

Strategic Insight

August strategy: A test for Vietnam CDC and stock market

Vietnam sees COVID-19 back but things are under control

For some unidentified reasons, an overseas nCoV has broken through Vietnam border, stopping 99 days of virus-free streak and so far infected 196 people, caused the lockdown of Danang and some other areas in the Central Vietnam. However, given the minor contribution of Danang (the center of the outbreak), we expect Vietnam will soon put out the outbreak and the impact on the economy will be negligible.

2Q results – Financials save the game

2Q earnings were surprising as total earnings of HSX companies decreased only 7% yoy compared with 24% yoy of 1Q given the national lockdown in April. Breaking down by sectors, 6 out of 10 sectors showed improvement in 2Q, even Industrials with large losses from local airlines. Especially, Financials led by Banks, which were able to cut operating cost and improve profitability amid economic uncertainty, posted a 34% yoy earnings growth in 2Q.

August strategy: A test for Vietnam CDC and stock market

We believe that the terrible performance of the VNIndex in July was mostly due to the overreaction of retail investors rather than the fundamental factors of the economy. A successful test of Vietnam CDC will be also a successful test for the VNIndex in the coming weeks. Given the current well-controlled virus situation, we maintain our target of 900-1,000 for the VNIndex by the end of this year. However, the outbreak of Danang teaches us that there is a high probability of another virus resurgence, another economic lockdown as well as another sell-off of the stock market and the recovery path will be intermittent, a new normal life.

August top 5

Taking into account the likely recovery of the broad market in August and large-cap-must-go-first movement, we would like to recommend 5 of the largest companies of KIS's BUY-rated stocks including ACB Bank (ACB), Hoa Phat (HPG), Mobileworld (MWG), Vinhomes (VHM) and Techcombank (TCB).

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I. August strategy: A test for Vietnam CDC and stock market

1. Vietnam sees COVID-19 back but things are under control

Unidentified F0 causes a virus outbreak after 99 days

For some unidentified reasons, an overseas nCoV has broken through Vietnam border, stopping 99 days of virus-free streak and so far infected 196 people, caused the lockdown of Danang and some other areas in the Central Vietnam, the big evacuation of 80,000 tourists and the 14% sell-off (in the first 2 days after the outbreak) of the VNIndex. Although such an outbreak will definitely hurt the economy to some extent, we have some positive views about the event.

Firstly, Danang (where is identified as the center of the virus outbreak) contributed only 1.44% to Vietnam GDP in 2019. More specifically, this coastal Tier-1 city accounted for 6% of total local tourists, 20% of international ones, 4% of tourism revenue, and less than 2% of total retail sales. Moreover, as 65% of GRDP of Danang is service (nearly a half from tourism), the lockdown of this city will unlikely to cause a disruption of the national supply chain. Only 8 companies listed on HSX are located in Danang and accounts for just 0.2% of total market cap. So the 14% erase of the VNIndex seems to be unfair.

But Vietnam is able to put the virus under control

Secondly, many investors have a concern about the spreading of the nCoV and the second outbreak in Vietnam which will eventually cause the national re-lockdown. But we do not expect this is the case. Aside from the experience from the first outbreak in March, Vietnam Government has a unified political will, a full authority and especially a full support from local people to trace and put any suspected case into quarantine. China is 14 times more crowded and 29 times larger than Vietnam and has been able to put out any outbreak quickly since the first one in February.

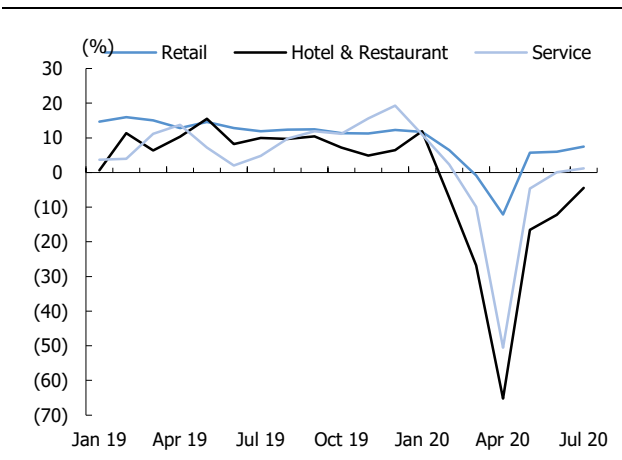
After the worst day with 56 confirmed cases on 31 July, the outbreak is now put under control of Vietnam Centers for Disease Control and Prevention. Although we do not think Vietnam can identify F0 case, we expect that the situation will get better in the coming days.

