

7 Aug 2023

Earnings recap

Non-rated

NPAT continues to recover but not really solid

Growth greatly diverged

Analysis of financial statements showed that the overall NPAT continued to exhibit a trend of recovery in 2Q23. Of which, two main indexes of VNIndex and VN30-INDEXT slightly grew by 0.1% yoy and 3.3% yoy, respectively. However, it's hard to say the whole system's earnings really recovered when they depended largely on profits from Vin-group's members and the group of securities companies. While the groups of mid and small-cap still showed a decline over the same period, in addition to other sectors related to manufacturing, consumption and export have still recorded a weak recovery.

Financial businesses led the earnings growth

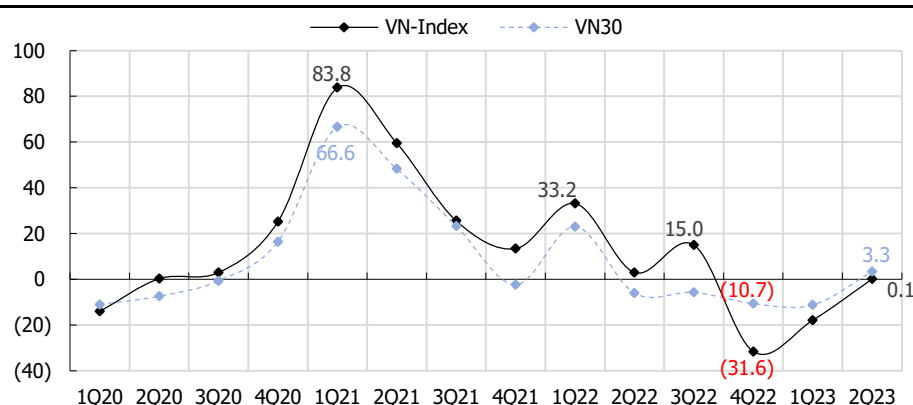
In 2Q23, Oil & Gas (strong recovery from negative NPAT), Real Estate (+89% yoy), Financial Services (+62% yoy), and Insurance (+46% yoy) were among the industries with impressive NPAT growth. In which, the growth of Oil & Gas sector came from PLX & PVD's business operation was quite favorable in 2Q23. Real estate sector is led by Vin-group's members. While market's quick rebound bolstered the proprietary trading division of securities firms. On the other hand, Retail (-102% yoy), Basic resources (-73% yoy) and Automobiles & parts (-56% yoy) have still been showing difficulties finding out the way of business improvement.

Valuation needs motivations to be more attractive

In 2Q23, the growth rate of the firms in the VNINDEX was almost zero, bringing the trailing PE to 14.5x. In the short term, we don't think the PE level to be attractive for trading activities when (1) the figure has reached the average PE of VNINDEX in the period of 2018-23 and (2) it also points out the current return of VNIndex investment is not more attractive than the deposit savings (the current spread by VNIndex's E/P and deposit rate is only 0.6%). However, for a longer horizon, changes in (a) interest rate continues to down, (b) the NPAT growth returns from a favorable macro environment and (c) the risks (C-bond, politics) are gradually reduced. All of them could make VNIndex safer and more efficient in the mid & long-term holdings.

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Figure 1. YoY-NPAT growth of VNIndex continues a recovery trend, (%)

Source: Fiiipro, KISVN

Notes: 360/417 firms' data from the VNIndex

Analysis of 2Q23 FS, the overall NPAT continues to exhibit a trend of recovery. In 2Q23, both of the two main indexes, the VNIndex group and the VN30-INDEX group, returned to slight growth. In which, 360/417 companies of NPAT reported VND92,555bn and brought the profit number back to the 2Q22 level (+0.1% yoy) after four previous quarters of negative growth. However, it's hard to say the whole system's earnings that really has recovered.

- (1) The recovery that mainly focused on large-cap group while the SME group continues to experience business difficulties (table 1). In deeper analysis, among sub-indexes, the VN30-INDEX group exhibited the best recovery by +3% yoy in growth when their NPAT was less stressed in previous quarters. While small-cap and mid-cap have still recorded a double-digit fall in NPAT growth.

