MARKET STRATEGY REPORT

2014 - 2015

BIDV Securities Company

ECONOMY FORECAST IN 2015

- We forecast Vietnam's economy in 2015 will continue to achieve higher growth rates, at about 6% - 6.2%; low inflation (less than 5% - 6%); moderate credit growth (13% - 15%); and stable interest rate and exchange rate.

- The FTAs will have a positive impact on Vietnam economy, while input prices tend to reduce following the world oil prices will benefit many manufacturing industries. The budget deficit will be offset by the recovery of domestic sectors; and the the credit rating of Vietnam will increase facilitating the international bond issuance.

OPPORTUNITES FOR VIETNAM MARKET IN 2015

- We expect that VN-Index may reach 600 pts in year 2015 (Average Scenario), and in the case of positive information is strong enough to support the market, VN-Index will approach 650 pts in a positive scenario.
- **In our opinion, markets will perform positively in first 6 months.** Market will be influenced mainly by much information such as: Circular 36 takes effect on 1st Feb 2015, ETFs trading activities, 2014 business results and ability of raising US interest rates in 2015.
- **The stock market may be challenged in the last 6 months of 2015.** The market trend in last 6 months will depend mostly on whether the expected policies occur or not, and on the economic - politics trends in the world. Information to open the room for foreign investors, has signed bilateral agreements and multilateral, as well as clearer picture of changes in macroeconomic trends will determine the rest of the year.

NOTABLE RISKS IN 2015

- **The policy risk of Circular 36:** This Circular proposes the provisions relating directly to the ownership, equity investments and will impact strongly on the stock market.

- **Many large enterprises IPO and list publicly: Currently, up to November 2014, only 115 enterprises were equitized in comparison with 432 enterprises in 2014 – 2015 government plans.** We expect this is positive news in the long term; however, the enterprises equitization will affect the capital flowing into the market from the second half of 2015.

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A. VIETNAM & GLOBAL ECONOMY IN 2014

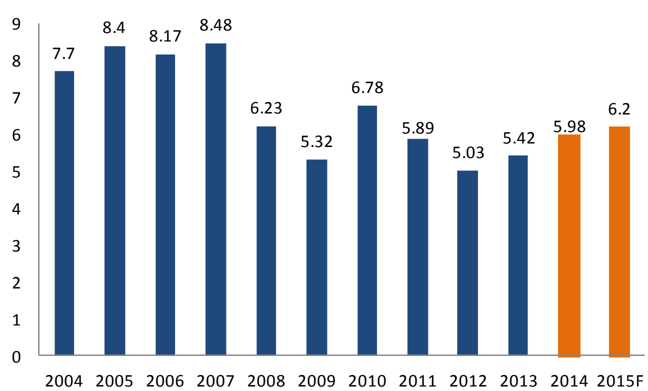
I. VIETNAM ECONOMY REVIEW IN 2014

1. Economic growth accelerated to 6%

Vietnam GDP increased by 5.98% in 2014 compared to 2013, exceeding the target of 5.8% by the Parliament and the forecast of many domestic & global organizations. GDP has recovered positively with the increasing growth rate over each quarter. Specifically, the rate hit 5.06% in Q1; 5.34% in Q2; 6.07% in Q3 and surged to 6.96% in Q4.

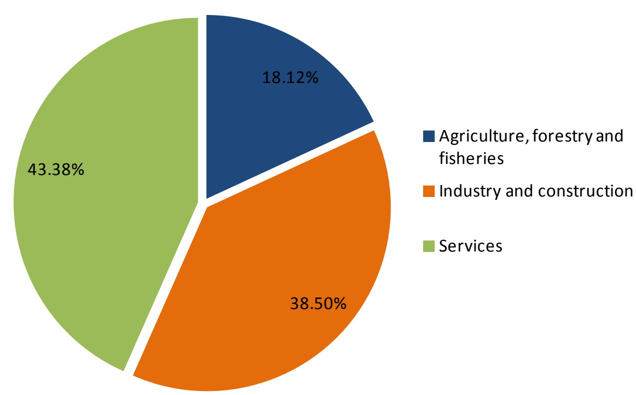
There is a noticeable change in the growth structure when the Industry & Construction area became the leader. The Industry & Construction area rose 7.14%, higher than last year growth of 5.43%, contributing 2.75 percentage points to the general growth; the Service area rose 5.96%, contributing 2.62 percentage points; and the Agriculture, Forestry and Fisheries area rose 3.49%, contributing 0.61 percentage points.

Chart 1: GDP growth (2004 - 2015F)



Source: GSO, BSC

Chart 2: Economy Structure in 2014



Source: GSO, BSC

Particularly in the area of Industry and Construction, **the manufacture & processing industry has made the most striking change with an increase of 8.45%** (5.80% in 2012; 7.44% in 2013). In which : the production of basic materials, electronic products, textile etc .. grow at the rate of over 10%. The construction area has shown signs of recovery with an increase of 7.07% (higher than 5.87% in 2013).

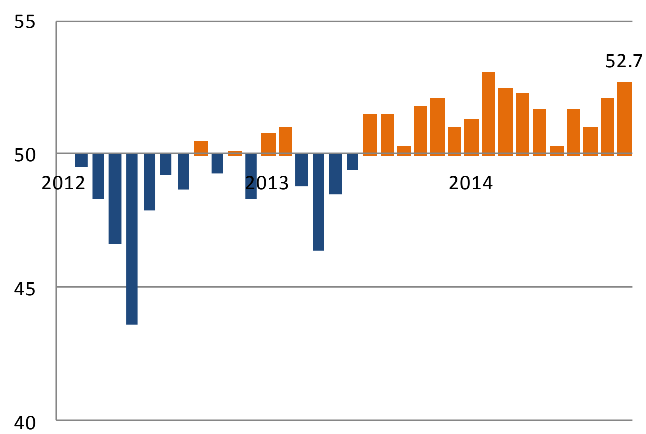
2. Improvement in domestic production

The domestic production recovered strongly compared to 2013, which shown by 03 criteria: (1) PMI; (2) Industry Production Index; and (3) The total volume of registered capital into the economy.

The PMI reflects the prosperity of the domestic manufacturing sector, while scores above 50 (expansion) in 16 consecutive months. Notably, there were some months PMI peaked above 52 points (which has never happened in 2013), even PMI in April/2014 reached a record high of 53.1 points. Toward the end of the year, PMI in December/2014 continued its positive trend when reached 52.7 points - the highest in 08 months.

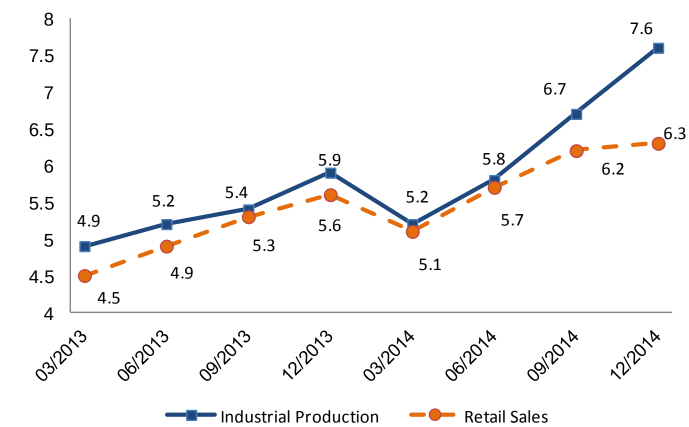
We believe the manufacturing sector will continue getting benefit from reduced labor & inputs costs which is derived from the sharp fall in the global oil prices. The output is therefore expected to continue increasing in the coming months.

Chart 3: PMI Index by HSBC



Source: Markit, HSBC

Chart 4: IPI & Retail Sales



Source: GSO, BSC

The industrial production index (IPI) increased by 7.6%, much higher than the growth rate in 2013 (5.9%) with an acceleration from quarter to quarter. If excludes 02 months of January and February due to seasonal factors (holiday), the IPI from March rose 7.4% yoy on average, higher than the average of previous years.

Bussiness situation gets positve change: In 2014, there were 74.8 thousand enterprises registered for establishment with a total registered capital of 432.2 trillion. Although this number decreased by 2.7%, the registered capital rose 8.4% over the previous year (2013 decreased by 14.7%). Besides, there are 22.8 thousand enterprises rasing their capital with added capital increase of 595.7 trillion. Thus, **the total volume of registered & added capital flown into the economy was 1027.9 trillion in 2014.** Besides, there were 67.8 thousand enterprises facing difficulties and had to dissolve or suspend activities, down by 3.2% from the previous year (+11.9% in 2013), the dissolved ones were in majority capitalized at less than 10 billion.

3. Clearer recovery in the domestic demand

Domestic demand was relatively weak but got clearer recovery by 02 criteria: (1) Total retail of consumer good and services; (2) Total domestic investment.

Total retail sales of consumer goods and services was estimated at 2945.2 trillion, up 10.6% compared to 2013. Although the "nominal" increase was lower than the previous years, however, if exclude the price effect (due to low inflation this year), the "actual" increase of 6.3% was higher than the 5.5% growth in 2013.

Retail Sales		(%)	Growth yoy (%)
TOTAL	**2,945.2**	**100.0%**	**10.6%**
State area	299.7	10.2%	9.6%
Private area	2,547.7	86.5%	10.5%
FDI area	97.8	3.3%	16.9%

The total domestic investment in 2014 at current prices was estimated at 1.220.7 trillion, rose by 11.5% yoy and equaled 31% of GDP. This was higher than in 2013 (+8%), especially in the private area, reflecting an improvement in investment.

		(%)	Growth yoy (%)
TOTAL	**1,220.7**	**100.0**	**11.5**
State area	486.8	40.9	10.1
Private area	468.5	38.4	13.6
FDI area	265.4	21.7	10.5

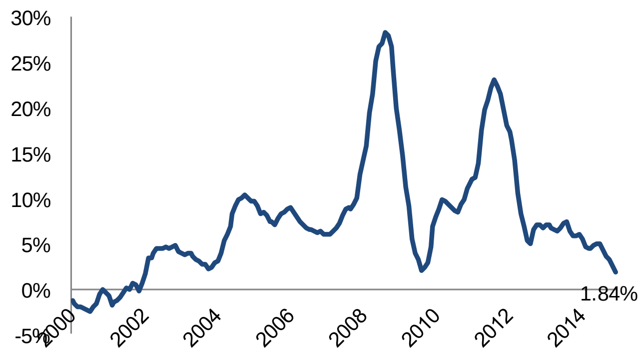
4. Lowest inflation for 13 years since 2001

In 2014, The consumer price index (CPI) rose only by 1.84% yoy; rose an average 0.15% per month. The CPI were strongest in Q1 and Q3 and the lowest (negative) in Q4. Low CPI growht in 2014 primarily due to 03 following reasons:

- Sources of domestic food supplies were abundant which made the food and foodstuff group (accounting for 40% CPI) rose only 2.61% yoy, much lower than the previous years.

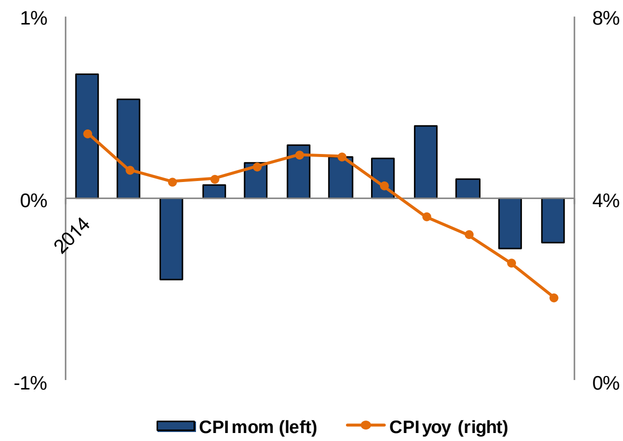
- World prices of essential commodities have been quite stable; the fuel prices, especially the crude oil and gasoline prices fell drastically. This has made pulled down price index in important groups such as "Housing & construction materials" and "Transportation".
- Some public commodities such as education fee and health care have got lower adjustment than the previous years. The price index in “Health Care” and “Education” in 2014 only increased (respectively) by 2.2% and 8.96%.

Chart 5: Infaltion (2000 - 2014)



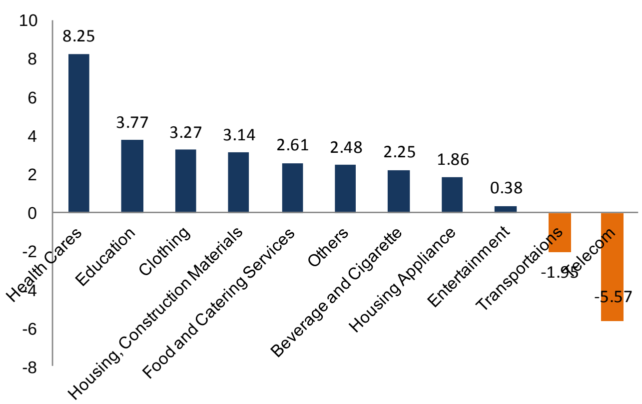
Source: GSO. BSC

Chart 6: CPI movement in 2014



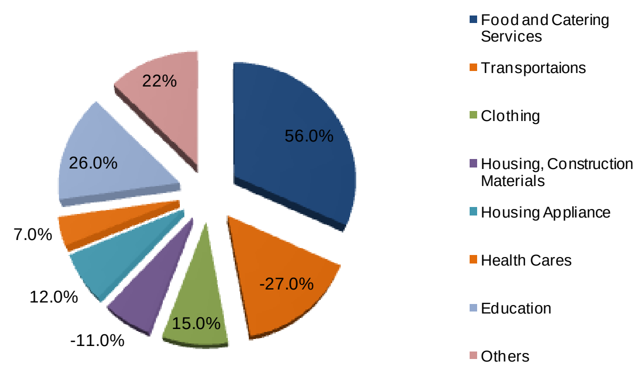
Source: GSO. BSC

Chart 7: Increase/Decrese among groups in 2014



Source: GSO. BSC

Chart 8: Contribution in CPI 2014



Source: GSO. BSC

5. Positive change in FDI flows

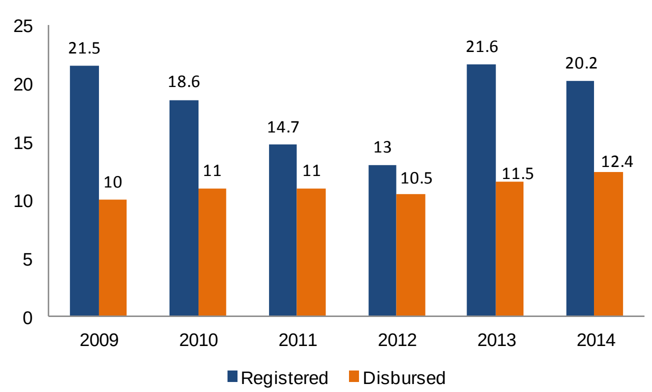
Vietnam has successfully attracted the FDI in the year of 2014. **Specifically, the total value of disbursed FDI reached USD12.4 billion in 2014,** up 7.4% yoy and 2.9% higher than planned. **The estimated registered FDI was USD 20.23 billion in 2014.** It exceeded the 2014 registered FDI target (19% beyond the year plan of USD 17 billion) though accounting for 93.5% of the amount registered FDI in 2013. In particular, newly registered FDI reached USD 15.6 billion, up 9.6% yoy; additional FDI reached USD 4.5 billion.

