trueFriend KIS Viet Nam Securities Corporation

Strategy
Monthly

5 Oct 2023

Strategic Insight

Pickier selection offers opportunities.

"A big bull?"

At the end of the third quarter of 2023, the VNIndex established a short-term downtrend, targeting a range of 1,050-1,070 points, influenced by the double top pattern. However, the market's medium to long-term upward trend remains intact, supported by positive fundamental factors such as (1) economic recovery beginning in 1Q23, (2) an expansive monetary policy, (3) promotion of public investment, and (4) rising FDI inflows.

Vietnam's Economy: Gaining momentum

We predict economic activities to accelerate in 4Q23 with a growth rate of 7.5% YoY, resulting in an increase of 5.18% YoY for 2023. On the upside, we expect an impressive turnaround in exports due to the increasing demand from the U.S. and China, especially the inventories of U.S. wholesalers and retailers becoming leaner. Besides, the promising public spending continues to drive the investment demand to grow strongly. On the downside, we predict domestic consumption to grow at a softer pace in the last quarter due to the gloomy income prospect, especially in the manufacturing sector, while inflation could elevate in the next period associated with global movements of food and energy prices. Notably, upward pressure on the exchange rate could persist due to seasonally thinner trade surplus and rising carry trade activities. However, we weigh more on SBV's efforts to secure FX stability and predict USDVND to decline modestly in the last quarter.

Selectively and timing choice yield the fruit

We estimate the 3Q23 results could be divergent across the universe of which the Securities industry could surprise the market with yoy booming growth by time. The 3Q23 earnings of retail, export-driven industry (seafood, textile, timber) could edge down yoy but hit the bottom in 2023 in light of the revival signal from the importing nations (EU, US, China) early in Sep. IT, Pharmaceutical, and Logistics are among our bullish choices. Real estate could not persist in its prosperous performance seen in 2Q23 since VHM is no longer assisted by bulk sale growth. Week demand still hits the construction services and construction materials (Steel, Cement). Medium term investors could take advantage of pullback to pick up the long-term bullish prosperous of OilnGas, Utility sectors. The Banking industry could sustain in 3Q23 but we are not confident about 4Q23 given the sluggish credit growth and slower-than-expected NIM recovery.

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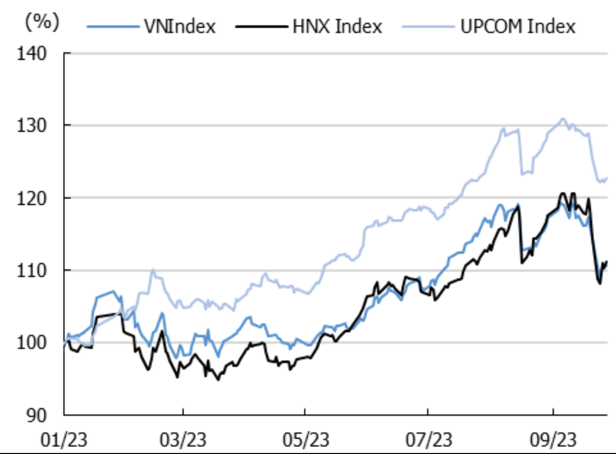
I. "A Big Bull?"

1. From "Optimistic" to "Fear"

Face a big challenge. After relatively stable growth in 2Q23, the stock market saw high volatility in 3Q23 across almost all key indexes. Following an upward trend in Jun, the VNIndex continued to rise notably in Jul, successfully surpassing the strong resistance level of the 1,200-point threshold. However, afterwards, the stock market consistently faced challenges approaching the significant resistance zone of 1,240-1,250 points. The index increased slightly by 3.03% compared to the previous quarter. Notably, the growth rate in 3Q23 was lower than that in 2Q23, which was 5.22%.

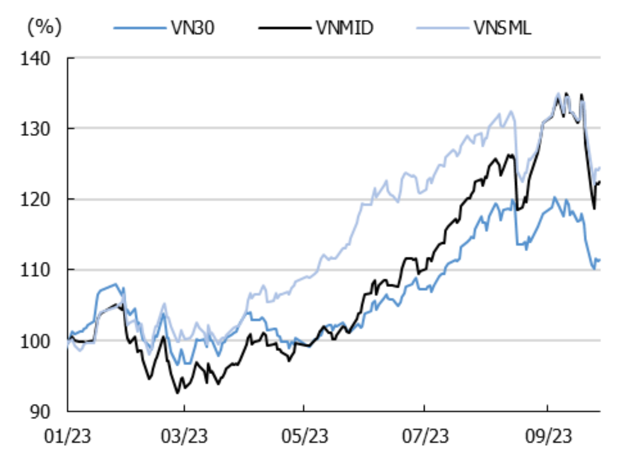
Factors such as the "hawkish" stance of the FED, exchange rate risks, a significant rise in domestic gasoline prices, and the continuous liquidity tightening by the SBV through T-bills were seen as primary contributors. This series of unfavorable information was considered the main reason the market's recovery consistently faced challenges towards the end of 3Q23.

Figure 1. Vietnam indexes performance



Source: Fiinpro, KIS
Note: start of 01/23 = 100

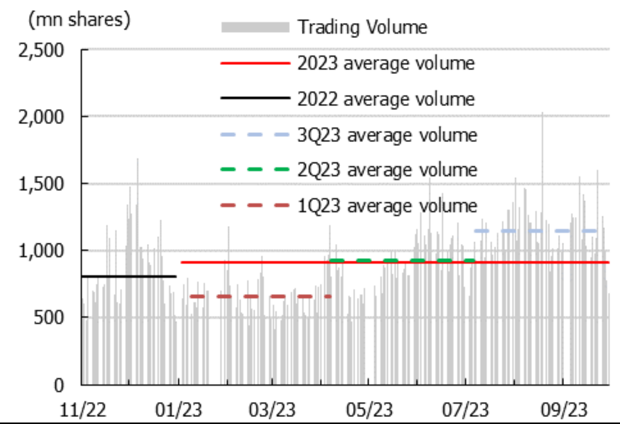
Figure 2. Growth of key indexes of HOSE



Source: Fiinpro, KIS
Note: start of 01/23 = 100

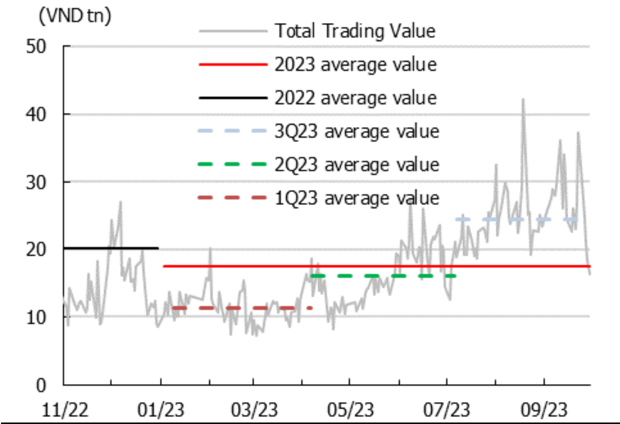
Approaching the previous high in 4Q21. The liquidity in 3Q23 stood out as a highlight of the stock market, showcasing significant growth. Specifically, the average trading volume and value surged to 1,146mn shares and VND24,509bn per session, marking an increase of 24% and 53% respectively from the previous quarter. It's clear that liquidity had reached its lowest in 1Q23 but witnessed robust growth in the following quarters, coming close to its peak levels seen in 4Q21. This upward trend can be linked to the expansionary monetary policy that had been consistently in play for the past six months. As a result of this policy, savings deposits became less enticing due to declining interest rates. Furthermore, most alternative investment avenues encountered persistent challenges, positioning the stock market as the preferred venue for investment inflows during this time. The unexpected surge in liquidity during consolidation sessions also played a role in this growth.

Figure 3. Trading volume in 2023



Source: Fiinpro, KIS

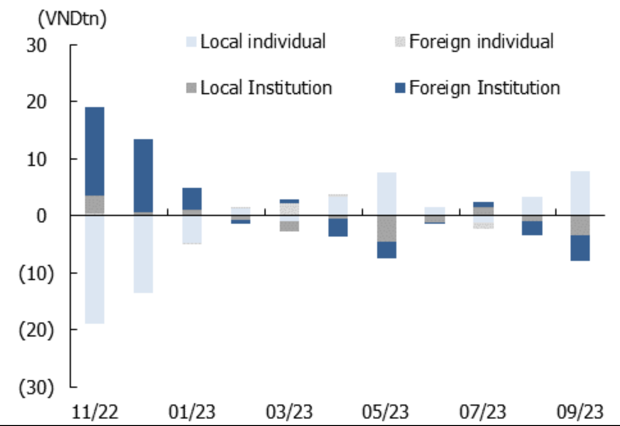
Figure 4. Trading value in 2023



Source: Fiinpro, KIS

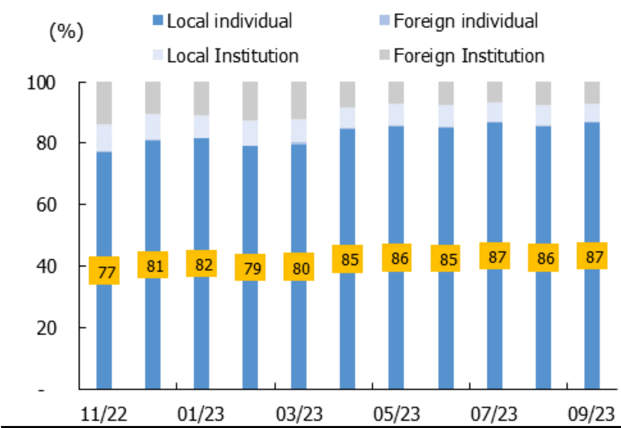
Trading activities still keep the vibrancy beat. In 3Q23, domestic trading activities were less active, with the total trading value recorded at VND2.5bn, up 60% QoQ. In which, the trading value of individual investors fell by 61% QoQ while the trading value of institutional investors also decreased by 40% QoQ. In particular, local individuals were still net buyers, with more than VND10.2bn in 3Q23, which fell by 18% compared to 2Q23. In contrast, selling pressure from local institutions still maintained and declined significantly, with more than VND2.6bn. Notably, this was the 4th consecutive net selling of local institutions. For foreign investors, institutions' trading activities were also more vibrant, with a trading value was VND192bn, up 51% QoQ. On the other side, the foreign individuals continued to be not significant.

Figure 5. Trading activity by investor group



Source: Fiinpro, KIS

Figure 6. Proportion by investor group



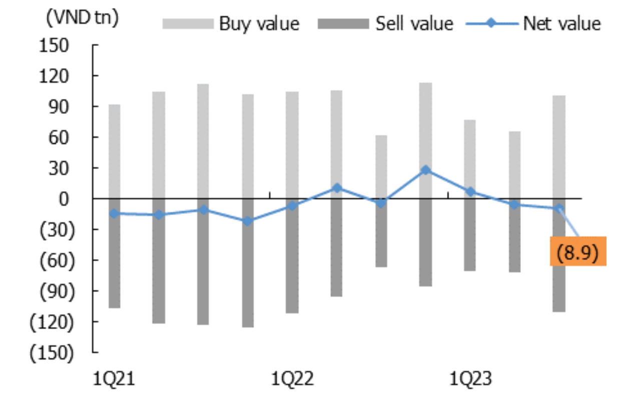
Source: Fiinpro, KIS

2. Foreign trading improves

Foreign trading activity hits the higher ground. In 3Q23, foreign trading activity hit a YTD high. Buying value stayed 22% above the YTD average. Selling value also increased, 31% higher than the YTD average. YTD net value was also negative whilst the market ended up being net bought in the same period of 2022. However, trading activity from foreign investors has been more active. In 3Q23, the market kept ending up being net sold with a net sell value was VND9tn, a YTD high. Breaking down by sector, within 3Q23, foreign selling pressure mainly spread to Financials, Energy, and Materials whilst Consumer Staples and Industrials were net bought the most.

