



Vietnam: A Tiger in the Making



Yuanta Securities Presentation

Taiwan Institutional Marketing

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Vietnam: The Next Asian Tiger

Starting from a low base. 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. Frontier market = low liquidity, policy risk, volatility.

Not a tiger yet! Vietnam is starting from a low base...





A late joiner to the globalized economy

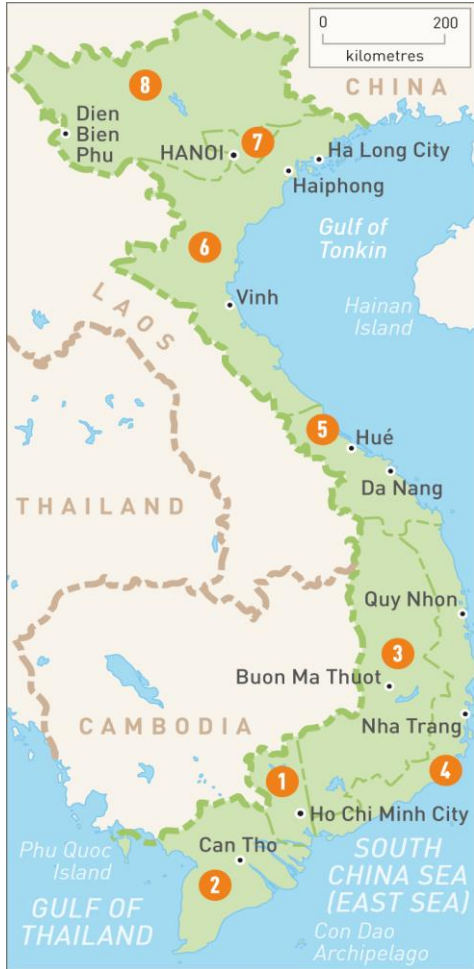


- **19th to 20th Century: Colonization, disruption, and war**
- **1975-1986: Unification & central economic planning**
- **1986-1994: Đổi Mới economic reforms – toward a market-based and open economy**
- **1995: USA lifted economic sanctions it had placed on Vietnam’s government over 30 years previously**

Vietnam was late to the global party – but is now catching up.



A late joiner to the globalized economy



But Vietnam is now among the world's most open trading economies.

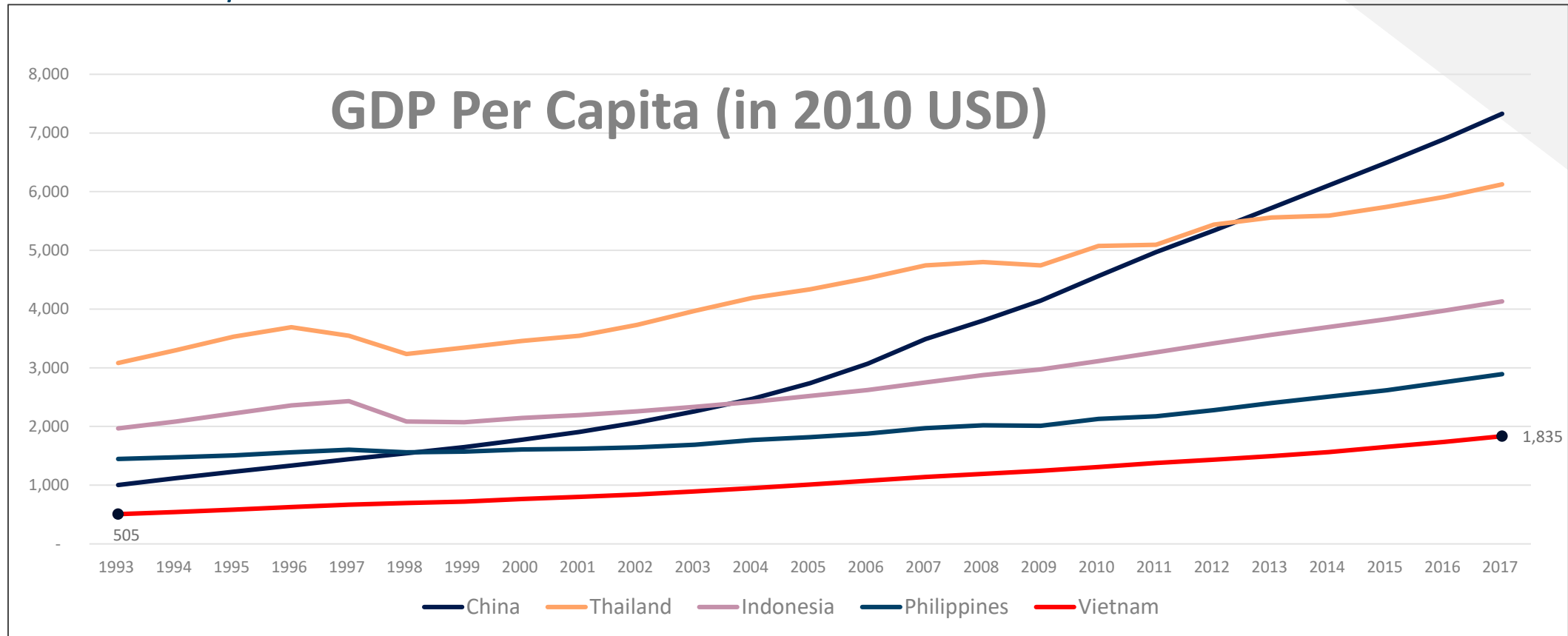
- **1996: ASEAN FTA**
- **2000: US-Vietnam Bilateral Trade Agreement**
- **2002: ASEAN-China CECA**
- **2007: Vietnam joins the WTO**
- **2008: ASEAN-Japan FTA**
- **2009-2018: Bilateral and regional trade agreements with ANZ, India, Korea, HK/China, Chile, Laos**
- **Dec 2018: CPTPP accession**
- **Pending in 2019F: Vietnam-EU FTA**

Gross exports are now 200%+ of GDP, second only to Singapore.



The economy is starting from a low base

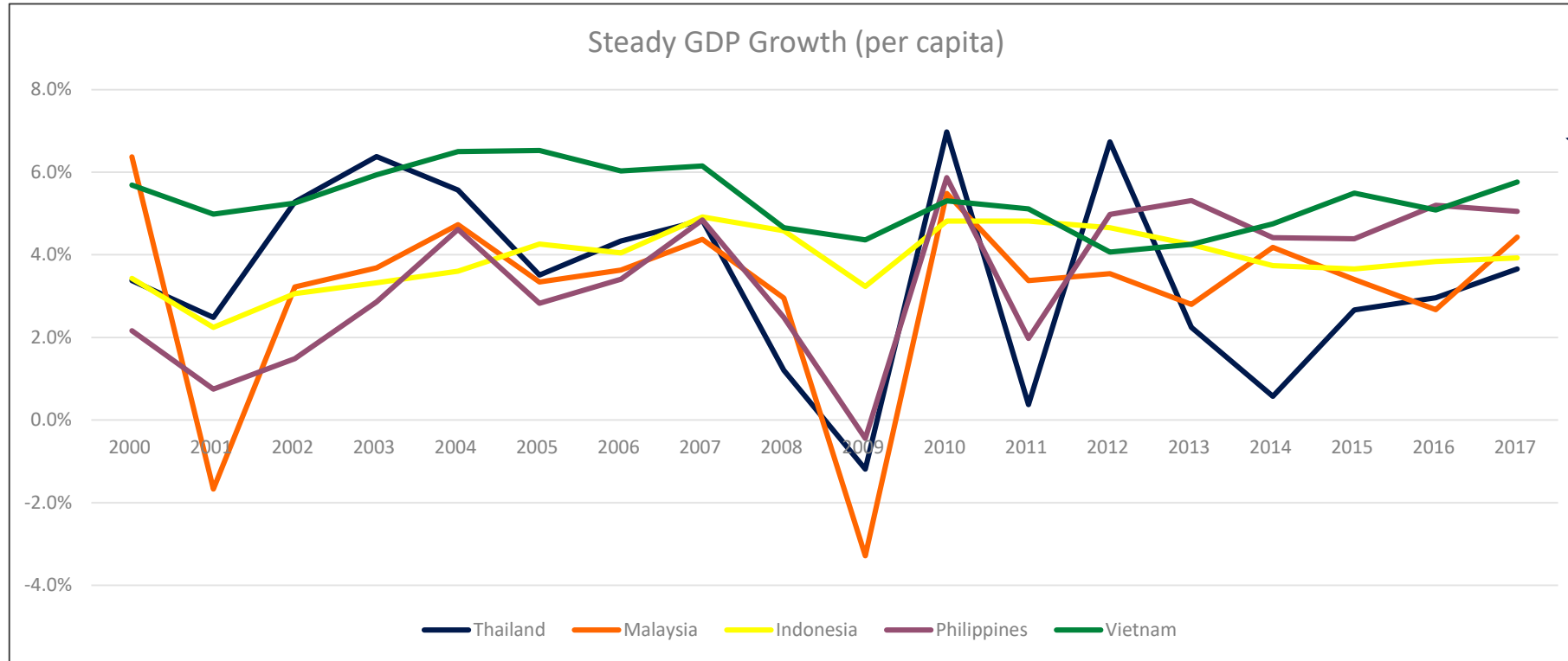
GDP per capita (currently US\$2,600 in nominal terms) has lagged behind Asian peers.



Why has Vietnam lagged the region? History explains the reasons.

Economic trend is positive

GDP performance has been stronger and steadier than that of regional peers.



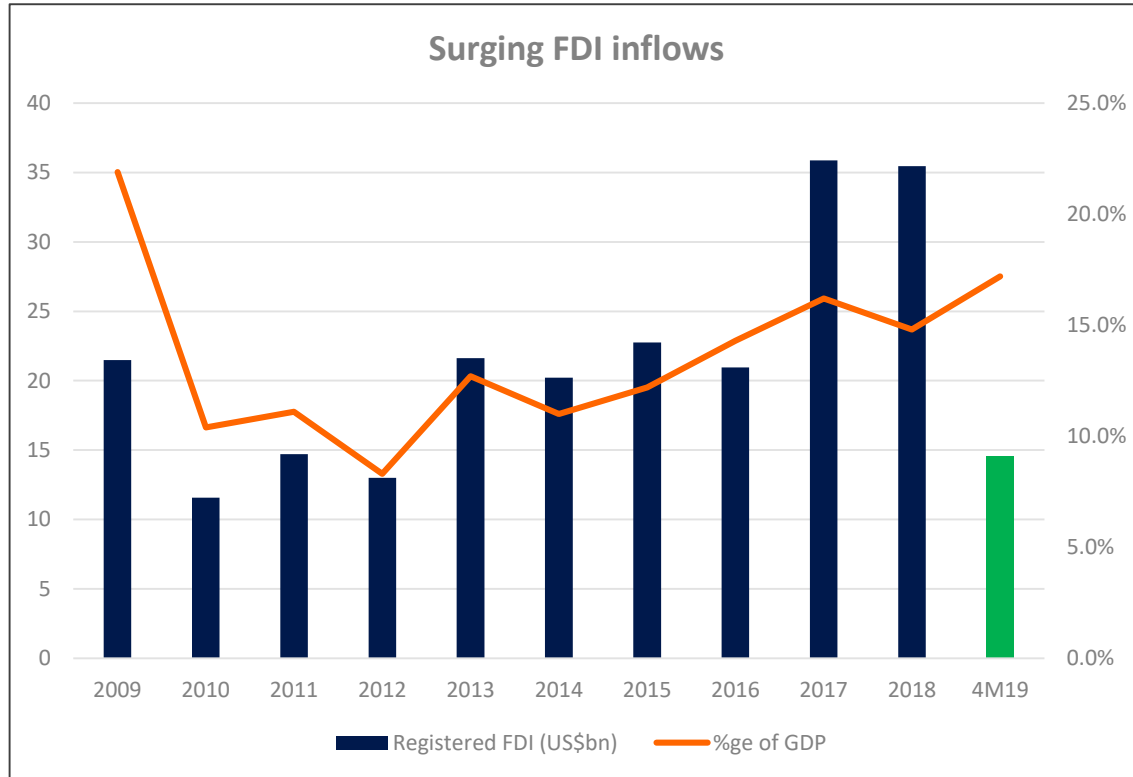
2019 forecast:
6.6-6.8%

Why? Low base, strong growth in manufacturing and services, and (yes) relatively closed capital markets.



Vietnam: A tiger in the making

Surging Foreign Direct Investment (FDI) is set to continue



- US\$16.7bn in Jan-May 2019, up 69% YoY. Who?
- Hong Kong (30%), South Korea, Singapore, China, & Japan. Why?
- Attractive geographic location
- Labor costs are cheap
- Trade deals with key buyer nations
- Trade war beneficiary – mostly.
- Industries?

Trade war beneficiary, so far



Trade Diversion

Vietnam is one of the fastest-growing sources of American imports



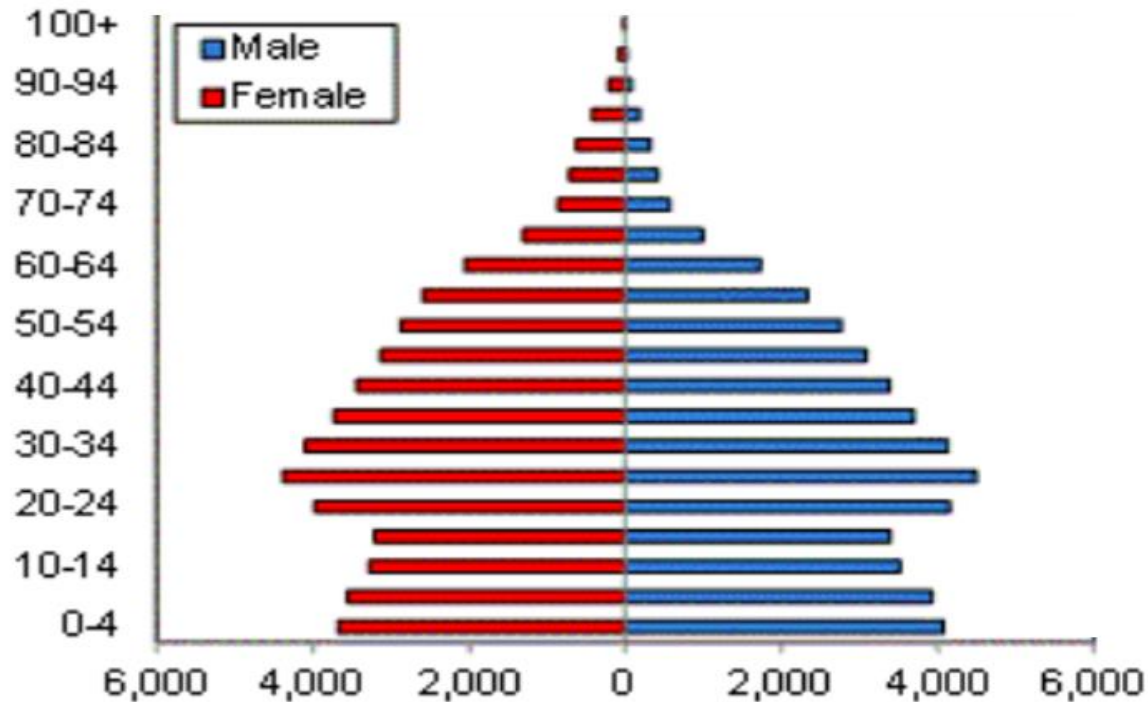
Source: U.S. Census Bureau



Vietnam: A tiger in the making

Demographic dividend to pay off for the next 20 years

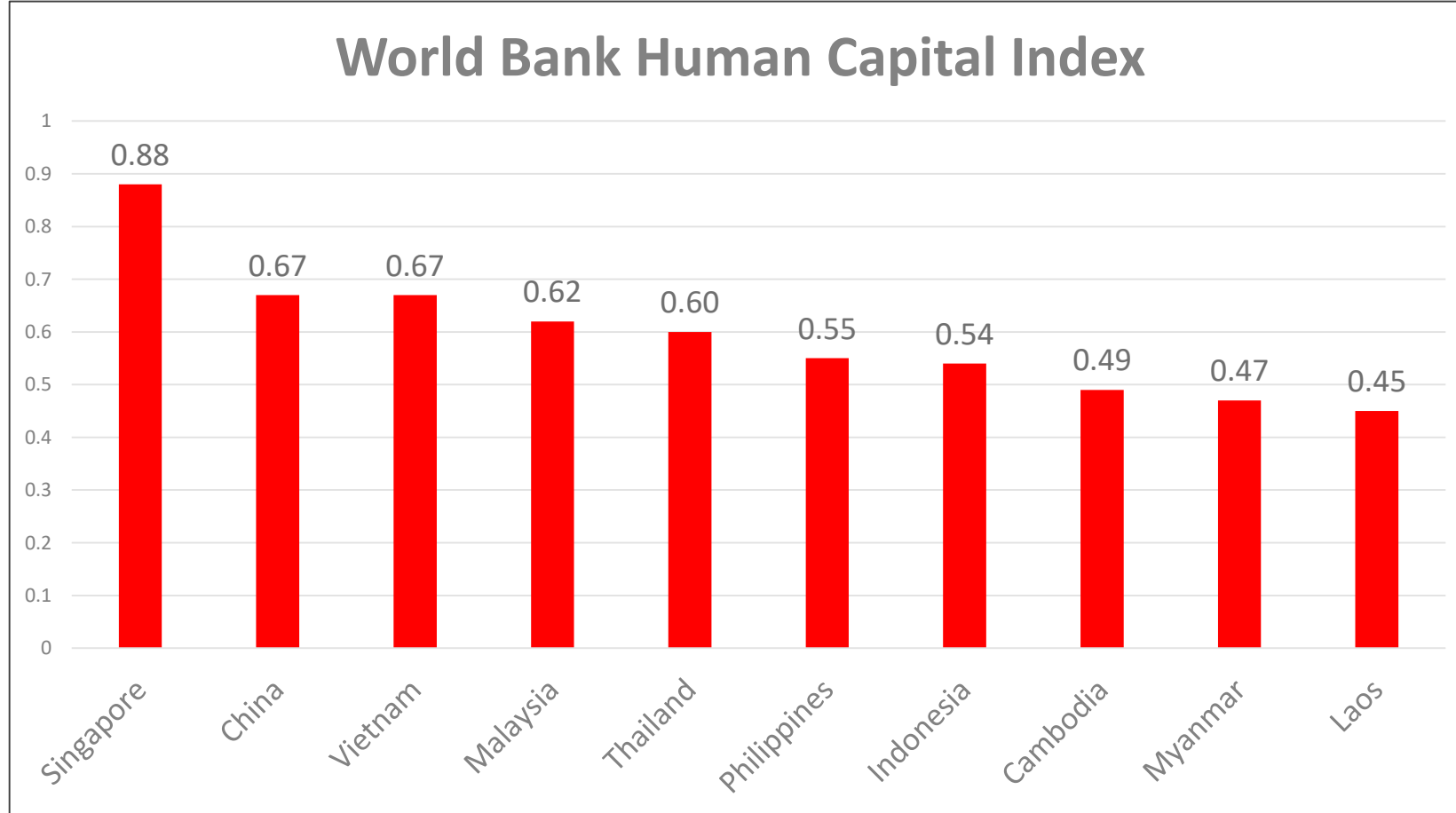
Vietnam Population Pyramid (2018)



- Population is 95 million, growing at 1% per year.
- Roughly 60% of Vietnamese are under 35.
- Dependency ratio (i.e., elderly to working age) is c. 44% but set to start rising.
- Birth rate is declining along with the rise of the middle class.



Human capital ranking 2nd in ASEAN, in line with China



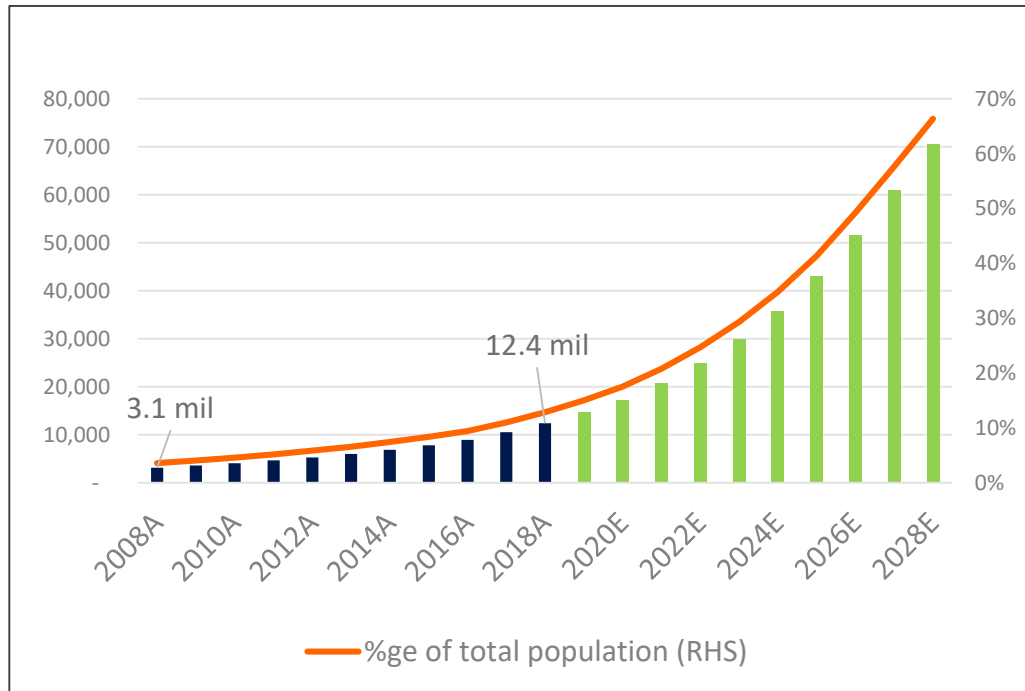
- 20% of government budget is typically allocated to education
- 93% literacy rate.
- 6% average labor productivity growth in 2015-17 was the highest in ASEAN during this period



Vietnam: A tiger in the making

Demographic dividend to pay off over the next 20 years

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



- Middle class population c. 12-13 million
- Middle class is growing at 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.



Stock market drivers

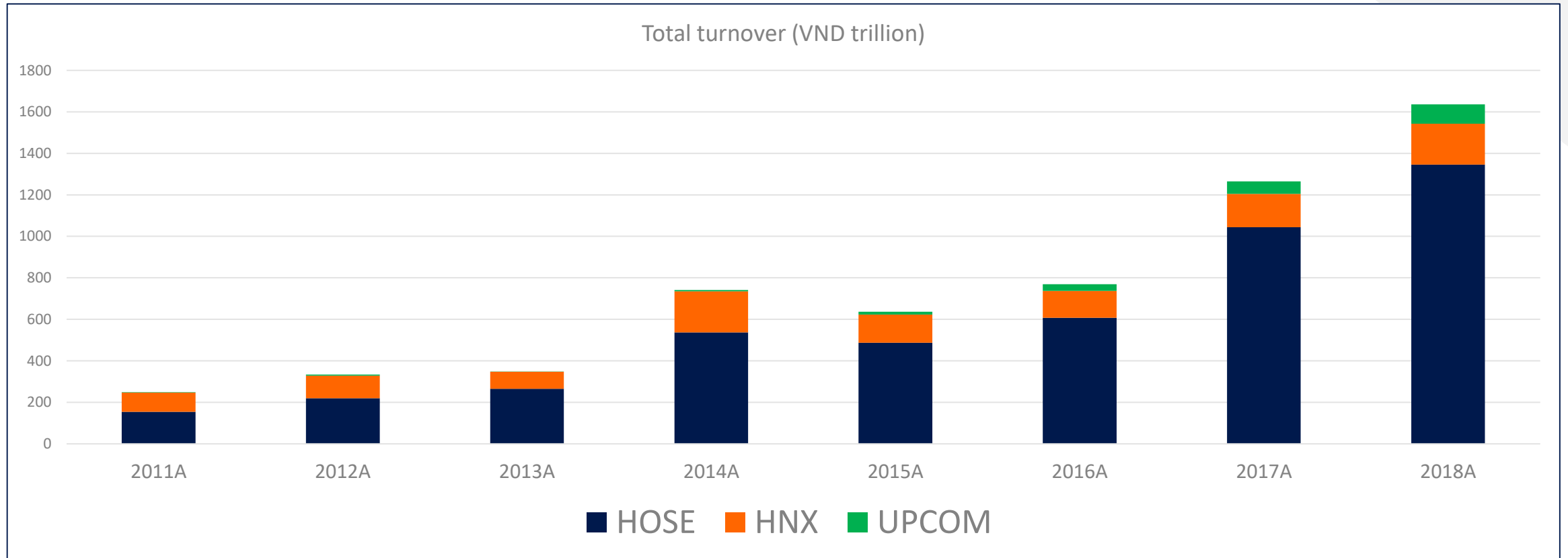
3 core stories will drive the markets going forward

- **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 covered warrants are starting up in 2019).



Stock market turnover is on the rise

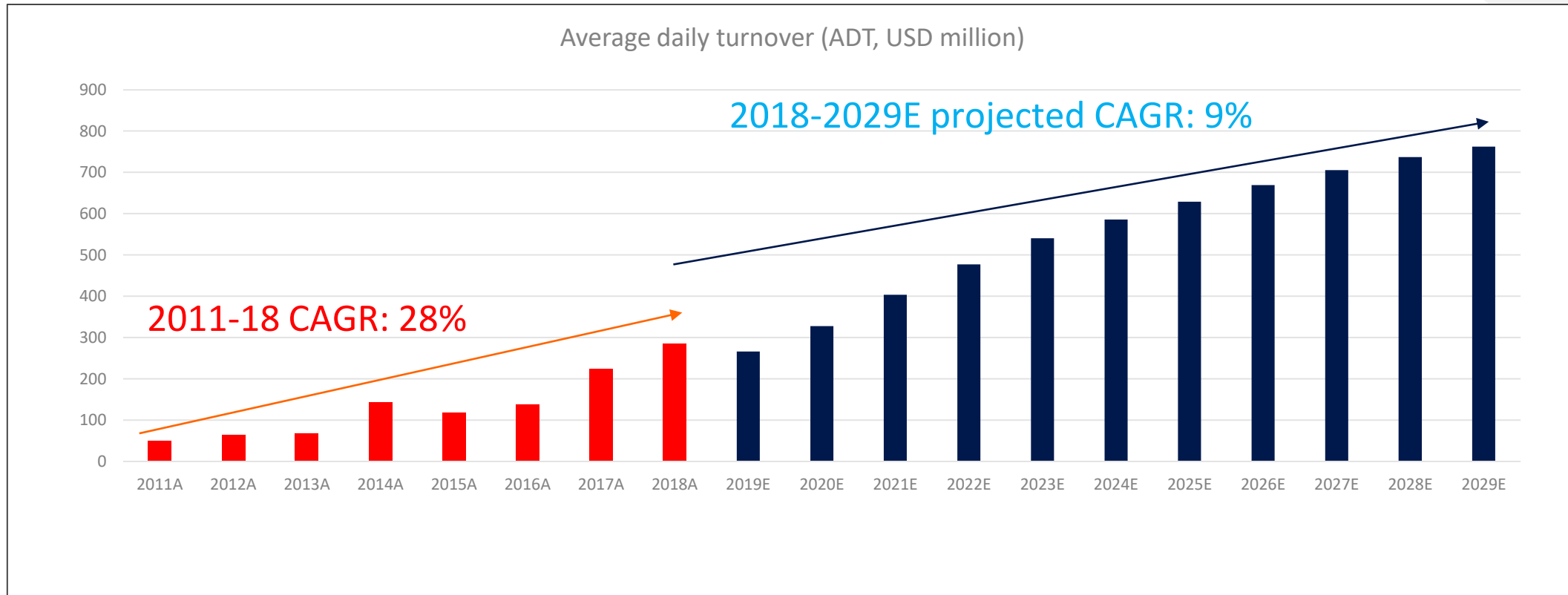
Our earnings models factor in cash equities turnover on HOSE, HNX, and UPCOM.





Average daily turnover

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

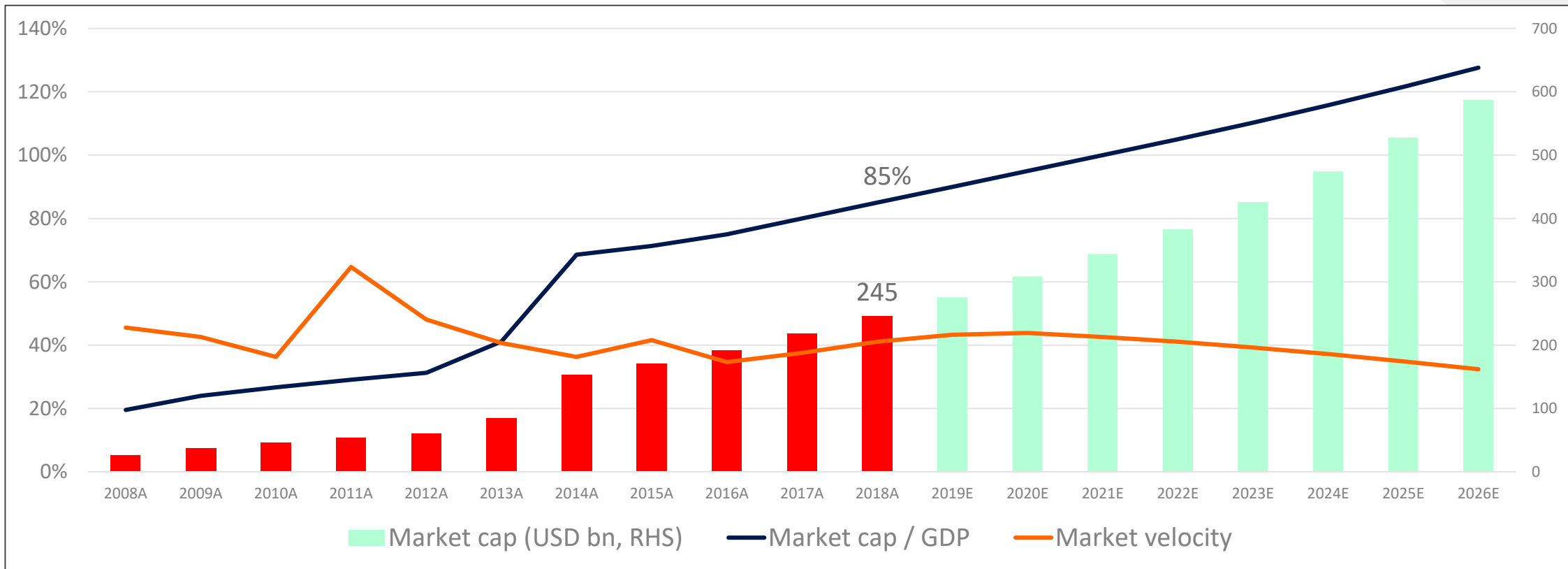


- *If it happens, US\$700m per day would place Vietnam's equities turnover in 2029 below Singapore's but ahead of Malaysia's current (2018) ADTs.*



Projected market cap & velocity

Growth in the number of listed firms, even with flat velocity, should drive stock market liquidity in the years ahead.

