

STRATEGY REPORT

JANUARY 2015



BIDV Securities Company

ECONOMY

- Consumer price index (CPI) fell 0.2% mom in Jan/2015; but still rose 0.94% yoy. The CPI is likely to get warm back in the second half of 2015. The full-year forecast is below 5% yoy.
- The PMI (HSBC) in Jan reached 51.5 points, down from 52.7 points in Dec/2014. We forecast PMI in Feb can slow down a bit due the Lunar New Year holiday.
- The deposit rates get difficult to reduce more, which is expected at 5-6%. However, the lending rates are still have "room" to get further fall
- We forecast the bad debts settlement will be pushed up in the first half of 2015 due to the recent issuance of Directive No. 02

EQUITY MARKET

- Following the rally late last month, VNIndex increased sharply in the first half of the month and went sideways in the second half. The VN-Index and HNX-Index respectively got growth of 5.5% and 3.1% in January. The VN-Index closed at 576.1 pts while HNX-Index closed at 85.6 pts.
- The foreign cash flows reduced quite strongly compared to the same period in 2014 when net bought 99 billion on the HSX and net sold 178 billion on the HNX. The foreign flows have not come in Vietnam as has happened periodically in the past 4 years. The ETF only bought in the first half of January and then stopped, while the non-ETF foreign investors net withdrew.

MARKET STRATEGY FOR FEB/2014

- The limited money flow could be the main constraint for investing activities in February. The sideways movements are suitable only for the accumulation of basic stocks with good fundamentals.
- The leading stocks and sectors, such as tires, banking, real estate, building materials, and marine transportation are recommended to buy in February.

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A. VIETNAM ECONOMY IN JANUARY 2015

1. Low inflation by successive gasoline price reduction

Consumer price index (CPI) fell 0.2% mom in Jan/2015; but still rose 0.94% yoy

Forecast: CPI in Feb/2015 may rise again at a rate of about 0.1% - 0.2% (mom) because this is the time of the Lunar New Year holiday, the demand will surge, especially in the group of foods and food services (large weight group). Besides, domestic gasoline prices are less likely to reduce more in the context of world oil prices stop falling and going sideways.

The CPI is likely to get warm back in the second half of 2015. The full-year forecast is below 5% yoy.

Chart 1: CPI (2014 – T01/2015)

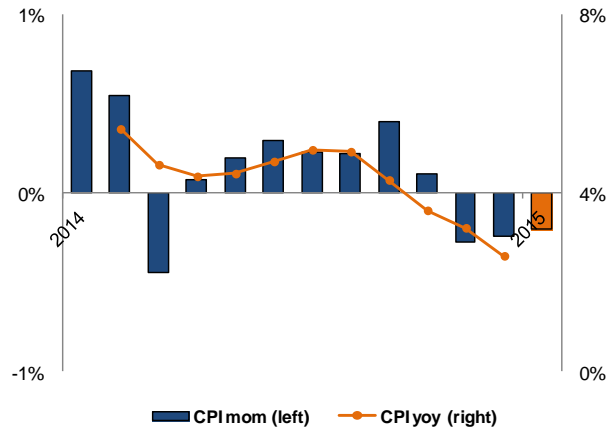
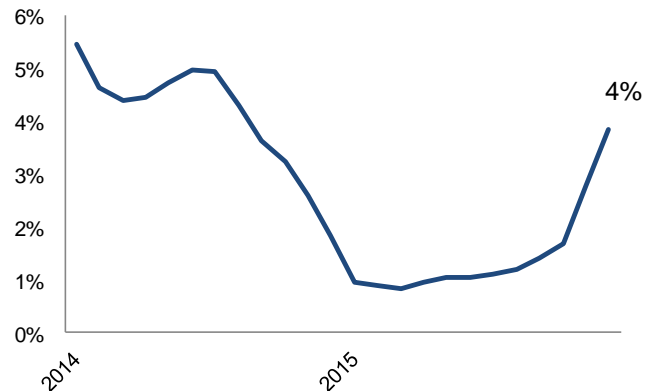


Chart 2: CPI 2015 forecast below 5%



Source: GSO, BSC

2. Industrial production

The index of industrial production (IIP) continued its strong growth. The IIP in Jan/2015 fell 2.8% mom, but increased sharply by 17.5% yoy due to the previous Lunar New Year holiday (2014) focused on January.

The total retail sales was estimated at 275.5 thousand units in Jan/2015 trillion, up 2.2% mom. This figure rose 13% yoy, and 11.9 yoy if excluding the price factor.

The PMI (HSBC) in Jan reached 51.5 points, down from 52.7 points in Dec/2014, but this is quite normal and predictable because of the cyclical reason when the production the beginning months of the year is usually lower than the end of the year.

The data continue showing an expansion for 17 consecutive months in the domestic manufacturing sector (> 50 points). We forecast PMI in Feb can slow down a bit due the Lunar New Year holiday.

