

# Strategic Insight

## Fragile hope of recovery path under the worst outbreak

### Vietnam under the worst outbreak

In the context of widespread outbreak in the Southeast Asia region, Vietnam is stepping into the worst outbreak with an unfavorable epidemiological situation of high transmission and concerning severity since the first time that the coronavirus occurred and threatened global health and prosperity. Although the Vietnam government actively deployed various solutions to follow the twin targets that effectively controls the pandemic and promotes socio-economic development, the negative impact of economic recovery is inevitable. We predict that domestic consumption and production levels would reduce significantly in the next month under stricter restrictions for preventing infection within the country.

### Economic impact of the outbreak on production activity

Looking back from the first lockdown, manufacturing activity once saw a sharp drop of nearly 20% in just a month under lockdown. This time, the coronavirus comes back with a much worse impact on the health system and the economy. Risks of broken supply chains are visible for some industries, while a few industries are expected to be immune to the outbreak. We examine the health of key industries from both domestic consumption-driven and export-driven industries under the COVID-19 stress test to get a clearer picture of its damage to domestic production.

### Vietnam stock market

Because of the crash in early July, we expect that the short-term downtrend has been confirmed and may continue in the next one or two months. The significant support is a range of 1,150 to 1,200 pts. However, the long-term uptrend is still maintained as (1) the attention of retail investors on the stock market (2) cash flows into ETFs (3) the 3-year upside cycle. Hence, the current correction is an opportunity for investors to accumulate stocks at low prices for medium- and long-term positions.

### Bond market in 1Q21 is less attractive than 1Q20

Particularly, both Government Bond and Corporate bond experienced the drop in total issued value. However, we expected the Corporate bond market to be more attractive in 2021 thanks to the significant drop in deposit rate and there is the high demand for medium- and long-term capital demand for businesses.

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**Y Nguyen**

y.nt@kisvn.vn

**Hieu Tran**

hieu.ttm@kisvn.vn

**Tuan Doan**

tuan.doan@kisvn.vn

**Dang Le**

dang.lh@kisvn.vn

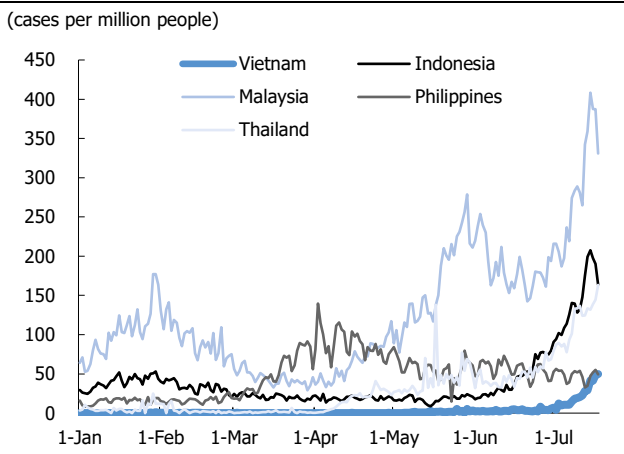
**Thao Pham**

thao.pt@kisvn.vn

# I. Vietnam under the worst outbreak

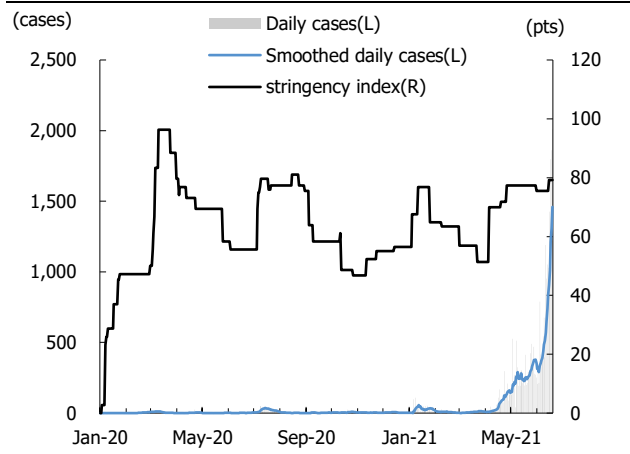
In the context of widespread COVID-19 infection in the Southeast Asia region, Vietnam was stepping into the worst outbreak with unfavorable epidemiological situation since the first time that the coronavirus occurred and threatened global health and prosperity in 2020.

**Figure 1. COVID-19 situation in major Southeast Asia countries in 2021**



Source: WHO, MoH, KIS

**Figure 2. COVID-19 Vietnam**



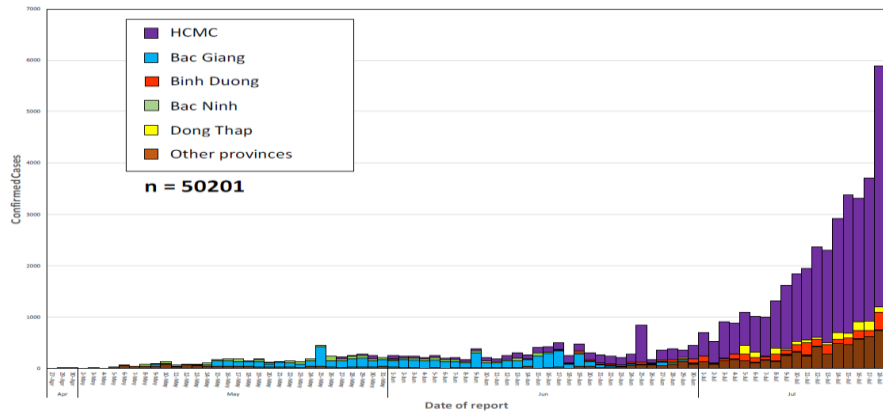
Source: WHO, MoH, KIS

## ***Vietnam under the worst outbreak***

First, the number of infected cases was increasingly high, and the number of infected provinces was also dominant compared to the three previous waves. As of 26<sup>th</sup> July 2021, MoH recorded 90,087 confirmed cases, equaling nearly 0.093% of Vietnam’s population, within the community from 58 provinces in this wave. On average, MoH daily confirms 857.01 cases, equivalent to 8.80 infected cases per one million people, and this amount was multiple times higher than those in previous waves.

HCM and Bac Giang were the most dangerous hot spots among infected areas in this outbreak. While the number of new cases in Bac Giang and related provinces in the northern area declined significantly toward zero, new daily cases in Ho Chi Minh City show no sign of being under control. Accordingly, neighboring provinces with the nation’s economic center, such as Dong Nai, Binh Duong, and the western region, including Dong Thap, Long An, recorded a significant increase in transmission. As of 26<sup>th</sup> July 2021, the number of infected cases in Ho Chi Minh City constituted 67.21% of the total nationwide cases. Also, Binh Duong and Long An accounted for high proportions of 7.76% and 2.36% due to the geographic property and the close economic linkages.

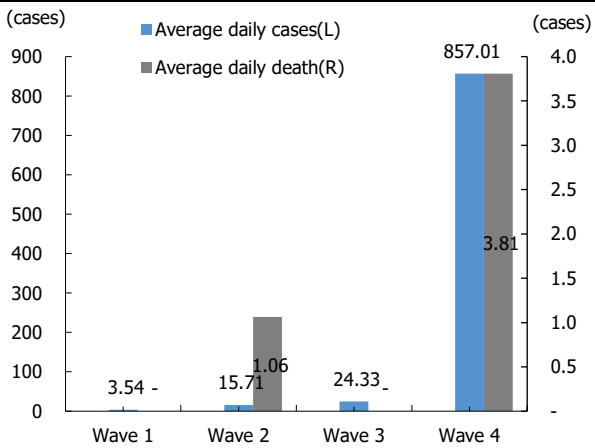
**Figure 3. COVID-19 daily cases by province, as of 18<sup>th</sup> July, 2021**



Source: WHO, MoH, KIS,

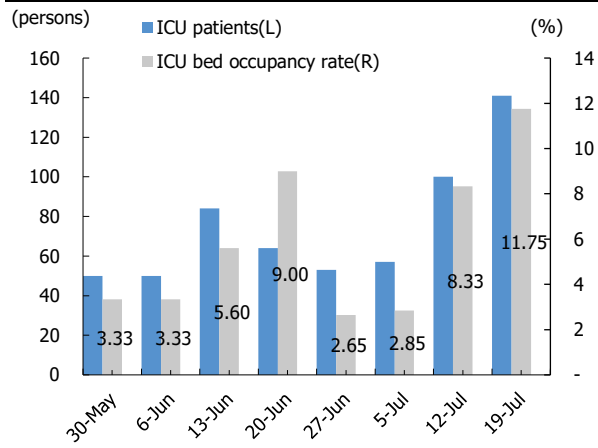
Second, this outbreak was becoming more severe as the transmission accelerated. According to MoH, the current wave recorded 3.81 deaths per day, four times higher than the daily fatality level in the second wave in the period of July to August, 2020. While the average daily case per week continued to climb up to another new high, the corresponding average of daily deaths also set the higher peak over time. Also, the occupancy rate also increased significantly when the number of infected cases exponentially speed up. As of 19<sup>th</sup> July, MoH recorded 141 patients being treated by ICU and accounted for 11.75% of the number of available ICU beds in admitted hospitals. This ratio increased significantly over two recent weeks and tend to be higher in the next week when total number of infected persons exceed the bed capacity in hot spots, such as Ho Chi Minh City, Binh Duong, Dong Nai. According to MoH’s statistics, current capacity of healthcare facilities in Ho Chi Minh City is 36,700 beds, including 1,200 ICU beds for severe cases, while the number of confirmed cases in this city was 60,544 as of 26<sup>th</sup> July, 2021 and there is no sign of any slowdown.

**Figure 4. Vietnam COVID-19 transmission and severity by wave**



Source: WHO, MoH, KIS

**Figure 5. Vietnam COVID-19: case management**



Source: WHO, MoH, KIS

Furthermore, the Delta strain constitutes the majority and causes the government to pay more effort in controlling the contagion this time. This virus variant was first identified in India in December and rapidly spread through this country before being found in the United Kingdom and the United States. Vietnam is not exceptional to the emerging Delta's domination. According to the ["5 Things To Know About the Delta Variant"](#) article of Yale Medicine, Delta seems to be a more transmissible and severe virus mutation than others such as Alpha, Beta. Also, CDC reports that the Delta variant seems to be more contagious than other strains.

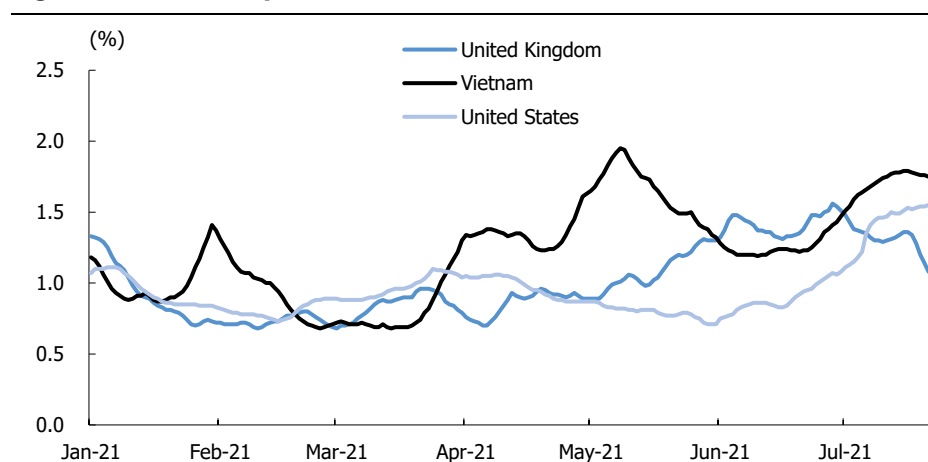
**Table 1. Selected Characteristics of SARS-CoV-2 Variants of Concern**

WHO label	First Identified	Transmission	Severity
Alpha	United Kingdom	~50% increased transmission	Potential increased severity
Beta	South Africa	~50% increased transmission	N/A
Delta	India	Increased transmissibility	N/A
Gamma	Japan/Brazil	N/A	N/A

Source: CDC, MoH, KIS,

Reproduction rates in United States, United Kingdom tend to be higher under the domination of Delta strain, although these countries have recorded significant vaccination, confirming the increased transmissibility of this variant.

