NAVIGATING VIETNAM 2023

INVESTING WITH RESPONSIBILITIES FOR SUSTAINABLE GROWTH

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30 Nov 2022

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INVESTING WITH RESPONSIBILITIES FOR SUSTAINABLE GROWTH

- Our key message this year is "Investing with responsibilities to protect your wealth, your corporates and the sustainable growth of Vietnam equity market".
- We believe a 14% earnings growth and a re-rating in equity regarding loosening financial conditions will carry the VN-Index back towards the 1,300-1,350 level.
- Key catalysts to watch are Fed's rate hiking pace and Vietnam's aggressive policies to address the bottom-neck of corporate bond (CB) market.

When will the central banks start loosening the financial conditions?

We believe this is the key question for 2023. The answer will depend on whether inflation would be brought down to more comfortable levels. Though several debates on when rates will peak, we expect the Fed fund rate to inch up to 5% within the 1H23 and a first gentle 25bp cut in to be implemented in 1Q24. Based on the last hiking cycle, the first Fed cut came roughly 7 months after that.

Vietnam economy strong growth upturn will fade into 2023

In 2023, Vietnam will reckon with low export growth, high interest rates, declining but uncomfortable level of global inflations, tight liquidity, likely rising debt distress in residential property area. Macro tailwinds will be few, perhaps in the form of infrastructure development as a part of public investment and robust energy transition. We expect 2023F GDP to grow 6.7% yoy, lower than 2022F of 7.9% but slightly higher than Government's guidance of 6.5%. We see the China 's reopening and growing FDI competition among regional peer are likely variable factors to Vietnam's growth outlook.

Pressure on interest rates and currency will ease considerably in 2H23

USD is expected to maintain its strength throughout 2023. But a combination of improving FX reserves together with Fed's less hawkish stance sometime in mid-2023, would mark an end to the sharp VND drop and provide a potential reversal of about 1-2% appreciation against US$ at end-2023. We expect Vietnam's FX reserve to recover to US$102bn at end-2023 from current ~US$89bn. Increasing probability of global tightening liquidity backstop provides headroom for State bank of Vietnam to keep the policy rates unchanged from now on. Then, deposit rates will stay flat in 1H23 and gradually cool down since 3Q23, in our view.

2023 will be a year with two halves

For the early 2023, we believe market is still under stress of liquidity constraints and rising corporate bond default risks. Thus, an uptrend from trough valuation amid weak liquidity might fragile and volatile, in our view. We are more confident and expect an inflection to materialise in 2H23 as a re-rating in equity market is often triggered within 4-6 months ahead the first rate cut. Thus, we advocate "value" and "dividend plays" for near-term defensive strategy and switch to "growth-seeking" as moving into 2H23.

Market could have a decent year from trough valuations

We believe VN-index succumbed to market negative sentiment in 2022, not its fundamentals. We expect the VN-Index head to 1,300-1,350 level in the 2H23; based on 12x – 12.5x FY23F P/E and 14% yoy earnings growth. Downside risk to the market includes inflation pressures remain high enough that central banks are unable to loosen the financial conditions soon. Upside catalysts include aggressive supporting policies to be implemented to tackle the corporate bond issues and the earlier-than-expected MSCI EM upgrade of Vietnam.

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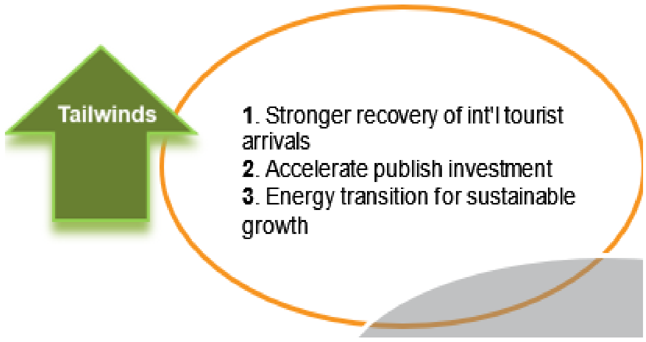
2023 MARKET STRATEGY: A YEAR WITH TWO HALVES

What are the best plays to leverage the macro tailwinds?

We believe the resume of international flights will bode well for earnings resilience of aviation and service. After a lacklustre year 2022, infrastructure development as a part of publish investment will fuel large infra-construction corporates. We see the great opportunities alongside country energy transition roadmap, but in the early stage, energy infrastructure developer and renewable energy exposure businesses will be major beneficiaries. Our top picks under this theme are: ACV, AST, C4G, PLC, PC1, and POW.



Sources: VNDIRECT RESEARCH

Advocate "value" and "dividend plays" for near-term defensive strategy

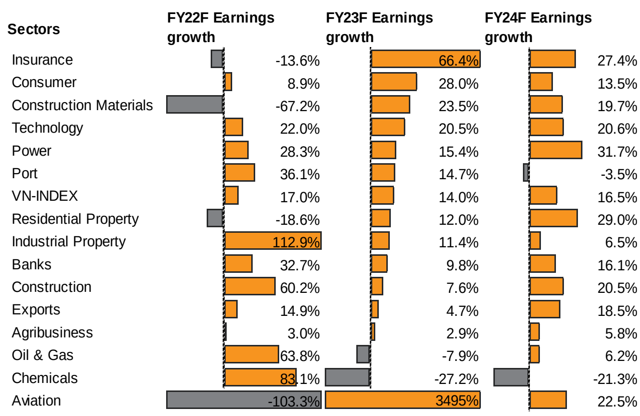
We see upward pressure on interest rates and exchange rate persists in 1H23, market uptrend from trough valuation amid weak liquidity might fragile and volatile. Thus, it is prudent for investors to keep undervalued investing and dividend plays. We prefer companies that have leading industry position or operate in high entry barrier segment, carrying strong balance sheet with low leverage and less sensitivity to FX fluctuation. Our picks under this theme are VCB, GAS, FPT, BSR, BVH, PLX, DGC, PVS, NT2, and PHR.

	Market cap (VNDbn)	TTM P/E	Curr. P/B	D/E (end-3Q22)	Net cash/share (VND)	Dividend yield
VCB	377,655	14.3	2.8	N/A	N/A	N/A
GAS	229,100	16.9	4.5	0.2	14,116	3.3%
FPT	77,889	14.9	3.9	0.8	5,294	2.8%
BSR	38,896	2.5	0.8	0.1	7,312	2.4%
BVH	35,122	19.9	1.6	N/A	-	2.1%
PLX	32,591	36.6	1.5	0.5	2,843	4.7%
DGC	22,407	3.8	2.1	0.1	17,303	5.8%
PVS	9,129	18.6	0.8	0.1	18,075	4.2%
NT2	6,535	8.4	1.7	0.1	603	6.8%
PHR	4,770	7.3	1.5	0.2	12,808	10.4%

Sources: VSD, VNDIRECT RESEARCH

Keeping an eye out for "growth-seeking" as we move into 2H23

Moving into 2H22F, the market could start rerating, 4-6 months ahead the first rate cut implement. Once we get closer to a pivot by central banks away from tight monetary policy, we would rotate toward interest-rate-sensitive sectors with a growth tilt. Our top picks under this theme are PC1, NLG, VHM, HPG, VRE, MWG, TCB, VPB.

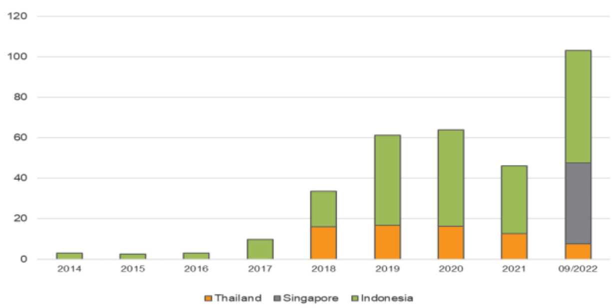


Sources: VNDIRECT RESEARCH

Rising ESG investing awareness

ESG investing is at nascent stage in Vietnam, but gaining interest globally and regionally. *Singapore, Thailand and Indonesia, together, have experienced robust growths in net asset value (refer right chart).* We believe that the trend is coming to Vietnam market soon which will re-rate companies have early prepared for ESG framework. Our top picks under this theme are: VNM, FPT, PNJ, STK, HDG, GMD, REE, and BCG.

Net asset value of ESG-investing fund (US$bn)

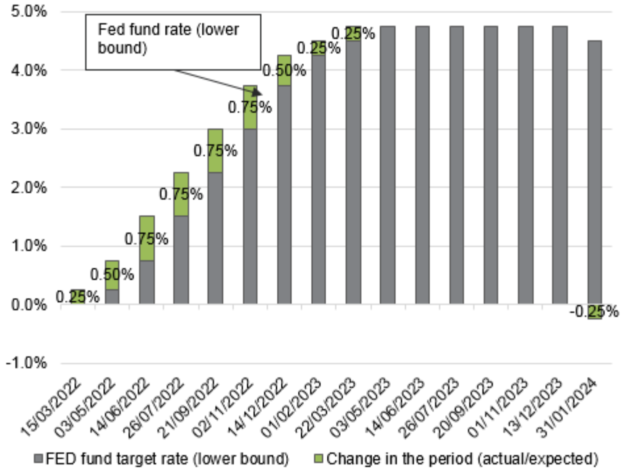


Sources: Bloomberg, VNDIRECT RESEARCH

KEY CHARTS

We expect that there will be no rate cut till 1Q24

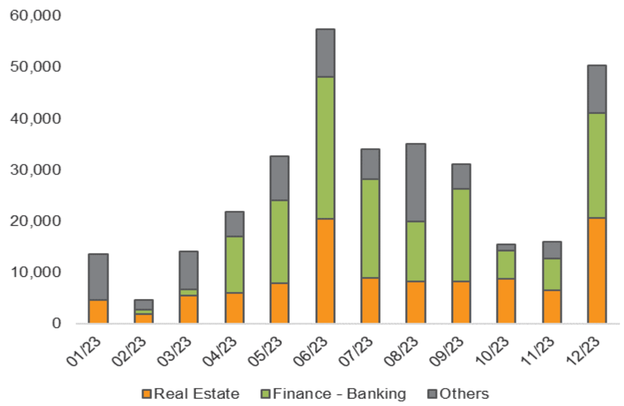
We do not expect any rate cuts in 2023 unless the US economy enters recession after all. As forecast of no-recession, we expect the Fed fund rate to inch up to 5% within the 1H23 and a first gentle 25bp cut in to be implemented in 1Q24. Based on the last hiking cycle, the first Fed cut came roughly 7 months after that. However, key risk is inflation pressures remain high enough that central banks are unable to ease the financial conditions soon.



Sources: Bloomberg, VNDIRECT RESEARCH

Seeking measures for a sustainable growth of CB market amid growing maturity pressure

Regarding the CB issuance boom during 2019 – 21, the total value of private CB due in 2023 was about VND300tr, (+90% yoy), of which, property and finance - banking account for 30% and 40%. We think it will take some time for market participants (issuers, underwriters, and investors) to adapt with new rules. As property market squeezes, consumer demand weakens, rising financial cost, corporates tend to delay or postpone their business expansion, which lower the funding demand. Thus, we expect corporate bond market will experience a muted performance in 1H23 with low supply volume.

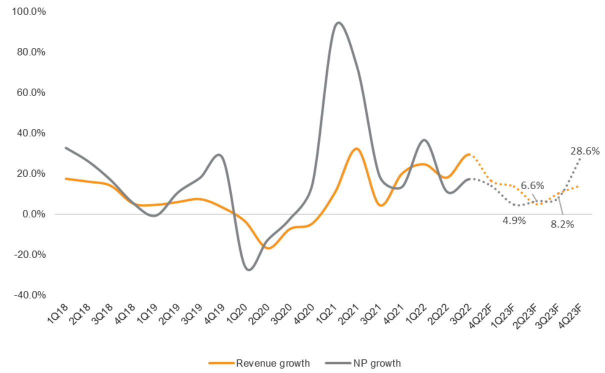


Sources: HNX, VNDIRECT RESEARCH

Market earnings will resilient in the 2H23

We expect FY23F market earnings to grow modestly 5% yoy in 1H23F then improve significantly in 2H23F, bringing the whole year growth to 14%.

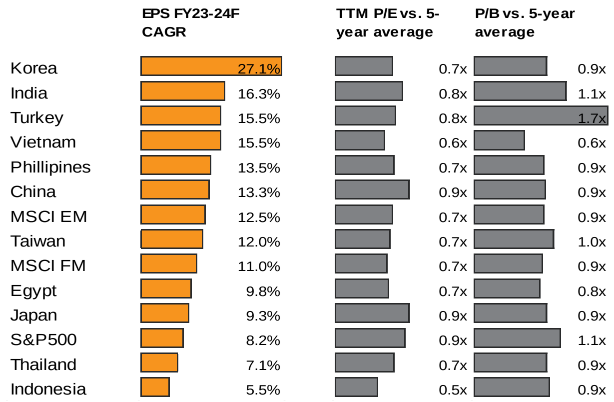
Aviation will stand out in terms of earnings growth on the back of nearly-full recovery of international flights. Construction materials will enjoy a meaningful earnings growth, underpinned by input material prices (coal, ore iron) downturn. On the other hand, O&G and Chemicals might experience a contraction in FY23F bottom line growth from high base FY22F.



Sources: Bloomberg, VNDIRECT RESEARCH

Market decent performance will be empowered the return of foreign investors

As at Nov 22, VN-Index was trading at 10x trailing 12-month P/E, 43% discount to its peak and 36% discount to the 5-year average. Attractive valuation in terms of F23-24F earnings growth potential has triggered a buyback of foreign investors. We believe the signal of US interest rates to peak out will prompt foreign investors to seek growth with more risk appetite. Additionally, the recent downgrade of tech-stocks has resulted a shift into traditional businesses which is the catalyst for Vietnam where banks, property, power, consumer dominate market capitalization.



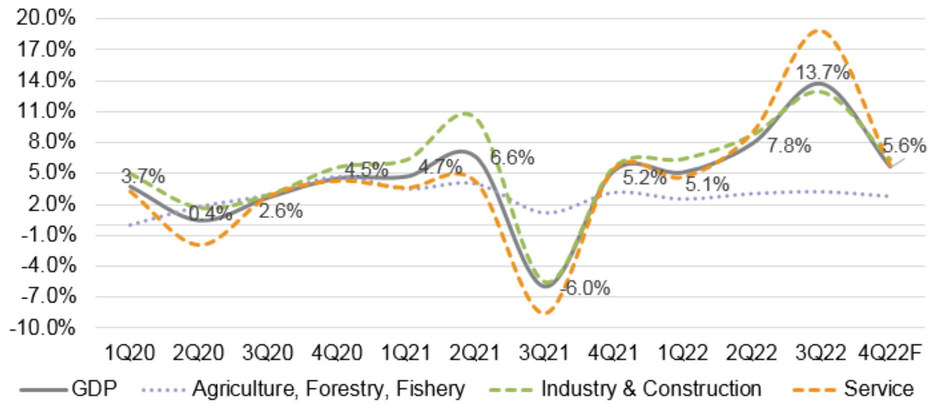
Sources: Bloomberg, VNDIRECT RESEARCH

2022 MACRO RECAP: ROARING BACK BUT HEADWINDS ARE RISING

Asia Pacific 's economic growth leader

According to General Statistics Office (GSO), Vietnam's GDP rose 8.8% yoy in 9M22 (vs. +1.4% yoy in 9M21), marking the fastest pace of growth in more than a decade. The recovery so far this year has been supported by an easing of Covid-19 restrictions, accommodative policy settings, and resilient exports. We now believe that the economy is on course to achieve growth of 7.9% (+/-0.2% pts) in 2022.

Figure 1: Vietnam's GDP growth (quarterly, 1Q20-4Q22F)



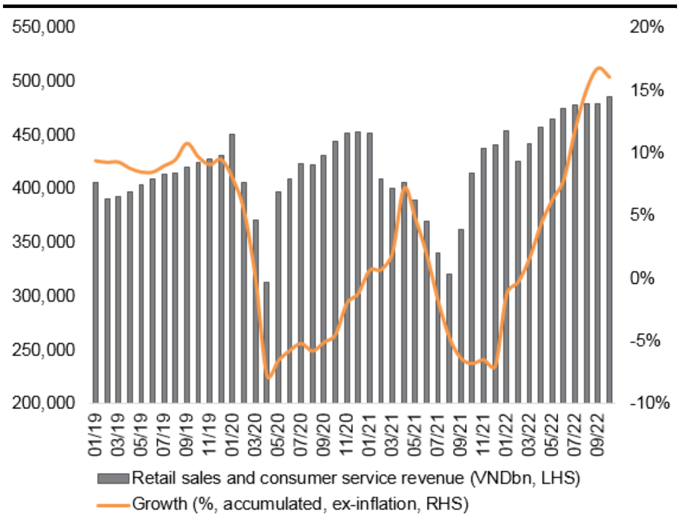
Source: GSO, VNDIRECT RESEARCH

Service sector is the key pillar of the recovery with impressive growth of 10.6% yoy in 9M22 (vs. -0.7% yoy in 9M21), adding 4.6% pts to the growth of 8.8% yoy of GDP.

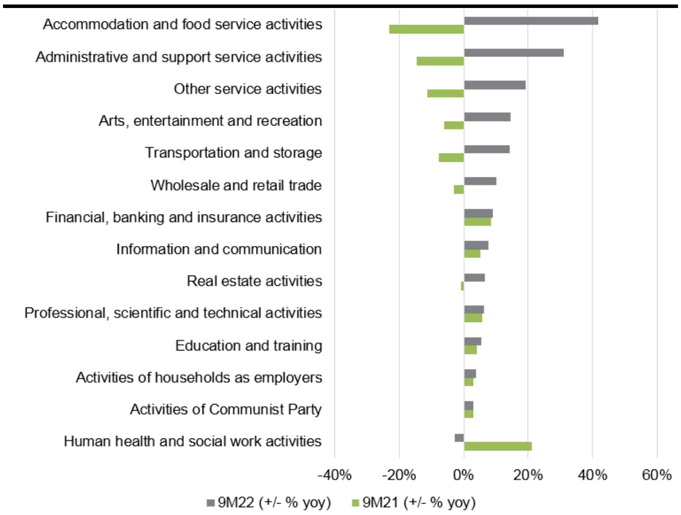
Within the service sector, domestic demand and the bounce-back of tourism were the main contributors. Total retail sales of consumer goods and services increased by 20.1% yoy in 9M22 (vs -5.0% yoy in 9M21). If excluding the price factor, retail sales rose 16.8% yoy, even higher than pre-pandemic level. As Vietnam has resumed the international flights since 1Q22, revenue from tourism doubled than that of 2021, recovering to 78% of pre-pandemic level.

Figure 2: Domestic demand increased steadily in 10M22

Figure 3: Growth of service sub-sectors (% yoy)



Source: GSO, VNDIRECT RESEARCH



Source: GSO, VNDIRECT RESEARCH

Industry and construction expanded 9.4% yoy in 9M22 (vs. +3.6% yoy in 9M21), despite supply chain disruptions and higher basic material prices. China's Zero-Covid policy, drought and power shortages further urge the trend of supply chain diversification and the "China + 1" policy. In that context, Vietnam has attracted more production orders thanks to its proximity to the production base in southern China.

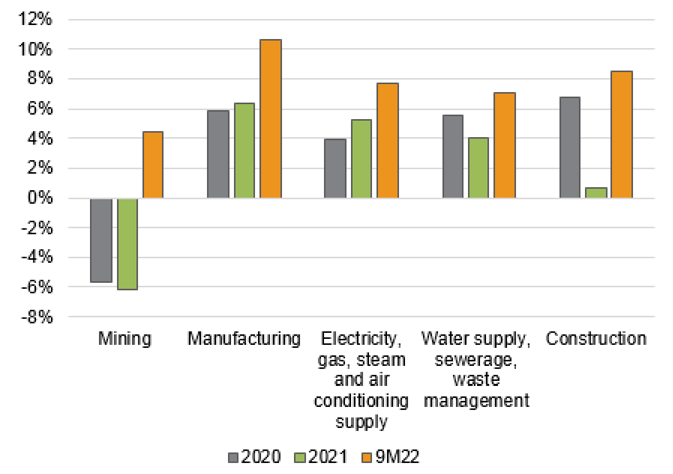
All industrial sub-sectors recorded strong yoy basis growth rate in 9M22, e.g: manufacturing (+10.7% yoy); electricity, gas, steam and air conditioning (+7.7% yoy); water supply, sewerage, waste management (+7.0% yoy); mining (+4.4% yoy); and construction (+8.6% yoy in 9M22).

Figure 4: Industry and construction sub-sector growth heat map (quarterly, % yoy)

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Industry & Construction	5.0%	1.7%	2.9%	5.6%	6.3%	10.4%	-5.5%	5.6%	6.4%	8.7%	12.9%
Industry	5.1%	1.1%	2.3%	4.8%	6.3%	11.2%	-4.4%	6.5%	7.0%	9.5%	12.1%
Mining	-4.2%	-5.8%	-5.9%	-6.1%	-8.5%	-4.7%	-9.1%	-2.7%	1.1%	4.5%	6.6%
Manufacturing	7.1%	3.4%	3.9%	8.6%	8.9%	13.4%	-4.1%	8.0%	7.7%	11.1%	13.0%
Electricity, gas, steam and air conditioning supply	7.5%	-0.1%	4.0%	4.4%	4.3%	12.8%	-2.6%	5.5%	7.1%	4.5%	11.2%
Water supply, sewerage, waste management and remediation activities	6.7%	1.4%	5.5%	8.3%	5.4%	7.8%	-0.2%	3.6%	6.5%	6.3%	9.1%
Construction	4.4%	4.7%	5.7%	8.6%	6.5%	6.5%	-10.1%	2.1%	3.3%	4.9%	16.6%

Source: GSO, VNDIRECT RESEARCH

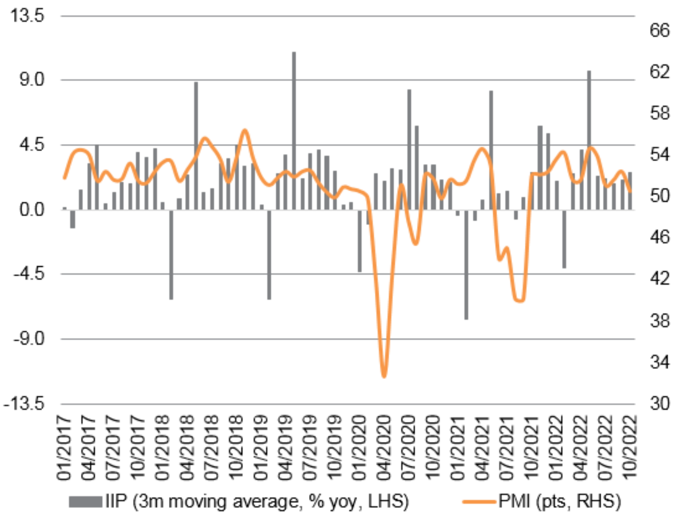
Figure 5: All sub-sectors bounced back strongly in 9M22 (% yoy)



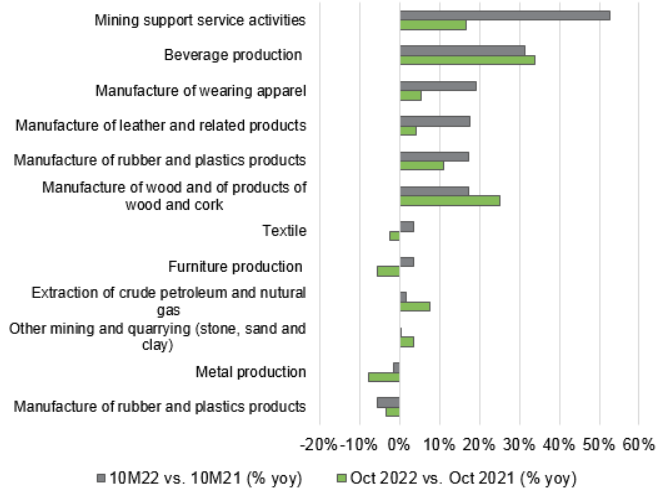
Source: GSO, VNDIRECT RESEARCH

Figure 6: Vietnam's manufacturing activities showed strong recovery in 10M22

Figure 7: Industrial production index (IIP) by category



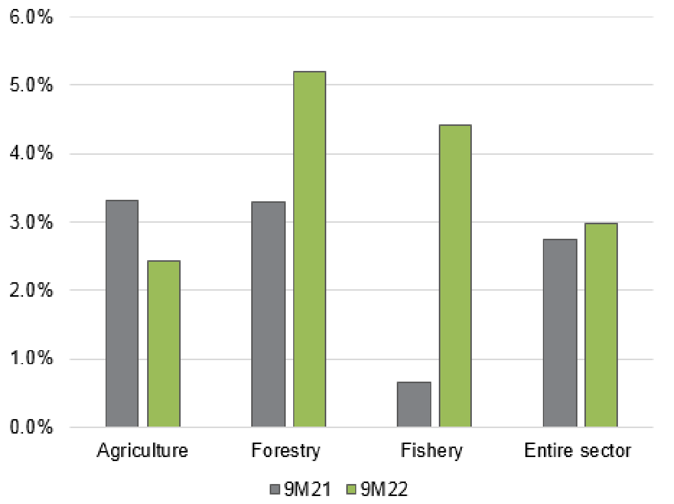
Source: GSO, VNDIRECT RESEARCH



Source: GSO, VNDIRECT RESEARCH

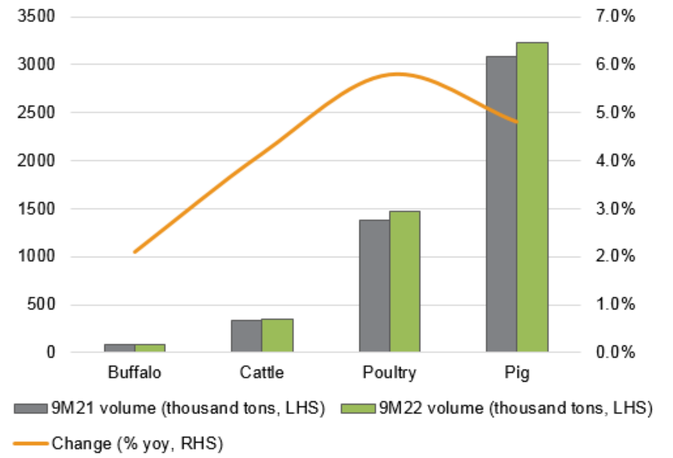
Agribusiness, forestry and fishery sector grew positively by 3.0% yoy in 9M22 (vs. 2.7% yoy in 9M21). Forestry and fishery recorded stronger growth rates of 5.2% and 4.4% respectively in 9M22 thanks to high export value to U.S. and EU markets. On the other hand, agribusiness growth decelerated to 2.4% yoy in 9M22 from that of 3.3% yoy in 9M21 due to harsh weather that reduced rice and cash crop yields.

Figure 8: Growth of sub-sector of Agribusiness, Forestry and Fishery (% yoy)



Source: GSO, VNDIRECT RESEARCH

Figure 9: Main products of livestock



Source: GSO, VNDIRECT RESEARCH

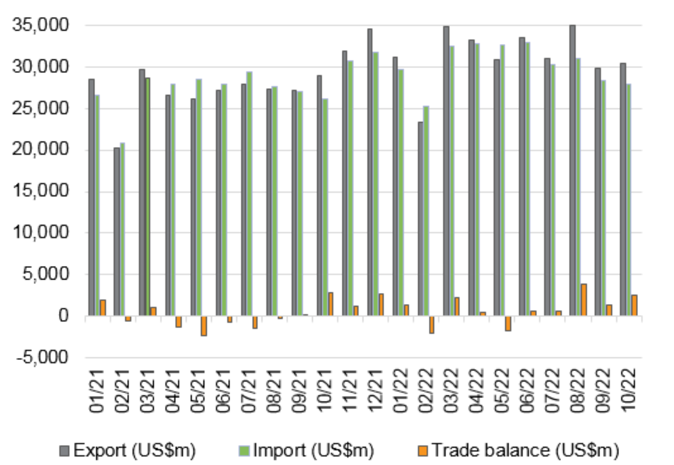
Exports remained resilient so far in 2022

According to Vietnam's customs, Vietnam's export value increased by 16.0% yoy to US$312.9bn in 10M22, driven by low base effect from last year's manufacturing disruption due to Covid-19, higher commodities prices and more order switch from China given this country's sluggish manufacturing due to restriction and power shortage.

Most of Vietnam's major export markets recorded positive growth in 10M22, led by Japan (+26.8% yoy), E6 (including Holland, Germany, England, Italia, Belgium and France) (+26% yoy), ASEAN (+23.2% yoy) and the U.S. (+21.7% yoy). Meanwhile, Vietnam's export growth to China and Hong Kong increased modestly by 4.9% yoy.

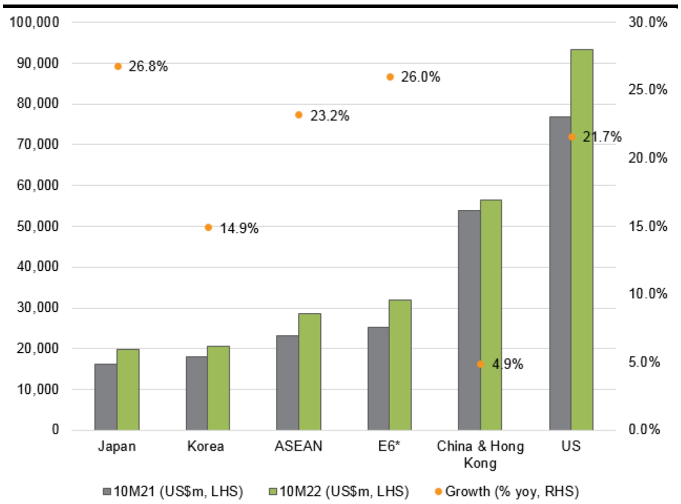
In term of export products, top 10 strongest grower include fertilisers (+156.6%); coal (+98.7% yoy); toys, sports equipment and their parts (+49.2% yoy); footwear (+41.4% yoy); chemicals (+40.6% yoy); hand bags, wallets, suitcases, umbrellas (+40.0% yoy), petroleum (+39.8% yoy) and precious stones, metals and products (+38.3% yoy).

Figure 10: Vietnam net exported US$9.6bn in 10M22



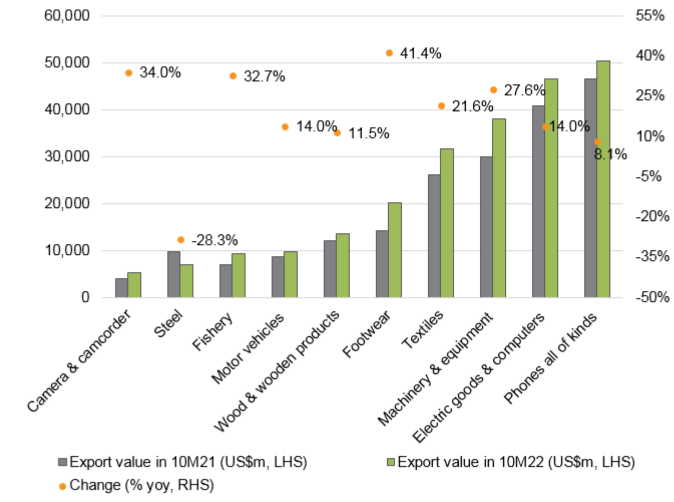
Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 11: Top export markets value and growth in 10M22 (% yoy)



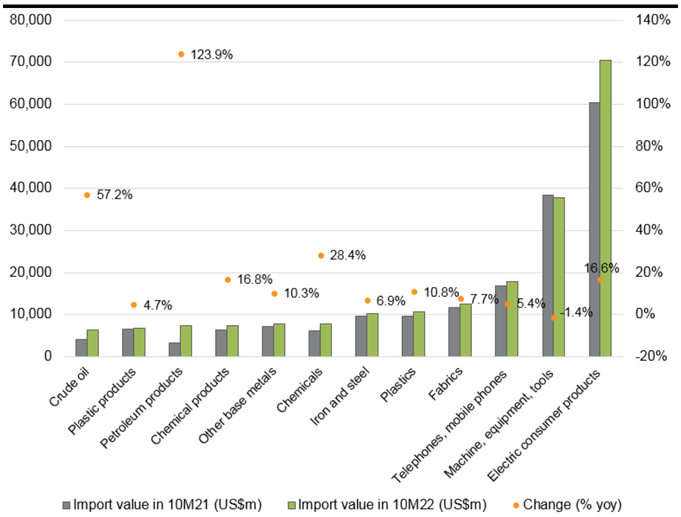
*E6 includes Holland, Germany, England, Italia, Belgium and France
Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 12: Top export products in term of value in 10M22 (% yoy)



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 13: Top import products in term of value in 10M22 (% yoy)

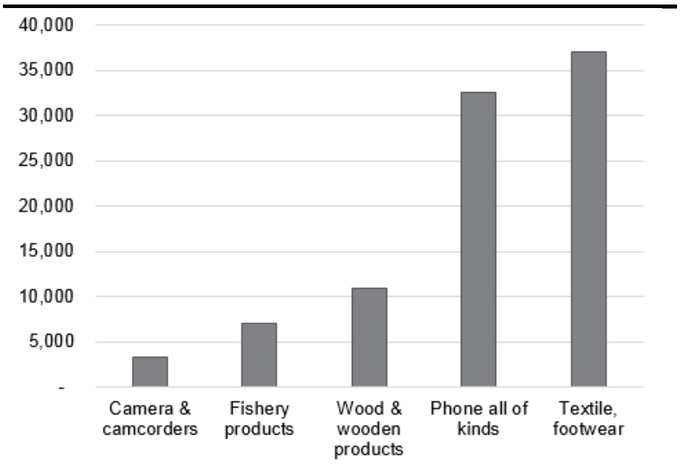


Source: Vietnam Customs, VNDIRECT RESEARCH

Vietnam's import grew by 12.5% yoy to US$303.3bn in 10M22, resulting in a trade surplus of US$9.6bn in 10M22 (vs. a deficit of US$0.6bn in 10M21). Top 10 products with strongest growth of import products include petroleum (+123.9% yoy), coal (+77.3% yoy), crude oil (+57.2% yoy), chemicals (+28.4% yoy), chemical products (+16.8% yoy) and electronic goods, computers and their parts (+16.6% yoy). We believe the strong growth of electronics will secure for Vietnam's manufacturing expansion in near term. Meanwhile the outlier growth of crude oil and petroleum products was mainly due to prices hike.

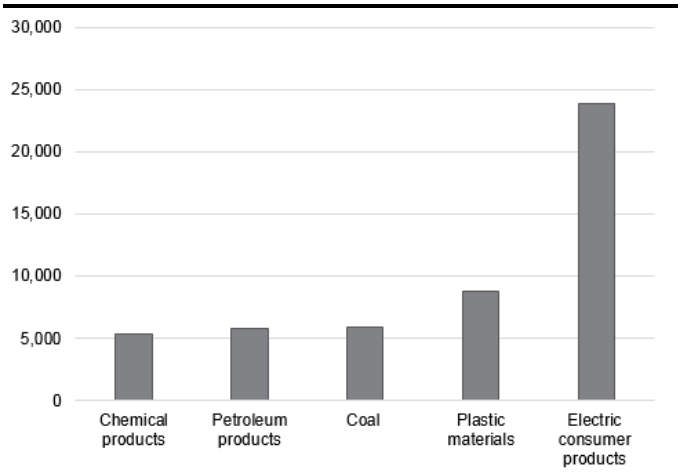
We believe Vietnam exports has felt the pinch from global economy downturn since Aug. Both U.S. and EU are negatively impacted by tightening financial conditions and weaker job growth and subdued consumer demand, meanwhile, China has no clear sign of a bottom-out (lackluster growth of sales in China's biggest shopping even Singles' Day 11 Nov). Thus, we expect a soft drop in export growth in 4Q22, making a 14% yoy growth for 2022. Meanwhile, we expect import to grow by 12% yoy in 2022, bringing a trade surplus of US$10.4bn at end-2022. (vs. trade surplus of US$3.3bn in 2021).

Figure 14: Top Vietnam's net export products in 10M22 (US$bn)



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 15: Top Vietnam's net import products in 10M22 (US$bn)



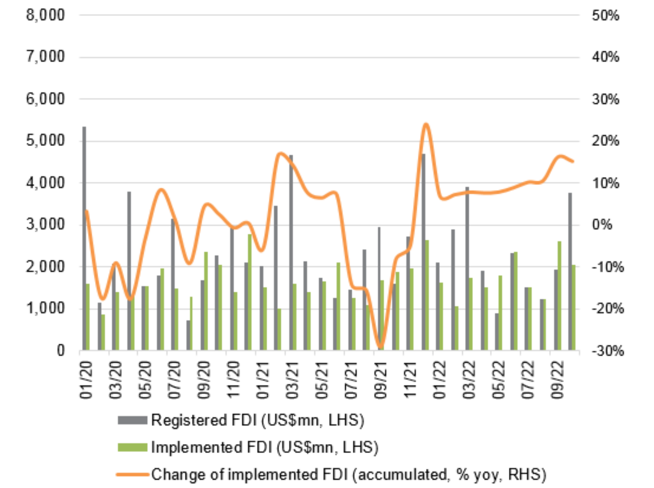
Source: Vietnam Customs, VNDIRECT RESEARCH

Disbursed FDI grew healthy, public investment kept in good track

Disbursed FDI uptrend is an encouraging development, reflecting follow-through from previously pledged commitments, even though registered FDI has weakened. According to the Ministry of Planning and Investment (MPI), disbursed FDI grew by 15.2% yoy in 10M22 to US$17.5bn (vs. a 4.1% decline in 10M21). Meanwhile, registered capital of FDI projects declined by 5.4% yoy to US$22.5bn in 10M22. For more detail, in 10M22, 1,570 (+14.2% yoy) newly licensed FDI projects have been registered with total capital of US$9.9bn (-23.7% yoy); 880 projects (+13.4% yoy) licensed in the previous years have been approved to adjust investment capital (incremental FDI) with a total additional capital of US$8.7bn (+23.3% yoy); 2,997 (-2.2% yoy) turns of capital contribution and share purchases of foreign investors with total value of capital contribution of US$3.8bn (+4.5% yoy).

The decrease of new FDI inflow this year was mainly due to the absence of large-scale projects. Last year, Vietnam witnessed the large FDI new projects including: Long An I and II liquefied natural gas (LNG) power plants with total investment value of US$3.1bn, the Omon II thermal power plant with investment value of US$1.3bn. This year, the largest registered FDI project was the new carbon neutral factory by Denmark's Lego Group, worth US$1.3bn.

Figure 16: Implemented FDI rose 15.2% yoy in 10M22



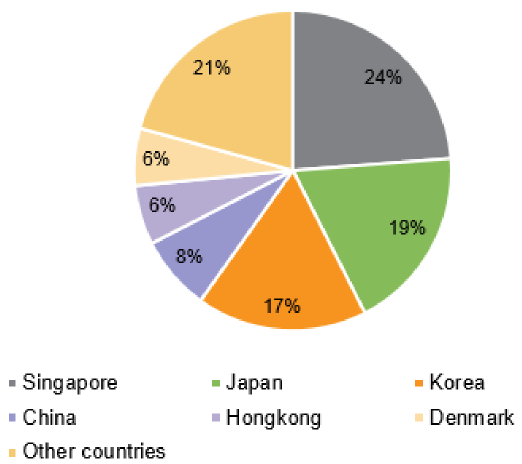
Source: GSO, MPI, VNDIRECT RESEARCH

Figure 17: List of major FDI projects in 10M22

FDI projects	Sectors	Registered capital (US$bn)	Province/city
Lego's toy factory	Manufacturing	1.3	Binh Dương
Expansion of VSIP Bac Ninh project	Industrial Park	0.9	Bac Ninh
Expansion of Samsung's plant in Thai Nguyen province	Manufacturing	0.9	Thai Nguyen
The manufacturing factory of Goertek Group	Manufacturing	0.3	Nghe An
Commercial and service projects of GE Vietnam	Commercial & Service	0.2	Bac Ninh
Electronic component factory project (JNTC - Korea)	Manufacturing	0.2	Phu Tho

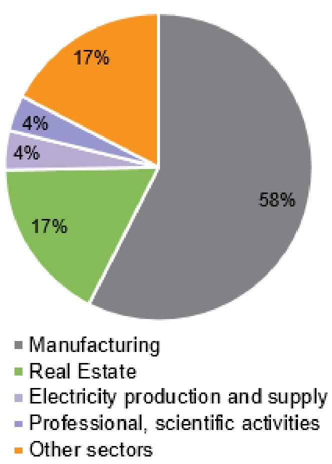
Source: GSO, MPI, VNDIRECT RESEARCH

Figure 18: 10M22 registered FDI (breakdown by country)



Source: GSO, MPI, VNDIRECT RESEARCH

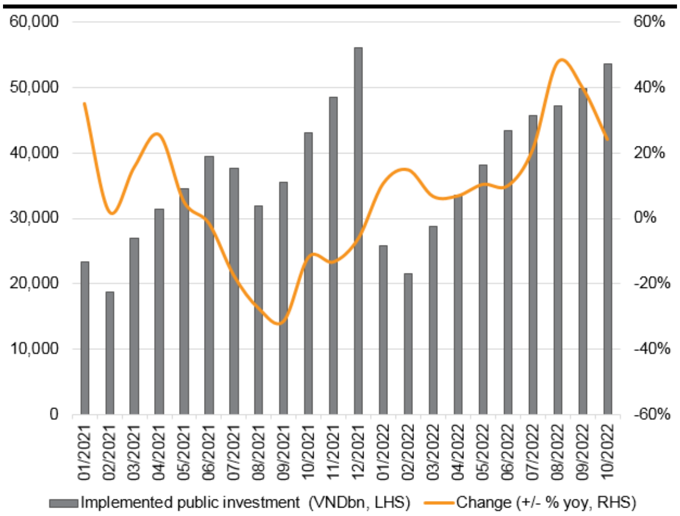
Figure 19: 10M22 registered FDI (breakdown by sector)



Source: GSO, MPI, VNDIRECT RESEARCH

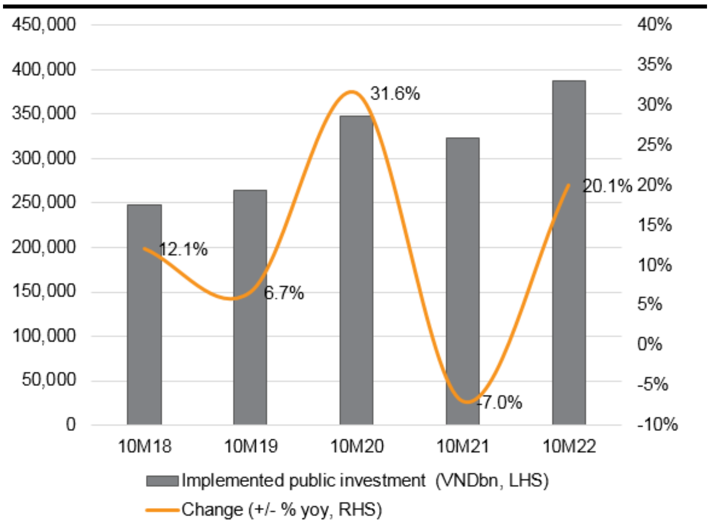
According to GSO, public investment rose by 20.1% yoy to VND387.7tr in 10M22 (higher than the decline of 7.0% yoy seen in 10M21), equivalent to 67.1% of the full-year guidance. For entire-2022, we expect implemented state capital to increase by 20-22% yoy, equivalent to 90% full-year guidance. Noted that, public investment has dropped significantly in the last six months of 2021 due to the outbreak of COVID-19 and rising construction material price causing the delays in construction work across country.

Figure 20: Public investment accelerated since early 2022



Source: GSO, VNDIRECT RESEARCH

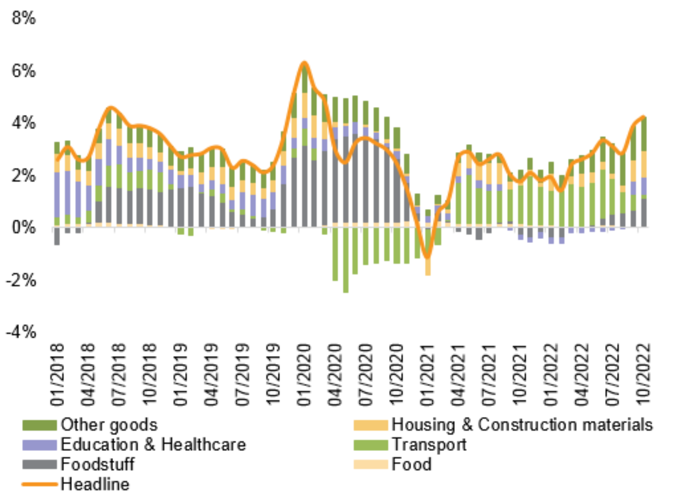
Figure 21: Implemented public investment in 10M22



Source: GSO, VNDIRECT RESEARCH

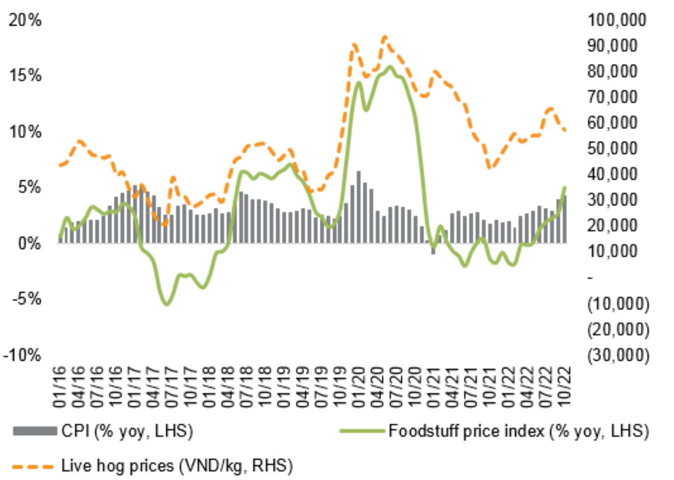
Inflation has risen but still manageable

Figure 22: Vietnam's average inflation rose 2.9% yoy in 10M22



Source: GSO, VNDIRECT RESEARCH

Figure 23: Foodstuff price index increased since the beginning of 2022 as live hog prices rebound



Source: GSO, VNDIRECT RESEARCH

Headline inflation ended 3Q22 at a 30-month high of 3.9% yoy, near the threshold of 4%. However, inflation averaged at 2.9% yoy in 10M22. The hike was largely driven by food and oil price pressure.

Accordingly, agri-products and live pork prices have pulled the average food consumer price index (CPI) up 2% yoy in 10M22 (vs. +0.8% yoy in 10M21). Transportation CPI was up 13.6% yoy in 10M22 (vs. 9.0% yoy in 10M21) following the 40% yoy growth of crude oil prices. In addition, the higher price of imported raw materials and consumer goods along with strengthening US$ put more pressure on domestic inflation.

In order to contain inflation, in early 2022, some fiscal supports have been implemented, including: lowering value-added tax on specific goods and services from 10% to 8% since Feb, lowering environmental tax on petroleum products by VND3,000/liter since Apr, cutting down petroleum products import tax from 20% to 10% since Aug. Additionally, some public fees and charges have been cut down.

For 2022, we expect average headline inflation of 3.2% yoy (+/- 0.2% pts).

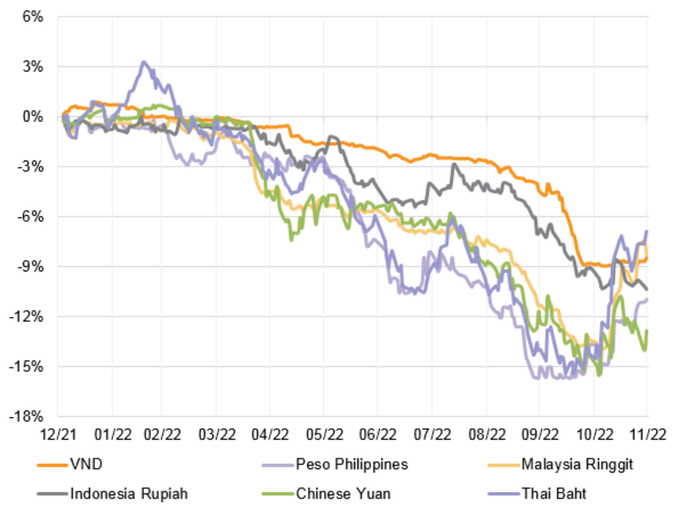
Monetary policy: tightening since Sep 2022

Strengthening DXY weighs on the Vietnam Dong

Following the FED's aggressive hiking path, DXY peaked out at 114pts on Sep 26 (+19.3% ytd) before cooling down to 106.2pts (+11.0% ytd) on 29 Nov. The increase of the US dollar weighed on all currencies. As of 29 Nov 2022, the VND has depreciated 8.4% ytd to the US$. Since the beginning of 2022, the US$/VND exchange rate has outperformed some other currencies in the region such as Indonesian Rupiah (+10.4% ytd), Philippine Peso (+11.0% ytd) and Chinese Yuan (+12.8% ytd) but underperformed than Malaysian Ringgit (+8.3% ytd) and Thai Baht (+6.9% ytd).

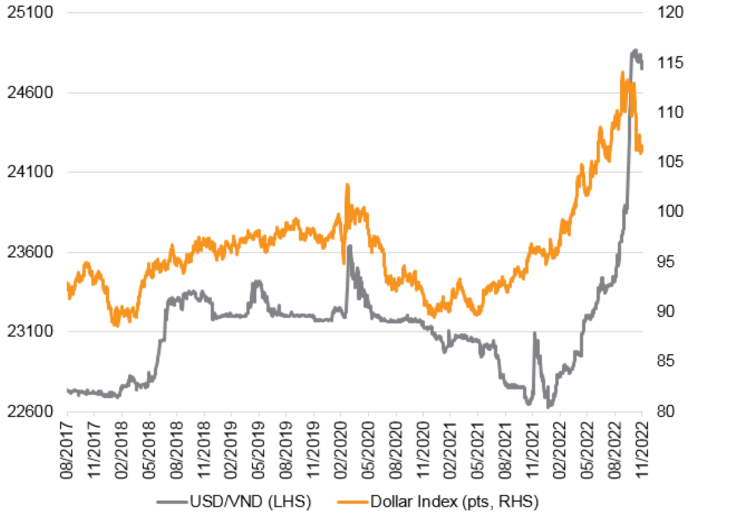
In order to maintain macro stability and support the recovery of the economy through the pandemic, the State Bank of Vietnam (SBV) stayed on extended pause of policy rates hike within the first 9 months of this year. On the other hand, SBV made efforts to stabilize the foreign exchange market and the VND exchange rate by selling US$ and widening the trade band of US$/VND spot exchange rate from +/-3% to +/-5%, effective from Oct 17, 2022. Foreign reserves has shrunk by 20% ytd (~US$21bn) following this intervention.

Figure 24: Regional currencies vs. the US$ (% ytd)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: The US$/VND exchange rate movements (Jun 2017- Nov 2022)



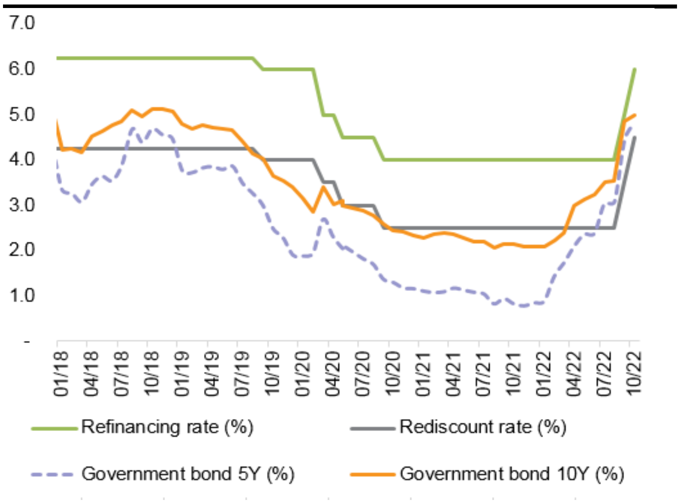
Source: SBV, VNDIRECT RESEARCH

SBV raised policy rates twice during Sep – Oct with a sizable increase of 200 basis points

The refinancing rate was raised to 6.0% from 4.0% and the rediscount rate to 4.5% from 2.5%. The interbank overnight lending rate cap and the lending interest rate to cover capital shortfall in clearing payment of the SBV was raised to 7.0% from previous 5.0%. The ceiling interest rates for deposits with terms of from 1 month to less than 6 months was raised to 6.0% from previous 4.0%

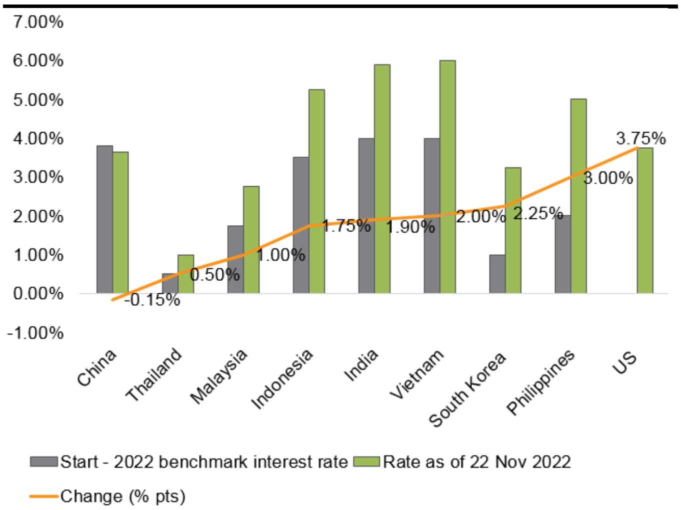
previously. Since the beginning of 2022, the increase of Vietnam's policy rates is considerably larger than that of regional countries.

Figure 26: The SBV raised its policy rates by 200 basis points in 10M22 (%)



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

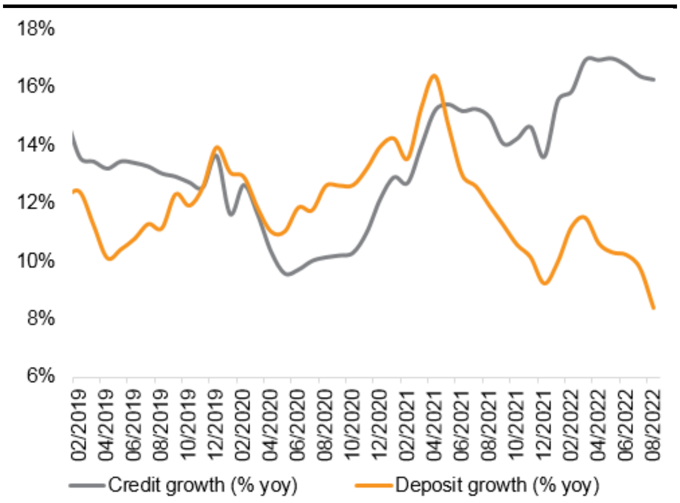
Figure 27: Changes in policy rates of central banks in Asia since the beginning of 2022



Source: SBV, VNDIRECT RESEARCH

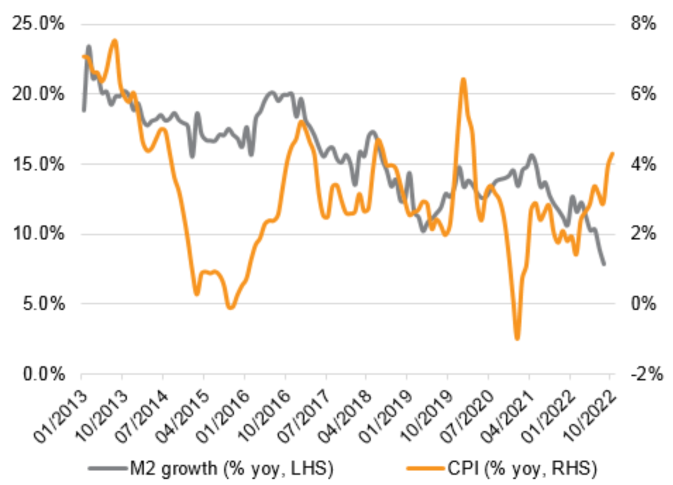
Liquidity constraint has blown up deposit rates across the board since late-3Q22

Figure 28: The gap between credit growth and deposit growth has been widened since early-2022



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

Figure 29: Vietnam's money supply M2 vs. Vietnam's CPI

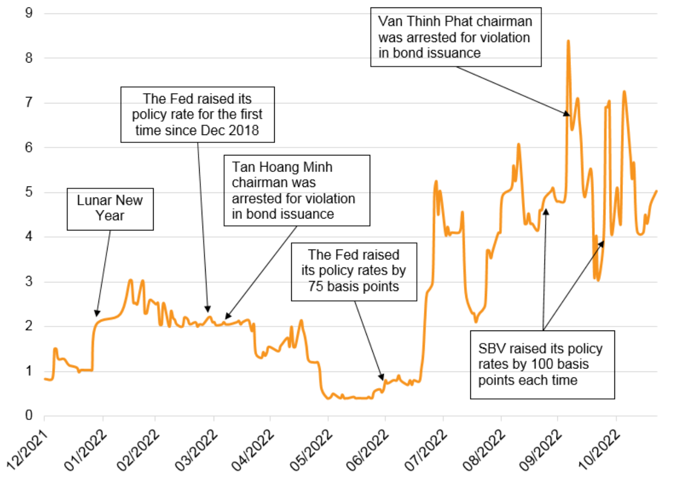


Source: SBV, VNDIRECT RESEARCH

In order to contain inflationary pressure, SBV has tightened money supply since early 2022 and limited the credit growth assigned for commercial banks at the same time. M2 money supply only increased by 7.9% yoy in the first 8 months of 2022, the lowest in the past 10 years in the context that the State Bank had to sell out US$21bn of foreign exchange reserves to stabilize the exchange rate. As a result, about VND500tr was withdrawn from the system through this action. However, borrowing demand has surged since early-2022 alongside with the economy recovery, resulting strong credit growth of 9.4% ytd at end-2Q22. Most of commercial banks reached the initial credit growth limit assigned by SBV at that time. On the deposit side, system mobilisation grew at a slower pace, lagging behind credit growth, widening the gap between deposit-credit since early 2022. Thus, funding demand has emerged since SBV raised credit growth quotas for selected commercial banks since Sep 2022, prompting deposit rates to pick up.

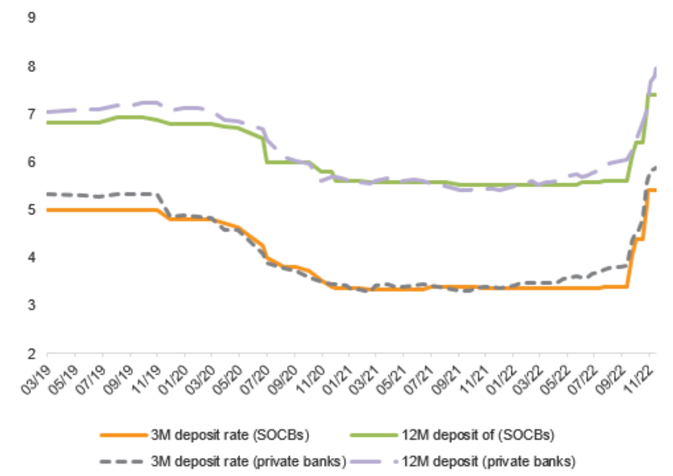
Since end-Sep, the Chairwoman of Van Thinh Phat Group was arrested due to corporate bond (C.bond) issuance violations, reflecting the authorities' efforts in enhancing the transparency of C.bond market. The arrests casted shadow over the operation Saigon Commercial JSC Bank (SCB), Vietnam 's fifth largest commercial bank in term of total asset, given the close connection between the Board of Directors of the two enterprises. SCB experienced a "deposit-run" during the first week of Oct 22 then stabilised under the supervision and close monitor of SBV. Interbank market was shocked as the overnight and 1-week rates peaked at 8.4%/year and 9.5%/year on Oct 05. After that, thanks to the intervention of the SBV, liquidity in the interbank system has gradually stabilized in the past 1 month and overnight interest rates have cooled down to 4-7%/year.

Figure 30: Movement of overnight interbank interest rates since the beginning of 2022 (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 31: Liquidity constraint since late-3Q22 has blown up the deposit rates across the board (%)



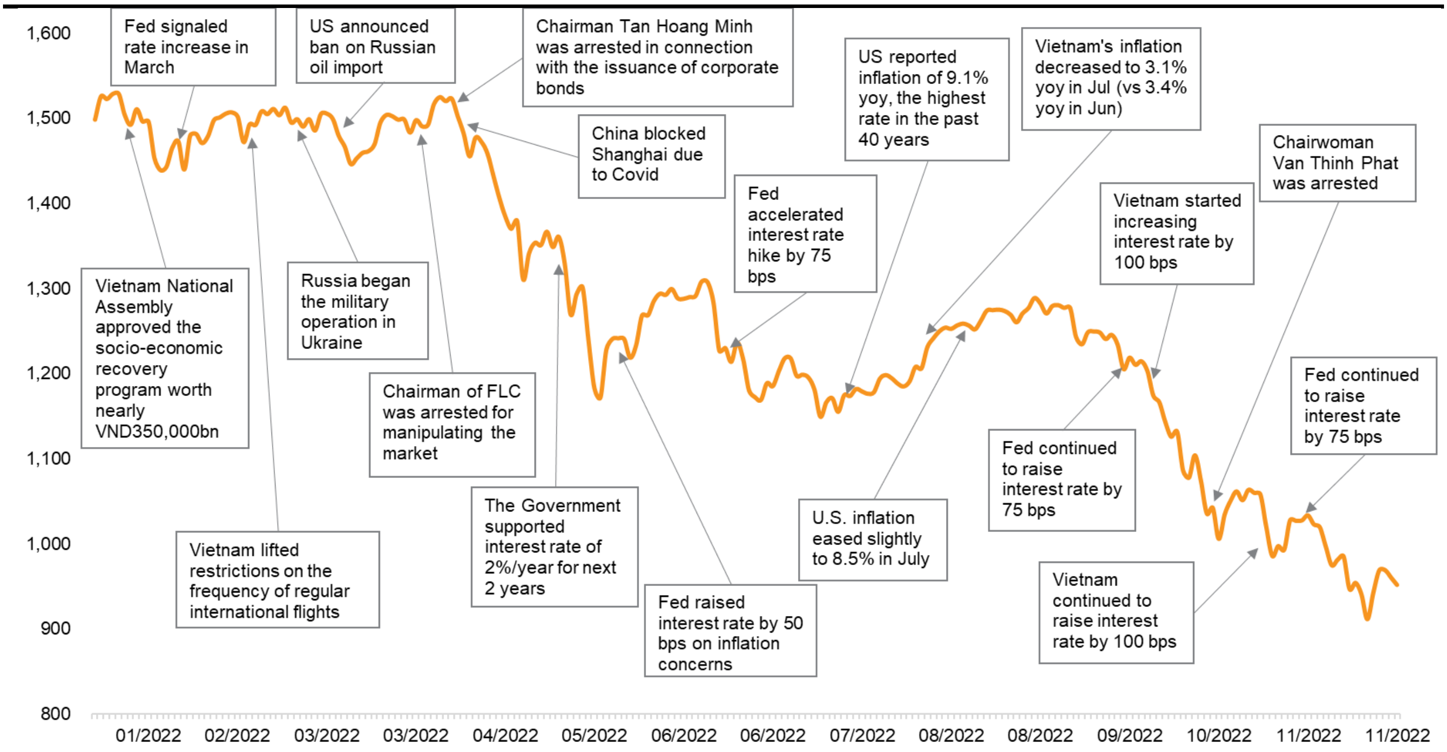
Source: Commercial banks, VNDIRECT RESEARCH

The Van Thinh Phat - SCB event has weighed on system liquidity as commercial banks have turned more defensive and cemented their liquidity ratios (loan-to-deposit ratio, short-term funding used for mid and long-term loan). Small-size commercial banks have triggered the wave of deposit rates hike, followed by mid-size commercial banks. Then the big-4 state-owned commercial banks (VCB, Vietinbank, Agribank and BIDV) have jumped on the band wagon since late-Oct. Together with policy rates hikes, deposit rates across all tenures have moved even higher than pre-pandemic level. To be specific, at as Nov 18, SOE banks' 3m and 12m deposit rates climbed to 5.4% (+2.0% pts ytd) and to 7.4% (+1.9% pts ytd), respectively. Private banks' 3m and 12m deposit rates averaged at 5.6% (+2.5% pts ytd) and 7.9% (+2.4% pts ytd), respectively.

2022 MARKET RECAP: SUCUMBED TO NEGATIVE SENTIMENTS

VN-Index plummeted 36.5% year-to-date as at 22 Nov 2022

Figure 32: VN-Index recorded ineffectively performance in 2022 (data on 22 Nov 2022)



Source: VNDIRECT RESEARCH

Following positive sentiment in 2021, Vietnam stock market started 2022 by reaching to the all-time high, with the VN-Index rise 2.0% to 1,528.6pts within the first week of the year. Even when outside risks appeared such as Fed signaling rate increase and Russia beginning the military operation in Ukraine, Vietnam stock market still stayed firm and fluctuated in 1,450-1,550 range. However, things started to get worse when several tycoons of large corporations were arrested for manipulation in the stock and bond markets. VN-Index tumbled 23.1% to 1,172pts in just one month after the time that those events took place due to panic selling momentum as well as "margin call" action across the market.

Since beginning of Sep-22, VN-Index continued to extend the downtrend, slumping further and recorded the low level of 952.1pts on 22 Nov 2022. The HNX-Index and UPCOM-Index also decreased by 58.9% ytd and 39.3% ytd, respectively.

VN-Index had the worst performance in 2022, declining by 36.5% ytd, and underperformed all Southeast Asia stock markets, including Indonesia (JCI Index: +6.8% ytd), Singapore (STI Index: +4.3% ytd), Thailand (SET Index: -2.6% ytd), Malaysia (FBMKL CI Index: -8.1% ytd), Philippines (PCOMP Index: -9.7% ytd).

We see three key issues that have distressed Vietnam's stock market in 2022, namely: (1) the rising of interest rates, (2) the tightening of credit to riskier segments, i.e. property and securities investment and (3) the corporate bond market witnessed a crisis in investor confidence after the incident of Tan Hoang Minh and Van Thinh Phat, leading to difficulties in raising capital in corporate bond market.

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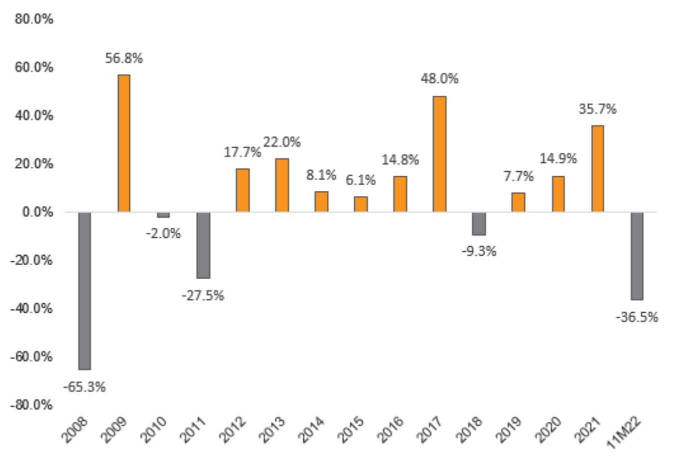
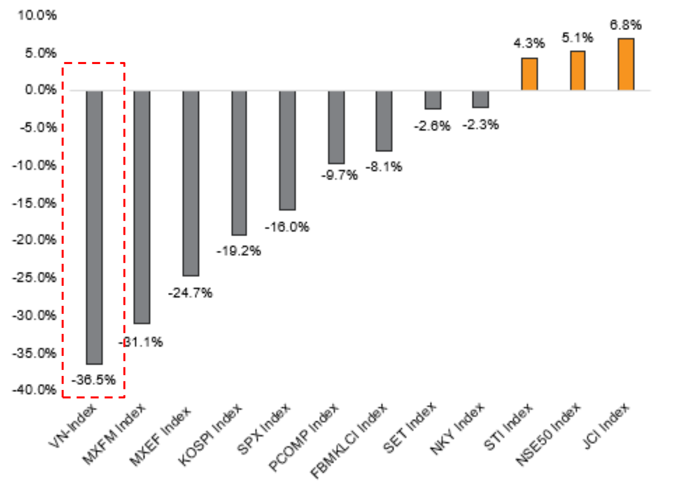
Figure 33: VN-Index recorded weakest performance since 2008 (data as 22 Nov 2022)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 34: VN-Index underperformed peers in Southeast Asia in 2022 (% ytd) (data as 22 Nov 2022)



Source: BLOOMBERG, VNDIRECT RESEARCH

Indexes analysis: Small and mid-cap had the worst performance

Small and mid-caps slumped since 2Q22 and underperformed for 2022

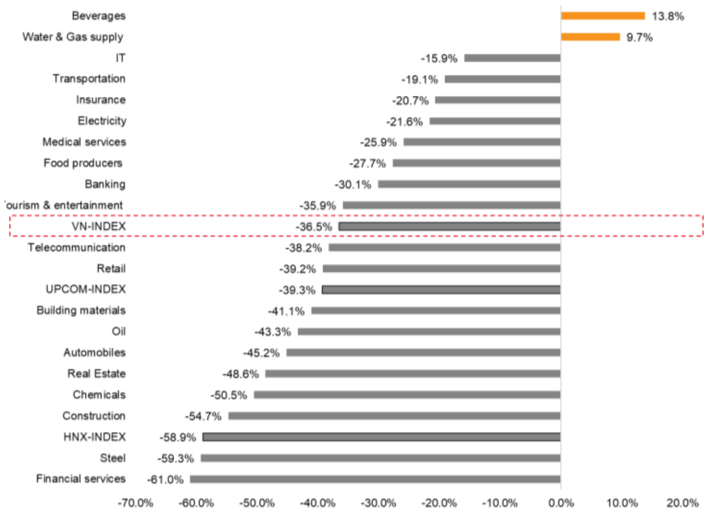
VN-Index outperformed VN30 Index, VNMID Index (represent for mid-caps), VNSML Index (represent for small-caps) in 2022. VNSML Index and VNMID Index became the worst-performed indexes, plummeting by 53.9% ytd and 48.8% ytd.

Almost all sectors recorded negative performance in 2022 except Water & Gas supply and Beverages. Notably, Financial services became the worst industry performer in 2022 with a deep slump of -61.0% ytd, followed by Steel manufacturer (-59.3% ytd), Construction (-54.7% ytd), Chemicals (-50.5% ytd) and Real Estate (-48.6% ytd). On the contrary, defensive sectors included Water & Gas supply and Beverage were the only two positive performers, surged 9.7% ytd and 13.8% ytd, respectively.

Figure 35: VN-Index outperform in 2022 (% ytd) (data on 22 Nov 2022)

Source: FIINPRO, VNDIRECT RESEARCH

Figure 36: Sectors performance in 2022 (% ytd) (data on 22 Nov 2022)



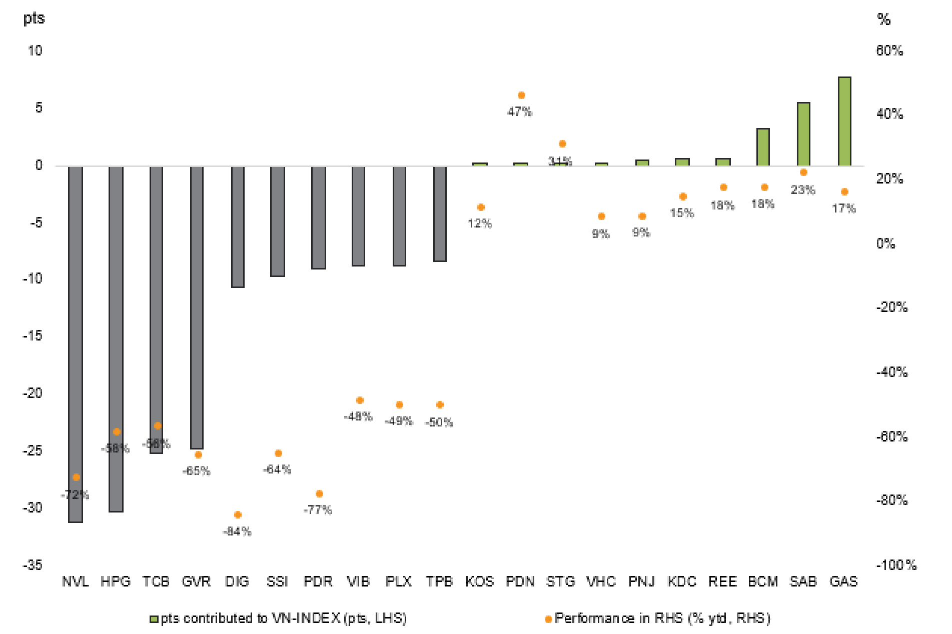
Source: FIINPRO, VNDIRECT RESEARCH

2022 Top movers and laggards

GAS (+17% ytd) lent the most support to the VN-Index in 2022, followed by SAB (+23% ytd), BCM (+18% ytd), REE (+18% ytd) and KDC (+15% ytd). Other top 10 index movers include PNJ (+9%), VHC (+9% ytd), STG (+31%), PDN (+47% ytd), KOS (+12% ytd).

On the contrary, NVL became the index's top laggard, recording a 72% decline since the beginning of the year. Other laggards included HPG (-58% ytd), TCB (-56% ytd), GVR (-65% ytd), DIG (-84% ytd), SSI (-64% ytd), PDR (-77% ytd), VIB (-48% ytd), PLX (-49% ytd), and TPB (-50% ytd).

Figure 37: VN-Index's top movers and top laggards in 2022 (data on 22 Nov 2022)



Source: BLOOMBERG, VNDIRECT RESEARCH

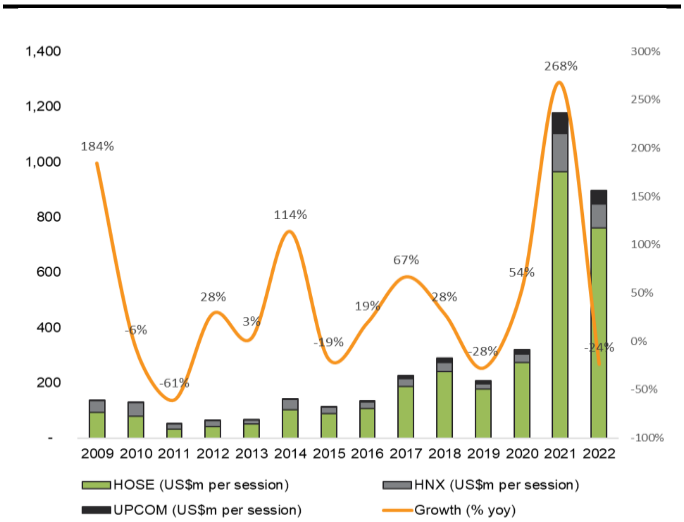
Fund flows analysis: Foreign buying is back

Market liquidity shrank following tighter monetary policy

Average daily trading value (ADTV) in 2022 sank 22.3% yoy to VND20,862bn. The daily trading value on HOSE edged down to VND17,696bn/session (-19.6% yoy) while the daily trading value on HNX and UPCOM also reduced to VND2,023bn/session (-36.0% yoy) and VND1,142bn/session (-32.8% yoy), respectively.

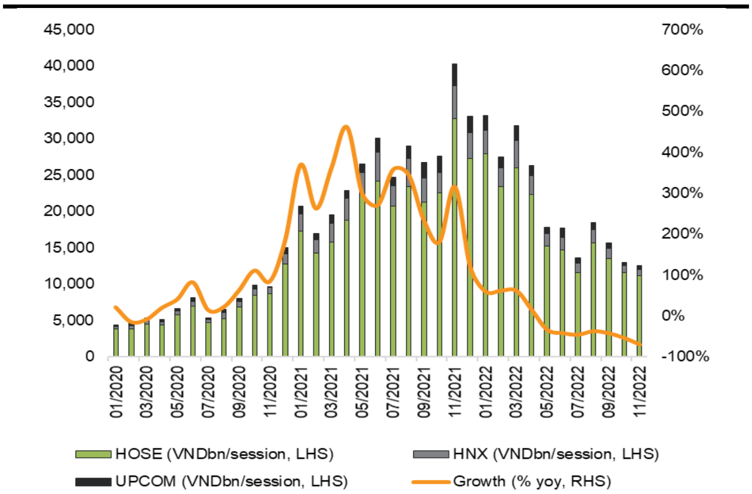
Newly opened securities accounts of domestic retail investors declined since Jun but 10M22 number surged 121% yoy with 2,401,722 accounts.

Figure 38: The daily average trading value slumped 24.0% yoy in 2022 (US$m, data on 22 Nov 2022)



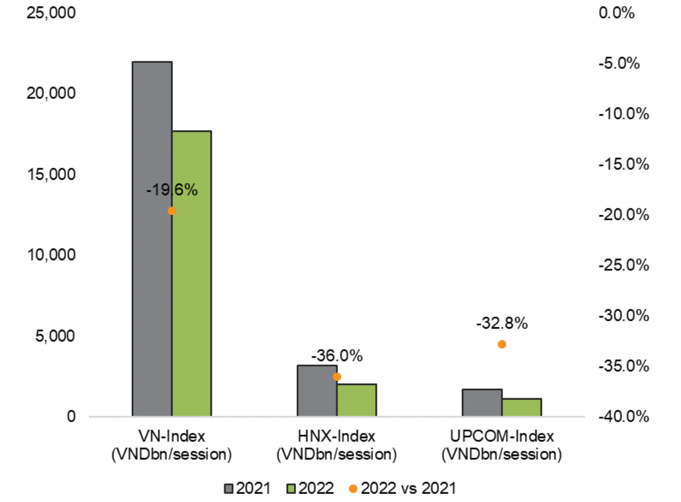
Source: VNDIRECT RESEARCH

Figure 39: Average daily trading value (01/2020-11/2022) (data on 22 Nov 2022)



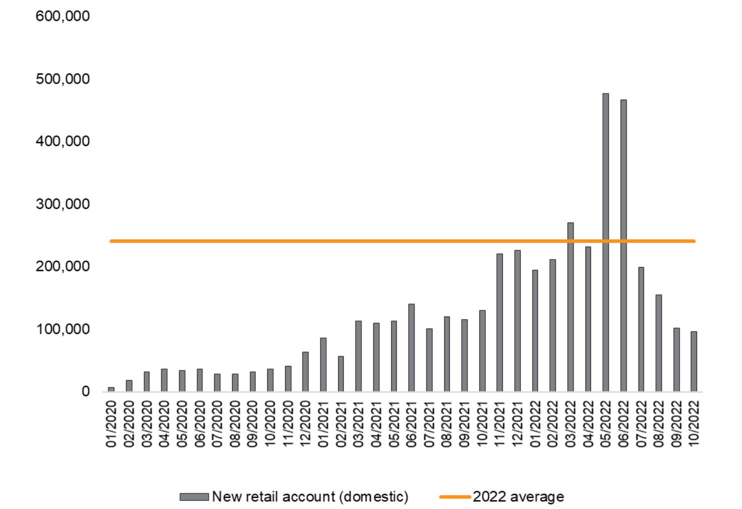
Data as at Nov 22. Source: VNDIRECT RESEARCH

Figure 40: Liquidity decreased on all three bourses



Data as at Nov 22. Source: FIINPRO, VNDIRECT RESEARCH

Figure 41: New opening accounts peaked on May-22 (data on 22 Nov 2022)



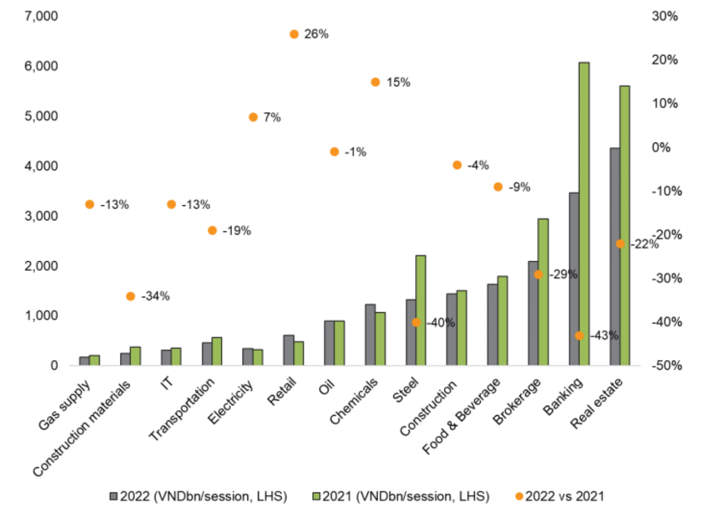
Source: VSD

Money ran into mid-cap in 2022

Daily trading value of VNMID (representing mid-caps) rose 11.3% yoy. Daily trading value of VN30 (representing large-caps) and VNSML (representing small-caps) decreased 36.1%/8.0% yoy, respectively.

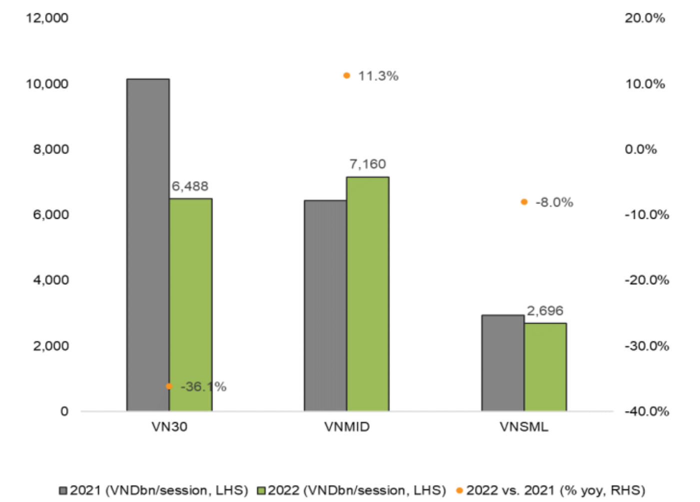
Banking, Steel, Construction materials and Brokerage witnessed the strongest decline in liquidity in 2022. Meanwhile, only Retail, Chemicals and Electricity were sectors which had positive increase in liquidity in 2022.

Figure 42: Money ran into Retail, Chemicals, Electricity and Oil



Data as at Nov 22. Source: FIINPRO, VNDIRECT RESEARCH

Figure 43: Money running away from VN30 the most



Data as at Nov 22. Source: FIINPRO, VNDIRECT RESEARCH

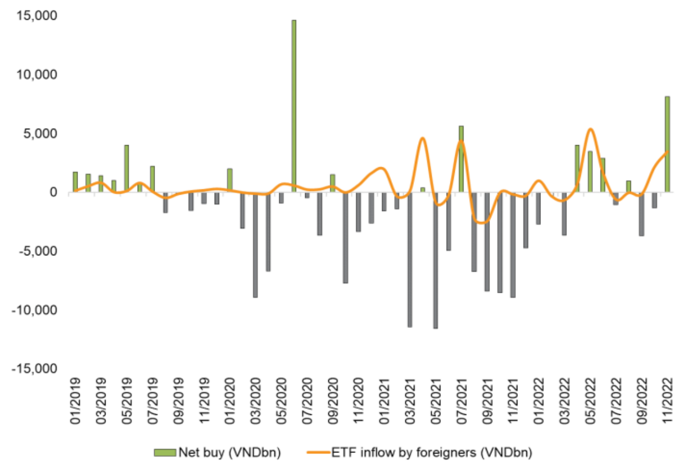
After a prolonged net selling, foreign return to net bought territory

Foreign investors aggressively net sold on Vietnam equity market with ~VND6,614bn (US$283m) in 1Q22 following the accelerating dispute Russia - Ukraine and Fed 's first fund rate hike. Then, foreign turned more active since Apr, and aggressively bought on the market dip in Nov. At all, foreign net bought about VND6,821bn across 3 bourses in 11M22. The strong net bought of foreign investors was largely driven by the ETF inflow of VND11,421bn (mainly from the

VNDiamond ETF and Fubon ETF). The proportion of foreign investors to daily trading value has widened from 6.2% to 14.8% total trading value.

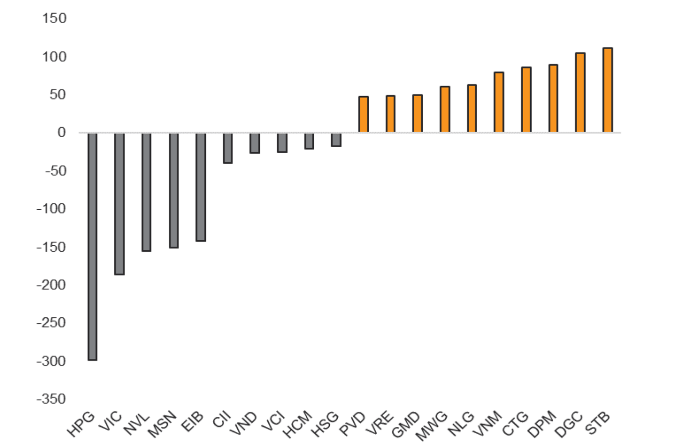
We believe the signals of both US interest rates global inflation peaking out will trigger foreign investors to seek growth with risk appetite. Additionally, the recent downgrade of tech-stocks has resulted a shift into traditional businesses which is the catalyst for Vietnam where banks, property, power, consumer dominate market capitalization.

Figure 44: Foreigners' monthly net transactions (unit: VNDbn)



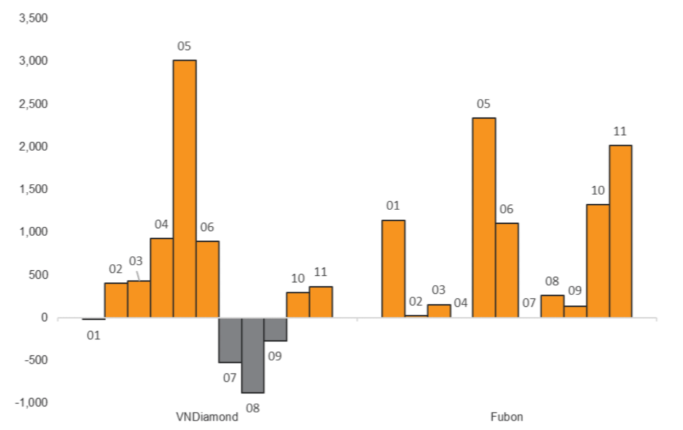
Data as at Nov 22. Source: Bloomberg, VNDIRECT RESEARCH

Figure 45: Foreigners' top net buying and net selling stocks (US$m, data on 22 Nov 2022)



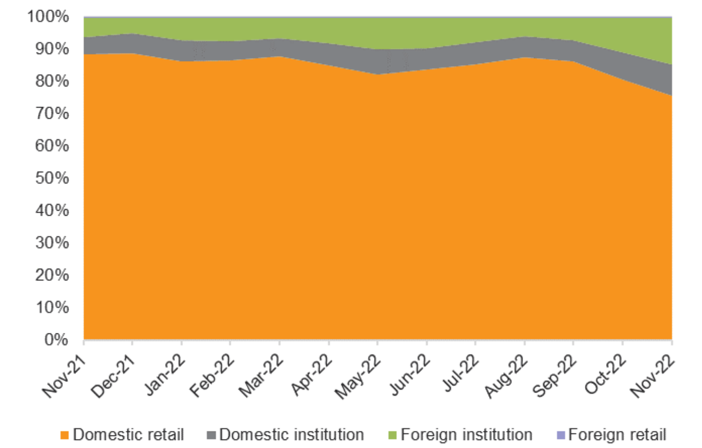
Source: Bloomberg, VNDIRECT RESEARCH

Figure 46: Net cash inflow by month of VNDiamond ETF and Fubon FTSE ETF from Jan-22 to Nov-22 (Unit: VNDbn) (data on 22/11/2022)



Data as at Nov 22. Source: Bloomberg, VNDIRECT RESEARCH

Figure 47: The proportion of foreign investors' liquidity increased to 14.5% of the total market liquidity (data on 22 Nov 2022)



Data as at Nov 22. Source: Bloomberg, VNDIRECT RESEARCH

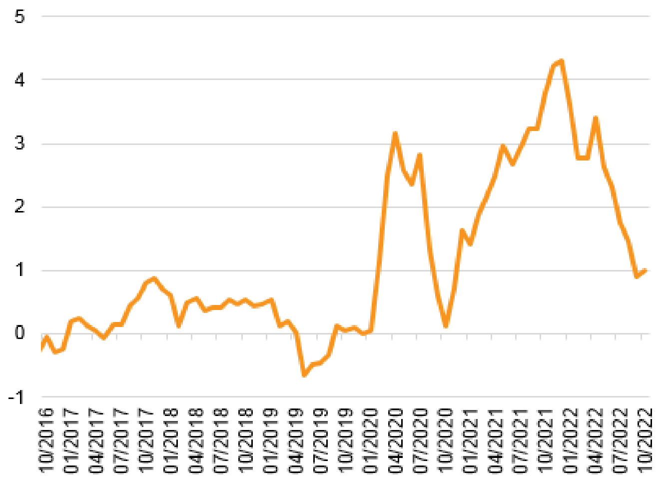
2023 GLOBAL OUTLOOK: GROWING FEARS OVER RECESSION

Global inflationary pressure likely to ease since 2Q23F

Global supply chain stress on the mend

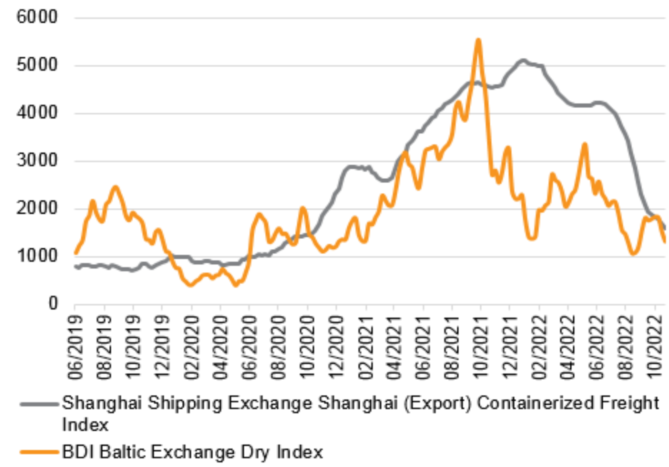
The Global Supply Chain Pressures Index (GSCPI-a barometer to determine global supply chain pressure) hit 22-month low of 0.89 points in Sep 22. Since mid-2022, the COVID-19 restrictions in China have been eased, leading to a decrease in global supply chain pressures. Nevertheless, the index scores were still higher than pre-pandemic level. We expect this trend to persist following the China's gradual loosening "zero Covid-19" policy.

Figure 48: The Global Supply Chain Pressures Index hit a 22-month low of 0.89 pts in September 2022



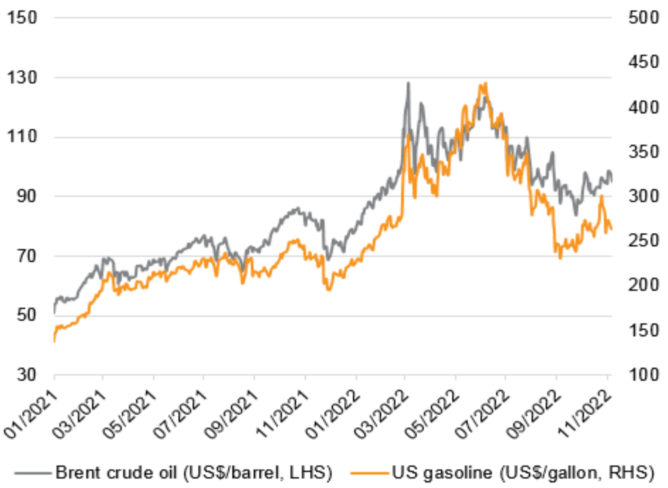
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 49: Sea freight rates dropped sharply 2H22



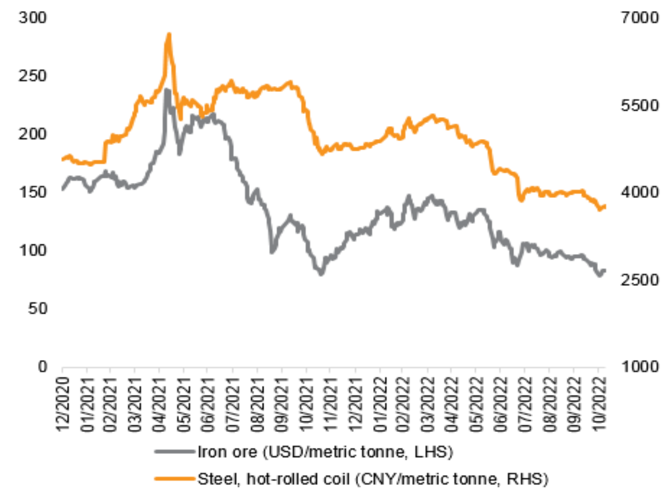
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 50: After peaking in June 2022, oil and gasoline price declined significantly



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 51: Iron ore and steel prices dropped sharply in 2H22



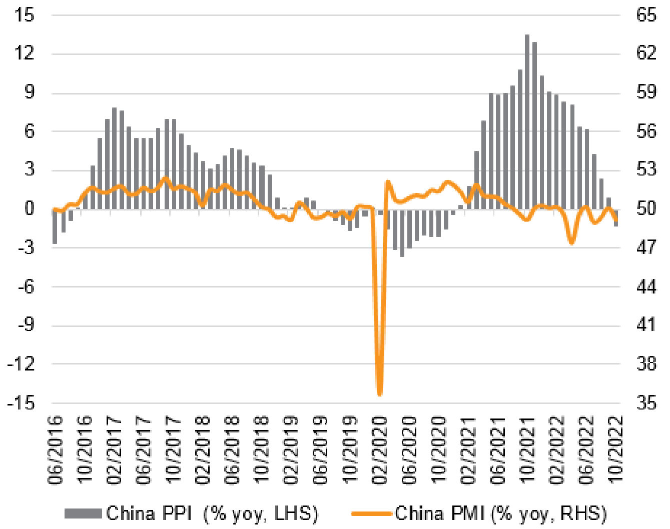
Source: BLOOMBERG, VNDIRECT RESEARCH

Global commodity prices have cooled down in the past recent months

Global commodity prices are declining sharply on the back of recession fears and potential growth moderation. The Bloomberg Commodity Index was down 10% since end May and on a segmental basis, crude oil and industrial metals lost 23% and 17% respectively.

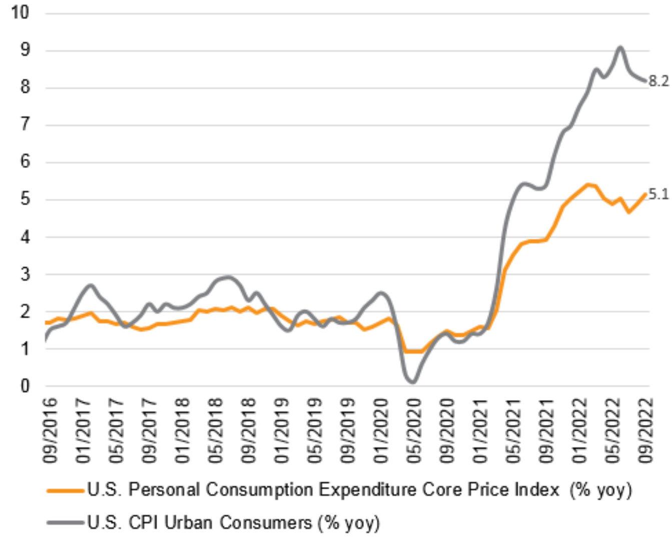
China's producer price index is declining 1.2% mom in Aug following cooling input material prices. China's producer price index (PPI), which measures costs for goods at the factory gate, went up 2.3 % yoy in Aug, the slowest pace since Feb 2021, and slower than 4.2% a month prior. The main reason for China's PPI slowdown is due to price volatility of bulk commodities, including international crude oil and non-ferrous metals. The cooling of producer price index in China along with the sharp decline of international sea freight rates would help reduce global import inflation pressure in the coming months.

Figure 52: China's producer price index (PPI) in Oct 2022 grew at the slowest pace since Nov 2020



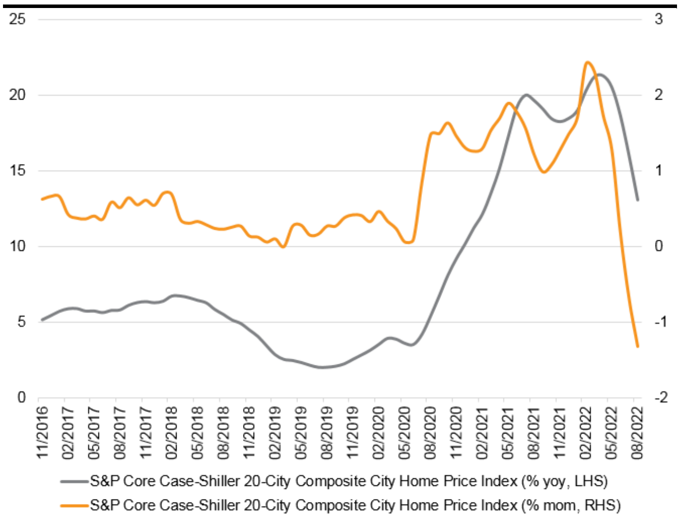
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 53: The U.S. inflation cooled down in 3Q22



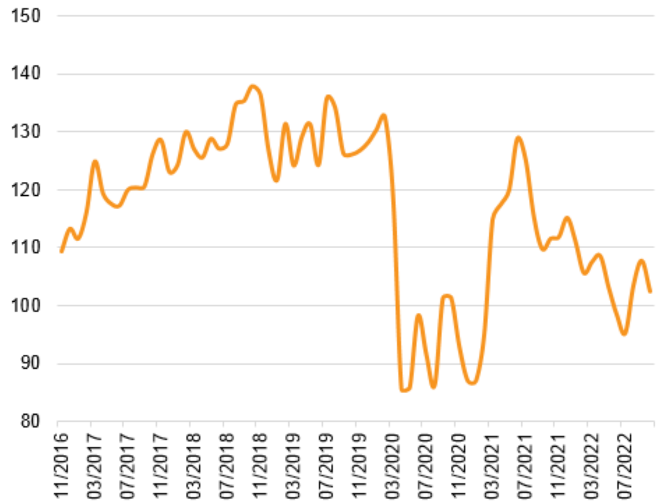
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 54: The U.S housing prices are falling



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 55: US Conference Board's Consumer Confidence Index



Source: BLOOMBERG, VNDIRECT RESEARCH

The U.S. housing prices are falling. In August, the non-seasonally adjusted month-to-month index posted the second month of declines, down by 1.1% in August from a 2.6% peak increase in March and a 0.5% decline in July, suggesting further and potentially quicker deceleration in home price growth, according to the CoreLogic S&P Case-Shiller Index. In addition, it posted a 13% year-over-year increase, down from a 15.6% gain in July, marking the fifth straight month of decelerating annual home price appreciation. Home prices posted their biggest month-on-month decline since 2009 showing that rising mortgage rates have rattled homebuyer demand.

Weakening consumption demand and labor market in the U.S. In addition, The U.S. Conference Board's Consumer Confidence Index fell to 102.5 in Oct 2022 from 107.8 in the previous month. The actual data in Oct is also lower than the previous market's expectation of 106.5, showing that U.S consumers are worrying about stubbornly inflation as well as the U.S. economic outlook.

Recent U.S. data shows that inflation is starting to cool down. Specifically, the U.S. Gross Domestic Product Price Index, an inflation measure of the prices paid by U.S. consumers, businesses and the government, including the imports they buy, rose by only 4.6% yoy in 3Q22 after increasing 8.5% yoy in 2Q22. Additionally, the U.S. annual inflation rate rose by 8.2% yoy in September 2022, down from 8.3% in August and this year's peak of 9.1% in June 2022.

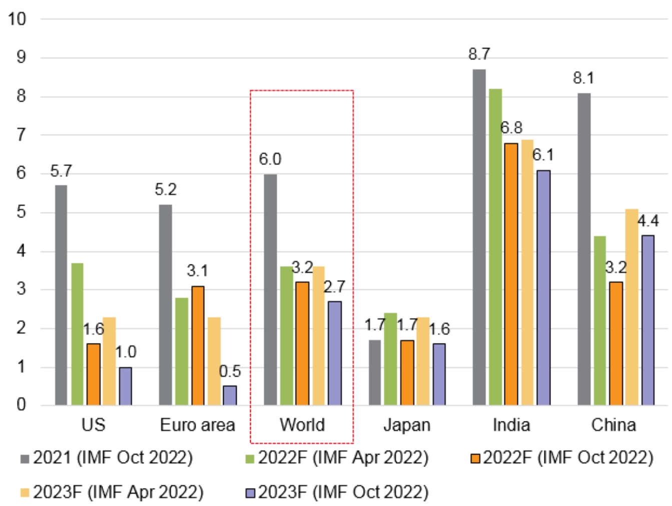
Consequences, we believe that global inflationary pressure likely to cool down significantly in 2023F as commodity supply recovers while consumer demand weakens. The bleak economic outlook coupled with a worsening labor market could prompt consumers to tighten their wallets. Therefore, we forecast that in general, world commodity prices will maintain a downward trend in 2023, except for a few commodities that are at a potential risk of a supply shock such as natural gas and crude oil.

Global economy is in a broad-based slowdown

The sluggish of global economic growth has been reflected in economic data of the world's No. 1 economy when the U.S. GDP shrank in 2Q22 by 0.9%, the second quarter in a row. Therefore, the U.S. Federal Reserve (FED) has lowered its forecast for U.S. economic growth to 1.2% in 2023F, from the previous 1.7%.

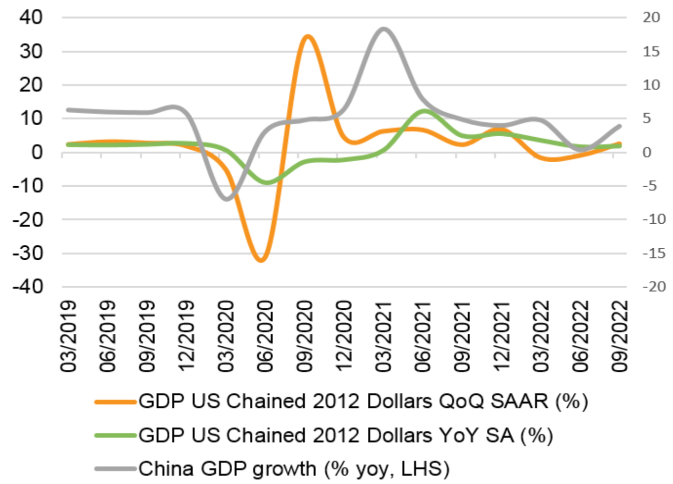
Vietnam's other major trading partners such as Europe and China also face dismal economic growth forecasts in 2022-2023F period. The IMF warned in its latest report that the global economy could slow down in 2023F with countries making up about a third of the global economy poised to contract by 2022 or 2023F. Accordingly, the IMF lowered the global GDP growth in 2023 to 2.7% from the previous forecast of 3.2%, of which the GDP growth of the Euro Area in 2023 was reduced to 0.5 % from the previous 1.2%. The IMF projected that the German and Italian economies could fall into recession in 2023F with GDP growth of -0.3% and -0.2% respectively.

Figure 56: Some developed countries are likely to fall into recession in 2023F (IMF)



Source: IMF, VNDIRECT RESEARCH

Figure 57: US and China GDP recovered in 3Q22



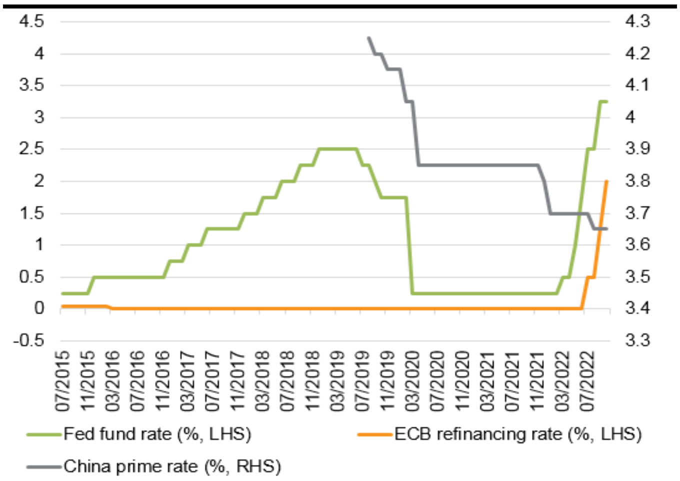
Source: BLOOMBERG, VNDIRECT RESEARCH

Key question: When will the central banks start loosening the financial conditions?

The answer will depend on whether central banks will be able to bring down inflation to more acceptable levels. Many central banks have either already slowed their hiking pace or signaled that they will do so soon.

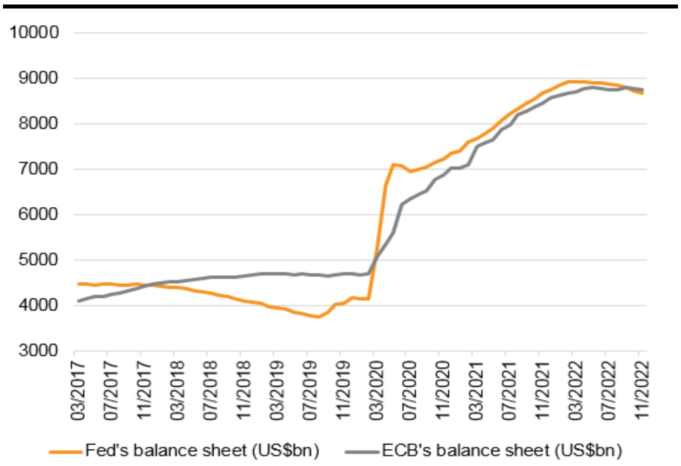
Currently, market is pricing a 125bps of additional FED funds rate hike into 2023F and a 25bps rate cut in late-2023F. Similarly, other central banks like the ECB could also slow down rate hikes in 2023F after policy rates approach the neutral threshold and there are clear signs of a substantial decline in inflation.

