BSC

VIETNAM
SECTOR OUTLOOK
2017

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Investment Strategy 2017

The stock market has adjusted towards the end of 2016 and the adjustment is expected to remain until first half of Feb 2017. Psychological effects from the newly listed stocks will bring fresh air to the stock market in 2017. In terms of macroeconomics, stock market, and prospects of sectors and businesses, BSC expects 2017 will be a year full of exciting and attractive investment opportunities, as a series of OTC to be listed. On the other hands, some large-cap fundamental listed stocks, which has been out of favor in recent years have returned to attractive levels and could be a safe destination for cashflow. Of course, opportunities always accompany challenges, requiring investors to be more selective in the investment process. To help investors with a comprehensive perspective, BSC issues the 2017 Annual Sector Outlook report to review the investment themes of 2016, and provide outlook for each sector in 2017, along with our prospects on macroeconomics and economic cycles. We hope to assist investors in the journey of exploring investment opportunities, with reasonable price and selective risks.

1. Remarkable investment themes in 2017

The stock market is always changing and every year there will have a special bright spot, just like Oil & Gas in 2014, Banking in 2015 and Steel in 2016. Since 2015, BSC has started highlighting the investment themes in our annual report outlook, and in retrospective, we find that most of them are all important milestone of the year. The 2016 ended with strong wave of listed firm on OTC. Will this wave be continuing? And is there any highlight for 2017? Based on global and domestic economy, along with current market situation, BSC believes that the following topics should be noted in 2017. The macro and stock market have not been favorable and stable in recent period, making it even more difficult to predict the market, but there are still opportunities for investors. We summarize our views through 6 following topics.

2017 Investment themes

- **Firstly, opportunities will be continuing with to-be-listed stocks on OTC**. Circular No. 180/2015 / TT-BTC regulates public companies formed prior to Jan 1st 2016, but not yet listed on the stock exchange will have to register trading on Upcom within 1 year. Any public business set up after Jan 1st 2016 will have to be listed on Upcom within 30 days of the IPO or become a public company incorporated with decree 145/2015 / ND-CP. Accordingly, some of the "giants" have complied OTC came listed in 2016 such as SAB, BHN, QNS, ACV, NVL, while other big names will be next in line such as Vinatex (VGT), Vietnam Airlines (HVN), FPT Telecom (FOX), Viettel Global, VEAM, Binh Dinh Pharmaceutical, Masan Consumer (MCH), Vietnam Thang Garment TCTCP, TCTCP Phong Phu, Nha Be Garment TCTCP, Thaco, Techcombank, VP Bank ... These leading enterprises with attractive growth prospects are expects to bring investment opportunities for investors when officially listed. In addition, these enterprises listed on HSX (after being listed on UPCOM) will have a major impact on VN-Index, as well as the order of the VN30. However, besides fundamental stocks with good growth prospective, investors should be cautious of some speculative stocks recently.
- **Secondly, group of state-run enterprise which is in the process of equalization.** According to Circular No. 115/2016 / TT-BTC on equalization of 100% state-owned, firms who contracted auction services to the

stock exchange after November 1st 2016 will have maximum of 20 days since the expiration date of payment for the successfully bid share, to be listed on the OTC. Therefore, the central trading time will be shortened, and liquidity will be improved. BSC believes this will attract more investor's attention after firms' IPO.

Regarding the percentage holding by the State, the Government has also specified: with Corporations under the People's Committee of Ho Chi Minh City after IPO, the ownership held by the State as follows: 65% with Saigon tourist, Saigon trade Corporation (Satra), Sai Gon Industria Corporation (CNS) and 50% with Saigon water Supply Corporation (Sawaco), Engineering Saigon transportation Corporation (Samco) and Saigon Agriculture Corporation (Sagri)

We also note for the VICEM IPO deals in 2017, the proportion of state divestment will directly affect the outcome of the Vietnam cement industry, besides, investment opportunities will also be positive for Cement stocks(HT1, BCC).

- **Thirdly, stock group of state divestment or full room.** The divestments in Sabeco, Habeco and VNM will continue to be a fascinating subject for domestic and foreign investors in 2017. SAB currently has approved public tender policy, hired consultants to build divestment plan, which is expected to be completed in 1Q2017. With BHN, divestment plans will be more ccomplicated due to the terms previously signed with Carlsberg. Overall, after SCIC's 9% divestment in VNM, the next state divestments are expected to be more smooth and more successful. Besides, SCIC will have to continue to divest from 9 large corporations: FPT, NTP, BMP, BMI, VNR, HGM, Vietnam Infratracture and Real-estate Corporation, SGC và FOX. These will be highlights of stock market in 2017.

  With stocks full-room for foreigners, since being allowed to loosen foregin ownership, there are about 25 businesses filed for higher room, but due to problems related to the relevant provisions there were only 10 businesses successfully opening room. In 2017, better revision of the law to remove obstacles will help increase the number of business succesfully loosen foreign ownership, which will attract more and more foreign investors to the Vietnam stock market.
- **Fourthly, group of stocks with good fundamental, high dividend and focus on the domestic market.** BSC found that market condition have been shifted, when "dinosaur" UPCOM stocks moved to HSX and HNX. VN-Index and bluechips orders will be adjusted, affecting investors' cashflow with new stocks caught more attention from investor. The investment cash flow will focus more on big leading stocks with high dividend such as VNM, HPG, MWG, PNJ, HSG, SAB, QNS, FPT, FOX, VNS. Opportunities for bottom fishing will happen with fundamental stocks, since cashflow will be diverged towards OTC and IPOs. The speculative stocks will have less chances in 2017.
- **Fifthly, the Free Trade Agreement**. We believe that Vietnam is still on the process of integration when important FTAs to be signed: FTA Vietnam - EU signed in early 2017 at the latest; (2) Free Trade Agreement RCEP (ASEAN + 6) went to the 15th round of talks, which are expected to end in mid 2017 and (3) Free Trade Agreements with Asian Economic Union Europe has officially takes effect on Oct 5th 2016, opening the door to a market of 183 million inhabitants of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

We believe that the market is being too pessimistic about the TPP and policies of American president-elected, which negatively affect import-export firms. We believe that the growth momentum is perhaps slower but stocks in these groups have been downgrading to attractive price level, namely **seaport (GMD, VSC, CDN), port aviation ACV, aviation services, infrastructure CTI and industrial zone KBC, LHG, D2D, TIP, SZL**. However, bottom fishing opportunities for these stocks will soon appear from 2017. We are still quite pessimistic on Textile due to strongly affected by policy of increasing the minimum wage, the tax incentives (EVFTA) entered into force early in 2018 and the Aquaculture still still face many difficulties.

- **Sixth, influenced by the price of raw materials, rising inflation, and the possibility of raising interest rates.** The forecast for oil prices in 1H2017 was raised from 56.5 USD / barrel to 59 dollars, and oil prices will stabilize at around 58 USD / barrel in the second half (Goldman Sachs). More stable China's economic also provides promising ground for global commodity prices. For basic industrial material, BSC believes that business performances and stock prices will continue to improve accordingly with global raw material price movement and protectionist policies of the Government of Vietnam (Steel, Sugar), so 2017 will continue to be a good year for the Oil & Gas, Steel, Rubber, and Sugar.
  Recovery trend of commodity price and USD exchange rate will push up price of imported goods as well as inflation rate. In addition, domestic elements such as medical service price adjustment, education, possibility of increase in electricity price in 2017 also lead to higher inflation rate.

Sector rating for 2017

Economic recovery, along with supporting policies from the government to be in effect in 2017 are the basis for our belief that the stock market will have a remarkable year ahead. We expect the Oil & Gas to lead Vnindex, with the expectation that the government will boost up plans for oil exploration and extraction in the year, to take advange of the oil price rebound.

- We assess **Outperform** towards **Construction, Technology, Oil & Gas, Seaport, Electricity, Insurance, Steel, Fertilizer and Rubber.** Among which, the sectors with best fundamental factor is **Technology** and **Seaport**, while with scale is **Oil & Gas. Fertilizer** could bottom out and recover in 2017
- We assess **Market perform** towards **Real Estate**, **Tiles, Textile, Fertilizer, Beverages, Cement, Automobile, Sugar, Tires, Banks. Phamarceuticals, and Marine Transportation**. We are cautious towards Real-estate sector, although the trend of growth in profit is quite clear, we believe investors will be more concerned out sales factor and prospect in the future. Among Market-perform sectors, we expects transformation in Banking and Cement. The prospects of these sectors are mixed between challenges and opportunities, and the opportunity, if occurs, will not come to every stocks in the sector
- Towards **Underperform** sectors, we believe Aquaculture will face more challenges in 2017. We are not pessimistic, but believe investors should wait further for investment opportunities, and we will update further when rebound signals occur.

Overview of sector ratings 2017

	Sector	Rating	BUY recommendation	Tracking
1	Construction	Outperform	FCN, HUT, CTI	CTD, HBC
2	IT	Outperform	FPT, CMG	
3	Oil & Gas	Outperform	PGS, CNG	PXS, PVS, GAS, PVD
4	Seaport	Outperform	GMD, CDN VSC	
5	Insurance	Outperform	PVI, BMI, VNR	PGI
6	Electricity	Outperform	VSH, NT2	PPC
7	Rubber	Outperform	PHR	TRC
8	Steel	Outperform	HPG, NKG,HSG	
9	Fertilizer	Market Perform	LAS, BFC	DPM,
10	Real Estate	Outperform	VIC, DXG, KDH	BCI, CEO, ITC, DIG
11	Tiles	Market Perform	CVT, VHL	VIT, VGC
12	Textile	Market Perform	VGG	TCM, EVE, TNG
13	Beverage	Market Perform		SAB, VNM, BHN, WSB, SMI
14	Cement	Market Perform	HT1, BCC	BTS
15	Automobile	Market Perform		SVC, TMT
16	Plastic	Market Perform	NTP, BMP	AAA
17	Sugar	Market Perform	BHS, QNS	SBT, LSS, SLS, KTS
18	Tire	Market Perform		DRC, CSM
19	Bank	Market Perform	MBB, VCB	ACB
20	Pharmaceutical	Market Perform	DHG, DBD	IMP
21	Marine Transportation	Market Perform	PVT, VTO	VIP, GSP
22	Aquaculture	Underperform		HVG, VHC, FMC

Source: BSC Research

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2. Influential policies and news in 2017

Domestic and international macro news, amended policies additional regulations and FTA schedules will variously impact on the stock exchange and firms. In 2017, BSC notice that the below information and polices would significantly affect business results as well as investment opportunity in Sectors.

No.	Published macro policies and information	Effective Date	Influence	Influence Degree	Status on Dec, 30th 2016
Macro Policies and International Economics					
1	FED rate hike, USD appreciation		Negative	Very strong	Not affected
2	Brexit – GBP depreciation		Negative	Strong	Affecting
2	ECB loose monetary policies, (EUR		Positive	Strong	Affected
3	Abe-economics policy of Japan (JPY		Positive	Strong	Affected
4	Negative news from Asia (currency		Negative	Strong	Not affected
5	Chinese economy slow down (CNY depreciation)		Negative	Very strong	Affecting
6	Low material price (low oil price)		N/A	Very strong	Affecting
7	Trump has become the 45th US President	Jan 20th,2017	N/A	Very strong	Not affected
8	Netherlands General Election	March,15th ,2017	N/A	Medium	Not affected
9	The The Brexit negotiation deadline	March 31st,2017	N/A	Strong	Not affected
10	Frech Presidential Election – The Final Round	May 7th ,2017	N/A	Very strong	Not affected
11	German Federal Election	Fall 2017	N/A	Very strong	Not affected
12	Chinese Party Congress	Fall 2017	N/A	Very strong	Not affected
Macro Policies and Domestic Economics					
1	Circular No. 06/2016/TT-NHNN	July 1st, 2016	Negative	Strong	Affecting
2	Basel II Treatment implementation	2017	Negative	Strong	Not affected
3	Corporate Tax Rate down from 22% to 20%	Jan 1st, 2016	Positive	Neutral	Affecting
4	Increase rate on Nature Resources	Jan 1st, 2016	Negative	Neutral	Affecting
5	Derivatives market (Future Contract)	Q4 2016	Positive	Neutral	Not affected
6	Interest rate in VND increase	2016	Negative	Strong	Affecting
7	USD appreciate against VND		Negative	Very strong	Not affected
8	Increasing public investment in infrastructure		Positive	Strong	Affecting
9	Increasing privatization of state-owned		Neutral	Medium	Affecting
10	Divesting Sate-owned enterprises (SCIC,		Positive	Very strong	Affecting
11	Increasing GDP, FDI, PMI, ODA, remittances, credit loans, import & export		Positive	Neutral	Affecting
12	Decree 145/2016/ND-CP	Dec 15th, 2016	Positive	Strong	Affecting
13	Circular 180/2015/TT-BTC	Jan 1st, 2016	Positive	Very strong	Affecting
14	Circular 115/2016/TT-BTC	Nov 1st, 2016	Positive	Very strong	Affecting
Free Trade Agreements					

1	ACFTA – Circular No. 166/2014/TT-BTC	Jan 1st, 2015	TB	Strong	Affected
2	Vietnam-Korea FTA	Dec 20th, 2015	Positive	Strong	Affecting
3	Vietnam – Eurasian Economic Union FTA	2016	Positive	Neutral	Affecting
4	TPP (*)	2018	Negative	Strong	Not affected
5	Vietnam – EU FTA	2018	Positive	Strong	Not affected
6	RCEP ASEAN + 6	Negotiating	Positive	Strong	Not affected
7	ASEAN Economic Community (AEC)	Dec, 31st, 2015	Positive	Neutral	Affecting

Source: BSC Research, (*) TPP agreement could be canceled

The influence of macro factors on business sectors

Factors	Oil recovery	FED hike	USD appreciation	Eu economy slow down / Brexit / EUR depreciation	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	TPP canceled	ACFTA, FTA VN - EU
Marine Transportation	(-)		(-)			(-)	(-)		
Real Estate						(-)			
Construction	(-)					(-)			
Cement	(-)			(+)					
Textile	(-)	(+)	(+)	(-)	(+)		(-)	(-)	(+)
Electricity	(-)		(-)	(+)	(-)				
Pharmacy			(-)						(-)
Plastic	(-)		(+)	(-)	(+)				(+)
Tire	(-)		(-)				(-)		(+)
Bank						(+)			
Steel	(-)					(-)	(-)		(-)
Aquaculture		(+)	(+)	(-)	(+)	(-)		(-)	(+)
Sugar									(-)
Oil & Gas	(+)	(-)	(-)				(-)		
Fertilizer	(-)		(+)				(-)		(-)
Rubber	(+)						(-)		(-)
Tiles	(-)						(-)		(+)
Technology	(-)	(+)							(+)
Seaport	(-)						(-)		(+)
Automobile	(-)								(+)
Insurance		(+)				(+)			(+)
Dairy	(+)								(-)

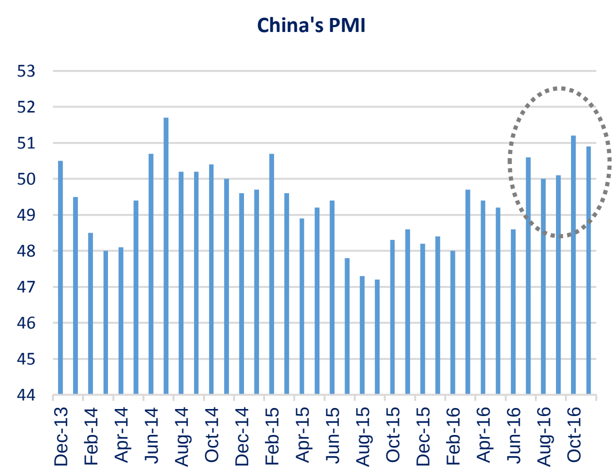
Source: BSC Research

Among international macro factors, the unknown factors in China, US and Europe would impact most on both global and Vietnam economics, so that we are interested in figuring out the risks associated with those markets. Regarding China, the situation is not much negative as we discussed at the beginning of 2016, the more conservative economics policies help their economy grow sustainably. For US, the 45th presidential election result was shocked as Brexit was, Trump's policies will significantly affect the economy of frontier countries like Vietnam. About Europe, the populism has grown, and it could spread wider when many elections will take place in Europe in 2017.

Domestic macro economics that are influential in 2017 were analyzed in detailed in our 2017 Macro and Market report

China – Any shocks ahead?

Appearing positive signals. Unlike the beginning of 2016, China's economy has grown more stable. During period 2010 - 2015, China's GDP growth dropped from 10.6% to 6.9%, however in 2016, it remained stable at 6.7% in both three quarters, which temporary end of decline. Besides, PMI Index has rose above 50 since Jul 2016, reflecting the healthier economy.

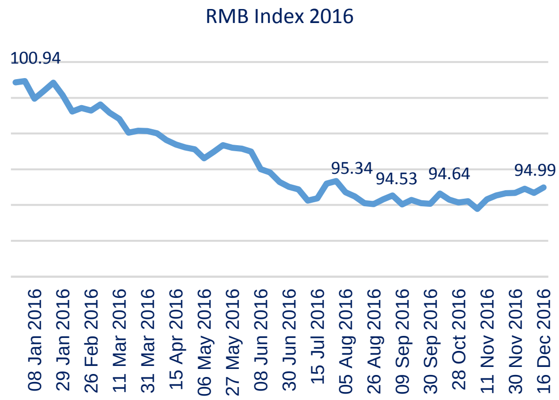


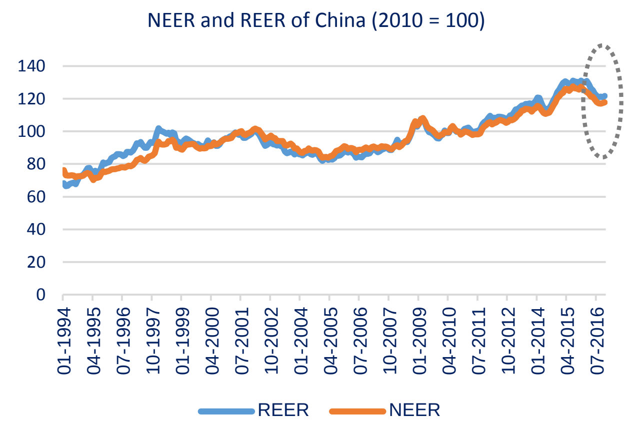
Source: OECD, the World Bank data, Markit Economics

In term of foreign exchange reserves, according to the PBOC, current foreign exchange reserves of China was $3.052 bil in Nov 2016, only down $279 bil versus the beginning of 2015 (while total decline of year 2015 was $513 bil). Although CNY continually depreciated against the dollar in 2016, REER and RMB Indices saw stable situations (these indices show the value of CNY against a basket of foreign currencies of countries trading with China, thus they further demonstrate the power of CNY in the international trade. Note that REER and RMB are calculated according to BIS Currency Basket and CFETS Currency Basket.)

RMB Index fell from 100.84 at Jan 2016 to average level of 94.47 in the second half of 2016. NEER also decreased from 2015 peak, indicating a stronger power of CNY in international trade.

Debt-to-GDP ratio of China has increased over 200%, mostly caused by state enterprises and local governments. Beijing is improving this problem by converting short-term loans into long-term bonds and redirecting credit to the private sector and households.





Global economy fluctuation, global interest rate increases and the dollar appreciation will continue to put pressure on the Chinese economy. Foreign capital might flow out of China, further reducing their foreign exchange reserves, hence they have to depreciate CNY while rising interbank interest rates.

However, BSC note that the Chinese economic growth will be positively supported in 2017. It previously grew by 3 main motivation: (1) Investment (2) Exports and (3) Consumption; however, due to world economic fluctuation, the first two factors have no longer positive as before. As a result, the Chinese government aims stable GDP growth around 6.5% during 2017 – 2020, in which focusing on structuring and promoting market power of potential domestic consumers.

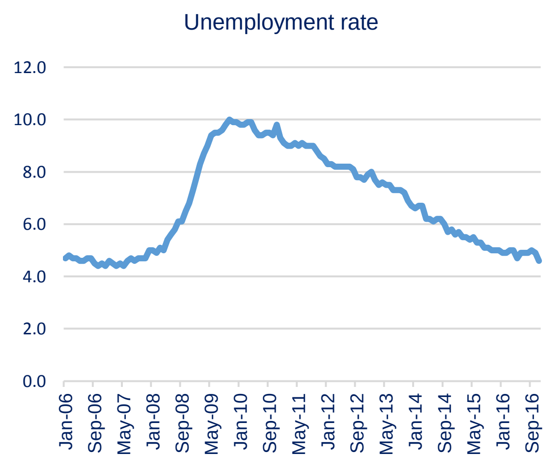
Besides, China also quickly reforms economic supply, reduces excess production capacity (steel, coal, etc), decreases housing inventories, down financial leverage of enterprises in order to avoid any financial crisis. Meanwhile, reforming fiscal and monetary policies to ensure that CNY will not fluctuate heavily as before.

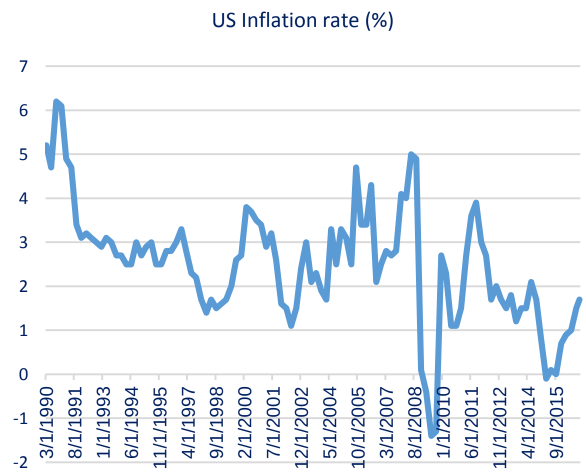
In addition, political factors will also be an important factor helping China to retain stable economy as the Congress of the Chinese Communist Party will be held in Beijing in the Fall 2017.In this meeting, most member of the Politburo Standing Committee will retire, the delegates will elect new leaders of this Party. This is a good opportunity for Mr Xi to continually consolidate power. The big shock to financial markets and commodities, as a result, might be significantly limited.

US – Any unknown factors from Trump Tantrum?

Optimistic forecast for 2017. After the FOMC meeting dated 14th Dec 2016, real GDP growth of US is expected to be approximately 2.1% in 2017, higher than the 1.9% of 2016 and equate to 2.1% of 2015. This forecast does not include the impact of the Trump's policies. The unemployment rate is expected to decline to 4.5% in 2017 and 2018, better than 2016 level of 4.7% of 2016 and Fed's target of 6.7%. Employment growth is mainly coming from low-income jobs in the retail and food service sectors. *In term of inflation*, the 2017 and 2018 forecasts are about 1.9% and 2%, respectively (higher than the 1.5% and 0.7% of years 2016 and 2015), approaching the Fed's target of 2.0%.

In term of interest rates, the FOMC began to raise the Fed Funds Rate to 0.5% in Dec 2015 and 0.75% in Dec 2016. Forecasted interest rates of 2017, 2018 and 2019 will be 1.4%, 2.1% and 2.9%, respectively. Fed noted that when Fed fund rate to stabilize at 2%, they will begin selling $4 trillion of government bonds, which will increase 10-year Treasury Note interest rate, which leads long-term interest rates also rise (including mortgage and corporate bonds rates).





Source: Bureau of Labor Statistics

Hidden numbers from Trump. Trump's government is expected to loose fiscal policy, increase infrastructure investment, raise interest rates, push up inflation and appreciate USD. One important point is that if his way against free trades is done, this may impact negatively to FDI inflows into emerging economies. As a result, bond prices of these countries will decline, interest rates will have to rise to attract investment cash flow, creating waves of rising interest rates in the world.

Europe - still fluctuating by populism?

2017 European GDP growth is expected to 1.6%, lower than 1.8% of 2016. Besides, inflation in 2017 will reach 1.6%, up from 0.3% in 2016, this will reduce the consumption level of individuals. But loosing monetary policy will continually be a driving force of economic resources. If looking at individual countries in the euro zone, most of them are expected to be better in 2017. Ten countries are forecasted to grow including Greece, Portugal, Spain; several leaders as France, Germany, Italy retain old growth forecasts.

The elections will be an opportunity for spreading populism. Year 2017 is considered important year happening notable political change in Europe. The election will respectively take place in the Netherlands, France and Germany, while the populism parties are gradually growing. Brexit and the US presidential election events could be repeated in these countries in 2017, creating new unknowns about the existence and growth of the European Community. EUR might fluctuate heavier, directly impacting to earnings of the cement, Thermal Power, Fisheries and Textile industries.

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3. Economic cycles and acceptence level by sectors

We have many times mentions this question in BSC's sector reports. The determination of the economic cycle is important to find the right investment opportunities and reasonable. But determining the right circumstance of the economy is not easy task since global economic conditions is volatile, many unknown variables. Besides frontier markets like Vietnam is usually influential by leading countries such as America, China, EU and Japan.

Economic cycle	Inflation	Economy policy.	Market condition
Initial Recovery	Inflation decreased	Expansionary	Short term interest rate is low or decrease Long term interest rate is in the bottom and bond price is in the peak Stock price increase
Early Upswing	Low inflation rate Good economic growth	Less expansionary	Increase short term interest rate Longterm interest rate bottomed or increased, bond price started to increase Stock price increased
Late Upswing	Increased inflation	Started to be stricter	Short term and long term interest rate increased, bond price decreased. Stock price swing around the peak.
Slowdown	Inflation continued increasing	Less strict	Short term and longterm interest rate peaked and started to decreased, bond price rose again. Stock price decreased.
Recession	Inflation peaked	Loosen	Short term and long term interest rate decreased and bond price increased. Stock price gave signs of increasing at the end of the recession cycle.

Source: BSC Research

Based on macroeconomic forecast in 2017 which is inflation rate will stand at 4.5% to 6%, GDP, 6.6% of GDP (6.2% higher than the level of 2016), VND exchange rate will depreciate by about 2% against the dollar, interest rates expected to increase, BSC believes Vietnam's economy is approaching the second half of Phase Money growth (early upswing). During this period the stock price continues to rise and the stock market is still profitable place for investors. The leading stock, good fundamentals, have competitive advantages, potential positive growth will be an opportunity to attract the cash flow.

Comparison to the region

Considering the scope of the Southeast Asian region - Emerging stock markets, Vietnam is currently being traded on par with the median of regional P/B and with insignificantly lower P/E. In terms of sectors, however, the discount/premiums differentiates.

PE and PB in emerging markets of SEA

Source: Bloomberg, BSC Research

Vietnam is generally priced on par with the median PE of other countries in the region, including Thailand, Indonesia, Philippines, Taiwan, and China. Among them, a few sector have quite large discount such as Retail, Telecommunications, Goods and industrial services. On the other hands, real estate has significantly higher PE, while banks, financials is currently trading on par with regional average.

