Country Outlook

Vietnam: A Tiger In the Making

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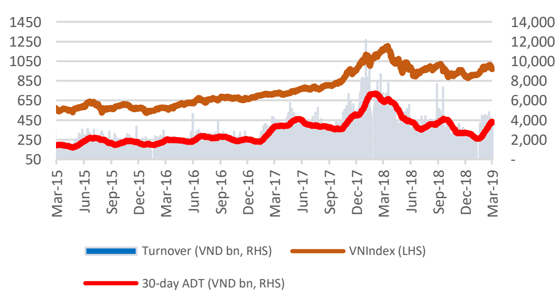
A bright outlook for Asia's next Tiger Economy. Vietnam is now emerging as Asia's next macroeconomic growth story – and a compelling investment opportunity. A highly attractive demographic structure, increasingly strong trade ties, and booming investment from foreign manufacturers support our confidence in domestic consumption, export growth, and economic expansion for at least the next two decades.

Against this background, we think the equity and bond markets are set to grow exponentially in the years ahead. Frontier markets such as Vietnam can be volatile and illiquid. But sophisticated investors who choose their investments wisely now have an opportunity to enter the Vietnam market prior to its inclusion in the MSCI Emerging Markets Indices, which we think will substantially increase institutional capital flows and asset prices.

Stock Market Performance



Themes and catalysts

- Financial & political stability.
- Booming FDI & open trade.
- Demographic dividend for the next 25 years from a young, well-educated, and hard-working population.
- MSCI E/M Index inclusion likely in the next three to four years.

Frontier Market Risks

- Volatile liquidity conditions.
- Retail investors dominate the markets.
- Corporate governance can be less than perfect.
- Restrictions on foreign ownership of stocks.

A strong top-down growth story, driven by four main themes: 1) Foreign direct investment is surging as manufacturers seek alternatives to China. 2) Highly attractive demographics – c. 60% of this hard-working and educated population is under 35 years of age. 3) The nascent middle class is growing at 10% annually and this will continue for at least a decade. 4) Vietnam is still classified as a "frontier" market, but we expect MSCI Emerging Markets inclusion within three years. This will further boost foreign institutional investment in the market here.

Capital markets are only just getting started. Vietnam's financial markets have lagged the nation's strong and steady growth in GDP up to now. But the funding needs of public and private investment are driving positive changes and the Vietnamese stock market is opening up. Sectors that should benefit from the four drivers of macro growth include banking and other financial services, consumer cyclical and discretionary stocks, logistics services, and property developers.

Stock selection is key to success. This report also provides a summary of our institutional coverage and more detailed introductions to eight key stock ideas across the financial services, consumer, and property sectors – all businesses that should benefit from the themes discussed above. We also provide an overview of some of the idiosyncratic rules and other considerations that foreign investors must understand to achieve investment success in Vietnam.

Contents

Strong Growth Ahead, Driven by Four Main Themes

Vietnam: Asia's next tiger economy.

We believe that Vietnam has the potential to be the next – and perhaps the last – of Asia's famed Tiger Economies. Forward-thinking entrepreneurs from all over the world – especially Korea and Taiwan – have benefited from investment in manufacturing here for over 20 years. Yuanta Vietnam now offers the opportunity for sophisticated financial investors to also participate directly in this unique and exciting long-term growth story.

Four interconnected thematic drivers make Vietnam a compelling investment destination today:

1) **Booming FDI** – Vietnam is the world's next manufacturing export powerhouse, which supports lucrative employment markets and helps boost the VND — and is directly positive for industrial property developers, manufacturers, and logistics services and other services providers.

2) **Demographic dividend** from Vietnam's young, well-educated, and increasingly wealthy population will continue to pay out over the next two decades — this is the most compelling factor for Vietnam's investment appeal, in our view. It is also a sharp contrast to northeast Asian nations (especially China, but also Korea and Taiwan).

3) **Rapid growth of the middle class** at 10% annually (vs 1% overall population growth) implies a solid outlook for domestic demand — This is positive for all of Vietnam Inc., but especially for residential housing, education, consumer staples, consumer discretionary, and financial services.

4) **MSCI Emerging Markets Index inclusion**, likely in the next 3 years — This should be positive for stock prices generally, as well as directly benefiting financial services – securities brokers, banks, and asset managers – as well as tourism, luxury residential property, and commercial property developers.

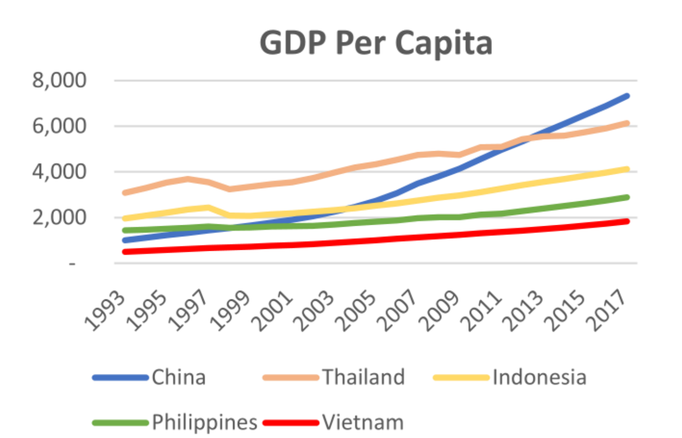
The 20th Century was tough on Vietnam, but the country is now catching up to its ASEAN peers with strong and steady economic growth.

Vietnam: Why now? Understanding where Vietnam is today requires a brief discussion of its history. The country's economic development lagged Asia's remarkable growth in the latter half of the 20th Century – a period that consisted of many decades of war and international isolation.

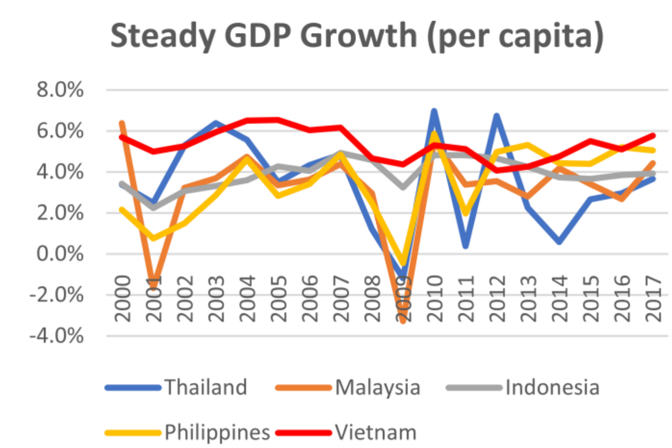
Vietnam only entered the global community after the "Doi Moi" economic liberalization policies which were largely introduced and implemented in 1989-1994. These bold reforms opened the world's eyes and culminated in the 1995 US government decision to lift economic sanctions that Washington had enforced since the 1960s. The decades of international isolation were over.

Vietnam has since developed into a major force in global trade – a member of the ASEAN community and the World Trade Organization, and a signatory to current or upcoming trade agreements with dozens of countries. But when considering the country's current state of economic development, it is critical to understand that Vietnam only began to participate as a member of the global economic community 22 years ago.

This is the main reason why Vietnam's economic growth has lagged that of the rest of comparable Southeast Asian countries – and as seen in the charts below, its performance still pales beside China's remarkable growth in the same timeframe.



Source: World Bank, Bloomberg, Yuanta Vietnam



Source: World Bank, Bloomberg, Yuanta Vietnam

However, Vietnam is now catching up. In fact, economic growth here has typically been much faster – and far steadier – than Vietnam's major ASEAN peers in the past 20 years. We think this trend is likely to continue for the next two decades, driven by the four key themes discussed below.

