



# VIETNAM SECTOR OUTLOOK 2018

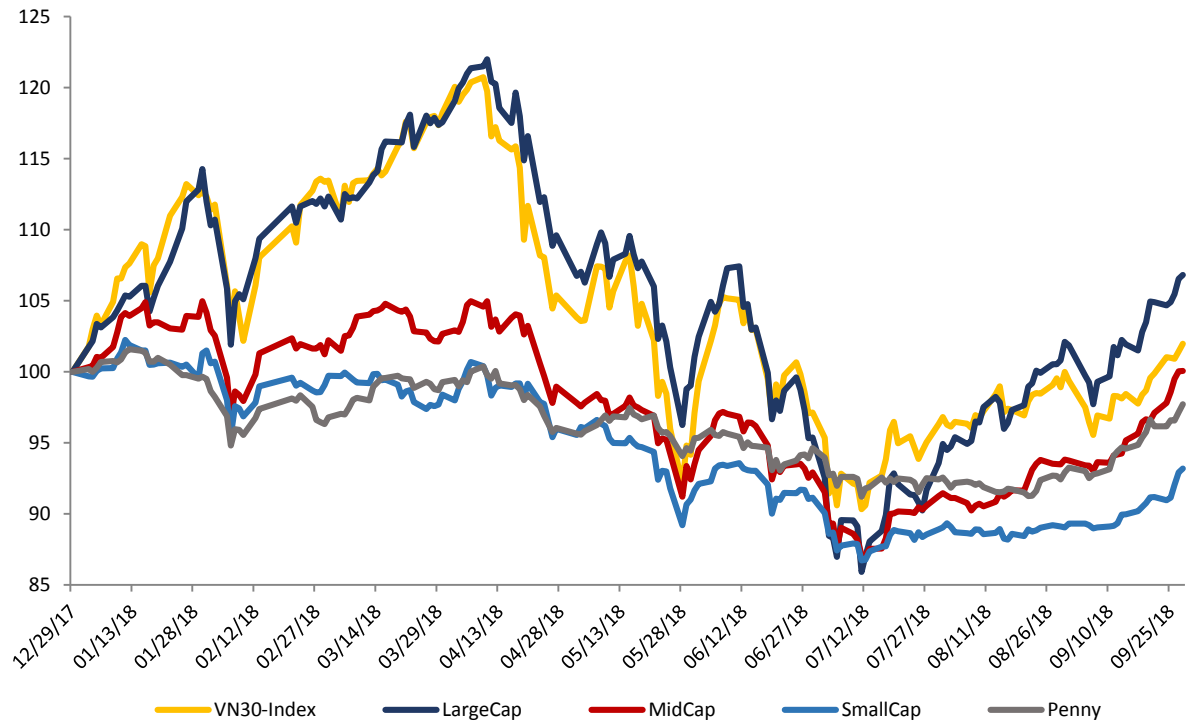
## CONTENTS

<b>Vietnam Stock Market in 9M2018</b> .....	<b>3</b>
Top highlighted stocks in 3Q2018.....	6
Comparing sectors' growth vs. the VN-Index in 9M2018 .....	7
Performance of highlighted stock portfolio.....	9
Policies and events affect economic sectors in 2018 .....	12
Comparison vs. The regional stock markets .....	13
<b>Investment Strategy for Q4/2018</b> .....	<b>14</b>
Sector Outlook for Q4/2018 and FY2018.....	16
Stock Picking in 2018.....	22
Banking [Outperform].....	24
Oil & Gas [Outperform].....	29
Electricity Sector [Outperform].....	31
Technology [Outperform] .....	35
Non-life Insurance [Outperform] .....	36
Real Estate [Outperform].....	38
Consumer [Outperform] .....	41
Construction [Neutral] .....	44
Steel Sector [Neutral].....	47
Tiles [Neutral].....	49
Plastic [Neutral].....	51
Pharmaceuticals [Neutral] .....	53
Textile [Neutral] .....	55
Seaport [Neutral] .....	57
Marine Transportation [Neutral] .....	59
Rubber [Neutral] .....	62
Tire [Neutral].....	64
Fertilizer [Neutral].....	66
Aquaculture [Neutral] .....	69
Sugar [Underperform].....	72
Cement [Underperform] .....	74

## Vietnam Stock Market in 9M2018

- **In terms of index.** Market indexes recovered significantly in Q3/2018 after bottoming in late June and early July. The recuperation started with the pair of HAG and HNG stocks, followed by the lines of blue chips in VN30 and LargeCap groups. By the end of September 2018, VN-Index increased by 32.89 points (+3.34% YTD) to close at 1,017.13 points and HNX-Index lost 0.58 points (-0.5% YTD) to close at 116.28 points.
- **Market movements.** Blue chip stocks had swiftly recovered after experiencing robust corrections and then spread the signs to the whole market, making SmallCap and Penny stocks convalesce in September. The VN-Index supporters include VIC +53.87% (40 points), GAS + 23.92% (15.1 points), BID + 38.04% (11.6 points), VCB + 16% (10.4 points), BVH + 52.03% (8.4 points). On the other hand, the biggest losers were ROS -73.38% (-22.5 points), VNM -19.3% (-22.2 points), TCB -14.6% (-6.4% points), SAB -9.5%(-4.9 points) and VHM -4.07% (-3.9 points).
- **Group of stocks.** By the end of September 2018, stock grouped by market cap had contrast performance. The Small Cap underwent the worst performance of -6.8%, followed by the Penny -2.3%; Whereas, the Large Cap increased by 6.8%, the VN30 rose by 2% and the Midcap grew by 0.06%. In the first 9 months of 2018, only 10 out of 18 sectors' performance augmented. The strongest groups comprised (1) Insurance - increased 29.29% with BVH's involvement; (2) Real estate improved by 27.75% thanks to VIC's contribution and (3) Tourism and recreation with HOT. The biggest losers were Construction and Materials -35.7% from ROS and CTD, Medias fell -33.31% due to YEG.
- **An outlook on information affecting VN Index and Vietnam stock market in Q3/2018**  
The stock market was intensely influenced by inbound and outbound macroeconomic factors. Macro factors consist of: **(1) US-China trade war; (2) Iran, North Korea political geography; (3) Fed raised interest rate to 2-2.5%, leading to the appreciation of US dollar.** Some internal factors affecting the market in 9M2018 include: (1) P/E and P/B of VN-Index were higher in comparison with the world, blue chips were overvalued; (2) The market were distorted by large recently listed stocks with high valuation. (3) With the stability of macroeconomics and country's solid growth, Vietnam is aiming to complete and surpass target macroeconomic indicators mentioned from the beginning of the year. In order to give investors a better perspective regarding the impact on the Vietnam market when being upgraded to emerging markets of FTSE, we announce a new report concerning Vietnam stock market is upgraded to emerging market of FTSE.

- Performance of stock groups



Sources: Bloomberg, BSC Research

### Events by timeline

Month	Time (days)	International Events
January	9	Fed meeting
	18	ETF VFM VN30 review
	24	ECB meeting
	30	The U.S. adjusts interest rate
Feburary	20	Fed meeting
	25-28	Ishares MSCI review
March	7	ECB meeting
	20	The U.S. adjusts interest rate
	11-15	ETF VNM, FTSE review
April	10	ECB meeting
May	1	The U.S. adjusts interest rate
	27-31	Ishares MSCI review
June	6	ECB meeting
	17-21	ETF VNM, FTSE review
	Whole month	7th Congress regular meeting
	19	The U.S. adjusts interest rate

<b>July</b>	<b>6</b>	The U.S. imposed import tariffs on Chinese goods
	<b>23</b>	VN30 Review
	<b>16-20</b>	ETF VFM VN30 review
	<b>30-31</b>	BOJ meeting
	<b>31-01/8</b>	FED meeting
<b>August</b>	<b>27-31</b>	ETF Ishare MSCI review
	<b>21-10</b>	ETF FTSE Vietnam review
	<b>13</b>	ECB meeting
<b>September</b>	<b>17-21</b>	ETF VNM review
	<b>18-19</b>	BOJ meeting
	<b>25 - 26</b>	FED meeting
	<b>7 – 28</b>	Bầu cử tổng thống Brazil
<b>October</b>	<b>18</b>	EU Council's meeting concerning Brexit
	<b>19</b>	Review proportion of VN30
	<b>20/10-22/11</b>	6 <sup>th</sup> congress regular meeting
	<b>25</b>	ECB meeting
	<b>30 - 31</b>	BOJ meeting
<b>November</b>	<b>6</b>	Midterm election in America
	<b>8</b>	FED meeting
	<b>13</b>	ECB meeting
	<b>17-18</b>	Brexit Summit
	<b>21</b>	ETF FTSE Review
	<b>26-30</b>	ETF ishare MSCI review
	<b>13</b>	ECB meeting
<b>December</b>	<b>3</b>	OPEC meeting
	<b>12-13</b>	Last term regarding Brexit preliminary agreement
	<b>17-21</b>	ETF VNM review
	<b>18 – 19</b>	FED meeting
	<b>19-20</b>	BOJ meeting

Source: BSC Research

## Top highlighted stocks in 3Q2018

TOP 5 LEADERS OF VN - INDEX			
Stock	Price on 25/09/2018	Change in price in Q3 (%)	Index pt
GAS	118,500	36.8	19.4
VCB	65,000	20.2	12.4
BID	35,250	20.5	6.4
PLX	73,500	24.4	5.9
MSN	94,600	16.8	5.03

TOP 5 LAGGARDS OF VN - INDEX			
Stock	Price on 25/09/2018	Change in price in Q3 (%)	Index pt
VHM	102,900	-10.6	-10.6
TCB	28,000	-18.0	-7.7
SAB	218,500	-9.0	-4.6
ROS	40,800	-32.7	-3.6
VRE	39,400	-8.4	-2.0

TOP 5 STRONGEST INCREASED STOCKS OF VN - INDEX			
Stock	Price on 01/06/2018	Price on 25/9/2018	%Chg
DAT	9,630	23,750	147%
HNG	7,500	16,400	119%
VHC	52,801	93,300	77%
HVG	2,990	5,260	76%
CIG	2,500	4,240	70%

TOP 5 STRONGEST DECREASED STOCKS OF VN - INDEX			
Stock	Price on 01/06/2018	Price on 25/9/2018	%Chg
CMV	23,001	10,500	-54%
KAC	17,200	7,900	-54%
STT	9,210	5,070	-45%
HOT	48,003	28,250	-41%
ROS	60,696	40,800	-33%

TOP 5 LEADERS OF HNX - INDEX			
Stock	Price on 25/09/2018	Change in price in Q3 (%)	Index pt
PVS	24,100	41.76	1.61
NVB	8,900	18.67	0.38
DBC	29,500	32.29	0.30
VCS	98,000	5.06	0.27
TNG	17,200	66.45	0.25

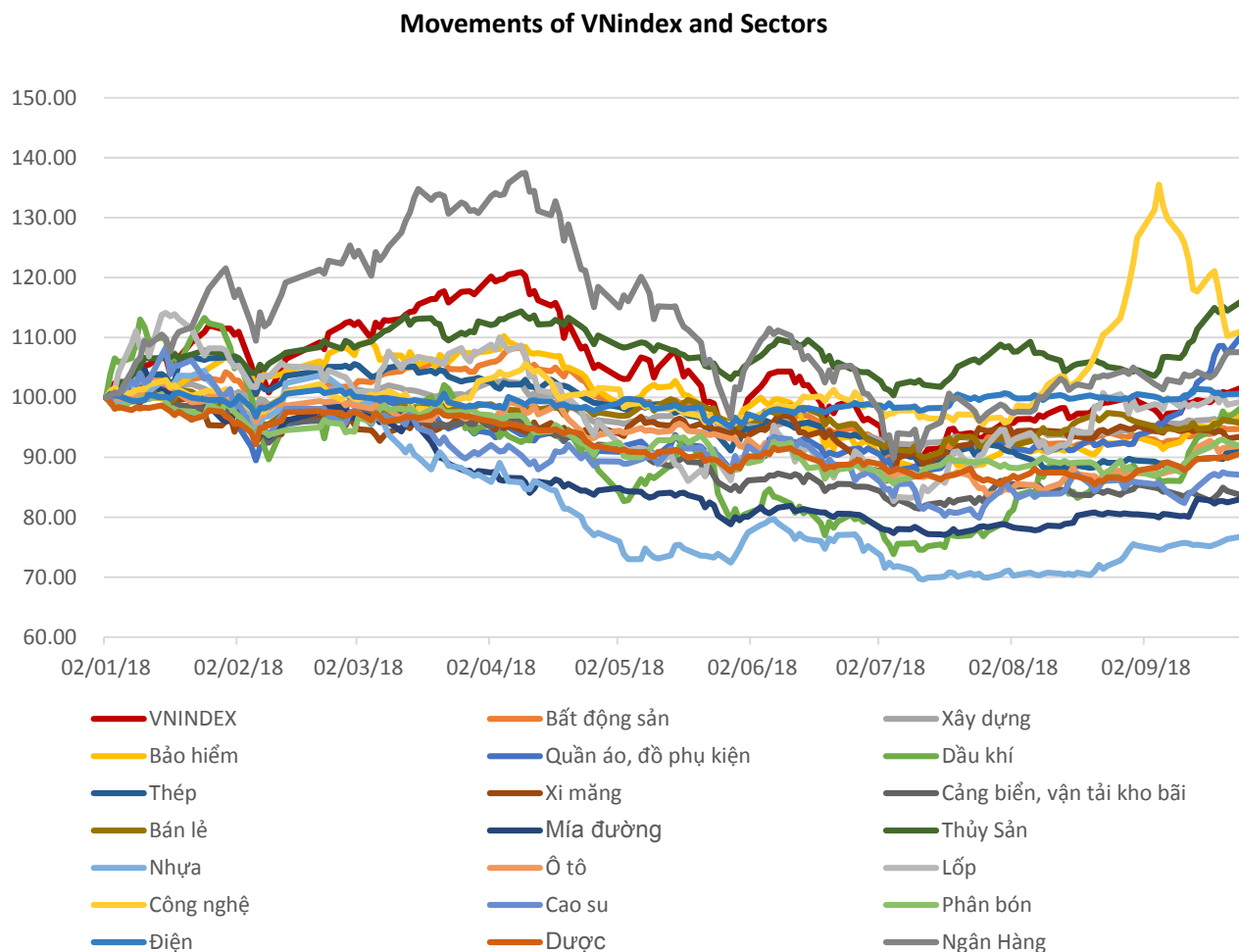
TOP 5 LAGGARDS HNX - INDEX			
Stock	Price on 25/09/2018	Change in price in 3M (%)VU	Index pt
SHB	8,900	-4.3	-0.5692
DL1	33,500	-11.61	-0.2941
VGC	18,800	-14.03	-0.2345
NTP	50,000	-5.66	-0.1394
CEO	14,000	-6.38	-0.11

TOP 5 STRONGEST INCREASED STOCKS OF HNX - INDEX			
Stock	Price on 01/06/2018	Price on 25/09/2018	%Chg
SRA	11,500	35,000	204%
MBG	2,190	5,900	169%
BST	11,200	26,500	137%
BIT	600	1,400	133%
SDD	1,800	3,800	111%

TOP 5 STRONGEST DECREASED STOCKS OF HNX - INDEX			
Stock	Price on 01/06/2018	Price on 25/9/2018	%Chg
CMV	23,001	10,500	-54%
KAC	17,200	7,900	-54%
STT	9,210	5,070	-45%
HOT	48,003	28,250	-41%
ROS	60,696	40,800	-33%

Sources: Bloomberg, BSC Research

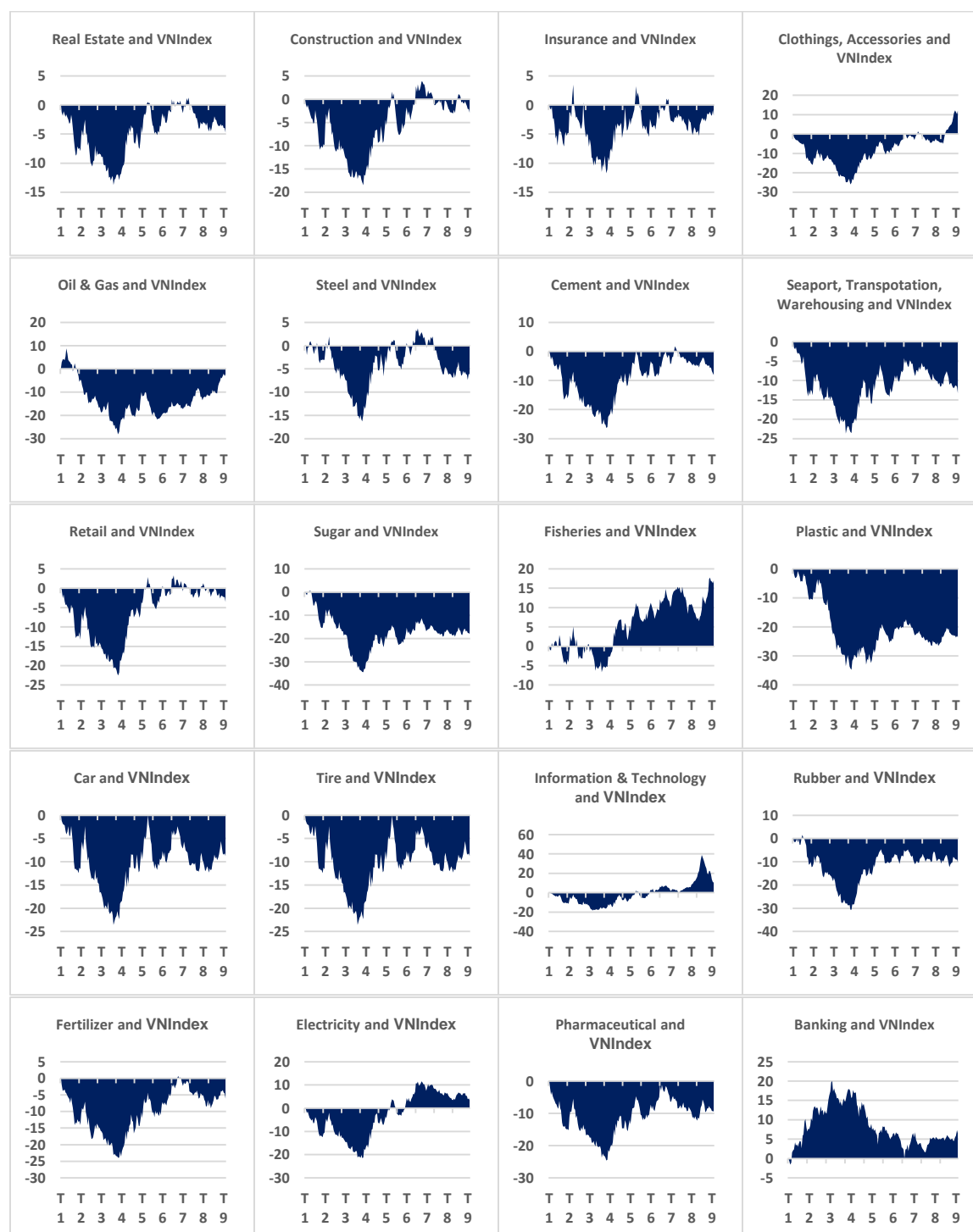
## Comparing sectors' growth vs. the VN-Index in 9M2018



Sources: Bloomberg, BSC research

In general, most sectors fell backwards compared to VN-Index. Banking sector rose higher than the whole market thanks to good business results; Defensed sectors, such as electricity, technology or industries and sectors benefiting from trade war such as fisheries, textiles and clothing, also showed positive signs. In contrast, the remaining sectors such as Plastics, Sugar, Cars, Rubber and Tubes all decelerated more deeply than VN-Index.

## Compare each sector's growth vs. VN-Index in 9M2018



Sources: Bloomberg, BSC research



## Performance of highlighted stock portfolio

Sector	Ticker	Price in 02/01/2018	Price in 02/04/2018	Price in 02/07/2018	Price in 21/09/2018	Increase/ Decrease (HPR)	Avg Volume 6M2018
Banking	ACB	30,673	42,784	28,958	34,400	12%	4,466,049
	BID	27,000	45,000	24,750	35,300	31%	3,028,762
	CTG	24,950	36,200	23,100	28,100	13%	5,960,598
	HDB	0	43,990	36,200	38,850	-12%	2,322,027
	LPB	12,243	15,126	11,021	10,110	-17%	2,613,487
	MBB	21,844	30,086	20,884	22,950	5%	5,962,068
	STB	13,400	15,800	11,100	12,700	-5%	5,909,535
	VCB	55,000	74,000	58,100	64,600	17%	2,642,097
	TCB (**)	0	0	29,297	28,300	-3%	2,068,728
	VPB	26,759	42,024	27,700	26,300	-2%	4,747,438
Insurance	BMI	34,400	31,000	21,200	24,050	-30%	92,832
	MIG	11,943	13,394	13,020	12,940	8%	43,197
	PVI	30,366	36,971	29,000	33,000	9%	273,862
Oil & Gas	BSR	0	26,359	17,489	19,268	-27%	1,742,852
	GAS	91,349	130,457	86,659	115,900	27%	644,044
	PVD	23,000	19,000	13,250	17,800	-23%	2,085,695
	OIL	0	21,166	15,954	16,250	-23%	886,760
	PVB (**)	19,800	15,300	14,800	21,300	8%	146,224
	PVS	22,471	21,500	16,700	23,200	3%	5,037,509
Electricity	NT2	27,477	24,786	24,954	25,700	-6%	406,844
	PPC	22,057	17,869	17,000	18,700	-15%	220,698
	POW	0	16,550	12,830	15,918	-4%	1,669,673
	REE	41,468	38,200	30,650	36,000	-13%	673,233
Real Estate	DIG (*)	19,623	24,953	15,660	17,700	-29%	1,926,103
	DXG	19,601	33,095	26,300	29,800	52%	3,691,098
	HDG(*)	27,944	40,352	28,823	38,800	-4%	190,889
	NLG	25,371	34,322	28,100	32,400	28%	520,021

Sector	Ticker	Price in 02/01/2018	Price in 02/04/2018	Price in 02/07/2018	Price in 21/09/2018	Increase/ Decrease (HPR)	Avg Volume 6M2018
	KBC	13,650	13,750	11,600	12,450	-9%	2,769,451
Consumer	PNJ	88,000	134,640	81,000	101,600	15%	509,664
	MWG	130150	108560	107000	126000	-3%	571,138
	FRT	-	-	78000	75000	-15%	12,996
	VNM	172500	162880	140680	137800	-20%	849,495
Construction	CTD	220,266	152,007	143,294	167,000	-24%	237,305
	HBC	28,247	30,053	23,200	24,450	-13%	1,528,858
	LCG (**)	10,480	8,987	8,560	9,290	-11%	172,846
	FCN(*)	21,653	20,900	16,500	16,450	-21%	524,341
Steel	HPG	34,072	42,144	38,400	41,300	21%	5,494,126
	HSG	21,184	20,031	11,300	12,350	-42%	3,454,504
	NKG	29,286	23,322	15,050	15,200	-48%	364,724
Tiles	CVT	40,512	38,352	25,950	27,500	-32%	418,175
	VGC	25,937	24,138	19,595	19,000	-27%	2,079,076
Cement	BCC	7,800	7,300	6,600	6,800	-13%	43,625
	HT1	15,850	14,600	11,400	13,650	-14%	252,387
Plastic	AAA	24,199	18,102	18,250	17,150	-29%	1,593,308
	BMP	83,630	67,628	57,500	60,200	-28%	252,665
	NTP	65,676	60,146	44,700	51,500	-22%	11,653
Fertilizer	BFC	31,625	32,765	25,800	26,850	-15%	35,545
	DPM	20,477	20,571	16,800	17,950	-12%	697,341
	LAS	13,127	12,749	11,700	11,400	-13%	45,011
	SFG	11,762	12,238	11,950	11,700	-1%	12,972
Rubber	PHR	26,174	27,284	19,600	26,400	1%	295,892
	DRI	11,334	9,679	7,710	6,702	-41%	54,136
	TRC	26,143	25,870	23,137	24,200	-7%	48,602
Tire	CSM	15,751	13,953	13,950	14,050	-11%	198,173
	DRC	24,239	29,840	23,300	27,400	13%	377,926

