

Strategic Insight

October strategy: Sideways

Government is the growth driver in 3Q

Vietnam Government has played as a key investor during a crisis to turn the economy around. In 3Q, while domestic private and FDI business confidence were still weak, State disbursed VND186tn, jumping 29% YoY, higher than 11% of 2Q and 7% of 1Q, showing its commitment to make public investment as one of the key growth driver for this unprecedented year.

Two main concerns

First, the consumption of more than 90 million citizens and the investment of the domestic private sector were mute in 3Q, which is confirmed by a weak credit growth. As of 14 Sep, outstanding credit grew only 4.81% YTD, only a half of 9.4% of Sep-end 2019, and seemed to slow down in the past 2 months. Meanwhile, COVID-19 rescheduled-payment loans accelerated and quintupled from VND62.8trn in late April to VND321trn in late September. As numerator outpaced denominator, rescheduled loans as percentage of total loans jumped from 0.8% to 3.7%, showing the overall deterioration of credit quality.

Second, FDI, which has been the growth driver of Vietnam economy and trade since joining WTO in 2006, is also waning. Despite of being an effective approach to contain the virus spreading, international travel ban is preventing investors from coming Vietnam to search for opportunities and Vietnam from taking the advantage of the global depreciation of the greenback. In 9M20, foreigners registered to invest only USD21.2bn, down 19% YoY, into Vietnam for the lowest level in 4 years.

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Although we expect the current rally of the market will continue in the rest of this year (because the VNIndex is trading at 15x its earnings, lower than 16x of 2019-end, while interest rate is lower), the pace will be slower and range trading may be more appropriate for the time being.

October top 5

Taking into account the mixed signals from the economy and the stock market, we recommend 4 defensive and sideways stocks including FPT (FPT), Imexpharm (IMP), PVPower (POW), Pha Lai Power (PPC) and Thu Dau Mot Water (TDM).

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Huy Hoang

huy.hoang@kisvn.vn

Hieu Tran

hieu.ttm@kisvn.vn

Dang Le

dang.lh@kisvn.vn

I. October strategy: Sideways

1. Government is the growth driver in 3Q

9M20 GDP growth is 2.12% for the lowest in a decade

According to GSO report, Vietnam economy rebound in 3Q at an unsurprisingly modest growth of 2.62% after slowing down significantly in 2Q because of the COVID-19. In aggregate 9 months through September, GDP grew 2.12% YoY for the slowest pace in the past decade.

Table 1. GDP by expenditure

(%)

Item	1Q20 growth	1H20 growth	9M20 growth
Final consumption	3.07	0.69	0.86
Capital formation	2.20	1.93	3.39
Export	1.59	-0.31	0.9
Import	1.05	-2.54	-1.25
GDP	3.82	1.81	2.12

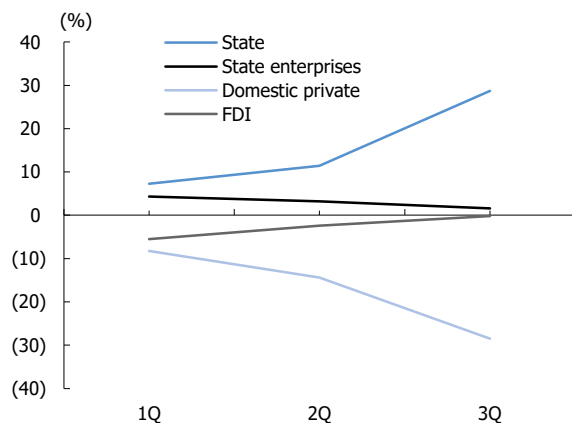
Source: GSO, KIS.

Despite of the strong recovery of domestic demand after the national lockdown was lifted in late April, consumption part did not contribute much to the overall pickup of the economy. In real terms, final consumption only grew 0.86% YoY in 9M20. On the opposite side, investment and significant trade surplus were the recovery drivers.

Government investment is the key growth driver

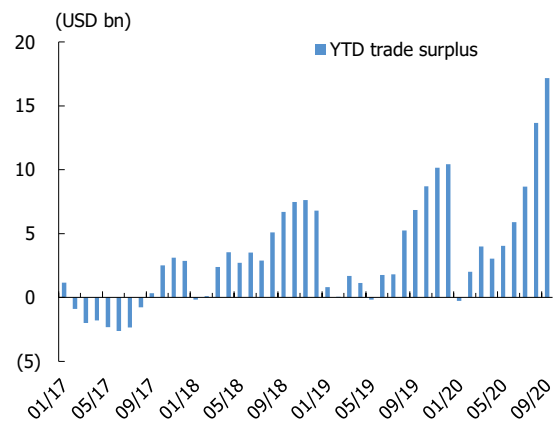
More specifically, Vietnam Government has played as a key investor during a crisis to turn the economy around. In 3Q, while domestic private and FDI business confidence were still weak, State disbursed VND186tn, jumping 29% YoY, higher than 11% of 2Q and 7% of 1Q, showing its commitment to make public investment as one of the key growth driver for this unprecedented year. Regarding to trade, a record surplus of USD17.2bn also contributed significantly to the overall growth in 9M20.