	Vietnam	Phillipine	Thailand	China	Indonesia	Taiwan	**Median**
Real estate	**50.0**	27.3	21.7	45.9	90.5	14.1	**36.6**
Banks	**14.5**	16.2	11.6	6.3	16.1	11.5	**13.1**
Goods and Industrial service	**10.3**	30.5	27.4	71.5	37.0	21.3	**28.9**
Food & Beverages	**27.7**	20.3	25.9	76.2	204.4	20.0	**26.8**
Retail	**17.9**	29.4	40.3	205.0	26.4	24.0	**27.9**
Public service	**11.8**	15.0	21.9	25.3	15.1	19.2	**17.1**
Telecommunications	**10.3**	23.4	452.5	157.1	22.8	19.3	**23.1**
Travel	**10.3**	42.8	22.1	26.7	32.7	23.8	**25.2**
Mining	**15.7**	12.6	17.2	145.0	27.7	40.0	**22.5**
Oil & Gas	**25.2**	18.6	17.0	113.5	11.9	16.4	**17.8**

Source: Bloomberg, BSC Research

4. 2017 recommended portfolio

Sector	Ticker	Rev	PAT	EPS	P/E	P/B	ROE	Price on	Target
Construction	CTD	24,000	1600	19,727	9.2	2.6	36.0%	182,400	195,000
	HBC	13,100	350	3,522	8.3	1.9	23.0%	29,150	30,000
	FCN	2,650	190	2,831	6.6	1.1	23.5%	18,700	23,400
	HUT	3,250	466	2,368	4.7	0.8	19.0%	11,200	14,700
	CTI	1,397	140	3093	8.1	1.5	16.0%	25,100	31,800
Insurance	PVI	8,250	500	2,247	10.4	0.8	8.0%	24,300	30,000
	BMI	3,681	150.8	1,774	13.4	0.8	6.1%	23,900	31,800
	VNR	1,991	234	1,762	12.5	0.9	6.8%	20,900	25,000
	PGI	2,603	123.2	1,770	12.5	1.7	13.2%	22,200	N/A
IT – Telecom	FPT	32,079	2,021	4,400	9.7	1.9	20.0%	42,650	56,200
	CMG	4,700	170	2,566	5.8	0.9	15.0%	14,950	15,700
Oil & Gas	PGS	5,175	107.5	2,150	7.3	0.8	10.5%	15,700	19,000
	CNG	1,050	140	5,250	7.9	0.9	9.8%	41,450	45,000
	PXS	1,216	79.1	1318	7.2x	0.7	9.6%	9,520	N.A
Seaport	GMD	4,354	579	2,774	9.5	0.9	11.0%	26,400	30,500
	PHP	2,529	504	1,432	12.1	1.7	11.0%	17,300	22,980
	VSC	1,402	312	6,412	8.0	1.8	20.0%	51,200	75,500
	HAH	548	88	3,498	11.0	1.0	16.0%	38,300	47,419
	CDN	640	147	1,634	15.1	2.0	16.0%	24,700	18,800
Electricity	NT2	7,299	1,082	3,756	7.3	1.6	23.0%	27,500	36,400
	PPC	6,567	600	1,712	9.9	1.2	10.6%	16,290	N/A
	SJD	468	225	4,531	5.5	1.0	17.0%	25,500	30,940
	CHP	667	298	2,366	8.7	1.8	22.0%	20,500	23,200
	VSH	643	386	1,875	8.3	1.2	12.0%	15,600	17,700
Steel	HPG	32,701	6,083	7,213	6.0	1.5	24.6%	42,950	53,866
	HSG	22,367	1919	9,763	5.3	1.7	32.8%	51,300	66,386
	NKG	12,093	711	10,768	3.3	1.2	36.6%	35,100	47,680
Rubber	PHR	1,405	296.7	2,978	8.9	0.9	9.6%	25,300	31,200
	TRC	369	83.9	2,305	11.4	0.5	4.5%	26,300	30,500
Real Estate	VIC	70,000	3,850	1,038	40.6	2.7	9%	42,100	47,800
	DXG	2,000	500	1,976	6.0	1.7	28%	11,850	13,300
	KDH	3,500	560	2,393	6.9	1.1	13%	20,200	23,330
Tiles	CVT	1245	123	6,432	6.4	2.3	33.0%	39,300	43,900
	VHL	1950	123.5	7,719	6.5	1.6	24.0%	50,000	59,500
	VGC	9684	541.6	1,764	9.1	1.3	13.8%	16,000	N.A
Textile	VGG	8,097	403.8	9,615	6.24	1.8	28.5%	60,000	70,333
	VGT	15,640	310	570	23.6	1.14	4.8%	13,500(*)	13,619
	TCM	3,165	120.5	1,837	7.94	0.78	13.5%	14,460	N/A
	EVE	985	121	2,738	8.69	0.98	12.8%	23,800	N/A

	TNG	2,130	93	2,442	4.81	0.81	17.9%	12,200	N/A
Fertilizer	BFC	6,153	268	4,219	7.1	1.8	25.7%	30,000	33,000
	DPM	9,321	1205	3,078	7.4	1.0	13.5%	22,750	23,085
	LAS	3,440	121.6	1,077	11.4	1.1	9.3%	12,300	14,000
Beverage	SAB	30,860	4,811	7,100	28.2	3.3	33.4%	200,800	168,600
Cement	HT1	8,862	920	2,051	10.1	1.3	15.1%	20,800	26,845
	BCC	4,497	274	2,243	6.6	0.7	12.6%	14,700	22,874
	BTS	3,348	130	1,076	8.6	0.7	8.8%	9,300	11,902
Automobile	SVC	10,000	150	6,006	7.7	1.1	14.0%	46,000	N/A
	TMT	4,200	120	3,254	4.3	1.3	31.0%	14,000	N/A
Plastic	NTP	4,587	453	5,706	13.5	3.3	21.0%	77,700	96,400
	BMP	4,609	700	15,391	12.6	3.8	28.0%	191,780	215,000
	AAA	2,900	200	3468	6.9	1.4	22.0%	24,000	N/A
Sugarcane	BHS	5,608	289	2,232	6.6	0.6	12.0%	14,650	22,023
	QNS[i]	7,288	1300	6,934	13.9	7.1	35.7%	96,200	115,041
	SBT	3,645	276	1,092	23.4	1.3	9.2%	25,500	N/A
	LSS	2,019	131	1,869	6.7	0.5	4.6%	12,450	N/A
	SLS	751	307	45,132	1.9	2.6	58.9%	86,000	N/A
Tires	DRC	3,917	422	3,303	9,63x	2.17x	24.0%	31,800	33,800
	CSM	3,253	194	1,696	11.4	1.4	20.0%	19,400	20.1
Banking	VCB		9,578	2,332	15,26	2.7	12.0%	35,600	N/A
	MBB		3,386	1,872	7.1	0.9	13.5%	13,200	16,600
	ACB		1,466	1,487	11.6	1.2	9.6%	17,300	N/A
Pharmaceutical	DHG	4,150	730	7,543	12.6	2.9	27.0%	94,800	110,000
	DBD	1,630	152	2,909	8.59	1.8	26%	25,000 (*)	42,800
	IMP	1200	120	2,818	19.6	1.6	13.0%	55,500	N/A
Marine Transportation	PVT	7,589	667	2,118	5.6	1.0	14.0%	11,900	16,000
	GSP	1,286	69	2,300	5.0	1.0	18.0%	11,550	15,200
	SKG	497	258	7,564	9.5	2.6	27.0%	71,700	75,000
	VTO	1312	120	1,521	5.2	0.4	8.0%	7,850	11
	VIP	655	110	1606	4.8	0.5	11.0%	7,750	N/A
Aquaculture	HVG	23,400	220	870	10.25	0.73	8.0%	8,920	N/A
	VHC	9,200	590	6370	8.8	1.8	15.0%	56,300	53,100
	FMC	2,800	83	2,470	7.8	1.15	20.0%	19,300	20,500

(*) initial listed price

Source: BSC Research

Construction 2017 [Outperform]

- The civil construction market is likely to halt in the latter half of the year as the real estate credits are going to be tightened by Circular 06.
- The growth of infrastructure construction will remain stable.
- Industrial construction market will grow well as the FDI flow in Viet Nam remains uptrend.
- Recommend Tracking for CTD, HBC, Buy for FCN, HUT, CTI.

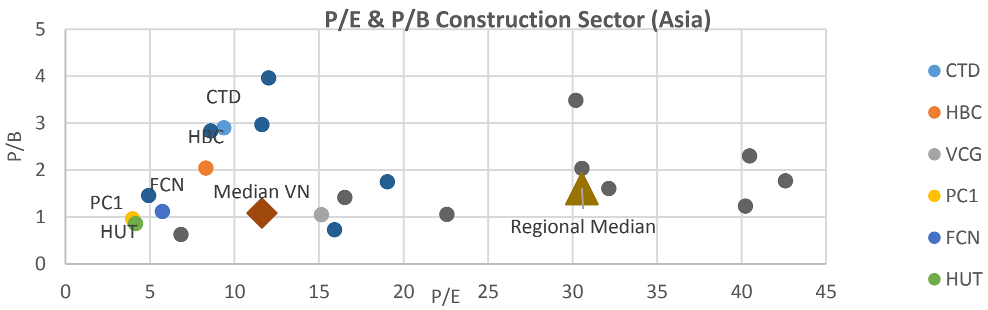
The civil construction market is likely to halt in the latter half of the year as the real estate credits are going to be tightened by Circular 06. From Jan 1st, 2017, the new regulations in Circular 06 will be valid, which includes: (1) the risk factor for real estate receivables will increase from 150% to 200% and (2) the maximum proportion of short-term capital used for long-term loans will decrease from 60% to 50%. It is worth mentioning that the impact of real estates on civil construction normally has the latency of around 3-6 months. Thus, the influence of those new regulations on civil construction would be reflected in the second half of 2017, However, those impacts are insignificant in case of leading firms (CTD, HBC), which have huge backlogs for 2017.

The growth of infrastructure construction will remain stable. The infrastructure development is an indispensable requirement in order to boost GDP growth and attract FDI flow. During the period of 2017-2020, Viet Nam need about VND 200 trillion for developing transportation infrastructure. About the delay in ODA disbursements due to the lack of counterpart funds, we expect that the government will implement more preferential policies for PPP (public–private partnership) projects, which require less state counterpart funds or even not require. Typical companies, which have experience in BOT project implementation, are listed on stock exchange: CII (south side), HUT (north side).

Industrial construction market will grow well as the FDI flow in Viet Nam remains uptrend. Even though TPP could fail, Viet Nam still has other macro factors to attract FDI flow, including: the economic growth is forecasted to be higher than in 2016, stable macroeconomics with low inflation and interest rates, and signed FTAs in which Viet Nam is a member. In 2017, the registered and disbursed FDI amounts are expected to be USD 24bn (+9%YoY) and 15.5bn (+4% YoY). The major projects, which are in the last stage of licensing process and projected to be implemented in the next year, includes: BOT Nghi Son Power Project (USD 2.5bn), Vung Ang Power Project (USD 2.5bn). Remarkable industrial construction firms on the stock exchange: **FCN, LCG, LM8, L10, SDT, SD5, C32.**

Investment Recommendation – Outperform

We rate **OUTPERFORM** for Construction Sector based on the factors: (1) the interest rate level is expected to be remain low as in 2016, (2) major civil construction firms owning huge backlogs will not be affected yet by the Circular 06 in 2017, (3) the demand of infrastructure construction will grow sustainably and (4) the positive signals of FDI inflows. Besides, according to the statistics of Bloomberg, the valuation of construction firms in Vietnam is relatively attractive with the median P/E and P/B are 11.6 and 1.08 respectively, compared with 30.5 and 1.6 for Asia. There are only two P/B ratios of leading firms, CTD (P/B = 2.9) and HBC (P/B=2.04), surpass the median figures of region.



Source: Bloomberg & BSC Research

CTD – Tracking – Target price VND 195,000 per share - Upside 6.9%

CTD is the construction which have the largest scale in terms of both market capitalization and revenue on the stock exchange. The two core business activities of CTD, civil and industrial construction, account for 94% of total revenue. Particularly, in civil construction, CTD is regarded as the number one contractor due to their superiority in construction technology and pace, and it is also the strategic partner of the largest real estate groups as Vingroup, Tan Hoang Minh. CTD's advantages comes from the D&B (Design & Building) construction with the D&B proportion of revenue occupying about 40% (2016) and 50% (2017 Forecast).

After a successful year 2016, we expect the firm continue to grow strongly in the next year due to: (1) the estimated 2017 backlog reached VND 22,000 bn, equivalent to 1.7 times of 2016 figure and (2) the GPM keep improving thanks to the increase in D&B revenue. In long-term, the prospect of CTD will stem from their close relationship with VIC when Vingroup recently has launched their VinCity brand including 300,000 affordable apartments, which has a great potential.

We estimate the 2017 revenue of CTD reach roughly 24,000 bn (+17% YoY), the net income would be 1,600 bn (+18.5% YoY), 2017 EPS ~ 19,727 VND (after subtracting 5% of bonus and welfare fund), P/E forward 2017 ~ 9.2x.

HBC – Tracking - Target price VND 30,000 per share – upside 2.9%

HBC is one of leading firms in construction sector with its scale just behind CTD in civil construction area. In 9M2016, HBC recorded revenue doubled and net profit even increased by 5 times 2015 results thanks to: (1) the revenue from major projects: Saigon Center 3 (223 bn), Saigon South Office (177bn) and the expansion of international station T2 in Tan Son Nhat Airport (281bn); (2) the D&B revenue proportion increased to 15.6% and this helped the GPM of construction rise from 5.5% (2015) to 9.1% and (3) HBC recognized the revenue of 310 bn with high GPM (50%) by real estate leasing in Nhi Thanh Industrial Park.

We notice the risk from receivables account as HBC recognize revenue aggressively so the short-term receivables in 3Q2016 reached 5,871 bn, equivalent to 54% total asset of HBC. We forecast HBC continue to grow but slower with the 2017 backlog of 17,000 bn. The 2017 revenue is estimated to be 13,100 bn (+24.7% YoY), 2017 PAT would reach 350 bn (-20.4% YoY) as the remaining of Nhi Thanh Industrial Park would be completely transferred in 2016. The 2017 EPS = 3,522 VND (after subtracting 5% bonus and welfare fund), P/E 2017 forward =8.27x.

FCN – Buy – Target price VND 23,400 per share, upside 25.1%

FCN is a leading firm in foundation construction and soft ground handling. In 2016, besides the traditional foundation construction, FCN expects to recognize more 100bn revenue from underground work (Ben

Thanh – Suoi Tien) and 400 bn revenue from transportation infrastructure construction. We also notice the dilution risk from convertible bonds: FCN has the value of 460.4bn of convertible bonds, equivalent to nearly 23.6 million shares (about 49.4% diluted), in which, 241.85 bn could be converted in 2017. However, with the 2017 backlog of about 1,000 bn and bright prospects of new business activities (underground, infrastructure construction), we expect the EPS growth could help to mitigate the dilution risk.

We forecast the 2017 revenue of FCN would be around 2,650bn (+17.7% YoY), the PAT would reach 190bn (+21% YoY), equivalent to diluted 2017 EPS = VND 2,831 per share (after subtracting 10% bonus and welfare fund), P/E 2017 forward = 8.27x.

HUT - Buy – Target price VND 14,248 per share – upside 27.2%.

In 2017, HUT plans to recognize the remaining 700bn from Foresa Xuan Phuong and start recording the revenue from Xuan Phuong Residence project (total revenue ~ 1,500bn). The other growth drivers are: (1) new BOT booths will begin to charge fee: BOT QL29 (50bn per year), BOT Quan Toan (300bn per year, begin in 4Q2017) and BOT QL32 (80bn per year, HUT owns 30%), and (2) ETC project begins to extract BOT revenue from booths which has non-stop toll collection technology set up by HUT.

We forecast the 2017 revenue of HUT could reach 3,300 bn (+17.7% YoY), the PAT would be 471.7 bn (+17.9% YoY), equivalent to diluted 2017 EPS = 2,250 VND (after subtracting 5% bonus and welfare fund), 2017 P/E =4.44x, relatively attractive.

CTI – Buy – Target price VND 31,800 per share – upside 26.7%.

CTI is a pioneer in investing and exploiting BOT projects in Dong Nai and other provinces in south east area. The major projects under construction of CTI includes: intersection 319, Ho Chi Minh City – Long Thanh Express Way (700bn) and Tam Hoa social housing project (325bn). CTI also owns three huge quarries in Dong Nai with the remaining reserve value is estimated to be 4,709bn. In the fourth quarter, the QL91B toll booth went into operation and contributed about 22bn into the 4Q revenue.

We forecast CTI continue to grow strongly in 2017 thanks to (1) complete the 319 street project, the intersection between 319 street and Ho Chi Minh City – Long Thanh Express Way and (2) complete the construction materials transportation street in Bien Hoa. We also notice the dilution risk could happen as the company may issue bonds and stocks for existing shareholders to raise 200bn for Tri An lakeside road project.

The 2017 revenue is expected to be 1,397bn (+22.5% YoY), the PAT would reach 140bn (+21.7% YoY), equivalent to 2017 EPS = VND 3,093 (after subtracting 5% bonus and welfare fund), P/E 2017 forward = 8.11x

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
CTD	24,000	1,600	19,727	9.2	2.6	36%	30% cash	182,400	195,000
HBC	13,100	350	3,522	8.27	1.9	23%	15% cash	29,150	
FCN	2,650	190	2,831	6.6	1.1	23.5%	10% cash	18,700	23,400
HUT	3,250	466	2,368	4.72	0.8	19%	12% cash	11,200	14,700
CTI	1,397	140	3,093	8.11	1.5	16%	16% cash	25,100	31,800
CTD	24,000	1,600	19,727	9.2	2.6	36%	30% cash	182,400	195,000

Source: BSC forecast

Non life Insurance 2017 [Outperform]

- Gross written premium grew at 14% yoy, while retail-section slowed down.
- Claim ratio in 2017 will depends on out-of-control factors.
- A few companies will have strategic partner (PGI) or divestment by SCIC (VNR, BMI).
- Interest rate is expected to increase, supporting investment activities.

We increased assessment for insurance industry in 2017 from Market perform to **Outperform**, with the expection of increasing interest rates would help investment returns. Vietnam Insurance Association planned the 2017 growth of non-life insurance sector will be minimum at 14%, equivalent to the current growth rate. Growth prospects come from the overall growth of the economy, along with organic changes of the leading insurers.

- **Motivation from economic growth**: Congress has just finalized the target 6.7% growth of GDP in 2017, higher than 2016 GDP growth, estimated at around 6.3 - 6.5%. Demand for insurance products has closely matched the the growth of the economy, due to **(1)** the recovery of the real estate market boosted up demand for property & casualty products **(2)** the trade agreement will increase the import-export, which promote construction and production, leading to demand for property, fire, and cargo insurance and **(3)** improvement in GDP per capita will enhance the demand for retail-segment, including automobile and health insurance.

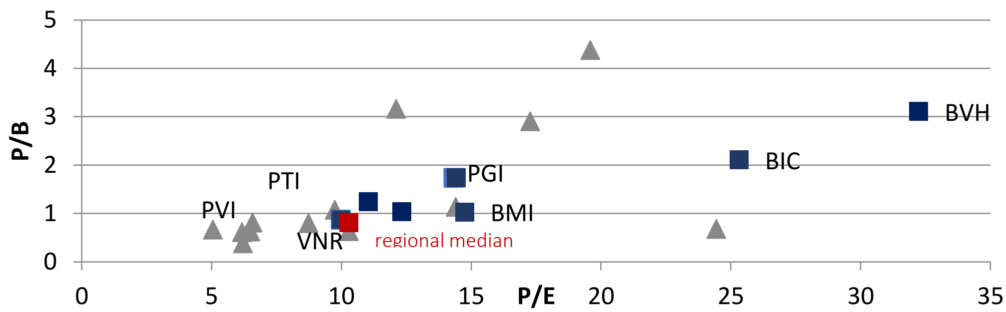
- **Slow down in retail products:** Automobile sales achieved a high growth of 32% yoy for 11M2016 with 243.6 thousands cars, but this figure is significantly lower than last year growth of 56.6%. Besides, after a period of hot growth in the automobile insurance in 2015, leading insurance companies has leaned towards more selective and focused on risk management. We expect this trend to continue among large insurers in 2017.
- **The rate of compensation is difficult to control:** Currently, the insurer has paid out most of the claims related to the violent event in May 2014. Accordingly, the claim ratio in 2017 will depend largely on new factors that are beyond control such as floods, fires.

- **Expectations from SCIC divestments in in BMI and VNR**. The change in ownership structure is expected to bring different orientations for these two businesses, which are leading in the industry with good fundamentals. We also note that the surge in investment returns of BIC and PTI in 2016 will ceased in 2017, and start to reflect the current trend in interest rate level. In contrast, PGI is the final name without an foreign strategic shareholder, and most likely will finalize the deal in early 2017 to reduce ownership of Petrolimex in the company.
- **Increasing interest rate in 2017**: We believe the ROI of insurance firm has bottomed in 2016, when previous investments has maturized and the current ROI has reflected current interest rate level. With Fed hike in 2017, we believe interest rate will be under upward pressure. Interest rate increase will improve investment earnings of insurance businesses, especially those with abnormal growth in capital investment. With an average of 70% of capital investment in deposits for non-life insurers, 1% increase in interest rate could rise pre-tax profit by around 10-13%.

Investment Recommendation – Outperform

In 2017, BSC upgrade our assessment from Market perform to **OUTPERFORM** for insurance stocks. The insurance industry is the only industry that will benefit from interest rates rising, and there will be significant improvement in the business results from this trend.

Vietnam insurance sector is being valued higher than the regional average. Median value of insurance sector's valuation multiples in Vietnam are respectively P/E of 14.4x and P/B of 1.24x, higher than the valuation of insurers in Asia-Pacific emerging countries, which are 10.2x and 0.8x respectively. The 40% premium rate is partly contributed by the higher growth expectations of Vietnam insurance market, which is expected at 17% in 2017, compared to the average growth of 5% in the region. However, we believe that after the period of insurance stock prices increase 2015-2016, valuations already reflect high growth potential as well as the good news of divestments and issued to strategic shareholders in some stocks. We updated a number of stocks as follows:



Source: Bloomberg, BSC Research

PVI - BUY – Target price 30,000 VND/cp

PVI currently has the largest market share in the non-life insurance industry, especially in property damage segment. The support of the PVN is a huge advantage for the company, but has affected PVI regatively in the past 2 years when the operation of PVN companies fell sharply under the pressure of low oil prices. In 2016, PVI reached VND 7,680 billion of consolidated revenue (+ 6.0% yoy) and VND 160 billion pre-tax profit. In which revenue from retail segment increased 21% yoy, offsetting the deline in revenue generated from oil and gas companies.

We expect positive developments in oil price will boost activities of oil and gas companies in 2017, and will indirectly help PVI revenue. In addition, the company has some divestments, that will increase PVI book value, including: divest PVI Sun Life in Q3/2016 and expected to sell PVI Tower in 2017. In 2017, BSC expects PVI will record VND 8,250 billion premium revenue (+ 7.8% yoy) and VND 500 billion of PAT. As of 23/12/2016 PVI is traded at 24,300 VND/share, equivalent to P/E forward of 10.4x and P/B forward of 0.84x, relatively attractive compared to the sector. With book value improved, along with the recovery of oil & gas industry, we recommend to Buy PVI with target price of 30,000 VND / share.

BMI – BUY –Target price 31,800 VND /cp (upside 32%) – Link báo cáo

BMI pursued sustainable development and focused on risk management, but recently grewed strongly at retail segment, which affected claim ratios and underwriting profit of the company. In 2016, BMI has restructured its investment portfolio, by divest inefficient investment, and realized profit on certain long-term investments. The restructuring activities have helped BMI to recognize the investment profit surge in 2016. The company also increase the provision for compensation, which help reduce burden of provisioning in the next year.

BSC forecasts in 2017 the corporation will record VND 3,681 billion in revenue (+9.8% yoy) and VND 150.8 billion in NPAT (-11%). Profits fell mainly due to abnormal investment gains in 2016. Accordingly, the company is expected to yield 1.774 VND of 2017 EPS and BV of 29,100 VND, equivalent to a P/E forward of 13.4 and P/B forward of 0.82x, relatively low compared to the market acceptance of Vietnam. Thus, BSC recommend BUY for BMI with target price of VND 31,800/share.

VNR – BUY –Target price 25,000 (upside 19%) – Link báo cáo

VNR has huge advantage of being the only insurer in the industry dealing business with the rest of the industry. Accordingly, VNR will benefit from the overall growth of non-life insurance sector. VNR pursued sustainable growth-orientation, and has good underwriting growth in 9M2016, with a decline in claim ratio as well as the combined ratio. Besides, we expect the positive changes in business direction after divestment from SCIC next year. In 2017, BSC estimates VNR to achieve VND 1,990.9 billion of reinsurance premium revenue (+ 8.6%) and VND 234 billion (+ 12% yoy). As of Dec 23th 2016, VNR is traded at 21,000 VND/ share, corresponding to a P/E forward = 12.5x and P/B forward of 0.85x, relatively low compared to the current industry.

PGI – Tracking

PGI is the business with the best underwriting results in 9T2016. The sustainable development and risk management focus have helped underwriting profit to increase by 15%. We note that in 2016, PGI has reduced the rate for catastrophe reserve from 3% to 2%, but still higher than the 1% of the remaining businesses. Accordingly, profit retained in the fund in 2016 is approximately VND15 billion (~ 12% of PBT). Besides, PGI has not completed the deal to sell 20% stake to a strategic shareholder in 2016, but delayed to early 2017. We estimate that PGI will have revenue and PAT of VND 2,706 billion (+ 8% yoy), and VND 116.5 billion (+ 21.8 % yoy), corresponding to 2017 EPS and BV of 1,979 and 13.068. PGI is traded at PE forward of 10.9x and P/B of 1.66x, relatively high compared to the industry.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
BMI	3,681	150.8	1,774	13.4	0.82	6.1%	10%	23,900	31,800
PVI	8,250	500	2,247	10.4	0.84	8.0%	20%	24,300	30,000
VNR	1,990.9	234	1,762	12.5	0.85	6.8%	15%	21,900	25,000
PGI	3,278	149	1,862	10.9	1.66	15.2%	10%	21,190	N/A

Source: BSC forecast

IT – Telecommunication 2017 [Outperform]

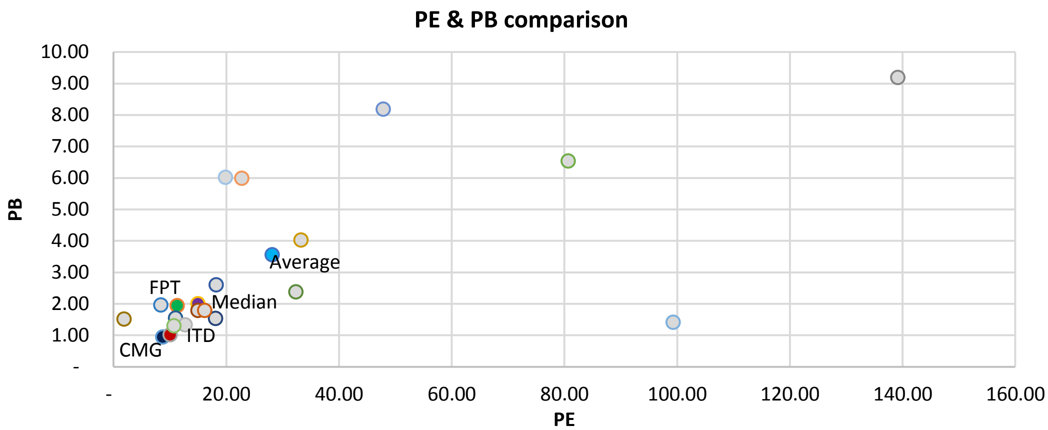
- IT Applications will continue to be promoted in the activities of state agencies and the business sector
- The 4G race in Vietnam has started
- Benefiting from the recovery of the economy
- We note FPT and CMG stocks due to the positive changes in the core business as well as the restructuring process.

