



VIETNAM MACRO & MARKET OUTLOOK

2016

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Vietnam Macro in 2015

Highlights of Vietnam economy in 2015 are (1) Strong economic growth, (2) International economic integration through important FTAs, (3) The shift of monetary policy to exchange rates stability instead, and (4) The end of 3 consecutive years in surplus. Those criterias are mentioned in the prediction of BSC Research last year.

GDP growth is the strongest in last 5 years thank to not only domestic demand but also exports demand. Besides, Vietnam is more attractive to investment capital due to the improvement of investment environment and business as well as the signing of various Free Trade Agreements with high influence. FDI has a durable growth, exports performan positively. Yet interest rate wasn't reduced further, it had been maintained low that fueled the production and business activities of the economy.

Meanwhile, Vietnam has a relatively successful year in self-regulation for the global economic changes. The domestic macroeconomic is inevitably disturbed part. Inflation fall to the lowest in the last 14 years as world oil prices kept drop dramatically compared to that in the end of 2014. The foreign exchange market suffer more significantly turbulent risk from the increase of US dollar, the devaluation of CNY and pressures of trade deficits.



Economic growth

Source: GSO, BSC Research

Economic grows stronger in last 5 years, becoming a bright spot in 2015. The economic growth is likely shift to the investment and the aggregate demand, especially in private consumption.

Chart 1: GDP growth rate (% yoy)

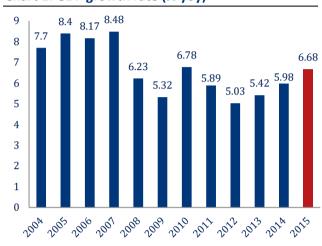
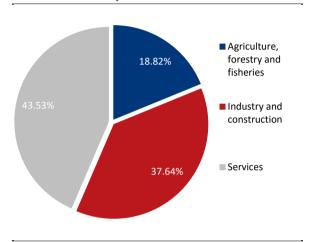


Chart 2: Economy structure



Source: GSO, BSC Research

In 2015, the gross domestic product (GDP) grew by 6.68% yoy, exceeded by 6.2% from the yearly plan. GDP growth expanded quarter to quarter (by 6.12% yoy respectively in the 1st quarter, 6.47% yoy in 2nd quarter, 6.87% yoy in 3rd quarter, and 7.01% yoy in 4th quarter), and prolongs recovery sequence in the 3rd consecutive year. The economy value reached VND 4192.9 trillion; GDP per capita increased to VND 45.7 million (approximately \$2,109 from \$2,052 in 2014).

- In terms of contribution to total economic growth:
 - O Industry and Construction held the top in 2nd consecutive year while contributed 3.2% of 6.68% total growth. The production and processing manufacturing industry played the leading role with the rise of 10.6% yoy. It is also the most attracting sector of investment capital and promoting economic growth. Construction sector also showed considerable strength (+ 10.82% yoy), contributed strongly to growth of Construction Industry.
 - The services sector ranked the second with 2.43% contribution to the total growth of 6.68%. Wholesale and retail were the most active sector (+ 9.06% yoy), followed by financial activities, banking, insurance (+ 7.38% yoy). Business of real estate activity tends to warm up, but with a modest pace (+ 2.8% yoy).
 - o Agriculture, forestry and fisheries sector contributed only 0.4% to 6.68% overall because it suffered various adverse effects of weather. Its growth was only 2.41%, lower than the 3.44% in 2014. Forestry was the most active sector (+ 7.69% yoy) but could not compensate for the decline of the fisheries sector (+ 2.8%).
- In terms of structure, Services sector and Industrial & Construction sector increased proportion, while the proportion of Agriculture, Forestry and Fisheries sector was declined. The proportion of Service sector and Industrial & Construction sector rose respectively to

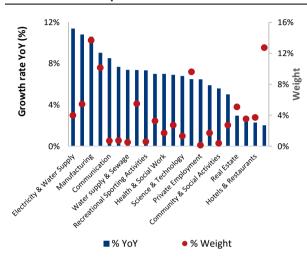


39.73% and 33.25% from 39.04% and 33.21 in 2014, respectively. The proportion of Agriculture forestry and fisheries sector fell to 17% from 17.7% in 2014.

Chart 3: Industrial Production & PMI

18
14
10
50
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Chart 4: Sector's performance



Source: GSO, Markit, BSC Research

Source: GSO, BSC Research

We witnessed strong growth of manufacturing sector last year. Industrial production index was positive despite the interruption in 3rd quarter; PMI manufacturing tended to slow down since Q3.

- Industrial production index (IP) rose by 9.8% yoy to the highest in last 4 years. Specifically, the IP rose by 9.3% yoy in 1st quarter, 10.2% yoy in 2nd quarter, 9.3% in 3rd quarter yoy and 10% yoy in 4th quarter. Processing and manufacturing industry made the largest contribution in the growth of production industrial, followed by the mining, electricity production and distribution, etc.
- PMI was in the growth about three-quarters of the time throughout the year. Strongly increasing in the first half year, stalling at the end of the year that the PMI slipped to narrow. The positive point is that PMI rebounded in the last month of the year, brought positive expectations for the coming year. Overall, PMI still showed a positive state of the manufacturing sector in 2015 since the average index reached 51.55 points, yet lowered than the average in 2014 (51.82).
- Chỉ số PMI nằm trong vùng tăng trưởng trong khoảng ¾ thời gian cả năm. Tăng trưởng mạnh trong nửa năm đầu, đình trệ vào thời điểm cuối năm khiến PMI tụt về vùng thu hẹp. Điểm tích cực là PMI đã tăng trở lại vào tháng cuối cùng của năm, đem lại kỳ vọng tích cực trong năm tới. Nhìn chung PMI năm 2015 vẫn cho thấy trạng thái tích cực của khu vực sản xuất khi chỉ số trung bình năm đạt 51,55 điểm, thấp hơn mức trung bình năm 2014 (51,82).



Inflation

Inflation controlling was also one of the macro highlights of Vietnam in recent years. International petroleum prices fell and abundant supply of domestic goods were 2 important factors that made a stable price level in 2015.

Chart 5: Monthly CPI movements

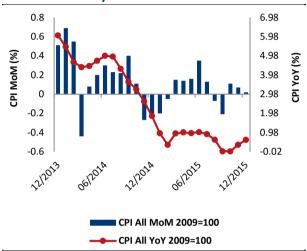
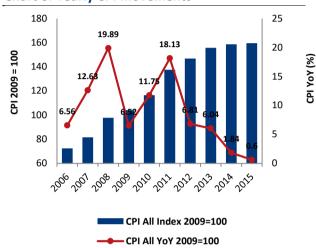


Chart 6: Yearly CPI movements



Source: GSO, BSC Research Source: GSO, BSC Research

Chart 7: Goods price changes in 2015 (ytd)

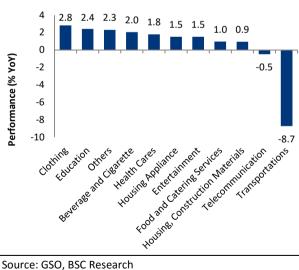
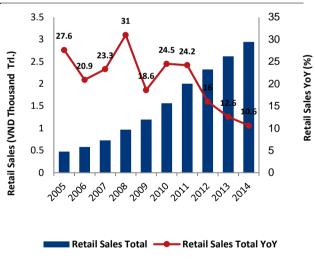


Chart 8: Retail sales



Source: GSO, BSC Research

Consumer price index CPI rose by 0.6% in 2015:

• CPI increased negatively during 4 month of the yeart. Overall, the average monthly increase is 0.05% per month which is the lowest expansion since 2001.



- Traffic is the commodity which has the most price drop (-8.74% yoy). This is also the 2nd year of decreasing due to the reduction of petroleum prices. Furthermore, traffic goods price also affect other commodity prices, hindering the prices increase of other goods. Actully, oil prices fell by 28.5% in 2015. After 12 times discount of 20 times the price adjustment, domestic gasoline prices fell by 1,480 VND/liter (-8.3%), diesel prices decreased by 5,010 VND/liter (-29.6%) compared to that in the end of 2014.
- Food and beverage price which has a large proportion in CPI was stable last year. The domestic food supply source was abundant amid declining export prices are 2 factors of stability.
- Housing and Building Materials is the only increase one, and probably grown in the next 2016.

Retail sales rose by 9.5% yoy in 2015, equivalent to 8.4% yoy excluding the price factor increased, with a total value of about VND 2,470 billion. Consumer confidence rose sharply in the past year (ANZ Roy Morgan index reached 144.8 points that make Vietnam become one of the most optimistic economies in the region. Retail pace maintains positively thank to the impacts from the expanding monetary policy of the State Bank of Vietnam (SBV).

Foreign direct investment (FDI)

The attraction of foreign investment achieved positive results unexpectedly. FDI sector continued to be strong labor-intensive sector despite both domestic and international economic difficulties, acting as a key role of economic growth in 2015. Capital inflows focused on major projects, and tended to rise in the second half of 2015.

- FDI disbursement in 2015 reached USD 14.5 billion, up 17.4% yoy. Average disbursement is USD 1.21 billion per month that is significantly higher than the average level of USD 1.03 billion per month in 2014. January is the least received month with the value of USD 0.5 billion, while October has the highest disbursements which is USD 2.15 billion. In general, movements of FDI disbursement is quite similar to that in 2014 as the amount of disbursements fluctuate in the first half, then stabilize in the second half.
- Registered FDI in 2015 was USD 22.76 billion, up 12.5% yoy. This is an optimistic result, particularly due to increase amount of registered capital in the second half of the year.
 Vietnam attracted USD 1.9 billion per month, exceeding the average of USD 1.68 billion per month in 2014. FDI rose sharply in 3rd quarter instead of 4th quarter as the previous year.
- The size of major projects in 2015 was significantly higher. The arrival of some projects with particularly large scale, even over USD 2 billion that is the key factor to boost the FDI attracting result in 2015.
- 19 sectors received FDI in 2015. The most attracting foreign investment sectors were (1) Processing and manufacturing industry which accounts for 66.9%, (2) Electricity, gas, hot water production and distribution which accounts for 12.4%, (3) Real Estate Business which represents 10.5%. The sectors which have a strongest growth in FDI attraction are (1) Electricity, gas, hot water production and distribution (+ 1130% yoy), (2) Scientific activities (+ 173% yoy), (3) Health care (+ 133% yoy), (4) Water supply and sewerage (+ 107% yoy), and (5) Mining (+ 83% yoy). FDI fell sharply in the Entertainment, Administration, and Transportations.

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Chart 9: FDI in Vietnam (USD Bil.)