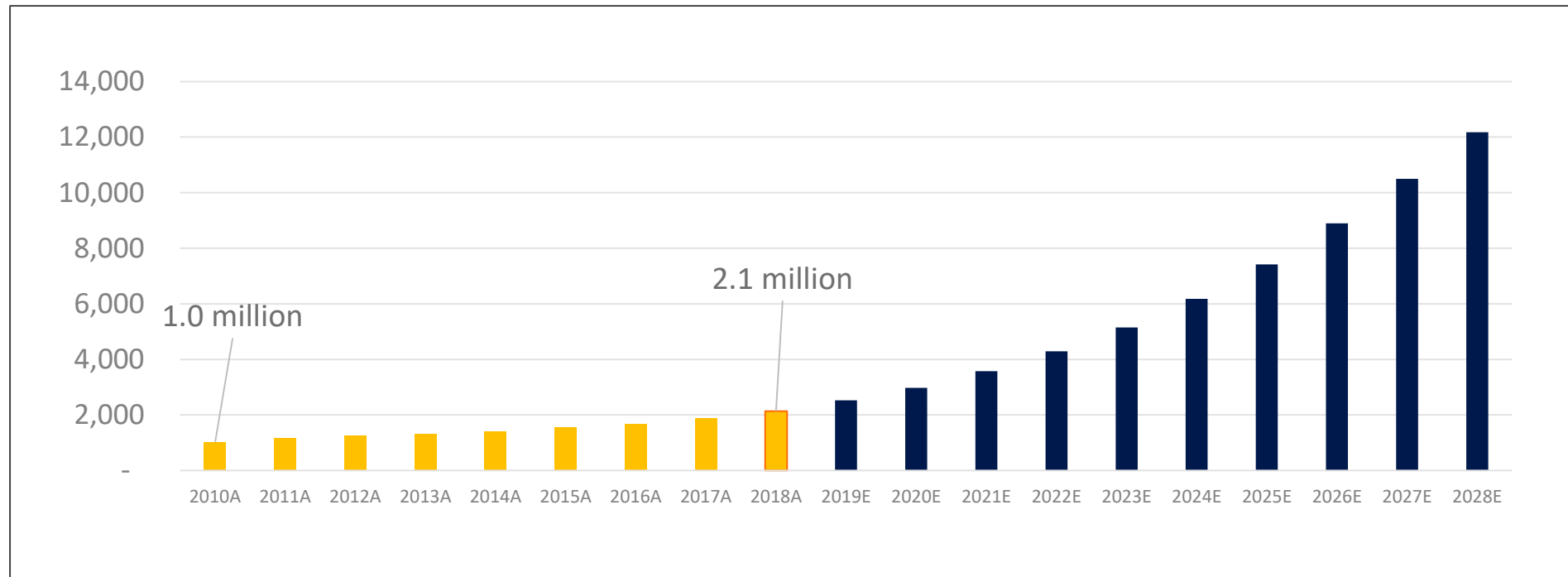




Domestic investors are just getting started

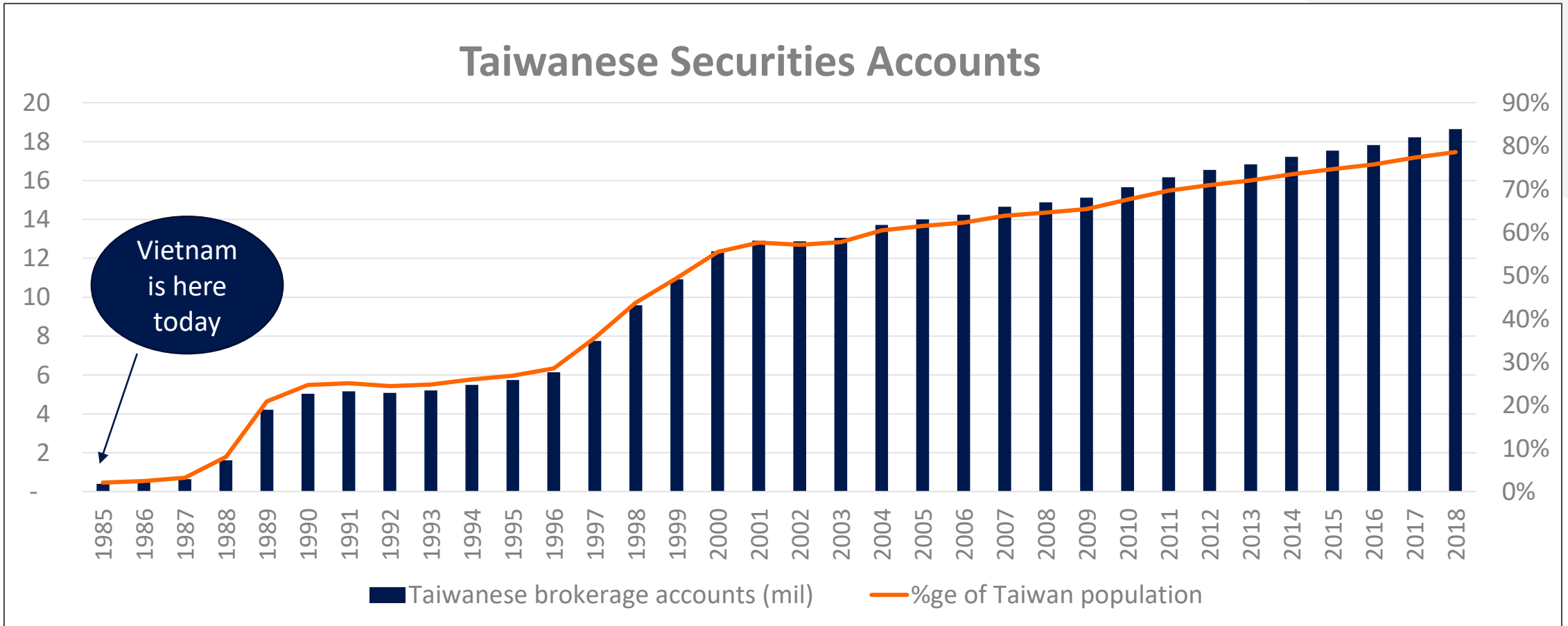
...The retail investor base will expand in synch with the middle class. Why?

- 1) Limited alternatives, 2) pension requirements, and 3) gambling.





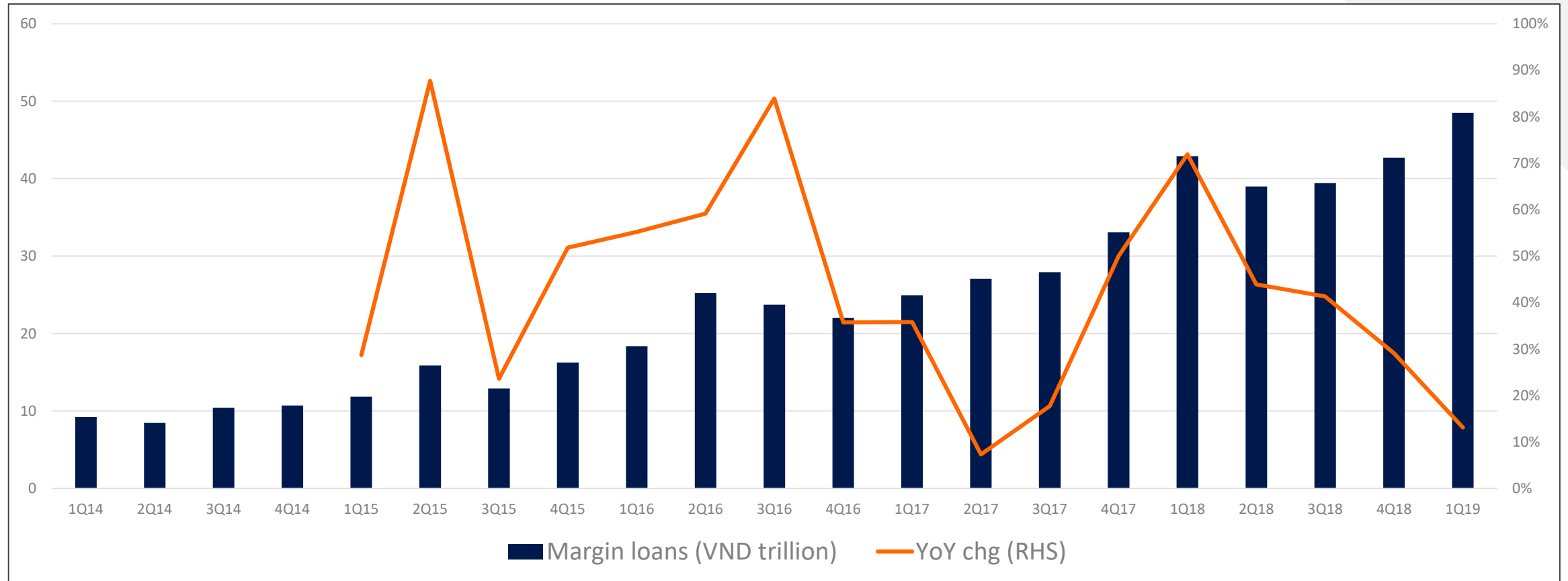
Retail investors – Taiwan as a growth template





Margin lending for domestic investors

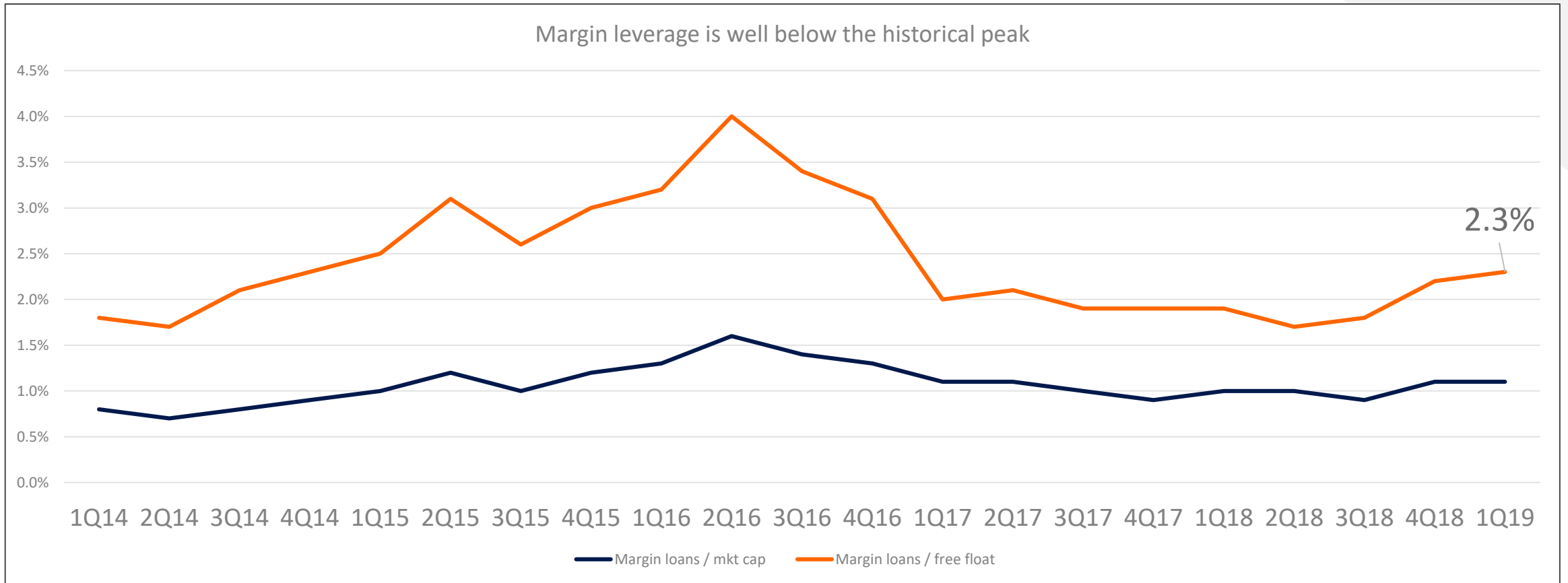
Margins reached a historical record high of about US\$2.1 billion in 1Q19





But margin leverage is under control...

At 1% of market cap and about 2.3% of free float.

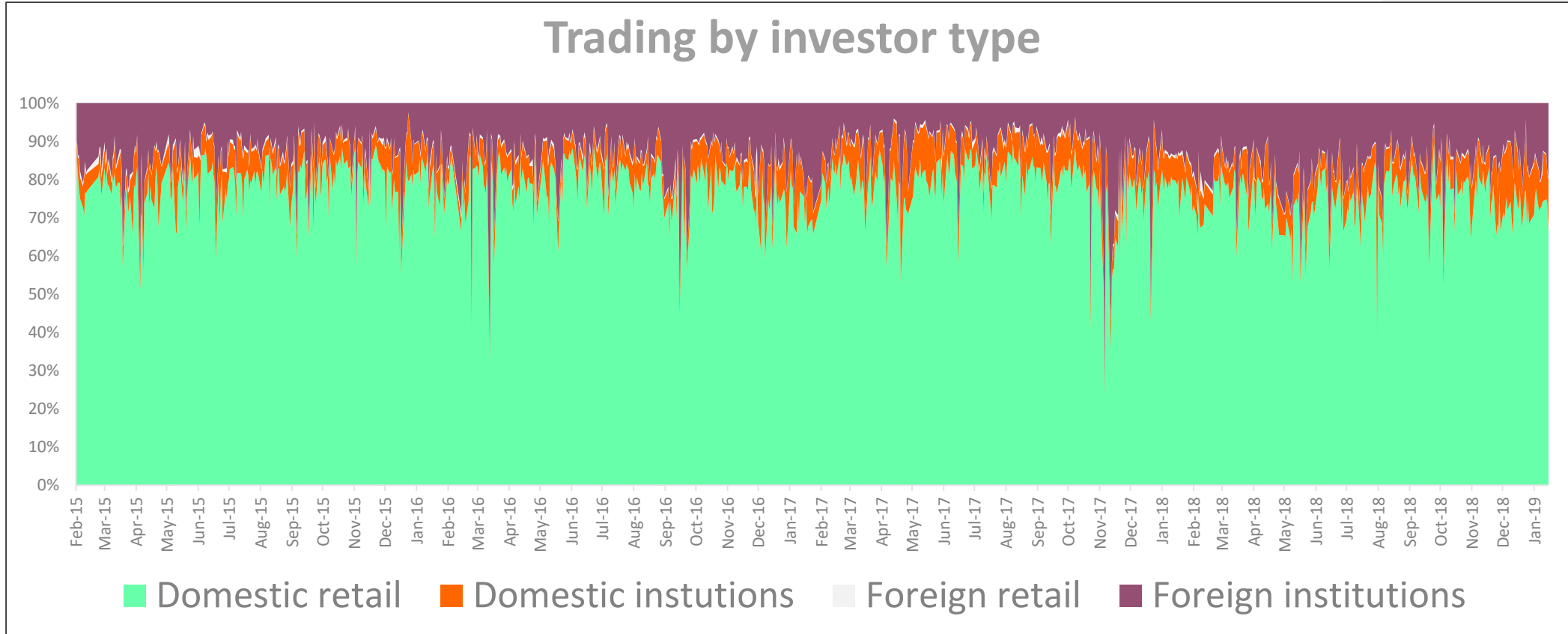




Institutional investment will increase too

Foreign institutional investment is already increasing even before MSCI inclusion.

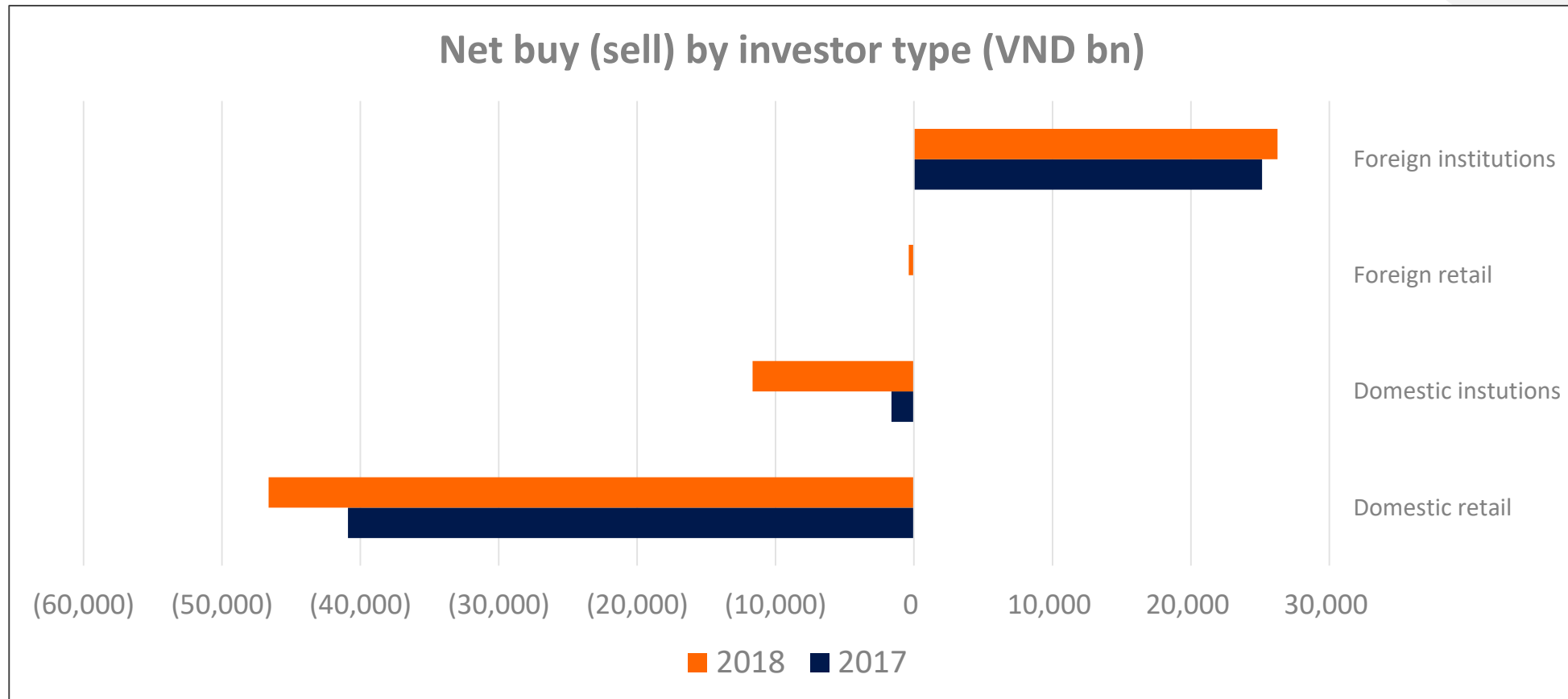
FINIs accounted for 17% of 2018 turnover, up from 14% in 2017





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.



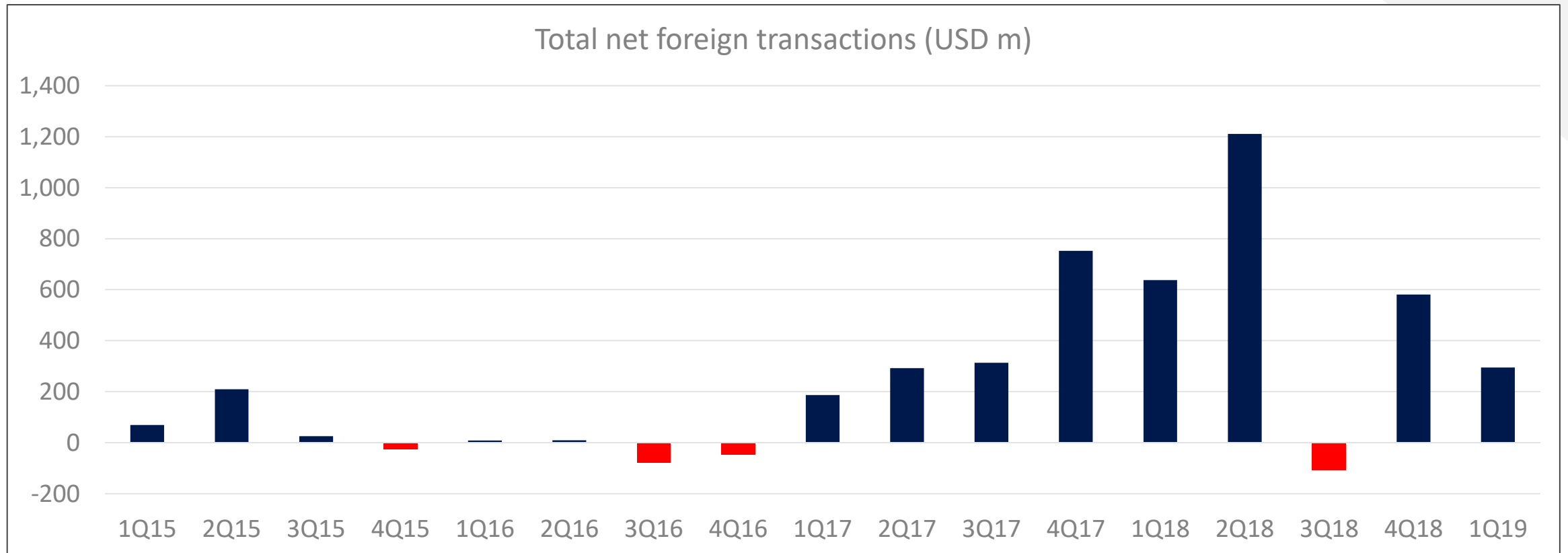


Institutional investment will increase too... Why?

- 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 within the next few years, in our view.

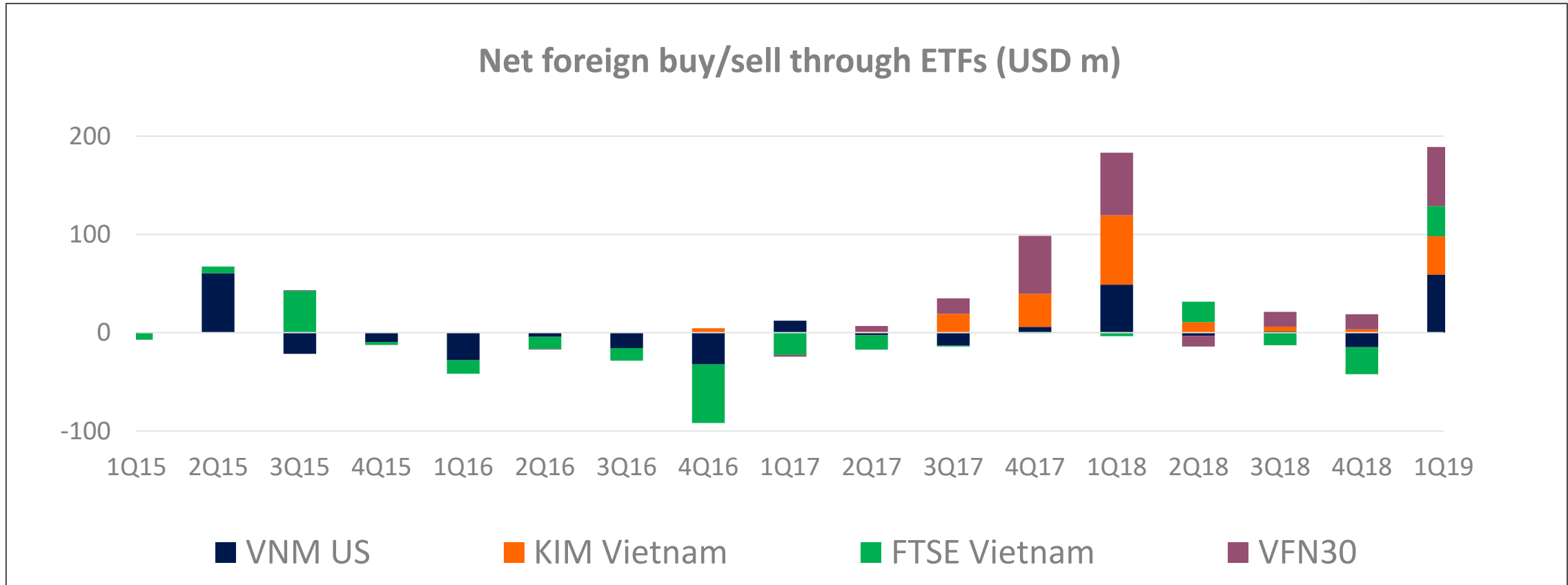


Total foreign flows are down YTD, but this is due to fewer deals in 1Q19





But fund inflows from portfolio investors hit a record high in 1Q19





FOL – the key hurdle to Emerging Market status

Foreign ownership limits (FOL) apply to most listed stocks.

- Historical foreign ownership limit (FOL) for most sectors: 49%.
- Certain “sensitive” sectors are capped at 30%. This includes commercial banks.
- Companies in non-sensitive sectors can now apply to eliminate the FOL cap. However, in practice, very few have done so.
- Examples include Vinamilk (VNM), Sabeco (SAB), and the largest brokers (HCM, VCI).
- Our sense is that many others remain reluctant. Banks need capital but cannot increase their FOL beyond 30%.



FOL – Possible Solutions

Most shares are restricted in terms of foreign ownership.

- Elimination of all FOL (extremely unlikely).
- Elimination of FOL for new listings (possible, but it wouldn't fix the current market problems and might not be enough for MSCI).
- NVDRs (Non-voting depository receipts) have been successful in other markets and could be a reasonable compromise.
- Whatever the solution, Vietnam needs capital for its leveraged banking system and for government investment (e.g., in infrastructure) that in our view will require foreign institutional investment.



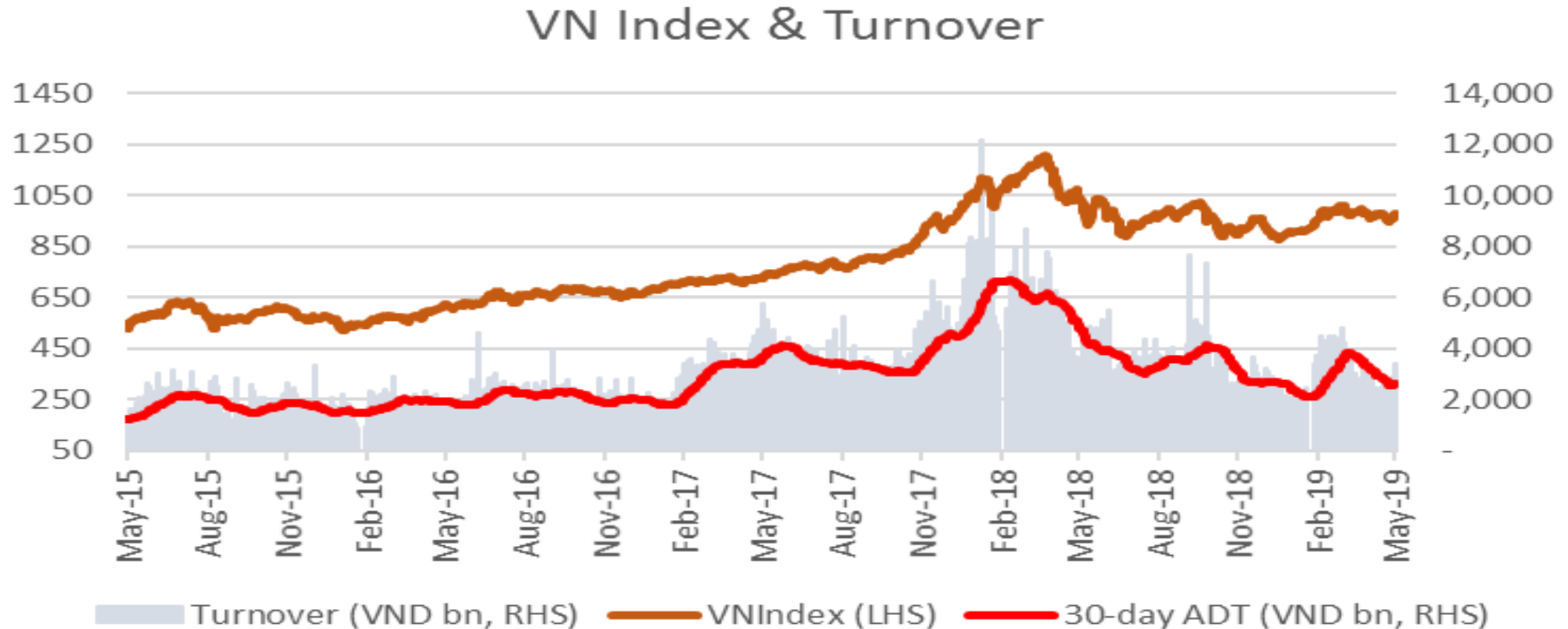
Risks to the positive long-term story

Will the kitten grow up to be a paper tiger?

- Demographic population trends are a strong positive driver for the next 20 years. But in 20 years, this trend ends.
- Human resource constraints and lack of domestic supply chain ecosystem 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.



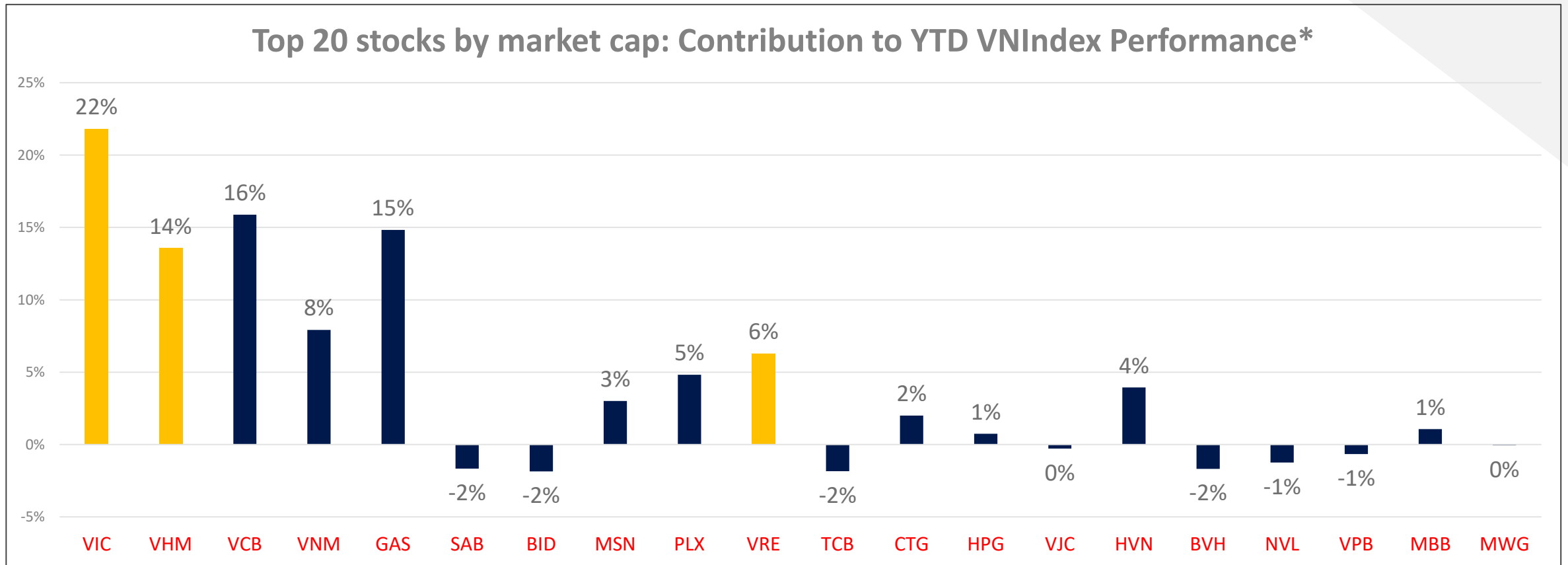
Yuanta's cautious short term tactical outlook



VNIndex is up 9% YTD, but market breadth has been low.



