

**Market Strategy**

25 Jan, 2021

**Market outlook update**

**Envisaging a new high**

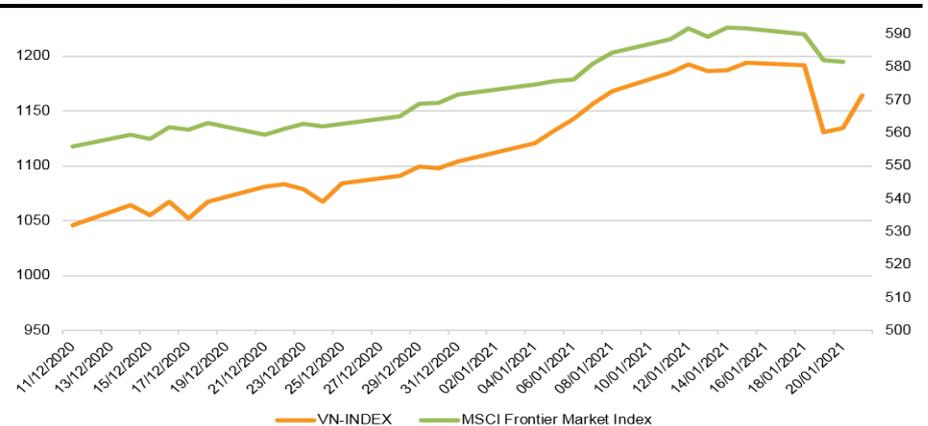
- We update the market scenarios when the VN-Index is approaching its historic peak of 1,200 points.
- In our base scenario, we estimate the reasonable range of VN-Index to be 1,180 – 1,230 points.
- In our best-case scenario, the VN-Index can reach 1,280 – 1,330 points given that the Covid-19 vaccine rollout proceeds faster-than-expected or the process of upgrading Vietnam's stock market to an emerging market status would have achieved a big move.

**VN-INDEX APPROACHES HISTORIC 1,200-POINT MILESTONE**

The VN-Index closing in 2020 reached 1,103.9 points, recording an increase of 14.9% compared to the end of 2019, the highest annual growth rate in the past 3 years and exceeding expectations of the market. Vietnam's stock market has kicked off the year of 2021 on a promising note by rising 8.2% within the first 2 weeks and closed at 1,194.2 points on 15 Jan 2021 (highest in 33-month period). Although there has been a sharp drop on 19 Jan, the VN-Index quickly recovered and closed 21 Jan session at 1,164.2 points. Overall, the stock market has maintained a positive trend since the beginning of the year.

The impressive uptrend in the market over the past month was relatively unexpected for most market participants. VNDIRECT Research Department is the pioneer to publish the investment strategy reports for 2021, in which the base-case scenario for the VN-Index in 2021 is 1,180 points, 14.5% higher than the close level of 11 Dec trading session – the publishing date of the report.

**Figure 1: The VN-INDEX is approaching the 1,200-point milestone**



SOURCE: BLOOMBERG, VNDIRECT RESEARCH

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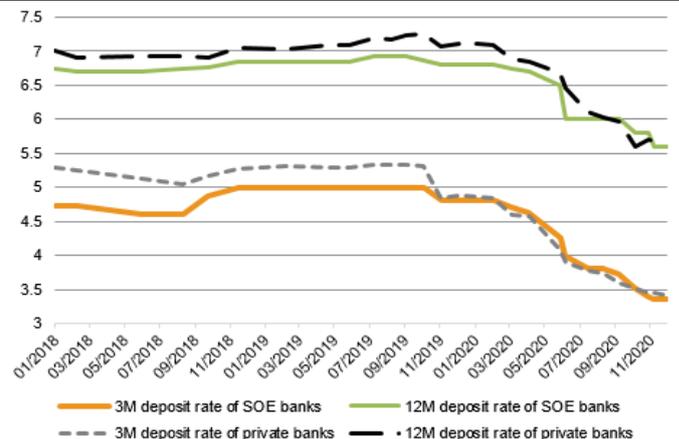
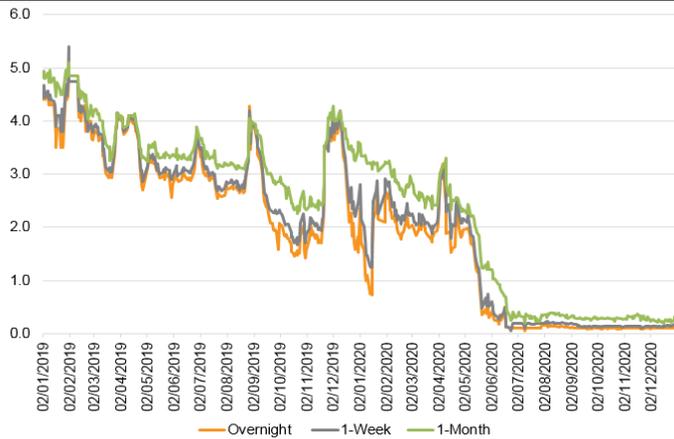
**KEY DRIVERS TO ACHIEVE OUTSTANDING GROWTH**

