true friend KIS Viet Nam Securities Corporation

Economy
Quarterly

20 Apr 2023

Strategic Insight

"Cautious" trend

Wait for confirmation signals of a trend

In the short term, the market signals lose consensus. Accordingly, foreign investors reversed to be net sellers while capital still flowed into ETFs, which focus on the Vietnamese market. Besides, the index also moves in a narrow range of 1,020 to 1,080 points. Therefore, a breakout/breakdown is needed to confirm the next trend. In a bullish case, the target price of the VNIndex may be more than 1,200 points.

An economic acceleration on the internal power

We predict Vietnam's real GDP to accelerate in 2Q23 with an impressive growth rate of 6.92% YoY due to solid retail sales growth, a higher public investment, and improving external factors, especially promising China's rebound. Besides, we expect inflation to be well-controlled although facing challenges related to raising retail electricity prices and the potential AFS outbreak.

Looking for a U-turn

Global and domestic issues have negatively impacted companies/industries in 1Q23 and this may last longer. Therefore, investors have all eyes on the earning season, where they expect to see a U-turn in some companies/industries' performances that benefitted from China-reopening or global/domestic uncertainty. Seafood and agriculture, in our view, would be the two beneficiaries of those mentioned short-term trends amid the global economic slowdown. In addition, we also see Oil&Gas as the bright spot in a dark theme in the long run thanks to recent positive catalysts.

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Research Dept

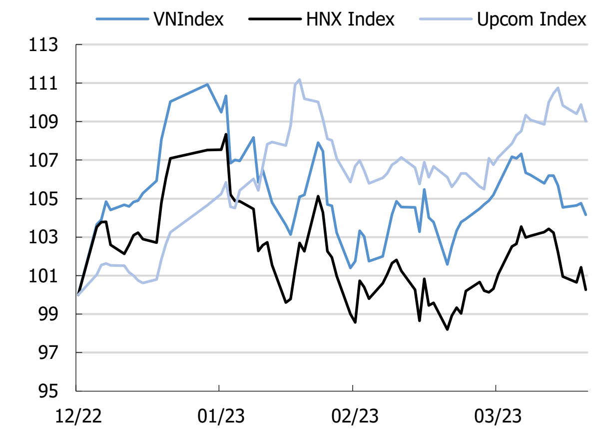
researchdept@kisvn.vn

I. "Cautious" trend

1. Consolidation phase after Tet holiday

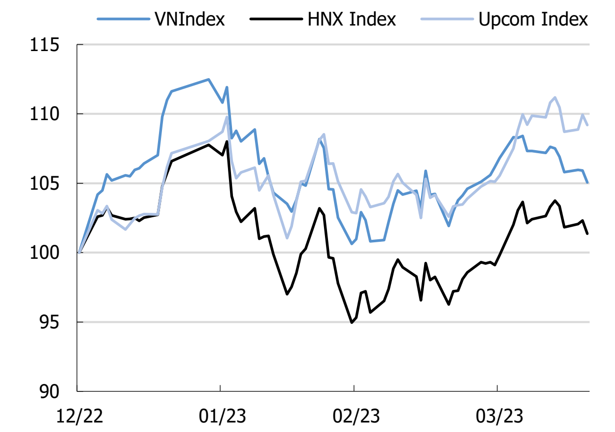
Move in a tight range of 1,020 pts to 1,080 pts. The VNIndex grew by 5.71% in 1Q23. In particular, the index had good growth of 10.34% in Jan thanks to the previous uptrend that started in Nov 2022. However, after forming a peak at end of Jan, the index comes from a consolidation phase or sideways. Accordingly, the index moves in the narrow range of 1,020 points to 1,080 points. This reflects caution in investor sentiment.

Figure 1. Vietnam indexes performance



Source: Fiin, KIS
Note: start of 01/22 = 100

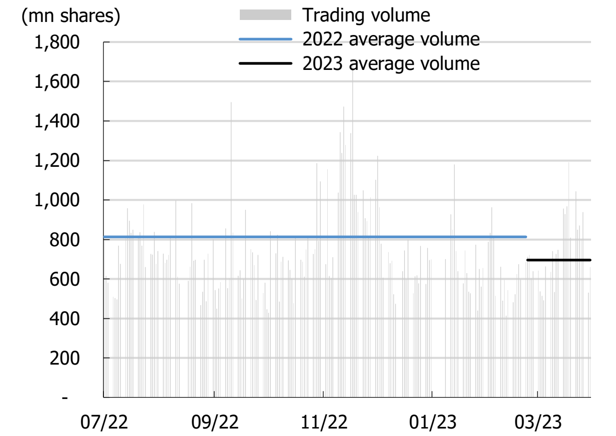
Figure 2. Growth of key indexes of HOSE



Source: Fiin, KIS
Note: start of 01/22 = 100

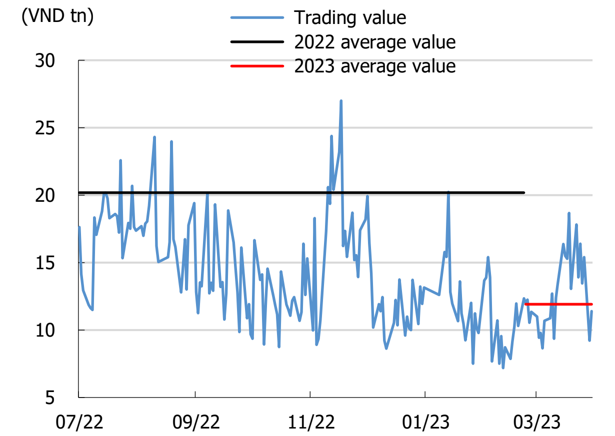
Low liquidity. The average trading volume and value of the stock market in 2023 decreased, compared to 2022. Accordingly, the average volume and value per session reached 695 million shares and VND11,912bn respectively in 2023, down 14% and 41% respectively compared to 2022. The volume decreased by 14% while the trading value decreased by 41%, showing the influence of the previous downtrend. In addition, the average price of 2022 is higher than 2023, thereby making the trading value drop more sharply. If the price effect is excluded, the market liquidity decline is not too strong.

Figure 3. Trading volume in 2023



Source: Fiin, KIS

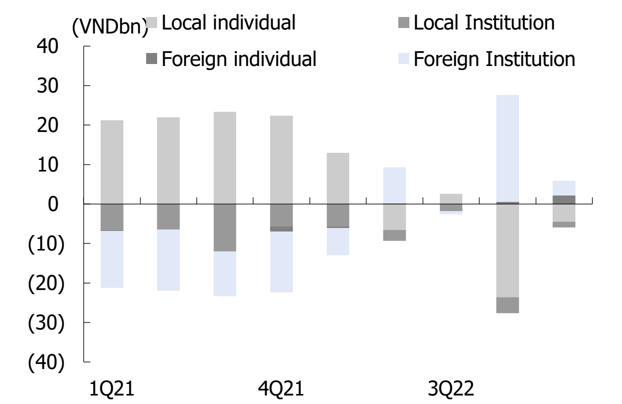
Figure 4. Trading value in 2023



Source: Fiin, KIS

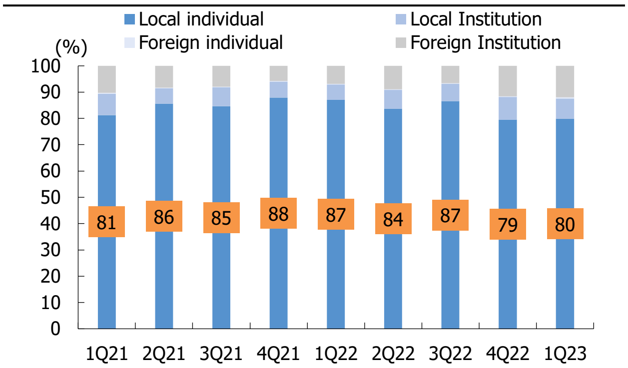
Domestic trading activity strongly diminished. In 1Q23, total domestic trading value dropped, recording at VND6bn. Particularly, domestic trading activity decreased significantly compared to the previous quarter, down 80%, 70% QoQ, and 35% lower than the yearly average. Notably, local individual has ended up to be net sold (VND4.5bn) for 2 consecutive quarter. Local institution interest also downed, marking by the 2-year low trading value. Breaking down by tickers, local institutions bought STB (VND767bn), VCB (VND512bn), and MWG (VND492bn) the most whilst LPB (VND942bn), DIG (VND496bn), and VFMVN Diamond ETF (VND420bn) experienced the strongest divestment.

Figure 5. Trading activity by investor group



Source: Fiinpro, KIS

Figure 6. Proportion by investor group



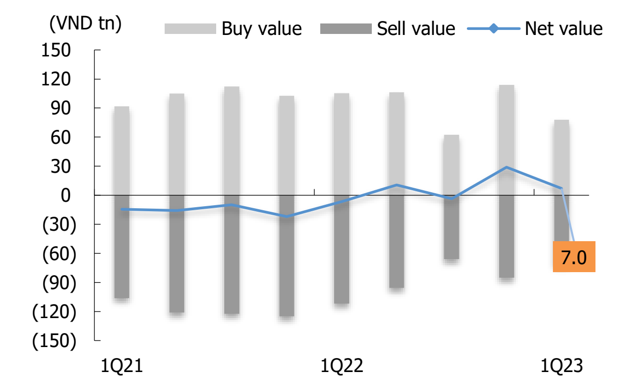
Source: Fiinpro, KIS

2. High demand of foreigners

A net buying value of foreigners reduces. In 1Q23, foreign trading activity is less active but the market keeps ending up to be net bought with a net buying value of VND7.8tn, down 75% compared to 4Q22. Particularly, buying value downed 30% as well as selling pressure also decreased by 30% QoQ. Besides, foreign trading activity in 1Q23 also dropped below the yearly average.

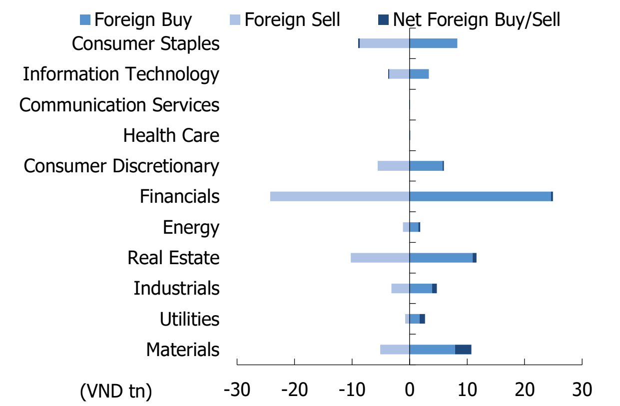
Breaking down by sector, foreign demand was mainly absorbed by Materials and Utilities sectors with net buy values were VND2.8tn and VND0.9tn, respectively. Besides, Industrials also attracted demand from foreigners during this period, recording the net buy value at VND0.8tn. Nevertheless, selling pressure spread to Consumer Staples and IT sector, net sell value was accounted at VND0.3tn and VND0.2tn, respectively.

Figure 7. Net foreign buy/sell by Quarter



Source: KIS, Fiinpro

Figure 8. Net foreign buy/sell by sector (1Q23)

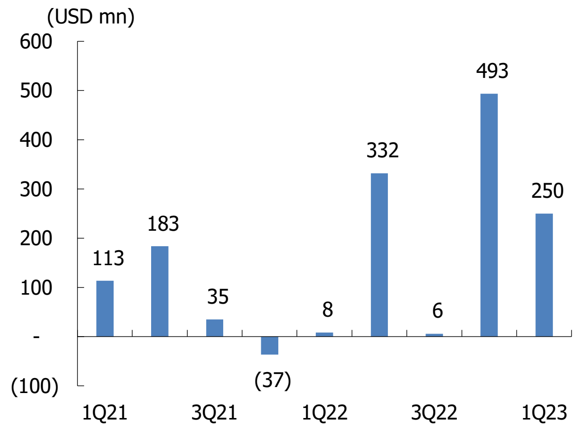


Source: KIS, Fiinpro

Foreign demand may slow down in 2Q23. The strong foreign demand during 4Q22 could be explained by the sharp correction of the market which created the attractive P/E ratio where foreign investors could turn around to be net bought with low downside risk. However, in the long term, foreign trading activities would be heavily impacted by global inflation and rate hike. As the Fed has maintained a high rate to fight the high inflation. This event is one of the main reasons for the slowdown of foreign trading activity in 1Q23 as well as we expect that foreign demand would be slowed down in the upcoming quarter.

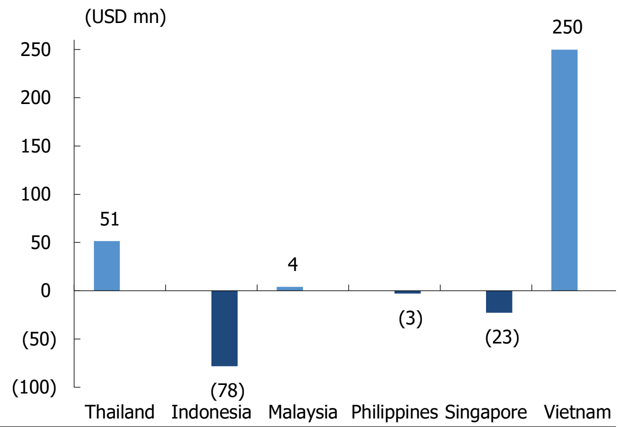
Vietnam's ETFs lead inflow across SEA. In 1Q23, Vietnam attracted USD250mn via major ETFs, down 50% QoQ but up 30 times YoY. Besides, the inflow stayed at a high level, 25% above the yearly average. Notably, the total inflow across SEA (USD200mn) was mainly contributed by the solid demand on Vietnam's ETFs, following by Thailand (USD51mn), fading the strong divestment across Indonesia (USD78mn).