**Figure 6. COVID-19 reproduction rate**



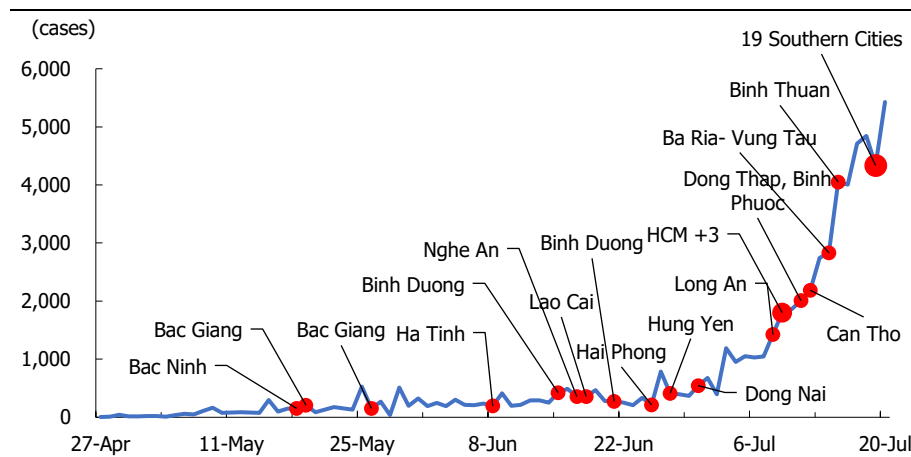
Source: WHO, MoH, KIS,

***Vietnam government is consistent with the twin-target***

To confront the increasingly complicated COVID19 situation, the Vietnam government deployed two groups of solutions to follow the twin target that effectively controls the pandemic and promotes socio-economic development. The first group of measures, including social distancing, lockdown, mass-gathering prohibition, unnecessary business and school closures, was undertaken quickly after recording the resurgence in the number of cases in Bac Giang in May-early. Similarly, the government applied Directive 16 for the whole HCM city when the number of infected cases rose significantly. Generally, such policies put stricter restrictions on mobility within the community and trigger the trade-off between health and economic performance via the reductions in domestic demand and production. While the first group aims to

prevent the transmission and guarantee the healthcare system, the second group try to limit the virus infection impact on economy via supporting the affected demand and remain the domestic production at the acceptable level.

**Figure 7. Directive No. 16 timeline through the 4<sup>th</sup> outbreak**

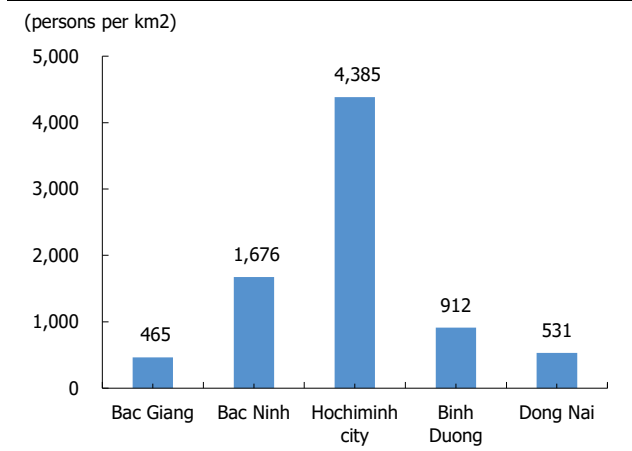


Source: WHO, MoH, KIS,  
Notes: HCM +3 = Ho Chi Minh City, Dong Nai, Binh Duong, and Nha Trang city of Khanh Hoa province.

In the first group, Directive 16, including social distancing, mass-gathering ban, lockdown, and closure of the school and unnecessary business, plays the vital role in preventing the transmission toward outside areas. At the beginning of the current outbreak, the government applied Directive 16 to epicenters in Bac Giang, Bac Ninh and connected provinces to respond to the rising infections in northern areas. On the other hand, Binh Duong was the first province in the southern area that applied this measure partly as recording the transmission in Tan Uyen town and Thuan An city becoming complicated. When the number of infected cases and clusters in Ho Chi Minh City rapidly increases, and imported cases from the economic center to its neighboring provinces are inevitable, Prime Minister Pham Minh Chinh allowed applying Directive 16 on a large scale including 19 cities in southern and central regions.

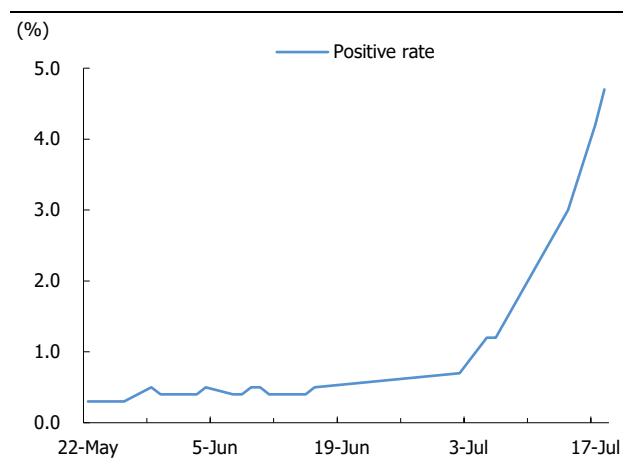
Although directive 16 succeed in containing the COVID19 outbreak in Bac Giang and Bac Ninh epicenters, the transmission in the southern area requires more effort to being under control due to the variety in infected clusters, such as traditional markets, industrial parks, hospitals, and the high population density cities. In addition to the high population density, Ho Chi Minh City and its neighbors were characterized by the high portion of services in their economic activities. This character makes the transmission easier to penetrate deeply to residential living, causing the trade-off between healthcare status and economic performance to become more prominent. According to MoH, the positive rate from the COVID-19 testing rose significantly to 4.7% as of 18<sup>th</sup> July 2021.

**Figure 8. Vietnam 2019 population density by province**



Source: WHO, MoH, KIS

**Figure 9. COVID-19 testing: positive rate**

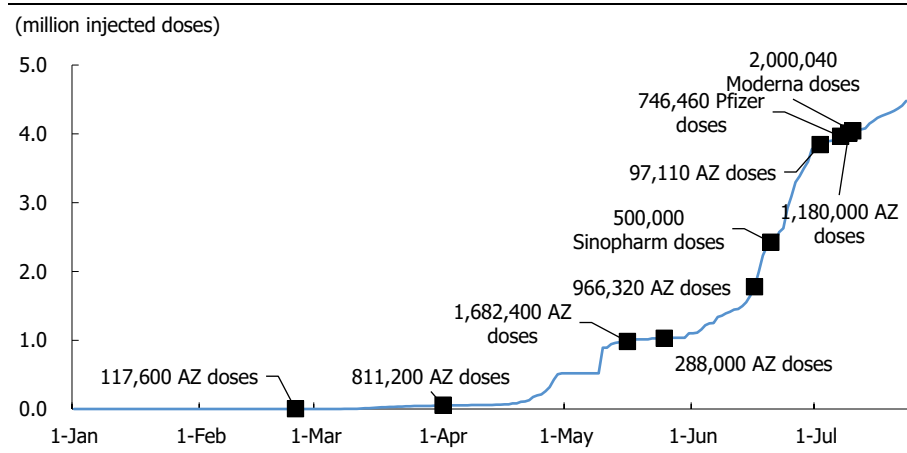


Source: WHO, MoH, KIS

Because the contagion increased rapidly among industrial parks and living areas of related workers, government issued the document of 680/CD-TTg to add more stricter restrictions on the firms in these areas, ensuring the prevention of transmission. Besides, the government implemented some policies to ensure the security of the healthcare system, including self-quarantine for F1 and F0 without symptom at home, acceleration the establishment of temporary treatment facilities to increase the available beds for normal and ICU patients, and mobilization of healthcare staffs to epicenters like Ho Chi Minh City.

Besides putting more restrictions to limit the virus spreading, the Vietnam government has conducted two programs, including conditional verification for vaccines and the vaccine fund organization, to speed the local vaccination up. After perceiving the threat of a new outbreak at the end of April, the government has fastened the national vaccination significantly since May with the increase in phases over months. As of 25<sup>th</sup> July 2021, Vietnam administrated 10,734,290 doses from various vaccine suppliers such as Moderna, Pfizer, AstraZeneca through 11 phases funded by donations, COVAX facility, and the state budget. MoH reports that 4,597,045 people were being injected at least one vaccine dose, equaling 4.35 per one hundred people as of 25<sup>th</sup> July 2021. Although the ratio is much lower than WHO's immunity threshold, the improvement in the recent number of vaccinated people reflects the government's effort to speed the national vaccination up. Furthermore, Ho Chi Minh City, as the epicenter, has been approved a unique mechanism to research and find the vaccine sources by itself, reducing time to reach the desired vaccination level.

**Figure 10. Vaccination timeline**



Source: WHO, MoH, KIS,  
Notes: AZ = AstraZeneca

The second group of solutions aims to mitigate the negative impact of tightening restrictions on economic performance, including policies to ease the financial burden of affected consumers, protect domestic production, smooth the inter-provincial transportation, and stabilize the consumer prices.

On 1<sup>st</sup> July 2021, the government released resolution No. 68/NQ-CP to provide a relief package of VND26.00tn to support COVID19-affected workers and corporations. Accordingly, unemployed labor due to contract suspension, termination, or COVID-19 self-isolation would receive government financial support varying from VND1.00mn to VND3.71mn per person. Besides, employees in affected industries such as traveling and art entertainment would get financial aid. Furthermore, the policy creates favorable conditions for enterprises to approach bank loans with preferential interest rates for paying salaries under idle time and restoring production.

**Table 2. Government responses to economic impact**

Policy	Issued date	Effective date	Purpose	Est. Amount
Resolution No. 68/NQ-CP	7/01/2021	7/01/2021-6/30/2022	Supporting COVID19-affected labors and firms	VND26tn
Decision 2787/QĐ-BYT	5/06/2021	5/06/2021	Allowing firms complying measures of infection prevention under Directive 16 to sustain their operations	N/A
Resolution No. 78/NQ-CP	7/20/2021	7/20/2021	Ensuring the smooth circulation of food, foodstuff, and essential goods	N/A

Source: CDC, MoH, KIS,

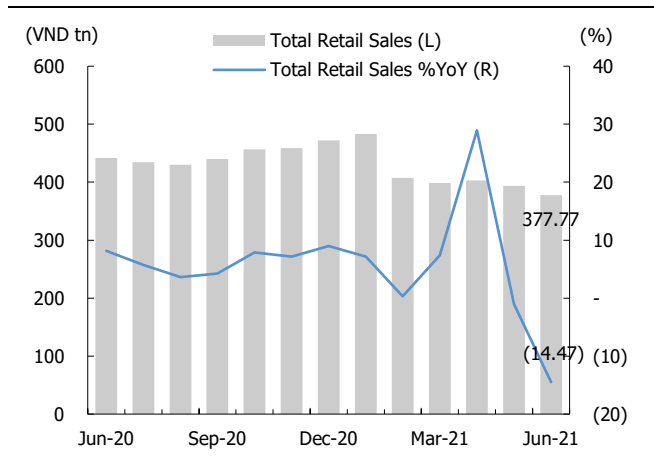
To mitigate the reduction in firms' production in dangerous areas and industrial parks, MoH issued Decision 2787/QĐ-BYT to guide local authorities in managing and allowing enterprises that guarantee restrictions under Directive 16. Such firms must create a mechanism to allow their employees to work, eat, and rest at the workplace. This solution initially applied for firms in industrial parks of Bac Ninh and Bac Giang provinces and continued to be followed by manufacturing firms in the southern region such as Ho Chi Minh City, Binh Duong, Long An.

## II. Economic impact of the outbreak

### *The outbreak limits the consumption*

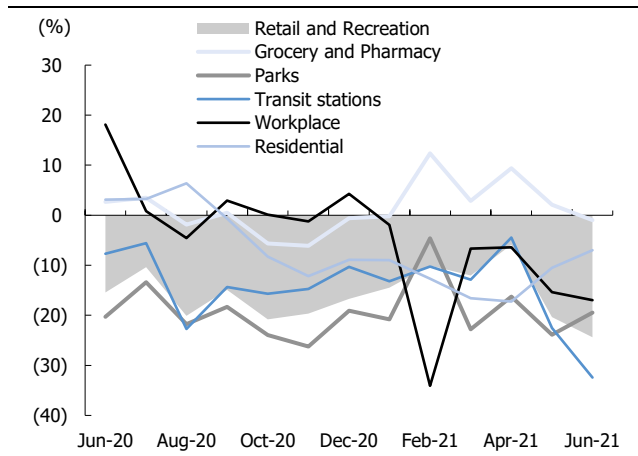
The worst-ever outbreak concerns consumers and manufacturers as the income and business prospects were becoming unpredictable. In addition, stricter restrictions on mobility and selling also limit domestic consumption. The revenue of retailing activities in June was lower than May's value and dropped noticeably by 14.47% YoY, reflecting the effect of enhancing mobility restrictions on domestic consumption. Also, the Google mobility index reduced remarkably compared to the previous level, especially in retail and recreation, workplace, and transit stations. According to the stricter restrictions that would be applied on a large scale of the southern region, the Google mobility index and retail sales seem to witness more reduction in the next month. Furthermore, the increase in unemployment rate under the outbreak tend to reduce to aggregate disposable income, implying the buying desire of domestic consumers to be lower. GSO announced that the unemployment rate was 2.62% in 2Q21, increasing by 20 basis points compared to the first quarter of 2021, confirming the impact of the recent pandemic on the workforce.

