

Vietnam Sector Outlook

2016Q3



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Sector investment strategy 3Q2016

As discussed in our [Sector Outlook Report 2016](#), and updated in our [Sector Outlook Report 2Q2016](#), it has become more challenging for investors to select sector for investment. After the V-shaped movement in the first quarter, stock market had a nearly perfect start in the second quarter with 8 weeks of uptrend, until Brexit caused the third most volatile trading session in the history of Vietnam stock market. Our statements on investment topics were quite effective in the second quarter, although some sectors and stocks had failed our expectation.

What to expect in 3Q2016: While the second quarter focuses on changes and expectations, the third quarter will witness the enforcement of policies and the active season of businesses. Key positions in the Government will be officially passed by the National Assembly on July 27, 2016. After that, we expect policy changes, state divestment, and IPO to be more drastic than in the first 6 months. As the Government's top priorities are economic growth, stable monetary policy, attracting foreign investors and state divestment, Vietnam has many opportunities to attract foreign capital flows.

Most notable risks: (1) China continues to show many problems through sluggish economic data (2) Widespread nationalism upon Brexit, especially in Europe, where we will see changes of leaders in some nations (3) Final steps in the campaign of United States presidential candidates (4) IS hike war in the Middle East after a "quiet" second quarter. Stock market will fluctuate with news from the meetings of OPEC, State banks in UK, Japan, Europe and FOMC.

Assessing the attractiveness of sectors/stocks, potential for growth of core business activities accompanied by valuation is always our most important criteria, along with the consideration of external factors. Our statements on investment topics, sectors and time for the last 6 months of 2016 are based on analysis of (1) Policies and information affecting sectors in the last 6 months of 2016; (2) evolution of sectors, stock market and macroeconomic factors which were assessed in [Macro & Market Report 2016M06](#).

Overview about the sector outlook in 2H2016

Among five topics that we proposed at the beginning of this year, some had results as forecasted in the first six months of 2016. The movements of other sectors were not as we expected because we misjudged the rebounds of those. For the prospects in the 3rd quarter and the last six months of 2016, we did update and have some additional investment topics as follows:

- ***“First, the Real Estate recovered, the liquidity increased”***. As we were concerned, the real estate market in Q1 and Q2 were much more sluggish than in 2015. The main points of Circular 06 were less stringent than the draft amendment of Circular 36, but still tends to be more rigorous, and this would raise the level of divergence in the real estate sector. Real estate stocks are expected to be: sold well (VIC), the State divestments (VCG, HDC); large discounts on book value (ITC, DIG, SJS). However, greater opportunities will come from downstream sectors of the real estate when the construction season begins after rainy season in southern areas, and the Lunar July in northern areas. We continue to expect the developments in Construction sector (civil and infrastructure), building materials (steel, cement, stone, building plastic), furniture (bricks, flooring tiles, wood, light bulbs, wires,...). Investors are recommended to visit [The report of ceramic tiles sector and forgotten stocks, published by BSC.](#)
- ***“Second, Free Trade Agreements (FTA)”***. After a sluggish Q1, almost all leading companies benefiting from FTA performed brilliantly in Q2 in terms of core activities. Seaport stocks (VSC, GMD, CDN), infrastructure (CTI), retail (PNJ, MWG, SVC) and industrial zones (KBC) are going to have a better business performance in Q2 and Q3. The two sectors which were expected much by investors are Textiles and Aquaculture witnessed not much volatility in the first six months, along with their business results were not much changed than in the same period last year. Beside that, thanks to favorable government policies, Medicine sector (DHG, DMC), and Steel (HSG, HPG, NKG), which was negatively impacted in the whole year 2015, are expected to keep recovering. Although, opportunities in Q3 will be limited in comparison with the two early quarters as the stocks in those sectors mentioned gradually increased to high levels. Sustainable opportunities only come from companies with attractive valuations and good potentials of improvement in business results.
- ***“Third, the impact from the prices of raw materials”***. The prices of raw materials in Q2 were more stable than Q4/2015 and Q1/2016, and the recovery are on-going but with decreasing growth rate. (please visit updated report about opportunities in Oil and Gas Sector February, 2016) . We updated our viewpoint when basic commodities showed signs of recovery and started to impact the prospects of stocks ([link](#)). Until Q2/2016, several stock groups started to diverge when stock prices increased faster than business results. Regarding stock groups with valuations not attractive enough, investors should be discreet at the end of quarters when business results are published. The divergence in basic material sectors will follow the movements of commodity prices in the global market.
- ***“Fourth, divestment or out-of-room stock groups”***. We maintain recommendation on this investment topic, although in 2Q2016, there were not many stocks with state divestment or room loosening. After 2016 AGM season, we expect more and more companies able to raise foreign ownership ratio. Also, after the interruption caused by three essential elections for Congress, People’s Council and the

central committee of Vietnam Communism Party, the progress of divestments will be boosted in the two later quarters of 2016. In Q2/2016, the divestment and room loosening stock groups will continue to rise significantly and outperformed in the stock market such as C32, KSB, EVE, VNM, MBB, KMR... The list of 2016 divestment stocks published by SCIC on May 31st, 2016 encompasses remarkable companies such as: HDC, SGC, VSH, GMD, VNC, FPT and VCG. Beside SCIC divestment companies, we believe that there are plenty remarkable companies will be divested by ministries and people's committees, and this would create opportunities for investors in the second half of this year.

- ***Fifthly, the fundamental shares with high stable dividend and low beta might remain to be the cash flow destination.*** What happened in the first and second quarter have reflected our concerns presented at the beginning of year "in the context that market fluctuated dramatically (forecasted to be happened at the end of each quarter and end of year), in terms of profit seeking, cash might flow to shares which are considered to be highly defensive". In the second quarter, with the unexpected caused by Brexit, the market's capital has one more time flown to the highly defensive stocks such as power (BTP, NT2), pharmaceutical (DMC, DHG, IMP, DP3). In addition, we believe that with bright 2016 outlook realized in the third quarter, market capital will still flow to fundamental shares with the combination of: high dividend, low beta, good growth potential and attractive priced. We may name some: Automobile (SVC, HAX); Chemical (DGC, DGL, CSV, ADP); Building stone (C32, KSB, NNC), water (NTW)... we are keeping our opinion that market will still in fluctuation period, therefore shares with low beta are believe to be the safe shelters for cash flow.

Besides the investment thesis presented in the Sector outlook report 2016 and the second quarter outlook report, we are going to present 2 topics which we reckon will have strong effects on investors in the last 2 quarters 2016.

- ***Sixth, Opportunities arise in Upcom market.*** In the [second quarter report](#), we had given our opinion that: "Investors will downgrade their standards and gradually move to Upcom". This has happened helping enhance Upcom's liquidity. The fact that HNX issued Upcom Premium will continue to make shares listed on upcom diversified ([Upcom Premium Report](#)). Opportunities will arise in 2 group: (1) group with good business performances combined with attractively priced such as: VGC, SWC, GEX ([30 upcom premium report](#)). (2) Some big companies will be listed in the last 6 months 2016.
- ***Seventhly, climate changes.*** Besides some social changes, economic changes such as Brexit in EU, USA election, China economic slowdown, material input prices will be also affected by climate changes (El Nino/ La Nina reports). The World Meteorological Organization (WMO) and NASA both recommended that El Nino will be at peak in Jan 2016, following by neutral period at the beginning of spring or beginning of summer 2016. The La Nina will be appeared and formed in autumn 2016. If La Nina happened, agriculture, agriculture supports and extraction industries will be influenced in many ways. In those, hydropower, rubber and somehow fertilizer and sugarcane will be benefited. The second quarter business performance of these sectors were still trending downward. However, the industry business cycles might happen in line with changes in climate.

Sector Outlook 3Q2016

- We maintain a **OUTPERFORM** assessment for the sectors: **Real Estate, Construction, Building materials (tiles, plastic), Technology, Sea Ports, Textile, Power, Milk and Cable**. Downstream sectors of Real Estate are expected to maintain gains in the near future. Infrastructure sectors such as Port, Power are expected to maintain sustainable growth.
- We assess **MARKET PERFORM** with sectors: **Plastic, Steel, Sugar, Tires, Cement, Automotive, Insurance and Banking, Pharmacy** and change the outlook from Underperform to Market perform for 2 sectors: **Oil & Gas** and **Natural Rubber**, and down from Outperform to Neutral outlook for **Fertilizer**. The overall outlook for this group mixes of good and bad factors.
- On the side of sectors with **UNDERPERFORM Outlook**, we still maintain this assessment with **Marine Transportation** and **Aquaculture** Sectors as reported in 1Q2016 sector outlook. With complicated movements of commodity prices, as well as the effects of Brexit, the sectors with large export to Europe will have more negative prospect.
- **The Seasonality**. The third quarter is usually the time with more exciting business activities than the first two quarters of year. We expect the downstream sectors of the Real Estate (construction and building materials) continue to grow. Sectors of Sea Ports, Power and Infrastructure continue to improve earnings. The rainy season also makes the agricultural and power sectors to have more volatility.

2016 Sector Outlook Summary

No	Sector	2016 Rating	Medium and Long term Recommendation	Tracking / Holding
1	Real Estate	Outperform	SJS, VIC, ITC, KDH	VCG
2	Construction	Outperform	CTD, HBC, CTI	
3	Tiles	Outperform	CVT, TTC	VIT
4	Technology	Outperform	FPT, CMG, ITD	
5	Sea Port	Outperform	GMD, PHP, VSC, HAH	PSP, CDN
6	Textile	Outperform	TCM, TNG, VGG	EVE
7	Power	Outperform	BTP, SJD, CHP	NT2
8	Milk	Outperform	VNM	HNH
9	Cable	Outperform	VKC	CAV, TYA
10	Fertilizer	Market perform	BFC	DPM, LAS
11	Cement	Market perform	BCC	HT1, BTS
12	Automobile	Market perform	SVC, TMT	HAX
13	Insurance	Market perform	PTI, PGI, VNR	BMI, HTL
14	Plastic	Market perform	BMP	AAA, NTP
15	Steel	Market perform	HPG, HSG, NKG	
16	Sugar	Market perform	SLS	BHS, SBT, LSS
17	Tire	Market perform		DRC, CSM
18	Banking	Market perform	MBB	VCB, ACB
19	Pharmacy	Market perform		DHG, IMP, TRA, DMC
20	Rubber	Market perform	TRC	DPR
21	Oil & Gas	Market perform	PVS, PGS, PXS, PVG, PGC	GAS, PVD
22	Aquaculture	Underperform		HVG, VHC
23	Marine Transport	Underperform	PVT, GSP	SKG, VIP

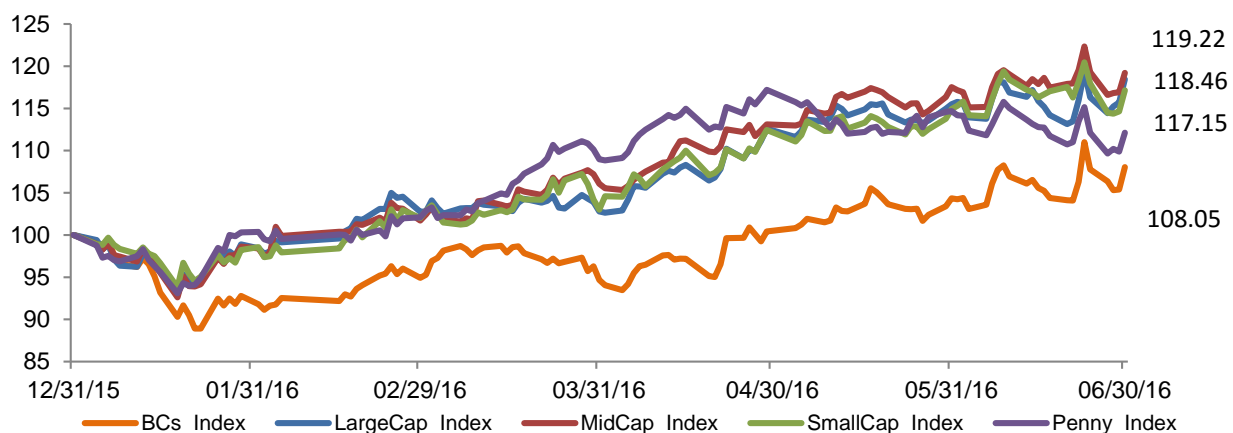
Source: BSC Research

BSC's view on the market in 2Q2016

Reassess the accuracy and efficiency in the forecast of market performance of BSC in [2Q2016 Sector Outlook](#), we consider factors including: (1) Market movements; (2) Stocks trend; (3) The information affected. As follows:

- (1) **In terms of market performance.** In macroeconomic and stock market report 03/2016, we mentioned comments on the quarter 2/2016 as follows: *"VN-Index will accumulate and fluctuated between 550 -570 at the end of April, fell in May and cumulative return in June to close at 580 points"*. We have been cautious and not exactly about the evolution of the stock market in the last 2Q. End the session on 30/06, VN-Index closed at 632.2, while the HNX-Index closed at 84.72. 6M 2016, the VN-Index and HNX respectively increased 10.0% and 5.9%, near the peak of 638-640 set from mid 2014.
- (2) **Regarding Stocks Trend in 2016,** we have made the following comments: *"Information of first quarter earnings results and the orientation from the AGM meetings will help the market to stabilize at a low price level, while strongly differentiate in the group with positive information (relaxing room for foreigner, high earning growth plans, high dividends, and divestments)"*. Indeed, the differentiation is not strong among the stocks as we expected. From year to date, the MidCap (+19.2%) had the most impressive increase, LargeCap (+18.5%), SmallCap (+17.1%), Penny (+12.1%), Bluechips (+8%). However, we noticed a larger differentiation between the basic stocks, has performed better than the market stocks (highly speculative).

Stock Movements in 1H2016



Source: BSC Research

- (3) **The informations affect the VN-Index and the stock market in 2Q2016.** The issues that we concerned in March 2016 Report include: *"1Q2016 earnings, OPEC production is expected to freeze 17/4, the Fed's FOMC meeting and vote for Britain leave the EU - on 23/6"*. Vietnam's stock market in the second quarter was supported by a recovery of oil prices ([report updates the oil industry](#)), strong

net-buy cash flows of foreign investors ([Reporting Note 1 and 2](#)). Additionally, Circular 06 ([the report](#)) with the main points much more relaxed compared to the draft revising Circular 36, has unleashed for stock market sentiment and promised stable interest rates. Stocks of oil and gas, steel, banking, construction outperformed the market, while speculative stocks virtually unchanged. BSC is also one of the first securities companies that mentioned Brexit 23/06/2016 in the 1Q Outlook Report. Then we have 3 times constantly reassess risks in [the monthly report in May](#); the second warning before the voting event in [Brexit report 1](#) and evaluating consequences in the [Brexit report 2](#).

Influential policies and economic factors in 2016

Global and domestic economy are expected to continue changing in 2016, which affect both directly and indirectly on the stock market. Most of the policies and the information we mentioned in [Vietnam Sector Outlook 2016](#) took effect and started affecting Vietnam stock market. We update policies and highlight news affected in 1Q2016 as follows:

Positive Perspective:

- **Decree 60/2015/NĐ-CP affected:** In the second quarter, some companies' shareholders approved to increase foreign ownership percentage up to 100%. Of which, the most notable is Vinamilk (VNM), although the percentage of foreigners is depend on SCIC's investment. Some large banks such as Vietcombank (VCB), Vietinbank (CTG) propose to increase foreign room. Therefore, the Decree No. 60 is expected to deploy.
- **Raw material prices increased in 2Q2016:** most of the world's raw materials have recovered strongly in Q2. WTI oil price has risen sharply (+ 27% QTD) to \$ 50 / barrel. Precious metals like gold and silver attracted cash flow in context of risk aversion from Brexit event. Industrial metals tend to decrease in Q2 after increased strongly in Q1, like Steel (-7.21% QTD), Copper (-3.01% QTD). In contrast, agricultural commodity prices have risen in the second quarter, notably with sugar (+ 26% QTD); soybeans (+ 25% QTD). In general, raw material prices have risen sharply in the first half of Q2 and tend to decreased in late May and June like plastic, rubber. The increase in raw material prices in the second quarter had a mixed impact, reducing competitive pressures in many industries import or export of minerals such as steel, fertilizer, sugar, minerals ... and have an negatively direct impact on the sectors that use inputs such as transportation, automotive, fertilizer, thermal, gas business.

Negative factors:

- Global financial and currency markets were shocked by decision to leave EU of British on 24th June, 2016. Brexit is a rare, unexpected and big serious consequence which reverse financial system and currency circulation. The fears of investors about the negative impact of Brexit event on the worldwide economy will make the money flow from GBP and EUR to strong currencies such as USD, JPY and precious metals. In Q2, 2016, compared to VND, GBP decreased 7.8%, EUR fell 2.3% while the USD rose 0.05% and JPY up 9.1%. Brexit will continue to affect on exchange rate, commodities prices and firm performances in the next time. Under exchange rate movement, firms borrow high debt in EUR such as NT2, BCC, HT1 or debt in KRW like BTP will record gain in exchange rate. Investors can refer to BSC's market insight, including "Brexit, what will we do" and "what do we prepare for Brexit".
- Comparing to Draft amendment Circular No. 36, Circular No. 06/2016/TT-NHNN loosen, and give more 6-18 months for banks to implement new requirement. Comparing to Circular 36, Circular 06 tightened provisions on medium and long-term loans, loans for commercial real estate and securities. In the long term, the Circular No. 06 will bring a healthy banking system through regulating loans with

high potential risk, transparent NPLs and ensure liquidity for the banks. In short term, the Circular No. 06 avoid short-term shocks, open more room credit growth, especially in the real estate credit and medium- and long-term credit, and reduce interest rate increase pressure ([Refer to the Impact of Circular 06](#)).

No.	Policies and macroeconomic factors	Effective date	Influential status	Influential degree	Status till 24th June, 2016
International economy and policies					
1	FED raise interest rate, USD appreciation		Negative	Very strong	Not affected
2	Brexit – GBP depreciation		Negative	Strong	Affecting
2	ECB loose monetary policies, (EUR depreciation)		Positive	Strong	Affected
3	Abe-economics policy of Japan (JPY depreciation)		Positive	Strong	Affected
4	Negative news from Russia (RUB depreciation)		Negative	Strong	Not affected
5	Chinese economy slow down (CNY depreciation)		Negative	Very strong	Affecting
6	Low material price (low oil price)		Positive	Very strong	Affecting
7	Presidential election result from US	Q4/2016	N/A	Very strong	Not affected
Vietnam macroeconomy and policies					
1	Decree No. 99/2015/NĐ-CP (guiding Housing Law)	Dec 10 th , 2015	Positive	Very strong	Affecting
2	Circular No. 36/2014/TT-NHNN (Managing prudent ratios in operation of credit institutions and foreign bank branches)	Feb 1 st , 2015	Negative	Very strong	Affecting
3	Circular No. 06/2016/TT-NHNN	1 st , July, 2016	Negative	Strong	Affecting
4	Decree No. 60 (open room for foreign investors)	Sep 1 st 2015	Positive	Very strong	Affecting
5	Circular 200/2014/TT-BTC (Corporate accounting treatments)	Jan 1 st 2015	Positive	Average	Affected
6	Decision 211/QĐ-VSD (T2 payment for stocks)	Jan 1 st 2016	Positive	Average	Affected
7	Decree No. 108/2015/NĐ-CP (amending the Law on Special Excise Duty)	Jan 1 st 2016	Neutral	Strong	Affecting
8	Circular 155/2015/TT-BTC	Jan 1 st 2016	Positive	Average	Affecting
9	Deploying Basel II Capital Agreement	2017	Positive	Strong	Not affected
10	Corporate income tax rate reduced from 22% to 20%.	Jan 1 st , 2016	Positive	Average	Affecting
11	Increase tax rate on Nature Resources	Jan 1 st , 2016	Negative	Average	Affecting
12	Derivative Market (futures)	Quarter 3, 2016	Positive	Average	Not affected
13	Interest rate in VND increase	2016	Negative	Very strong	Affecting
14	USD appreciate to VND		Negative	Very strong	Not affected
15	Increasing public investment in infrastructure		Negative	Strong	Affecting
16	Increasing privatization of state-owned enterprises		Neutral	Average	Affecting
17	Divesting State-owned enterprises (SCIC, Ministries)		Positive	Very strong	Affecting
18	Increasing GDP, FDI, PMI, ODA, remittances, credit loans, import & export		Positive	Average	Affecting
Free Trade Agreements					
1	ACFTA – Circular No. 166/2014/TT-BTC	1/1/2015	Neutral	Strong	Affected

2	Vietnam-Korea FTA	20/12/2015	Positive	Strong	Affecting
3	Vietnam – Eurasian Economic Union FTA	2016	Positive	Average	Affecting
4	TPP (*)	2018	Positive	Strong	Not affected
5	Vietnam – EU FTA	2018	Positive	Strong	Not affected
6	RCEP ASEAN + 6	Negotiating	Positive	Strong	Not affected
7	ASEAN Economic Community (AEC)	31 st , Dec, 2015	Positive	Average	Affecting

Source: BSC Research

Influential macroeconomic factors on sectors

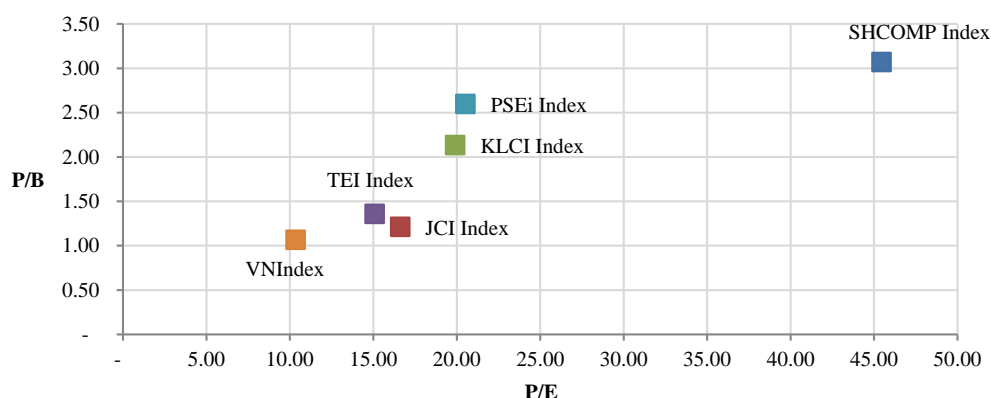
Factors	Oil recovery	FED raise interest rate	USD appreciation	Eu economy slow down / Brexit / EUR depreciation	JPY appreciation	Domestic interest rate increase	Chinese economy slow down	Presidential election result from US	TPP, ACFTA FTA VN - EU
Marine transportation	(-)		(-)			(-)	(-)	(-)	
Real estate						(-)			
Construction	(-)					(-)			
Cement	(-)			(+)					
Textile	(-)	(+)	(+)	(-)	(+)		(-)	(-)	(+)
Electricity	(-)		(-)	(+)	(-)				
Pharmaceutical			(-)						(-)
Plastic	(-)		(+)	(-)	(+)				(+)
Tires	(-)		(-)				(-)		(+)
Banking						(+)			
Steel	(-)					(-)	(-)		(-)
Aquaculture		(+)	(+)	(-)	(+)	(-)		(-)	(+)
Sugar									(-)
Oil & gas	(+)	(-)	(-)				(-)		
Fertilizer	(-)		(+)				(-)		(-)
Natural rubber	(+)						(-)		(-)
Ceramic Tiles	(-)						(-)		(+)
IT	(-)								(+)
Seaport	(-)						(-)		(+)
Automobile	(-)								(+)
Insurance									(+)
Milk	(+)								(-)

Source: BSC Research

Comparison with other regional stock markets

In the scope of Asia Emerging stock markets, Vietnam's stock market has always been valued at discount in terms of P/B and P/E. This continues in the second quarter of 2016, although the discount diverges among sectors.

PE and PB of Asia Emerging Market



Source: Bloomberg, BSC Research

Vietnam sectors, in general, are being valued at an attractive level in comparison with the median P/E of Asia Emerging countries, such as Thailand, Malaysia, Indonesia, Philippines và China. Some sectors showing large discount include: Telecommunication, Chemicals, Consumer goods... in 1H2016, some sectors had largest discount from the year beginning have increased sharply, such as Steels, Oil & Gas, and Health Care. In contrast, financial sectors, such as Bank and Insurance has followed our prediction in the year beginning and did not perform well in the first half of the year in terms of stock price.

	Vietnam	Median	Indonesia	Malaysia	Phillipines	Thailand
Telecommunication	5.9	20.4	20.14	19.95	20.59	28.92
Health care	11.4	29.9	29.54	21.01	30.32	42.32
Consumer service	9.7	24.1	24.74	23.55	15.51	26.15
Technology	8.9	18.8	19.19	18.45	28.46	12.22
Utility	9.5	17.3	10.58	16.1	18.59	24.46
Industrials	9.1	16.5	16.8	12.91	16.2	19.17
Oil & Gas	7.9	12.9	9.48	19.98	12.36	13.45
Consumer goods	10.1	16.7	18.79	16.81	16.55	15.62
Basic materials	8.2	12.9	10.56	12.37	27.43	13.44
Financials	12.3	14.4	15.61	11.45	16.28	13.1

Source: Bloomberg, BSC Research

Performance of recommended portfolio

In 1H2016, while the whole market has 360 gainers out of 693 stock, our portfolio we mentioned in our Q2 2016 sector outlook had 46 gainers out of 61 stocks. Our portfolio increases by 28.4% YTD, significantly higher than the 11.1% gain of VN Index. Among all the recommended stocks, top leaders belong to a few sectors such as Sugar (SLS, SBT), Tiles (TTC, CVT, VIT); Steel (HSG, NKG); IT (ITD); Cement (BCC); and Plastics (AAA, NTP). Some sectors performed better than our expectation such as Oil & Gas and Pharmaceutical. Besides, some stocks in our recommended portfolio declined sharply in 1H2016, including LCG (-23%); DXG (-19%). We update our recommended portfolio as followed:

Sector	Ticker	Rev 2016	PAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Price as of 31/12/2015	Price as of 24/6/2016	% +/-	Target price
Real Estate	VIC	53,000	7,472	4,000	11.9	2.03	24%	41,171	46,847	13.8%	53,000
	DXG	2,148	661	2,300	6.7	1.1	28%	18,900	14,600	-22.8%	22,800
	KDH	1,765	290	2,305	9.9	1.08	11%	21,600	22,500	4.2%	25,100
	ITC	450	20	289	31.8	0.43	1.4%	8,400	9,300	10.7%	14,500
	SJS	984	303	3,059	7.6	1.14	15%	23,500	22,900	-2.6%	27,013
Construction	CTD	16,000	877	18,743	10.7	2.31	22%	148,191	195,000	31.6%	194,000
	HBC	6,500	175	2,300	8.3	1.15	17%	15,200	20,500	34.9%	22,800
	CTI	1,405	107	2,521	11.6	1.44	13%	18,281	28,000	53.2%	31,800
Tiles	CVT	1,200	96	5,000	6.4	1.54	25%	23,000	31,000	34.8%	35,000
	VIT	870	60	3,196	8	1.46	19%	18,448	24,300	31.7%	25,642
	TTC	413	28	4,675	5.5	1.13	21%	12,446	24,000	92.8%	16,780
IT – Telecom	FPT	42,514	2,678	4,618	9.1	1.79	22%	41,116	40,900	-0.5%	51,000
	CMG	4,209	171	1,808	7.7	1	18%	14,900	13,500	-9.4%	18,900
	ITD	740	60	2,400	14.5	2.6	23%	16,789	33,800	101.3%	38,600
Seaport	GMD	3,954	583	3,910	7.1	1.04	11%	26,949	26,900	-0.2%	30,500
	PHP	2,531	741	1,385	15	1.73	12%	20,598	20,900	1.5%	22,900
	VSC	1,391	381	7,005	9.3	1.62	15%	68,824	65,000	-5.6%	86,200
	HAH	509	113	4,564	8.9	1.78	21%	42,133	40,300	-4.4%	47,419
Textile	TNG	2,427	95	3,217	5.7	0.98	18%	19,000	17,500	-7.9%	25,100
	TCM	3,392	161	3,258	8.2	1.19	15%	30,256	25,700	-15.1%	30,000
	VGG	7,166	366	8,711	7.8	1.99	27%	53,600	64,700	20.7%	80,300
	EVE	1,000	133	4,851	11.8	1.53	13%	25,880	57,000	120.2%	N/A
Power	NT2	5,902	1,204	4,016	8.1	1.57	17%	24,557	34,800	41.7%	36,400
	PPC	7,271	532	1,669	9	0.79	14%	15,892	14,400	-9.4%	15,700
	SJD	348	163	3,289	8.2	1.12	21%	25,900	26,900	3.9%	30,900
	CHP	527	208	1,581	12.9	1.31	20%	19,052	20,300	6.6%	23,200
Milk	VNM	45,016	8,823	7,353	19	7.54	41%	126,184	137,000	8.6%	148,000
	HNM	360	3.4	170	47.1	0.74	2%	8,900	7,800	-12.4%	N/A
	VLC	550	51	N/A	N/A	N/A	N/A	15,000	18,000	20.0%	N/A
Electric Cable	CAV	6,000	216	7,500	12.2	4.6	38%	48,558	91,000	87.4%	97,500
	VKC	1,210	44	1,995	9.2	1.23	13%	10,700	17,000	58.9%	22,000
Fertilizer	DPM	9,420	1,506	3,310	8.5	1.34	19%	27,669	27,700	0.1%	30,100
	LAS	4,189	255	3,536	7.8	1.58	28%	29,363	27,000	-8.0%	26,600
	BFC	7,537	258	5,155	6.5	1.69	24%	24,793	32,700	31.9%	38,600

