



Vietnam: A Tiger in the Making



Yuanta Securities Vietnam

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Contents

- 3) Team Intro
- 4) Top-down outlook: *Vietnam: A tiger in the making*
- 11) S/T strategy: *Stay defensive in 1H19*
- 15) STB VN: *A Turnaround Story for the Long Haul*
- 23) MSN VN: *Earnings to rebound in 2019*
- 29) DGW VN: *Surfing the Xiaomi Wave*
- 36) NLG VN: *Resilient through the property market down-cycle*
- 44) Vietnam Brokers: *We've only just begun*



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Vietnam is a tiger in the making

Underlying trends are compelling: Long-term outlook is bright

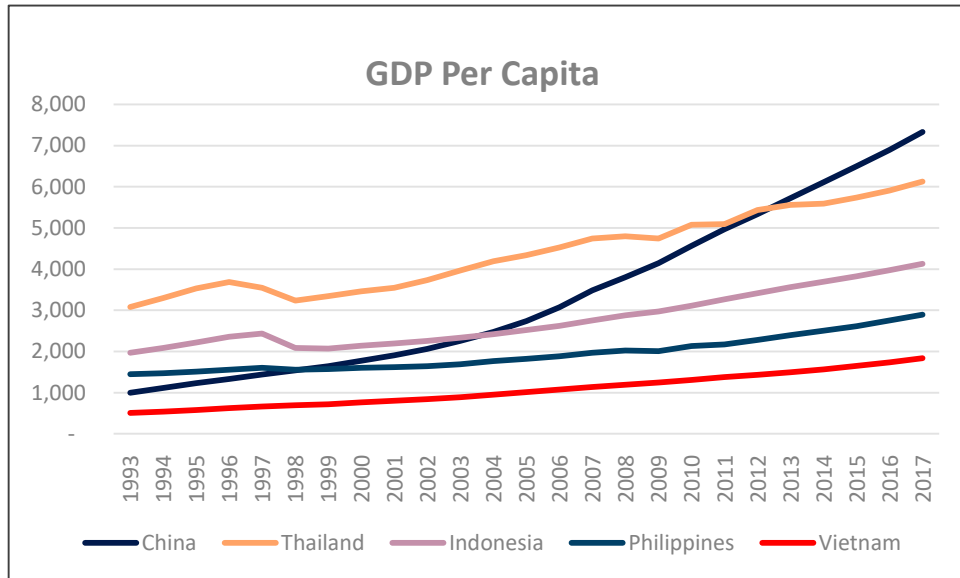
- 1) Booming FDI – Vietnam as the next manufacturing export powerhouse.
- 2) Demographic dividend to pay off over the next two decades.
- 3) Rapid growth of the middle class implies solid outlook for domestic demand.
- 4) MSCI Emerging Markets Index inclusion (but not this year)
- 5) Risks – Growth constraints and policy frictions.



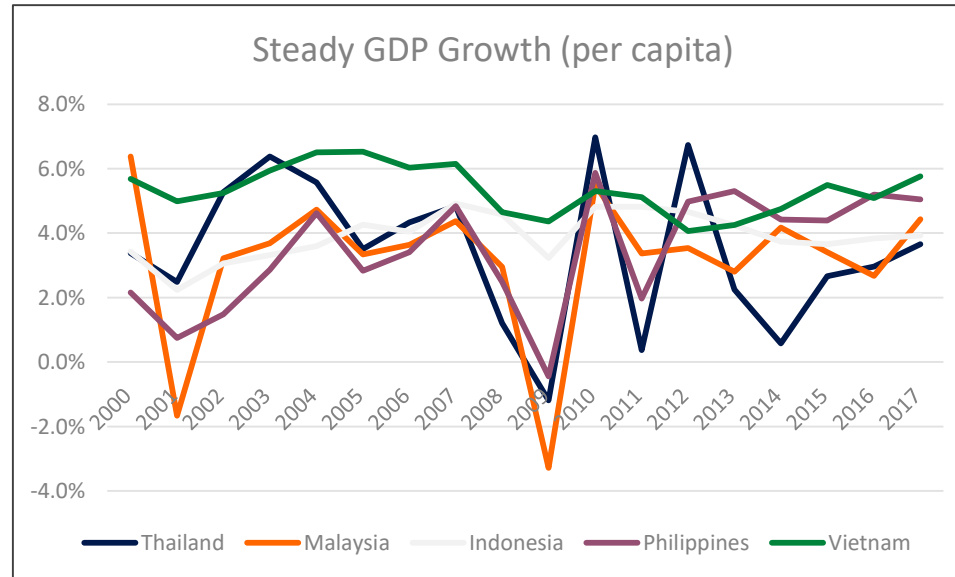


Vietnam: A tiger in the making

We believe that the country has the potential to be another (the last?) of Asia's tiger economies.



GDP per capita (USD) is below its ASEAN peer group...



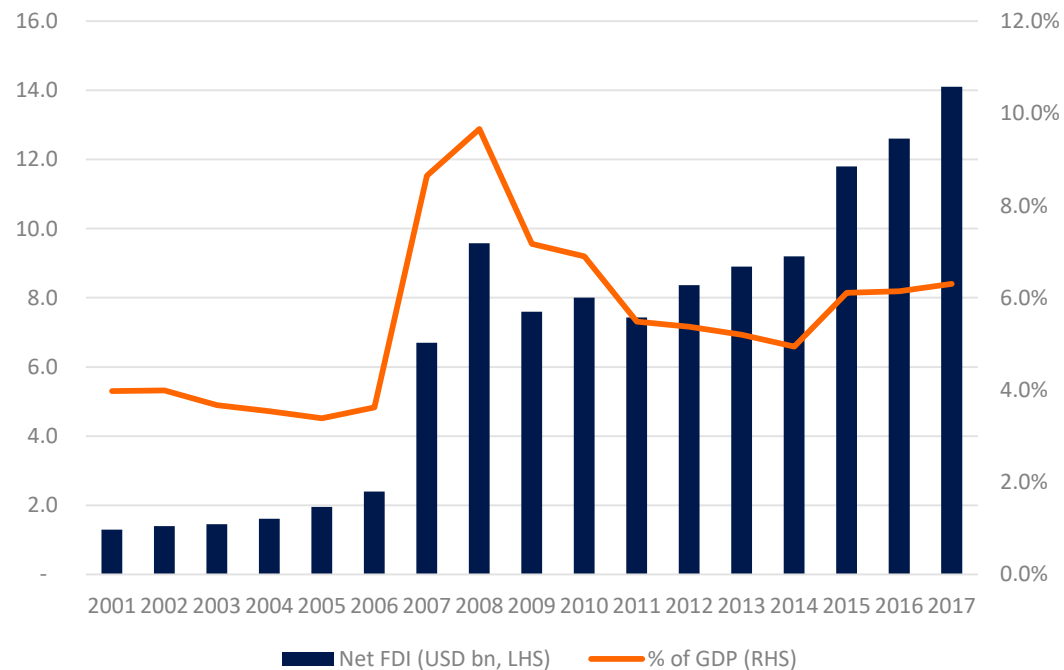
...But growth is stronger and steadier than in the other tiger economies in the region.



Vietnam: A tiger in the making

Surging Foreign Direct Investment (FDI) is set to continue

Surging Net FDI Inflows



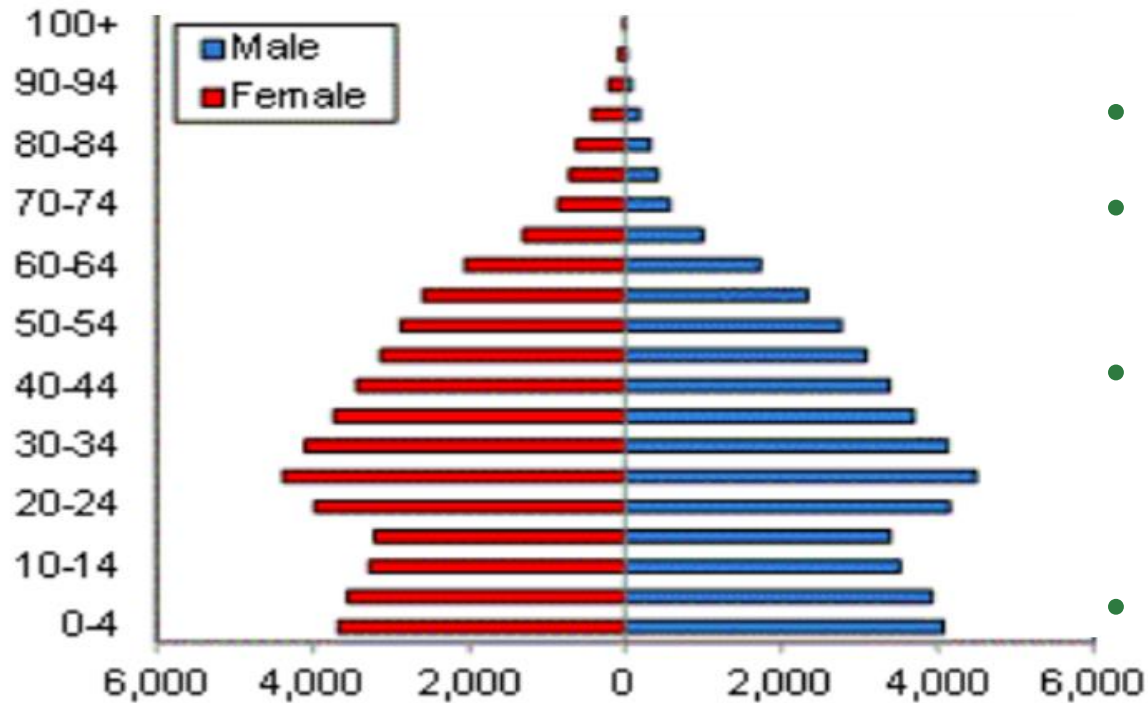
- Trade war beneficiary, for the most part
- Attractive geographic location
- Labor costs are cheap
- Trade deals with key buyer nations
- Textiles largely done, moving into higher value added electronics manufacturing



Vietnam: A tiger in the making

Demographic dividend to pay off for the next 20 years

Vietnam Population Pyramid (2017)



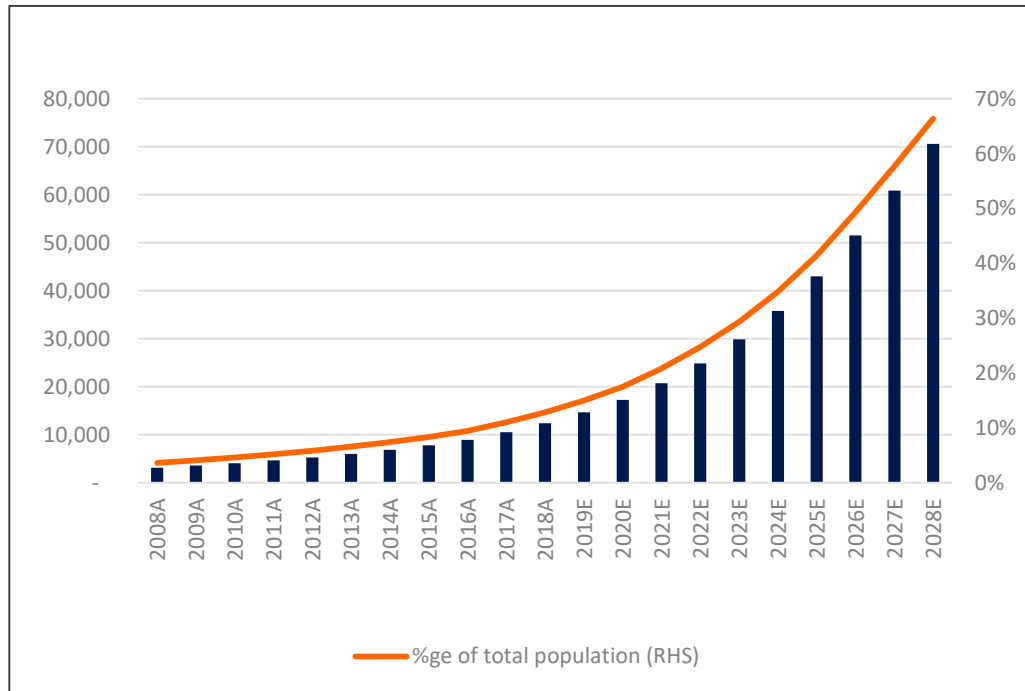
- Population is now 94 million, growing at 1% per year
- 93% literacy rate
- Roughly 60% of Vietnamese are under 35
- Dependency ratio (i.e., elderly to working age) is c. 44% but set to start rising.
- Children (0-4) bottomed out at 8% of the population



Vietnam: A tiger in the making

Demographic dividend to pay off over the next 20 years

**Projected middle class population
(1000 persons, LHS)**



Source: Yuanta Research, based on estimates from the GSO, World Bank, Boston Consulting Group, and Brookings

- Middle class is c. 15 million now, and growing at c. 10% annually.
- Middle class as a percentage of total population is thus set to go parabolic.
- Emerging wealth driven by plentiful job opportunities and urbanization (improved education / smaller families).
- Outlook for domestic demand is therefore very bright.
- Sector beneficiaries: Consumer products, retail, financial services, *affordable* property, health care, education.



Vietnam: A tiger in the making

Next step: MSCI inclusion

- Foreign ownership limitations, and inconsistent application of the rules, are the main hurdle.
- Information disclosure (in English) is also a concern.
- MSCI has noted some improvements in market access, but Vietnam remains off the watch-list.
- We don't expect an upgrade to watch-list status this year, although the finalized securities law (release: April or May?) could surprise.
- Regardless, schedule for E/M index entry would require two full years (Upgrade to watchlist at Year-0, announcement of index inclusion at Y+1, actual inclusion at Y+2).



Risks to the positive story

Will the cub grow up to be a paper tiger?

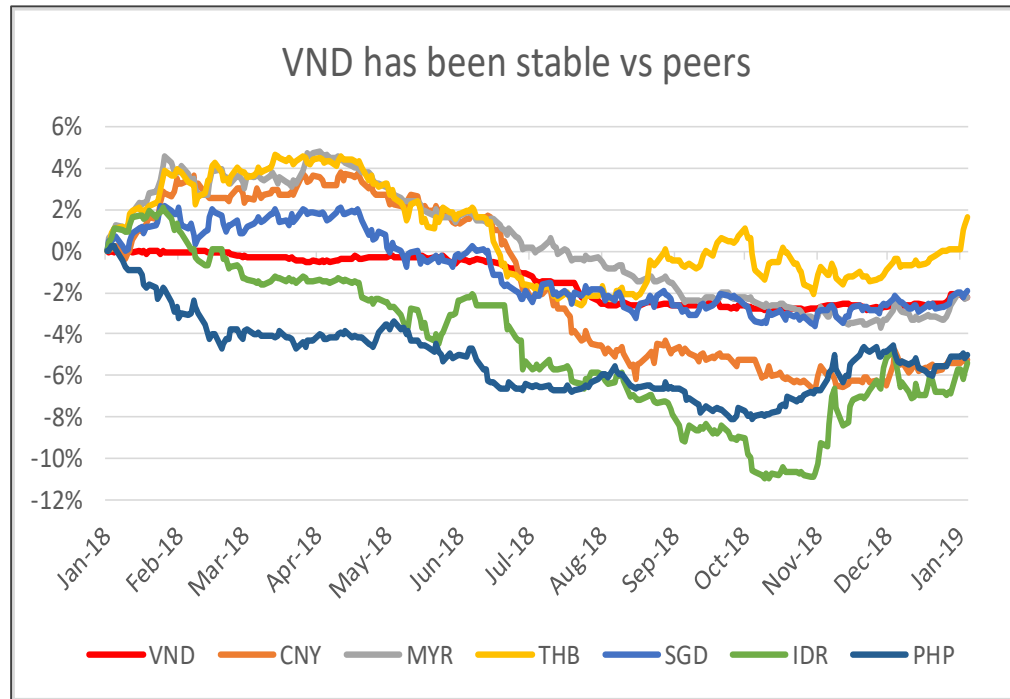
- Demographics don't change with market sentiment. Population trends are not a concern for now (but will be in 20 years – and this requires financial reform *now*).
- Human resource constraints could hinder efforts to move up the value chain in manufacturing and services.
- “Little China” status is not a one-way street. Vietnam's trade surplus with the US was 5th largest in the world in 2018
- Structural policy frictions could delay Emerging Markets status. The persistence of Foreign Ownership Limitations and their inconsistent application means MSCI is not likely to move this year.



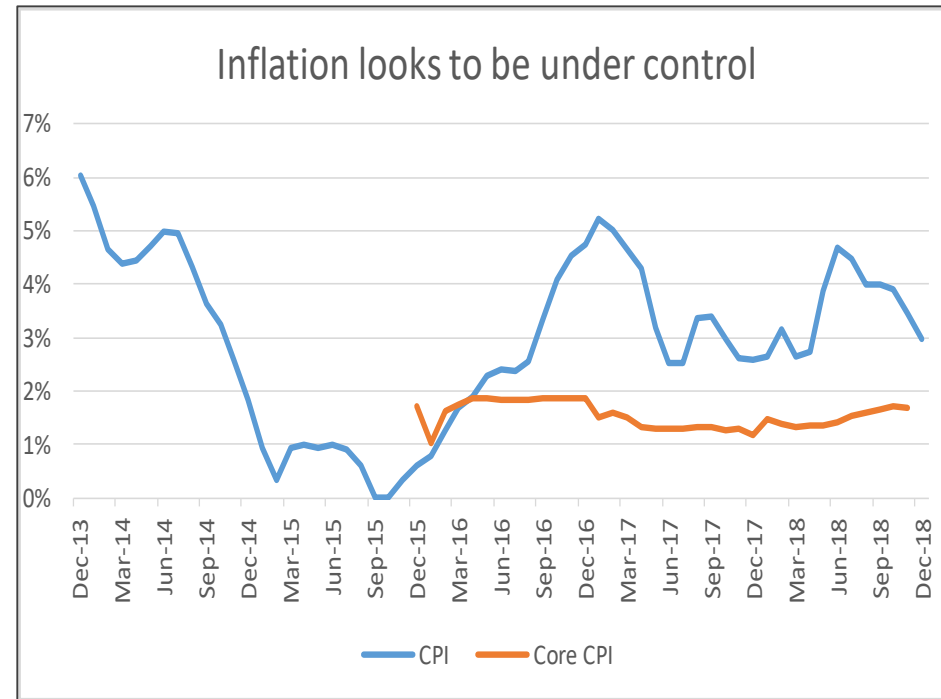
Vietnam 1H19 Market Strategy

Macro story looks good...