Chart 3: PMI

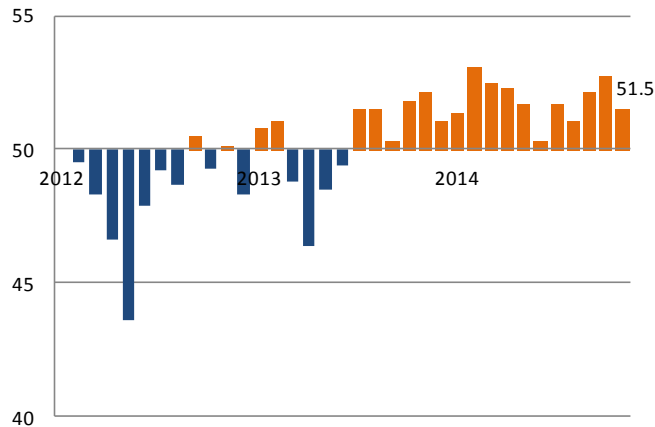
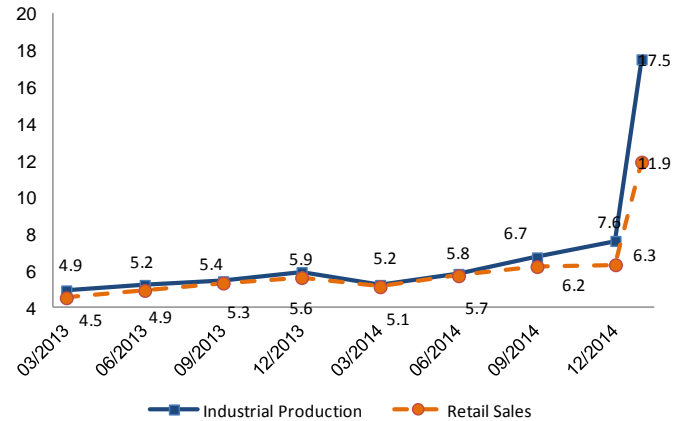


Chart 4: IIP & Retail Sales (%)



Source: Markit, HSBC

Source: GSO, BSC

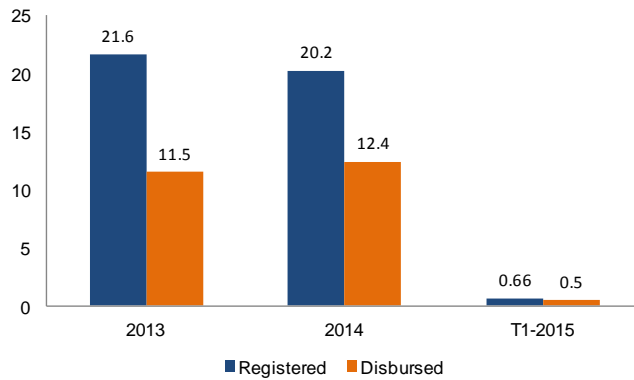
3. Foreign Direct Investment (FDI)

The attraction of foreign investment was still positive in January /2015, revealed a prospects throughout 2015.

Specifically, the realized FDI in January 1/2015 reached 0.5 million, up 8.6% yoy. Total registered FDI in January reached 0.66 million, significantly increased 67.1% yoy.

We believe that the FDI performance can be more bustle in the coming months. Currently, Vietnam is very active in the completion of trade agreements with partners around the world. The VN-EU FTA is expected to be signed in 2015Q1 with EU partners (including 27 European members). The VN-EU FTA once completed will bring great impact to the whole economy, notably for the textile & garments and footwear.

Chart 5: FDI (2013 – Jan/2015) (bil USD)



Source: GSO, BSC

Chart 6: FDI structure by sectors

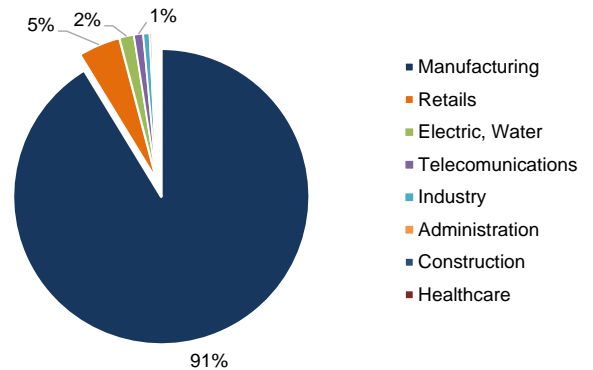
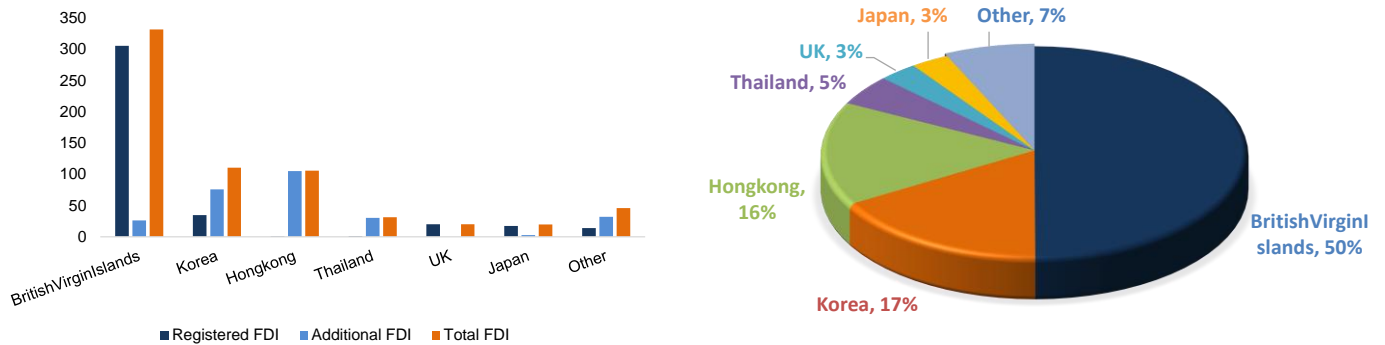


