

Time to sell?

I. Short-term Selling pressure

Margin debt is at a high level

The margin debt in Vietnam stock market records a peak of nearly VND66,000bn at the end of 3Q20. This will put pressure on the market, which is likely to form a peak in the short term.

Net Selling of foreigner

Foreign investors are still net sellers in 2020, which is a high record. They focus on large-cap stocks. Thus, they push selling pressure on the uptrend of the stock market, implying a short-term peak.

II. Uptrend in the long term

Macro indicators and implications for the stock market

Despite some negative economic indicators, we expect that Vietnam's economy is improving thanks to GDP growth and industrial recovery. In the next two years, the economy may recover its GDP growth before the Covid-19 epidemic, driven by growth in domestic consumption and growth in private enterprises.

Cash flows of ETF funds are still into Vietnam

Vietnam's stock market attracts foreign ETFs with a net inflow of USD44mn YTD, despite the outflow of some countries in the region. In addition, the upgrade of Kuwait to an emerging market also creates a positive effect on the market in the long term.

The market entered a new 3-year upside cycle

Analysis of the price cycle shows that the VNIndex fluctuates in a pattern, forming a new bottom every 3 years. After that, the index will form a new uptrend or downtrend. Now, the index has confirmed that the bottom in Mar-20 is the bottom of the 3-year cycle. Therefore, the market is entering a new 3-year upward cycle.

Summary

High margin debt and the selling pressure of foreign investors cause the stock market to form a short-term peak. However, Vietnam economy recovers, along with the capital flow of ETFs that will support the stock market and continue its uptrend in the long term.

Contents

I. Short-term Selling pressure	1
1. Margin debt is at a record high	
2. Net Selling of foreigner	
II. Uptrend in the long term	2
1. Macro indicators and implications for stock market	
2. Cash flows of ETF funds are still into Vietnam	
3. The market entered a new 3-year upside cycle	

Hieu Tran

hieu.ttm@kisvn.vn

Y Nguyen

y.nt@kisvn.vn

Dang Le

dang.lh@kisvn.vn

Tuan Doan

tuan.doan@kisvn.vn

Thao Pham

thao.pt@kisvn.vn

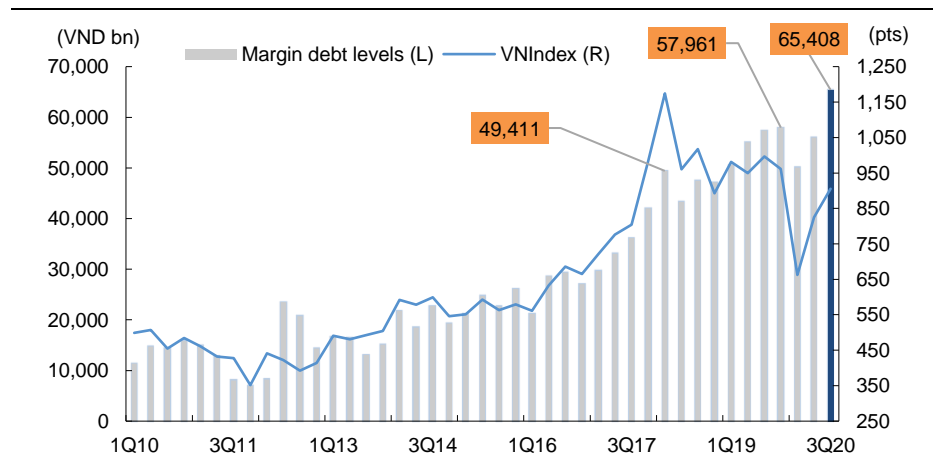
I. Short-term Selling pressure

1. Margin debt is at a record high

Total leverage reaches a record peak in 3Q20

At the end of 3Q20, the total leverage in the stock market posted a high record of VND65,400bn (+16.7% QoQ), rising in the 3rd consecutive quarter. High margin debt at current levels could trigger a short-term peak in the stock market. Firstly, stock market peaks and margin debt are often related. When levels of margin debt make a record, the market tends to post a peak. In Vietnam stock market, its leverage reached a peak with a value of VND49,411bn in 1Q18 and VND57,961bn in 4Q19, and then the market fell by 18.1% and 31.0% in the next quarter. Total margin debt is also at a high record in 3Q20, and it is a negative signal, implying the possibility of forming a peak next time.