FDI to remain solid, supporting employment, consumption, and the VND



Source: Bloomberg



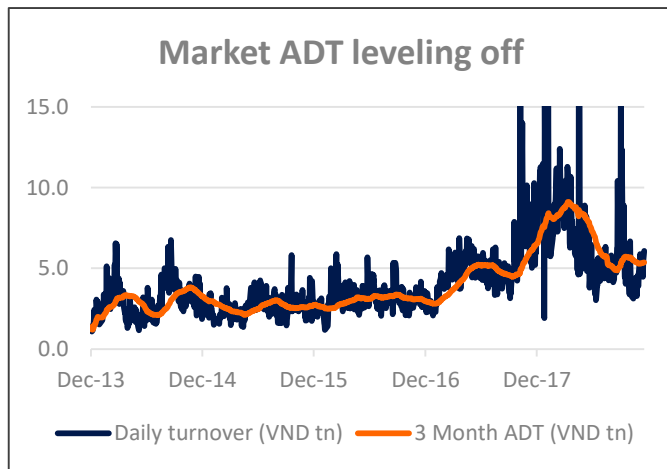
Source: Bloomberg



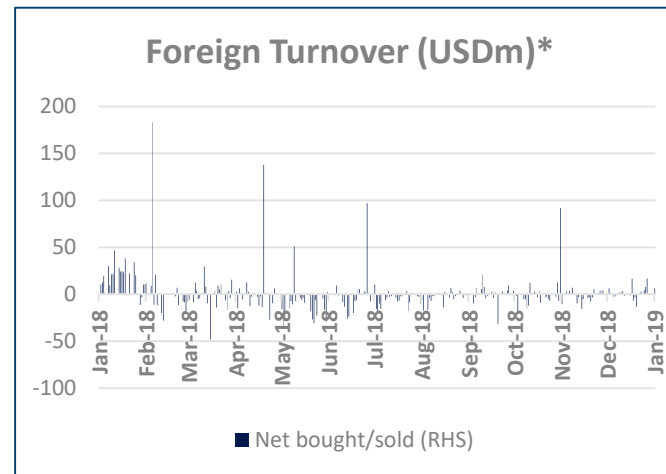
Vietnam 1H19 Market Strategy

...But markets may continue to lag in the short term.

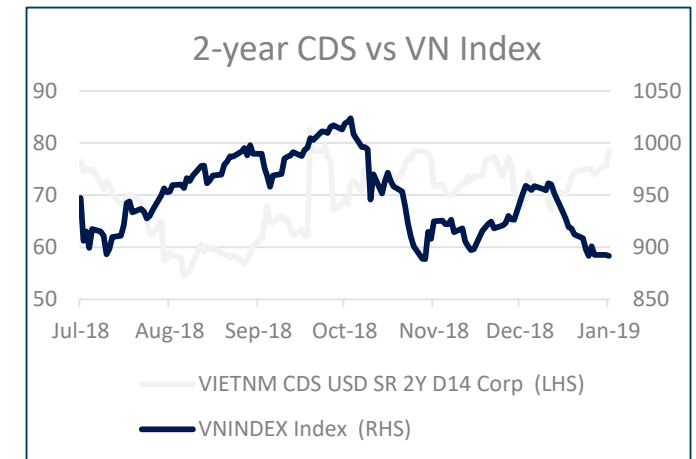
- *Our cautious view is largely driven by endogenous factors – mostly the external liquidity environment, which is a function of global central bank policy.*
- *SOE privatization, MSCI inclusion, and a rebound of foreign institutional buying do not appear imminent.*



Source: Bloomberg



Source: FiinPro, Bloomberg



Source: Bloomberg

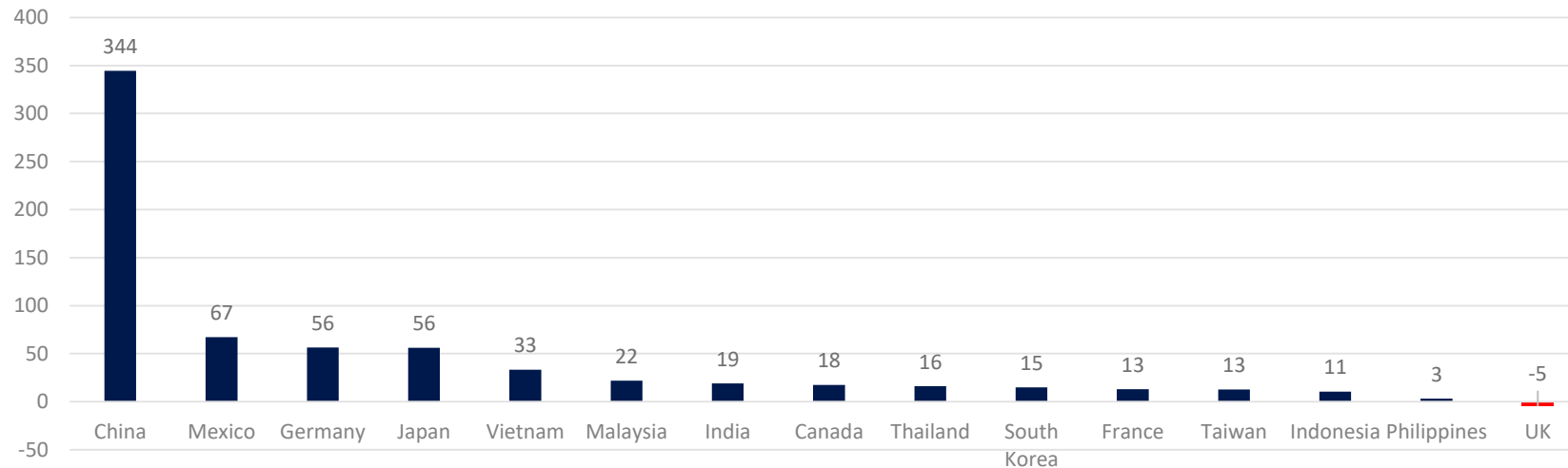


1H19 Strategy: Risks

The downside risks are largely exogenous...

- 1) Tighter than expected global liquidity. Mixed signals from the Powell Fed.
- 2) Significant VND devaluation, most likely driven by China.
- 3) Expansion of “trade war” nations to include Vietnam? The shift in US trade policy is not just about Trump – and Vietnam could eventually be at risk of “little China” status.

US trade deficit, Jan-Oct 2018 (USD bn)



Source: US Census Bureau

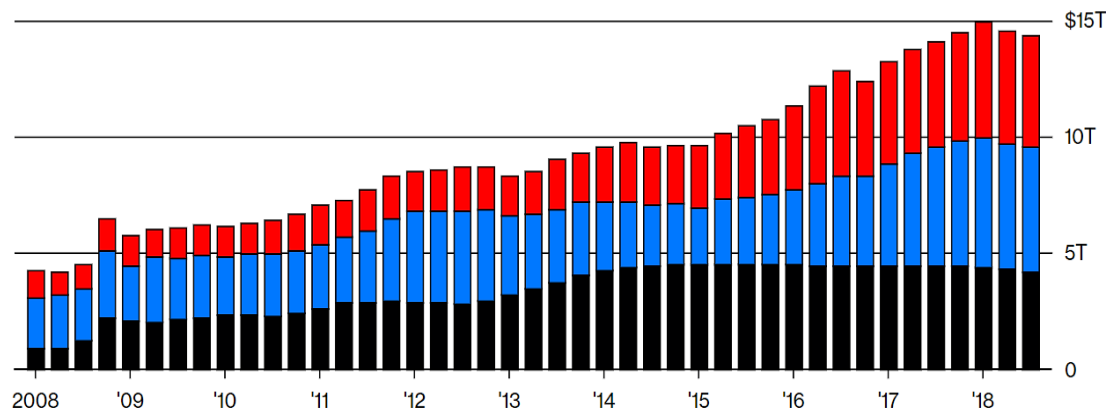


1H19 Strategy: Risks

Fed ECB, BOJ bond purchases

- 1) Strategic investor capital inflows could catalyze a return of the conditions of 2H17-1H18.
- 2) Concerted action to address foreign investor market access, which in our view are required for MSCI inclusion (China was a special case, but don't expect a repeat).
- 3) A reversal (not just softening) of global quantitative tightening. Obvious, but absolutely critical.

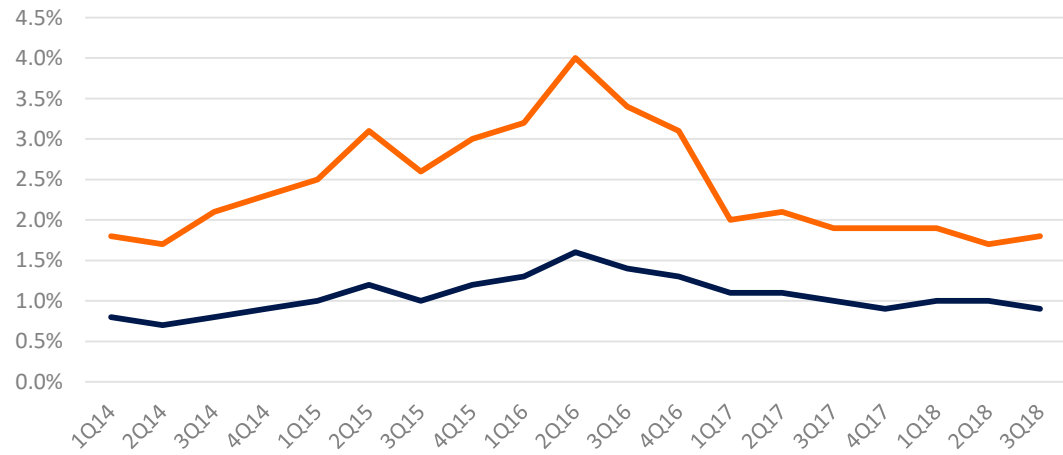
From QE to QT



Fed ECB, and BOJ assets

Source: Bloomberg

Retail investors await a catalyst



Margin loans / mkt cap Margin loans / free float

Source: FiinPro, Bloomberg



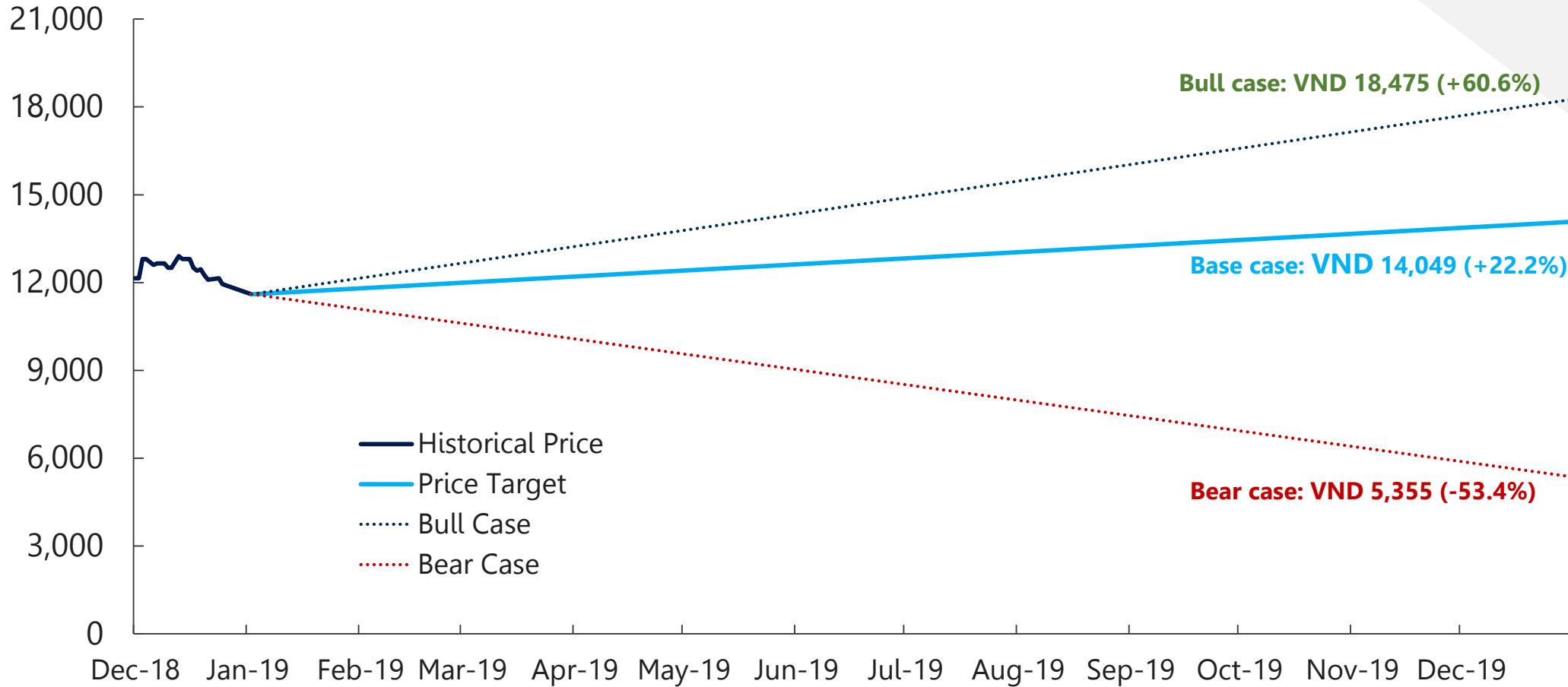
SACOMBANK [STB VN]

A TURNAROUND STORY FOR THE LONG HAUL

January 2019



Price Target Scenarios



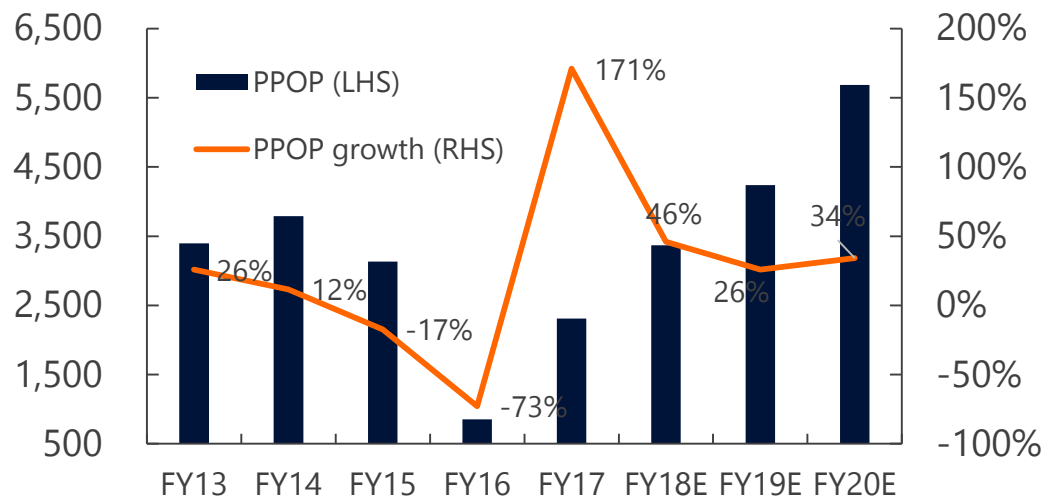
Source: Bloomberg, Yuanta Vietnam Research estimates

INVESTMENT THESIS

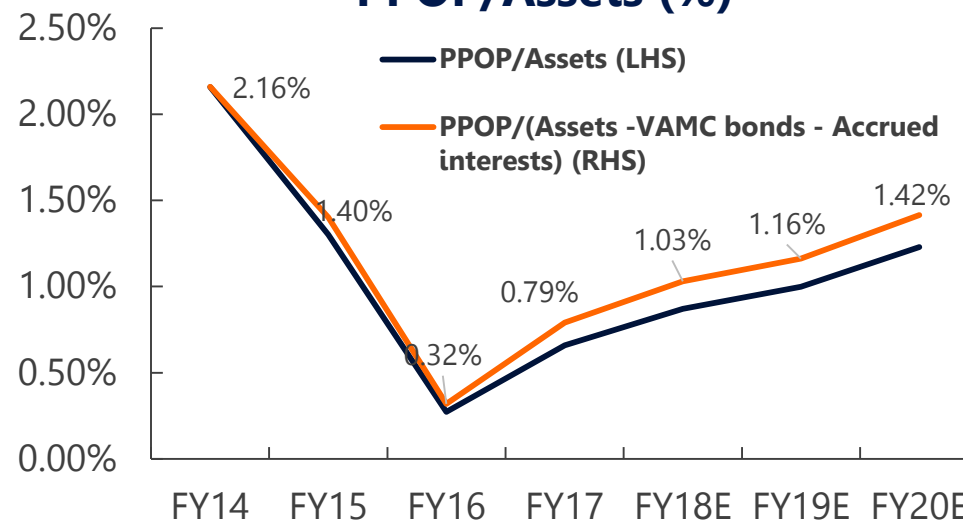


- **Valuation is cheap (admittedly, for a reason) ... STB trades at a 3Q18A P/TBV ratio of 1.12x, well below the peer average of 1.97x**
 - STB is in a restructuring phase and will have to recognize substantial provisioning for its high level of NPLs
- **... the underlying business operations are improving. Business efficiency has improved remarkably since 2016, and growth in pre-provisioning operating profit (PPOP) should remain solid.**

PPOP growth (%)



PPOP/Assets (%)



Source: Company Data, Yuanta Vietnam Research estimates

PATH TO DOUBLE DIGIT ROTCE



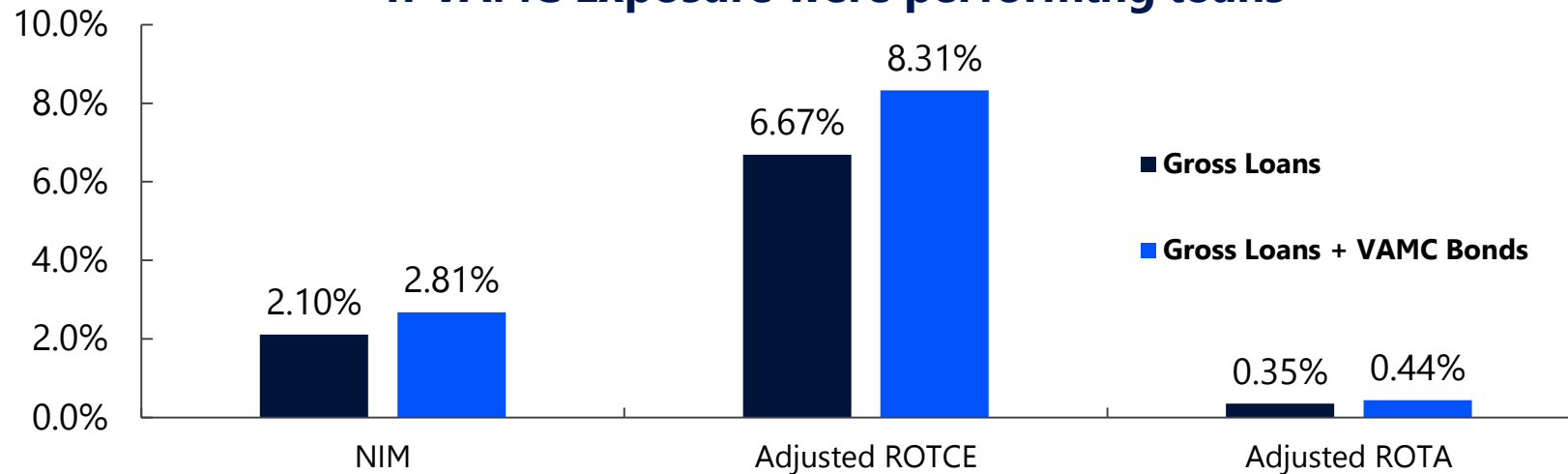
1) We believe that STB will be successful with its restructuring, with ROTCE to climb once provisioning normalizes

- A favorable macroeconomic environment (i.e., solid GDP growth and a strong property market),
- Resolution 42/2017/QH14 allows banks to more actively manage NPLs via rapid repossession of collateral.