**Figure 11. Historical retail sales**



Source: GSO, KIS

**Figure 12. Vietnam Google mobility**

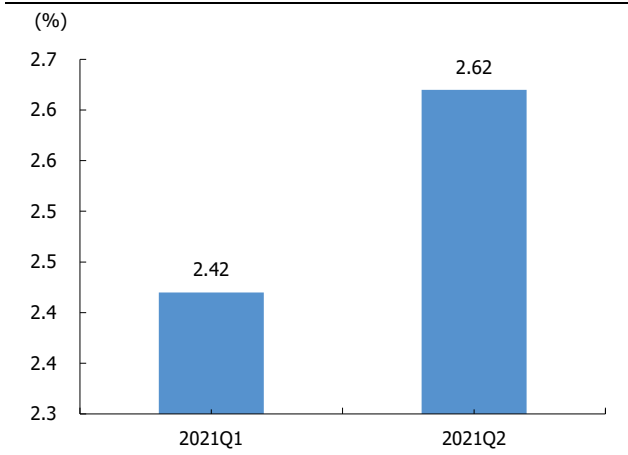


Source: Google COVID-19 Community Mobility Reports, KIS

On the other hand, the IHS Markit reported that Vietnam Manufacturing PMI in June tumbled to 44.1 from 53.1 in the previous month, reflecting concerns of purchasing managers about the business prospect under the unpredictable infection within the country. This reduction implies that demand for fixed assets and inventory investment to expand their scales and accelerate selling activities seems lower in the next month.

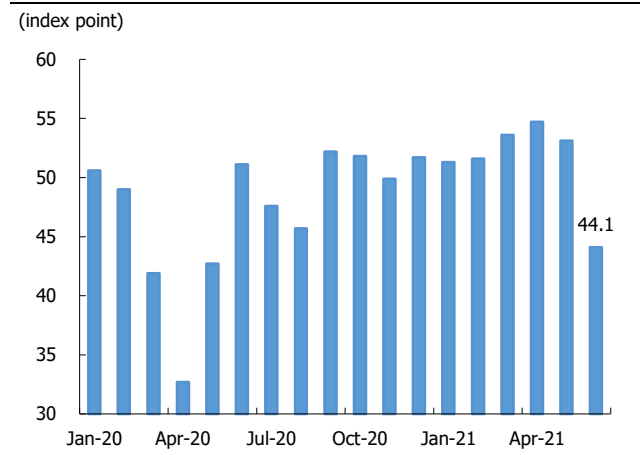


**Figure 13. Unemployment rate**



Source: GSO, KIS

**Figure 14. Vietnam Manufacturing PMI**

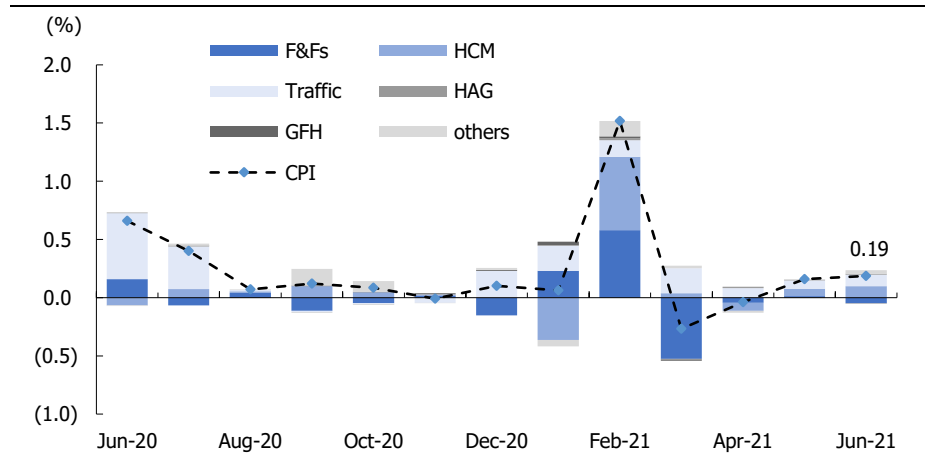


Source: IHS Markit, KIS

***CPI tend to be divergent***

Food and foodstuff index (F&Fs) tend to be divergent by items and by space. Food and foodstuff prices seem to increase sharply due to temporary storage in some hot spots during outbreak prevention, while prices of goods related to eating outside activities would decrease due to restaurant closures and mobility restrictions. On the other hand, consumer prices tend to increase in high population areas such as HCM, Dong Nai, Binh Duong but would decrease in manufacturing areas due to slow transportation and high loss rate.

**Figure 15. Historical consumer price index**



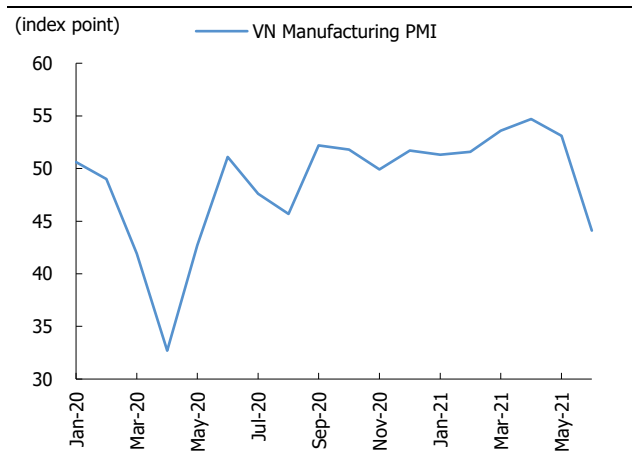
Source: GSO, KIS

**Industrial sector is in stress test under the current outbreak**

From the past, it is evident with strong data support that the industrial sector is among the most immune ones against the impact of COVID-19 outbreaks. A conventional approach globally is that industrial production has usually been beyond the reach of strict containment measures, different from the services sector. But this time, the current situation is much more serious than in the past as the outbreaks invaded many key industrial parks in Vietnam, from Bac Giang, Bac Ninh in late May to Ho Chi Minh City, Dong Nai, and Binh Duong currently. Under the impact of the fourth and also the largest COVID-19 wave so far, the health of the industrial sector has been again put into concern. This time the social-distancing measures are implemented at a new high level than previously.

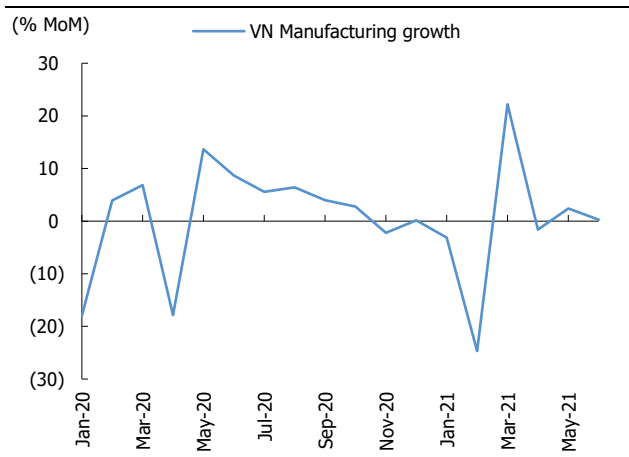
PMI data in June reflected very clearly COVID-19 pressure on the industrial sector as Vietnam manufacturing PMI was experiencing the largest correction since the first wave, to 44.1. According to the latest PMI report, manufacturing production output and new orders, representing the demand-supply relationship, were reported to reduce at a sharp rate, while supply-chain conditions in this sector were also worsening under strict mobility restrictions. On the contrary, in terms of industrial production index measure, Vietnam manufacturing production stayed in expansion territory in the month, albeit very slightly, as they have not fully reflected the COVID-19 impact yet for the coming months.

**Figure 16. Vietnam manufacturing PMI**



Source: IHS Markit, KIS

**Figure 17. Vietnam manufacturing growth**



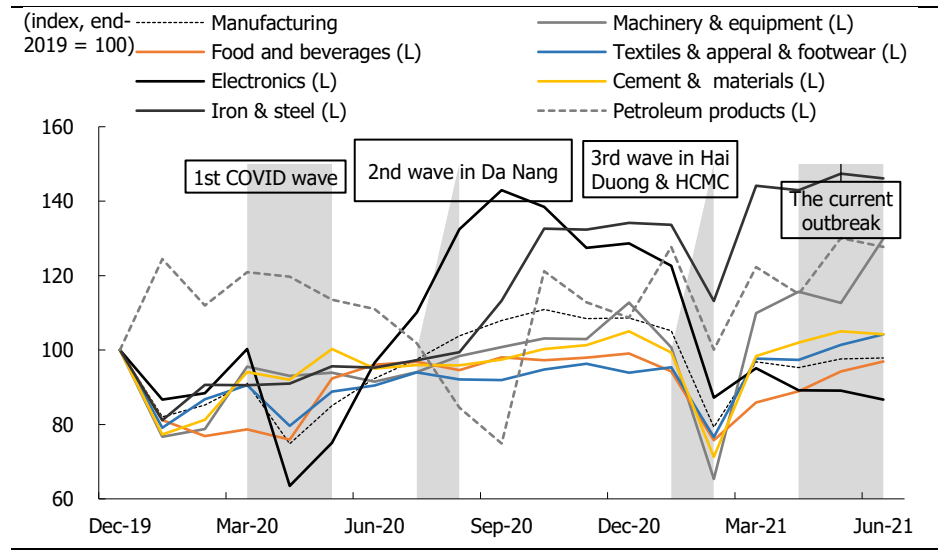
Source: GSO, KIS

However, like COVID-19 patients that some will fortunately just have mild symptoms or even no symptoms at all when others are suffering severe illness, the COVID-19 impacts among industrial sectors are also considerably different in terms of the impact extent and the recovery afterward. In order to see a clearer picture of the impact of the outbreak and corresponding containment measures on the production activity, we will go deeper into each specific subsector.

But before that, let us get through the industrial performance amid the outbreaks in the past. Considering strict lockdown measures as the main factors of production activity disruptions, it seemed that only the first wave in April – May 2020 is comparable to this time. Three important points were derived from the first large-scaled lockdown are that: (1) Labor-intensive industries are clearly

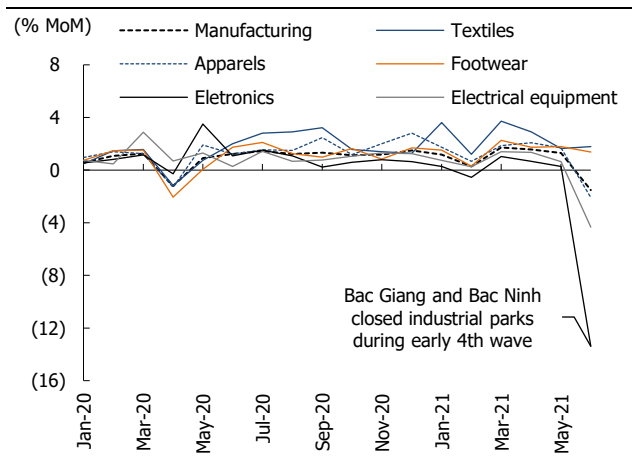
among the ones getting the hardest hit when the strict pandemic containment measures are implemented, for example, the textile, garment & footwear, as well as the electronics industries; (2) industries that serve domestic sales that rely on bricks-and-mortar retailers, are also impacted severely. A part of the food and beverages industries, serving the catering services, shared the common situation, but the difficulties are partly offset thanks to increasing demand for foods and drinks consumed at home during lockdown; (3) industries that serve export demand will quickly recover to meet up pending orders.

**Figure 18. Manufacturing growth amid COVID-19 waves**



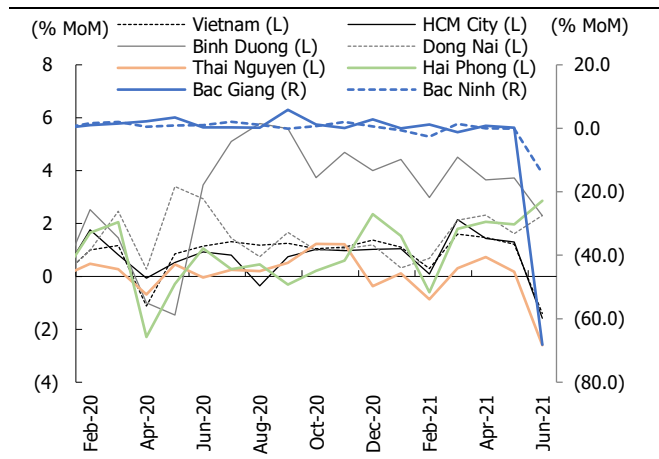
Source: GSO, MoH, KIS

**Figure 19. Labor employed index by sector**



Source: GSO, KIS

**Figure 20. Labor employed index by province**



Source: GSO, KIS

## The electronics industry

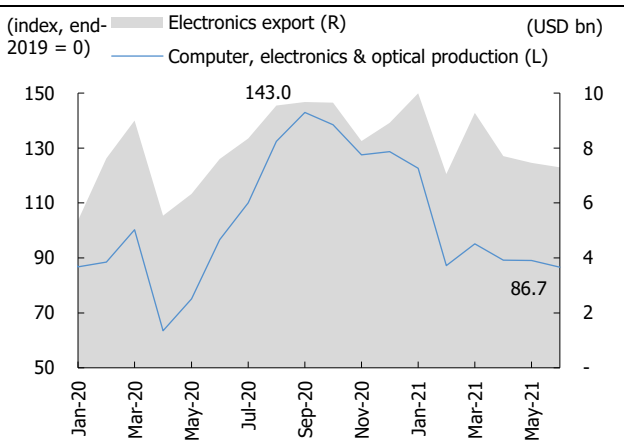
### First wave

#### **Production conditions were affected during the first lockdown**

This industry is holding a unique place in the manufacturing sector and Vietnam's economy as well, not only because it is one of the largest industries for the whole economy, but it is mainly driven by export demand. In the first wave April – May 2020, the production of electronic products was hit really hard, plunging by nearly 40% of its end-2019 level. Meanwhile, staff levels in this sector remained strongly stable, even expanding somewhat, at that time. This means that the bottom in the first wave is just a consequence of global logistics disruption and many uncertainties, not related to domestic production activity.