Figure 1. Margin debt levels and movement of VNIndex



Source: Fiinpro, KIS

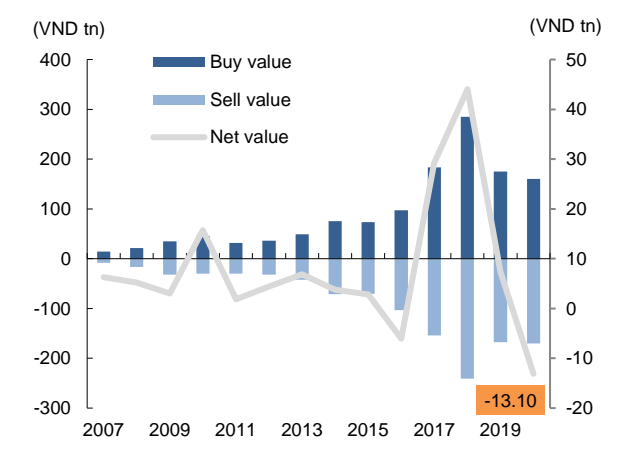
Secondly, the high margin rate creates high total risk. The strong corrections of the consecutive could cause the margin call to occur. If a few strong sessions appear with high margin debt, a large number of investor accounts will reach a maintenance margin. Brokers may force them to sell stocks. Thus, the short-term peak may form.

Net Selling of foreigner

Foreign investors see a net selling at a high level in 2020

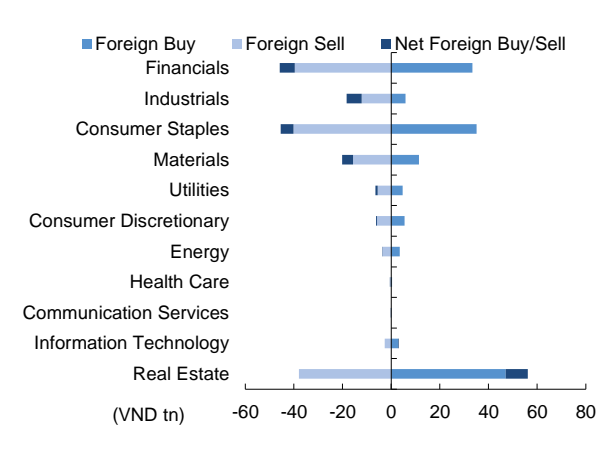
In 2020, foreign investors reversed to net sell VND13,102bn YTD, it is a high record, while the net buying was at VND7,339bn in 2019. Since last year, they focused on net selling of large-cap stocks, namely MSN (VND3,340bn), VIC (VND3,203bn), HPG (VND2,744bn), VRE (VND1.515bn), and VNM (VND1,310bn). That are the main drawdown of Vietnam's Stock market in 2020. This is one of the reasons for the high volatility of the market this year. We expect that the trend of foreigners will continue, as the risk is high regarding the global financial markets. Foreign investors account for 12-17% of the market's transactions, so their net selling will push pressure on stock prices.