Figure 9. Vietnam ETF net flow



Source: Bloomberg, KIS

Figure 10. The flow of money across SEA countries



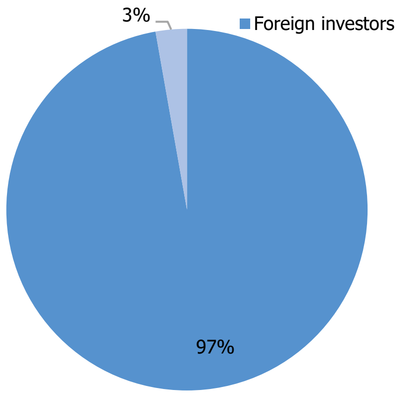
Source: Bloomberg, KIS

Vietnam's major ETFs attract stable demand. Demand on Vietnam's major ETFs remained at a high level in 1Q23. Although demand has started to fall after reaching the all-time peak (USD493mn) in 4Q22, inflow was 25% the yearly average and 2.5 times higher 1Q22. Besides, inflow across Vietnam was quite stable. Vietnam recorded the inflow for 5 consecutive quarters.

Most of Vietnam major ETFs attract strong demand. Breaking down by ETFs, similar to 4Q22, the flow of money continued to be absorbed across major ETFs. Particularly, more than 80% of major ETFs attracted a strong inflow whilst only KIM Growth VN30 ETF experienced the outflow and the divestment on ETF MAFM VN30 was not significant. Within 1Q23, foreign ETFs attracted the largest demand, such as USD94mn of VanEck Vietnam ETF, USD90mn of Fubon Vietnam, and USD43mn of FTSE Vietnam. These ETFs accounted for more than 90% of the total inflow of Vietnam.

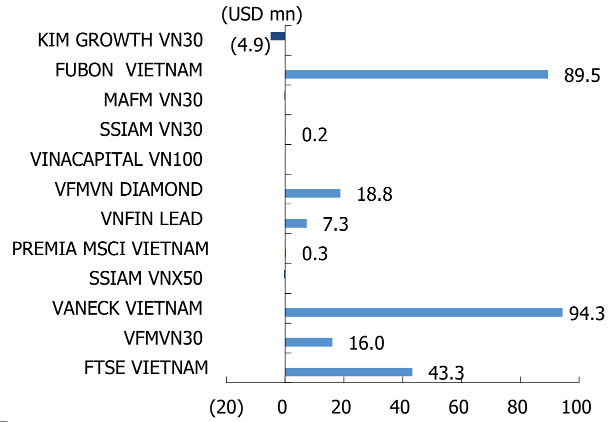
Demand on foreign ETFs hit the higher ground. Vietnam has attracted the inflow via major ETFs for five consecutive quarters and hit the extreme in 4Q22. However, more than 90% of the total inflow was contributed by foreign ETFs which could be negatively impacted by the rate hike environment. The inflow across Vietnam has started to diminish since 1Q23, marking that the rate hike environment has started to impact the flow of money. Although demand for foreign ETFs remained high, the inflow across these ETFs have decreased since 4Q22. In this case, we expect that the inflow across Vietnam could decrease in upcoming quarters due to the diminishment of demand on foreign ETFs.

Figure 11. Ownership across Vietnam major ETFs



Source: Bloomberg, KIS

Figure 12. Money flow across Vietnam major ETFs



Source: Bloomberg, KIS

3. Bullish scenario vs Bearish scenario

Market moves in a tight range. The VNIndex moves in the tight range of 1,020 pts to 1,080 pts, showing a sideways trend in the short term. Besides, the volume has decreased while the signification moving averages are flat. That implies confirming the current trend. Therefore, the index needs a breakout or breakdown to confirm an uptrend or a downtrend. If the index crosses up the upper band of 1,080 pts, an upward trend will form. Otherwise, If the index crosses down the lower band of 1,020 pts, a downward will form. However, in the bullish case, the uptrend is not stable because the selling pressure appears at a high price level from 1,100-1,120 pts.

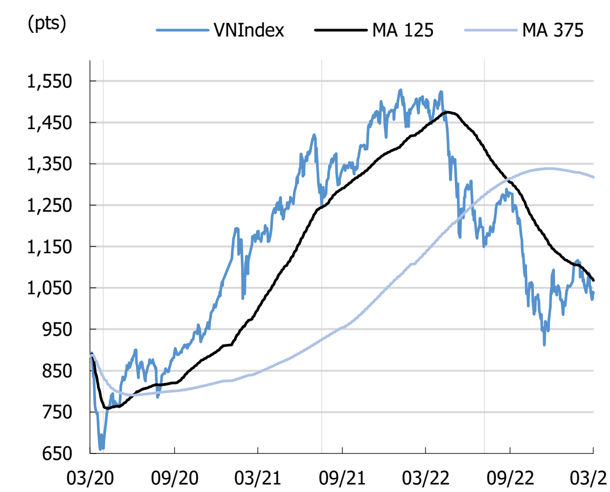
Bullish scenario vs Bearish scenario. As analyzed in previous reports, Vietnam's stock market shows a 3-year cycle as important bottoms are formed every three years. Currently, the market is in the seventh 3-year cycle which starts from the bottom in 2020 and expects to form an ending bottom from Sep 2022 to Sep 2023. However, we consider the possibility that the bottom in Nov 2022 could also be the bottom of the seventh 3-year cycle due to the strong uptrend from Nov 2022.

Table 1. Bottom and duration of 1-year cycle

No. of 3-year cycle	No. of 1-year cycle	Start bottom	End bottom	Duration (Months)
V	13	12/17/2014	01/21/2016	13
	14	01/21/2016	12/06/2016	10
	15	12/06/2016	07/11/2018	19
VI	16	07/11/2018	01/03/2019	5
	17	01/03/2019	03/24/2020	14
VII	18	03/24/2020	07/19/2021	15
	19	07/19/2021	07/06/2022	11
	20	07/06/2022	05-09/2023*	10-14*

*Expected period to form the 3-year cycle year
Source: KIS

Figure 13. Movement of 1-year cycle



Source: KIS

Firstly, the index has now crossed to close above the 125-period moving average on the daily chart, showing the Nov 2022 bottom could be a 1-year bottom. Secondly, the decrease from the peak of Apr to the bottom of Nov in

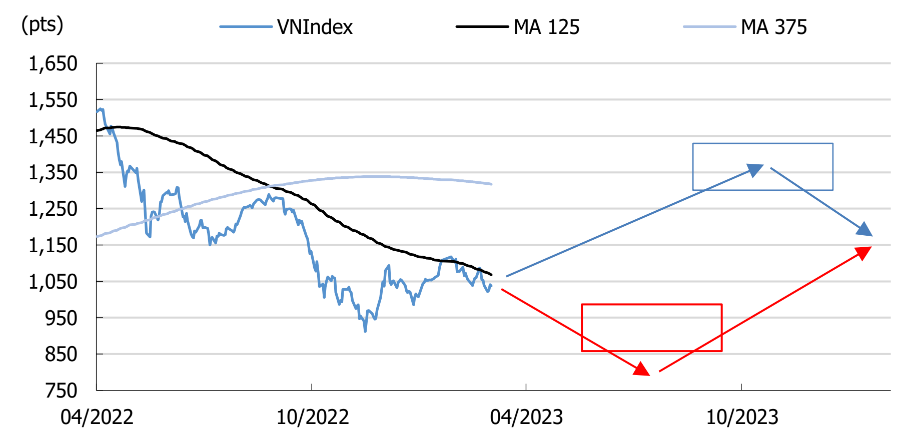
2022 is 40.3%, which is almost equal to the average decrease based on historical statistics. Therefore, there may appear 2 scenarios in this case.

Bullish scenario. The bottom in Nov 2022 is the bottom of the 3-year cycle. With this scenario, the 3-year cycle bottom forms earlier than expected but still within the allowed time frame. Accordingly, the uptrend starting from Nov 2022 will be the first 1-year cycle of a 3-year cycle, the bottom is expected to form from Sep 2023 to Jan 2024.

However, the index has still closed below the 375-period moving average on the daily chart, this line is used to confirm the Nov 2022 bottom as a 3-year cycle bottom. Therefore, the index needs a strong uptrend to cross up this line in 2023. Therefore, the price target of this scenario could be above the threshold of 1,200 points.

Bearish scenario. The bottom of the seventh 3-year cycle has not yet formed. With the bearish scenario, the VNIndex is expected to quickly correct again to form another 3-year bottom. We expected that the bottom will form between May 2023 and Sep 2023 because the last 1-year bottom is in Jul 2022. Besides, the 1-year bottom may be equal to or lower than the Nov trough in 2022. That implies the target price of the next 1-year cycle's bottom may be in the range of 780-910 points (more details in Jan month's strategy report). After the expected bottom from May to Sep 2023, a new trend will form. The trend may be uptrend and open a long-term upward period.

Figure 14. Forecast of VNIndex



Source: KIS

II. An economic acceleration on the internal power

1 .Retail sales and the public investment are key factors

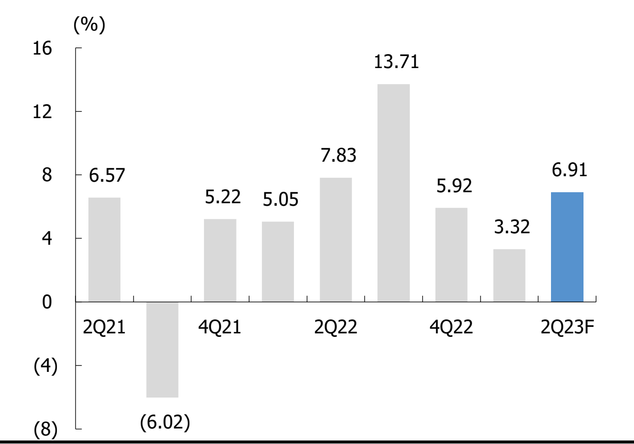
We predict Vietnam's real GDP to accelerate in 2Q23 with an impressive growth rate of 6.92% YoY due to a solid retail sales growth, a higher public investment, and improving external factors, especially the promising China's rebound. Besides, we expect inflation to be well-controlled although facing challenges related to raising retail electricity price and the potential AFS outbreak.

Table 2. Vietnam's economic forecast in 2Q23

Indicator	4Q22	1Q23	2Q23F	3Q23F
GDP growth (%)	5.92	3.32	6.91	7.05
Export (USD bn)	89.05	80.53	98.54	99.56
Export growth (% YoY)	-6.54	-10.41	1.51	4.42
Import (USD bn)	85.34	73.98	92.14	91.54
Import growth (% YoY)	-3.59	-15.94	-5.32	1.73
Retail sales (VND tn)	1,516	1,505	1,550	1,768
Retail sales growth (% YoY)	17.26	13.87	11.41	23.07
CPI (% YoY)	4.55	3.36	2.84	3.06