We put a positive view on IT - Telecommunications in year 2017 thanks to the following windows:

- **IT Applications will continue to be promoted in state agencies and the business sector:** The Government will continually encourage administrative reforms associated with enhancing IT application and offering online services during 2016 - 2017, taking one step closer to construct Vietnam E-government. The process of implementing this objectives should also consider security issue to avoid a hack attack as in Noi Bai and Tan Son Nhat Airports. Heavily promoting and improving security issue for the government as well as business will generate opportunities for the IT - Telecommunications.
- **The 4G race in Vietnam has started**: The 4G race between in Vietnam started in 2016 when Vinaphone and Viettel introduced to users high-speed 4G sim. This is an inevitable trend as developed countries are turning to 5G. According to our estimates, each operator would need to invest VND 10,000 billion to complete the infrastructure for 4G LTE networks. The race on the expansion of telecommunications bandwidth (maybe 5G in 2020) will create many chances for IT sector.
- **Benefiting from the recovery of the economy:** According to the Ministry of Planning and Investment, Vietnam recorded high of 110,100 new enterprises (+16.2% yoy) with a registered capital of VND 891 billion (+48.1% yoy) in 2016. This is the first time Vietnam has more than 100 thousand new companies within a year. Establishing new firms will accompanied by growth in the field of systems integration and telecommunications service for this customers.

Investment Recommendation – Outperform

With positive reviews about the 2017 prospects, we maintain a bullish assessment to the IT - Telecommunications as in previous reports of BSC. We note FPT and CMG stocks due to the positive changes in the core business as well as the restructuring process.



Source: Bloomberg, BSC Research

FPT Corporation (FPT) – Buy – Target price of VND 56.186/share

- **Expected to increase position on FPT Telecom (FOX):** Listing FPT Telecom on the floor next year is said to be a preparation for SCIC's divestment. As of Nov 2015, FOX accounted 13.84% revenue and 39.18% profit before taxes for FPT. If FPT increases position in FOX, their business results will be improved significantly thanks to the consolidation of FOX.
- **FPT will divest at Distribution & Retail:** FPT is trying to complete this divestment at the end of 2017Q1, which is slower than original time of 2016. In 9T2016, Distribution & Retail contributed 19.7% PBT to the Group, so this divestment will help FPT have more resources to develop core business - IT Telecommunications.

CMC Cor. (CMG) – Buy – Target price of 15.668/share

- **Good earnings growth:** Accumulated revenue and PBT reached, respectively, VND 3125 billion (+21% yoy) and VND 120 billion (+32% yoy) in 9M2016.
- **Telecommunications infrastructure improvement:** CMG began to use The Asia-Pacific Gateway (APG) in late 2016, joining the race to own telecommunications infrastructure to save money instead of leasing. Besides, CMG will implement the North-South backbone with a total investment of $4 million in the near future.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
FPT	32,079	2021.11	4,400	9.7	1.9	20%	10% cash	42,650	56,186
CMG	4,700	170	2,566	5.8	0.9	15%	8% cash	14,950	15,668

Source: BSC Research

BSC

Oil & Gas 2017 [Outperform]

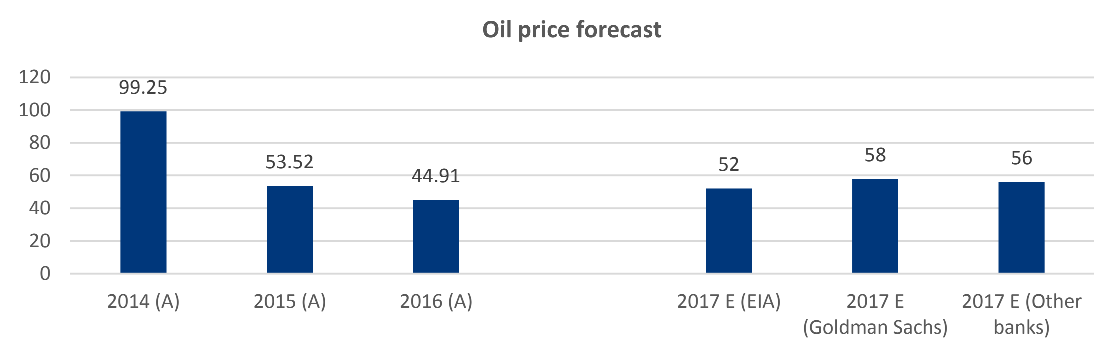
- Oil price is forecasted to recover in 2017, with the average increase expected at 23% yoy
- We upgrade our assessment for Oil & Gas sector to Outperform in 2017: Gas companies will depend on new customer while others is expected to have brighter aspects in 2H2017

On Nov 30th 2016, OPEC agreed to cut production of crude oil, the first time since 2008, of 1.2 million barrels per day, equivalent to 3.5% of OPEC's current production of OPEC. In addition, a few countries outside of OPEC has agreed to cut total of 558,000 barrels/day. Accordingly, the cut is equivalent to about 2% of global output. This agreement came into effect on Jan 1st 2017 and lasted for 6 months.

However, supply side can increase sharply US oil production. With the break-even cost of some regions in USA has only been around $ 30/barrel, the higher oil price level will lead to more and more rigs back to operation, offseting the cuts in OPEC and other countries.

With the decision to cut supply of OPEC and a few other countries, large research institutions concensusly raised their forecast for oil price in 2017.

- Energy Information Administration (EIA) forecasts Brent will average at $52 / barrel for 2017 in the energy outlook, which is $ 1 higher than the previous forecast. The forecast is equal to the current price of Brent, and 15.8% higher than the average prices in 2016. EIA expects oil demand increased only slightly in 2017, but the total output cut of 2% will lead to excess demand in short-term, and rising oil price in 1H2016.
- Goldman Sach increase their oil forecast for 1H2017 from $56.5/barrel to $59/barrel, and will be stable around $58 in 2H2016.
- The survey by Wall Street Journal of major banks leads to median forecast for Brent of $56/barrel in 2017



However, oil price still face long-term problem of imbalance between supply and demand. Supply is expected to rise still higher in the case of recovery of oil prices, while the cost of production of shale oil in the US fell sharply, along with a rise in the number of drilling rigs currently. Accordingly, the long-term forecast for oil prices remain below $ 60 / barrel.

BSC

In 2017, PVN continues to focus on on-shore projects. With forecasted oil price has not yet surpassed the breakeven of some large mines in Vietnam, on-shore projects still will be the focus of PVN in 2017. Highlights include Long Phu thermal project, Song Hau, Long Son refinery, Long Quat expansion, and GPP Ca Mau. These projects bring prospects for construction companies such as PVS, PXS, PXT, PVE. The large mining projects Lot B O Mon and Ca Voi Xanh are still in the negotiation process, and likely has not yet contributed to the business results in 2017.

Rising competition on the domestic market: Nghi Son oil refinery will be officially operated in Mid 2017, significantly alter the balance of export and import of Vietnam crude oil. The total design capacity of the plant is about 10 million tonnes of oil / year, corresponding to about 50% domestic demand. Accordingly, the plentiful supply from the new plant will improve competitiveness in the market. For the Dung Quat oil refinery, the Decision 1725 / QD-TTg effect from Jan 1st 2017 was abolished the regulated collection related to import tax. Therefore, Binh Son Refinery will officially operate under the market mechanism. This is a short-term advantage of the Dung Quat compared to imported gasoline, as well as a good stepping stone to prepare for tariff reduction schedule of 0% under the FTAs.

We expect that government will boost up oil and gas exploration and extraction in 2017. The pressure on the public debt and the state budget, along with the higher level of oil price are the main factors for the expectation of higher oil extraction and exploration in 2017. Therefore, we expect a number of companies related to construction and exploitation will benefit as PVS, PVC.

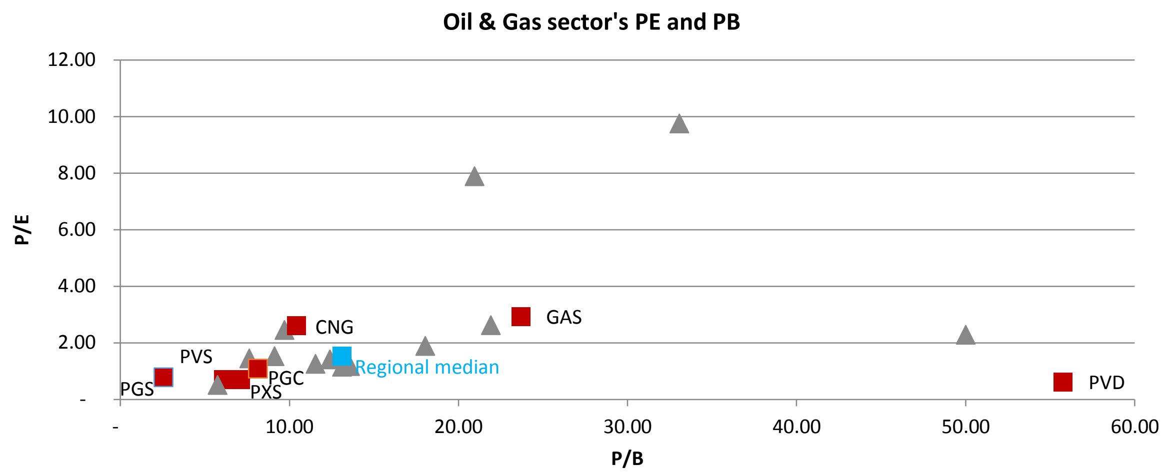
Besides, the stock market will have some big players joining in 2017. 1Q2017, Petrolimex is expected to be listed on UPCOM, with capitalization estimated VND 30,000 billion, and will be among the top 15 stocks with the largest market cap. In addition, the Binh Son Refinery (BSR) will have an IPO in the year, which is likely to attract foreigne investors' attention. These big players being listed will significantly alter the influence of current large stocsk in VN Index, and increase the transparency of information in the industry.

Investment Recommendation – Outperform

We increased the assessment to **OUTPERFORM** for the Oil & Gas industry in 2017. We note that the recovery in oil price will not necessarily reflected on the business results of some construction enterprises in the first half of 2017, since the master plans for the exploration and extraction for 1H2017 does not yield much difference. In contrast, 2H2017 is expected to have more positive developments, along with the expected increase in mining output.

For the gas distribution companies, the increase in oil prices will lead to higher LPG and CNG gas prices, thereby improve sales, although profit margins will remain stable.

Oil & Gas stocks are undervalued compared to regional average. As of Dec 23rd 2016, oil and gas sector stocks are trading at median P/E of 8.3x and median P/B of 0.87, lower than the median of multiple areas respectively 13.11x and 1.54x is. However, there are some stocks in Vietnam are highly overvalued such PVD, GAS.



Source: Bloomberg & BSC Research

GAS – Tracking

In 2017, the prospect for GAS is positive thanks to higher gas price. The corporation currently has around 30% input gas price being fixed, while 100% of the output pegged to FO price. Therefore, improvement in oil prices will lead to higher revenue as well as margins of the corporation. In addition, gas output is expected to increase slightly in 2017, thanks to growth in transport volume of the Nam Con Son 2 pipeline, running trial from late 2015 to May 2016. At the same time in 2016, some pipelines were under major maintainance, which affect the company's output.

Some notable issues in 2017 of GAS: The corporation can record retroactive amount linked by the Decree 12577/BCT-TCNL on shipping charges in Phu My and Nhon Trach gas pipeline. The total amount received of approximately $ 60 million. In addition, the company currently has a decommission prevision must be set up for many years, estimated at total of $100-150 million. The manner and time has not been disclosed, but will greatly affect profit if started to recognize in 2017.

PV GAS plans to record VND 54,751 billion of revenue and VND 7,085 billion of PAT for 2016, with the oil price scenario of $ 60 / barrel. Due to oil prive averaged at lower than planned, we estimate that the corporation will only reach 80% of the planned profit. As at Dec 23rd 2016, GAS is trading at VND 62,000/share, corresponding to the P/E of 23.7x and P/B of 2.8x,relatively high compared to the sector and region.

PVD – Tracking

In 9M2016, the number of rig leased of PVD is averaged at around 2.3 (1.3 rig-up and 1 TAD rig), declining by about 40-50% over the same period last year, with prices plummeted by 40-50%. In November 2016, the contract for TAD rig was not extended and the company currently has only 1-2 rigs under operation.

PVD expects to face more challenges, especially in 2017. Currently rig supply in the region is still 2 times higher than the demand, causing downward pressure on unit prices in the bidding. The rig operation depends on oil prices, while the contractor will only return if oil prices remained above \$ 65 for a period long enough (about 6 months). Oil prices are currently positive developments, which yield prospects for PVD, but we note that the planned exploration and drilling often have to be planned six months before implementation, and plans for 1H2017 did not yield much difference. However, 2H2017 could yield better prospects with our expectation of increasing exploitation and extraction.

The company expects in 2017 rental prices will continue to decrease. In 2016, the company targets VND 5,100 billion of revenues and VND 110 billion of PAT, equivalent to 2016 EPS of 287 VND / share. As of Dec 23rd 2016, PVD is trading at a price of 21,350, corresponding P/E = 74x.

PVS – Tracking

The core business of PVS is expected to have more difficulties in the 1H2017. The construction engineering segment, contributed more than 50% of revenue and profits, is currently just working on on-shore projects such as Long Phu thermal, Phu My fertilizer and DPP Ca Mau, Nhon Trach Power. These projects have a lower profit margin than off shore projects and has caused downward pressure on margins. However, we note that PVS could have some major construction contract for the Long Son project in 2H2017.

2016 profit was estimated at VND 1,000 -1,050 billion, down 28% yoy, and higher than the targted VND 960 billion plan. The profit corresponds to 2016 EPS of VND 2,230/share and P/E forward of 8.75x. The company said 2017 is expected to be in the bottom, before have better prospect in 2018 with expectations from Lo B O Mon and Ca Voi Xanh projects.

PGS- BUY-Target price: 19,000 đồng/cổ phiếu (+15.2%)

In 2016, the company expects to record VND 4,500 billion in revenues (+ 13% yoy) and VND 420 billion in PBT (+3x). Excluding CNG divestment, net profit from operations of the company is estimated at 110 billion. LPG consumption volume is estimated at 240 thousand tons (+ 2.1% yoy) and CNG consumption is at around 102 million tonnes (+ 15%). For 2017, the production of CNG can have relatively good growth thanks to 2 major clients Samsung and Nam Kim Steel, which are estimated to contribute 18% growth. LPG selling price in 2017 is expected to improve along with the oil price, but the profit margin stabilizes since both output and input prices are pegged to FO price.

As of Dec 23rd, PGS is trading at VND 15,700/ share, equivalent to P/E trailing of 7.9x. (BSC estimates, excluding abnormal profit from divestment from CNG Vietnam)

CNG – BUY- Target price: VND 45,200 /share (+9.6%)

CNG maintains stability in profits thanks to the mechanism that anchors output and input prices to fuel oil. In 2016, we expects CNG to exceed profit target due to the higher sales volume thanks to higher consumption in Construction Company (the major client segment contributed more than 70% of the VND consumption). CNG has positive outlook for 2017 thanks to the contribution from large customers - Vigracera, corresponding growth of about 20%. As of 23/12/2016, CNG is trading at VND 40.300/share, equivalent to P/E trailing of 9.2x and P/B of 2.8x.

In 2017, we forecast CNG will record VND 1,050 billion of sales (+ 15.3% yoy) and VND 140 billion of PAT (+ 13.8% yoy), corresponding to 2017 EPS of 5,250.

PXS- Tracking

Expected revenue and profit recognized in 2016 of PXS are respectively VND 1,550 billion (-11% yoy) and VND 110 billion (-22% yoy). The major projects are under downward pressure on unit price. Pre-tax profit margin of the company to maintain at around 10%. Cash flow is maintained relatively well. 2016 dividend rate is 13% in cash.

Revenue target for 2017 at around VND 1,216 billion (-21.5% yoy), with major projects including Ministry of Defence (VND 700 billion), Song Hau Thermal Power (VND 320 billion). A number of major projects such as Long Son project, Kình Ngư Trắng, and NPK Ca Mau are expected to start contributing to the business in 2018. We recommend to track stocks with the expectation Long Son project to be launched in Q1/2017 and will contribute to PXS business from 2018. Accordingly, PXS may attract attention from investors from 2H2017. As of Dec 23rd 2016, the stock is trading at 9.500 VND/share, corresponding to PE forward of 7.2x and P/B of 0.7x.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
PGS	5,175	107.5	2,150	7.3	0.77	10.5%	31% cash	15,700	19,000
CNG	1,050	140	5,250	7.9	0.85	9.8%	30% cash	41,450	45,000
PXS	1216	79.1	1,318	7.2x	0.7	9.6%	13% cash	9,500	N.A

Source: BSC Research

Seaport 2017 [Outperform]

- Business results in 2017 are expected to increase on Year on Year basis.
- The upsize trend to save operating costs of global shipping lines benefit ports with deep channel.
- Warehouse demand to be increase in 2017.
- Improvement of infrastructure boost cargo traffic through the porst and enhance the operational efficiency of warehouse systems

Growth will be back in 2017. In 2016, the business results of the port business decreased compared over the same period in 2015 mostly due to reefer volume. When these factors are removed, the business results of 2017 compared to the same period in 2016 will be better thanks to the port cargo throughput forecast to continue thanks to open market through FTAs signed and put into effect and FDI continue to invest in Vietnam.

Ports with deep channel wil be benefited from upsize trend of global fleet. In 2016, apart from the Hanjin bankrupcy, shipping lines performed M&A or participated in marine alliance namely merger of two of China's largest shipping company is COSCO and China Shipping, CMA CGM acquired APL-and merger Hapag-Lloyd shipping company UASC. At the same time, the shipping firms also increase the use of large tonnage ships to optimize carrying capacity and reduce costs. Therefore, we believe that in 2017, import and export cargo source of small ports will face shortage and forced to seek demand domestically. In contrast, the larger ports which located in favorable locations can benefit from this trend

The demand for storage continues to increase due to: (1) FMCG sector forecasts continued growth of about 5% in 2017. (2) Growth in e-commerce. Market research firm eMarketer forecast sales of retail e-commerce in Vietnam in 2017 reached about 2.08 billion, growth of 20% per year. (3) the improvement of infrastructure connecting Cai Mep with inner city, Bien Hoa benefited warehouse in the region. Cai Mep-Thi Vai is the only seaport complex which is able to handle mother ships to be directly transported to Europe, America. Weekly, there are 20 mother vessels with capacity of 80.000 dwt, in which 2 vessel with capacity of 160.000 dwt. Direct exports via sea ports in Ba Ria - Vung Tau in the last 5 years average growth of about 16% / year, in which container cargo increased by 17% per year.

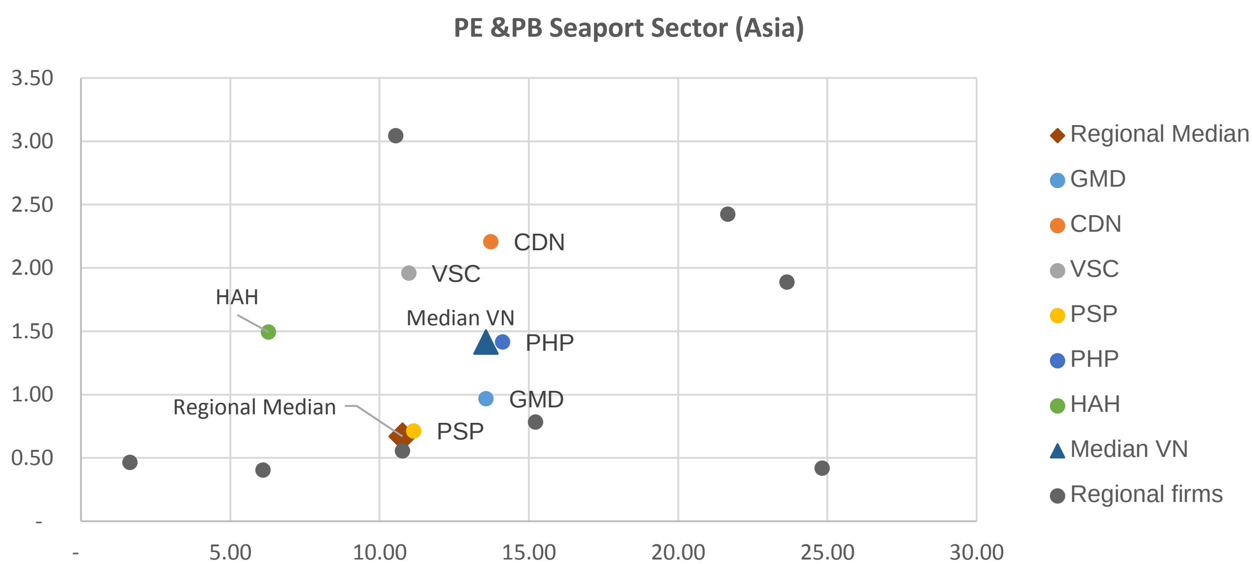
Bach Dang-Hai Phong bridge will be completed end of 2017, slower than forecast by nearly 6 months. According to the assessment, the project currently only completed 50% of the total volume of items. MOT allows entire progress of the bidding package's path and needs to be completed interchanges before 30/04/2017, not later than 12.31.2017 for main Bach Dang bridge. Besides, Lach Huyen Tan Vu bridge will be completed in May 5/2017.

Improved transport infrastructure connections. (1) Renovation of the railway line Hanoi-Lao Cai-Hai Phong to 1,435m in order to connect with the Chinese railways. The project is being pre-feasibility study, including the Yen Vien - Lao Cai funded by ADB and France have completed Phase 1 of about 176km road. (2) Quan Chanh Bo canal will help the shipping their goods to the port of Cai Mep-Thi Vai, instead of conventional Cat Lai port, or more easily with a much lower cost. Quan Chanh Bo canal allows ships with a tonnage of

20,000 Dwt deep into the Hau River. The project is divided into two phases, Phase 1 was completed in May 4/2016, Phase 2 will be completed by the end of 2017

Investment Recommendation – Outperform

We continue to recommend **OUTPERFORM** with seaport sector. We suppose that in 2017, thanks to the port cargo throughput forecast to continue to rise along with the trend to open up the economy, export growth and FDI. The project to improve transport infrastructure connections will improve the pace of movement of goods through the port and help bridge warehousing systems, DCs operate more efficiently. When it comes to stock recommendations, we recommend BUY with VSC, GMD, CDN and HOLD with PSP, PHP and HAH.



Source: Bloomberg, BSC

- **GMD- BUY- target price 30.500 dong/share.**

During the last year, along with the negative movements of the market, GMD fell to quite attractive level. In 2017, we believe that there is much potential GMD growth: (1) No later than the end of Q2, GMD will sell the remaining 15% in buildings of GMD Tower and record profits of 100 billion. (2) Mekong logistics center went into operation in April 11/2016 with 1/9 capacity and forecast to complete the end of quarter 1/2017. Minh Phu Seafood will ensure a capacity of about 50% of the project (capacity of 50,000 pallets / year). Thanks to the Quan Chanh Bo canal, we believe that this cold storage GMD will be one of the growth engines in 2017(3) around the end of 2017, GMD will perform tapping rubber trees. (4) In late 2016, GMD announced investment projects Nam Hai ports. We found no sufficient basis to make sure to evaluate the potential of this project and will be updated regularly to investors. However, if this project goes into operation this will be the engine of growth in the long term of GMD.

- **VSC- BUY-Target price VND 75,500 /share.**

The second berth had been put into production in Now 2016 even though customers handling in the port remained stable of 3 including Evergreen, Cosco and OOCL with around 6 ships per week. In 9M2016, cargo through out Vip green of 240.000 TEUs, green port of 250.000 TEUs (designed capacity of this port was 350.000 TEUs). Compared to the same period of 2015, the business results of the VSC decrease due to factors: (1) reefer significantly lower compared to 2015. (2) Depreciation and great interest for the new port whereas this port is not operating with a capacity as expected. Thus, the stock price fell to quite attractive level relatively to potential growth. We suppose that in 2017, the results of the VSC will rise sharply over the same period in 2016 thanks to the new port VIP-Green Port full operational capacity and prime location of this port on the Dinh Vu peninsula.

- **CDN- BUY- Target price VND 33,500 /share**

CDN is the largest deep-water port in the central area, manage Tien Sa port and hande container and bulk cargo. Currently Tien Sa port has been operating above designed capacity, so the growth potential depends on project Tien Sa 2, with the ability to exploit 70,000 dwt tonnage ships. The project is scheduled for completion in May 7-2018. We note some points with CDN: (1) the proportion of state ownership (Vinalines) currently still high 75%. (2) CDN's growth potential can only be realized from the middle of 2018.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
GMD	4,354	579	2,774	9.51	0.93	11%	Cash:20%	26,400	30,500
PHP	2,529	504	1,432	12.08	1.65	11%	Cash:3%	17,300	22,980
VSC	1,402	312	6,412	7.98	1.76	20%	Cash:10%	51,200	75,500
HAH	548	88	3,498	10.95	0.96	16%	Cash: 30%	38,300	47,419
CDN	640	147	1,634	15.12	1.98	16%	Cash: 10%	24,700	33,500

Source: BSC Research

Electricity 2017 [Outperform]

- The South may incur electricity shortage of 228 mil kWh in 2017.
- Hydropower is forecasted to grow strongly in 2017 thanks to high probability of La Nina, over 60%
- Environmental fees increase to 36 dong/kWh, affected hydropower firms.
- Increase the proportion of thermal in total electricity output, leading to higher demand of imported coal, appox 4 mil ton in 2017,
- Gas input price might increase in 2017.
- Exchange rates remain to play important role in EAT of thermal firms (coal and gas).

Power supply may face shortage in the southern region. According to the Ministry of Industry and Trade, the South may incur 228 mil kWh shortage (0.21% of total demand in the South) and 2.7 billion kWh in 2018. This situation occurs all the months of the year, especially in Mar, April and May. To 2019, the figure was 1.1 billion kWh shortfall. We believe that electricity business in the region such as NT2, BTP, SHP will benefit from this trend, increasing the power output mobilization, especially after mine Nam Con Son finished peorid repair (5 years) to help ensure the supply of input materials for the thermal power plants in the region.

Hydropower resources can recover strongly in 2017. In 2015 and the first half of 2016, weather phenomenon of El Nino has a negative impact on the water inflow of hydropower enterprises in Central and South. This phenomenon has decreased in late 2016. So by 2017, hydropower enterprises from the Central to the South (CHP, SBA, SHP, VSH, SJD) is forecasted to increase power generation capacity. This will also make the average price on competitive electricity market in 2017 VCGM reduced.