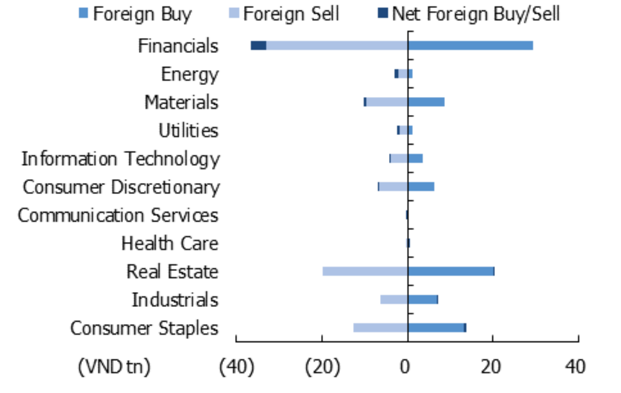
Foreign demand has started to drop after forming the 3-year peak in 4Q22, but there is a recovery in 3Q23. From 4Q22 to 2Q23, buying value dropped 47%. However, buying value in 3Q23 was just 10% below the 3-year peak. Along with the increase in demand, selling pressure also increased, from 43% below the peak in 43% to 12% below the peak in 3Q23.

Figure 7. Net foreign buy/sell by Quarter



Source: KIS, Fiinpro

Figure 8. Net foreign buy/sell by sector (3Q23)

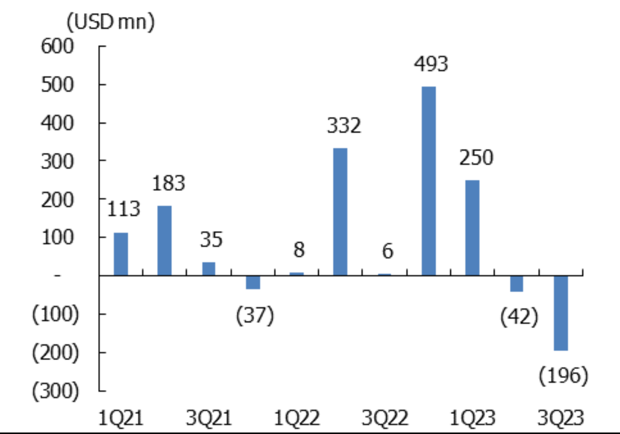


Source: KIS, Fiinpro

Vietnam continues to be divested the most across SEA. Similar to the foreign trading activity, demand on Vietnam's ETFs has started to slow down after reaching the highest figure within 2021-2023. In 3Q23, Vietnam kept experiencing the divestment, net outflow was USD196mn, the highest figure within the period of 2020-2023. Notably, Vietnam was divested the most across SEA, followed by Singapore (USD18mn), Indonesia (USD12mn), and Philippines (USD9mn). Thailand and Malaysia were also divested but the selling pressure was low. The main factor that negatively impacted the flow of money was the rate hike of the Fed.

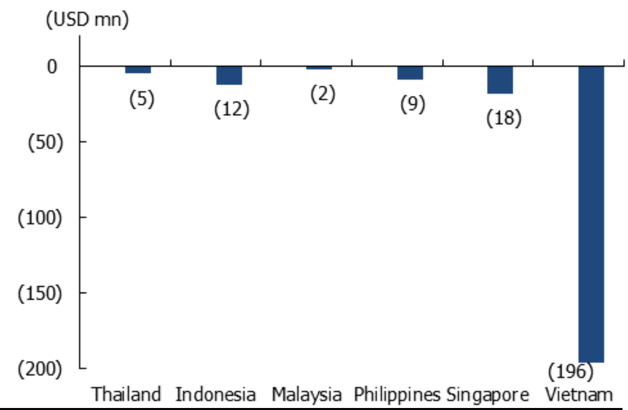
60% of total Vietnam ETFs are divested, and 30% hit the yearly high outflow. Breaking down by ETFs, Vietnam recorded the second quarter of outflow since 1Q22. Particularly, outflow pressure was high on Fubon FTSE Vietnam (USD85mn) and VFMVN Diamond ETF (USD73.4mn). VFMVN30 ETF also marked the second quarter of being outflow as well as outflow reached the YTD high (USD37mn). In contrast, VanEck Vietnam attracted the inflow, net inflow was USD14mn, partially covering the USD18mn outflow in 2Q23.

Figure 9. Vietnam ETF net flow



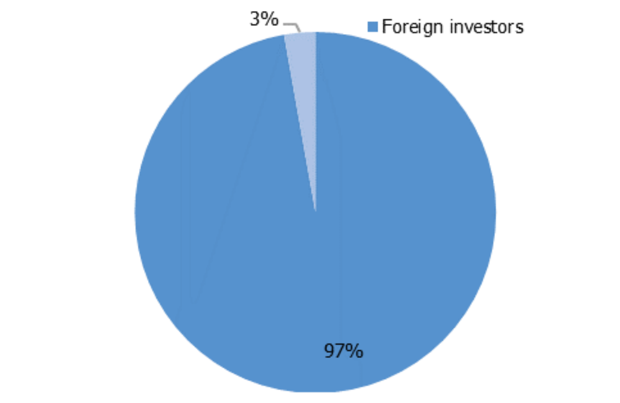
Source: Bloomberg, KIS

Figure 10. The flow of money across SEA countries



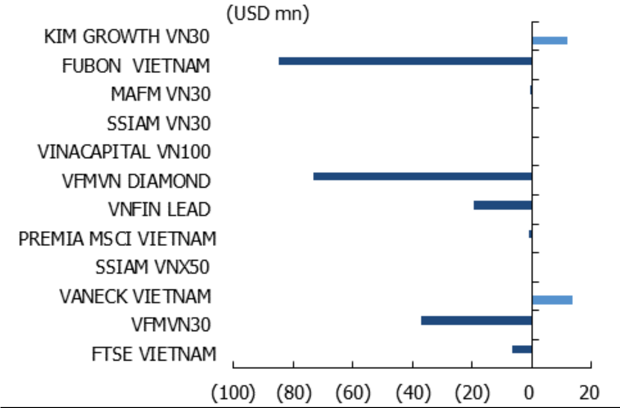
Source: Bloomberg, KIS

Figure 11. Ownership across Vietnam major ETFs



Source: Bloomberg, KIS

Figure 12. Money flow across Vietnam major ETFs



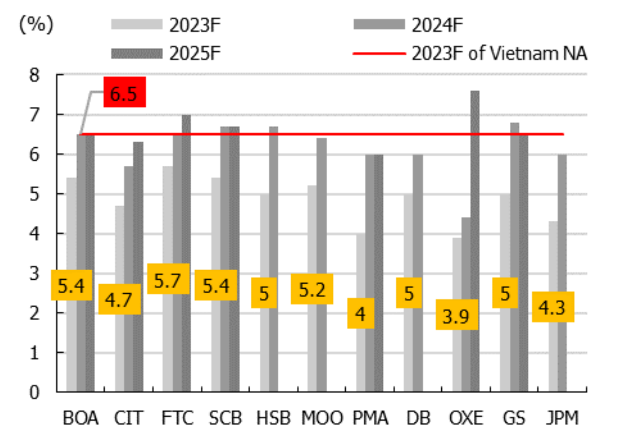
Source: Bloomberg, KIS

3. “A big bull?”

Stocks riding the macro wave

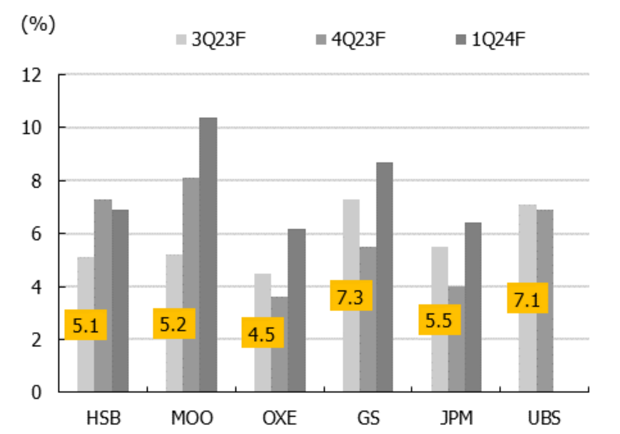
Economic rebound predicts promising growth ahead. The economy has bottomed out in 1Q23, providing a potential boost to the stock market. The economy faced significant hardships, reaching its nadir in 1Q23 with a GDP growth rate of 3.28%. However, this trend improved in 2Q23 and 3Q23, with growth rates of 4.14% and 5.33% respectively. Given the GDP growth in 3Q23, achieving a 6.5% annual growth rate in 2023 as targeted by the government appears challenging. Yet, the positive rebound since 1Q23 is a promising sign, indicating the potential for economic growth in 2024-2025. Bloomberg's statistics project GDP growth rates of 5%, 6.4%, and 6.7% for 2023, 2024, and 2025 respectively. Moreover, key economic indicators have displayed encouraging improvements.

Figure 13. Forecast yearly Vietnam GDP



Source: GSO, Bloomberg, KIS
Note: BOA: Bank of America Merrill Lynch, CIT: Citigroup, FTC: Fitch Ratings, SCB: Standard Chartered, HSB: HSBC Holdings, MOO: Moody's, PMA: Pantheon Macroeconomic Advisors, DB: Deutsche Bank, OXE: Oxford Economics, GS: Goldman Sachs Group, JPM: JPMorgan Chase

Figure 14. Quarterly Vietnam GDP

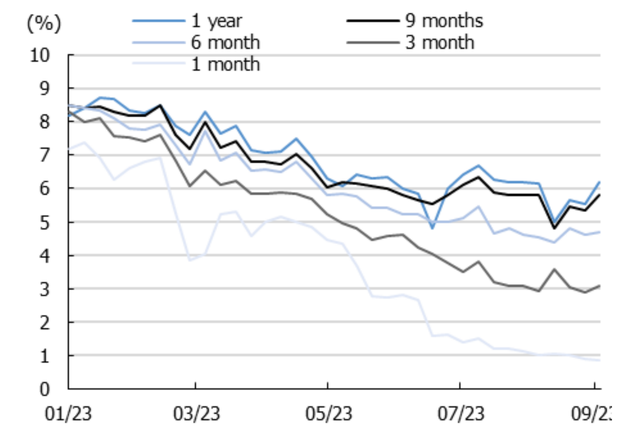


Source: GSO, Bloomberg, KIS
Note: HSB: HSBC Holdings, MOO: Moody's, OXE: Oxford Economics, GS: Goldman Sachs Group, JPM: JPMorgan Chase, UBS: UBS

Persisting an easy money policy? Since the beginning of 2023, the State Bank of Vietnam (SBV) has adopted a more relaxed monetary policy, as evidenced by the adjustment of three operating interest rates. The SBV has kept interest rates at lower levels to support the economy. Furthermore, inflation remains subdued, with the inflation rate for Sep standing at 3.66% YoY, falling below the government's target of 4.5%. Consequently, the SBV is persisting with its expansionary monetary strategy in an effort to strengthen economic stimulus.

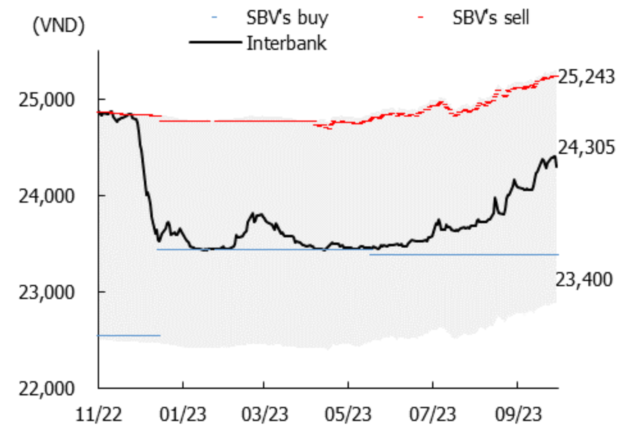
There is a possibility that the SBV might execute another interest rate reduction in 4Q23. However, the SBV will exercise caution when timing these reductions due to movement observed in the foreign exchange market. Since Apr 2023, the exchange rate (USD/VND) has displayed an uptrend, rising by approximately 4% compared to its low level in Apr. In Sep, the exchange rate reached a new high for the year due to the Fed's policies to raise interest rates. Besides, local interest rates also tend to increase again. These things may impact SBV's decision to reduce interest rates.