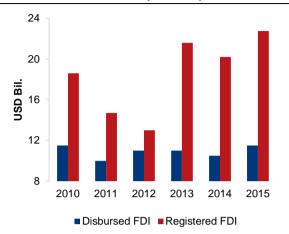
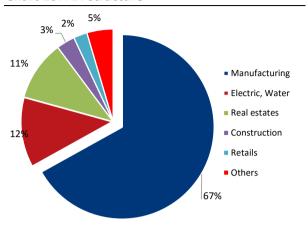


Chart 10: FDI structure



Source: FIA, BSC Research Source: FIA, BSC Research

Several major projects licensed in 2015:

- Samsung Display Vietnam Company Project, invested by Samsung (South Korea) in Yen Phong Industrial Zone 1 - Bac Ninh. It operates in the manufacturing and processing industry, valued at USD 3 billion;
- Duyen Hai Power Plant 2 Project, invested by the Janakuasa Sdn. Bhd (Malaysia) in Tra Vinh. It operates in the power production and distribution, valued at USD 2.4 billion;
- De Vuong city Co., invested by Tien Phuoc Real Estate JSC and Tran Thai Real Estate Co. Ltd. joined venture with Denver Power Ltd (UK). It operates in the real estate business, valued USD 1.2 billion;
- Industrial Paper Packaging Factory Project, invested by Cheng Loong Binh Duong Co. Ltd. (Taiwan) in Binh Duong, valued at USD 1 billion;
- Hyosung Co. Ltd. Project, invested by Turkish in Dong Nai, valued at USD 0.66 billion.

Chart 11: FDI size by country in 2015 (USD Bil.)

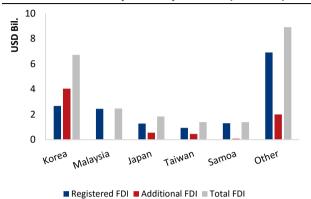
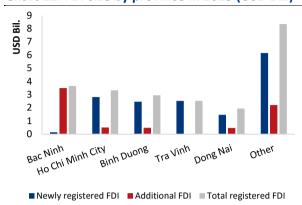


Chart 12: FDI size by province in 2015 (USD Bil.)



Source: FIA, BSC Research

58 countries invested in Vietnam. Korea ranked 1st with USD 2.68 billion, accounting for 17.2% of total investment, followed by Malaysia (USD 2.45 billion, accounting for 15.7%) and Samoa (USD 1.3 billion accounted for 8.4%).

Source: FIA, BSC Research

There are 48 provinces received FDI in 2015. HCMC attracting the most (with USD 2.8 billion, accounting for 18%), followed by Tra Vinh (USD 2.5 billion, accounting for 16.2%) and Binh Duong (USD 2.47 billion, accounting for 15.8%).

Trade Balance

Trading of Vietnam was in positive growth last year. Moreover, Vietnam was a rare bright spot in Asia as exports remained strong (numerous Asian countries' exports were decreased last year). Nevertheless, the three-year consecutive of surplus was ended, Vietnam's trade balance moved to deficit in 2015 due to the speedy imports over the exports since the last months of 2nd quarter amid domestic demand increased and imports for production and exports.

- The total value of trade deficit was USD 3.2 billion, ended three-year consecutive of surplus. The result was quite close to the forecast of BSC Research in early 2015 (deficit of USD 3-4 billion), more optimistic than the forecasts in the last 2 quarters. The trade deficit became largest in the months of May July, then tapered at the end of 3rd quarter. In 4th quarter, Vietnam traded surplus back, helped significantly narrow the yearly trade deficit value.
- Export turnover in 2015 reached USD 162.4 billion, up 8.1% yoy over the previous year. Thus, exports decelerated the most in the last 5 years. Specifically, the domestic sector contributed USD 47.3 billion (downed 3.5% yoy, ended streak of 5 consecutive years), the foreign investment area contributed USD 113.3 billion (up 18.5% yoy).
- Import turnover in 2015 was USD 165.6 billion, up 12% yoy. Among them, domestic sector imported USD 67.6 billion, while foreign investment sector imported USD 98 billion.
- Domestic area has a trade deficit of USD 20.3 billion, while the foreign investment sector has a surplus of USD 17.1billion.

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Chart 13: Trade balance (USD Bil.)

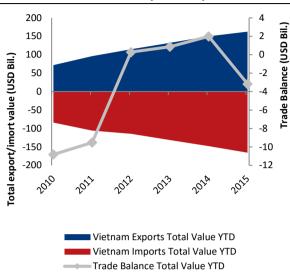
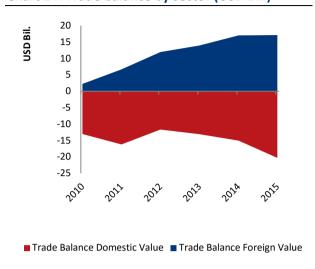


Chart 14: Trade balance by sector (USD Bil.)



Source: GSO, BSC Research Source: GSO, BSC Research

Regarding the structure of commodity groups, exports was mainly processed, assembled products group which the majortiy come from the area of foreign investment. The group of heavy industry and mining accounted for nearly half of total exports (USD 74 billion, accounted for 45.5% weight); the group of light industry and handicrafts industry was second with a turnover of USD 64.8 billion, accounted for 39.9% of the share; the rest were Agriculture and forestry products with USD 17 billion (10.5%) and Fisheries with USD 6.6 billion (4.1%). Meanwhile, Vietnam still imported mainly machinery, fuels and auxiliary materials for production, which reflected the trend of moving to the position of export producers in recent years. The group of machines, telephones and accessories headed (total value of USD 61.5 billion, accounted for 37.2% weight); Material and energy goods behinded (USD 56.9 billion, accounted for 34.4% weight); the rest was consumer goods and food.

In term of market, top of export market was the US (USD 33.5 billion, up 17% yoy and accounted for 20.6% of weight) and the EU (USD 30.9 billion, up 10.7% yoy and accounted for 19% of weight). There were the export markets with high added value of Vietnam. Group of the remaining market imported mainly agricultural products, resources such as ASEAN (US \$18.3 billion, down 4.2% yoy), China (USD 17 billion), Japan (USD 14.1 billion) and South Korea (USD 9 billion). In contrast, Vietnam had a sharp trade deficit from China (USD 49.3 billion, accounted for 28.8% share of imports). Followed by South Korea (USD 287.7 billion, accounted for 16.7%), ASEAN (USD 23.8 billion, equivalent to 14.4% weight).

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Chart 15: Top 10 exported goods in 2015 (USD Bil.)

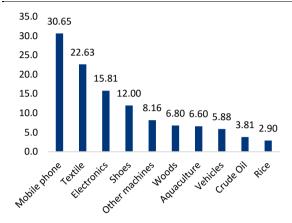
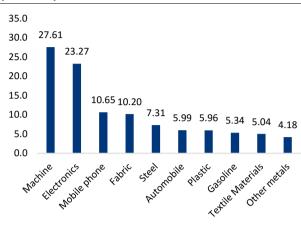


Chart 16: Top 10 imported goods in 2015 (USD Bil.)



Source: GSO, BSC Research Source: GSO, BSC Research

In export, the strongest growth goods was strong product group: phone (USD 30.6 billion, + 30% yoy), Electrical machinery (USD 15.8 billion, + 38%), footwear (USD 12 billion, + 16%). Most agricultural commodities were fell over the previous year, except cashews (+ 21%), vegetables (+ 24%), cassava (+ 16%) and Text (+ 5%). The strongest decline goods which was under the influence of the trend in the world price down which were crude oil (USD 3.8 billion, -47%), coffee (USD 2.6 billion, -28%), Iron and steel (USD 1.7 billion, -17%) and coal (USD 0.2 billion, -67%).

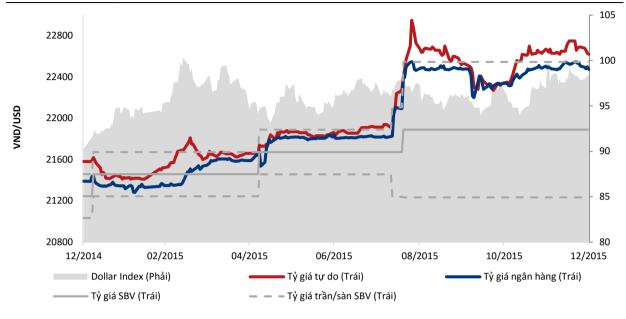
In imports, the value of machinery and materials group was increased strongly in year: Machinery (USD 27.6 billion, +23%), Electrical machinery (USD 23.3 billion, +24%), Phone accessories (USD 10.6 billion, +25%). Remarkably, Motor vehicles and CBU cars had significant growth year: USD 2.3 billion, respectively (+208%) and USD 2.7 billion (+88%). The imported goods slowed down in petroleum (USD 6 billion, -29%), milk (USD 0.9 billion, -18%) and gas (USD 0,6 billion, -28%).

Exchange rates

Foreign exchange rate was one of the hot topics in 2015 when the global financial market witnessed many extraordinary events. The exchange rate fluctuated 4 times in 2015, due to VND depreciation (3 times), and adjustment of trading bandwidth (2 times). At year-end, the exchange rate was USD/VND 22,475, increased 5.07% yoy. The foreign exchange market in first 3 quarters had more fluctuations than the last one, despite the the Fed raised interest rates for the US dollar in December.





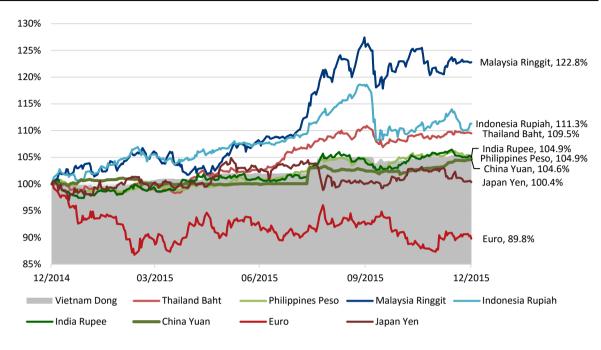


Source: Bloomberg, SBV, BSC Research

- The first time VND devaluation was on Jan 7th, by 1% to 21,458 USD/VND. Exchange rate band was +/-1%, corresponded to 21,243-21,673 USD/VND. The rate was maintained for 80 days, in which the a free exchange rate and interbank rate were average respectively at 21,576 and 21,456 USD/VND. This was a relatively peaceful period of exchange rate in 2015, despite the dramatic USD appreciation in the 1st quarter.
- The second time VND devaluation was on May 7th, by 1% to 21,673 USD/VND. Exchange rate band was +/- 1%, corresponded to 21,456-21,890 USD/VND. This period lasted 68 days, during which, both free exchange rate and interbank rate was traded close to the ceiling. The average value of the free exchange rate and interbank rate were respectively 21,858 and 21,800 USD/VND.
- In the third time, adjustment took place on Aug 11th with the SBV increased the trading band from +/-1% to +/-2%, bring the exchange rate from 21,456-21,890 VND/USD to 21,240-22,106 VND/USD. This adjustment only lasted for 6 days, before PBOC suddenly devalued the RMB, rising exchange rate pressure and causing SBV to adjust exchange rate policy right after.
- The last adjustment in 2015 was on Aug 19th, which includes (1) devalued VND by 1%, and (2) increased the trading band to +/-3% from +/-2% previously. The new trading band was widened from 21,233-22,547 VND/USD. The floor rate of 21,233 USD/VND did not mean much since exchange rate fluctuations were often on the top half of the bandwidth. The average free exchange rate and interbank rate was 22,571 USD/VND and 22,447 USD/VND respectively, and lasted for 97 days to the end of 2015.



