Vietnam Sector Outlook

Báo cáo triển vọng ngành (part 2)

2016

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SECTOR INVESTMENT STRATEGY 2016

Since BSC started our annual sector reports in 2012, with quarterly review in 2015, never did the sector selection become so challenging. For the year of 2015, there was rarely any stock index that could close in blue zone, if calculated in USD. While emerging markets and frontier markets experienced deep falls such as Straits Times Index-Singapore (-15%), SET Index- Thailand (-14%), JCI Index-Indonesia (-12%), Vietnam stock market achieved the 5th highest growth among Asian countries, with a 6.1% increase in VN-Index. In the period 2012-2015, the downward trend and the low level of interest rate, combined with low raw material prices was the fundamental growth driver for businesses. However, interest rate is currently at its bottom and is likely to increase slightly in 2016. The rise in interest rate, along with other factors, has caused earning growth depending largely on the internal growth drivers of businesses.

2016 will be a year of expectations and changes, with challenges and divergence from the global economy as well as the escalation of geopolitical, affecting stock market's cash flows. To consider the stocks' attractiveness, growth of core business should be assessed together with outside factors.

BSC's assessments on investment theme, sectors and timing for 2016 are based on respectively analysis of (1) Policies and information that affect sectors in 2016 and (2) business cycle and acceptable level of sector valuation.

1. General assessment on sector investment strategy 2016

Our assessments are based on (1) economic and financial studies (2) estimation of the influence of forecasts, analyzed in details in our Macroeconomic report 2016 and (3) Economic cycle and acceptable level of valuation comparison. On that ground, BSC presents notable investment themes, 2016 sector outlook and 2016 sector investment strategy. BSC believes that the degree of divergence among sectors will be stronger than in 2015, and the divergence among businesses in the same sector will grow larger. Since 2016 will be a challenging year, our sector selection will be towards prudence and defense. Details as follow:

Notable investment themes in 2016:

- **Firstly, real estate recovers, with rising liquidity**. As one of the first security companies bullish on Banking and Insurance sector in 2015, we maintain our assessment that macroeconomic recovery will positively influence financial industry, which includes banking, security and insurance sectors. However, stock price growth in these sectors in 2015 has partly reflected the expectation, and therefore these stocks are expected to be stable at new level, instead of the rapid growth as in 2015. We expect real estate sector will have fundamental changes in 2016 business results. Benefiting from this trend, the downstream sectors of real estate will continue to recover such as construction, material (Steel, cement, ceramic tiles), and furniture (brick, tile, wood, bulbs, wires…).

- **Secondly, Free Trade Agreement (FTAs).** With 17 FTAs, Vietnam economy will be open to other economies, which total to 60% global population and 80% global GDP. This makes Vietnam one of the most open countries in terms of FTAs. Sectors with large export turnover will benefit: **textile, aquaculture, footwear, automobile.** Indirectly benefiting industries include: Marine Transportation, seaport, industrial park, logistics…meanwhile competition pressure will increase in sectors such as **Steel, Fertilizer, Sugar…** In terms of valuation, logistics and seaport are attractive sectors with stable performance and P/E forward less than 10 while largely benefiting from FTAs in 2016. Please note that, TPP or other FTAs have two sides, with various influence on different sectors at different levels. Investors may refer to BSC's TPP negotiation and impacted sectors report and Update seaport sector report for more details.
- **Thirdly, raw material prices remain at low level.** The slow growth of the global economy and the USD appreciation caused raw material price return to its low level in 2008. The effect will diverge among sectors: competition pressure increased in imported sectors or minerals export sectors such as **steel, fertilizer, sugar, minerals,…** while industries with heavy material inputs will benefit: directly benefited (**transportation, automobile, fertilizer, thermal, gas),** indirectly benefited (**chemical, plastics, fertilizer, electricity, wires,…).** We believe that oil & gas stocks still remain risky with unclear opportunities even though some has declined to attractive price levels.
- **Fourthly, divested stocks or stocks with loosened foreigner's ownership room.** Government's determination to transform domestic enterprises will be stronger in 2016, and is concretized in policies (1) State divestment and (2) loosening ownership room for foreign investors. Low oil price puts high pressure on state budget and on divestment plans of SOEs (SCIC, VCG, Lilama, Vinalines Corporation…); enterprises under control of province committees, ministries. The ownership transfer which enhances effective asset utility and business result improvement will create opportunities in sectors such as milk (VNM), plastic (BMP, NTP), insurance (BMI, VNR) real estate (VCG, DIG)… For more details, investors may refer to BSC's analysis of Decree 60.
- **Fifthly, stocks with high and stable dividend, low beta will be likely to be the investment destinations.** In the condition that market is challenging with strong fluctuations (expected at the end of each quarter and 2016 year end), cash is expected to flow in highly defensive stocks which have good fundamentals, stable business performances, and stable dividend payout. Notable sectors include: ports, electricity, water, plastic, aerospace companies, gas distributors and food.

2016 Sector Outlook:

The economic recovery, together with new government policies in 2016 will firstly benefit real estate sector, followed by downstream sectors such as construction, construction materials (cement, plastic), which indirectly supports banking sector's recovery. However, the growth prospects of real estate is too

diverged to make the sector become a market leader as gas & oil in 2014 or banking in 2015. Specifically:

- We recommend **Outperform rating** for **Real estate, Construction, Construction materials (cement, ceramic, plastic), IT, Seaport, Textile, Electricity, Milk and Fertilizer.** Among them, our favorite sectors in terms of fundamentals are IT and seaport, and in terms of market scale is real estate.
- We recommend **Neutral rating** for **Plastics, Steel, Sugar**, **and Tires,** and lower the the assessment from outperform to **Neutral** for **Cement, Automobile, Insurance and Banking.** General outlook for this group will be mixed between good and bad, instead of high growth opportunity for the entire sector.
- We remain our **Underperform** rating for **Natural Rubber, Marine transportation, and Pharmatical** as our 4th Quarter Sector outlook report, and we downgrade **Aquaculture** and **Oil and Gas** from Neutral to **underperform**. We are not pessimistic but believe that investors should be patient for the recovery of these sectors and we will update further when opportunities arise.

2016 sector outlook summary

No	Sector	Rating 2016	Middle and Long-term recommendation	Tracking/Holding
1	Real estate	Outperform	VIC, DXG, KDH	BCI, CEO, ITC, DIG
2	Construction	Outperform	CTD, HBC	LCG, C32
3	Ceramic	Outperform	CVT, VIT, TTC	VGC, TCR
4	IT	Outperform	FPT, CMG, ITD	
5	Seaport	Outperform	GMD, PHP, VSC	
6	Textile	Outperform	TNG, TCM	STK
7	Electricity	Outperform	NT2, PPC, SJD, CHP	SHP
8	Fertilizer	Outperform	DPM, BFC	LAS
9	Milk	Outperform	VNM	HNM
10	Cement	Neutral	HT1, BCC, BTS	
11	Automobile	Neutral	SVC, TMT	
12	Insurance	Neutral	PTI, PGI	BVH, BMI
13	Plastic	Neutral	BMP, NTP	AAA
14	Steel	Neutral	HSG, NKG	HPG
15	Sugar	Neutral	SLS	BHS, SBT, LSS
16	Tire	Neutral		DRC, CSM
17	Banking	Neutral	MBB	VCB, BID, ACB
18	Pharmaceutical	Neutral		DHG, IMP
19	Aquaculture	Underperform	VHC	HVG
20	Oil and gas	Underperform	CNG, PGS, PVG	PGC, PGD, PVS, GAS, PVD
21	Marine transportation	Underperform	PVT, GSP	SKG, VIP
22	Natural rubber	Underperform		

Source: BSC forecast and estimate

Our sector investment strategy in terms of cyclicality: (Investors may refer to our short term, Canslim and long-term portfolios and BSC's investment recommendation report which is updated regularly)

- **In the first half of 2016,** we believe that the market will be more optimistic at the beginning of the year and may experience difficulties at the end of first and second quarter. Fed rate hike will negatively impact foreign cash flows (ETF included), which will be partly offset by release of 2015 business results, annual meeting of shareholders and 2016 business plans. We believe market leading stocks in terms of scale will be **Blue Chip and large cap** (because of large cash flow, foreign investors); real estate recovery, free trade agreements, foreigner's owndership limitation and state divestment are be notable in this period (theme 1, 2, 3, 4).
- **In the second half of 2016**: similar to 2015, cash flow pressure will be larger due to (1) equitisation and divestment, (2) rise in US interest rate will put pressure on exchange rate (3) slight increase in domestic interest rate may cause challenges in 2016 stock market. Opportunities will remain in other groups (**midcap and small cap),** which have improvement in business results and are not under the influence of foreign investors' cashflow. Sectors selected at the end of the year should be defensive or having good fundamental, benefited from the long-term economic trend or special advantages, noted stocks in material price investment theme, low beta and free trade agreement FTAs (theme 3, 4, 5).

2. Influential policies and economic factors in 2016

In term of influential perspective:

Positive perspective. In our report "Macro & Market strategy report 2016" we believe that Vietnam economy in 2016 will more promising than in 2015. We assess that (1) Vietnam economy has improved and is achieve the top GDP growth despite challenges from the exchange rate and public debt; (2) The government will continue to implement economic restructure, boost up divestment of SOEs and complete the market-oriented economy; (3) More details about loosening room for foreign investors to be released next year and the attractive valuation level of Vietnam stock market will attract attention from foreign investors; (4) many large enterprises to be listed on Upcom at attractive price will provide new investment opportunities; (5) The expansionary monetary policies of Japan and Europe will promote global economic recovery; (6) The FTAs' completion (7) Low material prices support business performance of various sectors and attract FDI.

Negative perspective: (1) The geopolitical instability (Russia, China, the Middle East ...) will negatively impact the global stock markets; (2) China's economy continues to face difficulties; (3) Currency exchange rate continues to be the weapon of emerging economies; while in Vietnam, the issues of restructuring, public debt and exchange rate continue to influence 2016 outlook; (4) the Fed rate hike and the unstable economic situation in China cause foreign capital flows to be withdrawn from emerging markets; (5) The maintenance of PMI above 50 will become more challenging due to the slowdown of major economies such

as the EU and China, which negatively affect Vietnam production, especially in export sectors; (6) A large amount of capital will flow into IPOs in next year, which will lessen the stock market cashflow. However, in long-term, the new listed enterprises will increase the capitalization and diversification of Vietnam stock market.

The most critical factors are used to analyze the impact on economic sectors in Vietnam:

World economic impact on the sectors

Sectors	Low material price (oil price decrease)	Fed rate hike	USD appreciation	Euro- zone economy struggle/ EUR depreciation	Japanese economy in recession/ JPY depreciation	China's slow down/ RMB depreciation	TPP, FTAs, AEC	VND interest rate increase
Marine	(+)		(-)			(-)		
Real estate	(+)							(-)
Construction	(+)							(-)
Cement	(+)			(+)				
Textile	(+)		(+)	(-)	(-)	(-)	(+)	
Electricity	(+)		(-)	(+)	(+)			
Pharmaceutical			(-)				(-)	
Plastic	(+)		(-)	(-)	(-)		(+)	
Tire	(+)		(-)			(-)	(+)	
Bank								(+)
Steel	(-)					(-)	(-)	(-)
Aquaculture		(+)	(+)	(-)	(-)		(+)	(-)
Sugar							(-)	
Oil & gas	(-)	(-)	(-)			(-)		
Fertilizer	(+)		(+)			(-)	(-)	
Rubber	(-)					(-)	(-)	
Ceramic tiles	(+)					(-)	(+)	
IT	(+)		(+)/(-)				(+)	
Seaport	(+)					(-)	(+)	
Automobile	(+)						(+)	
Insurance							(+)	(+)
Milk	(+)						(-)	

(+) positive / (-) negative

Sources: BSC estimates

Influential policies and critical economic factors in 2016

Please note that the following policies and macroeconomic factors have significant impacts to Vietnam stock market in 2016:

No.	Policies and macroeconomic factors	Effective date	Influential status	Influential degree
International economy and policies				
1	FED raise interest rate, USD appreciation		Negative	Very strong
2	ECB loose monetary policy, (EUR depreciation)		Positive	Strong
3	Abe-economics policy of Japan (JPY depreciation)		Positive	Strong

4	Negative news from Russia (RUB depreciation)		Negative	Strong
5	Chinese economy slow down (CNY depreciation)		Negative	Very strong
6	Low material price (low oil price)		Positive	Very strong
Vietnam macroeconomic policies				
1	Decree No. 99/2015/NĐ-CP (guiding Housing Law)	Dec 10th, 2015	Positive	Very strong
2	Circular No. 36/2014/TT-NHNN (Managing prudent ratios in operation of credit institutions and foreign bank branches)	Feb 1st, 2015	Negative	Very strong
3	Decree No. 60 (open room for foreign investors)	Sep 1st 2015	Positive	Very strong
4	Circular 200/2014/TT-BTC (Corporate accounting treatments)	Jan 1st 2015	Positive	Average
5	Decision 211/QD-VSD (T2 payment for stocks)	Jan 1st 2016	Positive	Average
6	Decree No. 108/2015/NĐ-CP (amending the Law on Special Excise Duty)	Jan 1st 2016	Neutral	Strong
7	Circular 155/2015/TT-BTC	Jan 1st 2016	Positive	Average
8	Deploying Basel II Capital Agreement	Feb, 2016	Positive	Very strong
9	Corporate income tax rate reduced from 22% to 20%.	Jan 1st, 2016	Positive	Average
10	Increase tax rate on Nature Resources	Jan 1st, 2016	Negative	Average
11	Derivative Market (futures)	Quarter 3, 2016	Positive	Average
12	Interest rate in VND increase	2016	Negative	Very strong
13	USD appreciate to VND		Negative	Very strong
14	Increasing public investment in infrastructure		Negative	Strong
15	Increasing privatization of state-owned enterprises		Neutral	Average
16	Divesting Sate-owned enterprises (SCIC, Ministries)		Positive	Very strong
17	Increasing GDP, FDI, PMI, ODA, remittances, credit loans, import & export		Positive	Average
Free Trade Agreements				
1	ACFTA – Circular No. 166/2014/TT-BTC	1/1/2015	Neutral	Strong
2	Vietnam-Korea FTA	20/12/2015	Positive	Strong
3	Vietnam – Eurasian Economic Union FTA	2016	Positive	Average
4	TPP (*)	2018	Positive	Strong
5	Vietnam – EU FTA	2018	Positive	Strong
6	RCEP ASEAN + 6	Negotiating	Positive	Strong
7	ASEAN Economic Community (AEC)	31st, Dec, 2015	Positive	Average

Source: BSC

The majority of external factors have negative impact. The Fed rate hike will strengthen the USD in 2016, which negatively affects the marine transportation sector, since they have large dollar loans. Europe's economy has passed its bottom, but its recovery is quite weak, which leads to low growth in export sectors such as aquaculture and textiles. Expectations for strong depreciation of EUR has been reflected in stocks, which have large amount of debts dominated in EUR (HT1, BCC, NT2). Therefore, the impact of EUR

depreciation in 2016 on this group should not be as severe as in 2015. Chinese economic slowdown and the risk of RMB devaluation may affect the competitiveness of some sectors such as steel and textiles.

(1) **US economy recovers, the dollar strengthens.** In Dec 2015, FED raised interest rate from 0%-0.25% to 0.25%-0.5%, which marks the first time US interest rate increases since the beginning of US recession in 2008. Goldman Sachs forecast that FED will raise the rate 4 more times by total of 100 bsp, to 1.25%-1.5% in 2016. The increase in interest rate and USD appreciation signal the US economic growth, and affect other economies on both sides.

For Vietnam, foreign debt is estimated at 41.5% of GDP in 2015, with $750 million of government bond due in 2016. At the same time, parliament allowed to issue $3 billion in bonds to restructure domestic debt. Thus, the increase in USD interest rate and the USD appreciation will impact negatively on Vietnam debts. Export sectors such as Textile, Aquaculture, IT (outsourcing software), etc will take benefit from these factors since their revenue is in USD.

(2) **China's economic slowdown dragged the global growth down**. Economic experts projected that China's economy will continue to slow down, with GDP growth forecasted at 6.5% by OECD, at 6.3% by IMF, lower than the 6.9% GDP growth announced in Q3 2015. China contributes about 16.71% of global GDP, thus, its slowdown will drag global growth down. In addition, foreign currency reserves of China in Nov 2015 was at $3,438 billion, down 13.9% from its peak in June, 2014. Therefore, we believe that China will be likely to adjust RMB in 2016, which will negatively impact sectors such as steel, marine transportation, fertilizer, natural rubber, etc

(3) **Developments in European region**. OECD, IMF and the Conference Board all have consensus that European economy will improve slightly. Goldman Sachs forecasts the exchange rate EUR/USD will decrease by 8.8% to 1.00 in the next 12 month. BSC estimate that VND will be depreciated by 5-8% compared to USD in 2016. Thus, cross exchange rate VND/ EUR is expected to be stable. We suppose that the stocks with high debt in EUR as HT1, BCC, BTS, and NT2 will be unlikely to benefit from exchange rate like in 2014. Beside, export sectors to Europe such as Textiles and Aquagriculture will continue to be negatively affected

(4) **Japan's economy is anticipated to grow by 1.7% in real term in 2016**, the nominal GDP growth is projected at 3.16%, equivalent to $4.3 trillion GDP, the highest figure since 1997. Japan's consumer demand is expected to increase in 2016 because of the plan to raise consumption tax rate from 8% to 10% in April 2017. In addition, in 2016, JPY is forecast to devalue by 3-4% compared to USD, while USD strengthen by 5-8% to VND, therefore, JPY may appreciate slightly to VND. The opportunity will come to Textile and Aquaculture sector because Japan is the largest export partner for these sectors.

(5) **Russian economy will continue to face difficulties** because of US and Europe have extended the sanction till July 31st 2016 and because of the fall in oil price. Currently, Vietnam companies

are trying to expand business in Russia and Eastern European market, with insignificant export volume, thus, the influence of week Russian economy on Vietnam is negligible. However, HVG has export to Russia accounting for 11-16% total export value of the company, therefore will be affected more than the rest.

(6) **No signs of recovery of oil price**. We believe that oil price will likely continue to be in downtrend in 2016 because of the imbalance between demand and supply and of the influence of global politics. Oil average price may be lower than $50, which will continue to depress the business performance of oil & gas sector. On the other hand, input cost of other sectors will decrease down, which improve the profit margin and earnings growth of sectors such as Chemicals, Transportation, Plastics.

Domestic factors including:

(1) **The exchange rate of VND/USD**. In corresponding to macroeconomic condition, especially to China's exchange rate policy and FED's interest rate, SBV has applied a new and more market-oriented exchange rate mechanism in 2016. BSC estimates that USD will appreciate about 5-8% compared to USD in 2016.

(2) **Boosting equitizing state owned enterprises and SCIC's divestment**: from 2011 to Nov 12th 2015, Vietnam equitized 397 enterprises and the remaining 130 in the 2011-2015 plan are expected to be equitized in 2015 or 2016. In addition, in 2016-2020 period, 500 enterprises will be equitized, which attract large capital and may reduce the cash inflow into stock market.

In term of SCIC's divestment, SCIC will boost divesting activities in large companies such as VNM, FPT telecom, NTP, BMP... . Moreover, the regulation to loosen foreigners' ownership limitation are being finalized, which will attract foreign cashflows into Vietnam market

(3) **Possibility of interest rates increase**: BSC believes that in 2016, deposit interest rate will increase slightly in order to maintain the attractiveness of VND under the pressure from Fed rate hike ([please refer to our 2016 Macro and Stock market report). It will lead to an increase in lending rate. Therefore the financing costs of enterprises will rise in 2016.

(4) **Decree No.99/2015/ND-CP explains and guides the implementation of some articles of the Housing Law**: the remarkable point in this decree with direct impact on the stock market is the detailed condition for foreigners to own house in Vietnam. Moreover, under the Housing Law, when expired after 50 years, foreign individuals can renew once, up to 50 years ownership. Although there are a number of barriers for foreigners to participate in Vietnam real estate market, this decree will raise demand in real estate market.

(5) **Circular 36/2014/TT-NHNN – Pressure from divestments and M&A for Banking sector:** the circular stipulated: (1) the total contributed capital owned by a commercial bank in all subsidiaries, associated companies and other equity investments must not exceed 40% of the bank's total

charter capital and reserve funds. (2) Banks can only hold stocks of a maximum of two other credit institutions (excluding subsidiaries). (3) Banks can only hold a maximum of 5% voting shares of another credit institution. Therefore, banks have to boost divestment in other banks or handling cross- ownership by M&A in 2016.

(6) Implementing Basel Capital Accord (Basel II) – The need to increase equity for banks: the accord requires the minimum capital is calculated based on credit risk, operational risk and market risk (while Basel I only focused on credit risk). This will increase risk assets (denominator) and therefore, increase the need to rise capital of banks.

3. Economic cycle and the level of sector evaluating acceptance

We believe the attractiveness of sectors depends on the economic cycle and the price valuation. We analyze two factors: **(1)** the current cycle of economy (internal factor) and **(2)** comparision to the region. Therefore, our investment recommended sectors depends on the market periods.

Economic cycle

Vietnam is moving from the beginning to the middle stage of the Improvement Cycle. This period is characterized by the economy growing (GDP, PMI), the interest rate bottoming, and the consumer confidence rising (the consumer confidence index ANZ). The stock market had an improvement period and has slowed down, with a high divergence among sectors. Some sectors that could benefit in this period are **real estate, construction, construction materials, bank, insurances, information technology, and chemicals**. Please note that some sectors that grew strongly last year such as bank and insurances will be less attractive than others

Sector performances in each stage of economic cycle

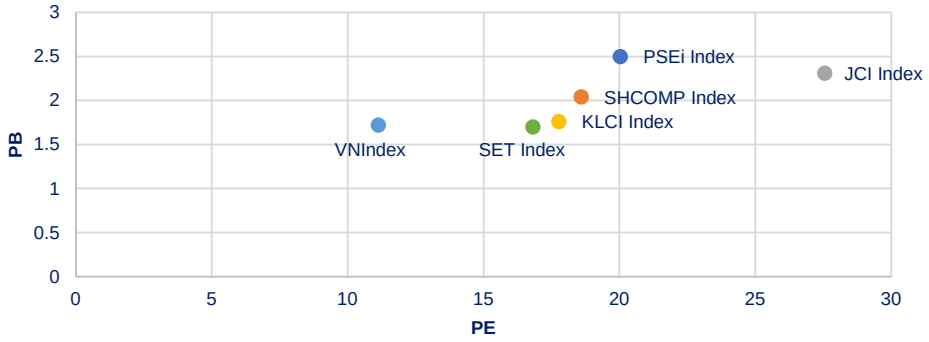
Sector	Improvement	Prosperity	Recession	Depression
Real Estate	High	Average	Average	Low
Construction	High	Average	Average	Low
Insurance	Average	High	Average	Low
Banking	High	Average	Average	Low
Textile	High	Average	Low	Low
Aquaculture	High	Average	Low	Low
IT & Telecom	Low	High	Low	Low
Building Materials	High	Low	High	Low
Consumer goods	Average	Low	High	High
Oil & Gas	Average	Low	High	Low
Pharmaceutical	Low	Low	High	High

(Source: CMC, Fidelity, BSC)

Comparing with other regional stock markets

In the scope of the Southeast Asian (Emerging stock markets), Vietnam's stock market has always been valued at discount in terms of P/B and P/E. Therefore, the adjustment pressure on emerging markets causes P/E, P/B and EV/EBITDA of Vietnam to be further discounted in 2016. However, the discount levels diverge among sectors.

PE and PB of Asia emerging markets



Source: Bloomberg, BSC

Vietnam sectors, in general, are being priced attractively in comparison with other Asian emerging countries like Thailand, Malaysia, Indonesia, Philippines and China. Sectors having deep discounts are telecommunications, technology, public services, chemicals, consumer services, etc. On the other hand, several sectors, such as banks and insurance, are not far away from an acceptable level of regional prices because of sharp increases in 2015.