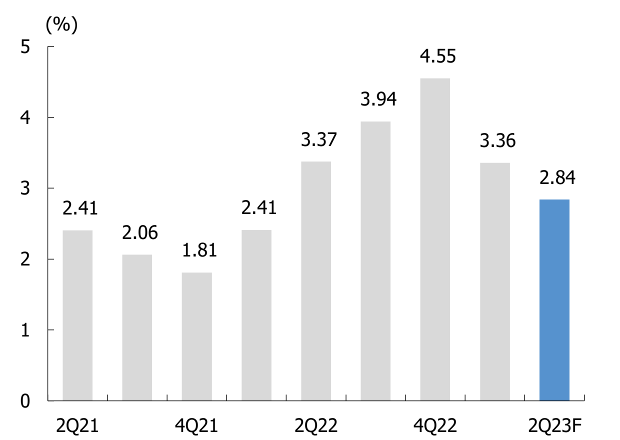
Source: SBV,GSO, Bloomberg, KIS

Figure 15. Real GDP growth forecast



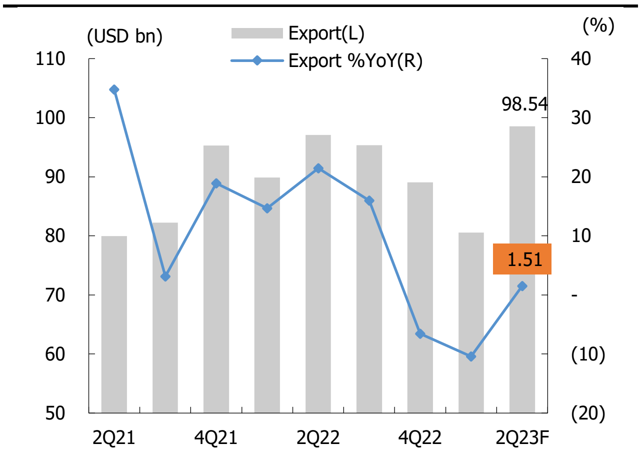
Source: KIS, GSO

Figure 16. Inflation forecast



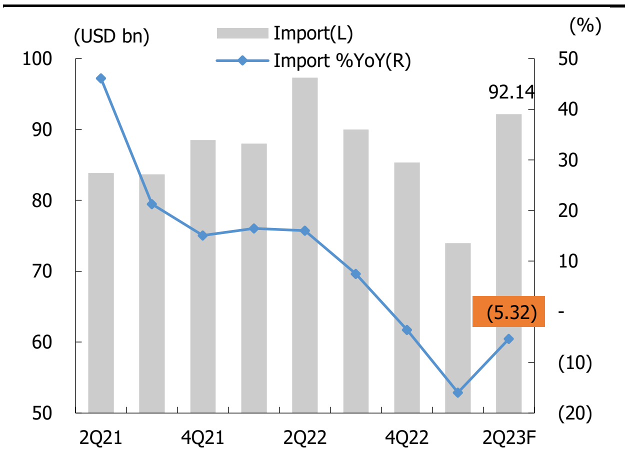
Source: KIS, GSO

Figure 17. Export forecast



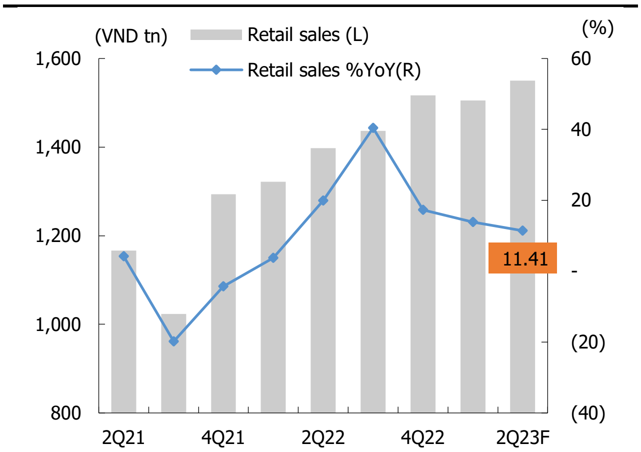
Source: KIS, GSO

Figure 18. Import forecast



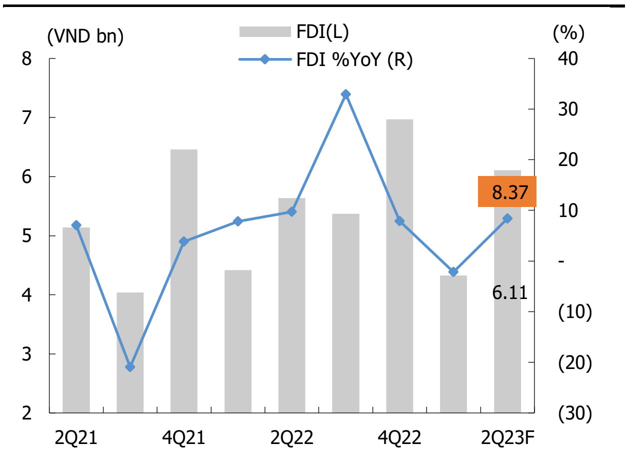
Source: KIS, GSO

Figure 19. Retail sales forecast



Source: KIS, GSO

Figure 20. Disbursed FDI forecast



Source: KIS, GSO

According to GSO's estimates, Vietnam's GDP (at 2010 constant price) slowed down for the second consecutive quarter with a modest growth rate of 3.32% YoY, 2.60ppts-lower than that in the previous quarter. IC (industry and construction sector) performed poorly under the weak global demand, primarily causing the whole economy to deteriorate during this period. Specifically, IC reduced by 0.40% YoY in 1Q23 after growing by 4.22% YoY in 4Q22, marking the first time the sector entered the red territory since the economic normalization.

The IC sector increases their labor usage gradually in recent years, from 26.3% of total labor force in 2017 to 33.1% that of in 2021. In addition, IC played a major economic growth driver as it contributed one-third to the quarterly GDP growth on average over the past five years. Yet, the slowdown in IC sector post negative impacts on people income and financial situation.

Figure 21. Historical GDP growths and sectoral contribution

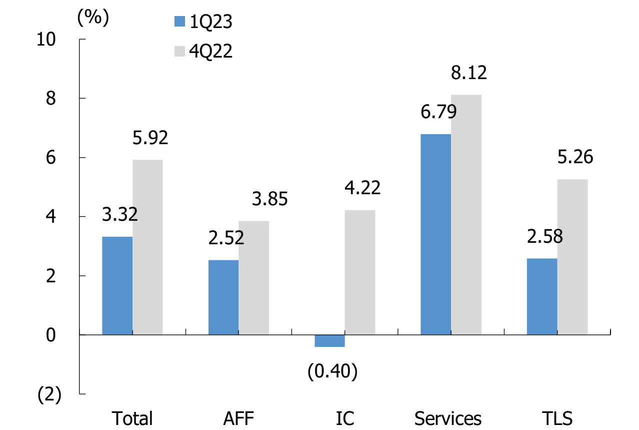
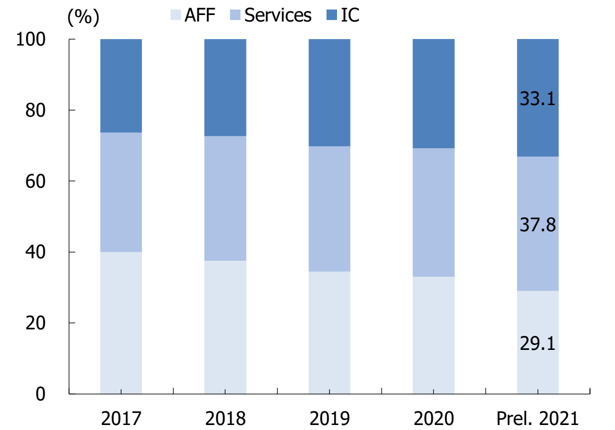


Figure 22. Labor market shares by sector



Source: KIS, GSO
Notes: AFF= agriculture, forestry, and fishery; IC = industry and construction; TLS = taxes less subsidies on products.

In the first quarter, five largest industrial provinces witnessed a more significant fall in industrial labor employment than the country average as lower global demand and orders. This directly posted income insecurity to the low-income people, concentrating in textile, footwear, and electrical devices manufacturing.

Figure 23. Top 5 provinces by shares of industrial park numbers at 2022/12/31

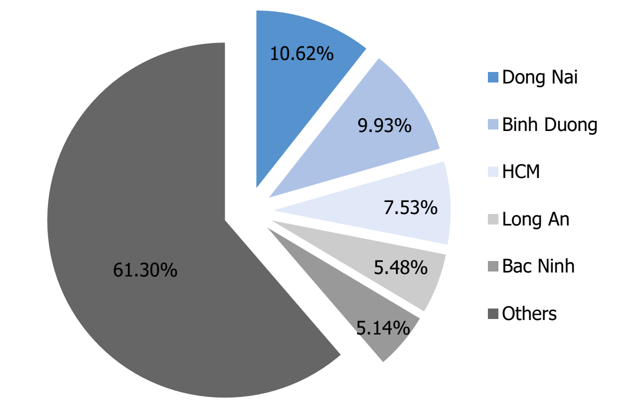
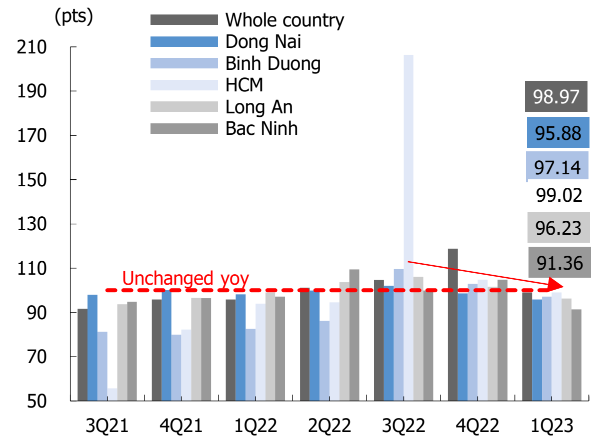


Figure 24. Quarterly industrial labor employment index



Source: Vietnam Association of Realtors, GSO, KIS

Bright spots from service and tourism sectors

According to MOF, there are many signals that retail activities will be active in 2023 as both domestic and foreign enterprises plan to make additional investment. Specifically, Central Retail announced to invest VND20.00tn into Vietnam for the next five years; AEON Corporation to build more hypermarkets in Hanoi; and integration model including WinMart+ (essential goods), Phuc Long Kiosk (tea and coffee), Phano (health care), Reddi (telecommunication services), Techcombank (financial services) are showing encouraging initial results. In addition, Chinese tourists return is expected to contribute notably to tourism related revenue as current number of Chinese visitors only accounted for 10% of that pre-pandemic level.

Retail sales should be able to maintain its growth

Despite the downturn in IC sector, 1Q23 recorded a lower unemployment rate compared to the previous quarter and the same period last year. In addition, the average monthly wages for the whole economy and IC sector both maintain its persistent growth, at 2.94% and 2.60% QoQ. Overall, we expect 2Q23 retail sales be able to maintain its 3% QoQ growth, resulted in 11.41% YoY or VND1,550tn in revenue.

Figure 25. Vietnam unemployment rate by quarter

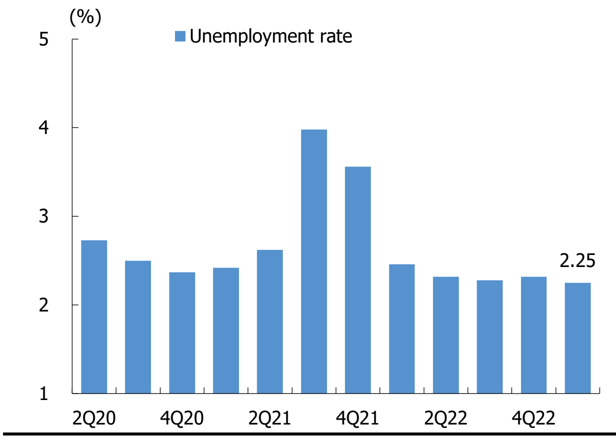
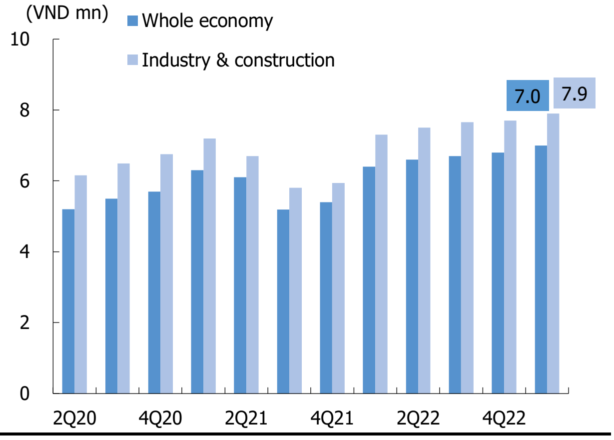


Figure 26. Average monthly wages by quarter



Source: GSO, KIS.

We expect public investment to increase by 27.31% YoY in 2Q23 due to a significantly large workload while expecting the disbursement-to-plan ratio at June-end to be similar to recent years at 27%**.** Specifically, some projects have delayed progress because of lack of input materials and land clearance progress. Regarding input materials, it can be solved by receiving extraction permit from government authorities but impossible to fulfill the demand in several months. About land clearance progress, it usually takes a long time to resolve the legal issues as well as the people's consent to relocate. Overall, those two main problems causing late progress could not be solved in short period, then we expect the public investment disbursed as of annual plan would maintain its previous year level at 27%. In other words, 2Q23 would be expected to disburse VND109.76tn in public investment.

We expect that the CPI in the second quarter of 2023 would reach 2.84% compared with the same period last year for some reasons as follows. We predict FFS (food and foodstuff index) to increase due to the long 30/4 holiday which pushes the persistent rise in eating outside. Furthermore, a surge in African swine fever infections in China recently has set to reduce hog output later this year, causing pork prices and corresponding food index to increase.

