4Q19. The market’s main growth drivers come from banking, real

estate and consumption-related sectors. We still focus on some potential names for medium-term horizon trading:

- Retailers, like VRE (ADD, TP VND43,900) and MWG (HOLD, TP VND140,700) experienced another solid growth on the back of network expansion, while FMCG (VNM: ADD, TP155,600) enjoyed high consumer confidence index and product portfolio upgrading.
- A few property developers (NLG: ADD, TP39,600; VHM: HOLD, TP104,300) might get back to the central stage as high-rise projects will be launched for sale since 4Q after a long time pending due to a delay in licence approval.
- We prefer banks with good asset quality and well-positioning to offset the challenges of rising funding costs. ACB (ADD, TP30,400) and MBB (ADD, TP31,500) remain our top pick.
- In the power sector, we like PV Power (POW: ADD, TP VND18,334) thanks to its diverse portfolio of eight plants, with a total capacity of 4,208MW and well-positioning to offset the challenges of El Nino-induced weather and rising fuel costs at gas-fired power plants.

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RECOMMENDATION FRAMEWORK

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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