Figure 15. Local deposit interest rates



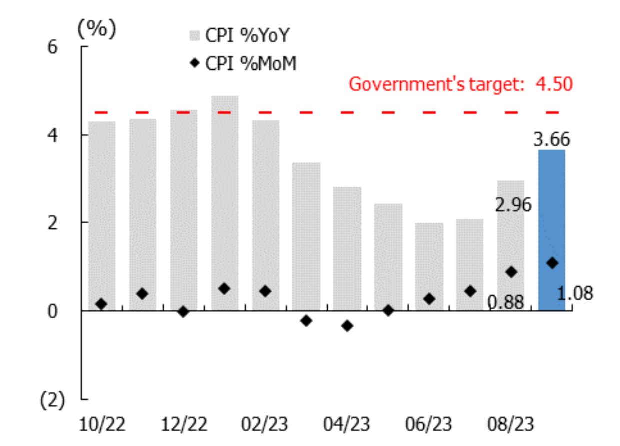
Source: GSO, Bloomberg, KIS

Figure 16. SBV's movement



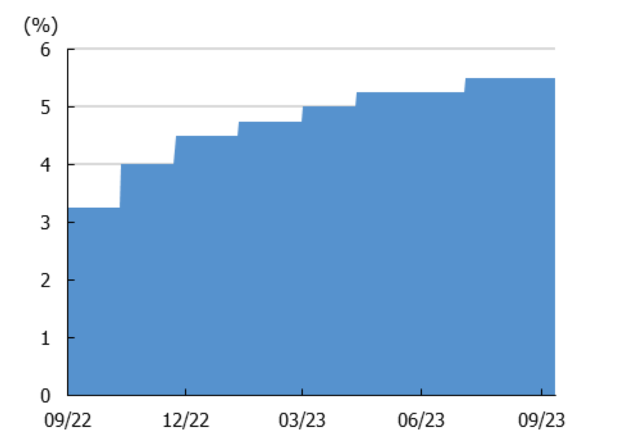
Source: SBV, Bloomberg, Fiinpro, KIS
Note: shaded region is the daily trading band. The effective trading band is +/- 5% (the effective date is 17 October, 2022).

Figure 17. Monthly CPI change and its contributor



Source: GSO, KIS

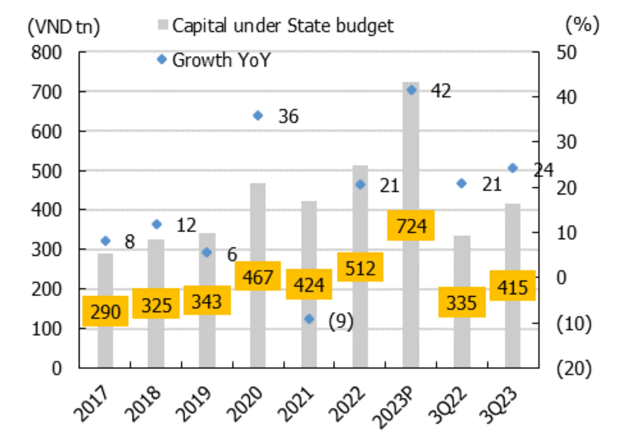
Figure 18. Upper bound of Federal Funds target rate



Source: Bloomberg, KIS

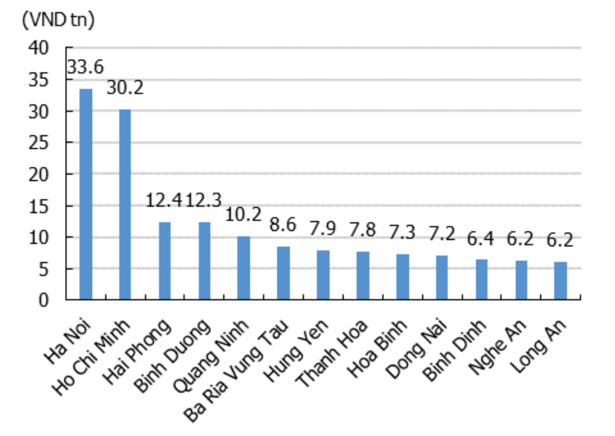
Strengthening public investment. There's a push for increased public investment to bolster the 2023 economy. The anticipated capital from the State budget in 9M23 is projected to be around VND415tn, representing 57.4% of the annual plan and a 23.5% increase year-over-year. Notable projects encompass the North-South Expressway and the Long Thanh Airport, among others.

Figure 19. Capital under State budget



Source: GSO, KIS

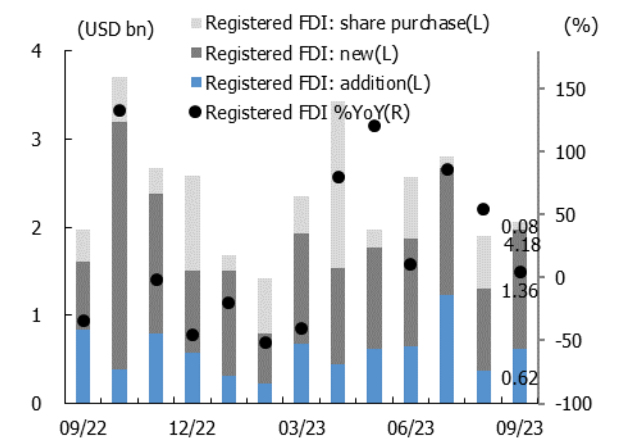
Figure 20. Capital under State budget by province



Source: GSO, KIS

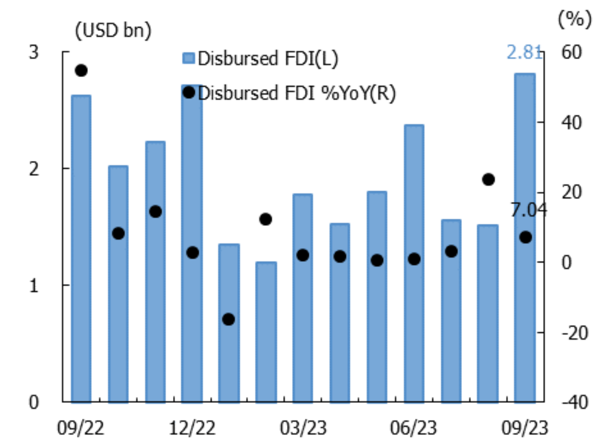
US-Vietnam pact fuels FDI growth and tech investments. In 9M23, Vietnam witnessed an increase in FDI capital registration, surpassing the USD20bn mark. This represents a 7.7% growth compared to the same timeframe in 2022. This data underscores Vietnam's sustained appeal to global investors, especially following the establishment of the Comprehensive Strategic Partnership (CSP) between Vietnam and the U.S. in Sep 2023. The CSP, focusing on enhanced cooperation in key and emerging technologies, especially semiconductors, is anticipated to further propel FDI in the coming times. A testament to this prediction is Amkor Technology's inauguration of its state-of-the-art semiconductor facility in Bac Ninh, entailing a hefty investment of USD1.6bn. Notably, this plant is Amkor's largest and most sophisticated on a worldwide scale.

Figure 21. Monthly registered FDI



Source: GSO, Bloomberg, KIS

Figure 22. Monthly disbursed FDI



Source: GSO, Bloomberg, KIS

Bottom of the first 1-year cycle

Double top pattern. Between Jul and Sep 2023, the VNIndex displayed a double top pattern with two peaks in the 1,240-1,250-point zone. This breakdown was confirmed on Sep 25, 2023, when the index fell to the pattern's lower bound at approximately 1,160 points. Importantly, a rise in volume and a bearish divergence bolster the credibility of this formation. The pattern's price target is estimated to be around 1,050-1,070 points.

Bottom of the first 1-year cycle. As previously highlighted in reports, the Vietnam stock market operates on 3-year cycles, suggesting that major troughs form every three years. Based on the uptrend since May 2023, the VNIndex surpassed the daily chart's 375-period moving average (MA375), which is used to define the 3-year bottom. This surge suggests that the lowest point of the 3-year cycle was established in Nov 2022. Starting from this low, an 8th 3-year cycle is projected to emerge between 2025 and 2026.

Moreover, the trough in Nov 2022 also signifies the end of the 20th 1-year cycle in the Vietnam market. The bottom of this cycle is expected between Sep 2023 and Jan 2024. Consequently, we are currently transitioning into the troughing stage of the 1-year cycle. For confirmation, the index should first drop below the 125-period moving average (MA125) and then rise above it. Currently, the MA125 is located around 1,140 points.

Long-term bullish market. Given the insights from the 1-year cycle and the double top pattern, we anticipate the index might briefly retract to the 1,050-1,070-point range. However, the medium to long-term market trend remains bullish, supported by the positive macroeconomic indicators previously discussed.

Table 1. Bottom and duration of 1-year cycle

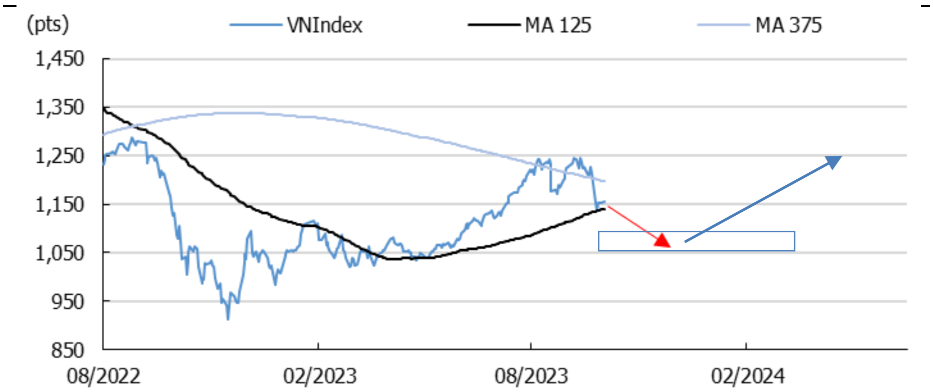
No. of 3-year cycle	No. of 1-year cycle	Start bottom	End bottom	Duration (Months)
V	13	12/17/2014	01/21/2016	13
	14	01/21/2016	12/06/2016	10
	15	12/06/2016	07/11/2018	19
VI	16	07/11/2018	01/03/2019	5
	17	01/03/2019	03/24/2020	14
VII	18	03/24/2020	07/19/2021	15
	19	07/19/2021	11/11/2022	15
VIII	20	11/11/2022	09/2023 -01/2024	10-14*

*Expected period to form the 1-year cycle year
Source: KIS

Figure 23. Movement of 1-year cycle

Source: KIS

Figure 24. Forecast of VNIndex



Source: KIS

II. Vietnam's economy: Economic acceleration on easing global challenges

Table 2. Vietnam economic indicators

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23F	Corr.[1]
GDP growth rate	13.7	5.9	3.3	4.1	5.3	7.5	-0.07
Disbursed FDI %YoY	32.9	7.9	-2.2	1.0	9.7	4.0	0.06
Retail sales %YoY	41.2	17.3	13.2	8.8	7.3	7.2	-0.13
Export %YoY	16.0	-6.5	-10.4	-11.5	-2.0	5.0	-0.03
Trade balance (USD bn)	5.4	3.7	6.6	6.3	8.3	5.0	-0.01
CPI %YoY	3.3	4.4	4.2	2.4	2.9	4.2	-0.02
Credit %YoY	16.9	14.2	10.5	9.3	8.3	9.0	-0.05
USDVND %QoQ	2.5	-1.0	-0.7	0.5	3.2	-0.4	-0.37
PMI (pts)	52.1	48.1	48.8	46.1	49.6	51.0	-0.16
VNINDEX return (%)	-5.5	-11.0	5.7	5.2	3.0	4.0	1.00

Source: SBV, GSO, Bloomberg, KIS
[1] Correlation to VNINDEX's monthly return; [2] Bloomberg estimates
Green = acceleration; yellow = deceleration; red = contraction.

