Vietnam Market Strategy
Time for a breather in 2Q19

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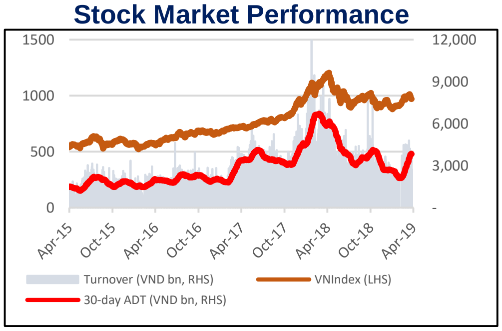
The Year of the Pig came in like a lion, but in our view a period of lamb-like consolidation is due in 2Q19. Vietnam's attractive macro story has generated strong foreign ETF inflows YTD, but global central bank (GCB) policy is a risk given mixed economic data in the major economies. Also, external political risks remain high (e.g., Brexit, the trade war, and crises in other emerging economies). Although these don't touch Vietnam directly, such events could influence capital flows here – which supports our argument for a cooling-off period in 2Q19.

We maintain our view for a stronger 2H19 on persistent investment allocations encouraged by GCB softening. Select banks may face pressure from regulation on unsecured consumer loans, but we remain positive on BID and STB. We also like select consumer names (MSN, PNJ, DGW). We are Overweight securities firms (HCM, VND) but acknowledge that tepid 2Q19 market conditions may pressure these stocks. Despite the leading real estate developers' strong YTD performance, we are fundamentally cautious on the sector given our view on the property cycle.

Stock Market Performance

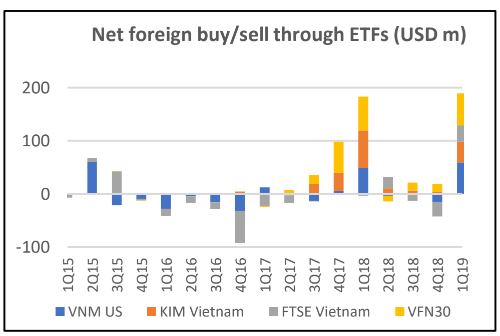


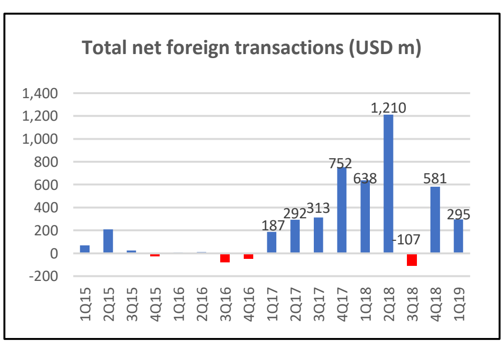
Themes and catalysts

- Domestic macro looks solid. FDI, the VND, employment, and domestic demand should remain buoyant.
- But the stock markets may consolidate as foreign flows slow seasonally in 2Q19.
- Global central banks will probably soften further in 2H19.

Risks

- Global CB policy and external geopolitical risks.
- MSCI Frontier Index rebalancing in May.
- Pace of domestic capital markets reform.
- Restrictions on cash loans.





Source: Bloomberg, FiinPro, Yuanta Vietnam

Tactical outlook: Consolidation in 2Q19. The VNIndex has risen 8% YTD but is 3% off its March 14 high. We reckon that a cooling-off period is likely in 2Q19, but we retain our bullish view on 2H19 market liquidity. Our 990 index forecast has already been beaten, but remains our target for 2Q19. But we increase our yearend target to 1,100, implying 12% upside and 14x consensus 2020E PER.

Foreign portfolio flows: ETFs take center stage. Total foreign net buying in 1Q19 reached US$295m, a decline of 54% YoY and 49% QoQ. The sequential data reflect major deal-related inflows last year that did not repeat in 1Q19, but that we strongly expect to occur again persistently going forward. Parsing the flow data, we find that passive inflows – net foreign net purchases via Vietnam-focused ETFs – reached a record high of US$189m in 1Q19, or 64% of total foreign buying in the quarter. Thus, foreign interest clearly remains very high.