Figure 58: FED and ECB rose their policy rates sharply in 11M22 while China cut its benchmark rate slightly



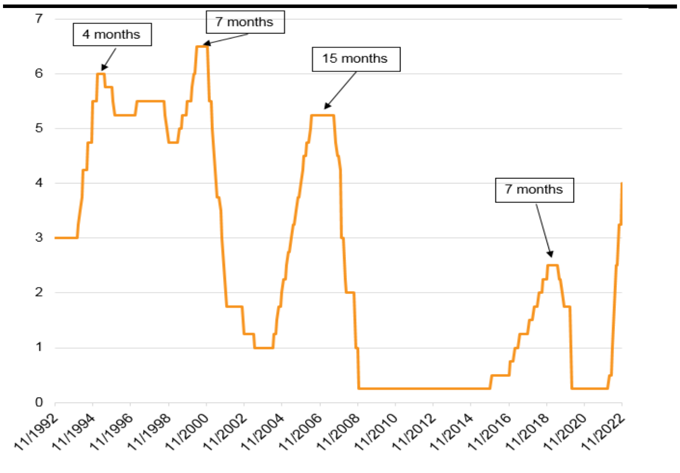
Source: IMF, VNDIRECT RESEARCH

Figure 59: Fed & ECB balance sheet



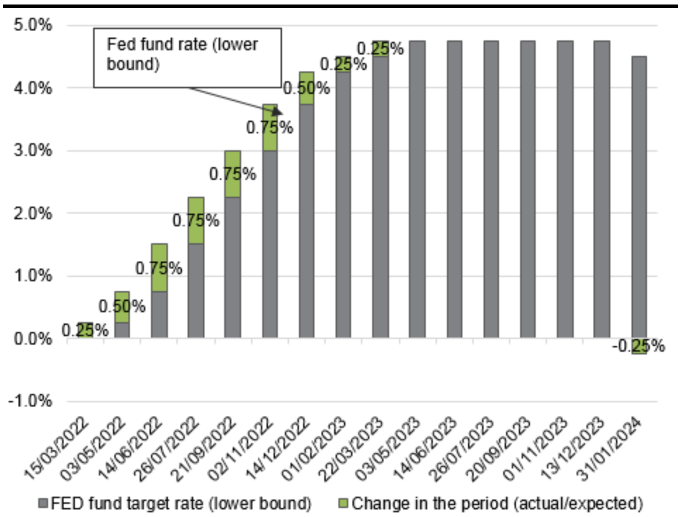
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 60: The first Fed cut in the median hiking cycle has often come roughly 7 months after the last hike



Source: WHO, VNDIRECT RESEARCH

Figure 61: We expect that there will be no rate cut till 1Q24F



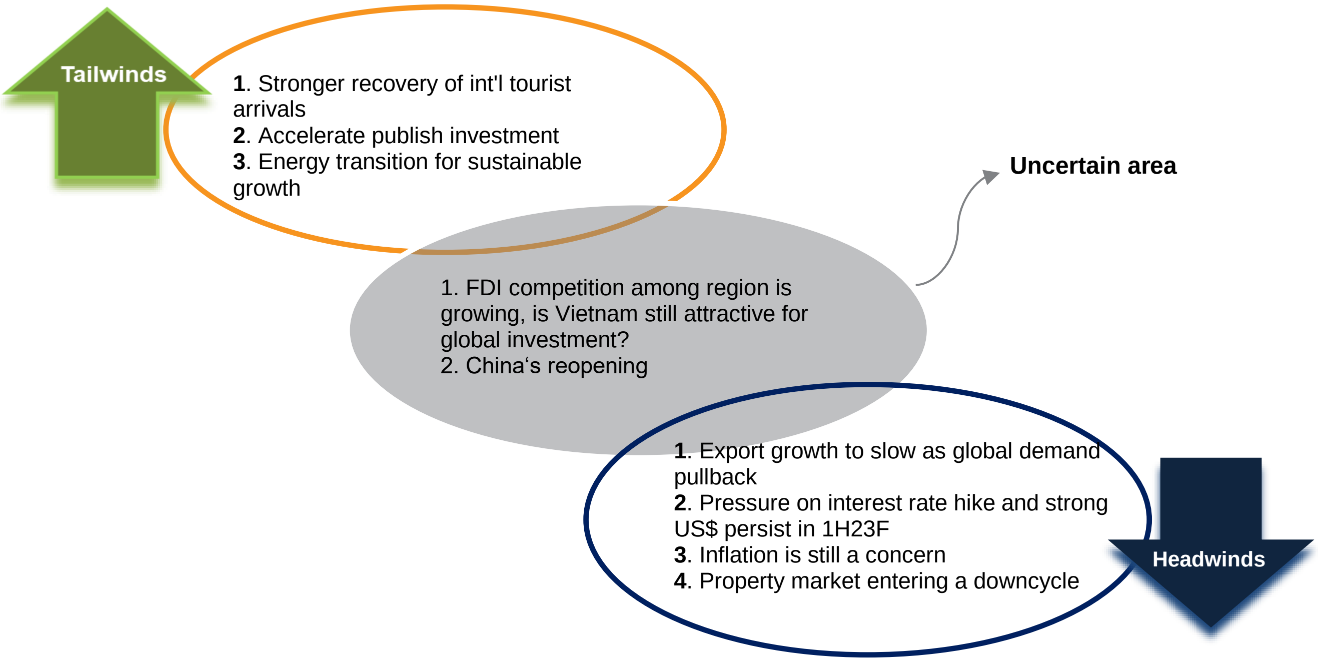
Source: WHO, VNDIRECT RESEARCH

We do not expect any rate cuts in 2023 unless the U.S. economy enters recession after all. With no-recession in forecast, we expect the Fed only implements a first gentle 25bps cut in 1Q24. Additionally, based on the last history, the first Fed cut in the median hiking cycle has often come roughly 7 months after the last hike. However, key risk is inflation pressures remain high enough that central banks have no choice but to keep tightening and unable to loosen the financial conditions anytime soon.

2023 VIETNAM MACRO OUTLOOK: STRONG GROWTH UPTURN WILL FADE INTO 2023F

Some growth engines are losing steam while uncertainties emerge

Figure 62: The dynamics of tailwinds, headwinds and uncertainties to Vietnam macro outlook into 2023



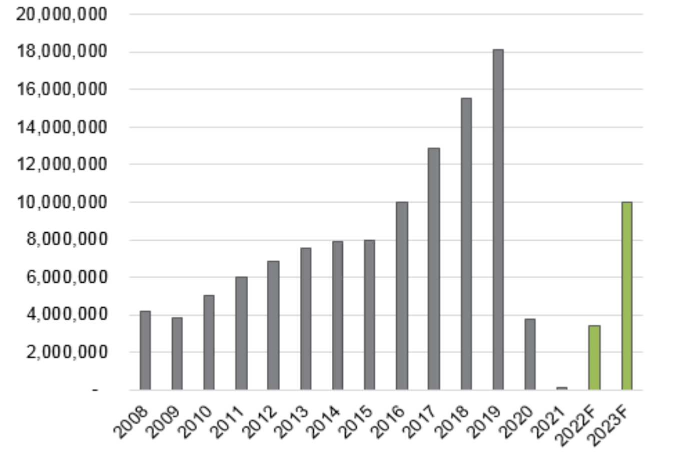
Source: VNDIRECT RESEARCH

Tailwind #1: Stronger recovery of international tourist arrivals

Since 15/02/2022, Vietnam has lifted restrictions on the frequency of international flights and restored pre-pandemic visa policy. Until 15/05/2022, Vietnam has stopped the requirements of validate Covid-19 test results for international passengers and fully resumed international air traffic. According to GSO, there were 484,400 international tourist arrivals to Vietnam in Oct, up 12.1% over the previous month and 45.9 times higher than the same period last year. In 10M22, international visitors to Vietnam reached nearly 2.4m, 18.8 times higher than the same period last year but still down 83.7% compared to the same period in 2019 (before COVID-19 pandemic).

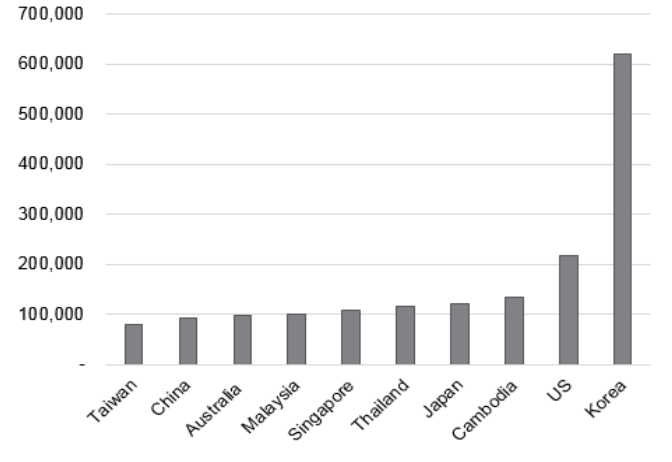
In general, almost every countries have removed entry requirements related to COVID-19 prevention, however the most negative factor to Vietnam tourism recovery is China's zero-covid policy, in which travel to and from China is still strictly limited. Before COVID-19, the number of Chinese tourists accounted for 30% of the total number of international tourists to Vietnam in 2019. In base case scenario, we expect China will gradually relax the travel restriction since 2Q23F. In addition, we expect the number of tourists to Vietnam from the US, EU, Japan, Korea and Southeast Asia will continue to recover positively in 2023F. Therefore, we believe that Vietnam can welcome 10m international arrivals in 2023F, an increase of about 195% compared to the expected level in 2022, reaching 55% of 2019 (before COVID-19). A stronger recovery in international tourist arrivals in 2023F will underpin the service sector's recovery in 2023F amid a likely slowdown in domestic demand due to the impact of higher inflation and rising interest rates. The activities that benefit the most from the recovery of international tourist arrivals in 2023F include accommodation and catering services, travel services, transportation activities, and entertainment activities.

Figure 63: International tourist arrivals to Vietnam (2008-2023F) (Unit: pax)



Source: Ministry of Plan and Investment

Figure 64: Top 10 countries with most tourist arrivals to Vietnam in 10M22 (Unit: pax)

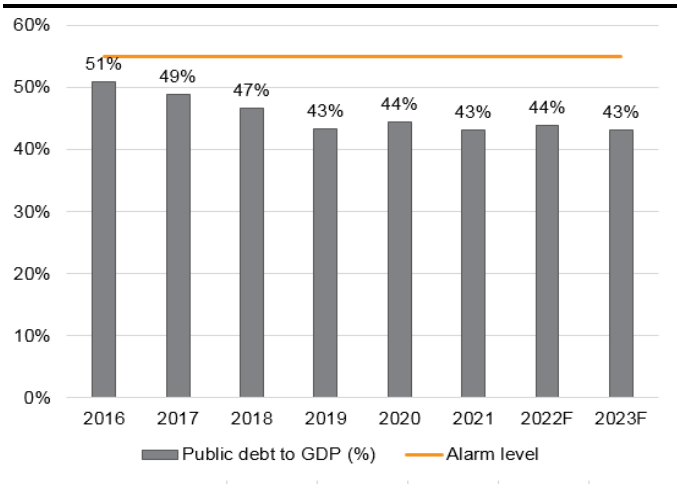


* Source: Graphics AsiaBriefingLtd

Tailwind #2: Accelerating public investment disbursement

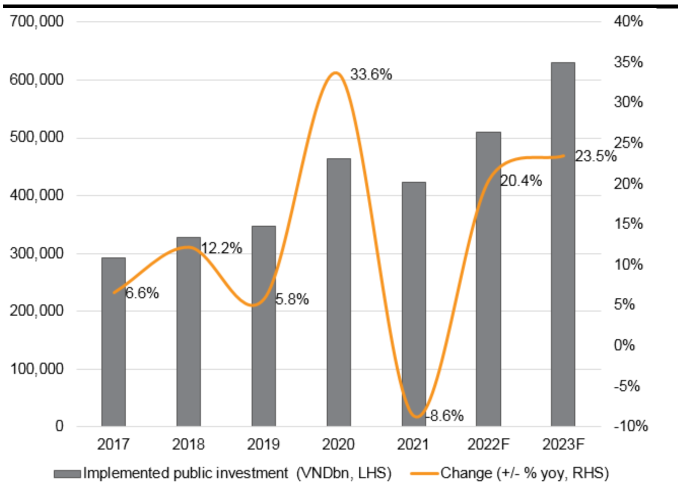
We see that the Vietnam's government plans to accelerate public investment to support the economy. The Government has announced a budget estimate for 2023F, in which the investment capital from the state budget (also known as public investment) is about at VND 698,867bn, up to 28.9% compared to the previous year's plan. This number includes capital allocated to projects under the Socio-Economic Development and Recovery Program. In order to achieve this ambitious plan, the Vietnam's government has relaxed the average inflation target in 2023F, increasing by 4.5% over the same period (the target in 2022 is 4.0%) and lifted the higher budget deficit in 2023F to 4.5%, from 4% for 2022.

Figure 65: Public debt to GDP ratio is still far lower than the alarm level (55% of GDP)



Source: GSO, VNDIRECT RESEARCH

Figure 66: Implemented public investment capital (2017-2023F)



Source: GSO, VNDIRECT RESEARCH

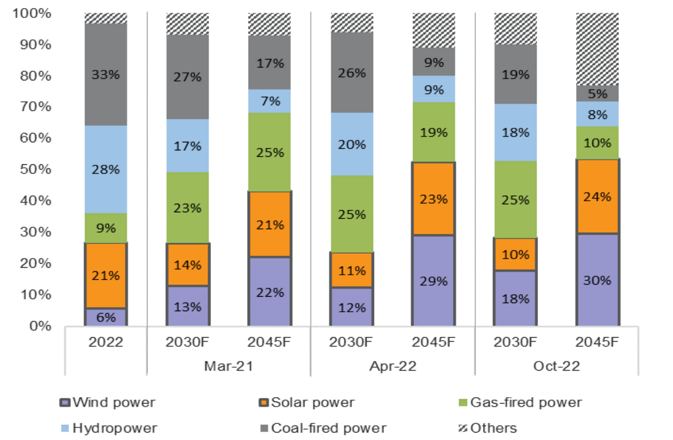
Another factor that support public investment in 2023 is the reduction of construction material prices in recent months. Specifically, after peaking in April, domestic construction prices fell 19.7% from the peak (-10.6% yoy) and decreased by 6.7% compared to the end of 2021. We expect construction material prices to decline further in the coming quarters due to weak demand. The lower construction material prices could help improve profit margins for construction contractors and speeding up the progress of public investment projects. As a result, we believe that the actual implementation of public investment in 2023F can increase by 20-25% compared to the actual implementation in 2022. Key public investment projects that will be promoted in 2023F include: The North-South Expressway phase 1 and 2, Long Thanh international airport.

Tailwind #3. Energy transition for a sustainable growth

Vietnam is set to follow Indonesia and South Africa with a climate financing package of at least US$11bn to shift its economy away from coal and boost the rollout of renewable energy sources. Led by the European Union (EU) and the UK, this funding deal are aiming to be announced the Just Energy Transition Partnership at the EU-ASEAN summit on Dec 14. Of which, about US$5 – 7bn will come from public loans and grants, with the rest from private sources.

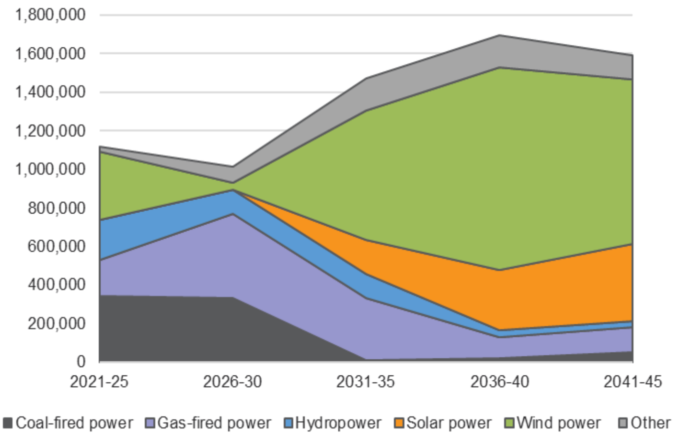
Vietnam's package is set to be the third in a series of blockbuster deals to help large coal-reliant middle-income countries accelerate their transition to low-carbon economies. South Africa's US$8.5bn agreement was the first, announced at last year's COP climate summit, with an investment plan signed off at this year's meeting in Egypt. Indonesia's US$20bn pact was unveiled at the Group of 20 (G20) gathering in Bali this week.

Figure 67: The newest draft of Power Development Plan 8 enhances larger portion of renewable energy power in 2022-45F



Source: PDP8 draft, VNDIRECT RESEARCH

Figure 68: Vietnam needs US$10.3bn per annum for energy transition into 2022-45F (incl. grid system and RE power development)



Source: PDP8 draft, VNDIRECT RESEARCH

We see mounting internal and external headwinds that could slow Vietnam's economy in 2023.

Headwind #1: Export growth to slow as global demand pullback

Fitch's latest Global Economic Outlook forecast consumer spending to grow by 2.5% in 2022 before slowing to 0.9% in 2023F amid global economic downturn. For U.S. and EU, Vietnam 's major trading partner, Fed's aggressive interest rate hikes will increasingly weigh on job growth and consumer spending in 2023F. Several U.S. tech companies (Twitter, Meta) have recently announced layoffs and other cost-cutting measures, which alerted the rising of jobless claims. Additionally, U.S.' two largest retailers - Amazon and Walmart have posted the weak 3Q22 results. Amazon reported 3Q22 revenue and net profit to drop 15.4% yoy and 9.6% yoy, respectively while Walmart recorded a net loss of US$1.7bn in 3Q22.

The reopening and recovery of domestic demand of the China's economy is unlikely to offset weak consumer demand in the U.S. and Europe in 2023F. Therefore, we expect Vietnam's exports to slow down in 2023F and forecast

Vietnam's export value to increase by 9-10% yoy in 2023, lower than the 14% growth forecast of year 2022.

For imports, we expect Vietnam's import value to increase by 9-10% yoy in 2023, backed by the following reasons: (1) Global commodity prices continue to cool down in 2023, (2) a sharp increase in the US$/VND exchange rate could reduce demand for imported consumer goods, (3) lower demand for raw materials and inputs for manufacturing activities amid sluggish global economy. We expect Vietnam's trade surplus to widen to US$12.0bn in 2023F from an expected trade surplus of US$10.4bn in 2022F.

Headwind #2: Pressure from interest rate hike and strengthening US$ persist at least until 2Q23F

Moving into 2023, we see pressure on both interest rate and FX might linger till 2Q23F, then considerably ease following the FED's more neutral monetary policy.

We believe that SBV could keep its policy interest rate unchanged in 2023F as: (1) the Fed slows down the rate hike in 2023F and the dollar index tend to decline (some leading research institutions forecast DXY at 103-106 in 2023), (2) domestic inflation picks up but still under control. In the context of lower exchange rate pressure, SBV may consider shifting its target to stabilizing interest rates to support businesses and the economy, especially in the second half of 2023F. We forecast that the refinancing interest rate could remain at 6.0% and the rediscount rate maintain at 4.5% in 2023.

We expect the pressure on VND to cool down considerably since 2Q23F. We expect the VND to appreciate 1-2% against the US$ in 2023F due to a shift from "tightening monetary policy" to "normalization" by the Fed next year.

However, we consider that we cannot rule out the risk that the FED will tighten monetary policy more strongly and longer than the market expected if the inflation cools down not as expected by the FED (due to escalation of the Russia-Ukraine conflict, food crisis, supply chain disruption). If that happens, Vietnam's exchange rate and interest rates could come under more pressure than our expectation in 2023F.

Headwind #3: Inflation pressure will increase in 2023 but still under control

We expect higher inflation pressures for Vietnam in 2023 due to the following reasons:

On demand side:

- Domestic demand will likely soften in 1H23F, but partially offset by international tourism. We expect retail sales of consumer goods and services to increase 8.5-9% yoy in 2023F, lower than that of 14-15% in 2022.
- The National Assembly has decided to increase the base salary to VND1.8m/month, equivalent to an increase of 20,8%, effective since 01/07/2023. In addition, an increase in pensions, social insurance allowances, and job allowances for a number of people such as pensioners from the state budget, grassroots medical staff… was approved. Once the base salary increased, inflation also tended to increase due to the psychology of increasing wages associated with the increase in the price of consumer goods of a part of grocery and retail businesses.

From supply side:

- Though global commodities have peaked out, the effect of strengthening US$ on imported material still linger till 3Q23F.

- It is likely that the government could consider increasing the prices of essential services such as electricity, health care, and education in 2023. Specifically, the retail electricity price will be under upward adjustment pressure in 2023 due to the increase in production costs (increased exchange rate, increased input material prices including coal, gas…). Besides, after the temporary suspension of price increases for medical and educational services due to the impact of the COVID-19 pandemic, the government could consider raising the prices of these services in 2023.
- Higher interest rate would increase costs of manufacturing, trade and logistics businesses, thereby increasing the pressure to raise output prices.

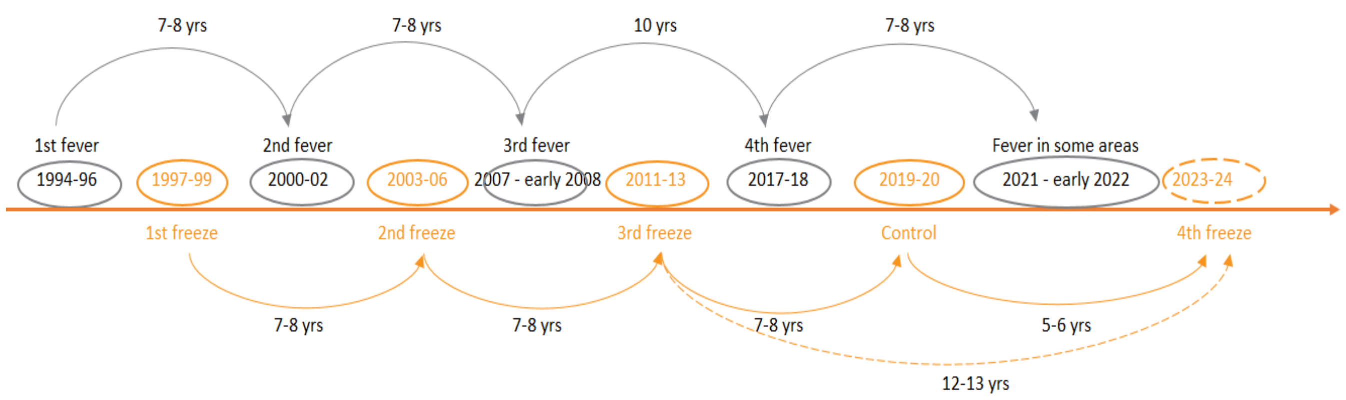
Consequences, we forecast Vietnam's average headline inflation climb to 3.8% yoy in 2023F (vs. an expectation of 3.2% yoy in 2022F), fulfilling the government's target of controlling average inflation in 2023F below 4.5%. Factors supporting inflation control in 2023F include: (1) world commodity prices are expected to cool down in 2023F and (2) the SBV conducts prudent monetary and money supply policies to control inflation.

Headwind #4: Property market entering a downcycle

All signs pointing to the making of the next down cycle in domestic property market include: (1) developers have limited refinance opportunity as tighter regulations on corporate bond issuance and credit exposure to property, (2) rising mortgage rates and to drag the housing demand, and (3) a drop in new supply as the project approval process likely be delayed on waiting the amend Law of land. Presales have experienced a downturn since 3Q22 as condo sales volume sharply fell by 40% qoq/+128% yoy in both HCMC and Hanoi, according to CBRE. Together, landed hospitality presales volume nearly squeezed with 70.4% qoq/+85% yoy.

However, this downcycle is likely different from the last trough period 2011-13. We see listed property developers' financial health, currently in a better shape than the last downcycle period 2011-13, thus, we expect less damage and shorter time to ride out from this downcycle. We expect the on-schedule Land law 2023 affected since 2H24F to tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover since 2024-25F.

Figure 69: All signs point to the making of the next down cycle in domestic property market



Sources: VNDIRECT RESEARCH

Besides we see the "grey area" with uncertainties pose risks or catalysts to the macro outlook

Uncertain #1: Is Vietnam still an attractive destination for global investment?

Vietnam remains an attractive location for companies' 'China+1' diversification strategy thanks competitive labour cost, favorable geographical location (proximity to the production center in southern China) and political stability. Additionally, Vietnam has signed very progressive free trade agreements (FTAs) with major partners and regions in the world such as CPTPP, EVFTA, RCEP...

Recently, a number of global technology giants aim to invest or expand production in Vietnam in the near future, including: Apple 's IPhone and IPad production, Google 's mobile phone production line (Pixel 7), Xiaomi and Oppo, also intend to set up manufacturing base in Vietnam.

We expect registered FDI into Vietnam to grow by about 10-12% yoy and disbursed FDI to increase by 6-8% yoy in 2023F.

However, we see the growing competition from other countries and Vietnam currently lag behind in lure FDI flows of EV and semiconductor industry. Since 2020, Indonesia has released the Omnibus Law which provided more opportunities for foreign companies to operate or invest in this country. Since then, FDI flow to Indonesia grew positively 10% yoy in 2021 and 46% yoy in 9M22 to US$31bn. Vietnam and Indonesia are the two markets receiving the most FDI and, while Vietnam is transforming itself into an electronics equipment manufacturing hub, Indonesia is focusing on the electric vehicle supply chain.

Additionally, we see two industrial developments will shape the investment landscape in ASEAN, including EV industry and semiconductor industry. Significant developments in these industries included new categories of investors, new segments of value chains, further expansion of capacity and increasing activities in regional production networks. Thus, regarding their potential to continue receiving a high level of FDI in the next few years, regional countries has actively promoted FDI in the production of EVs, including batteries, and at the same time encourage consumers to adopt EVs. However, Vietnam is lagging behind other rivals in this trend which might dim the attractiveness of Vietnam in luring FDI flow.

Uncertain #2: China's bumpy recovery is still a variable factor

China 's retail sales growth retreated further from +2.5% yoy in Sep to -0.5% yoy in Oct 22 amid repeated lockdowns across major cities. Factory activities growth moderated from 6.3% yoy in September to 5.0% yoy in October due to inter-provincial supply chain disruption. Default risks of developers with weaker financials stayed elevated. The housing price has already declined by 13 consecutive months. Pre-sales performance of major developers plunged by 33.7% ytd.

With China's economy weak data, the central government has announced a number of new policies that could see total infrastructure spending rise to more than RMB7tr (US$1tr) in 2022. This spending is expected to boost construction activity in the 4Q22 and into 2023F. The government has issued a 16-point plan to salvage the mired housing market. Developer borrowings due within the next six months are now extended for a year. The authority also urged financial institutions to offer credit lines to quality developers with manageable default risks.

China is likely to grow slowly in 1H23F as an April reopening initially triggers an increase in Covid-19 cases that keeps caution high, but should accelerate sharply in 2H23 on a reopening boost. Our longer-run China view remains cautious because of the long slide in the property market as well as slower potential growth (reflecting weakness in both productivity and property market).

The IMF downgraded its growth forecast for the China's economy in 2023F to 4.4% from the previous forecast of 4.6%.

We believe the reopening of China will be a boost for our tourism as Chinese travelers accounts for more than 30% of Vietnam foreign visitor arrivals. Accordingly, businesses operating in the fields of travel, accommodation and catering service and aviation would benefit from the recovery of tourist arrivals from China. The smoother cross-border trade will also support for the Vietnam agriculture exports. Specifically, the export of rubber, rice, vegetables, seafood, wood & wooden products to the Chinese market will benefit from the trend of lower transportation costs and the recovering demand of the Chinese market. In addition, the reopening of China also contributes to stabilizing the supply chain of input materials for Vietnam's manufacturing sector, especially electronics & components, machinery and equipment and textiles.

Implication for our 2023 forecasts

Vietnam's GDP growth to slow down to 6.7% in 2023F

Figure 70: Key macro forecasts in 2022-2023F

Indicator	Unit	2018	2019	2020	2021	2022F	2023F
Real GDP growth	% yoy	7.1	7.0	2.9	2.6	7.9	6.7
Export growth	% yoy	13.3	8.4	6.5	18.9	14.0	9.5
Import growth	% yoy	11.8	6.9	3.6	26.7	12.0	9.4
Trade balance	USD bn	6.9	10.9	18.9	3.3	10.4	12.0
Current account balance	USD bn	5.8	12.8	12.7	-7.2	-5.0	1.6
Current account to GDP	% of GDP	1.9	3.8	3.7	-2.0	-1.3	0.4
FX reserves	USD bn	55	78	95	109	89	102
FX to GDP	% of GDP	17.9	23.8	27.8	29.7	23.6	24.1
Import coverage	months	2.8	3.7	4.3	3.9	2.9	3.0
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.2	3.8
Credit growth	% ytd	13.9	13.7	12.1	13.6	14.0	13-14%
Credit to GDP	% of GDP	103.9	107.1	115.7	124.3	128.1	131.6
M2 growth	% ytd	12.4	14.8	14.7	10.7	8.3	10-11%
Refinancing rate	%	6.3	6.0	4.0	4.0	6.0	6.0
12M deposite interest rate (year-end)	%	6.9	7.0	5.6	5.6	7.8	8.3
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	5.2	5.2
Exchange rate (USD/VND)	% yoy	1.8	1.4	-0.3	-1.2	8.0	-1.5
Fiscal balance	% of GDP	2.2	2.7	3.4	4.1	4.3	3.7
Public debt	% of GDP	46.6	43.4	44.5	43.1	43.8	43.1

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

We maintain our view that Vietnam's GDP growth peaked in 3Q22 and will slow down in 4Q22 as global demand and re-openings spectrum fade. Accordingly, we remain our forecast that Vietnam's GDP could grow by 5.6% (+/-0.5% pts) yoy in 4Q22F, bringing the entire-2022 growth to 7.9% yoy (+/- 0.2% pts).

For 2023, we expect Vietnam's GDP to expand 6.7% yoy, slightly higher than Government 's guidance of 6.5%. Regarding to three main pillars of the economy, we expect the agriculture, forestry and fishery to grow by 2.9% yoy, the industry and construction sector by 7.1% yoy, and the services sector by 7.3% yoy in 2023F.

The upward momentum of deposit rates could slow down in 1H23F

We expect deposit rates to be under upward pressure in the first half of 2023F due to (1) liquidity constraints in the context of confidence crisis in the corporate bond market, (2) the demand for capital mobilization of banks increased sharply to ensure capital adequacy criteria and to meet high demand for loans and (3) deposit growth has been much slower than credit growth since the beginning of 2022, so banks need to raise deposit rates to attract more deposits.

However, we expect deposit rates to decrease slightly in the second half of 2023F thanks to (1) lower exchange rate pressure allows state banks to pump liquidity into the system and stabilize interest rates, (2) domestic inflation could be under control and meet the government's target of below 4.5%, (3) The government promulgates policies to support and strengthen investors' confidence in the corporate bond market.

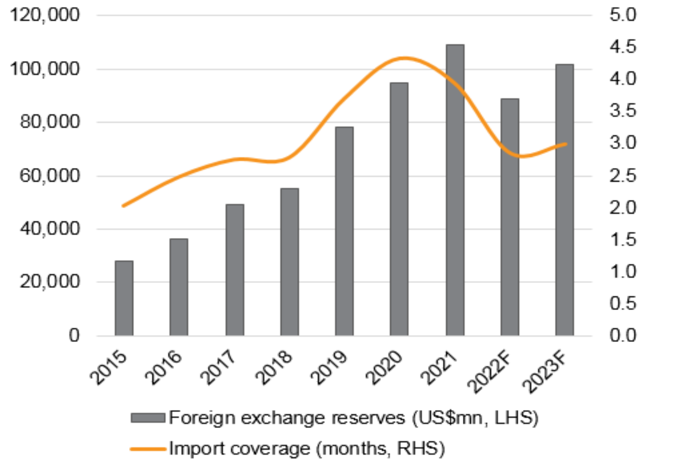
Consequences, we expect the deposit rates to inch up by about 50 basis points in 2023F, significantly lower than the increase of nearly 200 basis points in 2022F. We see the 12-month deposit rates of commercial bank could climb to 8.0-8.5%/year (on average) by the end of 2023F.

Vietnam's FX reserve will improve

In 2022, the SBV faces many difficulties in balancing the three main goals of controlling inflation, stabilizing exchange rates and stabilizing interest rates to support economic growth. In 10M22, the SBV had to sell a large amount of foreign exchange reserves to stabilize the exchange rate (about over 20% of total foreign exchange reserves). However, this has caused Vietnam's foreign exchange reserves to fall below the recommended level of the IMF (less than 3 months of imports).

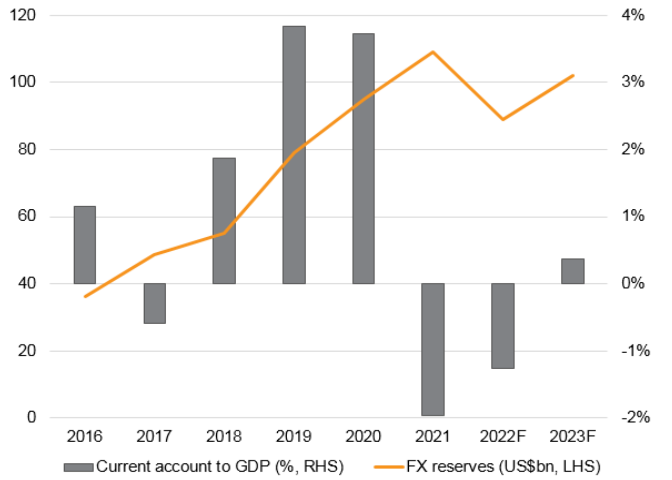
For 2023, we expect trade surplus to reach US$12.0bn in 2023F from an expected trade surplus of US$10.4bn in 2022F. We also expect current account surplus to widen to 0.4% GDP in 2023F from an expected deficit of 1.3% GDP in 2022F. In addition, we expect Vietnam's FX reserves recover to 3.0 months of import and reach US$102bn by the end of 2023 from a current level of US$89bn.

Figure 71: Vietnam's import coverage (month) and FX reserves



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 72: Vietnam's current account and FX reserves



Source: SBV, VNDIRECT RESEARCH

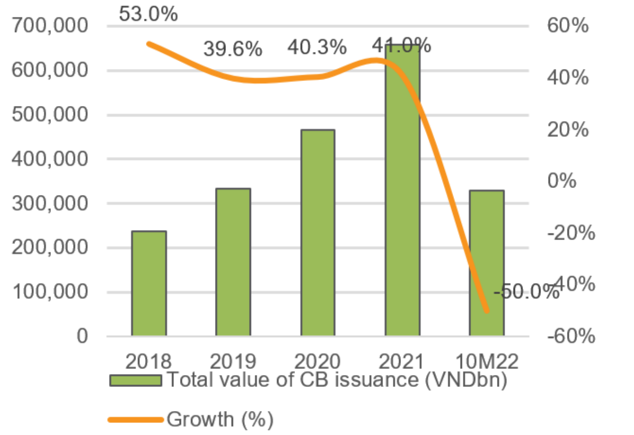
Key risks to our implication: higher than expected inflation, stronger than expected DXY could put more pressure on Vietnam's exchange rate, slower-than-expected economic growth of Vietnam's major trading partners hit Vietnam's exports harder, China maintains zero-COVID policy longer than expected, exacerbating supply chain disruption and clouding Vietnam's tourism industry recovery prospects.

Corporate bond: One step back, two steps forward

More stringent rules for a transparent and sustainable market

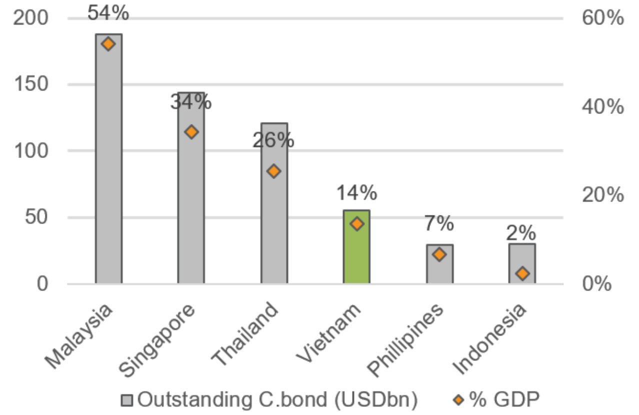
Vietnam corporate bond market enjoyed a boom during 2020-21 but investment risks and legal risks were exposed in several fraud cases in early 2022. The Decree 65, effective since 16 Sep, imposes more stringent conditions and requirements on the private placement of bonds. Accordingly, an issuer is no longer permitted to use bond for restructuring of its capital resources (except for restructuring of its own debts, which remains permitted). Credit rating are required if the bond value exceeds a certain threshold, or the bond/equity ratio exceeds a certain percentage. Additionally, the new rule lifts the criteria for bond investors where non-professional investors were negatively impacted by making high-risk bond investments without proper assessment. Consequently, corporate bond market was muted in 2022 with about 50% yoy slump in issuance value.

Figure 73: CB issuance value dropped 50% yoy in in 10M22



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 74: Vietnam current penetration of CB is relatively low



Data as at 3Q/22. Source: ADB Bond, VNDIRECT RESEARCH

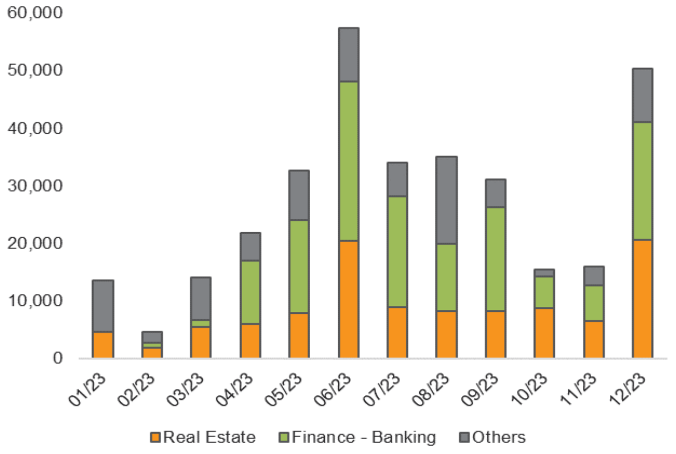
Increasing pressure to maturing private bond into 2023

Regarding the CB issuance boom during 2019 – 21, the total value of private CB due in 2023 was about VND300tr, (+90% yoy), of which, property and finance - banking account for 30% and 40%, respectively. Against the macro backdrop of monetary policy tightening and rising financing costs, tightening CB issuance, some issuers found limited chance to refinance in order to meet the short-term obligation. Payment ability risks are concentrated in some specific sectors with high leverage and high vulnerability, such as property sector.

Concern over the default risks was growing as several arrests due to violations in the issuance and trading of CB of large developers, Tan Hoang Minh Group and Van Thinh Phat Group. Retail investors' confidence in private CB has dropped down to such a low level that many were rush to sell bonds of any issuers, at any cost to collect money at a high discount. Noted that retail investors accounted for about one-third of corporate bonds volume. According to our market research, several private bonds were traded below par value by 4-5%, with bond yield of about 10% - 12%, indicating that bond sellers accepted a 14-17% discount.

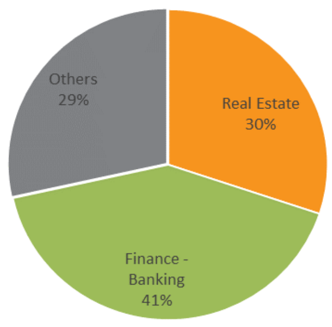
Since then, authorities have delivered message to comfort market's panic but no specific measures to be taken in order to rebuild the trust. Good point is, according to the Ministry of Finance, the amount of corporate bonds bought back before maturity was about VND152tr in 10M22, partially easing both maturity pressure and market negative sentiment.

Figure 75: Estimated value of private CB due in 2023 (VNDbn)



Source: VNDIRECT RESEARCH, HNX

Figure 76: Private CB maturity breakdown by sector in 2023 (%)



Source: VNDIRECT RESEARCH, HNX

Seeking measures for a sustainable growth of corporate bond market

We think it will take some time for market participants (issuers, underwriters, and investors) to adapt with new rules. As property market squeezes, consumer demand weakens, rising financial cost, corporates tend to delay or postpone their business expansion, which lower the funding demand. Thus, we expect corporate bond market will experience a muted performance in 1H23 with low supply volume.

Issuance volume will recover meaningful in 2H23 from low base 2022, supported by earnings resilience, stable interest rate and better market regime.

Currently, the outstanding corporate bond volume to GDP of Vietnam is 15%; and 13% for private CB, relatively low versus regional peer. Government aims to grow CB market to 20% to GDP by 2025 and 30% by 2030. Recently Finance Minister Ho Duc Phoc has pointed out some measures to revive the bond market, including: speed up the process for developers to get legal rights to develop land, Work with the central bank to decrease borrowing costs for companies and help with restructuring debt payments, boost investor confidence following recent anti-graft measures, ensure bond issuers are offering buyers accurate information and repay the bond on time when it dues to build up investors' trust.

Market earnings growth moderate 14% yoy in FY23F

Despite market aggregate earnings grew 21.4% yoy in 9M22, but we see headwinds arising, following weak export demand, margin compression, rising debt payment burden and FX loss. Thus, we expect market earnings to expand 17% for FY22F. For FY23F, market earnings are expected to grow modestly 5% yoy in 1H23F then improve significantly in 2H23F, bringing the whole year growth to 14%.

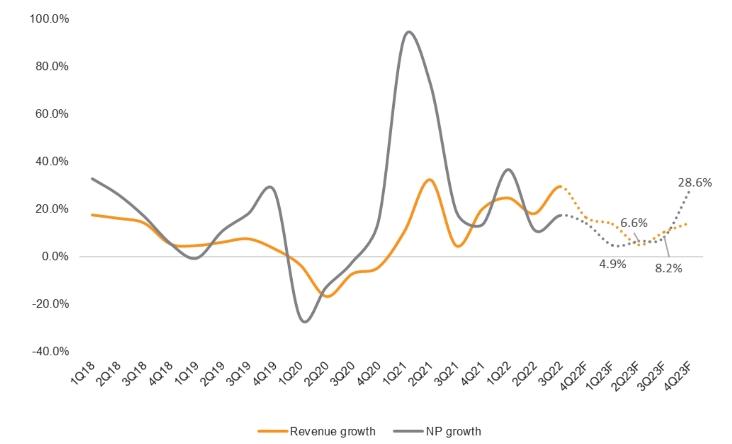
Aviation will stand out in term of earning growth on the back of nearly-full recovery of international flights. Construction materials will enjoy a meaningful earnings growth, underpinned by input material prices (coal, ore iron) downturn. On the other hand, O&G and Chemicals might experience a contraction in FY23F bottom line growth from high base FY22F.

Figure 77: Forecasted FY22-23F earnings growth of sectors and Vietnam market

Sectors	FY22F Earnings growth	FY23F Earnings growth	FY24F Earnings growth
Insurance	-13.6%	66.4%	27.4%
Consumer	8.9%	28.0%	13.5%
Construction Materials	-67.2%	23.5%	19.7%
Technology	22.0%	20.5%	20.6%
Power	28.3%	15.4%	31.7%
Port	36.1%	14.7%	-3.5%
VN-INDEX	17.0%	14.0%	16.5%
Residential Property	-18.6%	12.0%	29.0%
Industrial Property	112.9%	11.4%	6.5%
Banks	32.7%	9.8%	16.1%
Construction	60.2%	7.6%	20.5%
Exports	14.9%	4.7%	18.5%
Agribusiness	3.0%	2.9%	5.8%
Oil & Gas	63.8%	-7.9%	6.2%
Chemicals	83.1%	-27.2%	-21.3%
Aviation	-103.3%	3495%	22.5%

Source: VNDIRECT RESEARCH

Figure 78: Quarterly revenue and net profit growth on yoy basis (1Q19-4Q23F)



Source: VNDIRECT RESEARCH

We expect VN-Index to accelerate to 1,300-1,350 level in 2H23F

We believe 2023F could be a year of two halves for both macro and equity market. For the 1H23F, market is still under stress of uncomfortable levels of inflation, high interest rates, liquidity constraints and rising corporate bond default risks. Thus, any market bounce back from trough valuation might volatile amid weak liquidity, in our view.

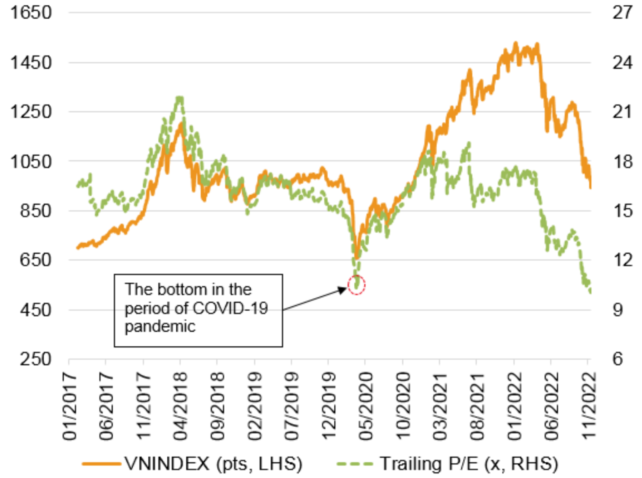
We are more confident and expect an inflection in the market to marterialise in 2H23F.

- As discussed above, we do not expect any FED fund rate cut in 2023F, but in 1Q24F at the earliest. We believe a loosen central banks' hawkish stance will trigger a re-rating in equity market in 4-6 months ahead the first rate cut implement.
- We see market earnings growth to resilient in 2H23F thanks to: declining interest rates, strengthening VND, material input prices downturn and even the China's reopening will give a boost. Positive corporate earnings growth momentum will bode well for equity market expansion.
- We believe the signal of U.S. interest rates peak out might trigger the risk appetite of foreign investors to emerging markets. Additionally, we see the current downgrade of tech-relate stocks amid global economic recession could shift the investors' interests into value stocks which is a key lift for Vietnam equity market where dominated by banks, property and consumer stocks.

Overall, we expect the VN-Index to reach 1,300-1,350 points within 2023, following P/E target of 12-12.5x.

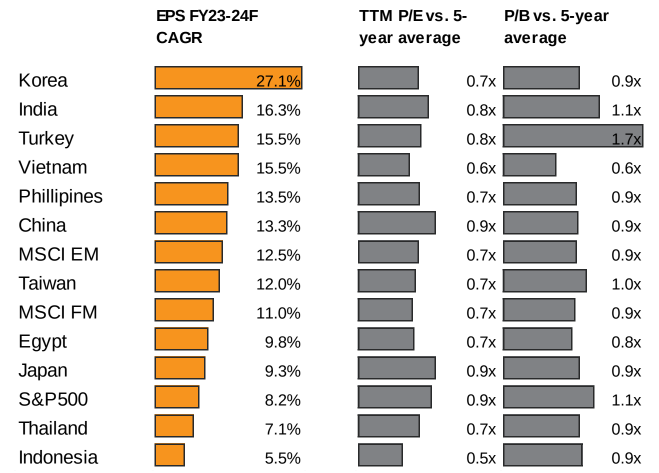
As at Nov 22, VN-Index was trading at 10.0x trailing 12-month P/E (the lowest level since 2012), which is 43% discount to the peak this year and 36% discount to the 5-year average P/E (15.6x). Vietnam market valuation looks attractive in term of F22-24 earnings growth potential versus other peers, in our view.

Figure 79: The VN-Index's P/E dropped to the lowest level since 2012 (data as at 22 Nov 2022)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 80: Vietnam stands out as one the markets which are cheap compared to FY22-24F their earnings growth potential



Source: BLOOMBERG, VNDIRECT RESEARCH

Potential re-rating catalysts include: (1) the inclusion of Vietnam's stock market into the FTSE Secondary Emerging Market in annual country-reclassification in Sep 2023; and (2) Government loosens issuance conditions on corporate bond market. Downside risks include: (1) slower-than-expected global economic recovery; and (2) slower-than-expected growth in the earnings of listed companies.

Sector note

BANKS: "THE GLASS IS HALF FULL"

- Concerns over stagnant property market persisting in FY23F will lead banks to rebalance the risk dynamics between earnings growth and asset quality.
- We expect earnings growth of banks under our coverage to grow modestly 10-12% yoy in FY23-24F (+32% yoy in FY22F).
- However, we see market stress has been largely factored in current valuation. Our sector picks are VCB and ACB.

Multiple macro headwinds persist in FY23F

First, SBV has increased policy rates by 200bps and this rate hike will inevitably put pressure on banks' NIM next year as cost of funds (COF) rises and a full pass-through into lending rates is unlikely. Second, stagnant property market and sluggish corporate bond (CB) recovery will stress banks' asset quality and liquidity. Third, capital raising need will once again take the centre stage during FY23-24F, especially for SOCBs. All in all, we expect earnings growth of banks under our coverage will slow down to 10-12% in FY23-24F from 32% in FY22F, following weaker credit expansion, softer NIM, and higher credit cost.

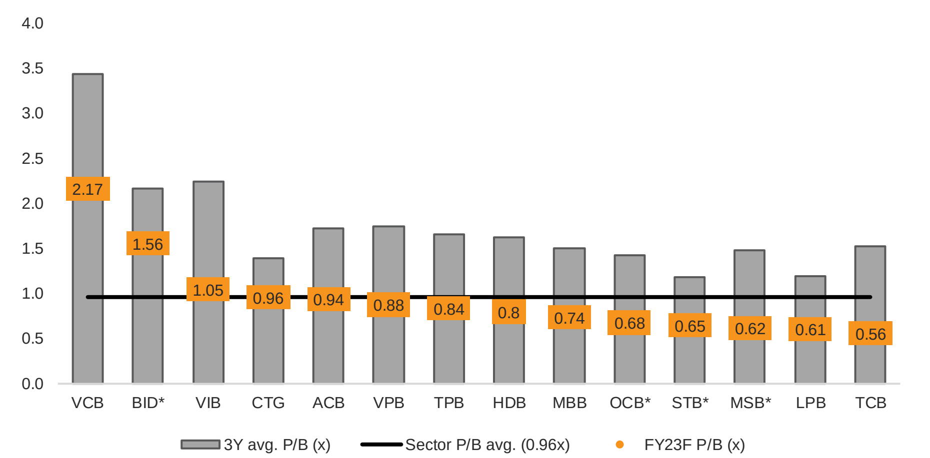
Cautious in 1H23F but more optimistic in 2H23F

We take a cautious stance on the outlook for banks in 1H23F as liquidity constraints and CB default risks still persist. About VND46tr value of CB is schedule to mature in 1H23F, which will be a stress-test for the financial system. However, going into 2H23F, we will look for a recovery once pressure from interest rates and FX starts to ease, in pace with improving liquidity thanks to stronger public investment. Downside risks include (i) higher-than-expected rate hike, (ii) higher-than-expected bad debt spike, and (iii) prolonged scrutiny of property and CB markets.

Our stock picks are VCB and ACB

"An optimist says the glass is half full." Vietnamese banks are healthier than ever before and still the best proxy to Vietnam's robust economic expansion. Thus, current sector valuation at all-time-low level of 1.0x P/B FY23F (equal to 3-year average minus 2SD range) provides an attractive risk/reward profile for long-term investment. However, we remain cautious in the near term and prefer banks that have built up strong provision coverage for their loan-at-risk and are well-equipped to weather the uncertainty (strong liquidity management, less risk to property segment, and enough capital buffer for at least 3 years of sustainable growth). All in all, our sector picks are VCB and ACB.

Figure 81: Most of banks are trading below their FY23F book value
(*) stand for Bloomberg consensus



Source: VNDIRECT RESEARCH

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Tighter financial condition has weighed down the banking sector

Property market dimmed after several arrests and tighter corporate bond issuance

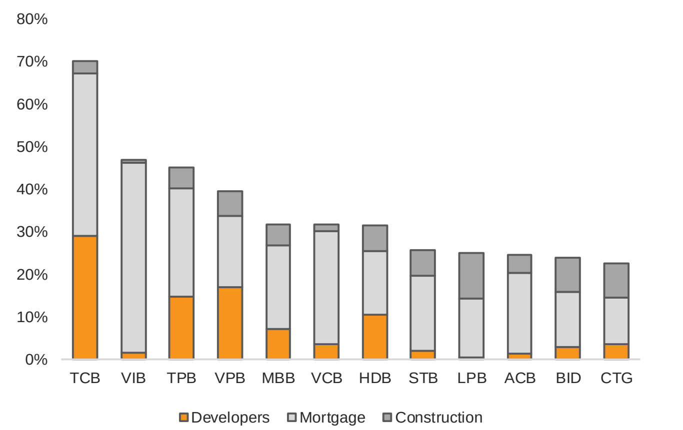
Since 2Q22, the government has put strict supervision on CB market with Decree 65. Again, we understand this will encourage the public issuance activities and improve the quality of CB issuers and the sustainability of this nascent market in the long run. However, in the short term, the market has witnessed a series of investigations, in which many cases of bad practices in principal mobilization have been proven and a number of Vietnamese executives were arrested. This has damaged investors' confidence in issuers' integrity and led to a boycott on CB market. On the other hand, it also negatively impacted to banks having high exposure to CB via rising credit risk and declining fee incomes generated from CB underwriting and distribution.

Although there was no "official statement" from the SBV related to the tightening credit flows into property market, banks were warned to lower credit exposure to property since 2Q22 in order to cool down the "hot fever" of property market in early-2022. Additionally, according to Circular 08/2020, the cap on short-term funding for medium-and long-term lending will be cut to 34% from 37% since 1 October, 2022. Therefore, banks will pay more attention to liquidity management, and thus, they will not let their exposure to property loans increase uncontrollably.

Who will face with higher risks from stagnant property market and CB market?

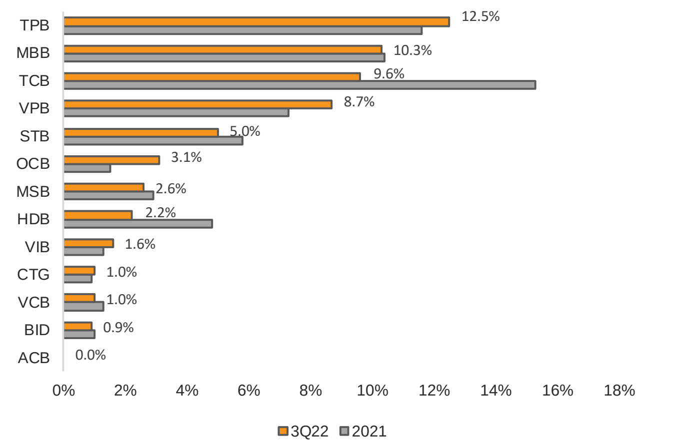
As more inspections and reviews of property exposure for each bank will be executed further, banks with heavy exposure to the property sector will find it hard to boost their lending activities in 2023, in our view.

Figure 82: Banks' property lending per total loans (data as end-2Q22)



Source: Commercial banks, VNDIRECT RESEARCH

Figure 83: Banks' c-bond holdings (c-bond per credit)

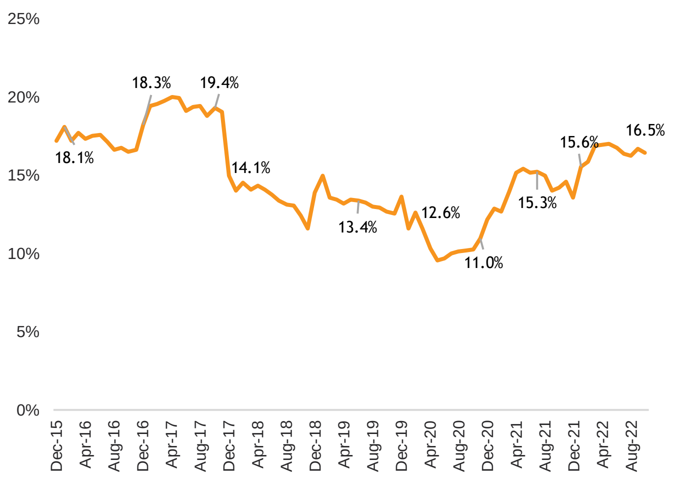


Source: Commercial banks, VNDIRECT RESEARCH

Liquidity constraint stressed on system since late-3Q22

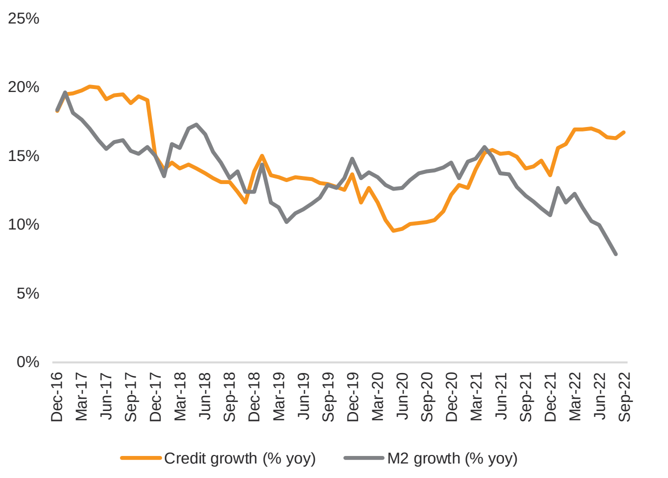
In order to contain inflationary pressure, SBV has tightened money supply since early 2022 and sold large parts of FX reserves to stabilize the VND. M2 money supply only increased by 7.9% yoy in the first 8M22, the lowest in the past 10 years. Additionally, system mobilisation grew at a slower pace than credit, widening the gap between deposit-credit since early 2022. Thus, funding demand has emerged since SBV raised credit growth quotas for selected commercial banks since Sep 2022, prompting deposit rates to pick up.

Figure 84: Vietnam's yoy credit growth (%)



Source: SBV, VNDIRECT RESEARCH

Figure 85: Funding growth were trailing behind credit growth which weighed on commercial banks' liquidity



Source: Commercial banks, VNDIRECT RESEARCH

Since end-Sep, the Chairwoman of Van Thinh Phat Group was arrested due to violations of CB issuance regulations. The arrests casted shadow over the operation of Saigon Commercial JSC Bank (SCB), Vietnam's fifth largest commercial bank in term of total asset, given the close connection between the Board of Directors of the two enterprises. SCB experienced a "deposit-run" during the first week of Oct 22 but then stabilised under the supervision of SBV. The Van Thinh Phat – SCB event has weighed on system liquidity as commercial banks have turned more defensive and cemented their liquidity ratios.

Who is well-equipped to weather liquidity constraints?

We use the liquidity parameter under the "L – liquidity" in the CAMEL model to measure some Vietnam listed banks' ability to meet its financial obligations. We prioritise some ratios that assess the bank's ability to convert its liquid asset quickly into cash to adapt the deposits run. Our liquidity parameters include:

1. Liquid asset/Customer deposits: The liquid assets include cash and cash equivalent, balance with central bank and trading securities. For this ratio, higher is better which indicates that the bank will be able to easily convert assets to cash to fulfil its short-term payment obligations.

2. Gross LDR: gross loan to deposit, which lower is better for liquidity.

3. Liquid asset/Total asset: a high ratio allows the bank to quickly meet its short-term payment obligations.

4. Short-term loans/Net loans ratio: We believe higher short-term loans proportion will allow the bank to mitigate the asset-liability duration gap and ease the pressure of mobilisation of long-term funding.

5. Demand deposit/Customer deposits (CASA): A high ratio means the bank has less pressure of mobilizing long-term funding to adapt long-term loans demand.

6. Non-individuals/Customer deposits: The higher the better. We observe that the bank will have a decent and stable mobilisation if the bank has the larger proportion of institutional customers in its deposit mix.

Our comparative analysis has taken into account the liquidity strength of 17 listed commercial banks. We use the average data from the financial statements of each bank at the end of 31/12/2021 and 30/9/2022 to mitigate any abnormal factors. For the comparative analysis, the results have been interpreted through the rank. Noted that, lower rank does not mean that bank will face liquidity risk, only indicates weaker liquidity strength to others.

Figure 86: Liquidity strengths of each bank based on each criteria (average numbers of end-FY21 and end-3Q22)

No.	Ratio	ABB	ACB	BID	CTG	EIB	HDB	LPB	MBB	MSB	OCB	SHB	STB	TCB	TPB	VCB	VIB	VPB
1	Liquid asset/Total deposits																	
2	Gross LDR																	
3	Liquid asset/Total asset																	
4	Short-term loans/Net loans																	
5	Demand deposit/Customer deposits																	
6	Non-Individuals/Customer deposits																	

Note: the grading scale is for each ratio, not for overall score

Notes on color rating for each ratio

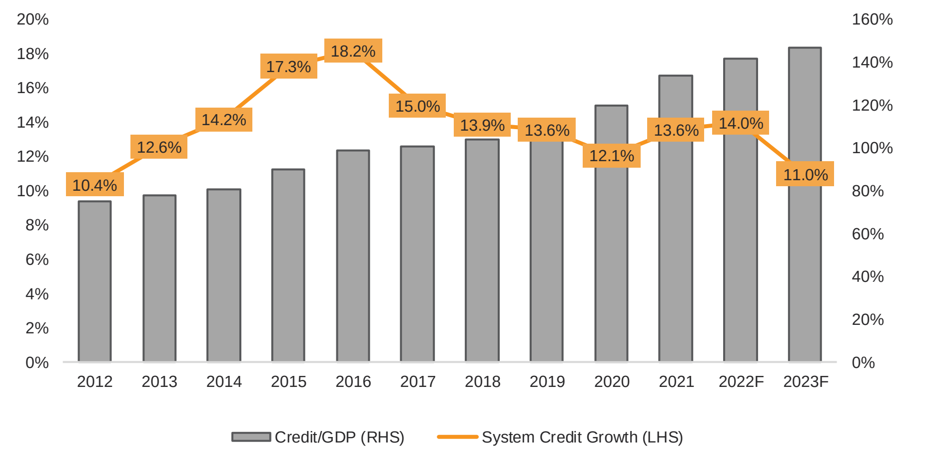
<---- Higher Lower ---->

Source: VNDIRECT RESEARCH

Looking into 2023F, we expect credit growth to cool down to 11-12%

System credit expanded by 16.5% yoy and 11.5% ytd as of Oct-2022, higher than that of the same period last year (+8.8% ytd). However, momentum has slowed down significantly since the end of Jun-2022 as 1H22 credit growth was already 9.44% ytd, which means credit only expanded c.2% from June to Oct-2022. Credit growth has been hitting the brakes as macroeconomic stability has become the government's top priority at this time; and the credit growth target of 14% for 2022 is unchanged.

Figure 87: System credit growth forecasts (%)



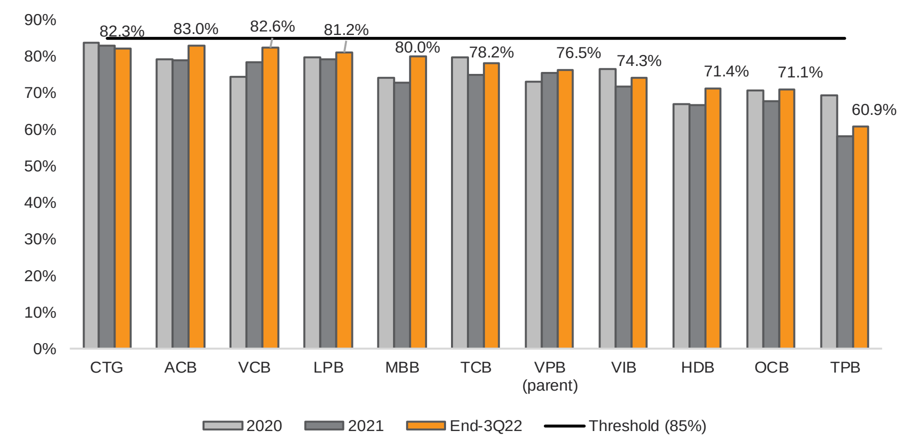
Source: VNDIRECT RESEARCH

For FY23F, we expect system credit growth might cool down to 11-12% as…

- First, credit demand will weaken due to stagnant property market, sluggish export activities, and higher lending rates. For property segment, developers face limited opportunities to refinance given tighter regulations on CB issuance & credit while rising mortgage rates dent housing demand. Exports, one of Vietnam's key growth pillar will slow to 9-10% in 2023F, from 14% in 2022. Several corporates have halted or postponed their business expansion due to high lending rates and declining consumer demand.
- Second, inflation will stay at high level. Although global inflation likely peaks out in 2022, we see the inflation pressure stay high in Vietnam next year due to: a 20.8% basic wage hike, effective since Jul 2023 and a possible increase in the price of some government-control services (retail electricity tariff, health care, public transports…).

- Third, liquidity constraint is another reason putting a lid on system credit growth. At-end 3Q22, banks' LDR ratios have increased rapidly and some of them nearly reached the regulatory threshold at end-3Q22. Thus, it is difficult for banks to accelerate loan growth in the upcoming quarters.

Figure 88: Banks' LDR ratio (based on Cir.22)



Source: Commercial banks, VNDIRECT RESEARCH

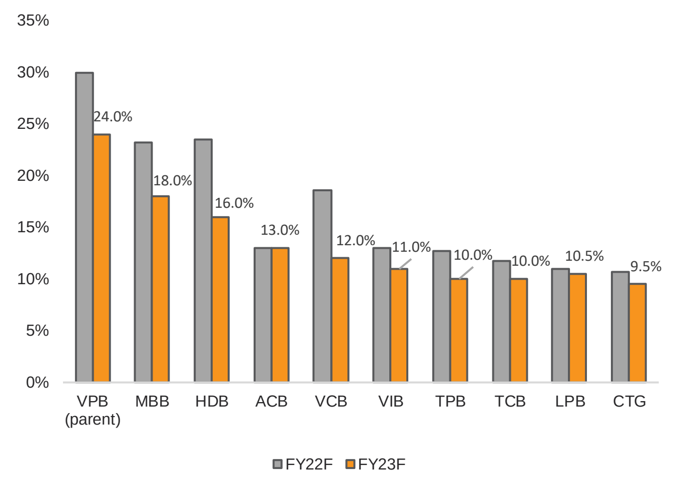
Who will gain lending market share in 2023F?

Amid the sectoral headwinds, the SBV will consider carefully when allocating credit quota to each commercial bank. We believe some banks will be able to receive a better-than-peers credit quota if they have: (1) a benign credit mix i.e. less exposure to risky segments like property loans and c-bond, (2) participation in handling weak financial institutions, (3) robust capital adequacy and (4) good liquidity management.

Based on those criteria, we forecast 2023F credit growth of banks under our coverage in the chart below. As VPB, MBB, HDB and VCB have been chosen to handle distressed financial institutions since 2022, they are likely to obtain better-than-average credit quota for next year from SBV and take market share.

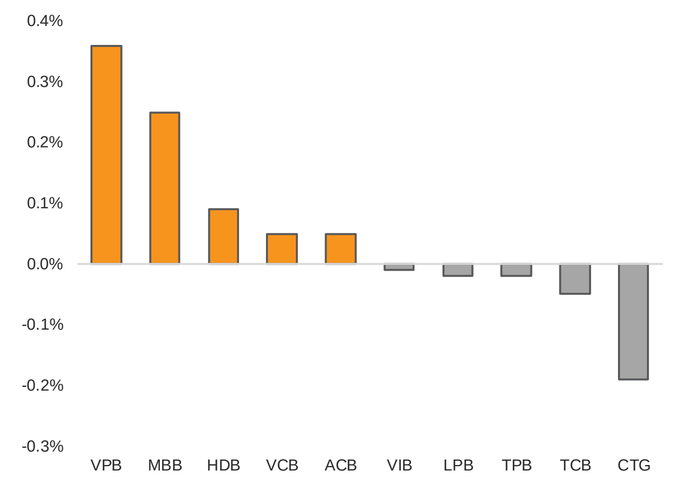
Figure 89: Credit growth forecasts for each bank (%)

2022F credit growth of each bank below is assumed to be equal with its full credit quota



Source: Commercial banks, VNDIRECT RESEARCH

Figure 90: Market share gains by each bank, based on our 2023F forecasts (%)



Source: VNDIRECT RESEARCH

NIM compression is inevitable due to rising deposit rates

COF pressure is growing due to higher deposit rates

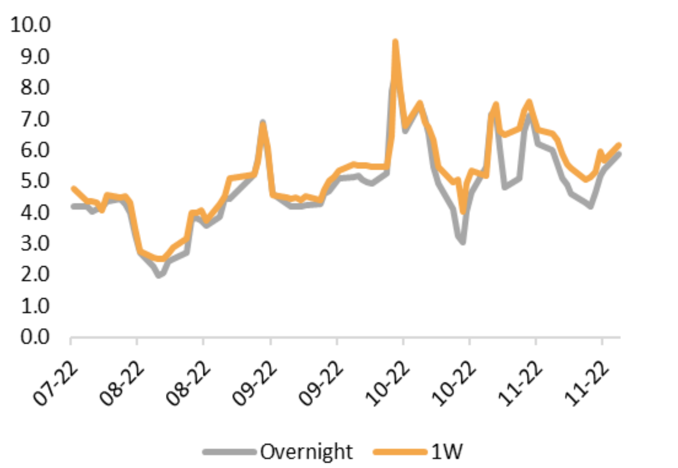
We believe the SBV will maintain tight monetary policy during 2023-24F due to ongoing macro uncertainties including (1) internal headwinds relating to property and c-bond markets, (2) a hawkish FED putting pressure on exchange rate and surging interest rate, and (3) inflationary pressure.

Banks are facing higher COF as a result of tightening liquidity and stricter monetary policies. Interbank rates have spiked in recent months due to (1) SBV withdrawing VND from system to deal with FX pressure, (2) corporates buying back bonds, and (3) SCB event. Although interbank rates have cooled down somewhat, we expect they will continue to hover around 5-6% for the overnight term in the coming months.

With respect to deposit rates, after SBV raised policy rates by 200bps, commercial banks have quickly followed up with sharp increases to their deposit rates at both short and long maturities. 12-month rates at SOCBs and private banks have risen by 190bps and 275bps ytd and are now 60 and 110bps above pre-pandemic levels, respectively.

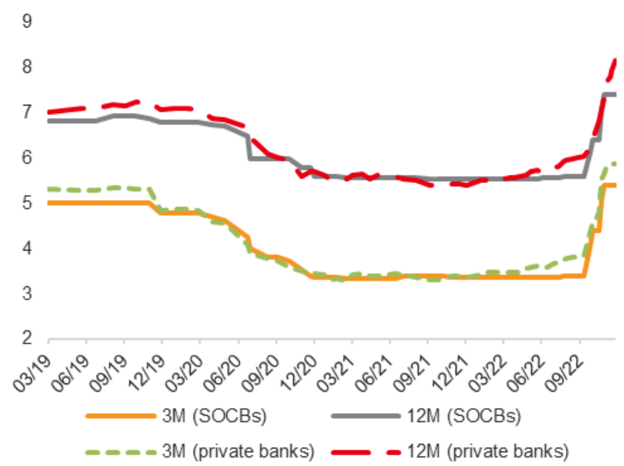
Looking to 2023, given the rising funding pressure at both short and long terms, we expect COF for the banking sector to rise meaningfully over the next year, putting downward pressure on NIM. We doubt asset yields can pick up at the same pace to offset given it is unlikely banks can fully pass-through higher rates to customers amid government's call for the sector to control operating expenses rather than increase lending rates to share the financial burden with borrowers.

Figure 91: Interbank rates have spiked meaningfully, reflecting tight liquidity in the system (Unit: %)



Source: Commercial banks, VNDIRECT RESEARCH

Figure 92: Deposit rates rose sharply after SBV lifted its policy rates by 200bps in the past 2 months (Unit: %)



Source: Commercial banks, VNDIRECT RESEARCH

Mixed NIM performance among banks ytd

NIM performance through 9M22 varied widely between banks. Within our coverage, LPB, HDB, and MBB registered the strongest yoy improvement at 60-70bps. Credit growth outpaced deposit growth by a significant margin at MBB and HDB, which supported NIM expansion. For HDB, strong recovery of HD Saison also contributed to stronger NIM. For LPB, meaningful decline in COF was the main driver behind the bank's NIM expansion as the company reduced the weight of costly valuable paper within its funding source.

CTG, TCB, TPB, and VPB recorded the biggest yoy declines in 9M22 NIM. For CTG, we believe NIM compression has been driven by continued interest relief for customers affected by Covid-19 in 1H22. TCB and TPB experienced large declines in their corporate bond balances due to regulatory tightening on bond issuance, which weighed on NIM, because c-bonds typically carry higher yields than loans. Lastly, for VPB, we believe weak credit growth at consumer finance arm FE Credit drove the decline in consolidated yield and NIM.

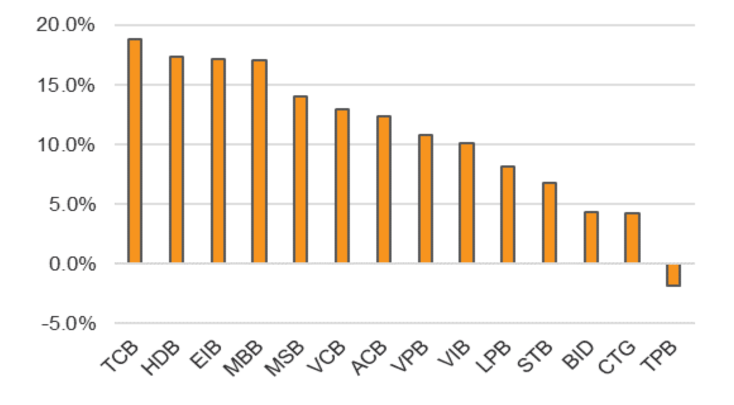
VIB, VCB, and ACB are in the middle of the pack with yoy changes in NIM at 24/16/11bps, respectively. VIB and ACB appeared to be able to maintain their NIM thanks to strong exposure to retail lending where banks can more easily pass-through higher COF to customers. For VCB, we attribute solid NIM performance to robust credit growth and strong CASA levels.

Figure 93: NIM performance through 9M22 was mixed between banks (Chart shows yoy change – Unit: bps)

	Asset yield	CoF	NIM
EIB	53	-64	113
MSB	64	-2	84
LPB	3	-62	72
HDB	52	-10	57
MBB	42	-16	57
VIB	28	4	24
VCB	14	-3	16
ACB	-23	-33	11
STB	-21	-16	10
BID	-32	-21	-12
CTG	-5	14	-18
TCB	0	19	-20
TPB	-47	-6	-39
VPB	-96	-22	-63

Source: Commercial banks, VNDIRECT RESEARCH

Figure 94: Credit growth less customer deposit growth (yoy basis)



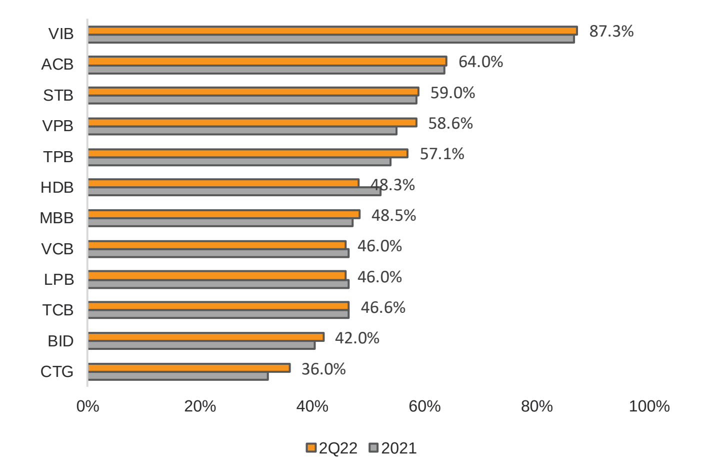
Source: Commercial banks, VNDIRECT RESEARCH

Who will be able to mitigate the NIM compression?

We believe banks with high retail lending exposure and strong CASA are best-positioned to navigate through NIM headwinds. Regarding the retail lending criterion, VIB and ACB score the highest among our coverage with 87% and 64% of retail weights. CTG, VPB, TPB, MBB are also noteworthy names thanks to successfully increasing the retail component within their credit mix this year.

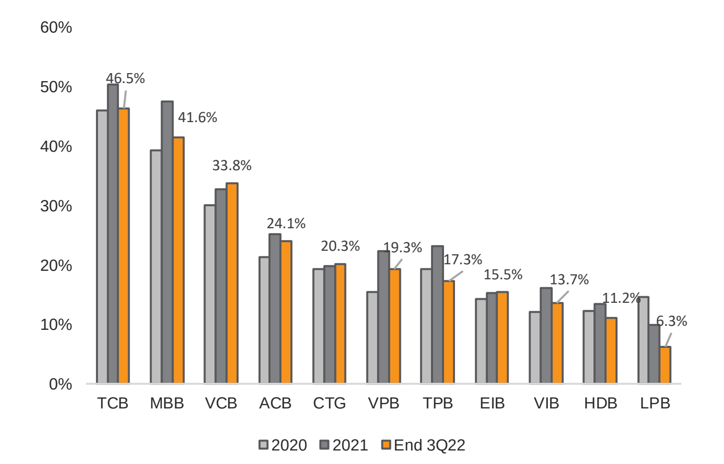
With respect to CASA, TCB, MBB, and VCB are the best positioned in our coverage in term of CASA ratio at end-3Q22. VCB particularly impresses us as one of the few banks to have improved CASA ratio ytd, which we would attribute to its success with the “zero-fee” program introduced earlier this year.

Figure 95: VIB and ACB have the highest exposure to retail lending within our coverage (% of customer loans)



Source: Commercial banks, VNDIRECT RESEARCH

Figure 96: TCB, MBB, and VCB remained at the top with respect to CASA



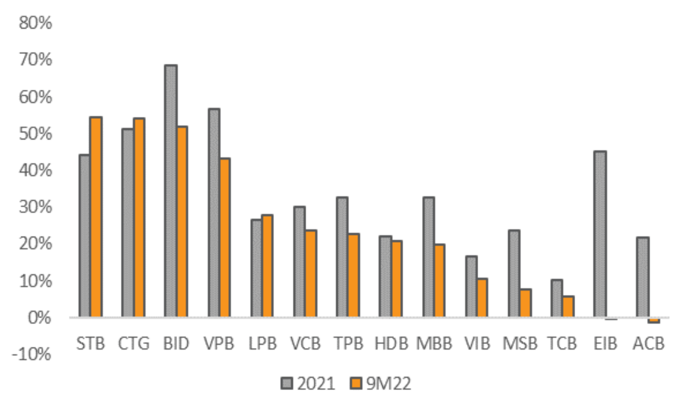
Source: Commercial banks, VNDIRECT RESEARCH

Prioritise asset quality over earnings growth

Banks' provision expenses in 3Q22 increased 32.9% yoy but decreased 1.1% qoq mainly due to STB's provision for VAMC bonds and FE Credit's heavy provision to prepare for possible bad debt spike. However, average annualized credit cost of 15 listed banks have eased to the pre-pandemic levels.

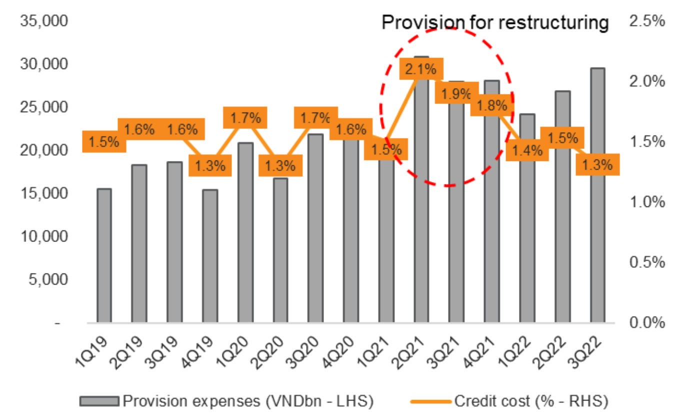
Figure 97: Provision/Pre-provision profit across banks

9M22 results are mostly lower than that of FY21



Source: Commercial banks, VNDIRECT RESEARCH

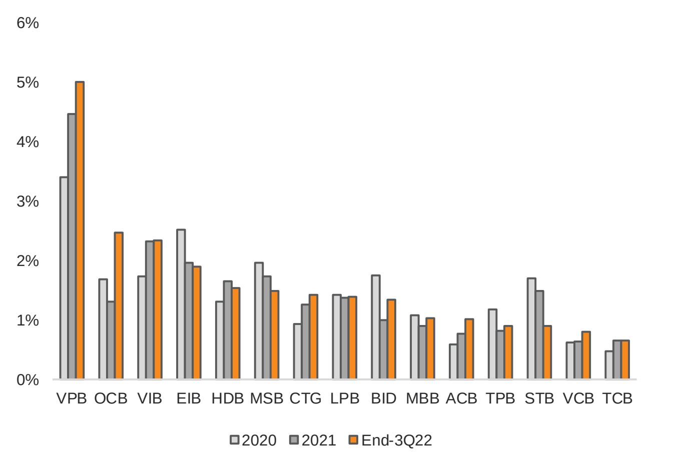
Figure 98: Credit-cost rate has come back to pre-pandemic levels



Source: Commercial banks, VNDIRECT RESEARCH

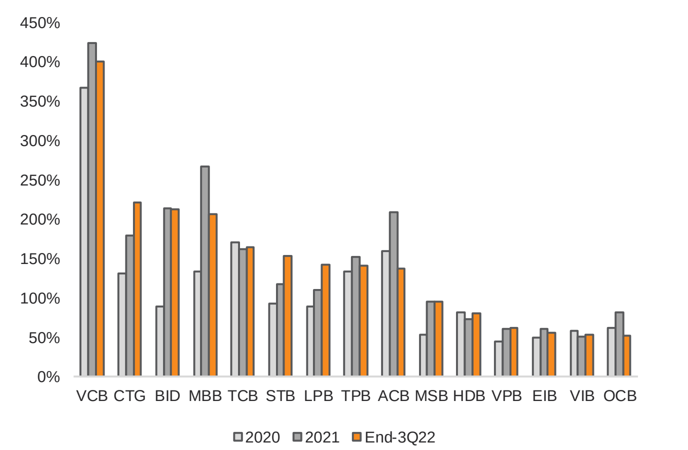
Banks' asset quality has been shaken as a consequence of the post-pandemic effects and especially the termination of Circular 14/2021 in Jun-2022. Average NPL ratio rose to 1.44% at end-3Q22 from 1.34% at end-2Q22 and 1.28% at end-FY21. Average LLR ratio rose to 168.7% at end-3Q22, slightly lower than 172.6% at end-2Q22 but still higher than 159.6% at end-FY21.

Figure 99: Banks' NPL ratio rose at end-3Q22



Source: Commercial banks, VNDIRECT RESEARCH

Figure 100: … and LLR slightly fell in most of the banks



Source: Commercial banks, VNDIRECT RESEARCH

Moving into 2023, besides the "liquidity constraints" among banking system we have mentioned, we see another serious problem relating to "liquidity drying up" among Vietnam corporates, particularly SMEs. Vietnam corporates have to deal with higher interest expense (from USD strengthening and VND's higher interest rate), which dents profitability and heightens the pressure on debt obligations. On the other hand, Vietnam's capital market is being obstructed with limited credit from banks and squeezed CB issuance. Therefore, many corporates will have limited chance to refinance. Their difficulties in accessing funding and lower ability to fulfil debt obligations will threaten banks' asset quality in 2023F.

As a consequence, the pressure to build up provisions will come back, and thus, banks' credit-cost rate could inch up again during 2023-24F. We believe banks that have solid asset quality and ample LLR will be well-positioned to deal with this bad debt risk.

Capital raising is an urgent need on the way to BASEL III

Banks are attempting to strengthen their capital adequacy ratio (CAR), reflecting in the CAR improvement during recent years, as they aim to approach Basel III application and build up a strong foundation to boost loan growth in the future.

Currently, more than 20 banks have adopted Basel II, in which 6 of them have completed all three key pillars. A few banks have even started switching to the advanced version and are gearing up to apply higher standards of Basel III, laying the basis for a more effective risk and capital management.

However, the capital buffer of Vietnam's banking sector is still thin compared to operating environment risks and international peers. The average CAR of Vietnam's banks is much lower than that of regional banks. Furthermore, SOCBs remain stuck in their capital raising plan while their CAR ratios are just slightly above the minimum requirement and relatively lower than private banks (figure 22). Thus, we believe many banks will maintain stock dividend plan instead of paying cash dividend over FY23-24F, as capital raising is an urgent need, especially for SOCBs.

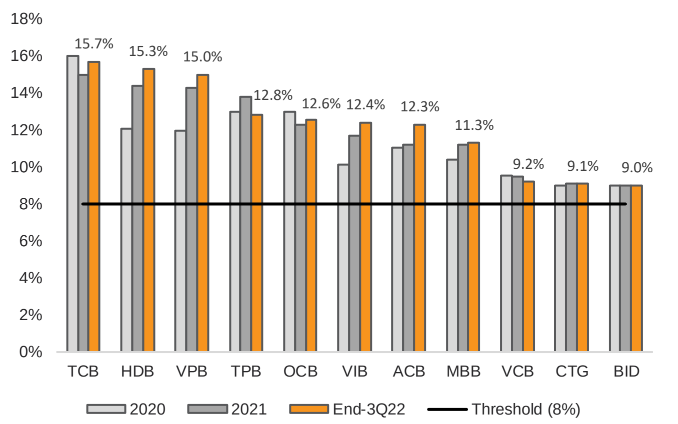
Figure 101: Reference on regional banks' key ratio (average numbers; Unit: %)

Vietnam banks' CAR is lagged behind regional peers

Country	NIM	CASA	CAR	Pure LDR	NPL	LLR
Hong Kong	2.0	-	16.0	86.3	1.4	216.5
China	2.1	-	15.7	86.9	1.3	226.4
Malay	1.8	38.4	18.3	91.8	1.5	166.2
Thailand	3.1	69.5	19.6	100.7	3.7	142.6
Singapore	1.6	65.2	17.1	85.1	1.4	87.9
Phillippines	4.2	73.4	17.2	74.5	4.2	122.1
Indonesia	5.2	61.2	22.6	87.6	2.5	47.4
Vietnam (tier-1)	4.4	24.7	12.0	99.7	1.5	174.2

Source: Bloomberg, VNDIRECT RESEARCH

Figure 102: Banks' CAR has improved, except SOCBs. Thus, capital raising is still urgent



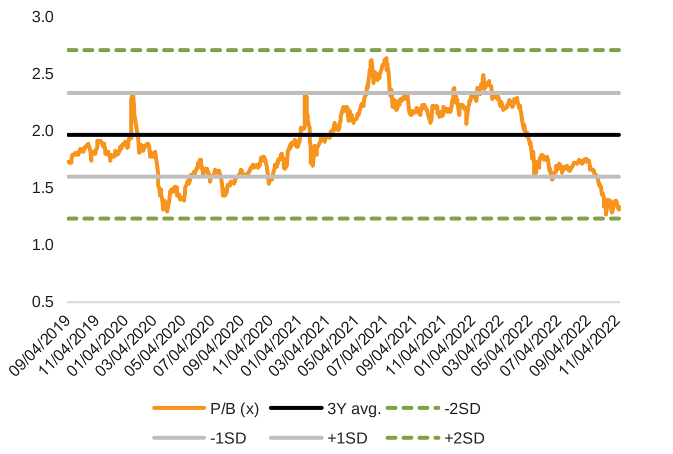
Source: Commercial banks, VNDIRECT RESEARCH

Stock picks: We like VCB and ACB

We take a cautious stance on banking outlook in 1H23F as liquidity constraints and CB default risks still persist. About VND46tr value of CB maturing in 1H23F will be a stress-test for financial system. In 2H23F, we will look for a recovery once pressure from interest rates and FX starts to ease, in pace with improving liquidity thanks to stronger public investment.

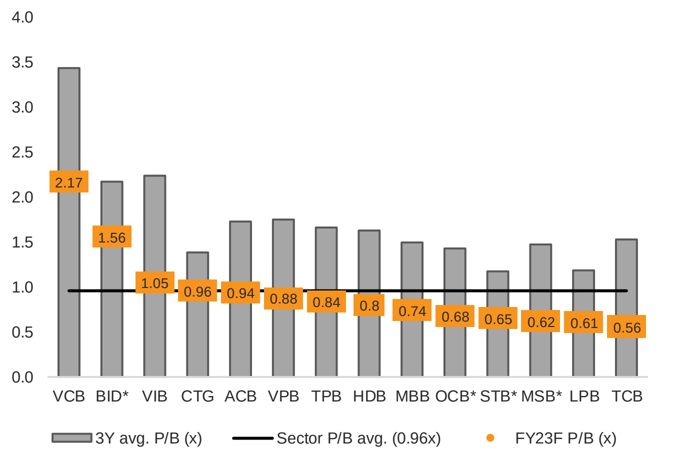
Vietnamese banks are healthier than ever before and still the best proxy to Vietnam's robust economic expansion. Thus, current sector valuation at all-time-low level of 1.0x P/B FY23F (equal to 3-year average minus 2SD range) provides an attractive risk/reward profile for long-term investment.

Figure 103: Current P/B is falling below its -2SD range; and P/B FY23F is trading at only 1.0x



Source: Fiinpro, VNDIRECT RESEARCH

Figure 104: Most of the banks are trading under their FY23F book value



Source: Bloomberg, VNDIRECT RESEARCH

During this tough time, we prioritise a safe-and-sound approach in stock selection. We believe banks with (1) a benign credit mix i.e. less exposure to risky segments like property loans and CB, (2) participation in handling weak financial institutions, (3) robust CAR and (4) good liquidity management will obtain a better credit quota. Besides, if the banks have (1) high CASA mix, (2) good retail lending exposure, (3) low short-term deposit to long-term loans, they should be able to partially mitigate the pressure of rising COF / shrinking NIM. Last but not least, solid asset quality and ample LLR are key to help banks overcome a potential bad debt spike. Under these criteria, our sector picks are VCB and ACB.

Figure 105: Vietnam bank comparison (price as of 22/11/2022)

Banks	Bloomberg Code	Price Latest	Target Price	Recommendation	Market cap	P/B (x)			P/E (x)			3-yr fw CAGR EPS	ROE %		ROA %	
		LC	LC		(US$bn)	Current	FY22F	FY23F	T12M	FY22F	FY23F	%	FY22F	FY23F	FY22F	FY23F
Vietcombank	VCB VN	73,500	84,600	ADD	14.0	2.7	2.6	2.2	13.2	12.5	12.4	13.4%	20.5%	19.3%	1.6%	1.6%
Vietnam Prosperity JSB	VPB VN	15,500	26,300	ADD	4.2	1.1	1.2	1.0	5.2	4.7	5.7	9.4%	23.4%	18.7%	3.5%	2.9%
Techcombank	TCB VN	21,850	44,000	ADD	3.1	0.7	0.7	0.6	3.6	3.6	3.2	13.8%	21.8%	20.0%	3.6%	3.5%
Vietinbank	CTG VN	23,900	34,400	ADD	4.6	1.1	1.1	1.0	7.4	9.6	8.4	15.2%	16.5%	16.8%	1.0%	1.1%
Military Commercial JSB	MBB VN	15,800	30,600	ADD	2.9	1.0	1.1	0.8	4.1	4.6	4.3	16.5%	25.6%	23.1%	2.7%	2.6%
Asia Commercial JS Bank	ACB VN	20,350	30,000	ADD	2.8	1.2	1.3	1.0	5.2	5.2	5.2	10.2%	26.0%	22.5%	2.4%	2.4%
Vietnam International Commercial JSB	VIB VN	18,200	28,000	ADD	1.5	1.3	1.1	1.0	4.6	4.6	4.6	14.4%	28.4%	24.8%	2.4%	2.4%
HDBank	HDB VN	14,650	23,000	ADD	1.5	1.0	1.1	0.9	4.9	4.9	4.8	17.0%	24.3%	22.8%	2.1%	2.2%
Tien Phong Commercial JSB	TPB VN	20,650	31,000	ADD	1.3	1.1	1.1	0.9	5.4	5.8	4.7	22.3%	20.5%	20.7%	1.9%	2.1%
LienViet Post Bank	LPB VN	9,960	15,800	ADD	0.7	0.7	0.9	0.7	3.3	4.2	5.0	6.7%	22.3%	17.5%	1.5%	1.3%
Average					*3.7*	*1.2*	*1.2*	*1.0*	*5.7*	*6.0*	*5.8*	*13.9%*	*22.9%*	*20.6%*	*2.3%*	*2.2%*
Median					*2.9*	*1.1*	*1.1*	*1.0*	*5.2*	*4.9*	*5.0*	*13.9%*	*22.9%*	*20.6%*	*2.3%*	*2.2%*

Source: VNDIRECT RESEARCH

Figure 106: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK VCB	84,600	ADD	We like VCB for its best-in-class asset quality and diverse mix of income. (1) The bank enjoys top-tier CASA funding and strong market share in trade finance/FX. (2) As an SOCB, VCB should benefit from increased infrastructure spending expected next year. (3) Potential private placement next year could act as an upside catalyst.
2	STOCK PICK ACB	30,000	ADD	We like ACB for its safe-and-sound banking model. ACB is well-known as a top retail banking franchise – best positioned to ride on retail banking race in Vietnam. (1) ACB has no exposure to CB – a tough segment in this time. (2) Solid asset quality is a plus in the context of bad debt rising. (3) Its liquidity situation is not optimal yet. A high LDR ratio will put a lid to loan growth in FY23-24F.
3	MBB	30,600	ADD	MBB has successfully built up a comprehensive banking and financial services platform to maximize its growth potential. (1) Strong cost advantage as the bank has the 2nd best CASA ratio in the system. (2) Top player in the power / renewable lending segment. (3) Relatively large exposure to corporate bonds / real estate does pose risk regarding credit quality.
4	HDB	23,000	ADD	HDB has maintained its retail banking strategy to rural area – a potential area with low penetration to financial services but very high demand for loans – indicating an ample room to grow further. (1) A better-than-peer credit quota next year thanks to a proper lending segment, less exposure to c-bond, a robust CAR, and particularly its participation in credit institution restructuring program. (2) Good liquidity management ie. relatively low LDR and low ST deposit/MTLT loans ratio. (3) Asset quality maybe hit in FY23F as HDB is tapping into consumer finance – a vulnerable segment when the economy is downturn.
5	CTG	34,400	ADD	We like CTG for its strong branding and scale as an SOCB and improving fundamentals regarding loan mix (higher retail & SME weights), non-interest income (FX, banca), and funding (CASA). (1) Compared to other players, CTG has relatively low weight of retail lending which indicates sizeable room for improvement. (2) As an SOCB, CTG should benefit from increased infrastructure spending expected next year. (3) Large gap in valuation versus SOCB peers (VCB, BID) suggests potential for re-rating.
6	VPB	26,300	ADD	VPB is one of the most well-capitalized banks in the system, and thus, stands well-positioned to deliver above-average credit growth. (1) Private placement to a foreign strategic investor serves as an important upside catalyst. (2) VPB is making heavy investments in new products and capabilities, eg. VPBank Securities (brokerage) and OPES (non-life insurance). If these new segments can deliver, they will bring significant LT growth opportunities for the bank and help diversify its sources of income. (3) Market leader in the consumer finance space via FE Credit. However, recovery post-COVID has been tepid. (4) Relatively large exposure to corporate bonds / real estate does pose risk regarding credit quality.
7	LPB	15,800	ADD	LPB possesses one of the largest banking networks in Vietnam given its partnership with VNPost. (1) Upfront fee from new exclusive banca deal with Dai-ichi. (2) Divestment of VNPost's 8.13% stake may act as a positive catalyst. (3) Potential private placement to foreign investors.

8	TCB	44,000	ADD	A cautious but confident name in our coverage (1) Relatively large exposure to CB / real estate will pose a credit risk toward the bank. Credit growth will definitely slow in the next 2 years. (2) However, it still has a strong advantage relating to an industry-leading CASA and a benign asset quality, helping mititgate NIM compression and bad debt risks. (3) Cheap valuation: FY23F P/B of only 0.6x – an all-time-low level
9	VIB	28,000	ADD	A fast-growing retail bank with deep focus on mortgage and car loans (1) Weaker credit growth as having large exposure to real estate (mortgage). (2) NIM compression and higher credit cost is inevitable as the bank just has a low CASA + already optimized retail lending mix + relatively weak asset quality compared to high risk appetite peers. (3) Potential cash dividend payout is a plus in this situation (although its CAR could reduce from 12.4% to 10.5% in FY23F).
10	TPB	31,000	ADD	A bumpy road ahead (1) Relatively large exposure to CB / real estate will pose a credit risk toward the bank. Credit growth will definitely slow in the next 2 years. (2) NIM compression is inevitable as the bank just has a low CASA + already optimized retail lending mix. However, this risk could be partially mitigated as TPB has a very low LDR, implying a low demand for fund raising and less pressure to its COF in the next year. (3) Strong asset quality is a positive point for the bank to mitigate the bad debt rising risk.

Source: VNDIRECT RESEARCH

Figure 107: Forecasts summary

	VCB		CTG		TCB		VPB		MBB		ACB		VIB		TPB		LPB		HDB	
P&L (growth %)	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
Net interest income	17.3%	7.0%	13.5%	3.0%	17.0%	10.6%	22.1%	20.3%	29.8%	14.8%	13.2%	7.5%	26.0%	8.4%	16.7%	7.3%	29.1%	5.2%	16.1%	9.7%
Non-interest income	19.2%	11.8%	34.9%	3.9%	17.7%	14.7%	81.5%	-28.3%	-5.3%	17.0%	26.1%	5.7%	13.7%	14.2%	15.6%	19.1%	82.8%	-18.8%	80.2%	21.8%
Operating income	17.8%	8.2%	18.1%	3.2%	17.2%	11.8%	35.4%	5.7%	19.6%	15.3%	15.7%	7.1%	23.5%	9.5%	16.4%	10.4%	34.6%	1.9%	27.0%	12.7%
Operation expense	15.9%	8.2%	16.9%	1.6%	16.7%	9.9%	34.3%	14.5%	19.6%	18.7%	22.9%	1.0%	25.3%	6.5%	23.9%	7.3%	6.3%	8.2%	26.7%	9.7%
Pre-provision profit (PPOP)	18.6%	8.2%	18.7%	4.0%	17.4%	12.6%	35.8%	2.9%	19.6%	13.5%	11.9%	10.7%	22.4%	11.2%	12.6%	12.1%	63.6%	-2.4%	27.2%	14.5%
Provision expenses (% PPOP)	31.6%	28.7%	51.6%	48.7%	5.7%	6.5%	42.9%	45.4%	23.6%	22.7%	2.3%	2.8%	14.3%	13.5%	22.4%	23.7%	29.6%	27.7%	21.7%	21.0%
Net profit	16.0%	12.8%	17.5%	10.2%	23.9%	11.6%	76.4%	-1.5%	37.8%	14.9%	39.7%	10.1%	25.9%	12.2%	29.4%	10.2%	57.2%	0.3%	28.4%	15.4%
Key ratio (%)																				
Loan growth	18.0%	12.0%	10.5%	9.5%	20.9%	11.1%	19.8%	22.3%	23.0%	18.0%	13.0%	13.1%	13.0%	11.0%	13.0%	10.0%	11.5%	10.5%	26.9%	16.1%
Deposit growth	7.5%	13.0%	3.8%	10.0%	1.5%	10.0%	17.9%	17.5%	5.0%	10.0%	7.5%	15.0%	15.0%	10.0%	20.0%	8.0%	12.6%	15.0%	17.5%	17.5%
NIM	3.3%	3.1%	3.0%	2.8%	5.5%	5.4%	7.5%	7.6%	5.4%	5.3%	4.0%	3.8%	4.5%	4.3%	4.1%	3.9%	3.9%	3.6%	4.6%	4.4%
CIR	30.5%	30.5%	32.0%	31.5%	30.0%	29.5%	24.0%	26.0%	33.5%	34.5%	37.1%	35.0%	36.0%	35.0%	36.0%	35.0%	40.0%	42.0%	38.0%	37.0%
Credit cost	1.4%	1.2%	1.9%	1.7%	0.5%	0.5%	5.0%	5.0%	1.7%	1.6%	0.1%	0.1%	0.8%	0.7%	1.5%	1.6%	1.1%	1.0%	1.2%	1.2%
NPL	0.8%	0.8%	1.3%	1.3%	0.7%	0.8%	4.5%	4.4%	1.3%	1.2%	0.9%	1.0%	2.3%	2.4%	1.0%	1.4%	1.4%	1.5%	1.5%	1.7%
LLR	415%	450%	216%	244%	167%	160%	65%	61%	174%	170%	139%	113%	51%	51%	162%	178%	153%	164%	89%	80%
ROA	1.6%	1.6%	1.0%	1.0%	3.6%	3.5%	3.5%	2.9%	2.7%	2.6%	2.4%	2.4%	2.4%	2.6%	2.0%	2.0%	1.5%	1.3%	2.1%	2.2%
ROE	20.5%	19.3%	16.4%	15.5%	21.8%	19.9%	23.4%	18.7%	25.6%	23.1%	26.0%	22.5%	52.0%	55.6%	21.5%	19.4%	22.3%	17.5%	24.3%	22.9%

Source: VNDIRECT RESEARCH

Sector note

INSURANCE: A SHELTER AMID MARKET VOLATILITY

- We like insurers for their cash-rich and stable business models which stand to benefit from rising rates while being less exposed to other macro risks.
- Life insurance, specifically BVH, is our favourite exposure but non-life stocks are getting more attractive from a valuation perspective.

Non-life insurance: premium growth will moderate while underwriting margin is still under pressure

Non-life premium grew strongly by 19.1% yoy in 9M22, driven by robust economic recovery. We expect premium growth will moderate to 10-12% next year assuming GDP growth of ~6.7%. However, industry combined ratio has climbed to above 100%-level which put a dent on the bottom line of non-life insurers. We believe margin pressure from higher claim ratio will linger till 1Q23F given impact from the recent flood in the Central Region.

Life insurance: demand remains robust while mathematical reserve pressure may ease

The life industry registered solid yoy premium growth of 16.2% through 9M22. Demand for life insurance products remains robust and may even improve as rising interest rates help increase the attractiveness of investment-linked products. We believe rising government bond yields will help alleviate life insurers' math reserve burden – a tailwind that is unique to the life industry.

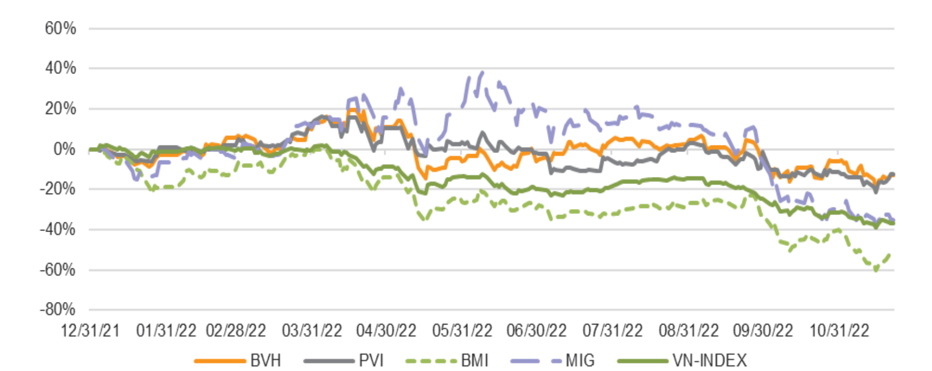
Rising deposit rates will blow tailwinds for both life and non-life insurers

The majority of insurers' investment portfolios are invested in bank deposits and bonds. Given the sharp (and ongoing) increases in deposit rates by commercial banks, it is clear that insurers will deliver better investment yields in the quarters to come. Per our tracker, 12-month deposit rates for state-owned commercial banks (SOCBs) and private banks are up 190bps and 275bps ytd, respectively, and have surpassed pre-COVID levels.

BVH is our top pick

Given its premier market position across both life and non-life markets combined with strong earnings visibility and stability, BVH is our favorite insurance stock. With respect to the pure non-life names, we would put BMI and MIG in our watchlist given their sharp price correction during the recent market turbulence. Downside risks for the life industry include weaker-than-expected demand, and for BVH specifically, potential delay in regulatory approval and launch of unit-linked products. For the non-life industry, risks include catastrophe losses and high inflation which increases cost of claim.

Figure 108: YTD performance of insurance stocks – BVH, PVI has outperformed VN-INDEX while BMI has underperformed and MIG has been in-line



Source: VNDIRECT RESEARCH, BLOOMBERG

Analyst(s):

Quan Vu

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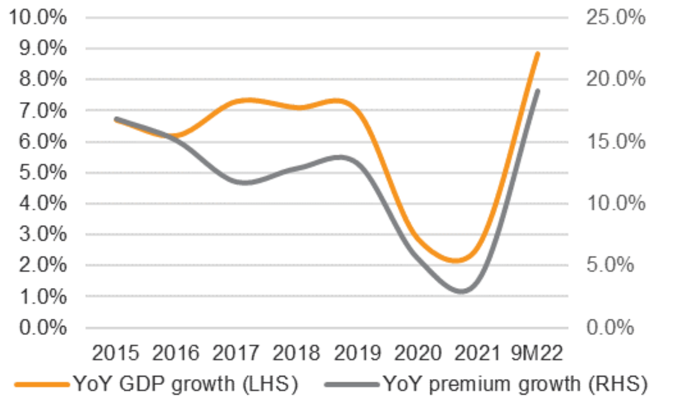
Non-life insurance: continues to post strong topline recovery but faces challenge with underwriting margins

Non-life premium growth to moderate after a strong FY22F

As Vietnam's economy continues to recover at an impressive pace this year in a post-COVID world, non-life premium growth has rebounded strongly. Data from the Insurance Association of Vietnam (IAV) reveals that non-life premium growth through 9M22 has reached 19.1% yoy, which is above pre-COVID level of 12-15% given low base in 2021 due to the pandemic. Strong recovery is seen across most major product lines including health, vehicle, and fire.

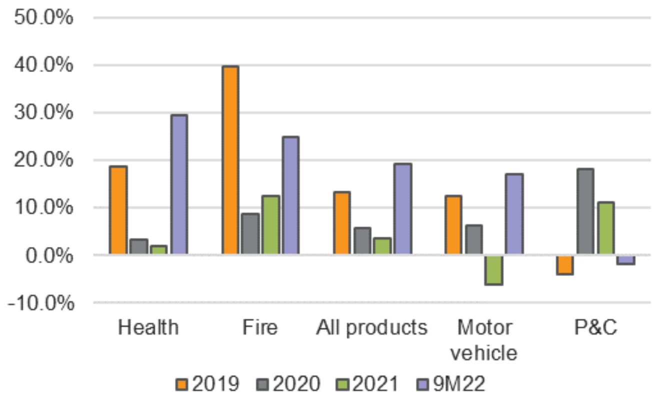
All major listed insurers have reported strong yoy premium growth in 9M22. Among the top 5, MIG, PVI, and BMI are outperforming the market and taking market share with MIG leading the pack at 36% yoy premium growth. For BVH and PTI, premium growth has returned to positive territory this year but remained weaker than peers.