Sector	Ticker	Price in 02/01/2018	Price in 02/04/2018	Price in 02/07/2018	Price in 21/09/2018	Increase/ Decrease (HPR)	Avg Volume 6M2018
Information	CMG	25,617	28,559	18,828	23,000	-10%	64,528
Technology	FPT	49,531	50,939	39,283	45,900	-7%	1,486,444
Textile	TCM	27,919	22,953	18,850	28,800	3%	345,975
	TNG	11,668	11,751	10,100	15,200	30%	367,224
	VGG	53,528	53,203	49,413	56,784	6%	10,914
Pharmaceuticals	DBD	52,523	48,009	41,900	37,800	-28%	44,427
	DHG	113,349	110,294	99,000	96,900	-15%	260,648
	IMP	56,959	54,785	55,500	52,900	-7%	28,220
	PME	74,275	71,819	73,500	70,400	-5%	11,460
Sugar	LSS	11,001	8,850	7,640	7,080	-36%	58,696
	SBT	20,400	17,400	14,450	21,000	3%	4,242,511
Seaport	GMD	31,667	28,335	23,046	27,300	-14%	805,205
	VSC	39,431	37,064	32,773	43,200	10%	171,016
Transportation	GSP	12,586	12,451	12,300	13,050	4%	7,611
	PVT	17,860	19,604	14,043	17,950	1%	378,583
Aquaculture	HVG	7,860	5,200	2,590	5,190	-34%	299,729
	VHC	51,992	68,300	57,500	93,500	80%	288,697
	FMC	22,156	29,478	20,100	26,400	-10%	176,621
(*)New stocks added to the list of notes in the sector Outlook report in Quarter 2/2018							
(**)New stocks added to the list of notes in the sector Outlook report in Quarter 3/2018							

## Policies and events affect economic sectors in 2018

Domestic and foreign macroeconomic news, new policy amendments and FTAs would have mixed impacts on the stock market in general, enterprises in particular. BSC has listed important policies, milestones in 2018:

No.	Policies and events	Effectuated date	Influence	Degree	Status as 30/06/2018
Macroeconomic Policy and International Economics					
1	Fed raised interest rates, appreciation in US dollar		Negative	Very strong	Affecting
2	Brexit term (GBP depreciates)		Negative	Strong	Affecting
3	ECB easing monetary policy (EUR depreciate)		Negative	Average	Not affected yet
4	Abenomics policy from Japan (JPY depreciate)		Positive	Strong	Affecting
5	Asia economies grow positively		Positive	Strong	Affecting
6	China economic grows slowly (RMB depreciate)		Negative	Very strong	Affecting
7	Material price level increases (oil price)		Mix	Very strong	Affecting
8	Trump economic protection policy		Negative	Very strong	Affecting
Domestic macroeconomics policy					
1	Bad debt Resolution 42	15/8/2017	Positive	Strong	Affecting
2	Circular 19/2017/TT-NHNN	12/2/2018	Positive	Strong	Affecting
3	Decision 3610a/QĐ-BCT	20/9/2017	Positive	Very strong	Affecting
4	Circular 21/2017 of the SBV	02/04/2018	Positive	Average	Not affected yet
5	Laws of special economic administrative zones	2018	Mix	Strong	Not affected yet
6	Policy to reduce interest rates for loans in VND	2018	Positive	Strong	Affecting
7	Inflation may increase		Negative	Strong	Not affected yet
8	Interest rates may increase		Negative	Strong	Affecting
9	USD / VND exchange rate may increase		Positive	Strong	Affecting
10	Public debt is high		Negative	Strong	Affecting
11	Increasing the equitization of SOEs		Neutral	Average	Affecting
12	State capital withdrawal (SCIC, ministry)		Neutral	Very strong	Affecting
13	Increase GDP, FDI, PMI, foreign currency reserves,		Positive	Average	Affecting
14	Proposal to increase environmental protection tax on	01/07/2018	Negative	Strong	Not affected yet
15	Decree 04/2018 / ND-CP	20/02/2018	Positive	Strong	Affecting
16	Circular 03/2018 tightening automobile import	01/03/2018	Positive	Strong	Affecting
17	Stock Market Derivatives		Mix	Strong	Affecting
Free trade agreements					
1	FTA Vietnam - Eurasian Economic Coalition	2016	Positive	Average	Affecting
2	CPTPP	2018	Mix	Average	Not affected yet
3	FTA Vietnam - EU	06/2018	Positive	Strong	Not affected yet
4	RCEP ASEAN + 6	Negotiating	Positive	Strong	Not affected yet
5	Trade war U.S-China	22/03/2018	Negative	Very strong	Affecting

(Source: BSC Research)

## Comparison vs. The regional stock markets

21/09/2018	Vietnam		Median		Indonesia		Malaysia		Phillipines		Thailand	
	P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B	P/E	P/B
Finance	15.15	1.62	17.67	1.55	42.64	1.72	14.80	1.36	17.05	1.81	18.30	1.37
Commodity	14.56	1.78	22.69	3.10	23.88	4.23	23.45	7.78	19.91	1.96	21.93	1.89
Industry	11.18	1.17	18.10	2.16	18.10	2.22	23.62	2.10	17.33	1.62	18.10	2.22
Oil & Gas	10.66	1.22	17.14	0.76	17.14	0.72	23.02	4.47	7.81	0.80	17.14	0.72
Consumer Service	12.75	2.24	42.45	3.27	57.72	3.01	19.38	5.28	27.17	3.53	57.72	3.01
Basic materials	13.64	0.91	19.45	2.07	19.45	1.60	19.67	3.00	9.11	2.54	19.45	1.60
Utilities	9.75	1.74	12.61	1.40	12.61	1.02	22.94	1.79	11.82	2.21	12.61	1.02
Technology	12.57	1.70	42.64	3.50	42.64	3.50	N/A	N/A	N/A	N/A	42.64	3.50
Health Care	18.87	2.06	131.98	2.22	175.65	4.94	131.98	2.02	N/A	N/A	18.10	2.22
Telecommunication	9.11	2.42	17.95	3.49	17.02	3.00	18.87	3.98	18.87	3.98	17.02	3.00

(Source: Bloomberg, BSC research)

(Note: Financial sector includes real estate, according to the Bloomberg classification)

## Investment Strategy for Q4/2018

After a period of fluctuations with the Asian stock markets in the first two quarters of this year, Vietnam stock market began to show signs of differentiation in the third quarter of 2018. The foundation of these differences is that the macro conditions in Vietnam are in a more favorable state than in neighboring countries. In the fourth quarter of 2018, the expectation of fundamentals of business generally improved with business results growing quite fast compared to 2017. If there is no extreme fluctuation in macro conditions and factors from the national market, the opportunities on the stock market will continue. We appreciate the following investment themes:

**Firstly, the adjustment from the new equitization and listing.** From 2016 to 2018, the market has been continuously receiving large IPOs, private placement and listing, prices have been rising from last year and gradually revised to a more reasonable level in Q3 2018. From the fourth quarter of 2018, these stocks will be further divided into fundamentally improved levels, as well as important information on capital withdrawal and transfer.

**Secondly, the opportunity from State Capital Divestment from leading firms.** Similarly, the stock market is divided, causing the price of companies to return to a more reasonable level. The list is similar to Q3/2018, some companies should be noted such as PVI (insurance), CSM, DRC, CSV (chemical), VGC (building materials), firms of SCIC, and the ability to withdraw capital from commercial banks is also worth noting.

**Thirdly, the bank recovered thanks to business performances.** The majority of banks are also listed on the stock exchange and account for a large proportion. After a period of hot growth in share prices, the sharp fall of the second quarter of 2018 has helped many banks to be valued-attractive for long-term investors. However, the Bank's valuation expectation should not be as high as Q1/2018.

**Fourthly, real estate continues to grow.** The period from 2018 to 2019 will be the time to continue to record strong growth in business results. However, developers shift to the average segment more than in previous years and delays in deployment due to licensing procedures. The expectation of mid-term sales and profits is not as optimistic as before, which has an impact on stock outlook. Real estate is an upstream sector so it will also affect downstream sectors such as construction and materials.

**Fifthly, external instability and defensive sectors.** Although Vietnam is in Asian stock market which is recovering after many turmoils, triggered by trade war and tightened monetary policy in big countries, uncertainty in the coming time is unavoidable. At this stage, we still believe that investors can pay attention to the high defensive sector, preferring domestic market such as Electricity (POW, NT2), Retail (MWG, PNJ), Food (VNM) ... the sectors that are still benefiting and maintaining steady growth according to the domestic demand of the economy.

**Sixthly, sectors benefited from the new trend (complementary to previous reports)** The rapidly changing economic outlook, coupled with a global geopolitical environment, is accompanied by rapid growth of technology. This leads to a shift in both production and consumption. One of them is the China + 1 trend that has been going on for years, now with the impact of the trade war, is even stronger. Some sectors of

the Vietnamese economy can benefit: export sectors (textile and garment, seafood ...), export services (logistic, seaports, aviation, industrial zones ...)

## Influence of macroeconomic factors on sectors

Factor	Trade war	Oil recovery	Fed hike	USD appreciation	EU economy slow down/ Brexit/EUR depreciation	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	Unsuccessful TPP	Other FTAs
Marine transportation	(+/-)	(+/-)		(-)	(+)	(-)	(-)		(-)	(+)
Real estate							(-)			
Construction							(-)			
Cement				(-)	(+)		(-)			
Textile	(+/-)	(-)		(+)	(-)	(+)	(-)		(-)	(+)
Electricity		(+)		(-)	(+)	(-)	(-)			
Pharmaceutical				(-)	(+)		(-)			
Plastic		(-)		(-)			(-)			
Tires	(+)	(-)		(+)		(-)		(+)		
Banking	(-)								(-)	(+)
Steel	(-)						(-)	(-)		
Aquaculture	(+)			(+)			(-)	(-)		
Sugar							(-)	(-)		
Oil & Gas		(+/-)		(-)			(-)			
Fertilizer		(-)		(-)			(-)	(+)		
Rubber		(+)		(+)		(-)		(-)		
Tiles		(-)					(-)			
Technology		(-)								(+)
Seaport	(+/-)			(-)			(-)			
Automobile										
Insurance	(-)						(-)			
Retail							(-)			(+/-)
Food				(+)			(-)		(-)	(+/-)

Source: BSC Research

## Sector Outlook for Q4/2018 and FY2018

- We maintain an **OUTPERFORM** rating for **Banking, Oil & Gas, Electricity, Technology, Non-Life Insurance, and Real Estate** based on firm macroeconomic factors, internal and external divestment / capital raising / listing.
- We rate **NEUTRAL** with the following sectors: **Construction, Pharmaceuticals, Steel, Plastics, Tiles, Textiles, Seaports, Marine Transportation, Rubber, Tires, Fertilizers, and Fisheries**. In general, this group does not have enough favorable factors, mixes well and badly, so chances will not come to the whole stock.
- For the sectors in **UNDERPERFORM**, we believe the **Cement and Sugar** sectors will still face many difficulties in 2018. We are not pessimistic, but we believe that investors are interested in these sectors should patiently wait, and we will update our view as new signals appear. In these two sectors, cement is getting better in the export market.

No.	Sector	Q3/2018 Review	Medium and Long - term Recommendation	Notice
1	Banking	Outperform	ACB, MBB, LPB, TCB	VCB, VPB, HDB, STB, BID, CTG
2	Oil & Gas	Outperform	GAS	PVB, PVD, PVS
3	Electricity	Outperform	PC1, GEX, REE	NT2, PPC, POW
4	Technology	Outperform	FPT, CMG	
5	Real estate	Outperform	VHM, DXG, NLG	KDH
6	Non-life Insurance	Outperform	PVI, BMI	MIG
7	Consumer	Outperform	PNJ, MWG, FRT	VNM
8	Construction	Neutral	CTD, FCN	HBC
9	Pharmaceutical	Neutral	PME	DHG, DBD
10	Steel	Neutral	HPG	HSG, NKG
11	Tiles	Neutral	CVT	VGC
12	Plastic	Neutral		NTP, BMP, AAA
13	Textile	Neutral	VGG	TCM, TNG
14	Seaport	Neutral	GMD, VSC	
15	Marine transportation	Neutral	PVT	
16	Rubber	Neutral	DPR	PHR, DRI
17	Tire	Neutral	DRC	CSM
18	Fertilizer	Neutral	BFC, LAS	DPM
19	Aquaculture	Neutral		VHC, FMC, MPC
20	Cement	Underperform	HT1	
21	Sugar	Underperform		SBT

Source: BSC research



## Sector Outlook for Q4/2018 and FY2018

### BANKING SECTOR - OUTPERFORM

We maintain an **OUTPERFORM** rating on banking. (1) Core business results are expected to continue growing thanks to economic growth and the promotion of non-interest income, the potential market that Vietnamese banks have not fully cultivated. (2) Handling of bad debts and restructure weak CIs. The bank's operations are healthier, adhering to the stringent regulations of the world. Many banks are expected to record lower risk provision costs in 2018 and collect provision or other income from NPLs such as VCB, ACB, MBB and TCB. (3) Raising capital in accordance with Basel II, in order to increase the size and weight of banking stocks in the market indexes. However, a number of risks that need attention for the banking sector include: (1) interbank rates and deposit rates increase; (2) The credit growth rate may slow down in the fourth quarter of 2018 and slow down for banks that do not meet the CAR requirement; (3) the world's macroeconomic movements are unpredictable and may have negative impacts on the Vietnamese economy; (4) Vietnamese banks are trading at a forward P/B of 1.75x, which is higher than banks in the region (P/B of 0.92x). We recommend BUY: TCB, MBB, ACB and LPB.

### OIL & GAS - OUTPERFORM

BSC maintains an **OUTPERFORM** rating on Oil & Gas. With prospects for oil prices to remain at current levels and likely to continue a recovery in the future as supplies are cut by US sanctions on Iranian oil and gas. We expect uptrend of upstream oil business will start to improve in 2019 as a result of sector specific factors (reflective lag on common oil prices from 6 months to 1 year). In addition, in 2019, PVN will continue to implement 3 major projects in 2018: Sao Vang Dai Nguyet (Nam Con Son 2), Su Tu Trang Project - Phase 2, and Block B O Mon.

We recommend NOTICE: GAS, PVD, PVS, PVB, BSR, PLX, OIL.

### ELECTRICITY SECTOR - OUTPERFORM

We maintain an **OUTPERFORM** view on electricity sector. The high stability of the electricity business and low beta of this sector cause most stocks to be defensive investment. Rising demand for electricity and increasing price will be the key drivers for firms in the coming time. In addition to electricity production enterprises, stocks related to building materials and electrical installation will benefit as transmission projects continue to be deployed due to high demand for electricity in the South.

We recommend BUT: PC1, GEX, REE and NOTICE: POW, NT2, PPC, NT2.

### TECHNOLOGY\_OUTPERFORM

We remain an **OUTPERFORM** rating on technology sector. In 1H2018, total revenue in the IT industry was estimated at VND1,026 billion (+ 16.15% yoy), of which hardware sales were estimated at VND912,800 billion. IT export reached VND 918,384 billion, an increase of 16.21% yoy. Revenue from telecom services is estimated at VND 181.948 trillion in the first half of 2018, about 49% of the plan (up 4.83% same period of 2017). The number of mobile phones are over 136 million subscriptions, increasing 10,28% yoy, 4G subscription increases 53%. We continue to be optimistic with prospects of the FPT, CMG thanks to the growth of the software export market and broadband Internet.

We recommend BUY: FPT, CMG

#### **REAL ESTATE SECTOR - OUTPERFORM**

We rate **OUTPERFORM** for real estate sector in the second half of 2018 thanks to the fact that this is time to hand-over apartments and recognize profit. However, the slowdown in new supply in the market in Q2 and Q3/2018 and a cooling down in real estate, with the interest rate upward trend is one of the factors that need special attention. BSC continues to positively evaluate companies with good quality products and sales progress, such as VHM, KDH, DXG, NLG, HDG. In addition, BSC also notices many new real estate codes such as VPI, Cenland, HPX ...

We recommend BUY: DXG, NLG, VHM.

#### **NON – LIFE INSURANCE SECTOR - OUTPERFORM**

We rate OUTPERFORM for the non-life insurance sector. The non-life insurance sector has continued to grow at over 10% due to continued high economic growth, especially health and financial insurance with a growth rate of over 20%. Insurance companies are trading at relatively attractive prices (now trading at or below the book value). Savings and bond yields will tend to have a positive impact on the financial performance of insurers (deposits and bonds account for 80-85% of the portfolio) in the fourth quarter half of 2018 and 2019.

We recommend BUY: PVI, BMI

#### **CONSUMER SECTOR - OUTPERFORM**

BSC maintains an OUTPERFORM rating on consumer sector. We estimate the consumer sector 2018 will continue to grow at an average of 7% - 15% on the assumption that the economic environment continues to grow well with 2018 GDP growth remaining at between 6.7% - 7%, inflation rate remains below 4% and the industrial production index fluctuates around 11%. For the F&B sector, the market is saturated so growth will be around 6% - 8% in 2018 and profit margins will improve as raw material costs tend to decrease in 2H2018. For the consumer retail sector, we are optimistic about the double digit growth rate of 11% - 15%, but we note that for the electronics industry, the growth rate is slowing due to low potential.

We recommend BUY: PNJ, MWG, FRT, and NOTICE: VNM.

#### **CONSTRUCTION SECTOR - NEUTRAL**

Since previous quarter, we have downgraded our rating for construction sector from **OUTPERFORM** to **NEUTRAL** due to the fact that construction sector's cycle has gone through its peaking period and is now turning into the slowdown phase: (1) The value of new contracts is expected to pose a flat growth, (2) gross profit margin of the industry witnessed a decline due to increasing competition, the tendency of real estate to move from high-end to the midend/affordable segments and the escalation of raw material prices. (3) The climb of interest rates will exert a notable impact on firms having high debt/equity ratio. (4) The shift in structure of construction contracts from residential to infrastructure, industrial parks, office, and resort. The current average P/E of construction sector is 8.8x.

We recommend BUY: CTD, LCG and FCN

## **STEEL SECTOR – NEUTRAL**

We reiterate our rating for steel sector as **NEUTRAL** since consumption continues to grow notably; nevertheless, competition in the industry prosecute to accelerate especially for galvanized steel companies. The escalation of steel prices will also brake the profitability growth of steel firms in the second half of 2018.

We recommend BUY: HPG

## **TILES SECTOR – NEUTRAL**

We maintain our **NEUTRAL** rating with regards to the prospect of tiles industry. We predict that business results of tiles enterprises would be more positive in the last quarter thanks to the increasing demand to complete construction projects. The increment in demand during these last months would also bolster firms to loosen discounts and raise selling prices. However, arduousness is still there due to the escalated prices of input materials.

We recommend BUY for CVT and HOLD for VGC

## **PLASTIC SECTOR – NEUTRAL**

We reiterate our rating for the prospects of steel sector as **NEUTRAL** in 2018. In 1H2018, the plastic building materials witness ineffective performance, however, the consumption is expected to perform better in the mid and end of the year owing to the seasonality of construction activity. For plastic packaging, consumption forecasted to achieve well growth thanks to consumption demand of households and F&B businesses. The acceleration prices of plastic grain will also enhance firms' profitability.

We recommend HOLD: NTP, FOLLOW: BMP and AAA.

## **PHARMACEUTICALS SECTOR – NEUTRAL**

We maintain our **NEUTRAL** rating with respects to pharmaceutical sector. Despite the increasing competition among pharmaceutical companies, the growing potentials such as Vietnam's low demand for medicines, cheap labor as well as government incentives for the domestic pharmaceutical firms are still bright spots for pharmaceutical stocks.

We recommend BUY: PME

## **TEXTILE SECTOR – NEUTRAL**

We uphold our **NEUTRAL** view on the textile industry, but consider an additional quarter before deciding whether to raise our rating or not. We linger our optimism about the growth and earnings of textile & apparel companies in short to medium term. On one hand, investors should note that the current valuation for textile stocks is not critically high (median P/E fluctuates around 7x-9x), and this sector also faces risks associated with FTAs. On the other hand, we also notice the possibility that market sentiment will react positively when EV-FTA takes effect or when trade war become intense. This will eventually support the trading prices for textile sector's stocks

We recommend BUY: VGG and HOLD TCM, TNG at these current prices.

## SEAPORT SECTOR - NEUTRAL

We maintain our **NEUTRAL** viewpoint on seaport sector, and note that positive factors are rising. New-signed FTAs are motivated to boost demand for import and export of goods through seaports. In addition, US-China trade war may have mixed impact on this sector due to declining bilateral trade between the two countries as a result of Vietnam's protectionist policies. In general, seaports in Hai Phong area will continue to face difficulties due to high competition, especially after Lach Huyen Seaport with the capacity of 1 million TEUs operating from May 2018 and Gemadept Nam Dinh Vu Phase 1 with the capacity of 500,000 TEUs going to run in Feb 2018. The oversupply is estimated to be 40% of the total demand. Cai Mep - Thi Vai deep-water seaports will benefit from the trend of increasing shipping load, then serving exceed goods in Ho Chi Minh region such as Cat Lai because this seaport system had no room left for growth. Therefore, we maintain our NEUTRAL rating for seaport sector at P/E TTM of 5.6x, ROA of 4.03% and ROE of 11.85%.

We recommend BUY: GMD and VSC.

## MARINE TRANSPORTATION SECTOR – NEUTRAL

We maintain **NEUTRAL** rating on the prospect of marine transportation. Differentiation is still going on robustly with businesses in this sector. For liquid transport companies, they are running stably thanks to currently coming into operation oil refinery projects. However, for bulk transportation, there are still many difficulties such as the intense competition regarding prices and service of local companies compared to the other international marine transport firms with different logistics services.

We recommend BUY: PVT

## RUBBER SECTOR – NEUTRAL

We reiterate our rating for rubber sector's stocks as **NEUTRAL**. Most of the companies in rubber industry have high dividend rate (40% -50%). However, business results of this sector depend mainly on the price of rubber and the export situation, especially to China. We meditate that rubber price has bottomed out and it is relatively hard to reduce in long term. Exports in recent years have grown from 10% -20% due to China manufacturers' great demand of tires and tubes. In addition, some companies in the setor also have a large source of wood disposal such as DPR, PHR. This would ensure the profit for businesses in the next 1-2 years.

We recommend BUY: PHR, DRI.

## TIRE SECTOR – NEUTRAL

In 4Q2018, we anticipate that tire enterprises will have a resurgence in earnings as rubber prices is expected to bottom out and the growing potential comes from the consumption of Radial tires. However, with the current volatility of input material prices, the trend of automobile in Vietnam is not clear and the sector is also highly valued. We maintain **NEUTRAL** opinion on the prospect of the tire industry as Vietnam Sector Outlook Report in Q2. With respects to positive factors coming from the ability to divest, we believe that short-term impact will be more significant than medium and long term.

We recommend BUY: DRC.

## **FERTILIZER SECTOR – NEUTRAL**

We uphold **NEUTRAL** recommendation for fertilizer stocks with high expectations for changes in tax policy and plans to divest from PVN and Vinachem. However, the fertilizer market is highly competitive, the oversupplied situation is still happening and the demand is growing slowly. Therefore, the consumption and selling prices of these enterprises might be affected. The draft of fertilizer VAT law has already included in the parliamentary agenda. Nevertheless, even with the blue – sky scenario, it still need to wait until 2019 to see whether this law would be taken into effect or not.

We recommend BUY: BFC, LAS

## **FISHERIES SECTOR – NEUTRAL**

We reiterate our **NEUTRAL** rating on fisheries sector. High demand in new export markets (China, Japan) is the growth engine for fisheries enterprises in the next 1-2 years. Business results of fisheries companies all experience impressive growth, and BSC expects this significantly high growth rate to continue in 2H2018.

## **CEMENT SECTOR – UNDERPERFORM**

We maintain our **UNDERPERFORM** view on the prospect of the cement industry in 2018 as the overcapacity situation has led to intense competition. Meanwhile, the upward trend of input prices has eroded many firms' profits since these enterprises have to maintain low prices to push consumption. However, the EUR/VND exchange rate may be a factor supporting earnings in some companies with significant EUR loans. We also note that cement exports are showing more positive signs than before.

## **SUGAR SECTOR – UNDERPERFOR**

We maintain our **UNDERPERFORM** rating on sugar sector based on the fact that oversupply context will recommence in the year of 2018/19 with surplus level of 10.65 million. This would eventually pose a burden on the world's sugar prices. Simultaneously, the problem of smuggled sugar from Thai Lan and the slow demand of client will exert a negative impact on the sugar firms' potentials in the year of 2018/19.