Theme 1) Foreign Direct Investment: Vietnam as a “little China” for export manufacturers

FDI has surged for over a decade, and will be further supported by the US-China trade war, in our view.

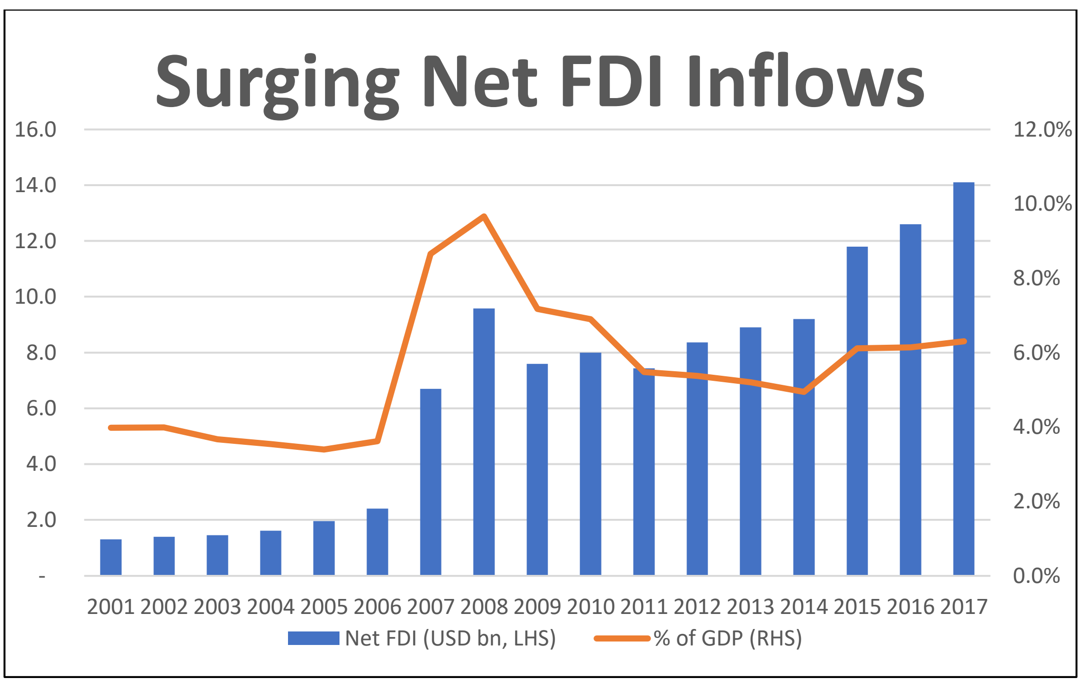
FDI has surged since Vietnam’s WTO entry in 2007, as part of the relentless search for cheap and efficient labor markets by global export manufacturers – largely from Korea, but also Japan, Taiwan, and Hong Kong.

Although this started out mostly as footwear and textile manufacturing, today the country’s main export products consist of electronics hardware products – especially hand phones and related components. In fact, the largest single manufacturer in Vietnam is Korea’s Samsung Electronics – which exports more from Vietnam than any other single firm, by a wide margin.

Vietnam benefits from its cheap labor costs, which caused manufacturers to move here from China long before US-China trade relations turned sour. The Trump-inspired trade war between the US and China has served to boost the attractiveness of Vietnam as a manufacturing destination, and we expect this to persist in the years ahead even after those trade frictions have been made less strident by the two superpowers.

Vietnam’s attractions include low labor costs, attractive geography, and strong regional & global trade ties.

Vietnam’s geographic location and political stability are also key attractions for FDI investors, and the country boasts trade deals with key buyer nations (including ASEAN, Korea, Japan, and soon the EU) – all of which make it stand out as an investment destinations vs. other regional nations where politics are unstable or where trade relations with global markets are not as strong.



Source: World Bank, Yuanta Vietnam

Theme 2: A multi-decade demographic dividend

Vietnam's population is young, well-educated, hard-working, and increasingly urbanized.

Export manufacturers come and go, and government policies can shift back and forth, but Vietnam's demographic trends are virtually inalterable, in our view. The vitality of the country's young, literate, and urbanized society is difficult to describe but anyone who visits Vietnam – and especially its urban centers – will get a sense very quickly that this is a nation on the move.

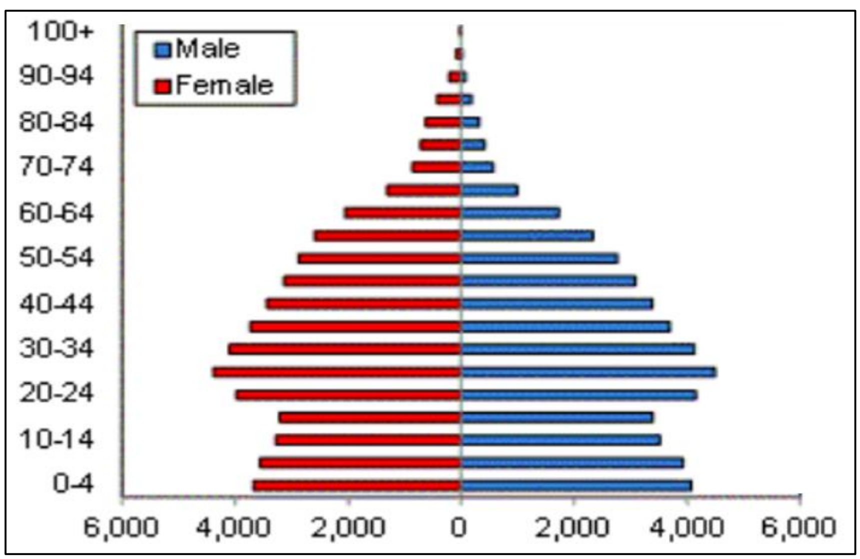
In our view, this extremely attractive powerful demographic profile is the most critical single factor behind Vietnam's compelling investment proposition – not just for manufacturers, but also for stock, fixed income, and property investors.

The national population is currently about 95 million, which makes it the 15th largest population globally. But the era of large families is history for this increasingly urbanized society, and the total population is only growing at 1% per year. Crucially, about 60% of this population is under 35 years of age – but only 8% are toddlers.

This extremely strong demographic profile is a stark contrast to China, Korea, Taiwan, and Japan.

This means that the bulk of the population has only recently entered the workforce or will do so in the next few years. In addition, the selective gender bias seen in so much of northeast Asia (i.e., a preference for male children) is not a factor in most segments of Vietnam's population. Where gender bias exists, it tends to be limited to rural communities rather than the increasingly urbanized middle class. Vietnam's dependency ratio (which measures the number of elderly/retired people for every 100 young/working people) is rather low at 44%.

Vietnam Population Distribution: By Age and Gender



Source: GSO, World Bank, Boston Consulting Group, Yuanta Vietnam

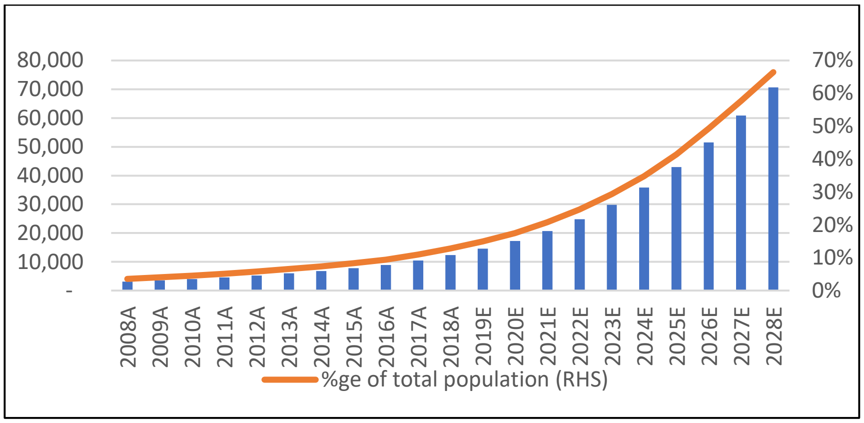
Theme 3: Vietnam's burgeoning middle class

These statistics all indicate a society that is on the move: a young, well-educated, urbanized, and increasingly wealthy population that is ready to form new families and that is not overly burdened by the need to support the elderly.

