

STRATEGY REPORT

FEB / 2015



BIDV Securities Company

ECONOMY

- Consumer price index (CPI) fell 0.05% (mom) in Feb/2015 and still rose 0.34% (yoy). The March after Lunar New Year usually has low CPI growth (even negative) because this is month the demand come back to normal after the rise in the Tet holiday. We forecast CPI in Mar/2015 will be likely to continue declining at about -0.3% to -0.2% (mom).
- PMI (HSBC) in Feb was 51.7, up slightly from 51.5 in January. Despite the Lunar New Year holiday, the PMI has not weakened but still represented stability and this can be seen as a positive signal. We believe the PMI in the coming months will continue its positive trend thanks to the benefit from lower input costs.
- Interest is expected to be adjusted down soon in the near future because of the Governor' strong message, however the SBV may still need to consider some factors including the exchange rate.

EQUITY MARKET

- After several session of the begin of the month due to the psychological effect of applying the Circular 36, the VN-Index increased sharply and maintain into the end of the month. At the 27th February, the VN-Index closed at 592.6 points while the HNX-Index closed at 85.8 points. The stocks of the bank continue to play a leading role in the market to recovery, besides the ETF boost to buy so the market trends also made stable and increase soundly.
- P/E of VN-Index and HNX-Index were 13.38 and 12.6, respectively, which are lower than both those of last year and those of other countries in the region. They ranked 4th and 6th positions, respectively, among the 20 countries in the region.

MARKET STRATEGY FOR MARCH/2014

- The market is expected to perform positively in March 2015 due to the stable macroeconomic, in which interest rates can be reduced. Therefore, VN-Index is likely to break 600 pts in the first half of March and reach 610-620 pts.
- However, the uptrend is still potentially unsustainable because of depending significantly on foreign capital and the rise of banking stocks. Internal cash flow has not yet spread significantly. We also note that foreigners, especially ETF, might stop buying in the second half of March because of Fed meeting. Thereby, the market will be correct and accumulate around 600 pts at the end of March.

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A. VIETNAM ECONOMY IN FEBRUARY 2015

1. Low inflation by successive gasoline price reduction

Consumer price index (CPI) fell 0.05% (mom) in Feb/2015 and still rose 0.34% (yoy)

In spite of the Lunar New Year, the CPI growth over month was still negative because of 03 reasons (1) the significant reduction of oil and gas prices; (2) the demand for Tet was not as strong as in previous years due to the hesitation of the domestic consumers; (3) the plenty of supply of goods and services

Forecast: The March after Lunar New Year usually has low CPI growth (even negative) because this is month the demand come back to normal after the rise in the Tet holiday. **We forecast CPI in Mar/2015 will be likely to continue declining at about -0.3% to -0.2% (mom).**

Chart 1: CPI (2014 – T02/2015)

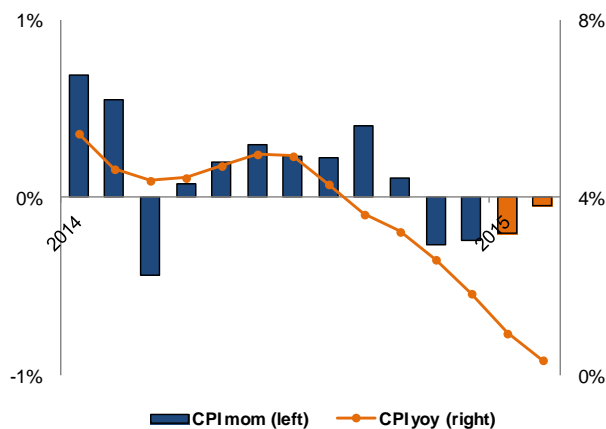
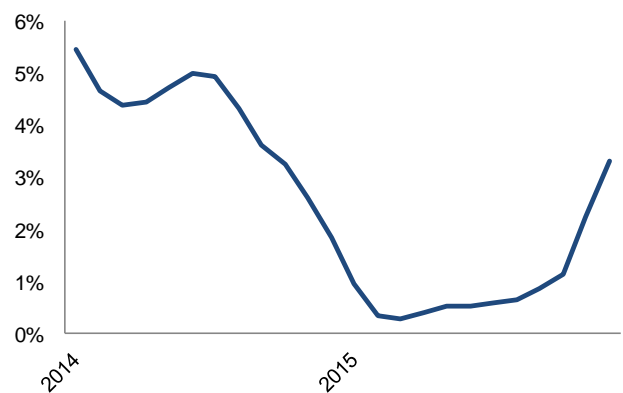


Chart 2: CPI 2015 forecast below 5%



Source: GSO, BSC

2. Industrial production remains positive

The index of industrial production in Feb/2015 fell by 19.2% compared with the previous month because of Tet holiday; the index still increase by 7% over the same period. **For the first 02 months of the year, the index of industrial production rose 12% (yoy)**, higher than the growth of 5.4% in the same period last year. In which, the processing and manufacturing industry has been still the leader with a growth of 12.9% (yoy).