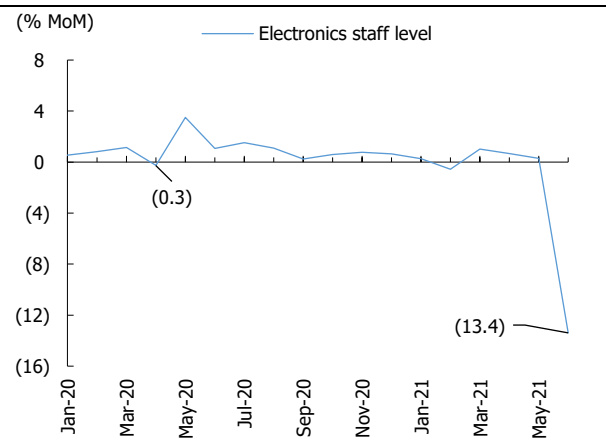
From a bottom, the phenomenal growth in the electronics industry was driven by a surging trend of global digital demand, which boosted the industry production level to a record high in 2H20. However, this sharp increase in production saw signs of weakening in 1H21, as current production levels in Feb – Jun 2021 were more than 10% lower than its end-2019 level.

**Figure 21. Production level**



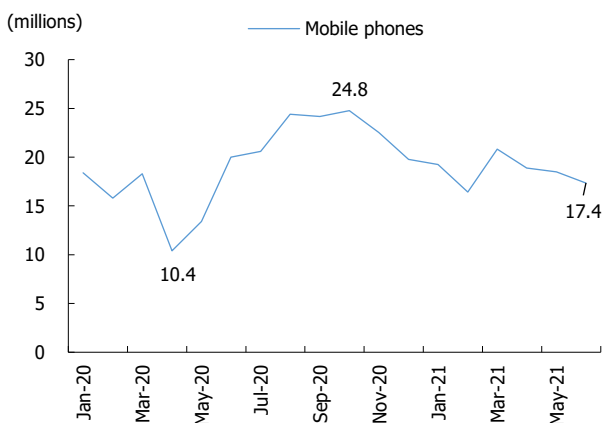
Source: GSO, VN Customs, KIS

**Figure 22. Labor employed index**



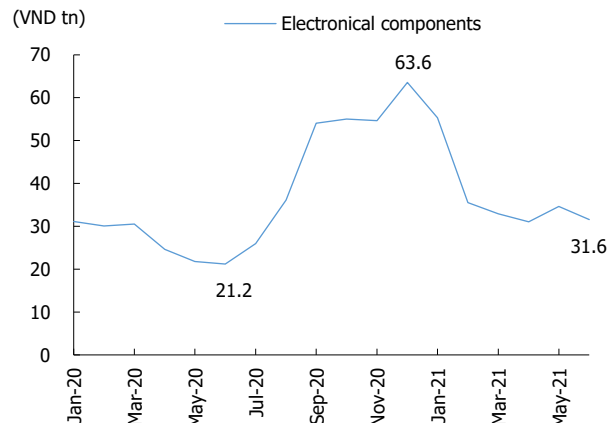
Source: GSO, KIS

**Figure 23. Numbers of mobile phones produced**



Source: GSO, KIS

**Figure 24. Amounts of electrical equipment**



Source: GSO, KIS

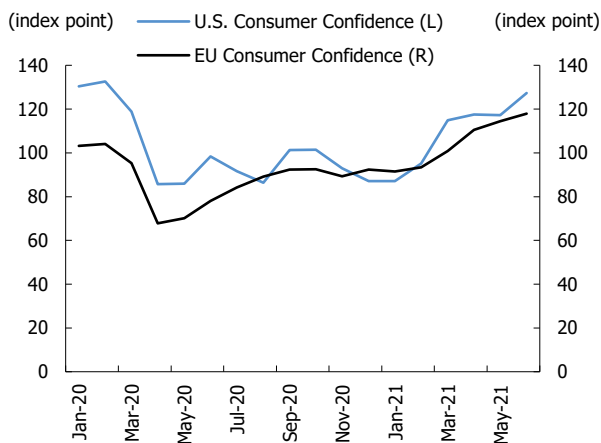
## Fourth wave

### **Electronics producers are well prepared in this current outbreak**

The ongoing outbreak actually attacked key industrial centers for the electronics industry, several industrial parks in Bac Giang and Bac Ninh as shown above, in late May. Staff level in this sector in Bac Giang dropped almost 70%, which was a serious disruption in the short term, while the total labor employment also reduced by 13.4% compared to its normal level. This is an actual stress test for the production activity of the electronics industry against the COVID-19 impact. Fortunately, the total production output just dropped less than 3%, as large FDI manufacturers in the sector are well prepared against the COVID-19 uncertainties.

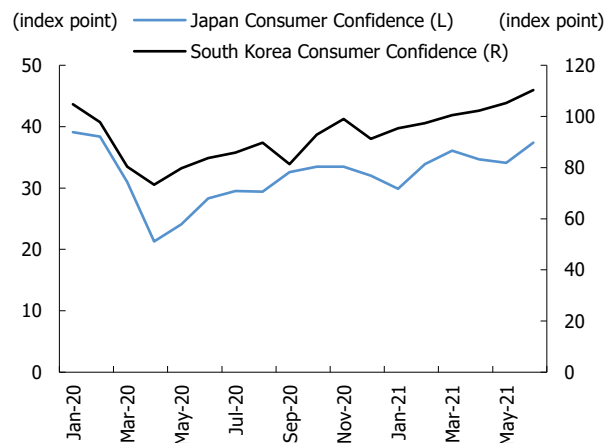
What we expect about the future growth of this sector is whether the post-COVID-19 normalization in key markets like European Union and the U.S. is successful or not in 3Q21, which will impact greatly on the export demand and the production growth of this sector in a high season of electronics consumption in the third and fourth quarters. So far, the consumer confidence in the primary export markets was in a fast-recovery trend in 1H21.

**Figure 25. U.S. and EU consumer confidence**



Source: U.S. Conference Board, European Commission, KIS

**Figure 26. Japan and South Korea consumer confidence**



Source: Japan Cabinet Office, Bank of Korea, KIS

## The textiles, apparel, and footwear industry

### First wave

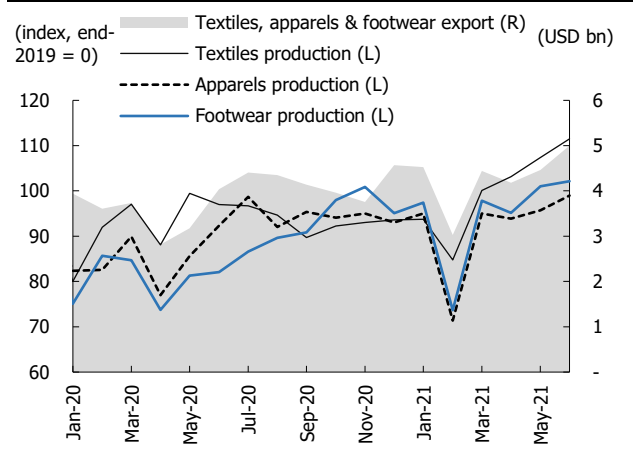
### **The textile & apparel & footwear industries performed poorly in the initial wave**

The textiles, apparel, and footwear industry shared common characteristics with the electronics industry. Both industries rely strongly on labor and their growths are mainly export demand-driven. An important difference between these two industries is that the majority of the textiles & apparels & footwear manufacturers are just small- and medium-sized, which makes them more vulnerable to the COVID-19 consequences, such as short-term disruptions, foreign demand instability, and bottleneck issues in the supply chain.

In the very first wave, during the national lockdown in April, the overall production levels of textiles, apparel, and footwear reduced by about 9% - 14% MoM from March 2020, while staff levels in those industries also fell by about

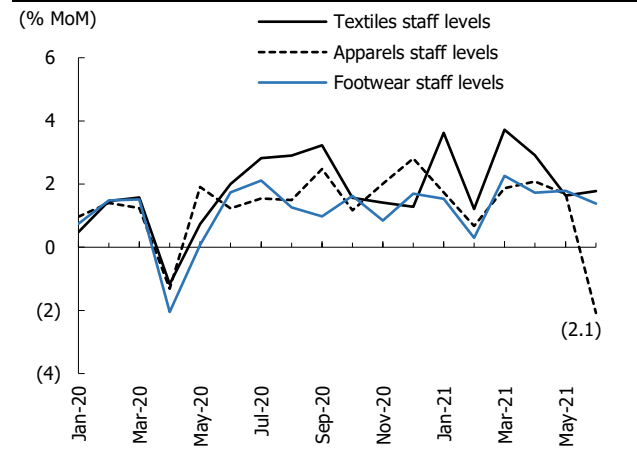
1% - 2% MoM. As we remembered at that time that there were systematic difficulties in global logistics conditions, not only due to domestic pandemic conditions. However, the manufacturing in those industries only took 1 to 3 months to fully recover to early-2020 levels.

**Figure 27. Production level**



Source: GSO, VN Customs, KIS

**Figure 28. Labor employed index**



Source: GSO, KIS

**Fourth wave**

***SMEs will be more challenged this time with stricter containment measures***

In 1H21 before the fourth COVID-19 wave began, the textiles & apparel & footwear industries were growing fast thanks to increasing export demand, especially in the March-May 2021 period. Data pointed out that manufacturers in those industries are ramping up their capacity remarkably to fulfill new export orders. The output levels in those industries recorded the highest in many years, while their staff levels rose by averaging 2% – 2.3% MoM each month during March-May.

However, as the pandemic conditions have turned worsening in Binh Duong and especially Ho Chi Minh City in June, there are signals that production activity in those sectors is suffering an early impact of COVID-19 acceleration and the corresponding containment measures in the workplace. This was the first time that the staff levels in the apparels industry fell on a month-over-month basis since the first lockdown, by 2.1% MoM.

Again, we must re-mention that the textiles & apparel & footwear industries are benefiting growing export demand before entering the fourth wave, but the currently strict social-distancing requirements would be considered challenging for small-and-medium-sized manufacturers, even for large employers. July data would give us more hints about the actual damage of the outbreak on those industries. Nonetheless, as export demand still waits to be fulfilled, the production activity, if suffering temporary disruption, would be guaranteed for fast recovery after that.

## The food & beverages industry

### First wave

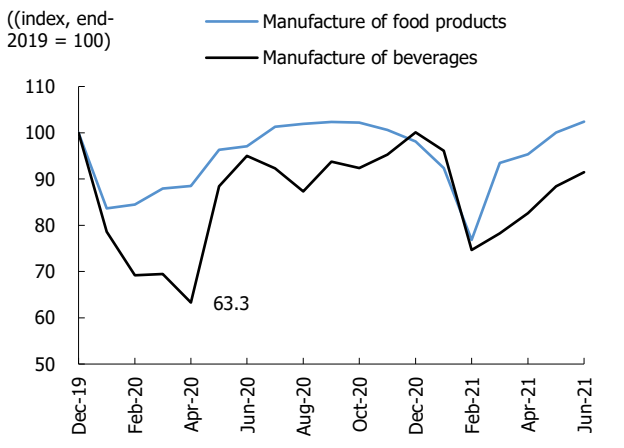
#### **Food industry is less affected during the lockdown**

Data in the first national lockdown April - May 2020 showed a very different impact of the outbreak on the food manufacturing versus the beverages industry. Production and staffing levels in the food industry saw an insignificant impact of the first outbreak, as the staffing levels were slightly down by 1.06% MoM while food production levels even increased during that period. It is usually observed from COVID-19 impact reports from many countries as well as you can see it clearly in reality. A part of the food industry, which is closely related to the catering services industry, would be hit very hard during the lockdown time. However, it is evident that it is more offset by increased food consumption at home as people drastically change their behavior to food consumed at home.

On the other side, the beverage industry was obviously impacted severely during the lockdown period when its demand is closely linked with the catering and recreation services industries. The beverages production reduced by about 6% in April, while staff levels in this industry reduced by nearly 7% from March-2020's level during 2 months April – May.

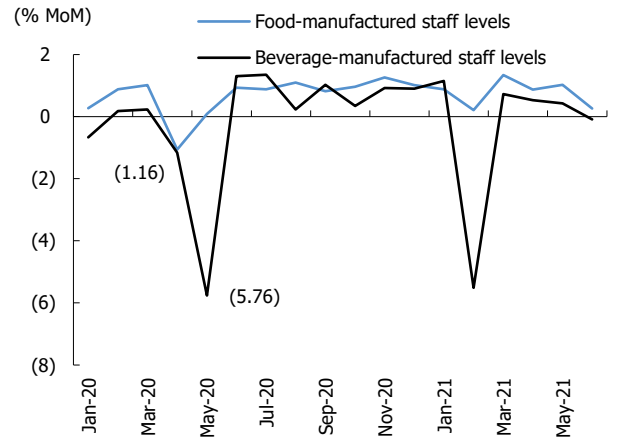
However, when economic activity is allowed to re-open, especially the business activity in the services sector, those industries would see fast recovery thanks to a tendency of more spending during the after-lockdown period.