Cement	HT1	8,229	785	1,975	14.5	1.78	15%	26,800	30,700	14.6%	33,000
	BCC	4,147	244	2,038	6.9	0.78	13%	13,400	15,500	15.7%	17,300
	BTS	3,038	120	1,100	7.6	0.72	9%	9,000	8,800	-2.2%	10,500
Automobile	SVC	11,000	160	3,778	12.1	1.2	10%	39,834	45,700	14.7%	52,000
	TMT	5,803	256	7,795	5.5	2.2	39%	48,571	40,000	-17.6%	52,500
	HTL	1,481	66	5,500	17.3	3.8	22%	100,000	92,000	-8.0%	N/A
Insurance	PTI	2,913	142	1,762	15.6	1.05	7%	22,647	27,000	19.2%	N/A
	PGI	2,376	103	1,474	11.1	1.37	12%	16,700	16,400	-1.8%	18,600
	VNR	1,730	261	1,576	11.9	0.8	7%	19,915	18,300	-8.1%	21,800
Plastic	BMP	3,525	689	15,141	9.6	3.25	31%	126,934	144,000	13.4%	159,700
	NTP	4,063	418	6,368	10.4	2.24	23%	48,199	66,300	37.6%	62,200
	AAA	2,100	118	1,454*	18.50	1.58	12%	11,802	26,900	127.9%	N/A
Steel	HPG	29,166	4,240	5,727	7.0	1.69	25%	29,200	38,800	32.9%	42,500
	HSG	17,098	1,272	6,472	6.3	2.11	33%	19,688	38,800	97.1%	48,500
	NKG	7,194	320	6,396	3.4	1.3	33%	11,053	22,000	99.0%	22,000
Sugar	BHS	4,858	217	1,742	11.3	1.11	11%	19,500	18,900	-3.1%	N/A
	SBT	3,090	255	1,330	23.7	2.32	10%	24,100	31,200	29.5%	N/A
	LSS	1,697	75	1,066	17.2	0.73	5%	9,000	17,100	90.0%	N/A
	SLS	741	118	17,410	7.3	2.86	41%	49,534	118,600	139.4%	N/A
Tire	DRC	3,774	455	3,551	11.3	2.02	26%	31,604	38,900	23.1%	N/A
	CSM	3,235	277	2,445	10.4	1.83	23%	16,673	24,909	49.4%	N/A
Bank	VCB		6,682	2,102	22.8	2.42	14%	43,900	46,800	6.6%	45,500
	ACB		1,208	1,337	14.4	1.31	8%	19,800	19,200	-3.0%	N/A
	MBB		3,093	1,855	8.1	0.14	13%	14,600	14,900	2.1%	16,600
Pharmaceutical	DHG	3,530	658	6,812	13.8	2.92	22%	63,762	92,000	44.3%	N/A
	IMP	999	104	3,103	14.6	1.51	12%	35,873	44,200	23.2%	N/A
	TRA	2,100	210	7,829	14.8	3.05	22%	61,306	113,000	84.3%	N/A
	DMC	1,415	155	5,802	12.3	2.39	20%	30,970	67,000	116.3%	N/A
Rubber	TRC	340	71	1,941	11.5	0.4	4%	19,701	21,500	9.1%	25,100
Oil & Gas	PVS	21,060	1,108	2,177	8.6	0.69	9%	16,700	18,000	7.8%	22,700
	PGS	4,052	97	1,442	12.3	0.63	15%	15,663	16,800	7.3%	20,100
	PVG	2,766	28	836	9.6	0.51	7%	7,500	7,700	2.7%	9,100
	PXS	1,900	116	1,837	7.2	0.95	15%	11,344	12,700	12.0%	14,700
	PGC	2,511	111	1,600	6.6	0.96	17%	11,100	10,300	-7.2%	12,000
Aquaculture	HVG	23,994	162	870	11.7	1.1	7%	11,000	9,800	-10.9%	N/A
	VHC	6,746	382	4,131	10.1	1.51	17%	28,074	41,900	49.2%	35,000
	FMC	3,176	105	3,500	7.3	1.6	23%	20,844	24,100	15.6%	24,000
Marine transport	PVT	6,358	507	1,742	7.5	0.97	13%	10,200	12,900	26.5%	16,190
	GSP	1,132	71	1,922	7.2	1.03	20%	13,976	13,700	-2.0%	15,200
	SKG	382	218	8,921	10.7	4.88	37%	62,374	95,500	53.1%	N/A
	VIP	625	106	1,561	5.8	0.55	10%	8,879	8,900	0.2%	N/A

Source: BSC Research, *: diluted EPS

3. Top Stocks in 1H2016

TOP 5 UP TREND MOVERS ON VN - INDEX

Ticker	Price 24/06/2016	YTD(%)	Index pt
GAS	60	65.8	22.8
VIC	52	13.9	6.1
VNM	137	7.03	5.4
VCB	46.8	6.6	3.9
HPG	38.8	32.90%	3.9

Source: BSC Research

TOP 5 DOWN TREND MOVERS ON VN - INDEX

Ticker	Price 24/06/2016	YTD(%)	Index pt
HNG	8.2	-71.5	-7.4
BID	17.7	-14.1	-5
MSN	67.5	-12.9	-3.8
CTG	16.7	-10.2	-3.6
STB	11.3	-13.7	-1.4

Source: BSC Research

TOP 5 CP LEADERS ON VN-INDEX (Price > VND 10,000, Average volume >70,000)

Ticker	Price 04/01/2016	24/06/2016	%Chg
DRH	21,000	60,500	188
EVE	26,900	57,000	112
DMC	31,600	67,000	111
HAX	18,000	36,000	100
NKG	11,200	22,000	96

Source: BSC Research

TOP 5 CP LAGGERS ON VN-INDEX (Price > VND 10,000, Average volume >70,000)

Ticker	Price 04/01/2016	24/06/2016	%Chg
HNG	29,000	8,200	-72
BCG	17,800	5,600	-69
TSC	13,700	6,200	-55
HAG	10,100	7,400	-27
DXG	18,800	14,600	-22

Source: BSC Research

TOP 5 VOLUME LEADERS ON VN-INDEX

Ticker	Average volume
FLC	5,549,103
HHS	3,913,316
HPG	3,361,044
HQC	3,230,514
HAG	3,122,050

Source: BSC Research

TOP 5 UP TREND MOVERS ON HNX - INDEX

Ticker	Price 24/06/2016	YTD(%)	Index pt
NTP	66.3	32.2	1.1
VCS	96.6	63.1	0.5
TAG	75	205.6	0.4
VC6	10.8	28.5	0.4
AAA	26.9	18.7	0.4

Source: BSC Research

TOP 5 DOWN TREND MOVERS ON HNX - INDEX

Ticker	Price 24/06/2016	YTD(%)	Index pt
OCH	6.7	-46.4	-0.7
MBH	6.1	-62.1	-0.6
PLC	29.5	-18.3	-0.3
ACB	19.2	-3	-0.3
TH1	12.3	-35.6	-0.2

Source: BSC Research

TOP 5 LEADERS ON HNX (Price > VND 10,000, Average volume >20,000)

Ticker	Price 04/01/2016	24/06/2016	%Chg
DNP	12,243	28,500	133
AAA	12,600	26,900	113
DP3	17,000	36,000	98
FID	10,366	20,500	95
CAP	39,500	77,000	86

Source: BSC Research

TOP 5 CP LAGGEERS ON HNX (Price > VND 10,000)

Ticker	Price 04/01/2016	24/06/2016	%Chg
SGO	10300	3700	-64
MBG	15400	6100	-60
API	11,200	6,900	-45
TIG	11200	6900	-38
DPS	11200	7100	-37

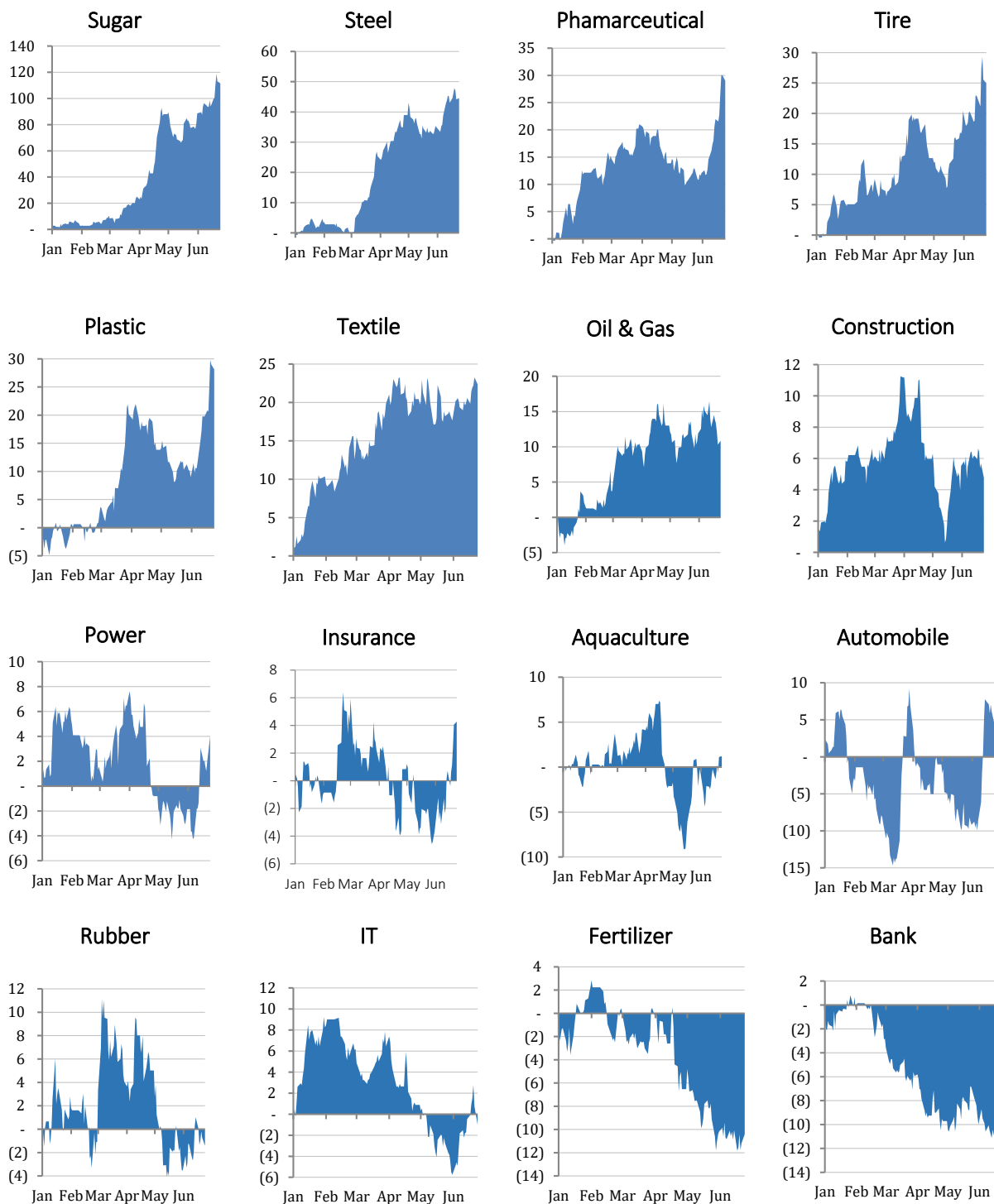
Source: BSC Research

TOP 5 VOLUME LEADERS ON HNX

Ticker	Average volume
SCR	4,604,177
SHB	3,774,403
DCS	2,826,523
PVS	2,450,717
VCG	2,189,615

Source: BSC Research

Comparison of sector and VN-Index 1H2016



Sectors having good stock price growth in 2Q2016 are: Sugar, Steel, Tire, Textiles, Pharmaceutical, Oil and Gas. After a long period of decreasing, many stocks in those sectors entered attractive prices (pharmaceuticals, tires, steel). The remaining sectors start having positive changes such as Sugar due to fluctuations in the weather.

Growth sectors include Automobile, IT and Seaport; the majority of leading stocks have surged from the end of 2015 to early 2016, so the adjustments in the end of quarter are reasonable. For those sectors, investors will expect better growth from Q3 to the end of the year due to the recovery of domestic demand.

Rubber, electricity, Seaport, real estate and insurance sectors had growth closed to the index. Shares in those sectors continued to be differentiated as expected. In particular, the strong firms with good financial health and favorable business conditions are still growth, while weaker stocks continued to decline, such as the hydro versus thermal power, large vs. limited land fund companies. Those make the stock selections need to be more in detail.

Declining sectors in 2Q2016: Bank, fertilizer and cement. Banks, after strong growth in 2015, had less attractive valuations compared to the region. Fertilizers were still under pressure from oversupply and weak demand due to the impact of the El Nino phenomenon. Conversely, Cement had a good volume growth in the first 2 quarters of 2016, which could be a springboard for stock price in the remaining quarters.

Sectors that are at the bottom of difficulty such as Marine Transportation, rubber, Aquaculture continues to struggle in the second quarter of 2016. Despite the small recovery during the year, the signs of the bottom in the business cycle is yet to come.

3Q2016 Outlook

Real Estate [OUTPERFORM]

- Profit growth of real estate firm (+4% yoy) was not accompanied with revenue growth (+90% yoy).
- Mixed business results among listed companies as only 24 out of 48 firms make profits from core business.
- Market supply will probably grow as firms start large projects.
- Circular 06 takes effect since 2017, tightening capital flows into real estate.

Review 2016Q2

Profit growth was not accompanied with revenue growth: In 2016Q1, about 70 real estate firms generated USD 1 billion of revenue, growing by 90% yoy, however, after-tax profit were only 1,845 tỷ đồng, 4% yoy. This was already anticipated in our [Q1 Sector Outlook Report](#). 10 out of 62 firms are losing money, two more than those in the same period last year. Total net loss in 2016Q1 was VND 24.3 billion

Mixed business results among listed firms: As we have been concerned, not many firms were able to exploit market prospects because according to Circular 200, firms can only recognize revenue and profit after full completion and handover of houses to buyers instead of recognizing revenue and profit on collecting schedule ([link Circular 200](#)). Statistics show that 48/64 firms earned profit in 2016Q1, however only 50% of them improved the core business, while others mainly recognized profit from transferring projects or contributed capital. Therefore, only a few real estate companies show good results in Q1 and probably 2016. Q1 results of the most notable firms are shown in the following table:

Ticker	Rev 2015Q1	EAT 2015Q1	Rev 2016Q1	EAT 2016Q1	% Changes in Rev	% Changes in EAT	Gross margin	Customer in advance	Inventory	Customer in advance / Inventory
VIC	6.394	428	15.159	610	137%	43%	28%	20.483	24.645	83%
DXG	171.6	36.6	315	29.4	84%	-20%	32%	815	1.108	74%
KDH	179.4	52.3	569	93.6	217%	79%	39%	342	5.729	6%
CEO	174	37.1	247	21.7	42%	-41%	36%	175	605	29%

Source: Financial statements, BSC Research

Market supply will probably grow as firms start large projects: For instance, VIC will launch many large projects such as Vinhomes Gardenia, Vinhomes Times City – Park Hill PREMIUM, Landmark Plus Tower and Park Paroma at Vinhomes Central Park, Vinhomes Golden River, etc. Besides, some investors from other sectors will also enter this market: Hoa Sen Group is investing in resort projects in Binh Dinh and Yen Bai

such as Van Hoi ecological site (Yen Bai) and Hoi Van resort (Binh Dinh). CII is preparing to establish CII Land with invested capital of VND 1000 billion to enter housing segment in HCMC. Increasing supply will help customers to purchase house at more reasonable price, and this will continue to create discrepancy among business results of real estate firms.

Circular 06 will strongly affect real estate market: Circular 06 was amended with an important point: raising risk index of receivable lending for real estate from 150% to only 200% instead of 250%, taking effect since 1/1/2017 ([link Circular 06](#)). Although real estate reacted positively in the short run, in the long run Circular 06 will tighten capital flows into real estate as banks might have to reduce loans for real estate and select projects more cautiously. Also, Circular 06 maintains the maximum ratio of short-term funds used for medium and long-term loans at 60% in 2016, before reducing to 50% since 1/1/2017 and 40% since 1/1/2018. This will enlarge the discrepancy among real estate firms: (1) firms should revise their portfolio and consider transferring projects if their financial capability are insufficient, (2) firms with high leverage, small land bank and low credibility will be less accessible to sources of funds.

Recommendation - Outperform

We remain **OUTPERFORM** but only to several companies, as we believe impact of Circular 36 amendment will slow down market growth due to tightened capital flows and higher interest rate. Discrepancy among firms will be larger because (1) firms start to increase market supply, and (2) firms with large land bank and sound financial position are more capable of accessing sources of funds other than bank loans.

We notice several real estate firms with the following features:

- *Firms with high sales and profits:* KDH, DIG, VIC, NLG. Debt ratio of these firms is only around 30%, relatively safe. Also these firms own large land bank and many projects in progress.
- *Firms with high discount on book value:* ITA, ITC. These firms have high inventory and plan to raise capital for operating, site clearance, etc. Hence, these firms usually have attractive valuation on book value.

VIC – Tracking

VIC is the biggest among listed companies in real estate, owns about 7.500 ha of land and many projects. Revenue mainly comes from real estate transferring, real estate leasing, and tourism-resort. 2016 expected revenue is VND 27,000 billion, recognized mainly from Central Park and Vinpearl villas. We note that 2016 results will be affected by expected loss of 2300 billion from retail due to opening new shops. Currently, VIC aims to become the leader of retail market, with the plan to open 60 Vinmart supermarkets and 2.000-3.000 mini Vinmart+ supermarkets in the remaining of 2016

ITC – Buy – target price VND 15,443 per share – Upside 66%

ITC used to own large land bank with ideal place in HCMC, but eventually fell short of cash flows due to stagnant projects and provisions for some projects such as Intresco Tower. Currently, ITC revenue for 2016 - 2018 is expected to improve with two projects: Long Thoi and Intresco Plaza; however, ITC needs about

VND 1000 billion to for land compensation. The company expects to fund these cash needs by bank loan and cash collection from Long Thoi-Nhon Duc project (revenue of VND 216 billion, recognized in 2016). ITC is traded at P/B of 0.36, significantly lower than industry average of 1.06.

VCG – Tracking

VCG's target profit for 2016 is VND 344 billion, +13% yoy. In 2016 VCG's objectives is to restructure the investment property portfolio, restructure invested capital, and focus on projects with good potential (such as 93 Lang Hả). We note that SCIC is holding 57.8% at VCG, SCIC's divestment always affect share price in the short run.

SJS – Buy – target price VND 27,013 per share – Upside 17.9%

SJS's target for 2016 is VND 984 billion of consolidated revenue (+14 yoy) and after-tax profit of VND 303 billion (+4.5% yoy). SJS's main objective in 2016 is to invest in projects with total value of VND 500 billion, nearly twice of 2015's, namely Nam An Khanh and Van La Van Khe. Nam An Khanh project contributes most of SJS results in 2016, while projects of Van La Van Khe and Hoa Hai – Da Nang are still in planning stage. For Nam An Khanh project, revenue in 2016H1 came mainly from wholesale; retail activity is expected to continue in Q3, when selling price is expected to be better due to additional infrastructure.

Ticker	Rev 2016E	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 24 th June, 2016	Target price	Report
VIC	53,000	4,100	2,110	26.00	2.03	23.50%	N/A	45,700	53,000	Link
DXG	2,148	661	2,300	8.22	1.10	28.20%	N/A	18,900	22,800	Link
KDH	1,765	290	2,305	9.37	1.08	11.30%	N/A	21,600	25,100	Link
ITC (*)	450	20	289	31.8	0.43			9,300	14,443	Link
VCG (*)	3022	344	779	16.8	0.98			N/A		
SJS	984	303	3,059	7.5	1.14			22,900		Link

(*) Company's plan

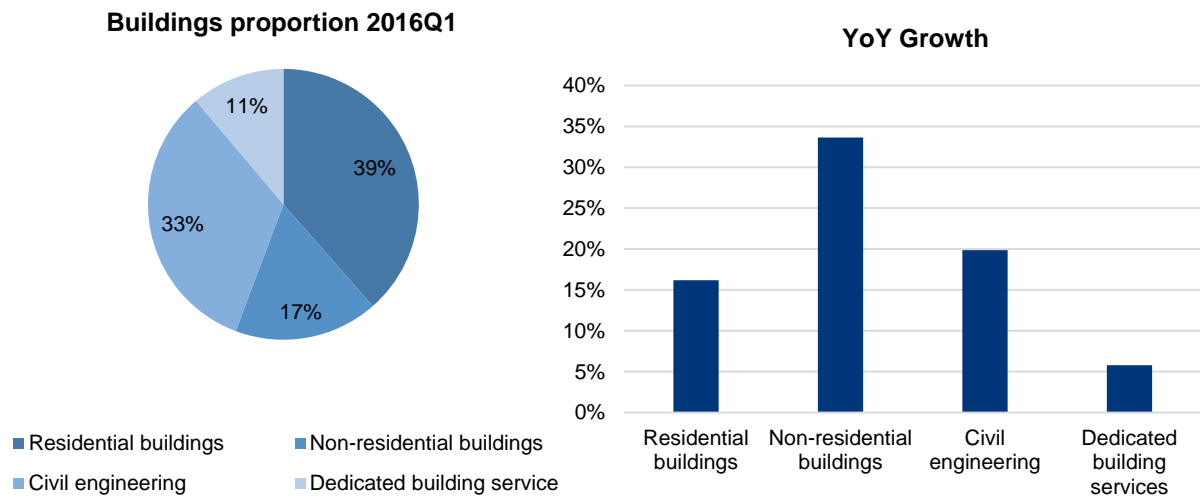
Source: BSC Research

Construction [OUTPERFORM]

- Construction production value grew and reached 215 trillion dong, up slightly 18.8% YoY.
- Businesses result of construction enterprises remained positive in the first quarter, with 85 of 102 companies gained profits.
- The development of transport infrastructure is being strengthened.

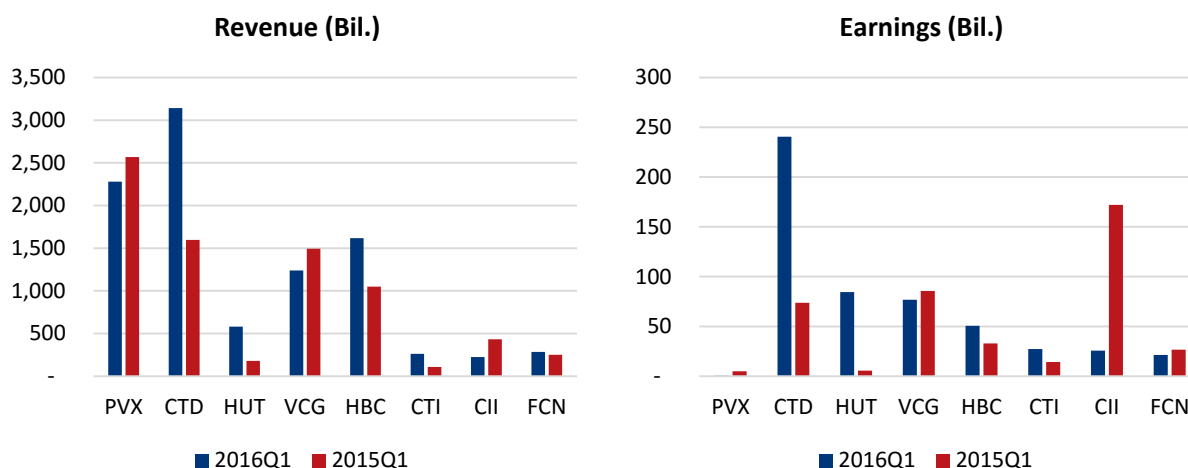
Review 2Q2016

Construction production value increased slightly: Construction production value of the first quarter is estimated at 215 trillion dong (at current prices) and reached 164 trillion (in constant prices of 2010), an increase of 18.8 % compared to the same period of 2015. The main contribution to the growth in the first quarter of 2016 came from non-residential buildings (+ 34% YoY) and civil engineering works (+ 20% YoY).



Source: GSO

Businesses result of listed companies is optimistic: In the first quarter of 2016, total revenue of construction enterprises reached 18.7 trillion (+ 7% YoY), net income reached 816 billion (+ 19% YoY). The growth continues on a large scale when there were 85 of 102 enterprises gained profit in this quarter. We also noted that interest rates are still at low level, and in case of the slowdown of real estate market (due to the Circular No.06 as mentioned above), it will have a certain latency (lasting at least 3-6 months) to reflect on the earnings of the construction businesses. The growth rate will be decreased in the businesses which have a large dependence of revenue on the construction of tall buildings, commercial centers, offices.



Source: Companies' financial statements, BSC Research

Transportation infrastructure development is being strengthened: In the near future, the Ministry of Transport plans to accelerate the mobilization of all resources for transportation infrastructure investment, overcoming the irrational in transportation structure; establish a harmonious connection between provinces, regional and international levels. Some construction enterprises in transportation infrastructure industry with its BOT projects will benefit from this policy of the Government as CTI, CII and HTI.

Recommendation - Outperform

We maintain a **OUTPERFORM** assessment for the construction sector, especially the transportation infrastructure construction enterprises, which benefit from the necessary to develop the infrastructure of the country. The enterprises which its revenue depends heavily on the construction of skyscrapers, commercial centers, offices should be tracked in case of the slowdown of real estate market.

CTD: Tracking Recommendation

CTD signed some big contracts in the second quarter of 2016 as the construction of 81-story Landmark Tower (worth 6000 billion dong), construction of two towers in Vinhomes Gardenia project (worth 913 billion dong) ... Vingroup is still a familiar partner of CTD, which gives the company a competitive advantage in the context that Vingroup has launched several large-scale projects before The Circular No.06 takes effect early next year. The segment of civil construction accounts for over 70% of annual revenue, and the tightening of cash flow to real estate market may reduce revenues from this segment. However, CTD can avoid interest rate risk when the company does not use debt capital.

HBC: Tracking Recommendation

In the second quarter of 2016, HBC signed many contracts with large value such as D&B construction of Danang Cocobay Project which worth 11.000 billion, the general construction of Sky Garden Imperia worth 2500 billion, construction of Landmark Vinhomes worth nearly 1000 billion, May Song Ngoc worth 1000

billion... Most of these projects are still in the construction projects of housing, office, commercial and signed with big investors like Vingroup, Novaland, SunGroup... The interest rates still remain at low level will help enterprises which have high leverage ratio like HBC (debt to equity ~ 2.36x) reduce the interest burden.

CTI: Buy Recommendation, target price of VND31,800 - 11.2% Upside

CTI invests and exploits some BOT projects in Dongnai province and other provinces and cities in the Southeast region. The investment plan of CTI in 2016 includes the 319 intersections and highway HCMC – Long Thanh Project (700 billion), the project of social housing in Tam Hoa (325 billion) and some other projects. For 2016, we believe that earnings will be driven by (1) the rise of tolls at 1A Route by an average of 50%, and (2) the begin of charging on Highway 91 - Phase A, from April 2016.

Ticker	Rev 2016E	Profit 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 24 th June, 2016	Target price	Report
CTD	16,000	877	18,743	10.4	2.31	22.19%	55% cash div	195,000	196,000	Link
HBC	6,500	175	2,300	8.91	1.15	16.70%	25% stock	20,500	22,800	Link
CTI	1405	107	2,521	11.11	1.44		15% cash	28,000	31,800	Link

Source: BSC Research

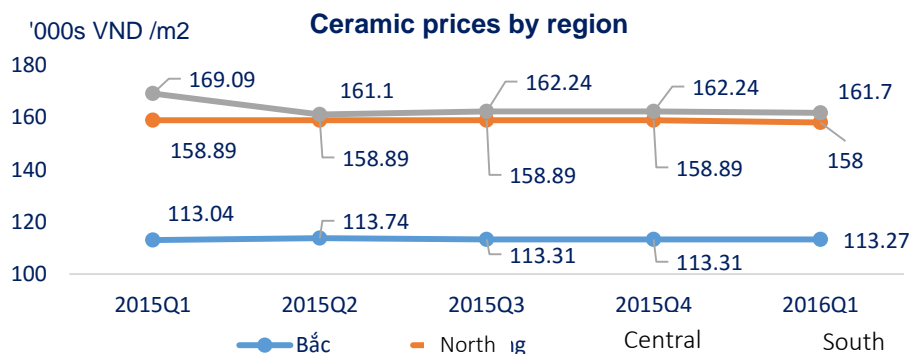
Ceremic [OUTPERFORM]

- Increasing competition makes enterprises to keep the selling prices stable or down slightly 2-5%, and the price is expected to remain stable in the 3Q2016
- In 1Q2016, the overall ceramic tiles enterprises had good business results
- The ceramic firms are forecasted to keep good earnings growth in Q2 and Q3 as demand for the projects will increase from now to the end of the year

2Q2016 Review

Increased competition forces businesses keep price stable or down slightly 2-5% and expected to remain stable in the quarter 3/2016. In 2015 and early 2016, many businesses took advantages of the recovery in real estate and construction to increase capacity and expand production, making ceramic supply to rise rapidly. Competition among enterprises, therefore, became more acute, causing prices basically stable, and some businesses have adjusted down slightly from 2-5% to increase competitiveness.

In Q3, the consumption of tiles is expected to be at a good level during the peak period of construction season and selling prices are forecasted to keep at a stable level.