VinGroup stocks (VIC, VHM, and VRE) account for 42% of the market's upside YTD (May 31). Is this sustainable?



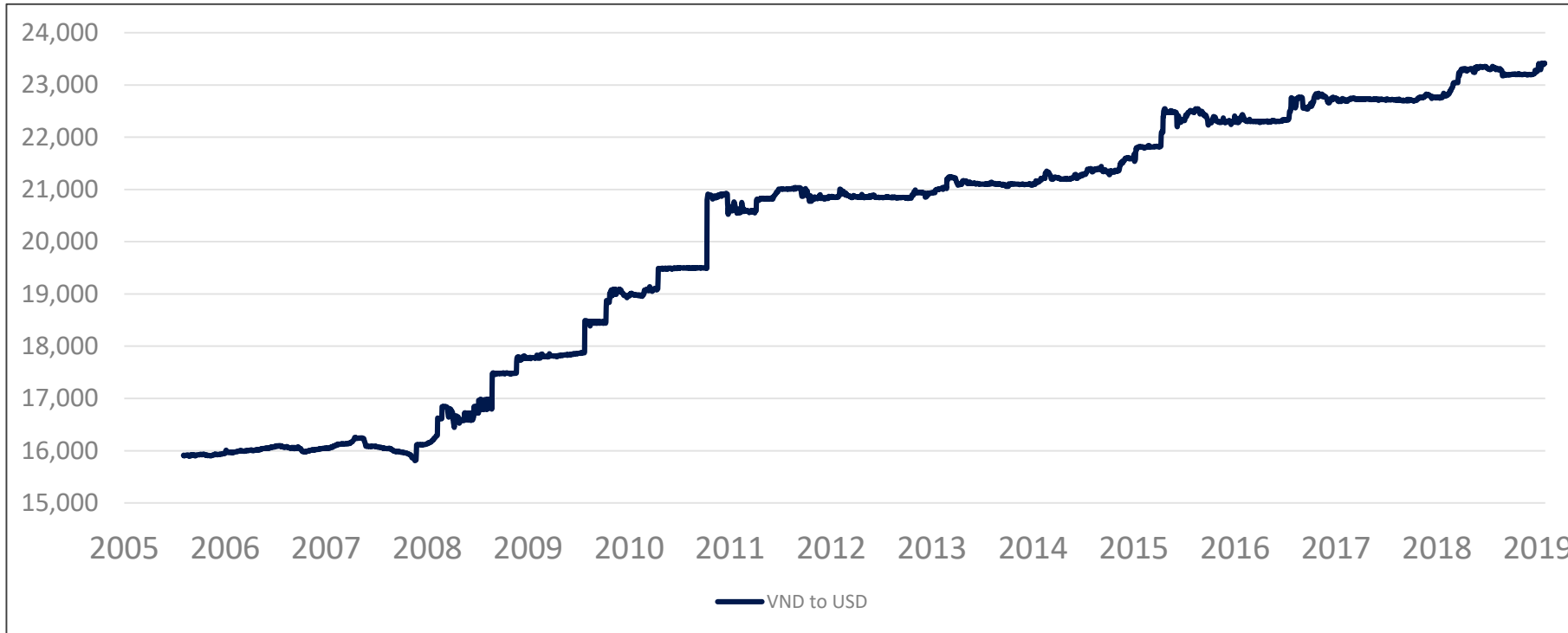
The Magic Elves Trade...

Source: Bloomberg, Yuanta Vietnam₂₉



Appendix 1 – What about the FX risk?

VND looks okay, but watch the RMB

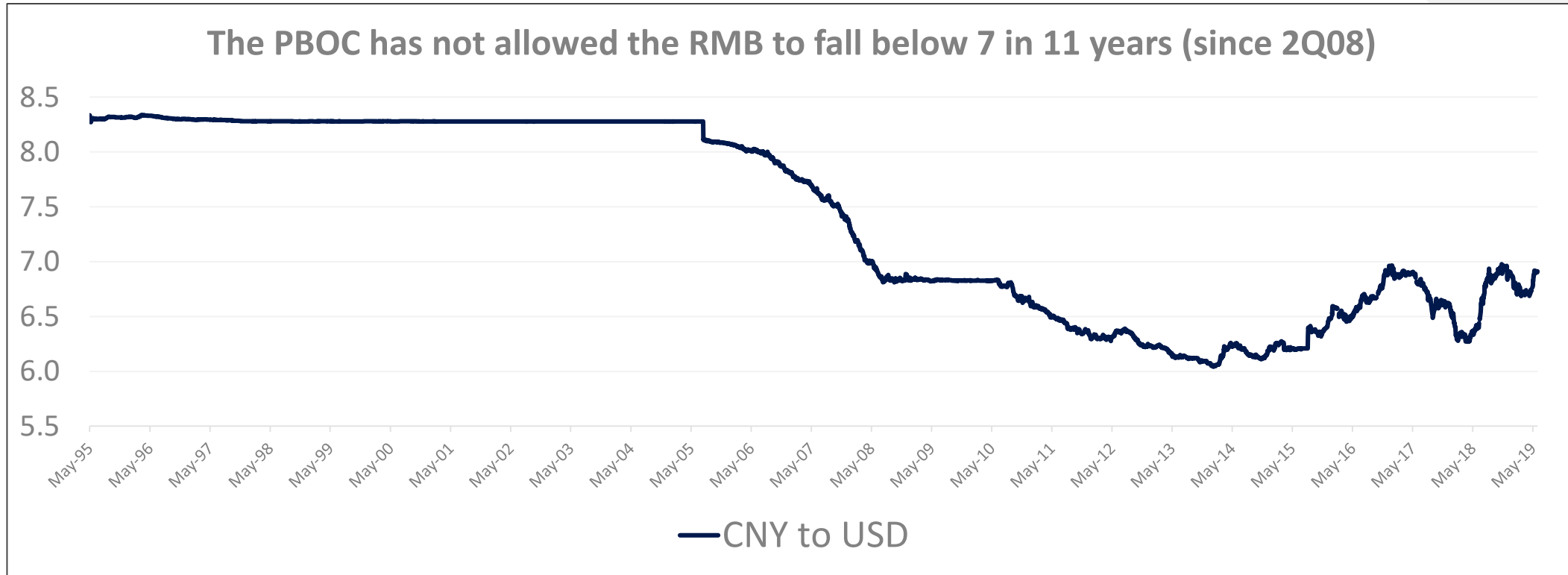


VND's moderate depreciation for the past decade is in line with policy shift to supporting macroeconomic stability following the 2000-10 party and hangover.



Appendix 1 – What about the FX risk?

Question: Is 7 a magic number?

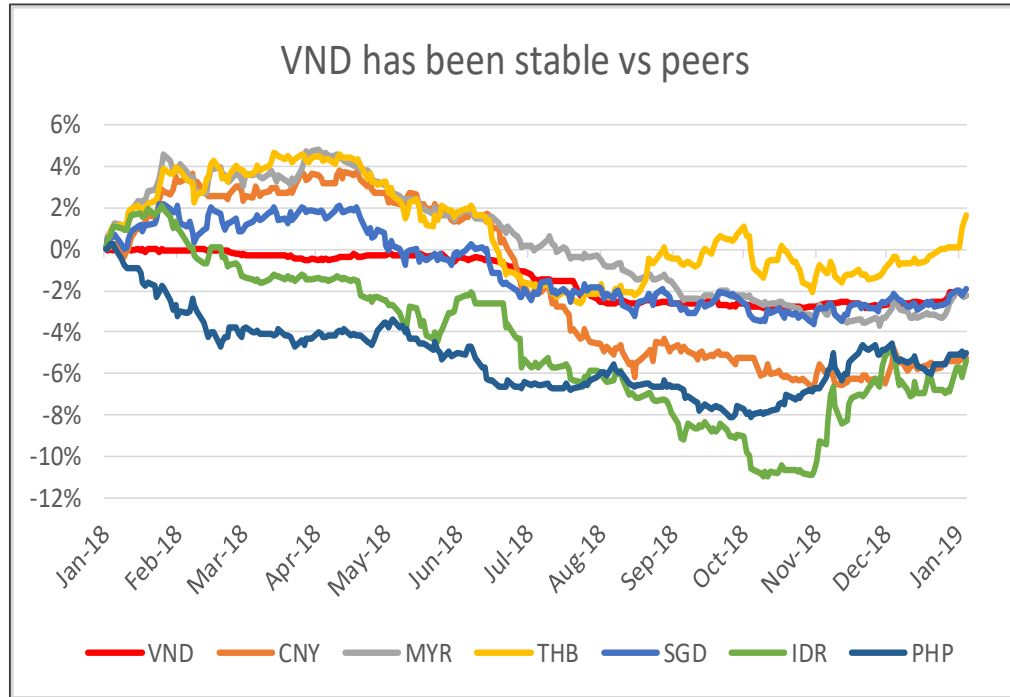


Answer: You tell me.

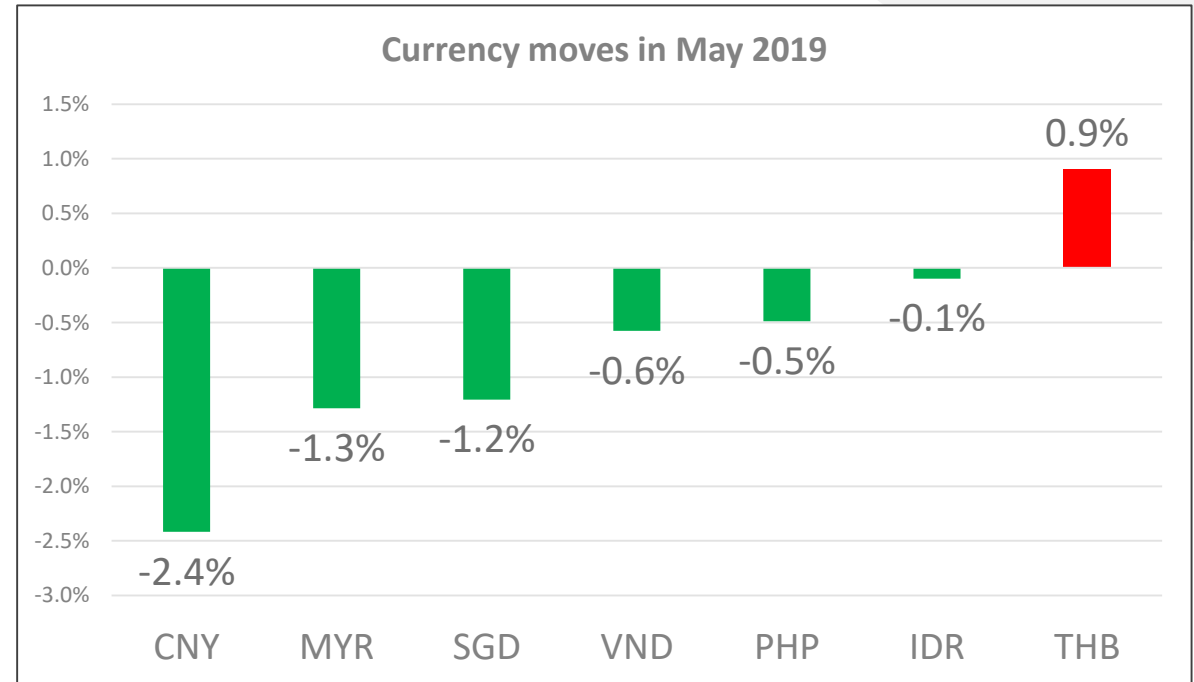


Appendix 1 – FX risk

VND looks okay, but watch the RMB



Source: Bloomberg



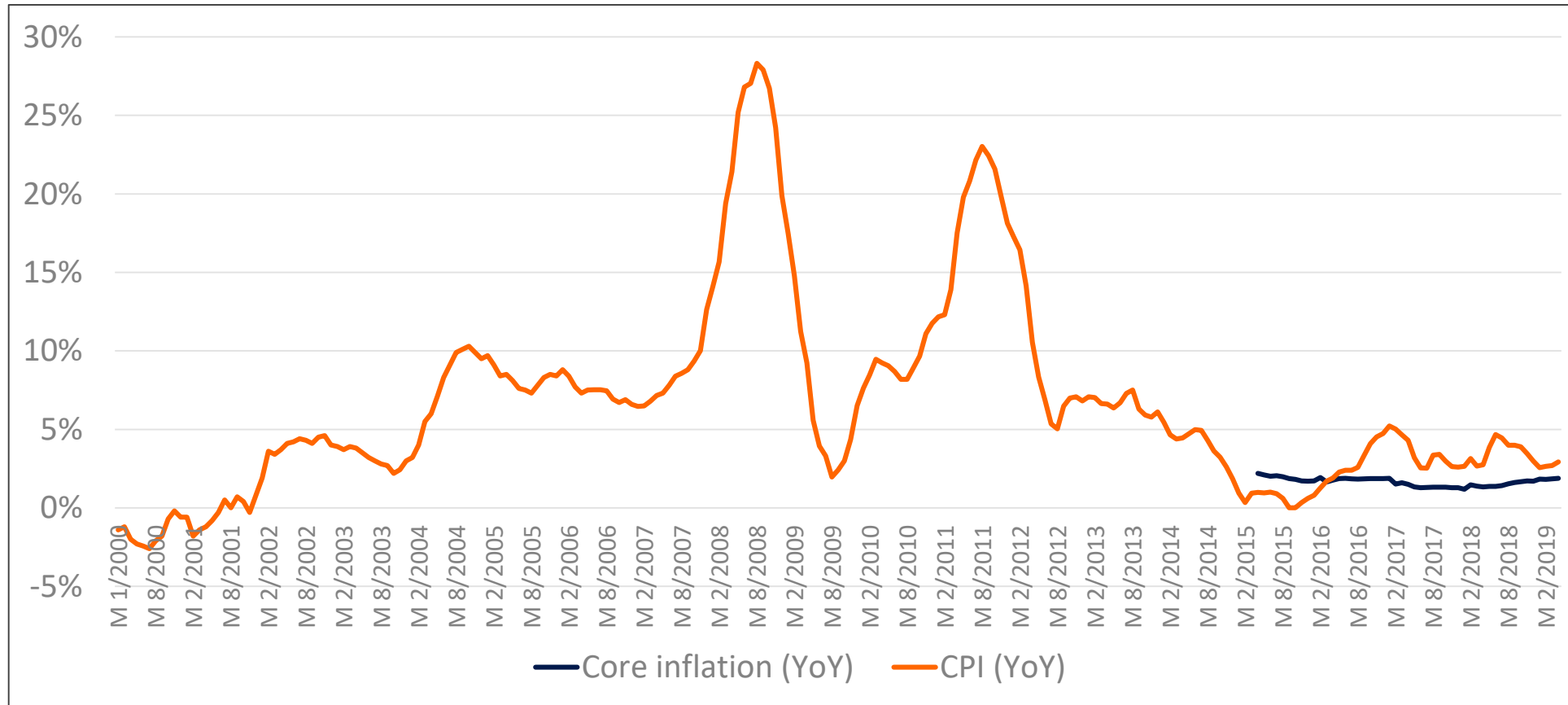
Source: Bloomberg

Strong YTD FDI, trade surplus, and rising FX reserves should support the Vietnamese Dong. But what about the RMB?



Appendix 1 – FX risk

Inflation is under control, especially relative to history



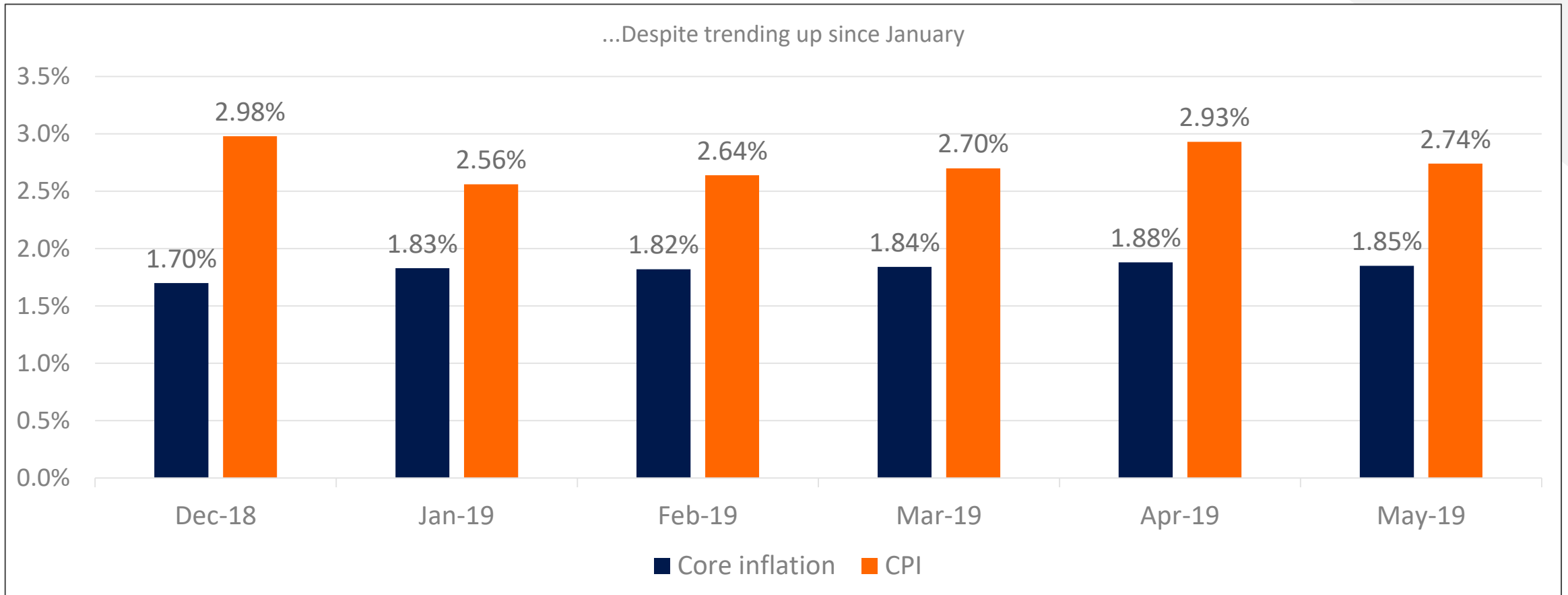
Source: GSO



Appendix 1 – FX risk

Inflation is under control, despite trending up since January (food & energy)

...Despite trending up since January

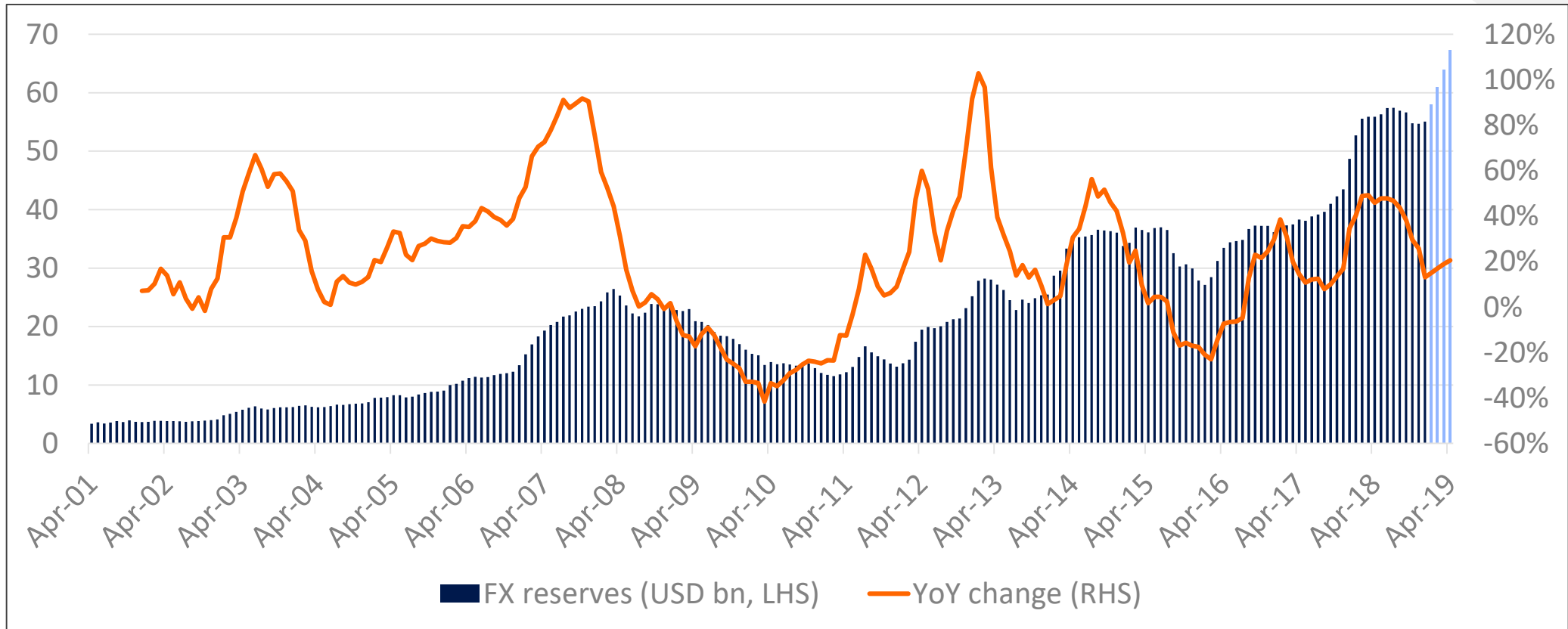


Source: GSO



Appendix 1 – FX risk

FX reserves are reasonably strong.

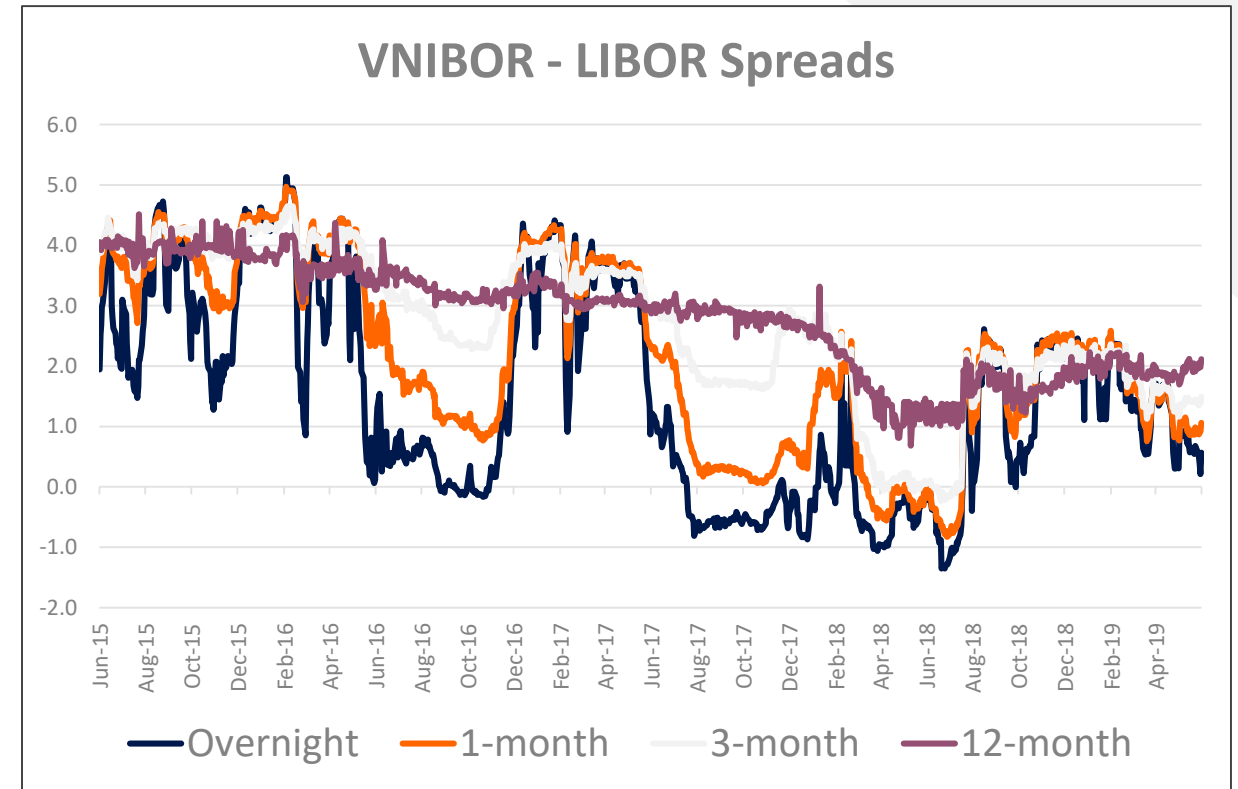
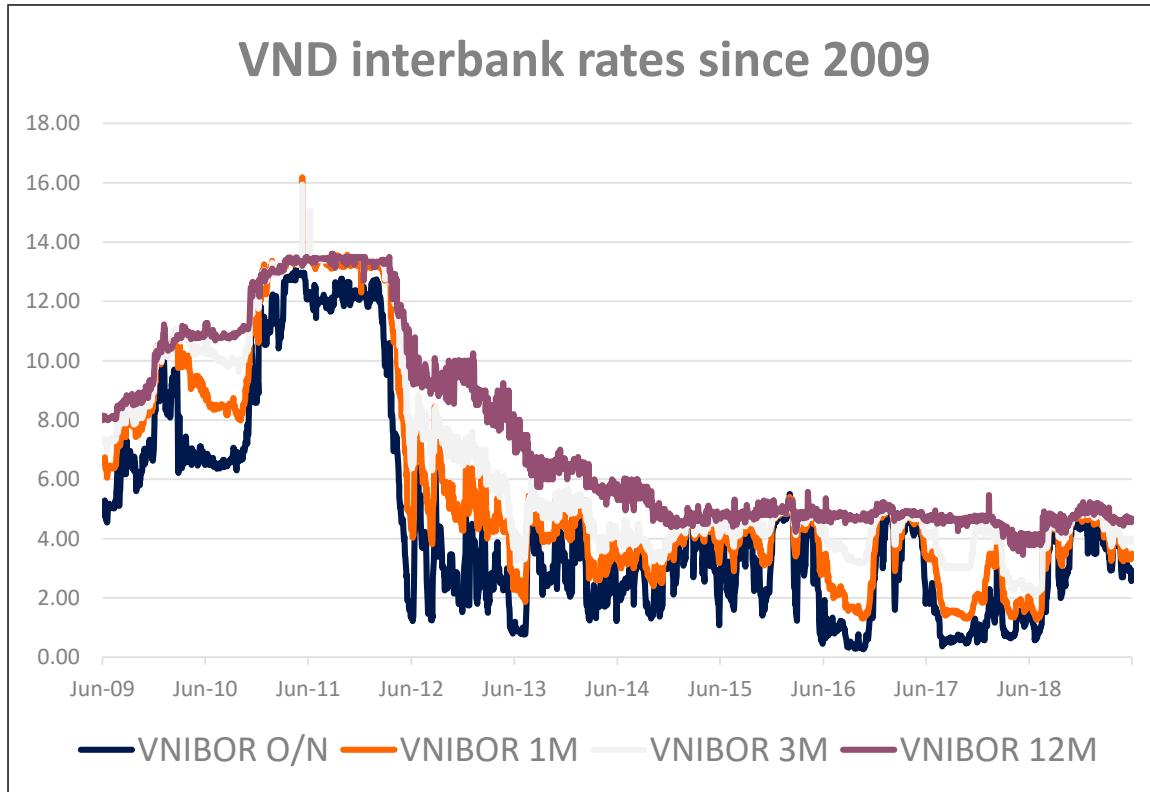


Source: : IMF to Dec 2018, Yuanta Vietnam (estimated from Vietnam media) for 2019



Appendix 1 – FX risk

Rates and spreads over LIBOR are reasonable, for now

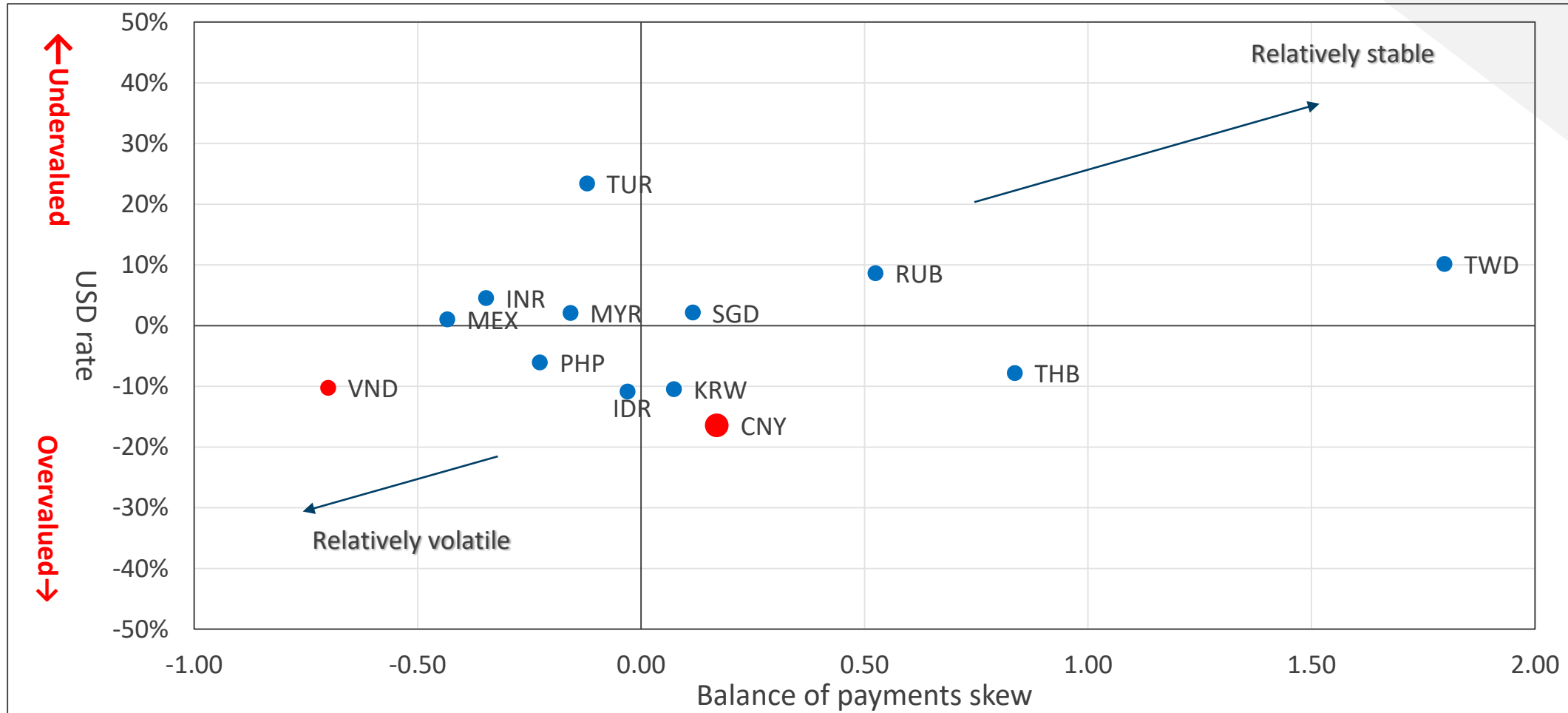


Source: Bloomberg



VND depreciation is likely structural, but gradual

We factor in 2% depreciation per year going forward



Appendix 2: Volatility watch



An exact repeat of 2006 is not likely, in our view.