Figure 109: Non-life premium has rebounded sharply from COVID low



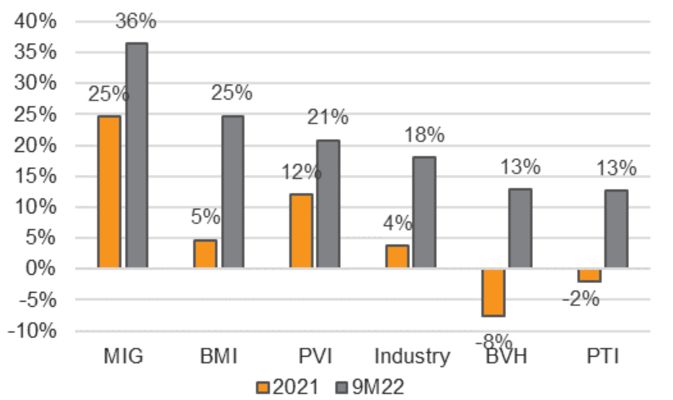
Source: VNDIRECT RESEARCH, IAV, General Statistics Office (GSO)

Figure 110: Recovery is broad-based across major non-life products (chart shows yoy premium growth by product)



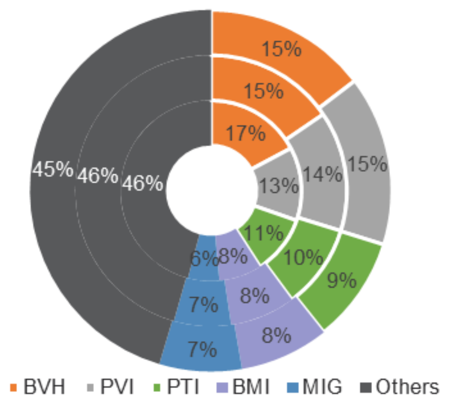
Source: VNDIRECT RESEARCH, IAV, COMPANY REPORTS

Figure 111: MIG, PVI, and BMI have continued to outperform peers in terms of direct premium growth this year …



Source: VNDIRECT RESEARCH, IAV, COMPANY REPORTS

Figure 112: … and gain market share from other insurers (inside-outside 2020-2021-9M22)



Source: VNDIRECT RESEARCH, IAV, COMPANY REPORTS

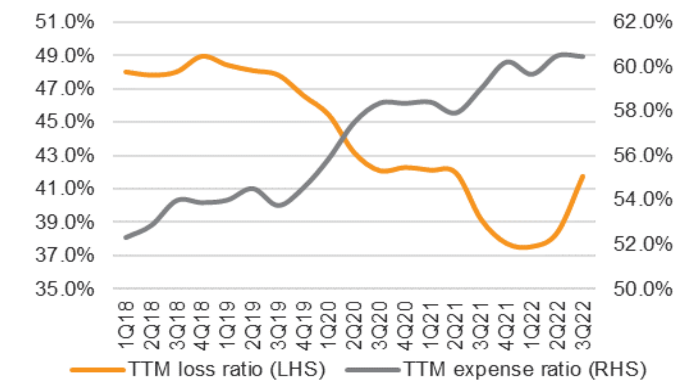
Looking ahead to 2023F, although Vietnam's GDP growth may moderate to ~6.7% due to the impact of stricter monetary policies, we expect the non-life industry will continue to deliver solid premium growth in the low-double-digit. For reference, during the pre-COVID period of 2015-2019, non-life premium growth averaged 14.0% vs. average GDP growth of 6.9%.

Underwriting margins still under pressure in the near term

Loss and combined ratios hit a trough in 1Q22, which coincided with COVID peak and the end of social distancing. Since then, loss ratio has rebounded sharply as social and economic activities normalized – which dragged combined ratio higher as expense ratio remained somewhat flat. We believe loss and combined ratios may continue to rise through early next year given the low base effect driven by COVID and impact from the recent flood in the Central Region.

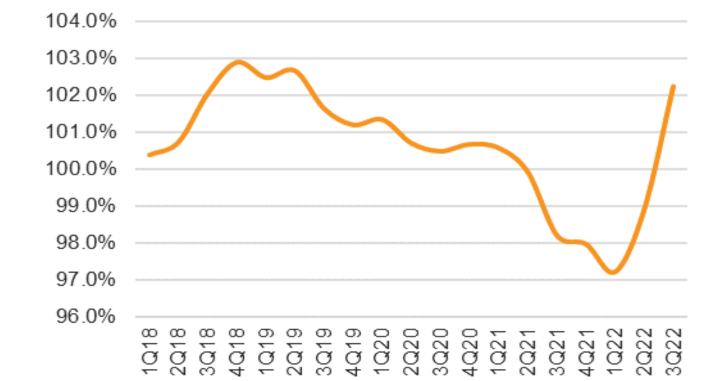
According to our industry contacts, the recent flood has caused heavy damage to properties, especially vehicles. Certain construction sites are also affected. As such, non-life insurers may see sizeable pressure on their loss ratios in 4Q22F from this event. We think those carriers with heavier exposure to the vehicle insurance market might be susceptible to more losses than others.

Figure 113: Loss ratio bottomed out since 1Q22; meanwhile, expense ratio has remained largely flat (data of 10 listed insurers)



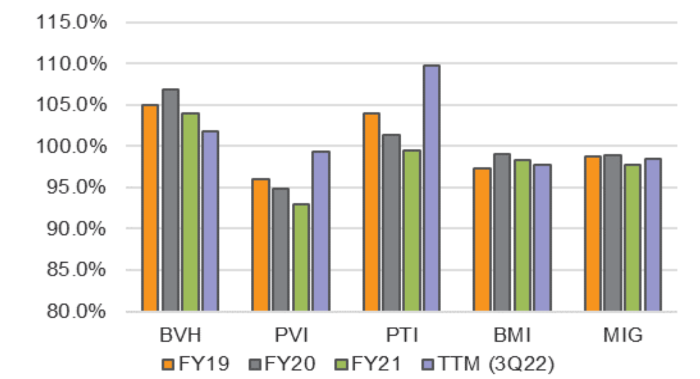
Source: VNDIRECT RESEARCH, FiinPro, COMPANY REPORTS

Figure 114: Along with loss ratio spike, combined ratio bounced back from 1Q22 trough and surpassed the 100% level in 3Q22



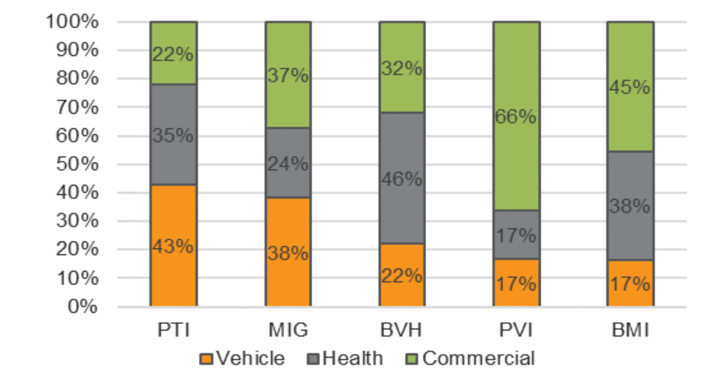
Source: VNDIRECT RESEARCH, FiinPro, COMPANY REPORTS

Figure 115: Compared to FY19-21, BVH has improved its combined ratio this year while PVI / PTI are seeing higher combined ratios



Source: VNDIRECT RESEARCH, IAV, COMPANY REPORTS

Figure 116: Among the top 5 largest non-life carriers, PTI and MIG have the highest exposure to the vehicle market on direct premium basis



Source: VNDIRECT RESEARCH, IAV, COMPANY REPORTS

The near-term outlook for underwriting margin is less promising than that for top-line growth as the competitive environment remains intense with limited premium rate increase while rising inflation is putting upward pressure on cost of claim. For the 10 listed insurers, we expect composite combined ratio could be in the 101.0% range for FY23F, which is similar to pre-COVID level and represents an underwriting loss.

We believe insurers who have been cutting back exposure on lower-margin business (healthcare and vehicle) like BVH should see structural improvement in their combined ratios. MIG who has picked up meaningful market share in these market segments will have to prove they are capable of managing risk and delivering on profitability.

Key trends to shape the non-life industry into 2023F

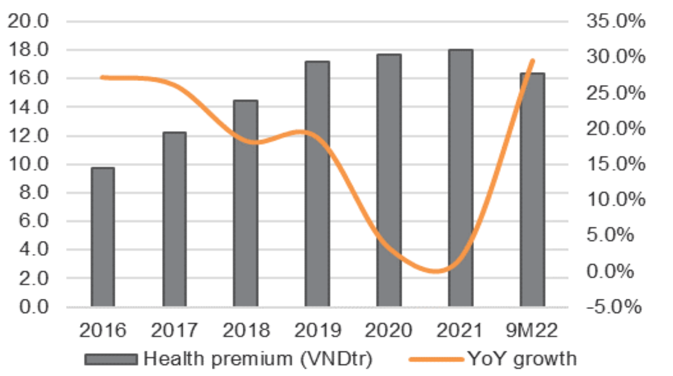
1. *Health insurance is the most vibrant segment, riding on aging population and growing middle income class*

Health insurance is the biggest non-life product in Vietnam, accounting for 33% of total non-life premium for 9M22. During the 2015-19 period, health insurance was the fastest growing product among major non-life products – achieving 22.5% CAGR vs. industry CAGR of 13.2%. Growth slowed down during COVID but then rebounded strongly this year as Vietnam re-opened.

For the long run, we believe health insurance will be among the fastest growing non-life products in Vietnam given the country's rapidly aging population. The percentage of elders in the population (age 60 and above), who typically incur significantly more healthcare expenditures than the young, increased from 8.8% in 2010 to 12.8% in 2021. According to the United Nations Population Fund, this percentage could reach 25% by 2050F.

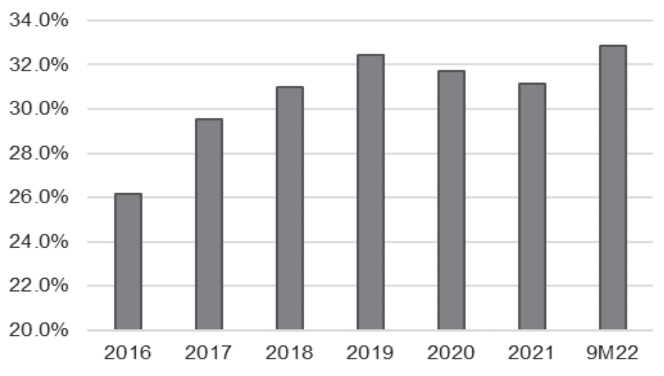
Rising middle class is another key long-term growth driver of health insurance demand. Per HSBC's recent report titled "Asia's shoppers in 2030", Vietnam is forecasted to have 48m or nearly half the population with daily income over US$20 by 2030F, surpassing Thailand. We note Vietnam recorded one of the highest growth rates in GDP per capita in the world over the past 10 years, which is a vivid proof of the country's rapidly growing middle class.

Figure 117: Health insurance premium (VNDtr) 2016-9M22 – Growth has rebounded strongly this year



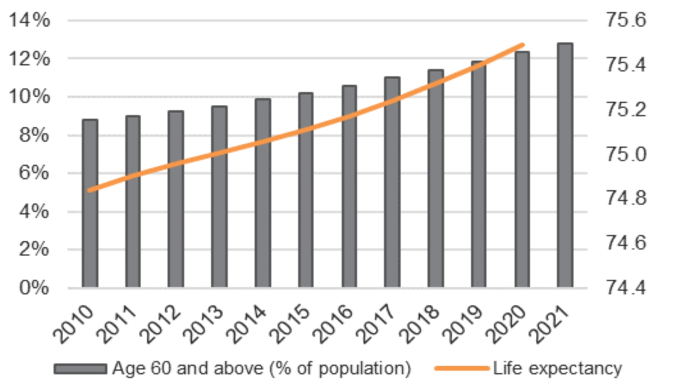
Source: IAV, VNDIRECT RESEARCH

Figure 118: Health insurance now accounts for nearly 1/3 of total premium for the entire non-life industry



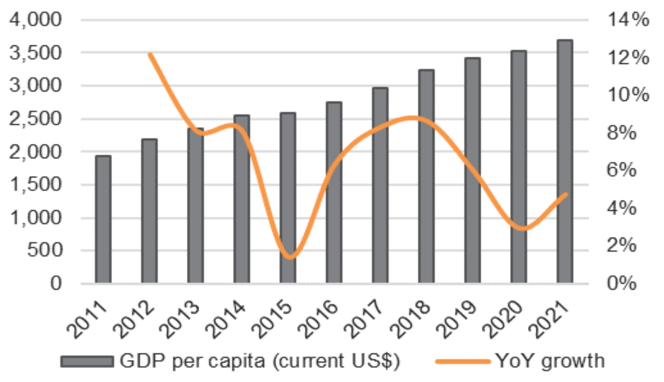
Source: IAV, VNDIRECT RESEARCH

Figure 119: Vietnam's population has been aging rapidly



Source: World Bank, VNDIRECT RESEARCH

Figure 120: Vietnam's GDP per capita has registered 6.6% CAGR over the past 10 years



Source: World Bank, VNDIRECT RESEARCH

BVH and PTI are well-positioned to benefit from rising demand for healthcare insurance. BVH is the undisputed market leader of the health insurance market with 22.8% market share (by 2021 direct premium), doubling the market share of #2 position PTI at 11.4%. According to our industry checks, BVH has long held the dominant market position in the P.A. insurance market for students, thanks to its strong relationship with school management.

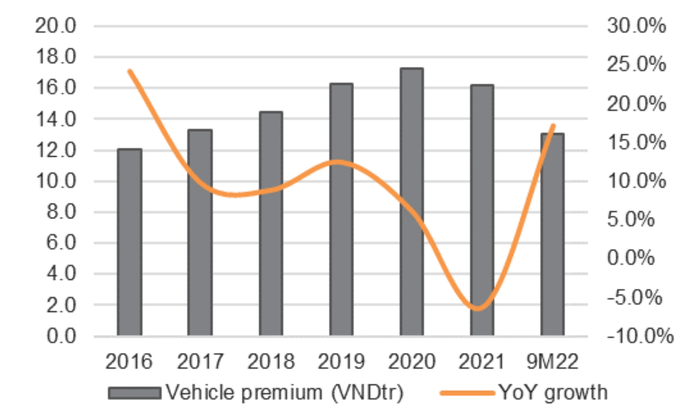
PTI is another insurer who, in our view, will benefit meaningfully from rising demand for healthcare insurance. The company successfully rose from the #6 market share position 7 years ago in the health insurance market to the #2 position in 2020/2021. A key factor behind PTI's success has been its tight relationship with Vietnam Post, who operates over 13,000 post offices across Vietnam. Over time, Vietnam Post has proven to be a key distribution channel for PTI with sales reaching VND1.0tr last year and accounting for 17% of companywide premium.

2. Booming car market indicates bright prospects for auto insurers

Motor vehicle insurance is the 2nd largest non-life product in Vietnam, accounting for 26% of total non-life premium for 9M22. Similar to most other non-life products, vehicle insurance growth has slowed down significantly over the last 2 years due to the impact of COVID with growth essentially falling flat. However, based on data from Vietnam Automobile Manufacturers' Association (VAMA), car sales has rebounded strongly this year with 9M22 sales reaching 264,951 cars, up 56% yoy and 21% above 2019 which is pre-pandemic. As such, motor vehicle premium has returned to positive growth in 9M22 at 17.2% after 2 years of decline.

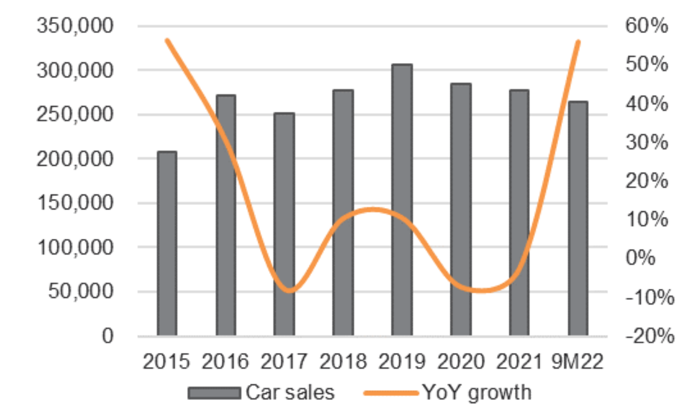
For the longer term, the growth prospect of vehicle insurance is bright as passenger car (PC) penetration remains low in Vietnam and rising income/middle class should continue to drive robust demand for PCs going forward. The number of PCs per 1,000 inhabitants in Vietnam as of 2019 was 21 when the country's GDP per capita was US$3,425. Based on data regarding other countries, car consumption in Vietnam could grow exponentially as its GDP per capita rises toward the US$5,000 milestone.

Figure 121: Motor vehicle insurance premium (VNDtr) 2016-9M22



Source: IAV, VNDIRECT RESEARCH

Figure 122: Car sales has been rebounding strongly this year

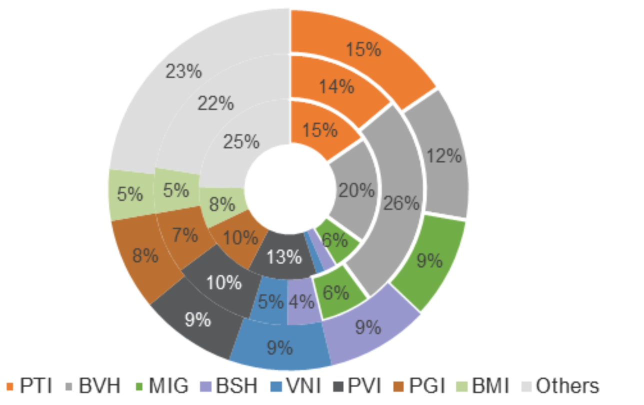


Source: VAMA, VNDIRECT RESEARCH

Vehicle insurance is probably the most competitive non-life market in Vietnam as it has witnessed significant share shifts between industry players over time The current market leader of the vehicle insurance space is PTI with 16% market share in 6M22. Meanwhile, smaller insurers such as MIG, BSH, and VNI have been taking significant share from older and more established players such as

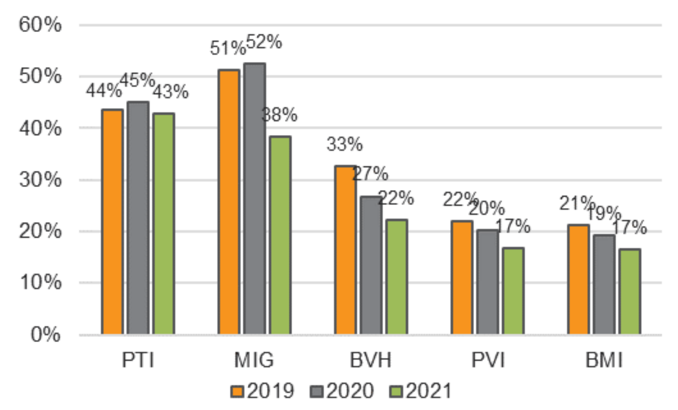
BVH, BMI, PVI, and PGI. The former 3 have now entered into the top 5 together with BVH and PTI. Although it is tough to see clear winners in the vehicle market given its volatility, we think top 3 auto insurers, PTI, BVH, and MIG still gain the most from growing demand for car insurance in near term.

Figure 123: Market share in Vehicle insurance 2015-2018-2021 (inside – outside) – Smaller insurers have been taking share from more established players



Source: IAV, VNDIRECT RESEARCH

Figure 124: % of total direct premium from Vehicle insurance – Top 5 non-life insurers



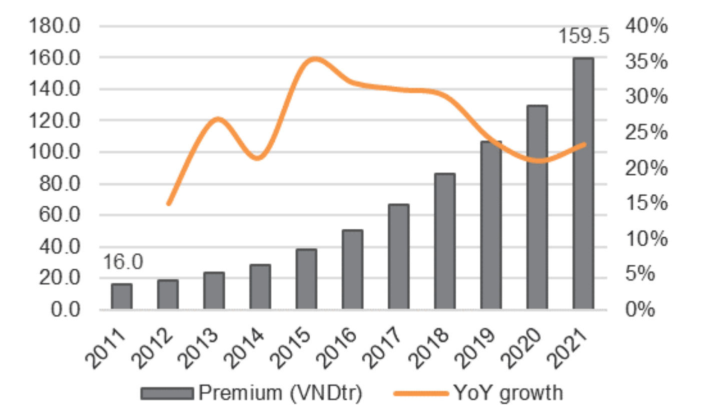
Source: IAV, VNDIRECT RESEARCH

Life insurance riding on multiple macro tailwinds

Secular demand for life insurance driven by multiple favorable demographic and economic trends

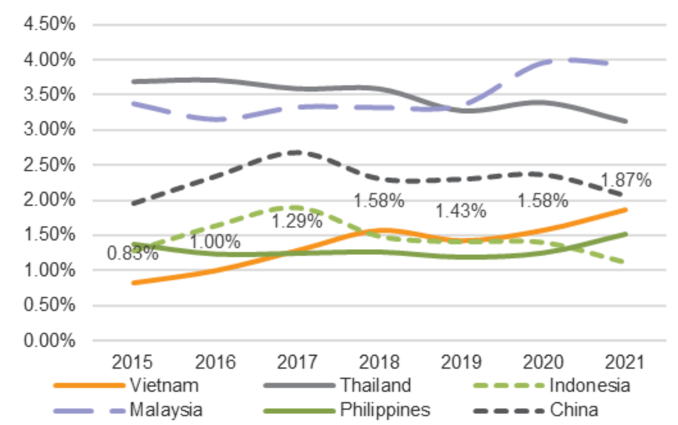
The life insurance industry recorded solid premium growth of 16.2% through 9M22. Despite strong growth, life insurance penetration in Vietnam (measured by premium divided by GDP) remains modest at 1.9% in 2021, only better than Indonesia (1.1%) and Philippines (1.5%) in the ASEAN region. For 2023F, we expect demand for life insurance to remain robust, driven by multiple secular trends including an aging population, rising middle class, and ongoing financial development.

Figure 125: Life insurance premium grew by 10x over last 10 years to reach nearly VND160tr in 2021



SOURCE VNDIRECT RESEARCH, COMPANY REPORTS, IAV

Figure 126: Vietnam's life insurance penetration has steadily increased over time



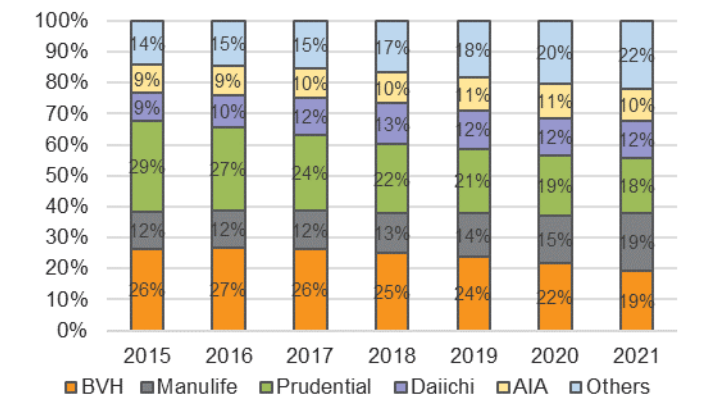
SOURCE: VNDIRECT RESEARCH, Swiss Re

The playground is crowded with fierce competition from foreign players

5 life insurers including BVH and 4 other foreign carriers, namely Prudential, Manulife, Dai-ichi, and AIA dominate the life insurance market with nearly 80% market share of direct premium and nearly 70% share of new business premium.

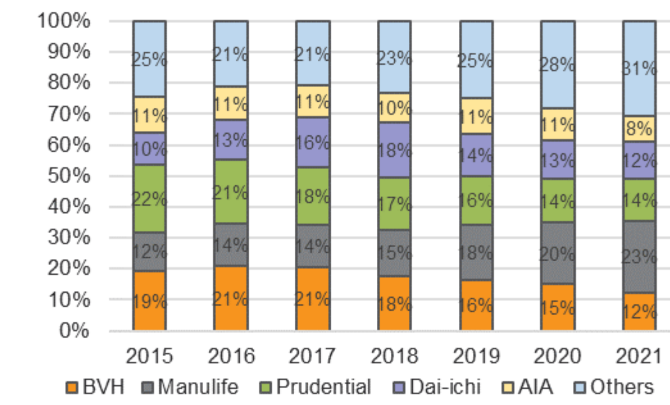
Bao Viet and Prudential used to be the dominant top 2 leaders of the market 6-7 years ago with more than 50% market share of direct premium and over 40% market share of new business premium. Since then, Manulife has risen to become the market leader in new sale with over 20% market share last year, leaving #2/#3 positions Prudential/Bao Viet behind by a wide margin.

Figure 127: BVH was the largest life insurer by 2021 direct premium, followed closely by Manulife and Prudential



SOURCE VNDIRECT RESEARCH, MOF, IAV

Figure 128: However, in terms of new business premium, BVH has been losing market share



SOURCE: VNDIRECT RESEARCH, MOF, IAV

We observed that investment-linked products have become more popular over time, and as of last year, accounted for 76% of total premium and 95% of new business premium. In our view, the shift in consumer preference from endowment to investment-linked policies has been chiefly driven by increased demand from the growing middle class to invest their excess savings.

BVH, the only listed insurer with life operations, posted weaker premium growth than the market through 9M22 (10.8% vs. market 16.2%), partially due to the lack of unit-linked products in their basket. However, the company is planning to offer unit-linked products next year (awaiting MOF approval), which could boost its growth prospect in the medium term.

Higher government bond yield to ease mathematical reserve pressure

Under Vietnamese accounting standards (VAS), life insurers are required to record mathematical reserve for most endowment policies and traditional policies in general using the net premium valuation method where:

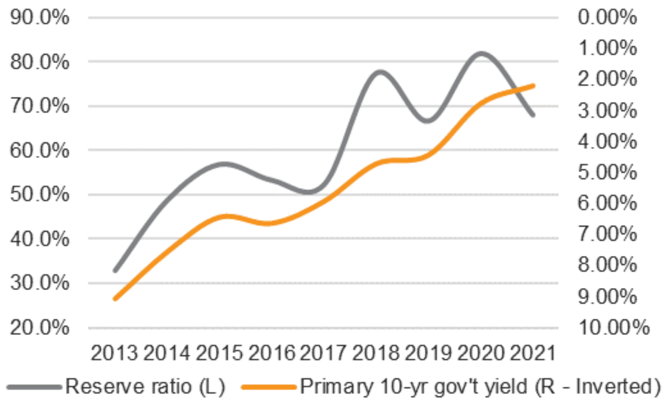
Math reserve = Present value of future obligations – Present value of adjusted net premium.

Adjusted net premium must not be higher than 100% of the premium actually collected (used to be 90% and recently changed to 100% in late 2020).

The technical discount rate must not be higher than 80% of the average yields of government bonds with terms of more than 10 years issued within 24 months of reserve date.

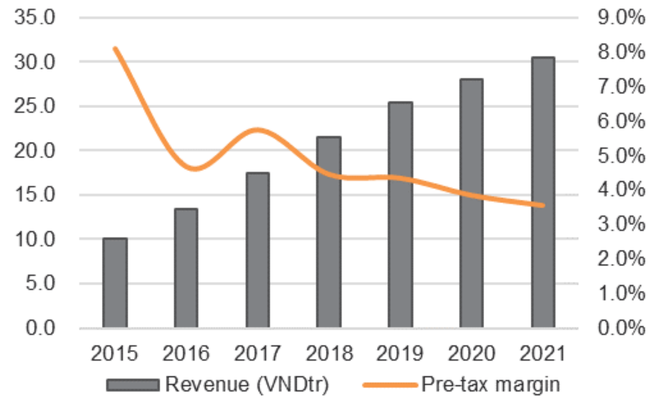
Declining government bond yields over the past decade have led to higher mathematical reserve expense. As an illustration for the significant impact of higher reserve pressure on profit, from 2015 through 2021, premium at BVH's life segment has tripled from VND10.1tr to VND30.5tr but its pre-tax income has increased by only over 30%.

Figure 129: BVH's reserve ratio for endowment policies exhibits inverse correlation with primary 10-year government bond yields



SOURCE: VNDIRECT RESEARCH, Vietnam Bond Market Association (VBMA), Company reports
Note: Yields are weighted average by issuance size

Figure 130: BVH's life insurance revenue has tripled since 2015 but margin has declined due to heavier reserve burden



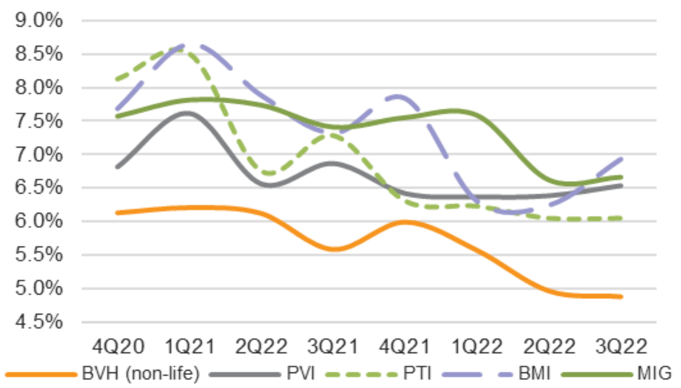
SOURCE: VNDIRECT RESEARCH, COMPANY REPORTS

Looking ahead, we believe this situation will reverse as Vietnam's primary and secondary 10-year bond yields are up ~250bps and ~310bps YTD, respectively. Upward pressure on government bond yields has come from 1) central banks, notably the FED, tightening monetary policies to subdue inflation, which has been exerting downward pressure on the value of the VND against the US$, and 2) Vietnam's push for infrastructure spending driving higher GB issuance.

Higher interest rates will provide a major tailwind for insurers in 2023F

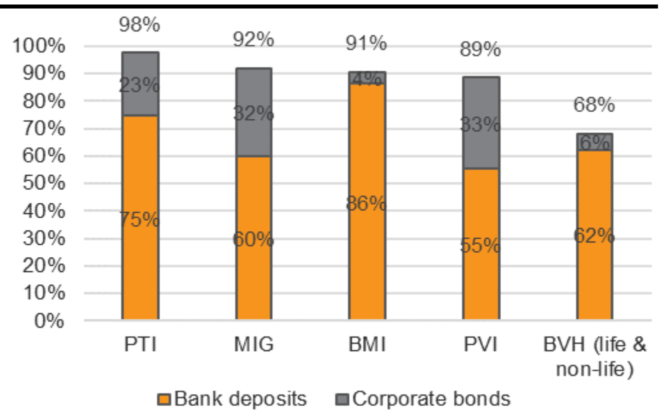
Compared to 2020-2021, insurers' investment yields have weakened through 9M22 given tough equity market and deposit rates did not move meaningfully higher until September/October after the SBV raised policy rates by 200bps. The good news is 12-month deposit rates at state-owned commercial banks (SOCBs) and private banks are now up ~190bps and ~250bps on average ytd. Therefore, from 4Q22F onwards, we expect life and non-life players will start to deliver better investment yields, driven by higher deposit rates considering the majority of their portfolios is invested in bank deposits/corporate bonds (mostly with floating rates).

Figure 131: Investment yields weakened through 9M22 due to tough equity market and low deposit rates. However, we expect yields to improve meaningfully next year as …



SOURCE: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 132: … bank deposits and corporate bonds account for the majority of insurers' investment portfolios.



SOURCE: VNDIRECT RESEARCH, COMPANY REPORTS, Bank websites

Insurance sector is well-positioned to outperform in FY23F

In terms of stocks, we continue to favor life insurance, specifically BVH (see our recently published initiation for more details), over non-life insurance given the former will see double benefits from higher rates as discussed above and does not have meaningful potential loss exposure to the recent flood event.

That said, non-life stocks have dropped meaningfully in recent weeks and valuation is getting more attractive. We expect non-life earnings may bottom out soon over the next 1-2 quarters and their FY23-24F outlook will be brighter than FY22 and also when compared to most other industries whose earnings will be negatively impacted by higher interest rates. As such, non-life names, including MIG, BMI, and PVI are worth a look in this environment, in our view.

Figure 133: BVH, BMI, and MIG are trading at an attractive valuation level when compared to its historical range on absolute P/B basis

Absolute P/B	BVH	BMI	PVI	MIG
Current	1.60x	0.91x	1.23x	1.18x
1-Year Average	1.92x	1.58x	1.45x	1.97x
3-Year Average	2.03x	1.32x	1.22x	1.53x
3-Yr Avg + 1SD	2.33x	1.73x	1.46x	2.06x
3-Yr Avg - 1SD	1.73x	0.91x	0.98x	1.00x

Source: VNDIRECT RESEARCH, FiinPro

Note: Latest data as of 22 Nov 2022

Figure 134: On relative P/B basis to the VN-INDEX, BVH is trading above 1,3-year averages while non-life names are trading above 3-year but below 1-year averages

Relative P/B	BVH	BMI	PVI	MIG
Current	105%	60%	80%	77%
1-Year Average	86%	69%	65%	88%
3-Year Average	90%	57%	54%	66%
3-Yr Avg + 1SD	104%	69%	64%	87%
3-Yr Avg - 1SD	77%	45%	44%	46%

Source: VNDIRECT RESEARCH, FiinPro

Note: Latest data as of 22 Nov 2022

Figure 135: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK BVH	76,000	ADD	We like BVH as a shelter amid times of uncertainty, given its premier market position, strong earnings visibility and stability. We currently forecast 46% net profit CAGR over FY22-24F. (1) BVH is one of the biggest beneficiaries in a rising interest rate environment. With higher deposit rates and government bond yields, we believe Bao Viet will see higher investment yields and lower mathematical reserve burden over the next 2 years. (2) The company is a leading carrier across both life and non-life markets. As such, the company is well-positioned to capture the significant long-term growth potential of the insurance industry given multiple macro tailwinds.

Source: VNDIRECT RESEARCH

Figure 136: FY22-24F earnings forecasts of BVH

	BVH			
VNDbn unless stated otherwise	2021A	2022F	2023F	2024F
Life direct premium	30,558	33,610	36,863	40,315
% growth	*9.0%*	*10.0%*	*9.7%*	*9.4%*
Non-life direct premium	8,946	9,772	10,441	11,136
% growth	*-7.7%*	*9.2%*	*6.9%*	*6.6%*
Non-life net premium	5,049	6,537	7,090	7,624
% growth	*-12.4%*	*29.5%*	*8.5%*	*7.5%*
Net profit	1,897	1,639	2,728	3,476
% growth	*18.7%*	*-13.6%*	*66.4%*	*27.4%*
Investment yield	6.2%	5.4%	6.5%	7.0%
Life pretax margin	*3.6%*	*4.0%*	*6.3%*	*7.4%*
Non-life combined ratio	104.0%	105.0%	104.7%	104.2%
Non-life pretax margin	*4.7%*	*1.4%*	*3.6%*	*5.4%*
EPS (VND/share)	2,555	2,208	3,675	4,683
BVPS (VND/share)	28,527	27,612	30,437	33,620
Dividend yield (%)	6.2%	1.8%	3.1%	4.2%
ROAE (%)	9.0%	7.6%	12.5%	14.2%
ROAA (%)	1.3%	0.9%	1.3%	1.5%

Source: VNDIRECT RESEARCH

Figure 137: Non-life peer comparison

Company	Ticker	Price	Target price	Recom	Mkt cap	3-year EPS	P/E (x)		P/B (x)		ROE (%)		ROA (%)	
		LC	LC		US$m	CAGR (%)	TTM	FY22F	Current	FY22F	TTM	FY22F	TTM	FY22F
Local:														
Bao Viet Holdings	**BVH VN**	**48,150**	**76,000**	**ADD**	**1,404**	**18.2**	**19.9**	**16.4**	**1.56**	**1.52**	**9.9**	**11.5**	**1.20**	**1.30**
PVI Holdings/Vietnam	PVI VN	39,000	N/A	N/A	386	17.1	13.8	N/A	1.29	N/A	9.6	N/A	2.92	N/A
Military Insurance Corp	MIG VN	14,000	N/A	N/A	95	16.0	12.2	N/A	1.29	N/A	11.1	9.2	2.74	2.40
Baominh Insurance Corp	BMI VN	19,700	N/A	N/A	88	14.6	9.0	N/A	0.93	N/A	11.3	N/A	4.05	2.50
Post & Telecommunication Joint Stock Insurance Corp	PTI VN	26,000	N/A	N/A	88	239.8	N/A	N/A	1.10	N/A	(1.5)	N/A	(0.19)	N/A
Petrolimex Insurance Corp	PGI VN	24,800	N/A	N/A	107	42.3	10.5	N/A	1.50	N/A	14.7	N/A	3.77	N/A
BIDV Insurance Corp	BIC VN	26,800	N/A	N/A	126	35.1	10.8	N/A	1.31	N/A	14.4	N/A	5.26	N/A
Viet Nam National Aviation Insurance Corp	AIC VN	8,400	N/A	N/A	29	N/A	42.4	N/A	0.69	N/A	1.7	N/A	0.54	N/A
Agriculture Bank Insurance JSC	ABI VN	32,400	N/A	N/A	67	31.4	8.2	3.6	1.36	1.00	18.0	19.4	8.65	7.77
Bao Long Insurance Corp	BLI VN	13,200	N/A	N/A	32	31.8	9.9	N/A	1.08	N/A	11.1	N/A	3.63	N/A
Average						*49.6*	*15.2*	*10.0*	*1.21*	*1.26*	*10.0*	*13.4*	*3.26*	*3.49*
Median						*31.4*	*10.8*	*10.0*	*1.29*	*1.26*	*11.1*	*11.5*	*3.27*	*2.45*

Note: All prices are based on the closing price on 22 November 2022. All estimates are Bloomberg consensus estimates.

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as of 22 November 2022)

Figure 138: Life insurance peer comparison

Company	Ticker	Price	Target price	Recom	Mkt cap	3-year EPS	Dividend	P/E (x)			P/B (x)			ROE (%)		ROA (%)	
		LC	LC		US$m	CAGR (%)	Yield (%)	TTM	FY22F	FY23F	Curr.	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Bao Viet Holdings	**BVH VN**	**48,150**	**76,000**	**ADD**	**1,404**	**18.2**	**6.5**	**19.9**	**16.4**	**13.3**	**1.56**	**1.52**	**1.48**	**9.9**	**11.5**	**1.20**	**1.30**
Hong Kong																	
China Life Insurance Co Ltd	2628 HK	10.8	N/A	N/A	108,378	137.9	6.8	8.7	7.5	5.6	0.64	0.58	0.54	7.9	10.2	0.76	0.89
Ping An Insurance Group Co of China Ltd	2318 HK	41.4	N/A	N/A	106,423	2.4	6.4	7.3	6.8	5.2	0.88	0.83	0.75	12.4	14.9	0.99	1.15
AIA Group Ltd	1299 HK	74.2	N/A	N/A	112,828	51.6	2.0	31.9	36.3	15.4	2.79	2.26	2.00	5.9	13.7	0.67	2.12
Manulife Financial Corp	945 HK	134.8	N/A	N/A	33,490	15.1	5.9	2.7	7.8	7.2	0.91	0.89	0.88	11.9	11.9	0.75	0.64
People's Insurance Co Group of China Ltd/The	1339 HK	2.5	N/A	N/A	29,574	21.9	6.8	4.2	4.1	3.7	0.46	0.44	0.40	11.0	11.4	1.68	1.70
Prudential PLC	2378 HK	88.0	N/A	N/A	31,162	N/A	1.6	23.8	12.5	9.7	1.95	1.76	1.48	13.0	16.4	0.93	1.46
China Pacific Insurance Group Co Ltd	2601 HK	16.6	N/A	N/A	28,728	15.3	7.0	5.5	6.1	5.2	0.65	0.63	0.58	10.5	12.0	1.19	1.31
New China Life Insurance Co Ltd	1336 HK	16.4	N/A	N/A	10,256	28.8	9.8	5.1	5.6	3.8	0.47	0.45	0.41	8.2	10.9	0.71	0.93
China Taiping Insurance Holdings Co Ltd	966 HK	6.7	N/A	N/A	3,257	7.4	6.5	5.0	4.4	3.3	0.30	0.28	0.26	6.8	8.4	0.39	0.49
Hong Kong Average						***35.0***	***5.9***	***10.5***	***10.1***	***6.6***	***1.01***	***0.90***	***0.81***	***9.7***	***12.2***	***0.90***	***1.19***
Hong Kong Median						***18.6***	***6.5***	***5.5***	***6.8***	***5.2***	***0.65***	***0.63***	***0.58***	***10.5***	***11.9***	***0.76***	***1.15***
Thailand																	
Bangkok Life Assurance PCL	BLA TB	30.3	N/A	N/A	1,430	7.9	2.9	16.0	14.6	10.8	1.20	1.04	0.97	8.0	10.1	1.11	1.52
Thai Life Insurance PCL	TLI TB	15.0	N/A	N/A	4,825	N/A	N/A	N/A	18.2	16.5	N/A	1.71	1.57	9.8	10.1	1.74	1.87
Thailand Average						***7.9***	***2.9***	***16.0***	***16.4***	***13.6***	***1.20***	***1.38***	***1.27***	***8.9***	***10.1***	***1.42***	***1.70***
Taiwan																	
Cathay Financial Holding Co Ltd	2882 TT	42.2	N/A	N/A	18,167	42.0	8.2	N/A	8.4	7.2	N/A	1.26	1.08	9.9	14.0	0.53	1.87
Fubon Financial Holding Co Ltd	2881 TT	55.9	N/A	N/A	23,267	46	5.8	7.3	6.7	6.8	1.17	1.14	1.02	13.7	15.1	1.00	0.95
Taiwan Average						***44.2***	***7.0***	***7.3***	***7.6***	***7.0***	***1.17***	***1.20***	***1.05***	***11.8***	***14.6***	***0.77***	***1.41***
South Korea																	
Samsung Life Insurance Co Ltd	032830 KS	67,600	N/A	N/A	10,486	1.4	4.3	17.7	10.6	8.9	0.6	0.5	0.5	3.9	5.3	0.4	0.4
Hanwha Life Insurance Co Ltd	088350 KS	2,275	N/A	N/A	1,553	507.0	N/A	1.8	3.4	4.6	0.3	0.2	0.2	4.4	4.6	0.4	0.3
Tongyang Life Insurance Co Ltd	082640 KS	5,240	N/A	N/A	656	87.5	11.5	5.0	4.5	4.2	0.5	0.4	0.4	8.3	10.2	0.5	0.5
Mirae Asset Life Insurance Co Ltd	085620 KS	2,840	N/A	N/A	377	(5.4)	3.5	3.1	N/A	N/A	0.3	N/A	N/A	N/A	N/A	N/A	N/A
South Korea Average						***147.6***	***6.4***	***6.9***	***6.1***	***5.9***	***0.42***	***0.39***	***0.38***	***5.5***	***6.7***	***0.40***	***0.40***
South Korea Median						***44.5***	***4.3***	***4.0***	***4.5***	***4.6***	***0.38***	***0.45***	***0.42***	***4.4***	***5.3***	***0.36***	***0.40***
India																	
HDFC Life Insurance Co Ltd	HDFCLIFE IN	540	N/A	N/A	15,404	0.8	0.3	90.2	71.1	63.2	7.92	7.18	6.50	11.5	11.7	0.70	0.68
SBI Life Insurance Co Ltd	SBILIFE IN	1,229	N/A	N/A	15,122	4.3	0.2	73.7	69.3	58.5	10.11	9.26	8.00	12.9	13.3	0.63	0.65
ICICI Prudential Life Insurance Co Ltd	IPRU IN	467	N/A	N/A	7,960	(12.5)	0.1	76.0	62.2	50.2	6.75	6.54	5.98	11.2	12.4	0.40	0.42
India Average						***(2.4)***	***0.2***	***80.0***	***67.5***	***57.3***	***8.26***	***7.66***	***6.83***	***11.9***	***12.5***	***0.57***	***0.58***
India Median						***0.8***	***0.2***	***76.0***	***69.3***	***58.5***	***7.92***	***7.18***	***6.50***	***11.5***	***12.4***	***0.63***	***0.65***

Note: All prices are based on the closing price on 22 November 2022. All estimates are Bloomberg consensus estimates.

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as of 22 November 2022)

Sector note

POWER: GEARING TOWARD GREEN

- Vietnam's power sector is eagerly waiting for the official announcement of the PDP8 and renewable energy (RE) price mechanism to start a new development phase.
- Thermal power plants likely benefit from the downturn of hydropower into 2023-24F. RE power plants wait for a policy boost.
- Our stock pick including: PC1 and POW

The PDP 8 and new RE price policy to start a new development phase

Vietnam's power development picture became clearer after several iterations. The Nov-22 draft stressed more intense wind power growth of 16% CAGR in 2022-45F; additionally erasing 6,800MW coal-fired power and stopping developed gas-fired power after 2035F with hydrogen switch condition after 10 years of operation. The new version addressed the continuation of only 726MW solar power that have chosen investors to avoid legal risk, while encouraging rooftop solar development for self-use purpose.

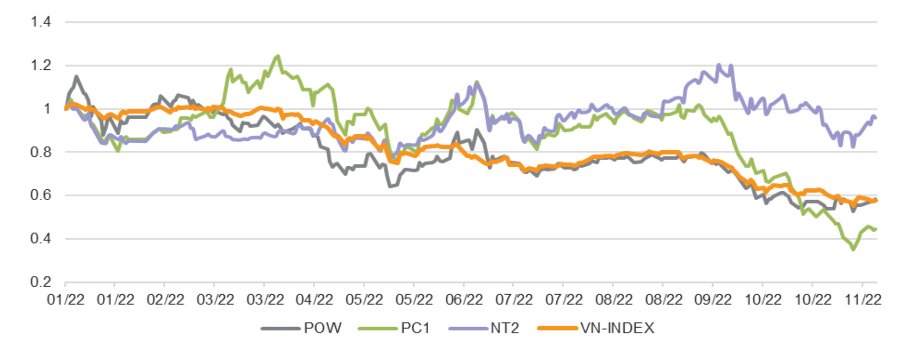
We see the PDP8 to be published at soonest 3Q23F, creating a premise for RE price mechanism to follow up. We see these two policies play a crucial role, opening up a playground for enterprises in the new development phase of Vietnam power segment. With an enormous potential and green nature, we see wind power to be the main highlight in 2022-30F, and gas-fired power – a stable energy source to be the companion, ensuring the system's safety.

2023-24F energy outlook and our stock picks

For 2023-24F, we estimate the remained high coal price to hamper coal-fired power output. However, we see lighter pressure for domestic coal-fired power plants in the North thanks to lower ASP and fast power demand growth of this region. We see hydropower will come out of its peak with the La Nina phase to end in 2023F. We expect gas-fired output continues to rise in 2023-24F, trailing the strong power consumption growth, and lower hydropower output. We believe POW, and NT2 will ride on this trend. For RE power, we see the untie of policy bottleneck to open up a big playground for large institutions. We think PC1, REE and BCG to be beneficial in this development phase. Our stock picks are PC1, POW.

Downside risks include: 1) Power consumption grows lower-than-expected, 2) The increasing trend of input price, putting pressure on thermal power plants, 3) The publishing of PDP8 and RE price mechanism are longer-than-expected; 4) Duo effect from interest rate and exchange rate loss hindered profit growth.

Figure 139: P/B performance of Power stock picks versus the VN-Index since 2022 to date



Source: BLOOMBERG, VNDIRECT RESEARCH

Analyst(s):

Tung Nguyen

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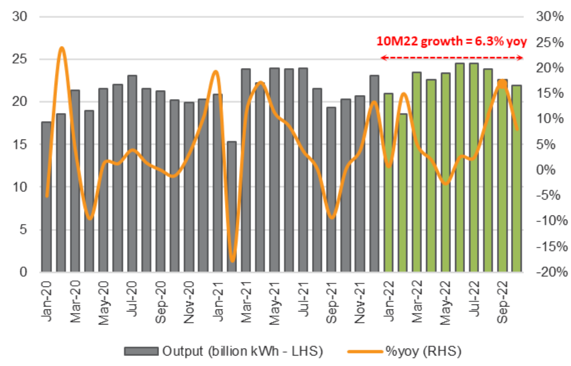
Vietnam Power 2022 snapshot

Electricity consumption grew at lower-than-expected rate of 6.3% yoy in 10M22

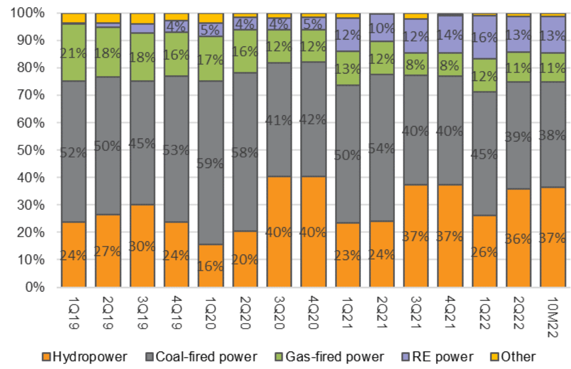
According to EVN, total electric production growth reached a high rate of 10.7% yoy and 16.9% yoy in August and September 2022 from its low base in 2021, thus, leading to 6.3% yoy of national power consumption of 204.5bn kWh in 10M22. However, the growth rate is still lower than GDP growth and also the forecasted level in the Power Development Plan 8 (PDP8) draft owing to 1) 2022 recorded unusual weather, thicker rainfall, and cooler temperature, in contrast with intense hot weather in 2021; 2) Some of the electricity-intensive industries, such as steel, recorded solid capacity decline due to lower demand in the context of property sector difficulties.



Source: EVN, VNDIRECT RESEARCH

Output mobilization breakdown by types of power sources in 10M22 (Unit: %)

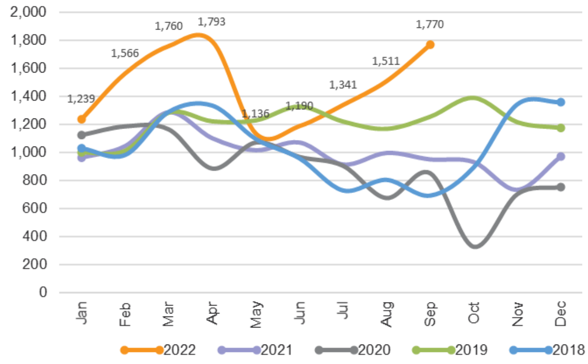
Thanks to ideal weather conditions, hydropower continued to record a vibrant output mobilization of 82bn kWh (+30% yoy), accounting for 37% total output. Coal-fired power recorded a gradual thinner output mobilization, reduced 14% yoy, and account for only 38% total output. It was due to the negative impact of coal price hike, causing capacity cut down in several imported coal power plants. RE power output rose 24% yoy, accounting for larger portion of 13% total capacity in 10M22 thanks to lighter curtailment ratio, and additional output from newly added 4GW wind power plants from Nov 2021. Gas-fired power output stay the same, edge up only 7% yoy and grabbed 11% total output due to the remained high gas price.



Source: EVN, VNDIRECT RESEARCH

Full market price (FMP) in the Competitive Generation Market (CGM) remained high due to larger mobilization from gas-fired power (Unit: VND/kWh)

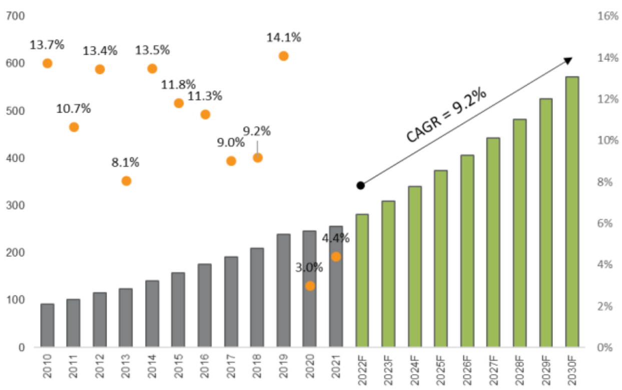
The average 9M22 FMP in the CGM reached VND1,478/kWh, increasing 41% yoy, in which, FMP price gradually shift up to VND1,770/kWh after the sharp drop in May. The 2022 system marginal ceiling price (SMP cap) issued at VND1,602/kWh (+6.5% yoy) creates an ideal condition for higher priced thermal power to bidding in the CGM market, especially in the high CAN price period. Therefore, higher thermal power output mobilized from the CGM has shifted the FMP to a very high level in 9M22.



Source: GENCO3, VNDIRECT RESEARCH

Solid power demand growth underpins sector outlook

We see Vietnam power sector will record a fast electricity consumption growth in 2022-30F period, following the expected high GDP growth. According to the PDP8 draft high-load scenario, power demand will increase at high forecasted CAGR of 9.2% in 2022-30F. We see this to be the primary factor to underpin power sector outlook thanks to more intense output mobilization in the upcoming years.



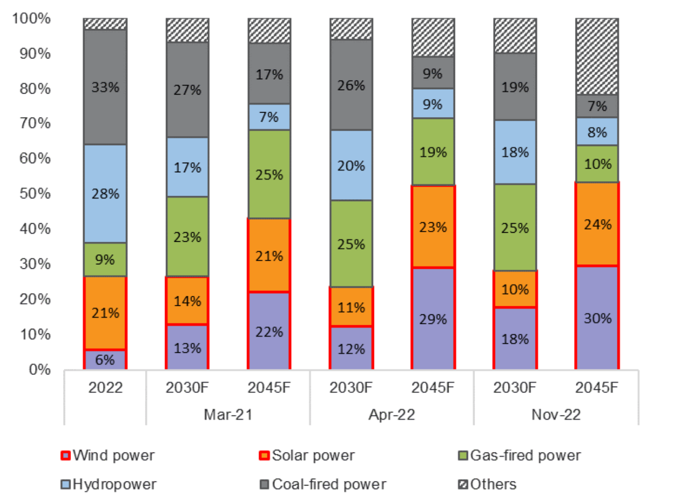
Source: VNDIRECT RESEARCH, PDP8 draft

Renewables power: Wait for a policy boost

The newest PDP8 draft cemented renewable energy bright outlook

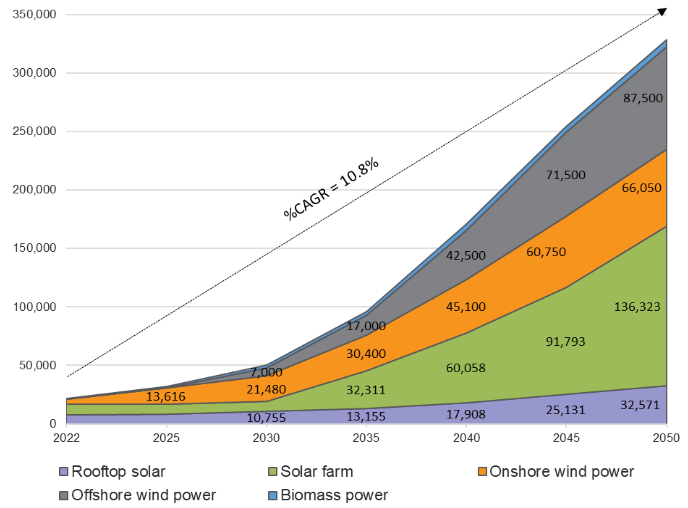
After several discussion sessions based on the spirit of Report No.2279/TTr-BCT dated April 29, 2022 (the PDP8 draft April 2022). The Ministry of Industry and Trade (MOIT) has continued to complete, carry out appraisal procedures, and submit to the Prime Minister the newest iteration – the Power Development Plan 8 draft (PDP8 draft) in November 2022. Accordingly, the newest draft has basically provided several valued pieces of information, in which, it continually favored renewable energy (RE power). We see RE to be the spearhead of Vietnam's power development in the long term.

Figure 140: The newest draft continued to enhance a larger portion of RE power in 2022-45F



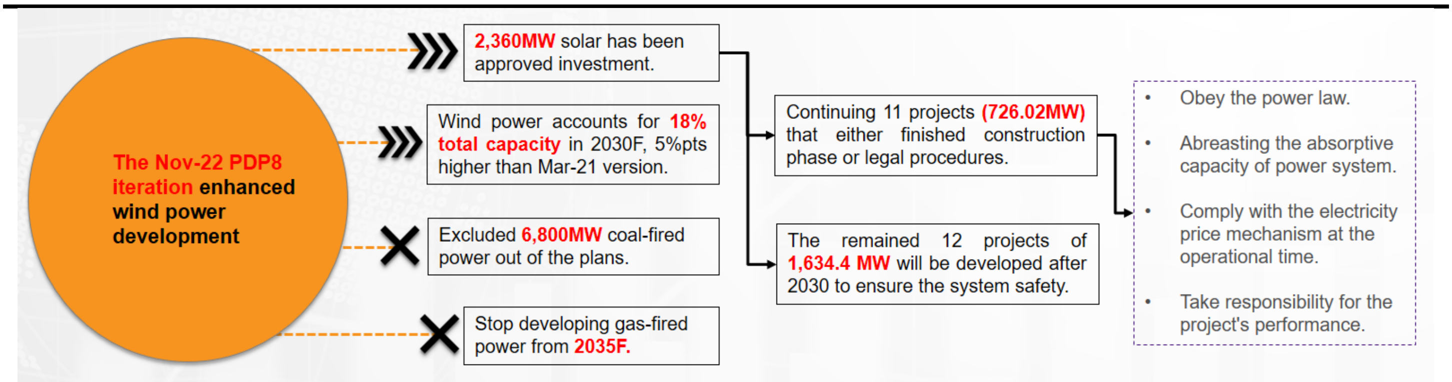
Source: PDP8 draft, VNDIRECT RESEARCH

Figure 141: RE power will be the major driver in Vietnam's power plan in 2022-45F (Unit: MW)



Source: PDP8 draft, VNDIRECT RESEARCH

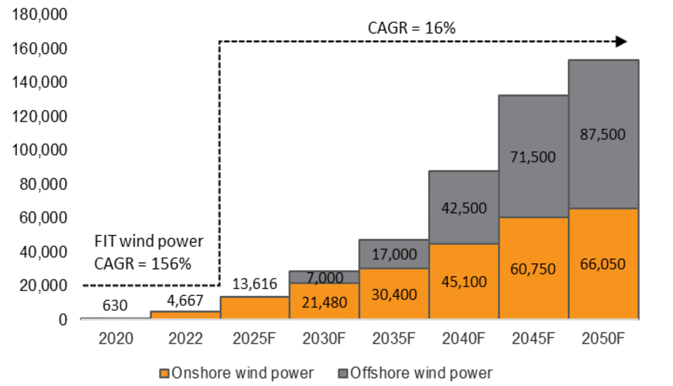
Figure 142: The latest adjustments under the Nov-22 PDP8 draft



Source: VNDIRECT RESEARCH

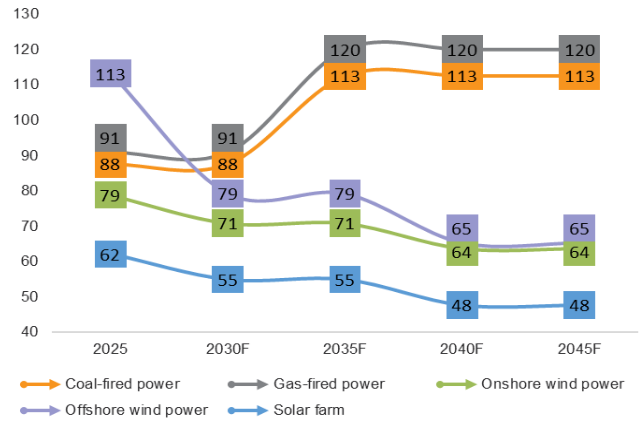
<u>For wind power,</u> the Nov-22 PDP8 draft continued to enhance wind power with higher capacity portion in 2022-45F. We see a continuation fast-paced growth of wind power after the FIT policy expired in 2021. Accordingly, wind power capacity will rise at highest rate of 16% CAGR in 2022-45F period, in which, onshore wind power will bloom 4.6x to 21,480MW in 2030F after reaching 66,050MW in 2050F. On the other hand, we expect an initial 7,000MW of offshore wind power to be developed in 2022-30F, then start accelerating to 87,500MW in 2050F. Overall, wind power will grab 18% capacity weight in 2030F, 5%pts higher than the Mar-21 version, before absorbing highest portion of 30% total capacity in 2045F. Moreover, we see the decreasing trend of the Levelized cost of electricity (LCOE) of wind power to benefit the explosion of this energy source. According to MOIT, although the investment cost of RE power sources is higher than traditional thermal sources, it is gradually dropping thanks to the improvement of capacity factor and economies of scale. On the other hand, thermal power LCOE is expected to rise following higher input prices and technological advancements to reduce emissions.

Figure 143: Wind power will grow at the highest CAGR of 16% in 2022-45F (Unit: MW)



Source: PDP8 draft, VNDIRECT RESEARCH

Figure 144: RE power LCOE will gradually drop while thermal power LCOE will surge due to higher input price (Unit: US$/MWh)



Source: PDP8 draft, VNDIRECT RESEARCH

For solar farms, after excessive growth in 2019-21 period, grabbing 21% total capacity in 2022, solar power will postpone until 2030F. Notably, the 2,360MW of delayed solar project that was proposed to continue developing in the Oct-22 iteration has been adjusted down in the Nov-22 version. Under the firm view to limited solar growth in 2022-30F from the government, MOIT has reviewed and suggested to continue deploying 11 projects of 726.02MW that either finished the construction phase or fulfilled legal procedures. The remaining 12 projects of 1,634.4MW that are in the stage of preparing procedures and FS will be delayed until after 2030F to ensure system safety. Although these projects are currently not included in the power plan, we see the continuation of these to be reasonable to avoid legal risk, as well as future lawsuits and investor compensation. Besides, the new PDP8 draft encouraged **rooftop solar** for self-use purposes with additional 3,000MW in 2022-30F. Under the direction of the Prime Minister, the MOIT is developing a mechanism to support the development of such projects.

Overall, we see the solar power outlook will return from 2030F onward, after being slowed down in 2022-30F. Its capacity will reach around 45,400MW in 2030-35F then accelerate to 168,000MW in 2045F, accounting for 24% of total power capacity.

EVN has submitted the price mechanism for transitional projects – the first disassembly signal for investors

We see a crucial factor to enhance RE developers' outlook is the ability to grow capacity, which is currently hindered under no clear RE price mechanism after the FIT expired. We believe that with very clear guidance from the PDP8 draft, focusing on RE capacity growth is an inevitable trend. Therefore, urgently publishing an official price mechanism will remove the bottleneck for RE investment, creating favorable conditions for Vietnam to achieve the strong capacity growth target.

Figure 145: In Nov-22, EVN submitted the price mechanism for transitional projects

	Option 1	Option 2	Option 3	Option 4	EVN suggestion
Price (VND/kWh)					
Solar farm	1,482.7	1,508.4	1,508.8	1,188.0	**1,188.0**
Floating solar	1,740.8	1,569.8	NA	NA	**1,569.8**
Onshore wind power	1,590.9	1,597.6	1,630.2	NA	**1,590.9**
Nearshore wind power	1,971.1	1,944.9	1,974.0	NA	**1,944.9**
Estimation methodology	Basing on guidance in the Circular No. 15/2022/TT-BCT	Same as Option 1, except for using average investment cost/MW	Same as Option 1, except for using output and investment cost/MW assumption base on the Gauss standard.	Base on the information of Phuoc Thai 2, 3 (EVN solar farm)	**Minimum value from four options**

Source: EVN, VNDIRECT RESEARCH

At the moment, RE investors who missed the FIT date are suffering from cost loss while unable to sell electricity to the grid. However, there is a way out for these delayed projects. Following Circular No.15/2022/TT-BCT, EVN is coordinating with the MOIT to calculate the price band for transitional RE projects. Accordingly, it proposed a new price for each RE segment, applying the minimum value among 4 options. While the new wind power price is about 20-25% lower than the previous FIT price, solar farm prices plummeted by nearly 50% to only 1,188VND/kWh. In our perspective, although having a clearer policy somewhat reduces pressures for investors, suggesting an excessively low price might be not supporting enough for the transitional project to run efficiently. Whereby, we see a larger headwind for solar farms under the very low-price suggestion, while for transitional wind power projects, we see a brighter outlook thanks to remained high price.

We think the publishing of this price draft to be a crucial step, untying the bottleneck that has been stuck for a while and at the same time, provoking the following steps to be handled more urgently. We see the new mechanism creates a premise for FIT-delayed investors to negotiate a new PPA contract with EVN, and at the moment, this framework has been submitted to the MOIT for overview and further discussions. Along with that, the MOIT is also coordinating with other related departments to finalize the issuance of either the pilot Direct Power Purchase Agreement (DPPA) mechanism or the bidding mechanism to create a legal corridor for future RE project negotiation.

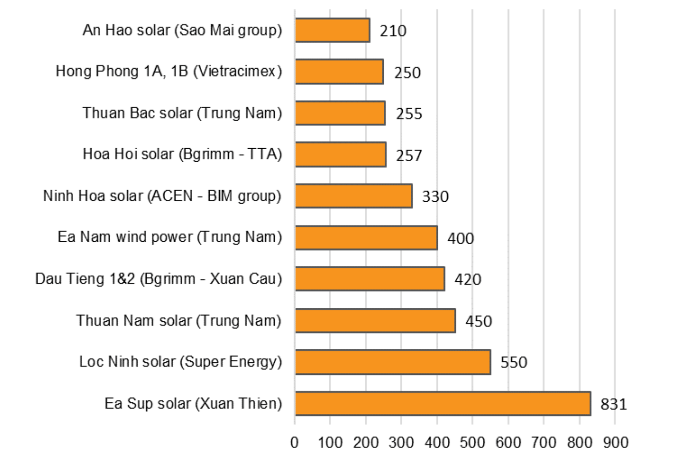
Wind power will be the mainstream in post-FIT period. Who will seize this opportunity?

Unlike the FIT time during 2019-21, when private businesses, whatever the size, with or without experience, competed to participate in the RE market. We expect that time to be over, and the new price policy, regardless of the mechanism, will aim to be more competitive in a healthier manner. Whereby, enterprises that have advantages in scale, price negotiation, and access to capital will hold a great decisive factor to enhance their RE portfolio and grab larger pieces of the "pie". We break down some of the factors that we think to be the main theme in the post-FIT era:

- Price and investment cost competition will be the major theme in the upcoming years, increasing the market efficiency and attracting actually capable institutions to join the industries.
- Enterprises with scale advantage will hold higher price negotiations, especially when the competitive retail market is shaping up.

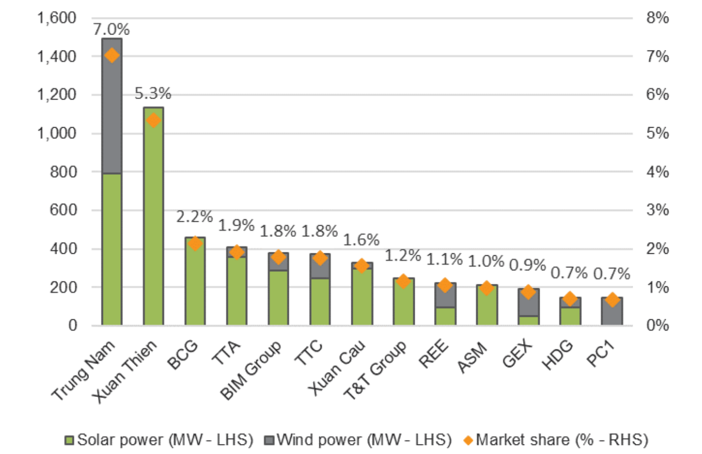
Enterprises with wealth of experience in developing and operating RE plants will hold larger bidding ability thanks to cost-saving capability and easier access to varied capital sources with low cost.

Figure 146: Top 10 Vietnam's current largest renewable projects by capacity (Unit: MW)



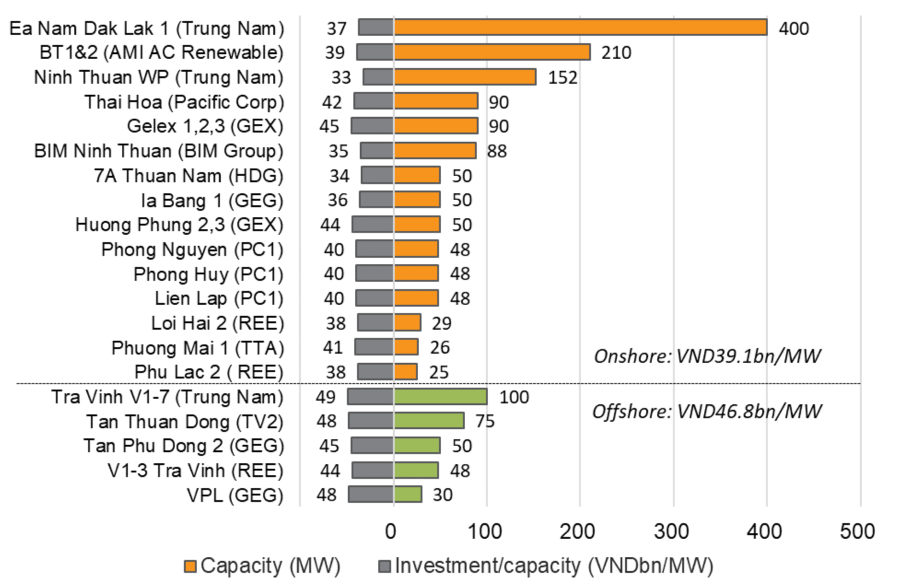
Source: COMPANY REPORT, VNDIRECT RESEARCH

Figure 147: Top local RE players in the market



Source: COMPANY REPORT, VNDIRECT RESEARCH

Figure 148: We see companies exposed with high wind power portfolios will stay ahead in the post-FIT race



Source: COMPANY REPORT, VNDIRECT RESEARCH

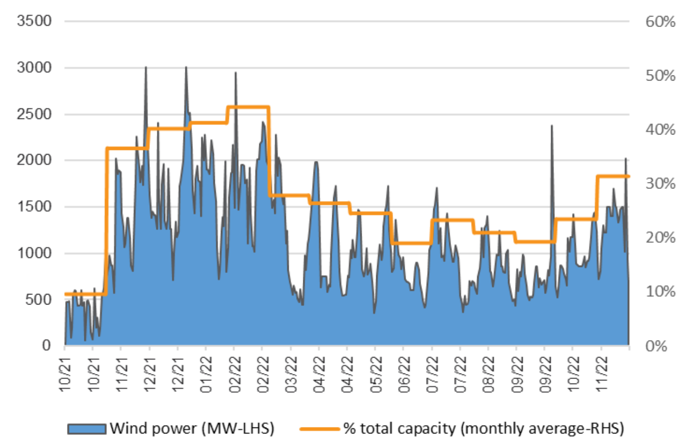
As wind power is no doubt to be the most vibrant sector in 2022-30F, regarding the firm orientation from the government, and supported by fast downtrend in investment cost, we see companies that satisfy the above categories will be benefited from this trend. We note down some of the top players with experience from large RE exposure in the FIT-time, as well as the ambition to expand its portfolio including BCG, GEG, PC1, TTA and GEX.

M&A is opportunity for RE players to refinance

Additionally, we see the trend of mergers and acquisitions (M&A) will play a vital role, in shaping Vietnam's energy market in the post-FIT period. As international investors have basically all seen the huge potential of Vietnam RE industries, several giants from Thailand, Philippines such as BCPG and AC Energy has lurked in our market through flexible investment forms either buying shares from operated plants or cooperating with domestic entities to invest new projects with no intention hiding their lust to own a "green asset" in Vietnam. As the energy picture is getting clearer, with RE power will become mainstream, we see more intense M&A activities in the following years. The competition level at this stage will be higher with various investors from several countries joining the market, domestic enterprises must prepare enough resources to be ready for the rapid growth of upcoming period.

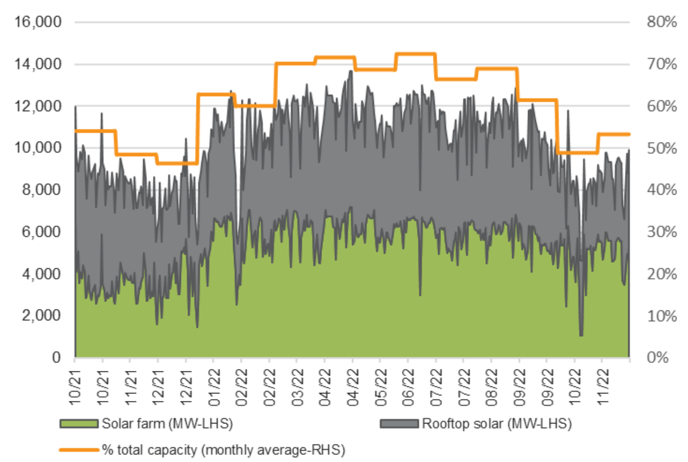
2023-24F outlook: we see a lighter curtailment for RE power from 2023F while 2024F outlook relies on the new price mechanism

Figure 149: Wind power is mobilized at a more intense rate during the monsoon season from November to March



Source: NLDC, VNDIRECT RESEARCH

Figure 150: Solar power capacity mobilization recorded thinner cutdown in 10M22



Source: NLDC, VNDIRECT RESEARCH

According to the data from National Load Dispatch Centre (NLDC) about the expected daily capacity mobilization by power sources, 9M22 solar capacity mobilized at around 60%-70% total capacity, higher than the level of around 50% total capacity in 4Q21. We see the strong increase of electricity demand in the upcoming years will gradually absorb the excess capacity in the South helping RE power to be mobilized at a more optimal rate. Besides, it noted that the fourth and first quarters to be the ideal times for higher mobilized wind power output. Usually, November to March is the time of monsoon season – a season with higher wind speed and denser windy hours, helping wind turbines operate at higher capacity and generate a major amount of electricity during this period. Therefore, we see 4Q22 and 1Q23F as usually an excellent time for wind power investors such as PC1, GEG, REE, GEX to record positive output results.

As the PDP8 has to be approved by the parliament, we expect the RE mechanism to be officially published in the soonest 3Q23F, triggering by the final PDP8. We see 2023F to be the steppingstone, marking a new development phase of RE power and setting the stage for new projects to start operating from 2024F. We note that the price mechanism is making not much progress and staying fuzzy at the moment. However, we see the pressure on the authorities to urgently come up with a new policy as soon as possible in order to meet the strong RE growth target.

Gas-fired output will improve in 2023-24F, underpin by strong power demand growth

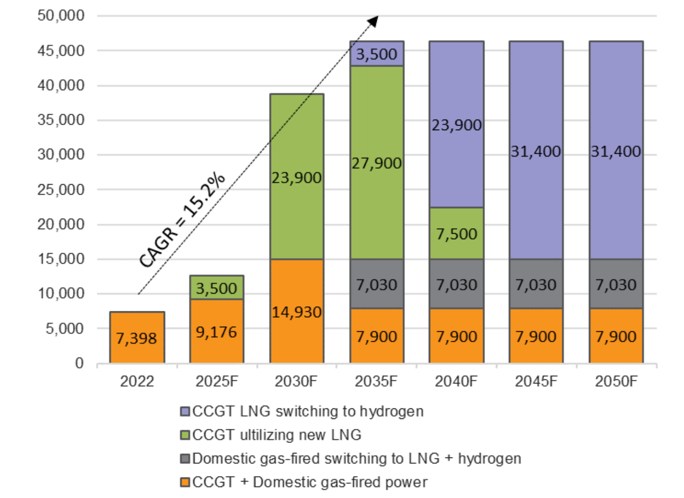
Following the newest PDP8 draft, gas-fired continued to be the highlight in 2022-35F period, before cutting off from 2035F

Figure 151: Some of the outstanding projects under the PDP8 draft

Power plant	2021-2025	2026-2030	Investment value	Investor
LNG power plant	**MW**	**MW**	**US$m**	
Nhon Trach 3&4	1,600		1,400	PVPower
LNG Hiep Phuoc I	1,200		820	Hai Linh Company Limited
LNG Bac Lieu	800	2,400	4,000	Delta Offshore Energy
LNG Quang Ninh I		1,500	1,880	PVPower - Colavi - Tokyo Gas - Marubeni
LNG Thai Binh		1,500	NA	TTVN Group - Tokyo Gas - Kyuden
LNG Nghi Son		1,500	NA	Milennium (USA)
LNG Quynh Lap		1,500	NA	Bidding
LNG Quang Trach		1,500	2,094	EVN
LNG Hai Lang		1,500	2,300	T&T Group - Hanwha - Kospo - Kogas
LNG Ca Na		1,500	3,850	Bidding
LNG Son My II		2,250	1,800	AES Group
LNG Sơn Mỹ I		2,250	2,000	EDF - Sojitz - Kyushu - Pacific Group
LNG Long Son		1,500	3,780	PGV - TTC - TV2 - Mitsubitshi - GE - GTPP
Domestic gas-fired power plant				
O Mon I* (Lo B)	660		NA	EVN (Genco 2)
O Mon III, IV (Lo B)	2,100		2,504	EVN (Genco 2)
O Mon II (Lo B)	1,050		1,310	Vietracimex - Marubeni
Dung Quat I, II, III (CVX)		2,250	2,348	NA
Mien Trung I, II (CVX)		1,500	1,674	PVN

Source: PDP8 draft, VNDIRECT RESEARCH

Figure 152: Gas-fired will grow at a fast pace in 2022-30F before cutting off from 2035F (Unit: MW)



Source: PDP8 draft, VNDIRECT RESEARCH

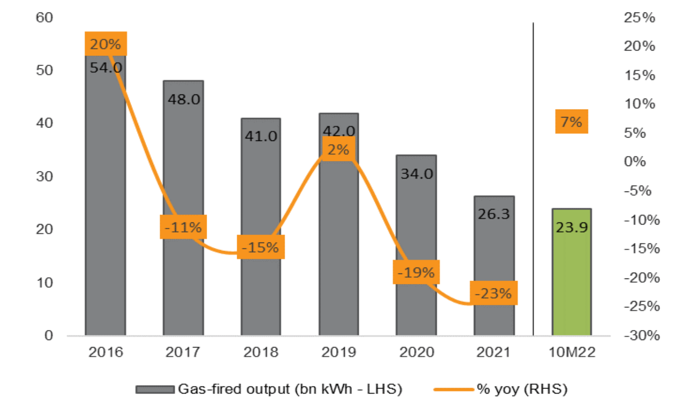
Under the direction of the latest PDP8 draft, 2022-35F period will be a strong development phase for gas-fired power after stop developing in the post-2035F period. Total gas-fired capacity will surge from 7,300MW in 2022 to 46,330MW in 2035F with an estimated CAGR of 15.2%.

Domestic gas-fired power will double to 14,930MW in 2030F with major contributions from the O Mon cluster (3,810MW), Dung Quat (2,250MW), and Mien Trung cluster (1,500MW). However, under sharp clean energy transition will, domestic gas-fired power must gradually convert to LNG + Hydrogen input after 10 years of operation. LNG power capacity also rises sharply, initiating with 3,500MW in 2025F and then surging up to 27,900MW in 2035F. Furthermore, similar to domestic gas-fired power, the new LNG plants also convert to partly used hydrogen after 10 years and then gradually switch to combust entirely by hydrogen after 20 years of operation. During the blooming phase of gas-fired power, several domestic corporations will ride on this trend, led by POW with Nhon Trach 3&4 – the first Vietnam's LNG gas-fired power. Besides, several ambitious projects with the participation of domestic enterprises are being actively implemented, including LNG Quang Ninh (POW), LNG Hai Lang (T&T Group), LNG Long Son (PGV, TV2).

10M22 gas-fired output grew humbly due to lower-than-expected power consumption growth

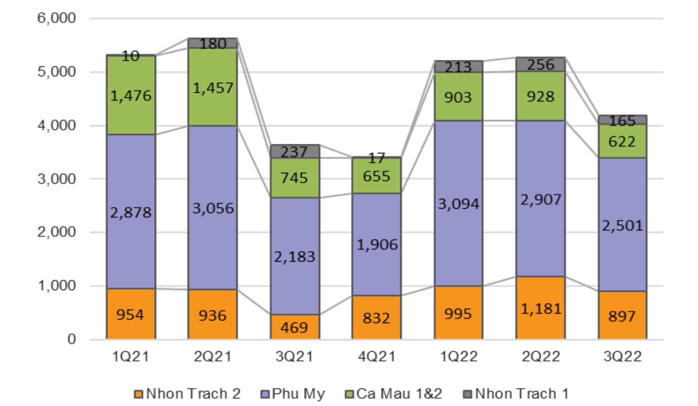
Gas-fired power segment recorded a decreasing trend in output mobilization from 2016 to 2021 due to the gradual gas depletion while the new gas fields have more complicated exploitation, leading to higher gas input prices. However, we see the breakpoint in 2022, after gas-fired output reached low-base in 2021 when suffered from the modest power demand during Covid-19. Therefore, although gas-fired power output has not recovered as sharply as expected due to lower-than-expected power consumption growth and remained high gas price, its output still slightly rose 7% yoy to 23.9bn kWh, with a clear segregation between power plants. Nhon Trach 2 recorded a strong output mobilization in 9M22 thanks to the plant's high efficiency. Nhon Trach 1 while still suffering from low output mobilization, it still recorded a high output rebound from a very low level in 2021. On the other hand, Ca Mau 1&2 output declined significantly due to a large overhaul schedule and gas shortage.

Figure 153: 10M22 gas-fired mobilization edged up modestly 7% yoy due to lower-than-expected power demand growth



Source: EVN, VNDIRECT RESEARCH

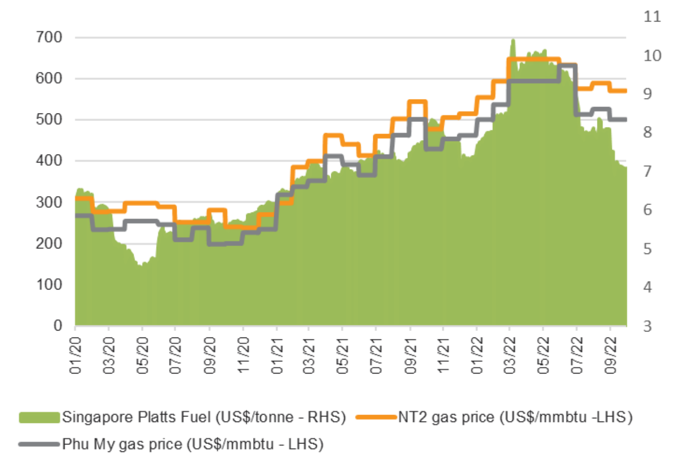
Figure 154: Several gas-fired power plants recorded a solid output improvement in 9M22 from humble mobilization on 2H21



Source: COMPANY REPORT, VNDIRECT RESEARCH

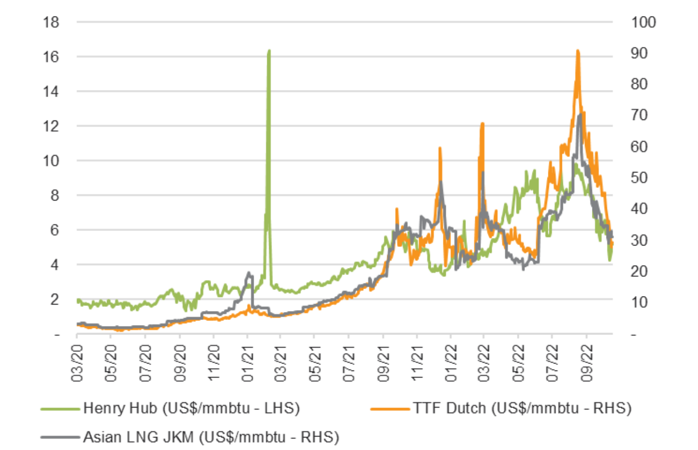
2023-24F outlook: Gas price will be more favorable for the industry

Figure 155: Domestic gas-fired price drop following the downtrend of the Singapore Platt FO



Source: GENCO3, BLOOMBERG, VNDIRECT RESEARCH

Figure 156: International gas price drop thanks to a solid effort from Europe to stock gas as well as expected warmer winter



Source: BLOOMBERG, VNDIRECT RESEARCH

The Singapore Platts Fuel oil price has dropped 54% from its peak to US$380/tonne in September, the lowest point since 2022. Accordingly, Vietnam's domestic gas price, which calculates based on the Singapore Platts Fuel oil (46%*FO) has dropped correspondingly. In particular, we see NT2 and Phu My gas price decline 14% and 16% from the May peak to 9.08US$/mmbtu and 8.35US$/mmbtu in September. Besides, after a bullish run from 2020, following several supply disruptions events, including Covid-19 and the recent Ukraine-Russia conflict, the international gas price has dropped from mid-22 peak following the EU effort for gas stocking and lower demand from warmer-than-expected winter.

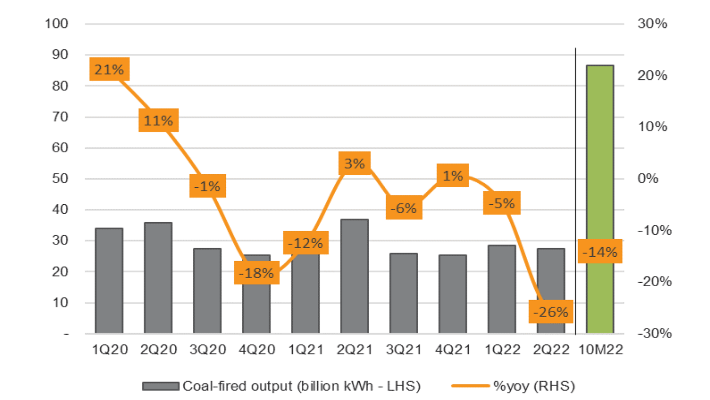
Following the gas price downtrend, we see this to be a positive new for gas-fired power segment in term of output mobilization as well as upcoming project implementation. Generally, the domestic gas price is anchored on the FO and moves closely with the Brent oil price. Therefore, we see lower Brent forecasted of US$90/barrel and US$80/barrel to release pressure on the price competitiveness of gas-fired power. Although domestic gas price is still locating at high level comparing to the 2-years average level, the price drop will narrow the price gap between gas-fired power and coal-fired power, especially in the context of international coal price hike. We expect higher demand for gas-fired power in 2023-24F, underpin by strong power consumption growth of 8.2% and lower hydropower output after coming out of its favorable weather condition. Besides, we believe that lower international gas price will be the opportunity for smoother price negotiation of the upcoming project, which has struggled in the past period.

Coal-fired power outlook faded after drastic cut in the PDP8 draft

10M22 coal-fired output dropped owing to the coal price hike

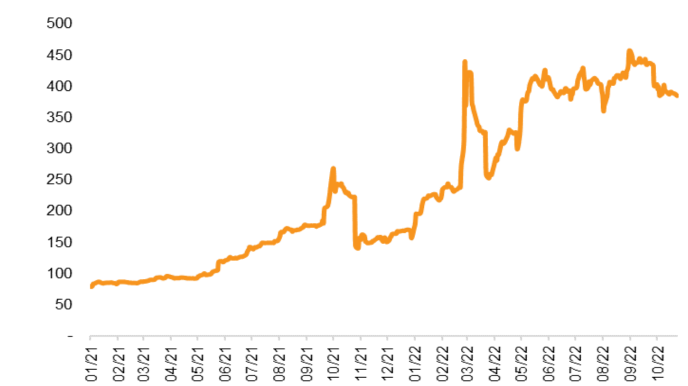
Coal-fired power output fell 14% yoy to 86.5bn kWh in 10M22 due to 1) Power demand grew below forecasted level, following cooler hot season and electricity-incentive sector such as steel cutting down capacity because of lower demand; 2) Coal price hike regarding the supply disruption during the Ukraine – Russia conflict, thus, making it difficult for new imported and mixed coal power plant to compete with the other cheaper power source, especially in the context of favorable hydrology and additional RE capacity. We see the differentiation between Northern and Southern power plants, of which, the North such as QTP, HND, Mong Duong (PGV) recorded positive output while due to the excess capacity situation in the South, some of the plants in this region suffered from the lower output, including Vung Ang, Vinh Tan.

Figure 157: 10M22 Coal-fired power output dropped 14% yoy, following coal price hike, and 1H22 coal shortage



Source: EVN, VNDIRECT RESEARCH

Figure 158: Coal price hike following a series of events, led by the China lockdown and Ukraine-Russia conflict (Unit: US$/tonne)

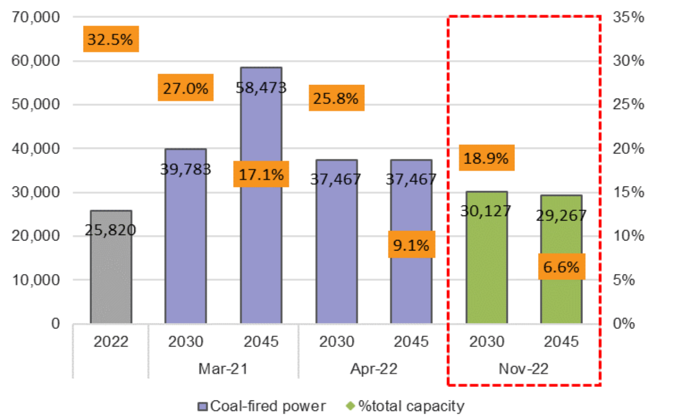


Source: BLOOMBERG, VNDIRECT RESEARCH

Coal-fired power is facing both short-term and long-term issues

In the context of remained high imported coal prices, it is hard to expect a sharp output recovery of this sector from 2023F, especially for new operated coal-fired power plants using imported coal such as Nghi Son II, Song Hau I thermal. However, we see a brighter prospect for coal-fired power plants using domestic and mixed coal for combustion in 2023-24F, as we see a lighter pressure in terms of price on these plants. Besides, we expect coal-fired power plants in the North will record denser mobilization regarding the strong forecasted power consumption growth of this region in the following years, while the Southern power plants might be faced more intense competition due to the excess capacity situation in this region. Coal-fired power still plays an essential role as a reliable background source with cheap prices in short and medium term to ensure the adequacy of the power system and we see QTP and HND might be benefited from this trend.

Figure 159: Coal-fired capacity continues to drop 6,800MW after being reviewed and addressed in the new PDP8 draft (Unit: MW)



Source: PDP8 draft, VNDIRECT RESEARCH

Figure 160: Outstanding coal-fired power under the PDP8

Power plant	Capacity (MW)	Progress	Investor	Note
Na Duong II thermal	110	2021-25	TKV	
An Khanh - Bac Giang	650	2021-25	NA	
Thai Binh II thermal	1,200	2021-25	PVN	Overall finished 94%
Nghi Son II thermal	1,330	2021-25	Kepco - Marubeni	Operating from July, 2022
Vung Ang II thermal	665	2021-30	Kepco - Misubishi	
Van Phong I thermal	1,432	2021-25	Sumitomo Corp	Finished at Dec-22
Duyen Hai II thermal	1,320	2021-25	Janakuasa	Operating from 2021
Long Phu I thermal	1,200	2021-25	PVN	
Song Hau I thermal	1,200	2021-25	PVN	Operating from April, 2022
Quang Trach I thermal	1,200	2021-25	GENCO 2	Extended to 1400MW

Source: PDP8 draft, VNDIRECT RESEARCH

After several iterations, coal-fired power capacity is constantly reduced following the firmed government effort for clean energy transition. Accordingly, after the bold move to stop coal-fired after 2030F in the April-22 draft, the Oct-22 version continued to erase 5 projects (6,800MW) out of the plan due to difficulties in capital arrangement. However, in practice, it is very difficult to eliminate these projects due to legal problems, compensation, and litigation. Therefore, even though these are projects with a high probability of not being able to arrange capital, they will still have to be considered for development. Therefore, 2030F coal-fired power capacity will only shift up to 30,127MW, accounting for 18.9% total capacity after narrowing down to only 6.6% in 2045F. We noted down some of the outstanding plants that expected to keep developing in 2022-30F period, and some of the domestic giants could benefit thanks to the capacity expansion, including TKV, PVN, and GENCO2. At the moment, several pending coal-fired projects in the remained list still facing funding issues, and the recent coal prices hike has raised concerns about the "cheap" element of this energy. Along with the global efforts to reduce emissions, we see coal-fired power outlook is fading with tougher access to capital, following the boycotts from several funds. However, we anticipate that the continuation of coal-fired power in the Central and the North to be a crucial action to meet the region's fast power demand growth in the upcoming years, especially when the development potential of RE power in this area is modest.

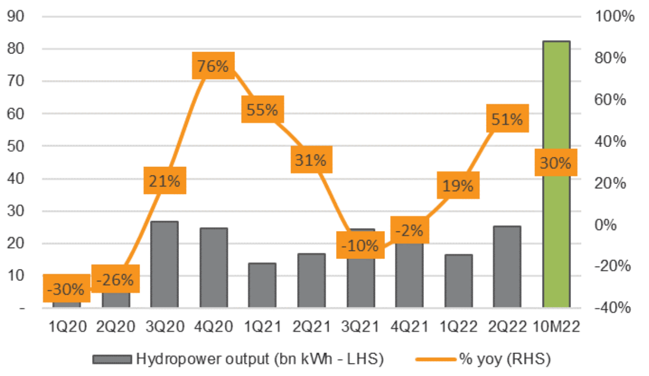
Hydropower will come out of its peak in 2023-24F

We see a gloomier output for hydropower in 2023-24F after a vibrant 2022

The weather went through the La Nina phase from 4Q21. According to EVN, 9M22 weather recorded unpredictability with cooler hot season and heavy rainfall even during the dry season. Therefore, hydropower is preferred with high mobilization output thanks to its cheap ASP. Total hydropower output rose 30% yoy to 82bn kWh, grabbing 36.6% total output. Several hydropower plants took advantage from ideal hydrology and record impressive 9M22 business results, named by DNH, VSH, SBH, HNA, TMP and CHP. We see a continuation of vibrant output mobilization for hydropower to last through the rest of 2022F following the ENSO estimation from IRI. Accordingly, the La Nina phase will stay to Jan-23 with higher possibility after coming out of its peak and switching to the

Neutral phase in 2023F. We see 2022F to be the high-base for hydropower as the La Nina phase has lasted for a higher-than-expected time.

Figure 161: 10M22 hydropower output rise thanks to favorable hydrology with longer-than-expected La Nina phase…



Source: EVN, VNDIRECT RESEARCH

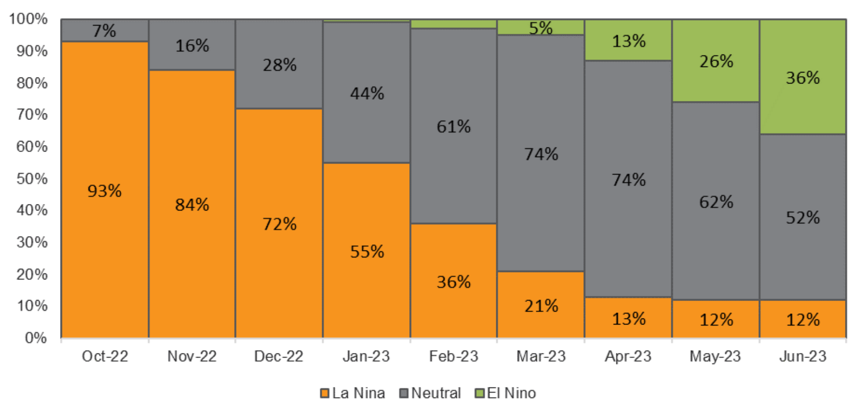
Figure 162: …Therefore, several hydropower companies record vibrant 9M22 (Unit: VNDbn)

Company code	Market cap	9M22 Revenue	%yoy	9M22 NPAT	% yoy
DNH	19,008.0	2,251.02	36%	1,356.08	55%
VSH	6,591.1	2,121.83	117%	881.54	353%
SBH	4,347.9	673.33	86%	358.46	175%
HNA	3,951.9	842.37	72%	410.17	383%
TMP	3,703.0	801.78	57%	437.99	81%
CHP	3,452.4	724.71	96%	317.49	2003%
AVC	2,814.5	744.13	76%	453.69	140%
SHP	2,656.7	559.78	27%	276.51	64%
TBC	1,841.5	538.24	40%	295.00	71%
SEB	1,724.8	269.18	35%	151.71	49%
S4A	1,531.9	208.45	20%	81.25	24%
SBA	1,425.7	299.42	74%	144.80	170%
SJD	1,055.7	362.85	26%	145.30	29%
ISH	904.9	191.08	23%	85.17	43%
HJS	732.9	139.22	11%	48.31	24%

Source: COMPANY REPORT, VNDIRECT RESEARCH

We believe the possibility for a longer La Nina phase might be hard to occur. Thus, hydropower likely to deliver lower output into 2023-24F, leaving space for more intense mobilization of other sources. In terms of ASP, we see the higher band price for thermal power will also drive on higher mobilization price of hydropower in the following years.

Figure 163: The newest ENSO forecast a continuation of La Nina phase for the rest of 2022F after switching to the Neutral phase from Jan 23F (Unit: %)



Source: IRI, VNDIRECT RESEARCH

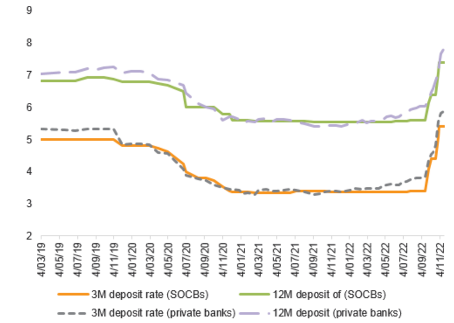
We see limited growth space for hydropower in the long-term

We believe the development prospect of hydropower is no longer available as its exploitation potential is basically reach limit. Excluding the capacity expansion projects, Thuong Kontum – VSH's power plant (220MW) appeared to be among the last large-medium size hydropower to be built, putting an end for the development of this power source. We see the remained room for small hydropower (< 30MW) of around 6,000MW. Small hydropower plant is listed on the RE power category thanks to no fossil input and minimal impact on the surrounding landscape. Although small hydropower depends heavily on weather condition, and poorly water regulation, the power source enjoy 20-30% higher ASP than large hydropower plants due to the government's avoidable cost policy. We see some of the heavy contestants continue to expand their small hydropower portfolio will take advantage including PC1, GEG, REE.

Investment risks

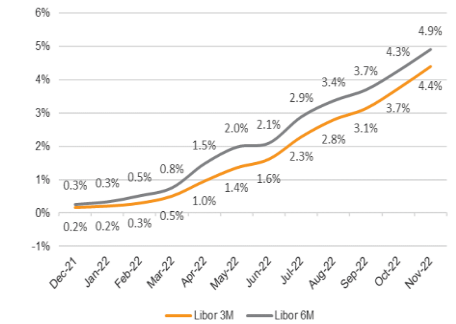
We see the duo effect from exchange rate loss and interest expense rise among power enterprises

Figure 164: Vietnam deposit rate surge (Unit: %)



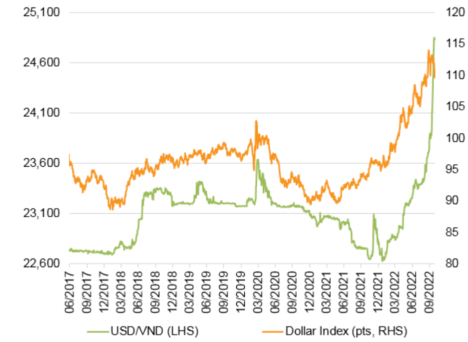
Source: VNDIRECT Research

Figure 165: LIBOR 3 + 6M rose, following the Fed fund rate hike (Unit: %)



Source: Global rate, VNDIRECT Research

Figure 166: The US$/VND exchange rate has depreciated 8% from the start of 2022

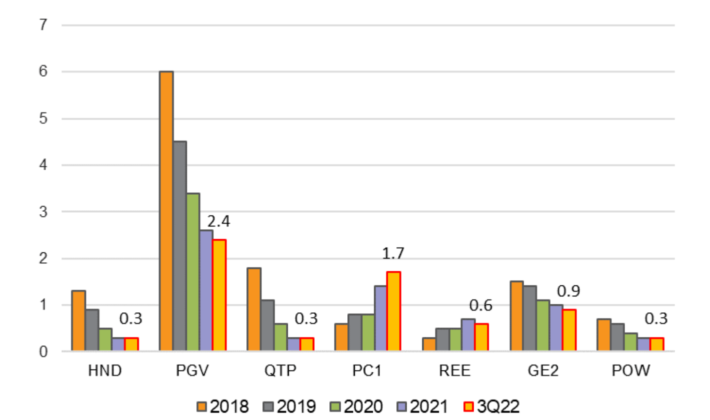


Source: Bloomberg, VNDIRECT Research

From 2Q22, the interest rate environment has surged significantly following the solid effort of the Fed to control its historic high inflation. Therefore, the interest rate raising policy has caused in overall interest rate hike including the Libor and Vietnam deposit rates, which is usually the bend mark for power loans. Besides, the interest rate surge has put pressure on the US$/VND exchange rate, and now, the VND has depreciated by around 8% compared to the US$. Therefore, it created a duo effect on several power companies and hindered its 9M22 business results. PC1, GE2, PGV and REE record a financial expense surge due to higher exchange rate loss and interest expense hikes.

We see the remained pressure from the exchange rate and interest rate hike following the continuation of the interest rate raising roadmap from the Fed to last through soonest 2H23F. However, we see the magnitude of the effect to be varied based on the portion of US$ debt and the interest rate policy. We see power companies with a high portion of US$ debt such as PGV, with interest rate policy mainly based on the Libor to be harmed the most.

Figure 167: Debt/equity ratio from several power companies (Unit: x)



Source: Company report, VNDIRECT RESEARCH

Figure 168: We note down some of the power companies that expose to US$ loans

Company	Total USD debt (VNDbn)	Total debt (VNDbn)	%USD debt/ total debt	Financial expense (VNDbn)	%yoy
HND	1,588.0	1,588.0	100.0%	153.8	27%
PGV*	35,679.1	41,199.9	86.6%	2,208.6	135%
QTP*	819.4	1,833.1	44.7%	161.0	6%
PC1	3,997.0	11,348.2	35.2%	601.5	173%
REE	2,121.8	11,520.0	18.4%	696.1	38%
GE2*	6,553.2	18,611.0	35.2%	814.0	590%
POW	2,701.0	9,950.6	27.1%	541.2	7%

(*)Estimating based on latest data

Source: Company report, VNDIRECT RESEARCH

We also see some of the other risks lurking into the power sector

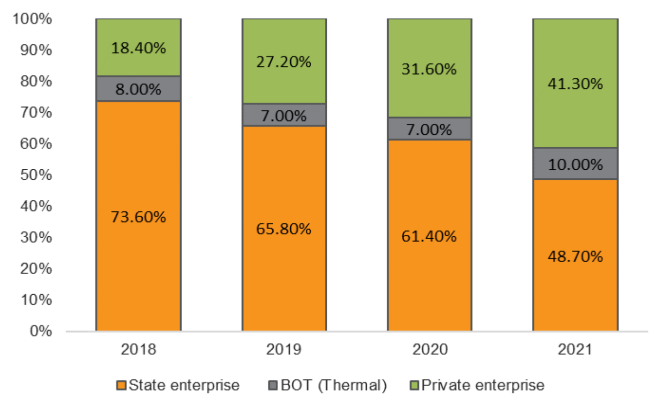
- We see the risk from input price rise is still presented. Gas price is dropping following the warmer-than-expected winter in Europe. However, we see the supply cuts from Russia – the number one European supplier, which may put pressure on sourcing alternatives in the short-term.
- We see the opening of China to rise demand for coal, putting pressure on the remained high price of this commodity.
- We see the postponement of the most Vietnam electricity-intensive industry like steel sector to be the major traction for power consumption growth to reach the planned target.
- The longer delay of PDP8 and RE price mechanism issuance will further weigh on the outlook of the industry.

We see power sector will go through a robust transition in the upcoming years. Our top picks include PC1, POW

We see the picture of Vietnam power sector is clearer, favoring toward RE and gas-fired power after the government determination in the COP26. Under the high portion of RE power in the following years, we see the companion of gas-fired power will serve as a reliable support for power systems. We noted down several Vietnam companies to be benefited in the gas-fired power chain, such as POW, PGV and GAS.

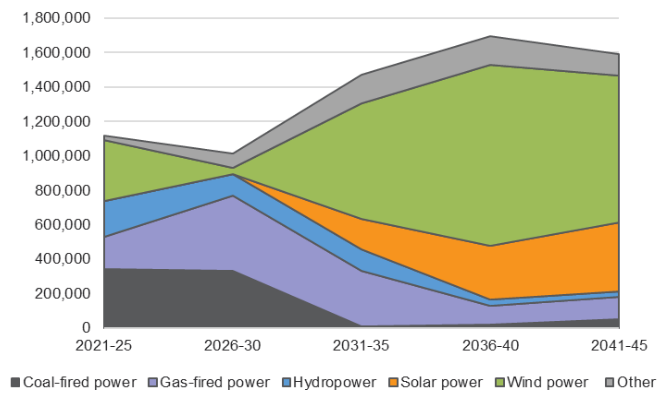
The postponement of RE price mechanism is major headwind, hampering RE capacity development. We see the untie of this bottleneck to open up an enormous playground for large investors. Although the FIT period has attracted large private capital flows into this sector, we expect the post-FIT period to be more competitive in a healthier manner. We put great faith on enterprises with large scale, strong cost management, and project implementation to grab larger opportunities to expand its RE capacity in this phase. We see the ESG flow with attractive cost of capital is emerging worldwide, and gradually creeping into Vietnam. Therefore, companies that seize this opportunity will stay ahead in the RE race. We named some of the heavyweight contestants including BCG, GEG, PC1, and REE.