Chart 18: Regional currency movements



Source: Bloomberg, BSC Research

During last year, VND was relatively stabled compared to other currencies in the region, especially since the beginning of 2nd quarter. Relatively, VND depreciation of 5.07% were similar to INR (Rupee India), PHP (Peso Philippine), and CNY (yuan Chinese). The main factors that caused exchange rate fluctuations in 2015 included: (1) The psychological impact of the Fed rate hike, (2) the strong CNY devaluation, and (3) easing monetary policies of other countries in the context of weak economic growth. Due to positive economic growth, as well as SBV's shift in monetary policies to managing exchange rate, VND had a relatively stable year.

Bank – Interest rates

Banking activities in 2015 was stable, became the foundation for macro as well as had certain support for economic growth target.



- Credit increased by 17,17%¹ compared to 2014; the total of payment means increased by 13.55%; Deposits increased by 13.59%. These indicators were basically consistent with the macroeconomic and the currency situation in the past year.
- Interest rate level (deposits and loans) decreased 0.2% 0.5% in 2015. Although the rates did not reach the SBV's expectation in the beginning of the year but this interest rate level also supported actively for the production and business activities while maintained the stability of the currency market. The interest rate for loans of some priority programs decreased slightly to 6.5-6.6% per year.
- The interbank interest rate level was relatively stable in the past year. Short-term interest rates (less than 1 month) decreased slightly, while longer-term interest rates (more than 3 months) tended to increase slightly. If the liquidity in 2014 was plentiful, the system liquidity in 2015 decreased slightly, reflected through the phenomenon that short term interbank interest rate sometimes fluctuated sharply. This was the inevitable consequence of the exchange rate pressure that appeared with strong intensity and surprises this year.
- Non-performing loans fell to 2,72%², completed the under 3% target which set earlier this year. Efforts of settling non-performing loans through VAMC and applying new standards on loan classification helped Vietnam non-performing loans more transparent when existing only 1 non-performing data (since 1st quarter).
- Restructuring the banking system was also actively implemented, with the acquisition of banks with price of 0 VND (for VNCB, Ocean Bank, GP Bank), the merger of banks (MHB into BIDV, Southern Bank into Sacombank, MD Bank into Maritime Bank, PG Bank projects into Vietinbank). The acquiring of the consumer finance companies were also stepping up. The banking system tends to decrease the number and gradually improve in quality.

Table 1: Interbank rates

Terms	End of 2014	End of 2015	Changes
O/N	3.42	4.67	+1.25
1 week – 2 week	3.63 – 3.83	4.84 - 4.92	+1.09 - 1.24
1 month – 3 month	4.1 – 4.37	4.98 – 5.09	+0.72 - 0.88
6 month – 1 year	4.47 – 4.63	5.30 - 6.5	+0.83 – 1.87

Source: SBV, BSC Research

¹ As of 21/12/2015

² As of 30/11/2015

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Table 2: Operating rates

Refinancing rates	6.5%
Discount rate	4.5%
Ceiling for VND deposit rate (1M – below 6M)	5.5%
Ceiling for VND Demand deposit and below 1 month rate	1.0%

Source: SBV, BSC Research

Table 3: Deposit rates

Terms	End of 2014	End of 2015	Changes
VND Demand deposit and below 1 month	0.8 – 1.0	0.8 – 1.0	0
VND 1 month – below 6 month	5 – 5.5	4.5 – 5.4	-0.5
VND 6 month – below 12 month	5.7 – 6.8	5.4 – 6.5	-0.3
VND Above 12 month	6.8 - 7.5	6.4 - 7.2	-0.4
USD for people	0.75	0	-0.75
USD for enterprise	0.25	0	-0.25

Source: Bloomberg, BSC Research

Table 4: Lending rates

Terms	End of 2014	End of 2015	Changes
VND short-term	7 - 9	7 - 9	0
VND mid and long-term	9 - 11	9.3 – 11	0.3
USD short-term	3 - 6	3 – 5.3	-0.7
USD mid and long-term	5.5 - 7	5.5 – 6.5	-0.5

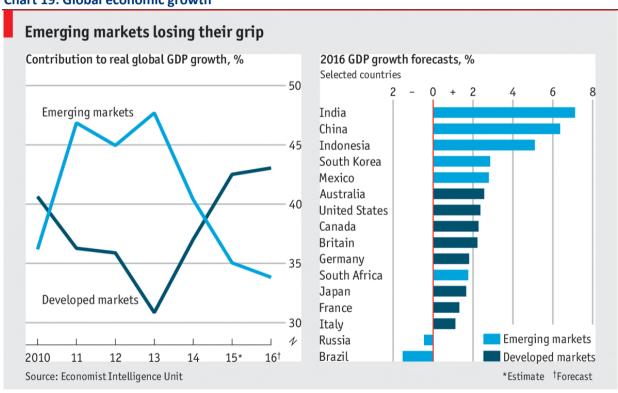
Source: Bloomberg, BSC Research



Global macro economic – 2016 Prospect

The world had experienced many difficulties in 2015, with economic slowdown, stagnant production, while unemployment rate increasing in many regions. The overall global growth was expected to fall to 3.1% in 2015, which caused a 20% collapse in commodity prices within 1.5 years, among which, crude oil prices notably lost by 60%. Furthermore, the growth stagnation made the labor market vulnerable. Unemployment raised, investment flows declined sharply in most countries, especially emerging and developing countries.

Chart 19: Global economic growth



Economist.com

Source: Economist

2016 will be a year of many notable events with significant impacts on medium and long term growth, such as: ability of passing TPP in 12 member countries, the US presidential elections, the new 5-year plan of China, Referendum in England about staying Eurozone ... The global economy is expected to recover by 3.6%. Developed countries basically will escape from the crisis and gradually recover, while Eurozone brings the highest expectations. However, developing and emerging countries will face many

*At market exchange rates

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difficulties, including the low level of raw material export prices and the pressure of foreign capital withdrawal. Central banks of these economies is likely to race in domestic currency devaluation to enhance their competitive advantages, which leads to the possibility of currency war. China will attract the most attention in 2016 if the PBOC changes its monetary policy. However, some countries such as India, and several Asian countries can exploit the low input materials prices, ample financial resources due to easily monetary policy (both in Europe and that countries) to boost production.

World GDP* 2016 forecast, % increase on a year earlier Western Europe Eastern Europe (incl. Russia) North America Middle East/ North Africá 0-2% (excl. Japan) 2-4% >4% WORLD Sub-Saharan Australasia Africa Latin America

Chart 20: World GDP growth forecast

Source: Economist

Economist.com

Source: Economist Intelligence Unit

The US solid economic recovery led to the Fed's decision to raise interest rates in late 2015, officially closing the 9-year era of record low interest rates. GDP growth in 2015 was expected at 2.5%, higher than 2.4% of 2014 due to the growth of personal consumption and government spending. However, the low level of inflation due to the decline in oil prices will be the factor that hinders the process of raising interest rates in 2016, which is expected to increase to over 1% from the current 0.25%. USD appreciation will affect the competitiveness of US goods, which indirect impacts GDP. The largest economy in the world is expected to maintain the current growth rate in 2016, with 2.5% GDP growth and 1.8% increase in CPI.8%.

0.6

China economy becomes more important to the global economic outlook. The decline of the 2nd largest economy in the world had affected negatively not only the developed markets and the global

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commodities price, but also many emerging and developing markets (such as Brazil, Chile, Indonesia, Malaysia, Philippines, South Africa, Thailand and Vietnam). China GDP in 2015 was expected to increase by 6.9%, decelerating for the 2nd consecutive year since 2013. The decreasing growth rate of fixed asset investment, industrial production and real estate activities were 3 key culprits of the slowdown in China GDP. China is expected to continue the downtrend in GDP growth in 2016, with the GDP growth and inflation forecast are respectively 6.5% and 1.7%.

Japan economy had mixed results in 2015. The 3rd largest economy in the world continued to struggle with the fear of stagnation. The decline in investment activities, manufacturing, sales, and export was the culprit for the economic slowdown in Japan. The sharp fall in oil prices hindered CPI of this country in the past year. The Abenomics policies has boosted government spending, but the impacts were not enough. However, Japan prospects are brighter than other countries/regions if TPP is passed, which is expected to promote the current policies of President Shinzo Abe. GDP and CPI of Japan in 2016 are forecasted respectively at 1.1% and 0.8%.

Europe had the worst experience in 2015 in many ways despite the economic recovery. The profound crisis in society, job accrued from previous years, and especially terrorism and refugee problems had significantly severed its members and threatened the unite achievement of the last 2 decades. The tension between East and West Europe has relieved. Russia not only overcame difficulties from the economic isolation, but also returned to the international stage (contributed to the P5+1 agreement, solved the problem of IS). Eurozone economy has slowly recovered with GDP growth of 1.5% yoy while inflation dropped to 0.1%. The growth rates are expected to maintain in 2016, with 1.7% GDP growth and 1% inflation rate.

Among the economic blocks, BRICS had a weak year, mainly due to the slowdown in of China economy, with GDP decreased to 4.6% from 5.4%. ASEAN was also impacted, especially Indonesia, Malaysia, Philippines and Singapore. However, some members in these two blocks enjoyed strong growth in 2015, such as India and Vietnam ... In 2016, BRICS, except for India, is expected to face more difficulties, while ASEAN countries have a brighter outlook.

Commodity market mostly plummeted last year. Energy commodities such as crude oil, natural gas had the strongest decline (down 20-30% yoy, equivalent to decrease of 40-60% since the end of 2013). Decline in agricultural commodities price were less severe: Corn dropped 10% yoy, soybeans -15%, wheat -20% yoy, and coffee -30%. Some rare growth includes sugar, cotton +5%yoy, cocoa +10%. Metals also declined: gold -10%, silver -12%, aluminum -18%, copper -25%, iron and nickel -40%. Commodity market is expected to stabilize gradually in 2016 since the economy will adapt slowly to the new market conditions. Crude oil price should experience volatility in the first half, then restore in the second half of 2016.



Vietnam Macro Outlook in 2016

Prospects in 2016 for Vietnam macro are the mixture of both bright and dark points. Persistently stable growth will replace the breakthrough in the last year. The basic forecasts of BSC Research include: GDP 2016 is expected to grow from 6.7 to 6.9% yoy; the inflation rate may fluctuate around 1.8 - 3.5% yoy; realized FDI capital may reach USD 13.5 to USD 17 billion; growing trade with trade deficit of about USD 4-6 billion; exchange rate will increase 5-8%, while changing the current exchange rate mechanism; interest rate level will increase slightly, credit and money supply are expected to grow compared with 2015.

Vietnam faces many challenges in the coming year to maintain rapid growth in the past 2 years, due to (1) the global macroeconomic fluctuations and (2) the intrinsic problems of Vietnam.