Figure 27. Quarterly CPI change

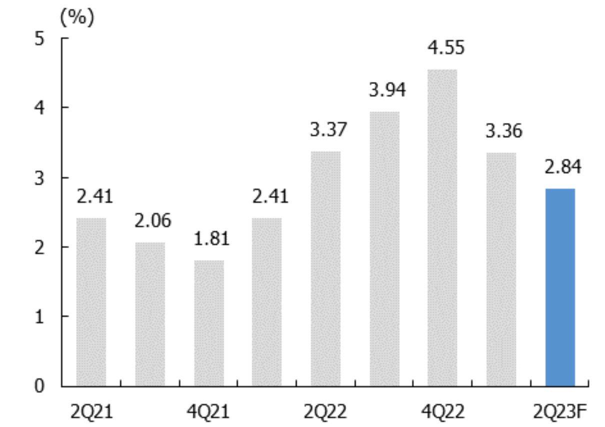
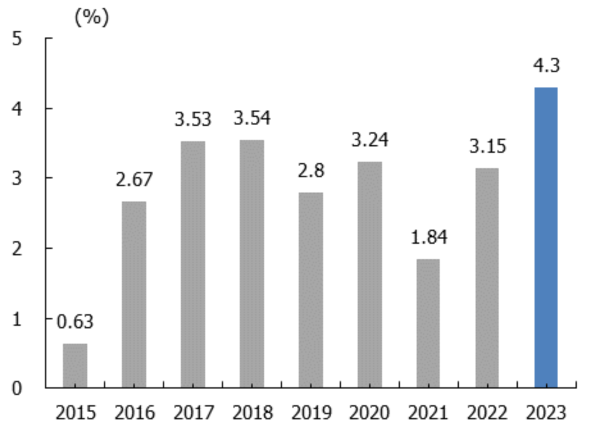


Figure 28. Average CPI by year



Source: GSO, KIS.

Figure 29. Domestic pork price

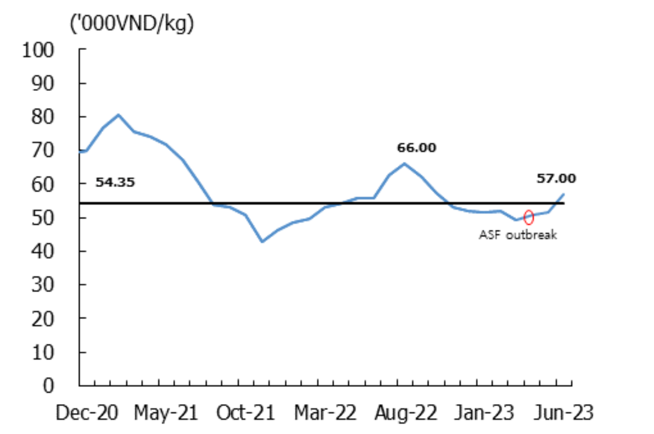
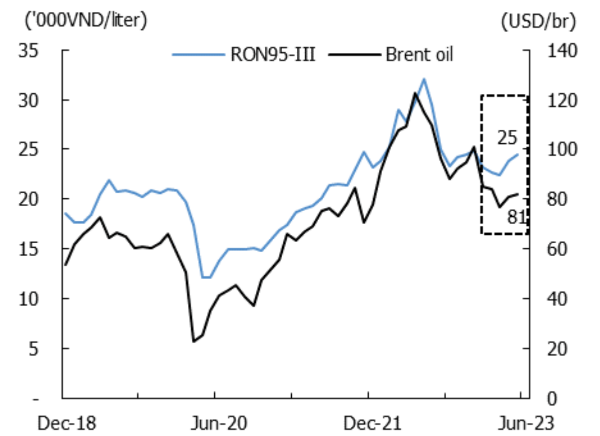


Figure 30. Domestic gasoline and Brent oil



Source: GSO, KIS.

KIS expectations assume a continued increasing impact from energy prices. According to EIA, Brent oil would reach to the average of USD85 per barrel in 2023. Furthermore, on 2nd April, the beginning of the second quarter of 2023, top OPEC producer Saudi Arabia announced that it would cut output by 1,000,000 bdp and maintain its plan until the end of 2023. Hence, the factors above likely put a damper on domestic gasoline price and then directly push up the traffics index in upcoming months.

Remarkably, electricity price (which is one of the key components in the Housing and construction material index) is expected to increase in 2Q23 due to the implementation of Decision 02/2023/QDTTg. To be more specific, lower and upper bounds of the average retail of electricity increase to VND1,826.22 (+14%) and VND2,444.09 (+28%), respectively), effectively from February. According to GSO, electricity weighs around 3.3% in the CPI basket which means a 5% or 10% increase in electricity price will directly contribute to a 0.16ppts or 0.33ppts increase, respectively in headline inflation.

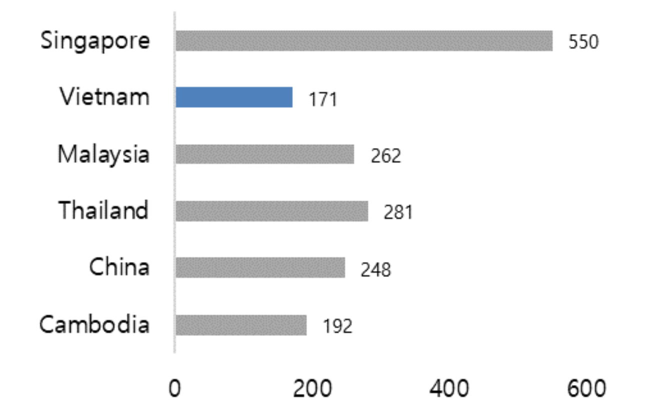
In addition, the National Assembly adopted Resolution 69/2022/QH15 on State budget estimates for 2023, which increases the base salary for private employees and public employees by 20.8% from 2H23. Thus, the inflation would remain elevate in the next quarter of 2023.

We expect FDI to recover robustly, supported by the VND's stability, strong FX reserve, the growing remittance, and USD inflow from big deals such as VRE, and VPB. Besides, Vietnam has been one of the biggest beneficiaries in terms of FDI diversion both from non-Chinese and Chinese investors.

Based on industry characteristics, FDI inflow into Vietnam can be divided into the following reasons:

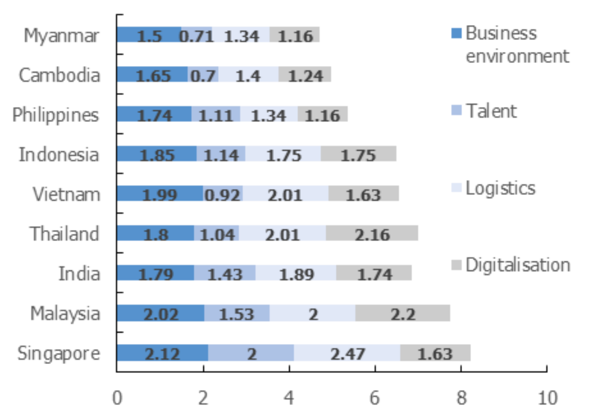
- **Cheap labor cost advantage**: Vietnam has one of ASEAN's largest labor markets, whose strength is approximately 56 million people, and a labor participation rate of 76 percent. Besides, Vietnam's monthly cost is around USD171, much lower than other competitors. According to data from Asia Pacific's leading business transformation consulting firm TMX, Vietnam is one of the markets with the lowest average operating costs in the region, just higher than Cambodia and Myanmar. Regarding labor costs, Vietnam is ranked as the fourth most affordable market after Cambodia, Myanmar, and the Philippines.

Figure 31. Labor cost in ASEAN manufacturing countries



Source: KIS, GSO

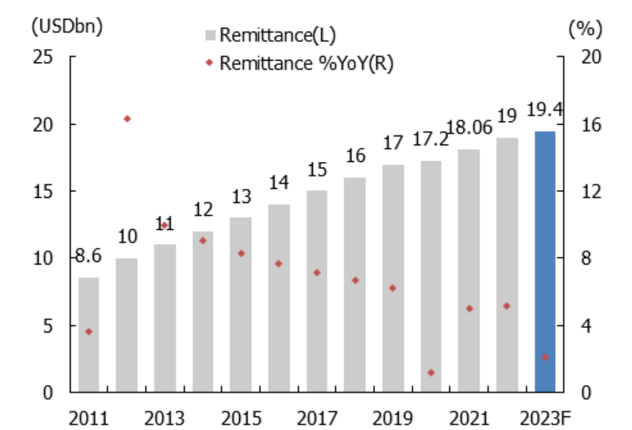
Figure 32. Country competitiveness scorecard



Source: KIS, GSO

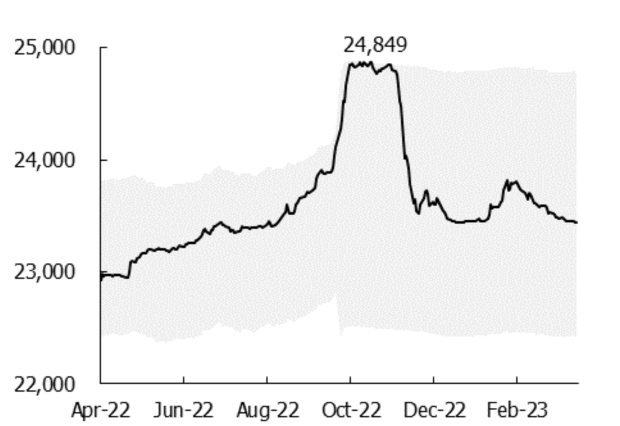
- **The stabilization of USDVND is now under control.** As can be known, The Federal Reserve is likely to raise its policy rate once more in May to a range of 5.00%-5.25% and stop from there due to a 'mild recession' chance in the U.S. Therefore, exchange rate pressure is no longer a big problem at the moment. Besides, Vietnam is forecasted to receive a significant amount of VND19bn remittance inflows in 2023 as well as USD inflow from M&A deals recently. In addition, the amount of USD bought by SBV in the first quarter of 2023 is estimated at around USD4bn, equal to 20% amount sold last year. The abundant supply of dollars is a key factor for SBV to stabilize the exchange rate resulted in attracting FDI inflow.

Figure 33. Remittance inflow of Vietnam



Source: KIS, GSO

Figure 34. USDVND exchange rate



Source: KIS, GSO

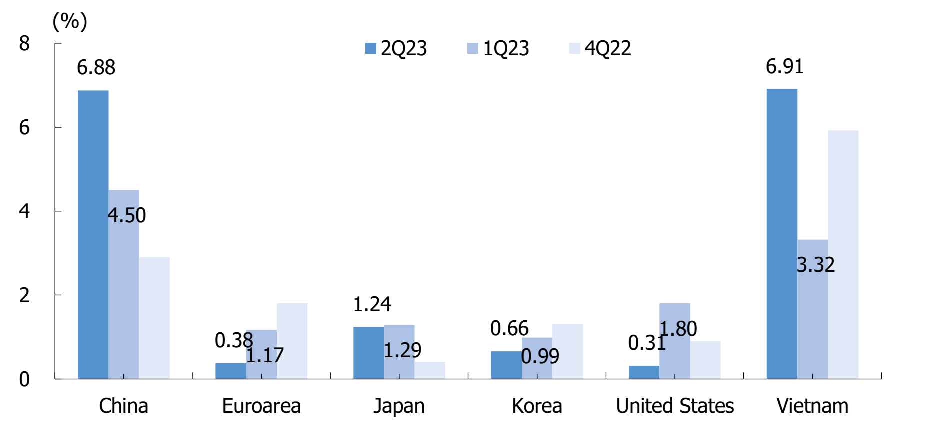
- **A long list of free trade agreements**

With around 12 free trade agreements, Vietnam's entry into the ASEAN Economic Community (AEC), is a good opportunity to connect Vietnam with the world market. Additionally, Vietnam's institutions, laws, and transparency have been gradually improved in association with integration, not only creating conditions for investors to operate in the long term, but also helping businesses participate in global supply chains

2 .China's economic acceleration provides hope

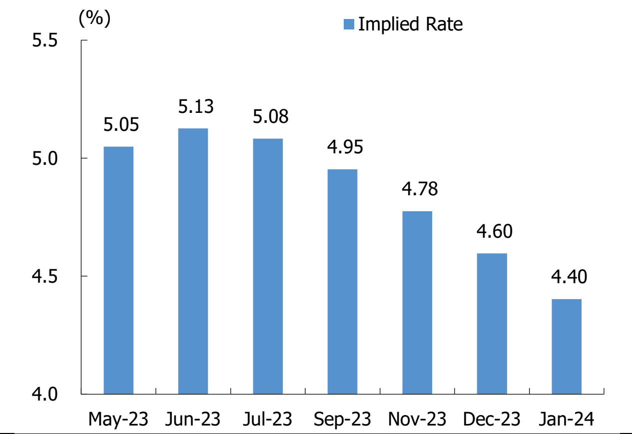
U.S. and Euro area economies are expected to grow modestly in 2Q23 under the high interest rate and the high inflation environments. Real GDP for U.S. and Europe are expected to grow by 0.31% YoY and 0.38% YoY, 1.49ppts- and 0.79ppts-lower than 1Q22's estimated levels. However, the rate hike path is coming to the end, especially in the U.S., the current situation of weak consumer confidence and inventories could be less severe, improving the new orders and corresponding manufacturers in the global chain, including Vietnam factories.

Figure 35. Forecasts of economic growth by country/region in 2Q23



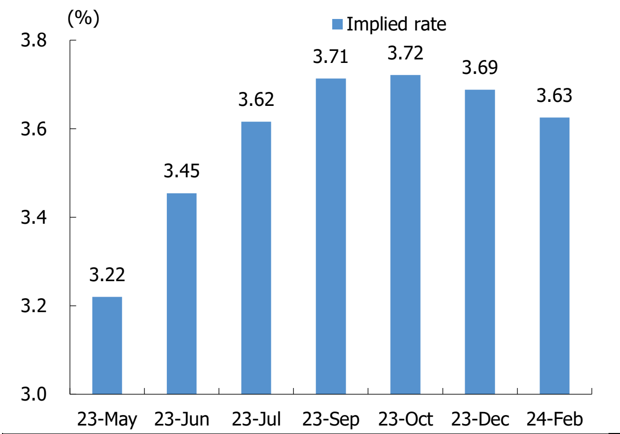
Source: GSO, Bloomberg, KIS
Notes: 1Q23 for Vietnam and China are actual values. 1Q23 for remaining countries are Bloomberg's estimated values.