Figure 169: Private capital gradual rise during FIT period (Unit: %)



Source: KPMG, VNDIRECT RESEARCH

Figure 170: We see high capital requirement for RE investment in the 2022-45F (Unit: VNDbn)



Source: PDP8 draft, VNDIRECT RESEARCH

Figure 171: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK PC1	30,800	ADD	(1) FY23–24F will be a profitable break period for PC1 following a series of new business expansions in multiple industries within the company's ecosystem, including, Nickel mineral mining hydropower, residential property, and industrial park (IP). We expect a sharp EPS growth of 163% yoy and 33% yoy in FY23-24F, respectively. (2) We see the official announcement of PDP8 and RE mechanism will trigger PC1 M&E segment in both wind power EPC and transmission grid contracting activities. (3) We see PC1 will continue to expand its RE portfolio, including 81MW small hydropower in sight. Besides, the company is also conducting surveys of more than 1,000MW of wind power and finding opportunity to reach the 350MW additional RE power ambition in 2025F. (4) PC1 wind power is one of the outstanding plants, fully ensuring ESG standard and financed by a green loan with very attractive interest rates of around 5-6%, much lower than than average domestic loan of around 10-11%. We see this to be the advantage for PC1 to achieve cheaper capital for its future projects.
2	STOCK PICK POW	18,400	ADD	(1) We see POW – top gas-fired power enterprise will enjoy the sharp gas-fired capacity developing trend under the clear orientation in the PDP8 draft. The company owns a pipeline of two projects including 100% ownership in LNG Nhon Trach 3&4 (1,600MW), and 33% share of the LNG Quang Ninh (1,500MW). While Nhon Trach 3&4 expected to operate from 4Q24 and 2Q25F, LNG Quang Ninh will run from 2025-30F period. (2) For FY23-24F, we see a more intense mobilization rate for the company's gas-fired power segment thanks to 1) Power consumption expected to rise at 9.2% CAGR while the development of new power sources in the North is slow down; 2) Lower input price following lower Brent oil assumption of US$90/80 per barrel, releasing competitive pressure for gas-fired plants especially in the context of remained high coal price; 3) We see lower output mobilization for hydropower will create large space for thermal output to enjoy a more intense mobilization rate. (3) We forecast a strong recovery from coal-fired power segment thanks to the comeback of Vung Ang 1 unit 1 (600MW) from 1Q23F after went through the repair from 4Q21.
3	NT2	31,700	ADD	(1) In FY23F, NT2 will go through a large overhaul schedule, usually around 45 days, we see output lost will result in lower revenue and gross profit of 13% yoy and 28% yoy, respectively, after recover 9.6% yoy and 26% yoy respectively. (2) We see the main outlook for NT2 is not about growth ability but a healthy financial performance and strong dividend policy. NT2 has paid entirely its long-term debt from 2021, and at the moment, the company record a very strong cash flow and healthy financial situation. We are looking forward a more intense cash dividend payment from NT2 of at least 15%/year. (3) We see NT2 has remained its defensive element and will be a suitable choice under the macro uncertainty situation as right now.
4	REE	85,500	ADD	(1) REE is one of the largest conglomerates, with M&E is the traditional sector. The company has also invested in several cash cow segment with strong cash flow including Power, water, and office leasing. Therefore, REE usually remained a very healthy CFO/revenue ratio of around and a stable dividend yield of 5%, except for FY21, when the company intensively invested in new wind power. (2) In FY22F, REE is maintaining its financial health and growing robustly even in the very challenging period of the market thanks to positive results among its cash cow business and ideal hydrology. We see REE will remain EPS growth of 15-20% and stable ROE% of around 15% in FY23-25F. The company is focusing on developing and M&A rooftop solar as well as small hydropower power plants, expected to be the main growth engine for the company power segment in the context of hydropower will come out of its peak in FY23F. (3) We see REE has a conservative business view, the company will not have too many ambitious plans in near future but focus on a healthy financial performance with stable dividend stream.

5	HDG	43,800	ADD	(1) HDG is among top four largest listed companies in terms of renewable energy (RE) capacity by end-2022 which allows the company to ride on the country 's priority in RE development. In the period FY23-25F, the company planned to add 444MW capacity to bring its total RE capacity to 922MW. We see that with lower investment costs, HDG's power plants often run at higher utilisation rates than peers. (2) HDG aims to launch sales the phase 3 of the Charm Villas project (with the remaining 130 units, GDV about VND1,800bn) in 2Q23F which is expected to generate VND2,096bn in total revenue and VND1,071bn in total net profit, making up 30.6%/46.4% of HDG's top line and bottom line, respectively, in FY23-24F. As there are no sizeable residential property projects in near-term, HDG's earnings will drop 6.3% yoy and 22.4% yoy in FY23F and FY24F, respectively.
6	BCG	NA	NA	(1) BCG is the largest listed RE company, and has put into operation 581.4 MW through four projects namely BCG Long An 1, BCG Long An 2, Phu My, BCG Vinh Long and rooftop projects. (2) At the same time, the company is implementing two wind power projects including Khai Long Ca Mau (Phase 1) and Tra Vinh project (Phase 1) with a total capacity of 180 MW. We see this to be the main engine for its RE segment to shine in FY23-24F. (3) We see the current price mechanism draft for the transitional RE project from EVN to benefit BCG the most following its delayed solar project Phu My 2. In the latest PDP8 draft, the Phu My solar farm will be among the 726MW transitional project that suggested to keep developing in the 2022-30F.
7	GEG	NA	NA	(1) GEG is among top RE companies with total capacity of 456MW, including 81MW small hydropower, 245MW solar power and 130MW wind power. (2) The company also has a pipeline of 130MW wind power including VPL2 Ben Tre (30MW) and Tan Phu Dong 1 (100MW). We see the official announcement of new RE price mechanism will activate faster profit growth for the company from FY23F.
8	QTP	NA	NA	(1) We see QTP will set a same trend as NT2, including gradual drop in debt and healthy dividend payments. (2) We expect thermal power in the North such as QTP will record higher mobilization in the FY23-24F, thanks to 1) Power demand in the North will rise sharply in the following years while additional power sources stay at low growth rate, 2) QTP benefited from ideal location, near coal mine and record low transportation cost, besides, the plants has ensured a long-term domestic coal price contract from TKV – the company major shareholder.

Source: VNDIRECT RESEARCH

Figure 172: FY22-24F earnings forecasts of stocks under coverage

	PC1			POW			NT2		
	2022F	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**	**2022F**	**2023F**	**2024F**
Revenue (VNDbn)	9,949	14,722	16,753	27,368	34,008	42,049	8,932	7,437	8,415
% growth	*1.2%*	*48.0%*	*13.8%*	*11.4%*	*24.3%*	*23.6%*	*45.2%*	*-16.7%*	*13.1%*
Gross margin (%)	*17.3%*	*19.3%*	*19.0%*	*12.0%*	*13.5%*	*14.3%*	*15.0%*	*13.9%*	*15.6%*
EBITDA margin (%)	*18.9%*	*19.8%*	*19.1%*	*21.3%*	*20.7%*	*21.2%*	*21.7%*	*22.2%*	*22.8%*
Net profit (VNDbn)	437	1,149	1,523	1,711	2,767	3,197	1,105	848	1,090
% growth	*-37.1%*	*162.7%*	*32.6%*	*-3.8%*	*61.7%*	*15.5%*	*107.0%*	*-23.3%*	*28.5%*
EPS (VND/share)	1,616	4,247	5,631	731	1,182	1,365	3,838	2,945	3,785
BVPS (VND/share)	21,490	27,078	34,487	13,473	14,885	16,535	17,052	18,064	19,951
Net cash/share (VND/share)	-31,023	-36,076	-34,306	-1,019	-2,704	-5,060	2,694	6,286	10,340
D/E (x)	2.28	2.27	1.95	0.63	0.82	1.04	0.54	0.44	0.44
Dividend yield (%)	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%	8.6%	7.0%	8.6%
ROAE (%)	9.2%	21.5%	23.9%	5.4%	7.9%	8.3%	22.5%	16.3%	19.0%
ROAA (%)	2.2%	4.8%	5.7%	3.1%	4.4%	4.1%	15.6%	11.3%	13.8%

Source: VNDIRECT RESEARCH

Figure 173: FY22-24F earnings forecasts of stocks under coverage

	REE			HDG		
	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	9,342	10,548	12,065	3,935	3,662	3,195
% growth	*60.6%*	*12.9%*	*14.4%*	*4.2%*	*-7.0%*	*12.8%*
Gross margin (%)	*36.8%*	*32.9%*	*32.6%*	*69.1%*	*67.4%*	*65.1%*
EBITDA margin (%)	*39.9%*	*35.2%*	*33.9%*	*80.1%*	*80.7%*	*81.5%*
Net profit (VNDbn)	2537	2578	2985	1,389	1,301	1,009
% growth	*36.8%*	*1.6%*	*15.8%*	*26.6%*	*-6.3%*	*-22.4%*
EPS (VND/share)	8,183	8,316	9,629	5,677	5,318	4,126
BVPS (VND/share)	57,183	65,760	75,848	23,941	27,630	30,035
Net cash/share (VND/share)	-26,050	-21,759	-13,440	-20,520	-15,834	-13,585
D/E (x)	0.83	0.76	0.69	1.03	0.71	0.25
Dividend yield (%)	2.1%	2.1%	2.1%	5.4%	5.4%	5.4%
ROAE (%)	17.5%	15.5%	15.8%	27.3%	20.6%	14.3%
ROAA (%)	7.6%	7.0%	7.4%	8.7%	8.3%	6.7%

Source: VNDIRECT RESEARCH

Figure 174: Peer comparison

Company name	Ticker	Price	Target price	Recom.	Mkt Cap	P/E(x)		P/BV(x)		EV/EBITDA (x)		ROE (%)	
	Bloomberg	LC$	LC$		US$m	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Gas-fired power peer													
PVPower	POW VN Equity	10,600	18,400	ADD	999.2	15.2	10.8	0.8	0.8	4.8	4.5	6.0	7.5
GENCO 3	PGV VN Equity	16,600	NA	NR	750.7	7.0	7.0	1.1	1.0	5.9	5.7	14.6	14.3
PetroVietnam Nhon Trach 2 JSC	NT2 VN Equity	24,800	31,700	ADD	287.4	8.9	8.3	NA	NA	NA	NA	20.8	15.0
Ba Ria Thermal Power JSC	BTP VN Equity	13,000	NA	NR	30.2	NA	NA	NA	NA	NA	NA	NA	NA
Average						*10.4*	*8.7*	*0.9*	*0.9*	*5.4*	*5.1*	*13.8*	*12.3*
Median						*8.9*	*8.3*	*0.9*	*0.9*	*5.4*	*5.1*	*14.6*	*14.3*
Coal-fired power peer													
Vinacomin - Power Holding Corp	DTK VN Equity	NA	NA	NR	250.1	NA	NA	NA	NA	NA	NA	NA	NA
HAI Phong Thermal Power JSC	HND VN Equity	12,200	NA	NR	245.5	8.6	6.4	1.1	1.0	NA	NA	13.3	15.3
Quang Ninh Thermal Power JSC	QTP VN Equity	12,100	NA	NR	219.2	6.5	6.3	0.9	0.8	2.4	2.7	14.0	15.2
Pha Lai Thermal Power JSC	PPC VN Equity	12,400	NA	NR	160.0	17.3	6.4	NA	NA	NA	NA	5.0	13.0
Average						*10.8*	*6.4*	*1.0*	*NA*	*2.4*	*NA*	*10.8*	*14.5*
Median						*8.6*	*6.4*	*1.0*	*0.9*	*2.4*	*2.7*	*13.3*	*15.2*
Hydropower peer													
Vinh Son - Song Hinh Hydropower	VSH VN Equity	28,550	NA	NR	271.5	5.7	11.3	1.4	1.3	NA	NA	25.1	11.5
Hua Na Hydropower JSC	HNA VN Equity	17,500	NA	NR	165.7	NA	NA	NA	NA	NA	NA	NA	NA
Thac Ba HydroPower JSC	TBC VN Equity	28,600	NA	NR	73.1	NA	NA	NA	NA	NA	NA	NA	NA
Average						*5.7*	*14.5*	*1.4*	*NA*	*NA*	*NA*	*25.1*	*11.5*
Median						*5.7*	*11.3*	*1.4*	*1.3*	*NA*	*NA*	*25.1*	*11.5*
RE power peer													
Gia Lai Electricity JSC	GEG VN Equity	11,200	NA	NR	145.1	11.2	9.1	1.0	1.0	8.5	6.6	9.3	10.8
Multi-segment peer													
REE Corp	REE VN Equity	69,800	85,500	ADD	998.5	9.7	9.6	1.4	1.2	7.9	7.9	17.5	15.5
Ha Do Group JSC	HDG VN Equity	25,900	43,800	ADD	255.0	4.8	5.1	1.1	1.0	3.7	3.2	20.6	14.3
PC1 Group JSC	PC1 VN Equity	16,000	30,800	ADD	174.2	4.8	5.1	1.1	1.0	3.7	3.2	9.2	21.5
Bamboo Capital Group JSC	BCG VN Equity	5,400	NA	ADD	116.0	1.9	1.0	0.4	0.3	NA	NA	30.1	36.0
Average						*5.3*	*5.2*	*1.0*	*0.9*	*5.1*	*4.8*	*19.4*	*21.8*
Median						*4.2*	*4.1*	*0.9*	*0.8*	*4.2*	*3.7*	*19.8*	*23.4*

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as of Nov 22, 2022)

Sector note

CONSTRUCTION & MATERIALS: BUILD RESILIENCE FOR THE TOUGH TIMES

- We believe public investment will back to centre stage in 2023F, partially offsetting the weakening residential property segment.
- Basic materials prices are on the mend which likely blow tailwind for a few industries among this sector.
- We like companies that might ride on upcoming infrastructure development. Our stock picks are HPG, C4G while PLC is on watchlist**.**

Public investment will back to centre stage in 2023F

According to our estimates, disbursement of public investment in 2023F could increase by 20-25% yoy. We have optimistic view on the infrastructure development into 2023F as the issues of stone shortage and high building material prices have mostly been addressed. Mega infrastructure projects in the near-term pipeline include twelve sub-projects of East North-South Expressway (NSE phase 2), Long Thanh Int'l Airport, Ring road 4 (Hanoi) and Ring road 3 (HCMC).

Chances for top construction players to win the large-scale projects

Since Sep 22, Ministry of Transport has been allowed to directly appoint contractors for NSE phase 2 which is expected to shorten the time of project implementation. Financial capability and construction experience are critical criteria for selecting contractors. We believe top players with strong track-record profiles, ie: VCG, HHV, C4G, etc. ... are likely to win the large portion of bidding packages. Additionally, we see 2023F could be a turnaround for construction stone and asphalt producers following the time lines of existing projects.

Headwinds persist with steel and cement industry

Vietnam's steel and cement manufacturers have struggled with declining global construction demand, elevated input materials and increasing supply gluts since 3Q22. Look into 2023F, the stagnant residential property will cast shadow over these segments. However, a few signals that could be frontal passages for wind change in late-23, include: easing basic materials prices (coking coal, steel scrap), the re-openings of Chinese might boost the demand, and the acceleration in infrastructure development might partially offset the residential construction.

Our stock picks are HPG, C4G while put PLC on watchlist

We prefer companies that ride on upcoming infrastructure development (**C4G, PLC**). For **HPG**, its current valuation is attractive with limited downside risks given its leading position in the Southeast Asian steel industry and healthy balance sheet to allow HPG to grab more market share during the industry downcycle. Downside risks include sluggish disbursement of public investment, higher-than-expected interest rates, commodities price upturn maintain.

Analyst(s):

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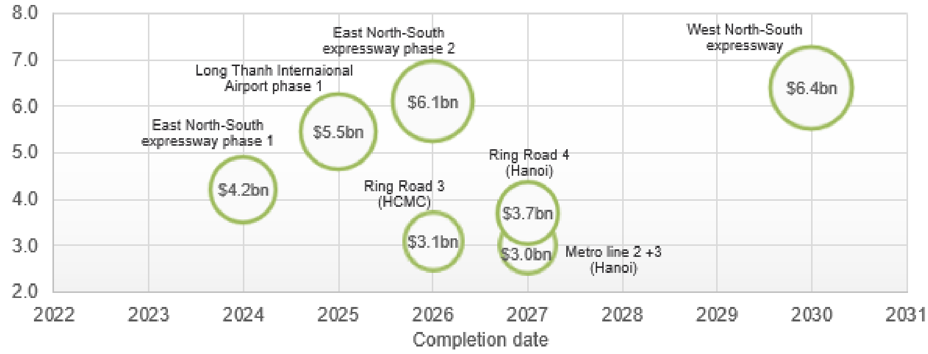
Figure 175: Mega infrastructure projects will be focused on implementing in the near future



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Riding on the infrastructure development acceleration

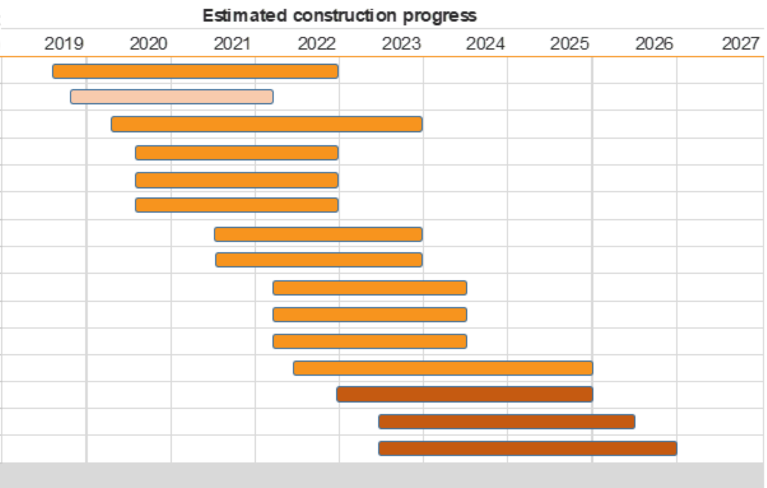
North-South Expressway (NSE) phase 2 in focus

In order to counter the slowdown of other growth engine, the government targets to push public investment in 2023F with VND793tr in disbursement pipeline (+34% versus 2022). We believe that the disbursement of public investment in 2023 could increase by 20-25% compared to the actual disbursement in 2022 thanks to (1) the bottleneck of construction stone shortage has been addressed as the government has licensed for new mines, (2) the prices of construction materials such as steel, cement, construction stone are gradually cooling down.

According to Ministry of Transport (MoT), key infrastructure projects will start construction in late-2022, including: East North-South expressway phase 2 (Dec 22); the passenger terminals and runways of Long Thanh Int'l Airport (Dec 22), Terminal 3 of Tan Son Nhat International Airport (Dec 22), Bien Hoa – Vung Tau expressway (Apr 23) and Khanh Hoa – Buon Ma Thuot expressway (Jun 23). Meanwhile, other eleven sub-projects at the North-South Expressway phase 1 will be completed within 2023-24F.

Figure 176: Many major transport infrastructure projects are expected to be completed in 2022-26F

Project		Total investment (VND bn)
Eleven sub-projects of East North-South expressway (Phase 1)	Cam Lo - La Son	7,700
	Cao Bo - Mai Son	1,600
	My Thuan 2 bridge	5,000
	Mai Son - Highway 45	12,920
	Vinh Hao - Phan Thiet	10,853
	Phan Thiet - Dau Giay	14,360
	Nghi Son - Dien Chau	8,380
	Highway 45 - Nghi Son	6,330
	Dien Chau - Bai Vot	13,340
	Nha Trang - Cam Lam	7,615
	Cam Lam - Vinh Hao	13,690
Long Thanh International Airport (Phase 1)		109,112
Twelve sub-projects of East North-South expressway (Phase 2)		146,990
Ring Road 3 (HCMC)		75,378
Ring Road 4 (Hanoi)		85,813
Total		**519,081**



Notes: Completed; Under construction; Not started yet

Source: VNDIRECT RESEARCH, MOT

Figure 177: North-South Expressway phase 2 is divided into 25 packages with size in range of VND3,000bn – VND8,000bn

Project	Length (km)	Bidding package	Package size (VND bn)
Bai Vot - Ham Nghi	35.3	XL-01	6,045
Ham Nghi - Vung Ang	54.2	11-XL	4,456
		12-XL	3,304
Vung Ang - Bung	56.1	XL-01	5,300
		XL-02	5,400
Bung - Van Ninh	50.0	XL-01	3,939
		XL-02	3,501
Van Ninh - Cam Lo	65.0	XL-01	3,361
		XL-02	3,480
Quang Ngai - Hoai Nhon	88.0	XL-01	3,800
		XL-02	4,500
		XL-03	6,400

Project	Length (km)	Bidding package	Package size (VND bn)
Hoai Nhon - Quy Nhon	70.1	11-XL	3,027
		12-XL	6,140
Quy Nhon - Chi Thanh	61.7	11-XL	3,690
		12-XL	3,055
		13-XL	6,241
Chi Thanh - Van Phong	48.0	XL-01	4,393
		XL-02	4,440
Van Phong - Nha Trang	83.4	XL-01	5,365
		XL-02	3,549
Can Tho - Hau Giang	37.7	XL-01	7,966
Hau Giang - Ca Mau	73.0	XL-01	7,256
		XL-02	3,835
		XL-03	3,334

Source: VNDIRECT RESEARCH, MOT

Direct appointment of contractors for NSE phase 2 will benefit some large players

In order to shorten the time of project implementation, the MoT will be authorized to appoint contractors for NSE phase 2 which will be applied since late-2022 to consultancy, technical infrastructure relocation, compensation for site clearance and re-settlement package deals. A list of criteria was set by MoT to ensure that the projects can be implemented in a transparent way. Top players with track-record profiles include Vinaconex (VCG VN, HOSE), Deo Ca Traffic Infrastructure Investment JSC (HHV VN, HOSE), CIENCO4 Group (C4G VN, UPCOM),… are likely to win the large portion of packages.

Figure 178: Strict conditions in selecting contractors for the North-South expressway phase 2 project

5 groups of criteria for selecting contractors for the North-South expressway phase 2	1. The contractor must have a Class I qualification certificate for road works.
	2. The contractor must have experience in performing a technically similar contract.
	3. The contractor completed the bidding package with a value of at least 50% of the size of the package under consideration.
	4. Ensure financial capacity requirements.
	5. The average contractor's construction revenue in the last 3 years must be equivalent to the size of the package under consideration.

Source: VNDIRECT RESEARCH, MOT

Figure 179: Only a few Vietnamese contractors are capable of executing large-scale bidding packages

Package size (VND bn)	Number of contractors which have completed projects of equivalent size
350-500	18
500-1,000	16
1,000-1,500	7
> 1,500	7

Source: VNDIRECT RESEARCH, MOT

Figure 180: Companies have surpassed the previous strict conditions for winning the bid, thereby enabling them to continue participating in the next major infrastructure projects

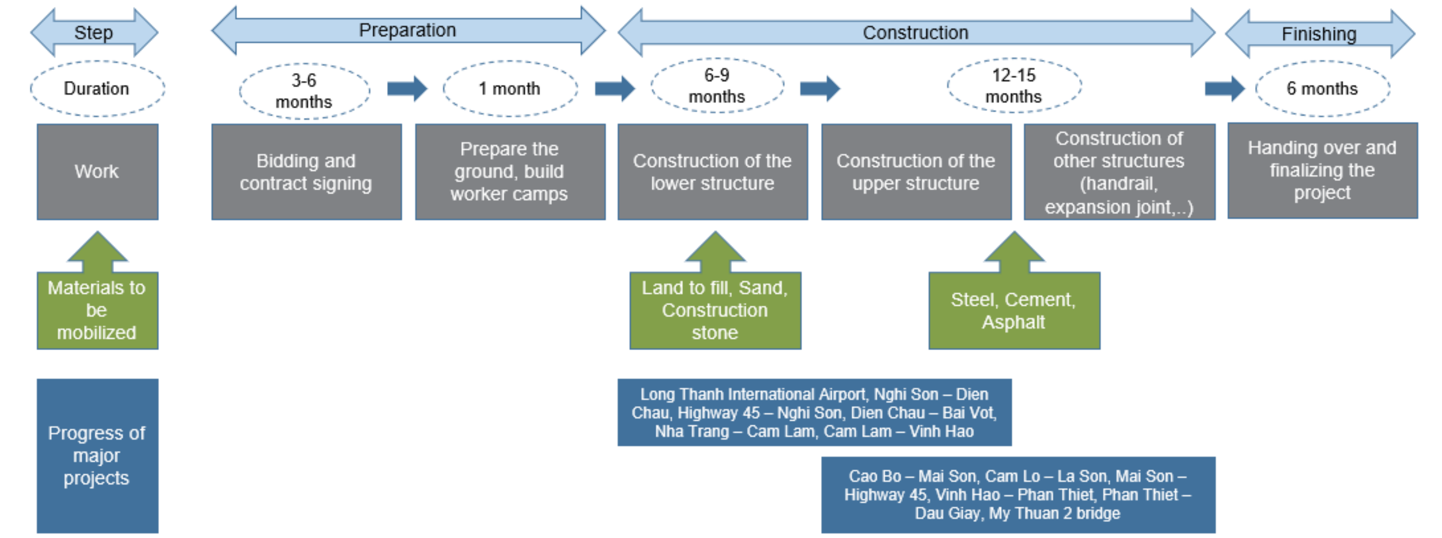
Company	Ticker	Time of establishment	Owner equity at the end of 3Q22 (VND bn)	Average revenue of construction segment in 2019-21 period (VND bn)	Outstanding projects participated: Project	Outstanding projects participated: Package size (VND bn)
Listed company						
Vietnam Construction And Import-Export JSC	VCG	1988	9,970	4,000	Package XL-14 at Mai Son - Highway 45 expressway (NSE 1)	1,573
					Package XL-04 at Vinh Hao - Phan Thiet expressway (NSE 1)	2,289
					Package XL-03 at Phan Thiet - Dau Giay expressway (NSE 1)	1,725
					Package XL-03 at Nghi Son - Dien Chau expressway (NSE 1)	886
					Package XL-03 at Highway 45 - Nghi Son expressway (NSE 1)	560
					Package XL-10 at Van Don - Mong Cai expressway	402
Lizen JSC	LCG	2001	2,553	2,226	Package XL-02 at Highway 45 - Nghi Son expressway (NSE 1)	350
					10 packages at Huu Nghi - Chi Lang expressway	1,207
					Van Don - Tien Yen expressway	602
					8 packages at Bac Giang - Lang Son expressway	1,532
Deo Ca Group JSC (the parent company of HHV)	HHV	1985	10,811	1,879	Package XL-12 at Mai Son - Highway 45 expressway (NSE 1)	672
					Package XL-01 at Nghi Son - Dien Chau expressway (NSE 1)	302
					Cam Lam - Vinh Hao expressway (NSE 1)	1,939
					Trung Luong - My Thuan expressway	3,287
					Package XL-08 at Cua Luc 3 bridge	647
					Package XL-08 at Cua Luc 1 bridge	567
CIENCO4 Group JSC	C4G	1982	2,455	1,435	Package XL-02 at Phan Thiet - Dau Giay expressway (NSE 1)	859
					Package XL-04 at Nghi Son - Dien Chau expressway (NSE 1)	455
					Package XL-02 at My Thuan - Can Tho expressway	296
					Dien Chau - Bai Vot expressway (NSE 1)	1,673
Dat Phuong Group JSC	DPG	2002	2,096	1,002	Package XL-01 at My Thuan 2 brigdge (NSE 1)	590
					Package XL-01 at Vinh Hao - Phan Thiet expressway (NSE 1)	400
					Package 1A at Tan Van - Nhon Trach highway	549
Vina2 Invest and Construction JSC	VC2	1989	693	630	Dien Chau - Bai Vot expressway (NSE 1)	1,673
Unlisted company (estimated financial figures)						
Son Hai Group JSC		1998	2,377	1,368	Package XL-01 at Nghi Son - Dien Chau expressway (NSE 1)	1,159
					Package XL-07 at Cam Lo - La Son expressway (NSE 1)	
					Package XL-10 at Mai Son - Highway 45 expressway (NSE 1)	
Truong Son Construction Corporation		1989	NA	3,373	Package XL-13 at Mai Son - Highway 45 expressway (NSE 1)	1,200
					Package XL-02 at My Thuan - Can Tho expressway	
					Package XL-02 at Cam Lo - La Son expressway (NSE 1)	
Phuong Thanh Traffic Construction and Investment JSC		1999	961	1,800	Package XL-02 at Phan Thiet - Dau Giay expressway (NSE 1)	911
					Package XL-R6B at Tien Yen - Mong Cai expressway	1,021
					Package XL-16 at Ha Long - Hai Phong expressway	700

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Asphalt: timing for a profit growth turnaround

The Government urged all contractors of sub-projects at the NSE phase 1 to keep up with initial deadlines. We estimate about 361km/148km/128km of this expressway to be completed in 2022/23/24F, respectively. In addition, NSE phase 2 with 349km of expressway is also expected to be completed in the period of 2023-25F. As asphalt paving is the last-mile construction of road projects, we expect asphalt demand will increase since 4Q22.

Figure 181: Progress of key transport infrastructure projects



Source: VNDIRECT RESEARCH

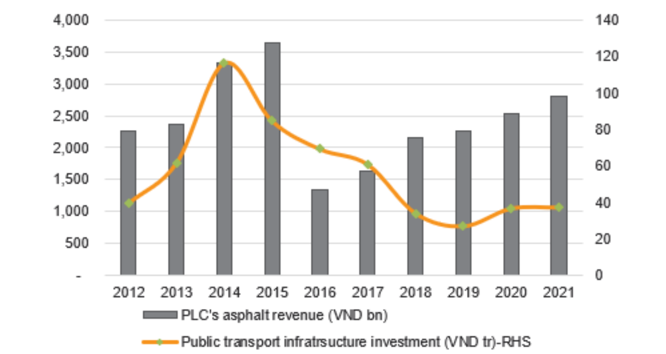
Due to the lack of statistics on Vietnam's asphalt industry, we compare industry sales volume growth based on Petrolimex Petrochemical Corporation – JSC (PLC VN, HNX), which maintained about 30% of domestic asphalt market share in FY15-21, according to PLC. PLC's asphalt revenue jumped during FY2014-15, when the disbursement of public transportation investment rose strongly. Low infrastructure spending in FY16-19 was attributed to a strained government budget and cooling private investment in BOT projects, resulting in a ~50% decline in PLC's asphalt revenues vs. FY2014-15.

Figure 182: Key asphalt manufactures in Vietnam

Company	Capacity (tonnes)	Number of factory	Market share in 2020	Asphalt products offered 60/70	MC	Emulsions	Polymer
PLC	400,000	7	30%	x	x	x	x
ADCo	150,000	4	22%	x		x	x
ICT	120,000	3	15-20%	x		x	x
Transmeco	~ 100,000	2	N/A	x	x	x	x

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 183: PLC's asphalt revenue jumped during FY2014-15, when the disbursement of public transportation investment rose strongly



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We believe PLC is well positioned to win contracts thanks to (1) its strong warehouse network and its market-leading capacity, and (2) PLC's long-standing relationships with SOEs and a good track record in contract execution.

Construction stone: Eye on Long Thanh Int'l Airport

Due to the industry characteristics, transportation costs often account for a large proportion of construction stone costs. Depending on the distance and type of transportation, the price of stone delivered to a work site may be double the gate price at the mine.

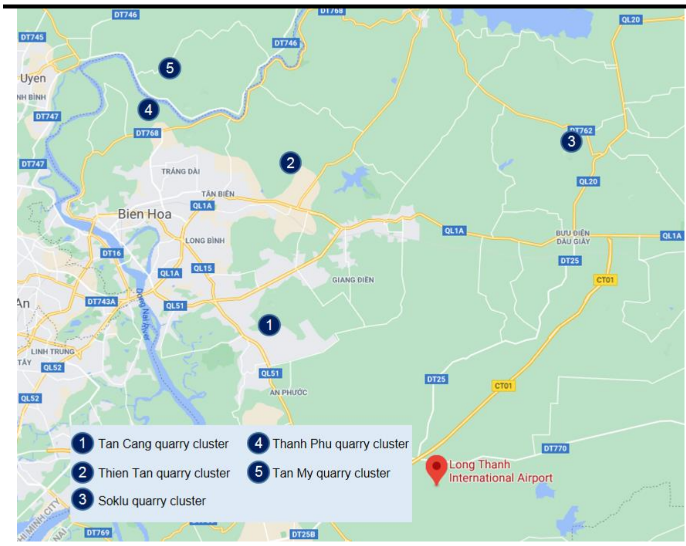
Long Thanh international airport project recently started to build the foundation will be the main growth driver of construction stone demand in the Vietnam Southeast region. We believe that the quarries of companies located near major projects will be prioritised for the supply given the advantages and product quality of these large companies.

Meanwhile, we believe that the licensing of construction stone quarries is facing difficulties in both extending the mining time, increasing the mining capacity and especially in exploiting new quarries due to (1) the opposition of local people when the quarries are causing a lot of negative impacts on the environment and (2) most of the old quarries (with the expiry of the mining life) have not yet carried out the closing procedures mine as committed.

Thus, we believe that listed construction stone enterprises that own many quarries with long exploitation periods, large mining capacity will have many advantages compared to their competitors and will benefit mainly from the Vietnam's huge demand for infrastructure construction in FY22-30F.

We believe listed stone companies that own high quality quarries at favourable locations will supply stone to LTIA, especially the Tan Cang and Thien Tan quarry cluster (owned by KSB, DHA, VLB and DND). We believe this mega project will drive the earnings of construction stone companies in 2023-24F.

Figure 184: Locations of construction stone quarries and LTIA



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 185: Quarries of listed construction stone companies

Company	Quarry	District	Province	Licensed mining capacity (m3/year)	Exploitation period
KSB	Tan My	Bac Tan Uyen	Binh Duong	1,500,000	Aug-29
	Phuoc Vinh	Phu Giao	Binh Duong	1,200,000	Jan-23
	Thien Tan 7	Vinh Cuu	Dong Nai	280,000	Jan-35
	Go Truong	Tinh Gia	Thanh Hoa	180,000	Jan-45
	Bai Giang	Nghi Loc	Nghe An	150,000	Aug-43
C32	Tan My (*)	Bac Tan Uyen	Binh Duong	1,000,000	Dec-25
DHA	Thach Phu 2	Vinh Cuu	Dong Nai	818,000	Sep-26
	Tan Cang 3	Bien Hoa	Dong Nai	490,000	Mar-37
	Nui Gio	Hon Quan	Binh Phuoc	300,000	Aug-38
NNC	Mui Tau	Tan Lap	Binh Phuoc	1,000,000	Jan-42
VLB	Thach Phu 1	Vinh Cuu	Dong Nai	1,800,000	Jul-42
	Thien Tan 2	Vinh Cuu	Dong Nai	1,500,000	Jun-38
	Solku 2	Thong Nhat	Dong Nai	400,000	Jan-26
	Solku 5	Thong Nhat	Dong Nai	500,000	Jun-25
DND	Tan Cang 1	Bien Hoa	Dong Nai	1,500,000	Dec-39
	Tan Cang 5	Bien Hoa	Dong Nai	1,000,000	Jan-23
	Thien Tan	Vinh Cuu	Dong Nai	354,000	Jan-26
CTI	Xuan Hoa	Xuan Loc	Dong Nai	750,000	Jan-30
	Thien Tan 10	Bien Hoa	Dong Nai	2,000,000	Dec-33

(*) Tan My mine is owned by Mien Dong (HOSE: MDG) – C32's associated company

Source: VNDIRECT RESEARCH, COMPANY REPORTS

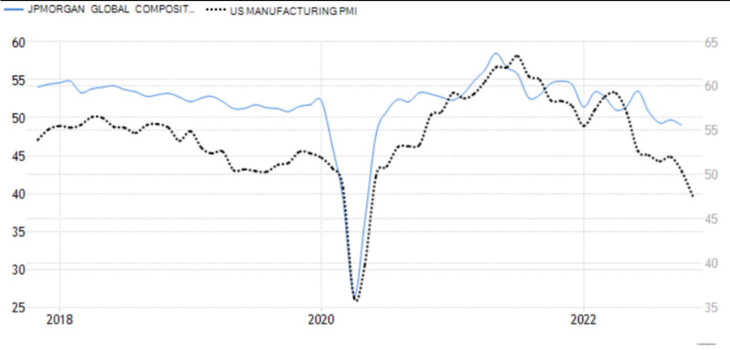
Exports dip on weakening global demand

Global industrial production is declining

In Oct 22, the JPMorgan Global Manufacturing PMI — a broad measure of current conditions in the global manufacturing sector — reached its lowest level (49.4) in over two years. This included a further weakening in new orders, and signals a likely contraction of industrial activity and steel output in the near term.

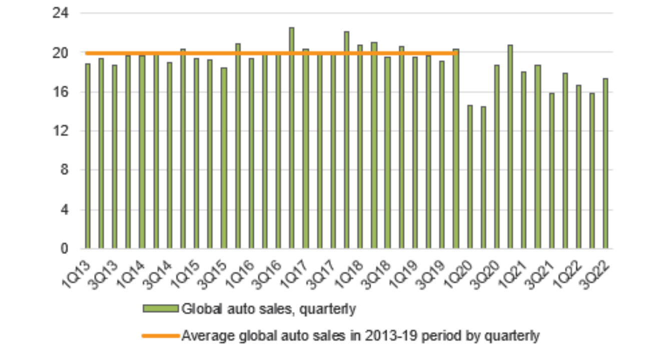
The automotive sector — which typically accounts for around 10-15% of the global total steel consumption - has continued to face disruptions, with COVID-related supply chain shortages further aggravated by fallout from the Russian invasion of Ukraine, and recent outbreaks of the pandemic in China. This led to global auto sales in 2022 being significantly below the 2013-19 average. The weakening global outlook in recent months has also seen a marked drop in steel prices across major markets, particularly flat products such as hot rolled coil (HRC).

Figure 186: Both global manufacturing PMI and US Industrial production sink to the 2-year by Oct 2022



Source: VNDIRECT RESEARCH, TRADING ECONOMICS

Figure 187: Global auto sales in 2022 remain significantly below the 2013-19 average (m autos)



Source: VNDIRECT RESEARCH, BLOOMBERG

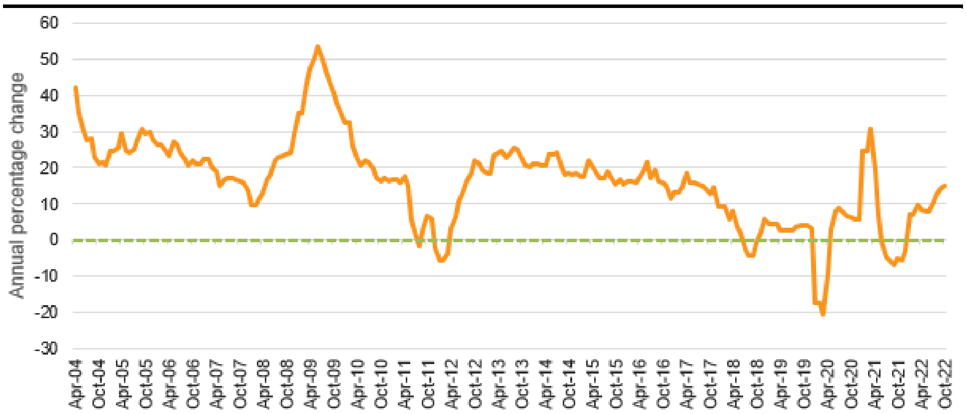
China's construction material demand growth falters amid Covid-19 outbreaks and property sector weakness

The fall in China's construction material demand so far in 2022 reflects renewed Covid-19 lockdowns across many cities from 2Q22 and significant weakness in China's residential property sector.

China's real estate sector has continued to weaken throughout 2022-1Q23F. Housing starts in the year-to-Aug were down 37% yoy, while new home sales over the same period were down 21% yoy. In Aug 22, home prices (China's 70 large and medium-sized cities index) also fell for a 12th straight month.

Infrastructure investment has seen a significant ramp up so far in 2022, with more than 90% of this year's quota of local government special purpose bonds (US$500bn) already allocated in 1H22. In Oct, China's infrastructure investment (3 months average) was around 15% higher yoy. This spending is expected to boost construction activity in the 4Q22 and into 2023. However, it is unclear if the stimulus will fully offset continued weakness in China's property sector.

Figure 188: China's infrastructure investment was around 15% higher yoy in Oct 2022

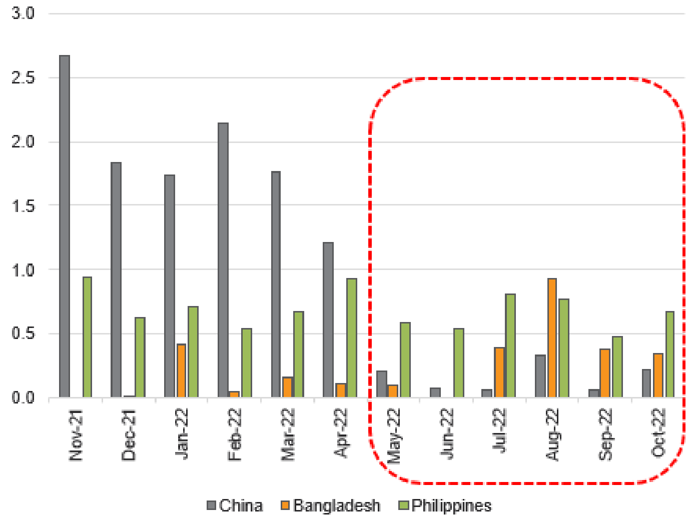


Source: VNDIRECT RESEARCH, BLOOMBERG

Headwind persist for both steel and cement exports till 2H23F

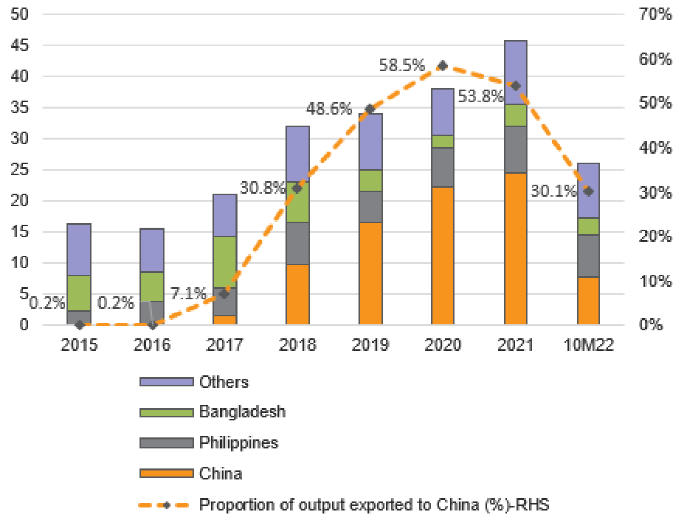
According to the General Department of Vietnam Customs, China is the largest export market of Vietnam's cement since 2018 and accounts for 54% of total export volume in 2021. Thus, Vietnam's cement exporters struggled since May 2022 due to weak construction demand in China as a result of China's zero Covid-19 policy and the cooling real estate market. In 10M22, Vietnam's cement export volume fell significantly 30% yoy, reaching only 26m tonnes.

Figure 189: Vietnam's cement and clinker exports to China fall significantly since May 2022 (m tonnes)



Source: VNDIRECT RESEARCH, GENERAL DEPARTMENT OF VN CUSTOMS

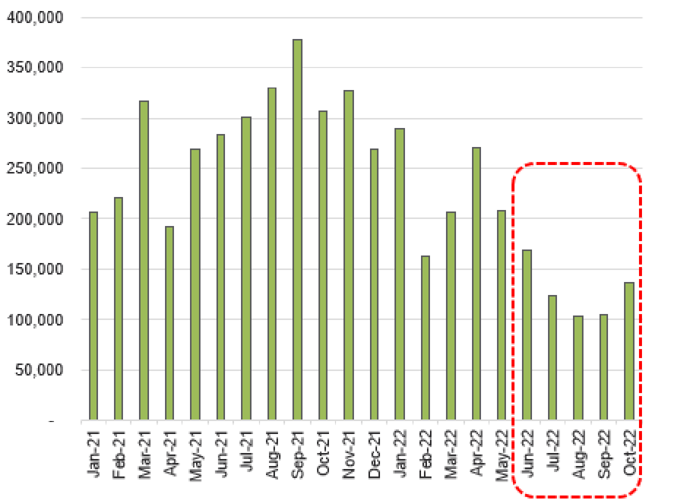
Figure 190: Vietnam's cement depends on exporting to the Chinese market (m tonnes)



Source: VNDIRECT RESEARCH, GENERAL DEPARTMENT OF VN CUSTOMS

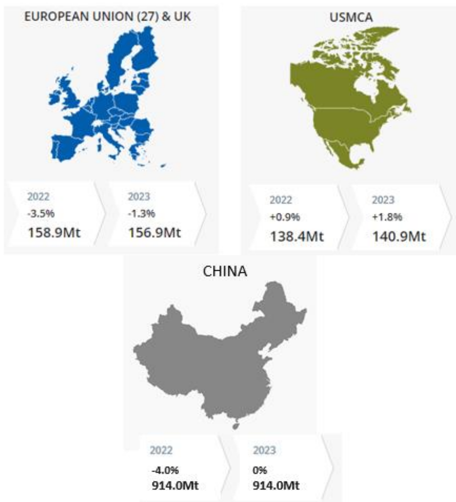
Weak construction demand was also recorded in Vietnam's main steel export markets - the EU and U.S. since May 2022, due to (1) high inflation causing a decrease in real estate demand and (2) critical raw material & energy shortages caused industrial production to decline. In 10M22, Vietnam's galvanised steel export volume decreased by 37% yoy.

Figure 191: In 10M22, export of galvanised steel decreased by 37% yoy (tonnes)



Source: VNDIRECT RESEARCH, VSA

Figure 192: The World Steel Association (WSA) forecasts steel demand in Europe to decrease by 1.3% yoy in 2023, while steel demand in China is almost unchanged



Source: VNDIRECT RESEARCH, WSA

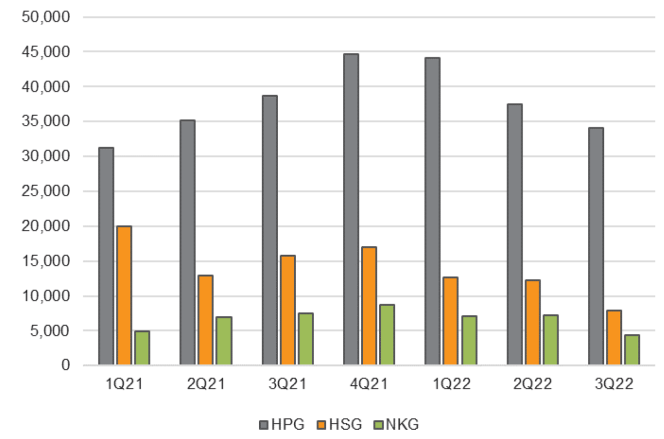
We believe steel and cement exports will still face difficulties in the coming months before the situation improves in 2H23F. This expectation is thanks to (1) stimulus-related infrastructure projects, recent social distancing orders showing signs of easing and real estate sector bailouts gradually taking effect in China, and (2) a recovery in global industrial production as energy shortages gradually cooled down.

Steel sector: Times is getting harder for domestic steel makers

Sluggish performance of steel maker in 2022

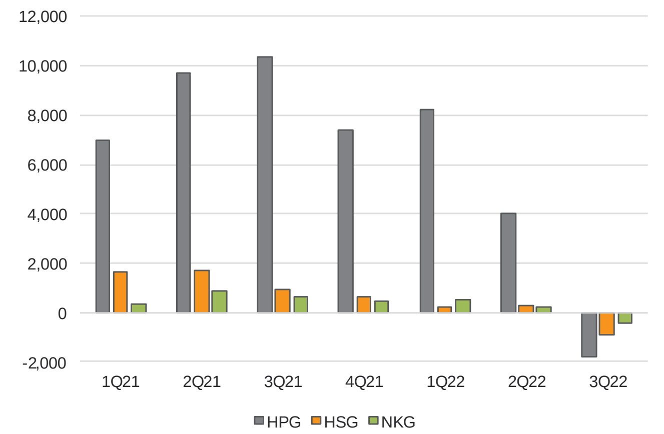
Steel companies all recorded dismal business results in 3Q22. Revenue of the three largest listed steel companies in 3Q22 (including HPG, HSG, NKG) decreased by 25% yoy and 18% qoq due to weak steel demand causing both sales volume and selling price to decline. In addition, high input prices (including coking coal and hot rolled coin), rising interest rates and weakening VND have caused many steel businesses to record net losses in 3Q22. Notably, the largest steel producer in Vietnam - HPG with the advantage economies of scale also had a loss of VND1,776bn in 3Q22, the first loss since 4Q08.

Figure 193: Revenue of the three largest listed steel companies in 3Q22 decreased by 25% yoy and 18% qoq (VND bn)



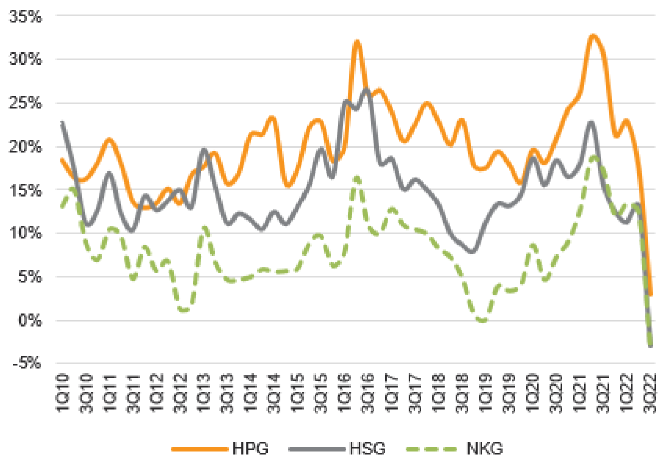
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 194: Major listed steel companies recorded net profit loss in 3Q22, the first loss seen since 2019 (VND bn)



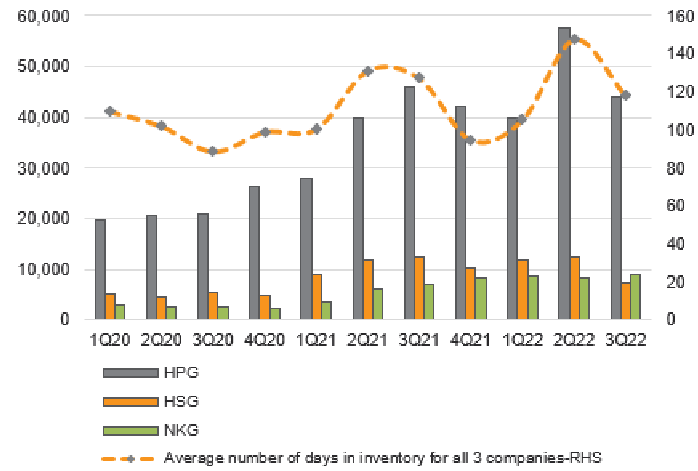
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 195: GM of Vietnamese's major steel companies in 3Q22 was the lowest since listing



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 196: At the end of 3Q22, steel companies inventory decreased significantly compared to the previous quarter (VND bn)



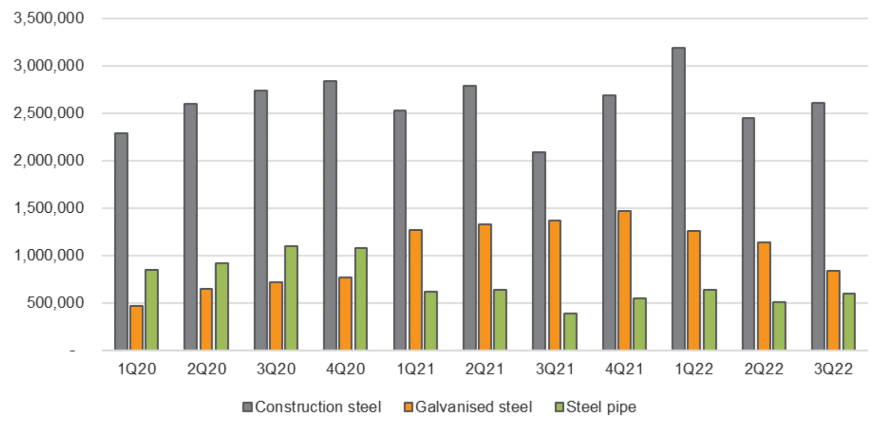
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Despite steel selling price continuously decreased in Oct-Nov, we expect gross margin (GM) of steel companies is expected to recover from 4Q22 as cheaper input costs will materialise. We understand that steel companies have reduced their inventory levels to around two to three months in 4Q22 from four to five months as of end-June this year. This would reduce the risk of any bookings from the inventory provisioning. Meanwhile, spot prices of input materials (including coking coal, steel scrap and iron ore) also have returned to normal levels. Thus, we believe that earnings will bottom out soon for steel companies. Yet, the speed of recovery is quite slow at the moment due to weak demand.

Stagnant residential property will drag down domestic steel demand

Global steel prices across product categories continued to decline in 3Q22 amid weak global demand on fears of a global economic slowdown and lockdown extension in China. In Vietnam, total steel volume (including construction steel, steel pipes and galvanised steel) still increased by 5% yoy to 4.05m tonnes in 3Q22 from low base 3Q21, according to Vietnam Steel Association (VSA). We note that in 3Q21, Vietnam applied strict lockdown measures which massively impacted domestic steel demand. Compared to the same period in 2020, Vietnam's total steel sales volume in 3Q22 decreased by 11%.

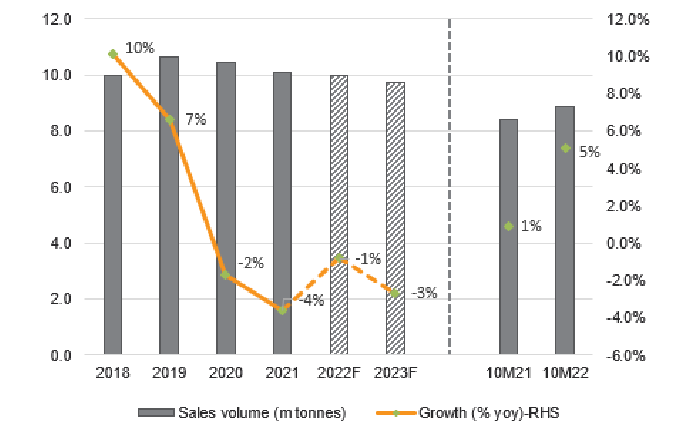
Figure 197: Vietnam's steel sales volume by quarter (tonnes)



Source: VNDIRECT RESEARCH, VSA

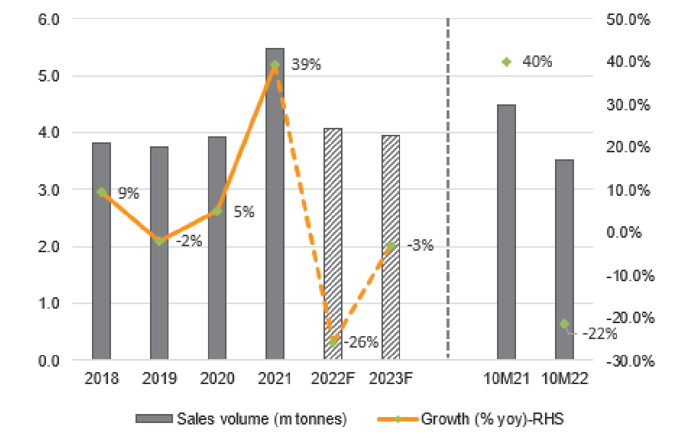
Vietnam's residential property market has cooled down since 2Q22 following some tycoon arrests due to corporate bonds issuance violations, limited credit room for property and rising lending rates to dent the housing demand. Domestic steel industry is also been hit by other headwinds: (1) high input (including coking coal and steel scrap) prices and (2) persistent inflationary pressures had financial conditions tighten across a number of major economies, casting a shadow for global growth prospects. As a result, global steel demand declined, causing difficulties for the export activities of Vietnamese steel companies. Although public investment disbursement is expected to accelerate in the coming quarters, we forecast total domestic steel demand to decline single digits in 2023F. In which, we expect Vietnam's construction steel/galvanised steel sales volume to decrease by 3% yoy in 2023F.

Figure 198: Vietnam's construction steel sales volume will continue to grow negative in 2022-23F



Source: VNDIRECT RESEARCH, VSA

Figure 199: Vietnam's galvanised steel sales volume growth in 2023F will decrease by 3% yoy to the equivalent level of 2020



Source: VNDIRECT RESEARCH, VSA

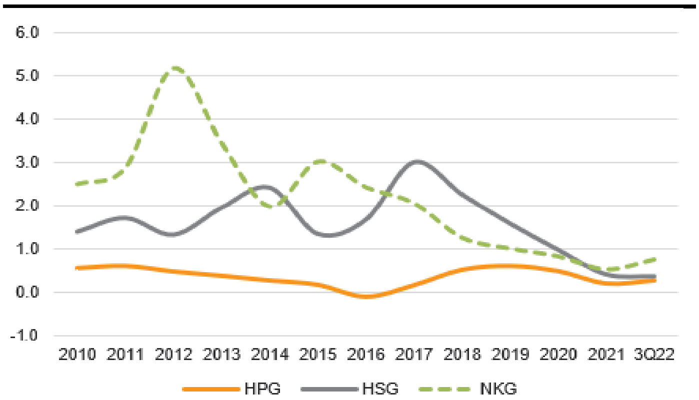
Since late-Sep, several production cuts have been announced: (1) Pomina Steel Corporation (POM VN, HOSE) has announced the closure of its blast furnace - POM 2 factory since 25 Sep 2022; (2) Southern Steel Company Limited has reduced the workload and production output during 4Q22, (3) other galvanised steel makers have partially halted their production and (4) HPG plans to close two blast furnaces (out of three) in its Hai Duong factory and two blast furnaces (out of four) at Dung Quat Steel Complex (DQSC) in Nov 2022. If demand continues to fall further towards the end of the year, HPG would consider shutting down one more (the fifth blast furnace) in Dec 2022. With massive shutdown plans for five out of seven blast furnaces at two steel complexes, this sends a negative message regarding HPG management's view on steel demand in the short-term (maybe till the end of 2022 and 1Q23F).

Rising interest rates weighed on borrowing costs

All steel companies have net debt and most of it is short-term. Therefore, in a raising interest rate environment, interest expenses will increase. However, the net debt/equity levels look better than FY10-19 levels (above 1.5x).

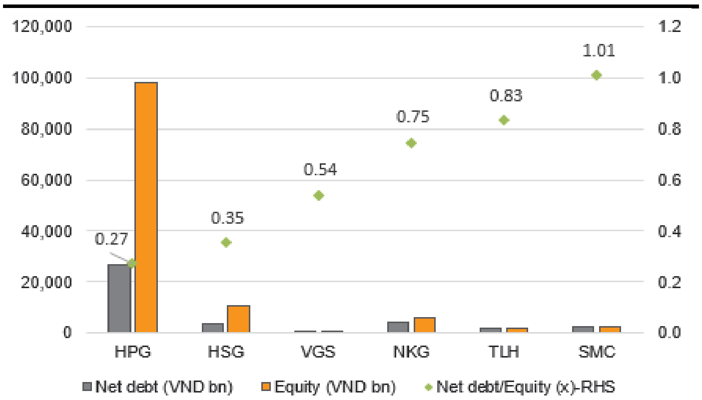
In fact, as of end of Sep-22, HPG has the highest net debt position of VND26,589bn, but net debt/equity was low at just 0.27x. In addition, NKG and HSG also reduced their debt positions over time, and net debt/equity levels for both was in the range of 0.35x to 0.75x as of the end of Sep-22. We note that most debt is short-term to support working capital. With the effort to reduce its inventory in 4Q22, we believe that debt will continue to decline further in 1Q23F.

Figure 200: At the end of 3Q22, Net Debt/Equity ratio of steel companies is still healthier than the 2010-19 period



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 201: HPG has the largest net debt position as of end-3Q22, but net debt/equity is lowest at 0.27x



Source: VNDIRECT RESEARCH, COMPANY REPORTS

When will the positive signal of the steel industry come?

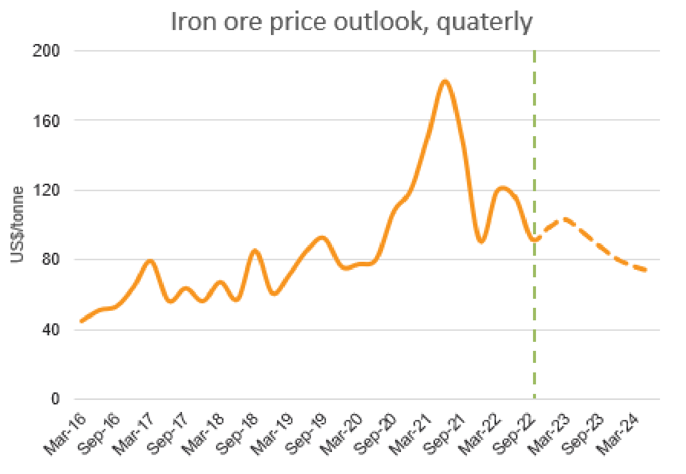
We see a few signals that could be frontal passages for wind change: (1) coking coal prices is forecasted to ease from an average US$420/tonne in FY22F to US$258-220/tonne in FY23-24F as supply conditions normalize; iron ore prices is expected to decline toward longer-run levels from an average US$110/tonne in FY22F to US$90-70/tonne in FY23-24F as weaker demand and more supply; (2) the reopening of Chinese economy will reboot the global steel demand, and (3) the acceleration in Vietnam's infrastructure development will drive up the demand, partially offset the stagnant residential property market.

Weaker demand and more supply to push iron ore prices lower to FY24F

Iron ore prices have fallen by around 45% to US$80/tonne from the peak in Apr 2022. Combined with growing global recessionary fears, new COVID-19 outbreaks and weakness in China's housing sector, have dampened world steel and iron ore demand in recent months.

Over the rest of the outlook period, iron ore prices are projected to decline toward (lower) longer-run levels. This follows more modest growth in blast-furnace steelmaking (compared with the past decade) from major producers such as the EU, US and China, as the world undergoes a transition to a low emissions environment. Slower growth in blast furnace steelmaking capacity will also take place alongside growing supply from Australia and Brazil. Growing global recessionary fears present further downside risks to iron ore prices over this period.

According to Australian Department of Industry, Science, Energy and Resources (DISR) estimates, the FY22F average iron ore price is forecasted to reach US$110/tonne (-29.5% yoy), the benchmark iron ore price is projected to average US$90/tonne in FY23F and around US$70/tonne in FY24F.

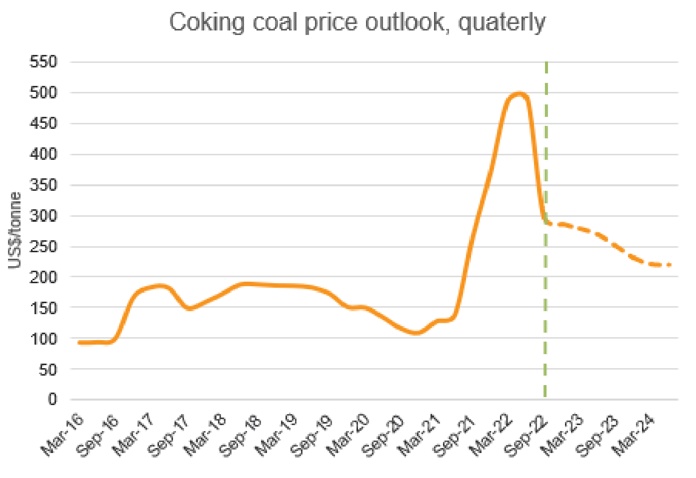


Source: DISR FORECASTS

Coking coal prices are expected to ease gradually

Coking coal prices fell sharply between late May and early July, before recovering slightly. Supply continues to face disruptions from floods in Australia and other weather events, but the fall in demand has allowed market tightness to ease nonetheless. High global energy prices are likely to act as an ongoing curb on steelmaking, especially in China and Europe — where gas shortages are likely to force some moderation in overall energy use over the winter.

DISR forecasts coking coal to ease from an average US$420/tonne in FY22F, but is expected to fall by almost half as supply conditions normalise. Prices are ultimately expected to reach around US$220/ tonne by FY24F.



Source: DISR FORECASTS

Our stock picks are HPG, C4G while put PLC on watchlist

Figure 202: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK HPG	20,900	ADD	HPG is traded at 8.1x FY22F P/E and 6.5x FY23F P/E, not very attractive for short-term investment amid sector downtrend. We have no idea about the inflection point of steel manufacturing segment however we still favor HPG for long-term investment: (1) the leading position in the Southeast Asian steel industry will help HPG to ride on the surge of domestic demand for both civil and transport infrastructure construction; (2) the company's healthy balance sheet with cash-rich will help HPG to grab more market share during the industry downcycle; and (3) Dung Quat Steel Complex 2 (DQSC 2) to bring the HPG's crude steel production capacity by 66% from now to 14.6m tonnes per annum from 2025F onwards. Besides, hot rolled coil (HRC) - the main output product of DQSC 2, is still facing a shortage of supply in the domestic market and depends on imports, thus not putting pressure on HPG's steel oversupply in 2025-30F, in our view.
2	STOCK PICK C4G	13,200	ADD	In infrastructure construction industry, we see that **C4G** is a bright candidate thanks to: (1) it's leading position in transport infrastructure construction in Vietnam; C4G has gradually become "familiar" with large-scale and highly technical projects such as North-South expressway, airport runway, sea bridge... thereby which it has many advantages to continue participating in the next major infrastructure projects in the 2023-25F period; (2) After the issuance to existing shareholders in Jan 2022, C4G's equity at the end of 3Q22 increased by 90% compared to the beginning of the year, which will help C4G significantly improve its financial capacity; and (3) C4G owns many potential assets in real estate projects and is planning to develop such as Cau Cau tourist area, Nghi Hai ecological food court, building at 29 Quang Trung (Nghe An) and 136 Le Van Duyet (HCMC), ...
3	PLC	23,000	ADD	The Government requested all sub-projects at the North-South Expressway not to be delayed; thus, this expressway will have to complete by 361km/148km/128km in 2022/23/24F, respectively. In addition, NSE phase 2 with 349km of expressway is also expected to be completed in the period of 2023-25. As asphalt paving usually takes place in the later stages of road-building projects, we expect asphalt companies to benefit more in 4Q22-23F. We believe PLC is well positioned to win contracts thanks to (1) its strong warehouse network and its market-leading capacity, and (2) PLC's long-standing relationships with SOEs and a good track record in contract execution.
4	FCN	NA	NA	FCN is one of the largest local players in heavy construction with deep expertise in foundation. The company is expected to benefit from a strong wave of public investment disbursement. High raw material prices weighed on the gross margin of construction companies in 2022, the situation will improve in 2023F when input prices gradually decrease. FCN aims to offload its stake of Vinh Hao 6 solar power plant and Quoc Vinh – Soc Trang wind power plant in 4Q22-23F. If successful, the two divestment deals will bring about VND150bn to FCN's net profit over FY22-23F, based on our estimate.

Source: VNDIRECT RESEARCH

Figure 203: FY22-24F earnings forecasts of stocks under coverage

	HPG			C4G			PLC		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	143,541	145,880	160,144	3,270	3,389	3,889	8,358	8,070	7,797
% growth	*-4.1%*	*1.6%*	*9.8%*	*73.5%*	*3.6%*	*14.7%*	*21.7%*	*-3.4%*	*-3.4%*
Gross margin (%)	*14.0%*	*14.6%*	*15.8%*	*12.3%*	*11.8%*	*12.7%*	*11.6%*	*11.9%*	*12.3%*
EBITDA margin (%)	*13.2%*	*15.4%*	*17.1%*	*14.0%*	*14.0%*	*15.0%*	*3.6%*	*4.1%*	*4.7%*
Net profit (VNDbn)	11,213	13,869	16,619	165	169	196	156	173	191
% growth	*-67.5%*	*23.7%*	*19.8%*	*166.5%*	*2.2%*	*15.8%*	*-10.4%*	*10.8%*	*10.3%*
EPS (VND/share)	1,832	2,265	2,702	733	750	869	1,889	2,093	2,309
BVPS (VND/share)	16,985	18,881	21,307	11,104	11,563	12,156	18,480	18,922	19,595
Net cash/share (VND/share)	-6,001	-7,706	-8,562	-13,184	-14,917	-14,445	-4,750	-4,514	-4,993
D/E	0.47	0.47	0.40	1.40	1.49	1.38	0.98	0.96	0.93
Dividend yield (%)	3.3%	3.3%	3.3%	0.0%	3.9%	3.9%	8.9%	8.9%	8.9%
ROAE (%)	11.8%	13.3%	14.2%	8.9%	6.6%	7.3%	10.9%	11.5%	12.3%
ROAA (%)	6.2%	7.0%	7.5%	2.0%	1.9%	2.1%	3.2%	3.4%	3.7%

Sources: VNDIRECT RESEARCH

Figure 204: Construction & Materials sector comparison

Company	Ticker	Price	TP	Recom.	Mkt cap	P/E (x)		3-year EPS	P/BV (x)		EV/EBITDA (x)		ROE (%)	
		LC$	LC$		US$ m	TTM	FY22F	CAGR (%)	TTM	FY22F	TTM	FY22F	TTM	FY22F
Steel														
Hoa Phat Group JSC	HPG VN	14,600	20,900	Add	3,418	5.5	8.0	68.3	0.9	0.9	7.3	7.4	17.0	11.8
Hoa Sen Group	HSG VN	9,710	na	na	234	22.1	2.4	177.0	0.5	0.4	5.6	3.5	2.2	9.2
Nam Kim Steel JSC	NKG VN	9,520	na	na	101	3.4	2.8	391.1	0.4	0.4	1.9	5.0	13.5	13.8
Average					*1,251*	*10.3*	*4.4*	*212.2*	*0.6*	*0.5*	*4.9*	*5.3*	*10.9*	*11.6*
Median					*234*	*5.5*	*2.8*	*177.0*	*0.5*	*0.4*	*5.6*	*5.0*	*13.5*	*11.8*
Cement														
Ha Tien 1 Cement JSC	HT1 VN	8,780	na	na	134.9	13.5	14.8	(7.4)	0.7	0.6	4.2	4.3	4.7	4.9
Bim Son Cement JSC	BCC VN	6,400	na	na	31.7	9.9	na	(1.4)	0.4	na	3.0	na	3.5	na
But Son Cement JSC	BTS VN	5,700	na	na	28.4	8.7	na	139.6	0.5	na	4.7	na	5.6	na
Average					*65.0*	*10.7*	*14.8*	*43.6*	*0.5*	*0.6*	*4.0*	*4.3*	*4.6*	*4.9*
Median					*31.7*	*9.9*	*14.8*	*(1.4)*	*0.5*	*0.6*	*4.2*	*4.3*	*4.7*	*4.9*
Construction stone														
Binh Duong Minerals & Construction JSC	KSB VN	13,600	na	na	41.8	5.5	na	(8.9)	0.5	na	4.3	na	10.1	na
Nui Nho Stone JSC	NNC VN	16,400	na	na	14.5	19.8	na	(32.1)	1.2	na	46.2	na	3.9	na
Hoa An JSC	DHA VN	26,350	na	na	15.6	5.2	na	11.7	0.9	na	1.6	na	14.2	na
Average					*24.0*	*10.2*	*na*	*(9.8)*	*0.9*	*na*	*17.4*	*na*	*9.4*	*na*
Median					*15.6*	*5.5*	*na*	*(8.9)*	*0.9*	*na*	*4.3*	*na*	*10.1*	*na*
Asphalt														
Petrolimex Petrochemical JSC	PLC VN	17,100	23,000	Add	55.6	10.0	9.1	6.5	1.0	0.9	7.4	8.5	10.3	10.9
Infrastructure construction														
Vietnam Construction and Import-Export JSC	VCG VN	13,400	na	na	262.1	4.8	na	37.0	0.9	na	19.7	na	5.1	na
Dat Phuong Group JSC	DPG VN	24,600	na	na	62.4	4.1	na	38.8	1.0	na	4.6	na	26.3	na
Deo Ca Trafic Infrastructure Investment JSC	HHV VN	7,790	na	na	167.7	7.6	na	123.8	0.3	na	21.2	na	4.2	na
CIENCO4 Group JSC	C4G VN	7,700	13,200	Add	69.7	19.2	10.5	(20.9)	1.0	0.7	11.9	14.0	5.5	8.9
FECON Corp	FCN VN	7,500	na	na	47.5	92.0	11.8	(32.2)	0.5	0.4	11.9	13.5	0.2	4.0
Average					*121.9*	*25.6*	*11.1*	*29.3*	*0.7*	*0.6*	*13.9*	*13.8*	*8.2*	*6.5*
Median					*69.7*	*7.6*	*11.1*	*37.0*	*0.9*	*0.6*	*11.9*	*13.8*	*5.1*	*6.5*

Sources: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 22 Nov 2022

Sector note

RESIDENTIAL PROPERTY: A HARSH WINTER IS COMING

- A meaningful decline of 40% qoq in 3Q22 presales volume saw in both HCMC and Hanoi on tighter funding regulations for residential property.
- We are not optimistic about the recovery of residential property in near-term as developer insolvency still pose the biggest risk to the sector outlook.
- We believe investors should focus on quality names with healthy financial structure and strong cash flow from previous presales like NLG.

A sharp decline in property presales in both HCMC and Hanoi since 3Q22

Presales have experienced a downturn since 3Q22 as condo sales volume sharply fell by 40% qoq/+128% yoy in both HCMC and Hanoi, according to CBRE. Together, landed hospitality presales volume nearly squeezed with 70.4% qoq/+85% yoy. We saw primary prices of ready-built landed property to decrease by 10-15% qoq on subdued housing demand in 3Q22 while condo inched up slight 1-3% qoq on average.

Multi headwinds weigh on residential property outlook

Headwinds include: (1) developers have limited refinance opportunity as tighter regulations on corporate bond issuance and credit exposure to property; (2) rising mortgage rates and to drag the housing demand and (3) a drop in new supply as the project approval process likely be delayed on waiting the amend Law of land. We estimate about VND46,145bn corporate bonds of property developers will mature in 1H23F and another VND64,185bn in 2H23F, which be a stress-test for developers' repayment capability.

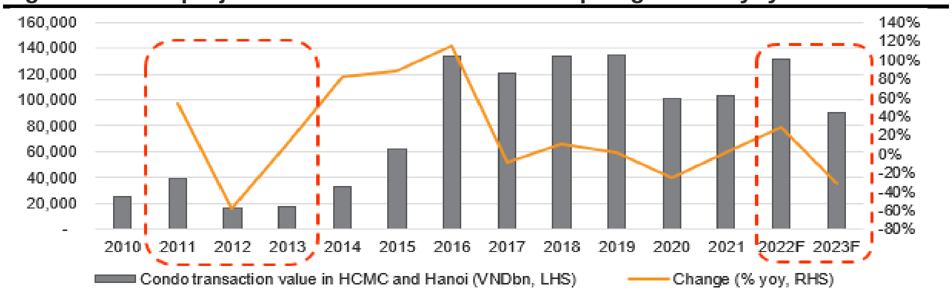
If entering a "deep-freeze", this cycle is likely different

We see listed property developers' financial health, currently in a better shape than period the last downcycle 2011-13, thus, we expect less damage and shorter time to ride out from this downcycle. We expect primary condo prices to decrease 5-10% yoy on average and condo sales volume down c.20% yoy in FY23F (vs. a 20-30% fall in primary prices and a 50% dwindle in condo sales volume in the 2012-13 period). We expect the on-schedule Land law 2023 affected since 2H24F to tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover since 2024-25F.

Our top pick: NLG

We believe investors should focus on quality names that possess following traits: 1) huge land bank, which is already completed legal procedures as well as infrastructure to be launched in 2023F, 2) high exposure to the mid-range and affordable condo segments as these segments are driven by real end-user demand and 3) sustainable earnings growth and scalable business models with a healthy financial position (low leverage, strong liquidity) to counter the risk of tightening credit for the real estate market as discussed above. We believe NLG is on this list as they meet above key criteria.

Figure 205: We project condo transaction value to plunge c.30% yoy in 2023F



Sources: VNDIRECT RESEARCH's estimate

Analyst(s):

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Multi headwinds weigh on sector outlook

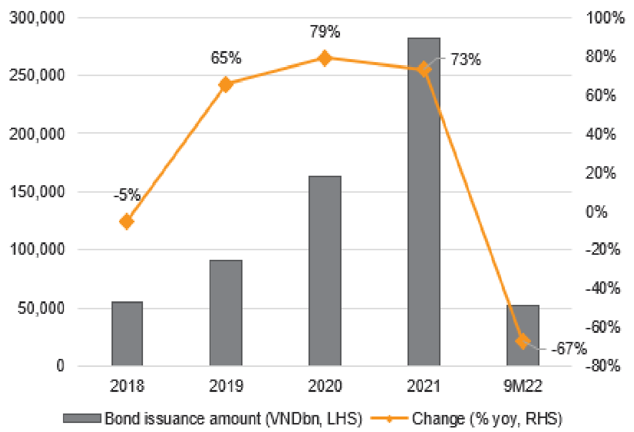
Tighter financial conditions lead to short-term liquidity under stress

During 2020-21 market witnessed a boom in corporate bonds (CBs) issuance from property developers as commercial banks gradually reduced their lending exposure towards real estate in order to comply with the tightening ratio of short-term funding used for medium and long-term loans. By end-3Q22, outstanding CB value of property developers was about c.VND507tr, accounting for c.34% share of Vietnam CBs balance and c.6% of GDP.

Since mid-22, in order to mitigate any further risks and enhance the market transparency, the Ministry of Finance has reviewed the legal framework with stricter requirements for issuers, especially in private placement. According to our market research, the total value of CBs issuance dropped 43.5% yoy to VND248,603bn while buyback value was c.VND142,200bn in 9M22. Property CBs experienced a sharp drop of 67.0% yoy in 9M22. Since Sep-22, some property tycoons were arrested due to CB issuance fraud that raised concerns among retail investors about CB quality and issuers' payment capability.

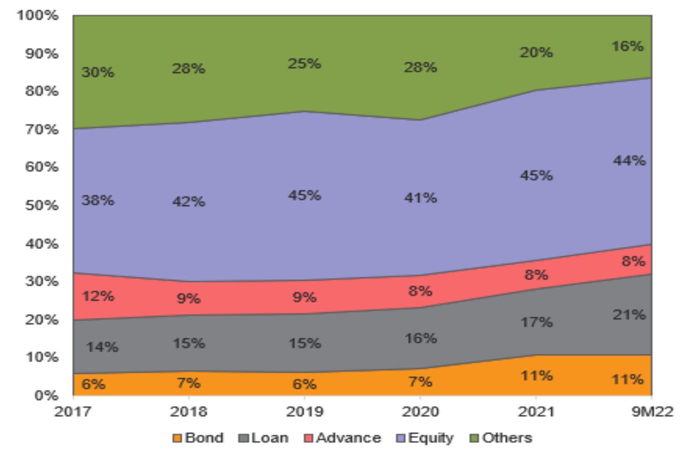
Currently, bank loan and bond issuance are crucial source of funding for Vietnam property developers. Meanwhile, a meaningful decline of 40% qoq in 3Q22 presales volume saw in both HCMC and Hanoi markets. Amid tightening bank loans, halting bond market and subdued presales, many developers thus find themselves cut off from sources of funds.

Figure 206: CBs issuance of developers plunged 67% yoy in 9M22



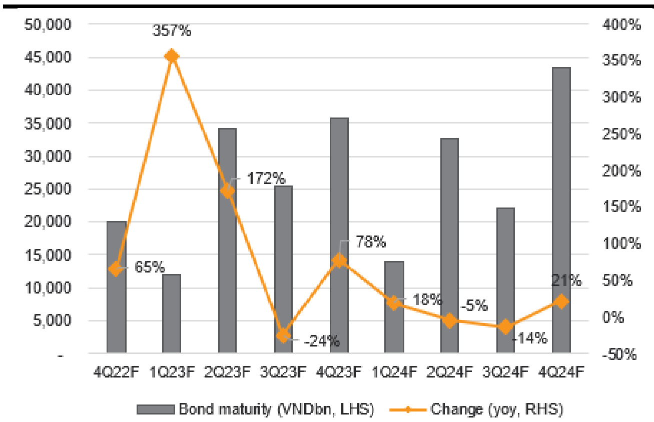
Sources: VNDIRECT RESEARCH

Figure 207: Developers' primary sources of funding



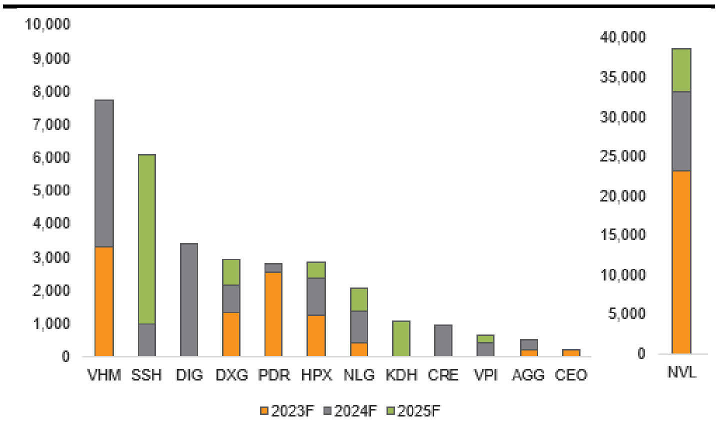
Sources: VNDIRECT RESEARCH (based on financial statements of top 20 listed property developers in term of market cap)

Figure 208: Developers are under growing bond maturity pressure into FY23-24F (Unit: VNDbn)



Sources: VNDIRECT RESEARCH

Figure 209: Bond maturity value of some listed developers during FY23-25F (Unit: VNDbn)



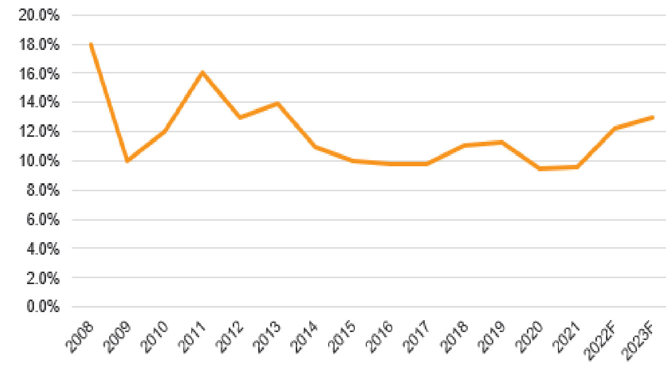
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Additionally, about VND20,000bn of CB value will mature in 4Q22F, additional VND107,299bn (+55.7% yoy)/VND112,061bn (+4.4% yoy) to come in FY23-24F, respectively. All of these put the short-term liquidity of property developers under stress-test. Per our estimate, about c.VND26,500bn CBs issued by NVL and VHM, accounting for 25% of total market amount due will mature in FY23F.

Rising mortgage rates and to drag the housing demand

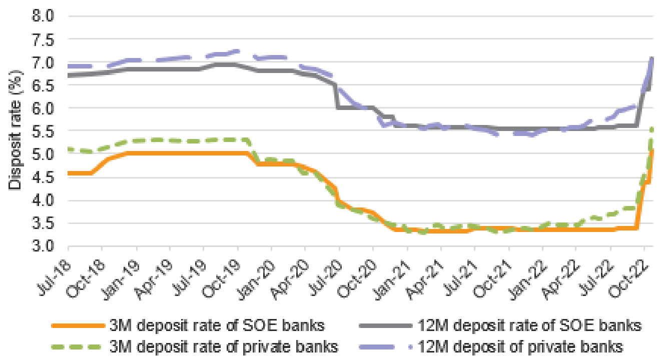
As of mid-Nov 2022, the average mortgage rate of state-owned banks and private banks rose sharply 190 basis points (bps) ytd to 11.1% and 230bps ytd to 11.7%, respectively, following rising deposit rates. We expect deposit rates to increase further 50bps in 2023F which might bring the mortgage rates of private bank could climb to 12.5-13%/year into 2023F.

Figure 210: Mortgage rates heat up following rising deposit rates



Sources: VNDIRECT RESEARCH, DOMESTIC BANKS

Figure 211: Deposit interest rate rose sharply in 3Q22 (%)



Sources: VNDIRECT RESEARCH, DOMESTIC BANKS

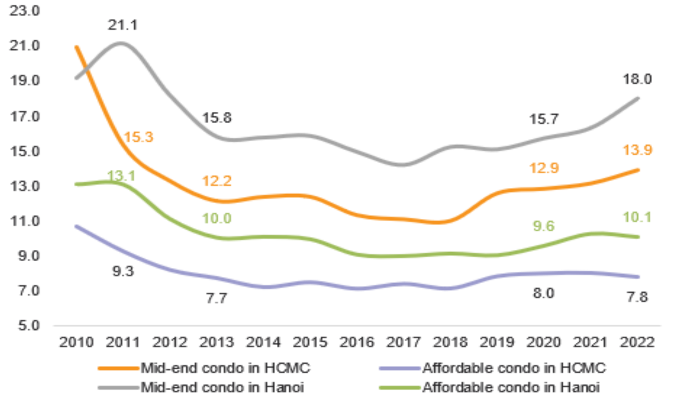
We see an increasing mortgage unaffordability given prices hike and rapidly rising mortgage rates in 2022-23F. Even those who earn twice the average annual income of US$5,500-7,500 in Hanoi and HCMC, we think homebuyers could struggle to afford a mid-end condo (<US$2,000 psm) in HCMC and Hanoi with the estimated payment-to-income ratio in 2022 reaching at the 80-100% level. Moreover, it could be worse-than-expected in 2023F when millions of clients who face higher payments as loans reset.

Figure 212: Our several assumptions on payment-to-income

	HCMC			Hanoi		
	2020	2021	2022	2020	2021	2022
Average annual income (US$)	6,999	7,118	7,403	5,200	5,288	5,500
Selling price (US$ psm)	1,500	1,562	1,718	1,362	1,437	1,648
Mid-end condo value (US$)	90,000	93,720	103,080	81,720	86,220	98,900
Average price-to-income ratio	12.9	13.2	13.9	15.7	16.3	18.0
Mortgage rate	9.5%	9.6%	12.2%	9.5%	9.6%	12.2%
Monthly payment (US$)	761	798	1,034	691	734	992
Payment to income (x2 person)	65%	67%	84%	80%	83%	108%

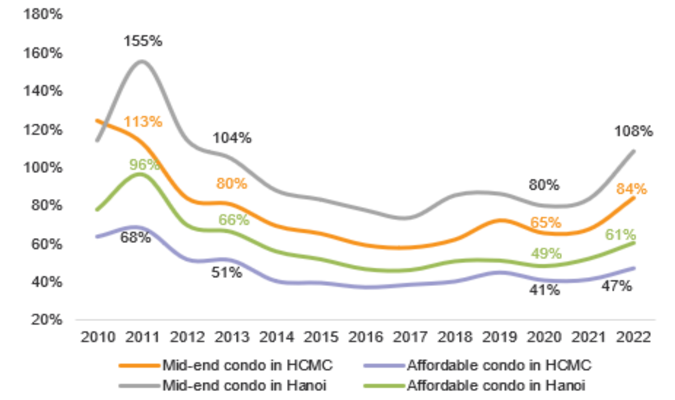
Sources: VNDIRECT RESEARCH, CBRE, GSO

Figure 213: 2022 average price-to-income ratio for mid-end condo in HCMC and Hanoi was reaching near the 2011-13 level



Source: VNDIRECT RESEARCH

Figure 214: Increase further mortgage unaffordability with the 2022 estimated payment-to-income ratio of 80-100% level

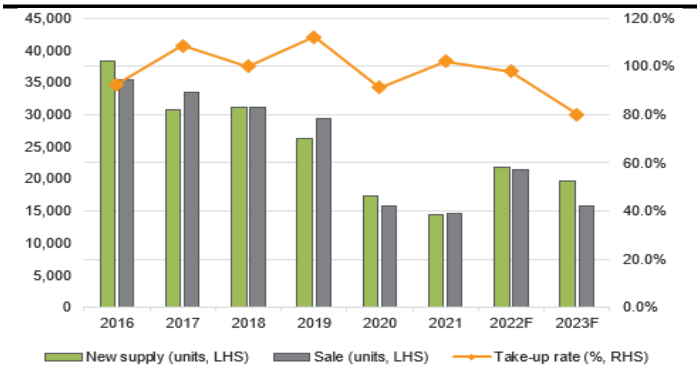


Source: VNDIRECT RESEARCH

A drop in new supply as the project approval process likely be delayed on waiting the amend Law of land

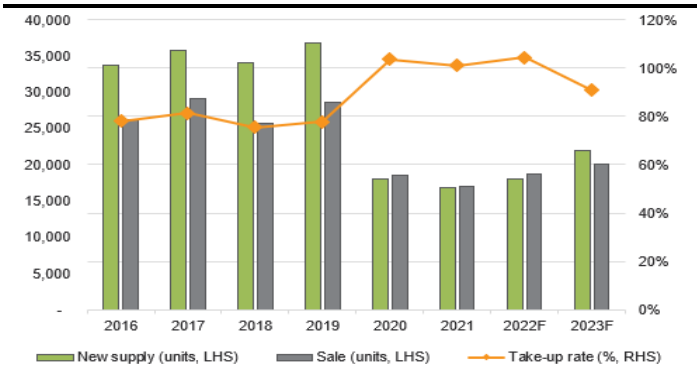
According to several developers' new launch plan, we see the sector's new launches could be backloaded in 2023F on waiting the amend Law of land and weaker homebuyer sentiment from limited credit room, cost inflation and interest rate hikes. We expect the 2023F HCMC new condo supply still dim with 19,000-20,000 units (-c.10% yoy) and c.15,000 sales volume units (-c.20% yoy). While new ready-built housing supply likely still sluggish in both HCMC and Hanoi, at 1,000-2,000 launches units in 2023F.

Figure 215: Lackluster the HCMC condo sales volume in 2023F



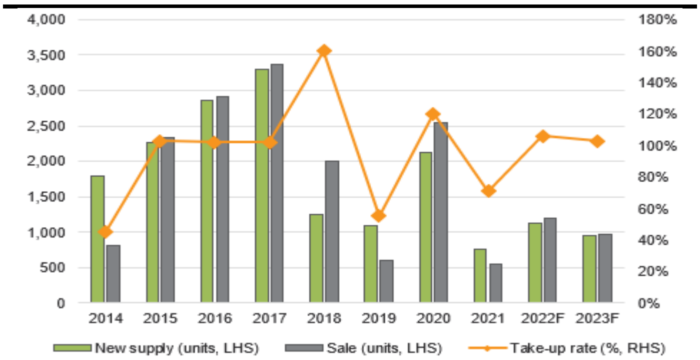
Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

Figure 216: Hanoi new condo supply likely stable in 2023F thanks to VHM's two new projects



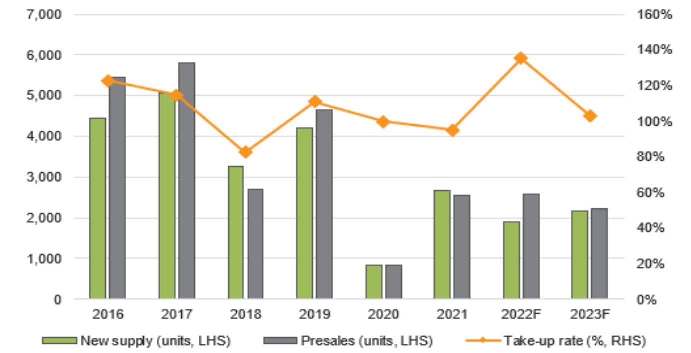
Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

Figure 217: New ready-built house supply in HCMC will drop in 2023F



Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

Figure 218: New ready-built house supply in Hanoi dim in 2023F



Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

If entering a "deep-freeze", this cycle is likely different

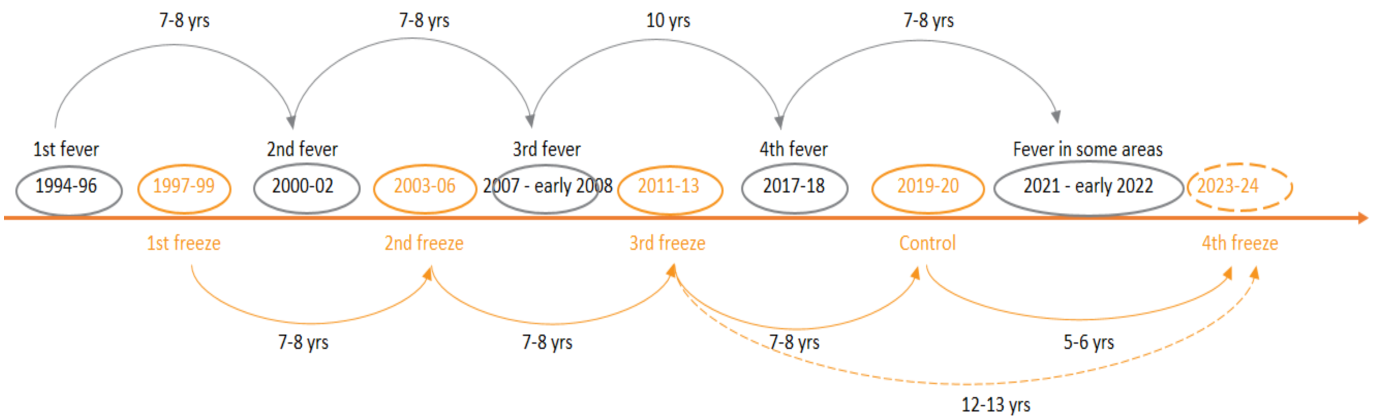
We analysis the background of current situation with the last downcycle of Vietnam property market during 2011-13 in order to have the answers for questions: (1) Will property market freeze? and (2) How long will it take to drive out of this downturn?

Figure 219: Comparison the background of current versus the sector downcycle during 2011-13

	2011 – 2013 period	Current
Origination	- Loose monetary policy during the 2008-09 global financial crisis; - Land fever in 2007 – early 2008; - New condo supply soared 163% yoy to 21,000 units in 2009. The market suffered supply and demand mismatch with large condo not meeting real end-user demand.	- Loose monetary policy during COVID-19 pandemic, unprecedented affordable mortgage interest rates; - Credit growth slowdown of 14% in 2022; - Land fever lasted since 2017-18. Land prices kept soaring in some area following infrastructure development planning in 2021 and early 2022. - The market suffered limited supply, mismatch of supply and demand with mid-end condo shrinking of only c.2% portion in HCMC and Hanoi new supply as of end-3Q22.
Macro headwinds	- Monetary policy was reverted - Mortgage rate climbed up to 21-25%; -Tighter financial condition for real estate companies.	- Monetary policy was reverted - Rapidly rising mortgage rate; - Squeeze developers' three funding sources (equity, bond issuance and bank loan).

Sources: VNDIRECT RESEARCH

Figure 220: All signs point to the making of the next down cycle in domestic property market



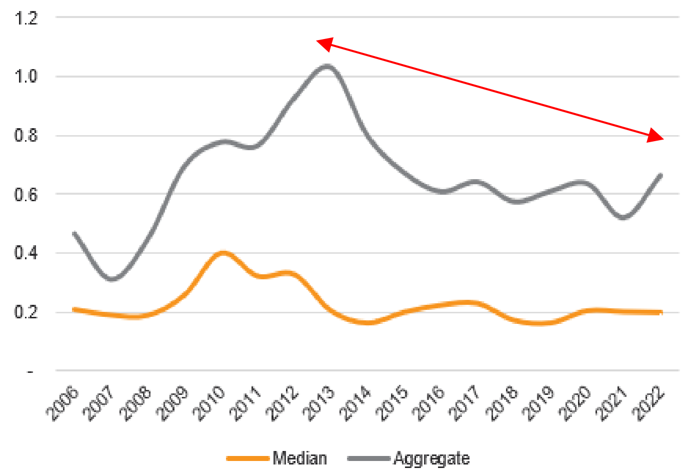
Sources: VNDIRECT RESEARCH

However, we see listed property developers' financial health, currently in a better shape than period 2011-13

Our estimates are based on financial statements of 210 property developers (including 118 listed and 92 unlisted companies). We note that the number of listed property developers during 2011-13 is less than that of 2022.

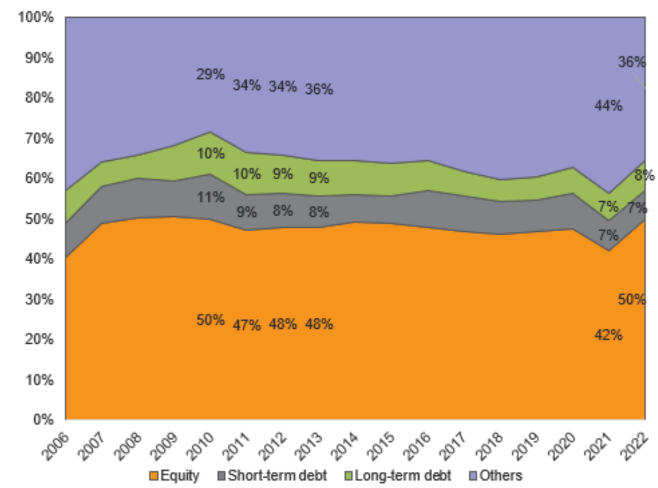
We observed that current listed developers have better financial health with lower leverage and healthier quick ratio than that of 2021-13. Current interest coverage ratio fell sharply to the bottom 2011-13 period which indicates the possibility of default risks is as high as 2011. Though inventory is rising but lower inventory/total assets ratio suggests lower pressure for releasing inventory than the period 2011-13. Thus, it might take shorter time to ride out of the downcycle than the past.

Figure 221: Current Debt/equity ratio is significantly lower than that of 2011-13



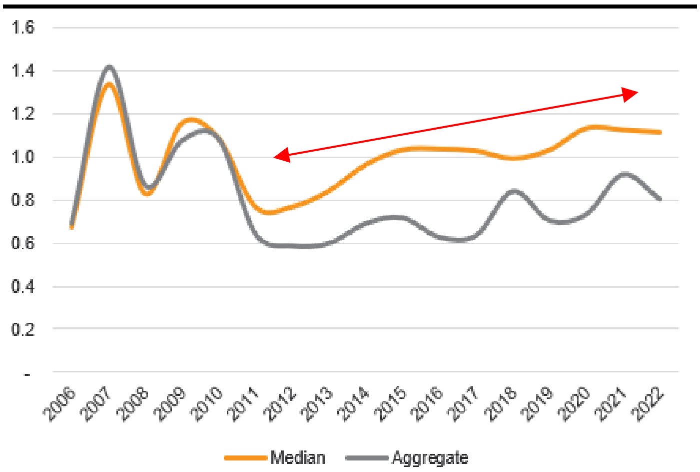
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 222: …as developers now are able to raise fund by equity market and presales



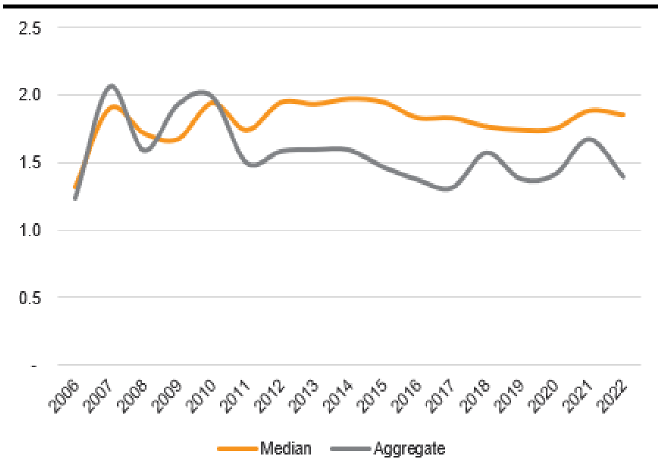
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 223: FY22 quick ratio is healthier than that of FY11-13



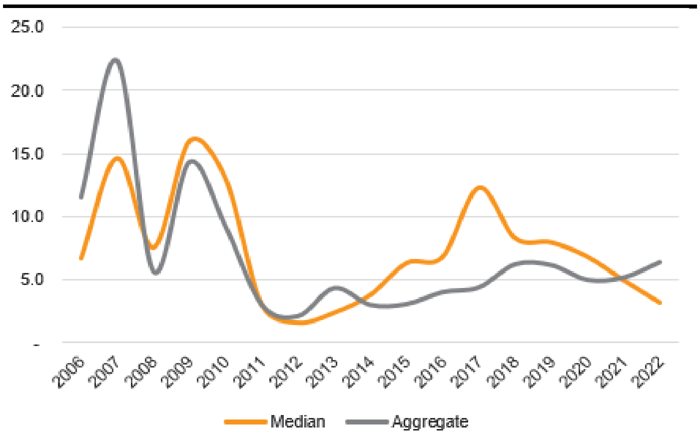
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 224: While current ratio has stayed flat on rising inventory



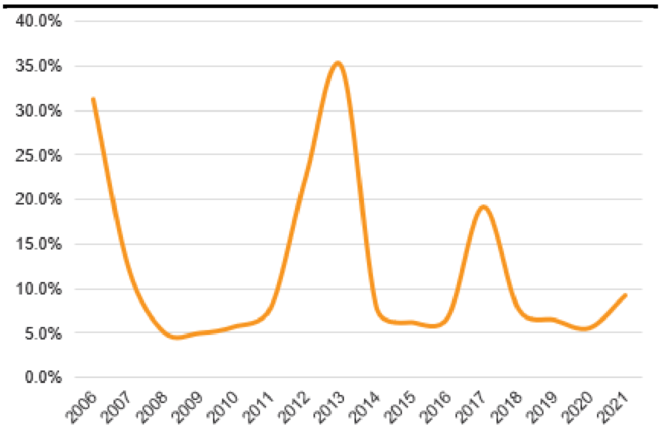
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 225: Current interest coverage ratio fell sharply to the bottom 2011-13 period which indicates the possibility of default risks is as high as 2011



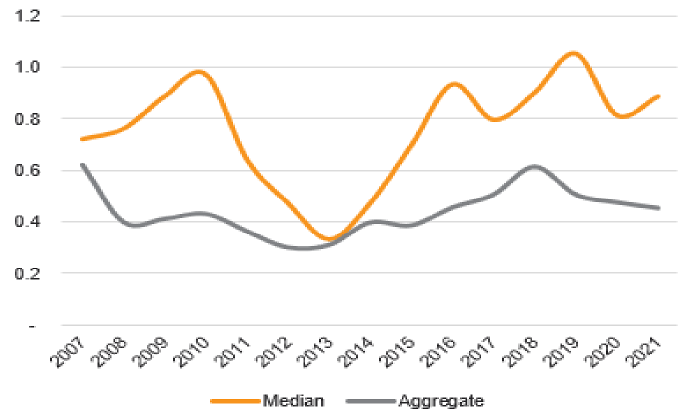
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 226: Cost of debt is heating up but still much lower than the 2011-13 level



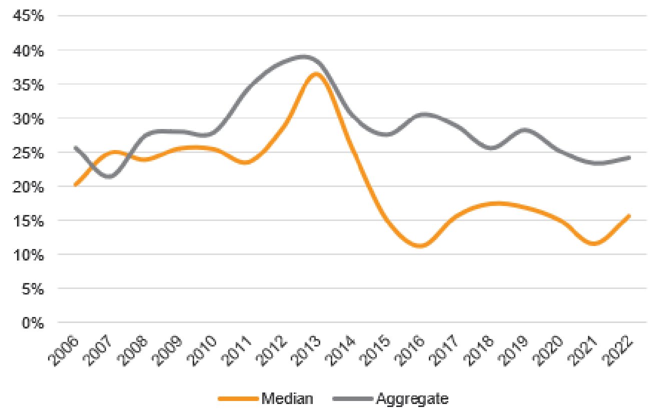
Sources: VNDIRECT RESEARCH, FIINPRO

Figure 227: Inventory turnover has sharply decreased since 2018-19 on legal bottleneck, COVID-19 and weak housing sentiment



Sources: VNDIRECT RESEARCH, FIINPRO

Figure 228: However, current inventory/total assets ratio is much lower than the 2011-13 level, suggesting lower pressure for releasing inventory



Sources: VNDIRECT RESEARCH, FIINPRO

Figure 229: We expect less damage and shorter time to ride out of this downcycle

	2011 – 2013 period	Current (potential negative impact)
Negative impact		
Inventory	- Inventory turnover sharply fell to the 0.3-0.4x level in 2011-13 (from 1x seen in 2010) - Condo sales volume plunged by c.50% yoy in 2012.	- Inventory turnover tends to decrease but remains high compared to the 2011-13 level thanks to flexible sales policy.
Bad debts	- Property bad debt ratio was 7.05% in 2013 (from 5.39% in 2012).	
Default risks	- c.10% of property and construction companies went bankrupt or dissolved in 2012-13.	
Government solutions	- Release more fiscal support packages such as a stimulus credit package of VND30,000bn in early 2013. - Lower interest rates - Issue The Land law 2013 to tackle bottleneck: condo subdivision, loosen housing laws for foreigner.	- We expect the on-schedule Land law 2023 affected in 2H24F to tackle the bottlenecks in the approval of new residential projects, leading housing supply to recover since 2024-25.
Results	- Primary housing prices fell up to 20-30%, especially for speculative properties; - New supply was gradually on balance with 50% of mid-end segment (vs. the level of 25% in 2011).	

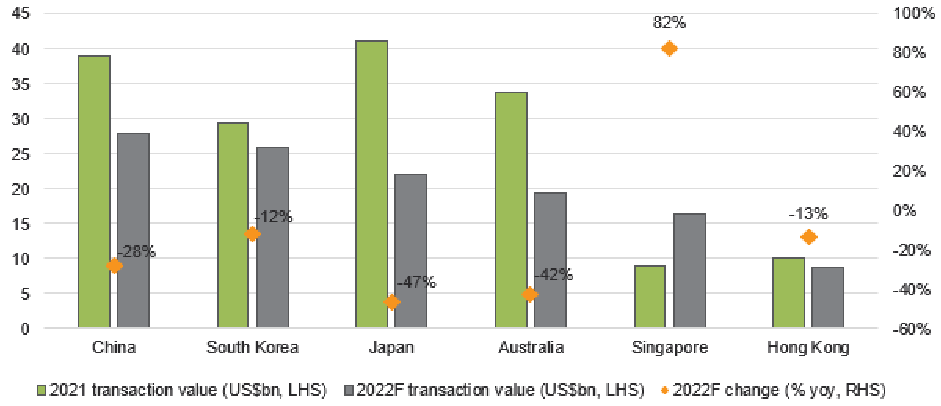
Sources: VNDIRECT RESEARCH

Case study: more support measures for the property market have been taken to avoid financial systemic risks

A downturn in global property market in 2022

According to Knight Frank, the global home prices across 56 countries worldwide rose by c.10% in 2021, the fastest increase since 2004, mostly boosted by unprecedented affordable mortgage interest rates. However, a series of headwinds emerges in 2022 such as soaring inflation, interest rates hike and Russia-Ukraine war, put global real estate markets slumping. Housing prices in several frothy market that saw the big gains in last two years are facing double-digit declines.