Median PE	Vietnam	Median	Thailand	Malaysia	Indonesia	Philippines	China
Basic materials	8.91	12.11	11.09	13.69	6.94	12.11	78.2
Chemicals	6.81	19.34	14.75	17.59	19.34	22.07	73.66
Consumer goods	8.88	16.34	14.23	16	19.21	16.34	61.83
Consumer services	9.5	20.41	24.51	18.72	16.86	20.41	63.95
Bank	10.64	10.70	8.6	10.7	13.06	12.46	7.12
Financials	12.19	13.99	10.9	9.39	13.99	14.15	23.13
Insurances	15.7	11.85	10.85	14.97	6.76		12.84
Real estate	10.8	12.76	12.6	9.49	12.76	19.87	42.85
Health care	7.74	29.98	32	22.29	22.03	29.98	71.56
Construction& materials	7.54	17.14	16.93	12.99	20.02	17.14	56.04
Industrial Goods& Services	8.25	13.68	16.5	13.5	9.28	13.68	91.7
Oil& Gas	6.42	16.41	17.22	9.62	5.06	16.41	86.67
Technology	8.13	17.07	12.16	16.77	17.07	28.46	120.96
Telecommunication	11.03	21.69	17.26	21.69	24.22	15.04	154.31
Utility	7.74	15.46	15.46	12.32	11.11	15.91	31.84

Source: Bloomberg, BSC

4. Notable stocks in 2016

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Price 31/12/2015	Target Price
Real Estate	VIC	53,000	7,472	4,000	11.43	2.03	23.50%	45,700	53,000
	DXG	2,148	661	2,300	8.22	1.1	28.20%	18,900	22,800
	KDH	1,765	290	2,305	9.37	1.08	11.30%	21,600	25,100
Construction	CTD	16,000	877	18,743	8.16	1.81	22.19%	153,000	179,200
	HBC	6,500	175	2,300	8.26	1.07	16.70%	19,000	22,800
	LCG	1,472	55	720	9.72	0.51	5.50%	7,000	13,200
Tiles	CVT	864	77	3,997	5.75	1.28	22.26%	23,000	27,183
	VIT	848	43	2,886	6.83	1.25	18.38%	19,700	22,204
	TTC	413	21	3,565	3.81	0.95	12.37%	13,600	16,100
Technology - Telecom	FPT	47,008	2,470	4,777	10.11	1.54	19.80%	48,300	56,186
	CMG	3,644	156	1,800	8.28	0.89	17.60%	14,900	15,668
	ITD	544	43	2,124	8.24	1.04	16.67%	17,500	20,664
Seaport	GMD	4,069	529	4,422	9.59	1.03	10.8%	42,400	50,067
	PHP	2,367	622	1,902	11.09	1.79	16.2%	21,100	23,813
	VSC	1,161	349	8,427	9.14	2.18	24%	77,000	85,146
Textile	TNG	2,230	125	5,187	3.66	1.17	32.00%	19,000	28,264
	TCM	2,856	186	3,802	8.1	1.37	17.00%	30,800	34,220
	STK	1,672	134	2,873	11.1	1.84	16.50%	31,900	N/A
Power	NT2	6,917	1,204	4,174	6.37	1.21	20.00%	26,600	33,392
	PPC	6,921	852	2,676	6.84	1.03	14.00%	18,300	20,032
	SJD	474	238	4,781	5.42	1.02	21.00%	25,900	30,941
	CHP	735	380	2,880	7.19	1.26	20.00%	20,700	24,545
	SHP	593	210	2,246	8.46	1.35	16.00%	19,000	19,082
Fertilizer	DPM	9,495	1,868	4,345	6.7	1.25	24.00%	29,100	34,770
	LAS	4,189	393	4,797	6.46	1.73	28.00%	31,000	31,180
	BFC	7,537	258	5,155	5.24	1.55	24.00%	27,000	33,507
Dairy	VNM	45,016	8,823	7,353	17.4	7.1	41.00%	128,000	148,000
	HNM	260	3.4	170	52.4	0.8	1.60%	8,900	N/A
Cement	HT1	8,229	769	1,934	13.86	1.64	14.82%	26,800	27,915
	BCC	4,147	244	2,038	6.58	0.67	12.50%	13,400	17,323
	BTS	2,934	130	1,196	7.53	0.7	9.32%	9,000	10,762
Automobile	SVC	12,688	174	4,241	9.76	0.97	8.10%	41,400	45,500
	TMT	4,305	289	9,216	5.53	2.04	9.70%	51,000	62,500

Insurance	PTI	3,026	160	1,982	12.06	1.28	8.40%	23,900	28,000
	PGI	2,492	117	1,675	9.97	1.25	12.10%	16,700	21,000
Plastic	BMP	3,368	626	12,585	10.41	7.21	29.30%	131,000	157,946
	NTP	3,820	454	5,972	10.08	2.11	24.08%	60,200	68,080
	AAA	1,783	41	728	16.9	0.68	4.38%	12,300	11,200
Steel	HPG	29,166	4,240	5,727	5.1	1.25	24.73%	29,200	N/A
	HSG	15,200	716	5,467	5.76	1.14	19.76%	31,500	34,170
	NKG	5,350	180	3,598	3.5	0.76	21.80%	12,600	13,671
Sugar	BHS	4,858	162	1,251	15.59	1.23	7.90%	19,500	N/A
	SBT	3,090	233	1,255	19.2	1.71	8.90%	24,100	N/A
	LSS	1,697	34	506	17.79	0.41	2.30%	9,000	N/A
	SLS	741	95	13,941	3.69	1.2	32.40%	51,500	64,705
Tire	DRC	3,453	362	3,641	11.97	2.25	21.31%	43,600	43,696
	CSM	3,303	210	2,567	9.62	1.23	14.62%	24,700	24,896
Banking	VCB		5,868	1,886	23.28	2.63	13.28%	43,900	42,200
	MBB		3,093	1,855	7.87	0.95	13.20%	14,600	16,600
Pharmaceutical	DHG	3,530	658	6,812	9.76	1.85	22.00%	66,500	70,000
	IMP	999	104	3,103	12.09	1.23	11.98%	37,500	40,100
Aquaculture	HVG	23,994	162	870	15.17	1.1	7.30%	13,200	13,050
	VHC	6,746	382	4,131	7.07	1.51	17.00%	29,200	35,000
Oil & Gas	CNG	1,138	128	4,732	6.64	1.35	22.00%	31,400	36,688
	PGS	6,314	217	2,736	6.4	0.63	15.00%	17,500	20,142
	PVG	2,941	27	809	10.01	0.54	7.00%	8,100	9,533
Marine Transport	PVT	5,789	424	1,657	6.15	0.69	9.10%	10,200	12,271
	GSP	1,074	86	2,866	5.3	1.12	20.01%	15,200	17,200
	SKG	382	218	8,921	9.87	3.7	37.70%	88,000	89,433
	VIP	N/A	N/A	N/A	N/A	N/A	N/A	9,500	N/A

Source: BSC forecast

Real Estate Sector 2016 [Positive]

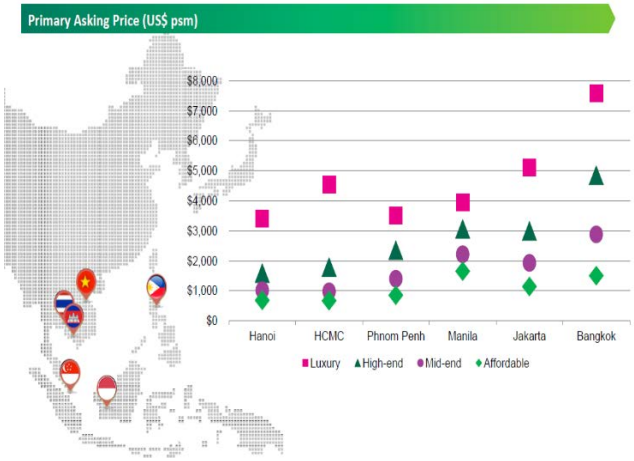
- The market is entering the rapid growth period the average housing rate is 30% lower than its peak in 2008.
- Supply is estimated to increase strongly in Ho Chi Minh City (+88%) and Hanoi (+60%). Demand is forecasted to remain high in the mean time
- Infrastructure is improved significantly with metro stations, Thu Thiem Administration District, special economic zones, ...
- Resort real estate with growth opportunities for land owners at PhuQuoc
- Many companies will witness strong growth in their business results thanks to conducting house hand-over and Circular 200 application.)

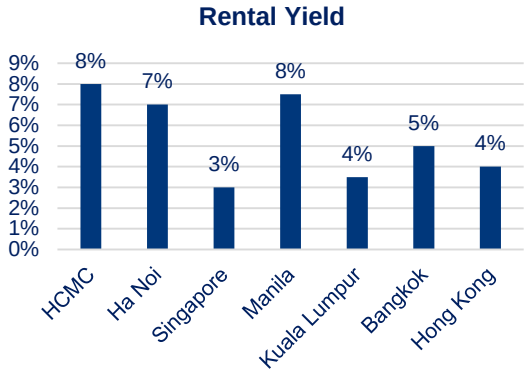
We believe that the real estate market will continue to maintain the growth momentum in 2016 thanks to the followings:

The market enters the rapid growth period, bubbles have not been appeared yet. Although the transaction volume has increased sharply but the market has mainly absorbed the inventory of the previous years, the price has just increased) slightly by 3% - 5% in some projects. Compared with the peak period in2008, the average home price is 30% lower than its peak in 2008, so it takes an average of 3-5 more years for the market to return to the previous price hike. Besides the main signals of a bubble have not appeared (Strong increase in Inventories, rapid drop in sales rate, interest rate increases).

Supply increases but demand is forecasted to remain at a high level:

- **On the supply side:** From Q4/2015 to the end of 2016, the supply of apartments in Ho Chi Minh City is forecasted to rise by 57,000 units (+ 88% compared with the current supply) and by 24,000 units in Hanoi (+ 60% compared with the current supply).
- **On the demand side:** Despite a large supply, it can be seen that: **(1)** With the economic recovery, the middle class is growing fast, earnings are improved, the current demand for housing is huge. Moreover, the supply shortage is also seen in low end segment in HCMC (average selling price of ~ VND20 million / m2), while there are about 300 thousand people in need of housing compared to the supply of 17,000 units. **(2)** Apartment design and area are adjusted to suit the people' needs and incomes: Percentage of 1-2 bedroom units account for about 72% of total supply, compared with 61% previously. The average area is also significantly reduced from 65-110 m2 to 48 m2 -70 m2. **(3)** House prices in Vietnam are lower than peers in Asia in almost all segments, while the rental rate is higher. This boosts investment activities, along with the actual housing demand.





Source: CBRE

I**nfrastructure is being improved considerably** especially the metro construction in Hanoi and HCMC. HCMC is expected to help the real estate market develop positively:

- **In Hanoi:** The western region attracts homebuyers for its infrastructure development (Thang Long Highway, National Highway 32, Beltway 3, Nhon Metro - Hanoi Railway Station), facilitating future transportation to the CBD. Companies with projects in these areas: SJS, HDG.
- **In Ho Chi Minh City:** The boost in infrastructure investment increases the growth of the market for projects in the eastern and southern area of the city: BinhThanh, District 2 (the construction of the Thu Thiem administration area, Thu Thiem bridge connecting to District 1, ring road 2, metro), District 7 (the planning of SEZs located in the south and high-tech zone development), District 9. Companies with projects at these areas: VIC, DXG, KDH, SCR.

Industrial real estate is expected to be benefited from the FTAs: The land lease demand in industrial zones will increase indirectly due to the following reasons: (1) The global manufacturers tend to move their factories to Vietnam to take advantage of cheap labor costs. (2) The FDI growth prospects in Vietnam in the coming years thanks to the FTA. Listed companies with favorable locations and available leased areas are: KBC, LHG.

Resort real estate with growth opportunities for companies owning land in Phu Quoc: Becoming a special economic zone in the coming years with strong infrastructure investment (the construction of Phu Quoc international airport, international tourist port, Ha Tien – Phu Quoc power line), Phu Quoc is turning into the focus of the resort real estate market and attracts large investment projects such as Vinpearl PhuQuoc (Investment capital ~ VND17,156 billion), Phu Quoc Sonasea Villas & Resorts (VND4,500 billion). The growth opportunity will come to companies which have accumulated land from previous years, favorable locations, the completed land compensation such as: VIC, CEO, UNI, LDG.

2016-2017 period will be the time of strong growth in earnings: Due to the delay in the recognition of revenues and profits, good sales rate of many businesses are not reflected in 2015. Earnings of many businesses will grow sharply in the years of 2016-2017 when house hand-over is conducted such as VIC, DXG, CEO

Novaland will go IPO in 2017: This is one of the largest real estate businesses in Ho Chi Minh City with approximately 23ha of land, projects allocated primarily in District 2, 7 and 9, the land expansion policy through M & A activities is to accelerate.

Investment Recommendation

Since real estate sectors varies in market cap, the investment opportunities will not spread the whole sector, but only focus on two stock groups: (1) Companies with a large land bank, large capital and good development ability and (2) Companies with big book value or other business advantages (tourism real estate). We evaluate the 2016 outlook for real esate is **OUTPERFORM** and recommend the following stocks: **VIC, DXG, KDH**

VIC – Buy – Target price VND 53,000 (+15,97%)

VIC is the largest real estate company in Vietnam with ~81 million m2 of land bank, which is enough to sustain VIC's growth for the next 10 years. The revenue structure is expected to shift towards increasing the leasing real estate and tourism services - business segments with high stability. Earnings are forecasted to grow strongly since 2016, generating mainly from three core businesses. Regarding the real estate segment, 2016 will be the opening of VIC's key projects (Vincom Central Park, Park Hill, Vincom Nguyen Chi Thanh). For retail leasing, total rental floor area in 2016 is forecasted to be 1.08 million m2 (+ 82% yoy) with new shopping centers going into operation such as Vincom Mega Mall ThaoDien, Vincom Le Van Viet, and Vincom Nguyen Chi Thanh and Vincomwich open throughout the year. Regarding tourism and hotel segment, VinpearlPhuQuoc and Ha Long (Phase 2) go in to operation, increasing Vincom's total hotel rooms in tourist areas by 36% to 3,745 rooms. We expect the revenues in 2016 reach VND 53,000 billion (+ 93% yoy), PAT ~ VND7,472 billion and EPS of ~ VND4,000. The current risk is the rapid expansion into other fields naming retail, agriculture ... Although the scale of investment and contribution to earnings are not too big, but this makes it difficult for the market to assess VIC and its development plan in the following years. We think, VIC can be reassessed and evaluated at a higher valuation if the company separates and list business segments

DXG – Buy – Target price VND 22,300 (+20,63%)

Starting as a real estate broker company gives DXG the advantage of understanding the needs of buyers as well as selecting the right projects for M&A. A healthy financial situation with Debt/Equity ~0.2; The charter capital is expected to increase from VND1,172 billion to VND345 billion through the stock issuance to existing shareholders, the fund is used to buy a project in District 2. Despite a rapid capital growth, the

list of projects and the current sales rate still ensure the profitability growth. We expect the revenues in 2016 to reach VND2,148 billion (+ 52% yoy), PAT VND661 billion (+ 74% yoy), EPS 2016 ~ 2,300 from recognizing revenues from projects Sunview Town, Viva City Luxcity and other projects.

KDH – Buy – Target price VND25,100 (+16,2%)

BCI's becoming a subsidiary of KDH has significantly increased KDH's land bank in HCMC to ~ 750 ha of which 450 ha cleared land. KDH's projects are located favorably as concentrated in District 9 which is surrounded by the main traffic routes. 2016 continues to be the tipping point of key projects such as Song Lap, Lucasta, QuocTe. We expect the revenues in 2016 to reach VND1,765 billion (+ 40% yoy), PAT VND290 billion (+ 44% yoy), EPS 2016 ~ 2,305.

Other real estate companies:

BCI – Tracking

The large land bank in HCMC with 300ha of cleared land area, low debt, steady income from Le Minh Xuan Industrial Zone and investment in Big C An Lac. However, BCI has not been able to deploy large projects such as Corona City, Le Minh Xuan Industrial Park expansion in the past year. This issue is expected to be resolved when BCI has become a subsidiary of KDH - one of the best real estate companies in developing projects in HCMC.

CEO – Tracking

Total land ~ 760 ha of which ~260ha is PhuQuoc land, accumulated from the previous years, is reaping the benefits from PhuQuoc development. The list of projects ensures to maintain growth in the next 3-5 years in Bai Truong areas, naming Sonasea Beach Resorts & Villas School, Sonasea Residences, and Sonasea Golf. Safe capital structure with debt / equity ~ 0.65, attractive valuation of P / E ~ 7.5. Downward pressure on the stock in the recent period came from the company's fund raising through the issue of 2:1 at the price of VND10,000 / share to existing shareholders - we think this is a temporary factor and the stock price will perform more positively in 2016 as CEO begins to recored revenue - profits from the handover of villas at Sonasea Villas and Resorts.

ITC – Tracking

The most difficult phase of ITA has passed, earnings are expected to grow strongly in the coming years, generated mainly from two major projects: Long Thoi and Ly ChinhThang Residential areas. A healthy balance sheet with low debt, high share price discount compared with the book value of P/B ~ 0.23. The market still has a fairly negative assessment about ITC after years of zero growth and the under book value transfer of Intresco Tower. We think the market will reassess ITC when earnings start to change positively and the divestment of major shareholders namely Resco (owned 16.2%) and Vietnam Azalea Fund (owned 10.2%) is completed.

DIG – Tracking

DIG has a huge land bank of ~ 2,000 ha, distributed mainly in Vung Tau (251 ha), Dong Nai (365 ha), VinhPhuc (194 ha), PhuQuoc (285 ha), Ha Nam (650 ha). Earnings are forecasted to not change much when large projects like An Thoi project (PhuQuoc) only begin implementation in 2016. Besides, DIG'subsidiaries and associated companies negativetly affects the company's business results due to they operated ineffectively

Sector	Ticker	Rev 2016 (VND Bil)	PAT 2016 (VND Bil)	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price as of 31/12/2015	Target price
Real estate	VIC	53,000	7,472	4,000	11.43	2.03	23.50%	N/A	45,700	53,000
	DXG	2,148	661	2,300	8.22	1.10	28.20%	N/A	18,900	22,800
	KDH	1,765	290	2,305	9.37	1.08	11.30%	N/A	21,600	25,100

Source: BSC forecast, (*) codes with adjusted prices

Construction Sector 2016 [Positive]

- Growth together with the real estate market, many companies have balcklogs to ensure growth for the next 1-2 years
- Demand for infrastructure investment in Vietnam is huge with an estimated total investment of about VND1 million billion (up by around 2.7 times compared with the 2011-2015 period).
- Industrial construction segment is backed by large hydroelectric projects, thermal power, petrochemical and FDI.

We belive construction sector continues to maintain a good growth rate due to the factors as follows:

Residential buildings grow together with the real estate market: the real estate market is entering a period of strong growth, which leads to many investors pushes construction activities, especially in HCMC with many major real estate projects of Novaland, VIC,... Following the value of blacklog of a number of companies, the current workload may be sufficient to ensure the growth in the next 1 -2 years such as: CTD (total value of blacklog is VND13,500 billion - double compared to the end of 2014), HBC (Total value of blacklog is VND11,000 billion - an increase of 46% compared with same period)

Investment demand for transport infrastructure in Vietnam is huge: In the period 2016-2020, the total investment for transport infrastructure is estimated at about VND 1 million billion (up by 2.7 times compared to the period 2011 -2015). We expect in the coming years many PPP support policies will be issued to attract funding from the private sector, especially when funds from the current budget can only meet about 30% of total capital investment. Some infrastructure construction listed companies build: **CII, HUT**.

Industrial construction segment will be supported: (1) The major projects in the fields of hydropower, thermal power and petrochemical. In the period 2016-2020, major thermal power project will be implemented: O Mon Thermal Power 3 and 4 (Investment capital ~ USD 2 billion), QuangTrach 2 Thermal Power (USE 2.4 billion), hydroelectric projects as Trung Son hydropower project (USD 410 million), Long Son oil refinery (USD 3.7 billion). Some listed companies that specialize in industrial building: **LCG, LM8, L10, SDT, SD5, C32.**

Investment Recommendation

Low interest rate, rapid groth in the real estate market and large infrastructure demand are the foundation for construction companies to continue to sustain the growth in the coming years. We evaluate the construction industry POSITIVE and recommend three stocks: **CTD, HBC, LCG.**

CTD – Buy – Target price of VND 179,200 (+17.12%)

Is a leader company in the field of construction, can perform Design & Build contracts from design to construction, saving time and increasing efficiency for the projects. Safe financial situation with no use of leverage. Blacklog value is estimated at VND 13,500 billion (double the same period of 2014). We expect

the revenues in 2016 to reach VND11,960 billion (+ 30% yoy), PAT ~ 598 billion (+ 27% yoy), ~ 12,800 EPS, P / E Forward ~ 12.3.

HBC – Buy – Target price of VND 22,800 (+20%)

Total blacklog value is estimated at approximately VND 11,000 billion (up 46% compared to 2014) with several major projects namely Saigon Center 3 (VND1.900 billion), Estella Heights (VND917 billion), Tan Son Nhat T2 international terminal expansion (VND600 billion). Provisioning and recovery from receivables values will be equivalent to each other in 2016. We forecast the revenues in 2016 to reach VND6.500 billion (+ 30% yoy), PAT ~ VND175 billion (+29 % yoy), EPS 2016 ~ VND2,300, P / E forward ~ 8.3

LCG – Tracking

The workload for next year has been fully prepared with several major projects expected to be recorded namely Ha Long - Van Dong highway projects (150.6 billion), Vinh Tan 4 Thermal Power plant (84, 7 billion) Highway 38 upgrade and expansion (49 billion), TBA 220 KV Ham Tan (42.2 billion). LCG has fully provisioned the investment in Phuong Dong Bio Limited Company, and divest from Ligogi 166. Large land are in NhonTrach and Dong Nai of ~300 ha opens opportunities for LCG in the coming years when the infastructure is improved with the development of Long Thanh Airport, Ben Luc - Long Thanh Highway,.. The discounted share price is high compared to the book value with P / B ~ 0.5 when the majority of LCG real estate has yet to contribute to earnings. We belive the market may reassess LCG shares in the coming years when the company implements and records profits from projects in NhonTrach, Dong Nai (about the period 2017-2018) or when there is information about the dividend policy as the company has removed all accumulated losses this year. We expect the revenues in 2016 to reach VND1,472 billion (+ 7% yoy), PAT ~ 55 billion (+ 14.5% yoy), EPS 2016 ~ VND 720 EPS and P / E forward ~ 9.5.

C32 – Tracking

The exploitation of Tan Dong Hiep Quarry is approved until the end of 2017 with the remaining exploitable reserve of 2 million m3. The quarry has good stone quality, convenient location which is close to 1k Highway, faciliate the transportation to areas outside Binh Duong such as HCMC, Dong Nai. C32 sets the business plan in 2016 with the revenue of VND 550 billion (equivalent to the 2015 result), PAT VND 79 billion (-8.6% yoy), 2016 EPS at VND7,054, forward P / E 5 - the valuation is relatively low compared to peers like KSB (P / E 7.0), DHA (P / E 8:41), 24% cash dividend - equivalent to the rate of return of 6.8%.

Sector	Ticker	Rev 2016 (VND Bil)	PAT 2016 (VND Bil)	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price as of 31/12/2015	Target price
Contruction	CTD	11,960	598	12,800	11.95	2.15	17.50%	50% cash div	153,000	179,200
	HBC	6,500	175	2,300	8.26	1.07	16.70%	15% cash div, share div 10:3	19,000	22,800

Source: BSC forecast

Cement Sector 2016 [Neutral]

- Cement consumption in 2016 is expected to increase by 6.31% - 8.11% yoy
- Increase competition in export markets
- Difficulty in forecasting financial income due to exchange rates fluctuation

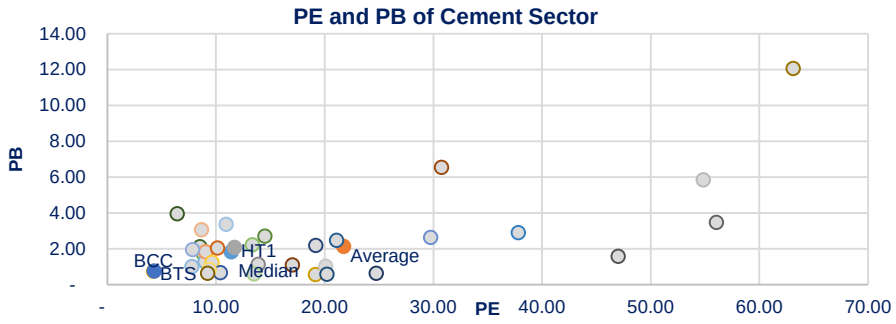
Continue to benefit from the Real estate and Construction sector. With the prospect from domestic demand (refer to the outlook of Real estate and Construction sector), Ministry of Construction estimates domestic cement consumption will reach 59-60 million tons in 2016, up 6.31% - 8.11% yoy. We believe that growth will occur all around the country, and not just concentrating in the Southern due to the investment process to prepare for the Free Trade Agreements to be promoted.

Increase competition in export markets with China. We believe China will continue to promote export of cement/clinker in 2016 due to declining domestic demand and overcapacity. Additionally, clinker export price could reduce to the level of USD 30/ton due to the current clinker price of China is about USD 31-34 /ton, lower than Vietnamese enterprises from USD 2-6/ton.

The exchange rate will be difficult to predict in 2016, affect to business results of the enterprises. Due to the cement businesses as HT1, BCC and BTS having large amount of foreign currency debts, thus exchange rate movements will affect directly to the earning results of the businesses (Refer to the report macro and the stock market outlook in 2016 of BSC). On 31/12/2016, we estimate foreign currency debt of HT1 will be about EUR53 million and also a part in USD; with BCC, foreign currency debt will be about EUR10.6 million if paying 2 times as normal (in 2015 BCC paid the debt in 3 times, each time with EUR9 million) and BTS will be approximately EUR26.55 million.

Investment Recommendation

Although the cement sector is benefited from the positive outlook of the domestic market, however, it still face competition from China in the export markets, together with business results are influenced directly form exchange rate; therefore we assess **Neutral** with cement sector in 2016. We recommend with the three leading shares which are HT1, BCC and BTS. Compared with global cement stocks according to Bloomberg statistics, we believe that BCC and BTS are still at attractive valuations, while HT1 is at the average valuation range of the sector.



Source: Bloomberg, BSC Research

HT1 – Hold – Target price VND 27,915 (+4.16%)

- **There is still growth potential in production and consumption.** In 2015, cement consumption of HT1 reached 5.6 million tons, up 14.6% compared to 2014. With the construction market potential, we estimate that cement consumption of HT1 about 6.1 – 6.2 million tons in 2016. The producing abilities are enough to meet demand as grinding capacity of HT1 may exceed 6.6 million tons of cement/year.
- **Potential from Vicem Ha Tien Complex**. The land has a total area of about 11.49 hectares, is located along the Hanoi Highway, Thu Duc District, Ho Chi Minh. The Ministry of Construction allowed that HT1 and Ha Tien Transport JSC (HTV) joint venture with partners to study and prepare the investment project. In the coming time, the business will have to establish a legal entity to apply for a 1: 2000 plan.
- **Compared to the average valuation of global industry, recommend Hold**. Considering the global listed cement companies according to Bloomberg statistics, which have market cap closing to that of HT1, the median PE = 11.41 and PB = 1.84.

  Excluding the impact of exchange rates and deducting bonus and welfare of 20% PAT, we estimate that EPS 2015 to reach about VND 1,758 /share and EPS 2016 to reach about VND 1,934 /share. Therefore we recommend Hold with HT1.

BCC – Buy – Target price VND 17,323 (+29.28%)

- **More stable operation in 2016**. The Dai Viet cement grinding station goes into operation again after stopped due to objective factors. Additionally, BCC organized bidding to supply equipment for cement grinding to bagging lines, the total capacity of the plant is 2 million tons/year, the total investment of the project is VND 795 billion, of which the capital structure is 75% debt and 25% equity, it is estimated to complete in 2017. We believe that the investment process will not affect the business results in 2016 of company.

- **Early repayment of foreign currency debt will help to reduce the impacts of exchange rate and interest rate**. In 2015, instead normal repayment of 2 periods, BCC paid 1 more period of foreign debt of the year 2016. It is estimated that at 31/12/2015, foreign currency debt of BCC was EUR 28.6 million and at 31/12/2016 of about EUR 10.6 million, leading to be paid off in March 2017. Also, the early repayment helps to reduce borrowing costs for businesses. Net sales 2016 will be estimated to reach VND 4,147 billion, core operating profit after tax reach VND 244 billion (+18% yoy), EPS 2016 = VND 2,038 (after minus 20% PAT for bonus and welfare fund).