Chart 7: FDI structure by partners (bil USD)

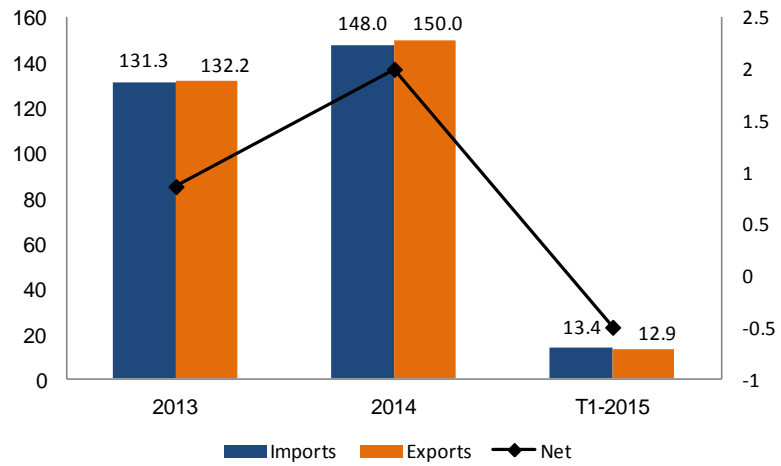


Source: FIA, BSC

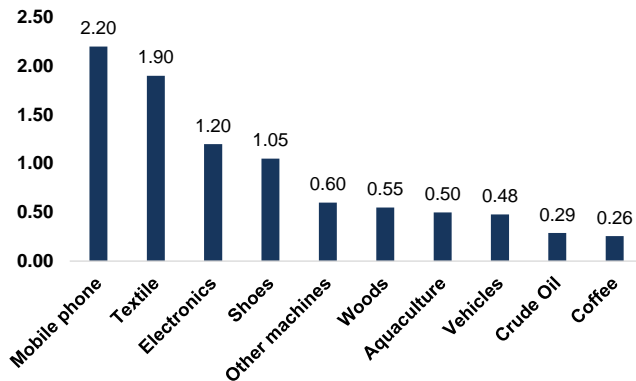
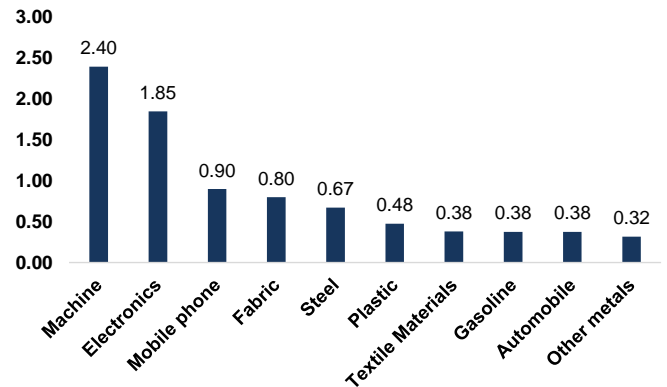
4. Exports surged thanks to FDI

In Jan/2015, the imports growth quite strongly, and dominated over the exports. The trade deficit reached 0.5 billion dollars in the first month of the year, equivalent to 3.9% of the export turnover. In which the domestic sector net imported \$ 1.2 billion, while FDI sector net exported \$ 0.7 billion.