Figure 230: Asia Pacific transaction volume is likely to pull back roughly in 2022F (Unit: US$bn)



Sources: VNDIRECT RESEARCH, JLL

Indeed, China's property debt crisis has rippled fears through Asia's property market. Many private Chinese developers are facing a combination of developer default waves and homebuyers' boycotting mortgage payments for unbuilt homes. The liquidity crisis was triggered by the "Three Red Lines" policy issued in Aug 2020 to deleverage real estate industry. Refinancing difficulties, a strict lockdown and sharp fall in presales put property developers' cash flow drying up, caused the default waves such as Evergrande, Shimao, Fantasia hay Kaisa, etc since 2021.

Aggressive policies to save the property sector in China

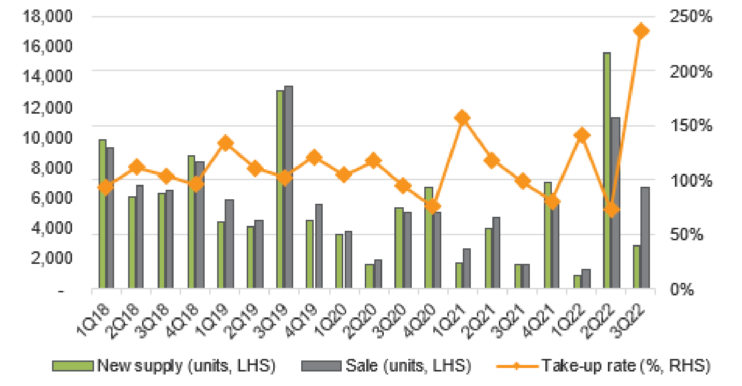
The People's Bank of China (PBOC) and China Banking and Insurance Regulatory Commission (CBIRC) announced 16 measures in mid-Nov, which aim to ease developers' liquidity pressure by 1) supporting their refinancing, 2) allowing them to delay debts repayment, 3) encouraging financial institutions (mainly banks) to lend more to developers. These policies, if implemented, should be able to ease developers' liquidity pressure markedly in near term especially allowing developers to extend their short terms debts.

HCMC residential property market 2023F outlook

3Q22 HCMC market recap

Sales volume declined qoq on subdued new supply

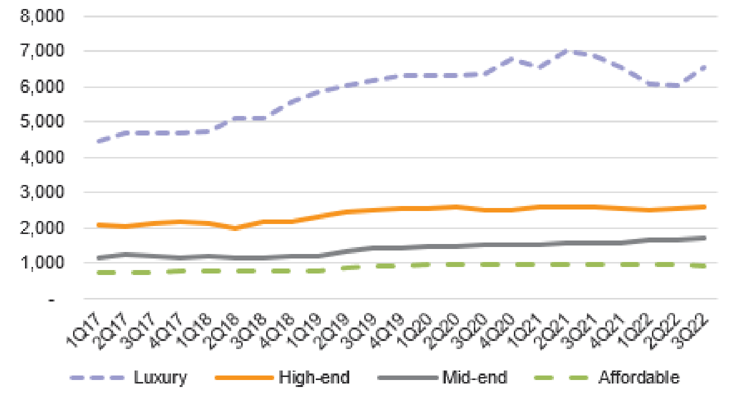
According to CBRE, 3Q22 HCMC condo sales volume declined by 40% qoq to 6,726 units on a subdued new supply of 82% qoq (2,850 units). 3Q22 take-up rate reached at 225%, supported by VHM's c.4,000 unsold units in 1H22. High-end segment continued to contribute the most at 86% of 3Q22 sales volume.



Sources: CBRE, VNDIRECT RESEARCH

More promotion discounts on condo primary prices (Unit: US$ psm)

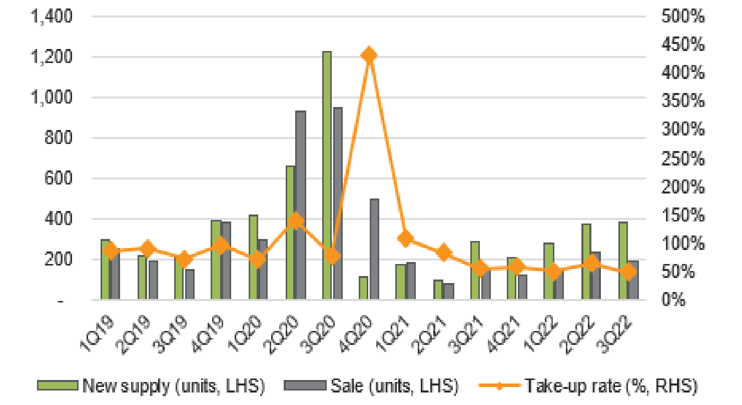
Although HCMC condo primary prices kept rising 3.7% qoq on average, we saw more promotion discounts on prices for non-bank loan homebuyers to stimulate demand amid rising mortgage rate and limited credit room. We noticed some developers likely adopted a 20-30% discount on prices for 95% cash payment homebuyers.



Sources: CBRE, VNDIRECT RESEARCH

Take-up rate for landed property hit a 7-year low on qoq basis

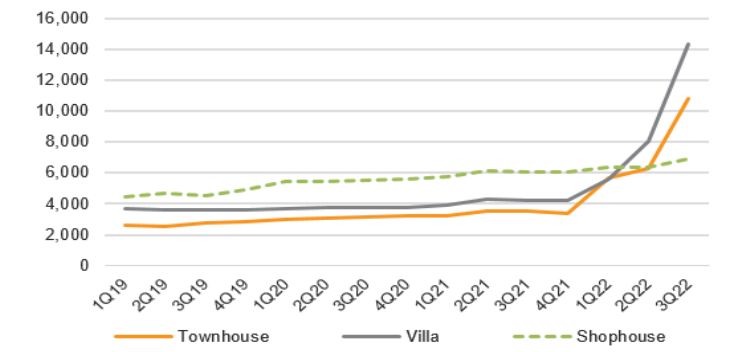
3Q22 new supply for landed property stayed flat at 386 units on qoq basis but sales volume dropped 20.4% qoq to 189 units in HCMC. Take-up rate reached only 49%, a 7-year low on subdued housing demand.



Sources: CBRE, JLL, SAVILLS, VNDIRECT RESEARCH

Primary prices of landed property kept rising trigger by branded units (Unit: US$ psm)

As at end-3Q22, primary prices of landed property sharply rose by 70-80% qoq trigger by branded residence projects. We believe primary prices of landed property could be quickly backed the 7,000-8,000 US$ psm level in 2023-24F as investors have been more cautious on "golden location" after arrest waves relating large real estate developers.

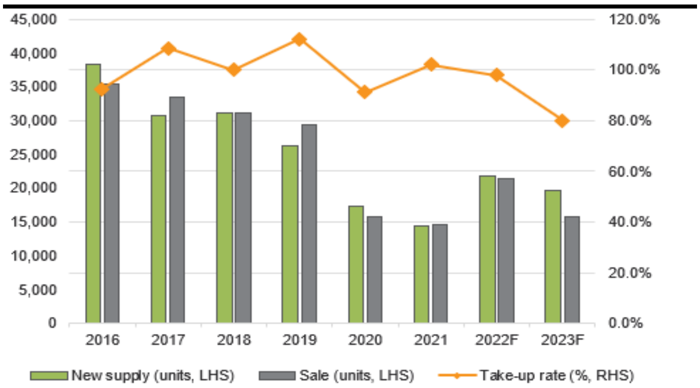


Sources: CBRE, JLL, VNDIRECT RESEARCH

Condo market: lacklustre in condo sales, fall in primary price

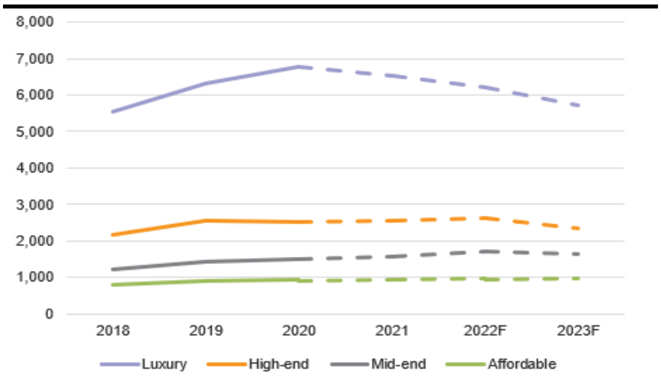
We expect the 2023F HCMC new condo supply still dim with 19,000-20,000 units (-c.10% yoy) and c.15,000 sales volume units (-c.20% yoy). Take-up rate could keep falling to the 80% level (-c.10% pts yoy) due to homebuyer sentiment remaining sluggish in 2023F, in our view. We forecast condo primary price to decrease by 5-10% yoy across the board. We believe developers should continue to offer some promotion discounts on primary price to stimulate demand amid rising mortgage rate and limited credit room.

Figure 231: Lackluster the HCMC condo sales volume in 2023F



Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Figure 232: We expect condo primary price to fall by 5-10% yoy across the board (Unit: US$ psm)



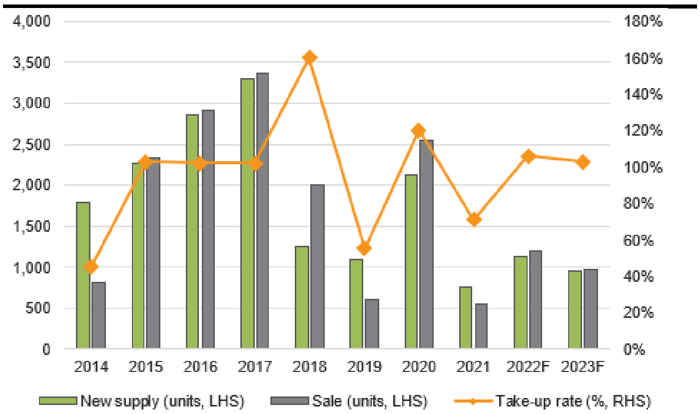
Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Ready-built housing market: modest sales volume, a drop of land prices in speculative areas

HCMC new ready-built housing supply is likely to keep shrinking in 2023F given limited land bank and slow regulatory approval. The new supply is mostly from suburbs HCMC such as Thu Duc City, Dist. 12, Binh Chanh. We expect lower primary pricing level given investors to be more cautious on "golden location" after arrest waves relating large real estate developers.

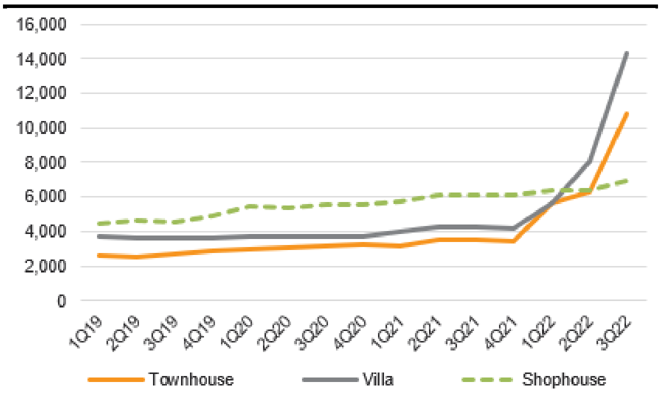
We do not expect a fall in secondary land price at projects with transparency legal document, real-end users demand, as buyers in these projects are less sensitive to high inflation and mortgage rate. We saw several high-end low-rise projects in 9M22 still achieved high take-up rate such as The Classia, as buyers in this segment have high purchasing power and use property as inflation hedge. However, we expect land secondary prices to fall in seveal hot areas such as Cu Chi, Hoc Mon and Binh Chanh, trigger by the stricter supervision on credit into hoarding properties and increasing further mortgage unaffordability.

Figure 233: Modest new ready-built housing supply in HCMC in 2023F



Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Figure 234: We expect lower primary pricing level in 2023F to acquire good take-up rate (Unit: US$ psm)

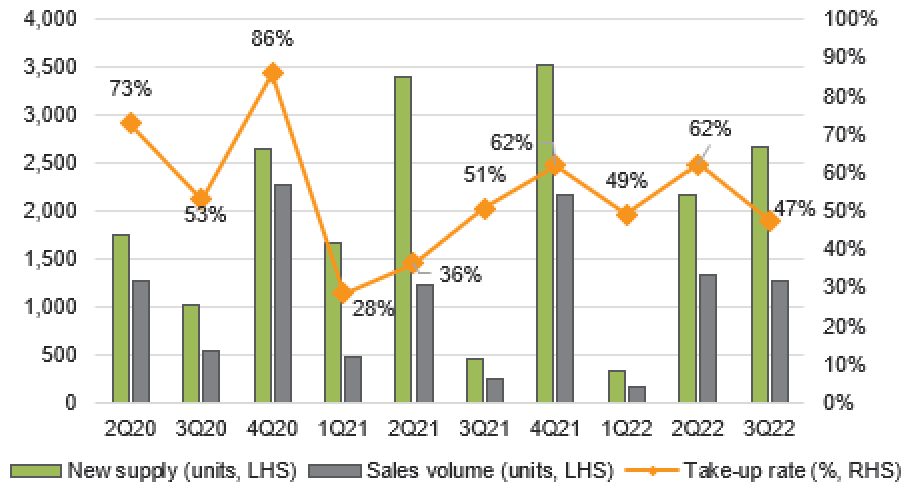


Sources: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

HCMC's neighbouring provinces ready-built housing market are fading on violations of authorities relating real estate market in 2023F

We saw developers kept speeding up sales activities in HCMC's neighbouring provinces in 3Q22, with new supply up 23.0% qoq to 2,656 units. However, 3Q22 take-up rate sharply fell by 14.5% pts qoq to 47%, given violations of authorities relating real estate market in these areas, leading a 5.8% qoq decrease in sales volume, according to DKRA and CBRE. We believe property market in HCMC's neighbouring provinces to be still dull in 2023F due to homebuyer sentiment sluggish in these areas hindering the housing purchasing decisions.

Figure 235: HCMC's neighbouring provinces are likely fading in 2023F due to homebuyer sentiment sluggish



Source: VNDIRECT RESEARCH, CBRE, DKRA, SAVILLS

Some upcoming residential projects in the South in 2023F

We see most of 2023F new launches have high exposure to real end-user demand, developed by listed companies who have healthy financial cash flow and good reputation. We believe NLG and KDH are still favourable amid the mid-end segment, however, take-up rate could slower than the 2021-22 period on rising mortgage rate and limited credit room.

Figure 236: Some residential projects in the South are expected to be launched in 2023F

Project name	Developer	Location	Type of products	Land size (ha)	Expected launch
Vinhomes Grand Park - Next phase	VHM	Thu Duc City	High-rise, low-rise	272	2023
Izumi City - Next phase	NLG	Dong Nai	High-rise, low-rise	170	2023
Akari City - Next phase	NLG	Binh Tan	High-rise	8.5	2023
Mizuki City - Next phase	NLG	Binh Chanh	High-rise	26	2023
Clarita	KDH	Thu Duc City	Low-rise	5.7	2023
Privia	KDH	Binh Tan	High-rise	1.8	2023
The Signal	AGG	District 7	High-rise	N/A	2023
Gem Riverside	DXG	Thu Duc City	High-rise	6.7	2023

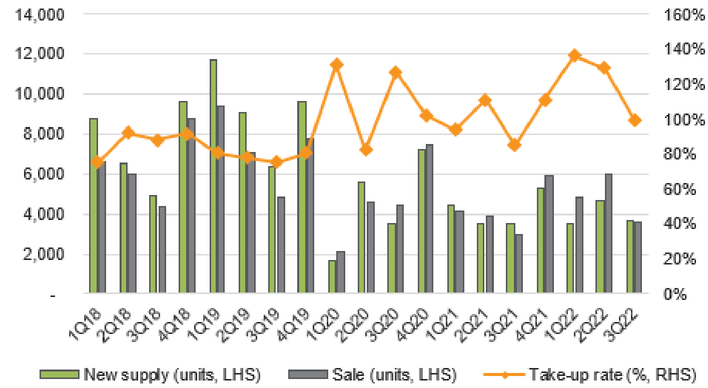
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Hanoi residential property market 2023F outlook

3Q22 Hanoi market recap

Lacklustre in condo transaction

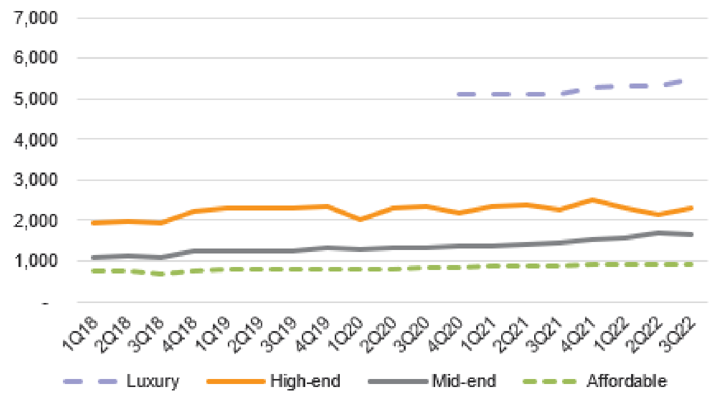
The 3Q22 Hanoi condo market plunged in both new launches (-22% qoq to 3,640 units) and sales volume (-39% qoq to 3,624 units). High-end and mid-end segments contributed 65%/34% of total sales volume, respectively. 3Q22 take-up rate declined by 23% pts qoq to 99%.



Sources: CBRE, VNDIRECT RESEARCH

Average condo primary price cooled down (Unit: US$ psm)

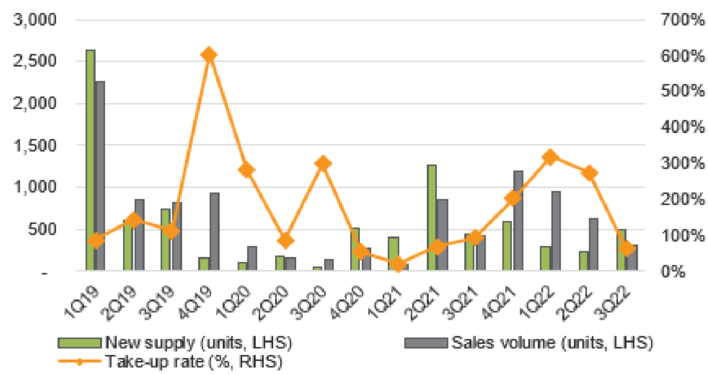
Condo primary prices in mid-end segment fell for the first time in 3 years (-3% qoq) after a surge of 12.3% ytd in 1H22. While the others inched up 1-2% qoq in 3Q22. The Hanoi condo primary price slightly rose 1.3% qoq on average to US$1,896 psm in 3Q22.



Sources: CBRE, VNDIRECT RESEARCH

A sharp drop in sales volume of landed property

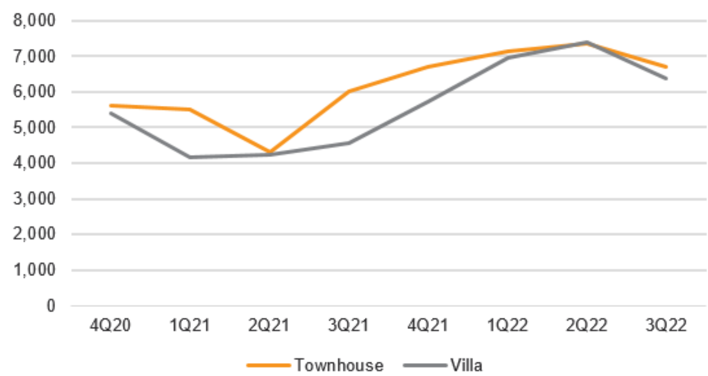
3Q22 new supply for landed property rose 115% qoq to 489 units but sales volume significantly dropped 52% qoq to 299 units in Hanoi. Take-up rate reached at 61% (vs. ~300% in 1H22) on subdued housing demand.



Sources: CBRE, JLL, VNDIRECT RESEARCH

Primary prices of landed property slew down (US$ psm)

We saw primary prices of landed properties decreased by 10-15% qoq in both townhouse and villas in 3Q22, after a significant surge of 10%/30% ytd in 1H22, respectively.

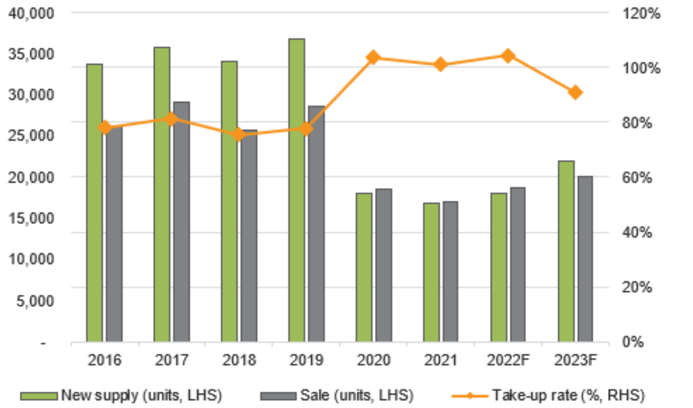


Sources: CBRE, JLL, VNDIRECT RESEARCH

Condo market: stable new supply from Vinhomes

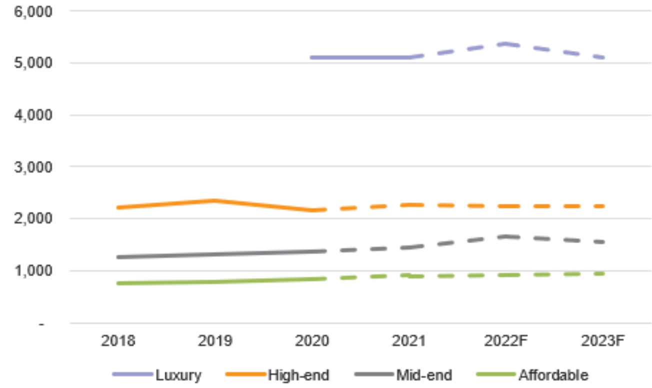
We see a stable new condo supply boosted by VHM's two new project launches in Hanoi in 2023F (c.20,000-22,000 units). We expect take-up rate to achieve c.90% (-13.5% pts yoy) on weak housing demand sentiment, equivalent to 18,000-20,000 sold units in 2023F. We forecast condo primary price to slightly decrease 3-5% yoy, and expect to see more promotion activities for non-bank loan homebuyers to stimulate demand amid rising mortgage rate and limited credit room.

Figure 237: We expect a stable new condo supply in 2023F thanks to VHM's two new projects



Sources: VNDIRECT RESEARCH, CBRE

Figure 238: We expect Hanoi condo primary prices to enjoy slight decrease 3%-5% yoy on average in 2023F (US$ psm)

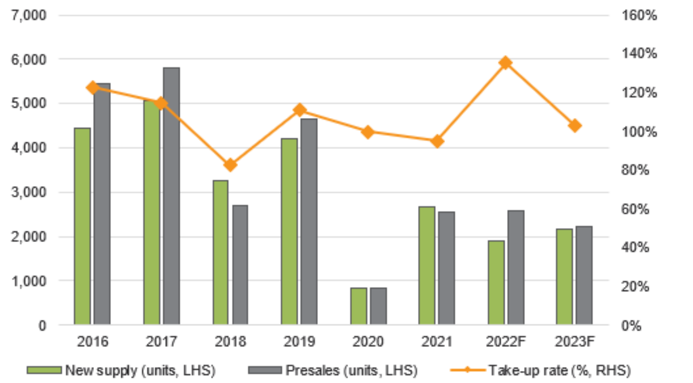


Sources: VNDIRECT RESEARCH, CBRE

Ready-built housing market: new supply still dims

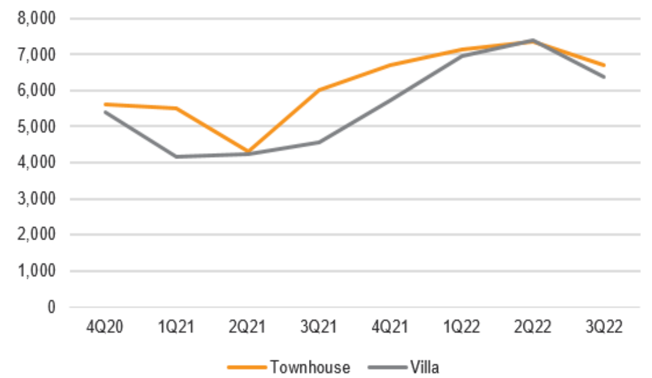
We see the new supply of landed property market will continue depend on launches of townships in 2023F. New supply is likely to stay flat at 2,000-2,200 units in 2023F dominated mostly by new mega townships such as Vinhomes Wonder Park, Vinhomes Co Loa and launches of next phases from townships such as Hinode Royal Park, An Lac Green. We believe that noticeable developers' new project launches could still achieve good take-up rate in 2023F boosted by buyers who purchase ahead of the interest rate hikes and use property as inflation hedge.

Figure 239: Lacklustre new landed supply in Hanoi



Sources: VNDIRECT RESEARCH, CBRE

Figure 240: We expect a softer land secondary price momentum in 2023F (US$ psm)



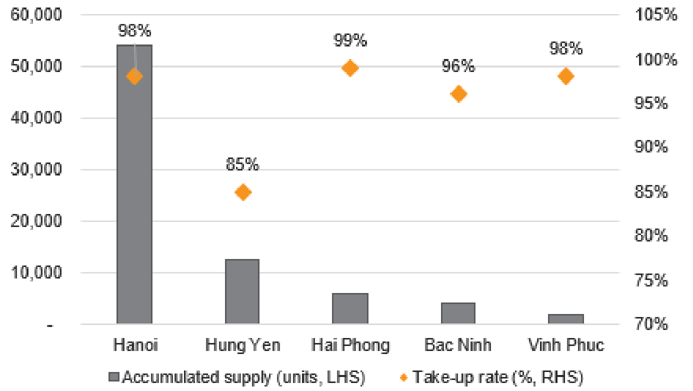
Sources: VNDIRECT RESEARCH, CBRE, SAVILLS

We see Hung Yen will take spotlight in Hanoi's neighbouring provinces ready-built housing market

We see Hung Yen are in the spotlight thanks to Vinhomes Ocean Park 2 & 3 launches in 9M22. We believe average primary prices for landed property in

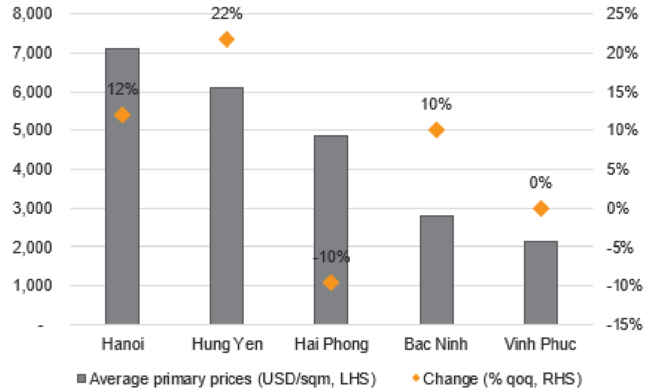
Hung Yen to keep increasing higher than that of Hanoi in 2023F, boosted by its acceleration in infrastructure development and high-quality projects from Vinhomes. Besides, we see high housing demand for experts, engineers in Hung Yen in the next 2-3 years following new industrial parks launches such as Pho Noi A IP, Thang Long II IP, Yen My II IP, etc.

Figure 241: Abundant new supply from Vinhomes to add more excitement for Hung Yen property market in 1H22



Sources: VNDIRECT RESEARCH, JLL, CBRE

Figure 242: Landed prices increased sharply in Hung Yen on Vinhomes' project launches in 1H22



Sources: VNDIRECT RESEARCH, JLL, CBRE

Some noticeable upcoming residential projects in the North in 2023F

We project VHM to dominate the Northern Vietnam real estate market in 2023F with two new township project launches in Hanoi. We see some noticeable project launches with infrastructure development (such as Ring Road 3 and the upcoming next phase of Ring Road 2 in Hoang Mai district) could benefit namely The Manor Central Park and Louis City Hoang Mai, etc.

Figure 243: Some noticeable residential projects in the North are expected to be launched in 2023F

Project name	Developer	Location	Type of products	Land size (ha)	Expected launch
Vinhomes The Crown	VHM	Hung Yen	High-rise, low-rise	294	2022-23
Vinhomes Co Loa	VHM	Dong Anh, Hanoi	Low-rise	385	2023
Vinhomes Wonder Park	VHM	Dan Phuong, Hanoi	High-rise, low-rise	133	2023
Central Residence	Gamuda	Hoang Mai	High-rise	6	2023
Eco Smart City	Thien Huong	Long Bien, Hanoi	High-rise	1.3	2023
The Manor Central Park	Bitexco	Hoang Mai	Low-rise	89	2023

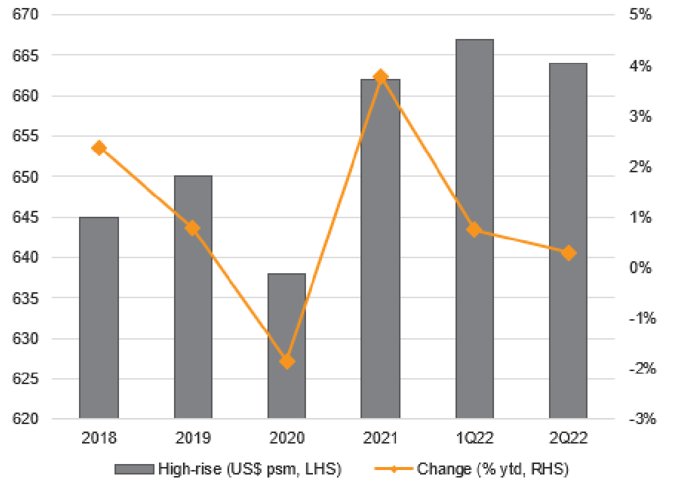
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

FY22-23F outlook of listed property developers

Building material prices downturn is positive

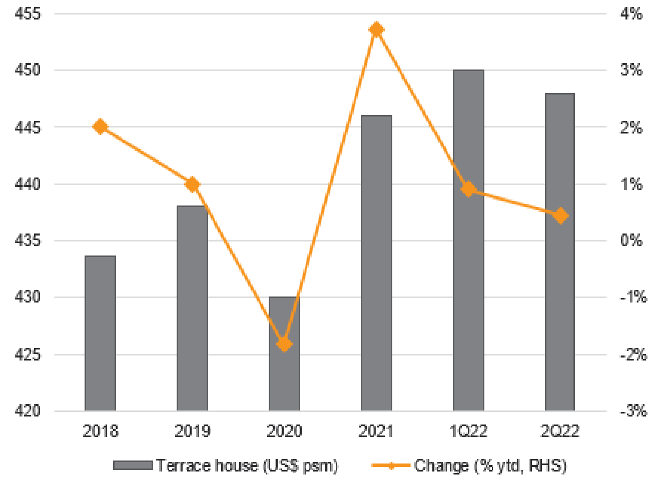
We see building material prices has been slow down since 2Q22. Specially, after peaking in April, domestic steel price has decreased by 14.1% from the peak and is 0.1% lower than its level at the beginning of 2022. We expect the selling price of construction steel will gradually decrease in 2023F which could reduce pressure on gross margin for construction contractors and property developers, thereby speeding up the progress of public investment projects as well as property developers to tame home prices, in our view.

Figure 244: Construction cost for the HCMC average standard apartment…



Sources: VNDIRECT RESEARCH, ARCADIS

Figure 245: …and terrace house has slight decreased since 2Q22



Sources: VNDIRECT RESEARCH, ARCADIS

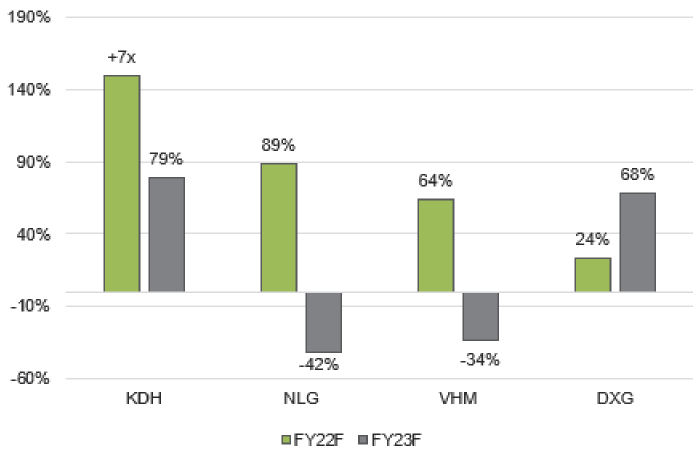
FY22-23 outlook of listed property developers

Figure 246: Mid and large caps' earnings growth improved while small cap underperformed in 3Q22

	3Q22 revenue (VNDbn)	3Q21 revenue (VNDbn)	Change (% yoy)	9M22 revenue (VNDbn)	9M21 revenue (VNDbn)	Change (% yoy)	3Q22 net profit (VNDbn)	3Q21 net profit (VNDbn)	Change (% yoy)	9M22 net profit (VNDbn)	9M21 net profit (VNDbn)	Change (% yoy)
VHM	17,805	20,679	-14%	31,199	61,681	-49%	14,494	11,167	30%	19,700	27,084	-27%
NVL	3,279	3,262	1%	7,894	10,312	-23%	197	556	-65%	2,025	2,413	-16%
AGG	2,194	84	2505%	5,466	687	695%	42	9	357%	163	205	-20%
DXG	1,255	1,303	-4%	4,597	7,819	-41%	153	52	195%	556	882	-37%
NLG	882	151	484%	2,710	787	244%	8	297	-97%	119	709	-83%
KDH	803	1,199	-33%	1,678	3,148	-47%	352	317	11%	983	788	25%
DIG	424	539	-21%	1,518	1,655	-8%	-1	43	-102%	142	138	3%
HDC	344	281	22%	1,124	920	22%	72	68	6%	248	210	18%
CCL	133	182	-27%	336	733	-54%	20	7	170%	46	56	-17%
NBB	121	6	2065%	290	558	-48%	0	173	-100%	2	335	-99%
NTL	115	157	-27%	323	317	2%	13	74	-82%	105	139	-24%
SCR	78	375	-79%	574	1,574	-64%	21	8	177%	141	184	-23%
PDR	11	1,268	-99%	1,490	2,391	-38%	718	608	18%	1,412	1,111	27%
CEO	334	124	170%	1,052	406	159%	28	-34	N/A	90	-129	N/A
CRE	755	843	-10%	3,316	4,526	-27%	28	79	-65%	253	329	-23%

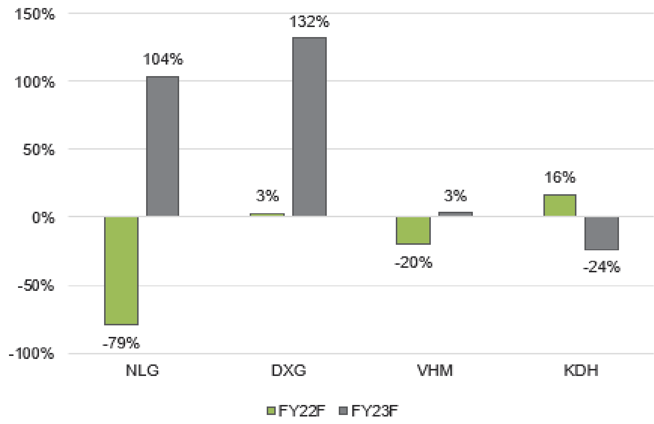
Sources: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 247: We forecast FY23F presales dwindle on subdued housing demand in FY23F (Unit: % yoy)



Sources: VNDIRECT RESEARCH

Figure 248: FY23F earnings of top four listed property companies under our coverage to bounce back on previous presales back up (Unit: % yoy)



Sources: VNDIRECT RESEARCH

Figure 249: FY22-24F earnings forecasts of stocks under coverage

	NLG			VHM			KDH			DXG		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	3,983	2,816	8,261	49,948	83,124	93,066	2,968	2,942	4,133	7,935	14,460	14,225
% growth	*-23.5%*	*-29.3%*	*193.4%*	*-41.2%*	*66.4%*	*12.0%*	*-20.6%*	*-0.8%*	*40.5%*	*-21.4%*	*82.2%*	*-1.6%*
Gross margin (%)	*41.0%*	*39.5%*	*35.9%*	*55.0%*	*51.3%*	*55.7%*	*65.8%*	*60.8%*	*50.2%*	*52.9%*	*50.5%*	*68.5%*
EBITDA margin (%)	*18.0%*	*30.7%*	*20.2%*	*52.9%*	*47.4%*	*52.0%*	*61.8%*	*46.9%*	*37.1%*	*36.8%*	*34.0%*	*52.1%*
Net profit (VNDbn)	228	465	633	31,066	32,087	38,394	1,399	1,070	1,192	1,191	2,762	4,431
% growth	*-78.7%*	*103.9%*	*36.1%*	*-20.0%*	*3.3%*	*19.7%*	*16.4%*	*-23.6%*	*11.5%*	*3.1%*	*132.0%*	*60.4%*
Presales value (VNDbn)	*11,196*	*6,516*	*8,990*	*129,687*	*85,877*	*92,613*	*3,070*	*5,484*	*6,356*	*7,315*	*12,316*	*17,562*
% growth	*89.0%*	*-41.8%*	*38.0%*	*64.4%*	*-33.8%*	*7.8%*	*677.1%*	*78.7%*	*15.9%*	*23.5%*	*68.4%*	*42.6%*
EPS (VND/share)	566	1,154	1,570	7,135	7,369	8,817	2,188	1,658	1,679	1,992	4,621	7,412
BVPS (VND/share)	22,413	22,101	22,194	35,881	43,250	52,067	18,030	17,830	19,509	16,281	20,902	28,314
Net cash/share (VND/share)	2,590	4,319	1,411	-859	-1,066	2,289	-5,885	-6,686	-10,249	2,590	4,319	1,411
D/E	0.4	0.3	0.4	0.2	0.2	0.2	0.6	0.5	0.7	0.3	0.3	0.2
Dividend yield (%)	4.0%	4.0%	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROAE (%)	2.6%	5.5%	7.5%	22.1%	18.6%	18.5%	17.3%	13.2%	14.7%	12.9%	24.9%	30.1%
ROAA (%)	0.9%	1.7%	2.1%	10.5%	8.1%	8.3%	9.8%	8.3%	8.4%	4.0%	8.2%	11.5%

Source: VNDIRECT RESEARCH

Vinhomes (VHM: HOSE)

VHM posted 3Q22 results with net revenue reaching VND17.8tr (-13.9% yoy) while net profit growing 29.8% yoy to VND14.5tr. The buoyant net profit growth were primarily driven by the recognition of bulk sales transactions in financial income of c.VND8.9tr in addition to the ongoing handovers of retail units at Ocean Park, Grand Park, Smart City and The Empire. Thereby, VHM recorded 9M22 NP decline of 27.3% yoy that looked much better than the sharp contraction of 68.3% yoy in 1H22 NP

VHM's 4Q22 presales will be supported by launch of Vinhomes Ocean Park 3 – The Crown and Vinhomes Golden Avenue in Quang Ninh targeted to launch in November. Accumulated, we expect FY22F presales to reach VND129.7tr of value (+64.4% yoy). For presale activities in FY23F, we believe that presales value will decrease by 33.8% yoy, respectively, due to weaker demand for property investment in the context of interest rates continuing to rise.

We expect VHM's FY23F revenue to reach VND83,124bn (+66.4% yoy from low-base in FY22F) with a major distribution from The Empire and The Crown. However, with a large value of bulk sales in FY22 recorded in financial revenue, FY23F net profit only increased by 3.3% yoy to VND32,087bn.

Nam Long (NLG: HOSE)

NLG reported 3Q22 revenue up by 484% yoy to VND882bn, thanks to handovers at Flora Akari and Valora Southgate. However, 3Q22 net profit sharply dropped by 97% yoy to only VND8bn due to lack of one-off gains

We expect NLG to launch 35 low-rise units in Southgate project, valued at c.VND700bn in 4Q22. Accumulated, we estimate FY22F presales surge by 78.9% yoy to VND10,601bn. For FY23F, we forecast FY23F presales to plunge 41.8% yoy to VND6,516bn due to subdued housing demand.

We forecast NLG to report FY23F revenue down 29.3% yoy to VND2,816bn, still mostly from Valora Southgate and Can Tho 43ha projects. However, we estimate FY23F net profit to surge by 104% yoy to VND465bn on BCC project handovers namely Mizuki and FY22F low base, a six-year low.

Khang Dien (KDH: HOSE)

KDH posted 3Q22 revenue down by 33% yoy to VND803bn, thanks to handovers at Classia project. 3Q22 gross profit margin impressively expanded by 23.7% pts yoy thanks to high-margin low-rise project handovers. As a result, 3Q22 net profit rose by 11% yoy to VND352bn

We forecast KDH's 4Q22 presales to VND700-800bn from Classia project (vs. VND100-150bn in 4Q21 due to lack of new project launches). Accumulated, FY22F presales soar 676% yoy to VND2,804bn on FY21 low base. FY23F presales rise 59.2% yoy to VND4,886bn on two new project launches namely Clarita and Privia. We believe KDH could maintain positive take-up on transparency legal document, high quality product, high exposure to end users, as buyers in these projects are less sensitive to high inflation and mortgage rate.

We estimate KDH's FY23F revenue to decrease slightly 0.8% yoy to VND2,942bn, mostly from Classia and Clarita projects. FY23F gross margin will still be high at 60.8% (-5.0% pts yoy) on low-rise handovers. However, we forecast FY23F net profit to decline by 23.6% yoy to VND1,070bn due to lack of one-off gains.

Dat Xanh Group (DXG: HOSE)

DXG's 3Q22 revenue slightly decreased by 4% yoy to VND1,255bn due to a drop of 35% yoy in property handover revenue. However, 3Q22 financial income sharply surge 349% yoy to VND211bn thanks to divestment activities. As a result, 3Q22 net profit rose 195% yoy to only VND153bn.

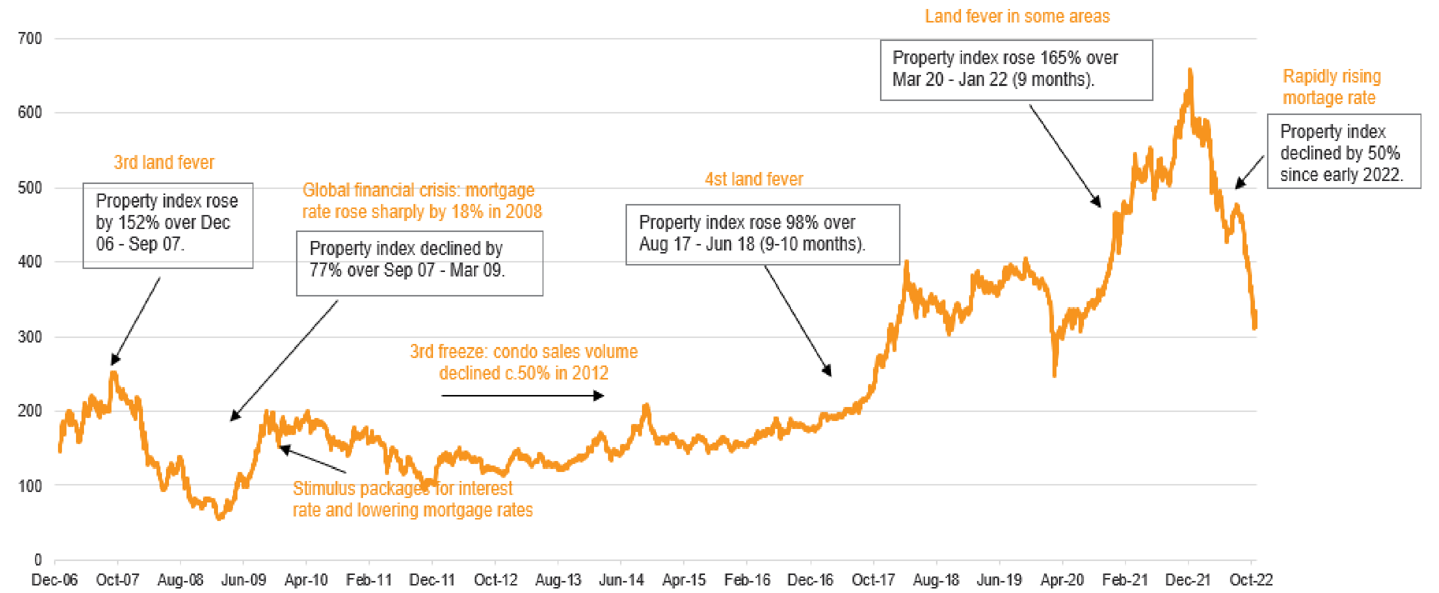
We estimate DXG's FY23F revenue to bounce back +82.2% yoy thanks to the last phase of Gem Sky Word and Opal Skyline handovers. FY23F gross profit margin will stay at high level of 50.5% (-2.4% pts yoy). Following that, we forecast FY23F net profit surge by 132% yoy to VND2,762bn on FY22F low base.

Stock pick: NLG

Have property stock's been priced in?

Property sector is currently trading at 1.6x current P/B, which is a 41% discount to its 3-year average of 2.8x. While the stock is trading at cheap valuations, we believe the stock's re-rating would depend on the recovery in Vietnam's property sentiment which is unlikely before FY24F. The downturn in housing market likely keeps worse in 1H23F, until inflation is under control and interest rates revert back to more sustainable norms, allowing market pricing to reset, in our view.

Figure 250: Property sector index declined by 50% since early 2022



Sources: VNDIRECT RESEARCH, BLOOMBERG

Stock pick: NLG

Figure 251: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK NLG	36,500	ADD	NLG stock price has dropped more than 70% ytd, following the market correction. Currently, NLG is traded at 0.8x FY23F P/B, a lowest-ever. We believe this valuation is attractive for a property developer with healthy financial structure and strong cash flow from previous presales like NLG. (1) NLG has a sizeable land bank of 681ha as of 3Q22 with a diversified portfolio of projects to mitigate risks, and high exposure to the mid-range and affordable condo segments as these segments are driven by real end-user demand. (2) We do not see any challenges in NLG's liquidity, with a low net debt/equity ratio of only 5% (vs. its peer average of 40-45%), and a high proportion of cash and cash equivalents of VND4,179bn, accounting for 16.4% of its total assets as of end-3Q22. (3) We forecast a 43.5% of revenue compounded annual growth rate (CAGR) and 136.9% of net profit CAGR in FY22-24F, mostly driven by strong property handovers from previous presales back up.
2	VHM	82,000	ADD	VHM is a leading property developer with a total land bank of about 16,800ha by the end of 2021; in which, 90% of its total land bank had not been deployed yet, showing the huge potential of the VHM in the future. In the context of tightening bank loans into property sector and stricter supervision in corporate bond issuance, we still believe that liquidity is not a concern for VHM. Its cash and cash equivalents increased by three times from Dec 2021, showing that the cash flow is supported by projects launched for sale in the recent period. VHM continues to focus on borrowing in VND (accounting for 100% of total debt) and maintains low leverage with a net debt/equity ratio of 17.3% as at Sep 2023 to minimize potential risks.

3	KDH	34,800	ADD	We like KDH for its scale, financial capacity, huge land bank in HCMC's sought-after locations (c.600ha for residential and 110ha for industrial park as of end-3Q23) as well as legally transparent. These factors position KDH well to capture demand those use property as inflation hedge, in our view. We project KDH's presales value to strongly bounce back, with a 676% yoy/79% yoy surge in FY22-23F on three new residential project launches in HCMC, namely Classia (4.3ha), Privia (1.8ha) and Clarita (5.7ha).
4	DXG	22,000	ADD	We have a positive view on DXG long term by: (1) leading position nationwide in brokerage market with 33% market share (DXS) in FY21. DXG has quickly gained market share by boosting investment in technology platforms that increase transaction speed 10 times. Gem Sky World, Opal Skyline… are projects that achieve good trading results through this platform. (2) potential land bank in HCMC, especially DXH Riverside (launch in 1H23), which will contribute VND9,155bn in FY24-26F EBT, we expect the absorption rate to be high at launching time thanks to high demand for inner-city project in HCMC. Contributing to DXG's main revenue growth in 2023 comes from projects such as Gem Skyline với Opal Skyline....

Source: VNDIRECT RESEARCH

Figure 252: Peer comparisons

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)			P/B (x)			3-year EPS	ROE (%)		Net D/E as of 3Q22 (%)
		LC$	LC$		US$m	TTM	FY22F	FY23F	Current	FY22F	FY23F	CAGR (%)	FY22F	FY23F	
Residential/hospitality developers															
Vinhomes	VHM VN	45,300	82,000	ADD	7,941	6.3	6.3	6.1	1.5	1.3	1.0	(0.4)	22.1	18.6	7.8
Novaland	NVL VN	25,350	NR	NR	1,990	17.3	21.3	23.4	1.3	1.1	1.1	11.2	5.6	4.9	103.1
Phat Dat	PDR VN	15,950	NR	NR	431	4.9	3.4	2.1	1.3	1.0	0.7	38.7	28.3	30.7	35.7
Khang Dien	KDH VN	22,450	34,800	ADD	648	12.6	10.3	13.5	1.4	1.2	1.3	(6.9)	17.3	13.2	10.9
Nam Long	NLG VN	23,100	36,500	ADD	357	11.7	40.8	20.0	1.0	1.0	1.0	(16.1)	2.6	5.5	-1.8
Dat Xanh	DXG VN	10,200	22,000	ADD	250	7.3	5.1	2.2	0.7	0.6	0.5	53.1	12.9	24.9	10.9
Development Investment Construction	DIG VN	21,910	NR	NR	319	7.7	8.4	7.6	1.1	N/A	N/A	0.1	15.9	12.2	15.2
An Gia	AGG VN	33,500	NR	NR	151	10.7	N/A	N/A	1.5	N/A	N/A	N/A	N/A	N/A	92.4
Average						*10.7*	*15.3*	*10.3*	*1.5*	*1.0*	*2.3*	*9.8*	*15.1*	*15.3*	*39.0*
Median						*10.4*	*8.4*	*7.6*	*1.3*	*1.1*	*1.0*	*1.1*	*15.9*	*12.7*	*15.2*
Brokerage															
Dat Xanh Services	DXS VN	5,740	NR	NR	105	6.7	2.8	2.0	0.4	N/A	N/A	N/A	15.9	18.7	-8.5
Century Land	CRE VN	10,500	NR	NR	196	8.9	5.5	4.1	1.0	0.9	0.8	0.2	18.6	21.6	3.8
Khai Hoan Land	KHG VN	4,790	NR	NR	87	3.4	N/A	N/A	0.4	N/A	N/A	N/A	N/A	N/A	2.0
Danh Khoi	NRC VN	6,100	NR	NR	23	N/A	N/A	N/A	0.4	N/A	N/A	N/A	N/A	N/A	41.1
Average						*6.3*	*4.1*	*3.0*	*0.6*	*0.9*	*0.8*	*0.2*	*17.3*	*20.2*	*9.6*
Median						*6.7*	*4.1*	*3.0*	*0.4*	*0.9*	*0.8*	*0.2*	*17.3*	*20.2*	*2.9*

Note: all prices are based on the closing prices on Nov 22 2022. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

Sources: VNDIRECT RESEARCH, BLOOMBERG

Sector note

INDUSTRIAL PROPERTY: THE TIDE SUBSIDES

- 3Q22 average rental price increased by 10%-12% yoy, given high demand but limited supply.
- We see industrial property will slowdown following rising competition from Indonesia and delayed legal procedure which will shrink new supply.
- Our stock picks for long-term investment are PHR and BCM.

Southern market: Ba Ria – Vung Tau is IP hotspot

After supply boomed in 1H22, Southern industrial market did not have any new project put into operation 3Q22. 9M22 total industrial land area rose by 9.2% yoy to c.41,950ha, leading to the 8.2% yoy increase in leasable area (c.27,950ha). Besides, we see a strong new warehouse (WH) and ready-built factory (RBF) supply was put into operation in 3Q22, leading to a 30.2%/27.7% yoy increases in total supply, respectively. Average occupancy rate and rental price raised by 1.3% pts to 85.2% and 10.0% yoy to US$125/sqm/lease term given high demand but no new supply in 3Q22.

Northern market: Rental price climbed to new high

Similar to the Southern market, there is no new industrial park coming into operation in Northern market in 3Q22. For 9M22, total land area rose by 2.7% yoy to 16,072ha. Due to no new supply in 3Q22 and limited supply in 9M22, 3Q22 occupancy rate increased by 4.7% pts yoy to 80-82%. For WH and RBF market, new supply rose by 39% yoy to 1.4m sqm and 9.5% yoy to 2.3m sqm, respectively, in 9M22.

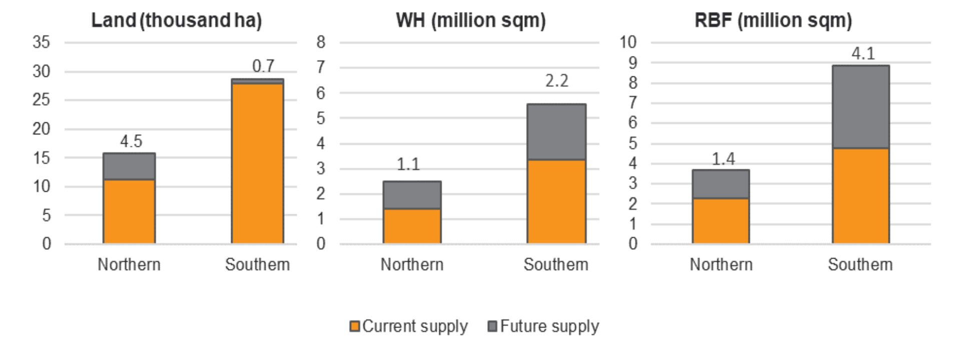
2023F outlook: the tide subsides

We see that the positive factors for industrial property are fading due to: 1) slowdown FDI inflows (9M22 registered FDI dropped by 15.3% yoy) causing by investors' cautious sentiment toward the risky global economic recovery and FED raise interest rate may have an impact on FDI inflows into Vietnam; 2) new supply is tightened by legal procedure delay. We believe that industrial property market will see a scarcity of new supply from now through the end of 2023F in both the South and the North.

Our stock picks are PHR and BCM while NTC is in watchlist

Despite facing many difficulties, industrial property sector still has potential growth from WH and RBF thanks to E-commerce boom leading. We believe developers owning existing land bank will enjoy this trend the most. Following that, we like **PHR** and **BCM** for long-term investment. Downside risks come from: 1) prolonged the legal procedure approval time, 2) increasing competition from regional peers and 3) increasing land compensation could make slow process, driving up investment cost and land rental prices.

Figure 253: We see the contrast between new supply of industrial land and WH/RBF in 2023-26F



Source: VNDIRECT RESEARCH, JLL, Cushman&Wakefield

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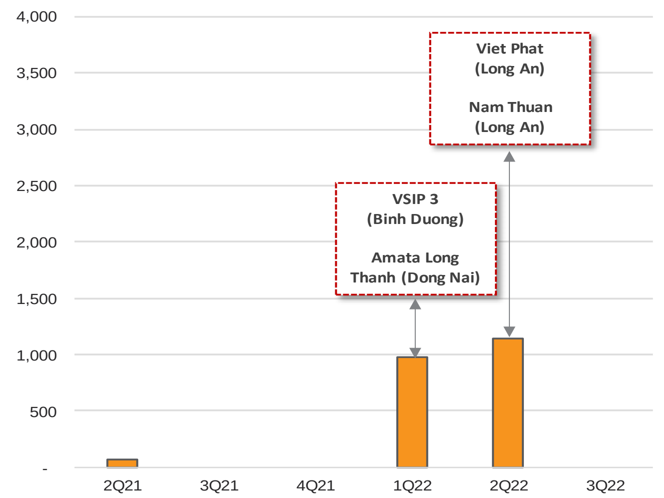
9M22 market recap: High demand drove up performance

Southern market: Ba Ria – Vung Tau is IP hotspot

After significantly delays in 2H21 due to Covid-19, 2,117ha in Long An, Binh Duong and Dong Nai have been added to the market, leading to the 8.2% yoy increase in leasable area (c.27,950ha). No new supply in 3Q22 as approval process for new project has been delayed due to the change of senior leaders of in Southern localities.

For 9M22, total industrial land area rose by 9.2% yoy to c.41,950ha, average occupancy rate and rental price increased by 1.3% pts yoy to 85.2% and 10.0% yoy to US$125/sqm/lease term. With limited new supply for a year, 3Q22 land rental price in BR-VT increased the most at c.19% yoy to US$101/sqm/lease term, but still had the lowest price among five key Southern industrial cities/provinces. HCMC has the highest asking price which could reach up to US$300/sqm/lease term at prime locations.

Figure 254: New IP supply in Southern market, (Unit: leasable area, ha)



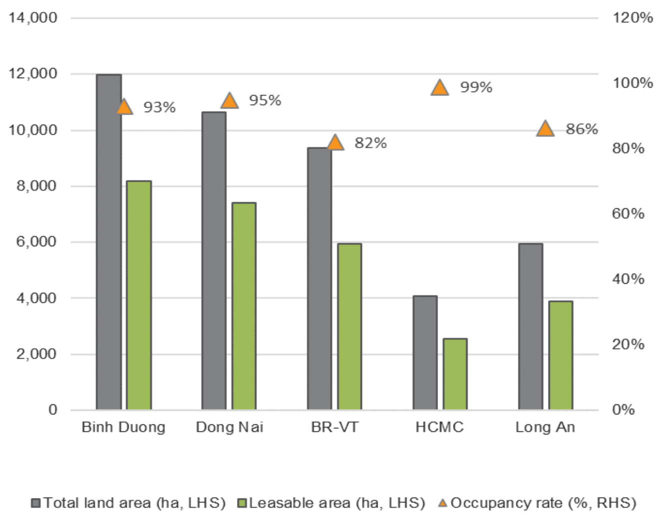
Source: VNDIRECT RESEARCH, JLL

Figure 255: Notable IP projects to be put into operation in 9M22

Project	Total area	Leasable area	
VSIP 3 (49%/20% owned by BCM and PHR)	1000ha	700ha	
Amata Long Thanh	410ha	275ha	
Viet Phat	1800ha	923ha	
Nam Thuan	308ha	217ha	

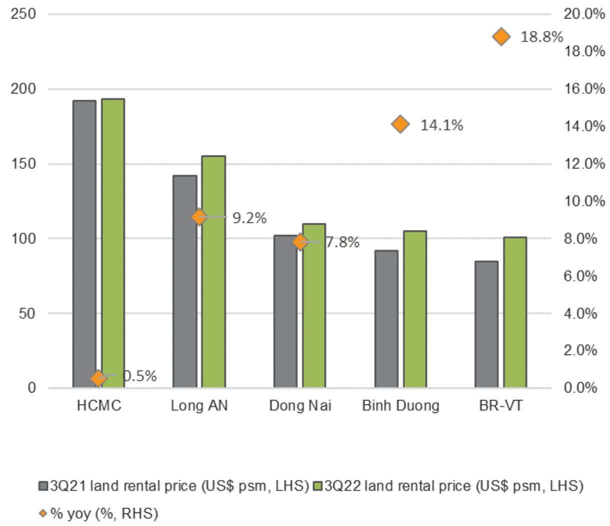
Source: VNDIRECT RESEARCH, JLL

Figure 256: Occupancy rates of 5 provinces inched up thanks to high demand at end-3Q22



Source: VNDIRECT RESEARCH, JLL

Figure 257: BR-VT enjoys the strongest rental prices growth among Southern area



Source: VNDIRECT RESEARCH, JLL

Warehouse (WH) segment in Southern market continued its vibrant development with the introduction of new supply across all cities/provinces in all grades, increased the total supply to approximately 3.36m sqm, of which modern WH accounted for 39%. Among the five key Southern cities/provinces, Binh Duong maintained its leading position with more than 1.4m sqm, took up 42% of the total supply as of 3Q22.

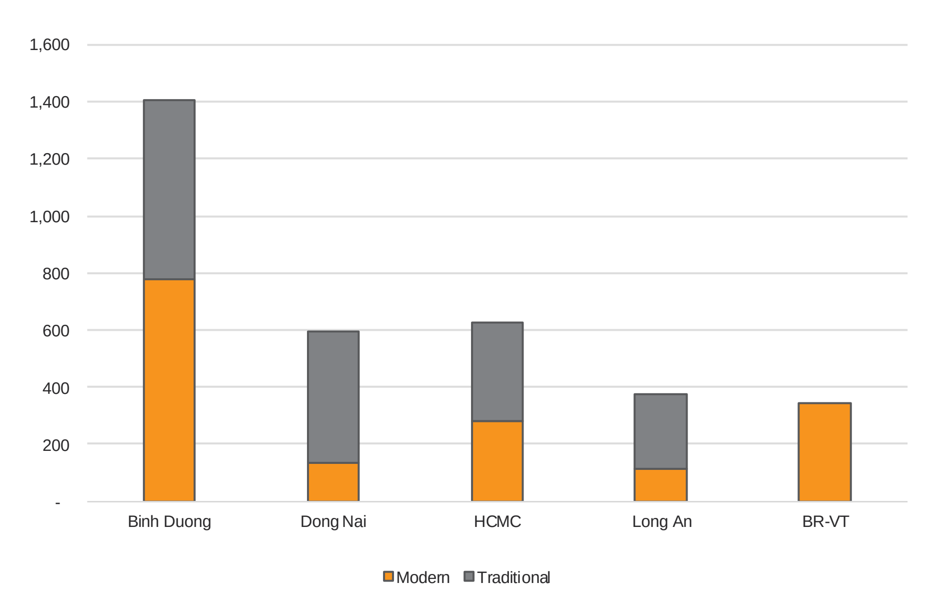
Traditional warehouse:

- Straightforward facility.
- Must have large uninterrupted span.
- Flexibility of storage.
- Goods stored in boxes, sacks or barrels.

Modern warehouse:

- Based on most economical material handling.
- High stacking and minimum number of aisles.
- Use dock leveler.
- Receiving areas located at truck level.

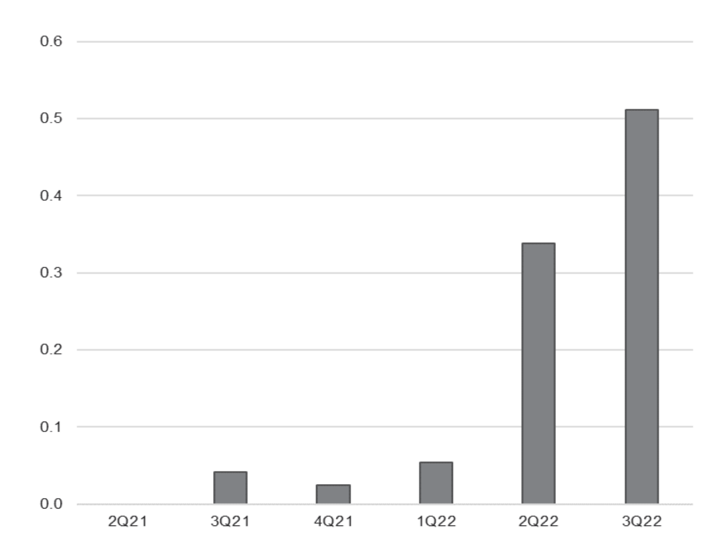
Figure 258: Binh Duong took the lead in Southern's WH supply at end-3Q22 (Unit: c.1,000 sqm)



Source: VNDIRECT RESEARCH, JLL

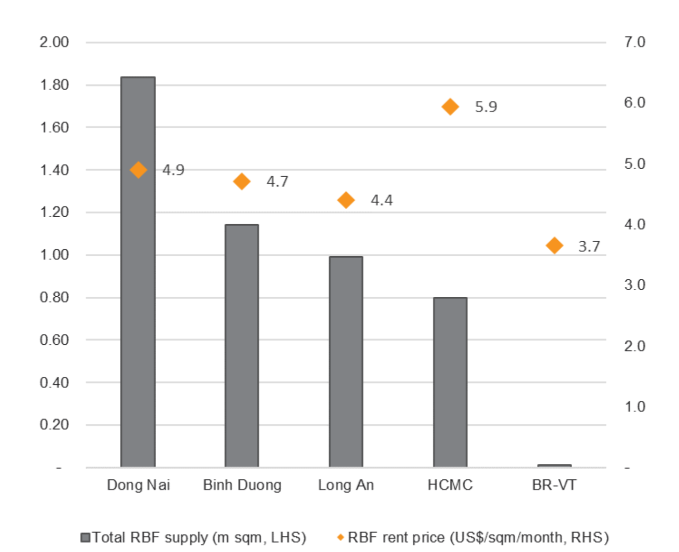
For ready-built factory (RBF), we see a strong RBF supply was put into operation in 3Q22, coming from BWID Nhon Trach 1 &2 with total supply of c.324,333 sqm and one project in HCMC, according to JLL. For 9M22, RBF total supply rose by 27.7% yoy to 4.78m sqm mostly come from Dong Nai, Long An and HCMC with the contribution of 41.8%/31.0% and 22.7%, respectively.

Figure 259: Southern market has a strong RBF new supply in 9M22 (million sqm)



Source: VNDIRECT RESEARCH, JLL

Figure 260: Average RFB rental price in the South increased by 5.9% yoy thank to new high-quality supply



Source: VNDIRECT RESEARCH, JLL

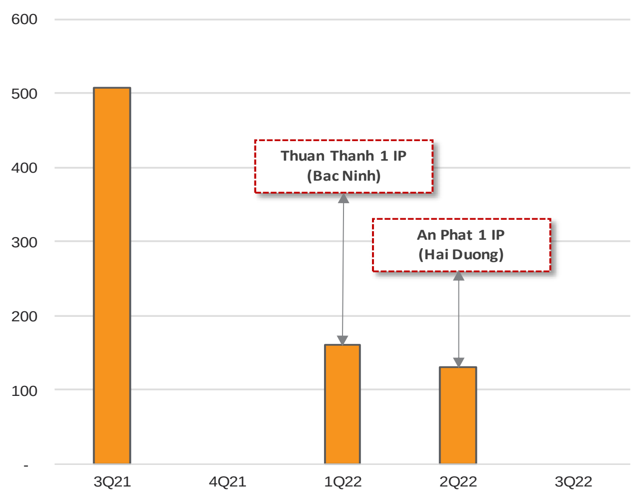
Northern market: Rental price climbed to new high

For 9M22, Northern market just recorded only two projects to be put into operation: Thuan Thanh 1 IP in Bac Ninh and An Phat 1 IP in Hai Duong with leasable area of 160ha and 130ha, respectively, leading to a 2.5% yoy increase in leasable area (c.11,333ha). 9M22 total land area rose by 2.7% yoy to 16,072ha while occupancy rate increased by 4.7% pts yoy to 80-82% at end-3Q22.

Similar to the Southern market, land rental price in five key Northern industrial cities/provinces remained at high level in 3Q22, with an average increase of 12% yoy to US$121/sqm/lease term. We see Hung Yen is a bright spot with the highest increase of c.17% yoy to US$100/sqm/lease term in 3Q22 rental price among five key Northern industrial cities/provinces. This led to selected projects increased their asking rent price when occupancy rate improved.

Positive market sentiment continued as large transactions of 10-15ha was recorded in 3Q22. According to CBRE, 3Q22 net absorption of Tier-1 (exclude Vinh Phuc) rose 12.7% qoq to 133ha. The significant transactions come from sectors such as electronics, energy and logistics.

Figure 261: No new supply in 3Q22 in the Northern IP market (Unit: ha)



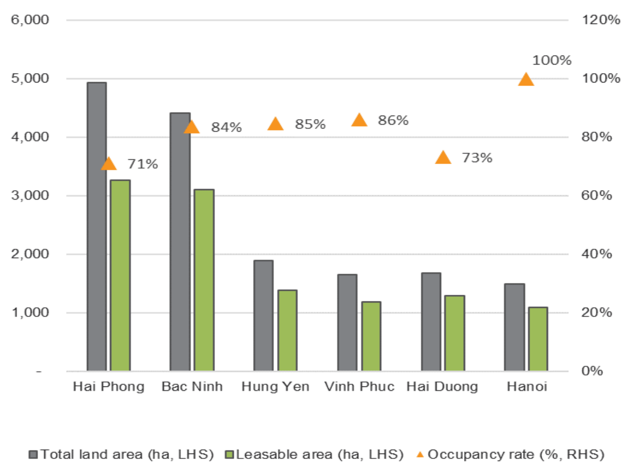
Source: VNDIRECT RESEARCH, JLL

Figure 262: Just 2 new projects to be put into operation in 9M22

Project	Total area	Leasable area	
Thuan Thanh 1 IP (Bac Ninh)	250ha	160ha	
An Phat 1 IP (Hai Duong)	180ha	130ha	

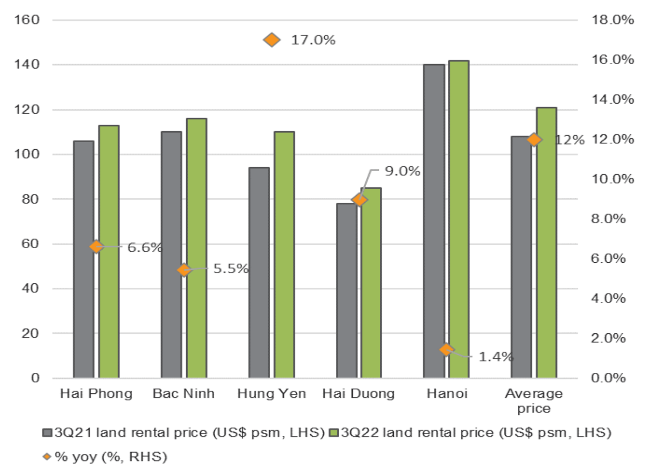
Source: VNDIRECT RESEARCH, JLL, CBRE

Figure 263: Occupancy rate in the North stay at high level in 9M22



Source: VNDIRECT RESEARCH, JLL, CBRE

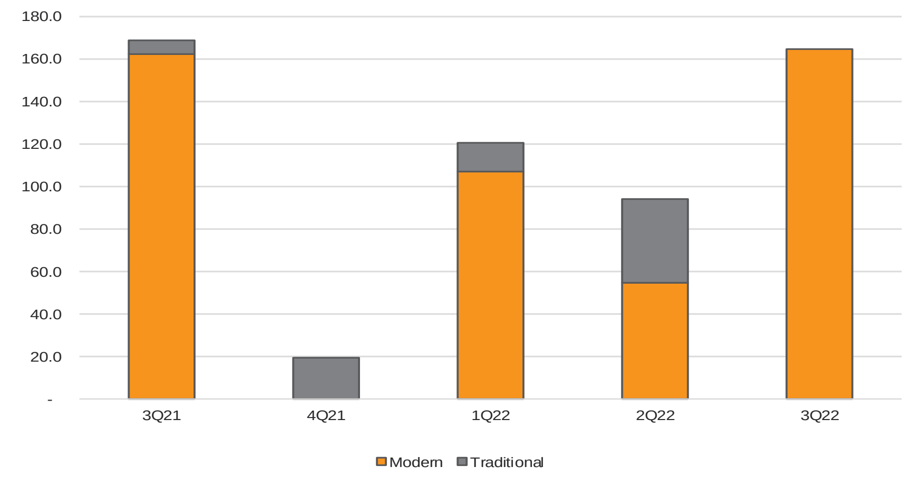
Figure 264: Hung Yen has a biggest increase in IP rental price



Source: VNDIRECT RESEARCH, JLL, CBRE

For WH market, new supply rose by 39.0% yoy to 1.4m sqm, according to JLL. On 9M22, we see new supply tend movement to modern supply with some notable projects such as: Mapletree LP in Hung Yen, Logis United and BWID Deep C in Hai Phong… The high-quality supply to be put into operation in 9M22 led to a 5.7% yoy increase in 3Q22 WH rental price (c.US$4.4/sqm/month).

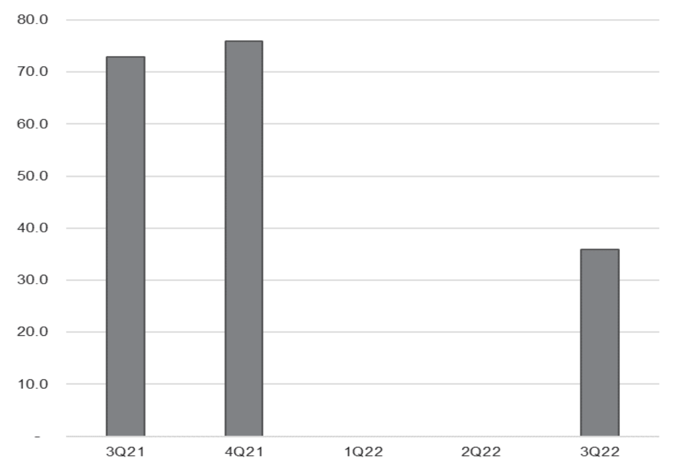
Figure 265: Modern WH increased rapidly since 1Q22 and will replace traditional WH (c.1000 sqm)



Source: VNDIRECT RESEARCH, JLL

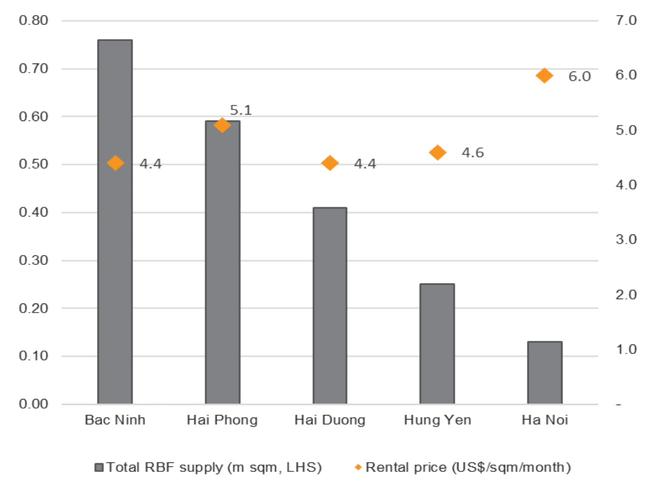
For RBF market, after half-year of scarce supply, 3Q22 received new supply of 35,834 sqm from 3 projects: Yen Phong 2C phase 1, U&Me Nam Cau Kien and Yen My II. For 9M22, new supply increased 9.5% yoy to 2.3m sqm. Hai Phong continued its leading position with proportion of 30.6% Northern supply. Average rental price increased by 3.5% yoy to US$4.8/sqm/month. With limited supply, Ha Noi recorded biggest increase in rental price among five key Northern industrial cities/provinces.

Figure 266: After half-year of scarce supply, 3Q22 received new supply of 35,834sqm from 3 projects (Unit: c.1,000 sqm)



Source: VNDIRECT RESEARCH, JLL

Figure 267: Average RBF rental price in the North rose by 3.5% yoy thank to higher-than-expected demand



Source: VNDIRECT RESEARCH, JLL

Listed IP companies recorded a lower-than-expected 9M22 revenue

We see a lower-than-expected revenue growth in listed IP companies, following by:

- PHR's 3Q22 revenue is flat yoy and no new one-off gain was recorded, leading to a 16.1% yoy decrease in 3Q22 NP. For 9M22, revenue dropped by 11.5% yoy due to an 8.1%/30.4% yoy decrease in rubber & wood/industrial revenue, respectively. 9M22 NP rose 53.5% yoy to VND468bn thanks to a part of VSIP III's land compensation (VND289bn), but just fulfilling 45% our FY22F forecast.
- SZC's 3Q22 revenue decreased by 24.3% yoy due to: 1) IP revenue dropped by 29.9% yoy compare with high base of 3Q21, 2) residential revenue from Sonadezi Huu Phuoc was not recorded, leading to a 65.0% yoy decrease in 3Q22 NP. For 9M22, revenue increased by 17.3% yoy on the back of high demand for IP rental in 1H22 but SZC increased land price for compensation in Chau Duc IP. As a result, 9M22 NP dropped by 37.5% yoy, just fulfilling 42.4% our FY22F forecast.
- KBC's 3Q22 revenue dropped by 37.5% yoy to VND203bn due to no industrial and residential revenue was recorded, but NP surged to VND1,919bn thanks to a one-off gain from investment revaluation of VND1,975bn. Following that, 9M22 revenue decreased by 58.1% yoy to VND1,289bn while NP increased by 255.1% yoy to VND2,030bn.
- BCM reported 3Q22 revenue surged by 156.4% yoy to VND2,264bn, thanks to a VND1,300bn Uni Galaxy transfer. 3Q22 gross margin subdued 25.1% pts yoy to only 29.8% due to low gross margin of Uni Galaxy project of c.14%. 3Q22 net profit soared 318.4% yoy to VND203bn on low base 3Q21 due to COVID-19 charitable contributions. Accumulated, 9M22 revenue/net profit rose 41.3% yoy to VND5,634bn/58.0% yoy to VND1,577bn.

Figure 268: 3Q22 result of listed IP companies

	3Q22 revenue (VNDbn)	3Q21 revenue (VNDbn)	% yoy	3Q22 net profit (VNDbn)	3Q21 net profit (VNDbn)	% yoy	9M22 revenue (VNDbn)	9M21 revenue (VNDbn)	% yoy	9M22 net profit (VNDbn)	9M21 net profit (VNDbn)	% yoy
GVR	5,854	6,161	-5.0%	835	1,241	-32.7%	16,336	16,712	-2.3%	2,907	2,818	3.2%
VGC	3,213	2,211	45.3%	221	200	10.9%	11,319	7,518	50.6%	1,567	818	91.5%
BCM	2,264	883	156.4%	203	49	318.5%	5,634	3,988	41.3%	1,577	998	58.0%
SNZ	1,400	1,252	11.8%	130	272	-52.3%	3,874	3,745	3.5%	522	634	-17.6%
SIP	1,509	1,134	33.1%	191	165	15.6%	4,596	4,130	11.3%	678	679	-0.3%
KBC	203	325	-37.5%	1,919	(68)	N/A	1,289	3,077	-58.1%	2,030	572	255.1%
PHR	523	522	0.2%	122	145	-16.1%	1,132	1,280	-11.5%	468	305	53.5%
DPR	303	341	-11.1%	69	84	-18.3%	841	730	15.3%	187	139	34.6%
ITA	89	343	-73.9%	24	99	-75.9%	468	684	-31.6%	151	182	-16.9%
SZC	123	163	-24.3%	23	67	-65.0%	663	566	17.3%	160	256	-37.5%
D2D	16	147	-88.9%	(4)	86	-104.2%	55	344	-84.0%	3	194	-98.3%
NTC	53	37	42.0%	57	49	17.0%	189	165	14.5%	210	212	-1.0%
LHG	178	52	241.9%	82	20	314.4%	526	718	-26.8%	172	271	-36.6%
TIP	99	30	235.7%	40	7	503.4%	176	185	-5.0%	57	66	-13.6%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

2023F outlook: The tide subsidies

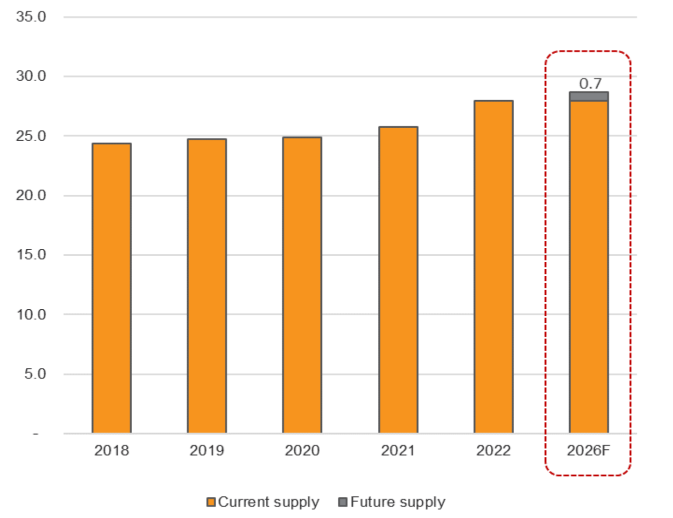
New supply will shrink as approval process is delayed for legal procedure

Since 1Q22, there has been no record of any proposal to establish more industrial parks in both Southern and Northern market. In addition, there are limited new IPs to be put in the national IP master plan.

This comes from the fact that the industrial park development planning is still spreading out, primarily depending on locality decision. Therefore, the change of senior leaders of many localities in the past year has slowed down the approval procedure of many projects. This caused slower-than-expected land clearance and overlap in planning or infrastructure outside IP.

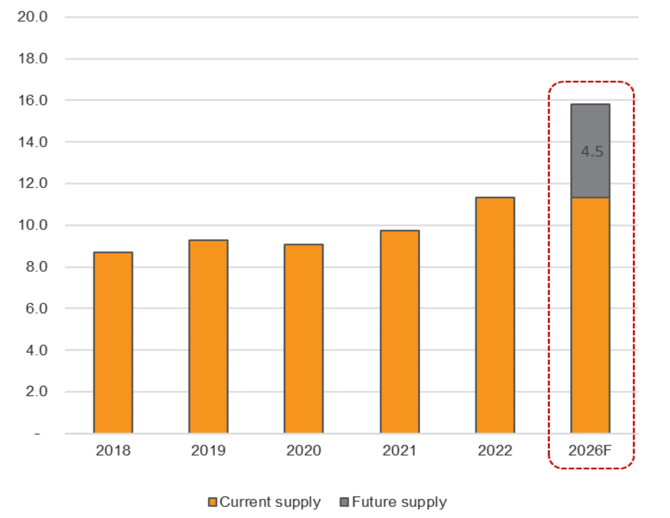
We believe that industrial property market will witness a scarcity of new supply from now until the end of 2023F. After supply boom in 2022, there is only around 700ha to be put into operation in Southern during 2023-26F, mostly come from Long An and Dong Nai. Although there is a high number of pending projects, we believe that the lack of new supply situation in Northern market will not end sooner 2023F, after that we expect c.4,500ha will be put into operation in 2024-26F, with the most contribution come from Bac Ninh and Hai Phong.

Figure 269: We see Southern supply is limited in 2023-26F after supply boom in 2022 (Unit: c.1,000ha)



Source: VNDIRECT RESEARCH, JLL

Figure 270: The lack of new supply situation in Northern market will not end sooner than 2023F. After that c.4,500 ha is expected to be put into operation in 2024-26F (Unit: c.1,000ha)



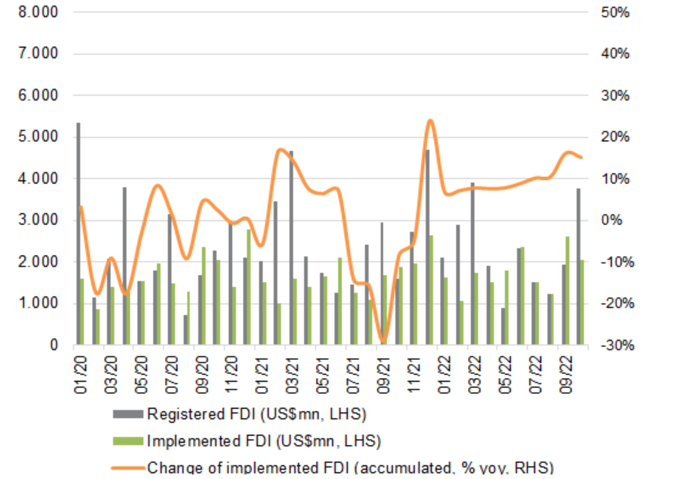
Source: VNDIRECT RESEARCH, JLL

Rising competition on FDI attraction from Indonesia

Vietnam registered FDI dropped by 5.4% yoy to US$22.5bn while implemented FDI capital still grew healthily 15.2% yoy to US$17.5bn in 10M22. In 2022, Vietnam is among top countries to receive most FDI in regional. We see Vietnam attractiveness will sustain thanks to its proximity to China, low land rental price, competitive energy cost and skilled workforce. However, we see the growing competition from other countries and Vietnam currently lag behind in lure FDI flows of EV and semiconductor industry

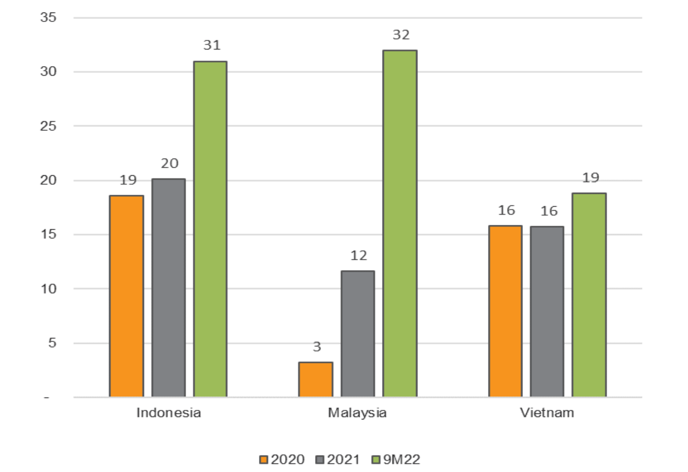
Since 2020, Indonesia has released the Omnibus Law which provided more opportunities for foreign companies to operate or invest in this country. Since then, FDI flow to Indonesia grew positively 10% yoy in 2021 and 46% yoy in 9M22 to US$31bn. Vietnam and Indonesia are the two countries receiving the most FDI inflow. While Vietnam is transforming itself into an electronics equipment manufacturing hub, Indonesia is focusing on the electric vehicle supply chain.

Figure 271: Implemented FDI rose 15.2% yoy while new FDI declined 5.4% yoy in 10M22



Source: VNDIRECT RESEARCH, FIA

Figure 272: Indonesia and Malaysia have a strong increase in FDI inflows in 9M22 (Unit: US$bn)



Source: VNDIRECT RESEARCH, GSO, MPI

Additionally, we see two industrial developments will shape the investment landscape in ASEAN, including EV industry and semiconductor industry. Significant developments in these industries included new categories of investors, new segments of value chains, further expansion of capacity and increasing activities in regional production networks. Thus, regarding their potential to continue receiving a high level of FDI in the next few years, regional countries has actively promoted FDI in the production of EVs, including batteries, and at the same time encourage consumers to adopt EVs. However, Vietnam is lagging behind other rivals in this trend which might dim the attractiveness of Vietnam in luring FDI flow.

Figure 273: ASEAN: EV-related measures (Selected countries)

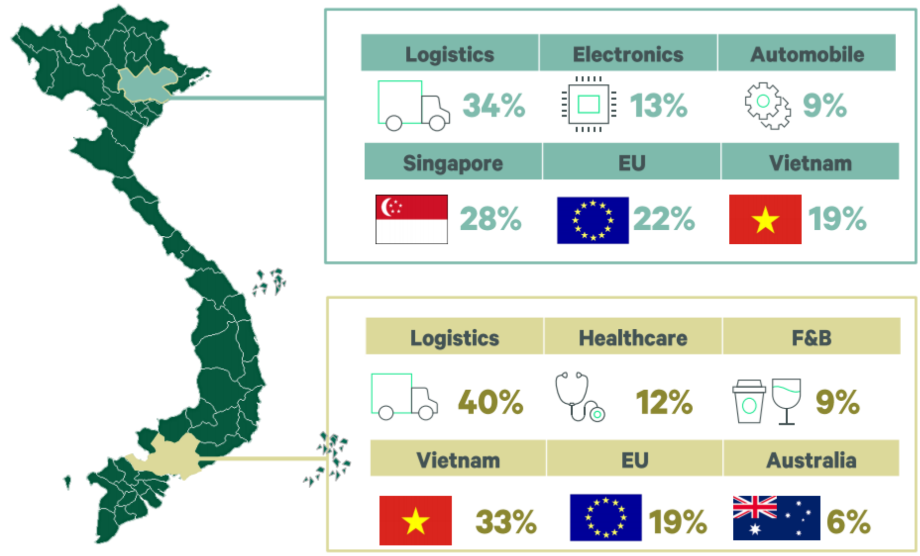
Measure	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Carbon neutrality target	✓	✓	✓	✓	✓	✓
EV target	✓ 2035: 30 per cent of production volume	✓ 2030: 15 per cent of industry volume	✓ Electric motorbike "e-trike" programme	✓ 2040: all types of vehicles	✓ 2030: 30 per cent of all car sales	✓ Development stage
Investment incentives for MNEs	✓	✓	✓	✓	✓	✓ Incentives are general but include EV production
Incentives for EV adoption by consumers	✓	✓	✓	✓	✓	..
Industrial zones solely for EVs	..	✓	..	..	EEC (Next-generation automotive, including EVs)	..
Measure	**Indonesia**	**Malaysia**	**Philippines**	**Singapore**	**Thailand**	**Viet Nam**
National programme and institutional support	Presidential Regulation No. 55 of 2019 on Acceleration of Battery-Based Electric Vehicles Program for Road Transportation Various ministries	National Automotive Plan, launched in February 2020, involved various ministries	House Bill 10213 Electric Vehicle Industry Development Act Various Government departments	Various agencies and institutions supporting the development of different EV value chain	EV Industry Development Road Map National Electric Vehicles Policy Committee	..

Source: VNDIRECT RESEARCH, ASEAN Investment

E-commerce booming requires strong supply for WH and RBF to meet demand for Logistics sector

According to record via CBRE, both Northern and Southern market recorded a high number of inquiries, mainly come from rental demand for the Logistic sector with the proportion accounting for 34%/40%, respectively.

Figure 274: 1H22 number of rental enquiries via CBRE mostly in Logistics sector

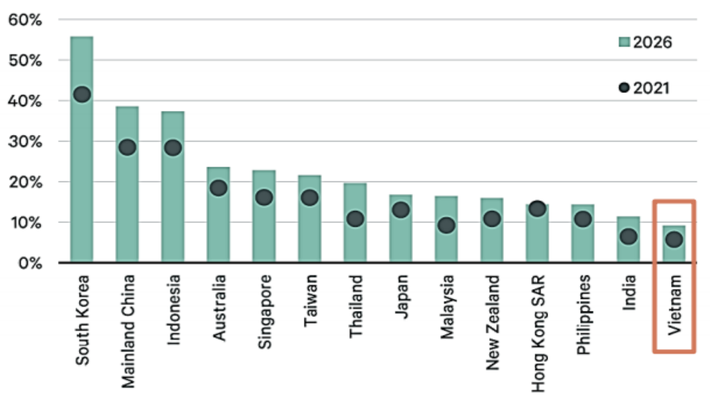


Source: VNDIRECT RESEARCH, CBRE

According to Euro Monitor and Vietnam E-Commerce Association, Vietnam's e-commerce revenue is booming, with an estimated CAGR of 25% to US$39bn in 2021-26F. For US$1bn of additional e-commerce sales, it would require an additional of 92,903 sqm of logistic space. Following that, more than 2.2m sqm of additional e-commerce-dedicated logistic space is estimated to be required by 2026F.

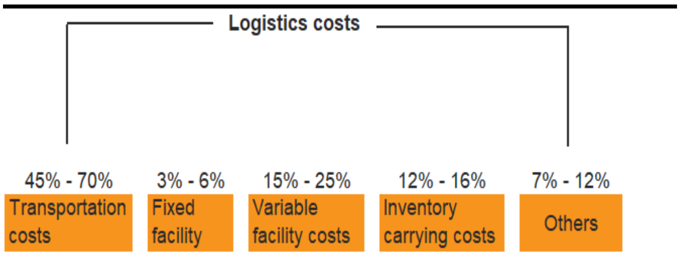
Besides, robust demand for goods and the ongoing supply chain disruption heightens the need for additional warehouse space to stockpile goods and mitigate future disruptions as well, according to CBRE Econometric Advisors. Given that rising transportation costs are much higher than warehouse cost, accounting for 45%-70% of total supply chain cost, while fixed facility costs (including real estate) account for only 3% to 6%, logistics space near major transportation hubs such as airports and ports with well-connected transport networks, will be keenly sought-after, in our view.

Figure 275: E-commerce boom in Vietnam with an estimated CAGR of 25% for revenue over 2021-26F



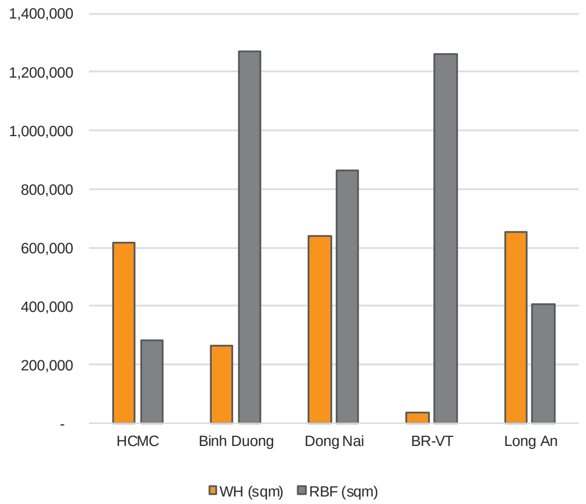
Source: VNDIRECT RESEARCH, CBRE,

Figure 276: Transportation costs increases are much higher than warehouse cost increases



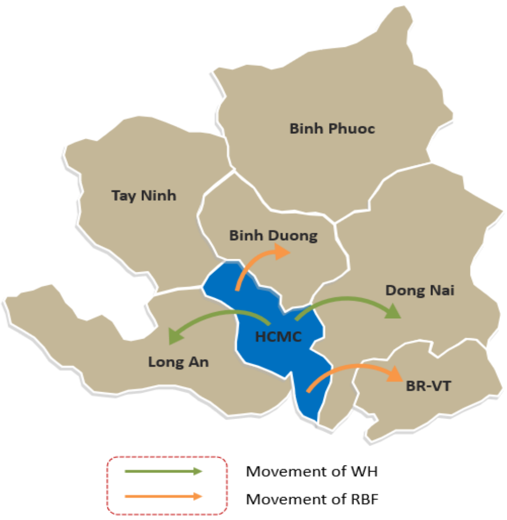
Source: VNDIRECT RESEARCH, MOIT

Figure 277: Strong new supply of WH and RBF in the South will be put into operation in 2023-26F



Source: VNDIRECT RESEARCH, Cushman&Wakefield

Figure 278: The RBF movement now tend to move to Binh Duong and BR-VT



Source: VNDIRECT RESEARCH, Cushman&Wakefield

We see a strong new supply of WH and RBF to be put into operation in next four years in both Northern and Southern market.

- For Northern market, we expect new supply will lead to impressive growth in total supply of WH and RBF at 15.0%/12.8% CAGR in 2022-26F, respectively. Total supply of WH/RBF can reach 2.5/3.7m sqm in 2026F, respectively, with notable projects come from Mapletree Hung Yen P3, GNP Nam Dinh Vu, BW Nam Dinh Vu P2 …
- For Southern market, we estimate 2026F total supply of WH/RBF will grow at 13.4%/16.7% CAGR in 2022-26F. We see a contrast in the movement of new supply of WH and RBF. While WH movement now tend to move to Long An and Dong Nai, RBF movement tend to move to Binh Duong and BR-VT. We believe developers owning existing land bank like BCM will enjoy the most from this trend.

Stock picks: We like PHR and BCM for long-term investment while NTC is in our watchlist

Figure 279: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK PHR	60,000	ADD	The prospect of IP business remains intact though the process of land conversion progress will slow down in the couple of next quarters. PHR aims to develop five IPs with a total area of more than 2,700ha over FY26-30F. We expect PHR will book one-off gain in 4Q22/1Q23F, equivalent VND400bn/VND207bn, respectively, leading PHR's earnings to grow +117.6% yoy in FY22F and weaken just 2.7 % yoy in FY23F. PHR stock has dropped c.53% from its peak in Mar 2022 and currently traded at 7.9x FY22 P/E, which is lower than its peer average of 17.6x. Together with high dividend yield of 9.9%, we believe the risk-reward of this stock is quite attractive to accumulate at this time.

				Re-catalyst includes sooner-than-expected the legal for land to be approved. Downside risks include 1) rubber prices slump deeper than expectation; 2) Slower-than expected land clearance process.
2	STOCK PICK BCM	99,000	ADD	One of country leading industrial park developers with six operating IPs spanning over 4,000ha, the largest listed IP developer in terms of leasable land bank (~944ha). We see more challenges for IP developers in the next 2 years due to the slow project approval process and limited funding sources. However, this likely turns out opportunities for developers that own ready-for-lease land bank, like BCM. Robust earnings growth over FY22-23 (58.2% yoy – 84.7% yoy). We expect revenue from residential property to skyrocket in FY23F thanks to the one-off gain about ~VND5,000bn from Binh Duong New City project land transfer CapitaLand. Revenue from IP business will grow steadily 17% yoy – 44% yoy over FY22-23F thanks to the contribution of Cay Truong IP and Bau Bang expansion IP. Upside catalysts: 1) faster IP or residential land sales, 2) sooner-than-expected new IPs launches. Downside risks: 1) lower-than-expected IP land sales, 2) delays in obtaining permits for new launches and 3) higher-than-expect leverage which could take a big chunk out of profits.
3	SZC	44,000	ADD	SZC is well-positioned to capture the growing demand for industrial property in the South. SZC with the parent's advantage, Sonadezi Corporation, with more than 30-year experiences is attracting investors. SZC has sizeable land bank (more than 600ha) and competitive rental prices among listed IP companies in Ba Ria-Vung Tau, a major manufacturing hub in the South. Chau Duc IP' leasable area is still guaranteed to remain steady for upcoming years. We estimate available leasable area of this IP around 581ha, which will continue to be leased from 40-60ha per year in FY23-32F. Although slower-than-expected handover, SZC's residential business will be the growth engine with FY23-24F revenue contribution of 28.3%/43.0%, respectively. Upside catalysts: 1) higher-than-expected rental price and lease area of Chau Duc IP, 2) Sooner-than-expected implement time of Sonadezi Huu Phuoc's phase 2. Downside risks are: 1) higher-than-expected the new price for land compensation, 2) delays in obtaining permits for residential projects.
4	KBC	36,400	ADD	We believe KBC is well-positioned to capture the growing demand for IP as 1) KBC has a sizeable ready-to-lease industrial land bank with Trang Due 3 IP likely starting from 2023F; 2) KBC holds the leading position in attracting FDI with several tech giants in its tenant portfolio, including Samsung Electronics Vietnam in Que Vo IP, LG Electronics in Trang Due IPs, Foxconn in Quang Chau IP. In addition, KBC is now completing legal procedures and ground filling at Trang Cat urban area project (581ha), which has a potential GDV of c.VND50,000bn (based on our estimate). The company plans for its first bulk sales of 30ha in FY22-23F. We believe these projects should provide strong support for KBC's long-term earnings growth. Potential upside risks could come from faster IP or residential land sales and whether KBC can clear legal hurdles to start its new IPs. Key downside risks 1) worse-than-expected IP land sales, 2) regulatory delays in Trang Cat project and Trang Due 3 IP, and 3) delays in booking revenue from residential projects.
5	NTC	N/A	N/A	According to NTC's management, legal procedures for its new IP namely Nam Tan Uyen IP phase 2 (NTC3) with a total area of 346ha had been tackled bottleneck. The company is likely to monetize this new IP since early 2023F. Besides, NTC is one of the most rich-cash listed property companies with a net cash of VND1,068bn as of end-3Q22, coupled with a stable income from its associates, we estimate NTC could book c. VND180-200bn in net financial income, equivalent to 18-20% of FY23F pre-tax profit. We forecast FY23F net profit to surge 242% yoy to VND857bn on new IP contribution.

Source: VNDIRECT RESEARCH

Upside risks:

- Stronger-than-expected FDI inflows
- Tackle bottleneck for legal procedures which will speed up project implementation

Downside risks:

- Increasing competition from regional peers. Not only Vietnam but also neighboring countries have rapidly established new industrial parks. For instance, Indonesia established a 4,000ha IP in 2020, Myanmar cooperated with Korea, Thailand, Singapore to attract more overseas manufacturers with Myanmar Singapore Industrial Park (436ha), Yangon Amata Smart and Eco City (800ha)
- Increasing land compensation could make slow process, drive up investment cost and land rental prices.
- Prolong the legal procedure approval time.

Figure 280: FY22-24F earnings forecast of stocks under coverage

	PHR			SZC			BCM			KBC		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue (VNDbn)	2,025	2,341	3,133	864	1,365	2,081	7,865	11,603	9,453	2,875	9,378	10,756
% growth	4.1%	15.6%	33.8%	21.2%	58.0%	52.5%	12.5%	47.6%	-18.5%	-32.3%	226.2%	14.7%
Gross profit	537	637	1,115	355	710	1,112	3,327	4,943	4,225	1,541	5,941	6,414
Gross margin (%)	26.5%	27.2%	35.6%	41.1%	52.0%	53.4%	42.3%	42.6%	44.7%	53.6%	63.4%	59.6%
Net profit	1,040	1,013	1,368	238	510	828	2,334	3,809	3,613	2,589	3,435	3,764
% growth	117.8%	-2.7%	35.1%	-26.5%	114.3%	62.4%	66.2%	63.2%	-5.1%	230.9%	32.7%	9.6%
EPS (VND/share)	7,677	7,473	10,097	2,160	4,634	7,520	2,255	3,680	3,491	3,373	4,475	4,904
BVPS (VND/share)	24,626	27,652	32,409	15,560	19,051	25,338	17,032	19,913	22,604	22,302	26,777	31,681
Dividend yield (%)	10.8%	10.8%	12.2%	3.9%	3.9%	3.9%	1.1%	1.1%	1.1%	0.0%	0.0%	0.0%
ROAE (%)	32.9%	28.6%	33.6%	15.7%	29.5%	37.3%	13.8%	19.9%	16.4%	16.7%	18.2%	36.6%
ROAA (%)	16.1%	14.0%	16.8%	3.5%	5.9%	8.5%	4.7%	7.3%	6.7%	7.8%	8.9%	18.3%

Source: VNDIRECT RESEARCH

Figure 281: Peer comparison (data as of 22 Nov 2022)

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)			P/B (x)			3-year EPS	ROE (%)		ROA (%)	
		LC$	LC$		US$m	TTM	FY22F	FY23F	Current	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F
Sonadezi Chau Duc	SZC VN	26,350	44,000	ADD	106	14.2	9.7	4.9	1.8	1.6	1.3	66.7	18.9	32	4.3	6.7
Vietnam Rubber Group	GVR VN	12,600	N/A	N/A	2,029	11.9	13.1	12.2	1.0	N/A	N/A	10.4	8.5	8.8	5.1	5.1
Investment & Industrial Development	BCM VN	75,000	99,000	ADD	3,125	45.3	35.9	19.4	4.4	4.5	3.8	33.1	13.8	19.9	4.7	7.3
Kinh Bac City Development Holding	KBC VN	16,850	36,400	ADD	521	5.7	5.0	3.8	0.8	0.8	0.6	68.8	16.7	18.2	7.8	8.9
Viglacera Corp Jsc	VGC VN	30,200	N/A	N/A	545	6.9	7.1	8.4	1.8	1.6	1.5	3.6	25	18.6	18.4	14.7
Sonadezi Corp	SNZ VN	22,800	N/A	N/A	346	9.6	N/A	N/A	1.5	N/A	N/A	22.5	N/A	N/A	N/A	N/A
Idico Corp Jsc	IDC VN	30,800	N/A	N/A	409	5.0	4.3	5.5	2.0	1.5	1.5	19.5	38.6	29.1	13.8	11.9
Saigon Vrg Investment Corp	SIP VN	71,600	N/A	N/A	262	8.0	6.6	N/A	2.2	1.7	N/A	N/A	27.5	N/A	5.6	N/A
Phuoc Hoa Rubber	PHR VN	37,500	60,000	ADD	205	7.9	6.0	6.8	1.5	1.5	1.3	8.4	32.9	28.6	16.1	14
Nam Tan Uyen Jsc	NTC VN	105,600	N/A	N/A	102	8.6	6.6	3.0	4.0	N/A	N/A	N/A	52.06	70.32	6.9	N/A
Long Hau Corp	LHG VN	19,000	N/A	N/A	38	4.8	4.1	2.9	0.6	0.6	0.5	23.7	16.65	21	8.5	10.85
Viet Nam Rubber Industrial Zone and Urban Development	VRG VN	30,700	N/A	N/A	32	251.6	N/A	N/A	2.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average					*643*	*31.6*	*9.7*	*7.3*	*2.0*	*1.7*	*1.5*	*24.2*	*25.6*	*28.2*	*9.4*	*10.2*
Median					*304*	*8.3*	*6.6*	*5.5*	*1.8*	*1.6*	*1.3*	*22.5*	*23.7*	*25.7*	*7.7*	*11.1*

Source: VNDIRECT RESEARCH, BLOOMBERG

Sector note

AVIATION: WELCOME INTERNATIONAL FLOWS

- Industry outlook will improve following the recovery rate of int'l inflows.
- It's a good time to accumulate aviation stocks given attractive valuation and visible earnings growth profiles.
- Our top picks are ACV and AST for their best representatives of each segment with strong growth and catalysts in endemic.

International air travel to soar again in 2023

Most of countries have removed the restriction for tourists which will urge both outbound and inbound travel demand. Int'l pax throughput jumped 35 times yoy in 3Q22, recovering to 49.8% of pre-pandemic level. In base case scenario, we expect China will gradually relax the travel restriction since 2Q23F. Thus, the int'l inflow recovery rate might reach 84% in 2Q23F and 100% in 4Q23F to bring total int'l pax volume to grow 195% yoy in 2023F. Additionally, domestic pax throughput is forecasted to bounce 231% yoy in 2022 (+30.9% higher 2019 level) and grow stably at 8.9% CAGR over 2023-25F.

The growth opportunities are not equal for everyone

Having high revenue exposure to int'l air travel, airport retailers will be the most beneficiaries of the recovery of int'l arrivals. We pretty like the business model of airport retailer due to its high entry barrier and its ability to pass through increasing input cost to buyers. For airports, the growth is crystal clear but might be dented since 2024F onwards due to the capacity constraints. The recovery prospect of airlines is overshadowed by high fuel price, exchange rate volatility and rising interest rates. However, we prefer low-cost-carrier than full-service-carrier due to its less sensitivity to economic recession and fuel price hike.

Why aviation stocks now?

We believe robust earnings growths over 3Q22 – FY23F across almost aviation segments (port, airlines, retailers) is relatively visible following the recovery of int'l flows. The recent market correction has brought the valuation most of aviation stocks down close to pandemic level (Mar-2020). Thus, we believe it's a good time to accumulate aviation stocks at attractive valuation and clear earnings growth profiles.

Key downside risks threaten to thwart the industry recovery

(1) Higher-than-expected fuel price leading to higher operating cost of the airlines, which may lift up ticket price and dent air travel demand, (2) bilateral tourism between Vietnam and China hard to recover to the pre-pandemic level due to the zero-covid policy, and (3) higher-than-expected US$/VND exchange rate and rising US$ interest rates may also affect aviation infrastructure investment borrowing in US$ in the coming periods.

