



2015
SECTOR OUTLOOK
REPORT

CONTENT

REVIEW 2014 SECTOR INVESTMENT STRATEGY

- Our view on the market
- Market Statistics
- Our recommended stocks
- Sector performance versus VN-Index

2015 SECTOR INVESTMENT STRATEGY

- Influential policies and critical economic factors in 2015
- Long-term investment strategy
- 2015 Sector investment strategy

2015 SECTOR OUTLOOK

Banking	14
Real Estate	21
Construction	26
Cement	30
Textile	35
Electric Power	40
Tire	46
Marine Transport	50
Plastic	56
Pharmaceuticals	60
Steel	64
Aquaculture	70
Oil and Gas	76
Fertilizers	81
Sugarcane	86
Rubber	90

REVIEW 2014 SECTOR INVESTMENT STRATEGY

1. Our view on the market in 2014

In order to assess the accuracy and effectiveness of BSC's assessment in [Sector Outlook Report 2014](#), we consider different factors including (1) Performance; (2) Movements; (3) Integrating information; (4) Trends within sectors and stocks; (5) Investment strategy; and (6) Our recommendations in 2014.

(1) Performance: VN-Index closed at 546.63 points (+8.3% yoy) by 31 December, matching our neutral scenario which was forecast in the Macro and market report 2014. It was such a turbulent year for Vietnam's stock market since there were 2 times that the Index significantly dropped. It also experienced all three of our scenarios of 500, 550 and 600 points. Particularly the second fall almost obliterated the whole year achievement and hence VN-Index increased by only 8.15% yoy. In our [Annual report 2014](#), we wrote: ***"We are in favor of the neutral scenario that VN-Index achieves 550 points and if supporting information is strong enough, VN-Index may reach 600 in a positive scenario."***

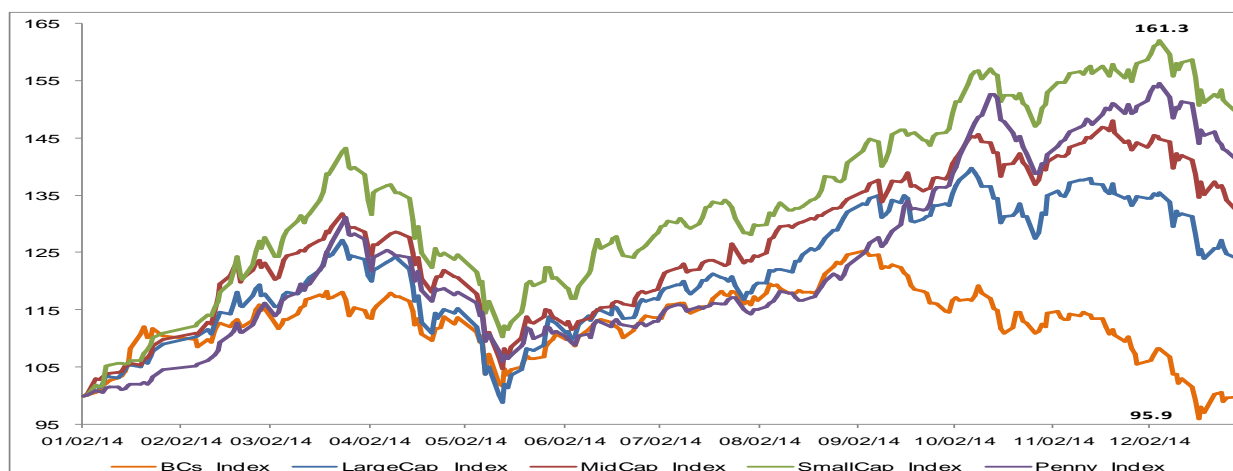
(2) Movements: Market fluctuations were close to our forecast in the first three quarters. From 1Q2014 to early 2Q2014, VN-Index increased by 15.8% (from 518 to 600 points). The correction in 2Q was strong due to the South China Sea event, thus VN-Index decreased by 13.4% (from 600 to 529 points). In 3Q VN-Index recovered strongly and went up by 18.2%. However, market performance in 4Q was beyond our forecast with the impact of Circular 36 and oil price sudden crash, resulting in a sharp decline. Moreover, the policy to open the room for foreign investors was not approved as expected, having negative impact on overall market trend.

In [Sector Outlook Report 2014](#), we forecast market movements on quarterly basis as follows:

- ***From 1Q2014 to early 2Q2014: Stock market increases for high expectation***
- ***In the second half of 2Q2014: Correction and testing process takes place***
- ***From 3Q2014 on: Market goes sideways and up again if supporting factors occur robustly***

(3) Integrating information affecting VN-Index and stock market in 2014. With the exception of TPP and foreign investors' room that did not occur, the factors which we forecast to have positive impact on the market and enterprises occurred as predicted, such as stable macro condition, falling interest rates, lower corporate income tax, growth of imports, exports and FDI, PMI growth, etc. Unexpected adverse events include the South China Sea dispute, the sharp decline of oil price and Circular 36, occurring as "Black Swan" events with strongly negative impact.

(4) Trends within sectors and stocks We believed that "Medium and long term strategies in 2014 is to focus on medium and large-cap stocks with good fundamentals in growth industries. The short-term trading opportunities will also appear with the pennies that have improving business result as well as better liquidity". Stock trends partly reflected our forecast with growth of both Midcap and Largecap groups, +38% and +29% respectively. (We predicted that Blue-chip would not have strong growth, and in fact it only increased by 1.7%). 2014 was a good year for SmallCap and Penny with an impressive growth of 55% and 44.9% which was much higher than Midcap, similar to our prediction.



(5) **Investment strategy 2014:** In [Sector Outlook Report 2014](#), we forecast accurately the trends of real estate, rubber, oil and gas, textile, pharmacy, sugarcane, construction, marine transport and especially cement industries when BSC was one of the first companies that was bullish and gave STRONG BUY recommendation to cement stocks.

However, we did not anticipate that the oil industry would be affected by changes in international politics and effectiveness of Shale Oil technology. Besides, we didn't appreciate adequately the potential of aquaculture and tires.

(6) **Performance of the recommended stocks in 2014:** 39 stocks recommended in our [Sector Outlook Report 2014](#) achieved an average performance of 28.63% compared to the increase of 8.15% and 22.16% of VN-Index and HNX-Index, respectively. Among those stocks, there are 31 gainers and 8 losers.

The picked stocks belonged to the most potential industries and soared the highest, such as TNG (+178.43%), BCC (+166.67%), VHC (+141.91%), DCL (+110.08%), TCM (+57.64%) and HOM (+55%). Only 8 out of the 39 recommendations fell in 2014 with the poorest performing ones (6/8) belonged to the sectors that we didn't recommend, i.e. fertilizers (LAS, DPM), natural rubber (DPR, PHR, TRC) and sugarcane (LSS). Only two buy recommended stocks declined in 2014 (TRC, PGS).

