

## VND to remain supported despite RMB move

### RMB depreciation remains a key risk to the VND, but we don't expect a rout

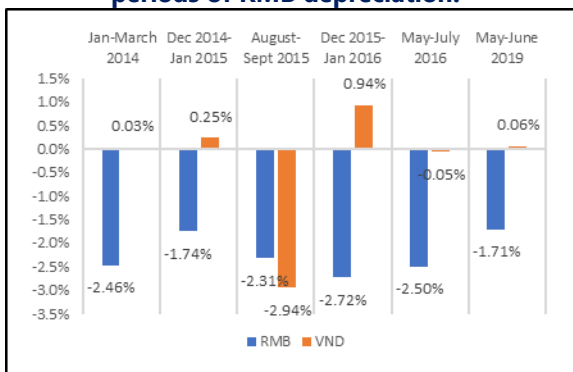
**Matthew Smith, CFA**  
**Head of Research**

+84 28 3622 6868

[matthew.smith@yuanta.com.vn](mailto:matthew.smith@yuanta.com.vn)

**RMB depreciation remains the key risk to the Vietnamese Dong.** As noted in our long-form strategy report "[Whither the VND?](#)" (June 7), we view sharp depreciation of the RMB as a key risk to the Vietnamese Dong amidst broadly supportive endogenous macro conditions. With the RMB crossing the perceived line-in-the-sand of 7 to the USD, it is possible that our 2% YoY depreciation assumption for the VND could be subject to moderate downside risk. However, the VND has been notably stable during most recent periods of RMB weakness, and we do not believe a currency rout is a likely scenario here.

#### The VND has held up well during most recent periods of RMB depreciation.



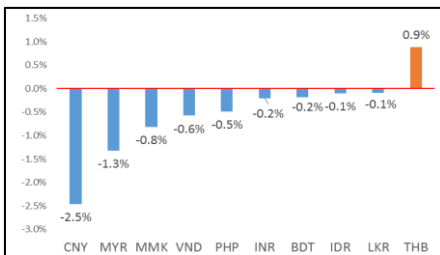
#### Themes and catalysts

- **Strong fundamentals:** persistent FDI and portfolio flows, low inflation, sufficient reserves, current account surplus.
- **Sharp depreciation of the RMB** is possible, but we think the VND would hold up relatively well.
- **US reaction to a sharp VND depreciation** is another reason for relative FX stability in Vietnam.

#### Risks

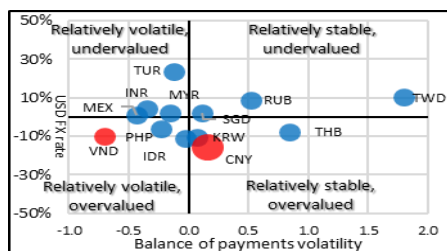
- **Our 2% annual depreciation assumption** is moderate; reality may be more dramatic.
- **Vietnam's current account balance** can be volatile.
- **Our macro team indicates VND overvaluation** of around 10%.

#### Regional currencies in May 2019



Source: Bloomberg

#### VND may be c. 10% overvalued



Source: Yuanta Investment Consulting

**Endogenous support persists** for the VND given strong FDI and portfolio inflows, relatively low inflation, reasonable interest rate differentials, adequate FX reserves, and our expectation for current account stability (vs a volatile history). For details, please see our June note linked above.

**RMB is the key risk** to the VND, in our view, but the currencies do not move in lock-step. During six periods of RMB weakness since 2014, the VND has typically been flat or even increased vs. the USD. This time is not likely to be different given the politically charged global environment and Vietnam's position on the US' currency manipulator watchlist. We continue to expect 2% annual VND depreciation (vs the YTD fall of -0.42%).

**Sharp RMB depreciation is not our base case.** The RMB's fall to below 7 could drive expectations of further depreciation. But China also faces food price inflation, banking system troubles, and the potential for renewed capital flight. We believe that more rapid easing by a compliant Fed is more likely than a sharp RMB depreciation in 2H19. This should at least ease pressure on emerging market currencies such as the VND, and potentially reduce market volatility as well.

**We retain our cautious market view.** Although the market is likely to rebound today (August 7), global conditions are likely to remain especially choppy for the short term. Thus, despite Vietnam's position as a key FDI winner, we think the market will remain under pressure for at least the next few weeks. Therefore, we advise waiting for a better entry opportunity to emerge, perhaps in September. Our top picks remain VHM in property, a barbell approach in the banks (VCB and STB), and PVD among the small caps.

**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	2019E Dividend yield	12-m TSR*
<b>Banks</b>	BIDV	BID VN	5,174	1.6	BUY	35,200	38,713	10%	2.5%	12%
	MB Bank	MBB VN	1,940	2.6	BUY	21,350	29,889	40%	3.3%	43%
	Sacombank	STB VN	810	1.6	BUY	10,450	14,101	35%	0.4%	35%
	Vietcombank	VCB VN	12,167	2.4	BUY	76,300	75,275	-1%	1.2%	0%
<b>Brokers</b>	HCM City Securities	HCM VN	263	0.5	BUY	20,000	36,219	81%	4.6%	86%
	Saigon Securities	SSI VN	474	1.4	HOLD	21,650	26,125	21%	4.7%	25%
	Viet Capital Securities	VCI VN	229	0.1	BUY	32,700	43,850	34%	3.8%	38%
	VNDirect Securities	VND VN	132	0.2	BUY	14,700	21,029	43%	4.6%	48%
<b>Consumer</b>	Masan Group	MSN VN	3,769	1.5	BUY	75,000	93,035	24%	2.0%	26%
	Phu Nhuan Jewelry	PNJ VN	802	1.8	BUY	83,800	118,489	41%	2.4%	44%
	Digiworld	DGW VN	39	0.5	BUY	21,700	31,574	46%	5.4%	51%
<b>Oil &amp; GAS</b>	PV Drilling	PVD VN	281	2.7	BUY	15,500	24,535	58%	3.2%	62%
<b>Property</b>	Nam Long	NLG VN	299	1.2	BUY	30,400	32,000	5%	1.6%	7%
	Vinhomes	VHM VN	12,025	3.2	BUY	83,500	94,862	14%	1.2%	15%