**At first, the recorded low-interest-rate stimulated inbound cash flow to move into the stock market.** In 2020, we saw a global wave of monetary policy easing to support economies to overcome the recession caused by the COVID-19 pandemic, including in Vietnam. The State Bank of Vietnam (SBV) had three policy rate cuts in 2020, totally from 150-200 basic point. Vietnam was among the countries with the most substantial operating rate cuts in the region. The market interest rates also dropped deeply. The average lending interest rate in 2020 decreased by 80-100 basis point, while the deposit interest rate reduced by 150-170 basis point.

Moreover, the interbank interest rate fell sharply to approximately 0.1%, which is the lowest in history. The 10-year government bond also dropped by 200 bps to 2.2%. Because of the low interest rates in 2020, domestic investors tended to move their money into the stock market. It is the main reason why the stock market liquidity were boosted up recently. In 2021, we forecast that deposit and lending rates could reduce another 20-50% in the context of easing monetary policy and muted inflation pressure.

**Figure 2: Interbank interest rate cross tenors to drop significantly to historical lows (Unit: %)**

**Figure 3: Deposit rates of commercial banks subdued since the beginning of 2020 (Unit: %)**



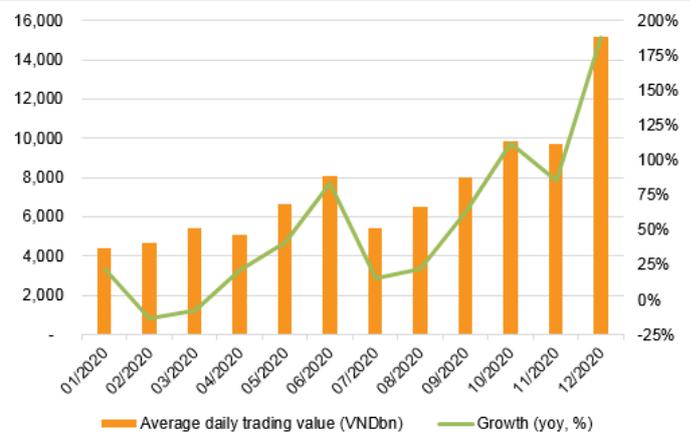
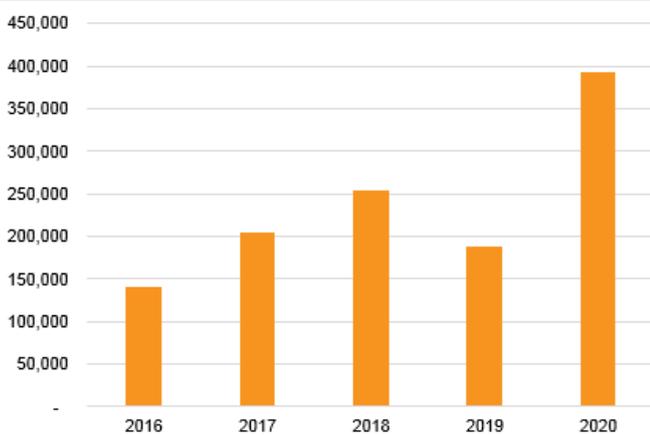
SOURCE: VNDIRECT RESEARCH, BLOOMBERG, SBV

SOURCE: VNDIRECT RESEARCH, Commercial banks

**Secondly, inbound money continued to flow into the stock market.** In December 2020, the number of new securities account reached 64,183, while the new securities account of domestic retail investor reached 63,629 accounts, increased by 54% compared to last month. It was the highest monthly number of a new securities account on the record. In the previous two months, the numbers of new securities account of domestic retail investors were also high, recording 36,346 and 41,080 new accounts, respectively. This can be called the second wave of F0 (new investors), after the first wave took place from March to June. In the entire 2020, the total number of new securities accounts was 392,527, an increase of 108% compared to 2019.