2. Market Statistics

TOP 5 MOVERS POSITIVE ON VN-INDEX			
Ticker	Closing price 31/12/2014	Change in 2014	Index pt
VCB	31.900	+ 9.500	+13.5
GAS	70.500	+8.000	+6.1
HPG	53.000	+17.900	+4.7
MWG	109.000	+61.100	+3.8
MPC	105.000	+83.500	+3.2

TOP 5 MOVERS POSITIVE ON HNX-INDEX			
Ticker	Closing price 31/12/2014	Change in 2014	Index pt
PVS	26.900	+7.400	+1.9
VCG	12.700	+2.900	+0.7
SHB	8.100	+1.800	+0.7
VNR	25.300	+8.400	+0.6
PLC	30.000	+16.000	+0.5

TOP 5 MOVERS NEGATIVE ON VN-INDEX			
Ticker	Closing price 31/12/2014	Change in 2014	Index pt
BID	12.700	-5.100	-10.0
VNM	95.500	-13.500	-8.9
DPM	30.800	-5.800	-2.3
BVH	32.000	-4.400	-2.0
CTG	13.800	-1.600	-1.8

TOP 5 MOVERS NEGATIVE ON HNX-INDEX			
Ticker	Closing price 31/12/2014	Change in 2014	Index pt
OCH	25.100	-2.400	-0.3
TAG	20.500	-9.500	-0.2
LAS	35.000	-2.100	-0.1
TH1	16.500	-12.500	-0.1
ACB	15.400	-400	-0,1

TOP 5 LEADERS ON HSX (Price>10,000 VND, Average Volume>70,000 shares/session)			
Ticker	Beginning price	Ending price	%Chg
HDG	12.800	33.500	161
VHC	15.600	37.900	142
DCL	23.800	50.000	110
FMC	11.500	22.800	98
NBB	12.400	21.800	75

TOP 5 LEADERS ON HNX (Price>10,000 VND, Average Volume>20,000 shares/session)			
Ticker	Beginning price	Ending price	%Chg
PVB	19.600	44.000	124
VCS	12.200	27.100	122
PLC	14.000	30.000	114
FIT	11.000	23.100	110
PVC	13.800	25.100	82

TOP 5 LAGGERS ON HSX (Price>10,000 VND, Average Volume>70,000 shares/session)			
Ticker	Beginning price	Ending price	%Chg
GTT	12.200	4.000	-67
OGC	10.700	7.100	-34
VIS	11.600	8.500	-27
DPM	41.800	30.800	-26
HHS	21.700	17.400	-20

TOP 5 LAGGERS ON HNX (Price> VND 10,000)			
Ticker	Beginning price	Ending price	%Chg
ASA	17.100	7.500	-56
TH1	29.000	16.500	-43
TAG	29.500	20.500	-31
BKC	13.500	9.400	-30
PVG	12.800	9.200	-28

TOP 5 VOLUME LEADERS ON HSX			
Ticker	Average trading volume/session	Ticker	Average traded value/session
FLC	12.878.866	FLC	143.842.303.644
ITA	7.277.693	SSI	109.863.959.514
SSI	4.057.427	HAG	88.039.271.255
HQC	3.899.532	ITA	61.657.421.053
HAG	3.741.971	VIC	54.125.910.927

TOP 5 VOLUME LEADERS ON HNX			
Ticker	Average trading volume/session	Ticker	Average traded value/session
PVX	8.264.493	PVS	102.650.254.858
KLF	5.830.282	KLF	76.999.244.575
SHB	5.255.833	KLS	53.978.685.304
SCR	5.129.955	SHB	52.126.069.595
FIT	3.882.896	SCR	52.126.069.595

TOP 5 FOREIGN INVESTORS' NET BUYING			
Ticker	Volume of net buying	Ticker	Value of net buying
FLC	27.788.790	VCB	784.499.093
VCB	27.627.170	MSN	681.106.465
IJC	27.275.000	HSG	543.583.786
KBC	23.981.850	STB	465.720.073
PVT	17.747.940	MWG	412.533.930

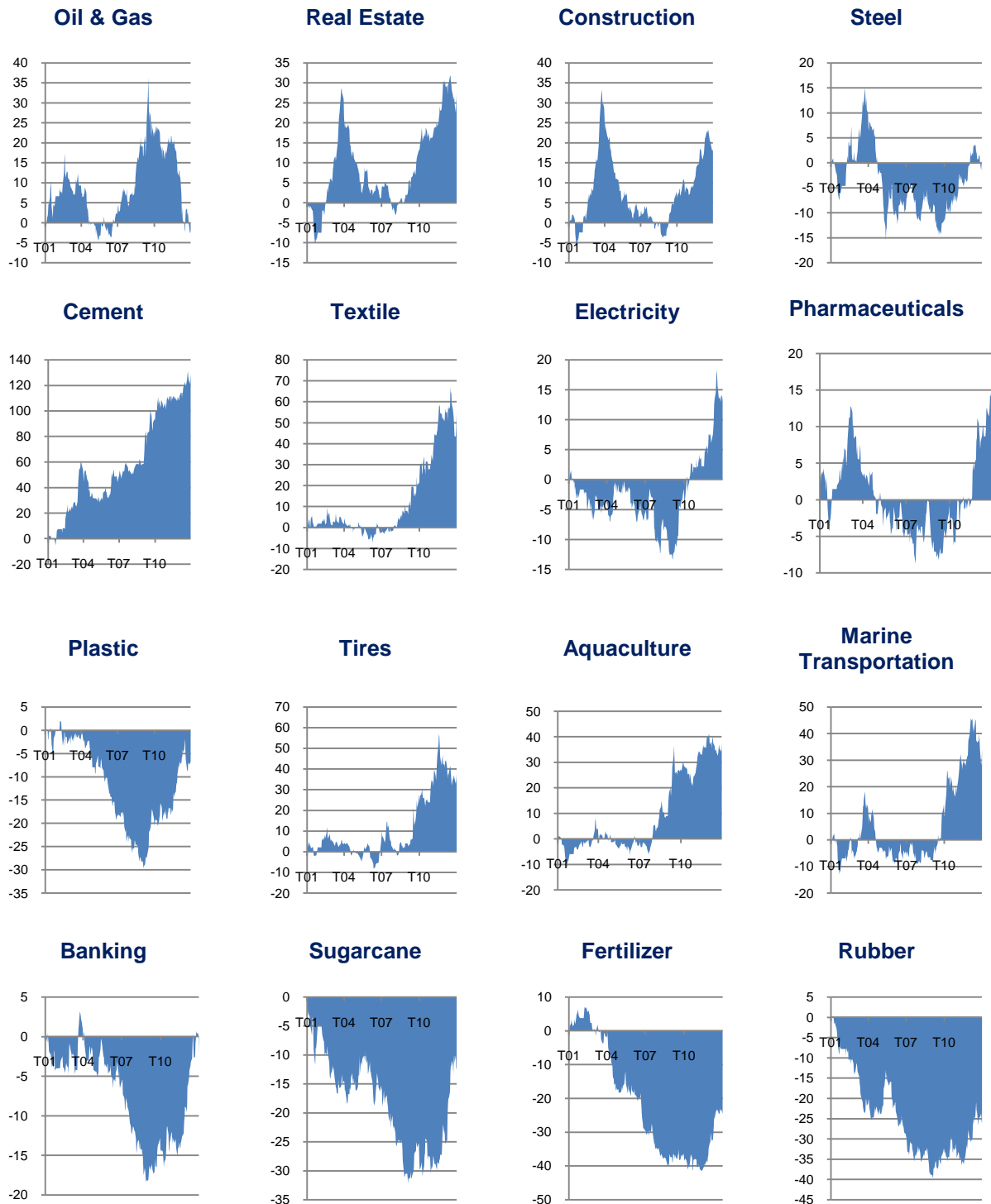
TOP 5 FOREIGN INVESTORS' NET SELLING			
Ticker	Volume of net selling	Ticker	Value of net selling
HAG	66.939.300	VIC	2.153.444.096
VIC	38.446.730	HAG	1.680.555.085
DPM	23.221.190	DPM	937.426.222
KDC	13.302.680	KDC	814.067.894
EIB	12.124.860	HPG	477.153.875