Source: Bloomberg

Appendix 2: Volatility watch



The market structure is completely different from 10 years ago.

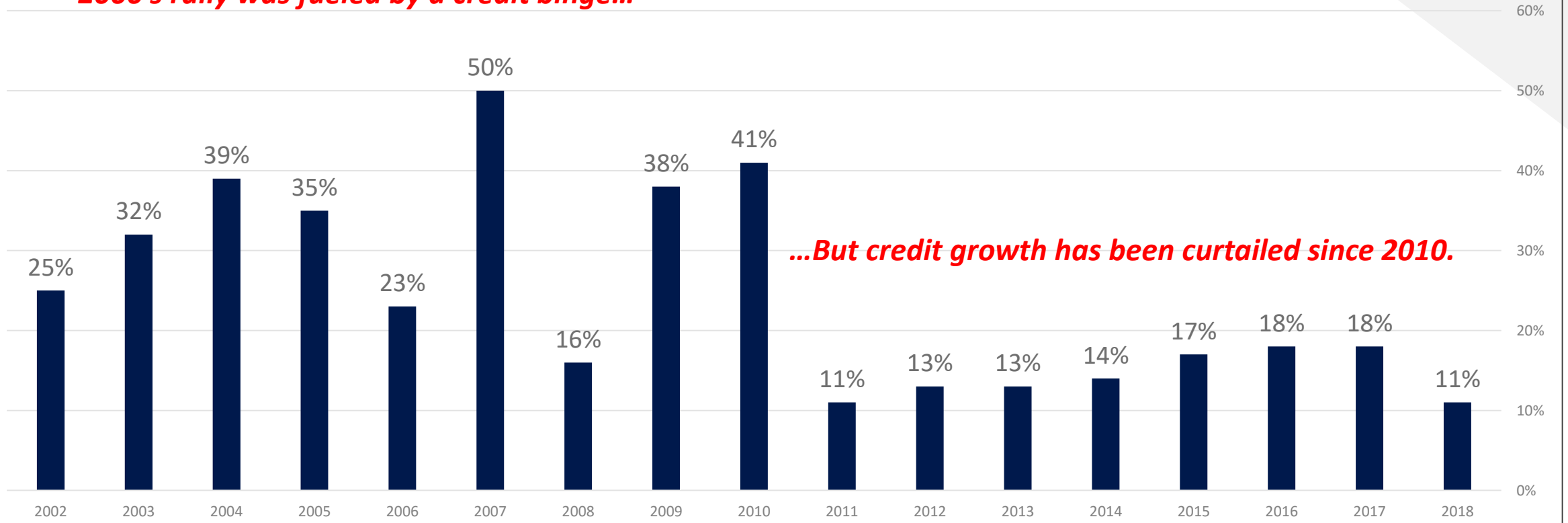
Source: Bloomberg

Appendix 2: Volatility watch



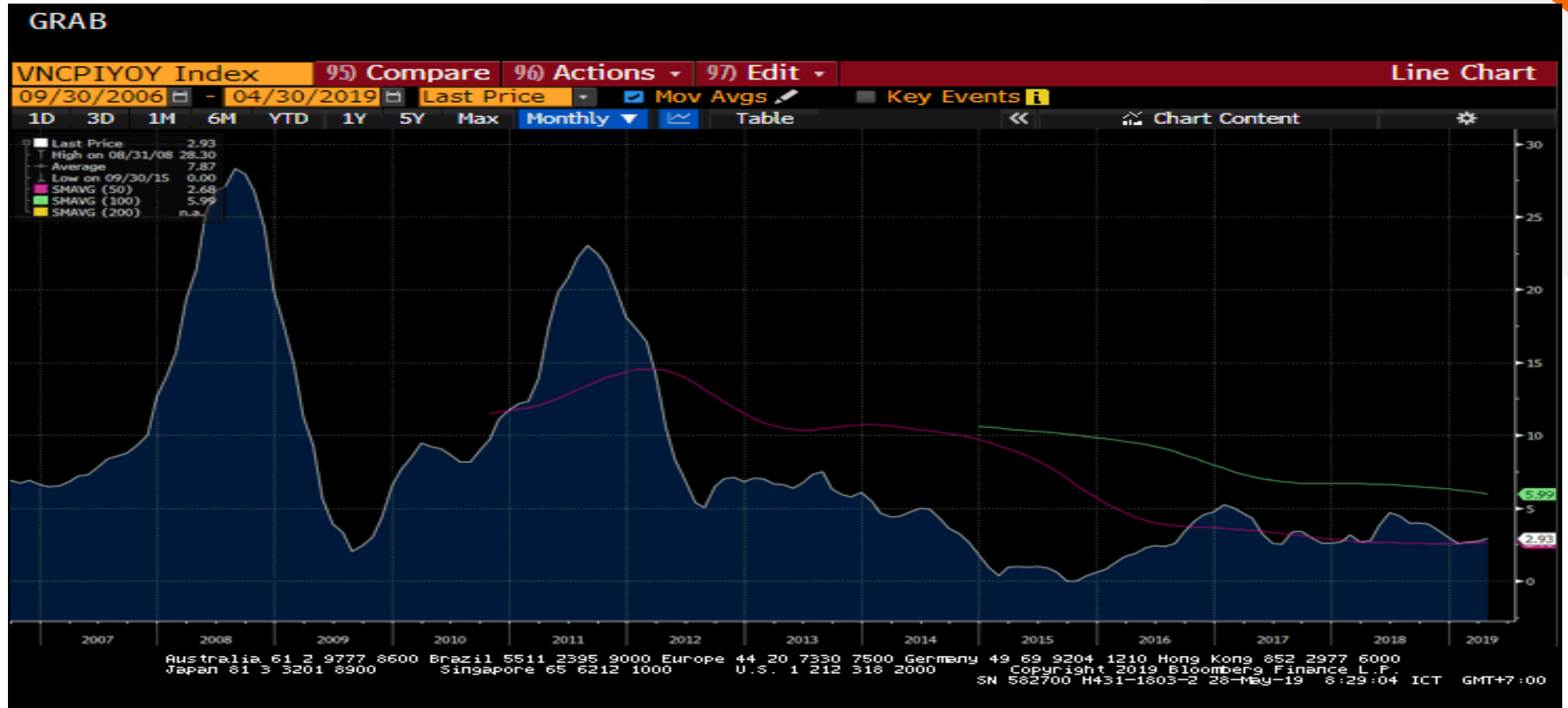
Bank loan growth, YOY

2000's rally was fueled by a credit binge...



...But credit growth has been curtailed since 2010.

Appendix 2: Volatility watch



Inflation spiked in 2000s during the credit binge. This is not a concern today.

Source: Bloomberg

Appendix 2: Volatility watch



Sometimes, it pays to think long-term.

Source: Bloomberg

Appendix 3: What about political risk?





Appendix 4: Stock coverage and top picks

Contents

- **Yuanta Vietnam Universe: 45**
- **Banks: 46-67**
- **Brokers: 68-74**
- **Consumer: 75-94**
- **Property developers: 95-109**
- **Oil & Gas: 110-120**



Yuanta Vietnam Coverage Universe

Sector	Company	Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	Up (down) side	12-m TSR*
Banks	BIDV	BID VN	4,586	2.0	BUY	31,400	38,713	23%	26%
	Sacombank	STB VN	898	1.6	BUY	11,650	14,049	21%	21%
	Vietcombank	VCB VN	10,442	2.4	BUY	65,900	75,270	14%	16%
Brokers	HCM City Securities	HCM VN	304	0.6	BUY	23,300	31,308	34%	38%
	Saigon Securities	SSI VN	541	1.5	HOLD	24,850	26,125	5%	9%
	Viet Capital Securities	VCI VN	215	0.2	BUY	30,850	43,850	42%	46%
	VNDirect Securities	VND VN	140	0.5	BUY	15,700	21,029	34%	38%
Consumer	Masan Group	MSN VN	4,224	1.7	BUY	85,000	93,035	9%	11%
	Phu Nhuan Jewelry	PNJ VN	732	1.5	BUY	77,000	118,489	54%	56%
	Digiworld	DGW VN	39	0.3	BUY	21,600	31,574	46%	52%
Oil & GAS	PV Drilling	PVD VN	298	3.1	BUY	18,200	24,535	35%	38%
Property	Nam Long	NLG VN	293	0.9	BUY	28,650	32,000	12%	13%
	Vinhomes	VHM VN	13,123	2.4	HOLD	80,600	91,277	13%	13%

*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends

Pricing data as of close on June 6, 2019.

Source: Bloomberg, Yuanta Vietnam



BIDV BANK [BID]

TIME TO MAKE A BID

INVESTMENT THESIS



- Our positive view on BID rests largely on the planned 15% stake sale to KEB Hana Bank, which will boost the bank's CAR to fund RWA growth and also lead to lower funding costs and improved NIM
 - BID's FOL room is currently 26.9%, VCB's FOL is 6.8%, and CTG's FOL is 0.5%.

- NIM's should also be supported by BID's dominance in retail and SME lending
 - BID's customers include about 250,000 SMEs (40% of Vietnamese SMEs) and 9 million individual clients (10% of Vietnam's population and about one-third of its banked population)

- Our net income forecasts are substantially (14%-18%) higher than the consensus mean estimate for 2019E -20E

Table 1- Yuanta vs. Consensus

Net income (VND bn)	2019E	2020E	2021E
Consensus mean	8,591	12,513	16,485
Yuanta forecast	9,763	14,757	17,362
%ge difference	13.6%	17.9%	5.3%
Consensus high	9,280	14,803	16,961
Consensus low	8,293	10,502	16,008
EPS (VND)			
Consensus mean	1,753	2,920	4,008
Yuanta forecast (adjusted)	1,934	2,704	3,181
%ge difference	10.3%	-7.4%	-20.6%
Consensus high	1,930	4,330	4,961
Consensus low	1,514	2,116	3,055

Source: Company Data, Yuanta Vietnam

CATALYSTS



1) Improved capital will allow for business expansion

- BID's plan to raise VND6,033 bn in capital by issuing 603.3 mn shares to KEB Hana Bank.
- We estimate that the additional capital of VND19.3 tn should increase BID's total CAR to 12.5% and result in share dilution of 15%.

Figure 1- Current Shareholder Structure

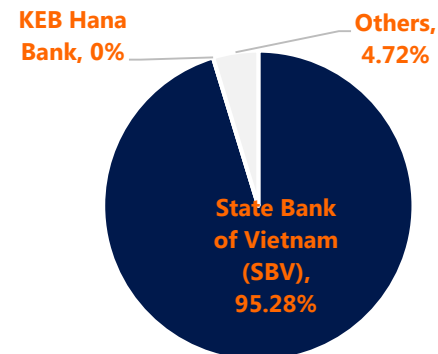


Figure 2- Post-Deal Shareholder Structure

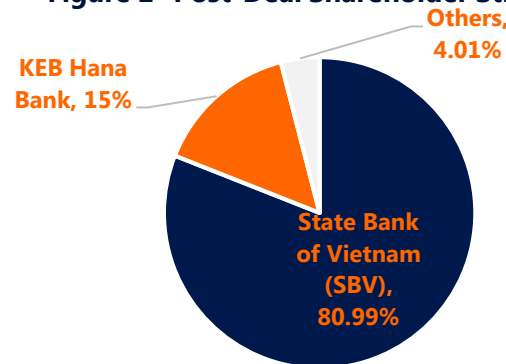


Figure 3- Loan Growth

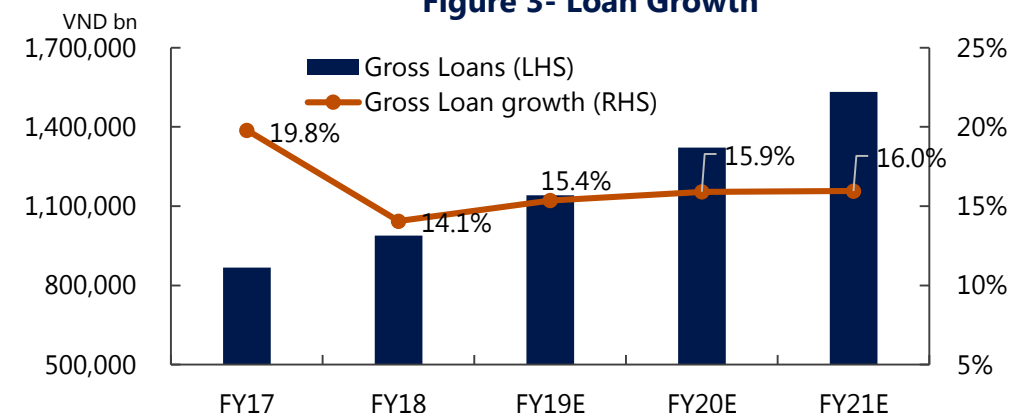


Table 2- CET1 and CAR sensitivity Table

Issuing price Scenarios	VND	29,000	30,000	31,000	32,000	33,000	34,000	35,000
New Shareholder Capital	VND bn	6,033	6,033	6,033	6,033	6,033	6,033	6,033
Share Premium	VND bn	11,463	12,066	12,669	13,273	13,876	14,479	15,083
Total Tier 1 Capital after raising capital	VND bn	63,117	63,720	64,323	64,927	65,530	66,133	66,736
Tier 2 capital	VND bn	31,774	31,774	31,774	31,774	31,774	31,774	31,774
Risk weighted assets	VND bn	771,642	771,642	771,642	771,642	771,642	771,642	771,642
CET 1 ratio before raising capital	%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
CET 1 ratio after raising capital	%	8.2%	8.3%	8.3%	8.4%	8.5%	8.6%	8.6%
CAR before raising capital	%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
CAR after raising capital	%	12.3%	12.4%	12.5%	12.5%	12.6%	12.7%	12.8%
Basel II CAR (2ppt lower in our estimate)	%	10.3%	10.4%	10.5%	10.5%	10.6%	10.7%	10.8%

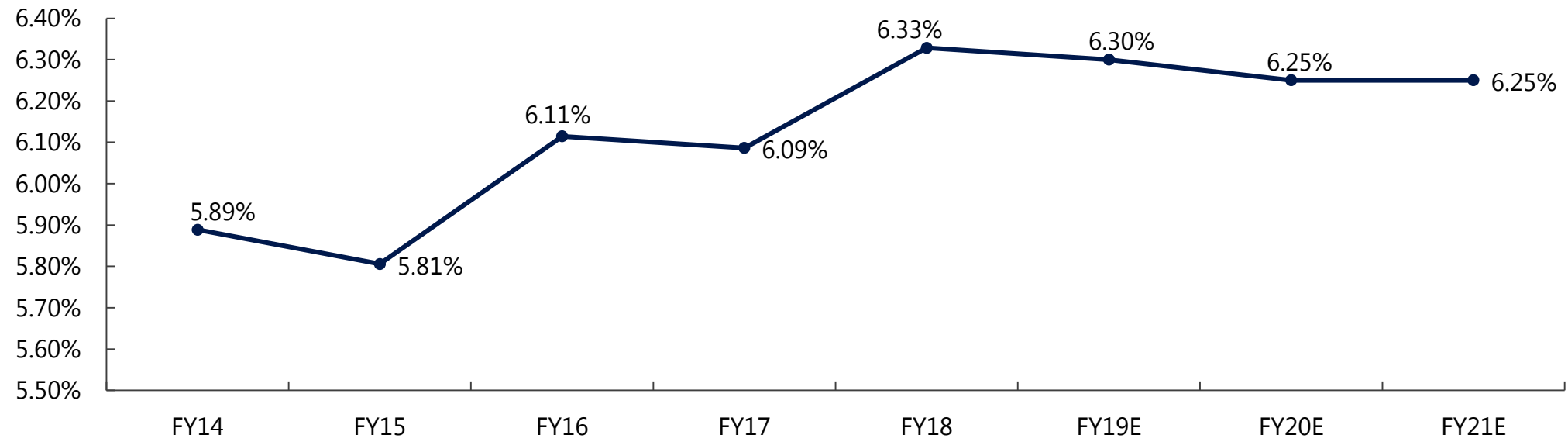
Source: Company Data, Yuanta Vietnam



2) Reduced leverage should lead to lower funding costs & higher NIM

- We believe that an ancillary benefit of the reduced balance sheet leverage is the effect on long-term funding costs, which are likely to decline as a result. We forecast funding cost to decline slightly from 6.33% in 2018P to 6.30% in 2019E and 6.25% in 2020E.

Figure 4 - Funding costs to decline with lower leverage starting from 2019E

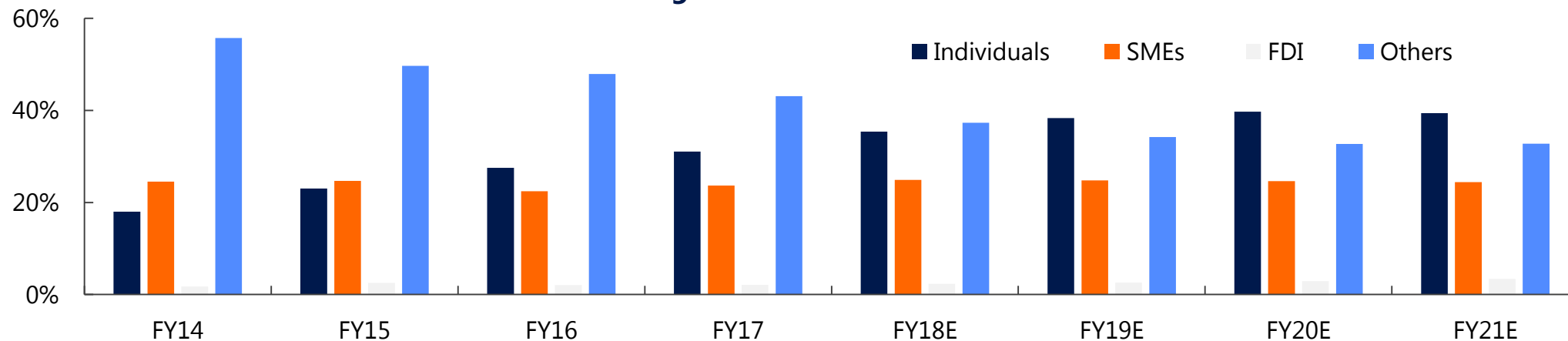


Source: Company Data, Yuanta Vietnam

2) Client base supports higher yields than state bank peers

- BID reports that its clients include more than 250,000 SMEs (accounting for 98% of BID's total enterprise clients) and approximately 9 million individuals as of June 2018, representing 40% of all SMEs in Vietnam and 10% of the total population (and perhaps a third of the banked population), respectively.

Figure 5- Loan Breakdown



Source: Company Data, Yuanta Vietnam

3) End stage for VAMC exposure: Provisioning to fall from 2020E

Table 3- Estimated exposure to VAMC assets

(VND bn)	2016	2017	2018P
Total VAMC bonds	21,131	19,347	14,138
Provisions	(5,655)	(9,581)	(7,676)
Provision against VAMC bond (%)	27%	50%	54%
Net VAMC bond	15,477	9,767	6,461

Source: Company Data, Yuanta Vietnam



VALUATION: Our 12-M price target is VND38,713

- We apply five valuation methodologies to generate our VND38,713 target price for BID, which implies P/BV multiples of 1.99x for 2019E and 1.86x for 2020E and adjusted PERs of 20.0x for 2019E and 14.3x for 2020E.
- Our target is calculated on a weighted average basis that comprises residual income (with a 50% weighting, the largest component), dividend discount model (DDM), relative valuation, regression, and multiples comparison with listed peers.

Table 4- BID's estimate fair value

Valuation Methodologies	Estimated Price (VND/share)	Weight (%)	Price	Upside (%)
Residual Income	38,735	50.0%	19,368	
DDM Perpetuity	45,594	12.5%	5,699	
DDM Multiple	42,861	12.5%	5,358	
Regression	32,392	12.5%	4,049	
Listed Comps	33,919	12.5%	4,240	
Estimated Fair Value (VND/share)			38,713	21.3%

Source: Yuanta Vietnam

INVESTMENT RISKS

1) Capital raising is the major event catalyst of our thesis, and it is also the biggest risk to our investment thesis

Table 5- Estimate Basel II CAR from different issuing prices

Issuing price Scenarios	VND	10,000	12,000	14,000	16,000	18,000	20,000	22,000	24,000
New Shareholder Capital	VND bn	6,033	6,033	6,033	6,033	6,033	6,033	6,033	6,033
Share Premium	VND bn	-	1,207	2,413	3,620	4,826	6,033	7,240	8,446
Total Tier 1 Capital after raising capital	VND bn	51,654	52,860	54,067	55,274	56,480	57,687	58,893	60,100
Tier 2 capital	VND bn	31,774	31,774	31,774	31,774	31,774	31,774	31,774	31,774
Risk weighted assets	VND bn	771,642	771,642	771,642	771,642	771,642	771,642	771,642	771,642
CET 1 ratio before raising capital	%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
CET 1 ratio after raising capital	%	6.7%	6.9%	7.0%	7.2%	7.3%	7.5%	7.6%	7.8%
CAR before raising capital	%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
CAR after raising capital	%	10.8%	11.0%	11.1%	11.3%	11.4%	11.6%	11.7%	11.9%
Basel II CAR (2ppt lower in our estimate)	%	8.8%	9.0%	9.1%	9.3%	9.4%	9.6%	9.7%	9.9%

Source: Yuanta Vietnam

2) Competition is heating up in retail banking, as numerous other banks aggressively target this market

3) Operating costs could be a risk

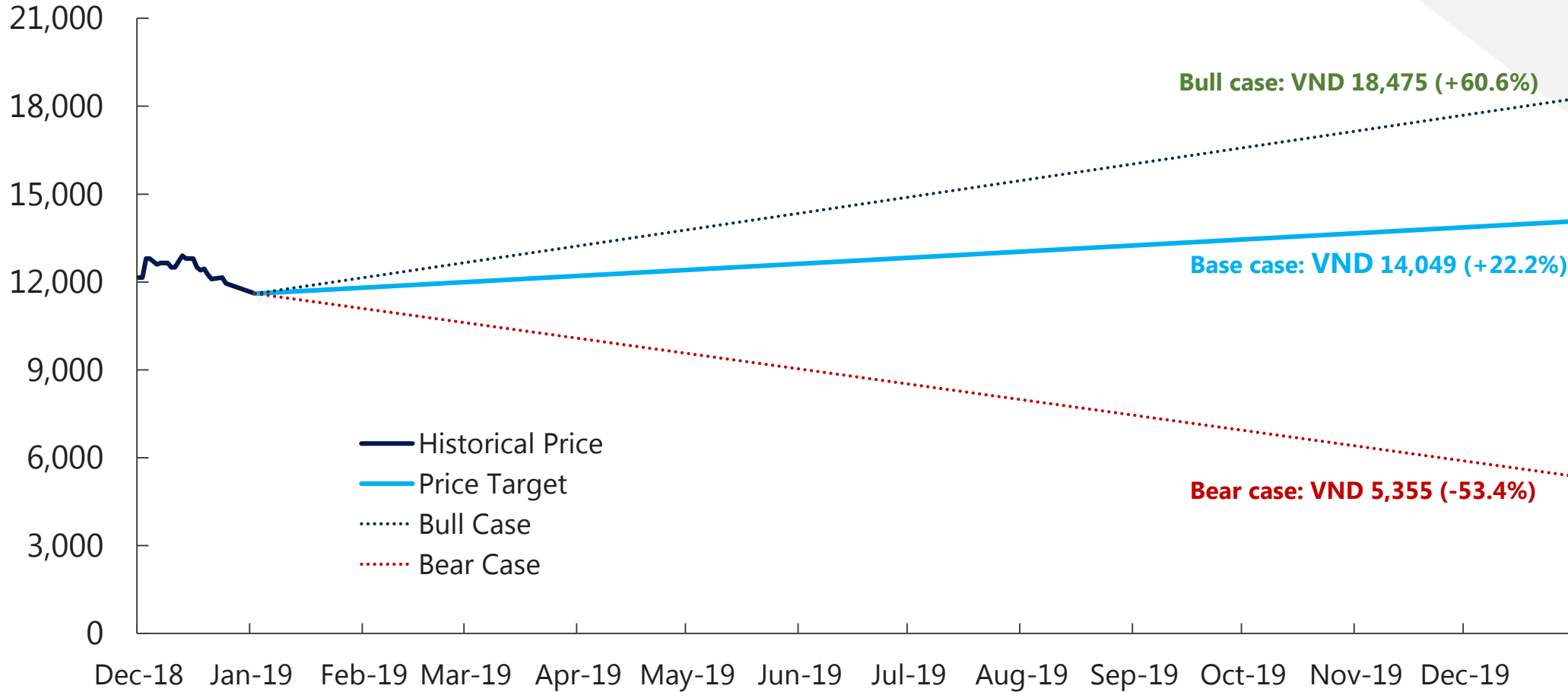


SACOMBANK [STB VN]

A TURNAROUND STORY FOR THE LONG HAUL



Price Target Scenarios



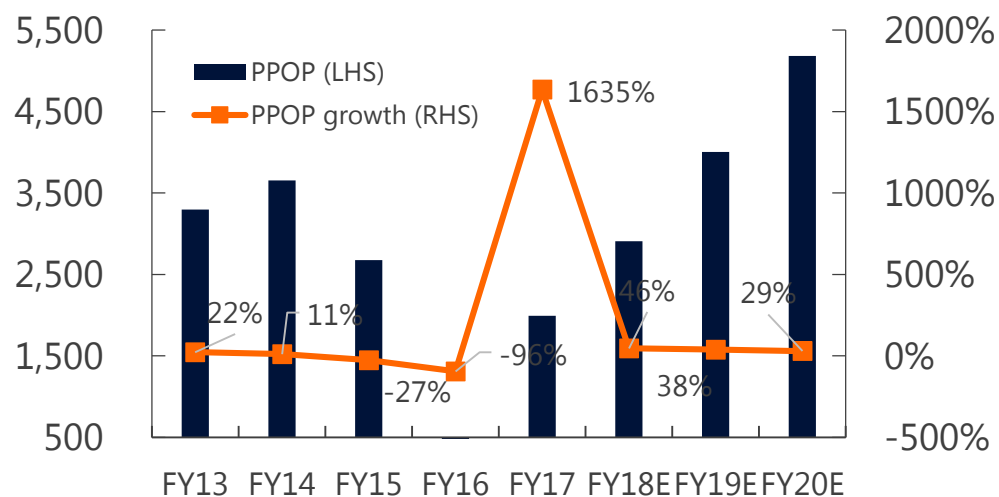
Source: Bloomberg, Yuanta Vietnam

INVESTMENT THESIS



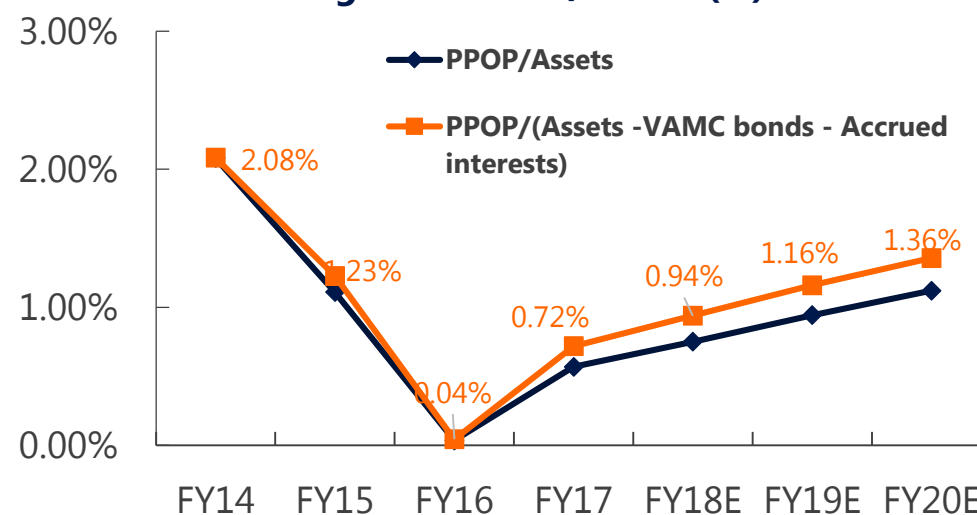
- Valuation is cheap (admittedly, for a reason) ... STB trades at a 1Q19 P/BV ratio of 0.8x, well below the peer average of 1.4x
 - STB is in a restructuring phase and will have to recognize substantial provisioning for its high level of NPLs
- ... the underlying business operations are improving. Business efficiency has improved remarkably since 2017, and growth in pre-provisioning operating profit (PPOP) should remain solid.