Table 1. VN30-INDEX leads in 2Q23 NPAT growth

	YoY - NPAT growth (%)		QoQ - NPAT growth (%)	
	2Q23/2Q22	1Q23/1Q22	2Q23/1Q23	1Q23/4Q22
VNIndex	0.1	(18.0)	2.4	40.0
VN30-Index	3.3	(11.3)	(2.5)	21.3
VN100	(1.1)	(18.5)	1.4	23.3
VNMID	(13.7)	(38.9)	17.4	32.2
VNSML	(25.0)	(31.1)	1.1	67.3

Source: Fiiipro, KISVN

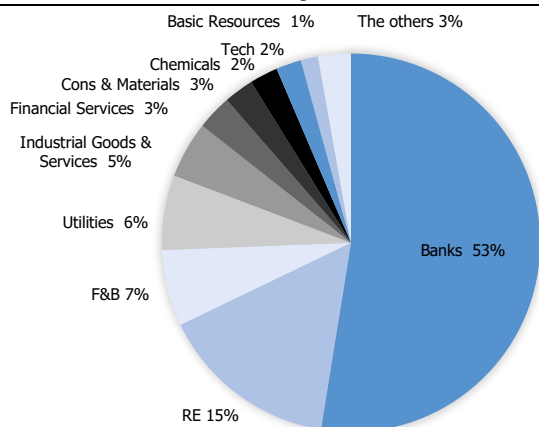
Notes: 360/417 firms' data from the VNIndex

- (2) The NPAT share of Vin-group members affects considerable to the overall VNINDEX. Notably, in 2Q23, only Vin-group's members made contributions up to VND11,113bn, with a yoy-growth rate of 5 times. Therefore, we can say it seems unlikely for VNINDEX or VN30-INDEX to keep the current position without VHM, VRE & VIC. It might be -10% yoy and -11% yoy for VNINDEX and VN30-INDEX NPAT growth in 2Q23 if we exclude Vin-group's members in the calculation.
- (3) In addition to financial service (+61% yoy) is another financial sector, which is the second largest contributor to VNINDEX growth in 2Q2. However, the growth mainly came from proprietary trading activity that hugely benefited from increasing indexes.
- (4) Finally, the sectors related to manufacturing and commercial & export activity such as Utilities (-28% yoy), retail (-102% yoy), F&B (-25% yoy) or basic resources (-73% yoy) have been recording negative figures in NPAT.

Financial businesses led the earnings growth

Oil & Gas, Real Estate, Financial Services and Insurance were among the industries with impressive NPAT growth in 2Q23. On the other hand, Retail, Basic resources and Automobiles & parts have been still showing difficulties to find out the way for business improvement (figure 4, 5, table 2).