3. Performance of the recommended stocks in our Sector Outlook Report 2014

No.	Sector	Ticker	Closing price 02/01/2014	Closing price 31/12/2014	% Change	Average trading volume	Average trading value (VND/session)
1	Real Estate	BCI	19,000	21,900	15.26%	52,638	1,151,029,926
		KDH	13,500	20,200	49.63%	96,291	1,870,481,633
		SJS	18,100	25,100	38.67%	348,820	8,477,882,591
2	Rubber	DPR	46,900	38,000	-18.98%	79,677	3,410,726,271
		PHR	30,500	26,800	-12.13%	8,254	243,725,021
		TRC	41,600	28,400	-31.73%	39,630	1,422,808,939
3	Oil & Gas	GAS	66,500	70,500	6.02%	431,988	40,452,311,741
		PVD	55,455	64,500	16.31%	554,524	43,306,566,802
		PGS	28,000	26,300	-6.07%	639,992	21,949,933,725
		PVS	20,300	26,800	32.02%	3,121,95	102,650,254,85
4	Textile	TCM	20,300	32,000	57.64%	812,869	24,034,659,923
		GMC	27,273	36,000	32.00%	10,345	335,031,730
		KMR	6,364	7,100	11.57%	933,127	6,695,530,364
		TNG	7,075	19,700	178.43%	254,759	3,396,777,587
5	Pharmaceutical	DHG	85,500	96,000	12.28%	20,894	2,011,847,470
		TRA	86,000	73,000	-15.12%	4,649	369,982,833
		DMC	33,667	41,000	21.78%	37,102	1,551,489,879
		DCL	23,800	50,000	110.08%	81,212	2,813,406,504
6	Sugarcane	SBT	12,300	12,900	4.88%	187,556	2,328,558,704
		LSS	11,500	9,500	-17.39%	60,526	681,753,036
		NHS	11,900	12,500	5.04%	125,342	1,479,700,405
7	Fertilizer	DPM	41,800	30,800	-26.32%	1,016,67	35,868,125,510
		LAS	37,500	35,200	-6.13%	95,338	3,605,694,081
8	Tires	CSM	35,900	43,000	19.78%	418,896	17,553,068,826
		DRC	38,900	56,000	43.96%	255,870	12,277,194,332
9	Steel	HPG	35,739	53,000	48.30%	750,378	38,251,947,368
		HSG	41,300	47,500	15.01%	235,931	11,298,441,291
		VGS	5,700	7,400	29.82%	833,350	6,318,479,636
10	Aquaculture	HVG	22,364	26,800	19.84%	1,024,24	28,025,902,834
		VHC	15,667	37,900	141.91%	143,983	4,861,966,527
		ABT	42,000	52,500	25.00%	2,799	139,581,498
11	Construction	SD9	12,900	14,000	8.53%	358,417	5,093,870,268
		FCN	17,091	20,700	21.12%	624,525	14,697,615,385
		CTD	51,000	57,000	11.76%	19,070	1,192,088,983
12	Cement	BCC	5,700	15,200	166.67%	270,752	2,742,378,334
		HOM	6,000	9,300	55.00%	56,563	451,082,576
13	Marine transportation	GSP	11,600	12,400	6.90%	116,810	1,537,489,879
		HTV	15,600	17,100	9.62%	6,815	121,160,515
		VTO	6,200	8,400	35.48%	605,604	4,751,777,328
Average					28.63%	377,902	11,780,059,618

(Source: BSC's recommendation in [Sector Outlook Report 2014](#))

4. Sector Performance versus Vn-Index in 2014



(Source: Bloomberg, BSC)

SECTOR INVESTMENT STRATEGY 2015

1. Influential policies and critical economic factors in 2015

No.	Policies & macroeconomic factors	Effective date	Influential status	Influential degree
Macro policy and domestic economy				
1	Housing Act amendments	1/7/2015	Positive	Very strong
2	Circular 32 of SBV to promote the VND 30,000 billion disbursed package	25/11/2014	Positive	Average
3	Public Investment Law No. 49/2014/QH2013	1/1/2015	Positive	Strong
4	Circular 36/2014/TT-NHNN	1/2/2015	Negative	Very strong
5	Paragraph 3 of Article 8 and paragraph 1 Article 9 of circular 02/2013/TT-NHNN (delayed effective date according to Circular 09/2014/TT-NHNN)	1/1/2015	Negative	Strong
6	SBV to control the USD/VND exchange rate not exceeding 2%		Positive	Very strong
7	Increasing public investment in infrastructure		Positive	Strong
8	Increasing privatization of state-owned enterprises		Neutral	Average
9	Increasing GDP, FDI, PMI, ODA, overseas remittance, credit growth, import and export		Positive	Average
World economy				
1	FED to raise interest rate, Dollar to appreciate		Positive	Very strong
2	ECB monthly meeting (EUR depreciation)		Positive	Strong
3	Japan Abenomics policy (JPY depreciation)		Positive	Strong
4	Negative news from Russia (Rub depreciation, economic isolation, etc.)		Negative	Strong
5	Chinese economy to slow down		Negative	Very strong
6	Falling oil price	Negative in short-term	Positive in long-term	Very strong
The Free Trade Agreements				
1	ACFTA – Circular 166/2014/TT-BTC	1/1/2015	Neutral	Strong
2	FTA Vietnam – Customs Union	2015	Positive	Average
3	FTA Viet Nam - Korean	2015	Positive	Average
4	TPP Agreement	2015E	Positive	Strong
5	FTA Viet Nam - EU	2015	Positive	Strong

(Source: BSC)

The detailed impact of such highlighted policies and factors on the stock market in 2015 are as follows.