## Stock Picking in 2018

Ticker	Sales 2018 (VND bn)	NPAT 2018 (VND bn)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
ACB	13,420	4,875	4,449	7.73	1.79	1.58%	26.43%	34,400	50,830
MBB	16,909	5,782	2,516	9.12	1.53	1.75%	18.66%	22,950	26,000
LPB	5,721	1,536	1,962	5.15	0.75	0.88%	15.72%	10,100	13,536
TCB*	17,954	8,115	2,321	12.19	1.91	2.73%	20.58%	28,300	32,800
VCB	34,370	12,117	2,914	22.17	3.86	1.13%	21.50%	64,600	N/A
CTG	31,968	8,402	1,870	15.03	1.54	0.74%	12.76%	28,100	27,413
VPB	30,075	8,640	5,501	4.78	1.25	2.91%	28.36%	26,300	N/A
HDB	12,803	3,137	2,866	13.56	2.45	1.35%	17.80%	38,850	N/A
STB	N/A	1,212	571	22.24	1.01	0.71%	5.18%	12,700	N/A
GAS	70,329	10,735	5,347	16.55	4.01	16.33%	23.03%	115,900	N/A
PVD	4,085	(322)	N/A	N/A	0.40	0.20%	0.34%	17,800	N/A
PVS	17,039	879	1,809	9.56	0.66	3.24%	6.78%	23,200	23,155
PVB	207	20	935	16.47	0.78	4.60%	4.90%	21,300	19,600
BSR	113,789	5,425	1,761	10.95	1.73	8.62%	15.86%	19,300	N/A
PLX	158,000	5,000	4,317	16.4	4.38	7.48%	23.3%	70,800	N/A
OIL	66,267	510	493	33.47	1.51	2.39%	4.91%	16,400	N/A
PPC	6,613	877	2,688	6.98	1.00	11.46%	15.90%	18,750	21,202
NT2	8,071	849	2,958	8.99	2.09	7.74%	14.80%	26,600	30,200
PC1	5,838	558	4,140	6.84	1.10	7.18%	17.26%	28,300	37,280
GEX	13,757	1,340	3,300	8.42	1.61	7.95%	17.53%	27,800	40,000
POW	32,383	2,659	1,221	13.02	1.48	4.76%	8.75%	15,900	N/A
REE	5,060	1,611	5,196	6.93	2.01	9.95%	15.13%	36,000	40,195
FPT	22,095	3,042	4,593	11.49	2.62	11.72%	22.40%	45,900	52,819
CMG	5,008	205	2,853	8.06	1.33	12.28%	20.10%	23,000	27,103
DXG	5,027	1,314	3,919	6.60	1.30	24.00%	10.00%	29,800	38,460
VHM	72,640	17,686	6,550	16.00	1.96	14.20%	33.10%	104,000	142,000
NLG	3,874	792	3,253	10.80	0.90	17.90%	7.10%	32,400	38,250
KDH	3,854	742	1,915	16.20	1.62	8.11%	5.17%	33,200	N/A
CTD	28,832	1,549	18,601	9.50	1.69	17.00%	9.00%	162,500	190,300
HBC	19,900	953	4,526	5.30	1.80	30.00%	6.00%	23,950	NA
FCN	3,500	250	2,808	5.80	0.88	12.00%	4.30%	16,300	19,320
LCG	2,487	95	954	9.80	0.66	6.90%	2.20%	9,260	10,900
DHG	4,150	730	5,583	20.30	3.70	17.60%	22.80%	96,900	N/A
PME	1,859	335	5,135	14.70	2.40	17.60%	19.50%	70,400	83,915
DBD	1,584	162	3,092	11.99	2.38	10.40%	20.40%	37,100	N/A

Ticker	Sales 2018 (VND bn)	NPAT 2018 (VND bn)	EPS 2018 (VND)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
PVI	7,471	617	2,632	12.35	1.12	3.00%	8.33%	32,500	37,830
BMI	4,165	243	2,098	11.30	0.96	4.42%	9.21%	23,700	31,332
MIG	2,349	95	1,181	10.75	1.06	2.10%	8.60%	12,700	16,393
HPG	54,634	9,382	4,419	9.26	2.37	15.10%	24.70%	40,900	44,192
NKG	17,160	573	3,165	4.60	0.84	5.58%	18.05%	14,550	N/A
HSG	31,065	909	2,367	5.28	0.87	3.99%	14.53%	12,500	N/A
PNJ	14,160	1,000	5,730	17.7	3.9	27%	18%	101,600	128,500
MWG	89,782	2,921	9,215	13.7	4.7	34%	11%	126,000	162,200
FRT	7,448	183.1	8,887	8.4	4.7	34%	38%	75,000	84,000
VNM	55,748	10,178	7,012	22.9	8.9	28.4%	43%	137,800	141,870
VGC	9,415	680	1,353	14.03	1.31	4.26%	10.00%	19,000	18,400
CVT	1,470	180	4,654	5.90	1.52	13.00%	30.00%	27,500	32,580
NTP	4,636	329	3,320	15.51	2.08	7.80%	15.00%	51,500	49,070
BMP	4,072	438	4,872	12.36	1.92	14.40%	17.90%	60,200	N/A
AAA	6,000	330	2,632	6.51	1.29	N/A	N/A	17,150	N/A
BFC	6,831	301	3,715	7.5x	1.26 x	7.70%	25.10%	27,800	29,252
VGG	9,873	408	6,825	8.21	1.53	8.70%	26.10%	56,000	63,000
TNG	3,453	141	2,388	6.36	1.29	5.20%	17.00%	15,200	15,400
TCM	3,467	253	4,180	6.89	1.49	8.10%	18.70%	28,800	29,300
GMD	3,981	585	2,031	12.24	2.14	5.00%	7.00%	27,300	31,000
VSC	1,354	310	5,628	7.70	1.27 x	11.90%	17.30%	43,200	47,101
PVT	7,256	529	1,694	9.89	0.97	5.80%	11.10%	17,700	20,615
PHR	1,290	268	1,751	14.20	1.38	7.70%	11.20%	24,900	N/A
DPR	946	216	4,553	8.82	0.72	6.10%	7.90%	39,200	40,997
DRI	604	102	1,324	5.14	0.58	6.94%	10.98%	6,800	9,837
DRC	4,270	169	1,283	18.60	1.82	5.95%	11.00%	23,850	27,707
LAS	4,000	163	1,355	8.50	0.98	5.20%	12.39%	11,300	13,200
DPM	8,577	371	948	18.93	1.12	6.90%	9.94%	17,950	22,800
IMP	1,447	173	3,115	16.98	1.62	6.00%	10.00%	52,900	71,500
HT1	8,289	596	1,563	8.74	0.91	5.65%	10.36%	13,650	16,500
VHC	9,000	600	6,500	12.40	2.50	12.50%	19.70%	93,500	67,350
FMC	3,700	120	2,985	9.04	1.82	7.50%	24.10%	27,000	N/A
SBT	8,659	576	1,084	37.00	1.60	2.30%	11.20%	21,000	17,350

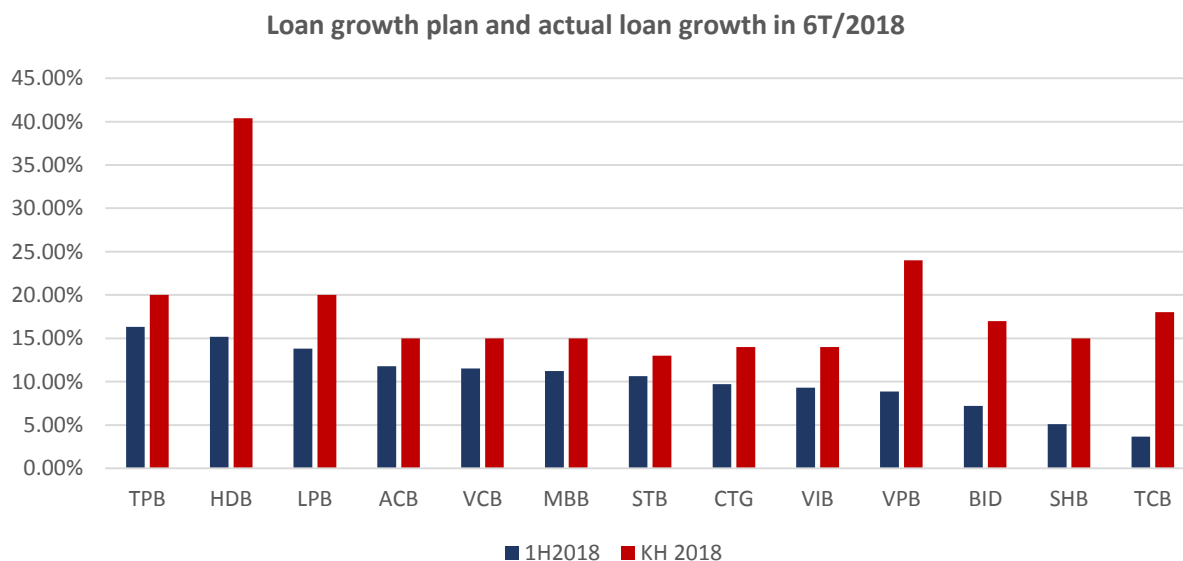
Source: BSC Research

## Banking [Outperform]

- Credit grew by 9.15% as of 20/9/2018, much lower than the rate of 11.02% in the same period of 2017.
- Mobilized Capital increased by 9.15% as of 20/9/2018. The loan-to-deposit ratio was high, reaching 87.57% at the end of July.
- Lending rate is stable while deposit rate down.
- Interbank interest rate increased in Q3/2018. Average overnight, 1-week, 1-month rate is 2.89%; 3.07% and 3.43%.
- Total NPAT of 16 listed banks rose by 53.82%.

### 3Q/2018 Review

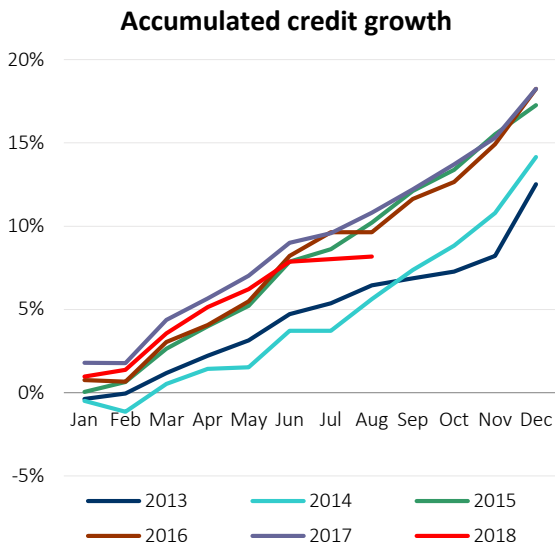
**Credit increased by 9.15% ytd as of 20/9/2018, much lower than 11.02% in the same period of 2017** (General Statistics Office). In August, the SBV issued Directive 04, stating that the agency would not raise the credit growth ceiling for banks in 2018 (except for special cases). Meanwhile, up to the end of Q2/2018, loan growth in many banks has nearly hit this ceiling. As a result, banks' profit growth may slow, as 70-80% of operating income comes from credit activity. We think that credit growth in 2018 is about 17%, which is equivalent to the target of the State Bank of Vietnam. Long-term credit growth of many banks may be slow if banks fail to raise sufficient capital to meet Basel II requirements.



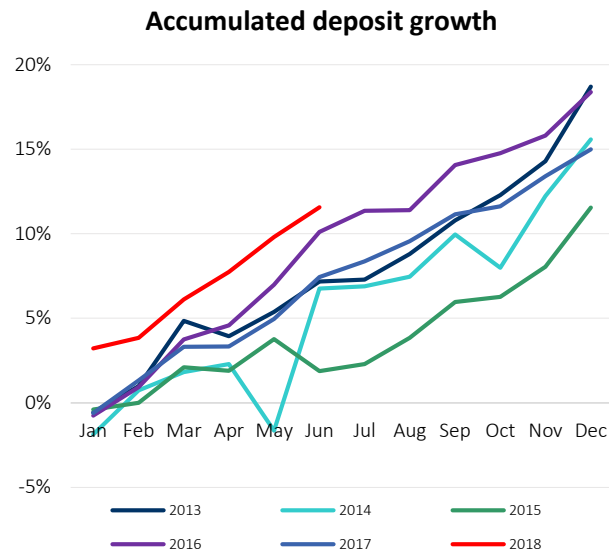
Source: BSC Research

**Capital mobilization increased by 9.15% as of 20/9/2018** (General Statistics Office). The bank's lending/deposit ratio remained high at 87.57% at the end of July, 2018, of which 93.7% for state owned commercial banks, 81.65% for joint-stock commercial bank, higher than SBV's. Therefore, in order to ensure safe rates as required by Circular 36 and 06, banks should speed up the mobilization of capital or control credit growth targets.





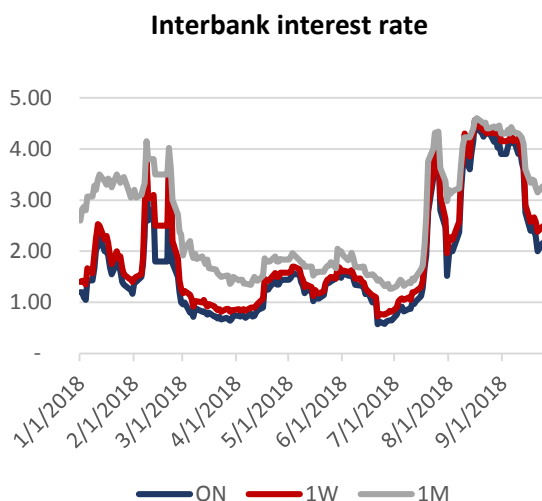
Source: SBV



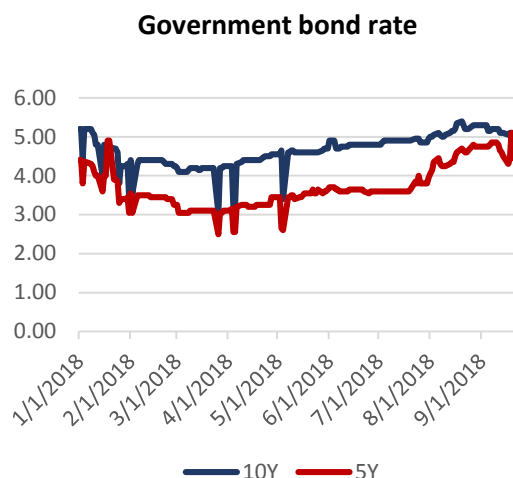
Source: SBV

**Deposit rate increased in Q3/2018, mainly increased long-term,** due to (1) Banks raised capital mobilization to ensure the above mentioned loan / deposit ratio; (2) The ratio of short-term funds used for medium- and long-term loans will fall to 40% at the beginning of 2019, 5% lower than current rates. Specifically, Vietinbank increased interest rates of most of the term, in which, up 0.6-1.4% with term of over 8 months. With term deposits over 24 months, deposit rates increased from 7.2% to 8.6%. BID increased 0.2% for 1, 2, 5 and 6 months term. Vietcombank increased 0.1% of term over 12 months term. Ban Viet increased 1.4% for term deposits over 24 months to 8.6%, the highest level in the market. In addition, this bank also increased 0.6-1.4% depending on the deposit with different terms, over 8 months. Seabank raised interest rates on 14-month deposits to 8.2%. SHB raised interest rates for 6-11 months by 0.2%. Techcombank increased 0.1% for the amount of less than 1 billion, 1 month term and over 12 months. For the third quarter of 2018, only MBB fell 0.2% -0.6% for 1, 2 and 3 month deposits. Raising deposit rates while lending interest rates have not increased adequately may adversely affect NIM and short-term bank earnings, therefore the target for decreasing lending rates of the Government and SBV is difficult to implement.

**Interbank interest rates and government bond interest rates continue to rise.** (1) The first half of Q3/2018, the interbank interest rate increased sharply, the overnight interest rate increased to 4.53% due to the impact of interest rates on USD and USD appreciation, decreased money of the State Treasury in from commercial banks. From the second week of September, 2018, interbank rates fell again. Quarter 3/2018, overnight interest rates, 1 week and 1 month respectively were 2.89%; 3.07% and 3.43%, higher than the Q2/2018 average. (2) Interest rates on 5-year and 10-year government bonds averaged were 3.71% and 4.66%, respectively, higher than 3.42% and 4.55% respectively. The interbank rates and the government bond interest rate increased, reducing the bank's profitability.



Source: Bloomberg



Source: Bloomberg

**The story of banks' strategic shareholders.** As we stated in previous reports, raising capital is essential need of banks. VCB pursuit its private issuance plan which was passed by Government to maximum of 10 foreigner investors. BIDV make effort to find strategic partners. In the second half of September, VCB was approved by SBV to raise its chartered capital by 10% to VND39.6 trillion via private placement. The document is valid for 12 months from the date of signing. However, according to our understanding, banks and financial institutions have not yet agreed on the price and the locking time of the stock is 1 year. So the story of selling VCB's capital may continue and prolonged.

**Some banks plan to list in the stock exchange** including OCB (charter capital was VND 4,000 billion), Maritimebank (VND 11,750 billion), Seabank (VND 5,466 billion), ABBbank (VND 5,319 billion), Saigonbank (VND 3,080 billion), Nam A Bank (VND 3,021 billion), Viet A Bank (VND 3,500 billion).

**The first two quarters of 2018 achieved positive growth.** Ending 6T2018, total profit after tax of 16 listed banks reached 34,246 billion, up 53.82% yoy. Most banks recorded positive growth, only LPB and EAT dropped 22.77% yoy. Some banks with high profit growth included VIB (+ 200.98% yoy, mainly driven by a 54.5% yoy increase in interest income to VND2,256 bn, while other expenses were almost unchanged), ACB (+ 151.22% by the bank to set up G6 and VAMC in 2017); HDB (+ 141.52% yoy); TPB (+ 112.18% yoy); TCB (+ 90.02% yoy, if excluding irregular income from divestment, EBT increased 57.31% yoy); STB (+ 65.52% yoy); MBB (+ 54.79% yoy); VCB (+ 53.32% EAT, excluding profit from off-balance sheet debt and income from divestment, EBT increased 21.7% yoy); BAB (+ 47.26% yoy); BID (+ 45.14% yoy); ....

	CTG	VCB	BID	MBB	STB	TCB	VPB	ACB	HDB	LPB	TPB	VIB
Scale												
Chartered capital (VND bn)	37,234	35,978	34,187	21,605	18,852	34,966	24,963	11,259	9,810	7,500	5,842	5,644
Equity (VND bn)	68,042	58,603	53,097	31,331	23,649	47,429	32,989	18,319	16,576	9,787	9,657	9,663
Total Asset (VND bn)	1,140,081	977,682	1,268,549	333,203	400,686	300,404	293,112	309,968	191,293	175,881	126,533	127,238
Total Equity/Total Asset	5.97%	5.99%	4.19%	9.40%	5.90%	15.79%	11.25%	5.91%	8.67%	5.56%	7.63%	7.59%
Growth (ytd)												
Asset growth	4.11%	-5.56%	5.51%	6.16%	8.74%	11.51%	5.53%	9.02%	1.03%	7.62%	1.94%	3.31%
Loans growth	9.72%	11.52%	7.18%	11.21%	10.65%	3.64%	8.87%	11.76%	15.16%	13.82%	16.31%	9.29%
Customer deposit growth	13.22%	7.90%	12.16%	6.64%	11.25%	8.96%	13.29%	10.94%	5.18%	14.06%	6.93%	10.17%
CASA	13.50%	28.34%	17.01%	30.46%	14.47%	22.35%	11.52%	15.36%	8.53%	21.57%	14.38%	15.01%
Loan/Deposit	101.77%	79.27%	96.33%	87.24%	69.32%	89.49%	131.44%	82.85%	94.92%	78.27%	98.14%	115.87%
Asset Quality												
NPL ratio	1.29%	1.15%	1.49%	1.29%	3.70%	2.04%	4.07%	0.78%	1.43%	0.98%	1.17%	2.33%
NPL ratio including VAMC's debt	1.29%	1.15%	2.51%	1.29%	17.51%	2.04%	5.39%	0.78%	2.08%	1.72%	1.73%	3.14%
Bad debt provision/total debt	1.44%	1.62%	1.26%	1.37%	1.27%	1.51%	1.79%	1.02%	1.14%	1.11%	1.15%	1.24%
NPL coverage ratio	111%	141%	85%	106%	34%	74%	44%	131%	80%	113%	99%	53%
Interest, fee receivable/Total loan	1.69%	1.08%	1.24%	1.41%	9.64%	2.80%	2.00%	1.07%	2.59%	3.31%	1.56%	1.36%
Business effectiveness (ytd)												
NPAT (bn)	4,237	6,431	3,942	3,040	768	4,150	3,501	2,462	1,495	546	819	921
% yoy	8.53%	52.32%	45.14%	54.79%	65.52%	90.02%	34.34%	151.22%	141.52%	-22.77%	112.18%	200.98%
NIM (TTM)	2.66%	2.54%	2.98%	4.41%	2.09%	3.79%	9.00%	3.39%	4.22%	3.50%	3.39%	3.48%
CIR (TTM)	41.06%	41.35%	31.69%	39.28%	-29.94%	27.94%	32.31%	44.74%	45.19%	62.28%	47.26%	48.70%
ROA (TTM)	0.70%	1.15%	0.61%	1.44%	0.39%	3.13%	2.65%	1.24%	1.41%	0.93%	1.07%	1.38%
ROE (TTM)	11.94%	20.26%	14.52%	15.06%	6.33%	25.60%	24.06%	21.51%	18.16%	15.92%	17.38%	19.06%
EPS (VND) (TTM)	2,085	3,140	2,378	2,102	819	2,563	3,069	3,320	2,797	1,701	2,215	3,197
BVPS (VND)	18,191	16,261	14,628	16,384	12,544	13,564	21,006	16,270	15,886	12,878	14,374	17,120
Valuation												
P/E	13.48	20.57	14.84	10.92	15.51	11.04	8.57	10.36	13.89	5.94	11.85	8.88
P/B	1.54	3.97	2.41	1.40	1.01	2.09	1.25	2.11	2.45	0.78	1.83	1.66

Source: BSC research

## Investment Outlook - Outperform

We keep our OUTPERFORM view on Banking stocks. (1) Core business is expected to maintain strong growth due to economy grew by more than 6% and the banks boost non- interest income. (2) SBV and banking system focus on solving NPLs and restructuring weak CIs. Banks follow the strictly regulation therefore, they are healthier. We project that some banks will make lower provision expense while record reversal of provision or other profit from recovery off balance sheet NPLs. (3) Raising capital as required by Basel II will increase the weight of banks in VNindex. (4) Some banks listed/ is going to list in 2018. However, some risk factors that need attention for the banking sector include: (1) interbank rates and mobilizing rates increase; (2) the credit growth rate may slow down in the second half of 2018 and slow down for banks that do not meet the CAR requirement, (3) the unpredictable world macroeconomic movements could have a negative impact on the Vietnamese economy.

We recommend BUY: TCB, MBB, ACB and LPB.

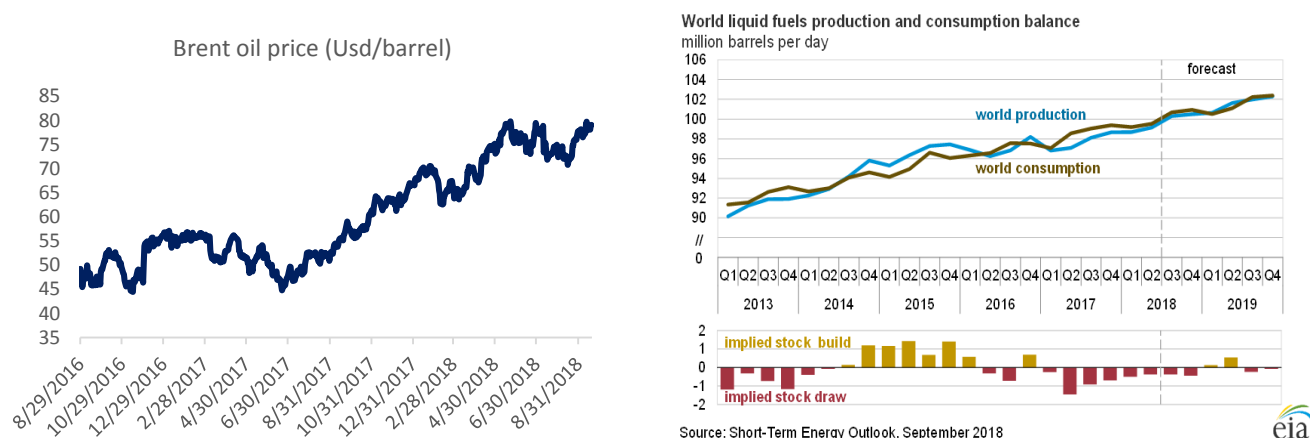
Ticker	Sales 2018 (VND bn)	NPAT 2018 (VND bn)	EPS 2018	P/E FW	P/B	ROA 2018	ROE 2018	Price at 21/09/2018	Target price
ACB	13,420	4,875	4,449	7.73	1.79	1.58%	26.43%	34,400	37,100
MBB	16,909	5,782	2,516	9.12	1.53	1.75%	18.66%	22,950	26,000
LPB	5,721	1,536	1,962	5.15	0.75	0.88%	15.72%	10,100	13,536
TCB*	17,954	8,115	2,321	12.19	1.91	2.73%	20.58%	28,300	32,800
VCB	34,370	12,117	2,914	22.17	3.86	1.13%	21.50%	64,600	N/A
CTG	31,968	8,402	1,870	15.03	1.54	0.74%	12.76%	28,100	N/A
VPB	30,075	8,640	5,501	4.78	1.25	2.91%	28.36%	26,300	N/A
HDB	12,803	3,137	2,866	13.56	2.45	1.35%	17.80%	38,850	N/A
STB		1,212	571	22.24	1.01	0.71%	5.18%	12,700	N/A

Source: BSC research, VCB: excluding profit from divestment MBB, EIB

## Oil & Gas [Outperform]

- Average Brent oil price in Q2/2018 increased by 47.8% yoy and 11.5% qoq.
- The EIA raised its Brent crude price forecast to \$73 per barrel by 2018 and \$74 per barrel by 2019.
- Many new projects have been launched: Golden Star, Lot B, O Mon, Su Tu Trang Phase 2.
- The gas distribution/transportation businesses recorded positive business results (42% EAT), while the remaining group displayed a sharp decline in net profit (-78.1%).