2. July macro – Local is waning but foreign may get stronger

Virus outbreak may shadow consumption recovery

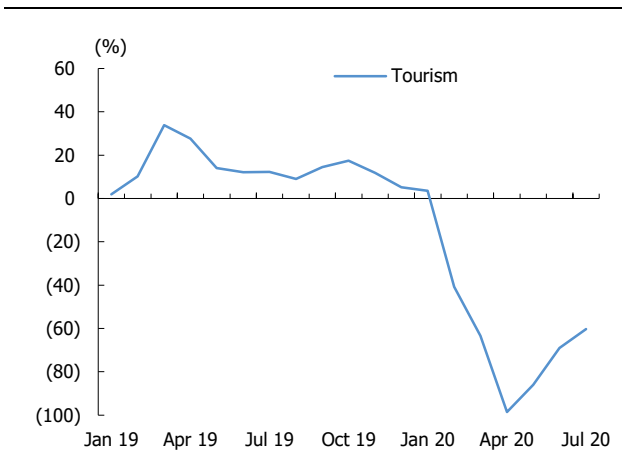
July macro report by General Statistics Office of Vietnam continued to show pickup of domestic consumption. Accordingly, retail sales accelerated by 7.5% YoY growth in July from 6% of June while service sales grew 1.2% YoY and Hotel and Restaurant sales almost returned to its pre-crisis level. On the negative side, Tourism is still in deep recession despite having recovered for the third month. However, given the current virus outbreak in Danang, retail sales may get worse in August as social distancing are being imposed in some provinces in the Central Vietnam.

Figure 1. Retail sales yoy growth



Source: GSO, KIS

Figure 2. Tourism sales yoy growth

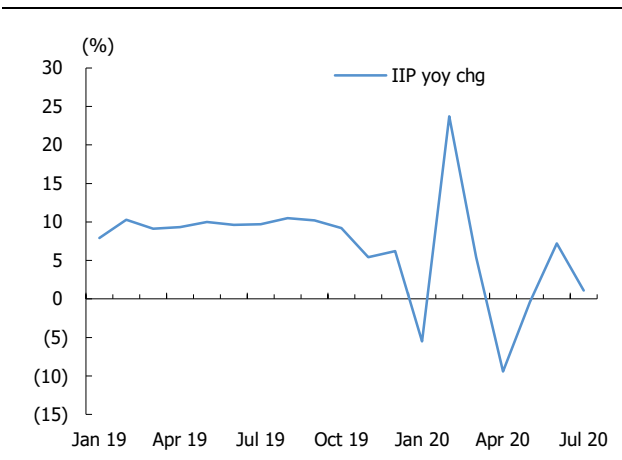


Source: GSO, KIS

Production wanes

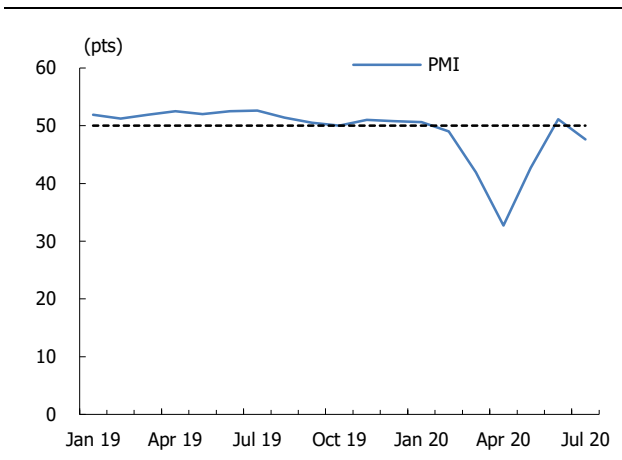
Meanwhile, Production has already started waning. IIP growth slowed down to 1.1% YoY from 7.2% of June and PMI dropped back to 47.6 after surpassing 50 in June. The local COVID-19 outbreak occurred in the last days of July may have shadowed the outlook of manufacturers.