Figure 1- Adjusted PPOP growth (%)



Source: Company Data, Yuanta Vietnam

Figure 2- PPOP/Assets (%)



PATH TO DOUBLE DIGIT ROE



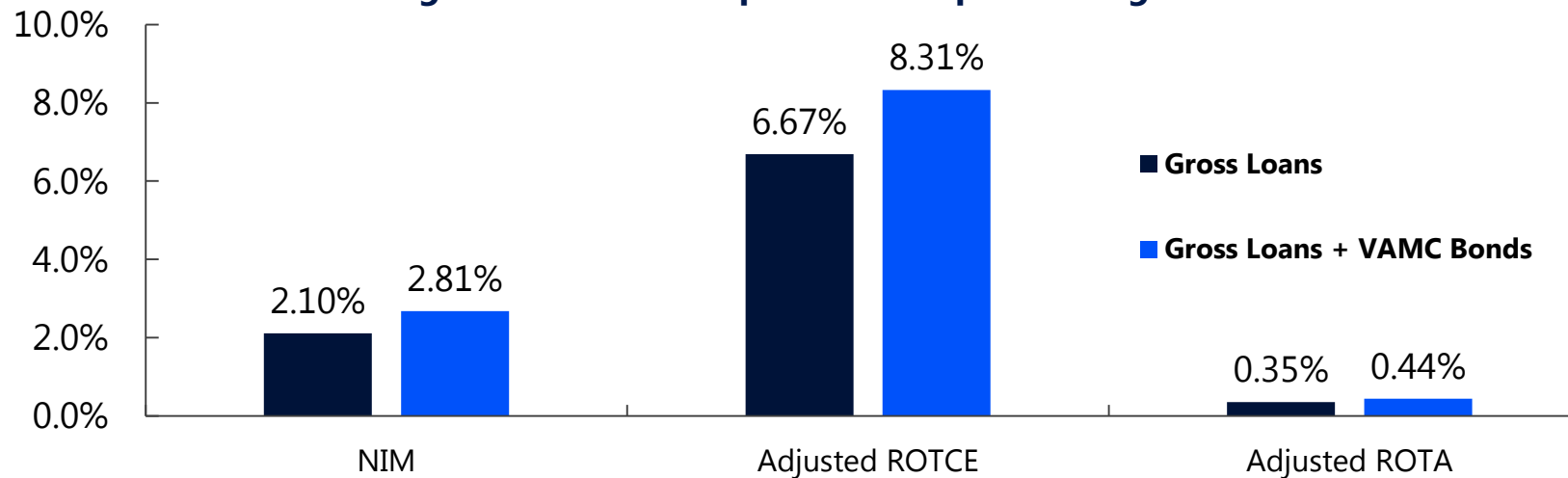
1) We believe that STB will be successful with its restructuring, with ROE to climb once provisioning normalizes

- 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 256 tn	VND 38.9 tn	9.1%	80%

Figure 3- If VAMC Exposure were performing loans



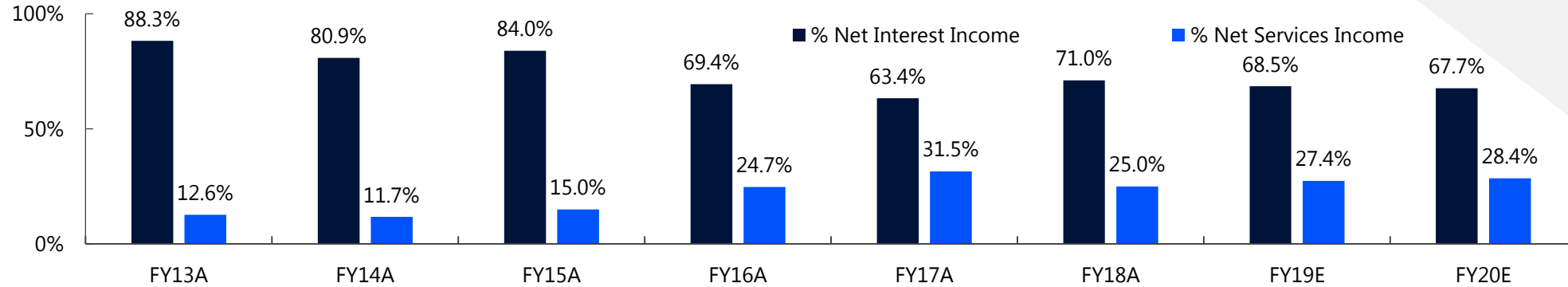
Source: Company Data, Yuanta Vietnam



2) Fee income to reduce earnings volatility

- We expect net fee revenues to account for 28% of total revenues on average in the 2019-20E period, up from 24% in 2015-18A.

Figure 4- Fee Income plays a bigger role

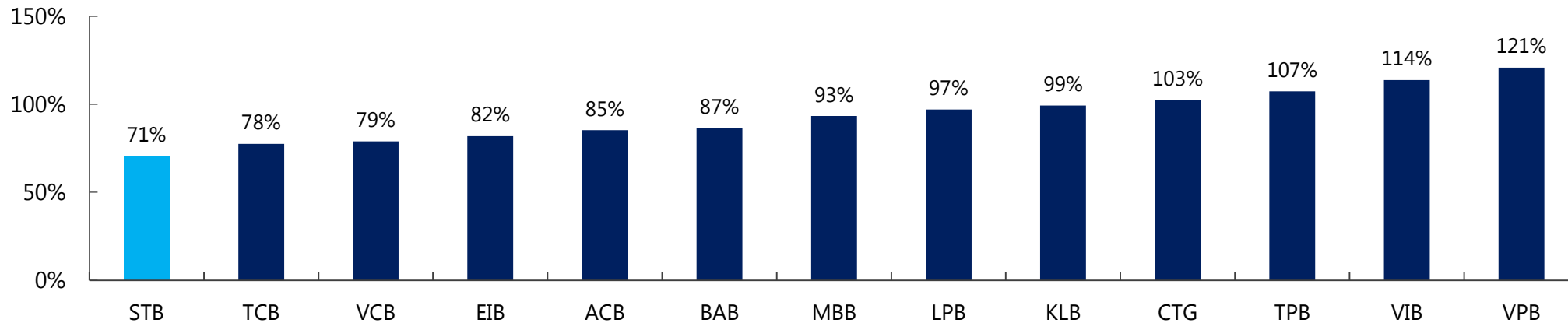


Source: Company Data, Yuanta Vietnam

3) Expand loan growth by boosting LDR

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

Figure 5- Net LDR as at 1Q19



Source: Company Data, Yuanta Vietnam



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

	FY19E	FY20E
Current LDR assumptions	74.0%	77.0%
NIM	2.37%	2.42%
Adjusted ROAE	6.5%	7.6%
Adjusted ROAA	0.39%	0.45%

	FY19E	FY20E
Regulatory cap LDR	80.0%	80.0%
NIM	2.60%	2.74%
Adjusted ROAE	7.1%	8.6%
Adjusted ROAA	0.43%	0.51%

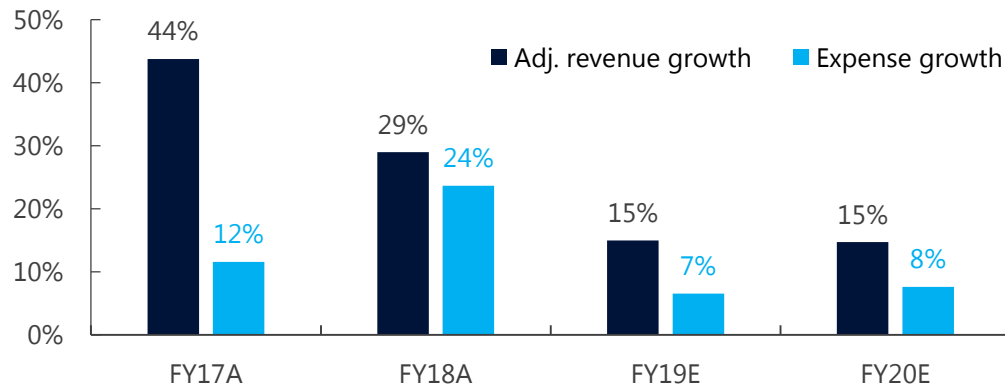
Source: Company Data, Yuanta Vietnam

- The higher LDR also boosts the implied fair value by about 2.3% to VND 14,375 compared to our base estimated fair value of VND 14,049.

4) Operating expense improvement

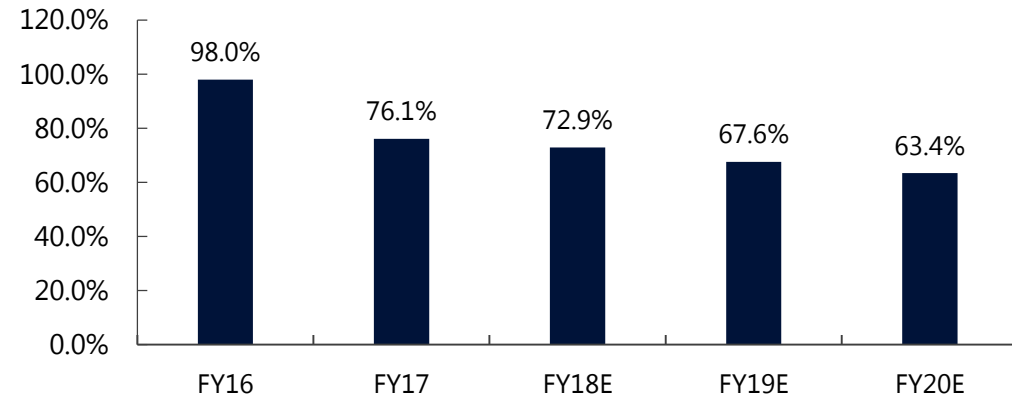
- We expect a positive JAWS ratio as revenue growth outpaces expense growth – driving positive operating leverage

Figure 6- Revenue growth to outpace expense



Source: Company Data, Yuanta Vietnam

Figure 7- Adjusted Cost to Income Ratio (CIR)





Operating return on assets improving

Reported topline numbers are distorted by recoveries that show up as “other income” in VAS. But moving these numbers to the net provisioning line (where they belong) allows for a better understanding of the bank’s potential.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NIM	2.21%	3.04%	3.98%	4.43%	4.23%	3.74%	2.73%	1.29%	1.51%	1.97%
Fees / adjusted revenues	25%	23%	16%	10%	13%	12%	15%	25%	32%	25%
Trading / adjusted revenues	18%	0%	-2%	-5%	0%	9%	7%	19%	9%	13%
Total adj non-int inc / adj revenues	45%	21%	12%	6%	12%	19%	16%	31%	37%	29%
Cost / adjusted revenues	39%	44%	54%	60%	56%	55%	66%	98%	76%	73%
Adjusted PPOP / Assets	2.43%	1.80%	2.16%	1.83%	2.04%	1.93%	0.92%	0.03%	0.54%	0.72%
Net adjusted credit costs / assets	0.34%	0.14%	0.20%	0.96%	0.22%	0.47%	0.75%	-0.01%	0.14%	0.17%
OROA	2.11%	2.01%	1.88%	0.93%	1.90%	1.61%	0.36%	0.05%	0.44%	0.58%
Leverage	9.9	10.4	10.3	10.4	10.2	10.0	12.0	14.1	15.4	16.2
ROE	20.9%	20.9%	19.4%	9.7%	19.4%	16.1%	4.3%	0.7%	6.8%	9.4%

Source: Company Data, Yuanta Vietnam

OROA Analysis: A framework for understanding commercial banks’ profitability.

$$\text{OROA} = (\text{NIM}/(1-\text{NonII}/\text{Rev})) * (1-\text{CTI}) - \text{credit costs}$$

Operating return on assets improving



Quarterly numbers are lumpy, with significant earnings management evident in 4Q, but they also show operating improvements.

(annualized)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
NIM	4.0%	3.6%	3.6%	1.5%	1.7%	0.7%	1.2%	1.6%	1.2%	1.2%	1.9%	1.7%	1.8%	1.8%	2.1%	2.1%	2.4%
Fees / adjusted revenues	11.0%	13.0%	13.0%	29.0%	19.0%	32.0%	21.0%	28.0%	24.0%	27.0%	21.0%	46.0%	24.0%	23.0%	22.0%	30.0%	20.0%
Trading / adjusted revenues	3.0%	5.0%	4.0%	35.0%	10.0%	23.0%	21.0%	22.0%	16.0%	12.0%	4.0%	7.0%	6.0%	12.0%	9.0%	22.0%	14.0%
Total adj non-int inc / adj revenue	13.0%	17.0%	16.0%	23.0%	24.0%	54.0%	41.0%	9.0%	35.0%	39.0%	21.0%	48.0%	27.0%	29.0%	27.0%	32.0%	24.0%
Cost / adjusted revenues	49.0%	52.0%	60.0%	103.0%	90.0%	118.0%	94.0%	96.0%	85.0%	80.0%	77.0%	68.0%	77.0%	69.0%	69.0%	77.0%	63.0%
Adjusted PPOP / Assets	2.3%	2.0%	1.7%	-0.1%	0.2%	-0.3%	0.1%	0.1%	0.3%	0.4%	0.6%	1.0%	0.6%	0.8%	0.9%	0.7%	1.1%
Net adjusted credit costs / assets	0.7%	0.7%	0.5%	1.0%	-0.1%	0.0%	-0.1%	0.1%	-0.1%	0.1%	0.1%	0.5%	0.0%	0.3%	0.6%	-0.2%	0.1%
OROA	1.7%	1.4%	1.2%	-1.1%	0.3%	-0.2%	0.2%	-0.1%	0.4%	0.3%	0.5%	0.5%	0.5%	0.5%	0.3%	0.9%	1.0%
Leverage (x)	10.6	10.9	11.0	12.0	13.2	13.8	14.2	14.3	14.7	15.4	15.9	15.9	16.0	16.5	17.0	16.7	16.6
OROE	17.7%	15.3%	13.0%	-12.8%	3.6%	-3.2%	3.3%	-1.0%	5.4%	4.6%	7.8%	8.1%	8.5%	8.4%	5.1%	15.2%	17.1%

Source: Company Data, Yuanta Vietnam

OROA Analysis: A framework for understanding commercial banks' profitability.

$$\text{OROA} = (\text{NIM}/(1-\text{NonII}/\text{Rev})) * (1-\text{CTI}) - \text{credit costs}$$

VALUATION

Our target price of VND 14,049, implying P/BV multiples of 0.97x for 2019E and 0.90x for 2020E and PERs of 15.4x for 2019E and 12.2x for 2020E.



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:

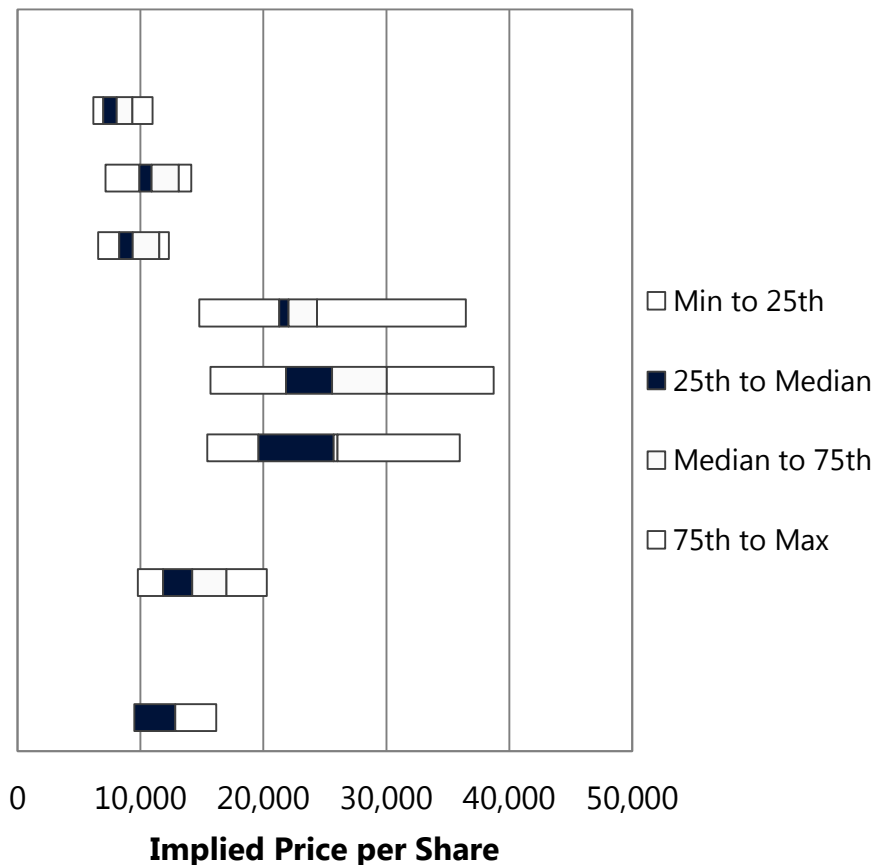
2019E P / TBV:

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:	7,216
Residual Income Terminal Value:	13,475
(+) Current Common Shareholders' Equity:	23,781
(+) PV of Residual Income Terminal Value:	3,657
(+) Sum of PV of Residual Income:	(2,004)
Implied Equity Value:	25,433
% of Implied Value from PV of TV:	14.4%
Implied Share Price:	14,049
Current Share Price:	11,700
Premium / (Discount) to Current:	20.5%

Source: Company Data, Yuanta Vietnam

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

▪ 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

2) Barriers to bad debt recoveries

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



VIETCOMBANK [VCB]

*ROCK the CASA- Leading funding franchise
justifies the premium valuation*

Jun 2019

INVESTMENT THESIS



- VCB's sector-low cost of funds which is driven by a relatively high CASA ratio of c.30%
- Its superior outlook for growth given its compliance with Basel II and central bank policies encouraging loans to SMEs in manufacturing and agriculture
- Its competitive strength in retail banking vs. the many peer banks that are also targeting the segment. This strength is related to the two items above, as both NIMs and asset growth have room to outperform the sector, leading to sustained above-average profitability

Table 1- Yuanta Vietnam vs. Consensus

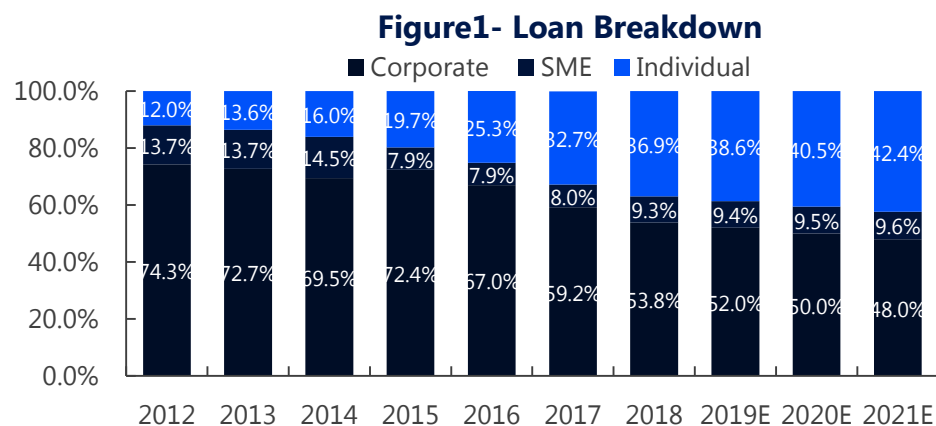
Net income (VND bn)	2019E	2020E
Consensus mean	15,103	18,256
Yuanta forecast	17,154	21,015
%ge difference	14%	15%
Consensus high	17,904	21,428
Consensus low	10,937	12,775
EPS (VND)		
Consensus mean	3,887	4,498
Yuanta forecast (adjusted)	4,145	5,002
%ge difference	7%	11%
Consensus high	4,563	4,820
Consensus low	3,040	3,551

Source: Company Data, Yuanta Vietnam

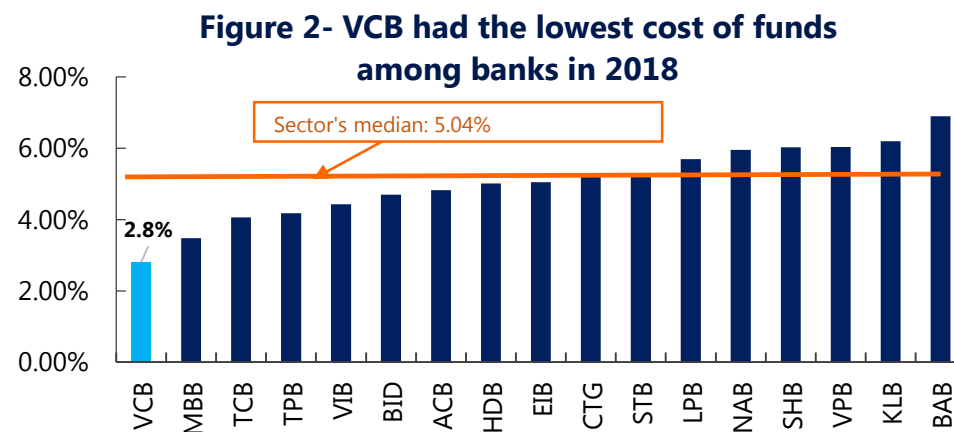
CATALYSTS

1) Shift toward a higher margin segment

- VCB has the sector's lowest cost of fund of 2.8%. Also, VCB has plenty of room to increase NIM by the shift from corporate to retail loans, which typically generate better yields. We expect NIM to increase from 2.90% in 2018A to 3.05% and 3.19% for the period from 2019E-20E.



Source: Company Data, Yuanta Vietnam



2) Stronger capital base to expand business

- We estimate that bank's CET1 ratio and CAR under Basel I increased from 7.8% and 10.7% to 8.6% and 11.5% in 2018, respectively after issuing 111 mn shares to Mizuho and GIC. However, we estimate that CAR under the Basel II is 10% (in line with guidance of 9.7%), which is 1.5pnt lower under Circular 36.

Table 2- CAR estimate

Issuing price	VND	55,512
Total Shareholder Capital + share premium	VND bn	42,084
CET 1 ratio before raising capital	%	7.8%
CET 1 ratio after raising capital	%	8.6%
CAR before raising capital	%	10.7%
CAR after raising capital (under the Circular 36)	%	11.5%
CAR under the Basel II (our estimate)	%	10.0%

Source: Company Data, Yuanta Vietnam



VALUATION: Our 12-M price target is VND75,270

- We apply two valuation methodologies to generate our VND 75,270 target price for VCB, which implies P/BV multiples of 3.5x for 2019E and 3.0x for 2020E and adjusted PERs of 18.2x for 2019E and 15.1x for 2020E

Table 3- VCB's estimate fair value

Valuation Methods	Estimated Price	Weight (%)	Price (VND)	Upside (%)
Residual Income	74,213	70.0%	51,949	
DDM Perpetuity	77,755	30.0%	23,326	
Estimated Fair Value			75,275	12.8%

Table 4- Implied fair value from residual income

Implied Value of Equity:	
Terminal Net Income Growth Rate:	5.0%
Projected Net Income 1 Year After Period:	59,366
Residual Income Terminal Value:	459,162
(+) Current Common Shareholders' Equity:	62,179
(+) PV of Residual Income Terminal Value:	116,566
(+) Sum of PV of Residual Income:	92,377
Implied Equity Value:	271,123
% of Implied Value from PV of TV:	43.0%
Implied Share Price:	74,213
Current Share Price (Jun 05, 2019):	66,700
Implied P/BV	3.4x
Premium / (Discount) to Current:	11.3%

Table 5- Residual Income: Sensitivities to ROE and COE

	Initial Cost of Equity (Declines by 0.4% Annually):							
		12.00%	12.50%	13.00%	13.62%	14.12%	14.62%	15.12%
Terminal Return on Common Equity	20.0%	174,058	144,411	122,025	101,109	87,909	77,149	68,243
	19.5%	167,705	139,221	117,710	97,605	84,914	74,567	66,000
	19.0%	161,426	134,092	113,445	94,143	81,955	72,014	63,783
	18.5%	155,223	129,024	109,230	90,721	79,030	69,492	61,591
	16.0%	125,306	104,581	88,900	74,213	64,918	57,320	51,015
	15.5%	119,540	99,869	84,981	71,029	62,196	54,973	48,974
	15.0%	113,845	95,215	81,110	67,885	59,508	52,653	46,958
	14.5%	108,221	90,619	77,286	64,779	56,852	50,362	44,967
	14.0%	102,667	86,079	73,509	61,711	54,229	48,099	43,000

Source: Yuanta Vietnam

INVESTMENT RISKS



- 1) Competition is heating up in retail banking and fee-generative services as many other banks aggressively focus on these segments.** But we believe that its wide distribution network, strong reputation, and No.1 position in its main services segments (i.e. cards, FX, settlement) should help VCB weather the competition and remain at the top of the game
- 2) The SBV may not allow VCB to expand loans by our 16% assumption.** However, the impact might not be significant. In the table below, we assume that credit growth only reaches 15% instead of 16% (in our assumption) and keep others unchanged (e.g. deposit growth rate, interest expenses) to see the impact to NIM and EPS.

Loan growth	Our assumption (16%)	Initial quota (15%)	% change
NIM	3.05%	3.04%	-0.01ppt
PBT	21,466	21,263	-0.9%
Adj. EPS	4,145	4,106	-0.9%

Source: Yuanta Vietnam



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

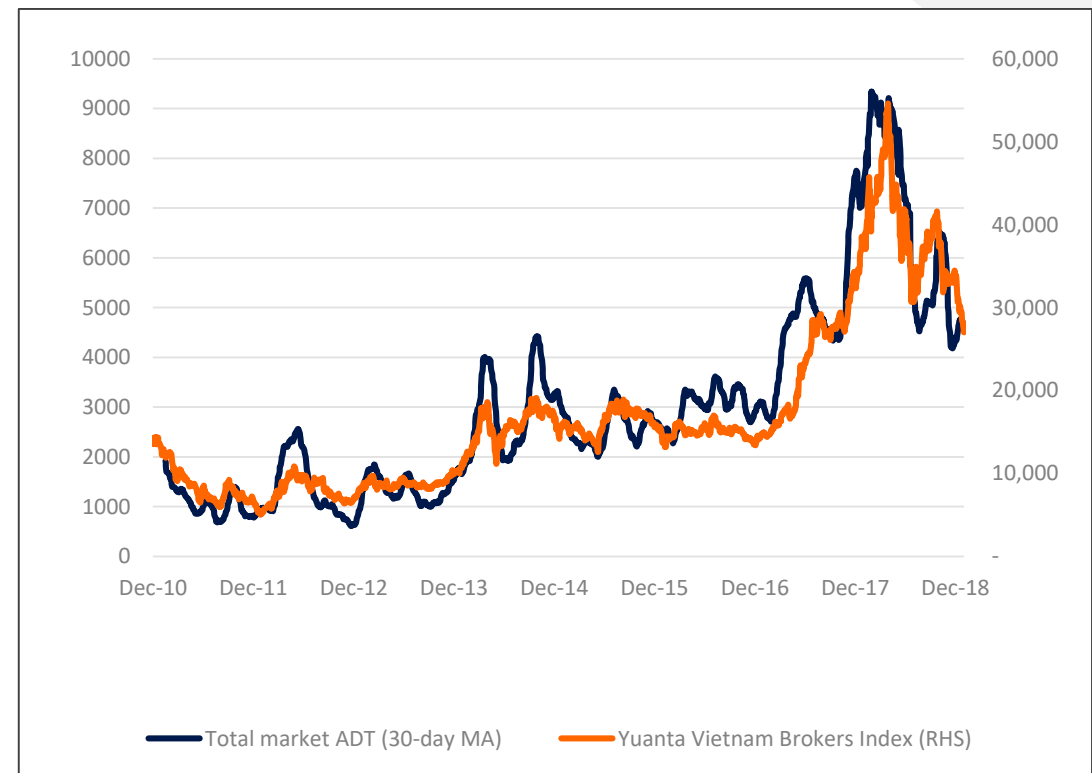
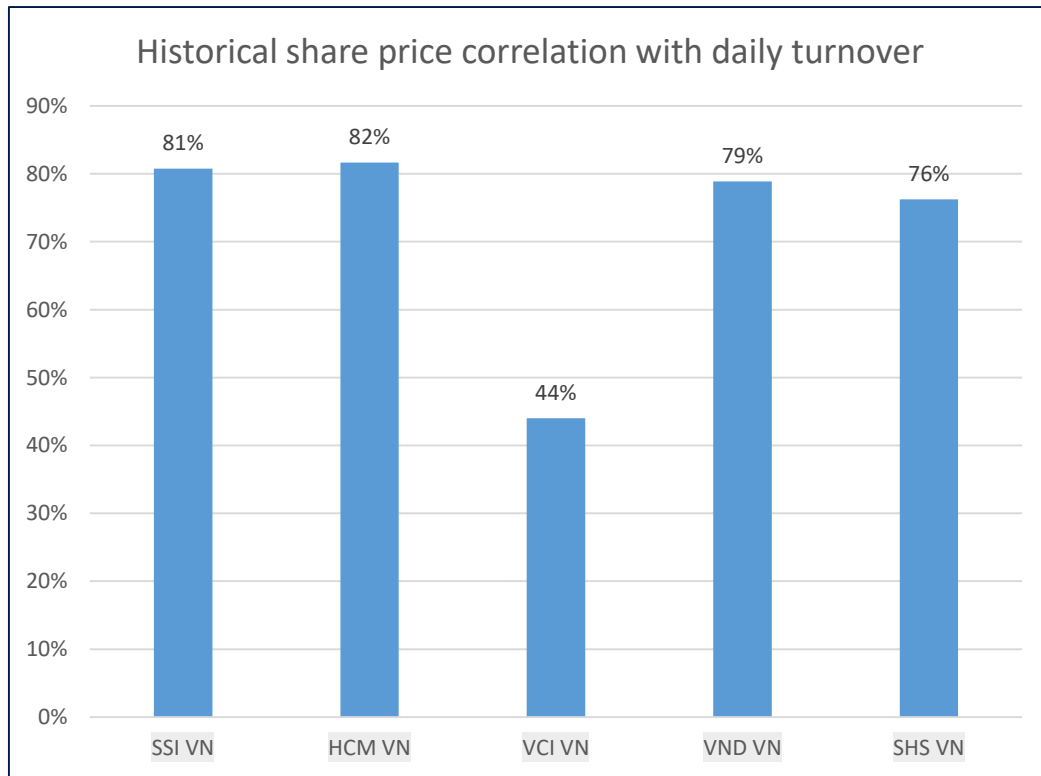
3 core stories will drive the brokerage business going forward

- **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).