Vietnam has entered a period of rapid expansion of its middle class.

In other words, the people of Vietnam are increasingly ready to join the middle class – a trend that we think will continue for at least a decade if not longer. Current estimates of the middle class are around 14-15% of the total population, which remains quite low. However, whereas the overall population is growing at 1% annually, the middle class has been growing at 10% every year since 2010. If this continues – and we believe it will – the middle class will grow from c. 12 million now to 70 million people (60% of the total population) in the next ten years.

The middle class is set to grow exponentially



Source: GSO, World Bank, Boston Consulting Group, Yuanta Vietnam

The advent of the middle class will mean strong and steady demand for housing, consumer goods, and financial services.

All of this points toward many years of steady growth in new household formation, demand for quality yet affordable urban housing, rising consumer power, and demand for financial services. We think the latter point can be well-illustrated by a few statistics.

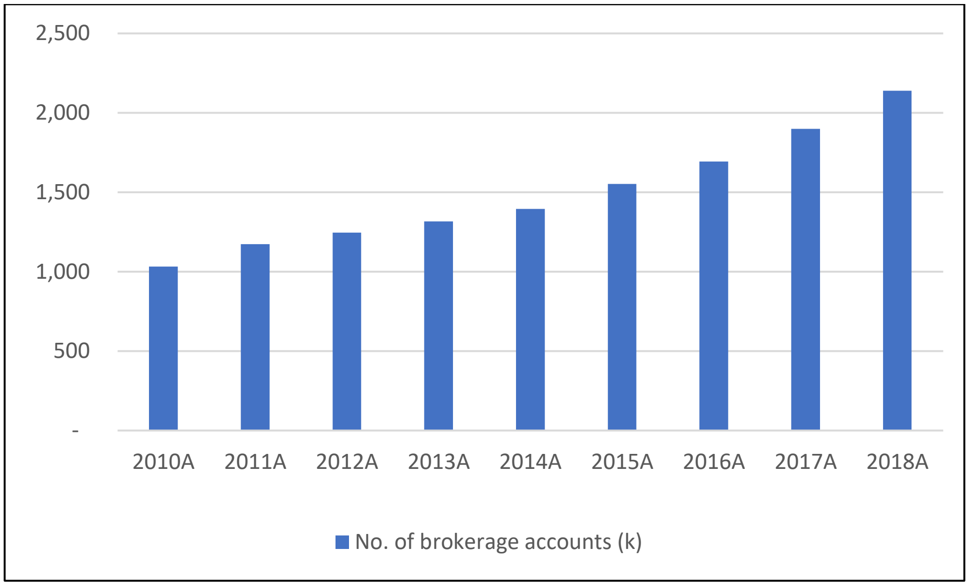
The World Bank estimates Vietnam's banking services inclusion ratio at roughly one-third. In other words, only 33% of the population has access to banking services. But this ratio has climbed sharply in recent years and we expect it to continue to rise due to both government policy and the natural demand of a wealthier, more sophisticated, and increasingly urbanized society.

The same trend should result in a multi-year equities boom as newly well-off investors enter the market for the first time.

The same is true of stock market investment accounts – a matter that is very close to our hearts, as it should be to all investors. This is because individual domestic traders (i.e., retail investors) dominate the Vietnamese markets and represent 75-80% of transactions. Thus, understanding retail investor sentiment is crucial.

The Vietnam Securities Depository reports that total domestic investor accounts reached 2.14 million as of 2018 after doubling since 2010 (i.e., an eight-year CAGR of 8%). Even if we simplistically assume that every account is active and every investor has only one account, this would represent just 2.2% of the national population and perhaps 17% of the "brokable" population base – those individuals who are already members of the middle class and higher.

Domestic securities accounts now exceed 2 million



Source: Vietnam Securities Depository

Taiwan's market development since the 1980s illustrates the possible upside for retail investor activity in Vietnam.

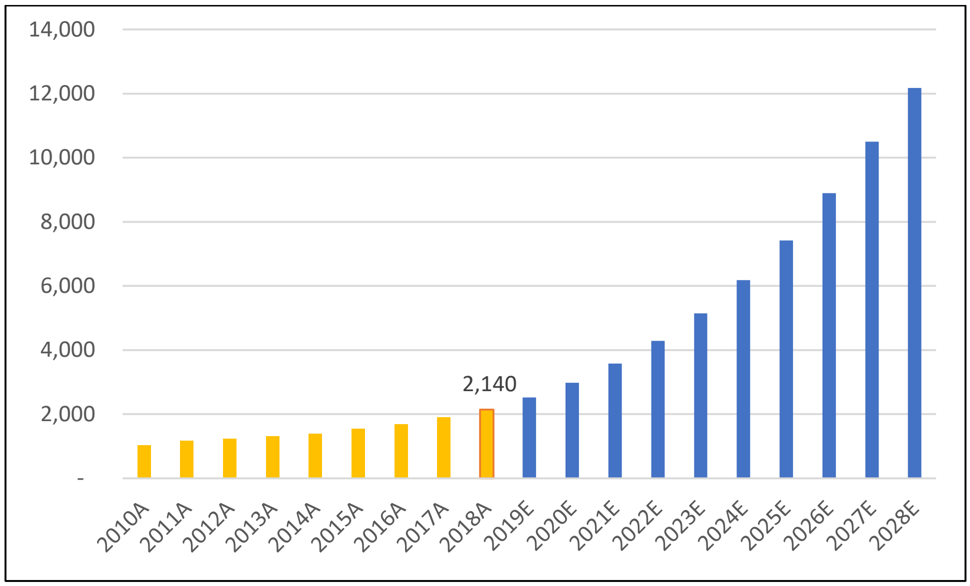
But even this low 2% penetration estimate is undoubtedly too high. Some individuals have more than one account, but the exact number is not disclosed. We also assume that a number of accounts (also unknown) are dormant. This is because frustrated punters don't necessarily bother to close down brokerage accounts that they no longer use. Also, we think that many new accounts have been opened by corporate employees (workers at both state-owned companies and otherwise) whose only purpose for opening a trading account was to monetize (i.e., to sell) shares in their companies that had been given them as part of their compensation.

So the real penetration rate of brokerage accounts by active traders could be as low as 1% of the national population and less than 10% of the "brokable" population. We think that this alone strongly suggests upside potential for market participation – especially considering the rapid increase in the middle class – the very people who have the financial resources to invest.

Granted, there are abundant structural frictions that are likely to have resulted in this low participation rate. Limited expertise and knowledge of equity markets, low trust in financial services overall after a series of banking crises and scandals, and limited public trust in the corporate governance of listed firms here are likely among these factors. But even assuming that middle class participation in retail trading flattens going forward, the rapid expansion of this segment of the Vietnamese population alone suggests parabolic growth in the investor base over the next decade.

A patchwork of demographic estimates from the World Bank, the Government Statistics Office (GSO) of Vietnam, Boston Consulting Group, and the Brookings Institute suggest that brokerage accounts would soar by c.6x to reach 12 million by 2028E (a 10-year CAGR of 19%) – and that is if brokerage penetration of the middle class population remains flat at 17.3%.