1. Economic activities to accelerate

We predict economic activities to accelerate in 4Q23 with a growth rate of 7.5% YoY, primarily due to the turnaround in exports and the strong growth in public investment. Given the 7.5% YoY growth rate in the next period, we estimate 2023's real GDP to grow by 5.18% YoY, 1.32ppts-lower than the initial government's target of 6.5% YoY.

On the downside, the Fed's rate hike path recently became more uncertain when its officials revealed the "higher for longer" stance through the September FOMC meeting and following speaks. This development could lower domestic consumption and slow the resolution of U.S. excessive inventories than previous expectations. Manufacturers in Vietnam will need a notable improvement in the consumption of our major trading partners, such as the U.S., EU, and China, to receive a significant increase in new orders.

Figure 25. Real GDP forecast for 4Q23

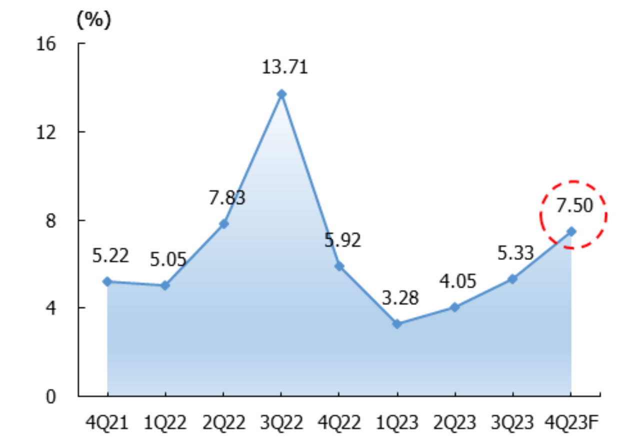
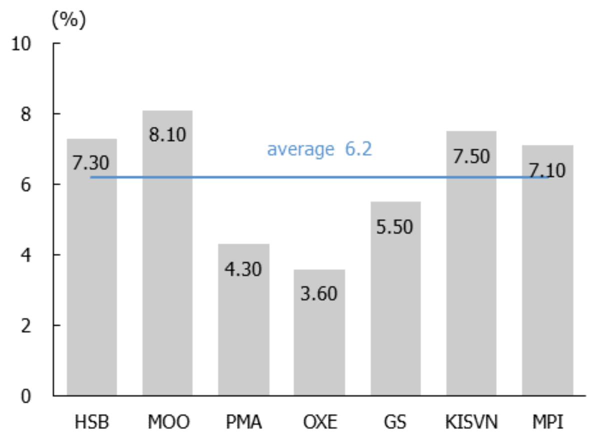


Figure 26. 4Q23 Real GDP forecast by institutions

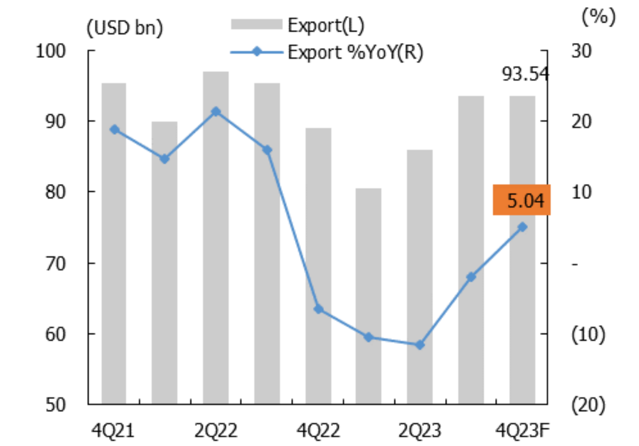


Source: KIS, GSO
Notes: GS= Goldman Sachs; HSB= HSBC Holdings; MOO= Moody's; OXE= Oxford Economics; PMA= Pantheon Macroeconomic Advisors; MPI= Vietnam's ministry of planning and investing.

However, several U.S. companies with contract suppliers located their production heavily in Vietnam started to record lower inventory levels after a series of efforts to push products out of the shelves. Nike, an apparel and footwear firm with 28% production of its brands in Vietnam, in the latest earnings call, showed a reduction of 9.98% YoY in inventory level. The result reflects the company's effort to clean excessive inventory using a steep discount in the trade-off between the gross margin and financial burden due to the costly warehouse expense. Furthermore, we anticipate that seasonally high consumption of China in the 4Q23 will contribute significantly to Nike's sales growth. Given a learner inventory at the August end, we expect that Nike and other U.S. peers will create a significant amount of new orders to manufacturing hubs, including Vietnam, causing the production to accelerate in the last quarter of this year.

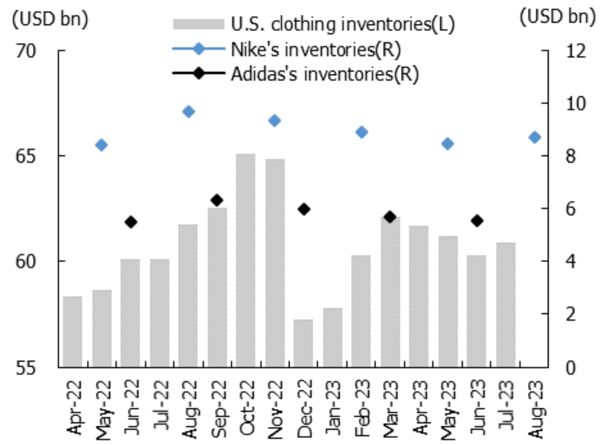
Moving to electronics products, which constituted around 30% of Vietnam's export value last year, Samsung Electronics, a Korean tech giant and the key player in this area is expected to increase its smartphone shipment in the next quarter to around 64mn units, increasing by 11.09% compared the same period one year earlier. We expect the higher smartphone shipment volume to increase the workload for factories in Vietnam where the smartphone production just recorded a turnaround in the latest quarter with a modest growth rate of 2.42% YoY after tumbling for two consecutive quarters.

Figure 27. Exports forecast for 4Q23



Source: KIS, GSO

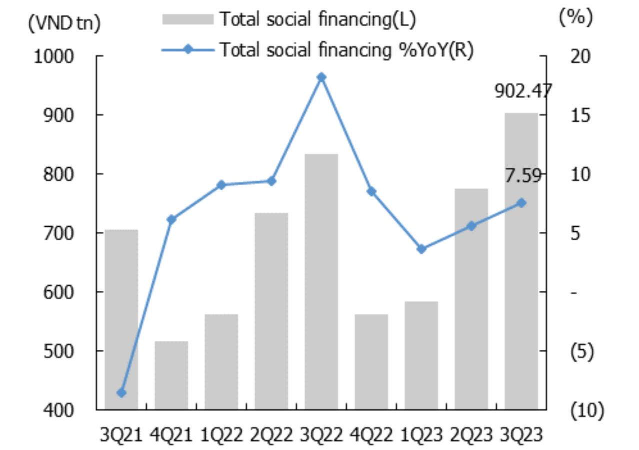
Figure 28. U.S. inventories by month of the year



Source: GSO, Bloomberg, KIS

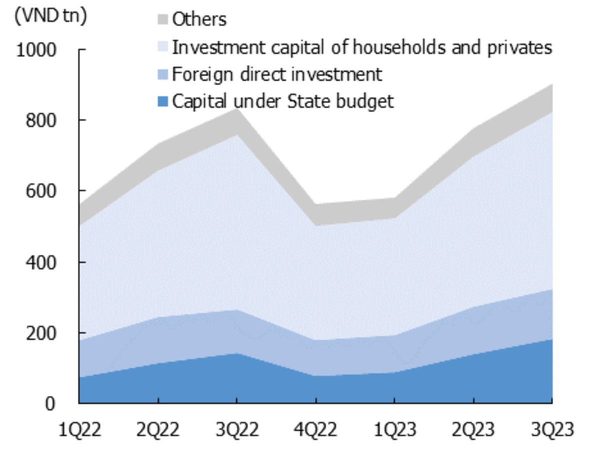
Regarding investment demand, it is foreseeable that capital under the state budget will mainly drive the growth in total social financing (TSF) when authorities seem more aggressive in disbursing public projects. Given our cautious forecast of an 85% accomplishment rate for 2023 under favorable inflation conditions, spending from the state budget would increase by 12.74% YoY in 4Q23. On the downside, we predict that contribution from the private sector would be insignificant when difficulties related to high lending rates and corporate bond issuance need more time to resolve.

Figure 29. Historical total social financing



Source: KIS, GSO

Figure 30. Total social financing by components



Source: GSO, Bloomberg, KIS

Turning to demand for consumption, we use retail sales as the more timely indicator to represent the spending tendency of domestic consumers. We predict that domestic buyers remain pessimistic due to poor income prospects, especially in the manufacturing sector. However, we expect the order shortage will improve gradually, leading to increasing demand for employment and easing hardship. Therefore, we forecast domestic consumption to slow down in the last quarter of this year.

2. FX stability to be secured

We predict that USDVND exchange rate in the fourth quarter will cool down to 24,210, decreasing by 0.35% compared to 3Q23-end.

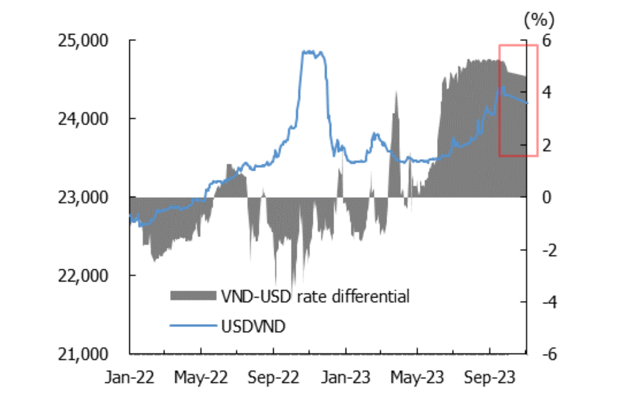
Table 3. USDVND change by quarter of the year

Quarter	2018	2019	2020	2021	2022	2023
1	0.42	0.06	2.00	-0.10	0.05	-0.69
2	0.63	0.48	-1.82	-0.25	1.95	0.48
3	1.64	-0.42	-0.09	-1.12	2.49	3.18
4	-0.60	-0.13	-0.37	0.29	-0.96	-0.35

Source: Bloomberg, KIS

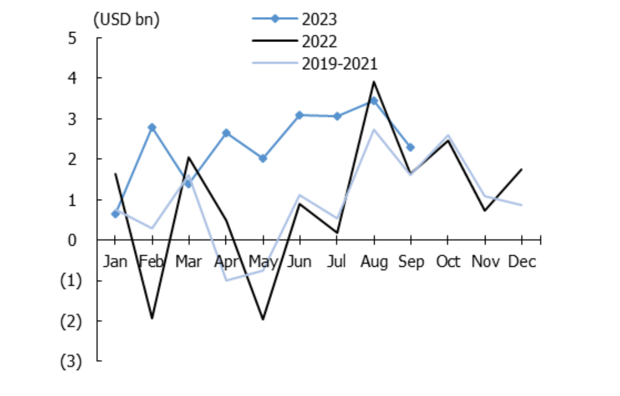
The upward pressure in USDVND could raise notably in the fourth quarter of this year due to the persistently negative swap spread, especially after September FOMC meeting highlighted the “higher for longer” stance. Carry trade activities could be profitable, leading to the FX pressure. Furthermore, trade balance tends to be a modest surplus or even to turn deficit in the last quarter of the year. However, SBV recently revealed its tendency to keep the exchange rate stable through issuing bills to balance the rate differentials between the dong and the greenback. Coupled with historical evidence over five recent years, we lean more on the effort of Vietnam’s central bank in securing a stable exchange rate. Hence, we predict USDVND to decline by 0.35% compared to the end of September to reach 24,210 at the last trading date of December.