The total retail sales were estimated at 276.2 trillion in Feb, up 3.7% from the previous month and 11.6% over the same period. **Thus, for the first 02 months of the year, the total retail sales summed up to 542.7**

trillion, up 11.4% yoy, and 10.7% if excluding the price factor, higher than the growth of 6.2% in the same period in 2014.

PMI (HSBC) in Feb was 51.7, up slightly from 51.5 in January. Despite the Lunar New Year holiday, the PMI has not weakened but still represented a stability and this can be seen as a positive signal. This PMI continued show an expansion of 18 consecutive months of the domestic manufacturing sector (over 50).

We believe the PMI in the coming months will continue its positive trend thanks to the benefit from lower input costs.

Chart 3: PMI

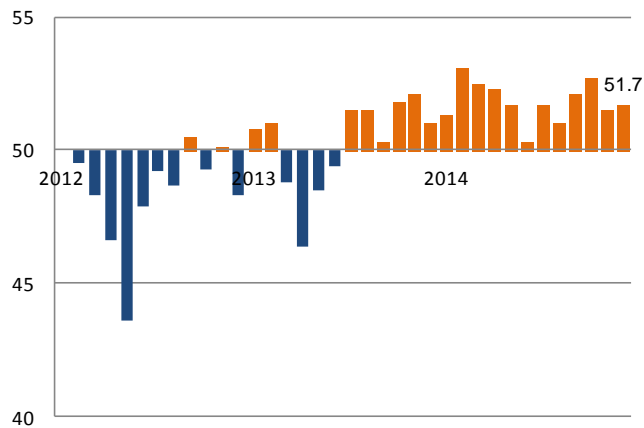
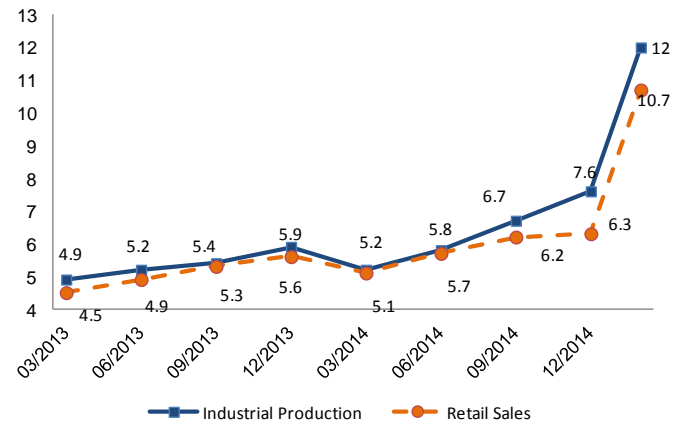


Chart 4: IIP & Retail Sales (%)



Source: Markit, HSBC

Source: GSO, BSC

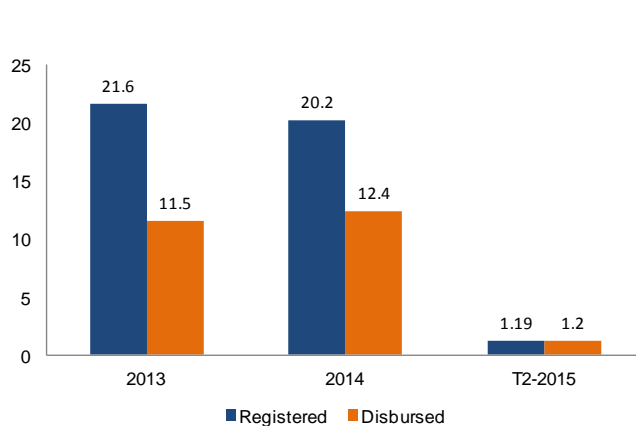
3. Foreign Direct Investment (FDI)

FDI was USD 1.2 million in Feb 2015, increasing by 7.1% yoy. Total FDI was USD 1.19 million, being equivalent to 77% of that in the same period last year. Nearly 2/3 of the value of FDI is newly registered, while the rest (FDI increase) significantly decreased over the same period last year (-32%).

No big FDI projects appeared in the first 2 months of 2015. Despite the number of certified projects increased, the majority of projects have the small capital. However, that did not reflect the current trend of FDI projects as the large-scale capital FDI project usually need much time to prepare. The recent large-scale projects such as 10 BOT power projects (with a capital of USD 2-2.5 billion) are being in the preparatory stage. The major partners of Vietnam such as Japan, South Korea, and the United States also reaffirm their commitment to invest in Vietnam. Currently, Vietnam is becoming more active by promoting the trade negotiations with partners as well as international agreements.

The manufacturing shift of large corporations is maintaining for more than two recent years. **Therefore, we believe that the FDI keep promising in the coming months.** Key areas of investment are manufacturing, textile, footwear, real estate, etc.