Growth motivation is unsustainable, mainly bases on the area of foreign investment. Meanwhile, the risks of imbalances had signs of reappear, such as the trade deficit, eroded foreign exchange reserves, unsustainable budget, interest rates across the bottom. Prospects for 2016 and subsequent years will be brighter only if Vietnam utilizes positive macro background built in recent years as well as promotes the restructuring process, encourages private sector, improves productivity, and upgrades growth models, etc.

Table 5: 2016 macro economic forecast

Criteria	2011	2012	2013	2014	2015	2016F
GDP yoy (%)	6.24	5.25	5.42	5.98	6.68	6.7 – 6.9
IIP yoy (%)	7.50	5.93	7.00	9.60	9.00	
Retail Sales yoy (%)	24.2	16.0	12.6	10.6	9.5	
CPI yoy (%)	18.13	6.81	6.04	1.84	0.60	1.8 – 3.5
Registered FDI (USD Bil.)	14.7	13	21.6	20.2	22.76	
Disbursed FDI (USD Bil.)	11	10.5	11.5	12.4	14.5	13.5 - 17
Exports (USD Bil.)	96.2	114.6	132.1	150.0	162.4	
Imports (USD Bil.)	105.77	114.34	131.31	148.05	165.60	
Trade balance (USD Bil.)	(9.51)	0.28	0.86	1.98	(3.17)	(4) – (6)
FX (VND/USD)	21,034	20,840	21,095	21,388	22,485	23,600 - 24,273
Lending rates (%)	15.32	11.94	9.63	8.16	8.1	8.5
Credit growth (%)	12	8.85	12.52	14.16	17.17	18–20
Non-performing loans (%)	-	4.08%	3.61%	3.25%	2,72%	

Source: BSC Research



Economic growth

Vietnam economic in 2016 will reach a growth rate equivalent to the rate in 2015, approximately 6.7% to 6.9%, more positive than the growth rate in recent years.

Relatively bright prospects for foreign investment flows in the near future will bring positive expectations for production activities, particularly industrial production for export which are pillars for economic growth not only in 2016 but also the period thereafter. Besides, export still play a key role to the economy, especially from foreign investment enterprises. In addition, domestic demand is expected to be a significant fulcrum for growth in coming years.

However, GDP growth next year will meet challenges: (1) The low growth quality due to labor productivity restrictions, (2) The slow economy restructuring process, (3) The decline in economies of Southeast Asia and China, etc.

Inflation

The low inflation period will continue in the coming year, consumer price index will range from 1.8% to 3.5% in 2016, an increase from 0.63% in 2015.

Inflation is expected to keep being affected both directly and indirectly from the price movements of oil and other commodities in 2016. First, the trend in oil prices in the next year will be low in the beginning of the year, then increase by the end of 2016. Second, commodities prices may fall further but at a slower rate than in 2015. Two those factors will bring the price recovery expectations for the goods in the CPI basket, especially dining and catering services group and transport group.

In addition, domestic demand is expected to continue to recover in the next year, along with the raising price roadmap of medical and education services, will somehow bring inflation in 2016 higher than the CPI increase in 2015.

Foreign Direct Investment

Attracting foreign investment is expected to increase in the coming year. FDI disbursement value may reach between USD 13.5 - 17 billion; FDI registration value will continue to increase.

In recent years, Vietnam has emerged as an attractive investment destination for foreign investors. Capital inflows to Vietnam are more and more in the context of FDI declining in other countries in the region. The basic factors in attracting foreign investors include: (1) Integration mind comes with completed sign of the FTAs, (2) More open policy, reflecting in the new laws which are expected to be effective since 2016, (3) Both political and economic leadership structure are completed in the first half of 2016, promising macroeconomic stability in the medium term. The platform above is expected to ensure the steady increase of FDI in the coming years, especially in three main areas: manufacturing processing industry, real estate and wholesale retail.

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Trade, import and export

Next year is a year of continuing growth in trade of Vietnam. The trade balance may deficit about USD 4-6 billion.

Trade value of Vietnam in next year has good growth prospects due to the participation in negotiating and signing a series of important bilateral and multilateral FTAs in 2015, in which some FTA went into effect (VKFTA was effective from 20th Dec 2015, EAEU FTA will be valid from 2016, ACFTA was effective as from 01st Jan 2015), some finished signing (EVFTA and TTP are expected to be effective since 2018), and some are negotiating (RCEP, EFTA, Israel, and Hong Kong - ASEAN FTA).

Deficit trend in next years is likely to continue and be more extended in 2015. The import of machines and raw materials for production and exporting, along with industrialized economic orientation will increase and rise with the increase of FDI capital. In the opposite side, the rising of exchange rate, the not -yet-clear situation of world commodity prices, and the slow growth in key markets of Vietnam such as the EU, ASEAN, Japan also create a certain pressure to export..

Foreign exchange market

Forex market is forecasted to have a lot of changes in the coming year. The role of exchange rates in macroeconomic stability increased considerably in recent years, even beyond the price controls. Exchange rate mechanism of SBV next year will be likely to change, while VND is likely to fall about 5% - 8% against the USD.

Firstly, exchange rate mechanism is forecasted to reflect more honestly the market demand than making a commitment of exchange rate movements since the beginning of the year as in previous years: (1) follows the World foreign exchange movements, through anchoring to a currency basket instead of anchoring in USD as present, and (2) follows the domestic demand, through partly floating exchange rate in the interbank. The anchoring to a currencies basket on the one hand will help VND limit the VND movements due to USD increasing (because of the reverse movement of other currencies), on the other hand may reflect more honestly foreign currency demand in Vietnam (because currency basket gathers currencies that Vietnam traded most). Currency basket (if any) which SBV uses to anchor VND on may include (i) Important currencies for Vietnam: USD, CNY, JPY, and EUR, and (ii) other major currencies/important for Vietnam: KRW, GBP, SGD, TWD, or THB ... SBV will balance two factors above (international and domestic) to determine the most appropriate average rate of interbank for each time.

Secondly, the VND may depreciate by 5%, unfavorable circumstances can be up to 8% next year. Increasing prices pressure from USD (after the Fed raised interest rates in Dec 2015) may continue for the next year (USD interest rates may rise to above 1% from the current 0.25% in the end of 2015). Besides, does not exclude the possibility of CNY discount in the context the second-largest economy in the world is confronted with many difficulties in growing. Finally, the rest of the world outside the United States still struggle with the problem of economic recovery; therefore do not rule out that the easing monetary policy, supporting growth on a global scale will continue, which will cause the most of



currencies around the world fall further against the USD. Therefore, VND is hard to maintain stability when the world economy is potentially more volatile.

Banking - interest rate

Interest rate level is expected to stabilize in the ascending trend; the increase can up to 0.5% in 2016. Credit growth could be about 18-20%, money supply growth is about 16-18%.

Firstly, rising inflation expectations in the coming year will generate considerable pressure for deposit interest rates. Secondly, requirements of capital from issuing government bonds continues to expand, while the mobilizing tends to decline, showing the gradually restricted liquidity. Meanwhile, private credit demand for investment and consumption continue to rise in the coming year. Thirdly, the Fed changed USD interest rate in Dec 2015 will open a new era of USD increasing as well as the asset valued in USD, which will make VND become less attractive because of the narrower in interest rate difference of USD-VND. Three factors above easily show the increasing pressure in deposit interest rates, as well as lending rates in the near future.

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Vietnam stock market movements in 2015

Macroeconomic and stock market report in 2015 evaluate "We are inclined to neutral scenario that VN-Index reached 600 points; and in case of enough information to support, the VN-Index will reach this expectation and kept at 650 points in a positive scenario."

In macroeconomic and stock market report in 2014, we have identified "The stock market will positive in first 6 months of 2015. In the condition of low liquidity, cash flow is affected by of The Circulars 36, cash flow of ETF will decide the market trends in January and February. We expect the stock market will maintain the uptrend in the second quarter and the first 6 months. " "The stock market will have a big challenge in the last 6 months of 2015. The market trend of the last 6 months will depend very much on whether the information, the policies happen or not is not, trends in world economic and political, information about open room for foreign investors, has signed bilateral agreements and multilateral agreements, as well as clearer painting of changes in macroeconomic that will determine the rest trend of the year".

Review the macro and stock market report in 2015 on three aspects (1) Score (2) Evolution and (3) Stock groups, BSC has predicted fairly accurately the first two aspects of the market in 2015.

The first - Score, BSC predicted nearly the actual points of VN-Index in 2015 when we assessed that factors such as TPP trade agreement, the FTA with the EU and South Korea, the stability of the macroeconomic of Vietnam will significantly affect the market. End of 2015, the VN-Index stopped at 579.03 points, close to forecast 600 points in the neutral scenario of the previous annual report.

The second – Evolution, forecasts of market moves are closely with real market movements in the year. In Macro & Stock market Report 2015, we recommend that the market will be positive developments in the first 6 months and bear big challenges in the last 6 months. In the Quarter III report, we also believe that the market will be positive developments in October, sideways in November and fell in December.

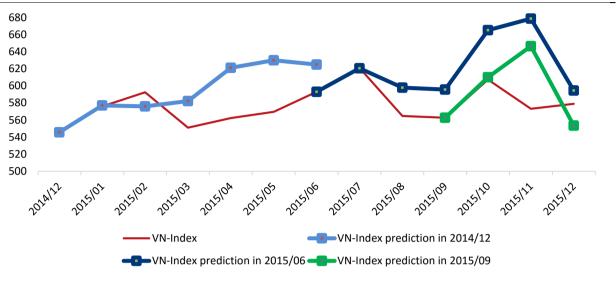
The third - Stock groups, in Macro & Stock market Report 2015, we wrote: "The stocks with moderate-to-large scale will have good growth in 2015". In fact, SmallCap stocks and Penny stocks continued impressive growth, while LargeCap stocks maintained only achievement in the first 6 months.



Review our predictions in 2015

The predictions about trends VN-Index of BSC Research in the past year is very similar to the actual movement of the VN-Index, especially in short term:

Chart 21: VN-Index and the predictions in 2015



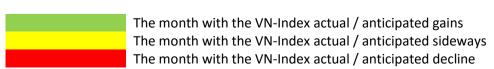
Source: BSC Research, (2015)

Table 6: Forecasted VNIndex in 2015

Month	Real VN-Index		Forecasted VN-I	ndex
		2014/12	2015/06	2015/09
2014/12	545.63			
2015/01	576.07	577.12		
2015/02	592.57	575.93		
2015/03	551.13	582.15		
2015/04	562.4	621.11		
2015/05	569.56	630.04		
2015/06	593.05	625.00		
2015/07	621.06		620.67	
2015/08	564.75		597.89	
2015/09	562.64		595.62	
2015/10	607.37		665.33	610.18
2015/11	573.2		678.76	646.49
2015/12	579.03		594.66	553.59
Change	6.12%			

Source: BSC Research, (2015)

The interpretation:



The flow of events

The peak of VN-Index in the year with an increase of 17.1% and 7.8% compared to the begin of 2015, however VN-Index rose 6.1% sustain, the HNX-Index also fell 3.7% at the end of 2015. The closing session 31/12, VN-Index closed at 579.03 points while HNX-Index closed at 79.96 points. The market had 3 times of rally and fell with very large amplitude oscillations, causing the index return as the milestone of the begin of 2015.