-
- (1) Housing Law amendments actively support the real estate industry.** We have positive opinion on the Housing Law amendment which will be implemented from 01/07/2015 when overseas Vietnamese can have house ownership without any restrictions on the quantity and type of housing. In addition, non-resident individuals and organizations also have the rights to own houses, helping solve issues regarding inventory and bad debt for the real estate industry in the short term and providing long-term growth.
 - (2) Circular 36/2014/TT-NHNN – cash flow for stocks will be affected in the short term.** We believe that the provisions of this circular will have negative impact on the market in the short term due to tightened credit line rules leading to smaller funding resources for securities investment. However, in the long term, it helps standardize the financial system to support the growth of the economy and investment cash flow in a more sustainable manner.
 - (3) Paragraph 3 Article 8 and Paragraph 1 Article 9 of Circular 02/2013/TT-NHNN tighten debt classification rules.** These provisions which take effect since 01/01/2015 will have negative impact on business in the short term as debt ratings are reclassified according to CIC's assessment. For the long term, standardized credit ratings criterion will facilitate investors' identification and comparability of financial capacity among firms.
 - (4) Falling oil price has positive impact on the economy in general.** As oil price is forecast to fall to USD43/barrel by Morgan Stanley and the expected bottom is in mid-2015 (EIA, Goldman Sachs, Morgan Stanley và Moody's), we believe the falling oil price will have a positive impact on many economic sectors, especially transportations due to significant reduction in input costs.
 - (5) FED will possibly raise the interest rates and hence the depreciation of USD.** It is likely that FED will maintain low interest rate in the first 6 months and raise it in the 2H2015. According to historical data, FED's raising interest rate will impact positively on the commodity markets, especially energy and basic materials. Thus, oil and basic materials stocks will benefit from the raising interest rate. Another factor of the US economy to consider is the rising trend of the US Dollar. USD appreciation will impact negatively on the stocks with large dollar-based debt such as shipping and positively to seafood exports and textiles.
 - (6) Developements in the European region:** the depreciation trend of EUR is expected to continue throughout 2015 and impact positively on the enterprises in the cement industry (BCC, HT1, BTS) and thermal (NT2) as they have large outstanding EUR-based debt. However, fisheries and textile sector will be affected as EUR is one of the major export markets of these sectors.
 - (7) Japanese economy and Abenomics policy:** Japan continues to pursue its policy to devalue JPY, boosting exports to revive the economy which is in recession, thereby will negatively impact the fishery stocks (shrimp business) while the depreciation of JPY will impact positively on PPC. We also found that Korea can have the same policy movement as Japan although not as strong as its neighbor, and there will be a positive impact to the prospects of BTP

(8) Chinese economy slows down. Chinese economy shows signs of slowing growth while it is the main importer of raw commodities such as iron ore, natural rubber, oil, etc. Hence the weakening of the Chinese economy will impact negatively on oil and gas, shipping, natural rubber, etc.

(9) The devaluation of ruble, Russia economic isolation and VCUFTA negotiations are completed: we evaluate that the completion of VCUFTA negotiations will have a positive impact for the textile and fishery sectors due to the expansion of the export market. However, the payment process from Russia partners may be more complicated than before. On the negative side, we believe that the steel and fertilizer industries will be under pressure when Russia is the 2nd biggest exporter of steel and fertilizer to Vietnam.

2. Long-term investment strategy

Our strategic recommendation is based on (1) the current cycle of the economy (endogenous) and (2) external-affected factors (exogenous).

(1) Vietnam's current economic cycle: during each cycle of the economy, there are sectors which have better profitability than the others. We believe that the current economy of Vietnam is in the early stage of recovery. The characteristics of this period: credit recovery, positive growth in retail sales, low inventory, etc. For this period, the shares of the following industries will outperform the overall growth of the market: real estate, construction, building materials, textiles, aquaculture, and marine transportation.

The performance of Vietnam sectors in each cycle of the economy

Sector	Early stage	Expansion	Peak	Recession
Real estate	High	Neutral	Neutral	Low
Construction	High	Neutral	Neutral	Low
Banking	High	Neutral	Neutral	Low
Textile	High	Neutral	Low	Low
Aquaculture	High	Neutral	Low	Low
Marine transportation	High	High	Neutral	Low
Technology	Low	High	Low	Low
Construction materials	High	Low	High	Low
Basic commodities	Neutral	Low	High	High
Oil and gas	Neutral	High	High	Low
Pharmaceutical	Low	Low	High	High

(Sources: CMC, Fidelity, BSC)

(2) External factors: The influence of the world economy has grown stronger. We classify the sectors that will be affected positively and negatively from the largest economies in the world as follows.

World economic impact on the sectors

Sector	Falling oil price	Fed to raise interest rate	USD to depreciate	Euro zone economy struggle/ EUR to depreciate	Japanese economy in recession/ JPY to depreciate	Chinese economy to slow down	Ruble to depreciate, VCUFTA	TPP, ACFTA FTA VN-EU negotiations
Marine transport	(+)		(-)			(-)		
Real estate								
Construction	(+)							
Cement	(+)			(+)				
Textile	(+)	(+)	(+)	(-)	(-)	(+)	(-) / (+)	(+)
Electricity	(+)			(+)	(+)			
Pharmaceuticals								(-)
Rubber	(+)			(-)				
Tires	(+)							(+)
Banking								
Steel	(+)						(-)	(-)
Aquaculture		(+)	(+)	(-)	(-)			(+)
Sugarcane								
Oil&gas	(-)	(+)	(-)			(-)		
Fertilizer	(+)						(-)	(-)
Rubber	(-)							(-)

(+) Positive / (-) Negative

Source: BSC forecast

3. 2015 Sector Investment Strategy

We believe that 2015 will not be easy on the stock market as many variables largely fluctuate, including both external and internal economic factors. It is a year of more big events, important policies and FTA memberships, hence affecting the cash flow in the stock market.

Positive perspective: In our [Annual report 2014](#), we believe that Vietnam macroeconomic condition in 2015 will be better than that in 2014. The Government will continue to implement economic reform, accelerating the restructuring of State-owned-enterprises and enhancing the market economy to create a favorable environment for business. Besides, the monetary policy of ECB and Abenomics of Japan will offset the cash outflow as the United States terminates QE3. Frontier markets like Vietnam hence will

continue to be an attractive destination for foreign investors. Free Trade Agreements, low interest rates, low inflation and low raw material price will help recover economic sectors and promote investment.

Negative perspective: (1) Oil price movements may continue to put pressure on the market through the reduction of oil and gas stocks (but the pressure will be reduced as Oil&Gas stocks' size is not too large). (2) Circular 36 and Fed raising interest rates will limit the flow of money into Vietnam market and can lead to the two following scenarios: (i) cash flow will flow into "high liquidity stocks" (speculative stocks) then fundamentally good stocks will lack liquidity and struggle to rise, and (ii) stocks with good business result will attract cash flow and speculative ones will be forgotten. We are inclined to the second scenario with growth to focus on Midcap and Smallcap stocks. (3) The uncertainty of economic and geopolitical situation (Russia, China, etc.) will have negative impact on the economy and stock markets worldwide.

On the basis of these positive and negative prospects, we offer Remarkable investment themes, Sector Outlook and Investment Strategy in 2015 as follows.