The FDI inflows mainly focused on manufacturing in 2014, but there was a shift of other fields, typically from gas and electricity distribution in 2013 to construction and real estate in 2014.

Several remarkable FDI projects in 2014:

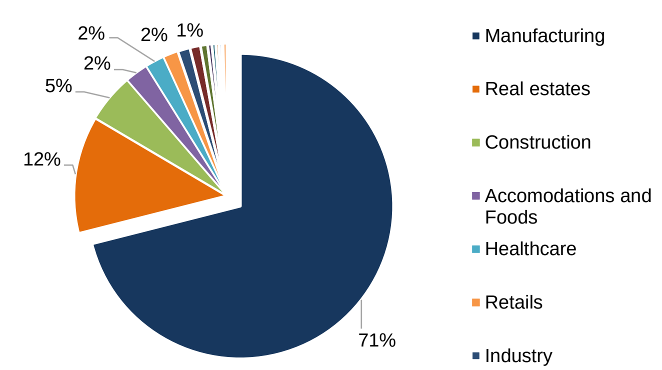
Project name	Capital size	Investor
The hi-tech complex Samsung Thai Nguyen – Phase 2	USD3 billion	Korea
Samsung CE Complex	USD1.4 billion	Singapore
Dewan International	USD1.25 billion	Hongkong
SamSung Display Bac Ninh	USD1 billion	Korea

Chart 9: FDI 2014 (Billion USD)



Sources: GSO, BSC

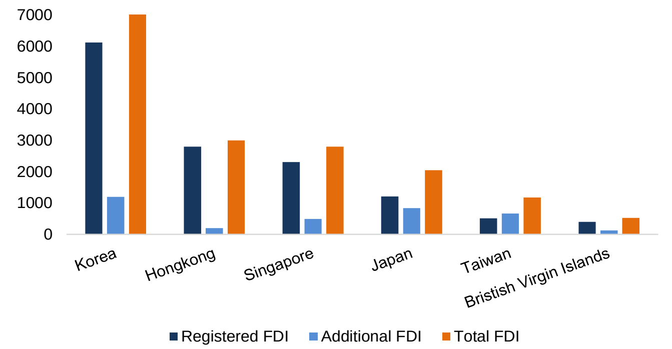
Chart 10: Industry structure of FDI (1/1 - 15/12/2014)

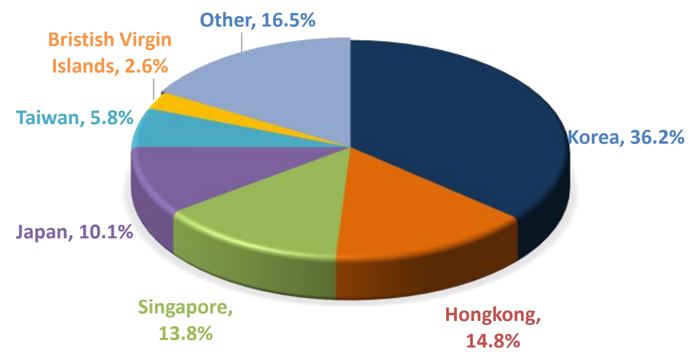


The processing & manufacture sector attracted USD14.49 billion, accounting for 71.6% of total registered capital. The real estate sector ranked second, attracting USD2.54 billion, accounting for 12.6%; followed by the construction sector (USD1 billion, accounting for 5.2%) and accommodations & foods (0.5 billion US dollars, accounting for 2.5%).

Sources: FIA, BSC

Chart 11: Capital scale by country (1/1 - 15/12/2014) (Billion USD)





Korea is the largest investor in Vietnam in 2014 with a capital of USD 7.3 billion, equivalent to 36.2% of total registered FDI, followed by Hong Kong (USD3 billion, equivalent to 14.8%), Singapore (USD2.8 billion, equivalent to 13.8%), Japan (USD2 billion, equivalent to 10.1%) and Taiwan (USD1.1 billion, equivalent to 5.8%).

More than 3/4 of FDI in 2014 came from the four Asian countries such as Korea, Hong Kong, Singapore and Japan. Thus, Hong Kong has just joined the top 4 FDI investors in Vietnam this year while Chinese left that group, dropping to the rank of 7.

Source: FIA, BSC

The above performance has just illustrated only half the story basing on the quantity while the rest is unfolding brighter prospects since foreign investor orient the FDI towards production, i.e. the capital shift into Vietnam from IT giants such as Samsung, Microsoft, LG, etc. Those enormous capital inflows mainly come from the countries that have good relations with Vietnam (like South Korea, Hong Kong, Japan, Singapore, etc.). This is a great opportunity ever to Vietnam in creating motivation for the recovery of the domestic sector after the 2007-2008 financial crisis.

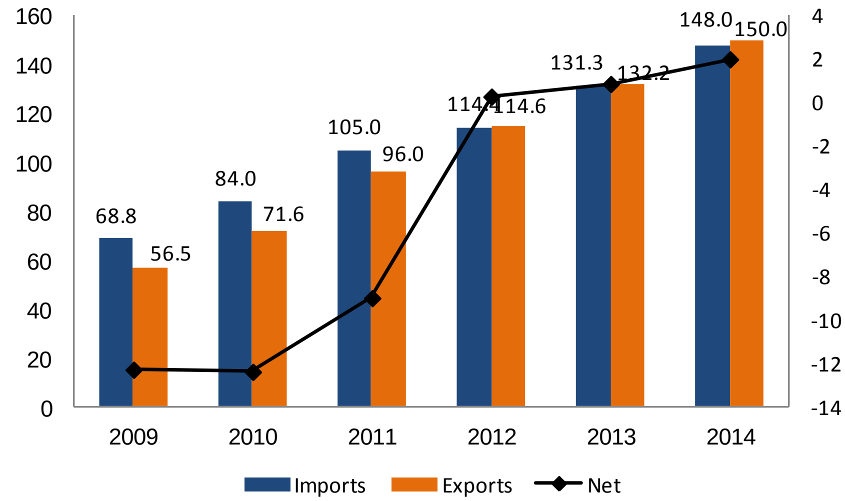
Vietnam has a significant weakness which is the limited attractiveness compared to neighboring countries such as Myanmar, Cambodia, Malaysia, Philippines, etc. To amend that, Vietnam has to ameliorate investment environment, streamline the system of administrative procedures, improve transparency, stabilize macro-economy, improve the quality of not only human resources but also infrastructure. Therefore, Vietnam could have a positive renovation in the future.

6. Exports was pushed up by FDI

Total exports of goods reached USD150 billion in 2014, increasing by 13.6% yoy and beyond targets**. Meanwhile, total imports reached USD148 billion, up 12.1% yoy.** The increasing rate of imports was not only slow downed, but also under control, mainly focusing on material goods for production (accounted for 90% imported goods).

Vietnam trade balance extends the 3rd year's surplus in a row, especially with the mutant surplus of USD2 billion (USD863 million of surplus in 2013, and USD280 million surplus in 2014). This not only improved dramatically the trade balance of Vietnam, but also helped state bank increasing the national reserves (approximately USD32 - USD35 billion), as well as stabilized exchange rate, inflation.

Chart 12: Exports and Imports (Billion USD)



Source: GSO, BSC

However, Vietnam is now facing several internal limitations:

(1) Exports depend dramatically on the FDI area while domestic sector's deficit keeps growing.

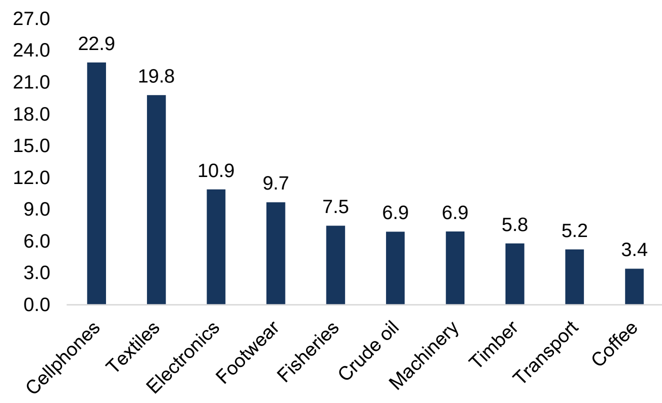
(2) The proportion of imported raw materials, auxiliary materials is considerable. It could lead to cost difficulties if the world supplies volatile, thereby reducing the competitiveness of Vietnamese enterprises.

(3) Since exported goods are still simple, the added value of exports is low even the total value of export increase.

(4) In addition, Vietnam's imports and exports tend to be highly reliant, i.e. imports depend on China, and exports depend on US and EU. Besides, the ratio of exports to GDP is considerable (> 80%), it hides the potential high-risk in the case of trade or geopolitical volatility.

The Vietnam trade balance was unstable in 2014 as exports depends heavily on FDI (and crude oil) while the domestic sector is constantly increasing trade deficit. FDI sectors' surplus reached USD17.1 billion in 2014, increasing their contribution to total exports in recent years (2014: 67.7%; 2013: 61. 4%; 2012: 63.1%; 2011: 56.9%). In contrast, the trade deficit in the domestic sector was USD15.1 billion in 2014, up 7.8% compared to the amount deficit of USD14 billion last year.

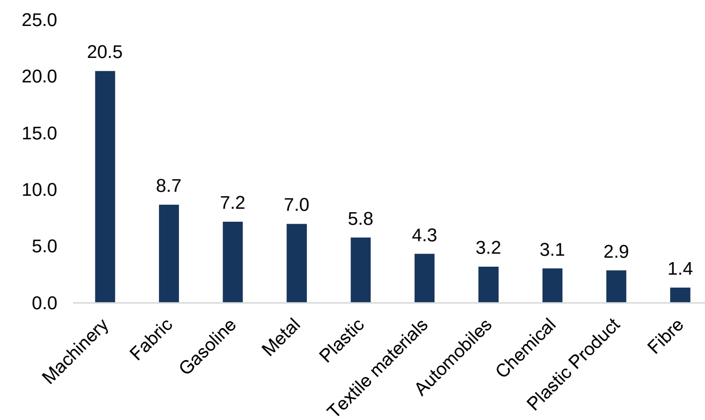
Chart 13: Top 10 export products (Billion USD)



The structure of export commodities positively changed: the processing industry increased while the oil and mining reduced.

However, the major export commodities of Vietnam in 2014 were still heavy industry and mining (USD66.5 billion, up 12% yoy, accounting for 44.3% of total exports), the manufacturing products (USD57.9, up 15.9% yoy, accounting for 38.6%), cell phones (USD24.1 billion, up 13.4% yoy, accounting for 16.1%), agricultural and forest products (USD 17.8 billion, up 11.4%, accounting for 11.9%), aquacultures (USD7.9 billion, up 17.6%, accounting for 5.2%).

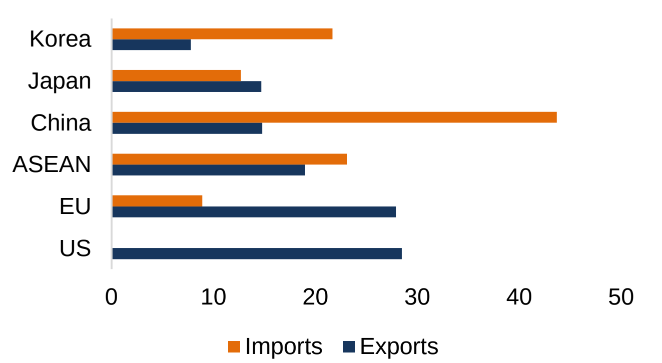
Chart 14: Top 10 import products (Billion USD)



Vietnam mainly imported material goods, especially raw materials and machinery (USD135 billion, up 12.5% yoy and accounted for most of the proportion of 91.2%). The rest belongs to the consumer products (USD13.1 billion, increasing by 9.3%, accounting for 8.8%).

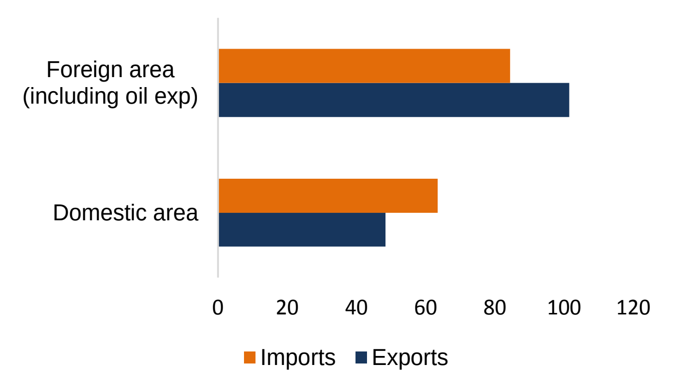
Sources: GSO, BSC

Chart 15: Export - Import markets (Billion USD)



The US and EU are the top export market in 2014 with the turnover of USD28.5 billion (up 19.6% yoy) and USD27.9 billion (26.1%) with the following main products: textiles, footwear. Other markets like ASEAN, China, Japan and Korea followed with the exports turnover of USD19 billion (up 3.1%), USD14.8 billion (up 11.8%), USD14.7 billion (up 8%) and USD7.8 billion (up 18.1%), respectively.
On the import side, China is largest export market with the turnover of USD43.7 billion (up 18.2% yoy), followed by ASEAN (USD23.1 billion, up 8.2%), Korea (USD21.7 billion, up 4.9%) and Japan (USD12.7 billion, up 23.6%).

Chart 16: Sectors' contribution (Billion USD)



In terms of exports, FDI sectors' exports contribute USD101.6 billion, increasing by 15.2% and accounting for more than 2/3 of exports; Domestic sectors' exports contribute USD48.4 billion, up 10.4%. Meanwhile, FDI sectors' imports reached USD84.5 billion, up 13.6% while domestic sectors' imports is USD63.5 billion, up 10.2%.

Sources: GSO, BSC

2015 forecast: Vietnam might face various difficulties to maintain the surplus momentum after joining FTAs, waiting for the TTP. The imports of machinery and raw materials for production probably increase in order to boost the manufacturing, meet the GDP growth target of 6.2%. The return of trade deficit is not a significant problem because Vietnam is still the economy, in which the export processing production is the main driving force to promote economic development. The core problem is to quickly construct auxiliary industries, rush to streamline the administration system and maximize the efficiency of production and business environment. Hence, the domestic production could be boosted and trade deficit due to consumer goods could be minimized.