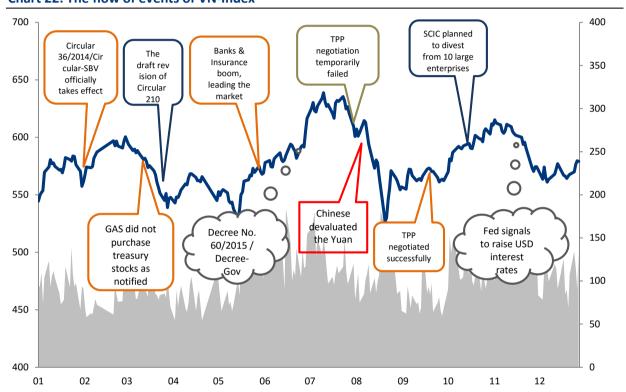


Chart 22: The flow of events of VN-Index

Source: BSC Research

The market had 3 times of strength volatility, attached to events as The Draft Circular 210, the China's devaluation and the Fed raising rates.

- Phase 1 (from 01.05.2015 to 03.30.2015): This period witnessed the leadership of Bank stocks. After VN-Index fell slightly in February due to concerns Circular 36 effect, the market regained momentum thanks to the guidance from the BID, as well as through the purchase Vietcombank Foreign. However, after peaking at day 3/4/2015 600.39, the market reversed by (1) The draft of Circular 210 made investors worry again about the money flowing into the stock market, and (2) stock GAS continuous decline by only buying 10% of treasury shares has been notified.
- Phase 2 (from 05.20.2015 to 08.24.2015): Besides stocks of banks, stocks of insurance groups also participated in leading the market in this period. VN-Index peaked in 2015 when the rate climbed to 638.69 on the day 14.07.2015. However, only one month later, the index plummeted nearly 18%, the 526 points for two reasons: (1) negative psychological impact



- from China's devaluation of the yuan and (2) the technical adjustment of the two stocks rose sharply aforementioned.
- Phase 3 (from 10.05.2015 to 12.10.2015): The market bounced back in October generated by
 the leadership of VNM after this stock in the list of SCIC. However, the pressure of the Fed
 raising rates during the FOMC meeting in December, foreign investors withdrew again caused
 the market to go down. However, this decline is not as strong and drastic as in August before
 due to the event Fed rates is not too surprising story.

Chart 23: VN-Index movements

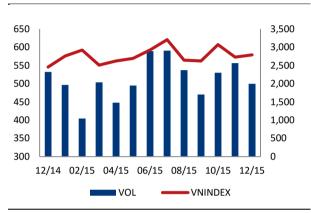
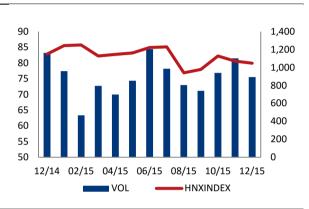


Chart 24: HNX-Index movements



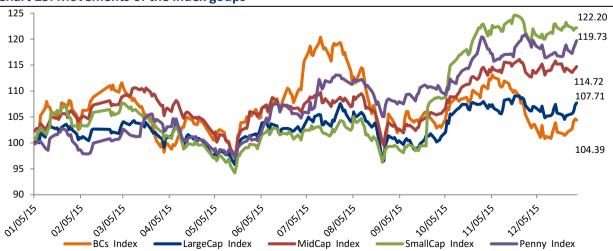
Source: HNX, HSX, Bloomberg, BSC

Source: HNX, HSX, Bloomberg, BSC

Movements of the index goups

Blue Chip Stocks did not maintain the market leading position, SmallCap stocks, Penny maintain rapid growth. Movements between stock groups this year are not much different from last year when the Small Cap and Penny groups continued to growth highest by 22.2% and 19.73% YTD. The follow goups are MidCap, LargeCap and BCs with increase of respectively 14.72%, 7.71% and 4.39%.

Chart 25: Movements of the index goups



Source: Bloomberg, BSC Research

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Market statistics in 2015

Liquidity of the market

Unable to maintain a record level as 2014, market liquidity decreased 19.1% yoy in 2015 and reached an average level about 2.360 billion / session. In Macro & stock market report in 2014, we also mentioned "hard Regulation on lending rate in securities investment under Circular 36, causing cash flow for activities of securities investment will not be as strong as last year ". This helps to explain the less positive evolution of stock market Vietnam in 2015.

Chart 26: The Average Trading Value in 2015



Source: Bloomberg, BSC Research

Market capitalization

By the end of December 2015, capitalization of both exchange floors reached 1,295 billion VND, equivalent to 34% of GDP and 17.3% increase over the previous year. The increase in capitalization is contributed by the price increase of 6.1%.

The amount of securities accounts increased stability, maintain an average increase of 6% in recent years. By the end of December 2015, total securities investment accounts reached 1.5 million, up 7% compared to 2014. As of November 2015, the total reached 18. 508 foreign accounts, up 5.3% over the year before. The number of new accounts recorded 938 accounts, of which the 661 new individual accounts and 277 organizational accounts. The growth of investor accounts in general and foreign investor accounts in particular remained stable as the previous year.

27 listed companies with liquidity over a million USD/ session on the 2 floors. FLC's shares continue greatest liquidity. Only 27 companies were recorded liquidity on \$ 1 million/ session in 2015, down 11 companies compared with last year. FLC maintained to lead in the top with 4.11 million / session, followed by others such as CII shares traded 3.74 million, SSI with 3.1 million USD, HHS with 1.94



million USD . Also list continues with representatives of oil and gas stocks (PVS, PVD, GAS), the food group (KDC, VNM) and bank group (CTG, MBB). The amount of basic shares contributed more than last year, showed that cash flow has the breadth and shifting from speculative stocks to the stocks fundamentals. This is also mentioned in the Macro and the Stock market Report in 2014, namely "movement with hot stocks will not be appreciated highly in 2015" and "stocks with moderate-to-large scale will be good growth in 2015".

1,250 155 150 1,200 145 1,150 140 135 1,100 130 1,050 125 1,000 120 10/19 10/29 11/8 11/18 11/28 12/8 12/18 12/28 1/7

Chart 27: The scale of market capitalization in 2015

Source: Bloomberg, BSC Research

Foreign transaction

As mentioned about the risks in the report of 2014, the information related that the Fed raised interest rates has affected the inflow of foreign investment, particularly hot capital from ETF. Despite Vietnam's stock market in 2015 had attracted a net investment of foreign investors, went against the trend of net capital withdrawal from foreign investors in the stock market of other the region.

HNX MarketCap (right)

HSX MarketCap (left)

- The total value of foreign holdings in 2 floors reached 14.3 billion US dollars, accounted for 24.9% of the market. Trading activities of foreign investors still have a strong influence on market movements.
- The value buying of foreign net reached 2,736 billion, downed 27.9% to compare with 2015.
- Activity selling of foreign net accelerated in March, September and December advance the information about the possibility of the Fed raising interest rates.
- Foreign investors bought more in SSI and stocks of the Bank; sold net in the VIC, HAG, and MSN.
- 2 ETF were VNM and FTSE VN to attract capital flows, had a big effect to the market and downsized. Growth potential was great through increased room policy for foreign investors.

Foreign investors owned 14.3 billion in two listed market, accounting for 24.9%. They owned 13.4 billion cap on HSX, owned 26% and 0.93 billion US dollars, accounting for 3.1% cap on HNX. The value



of foreign ownership increased by 12% compared with 2014, however the percentage is only slightly increased from 24.2% to 24.9% because of VND is devaluated than 5% in 2015. In addition, the new listing activity helped to increase foreign capital but couldn't offset the inflation rate of the VND.

Inflows of foreign net buying was 2,736 billion, downed 27.9% compared to 2014, net buying decreased rates in 2014 due to the caution and operate withdrawal of foreign funds and ETF before each information that FED may raise interest rates. Foreign capital had negative growth for 2 consecutive years.

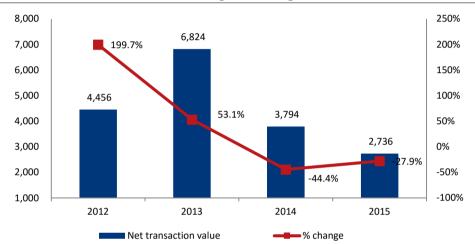


Chart 28: Net transaction value of foreigners during 2012-2015

Source: Bloomberg, BSC Research

Inflows of foreign invested in Vietnam's stock market declined though it went against the trend of foreign net withdrawal in stock markets of regional countries. This show the Vietnam stock market was still potential and attraction to foreign capital flows.

Table 7: Inflows of foreign capital in regional markets (Unit: Mil USD)

Nation	December	2015Q4	Year 2015
India	(129)	(498)	3,110
Indonesia	(101)	(695)	(1,579)
Japan	(5,050)	6,853	4,219
Phillipines	(86)	(321)	(1,194)
Korea	(2,556)	(4,010)	(3,580)
Sri Lanka	(4.9)	(9.2)	(29)
Taiwan	(822)	248	3,384
Thailand	(902)	(1,299)	(4,372)
China	(110,550)	(172,450)	(841,790)
Pakistan	(37)	(138)	(312)
Vietnam	(-89)	(62)	100

Source: Bloomberg, BSC Research



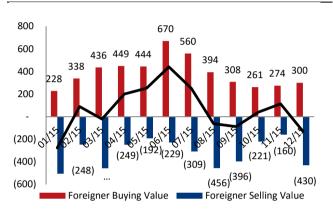
Foreigner bought net in February, April, May, Jun, July, October and sold net in the January, March, August, September, November, and December. The reversal of purchasing was in March at the time of The Fed launched a message about the ability to raise interest rates this year, in August the central bank of China adjusted exchange rate of Yuan and before December, a clear message about the Fed raising interest rates in 2015.

Chart 29: Foreign transaction in HSX

10,000 6,777₆,000₅,298 5,963 5,976,185₅,310 4,569 5,000 (5,000) (2,527) (4,356),155) (6,148) (6,681,305) Foreigner Buying Value

Foreigner Selling Value

Chart 30: Foreign transaction in HNX



Source: Bloomberg, BSC Research

Source: Bloomberg, BSC Research

Foreign capital inflows showed the leading role and orientation in 2015. At the time of strong foreign selling in March, August, December, market plunged. Market only went against selling activity of foreign investors at the time of January and September. In September, the market moved in the expected of ending TPP negotiations and opened room for foreign investors. Liquidity was weaken so foreign capital flows continued to hold an important role in the evolution of the market in 2015.

Financial stocks were purchased by foreigners and vice versa sold stocks with a negative outlook as HAG, KDC and Oil & Gas stocks.