Figure 3. IIP yoy change



Source: GSO, KIS

Figure 4. PMI

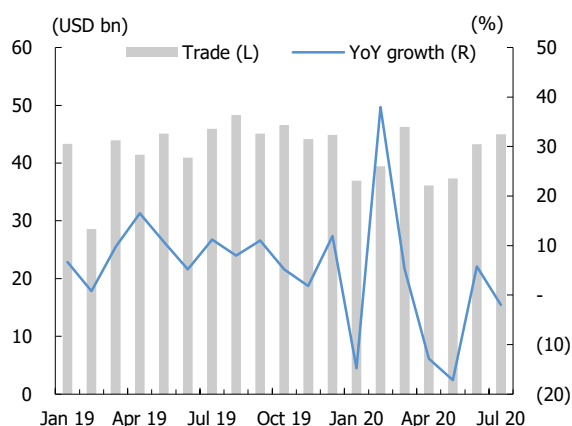


Source: GSO, KIS

Overseas consumer confidence signals improving trade

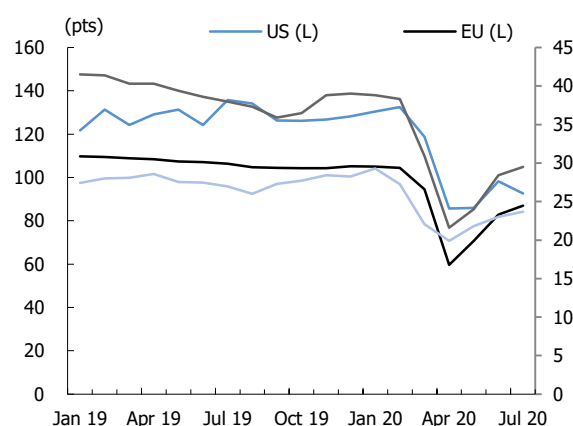
In overseas markets, export slowdown and import decrease made total trade slide 2% YoY in July compared with 6.3% YoY increase of June. However, consumer confidence in Japan, Korea, EU and the U.S. are showing improvement from bottom in April, implying stronger trade in the coming months.

Figure 5. Total trade



Source: GSO, KIS

Figure 6. Consumer confidence index



Source: Bloomberg, KIS. EU: employment expectation indicator

3. 2Q results – Financials save the game

Financials are game changers

2Q earnings were surprising as total earnings of HSX companies decreased only 7% yoy compared with 24% yoy of 1Q given the national lockdown in April. Breaking down by sectors, 6 out of 10 sectors showed improvement in 2Q, even Industrials with large losses from local airlines. Especially, Financials led by Banks, which were able to cut operating cost and improve profitability amid economic uncertainty, posted a 34% yoy earnings growth in 2Q.

Table 1. Earnings growth

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	1H20	2020 corporate plan (%)
Consumer discretionary	12.0	54.8	(6.9)	(22.9)	(12.0)	(34.8)	(18.0)	5.0
Consumer staples	18.2	(11.3)	12.9	(17.4)	(33.2)	(9.8)	(19.8)	(22.0)
Energy	25.8	1.3	(4.6)	1.7	(85.6)	(41.9)	(63.3)	(51.0)
Health Care	(12.1)	8.2	(3.1)	17.5	13.4	4.2	9.2	2.0
Financials	5.0	13.7	41.6	41.5	(6.3)	33.8	13.2	4.0
Industrials	(15.5)	(7.1)	7.7	(42.6)	(124.0)	(104.5)	(116.2)	(31.0)
IT	25.8	24.9	28.8	(6.9)	15.9	13.3	15.5	13.0
Materials	(35.4)	(35.1)	(24.2)	(4.7)	22.2	31.6	27.3	38.0
Real Estate	(19.0)	70.0	16.4	72.6	32.3	(36.5)	(13.2)	2.0
Utilities	1.4	(12.8)	63.6	0.4	(37.5)	(18.6)	(27.7)	(21.0)
VNIndex	(1.6)	10.2	18.0	20.2	(24.3)	(6.8)	(11.1)	(7.0)

Source: FiinPro, KIS.