Analyst(s):

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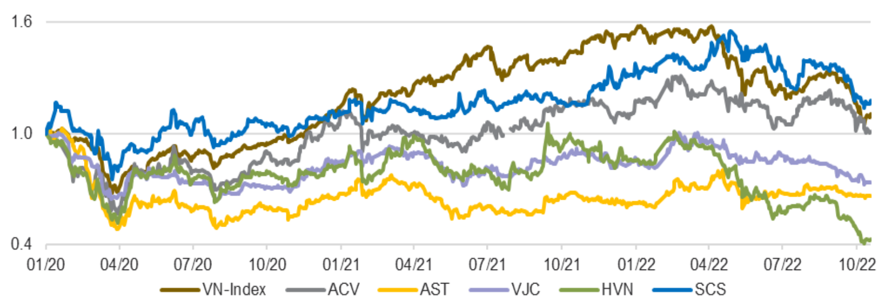
Figure 282: Aviation stock price movements since 2020

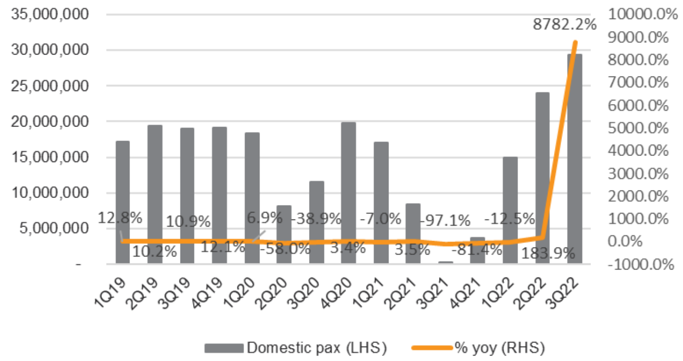


Source: BLOOMBERG, VNDIRECT RESEARCH

Vietnam aviation snapshot in 9M22

Domestic pax throughput has surpassed the pre-pandemic level (Unit: pax)

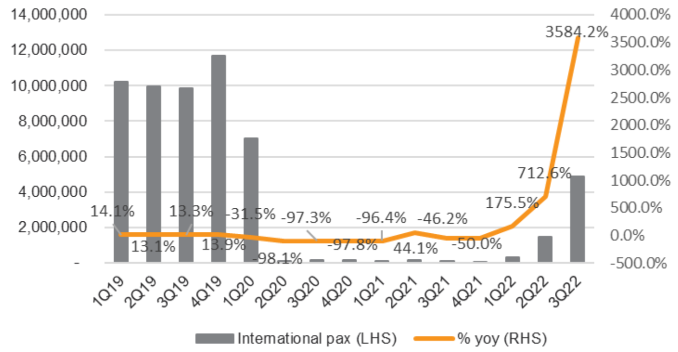
After successfully controlling the Covid-19 epidemic in 1Q22, the domestic air traffic began to recover from Apr-2022 and has surpassed the pre-pandemic level from May-2022 thanks to the strong recovery of domestic tourism demand after the pandemic. As 3Q21 domestic air traffic had a low base when the pandemic broke out strongly nationwide, 3Q22 domestic pax throughput hiked 87 times yoy – equal to 154.7% of pre-pandemic level, bringing 9M22 domestic pax throughput to increase 164.6% yoy – equal to 122.9% of pre-pandemic level.



Sources: CAAV, VNDIRECT RESEARCH

International pax throughput also witnessed impressive results (Unit: pax)

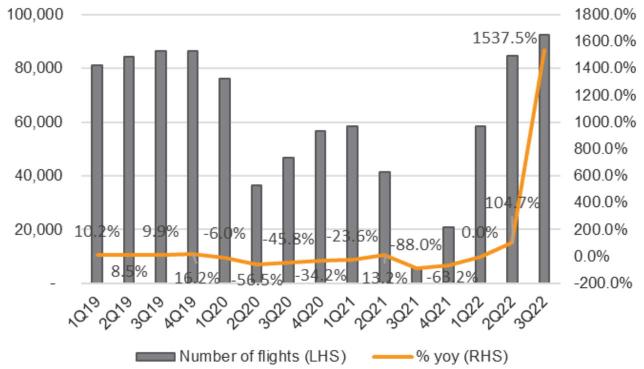
On 15 Feb 2022, Vietnam has lifted restrictions on the frequency of international flights. Until 15 Mar 2022, Vietnam has (1) returned the number of regular routes to the pre-pandemic levels, (2) restored pre-pandemic visa policy. Until 15 May 2022, Vietnam has stopped the requirements of validate Covid-19 test results for international passengers and fully resumed international air traffic. As a result, 3Q22 international pax throughput marked a strong recovery with an increase of 35 times yoy, equal to 49.8% of pre-pandemic level, bringing 9M22 international pax throughput to increase 14.5 times yoy – equal to 22.3% of pre-pandemic level.



Sources: CAAV, VNDIRECT RESEARCH

VJC has the strongest recovery in the number of flights among the airlines

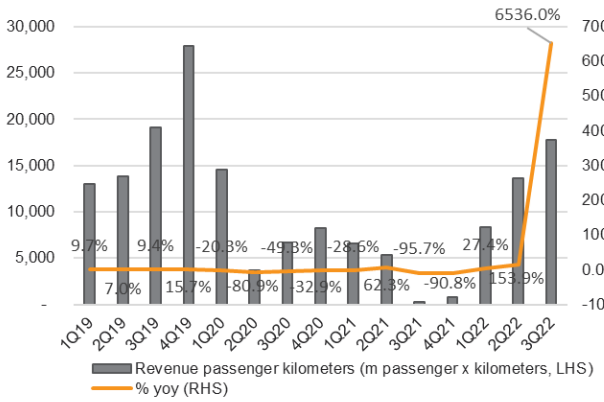
Total flights of Vietnam in 9M22 increased 123.4% yoy to 235,464 flights thanks to the strong recovery of domestic air traffic. HVN ranks first in total flights with 106,706 flights (119.3% yoy; 45.3% market share). VJC had 86,898 flights in the period (147.8% yoy, 36.9% market share), Bamboo Airways with 38,189 flights (+87.6% yoy, 16.2% market share).



Sources: CAAV, VNDIRECT RESEARCH

Vietnam's air traffic Revenue Passenger Kilometers (RPK)

According to GSO, 3Q22 RPK hiked 65 times yoy – equal to 93.3% of pre-pandemic level thanks to the strong recovery of domestic air traffic, bringing 9M22 RPK to increase 226.0% yoy – equal to 86.8% of pre-pandemic level.



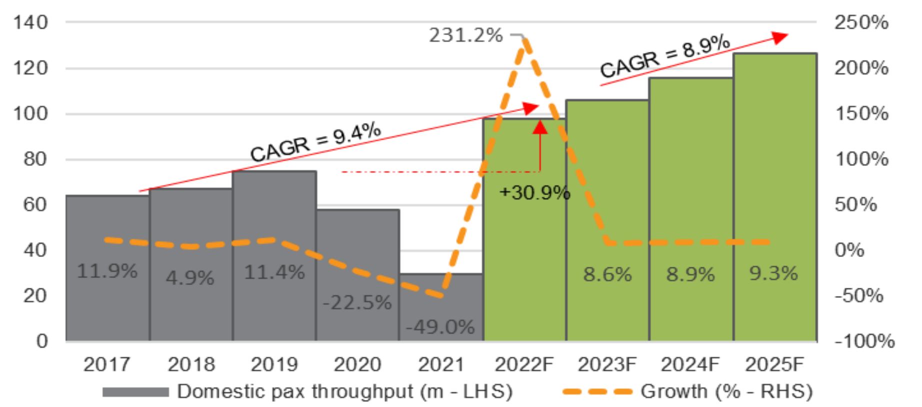
Sources: GSO, VNDIRECT RESEARCH

International air traffic will take the spot light in the coming periods

Domestic air traffic has regained what was lost during the pandemic

This summer vacation has really untied domestic passengers after more than two years of Covid-19. In particular, many attractive new tourism products deploying in a timely manner in combination with tourism stimulus programs of cities and provinces such as Da Nang, Quy Nhon, Phu Quoc, Nha Trang, Quang Ninh…, have ignited a boom of domestic tourism nationwide. Besides, the domestic airlines have also aggressively exploited and increased the frequency of domestic routes to tourism destinations (for example, the current flight frequency to/from Phu Quoc has reached 100 domestic flights per day, while there were only 72 international and domestic flights per day to/from Phu Quoc before the epidemic in 2019), helping the domestic air traffic to achieve impressive growth numbers. In 9M22, the number of total flights increased 123.4% yoy (mostly domestic flights) and 9M22 domestic pax throughput surged 164.6% yoy – equal to 122.9% of pre-pandemic level.

Figure 283: Vietnam medium-term domestic pax forecasts



Source: VNDIRECT RESEARCH, CAAV

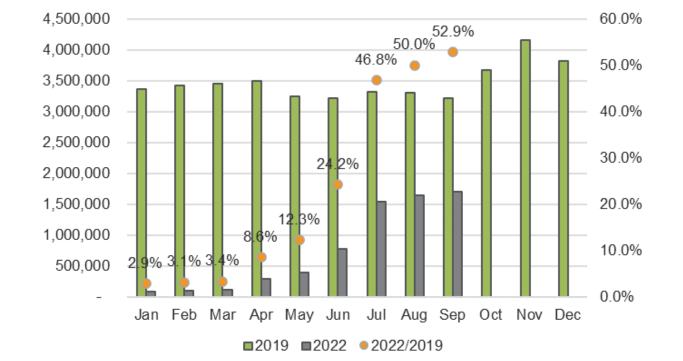
In 2017-2019 period, the volume of domestic pax throughput grew at a CAGR of 9.4%, this can be considered as the natural growth of the domestic air traffic, coming from income growth and demographic conditions of Vietnam. However, the arrival of the Covid-19 epidemic has paralyzed Vietnam's aviation industry. Growth was interrupted and the industry entered a difficult period in 2020-2021. Since 2Q22, nationwide vaccine coverage has helped Vietnam control the pandemic and the domestic aviation industry began to recover, recording impressive growth. Following the growth momentum in 9M22 and the potential natural growth of domestic air traffic, we expect 2022F domestic pax throughput to grow 231.2% yoy and grow by 30.9% compared to 2019 level, maintaining a CAGR of 9.4% in 2017-2022F period. We believe 2022F domestic pax growth is not extraordinary but it shows domestic travel demand has grown reasonably with sustainable natural potential growth. In 2023-2025F period, we expect domestic pax growth may slow down a bit at 8.9% CAGR as (1) people can travel abroad more easily, and (2) many major domestic airports are overloaded.

Now it's time for international air travel

3Q22 international pax throughput marked a strong recovery with an increase of 35 times yoy to 4.9m, equal to 49.8% of pre-pandemic level, bringing 9M22 international pax throughput to increase 14.5 times yoy to 14.5m – equal to 22.3% of pre-pandemic level. Currently, there are more than 30 foreign airlines and 4 Vietnamese airlines operating 96 international routes connecting Vietnam with 21 countries/regions. In 9M22, Korea is the country with the highest number of tourists to Vietnam with an increase of 21 times yoy, following by the U.S. and SEA countries.

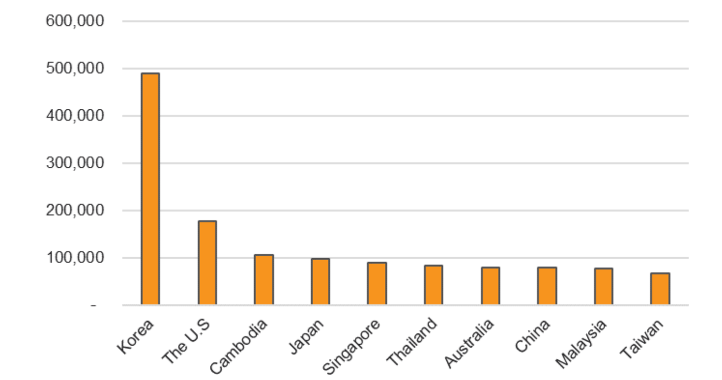
Vietnam inbound travel demand increased sharply since 3Q22 as Vietnam has stopped the requirements of validate Covid-19 test results for international passengers and fully resumed international air traffic from May-2022. The contribution of outbound passengers is still low in 9M22 as some countries have not fully opened and Vietnamese people tend to travel domestically.

Figure 284: International pax by month (pax)



Source: VNDIRECT RESEARCH, CAAV

Figure 285: Top 10 countries with most tourists to Vietnam in 9M22 (pax)



Source: VNDIRECT RESEARCH, gso.gov.vn

The near-term recovery of Vietnam international tourism heavily depends on the entry requirements of the destination countries. In general, almost every countries have removed entry requirements related to Covid-19 prevention, however the most negative factor to Vietnam tourism recovery is China's zero-covid policy, in which travel to and from China is still strictly limited. We expect the recovery potential of Vietnam's major international air traffic markets in the base case as follows:

Figure 286: Recovery rate of international pax volume estimates, in our base case scenario

Country	2019 weight	1Q22	2Q22	3Q22	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F
China	34.5%	4%	5%	15%	20%	20%	40%	60%	80%
Korea	25.5%	5%	20%	50%	80%	90%	100%	105%	110%
SEA	12.5%	5%	50%	80%	90%	100%	105%	110%	115%
Europe	8.1%	5%	20%	50%	80%	90%	100%	105%	110%
Japan	5.6%	6%	20%	50%	80%	90%	100%	105%	110%
Taiwan	5.5%	4%	10%	20%	50%	80%	90%	100%	105%
U.S	4.4%	5%	20%	50%	80%	90%	100%	105%	110%
Russia	3.8%	5%	10%	20%	50%	80%	90%	100%	105%
India	0.0%	5%	20%	50%	80%	90%	100%	105%	110%
Total	**100.0%**	**4.9%**	**18.7%**	**41.4%**	**61.8%**	**70.7%**	**84.0%**	**94.9%**	**105.3%**
		31.7%				**88.7%**			

Source: VNDIRECT RESEARCH

In our base case, air traffic between Vietnam and South East Asia (SEA) recovered strongly from 3Q22F as the tourism promotion has been implemented, followed by Korea, Europe, Japan, the U.S and India in 4Q22F, Taiwan and Russia tourism promotion may be implemented in 1Q23F while China tourism promotion may be implemented in 3Q23F. As a result, total number of int'l pax from SEA market may recover to pre-pandemic level in 1Q23F, followed by Korea, Europe, Japan, U.S in 2Q23F, Taiwan and Russia in 3Q23F and China in 1Q24F.

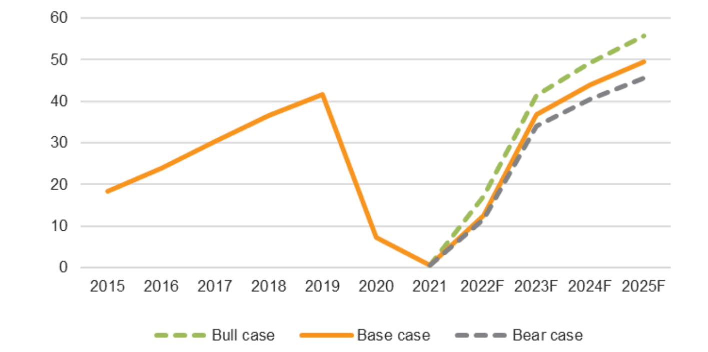
Figure 287: Three scenarios for the time of recovery to pre-pandemic level of major air travel markets

Time of recovery to pre-pandemic level	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	1Q24F	2Q24F
Best case	SEA	Korea, Japan, Europe, US	Taiwan, Russia		China		
Base case		SEA	Korea, Europe, Japan, US	Taiwan, Russia		China	
Worst case			SEA	Korea, Europe, US, Japan			China

Source: VNDIRECT RESEARCH

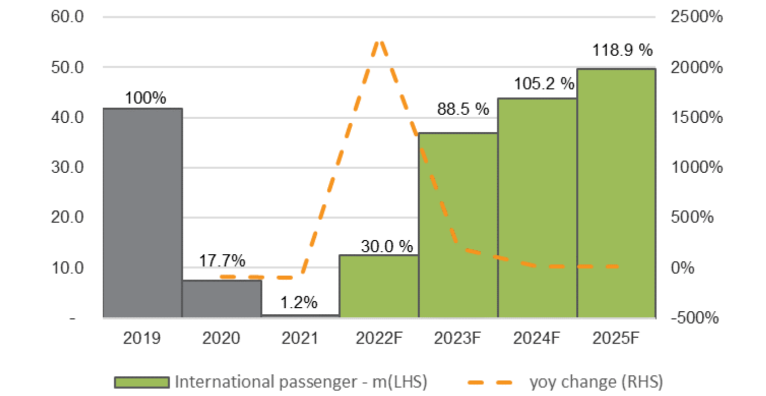
In the base case, we expect Vietnam international pax to reach 12.5m pax in FY22F (versus 0.5m pax in FY21), and may increase 195.2% yoy in FY23F – equal to 88.5% of pre-pandemic level. Since Vietnam aviation businesses' results have a high exposure to international air traffic, we believe their business results will have an outstanding growth from FY23F thanks to the strong recovery of the international pax. Vietnam international pax may fully recover to pre-pandemic level in FY24F (105.2% of FY19 base) and may reach to 118.9% of FY19 base in FY25F in our forecasts.

Figure 288: Forecasts for Vietnam int'l pax in three scenarios (m pax)



Source: VNDIRECT RESEARCH, CAAV

Figure 289: Vietnam medium-term international pax forecasts



Source: VNDIRECT RESEARCH, CAAV

Aviation infrastructure to be heavily overloaded in 2023-24F

Aviation infrastructure construction to be accelerated

According to government's air transportation master plan, until 2030F Vietnam will have 28 airports including 15 domestic airports and 13 international airports (from 22 airports including 13 domestic airports and 9 international airports in 2022):

- Four new international airports until 2030F include Long Thanh international airport (LTIA) and 3 upgraded domestic airports (Tho Xuan, Vinh, Chu Lai).
- Five new domestic airports will be developed through BOT which are Phan Thiet, Quang Tri, Sapa, Lai Cha, Na San.
- In addition, some key airports will be expanded including Tan Son Nhat international airport (TIA), Noi Bai international airport (NIA), Cat Bi international airport, Phu Bai international airport.

Figure 290: Main aviation infrastructure projects in the coming years

Project	CAPEX (VNDbn)	Pre-construction capacity (m pax)	Additional capacity (m pax)	Investor	Construction plan											
					2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
LTIA phase 1	109,000	0.0	25.0	ACV												
LTIA phase 2	76,600	25.0	25.0	ACV												
T3 in TIA	10,990	30.0	20.0	ACV												
T2 expansion in NIA	4,983	25.0	5.0	ACV												
T2 in Phu Bai - Hue	2,249	1.5	3.5	ACV												
T2 in Cat Bi - Hai Phong	2,405	2.0	5.0	ACV												
Phan Thiet domestic airport	13,833	0.0	2.0	BOT												
Sapa domestic airport	3,651	0.0	1.5	BOT												
Quang Tri domestic airport	2,913	0.0	1.0	T&T group												
Na San domestic airport	2,500	0.0	1.0	BOT												
Lai Chau domestic airport	4,350	0.0	0.5	BOT												
Dien Bien airport expansion	1,467	0.3	0.5	ACV												

Source: VNDIRECT RESEARCH

Current status of major aviation infrastructures in near-term:

- T3 terminal in TIA: the project is designed with a capacity of receiving 20 m pax p.a (+67% TIA's designed capacity to total 50 m pax p.a). Currently, ACV is waiting for hand over land to implement the project. By Jul-2022, the Government has issued Resolution No. 93/NQ-CP in which the Government agree with the policy of the Ministry of Defense to hand over about 27.85 ha of defense land in Tan Binh district for the implementation of the T3 Terminal. 16.05 ha will be handed over to ACV in 2022F for the terminal construction, while 11.8 ha for road connecting Tran Quoc Hoan - Cong Hoa may be handed over later.
- T2 terminal expansion in NIA: the feasibility study report on the expansion of T2 terminal in Noi Bai has been approved. The project will increase T2 NIA capacity from 10m p.a to 15m p.a (raising total designed capacity of NIA from 25m p.a to 30m p.a). According to the NIA Planning Project until 2030F period, in 2025F, ACV will implement the T3 terminal and a southern runway with a capacity of 30 m pax p.a. and complete in 2030F, raising the total capacity of NIA to 60 m pax p.a by 2030. By 2050F, the total capacity of NIA can reach 100 m pax p.a including 5 runways and 4 terminals.
- T2 domestic terminal in Cat Bi: on Jul-22, the government has approved the investment policy of this terminal. Once T2 completed, T1 terminal will be the international terminal of Cat Bi airport. The government also approved the policy of Cat Bi airport expansion with an expected capacity of 13 m pax p.a by 2030F and 16.6 m pax p.a by 2040F.

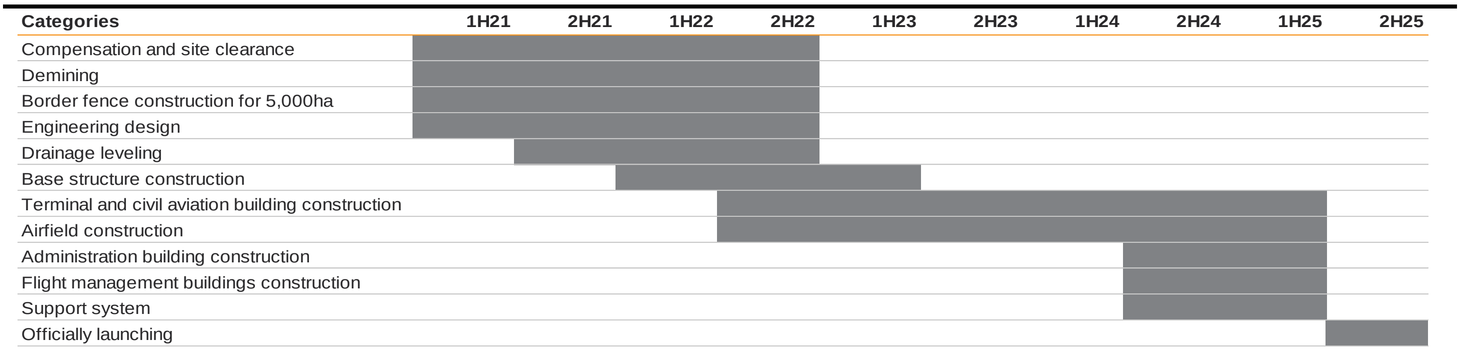
Long Thanh International Airport construction is on schedule

Long Thanh International airport (LTIA) has been officially assigned to ACV as the main developer in Nov-20. Total investment of LTIA is about US$15bn with total capacity of 100m pax. The project includes 3 phases, in which phase 1 can serve 25m pax throughput with the investment cost US$4.3bn (VND99,000bn). ACV has started the construction of phase 1 in Dec 20 and expects to complete it in 02 Sep 2025. The project includes 4 component projects, the current progress is as follows:

- Component project 1 (behind schedule): Building the headquarters of state management agencies, the Ministry of Transport (MOT) has approved the investment policy of the airport authority office construction, but other agencies have not yet allocated capital for their office construction.

- Component project 2 (on schedule): Construction of works for flight management, Vietnam Air Traffic Management Corporation as the investor has opened the bidding for the construction of the foundation of the air traffic tower, expected to start construction in late-2022.
- Component project 3 (on schedule): Construction of essential works, ACV as the investor has leveled the ground with 15.97 m cbm/115 m cbm (reaching 13.9%), and completed the pile foundation (1,545 piles) for the station area. ACV has issued bidding documents for the station package, which is expected to start construction in late-2022. Currently, a specialized agency of MOT has commented on the technical design documents. For the items of ancillary works, ACV is choosing a technical design consultant.
- Component project 4 (on schedule): Construction of other service works, there are 2/11 projects being in the investor selection procedures by the Civil Aviation Authority of Vietnam (CAAV). 9/11 projects are posting information to look for investors to participate.

Figure 291: LTIA construction plan



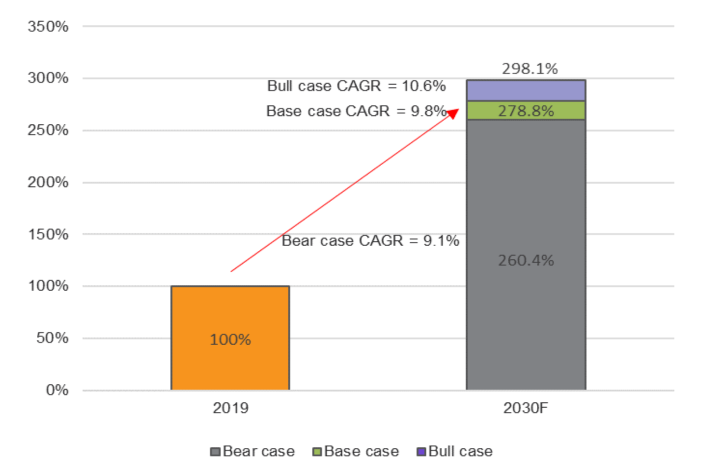
Source: CAAV, VNDIRECT RESEARCH

If Phase 1 launches on time, LTIA will be the growth engine of Vietnam aviation industry from 2025F. LTIA is positioned to be a new transit hub in Southeast Asia, competing with other regional hubs such as Singapore's Changi Airport, Bangkok's Suvarnabhumi Airport and Hong Kong International Airport. After phase 3 of LTIA is completed, LTIA will handle 80% of international passenger throughput and 20% of passenger throughput from/to HCMC, as per Civil Aviation Authority of Vietnam's (CAAV) master plan vision until 2050.

Aviation infrastructure constraint may become more serious in 2023-24F before easing from 2025F

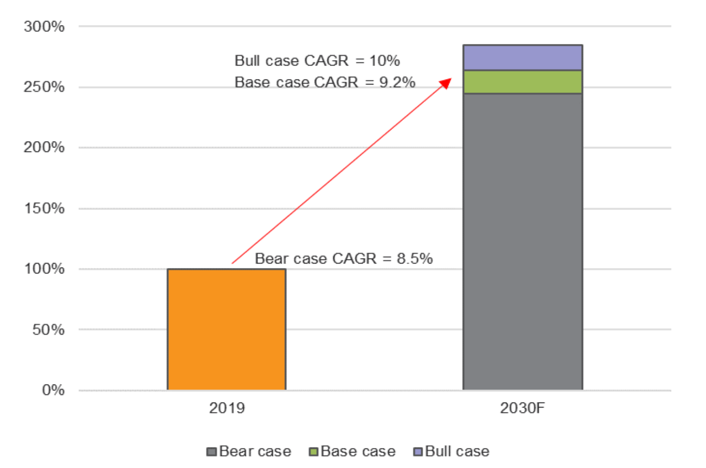
The government expects total passenger volume throughput to increase by 9.6% p.a. in FY19-30F, in which domestic passenger volume throughput may increase by 9.8% p.a., while int'l passenger volume may increase by 9.2% p.a., in a base-case scenario. We expect this is an achievable growth as beside the improving capacity at Vietnam's airports, the potential growth of Vietnam air traffic demand is also huge giving the strong growth of Vietnam aviation in the past.

Figure 292: Vietnam's domestic passenger volume forecast in FY19-30F



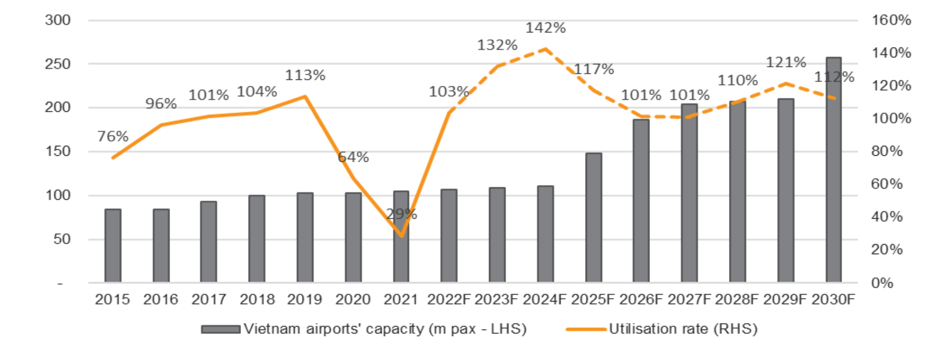
Source: VNDIRECT RESEARCH, CAAV

Figure 293: Vietnam's int'l passenger volume forecast in FY19-30F



Source: VNDIRECT RESEARCH, CAAV

Figure 294: Utilisation rate forecasts of Vietnam airports until 2030F



Source: VNDIRECT RESEARCH, CAAV

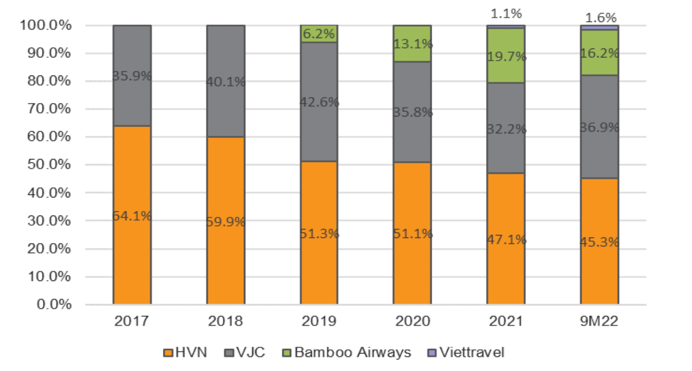
However, as many key aviation infrastructure projects are underdeveloped, the aviation infrastructure cannot keep in pace with the demand growth in near-term and Vietnam aviation infrastructure may become heavily overloaded in 2023-2024F when international visitors are expected to recover strongly. We estimate Vietnam aviation airports may operate at 132%/142% designed capacity in 2023-24F, before offloading from 2025F when many key aviation infrastructure projects launch such as LTIA, T3 terminal in TIA and T2 expansion in NIA.

Airlines: recovery prospect overshadowed by high fuel price, exchange rate volatility and rising interest rates

VJC has the best flights traffic recovery among domestic rivals

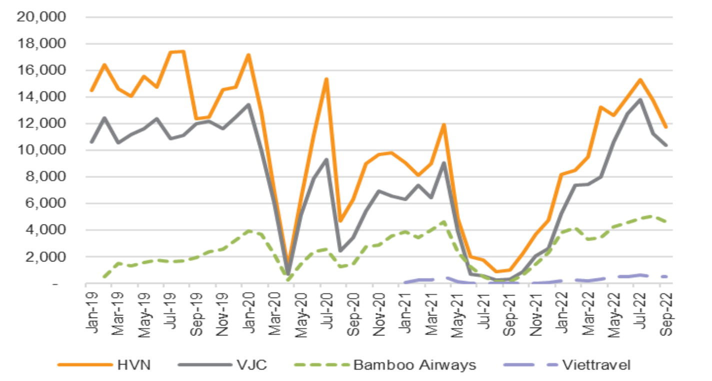
The market shares of the airlines have changed greatly from 2017. HVN has seen its market share decrease year by year, from 54.1% in 2017 to 45.3% in 9M22, while VJC and Bamboo Airways are gradually taking up the market share. Among the airlines, VJC has the strongest recovery in the number of flights with 9M22 growth of 147.8% yoy, followed by HVN (119.3% yoy) and Bamboo Airways (87.6% yoy).

Figure 295: Market shares of the airlines in terms of total flights



Source: VNDIRECT RESEARCH, CAAV

Figure 296: Airlines' total flights per month

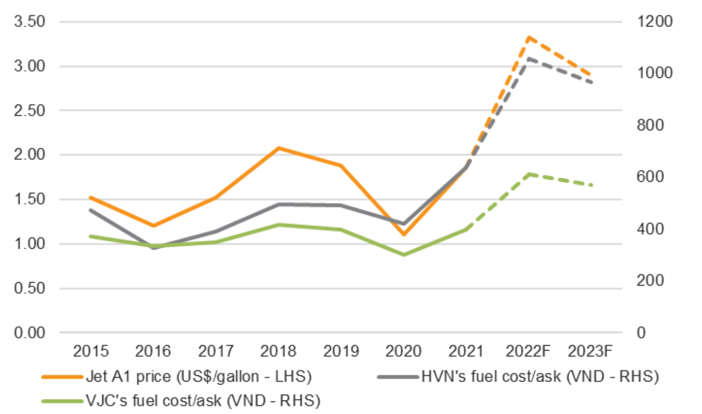


Source: VNDIRECT RESEARCH, CAAV

Rising fuel prices impose many difficulties for the airlines but LCCs are less affected than FSCs, in our view

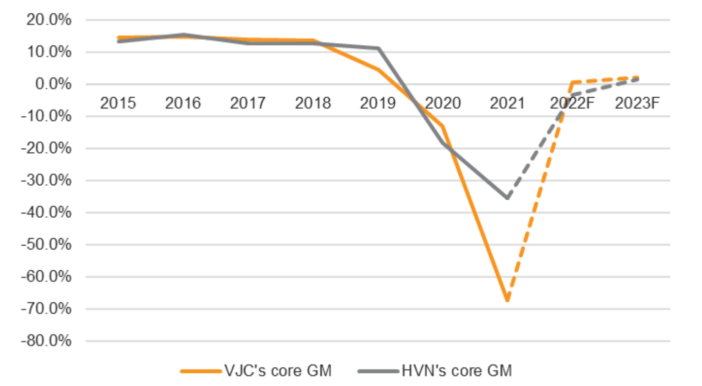
Due to the tension between Russia and Ukraine, we expect global Jet A1 fuel price to surge 79.2% yoy in 2022F before cooling down 13.0% yoy in 2023F. Jet fuel price in 2022-23F maintains at the highest level since 2015, imposing many difficulties for the airlines.

Figure 297: Vietnam's domestic passenger volume forecast in FY19-30F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 298: Core gross margin of the airlines in FY15-23F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Facing the rising jet fuel, we believe low-cost carriers (LCCs) would be less affected than full-services carriers (FSCs). The fuel consumption of the aircrafts closely depend on its weight. Long-haul aircrafts are usually wide-body aircrafts with larger capacity and heavier weight. In addition, long-haul flights also require a lot of fuel which makes the aircrafts heavier. In contrast, short-haul aircrafts are usually narrow-body aircrafts with lighter weight, thus consuming less fuel for taking-off and altitude maintenance than long-haul aircrafts. VJC's fleet is all short-haul narrow-body aircrafts which will have lower average fuel consumption/ASK compared to HVN which has nearly 30% of the fleet are wide-body long-haul aircrafts. Details of impacts on the two models are as follows:

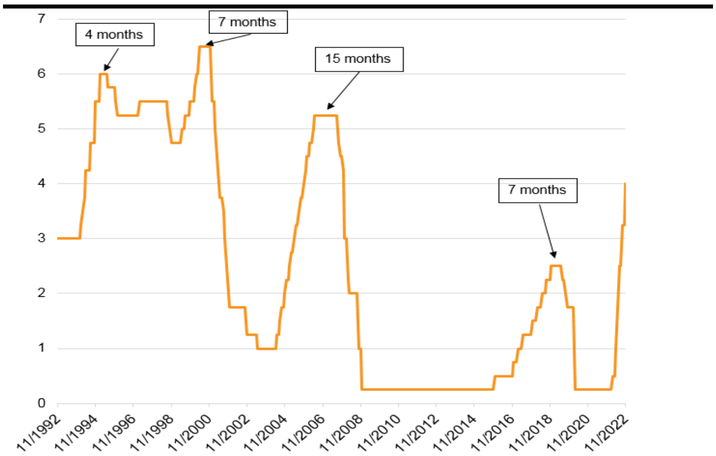
- Giving jet fuel price hike in FY22-23F, we forecast HVN's fuel cost/available-seat-kilometer (ASK) to increase 65.4% yoy in FY22F and cool down 8.3% yoy in FY23F while VJC's fuel cost/ASK only increase 54.3% yoy in FY22F and cool down 7.1% yoy in FY23F.

- Moreover, despite high jet fuel prices, we estimate VJC's core gross margin to be positive in FY22-23F at 0.4%/2.0%, respectively, while HVN's core gross margin may be lower at -3.5%/1.4% in FY22-23F.

Rising interest rate and stronger US$ also affect business results and the fleet expansion plan of the airlines

Stronger US$ has put pressure on US$/VND exchange rate, making US$/VND rate on the interbank rise to the highest level in history. The US$ 3-month-LIBOR also reached its peak over 10 years following FED's recent interest rate hikes. US$ appreciation and surging US$ interest rates have negative impacts on capital-intensive businesses such as the airlines when most of the airlines finance their fleet by US$.

Figure 299: Dollar index has reached its peak over 20 years



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 300: US$ 3-month-LIBOR also reached its peak over 10 years (unit: %)

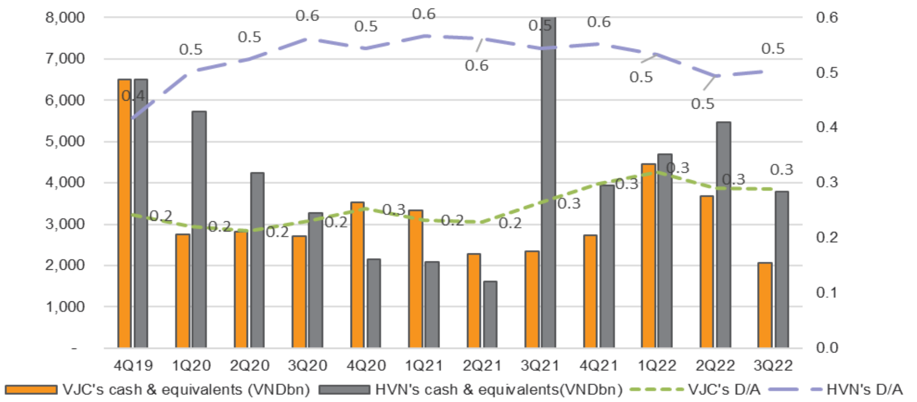
Source: VNDIRECT RESEARCH, TRADING ECONOMICS

In our view, in terms of exchange rate volatility and US$ interest rate rising, the difficulties that the airlines have to face up with include:

- Stronger US$ causes the airlines to suffer FX loss when revaluating debt in US$. In addition, aircraft investment costs (sold in US$) also become more expensive causing the fleet expansion of the airlines to be more difficult. However, these difficulties are somehow reduced when the airlines have a revenue source from US$ when selling international tickets.
- When interest rates rise, as the interest rates for financing existing fleets are usually fixed, the interest expenses are not affected much, however when financing new fleet in this period, the airlines have to borrow at higher interest rates and it may affect business results in the future.

For the domestic airlines, HVN has the largest ratio of loans in US$ to total loans (66.3%) with balance of VND21,815bn in US$ loans by 30 Jun 2022; while the ratio of VJC is only 17.2% with balance of VND3,227bn, therefore VJC has less risk exposures related to stronger US$ and rising US$ interest rates. Moreover, VJC's leverage ratio is safer than HVN, allowing VJC to have ability to finance for the fleet expansion for the recovery of international air traffic in the coming periods. In contrast, the decrease in HVN's fleet size will reduce recovery potential of HVN while Bamboo Airways encounters problems during the period of restructuring.

Figure 301: Financial leverage of the airlines



Source: VNDIRECT RESEARCH, COMPANY REPORTS

For the most promising airline – VJC, we have the following assessments:

- Its position as Vietnam leading low-cost carrier – accounting for the largest domestic market share of Vietnam with domestic market share of 40% in 2020. VJC also accounts for the second largest international market share of Vietnam aviation industry.
- We expect VJC's domestic pax to increase 245.4% yoy in FY22F with recovering travel demand. Growth may slow down to 12% yoy in FY23F from the high base of FY22F. In terms of international air traffic, we expect VJC's international pax to reach 2.43m in FY22F (versus 0.1m pax in FY21), and may increase 223% yoy in FY23F to 7.83m pax (97.4% of FY19 base). We believe China zero-covid policy risk is lower for VJC because the proportion of Chinese tourists in total VJC's international pax in the pre-pandemic period (FY19) is quite low. We forecast VJC's NP to reach VND1,317bn in FY22F from VND175bn in FY21, then increase 168.3% yoy in FY23F to VND3,533bn.
- VJC is currently an airline with lowest financial leverage in Vietnam which can assure for the fleet expansion plan, along with a stable and committed management team. Therefore, we believe VJC has the most chances to capture the upcoming recovery of Vietnam aviation.

Air cargo terminals: geo-political uncertainties to limit the operation of global air cargo

Although global goods trade has seen a rebound since May-22, global air cargo transportation volume (tonne-kilometers - CTKs) has not seen a recovery, causing 8M22 global CTKs decreased 5.4% yoy as:

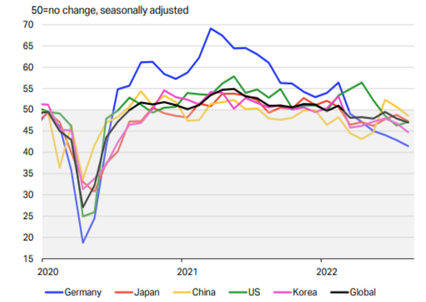
- Air freight rates now become less attractive. Global goods trade rebound mainly attributed to strong activity in Latin America, in which most of the uptake has benefited sea freight.
- The new export orders of major markets – historically a leading indicator for air cargo shipments, maintained the downward trend as sanctions against Russia have disrupted manufacturing in these markets. Chinese export orders also fell further below the 50-mark due to the zero-covid policy.
- However, the latest CTKs by route area data showed the rebound in some routes including (1) within Asia and North America – Asia thanks to the ease of international travel restrictions in Asia, (2) North America and Europe due to the support from The US to Ukraine.

Following the difficulties of global air cargo market, Vietnam air cargo volume throughput in 9M22 decreased 3.1% yoy to 1.0m tonnes.

Figure 302: Global trade rebounded but air cargo transportation volume still decreased

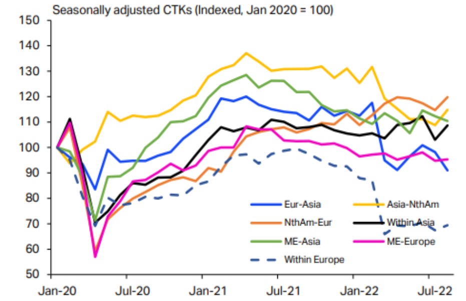
Source: VNDIRECT RESEARCH, IATA

Figure 303: New export orders are now contracting in all major market



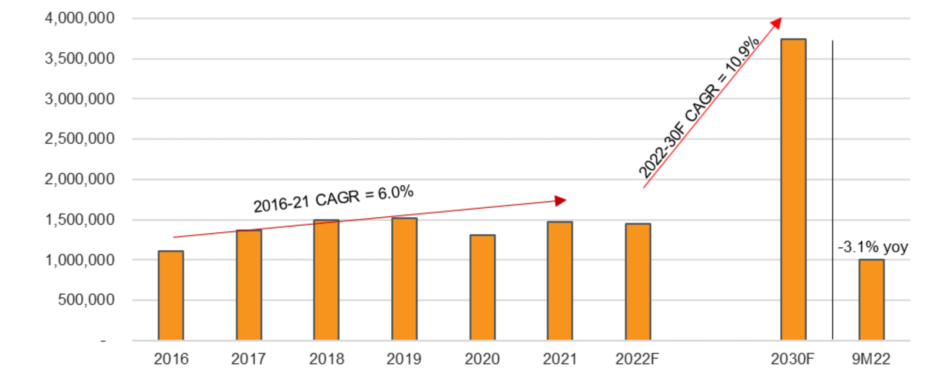
Source: VNDIRECT RESEARCH, IATA

Figure 304: CTKs by route area



Source: VNDIRECT RESEARCH, IATA

Figure 305: Vietnam air cargo volume throughput is forecasted to decrease 2.2% yoy in 2022F but may grow at 10.9% CAGR in 2022-30F (unit: tonnes)



Source: VNDIRECT RESEARCH, CAAV, GSO

However, we expect the global air cargo market outlook to be brighter from 2023F as:

- Further easing of COVID-19 restrictions in China including factory re-openings will also support the global air cargo market recovery in the coming periods.
- International travel restrictions in Asia will continue to ease, which will help air freight capacity increase and air freight rates become attractive.

We expect Vietnam air cargo volume to stay flat in 4Q22F as (1) geo-political uncertainties over the world, (2) rising inflation and interest rates may shrink global manufacturing, bringing 2022F air cargo volume to decrease 2.2% yoy. However, for a longer-term, Vietnam air cargo market still has a lot of growth potential with the government's goal of becoming a "big factory" for the world. CAAV estimate 2022-30F air cargo volume CAGR of 10.9%.

For the most promising business in the segment – SCS, we have the following assessments:

- In 9M22, SCS' air cargo volume increased at a higher pace of 6.9% yoy with mainly contribution from international cargo volume (+15.9% yoy) as the production of mobile phones and electronic devices remains strong. 9M22 revenue increased 13.7% yoy with gross margin increasing 1.76% pts yoy due to higher contribution of international cargo with higher services fee. With the contribution of financial income (+68.5% yoy) thanks to higher deposit, 9M22 net profit increased 20.5%

yoy. For FY22F, we expect SCS's NP to increase 26.1% yoy as 4th quarter is the peak season. NP growth may slow down in FY23F (+5.4% yoy) as the company is subjected to the normal tax rate of 20% from 2023F.

- In longer-term, we believe SCS may capture Tan Son Nhat International Airport (TIA)'s air cargo volume growth by expanding its current terminal capacity from 200.000 tonnes p.a to 350.000 tonnes p.a while its sole competitor Tan Son Nhat Cargo service Company JSC (TCS) has no room to expand (without taking into account the expansion plan, SCS's FY22F utilisation rate estimated of 120%). We believe air cargo terminal companies that have the capable of expanding capacity like SCS will benefit from this steady growth.
- Besides, SCS is providing Airport Corporation of Vietnam (ACV) with insights on the air cargo terminal layout based on SCS's experiences for the LTIA construction. We believe SCS has many advantages in bidding for the air cargo terminal in LTIA and this is a strong upside risk for SCS.

Airport retail: waiting for international visitors

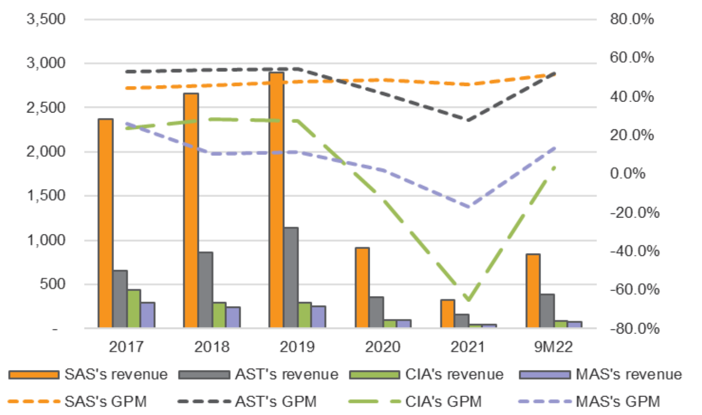
Airport retail is a business model with superb profitability thanks to its low price sensitivity in consumer behavior of tourists, leading to the airport retailer's ability to set a much higher price of goods for a high GM without reducing its purchasing power. Operating expenses mainly include cost of goods sold, costs of sales staff and space rental cost, all of which are relatively stable and easy to control. Goods sold are paid in cash with relatively fast turnover, resulting in low receivables, low inventories and low working capital requirements. However, airport retail industry has a high barrier to entry, especially at key airports due to:

- Limited airport space;
- Most airport store leasing contracts allow the lessee to extend the leasing period when the term ends, making it difficult for new competitors to enter, or even existing enterprises to expand their store chain.

Therefore, there was not much room for airport retailers to expand its airport retail segments before FY19. However, the arrival of the Covid-19 pandemic has caused severe difficulties for the aviation industry, but also brought opportunities for enterprises with strong financial strength to stand firm and expand its retail chain amid the pandemic.

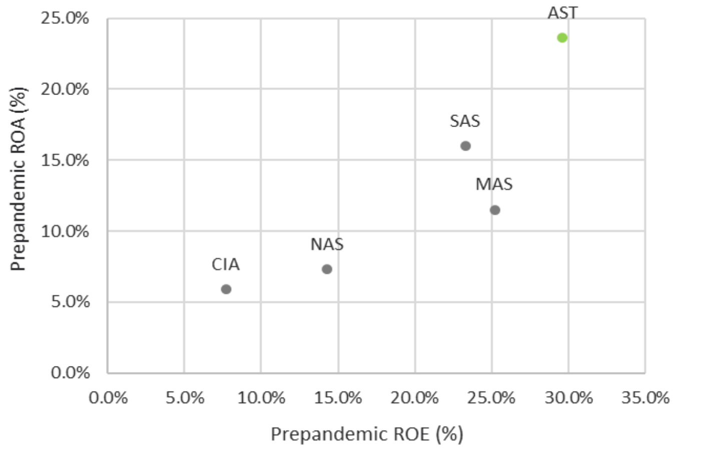
Airport retail companies are witnessing their GM to almost revert to the pre-pandemic level in 9M22. However, as the airport retail business has a high correlation with international passengers, current airport retail revenue is still low. Giving the international air traffic recovery expectation from 4Q22F, we believe airport retail companies' results may recover with positive earnings in 2022F and earnings may increase sharply from 2023F when international arrivals recover strongly. Of the airport retailers, we highly appreciate AST as it has turned challenges into opportunities to expand its business in the context of the entire aviation industry being hit hard by the Covid-19 pandemic. AST is also the most profitable business among its peers in the pre-pandemic period.

Figure 306: Airport retail GM has bottomed out in 2021 and started to recover from 2022 (Unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

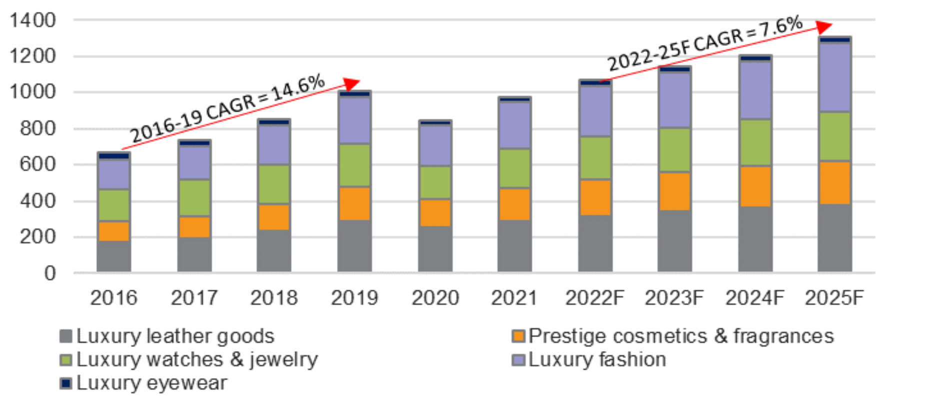
Figure 307: AST's profitability outperforms its domestic peers in the pre-pandemic period (data as at FY19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Notably, duty free retailing is the most potential business of airport retail segment in the coming years, in our view. According to Adroit Market Research, the global duty-free retailing market is expected to be worth US$112.75bn by 2025F, implying a CAGR of 6.5% in FY22-25F. Increasing number of low-cost airlines is leading to an increase in the number of tourists which is further driving the sales of several goods at duty free retail stores at diverse areas including airports. Increasing foreign tourism in Vietnam is the key aspect driving the growth of the duty-free retailing market. According to Statista, Vietnam's revenue of luxury goods in FY16-19 grew at a CAGR of 14.6% and may grow at a CAGR of 7.6% in FY22-25F from a high base in FY21. This is a strong support for the prospect of Vietnam duty free retailing in the coming years.

Figure 308: Vietnam's luxury goods market value in FY16-25F (unit: US$m)



Source: VNDIRECT RESEARCH, WORLDBANK

Three major risks may affect the aviation outlook

Although Vietnam aviation has great opportunities to recover in the post-pandemic period, we still see three major risks which may negatively affect the aviation outlook:

- Amidst the already global crude oil market tightness, the tension between Russia and Ukraine exacerbated this situation, boosting Brent oil price to touch the highest level since 2008. Currently, there are many unpredictable factors that could make oil prices maintain at high levels. Higher than expected oil price leads to higher operating cost of the airlines, which may lift up ticket price and reduce air travel demand.

- China's zero-Covid strategy also negatively affects the recovery of Vietnam aviation industry as China accounts for 35% of international visitors to Vietnam in the pre-pandemic period. As long as China follows this strategy, we believe the bilateral tourism between Vietnam and China hardly recover to the pre-pandemic level.
- Beside affecting current airlines' business results and fleet expansion, the increase in US$/VND exchange rate and rising US$ interest rates may also affect aviation infrastructure investment borrowing in US$ in the coming periods. In particular, ACV intends to borrow US$2.5bn for the mega project Long Thanh international airport phase 1, in which ACV expects to disburse US$0.65bn/US$0.87bn/US$0.9bn in 2022F/2023F/2024F.

Stock picks: ACV, AST are our top choice

The domestic aviation market has witnessed remarkable growth recently and offset the potential growth lost during the pandemic period. However, the revenue proportion from the domestic market is not much, but mainly comes from the international market (in pre-pandemic period, revenue from the domestic market only accounts for about 35% of total revenue, the rest from the international market). We believe Vietnam international air traffic will recover strongly from 4Q22F, leading to a strong recovery and growth of businesses in the aviation industry. The recent decline in the market has brought the stock prices of many aviation business to attractive valuation levels considering attractive upsides and strong growth expectations in the coming periods, since then we believe it's a good time to accumulate aviation stocks.

Figure 309: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK ACV	117,900	ADD	(1) Higher US$ interest rates and stronger US$ may affect the aviation infrastructure investment borrowing in US$, but this risk is minimized when international air traffic recovers and provides ACV with a large US$ revenue source. (2) Potential share dividend plan: the government has approved for ACV to retain its profit before 2021 for re-investment. At end-2020, ACV's undistributed earnings are VND9,705bn, equivalent to a potential share dividend plan of 44% in 2022F. We believe this is a strong catalyst for ACV in the coming periods. (3) We forecast ACV's NP to grow 29.9%/5.5% yoy in FY23-24F.
2	STOCK PICK AST	85,700	ADD	(1) AST is the largest chain of airport retail stores in Vietnam with a total of 120 stores by end-2022F covering all of Vietnam key airports. Airport retail is also a business model with superb profitability thanks to its low price-sensitivity in consumer behavior of tourists. (2) Riding on Vietnam aviation recovery, especially the international air traffic when almost every country has removed entry requirements related to Covid-19 prevention. (3) We expect AST's net profit to increase to VND30bn in FY22F from the net loss of VND118bn in FY21. AST's NP may grow 7.8 times yoy to VND266bn in FY23F and grow 7.1% yoy to VND284bn in FY24F. (4) AST may benefit from current strong US$ with major revenue source coming from the international market which is anchored in US$. The company also has no risk with US$-based debt.
3	SCS	104,900	ADD	SCS is the only terminal in TIA which has ability to expand its capacity by 75% more. We forecast SCS's NP to grow 5.4%/7.8% yoy in FY23-24F. However, SCS would not enjoy preferential corporate tax of 10% from 2023F.
4	VJC	132,000	HOLD	(1) The risk from China's zero-Covid policy is lower for VJC because the proportion of Chinese tourists in total VJC's international pax in the pre-pandemic period (FY19) is quite low. (2) However, VJC's recovery could be overshadowed by high fuel price and tight monetary environment. We forecast VJC's NP to grow 168.2%/35.4% yoy in FY23-24F.

Source: VNDIRECT RESEARCH

Figure 310: FY22-24F forecasted financial summary of stocks under our coverage

	ACV			AST			VJC			SCS		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	14,838	23,509	27,777	736	1,628	1,921	50,385	88,341	96,778	979	1,144	1,267
% growth	*212.2%*	*58.4%*	*18.2%*	*377.8%*	*121.1%*	*18.0%*	*291.3%*	*75.3%*	*9.5%*	*16.7%*	*16.8%*	*10.7%*
Gross margin (%)	*44.9%*	*60.9%*	*60.9%*	*45.8%*	*57.7%*	*59.0%*	*4.6%*	*7.4%*	*8.6%*	*80.9%*	*78.0%*	*79.5%*
EBITDA margin (%)	*84.2%*	*74.7%*	*72.8%*	*10.4%*	*28.1%*	*30.9%*	*2.7%*	*5.5%*	*6.6%*	*77.5%*	*77.7%*	*77.8%*
Net profit (VNDbn)	6,678	8,675	9,149	30	266	284	1,317	3,533	4,782	711	749	807
% growth	*1291.9%*	*29.9%*	*5.5%*	*NA*	*778.2%*	*7.1%*	*651.5%*	*168.2%*	*35.3%*	*26.1%*	*5.4%*	*7.8%*
EPS (VND/share)	3,067	3,984	4,202	672	5,901	6,319	2,515	6,745	9,128	7,570	7,975	8,600
BVPS (VND/share)	20,391	24,176	28,168	8,961	13,861	15,180	34,046	40,432	49,367	17,544	21,611	25,710
Net cash/share (VND/share)	6,659	(17,582)	(31,384)	(1,047)	(2,242)	(2,635)	(27,129)	(31,668)	(34,849)	8,053	15,715	22,893
D/E	0.4	1.2	1.4	0.1	0.1	0.1	1.1	1.2	1.1	0.0	0.0	0.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	1.8%	9.1%	0.0%	0.0%	0.0%	4.5%	5.3%	6.1%
ROAE (%)	16.3%	17.9%	16.1%	7.9%	53.6%	44.4%	7.6%	18.1%	20.3%	49.1%	40.7%	36.3%
ROAA (%)	9.2%	8.1%	6.6%	5.3%	29.0%	21.4%	2.3%	5.0%	5.7%	44.0%	36.8%	33.0%

Source: VNDIRECT RESEARCH

Figure 311: Peer comparison

Company name	Ticker	Price	Target price	Recomm.	Mkt cap	P/E		3-year EPS	P/BV		ROE (%)		EV/EBITDA	
		LC$	LC$		US$m	2022F	2023F	CAGR (%)	2022F	2023F	2022F	2023F	2022F	2023F
Airports														
Airport Corp of Vietnam	ACV VN	78,000	117,900	ADD	6,947.6	25.4	19.6	17.0	3.8	3.2	16.3	17.9	18.6	13.2
Airport of Thailand	AOT TB	75	N/A	NR	29,445.7	95.8	38.3	NA	9.5	8.2	10.4	23.4	42.4	22.7
Shanghai International Air-A	600009 CH	52	N/A	NR	18,252.6	NA	75.9	NA	3.6	3.4	-7.5	4.0	NA	33.5
Beijing Capital Intl Airpo-H	694 HK	4	N/A	NR	2,595.1	NA	NA	NA	1.0	1.0	-12.5	-3.2	NA	26.3
Japan Airport Terminal Co	9706 JP	6,140	N/A	NR	4,049.2	NA	114.1	NA	3.8	3.7	-2.3	2.8	40.9	17.4
Shenzen Airport Co-A	000089 CH	7	N/A	NR	1,967.5	NA	NA	NA	1.3	1.3	-8.5	-0.8	NA	22.0
Malaysia Airports Holdings	MAHB MK	6	N/A	NR	2,186.3	NA	26.2	NA	1.5	1.5	-3.2	5.3	11.9	7.5
Average						**60.6**	**54.8**		**3.5**	**3.2**	**-1.0**	**7.1**	**28.4**	**20.4**
Median						**60.6**	**38.3**		**3.6**	**3.2**	**-3.2**	**4.0**	**29.8**	**22.0**
Airport retailing														
Southern Airport Services JSC	SAS VN	19,500	N/A	NR	104.8	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cam Ranh International Airport	CIA VN	9,700	N/A	NR	7.3	NA	NA	NA	NA	NA	NA	NA	NA	NA
Danang Airport Services JSC	MAS VN	36,100	N/A	NR	6.2	NA	NA	NA	NA	NA	NA	NA	NA	NA
Taseco Air Services JSC	AST VN	51,800	85,700	ADD	93.8	77.1	8.8	207.7	5.8	3.7	7.9	53.6	52.1	8.2
Average						**77.1**	**8.8**		**5.8**	**3.7**	**7.9**	**53.6**	**52.1**	**8.2**
Median						**77.1**	**8.8**		**5.8**	**3.7**	**7.9**	**53.6**	**52.1**	**8.2**
Low cost carriers														
VIETJET AVIATION JSC	VJC VN	98,100	132,000	HOLD	2,139.0	39.0	14.5	90.6	2.9	2.4	7.6	18.1	34.5	17.3
AIRASIA GROUP BHD	AAGB MK	1	N/A	NR	830.0	NA	NA	NA	NA	NA	33.6	5.3	NA	NA
CEBU AIR INC	CEB PM	37	N/A	NR	400.9	NA	NA	NA	NA	NA	NA	88.0	40.9	6.1
ASIA AVIATION PCL	AAV TB	3	N/A	NR	1,000.1	NA	NA	NA	2.8	2.9	-59.2	-3.5	NA	12.0
Average						**52.7**	**22.8**		**2.2**	**1.9**	**-4.5**	**16.1**	**45.8**	**10.1**
Median						**39.0**	**14.5**		**2.9**	**2.7**	**7.6**	**11.7**	**37.7**	**12.0**
Air cargo terminal														
Atlas Air Worlwide Holdings	AAWW US	101	N/A	NR	2,858.8	6.4	7.4	NA	0.9	0.8	14.3	12.9	4.7	5.0
Xiamen Interna-A	600897 CH	15	N/A	NR	634.0	28.1	13.2	-27.2	1.2	1.1	4.3	9.8	9.2	5.3
Saigon Cargo Services Corp	SCS VN	72,000	104,900	ADD	272.1	9.5	9.0	12.6	4.1	3.3	49.1	40.7	7.8	6.6
Average						**14.7**	**9.9**		**2.1**	**1.8**	**22.6**	**21.1**	**7.2**	**5.6**
Median						**9.5**	**9.0**		**1.2**	**1.1**	**14.3**	**12.9**	**7.8**	**5.3**

All prices are based on the closing prices on 22 Nov 2022. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates.

Source: VNDIRECT RESEARCH, BLOOMBERG

Sector note

PORT & SHIPPING: OPPORTUNITIES IN TURBULENCE TIMES

- Sea freight rates are entering a downward trend following the oversupply, bringing a gloomy outlook for shipping companies in FY23-24F.
- Mixed factors create a neutral outlook for global seaport industry but Vietnam's picture may be brighter thanks to improved macroeconomics.
- Our stock pick is GMD while PHP, VSC and HAH are in our watchlist.

2023F to be a big challenge for global port & shipping industry

We believe global port & shipping industry will face many difficulties in 2023F as global economic slowdown may negatively affect global trade activities as well as global sea freight volume. However, we still see a few factors that could help improve the outlook of the industry in 2023F, including: (1) container shortage has been resolved due to the additional supply of containers in 2022, (2) China is on the way to re-opening its economy, which will pump up global consumption & trade activities, (3) we forecast average Brent oil price to stay around US$90/bbl in 2023F, which will reduce fuel cost for shipping companies and improve global trade activities. In the context of mixed factors, we believe 2023F to be a big challenge for global port & shipping industry.

Shipping companies' earnings to weaken in FY23-24F due to oversupply

According to Alphaliner, number of new ship orders keep increasing, bringing current order volume to reach 27.9% of total market capacity – the highest level since 2012. Oversupply will put great pressure on sea freight rates in coming periods. The shipping company business results have a certain lag with movement of sea freight rates as shipping time charter contracts are usually signed for 6-12 months. Thus, the impact of the decline in sea freight rates will clearly affect business results of Vietnam shipping companies in 2023-24F.

Brighter outlook for seaport operators in 2023-24F

The picture of Vietnam seaport may be brighter thanks to rising disbursed FDI in manufacturing sector and several trade agreements in force. We expect Vietnam's container volume to grow at 8.6% CAGR in 2022-30F, in which Hai Phong port cluster with decreasing oversupply and Cai Mep – Thi Vai port cluster with infrastructure upgrade & favorable mechanisms have the most potential among major ports. In 2023-24F, some major expansion projects will be implemented and come onstream, such as GMD's Nam Dinh Vu Phase 2 and Gemalink phase 2 (VND6,070bn), PHP's deep-water port (VND6,946bn), which will bring great growth potential for the owners in the coming years.

Our stock pick is GMD

We prefer seaport operators which have capacity expansion plan while maintaining earnings growth in the coming years, thus we pick GMD. We also put PHP, VSC and HAH on our watch list due to capital expansion plan and attractive valuation.

Analyst(s):

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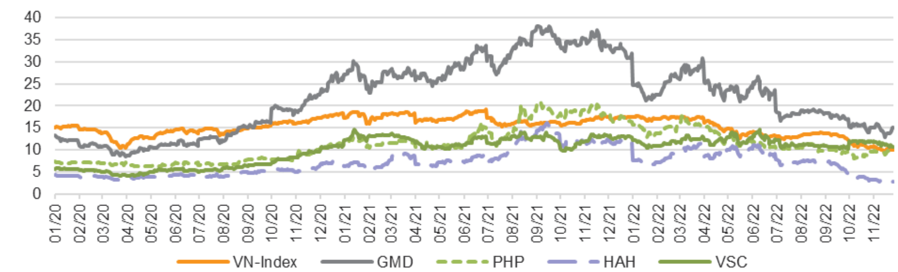
Figure 312: Post & shipping companies' P/E since 2020

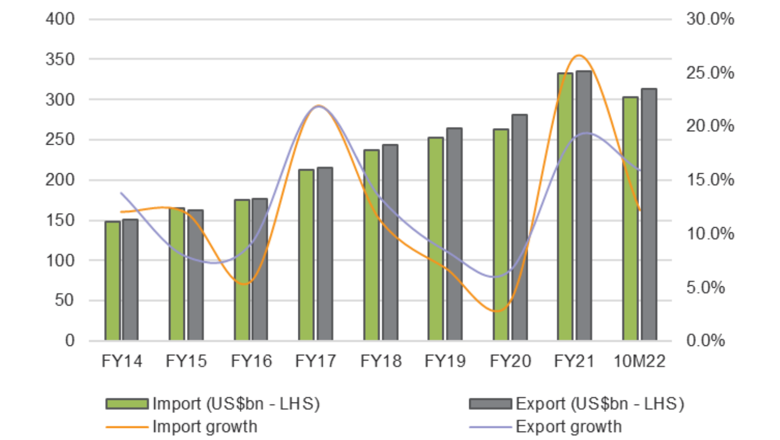


SOURCES: VNDIRECT RESEARCH

Vietnam port & shipping snapshot in 2022 YTD

Vietnam's import-export value growth decelerated

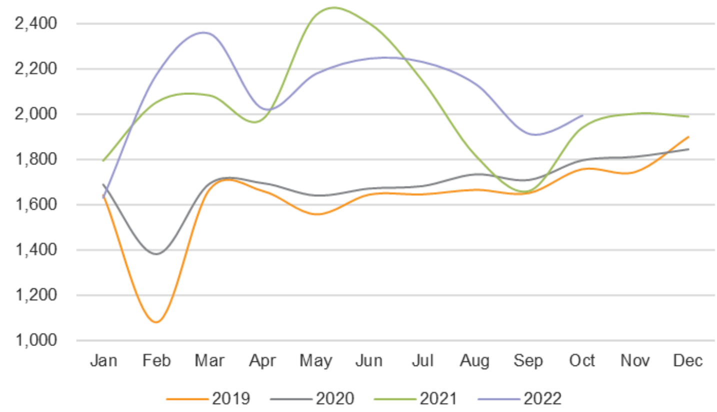
In 10M22, Vietnam's import-export value growth decelerated to 12.2%/15.9% yoy due to (1) new export orders of major markets maintained the downward trend as sanctions against Russia have disrupted manufacturing in these markets, and (2) Chinese export orders also fell further below the 50-mark due to the zero-covid policy.



Sources: GSO, VNDIRECT RESEARCH

Vietnam total container volume throughput

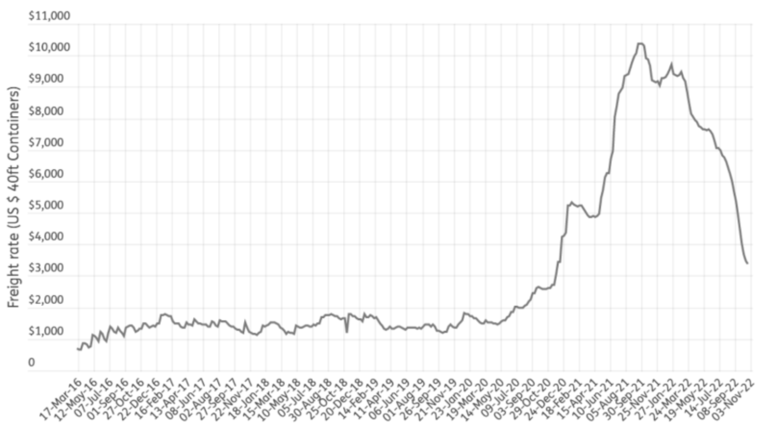
Vietnam total cargo volume throughput started to decelerate since 2Q22 and 3Q22, bringing cargo volume throughput to only increase 3.0% yoy and total container volume throughput to only increase 2.9% yoy in 10M22. Although container volume in Oct-22 recorded growth (+2.9% yoy), this growth came from low base in Oct-21 when the pandemic broke out and current monthly container volume is gradually decreasing following weak global demand.



Sources: Vinamarine, VNDIRECT RESEARCH

The world container index has plunged 67% from its peak set in Sep-2021

In the international market, after a period of skyrocketed growth, sea freight rates unexpectedly dropped, in which the world container index – a proxy used for container shipping rates, has plunged 67% from its peak set in Sep-2021. This is the results of global weak shipping demand while the market concerns that supply will increase in the coming periods.



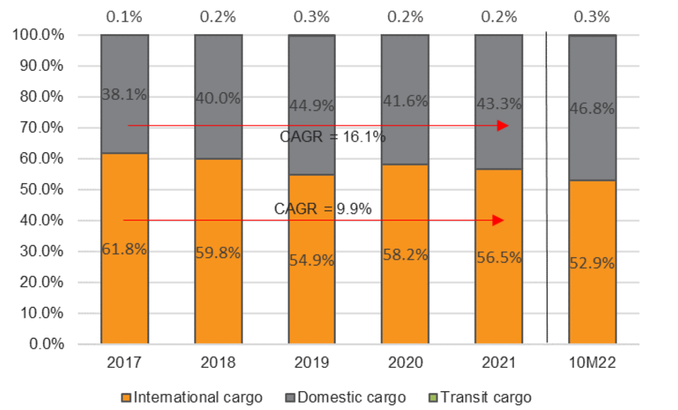
Sources: Infogram, VNDIRECT RESEARCH

Shipping: earnings to retreat after peaking in FY22

A stellar 2022 riding on high sea freight rates

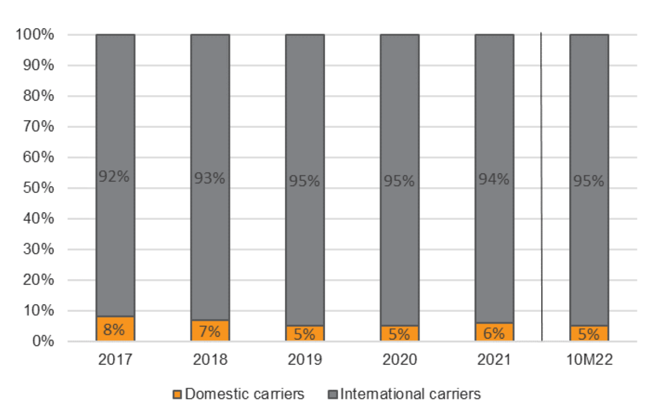
Although Vietnam's international shipping cargo volume increase at 9.9% CAGR, which is lower than 16.1% CAGR of domestic shipping cargo volume in 2017-21, international shipping still accounts for the majority in Vietnam total shipping cargo volume with the proportion of 52.9% in 10M22. International shipping is also the segment that bring the most revenue & earnings for the carriers with a much higher freight distances than domestic shipping. Thanks to government protection, the domestic carriers' cargo volume market share in the domestic shipping segment has remained stable at 80% over years, however, in the international shipping segment, proportion of domestic carries has decreased year by year and only accounts for about 5% in 10M22. Vietnam international shipping is dominated by international carriers due to their large fleet size with big vessels which help them to minimize transportation cost and increase their competitiveness.

Figure 313: Proportion of Vietnam shipping cargo volume



Source: Vinamarine, VNDIRECT RESEARCH

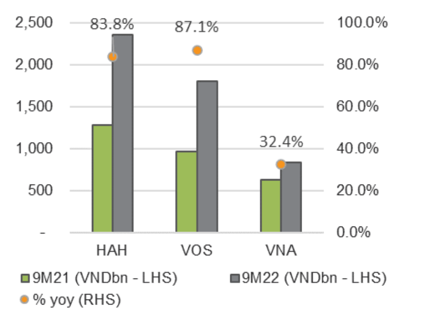
Figure 314: Market share of Vietnam's international shipping market



Source: Vinamarine, VNDIRECT RESEARCH

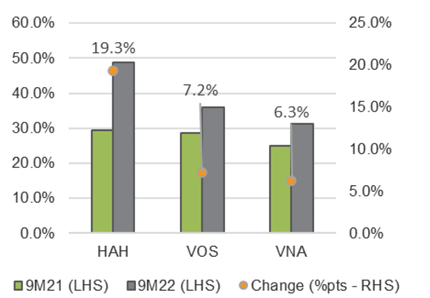
In 9M22, revenue of listed shipping companies increased 73.7% yoy mainly driven by high sea freight rates that the companies negotiate from the beginning of 2022. Gross margin also improved 13.0% pts yoy due to rising economies of scale. As a result, NP of listed shipping companies increased 70.8% yoy, in which HAH recorded the strongest earnings growth of 171.8% yoy thanks to its strong fleet expansion in 2022.

Figure 315: Revenue of shipping companies in 9M22



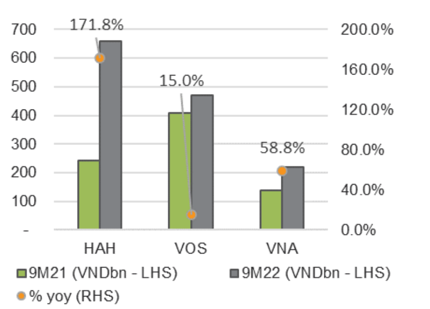
Source: VNDIRECT RESEARCH

Figure 316: Gross margin of shipping companies in 9M22



Source: VNDIRECT RESEARCH

Figure 317: Net profit of shipping companies in 9M22

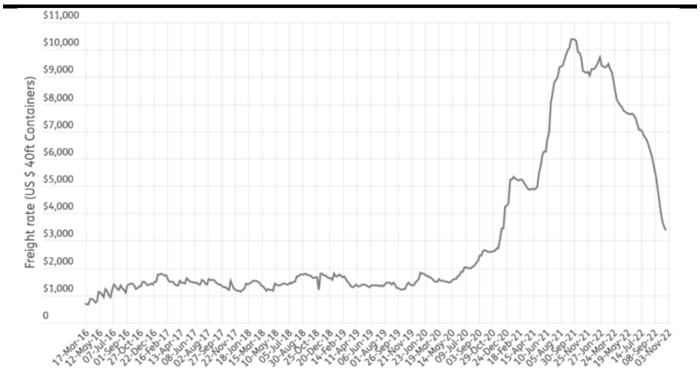


Source: VNDIRECT RESEARCH

Weakening outlook for shipping industry due to oversupply

In the international market, after a period of skyrocketed growth, sea freight rates unexpectedly dropped, in which the world container index (a proxy used for container shipping rates) has plunged 67% from its peak and the BDI index (a proxy used for dry bulk shipping rates) has plunged 71% from its peak.

Figure 318: The world container index has plunged 67% from its peak set in Sep-2021



Source: Infogram, VNDIRECT RESEARCH

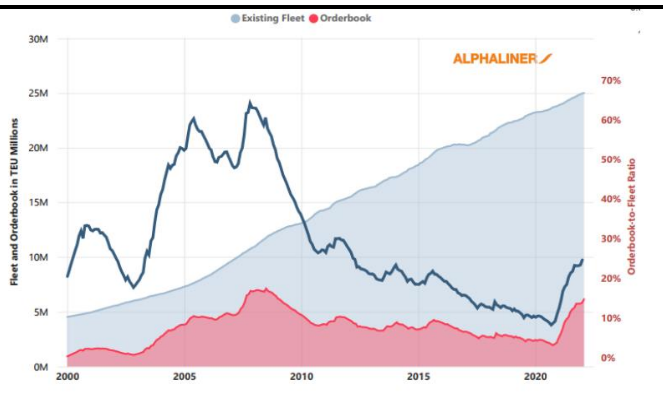
Figure 319: The BDI index has plunged 71% from its peak set in Sep-2021

Source: Freightos, VNDIRECT RESEARCH

This is the result of global weak shipping demand while the market concerns that supply will increase in the coming periods. According to Alphaliner, the number of new ship orders continues to increase, bringing current order volume to reach 27.9% of total market capacity – the highest level since 2012. Global fleets may increase 4.4%/8.2% yoy in FY22-23F due to new orders to be delivered, while global cargo volume throughput may only increase 0.9%/2.7% in FY22-23F due to global economic slowdown.

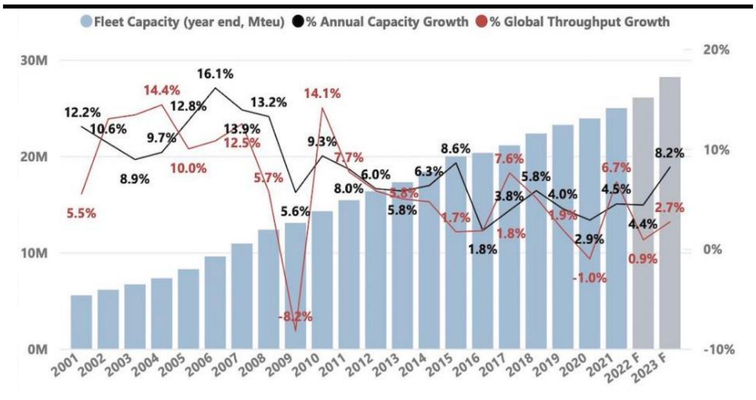
Oversupply will put great pressure on sea freight rate in the coming periods. The shipping companies' business results have a certain lag with fluctuations of sea freight rates as shipping time charter contracts are usually signed for 6-12 months. Therefore, the impact of the decline in sea freight rates will clearly affect business results of shipping companies in FY23-24F. However, we still see some positive factors that could somehow alleviate negative impacts from decreasing sea freight rate, including (1) China is on the way to re-opening its economy, which will pump up global consumption & trade activities, (2) we forecast average Brent oil price to stay around US$90/bbl in 2023F, which will reduce fuel cost for shipping companies.

Figure 320: Current new order volume has reached 27.9% of total market capacity



Source: Alphaliner, VNDIRECT RESEARCH

Figure 321: Forecast for fleet growth and global cargo volume throughput until 2023F



Source: Alphaliner, VNDIRECT RESEARCH

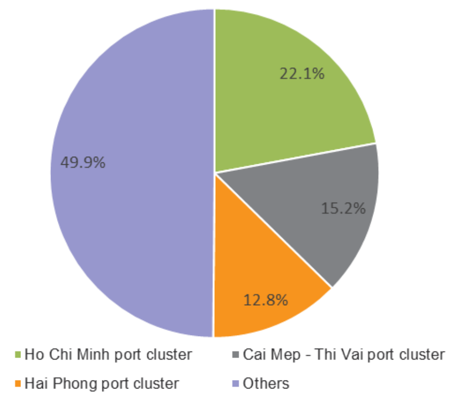
Risks to the industry include 1) Sea freight rates decline more than expected, 2) higher-than-expected oil prices and 3) China delays the reopening.

Port operation: brighter outlook in 2023-24F

Seaport operators' business results recorded positive growth in the context of weak global demand

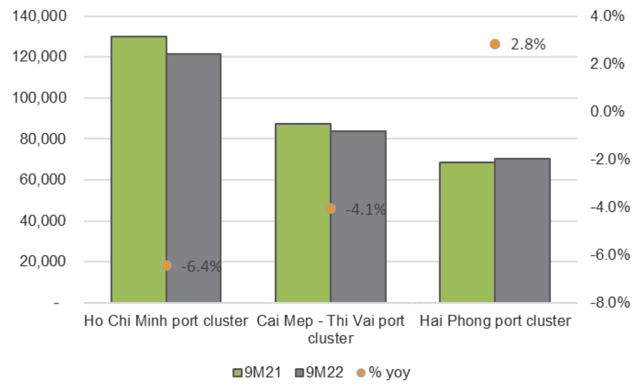
In 9M22, in terms of cargo volume, Ho Chi Minh port cluster is still the busiest port cluster of Vietnam with market share of 22.1%, followed by Cai Mep – Thi Vai port cluster (15.2%) and Hai Phong port cluster (12.8%). 9M22 total cargo volume increased 3.0% yoy, in which cargo volume of Ho Chi Minh port cluster and Cai Mep – Thi Vai port cluster dropped 6.4%/4.1% yoy due to drained stream while cargo volume of Hai Phong port cluster increased 2.8% yoy as the stream has been upgraded.

Figure 322: Market share of total cargo volume in 9M22



Source: Infogram, VNDIRECT RESEARCH

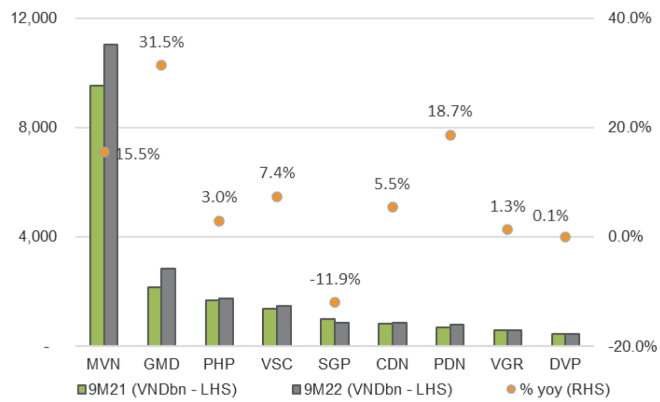
Figure 323: Volume growth of major port clusters in 9M22 (Unit: thousand tonnes)



Source: Freightos, VNDIRECT RESEARCH

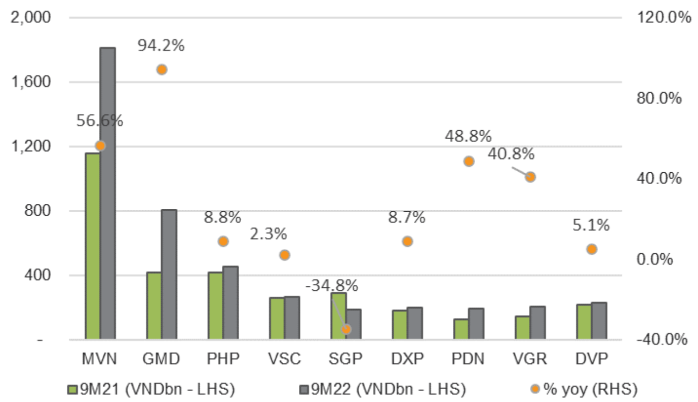
In terms of listed seaport operators' business results, in 9M22, aggregate revenue increased 13.0% yoy due to (1) growth of cargo volume through Vietnam seaports, and (2) ASP improved on reducing oversupply through nationwide seaports and stronger US$. Gross margin of seaport operators increased 2.2% pts yoy as higher revenue offset fixed costs. Thanks to high operating leverage of seaport operators, 9M22 net profit of seaports companies increased 35.4% yoy, in which GMD recorded the strongest growth of 94.2% yoy thanks to the contribution of Gemalink phase 1.

Figure 324: Revenue of port operators in 9M22



Source: VNDIRECT RESEARCH

Figure 325: Net profit of port operators in 9M22



Source: VNDIRECT RESEARCH

Brighter outlook for seaport operators thanks to attractive sea freight rates and released congestion in major ports

We believe positive factors include lower sea freight rates, released congestion in major ports and potential of easing China-zero Covid policy could offset weak global economy in 2023-24F, bringing a neutral outlook for global seaport industry.

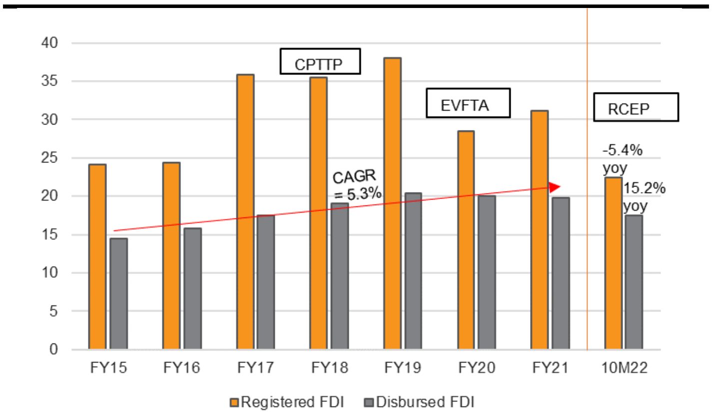
Figure 326: Global factors may affect global seaport industry in 2023F

Factor	Impact on seaport operators	Comments
Sea freight rates reduce		Sea freight rates is on a downward trend and may negatively affect the shipping companies, however it is a positive supporting factor for the sea port industry as attractive sea freight rates will support global trade activities.
Released congestion		Container shortage - the main problem causing congestion in major ports has been resolved due to the additional supply of containers. In addition, with operations fully resumed after the pandemic, the backlog of waiting vessels was quickly reduced and almost cleared in major ports.
Easing China zero-Covid policy		China has shown signs of easing Covid-19 prevention recently. We believe China is on the way to re-opening its economy, which will pump up global consumption and trade activities. This will strongly support for the seaport industry.
Weak global demand		The IMF forecasted global GDP growth of 3.2% in 2022F and may slow to 2.7% in 2023F. Major events hindering growth include the FED interest rate hike and Russia - Ukraine war. Global economic slowdown may negatively affect global trade activities and global cargo volume throughput.

Source: VNDIRECT RESEARCH

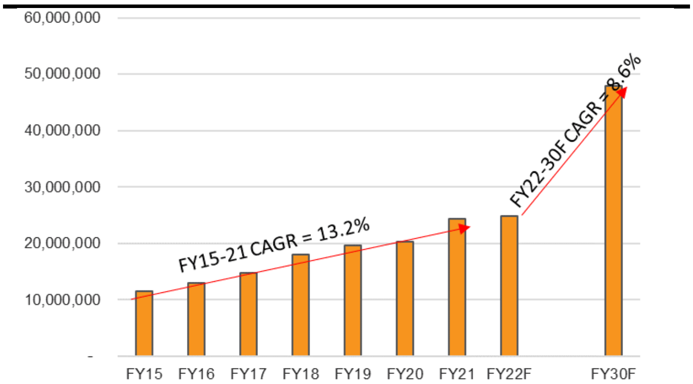
The picture for Vietnam seaport industry may be brighter in the coming periods. Despite global monetary tightening, disbursed FDI into Vietnam still increased 15.2% yoy in 10M22 with a major portion of the projects targeted at industrial and manufacturing sector (60%). The RCEP, which took effect in early 2022, has boosted some of Vietnam's manufacturing industries to achieve strong growth in 1H22, but slowed down in the second half as global consumption declined. We still believe these trade agreements will have positive impact on Vietnam import-export activities in the coming years when global consumption recovers, thereby benefits Vietnam seaport industry. We expect Vietnam's container volume to grow 2.5% yoy in 2022F to 24.9m TEUs following the 2.9% yoy growth in 10M22, then grow at 8.6% CAGR in 2022-30F following Ministry of Transportation's (MOT) aim of 48m TEUs through Vietnam seaports until 2030F in the seaport master plan for the period of 2021-30F.

Figure 327: Disbursed FDI into Vietnam grew at 5.3% CAGR, which help bolster cargo volume throughput (Unit: US$bn)



Source: Infogram, VNDIRECT RESEARCH

Figure 328: Vietnam container volume is expected to grow at 8.6% CAGR in 2022-30F (Unit: TEUs)



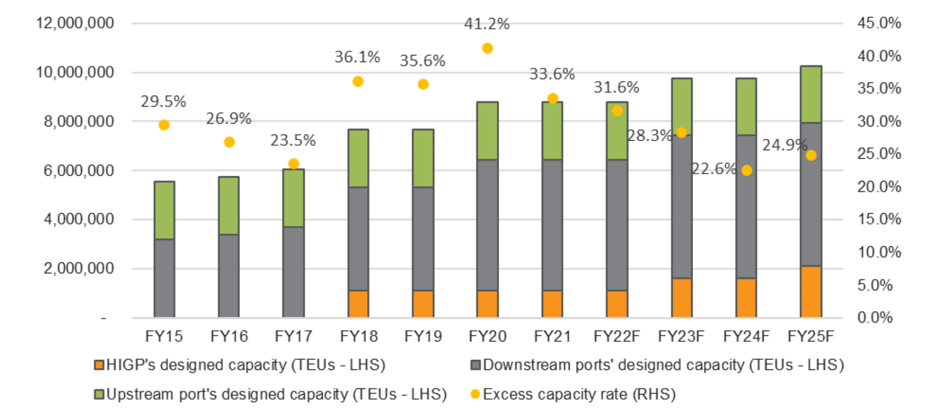
Source: Freightos, VNDIRECT RESEARCH

In the seaport master plan for 2021-30F, among major port clusters in Vietnam, Hai Phong port cluster and Cai Mep – Thi Vai port cluster are classified as special port cluster of Vietnam and will be focused the most in development. We also believe these two ports cluster to have more growth potential in FY23-24F as:

- The oversupply in Hai Phong port cluster has been gradually decreased, in which the excess capacity rate may reduce to 31.6%/28.3%/22.6% in

FY22/23/24F as there are only 2 ports coming onstream until FY25F (GMD's Nam Dinh Vu phase 2 and PHP's deep-water ports) while many upstream ports will convert functions or remove (PHP's Hoang Dieu port). The low excess capacity rate could help increase the utilisation rate of HIGP **and** downstream ports here and may also reduce competition and increase ASP in the coming years. We forecast Hai Phong port cluster's container volume to grow 3.0%/6.0%/8.0% yoy in FY22/23/24F.

Figure 329: The competition pressure is tending to decrease



Source: VNDIRECT RESEARCH, Vinamarine

- By Aug-2022, MOT has approved the project of upgrading Cai Mep – Thi Vai channel from buoy No.0 to the Cai Mep container ports. Total investment of VND1,414bn, the capital will be allocated in accordance with the project's four-year execution schedule. The projects would help Cai Mep – Thi Vai port cluster to receive heavier vessels and reduce cost for the carriers, thereby attracting global shipping companies and helping to increase container volume through the ports here. In addition, the Politburo has approved Resolution 24, which will be a boost for Cai Mep – Thi Vai when mentioning the implementation of new mechanisms and policies, especially it has oriented to form a free trade zone associated with seaports in Cai Mep area, turning Cai Mep – Thi Vai port cluster to become a large international transshipment port cluster in Asia. In FY22-24F, facing difficulties from the global economy slowdown, we expect Cai Mep – Thi Vai container volume to grow 5.0%/8.0%/12.5% yoy in FY22-24F.

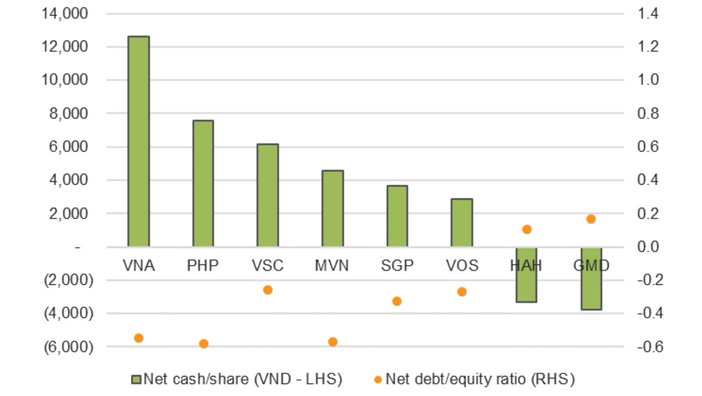
Risks to industry: China delays the reopening.

Potential impact of rising interest rates and US$ appreciation among Port & Shipping listed companies

We see the impacts of rising interest rates environment on port & shipping listed companies as follows:

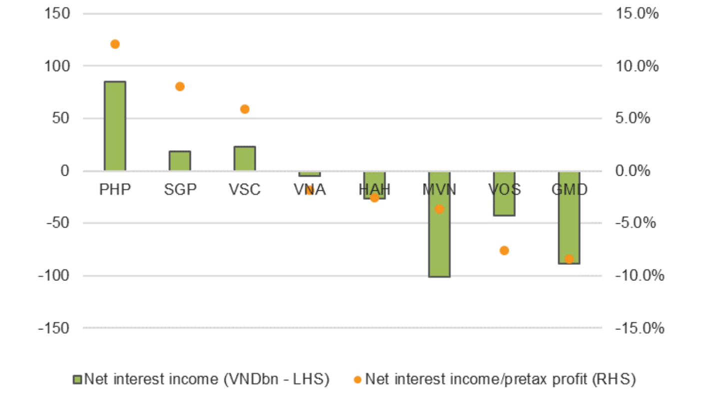
- Companies with strong net cash position and low net debt/equity ratio include VNA, PHP, VSC, MVN, SGP, VOS. We believe these companies will benefit from the rising interest rates environment in near-term. We see PHP to be the key beneficiary based on the contribution of net interest income into PHP's 9M22 pretax profit.
- In contrast, HAH and GMD may be negatively affected from the rising interest rates environment as these companies have higher leverage ratio to finance for their capacity expansion plan.

Figure 330: Most of port & shipping companies have strong net cash position



Source: VNDIRECT RESEARCH

Figure 331: Impact level of rising interest rates will depend on net interest income contribution into 9M22 results



Source: VNDIRECT RESEARCH

Stronger US$ may also affect new capacity expansion plans borrowing in US$ in the coming periods. Besides, shipping companies like HAH and MVN currently have high exposure to US$-based debt and may face headwinds in the strong US$ environment. However, as these carriers have a part of its revenue in US$, it may somehow offset the increased financial expenses from FX loss when US$ appreciates in the coming periods.

Figure 332: HAH and MVN may face headwinds from stronger US$ (unit: VNDbn)

	USD-based debt	Total debt	USD-based debt/total debt
HAH	401	1,177	34.1%
MVN	1,918	4,218	45.5%

Source: VNDIRECT RESEARCH

Our stock pick is GMD

We prefer seaport operators which have capacity expansion plan while maintaining earnings growth in the coming years, thus we pick GMD. We also put PHP, VSC and HAH on our watchlist due to capital expansion plan and attractive valuation.

Figure 333: FY22-24F earnings forecasts of stocks under coverage

	GMD			PHP		
	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	3,871	4,406	4,643	2,324	2,506	2,772
% growth	*20.7%*	*13.8%*	*5.4%*	*1.7%*	*7.8%*	*10.6%*
Gross margin (%)	*35.4%*	*35.5%*	*33.3%*	*37.2%*	*37.3%*	*39.6%*
EBITDA margin (%)	*47.2%*	*47.9%*	*45.3%*	*48.3%*	*48.5%*	*48.8%*
Net profit (VNDbn)	1,008	1,237	1,267	569	627	673
% growth	*64.6%*	*22.8%*	*2.5%*	*3.5%*	*10.1%*	*7.3%*
EPS (VND/share)	3,343	4,104	4,205	1,741	1,918	2,058
BVPS (VND/share)	24,247	28,351	32,056	14,396	15,913	16,971
D/E	0.3	0.2	0.2	0.2	0.2	0.5
Dividen yield (%)	2.9%	0.0%	1.2%	2.5%	2.5%	6.3%
ROAE (%)	14.8%	15.6%	13.9%	12.7%	12.7%	12.5%
ROAA (%)	8.6%	9.3%	8.7%	8.8%	8.6%	7.6%

Source: VNDIRECT RESEARCH, CAAV

Figure 334: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	GMD	64,400	ADD	(1) GMD's earnings growth engine in short-term is Gemalink phase 1, Vietnam's most modern deep-water port with the capable of accommodating 250,000 DWT fully loaded vessels, locating in Cai Mep – Thi Vai port cluster, which is well-positioned to ride on the buoyant ocean trade. We forecast Gemalink will contribute 27.4%/33.7%/33.4% in GMD's FY22-24F NP. (2) GMD plans to raise its capital by VND2,009bn through issuing shares to outstanding shareholders to finance for Nam Dinh Vu phase 2 (VND800bn) and Gemalink phase 2 (VND1,000bn). We expect a better long-term prospect for GMD thanks to these capacity expansion plan to capture Vietnam's vibrant seaport and sea freight markets. (3) We forecast GMD's NP to grow 22.8%/2.5% yoy in FY23-24F.
2	PHP	NA	NA	(1) Owning the leading position in Hai Phong - the second largest port cluster in Vietnam, PHP is well-positioned to ride on the buoyant ocean trade. PHP's current ports are running close to their designed capacity, since then the company is going to invest the new deep-water port in Hai Phong Int'l Gateway Port (HIGP) which will enhance its capacity by 52.4% to 3,200,000 TEUs p.a. The project has started construction in 3Q22, which would become PHP's growth engine from FY25F. (2) We forecast PHP's NP to grow 10.1%/7.3% yoy in FY23-24F. (3) PHP has been moved to list on Upcom since Sep-2022 due to qualified opinion in financial statements for 3 consecutive years (2019,2020,2021) as the state capital (using ODA-funded) related to the investment project for the wharf No.4&5 and the container yard at Chua Ve port has not been finalized yet. PHP's share price has dropped 46.6% since its peak in Mar-2022 and we believe the negative information has already reflected in share price. PHP is working with the government to finalized this state capital, along with growth prospects in short-term and long-term, we believe the risk-reward profile is quite attractive to accumulate.
3	VSC	NA	NA	(1) VSC is a big player in Hai Phong port cluster, owning Green port and Vip Green port with total capacity of 1.1m TEUs p.a. The company also own Quang Binh – Dinh Vu ICD, one of the largest ICD in the northern region. In addition, VSC owns 36% of VIMC Dinh Vu port with capacity of 520,000 TEUs p.a, which has come onstream since Sep-2022. (2) Strong financial health with no debt. (3) Ambitious M&A plan: VSC plans to spend VND600bn acquiring 49% of Vinaship (VNA). Besides, VSC also plans to spend VND2,000bn to VND3,000bn to acquire a seaport operator in Hai Phong port cluster.
4	HAH	NA	NA	(1) HAH owns a fleet of 11 ships with total capacity of 15,885 TEUs, operating in domestic routes. (2) Earnings has peaked in FY22 and may decline in FY23-24F following sea freight rates downward trend, however, HAH's scale and profit have far exceeded pre-pandemic levels. (3) Current valuation is relatively attractive with trailing P/B around 0.95x.

Source: VNDIRECT RESEARCH

Figure 335: Peer comparison

Company name	Ticker	Price	Target price	Recomm.	Mkt cap	P/E		3-year EPS	P/BV		ROE (%)		EV/EBITDA	
		LC$	LC$		US$m	2022F	2023F	CAGR (%)	2022F	2023F	2022F	2023F	2022F	2023F
Port operators														
Port of Hai Phong JSC	PHP VN	16,200	NA	NR	213.2	8.7	8.1	7.8	1.1	1.0	13.5	13.1	5.1	4.8
Vietnam Container Shipping	VSC VN	32,900	NA	NR	160.6	11.4	10.6	4.3	1.2	1.1	12.6	12.1	4.6	4.4
Adani Ports And Special Econ	ADSEZ IN	882	NA	NR	23,333.3	26.4	21.6	6.8	4.1	3.5	16.4	17.8	18.3	15.2
Xiamen Interna-A	600897 CH	15	NA	NR	634.0	28.0	14.3	-27.2	1.2	1.1	2.9	9.5	15.2	5.7
Namyong Terminal	NYT TB	4	NA	NR	121.4	22.0	18.8	-12.7	1.4	1.3	6.9	6.9	6.9	6.5
Gemadept Corp	GMD VN	42,750	64,400	ADD	518.7	12.8	10.4	27.4	1.8	1.5	14.8	15.6	8.2	7.1
Average						*18.2*	*14.0*		*1.8*	*1.6*	*11.2*	*12.5*	*9.7*	*7.3*
Median						*17.4*	*12.4*		*1.3*	*1.2*	*13.1*	*12.6*	*7.5*	*6.1*
Shipping companies														
Ap Moller-Maersk A/S-B	MAERSKB	14,945	NA	NR	38,140.0	1.3	5.2	NA	0.6	0.6	53.3	8.0	0.9	2.6
Cosco Shipping Holdings Co-A	601919 CH	12	NA	NR	26,231.1	1.7	4.4	402.8	0.9	0.9	64.5	19.0	0.3	0.7
Evergreen Marine Corp Ltd	2603 TT	151	NA	NR	10,219.2	1.0	6.2	8,643.1	0.5	0.5	71.5	9.0	0.2	1.1
Hmm Co Ltd	011200 KS	20,550	NA	NR	7,420.4	1.1	4.7	NA	0.5	0.5	63.9	12.7	0.1	0.3
Hai An Transport & Stevedori	HAH VN	28,150	NA	NR	79.7	2.5	3.0	71.0	0.9	0.7	45.4	27.3	1.8	1.8
Average						*1.5*	*4.7*		*0.7*	*0.7*	*59.7*	*15.2*	*0.7*	*1.3*
Median						*1.3*	*4.7*		*0.6*	*0.6*	*63.9*	*12.7*	*0.3*	*1.1*

Source: VNDIRECT RESEARCH, BLOOMBERG DATA AS AT 22/11/2022

Sector note

OIL & GAS: UNDEMANDING VALUATION

- We expect Brent oil price to stay on the high base, averaging around US$90/bbl in 2023F due to lingering Russia – Ukraine crisis.
- The companies possessing strong financial health, dominating in their business fields and being able to ride on high oil price environment will be the good selection in this current market turbulence.
- Our top picks are GAS, PVS and PLX.

We expect average Brent oil price to stay around US$90/bbl in 2023F

Though macroeconomic uncertainty rising due to stronger US$, China's zero-Covid policy and Russia – Ukraine crisis could negatively affect crude oil consumption, we believe oil price to remain on high base in 2023F as: (1) EU embargo should cause Russian oil production to drop in 2023F, and (2) OPEC+ signaled that the group would be always ready to intervene to support oil prices. Thus, we expect Brent oil price to average around US$90/bbl in 2023F.

More growth opportunities for O&G service providers in coming year

As oil prices are expected to remain high, we think demand for O&G services to gradually increase in coming years. Besides, the new Petroleum Law promises to attract new investment in Vietnam's upstream segment. Generally, we expect some E&P projects like Block B, Nam Du – U Minh and Kinh Ngu Trang to be likely kickoff within the next two years, firstly providing more job opportunities for O&G service providers (EPC, drilling) in coming years.

Potential bounce back for petroleum distribution sector in 2023F

2022 is a tough year for petroleum distributors due to the instability of market coming from Nghi Son problem in 1H22 and related costs surging globally. For 2023F, we believe in the potential bounce back of giant distributors on the back of: (1) domestic supply re-stabilization, (2) adjustments on costs constituting fuel base prices, and (3) the growing petroleum demand in Vietnam.

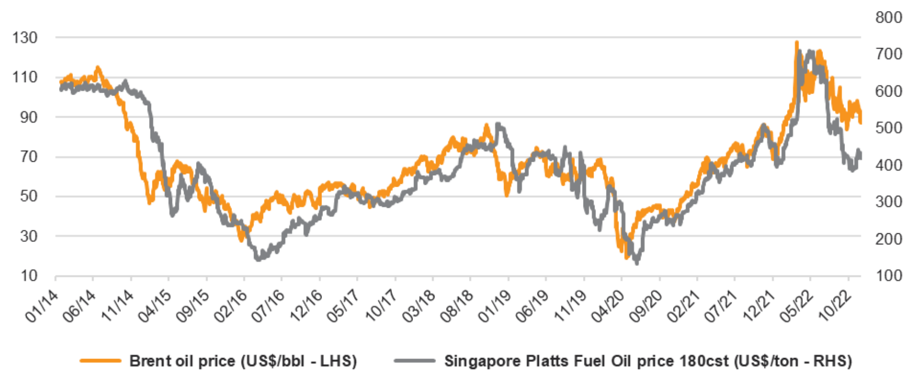
Strong financial position to be the pedestal during market turbulence

Amid macroeconomic uncertainty rising, the companies with strong financial position and minimal risk against stronger US$ will not only sail through the rough water, but also gain benefits from rising interest rates. We see some O&G companies (GAS and PVS) have accumulated a huge amount of cash during many years thanks to strong business model, underpinning the companies' position in this tough market.

Stock picks: We prefer GAS, PVS and PLX

In this market turbulence, we prefer the companies possessing strong financial health, dominating in their business fields and being able to ride on high oil price environment like GAS and PVS. Additionally, we also believe a petroleum distributor like PLX to strongly rebound in 2023F. The downside risks include: (1) lower-than-expected oil price, and (2) further delays in major projects.