Figure 1. Investment by entity



Source: GSO, KIS

Figure 2. Trade surplus



Source: GSO, KIS

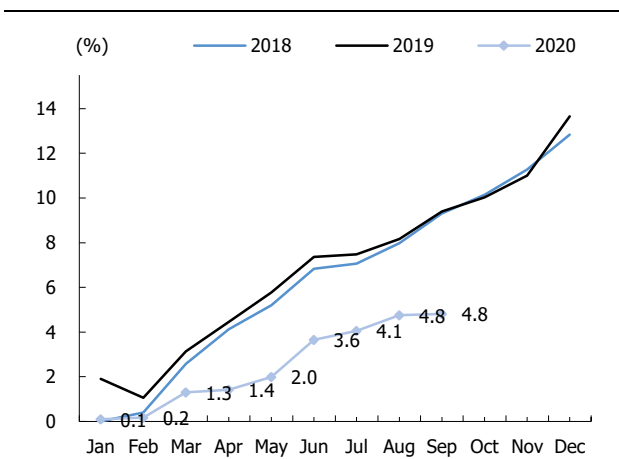
2. Two main concerns

Mute private consumption and investment are accompanied by weak credit growth

Weak domestic consumption and investment in line with weak credit

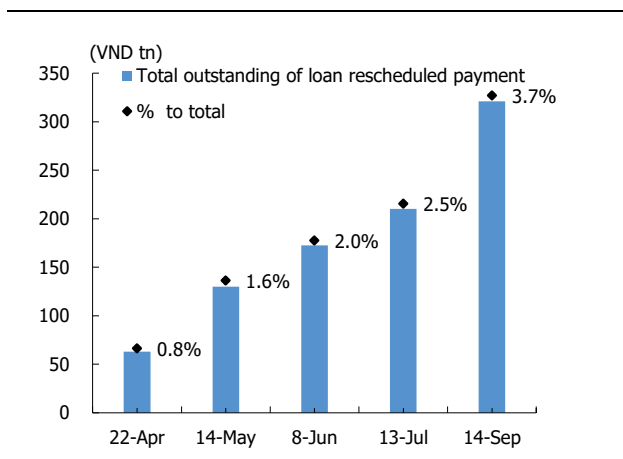
Having mentioned above, despite of the golden demography, the contribution of the consumption of more than 90 million citizens and the investment of the domestic private sector were mute in 3Q, which is confirmed by a weak credit growth. As of 14 Sep, outstanding credit grew only 4.81% YTD, only a half of 9.4% of Sep-end 2019, and seemed to slow down in the past 2 months. Meanwhile, COVID-19 rescheduled-payment loans accelerated and quintupled from VND62.8trn in late April to VND321trn in late September. As numerator outpaced denominator, rescheduled loans as percentage of total loans jumped from 0.8% to 3.7%, showing the overall deterioration of credit quality.

Figure 3. YTD credit growth



Note: Data as of 14 Sep 2020
Source: SBV, local presses, KIS

Figure 4. Rescheduled-payment loans



Source: SBV, local presses, KIS

Policymaker and industry players are still optimistic

However, given that the Amendment of Circular No.01/2020/TT-NHNN may be released in early October without significantly losing provisions (in an article by Baodautu newswire on 27 Sep, Tran Dang Phi, Deputy Chief Inspector of Inspection and Supervision Department of SBV, did not mention a provision proposed in the Draft of Circular No.01 dated back to 28 May and suggesting loans to be restructured and keep classification in multiple times), we think SBV may not be viewing the situation so worse as our credit numbers are showing. Looking forward, many banking players are also confident about the pickup of demand.

FDI are contracting

FDI, which has been the growth driver of Vietnam economy and trade since joining WTO in 2006, is waning. Despite of being an effective approach to contain the virus spreading, international travel ban is preventing investors from coming Vietnam to look for opportunities and Vietnam from taking the advantage of the global depreciation of the greenback. In nine months through September, foreigners registered to invest only USD21.2bn, down 19% YoY, into Vietnam for the lowest level in 4 years.