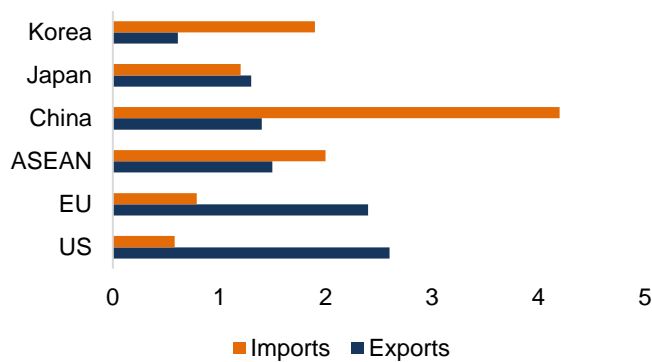
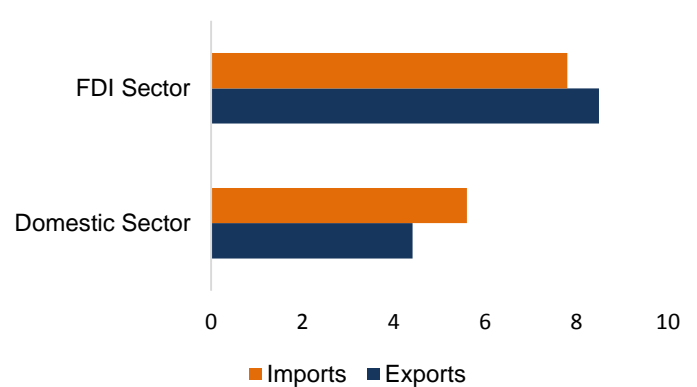
Export turnover is estimated at 12.9 billion, up 0.2% mom, and 9.7% yoy. The import turnover is estimated at \$ 13.4 billion, down 4.5% mom but up 35.5% yoy.

Chart 8: Trade balance (bil USD)


Source: GSO, BSC

Chart 9: Top 10 export (bil USD)

Chart 10: Top 10 import (bil USD)


Source: GSO, BSC

Chart 11: Trade markets (bil USD)

Chart 12: Sector contribution (bil USD)


Source: GSO, BSC

5. Foreign exchange market

The noticeable event in January was that the Central bank has increased the reference exchange rate by 1%, from 21,246 VND / USD to 21,458 VND / USD on Jan/7.

The root cause was the appreciation of the USD against most other currencies around the world in the context of the US economy in recovery.

However, we found that the actions of the central bank still exists a certain risk. The use of 1% of the total 2% announced “room” committed in 2015 will narrow the tool of the Central bank from now to end the year. Before the uptrend of the USD in 2015, 1% remaining seems to be a challenge for the Central bank to stabilize the foreign exchange market.

Chart 13: FX reserve (bil USD)

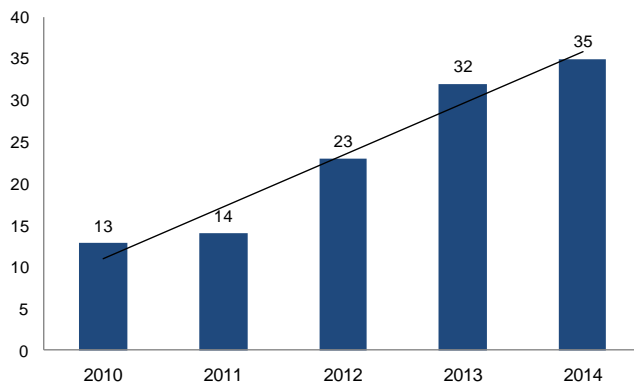
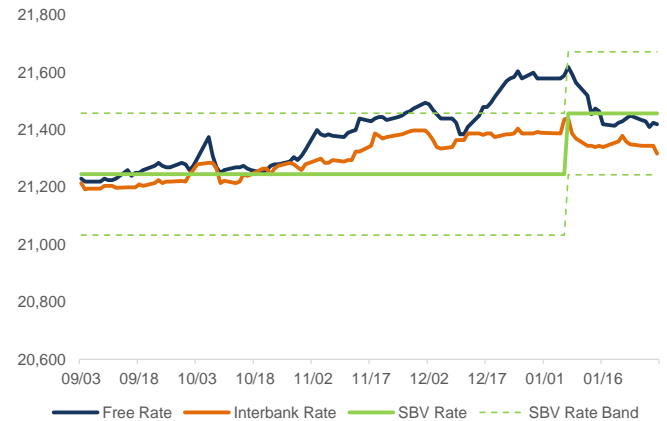


Chart 14: Exchange rate (09/2014 – 1/2015)



Source: Bloomberg, SBV, BSC

6. Banking system – Interest rates

VND deposit rate reduced slightly from 0.2 – 0.5% in terms of less than 12 months. In particular, deposit rates stood at 6-7% / year for 12 months terms, at 5-6% / year for 6 months terms, at 4-5% / year for 01 month terms. For less than 1 month terms, the deposit rate is still popular at 0.8 to 1% / year.

VND Lending rates continued stability. Currently, the lending rate for the priority areas is at 7% / year for the short term. At 9-10% / year for mid and long-term. For the normal areas, the lending rate is at 7-9% / year for the short term; 9-11% / year for mid and long term.

In general, due to inflation this year is forecast at 5%, **the deposit rates get difficult to reduce more**, which is expected at 5-6%. However, **the lending rates are still have “room” to get further fall**. On Jan/27, the Central bank has issued Directive No. 01 / CT-NHNN which guided the mid and long term lending rates to reduce by 1-1.5% for 2015.