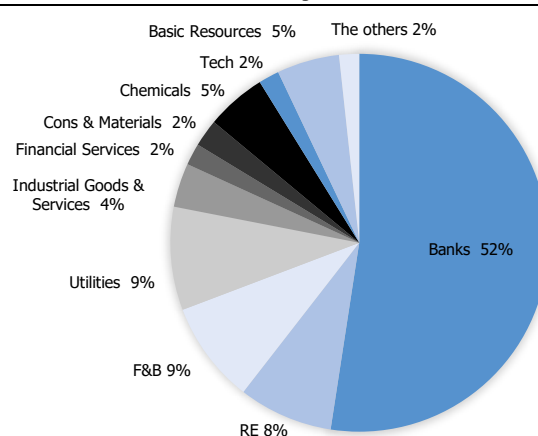
Figure 2. 2Q23 NPAT share by sector



Source: Fiinpro, KISVN

Notes: 360/417 firms' data from the VNIndex

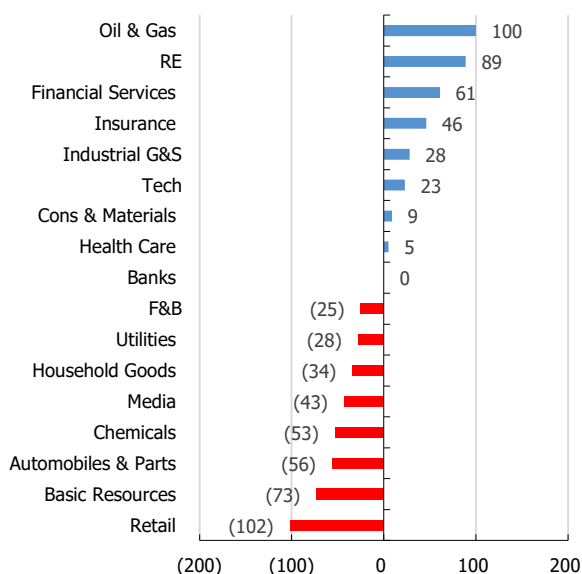
Figure 3. 2Q22 NPAT share by sector



Source: Fiinpro, KISVN

Notes: 360/417 firms' data from the VNIndex

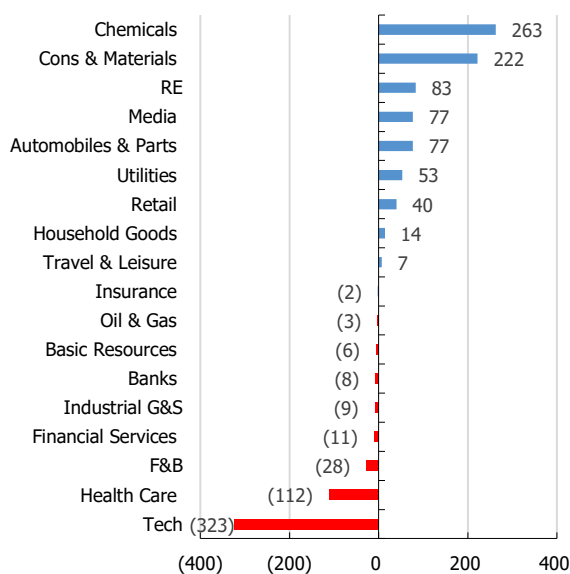
Figure 4. YoY- NPAT growth by sector (%)



Source: Fiinpro, KISVN

Notes: 360/417 firms' data from the VNIndex

Figure 5. QoQ- NPAT growth by sector (%)



Source: Fiinpro, KISVN

Notes: 360/417 firms' data from the VNIndex

Oil & Gas: according to ICB, HOSE only has two companies - PLX & PVD as members of the sector. Their business operation was quite favorable in 2Q23. Therefore, boosting the sector's positive recovery. The total NPAT was VND1.01tn, up to VND1.2tn compared to the 2Q22's negative figure.

- PLX has announced its 2Q23 results, reporting a NPAT of VND850bn, a significant improvement compared to a loss of VND134bn in 2Q22. This improvement can be attributed to stable petroleum prices during 2Q23, in contrast to the volatile prices experienced in most of 2Q22, which led to an inventory provision of approximately VND1.0tn.

- PVD released its 2Q23 business results with revenue of VND1.4tn, -6.7% yoy due to lower yoy-revenue from well-related services and no revenue from leased rigs. While NPAT was VND155bn in 2Q23 vs a net loss of VND73bn in 2Q22 since PVD's average jack-up (JU) day rate and utilization rate (yoy) rose strongly.