APEC La Nina forecast

Month	La Nina	Neutral	El Nino
Dec-16	63%	37%	0%
Jan-17	53%	47%	0%
Feb-17	42%	57%	1%
Mar-17	27%	71%	2%
Apr-17	16%	80%	4%
May-17	13%	77%	10%
Jun-17	16%	60%	24%
Jul-17	18%	52%	30%
Aug-17	20%	48%	32%

Source: International Research Institute for Climate and Society reported on 17/11/2016

Environmental Tax increase by 80% to 36 dong / kWh, effective from 01.01.2017. According to Decree 147/2016, issued by the Government recently, the level of payment for forest environmental services for hydropower production facilities increased from 20 dong / kwh to 36 dong / kwh. The amount must be paid within the payment period is determined by the power output of maturity (kWh) multiplied by the payment rate per 1kWh (36 dong / kWh). Investors note, lease forest environment will be included in the price of electricity sold to EVN and cost of sales of businesses, so there is no major impact to gross profit. However, this may increase the average purchase price of the EVN power.

Proportion of thermal coal is forecast to increase to nearly 50% by 2020. Under the scheme developed thermal coal VII (adjusted), in parallel with the development of clean energy, to ensure energy security in the country, coal-fired thermal power can be increased to 49.3% in 2020, 55% and 53.2% 2025 2030.

	2015	2020	2025	2030
Number of plant	19	31	47	52
Capacity MW	13,157	25,787	45,152	55,252
Proportion of thermal	33.40%	42.70%	49.30%	42.60%
Electricity output (mil kWh)	56,400	130,932	220,165	304,478
Proportion in total output	34.30%	49.30%	55%	53.20%

Source: MOI

Coal imports will increase rapidly, impact on cost of sales of thermal power enterprises. According to the Ministry of Industry and Trade, in 2017 it is expected to import around 4 million tonnes of coal for electricity production and will gradually increase to about 70 million tonnes in 2030. Goldman Sachs forecasts world coal prices in 2017 may up 64% up 135 dollars / ton. Although the price is calculated on the price of coal sold to EVN PPA contracts, combined with the recovery of the hydropower output from thermal power mobilization may be affected.

The price of the raw material of gas turbine plants and thermal oil can increase compared to 2016. Many organizations such as World Bank, IMF, the EIA predicted oil prices will recover in 2017, negatively impact on the business of gas thermal power industry.

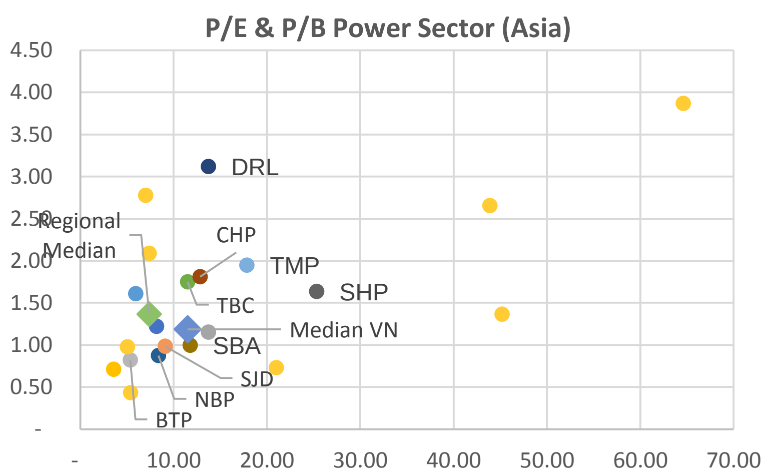
Exchange rate remains big unknown for thermal enterprises. As of the current moment, the exchange rate EUR / VND and JPY / VND quite positive. However, the forecasting exchange rate is risky, we recommend investors to closely monitor exchange rate fluctuation and investt strategies accordingly.

	Debt outstanding as on 30/6/2016	% change 1/1-30/6/2016	FOREX 1H2016-bil
PPC	JPY 22,280,907,301	16.070%	677
	USD 112.124.152 và	USD: -0.089%,	
NT2	EUR 101.648.905	EUR: -0.9%	15
BTP	KRW 28.737.470.820	3.95%	46

Source: Companies' reports

Investment Recommendation – Outperform

We maintain a positive assessment to the electricity sector. We identified the power sector is quite defensive (main business activity is stable, dividend payout ratio high) so can be quite safe destination of the cash flow. For hydropower enterprises, thanks to changes in hydrological forecasting more favorable in 2017, the production and sale of electricity to EVN forecast to grow strongly over the same period. With thermal power enterprises, due to raw material price forecasted to increase in 2017, revenue may be improved compared to 2016. The enterprises in the Southern region is forecast to increase electricity output by mines Nam Con Son complete routine repairs and now this area still has major load. However due to the large foreign currency debt (USD, EUR, JPY, KRW) exchange rate movements have a huge impact on the profitability of this business.



Source: Bloomberg, BSC.

Despite high growth rates, nearly 2 times the GDP of the economy, Vietnam's power sector in general is still lower valuation relative to the sector average. Therefore, we think, businesses in this sector are still projected high growth in 2017.

- **NT2- BUY- Target price 36,807 dong/share**

From May 8/2015, gas price is determined by the market, the average price fell by about 17% making electricity sales fell even though the power output increased by nearly 1% yoy to 4.02 billion kWh. Additionally due to the Nam Con Son gas field repaired in 2016, NT2 has actively reduced output and run diesel oil in the quarter 3/2016. By December 11/2016, NT2 completed 92.8% of 2016 plan, producing 4.8 million kWh, sales of 5,559 billion. NT2 estimated in 2016 total eclectricity produced reached 5266 billion kWh, planned to increase to 5.5 billion kWh in 2017 (much higher than our previous forecast of 3.5 billion kWh). In June and Jul 2017, NT2 will repair 2 turbine forecasted last about one month for each turbine. Based on the production plan in 2017, with gas prices and gas prices 11/2016 months, we forecast that in 2017, NT2 will recorded REV 7,299 billion (+ 20% yoy), profit after tax reach 1,082 billion (-6% yoy) due no longer benefit from the exchange rate difference as in 2016, 2017 EPS = 3,756 VND / share.

In the long term, NT2 is on pre-feasibility study (FS) phase for Nhon Trach 2 plant expansion, expected to add 2 plants combined cycle gas turbines with total capacity of 1,800MW of which Phase 1 is 1 cycle gas turbine plant with a capacity of 850MW mixture, 100MW larger than the current plant capacity. The plant will use gas and LNG imports are expected to go into operation in 2021

- **PPC- Tracking.**

JPY / VND increased strongly in 9T2016, PPA contracts to PL1 unsigned in 1H2016 caused temporary price at the plant was much lower than the price in the PPA previously. In May 5/2016, PPC has signed PPAs for Pha Lai plant 1 with a fixed price of 261 dong / kWh, lower than the price of 10 contracts previously. The output is 595 million kWh signed in the last 6 months of 2016. In addition, PPC is applying retroactive component output Qc of PL1 om 5T2016, estimated at 230-250 billion. We believe that in 2017, the main business activities of the PPC will be more stable than in 2016 because the contract was signed Qc. PPC's biggest risk is the exchange rate JPY / VND in the coming time. PPC currently has JPY debt outstanding of about JPY 22 billion, so 1% change in exchange rate can make PPC recorded about 48 billion hole.

- **VSH- BUY- TP 17,700 dong/share.**

In 2015 and 9M2016, the main business activity is strongly influenced by El Nino, the amount of water in the region is only about 40-60% the average of many years. Thanks to yearly regulatory reservoirs, large rainfall in quarter 4/2016 will be reserved enough to ensure activities in the first 2 quarters of 2017. In addition, the La Nina which is forecasted with high probability will occur in 2017 will help business results improv significantl. Until the present time, the suitcase with Chinese contractor has not issued results yet. However, we note investors that in the worst cases VSH lost, expenses related to the lawsuit will be counted in the total investment of the project Upper Kontum and is used to calculate the price of electricity in contracts PPA with EVN.

In 2017, we expect VSH record revenue of 643 billion (+ 9% yoy), Net income reach 386 billion, EPS 2017= 1,875, EV / EBITDA (excluding the value of uncompleted assets Upper Kontum project) by 6x, and quite attractive compared with the industry average at 8.4 x.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
NT2	7,299	1,082	3,756	7.32	1.62	23%	22% cash, 7% stock	27,500	36,400
PPC	6,567	600	1,712	9.93	1.19	10.6%	12% cash	17,000	N/A
SJD	468	225	4,531	5.52	1.01	17%	25% cash	25,000	30,940
CHP	667	298	2,366	8.66	1.78	22%	9% cash, 5% stock	20,500	23,200
VSH	643	386	1,875	8.32	1.16	12%		15,600	17,700

Source: BSC Research

Steel 2017 [Outperform]

- Steel price will fluctuate stably
- Domestic steel consumption is expected to enjoy a boost thanks to increasing investments in infrastructure and industrial sector.
- Protectionism policy continues to be effective

2017 steel industry is generally positive thanks to (1) favorable China steel consumption, although investment in real estate property is forecasted to decrease slightly in 2017, infrastructures investments activities and industrial machinery production are stable, (2) The growth rate of iron ore supply slows down because of capital investments and other difficulties in operation, (3) Speculative capital continuing to flow into the commodity market (iron ore) is a motivation for the increase of iron ore price.

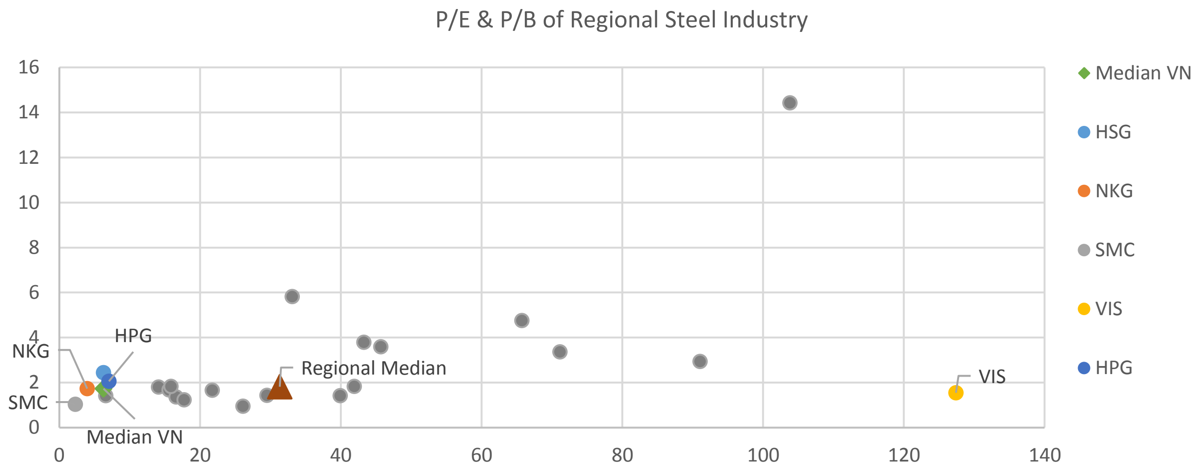
2017 steel price is forecasted to fluctuate stably. According to a report by Goldman Sachs, in the first half of 2017, demand and supply of the steel industry is quite balance, the price will fluctuate above 60 USD/ton; however in the second half of 2017, the supply source is expected to increase rapidly due to two countries, Australia and Brazil, continue to stimulate exporting, and that in turn, makes the price go down to 55 USD/ton. This forecast is the same as the mean forecasted price of many independent research organizations according to Bloomberg aggregate report

Domestic steel consumption rate continues to grow well. According to Vietnam Steel Association, the steel industry is expected to increase at a rate of 10 – 12% in 2017, noticeably in the period of 2016 – 2017, 10 steel projects are being implemented in execution that contribute to the industry growth rate. For the steel industry, the main driving force is originated from Constructions industry. In 2017, industrial construction segment will have high growing potential thanks to increasing trend of FDI capitals flowing into Vietnam; besides, infrastructure construction industry outlook is positive thanks to the fact that constructions facilitation and infrastructures finalization (the main attraction for the investment capital and economic development). However, BSC also notes the growing of civil construction market that is likely to slow down in the second half of the year due to 06 circular (construction industry has a 3 – 6 month lag compared to real estate industry).

Government protectionism policy continues to be effective. In 2016, Ministry of Industry and Trade officially promulgate 2968/QĐ-BCT, which applied safeguard measures regarding to bar billet and construction steel. The additional importing taxation rate in 2017 is 21.3% - 23.3% for billet and 13.9 – 15.4% for construction steel. Besides, with galvanized steel, 3584/QĐ-BCT temporary antidumping decision will be expired on 13/01/2017, the official decree will be implemented after that, each producer will be taxes at different rate, and the highest tax rate is at 38.34%. With color coated galvanized steel, the tax-defense measures will be implemented on 3/2017.

Investment Recommendation – Outperform

BSC gives an **OUTPERFORM** recommendation for the Steel industry in the first half of 2017 thanks to benefits from tax-defense information, the trend of iron ore price is difficult to decrease sharply and the infrastructure construction market, domestic industrial construction are growing well. However, because the situation is difficult to predict, we hold a Neutral perspective for the second half of 2017 due to the risk of the ore price adjusting down when large exporting iron ore countries such as Australia and Brazil stimulates supplies for exporting, Chinese real estate market may not growth as much as it was in 2016 and Vietnam civil construction market may be shrunk due to the effect of 06 circular. We hold a Medium and Long term recommendation for HPG, HSG and NKG.



HPG – BUY – Target Price VND 53,866/share

Updating Consumption Quantity. Construction steel consumption quantity on 11/2016 reached 1.58 millions ton (+24.85%yoy), continued holding the 1st position with 21.8% market share. Steel pipe consumption on 11/2016 was 432,500 tons (+45.77%yoy) that enforce the number one position with 25.58% market share. Thus, we think that construction steel consumption of HPG can be 1.7 million ton, which passes the initial planning of 1.6 million ton in 2016. (The construction steel design capacity of HPG is more than 1.9 million tons).

Beside main product lines such as construction steel and steel pipe, HPG also offer wire steel (providing approximately 30,000 ton on 11,12/2016) and welding wire; currently, these products are only accounted for a small proportion of the steel business revenue and profit.

Advantage from cheap material price in Q1/2017. HPG inventory policy is storing iron ore from 4 to 6 month, depending on the increase rate of ore price, it can be adjusted down to 3 month to control the situation, and thus, the materials for Q1/2017 is prepared, the buying price was only at 55 – 60 USD/ton; the cost of goods will depend on the mixture of different ore shipments. We think that the potential for Q4/2016 and Q1/2017 of HPG are very positive thanks to the ore price development. The steel selling price is adjusted up on December; currently, the price is 10.6 – 10.7 million VND/construction steel ton.

BSC

HPG is proposing to Ministry of Trade and Industry a steel project in Quang Ngai. The project includes 2 periods, from 2017 to 2019, produces 2 million tons of construction steel including 1 million ton of normal construction steel and 1 million ton of high quality steel. The second period, from 2020 to 2022, will increase the production capacity to 2 million tons of HRC. The expected investment capital is VND 60,000 billion; period 1 is over VND 30,000 billion (fixed capital accounted for 2/3, working capital takes 1/3).

Sale Progress at Mandarin 2. Currently, the company has sold 60% of total apartments which is 640 units, sale price varied from VND 2 to 3 billion/unit. Late 2017, HPG is expected to complete the transfer of 20% of the total apartments.

Cattle Food Projects Progress. Currently, factories in Hung Yen is in operation (300,000 tons output), Đồng Nai factory (300,000 ton output) will start producing in the beginning of 2017. The two projects expected to be executed in Phú Thọ and Mekong Delta have not been implemented.

HSG – BUY – Target Price VND 66,386/share

Updated Business Result: Total consumption quality of financial year 2015 – 2016 reached 1.32 million ton (+22%yoy), among it, the finished products are 1.24 million ton (+22%yoy). 2015 – 2016 revenue is 17.894 billion VND (+2%yoy), and profit after tax is 1,504 billion VND (+130%yoy).

In the financial year 2016 – 2017, HSG set a production target of 1.58 million ton (+20%yoy), among it, the finished products are 1.49 million ton (+20%yoy), the revenue will be 23,000 billion VND (+29%yoy) and profit-after-tax is 1,650 billion VND (+10%yoy). We think that this is a careful business plan, especially, from May 2017, HSG will implement cold rolled production line that has an output of 400,000 ton/year (currently cold rolled steel output is 980,000 ton/year) and that in turn, improves HSG gross profit margin, at the same time, the plan is built based on the price at 400 USD/ton which is a careful rate.

Large projects that are being implemented: HSG is finalizing Cà Ná steel project in order to submit to the Ministry of Industry and Trade for approval. Other real estate projects are Hoa Sen Yên Bái and Hoa Sen Quy Nhơn that will be disbursed with small capital to execute, but HSG still prioritizes steel products.

Dividends 2016 – 2017: the execution rate is 85%, including maximum cash dividend of 10% and maximum rate of issuance to shareholders is 75% (composed of issuing dividends by shares – 55% as maximum rate and share issuance to increase chartered capital from share premium – 20% as maximum rate)

NKG – BUY – Target Price VND 47,680/share

Updated Production Capacity: Cold rolling line with an output of 450,000 ton/year (current output is 400,000 ton/year) is forecasted to finalize and start producing since February 2017 (after lunar new year), that help NKG decrease the rate of renting product enforcement and buying from other companies, increases gross profit margin.

The production capacity of NKG includes CRC of 850,000 ton/year, zinc galvanized of 270,000 ton/year, and Al-Zn galvanized of 570,000 ton/year; the cold rolling mild almost satisfies all production requirements. Other production lines are color coated of 290,000 ton/year and steel pipe of 120,000 ton/year.

About Inventory: The current production demands of NKG are approximately 50 thousand HRC ton /month, the corporation is stocking 3 month-product as inventories, which are 150 thousand tons of HRC. The remaining 50,000 tons in the inventories are finished products.

About exports: Because the U.S. market is conducting antidumping taxation investigation, NKG currently has no transactions with its U.S. business partners; from February 2017 to March 2017, NKG is expected to export its products to the USA, guarantees of importing materials from India, Russia in order to produce exporting goods to the U.S. The Chinese HRC price is 550 USD/ ton, HRC price from India is approximately 530 USD/ton, the quality is better than that of Chinese products. Indonesia is currently the main exporting market that accounts for 50% of the exporting product.

Ticker	Rev 2017	PAT 2017	EPS 2017	P/E fw	P/B	ROE 2017	Dividend 2016	Price of 23/12/2016	Target Price
HPG	32,701	6,083	7,213	5.95	1.48	24.63%	N/A	42,950	53,866
HSG	22,367	1,919	9,763	5.25	1.72	32.79%	85%	51,300	66,386
NKG	12,093	711	10,768	3.26	1.19	36.64%	N/A	35,100	47,680

Source: BSC forecasts

Fertilizer 2017 [Outperform]

- World fertilizer prices are expected to rise slightly in 2017, up 5% and 4% for DAP and Urea.
- The demand for fertilizer could increase thanks to less harsh weather
- Increasing supply from both imported and domestic output
- Input prices are forecast to rise faster than output prices
- Expectations concerning VAT changes

Global fertilizer prices are forecast to rise slightly: According to the World Bank, global fertilizer prices will increase slightly in 2017, with an increase of 5% for DAP, and 4% for Urea.

Vietnam fertilizer demand may grow as weather will be less severe this year: According to the Center for Hydrometeorology Forecast Central, Mekong Delta region for 2016-2017 dry season flow shortfall will be compared with an average of 15-30% for many years. Drought and salinization may start early and last long but in a less severe degree than the 2015-2016 dry season. Along with that, 1Q2017 will experience 1 cencus degree higher temperature than average, though lower than in 2016, which will support phosphate consumption in winter-spring crop in Northern region.Therefore, the demand for fertilizer consumption is expected to improve compared to last year.

On Dec 19th 2016, Prime Minister has approved the credit package of VND 50-60 trillion to support the development of high-tech agriculture. The aim to support agriculture could boost up the production and indirectly help fertilizer sector.

Increased supply of fertilizer:

- **On 23/12/2016, China announced the fertilizer export tax rebates, the tax will not apply to exported urea, DAP and TSP**. For NPK, export tax declined from 30% to 20%. The export tax rebate will have significantly impact on the supply and price level of the domestic market, while China is now the key markets of Vietnam, with the volume of imports from these countries accounted for 46% import fertilizer after 10 months.
- **Fertilizer import duty reduced for countries in trade agreements Vietnam - Economic Union Eurasian (EAEU).** Accordingly, with effect from 03.10.2016, import tax of the countries of the alliance will be reduced from 5% to 0% for DAP, and from 6% to 4.9% from 03/10/2016 and about 4.4% from 2017. Among the countries of the alliance, Russia and Belarus are two major fertilizer exporters, 2nd and 3rd to Vietnam, together contributed 16% of total production of fertilizers. Kali alone and NPK products, the proportion of imports from the region is estimated at 20% in 2016, which will have a significant impact on the supply of this commodity.
- **Gross domestic design capacity has increased dramatically in all fertilizers from 2015**, while production has not increased in 2016.

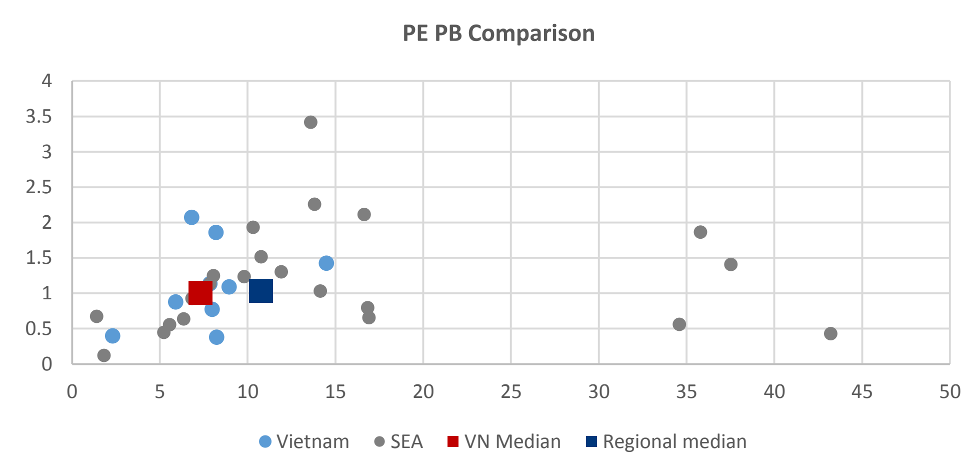
Input prices are forecast to increase. Fuel oil prices are forecast to increase by 20% in 2017, which is a direct impact on the profitability of enterprises producing nitrogenous fertilizer from gas, and coal prices are also expected to increase slightly by 3%. For enterprises producing nitrogenous and phosphate, prices are expected to stabilize at current levels.

Expectations related to VAT issues: from 1/1/2015, the fertilizers were not subject to VAT instead of 5% VAT rate as before. The tax exemption has caused difficulties for enterprises producing and selling fertilizers because of non-deductible input VAT on the cost of electricity, coal, additives, enclosure, cost management, sales ... In Q4 / 2016, the Vietnam fertilizer association and the Ministry of Industry and trade have proposed to the government to move the fertilizer from the VAT exemption to under tax rate of 0%. If approved, the tax is deducted by approximately 100 billion and 300 billion for DPM and LAS.

USD / VND increased help raise the competitiveness of domestic products: the Fed to raise interest rates and the recovery of the US economy caused the US dollar rose sharply and the USD / VND is expected to increase in 2017. This makes the selling price of the domestic more attractive than the imported fertilizers.

Investment Recommendation – Outperform

We upgrade our assessment to **OUTPERFORM** on the fertilizer sector stocks. As stated above, the fertilizer industry can continue to face difficulties due to tense competitive, reduced price. The highlight is the fertilizer consumption is expected to rise thanks to less harsh weather than 2016. The fertilizer industry is expected to have more difficulty when gas prices will increase under oil prices movement, while the phosphate production enterprises can maintain stable profit margin. The domestic fertilizer firms are currently traded at median P / E and P / B of 7.33x and 1.0x respectively, relatively attractive compared to the fertilizer firms in the Asia-Pacific Ocean at 10.8x and 1.03x, respectively.



Source: Bloomberg & BSC Research

LAS - Buy – Target price VND 14,000 - Upside 13.8%

LAS is now the dominant market share in the northern region, estimated at 80%. The company currently has four NPK production lines with total capacity of 800,000 tonnes / year, and two phosphate fertilizer production lines with a total capacity of 700,000 tonnes / year, and 01 FMP production line capacity of 300,000 tonnes / year. LAS factories almost completed depreciation costs. The strength of the firm is that it has built its reputation and brand in the North thanks to a long history of activity.

2017 business activities of LAS suffer from competitive pressure from the Chinese fertilizer, and the new factory as Binh Dien (200 thousand tons / year) and Duc Giang, Lao Cai (160 thousand tons / year), increasing the total capacity of the northern market to 70%.

However, we expect an improvement in business results through sales volume is expected to grow again in 2016 after adverse weather. Cold weather in the northern region will raise demand for phosphate fertilizers for the winter-spring crop. At the same time, although the competition is expected to rise in the long term, we expect growth in sales in 2017 based on a longtime brand in the region. We expect LAS to record approximately 4,800 billion in revenues (+ 11%) and 178.1 billion in EAT, equivalent to EPS in 2017 at around 1.579 VND / share. As of 12.23.2016, the stock is traded at 12.300 VND, equivalent to P / E forward of 7.8x.

BFC - Buy – Target price 33,000 (11% upside)

BFC is now the market leader of NPK in Vietnam with superior production capacity reached 925,000 tons / year, 28% of the Southern market, 10% in the North and 10% in the central region. The company has successfully built a brand and quality in the southern market, and selling price is significantly higher than the prices of other NPK fertilizers in market. Business results in 2017 are expected to improve with the increasing proportion of the consumption of high quality NPK. Binh Dien Ninh Binh plant went into operation in late 2015 to help reduce transportation costs and corporate income tax, estimated to contribute about 33 billion to the parent company in 2016

We forecast revenue and profit after tax of the parent company in 2016 at 6.050 billion and 267 billion (+ 17% yoy), respectively. In 2017, BSC estimates revenue and profit at 6,153.5 billion (+ 1.71%) and 267.9 billion after tax profit (+ 0.3% yoy), corresponding to EPS in 2017 reached 4.219 VND / share. As of 23.09.2016, BFC shares are traded at 30,000 VND / share, corresponding to a P / E forward of 7.1x and the P / B of 1.83x.

DPM – Tracking- Target price 23,085 VND/cp

Is the leading fertilizer enterprise, with a capacity of producing up to 800,000 tonnes / year. Consumption is expected to rise, the rate of declining output prices slowed as Ninh Binh Fertilizer Plant and Ha Bac faced difficulty. We forecast that in 2016 the company's revenue and PAT reached 9016 billion (-8% yoy) and 1,231 billion (-17% yoy), respectively

In 2017, because now running 100% while the project NH3 is still not completed, urea production of the company are expected to grow marginally by 1%, and rising gas prices make it difficult for businesses. However, the fact that the depreciation for the urea plant has finished will support partly profit.

Accordingly, we expect revenues in 2017 to reach 9.321 billion (+ 3.3%) with urea price expectation increases with global prices. PAT is estimated at 1,205 billion (-2.1%), EPS reaches 3.078 VND / share. As of 12/23/2016, DPM is traded at 22.750 VND / share, corresponding to P / E forward of 7.38x, which is equivalent to the industry average.