Figure 31. USDVND and the swap spread



Source: Bloomberg, KIS

Figure 32. Vietnam's seasonal trade balance by month

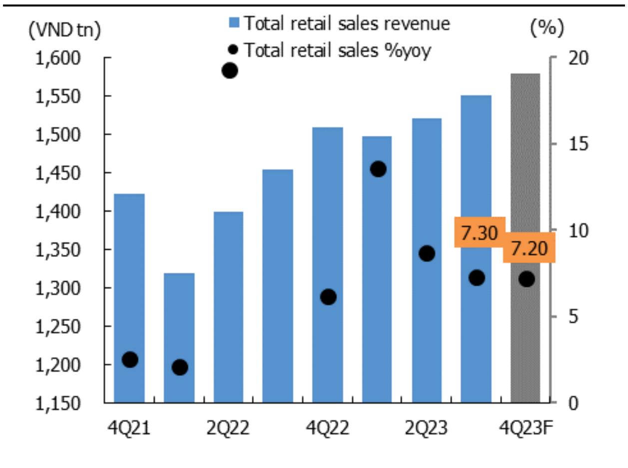


Source: MPI, KIS

3. Retail sales to slightly decelerate

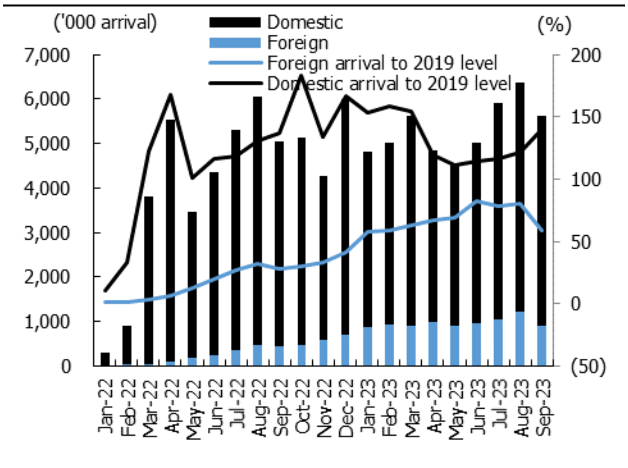
Total retail sales revenue growth slowed down from 8.66% YoY in 2Q23 to 7.30% YoY in the current quarter, falling slightly below our projected figures by 50 basis points. This indicates cautious domestic spending, a sluggish rebound in foreign tourism, and limited impact from government stimulus measures such as VAT reduction and base salary increases. However, a positive outlook stems from anticipated improvements in export orders, likely boosting industrial labor use and consumer spending. Overall, while retail sales are approaching the bottom, we expect a slight further deceleration to 7.20% YoY in 4Q23.

Figure 33. Quarterly performance of Total retail sales



Source: GSO, KIS

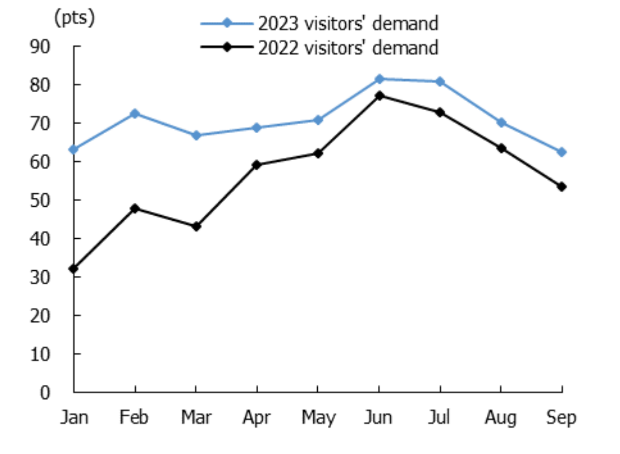
Figure 34. Domestic and foreign arrivals by airway



Source: GSO, KIS

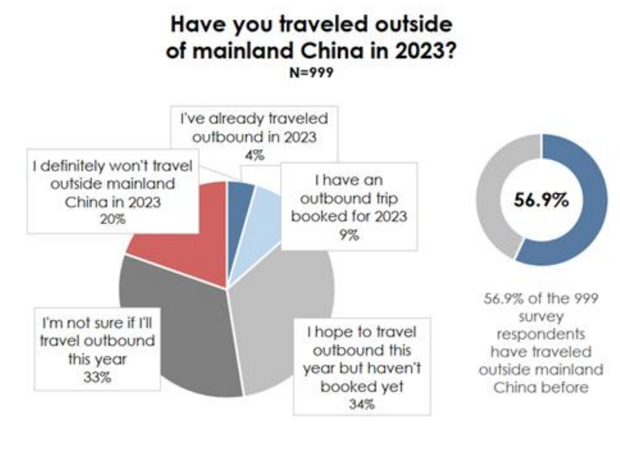
In terms of domestic discretionary consumption, the number of domestic airway arrivals has been gradually increasing since May compared to 2019, hinting at a potential bottoming out. Conversely, the outlook for foreign tourism is less promising, evident in the constrained recovery levels observed across various countries and regions in September. Additionally, the second-largest source of visitors, South Korea, is displaying reduced inclination to visit Vietnam in 4Q23, while the UK, a minor contributor to tourist numbers, is showing marginal improvements. Notably, Chinese tourists exhibit no significant inclination for overseas travel in 4Q23 (see Figure 36), especially with Vietnam not being among their top 10 preferred destinations. In summary, the growth of retail sales is expected to hinge on recovering export activities, an improved manufacturing sector, and a reduction in conservative consumer spending, given the stagnant state of international tourism.

Figure 35. Domestic and international travel demand to Vietnam



Source: Google Insights, KIS
Note: data as of 30 September 2023

Figure 36. Chinese tourists' oversea traveling tendency

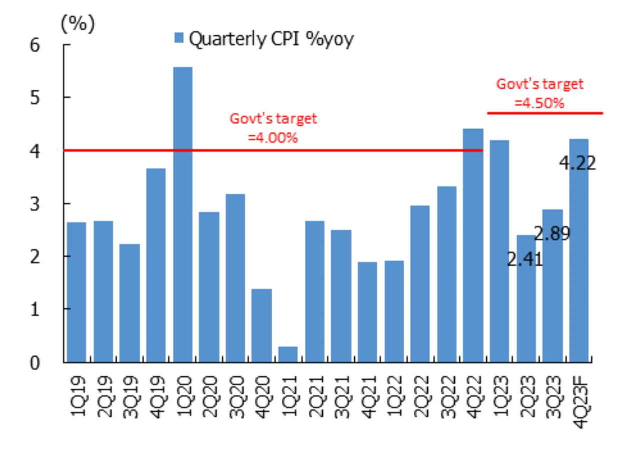


Source: Dragon Trail International, KIS
Note: data as of September 2023

4. Inflation to level up

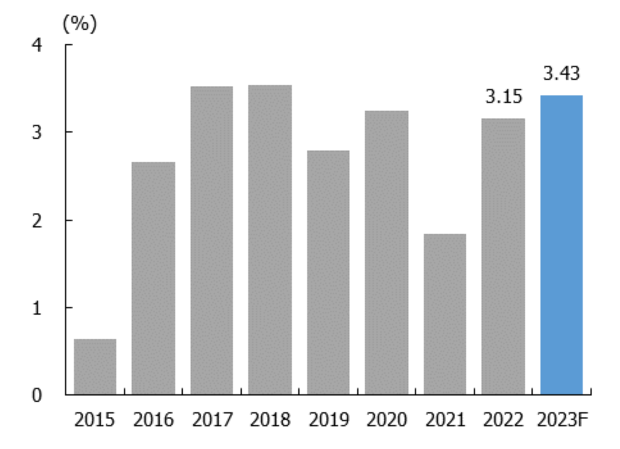
As 3Q23 concluded, the average year-on-year inflation rate landed at 2.89%, experiencing a 58-basis point surge from the 2.41% recorded in 2Q23. This increase was primarily driven by escalating prices in the fuel and food sectors. Anticipating 4Q23, we project the Consumer Price Index (CPI) to rise further to 4.22% YoY. This surge can be attributed to the sustained high prices of oil, food, and food-related items, notably influenced by a stronger USD. Despite the elevated inflation expected in 4Q23, the average annual CPI for 2023 is projected to align well with the government's target of 4.50%, settling at 3.43%.

Figure 37. Quarterly CPI



Source: GSO, KIS

Figure 38. Average annual CPI



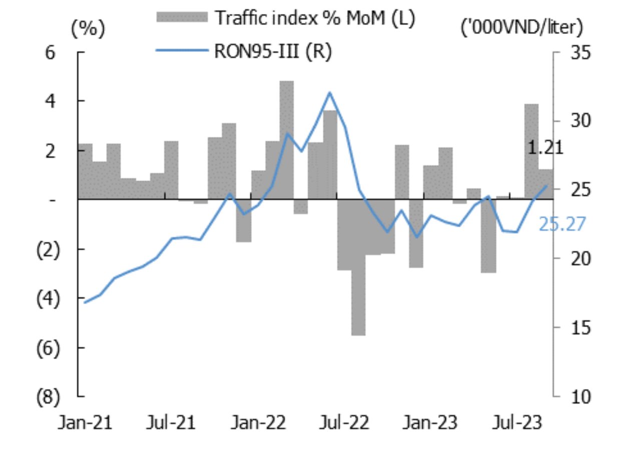
Source: GSO, KIS

Notably, prominent international research houses, based on Bloomberg data, have revised their crude oil price forecasts for 4Q23 upwards by an average of 3.80% in September compared to July forecasts. These revisions place the projected average oil price at $85.89 per barrel for 4Q23, similarly we expect the oil price persisting at this elevated level throughout the remainder of 2023.

Also, the rice price is projected to close 4Q23 by 20.08% higher than current price of $15.77/cwt, potentially drive inflation further upward.

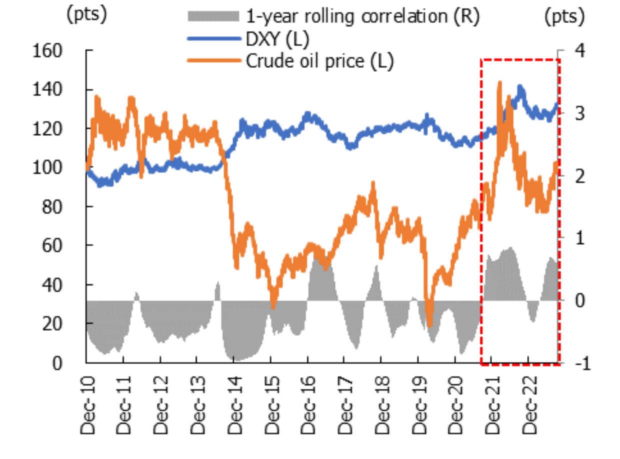
Remarkably, the negative relationship between USD and commodity prices (crude oil in particular) has flipped into positive since Oct-2021 (Figure 40) as US turned to net oil exporter, USD and commodity price surges due to Covid pandemic, and Russian's special military operation in Ukraine. As a result, for non-US economies, rises in US dollar commodity prices will become more inflationary. This positive relationship might be temporary, or be recurrent, then we should monitor this closely for further inflationary implication on Vietnam's CPI.