Figure 2. Yearly net foreign buy/sell (2007-2020)



Source: Fiinpro, KIS

Figure 3. Net foreign buy/sell by sectors in 2020



Source: Fiinpro, KIS

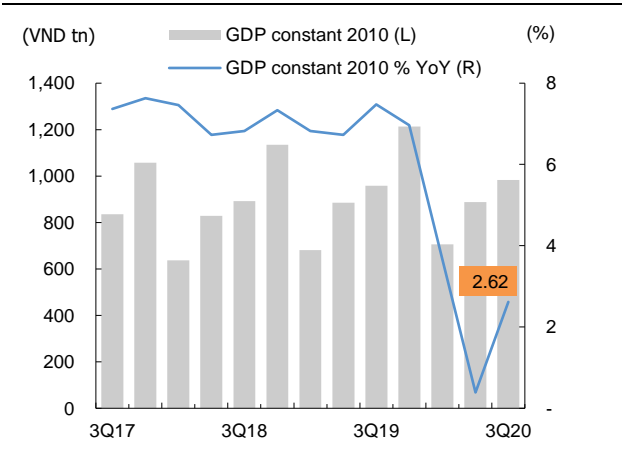
II. Uptrend in the long term

1. Macro indicators and implications for the stock market

Vietnam GDP growth was 2.62% in 3Q20

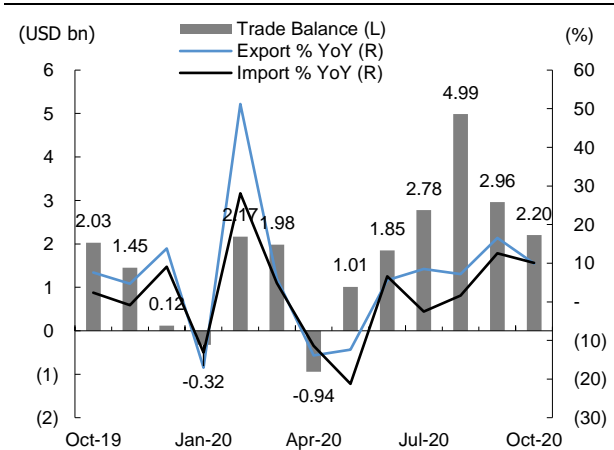
We have put more weight on the case in which many important economic indicators move up at slow paces due to domestic and global economic prospects. Since the country is doing a good job controlling the pandemic, this encourages domestic consumption and pushes the retail sales to accelerate in the next couple of months. The inflation is also under control (CPI averagely rose 3.71% YoY in October) and allows the central bank to manage monetary policy to achieve target growths. Even with the pandemic, Vietnam GDP growth (2.62% YoY in 3Q20) was also prominent compared to other peers in Southeast Asia as well as other developed countries. Despite the pessimistic global economic outlook, IMF forecasts Vietnam economy to expand at 1.8%, 120bps-lower than latest target set by the local government.

Figure 4. Quarterly GDP growth



Source: GSO, KIS

Figure 5. Export-Import Growths and Trade Balance



Source: GSO, KIS

On the negative side, although the effectiveness of EVFTA will push trade activities, the recent government stringency in controlling virus measures over the world concerns us about the persistence of growth. The IIP in November and December is also expected to reflect the negative impact from the second lockdown of the European countries and elsewhere as the health crisis is returning to a more severe situation while overshadowing the world economy. Despite some negative economic indicators, we expect that Vietnam's economy is improving thanks to GDP growth and industrial recovery. In the next two years, the economy may recover its GDP growth, like how it was before the COVID-19 epidemic, driven by growth in domestic consumption and growth in private enterprises.

Table 1. Expectation of Vietnam Macro indicators

Indicators	Sep-20	Oct-20	Expectation	Implication
GDP growth (%)	2.62		Acceleration	Positive
Registered FDI (USD bn)	1.67	2.27	Neutral	Neutral
IIP (%)	3.80	5.40	Acceleration	Positive
Export growth (%)	18.02	9.91	Slowdown	Neutral
Import growth (%)	11.63	10.05	Slowdown	Neutral
Inflation (%)	2.98	2.47	Stable	Positive
Retail sales (%)	4.23	6.50	Acceleration	Positive
USD/VND (VND)	23,188	23,181	Stable	Positive
Credit growth (%)	5.12	6.10	Low growth	Negative
10Y gov't bond (%)	2.52	2.21	Decrease	Positive
Overall				Positive