Note, the long term prospects of the company depends on: (1) The performance of high-quality NPK plant, scheduled to go into operation in 2018. With an expected capacity of 250,000 tonnes, total investment up to 5000 billion, equivalent investment rate of about 20 million / ton, higher than 20x compared to the NPK plant in Ninh Binh BFC. Meanwhile, the NPK market is still oversupplied. (2) low consumption of UFC 85 does not reach expectations if Ninh Binh and Ha Bac Nitrogenous stop working. (3) Pay for PVTex worth about $ 57 million from 2017 to 2029 may have annual provision.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price	Ticker
BFC	6,153	267.9	4,219	7.1	1.83	25.7%	20% stock 20% cash	30,000	33,000	Link
DPM	9,321	1,205	3,078	7.38	1.0	13.5%	35% cash	22,750	23,085	Link
LAS	4,800	178.1	1,589	7.8	1.07	12%	20% cash 45% stock	12,300	14,000	

Source: BSC Research

Rubber industry 2017 [Outperform]

- Supply – low growth.
- Rubber price is forecast to increase slightly
- Upgrade to Outperform assessment for rubber industry.

According to the report of the International Rubber Study Group (IRSG), the supply and demand are expected to reach equilibrium in the incoming years. The demand for rubbers are forecasted to increase with a rate of 3.2% in 2017, and reached an average annual rate of 3% during the 2017-2025 periods. And the supply source are forecasted to be adequate to meet demand needs, specifically:

- **Supply – slow growth**: Areas of rubber production are forecasted to increase modestly. ANRPC estimated the cultivation areas of the five largest countries (~ 80% of the supply source) will increase at an average annual rate of 0.9%. Although the harvest yield can be improved comparing to that of 2015-2016 period, which strongly depends on weather and rubber price level. In Jan, 2017 a heavy flood hits Thailand's rubber production and could severely affect the rubber production of this country.
- **Demand – centered in South East Asia:** Demand depends on many policies of consumption countries, which include China as the largest consumer (38% of total demand). However, in the 2017-2020 period, China's consumption has reduced, when Chinese government limits the tire productions, and implements stricter production standards in concern of environmental factors. In contrast, increases in rubbers consumptions are forecast in developing countries within the Asia-Pacific region such as Thailand, Malaysia and India, along with increasing demands of automobile productions.

On the other hand, the rubber price can be strongly influenced by market factors such as oil price and exchange rate. Oil price are estimated, by large professional organizations, to increase with a rate of 20 % in 2017, which is a support for rubber price.

Rubber price is forecast to increase slightly: In the October 2016 report, World Bank forecast Malaysia rubber price will reach an average price of $1.57/kg, a 5% increase compared to the 2016 average price. Similarly, Economic Intelligence Unit also reported that worldwide rubber price might slightly increase in the next 3 years, but it cannot pass the 1.7 USD/kg landmark. We note that the forecast are before the flood event in Thailand.

Domestic rubber price is strongly influenced by global rubber prices fluctuations, and the demand in direct exporting countries. Domestic rubber price usually has a lag of 1-2 months compared to international rubber price, as analyzed in our rubber industry report. In addition, the Vietnam market is directly influenced by rubber consumption conditions of large countries such as China and India. Therefore, the domestic rubber markets is facing with more difficulties when China is reducing tire productions. Moreover, India is planning to utilize taxation policy to protect India domestic rubber production market that has been decreasing heavily over the years due to low rubber price.

To rubber companies, we expect their business results in 2017 to be favorable, although there are no sudden changes like 2H2016. We expect that higher rubber price will lead to expansions of labor wages fund that contributes more than 50 % of rubber production cost. At the same time, corporations are likely to abolish cost reductions methods in the previous period in exchange for better production capability. Thus, depend on the increasing rate of the rubber price, net profit for each rubber kilogram is expected to increase in 2017, but not as large as the change in Q3/2016.

Investment Recommendation – Outperform

According to the the rubber price development, we upgrade our assessment from Market perform to **OUTPERFORM** for rubber industry in 2017. At the time of 23/12/2016, rubber industry stocks are trading with a median PB of 0.6x and a median PE of 11x. Rubber price has a strong recovery in Q3, illustrating favorable information of business results, as well as expectation of increasing rubber price, and leading industry stocks has reached the target price in our rubber industry report on Oct 2016. Because the rubber industry has reached the bottom after a five-year period of decreasing price, BSC is certain that the rubber industry has further growing potential in 2017.

PHR – BUY– Target Price 31,200 VND/share – upside 16.8%

PHR is the leading corporation of the rubber industry in term of scale, and one of the corporations that can maintain its production capability. The company has some projects in Kamthong Pong in Cambodia that has already started cultivating rubbers. These projects improves the production capability, and catches up the with the rubber price recovery trend. We also incorporated the chance of increasing dividents along with the profitability, after ultilizing provision funds. With an assumed increasing rubber price rate of 5% in 2017 and an increase in labor expense of 10%, we estimate PHR to have a revenue of 1,405.5 billion VND (+8.5% yoy) and a profit-after-tax of 296.7 billion VND (+12.7%). Business result, in term of EPS in 2017, is 2,978 VND/share. As of the date of 22/12/2016, PHR stock is being traded with a forward P/E of 8.9x, which is considered low in the industry.

TRC – BUY – Target Price 30,500 VND/share– upside 16%

Cao su Tây Ninh joint stock corporation (TRC) is corporation that has good fundamental factors, along with effcient methods of cost management. The company has the leading production capability of its industry, young garden structure, along with 65% of productions composed of Latex and CV 50,60 that have high sale values and do not depend on tires production. Thus, the TRC stock has the best profitablity increasing rate compared to that of other corporations in the same industry when the rubber price recover strongly in Q3/2016. However, the growing potential of the corporation, in term of scale, is limited because of the Tây Ninh Siêm Riệp project that will not be cultivated until 2019. We estimate that in 2017, TRC will have a revenue of 369 billion VND (+14.1%) and a profit-after-tax of 83.9 billion VND (+14.1% yoy). TRC is expected to get EPS in 2017 of is 2,305 VND/share. As of the date of 23/12/2016, TRC stock is being traded at the price of 26,300 VND/share, along with a P/E forward of 11.4x

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
PHR	1,405	296.7	2,978	8.9	0.85	9.6%	10%	25,300	31,200
TRC	352	76.9	2,021	13.3	0.52	3.9%	15%	26,300	30,500

Source: BSC Research

BSC

Tiles 2017 [Market Perform]

- In 2017, tile consumption is expected to growth better than 2016
- Improvement in technology, and state policy still protect domestic companies.
- Coal price is expected to slightly increase in 2017.

In 2017, tile consumption is expected to grow better than 2016. Prospects for tile companies depends largely on development of real estate and construction sectors. Civil construction projects in Hanoi and Ho Chi Minh city which has groundbreaking in 2016 will mostly be completed in 2017. In 9M2016, Hanoi has over 50,600 apartments open for sales, equivalent to 88% of total 2015 figure and exceeded 2014 figure for the whole year. In 2017, when the apartments are completed, we expected better growth in tile demand.

According to the forecast of Ministry of Contruction, demand for granite in Vietnam will reach around 140 mil m3/year, in which export is 42 mil m3. Therefore, the current capacity will need to growth at the average rate of 20% per year to meet the high demand.

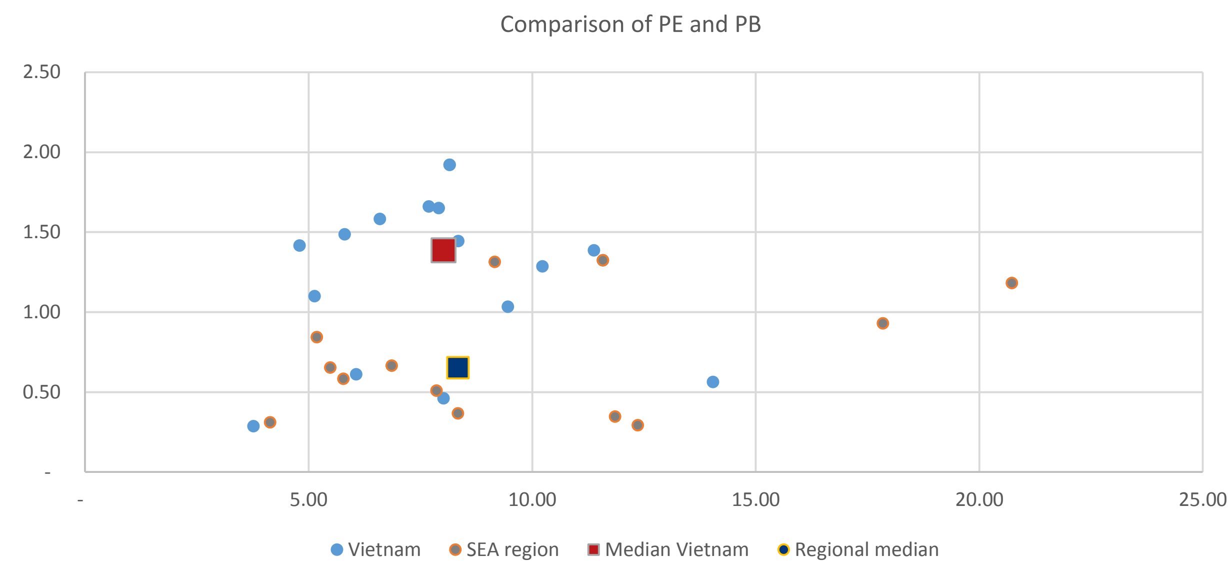
Improvement in technology, and state policy will protect domestic companies. Imported tile products are currently taxed at high rate, which enhance the competitiveness of domestic products. Furthermore, the improvement in technology of domestic companies, (including using natural gas instead of coal, and the new products of soluble salt permeability granite and glazed tiles) helped improve the quality of domestic tiles. Currently, some companies switched to use natural gas include Viglacera Tien Son, Thach Ban.

Most companies are running at full capacity. Therefore in the next few years, the needs for plant expansion and increase designed capacity will be essential to match the demand growth, capture market share and enhance competitiveness towards foreign competitors. However, we still note the high competition wil continue to put downward pressure on selling price

Coal price is forecast by EIA to increase slightly by 3% yoy in 2017. Domestic coal price increased by 5% in Q4/2016 and will likely to remain stable for 2017. Accordingly, we expect margin to be squizzed compared to 2016.

Investment Recommendation – Market perform

BSC believes companies with plant expansion recently will have large advange. Higher competition will pressure selling price, at the same time, domestic coal price is expected to increase slighly. According, margin will be squized while there are not much room for growth in output. We downgrade Tiles from Outperform to **MARKET PERFORM** for 2017. Tile stocks as of 23/12/2016 are traded at median PE of 8.02x and PB of 1.4x, while the regional average is at 8.4x and 0.7x respectively. We note a few stocks with expansion plants that could record growth in profit thanks to higher output



CVT – BUY –Target price 43,900 VND – Upside 11.7%

After the completion of CMC2-2, which produce granite and operate in 1Q2016, with designed capacity went up 50% to 15 mil m2/year. The plant currently runs at full capacity. 2016 revenue is expected at VND 1,017 Bil and PAT at VND 107.7 Bil, equivalent to 2016 EPS of VND 6,131

In 2017, CVT has a project to expand CMC2-2 plant, which produce salt permeable granite with capacity of 3mil m2. The project is expected to be done in 3Q2017, and will have product sales in the fourth quarter. We expect CVT to record VND 1,245 Bil of Revenue and VND 123 Bil of PAT (+14.6%), equivalent to 2017 EPS of 6,431/share. As of 23/12/2016, CVT is traded at 39,300, equivalent to PE forward of 6.4x, relatively low compared to the industry average.

VHL – BUY –Target price 59,500 – Upside 17%

VHL is a leading enterprise in the Ceramic and totto tile. Ceramic tile is facing less competition with more room to growth, which help short-term prospect of VHL to be more optimistic.

In 3Q2016, VHL finished clicker tile - Phase 2 with a capacity of 2 million m3 / year, bringing the total capacity to 7.5 million / year, thus contributing significantly to output growth 2017.

We note that the impact of coal prices increased caused VHL's gross margins plummeted from 24% in 1H2016 to 18% in Q3 2016. Expected in 2017, the corporate profit margins continue to be influenced by the coal price, which is forecast to increase slightly.

We estimate 2016 sales of VHL can reach VND 1,750 billion (+ 12.1% yoy) and PAT is estimated at VND 109.5 billion (+ 8.9% yoy). In 2017, we expect VHL can reach VND 1.997 billion of revenue (+ 14.1% yoy) and VND 123.5 billion of PAT (+ 12.8% yoy), corresponding to 2017 EPS of 7,719 VND per share. As of Dec 23rd 2016, VHL stock is trading 50,000 VND/ share, corresponding to a P / E forward of 6.47x, quite attractive compared to the sector. Accordingly, we recommend to BUY the stock VHL with 1 year target price is 58.500 VND / share.

VGC – Tracking

On Dec 22nd 2016, more than 65 million shares of Viglacera Corporation were officially listed on HNX. VGC produces a variety of building materials (building glass, tiles and clay bricks, ceramic tiles, sanitary ware - shower taps) and has extensive ownership in the real estate sector - industrial zone. VGC accounts for 40% market share of glass, 50% market share of baked clay bricks and tiles. VGC-quality products also outperformed other firms in the industry.

VGC is planning to build high-end tile factory, the capacity of 6 million m2 / year in Phu Tho, the total investment is expected to be 300 billion, implemented in 2017. The Corporation plans to 18.200 billion in revenue in 2017 (+ 13.7% yoy) and 677 billion dong (+ 23.7% yoy), corresponding to EPS in 2017 was estimated at 1.764 VND / share. As at 12.23.2016, VGC shares are being traded at 16,000 VND / share, corresponding to a P / E forward reaching 9.07x.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
CVT	1,245	123	6,432	6.41	2.3	33%	25% cash	39,300	43,900
VHL	1,997	123.5	7,719	6.47	1.56	24%	20% cash	50,000	59,500
VGC	9,684	541.6	1,764	9.07	1.25	13.8%	4% cash	16,000	N.A

Source: BSC Research

Real Estate 2017 [Market perform]

- The market has been in the fast growth phase and has not shown the sign of decrease yet.
- It's difficult for real estate bubble to incur in 2017, even in 2018.
- Infrastructure continues to be improved, which creates indirectly the added value for real estate.
- We place Outperform assessment on this sector and recommend VIC, DXG and KDH.

In our opinion, real estate will positively perform in 2017 thanks to the following windows:

The market has been in the fast growth phase and has not shown the sign of decrease yet. Number of transactions in each quarter has steadily gone up by 8% per quarter in HCM market and there is no sign of leveling off in Ha Noi one. Selling price has slightly increased by 3-5% in some specific projects, which shows "fake" demand quantity was not much, almost buyers have had a real need for real estate. However, the rate of absorption was so low, only got 19% in HCM city and 33% in Ha Noi, showing the deviation among segments which has created a gap in the market.

It's difficult for real estate bubble to incur in 2017, even in 2018. To create real estate bubble, the constituents needed are: (1) the overgrowth of economy, (2) credit amount flowing into this field surges sharply, (3) strong increase in housing price, (4) mismatch among segments and (5) speculators in this field operate progressively whereas it was obvious that the mismatch among segments has happened, and remaing factors have shown clearly yet. To solve the problem of mismatch, some big companies have started to develop housing projects with cheap price such as Vinhomes 700 million of VIC or the ones provided by Novaland. We find that adjustment of SBV in the capital flows into real estate market is so efficient because this helps to limit the speculation and avoids the increase in housing price, restricts the probability of real estate bubble occuring in 2010.

Infrastructure continues to be improved in Ha Noi and HCM city, which could help the market to develop more positively, detailed as following notes:

- **In Ha Noi**: Western area is the place attracting lots of real estate developers thanks to the development policies focusing on upgrading infrastructure as well as planning several new metropolitans. Infrastructure improved will help the movement to the central area more easily, for instance: Metro Nhon – Ha Noi Train Station line, Thang Long Avenue, Route 32…Firms that have employed their operation in this area are: SJS, NTL, VIC and HDG.

- **In HCMC:** Eastern and Southern area have been focused to plan and develop with infrastructure investments to connect with central area as well as neighboring provinces, for example: Dong Nai, Ba Ria- Vung Tau, Long An..especially:Metro Ben Thanh – Suoi Tien line, ring roads No.2, No.3, HCM City-Long Thanh-Dau Giay freeway…Businesses that have employed their operation in this area are: VIC, KDH, SCR, DXG.

Industrial zone real estate will get benefit from FDI capital. Although, registered FDI capital in 2016 was USD 20 bil, dropping by 10% from previous year, but disbursed FDI got USD 16-16.5 bil (+10% YoY). Prospect of GDP growth of Vietnam is lower than that last year and the foreigners's capital tends to come back to USA due to the increase of FED fund rate, the growth of reimbursed FDI showed that overseas investors are placing a positive review on the prospects of Viet Nam, improving demand for tenanting landing industrial zones. Listed companies that control a big land reserve and manage areas being big enough to expand for lease, for instance: KBC, LHG.

Period of 2017-2018 will be the point of time of strong rally in performance result. Revenue and profit in 2016 haven't been reflected on income statement yet due to the lateness of recording although many companies got a good acceleration of selling goods.

Investment Recommendation – Market perform

We place an **MARKET PERFORM** assessment on this sector for 2017 and recommend VIC, DXG and KDH.

VIC – Buy – Target price of VND 47,800/share (+13%)

Vingroup is the biggest real estate developer in Viet Nam with the land reserve of nearly 8,600 ha. The firm has invested and operated in the chain of real estate value in full such as residential real estate, office for lease and hotel. Besides, the company also attended in retail segment with brand Vinmart and e-commerce with brand Adayroi. Revenue structure is moving with the trend of increasing weight of real estate lease and tourism services – business fields got a high stability. For real estate, VIC hasn't only deployed and recorded sales of pilot projects such as Vinhomes Central Park, Park Hill and Vinhomes Nguyen Chi Thanh but also has started to enter the cheap housing segment with brand Vincity for the purpose of bringing apartments worth VND 700 million per m2. For shopping mall leasing operation, lots of shopping malls in Hau Giang, Tra Vinh, Ha Tinh and Kien Giang will be established. The firm plans to expand the retail network in the next years, for instance there will be 300 -400 Vinmarts opened. We forecast the revenue in 2017 will get VND 70,000 bil (+30% YoY), profit will be nearly VND 3850 bil, EPS = VND 1,038.

DXG – Buy – Target price of VND 13,300/share (+12.2%)

DXG is one of the high-reputation brokerage firms with the domestic market share is about 20%. The company is becoming a developer focusing on intermediate segment thanks to their experiences in brokerage field and managing lots of projects with attractive locations. Beginning with the role as a real estate brokerage companies, DXG has taken several advantages of catching the demand of buyers as well as choosing appropriate projects to deal with M&A. The firm currently control 12 real estate projects in HCM City. The performance result in 2017 could be improved thanks to projects named Luxcity and Opal Riverside. They can get a positive rate of progress of selling price and continue to record the sales in 2017. We forecast that revenue in 2017 could get VND 2,000 billion (+43% YoY), VND 500 billion for the net income (+12% YoY) and EPS = VND 1,976.

KDH – Buy – Target price of VND 23,330/share (+15.5%)

Current land reserve of the company in HCM city is 750 ha whereas the acreage of clear land is 450 ha, increasing significantly due to the consolidation with BCI. The firm plans to deploy projects of BCI in 2018 after completing restructuring process. Projects of KDH concentrating on townhouses located on the Eastern area is attracting customers with the transactions in 9 months of 2016 went up by 109% from the previous year, Savills said. The company tends to diversify products when they develop intermediate projects in the years 2017 and 2018 in District 9 area in which lots of crucial infrastructure works is being built, for instance: Long Thanh – Dau Giay freeway. We forecast the revenue in 2017 of KDH can get VND 3.500 billion (+60% YoY), VND 560 billion for the profit and EPS = VND 2,393.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
VIC	70,000	3,850	1,038	40.6	2.7	9%	11% stock	42,100	47,800
DXG	2,000	500	1,976	6.0	1.7	28%	20:3	11,850	13,300
KDH	3,500	560	2,393	6.9	1.1	13%	10% cash 30% stock	20,200	23,330

Source: BSC Research

Textile 2017 [Market perform]

- If TPP fails, we forecast the growth of textile sector could be slowdown but not too serious as many concerns.
- The good prospect of Vietnam – EU Free Trade Agreement, the second largest export market of Vietnam textiles.
- The free trade agreement RCEP (ASEAN +6) is expected to reduce textiles material cost.
- The labor cost will increase as the minimum wage by region will increase by 7% YoY on average.
- The uptrend of cotton price is forecasted to be slowdown.
- Recommend Buy for VGG, Tracking for TNG, TCM and EVE.

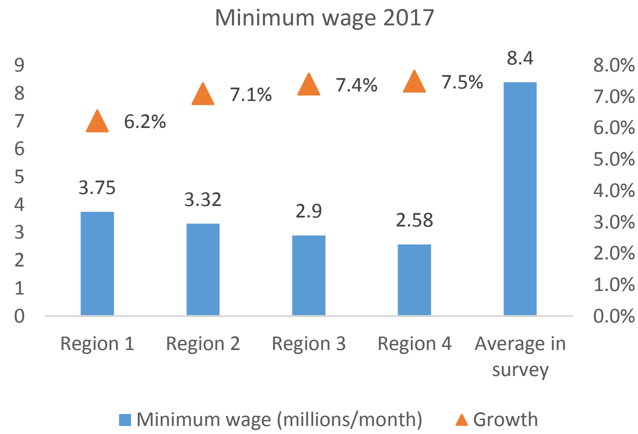
If TPP fails, we forecast the growth of textile sector could be slowdown but not too serious as many concerns. In fact, Vietnam has potential to expand market share in US market as Vietnam currently occupies about 9% of total US textiles import. Besides, the FTA with Eurasian Economic Union, which has just been valid since Oct 5th 2016, will pave a path for Vietnam textiles products (the tax cut by roughly 90%) going into the market with 183 million people of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

The good prospect of Vietnam – EU Free Trade Agreement, the second largest export market of Vietnam textiles. The negotiation was completed in Dec, 2015 and the agreement will be signed in Dec, 2016 or no later than first half of 2017. It is planned to be valid in 2018 with favorable conditions for Vietnam textiles: the "from fabric onwards" requirement is looser than "from fiber onwards" in TPP"; the tax will be cut from 12% down to 0% within seven years.

The free trade agreement RCEP (ASEAN +6) is expected to reduce textiles material cost. RCEP has went to the 15th negotiation round, and it is expected to be finished in the midyear 2017. 69% of Vietnam textile material import value is from RCEP. Thus, if the import taxes decrease to 0%, the material cost of textiles companies will drop significantly. Besides, export to the third largest market, Japan, is also expected to grow well as this country is a member of the agreement.

The uptrend of cotton price is forecasted to be slowdown. The global cotton production is expected to increase by 8% to 22.9 million tons in 2017 as the recovery of cotton price in the latter half of 2016 encouraged farmers cultivate cotton. Besides, the weather is favorable compared to the previous season. Meanwhile, cotton consumption is projected to remain stable at 23.9 million tốn as the forecasted consumption in China, the largest consumer, decline by 3% to 7.1 million tons. The demand in China drops as the polyester price, the alternative product in mattress production, is lower than natural cotton price.

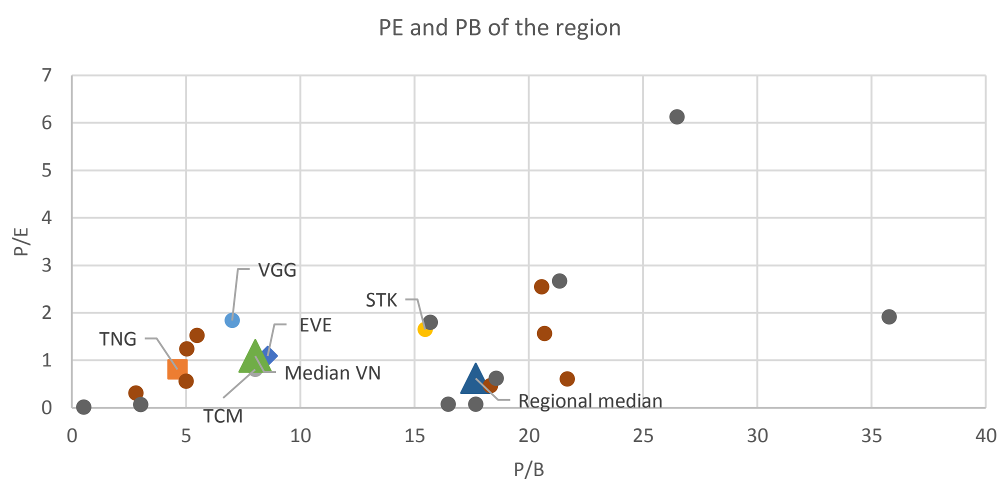
The labor cost will increase as the minimum wage by region will increase by 7% YoY on average. According to the 2017 plan, which has been approved by the government, the minimum wage in 2017 will increase by 7.3% with the highest level of 3.75 million per month for Region 1. However, according to the survey of Jobstreet, the actual average salary of textiles labor including allowances reaches 8 million, significantly higher than the required minimum wage. Therefore, the added amount in labor cost will be from fees such as social insurance, union funds… with the surplus of around 1.5% of existing wage funds.



Source: Ministry of Industry and Trade & Jobstreet Việt Nam

Investment Recommendation – Market perform

We rate **MARKET PERFORM** for the prospect of textiles stocks in 2017 based on factors: (1) incentives from new or upcoming free trade agreements helps to compensate the higher labor cost (compared with main rival: Bangladesh, Myanmar and Campuchia); however (2) the global demand of textile products in 2017 is forecasted to continue to grow marginally and (3) the cotton price is slowdown but still at high level so it continue to adversely affect fiber firms such as TCM, STK. According to the statistics of Bloomberg, Vietnam textile companies are valued at relatively low P/E, which reflected the market view on the gloomy outlook of Vietnam textile sector in the next years.



Source: Bloomberg, BSC summary

VGG – Buy – Target price VND 70,333 per share

After being listed on Upcom in March, 2016, VGG has become the largest textile companies in terms of market capitalization (2,520bn) and revenue (6,411 bn). Other than normal garment firms focusing on outsourcing, VGG has its own brand (Viettien Office clothing), which has solid position in domestic market and contribute about 20% of total revenue. Thereby, VGG could be more flexible in their business strategy, particularly when the import turns harder. Thus, we expects the growth of VGG will remain stable in 2017.

Another strength of VGG is the healthy finance including no long-term debts and short-term debt equals to just around 10% of equity. However, the GPM of VGG is relatively low (11.5%) as the firm uses materials from domestic vendors, which are also member of Vinatex, and thus, the material cost normally higher than import from China.

We forecast the 2017 revenue of VGG could reach 8,907 bn (+13% YoY), the PAT is estimated at 403.8bn (+16.4% YoY), equivalent to EPS 2017 = VND 9,615 per share, P/E 2017 forward =6.24x, relatively attractive.