**The average Brent oil price in Q2/2018 increased 47.8% yoy and 11.5% qoq.** Maintaining upward momentum from the end of the first quarter, oil prices continued their upward trend in the second quarter. In the second quarter, Brent crude was at \$ 74.96 a barrel (+ 47.8% yoy) and up 11.5% average of the first 3 months. Oil is currently trading around \$ 78.1 an ounce, ahead of forecasts for tight supplies and US crude inventories continuing to fall as refineries are operating at 98.1% of capacity.



Source: Bloomberg, EIA

**The EIA raised its Brent crude price forecast to \$ 73 per barrel by 2018 and \$ 74 per barrel by 2019.** This is the subject of the T9 / 2018 Energy Outlook. The optimistic outlook for the energy sector stemming from US sanctions against Iran's oil and gas sector is expected to come into effect in November, which will help cut supplies. Iran's crude oil exports are forecast to fall 19% from the 7T / 2018 average.

**Many new projects have been started.** In the end of July 2018, PVN, PV Gas and other mines have signed contracts to develop the Sao Vang - Dai Nguyet mine, which is expected to start operating oil and gas in Q3 / 2020. Other projects are expected to be implemented in the period 2018-2019 including (1) Block B O Mon, (2) White Lion - Phase 2. In addition, we find that high level personnel restructuring of PVN has been completed, expecting to help the oil and gas industry to operate more efficiently.

**Oil and gas business results in the first six months of 2018 improved well** but suffered a strong division. In general, gas transportation / distribution businesses have more positive business results, benefiting from higher oil prices. Upstream businesses continue to face difficulties in the context of progress of investment projects are slow and only show signs of restart in late 2018. Total revenue of oil and gas industry 6T / 2018 reaching VND61,672 billion (+ 16% yoy) and after tax profit of VND6,134 billion (+ 4% yoy). However, the segmentation was quite noticeable with GAS being a strong growth of net profit (+

42% yoy) while the rest of the sectors saw a drop in earnings (1) Delay of oil price and (2) Progress of new projects 6T2018 is slow (Red Dragon fish is suspended).

Ticker	Sale 1H2018 (VND bn)	% yoy	Gross profit 1H2018	Gross profit 1H2017	Net income 1H2018 (VND bn)	% yoy
GAS	38,188	18%	23.0%	19.2%	5,679	42%
PVG	1,963	-62%	12.4%	4.7%	6	-99%
PVS	7,665	180%	5.3%	18.3%	489	-56%
PVD	2,730	88%	0.2%	11.4%	(308)	N/A
PGS	3,013	5%	17.1%	19.8%	50	-8%
PVC	1,137	-31%	7.4%	9.5%	(9)	N/A
PGC	1,570	12%	20.5%	22.0%	78	18%
PXS	61	-92%	-49.6%	6.5%	(47)	N/A
CNG	813	29%	12.4%	18.7%	46	-8%
PVE	751	-18%	9.4%	8.6%	8	-35%
PGD	3,782	19%	11.2%	11.3%	142	79%

Source: FiinPro, BSC Research

### Investment Outlook - Outperform

BSC maintains an **OUTPERFORM** rating on the oil and gas industry. Given the prospect that oil prices will remain at current levels and have a sustained uptrend in the future, we expect the uptrend of the upstream oil business will start in 2019. Industry specific factor (Reflective latency of normal oil price from 6 months to 1 year). In addition, in 2019, PVN will continue to implement 3 major projects in 2018: Sao Vang Dai Nguyet (Nam Con Son 2), Su Tu Trang Project - Phase 2, Block B O Mon. If these projects are implemented on schedule, the oil and gas companies will benefit. We still note oil stocks in 2018 are GAS, PVD, PVS, PVB, BSR, PLX, OIL.

Ticker	Sale 2018 (VND bn)	Net income 2018 (VND bn)	EPS 2018	P/E fw	P/B fw	ROA 2018	ROE 2018	Price in 21/09/2018	Target price
GAS	70,329	10,735	5,347	16.55	4.01	16.33%	23.03%	115,900	N/A
PVD	4,085	-322	N/A	N/A	0.40	0.20%	0.34%	17,800	N/A
PVS	17039	879	1,809	9.56	0.66	3.24%	6.78%	23,200	23,155
PVB	207	20	935	16.47	0.78	4.6%	4.9%	21,300	19,600
BSR	113,789	5,425	1,761	10.95	1.73	8.62%	15.86%	19,300	N/A
PLX*	158,000	5,000	4,317	16.4	4.38	7.48%	23.3%	70,800	N/A
OIL	66,267	510	493	33.47	1.51	2.39%	4.91%	16,400	N/A

Source: BSC research, \* As business plan 2018

## Electricity Sector [Outperform]

- Electricity output in 8M2018 reached 126.05 billion kWh (+ 10.62% yoy).
- Investment in the electricity sector focused on transmission projects.
- EVN has continued to implement procedures for divesting from 5 joint-stock companies and equitizing for both Power Generators Corporation I and Power Generators Corporation II (GENCO1 and GENCO2)
- Net revenue grew well with the average increase recorded in the industry of 33.8% yoy

**Electricity output in 8M2018 reached 145.15 billion kWh (+ 11.2% yoy).** The accumulated commercial electricity output in 8M2018 is estimated at 126.05 billion kWh, up 10.62% yoy, in which the domestic commercial output increased 10.69%.

**Investment in the electricity sector has continued to focus on transmission projects.** In August alone, EVN and its subsidiaries started 10 new grid projects and put into operation another 9 projects of 110-500 kV; Accumulated eight months began construction 74 projects, put into operation 106 projects 110-500kV. It is expected that power grid projects will continue to deploy strongly as demand for electricity has continued to increase sharply in the south while many projects in this area are delayed.

**EVN has continued to implement procedures for divesting from 5 joint-stock companies and equitizing for Power Generators Corporation I and Power Generators Corporation II (GENCO1 and GENCO2).** Five joint-stock companies were: EVN PEC, EVN Finance, PECC3, PECC4, EVN TBW. For GENCO1 and GENCO2, the Ministry of Industry and Trade (MOIT) reported a proposal to government that to be equitized at 01/01/2019. At present, GENCO1 and GENCO2 account for 9.45% and 12.54% respectively of the country's electricity generation capacity, which are the two largest electricity producers in the country.

**Business results.** Most of the electricity companies in the first 6 months saw good revenue growth (average + 33.8%) except CHP (overhaul in Q1) and SBA (weather affected). Relating to BTP, revenue and profit increased sharply as a result of the high temporary selling price and the foreign exchange loss reduced significantly in 2018. Hydropower companies' revenue and gross profit margin continue to benefit from favorable weather; increases in raw materials' price (gas, coal) also pushed the contracted electricity prices of thermal power companies.

Ticker	Main product	Sale 1H2018 (VND bn)	%YoY	Gross Profit 1H2018	Gross Profit 1H2017	Net income 1H2018 (VND bn)	%YoY
POW	Thermal	17,822	15.0%	13.9%	14.4%	1325	25.5%
NT2	Thermal	4,030	13.5%	15.5%	22.3%	504	10.4%
PPC	Thermal	4,017	27.2%	15.3%	15.9%	715	20.5%
BTP	Thermal	790	105.0%	11.8%	-4.9%	116	N/A
NBP	Thermal	342	7.0%	5.3%	7.4%	4	-18.4%
VSH	Hydroelectric	411	28.9%	72.0%	66.8%	262	33.3%

Ticker	Main product	Sale 1H2018 (VND bn)	%YoY	Gross Profit 1H2018	Gross Profit 1H2017	Net income 1H2018 (VND bn)	%YoY
TMP	Hydroelectric	406	12.4%	65.3%	59.6%	210	29.4%
TBC	Hydroelectric	193	45.4%	67.4%	60.1%	106	60.9%
SEB	Hydroelectric	182	-5.1%	73.1%	74.7%	110	-6.0%
SBA	Hydroelectric	118	-15.8%	71.9%	68.4%	46	-15.7%
SJD	Hydroelectric	213	-0.3%	58.9%	61.0%	94	6.4%
SHP	Hydroelectric	210	-5.3%	34.5%	37.8%	17	-14.3%
HJS	Hydroelectric	93	-1.1%	47.7%	45.5%	29	19.4%
PIC	Hydroelectric	61	36.7%	66.1%	72.8%	28	-4.1%
CHP	Thủy điện	155	-62.3%	21.5%	66.4%	-19	-1

Source: FiinPro, BSC research

## Investment Outlook – Outperform

We maintain an **OUTPERFORM** outlook for electricity sector. Electric enterprises are defensive stocks with high stability, high dividend yield, and low beta. Demand for electricity continues to increase, electricity prices will be improved and will be the main growth drivers of electricity companies in the coming time. In addition to the electricity generation companies, the group relating to construction materials and electrical construction is expected to benefit as transmission projects continue to be deployed thanks to high demand for electricity in the southern area.

**PC1 - BUY - Target price: 37,280 dong / share - upside: 30.45%.**

- PC1 is a leading company in the power construction field which benefits directly from the trend of building solar power plants and large transmission lines. Total new signed revenue in the first eight months reached VND 2.3 trillion, of which 80% was for non-EVN projects including solar power projects, underground cable projects in the inner Hanoi city. After-tax profit in power construction is estimated at 9%.
- PC1 is also the leading company in manufacturing electric poles field with the largest capacity in the whole country (about 50 thousand tons). PC1 products are not only consumed domestically but also exported. Currently, PC1 is exporting its products to Bangladesh and preparing for export contracts to Indonesia.
- Hydroelectricity: PC1's power plants currently benefit from avoided electricity cost tariffs, gross margin of 64% and net margin of over 40% which are relatively higher to the average industry. In 2018, PC1 will put into operation the Mong An project, it is expected that hydropower project to grow by 120% in 2018 and maintained in the near future as PC1 will continue to build hydropower projects having a total capacity of about 100 MW.
- Real estate: Although PC1 is not a specialist in the real estate field, PC1 reached the goal of launching a new project every year. In 2018 PC1 will record the My Dinh project with sales of



about VND 1,200 billion and profit of VND 200 billion. Trieu Khuc project is being implemented and it has had customers.

**GEX - BUY - Target price: 40,000 VND / share - upside: 44%.**

We appreciate GEX- Vietnam Electrical Equipment Joint Stock Corporation thanks to its superior position and long-term profitability in many fields of operation.

- Electric equipment segment: Electric equipment's expectation growth of 10-15% / year thanks to (1) high demand for transmission grid and distribution network, (2) GEX will increase its share in the electric equipment companies up to 100%, transfer ownership of these companies to Gelex Electrics making it easier for management, reducing operating costs.
- Logistic segment: GEX owns a relatively complete logistic chain with warehousing, port, waterway transportation by barges, ... (Gelex Logistic Company). In the short-term, GEX's logistic sector will grow as demand for transportation increases with the economic growth. In the long-term, the logistic sector will implement projects such as the expansion of Long Binh port, the two logistic center projects (the whole logistics services of GEX as well as the display of goods for customers - this is a new product which is currently not available in Viet Nam market) on two properties on Gia Lam (35ha) and District 9 (20ha).
- Electricity and water segment: Currently, the GEX's solar power project (capacity of 50mW - total investment of 46 million USD) is being implemented on schedule and is expected to connect in 06/2019. With the rapid deployment, the GEX's power project is one of the first two projects signing a 100% off-take agreement with EVN. Regarding to the water supply sector, the GEX's water plant (VCW) has completed the first phase raising its capacity to 300,000 m<sup>3</sup> / day and is expected to increase its capacity to 600,000 m<sup>3</sup> / day and more than 1 million m<sup>3</sup> / day as the plan in the following years. With water from the Song Da River, the best quality amongst the three river systems flowing through Hanoi, VCW is forecasted to benefit from the trend of decreasing groundwater consumption, which aims to ensure the government and city's water quality. We expect that the electricity and water sectors will provide stable cash flow in the coming years and help the company with resources to carry out projects in other businesses.
- Real estate: In the relocating factories process of the electric equipment companies from the inner city as the state's request, GEX has good location for the deploying real estate projects. The company plans to build hotels, office buildings and commercial centers in order to bring stable cash flow. The project is expected to implement within three years. There are several potential projects such as the two hotels 4 and 5 stars project is located at 10 Tran Nguyen Han (1ha - near Hoan Kiem Lake), will be deployed in 3Q2019 with total investment of about \$ 200 million and will seek partners for this project; Eastern Sowaco commercial center project (4.3 ha- at the end of metro); Cadivi Nam Ky Khoi Nghia office tower project,...

## POW- Tracking

- Electricity consumption in the country continues to grow at over 10%. In the first eight months of this year, the country's consumption has grown 10.62% over the same period last year, especially in the South where nearly 30% of electricity demand in this region still depends on transmission power loaded from the North and Central. The Viet Nam Energy predicts that the Southern region will face a severe electricity shortage by 2020-2021, with a shortfall of 1.2-1.6 billion kWh per year due to unresponsive power supplies. This is a great advantage for POW as most of the POW projects are located in the South.
- Capacity growth from Nhon Trach 3 and Nhon Trach 4 project. PVN has transferred the two Nhon Trach 3 and Nhon Trach 4 project to POW in 2017, these projects' total capacity of 1500 mW (2x750mW) will increase the total capacity of POW to 5,700 mW (+35%). Two factories will be located in Ong Keo industrial zone, the center of the three big supported-load areas in the South of Ho Chi Minh City, Dong Nai and Ba Ria - Vung Tau. With a favorable location, we believe that after these two projects are put into operation, it will be highly effective, supporting POW to maintain its position as a top-ranking enterprise in the country.
- Ca Mau 1 and Ca Mau 2 plants are fully depreciated in 2019 and 2020. The depreciation cost of each plant is about VND 500 billion. As long as the electricity purchase contracts remain in effect, cutting cost will go into profit. It is estimated that POW's EPS will increase by VND 320 / share.
- Interest expenses are predicted to drop sharply in the coming time. POW is going to pay back about 4.7 trillion dong, therefore, the POW's interest expenses will fall by about VND 200-300 billion / year (equivalent to about 25% of annual interest expenses). However, regarding to the implementation of two new projects, it is estimated that POW will need to borrow an additional USD 840 million (about VND 19 trillion) so that the interest of POW will tend to increase again after 3-4 years when grace period comes as the construction ends.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018	P/E fw	P/B fw	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
PPC	6,613	877	2,688	6.98	1.0	11.46%	15.90%	18,750	21,202
NT2	8,071	849	2,958	8.99	2.09	7.74%	14.80%	26,600	30,200
PC1	5,838	558	4,140	6.84	1.1	7.18%	17.26%	28,300	37,280
GEX	13,757	1,340	3,300	8.42	1.61	7.95%	17.53%	27,800	40,000
POW	32,383	2,659	1,221	13.02	1.48	4.76%	8.75%	15,900	N/A
REE	5,060	1,611	5,196	6.93	2.01	9.95%	15.13%	36,000	40,195

Source: BSC Research

## Technology [Outperform]

- In 1H2018, telecommunication revenue was estimated at VND 182 trillion (+4.83% yoy). The number of telephone subscribers reached 136 million, the number of fixed telephone subscribers reached 5 million.
- In 1H2018, IT revenue was estimated at VND 1,026 trillion (+16.15% yoy), in which IT exports reached VND 918 trillion (+16.21% yoy).

According to the Ministry of Information and Communications, in the first 6 months of 2018, the IT industry revenue is estimated at VND 1,026,000 billion (up approximately 16.15% yoy), in which estimated hardware revenue is 912,800 billion. IT exports reached 918,384 billion, up 16.21% yoy.

According to the Ministry of Information and Communications, telecom service revenue is estimated at VND 181,948 billion in 1H2018, about 49% of the plan (up 4.83% yoy). The number of telephone subscribers at mid-year was about 136 million, up 10.28% yoy, in which 4G subscribers increased by 53%. The number of fixed telephone subscribers was about 5 million.

On 28/8/2018, the Prime Minister signed a decision in order to establish the National Commission on E-Government, heading to the Digital Government, Digital Economy and Digital Society, facilitating the 4th Industrial Revolution implementation in Vietnam.

**Business results 1H2018.** FPT had a negative revenue growth due to the separation from FPT Retail and Synnex FPT (both companies had high growth rates). Software exports to the Japanese market were less competitive as the main Chinese rival are now focusing on the domestic market.

Ticker	Rev 1H2018 (bn VND)	%YoY	Gross profit margin 1H2018	Gross profit margin 1H2017	NPAT 1H2018 (bn VND)	%YoY
FPT	10,225	-47.2%	37.7%	23.3%	1,412	16.6%
CMG	2,247	6.7%	17.4%	14.3%	78	34.8%

Source: FiinPro, BSC Research

## Investment Outlook - Outperform

BSC maintains the **OUTPERFORM** rating for technology sector. We continue to be optimistic about the prospects of FPT, CMG thanks to the potential growth from software export markets and broadband Internet.

Ticker	Rev 2018 (bn VND)	NPAT 2018 (bn VND)	EPS 2018	P/E fw	P/B fw	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
FPT	21,900	3,042	3,994	11.49	2.62	11.7%	22.4%	45,900	52,819
CMG	5,008	205	2,853	8.06	1.33	12.3%	20.1%	23,000	27,103

Source: BSC research

## Non-life Insurance [Outperform]

- Non-life insurance fee revenue 2H2018 increased by 13% yoy
- Health insurance continued to be the main dynamic growth for the non-life insurance sector (+24% yoy, accounting for 30% of total revenue)
- Financial income is forecasted to improve as interest rates increase.
- Business results had a clear distinction.

**Insurance market in the first 6 months maintained a positive growth.** Total insurance fee revenue for the past 6 months is estimated to increase by 23% over the same period, of which non-life insurance fee revenue increased by 13% and life insurance fee increased by 32%.

**Health insurance continued to be the main dynamic growth for the non-life insurance industry.** Motor vehicle insurance continued to have the highest market share with sales of VND 7,088 billion (+7% and accounted for 32.5% of total sales); health insurance revenue continued to grow strongly (+24% yoy) to VND 6,523 billion. Health insurance increased sharply as increasing in demand followed by economic growth, additionally, insurance companies also focused on diversifying products, therefore, we expect that the health insurance will continue to be the non-life insurance sector's key driver. Other insurance sectors: Asset and liability insurance reached VND 2,877 billion, down 5%, accounting for 13.2%. Fire insurance achieved revenue of VND 1,786 billion, up 7%, accounting for 8.2%. Cargo insurance revenue reached VND 1,147 billion, down 1%, accounting for 5.3%. Hull and protection and indemnity insurance was VND 1,020 billion, growing by 3%, accounting for 4.7%.

**Financial income is expected to improve as interest rates increase.** The mobilizing interest rates from many banks increased 0.1%-0.2% depending on its term. We forecast that interest rates will continue to increase slightly in the coming time (depending on each bank's demand, the increase will be different), this is a positive effect for non-life insurance companies' profit as cash always accounts for more than 70% of the enterprises' portfolio.

**Business results had a clear distinction.** Insurance companies' business results in the first six months of the year were mostly growth, however, the growth was not uniform amongst enterprises, mainly from different sales policies. Compensation rate and combined ratio of enterprises in 2018 have been improved, as many enterprises have started to apply the technology in part or the whole management procedures which helps to evaluate the risk for each contract more accurately and minimize costs. The stock market in the second quarter witnessed a sharp decline, as a result, most enterprises have to make provision for investment. That will adversely affect some enterprises' financial profit in 2018. Generally, the non-life insurance enterprises' profit is also divided in the first half of 2018.

	PVI	BMI	PTI	MIG	BIC	PGI
<b>Original fee 1Q/2018</b>	3,623,429	1,665,213	1,920,213	792,390	1,009,542	1,352,108
<b>%yoy</b>	2.17%	2.77%	28.34%	-13.19%	10.64%	11.73%
<b>% Compensation 1H/2018</b>	32.00%	39.98%	49.95%	47.28%	36.49%	52.02%

	PVI	BMI	PTI	MIG	BIC	PGI
<b>% Compensation 1H/2017</b>	39.40%	40.24%	61.75%	29.30%	32.68%	51.80%
<b>Combined ratio 1H/2018</b>	98.30%	97.71%	99.45%	97.50%	100.80%	93.44%
<b>Combined ratio 1H/2017</b>	98.20%	99.95%	101.36%	98.37%	99.89%	99.99%
<b>Financial profit 1H/2018</b>	223,019	74,813	25,225	64,107	130,360	21,705
<b>%yoy</b>	-7.64%	-25.00%	-63.08%	4.61%	44.53%	-77.30%
<b>EBT 1H/2018</b>	307,576	166,043	40,321	92,444	125,987	91,181
<b>%yoy</b>	-4.77%	50.37%	-34.17%	24.59%	37.50%	-6.22%

Source: Financial Report, BSC Research

## Investment Outlook - Outperform

We assess an **OUTPERFORM** outlook to the non-life insurance industry. The non-life insurance sector has continued to grow at over 10% thanks to high economic growth, especially health and financial insurance with a growth rate of over 20%. Insurance companies are trading at relatively cheap prices (now trading at or below the book value). Interest rates and bond yields tend to affect positively on the financial performance of insurers (deposits and bonds account for 80-85% of the portfolio) in the second half of 2018 and 2019.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018	P/E fw	P/B fw	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
PVI	7,471	616.6	2,632	12.35	1.12	3%	8.33%	32,500	37,830
BMI	4,165	243.3	2,098	11.3	0.96	4.42%	9.21%	23,700	31,332
MIG	2,349	95	1,181	10.75	1.06	2.1%	8.6%	12,700	16,393

Source: BSC Research

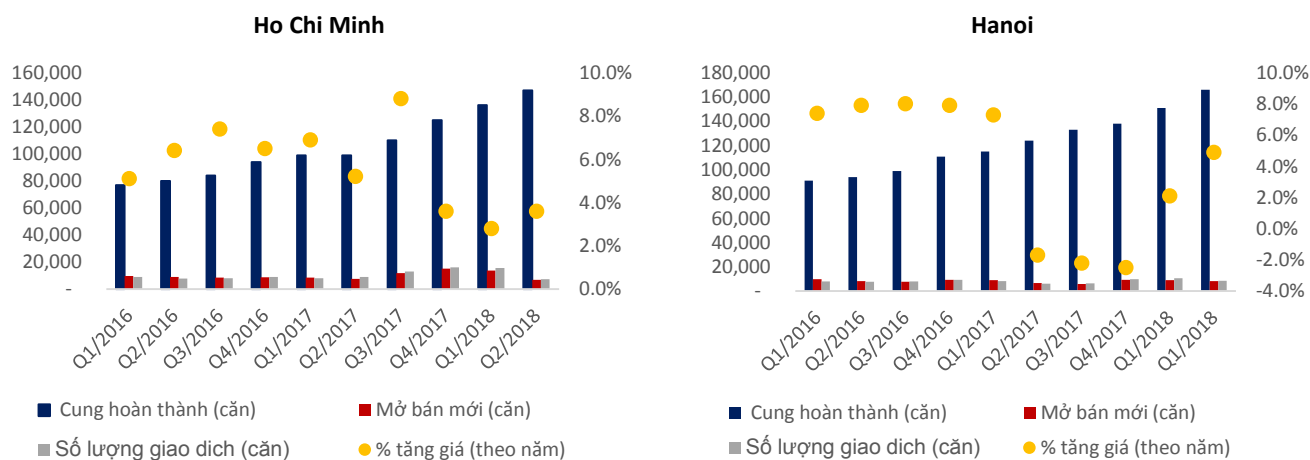
## Real Estate [Outperform]

- The number of apartments dropped by 52.7% qoq in HCMC and 9.1% qoq in HN due to limited supply.
- Average selling prices increased 3.6% yoy in Ho Chi Minh City, but down 4.9% yoy in Hanoi
- The Q2/2018 business results of the real estate sector maintained a high growth rate of 79.0% yoy and sales of 120.5% yoy.
- The sectoral divide begins to return to a clearer trend.