Vietnam Domestic Brokerage Accounts (k)



Source: Vietnam Securities Depository, GSO, World Bank, Brookings, BCG, Yuanta Vietnam

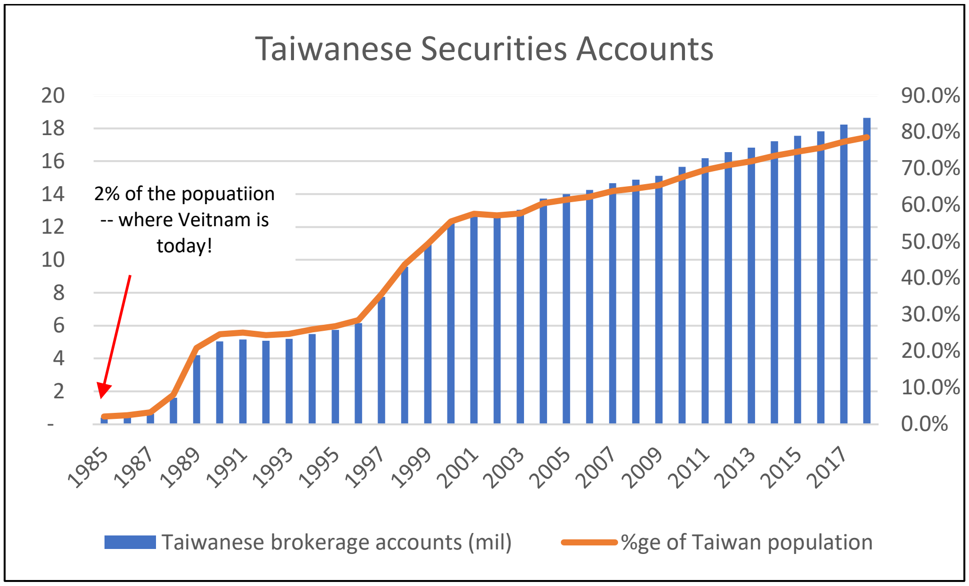
How accurate are these estimates of retail investor participation likely to be? The above charts should be viewed as illustrations of the potential rather than a presentation of pinpoint accuracy. However, we strongly believe that the middle class is expanding rapidly, that this will continue throughout the next decade, and that this extremely powerful demographic is key to Vietnam as an investment proposition. At least some of these new members of the middle class are likely to enjoy speculating on financial assets, and all of them require some sort of retirement investments. In our opinion, this represents a multi-year opportunity for asset markets, and underlines our positive case on the financial services markets – in particular, the Vietnamese brokers, but also commercial banks and life insurance.

Taiwan's market development since the 1980s illustrates the possible upside for retail investor activity in Vietnam.

The experience of Taiwan over the past 35 years could be illustrative. The Taiwan Stock Exchange reported around 400 thousand securities trading accounts in 1985, equivalent to 2% of the population. Again, this is roughly where Vietnam is today, assuming one account per investor in both cases. But by the end of the 1980s, coinciding with the Great Taiwan Bubble, securities trading accounts in Taiwan had soared by 10x to exceed 4 million or 20% of the population. The number of accounts spiked again in the latter half of the 1990s (in synch with the MSCI / Tech Bubble). But even in the relatively tepid 21st Century, Taiwan stock trading accounts have continued rising in number to reach 18.6 million or 79% of the population today.

Granted, a large number of these accounts are inactive and certainly many punters have multiple accounts. But even so, 12% CAGR over the course of 35 years is an impressive example of how Tiger Economy markets can develop. We can't say for certain that Vietnam is destined to repeat Taiwan's bubbly example, but we certainly see a lot of parallels between Vietnam today and Taiwan in 1985.

Taiwan as a possible blueprint



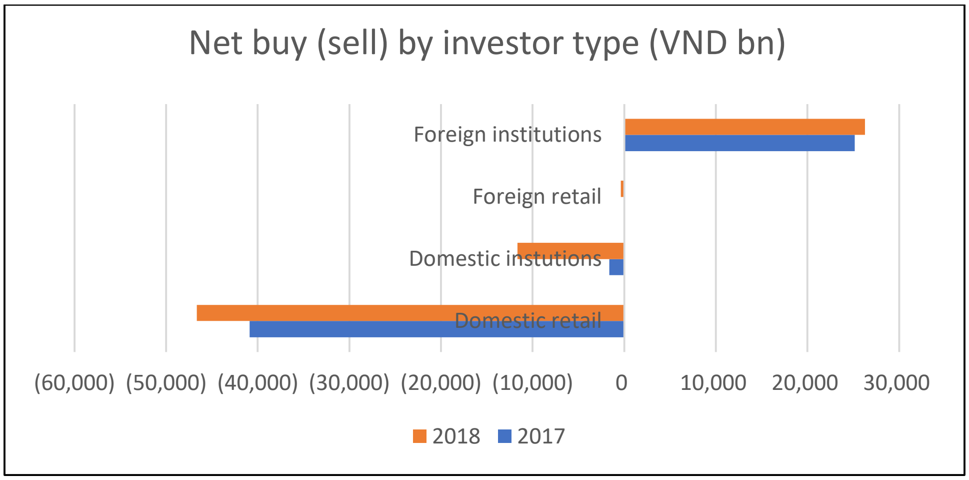
Source: Taiwan Stock Exchange, ROC National Development Council, Yuanta Research

Theme 4: MSCI Emerging Markets Index inclusion in the next three years

Vietnam is still a "frontier" market in MSCI's categorization, a fact that limits the participation of global fund managers in the markets here. But from our own observation, their interest in Vietnam is very high anyway.

Many global investment managers have pointed to Vietnam as among the most exciting markets in the world. Even without MSCI inclusion in its Emerging Markets Indexes, foreign institutions accounted for 17% of total turnover market in 2018, up 4ppt from 14% in 2017. Foreign institutions have been steady net buyers here for years.

Fig 15) Foreign institutions are steady net buyers



Source: FiinPro, Yuanta Research

Vietnam's inclusion in the MSCI Emerging Markets indices would catalyze a rapid acceleration of this process, but in our opinion MSCI inclusion is not imminent – we think of it as a two- to three-year event catalyst.

There are several reasons for MSCI's reluctance to upgrade Vietnam, but we think that the main issues revolve around foreign ownership limitations (FOL) on most listed stocks. For certain sensitive sectors such as banks, this limit is set at 30%, while for other sectors the limit is 49%. Many of the most attractive stocks – especially among the banks – have already reached the limitation on foreign ownership.

Foreigners can usually still buy these shares from another foreign holder, which in effect has resulted in a two-tier stock system. However, such transactions typically require that the buyer pay a variable premium to the seller. Depending on the stock and the market environment, this premium can be as high as 20-25% above the "market price" paid by a local investor. The government has made some moves toward liberalization – non-bank companies who wish to eliminate the FOL are allowed to apply to do so. But only a handful have bothered.

Structural frictions mean that it will take time for the government to ease these restrictions. So we believe that MSCI is not likely to announce any change in Vietnam's frontier market status for a few more years.

Yuanta Vietnam Coverage Universe

The table below exhibits select statistical information on the stocks covered by Yuanta Vietnam's institutional analyst team. Please note that the valuations, earnings estimates, and recommendations reflected in the subsequent pages are based on our official views and each stock's market price-based valuation as of press time (March 25, 2019). All of our forecasts and ratings are subject to change at any subsequent time, and the market priced-based information changes every trading day.

Because of the frequent and pace and possibly significant scale of future changes in this data, clients are encouraged to contact their relationship managers to request the latest update on any given stock in our coverage.