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



Source: GSO, BSC

Chart 6: FDI structure by sectors

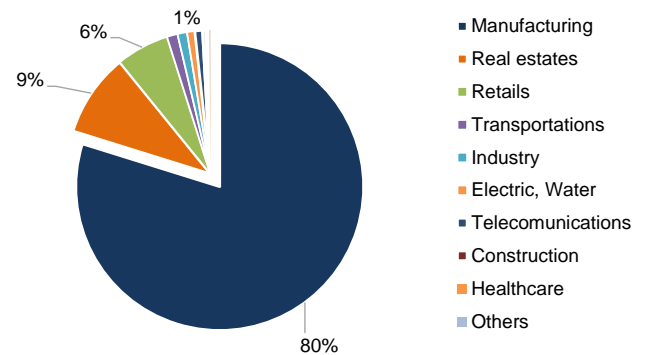
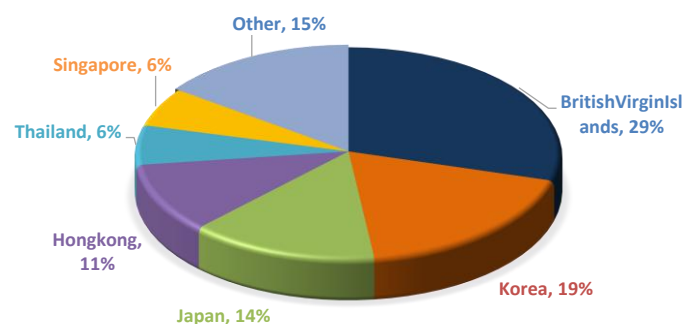
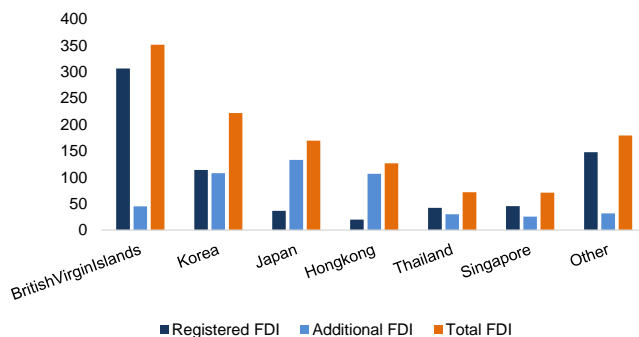


Chart 7: FDI structure by partners (bil USD)

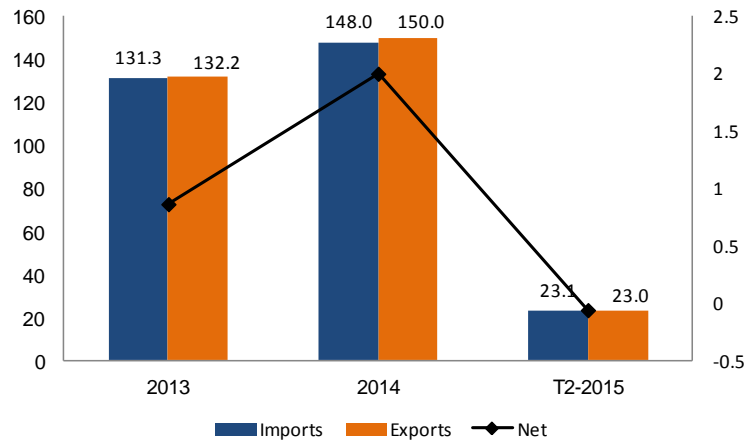


Source: FIA, BSC

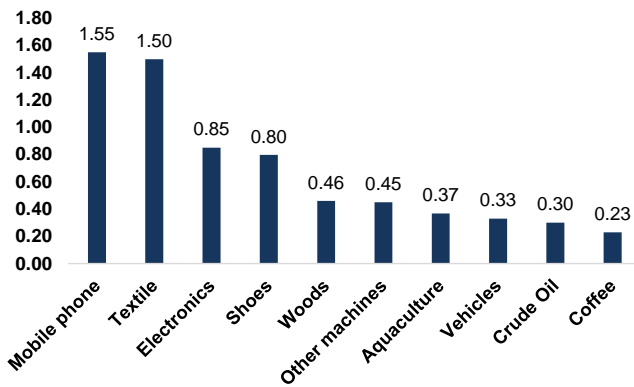
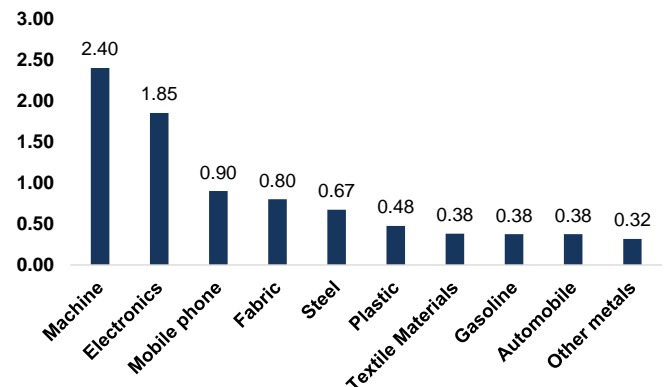
4. Exports surged thanks to FDI

The estimated export turnover is USD 9.6 billion, declining by 28.4% mom. The estimated import turnover is USD 9.3 billion, decreasing by 32.4% mom.