Figure 36. Fed fund rate path



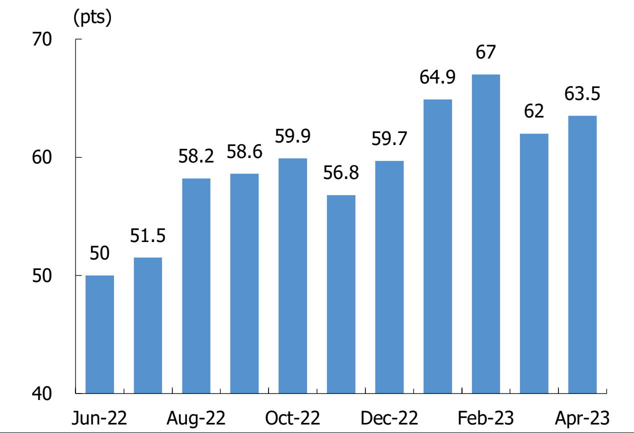
Source: Bloomberg, KIS

Figure 37.ECB's policy rate path



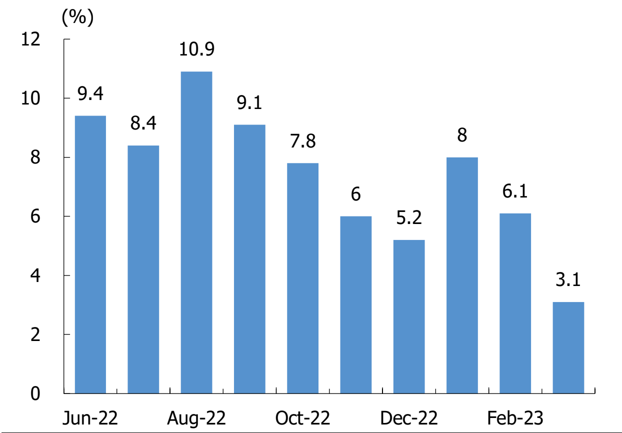
Source: Bloomberg, KIS

Figure 38. U.S. consumer confidence index by month



Source: Bloomberg, KIS

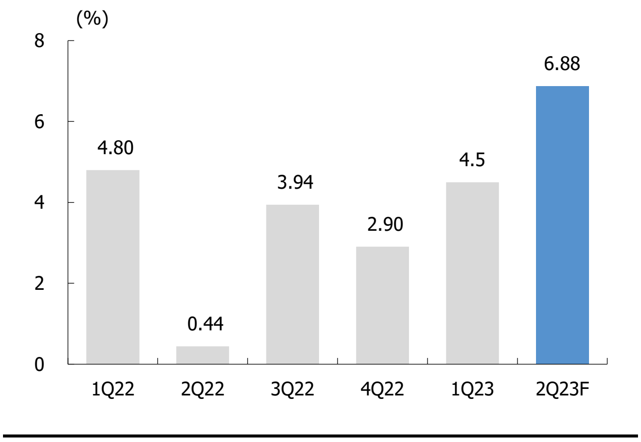
Figure 39. U.S. retail inventories by month



Source: Bloomberg, KIS

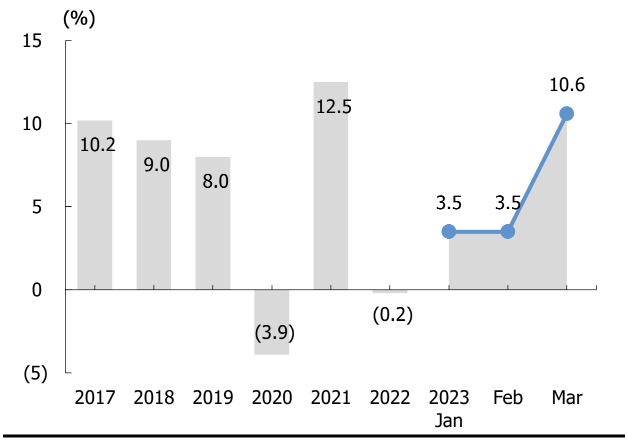
China's economy is expected to accelerate under the ongoing reopen and to improve Vietnam's export and GDP growths for the second quarter of 2023. According to the [SMCP's zero-Covid tracker], China's authorities continued to strengthen its easing stance on after the first quarter without serious public health crisis. Therefore, it is promising for China's domestic consumption to grow impressively in 2Q23. 1Q23's figures likely reflected the tendency of an economic speed up. Retail sales recorded an average growth rate of 5.87% YoY while CPI grew slightly, indicating a widening demand side when domestic consumers were gaining confidence. We expect the demand-driven economic acceleration to extend in 2Q23, consequently benefiting for China and countries with the high export value to this countries.

Figure 40. China's real GDP growth forecast



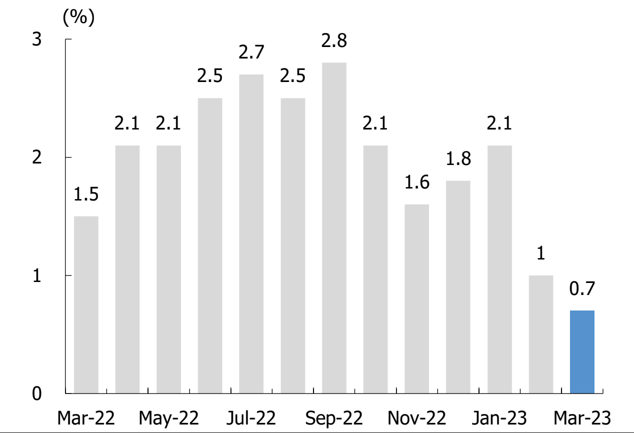
Source: NBS, Bloomberg, KIS

Figure 41. China's retail sales growth



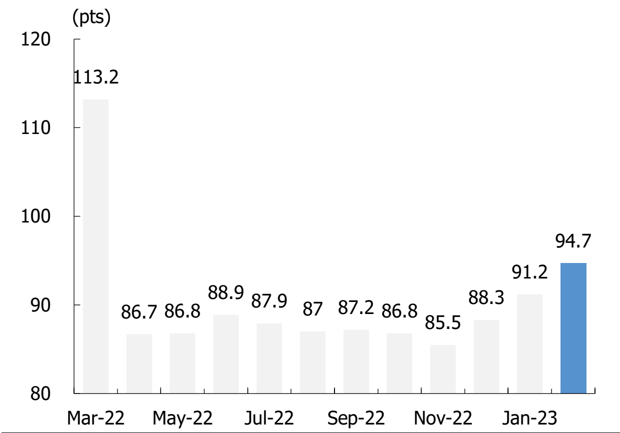
Source: NBS, Bloomberg, KIS

Figure 42. China CPI %YoY



Source: NBS, TradingEconomics, KIS

Figure 43. China's consumer confidence index



Source: NBS, TradingEconomics, KIS

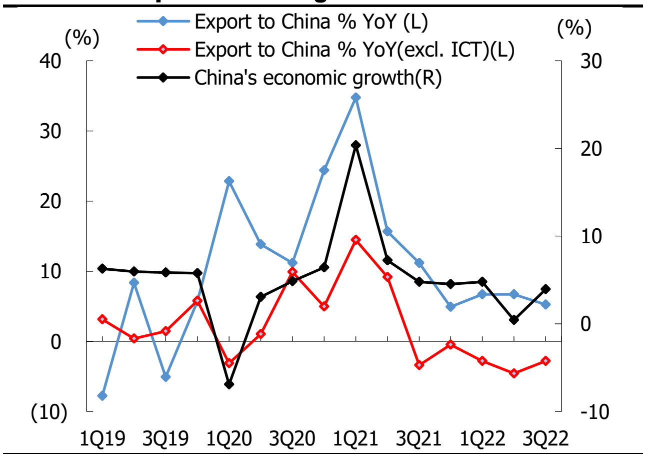
Table 3. Quarterly economic growth correlation matrix

	China	Euro Area	India	Indonesia	Japan	Korea	Malaysia	Singapore	United States	Vietnam
China	1.00	0.08	0.13	0.01	0.18	0.19	0.05	0.17	0.13	0.09
Euro Area	0.08	1.00	0.81	0.62	0.80	0.69	0.84	0.69	0.89	0.30
India	0.13	0.81	1.00	0.76	0.71	0.73	0.83	0.77	0.74	0.34
Indonesia	0.01	0.62	0.76	1.00	0.59	0.65	0.84	0.65	0.58	0.46
Japan	0.18	0.80	0.71	0.59	1.00	0.74	0.84	0.80	0.84	0.30
Korea	0.19	0.69	0.73	0.65	0.74	1.00	0.77	0.90	0.68	0.25
Malaysia	0.05	0.84	0.83	0.84	0.84	0.77	1.00	0.81	0.76	0.72
Singapore	0.17	0.69	0.77	0.65	0.80	0.90	0.81	1.00	0.72	0.20
United States	0.13	0.89	0.74	0.58	0.84	0.68	0.76	0.72	1.00	0.22
Vietnam	0.09	0.30	0.34	0.46	0.30	0.25	0.72	0.20	0.22	1.00

Source: IMF,GSO, KIS

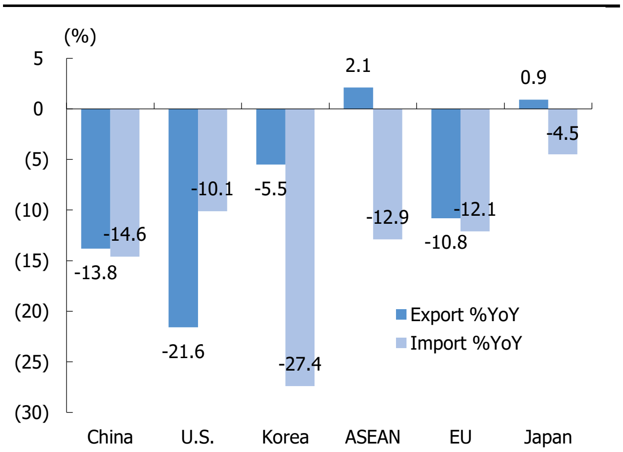
As the second largest trading partner, China's impressive recovery could promote Vietnam's export activities and the corresponding domestic production. Although quarterly China's economic growth has a modest correlation to Vietnam's economic and export growths. However, the economic link was more crucial when considering the export structure without the ICT group, including export of telephones, computers, and electronic products. Intuitively, ICT production and export hinge on MNCs and assemblers, whole business plans vary with the demand and condition of the global other than of China alone.

Figure 44. Quarterly China's real GDP growth and Vietnam's export to China growth



Source: KIS, GSO
Notes: ICT includes (1) telephones and their parts, (2) cameras and their parts, (3) computers, electronic products & parts, and (4) other machinery, instrument, accessory