Risks are largely to the upside, in our view. Foreign purchases of strategic stakes in large caps should improve domestic investors' confidence and could once again compress market interest rates and boost stock valuations. Our sense is that such investments, further softening by global CBs, will largely be a 2H19 story. This informs our expectation for a consolidation period in 2Q19 followed by a more bullish second half.

Long-term outlook remains highly positive. Short term tactics aside, we reiterate our highly positive view on the longer term outlook for Vietnam's capital markets given the nation's extremely attractive demographics, the emerging middle class, strong FDI inflows, and eventual MSCI E/M inclusion. For details, please see our country outlook report titled "Vietnam: A Tiger in the Making".

The Index exceeded our previous yearend target just three months into the year.

The Year of the Pig came in like a lion, with the VNIndex blasting through our yearend target of 990 on March 12 and topping 1,000 in subsequent sessions to post a YTD peak of 1,012 on March 15. However, the momentum was not sustained in the last two weeks of the quarter. The VNIndex closed out 1Q19 at 981, up 9.9% from the start of the year but down 2.6% from the peak.

Total equities daily turnover averaged US$154 million in 1Q19, but this average was dragged down by weak buying interest in January. The post-New Year period (Feb 11 to March 31) saw much higher turnover of US$191 million per day. Both figures are well below our 2019E ADT assumption of $260m (representing a decline of 5% YoY) but we retain that assumption given that it is still early days – a few strategic investments could see that number jump in 2H19.

We think the market will consolidate in 2Q19…

But Q2 will behave more like a lamb, in our opinion. Our sense is that Index levels and momentum are likely to take a breather here given steep valuations among Index heavyweights and perhaps more importantly, myriad external uncertainties related to global monetary policy and geopolitics. Global central bank policy is first and foremost in our thoughts as we consider the impact of external liquidity conditions on the Vietnam market.

…but we retain our more bullish call on 2H19 as market liquidity should improve.

Our previous VNIndex target was 990, but the market has already achieved this – in large part due to the Fed's U-turn three days after we published it in a January note titled "Stay defensive in 1H19". We increase our yearend target to 1,100, implying 12% upside from the April 4 close and a 2020E PER of 14x. Our 990 target is still in place for the current quarter, but we think the market will turn more bullish in the second half of the year.

We continue to believe that the endogenous risks are largely skewed to the upside given Vietnam's highly attractive macro story. Our perception from speaking to investors on the ground and overseas is that Street expectations for capital market policy reforms remain very low. In our view, this outlook is both prudent and realistic, and we agree with it – but this does open up the possibility for positive surprises.

Yuanta Vietnam Coverage Universe

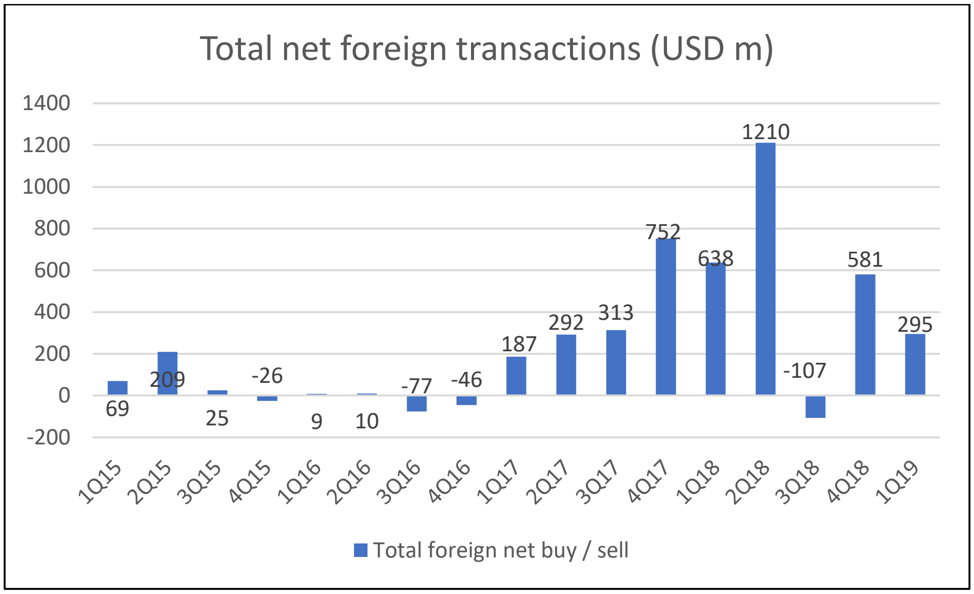
Sector	Company	Stock code	Market cap (USD m)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	Up (down) side	12-m TSR*
Banks	BIDV	BID VN	5,481	1.8	BUY	37,200	38,713	4%	6%
	Sacombank	STB VN	1,007	2.2	BUY	12,950	14,049	8%	9%
Brokers	HCM City Securities	HCM VN	401	0.6	BUY	30,800	31,308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