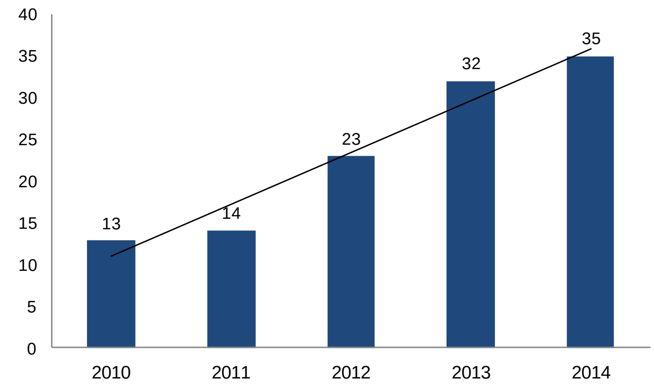
7. Stable exchange rate throughout the year

Basically, the fluctuation of the exchange rate USD/VND shrunk and maintained more stable in 2014; currency needs are satisfied in time. In general, State bank governors has successful in assure their commitment in stabilizing the foreign exchange market in the recent 3 years (the rate depreciated by 1%, lower than the plan of 1.47-2% in 2014 and by 1%, lower than the plan of 2-3% in 2013). The belief in VND has been strengthened; thereby it not only lower the dollarization in the economy (from 12.4% in 2013 to 11.6% till the end of 2014), but also help Vietnam become more attractive in the eyes of foreign investors. Furthermore, state bank can also take chances to increase foreign exchange reserves.

In the context of the end of 2014, the majority of big central banks in the world tend to loosen their monetary policies, hence pushing down those interest rates. The internal factors such as the trade surplus, the amount of remittances, the growth of foreign capitals as ODA, FDI, FI, etc. simultaneously support for the VND stability. Moreover, the state bank is consistent to stabilize foreign exchange market, specifically control the volatility less than 2% in 2015. The upcoming free trade agreements in the next year also increased the attractiveness of Vietnam, thereby attracting more foreign investment and indirectly increase the supply of foreign currencies in the market. However, the recovery of imports could be higher than those previous factors, likely rebalancing the foreign currency in the market.

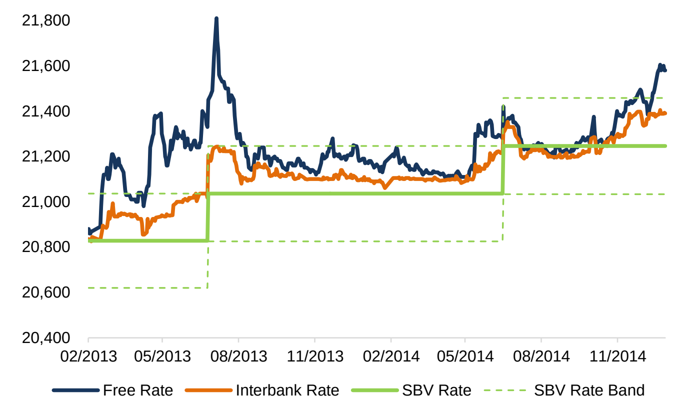
Based on that, we predict the stability of the exchange rate over the next year, and forecast a slight adjustment of the exchange rate in 2015Q1. Afterward, the USD/VND rate will increase slowly.

Chart 17: Foreign reserves (billion USD)



Foreign exchange reserves of Vietnam increased since 2012 and hit a high record of USD35 billion.

Chart 18: Exchange rate (2013M1 – 2014M12)



Rate are consolidated in two solid level during the year. The first one lasted for one year, from 2013M6 to 2014M6 with the SBV rate of 21,036 VND/USD; The 2nd level is maintaining from 2014M6 to current with the SBV rate of 21,246 VND/USD (up by 1%).

Statistics show that the interbank exchange rate rose by 1.4% while the free rate increased by 1.8% yoy.

Source: Bloomberg, SBV, BSC

8. Monetary Policy and Banking System

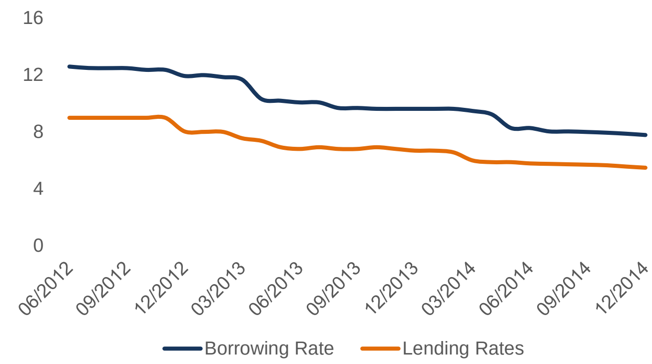
Interest rate movements in 2014

Interest rates in 2014 tended to decline slightly towards the end of the year. The interest rates level fell 1.5-2% compared to the end of 2013, which is consistent with the objectives set out by the Central bank earlier this year. This reduction thereby has actively supported the business but was still able to control inflation, support the exchange rate and macroeconomic stability. This is a highlight in the medium and long term policy operation of the central bank which has been strengthening the investors' confidence and encouraging investment.

Policy rates fell 0.5% in 2014. Refinancing rate fell to 6.5% from 7%; discount rate fell to 4.5% from 5%; while the base rate remained unchanged at 9%. This adjustment took place only once in Q1, then kept unchanged until the end of the year.

Chart 19: Policy rates (%)

Chart 20: Lending – Deposit rates (%)



Source:SBV. Bloomberg. BSC

Compare the deposit rates level in each term (2014 vs 2013)

Terms	2013	2014	Change
VND demand and less than 1 month	1 - 1.2	0.8 – 1.0	0.2
1 M – 12 M	5 - 7.5	5 – 6.8	0 – 0.7
Above 12 M	7.5 - 8.5	6.8 - 7.5	0.7 - 1
USD for individual	1.25	0.75	0.5
USD for institution	0.25	0.25	0

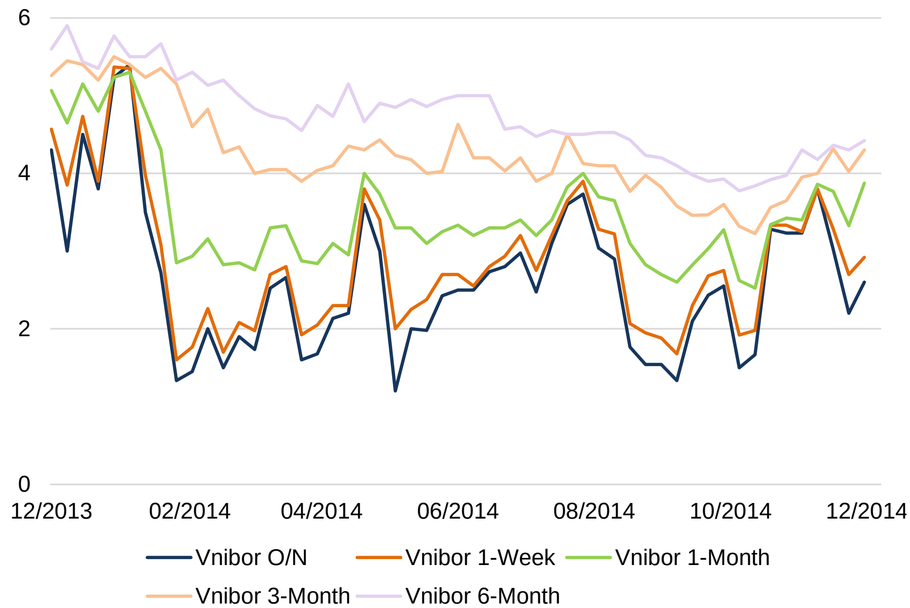
The lending and deposit rates continue to be reduced in 2014. Compared with the end of 2013, the leding rates fell by 2.5% for the short term; by 2% - 3% for medium and long term. Deposit rates reduced slightly by 0.2% - 1%. The USD leding rates decreased. The USD deposit rate for individual fell by 0.5% to 0.75% / year; while the USD deposit rates for organizations remained low at 0.25%.

Compare the lending rates level in each term (2014 vs 2013)

Terms	2013	2014	Change
VND short terms	9.5 - 11.5	7 - 9	2.5
VND mid and long terms	12- 13	9 - 11	2 - 3
USD short terms	5 - 6	3 - 6	0 - 2
USD mid and long terms	6.5 - 7	5.5 - 7	0 - 1

Interbank rates also fell slightly from the previous year. Specifically, the average rate kept at (around) 2.4% for overnight; about 2.7% - 3% for from 1 week to 2 weeks; approximately 3.3% - 4.5% for from 1 month to 3 months; and about 4.7% - 5.5% for from 6 months to 1 year.

Chart 21: Interbank rates movement in 2014



Source: Bloomberg. SBV. BSC

Credit growth: As of Dec/22/2014, the economy total credit increased by 12.62% yoy (+12.51% in 2013). Deposit grown by 15.76% (+17.23 in 2013); The money supply rose 15.99% (+16.13 in 2013). The credit growth has officially reached the Central bank tarket for this year. SBV's plan is to set credit growth in the range around 13-15% for 2015.

As reported by the credit institutions, the NPL ratio by the end of September/2014 was about 3.8% and tended to decline. The end of 2014's estimation was about 2.5 to 2.7%.

However, according to the Central Bank, the NPL ratio was about 5.4% in Sep/2014 and the end of 2014 was around 3.7 to 4.2%.

SBV explained the higher bad debt ratio is due to stringent standards for the classification of liabilities.

Bad debts: In 2014, the Vietnam Asset Management Company (VAMC) has bought about 95 trillion dong in bad debts. Until now, VAMC has bought total debts of 135 trillion. However, the debt settlement (selling debt) has not improved in 2014 when VAMC has handle only 4 trillion dong in bad loans (4%). The biggest obstacles to the VAMC are still unable to sell debts due to lack of mechanism. The government said one of their goals in the near future is to promote VAMC's role and to establish the debt buy-sell market. However, the current information on VAMC operation, the NPL ratio as well as the plan action are still in "vague"...

In 2015, VAMC expected to buy 70-100 trillion dong in bad debt via special bond. Meanwhile, the Prime Minister has confirmed before the Congress that will pull down the NPL ratio to only 3% by the end of 2015.

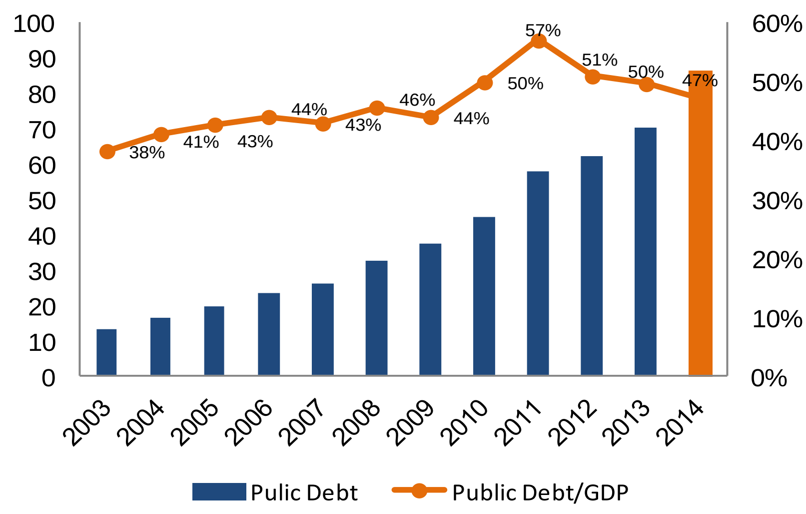
9. Fiscal Policy

Public investment in 2014 reached 486.8 trillion dong, accounted for 39.9% of the investment and grown by 10.1% yoy.

State Budget in 2014: Total revenues until Dec/15/2014 was estimated at 814.1 trillion dong, equaled to 104% of the annual plan. In which: Domestic revenue reached 551.4 trillion dong; Crude oil revenue reached 98.1 trillion dong; budget balance revenues reached 160.3 trillion dong. **Total expenditure until Dec/15/2014 was estimated at 968.5 trillion dong**, equaled to 96.2% of the annual plan. In which: expenditure for investment and development reached 158 trillion dong; defense, national security, State management expenditure reached 690.5 trillion dong; Debt payment and assistance reached 120 trillion dong.

Public debt: Public debt in 2014 was at 86.3 billion accounted for 47% GDP (Global debt clock). According to this data, Vietnam's public debt remained at a safe level. However if added planned enomous projects which the Government is seeking for Parliamentary approval such as Long Thanh International Airport and some others (mainly used borrowed capital) the public debt will be forced to close the cap of 65% prescribed by the National Assembly.

Chart 22: Public debt and %/GDP (2003 – 2015F)



Source: The Economists

If in the coming years public debt exceeded this ceiling, this can cause concern to both domestic & global investors. This also affects the assessment of Vietnam public debt safety level. In addition, this can cause "crowding out effect" to the private sector on accessing capital, hindering the current economic recovery. Notably, the officially announced public debt did not include debt of state-owned enterprises (up to 100% of GDP if included), whereas if these enterprises have problems, the government still has to stand out and commit for debts repayment. Hence, this is still potential risks threaten the safety of Vietnam's public debt in the future.

II. GLOBAL ECONOMY REVIEW IN 2014

The whole picture of the world economy ended 2014 with bright patches of shadow intertwined. Besides the economic recovery in the US, UK and especially in Asia; concerns about economic growth remains in the area of the European Union, BRICS countries, etc. along with that is the trend in oil prices will continue to decline.

World economy will continue unstable in 2015.

Oil prices will continue to decline in 2015. Large organizations such as EIA, Goldman Sachs, Morgan Stanley and Moody's have predicted that oil prices would continue to follow the downward trend in the first six months of 2015, causing the largest surplus in 2015Q2, and oil prices is expected to recover in 2015H2. Specifically, oil prices are forecast to decline to USD63-70/barrel in 2015Q2 and increase to USD73-75/barrel from 2015Q3.