TCM – Tracking

TCM is a rare company which has a closed production chain in order to the requirement “from fiber onwards” of TPP. Besides, TCM also expand the cotton production through the operation of Vinh Long factory to increase the capacity by 64%. However, the firm had a difficult year as: (1) the increase in cotton price made the GPM plunge, (2) the order volume from major customer and also the largest shareholder, E-land (accounting for 30-35% of TCM’s total sales), fell sharply as the textile retail market in China dropped. We forecast 2017 continues to be a hard year for TCM, particularly if TPP fails.

The estimated 2017 revenue of TCM is 3,165 bn (+7.03% YoY), the PAT would be 120.5 bn (+4.8% YoY), equivalent to 2017 EPS = VND 1,837 (after subtracting 25% bonus and welfare fund), P/E 2017 forward = 7.94x.

EVE – Tracking

EVE has a solid business base due to its leading market share in bedding market (26%) and cotton bath (29%) and a great number of traditional customer (occupying 80-90%). However, during 9M2016, the revenue decreased by -2.7% YoY to 615.2 bn, mainly caused by unfavorable factors in 1Q2016: (1) the revenue from bedding segment was adversely influenced as the last Lunar New Year came early and (2) the polyester cotton price went down following the global oil price so distribution agents cut their cotton bath storage. However, the 9M2016 PAT still rose by 7% YoY to 74.5 bn thanks to the higher GPM (34.1% compared with 33.3% last year) and the reduction in sales & administration expenses.

The 2017 revenue of EVE is estimated at 985bn (+7.8% YoY), the PAT would be 121 bn (+6.7% YoY), 2017 EPS =VND 2,738 (after subtracting 5% bonus and welfare fund), P/E forward 2017 = 8.69x.

TNG – Tracking

TNG is a garment company in Thai Nguyen province with the scale of 10 factories producing about 12 million jackets and 9 million Chino trousers per year. The firm mainly provides outsourcing services for fashion brand in US, EU and Mexico (occupying 83% of TNG’s total export). During the period of 2010-2015, TNG grew strongly from a tiny into leading garment firm with the CAGR of revenue reached to 25.2%. However, during a hard year for textile industry, the 9M2016 of TNG only rose by 1.9% YoY, the PAT increased by 18.6% YoY to 70bn thanks to the cut of sales and administration expenses.

We recommend Tracking for TNG since recently, TNG has continuously expanded scale, particularly Dai Tu factory (accounting for 15-16% of total capacity) with 35 sewing lines completed in 2017. Meanwhile, the sales has showed signals of slowdown so we are concerned that the depreciation cost as well as interest expense will rise more rapidly than revenue, and this would hurt the net profit of TNG.

The 2017 revenue is estimated at 2,130bn (+5.4% YoY), PAT would be 93bn (+6.6% YoY), 2017 EPS = VND 2,442 (after subtracting 10% bonus and welfare fund), P/E forward 2017 = 4.81x.

VGT – Hold – Target price VND 13,619 per share

The Vietnam Textile and Garment Group (Vinatex) is the leading firm and representative for Vietnam textile and garment sector. VGT has the holdings business model, and many members of VGT are leading firms such as Woven 8/3, Hue Textile and Garment, Hoa Tho Textile and Garmnet, VGG,… In which, the value of many members exceeded the book value of initial investments. Vinatex has the highest localization rate (52%) and is the pioneer in transforming production into FOB, ODM, which have high added value. With a large scale and long tradition in textile business, VGT would be benefited most from the growth and shifting trend in this industry. VGT will be listed on Upcom on Jan 3rd , 2017 with the reference price of VND 13,500 per share

We forecast the 2017 revenue of VGT could reach VND 15,640 bn (+3%), the PAT would be 310 bn, equivalent to the 2017 EPS = VND 570

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
VGG	8,097	403.8	9,615	6.24	1.8	28.5%	30% cash	60,000	70,333
TCM	3,165	120.5	1,837	7.94	0.78	13.5%	10% cash	14,460	N/A
EVE	985	121	2,738	8.69	0.98	12.8%	n/a	23,800	N/A
TNG	2,130	93	2,442	4.81	0.81	17.9%	16%	12,200	N/A
VGT	15,640	310	570	23.6	1.14	4.8%	n/a	13,500(*)	13,619

(*) First listed price as of Jan 3rd 2017

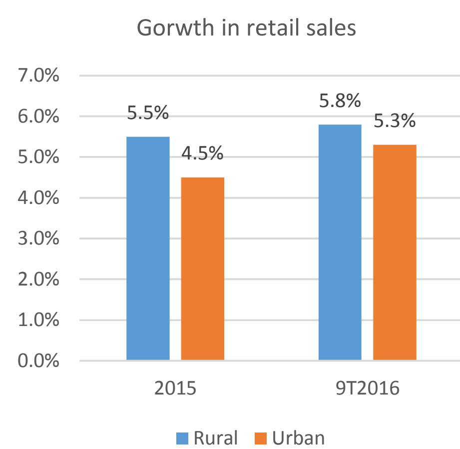
Source: BSC Research

Beverage 2017 [Market perform]

- The beverage sector in Viet Nam has great potential to develop.
- The middle class in Vietnam will double to 33 million people in 2020.
- Large consumer potential in rural area.
- The beverage consumption per capital is at low level.
- We rate MARKET PERFORM for beverage stocks.
- Khuyến nghị Tracking: SAB, VNM, SMB, WSB, BHN.

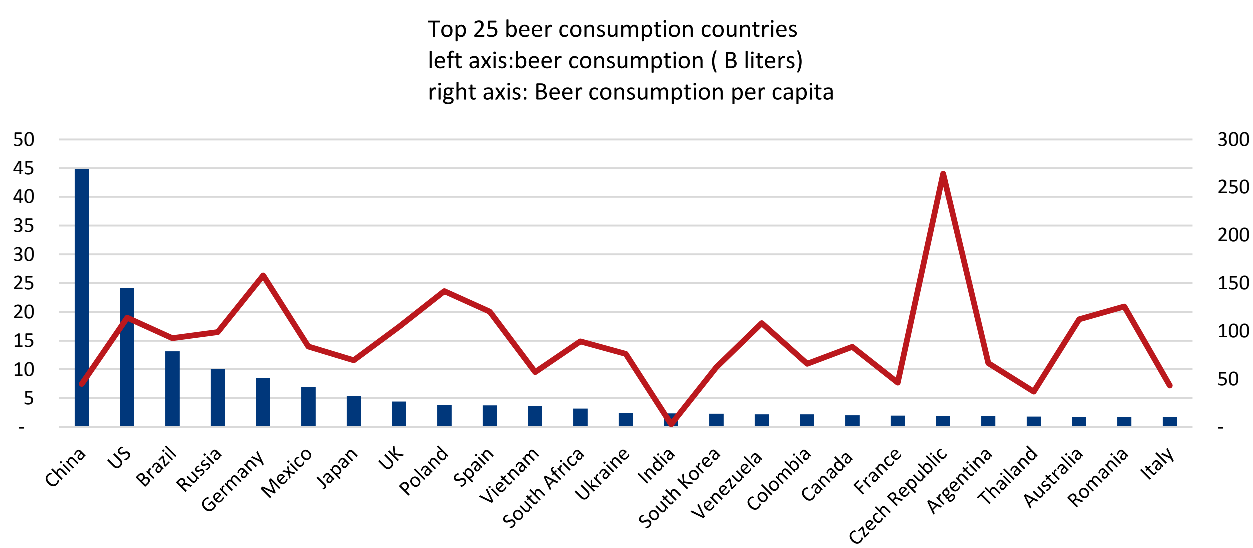
The beverage sector in Viet Nam has great potential to develop. Our view is based on three main trends:

(1) The middle class in Vietnam will double to 33 million people in 2020 (according to Boston Consulting Group) and this will make consumer demand move to premium goods, opening up opportunities for products with higher gross profit margin.



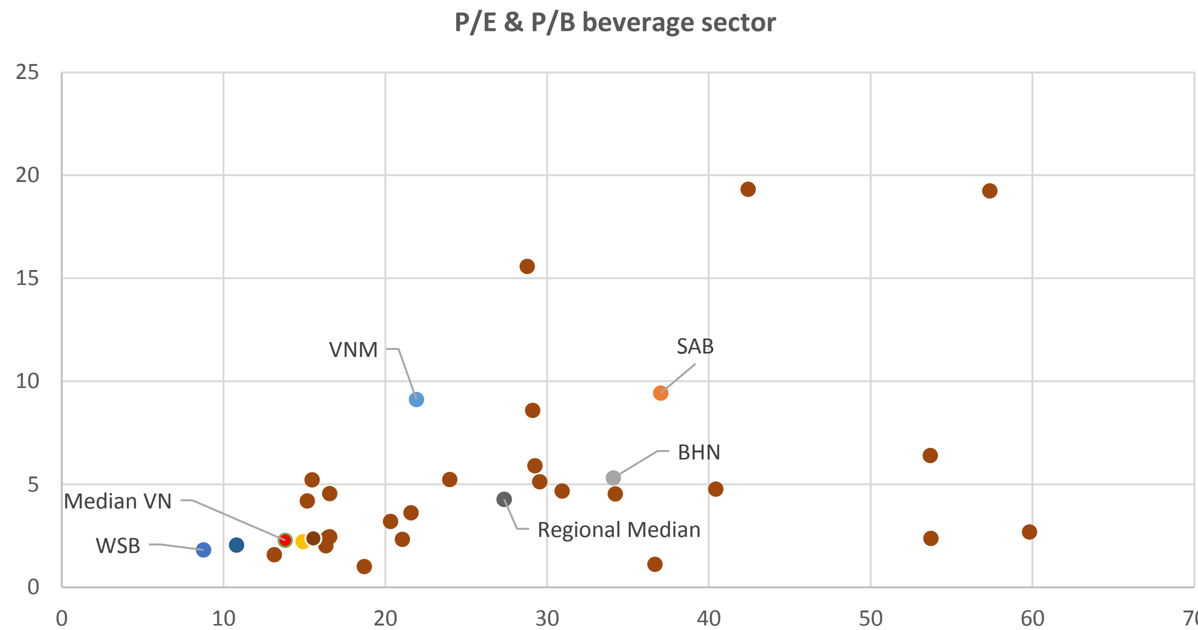
(2) Large consumer potential in rural area. Vietnam now has about 60 million people living in rural area but the rural retail revenue only occupies 20% of total. The growth in sales in rural is higher than in urban area with 5.8% and 5.3% in 9M2016 respectively. The urbanization trend is expected to improve income and consumption of people living in countryside.

(3) The beverage consumption per capital is at low level: The milk consumption per capital is forecasted to grow with CAGR =5.1% from 21 liters (2015 to 27 liters (2020). Meanwhile, the beer consumption per capital in Vietnam (counting for 15-64 years old group) is currently at 57 liters, ranking at 3rd in Asia but significantly lower than the average of 92.07 liters of the top 25 largest beer consumption group.



Investment Recommendation – Market perform

We rate **MARKET PERFORM** for beverage stocks due to: (1) the stock prices of leading beer firms are relatively hish as the good outlook was reflected as well as the "Beer wave" came along with the listing of Sabeco on HOSE; (2) the growth of dairy sector showed signals of slowdown meanwhile the milk powder for the first half of 2017 will surge. According to the statistics of Bloomberg, Vietnam beverage sector has relatively attractive with median P/E and P/B of 13.8 and 2.2 respectively, significantly lower than the figure for region (27.3 and 4.2). However, leading firms are valued at relatively high compared with region level: SAB (37;9.4), BHN (34.1; 5.3) and VNM (21.9; 9.1).



Source: Bloomberg, BSC summary

SAB – Tracking

SAB is the largest beer company in Vietnam with its factory chain spreading throughout the country. Accounting for 40.59% of Vietnam beer market, Sabeco is the only firm owning the system of 23 factories as well as a wide distribution system across the country, this helps SAB to optimize transportation and gain advantages in occupying market. SAB is expected to operate more effectively in 2017 after being listed and divested, in which the GPM will continue to improve from the current 27.56% to 28.2%, closer to the sector average level (34.8%).

In terms of shareholder structure, the Ministry of Industry & Trade holds 89.59%, Heineken holds around 5%, and the remaining 5.41% belongs to others. The State planned to divest from Sabeco in 2 round: Round 1, selling 53.39% of charter capital, equivalent to 24,000 bn in 2016; Round 2, selling the remaining 36% of charter capital, equivalent to 16,000 bn in 2017.

We conservatively forecast the SAB consolidated 2017 revenue could reach 30,860 bn (+5.1% YoY), PAT of 4,811 bn (+1.9% YoY) as in 2016, there was a financial revenue of 360 bn recognized from the divestment in SHP so this lead to the surge in 2016 PAT. Correspondingly, 2017 EPS = VND 7,100 (after subtracting 6% bonus and welfare fund); a SAB stock is currently traded at VND 200,000 per share, equivalent to P/E forward =28.2x, higher than the region median of beer sector of 27.36x.

VNM – Tracking

VNM is the largest dairy company and also has the largest market capitalization in Vietnam. The firm currently occupies 49% share of Vietnam dairy market and dominates in segments: fresh milk (53%), condensed milk (80%), and yogurt (84%). After the first three quarters of 2016, the company started showing signals of slowdown with the 4Q 2016 revenue decreased by 0.6% YoY, the PAT declined by 6.5% YoY. However, for the whole year 2016, the company still remained strong growth thanks to the good performance of the 9M2016 with the 2016 revenue of 46,200bn, (+14.86% YoY),), the PAT is estimated at 9,310 bn (+19.77% YoY), corresponding to EPS 2016 = VND6,416, P/E trailing 2016 = 19.57x.

On Dec 12th, 2016, SCIC offered 130.6 million VNM stocks, equivalent to 9% of charter capital but only 78.4 million sold, equivalent to 60% of total offered, at the starting price of VND 144,000 per share for two foreign funds both owned by F&N group from Thailand.

In 2017, we are concerned most with the risk of milk powder cost (accounting for 38-40% of COGS). As we discussed with VNM's managers, the milk powder price for the first half of 2017 went up rapidly up to 25% YoY following the price movement in the global dairy market. We recommend Tracking for VNM.

We forecast the 2017 revenue of VNM would reach 52,631 bn (+13.9% YoY), the PAT would be 10,215 bn (+9.7% YoY), equivalent to 2017 EPS = VND 6,353 (after subtracting 10% bonus and welfare fund), P/E 2017 forward = 19.88x.

BHN – Tracking

BHN is the beer company holding the third largest market share in Vietnam (19.64 %) behind the two giants Sabeco and Heineken Vietnam. In 2015, the beer production of BHN reached at 515 million liters (the total capacity of 800 million lit/year). Regarding shareholder structure, BHN has a condensed structure. In which, Ministry of Industry and Trade holds 81.79%, Carlsberg 17.23%, and 0.98% for others. The State's divestment at Habeco could be hard since they signed with Carlsberg a strategic agreement that Carlsberg is given priority to raise their shares when the State divests from Habeco. Therefore, Carlsberg has the veto when potential investors would like to buy the State owned shares at Habeco. This issue may take time to negotiate when the State make divestment decision.

We forecast the 2017 revenue of BHN would reach 9,542 bn (+3.71% YoY), the PAT would be 967 bn (+5.1% YoY), equivalent to 2017 EPS = VND 3,935 (after subtracting 6% bonus and welfare fund), P/E 2017 forward = 33.75x.

WSB – Tracking

WSb is a subsidiary of production block of Sabeco (Sabeco holds 51%). WSB currently has two factories at Can Tho and Soc Trang, each has the capacity of 50 million lits per year but the actual production could exceed about 20% if they operates in all 365 days. Because the beer can products are only consumed well in holidays so the 4th Q and 1st Q would be the peak seasons of production and profit recognition of the firm. In 2017, WSB is expected to invest around 10 bn to raise the capacity of Can Tho factory to 10 million lits per year and the operation is expected to start in 4Q2017.

We forecast the 2017 revenue of WSB would reach 983bn (+9.8% YoY), the PAT would be 113 bn (+8.7% YoY), equivalent to 2017 EPS = VND 6,780 (after subtracting 13% bonus and welfare fund), P/E 2017 forward = 8.61x.

SMB – Tracking

SMB is an associated company of Sabeco (Sabeco holds 32%) providing beer for the Central and Highland areas. The core business activity of the company is producing products: production cooperation beers (Saigon Beer Bottle 355ml and Saigon Beer Bottle 450ml), self – produced beers (Lowen Pils Beer Bottle 330 ml, Quy Nhon Beer Bottle 330ml and fresh beer), and other products (bottled water, Pepsi outsourcing). The 2015 consumption of the firm reached 148.3 million lits including Saigon Beer Bottle 107.7 million, others 29.6 million lits, bottled water 6.9 million lits and Pepsi Outsourcing 4.1 million lits.

We forecast the 2017 revenue of SMB would reach 1,017bn (+10.5% YoY), the PAT would be 115 bn (+16% YoY), equivalent to 2017 EPS = VND 3,237 (after subtracting 16% bonus and welfare fund), P/E 2017 forward = 9.27x.

Ticker	Rev 2017	PAT 2017E	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
SAB	30,860	4,811	7,100	28.2	3.3	33.4%	30% cash	200,800	168,600
VNM	52,631	10,215	6,353	19.88	8.4	45%	R2: N/A	126,000	N/A
BHN	9,542	967	3,935	33.75	5.1	16.7%	15% cash	132,800	N/A
WSB	895	113	6,780	8.61	1.7	21.6%	25% cash	58,400	N/A
SMB	1,017	115	3,237	9.27x	2.1	24%	15% cash	30,000	N/A

Source: BSC Research

Cement 2017 [Market Perform]

- Prospects from Vicem IPO
- Growing domestic demand due to improved infrastructure investment, exports could be better
- Oversupply – A long-term problem
- Production costs is forecasted to increase, making pressure on export prices
- M&A trend resolves oversupply

Prospects from Vicem IPO. Vicem, which is one of leading corporations of the construction industry, has an IPO schedule in the first half of 2017 due to restructuring a number of cement plants (adding Ha Long and Song Thao cement). As planned IPO, the government will reduce the holding rate in Vicem to 51%, so this is likely to be historic event about organizational restructure and operation of Vietnamese cement industry.

Growing domestic demand due to improved infrastructure investment, exports could be better. Civil construction market in 2017 is expected to be more difficult because of the impact of Circular No.06, the demand for cement will come from infrastructure construction sector, serving FDI flows continue to pour into Vietnam. Meanwhile, the amount of excess cement in China is very large with its price advantage, making difficulties to the Vietnamese exports. However, BSC believes that China is moving steps cautiously, besides reducing steel production and coal, China will continue to cut excess capacity of this industry, is a positive signal.

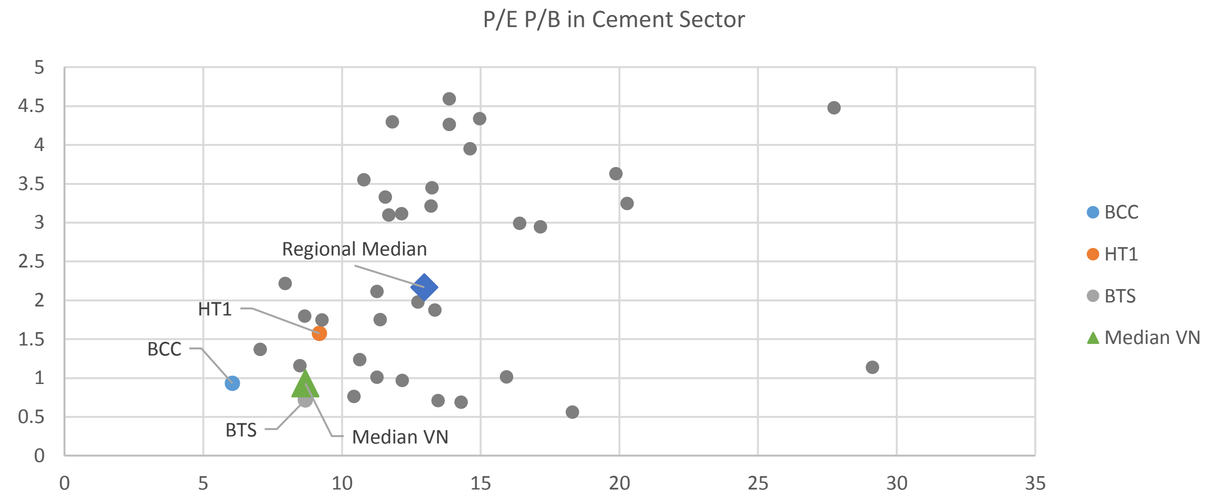
Oversupply – A long-term problem. By 2018, the cement capacity will continue to grow when there are more 3 plants going into operation with a total design capacity of 6.9 million tons/year, increasing the capacity of the country to 93 million/ton. According to StoxPlus, despite strong domestic demand and efforts of exporting clinker and cement, Vietnam cement industry has to experience an oversupply in the next 10 years. In fact, domestic cement consumption will not spike, supply exceeds demand, and the cement price is still low.

Production costs is forecasted to increase, making pressure on export prices. Although electricity prices remain stable in 2016, helping cement selling prices basically unchanged, the price is likely to rise in 2017 when the government has adjusted some policies for the hydropower sector, impacting negatively the input cost of cement manufactures. Moreover, the cost of exports which increases by applying from the government's export tax of 5% shows no adjusted signs, thus it puts more pressure on export prices of cement/clinker when there is a global and local oversupply.

M&A trend resolves oversupply. In the current 100 factories in Vietnam (including closed plants and cement grinding stations), 60% of factories which have capacity of less than 1 million tons/year, accounting for about 1/3 of total nationwide cement design capacity, are facing challenges in brand and stiff competition. Meanwhile, the cost of new investment for each unit in the Vietnamese cement industry is about USD 170-180/ton, compared with valuation under tons of M&A deals in cement sector, it is USD 105/ton lower so far. Therefore, the M&A will be a good opportunity for long-term investors to enter the Vietnamese market.

Investment Recommendation – Market perform

Price movements of cement stocks will be supported positively thanks to earnings results and IPO information of VICEM in 2017. However, the growth of domestic consumption is still unknown because the civil construction is forecasted to shrink, and the risk of China cement still exists, thus we maintain the **MARKET PERFORM** recommend for the cement industry in 2017.



Source: Bloomberg & BSC Reseach

HT1 – BUY – Target price of VND 26,845

Positive earnings. Cement consumption reaches about 6.5 million tons in 2016 (+7%yoy), including 700,000 tons of cement processed in Halong grinding plant. At present, HT1 still has the ability of growing because their grinding capacity can reach 6-7 million tons/year, they can crush 1.4 million tons/year.

Business results show better in Q32016 thanks to increasing coals imports into production (HT1 uses Australian coal, the price is 10-15% lower than the domestic selling price). Expected in Q42016 and 2017, HT1 will rise the proportion of using imported coal blending ratio of 20-30% of coal amount used), in addition, they increase the amount of cashew oil, reducing consumed coal, thereby helping to reduce costs.

Foreign debts. On Dec 31st 2016, HT1 has debt of EUR 53 million and USD 19 million. Temporarily calculated at the selling rate of VCB on Dec 30th 2016, in 2016, HT1 will be entitled to foreign exchange gains from unrealized loans by EUR and foreign exchange losses from unrealized loan by USD, in general, HT1 has unrealized foreign exchange gains of about VND 23 billion in 2016.

BCC – BUY – Target price of VND 22,874

Foreign debts – Prepaid payments for Mar 2017. In December 2016, BCC pays EUR 9.81 million in advance for Mar 2017. Therefore, on Dec 31st 2016, there will be BCC's long-term loans due to date of EUR 9.81 million and long-term loans of EUR 0. Expecting in Sep 2017, the company will pay off their foreign debt. BSC estimates that BCC will have the unrealized currency gain of VND 12.32 billion (according to selling rate at VCB from Sep 30th - Dec 21st 2016).

Problems of mill located at the central Vietnam are still unresolved, the mill remains idle due to objective factors. The earning results at the consolidated financial statements 2016 will depend on the audit's comments. We expect BCC's Q42016 consolidated pretax profit will be about VND 15 billion lower than that of its parent company.

Business results. According to BCC, approximately 300,000 tons of cement used in Oct 2016 is entirely for domestic consumption, increasing by nearly 50,000 tons over the same period in 2015 (On Oct 2015, cement's sales volume is 350,000 tons, including 100,000 tons exported). BCC Parent Company's PBT is estimated VND 40 billion in Oct 2016. Coming to November, because of the higher COGS, PBT of this month is about VND 30 trillion. BCC expects that PBT of the core operations will reach around VND 110 billion (Q42015 Consolidated PBT was VND 100.12 billion). BSC belives that 2016 PBT will reach VND 328.6 billion (+ 27.49% yoy, mainly due to lower debt balances and interest expense), 2016 PAT = VND 262.88 billion, EPS 2016 = VND 2,151 (after deducting of 10% for the bonus and welfare fund).

Ticker	Rev 2017 (VND Bil)	PAT 2017 (VND Bil)	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
HT1	8,862	920	2,051	10.14	1.31	15.14%	N/A	20,800	26,845
BCC	4,497	274	2,243	6.55	0.74	12.55%	N/A	14,700	22,874
BTS	3,348	130	1,076	8.64	0.68	8.78%	N/A	9,300	11,902

Source: BSC Research

Automobile 2017 [Market perform]

- Vietnam's automobile market still shows the signs of bright prospects.
- Truck consuming activity could be slowdown in 2017.
- Cars that are domestically assembled will face a big challenge in 2018.
- We place Market perform assessment on this sector.

BSC states that the operation of this sector will take a complex happen in the period of 2017-2018 when the point of time at which import tax rate imposed on cars imported from nations in ASEAN coming to 0% in 2018 will come and new policies of the Government will be promulgated if the State still maintain the protectionism activity in this field. We recommend that stocks in this sector will get a neutral prospect due to following factors:

- **Vietnamses automobile market still shows the signs of bright prospects**: Compared with neighboring nations, Malaysia and Thailand currently have the rate of 400 autos/1000 residents and 250 autos/1000 residents respectively and they are in the mature phase, whereas Indonesia get the rate of more than 50 autos/1000 residents and Philippines and Vietnam are approaching the level of 50 autos/1000 residents, which showing that Vietnamese market is a potential one for the development in the future.
- **Truck consuming continues to be slowdown in 2017 because:** (1) Demand for trucks to meet the rules contracting the weight has gone to the balance, (2) Ministry of Finance rose officially import tax rate imposed on Chinese trucks up to the level of 50% for the cars with total weight from 10 to 24 tons, which made the price of imported cars not to be attractive. The power for consuming truck in 2017 will come from the demand for replacing cars expiring. According to Vietnam Register, there will be 20,000 cars expiring in 2017, gaining by 5.3% from last year.
- **Domestically assembled cars will face a big challenge in 2018**: Based on the commitment, import tax rate imposed on cars in ASEAN will be 0% in 2018, so the price of domestically assembled cars will be higher by 20% than the ones imported. We state that the Government will find the solution to cut down import tax rate imposed on accessories from the current level of 20% to 0% to decrease the cars manufactured domestically. Nevetheless, if tax rate for importing accessories is reduced down to 0%, domestic supporting industry will experience the competitive pressure from the cheap accessories in China, which will make the increase in localization rate.