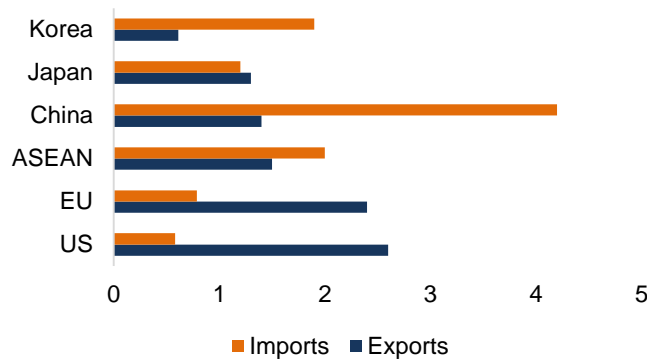
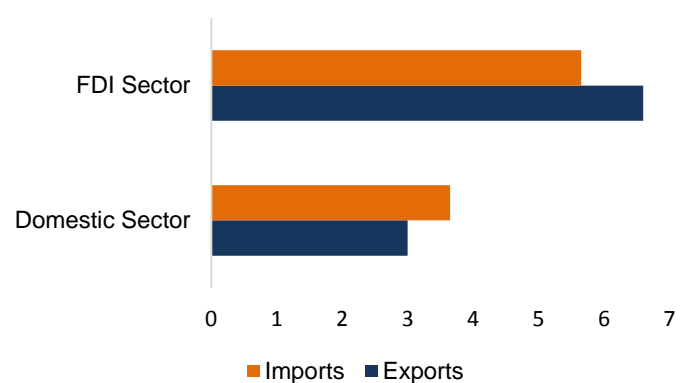
Thus, even there were the long holidays, the trade balance of Vietnam improved significantly in February. The trade deficit value of USD 0.36 billion in January has been offset nearly all, bringing the trade deficit Vietnam to USD 61 million in the first 2 months. This is a significant low comparing to the surplus at the same period last year (USD 1.35 billion). Export activities will rally from March, after the Lunar New Year holidays.

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

Exchange rate stabilized in February, especially in the interbank market. Free rate fluctuated more in the second half of the month. Specifically, the interbank rate changed insignificantly in Feb, moving around 21,337 VND/USD; free rate was traded at a higher average, about 21,433 VND/USD.

The strengthening of the US dollar might affect the USD/VND rate in the near future. Positive economic signs, rising interest rates expect in the context of easing monetary world are the main factors that support the value of the dollar. As the SBV confirm to reduce medium and long-term interest rates further, the money probably shift to assets denominated in foreign currencies, namely USD.

On that basis, we appreciate the ability that exchange rate will fluctuate in the future. The main factors defining the moving trend of USD/VND are the USD and VND interest rate movements. We believe that the USD will probably increase compare to the VND in the near future.

Chart 13: VNIBOR (%)

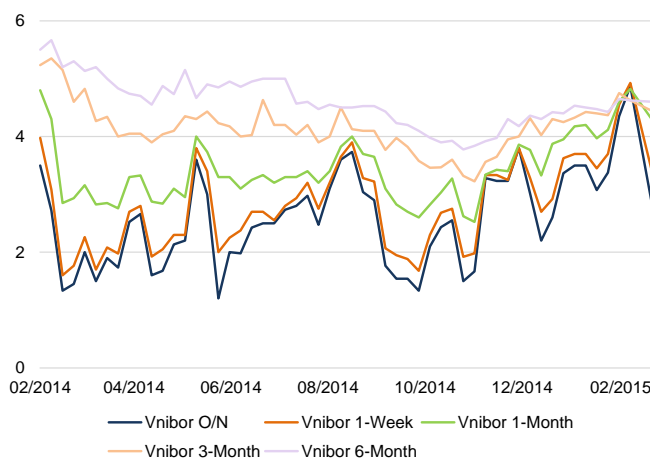
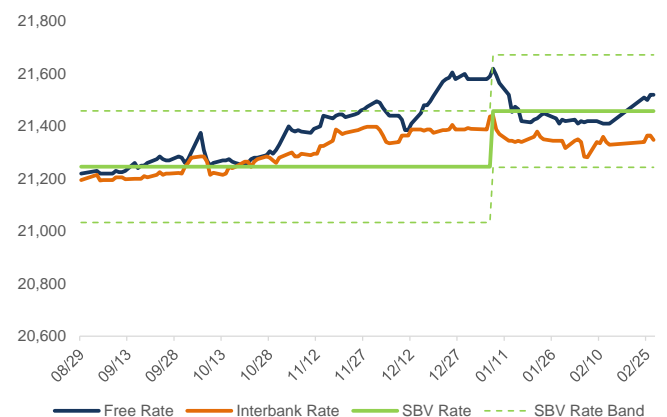