Yuanta Vietnam Coverage Universe

Sector	Company	Stock code	Market cap (USD m)	ADT (USDm)	Current price (VND)	Target price (VND)	Up (down) side	12-m TSR*
Banks	BIDV	BID VN	5,481	1.8	37,200	38,713	4%	6%
	Sacombank	STB VN	1,007	2.2	12,950	14,049	8%	9%
Brokers	HCM City Securities	HCM VN	401	0.6	30,800	31,308	2%	8%
	Saigon Securities	SSI VN	647	2.0	29,500	26,125	-11%	-8%
	Viet Capital Securities	VCI VN	288	0.3	41,000	43,850	7%	10%
	VNDirect Securities	VND VN	161	0.6	17,950	21,480	20%	23%
Consumer	Masan Group	MSN VN	4,336	2.6	86,500	104,390	21%	22%
	Phu Nhuan Jewelry	PNJ VN	749	1.1	104,000	118,489	14%	16%
	Digiworld	DGW VN	41	0.4	23,300	31,574	36%	41%
Property	Nam Long	NLG VN	289	0.4	28,000	32,000	14%	16%
	Vinhomes	VHM VN	13,123	2.4	89,000	91,277	3%	3%

*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends.
Source: Bloomberg, Yuanta Vietnam

The pages below comprise brief one-page introductions to some of the more interesting stories in our coverage. These include our overall top picks as of this report's publishing date (March 25, 2019). For investors seeking more details, each introductory page also contains a link to our initial note on the company.

Key Ideas – BIDV (BID VN)

Sector: Banking

Time to make a BID (*Link to initiation*)

BUY

Current price (03-25-2019): VND 37,200

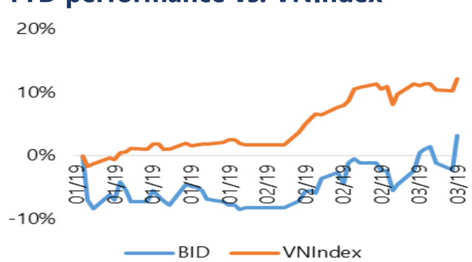
Target price: VND 38,713

Upside: 6%

Our view: The pending share issuance to KEB Hana Bank should allow BID to meet Basel 2 requirements and grow its business at a time when many competitors face capital constraints. We also expect the stronger balance sheet to result in lower funding costs and improved NIM. BID's leadership in retail and SME banking is a strong position to weather increasing competition in this segment. Also, BID's ongoing provisioning for its VAMC exposure should be 100% complete in 2019E, providing another earnings boost for 2020E.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADV 3-month
VND 20,850 – 46,800	**USD 5.5 billion**	**2.3%**	**26.9%**	**4.4%**	**USD 1.8 million**

YTD performance vs. VNIndex



Event catalysts

- Issuance of new shares to KEB Hana to provide additional capital for growth.
- Funding costs should fall due to reduced balance sheet leverage.
- Clearing 100% of VAMC exposure in 2019E will result in reduced provisioning in subsequent years.
- Leading SME & retail bank franchise.

Risks to our call

- The stake sale could be delayed or cancelled.
- Competition in retail and SME banking is rising.
- Potential technology upgrade could result in higher operating costs.

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Company profile: BID is Vietnam's largest bank by assets with 12.2% market share as at 4Q18. Its leading retail & SME banking franchise is supported by a broad network of 190 branches & 854 transaction offices. The strategic investment by KEB-Hana Bank should boost BID's CAR to well above Basel and also drive credit growth and NIM expansion.

Key Financials	2017A	2018P	2019E
Adj. PPOP	19,906	24,216	29,571
PBT	8,665	9,473	12,204
NIM (%)	2.97%	2.95%	3.19%
ROE (%)	14.9%	14.6%	14.7%
ROA (%)	0.63%	0.60%	0.69%
CIR (%)	43.8%	40.0%	39.6%
Payout Ratio	49.7%	45.0%*	45.0%
Dividend yield	1.9%	2.0%	2.3%
Adj. EPS (VND)	1,498	1,623	1,934

(*) Yuanta estimate.
Source: Company Data, Yuanta Vietnam

CAR is the driver. Many Vietnamese banks require additional capital. BID's 26.9% FOL room simplifies this process relative to peers that are close to or already at full FOL. We assume that the pending 15% strategic stake sale to KEB-Hana Bank will occur in mid-2019, resulting in a c. 2.5ppt increase in its Tier 1 capital to 8.4% (total CAR: 12.5%). This supports our assumptions of strong future credit growth, and lower balance sheet leverage should also lead to reduced funding costs.

Growth engine torqueing up. Based on the stronger capital base, we forecast loan growth of 15.4% in 2019E and 16.6% for 2020E. Also, funding costs should decline due to the reduced leverage, while asset yields should be stable given the retail and SME customer base. Overall profitability is likely to remain constrained this year given ongoing VAMC asset provisioning. But this exposure should be fully provisioned by 2019E, and we thus expect ROE to improve to 18.3% in 2020E.

Reasonable valuations. BID is trading at 1.73x 2019E P/BV with expected normalized ROEs of 18-20%. We think BID is a solid business trading at a reasonable price and see 15% upside to our target of VND38,713, implying a reasonable 2.0x 2019E P/BV.

Key Ideas – Sacombank (STB VN)

Sector: Banking

A turnaround story for the long haul (link to initiation)

BUY

Current price: VND 12,950

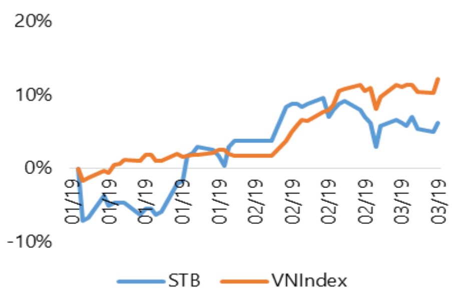
Target price: VND 14,049

Upside: 6%

Our view: STB has been a laggard due to legacy NPLs. But a restructuring is under way, and we view the bank as a turnaround play given its solid underlying operations. Admittedly, capital pressure is a key investor concern. But the bank's low LDR, broad retail footprint, and solid PPOP growth highlight its strong underlying potential.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (shares)	Avg. Trading Volume-3 month
VND 9,670-17,300	**USD 1.0 billion**	**0.0%**	**11.0%**	**1,695 million**	**USD 2.2 million**

Price performance



Event catalysts

- Operational turnaround as legacy bad debt problems are resolved and underlying business continues to improve.
- Management's real estate expertise supports confidence in restructuring.
- Low LDR implies NIM outperformance vs the sector.

Risks to our call

- Potential equity dilution due to legacy NPLs and Basel 2.
- Barriers to bad debt recoveries (e.g., asset selling price and bidding procedures).
- Funding franchise is not very strong for a retail bank, and improving this may be tough.

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Company profile: STB is Vietnam's 6th largest bank by assets with 5% market share. It operates a retail- and SME-focused business. A merger with the former Southern Bank in 2015 resulted in substantial asset quality woes, a challenge that the Bank's management is now addressing with strong support from government policy.

Stock data

Market Cap.(USD mn)	1,007
Outstanding Shares(mn)	1,804
52-week High(VND)	17,300
52-week Low(VND)	9,670

Stock performance (%)

Absolute performance	1M	-0.4
	3M	1.2
	12M	-19.8

Source: Bloomberg

Valuation is cheap (admittedly, for a reason)... STB's stock trades at a valuation discount vs peers due to legacy NPLs, which we peg at VND65 trillion or 16% of assets. But the stock could rerate as positive signs of its restructuring emerge. Our 12-month price target implies 1.2x 2018E P/TBV, which we view as reasonable given the bank's long-term roadmap to improved returns. In short, we believe the stock offers value here.