Source: 1Q2016 Building Material Market Report – Ministry of Construction

In 1Q2016, the enterprises generally had good business results: Except CYC and TCR, the other companies had revenue growth in Q1, notably that VIT (due to the operation of new plant), VHL and VTA had increases of 54.1%, 14.0% and 26.9% respectively. Except for VIT (due to high depreciation from the new plant and the unstable production), the other companies had significant improvement in gross margin compared to the same period. The net profit of entire enterprises, therefore, had fairly good growths.

In 3Q 2016, ceramic firms is expected to keep good earnings growth when the tiles need for projects begin to rise from now until the end of the year.

Ticker	Rev 2016Q1	% qoq	Gross Margin 2016Q1	Gross margin 2015Q1	EAT 2016Q1	%qoq	EPS Trailing 12M	P/E	P/B	Div 2015	Rev 2016	EBT 2016
TTC	90.4	7.90%	16.90%	12.10%	6.1	64.40%	4,100	5.85	1.45	10% cash	n/a	15
TCR	371.2	-7.90%	22.70%	13.30%	10.7	-	1,670	6.05	0.71	n/a	1490.1	60.1
VIT	195.8	54.10%	9.50%	18.30%	3.7	17.10%	2,520	9.84	2.16	15% cash	1020	70.5
CVT	163.1	6.80%	26.30%	17.50%	25.1	5.20%	3,900	7.95	1.89	25% cash	1000	90
CYC	39.4	-37.7%	17.20%	5.20%	0.73	-	81	44.4	0.49	n/a	n/a	n/a
VGC	1,923	6.70%	22.60%	20.40%	85.1	22.30%	1,300	10.5	1.17	7% cash	8800	424*
VHL	410.8	14.00%	20.60%	17.40%	24.7	20.50%	6,550	6.7	1.51	20% cash	1682.6	138.2
VTA	78.8	26.90%	11.90%	11.5	2.97	168%	1,680	4.6	1.77			

Source: Financial Statement, BSC Research

Investment Recommendation - Outperform

With an **Outperform** outlook from the real estate and construction markets, as well as ceramic tiles needs will increase in 2 remaining quarters, we continue to maintain our POSITIVE view for the Ceramic sector as stated in Ceramic Sector Update in early 2016.

Recently, shares of ceramic firms were one of the share groups rising pretty well, and the stocks we recommend including CVT, VIT, TTC were hit or exceed the target price. Under the recent review, we recommend to BUY with shares of CVT, TTC and TRACKING with VIT, TCR, VGC.

CVT – BUY – 35,030 VND per share

From 1Q2016, CVT put into operation the CMC 2-2 plant, increasing 50% of design capacity to 15 million m² per year. In the second quarter, the consumption speed was double over the 1Q2016. In the first half of the year, EBT is estimated to be VND 61 billion, ~ 50% of target EBT. We expect that in the remaining quarters, CVT can complete the EBT target of VND 120 billion, equivalent to EPS F 2016 of 5,000 VND per share, when this is the main consuming season of ceramic tiles. On 24 June, CVT closed at a price of VND 31,000 per share, equivalent to a P/E trailing of 7.95x and P/E F of 6.2x, which is relatively attractive.

In Q3, CVT plans to issue 959,988 shares for ESOP (~5% of shares outstanding) at the price of VND 15,000 per share, and 9.6 million shares to existing shareholders at a ratio of 2: 1 at the price of VND 15,000 per share, in order to upgrade technology for microcrystalline tiles production, with annually production of 1-2 million m². Selling prices of these tiles in the market are at VND 1-1.5 million per m². However, according to our assessment, the project, if it is implemented, could not bring revenue in 2016 for CVT.

TTC – BUY – 32,754 VND per share

In Q1, the good consumptions helped TTC increase its revenues slightly by 7.9% to VND 90.4 billion. PAT increased sharply by 64.4% to VND 6.1 billion, gross margin improved thanks to lower depreciation costs as most machinery and equipment were fully depreciated, along with slightly decrease in fuel costs and interest expenses. In Q2, sales activities continued to record positive signals and expected to keep the momentum in the second half of 2016.

In 2016, TTC plans a modest targets with revenues of VND 337.24 billion (~ 86.5% of 2015 Revenue) and EBT of VND 15 billion (~ 58.4% of 2015 EBT). However, from positive earnings in Q1 and stable situation of the real estate and construction market, we expect that the TTC can reach Revenues of VND 413.3 billion (+ 6.01% yoy), EAT of VND 27.8 billion (+ 27.9%), equivalent to EPS F 2016 of 4.675 VND per share. On 24 June, TTC closed at a price of 24,000 VND per share, equivalent to PE trailing of 5.9x and P/E F of 5.5x, which is relatively attractive.

VIT – TRACKING

In Q1, VIT's revenue grew sharply by 54.1% qoq due to putting new plants in Thaibinh into operation, increasing capacity by 44.4%. However, due to unstable operation and high depreciation, labor and borrowing costs, profit after tax in Q1 only reached VND 3.7 billion (+ 17.1% qoq).

Earlier, in VIT company report, we forecast that in 2016, VIT's revenue will reach VND 961 billion (+ 41% yoy), Net income will be VND 69.5 billion (+ 86.3%). However, in 2Q2016, though the pace of sales has improved by 20% compared to the first quarter, EBT in the first half of 2016 is estimated to be VND 20.5 billion, ~ 30% of the plan. In the last 2 quarters, when demand for housing improvement and construction increases, VIT's earnings could be better. However, according to our assessment, VIT will only complete 85% of EBT target, equivalent to VND 59.9 billion, EPS F 2016 ~ 3,196 VND per share. On 24 June, VIT closed at a price of 24,800 VND per share, equivalent to P/E trailing of 9.84x and P/E forward of 7.76x, quite fairly. Therefore we recommend TRACKING with the share VIT.

Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Div 2015	Closed price on 24 June 2016	Target	Link
CVT	1200	96	5,000	6.2	1.5	24.90%	Cash Div 5%; Share Div 10 : 2	31,000	35,030	Link
VIT	870.4	59.9	3,196	7.76	1.5	18.90%	Cash Div 12%; Share Div 100 : 15	24,800	25,642	Link
TTC	413.3	27.8	4,675	5.5	1.1	20.60%	Cash Div 8%	24,000	32,754	Link

Source: BSC Research

Technology – Telecommunications [OUTPERFORM]

2Q2016 Review

- Outsourcing is the foundation for developing Vietnam's IT sector
- Issue Resolution 41/NQ-CP on tax incentives for the IT sector, attracting investment
- Positive earning results

Outsourcing is the fundamental development of the IT sector in Vietnam. In Feb 2016, Vietnam is ranked by Gartner as in top 6 countries in Asia - Pacific on software outsourcing exports. Besides, Hanoi is also increased by 1 level (to rank 19) in the ranking of 100 most attractive destinations of Outsourcing 2016. However, human resources remains a major limitation, Vietnam needs 400,000 software engineers from 2016 to 2020 while total supply is now only about 250,000.

Issued Resolution No.41/NQ-CP on tax incentives for the IT sector. In order to improve competitiveness, attract investment and development, on 26/05/2016 the Government issued Resolution No.41 on easing of personal income tax and corporate income for the IT sector. The deployment between the relevant ministries will be completed in 2016. In our opinion, although it take time to implement in reality but this deployment is considered to be a positive signal in attracting investment for the IT sector.

Evaluate earning results. In the this sector, FPT, HIG and ELC have the same fiscal year (FY ending 31/12), in particular, FPT 1Q2016 earning result decreased due to the domestic IT market decline, in addition new sales policies of Apple and the cost of fiber optic swap project also have large impact on the overall result. With the ELC, profit fell relatively strong but it is expected to improve further in the next second quarters thanks to the project with Mobifone recognized. For CMG and ITD (FY ending 31/03), the 2015 earnings were improved thanks to Telecommunications sector has been strengthened (CMG) and recognizing ITS project Ha Noi - Hai Phong (with ITD).

Ticker	Rev Q1 2016	Rev Q1 2015	%yoy	EAT Q1 2016	EAT Q1 2015	%yoy
FPT	8,466,518,261,019	8,641,481,450,290	-2.02%	446,508,621,590	547,348,778,552	-18.42%
HIG	62,742,323,232	56,553,835,002	10.94%	(476,660,349)	(2,457,388,237)	N/A
ELC	78,174,339,804	105,681,253,976	-26.0%	4,229,775,980	8,548,932,687	-50.52%
Ticker	Rev 2015/2016	Rev 2014/2015	%yoy	EAT 2015/2016	EAT 2014/2015	%yoy
CMG	3,693,088,912,762	3,264,707,103,021	13.12%	139,422,368,685	117,825,863,431	18.33%
ITD	627,772,642,016	448,020,223,130	40.12%	64,272,580,017	19,797,706,867	224.65%

Source: Financial Statement Reports

Investment Recommendation - Outperform

We still maintain the **Outperform** assessment with IT – Telecommunications sector. The Technology – Telecom sector is defensive in terms of market volatility. Besides FPT, CMG and ITD; HIG and ELC also have benefit from the overall growth trend of the sector.

FPT – Buy – Target price VND51,000 /share

EAT 2016 is estimated to reach VND2,678 billion (+9.85%yoy), PAT attributable to shareholders of parent company will be VND2,121 billion, EPS 2016 = VND4,618 (excluding the additional profit from the sale of the Distribution and Retail Sector).

5M2016 business results was not good, the total Revenue reached VND14,633 billion (-8.3% yoy), profit after tax attributable to shareholders of parent company was 722 billion (-1.5% yoy), EPS 5M2016 = VND1,814 (-2% yoy); but higher than the planned earning results. The reasons which affect earnings in the period are **(1)** Weak domestic IT market, less projects were completed than the same period in 2015, **(2)** Expenses of telecommunications segment increased by the fiber optic swap project in the provinces implementing; however the expected cost will decrease from July 2016 thanks to the allocation of replacement cost in Hanoi and HCMC will be completed in June 2016; **(3)** New policy of Apple negatively affects the Distribution segment.

CMG – Buy – Target price VND18,900 /share

We estimated CMG's revenue 2016 will reach VND4,200 billion, consolidated PAT in 2016 reached VND171 billion, EPS 2016 = VND1,808. We maintain Buy recommendation in medium and long-term with CMG, target price VND18,900. On 29/06/2016, CMG shares are traded at VND14,400, PE FW = 7,96x.

CMG estimates consolidated PBT Q12016 to reach VND38 billion (Q1 2015 consolidated profit before tax was VND20.24 billion)

The 2016/2017 Plan – promoting 3 core business segments (IS, Software, Telecommunications), continuing to narrow the risks (Distribution). Fiscal year 2016/2017, CMG aims to achieve Rev of VND3,801 billion (+3%yoy), consolidated EBT achieve VND179.77 billion (+12%yoy), profit after tax attributable to ordinary shareholders will be VND115.25 billion (+ 7% yoy), EPS 2016 = VND1,729. In particular:

IS Segment (Rev 2016 is estimated at VND1,882 billion, + 24% yoy and EBT of VND57 billion, + 22% yoy). CMG will continue to maintain and expand its client group of banking, corporates, and state agencies. Additionally, CMG will proceed to penetrate new markets that is telecommunications integration.

Software Segment (Rev 2016 is estimated at VND230 billion, +18% yoy and EBT of VND15 billion, + 271%yoy). Due to difficulties in 2015 (HR fluctuations, revenue software services declined), EBT reached only VND4 billion (-75% yoy), therefore, in 2016, CMG will continue to reorganize the structure of Software

segment. Japan and Korea will be the two main markets. Currently the total number of employees are about 300 people, CMG will add about 100 people in 2016.

Telecommunications Segment (Rev 2016 is estimated at VND1,202 billion, +21% yoy and EBT of VND122 billion, +17%yoy). In Jul 2016, APG undersea cable will come ashore at Da Nang (the total investment of about USD 500 million, the group 3 Vietnam enterprises contributed USD 40 million respectively VND840.44 billion), expected operating in Sep 2016. In the first phase of operation, CMG expect to use only about 50% of APG transmission capacity (prorated according to capital contribution – CMG contributes 12.5%, about VND 96 billion), the remaining 50% will be leased to others.

After APG goes into operation, CMG will have a total of 4 international connections, the 3 remaining lines are going to Hong Kong, Cambodia and a point of connection to the line of Time dot Com in Vung Tau.

About target customers, CMG will focus on enterprises, especially foreign groups (Honda, Samsung ...), the group of small and medium enterprises, individual markets (the building) and currently maintain cooperation with VTVcap in Hanoi.

About investment, the north-south backbone investment value of about USD 9 million. The project will be implemented in this year.

Production and Distribution Segment (Rev 2016 is estimated at VND583 billion, +49% yoy and EBT of VND3 billion, +70%yoy). **Other Segment** (Rev 2016 is estimated at VND270 billion, -71% yoy and EBT of VND6.86 billion, -72% yoy). In the Production and distribution segment, CMG will continue to maintain production and assembling computers in domestic market; narrow international trading business due to instability.

ITD –Buy – Target price VND38,600 /share

Net revenue is estimated at about VND740 billion in 2016 (+17.88%yoy), profit after tax attributable to ordinary shareholders of parent company was VND49.5 billion (+7%yoy). EPS 2016 = VND2,500 (based on the number of shares after the dividend payment and issuing ESOP is 19,155,827).

Intelligent transportation system (ITS) projects will continue to be the growth engine of the ITD in the coming years. Currently ITD has some notable ITS projects as follows:

- EPC contract for the design, supply and installation of equipment to deploy the Electronic toll collection systems and controlling vehicle weight for 19 stations in National Road 1 and Ho Chi Minh road – the part through Tay Nguyen of Tasco, total value of about VND200 billion, completion in 2016
- Cooperate with SK (Korea), aims to become partner in the ICT business solutions and projects under the public private partnership model in Vietnam
- Hanoi - Hai Phong expressway will have about VND90 – 100 billion of revenue (adding automated collection lane).

- Da Nang - Quang Ngai Expressway Project (recorded in 2017)

Project with the Ho Chi Minh city on the management of the traffic monitoring

Ticker	Rev2016 (bil VND)	PAT 2016 (bil VND)	EPS 2016	PE 2016	PB 2016	ROE 2016	Div yield 2016	Price 30/06/16	Target Price	Link
FPT	42,514	2,678	4,618	9.05	1.79	21.57%	20%	41,800	51,000	link
CMG	4,209	171	1,808	8.02	1.00	17.82%	N/A	14,500	18,900	link
ITD	740	60	2,400	14.46	2.60	23.09%	12%	34,700	38,600	link

Source: BSC forecast

Seaport [OUTPERFORM]

- Cargo throughout Vietnamese seaport system continued to increase with high speed of 14.35%yoy
- First quarter results were negative due to industry business cycle.
- Second quarter results improved thanks to increase in cargo throughout.
- Business performance in the third quarter will be diversify between North and South seaport.

2Q2016 Review

Cargo throughout in first 4 months of 2016 continued to grow strongly, reaching 6.701 mil tons (+14.35%yoy). In which, cargo throughout seaports in Hai Phong increased with the speed of 12.85%yoy. Seaports in Cai Mep CMT also recorded highly increase with container throughout in the first quarter reaching 277,303 TEU (+30%yoy) thanks to improvements in roads and bridges infrastructure, decreased transportation time from 3 hours to 90 mins. Even though accounted for small share in total cargo throughout (about 10%), seaport in Da Nang also recorded high growth speed in the first quarter with cargo reaching 1.6 mil tons (+11.07%yoy).

The first quarter results decreased. As forecasted in the second quarter outlook 2016, due to reefer container volume was not maintained as high as in 2015, combined with the fact that revenue from inland transportation decreased thanks to fare increase in Hai Phong-Ha Noi highway, business results of seaport firms in Hai Phong decreased. Meanwhile, Seaports in the South witness good growth thanks to increase in cargo throughout the region.

First quarter business performance.

Ticker	Revenue		Gross profit margin		NPAT		P/E	P/B
	1Q2016	%yoy	1Q2016	1Q2015	1Q2016	%yoy		
GMD	848	4%	26%	25%	83	4%	11.31	1.01
PHP	543	1%	43%	35%	157	N/A	8.92	2.53
VSC	225	-1%	33%	36%	43	-25%	19.4	1.81
TCL	178	9%	16%	19%	18	-25%	10.18	2.66
DVP	142	-3%	52%	54%	63	-3%	6.17	1.9
TMS	133	32%	29%	27%	40	-7%	13.55	2.73
PDN	86	18%	33%	35%	14	8%	3.65	0.82
CLL	76	31%	41%	40%	23	53%	9.71	1.39
DXP	40	-13%	44%	38%	13	4%	9.84	1.53
VGP	11	-37%	34%	52%	2.5	145%	9.99	1.79
Average			35%	36%			10.27	1.82

Source: Companies financial reports.

Third quarter business performance expectation. We reckon that investors should not expect strong growth of seaport firms in the North as they were in 2015 due to down in reefers. However, compared with the first and second quarter of 2016, business result in the third quarter may be brighter because industry business result will peak in the last 2 quarters. In contrast, firms in the South such as CLL, PDN, VGP, TCL

are forecasted to continue to record positive results thanks to increase in cargo throughout and enhancement in infrastructure. In the first quarter, there are 5 new international routes docking in Cat Lai CMIT including Ocean Three Corporation from Vietnam to the East and West of US and CKYHE Corporation to North Europe. MCC who is the feeder of Maersk Line also run intra-Asia route to Cai Mep.

Investment recommendation – Outperform

We are assessing **Outperform** with Seaports. With seaport firms in Hai Phong, even though growth is not expected to increase as fast as it was in 2015, we reckon that in mid to long term these firms are still benefited from sign and soon-in-effect FTAs and growth of cargo throughout the region. When it comes to tickers recommended, we continue to recommend **BUY** with VSC and adding HAH. We recommend investors **Tracking** with CDN and PSP. For PSP, thanks to good berth location on Dinh Vu, capacity expansion plan from 300.000 TEU to 400.000 TEU (has been approved by Ministry of Transportation but still has some legal issues with Hai Phong city), change in listed floor, PSP has growth potential in the future. For CDN, being the only deep water seaport in Middle region, the fast growth of cargo throughout this region will help CDN record positive performance. CDN has also planned to increase its capacity by Tien Sa 2, helping CDN to meet forecasted high demand.

GMD- BUY- Target Price: 30.503 dong/share(Price has adjusted for share dividend, ratio 2:1)

After GMD report issued on 6/4/2016, GMD price has been moving quite close to our recommended price. However, we believe that GMD still has room for growth thanks to: (1) Cargo throughout Nam Hai Dinh Vu port in the first 5 months 2016 increased by 10%yoy and is forecasted to be at full capacity in 2016 (equivalent to 625.000 TEU after completing backyard of 3.5 ha). (2) Gemalink reconstructing with 80% of capacity guaranteed by main customer CMA-CGM (until recently this port has completed 39%). (3) the cold store corporated with MPC will be in operation from fourth quarter 2016, with capacity of 50.000 pallets/years, 60% of it will be guaranteed by MPC. (4) Profit from subsidiary SCSC increased with high speed: in the first half year of 2016, cargo throughout this air port increased by 38% yoy, in which mostly from import-export goods, domestic ones accounted for only 8%.

VSC- BUY- target price 86.206 dong/share.

In the second quarter, VSC acquired VIP's ownership in Vip-Green Port with price of 13.600 dong/share, increased its ownership in the new port to over 70%. When it comes to core business, Nam Hai Dinh Vu with same location and cranes has recorded strong growth of 10% yoy, therefore we believe that Vip-green Port will grow at least with the same speed as Nam Hai Dinh Vu. Until April 2016, Vip-green port is serving Evergreen (4 times per week) and OOCL (1 time per week) and have had 3 more customers. With the second berth, the construction have been completed, the 2 cranes have been transferred and waited to be assembled. Recently, VSC price has not changed much. However, we believe that with fundamental investors, VSC is still good opportunity thanks to strong of cargo throughout Hai Phong, perfect location of Vip-green port and VSC's goodwill.

HAH- BUY- target price 47.419 dong/share.

HAH is a small seaport firm in Hai Phong but operates most efficiently in terms of profitability ratio such as ROA, ROE and liquidity ratio. Recently, because some large shareholders such as MHC, TMS, MAC have divested their ownership, HAH price was down significantly, but on the other hand increase HAH's liquidity and created opportunities for fundamental investors. We reckon that HAH's strategy of expanding to domestic marine transportation is good move for the following reasons: (1) Complete HAH's logistics chain suppliers-marine transportation-uploading and loading at berths-customers, increase HAH's service quality. (2) Container transported by HAH's fleet will be used to offset the decrease of import-export container volume as the negative effects of Bach Dang bridge. (3) Taking advantages of increase in container volume through Cai Mep-Thi Vai.

Ticker	Rev 2016(VND Bil)	NPAT 2016(bil)	EPS F 2016	P/E F 2016	P/B F 2016	ROE F 2016	Dividend 2016	Price on 24/6/2016	Target price	Increase/ Decrease
GMD	3,954	583	3,910	6.88	1.04	10.64%	Cash:20%	26.900	30.503	13.4%
PHP	2,531	741	1,385	15.09	1.73	12%	Cash:3%	20.900	22,980	9%
VSC	1,391	381	7,005	9.28	1.62	14.8%	Cash:10%	65.000	86,208	33%
HAH	509	113	4,564	8.83	1.78	21%	Cash: 30%	40.300	47,419	17.7%
PSP	N/A	N/A	N/A	N/A	N/A	N/A	Cash: 5%	12.400	N/A	N/A
CDN	N/A	N/A	N/A	N/A	N/A	N/A	Cash: 10%	22.500	N/A	N/A

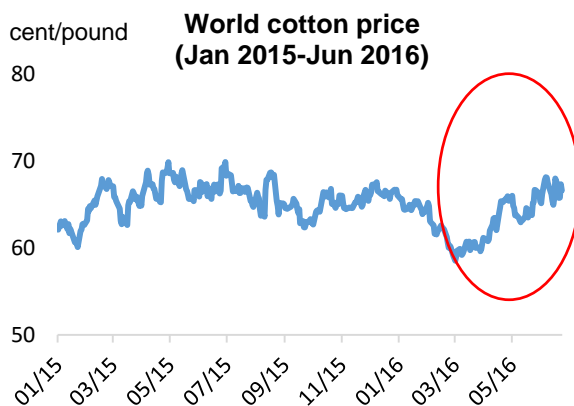
Source: BSC Research

Textiles [OUTPERFORM]

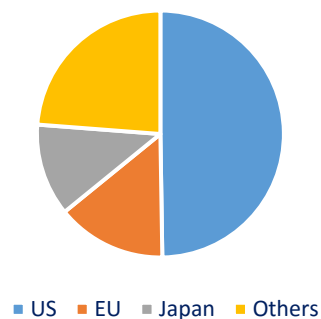
- Textile export turnover in the first 5 months grew 6.13% yoy and is expected to improve in Q3 as it is the peak season of textile exports
- Cotton prices rebounded from early March as the supply is lower than demand for the first time since the 2009/10 and this momentum is expected to continue in Q3
- Textile is one of the sectors negatively affected by Brexit
- Some proposals enhancing the competitive advantages for domestic textiles
- In 1Q2016, the majority of textile enterprises had good revenue growth, but earnings growth did not correspond

2Q2016 Review

Textile export turnover in 5 months grew 6.13% and is expected to improve in Q3 as it is the peak season of textile exports: In the first two months of Q2, textile exports reached 4.20 billion USD (+ 4.5% yoy). Generally for first 5 months, the export value was at 8.62 billion USD, increased 6.13% over the same period, which is quite low as compared to the same period last year (reaching 9.2% yoy). The three main markets are the US reaching \$ 4.29 billion (+ 6.5% yoy), the EU with \$ 1.24 billion (+ 7.1%) and Japan with \$ 1.04 billion (+ 3.4% yoy). The period from June to Sep is the high months of textile export with most orders and value. Therefore, we expect the export value and business results of textile enterprises will have more positive changes in Q3.



Source: USDA, Bloomberg

Export markets in first 5 months of 2016

Source: General Department of Customs

Cotton prices rebounded from early March as the supply is lower than demand for the first time since the 2009/10 and this momentum is expected to continue in Q3: From March to June (24th June), cotton prices tend to recover, reaching 63.45 cent/pound, up 0.12% over the first 2 months but still 4.62% lower than the same period. The reason is production is estimated to be lower than demand by 9.8 million bales.

Specifically, output for 2015/16 is estimated at 99.8 million bales (-16% yoy) due to the effects of El Nino, while demand is estimated at 109.6 million bales (-1% yoy) (as predicted by USDA). In the 2016/17, consumption is forecasted to reach 110.8 million bales, while production will be only 104.4 million bales, so cotton price is expected to keep uptrend in Q3.

The uptrend in the raw material prices (cotton and oil) will affect the production inputs price of bedding firms such as KMR, EVE; yarn production as TCM, STK; indirectly affect firms with FOB, ODM orders which need to prepare materials, and basically no impact on CMT orders.

Textile is one of the sectors negatively affected by Brexit. EU is the second largest market of Vietnam's textiles, with \$1.24 billion (representing 14.4% of total exports) in the first 5 months of 2016, and is increasing positively compared to previous years. However, when Brexit happens, (1) the British pound and the EUR will depreciate, making selling price of Vietnam's products become relatively higher, reducing competitiveness (3) Free Trade Agreements Vietnam - the EU will no longer be valid for the UK, and we will need time to negotiate privately with this country.

Some proposals enhancing the competitive advantages for domestic textiles: Vietnam Textile and Apparel Association has proposed a number of solutions, notably are (1) Relaxing roadmap of increasing the minimum wage to 2020 or 2022 and no annual increase; (2) not to use the minimum wage as a basis to build starting salary and pay insurance premiums, reducing insurance on wages ratio from 32.5% to 25%; (3) increased the maximum overtime to 500 hours per year instead of 300 hours per year as recently. If these proposals are approved, the textile sector might improve the current slow export growth due to lost orders to countries with cheaper labor costs and take advantage that the FTAs and TPP bringing.

In 1Q2016, the majority of textile enterprises had good revenue growth, but earnings growth was not corresponding. In 1Q2016, although the whole sector export value grew at a very low level compared to the same period, the total revenue of the listed textile companies still grew highly at 16.1% qoq, reaching VND 3,876.7 billion. Except EVE and STK having negative revenue growth at -15.2% and -17% respectively, other enterprises had quite high revenue growth. However, the total profit after tax of those enterprise was only VND 182.16 billion, an increase of 0.98% qoq. 5 of the 11 firms having EAT dropped sharply, notably are TCM decreased 33.5%, TET and STK fell 89% and 76.1% qoq.

Q3 is the peak quarter of textile as export value is usually highest during these months, so we expect listed companies will have more positive business results than the first 2 quarters.

Ticker	Rev 2016Q1	% yoy	NI 2016Q1	%yoy	Gross margin 2016Q1	Gross margin 2015Q1	EPS trailing 12M	P/E	P/B	2016 Business plan		
										Div 2015	Rev 2016	NI 2016
VGG	1513.9	+18.1%	76.8	+14.8%	13.1%	14.2%	7,824	8.27	2.39	30% cash	6,300	200
TCM	739.5	+20.4%	22.2	-33.5%	11.9%	14.4%	2,890	8.89	1.42	10%	3,264	160
TNG	357.96	+20.5%	14.06	+24.4%	17.0%	19.1%	2,640	6.63	1.17		2,485	120

STK	262.3	- 17.0%	2.9	-89.0%	5.3%	15.9%	1,060	23.11	1.72	5% cash, 10% stock	1,860	130.9
GMC	300.9	+ 11.8%	10.2	-14.0%	13.0%	13.4%	5,320	6.77	1.84	n/a	n/a	n/a
EVE	151.4	-15.2%	14.2	-17.2%	33.6%	32.7%	3,930	14.50	1.74	20% cash	1,100	150
KMR	76.1	+15.7%	3.2	n/a*	19.2%	6.7%	530	11.89	0.60	n/a	n/a	n/a
G20	66.5	+10.4%	2.2	+35.5%	11.8%	10.8%	810	9.14	0.68	n/a	n/a	n/a
GIL	387.6	+78.0%	33.8	+373%	21.3%	14.7%	6,620	8.46	1.84	n/a	n/a	n/a
NPS	9.78	+23%	0.3	+103%	17.4%	17.7%	290	43.10	0.80	n/a	n/a	n/a
TET	10.8	+13.3%	2.3	-76.1%	52.4%	33.9%	1,100	17.73	1.47	n/a	n/a	n/a
Total	3876.74	+16.1%	182.16	+0.98%								

* loss 7.8 bil d at same period

Source: Financial Statement, BSC

Investment Recommendation - outperform

Although the total export value in the first 5 months of 2016 grew at a modest rate, the outcomes of listed textile firms still have positive signs. We expect that in Q2 and Q3, the business outcome will have more obvious changes.

Therefore, we continue the OUTPERFORM assessment of the Textiles sector in the 2 remaining quarters of 2016 and recommend BUY with TNG, TCM, VGG; TRACKING with EVE and some stocks expected to be listed such as May 10, Nha Be, .. as in 1Q2016 Sector Outlook.

TCM – BUY - 30,045 VND per share

TCM is the only listed companies having closed production chain, meets the origin principle “from yarn onwards” of TPP. Putting into operation 16 of the 26 sewing lines at Garment plant in Vinh Long since July 2015 and additional 10 production lines in 2016 increased 30% design capacity to 24.6 million products per year. Although the factory continued to report losses in the first months of 2016, TCM expect that it will start to make profits from Sep 2016 through the increase in order and labor productivity. Fiber segment, representing about 40% of revenues, can be improved in the remaining quarters when world cotton prices tend to rise from March 2016 and is expected to keep rising due to concerns about the production shortfall in the 2016/17.