Chart 31: Top 10 stocks net buying from foreigners in 2015

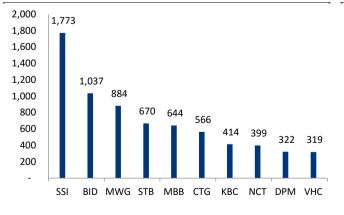
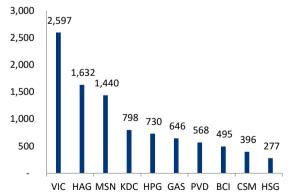


Chart 32: Top 10 stocks net selling from foreigners in 2015



Source: Bloomberg, BSC Research

Source: Bloomberg, BSC Research

SSI was bought the most with 1,773 billion after the AGM through increased room from 49% to maximum of 100%. 4/6 Bank were listed on the HSX, also in the list were bought in include BID, STB,



MBB and CTG. However, in the selling side, VIC stocks was the most net selling with 2.597 billion mainly due to the operation of international bonds convert into shares and divested operations entail large scale. In addition, the shares had negative outlook as HAG, KDC, GAS, PVD were sold strongly.

ETF contributed most in foreign net buying, when purchase net with 2,514 billion, 91.8% proportion of the total value of net buying by foreigners. Net purchase value of 2 ETF funds include Vietnam Market Vector (VNM) and DB x-trackers FTSE Vietnam (FTSE VN) fell 4.5% compare with 2014 (2014 net purchase was 2,633 billion), but the percentage of ETF buying in total net buying of foreign investors increased from 69% to 91.8% in 2014 to 2015. In the context of foreign capital flows were declined, the role of ETF increased significantly in 2015. Even 2 ETFs in 31/12 was approximately 704 million USD, trading activity influenced very strongly to market activity because of rising and falling fund by state of NAV, and the influence of the periodic review of the portfolio. The ETF maintained additional issuance trends in the first 9 months, and sold downsize in March, August and December 11. The session ETF sales influenced very to market trends.





Source: Bloomberg, BSC Research

Source: Bloomberg, BSC Research

2 ETF still had potential growth of size and VNM ETF had growth exposure stock in Vietnam market through open room policy for foreign investors. VNM ETF will have more potential stocks to be able raise the maximum percentage of holding shares in Vietnam market.

VNM ETF and FTSE VN ETF fall sharply certificate issued in 2015 but due to ETF VNM increased proportion of holding stocks in the Vietnam market, so the value of two funds net buying were nearly the price value in 2015.

In terms of scaling operations, 2 net buying funds were about 1,254 billion. FTSE VN increase of 1.38 million certificates, an increase of 10% equivalent to 777 billion of net buying, while ETF VNM rose by 0.8 million certificates, up 1.9%, or 477 billion.

In terms of increasing the proportion of Vietnam stocks in portfolio, VNM ETF had 2 rebound percentage and net purchasing of VND 1.260 billion consisting of: (1) Fund increased the proportion from 70% to 77.5% in the first quarter of 2015, bought more USD 39 million or VND 830 billion; (2) Funds increased the proportion from 77.5% to 82% in the fourth quarter of 2015, purchased USD 19.2 million additional, or VND 430 billion.

Prospects growth in scale of ETFs in 2016 is still good by opening room policy for foreign investors. The ETFs will have more opportunities to choose the stocks which matching criteria but were impossible with the stock has run out room previously. The effect of opening room show positive when VNM ETF is actively to increase the proportion of Vietnam stocks 2 times in 2015, from 70% to 82%.

Assessment of factors affecting the stock market in 2015

Basic macroeconomic factors continued to support the market but the market didn't have adequate growth due to the weakening of cash flow. What we've mentioned in the report in 2015 of the abilities applicable Bank Circular 36. Markets were affected so heavily on trading activities of foreign investors in 2015

Table 8: The degree of influence of macroeconomic policies and international factors to market

Factor	Content	Degree of influence
	СРІ	Weak
Macro	PMI	Medium
	GDP	Medium
	Enchange rate	Strong
	Down foreign currency rates	Weak
	Circular 36	Very Strong
Policy	Central Bank repurchased weak bank	Medium
	Open room for foreigners	Very Strong
	Trading agreements	Medium
	State divestments and IPO	Strong
	Oil price volatility	Strong
International	FED raised interest rates	Very Strong
	PBoC adjusted the exchange rate	Very Strong

Source: Bloomberg, BSC Research

Overall, market performance remained response strong to the information of the Fed to raise interest rates, Circular 36, the PBOC to adjust the exchange rate, open room for foreign investment and oil price fluctuations; the reaction medium/weak with GDP, PMI, CPI, interest rate adjustment of foreign currency and the trading agreements. The information which influenced the market were related to capital flows in and out market of foreigners.

Cash flow continued to decline, shares reflected true value. Average liquidity was less than 2,481 billion/session, down 15% compared with 2015. Liquidity decreased by the reasons: (1) base cash flow increased slowly; (2) operating margin declined due to adjustments by Circular 36 and (3) Foreigners reduced purchasing (total trading value reached 11.923 billion/month in 2015, down 3% compared to

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with 2014). Liquidity declined, and capital flows remained concentrate in the stock market, made market movements not to reflect the true value of the shares.

Markets wasn't active in the last 6 months due to cash flows to decrease. Market movements depended on the news published as macro information (CPI, PMI, GDP, exchange rate adjustment), policy information (Adjustment rates, Down foreign currency rates, Circular 36, the central bank repurchased 0 value weak Bank, Open room for foreign investment, trading agreements) and international information (the Fed raised interest rates, the Bank of China adjusted the exchange rate, and oil price volatility).

About 159 businesses have done equalization, the Ministry of Finance was urgently done till the end of 2015 with the goal of 210 equitized enterprises. December witnessed a number of major businesses IPO, included Airport Corporation, the Sonadezi Corporation, Hanoi Railways... total estimated value of the IPO was over 4000 billion. Also in 2015, SCIC finished sold capital for 12/38 listed companies, which may include large divestments case of Vietnam Electricity Construction JSC (VNE), Southern Seed JSC (SSC), Vietnam National General Export-Import JSC No.1 (TH1). Statistic in 11 months, the Hanoi Stock Exchange conducted 81 successful auctions, 5 sessions were canceled, included 57 sessions offered IPO and 19 sessions divestment of state, the total number of shares offered 896.9 million shares, total shares hit 35%, equivalent to 311.6 million shares more. While, HOSE implemented successfully 35 auctions, 16 sessions were canceled.



Market outlook 2016

Factors affecting the stock market

We evaluate the factors affecting the stock market outlook in 2016 on the basis of analysis 3 aspects (1) macro outlook and global stock market (detail in Macro), (2) the stock market supply and demand, and (3) policy stock market and performance. Both 3 factors show in 2016 will be a year with many challenges and unknowns than the previous 3-year period. Greatest expectations for Vietnam stock market developments better than the region is stronger innovation economy, by the year 2016 will take place the Congress 12 and parliamentary elections. In case of unfavorable factors prevail, then the investor will need to enter 2016 with cautious mood with, choose carefully of investment opportunities. Specific:

Global macroeconomic and stock market outlook

2016 is expected to be a difficult year for the stock market as well as global economy. This is a year of remarkable events with significant impacts on growth decisions in the medium and long term of the economies such as: the ability of applying TPP in 12 member states, the US Presidential Election, a new 5-year plan of the China, British referendum on staying in the Eurozone ... Which risk factors from (1) China economic is slowdown and (2) the raising interest rates of the FED are accounted for advantages and will generally affect investment trends in the global stock market, include the wings and emerging stock markets. The Vietnam could become the highlight attraction of investment depend very much on (1) macroeconomic situation in the country and (2) the strong commitment to reform economy in 2016, the 30th year since from "Innovation" in 1986.

Global economy in 2016 includes contrasting colors: 2 large international organizations with IMF and WB make different judgments about world growth in 2016. While the IMF forecasts of 3.6%, the WB downs world growth to 2.9%. US, EU and Japan have positive changes, China and the emerging regional states come down signs. The risk of the global economy come from two main problems (1) China economic is slowdown and (2) the raising interest rates of FED

Vietnam macroeconomics may be the bright spot: Macroeconomic is forecasted to continue strong growth at 6.7% - 6.9% in 2016. Without two factors can turn negative as exchange rates and interest rates may rise, other indicators such as CPI, FDI, trade growth, credit growth are remained stable. Manufacturing and business activities are expanded, business results improve and EPS of the market continues to forecast to increase 5% would help to stabilize market and limit negative impacts from the world market.

In 2015, Vietnam completed negotiations two major FTAs includes Free trade agreement Vietnam - EU (EVFTA) and the Agreement on the Trans-Pacific Partnership (TPP). Along with the event of ASEAN Economic Community was officially born 31/12/2015, trade agreements will be signed in 2016 and go into effect in the next year will be an important step transformation of Vietnam economy in the international integration process and in the region. The opportunities to expand the market and attract investment are not only to export businesses but also the financial investment field. The



standards in financial services is built and compliance would attract indirectly foreign investment capital flows help market with new momentums

Domestic stock demand exerts, foreign one promotes M&A

Review internal cash flow: This factor is difficult to quantify because depends much on macroeconomic factors as well as the psychology of the stock market. Comment on a number of factors such as (1) the number of accounts, (2) interest rate and margin. In terms of basis cash flow, the number of investor was 1.5 million accounts (an increasing of 105 thousand accounts compared to the end of 2014). The growth rate was faster than the previous period, due to the policy of unlimited the number of accounts for one investor. In addition, margin supply capacity declined due to adjustments by Circular 36 and the interest rate was likely to bottom in 2015. Thus from domestic investors are unlikely surge of cash inflows to the stock market in 2016, especially when the macroeconomic factors, psychological are unfavorable developments.

Review cash flow of foreign investors: on the listed stock market, the figures showed a clear the trading trend of foreign investors are still active in Vietnam, remained net buying in case of global stock market was quite bad. Despite the speed and scale of net buying in 2015 fell (just over US \$100 million) showed that Vietnam has affected the overall trend of net withdrawal of funds from emerging stock markets and margin (after the Fed increased the base rate). More slightly optimistic, cash flow M&A in 2015 were stronger in the previous stage. According to estimates by the IMAA the M&A market in Vietnam reached US \$3.8 billion, with nearly 400 intended deal announced in 2015, up from \$ 2.8 billion by 2014. In the process of the structure of the economy will open up more friendly environment for investors, and the 2nd wave of M&A is expected to be very strong. Although no one can make sure how cash flow was released from the M&A to back the listed stock market, but it will certainly have a positive impact on direct and indirect to cash flows of foreign investors on the listed.

Stock demand will increase with divestment activities, equalization and capital raise

Equalization plan: According to the equalization plan of the State Enterprise for 2011-2015, expected to equitize 527 enterprises, up to 12/2015, country achieved 397 businesses. So about 130 businesses will equitize as the planned in 2011 - 2015. In addition to this amount of equitized enterprises in the period 2016 to 2020 is expected at about 500.