... but underlying business operations are improving. We forecast PPoP CAGR of 35.1% in 2017-20E. In our view, topline growth and PPOP ROA are better indicators of STB's underlying business strength than net profit, which is likely to be compressed by the NPL overhang during our forecast horizon.

Capital is the key risk. The prudential restructuring plan implies gradual loss recognition based on topline profitability over the next several years. We view this workout as entirely appropriate from a prudential perspective. But investors could face equity dilution if a one-off recapitalization were adopted. On the positive side, STB could surprise on the upside if the NPL restructuring proceeds more rapidly than we assume – and management's real estate acumen suggests that it might.

Key Ideas – Ho Chi Minh City Securities (HCM VN)

Sector: Brokerages

One for the long term (link to initiation)

BUY

Current price: VND 30,800

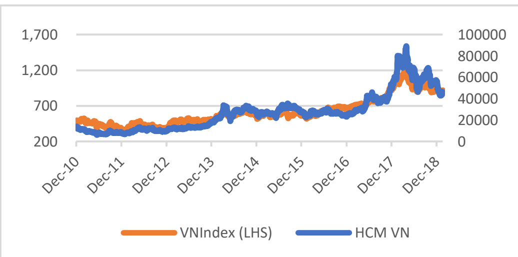
Target price: VND 31,308

Upside: 6%

Our view: We believe that HCM's dominant institutional investment franchise, solid balance sheet, and forward-thinking management are highly attractive for investors seeking a solid proxy on the long-term development of Vietnam's capital markets. We cover on HCM with a BUY rating and rank it among our top picks.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (%ge)	ADTV-3month
VND 21,200–46,500	**USD 401 million**	**3.2%**	**No limit**	**67%**	**USD 601K**

Price performance



Event catalysts

- Increased market activity.
- Market-leading institutional broking product.
- Growth in derivatives turnover and products.

Risks to our call

- Operations are highly geared to market activity.
- The stock would perform poorly in a bear market.
- Tightened liquidity could pressure margin spreads.

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Company profile: HCM is Vietnam's second largest brokerage by equities turnover market share. In a market dominated by retail investors, HCM stands out as best positioned in our coverage to benefit from increased institutional participation in the years ahead.

Key metrics	2018P	2019E
Op rev (YoY)	22%	-15%
Adj profit (YoY)	22%	-5%
Cur ratio (x)	2.3	2.2
Debt/Equity (x)	0.5	0.5
ROA (x)	11.3%	11.5%
ROE (x)	20.6%	17.8%
EPS (VND)	4,614	4,394
EPS (YoY)	21.5%	-4.8%
PE (x)	11.6	13.8
PB (x)	2.3	1.9

Source: Bloomberg

Market proxy. HCM offers long-term investors an attractive combination of strong market position and confidence in management. The company's dominant position should make it a beneficiary of increased institutional investor activity in Vietnam in the years ahead. It may not be a "sleep well at night" stock given the volatile nature of the business, but we think that it's as close as investors will find in the brokers.

Valuation is attractive. Our target price is based on the median of four fair value methodologies, and implies 14x 2019E P/E and 10x 2020E P/E. This valuation is supported by average 2018P-21E ROE of 21% based on a moderate 5% YOY dip in attributable income in 2019E followed by a recovery in 2020-21E. Admittedly, HCM has only averaged c. 14% ROE over the past decade, so achieving our forecasts would require continued growth in market activity in 2020-21E.

Risks to our view. The stock is highly correlated to the VNIndex (97%) and ADT (82%), implying downside risk for both operations and the share price whenever the market tanks. Of course, the opposite is also true. This is a reality of life for investors in capital markets-facing businesses: the stocks, like the markets, are highly volatile. Perhaps a more cogent risk for HCM specifically is competition for institutional brokerage from incumbent and future market entrants given that it ranks among the predominant players in this space.

Key Ideas – VNDirect Securities (VND VN)

Sector: Brokerages

Rise of the retail investors (link to initiation)

BUY

Current price: VND 17,950

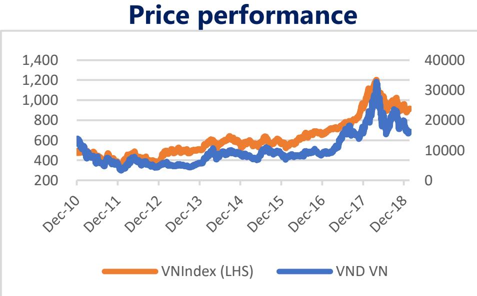
Target price: VND 21,500

Upside: 20%

Our view: We cover VND with a BUY rating and make it our second top pick in the brokerage sector. Our view is based largely on VND's market-leading online investment platform, which should allow it to expand market share of Vietnam's expanding retail investor base more efficiently than brokers with less user-friendly trading platforms. The stock also offers relatively low valuations and solid liquidity.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (%ge)	ADTV-3month
VND 15,400–32,800	**USD 161 million**	**3.8%**	**No limit**	**95%**	**USD 583K**

Price performance



Event catalysts

- Increased market activity.
- Leading online retail broking platform = strong operating leverage and ability to grow market share efficiently.
- Valuation is attractive.

Risks to our call

- Operations are highly geared to market activity.
- The stock would perform poorly in a bear market.
- Tightened liquidity & prop trading could weaken ROA.

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Company profile: The smallest of the brokers in our coverage by both market share and market cap, VND's stock nevertheless trades more than the other brokers (except SSI). The company's market-leading trading platform should allow it to efficiently build market share among retail investors.

Key metrics	2018P	2019E
Op rev (YoY)	-2%	0%
Adj profit (YoY)	-21%	-14%
Cur ratio (x)	1.5	1.4
Debt/Equity (x)	1.9	2.0
ROA (x)	4.0%	2.9%
ROE (x)	13.1%	10.1%
EPS (VND)	1,827	1,471
EPS (YoY)	-22.4%	-19.5%
PE (x)	9.8	11.2
PB (x)	1.3	1.1

Sources: Company data, Bloomberg, Yuanta Securities Research

Operating leverage on the retail investor. VND offers a high level operating efficiency due to its solid trading platform, which should allow it to build market share among Vietnamese retail investors more efficiently than peers with less user-friendly trading platforms. Thus, the company could be a challenger for SSI's dominance in mass market retail broking as new investors come online. We reckon the stock is less of a quality play than HCM, but nevertheless rank it as our other top pick on a trading basis.

Valuation is attractive. Our target price is based on the median of four fair value methodologies, and implies 8.014x 2019E P/E / 6.5x 2020E P/E. This valuation is supported by average 2018P-21E ROE of 13%, which include a relatively steep 14% expected YOY dip in attributable income in 2019E followed by a recovery in 2020-21E. VND has averaged c. 12.5% ROE since 2013, so our forecasts do not factor in a rerating for profitability in 2019-21E given the relatively capital-intensive business model.

Risks to our view. The stock is highly correlated to the VNIndex (95%) and ADT (80%), implying downside risk for both operations and the share price whenever the market tanks. Of course, the stock should outperform in a bull market. A more cogent risk for VND specifically is the risk of new entrants offering similarly innovative trading platforms and competing on price now that the brokerage fee floor is history. We believe that these factors will limit the upside to profitability for retail-focused brokers.

Key Ideas – Masan Group (MSN VN

Sector: Consumer

Consumer king & beneficiary of trade war (link to initiation)

BUY

Current price: VND 86,500

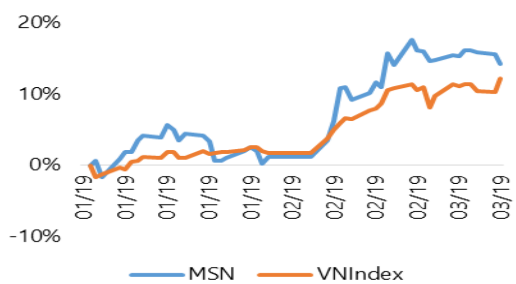
Target price: VND104,390

Upside: 23%

Our view: We have a BUY recommendation on consumer giant MSN and retain it as one of our top picks. The stock tends to trade at a conglomerate discount, but we think it stands out as a clear beneficiary in the long term of rising domestic demand for protein and (short term) the US-China trade war.