**The real estate market has slowed down due to limited supply.** According to JLL data, in Ho Chi Minh City, apartment sales in Q2 / 2018 reached 7,374 units (-19.4% yoy and -52.7% QoQ), while in Hanoi, the number of apartments sold reached 8,549 (+ 22% yoy and -9.1% QoQ). The supply of new apartments for sale in Q2 / 2018 is limited due to: (1) The market has begun to show signs of cooling down and more quiet and (2) Psychological caution due to fire late Carina apartment March 2018. Specifically, the number of flats in Q3 / 2018 in Ho Chi Minh City is 6,947 units (-49% QoQ), 8,180 units in HN (-8% QoQ), most of which are concentrated in the segment 70% in HCMC and 56% in HN. We believe that the number of successful apartment sales is higher than the number of new openings mainly due to the current supply shortage.

We note the new sales are calculated based on the officially signed sales contract (After finishing the foundation building). BSC believes that real estate market is beginning to show signs of significant slowdown through (1) investors delay time to announce new projects and (2) lending rates are showing signs of improvement (3) The progress of applying for construction permits is also slowed down as well as the quality and safety standards of fire protection are prioritized.

**Average selling prices of secondary markets in Ho Chi Minh City and Hanoi are in the opposite direction.** Specifically, the price of apartments in Ho Chi Minh City increased slightly (+ 0.8% QoQ and 3.6% YoY) and Hanoi slightly decreased (-0.8% QoQ and 4.9% YoY).



Source: JLL, BSC Research

**Q2 / 2018's real estate business performance maintained a high growth rate over the same period:** revenue increased by 54.1% and EAT by 139%. According to our statistics, total revenue of the industry in Q2 / 2018 reached VND50.847 trillion (+ 54.1% yoy) and EAT was VND12.958 trillion (+ 139.0% yoy). VHM and VRE continued to make a major contribution to industry growth, accounting for 37% of revenue and 71% of net profit. Excluding VHM and VIC-related groups, sales and after tax profit were VND12.764 billion (+ 28.3% yoy) and VND3,758 billion (+ 5.9% yoy) respectively.

**Sector alisation began to return to a clearer trend.** The segmentation in the sector continued to be more pronounced when 36 out of 65 companies posted a growth of 55% over the same period, compared to 63% in Q1 / 2018. BSC also commented that the declines in earnings were partly due to the time of handover, but the 6T results at the end of 2018 would be more favorable as it was the time of handover of many large projects by businesses such as Jamila (KDH) Mizuki (NLG), Opal Garden & Lux Garden (DXG) and The Sun Avenue & Sunrise Riverside & Richstar (NVL).

Ticker	Revenue 1H2018 (VND bn)	Revenue 1H2017 (VND bn)	% YoY	NPAT 1H2018 (VND bn)	NPAT 1H2017 (VND bn)	% YoY	Inventory (VND bn)	Pay in advance (VND bn)	Pay in advance/ Inventory
VIC	60,692	35,194	72%	1,094	1,846	-41%	54,358	39,251	72%
VHM	15,527	5,173	200%	8,039	775	937%	36,789	18,674	51%
VRE	3,134	2,734	15%	1,161	1,100	6%	2,294	2,228	97%
NVL	4,290	3,333	29%	723	834	-13%	31,448	11,278	36%
KDH	929	1,955	-53%	236	233.6	1%	5,269	1,264	24%
PDR	443	589	-25%	241	126	92%	6,451	50	1%
KBC	1,004	484	107%	269	414	-35%	8,265	356	4%
DXG	1,947	879	121%	432	203	113%	3,698	1,329	36%
NLG	1,410	1,262	12%	215	310	-31%	3,665	806	22%
DIG	997	586	70%	73	8	852%	3,297	960	29%
HDG	649	755	-14%	36	(20)	-280%	3,684	3,900	106%
SCR	1,841	550	235%	179	68	165%	4,495	2,071	46%
TDH	1,175	754	56%	75	87	-14%	523	34	7%

Source: FiinPro, BSC Research

## Investment Outlook - Outperform

We rate **OUPERFORM** on real estate stocks in Q4 / 2018 thanks to the handover of projects and revenue recognition. However, we also see a slowdown in new supply in the market in Q2 and Q3 / 2018 and the real estate market is cooling down, with the interest rate trending upward also. One of the factors that need special attention. BSC continues to evaluate positively with investors who have quality products and good sales progress, prestige such as VHM, KDH, DXG, NLG, HDG. In addition, BSC also monitored many new real estate codes such as VPI, Cenland, HPX ...

<b>Ticker</b>	<b>Revenue 2018 (VND bn)</b>	<b>NPAT 2018 (VND bn)</b>	<b>EPS 2018</b>	<b>P/E fw</b>	<b>P/B fw</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Closing price 21/09/18</b>	<b>Target price</b>
<b>DXG</b>	5,027	1,314	3,919	6.6	1.3	24%	10%	29,800	38,460
<b>VHM</b>	72,640	17,686	6,550	16.0	1.96	14.2%	33.1%	104,000	142,000
<b>NLG</b>	3,874	792	3,253	10.8	0.9	17.9%	7.1%	32,400	38,250
<b>KDH</b>	3,854	742	1,915	16.2	1.62	8.11%	5.17%	33,200	N/A

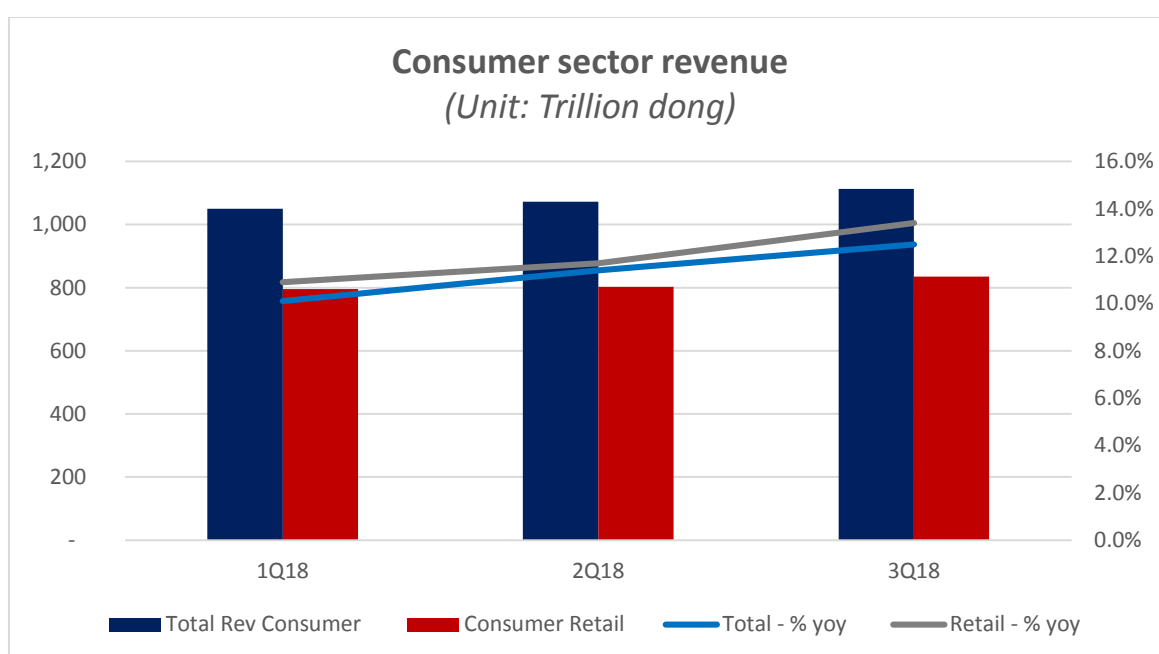
Source: BSC Research



## Consumer [Outperform]

- Trading activities 9M2018 continued to be positive with growth rate of 12% YoY.
- Growth rate of Fast Moving Consumer Goods (FMCG) VN decreased by 0.8% - 1.3% YoY H1 / 2018.
- BSC evaluates OUTPERFORM with consumer sector. We recommend BUY: PNJ, MWG, and FRT.

**Trading activities of 9M2018 continued to be positive thanks to high purchasing power.** Retail sales 9M2018 reached 2.433.1 trillion dong (+ 12% YoY), accounting for 75.2% total retail and consumer services sales. We estimate that consumption would prosecute to grow thanks to the improvement of Vietnam's economic condition with: **(1)** Vietnam's GDP per capita 9M2018 is estimated at USD 1,621.2 (+ 5.54% YoY), **(2)** The middle and affluent class (MAC) surges to 42.5% in 2016 from 42.2% in 2014, according to World Bank report.



Sources: GSO, BSC Research

**The growth rate of Fast Moving Consumer Goods (FMCG) declined by 0.8% - 1.3% YoY H1/2018.** Vietnam's growth rate is currently falling to No.3 H1/2018 from No.1 in H1/2017 in South East Asia (according to Kantar World Panel). In which, FMCG growth in urban and rural of Vietnam was 3.6% and 4.1% YoY respectively. Particularly, the beverage sector witnessed the most robust increase in Vietnam (namely 10.4% YoY), while the dairy industry decelerated the most with -3.7% YoY. Accordingly, we believe that Vietnam's FMCG sector is slowing down due to: **(1)** Vietnam's population is now out of the gold population and the population growth rate has been steadily declining. **(2)** Vietnamese tend to save more due to the fear of economic crisis.

Consumption Overview Asia Q2 2018 (% YoY)	Vietnam (Urban)	Vietnam (Rural)	Indonesia	Phillippines	Malaysia	Thailand
Total FMCG	3.6	4.1	4.2	3.9	1.3	3.9
Food	2.3	0.5	5.1	3.8	4.1	3.8
Beverage	10.4	6.3	7.5	-0.9	-1.2	-0.9
Dairy	-3.7	1.4	-1.8	7.8	-3	7.8
Home care	6.2	7.5	3.5	5	2.2	5
Personal care	10.2	12	4.9	4.6	0.3	4.6

Source: Kantar World Panel

**Consumer sector's business result in the first 6 months of 2018 experience significant improvement, especially in food and beverage industry.** However, we believe that food and beverage (F&B) products are gradually saturated and slowing down their growth over years. This deterioration stems from the fact that F&B products are encountering harsh price competition, especially the emulation with imported goods from other South East Asia countries, where tariff lines will be cut to 0% under Foreign Trade Agreements (FTAs). F&B businesses such as VNM, MSN, SAB, and MCH reported total revenue of VND 68.4 trillion (+4.35% YoY), occupying the biggest proportion of 26.3%, while NPAT is reported at VND 11.3 trillion (+18% YoY). Ranked second is retail industry with 2 huge enterprises MTC and FRT, achieving total revenue of VND 52.4 trillion (+38.17% YoY), making up 20.15% and NPAT of VND1.7 trillion (+42.6% YoY). Total revenue in 6M2018 of 243 listed companies reached VND 259,966 billion (+14.13% YoY) and NPAT of VND 22,696.5 billion (+23.65% YoY). However, if excluding the financial income of MSN in 1H2018 is VND 1.477 billion, NPAT of consumer sector only reached VND 21,219 billion (+26.3% YoY).

Ticker	Business	Rev 1H2018 (bil. VND)	%YoY	GPM 1H2018	GPM 1H2017	NPAT 1H2018 (bil. VND)	%YoY
PNJ	Retail	7,357	34.3%	18.4%	17.4%	517	36.8%
MWG	Retail	44,570	42.7%	17.6%	16.9%	1540	43.9%
FRT	Retail	7,448	17.2%	13.2%	13.3%	147	29.8%
VNM	Dairy	25,823	1.7%	46.3%	48.7%	5361	-8.4%
GTN	Dairy	1,535	-26.1%	17.5%	12.1%	92	-3.4%
SAB	Beer	16,980	8.5%	23.8%	27.4%	2447	-4.7%
BHN	Beer	4,338	2.6%	24.9%	27.0%	325	3.8%
MSN	Consumer	17,458	-3.1%	31.9%	29.6%	3418	560.2%
KDC	Cooking Oil	3,781	28.4%	17.7%	21.7%	48	-88.3%

Source: BSC, Bloomberg

## INVESTMENT OUTLOOK

BSC maintains **OUTPERFORM** view with regards to consumer sector. We estimate that consumer sector will continue to grow at an average rate of 7% - 15% in 2018 based on the assumption that the economic environment would witness a solid growth. In particular, it is expected that GDP growth rate in 2018 will hold between 6.7% - 7%, inflation rate will remain below 4% and Industrial production index (IPI) will fluctuate around +11% YoY. For F&B industry, we uphold our opinion that this market is now saturated, hence, growth is no longer extraordinary (forecast at nearly 6% - 8%) in 2018, while profit margin will be enhanced since raw material costs tend to decrease in 2H2018. In terms of retail industry, we are

optimistic about its prospect owing to the double digit growth rate, ranging from 11% to 15%. On the other hands, we note the retail electronics sector's growth rate is slowing down since not much room to grow is remained . We recommend BUY PNJ, MWG, FRT, and FOLLOW UP for VNM in 2018.

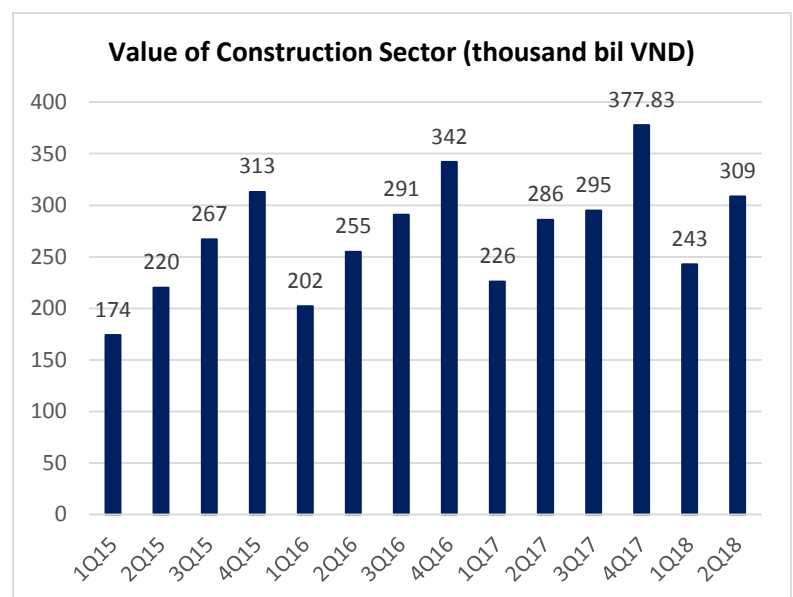
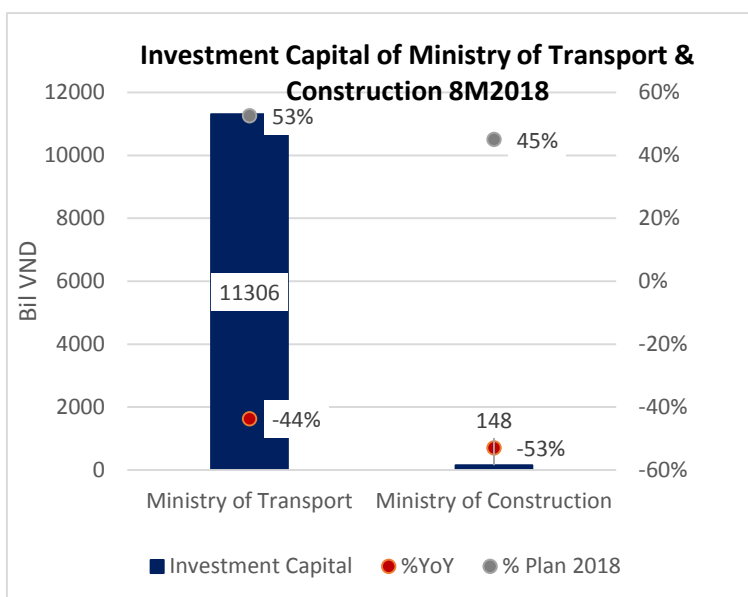
<b>Ticker</b>	<b>Rev 2018 (bil VND)</b>	<b>NPAT 2018 (bil VND)</b>	<b>EPS 2018 (VND/shares)</b>	<b>P/E fw</b>	<b>P/B</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Price on 21/09/18</b>	<b>Target price</b>
<b>PNJ</b>	14,160	1,000	5,730	17.7	3.9	27%	18%	101,600	128,500
<b>MWG</b>	89,782	2,921	9,215	13.7	4.7	34%	11%	126,000	162,200
<b>FRT</b>	7,448	183.1	8,887	8.4	4.7	34%	38%	75,000	84,000
<b>VNM</b>	55,748	10,178	7,012	22.9	8.9	28.4%	43%	137,800	141,870

Source: BSC Research

## Construction [Neutral]

- Construction 6M2018 increased by 7.93% yoy.
- Construction performance slowed down , NPAT decreased by -44% yoy.
- We maintain NEUTRAL assessment of Construction Sector.

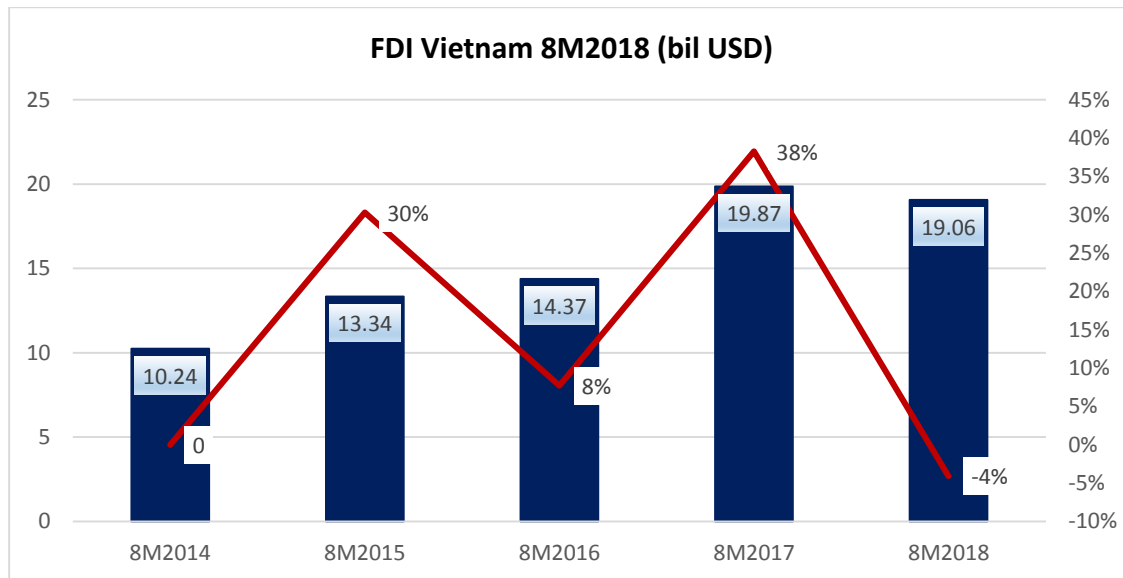
**Construction sector in 6M2018 continued to grow positively.** According to the General Statistics Office, construction sector 6M2018 increased 7.93% yoy. Total investment capital for development of 6M2018 reached 3,817 billion VND (+ 25% yoy), include: **(1) The state** is VND1,294 billion, accounting for 33.9% (+ 14.7% yoy), **(2) Non-state** revenue was VND 2,013 billion, accounting for 52.7% (+ 9.6% yoy), **(3) Foreign Direct Investment (FDI)** reached VND 512 billion, accounting for 13.4% (+ 469% yoy). As a result, we maintain our view that the following segments will be strongly invested:



Sources: Vietdata, GSO.

- (1) **Disbursement rate of traffic infrastructure projects is still slow.** Total value of public investment 8M2018 reached VND 33.8 trillion (-7.6% yoy), in which we found that the disbursement rate of transport infrastructure investment was relatively low at VND 11.3 million billion (-43.7%), accounting for 33.45% of total public investment. Some important projects: **(1) Hanoi** accelerates the expansion of the belt road and road axis toward Long Bien, Dong Anh, **(2) HCMC** completed the overpass system at the Cat Lai port at the intersection of My Thuy, and **(3) Da Nang** with a total investment of VND 13,695 billion focusing on logistics including Lien Chieu Port (USD 65 million), new terminal projects (USD 640 million), v.v.
- (2) **Investment in industrial zones (IZ):** We believe that the construction of the IZ will continue to increase thanks to (1) The US-China trade war will create a tendency for the shift of industries subject to taxation from China to Vietnam, so the supply of IZ will increase sharply to catch up

with new trends. (2) FDI inflows 8M2018 will continue to be high for five years at USD 19.06 billion (-4% yoy due to a -4.8% drop in regulatory capital).



Sources: GSO.

- (3) **Strongly increase the middle-class housing segment:** We believe that the segmental supply from low to medium level continues to grow to meet the real needs of the people. As a result, we estimate that this trend will lead to construction companies moving to mid-range segment with lower margins instead of high-end segment. Therefore, we forecast that construction companies will find it difficult to improve margins and remain at 6.5-7%.

**Business performance's growth rate of construction industry tends to slow down.** As of the end of Q2/2018, total net sales of 115 construction companies listed on both HOSE and HNX reached VND 59.6 trillion (+ 8.81% YoY), total NPAT was VND 2,658 billion VND (-44% yoy). We note that in Q2/2017 construction sector NPAT contributed significantly to CII's financial income. If excluding this item, the core NPAT of the construction sector decreased by 20.9% yoy. BSC saw a significant slowdown in the growth only 40/115 enterprises in terms of profitability over the same period last year. BSC saw a significant slowdown in growth, as only 40/115 companies had positive growth in profit over the same period last year. BSC believes that the construction market is entering a difficult period due to fierce competition, however, we still expect that companies with good financial structure, prestige and large market share will still be able to gain market share from small companies.

Ticker	Rev 1H2018 (VND bn)	%YoY	GPM 1H2018	GPM 1H2017	EAT 1H2018 (VND bn)	%YoY
CTD	12,613	19.6%	6.7%	8.3%	718	0.7%
HBC	8,080	19.6%	9.6%	10.9%	302	-20.1%
VCG	4,159	-0.7%	11.1%	15.3%	133	-51.6%
PC1	2,446	77.1%	19.5%	17.8%	280	129.0%

<b>ROS</b>	1,618	0.3%	5.4%	11.6%	79	-46.2%
<b>CII</b>	1,588	59.8%	23.7%	13.4%	41	-97.4%
<b>FCN</b>	976	38.5%	18.0%	19.5%	66	13.2%

Nguồn: FiinPro, BSC Research

## Investment Outlook - Neutral

We maintain a NEUTRAL rating for the construction industry, because the construction sector has experienced the best growth period and has slowed down: (1) The value of new contracts is expected to increase slightly or evenly, (2) Gross profit margin of the industry has decreased. Construction companies are trading at average industry's P/E ratio at 8.8 times. BSC recommends to Buy CTD, FCN, LCG, Follow: HBC.

<b>Ticker</b>	<b>Rev 2018 (bil VND)</b>	<b>EAT 2018 (bn VND)</b>	<b>EPS 2018 (VND)</b>	<b>P/E FW</b>	<b>P/B</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Closing price 21/09/2018</b>	<b>Target price</b>
CTD	28,832	1,549	18,601	9.5	1.69	17%	9%	162,500	190,300
HBC	19,900	953	4,526	5.3	1.8	30%	6%	23,950	N/A
LCG	2,487	95	954	9.8	0.66	6.9%	2.2%	9,260	10,900
FCN	3,500	250	2,808	5.8	0.88	12%	4.3%	16,300	19,320

Sources: BSC Research

## Steel Sector [Neutral]

- Construction steel consumption in the first 8 months of 2018 reached 6.5 million tons, +11.13% yoy
- Cambodia has become Vietnam's largest consumer steel market (40% of export volume, up 49% in volume and 78% in value)
- Vietnamese steel continued to be sued with more than 40 lawsuits in 2018
- Raw material prices tend to be stable. Iron ore prices remained at \$ 67/ton

**Domestic consumption continued to grow.** According to the report of the Vietnam Steel Association, construction steel consumption in the first eight months of 2016 reached 6.5 million tons, up 11.13% yoy. Consumption of steel pipe grew by 16.82% over the same period, reaching 1.58 million tons of products in the first eight months. Consumption of coated steel and hot rolled coil and cold rolled cores reached 2.5 million and 3.6 million tonnes, up 13.08% and 171.01% yoy, respectively.

**Cambodia has become Vietnam's largest consumer steel market.** According to data of the General Department of Viet Nam Customs, all kinds of iron and steel in the first seven months of this year exported to Cambodia reached 718,000 tons, turnover reached nearly 463 million tons, up 49.1% in volume and up nearly 78% in price yoy, accounted for 40% steel exports of the country. Cambodia is one of the core import markets for Vietnamese steel as the construction industry is developing while there is no steel industry to serve this demand.