Remarkable Investment Themes for the year 2015

- **Firstly, the recovery of the Economy becomes clearer.** Nearly all bearish economists recognized Vietnam's economy has reached its trough and is gradually recovering. This will lead to the revival of many economic and business sectors in the country. Financial Industry will benefit immediately from this trend, including Banking, Real Estate, other financial businesses.
- **Secondly, Real Estate sees surge in liquidity.** After 6 to 7 years in the recession, the demand for property has currently recovered in big cities. That is why we expect recovery in not only real estate sector, but also in a wide range of downstream sectors such as construction, materials (steel, cement, brick, stone), and interior goods (wood, lights, wires, etc.)
- **Thirdly, energy cost reduces and electricity price rises.** In the short term, they have negative impacts on Vietnam's stock market, but in the long term, these are the greatest gifts that one recovering nation may be given. As we mentioned a number of times, we expect oil price to remain low in 2015 and will positively impact the importing country of petroleum and petroleum products such as fertilizers, chemicals, plastics sugar, plastic, etc. like Vietnam. Opportunities will come with directly beneficial sectors (transportation, automotive, fertilizer, thermal), indirectly beneficial ones (chemicals, asphalt, plastics) and heavy business requiring transportation such as steel and cement. For Oil&Gas group, we expect oil prices to increase in the short term, and the opportunity will come if the price of oil and gas stocks falls to sufficiently attractive levels.
- **Fourthly, EUR and JPY depreciates for policies of ECB and JCB.** Abenomics will continue to depreciate the yen to stimulate the economy. In addition, in our opinion, the EU does not have choices other than a similar policy, which is obviously not positive to enterprises exporting to these markets, but it is good news for those borrowing in EUR and JPY. Furthermore, the low CPI makes us believe that the adjustment in electricity and cement prices will soon take place.

Investment opportunities from this topic associates with cement sector (HT1, BCC, BTS) and power sector (NT2, PPC).

- **Fifthly, Free Trade Agreements (FTA).** We believe that 2015 and 2016 will be an unprecedented period in the history of Vietnam, when we are approaching the end of a lot of FTA negotiations with the most important partners. Thus, sectors benefiting the most rely on exports (textiles, aquaculture, agriculture, wood, etc.). On contrary, some may be negatively impacted but the magnitude is quite difficult to determine at the moment such as pharmaceuticals, steel, etc.

Sectors Outlook 2015:

- We recommend **POSITIVE** with **Marine Transportation, Real Estate, Construction, Building Materials (Cement), Textile, Power, Tires, and Consumer Staples and Banking.** In these sectors, we favor **Maritime transport and Cement.**
- We recommend **NEUTRAL** with **Pharmaceuticals, Plastics, Steel, Fisheries, Oil and gas and Fertilizer.** We believe that these sector will also receive positive and negative impact in 2015 making the general outlook of these groups will be interwoven good and bad, the opportunity will not come to the entire stocks in these sectors. This does not mean there is no chance, but we will need to wait for the early indicators of these sectors and carefully select stocks (stock picking).
- **Regarding sectors in the negative side, we still maintain this rating towards natural rubber and sugarcane as in Sector Outlook Report 2014** due to huge supply-demand gap. We are not pessimistic but investors interested in the two sectors should probably wait. We will update our view on two sectors in the following year.
- **We also note that the real estate and banking are likely to become the leading-VNIndex sectors in next year instead of Oil & gas.** As the economy recovers, transportation and infrastructure will develop, accompanied by Government supporting policies in 2015. We believe that real estate will be the leading sector with positive sign directly for the construction and building materials sectors (cement, plastic) and indirectly for the banking sector.

Sector outlook and recommended stocks in 2015

No	Sector	Outlook in 2015	Medium and long-term recommendation
1	Bank	Positive	VCB, BID, MBB
2	Real estate	Positive	VIC, DXG, KBC
3	Construction	Positive	VNE, CII, LCG, HUT
4	Cement	Positive	HT1, BCC, BTS
5	Textile	Positive	TCM, STK
6	Electricity	Positive	PPC, NT2, SHP
7	Tires	Positive	DRC, CSM

8	Maritime shipping	Positive	VOS, VTO, PVT
9	Plastic	Neutral	NTP, BMP
10	Pharmaceutical	Neutral	DHG, DMC
11	Steel	Neutral	HPG, HSG, NKG
12	Aquaculture	Neutral	VHC, FMC, IDI
13	Oil & gas	Neutral	PVS; PVD; PVB
14	Fertilizer	Neutral	DPM
15	Sugarcane	Negative	LSS, SBT, SEC, NHS
16	Natural rubber	Negative	DPR, PHR, TRC, HRC

(Source: BSC forecast)

Sector Investment Strategy in 2015: *Investors may refer to our Short-term and long-term recommendation list, CANSLIM and Investment Advisory Report which are updated regularly.*

- 1H2015:** We believe that 1H2015 is the appropriate time to invest when the market increases upon investors' expectation and foreign cash flow (ETF). During this period, all listed companies gradually announce their 2014 earning results, conduct annual meeting with shareholders, and share their business plan for 2015. We believe that the leading stocks in respect of the market scale are Blue Chip and large cap (due to big cash flow and foreign investors); in respect of sectors are Banking, Real Estate, Marine Transportation, Construction, Building materials (cement, plastic). Some supporting policies for the real estate sector will be effective from 1/7/2015. Furthermore, free trade agreements also help the economy.
- 2H2015:** The pressure from IPOs, not-as-liberal cash flow for the stock market and likely-to-rise interest rate create challenges to the stock market in 2H2015, leading to more prudent sector and stock picking. Electric Power, Pharmaceutical, Textile, Aquaculture, Tires, and Food consumption are note-worthy for growth opportunities thanks to solid core business. Oil & Gas can recover with the oil price after the period of the highest excess supply in the world (around June 2015). We believe that the strongest stocks in this period will be Midcap and Small cap ones.

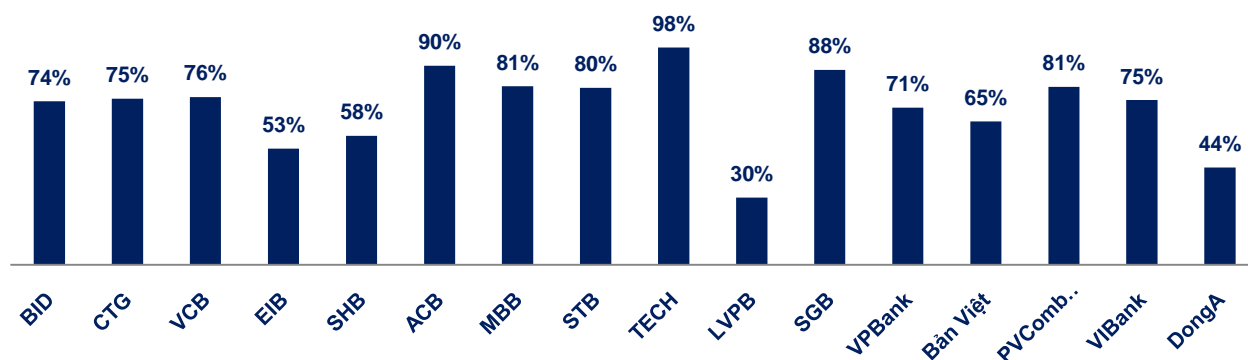
BANKING SECTOR

I- SECTOR REVIEW 2014

(1) Operating results to recover in the last quarter

Banks in general need to push up their business in the fourth quarter to meet 2014 targets for (1) increasingly high loan loss provision expense before Circular 02 officially takes effect, (2) slow Vietnam-dong credit growth in the first half of the year, (3) significant gap between credit and deposit growth rates, and (4) increasing operating expense by an average of 6%.