**Figure 4: The number of new securities accounts made a new high in 2020**

**Figure 5: Market liquidity rocketed in Dec 2020 (Unit: VNDbn)**



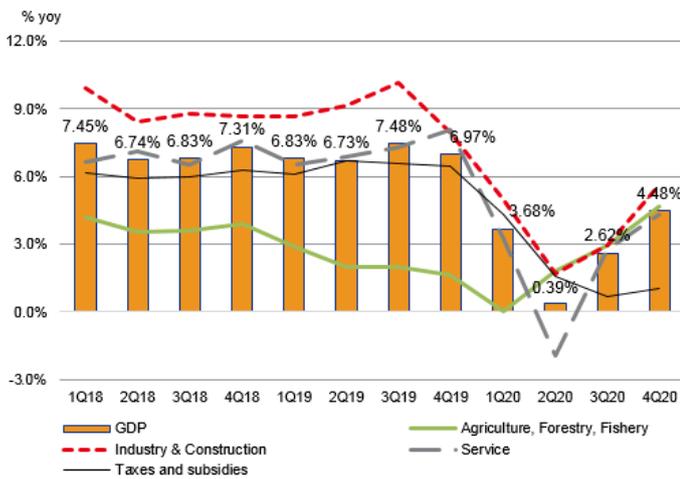
SOURCE: Vietnam Securities Depository, VNDIRECT RESEARCH

SOURCE: HOSE, HNX, VNDIRECT RESEARCH

**Thirdly, the market was optimistic about Vietnam’s economic prospect in 2021 as well as the ability of government to prevent the spread of COVID-19 pandemic.**

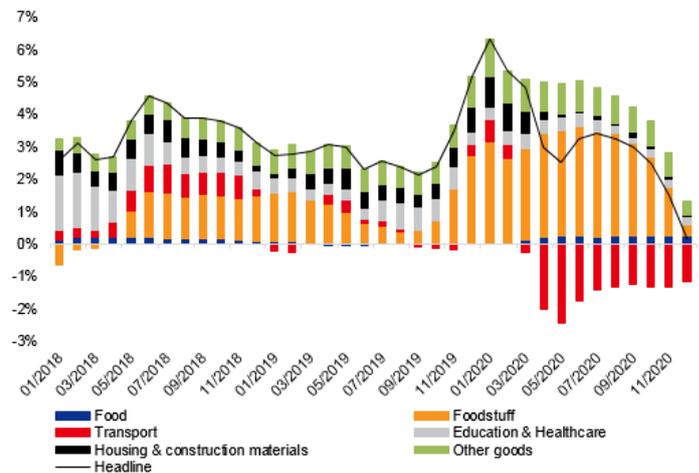
Vietnam’s economy seems to have dodged an economic recession caused by the COVID-19 pandemic thanks to following reasons: (1) The drastic moves of Vietnam’s government to reverse the economic recession including several stimulus package with a total scale of up to 4.3% GDP and strong easing monetary policy through interest rate cuts. Thanks to timely and effective solutions, Vietnam’s 2020 real GDP grew 2.9% yoy, which was among the highest growth rates in the world in 2020. Thanks to the outstanding achievement in preventing the COVID-19 pandemic and reviving the economy, Vietnam’s economy is expected to recover faster in 2021. The majority of domestic and foreign research organizations believe that Vietnam’s economy would grow by more than 6% in 2021. Notably, VNDIRECT RESEARCH forecast GDP’s growth rate in 2021 would be 7.1%. The strong recovery of Vietnam’s economy in 2021 could help the listed company fully recover their business operations and achieve higher income growth, which is a main factor attracting investors’ cash flow to pour into the stock market in 2021.