Table 2. Summary of NPAT & valuation by sector

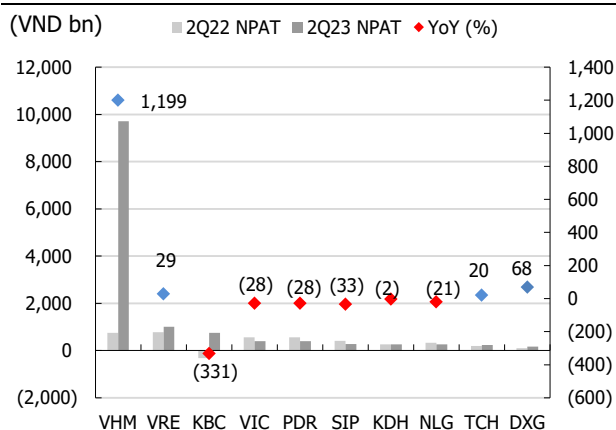
Sector (ICB)	Capitalization rate	2Q23 NPAT	YoY	QoQ	NPAT Plan	Trailing PE	Avg-3y PE*	Trailing PB	Avg-3y PB*
Oil & Gas	1.37	1,005	Recovery	40	64	18.5	8.5	1.4	1.5
Chemicals	3.60	2,241	(53)	(6)	34	12.2	19.0	1.6	1.9
Basic Resources	4.34	1,361	(73)	77	19	NA	11.2	1.4	1.7
Construction & Materials	2.51	2,356	9	263	39	28.3	17.8	1.5	1.6
Industrial Goods & Services	2.65	4,472	28	77	70	13.6	19.6	2.1	2.6
Automobiles & Parts	0.28	143	(56)	14	17	14.7	15.0	1.2	1.5
Food & Beverage	10.11	6,051	(25)	53	40	23.1	20.6	2.7	3.5
Household Goods	1.10	834	(34)	(28)	47	12.2	12.3	1.5	1.7
Health Care	0.78	626	5	(8)	50	13.2	16.1	1.7	2.0
Retail	2.15	(22)	(102)	(112)	3	43.1	18.0	2.9	3.1
Media	0.03	19	(43)	222	25	270.4	66.6	3.4	3.9
Travel & Leisure	1.94	(819)	Recovery	(323)	(25)	NA	NA	5.8	4.4
Utilities	6.83	5,909	(28)	(9)	81	13.3	14.6	1.9	2.1
Insurance	0.98	804	46	(2)	72	16.9	18.2	1.5	1.7
Real Estate	18.60	14,172	89	(11)	55	15.1	19.4	1.7	2.6
Financial Services	4.05	2,772	61	83	48	31.8	14.3	1.8	2.1
Banks	36.16	48,632	0	(3)	50	9.5	11.2	1.6	1.9
Technology	2.51	1,999	23	7	47	19.7	17.9	3.3	3.0
VNIndex	100	92,555	0	2	49	14.6	15.3	1.8	2.3

Source: Fiiipro, KISVN

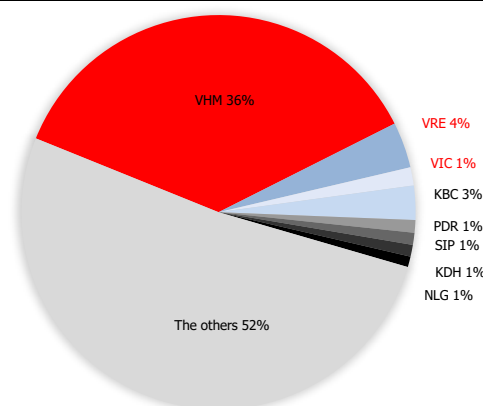
Notes: 360/417 firms' data from the VNIndex

* Period of 2020-2022

Real estate is a key driver for the overall recovery in 2Q23. The sector, which posted VND14,172bn in NPAT, accounted for 15% of the total and recorded robust growth at 89% yoy. However, the growth motivation only focused on a few companies as VHM, VRE, KBC, TCH and DXG. While most of the remainders have experienced declines in tough economic conditions. Notably, only Vin-group's members made contributions up to VND11,113bn, with a yoy-growth rate of 5 times. So, it might be -46% yoy for the sector NPAT in 2Q23 if we exclude Vin-group's members in the calculation.