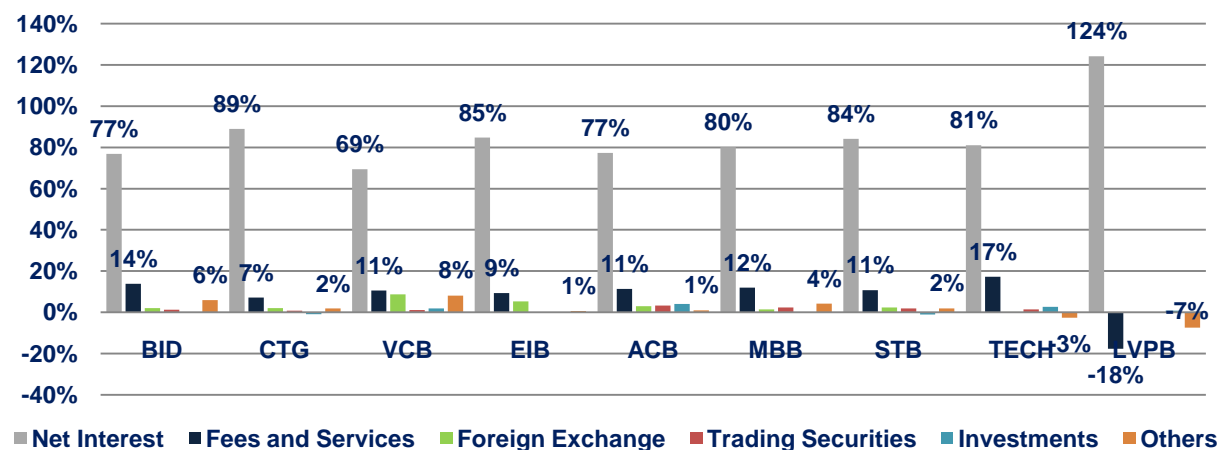
9-month PBT as percentage of 2014 target



Source: Banks' financial statements, BSC

Most banks saw lower yoy Pre-provision operating profit in the first 9 months, with exceptions of BID (+3%), VCB (+9%), and incredible growth of above 60% in SHB and Techcombank. Net interest income accounted for more than 80% of the total profit, increasing by 7% yoy due to the large gap between credit and deposit rates for most of the year. Profit from fees and services also grew by roughly 10%. Profits generated from trading treasury bonds accelerated particularly in CTG, VCB and ACB; while income from foreign exchange business declined significantly in most commercial banks.

9-month PBT structure

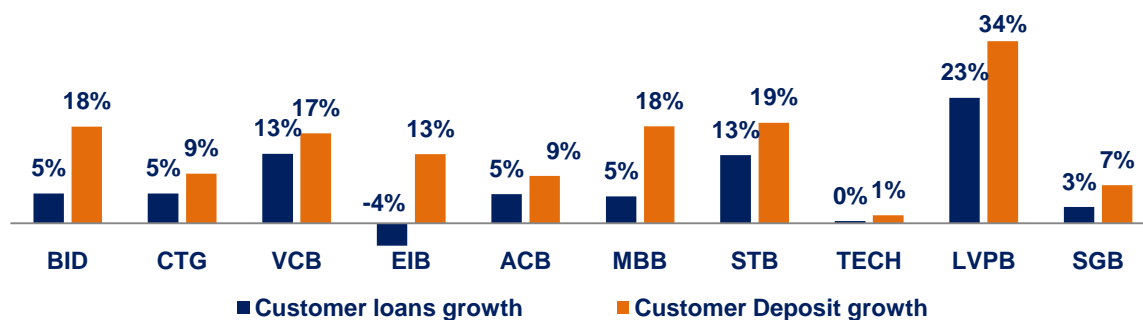


Source: Banks' financial statements, BSC

(2) Significant gap between credit and deposit growth rates

According to General Statistics Office, as of 27 December 2014, deposit grew by 15.76% despite the declining trend in deposit rate since the beginning of the year from 6.5%-7% to 4.5%-5.5% by the end of the year. Total credit growth rate was 12.62%, falling within the government's target of 12-14%.

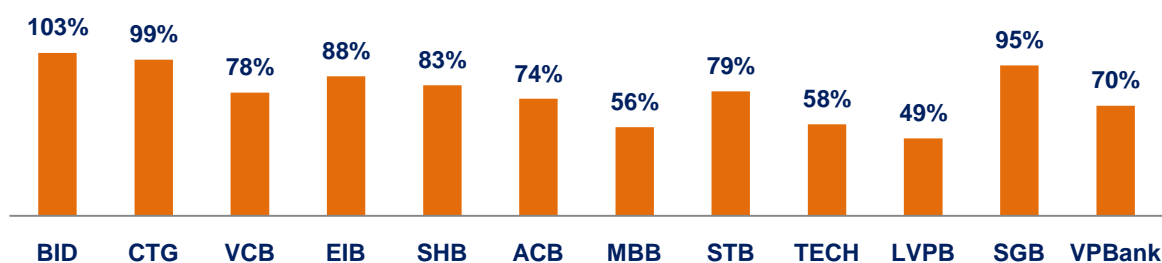
Customer Loan and Customer Deposit growth rates as of 30 December 2014



Source: Banks' financial statements, BSC

However, data compiled from financial statements of several banks indicated a significant gap between deposit and lending growth rate, which may have negatively impacted their net interest income. Another factor to reduce banks' NIM is the tendency to switch lending in VND to USD for a spread of 5%-6% in lending rates between VND and USD loans.

Customer Loan / Customer Deposit rate as of 30 December 2014



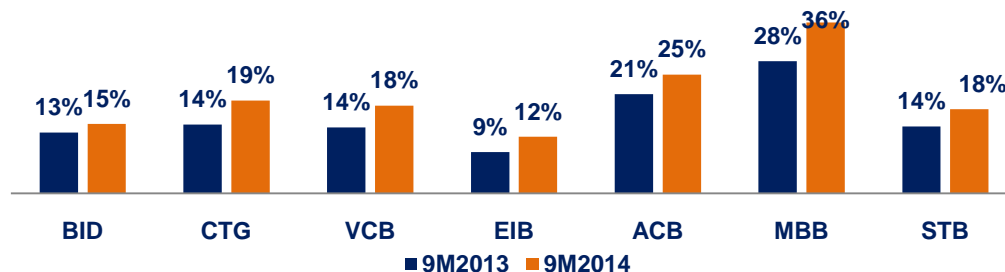
Source: Banks' financial statements, BSC

The positive remark is the growth in manufacturing sectors receiving preferential borrowing cap rate of 7%. In specific, SME credit growth by the end of November was 13.8%; credit for high-tech sector grew by 14.8% and that for agriculture grew by 12.8%. The most promising sector was real estate with increasing credit growth since the beginning of the year to 12% by the end of the third quarter, which was 1.5 times higher than that of the whole economy at the time.