BTS – Buy – Target price VND 10,762 (+19.58%)

- **Sales volume will continue to grow well**. Cement consumption in 2015 was estimated at 2.7 million tons (+15.88% yoy), sales volume of clinker in 2015 was estimated of 700,000 tons (downed from 991,385 tons in 2014), showing positive signal. Clinker capacity of BTS was 2.6 million tons (equivalent to about 3.7 million tons of cement), we believe that with the increasing demand from the domestic market, BTS is still capable of responding. PAT 2016 will be estimated to reach VND 130 billion (+8.7% yoy), EPS = VND 1,196 /share (after temporarily minus 20% PAT for bonus and welfare fund).
- **Risks**: BTS boosts cement bulk consumption so gross profit margin will not high as the cement bags. Also BTS will have foreign currency debt about EUR 26.55 million (31/12/2016) so exchange rates fluctuations will impact directly the profitability of the Company.

Sector	Ticker	Rev 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target Price
Cement	HT1	8,229	769	1,934	13.86	1.64	14.82%	0%	26,800	27,915
	BCC	4,147	244	2,038	6.58	0.67	12.50%	0%	13,400	17,323
	BTS	2,934	130	1,196	7.53	0.70	9.32%	0%	9,000	10,762

Source: BSC forecast

Tiles Sector 2016 [Outperform]

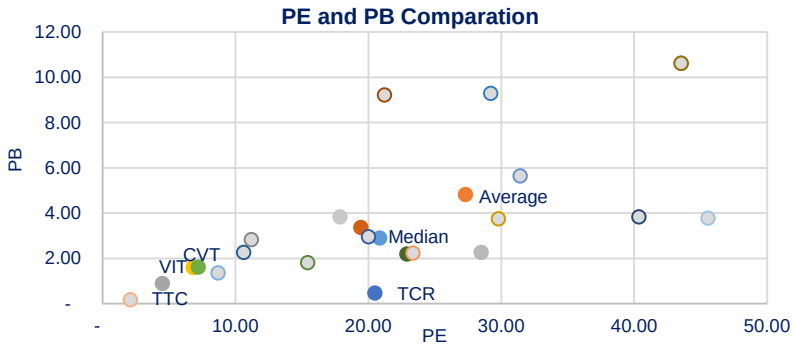
- Benefiting from Real Estate and Construction sectors
- Exporters will limit the risk of exchange rate fluctuations

Continue to get benefits from the Real Estate and Construction sector. In our opinion, the sales volume of tiles in 2016 will grow better than in 2015 when building projects started recent years step into the stage of completion.

Exporters will avoid the risk of exchange rate fluctuations. Because the tiles sector has to import materials (ceramic materials and additives), mainly from China and Taiwan;thus the enterprises with large export proportion as VIT (~15% output) and TCR (~50% output) with the main marketsof Taiwan, Malaysia, Korea, Japan, Australia ..., will limit the risk of exchange rate fluctuations in 2016.

Investment Recommendation

With the prospect of Real estate and Construction sector, and construction projects will enter into the completion stage, we identified Outperformwith Tiles sector in 2016. Comparing with Tiles stocks in global, according to the Bloomberg (capitalization close to Vietnam enterprises), we believe that the domestic tiles stocks are at relatively attractive valuations.



Source: Bloomberg, BSC

We recommend Buy in medium and long term with CVT, VIT, TTC, and tracking with TCR stocks due to positive changes in Q3 2015 (benefit from gas price reduction) and TCR is the best Granite tile production in Vietnam.

CVT – Buy – Target price VND 27,183 (+18.19%)

Operation will be more stable in 2016. We believe that after the period of upgrading plant in 2015 caused production interruptions, 3 lines of CVT will operate simultaneously and stably in 2016 with a total design capacity of 15 million m2 of ceramic tiles / year. In particular the CMC1 factory specializes in manufacturing mid-end ceramic tiles and cardbrick; Phase 1 CMC2 factory specializes in high-end ceramic tiles for walling and Phase 2 CMC2 factory specializes in high-end polishedglazed porcelain tiles.

Earnings will grow further in 2016. Line 2 CMC2 plant going into operation will help to improve sales and profits for business by selling high-end polished glazed porcelain tileswith higher selling prices and better margins than conventional products.We estimate PAT 2016 of VND 76.75 billion (+27.93% yoy), EPS 2016 = VND 3,997 / share

VIT – Buy – Target price VND 22,204 (+12,71%)

2016 earnings growth prospects through the Phase 2 Thai Binh plant going into operation: The phase 2 (2 million m2/year) will produce polished glazed granite titles, with digital printing. Accordingly, VIT will have enough product segmentsfor the market (currently only producing flooring tiles). The phase 2 is expected to go into operation in 12/2015. 25%products of this line will be exported and the rest will be sold domestically. PAT 2016 is estimated to reach VND 43 billion (+ 21.22% yoy), equivalent to EPS = VND 2,886 / share.

TTC – Buy – Target price VND 16,100 (+18,38%)

Stable earnings: The southern market accounts for 85% total sales of TTC, and it is stable for many years. Consumption amount increased over the years and are always approximate or exceed the amount of product produced. PAT 2016 is estimated to reach VND 21 billion, equivalent to EPS = VND3,565 / share (assuming TTC not to issueadditional share with the ratio of 1: 1 in 2016, the number of shares remainat 5.94 million)

TTC is expected to expand production lines with Granite capacity of 1.5 million m2 / year in 2016 to 2017: Currently, TTC owns production lines of Ceramic and Granite tiles, total design capacity of 5.5 million m2 / year. In 2016-2017, TTC plans to invest a Granite tiles production line, a total investment of VND 341 billion, by issuing 9 million shares to existing shareholders.

VGC – Tracking

We note that Viglacera Corporation with the ticker VGC stocks were traded on UPCoM from October 2015. Earning in 9M2015 had relatively good growth, with net income reached VND 309.39 billion (equipvalent to 85.68% of the 2014 NI), EPS 9M2015 = VND 874. On 24/12/2015, VGC shares were being traded at VND 8,100, respectively PE 9M2015 = 9.27x and PB = 0.68x, relatively attractive when compared with the sector average. Besides, VGC hold controlling stakes in leading companies such as VIT (51%), VHL (50.48%).

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target price
Tiles	CVT	864	77	3,997	5.75	1.28	22.26%	Cash Div 5%; Share Div 10 : 2	23,000	27,183
	VIT	848	43	2,886	6.83	1.25	18.38%	Cash Div 12%; Share Div 100 : 15	19,700	22,204
	TTC	413	21	3,565	3.81	0.95	12.37%	Cash Div 8%	13,600	16,100

Source: BSC forecast

IT – Telecommunication Sector 2016 [Outperform]

- Demand growth from the private sector, finance and Government
- Benefit from the Free Trade Agreements
- Exchange rate fluctuations have bidirectionalimpact

We evaluate the IT – Telecom sector will continue good growth in 2016 based on the following opportunities:

2016 - 2017 IT application in operation of state agencies and the business will be boosted. According to the Resolution No.36a/NQ-CP on e-government, in 2016-2017 the Government will step up administrative reform associated with increasing application of IT in managing and providing online public services. Notably, target until 2016, the ministries must have 100% of public services allowing users to fill in and submit text form online to state agencies, and clearly defined roadmaps in the year to achieve its objectives. Besides the Government, increasing demand from the private and finance institutions will also bring growth for the IT – Telecom Sector in 2016.

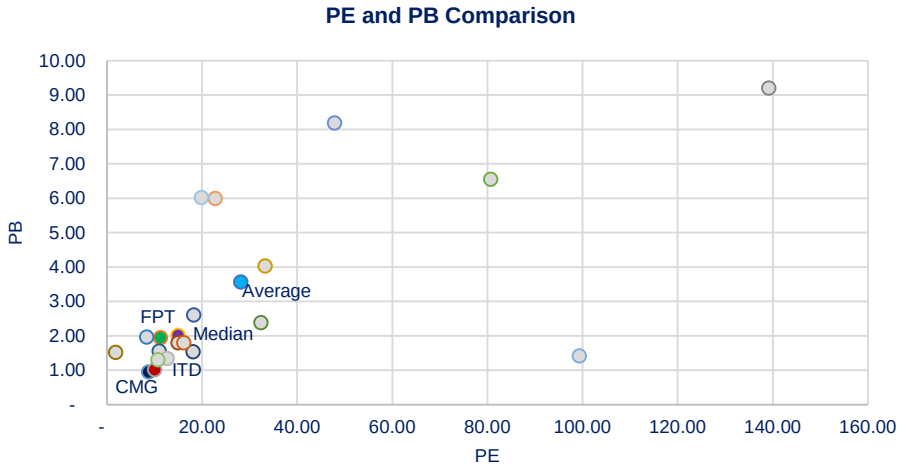
Benefit from the Free Trade Agreements. To prepare for the TPP and the FTAs, we believe the number of FDI enterprises will increase in the next years, thereby leading to growth in the field of system integration and providing telecommunications services for the segment of business customers. Besides, the FTAs will also promote the process of transport infrastructure investment and lead to the development of the field Intelligent Transport System.

Exchange rate will have two-way impact on the IT – Telecom sector. We believe that the apprecitation ofUSD in 2016 will have thetwo-way impact on IT – Telecom enterprises, it is positive impact on the field of Software Outsourcing thanks to foreign currency revenue (USD), however, it will impact negativelyon Integrated system field due to the import of equipment and low gross margin (around 3-4%).

Investment Recommendation

With prospects for continuing growth in 2016, we maintain a positive assessment to the IT – Telecommunications sector as in previous reports of BSC. We recommend the three leading stocks as FPT, CMG and ITD thanks to good earning growth prospects.

In the listed IT – Telecommunications enterprises, according to Bloomberg statistics,which have market capitalization ranging + -20% compared with FPT, CMG and ITD, we believe that FPT, CMG and ITD still in attractive valuation levels.



Source: Bloomberg, BSC

FPT – Buy – Target price VND 56,186

- **Expectations from FPT increasing ownership in FPT Telecom after SCIC divestment.** As of November 2015, revenue and profit before tax of Telecom segment accounted for respectively 13.84% and 39.18% the consolidated value of FPT Corp. Currently FPT hold only 45.64% stake in FPT Telecom, so if FPT increases ownership percentage in FPT Telecom, EPS will be improved in 2016. In 3Q 2015 investor conference, FPT said they did not clear how specific divestment plan of SCIC, in addition, there is no priority for FPT in acquiring the divesting capital of SCIC.
- **FPT can divest of Distribution and Retail segment.**In 3Q 2015 investor conference, FPT said it was carried out. In 11M2015, EBT of distribution and retail segment accounted for 25.13% EBT of the whole group, we believe that this will help FPT to have more resources for the development of core activities IT– Telecommunications.
- **Earnings forecast:** Not sure about the changing of ownership in FPT Telecom and Distribution & Retail segment, we estimate net Rev of FPT to reach VND47,008 billion and profit after tax in 2016 to reachVND2,470 billion (+ 8% yoy), profit after tax attributable to parent company's shareholders to reach VND1,899 billion (+ 8% yoy), equivalent to EPS2016 = 4,777 dong / share.

CMG – Buy – Target price VND 15,668

- **Earning continue to grow.**Revenue 9M2015 is expected to reach VND 2,549 billion exceeding 13% of the plan, PBT 9M2015 is expected to reach VND 127 billion, exceeding the target of 30% in 9 months.
- **Telecommunications infrastructure boosting growth.** The APG undersea cable (CMG contributes 12.5% capital together with Viettel and FPT) can go into operation in late Q1 or early Q2 2016. Besides, CMG will implement the North-South telecom axis with a total investment of

USD 4 million (depreciation in 7 years). Owning of telecom infrastructure will help CMG to save 1/3 operation cost compared to the current channel leasing.

- **Earning forecast:** we estimate in the fiscal year 2015/2016 Rev of CMG will reach VND 3,644 billion, profit after tax reachVND 156 billion (+32.01% yoy), profit after tax attributable to parent company's shareholdersofVND 119.23 billion, equivalent to EPS = 1,800 VND / share.

ITD – Buy – Target price VND 20,664

- **Intelligent Transportation System (ITS) is the strong field of ITD:** With the advantage of experience in working with foreign contractors, ITD currently ranks No. 1 in MTC filed with 70-80% market share. In 2015 - 2016, ITD will recognize revenue and profit from the ITS package of Hanoi - Hai Phong expressway project.
- **Earning forecast:** we estimate Rev 2015/2016 of ITD will reach VND 544 billion, EAT will be VND 43 billion (higher2.17x than in 2014/2015), equivalent to EPS = VND 2,124 / share .

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
IT - Telecom	FPT	47,008	2,470	4,777	10.11	1.54	19.80%	1. Cash Div 10% + Share Div 20:3 2. Cash Div 10%	48,300	56,186
	CMG	3,644	156	1,800	8.28	0.89	17.60%	-	14,900	15,668
	ITD	544	43	2,124	8.24	1.04	16.67%	Share Div 100:15	17,500	20,664

Source: BSC forecast

Seaport Sector 2016 [Positive]

- Vietnam seaport's cargo throughout is forecasted to continue growing fast thanks to signed FTAs and infrastructure improvement.
- Improvement in seaport operation and cargo traffic due to government policies implementation.

Cargo throughout is forecasted to increase rapidly in 2016 thanks to (1) export market expansion because of signed FTAs such as TPP, Vietnam-EU, RCEP, Vietnam-Korean, AEC, along with FDI attraction invested in the export-oriented processing industry. (2) Increase in trade thanks to recovery of EU, USA economy, increased demand of Vietnam's main export products such as clothes, textile, footwear, aquaculture…

TPP, RCEP forecasted effects on Vietnam's balance trade.

Unit: Bil usd	Based year 2025	Import growth	
		TPP	RCEP
Commodity	22.9	-2.8	0.5
Processing goods	207.4	71.5	28.8
Textile	26	12.9	5
Footwear	113	51.9	19.5
Machinery	14.4	2	1.7
Services	8.6	-0.8	0.5

Unit: Bil usd	Based year 2025	Export growth	
		TPP	RCEP
Commodity	9.5	2.7	0.8
Processing goods	210.9	49.8	25.1
Textile	41.7	18.4	8
Chemicals	49.6	9.3	4.7
Services	19.3	12.9	3.8

Source: Brandeis University, USA

Seaport and supported transportation infrastructure investment will helps bridge, road and port meet the high growth of cargo throughout.

Seaport infrastructure investment.

Port name	Year start	Capacity
Cai Lan	2013	520,000
Nam Hai Dinh Vu	2014	500,000
Vip- Green	2015	500,000
Lach Huyen	2017	1,000,000
CMICT	2014	800,000
Tan Cang Hiep Phuoc	2015	450,000
SSIT	2015	1,200,000
Gemalink(phase 1)	2017	1,200,000
Phuoc Anh(phase 1)	Undetermined	140,000

Source: Ministry of transportation, BSC collected.

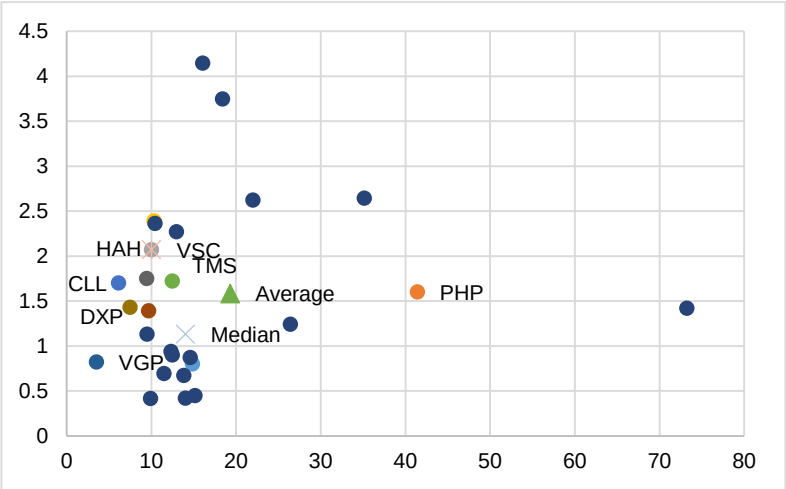
Cai Mep deepwater port will increase its capacity utilization thanks to (1) VPA has proposed Ministry of transportation on load restriction through Ho Chi Minh city, switching to port of Cai Mep (only operated

at 30-40% of its capacity). (2) Establishment of special industrial zone includes District 7, Nha Be, Binh Chanh and Can Gio in order to focus on potential regional seaports.

Government policies. (1) Establishment of the Port Authority in maritime law amendment, to be effective in early 2017. "Port Authority" is responsible for management of port infrastructure investment, seaports operation, depot, container freight station; carried out a number of management functions within the land and water area assigned. (2) Establishment of transportation exchange, providing link between shippers and suppliers, increasing logistics efficiency. (3) Seaport privatization in which Vinalines corporation will divest in many ports such as Hai Phong, Sai Gon, increasing operational efficiency, reducing government burden.

Investment recommendation

With above identification, we maintain **Positive** assessment with seaport sector. Stocks in seaport sector are considered to be highly defensive due to high stable growth in revenue and annual dividend payout ratio. We recommend some stocks with high growth potential thanks to prime locations, plans to expand capacity in coming years such as GMD, VSC, PHP.



Compared with other seaport operators in the region, P/E and P/B of Vietnam seaport operators are quite attractive. With development potential in 2016, the industry average stock price can be raised to average level of the region.

GMD – Recommend Buy, target price VND 50,067 upside 18%.

GMD's core business includes seaport operation (48% of revenue) and logistics (52% of revenue). We believe that GMD's growth potential will depend on (1) Nam Hai Dinh Vu port (with prime location) was just operated about 70-80% of its capacity. (2) Logistics center at Song Hau industrial park, Hau Giang- main economic zone in Cuu Long Delta, which is center of rice production, seafood processing and fishing, located on the trade routes connecting Cambodia, Thailand and Myanmar. (3) Improving business result by concentrating on core business, divesting in 2 real estate projects namely Gem and Saigon-Vientiane hotel. However GMD may run a risk of exchange rate loss when it had USD 40 mil loan outstanding. In

2016, gross revenue is forecasted to reach VND 4,069 bil (+12.67%yoy), after tax profit will reach VND 529 bil (+10.44%yoy), EPS 2016 stand at 4,422 dong/share.

VSC – Recommend Buy, target price VND 85,146 upside 10.4%

VSC is considered to be one of the best port operators in Hai Phong. VSC's main business activities include container handling services and storage. Because of Xanh's overcapacity operation, Vip-green port will help VSC expand its operating capacity significantly. Compared with Xanh port, Vip-green port located at better position: near estuary and navigator, with capacity of 500,000 TEU/year. Currently, Vip-green port has built and put into operation wharf 1 and expected to complete wharf 2 in July 2016. We forecast VSC's revenue in 2016 will reach VND 1,161 bil (+21%yoy), after tax profit will stand at VND 349 bil (+11.5%yoy), EPS 2016 will be 8,427 dong/share.

PHP – Recommend Buy, target price VND 23,813 upside 12.86%

PHP is the largest port operator in Hai Phong accounted for 30% in terms of cargo throughout in 2014. The growth potential in 2016 depends on (1) Tan Vu port (prime location which is near the estuary and navigator) has possibility to expand its capacity and operating area at the wharf 4,5,6,7. (2) Union and Oman Corporation take part in management board, along with State reducing its ownership to 20%, improving management capabilities. We forecast that PHP's revenue in 2016 will touch VND 2,367 bil (+4%yoy), after tax profit will stand at VND 622 bil (+12.7%yoy), EPS 2016 will be 1,902 dong/share.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Seaport	GMD	4,069	529	4,422	9.6	1.03	10.8%	Cash: 20%	42,400	50,067
	PHP	2,367	622	1,902	11.09	1.79	16.2%	Cash: 3%	21,100	23,813
	VSC	1,161	349	8,427	9.14	2.18	24%	Cash: 10%	77,000	85.146

Source: BSC forecast

Textile Sector 2016 [Outperform]

- Textile exports value is expected to grow at 10-12% in 2016
- In the 2015/16 crop year, global cotton prices are expected to decline 7.6%
- A number of textile enterprises will listed in 2016 such as May 10, Viettien, Nha Be, Duc Giang…

The textile sector under our assessment will keep growing steadily in 2016. The export value of textiles is expected to grow 10-12% thanks to the recovery of main exporting market and some FTAs begin to take effect. Input material prices will decline slightly since cotton price and world oil price are expected to decline.

Textile export value under our expectation will grow at 10-12% in 2016 due to:

(1) The main export markets of textile such as the US, EU and Japan are expected to recover in 2016: According to forecasts of IMF, the US economic growth in 2016 may reach 3.0%, higher than the 2.5% in 2015 due to the recovery of housing market, increasing salary, favorable financial conditions for consumers and investment and low fuel prices. EU zone is forecast to grow 1.7% in 2016, up slightly from 1.5% in 2015 when the recovery of the largest economies in the EU will basically continue. Japan's economy began to show signs of recovery, however, economic growth will be modest, reaching 1.2% in 2016, higher than the growth of 0.8% in 2015.

(2) Promoting from the FTAs taking effect since 2016:

- **FTA Vietnam - EAEU: The FTA signed on 29 May 2015 and will take effect on 1st Jan 2016.** Under this agreement, 82% of tariff lines in textiles is committed to cutting, in which 36% of tariff lines will decline to 0% once the Agreement become valid, 42% of tariff lines will be eliminated entirely in maximum 10-year roadmap. The rules of origin for textiles under the Agreement is quite flexible, with some cases apply the rules of origin 1 stages (cutting - sewing). However, some textiles products can be applied threshold defense mechanisms, with 0% tax rate is applied only for export value within the threshold.
- **VKFTA**: **signed in May 2015 and took effect on 20 Dec 2015.** When the agreement takes effect, 24 lines of textile products from Vietnam to Korea can enjoy the tax rate of 0% instead of 8-13% as previously. South Korea is Vietnam's 4th largest textile export market, VKFTA taking effect is expected to increase export value to this market. For almost textile materials imported from South Korea, Vietnam committed to cut to 0% in the period 2016 – 2018. South Korea is the second-largest textile material supplier of Vietnam, after China, however many fabrics, textile raw materials also enjoyed a tax rate of 0% under the ASEAN-Korea FTA (AKFTA), so VKFTA is expected not to sharply increase imports value from South Korea.
- **After 2016, FTAs like EVFTA, TPP is noticeable agreement, having positive effects on Vietnam Textile** (1) EVFTA concluded negotiations in 2015 and is expected to take effect in 2018. Under the agreement, the export tax to EU market, the 2nd largest export market of Vietnam after

the US, will be cut down from the average of 12% to 0% in 7 years, starting from 2018. (2) TPP ended negotiating in 2015, is expected to sign in Feb 2016 and formally take effect from the first half of 2018. According to TPP, textiles exported to 11 member countries of TPP will have certain tax incentives, depending on each market. Among them, notably the US, the largest textile export market of Vietnam, currently apply a quite high average tax rate of 17.5%.

In the crop year 2015/16, world cotton price is expected to decline 7.6% to an average of 61 cents/pound. According to the U.S. Department of Agriculture (USDA), world cotton production in 2015/16 is forecasted at around 22.6 million tonnes, down 14.4% over the 2014/15 crop, the lowest level since 2010/11 due to (1) The cotton area is forecasted to fall by 7% in 2015/2016 to under 31 million hectares due to low prices during the 2014/15 crop; (2) The average global yield fell 3% to 764 kg/ha. Cotton consumption is forecast to rise slightly 0.83% to reach 24.3 million tons, exceeding 7.5% over production. Inventories fell slightly 2.75% but remained at extremely high level of about 21.2 million tons, almost double the stock in 2010/11, causing cotton prices to keep declining slightly from 66 cents/pound in 2014/15 to 61cents/pound in 2015/16. Cotton price reduction makes the cost of inputs such as yarn, fabric also fell, export growth therefore will mainly come from volume growth.

In 2016, many textile enterprises will be listed: According to Decision No. 51/2014 /QD-TTg, taking effect from 1st Nov 2014 which stipulate that firms offered to the public after 3 months have to list on UpCOM, after 1 year have to list on the Stock Exchange if eligible. Businesses are enable to list on HNX, HSX can be listed directly without going through UpCOM, decided by the AGM of the company. In the textile sector, many businesses such as May 10, Viettien, Nha Be, Duc Giang, Hoa Tho ... is expected to list in the coming year.

Company	Total asset (31 Dec 2014)	Net revenue 2014	yoy	Gross profit margin 2014	Net profit margin 2014	EPS trailing 2014	BVPS (31 Dec 2014)	Chartered capital
May 10	812.4	2,344.2	+27.3%	14.2%	1.9%	5,191	18,297	100
Viettien	3,206	5,482.4	+13.5%	13.4%	5.4%	10,593	28,742	280
Nhabe	2,127	3,073.5	+9.7%	20.2%	2.6%	4,349	16,889	182

Source: Financial statement of firms, BSC collected

Investment recommendation

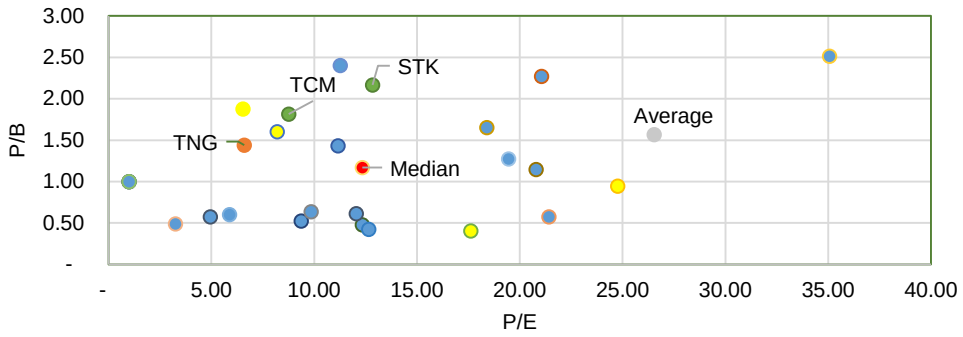
In 2016, prices of textile raw materials such as yarn, fabric will continue to decline due to the impact of decreasing cotton price and world oil price, so revenue growth will come primarily from growth in sales volume. We expect textile export growth in 2016 will be significantly improved thanks to recovering demand from the main markets such as the US, EU, Japan, along with some FTAs taking effect from 2016 (FTA

Vietnam - EAEU, VKFTA). Therefore, we forecast earnings and total textile imports and exports of textile firms in 2016 will continue to grow positively.