Figure 6. Top 10 Real estate companies with highest NPAT in 2Q23

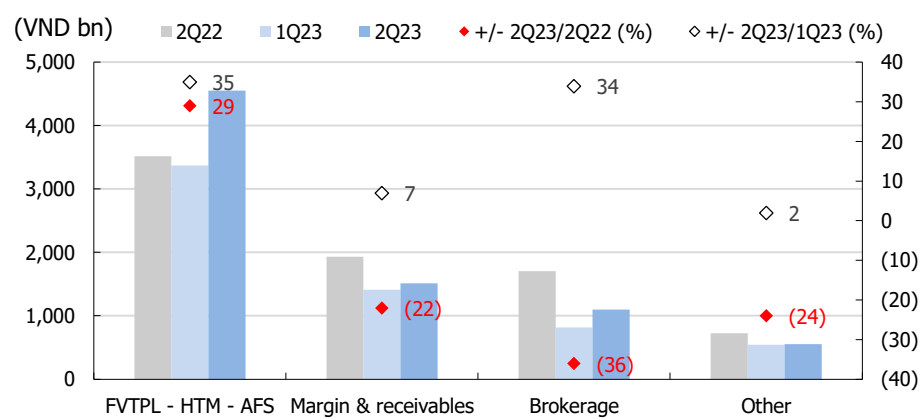
Source: Fiiipro, KISVN

Figure 7. 2Q23 NPAT share of Real estate sector

Source: Fiiipro, KISVN

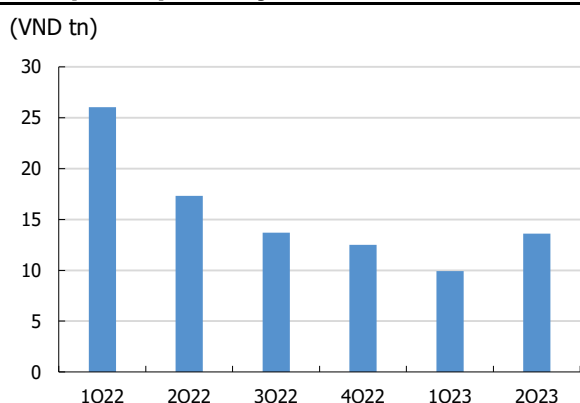
The financial service sector is made up mainly of securities firms (95% of the number). In 2Q22, the sector's NPAT reached VND2.77tn and recorded growth in both yoy (+61%) and qoq (83%). The main contribution to yoy-growth came mainly from proprietary trading activity, accounting for 59% of the total revenue thanks to the positive recovery of the VNIndex – which increased by 22.8% from the trough (figure 8). While increasing in liquidity (figure 9) and margin loan balance (figure 10) supported much more for the qoq-growth of brokerage activities in 2Q23.

Figure 8. Securities companies's revenue by business



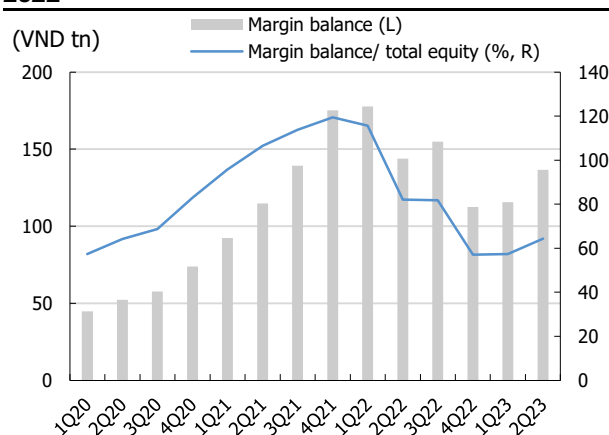
Source: Fiinpro, KISVN
Only securities companies at HOSE

Figure 9. VNIndex's average daily liquidation value has improved positively in 2Q23



Source: Fiinpro, KISVN

Figure 10. Margin balance has returned by the end of 2022



Source: Fiinpro, KISVN

Retail: In 2Q23, the retail sector experiences the most severe drop. In 2Q23, the sector's NPAT had a loss of VND22bn, down VND1,397bn compared to 2Q22. MWG (-98% yoy), FRT (-559% yoy), and DGW (-36% yoy) are three of the industry's top corporations, and together they account for more than 90% of the sector's NPAT. They all disclosed stressful business outcomes that were affected by low demand and pressure from inventory discounts.