For the whole 2015, the average oil price forecast is around USD 70/barrel, down by 25% compared to the average level of 2014. However, since 01/01/2015 US has decided to permit crude oil export after 40 years of implementing the ban. Also, in 2015, there will be 14 new oil sand projects will be started in Canada with total production quantity of 266,000 barrels/day, up by 36% yoy. Moreover, bitumen oil sand has a very low breakeven, at about USD10-20 per barrel, oil prices plummetting has no impact on Canada's oil sands mining. **Therefore, we believe that oil prices may decline over the forecast level by some international organizations in 2015.**

- Geopolitical tensions in the regions including (Ukraine, South China Sea and East China, the Middle East, etc.) may lead to their economies into harder spinning.
- Political instabilities in the regions of the world, as represented by the Greek elections or the referendum in Scotland or Ireland about its separation from the United Kingdom. Credit of French President F. Hollande also greatly reduced after the failure of his policy of internal and foreign policies towards some countries in

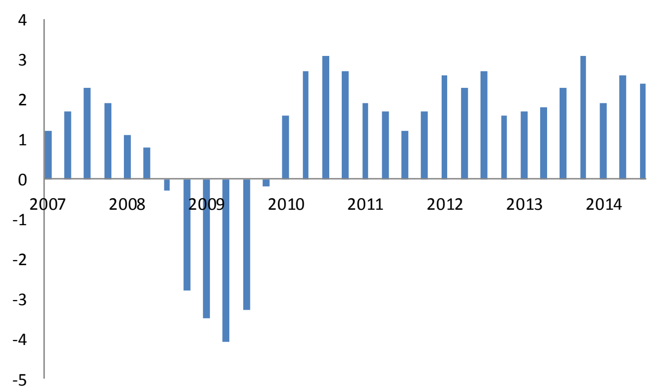
Africa. The political instability in the still smoldering, implying an inconsistent EU funds gets more divisive.

- Risk of stressful world currencies can be addressed in the coming year in the context that FED is likely to raise interest rates, contrary to other remaining economies in the world when this group is constantly increasing QE. As the gap between the monetary policies of the argest economies in the world becomes larger, international currency market in 2015 is fully capable of having unpredictable changes.

The economic growth of developing economies still is on the rebound over time, though at lower level than forecasting last year, the US's GDP growth is expected to reach 2.2%, reaching 3.2% according to the IMF. Inflation in the country on the rebound is driven by central banks, decreasing unemployment rate (below 6% in 2014) and economic growth improved gradually by quarter.

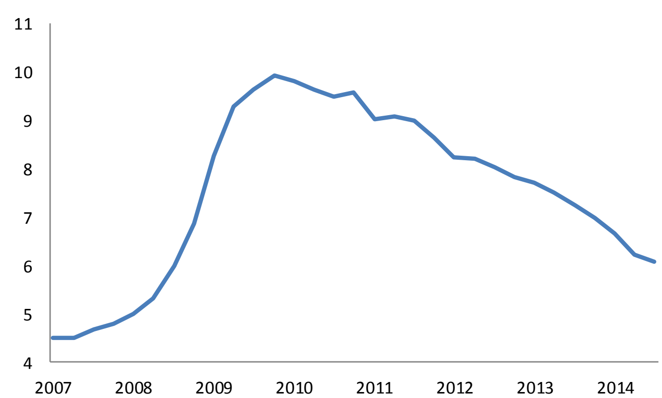
In the case of inflation and unemployment remaining well according to FED, there are high likelihood that in middle of 2015 Fed might raise interest rates. With this impressive recovery, the country's GDP growth is expected to increase to 3.5%, forecast by OECD.

Figure 23: The US's GDP growth 2006 - 2014



Source: GSO, BSC

Figure 24: The US's unemployment rate (2006 - 2014)

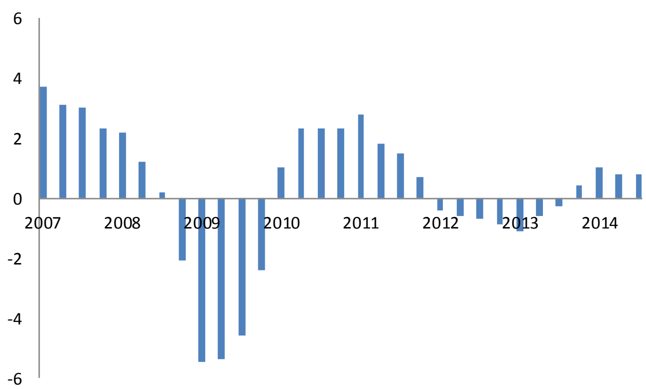


Source: GSO, BSC

European Union remains stagnant in impact of the prolonged debt crisis (GDP growth rate estimated at 0.8% in 2014 following to ECB), the nightmare of deflation (current inflation is around 0.5%, and the OECD expects inflation stand at 0.5%), high unemployment (about 12% in the Eurozone), tight spending budget and the instability of the European banking system after the stress-test last year (25/123 largest banks can not afford to deal with the crisis, and 13 banks need to raise emergency funds of EUR10 billion).

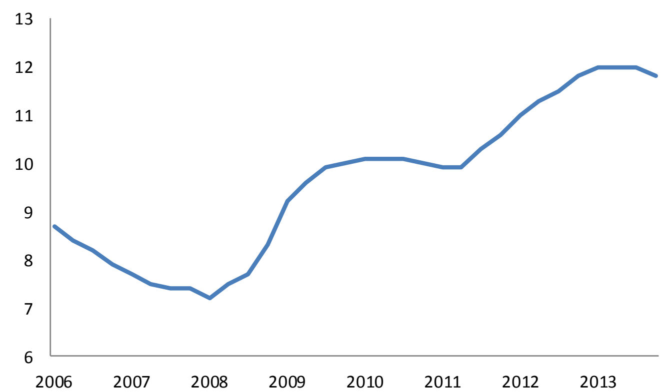
The geopolitical political instability in 2015 (Ukraine crisis), and the negative impact from the reduction of oil prices have threaten efforts to maintain inflation in the country at high levels of public debt in the EU . It will continue to overshadow Eurozone economic growth (IMF forecasts negative growth 0.4% in the Eurozone in 2015). Dealing with difficulties in the area, the ECB gradually implemented expansionary monetary plan to stimulate the economy, such as lowering interest base rate, the economic stimulus package over EUR300 billion, but the results are still limited.

Figure 25: GDP Growth in EU (2006 - 2014)



Source: GSO, BSC

Figure 26: inflation in EU (2006 - 2014)

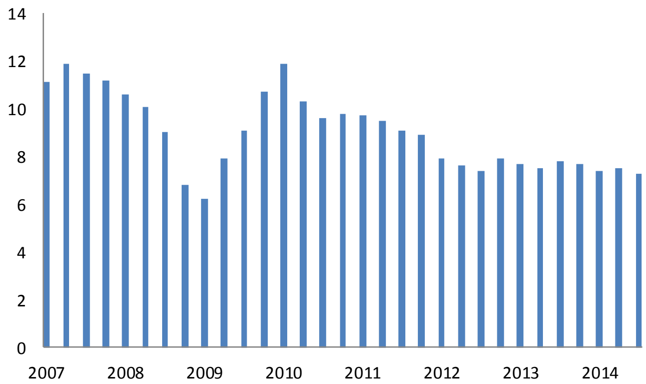


Source: GSO, BSC

China's economic growth fell sharply compared with the previous year although rate still stood at a high level (currently 7.3% in 2014, the forecast is down 6.6% in 2015, significantly lower than the average rate of 9-10% per year for previous 10 years). Bubbles in real estate, financial imbalances at the macro level (public debt out of control) and withdrawal phenomenon of foreign investors is basic factors that causes Chinese economic outlook National worse in the coming years.

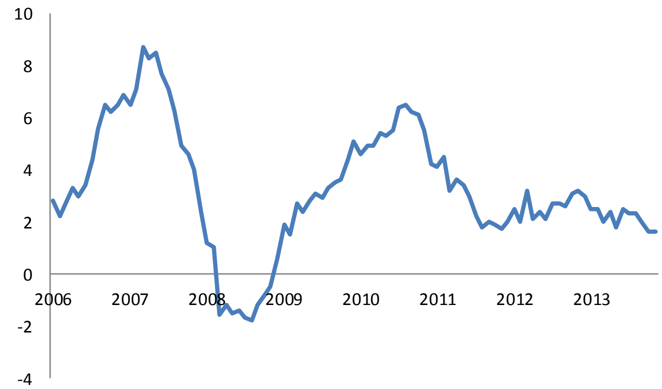
Similarly to ECB in Europe, PBOC also inplemented expansionary monetary policy. Interest rates fell sharply that hopefully keep the GDP growth rate. According to a report by the State Information Center in China, the economic growth will fall by 7% in 2015. IMF argued with a more pessimistic view that China's economic growth will only reach 6.5% to 6.6% in restructuring period towards more sustainable growth since 2015.

Figure 27: GDP Growth in China (2006 - 2014)



Source: GSO, BSC

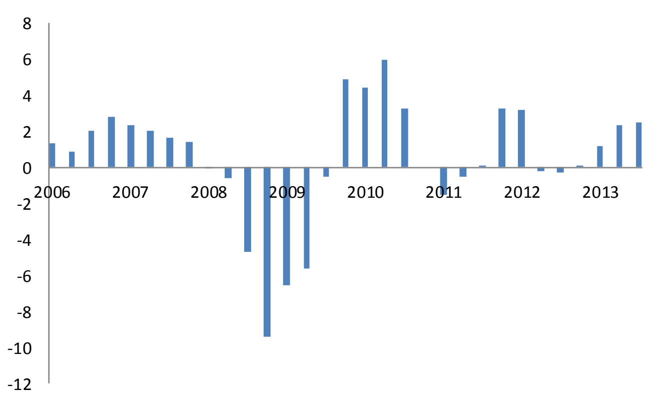
Figure 28: Inflation in China (2006 - 2014)



Source: GSO, BSC

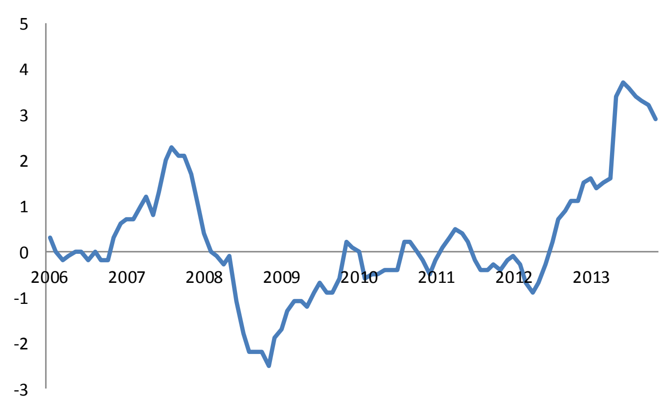
Japan, the 3rd largest economy in the world, has fallen into recession at the end of 2014 in terms of negative growth record in spite of reform efforts of Prime Minister Shinzo Abe in recent years. Thus, japanese economy nearly stand still because the decline of 1.9% in the last two quarters has taken away most of the achievements in the first half. After implementation of the policy of economic Abenomics "3 arrows" in more than one year, the Japanese economy has shifted positively but the impact of easing policy is seem not strong enough. It led him to postpone Shinzo raise consumption tax, implement early elections in 2014M12 and put more aggressive policy easing, economic support in Abenomics package in 2015

Figure 29: GDP Growth in Japan (2006 - 2013)



Source: GSO, BSC

Figure 30: Inflation in Japan (2006 - 2013)



Source: GSO, BSC

Economic picture of other areas look brighter in the most African region (average growth of 4.8%), Latin America (average increase of 1.1%), especially in Asia, India (5.4% in 2014) and ASEAN (4-5%).

Nations	2014		2015F	
	GDP	CPI	GDP	CPI
Vietnam	5.98	1.84	6	4.55
Thailand	0.8	1.9	4	2
Indonesia	5.1	6.42	5.4	7
Malaysia	5.8	3.2	5.2	4
Philippines	6	4.18	6.1	3.7
Singapore	2.85	1.1	3.2	1.2

Source: Bloomberg

III. VIETNAM MACRO OUTLOOK IN 2015

Based on the achievements in 2014, we believe Vietnam's economy in 2015 will continue to get higher growth rate, at about 6% - 6.2%. In which, exports can increase over 10% and keeps an important contribution to economic growth. The ongoing free trade agreements (FTAs) will promote commercial. **In 2015, Vietnam will soon implement the commitments under the new signed agreements, which include:**

- Free Trade Agreement Vietnam - South Korea
- Free Trade Agreement between Vietnam and the Customs Union of Russia-Belarus-Kazakhstan.

At the same time, continue negotiations:

- Free Trade Agreement Vietnam – EU
- Trans-Pacific Partnership (TPP)
- Agreement Vietnam - 04 Nordic countries (EFTA)
- Regional Comprehensive Economic Partnership (RCEP)
- Join ASEAN Economic Community.

It should be noted that comes with the advantage, certainly there will be certain difficulties, challenges as "competitiveness" will be rising. Therefore, Vietnam should be boosting institutional reform, improving business environment to take advantages of the agreements' benefits.

Domestic demand will be improved thanks to growth in domestic consuming and production when average input costs fell in the context of reduced world energy prices (especially crude oil). **Inflation in 2015, therefore, likely to be kept low, less than 5% - 6%** if the State Bank keeps appropriate monetary policies, moderate credit growth (target around 13% - 15%) and have reasonable solutions to neutraulize the foreign currency flowing into Vietnam due to the impact of trade liberalization.

SBV's governor Nguyen Van Binh said that "…in 2015, the banking system does not expect interest rates to rise, but it will be a challenge to maintain rates at a stable level as in 2014…"

Interest rates have chance to continue decreasing in H1 2015 when the current inflation is very low (<2%). **However, the rates are likely to advance again in the second half of the year** when inflation began to warm up and the needs for capital in the economy increase.

The US dollar strengthened due to the US economic recovery may put pressure on the exchange rate. In addition, stronger domestic demand will be able to raise the demand for dollars to import machinery & production materials next year. However, growing export, stable remittances, improved FX reserves as well as reasonable operating policies will help the VND / USD relatively stable. The exchange rate is forecast not depreciate more than 2% in 2015.

The impact of low oil prices on the national budget would not be too much. According to government estimation, 1 USD / barrel fell in crude oil prices will make the state budget lost approximately 1 trillion dong; meanwhile, the Congress passed the 2015 planned revenue with estimation of 100 USD / barrel for the world oil price. Therefore, if the average world oil prices in 2015 fall to 60 USD / barrel (down by 40%), the budget will lost about 40 trillion dong, equivalent to about 4.5% of the total estimated budget for 2015 (900 trillion dong). It can be seen that this loss from the oil price would not be too much because the proportion of income from oil is not too high as before (currently only at 10% - 12%). Moreover, this deficit will be offset from an increase in taxes and fees when the domestic consumption and business get improved due to ower input costs.