In 2016, we estimate that the Revenues of TCM will reached VND 3,391.7 billion, profit after tax will be VND 160.8 billion, equivalent to 2016 EPS F of 3.258 VND per share. With a closing price of 25,700 VND per share on 24 June, the P/E trailing is 8.9x and P/E F is 7.9x relatively attractive.

TNG – BUY – 25,128 VND per share

In 1Q2016, TNG’s revenue growth is 20.5% qoq due to the increase of 5.3% design capacity when TNG put into operation 10 additional production lines in Dai Tu Plant; EAT grew 24.4% despite the increase in financial and labor costs. In Q2, the value of orders carried out increased, revenue is estimated at VND 631 billion (+ 26% qoq); cumulative 6 months TNG implemented 40% of the plan revenues. In the 2 remaining quarters, with positive order situation (signed approximately \$ 81 million for 2016) and the cost reduction

such as sales, admin cost, we forecast that in 2016 the Revenues will reach VND 2,426.8 billion, Net income will be VND 106 billion, equivalent to EPS F 2016 of 3.600 VND per share. At the closing price of 17,500 VND per share on 24 June, the P/E trailing is 6.63x and P/E fw is 5.44x relatively attractive.

Note that **(1)** dilution risk: in the second half of 2016, TNG plans to release 4.44 million shares, of which 5% ESOP and 10% stock dividend. In the next 4 years to 2020, TNG plans to issue 5% ESOP per year. **(2)** High short-term debt structure: 65.5% of total assets are financed by debt, of which 70% of the debt is short-term debt, putting repayment pressure to TNG.

VGG - BUY – 80,333 VND per share

After listing on Upcom from Mar 2016, VGG become the largest capitalization and revenues textile firms on the exchange. Major export markets are Japan(31%), US (21%) and the EU (20%). With 75% of Rev is FOB orders, gross margin of VGG can be better thanks to actively preparing materials. Besides, VGG also use the domestic fiber and fabric suppliers, such as Vinatex, satisfying the principle of origin "from yarn onwards" of the TPP. Immediately prior to listing, VGG converted VND 140 billion of convertible bond into common shares, raising its charter capital to VND 420 billion and significantly reducing the debt.

In 1Q2016, Revenues increased by 18.1% and net income increased 14.8% due to the increase in insurance premiums for workers, despite the slightly decline in interest expenses and SG&A. We estimate that in 2016, VGG will reach revenues of VND 7,166.3 billion, EAT of VND 365.9 billion, equivalent to EPS F 2016 of 8.711 VND per share. With a closing price of 64.700 VND per share on 24 June, P/E trailing is 8.27x and P/E forward is 7.43x, relatively attractive.

EVE - TRACKING

With a leading market share in the bedding segment (26%) and cotton sheets (29%), regular customers accounting for 80-90% revenues help EVE to have relatively stable earnings. In 2016, EVE will promote exclusive sale and distribution of the Style Master spring-mattress, 1 in 4 largest spring-mattresses firms in the world. In the first quarter, since the Lunar New Year came early, interest expenses and cost of sales increased sharply, the earnings was lower than the same period in 2015. However, this is the low quarter of EVE, and positive results is expected in the remaining quarters of the year when orders for cotton sheets from Chinese market increased quite good this year.

We forecast 2016 Revenue will reach VND 1,000 billion, Net income reaches VND 133.4 billion, equivalent to EPS F 2016 of 4,851 VND per share. With a closing price of 57,000 VND per share on 24th June, P/E trailing is 14.5x and P/E forward is 11.75x, which is relatively fair. Therefore, we recommend TRACKING with this ticker.

Ticker	Rev 2016	NI 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Div 2015	Closed price on 24 th Jun 2016	Target price	Link
TNG	2,426.8	95.3	3,217	5.44	0.98	18.1%	6% cash div 10% stock div Incentive sale at rate 4:1	17,500	25,128	

TCM	3,391.7	160.8	3,258	7.89	1.19	15.1%	6% cash div		30,045
VGG	7166.3	365.9	8,711	7.43	1.99	26.8%	30% cash div	64,700	80,333
EVE	1000.0	133.4	4,851	11.75	1.53	13%	20% cash div, 50% stock div	57,000	n/a

Source: BSC Research

Electricity [OUTPERFORM]

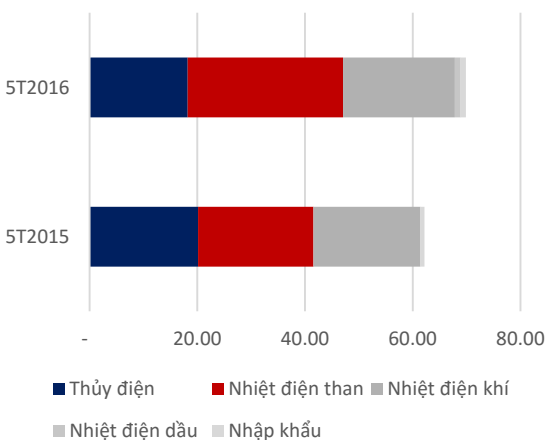
- Commercial electricity output increased by 13%.
- El Nino caused difficulties for hydroelectric plants but indirectly brought benefits to thermal plants.
- Gas prices fell while coal price was stable.
- La Nina could happen and this would help hydroelectric companies to recover.

2Q2016 Review

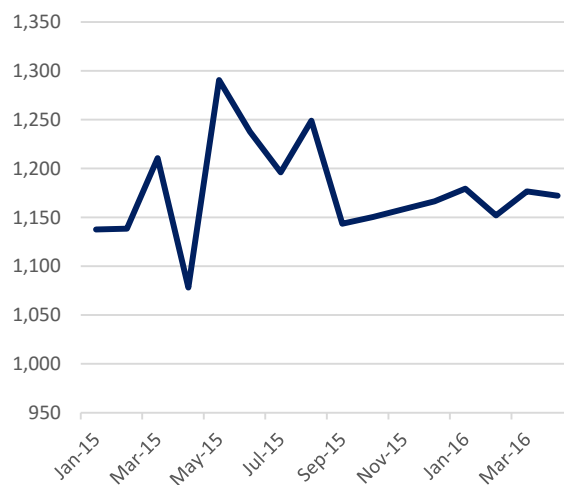
Commercial electricity output increased by 13%: During the first five months of 2016, the commercial electricity output increased by 13% to 72.6 billion kWh – compared with 11% of growth in the same period of last year.

El Nino caused difficulties for hydroelectric plants but indirectly brought benefits to thermal plants. During the first five months of 2016, the hydroelectric output decreased by 10% y.o.y to 18.21 billion kWh. El Nino phenomena significantly reduced water sources for producing hydroelectricity. Meanwhile, the thermal production rose by 22% y.o.y including 35% growth from coal thermal electricity and 5% growth of gas thermal electricity. In particular, in the first five months of 2016, Vietnam was powered by 1 billion kWh from oil thermal electricity, which was nine times higher than in the same period of 2015. Also, the imported electricity volume increased by 34% y.o.y to 0.96 billion kWh.

**Power structure in the first 5 months
2015 and 2016 (Billion kWh)**



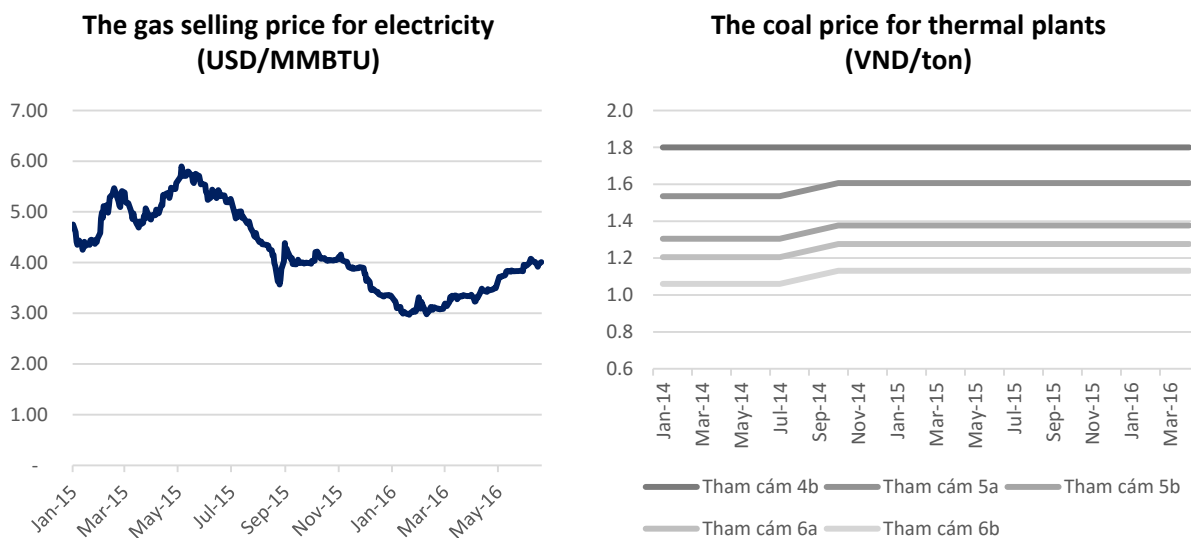
The electricity purchase price



The purchase electricity price on the competitive electricity market slightly rose: on average, the purchase electricity price of EVN on the competitive electricity market increased by 3% y.o.y in the first four months of 2016. The main reason was that the cheap hydroelectric sources sharply dropped.

The retailed electricity price will not be raised in 2016: Although the wholesale electricity price of EVN for Electricity Corporation went up by 2-5%, the retailed electricity price was remained stable in 2016 under the direction of the Prime Minister.

Gas prices used for thermal plants increased while coal prices remained stable: From the beginning of this year until now, gas prices for power producing households has increased by 23% due to the recovery of oil prices. However, in first half of this year, the average gas prices for power producing households were still 33% lower than in the same period in 2015. In the coming time, the application of floor gas price for power producing households and the increase in transportation costs could raise the price of electricity, specially for plants using gas source from high cost tanks such as Thien Ung, Dai Hung. In contrast, coal prices has remained stable since the end of 2014 until now, and this helped coal thermal plants stabilize input materials. The increase in the gas prices could raise the price in the competitive electricity market because the gas thermal electricity is widely used and concentrated in areas with high electricity demand.



The possibility of La Nina could help hydropower plants get recovered. As we mentioned in [the report "Impact assessment of El Nino/ La Nina" on March 21st, 2016](#) El Nino has weakened and then La Nina will form and appear in the Autumn this year. The American Meteorological Forecasting Center informed that the likelihood that La Nina will happen in December 2016 is 75% or it could come soon in July or September this year. Meanwhile, Australian Meteorological Department forecasted the possibility of 50% that La Nina will happen in 2016. La Nina will cause higher rainfall and river flows than the average of previous years, particularly in southern and central provinces – where many hydroelectric plants are located. Thus, the production of hydroelectric plants will go up. Hydropower is a cheap electric source so when the hydroelectric production are more abundant, the need of thermal electricity will decrease and the electricity price in the competitive electricity market will decline as the proportion of cheap electric source increase.

Exchange rate has mixed effects on thermal plants: in Q2/2016, the USD/VND and JPY/VND rates increased by 0.07% and 9.46% respectively. In the same period, the EUR/VND and KRW/VND rates declined by 2.14% and 4.55% respectively. Therefore, companies which have foreign currency outstandings like PPC will record the estimated exchange rate loss of 420 billion VND. In contrast, NT2 and BTP will record the estimated exchange rate profits of about 55 billion and 31 billion VND respectively.

PV Power will have IPO in October/2016: following the policy approved by the Prime Minister about the equitization of the parent company - Petro Vietnam Power Corporation (PV Power), PV Power will conduct IPO in October 2016 and launch the joint stock company in December, 2016. PV Power manages nine thermal plants with the total capacity of 4,125 MW, which accounts for 13% total electricity production of Vietnam.

Business results diverges between thermal and hydroelectric plants: in Q1/2016, excluding exchange rate factors, almost all thermal plants recorded higher growth rate than in the same period last year because they were mobilized more: NT2 increased by 85% for EBT, BTP's EBT rose six times and NBP's EBT grew 13 times. In the case of PPC, the temporarily calculated electricity prices for Pha Lai 1 lower than 2015 prices while the output remained so the EBT from core business activity dropped by 64%. For hydroelectric plants, the common problem in the first six months was the decrease in the electricity production due to the impact of El Nino, and this lead to the significant fall in business performance.

Ticker	Type	Capacity (MW)	Location	Revenue 1Q2016	%y.o.y	EAT1Q2016	%y.o.y	Note
PPC	Thermal Coal	1,040	Hai Duong	1,707	-15%	(157)	-406%	PPC recorded 261 billion exchange rate loss in Q1/2016 while in the same period last year there was 109 billion exchange rate loss recorded.
NT2	Gas turbines	750	Dong Nai	1,387	-21%	319	-37%	NT2 recorded 59 billion exchange rate loss in Q1/2016 while the figure in the same period last year was 314 billion.
BTP	Gas turbines	388	Vung Tau	389	-7%	(19)	-85%	BTP recorded 46 billion exchange rate loss while the figure in the same period last year was 126 billion.
NBP	Thermal Coal	100	Ninh Binh	180	25%	11	1378%	NBP's electric production employed was 26% higher and the average coal consumption rate was 0.4% lower.

VSH	Hydroelectric	136	Binh Dinh	105	-17%	63	-22%
CHP	Hydroelectric	170	Hue	95	-45%	9	-89%
TBC	Hydroelectric	120	Yen Bai	62	-12%	30	-16%
TMP	Hydroelectric	150	Binh Phuoc	59	-64%	(2)	-103%
SJD	Hydroelectric	104	Binh Phuoc; Gia Lai; Dien Bien;	47	-32%	15	-52%
SHP	Hydroelectric	123	Lam Dong	36	-48%	(54)	139%
HJS	Hydroelectric	12	Ha Giang	36	8%	6	17%
SBA	Hydroelectric	73	Quang Nam, Phu Yen	23	-37%	(2)	-149%
GHC	Hydroelectric	28	Gia Lai	13	-40%	5	-54%
DRL	Hydroelectric	16	Dac Nong	8	-27%	4	-42%

Source: BSC Research

Investment recommendation - OUTPERFORM

We maintain **OUTPERFORM** rating for electricity sector in the last six months of 2016. That time is the water season of hydroelectric companies so the business results will be improved in comparison with in the first six months. In particular, we note La Nina could be appear at the end of 2016 and this could help hydroelectric companies strongly recover at that time and in the first six months of 2017. For thermal electric company, we expect the level of input will stay at low level as well as the the stable production employed, which could help companies maintain positive business results in 2016. However, we also note that, exchange rates are forecasted to be disadvantage for thermal companies in the last six months of 2016 except BTP and NBP.

NT2- HOLD - Target price 36,045 VND/share (+5%)

Until the end of June 2016, NT2 is expected to produce 2.69 billion kWh of electricity. We expect that in the whole 2016, NT2 will maintain the production of 5.5 billion kWh of electricity as in 2015 due to the sharp increase of electricity demand in southern areas although hydropower could recover at the end of 2016 if

La Nina happens. Also, based on the assumption that the average oil price in 2016 is at 43 USD per barrel, we forecast that in 2016, NT2 will record 5,902 billion of revenue and 1,204 billion of net profit excluding exchange rate difference, corresponding to EPS 2016 = 4,106 VND per share. We note that our forecast does not take into account the gas transportation cost will increase from 0.15 USD/mmbtu to 0.52USD/mmbtu according to the written requests of PV GAS because they do not have official contract. In long term, NT2 have conducted the pre-feasibility study of the Nhon Trach 2 plant expansion project, which will contribute two more mixed cycle gas turbine plants with the total capacity of 1,800 MW. In which, the first stage was one mixed cycle gas turbine plant with the capacity of 850 MW, which is 100MW larger than the current plant. This new plant will use imported LNG gas and be launched in 2021. We appreciate the potential of this project, thereby NT2 would own the gas thermal system with the largest total capacity in Vietnam, and this will raise company's impact and power in the electricity market.

SJD-BUY- Target price 30,941 VND/share (+14%)

During first five months of 2016, the electricity output of SJD decreased by 38% y.o.y to 131 million kWh. While the electricity output of Can Don and Ry Ninh plants dropped by 50% and 52% respectively, the electricity production of Na Loi increased by 30%. More over, Ha Tay plant will operate during the whole 2016 instead of only six months in 2015, and this also helps to limit the decline in the business result of SJD. We estimate that for the entire 2016, SJD will generate 318 million kWh of electricity, fell by 17% y.o.y. We also adjust 2016 business performance forecast of SJD with the revenue at 348 billion and the EAT at 163 billion, equivalent to EPS 2016 = 3,289 VND per share. Also, the USD/VND rate are forecasted to increase and this would help to raise the revenue of the company. We note that SJD could merge hydroelectric plants of Song Da Corporation in order to rapidly increase the scale. However, because the expected merged plants are newly built with larger investment rate so they could reduce the the business performance of the company.

CHP- BUY- Target price 23,200 VND/share (+17%)

In the first six months of 2016, the estimated electricity output of CHP reached 146 million kWh, decreased by 45% y.o.y. We estimate for the entire 2016, CHP will produce 510 million kWh, fall by 22% y.o.y. With the adjustment of output forecast in 2016, we estimate in 2016, CHP will record 527 billion of revenue and 208 billion of after-tax profit, equivalent to EPS 2016=1,581 VND per share. We expect in 2017, the electricity production of the company in dry season will significantly increase due to the impact of La Nina, thereby the business result of CHP would recover substantially.

BTP- BUY- Target price 17,200 VND/share (+12%)

From the beginning of this year to June 23rd, the output of BTP reached 835 million kWh, increased by 30% y.o.y (485 million in Q1/2016, +47% y.o.y). The selling price of electricity in the first six months of 2016 was temporarily calculated based on 2015 price. Although in Q2/2016, there were some plants running by oil due to the malfunction of gas pipelines, the company expects the results are maintained as in Q1/2016 (in Q1/2016, the core business activity recorded 28 billion of EBT excluding profit or loss from exchange rate difference). Moreover, BTP could record 31 billion of exchange rate profit in Q2/2016 due to the depreciation of KRW.

Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Closed price 24/06/2016	Target price	Link report
NT2 ¹	5,902	1,204	4,016	8.67	1.57	17.00%	22% cash & 7% stock	34,800	36,405	link
PPC ²	7,271	532	1,669	8.63	0.79	14.00%	12% cash div	14,400	15,700	
SJD	348	163	3,289	8.27	1.12	21.00%	25% cash div	27,200	30,941	link
CHP	527	208	1,581	12.52	1.31	20.00%	9%cash div & 5% stock	19,800	23,200	link

Source: BSC Research

1 Forecast excludes exchange rate profit/loss

2 Forecast excludes exchange rate profit/loss

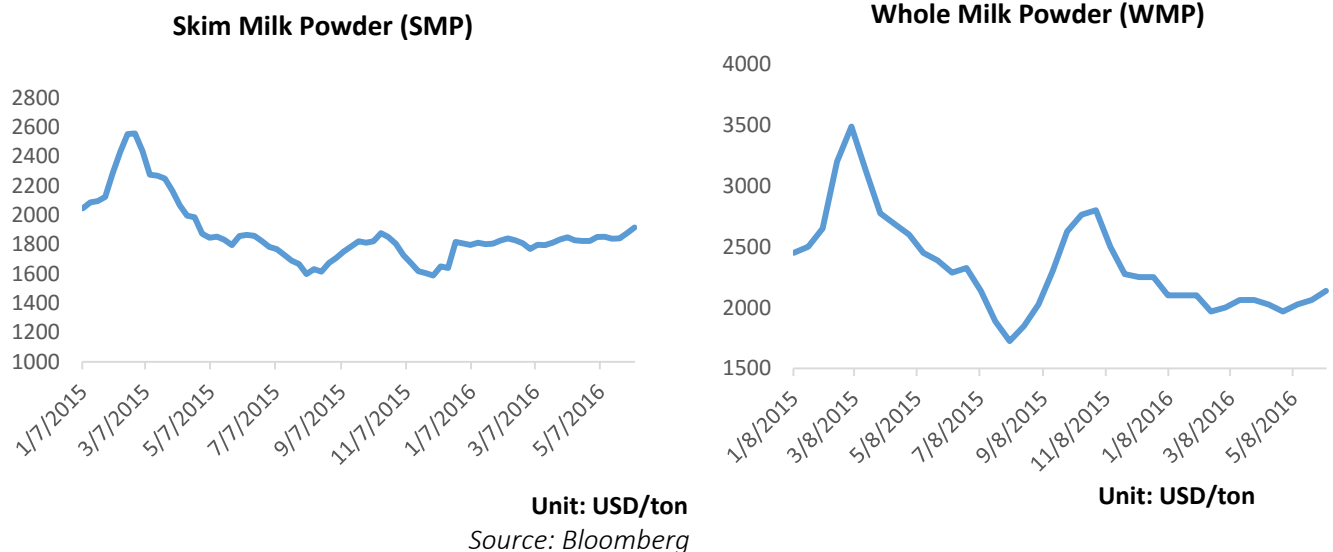
Dairy [OUTPERFORM]

2Q2016 Review

- The global milk production growth slowed down at 0.23% in Q2/2016.
- Raw milk prices remained at the low level with SMP (-13.4% y.o.y) và WMP (-24.5% y.o.y).
- Raw milk prices are expected by IFCN to recover in the last months of 2016.

The milk production growth of major exporting countries slowed down at 0.23% in Q2/2016. In which, the milk production of EU, the largest milk producer accounting for 21.2% of global output, increased just by 1.4% in comparison with 6% in Q1 due to unusual cold weather. Meanwhile, the production of Australia decreased by -2.5% as the dry weather caused the decline of cow's food source. Also, New Zealand milk output fell by -2.7% because farmers reduced stocking rates and animal nutritional supplements to save costs in the context of low raw milk prices.

However, the oversupply has persisted leading to an enormous milk inventory on market. From March 31st, 2015, the day that European Union lifted milk quotas on, to March 31st, 2016, the accumulated milk production rose by 2.8% y.o.y, whereas the total demand increased by just 1.8-2%, and this resulted in an enormous milk inventory. In four early months of 2016, in order to stabilize milk prices, EU stored one third of their Skim Milk Powder (SMP) output (equaling to 239,000 tons), and this figure is expected to go up to 58,000 tons at the end of June. Also, USA raised their cheese storage by 11% y.o.y to 541,000 tons, their butter storage by 30% to 110,000 tons.



Raw milk prices on global market remained at the low level in Q2/2016. Because the oversupply has persisted, the average Skim Milk Powder (SMP) price during first half of 2016 stayed at 1,827.2 USD/ton, 13.4% lower than in 2015; the figure for Whole Milk Powder (WMP) was 2050.8 USD/ton, 24.5% lower than the price of 2,716.7 USD/ton in last year.

Business Results Q1/2016

Ticker	Revenue (billions)	% yoy	EAT (billions)	%yoy	Div plan 2016	Note
VNM	10,370	18.23%	2,161	38.53%	1 st payment: 4,000/share	The profit maintained considerable growth as the company benefited from low raw milk prices. The business result was significantly improved due to the rapid increase of yogurt sales and the launch of two new products which are nutritional drinks IZZI Choco oat and IZZI Tiramitsu.
HNM	84.7	97.8%	0.655	(*)	N/A	

(*): The profit of HNM in Q1/2015 was -1.5 billion VND.

Investment recommendation – OUTPERFORM

Raw milk prices are forecasted by the International Farm Comparison Network (IFCN) to slightly recover at the end of 2016. According to the forecast of IFCN, the total milk production in this year will follow the downward trend in Q2/2016 to rise by just 1.5% compared with the growth at 2-3% in last two years. Meanwhile, the growth of global milk demand in this year is expected to be at 2%. Therefore, the milk market is anticipated to be more balanced at the end of 2016. However, raw milk prices was fixed by dairy companies for the period of 6 – 9 months so the cost of goods sold will be stable. We maintain OUTPERFORM rating for the dairy sector in the last six months of 2016.

VNM – Buy – Target price 148,000 VND/share – Upside 8.02%

Actually, the Ministry of Finance has considered the lift of ceiling price imposed on baby formulas, and this is scheduled to be implemented on July 1st, 2016. If this is adopted, Vinamilk will benefit substantially because its baby formulas are now subjected to significantly lower ceiling price in comparison with rivals' products. In addition, the revenue from infant formulas accounts for about 20% of total Vinamilk's revenue.

Besides, on June 28th, 2016, Vinamilk's Director Board approved of lifting the current foreign ceiling ratio of 49%. This is positive because VNM shares are interested by foreign investors including dairy companies such as F&N, Abbott and Enfa.

On June 24th, 2016, a VNM stock was traded at the price of 137,000 VND, P/E forward = 18.63 and P/B forward = 7.54.

HNM – Tracking

We expect new yogurt products will help HNM increase its revenue and profit in the second half of 2016. However, the selling expense will remain high (occupying about 20% of revenue) since the

company just returned to market and subjected to fierce competition, and this leads to a necessary boost in marketing.

Beside that, in the Hanoimilk shareholder meeting on June 25th, 2016, the 200 billion bond issuance plan was approved with the bond maturity of three years and the expected conversion rate of 1:10 (one bond can be converted to 10 stocks). The bonds are scheduled to be issued in two batches: Q3/2016 and Q2/2017. The new funding will be a supplement on the working capital and investments in new projects. It is worth noting the dilution risk of this conversion bond issuance.

On June 24th 2016, a HNM stock was traded at the price of 7,800 VND, P/E forward = 45.88 and P/B forward = 0.74.

VLC – Tracking

We note that the Vietnam Livestock Corporation also participates in dairy industry via its subsidiary, Moc Chau Dairy Cow Breed Joint Stock Company, with the ownership ratio of 51%. In Q1/2016, the VLC's revenue reached 623 billion VND (35.73% y.o.y) and its EAT was 47.3 billion (57.4% y.o.y); in which the revenue from dairy products accounted for about 71% of total revenue. We recommend tracking VLC more.

Ticker	REV 2016F (billion)	EAT 2016F (billion)	EPS 2016F	P/E 2016F	P/B 2016F	ROE 2016F	Dividend 2015	Closed price 24/06/2016	Target price
VNM	45,016	8,823	7,353	18.63	7.54	41%	Cash div 60%	137,000	148,000
HNM	360	3.4	170	45.88	0.74	1.6%	0	7,800	N/A
VLC	550(*)	51(*)	N/A	N/A	N/A	N/A	Cash div 6.5%	18,000	N/A

(*): The revenue and profit of the parent company.

Source: BSC Research

Electrical Cable [OUTPERFORM]

- Copper prices remained at low level, average price for the first 6 months of 2016 reached \$ 4,725/ton (-20.7% YoY).
- Electrical cable export value in the first 5 months of 2016 increased slightly by 6% compared with the same period of 2015.
- Listed companies had optimistic earnings in the first quarter of the year, gross margins reached around 10%/year.
- Production capacity of enterprises in the sector is improving.

Review 2Q 2016:

World copper prices remained at low level: On average, world copper prices in the first 6 months of 2016 reached \$ 4,697/ton, down 20.7% compared with the average of the same period last year. Goldman Sachs forecasted that the average copper price in 2016 will remain at a low level of \$ 4,725/ton due to: (1) great increase in supply in the period of 2016 - 2017 with a growth rate of 3% by the activities of 5 large mines, which include Cerro Verde (Peru), Las Bambas (Peru), Buenavista (Mexico), Sentinel (Zambia) and Grasberg (Indonesia), come to exploitation phase; (2) China's economic deceleration led to the forecast that demand will only increase slightly by 1.4% and the market will continue to excess supply in the period of 2016 - 2018.

Electrical cable export value in the first 5 months increased slightly: According to the General Statistics Office, in the first 5 months of 2016, the export value of Vietnam's electrical cables reached 358 billion dong, a slight increase of 6% over the same period last year. This increase is lower than the increase of 20% YoY in 2015. It is partly explained by the fall of copper prices in the world, no longer remained at a high level as in the first half of 2015.

Electrical cable industry still has potential factors for development: The Government continues to accelerate the electrification program in rural and mountainous area, ensure that most of rural households will have electricity in 2020. According to the Vietnam electric grid to 2025 planning, 500kV line and 200 kV line items in period from 2016 to 2020 respectively increase 18.4% and decrease 50% over the period 2011 - 2015. The capital investment for electric sector in the period from 2021 to 2030 reached 1429.3 billion, up 53.7% over the period from 2011 to 2020.

Vietnam electricity until 2025

Categories	Unit	2011-2015	2016-2020	2021-2025
500kV cable	Km	3.833	4.539	2.234
220 kV cable	Km	10.637	5.305	5.552

Enterprises have been increasing output capacity of the plants: Specifically, CAV has launched the project "Factory of electric cables - Phase 2: Investment in construction of new workshops and additional production equipment electrical cable" at Tan Phu Trung Industrial Park, is expected to go into operation early next year. VKC's optical cable plant was officially go into operation in the first quarter of 2016, increasing the designed capacity of telecommunicate cable up to 50% in the situation that the plant has operated by full capacity since last year.