Source: GSO, KIS

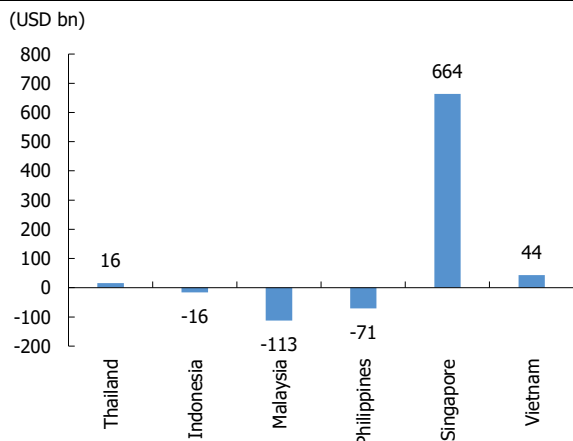
2. Cash flows of ETF funds are still into Vietnam

Money inflow across Vietnam records at USD44mn YTD

Vietnam – one of the main drivers for the positive money flow across SEA.

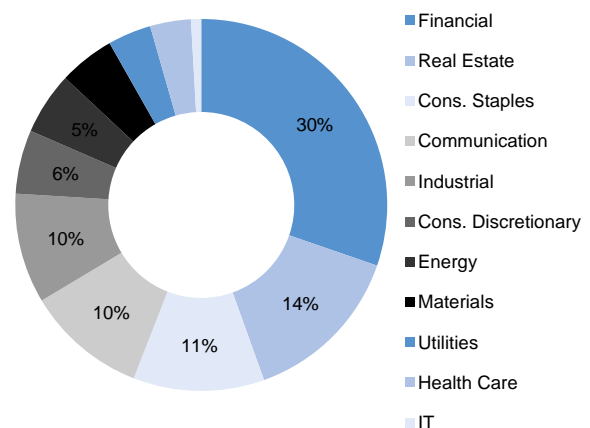
Money inflow across SEA is being recorded at a positive level, mainly driven by the massive inflow of Singapore, followed by Vietnam and Thailand. Money inflow across Vietnam was recorded at USD44mn YTD, three times higher than Thailand, whilst Indonesia, Malaysia, and Philippines recorded a negative flow of money. This is a positive signal for Vietnam's capital market where the foreign flow of money is still attracted despite the negative sentiment caused by COVID-19 pandemic.

Figure 6. ETF net flow by country



Note: Data as of 30 Oct 2020
Source: Bloomberg, KIS

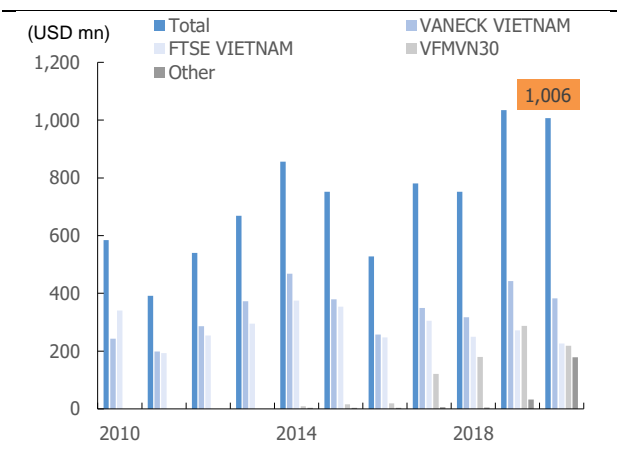
Figure 7. ETF focus by sector



Note: Data as of 30 Oct 2020
Source: Bloomberg, KIS

The diversified ETFs play an important role on the positive flow of money across Vietnam. Particularly, Vietnam's ETFs have strongly developed since 2008 with the significant increase of AUM, from USD50mn in 2008 to USD1,000mn in 2020. Notably, the new issued ETFs in 2020 which are VFMVN Diamond ETF and SSIAM VNFIN Lead ETF were the main contributors for the maintenance of positive flow of money across Vietnam. In terms of net flow, VFMVN Diamond ETF and SSIAM VNFIN Lead ETF recorded a net flow of USD44mn and USD22mn, respectively.