Figure 45. Export and import growths by country in 3M23



Source: KIS, GSO

Table 4. Vietnam’s export to China by item contribution

Item	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Iron, steel	0.03	0.33	0.25	0.98	1.57	2.94	5.06	2.42	1.84	0.86	0.14	-0.58	-2.12	-3.20	-4.27
Fibres, not spun	1.02	-0.05	0.55	0.31	-1.20	-1.70	-0.65	0.52	2.05	3.17	1.91	0.44	0.32	-1.35	-2.43
Clinkers and cement	0.84	0.56	0.16	1.00	-0.20	0.57	0.97	-0.15	0.80	0.09	-0.01	0.46	0.50	-1.12	-1.51
Fresh and pocessed vegetables and fruit	-0.56	0.39	-2.32	-0.46	-2.03	-2.85	-0.53	-0.87	0.91	0.80	-0.59	-0.15	-1.23	-2.15	-0.37
Cashew nut	-0.19	0.71	0.55	0.23	-0.53	-0.26	-0.25	0.10	0.71	0.66	0.13	-0.29	-0.59	-0.31	-0.19
Rice	-2.37	-1.60	-0.48	-0.44	0.92	0.65	0.14	0.59	0.48	-0.11	0.40	-0.16	-0.36	-0.29	-0.17
Textile, sewing products	0.52	0.22	0.36	-0.42	-0.29	-1.18	-0.53	-0.27	-0.03	0.64	-0.54	-0.11	0.03	-0.78	0.19
Plastic materials	0.14	-0.54	0.03	-0.05	-0.84	0.66	0.44	0.20	0.27	-0.76	-0.69	-0.26	-0.04	0.13	0.23
Petroleum oil, refined	0.08	0.23	0.18	0.04	-0.27	-0.80	-0.84	-0.64	-0.71	0.10	0.07	0.10	0.06	0.07	0.24
Electrical wire and cable	-0.62	-0.13	-0.16	0.70	0.63	0.76	0.01	0.50	0.85	-0.30	0.34	0.06	-0.15	0.55	0.25
Crude oil	1.36	-0.22	-0.65	-0.29	-1.46	0.83	1.59	-0.06	0.04	-1.20	-1.50	-0.70	-0.26	-0.27	0.41
Telephones and their parts	-11.33	4.60	-4.60	0.23	19.28	7.90	-3.50	17.24	13.24	5.50	12.06	-3.15	3.71	3.76	1.10
Seafood	-0.11	0.05	0.95	0.99	-0.74	0.68	0.01	-0.44	0.23	-0.63	-1.08	-0.11	1.31	1.89	1.17
Cameras and their parts	0.08	0.52	-4.61	-6.07	-4.28	-2.77	0.81	2.96	3.87	2.00	3.53	3.12	2.42	2.87	1.19
Footwear	1.16	0.46	0.71	0.55	0.43	1.12	1.10	0.21	0.65	0.03	-3.03	-0.93	-0.89	-0.75	1.51
Wood and wooden products	-0.20	0.05	0.34	0.49	1.03	0.20	-0.23	-0.25	0.29	1.42	0.30	0.51	-0.04	1.16	2.55
Computers, electronical products & parts	0.44	3.02	2.35	4.97	10.69	6.84	2.89	-1.81	1.04	-2.82	-2.51	3.21	2.44	3.06	2.59
Other machinery, instrument, accessory	-0.10	-0.20	0.33	0.78	0.23	0.80	1.10	1.02	2.16	1.84	1.49	2.17	0.94	1.57	3.16
Export to China % YoY	**-7.79**	**8.35**	**-5.07**	**5.68**	**22.81**	**13.80**	**11.18**	**24.38**	**34.76**	**15.66**	**11.19**	**4.89**	**6.68**	**6.69**	**5.26**
Export to China % YoY(excl. ICT)	**3.12**	**0.41**	**1.46**	**5.77**	**-3.11**	**1.04**	**9.89**	**4.96**	**14.45**	**9.14**	**-3.38**	**-0.46**	**-2.82**	**-4.57**	**-2.79**
China's economic growth	**6.27**	**5.97**	**5.85**	**5.77**	**-6.92**	**3.05**	**4.84**	**6.41**	**20.37**	**7.23**	**4.79**	**4.52**	**4.80**	**0.44**	**3.94**

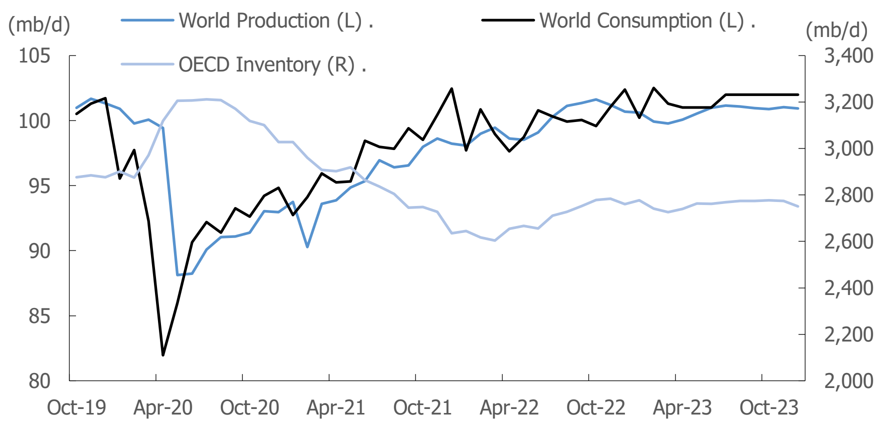
Source: IMF, GSO, KIS

III. 1Q23-2Q23F outlook

1. Oil &Gas: 1Q23 sideways oil prices and 2Q23 positive expectations

Oil price declined q-o-q in 1Q23. EIA forecasts world oil demand to increase by 2 mb/d in 2023 to a record 101.9 mb/d while world oil demand growth is set to accelerate strongly from 710 kb/d in 1Q23 to 2.6 mb/d in 4Q23. The growth is contributed by non-OECD countries, in which, the recovery is supported mainly by rebounding air traffic and the release of pent-up Chinese demand. OECD demand dragged down by weak industrial activity and warm weather, contracted by 390 kb/d yoy in 1Q23, its second consecutive quarter of decline.

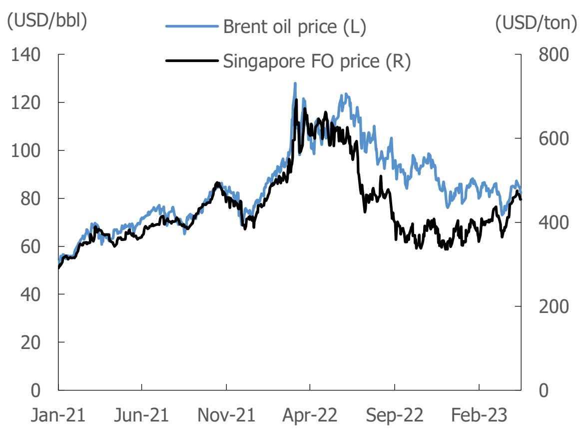
Figure 46. Crude oil supply-demand of the world



Source: Bloomberg, KISVN

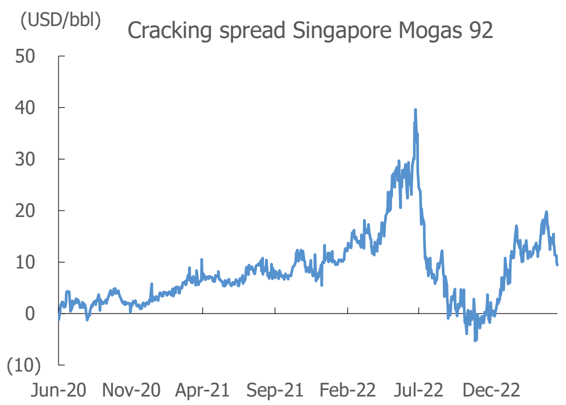
OPEC+ oil producers announced further oil output cuts of around 1.1 mn bpd in early April, this extra cuts by OPEC+ will drag the world oil supply drop by 400 kb/d by end-2023. Surprise OPEC+ supply cuts boosted oil prices at a time of expected oil supply deficit in 2H23. The action immediately triggered a $7/bbl jump in Brent oil price to USD85/bbl, up nearly USD15/bbl from March lows. An increased volume of 1 mb/d from non-OPEC+ such as the US and Brazil is not enough to offset a 1.4 mb/d decline from the OPEC+ producers, per EIA.

Figure 47. Sideways oil prices in 1Q23



Source: Bloomberg, KISVN

Figure 48. Recover in Cracking spread in 1Q23

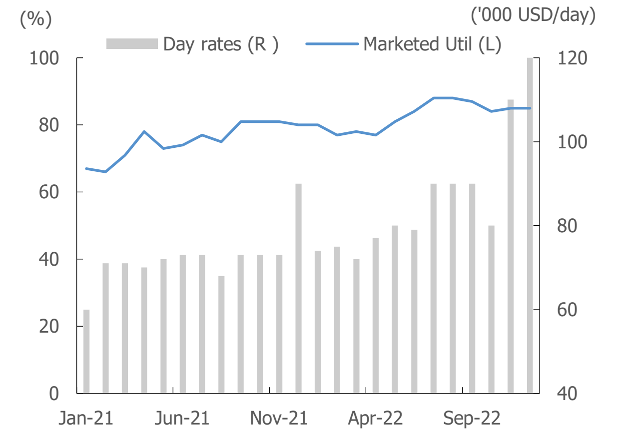


Source: Bloomberg, KISVN

In general, Brent oil futures went sideways and averaged at USD82/bbl in 1Q23, (vs 89USD/bbl in 4Q22), it dropped to a 15-month low of USD71/bbl in mid-March due to financial market instability but then recovered as the banking sector stress eased and expectations of Fed interest rate cuts later this year increased. Additionally, surprise OPEC+ production cuts announced in early April added further momentum to the rebound. Currently, Brent oil prices are traded at USD85/bbl. With such a supply deficit, many organizations expect that oil prices could increase in the rest of 2023.

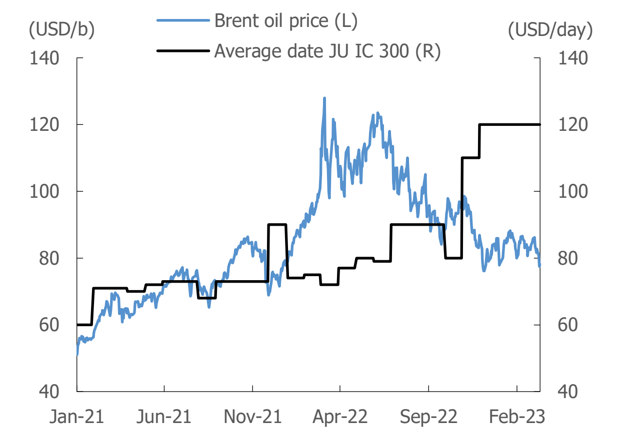
PVD will benefit from rising renting rig prices in 1H23. In Southeast Asia rig market, rig utilization efficiency was improved in 2022 due to the moving of some rigs of the region to fill the high demand of the Middle East and partially improved demand in the SE region. Average jack-up demand in SE is forecasted by S&P Global to increase from 32 in 2022 to nearly 37 units in 2023F. SE rig utilization efficiency is forecasted to stand at a high rate in 2023-24F when the drilling programs will be put into operation. Accordingly, the expected rental price of jack-up 361-400 rigs in the area will also be significant improvements, the day rate in Jan and Feb-23 increased sharply to USD125,000 (+66% yoy, +40% vs 2022 average) and is expected to maintain at high levels in 2024F, per S&P Global

Figure 49. Warming Southeast Asia drilling activities



Source: IHS Markit, KISVN

Figure 50. Correction of oil prices vs Southeast Asia day rates of IC 300 in



Source: Bloomberg, KISVN

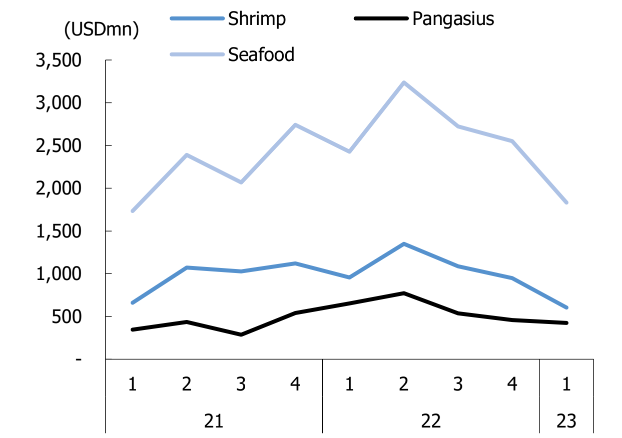
In 2022, the utilization rate and average JU day of PVD improved and were 84.6% (vs 78.9% in 2021) and USD60,800 (+17% yoy), respectively but significantly lower than USD89,000 in Southeast Asia market since PVD signed the main contracts in 2021 with low prices and have not yet renewed with better prices. We expect PVD to renew their contracts at higher day rates of above USD90,000 in 2023F. We forecast the 2023F average JU day rate for PVD to increase to USD78,000. We estimate NPATMI to turn green in 1Q23 and 2Q23 compared to a loss of VND56bn and VND60bn, respectively. For 2023F, we forecast PVD's revenue to increase to VND6,844bn (+26% yoy) and the NPATMI to be VND434bn after a loss of VND103bn in 2022.

2. Seafood: Low demand dragged export volume down deeply

1Q23 seafood export slumped significantly. The seafood export recorded USD1.8bn in 1Q23, decelerated by 24.5% yoy and 28.1% qoq since the export value to many markets decreased, especially key markets including US, EU, and China. Of which, shrimp and pangasius products exports dropped strongly by 36.7% yoy and 35.1% yoy, respectively. As a result, we projected 1Q23 seafood sector could be slumped by 10-50% yoy and 10-30% qoq in revenue due to the fall in export volume and ASP to key markets.

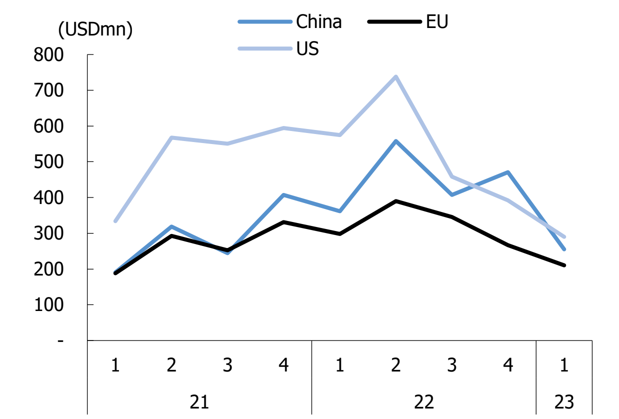
In detail, we estimate that the revenue of VHC posted VND2,247bn (-30.3% yoy and -12.5% qoq), ANV was estimated at VND1,190bn (-2.4% yoy and +4% qoq), and FMC posted VND1,020bn (-23% yoy and -15.7% qoq). Also, the downtrend of selling price yoy outpaced the drop of raw material price yoy, dragging exporters' margins lower yoy. As such, we projected the NPAT of VHC could be VND220bn NPAT (-57% yoy and +15% qoq), ANV could be VND107bn (-48.3% yoy and +0.4% qoq), and FMC is posted at VND47bn (+11.9% yoy and -42% qoq).