**Flights are reopened
with strict
epidemiological
requirements**

In order to turn the contraction around, Vietnam Government has reopened some international routes with China, Taiwan, Korea and Japan since mid-September, targeting businessmen as these countries are the top 4 FDI in Vietnam. Among countries which have reopened their skies early, although there are virus resurgences in some countries like India, the U.S., UK or France, there are also countries which are able to control the virus very well like Korea, Japan, Taiwan and China. Moreover, Vietnam also imposes very strict epidemiological requirements for travelers such as within-3-day negative test by origin country and 14-day quarantine after entry. Therefore, it is unlikely such an international flight will cause a new outbreak like Danang one in late July and we expect FDI will recover in the coming months.

3. September performance: weakening upward momentum

Weakening upward momentum

**Momentum decreases
above 900**

Vietnam stock markets posted the second consecutive winning month in September but at a weaker momentum. At the end of the month, the VNIndex rose 2.67% MoM to 905.21 with improving liquidity. However, last month's gain is just a quarter of that of August, showing weaker momentum and trading range is getting narrower although the VNIndex has broken above June's high of 900.

Breaking down by sectors, Energy was the only loser with 2.4% loss last month because of the decline of GAS, the largest company in this sector. On the positive side, Consumer Discretionary (7.43% gain), Materials (6.43%) and Staples (4.82%) were the top 3 gainers thanks to the surge of MWG, HPG and VNM respectively.

Table 2. Sector relative performance vs VNIndex

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

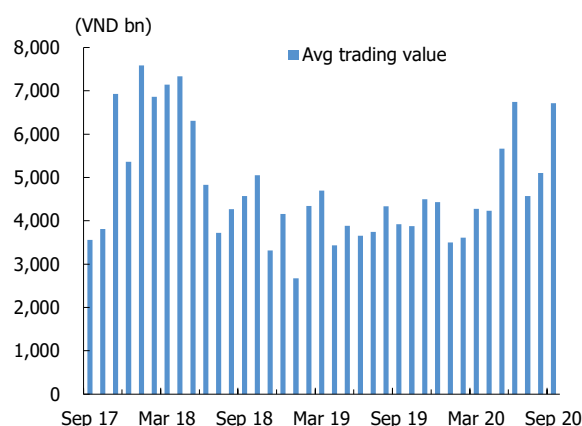
Foreigners turn around to be net buyers

Together with the market rally, liquidity also improved significantly with daily average trading volume up 24% MoM to 358 mn shares and value up 32% MoM to VND6,713bn, back to that of June when the VNIndex peaked at 900.

**Foreigners sell most of
the time**

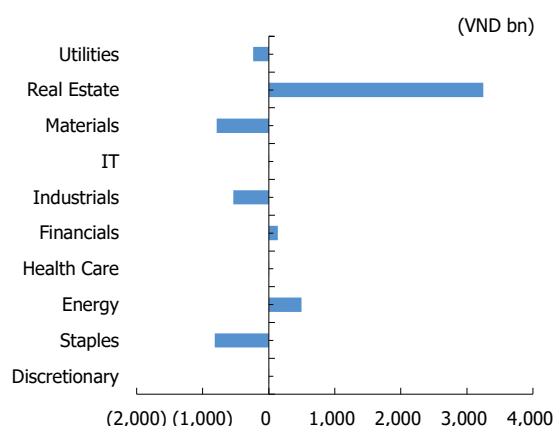
For the whole month, foreigners were net buyers with VND2,025bn. However, breaking down the number, foreigners were net sellers in most of the time and in most of sectors. This group focus to buy Real Estate (VND3,245bn) and Energy (VND494bn) while selling heavily Consumer Staples (VND817bn), Industrials (VND537bn) and Materials (VND788bn). And selling activities had accelerated by the month-end when the VNIndex rallied above 900.

Figure 5. Daily average trading value



Source: FiinPro, KIS

Figure 6. Foreign net buy/sell by sector



Source: FiinPro, KIS

4. October strategy: Sideways

What next?

Table 3. October event calendar

No	Date	Event
1	10/7/2020	US FOMC meeting
2	10/13/2020	BOK rate decision
3	10/18/2020	China 3Q GDP
4	10/19/2020	National assembly meeting 10th - Round 1 in 19-28 October
5	10/20/2020	3Q earnings season of listed companies
6	10/29/2020	US 3Q GDP EU 3Q GDP ECB rate decision
7	10/30/2020	The effective date of HSX indices 4Q rebalance

Source: Bloomberg, KIS.