NPLs debt : We forecast the bad debts settlement will be pushed up in the first half of 2015 due to the recent issuance of Directive No. 02, which requires the credit institution must ensure that by the end of H1 / 2015 to handle at least 60% of the debt planed in 2015; Besides selling debt targets for VAMC must meet not less than 75% of the bad debt expected to sell for the VAMC in 2015. The target is to bring the bad debt ratio to less than 3% in 2015.

Macro indicators on Jan & Forecast for 2015

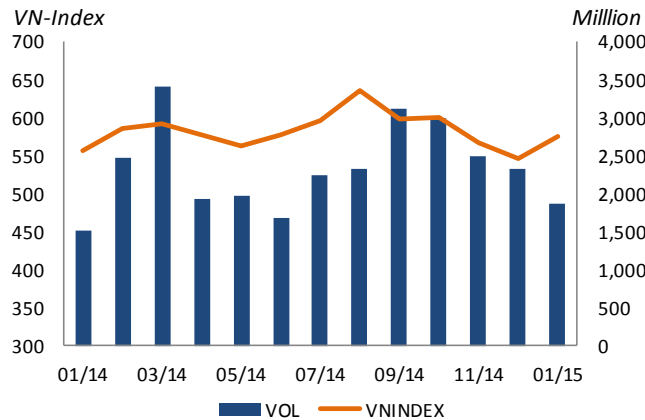
	Jan/2015	2015F
Inflation (yoy)	0.94%	< 5%
Credit growth	N.A	13% - 15%
FDI registered (bil USD)	0.66	20 – 22
FDI realized (bil USD)	0,5	11 – 12
Trade balance (bil USD)	- 0.5	2
FX rate (VND/USD)	21,458	21,458 – 21,673
Lending rate	9% - 11%	8% - 10%
Deposit rate	5% - 6%	5% - 6%

B. EQUITY MARKET IN JANUARY 2015

I. MARKET PERFORMANCE

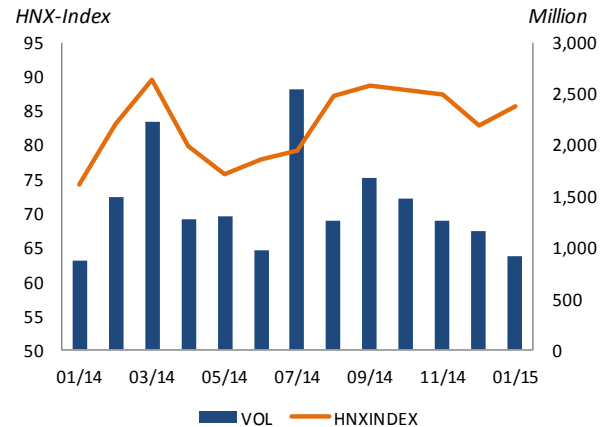
1. VN-Index movement

Chart 15: VN-Index performance



Source: HNX, HSX, Bloomberg, BSC

Chart 16: HNX-Index performance



Source: HNX, HSX, Bloomberg, BSC

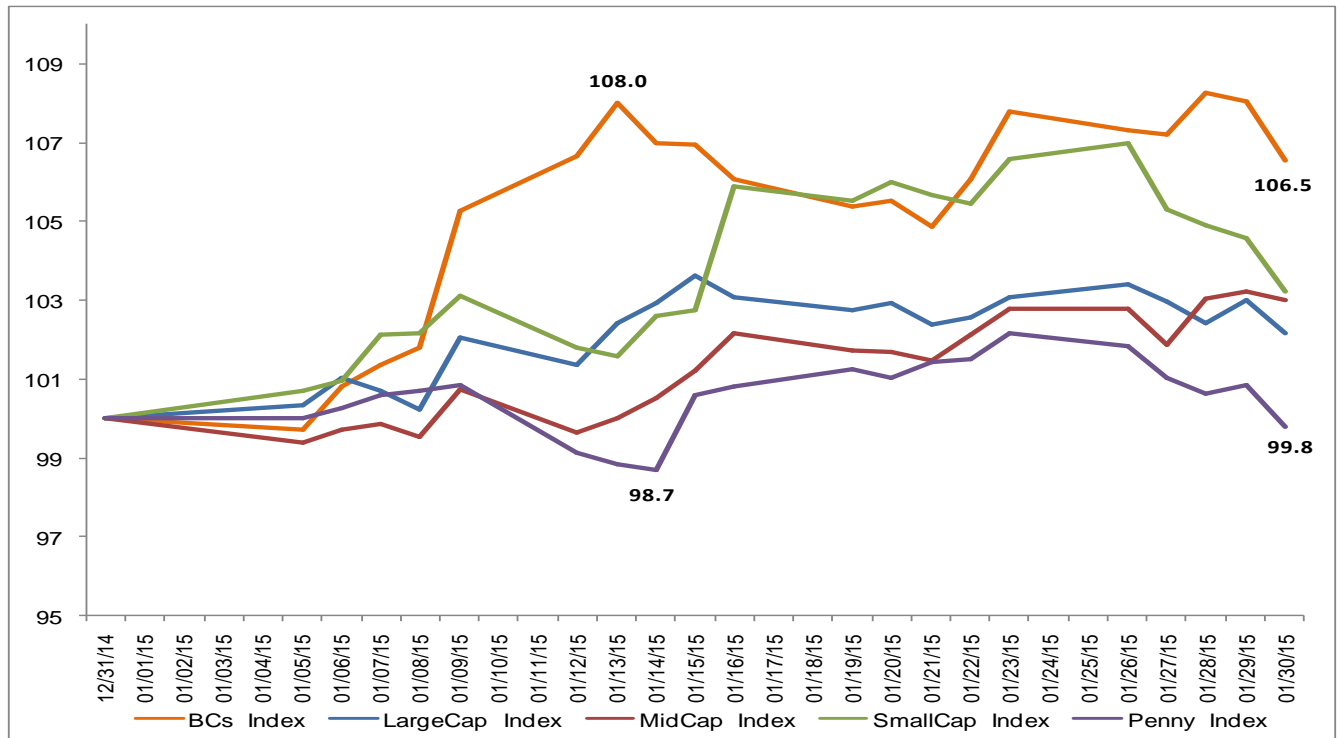
- **The period increased due to the recovery of bank stocks and the support of the ETF** (from 01/01/2015 to 01/13/2015), the bank stocks increased to 10.2% for all stocks in the sector, contributed most to the increase 6.4% of the VNindex. The buying activity of the ETF is not too strong to affect the market trend but a net buying value of 453 billion, that also helps keep the price stability and growth. Banking stocks traded fairly active, but the spread is low.