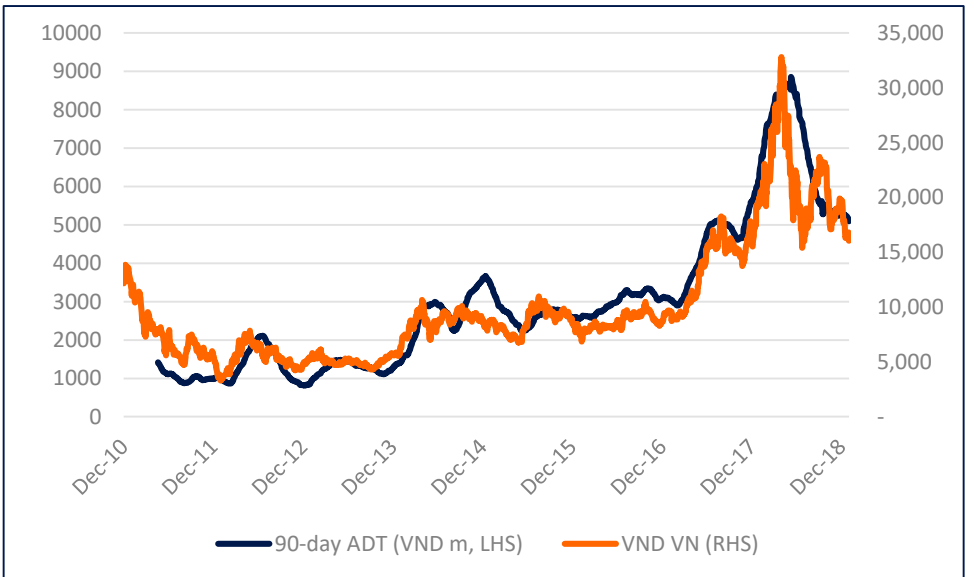
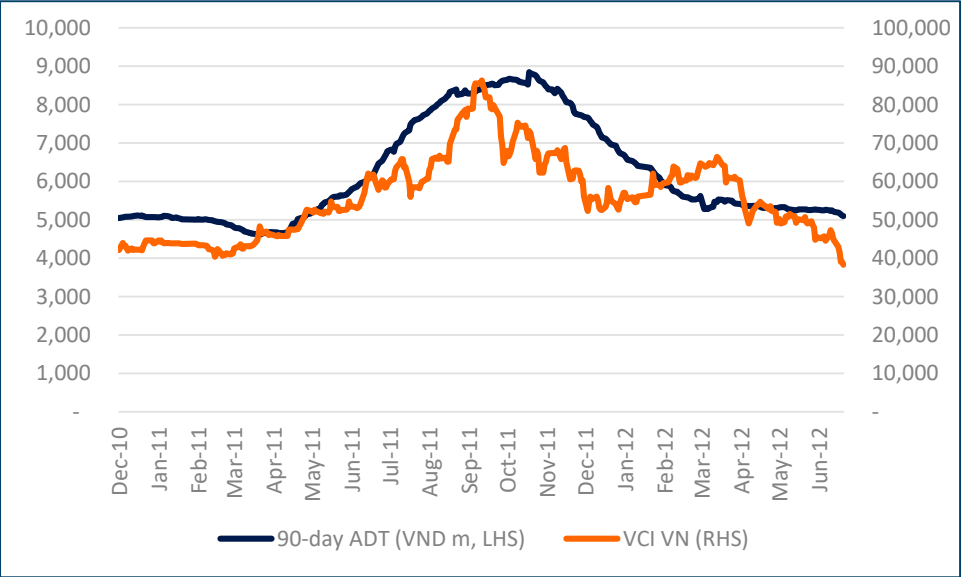
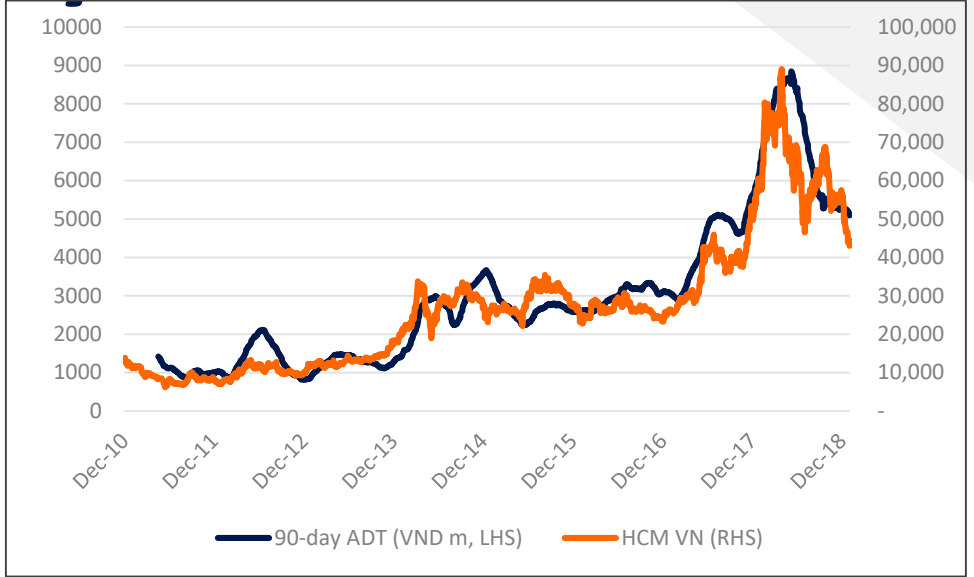
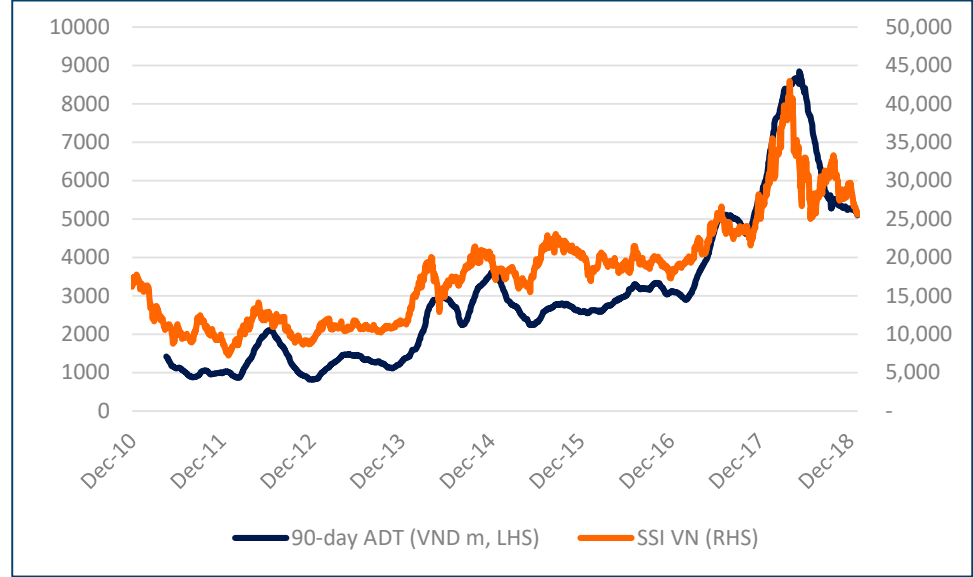
But first, an unpleasant truth...

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



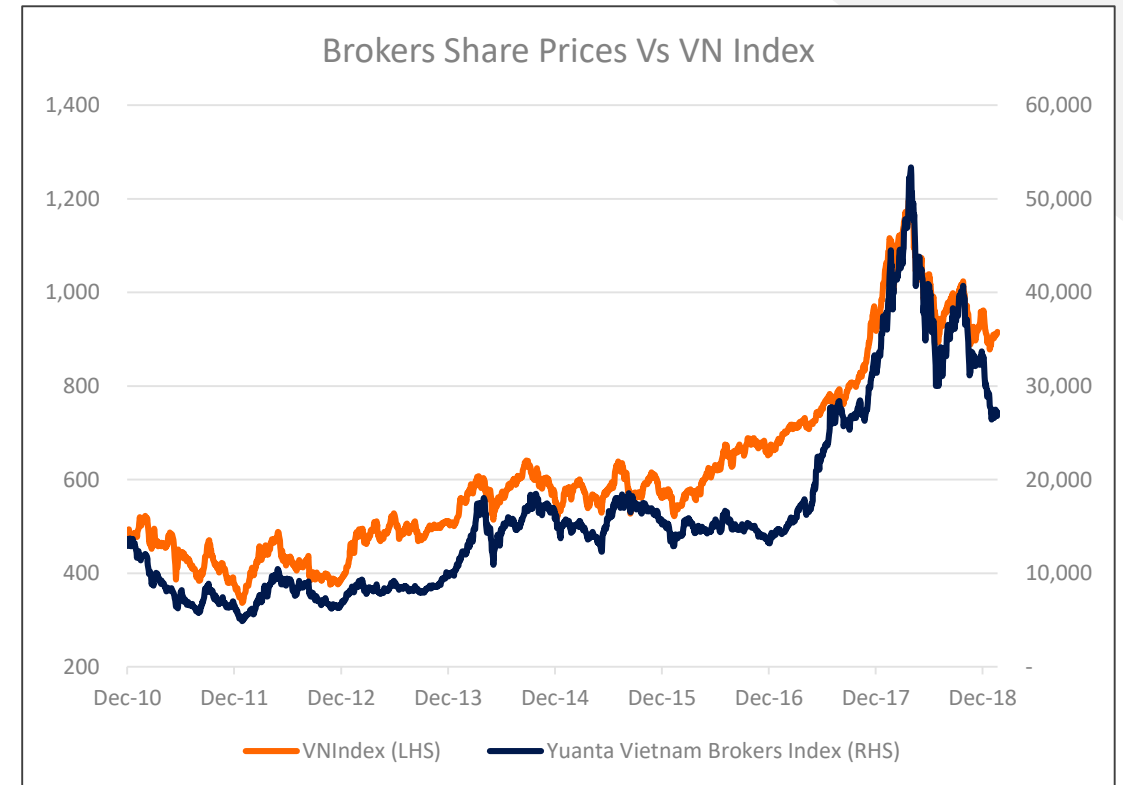
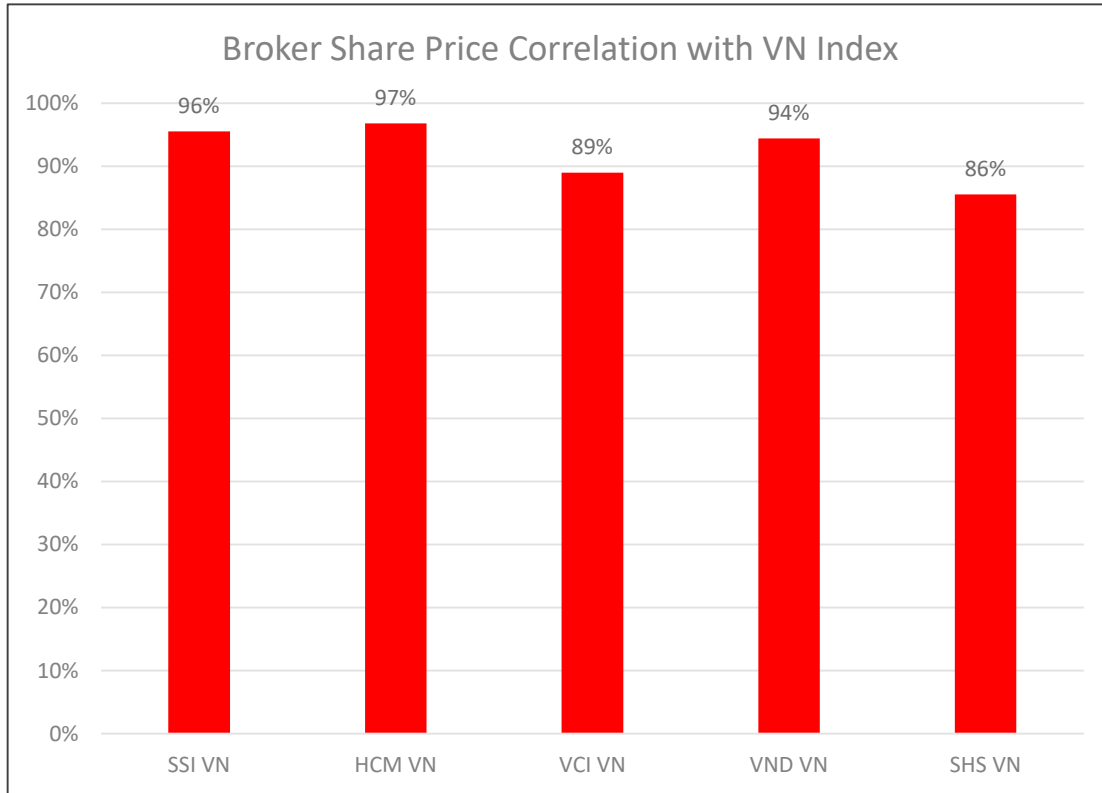


Broker shares to 90-day ADT





Key share price driver: VN Index





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.



DIGIWORLD [DGW]

Surfing the Xiaomi wave

PRICE TARGET: VND30,000

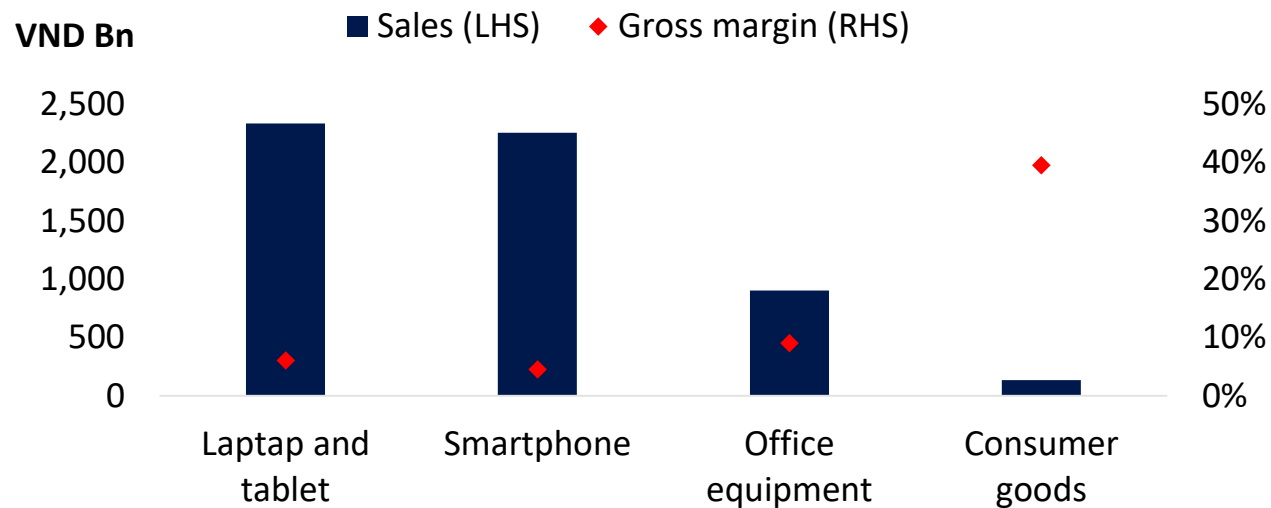
BUY (+32%)

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

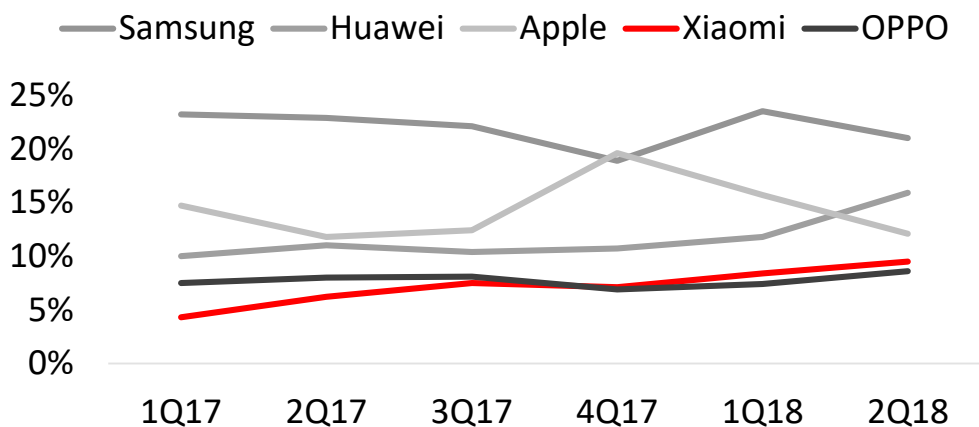
Strong growth momentum of Xiaomi smartphones



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

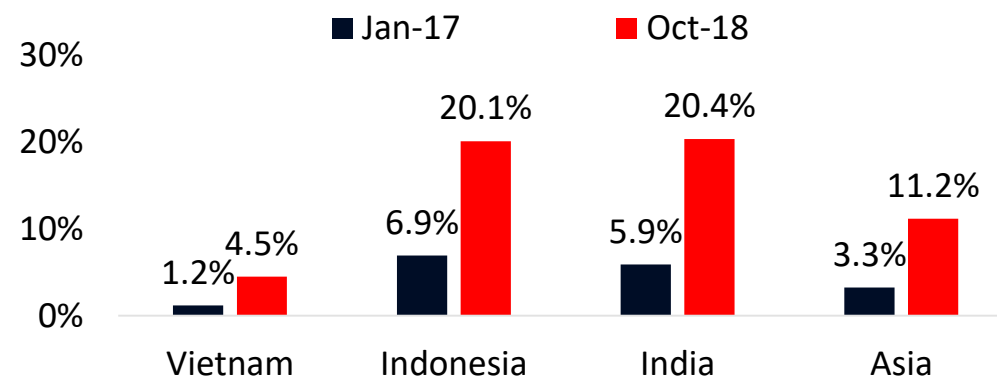
We forecast 20% CAGR during FY19E-21E and a high-single-digit rate of 7%-9% for the subsequent five years

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

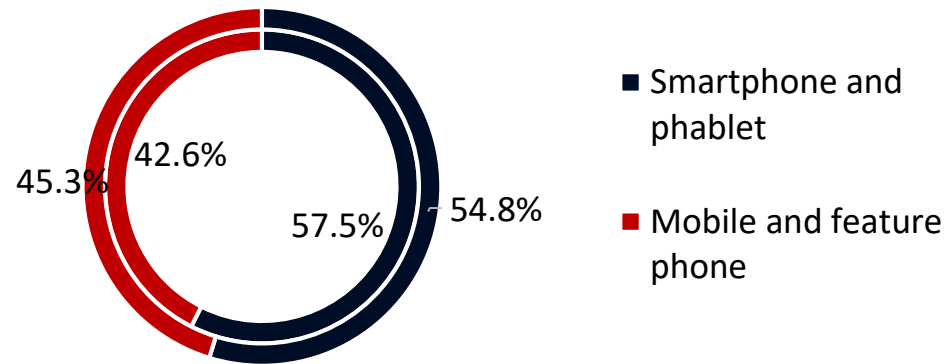
Nokia's comeback could enhance sales further



- 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.

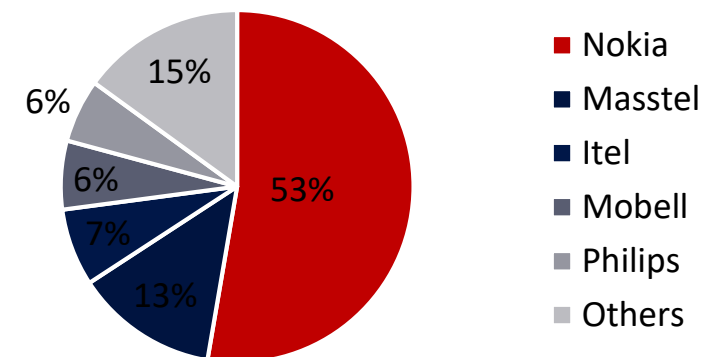
We forecast DGW to record an VND-800-bn Nokia sales each year for FY2019E-22E

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.





MASAN GROUP [MSN]

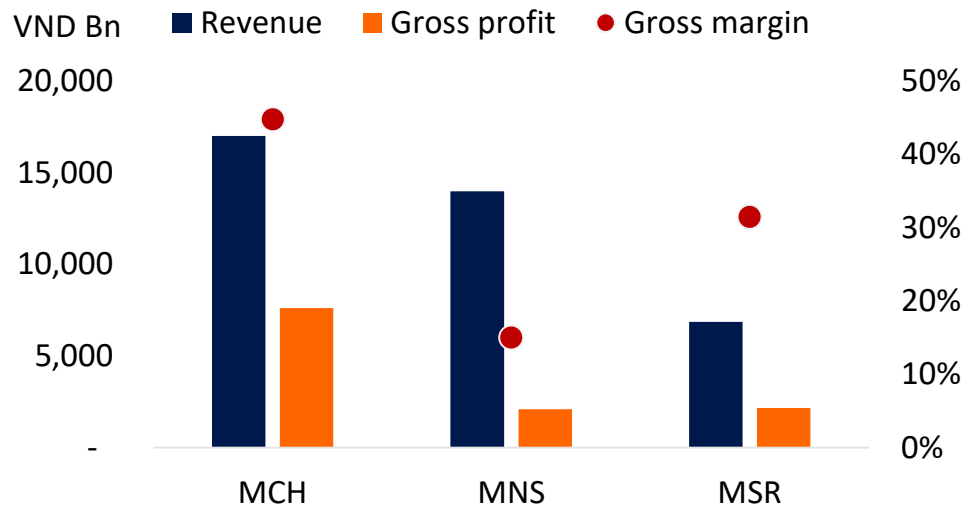
PRICE TARGET: VND93,000

INVESTMENT THESIS



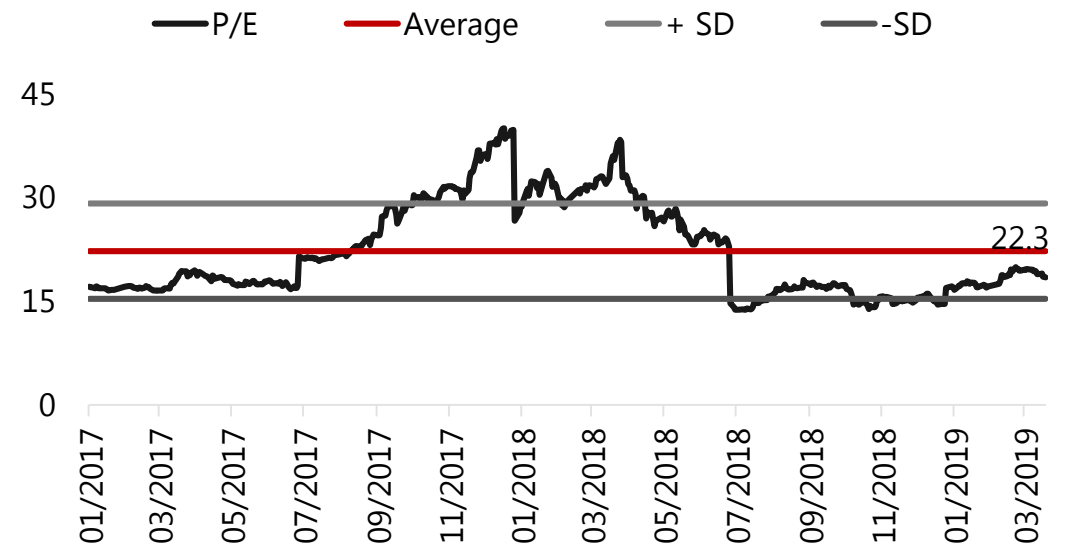
- Strong growth in the beverages segment.
- China is likely to open the official gate for Vietnamese pork.
- Branded meat producers could benefit from the disease over the long run.

FY18A revenues and gross profit



Source: MSN, Yuanta Vietnam Research estimates

Historical P/E ratio



Source: MSN, Yuanta Vietnam Research estimates

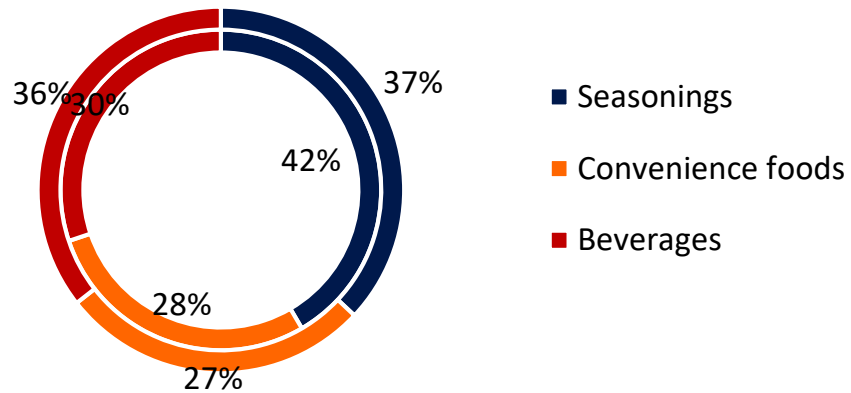


Strong growth in the beverages segment

- Beverages have recorded 25% growth in revenue and 30% growth in net income over the past five years;
- Energy drinks, accounting for 70% of MCH's sale were main growth driver for FY19-20.
- Natural water (Vivant) will be the next growth arm from FY21 onwards.

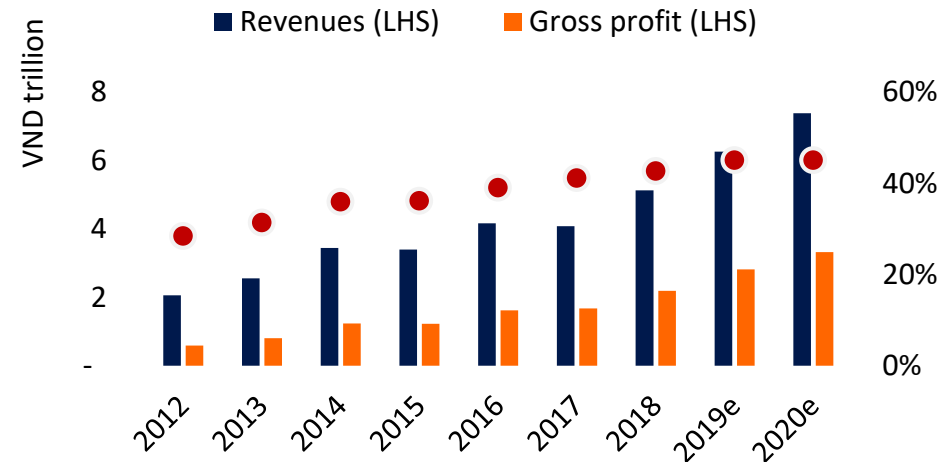
We forecast beverages will continue to maintain its double-digit growth rate (~15%) in sales over the next three years

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

Branded meat producers could benefit from the disease over the long run.

- According to management, pigs in MSN's farm in Nghe An are free from ASF due to the company's strict quality control system.
- MSN could benefit from the epidemic on the back of tighter supply which could lead to consolidation chances.

Considering all short-term and long-term factors, we revise up our assigned EV/EBITDA for the business to 14 from previous 12.

VALUATION



Subsidiaries and associates		Method	Enterprise value	MSN economic interest	Proportionate share
MCH	Masan consumer	FCFF	78,342	83.0%	65,058
	Masan Brewery	P/B	818	57.2%	468
MSR		FCFF	27,627	95.9%	26,495
MNS	Anco and Proconco	FCFF	27,379	82.4%	22,560
	Vissan	FCFF	1,892	20.6%	390
	MSN Nutri Farm and MNS Meat Ha Nam	EV/EBITDA	3,105	100.0%	3,105
TCB		P/B	89,633	21.8%	19,540
Total Enterprise value					137,614
Less proportionate net debt					(29,348)
Equity value					108,267
Total shares outstanding (million shares)					1,163
Per MSN/share (VND)					93,093
Implied 2019 P/E					21.8

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	14
-----------	----

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



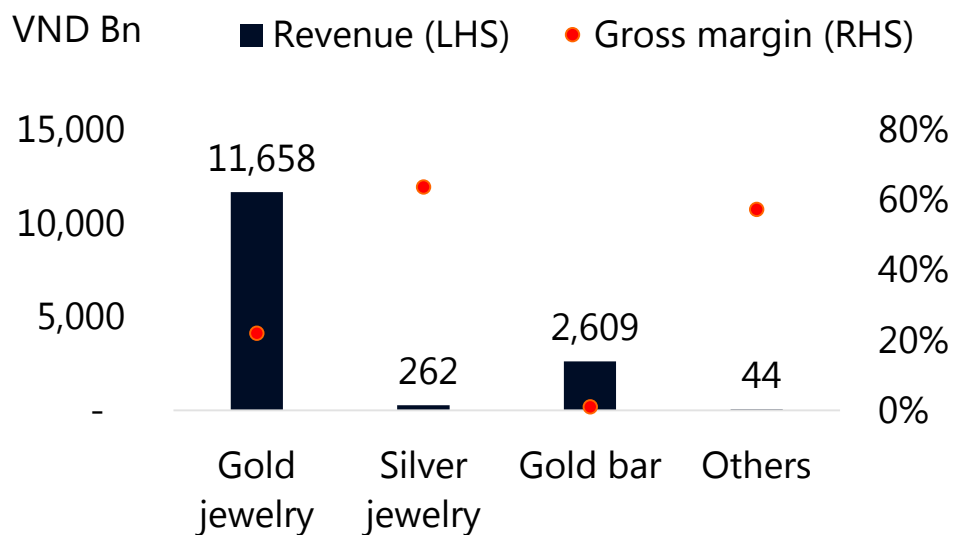
PHU NHUAN JEWELRY [PNJ]

PRICE TARGET: VND118,500
BUY (+19%)

INVESTMENT THESIS

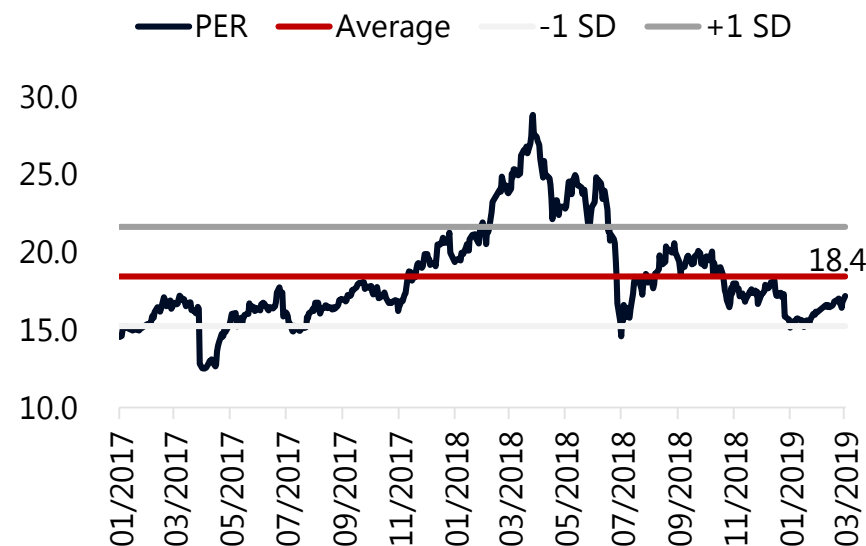
- Gold jewelry remains the jewel in the crown.
- Other products cannot have significant impact on valuation.
- The low valuation could be due to negative Dong A Bank-related sentiment, but we think that FOL restrictions are the main reason.

FY18A revenues and gross profit



Source: PNJ, Yuanta Vietnam Research estimates

PNJ's historical PER



Source: PNJ, Yuanta Vietnam Research estimates

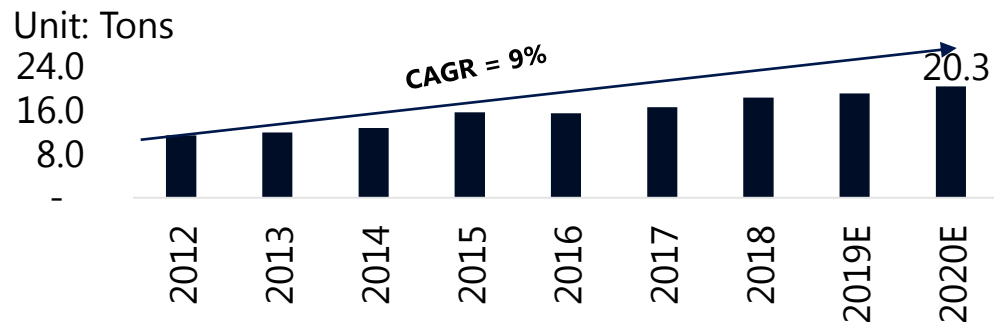
Gold jewelry remains the jewel in the crown



- Jewelry market still has ample room to grow: spending for jewelry, clocks, and watches posted a CAGR of 12% in 2016A-2022E, according to BMI
- The Vietnamese government is attempting to restrict gold bar storage, which should boost gold jewelry demand as an alternative.
- High industry fragmentation implies strong chance for PNJ to consolidate the market.

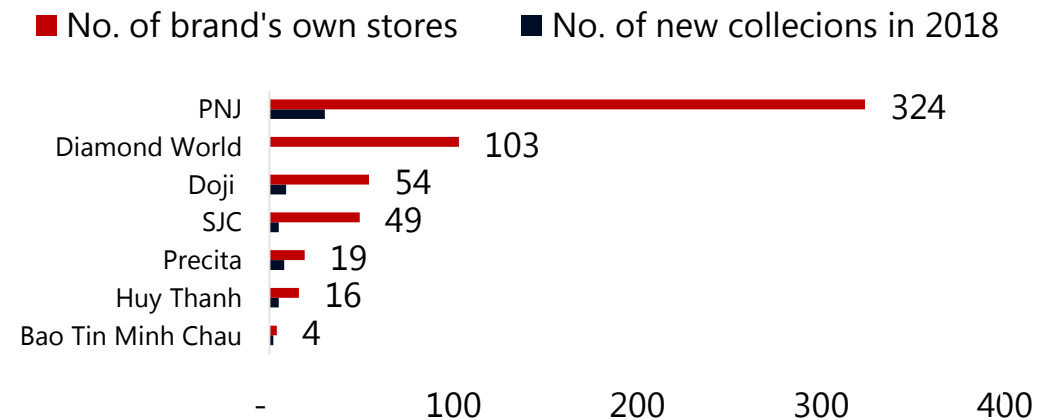
We forecast PNJ's same-store sales growth will gradually decline from 20% in FY19E to 15% in FY23E due to the rising base and market share each year.