**Vietnamese steel continued to be sued.** In August alone, Vietnamese steel industry suffered from the pressure of defense and anti-dumping case in which 8 cases came from 7 different markets. With a total of more than 40 lawsuits in 2018, Vietnamese steel companies will face many difficulties in exporting. The reason is that the steel export from Viet Nam recently has seen a strong growth, therefore, many countries paid attention and applied safeguard measures to protect domestic production. Vietnamese steel exports grew by 30% in 2017; the first eight months of 2018 increased by 38% yoy. Exports are expected to increase sharply as many steel projects are being put into operation.

**Materials' prices fluctuated slightly.** Iron ore price rebounded after a slight decrease in June and are currently trading at \$ 67/ton. Other raw materials such as coking coal, electrode, scrap steel are also relatively stable and slightly downward trend due to increased supply. Materials' prices were stable, the steel's selling price decreased slightly but still maintained at high level and this helped steel enterprises to maintain good profitability.

**1H2018 business results.** In 1H2018, steel prices remained high helping the company's revenue grow well (average 22% over the same period). However, the price of ore and raw materials have been complicated and highly competitive in the industry, resulting in gross margin declining (on average only 8.74% compared to 11.16% in 2017). As a result, most of the businesses have decreased business results compared with the same period in 2017.

Stock	Main product	Revenue 1H2018 (bil.d)	%YoY	Gross profit margin 1H2018	Gross profit margin 1H2017	EAT 1H2018 (bil.d)	%YoY
HSG	Steel sheet	1807	+33%	11.4%	16.5%	170	-75%
NKG	Steel sheet	7,877	43.6%	7.7%	11.7%	230	-34.5%
DTL	Steel sheet, pipe	1,543	7.5%	10.7%	14.9%	69	-41.1%
HPG	Construction, pipe	27,262	30.6%	21.4%	22.3%	4425	27.4%
POM	Construction, pipe	6,636	30.0%	8.4%	8.5%	374	41.3%
TVN	Construction	13,045	43.4%	5.5%	6.8%	734	196.6%
TIS	Construction	5,802	34.6%	5.1%	7.0%	42	-43.5%
TLH	Construction	3,058	35.3%	9.6%	12.7%	142	-22.3%
VIS	Construction	2,674	-10.4%	0.6%	4.1%	-66	-271.0%
HMC	Construction	1,868	59.0%	5.7%	5.6%	49	72.4%
DNY	Construction	886	-14.4%	4.8%	7.2%	-11	-153.9%
VGS	Pipe	3,509	18.5%	3.0%	3.1%	33	29.3%
SMC	Trading, processing steel	8,156	40.5%	5.2%	5.9%	161	3.4%

Source: FiinPro, BSC Research

## Investment Outlook - Neutral

We maintain **NEUTRAL** rating as consumption continues to grow well although competition in the industry continues to increase especially for steel sheet companies. The slower momentum of steel prices will also have an effect on the profitability of steel companies in the second half of 2018.

Stock	Revenue 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (bn VND)	P/e fw	P/B	ROA 2018	ROE 2018	Closing price 21/09/18	Target
HPG	54,634	9,382	4,419	9.26	2.37	15.1%	24.7%	40,900	44,192
NKG	17,160	573	3,165	4.60	0.84	5.58%	18.05%	14,550	N/A
HSG	31,065	909	2,367	5.28	0.87	3.99%	14.53%	12,500	N/A

Source: BSC Research



## Tiles [Neutral]

- The industry faced with oversupply conditions, selling prices of some types of tiles tended to decrease.
- Fuel price increasing: coal price + 11% YTD, gas price are not fluctuated.
- Business performance in the first 6 months of 2018 of ceramic tile companies is decreased in profitability.
- We maintain a NEUTRAL rating on this sector in 2018

**The industry experienced oversupply, selling prices of some products decreased.** The designed capacity of the whole industry reached 700 million m<sup>2</sup> while consumption is estimated at 500-550 million m<sup>2</sup>, so the industry's utilization rate is approximately 75-80%. High competition led to lower selling prices of enterprises: the average selling price of VGC drop by 2-6%, prices of some porcelain samples of CVT also decreased by 5-15% over the same period.

**Fuel price rose: coal price + 11% YTD, natural gas price was quite stable,** profit margin of tiles companies decreased by 3-5%. We suppose that the uptrend of coal price will continue to affect the profitability of company using coal to heating the furnace while those using natural gas will be less affected (VIT, TLT, new lines of CVT).

**Business performance in 6M2018 of ceramic tile companies posed a decline in profitability.** Revenue increased at some companies such as CVT (consumption + 22% yoy), VIT (+18% yoy) while firm manufacturing bricks, terracotta and ceramics witness a decrease in sales. Regarding VGC, although industrial park segment recorded high growth rate, it could not compensate for the underperformance of terracotta and building glass segments. The net income of tiles firms decreased as a results of the uptrend of fuel price and the decline in selling prices. CVT also recorded trial run cost of new products that was estimated at VND 15-20 billion in 6M2018, so net income decreased slightly as compare to the same period of 2017.

Ticker	Net sales 1H2018 (VND bn)	%YoY	GPM 1H2018	GPM 1H2017	Net income 1H2018 (VND bn)	%YoY
VGC	4,104	-4.3%	22.8%	24.5%	361	-12.3%
VHL	982	-2.8%	14.2%	17.5%	61	-9.5%
CVT	580	17.6%	22.2%	26.1%	73	-3.6%
TCR	575	-5.8%	13.2%	13.2%	-43	N/A
VIT	479	14.7%	9.4%	14.3%	3	-86.0%
TTC	180	12.4%	13.5%	15.1%	7	-28.3%

Source: FiinPro, BSC Research

## Investment Outlook – Neutral

We expect the operating results of tiles enterprises will improve in the last quarter thanks to rising demand for completing of buildings. The increasing demand in the last months of the year will also help

enterprises to reduce discounts, increase selling prices, thereby improving profit margins in the context of rising fuel price.

We recommend BUY for CVT and HOLD for VGC.

**CVT - BUY - Target price: VND 32,580 / share - Upside: 20%**

We expect that a surge in consumption in 2H2018, especially of the 2 new products will help to offset the cost incurred during the trial run as well as advertising cost for new products (which severely hit the profit in 1H2018). Our perspective based on some following points:

- The consumption in 1H2018 increased by 22% in the context of fierce competition of the industry, samples with high volume of consumption are floor tiles of 600x600, 800x800 and wall tiles of 400x600 – in accordance with consumers' taste. We highly appreciate the flexibility of CVT in production and selling products to maximize the profit. Although the average price was down in 1H2018, we estimate that of 2H2018 will increase thanks to reducing discount rate, which will improve profit.
- Focus investment on newly launch products: the micro-glass crystal covering and salt melting granites target to mid-high ends with the selling price ranging from 300,000 to 500,000 dong per m<sup>2</sup>, gross profit margin can be up to 40-50%, outperforming current products. The company plans to sell first in the north with 5-10 second-level agents receiving the direct support of CVT in each province, coincidentally with promote advertising through TV channels and other media. The segment that CVT aims at is larger than the same imported products (with price above VND 1 million per m<sup>2</sup>). The feedback from some small projects using those new products was quite good, so we expect consumption will be positive in last quarter.

BSC forecasts CVT's revenue in 2018 will reach VND 1,469 billion (+24.5% YoY), net income of VND 180 billion (+3.2% YoY) (under the assumption that the volume of new products consumed in 2018 is 250,000m<sup>2</sup>), EPS 2018F = VND 4,654 /share, equivalent to P/E fw = 5.4x

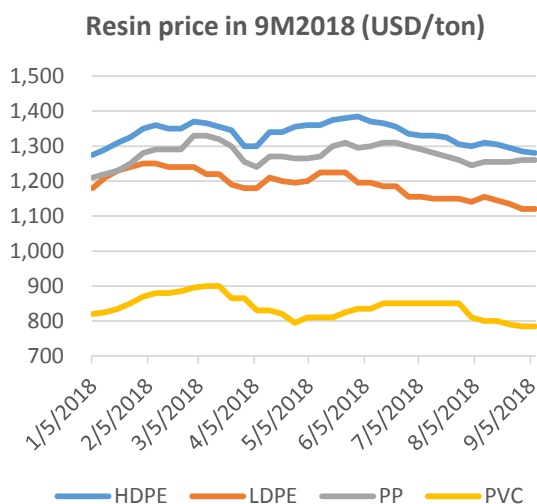
Ticker	Rev 2018 (VND bn)	EAT 2018 (VND bn)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Close price 21/09/18	Target price
VGC	9,415	680	1,353	14.03	1.31	4.26%	10.0%	19,000	18,400
CVT	1,470	180	4,654	5.90	1.52	13.0%	30.0%	27,500	32,580

Source: BSC Research

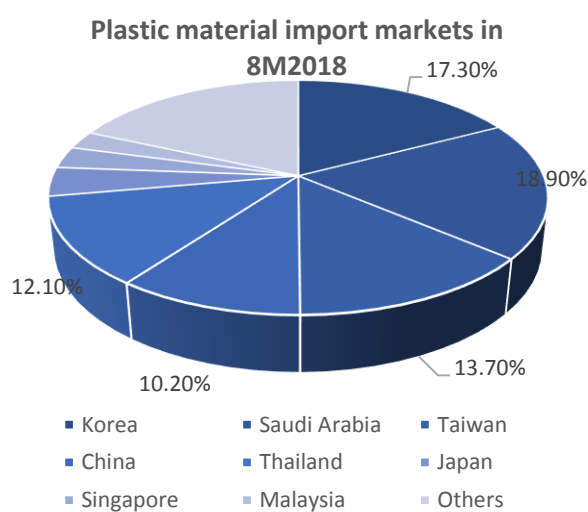
## Plastic [Neutral]

- Prices of plastic resins in 9M2018 slow down: PP +4.1% YTD, PVC -4.3% YTD, LDPE -5.1% YTD.
- Import of plastic materials reached 3.587 million tons (+8.5% YoY)
- Business results in 6M2018 diverged: net sales of plastic packaging companies + 26.3% YoY while that of plastic building materials up only + 3.1% YoY.
- We maintain a NEUTRAL rating for plastic sector in 2018.

**The uptrend of resin price has slowed down.** In 1H2018, prices of most resins (except for PVC) increased sharply in accordance with the uptrend of oil price. Nevertheless, in Q3/2018, only PP kept the upward trend +4.1% YTD, PVC prices -4.3% YoY due to weaker demand in some major markets such as China and India. Price of HDPE remained unchanged, but that of LDPE -5.1% YTD. Gross profit margin of plastic companies in Q2/2018 was lower than Q1 and the same period of the previous year, but we believe that profit margin will improve in 2H2018 because the trend of raw materials in Q2 and Q3 are reflected in COGS.



Source: Bloomberg



Source: General Custom of Vietnam

**Import of plastic materials reached 3.587 million tons (+8.5% YoY)**, mainly from Saudi Arabia (19.6% total import volume, +5% YoY), Korea (18.1%, +3.6% YoY), Taiwan (13.4%, +11.3 YoY). The average import price was up 10.5% YoY with the strongest increase belong to China (+16.3% YoY) due to the environmental protection policies resulting in a decline in coal supply.

**Business results in 6M2018 diverged.** Revenue of firms manufacturing plastic building material remained unchanged or decreased slightly, except for DNP posing a surge in sales (+33% YoY) thanks to sales to water infrastructure projects and water supply segment. In contrast, plastic packing companies maintained high growth rate, although profit margin declined due to rising raw material prices.

Ticker	Products	Rev 1H2018 (VND bn)	%YoY	GPM 1H2018	GPM 1H2017	Net income 1H2018 (VND bn)	%YoY
NTP	Plastic Pine	2,071	0.9%	31.0%	34.3%	150	-25.9%
BMP	Plastic Pine	1,731	-0.4%	24.2%	24.5%	225	-1.3%
DNP	Plastic pipe, water	899	33.0%	15.1%	18.4%	29	-51.3%
DAG	Profile, plastic door	752	-8.8%	10.3%	8.5%	34	7.1%
AAA	Packaging	3,616	128.5%	8.8%	14.2%	111	-8.2%
HII	Packaging	2,164	456.1%	4.7%	10.9%	34	36.5%
RDP	Packaging	607	0.4%	10.6%	10.2%	9	-57.5%
SPP	Packaging	567	13.8%	9.7%	11.1%	6	12.9%

Source: FiinPro, BSC Research

## Investment outlook – Neutral

We maintain NEUTRAL rating on the prospect of plastic industry in 2018. In 1H2018, the construction material firms performed quite bad, but we expect the consumption in the remaining of the year will be better thanks to seasonal features. Regarding plastic packaging, consumption is forecasted to rise in the favor of household and F&B industry demand. The slowing down in plastic resin prices trend will improve the profit margin of enterprises.

We recommend HOLD for NTP, tracking for BMP and AAA.

### NTP – HOLD – Target price: VND 49,070/share – Upside: 1.2%

We downgrade NTP's earning forecast based on lower than expectation sales in 6M2018 (net revenue 6M2018 up 1.1% YoY), so the assumption for volume consumption in the total year 2018 is up 3.5% YoY. In addition, given the uptrend of raw material price (8M2018, raw material price + 8%) and VND/USD exchange rate, NTP's profitability will be eroded because the company remain the selling price and discount policy to ensure competitiveness.

BSC forecasts revenue in 2018 will reach VND 4,636 billion (+4.7% YoY), net income of VND 329 billion (-20.3% YoY if excluding the profit from sale of NTP shares on the South to Sekisui in 2017), equivalent to EPS = VND 3,320/share.

Ticker	Rev 2018 (VND bn)	EAT 2018 (VND bn)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Close price 21/09/18	Target price
NTP	4,636	329	3,320	15.51	2.08	7.8%	15.0%	51,500	49,070
BMP	4,072	438	4,872	12.36	1.92	14.4%	17.9%	60,200	N/A
AAA *	6,000	330	2,632	6.51	1.29	N/A	N/A	17,150	N/A

Source: BSC Research, (\*) AAA's business plan

## Pharmaceuticals [Neutral]

- In the first 8 months in 2018, manufacture of pharmaceuticals, medicinal chemical and botanical products index increased 16.2% yoy
- In Q2.2018, Pymepharco announced an extraordinary shareholder meeting to increase the foreign ownership limit
- In 1H2018, net revenue and NPAT of 15 pharmaceutical corporates reached VND 10,890 bn (-3.2% yoy) and VND 1,090 bn (-8.4% yoy) respectively

**Manufacture of pharmaceuticals, medical chemical and botanical products increased by 16.2% in 8M2018.** According to the General Statistics Office, medicines production increased 17.5% yoy and 4.6% qoq. This was still a strong growth, showing an increase in output in pharmaceutical corporates.

**The foreign ownership limit continued to increase.** On 5/9/2018, PME announced that PME will hold an extraordinary shareholders' meeting which aims to seek for opinions on raising the foreign ownership limit to 100%. BSC comments that the larger room for foreign investors aims to increase the Stada's share. Low-salary labors, government incentives for domestic pharmaceutical corporates and low demand for Vietnamese per capita medicines will still be the pharmaceutical industry's highlights for foreign investors.

**1H2018 slower operating business results.** In 1H2018, the total revenue and NPAT of 15 listed pharmaceutical companies were VND 10,890 bn (-3.2% yoy) and VND 1,090 billion (-8.4% yoy) respectively. Leading companies show that sales and profit growth are slowing down. We believe that (1) Changes in tendering procedures resulting in lower bid prices and (2) Fierce competition in the OTC segment.

Ticker	Rev 1H2018 (bn VND)	%YoY	GPM 1H2018	GPM 1H2017	Net income 1H2018 (bn VND)	%YoY
DVN	2,855	-15.3%	8.4%	9.4%	111	-16.5%
DHG	1,842	1.9%	44.2%	45.2%	310	-13.9%
PME	829	0.4%	48.1%	48.0%	157	6.0%
DHT	767	15.5%	14.8%	15.2%	40	36.7%
TRA	798	-7.1%	50.9%	56.2%	62	-47.5%
DBD	644	-0.9%	35.3%	37.3%	82	7.8%
DMC	640	4.7%	37.4%	40.1%	108	0.7%
OPC	514	4.8%	46.0%	44.1%	50	10.1%
IMP	514	2.7%	40.9%	42.7%	64	6.9%
DCL	381	3.5%	26.7%	33.5%	9	-77.5%
DBT	377	-5.7%	22.9%	21.6%	9	27.6%
DP3	235	39.9%	66.2%	56.5%	53	190.3%
PMC	222	6.8%	39.3%	41.6%	37	4.4%
LDP	210	-18.8%	13.2%	14.8%	-6	-169.0%
PPP	62	-8.2%	22.0%	19.0%	4	5.8%

## Investment Outlook - Neutral

We maintain the **NEUTRAL** rating for the pharmaceutical sector. Despite the increasing competition amongst pharmaceutical enterprises, the growth is potential because low medicine demands, cheap labors and government incentives for the domestic pharmaceutical industry in Viet Nam are still highlights for pharmaceutical stocks.

Ticker	Rev 2018 (bn VND)	EAT 2018 (bn VND)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
<b>DHG</b>	4,207	693	4,774	20.3	3.7	17.1%	22.6%	96,900	N/A
<b>PME</b>	1,919	320	4,910	14.3	2.4	14.9%	18.1%	70,400	84,500

Source: BSC research

## Textile [Neutral]

- Textile and garment export in 7M2018 reached USD 16.65 billion (+17% YoY).
- Vietnam – EU Free Trade Agreement (EVFTA) has already completed all legal reviews. Nevertheless, it might require ratification by all member states in order to take effect.
- Total revenue 6M2018 of listed firms reached VND 30,151 billion (+16.2% YoY) and NPAT surged to VND 1,517 billion (+34.2% YoY).
- We maintain NEUTRAL rating on textile sector's prospects.

**Textile and apparel export in 7M2018 reached USD 16.65 billion (+17% YoY).** Textile exports witnessed solid growth in Northeast Asian markets such as China (+44.8% YoY), South Korea (+24.9% YoY) and Japan (+ 24% YoY). Exports of Vietnamese apparel to Korea continuously grow at high pace (2017: 15.7% vs. 2016, 7.3%), narrowing the gap with Chinese export (current market share was 32.7% and 34.5% respectively, compared with 29.5% and 40.2% before Vietnam - South Korea Free Trade Agreement (VKFTA) came into effect). Vietnam's textile and garment exports to China (occupying 4.8% of Vietnam's textile and apparel exports in 2017) have increased robustly over the last two years (CAGR = 28.3% for textiles and 22.3% for yarns). This might be explained by the tendency of shifting production bases from China to Vietnam so as to take advantage of lower labor costs, then export backward. However, it is worth to noted that textile sector's growth rate may slow down as Chinese yarn and textiles, which are taxed by the United States, may return to China and exert pressure on supply and demand. In the short to medium term, we believe that Vietnam will continue to maintain impressive growth thanks to the movement of investment flows and production in textile sector as well as the supports from foreign trade agreements.

**The Vietnam-EU Free Trade Agreement (EVFTA) has completed legal review, but might not come into effect soon.** On 26/06/2018, EVFTA was unanimously split into two independent agreements: (1) Foreign Trade Agreement (FTA) and (2) Investment Protection Agreement (IPA), thereby speeding up the ratification process of the agreement. With regards to FTA, currently, two sides have completed the legal review, awaiting official signing before going through the internal approval process by the legislatures of the member states. However, problems concerning diplomacy between Vietnam and Germany may be a deterrent factor to EVFTA's signing and ratification process since the agreement only comes into effect when receiving consents from all members in the alliance. Thus, EVFTA might hardly takes effect before the 7th meeting session of XIV National Assembly in mid-2019. EU is currently the third largest Vietnamese apparel importer (13.5% proportion in 7M2018); EU tariffs on Vietnamese textiles and apparel customarily stand at 9.6% (compared to 0% for Cambodia, Bangladesh ...), which will be eliminated immediately (42.5% tariff lines) or gradually in the period of 3 to 7 years and is expected to increase the competitiveness of Vietnamese textile products.

**Total revenue of 6M2018 of the listed firms reached VND 30,151 billion (+16.2% YoY), NPAT surged to VND 1517 billion (+ 34.2% YoY).** Firms recorded high growth in revenue including: TNG +49% YoY, EVE +34.4% YoY, STK +30% YoY, VGG +23% YoY. Meanwhile, some traditional textile and garment enterprises underwent deceleration: M10: VND 1.269 billion (-8% YoY), TVT: VND 1.234 billion (-5.4% YoY). Gross margin of most apparel companies declined from 0.5% to 2% due to the escalation of input price (raw materials, labor); excluding TCM, GMC and STK.

Ticker	Sales 1H2018 (VND bn)	%YoY	GPM 1H2018	GPM 1H2017	NPAT 1H2018 (VND bn)	%YoY
VGT	9,392	13.4%	9.8%	10.2%	458	50.8%
VGG	4,612	22.7%	11.5%	12.3%	224	21.2%
TCM	1,648	6.5%	17.7%	16.4%	117	-1.4%
PPH	1,680	20.7%	9.5%	11.7%	142	3.2%
TNG	1,488	49.0%	16.8%	17.5%	67	61.1%
STK	1,192	29.9%	13.6%	11.2%	84	72.0%
EVE	502	34.4%	32.1%	32.5%	33	42.4%

Source: FiinPro, BSC Research

## Investment Outlook - Neutral

We possess optimistic perspective regarding growth and earning results of textile and apparel companies in short and medium term but still remain our neutral view on the sector for some reason: (i) the level of valuation of the investors in the market for textile stock was not high (historical P/E ranging from 5x to 9x), (ii) industry faces risks associated with international trade. However, investors should pay attention to the possibility that the market will respond positively when EV-FTA becomes effective, helping to support stock prices in short-term.

We recommend BUY for VGG. For TCM and TNG, we recommend HOLD at the current price.

### TCM - HOLD - Target price: VND 29,300 /share

- Core business rose notably, profit margins enhanced: Net sales in 8M2018 reached USD 104.587 billion (~2,467 billion)(+14.1% YoY), fulfilling 76% of this year's target; NPAT arrived at USD 7.9 million (equivalent to VND 185.6 billion). Contributing over 70% revenue was apparel segment. In the first eight months of this year, gross margin of textile segment averagely stood at 18%, higher than the margin of 16.7% of the same period of 2017 thanks to yarn segment (making up 14% revenue) favored by the upward trend in cotton prices (in 6M2017, this segment recorded losses). Textile segment maintained impressive gross margin thanks to closed production process from yarn.
- Other profit in 2018 is estimated to attain VND 60 billion. In 6M2018, TCM recorded another profit of VND27 billion from disposal of asset at yarn factory No. 3. It is expected in 2H2018 that company will complete procedures regarding the dissolution of Thanh Quang subsidiary and record VND 22 billion from land and asset transfer. Simultaneously, the company proclaimed that it could achieve another VND 11 billion profit from selling 2 hectares land in Trang Bang Industrial Park.

BSC forecasts TCM's FY2011 sales will be VND 3,467 billion (+ 8% YoY), NPAT from core business activities of VND 203 billion, EPS = VND 3,350/share, P/E fw of 7.6. If taking into account other gains from land transfers and asset liquidation, the NPAT is predicted to stand at VND 253 billion (+32.2% YoY), equivalent to EPS of VND 4,180/share, P/E fw = 6.2.



## Seaport [Neutral]

- 6M2018 container volume increased by 28% yoy to 8.7 million TEUs thanks to 14.5% increase in nationwide exports and 11.6% increase in imports.
- Cai Mep - Thi Vai seaport witnesses positive prospect with total volume rising by 40% YoY.
- We maintain Neutral view and recommend BUY: GMD and VSC.

**The upsurge of import & export bolsters the growth of seaport sector.** According to General Statistics Office of Vietnam, the cumulative export turnover in the first eight months of 2018 was estimated to reach USD155.41 billion (+14.5% yoy). In which, America market achieves the highest cumulative export turnover with USD30.2 billion (+10.2%). Regarding imports, import turnover is anticipated to stand at USD152.66 billion (+11.6% yoy) and the largest contributor is China with USD41.4 billion (+12.8%).

Accordingly, seaport sector is intimately impacted by the economy with 80% of goods being exported by sea. According to Vietnam Ministry of Marine, country's containerized capacity in 6M2018 is expected to reach 8.7 million TEUs (+28% yoy) and the average container quantity growth could obtain 17.6 - 19.5 million TEUs in 2020.

**Cai Mep - Thi Vai seaport** maintains solid growing momentum. In 6M2018, the number of ships in Cai Mep - Thi Vai seaport improved by 40% yoy, of which, more than 50% of the vessel was over 80,000 tons. Total cargo volume accelerated by 20% yoy, of which containers account for more than 1.2 million TEUs (+25% yoy). We consider these figures as a positive sign to promote the development of Southern seaport economy in 2018.