Chart 14: Exchange rate (09/2014 – 2/2015)



Source: Bloomberg, SBV, BSC

6. Banking system – Interest rates

VND deposit rates remained relatively stable. Specifically, the deposit rates for term over 12 months stood at 6.7 to 7.3% / year and 5.7 to 6.7% / year for 6 months to less than 12 months; from 1 month to less than 6 months was at 5-5.5% / year; less than 01 months or demand was at 0.8 to 1% / year.

USD deposit rates: was at 0.75% / year for individuals; hold steady at 0.25% / year for organizations.

VND lending rates kept stable. Currently, the interest rate for loans for the priority areas was at 7% / year for the short term and at 9-10% / year for mid and long-term. Lending rate for normal sectors was 7-9% / year for the short term; 9-11% / year for mid and long term.

USD lending rates: was at 3-7% / year; in which short-term rates was at 3-6% / year, mid and long term was at 5.5 to 7% / year.

Interest rates are able to get lower but the SBV may still need to consider many factors. First, although inflation is low due to energy prices reduction, the oil can rise back at the end of the year. The average inflation last year was at 4%, while the target set by the government this year is not exceed 5%. Thus, the central bank must remain careful in managing policies to stick to the 4-5% inflation above. Moreover, the central bank must also consider the exchange rate issue when committed less than 2% depreciation in 2015 and they only get 1% rested from now until the end of the year while the US dollar have been strongly rising.

However, interest is expected to be adjusted down soon in the near future because of the Governor' strong message. Specifically, after the enactment of Directive 01 which guided to reduce the interest rate in mid and long term, the Governor has recently broadcast messages that SBV will try to lower interest rates by 1% - 1.5% this year.

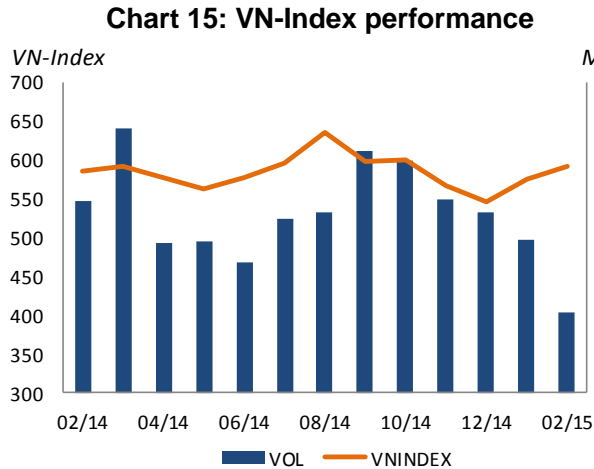
Macro indicators on Feb & Forecast for 2015

	Feb/2015	2015F
Inflation (yoy)	0.34%	below 5%
Credit growth	N.A	13% - 15%
FDI registered (bil USD)	1.19	20 – 22
FDI realized (bil USD)	1.2	11 – 12
Trade balance (bil USD)	- 0.061	2
FX rate (VND/USD)	21,458	21,458 – 21,673
Lending rate	9% - 11%	8% - 10%
Deposit rate	5% - 6%	5% - 6%