**Figure 29. Production level**



Source: GSO, KIS

**Figure 30. Labor employed index**



Source: GSO, KIS

### Fourth wave

#### **Risk of a broken supply chain is visible for food industry**

In this fourth wave, we expect similar reactions of the production activity and staffing levels in the foods and beverages industries like in the first lockdown. But, due to the severity of the outbreak and much-strict social-distancing measures in Southern provinces and key distribution center Ho Chi Minh City, a temporary supply-chain disruption in the F&B industries is apparent when most traditional markets are required to partly open or even close. One thing that should be noticing is that the COVID-19-related loss in those industries

during this lockdown would be hardly fully recovered afterward due to the nature of food and beverages consumption.

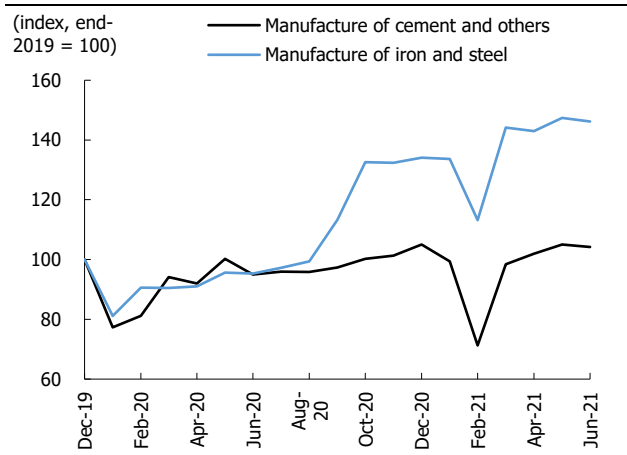
### The construction-material industry

#### First wave

**Construction activity was immune in the first wave**

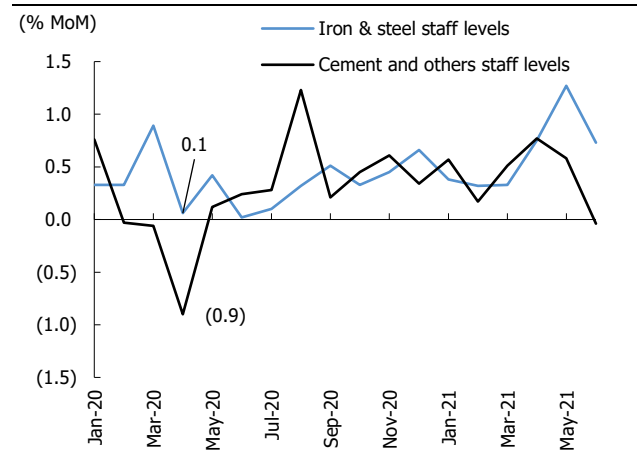
When examining the industry performance during the first lockdown, based on production & staffing level data, construction material manufacturing was among a few industries that were not vulnerable, against the outbreak. Construction activity was out of restricted economic activity during that time, and its demand was not severely impacted. Iron & steel manufacturing still posted growth during April – May 2020, while the manufacture of cement and other construction materials just saw about 1 – 2% reductions in both output and staffing levels.

**Figure 31. Production level**



Source: GSO, KIS

**Figure 32. Labor employed index**



Source: GSO, KIS

#### Fourth wave

**Demand for construction materials is no longer immune against the COVID-19**

This time, more severe and complicated pandemic situations in Ho Chi Minh City force the authority to close almost all business activities. Specifically, with an enhanced Directive 16+ implemented in HCM City from 23rd July, construction activities that are classified as not urgent are required to close until further notice. Besides, construction-materials retailers are also closed during this lockdown. We expect that those developments above would cause temporary disruption in domestic demand for construction materials. However, a backlog of works in pending construction activity will be likely fully fulfilled after the social-distancing measures are lifted.

Besides, there is a view that real-estate developments would be limited under a worsening economic growth outlook that would impact demand for construction and construction materials in the future. However, data is very limited for further analysis to support this view.



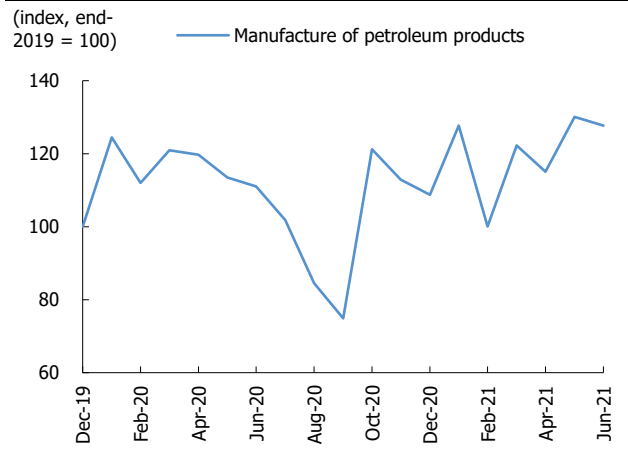
## The petroleum manufacturing industry

### First wave

Although the energy sector would be severely hit hard during the lockdown as traffic activity would be strongly disrupted during that period, petroleum manufacturing data does not support that view without a production shock in a specific period. It can be explained that a drop in traffic activity and eventually energy demand would lead to a gradual reduction in the petroleum-production output months later.

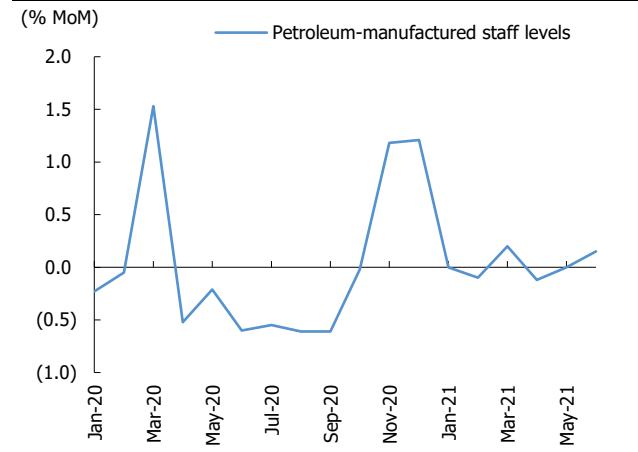
Overall, year-over-year growth of averaging petroleum production output in 2020 was limited, at 11.1% YoY compared to 19.8% YoY growth in 2019, corresponding with a continued decline in the output levels in 2Q20 and 3Q20.

**Figure 33. Production level**



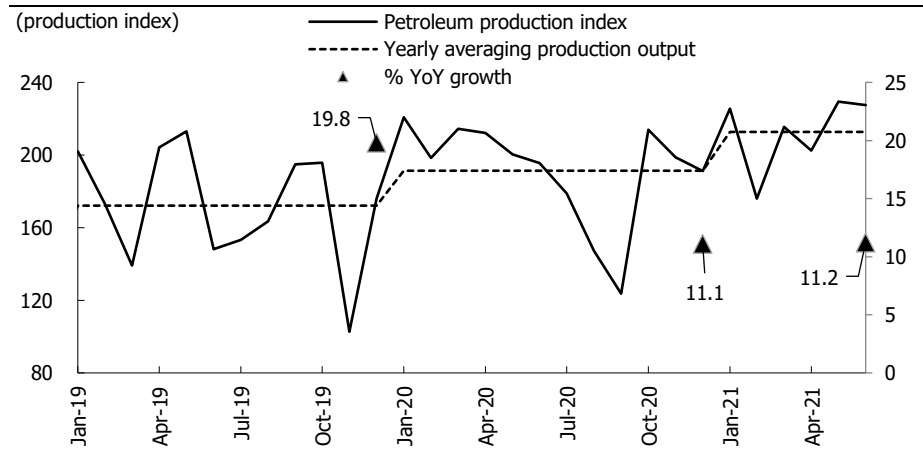
Source: GSO, KIS

**Figure 34. Labor employed index**



Source: GSO, KIS

**Figure 35. Petroleum production growth**

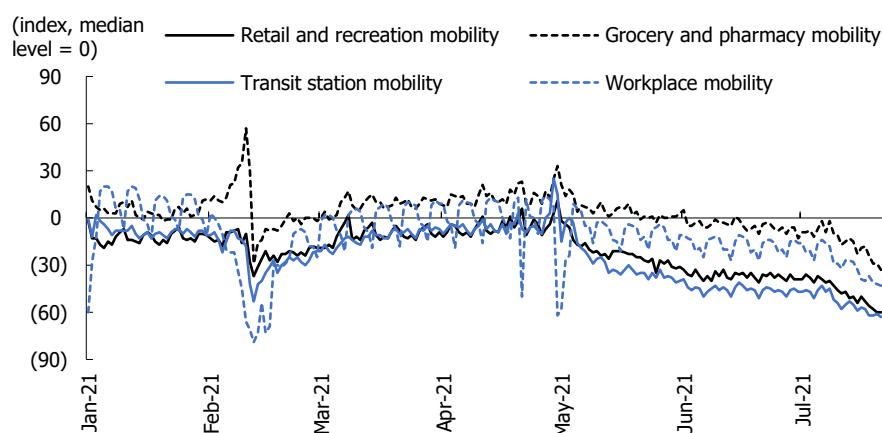


Source: Google COVID-19 Community Mobility Reports, KIS

## Fourth wave

Fortunately, the Google mobility index illustrated very well a sharp drop in mobility in several activities during this COVID-19 wave. More specifically, the mobility index, including mobility measures in retail & recreation, grocery & pharmacy, public transit station, and office places, was dropping more than 30% on average in June – July 2021 during the social-distancing implementation following Directive 16 in many provinces. Obviously, this considerable drop in traffic activity and also domestic petroleum demand would finally transmit to a reduction in petroleum production in the year.

**Figure 36. Vietnam mobility conditions**



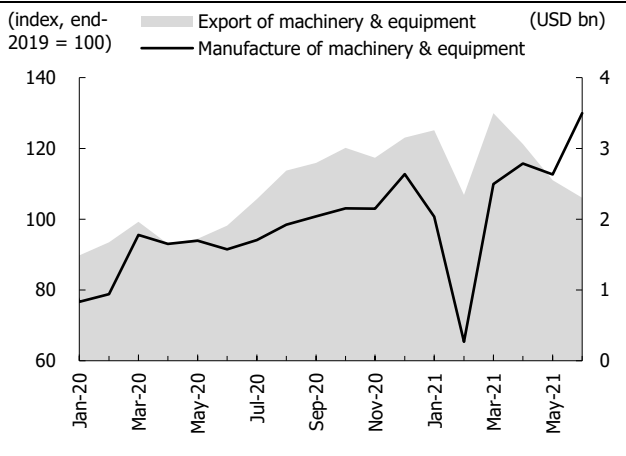
Source: Google COVID-19 Community Mobility Reports, KIS

## The machinery & equipment manufacturing industry

### First wave

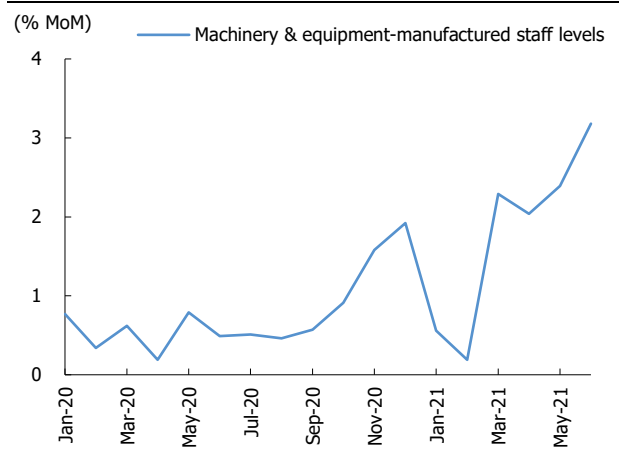
The last sector for the review is the machinery & equipment manufacturing industry, which is in the top 5 largest exports of industrial products since 2020. In the first lockdown, it is among a few key industries that are beyond the impact of the COVID-19 pandemic. Its production output levels during April – May 2020 period were very solid with staffing levels continuing to improve since 2020. This is a clear example that export-driven industries would be immune to some extent against the domestic pandemic.