Macro forecasts 2015

Indicator	**2014**	**2015 F**
GDP (yoy)	5.98%	6 - 6.2%
Inflation (yoy)	1.84%	5% - 6%
Credit Growth (ytd)	12.6%	13% - 15%
FX rate (VND/USD)	21.246	21.456
Lending rate (mid & long)	9% - 11%	9% - 11%
Registered FDI (tỷ USD)	20.2	20 - 22
Realized FDI (tỷ USD)	12.4	11 - 12
Exports (tỷ USD)	150	170
Imports (tỷ USD)	148	168

In our 2014 Macroeconomic and Stock market Report, we noted that *"We have built 3 scenarios for VN-Index: 600 pts, 550 pts and 500 pts in positive, neutral and negative situations, respectively. We'd prefer the second scenario (550 pts), and if good information (joining TPP, opening "room" for foreigners, VAMC efficient operations, etc) are strong enough to support the market, VN-Index is expected to reach 600 pts in the positive scenario".*

In our 2014 Macroeconomic and Stock market Report, we also stated that *"Uptrend in year 2013 will continue in Q1 2014 before correcting in second half of Q2, and market performance in second half of year 2014 will depend mainly on the actual transformation of macroeconomics. If these strong supporting factors will be true, the market will recover in the second half of 2014.*

"The uptrend remain stability, market's liquidity is fine and rising cycle is long enough to attract money, the flows between stock groups will occurs and money will focus on medium and small cap stocks (SmallCap and Penny)"

B. EQUITY MARKET IN 2014

Looking back our 2014 Macro and Stock market Report on three aspects: (1) Points (2) Performance and (3) stock groups, it can be seen that BSC has predicted fairly closely the big trend of VN-Index in 2014.

First of all, in the term of points, BSC has forecasted fairly accurately VN-Index point in 2014, but has not fully evaluated all the factors impacting negatively to the market in our September, October and November Monthly Reports. Finishing at 31st Dec 2014, VN-Index ended at 545.6 points – approximately our estimation in the beginning of year 2014.

However, in our Monthly Reports in September, October and November, we have not fully evaluated all the factors impacting negatively to the market as foreigners' selling pressure, oil prices reduction and Circular 36.

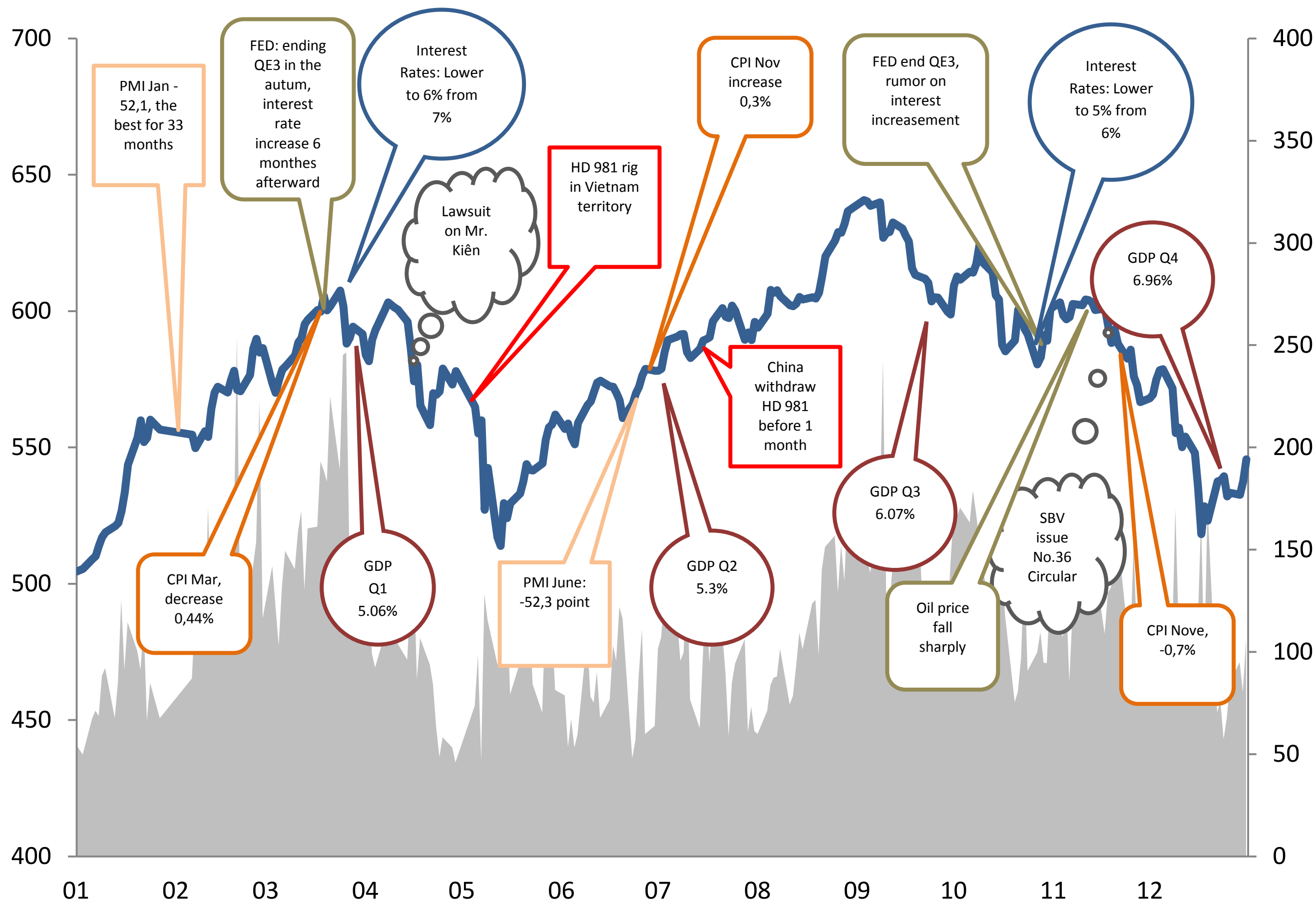
Second, in the term of performance, our foreseen market's movement was quietly the same as the real market performance in the first 9 months of year 2014. Specially, the market rose significantly in Q1, corrected in Q2 and regained in Q3 as our prediction. However, because responding strongly with the information about global business while reacting weakly with good news from the internal economy, market finally fell sharply in the Q4.

Finally, in term of the stock groups, we also forecasted accurately that money will flow into the medium and small caps stocks, and in the fact that these two groups had the best growth in year 2014.

I. MARKET PERFORMANCE IN YEAR 2014

1. Vn-Index performance and events

Peaking during the year with an increase of, respectively, 26.9% and 34.7% from the beginning of this year, VN-Index and HNX-Index, however, only grew 8.1% and 22.3%, respectively. Closing at 31st Dec 2014, VN-Index finished at 545.6 points while HNX-Index ended at 82.98 points. The market fluctuated largely two times in this year, causing the index failed to hold its impressive growth.



Market maintained a strong growth from the beginning of year 2014 thanks to the active buying activities of ETFs. VN-Index and HNX-Index corrected in March and September because foreigners stopped buying and sold out strongly. The market only went against the foreigners' net selling activities in July and August because of the positive impacts of the Oil&Gas stocks to the VN-Index at that time, helping this index peak in year 2014.

The market had two large volatility phases in association with the South China Sea event, the ending of QE and the reduction of oil prices.

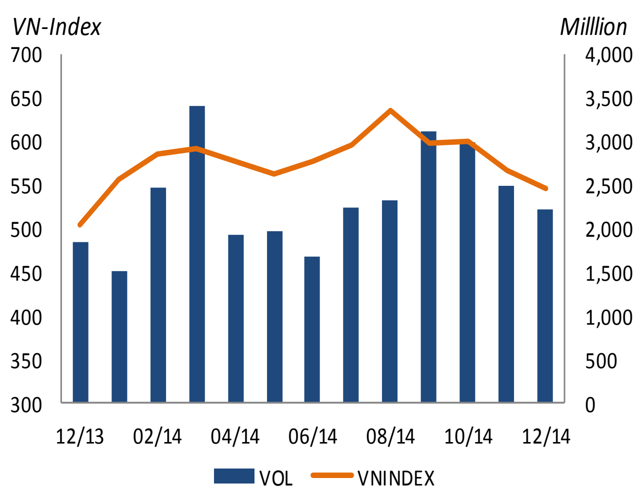
○ **First phase, the market increased thanks to the buying activities of ETFs and reduced by the South China Sea event** (2 months rallies and 2 months declines from 1st Jan 2014 to 13th May 2014). After flatting nearly last 4 months of year 2013, the VN-index and HNX-index suddenly accelerated and created their short-term peak on 24th March with an increase of 20.3% and 37%, respectively, in the first 3 months, mainly due to the investors' expectation and the buying activities of ETFs. Markets performed actively and almost stocks rose.

After that, VN-Index and HNX-Index have dramatically decreased by 15.4% and 25.4%, respectively, since 25th March because of foreigners' selling pressure, Mr. Kien legal trial and South China Sea events. After these sharp declines, foreign investors had called the bottom, helping the market regain.

○ **Second phase: Market increased with the leading of Oil&Gas stocks and also reduced by these shares because of the oil prices decline** (4 months rallies, 4 months decreases from 14th May 2014 to 31st Dec 2014): The market recovered quickly thanks to the strong demand of foreigners and Rig withdrawal of China on 15th July. Oil&Gas stock increased strongly, helping the market peak in this year and also peak in the last 5 years. Finally, VN-Index and HNX-Index increased by, respectively, 24.6% and 31.7% in comparison with their bottoms in South China Sea event.

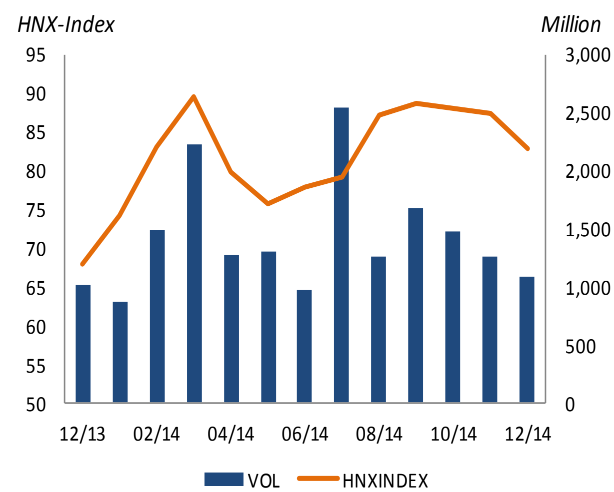
After rallying chiefly during 4 months, the market finally fell in next 4 months due mainly to the sharp oil price decline, the foreigners' selling pressure and strong impact of Circular 36. By the end of year 2014, VN-Index and HNX-Index have not kept their achievement gains in this year, they decreased by 14.8% and 9.2%, respectively, from their 2014 peaks.

Chart 31: Movement of VN-Index



Source: HNX, HSX, Bloomberg, BSC

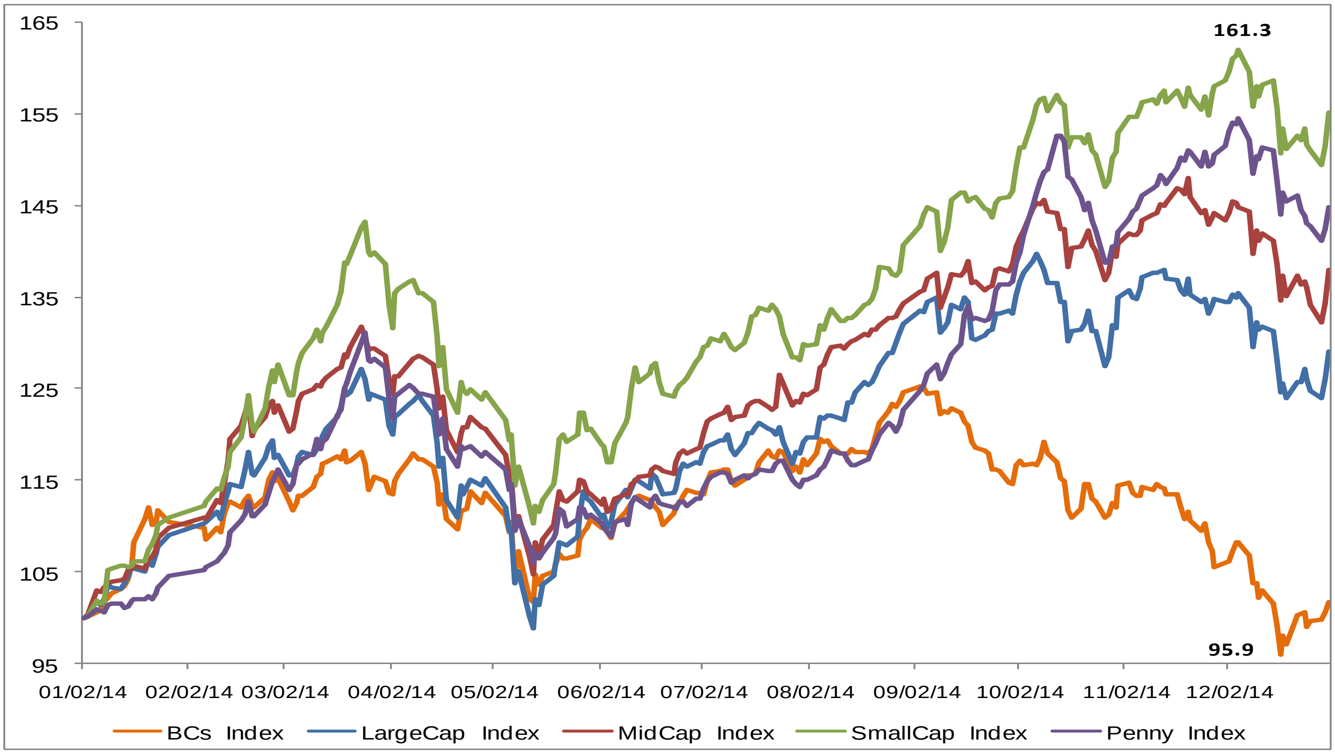
Chart 32: Movement of HNX-Index



Source: HNX, HSX, Bloomberg, BSC

2. Performance Indexes of BCs, Large Cap, Mid Cap, Small cap and PNs

Blue-chip stocks couldn't lead the market, Smallcap and Penny stocks maintained rapid growths. Stock groups movement in 2014 were opposite versus in 2013, in which SmallCap and Penny stocks having worst growth in 2013 increased impressively by 55% and 44.9%, respectively, in 2014; BCs having best growth in 2013 reached the lowest growth in this year. Specifically, MidCap, LargeCap and BCs stock groups increased by, respectively, 38%, 29% and 1.7%.



Source: Bloomberg, BSC

Performance of BCs brought the most disappointed for the general market in 2014**.** This group led the market in the first eight months; however, it has lost all the gains in the last 4 months. This also explains why the VN-Index peaked in early September and continuously declined in the remaining four months. On the other hand, we also found that although the index only grew by 8.1%, the share price level (excluding BCs) sharply increased more than 30%. Our statistics show that many stock groups have still been attractive whether the index didn't increase significantly. This review was strengthened by the good increase of 22.3% of HNX-Index.