	CAV	VKC
New project	Electric cables factory in Tan Phu Trung Industrial Park	Importing 10 fiber production line
Additional power	N/A	900km/month
Starting operation	2017Q1	2016H1

The first-quarter earnings result of listed companies are very positive: The enterprises in the industry have great profit growth over the same period last year, mainly due to (1) the reduction of copper raw material prices and (2) the increase of domestic consumption thanks to the "opticalization" campaign of the domestic telecom operators as well as network expansion needs of the electric sector. Gross margin of the industry is around 10%/year.

Ticker	Rev 2015Q1	Profits 2015 Q1	Rev 2016Q1	Profits 2016Q1	% change Rev	% change Profit	Gross margin
CAV	1212	31.7	1236	48.6	2%	53%	10%
VKC	235	4.5	300	10	28%	120%	8%
TYA	281	10.4	293	19.9	4%	91%	11%
VTH	112	2.3	40	1.8	-64%	-22%	8.5%

Source: Companies' financial statements, BSC Research

Recommendation – Outperform

We maintain our **Outperform** assessment while consumption prospect of the industry is quite stable due to domestic main customers are Electric sector, VNPT and civil construction contractors. Simultaneously, export markets are also being attracted by domestic enterprises, especially the markets which are populous and have potential development of infrastructure as the Philippines and Myanmar.

VKC –Tracking

The company's revenues mainly come from two arrays: telecommunication cable and tires distribution. Specifically, in the array of telecommunication cable, VKC is a manufacturer with dominant market share in Vietnam, accounting for about 55% of the total demands of both large customers as VNPT and FPT. Telecommunication cable array is expected to increase rapidly due to the boost in "opticalization" plan. Following the plan, telecommunication cable growth in Vietnam is expected to reach 30% in 2016 and

50% in 2017. Pre-tax profit margin of the array is quiet high, reaching about 30%. With tire distribution array, VKC is the exclusive distributor for Chengsin tires, mainly consumed in the South. This segment is expected to increase by 5% in 2016. For 2016, the company target revenue is about 1210.35 billion dong, earning after tax reached 44.34 billion, equivalent to a diluted EPS of 1,995 VND/share, P/E forward is 8.9.

CAV – Tracking

CAV is one of the leading enterprises in the electrical cable industry in Vietnam with the brand “Cadivi” known by many of consumers and a civil electrical wires market share of over 30%, main customers are electric power companies and electrical installation contractors, both civil and industrial. For 2016, we expect an improvement in the profit margin of CAV due to (1) Copper prices are expected to continue to remain at low level as described above, and (2) the major shareholder (GEX) became a private company (as the Ministry of Industry and Trade has completely divested) so this will lead to a more challenging requirements for CAV’s business results. CAV planned a revenue of 6,000 billion dong (+ 5.9% YoY), profit after tax of 195 billion (+ 14.7% YoY), output is expected to increase by 10% for 2016 with average copper price assumptions to reach 6000 USD/ton - higher than the forecast of Goldman Sachs.

TYA – Tracking

TYA is a subsidiary of the TAYA Electrical Cables Corporation in Taiwan. Its main products are now fireproof and heat resistance electrical cables; low voltage cables from 600V to 1000V and medium voltage cables from 1KV to 35KV. TYA has modest competitive position in the industry when takes only 15% - 17% market share of domestic electrical cables. The domestic market contributed 80% of total revenue of the company. We expect TYA profit margins to improve as the company is also taking the general advantages of the industry as (1) the prices of inputs are at low level and (2) customer demand is stable and a wide distribution network. Also, TYA also minimized the risk of input material supply deficiency when the parent company helped to imports copper plate with large amount. For 2016, the company achieved revenue plan of 1433 billion (+ 1.7% yoy) and profit after tax of 54 billion (-13.3% yoy).

Ticker	Rev 2016E	Profits 2016E	EPS 2016	P/E FW	P/B	Dividend 2015	Price on 24th June, 2016	Target price	Report
CAV	6000	216	7500	12.1	4.6	30% cash	91,000	97,50	Link
VKC	1210	44.34	1995	8.52	1.2	10% cash	17,000	22,00	Link
TYA (*)	1433	54	1936	9.7	1.3	10% stock			

(*) 2016 company’s plan

Source: BSC Research

Fertilizer [MARKET PERFORM]

2Q/2016 Review

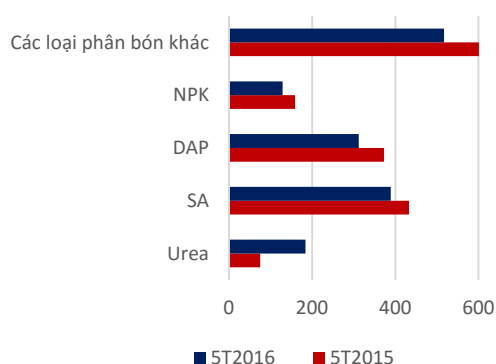
- The production decreased by 9-10% and the imported volume declined by 10%.
- The demand and selling price dropped by 13-20% due to the impact of El Nino.
- The input materials were at the low level but they were forecasted to slightly increase in the last six months.
- The business result is less optimistic in the first six months.
- The possibility of La Nina could help fertilizer sector recover.

The production decreased: during the first five months of 2016, the production of urea reached 856 thousand tons, decreased by 8.5% y.o.y. Similarly, the production of NPK also declined 10.7%. The main reason is that fertilizer plants in the northern areas as Ha Bac and Ninh Binh fertilizer plants stopped operation in the first six months and this lead to the decrease of fertilizer production.

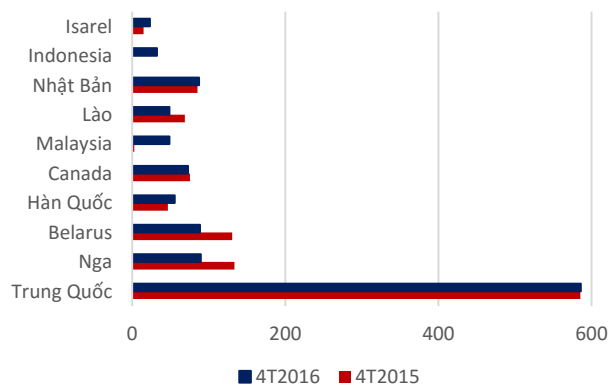
The demand dropped due to the impact of El Nino: overall, in the first fourth months of 2016, the consumption index of chemistry and chemical products fell by 2.3% mostly by the decline of fertilizer products. El Nino caused drought and salinization in central and southern provinces leading to the demand of fertilizer decreased. Therefore, the inventory index of chemistry and chemical products sector rose by 12.6%.

The imported fertilizer volume decreased: In the first five months of 2016, the imported volume of fertilizer declined by 9.8% y.o.y in terms of weight and 18.9% y.o.y in terms of value to 1.48 million and 425 million USD respectively. While the other imported fertilizers' volumes dropped by 10-19%, the imported volume of urea increased by 1.4 times. The reason is that the nitrogenous plant with the capacity of 1.5 million tons per year of Indonesia has just launched with the price lower than the price of domestic nitrogenous fertilizers about 500 VND per kg so the imported fertilizer from Indonesia increased.

The import of fertilizers in the first five months (tons)

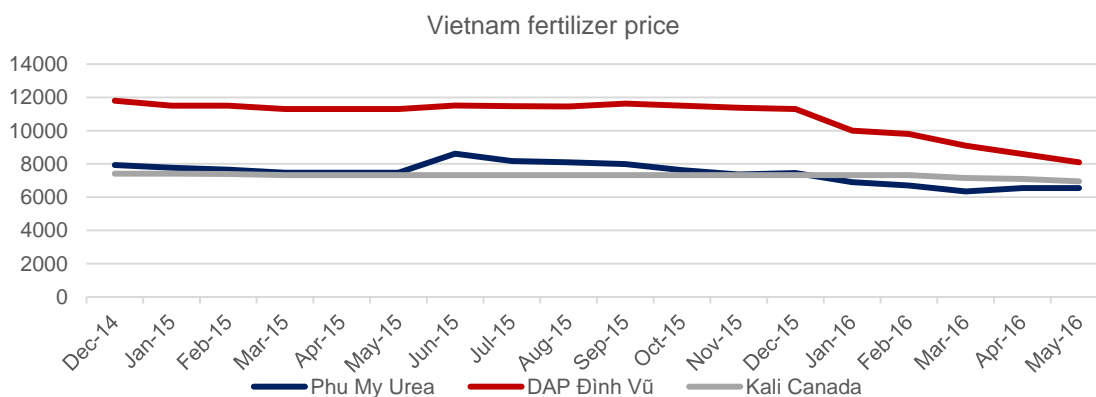


The import of fertilizers among countries (thousand tons)

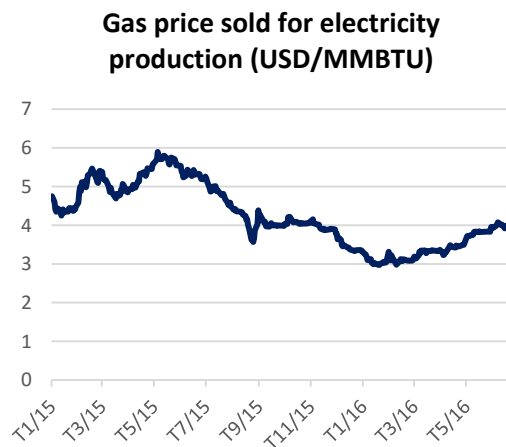
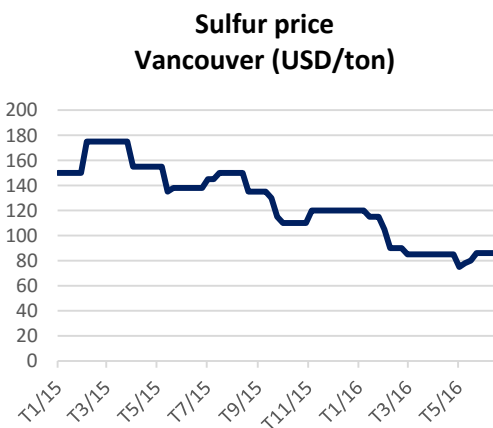


Source: General Department of Customs.

The fertilizer price dropped sharply: In the first five months of 2016, the demand decreased due to the El Nino resulting the continuous decline of fertilizer price. Beside that, the low gas price caused the fall in fertilizer price in the first five months of 2016. From the beginning of this year to May 2016, the urea price declined about 12%, DAP and Potassium prices fell by 28% and 5% respectively. Compared with the same period last year, the average price in the first five months decreased by 13% for urea, 20% for DAP and 3% for potassium. Moreover, at the end of 2nd quarter was the beginning of summer – fall season, the largest crop in a year but the fertilizer has not yet shown any signs of recovery.



Input materials were at low level: on average in the first six months of 2016, the input gas prices for urea production units were 35% lower than in 2015. Similarly, the price of sulfur was 41% lower than last year. However, in the first half of 2016, while the sulfur price tended to fall sharply by about 28%, the gas price tended to increase by about 23% corresponding to the rise of oil price. For the second half of 2016, the oil price is forecasted to be better than in the first half. Thus, the gas and sulfur price, the oil byproducts, will go up in the last six months.



Source: Bloomberg

Source: BSC Research

Declining business results: in contrast with our expectation, although material prices were at a low level but the prolongation of El Nino made the demand and price of fertilizer decrease rapidly and there was still no sign of recovery in the first six months of 2016, and this lead to the decline in the business performance of almost all fertilizer companies. However, there are several companies recording positive business results such as BFC and DGL due to the expansion of scale, the rise in consumed volume and the decline of input material prices. For DGL, the profit went up due to the increase in financial revenue whereas the selling and financial expenses dropped.

	Main products	Revenue 1Q2016	%y.o.y	EAT 1Q2016	%y.o.y
DPM	Ure	1,992	-14%	413	-15%
QBS	Commercial	1,423	89%	25	33%
BFC	NPK	992	-8%	44	25%
DCM	Ure	930	-15%	117	-41%
LAS	NPK, phosphate	908	-32%	31	-60%
DGL	Phân lân	518	-8%	62	18%
PCE	Commercial	511	-6%	5	-9%
PSE	Commercial	492	-14%	4	-10%
PSW	Commercial	482	-15%	4	-23%
PMB	Commercial	456	-3%	10	-17%
SFG	NPK	431	-9%	18	-41%
VAF	Phosphate	397	-2%	20	-9%
NFC	Phosphate	157	10%	6	-30%
PCN	Commercial	66	83%	0	-93%

Source: BSC Research

The possibility of La Nina could help fertilizer companies recover: La Nina usually causes flood, water logging that could kill crops in central areas leading to the decrease of fertilizer demand. Meanwhile, in southern and northern areas, the two main cultivation areas of Vietnam, heavy rains could wash away fertilizer so the demand for fertilizer could increase.

Investment recommendation – market perform

We lower the prospect of fertilizer sector in the last six months of 2016 from OUTPERFORM to **“MARKET PERFORM”**. We believe that the level of fertilizer price will be remained stable in the last six months due to the competition with cheap fertilizer imported from Belarus and Indonesia while the input material costs are forecasted to go up in the last six months. However, in case La Nina appears at the end of 2016, the consumed fertilizer amount is expected to rapidly increase.

DPM- TRACKING- Target price 30,100 VND/share (+ 9%)

In the first six months of 2016, DPM expected to have 452 thousand tons of Phu My urea fertilizer consumed, equivalent to 55% of annual plan. The company estimate that in 2016, there will be about 860 thousand tons of Phu My urea fertilizer consumed, which is 3% higher than in 2015. The idle of Ning Binh

nitrogenous plant in six months and the idle of Ha Bac nitrogenous plant in two weeks could help DPM to boost consumption. However, DPM estimate that the average price of urea in 2016 is at about 6,500 VND per kg, which is 12% lower than in 2015. For chemical segment, we expect that the growth could be 30% thanks to the rapidly increasing consumption of UFC85 and NH3.

We forecast that the oil price in early 2016 is at the average level of 43 USD per barrel, equivalent to the input gas price of DPM at 3.83 USD/mmbtu, declining by 9.3% y.o.y.

According to the change in the forecast of consumption, selling price and input gas price, we adjust the anticipated business result of DPM. We estimate that in 2016, DPM will record 9,420 billion VND of revenue and 1,506 billion of after-tax profit, corresponding to EPS 2016= 3,310 VND per share.

We note that in 2016, DPM will not have any guaranteed debt payment arising for PVTEX as the amount of 102 billion in 2015. From 2017 to 2019, the company will have to pay back the guaranteed debt for about 100 billion each year in case that PVTEX loses the ability to pay the debt.

BFC- BUY- Target price 38,600 VND/share (+ 18%)

Binh Dien –Ninh Binh NPK plant with the capacity of 200 thousand tons per year were launched in October 2015 helped to raise substantially the consumption volume of BFC in northern area. BFC is the largest NPK fertilizer production unit in Vietnam. In addition, the input material of producing NPK is ure fertilizer, phosphate and potassium and their price fell more rapidly than the price of NPK so the gross profit margin of the company rose by 1.2% to 12.7% in Q1/2016. We expect BFC continue to raise the production in the last six months because the crop will take place and the La Nina could happen while the prices of input materials, including types of fertilizers, are forecasted to be low. BFC is anticipated to earn 7,537 billion VND of revenue and 258 billion VND of after-tax profit in 2016, corresponding to EPS 2016=5,155 VND per share.

LAS- TRACKING- Target price 29,600 VND/share (-1%)

The impact of El Nino combines with the operation of Lao Cai DAP and Binh Dien – Ninh Binh NPK plants has reduced the consumption volume of LAS by 10% and the selling price by 5% in the 1st quarter. This trend is anticipated to continue in the later months of this year. Moreover, after a decrease in early months of 2016, the sulfur price is forecasted to recover following the tendency of oil price. We expect that in 2016, LAS will record 4,189 billion of revenue (-10% y.o.y) and 225 billion of after-tax profit (-17% y.o.y), corresponding to EPS 2016 = 3,536 VND per share.

Ticker	Rev 2016	EAT 2016	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Closed price 23/6/2016	Target price
DPM	9,420	1,506	3,310	8.37	1.34	19%	40% cash	27,700	30,100
LAS	4,189	255	3,536	7.63	1.58	28%	55% cash	27,000	26,600
BFC	7,537	258	5,155	6.45	1.69	24%	28% cash	32700	38,600

Source: BSC Research.

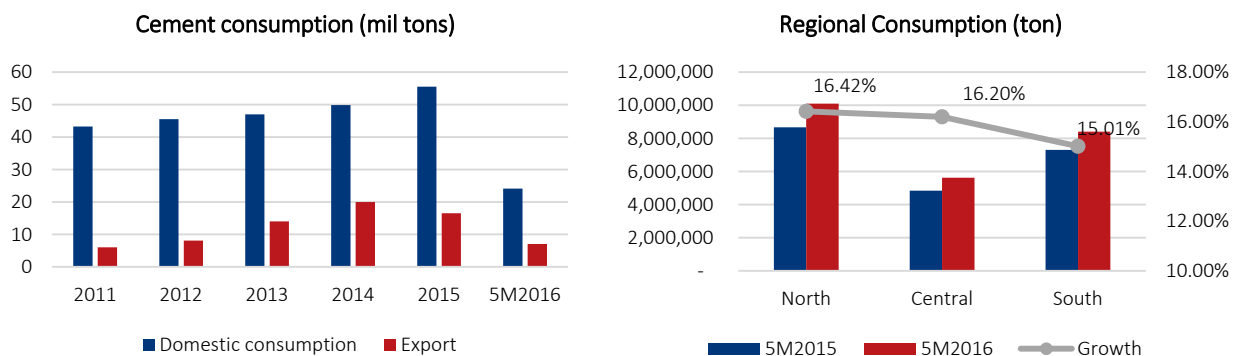
Cement [MARKET PERFORM]

- Domestic consumption of cement increased by 15%yoy; Cement consumption in the Northern Region rised 16.42% yoy
- Domestic consumption growth thanks to real estate projects and infrastructure construction continues to accelerate
- Unrealized Foreign exchange rates Gain in 2Q2016

2Q2016 Review

Domestic Demand is still the main driving force for the entire sector growth, the growth in all 3 regions are greater than 15%. As reported by Cement Association, total domestic cement consumption reached 24.13 million tons in 5M2016 (+15%yoy), exports amount reached 7.05 million tons, equal to 98% over the same period 2015. In 5M2016, consumption in the North have the highest growth momentum, sales reached 10.1 million tons, up 16.42% yoy, overcoming the South (15.01%yoy gain in 5M2016). In which, growth came mainly from March with 2.55 million tons output (+ 48.95%yoy), this is a relatively high growth rate compared with an average increase of 3.9% of the North in 2015.

In our opinion, the growth momentum of cement consumption comes from real estate projects and infrastructure construction. Besides construction value increased by 10.1% yoy in 1Q2016 (reaching 164 trillion dong calculated at constant prices in 2010); Infrastructure investment demand will continue to rise as foreign investment disbursed in 5M2015 reached USD 5.8 billion (+17.2%yoy), about attracting investment in 5M2016, Hanoi is leading with USD 1.96 billion, ranking No. 2 is Haiphong (USD 1.7 billion) and the third is Dong Nai (USD 922 million).



Source: BSC, Cement Association

Unrealized foreign exchange rate Gain in 2Q2016. According to the VCB's selling rate, the VND/EUR decreased due to the impact of information from Europe, the exchange rate at the date 30/06/2016 was VND24,880, down 2.14% compared with the exchange rate at dated 31/03/2016. With outstanding foreign loans at 30/06/2016 of HT1, BCC and BTS respectively EUR 60 million, EUR 28.61 million and EUR 30.34 million, the unrealized gains are respectively about VND32.72 billion, VND15.6 billion and VND16.54 billion.

Ticker	RevQ1 2016 (bil VND)	Rev Q1 2015 (bil VND)	%yoy	EBITDA Q1 2016 (bil VND)	EBITDA Q1 2015 (bil VND)	%yoy
HT1	1,743.67	1,599.81	8.99%	441.46	398.61	10.75%
BCC	1,076.32	893.11	20.51%	140.42	162.57	-13.62%
BTS	736.81	657.30	12.10%	138.38	134.13	3.17%

Source: financial statements, BSC

Investment Recommendation – Market perform

We remain **Market Perform** assessment with cement sector outlook 2016. The noteworthy point is the growth of cement consumption in the North is relatively good in 5M2016 (+16.42%yoy), exceeding the growth rate of the South. Therefore, we believe that core earnings in Q2 of cement enterprise groups will improve compared to the same period of 2015. On Q3 earnings, core activities will be less than in Q2 due “Ngau” month psychological effect, besides the political changes in Europe will also continue to affect the exchange rate.

HT1 – Buy – Target price VND37,400 /share

We estimate PAT 2016 reached VND785 billion, removing bonus and welfare fund of about 20%, in 2016 core EPS = VND1,975 (number of shares 317,952,000)

2Q2016 earnings results: Sales volume 5M2016 was estimated at 2.55 million tons of cement (+17%yoy), the proportion of bulk cement consumption increased, it would reduce the margin; PBT in 2Q2016 is estimated to reach VND298.64 billion (+ 7% yoy). In terms of foreign currency debt, HT1 has EUR 60 million and USD 24 million on 30/06/2016. In addition, HT1 contributed 45.9% capital to establish Truong Tho Jsc to implement the real estate project in Thu Duc (11.7 ha area).

BCC – Buy – Target price VND19,300 /share

Core EAT is estimated at VND244 billion in 2016, EPS 2016 = VND2,038 (number of shares is 95,661,397)

Estimated 2Q2016 earnings: Cement consumption reached 1.77 million tons in 5M2016 (+22%yoy). PBT core operations of parent company reached VND 98 billion in April and May. Estimated PBT of parent company in Q2 (excluding exchange rate and provisioning) reached about VND118 billion (+20.4%yoy). However, the subsidiary met some objective problems and has been deactivated since 5/2016, estimating loss of about VND20 billion in Q2/2016.

BTS – Hold – Target price VND10,500 /share

PAT 2016 is estimated to reach about VND120 billion, EPS = VND1,100 /share (from 2016, the entire PBT of BTS will be subject to 20% corporate income tax as accumulated loss was cleared).

Estimated 2Q2016 earnings: Cement consumption reached 1.43 million tons in 5M2016 (+42%yoy). 6M core operating PBT will be more than VND90 billion (it was VND94.15 billion in 6M2015, earnings in Q3 and Q4/2015 was less optimistic).

Ticker	Rev 2016 (bil VND)	PAT 2016 (bil VND)	EPS 2016	PE 2016	PB 2016	ROE 2016	Div yield 2016	Price 30/06/16	Target price	Link báo cáo
HT1	8,229	785	1,975	14.78	1.78	15.06%	N/A	29,200	37,404	link
BCC	4,147	244	2,038	7.61	0.78	12.50%	10% cp	15,500	19,300	link
BTS	3,038	120	1,100	8.00	0.72	8.85%	5%	8,800	10,500	link

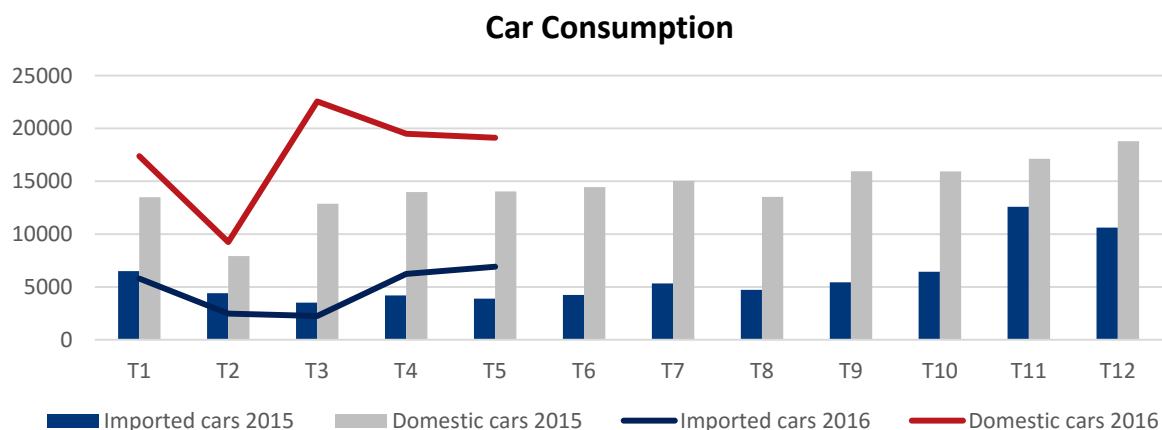
Source: BSC forecast

Automobile [MARKET PERFORM]

- Automobile consumption increased by 31% yoy in 5M2016, especially imported vehicles
- Q1 business performance of listed companies diverges, positive results in HAX, SVC and HTL
- Strong growth of imported car consumption is expected to slow down, under the new excise tax policy

Q2 2016 Review

Automobile consumption speeded up in April and May, especially imported cars. According to the Vietnam Automobile Manufacturers' Association (VAMA), in the first 5 months of 2016, Vietnam sold 85,238 units, equivalent to a good growth of 31% yoy, although still lower than the 59% increase in the same period last year. By vehicle type, passenger cars grew by 22.2%, while commercial vehicles increased 38.8% yoy. Particularly in April and May, imported car increased sharply by 62.4%, as demand surged before the new excise taxes take effect.



Source: VAMA, BSC Research

In April 2016, new excise tax policy was adopted, mostly affecting cars with medium and large cylinder capacity. The new policy will increase about 5% excise tax for 2-3L cars and approximately 30-90 % for luxury cars. The significant increase in excise tax will increase car prices to around 15 -20% for vehicles with a capacity of 3 -4L and up to 50-60% for cars over 5L cylinder. Given the significant difference in price, consumption of imported cars surged in the second quarter, before the new tax policy takes effect on July 1st 2016.

Consumption trends of imported cars have changed dramatically in 1H2016, moving from China to Thailand. While the China imported cars fell sharply by 52% yoy, sales of cars originated from Thailand rose by 48%, making Thailand the largest automobile exporter to Vietnam with 35% total imported cars. Under the AFTA, import duty for automobiles from ASEAN countries fell from 50% to 40%, resulting in the strong growth in

Thailand imported car sales. By contrast, the issue of quality has made Chinese trucks are no longer favorable in Vietnam market.

Business results of the automotive business have been sharply divided in Q1/2016. HHS and TMT recorded declines in profits, due to management issues of inventories and working capital. Meanwhile, HTL, HAX and SVC showed positive growth.

Q1/2016	Rev	% yoy	PAT	% yoy	Notes
SVC	2,733	+47.0%	163.3	+32.5%	Revenue from sales of automobiles increased by 48.9%, but gross profit for this segment only increased by 4%. Profit growth mainly came from the sale of real estate
HAX	446.9	+37.8%	22.6	+688%	Profit growth mainly came from income from manufacturer bonus of \$ 21.2 billion.
TMT	744.7	-4.7%	17.6	-57.5%	Q1 mainly focused on handling inventories and pressure from interest expenses due to the company making the payment at sight to avoid exchange rate risk
HTL	374.9	+54.4%	26.7	116.6%	2016 profit is planned to fall by 51%, as the company fears the high stock in the overall market will have downward pressure on market price, which affects profit margin
HHS	493.6	-16.9%	54	-71.8%	

Source: BSC Research

Investment recommendation – Market perform

We maintain our **MARKET PERFORM** rating for the automobile sector in Q3/2016. The new excise tax policy, the new import duties for trucks, and the import tax calculation significantly supported the consumption of domestically produced cars in 1H2016, which boosted up the Q2 business results. In Q3, the consumption of luxury cars is expected slowdown under the effect of new excise taxes. On the other hand, the truck market is supported by replacement demand of overdue cars and the high demand thanks to the recovery of real estate. Automobile stocks are currently trading at a P/E average = 6.6x, and P/B average of 2.0x. Our updates on some recommended stocks:

SVC – BUY – Target price 52,000 (upside 13.7%)

We believe SVC will directly benefit from the strong growth of automotive market sales in 2Q2016, thereby maintaining high sales growth in Q2. However, the trend of profit margin contraction in Q1 will continue, makes profit from car sale activity is roughly the same as last year. In 2016 the growth momentum of SVC comes from (1) 7 showroom were expanded in 2015, and (2) the company's focus on improving revenues from services (repair and selling components). SVC as of June 24th 2016 was trading at 45,700 VND, corresponding to P/E forward of 12x and P / B of 1.0x forward, relatively high compared to the industry average. However, BSC appreciates the strengths of SVC on the distribution system and on the ownership

of real estate in favorable location. This will help SVC attract foreign investors, who wish to enter/expand Vietnam automotive market.

TMT – BUY – Target price 52,500VND (upside 31.3%)

Short and medium term plans of TMT are straightforward, include (1) TMT's exclusive contract with SINOTRUK. The company completed a production line to produce 8,000 to 10,000 vehicles/year in Feb 2016 and (2) Extending to the South area. The company partnered with SINOTRUK to assembly medium and heavy trucks, which is currently mostly imported. The aims to expand its market share in the Southern market, which is currently dominated by THACO, is a necessary step to increase TMT's market share and maintain the high growth. However, we note that the current consumption trend heading away from Chinese trucks can hinder TMT's sales activities. As of June 24th 2016, TMT stocks are trading at 41,700VND, equivalent to P/E forward = 5.1x, lower than the PE ratio of the industry of 6.6x. We maintain our BUY recommendation for the stock with a price target TMT 52.500 VND / share

HTL – Tracking

HTL is the largest dealer in Vietnam's high-end line of the Japan carmaker - Hino trucks, which accounted for approximately 5% of market share for trucks Vietnam market. HTL has the opportunities from the shift in consumption trend towards higher quality trucks in Vietnam. Besides, HTL's crating plant completed in late 2016 will provide 3,000 truck / year. High growth rate of truck consumption will support the trunk sale activities, which has much higher profit margin and will improve the overall profit margin of HTL. As of June 24th 2016, HTL was traded at 98,000 VND price / share, corresponding to a P/E trailing of 6x and P/B of 3.7x.