**Figure 6: Vietnam's GDP growth rebounded in 2H20**



SOURCE: GSO, VNDIRECT RESEARCH

**Figure 7: Inflationary pressure eased further**

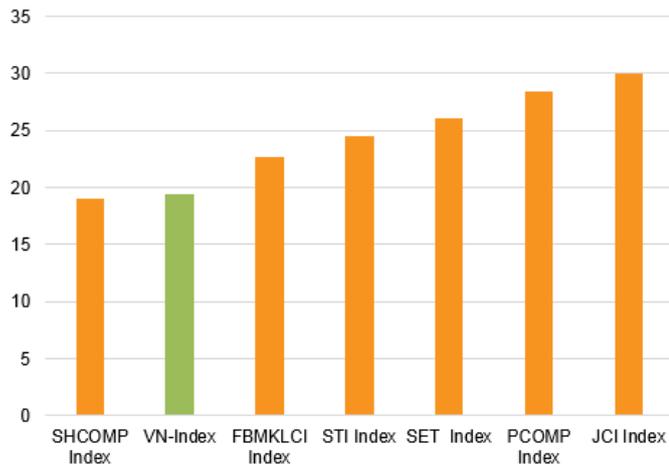


SOURCE: GSO, VNDIRECT RESEARCH

**ROOM FOR THE VN-INDEX TO RISE FURTHER**

On 21 Jan 2021, P/E of the VN-Index reached 19.4x (according to Bloomberg). The current market valuation is slightly higher than the historical 5-year average P/E of 16.2x yet is still attractive comparing to the average P/E of the stock market in the Southeast Asian region (c.26.3x). Considering current low interest rate environment, we believe that it is reasonable for Vietnam’s stock market to trade at a premium to the historical 5-year average. The average 1-year deposit interest rate of commercial banks is now at c.5.6%/year, hence the market trading at P/E in the range of 16.5 – 17.5x is reasonable. While the current market P/E is slightly higher than the level above, given the expectation that the corporate earnings recover starting from 4Q20, market P/E will be pulled to a more attractive level. Specifically, we estimate that FY21F corporate earnings across the VN-Index to grow 23% yoy, lower than our earnings growth forecast of 36% yoy for companies under our coverage. For stocks not under our coverage, we use the Bloomberg consensus earnings forecast.

**Figure 8: TTM P/E (x) of VN-Index, with those of its regional peers (data as at 21 Jan 2021)**



SOURCE: BLOOMBERG, VNDIRECT RESEARCH

**Figure 9: TTM P/E is still lower than its peak of 22x in 2018**



SOURCE: BLOOMBERG, VNDIRECT RESEARCH

**Figure 10: Breakdown of sector earnings growth on yoy basis, represented by VNDIRECT's coverage**

Sector	2020 growth	2021 growth	Breakdown of sector earnings growth, represented by VNDIRECT's coverage	
			2020	2021
Bank	6.9%	22.5%	2.8%	11.1%
Aviation	-177.8%	N/A	-15.1%	10.7%
Property	13.8%	22.4%	2.3%	4.9%
Consumer/Retail	-16.6%	30.8%	-2.3%	4.0%
Oil & gas	-26.5%	28.6%	-2.1%	1.9%
Construction/Material	57.0%	18.9%	2.7%	1.6%
Technology	12.1%	20.3%	0.2%	0.5%
Power	-20.0%	13.2%	-0.6%	0.3%
Agriculture/Commodities	18.2%	17.7%	0.2%	0.2%
Logistics/Industrial property	-28.6%	25.2%	-0.2%	0.2%
Industrial	-14.3%	23.4%	-0.1%	0.1%
Textile	0.6%	20.3%	0.0%	0.1%
<b>Total</b>	<b>-12.3%</b>	<b>35.8%</b>	<b>-12.3%</b>	<b>35.8%</b>

SOURCE: VNDIRECT RESEARCH

The VN-Index is now trading at P/E forward FY21F of 15.7x, slightly lower than the historical 5-year average P/E of 16.2x and it remains below the reasonable valuation range (16.5 – 17.5x). Therefore, we believe that the VN-Index still has room for further growth. We have updated our VN-Index scenario in order to reflect recent inbound money and the declining interest rate trend in the market.

**VNDIRECTS's market scenario update**

Items	Worst case	Base case	Best case
<b>Probability (%)</b>	20%	50%	30%
<b>FY21F EPS growth across the VN-Index</b>	17-19% yoy	22-24% yoy	25-27% yoy
<b>Target P/E for VN-Index</b>	15.5-16.0x	16.0-16.5x	17.0-17.5x
<b>Foreign investor trading activities</b>	Foreign capital inflow has not yet returned to the frontier market. Foreign investors continue to be net sellers in Vietnam's stock market	Foreign capital inflow could return to the frontier market with a small scale. Foreign investors net bought less than VND5,000bn in Vietnam's stock market	Foreign capital inflow could return to the frontier market with a large scale. Foreign investors net bought over VND10,000bn in Vietnam's stock market
<b>Other catalysts/risks</b>	<ul style="list-style-type: none"> <li>The Covid-19 takes longer to handle than expected worldwide, which would cause global economy Vietnam's economy to recover slower than expected.</li> <li>The Vietnam's export and manufacturing sector could be negative affected</li> </ul>	<ul style="list-style-type: none"> <li>In this scenario, we forecast Vietnam's GDP to growth 7.1% in 2021</li> <li>We expect deposit and lending rate to further decline by 20-50 percentage point in 2021</li> </ul>	<p>Factors that could push the VN-Index to exceed expectations</p> <ul style="list-style-type: none"> <li>Covid-19 vaccine rollout to be proceeded faster than expected.</li> <li>Vietnam's stock market inclusion in FTSE Secondary Emerging Market Index in the Sep 2021 annual country-reclassification.</li> <li>Vietnam's stock market to be added to the Watchlist for reclassification from Frontier Market status to Emerging Market status at MSCI's Annual Market Classification Review in 2021.</li> </ul>
<b>Forecast for VN-Index at the end of 2021</b>	1,100-1,150pts	1,180-1,230pts	1,280-1,330pts

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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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