Transparency rules are accelerating the process of the Company listed on UPCOM (Decision No. 51/2014 /QD-TTg in 15/09/2014 of equalization government business, divestments associated with the listing). In 2015, 72 companies listed on UPCOM, increase 2 times compared with 2014. The new listed stocks helped the market capitalization increased by 97% compared UPCOM 2014. With 243 listed stocks, which many large companies and cap reached 47.5 trillion.

The stock supply will increase with the speed of equalization, and UPCOM will increase the scale of attracting investors in 2016. Among the new faces will have many good investment options, however Reviews about the size will make the supply of shares on the stock market continue to rise in 2016.

Divesting state will be accelerated. With budget pressures and the goal of restructuring the economy and the strategic development of the sector, key sectors in the period 2016-2020, we evaluate the



divestment activity to continue to be promoted in 2016. Government had many identifiable landmarks for divesting operations in 2015, and will promote faster divestments since 2016. Specifically:

- Document No. 1787/TTg-Renovation of the restructuring of State Capital and Investment
 Corporation in 10/2015, through which the goal was to quit all State capital at 8 large
 enterprises including VNM (45.1%); BMI (50.7%); VNR (40.4%); NTP (37.1%); BMP (38.4%); FPT
 (6%); SGC (49.9%); HGM (46.6%) and 2 non-listed enterprises is FPT Telecom JSC (50.2%) and
 Vietnam Property and Infrastructure VIID (47.6%).
- Decision No. 41/2015/QD-TTg allowed to sell shares in batches through the State Stock Exchange implement divestment in unlisted companies/registration transactions. Also according to the Ministry of Finance, the auction in batches helps enterprises to sell rapidly stakes in once, avoid sell 1 share and organize many new auction to sell out the shares for sale.

State divestment activity will continue in 2016 for the enterprise which not equalization 2015, additional screening, additional businesses need equalization, divestment of state.

Thus, divesting of the State will provide a large amount share of market, increase liquidity quickly for market, increase efficiency in the long-term economy. But in short term, stocks supply whether listed stocks or OTC will affect cash flow in the stock market, so this process need to be accompanied by attracting more investment flows (private and foreign investors).

Issuance increase capital of the Enterprise. If the two factors mentioned above were primarily related to state enterprises, then the stock market was quite actively in recent years caused the listed companies to boost raise capital. According to the SSC data, the scale of increased capital and equalization in 2014 and 2015 were from 23,000 to 24,000 billion.

In 2015, in the size and extent, there were few cases of capital increasing too fast and strong as FIT, FLC, TWO, GTN, TSC ... Investors were also more cautious with capital raising plan of the enterprises. Despite the stock market issues to raise capital quickly and also will make supply stocks more abundant.

More open policies will have positive impacts

Policies developed stock markets help market transparency and create a legal basis for the introduction of new products types. In 2015, the legislation in the field of securities were issued much and had great influence on the development of the stock market for years later.

- Government issued Decree 60/2015/NĐ-CP amending and supplementing some articles of Decree 58/2012 on detailed regulations and guidelines for implementation of some articles of the Law on Securities and the Law on amendments. Open room for foreign investments under Decree 60 attracted strong foreign capital inflows in late June and early July 2015.
- Decree 42/2015/NĐ-CP provided a foundation for the development of the derivative market
 of Vietnam stock market. Derivative market is expected to operate in 2016 with two products:
 stock index futures contract and government bonds future contract. This tool opens up new
 investment channels for investors, now having more tools arbitrage and hedging opportunities



- and enhancing performance using financial leverage. After careful step, the market will also welcome many new products such as warrants have secured, option contracts.
- The Ministry of Finance issued Circular 123/2015 tutorial Guide foreign investment in the stock market; Circular 155/2015 Guide to disclose information on the stock market; Circular 162/2015 Guide to offer of securities to the public, offer to swap shares, issue new shares, buy back shares, sell treasury shares and the public offer of shares; and Circular 180/2015 Guide Registration to trade stock on the unlisted securities trading system. These provisions had positive influence to the market in 2015:
- The Ministry of Finance also issued Circular 203/2015/TT-BTC replace Circular 74/2011/TT-BTC
 Guide to trade stock with important content that allowed investors to buy and sell securities
 at the same time of the transaction, sell the pending securities, trade the same type of
 securities in the day, reduce the time of stock trading, ... These new rules will improve
 drastically the rotation of investment and allow for short-selling in the low level thereby
 boosting liquidity in the market.

The Decree 60, Decree 42 and Circular 203/2015/TT-BTC amending Circular 74/2011 will have significant impact on the market in 2016.

Decree 60/2015/NĐ-CP, despite the immediate impact to the flow of foreign capital in 2015, but the impact is limited when only a few securities firms perform open room for foreign investors, while the most of listed company or were waiting for shareholders meeting next year to approve or not done by waiting list trades and investment conditions for foreign investors will be announced by the Ministry of Planning and Investment. On the other hand, SCIC holds a significant proportion in the Company which room off to divestment so the opening room for investors is really mean. Therefore, the provision open room for foreign investors policy is expected to attract significant foreign capital on the stock market. Activity attracting foreign capital will depend on two issues published in 2016: (1) Lines are completely open room and the rate open room for each sector and (2) Roadmap and progress divestments in companies which room off, listed by SCIC holds.

Continue the breakthroughs of policy in stock market in 2015, SSC will continue to implement the restructuring of the stock market, enhance transparency market, build and develop of new products, the stimulus, the coast through domestic and foreign capital flows, and prepare commissioning derivatives market. These are important prerequisites to raise the stock market and are the factors that affect to market movements in 2016.



Forecasting VN-Index in 2016

We use 3 methods of P/E, the weighting big stock, multivariate regression model to forecast the VN-Index. The average price of these methods show the target score of VN-Index is 590 points, range from negative 565 points to positive 650 points. Comparing with the closing price in 2015, that point range reduction from 2.4% to 12.2%. Target area is modest compare with previous years, this also shows that the stock market in 2016 will be more difficult and unknown. The forecasting method VN-Index as follows:

Forecasting VN-Index by PE multiple method

Method overview

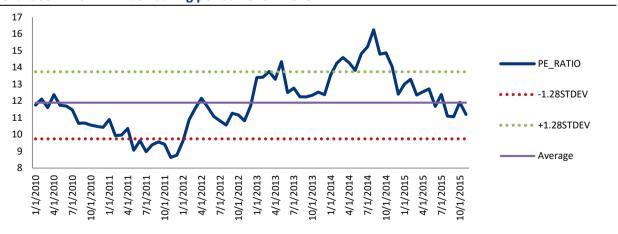
- This method is built on the basis of forecasts of market PE and EPS next year to determine the score. Forecasts PE are made based on high and low levels of PE past, also forecast EPS market chains are made based on the model ARIMA (3,1,3).
- We use Chain metrics lasted from 2009 to the present, because of very strong market volatility in 2007 and 2008, so data on PE and EPS during this period are not reliable.

Forecasted PE

Current PE of VN-Index reached 11.3. PE market survey from 2010 to the present, we find that the lowest level of PE was 8.8, reached in March 2012 and higher PE ratio is 12.4 to be accepted by the market in the period from May 2013 to March 2014 and the period beginning in 2015.

The downtrend of the PE formed in late August 2014 to the present time, and this decline may continue to happen, which put PE in difficulty to recover about average line.

Chart 35: PE of VN-Index during period 2010 - 2015





Based on above forecasted PE movement, we construct two scenarios as follows:

- **Negative scenario:** PE of market moves closer to 1.28STDEV line (corresponding to 90% of confidence level) and bottoms at 9.75.
- **Positive scenario:** PE of market climbs towards the aaverage level. PE reaches the 6-year average value and stop at 11.75.

Forecasted EPS

Forecasted EPS of the market at the end of quarter 1/2016 and 2/2016 quarter by model ARIMA (3,1,3), and the results will be shown as following:

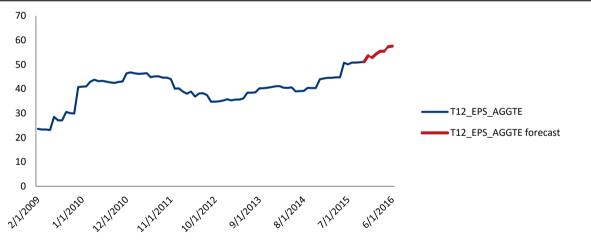
Table 9: Forecasted EPS in 2016H1

Date	Forecasted EPS	Compared to EPS 2015
3/30/2016	55.50	3.5%
6/30/2016	57.58	7.4%

Source: BSC Research

We appreciate 5% growth for next year of EPS that is reasonable in the context of the enterprise are also improved business results and income tax rate to be reduced to 2% by Decree No.218/2013 of the Government.

Chart 35: EPS performance during 2009 – 2015 & EPS forecast in 2016H1



Source: BSC Research

Combined with above the predictation of PE, two scenarios for the VN-Index at the end of 2016H1 can be illustrated as following:

Table 10: Forecasted VN-Index in 2016H1

	2016Q1	2016Q2
Negative scenario	488.4	506.7
Negative scenario	688.3	714



Forecasting VN-Index by weighted average BCs capitalization method

Method overview

- method of valuation is based on receiving key stocks in 2016 by brokers and financial institutions made.
- VN-Index is based on the military price, highest price, lowest price of 30 stocks with the largest scale (accounting for 78.6% of market capitalization) and the price of remaining shares taken by reference in 31/12/2015. (See details in Appendix 2)Kết quả dự báo

Table 11: Forecasted VN-Index in 2016

	Target point	Max.	Min.
VN-Index 2016	609	661	586

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Forecasting VN-Index by time series method

Methoad overview

- This method uses the vector auto regression model that assesses the relationship between VN-Index with macroeconomic variables and abroad. The result should be seen as an approach and assess volatility of the stock market. BSC Research conducts adjustment quarterly to ensure market closely.
- The macro variables/market use in the model are: industrial production, CPI, retail sales, oil prices, gold prices, exports and imports, investment, interest rate, CDS index in 5 years. The study period is at least 8 consecutive years.

Forecasting VN-Index in 2016

Depend on updating macro data, new markets, BSC Research continues to make forecasts about the scores of VN-Index for the future. Specifically, in 2016, the VN-Index will fluctuate in a range between 545-641 points with landmarks suggestions:

- Reducing significantly in January;
- The period of recovery and increasing from February to August;
- Adjustment phase between September-November;
- Reducing significantly in December.

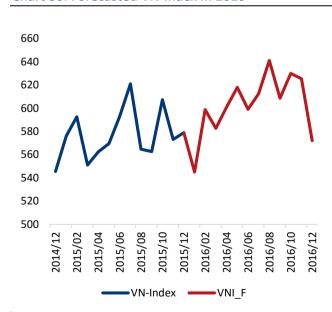
At the end of 2015, the VN-Index was predicted close at 572 points, down 4.18% compared with the end of 2014.