Sensitivities: What if VAMC bonds were interest earning assets?

Gross Loans	Net VAMC Bonds	Average loans yield	LDR Regulatory Cap
VND 255.4 tn	VND 38.9 tn	9.1%	80%

If VAMC Exposure were performing loans



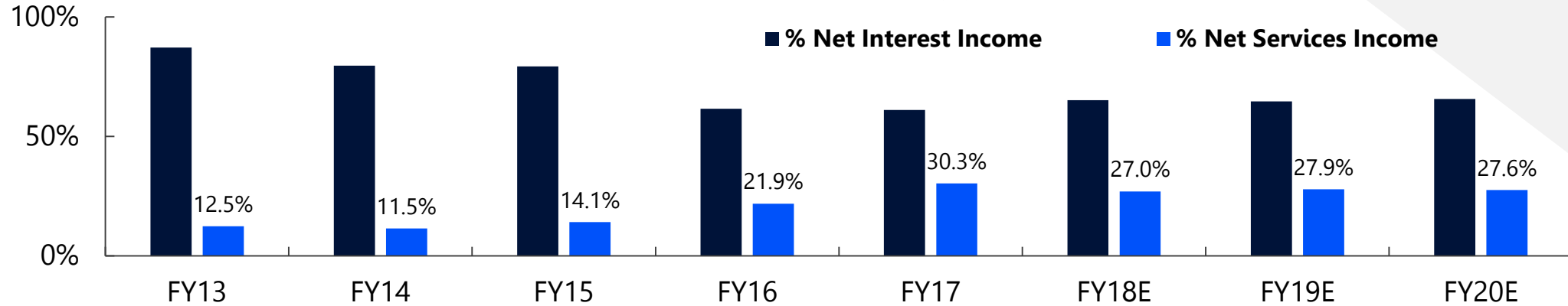
Source: Company Data, Yuanta Vietnam Research estimates



2) Fee income to reduce earnings volatility

- We expect net fee revenues to account for 27.5% of total revenues on average in the 2018-20E period, up from 22.1% in 2015-17A.

Services Income Plays a Bigger Role

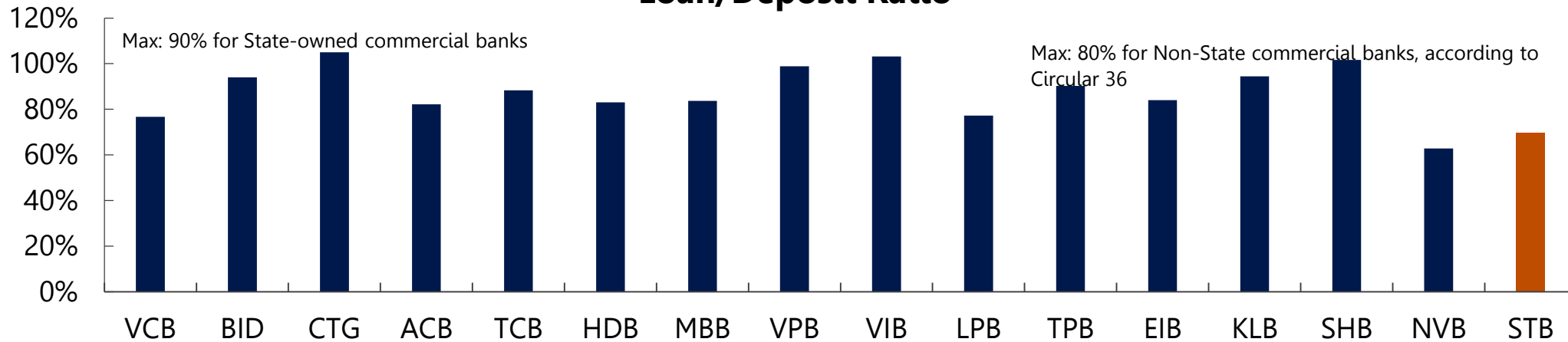


Source: Company Data, Yuanta Vietnam Research estimates

3) Expand loan growth by boosting LDR

- LDR was 69.7% as of 3Q18, well below the regulatory cap of 80%.

Loan/Deposit Ratio





- The tables below present our sensitivity analysis of the Bank's LDR to its NIM, ROE, and ROA.

	FY18E	FY19E	FY20E
Current LDR assumptions	70.0%	74.0%	77.0%
NIM	2.10%	2.18%	2.42%
Adjusted ROTCE	6.67%	7.05%	8.93%
Adjusted ROTA	0.35%	0.36%	0.46%

	FY18E	FY19E	FY20E
Regulatory cap LDR	80.0%	80.0%	80.0%
NIM	2.47%	2.74%	2.74%
Adjusted ROTCE	7.52%	9.02%	9.98%
Adjusted ROTA	0.40%	0.48%	0.53%

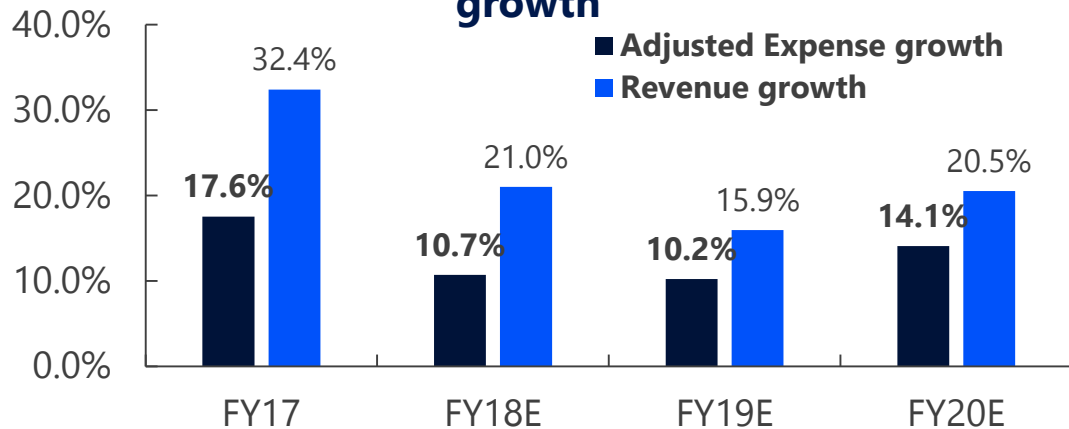
Source: Company Data, Yuanta Vietnam Research estimates

- The higher LDR also boosts the implied fair value by about 4.0% to VND 14,612 (+31.6% vs. the current level) compared to our base fair value of VND 14,049 (+22.2% vs. the current stock price).

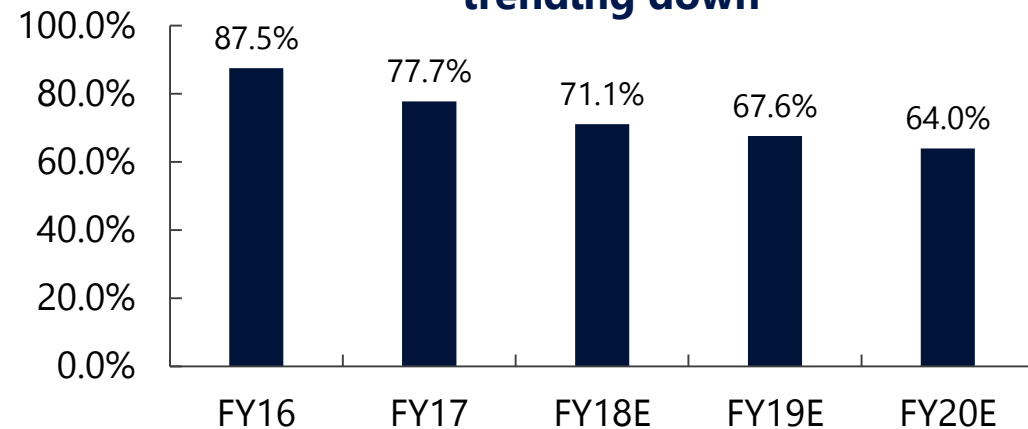
4) Operating expense improvement

- We expect a positive JAWS ratio as revenue growth outpaces expense growth – driving positive operating leverage

Revenue growth to outpace expense growth



Adjusted Cost to Income Ratio trending down



VALUATION

Our target price of VND 14,049, implying P/TBV multiples of 1.20x for 2018E and 1.13x for 2019E and PERs of 18.72x for 2018E and 16.58x for 2019E.



STB's Implied Fair Price

Public Company Comparables

LTM Normalized P / E:

2018E Normalized P / E:

2019E Normalized P / E:

P / TBV:

2018E P / TBV:

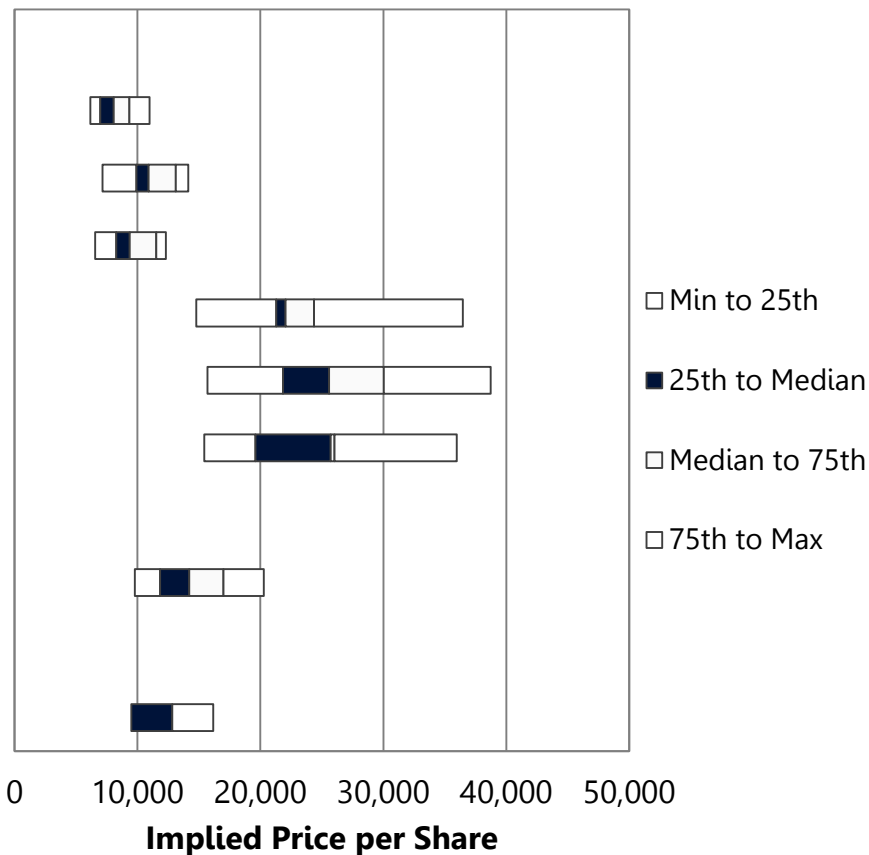
2019E P / TBV:

Residual Income Model

11.7% - 12.6% Discount Rate,
10.0% - 12.0% ROTCE:

Regression Analysis

Correlation Between 2019E ROTCE and
2019E P / TBV:



Implied Value of Equity:	
Terminal Net Income Growth Rate:	6.0%
Projected Net Income 1 Year After Period:	7,190.9
Residual Income Terminal Value:	13,428.7
(+) Current Common Shareholders' Equity:	23,780.9
(+) PV of Residual Income Terminal Value:	3,644.0
(+) Sum of PV of Residual Income:	(2,084.8)
Implied Equity Value:	25,340.2
% of Implied Value from PV of TV:	14.4%
Implied Share Price:	14,049
Current Share Price:	11,500
Premium / (Discount) to Current:	22.2%

Source: Company Data, Yuanta Vietnam Research estimates

INVESTMENT RISKS



1) The progress of its legacy NPL resolution and capital pressures

■ Sensitivity analysis of share dilution risk (unit: %)

Price of newly issued shares		12,000	14,000	16,000	18,000	20,000	22,000	24,000	26,000
P/TBV of newly issued shares		1.02x	1.18x	1.35x	1.52x	1.69x	1.86x	2.03x	2.20x
Loss on Legacy Bad Debts	0%	7%	6%	6%	5%	5%	4%	4%	4%
	10%	31%	28%	26%	23%	22%	20%	19%	17%
	20%	46%	42%	39%	36%	33%	31%	30%	28%
	30%	55%	51%	48%	45%	42%	40%	38%	36%
	40%	62%	58%	55%	52%	49%	47%	44%	42%
	50%	66%	63%	60%	57%	54%	52%	50%	48%
	60%	70%	67%	64%	61%	59%	56%	54%	52%
	70%	73%	70%	67%	65%	62%	60%	58%	56%
	80%	76%	73%	70%	68%	65%	63%	61%	59%
	90%	78%	75%	72%	70%	68%	66%	64%	62%
100%	80%	77%	74%	72%	70%	68%	66%	64%	

Source: Yuanta Vietnam Research estimates

■ Sensitivity analysis of total capital raising (unit: VND bn)

% Total NPLs loss	0%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%
Capital Raising	1,712	9,939	18,165	26,392	34,619	42,846	51,072	59,299	67,526	75,752	83,979

Source: Yuanta Vietnam Research estimates

2) Barriers to bad debt recoveries

3) Funding franchise is not strong for a retail bank, and improving this may be tough



MASAN GROUP [MSN]

PRICE TARGET: VND102,200
BUY (+27%)

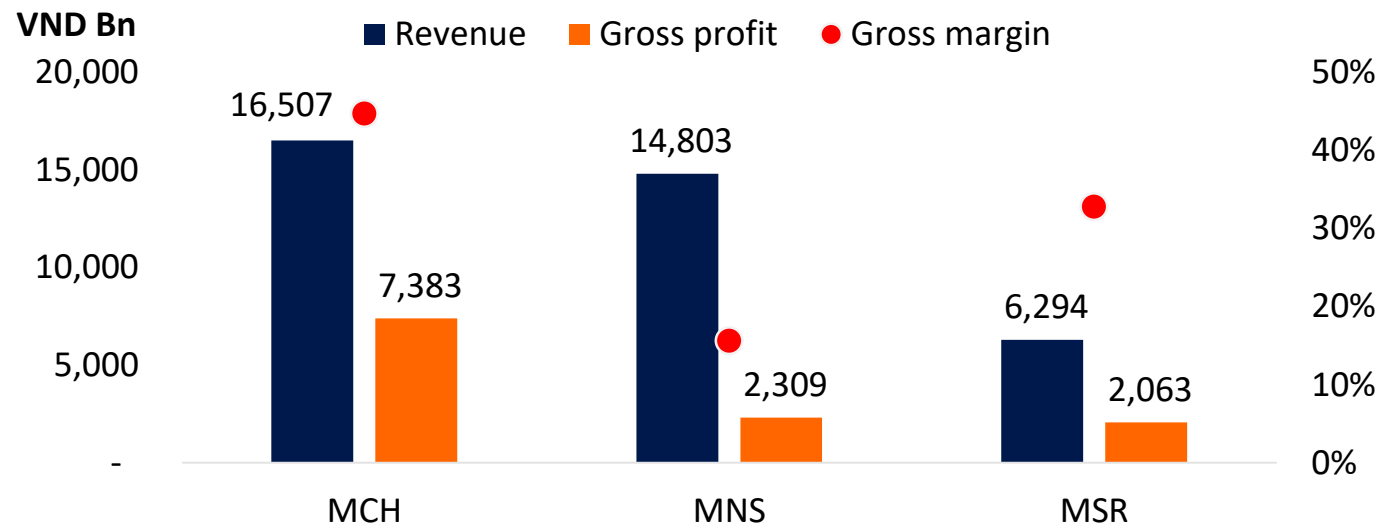
February 2019

INVESTMENT THESIS



- Strong growth in the beverages segment.
- China is likely to open the official gate for Vietnamese pork.
- Proceeds from selling treasury stocks could improve MSN's financial health.

FY18E revenues and gross profit



Source: MSN, Yuanta Vietnam Research estimates

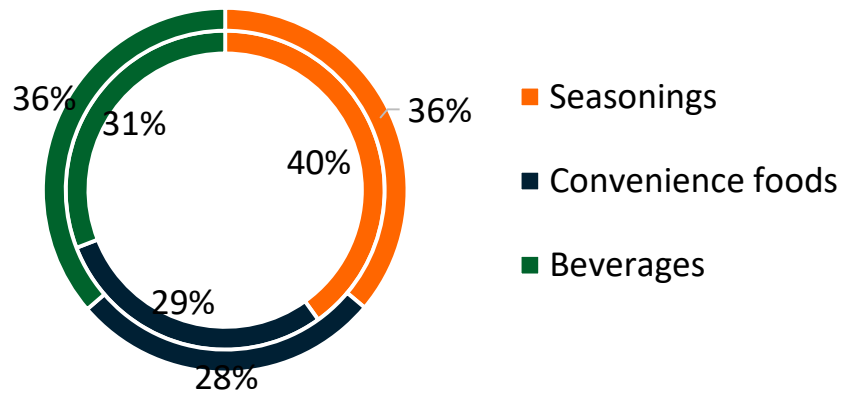


Strong growth in the beverages segment

- Beverages have recorded 25% growth in revenue and 30% growth in net income over the past five years;
- All three main products (energy drinks, coffee and naturally mineral water) are complementing current consumer trends.
- Coffee and energy drinks were up by 17% and 70%, respectively, in 3Q.

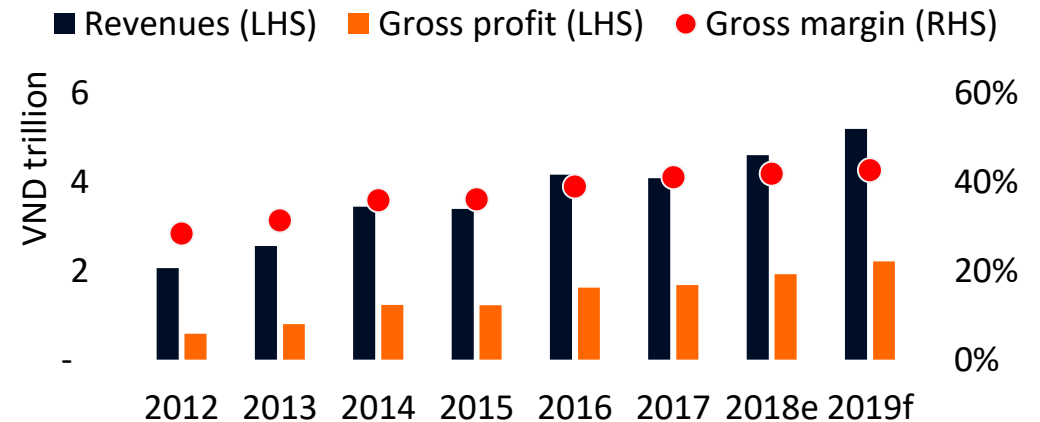
We forecast beverages will continue to maintain its double-digit growth rate (~15%) in sales over the next three years

MCH revenues by products



Source: MCH, Yuanta Securities estimates
 (*) Inside circle: 2017, Outside circle: 2022f

Beverages revenue and profit growth



Source: MCH, Yuanta Vietnam Research estimates

China is likely to open the official gate for Vietnamese pork

- Vietnam exports around USD 1 bn of pork/year to China (through informal border trade).
- China farmers are being hit by ASF (African swine fever) disease, which means that China could be faced with a serious lack of pork supply.