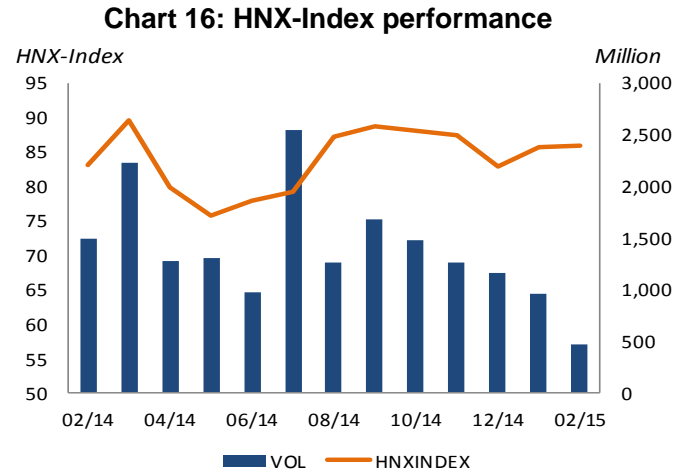
B. EQUITY MARKET IN FEBRUARY 2015

I. MARKET PERFORMANCE

1. VN-Index movement



Source: HNX, HSX, Bloomberg, BSC



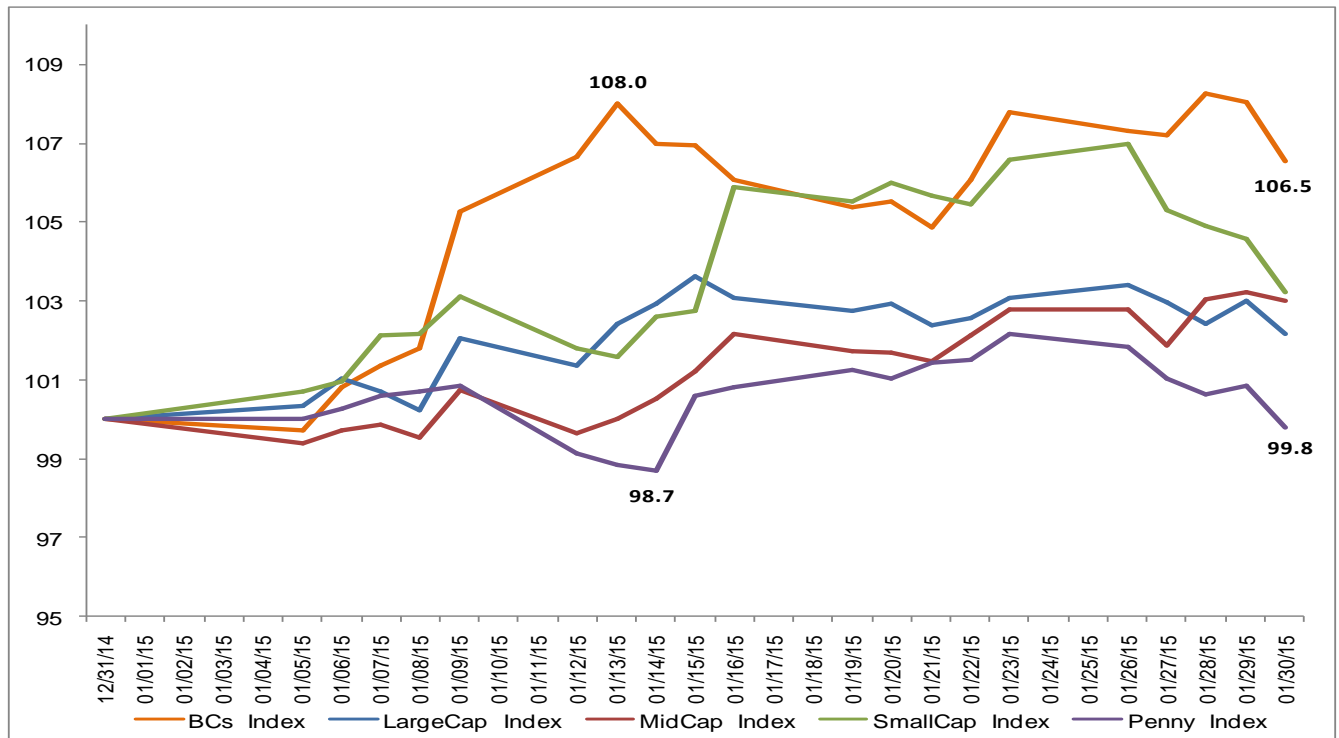
Source: HNX, HSX, Bloomberg, BSC

After several session of the begin of the month due to the psychological effect of applying the Circular 36, the VN-Index increased sharply and maintain into the end of the month. The two indices peaked in February with an increase of 2.8% and 2.3%. At the 27th February, the VN-Index closed at 592.6 points while the HNX-Index closed at 85.8 points.

The stocks of the bank continue to play a leading role in the market to recovery, besides the ETF boost to buy so the market trends also made stable and increase soundly.

2. The Index groups by capitalization

The Blue-chips continued to maintain its leading position in growth, and by far than the remaining stocks. The BCs shares increased 11.53% in the first 2 months of the year, mainly due to the buying activities of foreign investors in large-cap stocks such as VCB, BID, CTG, VIC. Meanwhile, Penny stocks with the strongest decline due to the current cash flow are no so strong in this group, especially when the Circular 36 was in effect. It is the persistence of cash flows of the foreign and the serenity of the speculative cash flow of the domestic has created tension between these two stocks groups. Summary, the increase in February of the Blue-chips, LargeCap, MidCap, SmallCap and Penny respectively 3.49%, -0.08%, 1.49%, 1.95% and -0.18%.