	Ticker	Rev 2016 (VND Bil)	PAT 2016 (VND Bil)	EPS 2016	PE 2016	PB 2016	ROE 2016	Div 2016	Price as of June 24th 2016	Target price	Link
	TMT	5,803	256.3	7,795	5.5	2.2	39.3%	50%	40,000	52,500	Link
	SVC	11,000	160	3,778	11.6	1.2	10%	14%	45,700	52,000	Link
Automobile	HTL	1,481	66	5,500	17.1	3.8	22%	50%	92,000	N.A	
	HAX	2,385	36	3,230	11.1	2.1	19.1%		36,000	N.A	
	HHS	4000	398	1,475	6.7	0.7	10.8%	15%	9,400	N.A	

Source: BSC forecasted, 2016 plans of business

Insurance [MARKET PERFORM]

- Insurance premium grew by 17.4% yoy in the first 3 months of 2016
- Claim ratio fell sharply from 37.2% in 1Q2015 to 29%
- Positive 1Q2016 business results with average revenue rose by 14.3% yoy and PAT by 27.5% yoy
- Positive outlook for 3Q2016 thanks to the overall growth momentum of the economy

Non-life insurance market grew strongly in 1Q2016

Non-life insurance market increased strongly in the first 3 months of 2016. According to Ministry of Finance, the whole industry reached VND 8,852 billion of written premiums (+17.36% yoy). In particular, health insurance surged by 38% yoy. Automobile insurance rose by 27% yoy, mostly concentrated in March (+ 53% yoy) thanks to the significant speed up in automotive consumption. Fire insurance is equivalent to the sector growth (+ 16% yoy), while property and casualty insurance increased slightly by 3% yoy. The gross claim ratio was at 29%, significantly lower than the figure in the same period last year of 37.2%. Technical provision of leading enterprises had a good increase of 6% yoy.

Positive 1Q2016 business performance. Revenues of leading enterprises had an average growth of 14.3%, and net profit growth of 27.5% yoy. The growth in revenue and profits diverged sharply between sustainable development oriented businesses (BVH, PGI, BMI) and growth oriented businesses (PVI, PTI, BIC). While revenue increased sharply in growth-oriented businesses, profit margin from insurance operations of these companies decreased, while sustainable development – oriented businesses have opposite movements. Good growth in 1Q2016 profit mainly came from businesses with share sales to strategic partner in 2015, increasing investment capital (BIC, PTI). However, we note that 1Q business results often do not reflect the whole year performance.

1Q – VND bil	BVH	PVI	BMI	PTI	PGI	BIC
Direct written premium	1,564.9(*)	862.6(*)	740.7	724.1	581.3	404.6
% yoy	+9.5%	+18.3%	-0.4%	+31%	+8.4%	+19.4%
Claim ratio (1)	52.2%(*)	40.25%	39.83%	45.09%	50.9%	45.5%
Up/down compared to 1Q2015		+ 2.1%	+ 8.2%	- 8%	- 1.1%	+ 4.4%
Combined ratio (2)	94%	99.1%(*)	95.6%	97.79%	99.0%	99.99%
Up/down compared to 1Q2015	+ 2.9%	+ 2.6%	- 3.2%	- 0.6%	- 0.7%	+ 0.01%
Investment activities						
Investment capital	55,190	10,261.4	2,739.9	3,003.8	1,916.9	2,804.8
% yoy	+7.2%	+11.2%	+2.6%	2.9%	-0.6%	+4.0%
Investment gross profit (12M trail)	786.9	71.5	11.5	44.0	24.5	41.2
ROI	5.5%	6.3%	6.4%	7.8%	6.2%	5.7%
PAT	378.2	86.4	35.6	45.7	25.1	38.9
% yoy	+6.7%	+13.7%	+12.8%	+110%	2.6%	+19.2%
Div 2016	8%	12%			10%	8%

¹ Claim ratio = Total claim expenditure (including provisions) / net insurance premium

² Combined ratio = (Total insurance expenditure + SG&A expense) / Total net revenue from insurance business
(*) For non-life insurance only

Source: BSC Research

Positive outlook for 2Q2016. Automobile consumption growth speeding up in April and May drives higher growth for companies focusing on the retail market. Besides, since in 2015 most companies focused on pay out claims related to the protest in Ha Tinh and Binh Duong back in April 2014, the claim ratio in 2016 is expected to decrease considerably. Sudden growth in profits will still be seen in PTI and BIC thanks to the large investment inflows.

Investment recommendation – Market perform

Positive outlook for 3Q2016. Growth prospects of the insurance industry will depend on the growth rate of economy. Revenue growth momentum in Q3 is positive, thanks to (1) the expected growth of auto sales remains high (2) real estate market is developing well, supporting the Property and Casualty segment, (3) cargo volume is expected to increase further. Investment activities will depend on the interest rate movements in the market, because 70% of the investment is in saving accounts.

We maintain our **MARKET PERFORM** rating for Insurance market. Insurance stocks are currently trading at a P/E median of 12x and P/B median of 0.9x, which is equivalent to median valuation multiples of the countries of Asia - Thai Binh Duong. Some notable stocks in this industry:

PTI - HOLD

PTI is expected to have an outstanding profit growth in 1H2016 due to more than VND1,000 Bil received from Dongbu in May/2015. Direct insurance activities of the business are also well maintained with claim ratio fell sharply in the first quarter, and the combined ratio fell to the lowest level of the industry. PTI currently aimed to have high sale growth, with plans to grow by 25-30% per year in gross premium. However, we note that the high sales growth also contributed to the reduction in claim ratio, since claims are usually lagged to revenue. Accordingly, the operational control of PTI should be monitored further in the coming period. PTI shares are traded on 24/06/2016 at 27,000 VND/share, equivalent to a P/E forward of 14x and P/B of 1.0x. We believe this is a relatively reasonable valuations for PTI. Interested investors can refer to the [PTI company research report](#) of BSC.

PGI – BUY – target price 18,600 VND/share – Upside 13.4%

PGI is the only listed company which has not yet have strategic shareholders. The company plans to complete the the sale of 20% stake to a strategic partner in 2016. PGI is currently employing the sustainable growth orientation, which BSC believe has proven effective for PGI, reflected in the provisioning capabilities and the improvement in insurance operations margin, despite low revenue growth of only 7-8%. The sale of shares to strategic shareholders will increase the book value, raise investment funds, and enhance insurance ability of PGI in the future. As of June 24th 2016, PGI is being traded at 16.400 VND / share,

corresponding to a P/E forward of 11.5x and P/B of 1.4. We maintain our BUY recommendation for the stock with a target price of 18.600 VND. Investors can refer to our [PGI company research report](#) for more details

VNR – BUY – Target price 21,800 VND– Upside 16.5%

VINARE is the only insurer that deals with all 30 companies of the non-life insurance industry. The company has an important position because of the unique specialized business, long history, and long-term relationships with companies in the industry. Accordingly, the VNR will benefit directly from the growth of non-life insurance sector in general. The company pursues sustainable growth orientation, with sales growth maintained at 7 -8% per year. The combined ratio of Vinare was about 96% in 1Q2016, which is much lower than the 97.6% of the non-life insurance sector. As of June 24th 2016, VNR was trading 18,300 VND per share, equivalent to P/E forward of 11.8x and P/B forward of 0.84x, relatively attractive compared to the sector average. Investors can refer the [VNR company report](#) for more information.

BMI – Tracking

BMI has pursued sustainable development orientation since 2010. These years, BMI faces difficulties due to inefficient investment, as well as large fire accident reduce the underwriting profits of the company. In the second quarter, BMI has completed the divestment from PTI, with gross profit estimated at VND 60 billion. In addition, BMI also plans to divest from Bao Minh Securities (BMSC) through auction with a starting price of 11,000 VND/share, equivalent to estimated profit of VND 20 billion. The deals will help the company improve book value, and increase investment funds. As at 06.24.2016, BMI was trading at 23.800 VND / share, equivalent to a P/E forward of 14x and P/B forward of 0.8, quite attractive compared to the industry average.

	Rev 2016	PAT 2016	EPS 2016	P/E F	P/B F	ROE	Div 2016	Price as of 24/6/2016	Target price	Link
PTI	2,913	141.7	1,762	14.8	1.05	7.1%	12%	27,000	N/A	Link
VNR	1,730	260.5	1,576	11.8	0.8	7.1%		18,300	21,800	Link
PGI	2,376	102.6	1,474	12.7	1.6	12.1%	14%- tiền	16,400	18,600	Link
BMI	3,590	134.1	1,578	15.1	0.9	5.9%		23,800	N/A	
BVH	22,504	1,005	1,400	42.8	2.8	6.5%	8%- tiền	60,000	N/A	
PVI	10,367	248.6	1,117	22.1	0.8	3.7%	12%	24,800	N/A	

Source: BSC Research

Plastic [MARKET PERFORM]

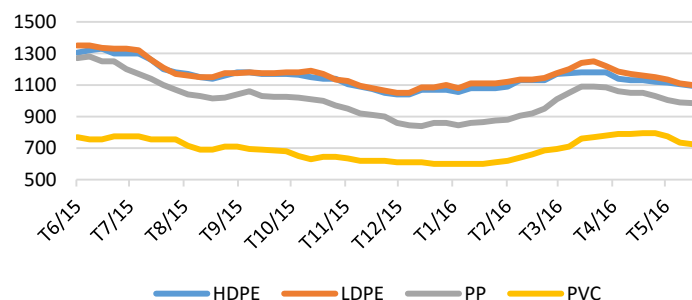
- Manufacturing index and Consumption Index of plastic products increased by 13.1% yoy and 21.5% yoy, respectively.
- Plastic resin price has fallen since April 2016. The price is expected to maintain low level in 2016.
- Positive performance.

2Q2016 review

Increase in both manufacturing and consumption. Till May 2016, Manufacturing Index and Consumption Index of plastic products increased by 13.1% yoy and 21.5% yoy, respectively. Import of plastic resin reached 1.7 million tons (+ 14.4% yoy), exports of plastic products reached USD 872 million (+ 5.3% yoy). Plastic export growth is expected to be high in the near future due to many bilateral and multilateral FTAs which have been signed with main export markets such as EU (25.43%), Japan (22.98%), United States (14.66%) and South Korea (5.99%).

Plastic resin price has fallen since April, 2016. As mentioned in 2Q2016 Sector Outlook, the resin price surged in the first quarter of the year. This affection will lead to the decrease in profit margin of most plastic manufacturing companies. Since April 2016, the resin prices has turned to fell. The price is forecasted to maintain in low level through the year, due to low oil prices and weak demand in China market. On 10th, June, 2016, HDPE price is \$ 1,095/ton (+ 5% ytd, - 16% yoy), PP price is USD 980 per ton (+ 16% ytd, - 23% yoy), PVC price is USD 725 / ton (+ 19% ytd, - 6% yoy). Therefore, the profit margins of the plastic firms are forecasted to continue at a high level in 2016.

Plastic resin movement



Sources: Bloomberg

Positive business performance. By the end of the first quarter of 2016, total revenue of plastic companies increased by 19% to VND 3427 billion, net income rose by 76% yoy to VND 374 billion. Notably, business performance of firms manufacturing plastics for construction (plastic tube and profile bar) rocket due to the recovery of construction & real estate market and the fell in plastic resin in the fourth quarter of 2015. Some companies witnessed strong increase in profits are DPC (+ 9,5x, however, size of the business is small), DNP (nearly 5x thanks to positive result of plastic pump and large contribution of the water sector),

and BMP (+ 83%). Meanwhile, profit growth rate of plastic packaging enterprises is slower. Some businesses with very positive results are AAA, which moved from 6.6 billion of losses in the first quarter of 2015 to 28 billion of profits in the same period in 2016 because the company stop to sell at a loss from Q3,2015, RDP (+ 24%), TPP (+ 17%), VBC (+ 12%), while net profit of some companies fell, including SPP (-11%), TPC (-4%).

Business performance in 1Q2016 of listed plastic firms

Ticker	Main products	Revenues (VND. Bil)	% yoy	Gross profit margin	Operating profit margin	Net profit (VND. Bil)	% yoy
NTP	Plastic pump	809.45	25%	37%	12%	83.25	18%
BMP	Plastic pump	704.41	21%	39%	32%	198.31	83%
DNP	Plastic pump	285.35	76%	22%	12%	20.18	428%
DPC	Plastic pump	14.65	-3%	22%	3%	0.37	845%
DAG	Profile bars, plastic doors & windows	294.45	8%	9%	6%	11.02	22%
AAA	Packaging export	423.55	33%	13%	8%	28.36	
RDP	Packaging	252.97	9%	16%	10%	16.86	24%
TPP	Packaging	135.47	-23%	20%	9%	4.94	17%
SPP	Packaging	183.83	4%	13%	7%	1.45	-11%
VBC	Packaging	171.29	12%	11%	7%	7.52	12%
TPC	Packaging	151.39	-3%	6%	1%	1.81	-4%
Total		3,426.81	19%			374.07	76%

Source: BSC Research

Investment recommendation:

We maintain our **MARKET PERFORM** on the plastic stocks. We note that M&A trends and opening foreign ownership rate which mentioned in [2Q2016 Sector Outlook](#) report will be the spotlight of the sector. Business results of the plastic enterprises is expected to continue to improve due to the increase of consumption. Investors should notice about the changes in resin prices and the profit margins of plastic stocks. We recommend buy for BMP, while tracking for NTP, AAA and RDP.

BMP – BUY – Target price of VND 159,800 – 11% upside

Output soared 36% in the first 4 months of 2016. Profit growth is expected to continue to be strong because (1) BMP dominate the South market (over 50%), (2) real estate has recovered, (3) BMP's capacity is

expanding by 15,000 tons of spare tube in 2016 and about VND 620 billion is invested in new capacity and factory in period of 2016-2017. Efficiency outperformed among peers. Gross profit margin was 39%, net profit margin reached 32% in 1Q2016. Dividend was high, up to 60% in 2015. AGM of BMP approved the plan to open room for foreign investors up to 100%.

NTP - HOLD - Target price of VND 62,200

We change from Buy to **Hold** recommendation on NTP because its current price is now higher than our target price. Revenue is expected to grow rapidly, estimated at 15% in 2016. NTP is now the leader in plastic pump manufacturers. NTP occupies about 62% of Northern market shares. The company takes directly benefit from the recovery of real estate and construction markets. In addition, NTP central factory which went into operation in the fourth quarter of 2014 was taken corporate income tax incentives. In which, the factory was exempt tax in the first 4 years (2014-2017), the tax effect of 7.5 % in the next 10 years (2018-2028) and 15% for the remaining. Income tax expense savings in 2016 is estimated at VND 41 billion. We note that, the decrease in resin price does not bring higher operating profit margin for NTP due to larger discount offered to NTP's distribution. SCIC divestment might bring some positive affects for management and profit growth NTP.

AAA - TRACKING

Business results has improved significantly because (1) output soared by 44% in 6M2016 to 25,368 tons and is expected to reach 27,632 tons in the last 6 months of 2016; (2) the company terminated the contract which sold at a loss in the second quarter of 2015. Net sales and profit after tax is estimated at VND 924 billion (+35% yoy) and VND 58 billion (up from VND 6.6 billion of loss in 6T2015), respectively. 2016 profit after tax plan rise to VND 118 billion, equivalent to 2016 diluted EPS of 1,454 VND / share. From 2017, after doubling capacity to 8,000 tons of plastic bags per month (factory No.6 and No.7 go into operation), output exports to Japan and the United States will increase sharply, which lead to strong revenue and profit growth. We note that AAA's revenues in EU, which currently accounts for about 66% of total output can be affected negatively by Brexit event and demand of environmental-friendly plastic bags of European countries ([refer to AAA update](#)). Convertible bonds worth VND 300 billion may be converted at the price of VND 11,500 per share. This will dilute EPS of AAA and put pressure on stock prices in the short term.

Sector	Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price on 24 th , June, 2016	Target	Link
Plastic	BMP	3,525	689	15,141	9.51	3.25	31%	>= 20% cash	144,000	159,754	Link
	NTP	4,063	418	6,368	10.41	2.24	23%	25% Cash	66,300	62,200	Link
	AAA	2,100	118	1,414	17.1	1.58	12%	10% - 15% cash	26,900	N/A	Link

Source : BSC research

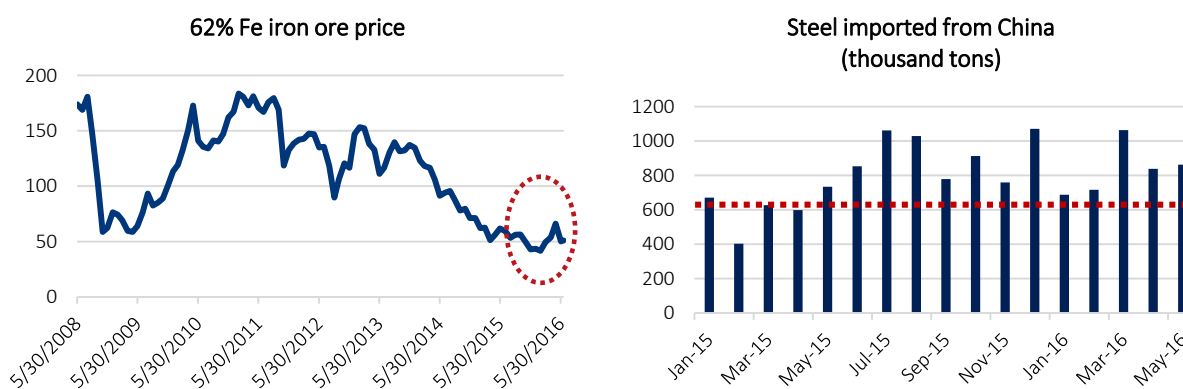
Steel [MARKET PERFORM]

- Iron ore prices continue to fluctuate due to China's demand
- Import from China does not have any sign of declining after imposition of safeguard duty
- Consumption output of steel grew slower in Q2 than Q1 due to hoarding

2Q2016 Review

Raw steel prices continue to fluctuate near 9-year low. In Q1 report, BSC stated that the recovery of iron ore prices is only in short term and it was reflected by the increase stock price of commercial steel group. In May 2016, iron ore prices slightly dropped, the reason is China steel output declined from 2.31 million tons per day (April 2016) to 2.27 million tons per day (May 2016). Besides, Goldman Sachs anticipated that prices of iron ore will fall to USD 47/ton at the end of 2016, and USD 35/ton in 2017 and 2018.

Import from China keeps rising. Although Decision 862/QĐ-BCT took effect since end of March 2016, the amount of steel imported from China does not show any sign of declining, reaching 4.56 million tons in 5M2016 (+49.57%yoy) and accounted for 58.24% total import. Import in April and May was higher than one-year average level.



Source: General Department of Customs, Bloomberg, BSC Research

Steel consumption output in Q2 was year-on-year higher, but lower than consumption output in March 2016. According to VSA, the consumption of construction steel in 5M2016 reached 3.35 million tons (+33.84%yoy), mainly thanks to growth in March (output was 1.01 million tons, increasing 55.26%yoy). Main reason is the increase of dealers' hoarding upon the imposition of safeguard duty (officially took effect at the end of March 2016). Growth in construction steel started to slow down in April (19.46%) and May (1.58%). Taking advantages from safeguard policy of construction steel, output of steel pipes and coated steel sheet maintain high growth rate in Q2/2016.

Ticker	Rev Q1 2016	Rev Q1 2015	%yoy	PAT Q1 2016	PAT Q1 2015	%yoy
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HPG	7,142.39	5,837.94	22.34%	1,020.13	650.39	56.85%
HSG	4,383.52	4,355.15	0.65%	418.20	115.54	261.96%
NKG	1,798.59	1,176.54	52.87%	65.89	20.45	222.19%

Source: Financial statements, BSC Research, note that results of HSG is Q2 (01/01 – 31/03)

Investment recommendation – Market perform

We maintain rating **Market perform** for the steel sector due to the fact that we are still concern about the long run trend of iron ore prices as well as competition from China, which did not show signs of declining after the Government imposed safeguard duty. We remain BUY recommendation in medium and long-term for HPG, HSG and NKG. Besides, we notice VIS and SMC.

HPG – Buy – Target price VND 46,389 per share According to our estimate, 2016 revenue will be VND 29,166 billion, 2016 profit after tax will be VND 4,240 billion (+20.99%yoy), EPS 2016 will be VND 5,727, BVPS 2016 will be VND 23,390. On June 20, 2016, HPG share was traded at VND 38,400, equivalent to PE FW of 6.71x.

Output maintains high growth. Total output of construction steel in 5M2016 was 679,424 tons (+19.3%yoy) and constituted 20.3% of market share. Growth was mainly in March while output in April and May rose slightly year-on-year but lower than in March due to steel hoarding – the common situation of construction steel business.

Output of steel pipes in 5M2016 was 172,500 tons (+50.26%yoy, accounting for 23.31% of market share), growing sharply in April. In addition, Hoa Phat steel pipes were subjected to anti-dumping duty of 0.38% for export to the U.S, currently 5% steel pipes output of HPG are exported into Canada and the U.S.

Animal feed factory put into operation in July 2016. The factory in Hung Yen whose capacity of 300.000 tons per year was put into trial in April and will start operating in July. It is expected to produce about 100,000 tons of animal feed for the last 6 months of 2016. Animal feed only accounts for a minimal share in revenue and profit of HPG.

HSG – Buy – Target price 48,540 VND per share

2016 estimated profit after tax will be VND 1,272 billion (+95.33%yoy), EPS 2016 will be VND 6,472. On June 20, 2016, HSG share was traded at VND 40,200, equivalent to PE FW of 6.21x.

According to VSA, HSG's output of coated steel sheet in 5M2016 was 348,579 tons (+8.03%yoy), leading the market, and output of steel pipes was 168,291 tons (+61.36%yoy) accounting for 22.74% of market share, the second after HPG.

Beside steel production, HSG also entered real estate sector through establishments of 4 subsidiaries in resort industry.

NKG – Buy – Target price VND 35,178 per share

2016 estimated profit after tax will be VND 320 billion (+153.85%yoy), EPS 2016 will be VND 6,396, BVPS 2016 will be VND 19,182. On June 20, 2016, NKG was traded at VND 21,200 per share, equivalent to PE FW of 3.31x.

Updated Q2/2016 business results – Good growth: Profit after tax in Q2/2016 was about VND 100 billion (equals 2.22 times of that in Q2/2015); estimated profit 6T2016 is VND 166 billion (+152%yoy).

Output grew sharply, reaching 163,139 tons of coated steel sheet (+66.03%yoy) and 41,001 tons of steel pipes (+61.51%yoy) in 5M2016. NKG's target output for 2016 is 500,000 – 550,000 tons of coated steel sheet (in which 5M2016 output of 204,141 tons).

Raising capacity: Cold galvanizing chain with capacity of 300,000 tons per year will go into trial operation in July 2016 and produce output in August 2016; output is expected to increase by 60,000 tons for the last 5 months of 2016. Besides, the galvanizing chain with capacity of 120,000 tons per year will be completed at the end of 2016, thus will raise 2017 output.

Financial situation was improved: in Q2/2016, NKG completed issuing 370 billion of 5-year bonds (non-convertible), mainly for the purpose of increasing working capital.

VIS: output of construction steel 5M2016 was 118,150 tons (+4.33%yoy), profit after tax in Q1 was VND 21.82 billion (VND 39.57 billion loss in the same period 2015), BVPS was VND 12,700; On June 20, 2016, VIS was traded at VND 11,400, equivalent to PB of 0.9x.

SMC: business results for Q2 might be dramatic; SMC plans 15% private placement for Hanwa – Q2 business results and book value will affect the price. Profit after tax in Q1 was VND 58.94 billion (VND 40.75 billion loss in the same period 2015), close to target profit of VND 60 billion for the entire year. Q1 EPS was VND 1,966, BVPS was VND 16,035. On June 20, 2016, SMC was traded at VND 13,100, equivalent to PB of 0.82x.

Ticker	Rev 2016 (VND billion)	PAT 2016 (VND billion)	EPS 2016	PE 2016	PB 2016	ROE 2016	Div yield 2016	Price June 30, 2016	Target price	
HPG	29,166	4,240	5,727	6.91	1.69	24.73%	30%	39,600	46,389	link
HSG	17,098	1,272	6,472	6.38	2.11	32.51%	N/A	41,300	48,540	link
NKG	7,194	320	6,396	3.91	1.30	33.24%	N/A	25,000	35,178	link

Source: BSC Research

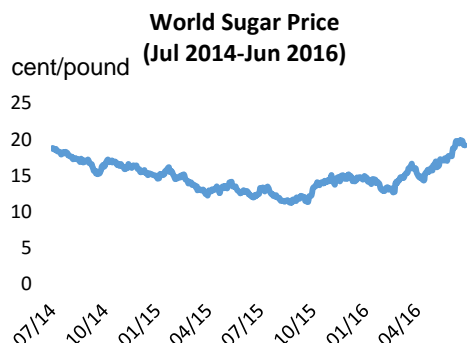
Sugar [MARKET PERFORM]

- Last 6 months in 2015/16 crop year, world sugar prices continued the uptrend and is expected to grow 7-10% in Q3 due to the production shortfall concerns
- Domestic sugar prices in the second half of the season had the same trend with world sugar prices and is expect to has a slight increase of 3-5% in Q3 thanks to a stable supply
- Some policies and draft policies supporting the sugar sector were enacted and discussed
- 9M earnings results for 2015/16 of listed sugar firms improved significantly compared to the same period

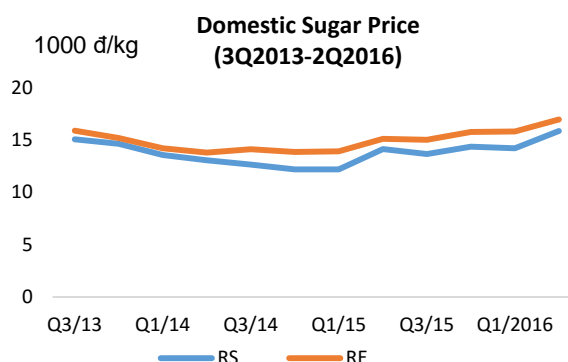
1Q2016 Sector Review

Last 6 months in 2015/16 crop year, world sugar price continued the uptrend and is expected to grow 7-10% in Q3 due to the production shortfall concerns. Since the beginning of 2016 to 24th June, world sugar price reached an average of 15.7 cents/pound, up 14.6% hoh and up 18.6% compared to the first half of the season. In the 3rd quarter, with supply shortfall concerns for 2016/17 crop, world sugar price is expect to keep rising slightly by 7-10% compared to 2Q2016. Specifically, according to the forecast of the United States Department of Agriculture (USDA), the sugar demand in 2016/17 crop will increase steadily and reach 173.6 million tons (+ 1.1% yoy), while sugar output is expected to reach 169.3 million tons (+ 2.7% yoy) due to increased sugarcane production in Brazil and sugar beet in Europe offset the decline in production in India, China. Estimated global sugar inventory will be at about 32.8 million tons, the lowest level since 2010/11.

Domestic sugar prices in the second half of the season had the same trend with world sugar prices and is expect to has a slight increase of 3-5% in Q3 thanks to a stable supply. In the last 6 months of the crop year 2015/16, the average wholesale price of sugar reached 15.03-16.38 thousand VND per kg for RS and RE, up 13.6% over the same period and up 6.9% compared to the first half of the season; Retail prices also rose slightly to 18-21 thousand VND per kg in May. According to estimates of the Ministry of Agriculture and Rural Development, in the 2015/16 crop, domestic sugar production will reach 1.22 million tons (-13.5% yoy), consumption will be 1.65 million tons (+ 17.9% yoy). Shortfall in production is expected to be offset by about 800,000 tons sugar, including 100,000 tons from import quotas, 50,000 tons of HAG, 300-400 thousand tons of inventory and about 300-400 thousand tons smuggled sugar. With approximately 800 thousand tons, the sugar demand in Q3 will be met sufficiently and domestic sugar price is forecasted to be stable or increase slightly by 3-5% compared to the first 2 quarters of 2016.



Source: Bloomberg, BSC Research



Source: Ministry of Finance, BSC Research

Some policies and draft policies supporting the sugar sector were enacted and discussed: (1) Pilot application of the *Sugar import quota auction* instead of quota allocation mechanism previously, ensure rights between sugar firms and businesses using sugar as material; (2) Continue to consider the *Draft Decree on the production and sales of sugar* to ensure the interests of sugarcane growers and production enterprises, increasing their competitiveness in the integration phase; and (3) the proposal allows units detecting smuggled sugar to be entitled to 100% of that sugar value, and the smuggled sugar will be auctioned for sugar production enterprises, against commercial enterprises abusing auction bill for legal circulation.

Business results in 9M 2015/16 fiscal year

Thanks to domestic sugar prices recovering strongly since August 2015 and sugarcane areas falling not too much, the business results of listed sugar companies in 9M 2015/16 were significantly improved. The listed companies had very good revenue growth of above 30% and almost PAT grew above 100% compared to the same period (Note that SBT and BHS merged to SEC and NHS before the 2015/16 fiscal years, LSS acquired 56.61% chartered capital of Nong Cong Sugar Company and consolidated business results since Q3 2015/16). Gross margin of those companies also improved significantly compared to the same period in 2014/15.