We believe China is likely to open the official gate for Vietnamese pork

Proceeds from selling treasury stocks could improve MSN's financial health.

- MSN re-issued around 109 million treasury shares to SK Group at the price of roughly VND 100,000/share.
- The company plans to use this money for mitigating current debt burden.

We forecast the company can improve its debt ratio up to 1.3 from the current level of 0.7, and save VND 1,100 billion in interest expense each year.



VALUATION



Subsidiaries and associates		Method	Enterprise value	MSN economic interest	Proportionate share
MCH	Masan consumer	FCFF	63,940	83.0%	53,098
	Masan Brewery	P/B	818	57.2%	468
MSR		FCFF	22,860	95.9%	21,923
MNS	Anco and Proconco	FCFF	31,734	82.4%	26,149
	Vissan	FCFF	1,892	20.6%	390
	MSN Nutri Farm and MNS Meat Ha Nam	EV/EBITDA	11,532	100.0%	11,532
TCB		P/B	108,316	21.8%	23,613
Total Enterprise value					137,172
Less proportionate net debt					(18,358)
Equity value					118,814
Total shares outstanding (million shares)					1,163
Per MSN/share (VND)					102,200
Implied 2019 P/E					20.1

Masan consumer

FCFF method	
WACC	13.2%
Implied P/E 2019	21.2

Masan Resource

FCFF method	
WACC	14.2%
Implied EV/EBITDA 2019	4.5

Vissan

FCFF method	
WACC	13%
Implied P/E 2019	15.1

MSN Nutri Farm and MNS Meat Ha Nam

EV/EBITDA method	
EV/EBITDA	12

Masan Brewery

P/B method	
P/B	1.0

Anco & Proconco

FCFF method	
WACC	12.8%
Implied P/E 2019	10.82

Techcombank

P/B method	
P/B	1.8

Source: Yuanta Vietnam Research estimates

INVESTMENT RISKS

- Market sentiment, as overall, gets into a panic.
- Weaker-than-expected beverages growth.
- Farmers need longer-than-expected time to grow their pig production.
- Pork prices unexpectedly fall to less than VND 45,000/kg.
- Tungsten and Copper prices remain at low levels of less than USD 300/MTU and USD 6000/ton, respectively.

KEY METRICS

	2016A	2017A	2018E	2019E	2020E
PE (x)	17.8	28.6	19.9	16.5	13.4
EPS (VND/share)	2,462	2,727	4,208	5,076	6,231
PB (x)	2.5	4.4	5.8	3.4	2.8
EBITDA/share	12,215	7,848	8,556	9,616	11,316
DPS	231	2,344	-	-	-
Dividend yield (%)	0.4	3.1	-	-	-
EV/EBITDA (x)	8.1	12.7	9.8	8.7	7.4
EV/EBIT (x)	10.8	17.8	16.9	14.9	12.1

Source: Company data, Yuanta Vietnam Research estimates



DIGIWORLD [DGW]

Surfing the Xiaomi wave

PRICE TARGET: VND30,000

BUY (+32%)

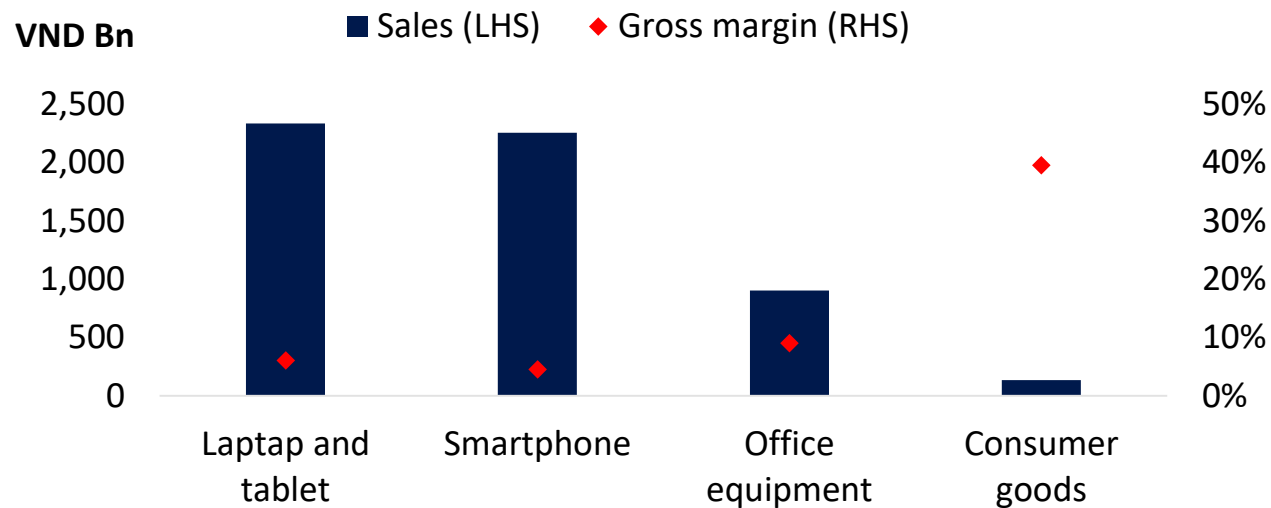
February 2019

INVESTMENT THESIS



- Strong growth momentum of Xiaomi smartphones should be the key growth driver.
- Nokia’s comeback could enhance sales further.
- Office equipment to maintain high growth and margin.

FY18E revenues and gross margin



Source: Company Data, Yuanta Vietnam Research estimates

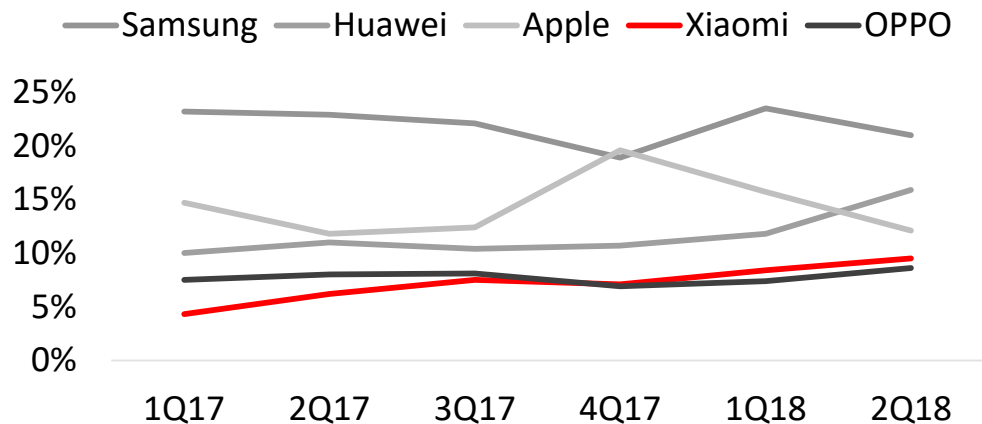
Strong growth momentum of Xiaomi smartphones



- Xiaomi products' high affordability and strong performance;
- The brand's low Vietnam penetration rate relative to comparable emerging markets.

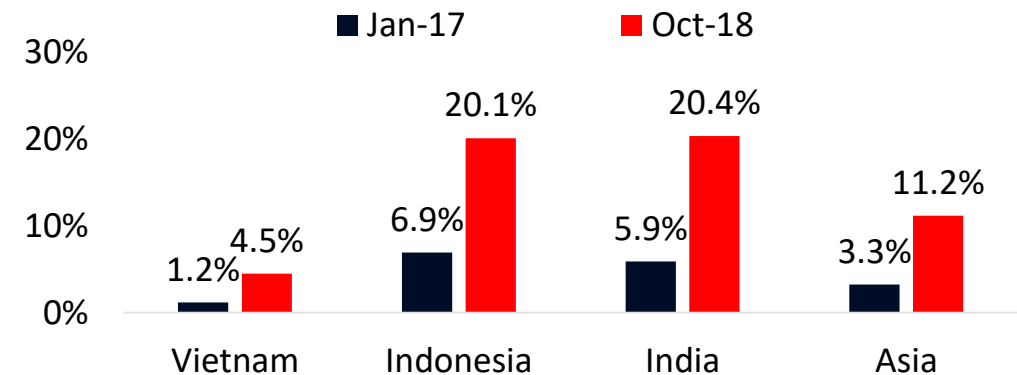
We forecast 20% CAGR during FY19E-21E and a high-single-digit rate of 7%-9% for the subsequent five years

Xiaomi has been persistently gaining global market share



Source: IDC

Xiaomi's market share in Vietnam is still relatively low vs Indonesia and India



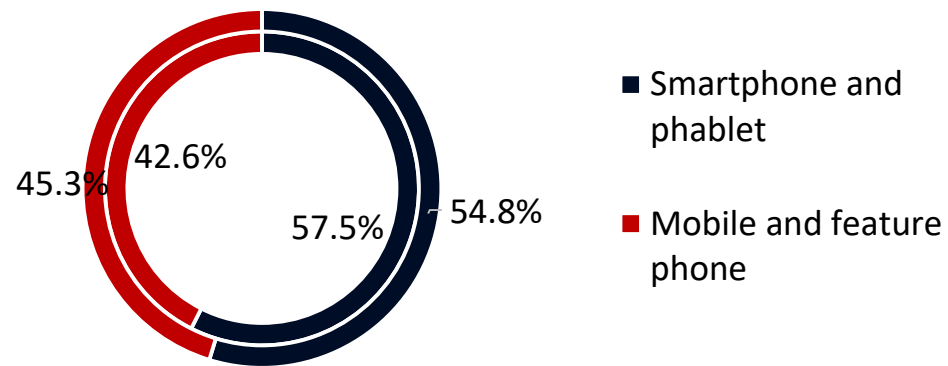
Source: Statcounter, Yuanta Vietnam Research estimates

Nokia's comeback could enhance sales further

- Feature phones still play an important role in Vietnam; and we expect a slowdown in upgrades from feature phone to smartphones.
- Nokia is the leader in the feature phone space.

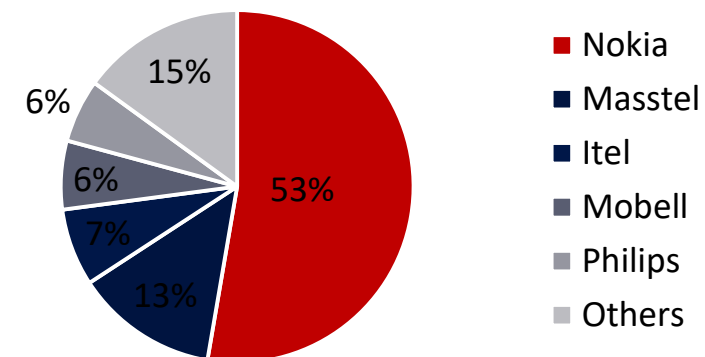
We forecast DGW to record an VND-800-bn Nokia sales each year for FY2019E-22E

Feature phone market share (volume)



Source: GfK

Nokia market share in Vietnam feature phone space as of July 2018



Source: GfK

Office equipment could maintain high growth rates and high margins

- Sales of equipment to enterprise clients is huge, larger than VND 20 tn/year.
- DGW and Synnex FPT appear to be the largest players on the market despite having a combined market share of less than 20%.
- The office equipment segment has been impressive, growing by a strong 24% CAGR over the last five years and maintaining high gross margin of around 9%.

We forecast the segment will maintain its double-digit growth rate for FY2019E-22E (13%-20%)



VALUATION

- Our price target of VND 30,000 is based on FCFE and P/E valuation, implying 8.6x 2019E EPS.
- We expect 2019 first half results could trigger DGW shares to rerate in case of Xiaomi and Nokia sales in line with our expectation.

FCFE Valuation

VND in billions	2018E	2019E	2020E	2021E	2022E
Sales	5,626	8,036	9,978	11,683	13,103
YoY Growth	47.2%	42.8%	24.2%	17.1%	12.2%
Net profit	111	141	174	188	221
Net margin	2.0%	1.8%	1.7%	1.6%	1.7%
Depr&Amor (+)	4	4	4	4	4
Working cap investment (-)	(51)	(256)	(35)	(37)	(44)
Capex (-)	(2)	(2)	(2)	(2)	(2)
Net borrowing (+)	40	50	(52)	(37)	(53)
FCFE	101	(62)	89	117	127
Terminal growth rate	4.4%				
Terminal value					1,508
Cost of equity	13.2%				
Total equity value	1,178				
FCFE-derived value per share (VND/share)	29,010				

Source: Yuanta Vietnam Research estimates

SoTP Valuation

VND in billions	2019E
ICT segment	
Earnings	132.5
P/E (x)	8.8
Equity value	1,166.0
Consumer goods segment	
Earnings	8.7
P/E (x)	13.0
Equity value	112.7
Total equity value	1,278.7
SOTP-derived value per share (VND/share)	31,495
Implied P/E	9.1

INVESTMENT RISKS

- Key client risk. Xiaomi represents 40% of total sales in FY19E. The brand's shipment growth in Vietnam could disappoint our expectations. In addition, Xiaomi could also switch or add service providers or even change to an in-house MES strategy.
- Feature phone replacement cycle could occur more quickly than expected, and Nokia is not likely to replicate its feature phone success with its smartphones.
- Functional foods and FMCG could disappoint.





Nam Long Investment Corporation [NLG VN]

Resilient through the property downcycle

BUY

Current price (01/22/19): VND 25,600

Target price: VND 32,000

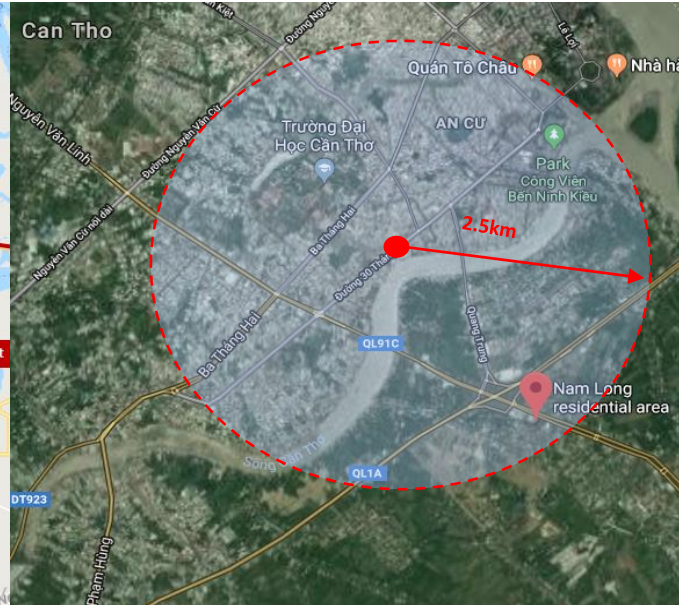
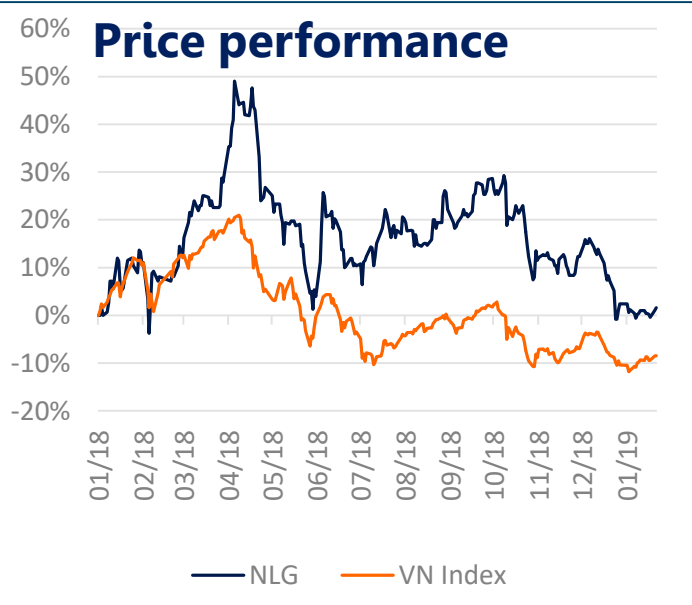
Upside: 25%

February 2019

INVESTMENT THESIS



- **Strong financial structure:** low financial leverage and large cash position.
- **Cooperating with international partners** to fund the firm's big projects.
- **Beneficiary of the burgeoning middle class:** Focus on affordable and mid-end housing.
- **Valuation is attractive.** 25% upside to our RNAV-based target price.
- **But consensus is overvaluing the Waterpoint projects,** in our view.



FINANCIAL STRENGTH TO WEATHER THE TOUGH TIMES



- NLG's financial strength means that it is well-prepared to outperform in the property downcycle.