We continue to maintain a **positive** perspective for the textile sector in 2016 and recommend BUY with TNG stocks, HOLD with TCM and TRACKING with STK. Besides, we also recommend tracking the upcoming listed textile stocks such as May 10, Viettien, Nha Be, ...

Considering global listed textile enterprises having market cap ranges between + 5% compared with TCM, TNG and STK (according to the Bloomberg statistics), we believe that TNG and TCM stocks remain attractive valuations when textile Vietnam is beginning to benefit from FTAs.

Compare P/B, P/E with the sector average



Source: Bloomberg, BSC collected

TNG – Buy – VND 28.264 / share (upside 48.76%)

TNG owns 10 garment branches, produce about 12 million units of jacket and 9 million units of Chino pants per year, mainly exported to USA, EU, Canada and Mexico (representing 83% of total exports of TNG). Feb 2015, Dai Tu plant which having design capacity of 35 production lines put into production, helped TNG increase by 1 million products per year. In August 2015, TNG also run an additional cotton sheet production line, making the design capacity increase 3 times, mainly for its production (80%) also sells cotton to market.

TNG had positive revenue growth rates, with revenue growth in 9M2015 reached 38.3%, profit margin slightly decreased to 18.1%. With the improvement of production capacity in 2015 and the positive orders, expected revenue in 2016 is about VND 2,230 billion (+ 20% yoy). Gross margin will remain at 18%, PAT ~ VND 125 billion and EPS of ~ 4,220 VND/share. (In 2015, TNG issued additional 2.194 million shares to pay dividends. Total outstanding shares in the end of 2015 was 29.62 million shares).

The biggest risk TNG facing is the imbalance of capital. As at quarter 3 2015, TNG had large short-term debt of VND 937 billion, in which VND 736.6 billion was short-term loans. Curent ratio (Curent asset/Curent liability) is low, only 0.77.

TCM – Hold – VND 34.220 / share (upside 11.10%)

TCM owns a closed production chain from Yarn -> Fabric -> Garments, guaranteed to meet the rules of origin in FTAs. The main export markets of TCM are the US (30%), Japan (35%) and South Korea (20%). In 2015, TCM run garment factory No. 1 in Vinh Long, increasing the design capacity up to 21.1 million unit garments per year. TCM is expected to run garment factory No. 2 (6.1 million products per year), knitting and dyeing factories in case existing plants do not meet the orders. Thus, the growth potential of TCM is quite large with enough capacity to meet demand, especially during the period FTAs taking effect. Currently, In TCM's net sales structure, 40% is from the Yarn, 50% from Garments and 10% from the fabric. TCM tend to gradually increase the proportion of revenue from Fabric and Garments, reduce the proportion of Yarns which have lower gross margin.

Revenue in 2016 is estimated at VND 2,856 billion (+ 5% yoy) due to the Korean market expected to grow as VKFTA taking effect. Gross margin of TCM will slightly improve from 15.6% to 16% in 2016 as TCM gradually increase the proportion of Fabric and Garment. PAT 2016 ~ VND 178.1 billion (+ 6.6%), EPS 2016 ~ 3.802 VND/share.

STK – Tracking

The STK products are POY, DTY and FDY yarns, in which FDY yarn accounts for 92% of net sales. STK is one of two biggest companies producing high-quality DTY yarn and is one of five companies producing DTY in Vietnam. 70% products are exported to markets of South Korea, Taiwan, Japan, and Thailand ..., and the rest is consumed domestically. In Sep 2015, STK runs Trang Bang 3 plant, increasing total capacity from 32,000 tonnes of DTYper year and 5,000 tons of FDY per year to 52,000 tonnes of DTY and FDY per year. Expected Q4/2016 or early 2017, STK will operate the Trang Bang 4 plant, with a design capacity of 3,000 tons of DTY, 6,000 tons of POY and 4,000 tonnes of FDY, helping design capacity increase 62% compared to the time the firm had not run Trang Bang 3 and 4 plants yet. In 2015, the input, which is derivative of petroleum, had decreasing price. Output price thus also fell but at a lower rate, making net sales decreased slightly but profit margin reach 17.3% in 9M2015 compared to 14.6% in 9T2014. However, in the second half of 2015, the deferred orders made revenue and profit of STK not reach the plan.

In 2016, yarn demand is forecasted to recover, partly because VKFTA taking effect will increase demand from the Korean market, partly because STK will produce new products with better features. Because of 2016 outlook for STK is not clear, we recommend TRACKING with this stock, and forecast Net sales 2016 will reach VND 1,672 billion (+ 15%), profit margin will be 18.5%, EAT ~ VND 134 billion, EPS 2016 ~ 2,873 VND/share.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Textile	TNG	2,230	125	5,187	3.66	1.17	32%	6% Cash div; 10% share dv; Selling incentives share at 4:1	19,000	28,264
	TCM	2,856	186.3	3,802	8.1	1.37	17%	6% cash div	30,800	34,220
	STK	1,672	134	2,873	11.1	1.84	16.50%	10% Share Div	31,900	n/a

Source: BSC's forecast

Electricity Sector 2016 [Positive]

- Total power installed capacity of Vietnam will be increased by 11%
- Input sources of gas power plants and hydroelectric will be unstable due to Nam Con Son's major maintenance and El Nino to be forecasted to last until May 2016
- Gas and oil prices remain at low level while electricity price on competitive market increases, resulting improvement of thermal power plants' profit margin.
- EUR, JPY and KRW exchange rates are forecasted to be depreciated against VND while USD will be appreciated

Power supply will increase sharply, especially in the South: thanks to to-be-into production of some large power plants in 2015, especially at the end of year, resulting to Vietnam's total capacity to be increased by 11%. Furthermore, new plants were mainly located in the South, helping address the needs of the South's shortage and fix the problem of even power distribution between regions.

Input sources are forecasted to be unstable:

- **Coal demand for electricity increase sharply**: the commissioning of large thermal plants such as Mong Duong 1, Duyen Hai 1 and Formusa will make coal demand for electricity production in 2016 increase by about 5 mil tons compared with it in 2015 and continue to rise to 38.3 mil tons in 2017, meanwhile Vietnam's total coal output is just about 40 mil tons. From 2017, Vietnam will have to import coal for electricity production needs.
- **Nam Con Son will be in large maintenance.** In 2016, Nam Con Son's gas system will be suspended to carry out major maintenance for about 10 days time.
- **El Nino is forecasted to continue** until May 2016. According to Ministry of Agriculture and Rural development, in the first 4 months of 2016, rainfall in the North will be higher than the average of many years, 30-50% lower in the Central Highlands and 20-50% lower in the South and Binh Thuan. However, El Nino will be less influential in 2016 than 2015.

Input material prices will not change much:

- **Coal price is forecasted to be stable:** world coal price is at lowest level in 12 years. Goldman Sachs forecasts coal price will be down by about 7% in 2016, staying at USD 54 per ton on average with Australian coal. Thus, domestic coal price used for electricity production will have fewer chances to increase in 2016. Recently, domestic coal price is at equivalent level with imported coal.
- **Gas prices will remain at low level.** Gas used for electricity production is calculated based on oil price (over offtake and PM3). Oil price is forecasted to stay at the lowest level in 2016. This downtrend will even continue in the next year. Thus, gas price will bring out benefits for the gas power plants.

- **Increase water resource tax.** Standing Committee of the National Assembly has agreed on adjustment of water resource tax from 4% to 5% and may be applied from 2016. As a result, hydropower production cost will increase about VND 16/KWH.

Selling price on competitive electricity market will increase: due to increase in hydropower production. At the same time, the proportion of hydropower with low price will decrease as a result of El Nino

Competitiveness on competitive electricity market will increase: in 2016, there will be 79 plants participated in competitive electricity market with total capacity of 21,151.5 MW, accounted for 54% total Vietnam's capacity. Among these, there will be 63 plants will take part in directly with total capacity of 14,912 MW (+12%yoy), in which 45 hydropower plants (accounted for 38% capacity), 13 thermal plants (38% capacity) and 5 gas turbine plants (24% capacity). Thus, the number of plants participated will be increased by 16 plants compared with 2015.

Experimental application of wholesales competitive electricity market. On 10th August 2015, the Ministry of Industry and Trade issued Decision no 8266 / QD-BCT approving detailed design of wholesales competitive electricity market. Compared with recent market, the wholesales competitive electricity market will remove the monopoly on wholesales purchasing electricity of Electricity Trading Company which belongs to EVN. Also, the wholesale competitive electricity market allows BOT thermal plants, multi-target hydropower plants and under-30 MW thermal plants to take part in the market whenever they satisfy infrastructure requirement. Furthermore, this market has added bilateral contracts mechanism and reduction cycle from 1hour to 30 mins, reduction bid cycle from 24h to 6h, increasing competitiveness in distribution stage and electricity wholesales. This market will be experimented the first phase in 2016 (simulation calculations on paper, no payment made), phase 2 in 2017-2018 (trial apply in reality) and full real apply from 2019

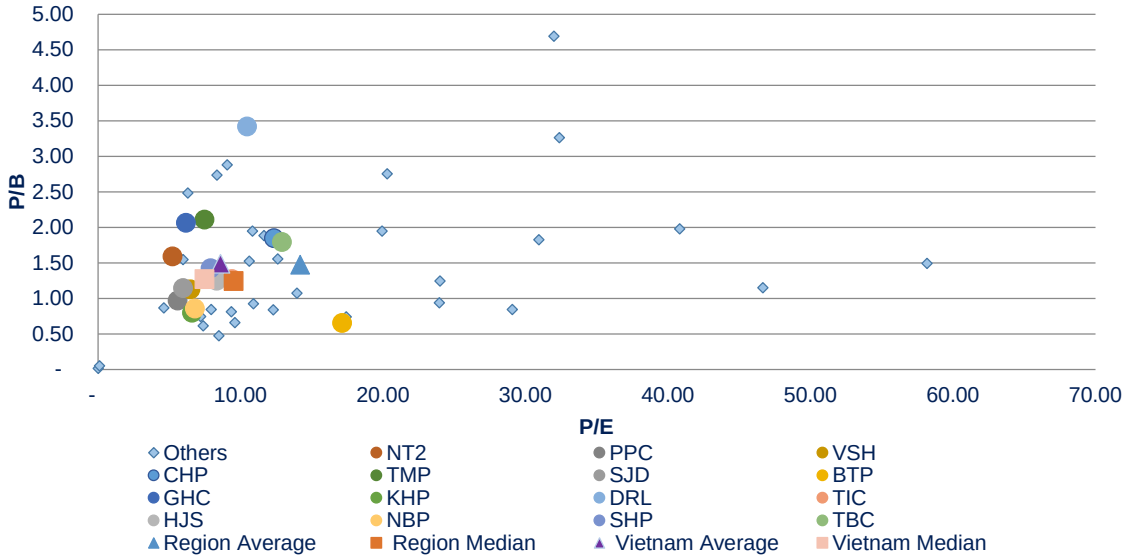
The exchange rate is forecasted to remain fluctuated. The USD/VND will certainly increase due to USD back to uptrend. Similarly, USD/KRW is forecasted to increase to 1,200 in Dec 2016 by financial institution PNC. USD/JPY is expected to increase to 130 in 2016 by Goldman Sachs. This organization also forecasts EUR/USD to drop to 1 in late 2016 and 0.9 in late 2017.

Investment recommendation

We remain to assess **Outperform** with electricity sector in 2016. For electricity production and trading, thermal power companies may continue recording positive business results thanks to increase in output and price. Hydropower firms will be stable due to offset lower sales by increased price.

Vietnam electricity stocks are valued equivalent to the region. P/E and P/B is remain at region level. However, there are some stocks with high P/E and P/B such as BTP, TBC and DRL.

P/E and P/B of electricity stocks in Asia emerging markets



Source: Bloomberg

NT2 – Buy – Target price 33,392 dong/share (+25.53%).

NT2's manufacturing activity and trading is expected to continue recording growth in 2016 thanks to: (1) Production and electricity price on competitive electricity market rise due to drought. (2) the gas input price remains at low level due to downtrend of oil price. However, we notice that NT2 may continue to record exchange losses in 2016. We forecast in 2016, NT2 will record VND 6,917 bil in revenue, VND 1,204 bil in PAT, equivalent to EPS 2016 standing at 4,174 dong/share. On 25th Dec 2015, NT2 was trading at P/E FW= 6.32.

PPC – Buy – Target price 20,032 dong/share (+9.46%).

PPC's core business is expected to have strong growth in 2016 due to (1) stable production output. (2) The Line 2 will be fully depreciated, helping the firm reduce its depreciation cost by about VND 450 bil while electricity price in PPA contract for the Line 2 is stable. (3) Profit from joint venture will be recovered thanks to Hai Phong thermal power will no longer allocate exchange rate loss in construction phase, and Quang Ninh thermal power will have no difficulty due to flood like it did in 2015. However, we notice that electricity price for the Line 1 has not been signed yet and USD/JPY and USD/VND exchange rates are forecasted to strongly affect parent company and its joint venture which are Quang Ninh thermal power. BSC forecasts in 2016, PPC revenue and PAT will be VND 6,921bil and VND 852 bil respectively, making EPS 2016 stand at 2,676 dong/share. On 25th Dec 2015, PPC was trading at P/E fw=6.54

SJD – Buy – Target price 30,941 dong/share (+19.46%).

We believe that SJD's business performance will witness slight growth in 2016 thanks to (1) Ha Tay hydro power will be in production whole year instead of 6 months as in 2015. (2) USD/VND exchange rate

increases, improving its revenue because of USD based calculated and stable price. (3) in 2016, SJD enjoys low tax rate. In addition, we notice that in 2016, the firm may merge Se San 3A, expanding its size. In 2016, SJD is forecasted to record VND 474 bil in revenue, VND 238 bil in PAT. EPS 2016 will stand at 4,781dong/share. On 25th Dec 2015, SJD was trading at P/E FW=5.29

CHP – Buy – Target price 24,545 dong/share (+18.57%).

CHP is expected to remain its positive business performance in 2016 due to (1) Stable production thanks to its location. (2) Electricity price increases on competitive electricity market as a result of increased thermal production cost. (3) The wholesales competitive electricity market will be applied helping expand target customers. (4) Start recording revenue from CDM. (5) Interest expenses decreases due to falling interest rate and rapid amortization. However, we notice that hydrological changes are unpredictable factors, affecting firm's business result. In 2016, we forecast CHP's revenue is VND 735 bil, PAT is VND 380 bil, resulting EPS 2016 standing at 2,880 dong/share. On 25th Dec 2015, CHP was trading at P/E= 7.26.

SHP – Tracking – Target price 19,082 dong/share (+0.43%).

SHP's output volume is forecasted to witness slight increase in 2016 thanks to no longer recording Da Mbri maintenance cost as it did in 2015, in addition with expected increase in electricity price on competitive electricity market. We believe in 2016, SHP's revenue will reach VND 593 bil, PAT will be VND 210 bil, making EPS 2016 stand at 2,246 dong/share. On 25th Dec 2015, SHP was trading at P/E fw= 8.68.

Sector	Ticker	Rev 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Closing price 31/12/2015	Target price
Electricity	**NT2**[1]	6,917	1,204	4,174	6.37	1.21	20.00%	22% cash & 7% share	26,600	33,392
	PPC[2]	6,921	852	2,676	6.84	1.03	14.00%	12% cash	18,300	20,032
	SJD	474	238	4,781	5.42	1.02	21.00%	25% cash	25,900	30,941
	CHP	735	380	2,880	7.19	1.26	20.00%	9% cash & 5% share	20,700	24,545
	SHP	593	210	2,246	8.46	1.35	16.00%	15% cash	19,000	19,082

Source: BSC forecasts.

1 In 2016 exchange rate loss is estimated to reach VNd 92 bil with USD/VND to be forecasted to increase by 6% and EUR/VND standing at 1

2 In 2016 exchange rate gain is estimated to touch VND 76 bil with USD/VND to be forecasted to increase 6% và JPY/USD standing at 130

Fertilizer Sector 2016 [Positive]

- Fertilizer prices continue to decline
- Low input prices improve profit margin of manufacturing companies
- Expected benefits from changes in tax policies
- Increase in exchange rate enhance the competiveness of domestic fertilizer products

Fertilizer prices continue to decline:

- **Global fertilizer prices are expected to slightly decrease**: The oversupply state of global fertilizer market will continue. El-Nino phenomenon is forecast to last until April of 2016, which will create downward pressure on the price of agriculture products and thereby weaken demand for fertilizer. Meanwhile, global fertilizer supply will continue to increase since some plants will go into operation in 2016. World Bank forecasts the fertilizer price in 2016 will decline by 2 – 5% yoy, in which phosphorus decreases by 5% and other products fall by 2%.
- **Output of fertilizer production in Vietnam will increase, since new plants go into operation**: (1) **Urea**: The Ha Bac Fertilizer has completed the implementation to increase its capacity from 180 thousand tons/year to 500 thousand tons/year in June 2015, which brings total urea production capacity of Vietnam up 14%, from 2,340 thousand tons/year to 2.660 thousand tons/year. (2) **DAP**: DAP Lao Cai Plant with capacity of 330 thousand tons/year has completed the trial production, and officially operated on July 1st 2015, which doubled domestic supply for DAP. (3) **NPK**: NPK Binh Dien – Ninh Binh Plant with phase 1 capacity of 200 thousand tons/year was inaugurated in October 2015
- **Stable demand**: Since the agricultural land has been shrunk and converted to other usage purposes, fertilizer consumption is forecast to be stable in the coming years. Rice plantation area fell by an average 1%/year over the past 5 years.

Input prices are forecast to remain at a low level: the downward trend in oil price is likely to continue in 2016, align with the oversupply situation and the influence of political and financial factors. Thus, gas price sold to fertilizer producers, which links directly to oil price, will stay low in 2016. The sulfur market is reaching the oversupply state, when supply is rising from the Northwest area through the operation of new oil refineries, while import demand of US is weakening. Therefore, sulfur price is forecast to continue the downtrend in long term.

Favorable changes in tax policy for domestic fertilizer production companies:

- **Possible amendment on VAT policy**: Fertilizer Association has petitioned the government, proposing to change VAT for fertilizer products from exemption to 0% VAT rate. Thereby, the

change will enable fertilizer production companies to deduct VAT for input costs and reduce the difficulties for these companies

- **Import duties for DAP are expected to increase**: Aiming to encourage and protect domestic fertilizer production companies, the Ministry of Finance proposed to increase MFN preferential import tax for DAP from 3% to 6%.

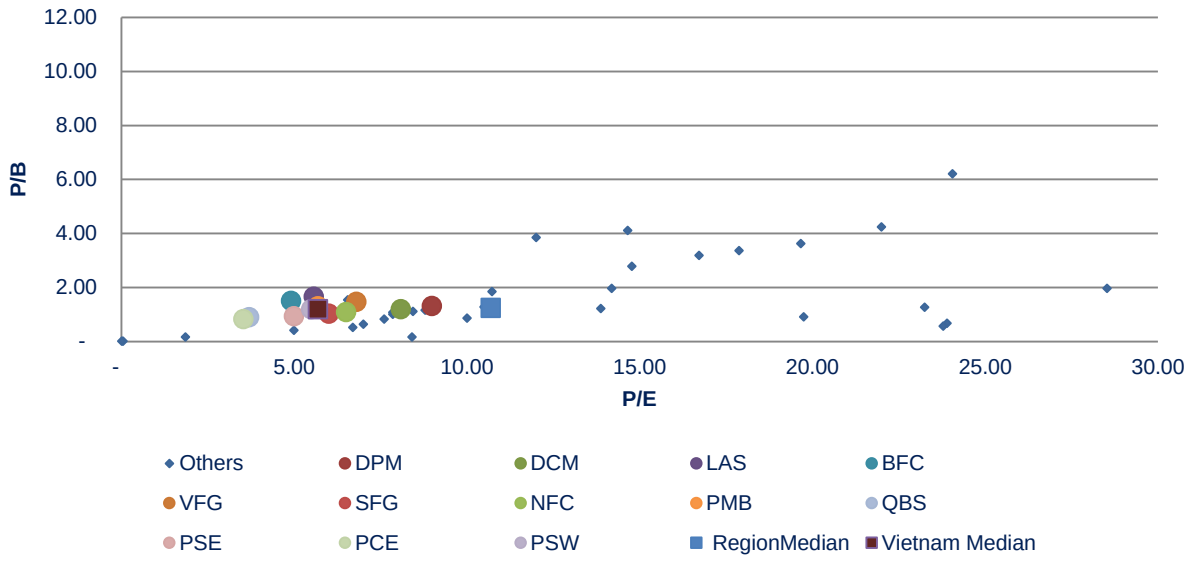
The rise in USD/VND enhances the competitiveness of domestic products: the Fed rate hike and the US economic recovery caused the USD/VND to rise sharply in 2015, and the exchange rate is expected to continue the uptrend in 2016. The rise in exchange rate enables domestic fertilizer products to compete with imported fertilizer products.

Investment recommendation

BSC increases our assessment from neutral to **outperform** for fertilizer sector in 2016, thanks to the benefits from low input costs, the tax policy changes, and the USD/VND rise. The level of decrease in input cost is expected to surpass the decline in selling price, which increases the profit margin for fertilizer production companies.

Fertilizer stocks are valued relatively low compared with the region: According to data gathered from Bloomberg, median of P/E and P/B of fertilizer and chemical stocks of the emerging Asia countries are 18.43 and 1.85, while the figures for Vietnam are respectively 5.69 and 1.19

P/E and P/B of fertilizer stocks in Asian emerging market



Source: Bloomberg

DPM – Buy – Target price VND 34,770 (+19.48%)

The low oil price will improve profit margins of DPM while output remains stable because DPM do not compete in the North area market, where the competition has increased since Ha Bac fertilizer plant went into operation. Additionally, investment losses from PVTEX can be mitigated since DPM had recorded provision for this investment as of Q3 2015. BSC expects in 2016, DPM will reach VND 9,495 billion of revenue and VND 1,868 billion of profit after tax, equivalent to EPS of VND 4,345/share. As of Dec 25th 2015, DPM is trading with PE forward = 7.3

LAS – Tracking – Target price VND 31,180 (+0.58%)

As a leading company in the phosphate market, BSC expects sales volume of LAS will be stable in 2016, while the gross profit margin will improve as sulfur price continues to decline. Also, the company maintains a high dividend yield at 10-19% per year. We forecast in 2016 LAS will have revenue and PAT of respectively VND 4,189 billion and VND 393 billion, equivalent to 2016 EPS = VND 4,797 / share. As of Dec 25th 2015, LAS is traded at P/E forward = 6.02

BFC – Buy – Target price VND 33,507 (+24.10%)

In Q3 2015, NPK Binh Dien - Mekong plant with the capacity of 100 thousand tons/year was put into operation and then the NPK Binh Dien - Ninh Binh plant with the initial capacity of 200 thousand tons / year went into operation on Oct 21st 2015. The new plants lifted the total capacity of BFC from 675 thousand tons per year to 975 thousand tons per year, making BFC the largest NPK producer in Vietnam. This will be a major growth driver of the company in 2016. However, please note that since the industry is in saturation state, domestic companies will face competition from imported fertilizer products, therefore the new plants will not be able to operate at full capacity at the initial period. BFC is forecast to reach VND 7,537 billion in sales and VND 258 billion profit after tax in 2016, equivalent to 2016 EPS = VND 5,155 / share. As of Dec 25th 2015, BFC was trading at a P / E forward = 5.16

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Fertilizer	DPM	9,495	1,868	4,345	6.58	1.23	24%	40% cash	29,100	34,770
	LAS	4,189	393	4,797	6.02	1.61	28%	55% cash	31,000	31,180
	BFC	7,537	258	5,155	5.14	1.52	24%	28%cash	27,000	33,507

Source: BSC forecast

Dairy Sector 2016 [Positive]

- Production output of milk worldwide in 2016 is forecasted to increase slightly by 1.5%
- Prices of raw milk powder in global trade (SMP, WMP) are expected to remain low
- Domestic milk prices are forecasted to remain stable
- FTAs will not have big impacts to domestic dairy enterprises in the short term, but will have certain negative effects in the long term

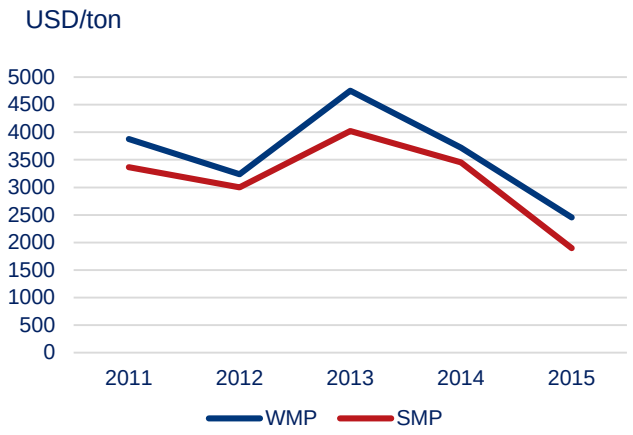
In 2016, domestic dairy enterprises will benefit from stable prices for milk output while input costs tend to fall and the free trade agreements are expected not to greatly affect domestic competition.

World dairy market

Production output of global milk is forecasted to rise slightly by 1.5%. According to the US Department of Agriculture (USDA), global milk production will rise slightly by 1.5%, reaching 498.8 million tonnes primarily due to the increase of about 8.4 million tonnes in India, EU, US, Brazil, .. offset for a decline of about 0.7 million tonnes in Newzealand, Russia, South Korea, ... This growth is higher than the increase of 1.4% in 2015 but lower than the increase of 3.8% in 2014.

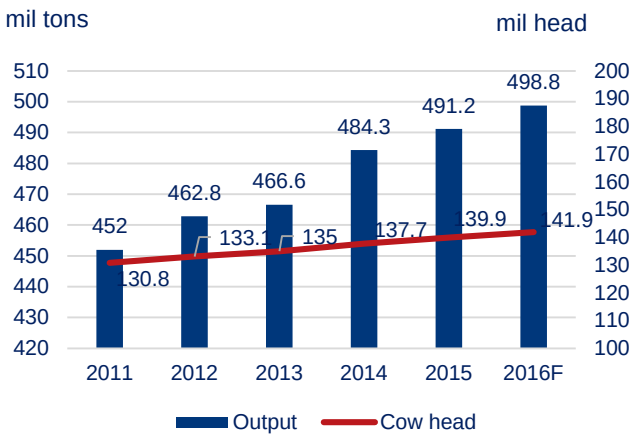
Prices of raw milk powder (SMP, WMP) in global trade is forecasted to remain low in 2016. In 2015, the world price of raw milk powder plummeted 45% yoy for SMP down to $1.900/ton and down 34% yoy for WMP down to $2.454/ton. In 2016, according to USDA, raw milk powder prices are expected to remain low because supply continues to exceed demand by 25%, import demand from some key countries such as China are expected to decline.