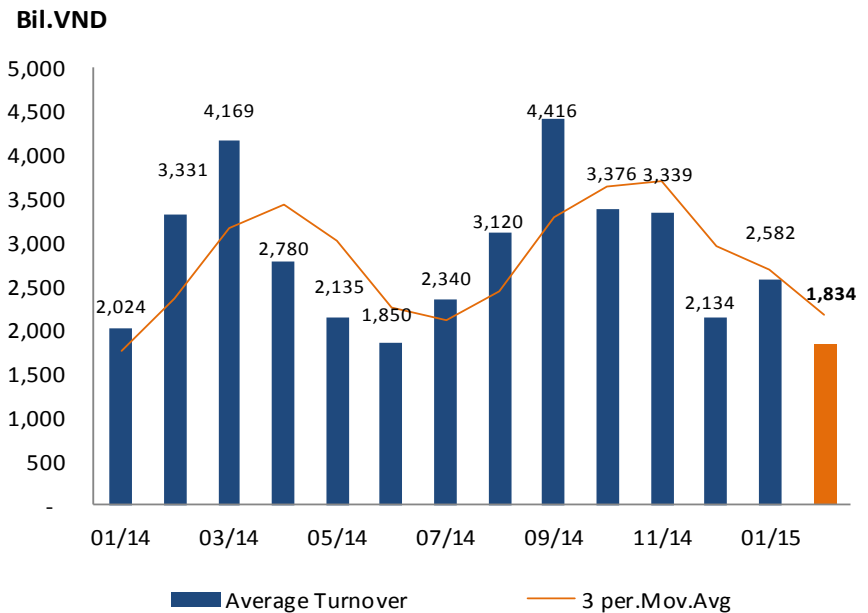


Source: Bloomberg, BSC

II. MARKET STATISTICS IN FEBRUARY 2015

1. Market liquidity

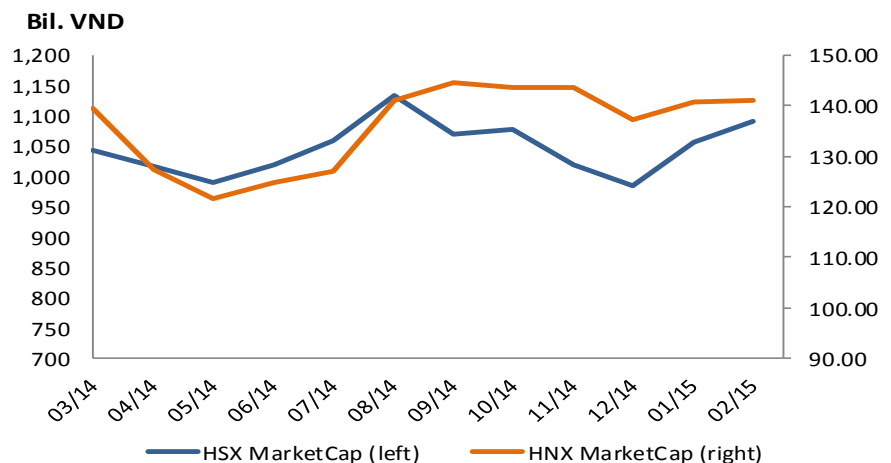
The average liquidity of the market was the lowest level in the past year, down nearly 30% and reached 1,834 billion VND/ session. Liquidity fell sharply due to: (1) Psychology of the soon rest ago the Lunar New Year Holidays and the cautious of the market after the Lunar New Year Holidays from 16/2 - 23/2, and (2) increasing market due to the traction from some blue-chips, do not spread to other stocks, especially the small-cap stocks, so it did not stimulate the strong participation of the cash flow.

Chart 17: Average transaction value on both exchanges


Source:: Bloomberg, BSC

2. Market size

Capitalization reached 57.8 billion USD, up 1.6% from the previous month, capitalization of the two floors at 1,231 trillion VND. Capitalization of the two floors increase slightly of 1.6% compared to January 2015, which the HSX and the HNX increased respectively by 3.1% and 0.5%. The increase of capitalization in February, especially on the HSX, mainly due to the price of shares increased, while large cap stocks (VCB, VIC, CTG, BID) contributed most to the increase this growth.

Chart 18: Market Capitalization


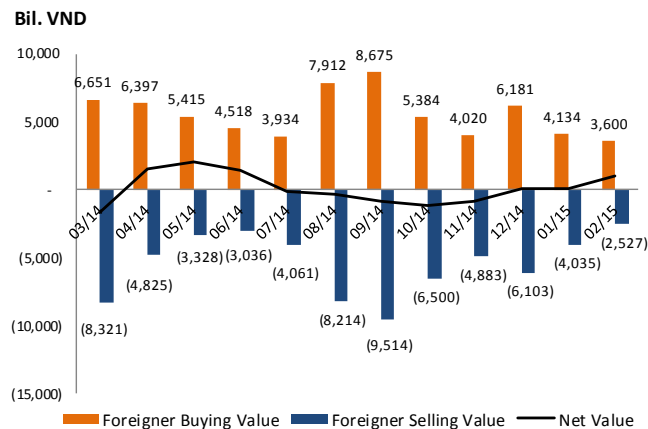
Source: Bloomberg, BSC

3. Foreign transaction

After the January of doldrums, foreign capital flows have become stronger in February when continuously maintain net buyers on both floors of the recent 13 sessions in February. In total, the net purchases were respectively 1,073 billion VND on HSX and 90 billion VND on the HNX. Foreign investors continue to focus on bank stocks (VCB, BID, CTG) and real estate (VIC, HAG).