- **The period sideways** (from 14/1 to 30/01/2015): After the sprint at first half of month, the bank stocks show signs of the slowdown. The effort led the cash flow to other large stocks such as real estate, oil and gas, the market stock were unsuccessful. The market's lack of support when the cash flow of the ETF is not traded and the cautious of the investors when The Circular 36 takes effect. In addition, no group of stocks have great influence with the support information, strong enough to replace the bank group led the market to the index could not penetrate and create effects rotating flow such as it has occurred in January last few years.

2. The Index groups by capitalization

The BCs group back leading position with the core as the Bank stocks, the Penny Stocks had negative growth compared to the last year. As developments of recent years, the BCs group still assumes the role of leading the market in the early months of the year.

Bank stocks have replaced the shares in the basket ETF as every year, this is a motivation to raise prices of BCs and also the role to lead in the market. Following an increase of 6.54% of BCs, the SmallCap, MidCap and LargeCap have the increase respectively 3.21%, 2.98% and 2.17%. Meanwhile the Small group is negative growth of 0.2% in January.



Source: Bloomberg, BSC

II. FACTORS

1. Macroeconomic factor

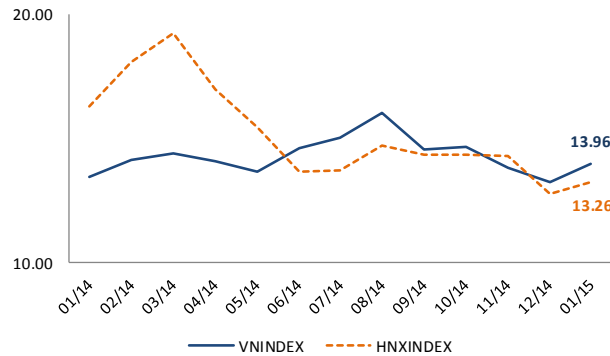
Stable macroeconomic and steady economic growth will continually be supporting factors for market movement in this year. Positive performance of banking stocks whose prices remain unchanged in many years is a clear evidence. Besides, new supporting regulations in real estate market, information about large trade agreements and the new policy for the stock market are expected to benefit markets. In addition, oil prices volatility and foreign capital flow movements will also impact significantly on the market.

2. P/E factor

P/E of VN-Index and HNX-Index were 13.9 and 13.3, respectively - equivalent to the end Dec 2014, still remaining attractive versus other countries in region. P/E of VN-Index and HNX-Index have not changed and still ranked 5th and 8th positions, respectively, in 20

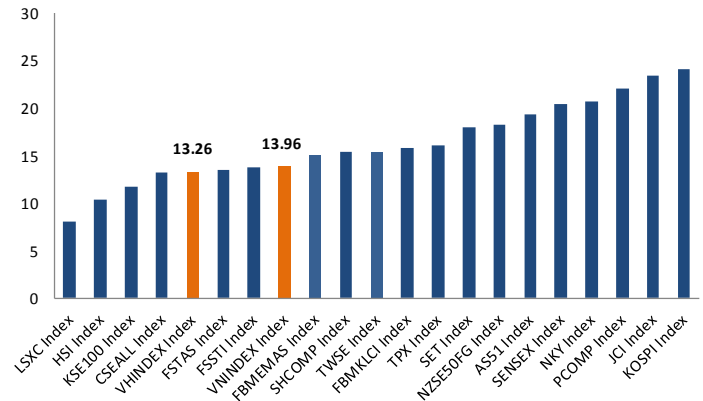
countries in region. While price levels increased by 5.5% and 3.1%, P/E of these indexes kept unchanged, indicating improved Q4 business results of listed companies. There were 407/700 listed companies have announced their Q4 earnings, but many large enterprise haven't yet published their results, so P/E is expected to decrease in next time.