Raw milk powder prices in global trade for the period 2011-2015



Source: USDA, BSC collected

Production output and the number of cow in the world for 2011-2016F



Source: USDA forecast, BSC collected

Domestic dairy market

Domestic milk prices in 2016 are forecasted to continue stable due to:

- **Prices of raw milk powder does not greatly affect domestic milk prices**. Raw milk powder which is expected to remain low in 2016 accounts for only 20-25% of the production cost, while other costs may rise in 2016 such as (1) VND/USD rate is expected to increase 5% -8%; (2) the increase in minimum wage and social insurance from 01 Jan 2016 will push labor costs (3) electricity prices are expected to rise, ...
- **Milk prices for children under 6 years old are stabilized until the end of 2016**. According to Decision No.857/QD-BTC amending and supplementing the Decision 1079/QD-BTC dated 20 May 2014, the price stabilization for milk for children under 6 years old will be prolonged until 31 Dec 2016.

Import duties for dairy under some important FTAs

FTAs	Time effect	Import duties in Vietnam for dairy products
TPP	2018	Import tariffs will drop from 7-15% to 0% within 3-5 years, since 2018
FTA Vietnam – Australia/New Zealand	2010	Import duty is 5% -10% in 2015; 5% or 7% in 2016; 0% or 5% in 2017-2018. From 2019 onwards, import tax shall be 0%.
FTA Vietnam - EU	2018	Import tariff will be cut within 3-5 years, since 2018
FTA ASEAN – India	2010	Import duty is 8% to 20% in 2015, 7%-18% in 2016-2017, 5%-15% in 2018, to 0% after 2021.
FTA Vietnam – EAEU	2016	Tariff reduction from 5%-20% in 2015 to 0% from 2016

Source: WTO center, BSC collected

Assessing the impacts of FTAs

In the short term (1-3 years), the FTAs does not have great effects on the operation of the domestic dairy enterprises:

(1) Under the roadmap, tariff reduction for imports of dairy products under FTAs mostly start from 2018, depending on type of product (see table above).

(2) Fluid milk segment, which is the advantages of local enterprises, will not have much impact. Fluid milk accounts for 32% of total revenue from dairy products in Vietnam, of which, domestic enterprises accounted for about 85% market share. Even if tax rates reduce to 0%, we assess the competition from foreign products will be low due to high costs such as transportation, storage, distribution, … making price not be lower than domestic prices, despite the lower production cost of imported products.

(3) Competition in milk powder segment will increase, but mainly between the imported products. Currently, these products accounted for 41% of total dairy products sales in Vietnam, of which milk powder imported took 70% market share, since foreign companies have technological advantages, low manufacturing costs. .. Imported milk powder will rise sharply when import tariff decreases

under the FTAs, especially from the major exporters to Vietnam like New Zealand, USA, and Australia ... Competition in the milk powder product therefore will be more severe, but foreign dairy companies are primarily affected.

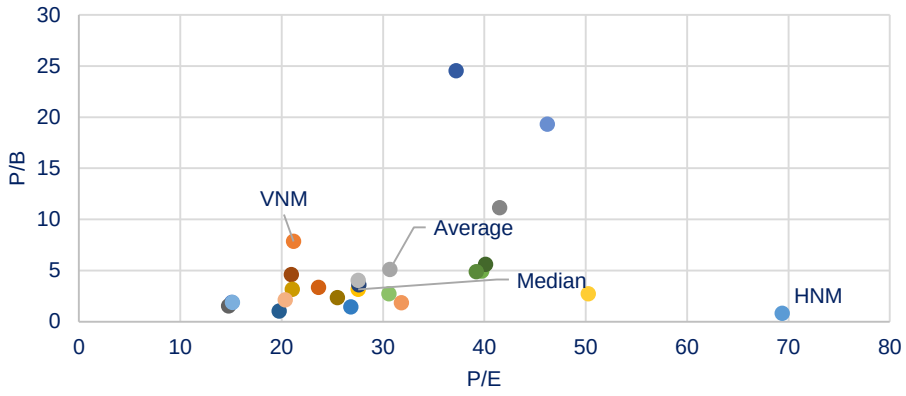
Investment recommendation

In 2016, the world prices of raw milk powder are expected to remain low due to oversupply. This will help the companies which are using milk powder to produce may increase profit margins when domestic milk prices is expected to stabilize in 2016. The FTAs will not affect greatly to domestic dairy enterprises in general, because the completion in milk powder segment is likely to become more severe but fluid milk segment, which is the type of product resulting in main revenues for domestic enterprises, is forecasted not to be affected much.

We continue to maintain **Positive** perspective for milk sector in 2016 and recommend to **Hold** with VNM stocks and **Tracking** with HNM stocks.

Considering the global listed dairy firms with market capital closed to VNM and HNM according to Bloomberg statistics, we believe VNM is still at an attractive valuation.

Compare P /B, P/E with the industry average



Source: Bloomberg, BSC collected

VNM – Buy – Target price VND 148,000 /share

In 2016, VNM is expected to be one of the businesses that SCIC would divest and can open up to 100% room for foreign investors. We expect 2016 earnings of VNM continue to be improved thanks to **(1)** Competition in the milk powder segment when some FTAs become effective in 2016 is not too critical because VNM own positioned product brands and consumer habits are difficult to change immediately; **(2)** Gross profit margins is high and are expected to improve due to changing product structure and raw milk powder prices fell**. (3)** Expand export market to other potential markets such as Cambodia, Myanmar, Cuba.

We recommend BUY with VNM stock and forecast Net revenues 2016 will reach VND 45,016 billion (+13% yoy), EAT is VND 8,823 billion, EPS2016 hit VND 7,353/share.

HNM – Tracking

Business results is expected to continue improving thanks to (1) developing new product lines; (2) Reducing cost through imported raw milk powder price reduction and more active on the source of raw milk. BSC note that low production output, ineffective cost control will be barriers for long-term growth of HNM. Estimated revenue and profit after tax will be VND 260 billion and VND 3.4 billion respectively, EPS2016 is VND 170/share. We recommend TRACKING to HNM share.

Note that, in the period 2016-2017, HNM planned to issue VND 50 -100 billion convertible bond, which have a term of 1-3 years, to finance investment projects and other business activities.

Sector	Ticker	Rev 2016 (bil dong)	EAT 2016 (bil dong)	EPS 2016	PE 2016	PB 2016	ROE 2016	Dividend 2015	Closed price 31/12/15	Target price
Dairy	VNM	45,016	8,823	7,353	17.4	7.1	41%	40% Cash div phase 1	128,000	148,000
	HNM	260	3.4	170	52.4	0.8	1.6%	0	8,900	n/a

Source: BSC's forecast

Cement Sector 2016 [Neutral]

- Cement consumption in 2016 is expected to increase by 6.31% - 8.11% yoy
- Increase competition in export markets
- Difficulty in forecasting financial income due to exchange rates fluctuation

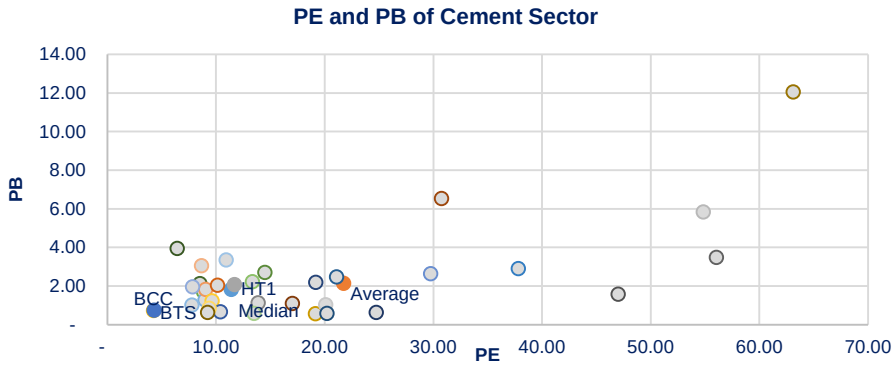
Continue to benefit from the Real estate and Construction sector. With the prospect from domestic demand (refer to the outlook of Real estate and Construction sector), Ministry of Construction estimates domestic cement consumption will reach 59-60 million tons in 2016, up 6.31% - 8.11% yoy. We believe that growth will occur all around the country, and not just concentrating in the Southern due to the investment process to prepare for the Free Trade Agreements to be promoted.

Increase competition in export markets with China. We believe China will continue to promote export of cement/clinker in 2016 due to declining domestic demand and overcapacity. Additionally, clinker export price could reduce to the level of USD 30/ton due to the current clinker price of China is about USD 31-34 /ton, lower than Vietnamese enterprises from USD 2-6/ton.

The exchange rate will be difficult to predict in 2016, affect to business results of the enterprises. Due to the cement businesses as HT1, BCC and BTS having large amount of foreign currency debts, thus exchange rate movements will affect directly to the earning results of the businesses (Refer to the report macro and the stock market outlook in 2016 of BSC). On 31/12/2016, we estimate foreign currency debt of HT1 will be about EUR53 million and also a part in USD; with BCC, foreign currency debt will be about EUR10.6 million if paying 2 times as normal (in 2015 BCC paid the debt in 3 times, each time with EUR9 million) and BTS will be approximately EUR26.55 million.

Investment Recommendation

Although the cement sector is benefited from the positive outlook of the domestic market, however, it still face competition from China in the export markets, together with business results are influenced directly form exchange rate; therefore we assess **Neutral** with cement sector in 2016. We recommend with the three leading shares which are HT1, BCC and BTS. Compared with global cement stocks according to Bloomberg statistics, we believe that BCC and BTS are still at attractive valuations, while HT1 is at the average valuation range of the sector.



Source: Bloomberg, BSC Research

HT1 – Hold – Target price VND 27,915 (+4.16%)

- **There is still growth potential in production and consumption.** In 2015, cement consumption of HT1 reached 5.6 million tons, up 14.6% compared to 2014. With the construction market potential, we estimate that cement consumption of HT1 about 6.1 – 6.2 million tons in 2016. The producing abilities are enough to meet demand as grinding capacity of HT1 may exceed 6.6 million tons of cement/year.
- **Potential from Vicem Ha Tien Complex**. The land has a total area of about 11.49 hectares, is located along the Hanoi Highway, Thu Duc District, Ho Chi Minh. The Ministry of Construction allowed that HT1 and Ha Tien Transport JSC (HTV) joint venture with partners to study and prepare the investment project. In the coming time, the business will have to establish a legal entity to apply for a 1: 2000 plan.
- **Compared to the average valuation of global industry, recommend Hold**. Considering the global listed cement companies according to Bloomberg statistics, which have market cap closing to that of HT1, the median PE = 11.41 and PB = 1.84.

  Excluding the impact of exchange rates and deducting bonus and welfare of 20% PAT, we estimate that EPS 2015 to reach about VND 1,758 /share and EPS 2016 to reach about VND 1,934 /share. Therefore we recommend Hold with HT1.

BCC – Buy – Target price VND 17,323 (+29.28%)

- **More stable operation in 2016**. The Dai Viet cement grinding station goes into operation again after stopped due to objective factors. Additionally, BCC organized bidding to supply equipment for cement grinding to bagging lines, the total capacity of the plant is 2 million tons/year, the total investment of the project is VND 795 billion, of which the capital structure is 75% debt and 25% equity, it is estimated to complete in 2017. We believe that the investment process will not affect the business results in 2016 of company.

- **Early repayment of foreign currency debt will help to reduce the impacts of exchange rate and interest rate**. In 2015, instead normal repayment of 2 periods, BCC paid 1 more period of foreign debt of the year 2016. It is estimated that at 31/12/2015, foreign currency debt of BCC was EUR 28.6 million and at 31/12/2016 of about EUR 10.6 million, leading to be paid off in March 2017. Also, the early repayment helps to reduce borrowing costs for businesses. Net sales 2016 will be estimated to reach VND 4,147 billion, core operating profit after tax reach VND 244 billion (+18% yoy), EPS 2016 = VND 2,038 (after minus 20% PAT for bonus and welfare fund).

BTS – Buy – Target price VND 10,762 (+19.58%)

- **Sales volume will continue to grow well**. Cement consumption in 2015 was estimated at 2.7 million tons (+15.88% yoy), sales volume of clinker in 2015 was estimated of 700,000 tons (downed from 991,385 tons in 2014), showing positive signal. Clinker capacity of BTS was 2.6 million tons (equivalent to about 3.7 million tons of cement), we believe that with the increasing demand from the domestic market, BTS is still capable of responding. PAT 2016 will be estimated to reach VND 130 billion (+8.7% yoy), EPS = VND 1,196 /share (after temporarily minus 20% PAT for bonus and welfare fund).
- **Risks**: BTS boosts cement bulk consumption so gross profit margin will not high as the cement bags. Also BTS will have foreign currency debt about EUR 26.55 million (31/12/2016) so exchange rates fluctuations will impact directly the profitability of the Company.

Sector	Ticker	Rev 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target Price
Cement	HT1	8,229	769	1,934	13.86	1.64	14.82%	0%	26,800	27,915
	BCC	4,147	244	2,038	6.58	0.67	12.50%	0%	13,400	17,323
	BTS	2,934	130	1,196	7.53	0.70	9.32%	0%	9,000	10,762

Source: BSC forecast

Automobile Sector 2016 - [Neutral]

- Growth in consumption of commercial vehicle will slow down from the phenomenal growth of 2015
- New tax policy will be considered in the parliament in March 2016, which will significantly affect automobile selling price in 2016
- Long term outlook is difficult for car assembled business

BSC assesses the 2016 outlook for automobile sector is neutral, with uncertainties from tax policies, and the slowdown in commercial vehicle consumption. Influential factors to the consumption of automobile include: (1) the economic expansion and the improvement of GDP per capita, along with low interest rate environment which enhances the financial ability of consumers, (2) tax policies that support domestic assembled vehicles, and vehicle imported from ASEAN region.

BSC assesses that the growth in commercial vehicle sales will slow down in 2016: (1)) The over-demand situation due to the strict gross weight regulation will eventually reach to the equilibrium level and (2) changes in import taxes cause the price of imported trucks less attractive. Growth drivers for truck sales will come from the replacement of expired trucks. According to Vietnam Register Office, 19,000 trucks will expire in 2016, up from 15,000 units in 2015.

Outlook for passenger car consumption is positive, especially for domestic assembled vehicles, thanks to (1) The growth in per capita income, (2) Interest rate is expected at low level in 2016, which enhances the financial ability of consumers, and (3) tax changes are likely to increase price of imported vehicles, except from ASEAN region. This will significantly benefit the consumption of domestic assembled vehicles. However, some changes in excise tax policy expected to be passed in March 2016 could increase price of vehicles with cylinder capacity of over 2L.

In long-term, the assembly industry will face challenges, when FTAs gradually lower import tax to 0%. Specifically, import tax for car imported from ASEAN countries will be 0% since 2018, from WTO countries will decline from 70% to 47% in 2019. Meanwhile, domestic assembly businesses still depend on state auspices.

Tax changes will have large impact on selling price of automobiles in 2016:

- **Changes in regulations on taxable price used to calculate special excise tax for passenger vehicles with less than 24 seats, effective since Jan 1st 2016**: According to Decree 108/2015/ND-CP, the taxable price will be the importer's selling price instead of imported price (already included import duties) as before. According to some imported vehicle distributors, this provision would increase prices of imported cars by 15-30% over the current price, thereby negatively affecting sales volume of imported cars, and benefit locally assembled vehicles distributors.
- **Changes in import taxes from some countries**: (1) Since Jan 1st 2016, automobiles imported from ASEAN to Vietnam has had import tax rates reduced to 40%, compared with 50% of 2015. (2) Since

Dec 20th 2015, import taxes for trucks has increased from the range 5-50% to the ceiling rate of 70%, according to Circular 163 to align with WTO agreement. However, for trucks imported from China, the current tax rate remains unchanged. The Finance Ministry is considering to increase import tariffs from China on some types of small and medium vehicles, from 10-18% to 28-30%, which are ceiling rates under the ACFTA. If passed, the tax change will support the competitiveness of enterprises which assembly commercial vehicles domestically.

- **The possibility to change excise tax rates**. During the parliamentary session last November, the Ministry of Finance has submitted to parliament a draft of change in excise tax rate, which mainly reduce taxes for cars with less than 2L cylinder capacity, and raise taxes for cars with more than 2L cylinder. However, the parliament has postponed the decision on excise tax to the March parliamentary session. The excise tax schedule below is the current draft to submit to parliament in March 2016.

Excise tax rate changes			
	Now	**July 1st 2016**	**Jan 1st 2018**
< 2L (cylinder capacity)	45%	40%	30%
From 2L to 3L	50%	55%	55%
From 3L to 4L	60%	90%	90%
From 4L to 5L	60%	110%	110%
More than 6L	60%	150%	150%

- **The Ministry of Finance is currently proposing a reduction in import taxes on automobile parts to 0%.** Accessories engine, gearbox and interior for trucks imported South Korea and Japan may enjoy import tax rate of 0% in 2016, instead of the current rate of 14-20%.

Investment recommendation

BSC assesses the outlook for automobile stocks is **Neutral.** Automobile stocks are currently trading at P/E = 7.5 and P/B = 3.2, which reflect the concerns for long-term outlook of automobile companies. BSC recommend some stocks which benefit from the tax changes and from the consumption tendency in 2016, which are SVC and TMT

SVC – Buy – Target price VND 44,800 (+ 9.9%)

Targeted on middle-income customers and is the official dealer of some major domestically assembly companies, SVC benefits from the change in excise tax rate and calculation. The company is also planning to focus on its core business of distributing cars, and repair services, and closing out the real estate activities through divestment or investment cooperation. The focus on core activities will help improve SVC financial and operational capacity, but divestments can cause fluctuation to business results. BSC assesses that in 2016 the company's total revenue could reach VND 12,688 billion (+ 24.2% yoy) and net profit after tax of 173.5 billion (+ 20.1% yoy), corresponding to EPS in 2016 = 4,241 VND. Accordingly, SVC is trading at P/E

forward = 9.76 and P/B forward = 0.97. These forecast excludes any divestment from real estate projects ò SVC.

TMT – Buy – Target price VND 65,500 (+22.55%)

TMT assemblies and distributes Cuu Long trucks, and gains benefits over businesses that mostly deal imported trucks. With the increase in import taxes, BSC assesses 2016 outlook for TMT is promising, with expected revenue of VND 4,305 Bil (+33.2% yoy), and PAT of VND 288.5 Bil (+24.6% yoy), which equivalent to EPS 2016 = VND 9,216. TMT is currently traded with P/E forward = 5.53 và P/B forward = 2.04. However, long term outlook of the company is quite risky with the schedule to reduce import tax rate.

Sector	Ticker	Rev 2016 (VND Bil)	PAT 2016 (VND Bil)	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price as of 31/12/2015	Target price
Automobile	SVC	12,688	174	4,241	9.76	0.97	8.10%	38.5% cash div	41,400	45,500
	TMT	4,305	289	9,216	5.53	2.04	9.70%	12% cash div	51,000	62,500

Source: BSC's forecast

Non-life insurance Sector 2016 [Neutral]

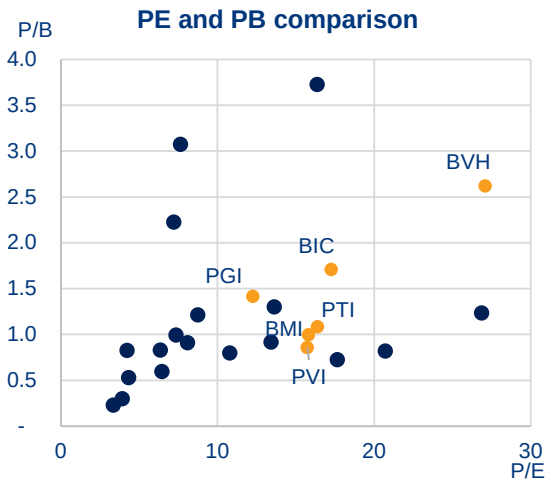
- Expected growth of gross direct written premium of 14-15%
- Claim ratio is under control
- Growth momentum from private stock issuance to foreign strategic shareholders
- Interest is expected to increase, which improves investment profit.

Growth prospect for insurance sector for 2016 is **Neutral.** We assess that gross premiums for 2016 will increase by 14 – 15% thanks to (1) The overall macroeconomic expansion (2) Management objectives of large insurers, and (3) Improvement in the interest rate environment.

- **Growth drivers from macroeconomic expansion:** According to ANZ's forecast, Vietnam GDP will reach a high growth of 6.5% in 2016, which leads to high demand for insurance products. (1) The recovery in real estate, along with high export-import activities from the new FTAs will boost investments, constructions, and manufacturing. This will increase demand for Property and Casualty insurance, Cargo insurance, and Fire insurance (2) the improvements in income per capita will improve the demand for health care insurance (3) the strong growth in car consumption expected in 2016 will boost up Motor Vehicle Insurance.
- **The claim rate is under control:** The damage related to natural disasters in 2015 is significantly less than of 2014, which is a positive factor supporting the insurance industry this year. Floods in August in Quang Ninh has little impacts on listed companies, since the Coal Corporation has their own insurance company. Therefore, loss expense in 2015 is primarily for the major incidents in 2014. In addition, the leading insurers has paid more attention on sustainable development and risk management, with the assistance of the foreign strategic shareholder, which would improve the claim ratio in 2016.
- **The stock issuance to strategic shareholders of BIC and PTI was completed in 2015, which helped improve their insurance ability**. The international strategic partners will provide experience and financial strength to support domestic companies in terms of staff training, brand-building, market development, and expansion to foreign markets. The issuance of PGI is expected to be completed in the first half of 2016. Also, the prospects from loosening foreigner ownership room will attract more contribution from foreign investors, which improved performance of domestic enterprises.
- **The improvement in interest rate environment**: We expect interest rates to rise in 2016, when the Fed rate hike put pressure on Vietnam exchange rate and interest rates. For Vietnam non-life insurers, with 70% of the investments in deposits, BSC estimates that an increase of 1% interest rate will increase 2015 profit before tax by approximately 10- 13%.

Investment Recommendations

In 2016, BSC lower our assessment from outperform to **neutral,** since most insurance stocks had enjoy a good growth in 2015, and the Vietnam insurance sector is currently valued higher than regional insurance stocks.



Source: Bloomberg

Insurance stocks in Vietnam are being valued relatively higher than those of the Emerging SEA area, which reflects the higher growth potential and the undervalued asset system of Vietnam insurers. The median of valuation multiples for insurance sector in Vietnam are P/E = 15.8 and P/B = 1.1, higher than the figures of those in the Emerging Asia Pacific area, including Indonesia, Thailand, Malaysia, và Taiwan, respectively 10.4 and 0.9. Accordingly, Vietnam insurance stocks are being valued relatively high, due to:

(1) **Higher growth in insurance premiums**, with CAGR 2007-2015 = 12.4% and the forecasted growth rate in 2016 of 15%. Meanwhile, the forecasted growth rate of other countries are: Taiwan: 4.2%; Thailand: 13%, Indonesia: 3.3%, và Malaysia: 5%. Therefore, the growth potential of insurance sector in Vietnam is significantly higher than in the region, which explains the higher PE for Vietnam insurance stocks.

(2) Room for growth in Vietnam is still large when the non-life insurance premium penetration, calculated as a percentage of GDP, for Vietnam is 0.7%, considerably lower than the average 1.6% of the region.

(3) All stock issuances to strategic foreign shareholders in 2015 are at more than 2x Book Value, meaning the current book value of insurers are far below the current real value of the firms. Therefore, Vietnam insurers are valued at a higher PB.

However, a few stocks have increased in value to reflect the growth potential as well as the good news from the stock issuance to strategic shareholders. Our recommended stocks as follow:

PTI – Buy – Target price VND 28,000 (+17.2%)

PTI has set the target to reach premium growth of 25-30% per year in the next 3 year. The participation of Dongbu in 2015 has enhanced the insurance ability, and created a basis for the strong growth strategy of PTI. In 2016, growth drivers come from new insurance products, especially retail products, along with the implementation of new sales channel such as online, over phone, or technology oriented. BSC expects the

gross premium of PTI to reach VND 3,026 billion (+26.1% yoy), and PAT to reach VND 159.5 billion (+13.9% yoy). The result is equivalent to EPS 2016 = 1,982 VND/cp and BV 2016 = 23,953. Accordingly, PTI is currently trading at P/E forward = 12.06 and P/B forward = 1.17

PGI – Buy – Target price VND 21,000 (+26.9%)

Currently pursuing the strategy of sustainable growth, PGI targets gross premium growth of 6-8% per year. However, the strategy is the basis for PGI to reach higher growth in profit. Please note that PGI is the only insurer that apply 3% net premium for catastrophe provision, significantly higher than the 1% applied by the rest. This will be recognized as an expense and will reduce accounting profit of PGI by approximately VND 30 Bil per year (` 30% total profit), yet strengthen the financial ability of PGI. In 2016, PGI will has a 20% stock issuance to strategic partner, a driver to enhance the insurance ability and increase the investment capital. BSC expects PGI to reach gross premium of VND 2,492 Bil (+8.8% yoy), and PAT of VND 116.5 Bil (+16% yoy), equivalent to EPS 2016 = VND 1,675 and BV 2016 = 13,350. PGI is currently trading at PE forward = 12.7 and P/B forward = 1.58.

BVH – Hold

BVH is the leading financial corporate, operating in insurance, securities, bank, and asset management. Specially in non-life insurance business, BVH has a huge advantage of the long – established retail system, and therefore, the corporate leads the market in most products. 2016 outlook for the non-life insurance business of BVH is positive, with a sustainable growth in most products. However, BVH is currently valued higher than the growth prospect of the firm, with P/B = 2.6 and P/E = 27.1.

BMI – Hold

Bao Minh is the leading company in Fire insurance segment, with 20%. With the strategy of sustainable growth and focus on risk management, BMI targets revenue growth of 5-7% per year. Growth driver for 2016 comes from **(1)** Positive outlook of fire insurance segment, **(2)** The possibility of welcoming more contribution from foreign strategic investors after SCIC's divestment. However, Fire insurance is a high risk products, and the possibility of foreign investors are unclear. Therefore, we recommend "Hold" for BMI.