Figure 336: Oil price movements from 2014 to date



Source: BLOOMBERG, VNDIRECT RESEARCH

Analyst(s):

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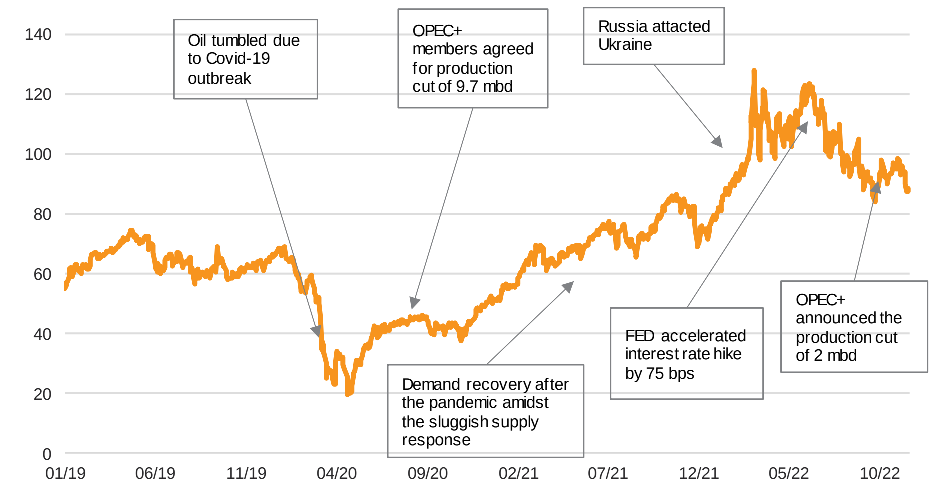
We expect Brent oil price to average around US$90/bbl (-10% yoy) in 2023F

Figure 337: Brent oil price movements in 2022 (up to 22 Nov). Brent oil price has remained at the high base after Russia – Ukraine crisis (Unit: US$/bbl)



Source: BLOOMBERG, VNDIRECT RESEARCH

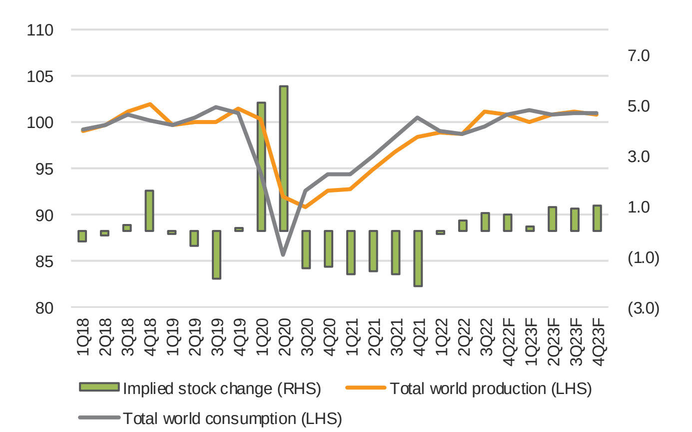
Figure 338: FY23F Brent crude oil price forecasts by some large institutions (Unit: US$/bbl)

No.	Agency	2023F	Time of report
1	Energy Information Administration (EIA)	95.3	Nov-22
2	World Bank	92.0	Oct-22
3	Reuter survey	95.7	Oct-22
4	Bloomberg consensus	98.0	Oct-22
5	Goldman Sachs	110.0	Oct-22

Source: VNDIRECT RESEARCH, BLOOMBERG

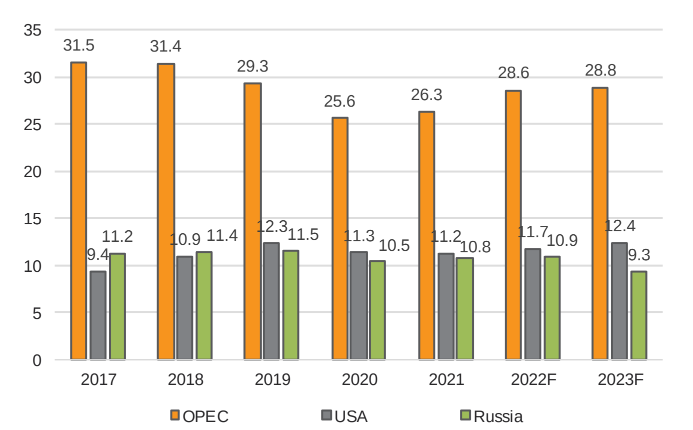
Amidst the global crude oil market tightness, the tension between Russia and Ukraine exacerbated this situation, boosting Brent oil price to touch the record price since 2008 at US$139.13/bbl on March. After that, Brent oil price has gradually cooled down towards the end-2022, but remain at the 8-year high level (over US$90/bbl). We expect Brent oil price to stay around this level for the rest of this year, translating to 2022F average price of US$100/bbl.

Figure 339: EIA forecasts global demand to increase by 1.5% yoy in 2023 (compared to 2.2% yoy increase in 2022 (Unit: mbd)



Source: EIA, VNDIRECT RESEARCH

Figure 340: The EU embargo should cause Russian oil production to drop by over 1.5 mbd in 2023F (Unit: mbd)



Source: EIA, VNDIRECT RESEARCH

For 2023F, global demand is likely to decelerate due to the economic headwinds (stronger US$, China's zero-Covid policy and Russia – Ukraine crisis). The US Energy Information Administration (EIA) forecasts global demand to increase by 1.5% yoy to averaging 101.04 million barrels per day (mbd) for all of 2023F (compared to 2.2% yoy increase in 2022). However, we see there is minimal ability of an oversupplied oil market as the concerns over demand slowdown to be allayed by the obstacles in supply side (particularly from OPEC+), supporting oil price to remain high next year. Fundamentally, we expect Brent oil price to average around US$90/bbl in 2023F.

Figure 341: List of global events should affect oil price in 2023F. We believe supply-side obstacles (due to Russia – Ukraine crisis and OPEC+ intervention) will keep oil price to remain high next year

Side	Event	Impact on oil price	Comments
Demand	China's zero-Covid policy		China is currently the second largest oil consumer, accounting for ~15% of total world oil consumption. Any China's new lockdowns will threaten hopes for a gradual economic reopening and rebound in energy demand
	FED raising interest rate		The tightening monetary policy could push the global economy into recession, hampering crude oil consumption. Besides, stronger USD also negatively affects on commodity prices included oil prices
Suppy	The revival of Iran nuclear deal / Easing sanctions against Venezuela		Iran nuclear deal may be the most feasible solution to cool down oil prices in the short term as it could lead to the return of Iranian exporter with the additional capacity up to 1 mbd
	The increasing shale oil production in US		EIA projects that the nation's unconventional oil and gas production will reach record levels in November, but there are indications that inflation could limit growth moving forward
	Lingering Russia - Ukraine crisis		EU embargo on Russia coming into effect later this year should cause Russian oil production to drop by over 1.5 mbd in 2023F (Source: EIA)
	OPEC+ intervention to address market developments		OPEC+ announcement of a massive production cut of 2 mbd in October has signaled that the group would closely monitor the market balance and be always ready to intervene to support oil prices

NOTE: Positive; Negative

Source: VNDIRECT RESEARCH

Upstream: Still awaiting major gas field projects kickoff, some smaller O&G fields development projects insight

The amended Petroleum Law creates a new legal framework to attract new investment in upstream segment

The new petroleum law promulgated this November will be a general framework for O&G industry, reducing the overlap between laws in O&G activities. We see some highlights in this revised version as below:

Figure 342: Some highlights from the amended Petroleum Law

	Content	New points
1	For investment incentives	Supplementing classification and policy for blocks eligible investment incentives (compared to the current policy for all projects: the corporate income tax rate of 32-50%, export duty of 10% on crude oil, and cost of recovery rate of 50-70% of annual production) • Classification criteria: based on locations, exploitation conditions… • For investment incentive projects: these rates would be 32%, 10%, and 70%, respectively • For special incentive projects: these rates would be 25%, 5%, and 80%, respectively
2	Regarding oil and gas contract	• Increase contract term from 25 to 30 years (and 35 years for blocks eligible investment incentives).
3	Regulations for state-owned enterprises	• Supplementing and clarifying regulations for state-owned enterprises (PVN) and wholly-owned subsidiaries of PVN (PVPEP)

Source: THE AMENDED PETROLEUM LAW, VNDIRECT RESEARCH

Though it needs more detail terms and instructions, we believe that this revised version is crucial to creating a smooth legal corridor for investors and increasing the attractiveness of the investment environment in the field of O&G.

While still awaiting major oil & gas projects movements, we see some smaller O&G fields development projects insight

Despite favorable condition triggered by oil price hike in 2022, we see little significant progress in major gas field projects due to delays in different stages regarding to capital funding and commercial negotiations. For the long-awaited Block B – O Mon project, O Mon III power plant is still awaiting the ODA funding plan approval. As gas price from Block B has been approved since 2016, the protracted delays negative affected the efficiency of the original plan for downstream plants due to inflationary and US$ climbing. Hence, it takes times to revise the plan and seek the Government's approval. Notably, according to industry's sources, this project is facing another interruption as the operator is preparing to re-tender the major offshore production facility. However, we suppose that this interruption may open the opportunities for local EPC contractors like PVS to participate further in Block B project. Overall, we expect Block B – O Mon project to be awarded final investment decision (FID) in 2023F.

Figure 343: With a project period of 20 years, we believe Block B – O Mon project to be great growth motivation for many listed companies in Vietnam's oil and gas value chain in coming times

	Est. Capex (US$m)	Investors	Workload scope	Activities	Potential beneficiaries	Potential impact
Upstream: Block B field development project	6,700	• PVN (42.9%) • PVEP (26.8%) • MOECO (22.6%) • PTTEP (7.7%)	This project will include one central processing platform, 46 wellhead platforms, one housing platform, one condensate vessel and drilling of 750 production wells	EPCI contract	• PVS • PVX, PXS	
				FSO	PVS	
				Drilling / Well services	PVD	
				Drilling fluids	PVC	
Midstream: Block B - O Mon pipeline	1,300	• PVGAS (51%) • PVN (28.7%) • MOECO & PTTEP (20.3%)	The pipelines have total length of 431km with design capacity of 20.3m cbm per day, including: • The offshore pipeline has the length of approximately 295km, diameter of 28 inches. • The onshore pipeline has the length of 102km, supplying gas to power plants at O Mon Power Center in Can Tho. • There will be landfall station and gas distribution centers (GDC) along the pipelines.	Gas distribution	GAS	
				Pipe coating	PVB	
				EPCI contract	• PVS, POS • PVX, PXT	
Downstream: Gas-fired power plants	NA	• Marubeni • EVN	Three new thermal power plants in O Mon power center (O Mon II, III and IV)	EPC contract	-	
				Power generation	-	

Source: VNDIRECT RESEARCH, COMPANY REPORTS

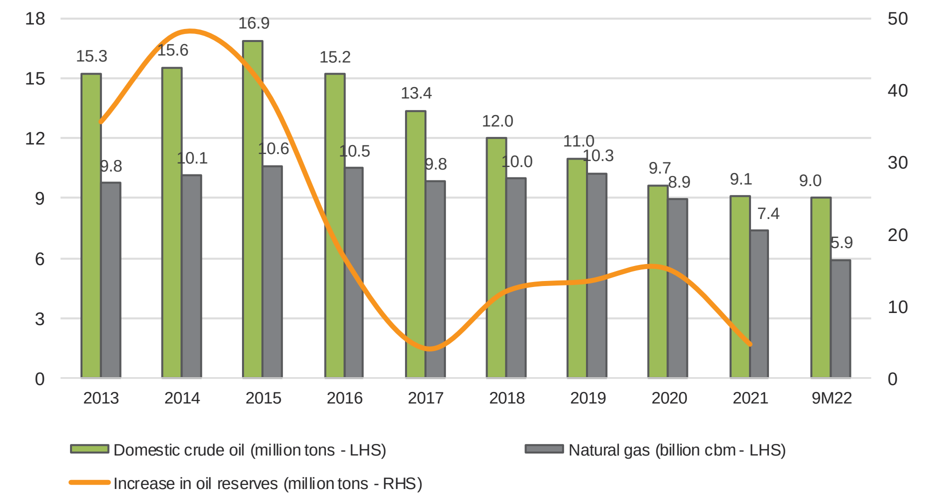
Figure 344: Potential gas exploration projects in pipeline

Project	PSC owners	Expected Implementation	Expected commission	Est. Capex (US$m)	Estimated reserves	Status
Su Tu Trang Phase 2B	PVEP (50%), Perenco Cuu Long (23.25%), KNOC (14.25%), SK (9%), Geopetrol VN (3.5%)	2023F	2025F	2,000	2P reserves of 317 bcf and 435m bbl of condensate	Phase 2B involves the construction of a central gas facility (CGF) with 16 wells, connecting to ST-PIP platform, with expected capacity of 52bcf annually. First gas of Phase 2B are expected from 2025
Nam Du - U Minh	Jadestone (100%)	2023F	2025F	NA	2C reserves: 171 bcf (+31 bcf)	Jadestone remains committed to commercialising its offshore Vietnam gas resources and continues to collaborate with the government regarding the proposed Nam Du/U Minh field development. The expected first gas date for the project will be in 2025
Lac Da Vang	Murphy Oil (40%), PVEP (35%), SK Innovation (25%)	NA	2026F	700	63m bbl of oil recoverable reserves, and associated petroleum gas	ODP was approved in Sep 2019. Well campaigned is targeted for 2023F. Murphy is also carrying out exploration work at adjacent fields (Lac Da Trang, Lac Da Nau, etc) and Block 15-2/17
Block B - O Mon	PVN (42.38%), MOECO (25.62%), PVEP (23.5%), PTTEP (8.5%)	2023F	2026F	6,700	3.7 tcf (trillion cubic feet) of gas	FEED contract completed. We expect O Mon III to soon be approved the plan of ODA using, setting the stage for Block B multi-projects to kick off in 2023F. First gas is expected in 2026F
Blue Whale	Exxonmobil (64%)	NA	2028-2029F	10,000	5.3 tcf of gas	FEED contract was completed in Apr 2020. In Jul 2020, PVN and EVN said they were working with ExxonMobil to finalise gas sale and electricity agreements. First gas is expected no earlier than 2028F
Ken Bau	ENI (50%), ESSAR (50%)	NA	NA	NA	7-9 tcf of raw gas and 400-500m bbl of condensate	This field is under exploration process. The first two exploration wells drilled in Jul 2019 and Jul 2020 confirmed a significant hydrocarbon accumulation on Ken Bau discovery, potentially ranging between 7 and 9 tcf of raw gas and 400-500m bbl of condensate

Source: VNDIRECT RESEARCH, COMPANY REPORTS

In contrast to above major gas field projects, other projects related to the development of existing fields such as Bach Ho oilfield expansion, Kinh Ngu Trang (Block 09-2/09) oil field were given the green light in the past few months. These projects will partially offset to the mature fields' depletion. Thanks to the high oil price base and some existing offshore facilities, we believe these projects to be soon implemented, providing some buffer for local O&G service providers, firstly for drilling services providers and EPC contractors.

Figure 345: Domestic crude oil and natural gas production

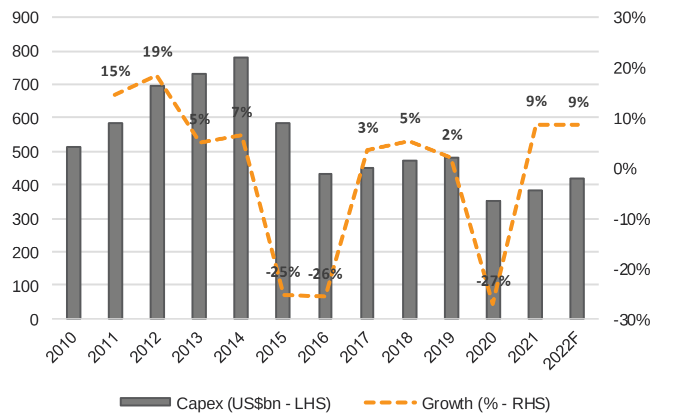


Source: PVN, MOIT, VNDIRECT RESEARCH

Southeast Asia (SEA) drilling market recovery is underway, boding well for drilling service providers in 2023

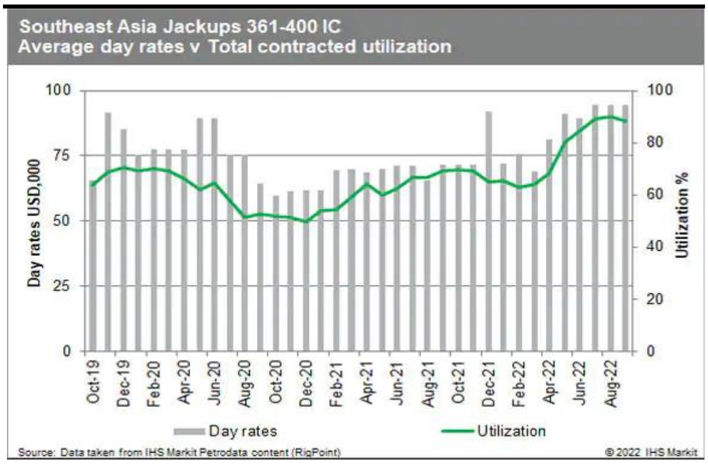
The International Energy Agency (IEA) estimates an 9% increase in global upstream investments in 2022, but the level remains well below pre-Covid levels. Despite huge profit in 2022, major O&G producers modestly spent on fossil fuels as they were prioritizing to pay down their debt. IEA also forecasts that around US$470bn annual upstream investment is spent on average to 2030F to ensure that supply and demand stay in balance, which is 50% more of that has been invested in recent years (based on the Stated Policies Scenario). This will be the pedestal for drilling market to keep accelerating in coming times.

Figure 346: Global investments in oil & gas upstream



Source: IEA

Figure 347: SEA average Jack-up day rate and utilisation rate are picking up



Source: IHS MARKIT

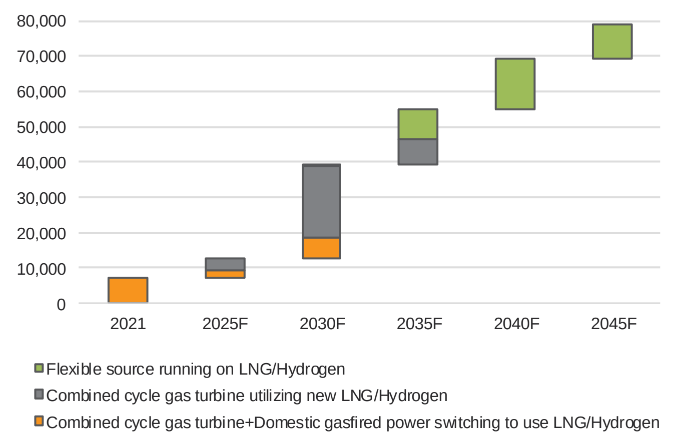
For SEA drilling market, IHS Markit estimates average demand for jack-up rigs is set to average 35.1 units in 2023F, up a bit from 33.4 rigs in 2022. The two main drivers are Indonesia and Malaysia, which show 2023 demand of 10.3 and 8.5 units, respectively. The screws continue to tighten on the supply of jack-up rigs in SEA as more units are being earmarked for relocation to the Middle East. This will bring more job opportunities for drilling service providers like PVD.

Midstream: O&G transporters to sail on the rising tanker freight rates

LNG distribution: Global headwinds to slow down LNG-to-power transition

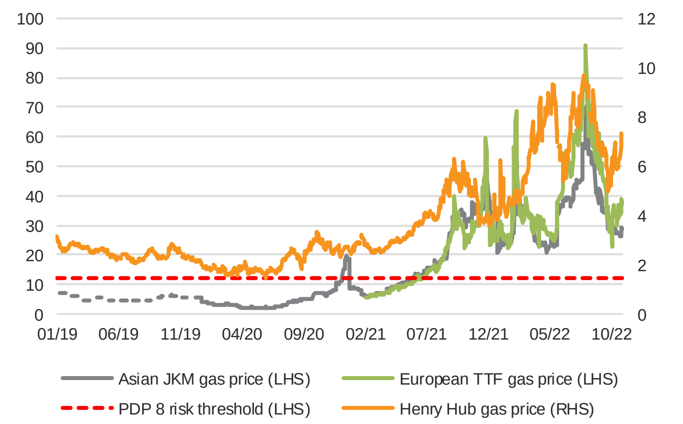
According to Draft of Power Development Plan 8 (PDP8), LNG-to-power will be one of the most important sources thanks to its stability in power generation and the ability to easily increase capacity through import with upcoming projects like Nhon Trach 3&4, Son My or Bac Lieu. However, as global LNG price has skyrocketed due to the lingering Russia – Ukraine crisis, we suppose LNG transition trend to be delayed in short-term as high prices affect the competitive ability of LNG and the progress of related power plants. Among the mentioned projects, LNG Thi Vai terminal is expected to completely construct later this year and operate in 2023F, marking the first LNG project coming online in Vietnam.

Figure 348: Vietnam gas-fired power capacity will increase 10.5% CAGR to reach 79,330MW in 2045F (Unit: MW)



Source: Draft of PDP8, VNDIRECT RESEARCH

Figure 349: But high global LNG price base should affect the progress of LNG projects in Vietnam (Unit: US$/mmbtu)

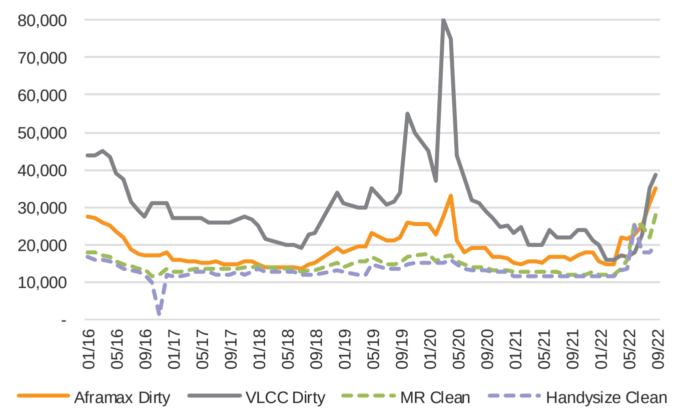


Source: : BLOOMBERG, VNDIRECT RESEARCH

O&G transportation: Sailing on the rising tanker freight rates

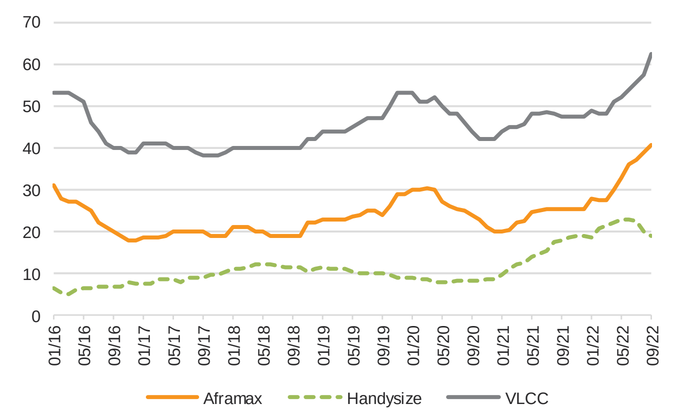
We see potential upside catalysts for global tanker freight rates as Russia – Ukraine crisis is reshaping global oil trade flows. Demand for tankers (in form of both dirty and clean tankers) has been climbing since the EU imposed sanctions on Russia, and we expect this trend to keep increasing in coming times as the EU embargo comes into effect later this year. Notably, as a feasible alternative source for gas in electricity generation, European diesel demand is expected to accelerate in coming months, lifting demand for clean tankers. Furthermore, the diversion of Russian oil and fuels has changed the shipping routes, making the voyages longer and putting pressure on global tanker shipping market.

Figure 350: Tanker freight rates are rising due to the reconfiguration of global energy trade flow (Unit: US$/day)



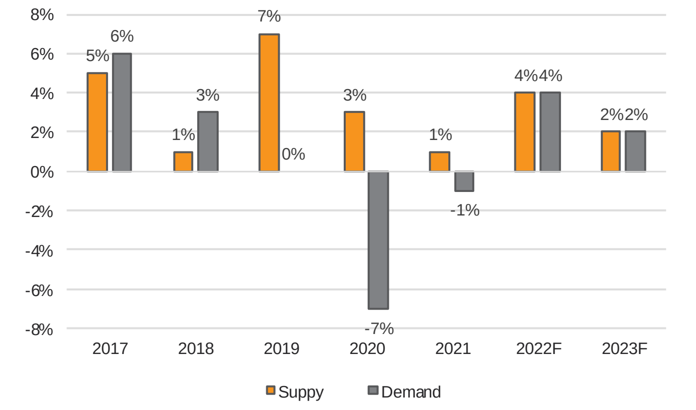
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 351: Average prices of 10-year-old vessels significantly increased this year (Unit: US$m)



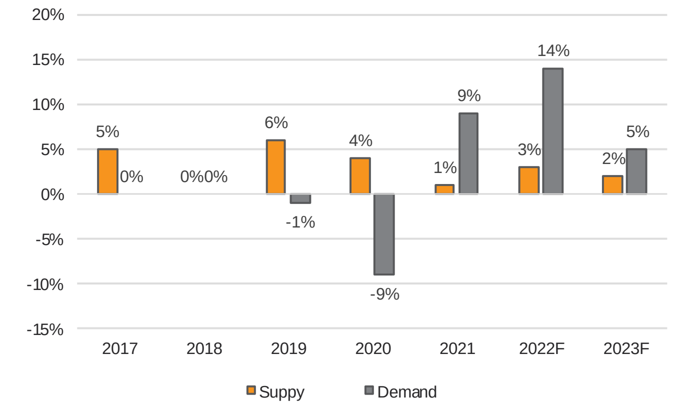
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 352: Supply - Demand balance of crude oil shipping market (Unit: % growth)



Source: CLARKSONS RESEARCH

Figure 353: Supply - Demand balance of refined products shipping market (Unit: % growth). We see clean tanker fleet growth is relatively low compared to the rising demand



Source: CLARKSONS RESEARCH

For domestic market, we see demand for O&G transportation to be gradually increase in the couple of years thanks to BSR and NSR to operate at full capacity (except for BSR in 2023 due to periodic maintenance) and the growing petroleum demand in Vietnam. Besides, the charter rates have recovered to the pre-Covid level from 2022, boding well for O&G transporters. Thus, we believe domestic market still be pedestal for Vietnam's O&G transporters with the stable contribution in the companies' results as current charter price structure ensures a stable gross margin level for the transporters.

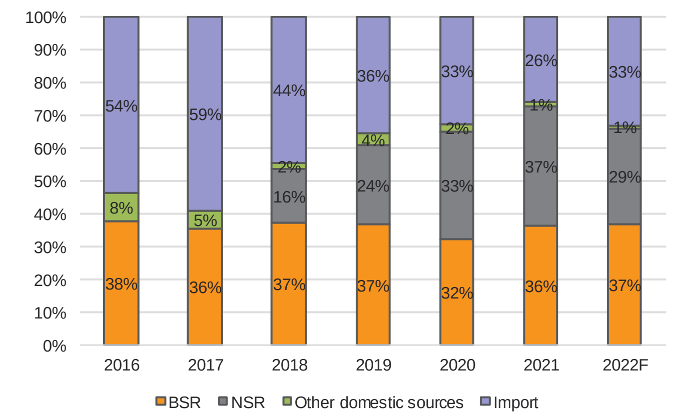
Riding on the global rising tanker rates, we believe the transportation company with high exposure on international market and possessing the leading position in domestic market like PVT will be a key beneficiary.

Downstream: Potential bounce back for petroleum distribution in 2023F

Petroleum distribution: Looking forward to a better year ahead

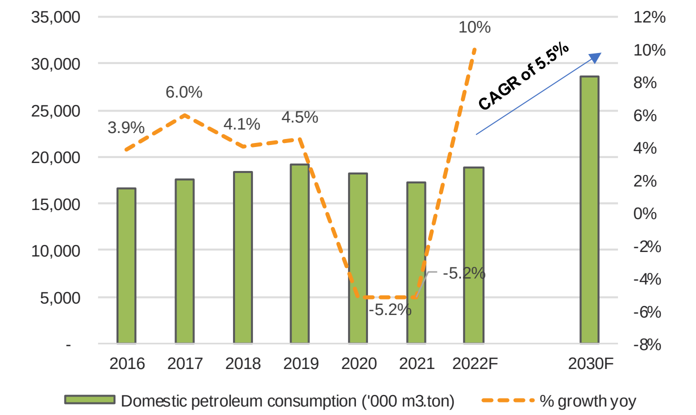
2022 is a difficult year for petroleum distributors due to the instability of domestic market. Nghi Son problem in 1H22 and the slow adjustment of costs constituting the base price put distributors to face headwinds, causing the domestic supply shortage. Hence, major distributors like PLX, OIL might raise imported sources to ensure petroleum for domestic market amidst the wild global oil market and high transportation costs, negatively impacting on the company's profitability.

Figure 354: Proportion of Vietnam's petroleum supply. Import proportion increases in 2022 due to Nghi Son problem in 1H22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 355: Vietnamese petroleum consumption is projected to grow 5.5% annually in FY22-30F



Source: MOIT, VNDIRECT RESEARCH

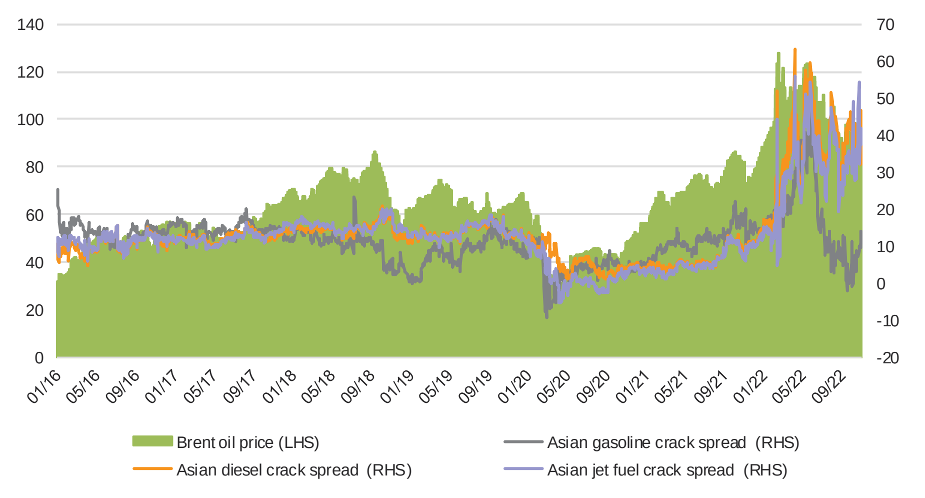
For 2023F, we believe in the potential bounce back of giant distributors from 2022 low base thanks to some following reasons:

- Global oil price is expected to be more stable than the wild 2022, which could reduce risks of inventories revaluation.
- Recently, the Government has issued the mechanism for PVN to handle the financial problem with Nghi Son Refinery (NSR). This will be a premise for NSR to stably operate in coming years, increasing domestic supply proportion, and reducing import costs for distributors.
- Costs constituting the base fuel price have been adjusted this November by the authority. We believe this adjustment will more closely reflect market movement, reducing pressure for petroleum distributors.
- Vietnam's petroleum demand is forecasted to attain a CAGR of 5.5% in 2022-30F, underpinning for distributors to grow in coming years. We also believe that giant distributors like PLX, OIL could gather more market share from other small players, which are likely to be removed from the market after the hard 2022.

Refinery: Crack spreads to be resilient on the high base will bode well for refineries, but earnings have likely peaked out in 2022

In 1H22, refined crack spreads especially diesel crack spread have surged globally since Russia attacker Ukraine in February due to: (1) fears of supply shortage in Europe as buyers avoid Russian supplies following numerous sanctions, (2) shutdowns in the U.S. and Europe, and lower refinery runs in China, and (3) an increase in trucking activities, stretching fuel demand. Though gasoline crack spread has significantly dropped since July, diesel crack spread remained strong thanks to its multiple usages such as a fuel for motor vehicles and as a source of power for diesel generators (to replace gas-fired power). This has brought a huge profit for refineries like BSR, which recognized a record earnings in 9M22.

Figure 356: Crack spreads have wildly increased since Russia attacked Ukraine (Unit: US$/bbl)



Source: BLOOMBERG, VNDIRECT RESEARCH

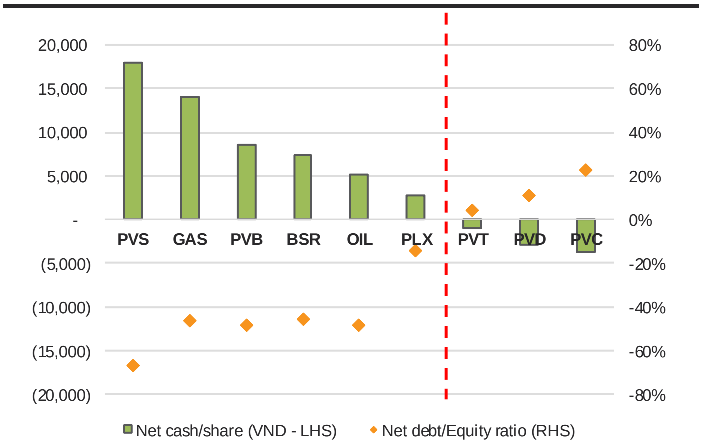
In general, we expect refining margin to ease in 2023F but remain high compared to pre-war level due to: (1) demand recovery after the pandemic, (2) tight oil and refined products market due to the lingering Russia – Ukraine crisis, particularly in Europe, and (3) the decarbonisation pathway to net zero limiting the increase in refining capacity in long-term. Though, this high base will still bode well for refineries in coming years, refineries earnings are likely to significantly slide in 2023F from the record 2022 level.

Mixed impact of rising interest rates and FX fluctuations on O&G listed companies

Higher interest rates will take significant effects on the whole economy as well as O&G industry in coming period. We see the mixed impact of rising interest rates environment into O&G listed companies regarding the companies' financial position:

- For companies with strong net cash position and low net debt/equity ratio, we believe the increasing interest rates environment is likely to bring benefits to these companies in short-term, supporting for the company's performance. The impact level of this issue will depend on the contribution of net interest income into the company's results. We see PVS and OIL to be the key beneficiaries.
- In contrast, some companies with high leverage ratio (PVD, PVT and PVC) will face headwinds from higher interest rates. Specially, PVD should be put under high pressure from rising interest rates amid its core business performance has recovered slowly.

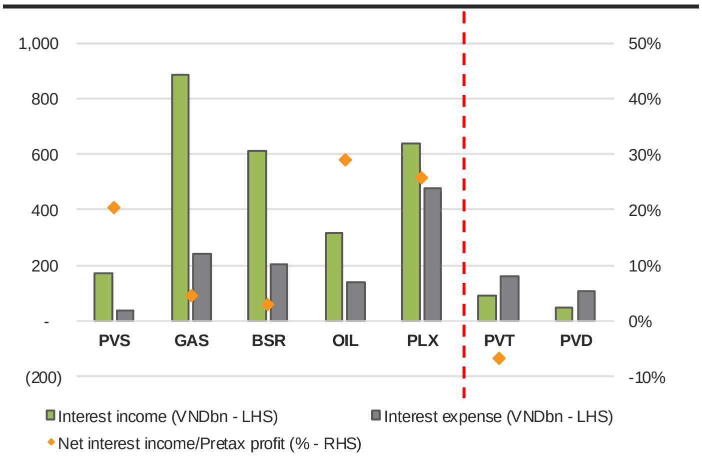
Figure 357: The companies with strong net cash position and low net debt/equity ratio will gain benefits from the rising interest rates



**Data as at end-3Q22*

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 358: Impact level of rising interest rates will depend on net interest income contribution into the companies' results



**Data of 9M22 (No data for PVD due to loss in 9M22)*

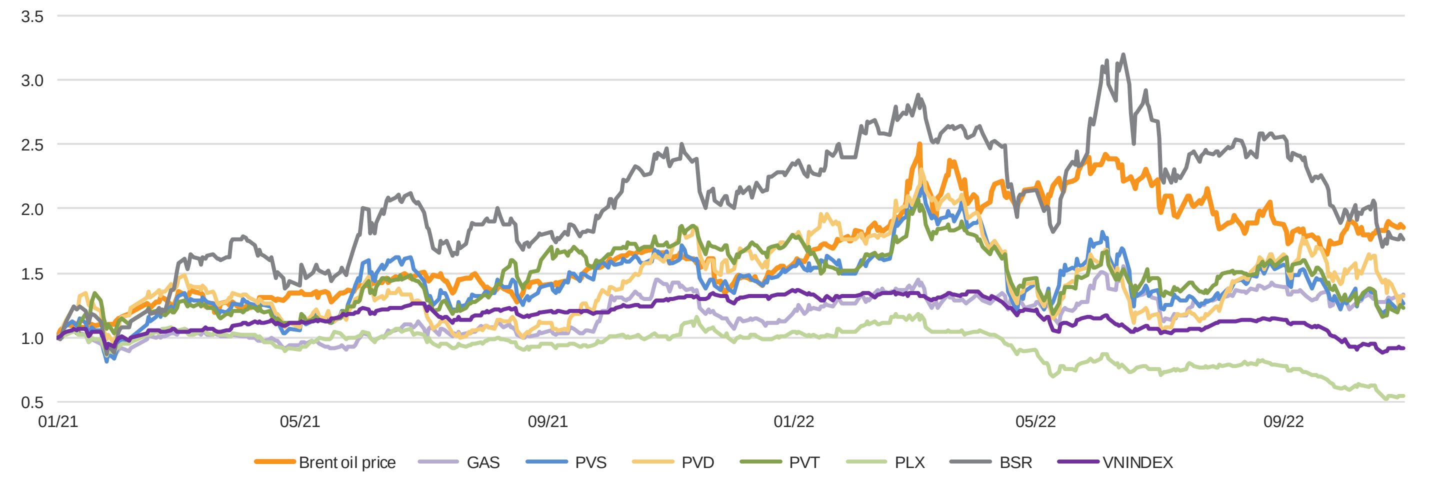
Source: VNDIRECT RESEARCH, COMPANY REPORTS

For FX risk, as most O&G companies' products are anchored in US$, these companies' revenue will rise along with higher US$. This could offset to FX loss from revaluation of US$-debt for working capital. Thus, we see minimal risk against US$ rising for these company such as GAS, PVS and BSR.

On the other hand, some downstream companies like PLX, OIL face headwinds from the stronger US$ as their input petroleum prices are anchored to US$ while selling prices are based on VND. Besides, the companies with high proportion of US$-based borrowing such as PVD and PVT will face higher risks from FX loss than others when US$ climbs.

Stock picks: We prefer GAS, PVS and PLX

Figure 359: The movement of O&G share prices versus Brent oil price and VN-Index since 2021. Thanks to high correlation with oil price, most O&G share prices have outperformed VN-Index this year



Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 22 NOV)

Figure 360: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK GAS	140,200	ADD	GAS is a good selection during turbulence thanks to: (1) Strong net cash position of ~VND27,000bn at end-3Q22 and minimal risk to stronger US$. (2) Its dominant position in a high entry barrier industry like wholesale gas distribution. (3) high level oil price environment (~above US$80/barrel) is expected to linger to 2024F which will support for GAS' gross margin to stay at around 19% in FY23-24F. Overall, we forecast GAS to post a record NP in FY22F with growth rate of 63.4% yoy. Earnings are expected to slightly retreat 1.1%/3.2% yoy in FY23-24F due to FY22F high base and oil price cooling down.
2	STOCK PICK PVS	31,700	ADD	We like PVS for both short and long term with net profit CAGR of 26.7% in FY22-24F, regarding to: (1) In short-term, FSO/FPSO affiliates will still be a solid contributor for PVS, accounting for 89%/77%/68% of PVS' NP in FY22-24F, in our estimates. (2) In long-term, we expect the leading firm in Vietnam providing technical services in O&G sector like PVS to gain benefits from the potential new investment cycle into energy industry, particularly major gas fields projects like Block B and offshore windfarm investments trend in Vietnam (3) Strong net cash position of over VND8,600bn (equivalent to VND18,000/share) at end-3Q22 will help the company gain benefits from the rising interest rates environment.
3	STOCK PICK PLX	45,600	ADD	We expect a giant petroleum distributor like PLX to strongly rebound in FY23F due to: (1) Domestic supply re-stabilization as Nghi Son problem is handled. (2) Adjustments on costs constituting fuel base prices which will reduce pressure for petroleum distributors. (3) The growing petroleum demand in Vietnam (+5.5% CAGR in FY22-30F) Overall, we forecast PLX to achieve a NP CAGR of 17.1% in FY22-24F.
4	PVT	26,300	ADD	We have a positive view on PVT in short-term and medium-term by: (1) Tanker freight rates is rising globally due to the reconfiguration of global energy trade flow triggered by Russia – Ukraine crisis, benefiting for O&G transporters. (2) PVT has actively rejuvenated its tanker fleets over the past few years, creating the favorable condition to sail on the rising tanker freight rates. Overall, we forecast PVT to attain a net profit (NP) CAGR of 13% in FY22-24F.

5	BSR	27,300	ADD	Though earnings have likely peaked out in FY22, we believe BSR is a good investment choice as: (1) Refining margin is expected to be resilient on the high base due to the lingering geopolitical crisis, boding well for refineries like BSR in the next couple of years. (2) BSR remains high operating utilization rate of above 100% for many years. (3) In long-term, we believe the upgrade and expansion project to be a key growth driver for BSR We forecast BSR's NP to decrease by 40.1% yoy in FY23F due to periodic maintenance and crack spreads cooling down (but still 37% higher than FY21 level), before back to growth trajectory in FY24F with a growth rate of 12.2% yoy.
6	PVD	21,700	ADD	Despite short-term headwinds from rising interest rates environment, we believe in the company brighter prospect in coming year as: (1) All PVD's rigs secure drilling contracts for 2023, leading to our 2023F jack-up utilization forecast of 95% (versus 86% in 2022F). Notably, some rigs have been signed long-term contracts, such as PVD III in Malaysia, and PVD II in Indonesia. (2) The company will earn higher day rate for drilling contracts next year (+23% yoy) thanks to the stronger drilling market in SEA. Overall, we forecast PVD's earnings to breakout from FY23F onwards thanks to strong recovery in drilling business.

Source: VNDIRECT RESEARCH

Figure 361: FY22-24F earnings forecasts

	GAS			BSR			PLX		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	99,857	105,448	105,494	156,311	125,681	133,470	291,254	285,971	277,340
% growth	*26.4%*	*5.6%*	*0.0%*	*54.6%*	*-19.6%*	*6.2%*	*72.3%*	*-1.8%*	*-3.0%*
Gross margin (%)	*20.6%*	*19.4%*	*18.8%*	*10.8%*	*8.4%*	*8.9%*	*3.8%*	*5.1%*	*5.6%*
EBITDA margin (%)	*21.3%*	*20.5%*	*20.4%*	*11.4%*	*9.3%*	*9.8%*	*1.0%*	*2.3%*	*2.8%*
Net profit (VNDbn)	14,168	14,009	13,561	15,338	9,192	10,316	1,009	3,875	4,564
% growth	*63.4%*	*-1.1%*	*-3.2%*	*128.4%*	*-40.1%*	*12.2%*	*-64.5%*	*284.2%*	*17.8%*
EPS (VND/share)	7,403	7,319	7,085	4947	2965	3,327	779	2995	3,527
BVPS (VND/share)	30,024	32,742	36,005	16,336	18,005	19,848	18,720	19,964	20,935
Net cash/share (VND/share)	14,022	15,462	17,439	7,320	8,826	7,384	1,846	1,831	2,715
D/E	0.15	0.15	0.14	0.06	0.11	0.20	0.55	0.56	0.51
Dividend yield (%)	3.7%	3.7%	3.7%	2.2%	5.0%	7.2%	4.6%	4.6%	9.5%
ROAE (%)	26.1%	23.3%	20.6%	34.8%	17.3%	17.6%	4.1%	15.5%	17.2%
ROAA (%)	17.5%	16.1%	14.6%	21.4%	11.5%	11.7%	1.5%	5.5%	6.3%

Source: VNDIRECT RESEARCH

Figure 362: FY22-24F earnings forecasts (continued)

	PVS			PVT			PVD		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	16,149	20,129	19,613	8,448	9,193	9,724	5,385	6,203	6,380
% growth	*13.7%*	*24.6%*	*-2.6%*	*13.2%*	*8.8%*	*5.8%*	*34.8%*	*15.2%*	*2.9%*
Gross margin (%)	*4.9%*	*5.7%*	*6.8%*	*16.9%*	*17.1%*	*17.5%*	*9.6%*	*17.5%*	*19.1%*
EBITDA margin (%)	*2.5%*	*3.7%*	*4.9%*	*25.2%*	*24.9%*	*24.9%*	*15.7%*	*23.5%*	*24.3%*
Net profit (VNDbn)	687	1,001	1,223	814	859	952	-11	479	616
% growth	*14.3%*	*45.6%*	*22.2%*	*23.4%*	*5.5%*	*10.7%*	*-156.4%*	*NA*	*28.7%*
EPS (VND/share)	1,438	2,093	2,559	2516	2655	2,940	-20	860	1,107
BVPS (VND/share)	26,970	27,364	26,829	16,031	16,566	17,577	24,233	24,780	25,371
Net cash/share (VND/share)	16,987	16,848	16,818	-2,261	-2,688	-1,015	-2,450	-1,779	-436
D/E	0.09	0.09	0.09	0.60	0.64	0.60	0.27	0.26	0.24
Dividend yield (%)	4.2%	5.2%	5.2%	3.0%	4.2%	6.0%	0.0%	0.0%	0.0%
ROAE (%)	5.6%	7.7%	9.4%	15.9%	17.1%	19.3%	-0.1%	3.5%	4.4%
ROAA (%)	2.8%	4.0%	4.9%	6.4%	6.4%	7.0%	-0.1%	2.3%	2.9%

Source: VNDIRECT RESEARCH

Figure 363: Oil & Gas sector comparison

Company	Ticker	Price	Target Price	Recom.	Mkt Cap	P/E (x)		P/B (x)		3-yr EPS	ROE (%)		ROA (%)	
		LC$	LC$		US$ m	FY22F	FY23F	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F
Gas distribution companies														
PV GAS	**GAS VN**	**109,200**	**140,200**	**ADD**	**8,414**	**14.8**	**14.9**	**3.6**	**3.3**	**16.1%**	**26.1%**	**23.3%**	**17.5%**	**16.1%**
Indraprastha Gas	IGL IN	414.9	NA	NR	3,555	19.4	17.1	3.5	3.1		20.6%	20.0%	NA	NA
Toho Gas Ltd	9533 JP	2,745	NA	NR	2,046	17.2	16.8	0.8	0.7		3.6%	4.2%	2.1%	2.5%
Petronas Gas Bhd	PTG MK	16.8	NA	NR	7,273	18.6	17.6	2.5	2.4		13.3%	14.1%	9.5%	9.9%
China Gas Holdings	384 HK	8.4	NA	NR	5,839	6.0	5.2	0.7	0.6		12.1%	12.5%	5.0%	5.3%
PTT Plc	PTT TB	33.3	NA	NR	26,276	8.5	8.2	0.9	0.9		10.0%	10.3%	3.8%	4.1%
Average						*14.1*	*13.3*	*2.0*	*1.8*		*14.3%*	*14.1%*	*7.6%*	*7.6%*
Median						*16.0*	*15.9*	*1.7*	*1.6*		*12.7%*	*13.3%*	*5.0%*	*5.3%*
Oil services companies														
PTSC	**PVS VN**	**19,300**	**31,700**	**ADD**	**371**	**13.4**	**9.2**	**0.7**	**0.7**	**26.7%**	**5.6%**	**7.7%**	**2.8%**	**4.0%**
Malaysia Marine Eng	MMHE MK	0.45	NA	NR	156	NA	16.8	0.9	0.9		1.2%	2.0%	1.1%	1.4%
Yinson Holdings	YNS MK	2.20	NA	NR	1,393	18.1	8.8	1.1	1.0		9.7%	12.4%	3.4%	4.7%
Sembcorp Marine	SMM SP	0.13	NA	NR	2,982	NA	NA	1.2	1.1		-6.5%	-0.4%	-2.3%	-0.2%
Hyundai Engineering	000720 KS	40,300	NA	NR	3,314	7.5	8.8	0.6	0.5		8.0%	6.5%	3.4%	3.0%
Average						*13.0*	*10.9*	*0.9*	*0.8*		*3.6%*	*5.7%*	*1.7%*	*2.6%*
Median						*13.4*	*9.0*	*0.9*	*0.9*		*5.6%*	*6.5%*	*2.8%*	*3.0%*
Offshore drilling companies														
PV Drilling	**PVD VN**	**14,200**	**21,700**	**ADD**	**318**	**NA**	**16.5**	**0.6**	**0.6**	**215.8%**	**-0.5%**	**3.5%**	**-0.3%**	**2.3%**
Borr Drilling Ltd	BORR NO	49.7	NA	NR	1,125	11.1	4.2	1.0	1.0		-21.9%	8.1%	-15.5%	27.1%
Velesto Energy Bhd	VEB MK	0.14	NA	NR	251	8.1	14.5	0.5	0.5		-0.7%	2.4%	-1.1%	2.0%
Valaris Ltd	VAL US	66.6	NA	NR	5,003	21.5	7.4	4.0	3.3		14.5%	23.0%	NA	NA
Transocean	RIG US	4.1	NA	NR	2,953	NA	11.2	0.3	0.3		-3.8%	-2.0%	-0.8%	1.2%
Average						*13.5*	*10.8*	*1.3*	*1.1*		*-2.5%*	*7.0%*	*-4.4%*	*8.1%*
Median						*11.1*	*11.2*	*0.6*	*0.6*		*-0.7%*	*3.5%*	*-1.0%*	*2.1%*
Transportation companies														
PVTrans	**PVT VN**	**16,800**	**26,300**	**ADD**	**219**	**6.7**	**6.3**	**1.0**	**1.0**	**13.0%**	**15.9%**	**17.1%**	**6.4%**	**6.4%**
Vietnam Tanker JSC	VTO VN	7,000	NA	NR	23	NA	NA	NA	NA		NA	NA	NA	NA
Great Eastern Shipping	GESCO IN	631	NA	NR	1,103	5.2	8.1	NA	NA		20.4%	11.6%	NA	NA
Thoresen Thai Agencies PCL	TTA TB	8.0	NA	NR	401	5.7	6.7	0.6	0.5		12.0%	8.3%	9.2%	6.0%
MISC Bhd	MISC MK	7.2	NA	NR	7,023	18.2	16.7	0.9	0.9		5.0%	5.6%	3.0%	3.3%
Average						*9.0*	*9.4*	*0.8*	*0.8*		*13.3%*	*10.6%*	*6.2%*	*5.2%*
Median						*6.2*	*7.4*	*0.9*	*0.9*		*14.0%*	*10.0%*	*6.4%*	*6.0%*
Oil refinery companies														
Binh Son Refining	**BSR VN**	**13,900**	**27,300**	**ADD**	**1,735**	**2.8**	**4.7**	**0.9**	**0.8**	**15.4%**	**34.8%**	**17.3%**	**21.4%**	**11.5%**
IRPC	IRPC TB	3.0	NA	NR	1,696	15.3	12.0	0.7	0.7		5.0%	6.4%	2.4%	3.0%
Star Petroleum Refining	SPRC TB	11.2	NA	NR	1,344	4.3	7.6	1.2	1.1		31.9%	15.5%	18.8%	9.1%
PTT Global Chemical	PTTGC TB	45.8	NA	NR	5,707	17.9	9.5	0.7	0.7		2.0%	6.8%	1.5%	3.0%
Hindustan Petroleum	HPCL IN	212	NA	NR	3,688	5.3	5.0	0.9	0.9		-9.9%	16.3%	NA	NA
Average						*9.1*	*7.8*	*0.9*	*0.8*		*12.8%*	*12.5%*	*11.0%*	*6.7%*
Median						*5.3*	*7.6*	*0.9*	*0.8*		*5.0%*	*15.5%*	*10.6%*	*6.1%*
Petroleum distribution companies														
Petrolimex	**PLX VN**	**26,200**	**45,600**	**ADD**	**1,340**	**33.6**	**8.7**	**1.4**	**1.3**	**17.1%**	**4.1%**	**15.5%**	**1.5%**	**5.5%**
PVOil	OIL VN	7,500	NA	NR	312	8.1	11.1	1.3	0.7		8.9%	6.6%	4.1%	NA
PTT Oil & Retail	OR TB	24.4	NA	NR	8,101	20.7	21.4	2.7	2.4		13.0%	11.7%	6.4%	5.8%
Petronas Dagangan Bhd	PETD MK	21.4	NA	NR	4,655	36.7	30.5	4.0	4.0		10.6%	13.0%	5.1%	6.9%
Thai Oil PCL	TOP TB	53.3	NA	NR	3,291	3.3	9.4	0.8	0.8		24.3%	7.7%	8.7%	3.2%
Average						*20.5*	*16.2*	*2.0*	*1.8*		*12.2%*	*10.9%*	*5.2%*	*5.3%*
Median						*20.7*	*11.1*	*1.4*	*1.3*		*10.6%*	*11.7%*	*5.1%*	*5.6%*

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 22 NOV)

Sector note

AGRIBUSINESS: WHAT'S ON THE MENU IN 2023F?

- Global grain and palm oil price cooling down in 2023F will have positive impact to meat and edible oil producers' gross margin.
- Meanwhile, we expect sugar and rice producers will benefit from rising price of domestic sugar and export rice.
- We like BAF and put DBC, QNS, and KDC in our watchlist.

Cost pressure ease, gross margin rebound in FY23F across segment

Global grain prices are likely to decline in FY23F thus we expect animal feed cost would cool down gradually. This will benefit to animal feed, meat producers and fisheries thanks to lower input price for animal feed. Meanwhile, we expect raw palm oil price to decline 8% yoy in 2023F, which ease pressure from higher material costs on edible oil producers. Therefore, we expect these producers to enjoy gross margin rebound in FY23F thanks to material cost pressure ease.

Rice and sugar price likely on the rise

We believe domestic sugar price will be supported in 2023F by the tailwind of new Decision on the anti-dumping tax in Aug 2022. Besides, Vietnam's rice exports will benefit from India rice exports restriction. With higher duty, Indian rice price will become uncompetitive and likely prompt buyers to shift towards Thailand and Vietnam. Thus, we expect rice and sugar producers to enjoy higher GM across the board thanks to increasing output price.

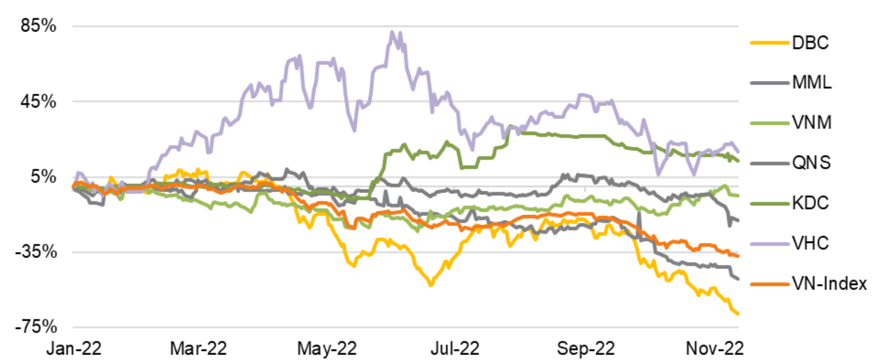
Potential impact of stronger US$ on Vietnam agribusiness

Stronger US$ has put pressure on US$/VND exchange rate, making US$/VND rate on the interbank rise to the highest level in history. In our view, rising exchange rate will have different effects on producers. Rice and seafood exporters are likely key winners, enjoying higher export price. Meanwhile, there is potential negative impact for edible oil, meat, dairy and sugar producers.

Our stock pick is BAF while DBC, QNS and KDC will be on our watchlist

We see BAF as a relatively defensive pick with earnings growth of 16.2% over FY23-24F and encouraging profitability (ROE >15%) among the rising cost-push inflation and tightening capital market. Meanwhile, QNS will be added on our watchlist as QNS could benefit from the sugar price upward trend. We also put KDC and DBC in our watchlist as KDC's growth potentials already priced in while weak NP growth in FY22 may affect DBC's share price in short term.

Figure 364: Stock price movements of agribusiness under our coverage since 2022



Source: VNDIRECTS RESEARCH, BLOOMBERG

Analyst(s):

Hien Ha Thu

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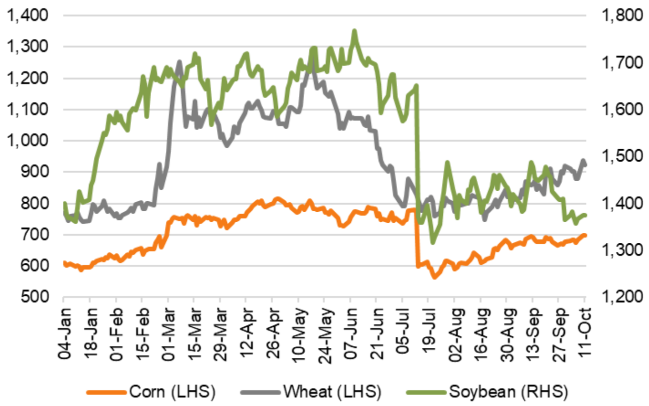
Agribusiness 2022 snapshot

Global grain prices (US$/bu) may have peaked

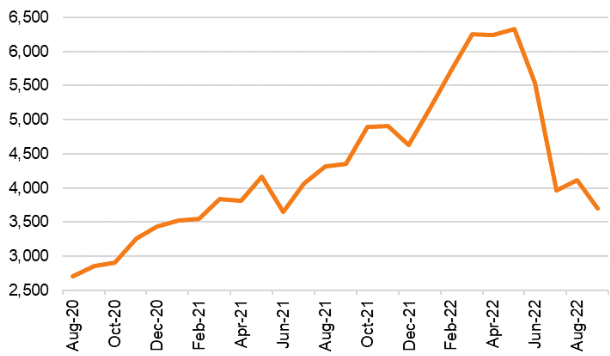
In our view, commodity prices are likely to decline in 2023F thanks to 1) initial fears of grain shortages due to crisis have gradually subsided as other producers can step in to increase supply, 2) Ukraine grain shipments have resumed following agreement to end the blockade of Ukrainian ports, and 3) Fertiliser prices have also fallen and could boost grain harvests by increasing crop yields.



Source: VNDIRECT RESEARCH, TRADING ECONOMIC

Palm oil (MYR/tonne) is forecasted to decline in 2023F

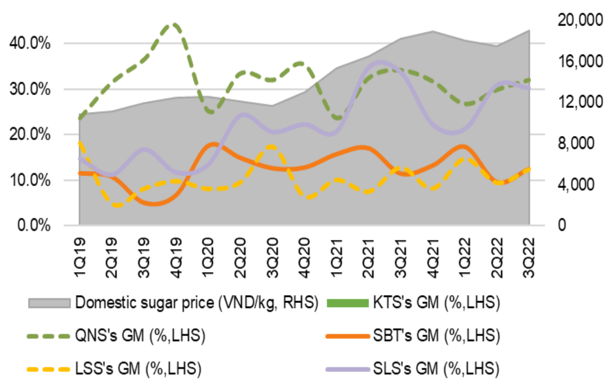
According to the U.S. Department of Agriculture, global palm oil output is forecast to jump by 8% over 2022-23F, after a flat 2021 will help palm oil prices continue the reduction trend in 2023F. Thus, we expect 2022/23F raw palm oil price to average at 4,800/4,400 Myr/tonne, corresponding to +17% yoy/-8% yoy in 2022/23F.



Source: VNDIRECT RESEARCH, TRADING ECONOMIC

Domestic sugar regains its position

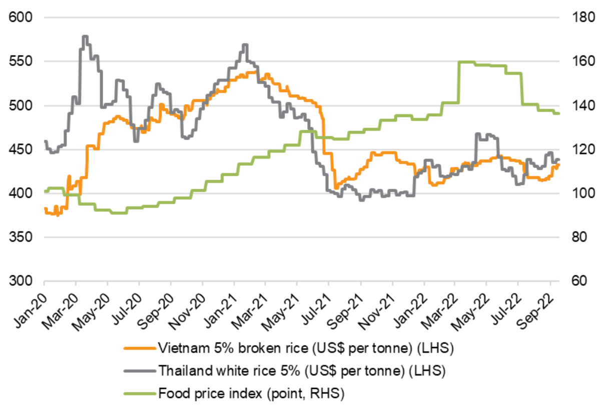
Based on our estimate, the smuggled sugar price after imposition of anti-dumping tax will be about 15% higher than the domestic sugar price, thus the new tax will create a competitive advantage for domestic sugar price. Besides, the domestic sugar supply only meets 35-40% of the domestic demand, therefore the domestic sugar price will follow the global sugar increasing price.



Source: VNDIRECT RESEARCH, VSSA, FIINPRO

Rice prices soar as India restricts rice exports

We observe that white rice 5% price has increased significantly by 11.8% ytd/2.3% mom/1.1% yoy on 14 Sep, just a short period of time since India officially announced the export restriction.



Source: VNDIRECT RESEARCH, BLOOMBERG

Global food prices may have peaked

Meat producers: Cost pressure ease, gross margin rebound in FY23F

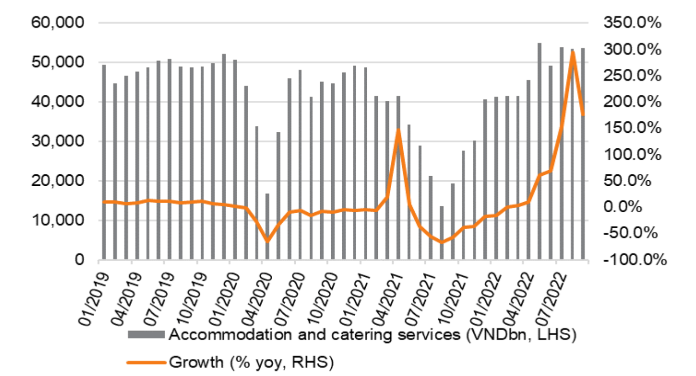
Based on our estimate, aggregated revenue of listed meat producers plunged 31.0% yoy in 9M22 and NP also declined 6.2% yoy. In our view, BAF and MML have excluded their non-core businesses, together, dragging the sector revenue. Meanwhile total gross profit of meat producers weakened by 31.0% yoy in 9M22 due to higher input material price for animal feed and lower output price. Based on our estimate, wheat, corn, and soybean meal prices increased strongly by 37.9%/19.8%/10.7% yoy in 9M22.

Figure 365: 9M22 earnings recap of meat production companies (unit: VNDbn)

Ticker	Meat producers	9M21 revenue	9M22 revenue	Change (yoy)	9M21 gross margin	9M22 gross margin	Change (yoy)	9M21 NP	9M22 NP	Change (yoy)
DBC	Dabaco Group	7,752	9,339	20.5%	19.1%	11.0%	-8.2% pts	718	229	-68.1%
MML	Masan MeatLife Corporation	15,152	3,232	-78.7%	13.0%	7.3%	-5.6% pts	409	-3	From net profit to net loss
VSN	Vissan JSC	3,381	2,800	-17.2%	22.5%	23.8%	1.3% pts	120	98	-18.6%
NCG	Nova Consumer Group	2,664	3,450	29.5%	16.3%	11.0%	-5.3% pts	329	247	-25.0%
BAF	BAF Viet Nam Agriculture JS	9,066	4,889	-46.1%	3.8%	8.6%	4.8% pts	245	286	16.4%
HAG	Hoang Anh Gia Lai JSC	1,364	3,471	154.5%	20.9%	21.5%	0.6% pts	42	890	2024.1%

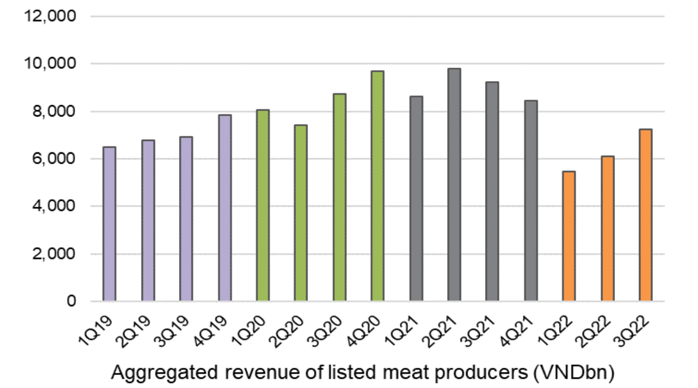
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 366: Domestic demand increased steadily in 9M22



Source: GSO, VNDIRECT RESEARCH

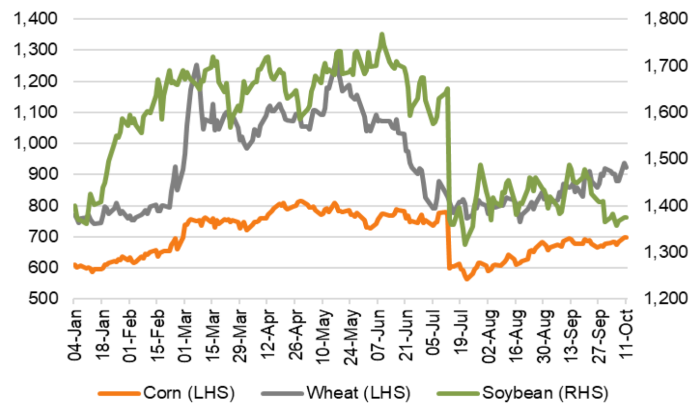
Figure 367: 4Q is usually the peak season of meat consumption



Source: FIINPRO, VNDIRECT RESEARCH.

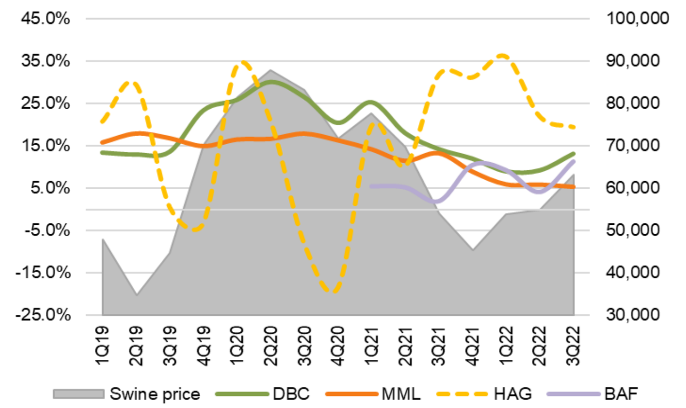
(*) The Covid-19 accompanied by a sharp drop in swine prices weighed on FY21 results.

Figure 368: Global grain prices declined in 3Q22 after reaching a peak at the end of 2Q22 (US$/bu)



Source: TRADING ECONOMICS, VNDIRECT RESEARCH

Figure 369: Swine price (VND/kg, RHS) and meat producers' gross margin (%, LHS) in 1Q19-3Q22



Source: FIINPRO, VNDIRECT RESEARCH, ANOVA FEED

We believe headwinds will subside in 2023F with meat producers as:

Swine prices are expected to increase 5.0% yoy in 2023F as: 1) the recovery of eat-out demand, and 2) supply shortage as farmers hesitate in re-herding due to the recent drop in swine prices while feed prices are high. Currently, farming households account for 60% of the total pork supply in Vietnam.

Grain prices are likely to decline in 2023F thanks to 1) initial fears of grain shortages due to crisis have gradually subsided as other producers can step in to increase supply, 2) Ukraine grain shipments have resumed following agreement to end the blockade of Ukrainian ports, and 3) Fertiliser prices have also fallen and could boost grain harvests by increasing crop yields. As domestic feed prices have increased more slowly than global agricultural prices, we expect animal feed cost would cool down gradually in 2023F.

We expect meat consumption increase by 10-15% yoy in 4Q22F as this is the peak consumption season. For 2023F, we believe meat demand will remains unabated thanks to 1) the government's plan to increase basic wages to around 20.8% in 2023F and 2) international tourist volume recover, leading to a strong recovery in entertainment, accommodation, and catering service.

Thus, we believe meat producers record positive revenue growth in FY23F. DBC and BAF's FY23F net revenue will increase by 3.5% yoy and 18.0% yoy, respectively. Amid lower input animal feed price and a slight increase in selling price, we expect meat producers' GM to improve in FY23F.

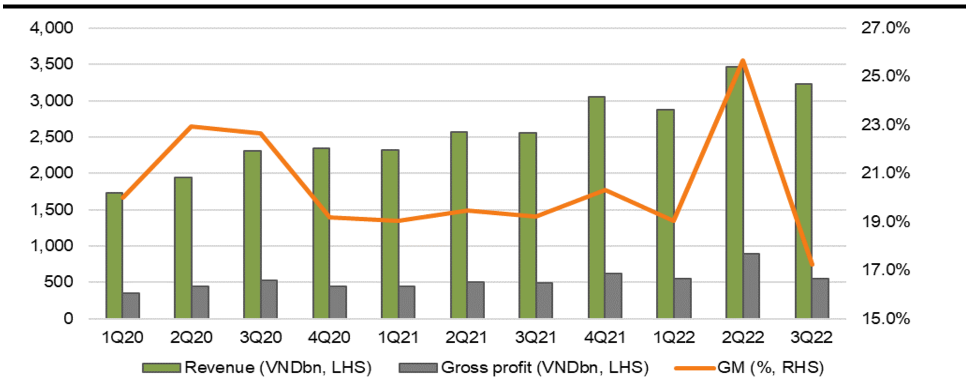
Sector risks include:

- Prolonged tensions between Russia and Ukraine
- As about 80% of input materials for animal feed production are imported, the increase in US$/VND rate will lead to the higher raw materials price for animal feed production.
- The African Swine Fever (ASF) disease could affect meat supply in 2023F. According to the Department of Agriculture and Rural Development, the whole country currently has 53 outbreaks in 53 districts across 18 provinces. The total number of infected pigs was 3,164 heads while the total number of dead was 3,259 heads. Amid the vaccine has not given specific positive results yet, the ASF still has the risk of reducing the pig supply.

Edible oil producers: Pressure from rising input costs has cooled down

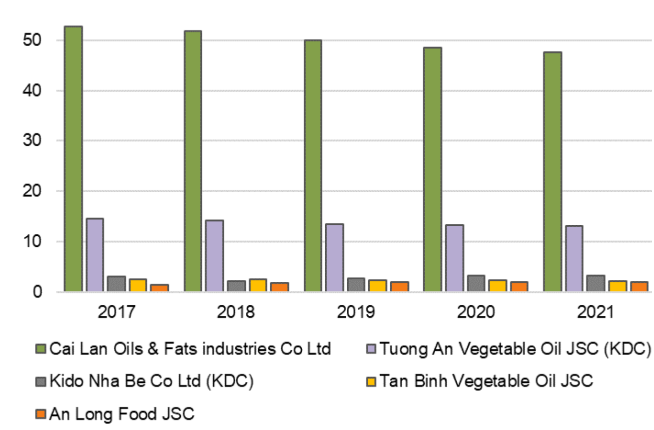
Following the global crisis since Feb 22, the price of palm oil (accounting for about 90% of imported raw edible oil) has increased significantly to around 6,000 – 7,000 Myr/tonne during Mar– early Jun 22 (44% - 70% vs. 2021 average price). This caused a sharp increase in material cost of edible oil companies, typically KDC. However, per our estimate, KDC has raised their selling prices of cooking oil by 40% yoy in 1H22, thus gross margin still expanded 1.6% pts 9M22.

Figure 370: KDC's revenue and GM from 1Q20 to 3Q22



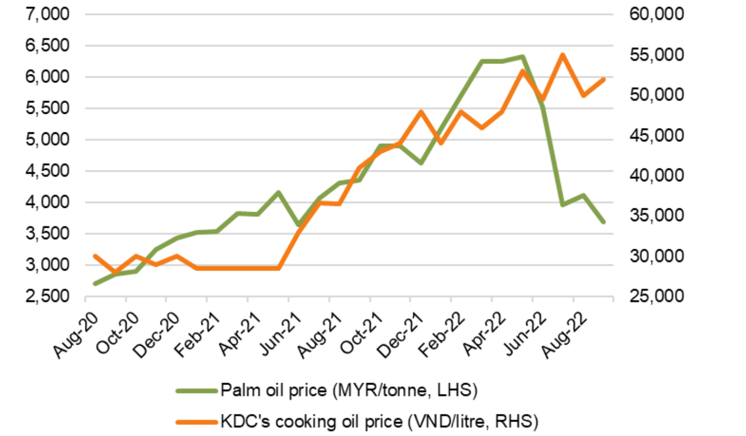
Source: VNDIRECTS RESEARCH, BLOOMBERG

Figure 371: Market share of top 5 biggest edible oil producers in domestic market (unit: %)



Source: EUROMONITOR, VNDIRECT RESEARCH

Figure 372: Palm Oil price and KDC's cooking oil price Aug 2020 to Sep 2022



Source: TRADING ECONOMIC, VNDIRECT RESEARCH

We expect 2023 will be a better year for edible oil producers thanks to lower input cost. As the Indonesian government controlled raw palm oil, its price dip sharply to around 4,000 – 4,200 Myr/tonne during the middle Jun 22 – Aug 22, which equates to a roughly 43% drop from the Apr 22 peak and on par with the 2021 average price. Moreover, according to the U.S. Department of Agriculture, global palm oil output is forecast to jump by 8% over 2022/23F, after a flat 2021 will help palm oil prices continue the reduction trend in 2023F. Thus, we expect 2022/23F raw palm oil price to average at 4,800/4,400 Myr/tonne, corresponding to +17% yoy/-8% yoy in 2022/23F.

For domestic market, we believe retail edible oil price will also follow the same trend as raw palm oil price. In which, KDC's edible oil price may decline at a slower rate as the company is holding second position of market share in edible oil market, accounting for more than 30% market share in Vietnam. Thus, KDC has a good pricing power to maintain their edible oil retail prices. We expect KDC's revenue in FY22F will rise 24.3% yoy, then soften 2.4% yoy in FY23F on lower selling price but GM to widen to 15.2% in FY23F.

Sector risks include:

- Political instability or lower-than-expected palm oil production leads to higher global palm oil prices, resulting in higher input costs for edible oil production.

Sugar producers: Domestic sugar regains its position

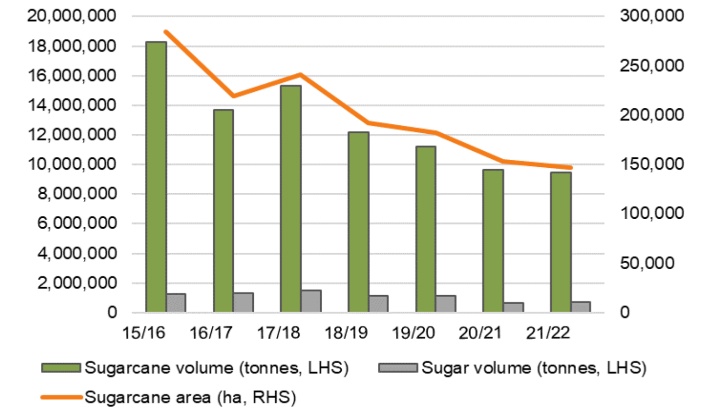
Based on our estimate, aggregated revenue of listed sugar producer companies increased 16.7% yoy in 9M22 and NP rose 5.4% yoy. Top companies to record strongest 9M22 earnings growth were KTS (+72% yoy) and LSS (+47% yoy). We believe total revenue increased thanks to 1) 9.0% yoy increase in sugar price and 2) about 7-9% yoy increase in sale volume. Meanwhile total gross margin of sugar producers rose 2.9% pts yoy in 9M22 thanks to higher output price. In which, SBT record weaker GM compared to peers, narrowing 2.1% pts in 9M22 due to higher raw sugar price affected negatively to the company's GM in 2Q22.

Figure 373: 9M22 earnings recap of sugar production companies (unit: VNDbn)

Ticker	Sugar producers	9M21 revenue	9M22 revenue	Change (yoy)	9M21 gross margin	9M22 gross margin	Change (yoy)	9M21 NP	9M22 NP	Change (yoy)
QNS	Quang Ngai Sugar JSC	5,776	6,311	9.3%	30.5%	29.7%	-0.8% pts	869	858	-1.4%
SBT	Thanh Thanh Cong - Bien Hoa JSC	11,669	14,333	22.8%	14.7%	12.5%	-2.1% pts	560	598	6.9%
LSS	Lam Son Sugar JSC	1,645	1,549	-5.8%	9.3%	11.7%	2.4% pts	27	39	47.0%
SLS	Son La Sugar JSC.	675	882	30.7%	28.3%	27.0%	-1.3% pts	156	201	28.7%
KTS	Kon Tum Sugar JSC	197	215	9.1%	10.2%	15.0%	4.8% pts	4	8	72.0%

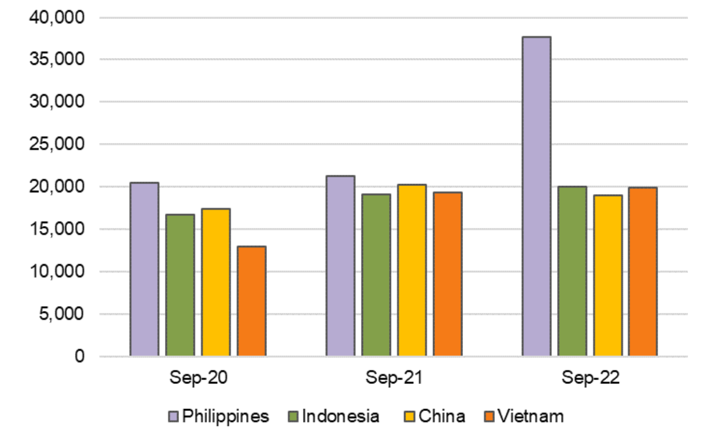
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 374: Sugarcane area slightly decreased in the 2021/22



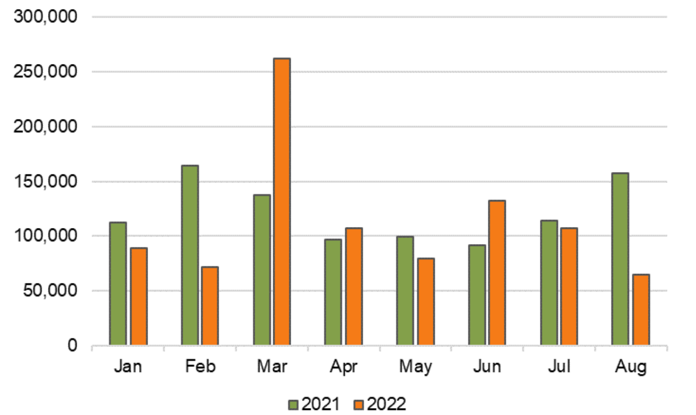
Source: VSSA, VNDIRECT RESEARCH

Figure 375: Domestic sugar price has approached the sugar price of of ASEAN countries and China (VND/kg).



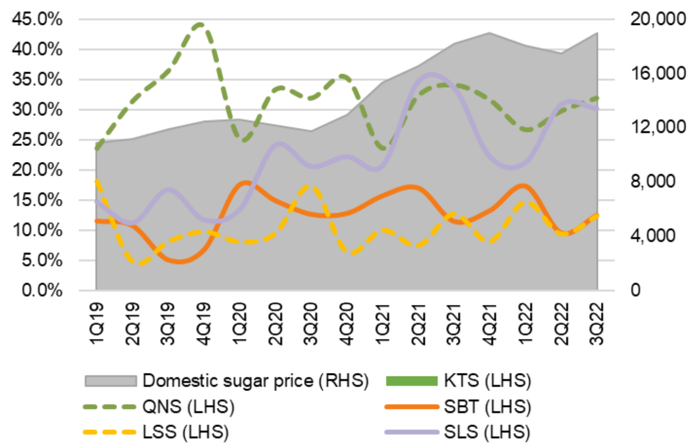
Source: VSSA, VNDIRECT RESEARCH

Figure 376: The imported sugar volume (unit: tonnes) decreased significantly after the imposition of anti-dumping tax



Source: VSSA, VNDIRECT RESEARCH

Figure 377: Domestic sugar price (VND/kg) and sugar producers' gross margin (%) in 1Q19-3Q22



Source: FIINPRO, VSSA, VNDIRECT RESEARCH

In our view, 2023F will be a sweet year for sugar producers thanks to:

Sugarcane area is expected to expand in 2023F. The sugarcane area has decreased continuously since the 2017/18 due to the low price of sugarcane, prompting farmers to convert their land to other varieties. Due to the shortage domestic sugarcane in recent years, sugar producers also import raw sugar for refining in addition to pressing sugar from cane. However, we believe that the recent sharply increase in domestic sugar prices along with protective measures from the government will be the driving force for farmers to expand the sugarcane plantation in the 2022/23 season. According to VSSA, the sugarcane area is expected to reach 151,305 ha (+3.0% yoy), the output of processing sugarcane is 8,764,277 tones (+16.5% yoy) and the sugar output is 870,930 tones (+16.6% yoy).

Domestic sugar price keeps increasing in 2023F. Based on our estimate, the smuggled sugar price after imposition of anti-dumping tax will be about 15% higher than the domestic sugar price, thus the new tax will create a competitive advantage for domestic sugar price. In 3Q22, the domestic sugar price increased by 10-14% compared to the beginning of July 2022 (before the application of anti-circumvention measures against trade remedies for sugar imported from ASEAN countries), at the same level price in the ASEAN region and China. Besides, the domestic sugar supply only meets 35-40% of the domestic demand, therefore the domestic sugar price will follow the world sugar price. According to QNS, due to the high oil price, major sugar producing countries such as Brazil, Thailand and India will switch sugarcane to ethanol production, keeping the world sugar price high in 1H23F.

We expect SBT and QNS can take advantage of the sugar price upward trend and expand the GM of its sugar business as these companies has the largest scale in sugarcane materials for sugar production which is well positioned to capture the increasing demand for domestic sugar. For QNS, we expect the company to enjoy a 13.1%/8.5% yoy revenue growth and -0.6% pts/0.2% pts GM expansion in FY22-23F.

Sector risks include:

- Smuggling and trade fraud that have not been completely controlled can create competitive pressure on prices with domestic sugar.

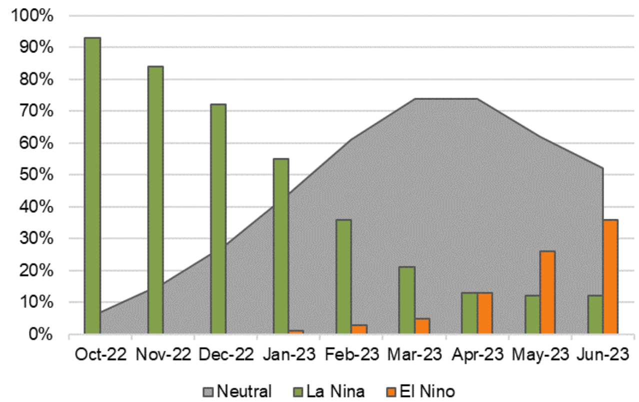
Rice exporters: Well-positioned to ride on the rice price uptrend

We expect 2023 to be a favorable year for the rice sector as:

- Rice prices increase as India restricts rice exports.
- Demand for rice imports keep increasing due to unfavorable weather conditions in Vietnam's main export markets. Currently, Philippines is Vietnam's largest rice customer. Its domestic supply is at a low level due to 1) inventories for 2023F are quite low, and 2) rice production is forecast to decrease due to crop damage as the result of Typhoon Noru.

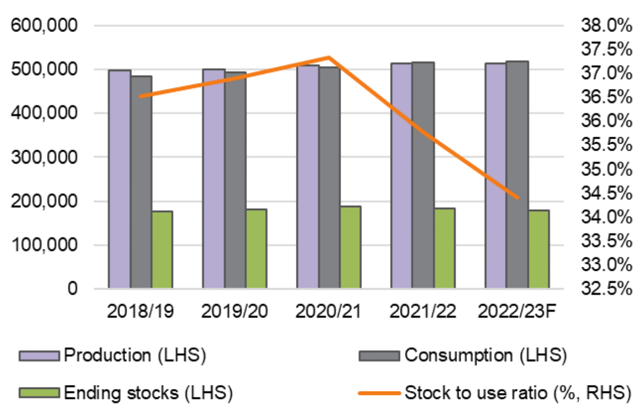
Global rice supplies at risk as harsh weather hits top exporters. The recent harsh weather in top rice exporter countries in Asia (such as patchy rains in India, drought in China and flood in Bangladesh) is likely to affect the production outlook in the 2022/23. On the other side, we see the demand is picking up. Due to the yield losses, China is expected to lift rice imports to a record of 6m tonnes in 2022/23, according to the USDA. Besides, we see the rising of protectionism in order to ensure food security since the recent geopolitical disputes. Amid the declining supply while demand is stable, the global rice price and Vietnam's export price will keep increasing in 2023F.

Figure 378: We see higher probability of a Neutral phase in 2023 (unit: %)



Source: VNDIRECT RESEARCH, BLOOMBERG

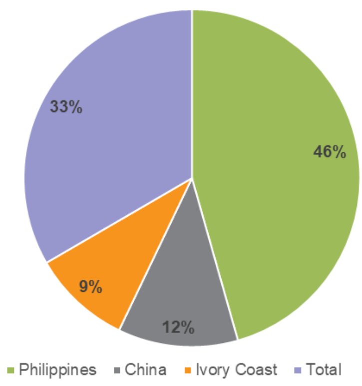
Figure 379: World rice supply and demand from crop year 2018-19 to 2022-23 (unit: thousand tonnes)



Source: VNDIRECT RESEARCH, USDA

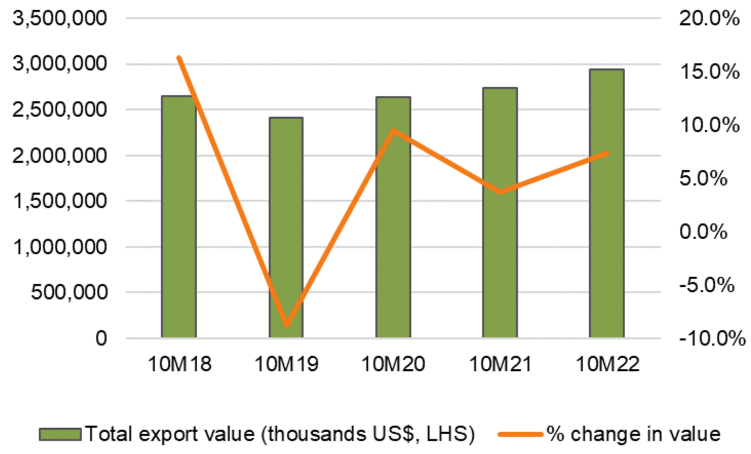
In our view, domestic rice exporters are well-positioned to ride on the rice price uptrend. Vietnam is the world third largest rice exporter, behind India and Thailand. With higher duty, Indian rice price will become uncompetitive and likely prompt buyers to shift towards Thailand and Vietnam. We believe that LTG will benefit directly from rice exports thanks to being one of the rice distributors to both key markets, Europe and China. Meanwhile, TAR will benefit from China's reduced output and India's export restrictions due to drought. Rice trading is TAR's main business, with exports accounting for nearly 15% of total revenue. In which, China is the main rice export market of this enterprise with a proportion of up to 27% of export revenue.

Figure 380: Top rice export markets of Vietnam



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 381: Value of Vietnam's rice exports in 10M22



Source: VNDIRECT RESEARCH, USDA

Sector risks include:

- India's cancellation of the rice export ban will put competitive pressure on Vietnamese rice and reduce export prices.
- According to the USDA crop diversification and salt-water intrusion may be the reasons for the long-term harvested area decline.

Potential impact of strengthening US$ on Vietnam agribusiness

Stronger US$ has put pressure on US$/VND exchange rate, making US$/VND rate on the interbank rise to the highest level in history. In our view, rising exchange rate will have different effects on producers. Rice and seafood exporters are likely key winners, enjoying higher export price. Meanwhile, there is potential negative impact for edible oil, meat, dairy and sugar producers.

Figure 382: There is potential negative impact for edible oil, meat, dairy and sugar producers

Core business	Related stocks	Potential impact	Investment thesis
Animal feed	DBC, BAF, HAG		About 80% of input materials for animal feed production are imported, of which, soybean and soybean meal are imported 90-95%. Therefore, the higher US$ lead producers to pay an extra amount when importing input materials for animal feed. However, we believe that BAF ang HAG will be less affected by rising exchange rate than its peers. BAF can get support from Tan Long Group in term of input cost while HAG can take advantage of banana production that does not meet export standards from the fruit business to be used as input materials for animal feed production.
Edible oil producers	KDC		With an estimated 90% of raw cooking oil imported, especially palm oil from Malaysia and Indonesia, an increase in the exchange rate will increase the cost of importing material for edible oil producers. We believe this will have impact on the input cost of KDC's oil production segment, which accounts for nearly 80% of KDC's total revenue.
Meat producers	DBC, BAF, HAG		We believe meat businesses' GM will be affected by the feed prices increase. However, swine price is forecasted to raise 5% yoy in 2023F, which may reduce the impact of higher input price.
Dairy producers	VNM		VNM will face a new challenge in terms of rising exchange rate as 50% of VNM's milk material is imported from the EU to produce powdered milk and nutritional powder. However, we expect whole milk powder price to keep falling and trading at 5.0% lower than 2022 as China continues the Zero-Covid policy and the 2023F output increase by 1.5% yoy. Thus, we believe that lower material price will offset the effect of rising exchange rate in 2023F VNM's GM. Besides, VNM's short-term debts, accounting for 98% total debt, are mainly bank loans in US$. Thus, we believe the company's financial expenses will increase significantly in FY22-23F. However, at end Sep-22, VNM has a strong balance sheet with net cash position (VND10,718/share) and low leverage of 0.3x which allow the company to downplay the risks of interest rates and FX fluctuation.
Sugar producers	QNS, SBT		Due to a decrease in the domestic sugarcane area in recent years, sugar producers also import raw sugar for refining in addition to pressing sugar from cane. In 2021, SBT produced 708,000 tonnes of sugar, of which about 210,000 tonnes were from sugarcane and the rest was from imported raw sugar. Meanwhile, QNS also plans to import 5,000 tonnes of raw sugar to refine RE sugar. Therefore, we believe that QNS and SBT will be affected by rising exchange rate with different level. However, we also expect domestic sugar prices to keep increasing in 2023F. Therefore, the higher sugar price may offset the effect of rising exchange rate in GM.

NOTE: = "Positive", = "Negative"

Source: VNDIRECT RESEARCH

Figure 383: Rice and seafood exporters are likely key winners amid increasing exchange rate

Core business	Related stocks	Potential impact	Investment thesis
Rice producers	LTG, PAN, TAR		Most export orders are paid in US$, thus rising exchange rate will help rice exporters to improve their gross margins. The specificity of the rice industry is that orders are signed monthly, therefore who have already delivered will benefit when the US$ increases. However, for orders that have not yet been delivered, customers will be afraid and consider buying rice at another stage to avoid the impact of the US$ increase. Besides, we also see that LTG currently have a short-term debt of US$69m (accounting for 49.5% total short-term debt). Thus, we believe LTG's financial expenses will increase amid higher exchange rate.
Fisheries	VHC, FMC		Seafood exporters will benefit when the US$ increases as most transactions are currently paid in US$. In 9M22, the U.S is still the main market of seafood exporters (accounting for about 60%). However, seafood enterprises are also facing two pressures at the same time, which is to reduce export prices to compete with other countries' products, but also have to increase the purchase price of raw fish materials due to lack of supply.

NOTE: = "Positive", = "Negative"

Source: VNDIRECT RESEARCH

Stock pick: We like BAF and put DBC, QNS, and KDC in our watchlist

Figure 384: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK BAF	33,500	ADD	We have a positive view on BAF short term and long term by: (1) Herd size will increase significantly in 2023F. During FY22-23F, the company will enter a heavy investment cycle with 2 slaughter factories, 5 porker farms, 2 piglet farms and 3 combined piglet and porker farms which will come online since 3Q22 – 1Q23F. These projects will lift BAF 's pig herd up 226% from current scale and also finalize its "Food" segment in 3F business model. (2) We expect BAF's net profit to grow at average 16.2% over FY23-24F, driven by capacity expansion. Gross margin will improve 0.7% pts as 3F business segment increase its contribution to BAF's gross profit by 6.1% pts in FY23F with GM much higher agribusiness segment. (3) We believe that BAF can get support from Tan Long Group in term of input cost, thus the company will be less affected by rising exchange rate than its peers.
2	DBC	18,600	ADD	(1) Swine price is expected to increase by 5.0% yoy in 2023F which will impact positively to the company's GM. We expect DBC to enjoy 1.5% pts yoy in gross margin's expansion. (2) The company's NP is expected to grow 68.9% yoy in FY23F after a sharp decrease by 60.7% yoy in FY22F regarding the sharp increase in animal feed input cost. DBC's share price has slumped 64.8% ytd which has been largely priced in the weak FY22 result, in our view.
3	KDC	70,900	HOLD	(1) We expect KDC's cooking oil input cost to decline due to a sharp drop in raw cooking oil price (palm oil) after peaking in Jun 2022. (2) Kido bakery opened a factory with a scale of 19.000 tonnes, officially returned to the confectionery segment, in which KDC has a lot of experience and wide distribution chain with the largest market share position (nearly 50% market share). This will help KDC maintain revenue and net profit growth in FY23-24F.

4	QNS	N/A	N/A	(1) We see QNS can take advantage of the sugar price upward trend and expand the GM as the company has the second largest scale in sugarcane materials which is well positioned to capture the increasing demand for domestic sugar. (2) Global soybean price is expected to decrease in 2023F which ease pressure on input material cost for soybean milk segment. (3) We expect QNS to deliver an 8.5% yoy revenue growth and better GM, making net profit to increase 10.3% yoy in FY23F.
5	HAG	N/A	N/A	(1) The company plans to expand an additional 2,000 ha for banana farming to total 7,000ha, which increase HAG's capacity by 40%. (2) HAG aims to scale up pig capacity to 1m hog/year, with a total of 16 pig farms by 2023F. The revenue of farm segment is expected to reach VND10,000bn in 2023F. (3) We expect HAG to enjoy markedly improvement in 2023F gross margins thanks to the lowest input costs among listed meat producers. HAG can take advantage of banana production that does not meet export standards from the fruit business to be used as input materials for animal feed production. Thus, we believe HAG will be less affected by rising exchange rate than its peers.
6	VHC	N/A	N/A	(1) The leading position in pangasius export in Vietnam as well as in the world. Meanwhile, global inflation has reduced the demand for many seafood products, but pangasius product still have advantages because it is affordable for consumers. Therefore, we believe that pangasius prices and export volume in the coming time will not be severely decrease. (2) Main export market of VHC's pangasius products is the US market. Although in 2023, it may be difficult for the company to maintain an exceptional high export volume like in 2022, but VHC will still benefit quite a lot in the environment of an increasing US$ exchange rate. However, the current valuation is not attractive, in our view as we expect that VHC's NP may decrease in the next 2 years after recording an outstanding performance in FY22F thanks to pent-up demand of US market.

Source: VNDIRECT RESEARCH

Figure 385: FY22-24F earnings forecasts of stocks under coverage

	BAF			DBC			QNS		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	5,788	6,828	7,471	11,704	12,115	12,610	8,296	8,998	9,628
% growth	*-44.5%*	*18.0%*	*9.4%*	*8.2%*	*3.5%*	*4.1%*	*13.1%*	*8.5%*	*7.0%*
Gross profit	549	698	797	1,371	1,604	1,669	2,506	2,733	2,924
Gross margin (%)	*9.5%*	*10.2%*	*10.7%*	*11.7%*	*13.2%*	*13.2%*	*10.8%*	*9.1%*	*7.0%*
EBITDA	505	683	819	1,070	1,304	1,365	1,565	1,710	1,820
EBITDA margin (%)	*8.7%*	*10.0%*	*11.0%*	*9.1%*	*10.8%*	*10.8%*	*18.9%*	*19.0%*	*18.9%*
Net profit (VNDbn)	343	420	463	326	550	594	1,333	1,470	1,574
% growth	*6.5%*	*22.4%*	*10.2%*	*-60.7%*	*68.9%*	*7.9%*	*6.4%*	*10.3%*	*7.1%*
EPS (VND/share)	2,389	2,925	3,224	1,331	2,247	2,425	3,501	3,948	4,256
BVPS (VND/share)	17,067	19,997	23,224	22,986	24,565	26,390	21,499	23,506	25,803
Net cash/share (VND/share)	2,501	2,806	3,579	4,040	4,693	4,357	12,846	14,833	17,023
D/E	0.27	0.34	0.30	0.48	0.46	0.33	0.29	0.29	0.28
Dividend yield (%)	0.0%	0.0%	0.0%	4.1%	8.3%	8.3%	5.7%	7.1%	5.7%
ROAE (%)	21.1%	18.9%	17.9%	8.1%	11.0%	11.2%	20.7%	21.0%	20.5%
ROAA (%)	7.1%	7.8%	7.7%	3.8%	5.6%	5.9%	14.7%	14.7%	14.6%

Source: VNDIRECT RESEARCH

Figure 386: FY22-24F earnings forecasts of stocks under coverage

	KDC			VHC		
	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	13,557	13,874	14,420	13,834	14,372	14,242
% growth	*29.1%*	*2.3%*	*3.9%*	*52.8%*	*3.9%*	*-0.9%*
Gross profit	2,364	3,078	3,616	2,933	2,759	2,734
Gross margin (%)	*21.9%*	*23.5%*	*24.0%*	*21.2%*	*19.2%*	*19.2%*
EBITDA	1,534	1,531	1,924	2,725	2,644	2,649
EBITDA margin (%)	*9.3%*	*10.8%*	*10.3%*	*19.7%*	*18.4%*	*18.6%*
Net profit (VNDbn)	614	802	782	1,959	1,874	1,875
% growth	*4.2%*	*30.6%*	*-2.5%*	*77.9%*	*-4.3%*	*0.0%*
EPS (VND/share)	2,440	3,187	3,108	10,469	10,016	10,019
BVPS (VND/share)	29,445	32,275	35,029	41,987	50,399	58,764
Net cash/share (VND/share)	-13,171	-10,226	-7,845	7,705	11,817	17,810
D/E	0.43	0.31	0.22	0.27	0.24	0.17
Dividend yield (%)	9.0%	1.0%	1.0%	2.7%	2.7%	2.7%
ROAE (%)	8.7%	10.3%	9.2%	28.8%	22.1%	13.6%
ROAA (%)	4.2%	5.2%	4.8%	19.6%	15.4%	13.6%

Source: VNDIRECT RESEARCH

Figure 387: Peer comparison (Data as at 22 Nov 2022)

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)		P/B (x)		3 years EPS	ROE (%)		ROA (%)	
		LC$	LC$		US$m	FY22F	FY23F	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F
Vietnam listed meat producers														
BAF Viet Nam Agriculture JSC	BAF VN	15,850	33,500	ADD	92	6.9	5.7	1.0	0.8	N/A	21.1	18.9	7.1	7.8
Masan MeatLife Corporation	MML VN	38,000	N/A	NR	501	44.8	59.8	2.1	2.0	170.3	8.2	6.1	8.5	5.6
Dabaco Group	DBC VN	10,550	18,600	ADD	103	9.0	5.3	0.5	0.5	53.7	8.1	11.0	3.8	5.6
Vissan JSC	VSN VN	22,000	N/A	NR	72	N/A	N/A	N/A	N/A	3.4	N/A	N/A	N/A	N/A
Vietnam Livestock Corporation JSC	VLC VN	13,700	N/A	NR	95	N/A	N/A	N/A	N/A	11.1	N/A	N/A	N/A	N/A
Hoang Anh Gia Lai JSC	HAG VN	5,930	N/A	NR	222	17.0	10.7	N/A	N/A	N/A	13.6	17.9	N/A	N/A
Average						*19.4*	*20.4*	*1.2*	*1.1*	*59.6*	*12.8*	*13.5*	*6.5*	*6.3*
Median						*13.0*	*8.2*	*1.0*	*0.8*	*32.4*	*10.9*	*14.5*	*7.1*	*5.6*
Vietnam listed sugar producers														
Quang Ngai Sugar JSC	QNS VN	34,000	N/A	NR	489	8.0	7.3	1.4	1.3	0.8	20.7	21.0	14.7	14.7
Thanh Thanh Cong - Bien Hoa JSC	SBT VN	10,650	N/A	NR	289	N/A	N/A	N/A	N/A	39.0	N/A	N/A	N/A	N/A
Lam Son Sugar JSC	LSS VN	4,750	N/A	NR	13	N/A	N/A	N/A	N/A	84.4	N/A	N/A	N/A	N/A
Son La Sugar JSC	SLS VN	119,000	N/A	NR	47	N/A	N/A	N/A	N/A	46.8	N/A	N/A	N/A	N/A
Kon Tum Sugar JSC	KTS VN	13,000	N/A	NR	3	N/A	N/A	N/A	N/A	54.4	N/A	N/A	N/A	N/A
Average						*8.0*	*7.3*	*1.4*	*1.3*	*45.1*	*20.7*	*21.0*	*14.7*	*14.7*
Median						*8.0*	*7.3*	*1.4*	*1.3*	*46.8*	*20.7*	*21.0*	*14.7*	*14.7*
Regional listed rice producers														
Trung An Hi-Tech Farming JSC	TAR VN	8,100	N/A	NR	26	N/A	N/A	N/A	N/A	35.7	N/A	N/A	N/A	N/A
Loc Troi Group JSC	LTG VN	17,700	N/A	NR	58	4.4	4.2	0.4	0.4	1.6	12.3	11.8	4.4	4.0
Heilongjiang Agriculture Co Ltd	600598 CH	15	N/A	NR	3,663	21.3	19.9	3.4	3.1	(3.3)	16.0	15.6	12.7	12.8
Shandong Denghai Seeds Co Ltd	002041 CH	22	N/A	NR	2,695	56.9	41.6	5.6	5.1	100.4	10.1	12.0	7.2	9.4
FGV Holdings Bhd	FGV MK	1	N/A	NR	1,058	3.9	7.6	0.8	0.7	N/A	21.3	9.3	7.6	3.7
Average						*21.6*	*18.3*	*2.5*	*2.3*	*33.6*	*14.9*	*12.2*	*8.0*	*7.5*
Median						*12.9*	*13.7*	*2.1*	*1.9*	*18.7*	*14.1*	*11.9*	*7.4*	*6.7*
Vietnam listed seafood exporters														
Vinh Hoan Corp	VHC VN	68,600	N/A	NR	507	6.1	6.3	1.7	1.5	15.5	31.2	24.5	20.4	16.1
Nam Viet Corp	ANV VN	17,700	N/A	NR	91	2.6	3.8	0.5	0.5	(30.8)	29.8	19.6	14.7	10.9
Cuu Long Fish JSC	ACL VN	9,190	N/A	NR	19	N/A	N/A	N/A	N/A	(23.1)	N/A	N/A	N/A	N/A
International Development & Investment Corp	IDI VN	7,850	N/A	NR	72	1.9	1.8	N/A	N/A	(27.1)	26.3	22.1	10.9	9.6
Average						*3.5*	*4.0*	*1.1*	*1.0*	*(16.4)*	*29.1*	*22.1*	*15.3*	*12.2*
Median						2.6	3.8	1.1	1.0	(25.1)	29.8	22.1	14.7	10.9

Source: VNDIRECT RESEARCH, BLOOMBERG

Sector note

CONSUMER: WHEN THE PURSE STRING TIGHTEN UP

- Consumer spending is slowing down till 3Q23F amid sluggish export growth, rising interest rates and weak VND.
- Luxury goods might get lower risk from a demand downturn, in our view.
- Sector leading stocks are stock with good financial status and less affected by the reduction in people demand, including PNJ and VRE.

Still good so far but brace for a weakening consumer spending

Total retail sales of goods and services grew healthily 25.3% yoy in 10M22, largely thanks to low base 2021. We see a few signals that consumers are tightening their purse strings amid rising interest rates and the weakening of labour - intensive industries (property, textiles, …). We think this downturn might linger till 3Q23 when interest rates are expected to subside and minimum wage hike will give a slight boost.

Retailers postpone business expansion to solidify the financials

Per our market research, large retailers are slowing down or postpone their business expansion amid growing concerns over a downturn. MWG's An Khang and FRT's Long Chau pharmacy chain expansion has been delayed/slowed down since 3Q22; number of Bach Hoa Xanh and Circle K stores also saw a reduction ytd to prove the caution of retail chains to the current market status. Thus, listed consumer companies tent to maintain better financial health shape with low leverage and net cash position.

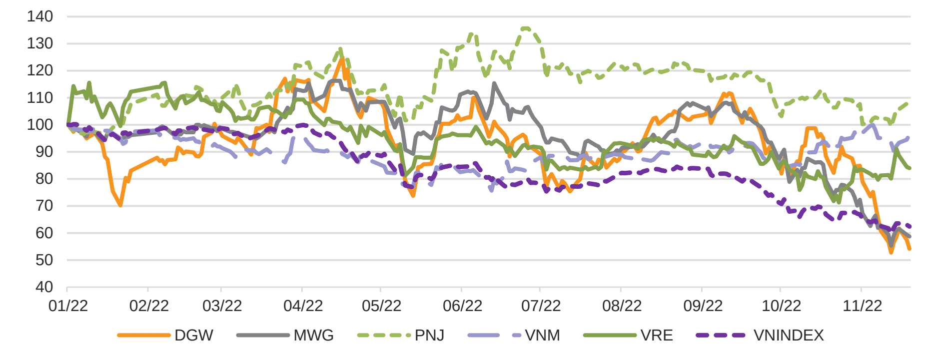
Luxury goods might get lower risk from a demand downturn

Although still being at nascent stage, Vietnam's luxury market is expected to grow significantly thanks to the rise of high-net-worth individuals who have increasing appetite for luxury goods. Conventionally, the affluent are often the last to feel the effects because of the cushion their extreme wealth provides. Thus, we expect retail companies with large exposure to luxury segment might get lower risk from a pullback in spending.

Our stock picks: PNJ and VRE

We prefer stocks with 1) a net cash position which less risky than others stocks in an unstable market, and 2) a less affected by the demand downturn than peer thanks to business has large exposure to luxury spending. Thus, we believe PNJ and VRE are attractive to put in the portfolio. Upside catalysts: stronger than expected consumer demand, lower than expected effect from FX and rising interest rate to company's results or supply disruptions of Apple products are quickly resolved. Downside risks: a longer than expected downturn in consumer spending or supply disruptions of Apple products, a stronger than expected effect from FX and interest rising.

Figure 388: Consumer stocks price performance vs. VNIndex performance in 2022



Source: VNDIRECT RESEARCH, BLOOMBERG

Analyst(s):

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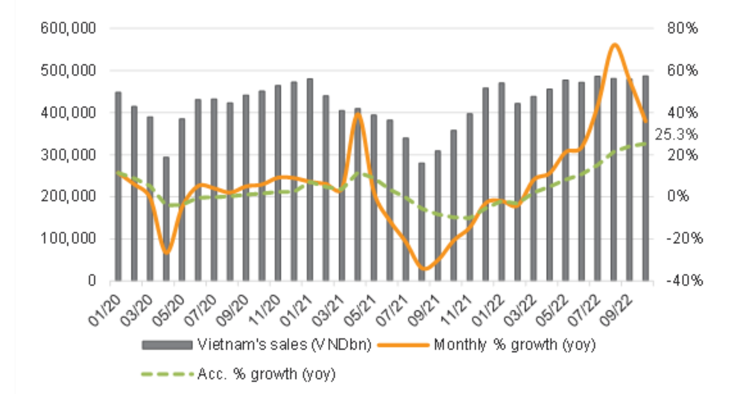
Still good so far

According to General Statistics Office, total retail sales of goods and services grew healthily 25.3% yoy in 10M22, largely thanks to low base 2021. If excluding the price factor, retail sales rose 16.8% yoy, even higher than pre-pandemic level. Though Vietnam has resumed the international flights since 1Q22, revenue from tourism doubled than that of 2021, recovering to 78% of pre-pandemic level.