**Figure 37. Production level**



Source: GSO, VN Customs, KIS

**Figure 38. Labor employed index**



Source: GSO, KIS

### Fourth wave

This industry has experienced continued record growths in 1H21, especially in the second quarter, with staffing levels also improving at a fast pace, mainly driven by strong export demand. Even the overall industrial sector fell COVID-19 pressures somewhat in late 2Q21, its growth was ready to set a new high record. In our view, this industry would be a strong foothold for industrial growth amid the outbreak this time

## III. Vietnam stock market

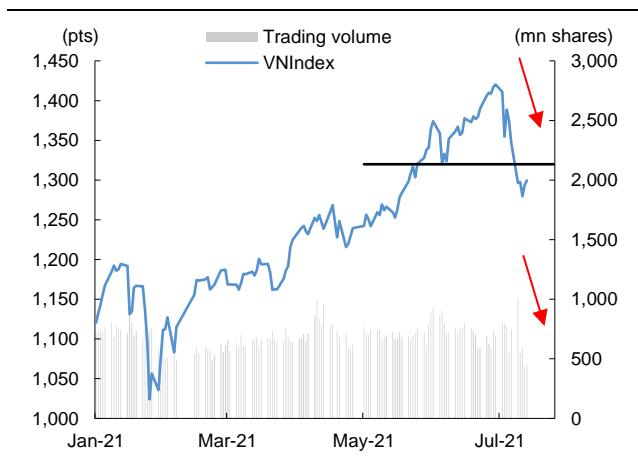
### 1. Long-term uptrend

#### Stock market crashes

**A crash.** Based on the complicated development of the COVID-19 epidemic, the government has taken many strong measures to fight the epidemic. Notably, the government's decision applies Directive 16 to 19 southern provinces of Vietnam, including Ho Chi Minh City. Of which, this city recorded a record high number of COVID-19 infections exceeding 40,000 cases (update until Jul 21). These had a negative effect on investors' sentiment and formed crash sessions as the VNIndex fell by 3.99% and 3.77% on July 6 and July 12, 2021.

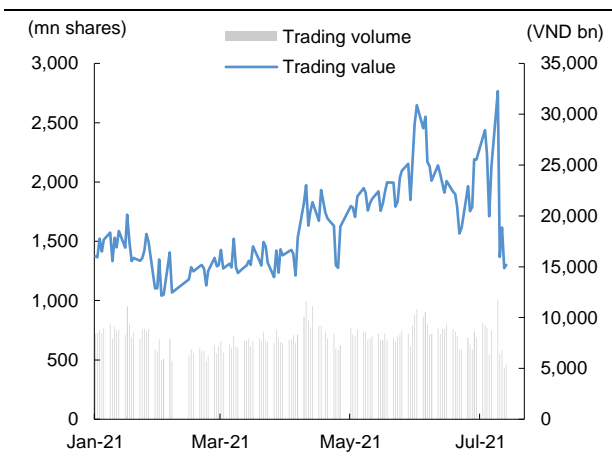
**Trading volume declines.** The price fell sharply, but the trading volume and value have been declined. Whereby, the average trading value and volume in July was VND22,900bn and 677 million shares per session, decreasing 8.59% MoM and 3.63% MoM.

**Figure 39. Movement of the VNIndex and trading volume**



Source: VSD, KIS

**Figure 40. Trading value and volume**



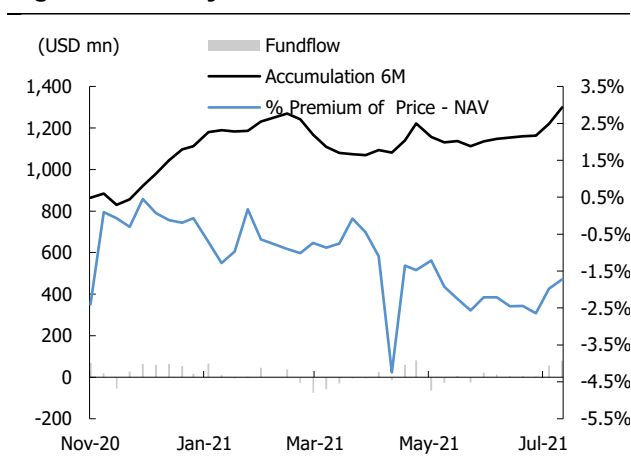
Source: Fiinpro, KIS

**HSX trading congestion has been resolved.** According to the announcement of the Ho Chi Minh City Stock Exchange, the new trading system was officially put into operation on July 5, building by FPT. According to Mr. Duong Dung Trieu, chairman of FPT IS, this system is capable of handling 3-5 million orders per day compared to the old system of 900,000 orders per day while removing the mechanism of removing the allocation mechanism of old system order. The new system has solved the problem of congestion on HSX in the past time.

**Money inflow across Vietnam’s ETFs skyrockets**

**Southeast Asia ETF flow.** SEA kept recording the positive flow of money in June 2021 with a net value of USD135mn, but being only contributed by the massive flow of Vietnam of USD152mn. Specifically, the high money inflow in Vietnam was thanks to raising funds of Fubon FTSE Vietnam ETF in March 2021. Besides, Indonesia has a net inflow of USD80mn. On the other hand, Singapore and Malaysia is a net outflow of USD29.2mn and USD4.7mn.

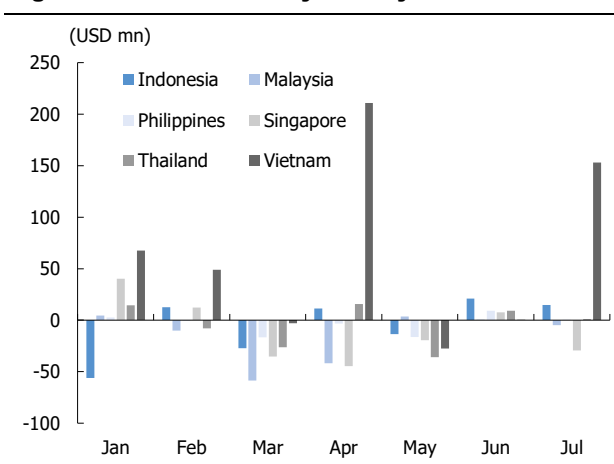
**Figure 41. Weekly ETF net flow to SEA**



Source: Bloomberg.

Note: SEA includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam

**Figure 42. ETF net flow by country**



Source: Bloomberg, KIS

**Money inflow maintains in ETF.** Net inflow into ETFs, which focus on the Vietnam stock market, was USD164mn in one month. Particularly, the money inflow continued to drive by the strong demand on Fubon FTSE Vietnam ETF (USD126.8mn), followed by VFMVN DIAMOND ETF of USD17.2mn, and FMVN30 ETF FUND of USD11.6mn. Notably, the Fubon FTSE Vietnam ETF fund, the fund listed on the Taiwan stock market, raised capital in March 2021, but the fund has reached USD489.8mn, ranking third in AUM value of ETFs, after only four months.

**Table 43. Vietnam ETF net flow**

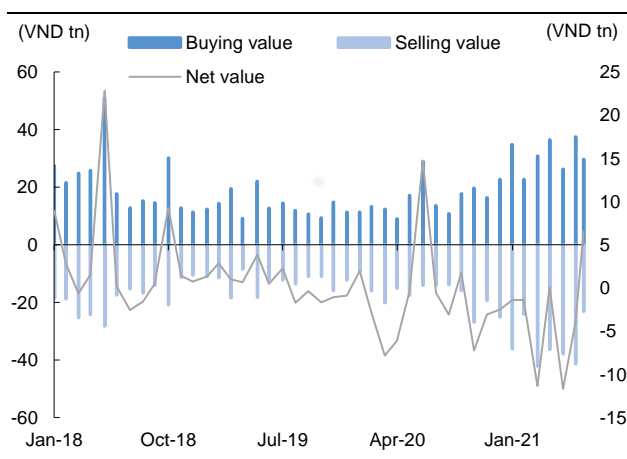
Name	Type	Total AUM (USDmn)	NAV/share (USD)	Price (USD)	% 1W chg	% Premium	Net Fund Flow (USDmn)			
							1W	1M	6M	1Y
X FTSE VIETNAM SWAP	Swap ETF	446.3	41.6	41.6	1.9	0.0	0.0	(1.7)	(16.4)	46.5
VFMVN30 ETF FUND	ETF	295.6	1.1	1.1	(1.8)	1.3	0.0	11.6	(33.7)	(21.1)
VANECK VIETNAM ETF	ETF	537.3	19.3	19.4	0.9	0.3	1.9	8.0	22.7	53.0
SSIAM VNX50 ETF	ETF	13.5	1.0	0.9	1.0	(6.7)	0.0	0.0	0.0	0.0
PREMIA MSCI VIETNAM	ETF	27.7	12.2	12.4	2.1	1.4	0.0	0.3	(3.5)	(2.4)
SSIAM VNFIN LEAD	ETF	119.0	0.9	0.9	(0.5)	(0.2)	0.0	0.5	27.2	37.2
VFMVN DIAMOND ETF	ETF	580.0	1.1	1.1	(2.1)	(0.4)	4.0	17.2	138.6	261.8
VINACAPITAL VN100 ETF	ETF	4.0	0.8	0.8	0.8	0.6	0.0	0.0	(0.7)	(0.3)
SSIAM VN30 ETF	ETF	3.4	0.8	0.8	0.9	2.4	0.0	0.0	(0.2)	(0.6)
MAFM VN30 ETF	ETF	34.3	0.6	0.7	(1.1)	18.9	0.8	1.6	4.3	4.3
FUBON FTSE VIETNAM ETF	ETF	489.8	0.6	0.6	0.1	0.8	85.9	126.8	268.7	268.7

Note: Data as of 16 Jul 2021

Source: Bloomberg, KIS

**Foreign investors net sell strongly in the first six months of the year.** In June, foreign investors sold with a net value of VND3.9tn on HSX. They sold HPG, VPB, and MBB the most with net values of VND4,994bn, VND1,628bn, and VND1,587bn, respectively. On the buy-side, VHM and VCB were at the top of the list with net values of VND1,375bn and VND1,122bn. In 1H21, foreigners continued to sell a net value of VND29.7tn compare to VND15.2tn in 2020.

**Figure 44. Weekly net foreign buy/sell**



Note: Data as of 16 Jul 2021. Source: FiinPro, KIS

**Table 45. Top net foreign sell and buy on June 2021 (VND bn)**

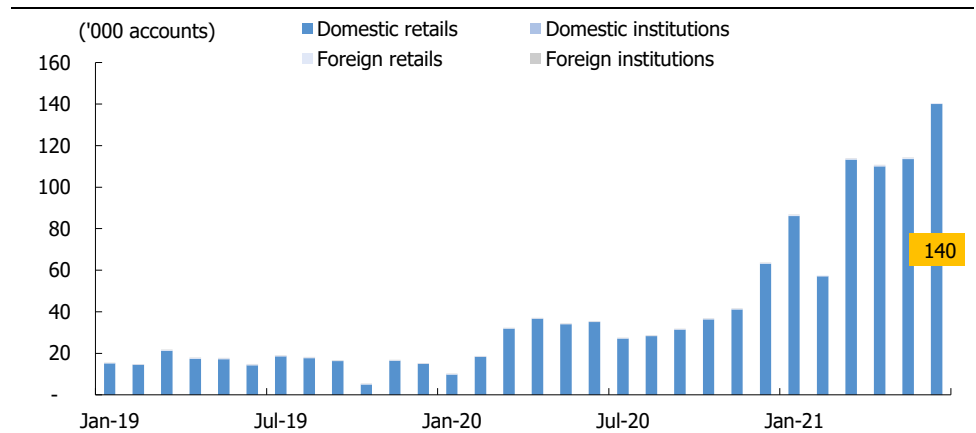
No	Ticker	Buy Value	Sell value	Net value
1	HPG	2,538	7,533	(4,994)
2	VPB	380	2,008	(1,628)
3	MBB	961	2,548	(1,587)
4	VIC	1,092	2,024	(932)
5	DXG	602	1,442	(840)
6	VRE	1,598	973	625
7	PLX	953	294	659
8	NVL	2,936	2,239	697
9	VCB	1,896	774	1,122
10	VHM	2,608	1,233	1,375

Note: Data as of 16 Jul 2021. Source: FiinPro, KIS

## Retail investors are the main driver

**Retail investors attend on the stock market.** In 2020, the average number of new accounts increases sharply to about 37,000 accounts in the last three-quarters year thanks to the strong uptrend of the stock market after the market tumbled in the first quarter of 2020 due to the COVID-19 epidemic. Notably, the number remains at above 100,000 opening account in the last four months and reaches a new peak of 140,470 in June. Of which, retail and institutional investors open 140,334 and 136 new accounts. That implying investors (especially retails) focus their attention on the stock market.

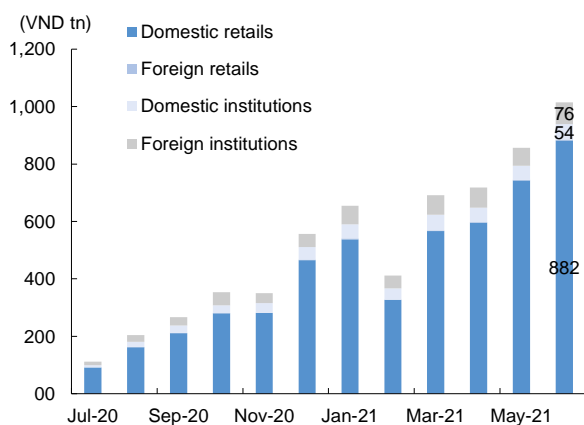
**Figure 46. New number of investor's trading accounts**



Source: VSD, KIS

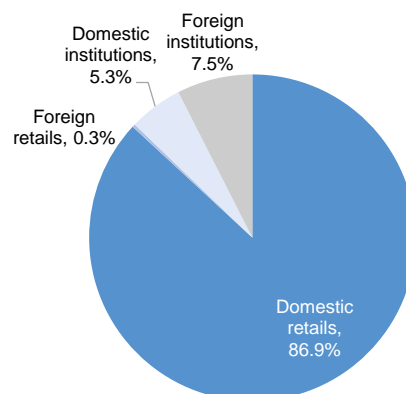
**Domestic retail investors are the main driver.** The total trading value of investors has increased to VND1,015tn in June 2021, increasing more than 8 times compared to July 2020, VND111tn. Of which, local individual investors lead the trading with transaction value accounting for 86.9%, followed by foreign institutional investors of 7.5%. The total trading value of this group usually ranges from 79% to 87% of the whole market's trading value, implying a significant influence on the market.