52-week Price Range (VND)	Market Capitalization	Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
66,000-118,000	**USD4.4 billion**	**1.7%**	**8.7%**	**40.0%**	**USD 2.6 million**

Price performance



Event catalysts

- US-China trade war could be a net win for MSN: positive for MNS but negative for MSR.
- Better-than-expected growth in the beverages segment.
- Fresh meat segment launched in 4Q18 to pick up steam in 2019.

Risks to our call

- The solid growth in beverages YTD could stumble.
- Tungsten and copper prices could further decline from already low levels.
- An unexpected decline in domestic pork prices.

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Company profile: MSN is a conglomerate with businesses across consumer staples (sauces and beverages), agribusiness (animal feed and pork products), resources (mining), and banking (via its associate stake in the retail-focused Techcombank).

Key metrics	2017A	2018E	2019E
Revenue growth (%)	(13.1)	1.0	21.3
NPAT growth (%)	11.1	46.2	30.1
GPM (%)	31.2	31.9	33.4
Debt/Equity (x)	2.3	2.1	0.8
ROAE (x)	17.8	28.7	26.3
ROAA (x)	5.3	7.0	8.7
EPS (VND/share)	2,727	4,208	5,076
PE (x)	29.0	19.0	15.1
PB (x)	4.4	3.4	3.2

Trade war beneficiary. We expect the agribusiness subsidiaries to benefit from the US-China trade war with lower input prices for animal feed and a favorable supply-demand environment due to increased pork demand. However, we also expect headwinds for tungsten and copper pricing. On the whole, the net impact should be favorable for the group.

Demand for animal protein supports the long-term view. We expect the long-term supply-demand in the pork market should favor domestic producers. The impact of the trade war is likely to be complex. For example, US exports to Vietnam may rise, but Vietnam also could penetrate deeper into the Chinese market. On balance, larger Vietnam producers should benefit.

Risks to our view. Growth in core products (e.g., fish sauces and other condiments) may slow given the company's dominance of the market. Innovation in product development, where MSN is quite strong, is the key to overcoming this issue. But we think the main short term risk (and for the stock's recent weakness) is African Swine Flu, which could certainly impact stock price sentiment and possibly lead to a short-term decline in domestic pork consumption. But longer term, Vietnamese demand for pork is likely to remain strong. Also, the epidemic implies the need to scale up pork production, which should tend favor larger producers such as MSN over small farms.

Key Ideas – Digiworld (DGW VN)

Sector: Consumer

Surfing the Xiaomi wave (link to initiation)

BUY

Current price: VND 24,200

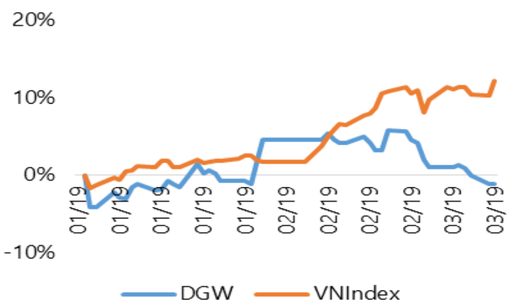
Target price: VND30,000

Upside: 36%

Our view: We expect impressive results for DGW in 2019E-20E driven by strong growth momentum from Xiaomi and steady sales from returnee client Nokia. In the longer term, consumer goods – especially Xiaomi IOT products – are likely to pick up the slack as smart phone sales peak. We believe the market is underestimating DGW's upside potential, which could be due to the stock's relatively limited Street coverage.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADV-3month
18,700-29,700	**USD 41 million**	**5.0%**	**37.7%**	**40.5%**	**USD 427K**

Price performance



Event catalysts

- Strong growth momentum and increasing penetration of Xiaomi smartphones in Vietnam.
- Renewed distribution relationship with Nokia starting in 2019E.
- Fast growth and high margins of office equipment and IoT devices.

Risks to our call

- Xiaomi's performance in Vietnam could disappoint.
- Feature phones, which Nokia dominates, could fade out more quickly than we expect.
- Functional foods and fast-moving consumer goods may disappoint.

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Company profile: DGW is a market expansion services (MES) provider for various branded ICT products including smartphones, laptops, tablets, and office equipment. The company is also developing a nascent consumer goods distribution business.

Key metrics	2018E	2019E
Revenue growth (%)	47.2	42.8
NPAT growth (%)	39.6	27.7
GPM (%)	6.6	6.6
Debt/Equity (x)	0.9	0.9
ROAE (x)	15.4	17.8
ROAA (x)	6.5	7.2
EPS (VND/share)	2,723	3,477
EPS growth (%)	37.4	27.7
PE (x)	8.6	6.9
PB (x)	1.2	1.1

Strong growth momentum of Xiaomi smartphones, which offer high performance at an affordable price, should be the key growth driver for DGW in upcoming years. Looking further out, Xiaomi IOT products such as home appliances could become a substantial growth driver.

Nokia's comeback could enhance sales further. The c. VND 1 tn contract with Nokia represents both a new source of income and product/customer diversification for DGW starting in 2019E. Feature phones are not a growth story, but they remain popular in Vietnam. In our view, the replacement cycle with smartphones is likely to take years.

Office equipment to maintain high growth and margin. We see substantial potential for DGW in office equipment given the market's huge size and high level of fragmentation. We forecast 16% segment sales CAGR in 2018E-20E. This should enhance the company's profit margin significantly. Smart connected devices could be another driver of this segment and consumer goods too as Xiaomi rolls out its IoT ecosystem, but this is a long-term and uncertain story.

Key Ideas – Nam Long Investment (NLG VN)

Sector: Property Development

Resilient through the property downcycle (link to initiation)

BUY

Current price: VND 28,600

Target price: VND 32,000

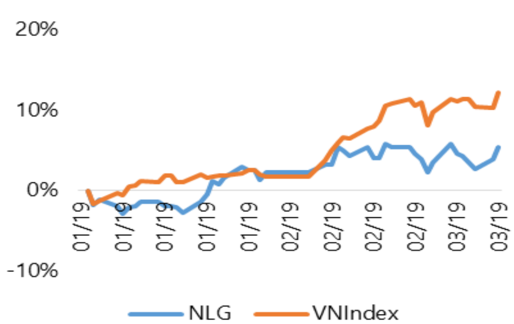
Upside: 16%

Sector: Property Developers

Our view: We believe that NLG will provide operational stability through a challenging property market in the years ahead. In our view, the Vietnamese real estate industry is in the process of adjusting to a sustainable product mix in which supply and demand will be focused on affordable and mid-end housing. Given NLG's ample supply in these segments, the company is well placed to benefit from real market demand. And unlike some players, NLG also offers a strong financial structure.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
VND 24,300-37,600	**USD 289mn**	**1.8%**	**0.0%**	**60.7%**	**USD 396K**

Price performance



Catalysts

- **Strong financial structure**: low financial leverage, large cash position.
- **Cooperating with MNC partners** to fund the firm's big projects.
- **Real demand**. Rather than targeting speculators / investors, NLG's sales are backed up by real and steady demand.

Risks to our call

- **Potential tightening credit environment** for property developers.
- **Regulatory risk** from prudential controls on real estate controls might impact sentiment, if not actual operations.

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Company profile: NLG is a real estate developer that is primarily focused on the affordable and mid-end product lines. NLG's main markets are Ho Chi Minh City and neighboring provinces such as Long An and Can Tho. In addition, the company has recently announced the acquisition of new land bank in Dong Nai.