Figure 2: CCE / Total Asset ratio vs peers

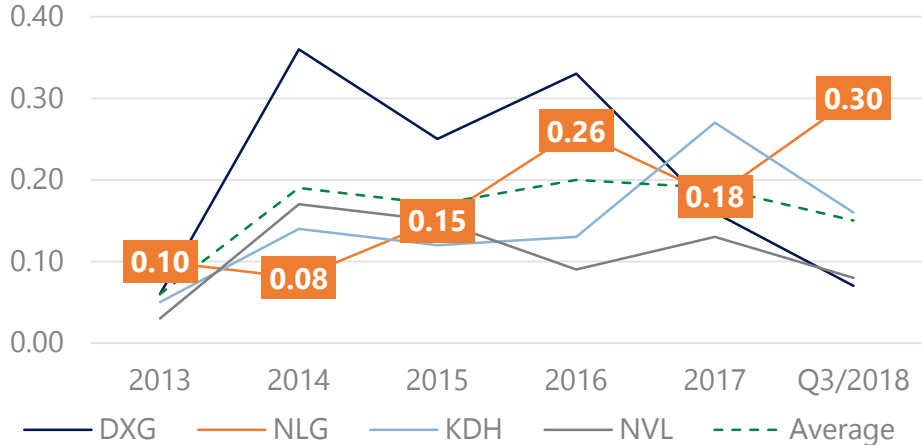


Figure 3: Debt / Equity ratio vs peers

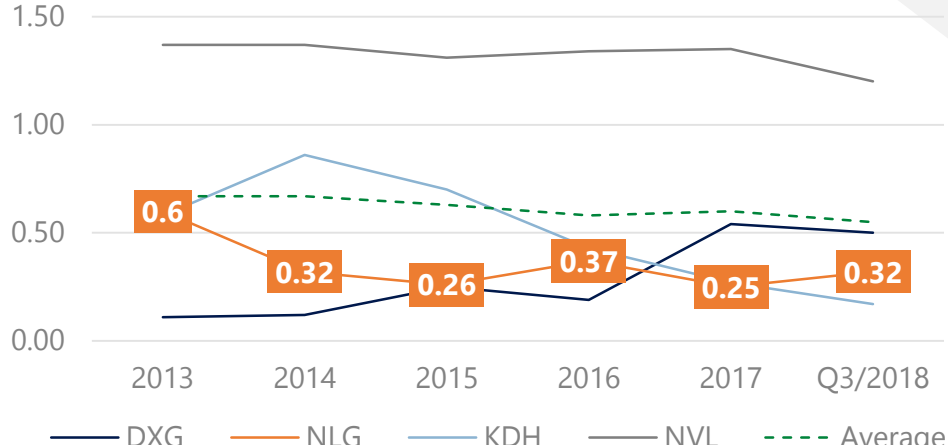
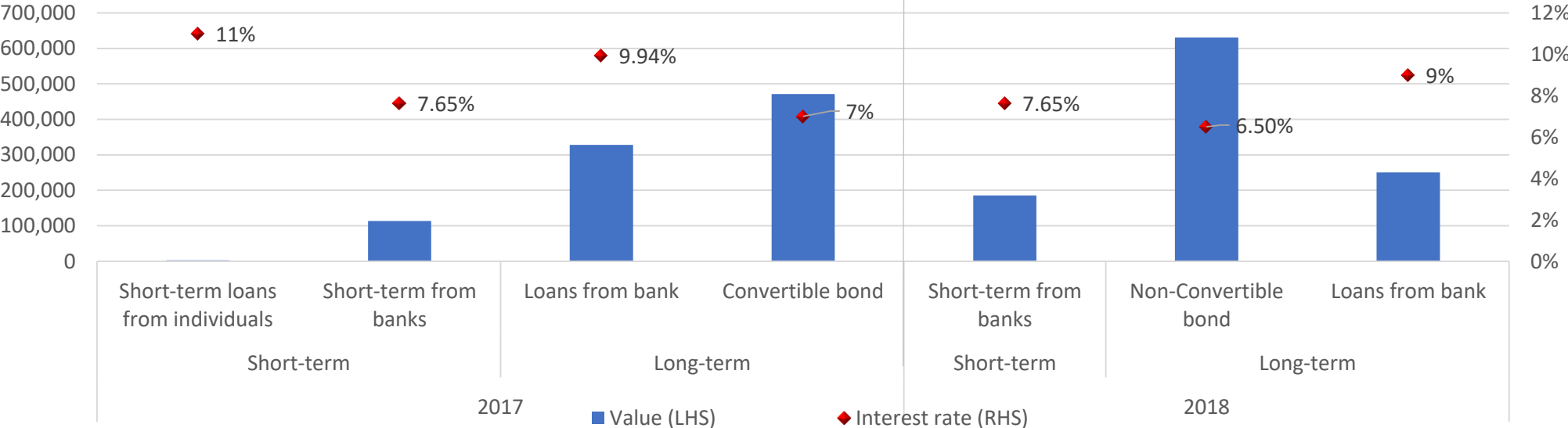


Figure 5: NLG's debt structure



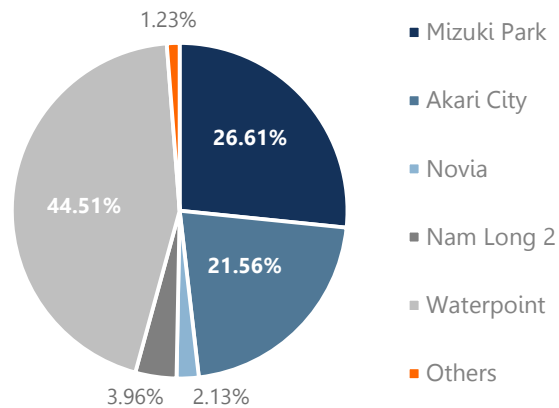


REAL AND STEADY DEMAND FOR NLG'S PRODUCTS

- Transaction volumes will continue to decline overall, but will focus on the affordable and mid-end housing segments.
- NLG has positioned itself to benefit from this crucial and long-term market trend.

NLG'S PRODUCT PIPELINE: THREE MAJOR PROJECTS

Figure 12: Proportion of project value*



Source: NLG, Yuanta Research

*Note: By Gross Development Value

Figure 11: Pipeline of NLG's major development projects

Project	Area	Launch Time	Units	Sales value (USD mn)*	Ownership	2017	2018	2019	2020	2021	2022
Kikyo Residence	4.0	Q1/2017	3,400	17.8	50%	█	█				
Fuji Residence	5.6	Q1/2016	880	5.6	50%	█	█				
Dalia Garden	15.4	Q1/2016	663	23	75%	█	█	█			
Valora Island		Q3/2017	44	13	87%	█	█	█			
Ehomes NSG	37.4	Q4/2017	1,460	50	87%		█	█	█	█	
Mizuki Flora		Q4/2017	5,227	428	50%	█	█	█	█	█	█
Mizuki Valora		Q3/2017	173	47	50%	█	█	█	█		
Akari Flora	8.8	Q2/2019	5,229	436	50%			█	█	█	█
Flora Novia	1.1	Q3/2018	684	43	100%		█	█	█	█	
SouthGate (Waterpoint)	165	Q2/2019	3,035	(a)	50%			█	█	█	█
Waterpoint phase 2	190			(b)	100%						

Source: NLG, Yuanta Research. Note: * estimated by NLG; (a)+(b)=900

RISKS TO OUR CALL

- Liquidity risks: Tightening credit policies could affect end-demand too.
- Legal risks: Government agencies have been increasing their controls over the real estate industry.



Focal points:

Catalysts

1. Real demand is huge.
2. Infrastructure investment as a key driver for demand.
3. FDI is also a major demand driver.

Risks to the market

1. SBV restrictions on credit to the real estate sector.
2. Bank capital pressures, pressure on lending rates.
3. Difficulties in determining Land Use Rights (LUR) fees.
4. Supervisory controls: Landbank acquisition from SOEs, zoning changes, and compensation for original residents are all increasingly high hurdles.



RISKS TO THE MARKET



1. SBV prudential regulations are reducing the flows of bank credit to property developers, and SBV's need to maintain VND stability may necessitate higher overall VND rates too.

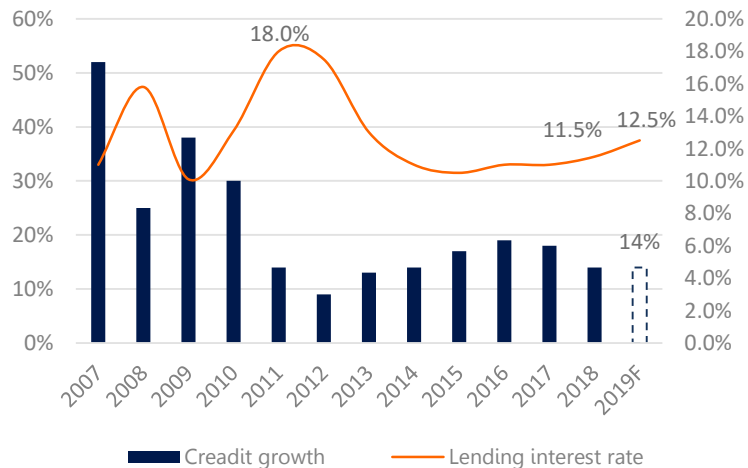
Figure 1: Recent prudential tightening measures by the SBV

	2017	2018	2019
Cap on short-term funding for long-term loans	50%	45%	40%
Risk weightings for commercial real estate loans	200%	200%	250%
10 Commercial banks must meet Basel II standards by 2020			

Source: Circular number 36/2014/TT-NHNN, 06/2016/TT-NHNN, 19/2017/TT-NHNN, Yuanta Research.

2. Credit growth slowing and funding costs increasing

Figure 6: Credit growth and lending rate



3. Difficulties in determining Land Use Rights (LUR) fee

- According to circular No. 87 & 88/2016/TT-TTLT-BTC-BTNMT, the process of determining the land use fee of the project should be determined by the Department of Finance and the Department of Natural Resources and the Environment. **However, in practical terms, no synchronous coordination has been established.**

⇒ This makes it difficult for developers to calculate investment costs and extend project implementation times.



4. Government agencies have been increasing direct controls over the real estate industry.

- **Landbank acquisitions via SOE mergers** are now under question.
- **Rezoning from agricultural to residential** is also under the microscope.
- **Compensation for original residents** is another hurdle as developers and residents, not surprisingly, argue over the price.



Yuanta Vietnam

Vietnam Brokers: We've only just begun

February 2019



Contents

- Page 3-4: Yuanta brokerage coverage introduction
- Pages 5-11: Brokers: The perfect punt on the Vietnam market
- Pages 12-19: Three thematic drivers
- Pages 20-25: A discussion of the risks
- Pages 26-27: Our top sector picks, and why
- Page 28: Yuanta Vietnam Institutional Team



Yuanta Vietnam Brokerage Universe

Sector Forecasts and Ratings

Stock	Code	Price (VND K)	Target (VND K)	Dif	Rating	P/BV (x)		PER (x)		ROE (%)		Yield (%)	
						19E	20E	19E	20E	19E	20E	19E	20E
Saigon Securities	SSI VN	26.9	26.1	-3%	HOLD	1.38	1.26	8.9	7.9	14%	15%	3.7%	3.8%
HCM City Securities	HCM VN	48.0	61.6	28%	BUY	1.83	1.56	10.9	7.5	18%	23%	3.5%	3.8%
Viet Capital Securities	VCI VN	35.4	43.8	24%	BUY	1.40	1.20	6.9	6.1	18%	19%	2.4%	3.5%
VN Direct Securities	VND VN	16.8	21.5	28%	BUY	1.07	0.98	8.0	6.5	10%	13%	6.6%	4.1%

Source: Bloomberg, Company data, Yuanta Research. Pricing data is as of Feb 12



Brokers – Small caps, limited turnover

- *SSI is the most investable among peers if purely looking at capitalization and market liquidity*

	Market Cap (USD m)	Free Float (%)	3m ADT (USD k)	1-year velocity	Equity Beta	Brokerage market share (HOSE, 2018)
SSI VN	566	75%	2,476	1.1	1.224	18.70%
HCM VN	240	67%	344	0.4	1.292	11.24%
VCI VN	268	66%	256	0.2	1.143	10.95%
VND VN	144	94%	805	1.4	1.321	7.31%
SHS VN	60	95%	607	2.5	1.283	4.02%



Brokers – Thematic drivers

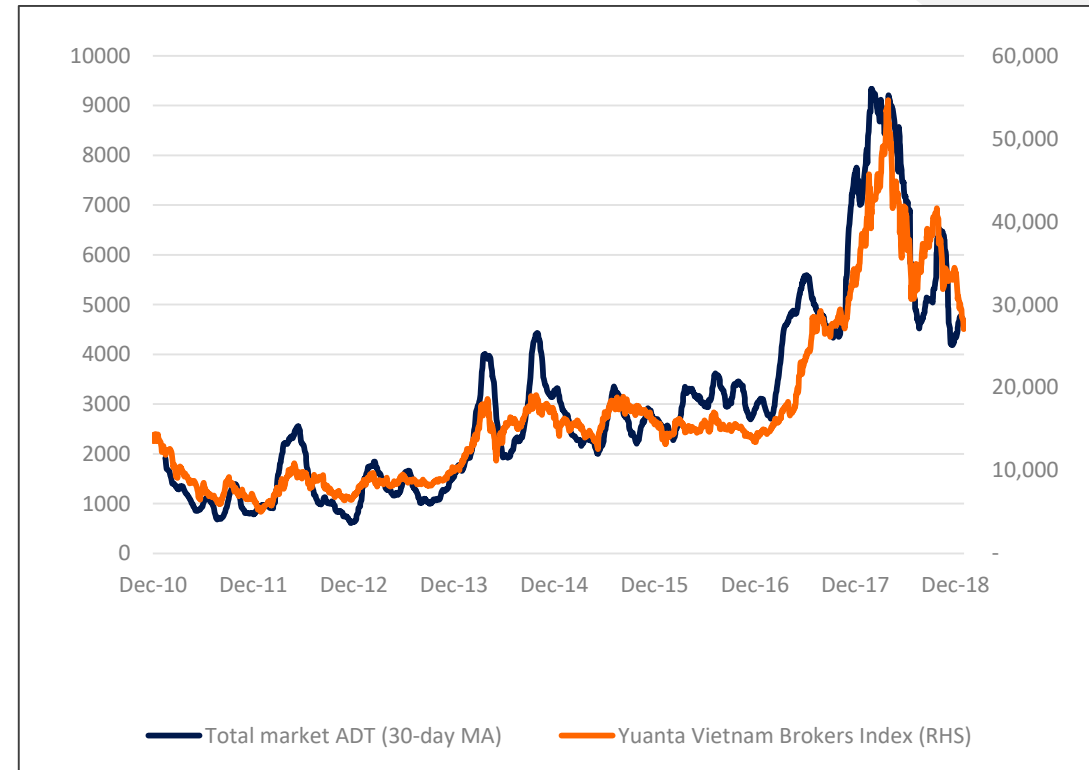
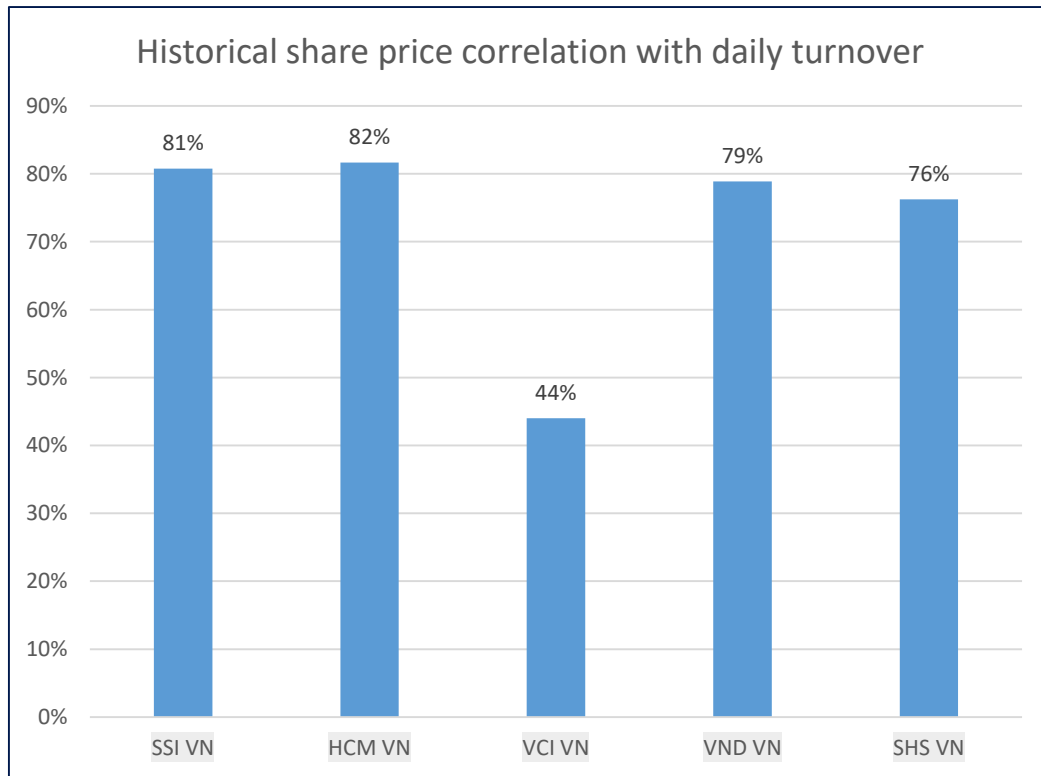
3 core stories will drive the brokerage business going forward

- **1) Growth in retail investor participation** (yes, that's right – the Vietnamese retail punter already dominates the market, but he/she is just getting started).
- **2) Growth in institutional investor participation** (both foreign and domestic, with the MSCI decision as a 2-3 year catalyst).
- **3) Growth in derivatives turnover and product breadth** (Index futures are starting to take off, and we expect covered warrants to start up by mid-year).