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

Pricing data as of close on August 6, 2019.

Source: Bloomberg, Yuanta Vietnam

**Yuanta Universe: Valuations and ratings**

Sector	Stock Code	PER (x)			PEG (x)			PBV (x)			ROE (%)			ROA (%)		
		2018P	2019F	2020F	2018P	2019F	2020F	2018P	2019F	2020F	2018P	2019F	2020F	2018P	2019F	2020F
<b>Banks</b>	BID VN	21.7	18.2	13.0	2.6	0.9	0.3	2.2	1.8	1.7	10.7	10.8	13.5	0.44	0.51	0.67
	MBB VN	7.5	5.7	4.6	0.1	0.2	0.2	1.3	1.1	0.9	19.2	21.2	21.6	1.81	2.05	2.19
	STB VN	13.4	11.4	9.1	0.3	0.7	0.4	0.8	0.7	0.7	5.9	6.5	7.6	0.36	0.39	0.45
	VCB VN	21.3	18.4	15.3	0.3	1.2	0.7	4.4	3.5	3.0	22.5	21.3	21.3	1.22	1.31	1.41
<b>Brokers</b>	HCM VN	7.5	9.0	6.1	0.3	3.5	0.1	1.7	2.5	2.1	23.1	19.9	25.4	10.02	10.15	12.80
	SSI VN	8.5	8.3	7.2	0.5	3.2	0.5	1.2	1.1	1.0	14.8	14.1	14.8	6.04	5.22	5.23
	VCI VN	5.7	7.7	6.4	(4.7)	(0.3)	0.3	1.5	1.3	1.1	24.7	18.0	19.0	12.51	9.45	9.65
	VND VN	8.0	10.6	7.3	(0.4)	(0.4)	0.2	1.1	0.9	0.9	13.7	10.0	13.0	3.83	2.60	3.16
<b>Consumer</b>	MSN VN	16.4	17.5	14.4	0.2	(2.8)	0.7	3.0	2.7	2.4	20.7	16.1	17.6	8.78	7.65	8.81
	PNJ VN	15.7	13.2	10.6	(0.9)	0.7	0.4	3.7	3.1	2.5	28.7	27.5	27.9	17.79	17.79	16.93
	DGW VN	8.0	6.4	5.2	0.2	0.3	0.2	1.2	1.0	0.9	15.2	17.1	18.9	5.80	6.12	7.13
<b>Oil &amp; GAS</b>	PVD VN	5.2	7.3	6.7	0.1	(0.4)	(0.2)	0.7	0.7	0.6	1.4	2.6	5.2	0.92	1.75	3.57
<b>Property</b>	NLG VN	10.2	14.3	13.1	0.2	(0.8)	(0.5)	1.4	1.3	1.2	20.3	19.1	13.9	9.56	10.59	8.78
	VHM VN	18.3	15.2	12.0	0.2	0.7	0.4	5.8	4.4	3.3	30.7	30.0	28.7	12.35	11.56	11.88

Pricing data as of close on August 6, 2019.

Source: Bloomberg, Yuanta Vietnam

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

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## YUANTA SECURITIES NETWORK



## YUANTA SECURITIES VIETNAM OFFICE

**Head office:** 4<sup>th</sup> Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

### Institutional Research

**Matthew Smith, CFA**

Head of Research  
Tel: +84 28 3622 6868 (ext. 3815)  
[matthew.smith@yuanta.com.vn](mailto:matthew.smith@yuanta.com.vn)

**Quang Vo**

Analyst (Consumer)  
Tel: +84 28 3622 6868 (ext. 3872)  
[quang.vo@yuanta.com.vn](mailto:quang.vo@yuanta.com.vn)

**Tam Nguyen**

Analyst (Property)  
Tel: +84 28 3622 6868 (ext. 3874)  
[tam.nguyen@yuanta.com.vn](mailto:tam.nguyen@yuanta.com.vn)

**Binh Truong**

Deputy Head of Research (O&G, Energy)  
Tel: +84 28 3622 6868 (3845)  
[binh.truong@yuanta.com.vn](mailto:binh.truong@yuanta.com.vn)

**Tanh Tran**

Analyst (Banks)  
Tel: +84 28 3622 6868 (3874)  
[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)

### Institutional Sales

**Huy Nguyen**

Head of Institutional sales  
Tel: +84 28 3622 6868 (3808)  
[huy.nguyen@yuanta.com.vn](mailto:huy.nguyen@yuanta.com.vn)

**Duyen Nguyen**

Sales Trader  
Tel: +84 28 3622 6868 (ext. 3890)  
[duyen.nguyen@yuanta.com.vn](mailto:duyen.nguyen@yuanta.com.vn)