II. MARKET STATISTICS IN YEAR 2014

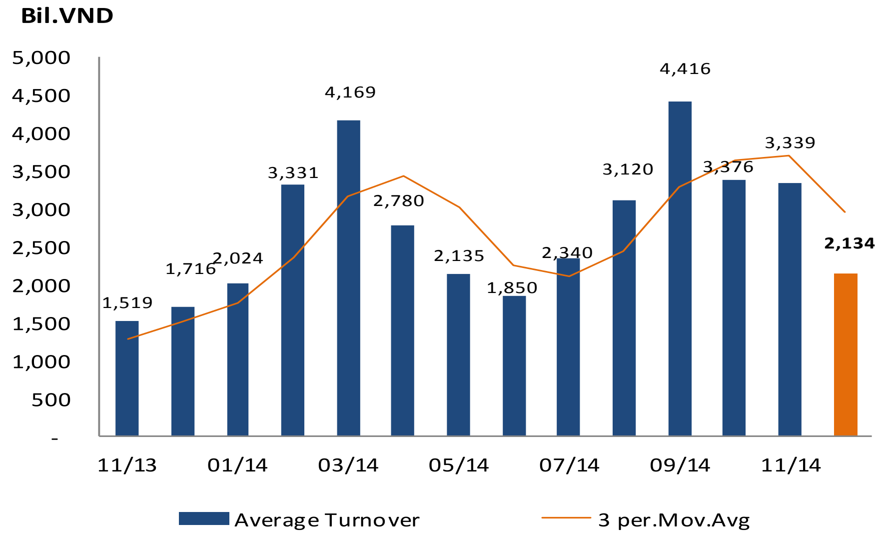
1. Market liquidity reached new record

Liquidity reached new record - increased by 225% compared to year 2013 and the average trading value reached VND2.918 billion per session. Stable macroeconomic and lower interest rates are main factors attracting new money flows. Besides, market fluctuated significantly, which stimulates speculative investors to frequently call the bottom and take profit, market's liquidity were therefore improved in 2014.

Unlike as in year 2013 (cash flow increased on HSX and reduced on HNX), cash flow rose and spread across two floors in 2014, the average transaction values on HSX and HNX increased by 204% and

242% versus 2013, respectively. Liquidity increased sharply in Q1, Q3 and fell significantly in Q2 and Q4.

Chart 33: The average trading value in 2014



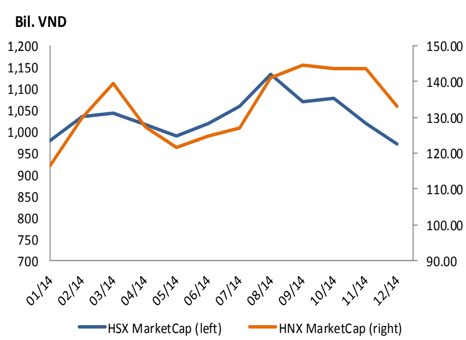
Source: Bloomberg, BSC

Chart 13: Shares with liquidity above USD1 million on 2 floors

2. Market capitalization

Market capitalization is about USD51.6 billion, or 28.5% of GDP and rose 16.3% versus the previous year. Capitalization of two floors is about VND1104.6 trillion, gained 16.3% in comparison with year 2013, in which the increases of HSX and HNX were, respectively, 15.3% and 24.1%. These capitalization rises mainly came from the 9.8% increase of average price level, 4% increase of the new listing and delisting activities and 2.5% increase of the capital issuance.

Chart 34: Capitalization movement on 2 floors



The number of delisted companies was 30 in this year, down from 37 companies in 2013. The companies were delisted mainly due to the losses for three consecutive years or M&A. Besides, there were 19 companies listed newly in year 2014, up from 13 companies in 2013. In terms of capitalization, new listing activities contributed 5% increase of the total market capitalization while the delisting activities didn't affect significantly. Among the listed companies, BID and MWG – two large cap stocks, contributed, respectively, 3.2% and 1% to the total market capitalization.

Issuance of capital contributed 2.5% increase of the total market capitalization, particularly VIC (158 billion shares), KBC (100 billion shares), ITA (100 billion shares) and FLC (224 billion shares)**.** These fast capital issuances in the speculative stocks also impacted negatively on the market by the end of year 2014.

The amount of securities accounts increased stability, maintaining an average increase of 6% throughout past years. By the end of December 2014, total securities investment accounts reached 1.39 million units, up 6% compared with 2013. The number of new opening accounts in 2012, 2013 and 2014 grew by 75.000, 50.000 and 77.000 units, respectively. By the end of November 2014, the total securities investment accounts of foreigners approached 17.509 units, up 5% from the previous year. Numbers of new opening accounts were 778 units, of which 493 individual accounts and 285 institutional ones. In association with the 225% increase of market liquidity, it can be seen that the average transaction volume per account has been improved significantly versus in 2013.

Chart 35: The amount of the account of investors

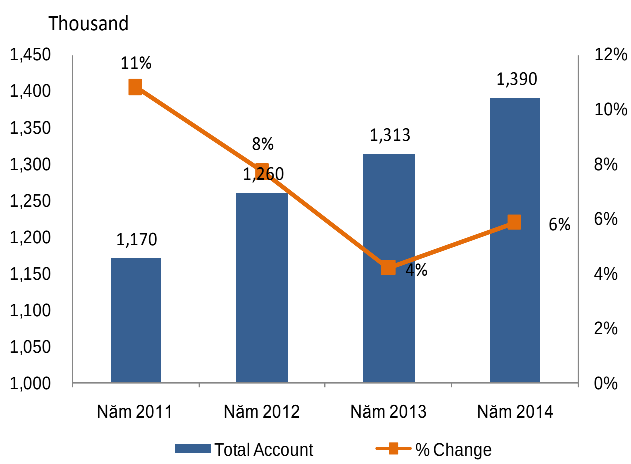
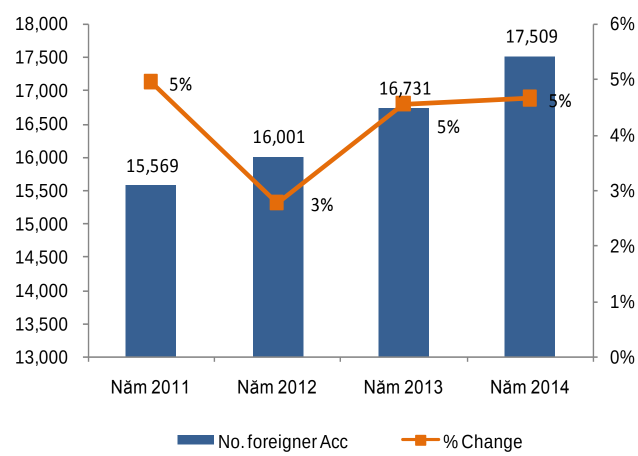
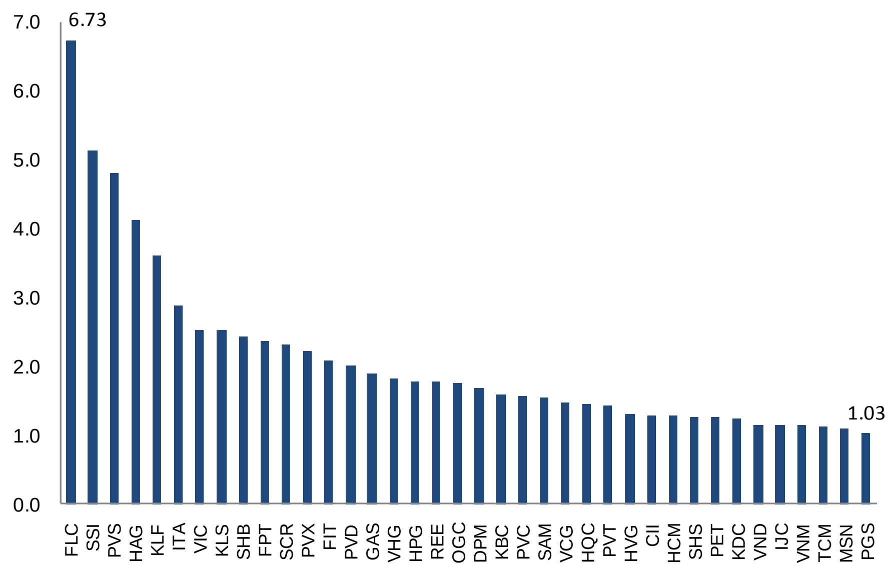


Chart 36: The amount of the account of foreign investors



Source: VSD, HSX, BSC

There were totally 38 stocks whose average daily liquidities were more than USD1 million on both two floors, first position belonged to FLC. Market liquidity rose significantly, hence liquidity of stocks also improved notably. There were totally 38 stocks whose average daily liquidities were more than USD1 million on both two floors. FLC topped with USD6.73 million per session, followed by SSI (USD5.1 million), PVS (USD4.8 million) and HAG (USD4.1 million). This list also consisted of many new faces like KLF, FIT and VHG. These stocks sparked the Margin adjustment of securities companies, which significantly impacted to the investors' psychology and market's trend in the last months of year 2014.

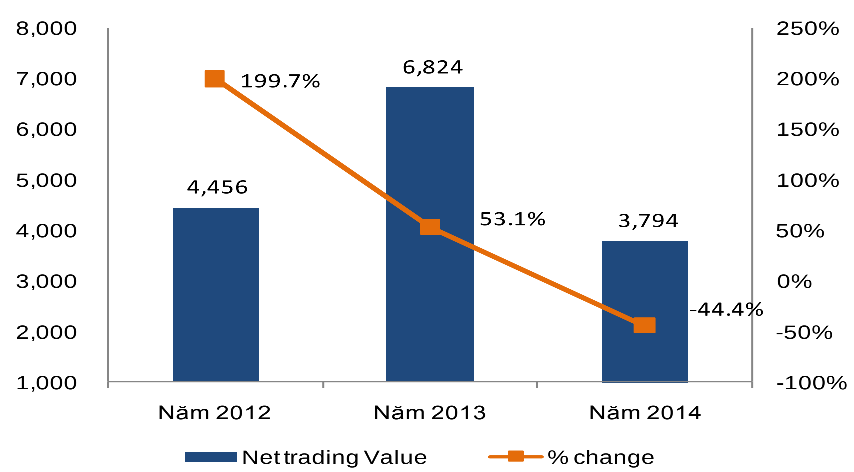


Source: Bloomberg, BSC

3. Foreign investor

Foreigners' net buying value reached VND3.794 billion, down 44.4% compared to 2013. The foreign money flowed strongly into Vietnam market in the first 7 months and peaked at VND7.288 billion, increased by 79.3% yoy. However, the QE3 reduction information and expected higher interest rates in US have made foreign capital move strongly out of the market. Not only in the Vietnam market, but also this withdrawal were recognized in many other countries around the world. This is one of the reasons to explain why indexes failed to maintain their gains in the first 8 months. Hence after being positive growth for three consecutive years, foreign capital flows were negative growth in 2014.

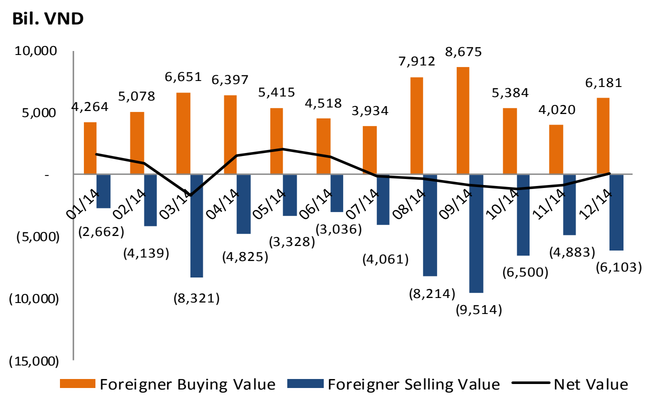
Chart 37: The net trading value of foreign investors in 2010-2014



Source: Bloomberg, BSC

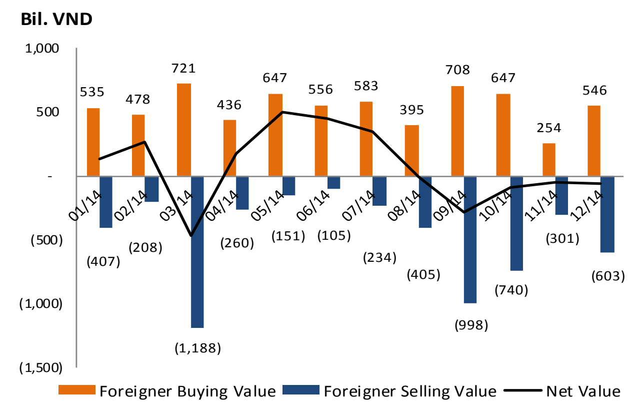
In the last 3 years, foreign investors often bought strongly from January to March. This action also happened in 2014 when foreigners were net buyers in the first 2 quarters (excluding March due to the impact of the QE3 ending). They began selling significantly from July to December with the descending scale.

Chart 38: The trading of foreign investors on HSX



Source: Bloomberg, BSC

Chart 39: The trading of foreign investors on HNX



Source: Bloomberg, BSC

Foreign capital inflows continued to play the leading role in 2014. The market performance only went against movement of these capitals in July and August. At this time, internal money led the Oil&Gas stocks, making the indexes peak before falling sharply because of strong foreign selling pressure. Foreign capital inflows continued to lead the market in 2014.

Financial stocks were bought by foreigners; on the other hand, they sold out the companies having unclear business strategies.