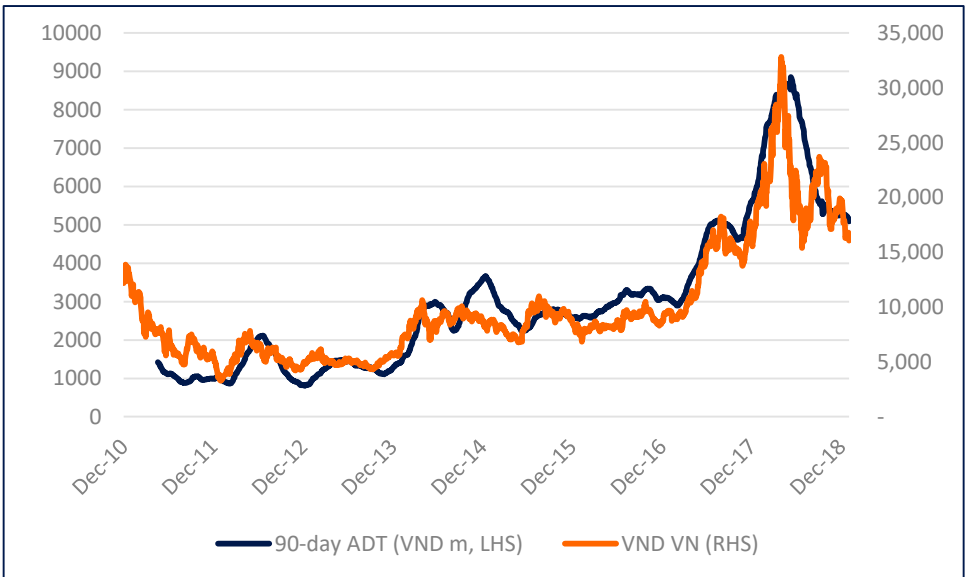
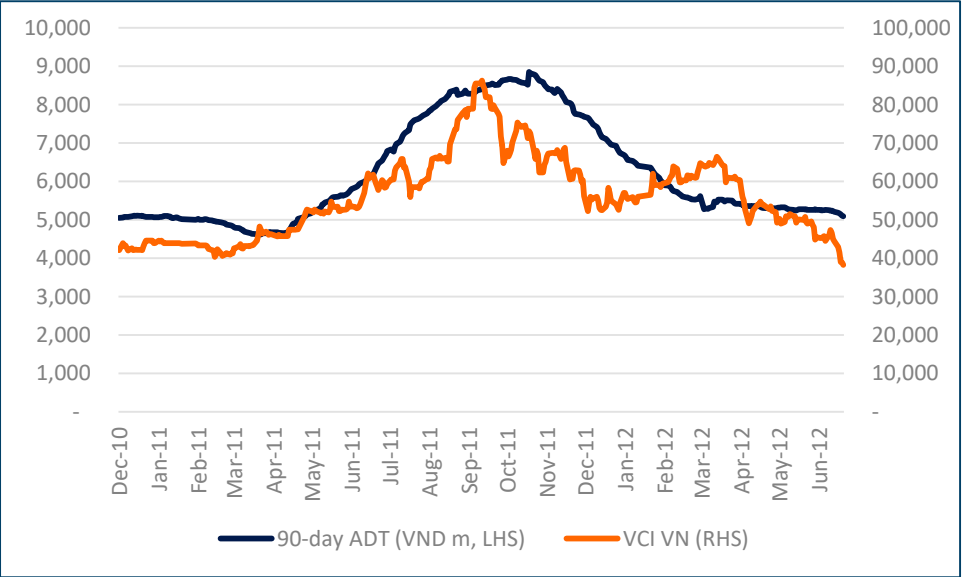
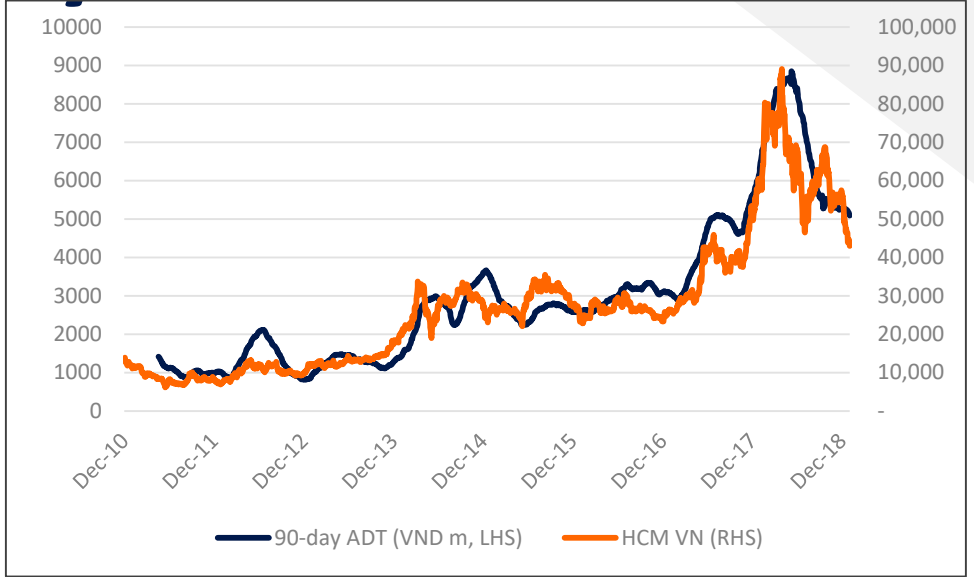
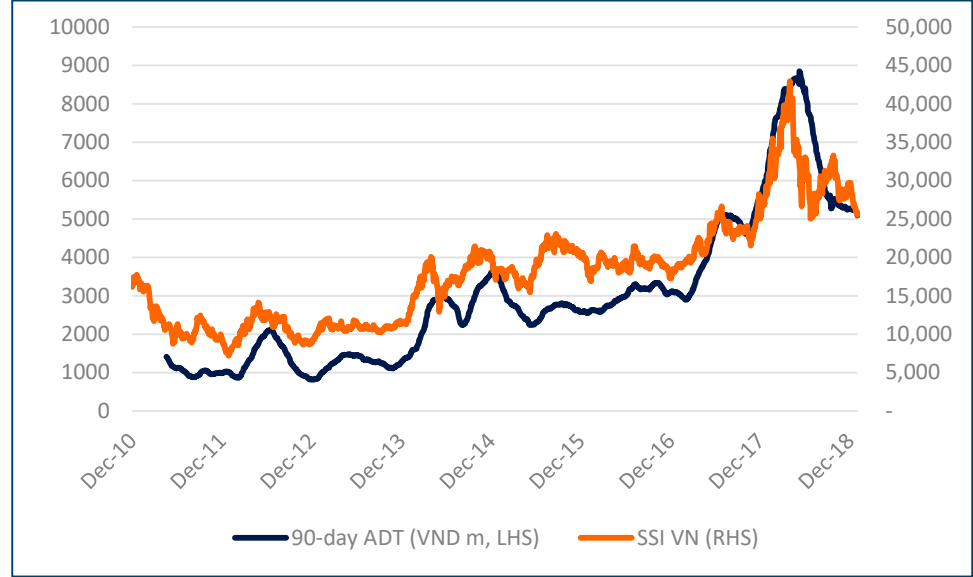
But first, an unpleasant truth...

... In the short run, the stocks are a proxy on the market



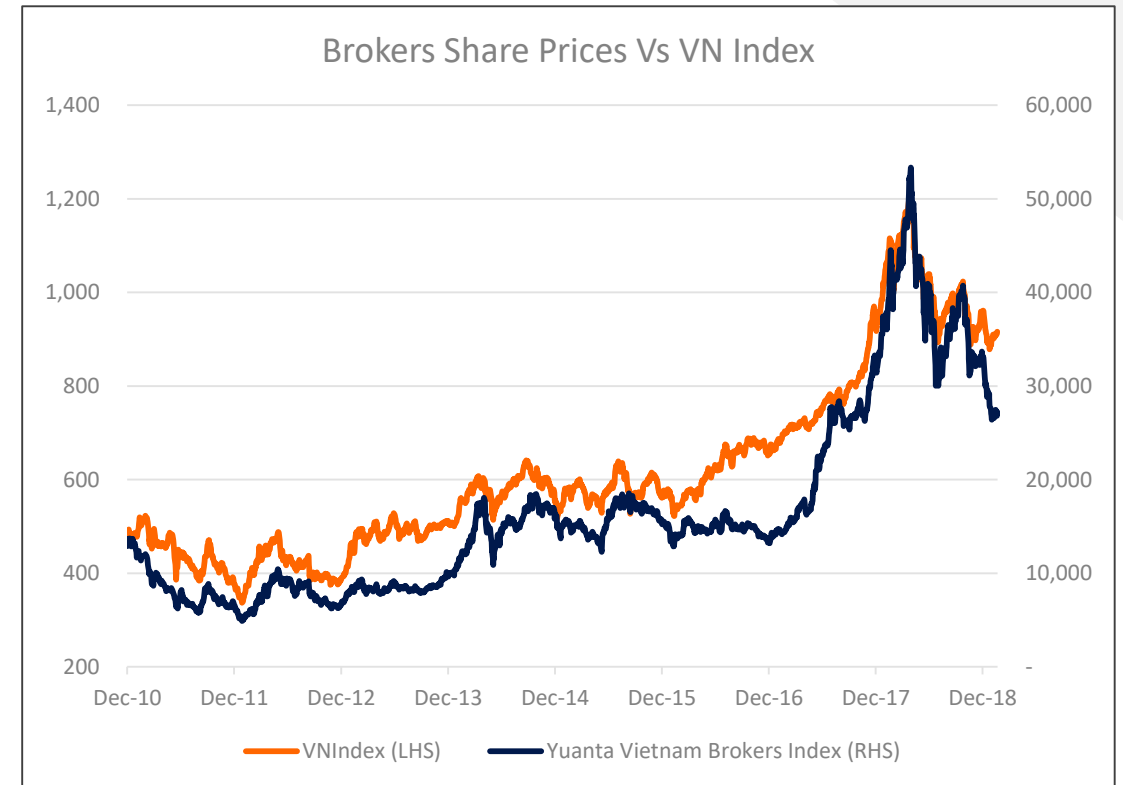
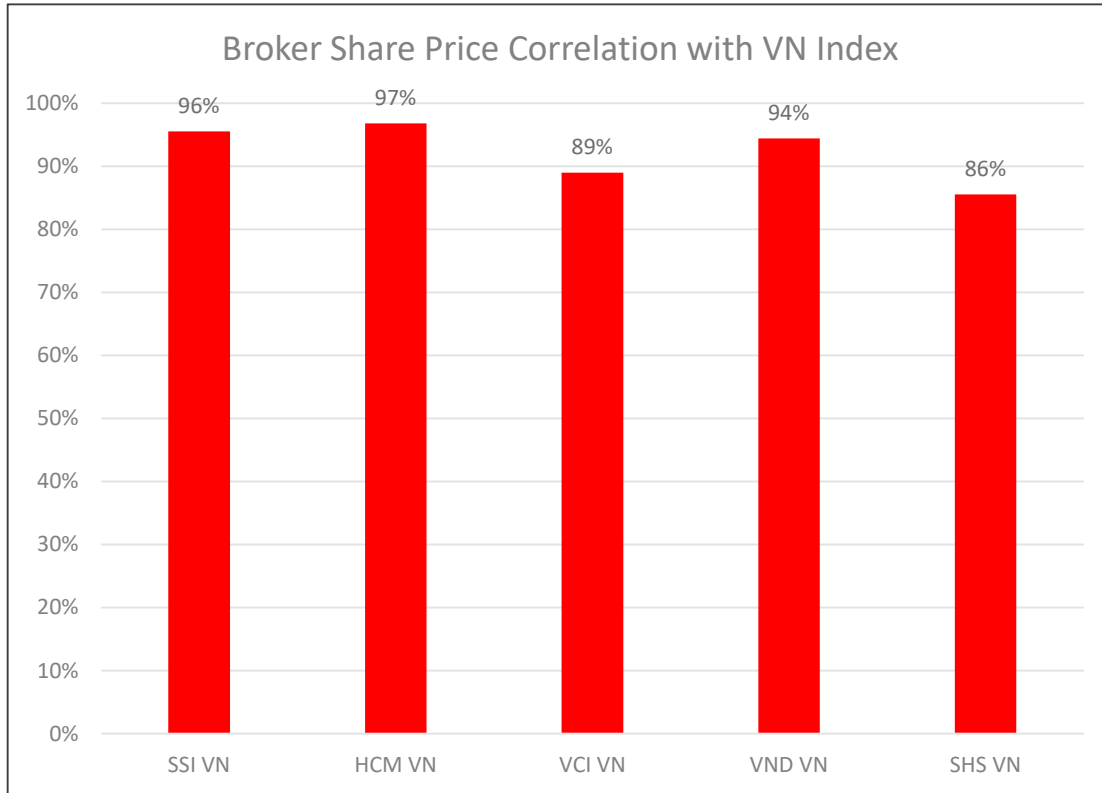


Broker shares to 90-day ADT





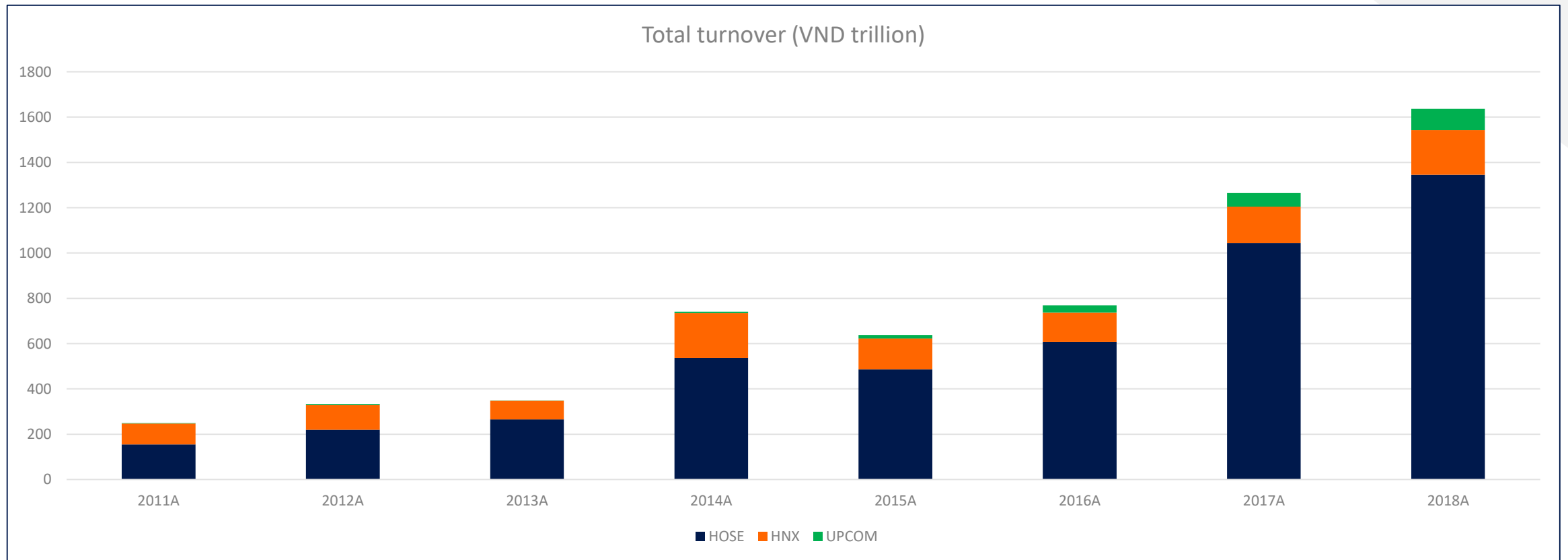
Key share price driver: VN Index





But the good news is that total turnover is on the rise

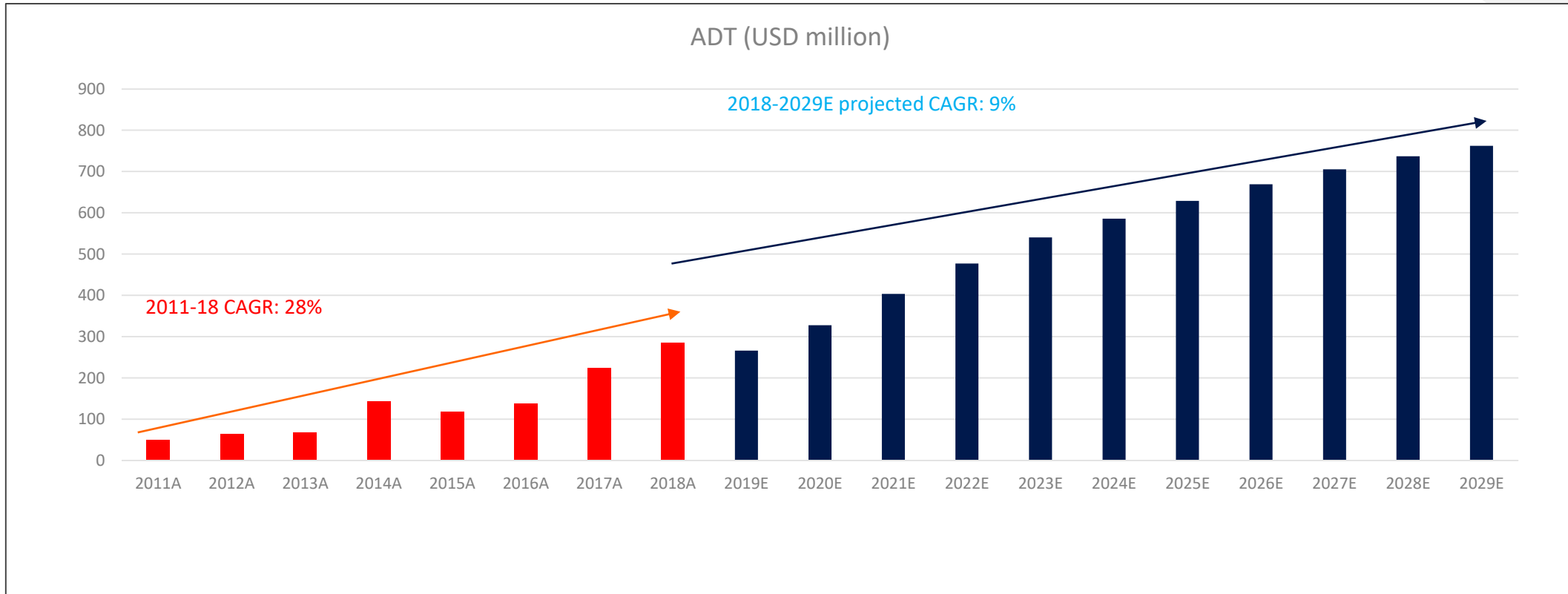
Our earnings models factor in cash equities turnover on HOSE, HNX, and UPCOM.





Average daily turnover

ADT to rise along with increased investor base of individuals & institutions, as well as growth of tradeable stock as a % of GDP.