In 3Q2016, domestic sugar prices is forecasted to remain stable or increased slightly by 3-5% compared to the first 2 quarters of 2016, the business results of sugar firms can continue to be positive.

Ticke r	Rev	%yoy	Gross	Gross	LNST	%yoy	EPS	P/E	P/B	2016 Business plan		
	9m		margin	margin			trailing			Div	Rev	NI 2016
	15/16		9m	9m			12M			2015	2016	
			15/16	14/15								
SBT	3,006.9	+97.9%	14.5%	11.3%	215.4	+94.2%	1,525	20.5x	2.37x	8%-	3,306	220 ⁽ⁱ⁾
BHS	3,228.1	+53.5%	13.0%	11.6%	167.0	+129.2%	1,502	12.6x	1.16x	8-10%	3,125	205 ⁽ⁱ⁾
SLS	431.0	+36.2%	22.5%	7%	78.4	699.2%	16,832	7.1x	3.32x	n/a	n/a	n/a
LSS	1244.05	+5.9%	13.7%	10.4%	54.86	+118.0%	905	18.9x	0.80x	8.5%	1710	78
KTS	226.7	+33.5%	16.6%	5%	30.9	n/a *	8,669	7.4x	2.11x	20% cash	262.3	15.1

* NI 9m 2014/15 is - 0.04 bil đ; (i): EBT

Source: Financial Statement, BSC Research

Investment Recommendation

We expect that domestic sugar price will be stable or increase slightly in 2Q2016, when consumer demand is met by sugar in stock of manufacturing and trading firms and by imported sugar. In recent years, except for BHS, the price of sugar stocks have continued to increase sharply thanks to sugar prices recovered from Sep 2015 as forecasted in our Sugar Sector Update. We continue the view NEUTRAL with Sugar Sector and recommend to TRACKING with 3 leading stocks as BHS, SBT, LSS.

About SLS, we recommended BUY from a price of 51,500 VND/share to a target price of 64,705 VND/share. Thanks to the surge in sugar price and the lowest production cost among listed companies, SLS achieved positive earnings growth with 36.2% of revenue growth and 699.2% of PAT growth.

Regarding new crop year 2016/17, quarter 3 of 2016 is the time for planting and some enterprises re-refining of raw sugar to sell. Because earnings of sugar companies depend heavily on raw material areas and the weather, we will update the situation of new crop year 2016/17 in the following reports.

Sector	Ticker	Rev 2016 (bil d)	NI 2016 (tỷ đ)	EPS 15/16	P/E F 2016	P/B F 2016	ROE 2016	Dividend 2015	Closed price on 24 th June 2016	Target price
Sugar	BHS	4,858	217	1,742	10.62	1.11	10.5%	5% cash div	18,900	n/a
	SBT	3,090	255	1,330	23.5	2.32	9.9%	7% cash div	31,200	n/a
	LSS	1,697	74.6	1,066	16.1	0.73	4.5%	1.5% cash	17,100	n/a
	SLS	741	118	17,410	6.9	2.86	41.4%	65% cash	118,600	n/a

Source: BSC Research

Tires [MARKET PERFORM]

- Output is expected to rise by 20% in 2016.
- Radial tire consumption is slower than the plan.
- Output price down compared the same period in 2015, in which, price settled by CSM and DRC decreased by 20% and by 10%, respectively.
- Gross profit margin in Q2/2016 might reduce because of 74.3% higher rubber price in Q1/2016.
- High dividends and bonus stocks push price increase in short term.

2Q 2016 Review

Output is expected to rise by 20% in 2016. (1) Automobile consumption has increased since 2013, by 37% in 2013, by 43% in 2014, by 55% in 2015 and by 31% in 5M2016. The strong growth promotes replacement segment of tires. (2) Domestic assemble cars, which rise by 37% in 4M2016 is expected to soar in 2016. TMT and Thaco began assembling heavy truck in 2016 with designed capacity of 30 thousand units. Thaco also expanse its capacity of trucks and buses to 100,000 units each type.

Radial tire consumption is so slow that DRC and CSM still suffer losses. Production volume is lower than break-even point. Average output of DRC was 16,500 tires per month in 1Q2016 while its break –even point is about 20,000 tires per month. Gross profit margin of radial tire in Q1/2016 is -12%. Average radial tire consumption in the second quarter, 2016 is estimated at approximately 20,000 tires/month. However, average rubber price rise by 38% in Q1/2016 compared to Q4/2015. Thus, DRC might not record profit in 2Q2016. In the first 6 months of 2016, average tire consumption of CSM is about 9,000 tires/month, while the break-even point is at 20,800 tires/month.

Product price reduce due to fierce competition, especially with Chinese firms as mentioned in [2016 Sector Outlook](#) and [2Q2016 Sector Outlook](#). The average price settled by CSM fell by about 8-10% ytd and down by nearly 20% yoy. The price settled by DRC decreased by 8-10%, yoy, on average, compared to early of 2015 (price is stable in 5M2016).

Sharply increase in 1Q2016 rubber price reduce the gross profit margin of the tire companies. Rubber account for about 56% of raw material cost of tire businesses. The prices recovered by 74.3% from the beginning of 2016 to the end of April 2016. Then, rubber price fell by 13.4% in May 2016, fluctuates around 1.62 to 1.65 USD/kg. Therefore, gross profit margin in the second quarter 2016 of the tire firms plummeted because inventory days lasts 3 months. Gross profit margin of DRC in the second quarter, 2016 may higher than in the first quarter, 2016 thanks to good consumption of Radial.

Investment plan. Radial output is consumed slowly. While, output of semi-steel grew strongly (up by 15% yoy in 6M2016) and were offtaken by American partners. Based on the plan area of Radial factory, which has investment of VND 400 billion, CSM has invested VND 200 billion to expanse capacity by 0.5 million to 1.8 million semi-steel radial tires per year. The new factory will operated in the first quarter of 2017. DRC plans to invest the second stage of radial tire factory, up capacity to 0.6 million tires. Total investment is estimated at VND 700 billion. The new stage is expected to operate in Q3/2017. The 2nd stage of Radial tire

factory might reduce the average unit cost for DRC. Break event point of the first stage is 240,000 tires while expected break event point of both stages is 260,000 tires.

High dividends. DRC paid 30% dividend by cash and 30% in bonus stocks in June 2016. CSM expects to pay 20% dividend by cash and 40% bonus stock in July, 2016. Dividend payout ratio of SRC is 25% by cash and bonus stocks is 40%.

1Q2016 business performance. Total revenue of tire firms were VND 1.630 billion (-1.37% yoy), profit after tax reached VND 153 billion (+ 9.56% yoy). Except DRC's result unchanged compared to the same period, 2015, the 2 remaining firms, CSM and SRC witnessed high net profit growth of 13% (VND 62 billion) and 65% (VND 17 billion), respectively, thanks to strong improvement of gross profit margin, up from 21% to 24% and from 17% to 21%, respectively.

	Net revenue Q1 2016 (billion vnd)	% yoy	Gross profit margin Q1 2016	Gross profit margin Q1 2015	Profit after tax (billion vnd)	% yoy
DRC	746	2.66%	21%	22%	88	1%
CSM	685	0.72%	24%	21%	62	13%
SRC	199	1.33%	21%	17%	17	65%

Source: BSC research

Investment recommendation – Market perform

We maintain our **Market perform** on tire sectors. 2016 business results might witness no growth due to (1) low Radial output; (2) fierce competition, especially with Chinese businesses; (3) hardly down in rubber price. In short term, stock prices of tire firms soar thanks to high dividend and bonus stock payment. For long term, investors should pay attention to consumption, factory progress rubber price movement.

DRC – Tracking.

DRC is the leader among tire manufacturers. The company owns many institutional clients who are domestic automobile assemblies. Expected high automobile assemblies volumes and high demand for automobiles push demand for DRC tires. We note that the 2nd stage of Radial tire factory will reduce the average unit cost for DRC. Therefore, DRC performance will improve from 2018. DRC make dividend payment of 30% by cash and give bonus stocks of 30% in 2016. Investors should closely track rubber price and Radial output of DRC.

CSM – Tracking.

CSM currently attracted investors due to high dividend payment (20% in cash) and high bonus stocks (40%). However, in the medium and long term, investors should pay attention to tire consumption, progress of

projects and the raw rubber price movement. Business result in 2016 might down because (1) product price in the first 5 months of 2016 fell by 8-10% ytd, on average; (2) the average output in the first 5 months of 2016 was 9,000 tires/month, still lower than CSM's plan and break-even point (20,800 tires/month); (3) rubber price is very close to the bottom, and may hardly decrease deeply. BSC forecasts that revenue of CSM will be VND 3,226 billion, profit after tax will be VND 277 billion (-4.6%, except profit from real estate recorded in 2015).

Ticker	Revenue 2016E	Profit after tax 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2016E	Price on June 24 th 2016	Target price	Link of report
DRC	3,774	455	3,551	10.95	2.02	26.06%	N/A	38,900		Link
CSM	3,235	277	2,445	10.18	1.83	22.68%	>= 10%	24,900		Link

Source: BSC research

Banking [MARKET PERFORM]

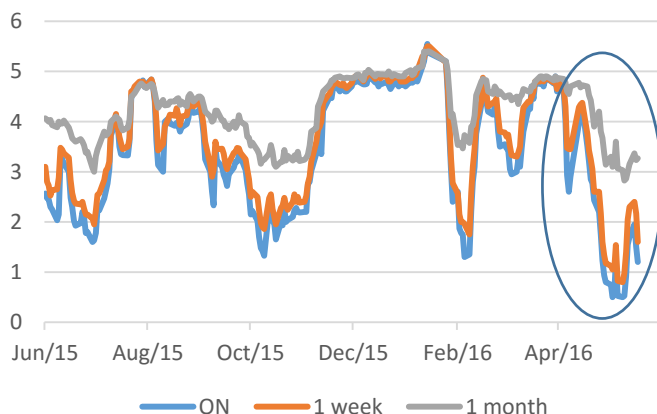
- Till 20th, June, 2016, credit grew by 6.2%, deposit increased by 8.23% compared to 31st, Dec, 2015.
- Abundant liquidity. Interbank interest rates fell sharply in the second quarter of 2016
- Up trend in mobilizing rates while down trend in lending rates might reduce banks' NIM.
- Circular No. 06 loosen regulations on operation of credit institution and give more 6-18 months for banks to apply these regulations comparing to Draft amendment of Circular No. 36
- VAMC plan to buy NPLs at market value from 2016.

2Q2016 Review

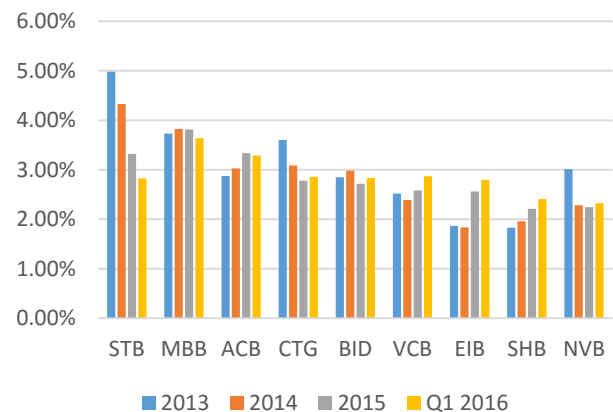
Positive credit growth. Till 20th, June, 2016, credit grew by 6.2% (equal to the same period in 2015), deposit increased by 8.23% compared to 31st, Dec, 2015.

Abundant liquidity. Credit grew lower than deposit, in addition, SBV injected VND 72.000 billion in April, May, 2016 through foreign market. These support banking liquidity. LDR at the end of April, 2016 was 87.52%, lower than at the end of 2015 (87.96%). Thanks to high liquidity, interbank interest rate down, some banks reduce mobilizing rate in the second quarter of 2016.

Interbank interest rate movement from June, 2015 to June, 2016



NIM of listed banks from 2013 to 1Q2016



Sources: Bloomberg, BSC research

Up trend in mobilizing rates while down trend in lending rates might reduce banks' NIM. After a series of banks raise mobilizing rates in the first quarter of 2016, deposit rates move divergently among banks. In general, compared to the end of 2015, the main trend is lightly increase for long term deposit. Some banks raised deposit rates include: Lienvietpostbank rose 0.1-0.5% for all maturities, MBB increased 0.1% for the term of 6-9 months and 0.3% for the term of 36-60 months, Maritime Bank, SCB and SHB raise 0.1-0.3% for short-term interest rates; VIB and Techcombank raised 0.1-0.2% for 12-month term deposit.

Meanwhile, OCB, STB reduced by 0.1% interest rates for all maturities, ACB reduced by 0.1% for 9-month term. At the same time, lending rates fell in many banks. 3 commercial banks owned at least 51% by SBV including BIDV, Vietcombank, Vietinbank down by 0.5% for short term loans and apply the maximum rate of 10% for medium and long term loans. EIB reduced by 0.2-0.5%; Techcombank down 1.5% and Dong A bank down 0.3% for all maturities. ACB and STB down rate on short and medium term loans (by 0.11- 1.5%) while raise rates on long term loans (by 0.2- 0.33%). These movement can reduce NIM of commercial banks.

Comparing to Draft amendment Circular No. 36, Circular No. 06/2016/TT-NHNN loosen, and give more 6-18 months for banks to implement new requirements. Comparing to Circular 36, Circular 06 tightened provisions on medium and long-term loans, loans for commercial real estate and securities. In the long term, the Circular No. 06 will bring a healthy banking system through regulating loans with high potential risk, transparenting NPLs and ensuring liquidity for the banks. In short term, the Circular No. 06 avoid short-term shocks, while open more room credit growth, especially in the real estate credit and medium- and long-term credit, and reduce increase pressure of interest rate ([Refer to the Impact of Circular 06](#)).

VAMC plan to purchase bad debts at market price since 2016. Current chartered capital of VAMC is VND 2.000 billion, much smaller than accumulated NPLs bought by VAMC till 18th June, 2016 (of VND 247 thousand billion). SBV issued Decision No. 618 on 12th, April, 2016, which allows VAMC to collaborate with other organizations and individuals to buy NPLs at market price, to receive trust funds to buy NPLs at market value. In addition, credit institutions are permitted to buy NPLs which sold to VAMC in exchange for special bonds, conversion debt sold to VAMC at book value to debt sold at market value. In other words, the new regulations extend capital used to purchase NPLs at market value. Therefore, bad debts are solved more substantively, simultaneously, the bank no need to make provision expenses of 20% of par value of special bonds annum. Chairman of VAMC, Mr. Nguyen Quoc Hung said that VAMC would buy bad debt in cash since 2016. VAMC plans to handle VND 30.000 billion of bad debts in 2016 thought sale of collaterals. Accumulated bad debts solved by VAMC till the end of the second quarter of 2016 was VND 30,780 billion.

Extending provision time of special bond from 5 years to 10 years for some banks. SBV issued Circular No. 08/2016/TT-NHNN, go into effective from 01st, August, 2016. SBV extends provision time for special bonds from 5 years up to 10 years for (1) credit institutions which are restructuring under plans approved by SBV; (2) credit institutions get such financial difficulties that the provision expenses make negative pretax income in the proposed year. This Circular will reduce pressure provision for above bank group, including some listed banks such as BIDV, Vietinbank (after merge with PGbank), STB, NVB, EIB, etc.

Some banks proposed to open room for foreign investors. As mentioned in [2016 Vietnam Sector outlook report](#), banks needs to raise equity capital to ensure safe operation and Basel II application. Therefore, CTG submits SBV to open room for foreign investors to 40%, VCB submits to open to 35%, ABBank submits to open to 49% and SCB want to sell more than 50% to foreign investors.

1Q2016 performance. End of 1Q2016, total customer loans of 9 listed banks reached to VND 2,288 trillion (+ 3.94% yoy). Some banks recorded high credit growth rate are ACB (+ 8%), VCB (+ 6%), SHB (+ 5%) and BID (+ 4%). Meanwhile, some banks witnessed a decline in loans, including, EIB (-3%), NVB (-2%). Profit

P/E	25.39	12.17	14.38	9.63	15.88	34.39	6.73	N/A	N/A
P/B	2.66	1.08	1.41	1.06	1.27	0.90	0.51	1.10	0.53

Sources: BSC research, *: BSC estimates

Investment Recommendation – Market perform

We maintain our **MARKET PERFORM** rating on the banking sector. Loosening some requirement on bank's operation and give more 6-18 months of roadmaps to implement these regulations will support short term growth of banks. The circular is a prerequisite for stable operation of the banking system in the long term while avoids short-term shocks. We suppose that credit growth rate of some banks such as CTG, BID, SHB and EIB could slow down in the coming period because of over maximum ratio of loans to deposits under Circular No. 06. Provision pressure continue to erode the profitability of the banks. Except VCB, MBB make lower provision expenses, the cost of other banks is forecasted to continue to rise in the future.

VCB – Tracking – Target price of VND 45,500 per share.

Being the first class bank in Vietnam, Vietcombank take benefit from the recovery of the economy as well as integration trends. Good liquidity, 80% of LDR which is permitted under circular No. 06 allows VCB promote loans in the coming period. High proportion of demand deposits lead to lower average mobilizing rate than others. In addition, G-bonds worth USD 2 million bring higher NIM for VCB. Thanks to good asset quality, high provision for credit of losses of loans/NPLs, provision expenses of VCB are expected to decrease in the near future. VCB's profit after tax is expected to reach VND 6,700 billion (+ 26% yoy), equivalent to 2016 EPS of VND 2,208 per share.

MBB- Buy- Target price of VND 16,600 per share, 11% upside.

MBB is one of the leading banks in efficiency, business results are expected to improve. (1) High growth rate of loans thanks to low ratio of loans to customer deposits of 68% in 2015. (2) Great demand deposit of 31% in 2015 brings advantages of cost and higher NIM for MBB. (3) Provision for loans losses is tight (high ratio of provision to bad debts of 108%, high ratio of interest received to interest income of 110%, interest and fee receivable declined). We suppose that the MBB's provision expenses will decrease in the near future. We note that some high interest bonds hold by MBB was due, therefore, NIM of MBB will reduce. In addition, the merger SDFC into MBB may increase provision expenses of MBB.

ACB – Tracking.

As mentioned in [2016 sector outlook](#), ACB has actively handled the backlog arising in 2012. The positive point is that ACB solved 1 in 2 risks stated in the sector report, which is risk related to placement with other banks. (1) VND 695 billion placed with Vietinbank and its accrued interest was off balance sheet; (2) Eliminating accrued interest worth VND 126 billion from VND 772 billion of placement with GPbank, receiving GPbank's loans worth VND 500 billion at interest rate of 9.2% annum for debt clearing; (3) acquisition bonds worth VND 600 billion issued by one company in G6 for bank D's loans clearing, and eliminating VND 117 billion of bonds accrued interest; (4) adjusting debt maturity of VND 400 billion placed

with VNCB to 2020 with the interest rate of 2% annum, ACB may record VND 176 billion of reversal of provision when VNCB start to make debt settlement. Even asset quality of ACB has improved, provision expenses remains high due to handling and making provision for G6 debt. G6's debt payment was approved to repay from 2015 to 2018. ACB made VND 751 billion of provision for irrecoverable debts in 2015. ACB target to recover VND 2,000 billion of G6's debts, make maximum provision for G6's debt losses of VND 1,000 billion in 2016. In 1Q2016, VND 100 billion of the debt was repaid and more than VND 200 billion was made as provision for the debt losses. Investors should monitor G6's debt settlement and handling.

Stock code	Revenue 2016E	Profit after tax 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2016E	Price on June 24 th 2016	Target price
MBB		3,093	1,855	8.03	1.04	13.20%	10% cash or stock	14,900	16,600
VCB		6,682	2,102	22.26	2.65	14.32%	10% cash	46,800	45.500
ACB		1.208	1.337	14.36	1.31	8.45%	10% stock	19,200	

Source: BSC research

Pharmaceutical [MARKET PERFORM]

- Pharmaceutical import grew by 25%, pharmaceutical material import increased by 7% in the first 5 months.
- Impact of amended Pharmaceutical Law on domestic companies is unclear.
- New provision allows drug bid auction to be split, which aid domestic firms to participate in large bid auction.

2Q2016 Review

Foreign firms dominate pharmaceutical market. In the first 5 months, total value of pharmaceutical import was USD 1.02 billion (+25% yoy). Material import was USD 145.1 million (+6.9% yoy). Domestic production of pharmaceutical only rose by 6% yoy. Although consumption keep growing, market share growth of foreign pharmaceutical companies overwhelm domestic companies.

Impact of amended Pharmaceutical Law is unclear. As we stated in [Sector Outlook Report 2016Q2](#), amended Pharmaceutical Law prioritizes domestic drug over foreign drug in bid auction, provided that domestic drug proved to be equivalent to foreign drug. This requires harsh technical test as well as clinical trials for domestic drug which are nearly impossible in the current condition of Vietnam. Hence, we believe that the impact of amended Pharmaceutical Law is unclear.

Circular 11/2016/TT-BYT helps domestic firms to compete in large bid auction. Accordingly, a bid auction of drugs may be split into many parts and a pharmaceutical firm can participate in bidding of one or more than one part of the bid auction; a national bid auction can be divided by different areas or regions. Since domestic pharmaceutical firms are limited in production capacity and ability to supply, the Circular helps these firms to participate in large bid auction.

1Q2016 business results: Total revenue in Q1 was VND 2,885 billion, +13% yoy. Total pretax profit rose 18% yoy, reaching VND 417 billion. Some firms recognized high growth: DCL (revenue +24% yoy, pretax profit +45% yoy thanks to expanding sales network and reduction of financial expenses); DBT (Pretax profit +89% mainly due to exchange rate fluctuation); DHG (revenue +22%, pretax profit +26%, due to renovation of sales network). Meanwhile, some firms show negative growth compared with the same period last year: IMP (revenue -12% yoy, pretax profit -20% yoy); OPC (revenue grew by 5% yoy but pretax profit fell by 7% due to higher financial and selling expenses).

	Revenue Q1/2016	% yoy	Pretax Q1/2016	profit % yoy	Target 2016	revenue	Target profit 2016	pretax
DHG	815	22%	171	26%	3,733		750	
TRA	494	7%	63	12%	2,100		210*	
DMC	280	8%	44	22%	1,415		155*	
IMP	193	-12%	27	-20%	1,100		140	
DHT	273	28%	11	15%	850		28	
DCL	178	24%	26	45%	850		82*	
OPC	201	5%	27	-7%	680		95	
DBT	129	3%	8	89%	580		22.5*	
LDP	122	13%	5	17%	500		22	

PMC	101	13%	22	16%	390	72
DP3	69	34%	12	45%	220	20
PPP	30	20%	3	88%	120	7*
Total	2,885	13%	417	18%		

* After-tax profit

Source: BSC research

Investment recommendation – Market perform

We remain **Market perform** for pharmaceutical sector. Pharmaceutical stocks are defensive and suitable for long-term investment during bad cycles of market. We believe that amended Pharmaceutical law has not brought enough positive effects, pharmaceutical sector will continue to be exposed to foreign competitor, especially after FTAs take effect. By upgrading factory to EU-GMP or PICs standard, companies like IMP, DHG, DMC expect to boost their ETC sales, improving business. Notably, pharmaceutical stocks is having attractive valuation with average P/E of 12.66x and average P/B of 2.18x, compared with P/E, P/B of other emerging markets in Asia-Pacific which are 23.70x và 2.82x, respectively).

DHG – Tracking

DHG is the sector leader in terms of market share, revenue and profit; having a broad distribution channel. Business results are promising thanks to renovation of sales network, product mix, and benefit from tax incentives for two factories. DHG planned to build PICs-standard factory for production of effervescent tablets, which might help the company to penetrate ETC market. However, the project might be completed after 2018, when the competition in ETC market might be intensive as other firms (IMP, DMC) also develop their plants to EU-GMP and PICs standard, and FTAs take effect. Long-term investor should track DHG's business results and progress of new plant construction.

IMP – Tracking

IMP mainly competes in high-quality pharmaceutical segment. In 2016, OTC revenue growth of IMP slowed down. IMP expects to improve ETC revenue and export after the Cephalosporin and Penicilin factories receive EU-GMP standard in June 2016. IMP's products are 20-30% cheaper than foreign products in the same segment. Also, the company will construct new high-technology plants: the EU-GMP-standard plant in Binh Duong will go into operation in 2017; and the antibiotic factory in HCMC is also planned to be built.

TRA – Tracking

TRA possesses the most effective distribution network among the sector, 20 branches, 3 subsidiaries, 21,788 direct customers (+20% yoy); is the sole distributor of Sandoz in Vietnam. TRA expects to complete the pharmaceutical factory in Hung Yen in 2016Q4, which will provide up to 1.2 billion units per year since 2017Q3. In the first 6 months, TRA attracted cash flows on the stock market due to information about divestiture of foreign investment funds.

DMC – Tracking

Business results in 2015 and 2016Q1 was improved thanks to restructuring product mix: 2016Q1 revenue grew by 8% yoy, pretax profit rose by 22% yoy. New non-betalactam factory with capacity of 3 billion units,

PIC/s and EU-GMP standard, planned to go into operation in 2017, is expected to boost revenue and profit. Long-term investors should pay attention to DMC's plant construction progress and its business results.

Code	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Price at June 30, 2016	Target price	Link
DHG	3530	695	7,196	14.31	3.50	24%	35% cash div.	103.000		Link
IMP	999	104	3,103	14.44	1.43	11%	20% cash div.	44.800		Link
TRA	2100	210	7,829	14.69	2.94	19%	30% cash div.	115.000		Link
DMC	1415	155	5,802	12.67	2.47	17%	20% cash div.	73.500		Link

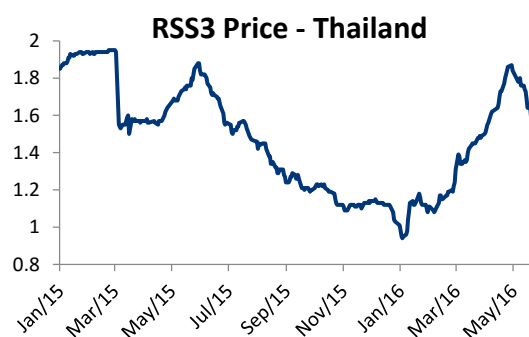
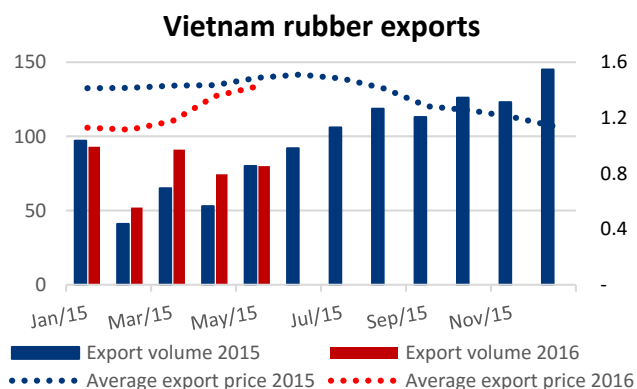
Source: BSC research

Natural Rubber [MARKET PERFORM]

- Rubber export output increased by 16.2% in 5M2016 , with value up 0.4% yoy
- Global rubber prices fell by 13.4% in May and remained stable in June
- Poor earnings in 1Q2016 with average revenue fell by 22%, and net profit down by 44% yoy.
- Rubber prices expected to drop in 2H2016, with the ability to recover depends on La-nina.

1H2016 Review – approaching the bottom

Rubber export value increased slightly in the first 5 months of the year compared with the same period last year, thanks to the recovery in rubber prices: According to preliminary statistics of the General Administration of Customs, volume exports of natural rubber in the first 5 months reached 390.5 thousand tons in 2016 (+ 16.2% yoy) with a value of VND 485 million (+ 0.4% yoy). The average rubber price in April and May increased to \$1.43/kg, 6.1% higher than the average price of 2015, and the current price is approximately equal the figure same time last year.



Source: Bloomberg

Rubber prices peaked on April 29th 2016, then started the downward trend. After reaching a 74% increase in the period from January to April, rubber prices fell by 13.4% in May and remained stable in June at around \$1.62 - 1.65/ kg. As of June 20th 2016, the YTD RSS3 price averages at \$1.39/kg, 7.4% lower compared to 2015. The main cause of the downward trend is seasonality reason: in 1H2016, rubber price rose due to season of rubber trees shedding their leaves. Then, the harvesting resumed in April, increasing supply and reduce price. However, we note that the cyclical recovery in 2016 was stronger and more prolonged compared with the last year, with an increase of 74.3% and the increase time from January - end of April.

Poor business results from rubber businesses in the first quarter, 2016. Domestic rubber prices are usually lower and lagged to the global rubber prices. Accordingly, the recovery of global rubber prices have not been followed by the selling price of rubber businesses in Q1. Furthermore, due to the rubber tree defoliation during Q1, sales came mainly from long-term contracts with low volume and low prices.

1Q 2016	Rev (VND Bil)	% yoy	PAT	%yoy	Div 2016	Notes
HRC	13.8	-48.7%	2.9	-86.6%	20% cp	Operating profits declined due to rubber tree liquidation was recorded in 1Q2015
TNC	14.5	-4.7%	1.24	-77.5%		Breakeven in rubber processing activities

TRC	52.2	-38.7%	8.5	-49%	10% tiền	Gross profit from core activities declined by 63% to VND 3.7 Bil
DPR	148.7	+17.4%	37.7	0%	30% tiền	Growth came from rubber tree liquidation recorded in 1Q (instead of the 2 nd quarter as in 2015). Gross profit from core activities was VND 2.5Bil (-70.1% yoy)
PHR	179.6	-33%	35.9	-8%	10% tiền	Gross profit from core activities was VND 13.2 Bil (-67.8% yoy)

Source: Financial statements of listed companies, BSC research

Poor results in 2Q2016: In 2Q2016, rubber selling price of domestic enterprises fluctuated in the range of VND 29-30 million / ton, significantly higher than the plan (26 million / tons) of the business. However, due to bad weather, rubber production output is significantly lower than the same period last year. The costs incurred relating to the early stage of harvesting season increased production costs and reduces profits in Q2. As a result, in the second quarter, the operating results of the enterprises will remain poor.