**Figure 47. Total trading value by investor types**



Source: VSD, KIS

**Figure 48. Trading value by investor types in July**

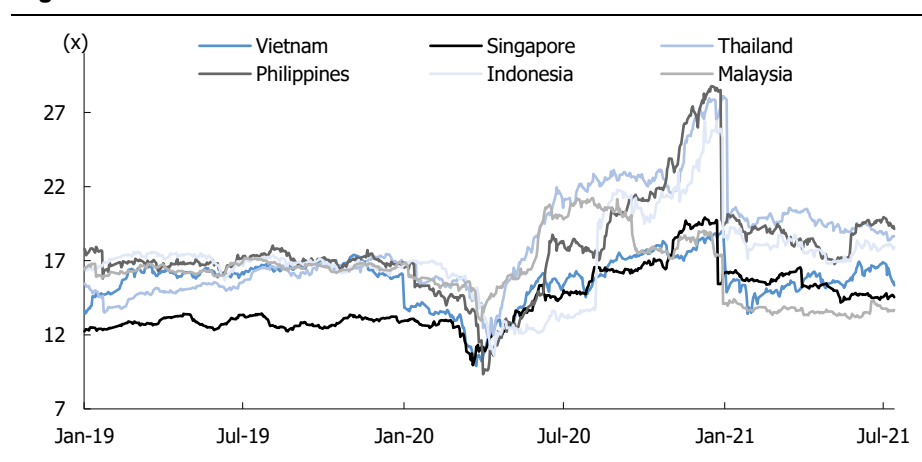


Source: Fiinpro, KIS

## Valuation is still attractive

**PER returns to pre-COVID-19 levels.** After the sharp decline in early July 2021, the PER ratio of the VNIndex dropped sharply to 15.3x, which is a level before the COVID-19 epidemic. This ratio is higher than the PER of Singapore (14.5x) and Malaysia (13.67x) but lower than the rest of SEA countries such as Thailand (18.6x), Philippines (19.1x) and Indonesia (17.9x). This level is not the lowest compared to other countries but still shows the attractiveness of Vietnam's stock market.

**Figure 49. PER of the stock market in Southeast Asia**



Note: Data as of 16 Jul 2021

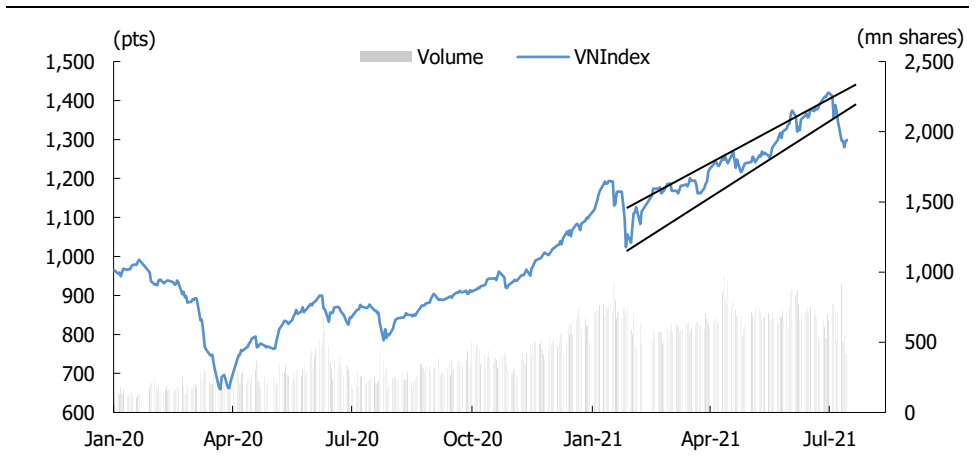
Source: Bloomberg, KIS

## 2. Cycle and patter of the VNIndex

### Short-term downtrend

**The rising wedge pattern confirms the short-term downtrend.** The rising wedge pattern has formed from February to July 2021 (black lines in the below figure). This is a reversal pattern. The breakdown signal appeared in the session of July 9, 2021, confirming the pattern. The increased volume makes the confirmation signal more reliable. With this signal, the short-term downtrend is confirmed.

**Figure 50. Rising wedge pattern of VNIndex in the VNIndex**



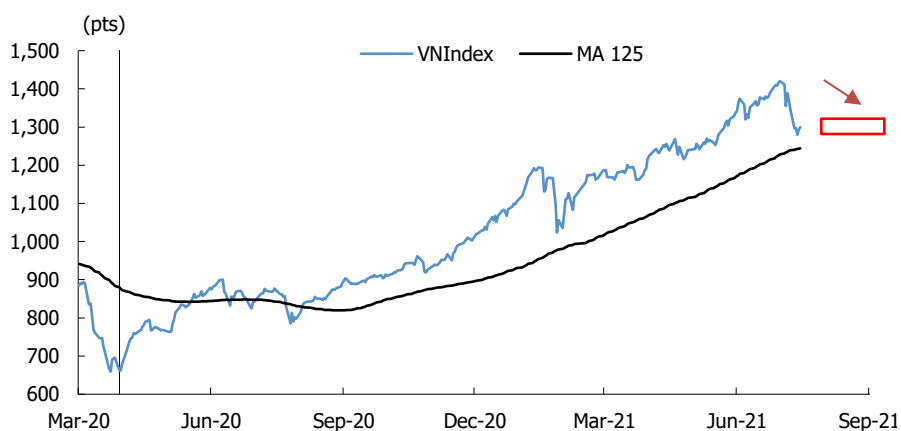
Note: Data as of 17 Jul 2021  
Source: Fiiipro, KIS

**Form a 1-year bottom in the short term.** Based on the research of Raymond Merriman, the 3-year cycle can be split into two or three smaller cycles, which are 1-year cycles with a time interval between the two bottoms from 10 to 14 months. The last bottom of the 1-year cycle is at the end of March 2020, so the next bottom is expected to be between February and June 2021. However, during this period, the VNIndex has not formed a downward trend and appeared the 1-year bottom. Therefore, the current downtrend will confirm the bottom of the 1-year cycle. The price target of the 1-year cycle is below the 125-period moving average, or the range of 1,150 to 1,200 points.

**The period of the one-year bottom is more extended than usual.** The time between two 1-year bottoms is usually from 10 to 14 months. However, the period of the current 1-year cycle is greater than 14 months (16 months from March 2020 to July 2021). This implies that the current 1-year cycle is not normal or the extended cycle. The extended cycle usually occurs at the end sub-cycles of a larger cycle. Therefore, the target price of the current downtrend may be difficult to forecast, drop below 1,150 points, besides volatility may increase sharply.



**Figure 51. One-year cycle of Vietnam stock market**



Note: Data as of 17 Jul 2021  
Source: Fiinpro, KIS

### 3-year upside cycle

**3-year upside cycle from Apr 2020.** Based on the cycle analysis of Raymond Merriman, the VNIndex has a 3-years cycle pattern that forms the significant trough every three years. The current 3-year cycle starts in March 2020 and has a period of 30 to 42 months (36 months or 3 years on average). That implies this bullish cycle will end in a range of September 2022 to September 2023. At the moment, the 3-year cycle is formed in 16 months. Hence, the bullish market will continue for at least another 14 months.

**A second 1-year upside cycle of a 3-year cycle.** The current 1-year cycle may bottom in the next few months. This 1-year cycle is the first sub-cycle of a 3-year cycle. This indicates a new 1-year upside cycle (or the second 1-year upside cycle of a 3-year cycle). Because the 3-year cycle is an upward cycle, the second 1-year cycle will be up. Therefore, a short-term correction may be an opportunity for investors to accumulate stocks for a new uptrend.

**Table 3. Bottom & duration of 3-year cycle**

Cycle	Start bottom	End bottom	Duration (Months)
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	09/2022-09/2023*	30-42*

\*expected period to form the 3-year cycle year  
Note: Data as of 17 Jul 2021  
Source: KIS, FiinPro

**Figure 52. Increase & decrease of 3-year cycle**



Note: Data as of 17 Jul 2021  
Source: Fiinpro, KIS

## Summary

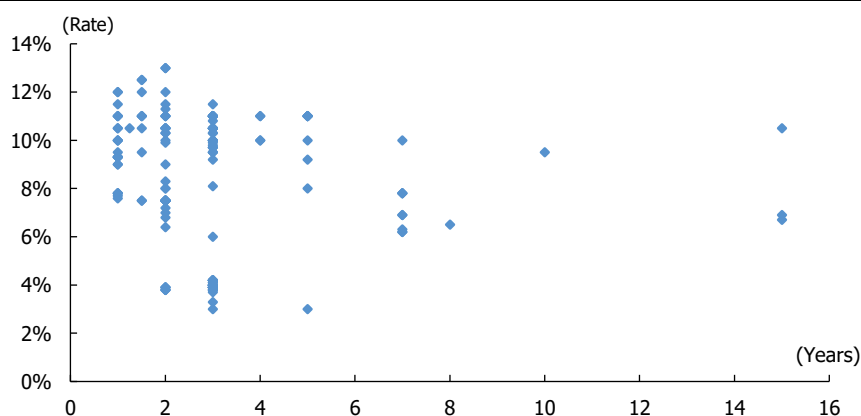
Because of the crash in early July, we expect that the short-term downtrend has been confirmed and may continue in the next one or two months. The significant support is a range of 1,150 to 1,200 pts. However, the long-term uptrend is still maintained as (1) the attention of retail investors on the stock market (2) cash flows into ETFs (3) the 3-year upside cycle. Hence, the current correction is an opportunity for investors to accumulate stocks at low prices for medium- and long-term positions.

## IV. Fixed income market by Sectors

2Q21, total issued value of Corporate bonds reached VND100tn, slightly down 25% YoY. Breaking down by sectors, Financials firms were issued the most, followed by Real Estate and Industrials. Particularly, the total value of issued bonds across Financials sector is almost unchanged compared to the same period of 2020. However, total value of Real Estate bonds decreased slightly, down 38% YoY. The Decree 81 which sets higher requirements and limitations on private offerings in an effort to restrict the issuance of bonds to private investors has continued to negatively impacted the Real Estate sectors.

In June 2021 alone, there were 40 domestic issuances of Corporate bonds, especially there is 1 public issuance of VND1,500bn by KBC (Kinh Bac Urban Development Corporation). The issuing tenor during this month mainly short duration, ranged from 1-3 years as well as the bond rate has fluctuated within the range of 8%-12.5%/year for Real Estate and 3-4.2%/year for the banking group. Since the beginning of June 2021, Commercial banks still ranked at the first place in terms of total issued value, followed by Real Estate sector.

**Figure 53. The overall trend in duration and corporate bond rate (1H21)**



Source: Bloomberg, FiinPro, KIS

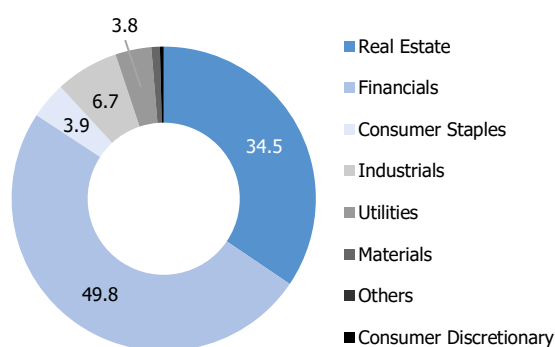
## Duration and corporate bond rate

In the second quarter of 2021, 146 corporate bonds were issued which means 1H2021 has the total of 186 issued corporate bonds. Short duration bonds (under 3 years) were accounted for more than 80% of total issued corporate bonds. In 1H21, among Financials sectors, Commercial Banks alone led the corporate bond market in terms of total issued value, nearly 50%. In which, bonds with duration from 2-4 years accounted for the largest proportion, with the average bond rate at 6%. Notably, issued bonds Commercial Bank with duration under 5 years included ACB (VND4,200bn), TPB (VND5,000bn), OCB (VND3,000bn), and VPB (9,900bn) whilst BID (VND2,800bn) and HDB (VND1,500bn) have the longer term bonds, above 5 years.

Real Estate ranked at the second place, recorded for 35% of issued corporate bond total value in 1H21. However, this sector is the leader in terms of bond rate, with the average of 10% and the short duration (averaged at 2.8 years). Notably, among VND40bn total value of Real Estate corporate bonds, there is more than 25% of corporate bonds are issued without collateral.