2020 may be in line with consensus

For the aggregate results of the first half, while Financials beat their plans, Consumer Discretionary, Industrials and Real Estate missed theirs. In the second half, although we do not forecast Financials can repeat its game changer role of 1H, we expect the economy to continue its recovery, helping other sectors to post stronger earnings. We expect 2020 results to be in line with market consensus.

4. July performance: the second month of correction

Market is driven by fear

Only Health Care gains

In July, the VNIndex pared all of its early gain as traders rushed to get out of the market as fast as possible when the initial rumors about the virus outbreak in Danang emerged on 24 July. Eventually, Health Care was the only winning

sector with 0.2% gain.

Investors ignore positive 2Q results

In term of relative performance, sectors were driven by virus fear rather than fundamental factors. For example, Financials were the fourth worst performer in July despite of its 2Q surprising positive earnings while Real Estate was the second best performer despite posting 36.5% earnings drop in 2Q. In summary, outperformers include Consumer Staples, Energy, Health Care, IT, Real Estate and Utilities while underperformers are Consumer Discretionary, Financials, Industrials and Materials.

Table 2. Sector relative performance vs VNIndex

Sector	2018					2019							2020											
	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7
Consumer discretionary	Blue	Blue	Blue	Blue	Blue	White	White	White	White	White	White	White	White	White	White	White	White	White	White	White	White	White	White	White
Consumer staples	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Energy	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Health Care	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Financials	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Industrials	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
IT	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Materials	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Real Estate	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue
Utilities	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue

Source: Bloomberg, FiinPro, KIS. Blue: outperform. White: underperform

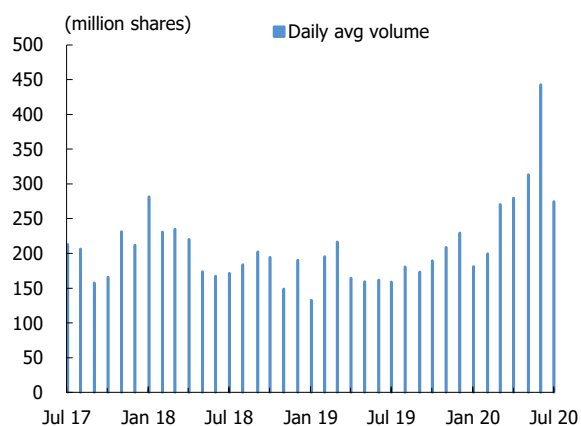
And retail investors are the most bearish

As the VNIndex dropped, volume also contracted in July. In average, there were around 274 million shares worth VND4.6tn changed hands daily on HSX, decreasing 38% MoM and 32% MoM respectively. Given the current downtrend, we expect liquidity to continue to dry up in August.

Liquidity drops. Retail sells while institution buys

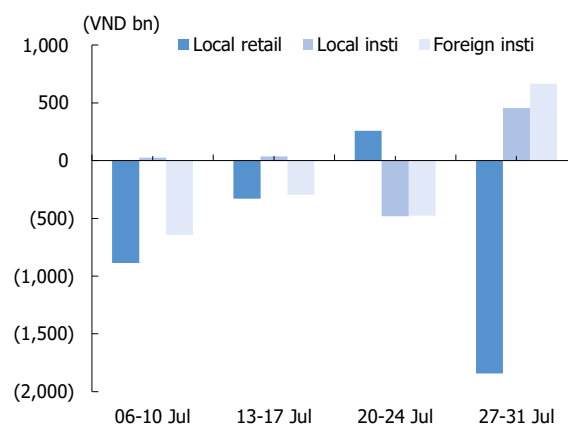
Those (including us) who had bet on the new money injection of new local investors are being hit hard as these new players were the major sellers (VND1,841bn net value) in the the week following the víu outbreak while domestic and foreign institution were net buyers (VND455bn and VND666bn respectively).

Figure 7. Daily average trading volume



Source: FiinPro, KIS

Figure 8. Weekly trading by investor



Source: FiinPro, KIS

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II. August top 5

Taking into account the likely recovery of the broad market in August and large-cap-must-go-first movement, we would like to recommend 5 of the largest companies of KIS's BUY-rated stocks including ACB Bank (ACB), Hoa Phat (HPG), Mobileworld (MWG), Vinhomes (VHM) and Techcombank (TCB).