Chart 40: Top 10 stocks had the highest foreign net buying value

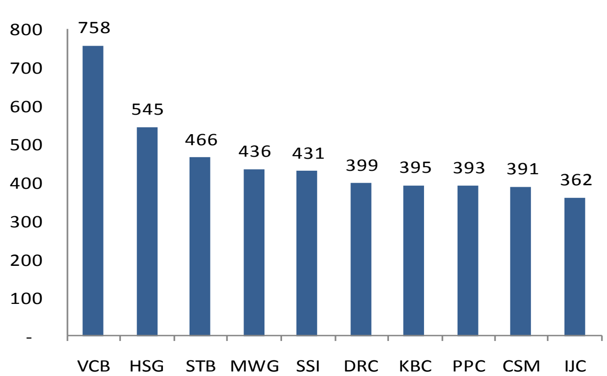
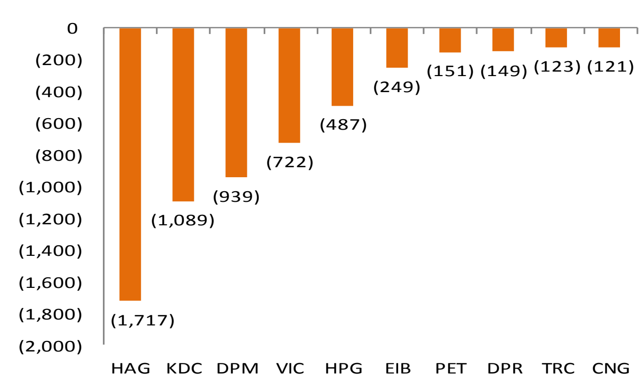


Chart 41: Top 10 stocks had the highest foreign net selling value



Source: Bloomberg, BSC

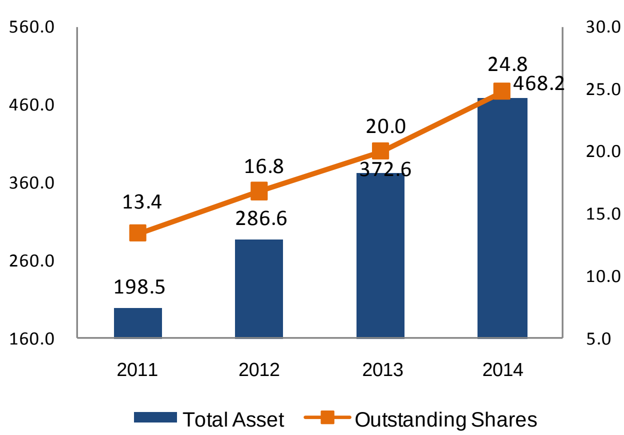
Source: Bloomberg, BSC

It is quite surprising that foreigners have bought significantly three banking shares having positive business results as VCB (VND758 billion), STB (VND466 billion) and BID (VND251 billion) while selling ones having poor business performance as EIB (VND249 billion). Besides, they also sold strongly companies having unclear business strategies as HAG (VND1.717 billion) and KDC (VND1.089 billion).

4. ETFs Transaction

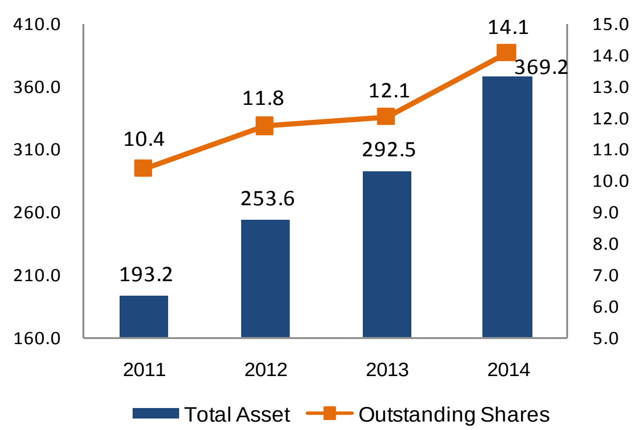
The ETFs purchased a net value of VND2.633 billion, accounted for 69% of the total foreign net buying value. There were currently 3 ETFs in the Vietnam market: Vietnam Market Vector (VNM), DB x-trackers FTSE Vietnam (FTSE VN) and iShare MSCI frontier 100 ETF. Sizes of three ETFs were approximately USD858 million in 31st Dec 2014. Their trading activities influenced strongly to the market. The ETFs often issue certificates and buy strongly in the first 9 months, and are net sellers in the last 3 months.

Chart 42 : Total asset and fund certificates of VNM



Source: Bloomberg, BSC

Chart 43 : Total asset and fund certificates of FTSE VN



Source: Bloomberg, BSC

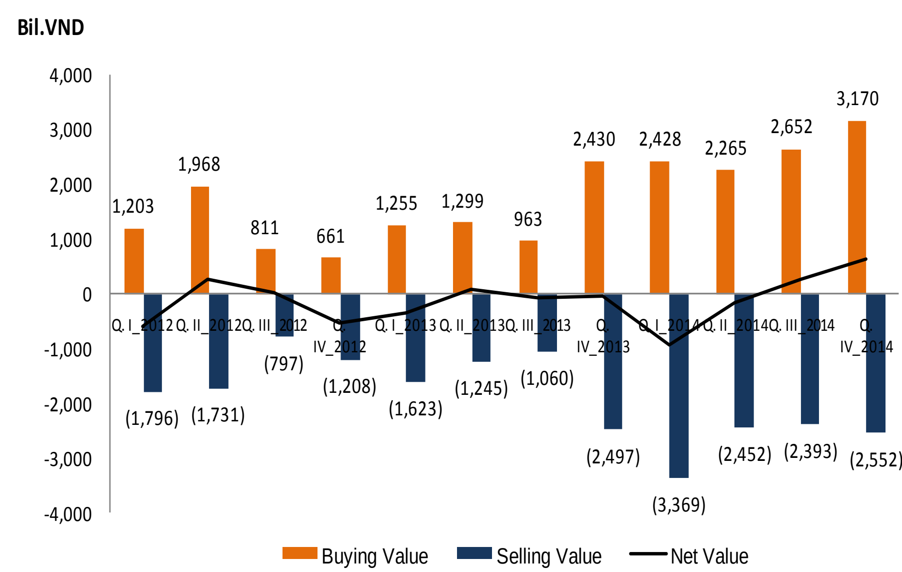
In Vietnam market, the ETFs usually raise capital well in Q1, and these capitals accounted for a large proportion in their buying activities. In recent years, their buying activities have played an important role to market trends in the first months of the year.

VNM and FTSE VN also increased their sizes by, respectively, 24.8% (worth VND10.526 billion) and 16.8% (worth VND1.106 billion) in 2014. This year is the sixth consecutive year that 2 ETFs have grown in sizes, which indicates that these funds have still been attractive to investors. Total asset scales have also increased for 3 years and more than the increase of the fund certificate sizes, which shows the stable fund certificates price levels and the improved fund quality. Total asset and fund certificates have increased for 2 years, indicating the attractive of ETFs, but their sizes couldn't boosted strongly due to the restriction on cash flow and on stock selection (because of "room" rule for foreign investors). Therefore, regulation about opening "room" for foreigners is very important to expand investment in Vietnam market.

5. Propriety trading value

The propriety trading of the security companies were net sellers (worth VND251 billion), their total transaction sizes reached VND21.281 billion, up 72% compared to 2013. Large market volatilities and high liquidity caused the increase of short-term trading demand. However, they were mainly the net sellers because many securities companies have still been in the restructuring portfolio process. In 2014, their short-term investments concentrated in February, March, September, and December and narrowed sharply from May to August. They also bought strongly in December with the net buying value of VND350 billion.

Chart 44: the value of the proprietary trading of the stock companies in 2012-2014



Source: CafeF, BSC

III. EVALUATING FACTORS AFFECTING THE STOCK MARKET IN 2014

1. Maccroeconomic

Macroeconomic continued to be stable and positively impacted on the market. However, the events affecting sharply to the market came from external factors such as South China Sea event, the QE3 ending, oil prices decline and other domestic information as Mr.Kien legal trial, Hosing Law and Circular 36. These factors can be grouped into three main categories: macro information (CPI, PMI, GDP), policy information (lower interest rates, Circular 36, VND30 trillion credit package, Mr. Kien legal trial, Housing Law) and international information (QE3 ending, expected higher interest rate in US, HD981 Rig and oil price fluctuation).

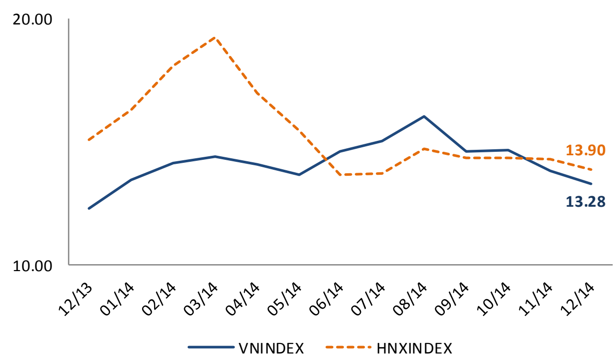
Information	Content	The degree of influence
Macroeconomic information	CPI	Weak
	PMI	Average
	GDP	Average
Policy information	Interest rate decline	Strong
	Circular 36	Very Strong
	VND30 trillion credit package	Weak
	Important legal trials	Very Strong
	Housing Law	Strong
International information	QE3 ending	Strong
	Oil price fluctuation	Very Strong
	Fed rise US interest rate	Strong
	HD981 Rig	Very Strong

In general, the market reacted strongly to the South China Sea event, the QE3 ending, oil prices decline and Circular 36, responded moderately and weakly to the GDP, CPI, VAMC and PMI information. Foreign investors reacted strongly to QE3 ending and expected higher US interest rate. Information about HD981 Rig events had the biggest impact on the market in the first 6 months. The sharp falling of Oil&Gas stocks and Circular 36 mainly influenced the market on the last 6 months.

2. P/E Factor

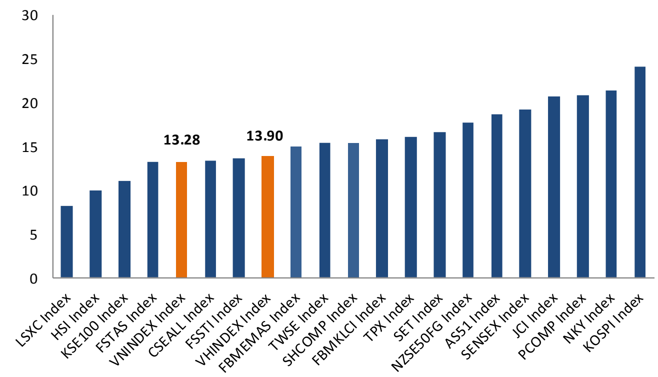
P/E of the VN-Index and HNX-Index were 13.28 and 13.9, respectively - attractive levels in comparison with other countries in the region. P/E of VN-Index increased by 5.3% while that of the HNX-Index decreased by 7.9% yoy. The P/E of VN-Index rose mainly due to the price levels boosted 8.2% and business results have not improved significantly because of the absence in Q4 earnings.

Chart 45: P/E movement on 2 floors



Source: Bloomberg, BSC

Chart 46: The index P/E of Vietnam compared with the countries in the region



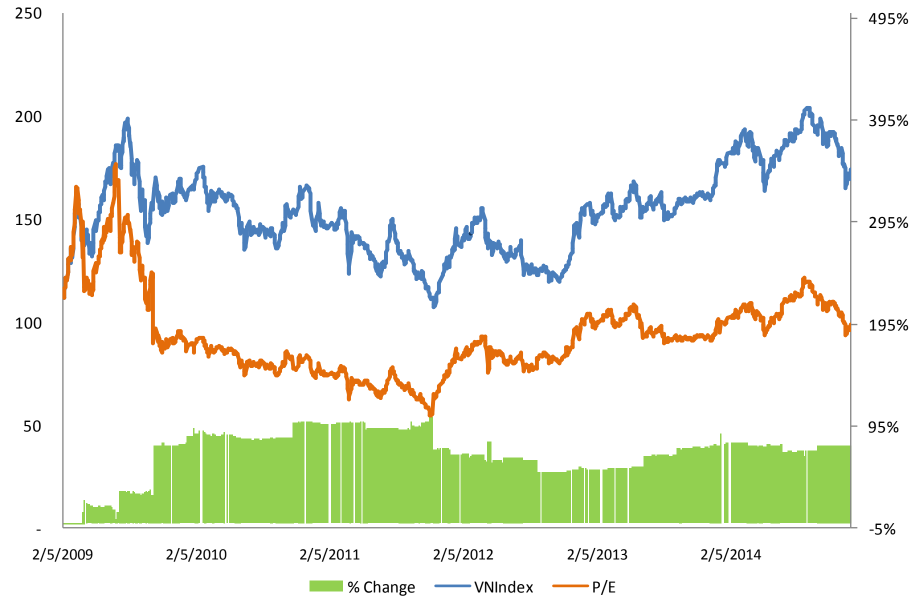
Source: Bloomberg, BSC

In contrast, the business results of the companies listed on the HNX-Index has marked improvement in 2014. Despite the HNX-Index increased by 22.3%, P/E decreased by 7.9%. P/Es of two indexes are still in moderate levels compared with the P/E of other countries in the region. Currently, in the ascending P/E table of the 20 indices of regional countries, the VN-Index ranked 5th – same position as in 2013, while the HNX-Index improved from 10th on the 8th.

P/E of the indexes are in their lowest levels in year 2014 and are now attractive versus the history in relation to income.

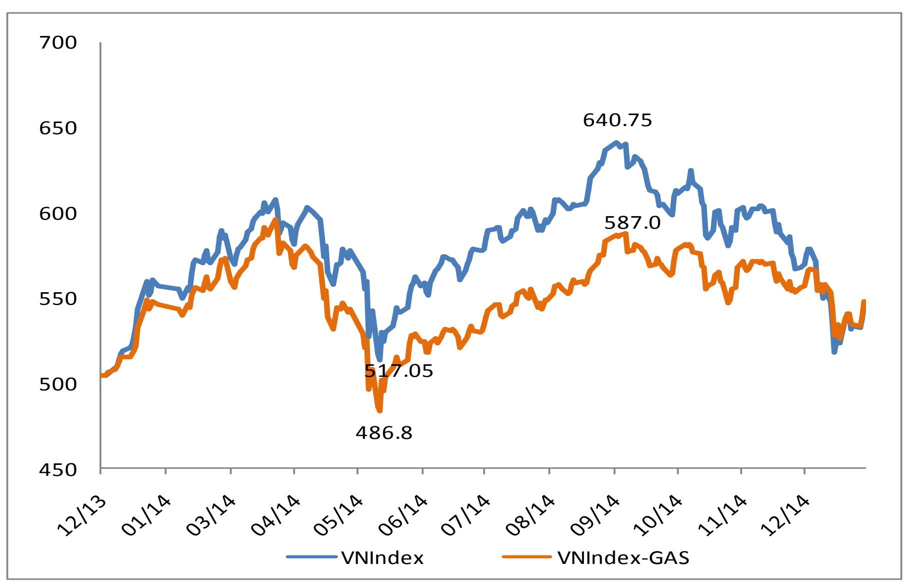
Monthly P/E of the VN-Index was cheapest and that of HNX also ranked 3rd month in 2014. On the other hand, the gap between the price and the P/E was 76.3% versus 76.2% yoy. In comparison with the average gap of 67% since year 2008, it can be seen that the current gap (76.3%) still shows the reasonable of the share prices and the safe for investment.

Chart 47: The correlation between the VN-Index and the P/E



Source: Bloomberg, BSC

Impact of Oil&Gas stock on the VN-Index is very large. This group accounted for nearly 24% capitalization of the VN-Index, particularly the sharp volatility of GAS distorted the VN-Index from May to November. If removing GAS from VN-Index calculation, the performance of both the VN- Index and HNX-Index were similar when they have not reached their March 2014 peaks.