October strategy: Sideways

In October, 3Q earnings season may reveal many strong but unsurprising numbers given 3Q GDP growth released a few days ago. And 10% rally of the VNIndex may have already reflected the rebound of corporate earnings. Moreover, we also do not expect any significant policy enacted in the 10th meeting of Vietnam National Assembly in 19-29 Oct as policymakers will be patient until the national meeting of Vietnam Communist Party held in next January.

Although the VNIndex has breached 900, intermittent winning and losing streaks are showing the cautious sentiment of both the bulls and the bears. Neither side is determined enough to push the VNIndex up or down markedly, which may be because economic data is showing a waning recovery. Meanwhile, having mentioned above, we expect two main concerns including rising restructured debts and contracting FDI will make investors think twice before making trades in the coming time.

Range trading is recommended in October

Therefore, although we expect the current rally of the market will continue in the rest of this year (because the VNIndex is trading at 15x its earnings, lower than 16x of 2019-end, while interest rate is lower), the pace will be slower and range trading may be more appropriate for the time being.

II. October top 5

Taking into account the mixed signals from the economy and the stock market, we recommend 4 defensive and sideways stocks including FPT (FPT), Imexpharm (IMP), PVPower (POW), Pha Lai Power (PPC) and Thu Dau Mot Water (TDM).

Table 4. 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 (%)
FPT (FPT)	Recommendation	BUY	2017A	42,659	3,167	2,932	3,805	14,799	9.1	2.3	28.0	6.9	4.0
	TP (VND)	58,341	2018A	23,214	3,122	2,620	3,383	16,071	9.1	1.9	21.9	6.0	5.9
	Price (30 Sep,VND)	50,000	2019A	27,717	4,147	3,135	4,027	17,902	12.1	2.7	23.7	7.3	3.4
	Mkt cap. (VND bn)	39,195	2020F	31,001	4,839	3,592	4,447	20,904	11.2	2.4	23.8	5.9	4.0
			2021F	36,099	5,959	4,349	5,183	23,712	9.6	2.1	24.8	4.9	4.1
Imexpharm (IMP)	Recommendation	BUY	2017A	1,165	141	117	1,623	21,726	25.7	1.9	8.9	14.7	2.0
	TP (VND)	49,300	2018A	1,185	169	139	1,893	23,428	23.4	1.9	8.6	14.1	0.8
	Price (30 Sep,VND)	47,800	2019A	1,402	203	162	2,225	24,280	16.3	1.5	9.3	9.5	4.2
	Mkt cap. (VND bn)	3,069	2020F	1,444	218	174	2,711	25,225	17.6	1.9	9.7	n.a	n.a
			2021F	n.a	n.a	196	n.a	n.a	n.a	n.a	n.a	n.a	n.a
PV Power (POW)	Recommendation	BUY	2017A	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
	TP (VND)	13,167	2018A	32,662	3,683	1,921	856	10,464	n.a	1.5	n.a	7.4	n.a
	Price (30 Sep,VND)	10,200	2019A	35,374	3,934	2,510	1,071	11,481	10.7	1.0	9.8	5.8	n.a
	Mkt cap. (VND bn)	23,887	2020F	33,634	3,172	2,230	1,026	12,943	9.9	0.8	8.5	5.7	2.9
			2021F	37,196	3,485	2,620	1,211	13,847	8.4	0.7	9.3	4.9	2.9
Pha Lai Power (PPC)	Recommendation	BUY	2017A	6,236	710	854	2,682	17,083	6.3	1.0	15.7	10.0	14.1
	TP (VND)	25,071	2018A	7,117	1,058	1,122	3,501	17,622	4.5	0.9	20.2	4.6	28.6
	Price (30 Sep,VND)	23,750	2019A	8,183	1,203	1,261	3,933	18,604	6.6	1.4	21.7	6.0	11.6
	Mkt cap. (VND bn)	7,615	2020F	8,347	921	963	2,906	19,235	8.2	1.2	15.5	6.4	10.5
			2021F	8,045	839	865	2,738	19,392	8.7	1.2	14.5	7.5	10.5
Thu Dau Mot Water (TDM)	Recommendation	BUY	2017A	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	4.5
	TP (VND)	28,500	2018A	286	178	190	2,347	13,658	8.2	1.4	n.a	9.5	4.7
	Price (30 Sep,VND)	23,650	2019A	346	177	204	2,197	16,469	11.6	1.6	15.2	10.5	3.5
	Mkt cap. (VND bn)	2,365	2020F	388	181	223	2,004	n.a	11.8	n.a	13.4	n.a	4.7
			2021F	494	255	293	2,635	n.a	9.0	n.a	15.9	n.a	5.1

Source: Respective company data, Bloomberg.

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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

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