**Business Performance 1H2018.** Rev 1H2018 of 16 listed seaport companies dropped by VND5,586 billion (-4.6% yoy) and NPAT accelerated by VND2,456 billion (+84.8% yoy). If excluding financial income from GMD's subsidiaries, NPAT declined VND939.6 billion (-29% YoY). Thereby, we have the following notes:

- **Firms with advantageous seaport position:** VSC - the capacity of VIP Green Port increased by 15% yoy since ports in front of Bach Dang Bridge serve nearly 11-12 ships/week and container quantity of Green port reaches 166,000 TEUs. (+ 20% qoq). Besides, it is forecasted that year-end output could reach 1,000,000 TEUs by the end of the year.
- **Seaport companies are restructured to focus on their core business - seaports:** GMD's port operation made up nearly 80% total revenue after selling two logistics subsidiaries to enhance GPM to 38%. Meanwhile, CLL reduce its transportation service, hence this segment's sale is not recorded, leading to revenue of only 97.5 billion dong (-30.4%).

Ticker	Rev 1H2018 (billion dong)	%YoY	GPM 1H2018	GPM 1H2017	NPAT 1H2018 (billion dong)	%YoY
GMD	1,299	-30.4%	37.3%	25.0%	1,554	574.2%
PHP	981	-9.8%	34.2%	36.7%	234	-12.2%
VSC	796	31.2%	31.8%	31.2%	177	49.9%
SGP	525	-10.9%	44.9%	34.7%	104	-69.6%
TCL	436	9.9%	17.8%	18.4%	48	14.3%
DVP	310	-3.5%	53.6%	53.8%	134	-9.7%
CDN	330	15.2%	34.9%	36.5%	74	8.8%
PDN	321	33.1%	29.5%	31.5%	55	31.4%
DXP	39	5.1%	20.8%	28.9%	11	-6.8%
CLL	98	-30.4%	61.4%	38.2%	46	18.7%

## Investment Outlook – Neutral

The EVFTA eliminated 42.5% tax lines of Vietnam's major export items to Europe, which will create motivation to boost demand for import and export of goods through ports. In addition, the trade war between the United States and China also caused the relocation wave of manufacturing businesses's factories to neighboring countries, especially when Vietnam is also a potential place for the port industry. As a result, we believe that in order to capture the opportunities frontward, port operators must actively expand their port system such as in Ho Chi Minh City, Cai Mep and Hai Phong.

In addition, logistics services to transport large quantities of cargo to the center or manufacturing factory must also be developed in bulk. At present, we give Neutral recommendation on seaport sector since the expansion of large ports for large vessels are still delayed, the equitisation roadmap of port companies is still unfinished while logistics segment has not developed synchronously with port array.

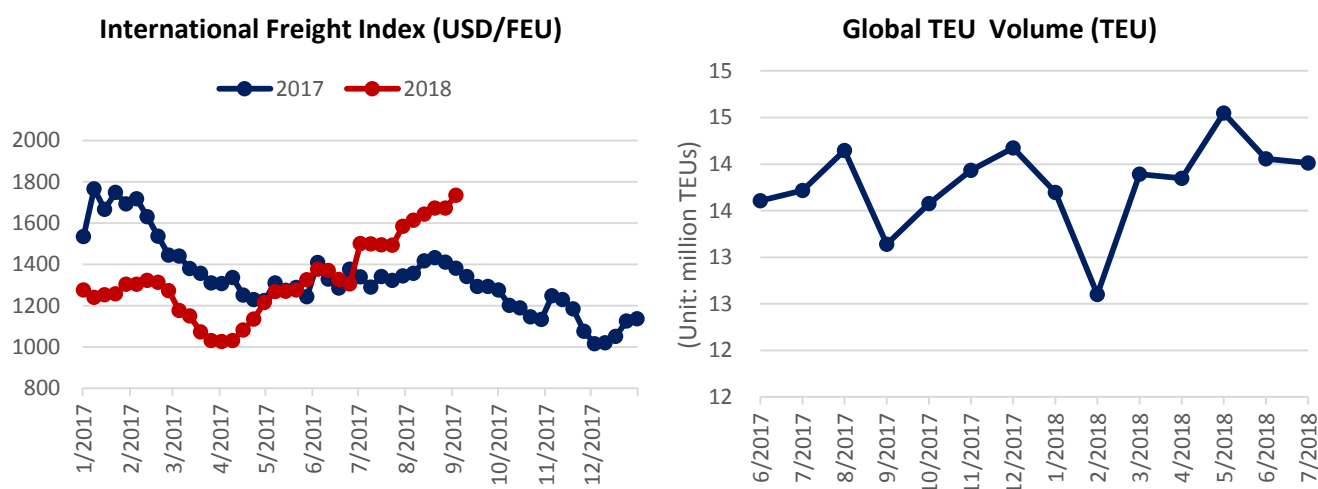
Ticker	Rev 2018 (bil. VND)	NPAT 2018 (bil. VND)	EPS 2018	P/E FW	P/B FW	ROA 2018	ROE 2018	Price on 21/09/18	Target price
GMD	3981	585	2,031	12.24	2.14	5%	7%	27,300	36,886
VSC	1354	310	5628	7.7	1.27	11.9%	17.3%	43,200	47,101

Source: BSC research

## Marine Transportation [Neutral]

- International freight index surge to \$1735/FEU (+25.5% yoy)
- Country's total cargo transportation value increased by 9.1% yoy, of which marine cargo transportation rose by 8.2% yoy,
- By the end of 6M2018, liquid transporters recorded 27% increase in NPAT, in contrast, bulk freight transportation enterprises' NPAT dropped by -21% YoY.
- We maintain NEUTRAL recommendation for the marine transportation industry.

**International Freight Index (IFI)** grows up to \$1735/FEU from \$1382/FEU compared to the same period (+25.5% yoy). We assume that international freight index has increased sharply in Q3 due to the following reasons: **(1)** Q2-Q3 is the peaking time of trading between China and the East Coast of America. **(2)** The 2M coalition of two marine transportation giants Maersk and MSC has postponed one of five major shipping lanes between Asia and West Coast of North America due to harder transatlantic trade than usual. Consequently, Vietnamese marine transportation companies with international shipping vessels can benefited partly from the rising in international freight rates.



Source: Container statistics, Freightos.

**Vietnam marine transportation ameliorates.** Country's total value of cargo transportation reached VND42,745.1 billion in the first 8 months of 2018, up 9.1% over the same period of 2017. Shipments of marine freights individually made up 39.4% total shipments, equivalent to VND16,839.9 billion, up 8.2% yoy, thanks to the improvement of marine transportation quantity to reach 82.5 million tons (+6.7% yoy). However, we forecast that the dry bulk shipping market has not gain positive outlook yet when it comes to high-cost routes like Vietnam - Korea/Japan/China, since Vietnam's fleet is unable to meet the access demand to this area. In addition, Vietnam-Thailand/Myanmar/India routes often have low value, long queues and potentially dangerous trade disputes. In addition, the unstable infrastructure condition will eventually lead to slow shipment, inadequate access to large vessels and the increase in logistic costs.

**Vinalines IPO on 05/09/2018 with the total value of selling shares at VND 4,888 billion, equivalent to 34.8% of charter capital.** Vinalines is Vietnam leading company in the field of marine transportation, logistics and seaport with estimated revenue 6M2018 of 533 billion dong and losses of 1.140 billion dong. At the auction, the number of shares successfully sold was 5.44 millions, which worths nearly 54 billion dong. Vinalines only successfully sold 1.1% of its offering shares. We believe that the auction of Vinalines was unsuccessful due to (1) Vinalines's Financial Statement in 2017 still accumulated losses of VND3,252 billion (2) Vinalines could not find a strategic investor with financial strength to help the company recover from difficulties.

**Business Performance 1H2018.** Most oil transportation businesses recorded a growth in revenue and net profit during first half of 2018 (figures). We believe that crude oil output and finished products achieved when Binh Son Refinery returns to normal operation after 52 days of overhaul in 2017 has helped oil and gas transportation enterprises expand the number of shipments notably. On the contrary, bulk carriers have not encountered as many difficulties as mentioned above. Finally, competition regarding shipping rates among domestic firms to win transportation contracts continues to cause low GPM.

Ticker	Rev 1H2018 (billion dong)	%YoY	GPM 1H2018	GPM 1H2017	NPAT 1H2018 (billion dong)	%YoY
PVT	3,875	28.2%	11.8%	10.3%	388	99.6%
VTO	783	24.7%	16.1%	15.9%	53	17.7%
GSP	957	57.4%	6.0%	7.0%	35	36.0%
VIP	393	5.8%	27.1%	22.7%	49	49.6%
PJT	270	0.0%	15.5%	13.8%	21	26.0%
VOS	825	13.0%	2.8%	-9.3%	-52	-69.6%
VNA	361	43.0%	5.7%	-13.8%	-16	-77.3%
VFR	109	1.7%	7.0%	-7.2%	5	-77.3%
HTV	98	6.0%	21.6%	20.3%	11	-3.3%
TJC	87	-9.6%	6.4%	6.6%	0	-59.1%
TCO	77	-3.7%	21.7%	24.1%	6	-37.5%

Source: FiinPro, BSC Research

## Investment Outlook - Neutral

BSC maintains **Neutral** recommendation with regards to marine transportation sector. We believe that the maritime transport industry will have a relatively transparent discrimination between liquid and dry bulk carriers in 2018. For liquid transporters, we forecast that (1) Binh Son refinery factory will operate nearly 7 million tons of crude oil and 6.5 million tons of finished products; (2) Nghi Son refinery factory will officially exploited in Q4/2018. As a result, liquid cargo transporters are promised with more contracts in the second half of 2018. For dry freight industry, we expect businesses to improve their fleets with bigger load in order to obtain Vietnam's regular export contracts such as agricultural products, seafood, machinery ... (most of them are undertaken by Chinese ships). Opportunities for Vietnamese maritime shipping companies are the demand for raw materials such as coal for Vinh Tan, Tra Vinh, Song Phu and

Long Hau thermal power plants as well as the recent development investment projects at Phu Quoc Island. These opportunities will eventually create new growth momentum for the industry.

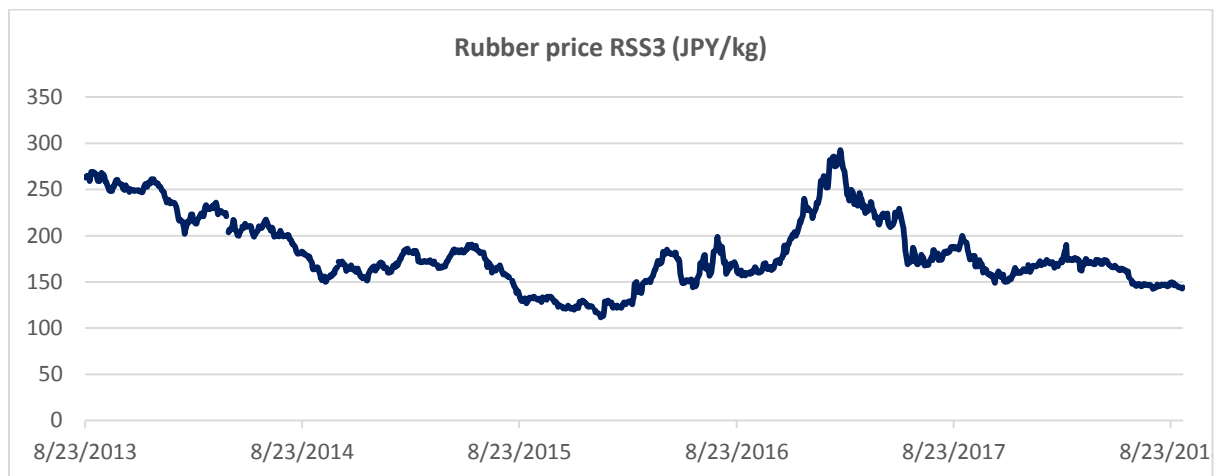
<b>Ticker</b>	<b>Rev 2018 (bil. VND)</b>	<b>NPAT 2018 (bil. VND)</b>	<b>EPS 2018</b>	<b>P/E FW</b>	<b>P/B FW</b>	<b>ROA 2018</b>	<b>ROE 2018</b>	<b>Price on 21/09/18</b>	<b>Target price</b>
<b>PVT</b>	7,256	529	1,694	9.89	0.97	5.8%	11.1%	17,700	20,615

Source: BSC Research

## Rubber [Neutral]

- Rubber price continued to fall 11.4% QoQ 2Q2018
- According to the World Bank, the average price of rubber in 2018 is forecasted to fall 10% YoY due to oversupply.
- Export Rubber in Vietnam increased 9.2 YoY in volume but down to 11.1% YoY in value.
- EAT in Q1'18 increased slightly by 0.44% (rubber latex accounted for 20% of EAT, 50%-60% come from wood treatment of PHR, DPR)

**Rubber price continued to fall 11.4% QoQ 2Q2018.** Compared to 2Q2018, the average price of rubber continued to fall 11.4%, reaching 146 JPY/kg. By the end of 3Q2018, rubber prices have fallen 25% over the same period in 2017 due to surplus supply.



Source: Bloomberg

**Export Rubber increased in volumes but declined in value.** According to General Department of Customs, rubber export reached volumes and value respectively 877,644 tons (+9.2% YoY) and USD 1,266 million (-11.1% YoY) at the end of 8 months 2018. Export sales averaged \$ 1,397/ton (-18.6% YoY). Regarding export volume, China remains the largest importer of rubber in Vietnam (reaching 560,570 tons, + 10% of the same period, accounting for 63.4% of total output).

**1H2018 business result decreased due to impact of rubber price.** In 1H2018, total net revenue and earning after tax of rubber companies were VND 1,373 billion (-9% yoy) and VND 432 billion (+0.44% yoy), respectively. Of which, PHR only had an increase in EAT due to large volume of wood treatment. Profit from rubber wood of PHR accounts for about 60% of EAT structure, only 20-25% of profit from rubber latex sales.

Ticker	Rev 1H2018 (VND bn)	%YoY	Gross profit margin 1H2018	Gross Profit margin 1H2017	EAT 1H2018 (VND bn)	%YoY
PHR	533	-19.0%	19.9%	19.1%	220	56.8%
DPR	392	-2.1%	45.7%	46.2%	144	-0.2%
TRC	142	-1.2%	15.4%	21.3%	46	-23.5%
DRI	268	-1.7%	31.2%	43.8%	20	-75.8%
HRC	38	10.3%	11.1%	26.2%	2	-27.3%

Source: FiinPro, BSC Research

### Investment Outlook – Neutral

We maintain NEUTRAL rating to natural rubber stocks. Most of the companies have high rate of dividend paying (40%-50%). However, business results of industry depend mainly on the price of rubber. We suppose, the average price of rubber has reached bottom and it is hard to reduce in long-term. In addition, some companies have high profit from wood treatment such as DPR, PHR will ensure profit for them in the next 1-2 years.

Ticker	Rev 2018 (VND bn)	EAT 2018 (VND bn)	EPS 2018 (VND/share)	P/e fw	P/B	ROA 2018	ROE 2018	Close price 21/09/18	Target price
PHR	1,290	268	1,751	14.2x	1.38x	7.7%	11.2%	24,900	N/A
DPR	946	216	4,553	8.82x	0.72x	6.1%	7.9%	39,200	40,997

Source: BSC Research

## Tire [Neutral]

- Car sales fell 5.04% yoy in 7T2018.
- Fierce competition with China and FDI enterprises.
- The world rubber price in 9T2018 decreased 25% over the same period, the price of artificial rubber is not much fluctuation, chemical prices decreased 15% -20% to improve the profitability of tire and tube business.
- Gross profit margin could be improved due to lower raw material prices and expected double capacity increase from DRC's Radial plant in 4Q2018.
- Q2 results are still bad, expecting to reduce material prices to improve profitability. Q209 earnings of tire and tube companies fell 45.3% yoy.

**As of 7T2018, car sales were 147,125 units, down 5.04% yoy.** Domestic car production jumped 12% yoy to 124,713 units, down 22,412 units (-48% yoy). The main reason is that Decree 116 increases the time and cost of imported vehicles. We think that the picture of automobile industry growth in the coming time is unclear and needs to be monitored in the near future. Tourist cars accounted for the largest share - 78.7% of the total car sales with a growth rate of 8% yoy as of 7T2018. Meanwhile, vehicle and truck sales fell sharply by 21% and 42% yoy respectively.

**High Competitive.** Currently, tire and tube businesses are competing harshly with Chinese tires. Chinese radial tires now account for 50% of the market share with prices ranging from 20% -30%. FDI enterprises with high production capacity such as Bridgestone (17,885,000 tires per year), Kumho (6,300,000 tires per year) ... started to increase tire output sales in Vietnam to 15% - 20 % of total production also increases competitive pressure. Vinachem is proposing to the Ministry of Industry and Trade tighten quality management of imported tires to reduce the supply of poor quality tires from China.

**World rubber price in 3Q2018 continued to decrease by 11.4% compared to 2Q2018.** Average world rubber prices in 2Q2018 reached 146 JPY / kg, 11.4% lower than in 1Q2018. By the end of the third quarter of the year, rubber prices have fallen 25% over the same period last year, helping to reduce the cost of raw materials (Natural rubber accounted for 35% of tire production costs). The price of synthetic rubber (15% -20% NVL) was not much fluctuated, but the price of chemicals decreased 15% -20% yoy (15% -20% NVL) helped improve the profitability of tire and tube companies. DRC's LNG volume improved to 14.3% in 2Q2018 (10.4% in 1Q2018).

**Gross profit margin will improve, however it is necessary to keep track of raw material price fluctuations** (1) rubber price continued to fall, other material prices tend to decrease and (2) DRC will increase capacity of radial machines in 4Q2018 that reduces depreciation cost on a unit of product. In long term, we expect DRC to reduce its depreciation cost/ product from 30%-40% thanks to doubling capacity when its radial plant is at full capacity. However, the investors should track frequently the fluctuation of the oil prices (which directly affect chemical and black coal prices, partly synthetic rubber).

**The business result of 1H2018 remain low, expecting that decrease in raw material price will improve profit.** In 1H2018, total net sales and NPAT of companies in the industry reached VND 3,898 billion (-5% yoy) and VND 97 billion (-45.3% yoy). Comparing to result of 1H2018, business result of 2H2018 improve. Rubber price dropped 25% over the same period, the chemical input price decreased 15-20%. Therefore,



we expect the second half of the year, GPM of DRC rebound to 14.3% (1Q2018: 10.4%), CSM 10.35% (1Q2018: 10.2%), SRC 17.6% (1Q2018: 17.6%).

Ticker	Main product	Rev 1H2018 (VND bn)	%YoY	GPM 1H2018	GPM 1H2017	NPAT 1H2018 (tỷ đồng)	%YoY
DRC	Truck and buses radial	1,661	-5.8%	12.6%	13.8%	75	-28.7%
CSM	Passenger car radial	1,777	4.9%	10.5%	13.3%	10	-79.0%
SRC	Motobike product	460	2.4%	17.5%	19.1%	12	-51.1%

Source: FiinPro, BSC Research

**Vinachem plans to divest its capital at DRC and CSM, reducing its ownership to 36% in the fourth quarter of 2018.** This has attracted many attention from investors.

#### Investment Outlook – Neutral

In 4Q2018, we expect tire and tube businesses to will recover in term of earnings as rubber prices are expected to decline and potential growth comes from exporting radial tires. However, with the current price volatility, the trend of automobile in Vietnam is unclear and the valuation is high, we maintain the NEUTRAL rating on the prospect of the tire industry as reported sector outlook for the second quarter.

#### DRC - BUY - Target price 27,707 VND / share - Upside 16.2%

DRC is a leading tire and tube manufacturer in Vietnam mainly producing truck tires. In 2Q2018, DRC sold 287,083 (-1.32% yoy) of which 197,917 Bias tires (-1.94% yoy) and 89,166 Radial tires (+0.07% yoy). Radial tire sales is not fluctuated and mainly export (2/3 of production output), mainly export to Brazil, Malaysia and India (70% of production). Selling price increased 5% from 1Q2018, raw material price decreased (compared to 1Q2018. Natural rubber price – 0.82%, synthetic rubber price +0.79%, chemical price -17%) will help GPM improve to 14.28% (2Q2017: 12.97%). DRC expect to implement the second phase of Radial plant in 4Q2018 to double its current capacity. We estimate that will help DRC reduce its annual depreciation expense/product by 40% (saving VND 160 billion in annual production costs). Vinachem is also expected to divest its stake in DRC, reducing its stake to 36% in 4Q2018. Currently, DRC is trading at a P/E of 25.12x and P/B of 2.2x.

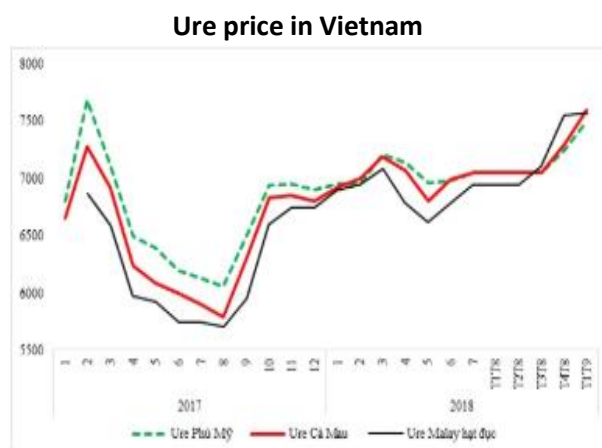
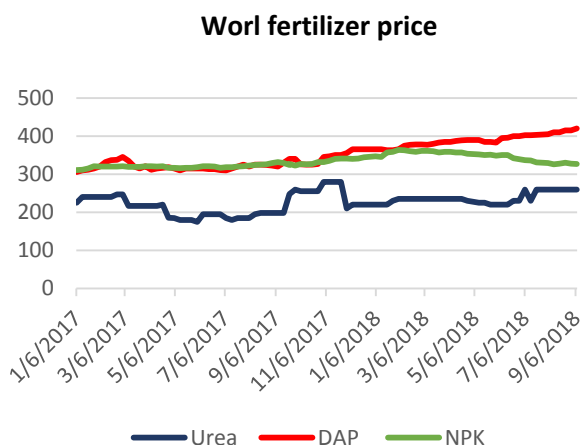
Ticker	Rev 2018 (VND bn)	NPAT 2018 (VND bn)	EPS 2018 (VND /share)	P/e fw	P/B	ROA 2018	ROE 2018	Close price 21/09/18	Target price
DRC	4,270	169	1,283	18.6x	1.82x	5.95%	11.0%	23,850	27,707

Source: BSC Research

## Fertilizer [Neutral]

- Compared to 2Q2018, Urea's price increased 13%, DAP's price increased 5% and NPK's price decreased 6%.
- Raw material price increased. Compared to 2Q2018, gas price in Q2 increased 6.8% by 6.8% qoq, coal price increased 13.7%, H<sub>2</sub>SO<sub>4</sub> price increased 3.48%.
- Continued to wait for VAT policy (discussed at National Assembly in 11M2018)
- Plan of divestment of PVN and Vinachem.
- The total revenue and EAT in 2Q2018 of 14 listed companies reached VND 22,525 billion (-2.93% yoy) and VND 1,336 billion (-9.3% yoy).

**Fertilizer price increased in 3Q2018.** (1) Average world urea prices in 2Q2018 hit US \$ 257 / ton, up 13% over 2Q2018, up 17% over the 2017 average. (2) DAP prices continue to rise to US \$ 408.6 per tonne + 5% in comparison with 2Q2018, + 25% over 2017 average; (3) NPK price continued to decrease by 6% compared to 2Q2018, but still 2% higher than in 2017. Urea selling price in Vietnam Starting from 3% - 5% in 3Q2018.

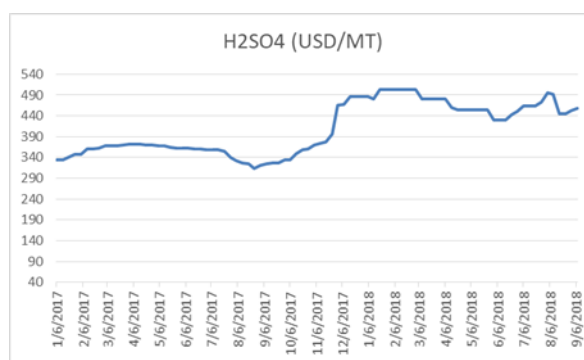
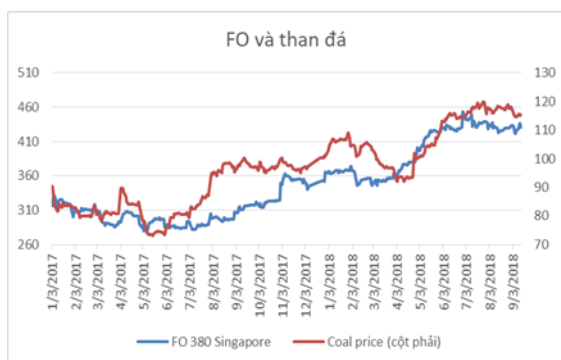


Source: Bloomberg, BSC research

**Raw material prices continue to rise sharply**, reducing the profit margin of single-unit producers, especially urea. Gas input prices, key raw materials for urea production increased by 6.8% over 2Q2018 and 39.2% higher than the 2017 average. World coal prices increased 13.7% over 2Q2018 and up 33.7% over the 2017 average. H<sub>2</sub>SO<sub>4</sub> increased by 3.48% compared to 2Q2018 to 458 USD / ton, 27.68% higher than the 2017 average. This caused LNG margin in 2Q2018 of large companies decreased sharply as DPM (17.2% against 25.8% ), DCM (25.4% vs. 34.6% for the same period).