Source: Bloomberg, BSC

IV. MARKET OUTLOOK IN YEAR 2015

1. Factors influencing the stock market

1.1. Positive impact

The macroeconomic continued to be stable, most of the targets achieved and exceeded the plan, and the economy is moving on its trajectory, all of which are the important supports for the stock market in the coming years. The macroeconomic will continue to be stable and keep growing thanks to the right directed policies and the advantages of low world commodity prices. Specifically, the GDP increased 5.98% beyond the expectation, the industrial production rose sharply, the inflation remained low, the exchange rate maintain stable, the foreign exchange reserves increased, total retail sales improved, the disbursement of FDI has increased significantly and the interest rates continue to fall. 2014 can be considered to be successful and deserves a "hinge" year to pull the economy on a high growth trajectory as happened during the 2001 – 2007 period. However, the growth rate of the next yeasr will largely depend on the pace of restructuring of the economy, restructuring of state enterprises and settling bad debts. The Government set a target of 6.2% for GDP in the next year (expected to be approximately 6% -6.2%), this is an important basis to consider the stock market's growth and trading in 2015.

The interest rates remain low, oil prices plummeted more than 50% that will positively impact business results in many listed companies, opening up new opportunities in 2015. Falling oil prices also led to many goods and raw materials in the world decrease. Decreasing production costs help enterprises to improve their business results. This process will also revive many sectors that are recovered more slowly than the market as Transportation, significantly impact the industries using products from Oil and Gas, and bring new opportunities to the market. The market price level has opportunities to push up in 2015.

The solution for the stock market: The solutions developing markets continue to be exercised by the authorities, typically:

- Policies to support the market: (1) Decision No. 51/2014 / QD-TTg specified enterprise equitization in 90 days to register to become a public company, the case that the enterprise have fully conditions listed have listed on the Centre of the Stock exchange within 1 year. Besides, the decision also shows the divestment is below face value. This decision will accelerate the process of privatization and the list to increased goods and the market liquidity. (2) The Securities Commission promotes the structure of the stock market to make the health for the market in the deployment of safety financial indicators; the evaluation and grading are based on the Camel regulation in order to reduce the number of securities companies. (3) Implement solutions to improve the Vietnam stock market from the frontier market up to the emerging market under the criteria of the MSCI.

- The products for development the infrastructure of the stock market: 1. Deploy the ETF (E1VFVN30 listed HSX simulated the VN30 index, and a fund that simulated HNX30 index will be listed early next year); 2. Scheme of the construction and development of derivative securities market has been approved by the Prime Minister in the decision 366 dated 11th March 2014, being completed by the Ministry of Finance and submit to the Government in December. This is the basis for the formation of the derivative market which is expected in 2016. 3. Research on the voluntary retirement fund, the supplement retirement fund.

Among the solutions of the authorities, information on open room for foreign investors is the most expected, and also the bottleneck of the market to attract more foreign capital inflows, freeing domestic resources to support the equitization process. The increase in room also increases demand to balance with the pressure of new listing of companies, which will help the market has a stable growth.

However, these solutions have not met the expectations of domestic investors and foreign investors. The most expected regulation in 2014 was to open the room for foreign investors, but this has not fulfilled even though authorities have been mentioned many times in the recent 2 years. According to the representatives of the SSC, this agency is now submitting to the Ministry of Finance to increase the percentage of foreign ownership in certain sectors from 49% to 60% and is scheduled to submit the Government in October 2015. Among the solutions are being deployed, the open room for foreign investors will still be expected to be an important boost for the stock market in 2015.

Expectations to join TPP and the FTAs: In the recent rounds of negotiation, there were optimistic statements from the parties that important agreements such as TPP, Customs Union Agreement, and the Bilateral Agreement of VN - EU are more likely to early end in 2015. Therefore, Vietnam's economy will continue its deepening integration into the regional and international markets. This is also the big momentum for the countries that have the export-oriented like Vietnam, opening up export opportunities for many industries as well as to accelerate the process of reform and the restructuring of the economy. Signing the agreement will have a positive impact on the investors' sentiment and the good information for the stock market.

1.2. Risks and limitations

Influence from the world economy: the world economy is "flying with one engine" which is the US economy. The recovery of the US economy is not enough to make the the world economic picture brighter with stagnant of Europe, Japan, the deceleration of BRIC, China.

- **Fed is likely to raise interest rates in 2015 and disrupt international capital flows:** the US economy is sending the positive signs of recovery. In particular, the growth rate of GDP reached 4.5% in the recent 2 consecutive quarters (the quarter II in 2014 reached 4.6%, the quarter III in 2014 reached 5%). Besides, the job market continues to improve as the average jobless claims in 2014 hit the lowest for 14 years to 308.500 units. The unemployment rate continued to decline, currently at 7.3%. The Consumer Confidence Index in 2014 is recorded the highest increase for 7 years (peaked at 43.1). Before these positive signals, the Fed will be likely to raise the interest rate in 2015, which will put the pressure on foreign investors to divert their investment money as capital costs begin to rise.
- **The leading countries such as the EU, Japan and China are pretty stagnant,** affected the growth potential of the world. The Euro Area are faced with the situation of low growth rates, comes along with the low inflation. Three key economies in this block (Germany, France and Italy) almost remained slow. The situation is not bright for Japan, after the initial success with the stimulus and monetary easing, the risks of falling into a serious crisis emerged. The public debt increased 2.5 times of GDP, the YEN depreciated more than 20% and make the domestic demand weak, these are all the problems facing the Abenomics in 2015. The economic picture is better in China as this country remained its growth around 7.8%. However this is a deceleration compared with the high growth period 2009 - 2011. The weakening of other key economic area will affect the growth of the world, and also affect the Vietnam economy which depends heavily on exports.

In addition, fluctuations in world politics are still complicated and have potentially unpredictable risks. Russia is likely to continue facing sanctions from the US and EU because of problems in Ukraine; instability in the South China Sea will continue to exist due to a lack of respect and cooperation from China; relations between the United States and the countries producing nuclear weapons, such as Iran and North Korea are still having many disagreements; ect.. These are unfinished events in

2014 and are expected to continue in 2015, affecting global politics and will be potential unpredictable threats to the world security and the economy in 2015.

The policy risk of Circular 36: This circular set out the provisions relating directly to the equity investments and will have considerable impact on the stock market, as follows:

- **Regulation of the total outstanding of the bank credit granted to business investment shares shall not exceed 5% of the charter capital of the bank,** this will have a major impact on overall operation of markets and many securities companies: According to the central bank, rate lending of the stock investment remained lower than 5% of the charter capital of overall system. But according to our incomplete research, the big institutions have hit the maximum limit. Besides, many brokers have a quite high margin and leverage ratio. With this provision of the Circular 36, the most negative effected subjects are the securities companies which borrow from banks who have low chartered capital, but this is an opportunity for the securities companies who have good financial situation and not depend much on loans from banks.
- **Regulation of reducing risk weigh of investment securities from 250% to 150%:** the central bank is aiming to reorient the credit flow. This is on one hand, partly limits the too strong credit flow into the highly risky securities investment, and on the other hand will encourage banks who not use their quota fully enough. This process can disturb the margin performance and therefore the liquidity of the stocks with high margin rate as well as the overall market.
- **Regulation on credit for stock investments are not allowed to be secured by these shares themselves. This is important and can also narrow the margin:** This is mainly aimed at limiting the operation of repo & bank cross-ownership. However, operating of the margin loan often require to be secured by the value of the stocks themselves. Thus the accounting, books balancing of securities companies may be hampered.

Thus, we can see the rules in the Circular 36 are aimed to limit the flow of credit, helping to avoid capital flows overheated. In the circumstance of high margin and leverage ratio, the introduction of Circular 36 is a strong message in ensuring the safety of the investment capital. The birth of the Circular 36 will cause a shrink to cash flow of market, and also make it difficult to accelerate the process of equitization of state-owned enterprises in the coming years. Therefore, Vietnam Association of Securities Business (VASB) have been making recommendations on a review of circular 36 to promote the market development, ensure harmony and avoid shocks.

Many large enterprises get IPO and listed: Currently, up to November 2014, there were only 115 enterprises doing their equitization compared with 432 enterprises planned by the Government in the period of 2014 - 2015. This figure was higher than the figure of 99 enterprises doing equitization during the period 2011-2013, however, this process is needed to be pushed up to complete the remaining equitization plan by the end of 2015. Among enterprises having to do equitization in 2015, there will be many "dinosaurs" such as Vietnam Maritime Corporation, Vietnam Railway Corporation and Shipbuilding Industry Corporation. Along with that, the SCIC will continue to boost divestment of companies listed on the two exchanges in 2015. This will be an opportunity to attract money flows from foreign & domestic investors; however, without opening room for foreign investors, this can be a great pressure in terms of supply on the stock market in the next years.

2. Forecasting market’s volatility in year 2015

Vietnam's economy in 2014 has got successful year in achieving most of the socio-economic criteria. Macroeconomics will be still the platform to bring good expectations to the stock market in 2015.

We expect that the VN-Index may reach 600 pts, and in the case of support information is strong enough, the VN-Index can approach 650 pts.

First, in term of VN-Index points:

On the basis of macroeconomic forecasts in 2015, considering elements of the foreign inflow with the fluctuations of the world economy, forecast about business results, the analysis of PE from 2006 to 2014, estimation of the regression model (appendix), the largecap weighting method and technical analysis, we forecast the market scenarios as follows:

Scenarios	Content	VN-Index
Positive Scenario	• Macroeconomic has good changes, economic growth reached or exceeded the plan. The capital of FDI and budget revenues maintain good, the government has strong measures to support the economy (public investments and policy reforms) • Promoting economic & banking system restructuring, state enterprise equitization, resolving NPLs through VAMC. Increase public investment, expansion credit effectively. • Joining the TPP, sign FTAs with the EU, South Korea, the customs union agreement, Asean in 2015, reform investment climate, deeper economic integration;	About 650 points

	• Foreign Inflows are stronger thanks to solutions of opening the room for investors; upgrade the stock market, the establishment of new funds such as pension funds, retirement supplement. • No big changes or shocks in the world geopolitics and financials, commodities & commercials	
Neutral Scenario	• Macroeconomic continues stability, achieving the National Assembly and the government targets; the capital of FDI continues to increase; Export-Import balance is stable, foreign exchange reserves increased; • Economic integration with the world, such as *Trans-Pacific Strategic Economic Partnership Agreement* (TPP) free trade agreement VN - EU (VN-EU FTA), Free Trade Agreement VN -Russia, the Agreement on *Regional Comprehensive Economic Partnership* (RCEP) get signed but slower than the expectation. • The progress of restructuring the banking system, bad debt settlement, credit growth keep at moderate rates. • Moderate foreign inflows, supportive policies are issued but at slow progress.	About 600 points
Negative Scenario	• The economy slowed down, social investment and FDI decline, interest rates rises, imports increased, inflation returned due to adverse movements in the world markets; • Dealing with bad debt VAMC and restructuring of banks is slow, structure of economy is slow, and the business activities of enterprises did not improve. • No new solutions to develop the stock market ; new policies issued are delayed. • Real estate market does not improve, the free trade agreement stalled. • There is shocks, adverse events from the world geopolitics financials, commodities & commercials	About 550 points

Second is the stock performance forecast in 2015:

The stock market might be positive in 2015H1. As the market liquidity shrink due to the affect of the Circular 36, money flow will be determined by ETF inflows, probably in January and February. Observing the recent activities of ETFs, we see positives signal which indicate that ETF has began disburse. At this time, the most affecting factors to the market are:

- Circular 36 that will take effect on Feb 1st 2014.
- Trading activities, certificate issuance of ETFs at the beginning of the year.
- 2014 earnings announced by listed companies and their shareholder meetings, mostly be held in March and April.

- Important session of FED place in April 2015 made the clearer message about the possibility of rising interest rates.

Market might rise in the first 3 to 6 months of the year. Foreigners' trading will be lean on the USD interest rates, which closely relate to FED's decision. It will determine whether or not the market increase or decrease in the second quarter. However, we expect that the stock market will maintain the uptrend in the second quarter as well as the first six months of the year.

The stock market might be challenging in the last 6 months of 2015. The market trend in last 6 months will depend on whether the information, expected policies are to occur or not, as well as eco-politics trends in the world. Besides, the probability on extending the room for foreign investors, the bilateral and multilateral agreements process, and the movement of macroeconomic trends will determine the rest of the year. We will update further details in Strategy report on June 2015.

Finally, what are leading stocks?

The limitation of the stock loans described in the Circular 36 might hider the money flow. Oil prices fell sharply that promote the advantage of various businesses; hence it could orient the investment activities into basic enterprises with good business results. SME enterprises might had a good rebound in the early stages of recovery as 2014, but they could be appreciated as themselft in 2015 due to the above reasons.

The price level of the stock has risen, making investments by industry less attracting in 2015. We believe that mid-cap and large-cap stocks will have good growth in 2015.

After the annual report 2014, we will release **"2015 Sector Outlook Report"** that focus on potential sectors as well as notable stocks in 2015.

Appendix: Estimation of VN-Index by multivariate regression models

Movements of the stock market in 2014 are quite complex and difficult to predict because the market is strongly influenced by external factors. In order to fully assess the factors which affect the scores of market in 2015, we estimate the VN-Index by multivariate regression models.

Using the multivariate regression model, we found a correlation between the VN-Index with macroeconomic variables. On the basis of studying the impact of the domestic and international macro-economic factors, the model also offers predictions about the VN-Index in the short upcoming time. Though the result is limited, it also helps us to have further approaches to evaluate volatility of the stock market.

Database: We input macroeconomic variables into the models, those are:

- The index of industrial production
- CPI
- Retail Sales
- World oil prices
- World gold prices
- Exports
- Imports
- FDI
- Interest rate
- Vietnam CDS

Study period: data collected during the minimum of 7 years in order to have the adequate amount of data.

Data Processing: After being collected, the data will be filtered, tested. Then we estimate the multivariate regression model.

Results forecast: For data series lasted until Oct 2014, the model estimated of the relative movement of the index in the last few months in 2014. It also predicts the movement of VN-Index in 2015H1 as follows:

Forecast	2014m11 2015m6			
	VN-Index		**VNI_F**	
2014M10	600.84		600.84	
2014M11	566.58	-5.70%	564.0044	-6.13%
2014M12	545.63	-3.70%	562.4732	-0.27%
2015M01			**577.1197**	2.60%
2015M02			**575.9272**	-0.21%
2015M03			**582.1534**	1.08%
2015M04			**621.1105**	6.69%
2015M05			**630.0403**	1.44%
2015M06			**624.9956**	-0.80%

According to the model, we predict the VN-Index is likely to slightly increase in the first 6 months in the ranging between 575 and 630 points.

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