Figure 39. Quarterly CPI



Source: GSO, KIS

Figure 40. Average annual CPI

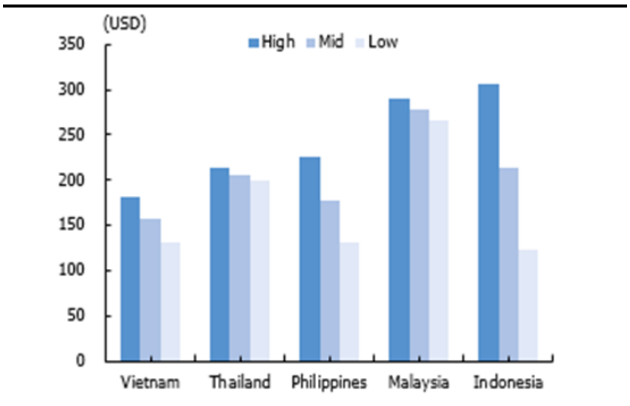


Source: Bloomberg, KIS

5. FDI inflow remains positive

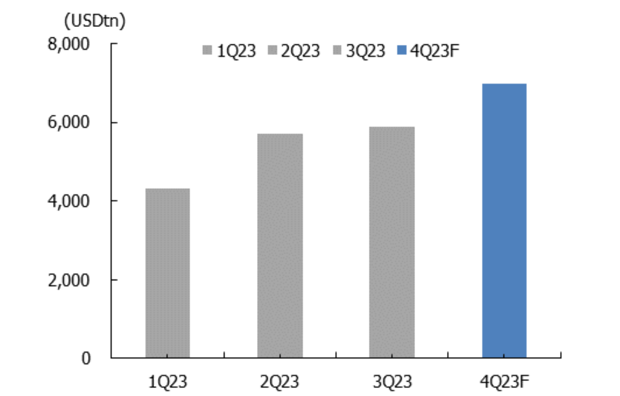
We expect foreign direct investment (FDI) to grow robustly by 4.0%YoY in the last quarter of 2023, supported by some factors as follows.

Figure 41. Monthly minimum wages in ASEAN



Source: Asia briefing, KIS

Figure 42. FDI Disbursement



Source: KIS

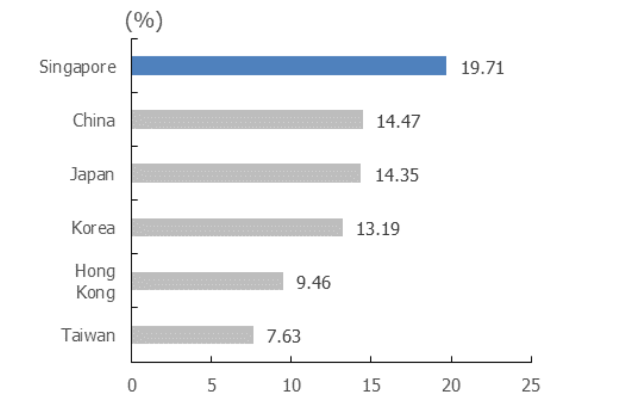
- **The US-VN comprehensive strategic partner**: The Vietnam-US Comprehensive Strategic Partnership (CSP), which was established in September 2023, is expected to boost FDI in the future, especially in semiconductor industry. This is due to the CSP encompassing several initiatives aimed at enhancing cooperation in crucial and emerging technologies, with a specific focus on semiconductors. As a result, we foresee a continued increase in registered FDI for October, driven by Amkor Technology's launch of a cutting-edge semiconductor factory in Bac Ninh, representing a substantial investment of USD1.6bn. It's worth

- noting that this facility stands as Amkor's most extensive and advanced facility on a global scale.
- **Public investment for infrastructure development**, along with the recently approved National Power Development Plan VIII, and the supportive policies of the Government for socio-economic recovery and development, will serve as significant driving forces in attracting long-term foreign direct investment (FDI).
- **Cheap labor cost advantage:** Low-cost labor in Vietnam is a magnet for foreign manufacturers compared to its competitors.
- **Strategic location:** Vietnam has a strategic location in Southeast Asia, giving Vietnam access to major shipping routes in the South China Sea and the Indian Ocean, as well as to large markets in China, Japan, and South Korea.

- **A long list of free trade agreements**

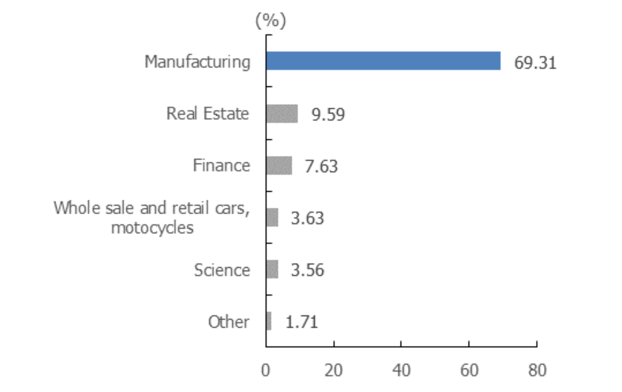
With around 19 free trade agreements, Vietnam's entry into the ASEAN Economic Community (AEC), is a good opportunity to connect Vietnam with the world market. Additionally, Vietnam's institutions, laws, and transparency have been gradually improved in association with integration, not only creating conditions for investors to operate in the long term, but also helping businesses participate in global supply chains.

Figure 43. FDI by country



Source: MPI, KIS

Figure 44. FDI by industry



Source: MPI, KIS

The processing and manufacturing sector will continue to be the primary recipient of foreign direct investment (FDI) inflows. The key factor that makes this sector appealing to foreign capital is Vietnam's advantageous position in terms of labor resources, political stability, and extensive economic and international integration.

Table 4. Notable FDI projects in Vietnam in 2023

Project	Origin country	Sector	Registered USDbn	Location
LG Innotek	Korea	Electronics	1.9	Hai Phong
Lego	Denmark	Manufacturing	1.30	BinhDuong
Hyosung	Korea	Manufacturing	1	Vung Tau
CapitaLand	Singapore	Real Estate	0.5	BinhDuong
Foxconn	Taiwan	Electronics	0.35	Nghe An
Victoria Giant Tech	China	Electronics	0.4	Bac Ninh
ECOVANCE	Korea	Biology	0.5	Hai Phong
Amkor Technology	USA	Semi-conduct	1.6	Bac Ninh

Source: GSO, MPI, KIS

Macro scorecard

	23-May	23-Jun	23-Jul	23-Aug	23-Sep	4Q22	1Q23	2Q23	3Q23	2019	2020	2021	2022
Real GDP growth (%)						5.92	3.21	4.14	5.33	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.98	2.57	2.81	1.91	2.06	8.96	5.45	7.98	6.78	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.32	2.25	2.25	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	29.05	29.30	29.68	32.37	31.41	89.50	79.17	83.42	94.62	263.6	282.7	335.7	371.85
Import (USD bn)	26.81	26.71	27.53	28.55	29.12	85.07	75.10	76.01	86.02	254.4	263	331.1	360.65
Export growth (%)	(5.86)	(11.41)	(3.47)	(7.60)	4.57	(6.07)	(11.90)	(14.16)	(1.25)	8.16	7.02	18.74	10.61
Import growth (%)	(18.44)	(16.94)	(9.92)	(8.26)	2.57	(3.90)	(14.67)	(22.30)	(4.50)	7.41	3.81	25.9	8.35
Inflation (%)	2.43	2.00	2.06	2.96	3.66	4.41	4.18	2.41	2.89	2.79	3.24	1.84	3.15
USD/VND	23,493	23,583	23,688	24,135	24,300	23,633	23,471	23,583	24,300	23,173	23,126	22,790	23,650
Credit growth (%)	3.04	4.73	4.56	4.78	5.56	12.87	1.61	3.36	5.56	13.75	12.17	12.97	12.87
10Y gov't bond (%)	3.28	3.50	2.41	2.58	2.60	5.08	3.54	3.50	2.60	3.37	2.01	2.11	5.08

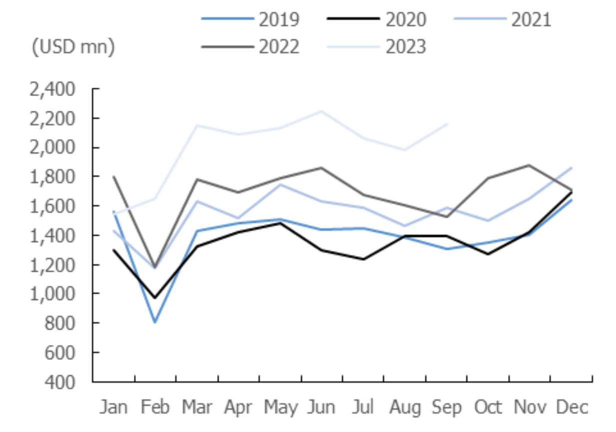
Source: GSO, Bloomberg, FIA, IMF

III. Pickier screening is the best solution

1. Agriculture: China reopening boosted agriculture export

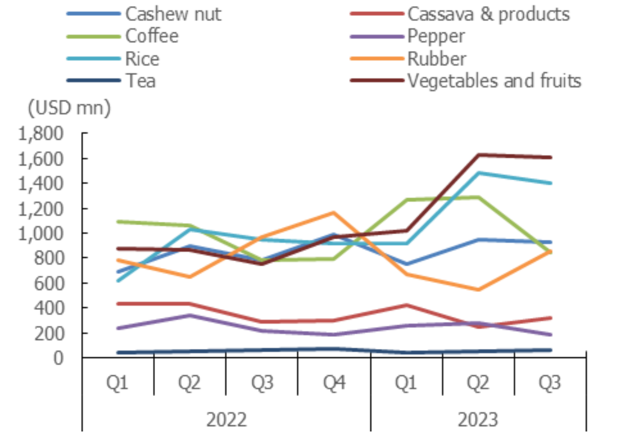
3Q23 crops exporting value upped 29% yoy and downed 4% qoq to USD6.2bn, contributed by the strong growth of vegetable and rice exporting value. Particularly, vegetable exporting value surged by 114% yoy to USD1.6bn in 3Q23, mainly driven by the rocketing import from China by 87% yoy to USD497mn. Rubber also witnessed a recovery of 58% on the quarterly basis, however still downed 11% yoy.

Figure 45. Export value of crops



Source: GSO, KIS

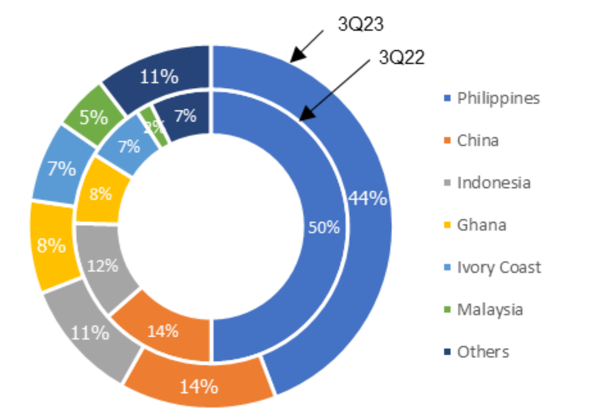
Figure 46. Export value of crops by product



Source: GSO, KIS

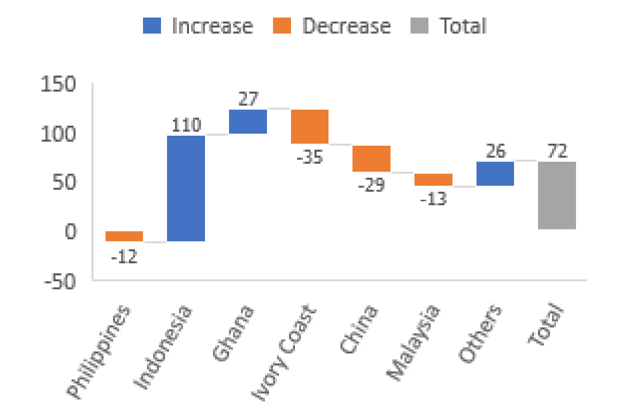
Rice price may slightly fall in 4Q23. Vietnam 5% broken rice reached USD612/tonne, slightly higher than that of Thailand (USD608/tonne) and India (USD511/tonne) in Sep-23. Since late Jul-23, Russia's cancellation on Black Sea agreement raised worries about cereal shortage. Additionally, India imposed a ban on non-basmati rice exporting, pushed rice price higher globally. In 3Q23, rice exporting increase was mostly to Indonesia, as Indonesia was a notable importer of Ukraine's wheat.