Table 3. Valuation of the top 5

Recommendation & TP				Earnings & Valuation										
Company				Sales/TOI (VND bn)	OP/PPE (VND bn)	NP (VND bn)	EPS (VND)	BPS (VND)	PE (x)	PB (x)	ROE (%)	EV/EBITDA (x)	DY (%)	
Asia Comm Bank (ACB)	Recommendation	BUY	2017A	11,439	5,222	2,118	1,276	9,887	17.1	2.2	0.8	14.1	2.0	
	TP (VND)	28,900	2018A	14,033	7,321	5,137	3,107	12,963	7.0	1.7	1.7	27.7	0.0	
	Price (03 Aug,VND)	23,200	2019A	16,097	7,790	6,010	3,568	16,761	6.1	1.3	1.7	24.6	0.0	
	Mkt cap. (VND bn)			2020F	17,839	9,755	6,399	3,788	20,547	5.8	1.1	1.6	20.7	0.0
				2021F	20,928	11,444	7,005	4,149	24,196	5.3	0.9	1.5	18.8	2.3
Hoa Phat (HPG)	Recommendation	BUY	2017A	46,162	9,622	8,010	2,241	9,745	10.2	2.3	30.7	4.1	0.0	
	TP (VND)	27,000	2018A	55,836	10,550	8,630	2,471	12,222	9.3	1.9	23.6	5.2	0.0	
	Price (03 Aug,VND)	22,900	2019A	63,658	9,743	7,604	2,143	14,368	10.7	1.6	17.2	6.4	0.0	
	Mkt cap. (VND bn)			2020F	79,522	13,715	9,922	2,711	16,681	8.4	1.4	19.2	3.6	2.2
				2021F	92,265	15,824	11,814	3,361	19,042	6.8	1.2	19.7	2.6	4.4
Mobileworld (MWG)	Recommendation	BUY	2017A	66,340	2,779	2,206	5,311	13,836	14.3	5.5	45.3	11.2	1.5	
	TP (VND)	110,000	2018A	86,516	3,871	2,879	6,689	20,264	11.4	3.8	38.7	7.8	2.0	
	Price (03 Aug,VND)	76,000	2019A	102,174	4,977	3,834	8,665	27,445	8.8	2.8	36.3	6.9	2.0	
	Mkt cap. (VND bn)			2020F	107,896	5,055	3,837	8,538	33,821	8.9	2.2	27.8	6.0	2.0
				2021F	132,046	5,861	4,604	9,996	41,750	7.6	1.8	26.4	4.8	2.0
Vinhomes (VHM)	Recommendation	BUY	2017A	15,297	3,128	1,410	5,639	27,617	13.6	2.8	31.0	10.2	0.0	
	TP (VND)	90,000	2018A	38,664	7,617	14,284	4,567	12,907	16.8	5.9	57.0	34.6	0.0	
	Price (03 Aug,VND)	78,500	2019A	51,627	23,219	21,747	6,493	16,748	12.1	4.7	43.8	11.8	1.3	
	Mkt cap. (VND bn)			2020F	81,091	15,692	30,300	9,046	19,948	8.7	3.9	36.5	10.2	1.3
				2021F	92,024	40,199	34,020	10,157	21,142	7.7	3.7	40.1	7.6	1.3
Techcombank (TCB)	Recommendation	BUY	2017A	16,344	11,646	6,446	2,157	9,039	8.6	2.1	2.6	27.7	0.0	
	TP (VND)	23,750	2018A	18,351	12,508	8,464	2,409	14,770	7.7	1.3	2.9	21.5	0.0	
	Price (03 Aug,VND)	18,600	2019A	21,068	13,756	10,075	2,872	17,568	6.5	1.1	2.9	17.8	0.0	
	Mkt cap. (VND bn)			2020F	23,591	16,178	9,945	2,824	20,392	6.6	0.9	2.5	15.0	0.0
				2021F	27,005	17,655	10,885	3,093	23,485	6.0	0.8	2.4	14.2	0.0

Source: Respective company data, KIS

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