Gold jewelry consumption in Vietnam has been posting strong growth in recent years



Source: PNJ, Yuanta Securities estimates

PNJ enjoys the dominant market position in terms of outlet scale and new collections



Source: PNJ, Yuanta Securities estimates

The low valuation could be due to negative newsflow related to Dong A Bank...

- PNJ being found guiltless when the case was closed at end-2018.
- PNJ could have an opportunity to reverse its VND 400 bn provision for exposure to Dong A Bank.

... and concerns over FOL limitation on gold trading activity.

- The only gold-related business that prohibits enterprises from having foreign equity capital is the trading of semi-finished gold products and raw gold.
- Foreign institutional investors may see the stock's market liquidity constraints as a reason to await a better (i.e., more liquid) entry opportunity.



VALUATION



Key assumptions	2019E	2020E	2021E	2022E	2023E
Revenues	18,286	22,295	26,439	30,386	34,570
YoY growth rate	25%	22%	19%	15%	14%
Gold jewelry	14,827	18,178	21,897	25,356	29,202
SSSG	20%	20%	20%	10%	10%
New opening stores	40	35	30	25	20
Silver Jewelry	263	263	263	263	263
SSSG	0%	0%	0%	0%	0%
New opening stores	0	0	0	0	0
Gold bar	3,130	3,756	4,132	4,545	4,772
YoY growth rate	20%	20%	10%	10%	5%
Others	66	98	148	221	332
YoY growth rate	50%	50%	50%	50%	50%
Gross margin	19.2%	19.3%	19.5%	19.9%	20.3%
Gold jewelry	22%	22%	22%	23%	23%
Silver Jewelry	60%	60%	60%	60%	60%
Gold bar	1%	1%	1%	1%	1%
Others	50%	50%	50%	50%	50%
EBIT margin	8.2%	8.3%	8.5%	8.8%	9.3%

Source: Yuanta Vietnam Research estimates

VALUATION



DCF Analysis	FY19E	FY20E	FY21E	FY22E	FY23E
Sales	18,286	22,295	26,439	30,386	34,570
YoY Growth	25.5%	21.9%	18.6%	14.9%	13.8%
Net profit	1,140	1,418	1,735	2,077	2,528
Net margin	6.2%	6.4%	6.6%	6.8%	7.3%
Depr&Amor (+)	42	48	53	58	64
Working cap investment (-)	(428)	(863)	(1,177)	(948)	(983)
Capex (-)	(70)	(55)	(53)	(53)	(53)
Net borrowing (+)	56	81	95	70	57
FCFE	739	629	653	1,204	1,612
Terminal growth rate	5.9%				
Terminal value					22,635
Cost of equity	13.4%				
Total equity value	17,675				
FCFE-derived value per share	109,014				
Implied P/E	17.2				

Fair price	Stock value	Weighting	Proportionate share
FCFE	109,014	30%	32,704
P/E = 19.4	122,501	70%	85,751
SUM			118,455

Source: Yuanta Vietnam Research estimates

INVESTMENT RISKS

- Higher gold price, economic weakness, or shifts in consumer sentiment could dampen growth in gold jewelry demand.
- Competition could heat up as international luxury jewelry brands target Vietnam via direct marketing and e-commerce.
- Watch retailing is still a sideline, but one with potential to become a growth driver in the future. The progress of this segment merits close monitoring, in our view.

KEY METRICS

KEY METRICS	2017A	2018A	2019E	2020E	2021E
PE (x)	21.3	17.5	15.9	12.8	10.5
Diluted PE (x)	21.3	17.5	15.9	12.8	10.5
PB (x)	5.0	4.2	3.7	3.0	2.4
EBITDA/share	9,143	7,812	9,186	11,315	13,737
DPS (VND)	1,713	1,585	2,000	2,000	2,500
Dividend yield (%)	1.3	1.2	2.0	2.0	2.5
EV/EBITDA (x)	10.4	15.5	12.9	11.0	8.9
EV/EBIT (x)	15.5	13.0	11.3	9.1	7.5

Source: Company data, Yuanta Vietnam Research estimates



Nam Long Investment Corporation [NLG VN]

Resilient through the property downcycle

BUY

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

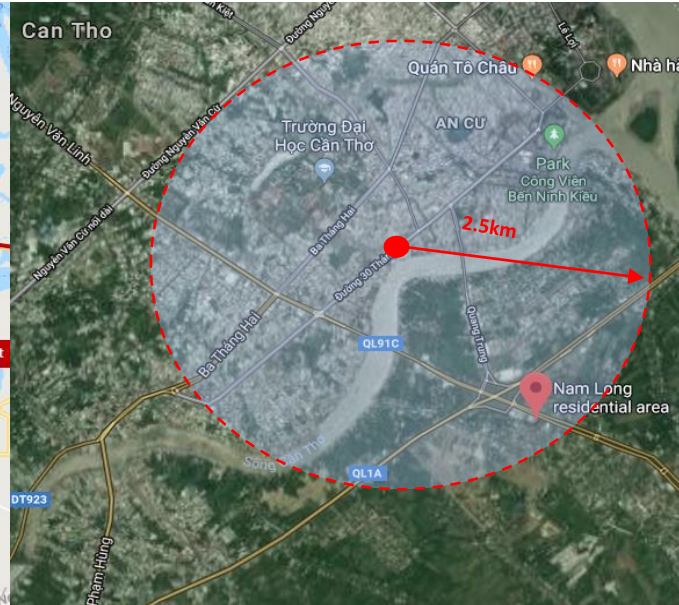
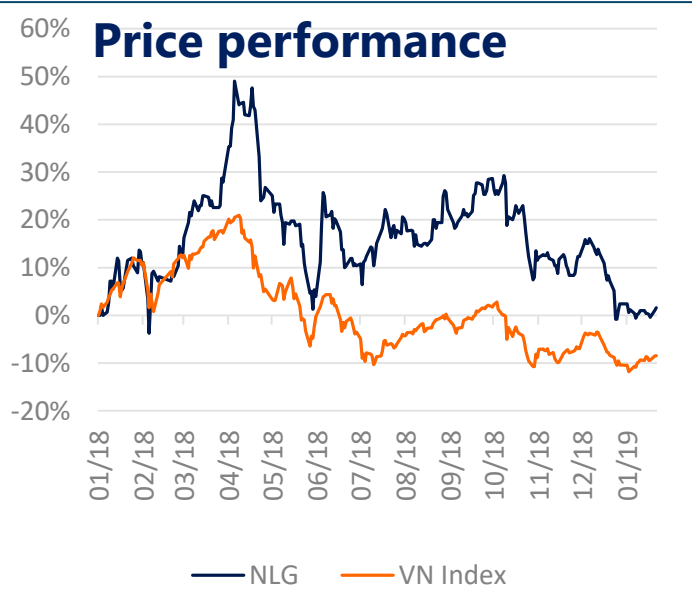
Target price: VND 32,000

Upside: 25%

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

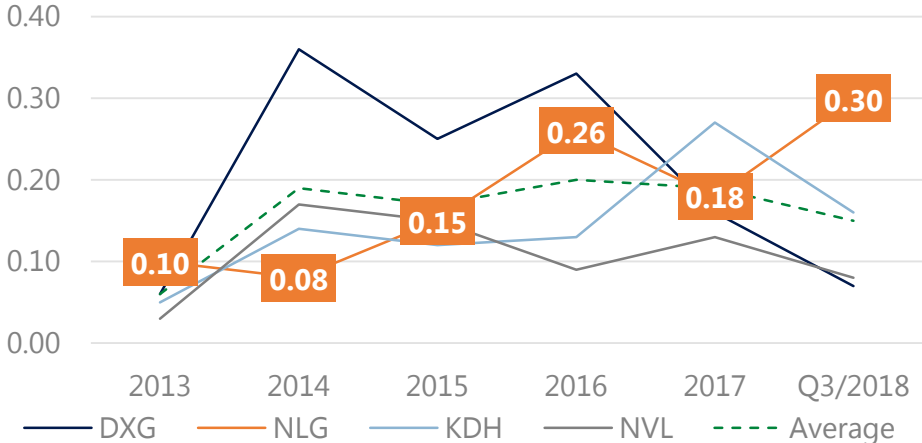


Figure 3: Debt / Equity ratio vs peers

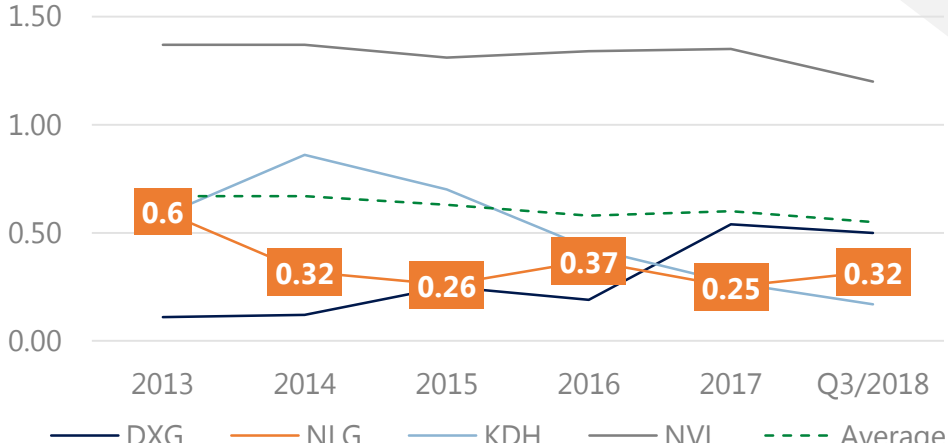
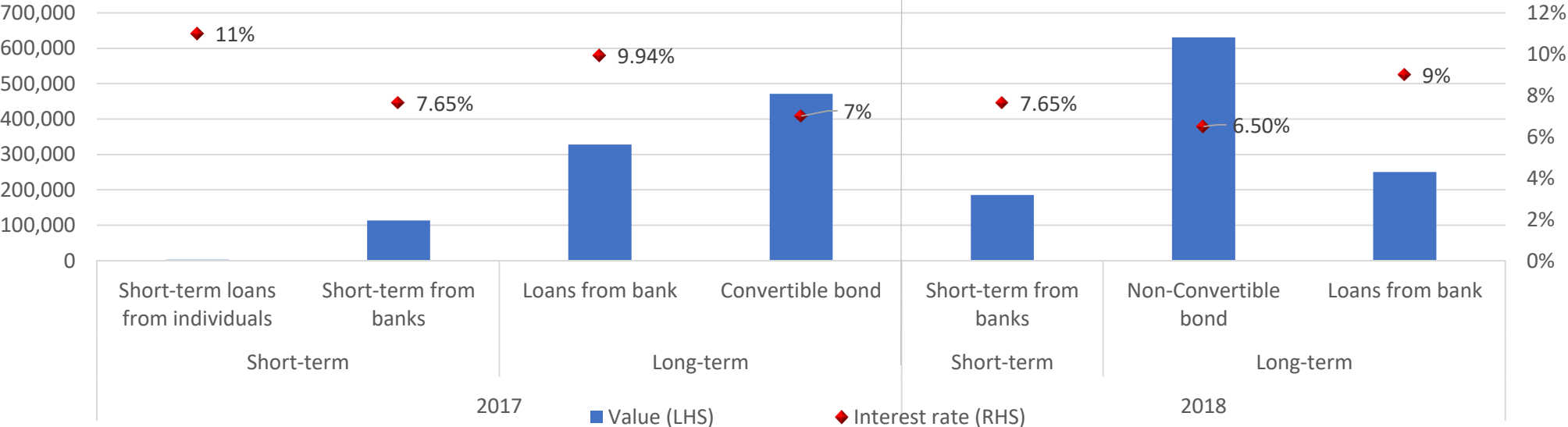


Figure 5: NLG's debt structure



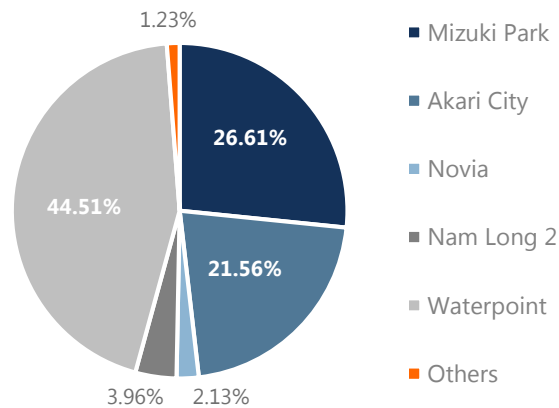


REAL AND STEADY DEMAND FOR NLG'S PRODUCTS

- 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%	[Timeline bar]					
Fuji Residence	5.6	Q1/2016	880	5.6	50%	[Timeline bar]					
Dalia Garden	15.4	Q1/2016	663	23	75%	[Timeline bar]					
Valora Island		Q3/2017	44	13	87%	[Timeline bar]					
Ehomes NSG	37.4	Q4/2017	1,460	50	87%	[Timeline bar]					
Mizuki Flora		Q4/2017	5,227	428	50%	[Timeline bar]					
Mizuki Valora		Q3/2017	173	47	50%	[Timeline bar]					
Akari Flora	8.8	Q2/2019	5,229	436	50%	[Timeline bar]					
Flora Novia	1.1	Q3/2018	684	43	100%	[Timeline bar]					
SouthGate (Waterpoint)	165	Q2/2019	3,035	(a)	50%	[Timeline bar]					
Waterpoint phase 2	190			(b)	100%	[Timeline bar]					

Source: NLG, Yuanta Research. Note: * estimated by NLG; (a)+(b)=98⁹⁸

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.



CATALYSTS

1. Real demand is huge

Figure 1: Vietnam Population Pyramid in 2017

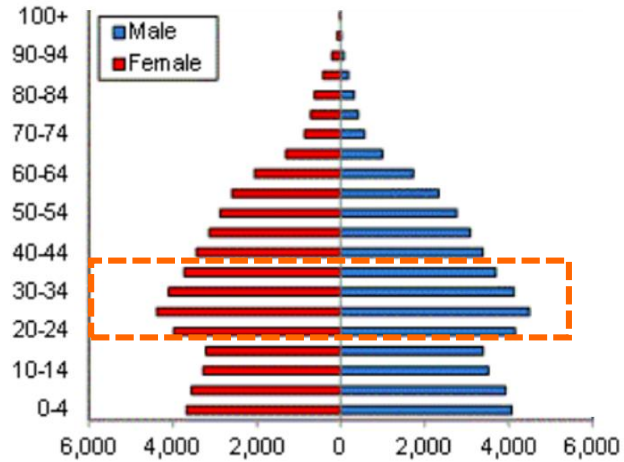
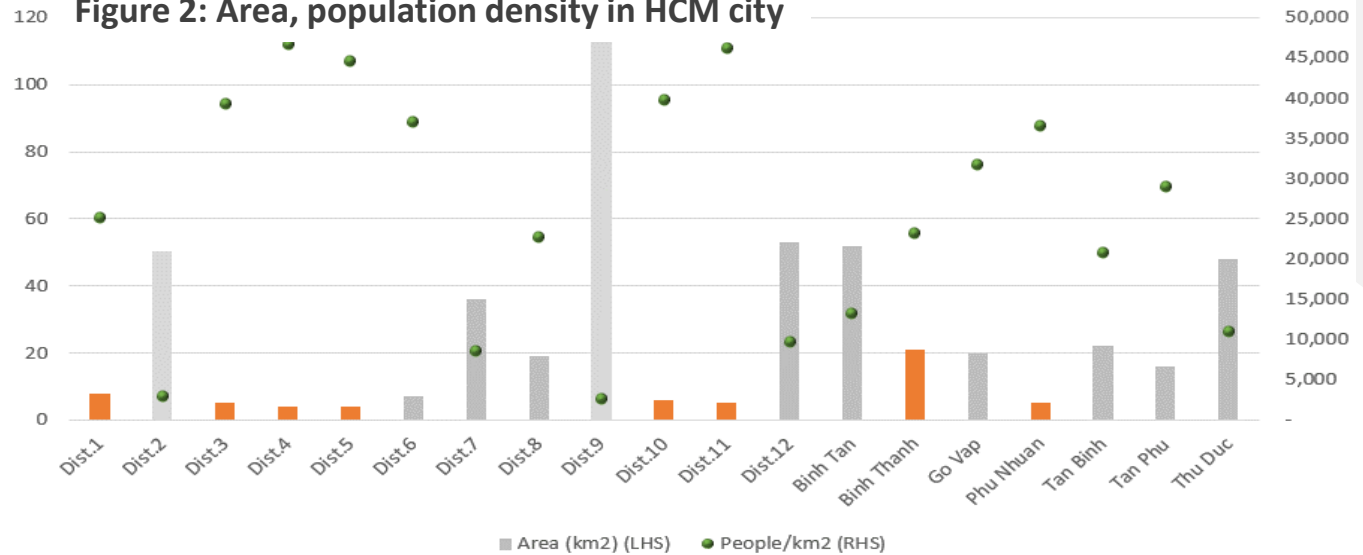
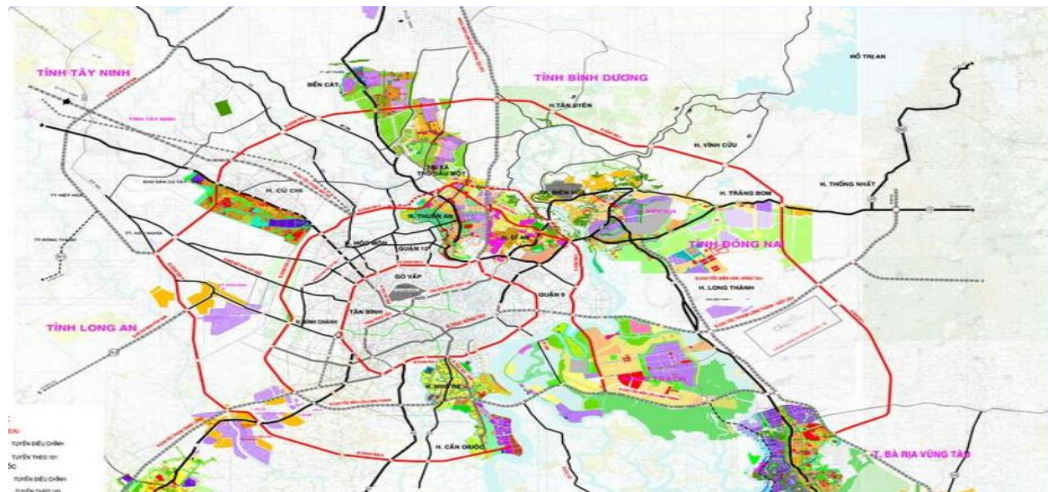


Figure 2: Area, population density in HCM city



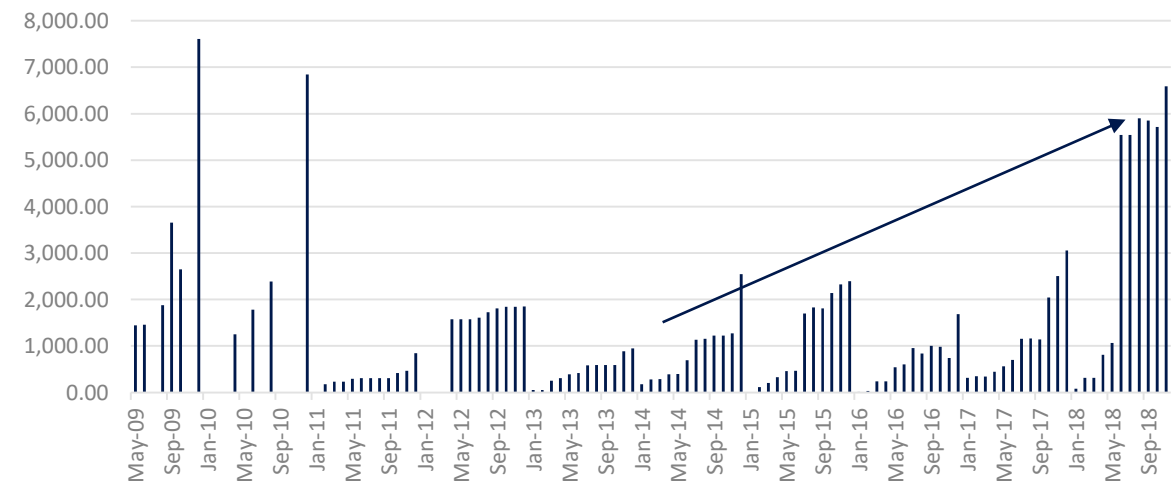
2. Infrastructure investment as a demand driver

Figure 8: HCMC's transport network



3. FDI has also been a major demand driver

Figure 8: FDI - Real Estate (USDmn)



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.

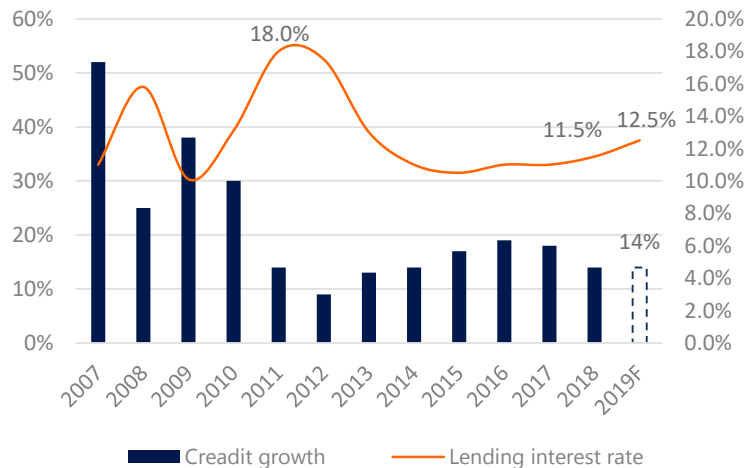
Figure 1: Recent prudential tightening measures by the SBV

	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.



VINHOMES [VHM]

Undisputed champion, but fully valued

Current price (03/21/19): VND ,00

Target price: VND 32,000

Upside: 25%

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.

Yuanta vs consensus

- The consensus appears to be more optimistic than we are on unit handovers and project execution time.

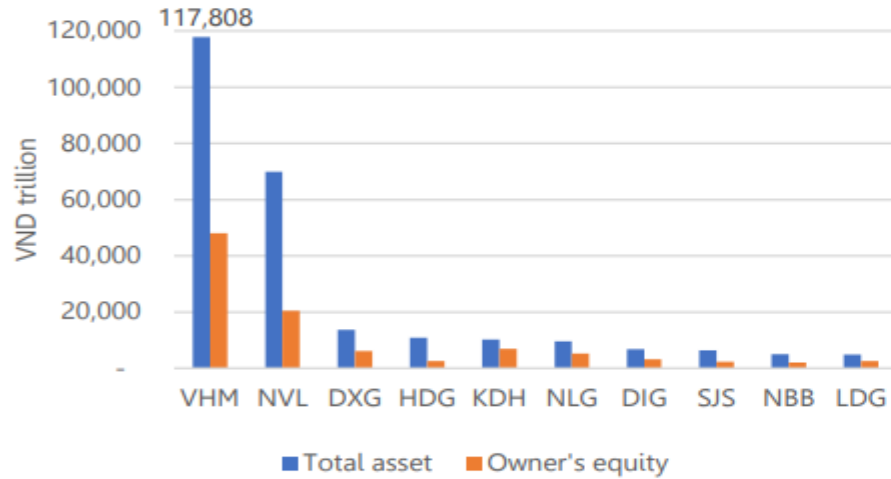
Table 1: Yuanta vs consensus.

Net income (VND bn)		2019E
Consensus mean		17,326
Yuanta forecast		15,729
<i>%ge difference</i>		-9.2%
Consensus high		19,875
Consensus low		15,927
Target price (VND)		
Mean		94,600
Yuanta		91,300
<i>%ge difference</i>		-3.5%
High		105,000
Low		86,000

Source: Bloomberg, Yuanta Vietnam

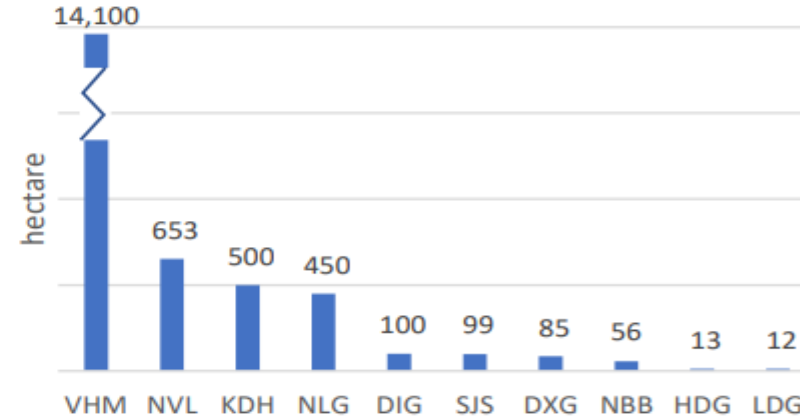
Advantage 1): Dominant scale dwarfs all competitors

Figure Developers' total assets and equity



Source: Company data, Yuanta Research

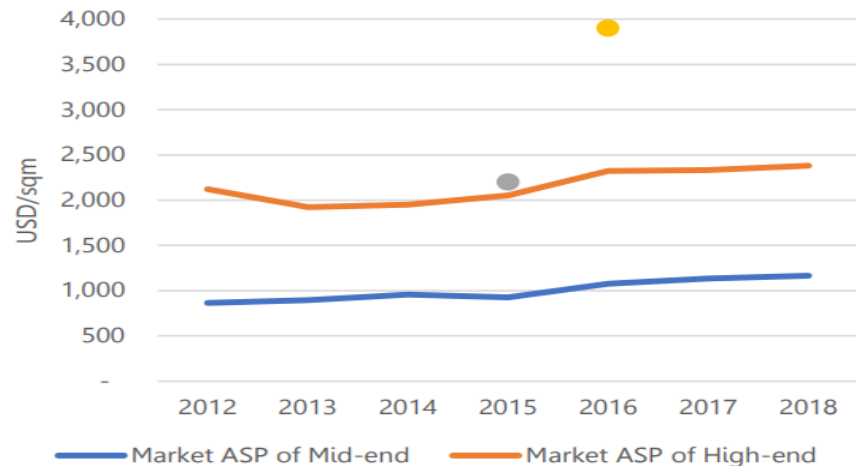
Figure VHM's Land bank compare with peers



Source: Company data, Yuanta Research

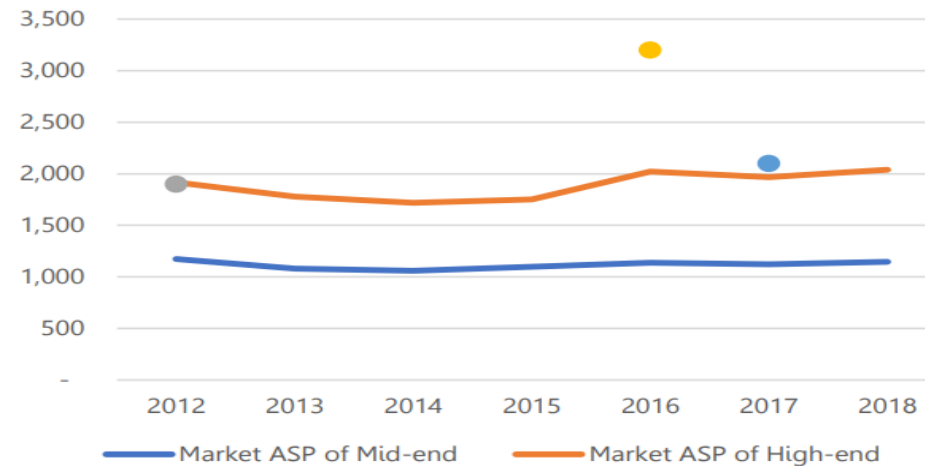
Advantage 2): VHM's brand gives it pricing power

Figure Vinhomes brand's premium in HCMC



● ASP of Vinhomes Central Park, ● ASP of Vinhomes Golden River
Source: VHM, Yuanta Vietnam

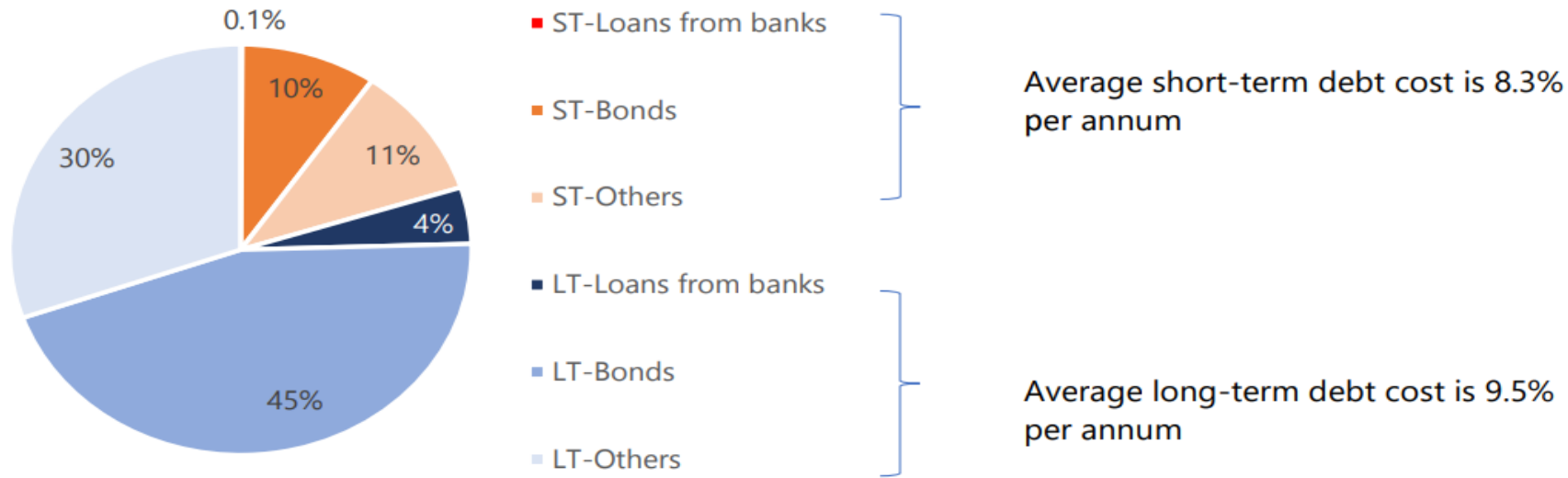
Figure Vinhomes brand's premium in Hanoi



● ASP of VH Royal City, ● ASP of VH Metropolis, ● ASP of VH Skylake
Source: VHM, Yuanta Vietnam

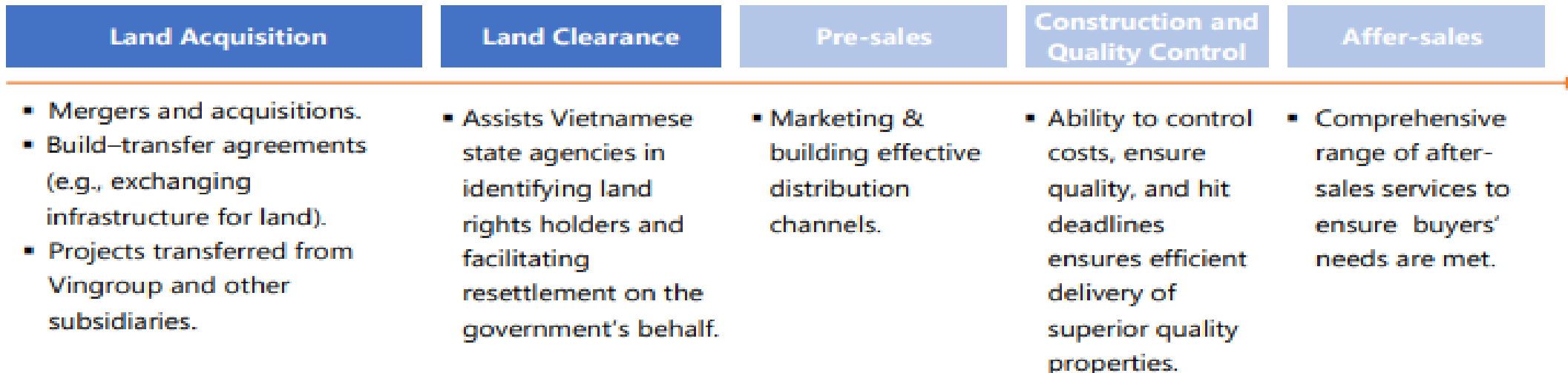
Advantage 3): Relative funding flexibility

Figure : VHM's Debt structure in 2018



Advantage 4): Land bank is acquired at reasonable cost

Figure : VHM's end-to-end value chain proposition



VHM's ability to leverage its key competitive advantages has generated positive results.