Sector	Ticker	Premium 2016 (vnd Bil)	PAT 2016 (vnd Bil)	EPS 2016 (VND)	P/E F 2016	P/B F 2016	ROE (2016)	Dividend 2015	Closed price as of 31/12/2015	Target price
Insurance	PTI	3,026	159.5	1,982	12.5	1.01	8.4%	0	23,900	28,000
	PGI	2,492	116.5	1,675	9.9	1.2	12.1%	14% cash	16,700	21,200

Source: BSC forecast

Plastic Sector 2016 [Neutral]

- Domestic & export plastic consumption is forecasted to increase.
- FTAs may boost plastic export, however, may create more competitive market in Vietnam.
- Import duties on PP resin is planned to increase to 3% in 2016 from 2%.

Domestic consumption is projected to expanse. ***(1)*** Plastic consumption per capita is still low, population is crow, over 90 million. VPA forecast that plastic consumption will rose to 45 kg per capita by 2020, equivalent to CAGR of 4% per year. ***(2)*** Real estate and construction sectors continue to be in positive growth promote demand of plastic construction. ***(3)*** The trend of shifting production to Vietnam increase foreign direct investment then, support technical plastic growth.

Plastic export may rise, however, export growth of plastic packaging may down. European and United State economies show signs of recovery. Plastic duties in main market such as EU, Japan, United State, Korea is projected to reduce to 0-5% as Vietnam – EU FTA, TPP and RCEP go into effect. On the other hand, plastic export may fall because: (1) many members of the European Union has agreed to approve regulations restricting the use of plastic bags, and shift to the use of biodegradable products/ eco-friendly products; (2) United States extends anti-dumping duty orders (5.28% -52.56%) on Vietnam plastic bags[3].

Fiercer competition in both domestic and export market. (1) AEC, Vietnam- Korea FTA, TPP may cause downward pressure on market share of domestic firms. Some formidable rivals which own solid brand identity, good quality come from South Korea, Japan and Thailand (accounting for 29%, 17% and 5% of plastic product import in 11M2015, respectively). (2) RMB devaluation increases the competitive advantage of Chinese products in both Vietnam market and export markets.

Import duty of plastic resins. According to Circular No. 107/2013/TT-BTC, preferential import duty of PP rise to 3% in 2016 from 2% in 2015, except PP resin which is used to produce BOPP film spinning (code 3902.10.90) enjoy import tax rate of 0%. This will increase operating expenses of domestic firms. In December, 2015, Ministry of Finance proposed a plan adjusting preferential import duty of PP resin to 0%.

Investment Recommendation

We maintain **Neutral** assessment on plastic tocks because of strong competitive and lower growth rate of plastic packaging export. We recommend 2 leading companies in plastic sector including BMP and NTP for medium and long term investment. These companies take benefits directly from construction growth. BSC note that plastic sector is not restricted by foreign ownership and BMP, NTP are in divestment list of SCIC in 2016. We also recommend tracking to AAA with expectation of the main export market recovery (EU).

BMP – Buy – Target price VND 157,900, upside 20.57%.

[3] Effect since 5th August, 2015

Leading the market with 70% of market share in the South, BMP benefits directly from the reduction of plastic resin price and solid construction growth. BMP owns healthy balance sheet, huge cash flow, and high annual dividend. Hence, the stock is suitable for medium and long term investment. The firm will submit the construction projects of phase 2nd Long An factory to AGM 2016. We estimate that revenue and net profit will be VND 3,368 billion (+15% yoy) and VND 626 billion (+17% yoy), respectively, then EPS 2016 will be VND 12,585 per share.

NTP – Buy – Target price VND 68,100, upside 13.09%.

We expect revenue and net profit of NTP is VND 3,820 billion (+ 12% yoy) and VND 454 billion (+ 20% yoy), 2016 EPS is VND 5972 per share. Business performance are expected to improve due to ***(1)*** the recovery of the real estate, construction and ***(2)*** corporate tax reduction of about VND 25 billion in 2016 (NTP Central plant enjoys preferential tax of 0% for 4 years). BSC note that the decrease in plastic resin price have no significantly impact on NTP performance due to higher discount for customers.

AAA – Tracking – Target price VND 11,200.

We estimate net revenue and net profit of AAA will be VND 1,783 billion (+ 7% yoy) and VND 41 billion (+ 33% yoy), 2016 EPS is VND 728 per share. The positive performance comes from the following reasons: ***(1)*** the European economy recover, EUR appreciate against USD help maintain output price; (2) output of plant No.5 increase improve gross profit margin. BSC note that in long term, EU demand for plastic bags may decline due to regulations restricting the use of plastic bags. AAA are currently traded at P/E FW is 19.49x, relatively higher than peers. Therefore, we recommend tracking to AAA.

Sector	Stock	Revenue 2016	Net profit 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 31/12/2015	Target price
Plastic	BMP	3,368	626	12,585	10.41	7.21	29.00%	45% cash div	131,000	157,946
	NTP	3,820	454	5,972	10.08	2.11	24.00%	30% cash div 10% stock div	60,200	68,080
	AAA	1,783	41	631	19.49	0.68	4.00%	25% stock div	12,300	11,200

Source: BSC forecast

Steel Sector 2016 [Neutral]

- Domestic demand has increased due to the recovery of real estate and construction sector
- Increased competition from Chinese steel
- Iron ore prices may continue to decline, affecting margins
- Formosa steel project phase 1 started with the product

Domestic demand continues to rise. According to the Ministry of Industry and Trade, it is expected in 2016 that steel billet production will reach 6.6 million tons (+10% yoy) and output steel to reach 12.5 million tons (+ 4.16% yoy), meet fully domestic and exports demand.

Pressure from China steel will continue to rise sharply. With surplus is estimated around 300 million tons compare with 1.14 billion tons of total capacity, together with the adjacent geography, and in 12/2015, the China Ministry of Finance said it would cut billet steel export tax from 25% to 20%, so we believe that steel export volume of China will also maintain increase in the future.

Iron ore prices may continue falling in 2016. According to latest forecasts of Goldman Sachs, average price of iron ore will fall to 38 USD/ton in 2016, down 13% compare with the previous forecast at 44 USD/ton. In addition, Goldman Sachs forecasts that iron ore prices will unlikely turn of recovery, and continue to fall to 35 USD/ton in 2017-2018.

Formosa steel project will go into operation in 2016. Phase 1 of Formosa Steel will produce HRC, capacity of 5.15 million tons/year. In addition, there will be 1.2 million tons of fibers steel and 467,000 tons of square billet steel. Although in the 467,000 tons of square billet steel having 40% of export and 60% of domestic consumption, but it will also increase the domestic supply.

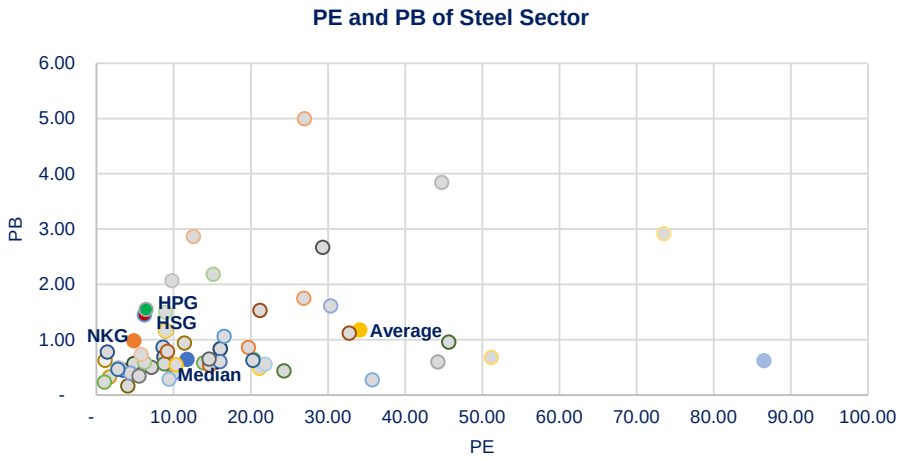
Interest rates are expected to rise. We expect interest rates to rise slightly in 2016, thus increase the financial costs in next year of businesses in general and the steel sector in particular.

VNSteel is approved transaction on Upcom. In the coming time, VNSteel will be traded on Upcom with the ticker TVN, the number of shares traded are 678 million shares, equivalent to the chartered capital of VND 6,780 billion. Accumulated in 9 months of 2015, net sales of TVN reached VND 13,908 billion (-25.32% yoy), however, gross profit margin improved, reaching 7.03%, up significantly from the same period in 2014 (at 5.05%). Net profit from operating activities of TVN reached VND 310 billion in 9 months of 2015, higher 3.44 times than 9 months of 2014. EPS in 9 months of 2015 = VND 303 and BVPS = VND 10,046 /share (30/9/2015).

Investment Recomendation

Although the domestic steel consumption is forecasted to continue to grow, but because of the challenges and difficulties in 2016, we continue to maintain NEUTRAL as in the previous sector report BSC.

Compared to steel production enterprises, according to the Bloomberg, having market cap close to that of HPG, HSG, NKG, and base on sector outlook, we recommend Buy with HSG and NKG due to businesses have abilities to push exports and keep good margins, recommend Track with HPG due to the increasing competition in the Construction steel market



Source: Bloomberg, BSC Research

HPG – Tracking

- **Construction steel consumption is expected to continue to increase in 2016, production capacity is sufficient to meet**. HPG expects sales volume in 2016 reach 1.5 million tons of construction steel, up 9.81% compare with the estimated sales in 2015 of 1.37 million tons.

  Production capacity is enough to meet when the Stage 3 (with a capacity of 750 thousand tons/year) - Hoa Phat Steel complex will come into operation from 2016. After completed, the total capacity of HPG Construction steel will reach 1.9 million tons.

- **Feed plants are implemented on schedule**: The project includes two feed plants: (1) the plant in Hung Yen with capacity of 300,000 tons/year, investment of VND 300 billion, it is deployed, and finished in Q1/2016. (2) The plant in Dong Nai, a capacity of 200,000 tons/year, investment of VND 200 billion. With a total investment of about VND 500 billion, we expect business results in 2016 of Feed plant will have no significant impact to the consolidated results of the Group.

- **Real estate Project at 493 Truong Dinh sale opening in Q1/2016**: the construction is started in 12/2015 and Q1/2016 will begin selling. Revenue and profit of real estate business will be recorded in 2017-2018.

- **Business results forecast:** Estimate net sales in 2016 reach VND 29,166 billion, PAT reach VND 4,240 billion (+6.67% yoy) and EPS 2016 = 5,727 VND/share.

HSG – Hold – Target price VND 34,170 (+8,48%)

Business results will continue to be improved in 2016 due to expand distribution system (target of increase 50 distributed branches in 2016, to 250 branches) and increase production capacity with some projects in operation, it is estimated PAT to reach VND 716 billion in 2016 (+7.53% yoy), equivalent to EPS in 2016 = VND5,467 /share.

The project will go into operation in 2016:

- Phase 3 Hoa Sen Binh Dinh factory goes in to operation, including 6 lines of Plastic Pipe with capacity of 12,000 tons/year. Construction time from 7/2016 to 12/2016.
- Nghe An Dong Hoi plant includes aluminum galvanizing line with capacity of 600,000 tons/year (operation in 04 and 06/2016), color coating chain of 120,000 tons/year (operation in 06/2016) and 3 chains of 25,000 tons/year steel pipe (operation in 12/2016)

NKG – Hold – Target price VND 13,671 (+8,50%)

- **Increase output when the Phase 1 – Nam Kim 3 Factory goes into operation in 2016**. The project includes 1 cold galvanizing chain with capacity of 300,000 tons/year (operation in 8-9/2016) and 1 galvanizing chain with capacity of 120,000 tons/year (operation in 11-12/2016). It is expected that profit margin will continue to improve as cold galvanizing chain going into operation; currently NKG has 2 cold galvanizing chain, the total capacity of 250,000 tons/year.

  PAT 2016 is estimated of VND 180 billion (+28.57% yoy), with the number of shares 50,034,508, EPS 2016 = VND 3,598 /share. (Excluding the issue plan of 1:1 in 2016)

Sector	Ticker	Rev 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target Price
Steel	HPG	29,166	4,240	5,727	5.10	1.25	24.73%	10% cash div 20% share div	29,200	N/A
	HSG	15,200	716	5,467	5.76	1.14	19.76%	15% Cash div 30% share div	31,500	34,170
	NKG	5,350	180	3,598	3.50	0.76	21.80%	share div 100 : 8	12,600	13,671

Source: BSC forecast

Sugar Sector outlook in the crop 2015/16 [Neutral]

- Global sugar supply is forecasted to keep declining by 0.52%, and will lower than total sugar demand after five consecutive crop oversupply
- Average global sugar prices are expected to increase by 17-20% compared to the previous crop
- Domestic sugar supply and demand is expected to reach equilibrium level
- Domestic sugar prices are expected to increase slightly by 10-12% compared to 2014/15 crop
- Vietnam sugar sector will be heavily influenced when the FTAs take effect, the trend of M&A between enterprises in the sector will increase

We assess that Sugar sector will be recovered in 2015/16. Production output and domestic consumption are expected to approach equilibrium level, causing sugar prices start rising again after many consecutive crop decreasing. M&A trend in the sector will continue in the coming year to prepare for FTAs.

World sugar market

In the crop year 2015/2016 (July 2015- June 2016), total sugar supply is forecasted to keep slightly declining, and will be lower than total demand after five consecutive surplus crops: According to the U.S. Department of Agriculture (USDA), total supply of sugar in the world will reach about 173,405 million tons in the crop 2015/16 (down by 903 thousand tons, equivalent to -0.52% yoy), while global consumption will be approximately 173,413 million tons (+ 1.6% yoy). Thus in this crop, consumer demand will exceed supply by about 8,000 tons, making inventory fall slightly to 42.2 million tons. Exports of sugar is expected to reach 55,812 million tons, an increase of 4,316 million tons. With growing demand, global sugar imports are forecasted to rise 3% in the 2015/16 crop year to 53.32 million tons.

World sugar prices in the 2015/16 year crop are expected to increase by 17-20%: from the beginning of the season so far, the spot price of raw sugar in global trading has increased dramatically from an average of 13.18 cents/pound in July to 14.98 cents/pound in the first half of Dec 2015 (+13.7%) and is expected to continue its upward trend. The reasons are: (1) Sugar supply declined, especially in the major exporting countries such as Brazil, Thailand, India: India's sugarcane areas is forecasted to reduce to 4.9 million ha (-3.2%), sugar output is expected to decline to 28.5 million tons (-6%); Thailand's sugar output will fall to 10.8 million tons (-3.6%) due to increasing production of ethanol from sugarcane and raw sugar; Brazil increase the proportion of ethanol fuel production from sugarcane from 50%-50% to 56.8% - 43.2% due to the Brazilian government reintroduced fuel tax for gasoline; El Nino is expected to last until mid-2016, making the area of sugarcane and sugarcane yields become lower. (2) The demand is forecasted to continue to rise, especially in the major importing markets such as China, Indonesia, Middle East.

Domestic sugar market

In the crop year 2015/16, domestic sugar supply and demand will reach equilibrium: According to Vietnam Sugar and Sugarcane Association (VSSA), total sugar supply in the crop 2015/16 is forecasted to reach 1.521 million tons (+ 1.4%), while production will achieve 1.4 million tons (-1.3%) and import volume will be 121,000 tons. Consumption is expected to be 1.6 million tons (+ 6.7%), equivalent to about 79,000 tons overpass supply, and inventories will plummet. Thus, after four consecutive surplus crop, in 2015/16 sugar demand is expected to exceed sugar supply. The causes of decreasing supply are (1) reducing the sugarcane area by 6,000 – 8,000 ha (down 2-2.5%) compared to 2014/15 crop year, especially in the Mekong River Delta and Tayninh area, due to low sugarcane values, people switch to other crops (2) El Nino is forecasted to last until mid-2016, causing sugarcane yields and sugarcane area decline (3) The quality of sugarcane is not improved much, sugarcane production is low, reaches about 65 tons/ha, average sugar content is about 10.5 Commercial *Cane Sugar*, equivalent to the previous crop.

We expect that the sugar prices will increase by 10-12% compared to the previous crop: The average sugar prices in Q3/2015 were about 13.650 VND/kg for RS and 15,000VND/kg for RE, up 6.8% and 5.4% respectively compared to the average sugar prices in 2014/15. The increase is partly due to in the early stage of sugarcane crop, sugar inventories and sugar production are low while sugar demand for holidays (such as the Mid-Autumn, Tet ...) rise. During the crop 2015/16, we expect sugar prices will increase by 10-12% when the expected production will be lower than consumption for the first time after four consecutive crop oversupply.

Vietnam Sugar sector will suffer severely when the FTAs took effect, M&A trends in the sector therefore will increase. Vietnam is currently implementing protectionism for Sugar sector through tariffs and quotas. However, Vietnam is gradually integrating with the world, may listed as joining WTO, signing AFTA and completing TPP negotiations. (1) According to WTO, Vietnam will have to import sugar with a compulsory quotas from one country member, and each year the quota will increase by 5%/year. (2) Under AFTA, Vietnam will allow the import of sugar from ASEAN countries at the tax rate of 5% unlimited quota, since 2018. (3) When TPP takes effect, Vietnam must completely dismantle tariff for sugar in quota imports from TPP countries within 11 years. This will affect Vietnam sugar enterprises significantly due to small scale, poor technology with very few companies can produce RE sugar, high production costs and decreasing sugarcane material areas. Therefore, M&A trend among companies to utilize sugarcane material areas, distribution and equipment, preparing for integration will continue in the future.

	Regulations		
WTO	Required having a sugar quota from member countries, each year the quota must increase by 5%		
AFTA	**Taxes for ASEAN countries**	**2015-2018**	**Since 2018**
	Taxes within the quotas	5%	5%
	Taxes without the quotas	80%-100%	5%

	Taxes for TPP countries	TPP is not valid	TPP takes effect (2018 expected)
TPP	Taxes within the quotas	25%-40%	Reduced to 0% in 11 years
	Taxes without the quotas	80%-100%	80%-100%

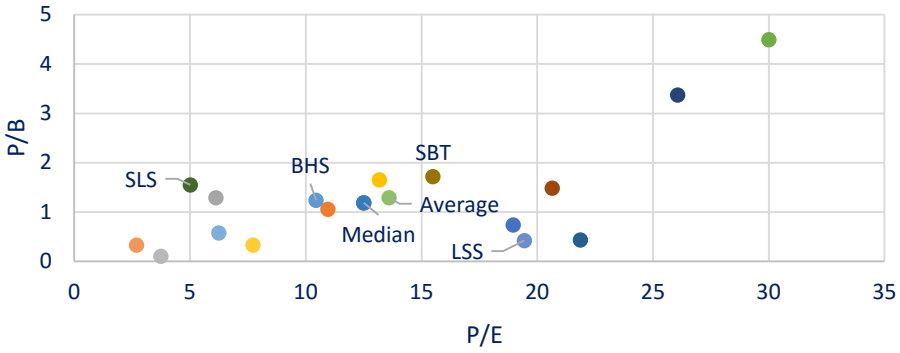
Source: BSC Research

Investment recommendation

In the 2015/16 crop year, the domestic sugar market has positive signs such as supply and demand toward equilibrium, sugar prices are expected to increase slightly, will improve the gross profit margin of sugar enterprises. However, the domestic sugar firms still do not operate efficiently with high production costs, and sugarcane areas forecasted to reduce will affect production output and earnings of the firms. Therefore, we assess NEUTRAL for Sugar sector in 2016.

Considering listed sugar enterprises worldwide according to Bloomberg statistics, we believe SLS stocks are at an attractive valuation compared to other companies in the sector.

Compare P/B, P/E with sector average



Source: Bloomberg, BSC collected

We recommend **TRACKING** with three leading stocks as BHS, SBT, LSS and recommend **BUY** with SLS shares:

BHS – Tracking

Main activity of BHS is refining sugar from raw sugar (representing 65-70% of output) and refining sugar from sugarcane. Refining sugar from raw sugar has very low gross profit margin, but BHS mainly retail with strong distribution system, making its profit margin improve, reaching 12% in 9T2015. In 2015, BHS purchased 100% of NHS, expected to help BHS grow better in 2016 due to: (1) Ownership 2nd largest material area with 20,500 ha, in which 7,500 ha from NHS and 2,000 ha expected to sign with Long An province in the 2015/16 crop year; (2) The highest designed capacity of sugar production among listed sugar companies, reaching 12,500 tons sugarcane per day, can produce RE sugar, in which capacity from

NHS is 6,000 tons sugarcane per day; (3) Having power plant with capacity of 30,000 KWh from NHS, providing for the plants and sell into the national grid; (4) Reducing input costs as BHS bought raw sugar from NHS in the previous crops; and (5) Using the distribution system of two parties, reducing transportation costs, ...

Note that, in Jan 2016, BHS scheduled for issuing additional 6,167,200 shares, equivalent to 5% to board members, BOD and the key positions. After additional issue, BHS has chartered capital of VND 1,295 billion, equivalent to 129.5 million shares.

With expectations of rising sugar prices and the benefits obtained from NHS merger, we forecast Net revenues of BHS in fiscal year 2015-2016 will be ~ 4,858 billion (+ 7.6% yoy), profit margin of 13.5%, EAT ~ 162 billion (+ 8.7%), EPS 2016 ~ 1,251 VND / share (higher than EPS 2015 of 1,154 VND/share, recalculated for 129.5 million shares).

SBT – Tracking

SBT is one of two largest sugar enterprises in the Southeast region, with 90-95% of SBT's revenues come from wholesale. After owning 100% SEC in 2015, SBT is expected to grow better in 2016 due to: (1) The largest sugarcane area with 26,500 ha in 2015/16, up 90% thanks to 12,500 ha from SEC. SEC having large potential sugarcane area up to 20,000 hectares may stabilize SBT's input and improve profit margin since producing sugar from sugarcane has relatively higher profit margin than refining from raw sugar. (2) The designed capacity increases 67% to 15,000 tons sugarcane per day, including refining RE, can meet production when demand increases (3) Make use of the distribution system, reduce input costs, transportation costs ... 4) Since 2015/16, SBT has revenue from ethanol with 21 million liters/year.

From the positive performance of sugar prices and the benefits of merging with SEC, we forecast Net revenues of SBT in fiscal year 2015-2016 (01 July -30 June) will reach about VND 3,090 billion (+ 2.7% yoy). Profit margin will reach 15.03%, PAT ~ VND 233 billion (+5.3% yoy), EPS 2016 ~ 1,255 VND/share (higher than EPS 2015 of 1,192 VND/share, recalculated for 185.64 million shares after the merger with SEC).

LSS – Tracking

LSS is only sugar firm in the Northern can refine RE. LSS owns large material areas with 13,000 hectares and capacity of 10,500 tons of sugarcane per day. 70% - 80% of the refined sugar is providing stably for the food factories, mainly are Pepsi, Kinhdo, the remaining will be retailed in supermarkets. However LSS has some issues making business results decline: (1) Sugarcane area is not enough for LSS to produce in the 2015/16, LSS operates only one factory that has capacity of 8,000 tons of sugarcane per day. (2) To ensure the output, LSS imported raw sugar under the quota and from other sugar companies, making profit margin down 12.2% in 2015 compared to 14.6% in 2014 (3) Activities of the high-tech agricultural zone starts having revenues, but the high depreciation makes LSS not yet have interest from this activity (4)

Ethanol production plant has yet to work again because of environmental reasons. Earlier, the profit margin of this product is quite high, about 30%.

In 2016, LSS will actively expand the sugarcane areas from the surrounding region, as well as finding solutions for the ethanol plant. Net revenues in financial year 2015-2016 of LSS is expected to reach ~ VND 1,697 billion , profit margin will keep at 12.2%, Net income~ VND 34.4 billion, EPS 2016 ~ 506 VND/share.

SLS – Buy – VND 64,705 / share (upside 25.64%)

SLS has sugarcane areas of nearly 5,000 ha, operating with a capacity of 2,500 tons sugarcane per day and is expected to enhance to 2,700 tons sugarcane per day in the crop 2015/16. SLS products are mainly exported to China and wholesale to food factories. SLS produce sugar and by-products such as molasses, fertilizer … in less competitive region. SLS has low bank debt with only VND 4-15 billion short-term borrowing. Especially, the low production costs make SLS have highest profit margin among listed sugar companies, with 16.4% in 9M2015. 9M2015 Net revenues increased 49% over the same period in 2014. In near future, SLS plans to expand material areas, increasing design capacity to meet demand.

Accordingly, 2016 Net revenues is expected to reach VND 741 billion (+ 20.8% yoy), profit margin is 16.2%, EAT will reach VND 94.8 billion, EPS 2016 ~ 13941 VND/share.

Risks when investing in SLS is low liquidity.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Sugar	BHS	4,858	162	1,251	15.59	1.23	7.90%	5% cash div	19,500	n/a
	SBT	3,090	233	1,255	19.2	1.71	8.90%	7% cash div	24,100	n/a
	LSS	1,697	34.4	506	17.79	0.41	2.30%	1.5% cash div	9,000	n/a
	SLS	741	94.8	13,941	3.69	1.2	32.40%	15%, 10%, 40% cash div	51,500	64,705

Source: BSC forecasts

Tire Sector 2016 [Neutral]

- In 2016, automobile tires are expected to rise by 12%, motorcycle and bicycle tires increased by 3% and 2%, respectively.
- Fiercer competition, especially competition between domestic and Chinese tires.
- Operating profit margin of domestic tire manufacturers may fall due to lower output price, increase in advertisement expenses and USD appreciation.

Rapid automobile consumption growth boost demand for domestic tires. CAGR of Automobile sales was 40% from 2011-2014 and increase by 45% during 11M2015 to 215,517 units. Therefore, we estimate automobile tires will up 12% in 2016. While, motorcycle tires may grow slowly by 3% and bicycle tires may down 2% in 2016.