Figure 47. Rice exporting value by importer



Source: Vietnam Customs, KIS

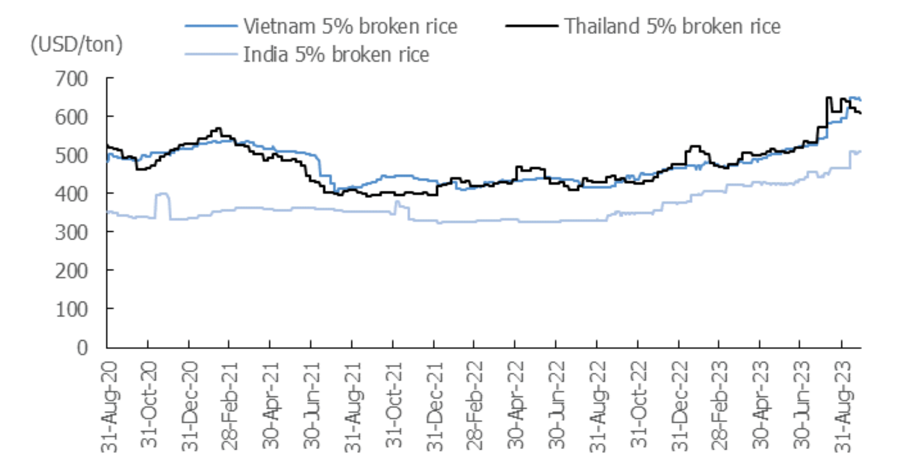
Figure 48. Rice yoy export value changes by importers in 3Q23 (USDmn)



Source: Vietnam Customs, KIS

Vietnam, Thailand and India are key players that harvest in year-end. Thailand cultivation system was under severe stress from climate change, with lack of rainfall and irrigated water. Myanmar is planning to curb rice exporting in 4Q23 to control internal rice. On the other hand, USDA forecasted the India rice production might fall by 2mn tonnes due to droughts in Aug-23. However, we anticipate that India may ease the ban of some rice types in 4Q23, after harvesting, to optimize the surplus volume at a high market price. Additionally, Philippines' import demand decreased thanks to sufficient stocking. In that case, rice export price may slightly fall, but still at a high level.

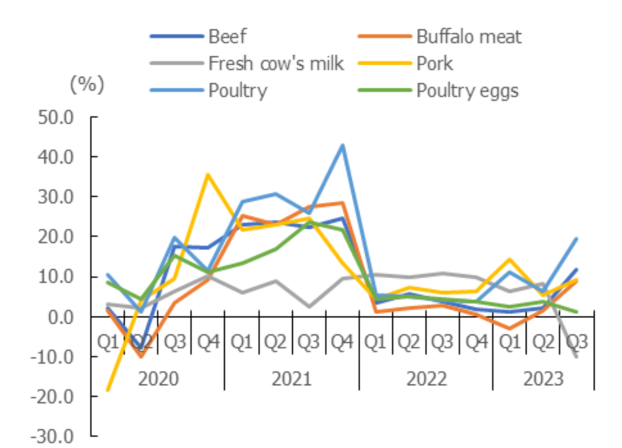
Figure 49. Key players' white rice (5% broken) FOB price movement



Source: Bloomberg, KISVN

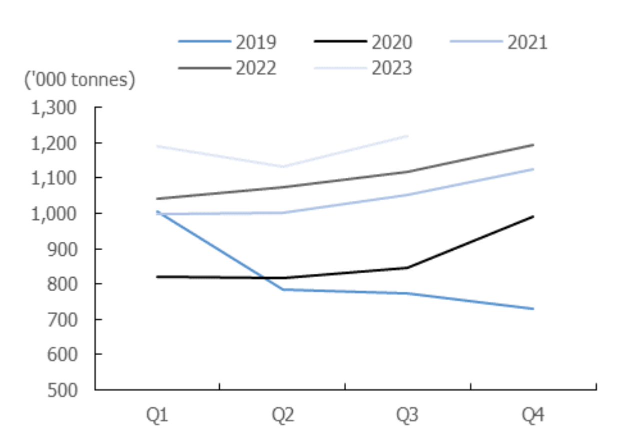
Pork price will remain low in 4Q23. Pork production in 3Q23 increased 9% yoy to 1.2mn tonnes. Farmers resumed feeding locationally but still hesitated due to the high risk of ASF. Increasing supply combined with low demand in Ghost month and Summer Holiday drove pork price to decrease under VND60,000/kg. Although wheat price recovered after Black Sea Agreement cancellation, that was a more reasonable level than in 2022, thanks to the preparation of key producers. Thus, we expect recovering supply for Tet holiday will keep pork price at around VND60,000/kg in 4Q23.

Figure 50. Livestock & poultry production yoy growth



Source: GSO, KIS

Figure 51. Pork production volume

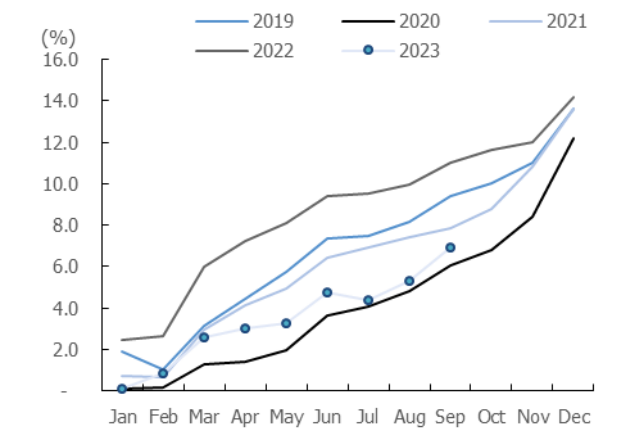


Source: GSO, KIS

2. Banking: Slow 2023 credit demand and expected 2024 improvement

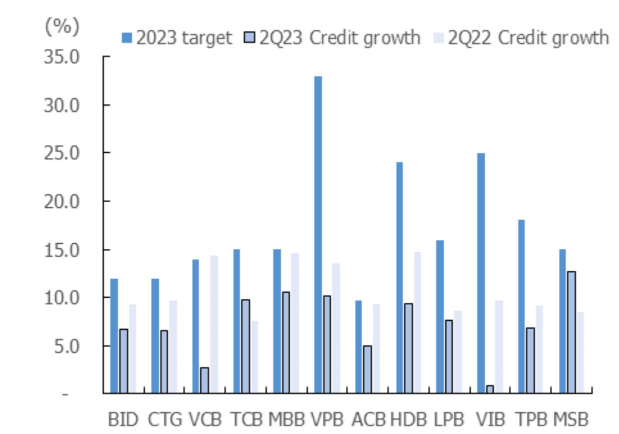
Credit growth rises 6.92%YTD as of 29 Sep 2023, significantly lower than the 2023 target of 14% and previous years due to slow demand. However, large-private banks had higher credit growth than state-owned commercial banks (SOCBs). 4Q23 credit growth could rise faster than previous quarters for seasonal events and better business environment but still be lower than previous years. 2024 credit demands could improve in context of the gradual economic revivals amid the more favorable business conditions.

Figure 52. Slow credit growth to the economy



Source: SBV, KISVN

Figure 53. Credit growth by banks



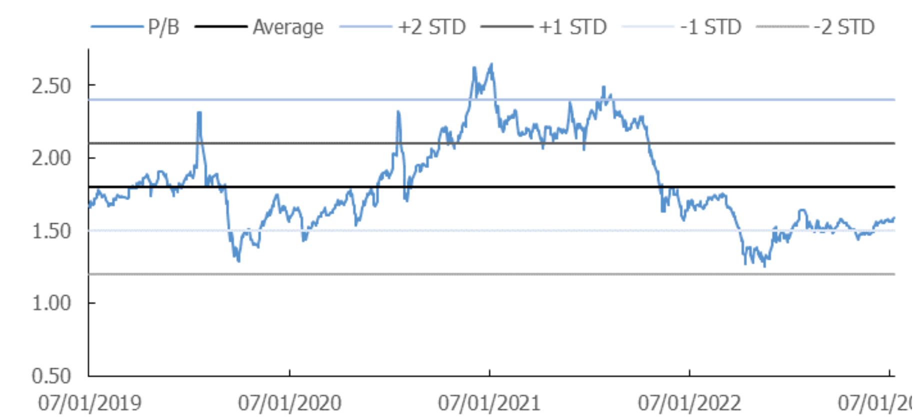
Source: Banks, Fiinpro, KISVN

The deposit rate slump facilitates the lower COF, CASA improvement, and gradual NIM recovery. The deposit rates retreated steeply since 2Q23 by 1.5%-1.9% YTD for SOCBs and 1.24%-4.3% for private banks amid the lending rates go down less. However, ratio of short-term funds for long-term loan fall from 34% to 30% from Oct 2023, resulting in the private banks' adjustment (32.66% as of July 2023) rather than SOCBs' adjustment (24.97% as of July). Banks could mobilize longer-term funds or lend more short-term loans, slightly narrowing NIM.

Banking industry's NPL was down from 3.65% (NPL including potential bad debt of 5.46%) in May 2023 to 3.56% (NPL including potential bad debt of 5.22%) in July 2023. We expect that 2023 NPL could be under control thanks to the circular 02/2023 and the government's supportive policies. By the end of August 2023, the cumulative total value of restructured loans (principal and interest) is nearly VND121,000bn, equivalent to 1% of total credit.

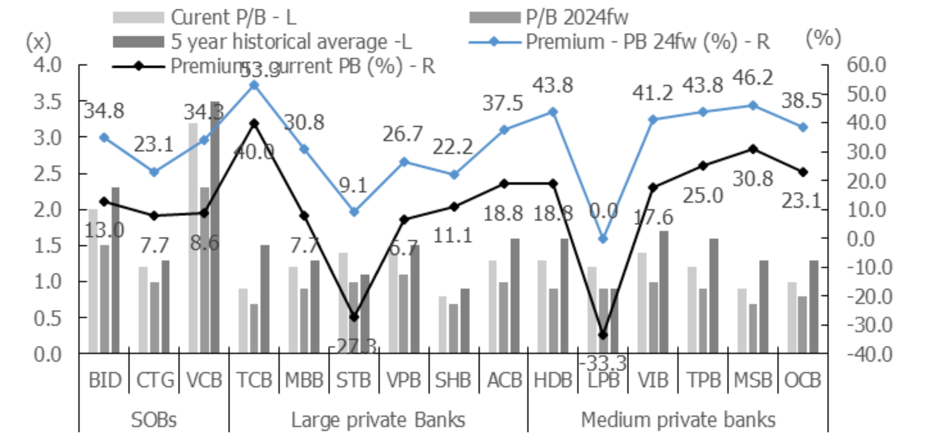
The investment prospects of the banking industry could be attractive thanks to (1) low valuation (2) gradually overcoming difficulties. Stock prices momentums could follow the 3Q23 earnings and banks' special events, but we expect the promising outlook for banking's profit recovery.