Investment Recommendation – Market perform

We place **Market perform** assessment for this sector. The shares are traded with the level of average P/B is 3.2 and average P/E is 7.5, being significantly lower than the stock market. BSC stated that investors should focus on the stocks get the benefit from the tax policies and the trend of buying cars in 2017, including SVC and TMT.

SVC – Tracking

SVC is the leader in the field of car distributing in Viet Nam with big brands such as: Toyota, Ford and Huyndai. Moreover, the firm is also specializing in motorbike distributing activity, providing reparing and maintaining services. At the moment, SVC plans to develop the chain of services with the own brand of the company as well as improve the technology, combine on-the-job training with training from the manufaturers for the employees to enhance the customer services quality. Besides, SVC is narrowing the real estate segment by withdrawing the capital or investment cooperation. When the import tax rate goes down to 0% in 2018 and imported cars are consumed more and more, SVC will directly compete with importers of other brands.

TMT- Tracking

TMT is the firm focus on assembling and distributing Cuu Long trucks, competing with others domestic truck importers. We state that performance result of the company in the period of 2017 and 2018 will strongly fluctuate because lots of policies relating to import tax and excise tax. Thus, we see the stocks of TMT be NEUTRAL due to unclear problems of the policies.

Ticker	Rev 2017 (VND Bil)	PAT 2017E (VND Bil)	EPS 2017	P/E FW	P/B	ROE 2017	Dividend 2016	Price on 23/12/2016	Target price
SVC	10,000	150	6,006	7.7	1.1	14%	14% cash	46,000	N/A
TMT	4,200	120	3,254	4.3	1.3	31%	10% stock	14,000	N/A

Source: BSC Research

Plastic 2017 [Market perform]

- Plastic bags exports can be slowdown
- Domestic plastic consumption is forecasted to increase sharply
- Plastic resin prices may rebound in 2017
- The import duty of PP resin rises from 1% to 3%, since 01st Jan, 2017

Plastic bags exports can be slowdown in the EU and US market. (1) The need of plastic bags is likely to be reduced in most developed countries, especially European countries. Since 2015, the EU has agreed to restrict the use of plastic bags which are 50 microns lighter, not use the 15 microns lighter type, while they encourage the eco- friendly packaging. In addition, EUR depreciation can hinder demand when the import prices rise relatively. (2) US continues to apply anti-dumping tax on Vietnam plastic bag with the rate is 5.28% -52.56%, in which the most popular rate is 5.28%.

Plastic consumption in Asian markets can improve significantly. The appearance of Alibaba and other e-commerce firms in Asia push demand of plastic products at least next 2 years. IHS Institute also claims that e-commerce will open the demand of goods made from polyethylene (the plastics are mainly used to pack goods and all kinds of bags). The polyethylene consumption in Asia is expected to be 41 million tons in 2017, rising by 5.1% compared to 2016.

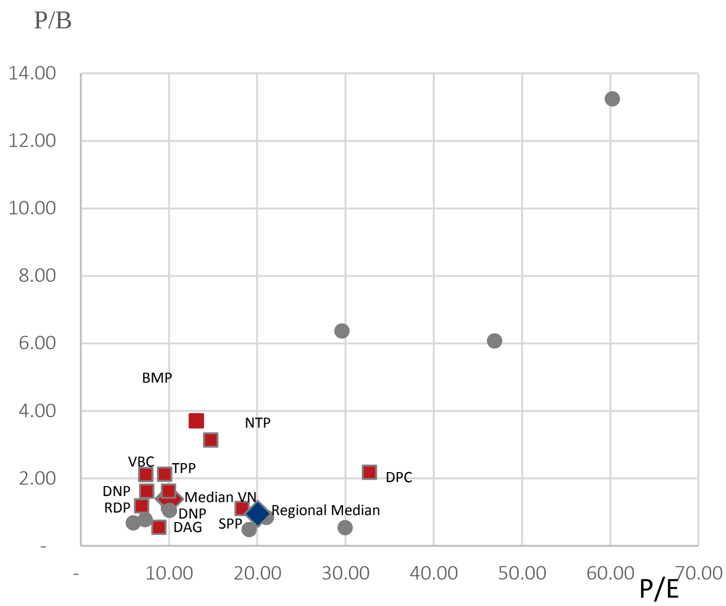
Increase domestic consumption. (1) Civil construction industry is expected to have a strong development in 2017, making a growing demand of plastic construction products, but the need may be slow down at the end of the year. (2) Plastic spending per capita remains low. VPA predicts the consumption will be 45 kg/person/year in 2020, equivalent to a CAGR increase of 4%/year. (3) The growth of FDI increase demand of technical plastics.

Plastic prices may rebound in 2017. Brent oil price is expected to recover significantly in average of approximately 20% in 2017 by many organizations in the world such as World Bank, IMF, EIU. However, the production capacity of plastic resin expanse by 20-25% in North America can maintain low level price for plastic resin in 2017.

The import duty of PP resine raise from 1% to 3%, since Jan 01st, 2017. It causes many difficulties for businesses in terms of raw materials, especially food packaging and packaging building enterprises. According to VPA, if there is an increase of import duties by 3%, the cost incurred for the domestic companies will be VND 1.870 billion in 2017.

Investment Recommendation – Market perform

We maintain our **MARKET PERFORM** recommendation for the Plastics sector. The consumption may increase slightly in 2017, however, due to recent applied tax policy, recovery of raw material prices and the trend of oil prices, the plastic firms can not maintain the same growth rate as in 2016. M&A trends and divestment expectations of SCIC continue bring positive movement for plastic stocks prices. We recommend buying the shares of NTP, BMP and tracking AAA.



Vietnamese companies are traded at lower P/E (of 9.94x) than the manufactures in Asia Pacific Emerging market of 20.06x

Source: Bloomberg & BSC Research

NTP- BUY- Target price of VND 96,400/share, upside 24%

NTP is currently the largest plastic pipe manufacturer in Vietnam. The design capacity is 120,000 tons per year, supply mainly in the northern market with over 57% of market share. The company take directly benefited from the recovery of the real estate and tax incentives for NTP Central (link). Consumption continuously rise, by 21% in 2014, by 20% in 2015 and by 21% in 6M2016 to 60,000 tons. In 2016, NTP shorten depreciation period, therefore, depreciation expense increased by VND 53 billion (equivalent to 12% of profit before tax). Note, NTP discount for distributors is much higher than BMP, NTP gives discount rate of 65% at maximum, and about 25% -30% at average, while the popular discount rate BMP offers is only 15%. 6M2016, the cost to distributors increased by 93 NTP billion (equivalent to 42% of profit before tax). Therefore, operating margin of NTP was only 12.48% while of BMP was 26.57 %. We expected that this gap will be shrank, NTP efficiency surged after SCIC divestment, restructuring of business operations.

BMP- BUY- Target price of VND 215,000/share, upside 11%

BMP is still considered as our favorite stock whose earnings is forecasted to grow strongly because of its high sales volume of over 20% in 2016 and 2017, low plastic resin prices, significant production and business efficiency, healthy finance, high dividends, transparent governance. In addition, BMP attracts many investors' attention due to the plans expanding 100% room for foreign investors and SCIC's divestment plan in 2017.

BSC estimates that BMP's net revenue and net income will reach VND 4,609 billion and VND 700 billion respectively, equivalent to 2017 EPS of 15,391 VND/share.

AAA- Tracking.

In 2016, AAA's revenue and net income is estimated to be VND 2,000 billion and VND 143 billion respectively, rising by 24% and 3.6 times compared to that of 2015. In 2017, after completing doubling the production capacity of plastic bags to 8,000 tons/month (Both factory No.6 and 7 come into operating), AAA will experience a significant rise in exports to Japan and the USA, enabling its growth of revenue and profit. At the same time, there are plans in which AAA doubles the capacity of Yen Bai factory, and may divest at VBC with the estimated profits of VND 70 billion. The company plans to achieve revenue and net income of VND 2,900 billion and VND 200 billion respectively, equivalent to growth of 45% and 40% over the same period in 2016.

In early 2017, 5 million shares which are converted in the end of 2016 will be listed, making AAA shares diluted about 10%. We note that converting of more than 300 billion bonds (conversion price of VND 11,500/share) can cause EPS dilution of shares.

Ticker	2017 Rev E (VND Bil)	2017 PAT E (VND billion)	EPS 2017	P/E F 2017	P/B F 2017	ROE (2017)	Dividend 2016	Price on 12/23/2016	Target price
NTP	4,587	453	5,706	13.49	3.31	21%	35% cash div. 20% bonus share	77,700	96,400
BMP	4,609	700	15,391	12.59	3.83	28%	45% cash div	193,800	215,000
AAA	2,900	200	3,468	6.9	1.39	22%	7% cash div	24,000	

Source: BSC Research

BSC

Sugarcane 2016/2017 [Market perform]

- World sugar market: Demand rises more strongly than supply, global stocks drops to the 5-year lowest level in 2016/2017
- Domestic sugar market: There is a tension between supply and demand in 2016/2017
- Local sugar price is expected to rise slightly by 5-8% compared to the 2015/2016 crop
- Sugarcane purchasing price is relatively good due to high sugar price
- WTO and trade agreements - Big challenge if domestic supply keeps decreasing

World sugar market

Demand rises more strongly than supply, global stocks drops to the 5-year lowest level in 2016/2017. According to the USDA, the sugar consumption will reach 174 million tons (+ 0.87% yoy), while the production is about 170.9 million tons (+ 3.1% yoy). Sugarcane inventory will decrease by 7.2 million tons, to 30.78 million tons by the end of crop. The main reasons are the favorable weather and the trend of using much cane than ethanol to procedure sugar in Brazil; an increase of EU's beet sugar production of 1.9 million tons, to 16.2 million tons by expanding acreage. They help create a large supply, offset the decline from India, Thailand due to drought. With such that deficit, we believe that global sugar prices can still rise slightly in this crop.

Domestic sugar market

In the crop 2016/2017, there is a tension between supply and demand. According to the Ministry of Agriculture, the total supply is approximately 1.87 million tons (+ 1.63% yoy), including inventory at the beginning of the crop (0.231 million tons); domestic production (1.52 million tons; +22.88% yoy), consisting of 0.8 million tons of refined sugar (+ 14.29% yoy); and imports in 2017 (0.119 million tons; -44.65% yoy) (89,000 tons under the WTO and 30,000 tons from Laos). However, according to the Department of agriculture, forestry and fisheries processing and salt, the El Niño and salinization is forecasted to make heavier damage to the area and productivity of sugarcane, especially the Mekong Delta, while Vietnamese sugarcane manufactures' competing capability and technological level are still weak. As a consequence, the production is likely to fall in this crop. The domestic consumption is estimated 1.6 million tons.

Sugar price is expected to rise slightly by 5-8% compared to the 2015/2016. With an impressive increase in sugar price and recent earnings, we believe that the price trend will continue to keep upward in the new crop year 2016/2017 because the domestic supply is still lower than domestic demand (1.52 million tons < 1.6 million tons), and the changes in world prices is expected to remain high during this crop. In November 2016, the wholesale price is ~ VND 17,000/kg, greater than that of last crop (VND 14000-15000/kg).

Sugarcane purchasing price is relatively good due to high sugar price. In November 2016, because of the flooding in the Mekong Delta, some factories get late to come into operation. They are buying sugarcane at VND 1,040/kg (10 CCS) on farm, VND 80-90/kg higher than that of the beginning of the crop 2015/2016, approximately equal to the highest price of that crop (VND 950-1.050/kg). With the expectation of growing domestic sugar price, the sugarcane purchase is estimated over VND 1,000/kg on farm, which guarantees farmers comfortable in sugarcane, helping stable material areas for plants.

WTO and trade agreements - Big challenge if domestic supply keeps decreasing. Sugar is one of the most protected industries in Vietnam, with applied non-quota import tariffs are very high, from 80-100% depending on the sugar type. In the 2015/2016, the Ministry of Agriculture and Ministry of Industry and Commerce have agreed that the import quotas of sugar increases by 100,000 tons, to 185,000 tons in 2016 to solve the lack supply due to decreasing domestic production. However, for sugar in quotas, the tariffs have been reduced significantly under the commitments of bilateral and multilateral as followed:

Product	Outside quota	Inside quota							
		Vietnam – ASEAN			WTO	Vietnam	ASEAN – China (ACFTA)		
	2017	2016	2017	2018	2015	2016	2016	2017	2018
Raw sugar									
Beet sugar	25%	5%	5%	0%	50%	2.5%	20%	20%	20%
Sugar cane	25%	5%	5%	5%	25%	2.5%	*	*	50%
Raw sugar containing added	40%	5%	5%	5%	60%	2.5%	*	*	50%
Refined sugar									
White sugar	40%	5%	5%	5%	60%	2.5%	*	*	50%
Others	40%	5%	5%	5%	60%	2.5%	*	*	50%

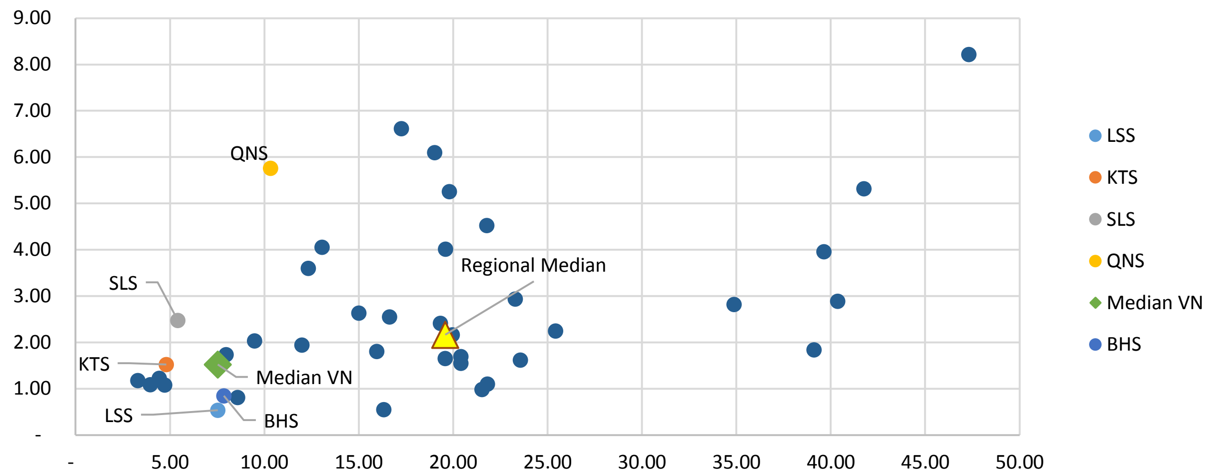
Source: BSC research

Thereby, there is only 1 year left that sugar from Thailand, which is the second largest sugar exporter in the world after Brazil, will have the opportunity to enter massively into Vietnam, and directly competes with domestic ones. In details, **(1)** the import tax rates outside the tariff quota has been adjusted reduced sharply, coming into effect since September 2016. **(2)** According ATIGA, Vietnam will allow the import of sugar from ASEAN countries at the rate of 5% unlimited quota, starting from 2018. Meanwhile, local sugar will face imported sugar from Thailand, which has price advantages in the home market, when Vietnam has not had any significant measures to improve competitiveness to joining AEC. **(3)** Since 2011, Vietnam has imposed the preferential import tax rate of 2.5% for sugar made in Laos in general quotas under WTO commitments between two countries' border. In 2016, Laos sugar of HAGL has preferential import tax rate of 0%, taking pressure on domestic business. **(4)** Under the ACFTA, Vietnam will decrease imports tariffs from Chinese, the biggest sugar exporter of Vietnam. It is not only an opportunity to help free export capital flows into this country, but also a challenge for being more popular of Chinese sugar in Vietnam.

Investment Recommendation – Market perform

Last year, we updated our viewpoint from Underperform to Market perform in sugarcane sector, as well as forecasted that domestic sugar price and earnings of sugar companies would have positive changes. After 1 year in review, the evolutions of the sugar sector and the stock price show a dramatic improvement as our expectations (Link to report). At present, excepting BHS which has no major changes and is still quite attractive, the price of the remaining shares (SBT, LSS, SLS, KTS) reflects earnings growth in the recent year. In addition, in the new 2016/2017 crop, we expect the sugar growth will not be as powerful as that.

P/E & P/B in Sugarcane Sector



Source: Bloomberg & BSC Research

It is noticeable that M&A trend in sugarcane sector will be continued, especially in some listed companies, affecting their valuation. However, there is no longer significant improvement in sustainable development values of this sector. Therefore, we maintain **MARKET PERFORM** viewpoint to sugarcane sector, and recommend **BUY** the shares BHS, QNS, and **TRACK** SBT, LSS, SLS, KTS.

	Revenue 2017	Net income 2017	EPS 2017	P/E fw	P/B	ROE 2017	Dividend 2017	Price on 12/23/2016	Target Price
BHS	5,608	289	2,232	6.56	0.57	11.96%	N/A	14,650	22,023
QNS(i)	7,288	1,300	6,934	13.87	7.07	35.67%	N/A	96,200	115,041
SBT	3,645	276	1,092	23.36	1.32	9.17%	N/A	25,500	N/A
LSS	2,019	131	1,869	6.66	0.54	4.63%	N/A	12,450	N/A
SLS	751	307	45,132	1.91	2.55	58.89%	N/A	86,000	N/A

(i): The financial year of QNS is from 01/01/2017-12/31/2017. (That of the others is from 07/01/2016-06/30/2017. Forecasted data is by the end of financial year)

Source: Financial Statements, BSC Research

Note: Unit of revenue and profit – VND billion

Tire [Market perform]

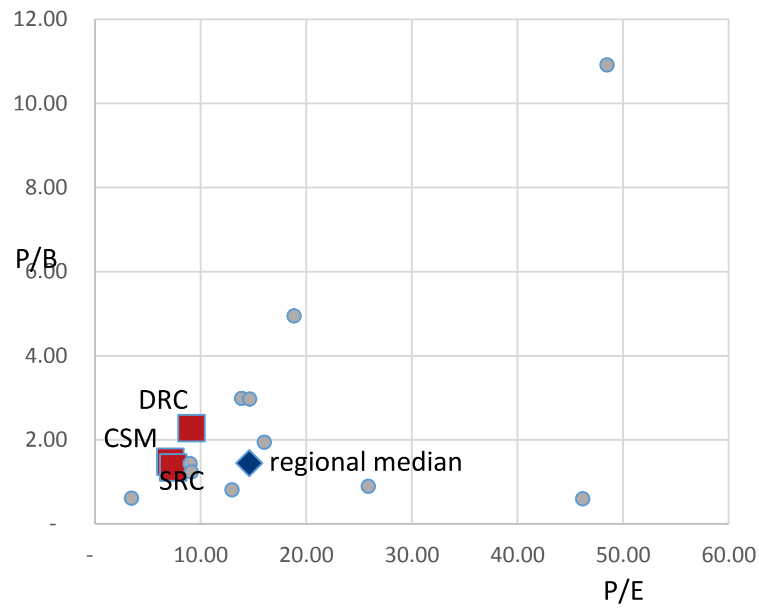
- Car tire consumption is expected to increase by 13% yoy
- Due to high competition, the selling prices of tire remains at a low level.
- Rubber prices is expected to rise slightly by 5% (WB)
- Less positive forecasted performance

High expected consumption growth. Total demand for bicycle and motorcycle is estimated to raise slightly because of satuaration. Meanwhile, Vietnam care tires consumption is forecasted to reach about 7.418 thousand tires in 2017 (+13% yoy). Our forecast is based on (1) approximately 75% of tires for replacement; strong car consumption, rising by 26% in 11M2016, to 271.113 cars; (2) 33% growth of assembled vehicles consumption in 11M2016, reaching 205.355 units. In long term, tires consumption is expected to maintain high growth thanks to expansion of car sales.

Lower profit margin. (1) Selling prices of tires continue to remain at a low level due to fiercer competition. (2) Radial tire consumption is low; (3) Rubber prices are expected to go up slightly. Both World Bank and Economic Intelligence Unit believe that rubber prices will increase modestly in the coming years. WB forecasts Malaysian rubber prices will rise by 5% compared to the average price in 2016, meanwhile, Economic Intelligence Unit estimates the growth of rubber price will last for next 3 years, however, the price can not exceed the peak of USD 1.7/kg. In constrat, capacity expansion of DRC and CSM, if consumption is good, will improve efficiency for both firms thanks to lower breakeven point. In detail, DRC raise Radial capacity from 300,000 to 600,000 units, but at lower investment of VND 705 billion. CSM built new haft steel Radial based on the current Radial factory which will save about VND 400 billion (incremental investment of VND 200 billion).

2017 less expected positive performance. (1) The consumption slowdown due to high competition; (2) Profit margin is narrower. (3) Interest expenses is no longer capitalized when new factories go into operation and interest rates rise. Tire companies often finance new projects by 70% of loans. 2017 interest expense is estimated at VND 64 billion for DRC and VND 63 billion for CSM. Expected efficient operation of new factories of DRC and CSM as mentioned aboved will improve business performance of DRC and CSM. Investors should pay attention on product consumption, schedule of factories, rubber price movements and the Chinese tire production.

Investment overview- Market perform



We maintain our **Market perform** on tire stocks. Business results is forecasted less optimistic because of high competition and increasing rubber prices. However, as a leading position in tire sector, healthy finance, high dividend payments, and the relatively low valuations compared to other tire companies in Asian Pacific Emerging market, shares of tire firms are relatively attractive for medium and long-term investment. Domestic tire manufacturers are traded at median P/B of 1,47x, similar to that of the area (1.44x), and median P/E of 7,43x, lower than the regional one (14.61x).

Source: Bloomberg & BSC Research

DRC – Tracking – Target price of VND 33,800/share, upside 6.3%

DRC is the leader in tires industry, with significant sales capacity. The company has many institutional clients who are the domestic car assemblers. If sale volume of Radial is high, the operation of phase 2nd of radial factory will reduce costs per unit, and improve business results of DRC. DRC pais high dividend at 45% cash and 30% bonus shares in 2016. On Dec 23rd 2016, DRC was traded at VND 31.800/share, equivalent to P/E, P/B of 9.63x and 2.17x respectively, which is relatively attractive compared to peers in the region. Investors should closely observe movements in rubber prices and DRC's Radial tire consumption.

CSM – Tracking – Target price of VND 20,100/share, upside 3.6%

CSM is one of the two largest tire manufacturers in Vietnam. The firm has advantages in motorcycle and car tire segment. CSM shows a healthy finance, high dividends (30% cash and 40% bonus shares). However, due to high competitive, slow Radial tire consumption, and higher rubber prices, 2016 earnings outlook becomes less positive. BSC forecasts that CSM will record the revenue of VND 3,253 billion, net income of VND 194 billion, equivalent to 2017 EPS of VND 1,696/ share. If new 500,000 steel tires are consumed well, the business of CSM will be improved due to saving depreciation for the Radial factory and increasing car tire consumption. We note, investors should closely observe rubber price movements, project progress and CSM's Radial tire consumption.

Ticker	Rev 2017 E (vnd bil)	PAT2017 (vnd bil)	EPS 2017	P/E F 2017	P/B F 2017	ROE (2017)	Dividend 2016	Price on 23/12/2016	Target price	Link
DRC	3,917	422	3,303	9.63x	2.17	24%	45% tiền	31,800	33,800	link
CSM	3,253	194	2,085	9.30x	1.4x	20%	30% tiền	19,400	20.100	link

Source: BSC forecast

Banking 2017 [Market perform]

- Credit growth can slow down at some banks
- Expected raising capitals, open foreign ownership limit to meet Basel II requirements.
- NPL solution may still slow in 2017
- Awaited new IPO/listed including VPbank, Techcomebank, VIB, Kienlong Bank, OCB
- Expected distinctive performance among banks.

Credit growth can slow down. Because (1) Stricter assesment, lower CAR under Basel II while quite stable equity, limited long term bond issued as law stated (such as BID, ACB, Techcombank,etc) force some banks slowdown credit growth, especially high risk- weighted assets. (2) Tighten lending to real estate sales. (3) Loan /Deposit ratio of many banks is at high rate, such as CTG (100%), BID (95%), SHB (90%). Thus, we believe that credit growth rate of many banks including BID, CTG, SHB, STB, EIB, NVB,… will be lower than 2016.

Interest rate is expected to increase. As we mentioned in Vietnam Marco market outlook, high inflation (eatimeted at 4.5-6% in 2017), USD appreciation, USD interest rate raised by FED push banks increase VND interest rate. In contrast, to maintain economic growth, lending interest rate may increase slower than mobilzing rate. This phenomenon situation will have a negative impacts on the net interest margin (NIM) of banks.

Expected raising capitals, open foreign ownership limit to meet Basel II requirements. According to the draft Circular No.4 relating capital adequacy ratio (CAR), 10 pilot banks (including BIDV, VietinBank, Vietcombank, Techcombank, ACB, VPBank, MBank, Maritime Bank, Sacombank and VIB) will apply standard Basel II according in September, 2017, and adhere to advance Basel II at the end of 2018. All other banks will apply Basel II on 1/1/2019. As mentioned in previous sector outlook, Basel II give stricter requirement about capital, risk management compared to that of Basel I, therefore, total risky assets expanse. According to VCB estimation, CAR of the bank will down 2% to 8,74%[1]. Therefore, to maintain a CAR minimum of 8%, banks are confronting with 2 pressured forces: (1) Increasing owner equity, long - term capital: (2) or decrease other risky assets. While raising capital by issuing long -term bonds only solve temporary the situation, raising capital, especially issuance to foreign shareholders are better solution. Many bank such as CTG, VCB, ABBank, SCB … proposed open foreign ownership percentage. In the visit to Hongkong and China, Prime Minister also suggest to open room for banks to over 30%.

NPL solution is still a key task, however, maybe still slow in 2017. To fullfil banking sytem reform plan from 2016-2020 guided by Ministry of Planning and Investment, banks must aggressive in solving NPLs. However, we have not seen any positive signal. (1) Collateral asset liquidation is slower under new law. According to

[1] After issuing VND 8.000 billion of long-term bonds.

SBV, 90% of bad debt was guaranteed by collateral asset, therefore, handling collateral assets has strong impact on NPLs solution. Besides current risks relate to long time of liquidation of collateral asset and decrease value of these assets, under 2015 Civil law, banks no longer has the right to claim collateral assets if borrowers do not agree with since 01, Jan, 2017. (2) VAMC's equity and Gorverment budget are both small. (3) The mechanism to buy NPLs at market price is still a plan.

Expected distinctive provision expenses among banks. Total bad debt provision expense of the sectors is forecasted to increase in 2017. (1) Provision expense for VAMC bonds is estimated at VND 45 billion in 2017[2]. (2) Provision expenses for problem assets expanse. In detail, the provision expenses of banks owing high quality assets such as VCB, ACB, MBB will down, while, that expenses of other banks continue to erod their profits.