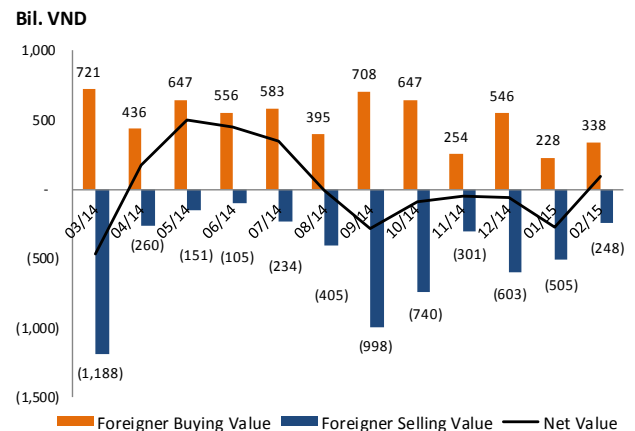
The general situation of the world had the certain advantages for the operation of international capital flows in emerging markets like Vietnam. The Fed has not given a specific solution on the ability to raise interest rates, the ECB announced it would implement quantitative easing package during 18 months, starting in March this year. Besides, the oil price caused inflation decreased in many countries, China announced to decrease interest rates as the 28th February, contributing to stimulus the cash flow into the more profitable assets.

Chart 19: Foreign transaction on HSX



Source: Bloomberg, BSC

Chart 20: Foreign transaction on HNX



Source: Bloomberg, BSC

III. FACTORS IMPACTING ON STOCK MARKET

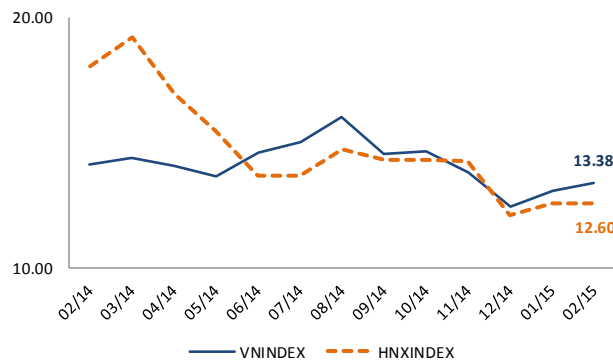
1. Macro factor

Stable macroeconomic and steady economic growth over the years will continually support the stock market. The increase of banking stocks is clear evidence. The new regulations supporting the real estate, the information of major trade agreements and the new policies for the stock market are expected to result in positive changes. In addition, the volatility of oil prices and the foreign capital flows movement will also impact significantly on stock market.

2. P/E Factor

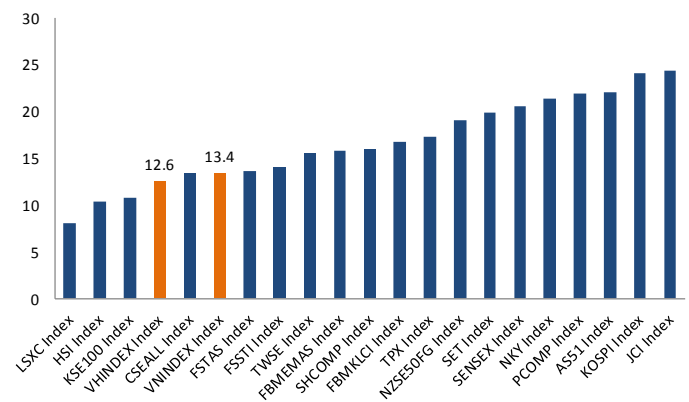
P/E of VN-Index and HNX-Index were 13.38 and 12.6, respectively, which are lower than both those of last year and those of other countries in the region. They ranked 4th and 6th positions, respectively, among the 20 countries in the region. While price levels increased by 2.86% and 2.3%, position of indexes' P/E also rose, which indicate the improvement of enterprises' business results. This is the same as our mention in January report that P/E of market continues to decrease when many large enterprises announce their Q4/2014 earnings in February.

Chart 21: P/E on two exchanges



Source: Bloomberg, BSC

Chart 22: Vietnam P/E vs. other indexes



Source: Bloomberg, BSC

IV. MARKET OUTLOOK FOR MARCH 2015

The market is expected to perform positively in March 2015 due to the stable macroeconomic, in which interest rates can be reduced. Therefore, VN-Index is likely to break 600 pts in the first half of March and reach 610-620 pts.

However, the uptrend is still potentially unsustainable because of depending significantly on foreign capital and the rise of banking stocks. Internal cash flow has not yet spread significantly. We also note that foreigners, especially ETF, might stop buying in the second half of March because of Fed meeting. Thereby, the market will be correct and accumulate around 600 pts at the end of March.

Investment Recommendation

We do not change the positive view on the market in the first half of 2015. Investment opportunities will therefore lie in the underlying shares having good earnings and positive outlook in 2015. The leading stock of tires, banking, real estate, building materials and transportation industries are recommended to buy in March.

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