Chart 17: P/E on two exchanges



Source: Bloomberg, BSC

Chart 18: Vietnam P/E vs other indexes

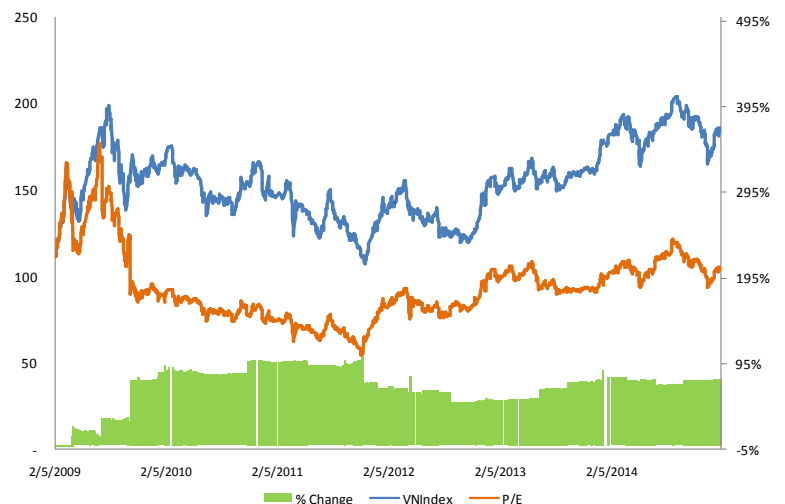


Source: Bloomberg, BSC

P/E of 2 indexes remained low in 12 months and have been attractive in relation to past income.

P/E of 2 indexes are now in low-lying areas in the last 12 months. Incomes have increased as equally as price fluctuations January. On the other hand, the gap between price line and P/E line rose to 77% from 76.3%. In comparison with 67% - average level since 2008, this current gap still shows that market's price level is now reasonable and relatively safe to invest.

Chart 19: The correlation between VN-index and P/E



III. SECTORS

Vietnam's stock market has attractive valuation than other markets in the region: At the end of January, PE ~13.82 in the HSX and 13.07 in the HNX, lowering than other markets (Malaysia's PE was 14.94 - 15.75; Indonesian's PE 17.43 - 20.06; Thailand's PE 16.98 to 17, 96; PE of the Philippines 21.76).

Chart 20: P/E of sectors (30/01/2015)

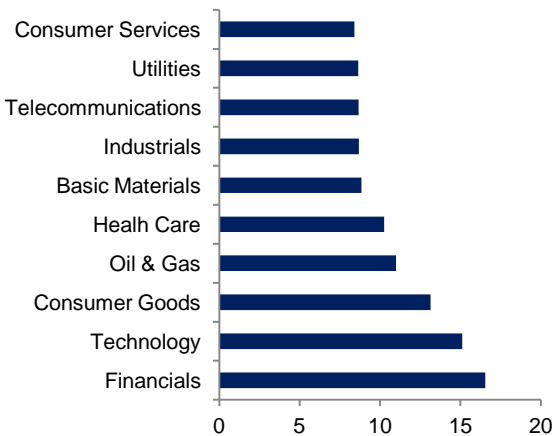
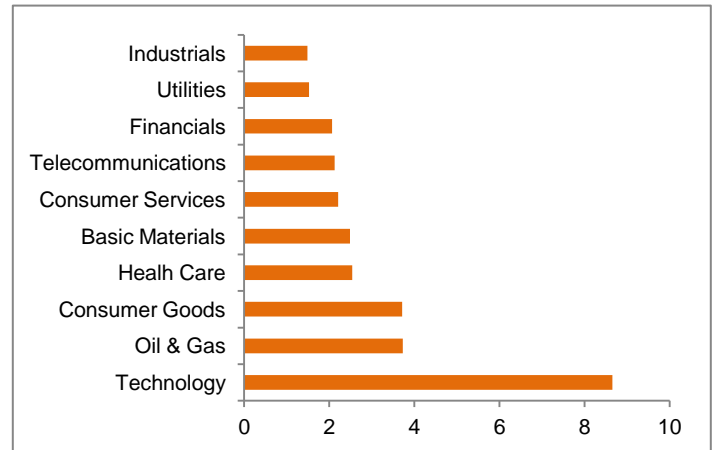


Chart 21: P/B of sectors (30/01/2015)



Source: Bloomberg, BSC

The strongest growth sectors were: Bank (+ 19.59%), Technology (+ 11.92%), while real estate and consumer services significantly reduced with the decrease of -5.5% and -4.4%. The cash flow mainly focused on bank stocks thanks to more support information, such as: (1) positive earnings in 2014, (2) expectations of the positive changes in terms of earnings from 2015 after the restructuring and merger; (3) compared with other sectors, there was no increase in the group in 2014 and the relatively low prices compared with the average of the market when bank stocks were trading around book value (P/B ~ 1.25). The shares had strong increasing levels were BID (+ 37.8%), CTG (+ 30.4%), VCB (+ 11.9%).