(3) Redundant capital leading to a more flexible asset structure

Total asset continued to increase by an average of 4.5% in 9 months while lending activities remained gloomy and interbank rate saw a declining trend from 4%-6% to 2%-4%, leading to a redundant state of capital. Asset structure of many banks saw higher proportion of trading securities and investments, which mainly comprised of treasury bonds for the downward trend of bond yield of roughly 2% in 2014.

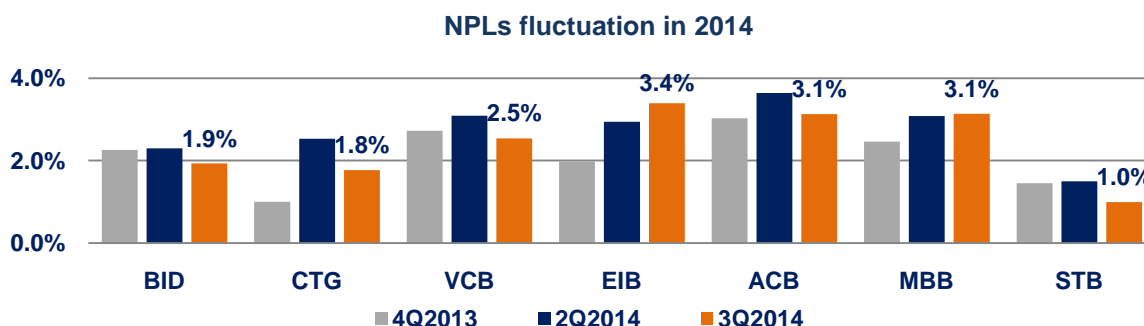
Proportion of Securities for trading and investment in the asset mix as of 3Q



Source: Banks' financial statements, BSC

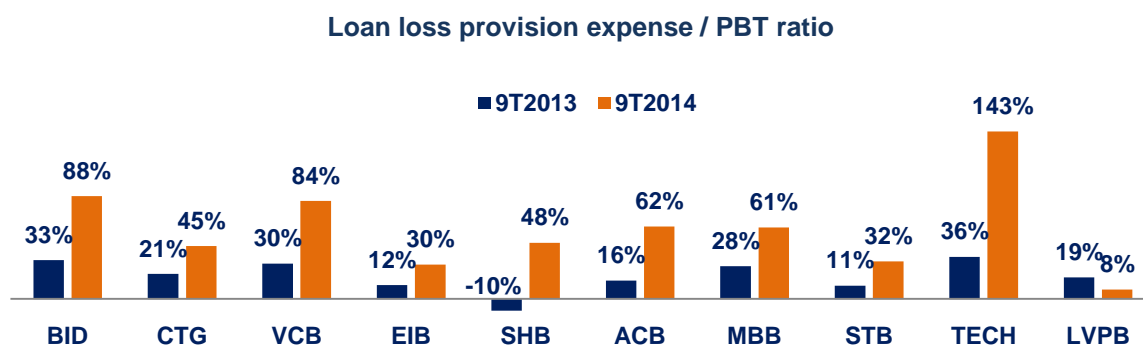
(4) Fluctuating NPLs and accelerated provision expense

The State Bank of Vietnam announced the system's bad debt as of 30 September 2014 to be 5.4% and estimated the year-end figure to be 3.7% – 4.2%. NPLs started piling up by the second quarter as banks gradually reclassified debts according to Circular 02 and 09. As a result, potentially irrecoverable debts rose by an average of 37% in 6 months and accounted for 40%-70% of the total bad debt. The ratio only declined in the third quarter after banks aggressively selling problem loans to VAMC.



Source: Banks' financial statements, BSC

It is noticeable that the provision expenses increased significantly in most banks at a rate of roughly 60%-88% of their PBT. It is due to not only stricter policy in categorizing debts but also rising provision for the bonds issued by VAMC over 5 years as required in Circular 09 as well as corporate bonds as stated in Circular 02. Hence, roughly 20 banks selling an estimated VND 38,900 billion of NPLs to VAMC in 2013 would have to increase provision expense.



Source: Banks' financial statements, BSC

(5) Crucial legal documents

Circular 09 supplementing Circular 02 set forth regulations requiring banks to (1) combine both quantitative and qualitative methods in categorizing debts, (2) set aside provision for treasury bonds, deposits at other institutions and off-balance-sheet commitments, (3) set aside provision for debts sold to VAMC, (4) extend the deadline for imposing the same credit rating among banks under CIC system from 1 June 2014 to 1 January 2015 and (5) restructure the loan term while remaining the same debt category only once and will be no longer permitted after 1 April 2015.

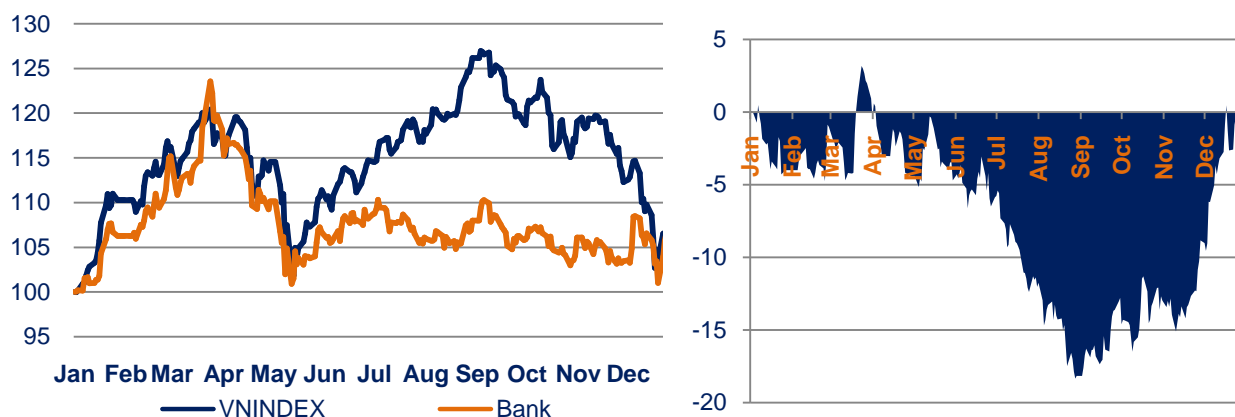
Circular 36 valid since 1 February 2015 regulates (1) banks' CAR at a minimum of 9% with the risk weight for real estate, stocks and gold-backed loans to reduce from 250% to 150%, (2) LDR to limit at 90% for State-owned commercial banks and 80% for Joint-stock commercial banks, (3) banks with bad debt under 3% are allowed to provide loans for stock investment and to possess other banks' ownership (4) credit for stock investments to limit at 5% share capital and (5) banks' investments to limit to 2 other financial institutions with maximum ownership of 5%.

Circular 38 valid since 1 February 2015 allows foreign investors to possess more than 30% of ownership of weak banks to push up the restructuring process.