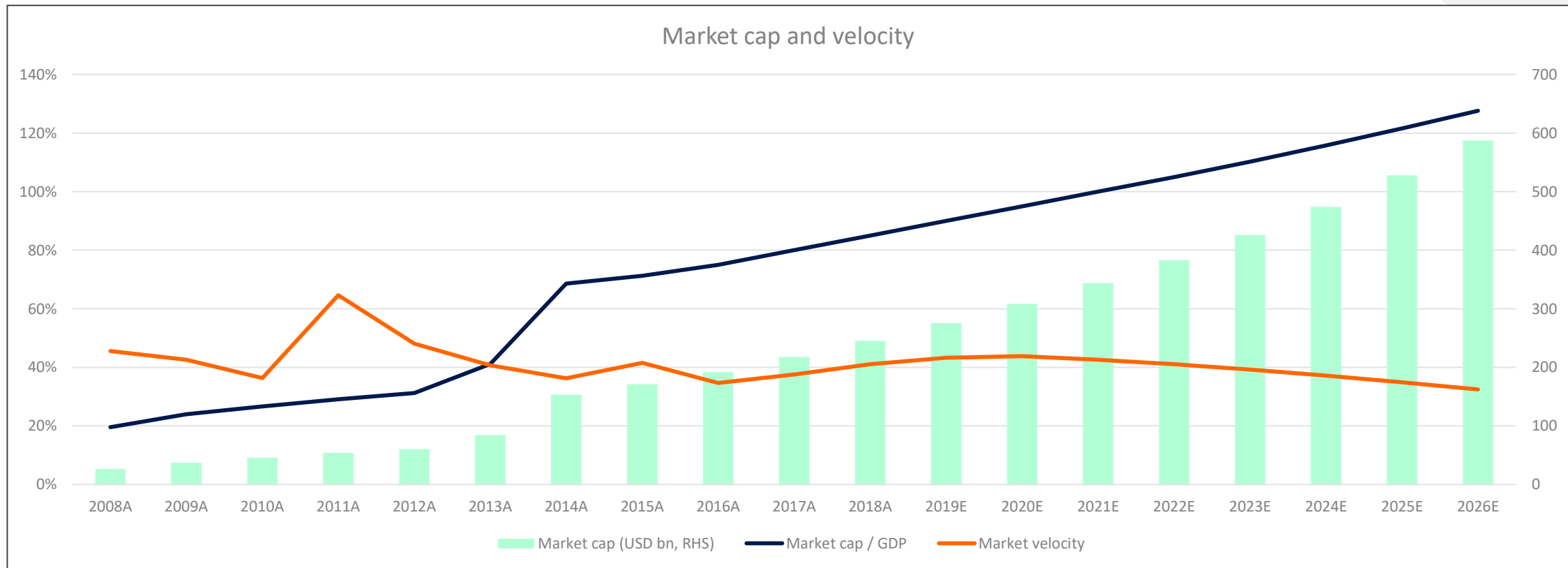


- *If it happens, US\$700m per day would place Vietnam's equities turnover in 2029 below Singapore's but ahead of Malaysia's current (2018) ADTs.*



Projected market cap & velocity

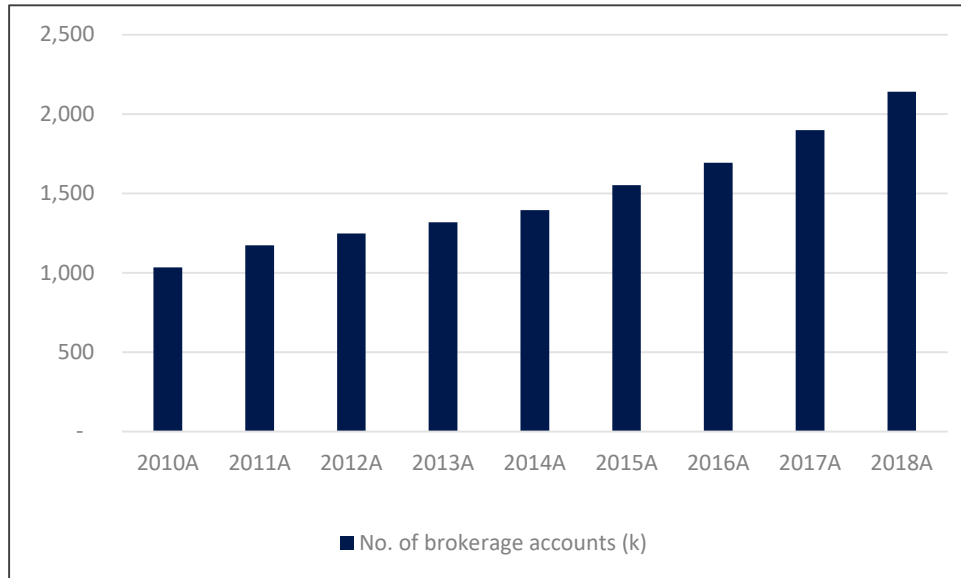
Velocity may remain subdued if market cap is dominated by stodgy, low free-float SOEs.





Thematic Driver 1

Retail investors are just getting started



- Securities trading accounts now exceed 2 million
- The number of accounts has doubled since 2010
- But the market remains underpenetrated, with total accounts representing just 2% of the population
- This is reminiscent of Taiwan in 1985

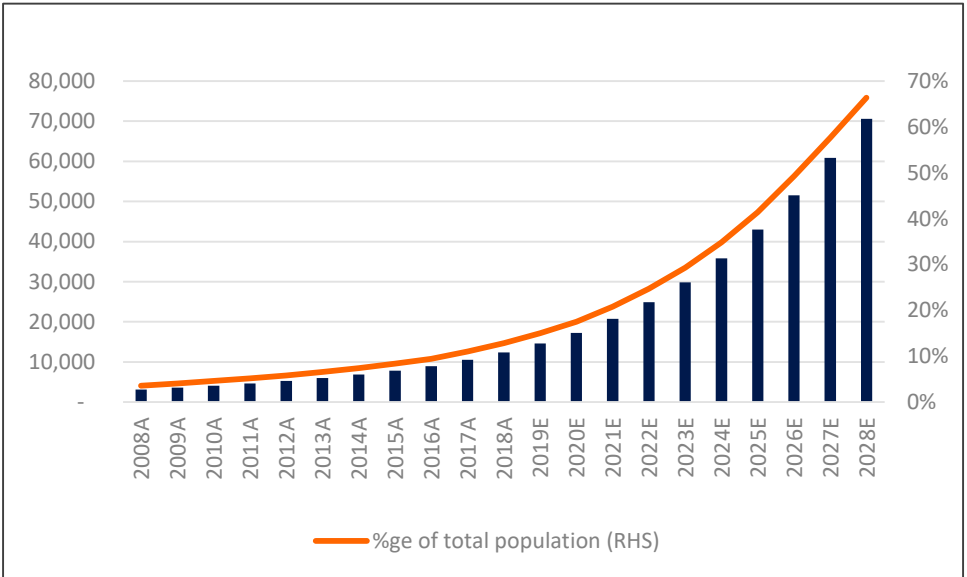
Source: Vietnam Securities Depository



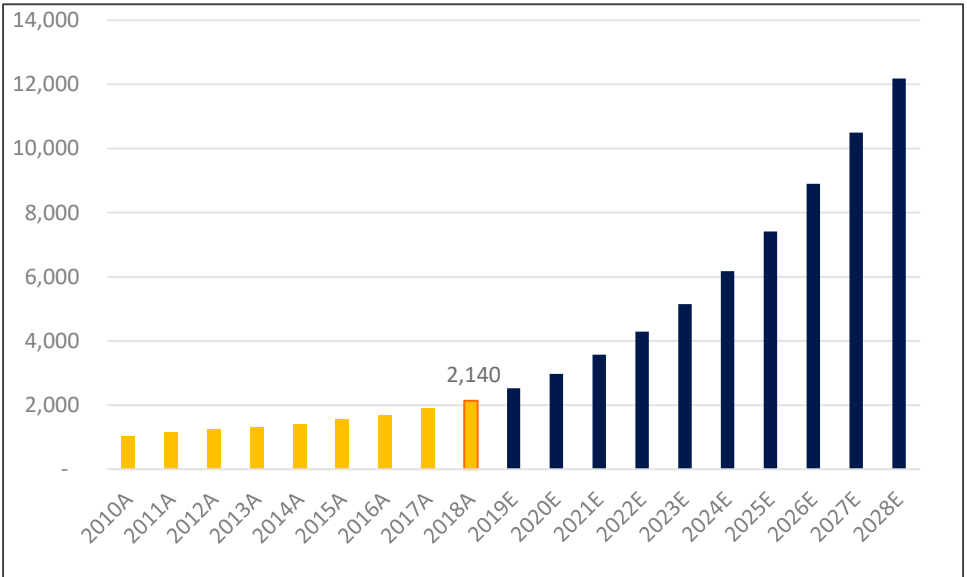
Thematic Driver 1

Retail investors are just getting started

Middle class population is set to go parabolic...



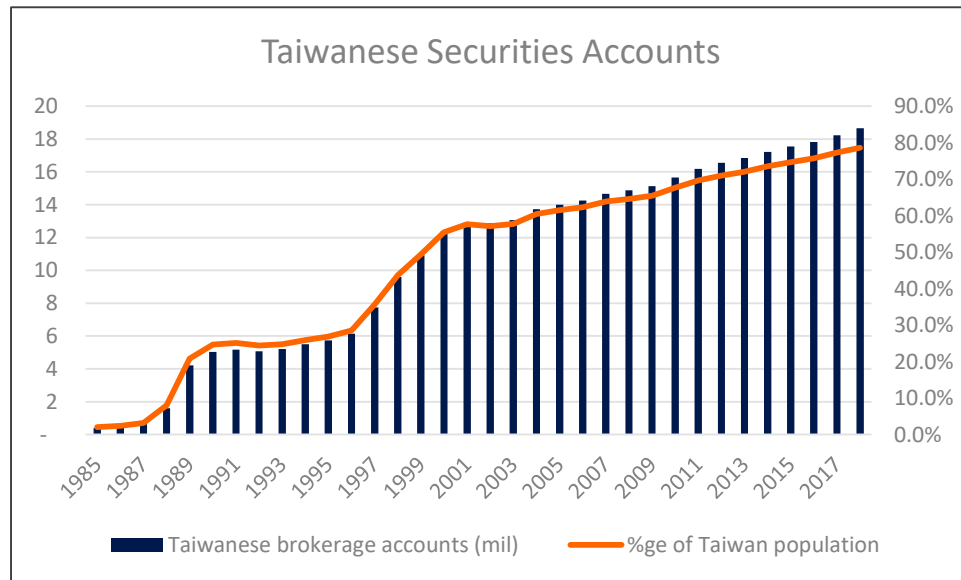
...and we think the retail investor base will expand in synch





Thematic Driver 1

Retail investors – Taiwan as a growth template



- Taiwanese investment accounts totaled 400K or 2% of the population in 1985
- The number of accounts grew 10x through the next 5 (bubble) years
- Accounts grew another 2.5x in the late 1990s as MSCI inclusion led into the tech bubble
- Total accounts in Taiwan now are 19 million, or 78% of the population
- Parallels between Taiwan 1985 and Vietnam today: net capital inflows from FDI and trade, relatively closed capital markets, upcoming MSCI inclusion, and a cultural penchant for rolling the dice

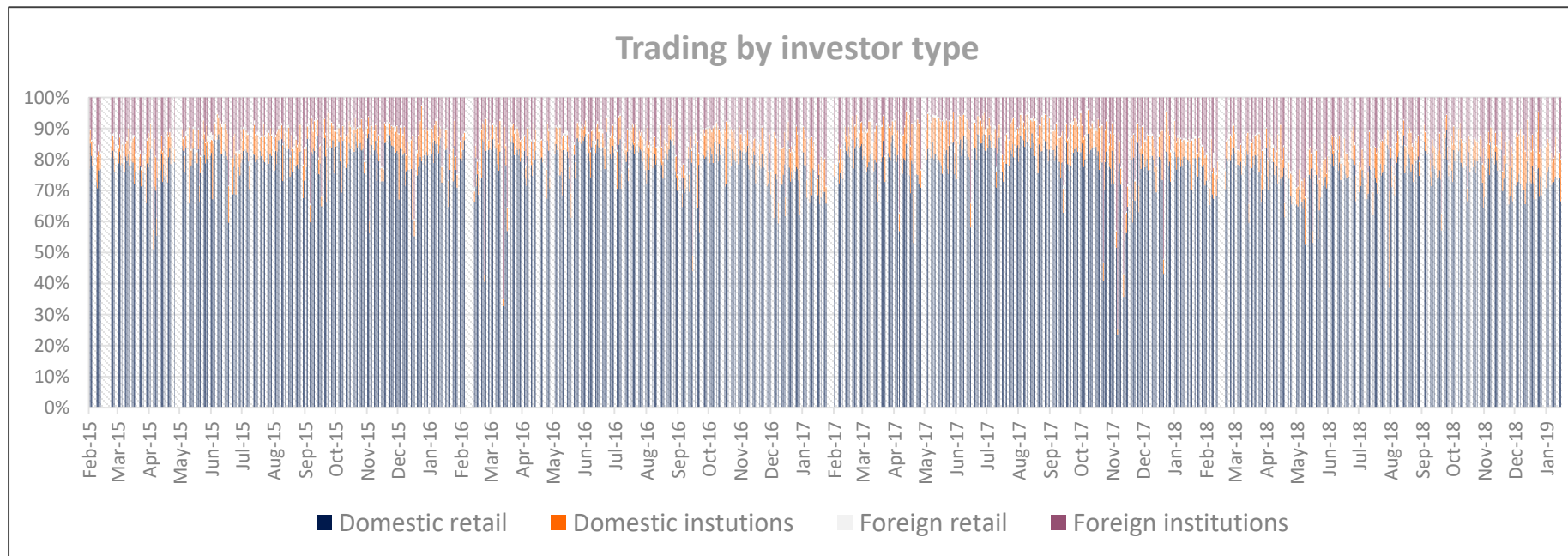
Source: TWSE



Thematic Driver 2

Institutional investment will increase too

Foreign institutions accounted for 17% of 2018 turnover, up from 14% in 2017

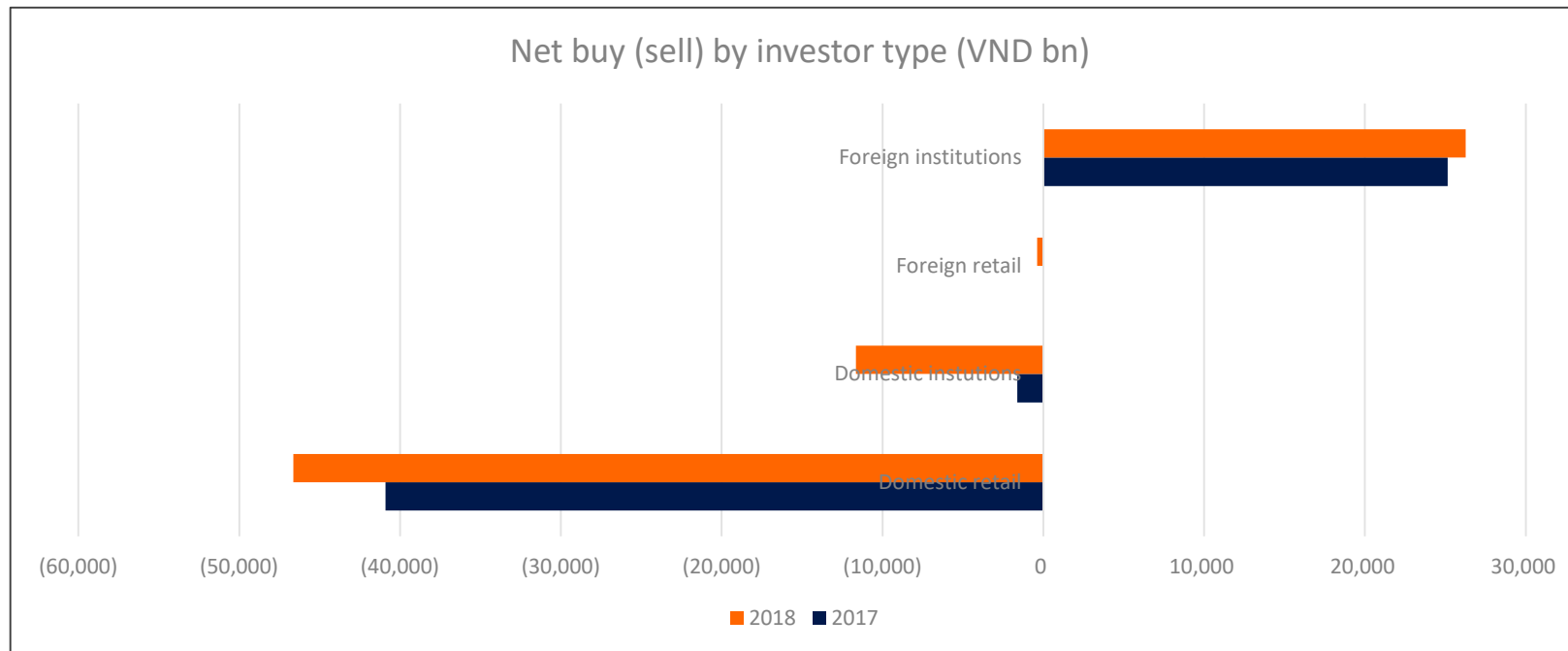




Thematic Driver 2

Institutional investment will increase too

Foreign institutions were the lone net buyers in 2017 and 2018. This is likely to be a structural feature of the market, in our view.





Thematic Driver 2

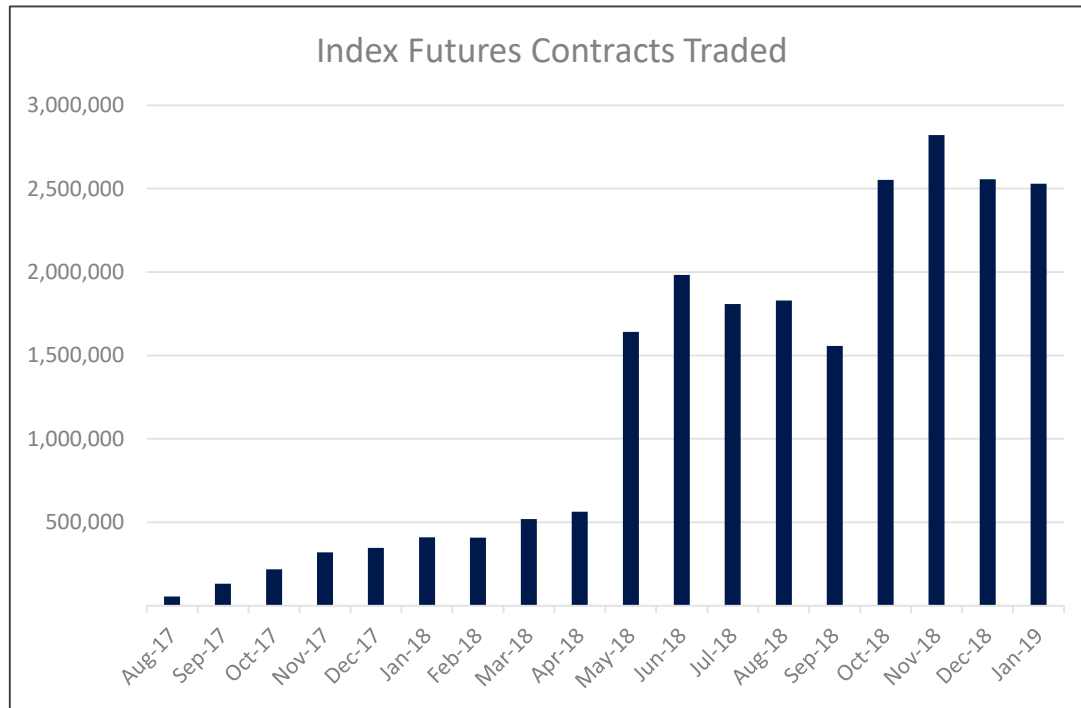
Institutional investment will increase too... Why?

- 1) Vietnam macro story is compelling, and portfolio flows should follow FDI.
- 2) Vietnam needs the capital urgently, so reform efforts will lead to increased equitization of state assets.
- 3) MSCI E/M inclusion is hard to foresee near term, but should occur within the next few years in our view.