Figure 51. 1Q23 export value of key products dropped



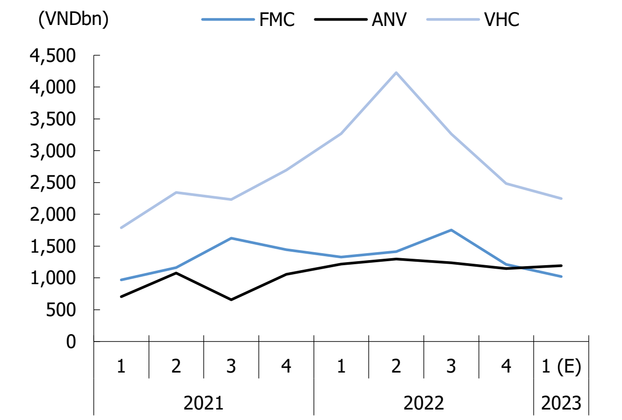
Source: VASEP, KISVN

Figure 52. 1Q23 Export value to key markets declined



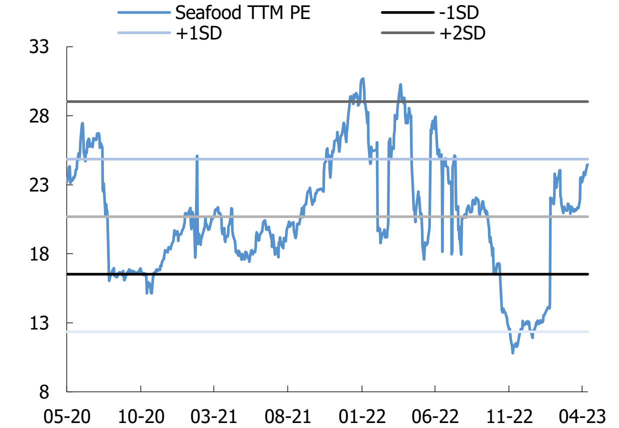
Source: VASEP, KISVN

Figure 53. FMC and VHC revenue is projected to declined in 1Q23



Source: Fiinpro, KISVN

Figure 54. Seafood TTM PE was at +1SD of 3-year average



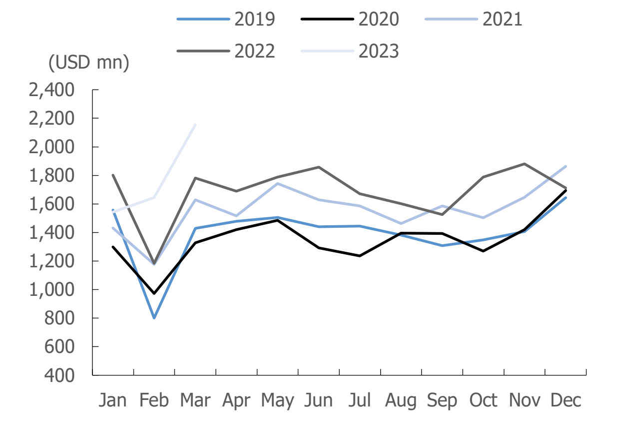
Source: Fiinpro, KISVN

2Q23 seafood export could keep sliding. We considered that 2Q23 seafood export continues to slow down yoy due to lower demand in most markets, including key markets such as US and EU. Yet, the high demand on seafood export to China, and Japan markets would partly offset the deceleration yoy of the seafood industry in 2Q23. We project that the selling price would drop sharply by 13% - 20% yoy of pangasius products and -6% yoy of shrimp products. Currently, the seafood sector is trading at 24.5x TTM PE, above the 3-year average of 20.7x.

3. Agriculture: 2Q23 outlook seems brighter

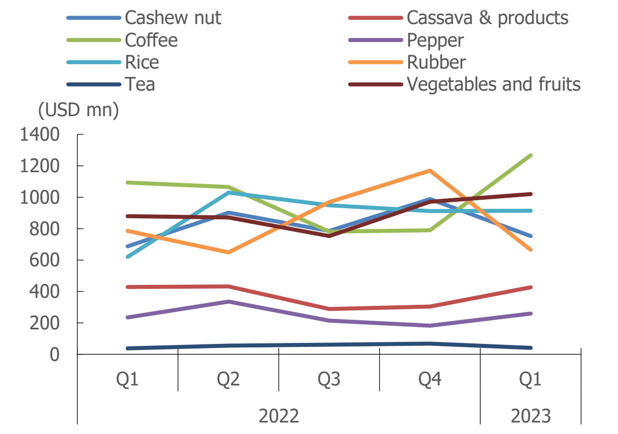
1Q23 crops exporting value upped 12% yoy and fell by 1% qoq to USD5.3bn, contributed by the strong growth of coffee and rice exporting value. Particularly, rice exporting value surged by 47% yoy to USD913mn in 1Q23, mainly driven by the rocketing import from the Philippines by 45% yoy to USD451mn and China by 119% yoy to USD199mn. Remarkably, in 1Q23, Indonesia imported 148.6 mn tonnes of rice from Vietnam, equivalent to USD69mn, while that of 1Q22 was merely USD392,570. The purchase aligned with Indonesia's plan of total 2mn tonnes of rice for national reservation in 2023.

Figure 55. Export value of crops



Source: GSO, KIS

Figure 56. Export value of crops by product



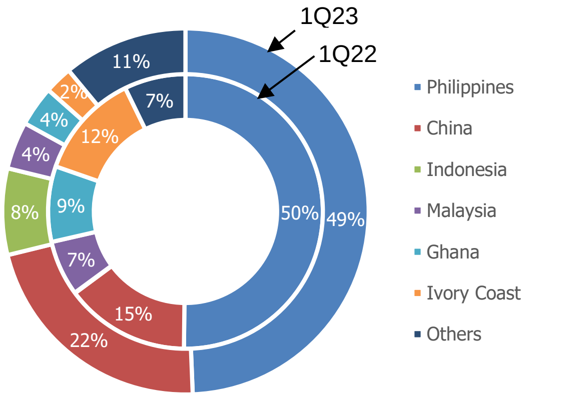
Source: GSO, KIS

Constantly high global demand for rice as the substitute product for wheat was caused by the production disrupted by Ukraine & Russia War. Besides, the low grain output due to the drought and floods in many planting areas led to stricter domestic national food security in key rice exporters. In 2H2023F, the weather is expected to be even hotter as El Nino impacts will be stronger than ever. Many countries have been increasing rice imports to ensure food security since 2H22. In Apr-23, Philippines, for instance, proposed importing 330,000 tonnes of rice to cover an expected deficit in its buffer stock. According to the Philippines' National Food Authority, the Philippines' year-end rice inventory is estimated at 1.69 mn tonnes, equivalent to a 45-day buffer stock, just half of the ideal 90-day stock needed to stabilise prices. Thailand and Vietnam has witnessed the soaring rice prices since Sep-22. We anticipate the rice export to keep growing with a high price and high volume levels in 2Q23.

In 1Q23, coffee exporting volume sharply increased by 20% yoy and 61% qoq to 570,000 tonnes, equivalent to USD1.3bn. Russia and USA became the rising potential importers of Vietnam coffee, with imported value respectively upped by 76% yoy and 18% yoy. Due to the impact of the heatwave and drought during flowering-impaired fruit set in 2H22, coffee supply from Brazil - the largest coffee supplier, is expected to slightly fall in 2023F on the yearly basis. Recent data showed a tumble in coffee export volume by 25% yoy in Jan-23. Colombia, another big Arabia coffee producer also faced a decrease in coffee export by 10% yoy in 2M23, due to the heavy rain during La Nina phenomenon, lasting until Mid-23. Vietnam, the second-largest coffee exporter in the world, famous for Robusta (95% of coffee exported), is enjoying climbing orders and prices with a shortage in global commodity inventories. As Arabica coffee trees take 2-3 years to be fruitful and Robusta coffee trees are more sustainable to the warming climate, we expect the export volume of Vietnam's raw Robusta to EU countries will keep increasing in 2Q23.

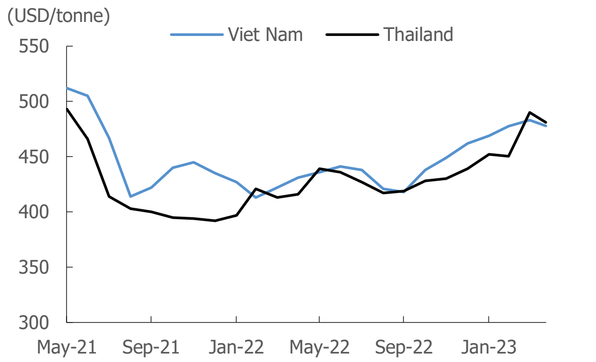
2Q23 feeding industry outlook still blurred. In 2022, livestock & poultry production grew at 1 digit % on the yearly basis. Swine & poultry prices that were long-lasting lower than costs led to closing farms effects in 1Q23. USA boosted using maize to produce fuel ethanol, leading maize to be in short supply in 2022, keeping cattle feed prices at a high level. On the other hand, low demand amid inflation, rising unemployment and underconsumption from Tet holiday contributed to the low selling price of not only meat but also poultry eggs that are oversupplied, laid by the Tet hen batches. Cutting production in 1Q23 and decreasing feeding supply price may recover the net profit margin in 2Q23.

Figure 57. Rice exporting value by importer



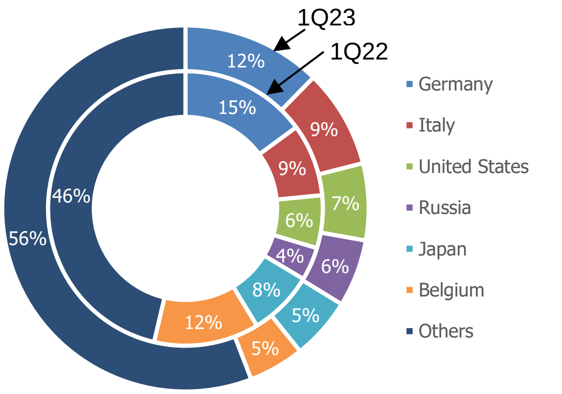
Source: Vietnam Customs, KIS

Figure 58. Price movement of white 5% broken rice



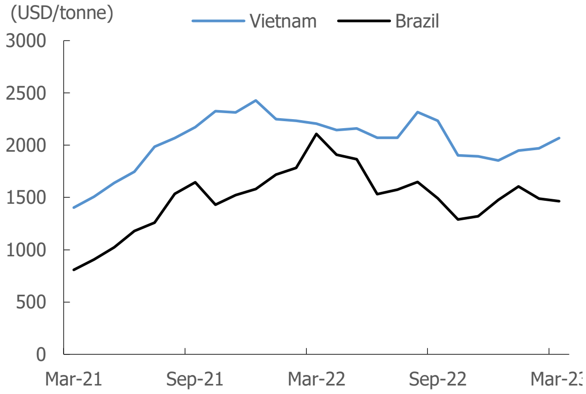
Source: Vietnam Customs, KIS

Figure 59. Coffee exporting value by importer



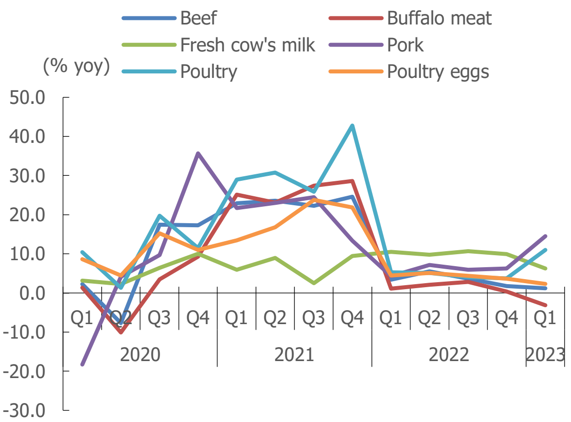
Source: Vietnam Customs, KIS

Figure 60. Price movement of Robusta coffee



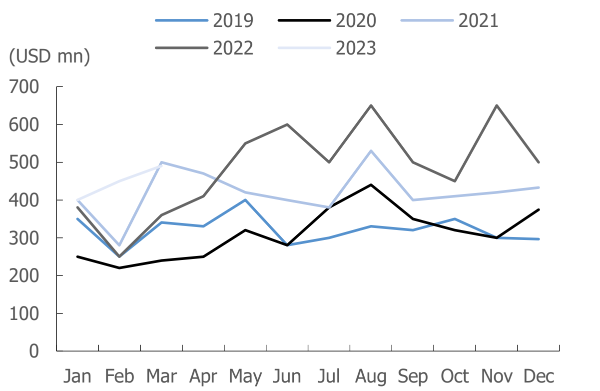
Source: Vietnam Customs, KIS

Figure 61. Livestock & poultry production growth



Source: GSO, KIS

Figure 62. Imported value of cattle feed and supplies



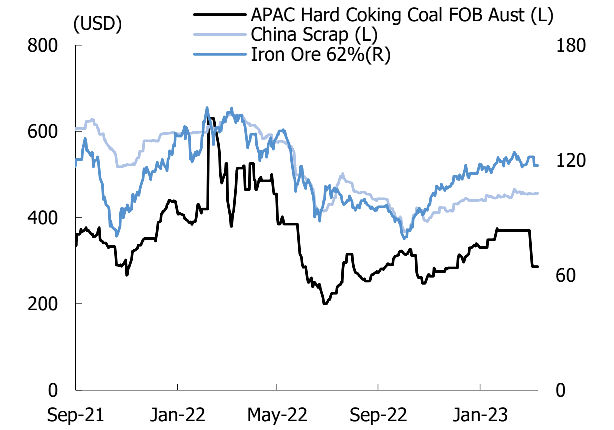
Source: GSO, KIS

4. Steel: Worst time was over - Good time has not yet come

1Q23 sales volume in line with our expectation. The growth rate for total sales volume in 2M23 was at -25.1% yoy versus our expectation is -22% yoy for 1Q23. The sales volume in March is expected to improve, however, it cannot drag up the overall performance in 1Q23. The decline in total sales volume was attributed to the sluggish demand in both domestic and export markets caused by domestic issues and global economic slowdown.