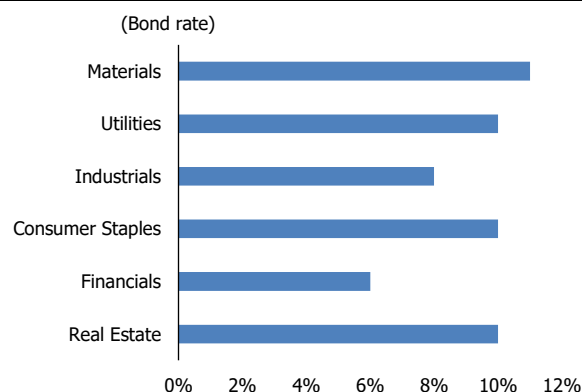
In general, Vietnam's Corporate bond market is expected to be active this year (2021) when the deposit rate is still low as well as demand for businesses' capital is still high. Particularly, deposit rates have continued to maintain around 5%-5.5%/year, is likely to make Corporate bond market more attractive to investors thanks to high coupon rate (nearly 8%-12% per year). Most importantly, investors could find more investment opportunities across Real Estate sector when the issued bonds have the average bond rate at 10%, especially with short duration. Thus, we expected that bonds will keep being a major instrument for mobilizing capital this year as banks continue to focus on short-term lending whilst there is the high businesses' demand (especially Real Estate firms) for mid- and long-term lending.

**Figure 54. Corporate bond by sectors (1H21)**



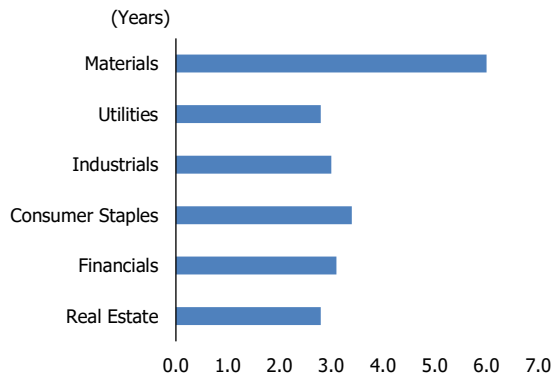
Source: Bloomberg, FiinPro, KIS

**Figure 55. Average bond rate by sectors (1H21)**



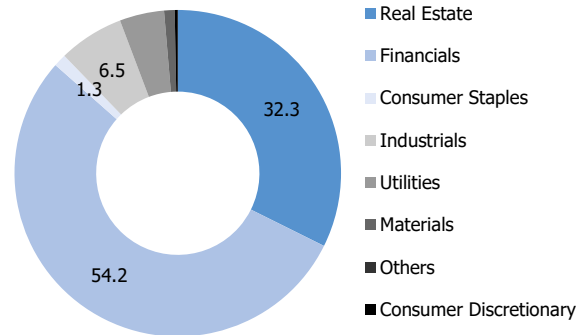
Source: Bloomberg, FiinPro, KIS

**Figure 56. Corporate bond duration by sectors (1H21)**



Source: Bloomberg, FiinPro, KIS

**Figure 57. Corporate bond by sectors (2Q21)**



Source: Bloomberg, FiinPro, KIS

### Government bond

In Jun 21, 18 auctions of government bonds were called by the State Treasury of Vietnam with the total value of VND46tn, total bidding value and total winning value was VND103tn and VND32tn, respectively. Thus, the winning rate was recorded at 69%. However, the Government bonds slowed down with limited room in end-2Q21. To be specific, the government bond primary market has accelerated in April and May, but it seems to slow down due to the limited G-bond issuance for some tenors.

Although slowing down in June, 2Q21 was still a successful quarter for G-bond auctions thanks to the strong demand on G-bond. In 2Q21, the State Treasury of Vietnam has planned to issue VND100tn of G-bond, including 5-year tenor (VND10tn), 7- year tenor (VND4tn), 10-year tenor (VND35tn), 15-year tenor (VND35tn), 20-year tenor (VND8tn) and 30-year tenor (VND8tn). Therefore, at the end of 2Q21, the total issuing in this second quarter was VND103tn, exceeding the set quarter plan and accomplishing 40% of the annual plan (2021).

Recall to 2020, total issued amount by Vietnam State Treasury recorded at VND253tn, up 60% YoY and accomplish 100% of the yearly plan. Particularly, Vietnam State Treasury has successfully issued VND11.8tn, VND1.7tn, VND102tn, VND96tn, VND22tn, and VND19tn with the duration of 5-year, 7-year, 10-year, 15-year, 20-year, and 30-year, respectively. In which, the goal of increasing long-term issuance continued to be achieved. With the favorable market conditions, we expected the yearly plan (2021) can be completed in terms of both volume and maturity.

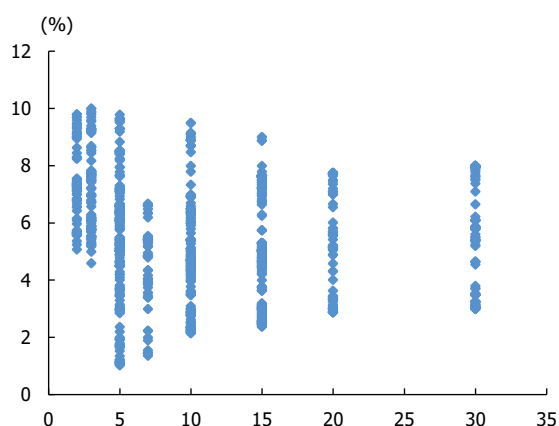
**Table 4. 2021 issue plan of Government bond**

(VND tn)

Duration	Yearly plan	Quarterly plan	Offering value	Winning value
5Y	20	10	10	8
7Y	15	4	3	1
10Y	120	35	52	50
15Y	135	35	34	23
20Y	30	8	5	1
30Y	30	8	7	4

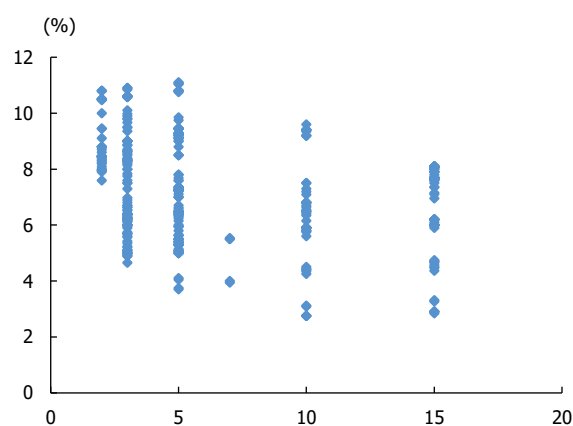
Source: HNX, KIS

**Figure 58. The overall trend in duration and winning yield of Government bond (2012-2Q21)**



Source: HNX, KIS

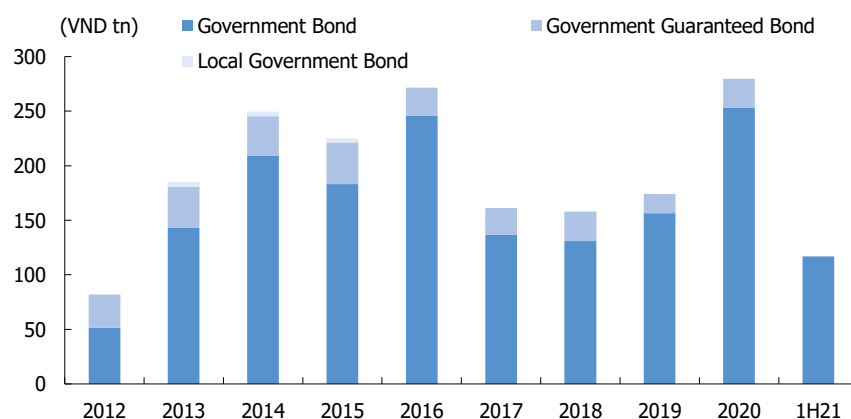
**Figure 59. The overall trend in duration and winning yield of Government guaranteed bond (2012-2Q21)**



Source: HNX, KIS

With Government guaranteed bond, the total issued amount has dropped slightly since 2017. With duration and winning yield, Government guaranteed bond with duration of 3-year, 5-year, and 10-year are issued the most as well as winning yield has fluctuated from 6%-8%. Importantly, during 1H21, there is no issued amount of Government guaranteed bond. In terms of Local Government bond, there is no issued amount since 2016.

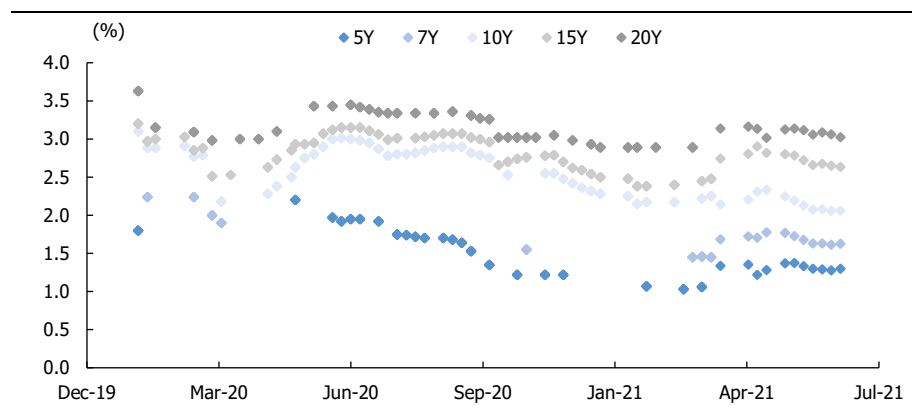
**Figure 60. Total issued amount of Government bond, Government guaranteed bond and Local Government bond**



Source: HNX, KIS

Giving the exception for 1-,2-, and 3-year tenor, the winning rates for 5-year tenor decreased slightly compared to May 2021. In which, 10-years and 15-years dropped the most. Notably, the current G-bond rate is still much lower than the same period of 2020. Besides, the Vietnam current G-bond rate is at the lowest level in the region as well as the difference between Vietnam G-bond (10-year tenor) and US G-bond dropped to the lowest level in mid-June, but it has slight recovered.

**Figure 61. The overall trend of Government bond rate (winning rate)**



Source: Bloomberg, KIS

**Table 5. Current status of Corporate bonds that investors can buy**

(Unit, VND, %, year)

Issuer	Company's ticker	Listing volume	Par value	Interest rate	Term	Listing date
Agro Nutrition International Joint Stock Company	Subsidiary of MSN	13,000,000	100,000	7	5	12/19/2016
Agro Nutrition International Joint Stock Company	Subsidiary of MSN	7,000,000	100,000	8	5	12/18/2018
Joint Stock Commercial Bank for Investment and Development of Vietnam	BID (HOSE)	3,500,620	100,000	10.45	20	5/8/2007
Joint Stock Commercial Bank for Investment and Development of Vietnam	BID (HOSE)	5,000,000	100,000	0	7	12/30/2019
Ho Chi Minh City Securities Corporation	HCM (HOSE)	280,000	100,000	9	15	12/19/2007
Ho Chi Minh City Securities Corporation	HCM (HOSE)	620,000	100,000	9.55	15	8/28/2006
Ho Chi Minh City Securities Corporation	HCM (HOSE)	380,000	100,000	9.55	15	9/11/2006
Ho Chi Minh City Securities Corporation	HCM (HOSE)	2,000,000	100,000	8.25	15	7/16/2007
Ho Chi Minh City Securities Corporation	HCM (HOSE)	1,500,000	100,000	8.8	15	9/17/2007
Ho Chi Minh City Securities Corporation	HCM (HOSE)	1,000,000	100,000	9.55	15	10/2/2006
Ho Chi Minh City Securities Corporation	HCM (HOSE)	900,000	100,000	8.8	15	10/25/2007
Ho Chi Minh City Securities Corporation	HCM (HOSE)	340,000	100,000	8.75	15	11/14/2007
Kinh Bac City Development Holding Corporation	KBC (HOSE)	4,000,000	100,000	11	0	10/7/2020
Masan Group Corporation	MSN (HOSE)	15,000,000	100,000	10	3	12/10/2019
Masan Group Corporation	MSN (HOSE)	20,000,000	100,000	9.3	3	5/8/2020
Masan Group Corporation	MSN (HOSE)	30,000,000	100,000	9.3	3	6/17/2020
Masan Group Corporation	MSN (HOSE)	30,000,000	100,000	10	3	8/13/2020
Masan Group Corporation	MSN (HOSE)	20,000,000	100,000	9.3	3	12/30/2020
Nui Phao Mining Company Ltd.	Subsidiary of MSN	5,000,000	100,000	10	5	12/18/2018
Nui Phao Mining Company Ltd.	Subsidiary of MSN	2,100,000	100,000	10	3	12/18/2019
Nui Phao Mining Company Ltd.	Subsidiary of MSN	3,000,000	100,000	10	3	7/22/2020
Nui Phao Mining Company Ltd.	Subsidiary of MSN	2,000,000	100,000	10	3	7/22/2020
Nui Phao Mining Company Ltd.	Subsidiary of MSN	5,000,000	100,000	10.2	5	7/22/2020
Sai Gon Thuong Tin Real Estate Joint Stock Company	SCR (HOSE)	4,700,000	100,000	10	3	6/7/2019
VietJet Aviation Joint Stock Company	VJC (HOSE)	6,000,000	100,000	9	3	11/2/2020
Vincom Retail Joint Stock Company	VRE (HOSE)	20,000,000	100,000	10	5	10/2/2020

Source: HSX, KIS

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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 (yjkoo@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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