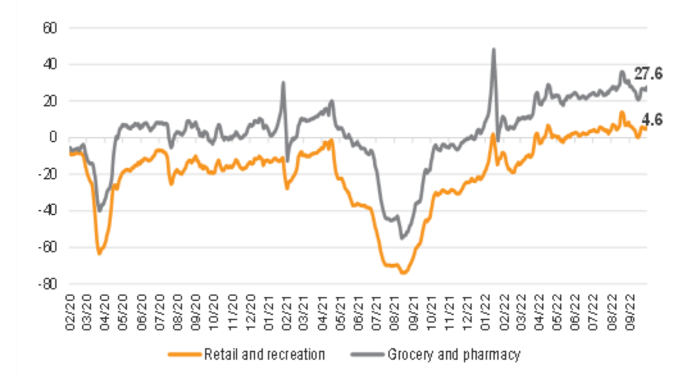
According to Google data, Vietnam mobility to retail and recreation has exceeded the pre-epidemic level by 4.6%, and mobility to grocery and pharmacy has increased by 27.5% compared to pre-epidemic.

Figure 389: Total retail sales of goods and services grew 25.2% yoy in 10M22



Source: VNDIRECT RESEARCH, GSO

Figure 390: Mobility trends from 2020 – Oct 22 showed a recovery to the pre-epidemic level of the visitor mobility (% vs pre-covid level)



Source: VNDIRECT RESEARCH, Google

Consumer spending power recovery was reflected in the 9M22 business results of retailers and beverages companies. In 3Q22, PNJ recorded VND252bn in net profit, from loss of VND160bn while VRE's net profit jumped 32x times yoy. Noted that Vietnam has implemented strict social distancing in 3Q21. SAB's net profit also posted a growth of 2.0x times yoy in 3Q22 to make a growth of 76.9% yoy in 9M22.

Meanwhile, food producers posted a sluggish performance on yoy basis due to the high stocking demand in 3Q21 and the increasing input prices (grains, whole milk powder…)

Figure 391: 3Q22 and 9M22 results of consumer sector and some typical stocks

	3Q22 net revenue growth	1Q-3Q22 revenue growth trend	3Q22 net profit growth	9M22 net profit growth	1Q-3Q22 net profit growth trend
Beverages	**81.0%**		**161.7%**	**68.0%**	
SAB	101.7%		202.3%	76.9%	
Retail	**57.7%**		**128.4%**	**36.4%**	
MWG	31.6%		15.3%	4.3%	
PNJ	739.7%		from loss to net profit	132.6%	
FRT	54.4%		80.9%	174.1%	
DGW	58.6%		68.2%	60.0%	
PET	17.7%		-5.5%	-12.9%	
VRE	154.8%		3,204.2%	63.0%	
Food Producers	**2.2%**		**-13.8%**	**3.4%**	
VNM	-0.7%		-21.5%	-20.3%	
MSN	-17.3%		-52.7%	46.8%	
Market	**29.6%**		**17.4%**	**21.4%**	

Source: VNDIRECT RESEARCH, Fiinpro

Bracing for a pullback in consumer spending

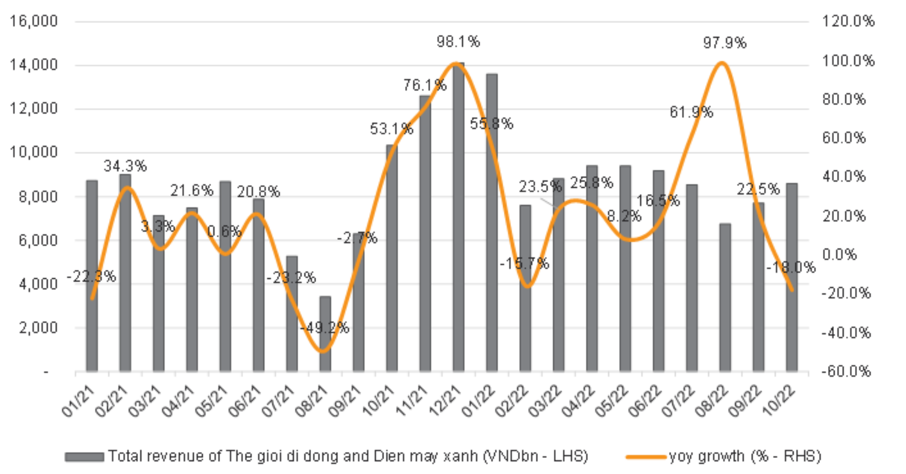
We believe the quantum of pent-up demand is dimming meanwhile rising interest rates and weak VND push consumers to tighten up their purse strings. Besides, we see the fading of "wealth effect" - the psychological phenomenon that refers to a change in consumer spending patterns following a rise in the value of unrealised assets. All investment channels (stock market, property market, bond market, digital asset market…) enjoyed a robust rise in 2021. As all these markets have entered sharp correction this year which scaled down the unrealised asset value, thus will dent the consumer spending power.

Most of labour - intensive industries are facing headwinds. Vietnam export growth is expected to decelerate amid weakening global demand, thus textile, footwear, aquaculture, wood processing… have to scale down their production.

Since end- Nov 22, Taiwanese footwear producer, PouYuen Viet Nam Co., Ltd. - the largest company in Ho Chi Minh City in term of number of employees with more than 50,000 workers has given workers rotational leave for the next 3 months due to order cutdown. According to Department of Labor and Social Affairs in Binh Duong - one of the industrial centers in the South, in 10M22, about 28,000 workers had to suspend their labor contracts and 240,000 people had their working hours reduced, equivalent to about 20% of the workforce in Binh Duong has been affected by the downturn of economy and this proportion may increase in the near future.

Some retailers signaled for a pullback in consumer spending since Oct 22. MWG posted Oct performance with a clear decline in consumer demand for consumer electronic and mobile phone products, while grocery segment is still in recovering phase. MWG's Oct 22 revenue was reached VND10,884bn (+3.3% mom, -10.7% yoy) despite entering the 4Q22 peak consumption season and preparing for big events like World Cup. DGW also released prelim Oct results a 40% yoy drop in revenue due to lower sales volume of smart phones and consumer electronics products (TVs) were below expectation.

Figure 392: Monthly revenue of Thegioididong & Dien May Xanh from 2021-Oct 22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We expect Vietnam consumption will be hit hard in 1H23F and gradually recover to growth momentum since 3Q23 thanks to 1) rising interest rate to slow down in FY23F as the Fed rate gradually eases down, 2) a gradually stabilizing macro in Vietnam, helping to increase people's confidence in consumption, 3) the recovery of consumption in the EU and U.S. regions to bring back orders to Vietnam industrial zones and 4) on 11/11/2022, the National Assembly passed a Resolution on the state budget estimate in 2023 with from Jul 23, the base salary will be increased by 20.8% compared to the current of VND1.8m per month, which can increase the income of the cadres and civil servants in Vietnam.

Luxury goods might get lower risk from a demand downturn

Conventionally, while spending among lower-income consumers squeezed by inflation, the affluent are often the last to feel the effects because of the cushion their extreme wealth provides. According to Statista, Vietnam's personal luxury goods market reached US$976m in 2021 and is expected to grow 6.7% per annum to US$1bn in 2025F. Another report of Knight Frank said that there were about 72,135 individuals in Vietnam who has liquid asset more than US$1m in 2021.

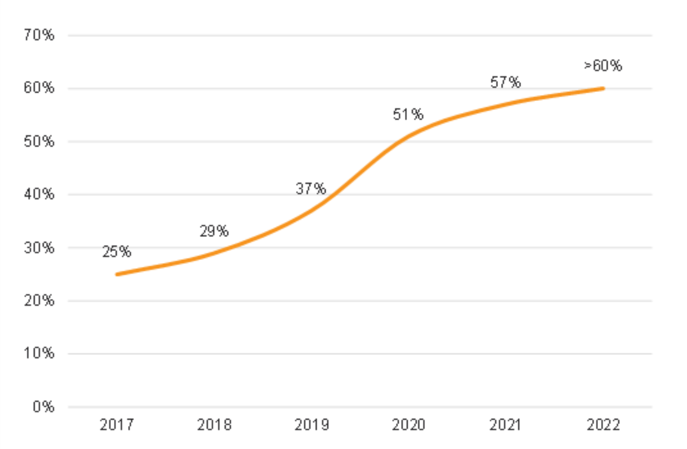
Although still being at nascent stage, Vietnam's luxury market is expected to grow significantly thanks to the rise of high-net-worth individuals who have increasing appetite for luxury goods and services (luxury traveling, jewelry, car, high-end digital products…). Although wealthy consumers will become more selective amid the current headwinds, we believe brands/companies that have large exposure to luxury goods might face the lower risk from this spending downturn.

Jewelry and watches

According to Statista, luxury jewelry and watches market has a higher growth rate than that of Vietnam's personal luxury goods, reaching a CAGR of 8.5% in the period 2021-26F. Thus, PNJ with a dominant market share in the jewelry market, with a strong brand name and a wide range of products in the luxury jewelry and watches segment is likely to benefit from this growth momentum.

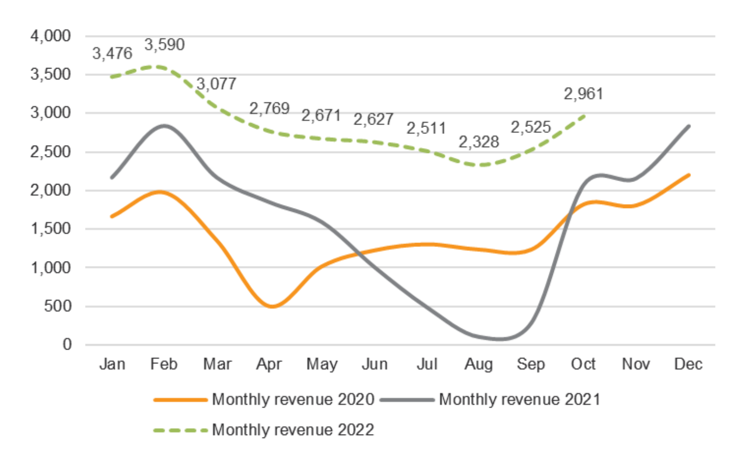
PNJ's jewelry market share has widened from about 25% in 2017 to over 60% in 10M22 with the tendency of consumers to choose better branded products. In Oct 22, PNJ's revenue and net profit still maintained a strong growth pace, reaching VND2,961bn and VND147bn, up 42.4% yoy and 21.5% yoy, respectively. In the coming period, PNJ is expected to build a new factory with higher production technology than the current one in order to continue to expand its market share in the jewelry mid-high-end products with more sophistication and fashion style.

Figure 393: PNJ's gold jewelry market shares among branded market



Source: VNDIRECT Research, Company reports

Figure 394: PNJ's monthly revenue from 2020-2022 (Unit:VNDbn)

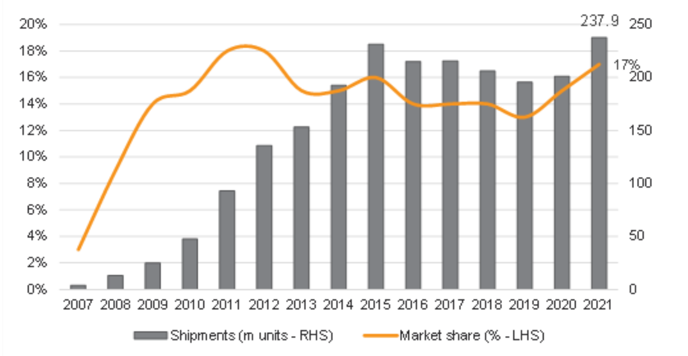


Source: VNDIRECT Research, Company reports

High-end digital products: iPhone 14 series

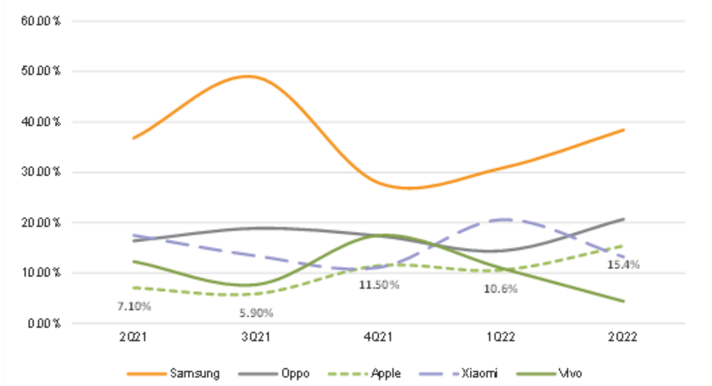
With selling price of about VND25m –VND47m, 3.7 – 7.0x times to Vietnamese monthly average wage, iPhone 14 could be considered as a luxury goods. By end-2Q22, iPhone accounted for 15.4% (+8.3 pts % yoy) market share of Vietnam smartphone, among top 5 popular phones. Apple Vietnam revealed that the volume of iPhone 14 shipments to Vietnam also doubled vs iPhone 13 shipments, reaffirming the strong demand for Apple products.

Figure 395: Global shipment units and market share of Apple iPhone from 2007 - 2021



Source: VNDIRECT Research, Counterpoint

Figure 396: Vietnam smart phone market share by volume from 2Q21 – 2Q22



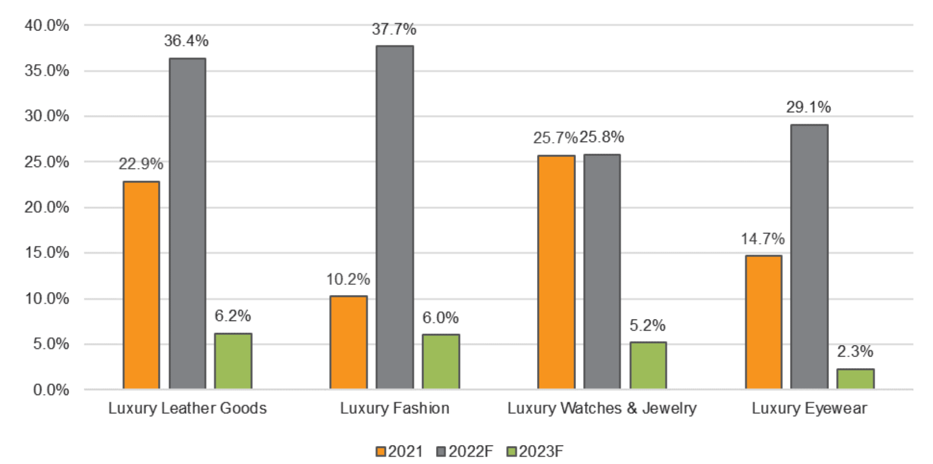
Source: VNDIRECT RESEARCH, Counterpoint

However, Apple products are currently facing supply shortages due to manufacturing cut of Foxconn who produces 70% of iPhone volume in China, is facing problems related to the Covid-19 lockdown. Therefore, we believe the effect of iPhone 14 series launch may turn positive since 1Q23F, later than initial expectation in 4Q22. We expect DGW, FRT and MWG with a significant revenue contribution coming from Apple products, ~30%, 20% and 14%, respectively, will leverage from this trend.

Fashion and leather goods

According to Statista, the total sales of luxury fashion and leather goods in Vietnam will reach US$550m (+6.1% yoy) in FY23F. Accordingly, the key players in this segment are mainly global big brands such as Chanel, Kering, Louis Vuitton, ... which accounted for more than 50% market share in the fashion segment and 80% in the leather goods segments in Vietnam. The growth and domination of major international brands requires brands to maintain stores in city center and malls, keep the footfall level high and be able to make a sustain demand for shopping in these regions.

Figure 397: Luxury revenue yoy growth by segment in Vietnam (%)



Source: VNDIRECT RESEARCH, Statista

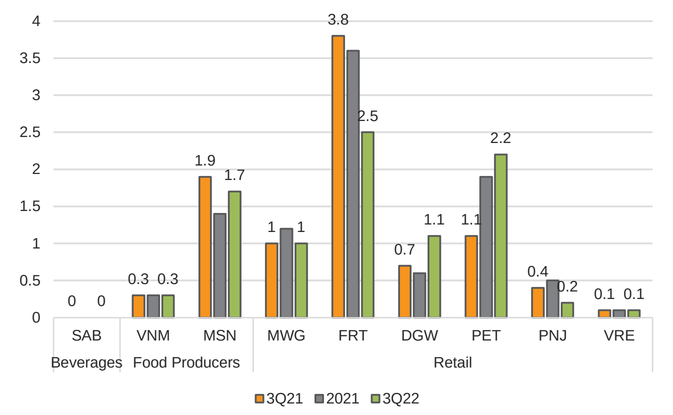
In general, consumer companies are in good financial shape than other sectors

With borrowing rates gradually increasing in period of limited credit lines and unstable global macro conditions, we think strong cash flow stock, with net cash position and low leverage to be more stable when dealing with macro fluctuations. SAB, VNM, PNJ and VRE with positive net cash per share in 3Q22, at VND35,372, VND6,184, VND693 and VND462 respectively will be the best strongholds in consumer sector.

In addition, some of companies have made changes in their strategies to reassess market demand and protect a healthy financial structure in the coming time, including:

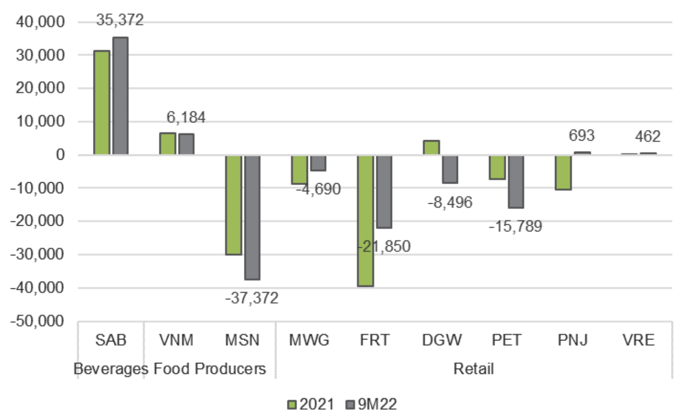
- MWG and MSN made 5-years foreign loans with the value of US$250m and US$600m respectively, with a fixed interest rate of about 6.5% to minimize the impact of rising interest rate in coming period. Although these loans will suffer exchange rate losses, we believe that ensuring a stable source of money is a more important priority.
- MWG and FRT have slowed expansion in their chains to reassess the market demand and reduce new opening costs to protect financial health.

Figure 398: D/E of consumer companies from 3Q21 – 3Q22



Source: VNDIRECT RESEARCH, Dstock

Figure 399: Net cash per share of consumer stock in end-2021 and 3Q22



Source: VNDIRECT RESEARCH, Dstock

Investment risks

- Longer than expected downturn in Vietnam consumption due to global recession and Vietnam macro fluctuations.
- Overstocking of outdated inventory as peaking demand in pandemic causing inventory clearance costs to increase.
- A stronger than expected financing expenses due to rising interest rates and fx rates.
- A longer than expected disruption of supply chains in China, especially in Apple products will hit revenue of ICT retailers and distributors.

Stock picks: We like PNJ and VRE

We prefer stocks with 1) a net cash position which less risky than others stocks in an unstable market, and 2) a less affected by the demand downturn than peer thanks to business has large exposure to luxury spending. Thus, we believe PNJ and VRE are attractive to put in the portfolio.

We also put MWG and VNM in our watchlist as we believe MWG's Bach Hoa Xanh could give a good result for MWG in 2023F, while VNM is an attractive defensive stock in case the strong market correction

Figure 400: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK PNJ	140,700	ADD	PNJ has proved its soundness through a strong growth of 132.6% yoy in 9M22 net profit. Follow this pace, we pick PNJ as: (1) PNJ is dominating statistical jewelry market share at more than 50% with a strong mid- to high-end customer base that is less affected by inflation. With the market share of non-statistical jewelry market in Vietnam possibly up to 80% and the growth of consumers towards modern chains will maintain, we believe PNJ still have a good growth potential in the coming period. (2) For long-term run, we expect PNJ's strategies, include 1) make attractive concepts like Style by PNJ, 2) launch more effective advertising campaigns, 3) co-operate with Pandora to become "Multi Branded Stores" and 4) increase digitization and aim for omnichannel sale will support PNJ's net profit to maintain 2-digits growth, at CAGR of 24.3% from FY22-26F, per our expectation.
2	STOCK PICK VRE	38,800	ADD	VRE in our picks thanks to: (1) Vincom Retail JSC (VRE) is Vietnam's largest retail property developer with 1.75m sq m gross floor area at End-3Q22, will enjoy a strong growth with the country's surge in modern retail and people's income in the long-term. (2) With the recovery of retail consumption and Vietnam's rapid vaccination rate, Covid-19 becomes a common disease to fully reopen the economy to give VRE more potential in revenue and net profit growth by increasing GFA and rental price. (3) We expect VRE's FY23/24F net profit likely to surge 62%/26% yoy follow the rising of Vietnam economy
3	MWG	78,300	ADD	We like MWG for: (1) Leading position in consumer electronic and mobile phones retail, MWG still enjoy the growth in this segment retail, especially of strong growth in premium products like Apple in coming years. (2) After renovation of BHX since 2Q22, monthly sale per BHX stores are growing and BHX is coming to profitable time. We expect BHX to be profitable from 2023F to become the main driver of MWG's net profit. With the breakeven of BHX, we expect net profit of MWG to grow strongly in FY23F to reach 43.9% yoy. (3) MWG is the preferred choice of foreign investors with maintaining the maximum foreign ownership ratio – 49% even during a strong correction of the market. So that, MWG still receives large capital inflows from foreign investors through ETFs, especially VNDiamond ETF.
4	VNM	86,800	HOLD	(1) VNM showed signs of recovery in topline with 7.5% qoq growth in 3Q22 revenue. In the context of raw material prices keep reducing, VNM can improve its gross profit margin in FY23-24F to make FY23-24F earnings growth return to positive territory at 9.9% yoy/11.4% yoy.. (2) Although under pressure due to recent exchange rate fluctuations, VNM has a good financial health with a net cash position at VND6,184 per share as of 3Q22, making VNM less affected in the context of rising interest rates and many macro fluctuations. (3) With a market share of 55% - dominant in Vietnam's dairy industry and core business in essential goods, VNM is an attractive defensive stock in case the strong market correction.

Source: VNDIRECT RESEARCH

Figure 401: FY22-24F earnings forecasts of stocks under coverage

	MWG			PNJ			VRE			VNM		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	145,113	163,564	186,400	29,152	34,221	38,702	8,614	11,963	14,647	63,009	65,356	68,403
% growth	*18.0%*	*12.7%*	*14.0%*	*48.6%*	*17.4%*	*13.1%*	*46.2%*	*38.9%*	*22.4%*	*3.4%*	*3.7%*	*4.7%*
Gross margin (%)	*21.8%*	*21.4%*	*21.4%*	*17.7%*	*18.2%*	*18.7%*	*48.0%*	*53.8%*	*55.1%*	*41.9%*	*43.4%*	*44.9%*
EBITDA margin (%)	*6.5%*	*7.7%*	*7.0%*	*8.5%*	*8.7%*	*8.8%*	*65.2%*	*67.3%*	*66.6%*	*20.1%*	*20.8%*	*22.2%*
Net profit (VNDbn)	5,313	7,643	8,116	1,856	2,216	2,529	2,689	4,363	5,506	9,332	10,260	11,425
% growth	*8.5%*	*43.9%*	*6.2%*	*79.7%*	*19.4%*	*14.2%*	*104.6%*	*62.3%*	*26.2%*	*-11.4%*	*9.9%*	*11.4%*
EPS (VND/share)	3,630	5,003	5,312	7933.32	9134	10,424	1,183	1,920	2,423	4,019	4,419	4,921
BVPS (VND/share)	16,671	19,893	23,705	36,140	45,274	55,698	14,314	15,688	16,552	16,147	16,794	17,966
Net cash/share (VND/share)	-197	2,019	5,606	4,303	10,539	17,584	399	349	248	11,810	12,601	13,880
D/E	79%	64%	57%	13%	16%	14%	11%	10%	10%	29%	29%	28%
Dividend yield (%)	2.5%	2.5%	2.5%	1.9%	1.9%	1.9%	0.0%	0.0%	0.0%	5.1%	5.1%	5.1%
ROAE (%)	23.7%	27.9%	24.4%	25.1%	22.4%	20.6%	8.4%	12.5%	14.7%	33.8%	37.5%	39.6%
ROAA (%)	8.2%	10.8%	10.2%	16.1%	15.6%	14.5%	6.7%	9.8%	11.4%	21.6%	23.3%	25.0%

Source: VNDIRECT RESEARCH

Figure 402: Peer comparison

Company	Ticker	Price	Target price	Recom.	Mkt cap	P/E (x)		3-year EPS	P/B (x)		ROA (%)		ROE (%)	
		LC$	LC$		US$m	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Commercial real estate peers														
SM Prime Holdings Inc	SMPH EQUITY	35	N/A	N/A	17,627	33.4	25.7	(4.4)	2.9	2.6	4.5	5.5	8.9	10.2
Central Pattana PCL	CPN TB	69	N/A	N/A	8,535	30.5	26.1	(13.1)	3.8	3.4	3.8	4.3	13.0	13.8
Pakuwon Jati Tbk PT	PWON IJ	560	N/A	N/A	1,857	14.4	12.9	(3.4)	1.3	1.2	5.3	5.4	9.5	9.6
Vincom Retail JSC	VRE VN	26,150	38,800	ADD	2,392	22.1	13.6	(19.8)	1.8	1.7	6.7	9.8	8.4	12.5
Average						*26.1*	*21.6*	*(7.0)*	*2.6*	*2.4*	*4.5*	*5.0*	*10.5*	*11.2*
Median						*26.3*	*19.7*	*(8.8)*	*2.3*	*2.1*	*4.9*	*5.4*	*9.2*	*11.4*
Gold and jewelry peers														
Chow Tai Fook Jewellery Group Ltd	1929 HK	15	N/A	N/A	19,778	18.0	14.9	27.5	3.5	3.1	8.0	9.3	20.1	22.0
Kalyan Jewellers India Ltd	KALYANKJ	91	N/A	N/A	1,150	24.7	19.6	N/A	2.9	2.5	N/A	N/A	12.5	14.2
Chow Sang Sang Holdings International Ltd	116 HK	8	N/A	N/A	734	5.9	5.1	(11.2)	0.4	0.4	5.2	5.8	7.4	8.1
Phu Nhuan Jewelry JSC	PNJ VN	103,000	140,700	ADD	1,020	13.0	12.1	1.7	3.1	2.6	16.1	15.6	25.1	22.4
Average						*16.2*	*13.2*	*7.5*	*2.3*	*2.0*	*6.6*	*7.6*	*13.3*	*14.8*
Median						*18.0*	*14.9*	*8.2*	*2.9*	*2.5*	*6.6*	*7.6*	*12.5*	*14.2*
Consumer electronics peers														
Erajaya Swasembada Tbk PT	ERAA IJ	400	N/A	N/A	407	6.3	5.3	36.3	0.9	0.8	9.0	9.3	16.2	17.4
FPT DIGITAL RETAIL JSC	FRT VN	63,400	N/A	N/A	302	14.4	12.0	627.6	N/A	N/A	3.5	3.5	28.4	N/A
Challenger Technologies Ltd	CHLG SP	N/A	N/A	N/A	154	N/A	N/A	(1.1)	N/A	N/A	N/A	N/A	N/A	N/A
Sunfar Computer Co Ltd	6154 TT	15	N/A	N/A	39	N/A	N/A	69.7	N/A	N/A	N/A	N/A	N/A	N/A
Tsann Kuen Enterprise Co Ltd	2430 TT	41	N/A	N/A	155	N/A	N/A	51.0	N/A	N/A	N/A	N/A	N/A	N/A
Average						*10.3*	*8.6*	*156.7*	*0.9*	*0.8*	*6.2*	*6.4*	*22.3*	*17.4*
Median						*10.3*	*8.6*	*51.0*	*0.9*	*0.8*	*6.2*	*6.4*	*22.3*	*17.4*
Grocery retailing peers														
Taiwan FamilyMart Co Ltd Taiwan	5903 TT	184	N/A	N/A	1,318	28.3	19.5	(2.4)	6.1	5.5	2.6	3.4	22.8	27.8
Sumber Alfaria Trijaya Tbk PT	AMRT IJ	2,750	N/A	N/A	7,288	43.3	34.6	50.1	10.9	9.1	N/A	N/A	27.8	28.9
Average						*35.8*	*27.0*	*23.9*	*8.5*	*7.3*	*2.6*	*3.4*	*25.3*	*28.4*
Median						*35.8*	*27.0*	*23.9*	*8.5*	*7.3*	*2.6*	*3.4*	*25.3*	*28.4*
CE&Grocery retailer														
Mobile World Investment Corp	MWG VN	40,200	78,300	ADD	2,369	11.1	8.0	16.2	2.0	1.7	8.2	10.8	23.7	27.9
Dairy peers														
Bright Dairy & Food Co Ltd	600597 CH	10	N/A	N/A	1,944	20.7	18.3	21.5	1.7	1.6	2.6	2.8	7.6	8.2
China Mengniu Dairy Co Ltd	2319 HK	32	N/A	N/A	15,939	19.5	17.4	20.7	2.7	2.4	6.0	6.1	14.9	14.9
Inner Mongolia Yili Industrial Group Co Ltd	600887 CH	29	N/A	N/A	25,696	19.0	16.0	10.8	3.5	3.2	9.1	10.1	18.7	20.1
MEIJI Holdings Co Ltd	2269 JP	6,860	N/A	N/A	7,206	16.9	16.9	13.5	1.3	1.3	5.0	5.0	8.4	8.0
Nestle Malaysia Bhd	NESZ MK	130	N/A	N/A	6,682	46.8	42.6	(4.2)	53.2	50.3	20.8	21.5	102.2	118.6
Vietnam Dairy Products JSC	VNM VN	79,500	86,800	HOLD	6,689	19.8	18.0	0.9	4.9	4.7	21.6	23.3	33.8	37.5
Average						*11.3*	*22.8*	*20.7*	*10.5*	*9.9*	*26.0*	*29.0*	*7.9*	*8.2*
Median						*19.5*	*17.4*	*13.5*	*2.7*	*2.4*	*6.0*	*6.1*	*14.9*	*14.9*

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as of 22 Nov 2022)

Sector note

EXPORT INDUSTRIES: DOWNWARD TRENDING

- Overall export growth will decelerate amid weakening global demand.
- We see gross margin to shrink across the board in 2023F due to FX risks and lower average selling price to attract customers.
- Our stock pick is DGC.

Weakening demand as global economy set to subdued

Vietnam's export turnover grew healthily 17.3% yoy in 9M22 but started slowing down in 3Q22 (-0.5% qoq; +17.2 % yoy). We expect that discretionary demand of Vietnam 's top exporting markets such as the U.S., E.U and even China, will soften further into 2023F which will weigh on export-related production, including: textile & garment (T&G), wood & wooden products (W&WP) and basic chemicals.

We expect that GM's export companies will edge down in FY23F

We forecast that input material prices such as yarn, fabrics, plywood will decrease 3%-7% yoy in FY23F due to weak demand. However, with the challenge ahead, we think that T&G and W&WP comanies will have to lower the selling price (7%-10% yoy) to attract more customers. Thus, GM's T&G and W&WP companies will edge down 0.8%-1.0% pts yoy in FY23F. While we expect GM's basic chemical companies to remain at high level in 1H23F before slowing down in 2H23F due to weaker demand for electronics and aluminum. We forecast GM's chemical sector to decline 1.5%-2.5% pts yoy in FY23F.

The impact of FX volatility is different among export enterprises

The VND has depreciated ~8.3% to US$ at end-Oct 22. We believe that businesses with positive net cash and low debt-to-equity ratio will benefit from high interest rates such as DGC, VIF, ACG and GIL. While most of the T&G enterprises will have to face the risk of interest rate increase due to high net debt. In additionally, we see that companies with high US$ debt ratio such as PTB, MSH, and STK are exposed to FX risks.

Our stock pick is DGC

Against sectoral headwinds, we believe export-related companies that have strong market position, solid balance sheet are able to mitigate the FX and rising cost of debt risks and quickly bounce back once the winds change. We like DGC thanks to 1) DGC had no long-term debt and a net cash/share of VND17,703/share as of 3Q22 and 2) 80% of DGC's revenue is in US$, while only 40% of its COGS is in US$ which will support for DGC's GM in FY23F. Investment risks include (1) longer than-expected global recession and (2) the changes exporting tariffs.

Figure 403: Year-to-date price movements of export companies' stocks

SOURCES: Fiinpro, VNDIRECT RESEARCH

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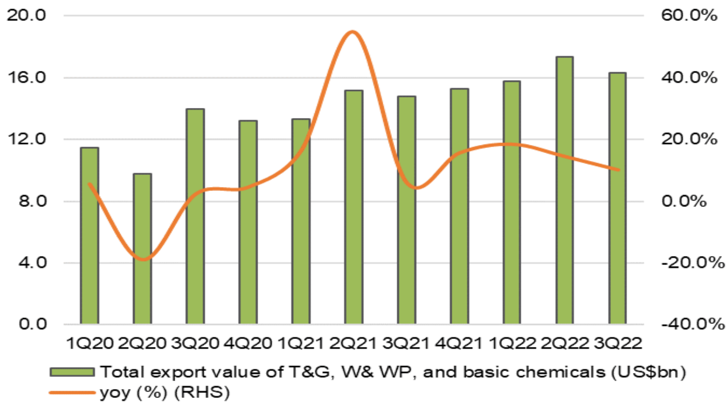
Vietnam export industries snapshot in 9M22

The export value of major industries

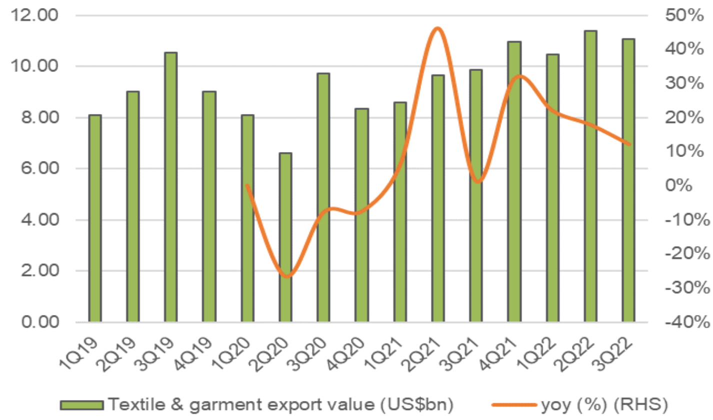
Vietnam's export turnover in 9M22 recorded positive results, reaching US$282bn (+17.3% yoy) thanks to high contribution from main export industries such as textile and garment, wood and wooden production and basic materials. Total export value of 3 industries achieved US$46.2bn in 9M22 (+20.2% yoy) thank to 1) pent-up demand in the main export markets such as the U.S., E.U in post-Covid 19 period and 2) shortage of supply leading to sharp increase in chemical prices (phosphorus, DAP fertilizer, caustic soda).



Sources: MOIT, VNDIRECT RESEARCH

Vietnam's textile and garment export value

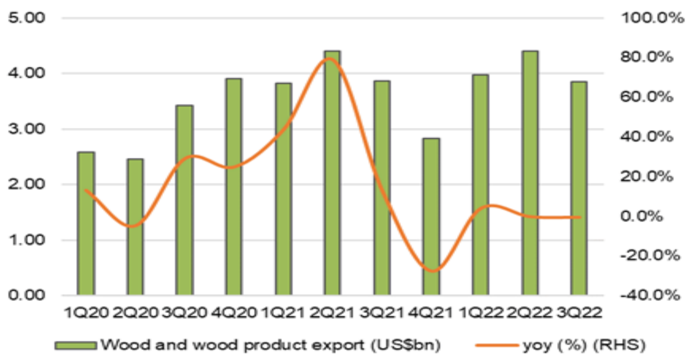
The T&G export turnover remained growth momentum in 3Q22 thanks to low base in 3Q21. Fabrics and garment export value in 3Q22 increased 19.9% yoy to US$8.8bn. However, fabrics and garment export value in Sep-22 plunged 28.2% mom due to weak demand in the U.S. and EU. While fibre and yarn export value in 3Q22 declined 32.3% yoy due to weak demand in major market (caused by on-going high inflationary expectation and, and potential economic recession in U.S., E.U). Overall, the total export T&G value in 9M22 increased by 21.6% yoy, to US$35.3bn, fulfilling 80% of the government's guidance for 2022.



Sources: MOIT, VNDIRECT RESEARCH

Wood and wooden product export value

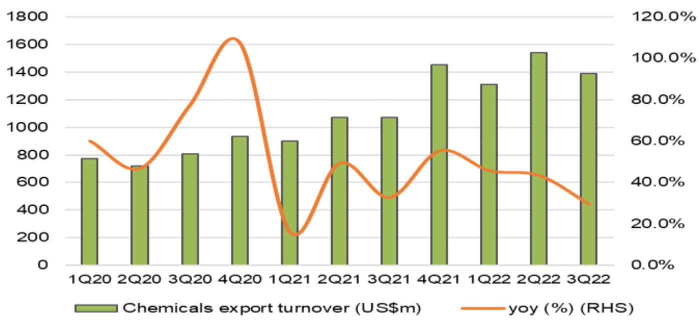
The W&WP export value in 3Q22 decreased 0.5% yoy and 12.2% qoq (3Q21 hit hard by Coivd-19), to US$3.8bn as weak demand in the U.S. market. High home price in the U.S. in 3Q22 affected to the demand of house buying and home furniture. Overall, W&WP export turnover in 9M22 reach US$$12.3bn, fulfilling 74.6% of Vietnam Ministry of Agriculture and Rural Development 's guidance for 2022.



Sources: MOIT, VNDIRECT RESEARCH

Basic chemicals export value

Basic chemicals export value in 3Q22 increased 29.5% yoy but decreased 12.2% qoq to US$1.38bn as prices of key commodities peaked in the 2Q22 such as yellow phosphorus, DAP and caustic soda. Overall, basic chemicals value in 9M22 reach US$4.2bn (+39.2% yoy).



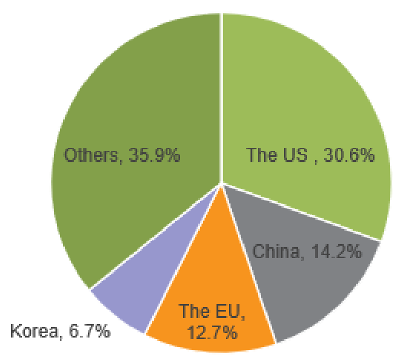
Sources: MOIT, VNDIRECT RESEARCH

Weak global consumption weigh on Vietnam export industries

Fitch's latest Global Economic Outlook forecast consumer spending to grow by 2.5% in 2022 before slowing to 0.9% in 2023F amid global economic downturn. For the U.S. and EU, Vietnam 's major trading partner, Fed's aggressive interest rate hikes will increasingly weigh on job growth and consumer spending in 2023F. Several the U.S. technology companies (Twitter, Meta) have recently announced layoffs and other cost-cutting measures, which alerted the rising of jobless claims. Additionally, the U.S.' two largest retailers Amazon and Walmart have posted a weaken 3Q22 results. Amazon reported 3Q22 revenue and net profit to drop 15.4% yoy and 9.6% yoy, respectively while Walmart recorded a net loss of US$1.7bn in 3Q22.

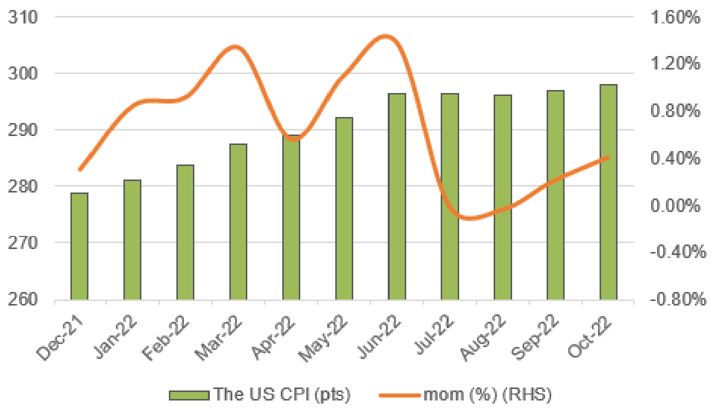
The U.S. Conference Broad's Consumer Confidence Index fell to 102.5 in Oct 2022 from 107.8 in the previous month. The actual data in Oct 2022 is also lower than the previous market's expectation of 106.5, showing that U.S. consumers are worrying about stubbornly inflation as well as the U.S. economic outlook.

Figure 404: The U.S. is Vietnam's largest export market in 9M22



Source: MOIT, VNDIRECT RESEARCH

Figure 405: CPI in the U.S. rose 0.4% mom in Oct-22



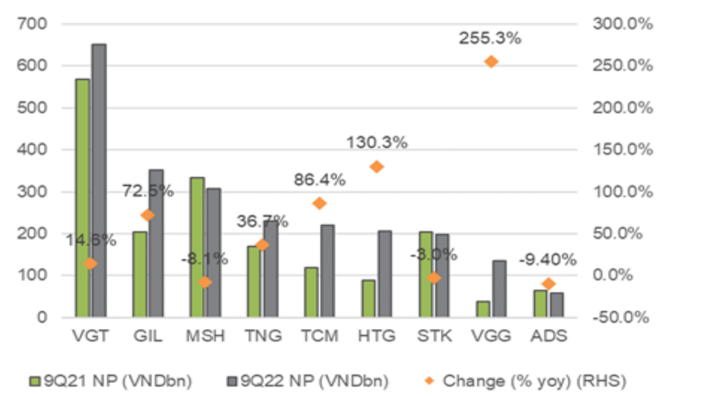
Source: U.S. Bureau of Labor Statistics, VNDIRECT RESEARCH

Textiles & Garment: Waiting the recovery in 2024F

Gross margin was flat yoy even though 3Q21 was hit hard by Covid-19

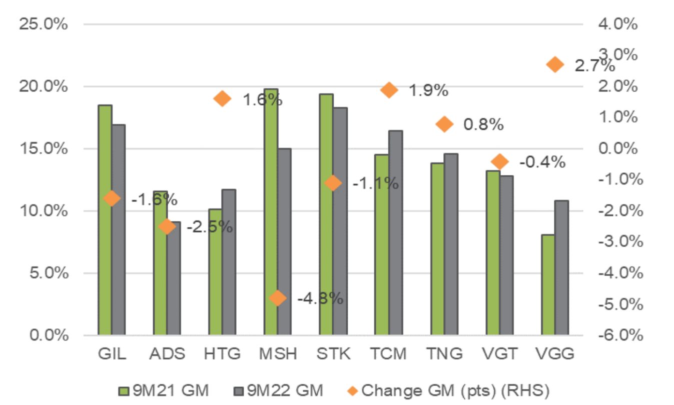
For 3Q22, aggregated revenue of listed T&G companies increased 23.3% yoy thanks to low base in 3Q21 while 3Q22 net profit surged 61.3% yoy, but decreased 32.2% qoq due to the effect by high inflation and recession risk in the major export markets.

Figure 406: The NP growth of T&G companies in 9M22 (unit: VNDbn)



Source: Fiinpro VNDIRECT RESEARCH

Figure 407: Most of T&G companies showed a narrowing GM in 9M22



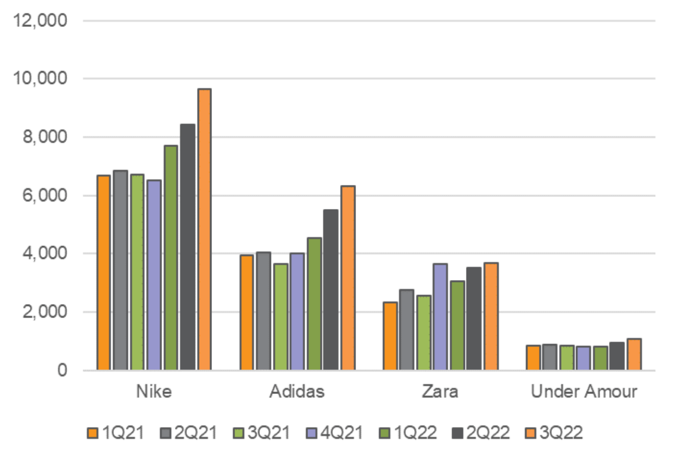
Source: Fiinpro VNDIRECT RESEARCH

Gross margin of T&G enterprises edged up 0.3% pts mainly driven by lower input material price. Besides, financial expenses of T&G companies soared 126.9% yoy due to exchange rate loss from importing raw material and debt in US$. Overall, sector revenue and net profit in 9M22 rose 23.6% yoy and 41% yoy, respectively. Notably, a few T&G companies recognised a sizeable loss from FX due to the weakness of EUR. Top companies to record strongest 9M22 earnings growth includes: VGG (+255.3% yoy), HTG (+130.3% yoy), and TCM (+86.4% yoy).

Global discretionary demand set to subdued into 2023F

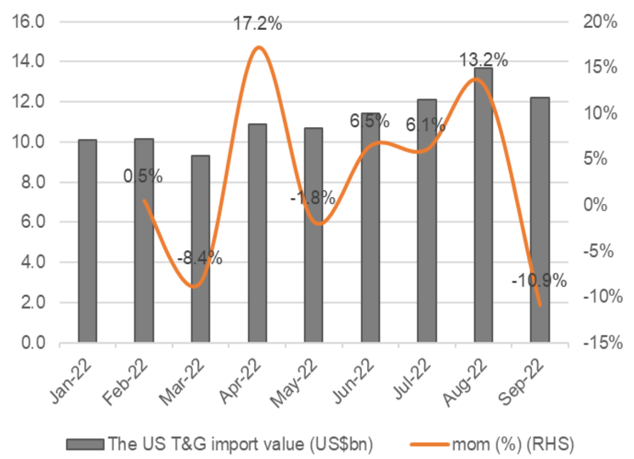
Vietnam's T&G export turnover grew healthily 17.3 % yoy in 9M22 but started slowing down in 3Q22 (-2.9% qoq). We expect that discretionary demand of Vietnam 's top exporting markets such as U.S.., EU and even China, will soften further into 2023. According to our market research, Vietnam exporters saw a decrease in orders since July 22 due to high inventory at U.S. large retailers, eg: Adidas, Nike, … According to the latest quarterly report, Adidas and Nike experienced sharp increases of 44% yoy and 35% yoy in inventory due to weak domestic consumption.

Figure 408: Sportswear companies' inventories increased sharply yoy in 3Q22 (unit: US$m)



Source: Bloomberg, VNDIRECT RESEARCH

Figure 409: The U.S. import value in Sep-22 decreased 10.9% yoy



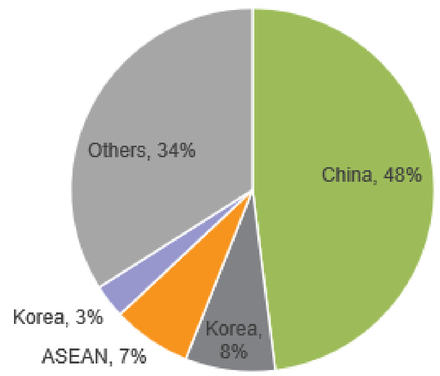
Source: OTEXA, VNDIRECT RESEARCH

Overall, we forecast that input material price such as cotton yarn polyester yarn will decrease 1%-3% yoy in 2023F due to weak demand and following the slowing down of oil and cotton price. However, with the challenge ahead, we think that T&G comanies will shift production to lower value items in the context of high inflation. Thus, GM's T&G companies will edge down 0.8%-1.0% pts yoy in FY23F.

The re-openings of China could be a catalyst

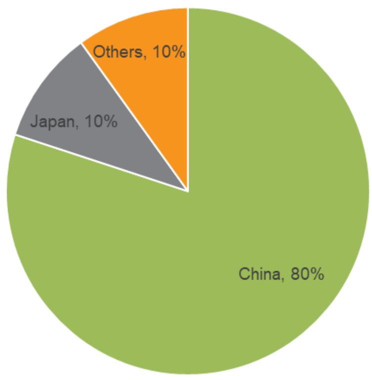
We expect China to reopen its economy soon in 2023F. Accordingly, the yarn industry will tend to recover as China is the main yarn importer of Vietnam, accounting for 48% of the total export value. We believe that yarn manufacturers with a high share of exports to China like Dam San JSC (ADS) will taking advantage.

Figure 410: Fiber and yarn export value by destinations in 2021



Source: MOIT, VNDIRECT RESEARCH

Figure 411: Export share of ADS by market in 2021



Source: ADS, VNDIRECT RESEARCH

EVFTA will cut down the export tariff to EU

Additionally, we expect that the outlook of T&G export to EU will be brighter in 3Q23F as T&G products will be reduced import tax in the EU market in 2023F thanks to the EVFTA. According to Free Trade Agreement (FTA), garment types including B3, B5, B7 will be decreased by 2%-4% export tax in 2023F. European Commission forecasts that inflation in the Eurozone will reach 8.3% in 2022, before falling to 4.3% in 2023F. As a result, we expect that some textile and garment enterprises that export suits, shirts, pants and skirts to Europe such as MSH, M10, VGG, TNG will benefit from the EVFTA.

Figure 412: T&G type will be reduced export tax to the EU market in 2023F

Products	Company's product	Types	Base tax	2021	2022F	2023F
Coats and blazers from polyester yarn	M10, MNB	B5	9.6%	8.0%	6%	4%
Dress from polyester yarn	MSH	B3	9.6%	6.0%	3%	0%
Men's and children's shirts from cotton yarn	TNG, VGG	B7	9.6%	9.0%	7.5%	6%
Garments made of fabrics of heading 5602, 5603, 5903, 5906 or 5907	TCM, MSH	B5	9.6%	8.0%	6%	4%

Source: FTA, VNDIRECT RESEARCH

Wood & Wooden products: The challenges blur the outlook

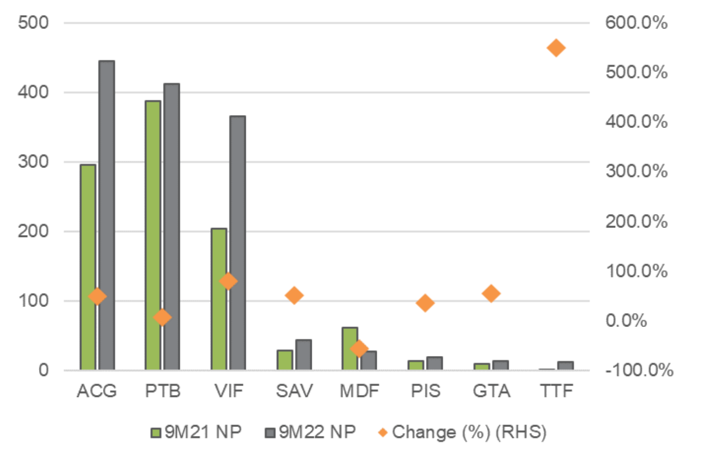
W&WP companies have felt the heat from inflation

Based your estimate, 3Q22 aggregated revenue of listed W&WP companies decreased 10.2% qoq and increased 17.2% yoy from low base in 3Q21 when production and supply chains were disrupted by COVID-19.

GM's sector edged down 0.3% pts as W&WP companies decreased ASP in 3Q22 due to weak demand in the U.S. market. We see the deceleration in NP growth of the export wood company group in 3Q22. In which, GDT and PTB's businesses results was hit hard in 3Q22 due to high inflation in the U.S. and the EU. Whereas, domestic wood producers like ACG, VIF recorded more positive business results in 3Q22 thank to 1) higher selling price and economic of scale and 2) the recognition of profits from joint ventures.

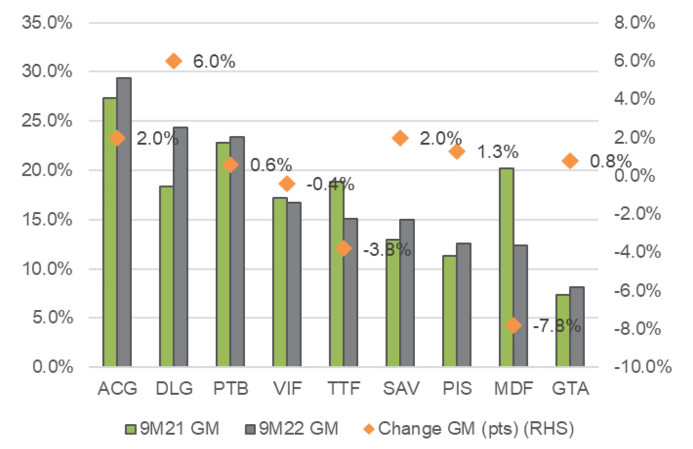
Overall, NP's wood sector in 9M22 lifted 31.5% yoy, outpaced revenue growth (+12.5% yoy) thanks to extraordinary income from VIF's profit from joint venture.

Figure 413: The change NP of W&WP companies in 3Q22 (unit: VNDbn)



Source: Fiinpro VNDIRECT

Figure 414: Most of T&G companies showed an expansion GM in 9M22

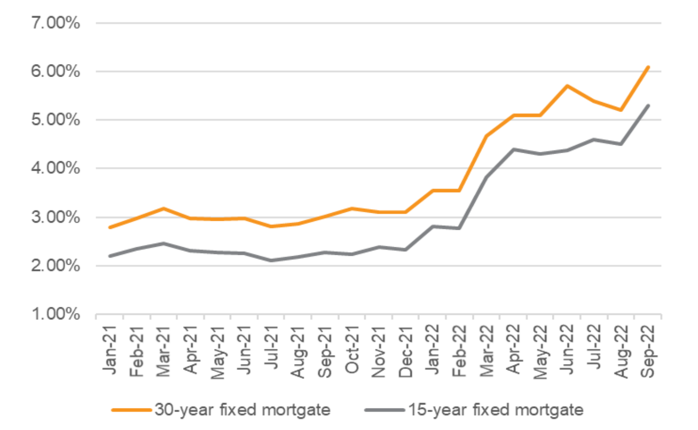


Source: Fiinpro VNDIRECT

U.S. housing demand to cool down amid increasing rates and prices

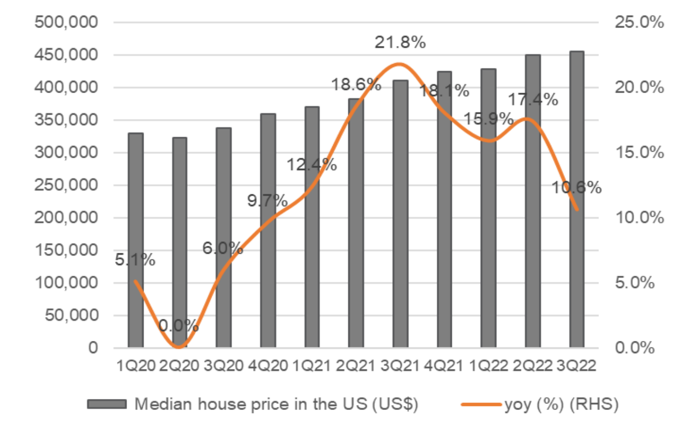
The 30-year fixed mortgage rates in the U.S. now stands at 6.1% - back to their highest level since 2011, while median home price in US$454,900 rose 10.6% yoy in 3Q22 due to shortfall in supply. We think higher mortgage rates and home prices could dampen demand for homes and furniture in the U.S. in 2023F. We believe that wood exporting companies' revenue such as PTB, TTF, GDT will decelerate in FY23F due to weak demand in the U.S. market.

Figure 415: The 30-year fixed mortgage rates in the US stand at 6.1% in Sep-22



Source: Freddie Mac, VNDIRECT RESEARCH

Figure 416: The median home price reached US$459,000 in 3Q22



Source: U.S. Bureau of Labor Statistics, VNDIRECT RESEARCH

The plywood price in 3Q22 reached US$3.9/sheet (-20.2% yoy) due to weak demand in global market. We think that plywood price – main input material of W&WP industry will still remain at low level within US$3.7/sheet to US$4.0/sheet as due to uncertain property market. Thus, we forecast plywood price to decrease 5% yoy in FY23F. However, we expect that W&WP companies will have to reduce average selling price to attract more customers. As a result, we forecast the GM of W&WP industry to edge down 0.5%-0.8% pts in FY23F.

Basic chemical: brighter in 4Q22-1H23F

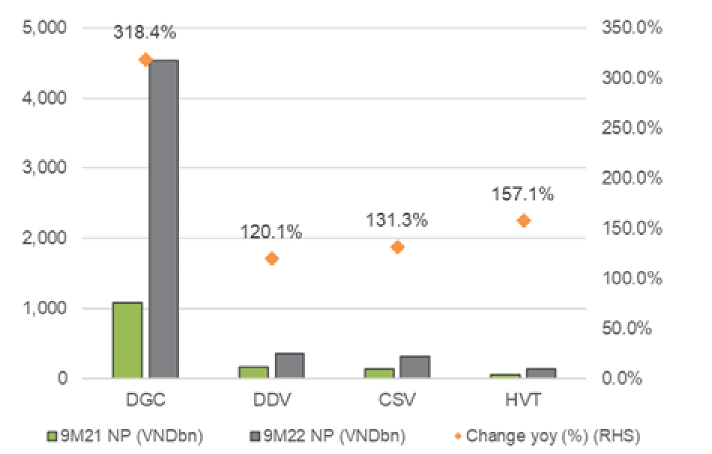
Basic chemical companies' NP growth slowed down in 3Q22 as commodity prices peaked in 2Q22

Prices of some basic chemicals such as phosphorus, DAP fertilizer, caustic soda have cooled down in 3Q22 after peaking in 2Q22. Prices of phosphorus, DAP and caustic soda decreased by 30%, 21%, 20% respectively from the peak, leading to lower business results of basic chemical enterprises in 3Q22.

DGC – Vietnam's leading producer of phosphorus and phosphorus-based products, posted VND3,696bn in net revenue (+75% yoy and -8% qoq). DGC's GM slumped 8.6% pts qoq in 3Q22 due to 1) lower average selling price and 2) DGC conducted maintenance on its phosphorus equipment. Thus, DGC's NP in 3Q22 soared 196% yoy, but decreased 21% qoq, to VND1,414bn.

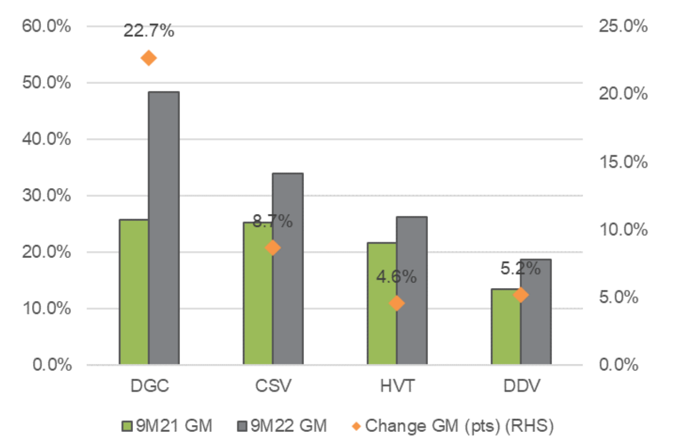
While CSV – one of the largest caustic soda producers in Vietnam recorded VND574bn in 3Q22 net revenue (+61% yoy and 2% qoq). However, CSV's GM reached 31.8% in 3Q22 (+8.9% pts yoy and -2.3% pts qoq) due to lower ASP. As a result, CSV's 3Q22 NP achieved VND101bn (+59% yoy and -11.2% qoq).

Figure 417: Basic chemical companies' NP in 9M22



Source: Fiinpro, VNDIRECT RESEARCH

Figure 418: Basic chemical companies' GM increased significantly in 9M22

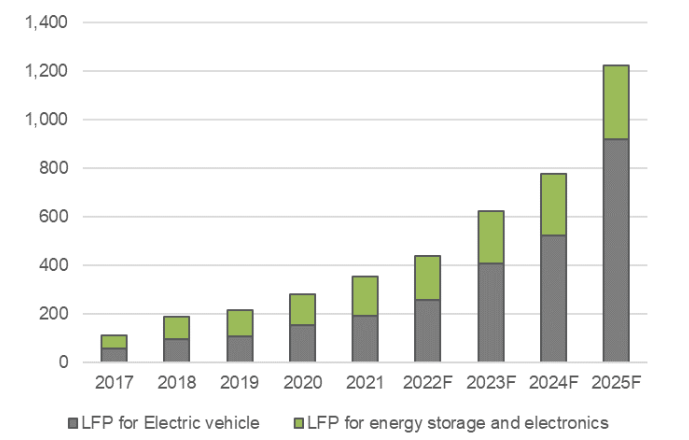


Source: Fiinpro, VNDIRECT RESEARCH

Yellow phosphorus price rebound in 4Q22 due to production restriction order from China

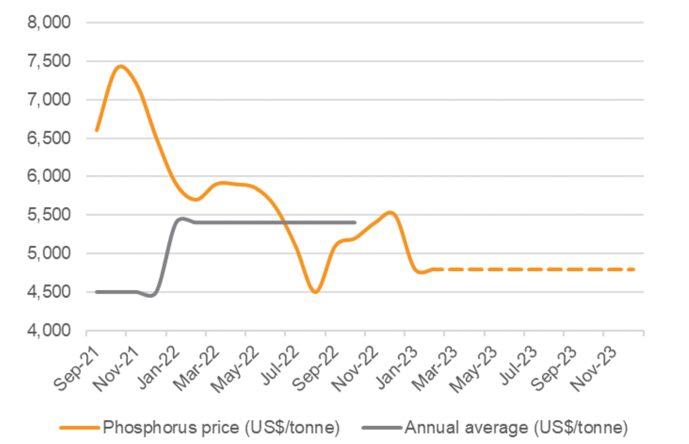
Since Sep-22, yellow phosphorus in China has been subject to control over energy consumption policy. Yunnan - one of the 4 largest yellow phosphorus producing provinces in China has implemented the "Energy Efficiency Management Plan from Sep-22 to May-23 for the energy consumption sector". Accordingly, the yellow phosphorus production enterprises in Yunnan province will reduce and stop production altogether. As of Oct-22, the operating ratio of yellow phosphorus enterprises in Yunnan has dropped to about 41%, down 28% compared to mid-September. While daily output was only 805 tonnes (-41.8% vs mid-Sep). Thus, phosphorus price in Sep-22 increased 15.5% mom, achieving US$5,200/tonnes. We expect phosphorus prices to continue to increase in 4Q22 and maintain high prices (US$5,200-US$5,500/tonne) until 1H23F as 1) Yunnan will limit phosphorus production until the end of May-23 and 2) China promotes development of Lithium Iron Phosphate Batteries. We expect the large phosphorus manufacturers such as DGC taking advantage from the rebound of phosphorus price.

Figure 419: The demand of LFP for electric vehicle reached 10,2% CAGR in 2017-2025F (Units: US$bn)



Source: Global data, VNDIRECT RESEARCH

Figure 420: We expect phosphorus prices to reach US$4,800 in 2023 (US$/tonne)

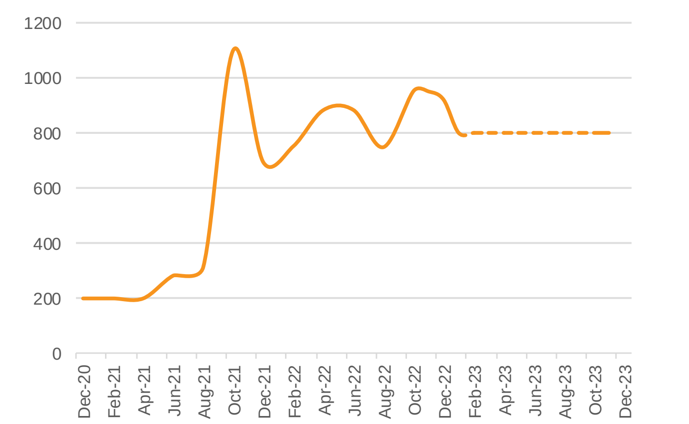


Source: Businesses Analytic, VNDIRECT RESEARCH

We expect caustic soda price to remain at high level in 2023F

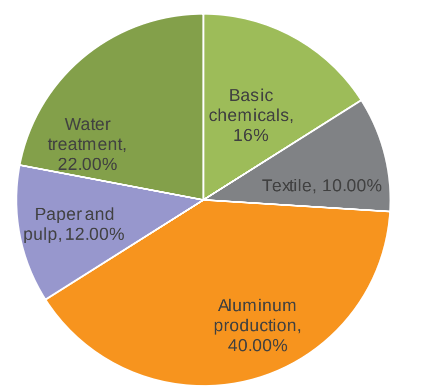
The domestic price of caustic soda is highly dependent on the China because China exports about 40% of the demand for caustic soda in Vietnam. Caustic soda price in China rebound in Sep-22, reaching US$850/tonne (+13.2% mom) due to the shortage energy and high demand for aluminum in China. We expect caustic soda price to remain at high level until 2Q23F as China continue to implement the Zero-Covid and limit aluminum production in 2023F. We forecast caustic soda price to reach range US$800-US$900/tonnes in 4Q22-1H23F before decreasing gradually in 2H23F. We expect domestic caustic soda manufacturers such CSV to maintain high NP in 4Q22-1H23F.

Figure 421: We forecast caustic soda to reach US$800/tonne in 2023 (Unit: US$/tonne)



Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 422: Consumption structure of caustic soda in 2021



Source: General Statistics Office of China, VNDIRECT RESEARCH

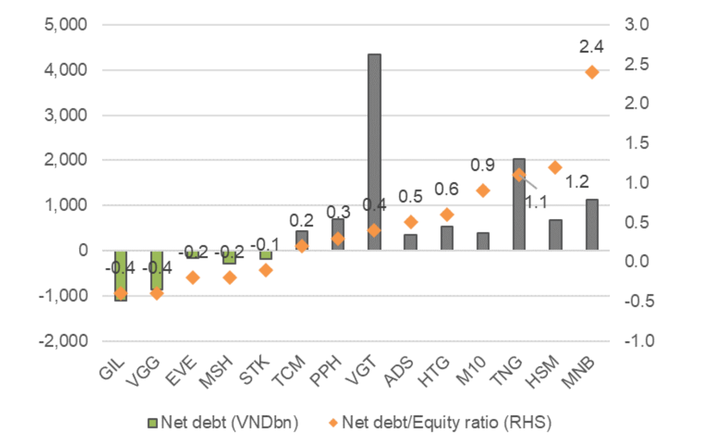
The impact of FX volatility and interest hike are different among export enterprises

The US$ is strengthening as the FED adopted a hawkish monetary policy stance in response to skyrocketing inflation. The VND has depreciated ~ 8.3% to US$ at end-Oct 22. We believe that the businesses which are net exporters and has no US$-debt burden such as DGC and GIL will benefit from the strengthen of

US$. While businesses with a high proportion of US$ debt such as PTB, MSH, and STK will suffer from exchange rate losses in FY23F.

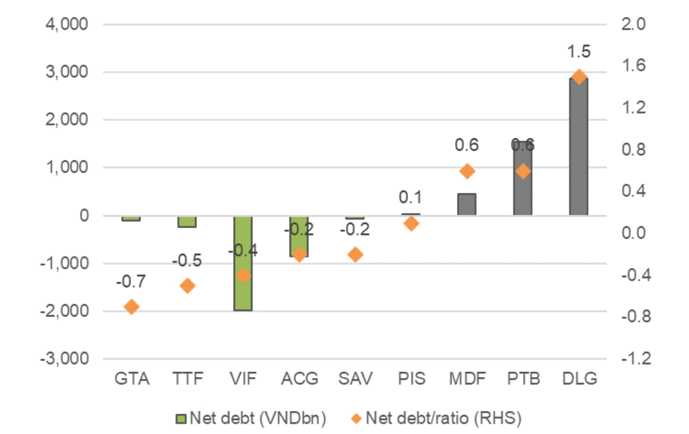
In addition, interest rates on multi-term deposits at banks have increased by an average of 1.5%-2.0%/year vs. the beginning of the year. We expect that the enterprises with positive net cash and low net debt/equity ratio such as DGC, ACG, VIF likely benefit from higher interest income. While bottom lines of VGT, TNG, PTB will be hurt by higher interest payment in FY23F.

Figure 423: Most of the T&G enterprises will have to face the risk of interest rate due to high net debt



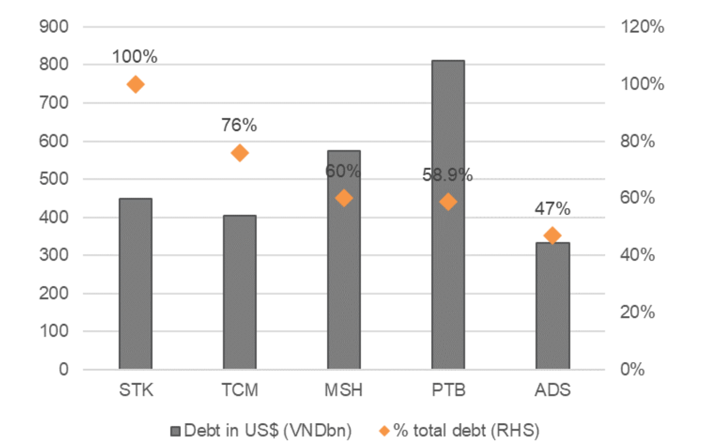
Source: Fiinpro, VNDIRECT RESEARCH

Figure 424: Net debt and net debt/ equity ratio of W&WP companies as of Sep-22



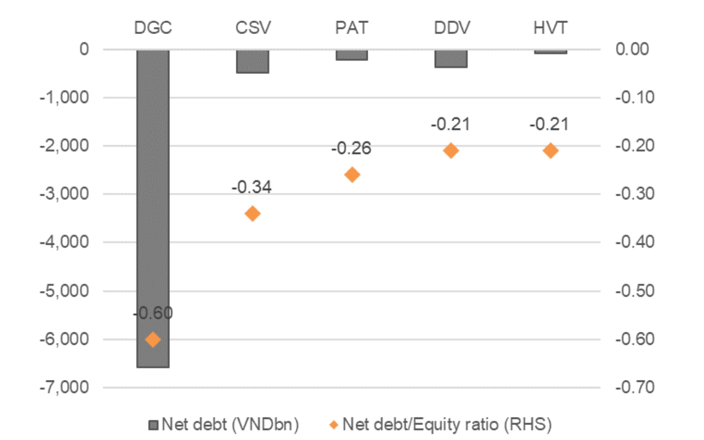
Source: Fiinpro, VNDIRECT RESEARCH

Figure 425: Exporting enterprises have high debt value in US$ as Sep-22



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 426: Basic chemicals companies have positive net cash as of Sep-22



Source: Fiinpro, VNDIRECT RESEARCH

Investment risks

On 02 November, the U.S. Central Bank (FED) continued to raise interest rates to 0.75% pts. This is the 4th interest rate hike, bringing interest rates in the U.S. to the highest level of 3.75 – 4.0% since 08 Jan. Longer-than-expected inflation in the U.S. market will reduce shopping demand for non-essential product. Additionally, changes in domestic and foreign tariffs on phosphorus will reduce phosphorus producers' GM in 2023.

Our stock pick is DGC

We like solid companies against current headwinds of interest rate and exchange rate. Additionally, we also prefer enterprise which have low net debt/equity ratio, low exposure to US$ and autonomy in input materials. Thus, we like DGC stock pick.

Figure 427: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK DGC	79,200	ADD	(1) DGC benefits from both higher deposit rates and US$/VND exchange rate. DGC had no US$ debt burden and a net cash/share of VND17,703/share as of 3Q22. We see that DGC can fund its chlor-alkali-vinyl project in FY23F without debt. Moreover, 80% of DGC's revenue is in US$, while only 40% of its COGS is in US$ which will support for DGC's GM in FY23F. (2) The Chlor-alkali-vinyl (CAV) project's phase 1 completion in 3Q24F will become the main revenue growth driver; contributing 25% of annual revenue and making DGC's sodium hydroxide factory number 1 in commercial capacity in Vietnam. Given that currently CAV manufacturers in Vietnam are mainly small or non-commercial and it requires large capital investment, we believe that DGC will maintain its leading position in the industry in FY25-28F period. (3) DGC stock price has dropped 33.2% from Aug-22, following the market correction. Currently, DGC is traded at 4.6x FY23F P/E, which is a 54% discount to its 3-year average of 10.3x. We believe this valuation is relatively attractive for leading producer of phosphorus and phosphorus-based products and is planning to expand new products in short term.
2	ACG	69,200	ADD	(1) We see ACG as a solid company against current headwinds of interest rate and exchange rate. ACG's balance sheet is quite solid with low D/E ratio of 36%, low exposure to US$ as 70% of ACG's material is purchased from domestic partners. (2) We are optimistic about ACG's long-term export revenue prospects (FY23-25F) as in 2Q22, ACG signed a partnership with the U.S. property arm of Sumitomo — a strategic shareholder of ACG — which should help to bolster ACG's exports going forward in FY23-24F. (3) ACG stock price has plunged 37.9% since Oct-22. Currently, ACG is traded at 8.2x TTM PE, which is a 56.6% discount to its 3-year average of 18.9x. We believe this valuation is attractive for a leading company in engineered wood in domestic market and is planning to fully cover 63 provinces in 3Q23F.
3	PTB	65,000	ADD	(1) We forecast a 13.2% CAGR in core EPS (excluding real estate) in FY21-24F backed by a recovery in the wood and stone businesses as well as higher quartz contributions in 2024F. (2) We forecast PTB's NP increase 14.1%/15.4% yoy in FY24/25F, respectively. (3) PTB stock price has dropped 42.2% ytd. Currently, PTB is traded at 5.4x FY23F P/E, which is a 31% discount to its 3-year average of 8.3x. We believe this valuation is relatively attractive for a leading export wood comanies with sizeable capacity and proven track record.
4	STK	38,000	ADD	(1) We expect Unitex factory phase 1 to operate commercially in 4Q23F. The total sale volume in FY23F is expected to reach 76,800 tonnes/year to capture the growing demand for recycled yarn in 2024F. (2) We forecast STK's NP in FY23/24F to increase 10.9%/17.2% yoy, respectively. (3) STK stock price plunged 45.5% ytd and currently is traded at 7.8x P/E TTM. We think that the valuation is relatively attactive for one of the largest yarn manufacturers in Vietnam. We expect STK to be the first to recover when global demand rebound.
5	TCM	42,000	HOLD	(1) We expect TCM's NP to increase 10.3% yoy in FY23F thanks to 1) decrease input material price and 2) the higher contribution from Vinh Long 2 factory. (2) TCM stock price plunged 20.8% ytd and currently is traded at 15.1x P/E TTM. We think that the valuation is still too expensive to disburse.

Source: VNDIRECT RESEARCH

Figure 428: FY22-24F earnings forecasts of stocks under coverage

	DGC			ACG			PTB		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	15,119	13,689	13,802	4,178	4,575	5,255	6,915	6,518	7,318
% growth	*58.0%*	*-9.5%*	*0.8%*	*26.9%*	*9.5%*	*14.9%*	*6.5%*	*-5.7%*	*12.3%*
Gross margin (%)	*44.7%*	*38.7%*	*34.2%*	*28.9%*	*28.2%*	*28.6%*	*23.1%*	*21.9%*	*21.9%*
EBITDA margin (%)	*40.5%*	*34.6%*	*28.3%*	*22.3%*	*21.4%*	*21.0%*	*9.7%*	*7.3%*	*7.1%*
Net profit (VNDbn)	5,676	4,426	3,820	617	652	758	549	453	517
% growth	*136.0%*	*-22.0%*	*-13.7%*	*36.8%*	*5.7%*	*16.2%*	*7.2%*	*-17.5%*	*14.1%*
EPS (VND/share)	5,982	7,042	8,273	4253	4495	5,225	7,777	6,416	7,322
BVPS (VND/share)	30,577	40,233	48,101	30,699	31,414	32,300	37,378	41,751	47,091
Net cash/share (VND/share)	17,300	14,231	13,210	7,363	9,572	8,354	-25,426	-22,639	-23,245
D/E	0.08	0.06	0.20	0.20	0.29	0.22	0.62	0.90	0.72
Dividend yield (%)	5.1%	3.3%	3.3%	6.6%	6.6%	6.6%	2.6%	2.6%	2.6%
ROAE (%)	65.2%	33.7%	23.3%	6.1%	7.6%	7.9%	15.5%	15.4%	17.4%
ROAA (%)	51.4%	27.9%	30.2%	3.3%	4.2%	4.1%	11.8%	11.9%	11.1%

Source: VNDIRECT RESEARCH

Figure 429: FY22-24F earnings forecasts of stocks under coverage

	STK			TCM		
	2022F	2023F	2024F	2022F	2023F	2024F
Revenue (VNDbn)	2,265	13,689	13,802	6,915	6,518	7,318
% growth	10.9%	13.9%	26.5%	15.9%	16.8%	16.8%
Gross margin (%)	18.8%	18.7%	17.9%	15.9%	16.8%	16.8%
EBITDA margin (%)	19.9%	20.7%	20.0%	9.7%	7.3%	7.1%
Net profit (VNDbn)	259	288	337	289	353	362
% growth	-6.9%	10.9%	17.2%	106.0%	22.1%	2.5%
EPS (VND/share)	3,179	3,518	4,121	3,286	4,314	4,415
BVPS (VND/share)	17,746	19,297	21,941	23,219	24,661	26,789
D/E	0.31	0.53	0.64	0.62	0.73	0.48
Dividend yield (%)	5.5%	5.5%	5.5%	2.2%	2.2%	2.2%
ROAE (%)	18.9%	18.0%	18.1%	14.1%	17.4%	16.4%
ROAA (%)	12.4%	11.9%	10.9%	7.1%	8.5%	8.1%

Source: VNDIRECT RESEARCH

Figure 430: Peer comparison in export industries

				Market							3 year-EPS				
			TP	cap	P/E (x)			P/B (x)			growth	ROE (%)		ROA (%)	
Company	**Ticker**	**Recom**	**LC$**	**US$m**	**TTM**	**FY22F**	**FY23F**	**Current**	**FY22F**	**FY23F**	**CAGR (%)**	**FY22F**	**FY23F**	**FY22F**	**FY23F**
Textile & garment															
Thanh Cong Garment JSC	TCM VN	Hold	42,000	179.3	17.7	na	na	1.9	1.7	1.6	-3.4	14.1	17.4	7.1	8.5
NHA BE Garment Corp-JSC	MNB VN	na	na	67.0	55.4	na	na	0.9	na	na	-35.6	2.1	na	0.4	na
TNG Investment & Trading JSC	TNG VN	na	na	143.9	4.2	4.0	3.8	0.8	na	na	6.5	19.0	17.9	6.4	5.9
Mirae JSC	KMR VN	na	na	13.0	11.3	na	na	0.2	na	na	4986.7	2.3	na	1.4	na
Song Hong Garment JSC	MSH VN	na	na	113.5	6.7	7.9	7.4	1.6	1.5	1.3	20.7	25.5	19.7	12.0	9.4
Vietnam National Textile & Garment Group	VGT VN	na	na	495.7	6.5	na	na	0.5	na	na	72.8	11.6	na	4.1	na
Viet Tien Garment Corp	VGG VN	na	na	25.5	24.6	na	na	0.7	na	na	-41.0	3.1	na	1.7	na
Century Synthetic Fiber Corp	STK VN	Add	38,000	84.0	7.7	7.3	7.0	1.4	1.3	1.2	20.3	18.9	18.0	12.4	11.9
Average					*16.8*	*6.4*	*6.1*	*1.0*	*1.5*	*1.4*	*628.4*	*13.9*	*22.3*	*5.7*	*8.9*
Median					*9.5*	*7.3*	*7.0*	*0.9*	*1.5*	*1.3*	*13.4*	*12.8*	*18.8*	*5.2*	*9.0*
Wood and wooden products															
Phu Tai JSC	PTB VN	Add	65,000	181	5.9	5.1	4.6	0.9	0.8	0.6	11.8	15.5	15.4	11.8	11.9
An Cuong Working Wood JSC	ACG VN	Add	68,300	28	7.9	8.4	8.0	1.3	1.2	1.1	na	6.1	7.6	4.2	4.1
Viet Nam Forestry Corporation JSC	VIF VN	na	na	175	6.4	na	na	0.9	na	na	-28.6	na	na	na	na
Geruco-Quang Tri Wood JSC	MDF VN	na	na	30	6.9	na	na	0.7	na	na	81.3	na	na	na	na
Duc Long Gia Lai JSC	DLG VN	na	na	137	7.0	na	na	0.3	na	na	-462.8	na	na	na	na
Thuan An Wood Processing JSC	GTA VN	na	na	6	6.6	na	na	0.8	na	na	-3.0	na	na	na	na
Truong Thanh Furniture Corporation	TTF VN	na	na	73	80.2	na	na	2.8	na	na	na	na	na	na	na
Average					*17.3*	*6.8*	*6.3*	*1.1*	*1.0*	*0.9*	*(80.3)*	*10.8*	*11.5*	*8.0*	*8.0*
Median					*6.9*	*6.8*	*6.3*	*0.9*	*1.0*	*0.9*	*(3.0)*	*10.8*	*11.5*	*8.0*	*8.0*
Basic chemicals															
Duc Giang Chemicals JSC	DGC VN	Add	79,200	576	3.5	3.3	4.2	1.8	1.6	1.4	52.8	65.2	33.7	51.4	27.9
Viet Tri Chemicals JSC	HVT VN	na	na	19	3.9	na	na	1.3	na	na	8.5	na	na	na	na
South Basic Chemicals JSC	CSV VN	na	na	37	3.3	na	na	0.9	na	na	-3.2	na	na	na	na
DAP Vinachem Co Ltd	DDV VN	na	na	45	6.6	na	na	0.7	na	na	na	na	na	na	na
Average					*4.3*	*3.3*	*4.2*	*1.7*	*2.9*	*2.6*	*19.4*	*65.2*	*33.7*	*51.4*	*27.9*
Median					*3.7*	*3.3*	*4.2*	*1.1*	*2.9*	*2.6*	*8.5*	*65.2*	*33.7*	*51.4*	*13.3*

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as in 22 November 2022)

Sector note

TECH & TELCO: DIGITAL TRANSFORMATION IN FOCUS

** Digital transformation (Dx) is the process of integrating digital technology into all aspects of a business, requiring fundamental changes in technology, culture, operations and value delivery. The four technologies, namely Cloud Computing, Mobile, Social and Data Analytics, were the foundation of digital innovation in most organisations until recently. Currently, Artificial Intelligence (AI), Internet of Things (IoT), Blockchain and Natural Interfaces (e.g. 3D printing, Virtual Reality, Augmented Reality, etc.) are further aiding digital transformation.*

- In FY23F, the revenue growth rate for Dx(*) (+18.0% yoy) may double revenue from traditional IT services (+7.9% yoy), suggesting vast potential opportunities in the market.
- 5G technology is the new big catalyst in technology & telecom segment.
- We believe that FPT and CTR are technology & telecom companies worth investing in long term with low risk in the current macro environment.

Riding on the digital economy growth

In 2023F, the revenue growth rate for Dx (+18.0% yoy) may more than double revenue from traditional IT services (+7.9% yoy), suggesting vast potential opportunities in the market. Like the rest of the world, the growing economy of Vietnam is undergoing a digital transformation. According to national Dx program to 2025F, orientation to 2030F, digital economy of Vietnam would account for 20% of GDP in 2025F.

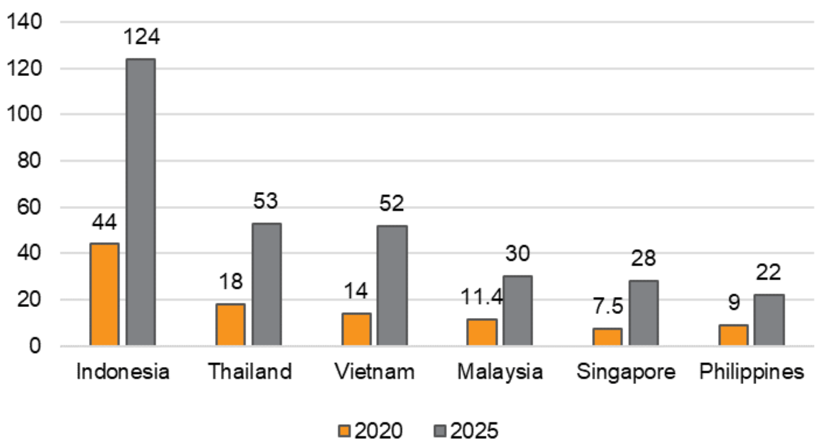
Vietnam is ahead of the game with commercial 5G

According to network equipment maker Cisco, Vietnam became one of the first countries to successfully establish a 5G-powered phone call. The number of 5G subscriptions in Vietnam is forecasted to reach 6.3m in 2025F. The early rollout of 5G services could help Vietnamese mobile carriers increase revenues by US$300m a year, starting from 2025F.

Defensive position of technology & telecommunication stocks

We like FPT and CTR due to their net cash, low-risk position and positive short- and long-term outlook on business results amid macro difficulties. Although conditions in the capital market were tightened in 1H22, many businesses still have large amounts of cash ready to be disbursed. This is an opportunity for businesses with positive net cash like FPT and CTR. The valuations of these stocks have also been cheaper than their historical valuations. Upside catalysts include 1) successful M&A deals to expand revenue and market, 2) higher-than-expected signed contract. Downside risks include 1) a shortage of high-quality IT personnel and 2) a jump in costs of building telecom infrastructure.

Figure 431: Vietnam's overall internet economy is projected to reach US$52bn in value with a CAGR of 24% and rank third in Southeast Asia (Unit: US$bn)



Sources: E-CONOMY REPORT 2020, GOOGLE, TEMASEK HOLDINGS, AND BAIN&CO.

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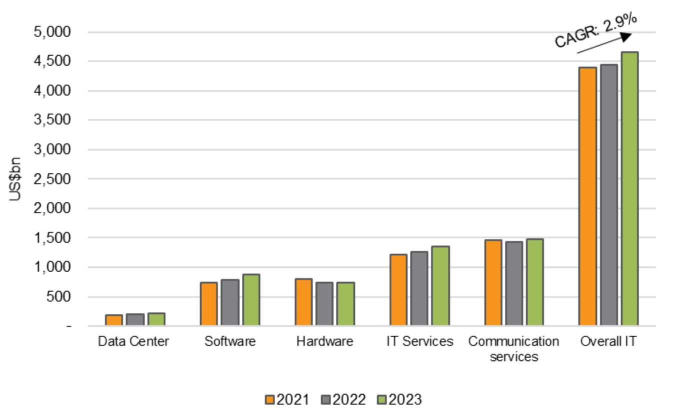
Riding on the digital economy growth

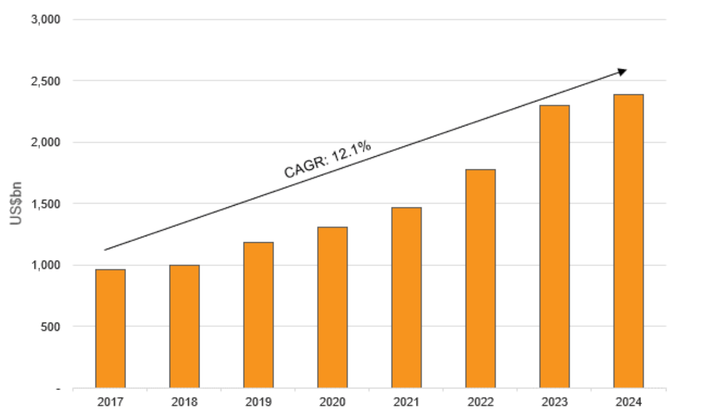
In FY23F, the revenue growth rate for Dx (+18.0% yoy) may double revenue from traditional IT services (+7.9% yoy), suggesting vast potential opportunities in the market. Like the rest of the world, the growing economy of Vietnam is undergoing a digital transformation. According to national Dx program to 2025F, orientation to 2030F, digital economy of Vietnam would account for 20% of GDP in 2025.

Figure 432: Worldwide ICT spending will grow 5.1% yoy to hit US$4.7tr in 2023F, according to Gartner



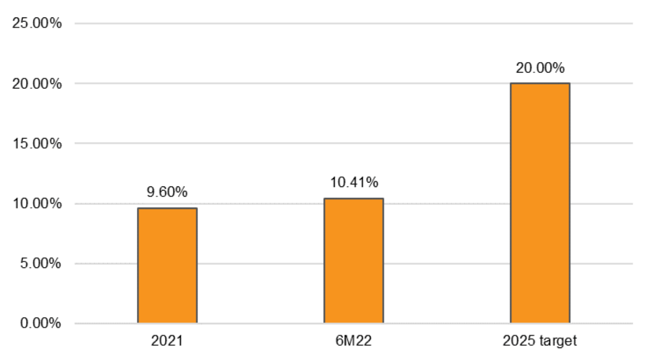
Source: VNDIRECT RESEARCH, GARTNER

Figure 433: Spending on Dx technologies and services worldwide is expected to increase 2.5 times over the period of 2017-24F



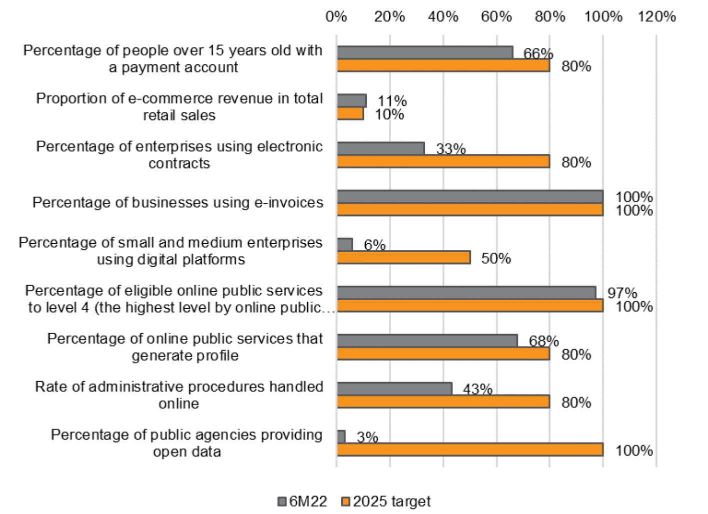
Source: VNDIRECT RESEARCH, FITCH SOLUTIONS

Figure 434: Vietnam has set goal to increase the GDP share of digital economy to 20% by 2025F



Source: VNDIRECT RESEARCH, GARTNER

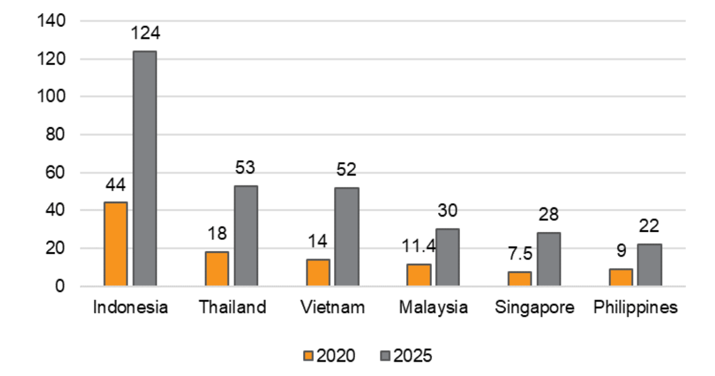
Figure 435: Digital economic and e-government indicators recorded positive results by the end of 2Q22



Source: VNDIRECT RESEARCH, AITA

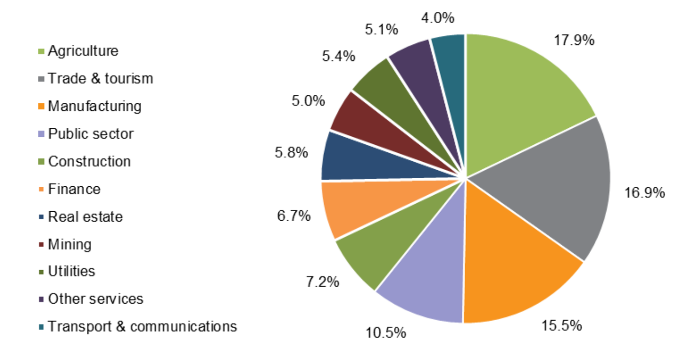
Vietnam has launched a 'Make in Vietnam 4.0 Program' as part of the country's efforts and preparation for the fourth industrial revolution, or Industry 4.0. The programme aims to facilitate the development of new industries and encourage new policies, mindsets and technology towards Industry 4.0 and its digital economy ambitions. In the context of strong Dx development, the government, organisations and enterprises in Vietnam have actively embraced and positively participated in activities to catch up with the trend of the fourth Industrial Revolution. The government is promoting digital economic development through a series of policy mechanisms and, in particular, these policies have recently been reinforced by the Prime Minister's Directive No. 16/CT-TTg on increasing access to the fourth revolution.

Figure 436: Value of the Internet Economy of ASEAN-6 (Unit: US$bn)



Source: E-CONOMY REPORT 2020, GOOGLE, TEMASEK HOLDINGS, AND BAIN&CO

Figure 437: The share of digital transformation by industry in Vietnam in 2023F, forecasted by Fitch Solutions



Source: VNDIRECT RESEARCH, FITCH SOLUTIONS

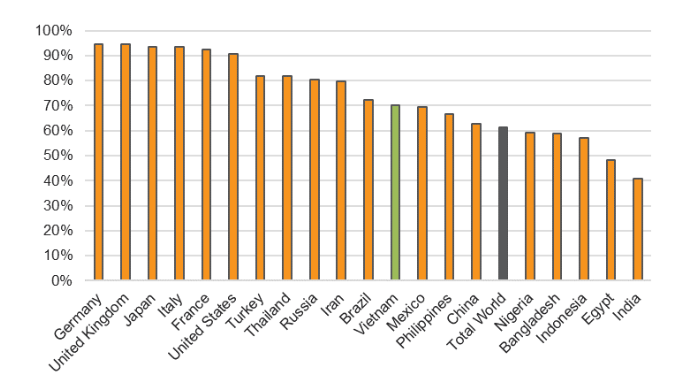
By 2025, Vietnam's overall internet economy is projected to reach US$52bn in value with a CAGR of 24%, according to the e-Conomy SEA 2021 report by Google, Temasek, and Bain and rank third in Southeast Asia.

Pioneering 5G technology in Vietnam

5G network opens a new era for a wide range of technologies

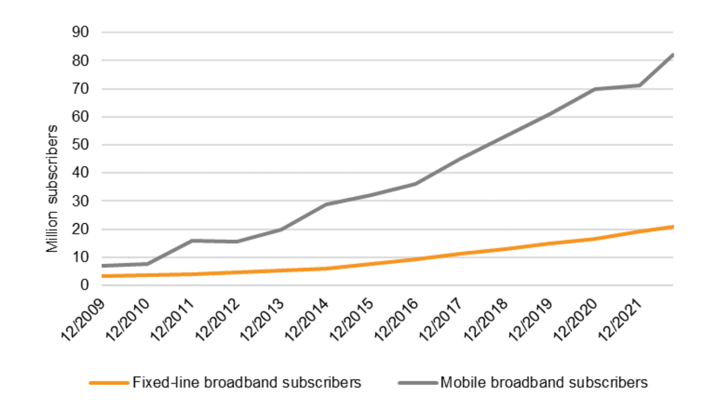
Vietnam is also among countries with the fastest internet growth in the world. The number of internet subscribers has increased 343 times from 2000 to 2021, according to the Internet World Stats. The growth potential for fixed-line broadband Internet in Vietnam is still large when the penetration rate is currently about 21 subscribers/100 people, which is relatively low compared to the average Southeast Asia region level of 38 subscribers/100 people.

Figure 438: Vietnam ranks 12th among top countries with the highest penetration rate of Internet users worldwide as of 1Q21, higher than the global average (accounting for 69.6% of the 2021 population)



Source: VNDIRECT RESEARCH, GARTNER

Figure 439: Over the period of 2010-9M22, the number of mobile and fixed-line subscribers grew at a CAGR of 20.0% and 14.3%, respectively



Source: VNDIRECT RESEARCH, AITA

Vietnam became one of the pioneer countries to successfully establish a 5G-powered phone call. The number of 5G subscriptions in Vietnam is forecasted to reach 6.3m in 2025F, according to network equipment maker Cisco. The early rollout of 5G services could help Vietnamese mobile carriers increase revenue by US$300m a year, starting from 2025F. Vietnam may soon become one of the first Southeast Asian countries to launch 5G, with local telecoms firms racing to develop the country's first nationwide network (Viettel, Vinaphone, Mobifone). With the advent of breakthrough 5G technology, technology companies face many opportunities to develop advanced applications to diversify their products and services.

High demand in the data centre market in Vietnam

The Vietnamese Government's inclination toward digitisation has further bolstered the demand for data centre across the country. Furthermore, the Vietnamese data centre market is driven by the shifting of enterprise data to cloud platforms. This has led to an increase in the adoption of data storage solutions, which in turn is expected to positively influence the growth of the market. Additionally, growing adoption of big data solutions, Internet of things (IoT) and cloud-based solutions among others, is expected to propel market growth through 2026.

The Vietnamese data centre market stood at US$858m last year and is forecast to grow at a CAGR of over 14.6% until 2026, according to ResearchAndMarket, a world's leading market research store. With political and social stability, few natural disasters like earthquakes, Vietnam has the necessary characteristics to become a major data centre market in the region, in our view.

According to Cushman & Wakefield, Vietnam currently has about 27 data centres located in big cities with diverse sizes, quality and achieved standards. The overall market is estimated at 45MW, with several new operators and developers looking to add more supply to the market in the short to medium term. Of these, about 80% of data centres are operated by local telecommunications companies. Some big companies are operating in the market including VNPT IDC, Viettel IDC, FPT Telecom. Some other names include: CMC Telecom, KDDI Corporation, Hitachi Asia (Vietnam), Hewlett Packard Enterprise, SAP Vietnam, IBM Vietnam Company Ltd., Microsoft Vietnam and Amazon Web Services Vietnam.

Promote mergers and acquisitions (M&A) transactions under the attraction of the technology sector

Technology M&As slow down but remain high

According to Ernst & Young (E&Y), despite global geopolitical and financial difficulties, M&A activities recovered positively on a worldwide scale in 1H22. The worldwide market recorded 2,274 M&A deals, with a total value of US$2.02tr, down 18% yoy in volume and 27% yoy in value. However, compared to the average level of previous cycle (2015-19), M&A activities in end-1H22 are still going up with an increase of 13% in volume and 35% in value.

By industry, technology sector remained the lead in global M&A activities in 1H22, accounting for 31% of total global M&A value despite a decline of 20% yoy (US$627bn) from record level of US$789bn in 1H21. Tech deals as of end-1H22 increased by 95% compared to the average of US$322bn in the period 2015-2019 in value, according to E&Y.

In recent years, in Vietnam, M&A activities in the technology sector are developing rapidly, especially in enterprises that own or invest in advanced technology with large customer databases. Notably, FPT acquired the platform Base.vn, Softbank Vision Fund and GIC Fund invested US$300m VNPay, etc. In 2020, the number of M&A deals in the technology field in Vietnam was 22. In 2021, this number nearly doubled, up to 42 deals, the total transaction value tripled compared to 2020, to nearly US$1bn.

Difficulties in the global economy open up opportunities for cash-rich businesses

Despite widespread uncertainty and the global economy in a period of high risk, tech M&A activities are continuing, fueled by particularly strong flows of private capital. Although conditions in the capital market were tightened in 1H22, many businesses still have large amounts of cash ready to be disbursed in the near future.

Among the listed technology companies in Vietnam, FPT Corporation (FPT VN) is a company with abundant cash, has actively carried out several M&A deals in the past two years. FPT's cash at the end of 3Q22 was about VND24,126bn, accounting for 43.8% of the company's total assets. Thanks to its abundant cash source, FPT has been active in the M&A market for the past 2 years. Specifically, in mid-2021, FPT acquired Base Enterprise (Base.vn), a technology company that owns the most popular corporate governance platform in Vietnam, with the aim to promote the comprehensive digital transformation ecosystem for 800,000 enterprises nationwide. In Oct 2022, FPT announced its investment in Japanese business consulting services provider LTS Inc., becoming its strategic shareholder. The investment is to help FPT strengthen its capabilities in Japan's consulting industry and target more double-digit million-dollar deals.

Stock pick: We like FPT as a stock pick while CTR is on watchlist

Figure 440: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK FPT	116,800	ADD	We like FPT in both short term and long term as: (1) Vietnam's largest technology enterprise in terms of revenue which provide digital transformation solutions, IT services, telecommunications and IT human resources education. FPT is fully equipped to capture global IT trends. We expect FPT's technology revenue to exceed US$1bn by FY22F, thanks to robust new tech contract and surging Dx revenue while telecom revenue to generate stable cash flow on the back of solid domestic demand. The FPT's telecommunications sector is supported by data centre demand while education segment is a complete piece for its ecosystem in order to provide high-quality employees for long term growth strategy. We forecast FPT's net profit CAGR of 15.4% during FY22-24F. (2) FPT owns a healthy balance sheet with abundant cash, low debt ratio, making the company not exposed to the risks from rising interest rates and FPT will have many M&A opportunities in the coming period.
2	CTR	N/A	N/A	We have a positive view on CTR by: (1) CTR is a subsidiary of Viettel Group – the No.1 telco in Vietnam. CTR provides construction, operation, system integration and infrastructure leasing services mainly for telecom carriers. We believe CTR's telecom operation segment will ride on Viettel's mobile telecom network expansion and wired line broadband subscriber growth in domestic and global market. (2) The Telecom Construction and Leasing Infrastructure segments are expected to benefit from the increased demand for telecommunications infrastructure rental and Internet usage as the Government accelerates the deployment of 5G networks.

Source: VNDIRECT RESEARCH

Figure 441: FY22-24F earnings forecasts of stocks under coverage

	FPT		
	2022F	**2023F**	**2024F**
Revenue (VNDbn)	43,223	52,766	64,453
% growth	*21.2%*	*22.1%*	*22.1%*
Gross margin (%)	*39.8%*	*39.8%*	*39.9%*
EBITDA margin (%)	*20.2%*	*19.9%*	*19.6%*
Net profit (VNDbn)	5,286	6,367	7,681
% growth	*21.9%*	*20.4%*	*20.6%*
EPS (VND/share)	4,819	5,804	7,001
BVPS (VND/share)	24,708	29,365	35,439
Net cash/share (VND/share)	7,592	11,764	17,417
D/E	0.8	0.8	0.7
Dividend yield (%)	2.8%	2.8%	2.8%
ROAE (%)	21.8%	21.5%	21.6%
ROAA (%)	8.9%	8.9%	9.0%

Source: VNDIRECT RESEARCH

Figure 442: Peer comparison

Company	**Ticker**	**Price**	**Target price**	**Recom.**	**Mkt cap**		**P/E (x)**			**P/BV (x)**		**3-year EPS**	**ROE (%)**		**ROA (%)**	
		LC$	LC$		US$m	TTM	FY22F	FY23F	TTM	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F
FPT CORP	**FPT VN**	**70,500**	**116,800**	**ADD**	**3,113**	**14.7**	**14.6**	**12.1**	**3.9**	**2.9**	**2.4**	**15.4**	**21.8**	**21.5**	**8.9**	**8.9**
Telecom																
TELSTRA CORP	TLS AU	3.9	N/A	N/A	30,724	27.4	23.7	21.3	3.0	2.9	2.9	(12.7)	12.3	13.7	4.6	5.7
TELEKOMUNIKASI	TLKM IJ	4,030	N/A	N/A	25,501	17.8	15.5	14.3	3.2	3.0	2.8	7.0	19.8	19.9	9.1	9.5
MAXIS BHD	MAXIS MK	4.1	N/A	N/A	7,110	26.0	25.0	22.2	4.9	4.9	5.0	(9.7)	19.2	22.4	5.9	7.7
INTOUCH HOLDINGS	INTUCH TB	73.5	N/A	N/A	6,582	23.0	22.2	20.2	6.3	5.7	5.5	0.8	26.7	35.4	20.5	23.0
GLOBE TELECOM	GLO PM	2,210	N/A	N/A	5,599	9.6	13.7	14.9	2.3	2.3	2.2	10.7	16.8	15.4	5.8	4.7
PLDT INC	TEL PM	1,599	N/A	N/A	6,075	9.9	15.8	11.2	2.8	2.5	2.4	14.0	23.4	22.1	5.1	5.7
Average						*19.0*	*19.3*	*17.4*	*3.8*	*3.6*	*3.5*	*1.7*	*19.7*	*21.5*	*8.5*	*9.4*
Median						*20.4*	*19.0*	*17.6*	*3.1*	*3.0*	*2.9*	*3.9*	*19.5*	*21.0*	*5.9*	*6.7*
Software & IT Services																
INFOSYS LTD	INFO IN	1,615	N/A	N/A	83,189	29.6	27.8	24.0	8.5	8.5	7.5	13.2	31.2	33.1	19.5	21.0
WIPRO LTD	WPRO IN	395	N/A	N/A	26,495	19.1	19.0	16.3	3.0	3.0	2.7	14.8	16.5	17.3	10.3	11.4
HCL TECH LTD	HCLT IN	1,129	N/A	N/A	37,507	22.1	21.3	19.0	5.0	4.8	4.5	8.2	22.6	24.2	16.5	17.9
TECH MAHINDRA LT	TECHM IN	1,064	N/A	N/A	12,678	18.6	18.0	15.2	3.9	3.3	3.0	10.2	18.9	20.8	11.3	12.6
L&T INFOTECH LTD	LTI IN	4,851	N/A	N/A	10,413	33.1	31.0	26.8	9.2	8.1	6.9	15.0	28.6	28.3	21.7	20.0
NIIT LTD	NIIT IN	306	N/A	N/A	504	17.9	23.9	17.4	2.7	2.5	2.3	448.8	11.1	14.1	N/A	N/A
CYIENT LTD	CYL IN	795	N/A	N/A	1,075	16.6	16.2	13.1	2.8	2.6	2.3	6.5	16.6	19.0	11.3	12.1
MPHASIS LTD	MPHL IN	1,928	N/A	N/A	4,443	25.2	21.3	18.4	5.2	4.9	4.3	11.8	23.6	25.0	15.8	16.8
MINDTREE LTD	MTCL IN	3,434	N/A	N/A	6,933	29.9	28.2	24.9	10.0	8.4	6.8	38.8	32.5	30.2	22.8	22.6
L&T TECHNOLOGY S	LTTS IN	3,885	N/A	N/A	5,020	38.4	35.8	30.6	9.2	8.4	7.1	9.5	25.2	24.6	17.8	19.0
Average						*25.1*	*24.3*	*20.6*	*6.0*	*5.5*	*4.7*	*57.7*	*22.7*	*23.7*	*16.3*	*17.0*
Median						*23.7*	*22.6*	*18.7*	*5.1*	*4.9*	*4.4*	*12.5*	*23.1*	*24.4*	*16.5*	*17.9*

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as of 22 Nov 2022)

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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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