Figure 54. Sector's low P/B valuation



Source: Fiinpro, KISVN

Figure 55. P/B valuation by banks



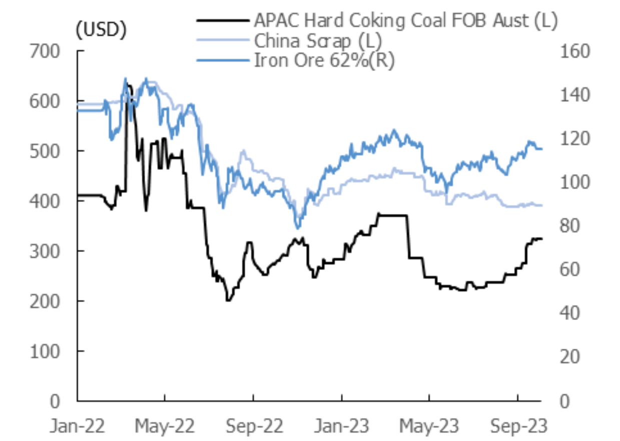
Source: Bloomberg, KISVN

3. Steel: Sale maintain trajectory

3Q23 sales volume was flat. The total sales volume in July and August was 3.9mn tonnes +4.8% yoy, fulfilling 62% of our 3Q23 forecast. The sales volume in September is expected to be around 2.2mn tonnes (+15% mom, +21% yoy). tonnes, bringing 3Q23 total sales volume to 6.1mn tonnes The increase in total sales volume was attributed to the strong export volume while the domestic demand saw no significant movement.

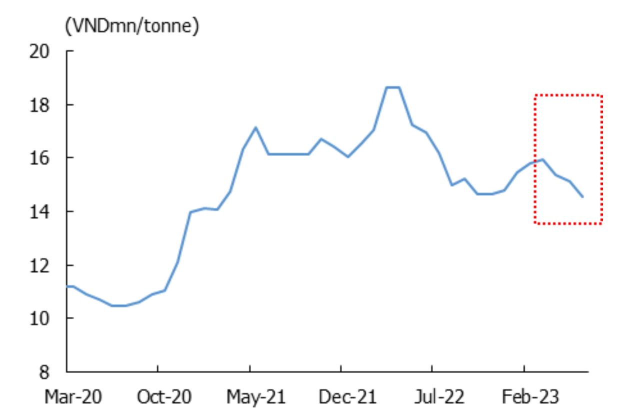
Rising prices due to costlier input. As Australian coking coal price surged above 320 USD/ tonnes in late September and iron ore edged toward 120 USD/tonnes, we expect the increased demand and higher input cost will push the domestic ASPs upward. August Steel Bar price has decreased by 3.7% compared to the one at the end of Jun-23 while HRC price has also edged down by 4.4% compared to the price at end June-23.

Figure 56. Input costs are expected to remain low in 3Q23



Source: Bloomberg, KIS

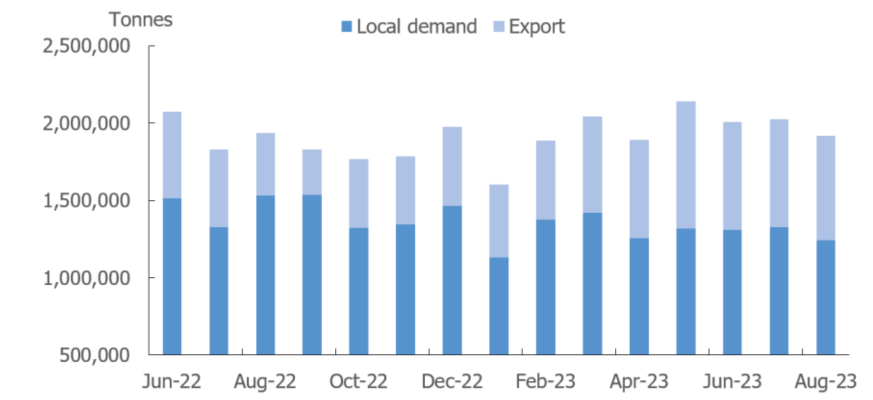
Figure 57. Selling prices were in down trend in 3Q23



Source: VSA, KIS

Returning in 4Q23. October marks the end of the rainy season; we expect to see an increase in total sales volume in 4Q23. We forecast the total sales volume will be 6.3mn (+13.5% yoy) tonnes versus 6.2mn tonnes in 3Q23 (our forecast) but increase by 8% yoy thanks to a low base in 2022. Higher input prices will affect companies' GPMs, however, we still expect to see a positive profit thanks to an increase in volume. We also expect an improvement for the steel industry from 4Q23 with the improving ASPs and better demand from 1H24.

Figure 58. Flat sales volume in both domestic and export markets in 3Q23

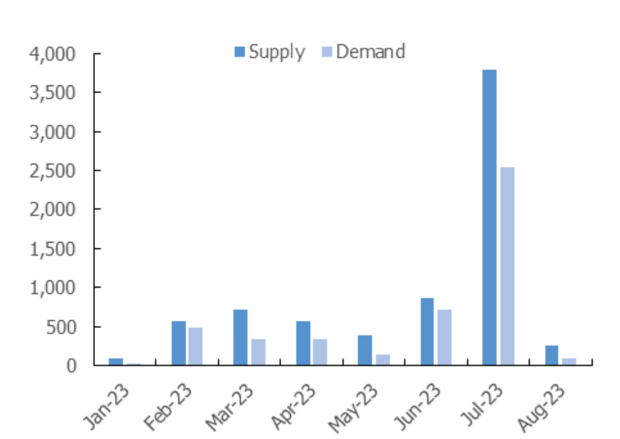


Source: VSA, Fiinpro

4. Construction: GPM expects to expand thanks to less expensive input

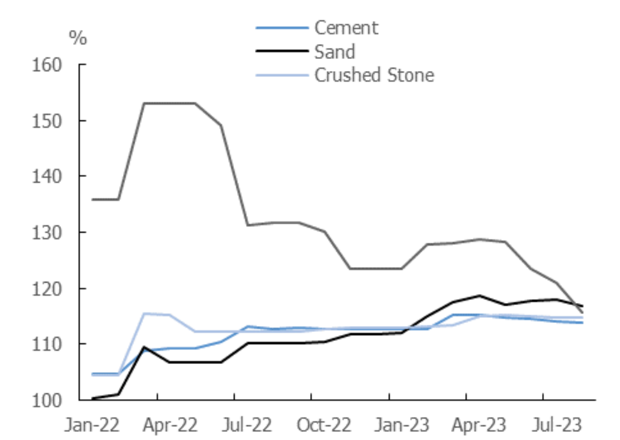
3Q23 Civil construction demand was still weak. In July and August, demand was at for new apartments was at 2,626 units (+872% yoy), and 4,048 new apartments (+468% yoy) were introduced to the HCMC market, with the majority of the new supply stemming from the opening of the Glory Height projects, we saw this surge as an outliner and is not a true indicator of the revival of the residential real estate market. While bank rates have dropped considerably in the last quarter, we do not expect a resurgent civil construction activity in 4Q23.

Figure 59. July supply surge is not a true representation of the RE market



Source: DKRA, KIS

Figure 60. Steel was the only material where the price went down (Material Price Index; 2020 = 100%)



Source: FiinPro, KIS

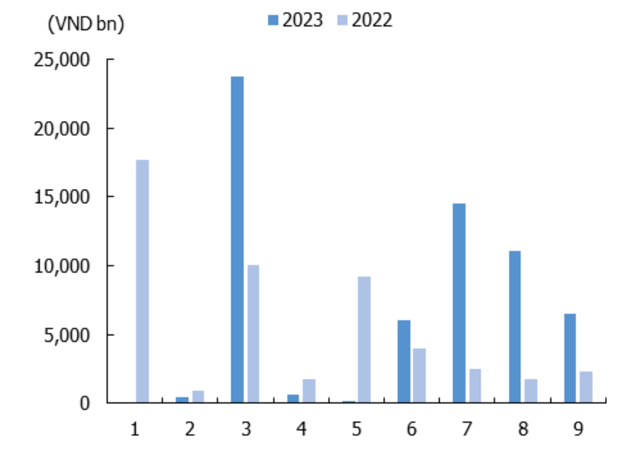
Public Construction continues to be the highlight. By the end of September, the country disbursed VND363tn (+36,9% yoy), 51,4% of planned the Public Investment fund surpassing 50% of the planned fund for the first time. The goverment fund was focus into projects supporting in major economic hub like HCMC Ring road 3 or Ha Noi Ring road 4. The disbursement speed is a key indicator of the process of large-scale public infrastructure projects, effective disbursement equates to a steady revenue stream for infrastructure constructors. In light of Long Thanh Airport begin construction in 4Q23, the the goverment expects to be able to disburse another VND360tn, finishing 96% of the planned fund.

Increase gross margins for civil and industrial contractors. Despite lower construction volume, we expect a GPM for civil contractors to widen in 2H23 thanks to a drop in material price. The price of construction steel dropped to 13,480 VND/kg (-13% yoy), while other materials of cement, crushed stone, and sand saw no major movement. Costly material was the primary constricting element to contractors' gross margin in 2022 and 1H23, for less expensive construction steel we could see an expanded gross margin among civil and industrial constractors in 2H23.

5. Housing: Selling activities buttressed by mortgage rates ease

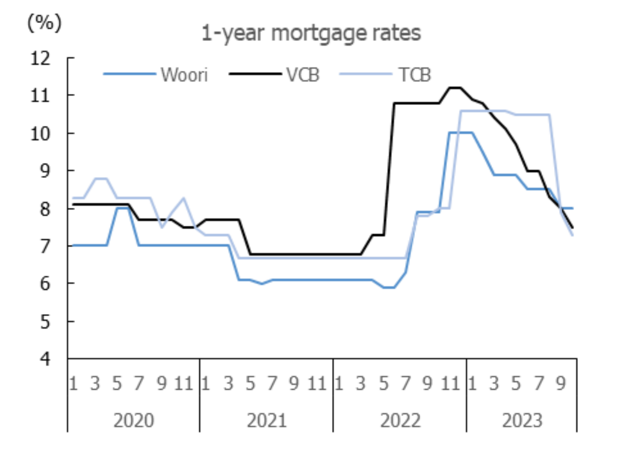
Robust hope on 3Q23 but skeptical on 4Q23 The newly-issued real estate bond issuance summed to VND6.5tn, 2.8x yoy, but -42% mom, largely centered on some Materise-wide group, Nam Long Group, VSIP. The accumulated bond issuance went up to VND32.1tn, +4.6x qoq, 4.85x yoy in 3Q23. 9M23 was also prosperous with 25.8% yoy to VND63.2tn. The market also witnessed some big conglomerates (SOVICO) succeed in rescheduling the bond payment, relieving the debt payment pressure on the market in 3Q23.

Figure 61. Bond issuance: Real estate



Source: Fiinpro

Figure 62. The most supporting factor is the mortgage rates downturn



Source: KIS

3Q3 business results could be sluggish across the sector. In light of the 3Q23F business result forecast, VHM could not another be savior given the absent of bulksale revenue and we expect 3Q23's net profit growth could slide by 30% qoq/60% yoy. The loss persists in some distressed companies naming NVL, NRC, DIG, NBB and DXG. VPI and PDR could deliver a tepid yoy earnings growth as most of the growth is skewed in favor of 4Q23F. We peg NLG, KDH to fare well better yoy given their unfavorable base in 3Q22. What we feel disappointed is the less buoyant than expected selling activities in 3Q23 and we save the last hope on 4Q23F thanks to mortgage rate ease.

The sub-government's ramping up to tackle the licensing policies could speed up in 4Q23. After the Binh Thuan, Dong Nai, Binh Dương provinces, and Ho Chi Minh City were in cooperation with relevant ministries to untie the master plan of DIG, NLG, and NVL's projects in 2Q23, the speed took a breath in 3Q23 given only DXG's Gem Riverside in Dist 2 is accepted in the master plan. We expect the rescue signals could resume its momentum in 4Q23 and NLG, DIG, PDR, NVL could benefit the most.

Selectively and timing choice could yield the reward. Share price of most real estate stocks steeply retreated in late Sep after bullying in 3Q23 given the fear of due bond payment in 4Q23. Some rumors are spreading that bond issuers could not heighten more the distressed debt and they sell back their equity shares. Furthermore, the investigation on Nhat Nam JSC, Van Thinh Phat, Tan Hoang Minh further erodes the trust. Only the mortgage rate ease is our last hope for the selling activities. Our NEUTRAL rating persists.

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