Table 12: Forecasted VN-Index in 2016

Month	VN-Index	VNI_Forecast		
2015/12	597.03			
2016/01		545.01	-8.71%	
2016/02		598.84	9.88%	
2016/03		582.70	-2.69%	
2016/04		601.08	3.15%	
2016/05		618.07	2.83%	
2016/06		599.18	-3.06%	
2016/07		612.58	2.24%	
2016/08		641.23	4.68%	
2016/09		608.70	-5.07%	
2016/10		630.03	3.50%	
2016/11		625.51	-0.72%	
2016/12		572.07	-8.54%	
Change			-4.18%	

Source: BSC Research

Chart 36: Forecasted VN-Index in 2016





Investment Strategy in 2016

Vietnam's economy continues to enter the growth cycle, form the basis for stock market gains in 2016. Despite the market outlook is not appreciated when in 2016 appears the elements not conveniently for the market such as exchange rates, interest rates and securities investment money no signs of growth. Market forecasts slight growth and will have a strong differentiation between sectors and stocks. On the one hand, new listings activities are increasing supply to the market, on the other hand will bring many opportunities. The new shares are listed on Upcom will attract the attention of investors.

In term of score, VN-Index is expected to finish at 590 points in netral scenario, 650 pts in positive one and 565 pts in negative one in 2016.

In term of market performance, cash flow continues to be the factors noted in 2016, the same as in 2015 cash flow will be negative in the first 6 months. However, the cash flow expected to improve in the last 6 months due to the change of technical nature that allows investors to short sell transactions T0 and lower level according circular 203. Circular cash and stock turnover will increase strengths and compensate for the limited growth in cash flow and helps improve liquidity.

In the first 6 months, the exchange rate factors are considered and influence little more to market movements, however, the market is likely to have a pronounced wave in mid-February to March due to:

- Enterprises announced business results audited year, expected the first quarter of 2016 and AGM (shareholder meeting). A content AGM attracted attention during this time and many AGM listed company will open room through content for foreign investment.
- Personnel of Congress Party Central 13 announced it would release to the market sentiment.
- Premises stocks lower, creating a safe distance for investing activities
- After the withdrawal period before and after the Fed announced the rate hike. Cash flow
 foreign investors will likely return to the cyclical as the macroeconomic outlook and the
 solution growth rate stability and interest rates. Along with the companies announced open
 room and SCIC will take the first steps for the divestment will attract back foreign capital
 flows.

In the last 6 months, the market will depend on the effect of Circular 203, trend of economic movement in the country. As the effectiveness of policies to attract foreign capital from the open room and SCIC divestment. During this period of macroeconomic parameters such as interest rate and exchange rate will be determined by market movements. Therefore, market forecasts last 6 months we will update details in macro and stock market report May 6, 2016.

In term of leading stock in 2016, in the second half of 2015 the trend shift into stocks fundamentally good business results were quite clear. This trend is also predicted to be the main trend of the market in 2016 when the cash flow continue to not be appreciated. The sector is highly appreciated in 2016 by the cyclical element, shifting foreign investment flows and have a competitive advantage by the trade

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agreements such as Real Estate, Banking & Insurance, Construction & Infrastructure, Ports, Information Technology and Textile has good growth opportunities in 2016. In addition, the shares are open every room and activity room with the SCIC divestment is expected to be pillars guide market leaders in the following year.

When Circular 203 took effect, the stock market may be interested again by investors. Still with transactions T0 and intraday short selling, the market movements in one direction will be difficult to increase sharply, according to which way prices will not rise sharply but sure and longer, and reverse discount if cyclical will also have low intensity time and last longer.

Prospects for the sectors and the shares of interest in 2016 see details in **"Prospects Sector Report 2016".**



Appendix 1: EPS of VN30 stocks from 2013 to 2015

Ticker	EPS 2013	EPS 2014	EPS 12T2015
BVH	1,672	1,850	1,851
CII	768	3,353	4,728
CTG	1,504	1,534	1,584
FLC	934	1,628	1,519
FPT	4,075	4,127	4,344
HAG	1,195	1,866	1,362
HCM	2,241	2,956	1,571
HPG	2,703	4,290	4,640
KBC	250	904	1,205
MSN	618	1,447	2,728
PPC	5,122	3,284	3,113
PVD	5,400	6,941	5,802
SSI	903	1,604	1,473
STB	1,525	1,485	1,348
VCB	1,635	1,862	1,900
VIC	4,221	1,945	743
VNM	5,444	5,057	5,856
CSM	5,324	4,342	4,002
DPM	5,644	2,885	3,519
EIB	533	46	(124)
GMD	1,698	4,598	2,695
HHS	1,270	2,116	5,090
HSG	4,565	3,278	5,179
HVG	1,352	1,732	642
ITA	146	202	293
KDC	2,543	2,296	22,613
MBB	2,022	2,074	2,155
PVT	935	1,333	1,166
REE	3,980	4,004	3,624
VSH	967	1,742	2,415
VN30	2,167	2,096	2,284 ³

 $^{^{\}rm 3}\,\text{EPS}\,\text{VN}30$ will be VND 2.077 if removing the additional profits from asset sales of KDC in 2015

Appendix 2: The target prices of 30 stocks having the largest weights in VN-Index of the securities companies and financial institutions

			Average					
	Weight in	Current	target	% price		% price		% price
Ticker	VN-Index	price	price	Dec31	High	Dec31	Low	Dec31
VNM	13.5%	128,000	113,678	-11.2%	146,000	14.1%	129,000	0.8%
VCB	10.2%	43,900	45,340	3.3%	55,000	25.3%	45,900	4.6%
VIC	7.5%	45,700	49,223	7.7%	54,500	19.3%	49,084	7.4%
BID	6.2%	20,600	20,483	-0.6%	18,600	-9.7%	18,600	-9.7%
CTG	6.1%	18,600	16,473	-11.4%	21,000	12.9%	21,000	12.9%
GAS	6.0%	36,200	51,592	42.5%	55,000	51.9%	38,500	6.4%
MSN	5.1%	77,500	80,000	3.2%	80,000	3.2%	80,000	3.2%
BVH	3.2%	53,000	39,300	-25.8%	44,800	-15.5%	30,500	-42.5%
MBB	2.0%	14,600	16,222	11.1%	18,300	25.3%	15,000	2.7%
HPG	1.9%	29,200	40,154	37.5%	44,280	51.6%	33,600	15.1%
HNG	1.8%	28,800	38,500	33.7%	30,500	5.9%	30,500	5.9%
STB	1.7%	13,100	11,883	-9.3%	10,700	-18.3%	9,300	-29.0%
FPT	1.7%	48,300	58,772	21.7%	64,400	33.3%	60,000	24.2%
EIB	1.2%	11,200	11,460	2.3%	11,700	4.5%	9,600	-14.3%
DPM	1.0%	29,100	35,955	23.6%	40,000	37.5%	35,000	20.3%
MWG	1.0%	78,500	88,381	12.6%	102,000	29.9%	99,000	26.1%
SSI	0.9%	22,200	28,755	29.5%	30,900	39.2%	26,600	19.8%
PVD	0.8%	26,500	33,700	27.2%	37,400	41.1%	30,300	14.3%
HT1	0.7%	26,800	30,733	14.7%	31,700	18.3%	29,800	11.2%
HAG	0.7%	10,400	24,325	133.9%	9,400	-9.6%	9,400	-9.6%
NT2	0.6%	26,600	30,133	13.3%	34,900	31.2%	29,907	12.4%
DCM	0.6%	12,900	13,825	7.2%	13,000	0.8%	13,000	0.8%
REE	0.6%	25,200	31,535	25.1%	34,238	35.9%	34,238	35.9%
CTD	0.6%	153,000	171,000	11.8%	180,000	17.6%	171,000	11.8%
KDC	0.5%	24,300	30,000	23.5%	30,000	23.5%	30,000	23.5%
KBC	0.5%	13,100	17,797	35.9%	19,400	48.1%	16,000	22.1%
PPC	0.5%	18,300	23,060	26.0%	21,700	18.6%	20,834	13.8%
BMP	0.5%	131,000	120,813	-7.8%	167,000	27.5%	167,000	27.5%
DHG	0.5%	66,500	72,673	9.3%	74,000	11.3%	68,600	3.2%
GMD	0.4%	42,400	39,800	-6.1%	44,200	4.2%	44,000	3.8%
Average				16.1%		19.3%		7.5%



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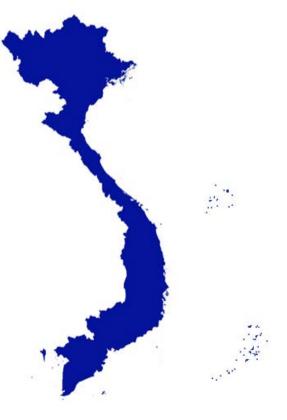
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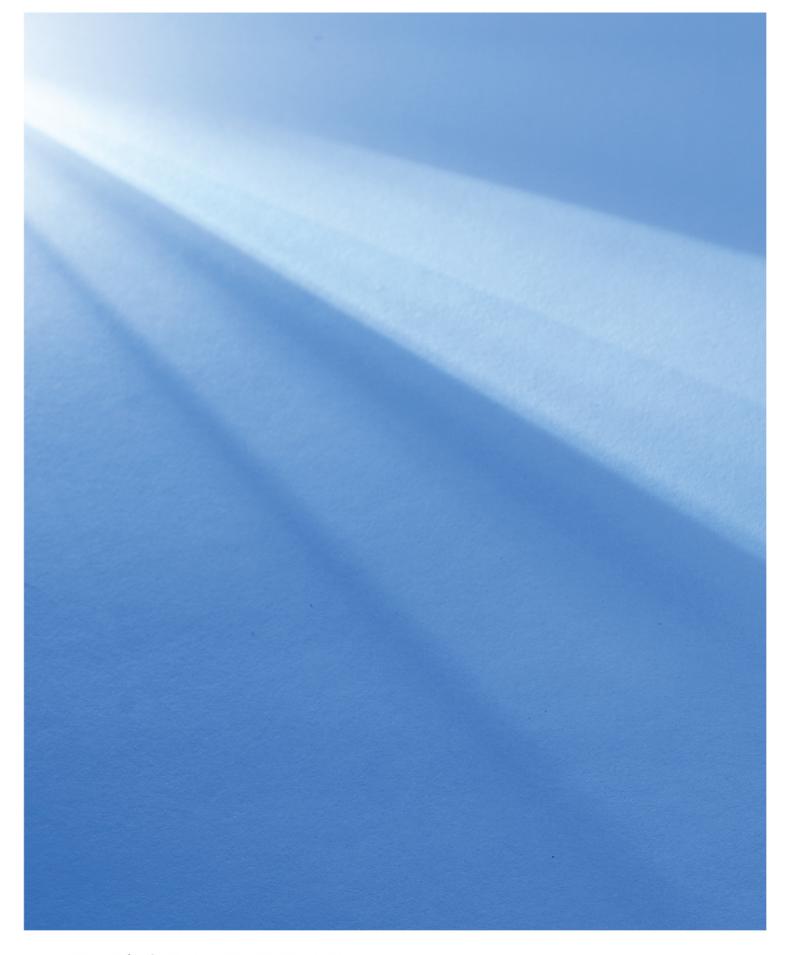
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