National Assembly passed Adjusted Law on Bankruptcy allows creditors, employees and a group of stakeholders with 20% ownership at financial institutions to file for bankruptcy procedure, valid since 1 January 2015.

Banking stocks rose by 6.07% while VNIndex increase by 8.1%. Banking stocks shared the similar pattern in fluctuation with VN-Index over the first 5 months but then started to underperform.

Performance of Banking sector versus Index



Source: BSC

II- SECTOR OUTLOOK 2015

We believe in a brighter prospect for banking sector in 2015 as a result of positive forecast for Vietnam economic growth and official execution of a number of strict policies in the banking system. These regulations are expected to increase transparency and credibility of the system, giving the public a more reliable picture of NPLs and allocating resources more efficiently. We believe the hardest period for the

sector has been over and major problems such as bad debts, cross-holding and restructuring will gradually be solved, hence our positive view of the sector in 2015.

(1) Operating performance

Profits of several banks are to improve significantly. Only banks that have strictly followed Circular 02 and 09 in the previous year are likely to record positive result. On contrary, small banks are forecast to encounter huge problems when the new regulations take effect.

Profits of banks with high proportion of stock loans are forecast to fall. Banks with historical record of stock loans exceeding the fixed 5% share capital and at the same time having NPLs higher than 3% such as EIB, SHB and MBB are likely to have stock loans to temporarily ceased according to Circular 36.

Loan loss provision at banks holding high volume of corporate bonds are to rise. We believe these provisions are not fully recorded in 2014 and hence a higher amount to book in 2015.

(2) Credit growth

SBV sets the targeted credit growth in 2015 to be from 13% to 15%, increasing by 1% compared to the target of 2014. The biggest driver for credit growth lies in stronger recovery of manufacturing industries for the crash of oil price and more dynamic real estate market for loans at preferential rate. Given such condition, banks are the first to benefit yet interest rates will be under rising pressure and lending rate is expected to fall no further in 2015.

Capital allocation will be more selective, especially capital for stock investment. As stated in Circular 09, financial institutions have to follow uniformly the credit rating result of CIC and hence companies with a bad debt record at one bank can hardly find other financial resource at other banks. On the other hand, restriction on loans for stock trading to 5% of share capital and reducing risk weight of real estate loans to 150% (Circular 36) will push up lending for real estate and stocks at healthy banks (NPLs lower than 3%) with less risk appetite for these areas with less pressure on CAR.

(3) Upcoming trends

Banks with poor performance are to be solved more aggressively and effectively. First, the restructuring process with its most popular measure of M&A will be implemented strongly in 2015 – the last year of the “Banking reform 2011-2015 Initiative”. State-owned banks with highest scale such as BID, VCB and CTG will take the lead to support weak banks and to boost the industry business. Second, foreign investors are allowed to acquire 30% stake of weak banks will speed up the restructuring process. Furthermore, Law on Bankruptcy will allow irrestructable banks to be retired.

NPLs ratio targeting under 3% is feasible as VAMC is projected to be more dynamic. To solve the problem of NPLs more effectively, SBV is likely to take bolder steps to grant VAMC more flexibility and independence to banks in handling bad debt, especially the sale of debts to third parties. Given the pace of debt sales to VAMC in the last months of 2014, NPLs ratio of the whole system is likely to decline to under 3% by the end of 2015.

Capital requirement is higher as Basel II is initially implemented in 10 banks. Implementing Basel II regulations will gradually guiding the system to a sustainable development and to meet international standards, requiring banks to enhance their capital strength.

Rule on cross-ownership stated in Circular 26 will create a downward pressure on several bank stocks. Specifically, banks will divest roughly 10%-19.5% of MBB and 3.2%-8.2% of EIB within 1 year starting from 1 February 2015. Besides, as Circular 36 is executed strictly, the pressure could be stronger as investors identified as related to the bank are required to divest too.

III- RECOMMENDATION

It can be inferred from our analysis that policies to handle NPLs differ among banks and only those focusing seriously in following Circular 02 and 09 are worth the attention in 2015. We believe the sector's trough period is over and market valuation of leading bank stocks is quite attractive. Hence we recommend POSITIVE rating for banking in 2015 with particular interest in VCB, BID and MBB.

- **VCB** has the highest P/B ratio in the sector of 2.27x. Despite setting aside huge loan loss provision (provision expense +15%), 9-month PBT still grew by 8%. VCB recorded 9% growth in operating income while most banks' profit declined. The bank's outstanding operation management can be indicated by a fairly stable Operating expense/Total income ratio. Prospects for 2015 include (1) improved NIM for accelerating lending (customer loans +13% in 9M2014) accompanied by low-cost capital from the National Treasury, (2) growing non-interest income as the economy recovers given its top rank in international transaction with income from foreign exchange 4-5 times higher than industry average and (3) lower provision expense in 2015 due to its aggressive policy to handle NPLs in 2014. Besides, VCB sets forth its target to look for an M&A partner this year. With long-term prospect, we recommend to HOLD the stock of VCB.
- **BID** is among banks with highest NIM and loan loss provision. Their operating result is expected to boost in 2015 for (1) smaller amount of profit to set aside for loan loss provision because the bank has strictly classified loans according to Circular 02 since 2014, (2) rising proportion of non-interest income, (3) significantly improved interest income and NPLs ratio as the real estate market is expected to recover while BID has high real estate loans, and (4) recording an estimated profit of USD 45 million by transferring 50% share at VID Public Bank. Besides, bond yields sliding by 2% last year also gave BID an edge for its holding of roughly VND 70,000 billion in treasury bonds. However, BID is under rising pressure to raise capital, especially when chosen to apply experimentally Basel II regulations. The Bank is expected to receive 100 million USD from its major shareholder SBV in 2Q2015 and to target strategic issuance of 10%-20% share capital. Given the current P/E of 9x, P/B of 1.27x and dividend yield of 5.9%, BID's valuation is relatively attractive with potentially high upside.
- **MBB** is another bank managing NPLs seriously in 2014 with bad debt (debt in group five) rose by 36% in 9 months. Using 61% of their PBT for loan loss provision in 2014, accompanied by a relatively low risk appetite, MBB's operating performance is not likely to be affected negatively as

Circular 02 takes effect in 2015. Their efficiency is fairly high as Operating expense accounted for only 37% of Total income, lowest among listed banks and roughly equal to that of VCB. With P/E of 6.95x, P/B of 0.99x and a current dividend yield of 5.5%, MBB is another noteworthy stock with attractive valuation for the year 2015. However, investors should also note that this stock is likely to be under selling pressure of around 10-19.5% of its total outstanding shares as a consequence of executing Circular 36 regardless of the bank's operating performance.

Ticker	PBT 2014E	PBT 2015	EPS 2015	P/E FW	P/B FW	Closing price 31.12.2014	Target	% change
VCB	5,640	7,050	2,063	15.46	1.63	31,900	39,236	23.00%
BID	6,065	7,339	2,036	6.33	0.81	12,900	18,327	42.07%
MBB	3,060	3,519	2,368	5.53	0.75	13,100	16,578	26.55%

Source: BSC forecast

To be continued...



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