Basic resources fell 73%yoy in 2Q23 NPAT. In which, steel companies are the key players affect the sector's overall picture (~65-80% of total NPAT). Amid domestic real estate market is gloomy and the global economy is also facing many challenges. These difficulties keep demands (2Q22 sales: 5.7bn tonnes, 2Q23 sales: 6.0bn tonnes) and selling prices at a low level in 2Q23 (2Q22 HRC: 782 USD/ton, 2Q23 HRC: 582 USD/ton). In addition to the low selling prices also made steel companies hard to find an attractive gross margin compared to

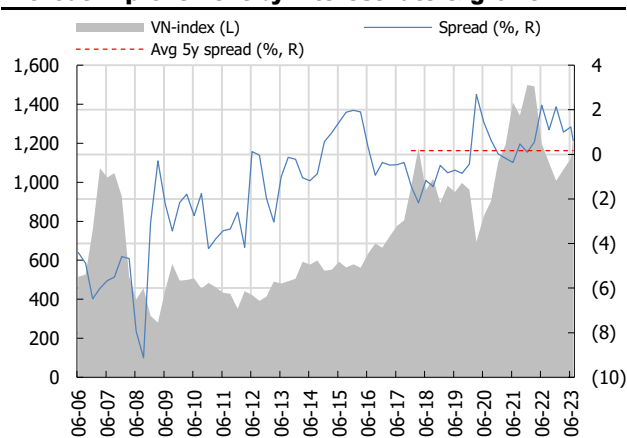
2Q22. As a result, the steel companies group only posted VN919bn, -78% yoy. The other basic resource industries include mining, paper manufacturing and wood processing companies, most of them have experienced many difficulties in business when the construction market & export activity are low at the moment.

Automobiles & parts in VNIndex include two main businesses – Automobile trading & tire manufacturing. Amid (1) the lending interest rate has increased by the beginning of 2023, (2) the income outlook is less promising and (3) the rubber price is low compared to 2Q23. Those things made the majority of the sector's companies forced to post a considerable reduction in business results. In 2Q23, the sector's NPAT was VND143bn, -56% yoy.

Valuation needs motivations to be more attractive

In 2Q23, the growth rate of the firms in the VNINDEX was almost zero, bringing the trailing PE to 14.5x. In the short term, we don't think the PE level to be attractive for trading activities when (1) the figure has reached the average PE of VNINDEX in the period of 2018-23 (figure 12) and (2) it also points out the current return of VNIndex investment is not more attractive than deposit savings (the current spread by VNIndex's E/P and deposit rate is only 0.6%, figure 11). However, for a longer horizon, changes in (a) interest rate continues to down, (b) the NPAT growth returns from a favorable macro environment and (c) the risks (C-bond, politics) are gradually reduced. All of them will make VNIndex become safer and more efficient in the mid & long-term holdings.

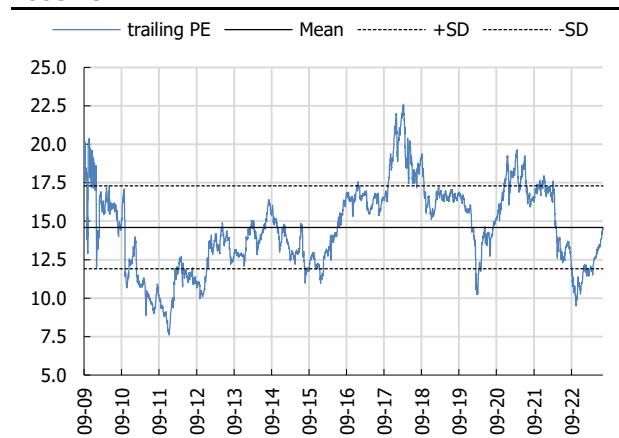
Figure 11. The current spread might be unattractive without improvement by interest rate & growth



Source: Fiiipro, KISVN

Notes: Spread = VNIndex E/P – SoB's 12 month deposit rate

Figure 12. Trailing PE has touched the average of 2008-23



Source: Fiiipro, KISVN

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