Key metrics	2017A	2018F*	2019F*
Revenue growth (%)	25%	16%	-55%
NPAT growth (%)	95%	13%	-23%
GPM (%)	41%	39%	34%
Debt/Equity (x)	0.25	0.19	0.19
ROA (x)	10%	9%	8%
ROE (x)	20%	19%	13%

Source: NLG, Yuanta Research,
**Note: we assume that Mizuki Park, Akari City, and South Gate (Waterpoint) are not consolidated.*

Beneficiary of the burgeoning middle class. We believe that NLG's project location and pricing will continue to attract residential homebuyers in its core mid-end and affordable housing segments – which will continue to see steady demand for years driven by urbanization and growth of the middle class. Unlike high-end and luxury, we think that demand here should be only marginally affected by business cycle factors.

International partners benefit the brand. NLG's cooperation with partners such as Japan's Nishi Nippon Railroad and Hankyu Realty should help to build its brand value. These development partners offer secure financial resources and deep experience in project management, urban planning, and apartment design.

Valuation is attractive. We believe that the value of assets and discounted project cash flows are a better measure of valuation rather than a myopic focus on forward revenue and profit growth. Our target price of VND 32,000/share is based on an RNAV approach.

Key Ideas – Vinhomes (VHM VN)

Sector: Property Development

Undisputed property market champion, but fully valued (link to initiation)

HOLD

Current price: VND 89,000

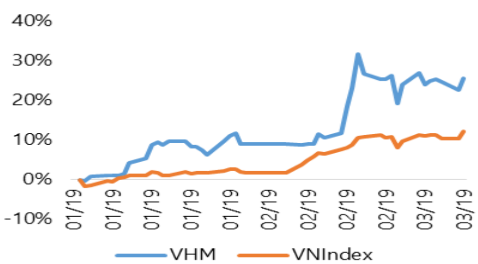
Target price: 91,300 VND

Differential: 3%

Our view: Caution on the current valuation. We believe that VHM's undeniable scale advantages will allow it to maintain sector leadership for many years to come. However, we have a cautious cyclical view on property developers, and uncertainties regarding the timing of project approvals are further reasons for pause. The stock's strong performance YTD has us cautious here, and we suggest that investors wait for a pullback.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
VND 61,800-96,700	**USD 13.1 billion**	**0.0%**	**33.68%**	**30.34%**	**USD 2.4 million**

Price performance



Investment thesis

- Competitive advantages of scale that dwarfs the competition.
- Solid branding strategy & operating model.
- But the valuation is not cheap, and it's too late to chase, in our view.

Risks to our view

- Some major projects are still in the process of obtaining legal approvals
- Funding risk is a consideration given the short tenor of VHM's debt.
- Upside risk from market flows given VHM's 9.4% VNIndex weighting.

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Company profile: VHM is Vietnam's predominant property developer and offers two major residential lines: 1) Vinhomes (high-end housing) and 2) VinCity (mid-end & affordable). Although we are positive on the company's long-term fundamentals, property market cyclicality and VHM's YTD stock performance suggests a measure of caution here.

Key metrics	2017A	2018P	2019E
Revenue growth (%)	36%	154%	7%
NPAT growth (%)	-29%	842%	7%
GPM (%)	34%	25%	45%
Debt/Equity (x)	1.51	0.66	0.76
ROA (x)	3%	13%	11%
ROE (x)	15%	30%	25%
EPS (VND/share)	2,349	4,551	4,530
PER (x)	N/A	19.6	19.6
NAV growth (%)	6%	375%	30%
PB (x)	NMF	6.2	4.8
Dividend yield (%)	N/A	0.0%	0.0%

Source: VHM, Yuanta Research,

Dominating the property market. VHM's land bank is 22x larger than that of its nearest competitor. This scale alone should enable it to dominate the Vietnamese property industry for many years. We also believe that VHM's segmented branding strategy is sound, especially given our view that real residential demand should support the mid-end and affordable segments. This is despite expected weakness in high-end and luxury homes, which are typically favored by speculators/investors.

Valuation fully reflects the positives. The stock's 25% YTD rally has priced in the positives, in our view. Our RNAV-derived target price implies -1% downside with no expected dividend support. The stock's 9.4% VNIndex weighting could leave some investors facing benchmark risk, but we would not chase VHM here.

Yuanta vs consensus. Our 2019E net income forecast is 9% lower than the consensus mean, possibly due to a lower assumption for unit deliveries. We also assume that some projects in the pipeline will take longer to execute than VHM has guided for, which may be why our RNAV-based fair value is 4% below the Street.

Risks to our view. Approvals for several of VHM's projects have yet to be issued, and uncertainties regarding licensing standards and land use rights fees are concerns. On the positive side, VHM is a leader in tapping the domestic debt capital markets and funding risk is less of a concern. Also, VHM's large index weighting could result in continued stock price strength on inflows from benchmarked funds.

Vietnam Stock Market Rules: An Overview

	Ho Chi Minh Stock Exchange (HOSE)	**Hanoi Stock Exchange (HNX)**
Trading Hours (Hong Kong & Taiwan time)*	10:00-10:15 Opening period matching & put-through trading 10:15-12:30 Continuous matching & put-through trading 14:00-15:30 Continuous matching & put-through 15:30-15:45 Closing period matching & put-through trading 15:45-16:00 Put-through trading	10:00-12:30 Continuous matching & put-through trading 14:00-15:30 Continuous Matching & Put-Through trading 15:30-15:45 Closing Periodic Matching & Put-Through trading 15:45-16:00 Put-Through trading
Price range	± 7% daily limit IPO first trading day ± 20% limit	± 10% daily limit IPO first trading day ± 30% limit
Trading Unit	10 shares/lot	100 shares/lot
Price tick	**Stock price / Price tick** <= 49,900 VND / 100 VND 50,000-99,500 VND / 500 VND >= 100,000 VND / 1,000 VND	100 VND
Settlement period	T+2	
Sales tax	0.1% of total transaction value at the time of selling	
Dividend tax	None for foreign institutional investors; 5% of total dividend value for foreign individual investors	

*Note, Vietnam is on the ICT time zone (UTC +7). Thus, 10 a.m. in HK/Taiwan is 9 a.m. in Vietnam.

General regulations & rules applied to the listed market

- All trading transactions are to be conducted in Vietnamese Dong (VND).
- All trading transactions are to be 100% cash (VND) and securities pre-funded.
- Short-selling of securities is currently prohibited.
- Multiple trading accounts are allowed, limited to 1 account per securities company.
- Major shareholder reporting obligations shall be applied on the total number of securities held on all accounts under Investor's name.
- Intraday trading of the same securities is allowed, provided that:
    - The investor takes only either buying positions or selling positions for a particular stock at any given point in time.
    - Order placement must meet prefunding requirements.
    - All intraday transactions must lead to change in securities ownership.

Special rules for all foreign investors

Because most traded stocks have a foreign ownership limit, the following rules apply to foreign investors:

- Available ownership room for foreign investors is updated in real time based on matched bids and asks of foreign investors.
- If foreign bids are matched with local investors, available room will be deducted accordingly and immediately.
- If foreign asks are matched with local investors, foreign room will be added accordingly upon completion of settlement (4:00pm of T+2).
- If the foreign ownership limit is reached for a particular stock, any existing foreign purchase orders in the queue will automatically be cancelled, and no foreign purchase orders for that particular stock can be input into the stock exchanges' system from that time onwards until FOL room becomes available.

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Ratings	Expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.
HOLD-Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.
SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.
Under Review: We actively follow the company, although our estimates, rating and target price are under review.
Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

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