Figure : Revenue and net profit margin vs peers (2018)

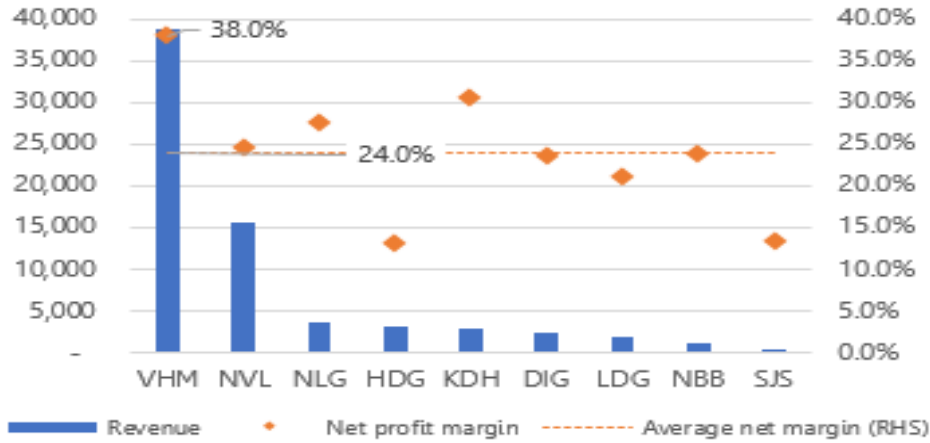
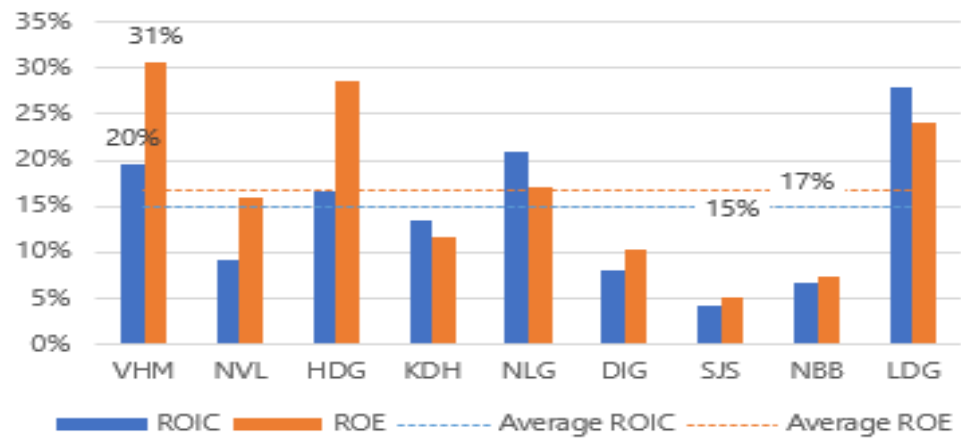


Figure : ROIC and ROE comparison with peers (2018)



REVENUES TO BE DRIVEN BY VINCITY

Figure : Vincity: Location, location, location



Notes: Vincity Grand Park (left panel) is c.20km from HCMC's CBD and the completion timing for the metro line (red line) is uncertain. Vincity Sportia (middle panel) is located c.5km from the new Hanoi CBD; and Vincity Ocean Park (right panel) is c. 15 km from the Hanoi CBD.

Source: Yuanta Vietnam

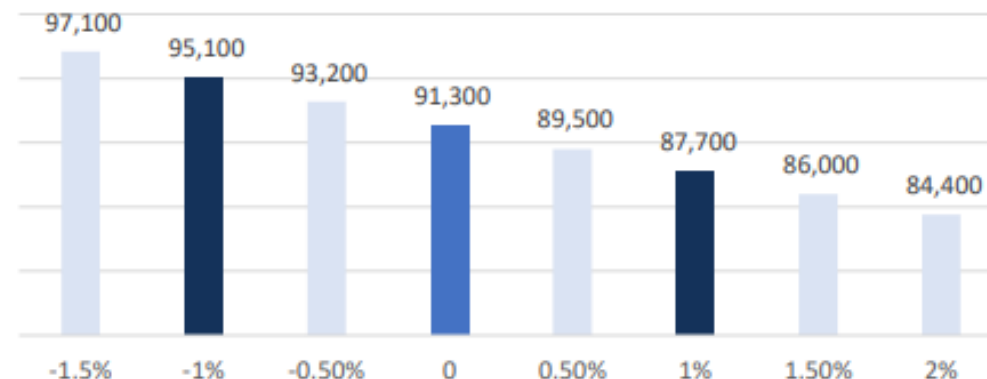
VALUATION



Our RNAV valuation derives a target price for VHM at VND 91,300/share

Total development NPV	327,595,288
(+) Cash and cash equivalent + Short-term investments	4,515,977
(+) Tangible fixed assets	398,391
(+) Investment property	5,094,210
(-) Total debt	31,908,635
Net asset value	305,695,231
Number of shares (million)	3,350
Target price (VND/share)	91,300

Figure : Sensitivity analysis of WACC change (base case: 12.4%)



Note: Do not adjust the effect of raising interest rates on sales.

Figure : Development NPV breakdown by project

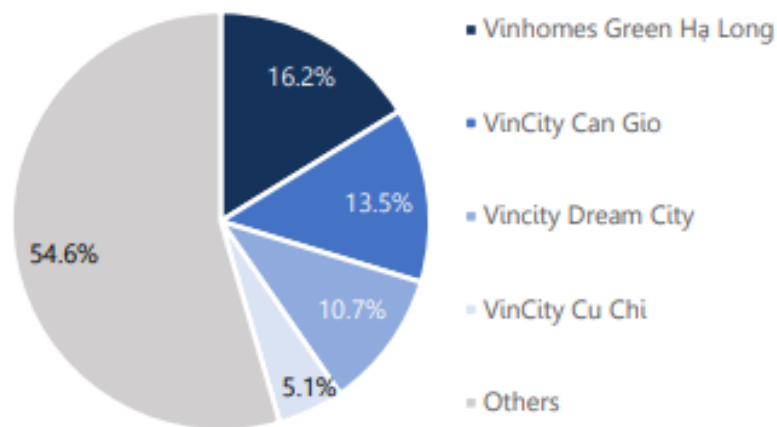
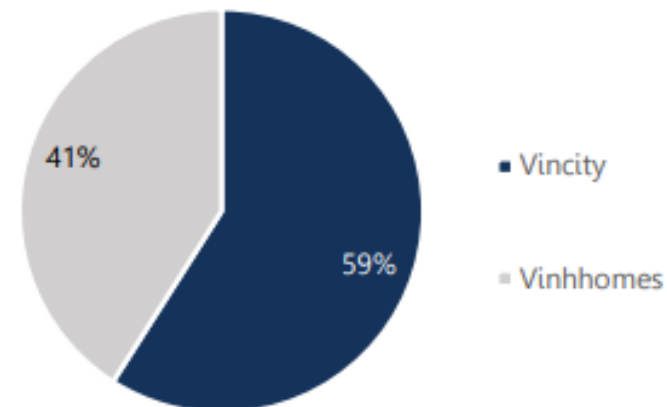


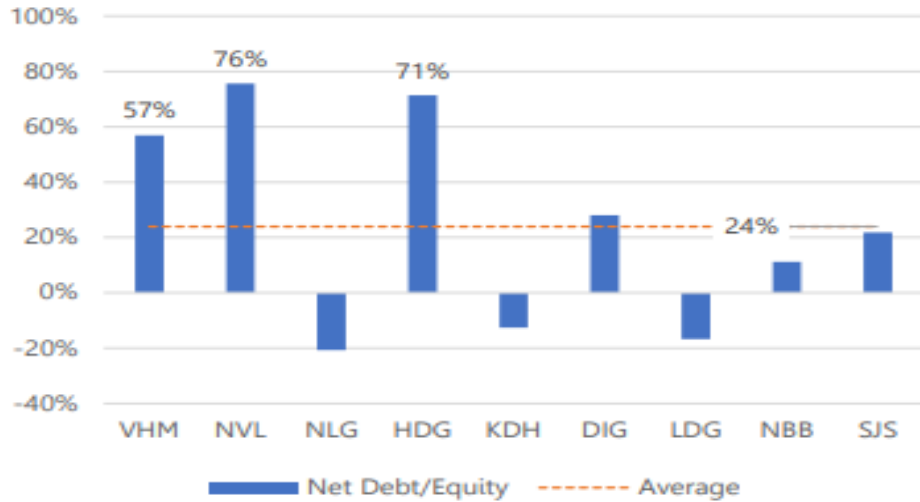
Figure : Development NPV breakdown by product line



RISKS TO OUR CALL

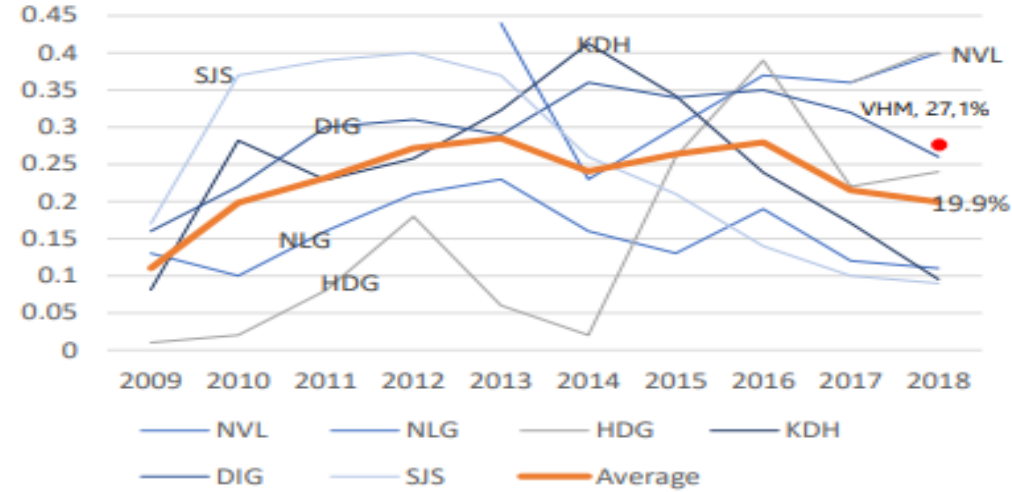
- Financial risks:

Figure 1: Net debt*/ Equity



Note: Net debt = Short term borrowings + Long term borrowings - (Cash & Cash Equivalent + Short-term Investment).
Source: Company data, Yuanta Vietnam

Figure 2: Trend of debt*/ total assets



Note: Debt = Short-term borrowings + Long term borrowings
Source: Company data, Yuanta Vietnam

- Legal risks – Limited, but not immune.

Change in construction permits and calculation method for LUR fees would also impact cash flow assumptions.

- Liquidity risks – not so much a micro concern for VHM, but it is a macro risk.

At this point in the real estate market cycle, transaction volumes are already slowing (this started in 2018) and SBV prudential policies also affect overall real estate market liquidity.





PV Drilling [PVD]

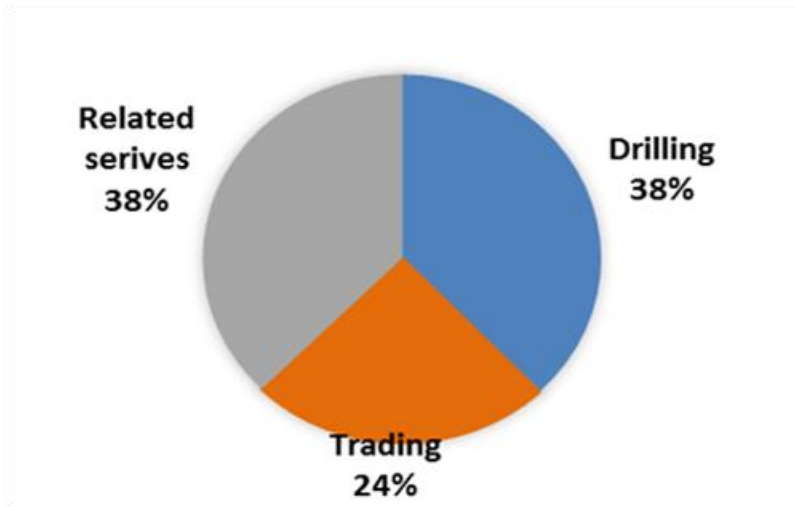
PRICE TARGET: VND24,535
BUY (+38.2%)

INVESTMENT THESIS



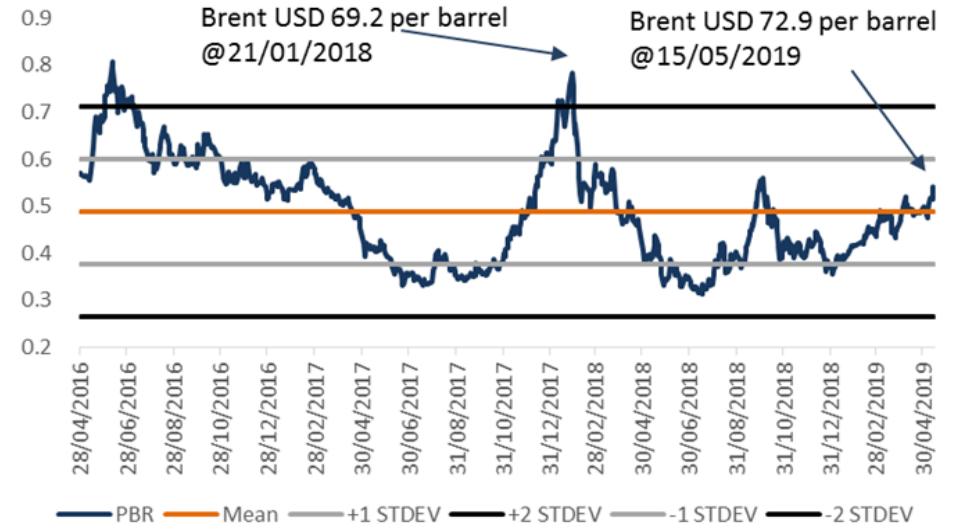
- Global drilling market is warming up.
- Strong business model translating to relatively higher utilization.
- Extending its operations overseas.
- Short-term catalysts: higher day rates, more workload.

FY18A revenues mix



Source: PVD

PVD's historical PBR



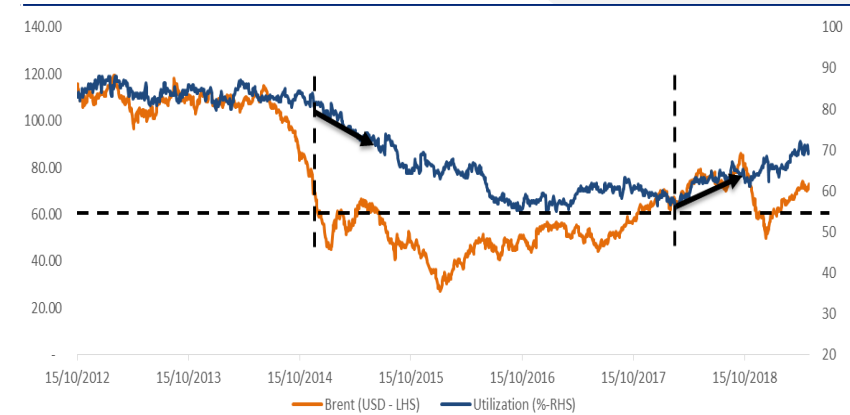
Source: Bloomberg



Global drilling market is warming up

- Brent at USD 60 typically triggers long-term changes in utilization rates.
- The utilization momentum extended to 2Q19 (Fig. 5), when marketed utilization reached 80.2% – a significant improvement compared to 2018’s 74.3% marketed utilization.
- This indicates substantial room for further day rate increases, in our opinion. Historically, when utilization has reached 85%, day rates typically have started to rise at a faster pace.
- Technavio Research’s forecasts suggest that drilling market is expected to deliver CAGR of c.9% in 2019-2023, driven by deep water and ultra-deep water E&P activities.

Brent and Utilization correlation



Source: Bloomberg, rigzone

Utilization rate approaches 85%

Worldwide	This week (6 May 2019)	Last week	Last Month	Last year
Total Supply	756	759	756	788
Marketed Supply	646	646	647	653
Marketed Contracted	518	517	510	485
Marketed Utilization (%)	80.2%	80.0%	78.8%	74.3%

Source: HIS Markit

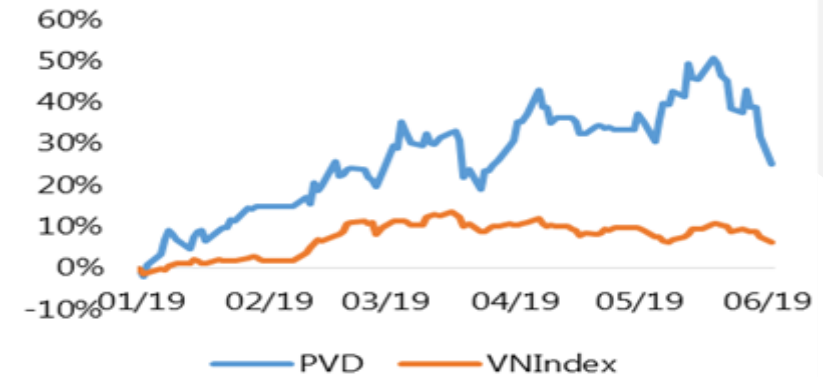
“Marketed Contracted” reflects all marketed rigs that have a contract in place.

Strong business model translating to higher utilization rate



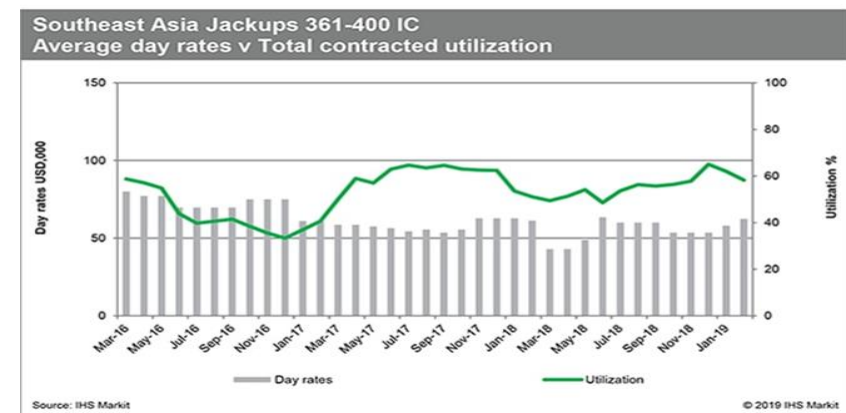
- The core business ranges from drilling services to well services, mechanical repair, manpower, and spare parts trading. The company owns four jackup rigs, a TAD, and a land rig that has a highly respectable safety record of Zero Loss Time Incident (LTI).
- PVD is an outstanding competitor with international peers due to its strong safety record, solid management, and ability to provide integrated services.
- PVD's utilization rate thus always remains above that of the South East Asia (85% vs 60%).

PVD price performance



Source: Bloomberg

SouthEast Asia Jackups DR & UR



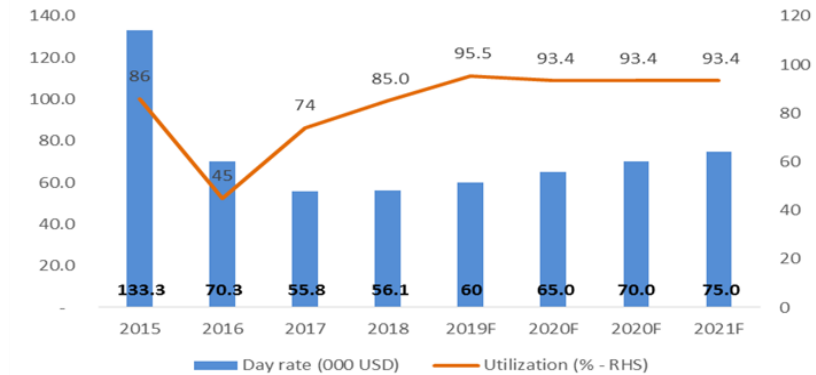
Source: IHS Markit

Extending its operations overseas

- Four JU rigs secured job in Malaysia in 2019. This clearly demonstrates that PVD is not totally dependent on domestic E&P – a major positive change, in our view.
- Assuming the market remains hot, we agree with management’s view that the FY2020E day rate may reach USD 65,000 in 2020E.

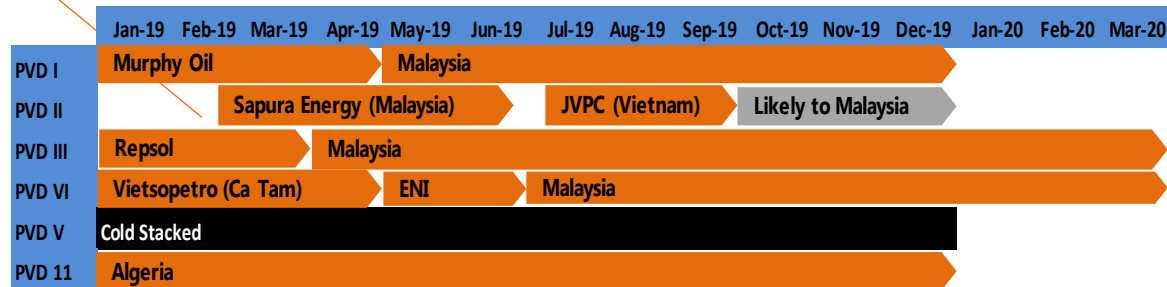


PVD Utilization rate reached 95%



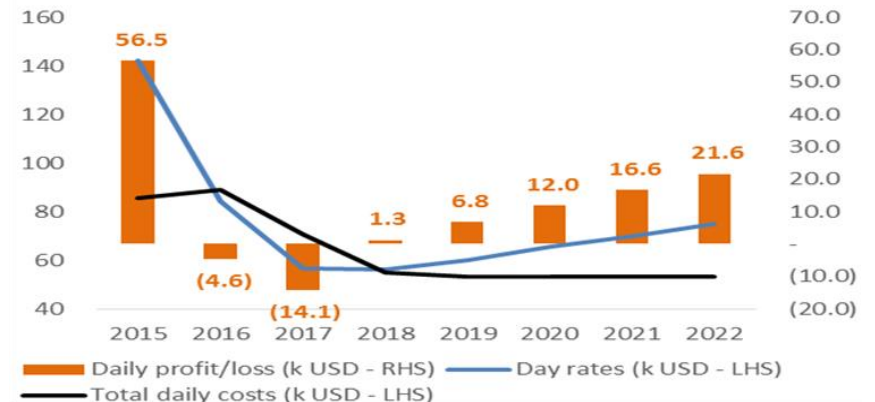
Source: PVD, Yuanta Vietnam Research estimates

JU rigs secured jobs in Malaysia in 2019



Source: PVD, Yuanta Vietnam Research estimates

JU break even analysis one rig/day



Source: PVD, Yuanta Vietnam Research estimates

Catalysts and Risk



Event Catalysts

- FY 2019 utilization rate to reach 95% vs. 85% last year.
- FY 2019 average day rate to reach USD 60,000, up by 7% YoY.
- PVD is bidding for a deep water project in Brunei starting in 2020.

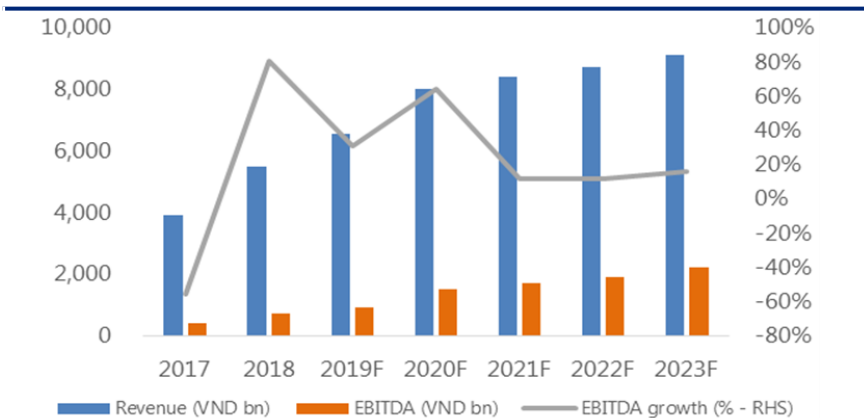
Risk to our call

- Oil price volatility affects day rates and thus PVD's business performance.
- The PVEP bad debt recovery process may slow down.
- Success of the PVD V (TAD) bid is not a certainty.

Financial snapshot



Financial performance (VND bn)



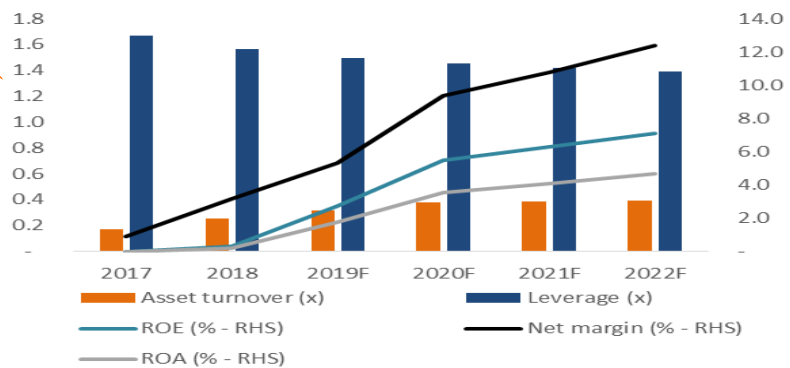
Source: PVD, Yuanta Vietnam Research estimates

Gross profit mix (VND bn)



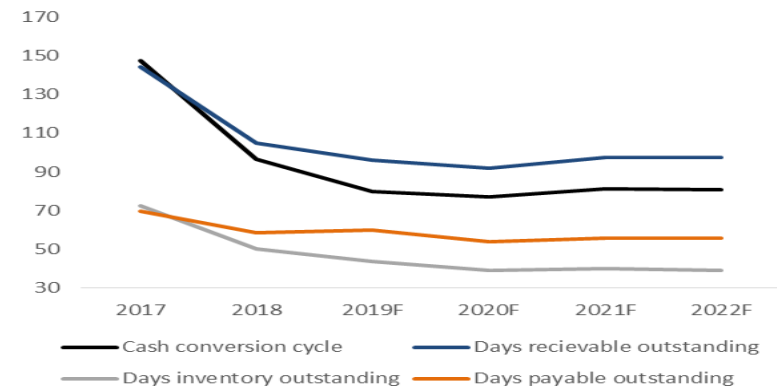
Source: PVD, Yuanta Vietnam Research estimates

DuPont Analysis



Source: PVD, Yuanta Vietnam Research estimates

Efficiency (days)



Source: PVD, Yuanta Vietnam Research estimates



Valuation

- Our target price of VND 24,535 is based on a weighted approach which applies 50% each to our FCFE model and our EV/EBITDA multiple valuation method.

Valuation

Method	Target price	Weighting
FCFE	22,585	50%
EV/EBITDA	26,485	50%
Overall target price	24,535	

Source: Yuanta Vietnam Research estimates

FCFE



- Our FCFE valuation assumptions include cost of equity of 15.7% and terminal growth rate of 1.5%. We believe these to be appropriately conservative assumptions.

FCFE Valuation

FCFE	2019F	2020F	2021F	2022F	2023F
PBT	437	939	1,129	1,349	1,675
(-) Tax	(87)	(188)	(226)	(270)	(335)
(-) Increase in WC	(97)	(233)	(75)	(71)	(306)
(-) Capex	(154)	(275)	(316)	(363)	(418)
(+) Depreciation	545	665	677	687	697
FCFE	644	909	1,189	1,332	1,313
NPV	3,384				
Terminal value	9,415				
PV of Terminal value	5,263				
Enterprise value	8,647				
Outstanding shares	382,850,160				
Fair value per share	22,585				

Source: Yuanta Vietnam Research estimates

Relative valuation

- For our comparable-based valuation approach, we have applied FY2020 EV/EBITDA of 7.3x, which is a 30% discount to the regional average. We see the discount as appropriate given PVD's smaller size.

EV/EBITDA multiple

	Country	Market cap USD mn	EV/EBITDA (x)	PBR (x)	PER (x)	ROE (%)	ROA (%)
2883 HK Equity	CH	43,283	9.1	0.8	18.0	2.2	1.0
SAPE MK Equity	MA	4,622	9.5	0.3	16.1	1.8	0.7
RIG US Equity	US	4,190	10.1	0.3	-	(14.8)	(7.7)
SDRL US Equity	GB	542	17.0	0.2	-	(136.4)	(40.0)
ESV US Equity	GB	1,748	11.7	0.1	-	(8.4)	(4.9)
DO US Equity	US	1,149	13.0	0.3	-	(7.5)	(4.4)
1251 HK Equity	CH	191	3.0	1.1	5.6	8.0	3.7
MMT SP Equity	TH	73	-	0.2	-	(8.3)	(6.3)
			10.5	0.4	13.2	(20.4)	(7.2)
PVD VN Equity	VN	322	5.9	0.5	9.1	6.0	1.7

Source: Yuanta Vietnam Research estimates



Thank You!

Institutional Research

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