Chart 22: Market weight 1/2015

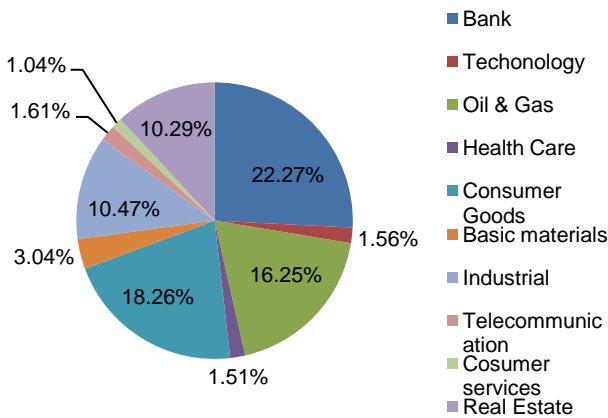
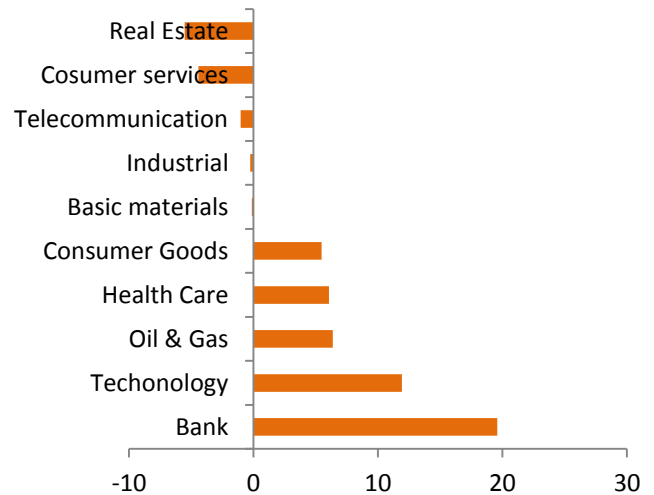


Chart 23: The performance of sectors 01/2015



Source: Bloomberg, BSC

IV. MARKET OUTLOOK FOR FEBRUARY 2015

Though Vietnam stock market performed quite well in January 2015, the actual number of opportunities is negligible. The indexes have grown positively during the first half of month, but did not break through at the end of the month due to the following reasons:

- The heavy reliance on bank stocks:** Motivation mainly came from bank stocks in the first half of January. There are 6 listed banks accounting for 20.2% of the total capitalization on HSX, far exceeding to the top 2 leading influencing stocks: GAS (14%) and VNM (10%). This group increased by 9.5% compared to the gain of 5.3% of the weighted average over 2 exchanges. This means that the growth of the rest of the market is quite modest.
- The market lacks strong stocks having sufficient influence along with bank stocks that effect the money flow.** Observing the market, we find that money flow sometimes moved around: the short-term taking profit from the bank stocks shifted to the real estate stocks, energy stocks; however, the spillover effects are not significant. The bank stocks have a short time of accumulation, therefore they are unable to create the turning point in the end of the month due to the strong selling pressure.

- Despite the liquidity remained stable, **the money flow seemed weak** when facing the resistance due to the psychological fear of Circular 36 as well as the limited purchase of ETFs.

At the session preceding the applicable Circular 36, numerous securities have changed their operating margins, thereby affected negatively investor sentiment. Selling pressure can occur in the first few days in February due to the wary psychology of most investors. Market could cumulate and recover during the week before and after the New Lunar Year Holidays. The long lasted holiday could interrupt the investment activity and reduce liquidity.

Comparing the predicted scores for each month in the first 6 months of 2015 according to the VAR model we mentioned in the Annual Report 2014, the actual forecast results reached 576.1 points in January, being quite close to 577 points in the report. This is one of the basis to predict that VN-Index might cumulate in the range of 565-585 points (with a focus around 575 points) and liquidity will remain low in February.

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%

Investment Recommendation

We do not change the positive view on the market in the first half of 2015. However, the limited money flow could be the main constraint for investing activities in February. The sideways movements are suitable only for the accumulation of basic stocks with good fundamentals. Investment opportunities therefore will lie in the fundamental stocks which have good earnings and positive outlook in 2015. The leading stocks and sectors, such as tires, banking, real estate, building materials, and marine transportation are recommended to buy in February.

DISCLAIMER

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