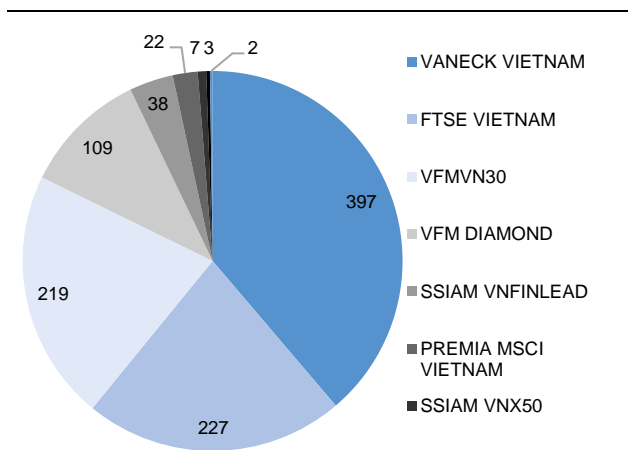
Figure 8. AUM of Vietnam's major ETFs



Note: Data as of 30 Oct 2020
Source: Bloomberg, KIS

Figure 9. Major ETF funds in Vietnam

(USD bn)



Note: Data as of 30 Oct 2020
Source: Bloomberg, KIS

The proportion of Vietnamese stocks increase of 12% to 28.76% over one year

The proportion of Vietnam in the frontier market group increases.

In the November 2020 Semi-Annual Index Review, MSCI upgraded Kuwait from frontier market to an emerging market. Thus, Kuwaiti stocks will be excluded from the frontier indexes and increase weights of other markets. This also means Vietnamese stocks will increase in frontier indexes. Specifically, the proportion of Vietnamese stocks in the MSCI Frontier Markets 100 Index will increase from 12% to 28.76%.

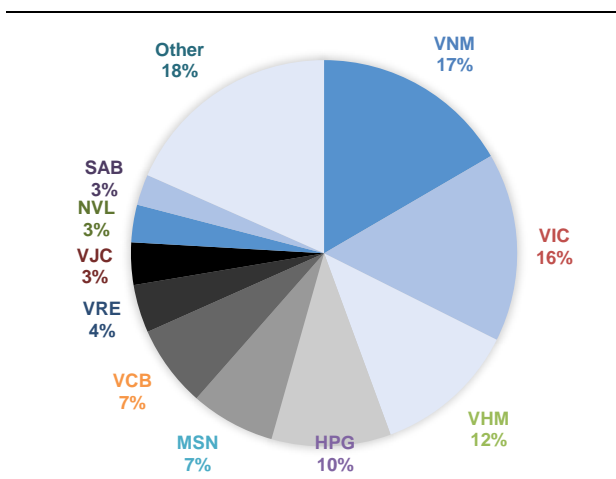
However, MSCI is concerned that the reclassification of Kuwait stock in a one review period can cause strong market volatility. Therefore, they plan to divide the Kuwaiti reclassification into five phases over a year to reduce the negative impact on the market. The process of increasing the Vietnamese proportion can last for one year, although it does not support the market rise immediately. But it will create a positive effect in the long term.

Table 2. Expected proportion of countries in MSCI Frontier Markets 100 Index (%)

	Index Weight		
	Current	After Phase 1	After Full implementation
Vietnam	12.41	15.76	28.76
Morocco	11.01	11.79	12.47
Romania	7.83	8.75	10.26
Kenya	8.06	7.89	9.49
Bahrain	7.89	8.3	9.46
Nigeria	8.33	7.78	7.8
Bangladesh	5.99	6.35	6.37
Oman	3.58	4.37	5.08
Kazakhstan	2.88	3.37	3.88
Sri Lanka	1.05	1.33	2.19
Jordan	1.39	1.56	1.83
Estonia	0.64	0.81	1.19
Croatia	0.35	0.39	0.46
Mauritius	0.28	0.36	0.41
Kuwait	25.54	21.14	0