*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends.
Pricing data as of close on Aprl 2, 2019.
Source: Bloomberg, Yuanta Vietnam

Foreign portfolio flows: ETFs take center stage. Foreign flows merit close monitoring given the frequency and transparency of data availability, which is a sharp contrast from retail investor sentiment indicators such as margin lending where the data is less transparent. This is even more critical given that close attention that domestic investors pay to foreign flows.

Foreign inflows appeared weak in 1Q19 vs previous quarters…

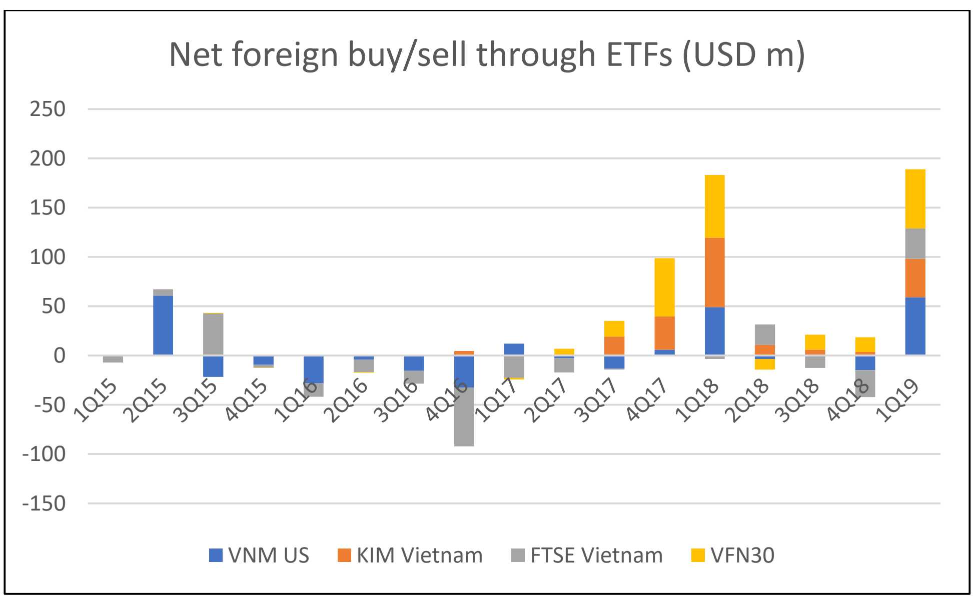
Total foreign net buying in 1Q19 reached US$295m, down 54% YoY and 49% QoQ. However, the apparently negative comparisons reflect major deal-related inflows last year that did not repeat in 1Q19 but that we strongly believe will occur again.



Source: FiinPro, Yuanta Vietnam

But passive investments via Vietnam country ETFs hit a new quarterly record, suggesting plenty of appetite for equities here.

An examination of the underlying data reveals that foreign passive fund inflows – net foreign net purchases via Vietnam-focused ETFs – reached a record high of US$189m in 1Q19, or 64% of total foreign buying in the quarter. This suggests that foreign interest in Vietnam's emerging story remains very strong, despite the apparently negative overall net buying trend exhibited in the chart above.



Source: Bloomberg, Yuanta Vietnam

Another 1Q19 highlight, at least for us: Yuanta Vietnam's institutional research team published initiations on 10 stocks in the first three months of the year, building up our nascent Vietnam universe to 11 names comprise of a mix of VNIndex heavyweights and smaller names that we think are interesting.

Clearly, we still have a lot of work ahead of us, but based on our coverage recommendations, we are Overweight financial services and select consumer names, and we are relatively cautious on property developers. A few thoughts on the sectors from a strategy perspective:

Prudential regulations on consumer finance are, on balance, a good thing.

Bank stocks may come under pressure on restrictions on consumer finance. The SBV's draft amendment to Circular 43 appears intended to curtail unsecured consumer lending operations by consumer finance firms. Our understanding is that cash loans are to be limited to 30% of total consumer loans at financial institutions, and that lenders would be limited to disbursing loans to existing borrowers who have not defaulted. These measures appear to be prudent in our view. The draft's limitations on collection activities also appear to be highly reasonable from a social perspective.

The issue doesn't impact the banks in our coverage directly.

We note that the issue should not directly impact the two banks currently covered by analyst Tanh Tran – BID and STB – given their lack of consumer finance businesses. Any share price weakness in these names should be used as a buying opportunity, as the risks are focused on a handful of consumer finance companies and are not likely to be systemic, in our view.

But as a general comment on the health of the overall financial system, we think the proposed changes likely reflect existing behaviors and conditions and that these prudential controls are well-advised. Cash loans are unlike other types of unsecured lending (e.g., credit cards) because the spending behavior of borrowers is unclear. We have seen similar lending products result in concentration risk, with a relatively small number of borrowers levering up at different institutions and using new debt to cover the minimum monthly repayments of old loans – at least, for a while. Based on our observations elsewhere, this plan doesn't end particularly well.

Valuations and FOL premiums of banks with consumer finance businesses may decline in the weeks ahead.

We should note that we don't cover the relevant banks and lack hard evidence or even anecdotal support of any such exigent risk here. Our sense is that the draft circular is meant as a prudent control aimed at curtailing the possibility of systemic risks rather than a reason to panic. Additionally, banks are likely to be given ample time to implement the changes. The issue obviously bears monitoring, but investors could have an opportunity to pick up related banks at cheaper valuations – and much-reduced FOL premiums – in the weeks ahead.

Brokers: We are structurally bullish on the long-term outlook, but as market proxies the shares may consolidate in 2Q19. The short term cooling-off period for the market is also likely to impact the short-term trends for brokerage stocks. We don't see this as a fundamental reason to sell now, given our bullish liquidity view on the second half of the year. And our structural long-term bullish thesis remains intact (see our initiation note titled "We've only just begun" for details).

Market consolidation in 2Q19 is likely to be reflected in the brokerage stocks' short-term price performance.

But traders are more nimble than sell-side analysts. We acknowledge the shares' have extremely strong correlations with both Index levels (c.90%-plus) and average daily trading values (c.80%-plus), which suggests consolidation for these names if we are right on our relatively cautious outlook for 2Q19.

Consumer: A focus on Masan. A litany of negative events forced us to revisit our positive thesis on MSN, but after further discussions with the company analyst Quang Vo has reiterated his BUY recommendation with a moderate cut in his earnings forecasts and target price. In short, we know believe that MSN's short term headwinds are priced in.

Masan remains a BUY for us despite the litany of negative news.

The apparent public backlash against the company resulting after changes in fish sauce standards (seen by many vocal netizens as impairing traditional products to the benefit of industrial sauces) is not likely to be a long-term headwind.

By contrast, the African Swine Fever epidemic is a real risk for sales of pig feed – which have fallen sharply and are only partly offset by increased sales of other animal feeds. The chilled meat businesses remains small, and MSN has successfully blocked the epidemic from spreading to its production and processing facilities. Still, the issue bears watching given the short-term impact of the disease on consumer demand for pork.

From a strategy perspective, we should acknowledge the company's impressive investor relations outreach efforts. Solid IR staff who continue to communicate with the Street even when business conditions are less-than-optimal often can have a highly beneficial impact on long-term market valuations, in our experience. Again, this underlines our overall positive view on the stock.