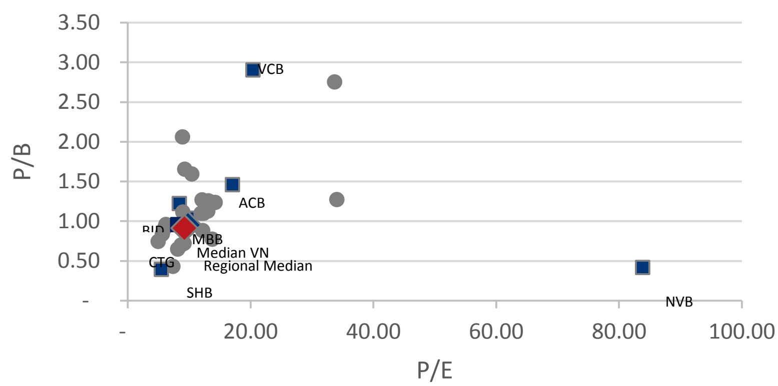
Awaited new IPO/listed, including Techcombank, TPBank, VIB (listed on 9, Jan, 2016 at VND 17,000 /share), VPbank, Kienlong Bank, OCB. This raise the transparency for these banks, one of the key requirement under Basel II. This also raise sector capitalization and offer more choices to investors.

Larger gap among banks' performance which come from the gap between credit growth and provision expenses. Some banks, namely VCB, MBB, ACB are expected to have positive business results thanks to high growth rate, and lower provision expenses. The performance of the remaining banks may still face the difficulty.

Investment Recommendation – Market perform

We maintain our **MARKET PERFORM** on banking sector. Banks'performance are closely related to and also take benefits from economic growth, FTAs, ... As mentioned above, business results of banks are differentiated, some banks as VCB, MBB, ACB have positive performance next year. We believe that opening room for foreign investors, if realized, will create positive effects for stocks of banks which is nearly full room such as VCB, CTG and MBB. The mixture between negative and supportive informantion in banking sector will make some movement of banking share prcies in 2017. After one year of sharply decrese in price of many bank stocks, the price recovery in selected shares are expected.

[2] Assume that banks make provision of 20% of VAMC bonds value every year.



At the end of 2016, the P/E and P/B of Vietnamese banks are quite equal compared to that of Asia – Pacific banks (the median of P/E and P/B of Vietnam banks are 9,81x and 0,95x, respectively, while these valuation of the region are 9,27x and 0,91x, respectively).

Source: Bloomberg & BSC Research

VCB – BUY – Target price of VND 42,000/share, upside 18%.

With the leading position in the whole industry, Vietcombank continued to benefit from the recovery of the economy as well as global integration trends. Good liquidity, LDR qualified Circular No. 06 (80%) allow bank promote credit growth in the coming period. NIM is high and likely to increase due to high proportion of demand deposits (28% of total deposits), re-structure of the loan portfolio and USD 2 million of Government bonds at high interest rate. In addition, due to good credit quality, high provisioning rate on bad debts, highest NPL solution among banks (VND 2,267 billion was recovered, almost NPLs sold to VAMC are bought by VCB in 2016), provison expenses are projected to down sharply in next year. Profit-after-tax of the bank is expected to reach 9.578 billion VND (+23% yoy), equal to 2017 EPS of 2,332 VND/share.

MBB – Buy – Target price of VND 16,600 per share, upside 26%

MBB is one of the leading banks on performance aspect in Vietnam, performance are expected to improve. (1) The bank has much room for credit growth because of low rate of loans / deposits, reached 78% at the end of the third quarter, 2016. (2) High proportion of demand deposit, accounting for about 29% in 9M2016, brings higher NIM for MBB. (3) Provision for loans losses is tight (high ratio of provision to bad debts was 117%, interest and fee receivable declinning). We believe that the provision expenses for MBB will decrease in the near future. Note that, some of the high interest rate bonds hold by MBB in previous period was due, therefore, NIM of MBB might reduce. In addition, merger SDFC into MBB may reduce the quality of assets, increasing the cost of credit risk provisions of MBB, especially for the bonds issued by SDF, however, the influence is not large compared to MBB scale (refer to MBB visit note). We forecast that 2017 net profit ater tax of MBB will be VND 3,386 billion, equal to 2017 EPS of VND 1,872 /share.

ACB – BUY – Target price of VND 20,800 /share, upside 20%

As we mentioned 2016 Sector Outlook, since 2012, ACB has handled aggressively backlogs arised before and in 2012. Basically, the firm complete risk treatment for interbank deposit. (1) ACB handled completely VND

695 billion of depsit at Vietinbank, (2) collected account receivables (VND 126 billion) for VND 772 billion in deposits at GP Bank, received bonds at par value of VND 500 billion, interest rate of 9.2%/year from GP Bank to clear the deposit at GPbank, (3) purchased VND 600 billion in bonds issued by one company in group 6 to clear the loans at Bank "D" and subtract VND 117 billion of interest receivable, (4) extended debt collection (VND 400 billion deposit at VNCB) up to the year 2020, interest rate of 2% per year, ACB could record VND 176 billion as income when VNCB pay the debt. Although, asset quality at ACB is improved, the provision expenses still be high because ACB had to deal with debts coming from G6. These debts are approved to collect and make provision under progress from 2015 to 2018 by SBV. In 2015, the bank had recorded VND 751 billion for the uncollectable loans. In 2016, ACB aimed to collect VND 2,000 billion, the highest level of provision for this group was VND 1,000 billion. Till 9M2016, ACB collected VND 7310 billion, recorded over VND 800 billion in provision for G6 debts. Investors need to monitor the process of recovery, setting up and handling of the debts of the group G6. We expect ACB's performance will improve positive in 2017, 2018 and accelerate since 2019, after complete handle G6 debts. 2017 net profit after tax is forecasted at VND 1,466 billion, equal to EPS of 1,487 /share.

Ticker	Sales 2017 E (vnd bil)	Profit 2017 E (vnd bil)	EPS 2017 (VND/share)	P/E F 2017	P/B F 2017	ROE (2017)	Dividend 2016	Closing price 23/12/2016	Target price
VCB		9,578	2,332	15.26	2.69	11.99%	10% cash div. 35% bonus share	35,600	42,000
MBB		3,386	1,872	7.05	0.92	13.54%	5%	13,200	16,600
ACB		1,466	1,487	11.64	1.16	9.63%	10% share div.	17,300	20,800

Source: BSC Research

Pharmaceutical 2017 [Market perform]

- Remaining high growth rate.
- The Medicine Law Amendment (projected to be valid in the first half of 2017) is expected to open up opportunities for pharmaceutical sector
- Huge potential from traditional medicines
- We recommend Buy for DHG, DBD, Tracking for IMP.

Remaining high growth rate. The pharmarceutical sector is expected to remain high growth rate in the next years thanks to the increase in middle & upper class and the expansion of national health insurance program. According to Boston Consulting Group, the middle and upper class of Vietnam will double to 33 million people in 2020 leading to the rapid increase in the demand of premium healthcare services. Meanwhile, the national health insurance program is a prioritized policy of the government, which aims at raising the coverage rate at 77.1% currently (equivalent to 71.1 million people) to 80% (equivalent to 78.5 million people) in 2020. The increase in health insurance rate is forecasted to raise the revenue of medicines which are listed in the health insurance payment portfolio

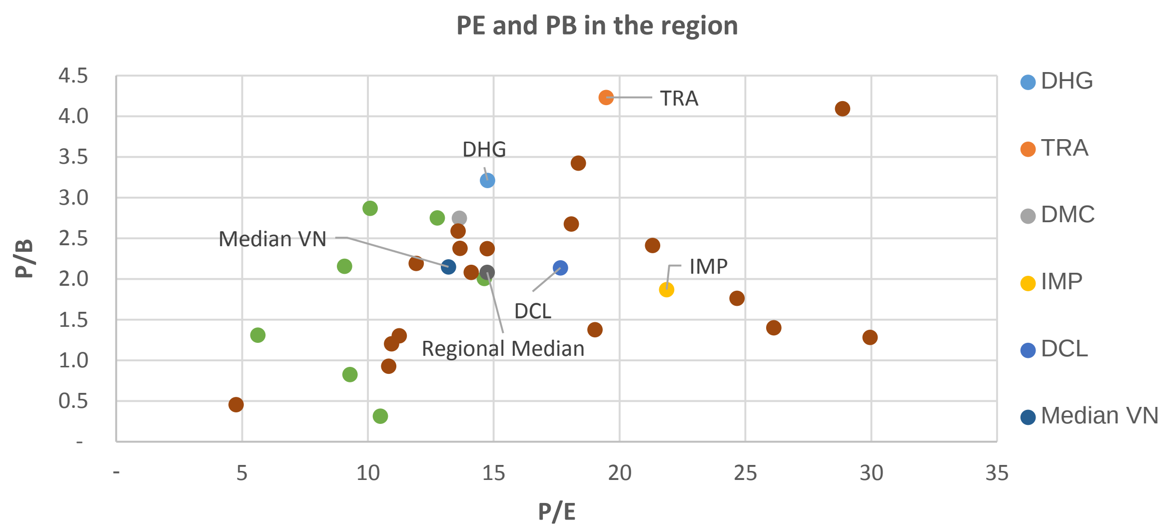
The Medicine Law Amendment (projected to be valid in the first half of 2017) is expected to open up opportunities for pharmaceutical sector. In which, it is worth noticing that the domestic pharmaceutical materials and products will be given priority in bidding if they meet the requirements for treatment, prices and providing ability. Besides, new regulations allow early applications for generic drugs before the patent of original proprietary medicines expire. Those new regulations also support the development of domestic pharmaceutical farming, thereby this helps to promote the competitiveness of domestic companies and decrease the dependence on importing medicines and pharmaceutical materials.

Source: Ministry of Health

Huge potential from traditional medicines. According to the forecast of Ministry of Health, the proportion of sales of traditional medicines will rise rapidly from 1-1.5% currently to 30% in the next 5 years due to the boom in the consumption of functional foods, which have traditional origins. This stems from the need to reduce the adverse impacts of bustling lifestyles and gradually polluted environment. The advantages of domestic companies, which produces functional foods from traditional medicines, derive from: (1) a potential pharmaceutical materials with about 4,000 herbs along with long traditional experience of oriental medicnies, (2) the import taxex for functional food now are relatively high (15%) so the domestic functional foods (Boganic, Hoat Huyet Duong Nao) almost dominate the affordable segment.

Investment Recommendation – Market perform

We remain MARKETPERFORM for pharmaceutical stocks. Those stocks witnessed a rapid rise in 2016 before correction in the last months as: (1) positive effect from divestment by the government, M&As by foreign investors and lifting room for foreign investors and (2) good business performances derived from the sales growth and higher GPM (production costs are well controlled). Although, pharmaceutical stocks are traded at relatively high level (median P/E = 13.2; P/B = 2.15), closer to the median figures of region (P/E = 14.7; P/B = 2.1). Pharmaceutical stocks are highly defensive, so they are suitable with mid-term and long-term investments. We recommend Buy for DHG, Tracking for IMP.



Source: Bloomberg & BSC Research

DHG – Buy – Target price 110,000 đồng/cp, upside 16%.

DHG is the leading firm among listed pharmaceutical companies in terms of market capitalization, revenue and the production & distribution system. The flagship product of DHG is the Hapacol, an analgesic – antipyretic medicine, which contributes 23% of total sales. Currently, this product accounts for 12% of analgesic – antipyretic market (after Panadol and Efferalgan) and is expected to remain the CAGR = 1% in the next years.

Meanwhile, two traditional antibiotic medicines of DHG, Klamentin and Haginat, has showed signals of slowdown as they are intensively competed by domestic rivals. Therefore, the strategic direction of DHG in the next years would be functional foods from traditional materials (now occupying 10% total sales) through the strategic partnership with Taisho, the top tier pharmaceutical firm in Japan. In the coming period, the Food Safety Department will force functional food producer meet the standards GMP for functional food

(GMP HS). Thereby, the functional food market will be better quality – controlled, so DHG's high-quality products will be benefited.

We forecast the 2017 revenue of DHG will reach 4,150bn (+10.6% YoY), and PAT would be 730bn (+12% YoY) thanks to the tax incentives for new plants. Correspondingly, 2017 EPS = VND 7,543 (after subtracting 10% bonus and welfare fund), P/E forward 2017 = 12.6x.

DBD – Buy – Target price VND 42,800

On Jan 16th 2017, 52,400,000 shares of Bidiphar will be listed on Upcom with the reference price of VND 25,000 per share, equivalent to the market capitalization of 1,309 bn (USD 58.6 million). At this price, the P/E trailing and P/B of DBD would be 7.7x and 1.68x respectively, which are significantly lower than the average P/E and P/B of pharmaceutical sector (13.2x and 2.15x respectively).

DBD is one of leading firms in terms of quality, technology, various medicine portfolios and high growth potential. The main drivers will be from the consumtion growth and the operation of new PICs plants.We recommend Buy DBD with the target price of VND 42,800 per share, upside 71%.

The firm estimate the 2016 revenue could reach 1,500 bn (+22% YoY) and the profit before tax would be over 170 bn, corresponding to 2016 EPS ~ VND 2,596 per share.

We forecast the revenue and PAT 2017 of DBD would be 1,630 bn (+9% YoY) and 152 bn (+12% YoY) respectively, corresponding to the 2017 EPS = VND 2,909, P/E forward = 8.59x, relatively attractive.

IMP – Tracking

Other with domestic pharmaceutical firms, which focus on the affordable medicines, IMP produces premium medicines but with more competitive prices in comparison with import products. Besides, IMP is also the pioneer in building EU – GPM production line with three lines in Binh Duong was certificated in September. The company also applied Visa to export to the ICH countries in order to be able to bid for Package No.1 and No.2, in which the prices offered by DHG are normally 30% lower than the similar import products. The company has built and expects to complete the high-tech special remedy factory, which meets the EU – GMP standard, in Binh Duong in the latter half of 2017 and another one in Vinh Loc Industrial Park. Investors should track strictly the construction progress and the IMP's winning in drug biddings.

We forecast IMP wil grow strongly in 2017 thanks to the contribution of EU-GMP production lines. The 2017 revenue is estimated at about 1,200bn (+24.3% YoY), the PAT would reach 120bn (+35% YoY), corresponding to EPS 2017 = VND 2,818 (after subtracting 12% bonus and welfare fund), P/E forward 2017 =19.6x.

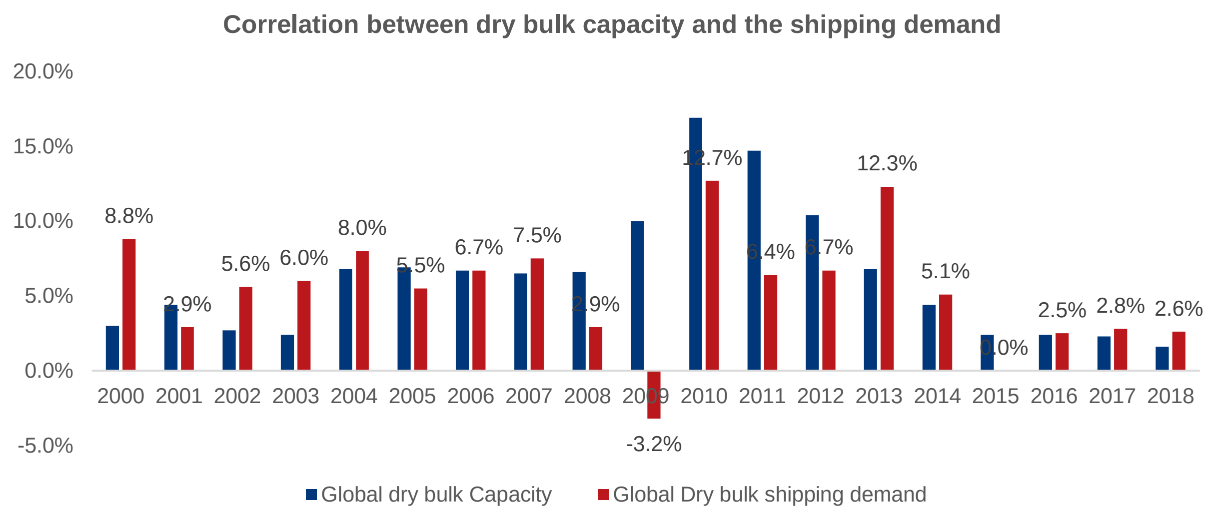
Ticker	Rev 2017F (VND Bil)	PAT 2017F (VND Bil)	EPS 2017F	P/E 2017F	P/B 2017F	ROE 2017F	Dividend 2017	Price on 23/12/2016	Target price
DHG	4,150	730	7,543	12.6	2.9	27%	30% cash	94,800	110,000
DBD	1,630	152	2,909	8.59	1.8	26%	N/A	25,000	42,800
IMP	1,200	120	2,818	19.6	1.6	13%	18% cash	55,500	n/a

Source: BSC Research

Marine Transportation 2017 [Market perform]

- Gap between supply and demand for marine transport is forecasted to decrease, but it's difficult for the freight rate to recover.
- Domestic demand for bulk cargo transport surges thanks to the need of importing coal for the purpose of serving for thermoelectric plants.
- Nghi Son oil refinery will start to operate in the middle of the year 2017 whereas Dung Quat oil refinery will be periodically maintained in 2 months of 2017.

Mismatch between supply and demand for transport will be narrowed and the demand can be excess the supply in 2017. Because the difficulty of world marine transport having lasted from 2012 to now, the number of orders for new vessel building has significantly dropped, only growing by 2.4% in 2015 whereas this figure in 2012 was 10.4%. J.P Morgan said that number of order books in 2017 could climb by 2.8% while the quantity of transport supply can only gain by 2.3%.



Source: Clarkson, J.P Morgan

However, it's difficult for freight of transporting bulk cargo to recover in 2017. Moody stated that, the freight will be only at the low level due to high demand, but the lateness of goods delivery, ships cancelled and destroyed could restrict the growth of real capacity.

Domestic bulk cargo demand is expected to increase. In 1st 9 months of 2016, coal import dramatically went up by 147.6% in quantity and by 82.1% in value. The source for these imports came from Australia, Russia and China and the imports mainly used for thermoelectric plant. Now, there are 19 coal thermal power plant, expected to go up to 52 ones in 2030 with total coal imported being about 85 million tons in each year.

Ministry of Industry and Trade estimated that demand for importing coal in Viet Nam will be 4 million tons and nearly 35 million tons for the year 2020, the figures for the year 2025 and 2030 will be 80 and 135 million tons respectively. This is believed to be the crucial target for domestic bulk cargo

Nghi Son oil refinery will start to be officially operated in June,2017. The factory will be in trial operation in the beginning of 2017 and be officially active in the middle of 2017. The quantity of crude oil consumed could be about 10 million tons per year, mainly imported from Middle East area. Combined with Dung Quat oil refinery, Vietnam can excercise a self-control in oil products with the level of 50-60% and we state that there are lots of different impacts on domestic companies specialzing in liquid cargo transport due to the operation of Nghi Son oil refinery: (1) For firms focusing on transporting crude oil such as PVT, the demand for import will gain strongly (PVN's contributed capital in the equity of Nghi Son plant accounts for 25%), (2) For companies concentrating on transporting oil products imported such as VIP, VTO, we believed that the demand for transport will decrease, but the effect is not strong in 2017 due to being not in full capacity of the Nghi Son.

Investment Recommendation – Market perform

The demand coming from Chinese market – the major one is still low and domestic demand is so weak , which could not help the bulk cargo transport firms to get out of the difficulty, however the stability of performance result of domestic liquid cargo businesses (PVT, VTO , PJT and VIP) could be maintained. Thus, we grant marine transport sector the NEUTRAL rating.

- PVT – BUY – Target price: VND 16,000 per share

We state that the price of PVT fell down to the range of attractive prices ar the end of the year 2016, compared with the potential growth of the firm. In 2017, the potential growth could come from: (1) Increase in demand for transporting crude oil from Nghi Son oil refinery. It is expected that PVT will cover nearly 25% the demand of the plant. (2) Exchange rate might not greatly influence on the profit of PVT because the debt balance of the firm was only USD 80 million in 1H2016. (3) In 2018, after finishing signing for the contract with the Nghi Son of transporting in term, PVT plans to cooperate with strategic shareholders for purchasing VLCC ship and decrease the contributed capital of PVN from the level of 51% to 36%.

In 2017, when Dung Quat is periodically maintained, PVT could build a vessel for transporting crude oil. Therefore, revenue coming from transport field could get a drop due to the demand coming from the Nghi Son being not big enough.

- VTO – BUY – Target price: VND 11.400 per share.

In August, 2016, VTO purchased 20,000 dwt vessel for the purpose of transproting oil products for Petrolimex- the parent company, from Singapore market, which replacing one ship tenanted by VTO previously. At the moment, the quantity of transport of the new ship is so steady thanks to the improvement of importing oil products of the parent corporation and the decrease in import tax rate when AEC being effective. Thus, we believe that prospects of VTO will be still positive in QII/2017. However, in the middle

2017, VTO could have their vessels serve for overseas market after Nghi Son oil refinery is operated (expected to be in full capacity at the end of 2017) with the much lower efficiency compared with supply of vessels for lease with Petrolimex.

- GSP – TRACKING

At the end of August, 2016, GSP changed their performance result in 2016 following the trend of increasing the revenue to VND 1,135 billion (the previously planned figure was VND 620 billion) because separating Nhat Viet Transport JSC, and do more business fields such as distributing LPG and transporting LPG by tank trucks and the profit would get VND 43.8 billion (the previous figure was VND 40 billion). The prospects in 2017 could be stable thanks to the high market share of domestic LPG transport, at the level of 90% (the firm has mainly transported LPG based on the contract with Dung Quat refinery(40%) and PV GAS(60%)). In 2017, GSP signed for the contract of transporting LPG for GPP Ca Mau, the quantity could be 30,000 tons per month. GSP plans to record the revenue from GPP Ca Mau in April, 2017.

Ticker	Revenue 2017(bil)	NPAT 2017(bil)	EPS F 2017	P/E F 2017	P/B F 2017	ROE F 2017	Dividend 2016	Price 23/12/2016	Target price
PVT	7,589	667	2,118	5.62	0.96	14%	N/A	11,900	16,000
GSP	1,286	69	2,300	5.02	0.95	18%	Cash 12%	11,550	15,200
SKG	497	258	7,564	9.48	2.56	27%	Cash 30%	71,700	75,000
VTO	1,312	120	1,521	5.16	0.41	8%	Cash 8%	7,850	11.400
VIP	655	110	1,606	4.82	0.53	N/A	Cash 8%	7,750	N/A

Source: BSC Research

Aquaculture 2017 [Underperform]

- Anti dumping tax will remain big obtackles for seafood export firms.
- US market will be difficult, China market increase by 40%, the Asia-Europe benefited from FTA.
- Input cat fish material will face shortage in first quarter 2017.
- Exemption from inspection as imported raw materials for processing exports helped diminished cost of storage for all seafood business.

Shrimp exports will face major difficulties due to increased anti-dumping duty from 0.91% to 4.78%. Specifically, all consignments of frozen shrimp imported into the US from 02.01.2014 to 01.31.2015 will be subject to anti-dumping tax rate of 4.78%, while the tax rate currently is 0.91%. This tax rate if enforced will make Vietnam shrimp exports businesses less competitive to the US as rivals such as Thailand, India is subject to a lower duty Vietnam 2-3 times.

Exports to the US market in 2017 may be more difficult than 2016. The US market is the largest catfish imported from Vietnam and witnessed strong growth since the beginning of the year. However, in the future, the programs of catfish inspection of USDA and high anti-dumping tax will be made barrier to US market. VASEP forecasts that in 2017, exports to this market will be even more difficult and the value of exports will not grow as strong as in 2016.

Demand increased from market opening of Eurasian economic union. In 10/2016, free trade agreements Vietnam - Union Eurasian Economic officially took effect after more than two years of negotiations. Fisheries sector will be the most advantageous. Tax rates on imported seafood from Vietnam will be reduced from 10% to 0%; which, with seafood processing group. Vietnam also gained flexible rules of origin for some processed fishery products, such as canned tuna, shrimp.

Seafood exports to the Chinese market forecasts to grow strongly in 2017. According to VASEP, until around first quarter 2017, fish exports to China could increase from 15% to 30% compared to the same period in 2016. China is easy market than other major markets like the US or the EU, however, the added value of this market is much lower. So we do not think this is a good trend for Vietnam seafood. Currently VASEP also trying to control the export volume to this market, dominated exports at about 20% the proportion of the whole industry.

Raw cat fish can shortfall of 40% to supply and export processing. (1) Weather in the Mekong Delta vagaries, cold weather occur earlier made cat fish slow growth and prolonged illness. (2) The number of breeding plummeted from late 2016. This can also causes input prices to rise sharply in first quarter 2017.

State inspection exemption for food ingredients, food additives for the production of export goods. On 12.05.2016, in which they agreed to allow businesses to be exempt from state inspection on food safety, announced the publication of regulations and appropriate food safety regulations, labeling exemption for Vietnamese food , food ingredients, food additives, processing aids of food, utensils, packaging materials, food containers imported into VN only be used for the production or processing of export goods, not spending sales in the domestic market.

Investment Recommendation - Underperform

sector insights reports and recommendations with FMC and VHC. But in 2017, we maintain rated Underperform with aquaculture sector. Technical barriers in major export markets, high added value, such as Japan, the US, the EU will limit the growth potential of the industry. In addition, the trend towards more exports to China-Hong Kong market according to our assessment carries many risks as it is the market with lower added value compared to other markets. We recommend investors to Tracking with number of industry leaders such as HVG shares, FMC, VHC thanks to plans to expand production to meet export demand, resource autonomy and good product quality, market consumption appreciated.

HVG- Tracking.

High profits from arbitrage mutations in- soybean production will be difficult to maintain in 2017, so we think the business results in the fiscal year 2016-2017 will not be as high as 2015-2016 . In 900 pigs entered an instrument HVG closer to redirect their business to expand livestock array. We value the industry has plenty of potential to grow in the future, however, cannot be realized in 2017. HVG are hiring consultants E & Y restructuring the company in the direction of parent company now becomes Holding companies, focusing on the business group included 05 subsidiaries (1) Fish; (2) Shrimp; (3): Livestock (pigs); (4) animal feed; (5) Cold Storage. Restructuring plan is carried out, so we believe that investors should Tracking to HVG in the present time.

VHC- Tracking.

In the first quarter of 2016, the US market is the bright spot of the VHC as seafood imports up 21% yoy to US $ 87 million. In addition, China is also one of the important growth drivers, increased 159% yoy to reach US $ 7 million. In September, Van Tien Duc Giang plant was in operation, focused on Teriyaki cooked fish products with high added value, capacity of about 150 million tons / year, making up 25% of its capacity. Also, due to the plant having to export to demanding markets such as USA, EU, VHC can buy raw materials at lower prices by 7% compared to the same period 2015. However, we believe that VHC's growth potential is already reflected in the current price, so recommend investors tracking to VHC.

FMC- Tracking

FMC is now the largest exporter of shrimp listed. America and Japan are still the main export market of FMC. Although shrimp demand forecast to rise in 2017, we recognize the potential of FMC is not bright, when the shrimp anti-dumping tariff increases to 4.78% and increased supply from rival countries as the EMS epidemic was under control. We note investors from 2017, the financial year of the FMC will change: end in September every year to merge with its parent company reports HVG.

Ticker	REV 2017(bil)	PAT 2017(bil)	EPS F 2017	P/E F 2017	P/B F 2017	ROE F 2017	Div 2016	Price as on 23/12/2016	Target price
HVG	23,400	220	870	10.25	0.73	8%	N/A	8,920	N/A
VHC	9,200	590	6,370	8.84	1.79	15%	N/A	56,300	N/A
FMC	2,800	83	2,470	7.81	1.15	20%	N/A	19,300	N/A

Source: BSC Research

BSC

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