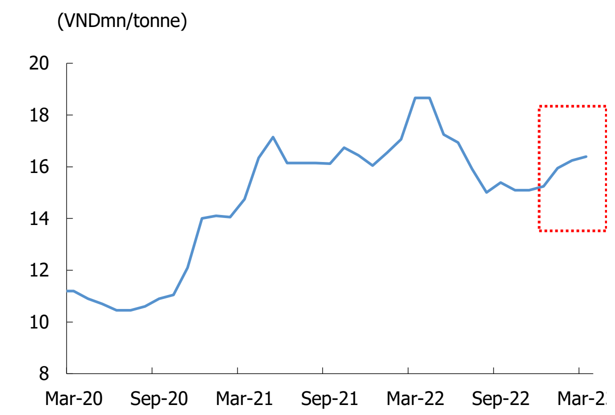
Short-term ASP up trend may come to an end soon. As discussed in our 4Q22 earning note, we are not surprised with the recent up-trend movement of input prices (coking coal, iron ores), which caused the increase in ASP. HRC price increased by 9.4% YTD while construction steel increased 7.5% YTD in first 3 months of 2023 (data as 31 Mar 2023). It's highly likely that there will be down adjustment in steel prices in 2Q23 when the input prices cannot maintain their momentum as the global demand is still sluggish.

Figure 63. Input prices are signalling the weak demand with recent decline



Source: Bloomberg, KIS

Figure 64. Domestic rebar price increased since Dec 2022



Source: VSA, KIS

Sentiment improved but end-use buyers still in wait-and-see mode. Thanks to many recent policies and actions from Vietnam government and China government, we suppose that the market sentiment about residential and bond markets and economic outlook will be improved. However, we also suppose that it will take more time for end-use buyers back to the market or resume their construction activities. We expect to see the better signals from the end-use buyers and their activities from end of 3Q23.

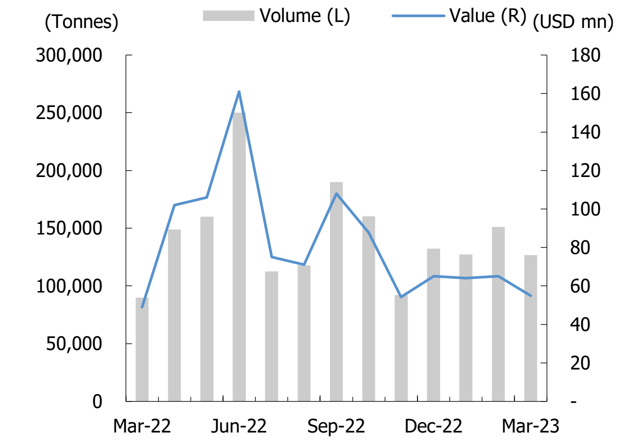
We maintain our HOLD rating on 3 stocks: Hoa Phat Group (HPG), Nam Kim Steel (NKG) and Hoa Sen Group (HSG) as we see there is no significant improvement in the fundamentals. Earnings of those companies are under review as the performances were worse than our expectation.

5. Fertilizer: The famers are cheerful

1Q23 dim business results are foreseen. According to the MoIT, fertilizer export volume/value were estimated at nearly 404,916 tonnes (+5% qoq but -20.6% yoy) and USD184mn (-11% qoq but -50.8% qoq) in 1Q23. On average, urea/NPK selling prices in 3Q22 were VND10,700/VND14,067/kg, -26.7%/-12.8% qoq and -36.7%/-9.1% yoy. As a result, we think 1Q23 the fertilizer sector business results could be heavily hit with a decline of 20-30% yoy in revenue.

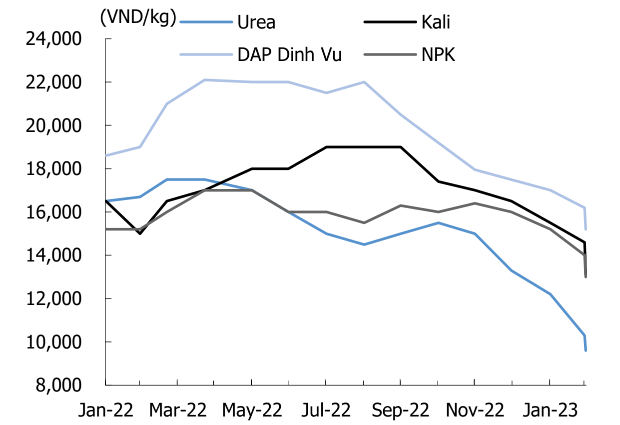
We estimate revenue of DPM/DCM could reduce 25-30% yoy due to the combination of selling price contraction and export squeeze. However, the gas input price is staying unchanged in last six months. In 1Q23, the gas input was estimated at USD228 /tonne (-27% yoy). Therefore, big urea producers such as DPM and DCM could reduce their gross margin contraction arose from selling price drop by 1.0%p to 3%p yoy in 1Q23. We project the 1Q23 net profit of DPM/DCM could shrink by 35-70% yoy.

Figure 65. Export volume and value: 1Q23 were tepid



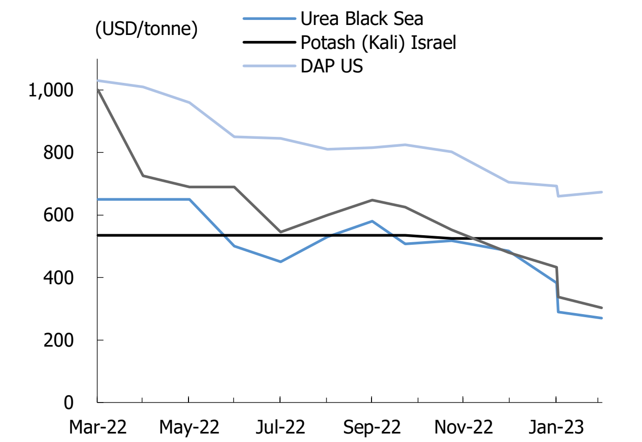
Source: GSO, KIS

Figure 66. Local fertilizer prices: 1Q23 saw a great drop



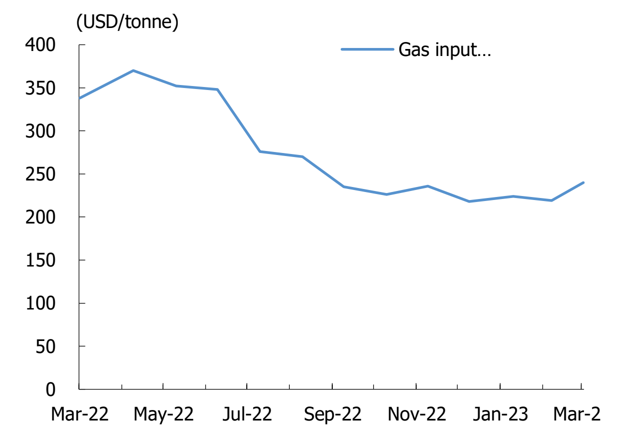
Source: Fertilizer prices are collected from the quoted retail markets, KIS

Figure 67. Global fertilizer prices: 1Q23 was unfavorable



Source: Bloomberg, KIS

Figure 68. Gas input price: steady price was helpful



Source: MoIT, KIS
Note: The gas price is calculated based on Singparore FO price

2Q23F business condition could be improved: Normally, the second quarter will be the peak season of the fertilizer industry when the whole country enters the Summer-Autumn crop. Therefore, we still believe the fertilizer sector could achieve a “satisfactory” outcome in 2Q23. We expect domestic urea prices could bounce back again 10% vs Mar level, and the gas price could fall 13% qoq in 4Q22F. However, the market performance could not be bullish significant given the poor company’s guidance. Most of the companies propose the 60-70% yoy reduction in 2023 net profit targets. We retain our Neutral rating to whole industry with HOLD recommendations to DPM, DCM.

6. Housing: Rush to grind the stone

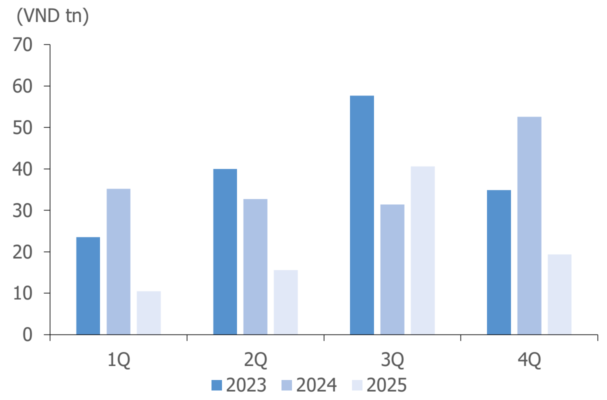
The default risk arising from due bond payment is much clearer. The newly-issued bond issuance revived in Mar with around VND27tn, 3x mom but still lagging behind Mar 2022. The buy-back was also buoyant with VND18tn, 3x mom, 2.1x yoy. But the overdue payment (principal, interest) ramped up to VND113.2tn as of end-Apr 17. We estimate the around VND40-45tn principal must be paid in 2Q23. We believe 89 bond issuers unable to pay the due amount could be widened.

Figure 69. 2023F Guidance: The top-tier players aim a flattish results (VND bn)

	Revenue			NPAT		
	2023G	2022A	% YoY	2023G	2022A	% YoY
VHM	100,000	62,500	60	30,000	29,126	3
KDH	3,100	2,911	6	1,000	1,103	(9)
NLG	4,800	4,324	11	586	558	5
SJS	1,145	572	100	256	141	82
NTL	700	391	79	240	107	125
NBB	800	466	72	21	7	189
LDG	1,448	276	424	4	4	(3)
SCR	540	900	(40)	16	64	(75)
KHG	1060	1,426	(26)	480	442	8
HQC	1,700	332.2	410	150	18.8	698
TOTAL	**115,293**	**74,100**	**56**	**32,752**	**31,571**	**4**

Source: Fiinpro

Figure 70. Due bond in real estate: Huge property bond due in 2H23 is a burden



Source: Fiinpro

1Q23 business results are less hoped. Since 1Q23F is the off-peak season of soft launches, we do not think the market could welcome multiple marketing campaigns or sales events held by developers. In light of 1Q23F business result expectation given the mostly lowest performance quarter throughout the year, we still anticipate some companies could record bullish yoy growth naming VHM, DXG but the loss could be transmitted throughout the sector. The 2023F guidance is divergent given the conservative approach in the giant developers and the aggressive targets in the small ones.

The accommodative policies from the government are booming in 1Q23 and that could yield fruit in 2Q23F. We witnessed the numerous solutions from the government to be proposed in 1Q23 ranging from the Decree 08 (bond restructure), Decree 10 (modifying the red pink issuance on the condotel), Circular 16 draft (debt classification on bank's bond balance), Directive 33 (social housing policy and interest subsidiary packages). Those legal frameworks could take time to yield the effects. The most benefit lie on the developers.

The winner takes it all. We maintain NEUTRAL. Even though the property is experiencing gloomy obstacles, our hopes for top-tier developers are persisting. The giants are still reaping the receipts of the bond issuance from local and foreign subscribers. VHM, KDH are among extravagant examples of healthy markets. The price performance of real estate stocks bottoms recently following a drop of the whole market. The property stocks are trading at 10x TTM PE and 2.4x PB, far below 3-year median of 15x. We acknowledge the investor's sentiments weighed on the property market bottlenecks. However, we think the giants with proven track records and legal capacity are able the weather the storm much smoothly.

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true Friend KIS Viet Nam Securities Corporation

VIET NAM
JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA
YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK
DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG
DAN SONG, Managing Director, Head of HK Sales (dan.song@kisasia.com +852 2530 8914)
GREGORY KIM, Sales (greg.kim@kisasia.com, +822 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE
ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON
Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811