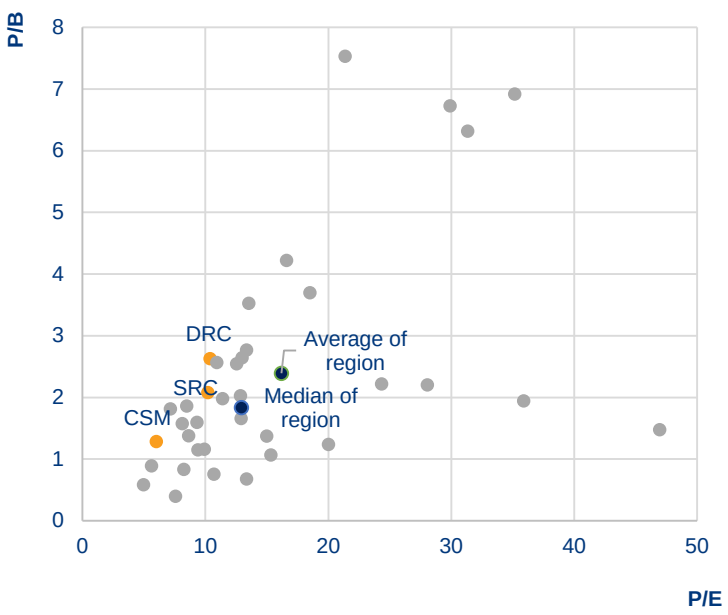
Fiercer competition. (1) The risk of Chinese slow down reduce tire demand in China market, and RMB devaluation pressure raise competition with imported tires from China. (2) Vietnam tires supply has increased. DRC plans to build phase 2nd Radial factory in order to upgrade capacity to 600,000 tires per year (x2) in 2017. CSM plans to raise Radial capacity from 350,000 tires to 600,000 tires per year in 2016 and proposes to invest into new half –steel Radial factory of 4 million in the next year. Some FDI firms increase capacity in Vietnam such as Bridgestone raise capacity to 18 million tires per year (x2), Kenda received investment licenses for the 2nd factory in Vietnam. Although FDI target to export tires, the sharply increase in capacity put domestic firms in fiercer competition, especially in car and light truck tire segment.

Deduction of output price impacts negatively on operating profit margin of domestic firms. Rubber price may maintain at low level in 2016, however, tire firms may continue to reduce output price, increase selling & advertisement expenses due to fiercer competition. Hence, operating profit margin will decrease.

USP appreciation raise cost for domestic firms. Tire manufacturers import approximately 56% of materials. In addition, DRC and CSM borrowed a large amount of debt nominated in USD, at USD 26.5 million and about USD 22 million, respectively.

Investment recommendation

We give **Neutral** assessment to tire stocks in 2016 because the competition is fiercer and tire manufacturers no longer enjoy benefit from decrease in rubber price. We recommend tracking to DRC and CSM.



Compared to Asia Pacific Emerging market, P/E, P/B ratio of domestic tire enterprises are relatively similar to the valuation of the region.

DRC – Tracking – Target price VND 43,700.

DRC is the pioneer of Radial among domestic manufacturers. DRC's advantage is distributing truck tires to large organization, ranking 3rd of market share (13%) following Bridgestone and Michelin. Since early of 2015, the firm has taken care initiatively customers, pushed advertisement. We believe that 2016 net revenue and net profit of DRC will be VND 3,453 billion (+6% yoy) and VND 362 billion (virtually unchanged), EPS 2016 will be VND 3,641 per share.

CSM – Tracking – Target price VND 24,900.

CSM is currently traded at P/E, P/B of 1.29x and 6.01x, respectively. The valuation of CSM is cheaper than peers. This reflects CSM's core business declining. We estimate that CSM's performance will decrease due to low Radial consumption while CSM prepare to build a new half –steel Radial of 4 million units per year. We estimate that 2016 revenue and net profit of CSM will be VND 3,303 billion (-11% yoy) and VND 210 billion (-14% yoy). Excluding revenue and net profit of real estate recording in 2015, CSM's revenue almost unchanged while net profit down 2.85%, EPS will VND 2,567 per share.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Tires	DRC	3,453	362	3,641	11.97	2.25	21.31%	30% cssh div 10% stock div	43,600	43,696
	CSM	3,303	210	2,567	9.39	1.23	14.62%	40% cash div 10% stock div	24,700	24,896

Source: BSC forecast

Bank Sector 2016 [Neutral]

- Credit growth is expected to be at above 18%
- Banks continue to focus on solving NPLs as a key task, provision expenses may increase sharply
- Need to raise equity to meet the requirement under Basel II and ensure the safety in banks' operation.
- Divestment and M&As following Circular No.36/2014/TT/NHNN.

We assess that in operating income before provision expenses 2016 of Vietnam banks maintain positive trend thanks to solid economic growth and stronger banks. We also believe that pleasant achievement of banking system restructuring which was gained in 2015 will be a good foundation and motivation for deeper and broader restructuration in both quantity and quality. Thus, banking system will be more stable and stronger.

Credit growth. Thanks to the recovery of economy, improvement of production and real estate sectors, demand for credit is expected grew strongly. We suppose that credit growth may be at above 18%.

Solving NPLs. The key issue Vietnam banking system is handing bad debts, including NPLs sold to VAMC. NPL ratio of credit institution downed to 2.72% (on 30th, November, 2015), lower than SBV's target. However, a large amount of NPLs were collected at VAMC. We believe that in 2016 SBV, VAMC and commercial banks should make effort on solving NPLs at VAMC by liquidation of collateral, purchase & sale of bad debts at market price and lower issuance of special bonds, etc. These activities, if does, will reduce provision expenses for credit institution and reduce the risk of bad debts coming back to the banks.

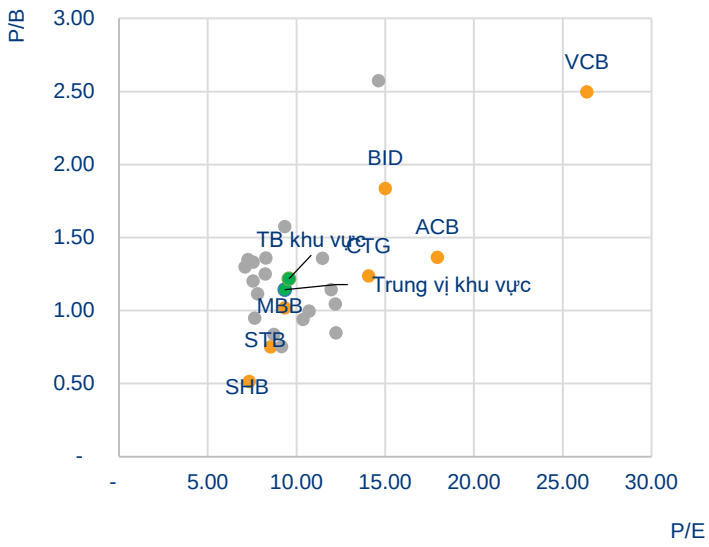
Higher provision expenses. (1) Provision expenses for special bonds issued by VAMC will expanse. Total value of these bonds were VND 202,274 billion (increase by VND 94 trillion compared to the end of 2014). Under current regulation, normal banks must charge provision for these bonds in 5 years and banks which is restructuring or in financial difficult must charge provision for these bonds in maximum of 10 years. We assume banks charge a 20% of provision on the face value of the special bonds per year, the provision expenses for these bonds is estimated at VND 40 trillion, go up 86%yoy. (2) Provision expenses for loans. The tighter loan classification under Circular No. 02 and Circular No. 09 reveals many risky loans in the credit institutions, then, increase provision expenses for these loans. Two banks including VCB and MBB which allocated relatively tight loan balance by quality, charged high provision for bad debts, sold lower NPLs out of total loans than other banks did. Hence, these banks' provision expenses is expected to be in downtrend in future.

Rasing equity capital. According to the schedule, Basel II agreement will be piloted in 10 banks including Vietcombank, BIDV, Vietinbank, ACB, MBBank, Sacombank, Techcombank, VPbank, VIB, Maritimebank. The agreement construct stricter capital requirement and risk management than Basel I which is currently applied in Vietnam banks. Basel II use "three pillars" concept including (1) minimum capital requirements;

(2) supervisory review; (3) market discipline. In pillar 1, minimum capital requirements are calculated based on credit risk with more sensitive, operational risk and market risk while Basel I mainly focus on credit risk. Under addition requirement, risk weighted assets (denominator) of banks applied Basel II will increase, hence, these banks should raise chartered capital.

Divestment and M&As pressure following Circular No. 36/2014/TT/NHNN. Circular No. 36 tightened cross-ownership among banks. (1) the total of contributed capital and shares owned by a commercial bank in all subsidiaries, associated companies and other equity investment in enterprises must not exceed 40% of the total of the bank's charter capital and reserve funds. (2) Bank only holds a maximum of two other credit institutions (except credit institution is a subsidiary). (3) Bank only hold a maximum of 5% voting shares of a other credit institutions. Thus, banks should accelerate the divestment in other banks or processing cross-ownership through M&As. STB, EIB and MBB may come under some divestment pressure.

Investment recommendation



Compared to the Asian Pacific Emerging market and China market, some listed banks such as VCB, BID, ACB, CTG are currently at relatively high valuation. Although banks' performance may be bright for the next year, we do not believe that banking sector will remain leading position and significant impact as the sector did in 2015.

Source: Bloomberg, BSC Research

We downgrade assessment for the banking sector to **Neutra**l. Operating profit before credit provision expenses of banks continue improving thanks to positive economic growth. In 2016, banks may focus on solving NPLs and charge higher provision for bad debts. Provision expenses of VCB and MBB are expected to be in downtrend, then these banks' performance may be optimistic.

MBB – Buy – Target price at VND 16,600, upside 13.70%.

MBB is one of my favorite banks with prudent loans, good asset quality and the highest profitability (NIM, ROA and ROE) among listed banks. Thanks to low rate of customer loans out of deposit, MBB can

accelerate credit growth, then improve business performance as the economy recovers. We expect MBB's provision expenses will decrease gradually, and estimate the expense at VND2,581 billion in 2016. We forecast that in 2016, MBB's net profit will be at 3,093 billion (+17.47% yoy), EPS at VND 1,855 billion. We recommend **buy** to MBB stock at the target price of VND 16,600 per share.

VCB – Tracking – Target VND 42,200 VND.

VCB is the first class bank in Vietnam (rank third in market share of lending and mobility, rank No. 1 in trade finance and international payments, credit card payments), hence, VCB will take benefit directly from economy recovery. In 2016, VCB plan to issue approximately 10% of ownership to financial foreigner investors in order to enhance financial capability, expand business model and meet Basel II requirements. VCB owns good asset quality which is demonstrated by low NPL ratio, the highest NPLs self- solved by VCB, and huge provision expenses for loses of loans. Therefore, similar to MBB, we believe that VCB's provision expenses will decline in the next year and estimate at VND5,820 billion in 2015 and at 5,528 billion in 2016. We project net profit 2016 at VND 5,867 billion (+19,85% yoy) and EPS 2016 at VND 1,886 per share. We think current valuation of VCB (P/E FW 2016 and P/B are at 23.28x and 2.63x, respectively) reflects investor expectation for VCB's prospects in 2016.

ACB – Tracking.

During the period of 2012-2015, ACB focus on handling backlog arising before and in 2012. By 3Q2015, NPL ratio down to 1.51% (equal to VND 1,974 billion), accumulated NPLs sold to VAMC up to VND 2,600 billion, provision expense rose by 49% to VND 819 billion. ACB completed write-off VND 695 billion of deposit at Vietinbank. Operating income before provision expense is expected to expanse significantly in next year due to economy recover and retail banking growth, which is ACB strength. BSC note that ACB' provision expenses may continue to increase. (1) ACB should charge higher provision for deposit at GPbank (VND 772 billion, extended the repayment period to 4th September, 2016, 0% provision expense rate) and for deposit at VNCB (doubtful loans worth VND 400 billion, charged provision of VND 102 billion). (2) ACB should increase provision expenses for loans to groups of 6 firms owned by Mr. Kien Nguyen Duc (Special-mentioned loans worth VND 5,851 billion, collateral value is VND 5,271 billion and were charged provision of VND 538 billion) and for loans to Vinashin (loss loans worth VND 314 billion). The increase in risk analysis of these loans or the decrease in collateral value, especially, collateral value of long-term investment into unlisted enterprises or into limited liability companies will likely increase provision expenses of ACB. (3) Provision expenses for special bonds worth VND 1,982 billion is estimated at VND 396 billion.

BID – Tracking.

BIDV is one of the first class banks in term of size and growth rate. In 2015, credit grow 26.4% yoy to VND 620 billion, net profit increased by 16% yoy to VND 7,036 billion. We believe that operating profit before provision expenses continue to increase in 2016 thanks to positive credit growth and banking recovery. In 2016, BID plan to raise charter capital by strategic issuance in order to enhance financial capacity, good

corporate governance and meet capital requirement under Basel II. BSC note that provision expenses of BID may increase sharply in 2016. NPLs sold to VAMC in 2015 is about VND 13 trillion, accumulated special bond value is about VND 28 trillion (+78% yoy), therefor, BID's provision expenses for these bonds may be at higher than VND 5 trillion. In addition, BID should charge higher provision expenses for loans to raise the ratio of provision expenses for loan losses out of NPLs approaching to these ratios of Vietnam leading banks.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Banking	MBB		3,093	1,855	7.87	0.95	13.20%	5% cash div 3% stock div	14,600	16,600
	VCB		5,868	1,886	23.28	2.63	13.29%	10% cash div	43,900	42,200

Source: BSC forecast

Pharmaceutical Sector 2016 [Underperform]

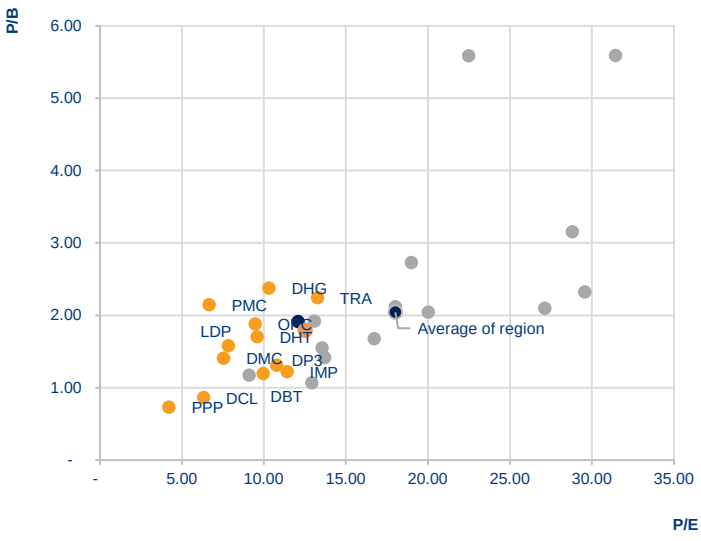
- Pharmaceutical growth is forecasted to be at 13.39% in 2016, in which, imported pharmaceuticals grow by 15.6% and domestic production increase by 10.36%.
- Operating margin may decline.

Pharmaceutical consumption is forecasted to maintain rapid growth. BMI forecast that the consumption is USD 7.27 billion in 2019, equivalent to CAGR of 13.4% thanks to solid income growth, population growth, increase in awareness and access of health care services.

Fiercer competition because of FTAs. BMI estimate that pharmaceutical imports continue to rise, up 15.6% in 2016. Notably, competition with foreign firms increased after Vietnam-EU FTA[4], TPP come into effect. Accordingly to these FTAs, contractors from EU and TPP are allowed to participate in direct pharmaceutical auctions. This regulation will reduce OTC distribution advantages and OTC revenue of domestic firms. At the same time, the tariff reduction to 0% from an average of 2.5-5% will raise competition with members of EU and TTP.

Operating profit margin may decrease. In 2016, Vietnam pharmaceutical companies may continue to face slowdown margins due to ***(1)*** competition increase selling and advertisement expenses and ***(2)*** expectation of USD appreciation 5-8% against VND inflate input expenses.

Investment recommendation.



Current valuation of pharmaceutical stocks relatively attractive compared with the Asia-Pacific region, P / E and P / B of industry and 1,49x 9,53x respectively, compared to the area, respectively 18,02x and 2,04x. However, the business results of the companies in the industry could be affected negatively from the free trade agreements and the USD. Therefore, we monitor for 2 shares of DHG and IMP is leading.

We maintain **underperform** assessment to pharmaceutical stocks in 2016 and note Vietnam pharmaceutical enterprises may face more difficulties after FTAs, TTP come into effective. Pharmaceutical

[4] Vietnam – EU FTA ended negotiations on 2nd, December, 2015 and is expected to take effect in early of 2018.

stocks are "defense" against market fluctuations, stable growth rate, therefore, these stocks are suitable for long-term investment and in negative fluctuations of market. We recommend tracking to DHG and IMP, 2 leading firms have expected positive performance in 2016.

DHG – Tracking – Target price VND 70,000, upside 5.26%.

DHG is leader in revenue and profit among Vietnam listed pharmaceutical firms. The firm own healthy cash flow and high annual dividend. We expect 2016 net profit of DHG will be improved thanks to new business strategy and tax incentives of new Non-betalactam factory (0% for 4 years since 2015). Accordingly, DHG focuses on strengthening distribution system, restructuring product list (expand production of supplements and cosmetics); simultaneously, building new plant following PICs standard in 2016 (the plant is expected to be completed in 2018). The company expect to overcome the difficult since 2016. DHG's target of revenue growth is 15%, ROE is 28% and ROA is15%, dividend payout ratio is 30% per year during 2016-2020. BSC note that DHG will face more intense competition from foreign firms and sales expense may soar reducing company's profit. We expect revenue and net profit of DHG will be VND 3,530 billion and VND 658 billion (+12% yoy), EPS 2016 will be VND 6,812 per share.

IMP – Tracking – Target price VND 40,100 upside 6.93%.

IMP's strategy is aiming into product quality. The company own flexible strategy. Since early of 2013, IMP has focused on developing OTC[5] distribution system which compensate for the decline ETC channel. 2016 performance are expected to improve after IMP upgrade completely to EU-GMP standards for Cephalosporin and Penicillin factories in Binh Duong in Q2/2016. Thereby, IMP reposition ETC channel (which was the strength IMP), participate in the same packages with high quality imported drugs at lower 20-30% than foreign drugs. 2016 revenue and net profit of IMP are estimated at VND 999 billion (+ 8.73%) and VND 104 billion (+ 13%), respectively, EPS wil be VND 3,103 per share.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Pharmaceutical	DHG	3,530	658	6,812	9.76	1.85	22.00%	30% cash div.	66,500	70,000
	IMP	999	104	3,103	12.09	1.23	12.00%	18% cash div.	37,500	40,100

Source: BSC forecast

[5] OTC revenue of IMP rose by 43% in 2013, by 42% in 2014 and by 17.6% in 10M2015.

Aquaculture Sector 2016

- Aquaculture export is forecasted to remain tough in 2016 due to strong effect of foreign currencies' devaluation and slowdown demand in Japan and EU.
- Some bright sides of seafood export picture are Russia, Korean, China as FTAs come into effect.
- Domestic aquaculture production may be strongly affected by El Nino forecasted to prolong till mid-2016.

Favorable factors.

Eurasian Economic Union and Korean as potential market. In early 2016, Vietnam-Eurasian Economic Union FTA come into effect. The aquaculture sector will be benefited as 95% types of items will be fully open in a period of 10 years (of which 71% of tariff lines will be removed completely right after agreement takes effect). Furthermore, importing shrimp to Korea will be entitled to a tax rate of 0% for 10,000 tonnes quota instead of 20% as before.

Item	EAEU's MFN tax rate	Export Tax agreement
shrimp	10-20%	Smoked shrimp 10 years, remaining 0% upon effect
Pangasius	10%	Some lines were eliminated, not reduced to 0%
Tuna	10-15%	Almost 0% upon effect

Source: Trungtamwto.vn

Prospects seafood exports to US market. (1) demand is forecasted to increase. Shrimp consumption per capita increased by 11.3% in 2014 compared to 2013, standing at 4pound/person. Advisory Committee on US dietary recommend American families to increase seafood-rich foods. (2) Indian shrimp production is forecasted to decline due to enterocytozoon hepatopenaei disease (EHP). In October 2015, India announced outbreak EHP and will have a major impact on the country's shrimp exports in 2016. (3) Antidumping tax on shrimp (POR9) and catfish (POR11) decrease, from 6.37% to 0.91% with shrimp, and from 0.97 USD/kg to 0.6 USD/kg with catfish.

	POR 10	POR 11
Vinh Hoan JSC	0.00	0.00
Hung Vuong JSC	0.97	0.36
Nam Viet JSC	0.97	0.6
Vinh Quang seafood JSC	0.97	0.6
IDI JSC	0.97	0.6

Source: Agromonitor

Shrimp exports to Chinese market will be improved thanks to removal of tiger prawn pause import starting in November 2015. As such, on 5th Feb 2015, China stopped importing Vietnam's tiger prawn due to dectection of infections virus.

Unfavorable factors.

Difficulties in EU and Japan market due to economy slowdown, forecasted appreciation of USD, causing decrease in seafood demand in these market. We believe that demand reduction in EU and Japan will have strong effect on listed aquaculture companies as these markets are considered to be high added value and accounted for lion share in Vietnam's seafood export.

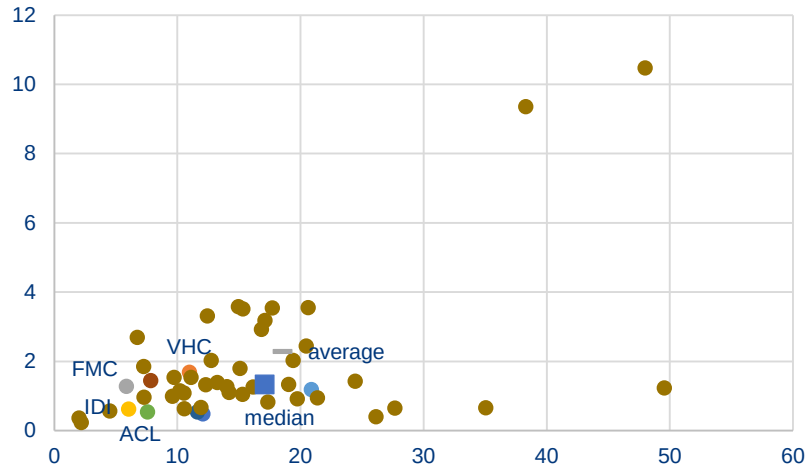
New catfish quality management by USDA: performing inspections at production facilities of fish imported into USA and requiring uniform standards as the same in USA, coming into effect in March 2016. If passed, Vietnam will risk of losing US market for catfish.

Shrimp price is forecasted to drop. IMF forecasts that shrimp price will fall by 4% in 2016, 7% in 2017 and 13% in 2020 in comparison with it in 2015 as a result of weak demand from main seafood imported markets such as EU and Japan and oversupply in major producing countries.

In 2016, fishery production may be reduced due to El Nino. As a result of El Nino, average temperature in the first half of 2016 is forecasted to be above average of many years temperature, causing drought in Central and South Central to occur (average rainfall is forecasted to down 25-50% compared to the average of many years), which decrease production area in 2016.

Investment recommendation

With these identification, we downgrade aquaculture sector form **Neutral** to **Underperform** because of concerns about weather condition, diseases, slowdown demand in main export markets such as EU and Japan and USDA new policy on catfish quality management. For mid to long-term investors, we notice 2 leading companies with stable product's quality and having ability to maintain these business result: HVG and VHC.



In Asia-Pacific region, P/E and P/B of Vietnam aquaculture sector are quite relatively attractive. However, due to output difficulties and forecasted appreciation of USD, sector may be negative impacted. Therefore, we note 2 leading stocks: HVG and VHC.

HVG- recommend Hold, target price 13,050

HVG's core business includes seafood export (29%), animal feed (27%), commercial (27%), domestic fishery business (12%). We believe that HVG's potential revenue growth will depend on (1) improvement of profit margin thanks to owning completed production chain from breeding to processing. (2) Russian market (accounting for 11-16% total HVG's export turnover) has the potential to grow as FTA Vietnam-Eurasian will come into effect in early 2016 and establishment of joint venture in Russia with a capital of USD 30 mil (HVG contributes 60%) (3) Growth from new businesses such as shrimp export since HVG increased its ownership in FMC (ranked 6th in shrimp export turnover). (4) RUB/USD exchange rate forecasted by World Bank will down 10% compared to 2015, affecting this market's demand. We forecast HVG's gross revenue will reach VND 23,994 bil (+9.8%yoy), after tax profit will reach VND 162 bil (+9%yoy), EPS 2016 will stand at 870 dong/share.

VHC- recommend Buy, target price 35,000 upside 19%

In 2016, we believe that VHC's growth potential will depend on (1) growth from US market thanks to its economic recovery and VHC is exempted from antidumping tax (2) capacity expansion of 120 raw material tons per day as new factory will be put into operation in Q2/2016. (3) addition revenue from fish oil and Colagen. We forecast VHC's gross revenue will reach VND 6,746 bil(+9.4%yoy), after tax profit will reach VND 382 bil (+5.7%yoy), EPS 2016 stand at 4,131 dong/share.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Agriculture	HVG	23,994	162	870	15.17	1.1	7.30%	Cash 10%, Stock div 10:1	13,200	13,050
	VHC	6,746	382	4,131	7.06	1.51	17.00%	Cash 10%	29,200	35,000

Source: BSC forecast

Oil& gas Sector 2016 [Negative]

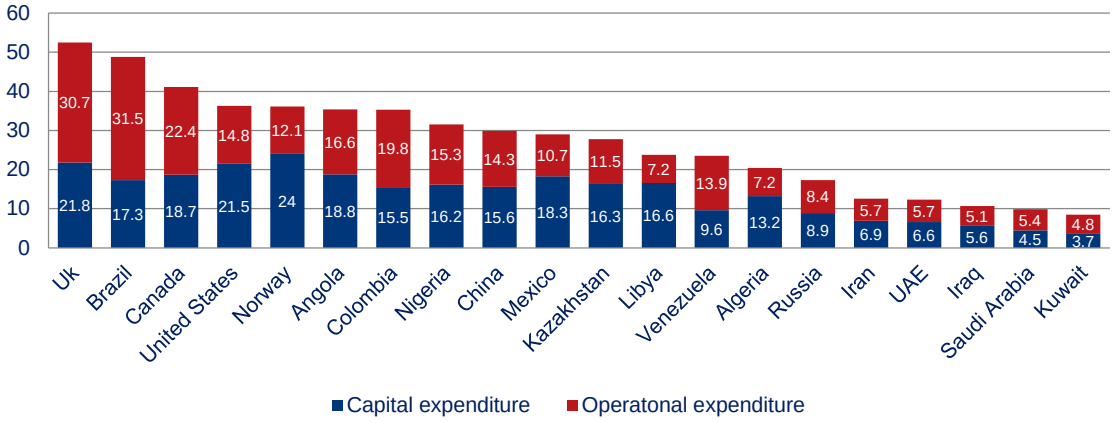
- Oil price is forecasted to be around 40-51 USD/bbl
- LPG price is predicted to increase slightly to 500 USD/ton
- Oil& gas CAPEX in Asia Pacific will decrease by 30-50%
- PVN plans to reduce the exploiting volume by about 10%
- PVN plans to reduce services prices by 20-30%
- Boosting on-shore projects with low profit margin
- Equitizing PV Power and Binh Son Refinery

We state that the year 2016 will be difficult for oil& gas companies when the oil price is forecasted to be low level. The CAPEX and exploited volume are reduced. This will directly impact on revenue and profit margin of oil& gas companies.

- **Oil price- no signs of recovery**: big firms cut their forecasts of oil price in 2016. In the latest forecast, the EIA forecasted that in 2016, WTI will increase slightly from 49 to 51 USD/bbl and Brent will increase from 53 to 56 USD/bbl. However, Goldman Sachs predicted that oil price will be 45 USD/bbl for WTI and 50 USD/bbl for Brent. These figures in Moody forecasts are 40 USD/bbl for WTI and 43 USD/bbl for Brent. Based on the fluctuation of oil price in the last months of 2015, the imbalance between supply and demand, financial and politic factors, we believe that oil prices will likely decline in the first half of 2016 and then increase slightly in the second half of 2016. We forecast that the average WTI oil price in 2016 will be lower than 2015.
- **OPEC raised its output ceiling** from 30 million barrels/day to 31.5 million barrels/day in order to maintain its market share. In November 2015, the output of OPEC is 31.7 million barrels/day- the highest in 3 years.
- **US is likely to lift the ban on oil exports**: after 40 years, the US Congress tend to approve lifting the ban on oil exports. Although the US will still be a net oil importer, the chance to export will stimulate US oil producers to increase output, reduce cost to lower product prices.
- **Lifting sanctions against Iran**: the sanctions on oil exports to Iran may be lifted in early 2016. Iran is the second largest oil producer in OPEC. Once the sanctions are lifted, Iran would raise its output by 0.5 million barrels/day in the first week and then raise by 1 million barrels/day.
- **Low growth in oil demand** due to the slow growth in emerging market, especially in China. Moreover, global warming leads to weakening in fuel demand.
- **Stronger USD**: the first time since 2006, FED decided to raise interest rate to 0.25% in the meeting on 16/12/2015. Combining with the strong recovery of US economy, USD is forecasted to increase in 2016, which will put the pressure on the commodity prices, especially oil price.

- **Cut down oil producing cost**: low oil price put pressure to cut down the price of exploiting services and technology improvement in order to reduce producing cost. Currently, average producing cost of large oil producers is lower than 40 USD/bbl.

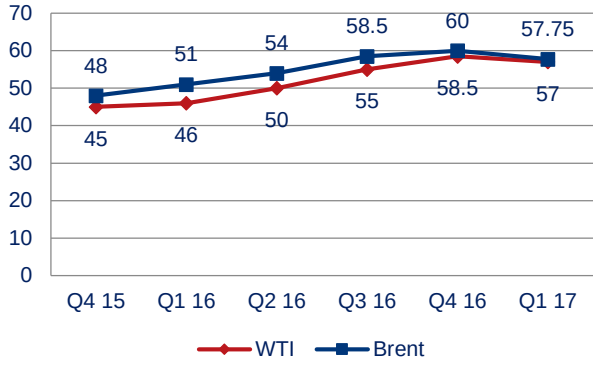
Producingcost of the 20 biggest oil producing nations



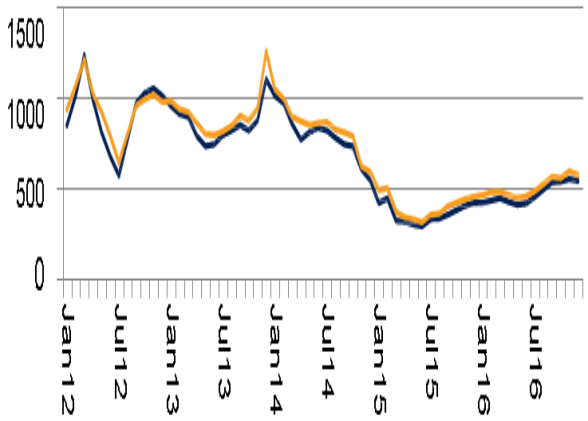
Source: Ucube by Rystad Energy Interactive (published on 13/11/2015)

LPG price may increase slightly: in 2016, the weather temperature is forecasted to continue to be at a high level. This may lead to decrease in civil LPG demand which accounts for 45% global LPG demand. In contrast, the demand of LPG in chemical will rise strongly thanks to the growth in chemical production. In terms of LPG supply, the LPG output continue to increase due to (1) OPEC will not cut their output volume; (2) New refineries in Asia (80% LPG of Asia are produced from oil refineries). Combining with the no sign of recover in oil price, IHS energy forecasts that the LPG price will slightly rise to around 500 USD/ton.

Oil price forecasted according to Bloomberg statistic



CP price according to HIS's forecast



PVN reduce output: base on the oil price of 60 USD/bbl in 2016, PVN plans to exploit 14.02 million tons of oil, down 10% y.o.y.

Reduce service price: due to low oil price, PVN targets to reduce 20-30% variable cost in oil production, extremely cut in outsource costs.

Lack of investment: PVN will be hard to balance its budget if oil price is still low. Therefore, CAPEX cut is inevitable. Moreover, in terms of oi& gas CAPEX in Asia- Pacific, Standard& Poor's forecasts that the private companies will cut at least 50% their CAPEX and this figure for government companies will be less than 30%.

Moving into onshore projects: oil price are decreasing to the break-even point of biggest field in Vietnam. Therefore, PVN are boosting onshore projects to compensate for reducing in oil revenue. Specifically, PVN will focus on power plants such as Long Phu, Song Hau, Quang Trach, and refineries such as Nghi Son, Long Son, Dung Quat, GPP Ca Mau. In addition, Bock B- O Mon project have been starting. A number of oil& gas companies will join this projects and it is expected to bring growth for these companies in 2017-2018 period.

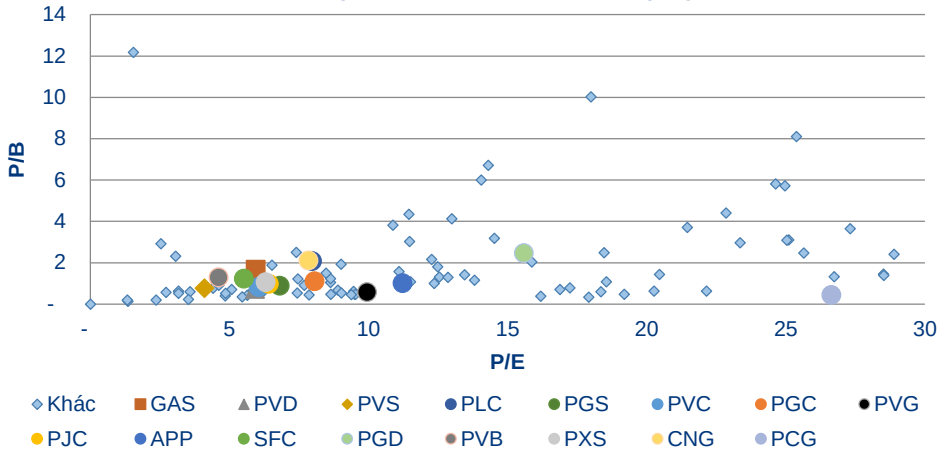
Equitizing 2 large companies: according to the decision of the Primer Minister, in 2015-2016, PV Power and BSR will be equitized. They are large companies, playing important role in Vietnam market. PV Power are account for 15% total electricity of Vietnam and BSR are managing and operating the only refinery in Vietnam- Dung Quat.

Investment recommendation

We lower the rating from neutral to **UNDERPERFORM** for oil& gas sector in 2016. We forecast that the average oil price in 2016 will be lower than 2015. The business performance of oil& gas companies will decrease when the output and profit margin are reduced, especially in upstream companies (PVD, PVC) and midstream companies (GAS, PVS, PVB, PXS). Currently, major projects in 2016 are most onshore projects which are slow implemented and have low profit margin. However, we note that downstream companies which distribute gas including PGD, PGS, CNG, PVG and PGC may remain stable profit margin due to the calculation based on oil price in input price and output price. Moreover, the output volume will increase may compensate for the decrease in price. We expect the profit of PGS, CNG and PGC will increase slightly in 2016 while the profit of PVG and PGD will be stable.

Oil& gas stocks of Vietnam are valued lower than the region: the median P/E and P/B of Vietnam oil& gas stocks are 6.62 and 1.09 in respectively. These figures are lower than Asian emerging countries which are 13.82 and 1.42. Although price of oil& gas stocks are relatively attractive, due to the risk from oil price, investor should not bottom fish early. The upstream stocks (PVD, PVC) and midstream (GAS, PVS, PVB, PXS) should be rating at tracking level, waiting for bottoming with oil price.

P/E và P/B of oil& gas stocks in Asian emerging countries



CNG- BUY- Target price: 36,688 dongs/share (+16,84%)

CNG is the company producing, transporting and distributing products of CNG. In 2016, the output volume of CNG will rise by about 11% thanks to distributing CNG in the North. Moreover, in 2016, the depreciation expenses of CNG will be reduced by 40-50 billion dongs. This will improve the profit margin. Therefore, we expect the company will slightly grow in 2016 although the output price will decrease. BSC forecast in 2016, CNG will reach 1,138 billion dongs of revenue and 128 billion dongs of NPAT, 4,732 dongs/share of EPS. On 29/12/2015, CNG are trading at P/E forward of 6.34 and P/B forward of 1.29.

PGS- BUY- Target price: 20,142 dongs/share (+15,10%)

PGS is the company distributing LPG and CNG. Beside the benefit from the growth of subsidiary- CNG Vietnam, the output volume of PGS will rise by about 15% in 2016 thanks to the supply contract for Samsung CE. Moreover, the LPG segment will be stable with the LPG price increasing slightly in 2016. We expect that the profit of PGS will rise slightly in 2016. PGS is forecast to reach 6,314 billion dongs of revenue and 217 billion dongs of NPAT, 2,736 dongs/share of EPS in 2016. On 29/12/2015, PGS are trading at P/E forward of 5.92 and P/B forward of 0.58.

PVG- BUY- Target price 9,533 dongs/share (+17,69%)

PVG operates in LPG segment. Since August 2015, PVG distribute 30% CNG in Thai Binh field, about 50 million cubic meters/year. **PGC** - **Tracking**

PGC is the company distributing LPG. Operating in North market, the LPG quality and product structure of PGC is higher than PVG because its LPG supply from Dinh Co and importing. Moreover, industrial LPG is account for large proportion in product structure of PGD. Industrial LPG has higher profit margin than civil LPG. Therefore, PGC are expected to remain high and stable profit margin. However, PGC are trading at higher P/E than others.

PGD – Tracking

PGD is the company distributing low pressure gas and CNG. Thanks to distributing gas in Thai Binh field, the output of PGD will increase about 30% in 2016. However, due to the high input price in Thai Binh field, the profit margin in the North will much lower than the South. Moreover, due to calculating based on oil price of input and output price, the decline in oil price will impact revenue and profit of PGD. Therefore, we forecast that PGD will maintain stable profit in 2016. Moreover, PGD are trading at relatively high P/E.

PVS – Tracking

PVD is the company supplying oil& gas services. The output volume and services price of PVS will decrease due to the fall in oil price, especially in segments contributing major proportions in business result including mechanical fabrication and construction, operation and maintenance and seismic survey. However, these segments have high conversing property such as moving from offshore projects to onshore projects. In addition, PVS are operating some sustainable segments including marines, seaport and FPSO/FSO. In 2016, with low oil price, we believe the revenue and profit of PVS will decrease but the rate will lower than GAS and PVD. PVS is trading at lower P/E and P/B than other peer companies in Vietnam and Asia. Moreover, PVS is the large stock in HNX. The investor can consider PVS when the oil price recovers.

GAS – Tracking

GAS plays a key role in Vietnamese gas industry, engaging in gathering, importing/exporting, transporting, processing, distributing, storing, and trading of gas and related products. The output in 2016 will rise from the higher demand of power plant and fertilizer factories. Moreover, the company starts to operate new fields. However, since August 2015, the output prices of GAS are calculated based on oil price (46%MFO+

tariff). Therefore, the selling price of gas will decrease. Moreover, new gas fields have higher input price. The profit of GAS will continue to decrease in 2016. GAS is the fourth largest market capital in HSC and its P/E is low than other pees in region. The investor may consider this stock when the oil price recovers.

PVD – Tracking

PV Drilling is a professional provider of drilling rigs and drilling-related services. PVD is directly impacted from the fall in oil price. The day rate of PVD's rig reduced 20% and the number of leased rigs reduced 50%. With low oil price in 2016, we forecast that the day rate and workload will decrease strongly. However, PVD are large market capital stock and has low P/E. the investor can consider this stock when the oil price recovers clearly.

Sector	Stock	Rev. 2016	NPAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 31/12/2015	Target price
Oil& gas	CNG	1,138	128	4,732	6.64	1.35	22.00%	30% cash	31,400	36,688
	PGS	6,314	217	2,736	6.40	0.63	15.00%	25% cash & 31% stock	17,500	20,142
	PVG	2,941	27	809	10.01	0.54	7.00%		8,100	9,533

Source: BSC forecast

Marine Transportation Sector 2016

- Improvement in tanker market while dry bulk marine transportation will remain falling deeply.
- Listed companies' business results will be strongly affected as a result of USD appreciation.
- In 2016, fleets efficiency will be improved thanks to implementation of government's policies.

Favorable factors.

World tanker fleet will continue to recover thanks to (1) China demand for oil will continue to rise since its oil reserve was only at 200 mill barrels while reserve target is 500 barrels till 2020. Drewry forecasts tanker market will grow at average 5% per year till 2018**,** estimated to reach 420 million DWT. (2) the oversupply situation will be reduced because of reduction in new ship order. Tanker supply is forecasted to grow by 2% in 2016, significant decrease compared with growth in 2014 standing at 4.5%.

Domestic marine transportation demand will rise as a result of new projects. The project to upgrade Dung Quat oil refinery from 6.5 to 8.5 million tons of crude oil per year with an investment of USD 1.8 billion, estimated to be completed in 2021. Phrase 1 is scheduled for completion in 2017. In addition, some large projects such as Vung Ang 1 and Thai Binh 2 thermal power, LPG Thi Vai, GPP Ca Mau will increase the domestic demand for shipping industry.

New thermal power projects.

Project	Capacity (MW)	Coal demand (Mil ton/year)	Estimated completion time
Vũng Áng 1	1,200	3.2	Q4/2014
Thái Bình 2	1,200	3	Q2/2016
Long Phú 1	1,200	3	2018
Sông Hậu 1	1,200	3	Q2/2019
Quảng Trạch 1	1,200	3	2020

Source: BSC collected.

Some impactful policies. (1) Port authority establishment in the new maritime law in Nov 2015 helps improve management and investment efficiency and reduce waiting time for ship unloaded.(2) Establishment of transport exchanges started in 2016, improving connections in logistics chain elements. Marine transportation firms will be easier to connect with their clients. (3) Formation of economic community AEC on 31st Dec 2015 make good circulation become more freely with 2 of the 12 priority industries including transportation and logistics.

Unfavorable factors.

USD is forecasted to be appreciated against VND, causing exchange rate loss since listed marine transportation companies have large amount of loan outstanding in USD. We estimate with 1% change in USD/VND exchange rate, they will incur exchange rate loss of approximately VND 51 bil.

Loan outstanding in foreign currency as at 30/6/2015

	PVT	SKG	GSP	VTO	VIP	HTV	PJT	TJC	VFR	VNA
Loan in USD	147,529,512		5,384,512	39,964,667	19,671,750		3,390,000	2,085,574	12,959,192	1,122,833
Loan in JPY	9,936,854,077									

Source: Companies' financial reports, BSC collected

BDI index is forecasted to continue falling. BDI index may be fell 2-3% in 2016 due to slowdown of China economy, reducing demand for bulk commodities such as iron ore, coal,… Goldman Sachs forecasts China imported coal will fall by 30% in 2016. Meanwhile, ship supply will be increased by 2.3% in 2016 making excess supply remain.

World trade expected to decline. WTO lowered its forecast for world trade in 2016 from 4% to 3.9% due to lower import demand from China and Brazil, low oil price and fluctuated exchange rates.

Investment recommendation

We maintain rating marine transportation **Underperform**. Even though oil price is forecasted to continue falling, marine transportation still remain in tough situation due to (1) China dry bulk demand will sharply fall while most domestic fleets are used to transport dry bulk. (2) USD will be appreciated against VND causing exchange rate loss for marine transportation companies. With prospect of the tanker market in 2016, we recommend stocks such as PVT, GSP and VIP. Furthermore, we also notice SKG thanks to its healthy financial position and growth in revenue due to passenger demand to Phu Quoc.

PVT – Buy – Target price 12,271 upside 20.3%

PVT is the largest tanker transport in Vietnam, accounting for 33% of total country capacity and almost exclusively in the transportation of crude oil, oil products (30% market share), gas (90% market share). PVT's after tax profit in 9M2015 was decreased significantly over the same period in 2014 (12%) due to no longer recording profit from disposal of ship. We believe that PVT has what it takes to grow fast in medium to long term because (1) Increase in demand thanks to Dung Quat and Nghi Son projects (PVT is planning on a VLCC with an investment of USD 80-100 mil, increasing capacity by about 65%). (2) Stable revenue and profit due to signing long-term contacts with its parent company PVN (3) Dry bulk cargo is forecasted to increase thanks to signing contact with Vinacomin in mid-2015. In late 2015, PVT has brought a ship with capacity of 30,000 DWT to meet coal transportation demand in 2016. We forecast that PVT's revenue in 2016 may reach VND 5,789 bil (+10%yoy), after tax profit reach VND 424 bil (+15%yoy), EPS 2016 stand at 1,657 dong/share

GSP – Buy – Target price 17,200 upside 13.16%.

GSP is one the few marine transportation companies recorded profit in 9M2015. After tax profit grew by 64% thanks to the return production of Dung Quat refinery after 2 months of repairmen and finishing ship

repairmen cost allocation. GSP accounted for 90% market share in Vietnam LPG carrier. GSP should be noticed in 2016 because (1) Demand will rise from the Nghi Son oil refinery project (this project will be in operation in late 2016, with output of about 30,000 tonnages of LPG per year) and the gas treatment project Ca Mau (this project should be in operation in late 2016 with output of 208,000 tonnage of LPG per year) (2) business result will be improved thanks to selling Aquamarine Gas for VND 10 bil. (3) Profit margin will be enhanced because no longer record depreciation from Aquamarine Gas and Apollo Pacific. Depreciation from these ships is estimated at VND 12 bil per year. We forecast that in 2016 GSP's revenue will reach VND 1,074 bil (+7%yoy), after tax profit will touch VND 86 bil (+6.17%yoy), EPS 2016 stand at 2,866 dong/share.

SKG – Tracking – Target price 89,433.

SKG is almost monopoly in transportation of goods and people from mainland to Phu Quoc through 2 main routes which are Phu Quoc-Ha Tien-Phu Quoc and Rach Gia-Phu Quoc. SKG's business result have room to grow in 2016 because (1) Transportation demand is forecasted to increase thanks to Phu Quoc development. 10M2015, tourists to Phu Quoc reached 750,000 arrivals, of which 30% international visitors (+44%yoy), 70% of domestic visitors (+100%yoy). Also, Phu Quoc has attracted 200 projects, increasing demand of freight in 2016. (2) Revenue will increase thanks to investment on new ships: superdong IX, X and ferry ship in 2016 and 2017. (3) Improvement in profit margin thanks to low oil price which accounted for 50% of input cost. (4) Corporate tax incentive of 10% in 50 years in which 4 years of tax exemption for new ships and 50% of tax payable in the next 9 years. We forecast in 2016, SKG's revenue will reach VND 382 bil (+25%yoy), after tax profit will reach VND 218 bil (+20%yoy), EPS 2016 stand at 8,921 dong/share.

VIP – Tracking

VIP is Petrolimex's subsidiary, operating oil transportation, oil trading and real estate. Factors which may affect VIP's growth potential in 2016: (1) Increase in business result from divestment in 2 construction projects- Vipco tower and Central Tower, and share in Vip-Green port JSC (VIP contributed VND 135 bil) (2) Increase in demand of tanker fleets thanks to Dung Quat expansion (VIP is planning on buying one tanker with capacity of 37,000 DWT). (3) Petrolimex 10 will back on operation after 2 months of repairmen. (4) oil trading is forecasted to be pessimistic due to low oil price and VIP only act as distribution agent for parent company.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price 31/12/2015	Target
Marine Transportation	PVT	5,789	424	1,657	6.15	0.69	9.10%	Stock : 10:1	10,200	12,271
	GSP	1,074	86	2,866	5.3	1.12	20.01%	cash 12%	15,200	17,200
	SKG	382	218	8,921	9.87	3.7	37.70%	Stock 5:1, Cash 10%	88,000	89,433
	VIP	N/A	N/A	N/A	N/A	N/A	N/A	Cash 5%	9,500	N/A

Rubber Sector 2016 [Underperform]

- Supply is expected to declined considerably in short - term
- Rubber demand from China slows down, along with low oil price put downward pressure on rubber price
- Long term outlook for rubber sector is negative

BSC assesses that 2016 outlook for rubber sector is **underperform,** under the impact of rubber price remaining low. World Bank forecasts price of RSS3 will recover slightly to the average of $1.54/kg in 2016, thanks to the supply shortfall in short-term. However, the slowdown in rubber demand of china, along with the low oil price will limit the recovery of rubber price.

- **Supply is expected to decline:** The El-Nino phenomenon will reach its peak in beginning of 2016, causing prolonged draught in Indonesia, the second largest rubber producing country of the world. Besides, IRTC is likely to continue to employ measures to control the supply source, since the current rubber price is 23% lower than the price in November 2014, when IRTC started these measures. Currently, Vietnam is a strategic partner of IRTC, and is considering becoming an official member of the committee. The participation of Vietnam will increase IRTC's proportion of global supply from 67% to 76%, and thereby enhance the ability to control supply source of the committee.
- **The slowdown in China demand:** Demand for tire production in China in 2016 is expected to slow down, along with the car production movements. Car production output has increased by 1.8% yoy in 10M2015m which is significantly lower than the average growth rate of 13.2% in 2012-2014. The slowdown is expected to remain in 2016, under the impact of the economy slowdown as a whole.
- **Oil price is forecast to remain at low level in 2016** which leads to low input costs for synthetic rubber production, thereby putting downward pressure on demand for natural rubber.

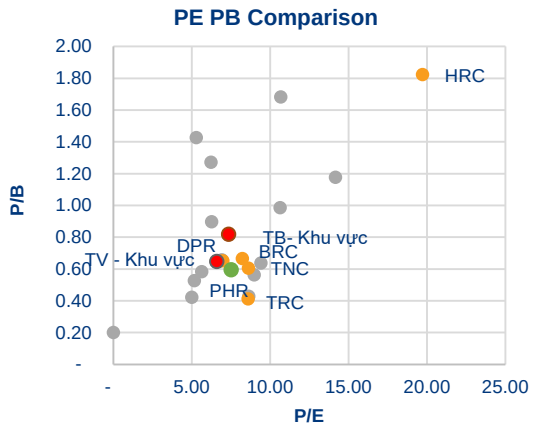
In short-term, export rubber price of Vietnam is expected to recover.

- **The decline in global supply source will support export price of rubber in short-term.** Following the global rubber price trend, Vietnam export price is expected to recover in short term due to the shortfall in supply of major production countries. However, the low level of crude oil, along with the slowdown in China economy will limit the recovery of rubber export price.
- **The new standard for compound rubber will be a short-term driver for export output of Vietnam.** Effective in July 1st 2015, the new standard has increased import tax from 0% to 20%, for compound rubber products with natural rubber content from 88% to 95%. This has affected top producers that export compound rubber to China such as Thai Lan and Indonesia. Therefore, in short-term, Chinese enterprises will prefer importing natural rubber, which is the main product of Vietnam, over compound rubber from other countries.

- **Vietnam is considering employing IRTC measures to control supply.** This will have two way effect: (1) Rubber price will be better controlled thanks to the enhancement in IRTC influence over the global supply and (2) export output could be constrained to align in IRTC measures.

In long-term, outlook for rubber sector is underperform: (1) The slowdown in rubber demand of China is expected to remain in longer term, **(2)** Supply from top producers will return to normal level when weather becomes favorable and when IRTC measures are removed, and **(3)** Domestic rubber supply is still high.

Investment Recommendation



Source: Bloomberg

BSC maintains our **Underperform** assessment for rubber stocks. The median of valuation multiple of Vietnam for rubber sector is P/E = 8.41 and P/B = 0.63, equivalent to the figures of comparable businesses in Thailand, Indonesia, and Malaysia, which are 8.02 and 0.66 respectively. The valuation multiple overall is lower than the market, which reflects investors' concern about the difficult outlook of the sector in the context of low rubber price. Please note a few leading stocks, with high value added products, and some rubber planting projects soon to be harvested.

DPR – Tracking

Dong Phu Rubber JSC owns a rubber plant area with high productivity and wide area, which help the company to better control the quality and quantity of input. High productivity enables the company to yield highest gross margin among listed companies in 9M2015, at 21.4%, almost double the average margin of 11.2% of the sector. DPR currently planting rubber trees in Cambodia, with the total area of 6,300ha, expected to harvest in 2017 and will double the total rubber planting area of DPR

PHR – Tracking

Phuoc Hoa Rubber JSC focuses on high added value products such as CV50, CV 60, and CVR, which have 6-8% higher selling price than SVR 3L. Compared to the industry, PHR has disadvantage of owning old trees with poor productivity. However, the company gains substantial profit from the liquidation of old trees, on average VND 90 billion per year until 2018. From 2016, PHR's rubber plantation project in Cambodia will began to be exploited, which will improve the harvest productivity and output of the company. PHR currently has 8,000 hectares in Cambodia, increasing the total area of the company to 23,000 hectares.

TRC – Tracking

Tay Ninh Rubber JSC owns the youngest and most productive rubber plantation in the industry. Its main products, Latex (70% of total sales), is less productive than others and doesn't depend on tire production in China. TRC also have rubber tree plantation projects of 6,150 hectares in Cambodia, which will double TRC total area in 2018, when the plantation is harvested.

Vietnam Sector Outlook 2016
Part 2

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