Development of FO and coal price

Development of H<sub>2</sub>SO<sub>4</sub> prices (USD/MT)



Source: Bloomberg, BSC research

**Continue to wait for information to put fertilizer into VAT subject.** This is the content that was included in the draft amendment of the tax policy, the tax rate of 6%. This content will also be discussed at the National Assembly in November 2018. This regulation, which is expected to come into effect from 2019, will reduce costs through the deduction of VAT by single-scale producers such as DPM (estimated at 330 billion VND), LAS (over 110 billion dong), DDV (about 138 billion dong).

**Divestiture plan of PVN and Vinachem.** According to the roadmap, PVN plans to divest DPM and DCM to 51% in 2018. According to the Restructuring Scheme for the period of 2017-2020, Vinachem divested capital in a number of subsidiaries of the group, Fertilizer companies are BFC, SFG, VAF, DDV (DAP - Vinachem), DAP No 2 - Vinachem, ...

**1H2018 business results.** Total Revenue and EAT of 14 listed companies reached VND 22,525 billion (-2.93% yoy) and VND 1,336 billion (-9.30% yoy). Profitability decrease mainly due to rising raw material prices and high competition, affected enterprises reduced output and failed to raise the selling price corresponding to the price increase of raw materials. BFC and DCM have been sharply down on profit since BFC has not risen in line with rising raw material prices and output dropped by 20,000 tonnes over the same period, DCM has temporarily adjusted gas prices 6T2018, Strong (+ 22% yoy).

Ticker	Main Product	Rev 1H2018 (VND bn)	% yoy	GPM 1H2018	GPM 1H2017	EAT 1H2018 (VND bn)	% yoy
DPM	Urea	4,783	9.9%	19.4%	27.6%	402	-13.1%
BFC	NPK	3,346	3.8%	13.5%	15.5%	144	-30.4%
DCM	Urea	3,244	6.8%	25.4%	34.6%	413	-26.9%
LAS	Phosphorus	1,849	-11.3%	20.4%	19.7%	73	-22.9%
DDV	DAP	1,269	38.1%	16.0%	3.3%	145	N/A
QBS	Trading	1,247	-31.4%	5.7%	5.7%	23	-49.0%
PSW	Trading	1,191	7.2%	2.2%	3.0%	6	-17.1%
PSE	Trading	1,195	6.5%	2.7%	3.5%	5	-27.5%
PMB	Trading	932	13.6%	3.9%	5.2%	11	-3.6%
VAF	Phosphorus	682	-3.0%	22.1%	23.7%	38	10.8%

Ticker	Main Product	Rev 1H2018 (VND bn)	% yoy	GPM 1H2018	GPM 1H2017	EAT 1H2018 (VND bn)	% yoy
PCE	Trading	1,087	-6.7%	2.1%	3.4%	5	-41.1%
NFC	Phosphorus	410	11.2%	16.0%	17.1%	16	8.3%
SFG	Phosphorus, NPK	1,272	11.3%	11.1%	12.5%	60	0.4%
PCN	Trading	18	-5.0%	3.5%	-2.4%	-5	9.2%

Source: FiinPro, BSC Research

### Investment Outlook – Neutral

We maintain NEUTRAL rating for fertilizer stocks with high expectations of changes in tax policy and plans for divestment of PVN and Vinachem, but high competition, oversupply and slow demand growth affects consumption and selling prices of enterprises in the industry. Fertilizer stocks are trading at P / E and P / B of 8.0x and 0.68x, respectively.

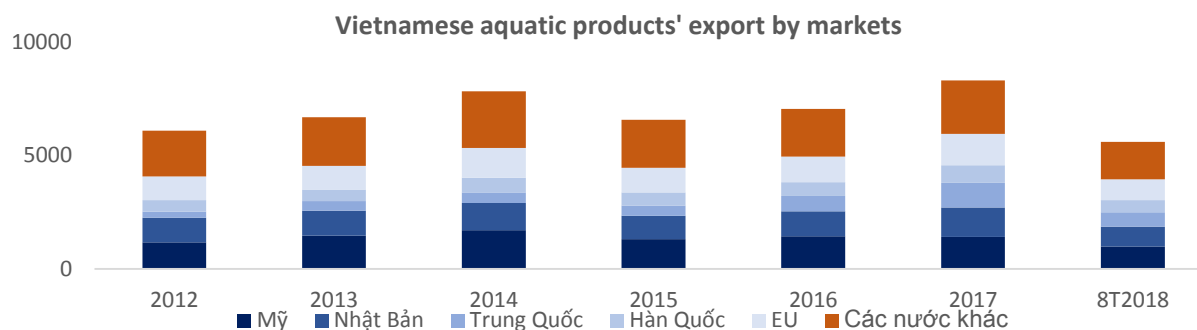
Ticker	Rev 2018 (VND bn)	EAT 2018 (VND bn)	EPS 2018 (VND/share)	P/e fw	P/B	ROA	ROE 2018	Closing price 21/09/18	Target price
BFC	6,831	301	3,715	7.5x	1.26x	7.7%	25.1%	27,800	29,252
LAS	4,000	163	1,355	8.5x	0.98x	5.2%	12.39%	11,300	13,200

(Source: BSC Research, \* plan)

## Aquaculture [Neutral]

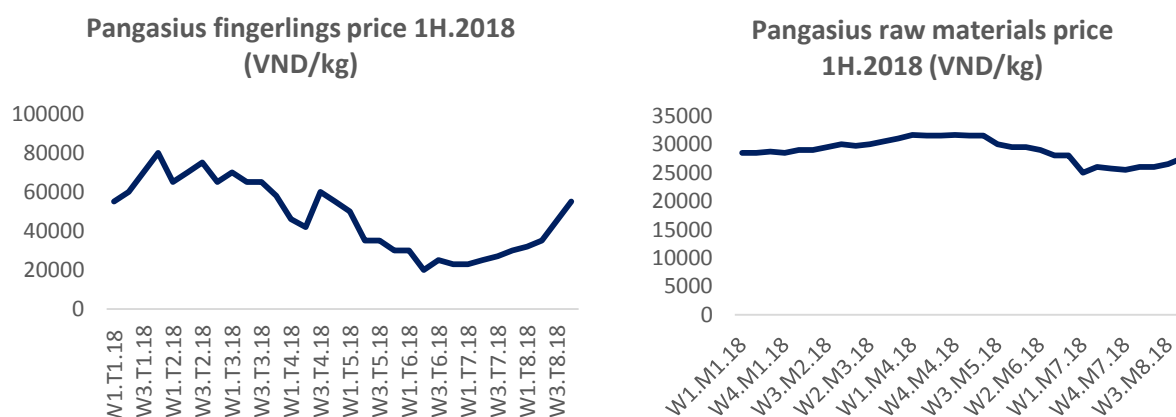
- In 8M2018, seafood export reached USD 5.5 billion, up 5.3% yoy
- Raw materials of pangasius price fluctuated around 24,000 – 26,000 VND/kg, down 7% yoy; while the fingerling price has increased strongly
- The official tax rate for shrimp exports to the United States during the POR 12 was 4.58%. The national preliminary tax rate for pangasius exported to the US during POR 14 is 2.39 USD/kg.
- In 1H2018, 6 aquaculture companies reported revenue of VND 17,650 billion (+10.5% yoy) and EAT of VND 1,376 billion (+138% yoy).

**Seafood export in 8M2018 is estimated at USD 5.5 billion (+5.3% yoy)**, in which USD 739 million was exported in August alone. The United States continued to be the largest export market for seafood, with turnover reaching USD 983 million in 8M2018 (+7.8% yoy), accounting for 17.6% of total exports.



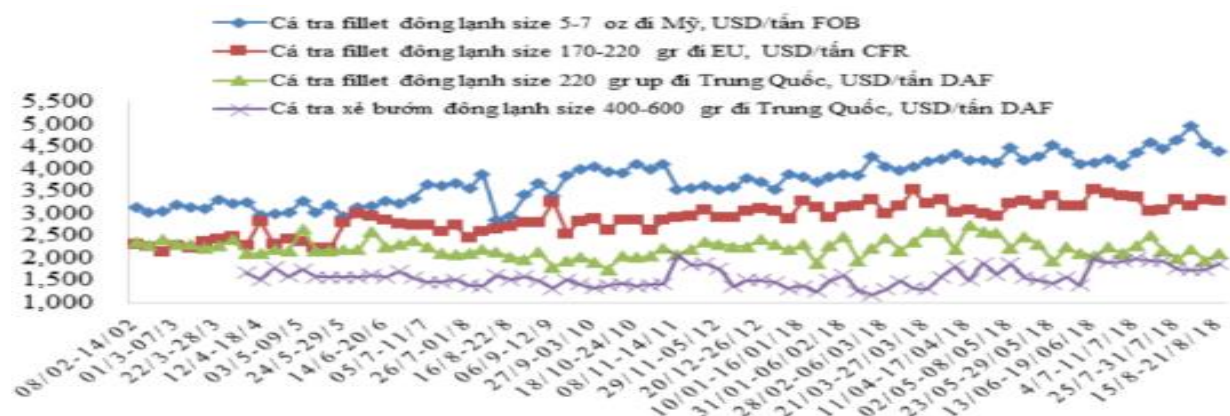
Source: General Department of Vietnam Customs

**Raw materials of pangasius price fluctuated.** The prices of pangasius fingerlings and pangasius raw materials in the second quarter fluctuated strongly, affecting significantly the production activities. Pangasius raw materials is traded around 24,000 - 26,000 VND/kg, slightly lower than the same period of 27,000 - 28,000 VND/kg. Pangasius fingerlings in August increased sharply, fluctuating around 53,000 - 55,000 VND/kg, up 2 times higher than the bottom.



Source: General Department of Vietnam Customs

**Pangasius export price continued to increase in 07/2018 - 08/2018.** At the end of August, tra fish fillet exporting to the US reached 4,520 USD/ton (+22% yoy), pangasius drilling butterfly exporting to China reached 2,250 USD/ton (+25% yoy). The trade war and the high demand from Chinese market affected positively on businesses. Selling prices continued to rise, along with the low input costs comparing to 2Q2018. BSC expects gross profit margin of the company will be high in 3Q2018.



Source: General Department of Vietnam Customs

**Anti-dumping tax for Vietnamese seafood exporting to the US.** On 10/9/2018, the US Department of Commerce (DOC) announced that the official tax rate for Vietnamese shrimp during POR 12 in which all US shrimp exporters (FMC, MPC) will be imposed 4.58% tax rate, much lower than the preliminary rate of 25.39%. Regarding pangasius products, on 13/9/2018, DOC issued a preliminary judgment on the anti-dumping tax of POR14 with the general tax rate of 2.39 USD/kg (down from 3.87 USD/kg in POR13). Vinh Hoan Corporation (VHC) and Bien Dong Seafood are still entitled to the same tax rate of 0 USD/kg and 0.19 USD/kg, respectively. Notably, Hung Vuong Corporation (HVG) and NTSF Seafoods (NTSF) enjoy a separate tax rate of 0 USD/kg and 1.37 USD/kg, respectively.

**Business results 1H2018.** Aquaculture companies recorded a strong growth in the first half of 2018. Notably, the revenue growth was lower than the NPAT growth yoy because enterprises' gross profit margin increased sharply thanks to good export price, while input cost was low yoy. Strong demand in export markets (USA, China, Asia) and the lack of raw materials supply facilitated selling prices.

Ticker	Rev 1H2018 (bn VND)	%YoY	Gross profit margin 1H2018	Gross profit margin 1H2017	NPAT 1H2018 (bn VND)	%YoY
MPC	6,616	4.3%	13.5%	10.6%	328	106.9%
VHC	4,044	1.9%	17.7%	13.3%	427	77.6%
IDI	2,836	23.5%	16.7%	9.1%	316	309.3%
FMC	1,750	26.1%	8.0%	6.8%	61	75.6%
ANV	1,683	23.2%	15.6%	13.8%	193	261.7%
ACL	721	20.0%	19.6%	16.1%	51	281.2%

Source: FiinPro, BSC Research

## Investment Outlook - Neutral

We maintain a **Neutral** outlook for the Aquaculture sector. Demand from new markets (China, Japan) is and will be the growth engine for seafood enterprises in the next 1-2 years. Business results of aquaculture companies had an impressive growth, and BSC expects that the high growth rate will continue to maintain in 2H2018.

Ticker	Rev 2018 (bn VND)	NPAT 2018 (bn VND)	EPS 2018 (VND/share)	P/E fw	P/B	ROA 2018	ROE 2018	Closing price 21/09/18	Target price
VHC	9,376	696	7,508	12.4	2.5	12.5%	19.7%	93,500	N/A

Source: BSC research

## Sugar [Underperform]

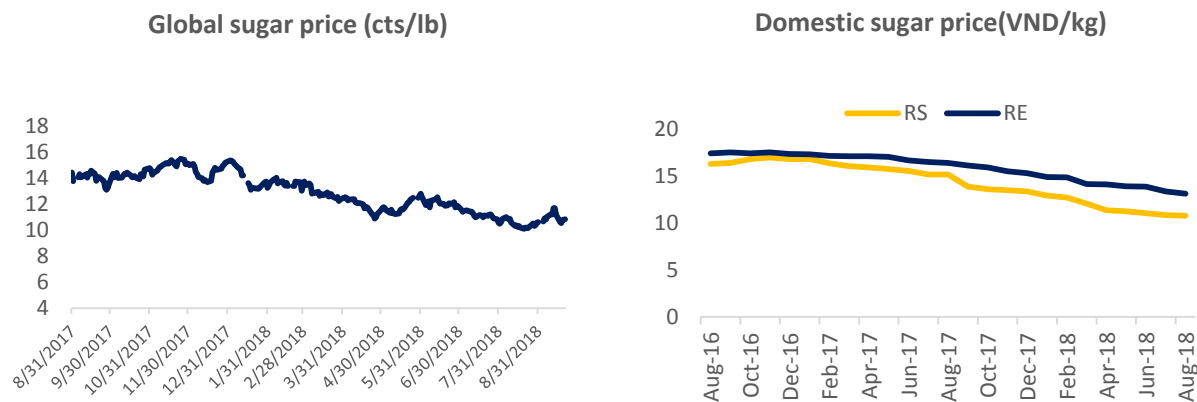
- Operation results 2017/18, the output of sugar cane reached 15 million tons (+ 15% yoy), sugar output reached 1.5 million tons (+17% yoy)
- USDA forecasted that in 2017/18, the world will oversupply 10.65 million tons of sugar
- Domestic sugar price was still low, fluctuating around 10,500 - 12,400 VND/kg while world price has rebounded 9.7% comparing to the bottom

**Operation results 2017/18**, the sugar cane output reached 15,168,817 tons (+15% yoy), the sugar output was 1,444,325 tons (+17% yoy), in which RE sugar reached 631,485 tons. By the end of August, the sugar mills' inventory was estimated at 700,000 tons, roughly half of production

**USDA forecasted that in 2018/19, the world will oversupply 10.65 million tons of sugar.** India, Thailand are expected to produce 33.8 million tons (+4.3% yoy) and 14.1 million tons (+ 2.7% yoy), respectively. In contrast, Brazil, EU and Pakistan are forecasted to reduce production by 34.2 million tons (-12% yoy), 20.3 million tons (-4% yoy) and 6.5 million tons (-12.1% yoy), respectively.

**Domestic sugar price at the end of August was still in a downward trend**, fluctuating around 10,500 VND/kg (-29.24% yoy) with RS sugar and 12,400 VND/kg (-20.12% yoy) with RE sugar. Although the domestic sugar price has approached the Thailand sugar price, the factory consumption was still slow due to high inventory levels in the period of 2016/2017 (approximately 550,000 tons), while the smuggled sugar status saw an upward trend.

On global markets, the world sugar prices rebounded 9.7% from the bottom since mid-August thanks to investors' expectations as major sugar exporters are calling for cutting supply which aims to prevent a decline momentum in sugar price.



Source: BSC Research

**Business results of 2017/2018.** Excluding SBT's strong earnings growth as a result of merging with BHS, the rest of the companies saw sharp drops in earnings, reflecting the industry's overall difficulties. The decline in price and demand have negatively affected sugar cane business.



Ticker	Rev 2017/18 (bn VND)	%YoY	Gross profit margin 2017/18	Gross profit margin 2016/17	NPAT 2017/18 (bn VND)	%YoY
SBT	4,606	34.7%	12.4%	12.3%	549	79.4%
LSS	1,451	-38.8%	11.3%	13.8%	3	-97.8%
SLS	600	11.7%	26.2%	36.5%	115	-29.4%

Source: FiinPro, BSC Research

## Investment Outlook - Underperform

We maintain an **UNDERPERFORM** rating on sugar sector based on the oversupplied sugar situation in 2018/19 with a surplus of 10.65 million tons and this will be a negative pressure on the world sugar price. At the same time, the smuggling problem from Thailand and the slower consumption demand will also negatively affect the industry's prospects in the period of 2018/19.

Ticker	Rev 2019 (bn VND)	NPAT 2019 (bn VND)	EPS 2019 (VND/share)	P/E fw	P/B	ROA 2019	ROE 2019	Closing price 21/09/18	Target price
SBT	10,301	315.8	567	37.0	1.6	1.7%	4.1%	21,000	N/A

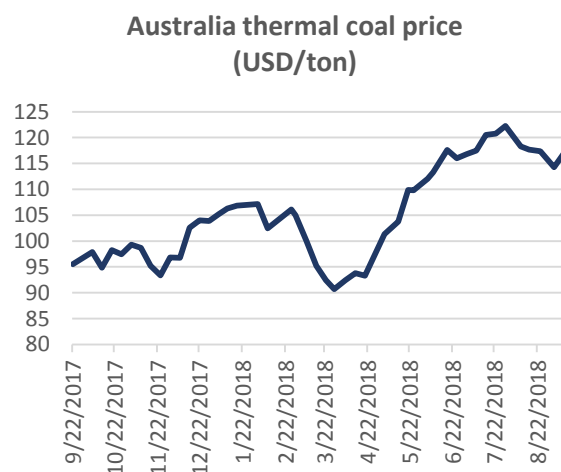
Source: BSC Research

## Cement [Underperform]

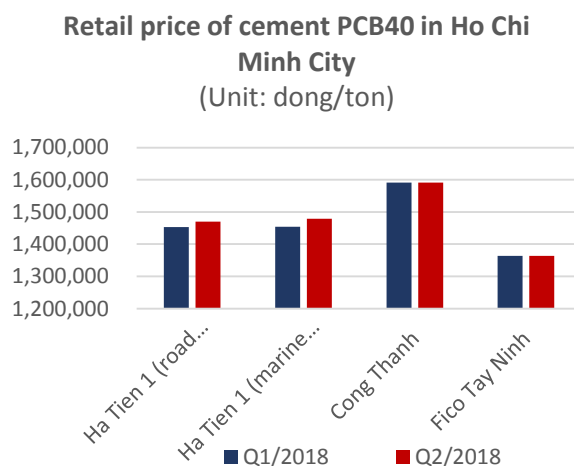
- Consumption of cement in 8M2018 reached 63.85 million tons (+ 30% YoY)
- The selling price in the southern market increased slightly from the beginning of Q2/2018 in the context of coal price + 11.2% YTD, electricity price +2-5%.
- Total revenue of 6M2018 of listed cement companies reached VND 11.772 billion (+ 2% YoY), gross profit of VND 1.467 billion (-6% YoY).
- We maintain our UNDERPERFORM rating on the cement industry.

**Consumption of cement in 8M2018 reached 63.85 million tons (+30% YoY)**, fulfilling 76% of the year target. Domestic consumption was 43.76 million tons (+14.5% YoY), posing a high growth rate due to low sales in the same period of 2017 as a results of sand shortage and severe storms. Cement export was 20.09 billion tons (+60.2% YoY) thanks to strong growth in China after it imposed strict environmental protection policy.

**The selling price in the southern market increased slightly from the beginning of Q2/2018 in the context of coal price + 11.2% YTD, electricity price +2-5%.** Cement prices in the southern market increased from 2-3% while prices in the northern and middle markets were relatively stable. Cement export prices have fallen in order to boost exportation to China, and maintaining competition with Indonesia cement. We expect that the uptrend of coal price will continue while it is difficult to lift selling price, so the profit margin of cement manufacturers will decline.



Source: Bloomberg



Source: MOC

**Total revenue in 6M2018 of listed cement companies reached VND 11.772 billion (+ 2% YoY), gross profit of VND 1.467 billion (-6% YoY).** Revenue was slightly better than the same period of 2017, especially in the southern market, but the gross profit margin reduced significantly as the adjustment of selling price somehow lagged behind the uptrend of input price. Contrary to the downtrend of gross profit margin, some enterprises still recognized increase in net income (HT1, BTS) thanks to lower financial expenses (mostly in form of unrecognized loss form foreign exchange rate) due to VND/EUR exchange rate as of 30/6/2018 -4.3% YTD (+10% YoY). The current downtrend of VND/EUR exchange rate as well as the

negative EURIBOR interest rate as a reference for many EUR loans in cement companies will help cement companies have EUR outstanding loans to reduce financial expense in 2018.

Ticker	Rev 1H2018 (VND bn)	%YoY	GPM 1H2018	GPM 1H2017	Net income 1H2018 (VND bn)	%YoY
HT1	4,045	-0.1%	17.2%	17.0%	324	44.6%
BCC	1,785	-6.5%	10.5%	11.0%	15	-161.9%
BTS	1,431	-9.4%	13.1%	14.8%	18	218.0%
HOM	819	19.3%	10.9%	13.2%	1	-28.9%

Source: FiinPro, BSC Research

## Investment – Underperform

We maintain UNDERPERFORM rating on cement industry for the whole of 2018 due to oversupply that makes competition more severe, and rising input price. However, the declining VND/EUR exchange rate may be a favor factor for earnings in some companies with significant loans in EUR.

### HT1 – BUY – Target price: VND 16,500/share – Upside: 20.4%

We recommend BUY for HT1 based on the following points:

- Attractive valuation : P/E fw = 8.8x, which is lower than HT1's 3-year median P/E of 11.1x
- The leading position in cement industry with good asset quality, and the ability to maintain sales output in the difficult condition of the industry.
- In 2018, we estimate that HT1's profit will be supported by the VND/EUR exchange rate, which will partly offset the negative impact of rising input prices. BSC estimates that HT1 will recorded VND 7.9 billion loss from foreign exchange rate in 2018 (in 2017: VND 143.75 billion). EAT is expected to reach VND 596.4 billion (+22.3% YoY).

Regarding business forecast, we have revised down sales growth in 2018 from 4% (as in the previous report) to 1% because of the lower than expectation performance of Q2/2018, which led to a 2-percent drop in consumption volume in 1H2018. Accordingly, 2018 revenue is forecasted at VND 8,289 billion (+1% YoY). Gross profit margin is expected to fall to 15.9% as we assess the uptrend of raw material prices is still ongoing, and is not reflect 100% on the selling price.

Ticker	Rev 2018 (VND bn)	EAT 2018 (VND bn)	EPS 2018		P/B	ROA 2018	ROE 2018	Close Price 21/09/18	Target Price
			(VND/ share)	P/E fw					
HT1	8,289	596	1,563	8.74	0.91	5.65%	10.36%	13,650	16,500

Source: BSC Research

## Disclosure

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*

### BSC Headquarters

BIDV Tower, 10th & 11th Floor  
35 Hang Voi, Hoan Kiem, Hanoi  
Tel: +84 4 3935 2722  
Fax: +84 4 2220 0669

### Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor  
District 1, HCMC  
Tel: +84 8 3821 8885  
Fax: +84 8 3821 8510

<https://www.bsc.com.vn>  
<https://www.facebook.com/BIDVSecurities>

**Bloomberg: BSCV <GO>**





 [www.bsc.com.vn](http://www.bsc.com.vn)

 *Headquarter*  
10th, 11th Floor, BIDV Tower,  
35th Hang Voi Street, Hoan Kiem District,  
Ha Noi

 **HN:(024) 3935 2722 | HCM:(028) 3821 8886**

*Branch*  
9th Floor, 146th Nguyen Cong Tru Street,  
District 1, Ho Chi Minh