Source: MSCI, Bloomberg, KIS

Figure 10. Proportion of Vietnam tickers in Ishares MSCI frontier 100 ETF



Source: MSCI, Bloomberg, KIS

3. The market enters a new 3-year upside cycle

New 3-year cycle forms in Vietnam stock market

We use Raymond Merriman's cycle analysis to research on Vietnam's stock market. We find out that the VNIndex fluctuates in a pattern, forming a significant trough (the end trough of the cycle) every 3 years. After this trough, the index will form a new uptrend or downtrend in 3 years. Based on the definition of Raymond Merriman, a 3-year cycle calculates from bottom to bottom and the time interval between two bottoms of 3-years cycle is a range of 30 to 43 months (36 months or 3 years on average).

Table 3. Bottom and duration of 3-year cycle (month)

Cycle	Start bottom	End bottom	Duration
1	10/24/2003	08/02/2006	33
2	08/02/2006	02/24/2009	30
3	02/24/2009	01/06/2012	34
4	01/06/2012	12/17/2014	35
5	12/17/2014	07/11/2018	42
6	07/11/2018	03/24/2020	20
7	03/24/2020		

Note: Data as of 30 Oct 2020
Source: KIS, FiiPro

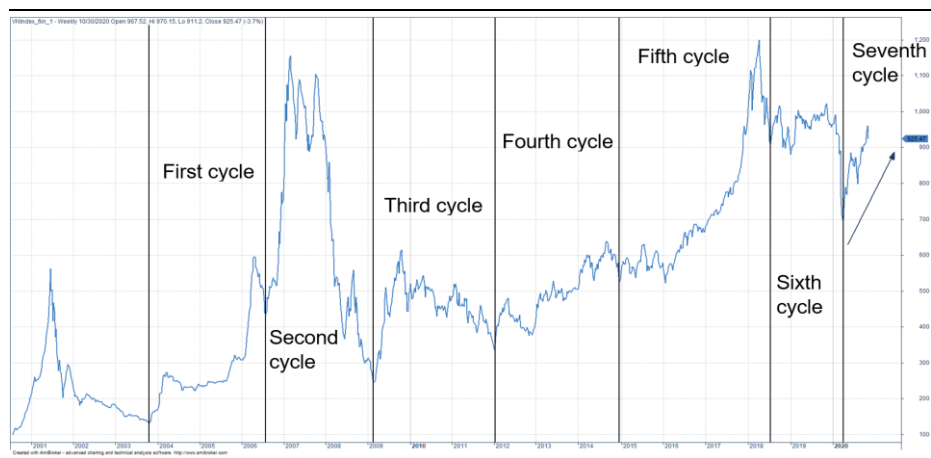
Table 4. Increase & decrease of 3-year cycle (pts, %)

Cycle	VN-Index at the end bottom	VN-Index at the start bottom	Change
1	632	399	-37
2	1,170	235	-80
3	624	336	-46
4	640	513	-20
5	1,204	893	-26
6	1,023	659	-36
Average			-41

Source: KIS, FiiPro

In the sixth cycle, the duration has only 20 months because this is a special cycle. The bottom on 24th Mar 2020 is the end of a larger cycle (6-year cycle or 9-year cycle). Therefore, the cycle will be shorter than normal (only 20 months instead of a range of 30 to 42 months). Now, the VNIndex is forming the seventh 3-year cycle. This is a new upward cycle, so the index will go up in the long term for at least the next 3 years.

Figure 11. Three-year cycle on Vietnam stock market



Source: KIS, FiinPro, Amibroker

Summary

High margin debt and selling pressure of foreign investors cause the stock market to form a short-term peak. However, Vietnam economy recovers, along with the capital flow of ETFs that will support the stock market and continue its uptrend in long term.

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

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

This report has been prepared by KIS Vietnam Securities Corp. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on this report and the company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is not intended for the use of private investors.

Copyright © 2020 KIS Vietnam Securities Corp. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp.