

Vietnam Monthly Review 05/2016

BSC Research

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Macroeconomy

- May PMI rose slightly to 52.7 pts from 52.3 pts in April. Implemented FDI was \$1.16bil; new registered FDI in first five months reached \$10.16bil, up 136.4%.
- CPI went up 0.54% MoM and 2.28% YoY due to the rise in oil and gas price lifted cost of transportation and materials. USD exchange rate was slightly up because of the possibility of rate hike from FED, and trade deficit was \$400mil in May.
- Interbank rate fell sharply due to surplus supply, lending rates decreased moderately in some banks. Circular 06/SB/2016 amending Circular 36/2014 less strictly than the previous draft ([Report](#)). Government implemented rate control policy appropriate to the macroeconomics conditions, inflations and money market, seeking to lower rate.

Stock market

- Major markets such as US and Europe continues their rallies while emerging markets declined, led by 9.4% drop in Brazil.
- In May, VN-Index climbed 3.3% to 618.4 pts closed to BSC forecast the second months in a row ([Vietnam macro and market outlook 2016](#), page 40); HNX-Index up 1.3%. Bluechips led the rally. Average liquidity in May reached VND 2.870bil/ session, down 5.9% than April.
- Foreigner boosted buying VND 926bil on two exchanges, despite 2 ETFs have sold to reduce size and net - selling put-through transactions in VIC and HPG. In our opinion, the net-buying volumes from P-Notes was noteworthy ([Report 1](#), [Report 2](#)), sizable net-buying transactions were in oil and gas as well as bank stocks. Seafood sector was traded quite well as we expected (Report on trading opportunity in seafood sector).
- P/E of VN-Index and HNX-Index went up to 13.59 (from 13.03) and 11.29 (from 10.52) respectively last month. Trades on Upcom became exciting as HNX might build Upcom premium index ([Report 1](#), [Report 2](#))

Recommendations

- VN-Index will be traded positively in the first week of June thanks to the buying from foreigners and might test 625 pts and 638 pts. However, in general, market might correct moderately and continue trade in the range of 580 - 615 pts. The positive cumulation waits for macro-economics policies to take effects and be absorbed into the market. High-light for June: (1) the market was further driven by foreign investors, (2) Liquidity improved by active ETF structure but remain moderate and (3) Stock breadth is expected wider before the second quarter earnings results. Stocks benefited from rising commodity prices move into less predictable stage than 2 months ago ([Report](#)).
- **Recommended stocks:**
 - Large - caps which were net - bought by foreigners;
 - Stocks with positive expected Q2 results and high - dividend;
 - Upcom stocks might be allowed for margin trading under implementing timeline 1/7.

For further details on recommendation stocks, investors can refer to:

- [Vietnam Sector Outlook 2016Q2](#);
- [Vietnam Weekly Review](#);
- [Sectors & Corporate reports](#).

Vietnam macro in 05/2016

Economic growth

- **Industrial production continues its recovery;**
- **PMI May was up slightly;**
- **Retail sales bounded back, led by retail sales of goods.**

Industrial manufacturing sectors continues its rally in May. Index of industrial production (IIP) in May was estimated rise by +7.8% YoY. Processing industry (+11.2% YoY), after a deceleration in April, was back and became major contributor to the growth of industrial production. By contrast, mining industry (-4.4% YoY) continue to curb the overall rise. In 5 months, IIP rising + 7.5% YTD YoY, which was weaker gains than first 5 months of 2015. The products including televisions, automobiles and steel prohigher had noteworthy gains comparing to the same period in 2015.

Consumption index in April of all manufacturing processing industry declined by -1.2% MoM but still rose +8.9% YoY, 4 months accumulation rose by + 9.3% YoY YTD. **Inventory index** grew by 8.7% YoY in 01/05, lower than the rise by 11.5% YoY this time of 2015. Collectively, there were still positive points in market consumption.

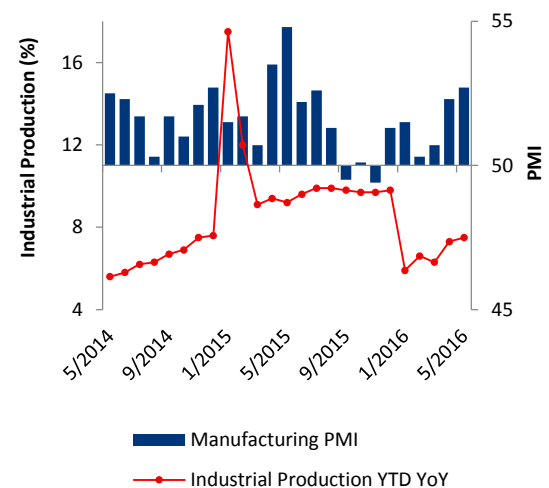
May PMI rose slightly to 52.7 pts from 52.3 pts in April, reflecting the recovery of the manufacturing sector. New orders gained in the fastest pace in 12 months.

Purchasing power continued to show the positive. Total retail sales of goods and services reached VND 286.2trillion in May, up by + 1.8% MoM and + 9% YoY. Highest contribution belonged to retail sales of goods with VND 218.9 trillion. In 5 months, the accumulated increase was 9% YTD YoY and

given the 7.9% YTD inflation YoY, lower than 8.2% rise YTD YOY in 2015.

Chart 1

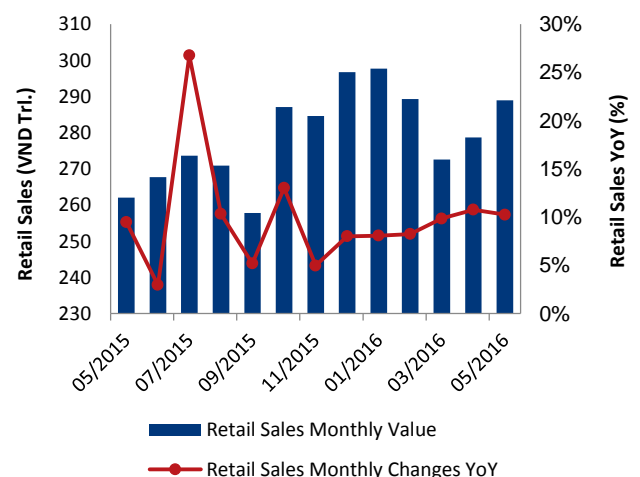
Industrial Production & PMI



Source: GSO, Markit, BSC Research

Chart 2

Retail sales



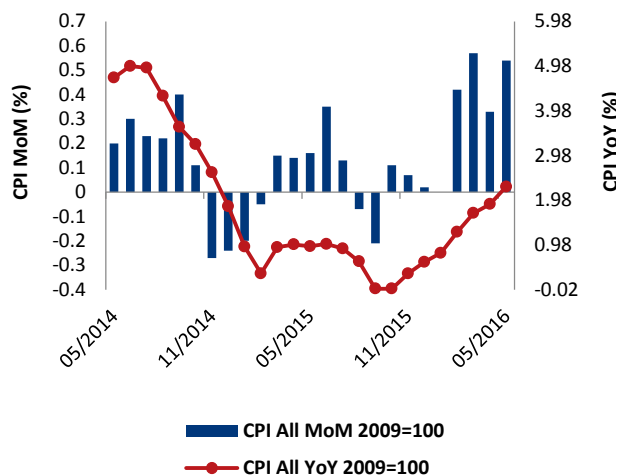
Source: GSO, BSC Research

CPI - Inflation

- **May CPI kept up trend;**

- **Rising petrol price along with the adjustment of the minimum wage put pressure on CPI this month;**

Chart 3
Monthly CPI movements



Source: GSO, BSC Research

May CPI rose by + 0.54% MoM and + 2.28% YoY, in average CPI in first 5 months increased +1.59% YoY.

Table 1
Monthly goods price changes (%)

TT	Goods/Services	MoM (%)	YoY (%)
1	Foods and Catering Services	0,36	1,87
2	Transportations	2,39	-9,20
3	Health Cares	0,05	16,03
4	Housing, Construction Materials	0,88	2,13
5	Entertainment	0,34	1,78
6	Beverage and Cigarette	0,11	2,39
7	Clothing	0,02	2,52
8	Housing Appliance	0,09	1,32
9	Education	0,02	3,99
10	Telecommunication	0,03	-0,59
11	Others	0,56	2,03

Source: GSO, BSC Research

Group of goods and services had increasing CPI and affects the overall price was traffic is still increasing due to the adjustment of the petrol price. Besides, the rising price of building materials in which steel up by 1% - 5% and

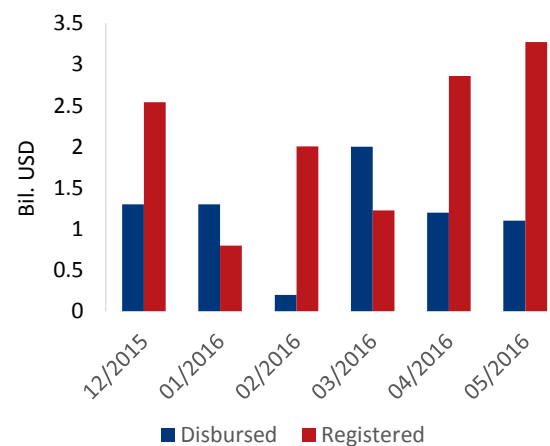
cement up by 1% -3%, put impacts on the housing price index.

The other categories has marginal change in price.

Foreign Direct Investment (FDI)

- **FDI in May lengthened its growth momentum;**
- **Implementation of FDI remained positive.**

Chart 4
FDI in Vietnam (USD Bil.)



Source: GSO, BSC Research

The implemented capital reached \$1.16bil, bringing total estimated FDI implemented in 5 months to \$5.8 billion, up by + 17.2% YoY YTD.

The total registered capital in 5 months reached \$10.16bil, up + 136.4% YoY YTD. With 907 newly licensed projects, the registered capital of 5 months reached \$7.6bil, up +155.9% YoY YTD, in addition, there were \$2.6bil increased from last year projects.

Processing and manufacturing industry attracted 65.1% of total registered capital while **Hanoi** is the location having the highest inflows at \$1.86 bil, accounting for 24.6% of total registered capital. **South Korea** was the

largest investor with \$2.89bil, equivalent to 38.2% of total new capital.

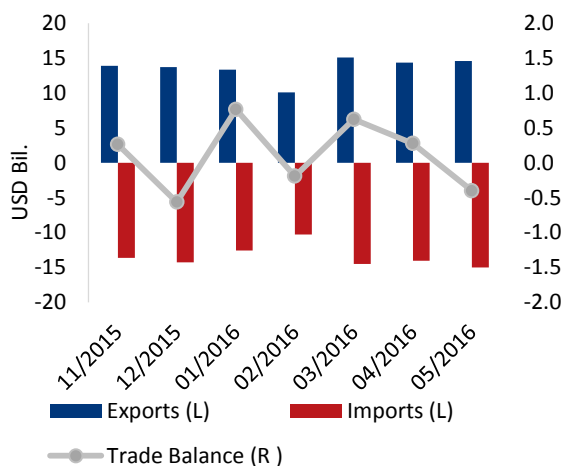
Trade, Import-Export

- **May trade deficit was estimated at \$ 400 million.** However Vietnam trade balance accumulated since the beginning of the year still remained surplus.
- **Trade volumes increased over expectation.**

Vietnam had trade deficit estimated at \$400mil in May, but remained \$1.36bil YTD trade surplus, among that domestic sector accounted for \$7.74bil trade deficit while foreign investment (including crude oil) had trade surplus of \$9.1 bil.

Chart 5

Trade balance (USD Bil.)



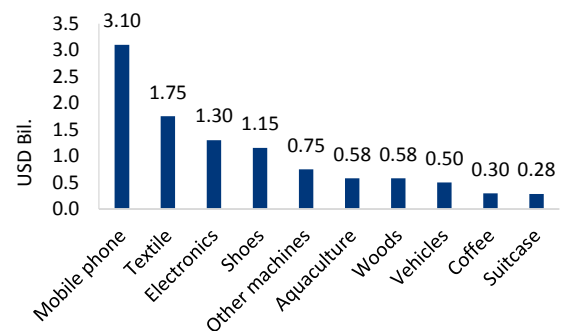
Source: GSO, BSC Research

Actual export turnover in April reached \$14.35bil, \$ 250 million higher than estimated. Export turnover in May was estimated at \$14.6bil, up by + 1.74% MoM and + 7% YoY. The major goods kept their growth in exports turnover: **telephone and components, textiles, computers, shoes.** The US was still the largest export market of Vietnam with 14.6 billion dollars, up by + 14.9% YoY, followed by the EU and China.

Actual import turnover in April reached \$14.07bil, \$73mil higher than estimated. May import turnover was estimated at \$15bil, up by + 6.6% MoM and + 0.9% YoY. Imports mainly served the domain from foreign investment sector. **China** remained the largest import market of Vietnam with a turnover of \$19.2bil despite of -2.9% YoY decline. The main import items were **phones and components, machinery, tools and spare parts.**

Chart 6

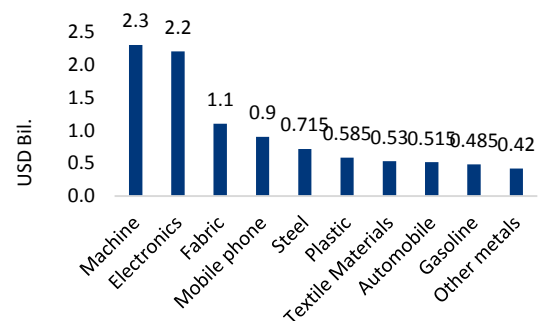
Top 10 exported goods (USD Bil.)



Source: FIA, BSC Research

Chart 7

Top 10 imported goods in 2015 (USD Bil.)



Source: FIA, BSC Research

Foreign Exchange Market

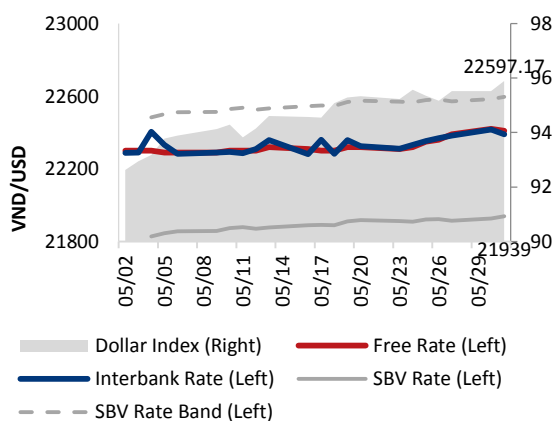
- **USD started its rally** along with the possibility that Fed might raise interest rates;
- **EUR** affected by the political situation of eurozone.

Domestic dollar exchange rate after a slight fall in April began to join the rally of global market in late-May by going up and traded between 22281-22417. With the possibility that Fed might raise interest rates this June, central bank actively adjusted the reference exchange rate up, as well as stopped buying dollars for foreign exchange reserves from mid-May.

The euro fell sharply before rebounding back in the end of the month. Major influences on euro were the ability of Brexit as well as the slow recovery and the challenges such as inflation, unemployment and migration crisis, terrorism which have not found solutions yet.

May witnessed the correction of the Japanese Yen, from 207 VND, JPY ended the month at VND200.

Chart 8
Exchange rates



Source: Bloomberg, BSC Research

Bank – Interest Rate

- **Interbank interest rates fell sharply due to plentiful supply;**
- **Policy adjustment in order to support real estate market and export activities.**

Credit growth to the end of April grew by +3.57% YTD while deposit growth had a higher increase as by the end of March it reached the gain by +4.5% YTD.

With credit growth was lower than the deposit growth, along with the central bank that is pumped about VND72trillion via foreign exchange channel in April and May, liquidity in the banking system became redundant, causing **interest rates interbank plummeted.**

Circular 06 and 07 of the central bank showed compromise from policy as no hurry to tighten capital flowing into the real estate market and supporting foreign currency liquidity for exporters.

Table 2
Lending rates

Terms	2015	2016M5	Changes
VND short-term	6,8 - 9	6,8 - 9	0
VND mid & long-term	9,3 - 11	9,3 - 11	0
USD short-term	3 - 5,3	2,8 - 5,2	-0,2
USD mid & long-term	5,5 - 6,5	5,3 - 6,2	-0,3

Source: SBV, BSC Research

Table 3

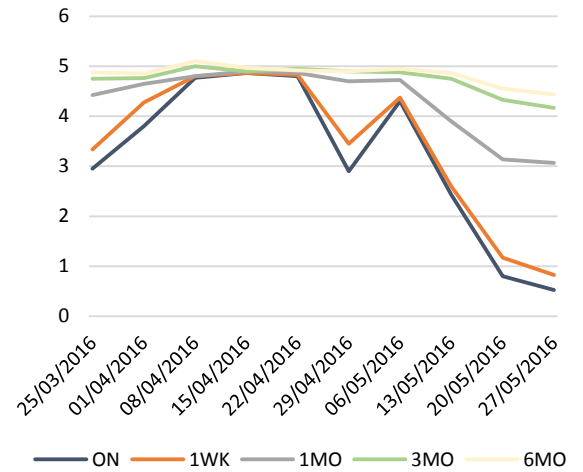
Deposit rates

Terms	2015	2016M5	Changes
VND			
VND Demand deposit and below 1 month	0,8 - 1,0	0,8 – 1,0	0
VND 1 month – below 6 month	4,5 – 5,4	4,5 – 5,4	0
VND 6 month - 12 month	5,4 – 6,5	5,4 – 6,5	0
VND above 12 month	6,4 – 7,2	6,4 – 7,2	0
USD			
USD for people	0	0	0
USD for enterprise	0	0	0

Source: SBV, BSC Research

Chart 9

Interbank rates



Source: SBV, BSC Research

Vietnam Macro Outlook in 6/2016

The market will not get much support from the macro economy in this June.

On the international level, (1) Fed's monetary policy tends to tighten in the context of the US economy are having some positive points, (2) The European economy is still looking for solutions to the crisis refugees, terrorism and Brexit before they can pay attention to recover economic growth, (3) Bad debt might affect the growth of the Chinese economy.

On the domestic level, the focus in the coming months can be listed as follows:

(1) Loan interest rate might decline in the short term but under pressure to rise again at the end of the year, in order to support growth under Government's direction. The opposite direction, towards credit growth target at 18-20% in 2016, disbursement could cause liquidity pressures and raise deposit and interbank interest rates.

(2) Commodity lengthens recovery trend. The supply shortage might be difficult to change in June and continue to support oil prices.

(3) Inflation might rise further. Besides fuel prices with influence spreading to most of the components of CPI, there might be an increase in the domestic prices of agricultural products as a result of drought and submerged in Mekong Delta.

(4) VND will weaken against the dollar but marginally. As the trade balance remains positive, the exchange rate will depend largely on the Fed's monetary policy, which will be released at the FOMC meeting on 14-15 June.

Table 4 : Vietnam Macro data

Criteria/Month	2015M11	2015M12	2016M1	2016M2	2016M3	2016M4	2016M5
GDP yoy (%)	-	6.68	-	-	5.46	-	-
GDP ytd yoy (%)	-	7,01	-	-	5.46	-	-
PMI	49.4	51.3	51.5	50.3	50.7	52.3	52.7
IIP yoy (%)	8.9	9.0	5.9	7.9	6.2	7.9	7.8
IIP ytd yoy (%)	9.7	9.8	5.9	6.6	6.3	7.3	7.5
Retail Sales yoy (%)	6.6	9.5	11.7	6.6	8.8	8.5	9.0
Retail Sales ytd yoy (%)	9.4	9.5	11.7	9.7	9.1	8.8	9.1
Retail Sales (price adjusted) (%)	8.3	8.4	11.0	8.3	7.9	7.5	7.8
CPI mom (%)	0.07	0.02	0	0.42	0.57	0.33	0.54
CPI yoy (%)	0.34	0.6	0.8	1.27	1.69	1.33	2.28
Registered FDI (USD Bil.)	0.92	2.54	1.33	2.00	1.23	2.85	3.27
Disbursed FDI (USD Bil.)	1.4	1.3	0.8	0.2	2.00	1.2	1.16
Exports (USD Bil.)	13.9	13.7	13.4	10.1	15.1	14.1	14.6
Imports (USD Bil.)	13.6	14.3	12.6	10.3	14.5	14	15.0
Trade balance (USD Bil.)	-0.2	-0.6	0.76	-0.19	0.62	0.1	-0.4
FX (VND/USD)	22,430	22,506	22,407	22,325	22,300	22,294	22,400
Credit growth (%)	13.98	17.17	-0.2	0.39	1.54	3.57	-
Non-performing loans (%)	-	2.72	-	-	-	-	-

Source: BSC Research

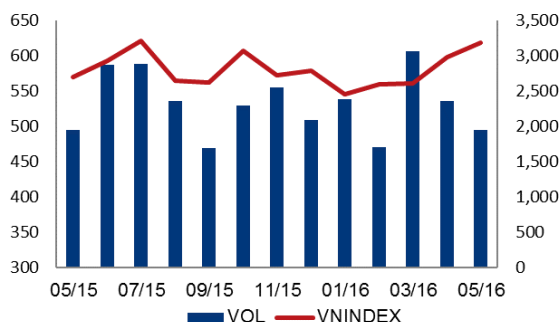
Vietnam stock market movements in 5/2016

Market overview

Increasing momentum in May, though slowed down, was better than expected because the Sell-in-May effect didn't affect much the whole market. Although some industries have corrected such as pharmaceutical, sugar, agriculture, impressive rally from oil and gas, rubber, mineral, steel, textile and seaport has lifted VN-Index near the highest level of the year at the end of the month. VN-Index even reached 627 pts and now is approaching the recent peak at 641 pts. VN-Index and HNX-Index closed at 618.44 (+3.35% MoM) and 81.92 (+1.53% MoM), respectively, in the last session of May.

Chart 10

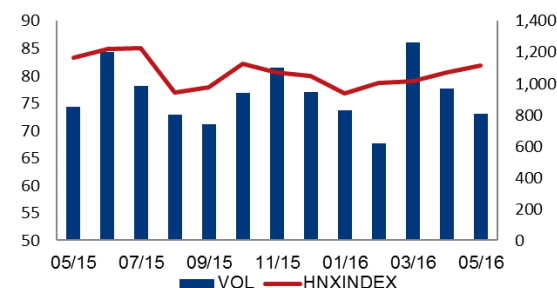
VN-Index movements



Source: HSX, Bloomberg, BSC Research

Chart 11

HNX-Index movements

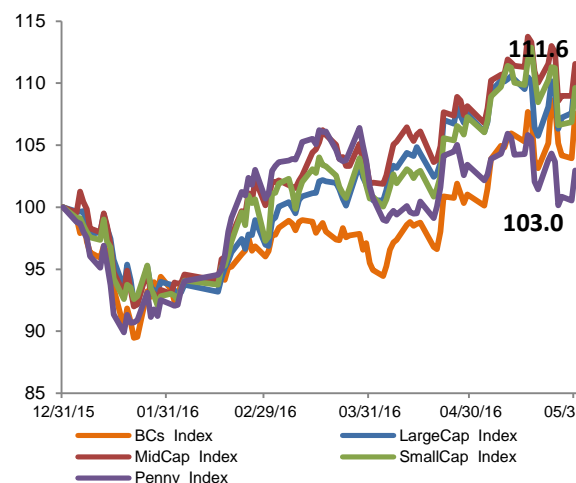


Source: HNX, Bloomberg, BSC Research

Stock movements by market capitalization

Chart 12

Movements of index groups



Source: Bloomberg, BSC Research

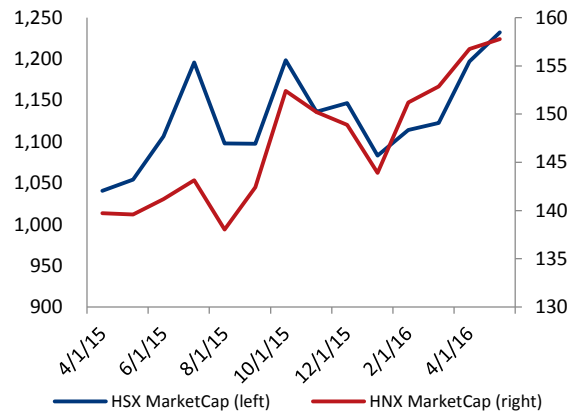
BCs continued to surge the most in May. Specifically, BCs led the whole market with impressive increase +6.47% MoM, LargeCap, MidCap and SmallCap also rose by 2.74%, 3.13% and 2.18%, however, still less than last month. In contrast, Penny decreased slightly by 0.45% MoM. Thus, we can recognize the fact that the higher the market capitalization the firm has, the more cash flow has been focusing on it. Since beginning of the year, MidCap led the whole market with 11.6% increase, followed by LargeCap with 10.5% increase, Small Cap with 9.6% increase and Penny with 3% increase.

Market capitalization

Market Cap on both main floors reached VND 1389 billion (VND 1232 billion +2.92% MoM on HOSE and VND 157 billion +0.6% MoM on HNX). Market Cap rose thanks to the rally of some BCs such as GAS, VCB, VIC, however, increasing momentum has slowed down compared to last month.

Chart 13

The scale of market capitalization

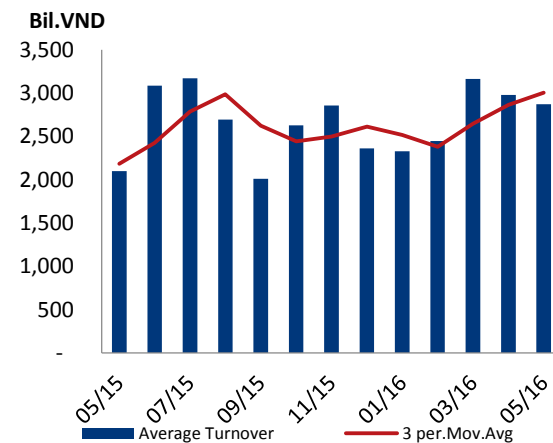


Source: Bloomberg, BSC Research

Market liquidity

Chart 14

Average trading value



Source: Bloomberg, BSC Research

Average liquidity in May decreased slightly by 5.9% MoM to VND 2870 billion/ session. It also marked the first time in May that monthly average liquidity was less than average of the last 3-month liquidity. Slight decrease on average liquidity could be explained by the increasing cautiousness as VN-Index was approaching strong resistance 621 and last high 641.

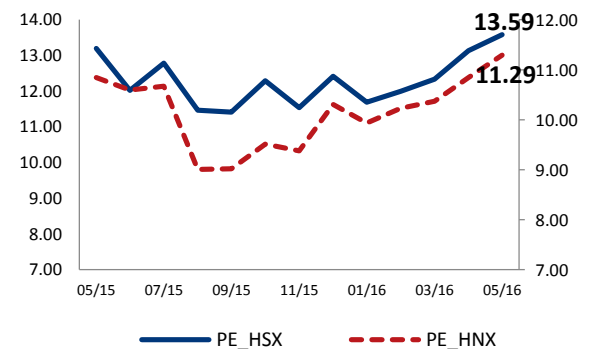
Stock price level

P/E of VN-Index and HNX-Index reached 13.59 and 11.29 respectively, rose slightly in comparison with last month P/E and still stayed at low level compared to region P/E.

The surge of stocks in May increased local market P/E. Specifically, VN-Index and HNX-Index P/E closed at 13.59 and 11.29, ranked 4th and 6th in region, unchanged compared to last month.

Chart 15

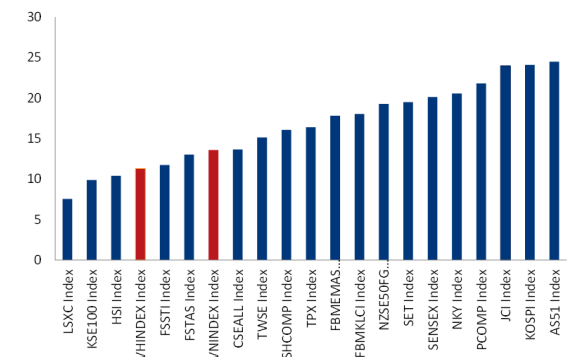
P/E on 2 floors



Source: Bloomberg, BSC Research

Chart 16

Vietnam P/E compared to other regional countries



Source: Bloomberg, BSC Research

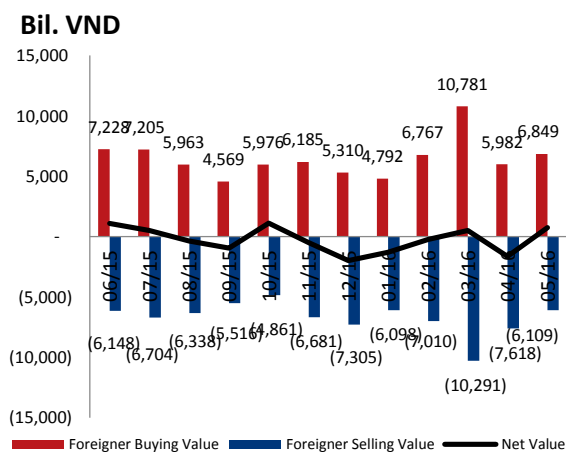
Foreign investors transaction

Foreign investors held net buy position on both main floors. Specifically, net buy stayed at VND 740 billion on HSX and VND 186 billion on HNX, in total, VND 926 billion.

Net buy of foreigners in May mostly focused on GAS (VND 192 bil), MBB (VND 159 bil), and MSN (159 bil). On the other hand, net sell included VIC (VND 409 bil), HPG (VND 309 bil) and HSG (VND 70 bil). Strikingly, MSN used to be included in top 3 net sell and HPD used to be listed in top 3 net buy in April.

Chart 17

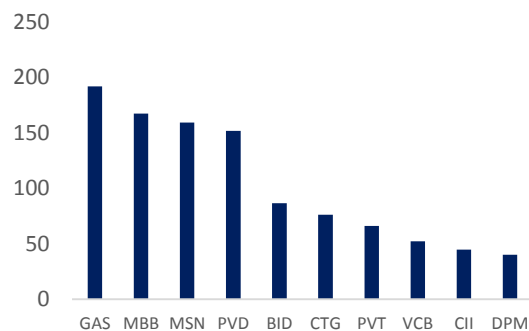
Foreign transactions on HSX



Source: BSC Research

Chart 18

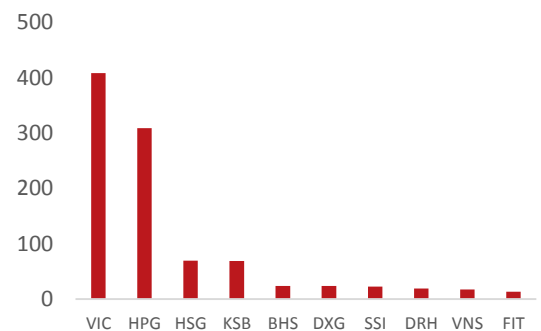
Top 10 net buy by foreign investors on HSX (VND billion)



Source: BSC Research

Chart 19

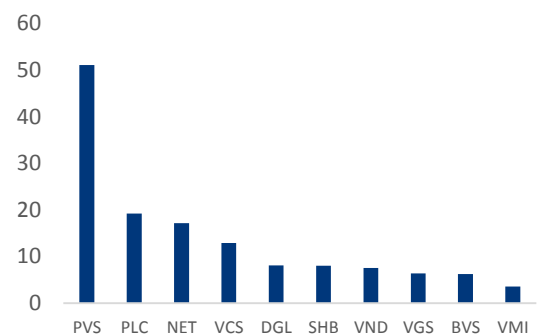
Top 10 net sell by foreign investors on HSX (VND billion)



Source: BSC Research

Chart 20

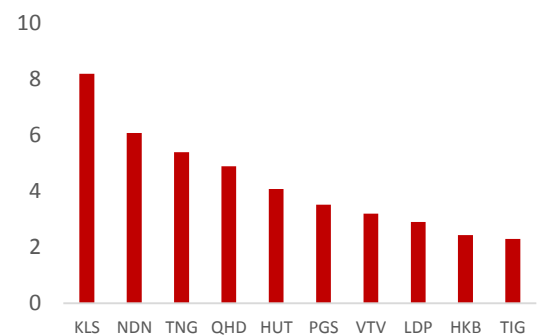
Top 10 net buy by foreign investors on HNX (VND billion)



Source: BSC Research

Chart 21

Top 10 net sell by foreign investors on HNX (VND billion)

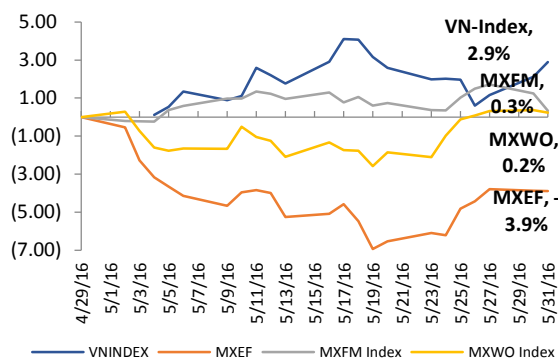


Source: BSC Research

Market outlook in 06/2016

“Sell in May and go away” was not right this year since many main markets could still keep increasing momentum. Global MSCI indices rose by 0.2%, MSCI Frontier Market increased by 0.3%, however, MSCI Emerging market declined by 3.9% after soaring in April.

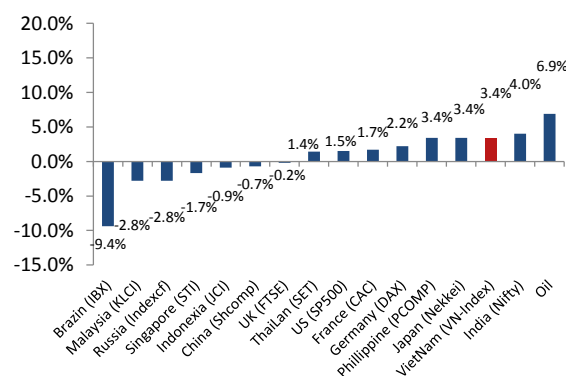
Chart 22: Evolution of major stock indices in April



Source: Bloomberg, BSC Research

The message that it would be fine to raise interest rate in coming months from FED chairman didn't affect much the indices but the hard currencies and corrected gold price. US economy showed some positive signals, supporting the increasing momentum of stock markets, US stock markets up by 1.5%, EU stock markets up by 2% on average. Nevertheless, it was not a positive information for emerging markets which were experiencing political difficulties such as Brazil -9.4%, Malaysia -2.8%, Singapore -1.7%, Indonesia -0.9%.

Chart 23: Evolutions of key markets



Source: Bloomberg, BSC Research

Foreign investors withdrew capital strongly from Japan and Taiwan markets. In Vietnam, foreign

investors remained long position despite the fact that 2 ETFs reduced stock weights and put-through transactions to sell out VIC and HPG.

Table 5: Net buy and sell from foreign investors

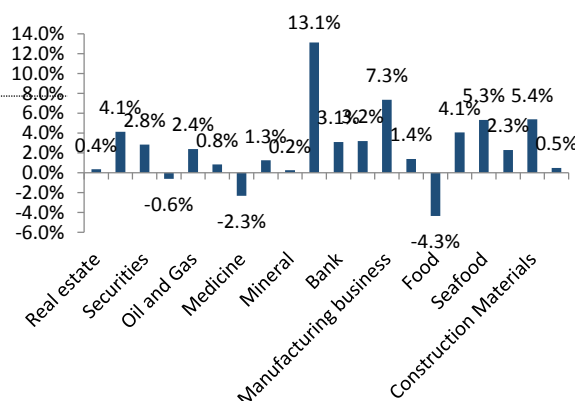
Nations	Net trading value in May (USD mil.)	Net trading value in May & April (USD mil.)	2016
India	383	968	2,181
Indonesia	(17)	5	320
Japan	(3,029)	12,380	(47,909)
Philippine	287	253	329
Korea	85	1,911	2,669
Sri Lanka	(18)	(25)	(39)
Taiwan	(2,081)	(1,354)	3,627
Thailand	131	(28)	516
China	NA	(43,010)	(280,620)
Pakistan	4	(15)	(115)
Vietnam	33	(37)	(84)

Source: Bloomberg, BSC Research

Vietnam stock market kept increasing momentum and reach new peak of the year in May. VN-Index closed at 618.4 pts, slightly higher than upper bound of our expected zone 580 – 615 in May. VN-Index remained increasing in the first 3 weeks and only corrected in the 4th week, however, came back to rise in the last week after Circular 06 and 07 were released by SCB.

17/20 industries rose in May, led by Energy +13.1% (including GAS +17.6%). 3 declines included Food, Pharmaceutical and Technology.

Chart 24: movements of industries in May



Source: BSC Research

Top focused stocks in May:

- 5 advances contributed 77% to market rise: GAS +17.6%, CTG +7.2%, VNM +2.1%, EIB +22.6% and PVD 29.5%.
- Banking stocks went in the same direction with 6/10 stocks affect the most on VN-Index increasing momentum
- Stocks benefited from commodities rally such as Oil (GAS, PVD, PVS, PXS, ...); stocks rose thanks to Obama's arrival and expected TPP such as textile (TNG, TCM, KMR), infrastructure (KBC, ITA, LHG, SZL), seafood (VHC, FMC), seaport (VSC, DVP, ...); high dividend per share HSG, CSM, DRC, ...

Stocks benefited from TPP were mentioned in the report "Macro Insights: TPP negotiation and its impact on industries" and seafood firms such as VHC, FMC also showed good performance. BMP, however, was not as positive as we expected. In addition, we released early our assessment on inflow P-notes ([Report 1](#) và [report 2](#))

Stable investment in April and May were supported by foreign capital. However, liquidity weren't improved after VN-Index overcame 600, meaning that local investors were quite prudent and new regulations need time to affect markets. Issues regarding Forex, inflation and budget deficit are blocking the government from deploying supportive policies for economy. However, from a bigger view, it can be seen that economy benefited from FDI, export, consumption, ..., which is positive for growth and stock markets.

Nevertheless, implied risks come from outside: (1) FED's decision in meeting on 15-16/6 and (2) referendum on Brexit on 23/6. This information will directly affect foreign flows, which were the main support for the rally in April and May.

Factors driving market in 6/2016:

Event	Impact on market
Support policies for firms and growth	Positive
Fed may raise interest rate on 15/16 – 06	Negative
Referendum on Brexit on 23/06	Negative
OPEC meeting to cut output	Not clear
2 ETFs portfolio reallocation	Neutral & improve market liquidity
Expected financial results in Q2	Positive

Source: BSC Research

Based on assessment on market info, expectation for June are:

Market are expected to correct and move side way in zone 580 – 615 in June. Divergence among industries and stocks keep happening, liquidity stays at moderate. Market is driven by net buy and sell from foreign investors. Pay attention to important points which influence foreign capital flows such as FED meeting on 15-16/06 and Brexit on 23/06.

Investment direction in June and details of recommended stocks can be attained from our reports:

- Stocks with good performance in Q1, expected good performance in Q2 and stocks pay high dividend and bonus.
- LargeCap were bought in by P-Notes ([Market Insights P-Notes capital flow - Lesson from history](#))
- Stocks benefit from rising commodity prices.
- Stocks on UPCOM that can be traded on margin may attract attention on 1/7 ([report 1](#))
- In long term, BSC recommended stocks are mentioned in industry and sector outlook report 2016 ([link](#)), recommended stocks with positive movements in weekly reports ([link](#)) and company/industry updates report ([link](#))

Disclosure

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