Real estate developers: A degree of caution is suggested given our view on the property cycle.

Real estate: We are cautious given our perception of where we are in the property cycle. Analyst Tam Nguyen argues that Vietnam's real estate market has peaked and is transitioning to a new cycle. We expect the next few years (including 2019) to be a challenging time as the market seeks a more balanced supply-demand dynamic across the range of product segments. A brief discussion of how the market cycle has played out over the few years may be helpful to explain how we got here.

Our cyclical view is that real estate market bottomed in 2011-12, recovered from 2013, picked up steam in 2015-2017, and overheated, at least in the high end and luxury segments, in 2017-2018. The result is a glut of high-end and luxury homes, suggesting the need for both a period of inventory absorption and a shift in supply toward affordable and mid-end units. We believe that this rebalancing is essential for long-term market sustainability and therefore should be viewed as a positive development for Vietnam. But it also informs our cautious view on the pace of future sales of high-end and luxury projects.

In line with this top-down view, Tam's preferred pick in the sector is NLG, which he believes should be resilient through the property downcycle given its focus on the affordable and mid-end segments, where real end-user demand is focused. We are have a relatively cautious outlook on VHM despite its substantial market dominance; our view here is informed by the ticker's extremely strong 26% YTD performance.

Valuations: Yuanta Universe

Sector	Stock Code	PER (x)			PEG (x)			PBV (x)		
		2018P	2019F	2020F	2018P	2019F	2020F	2018P	2019F	2020F
Banks	BID VN	22.9	19.2	13.8	2.8	1.0	0.3	2.3	1.9	1.8
	STB VN	17.3	15.3	11.2	0.2	1.2	0.3	0.9	0.9	0.8
Brokers	HCM VN	11.6	13.8	9.5	0.5	5.3	0.2	2.6	2.3	2.0
	SSI VN	11.6	11.3	9.8	0.7	4.4	0.7	1.7	1.5	1.4
	VCI VN	7.2	9.7	8.0	nmf	nmf	0.4	1.8	1.6	1.4
	VND VN	9.8	12.2	8.5	nmf	nmf	0.2	1.3	1.1	1.1
Consumer	MSN VN	19.0	20.2	16.6	0.3	nmf	0.8	3.4	3.1	2.8
	PNJ VN	19.5	16.4	13.2	nmf	0.9	0.5	4.6	3.8	3.1
	DGW VN	8.6	6.9	5.6	0.2	0.3	0.2	1.2	1.1	1.0
Property	NLG VN	9.4	13.2	12.1	0.2	nmf	nmf	1.3	1.2	1.1
	VHM VN	19.6	19.6		0.2	nmf		6.2	4.8	

Pricing data as of close on Aprl 2, 2019.
Source: Bloomberg, Yuanta Vietnam

Top 20 VNIndex components

Company	Bloomberg Ticker	Index Weighting (%)	YTD stock performance	TTM PE (x)
Vingroup	VIC	11.5	22%	103
Vinhomes	VHM	9.5	26%	20
Vietcom Bank	VCB	7.7	26%	17
Vinamilk	VNB	7.5	16%	26
PetroVietnam Gas	GAS	6.0	19%	17
Sabeco	SAB	4.9	-8%	39
BIDV	BID	3.7	1%	16
Masan Group	MSN	3.2	14%	19
Techcombank	TCB	2.8	-1%	10
Vin Retail	VRE	2.6	29%	29
Vietin Bank	CTG	2.5	14%	15
Petrolimex	PLX	2.4	14%	19
Hoa Phat Group	HPG	2.1	4%	8
Bao Viet Holdings	BVH	2.0	6%	62
Vietjet Aviation	VJC	1.9	-4%	12
Novaland	NVL	1.6	-13%	16
VP Bank	VPB	1.5	1%	6
MB Bank	MBB	1.5	15%	8
Mobile World	MWG	1.2	-3%	13
PetroVietnam Power	POW	1.1	0%	21

Source: Bloomberg, Yuanta Vietnam

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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.
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