Thematic Driver 3

Rise of the derivatives



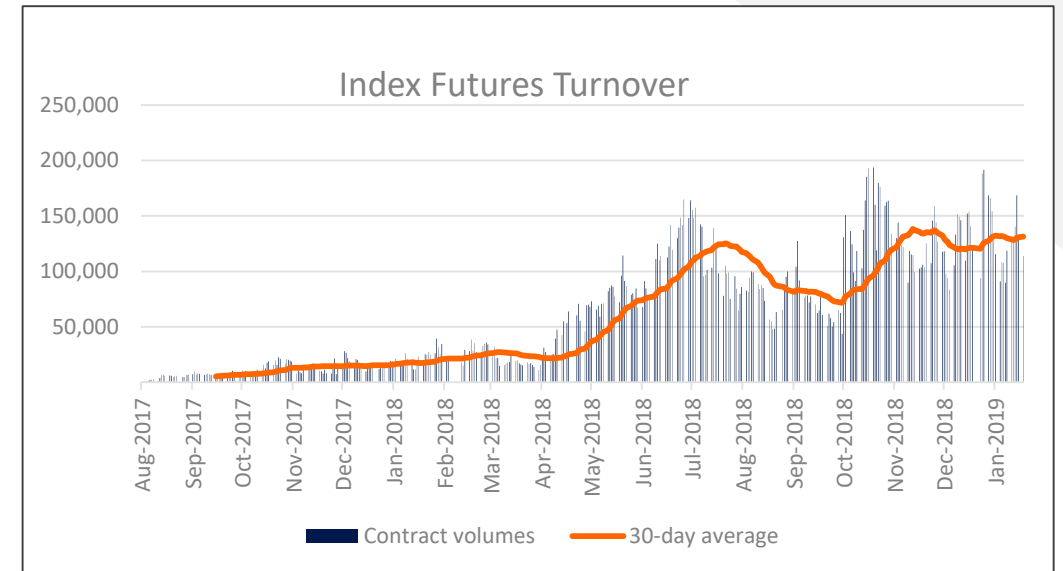
- Nascent derivatives market only started in August 2017
- Brokers with the ability to leverage these products are better positioned to drive revenues and market share.
- We think that increased turnover of Index futures and the addition of new products could be another earnings catalyst.



Thematic Driver 3

Rise of the derivatives

- 2.6m contracts traded in January 2019 alone, a YoY increase of more than 500%.
- Contracts traded in Aug-2018 to Jan-2019 was over 13x higher YoY.
- Institutional trading of index futures is low, leaving plenty of room for growth.
- Upcoming products include covered warrants, interest rate contracts.





Risks: No shortage here

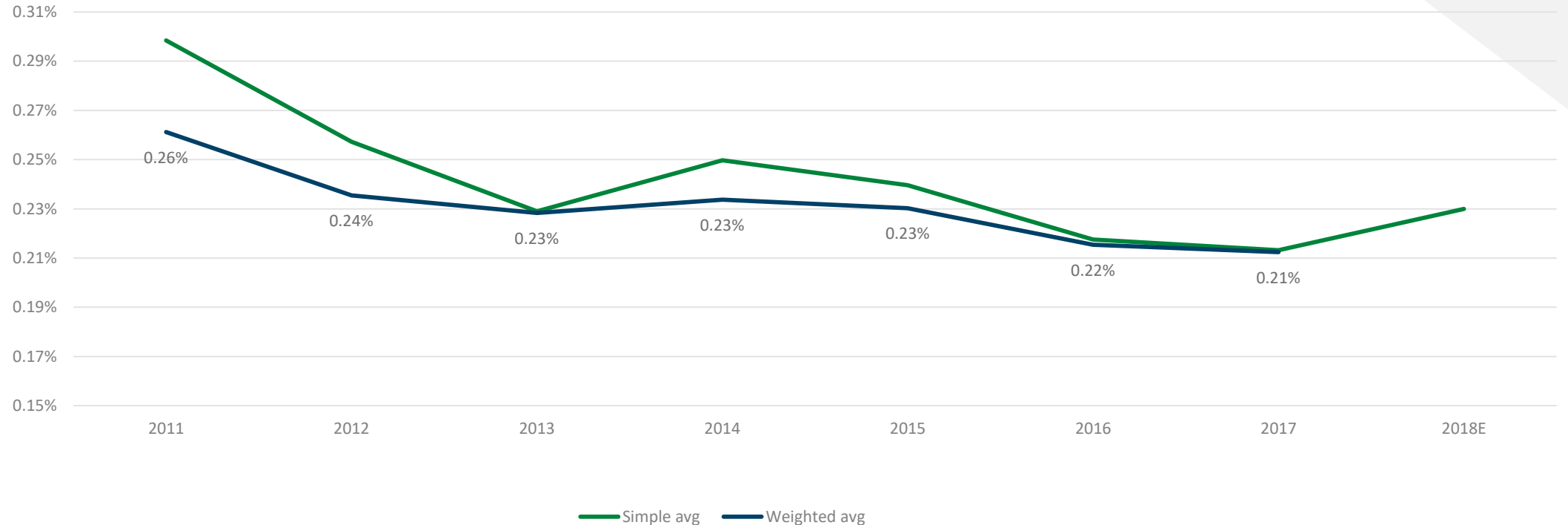
- Forecasting ADT = A mug's game
- Strategic and financial transparency? Uh, not always ideal (but this is a plus for the more open players)
- Prop trading is an operational, regulatory, and customer relation risk
- Fees are already under pressure, just like everywhere else.
- Balance sheets are not highly leveraged, but liquidity could be a concern in a market rout (e.g., in a perfect storm: margin clerks are shut down and prop books not allowed to sell just as funding from banks dries up).
- Competition will inevitably intensify as regional / global players arrive to engage with Vietnam IB business and FINI brokerage services.



Brokerage fees: How low can you go?

Fees appear to have picked up slightly in 2018.

Estimated big 4 Vietnamese brokerage fees

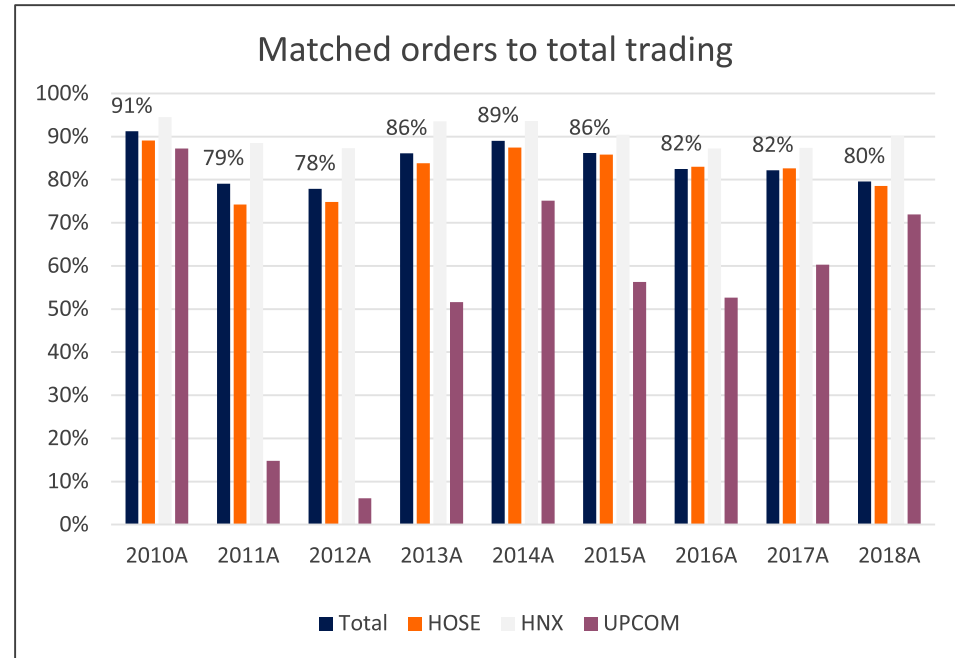
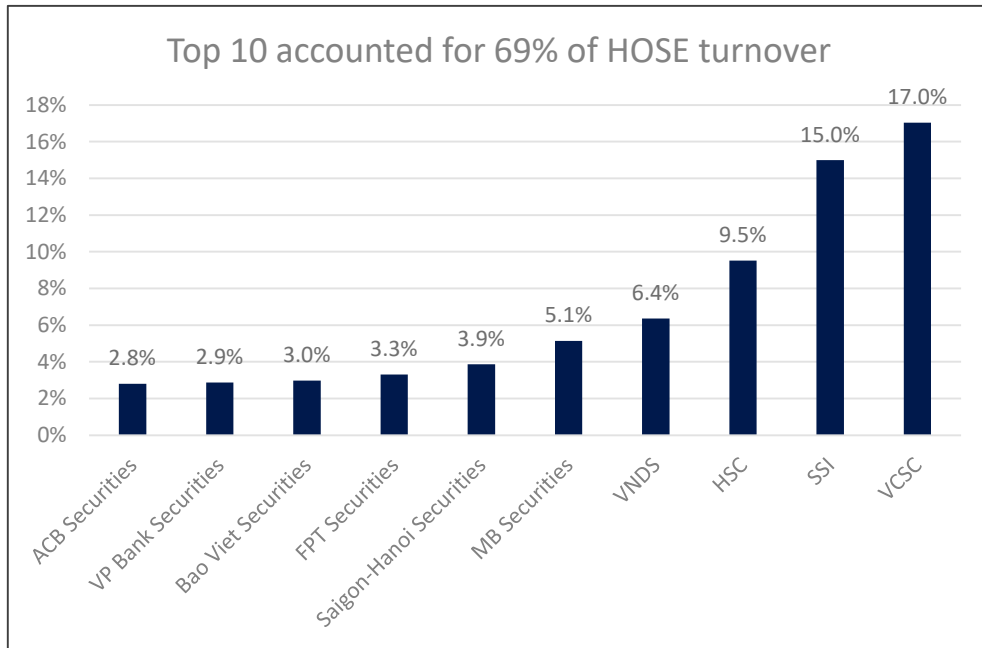




Brokerage fees: Supportive factors

1) Top 10 brokers accounted for 69% of 4Q18 HOSE turnover.

2) Matched trades still account for the bulk of turnover in Vietnam.



Inference: It's a fragmented industry, but the major players have some scale.

~~*Inference: This is a high-touch business, and brokers/dealers expect to be paid.*~~

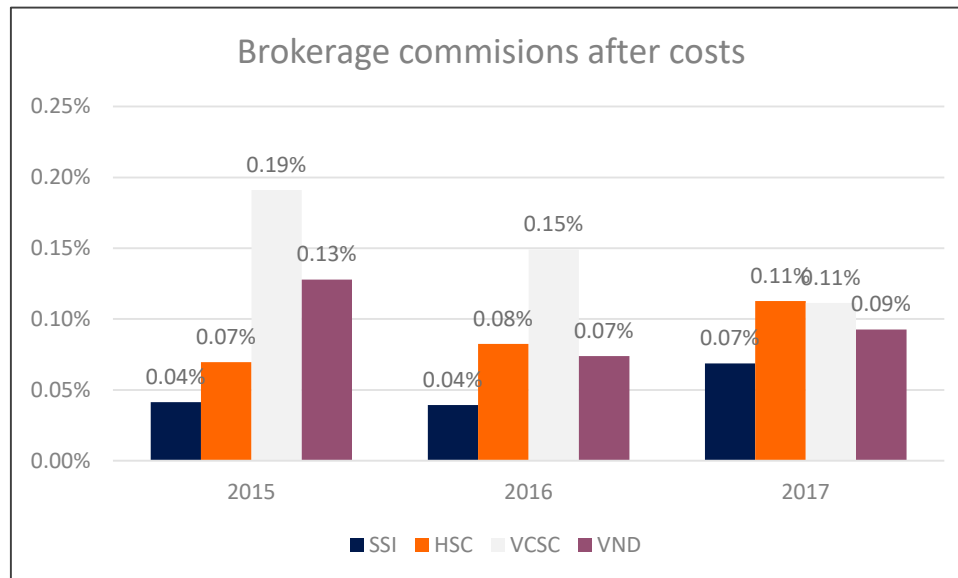
Wrong!!! Logic doesn't win all arguments.



Brokerage fees: Supportive factors

3) Brokerage costs are relatively high and net fees are c. <10bps already

4) Discussions with industry players suggest they aren't particularly worried about it.



“Probably not too much pressure.”

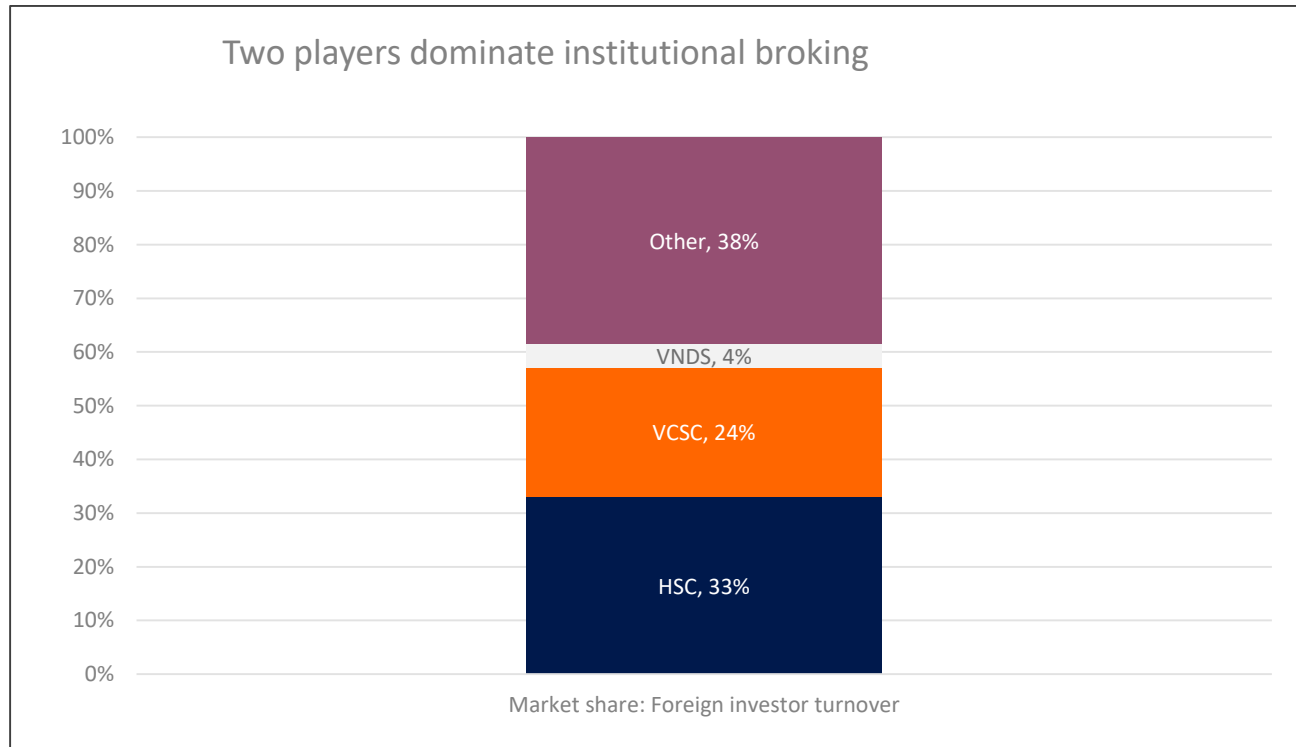
“Some brokers were already charging less than the 15 bp minimum.”

Allowing pure brokerage to be a money-losing proposition raises the specter of moral hazard – what is the incentive for doing this business?



Brokerage fees: Supportive factors

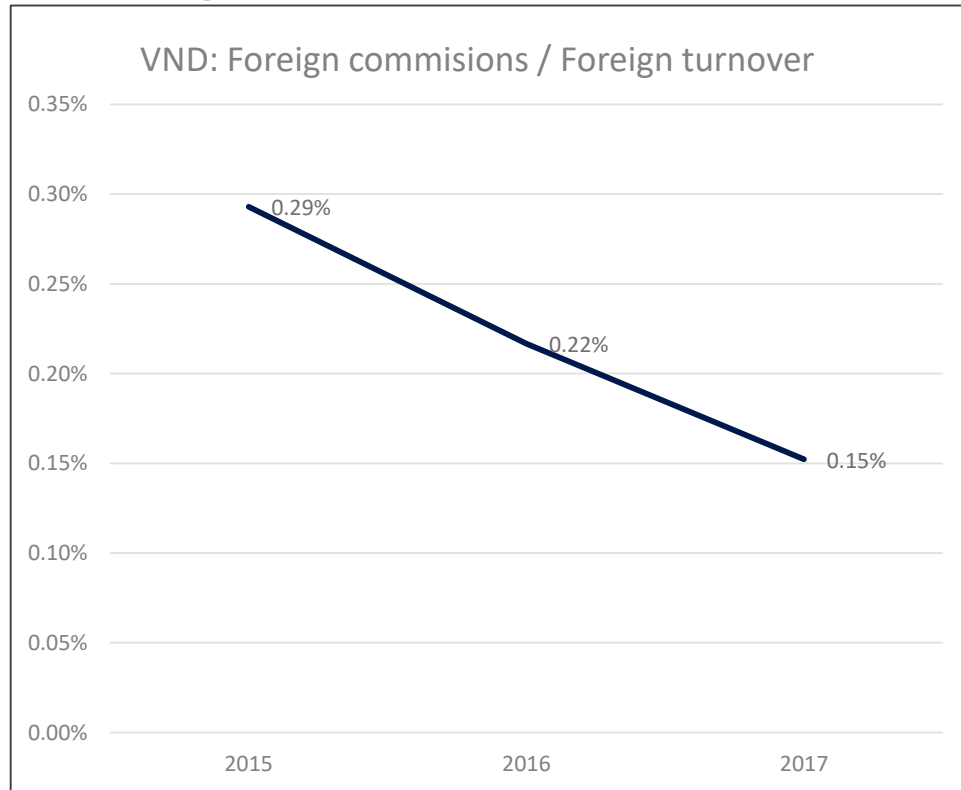
A greater focus on institutions may provide support for commissions, for now at least...





Brokerage fees: Falling anyway?

...But let's not kid ourselves too much – competition and client demand will bring down institutional fees too.



Note: VND may share some of its fees with CIMB(?)

- Flows have value (think of the incentives)
- Foreign brokers might be willing to buy market share
- Potential disruptive change from FinTech



Top Sector Picks: HCM and VND

- HCM VN (Buy): Leading institutional brokerage product and a steady hand at the wheel make this our top pick for long-term investors.
- VND VN (Buy): Attractive, industry-leading online trading platform should allow it to grow market share efficiently.
- VCI VN (Buy): High historical ROEs are unsustainable, but the stock's massive sell-off post the IPOs of 2Q18 is overdone.
- SSI VN (Hold): The firm appears to be overly focused on market share, whereas we focus on shareholder returns. SSI's low ROE justifies a discount. That said, the market cap and turnover are bigger than the other stocks, so it could be a target for traders.



Yuanta Vietnam Brokers Universe

Stock Code	Price (VND K)	Target (VND K)	Rating	%ge up / downside	Fwd Div Yield
SSI VN	26.9	26.1	HOLD	-3%	4%
HCM VN	48.0	61.6	BUY	28%	4%
VCI VN	35.4	43.8	BUY	24%	3%
VND VN	16.8	21.5	BUY	28%	4%

Earnings growth

	2017A	2018P	2019E	2020E	3yr CAGR
SSI	22%	19%	3%	15%	14%
HCM	82%	22%	-5%	46%	33%
VCI	93%	26%	-15%	21%	26%
VND	153%	-21%	-14%	38%	24%

ROE	2017A	2018P	2019E	2020E	Avg
SSI	13.2%	14.6%	13.9%	14.6%	14.1%
HCM	18.9%	20.4%	17.7%	22.5%	19.9%
VCI	30.6%	24.3%	17.7%	18.7%	22.8%
VND	20.5%	13.1%	10.1%	12.9%	14.2%

Thank You.

Institutional Research

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