Investment recommendation – Market perform

Based on the developments and prospects of rubber prices, we increase our recommendation from **UNDERPERFORM** to **MARKET PERFORM** for the rubber industry in 3Q2016. Currently, rubber price is 7% higher than the average price in 2015. Rubber price will likely follow a downward trend in the third quarter, since harvest season begins and will increase supply and reduce price. However, based on the price movement in the first 6 months, and the higher than expected oil price, we believe that the decline in rubber prices will be not as severe as predicted by World Bank (-26% yoy) and the business plan of most companies (-16% yoy). Besides, BSC notes the possibility that La Nina in 2H2016 will reduce rubber supply of major producing countries. In 2011, La Nina caused flooding in Thailand and raised rubber prices to the highest history level.

We believe that the natural rubber industry could attract investors in the near future. As of June 24th 2016, rubber stocks are trading at a median PE of 11, which is approximately equal to the region of 10.95, the median PB of 0.61, lower than the level of region at around 0.82. Some notable stocks:

TRC – BUY – Target price 25,100 – upside +14.6%

In the case rubber prices has made bottom and successfully recovered, BSC believes Tay Ninh Rubber Joint Stock Company (TRC) will see most obvious improvement in the business results thanks to good fundamentals, together with effective cost management. Among the listed companies, TRC has highest productivity, young age structure of rubber trees, and high value-added products with 65% of products are latex and 50,60 CV. Furthermore, in 2016, the company will not recognize the cost of over VND 17 billion for retirement benefits as in 2015. TRC is currently trading at a price of 21,900 VND/share, equivalent to a P/E forward of 11.2x and PB of 0.4.

PHR – Tracking

Phuoc Hoa Rubber Joint Stock Company (PHR) has the largest planting area among listed companies, but the tree age structure is not optimal with 60% are old trees, making extraction yield unstable. However, in the context low rubber prices made rubber processing activity barely profitable, PHR has major advantages with 1,000 hectares of rubber annually liquidated in the coming 5 years, equivalent to profit of about VND 140-150 billion per year. As of June 24th 2016, PHR was trading at a price of 21,600 VND/share, equivalent to a P/E trailing of 8.1x and PB of 0.8x.

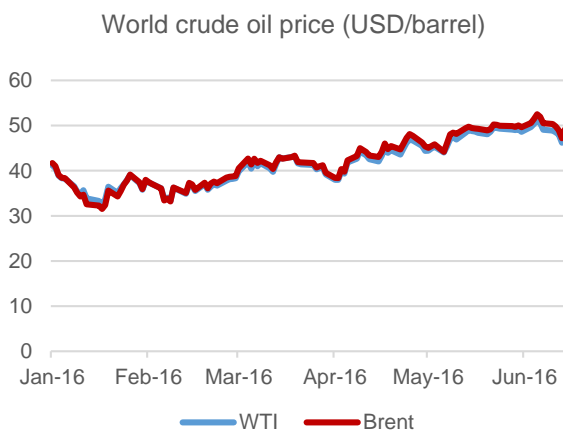
	Rev 2016	PAT 2016	EPS 2016	P/E F	P/B F	ROE	Div 2016	Price as of 24/6/2016	Target price	Upside	Link
TRC	339.73	70.66	1,941	10.1	0.4	4%	10%	21,500	25,100	16.7%	Link

Oil & Gas [MARKET PERFORM]

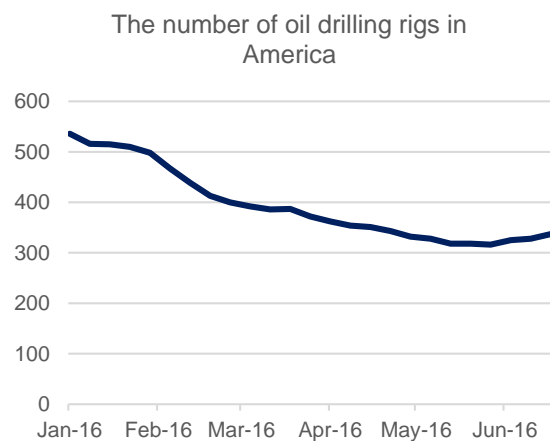
- Oil prices increased by 57% from the bottom on January 20th, 2016 but the recovery has weakened. LPG gas rose by 16% from the bottom but still 24-30% lower than in the same period last year.
- Large organizations raised forecasted oil prices to 39-45 USD/barrel in 2016.
- The crude oil production decreased by 2.4% while gas output went up by 6.5%.
- Nam Con Son gas pipeline system will be in overall maintenance for six days.
- The divergence between business results of upstream and down stream groups.

2Q/2016 Review

The recovery of oil prices has weakened: from the bottom on January 20th, 2016 to June 16th, 2016, oil price recovered 57% for WTI and 67% for Brent oil. Overall in Q2/2016, oil prices rose by 18% and 19% for WTI and Brent respectively. The reason for the recovery of oil prices mainly came from the reduction of supplies in Nigeria due to the civil war and in Canada due to forest fires. In addition, the number of drilling rigs in America sharply fell by 12% per month during the first five months of 2016 and the imported oil volume of China rapidly increased. However, until June, the number of drilling rigs in America started to rise again with the growth rate of about 7% per month and the concerns about the leaving of UK from EU (Brexit) has indirectly made oil prices slightly decreased by 7% during two middle weeks of June. We are concerned with the recovery of shale rigs in America and the crude oil production of Canada will recover in July 2016 will weaken oil prices.



Source: Bloomberg



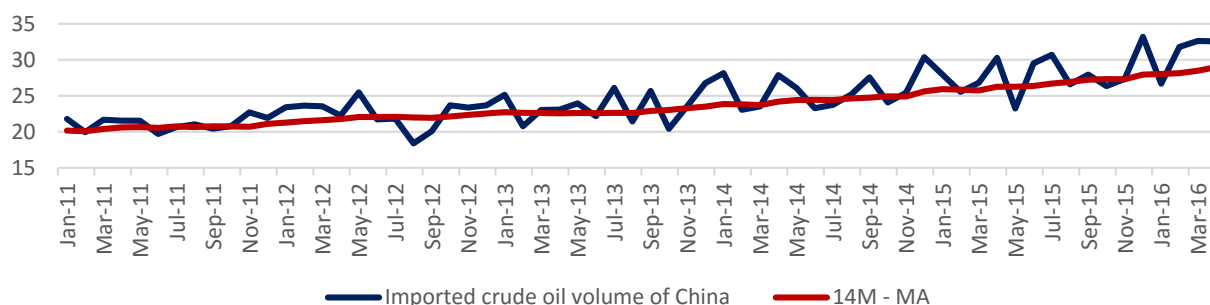
Source: Bloomberg

Large organizations raised te forecasted oil prices: almost all large organizations believed that market supply and demand is shifting to the equilibrium. Therefore, they all raised the forecasted average oil price in 2016 and 2017 to 39-45 USD/barrel for Brent oil.

	Previous forecast	Current forecast
Goldman Sachs	39	45
Morgan Stanley	33	43
Wood Mackenzie	36	39

Source: BSC Research

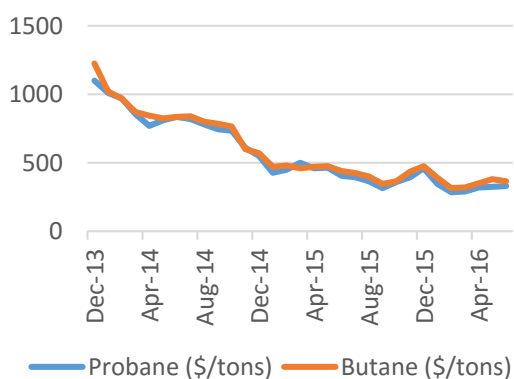
Imported crude oil volume of China (million tons)



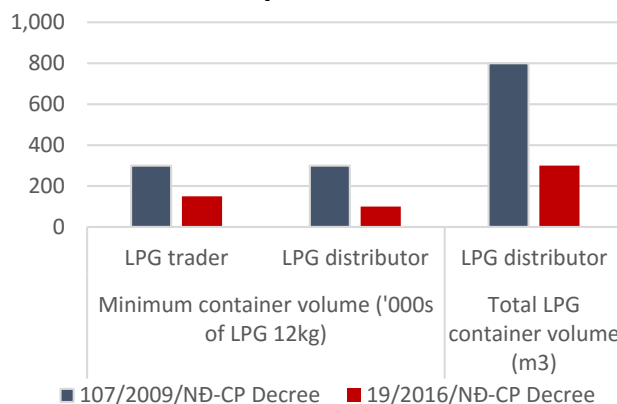
Source: Bloomberg

LPG price recovered following oil prices: Along with the recovery of oil prices, from the bottom in February 2016, LPG price has increased during four consecutive months by 16% in total. However, Propane and Butane prices in the first six months of 2016 was 30% and 24% lower respectively than in the same period last year.

Global LPG Price (\$/tons)



Business requirements for LPG



Source: BSC Research

Requirements for LPG business was loosened: The Decree 19/2016/ND-CP with effect from May 15th, 2016 has loosened requirements for LPG business, especially the regulation about that the minimum LPG

capacity of companies was reduced by 50-65%. Thereby, small-scale enterprises are able to enter the market, and this will increase pressure on current companies like PVG, PGS, PGC.

The crude oil exploitation output of Vietnam decreased: the exploitation crude oil in the first five months of 2016 declined by 2.4% y.o.y to 7.5 million tons. The low oil prices made foreign contractor stopped or extended drilling campaign. It is estimated that in the first five months of 2016, there were only 11 operating drilling wells, dropping by 80% y.o.y. However, for gas exploitation, because Thai Binh – Ham Rong gas field went into operation and the increase in exploitation in old gas fields, the gas output in the first five months of 2016 rose by 6.5% y.o.y to 4.7 million tons.

Nam Con Son gas pipeline system will be in overall maintenance: It is projected that in September 2016, Nam Con Son gas pipeline system will be in maintenance for the whole gas processing plant and valve stations. This maintenance session is expected to take place in six days from September 9th to September 14th. The maintenance could interrupt for short time the gas sources for consumption units as DCM and gas electric plants.

Accelerating the implementation of petrochemical refinery projects: People's Committees in provinces has accelerated local refinery projects such as Long Son petrochemical refinery project with the capacity of 2.7 million tons per year and it is expected to start in Q4/2016; Victory Nhon Hoi petrochemical refinery project with the capacity of 20 million tons per year is expected to start in Q1/2017. Beside that, the upgrading project, which will increase the capacity of Dung Quat refinery from 6.5 million tons per year to 8.5 million tons per year, is speeding up to start soon. The implementation of refinery projects will create more works for technical enterprises as PVS, PXS, PVB and those new refinery will help distribution companies as PGS, PVG, CNG and PGC be more proactive about supply.

The divergence in business results: In Q1/2016, the impact of the decrease of oil prices showed more clearly on the business performance of oil & gas companies when almost all the companies recorded a sharp drop, especially upstream enterprises as GAS, PVD, PVS, PVC, PVB. However, there were others maintaining good performances as downstream companies (PGD, PVG) and PXS due to the increase in production. Until Q2/2016, the recovery of oil prices has improved the business results of downstream companies including PGD, PGS, PVG, CNG, PGC. In addition, some companies could record a phenomenal growth in the financial profit due to the reversal of provision or retroactive amount as GAS, PXS, PVB. In contrast, some companies could record the decrease than in the same period last year such as PVC, PVD, PVS.

	Rev 1Q2016 (billion VND)	%y.o.y	EAT 1Q2016 (billion VND)	%y.o.y	Rev 2016F (billion VND)	EAT 2016F (billion VND)	Div 2016 (%)	+/- Stock price 1H2106
GAS	13,984	-10%	1,479	-44%	54,751	7,085	30	102%
PVS	4,443	-10%	245	-11%	22,000	960	10	35%
PVD	1,577	-64%	82	-84%	7,500	500		55%
PGD	889	-25%	82	5%	5,155	110	15	22%

PGS*	829	-13%	269	537%	5,108	413	30	29%
PVC	463	-48%	5	-92%	3,000	83	14	47%
PVG	601	-22%	5	35%	2,950	12	0	25%
PGC	582	-5%	22	-1%	2,436	120**		0%
PXS	625	35%	34	18%	2,200	145**	13	38%
PVB	1	-100%	(18)	-146%	246	5	0	5%
CNG	207	-2%	21	-8%	1,100	127	30	38%

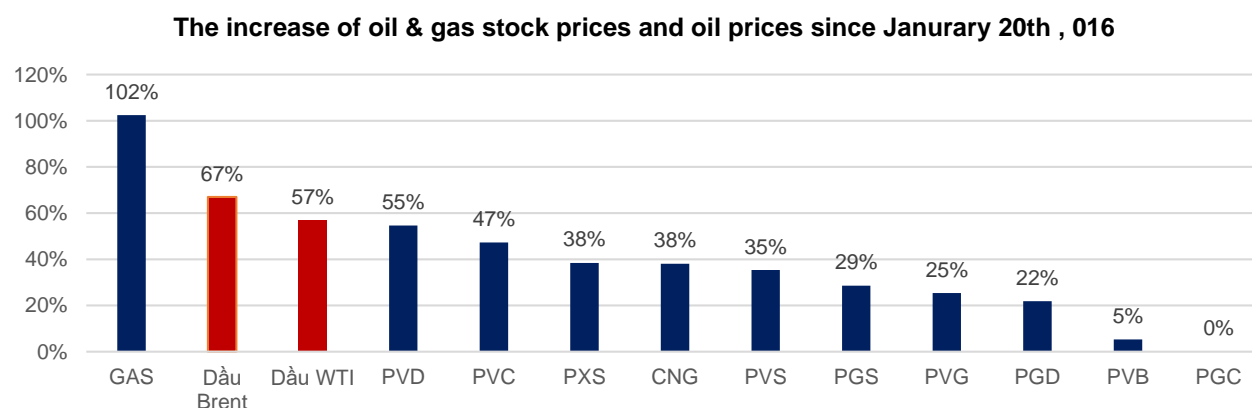
(*: PGS in Q1/2016 divested from CNG and recorded 248 billion of after-tax profit).

(**): EBT)

Source: BSC Research

Investment recommendation – Market perform

As we mentioned in the [report “Evaluating the impact of oil prices’ decrease” on February 1st, 2016](#), in the first six months of 2016, the oil&gas stock prices has rapidly increased following the recovery of oil prices while companies’ business activities have not shown any positive signs. The stocks with largest increases were GAS (102%), PVD (55%), PVC (47%). Those companies had the largest declines in profit in Q1/2016. Thus, the correlations between business results and oil & gas stocks are not significant.



Source: BSC Research

Although the signs of supply reduction has weakened, we still forecast that oil prices in the last six months of 2016 will be more positive than in the first six months due to the expectation of target inflation achievement in America. We expect oil prices will fluctuate around 45-50 USD/barrel in the last six months (higher than the average price in the first six months at 42 USD per barrel). Therefore, we raise our rating for oil & gas sector from **UNDERPERFORM** to **MARKET PERFORM** for the last six months of 2016. We note that companies will maintain positive business results with oil prices staying at around 45-50 USD/barrel, the stable profit margin, the growth in consumption along with attractive valuation such as PGS, PVG, PGC, PVS and PXS. The business performances of some companies could suddenly increase but their valuation are at the high level such as GAS, PVD, PGD, CNG.

PVS- BUY- Targer price 22,700 VND/share(+26%) ([link](#))

In the first five months of 2016, PVS is estimated to record 7,500 billion VND of revenue and 500 billion of EBT (in Q1/2016, PVS recorded 4,442 billion of revenue and 315 billion of EBT), corresponding to 34% of planned revenue and 42% of planned EBT. We believe this results is relatively positive in the context that oil & gas sector of Viet Nam is struggling because oil prices are low, the amount of work is limited and the pressure on reducing service prices. M&C and FSO/FPSO segments still remained positive business performance while others witnessed sharp drops.

We forecast in 2016, PVS will earn 21,060 billion VND of revenue and 1,108 billion VND of after-tax profit, equivalent to EPS 2016 = 2,177 VND per share. We expect, M&C and FSO/FPSO will remain good performance in 2016 and ROV segment will recover from Q2/2016 and this could help the company to achieve the 2016 planned business results.

PGS- BUY- Targer price: 20,100 VND/share (+19%) ([link](#))

In the first half of 2016, the CNG consumption rose 10% y.o.y and the LPG consumption increased by 6% for industrial segment and by 10% for civil segment. Those growth are relatively positive when the competition on LPG market increase due to the Decree 19 of loosening business requirements. Moreover, the CNG production is expected to go up rapidly from the second half of 2016 as the two major customers Samsung and Nam Kim Steel both raise their consumption. In the whole 2016, the consumption of CNG will increase by 18% y.o.y.

We forecast that in 2016, PGS will record 4,502 billion of revenue (+2% y.o.y) and 122 billion of EBT (+77% y.o.y). We also note that our forecast excluded the impact of CNG on the business results of PGS in 2015 and 2016.

PVG- BUY- Targer price 9,500 VND/share (+20%)

The CNG consumption of PVG is expected to increase significantly in 2016 due to customers and the increase in capacity. In 2016, PVG is estimated to have 40 million m3 of CNG consumed, rising by 20 times of 2015 figure. For LPG segment, the company expects to remain output stable because some LPG customers convert to using CNG so the new customers just compensate for converting customers. BSC forecast that in 2016, PVG will earn 2,766 billion of revenue and 28 billion of after-tax profit, equivalent to EPS 2016 = 836 VND per share (subtracted 17% of the bonus and welfare fund).

PXS- BUY- Targer price 14,700 VND/share (+16%)

PXS expects to earn 1,400 billion of revenue in the first half of 2016 (in Q1/2016 the company recorded 625 billion of revenue). PXS anticipates to record 18 billion of reversal of warranty for the P3-P4 project in Q2/2016. This reversal could suddenly increase the profit in Q2/2016. We forecast in 2016, PXS will earn 1,900 billion of revenue and 116 billion of after-tax profit.

The expectation of stability in 2017: in 2017, the company expects to continue to carry out the three rigs project for Ministry of Defence. (679 billion), which will be completed in the first six months of 2017, the Song Hau thermal project with the value of about 280 billion and the remaining of Thai Binh 2 thermal project valuing at about 50 billion. The work of PXS will take place mainly in the first six months of 2017. For the last six months of 2017, the company expects to implement Su Tu Trang (stage 2) and Long Son petrichemical refinery project.

PGC- BUY- Targer price 12,015 VND/share (+17%) ([link](#))

PGC maintained a high and stable return at about 11%. We expect PGC will increase its profit gradually due to good sources management and the growth in the consumption from new customers. In addition, the stock price is anticipated to go up along with oil prices. BSC forecast that in 2016, PGC will earn 2,511 billion of revenue (-2% y.o.y) and 111 billion of after-tax profit (+14% y.o.y), corresponding to EPS 2016 =1,600 VND per share. PGC is traded at the P/E FW 2016 = 6.56, which is relatively low compared with other companies in this sector.

GAS- TRACKING

In the last six months, with the expectation of higher oil prices than in the first six months, the business results of PVGAS will be improved as more than 50% of gas consumed is calculated based on oil prices. In addition, the retroactive amount of transportation cost difference through Phu My – Ho Chi Minh City pipeline from 2012 until now are estimated at about 1,800 billion will be gradually paid by EVN during two years and this could cause the profit of GAS suddenly increas. However, the GAS stocks are traded with P/E = 16, relatively higher than the average of this sector and market. In the past, the highest P/E of GAS was 18.

PVD- TRACKING

In the first half of 2016, the average number of operating rigs of PVD was about two rigs while in the same period last year the figures were six owned rigs and 2.7 rented rigs with almost all contracts expiring in the first half of 2016. Recently, the company has been in tender process for providing two rigs in Myanmar and Malaysia and if it is successful, those rigs will operate from September this year. In Q1/2016, the average rental rig price was at about 81,000 USD per day, decreasing by 25% y.o.y. The company expects oil prices will be stable at about 50 USD/barrel, foreign contractors could start to drill again from 2017 and this could increase the need of rig.

On June 20th, 2016, PVD stocks are traded at the price of 32,500VND per share, equivalent to P/E FW= 27.08 and P/B FW = 0.84. Thus, PVD is traded at a higher P/E compared with other companies in this sector.

Ticker	Rev 2016	EAT 2016E	EPS 2016	P/E FW	P/B	ROE 2016	Dividend 2015	Closed price 24/06/2016	Target price
PVS	21,060	1,108	2177	8.27	0.69	9.44%	12% cash	18,000	22,700

PGS	4,052	97	1,442	11.85	0.63	15.00%	25% cash & 31% stock	16,900	20,100
PVG	2,766	28	836	9.18	0.51	7.00%		7,600	9,100
PXS	1900	116	1837	7.01	0.95	15.00%	13% cash& 10 % stock	12,700	14,700
PGC	2,511	111	1600	6.44	0.96	17%	12% cash	10,300	12,015

Nguồn: BSC Research

Aquaculture [UNDERPERFORM]

- Aquaculture export value in the first 5 months 2016 increased 1.1% over the same period in 2015.
- First quarter 2016 business performances were strongly affected by exchange rate fluctuation.
- Total aquaculture export value is believed to increase 13% yoy in 2016.

1H2016 Review

Aquaculture export value in the first 5 months 2016 increased 1.1%yoy, reached USD 2.43 bil. US, Japan, China and Korea were the 4 largest export markets, accounted for 51.74% of total export value. In the first 4 months 2016, export to main markets witnessed strong growth. Specifically, US increased by 12.2%, China increased by 39.3% and England increased by 17.15%.

Material prices increased due to supply shortage. Pangasius input price has increased 10-15% in the first quarter of 2016, reaching 19,000-21,500 dong/kg. Baby pangasius price also increased by 70% standing at 34,000 dong/kg. Shrimp input prices has also witnessed strong increase, estimated at 2,000 to 4,000 dong/kg. The main reasons were blamed for salinization and prolonged El Nino. In the main planted area such as Dong Thap, An Giang, the pangasius output have decreased 33% and 16% respectively. The shrimp output also decreased by 2.6% over the same period in 2015, standing at 38.000 tons.

First quarter business performance. Even though, total revenue increased by 40%yoy reached VND 9,541 bil, gross profit increased by 24%yoy reached VND 836 bil, the NPAT have dived deeply, blaming for foreign exchange losses (for example, in the first quarter, VHC recorded VND 19 bil of FX loss, compared with only VND 2.3 bil in the same period in 2015).

First quarter 2016 business performance.

Tickers	Revenue (bil)		Gross profit		NPAT (bil)		P/E	P/B
	Q1/2016	%yoy	Q1/2016	%yoy	Q1/2016	%yoy		
HVG	5,413	20.24%	299	44%	12	-76%	-	0.87
VHC	1,601	3.63%	238	27%	100	-2%	8.04	1.61
IDI	814	-0.14%	84	28%	16	-24%	8.10	0.61
ANV	576	20.01%	69	3%	5	-64%	-	0.36
FMC	543	-9.93%	38	-12%	15	36%	5.21	1.56
ACL	270	33.14%	38	54%	0.7	-46%	6.66	0.59
TS4	223	-0.13%	47	0%	3	11%	12.52	0.46
ABT	100	5.80%	24	-31%	10.8	-47%	9.87	1.35
Average							6.30	0.93

Source: Companies financial reports

Vasep has forecasted that total export value might increase by 13%yoy in 2016. We believe that this forecast is based on resonable foundations: (1) Demand in US has recovered. In 2015, due to pangasius and shrimp prices trending downward, US companies did not store large inventories. Until first quarter 2016,

inventories was just 80% compared over the same period in 2015. (2) The exchange rate in the main export markets are trending in ways which benefit Vietnamese aquaculture export: The Yen has increased 11.7% from the beginning of year, helping Vietnamese seafood become cheaper relatively, increasing demand. (2) Shrimp exported to China is forecasted to increase thanks to export ban removal.

US Senate has approved the bill to repeal the Farm for catfish, this is considering in the House. If farm bill is removed, Vietnamese seafood exporters may save large expenses relating to planting process changes and avoiding stricter regulations when importing to US.

Investment recommendation – Market perform

We maintain our assessment of **Underperform** for Aquaculture sector. Even though revenues of seafood exporters might improve compared with same period in 2015, we reckon this is just the short term trend, the mid to long-term perspective is still negative due to: (1) the material input supply is strongly affected by drought in the South delta. (2) The political changes in EU (Brexit) might cause downgrade in pound, influencing demand for seafood. (3) Foreign exchange loss continues to abridge exporters' income. In the last quarters 2016, thanks to demand and export price increase in the main markets, aquaculture firms might record positively business performances compared with the same period in 2015, but this is not enough to upgrade to market perform. With investors with short term strategies, we recommend FMC and VHC ([details in the Sector insight report on 23/532016](#)) thanks to their expanding capacity plans, high product quality and highly appreciated by export markets.

HVG- Tracking.

HVG is the leading aquaculture firm in Vietnam. Revenue and NPAT accumulated from 1/10/2015 to 31/3/2016 witnessed strong growth of 51%yoy and 41%yoy respectively. However, it is worth noting that most of this growth coming from subsidiaries, especially FMC (was just consolidated in the report period). The core businesses of parents company actually decreased sharply from VND 46 bil to 41 bil, translating to 11% decrease on year on year basis. Plus, HVG's liquidity ratios were at warning level in which total debt has increased to VND 8,000 bil (equivalent 4 times of Equity). The short term debt accounted for 90% in total debt whereas Cash was just VND 800 bil. Therefore, we reckon that investors should carefully track HVG selling capacity in the next quarters.

VHC - Tracking.

After issuing Sector insights reports, VHC price has increased strongly from around 30.000 dong to over 40.000 dong, equivalent 33% increase. The main reasons are blamed for: (1) Export activities in the first 5 months 2016 recorded dramatical growth of 50%, export revenue stood at USD 28.5 mil, contributed by increase in pangasius price (15%) and increase in export volume (50%). (2) Strategy of focusing on retailing customers has brought positive results. (3) Planting area of VHC is located in Tien Giang which is less affected by salinization. We notice that business performance peak of aquaculture sector will be in the last 2 quarter. Therefore, VHC might record good growth in the last 2 quarters 2016. In addition, from Jun 2016,

the Van Duc Tien Giang factory will be in operation, increasing VHC's capacity by 25% to 750 ton per day, helping VHC meet high demand in export markets.

FMC - Tracking.

FMC price has increases closely to price we recommended on [Sector insights on 23/5/2016](#). FMC still has growth potential in the last 2 quarters thanks to: (1) Increase its planting area to 50 ha, rising FMC's shrimp material by 30%. After expansion, FMC expects to meet about 20% of its material input demand. (2) Potential in EU market when the main competitors Thailand no longer enjoys 3.5% from GSP (Generalized Scheme of Preference) from 2016. (4) Taking advantages of FTA-EU, becoming effect in 2017.

Sector	Ticker	Rev 2016(bil)	NPAT 2016(bil)	EPS F 2016	P/E F 2016	P/B F 2016	ROE F 2016	dividend 2016	Price on 24/06/2016	Target price
	HVG	23,994	162	870	11.26	0.7	7.3%	Stock 10:2	9.800	N/A
Aquaculture	VHC	6,746	382	4,131	10.14	1.78	17%	Cash:10%	41.900	35,000
	FMC	3,176	105	3.500	6.89	1.6		Stock: 2:1	24.100	24.000

Source: BSC Research

Marine transportation [UNDERPERFORM]

- BDI index and BCTI were down by 10%yoy and 23% yoy respectively.
- The first quarter business results were still diversified between bulk and liquid transportation.
- It is forecasted that bulk transportation still will be tough in the last quarters while liquid transportation might witness quite good growth.

1H2016 Review

The BDI index had recovered but still remained at low level. Compared with its at the beginning of year, BDI index has increased by 29% standing at 612.37 point on 14th Jun 2016. However, compared over the same period in 2015, BDI index was down 10%. On 14th Jun 2016, BCTI index was just 705 point, decreased by 25% over the same period in 2015.

The domestic cargo transported had good growth. The total cargo transported by domestic fleets in 2015 reached 125.8 mil ton (+27.5%yoy). Until April 2016, this number has increased by 5%yoy, standing at 30 mil ton.

The first quarter business results were diversified. Liquid transportation firms such as PVT, GSP have maintained good business performance growth in the first quarter 2016 as we have forecasted in [Quarter 2 Sector outlook](#), with the average growth rate of 12.25%. Notably, PVT who is the leading liquid transportation firm recorded strong revenue growth of 37%yoy thanks to increase in cargo transported and whole year operation of FSO/FPSO instead of from May 2015 as last year. Meanwhile, bulk cargo transportation firms such as VOS, VFR, HTV were still in tough situation due to down in bulk cargo transportation demand from China.

Ticker	Sector	Revenue		Gross profit margin		NPAT		P/E	P/B
		Q1/2016	%yoy	Q1/2016	Q1/2015	Q1/2016	%yoy		
PVT	Liquid	1,534	37%	10%	10%	99	46%	7.05	0.97
VOS	Bulk cargo	369	-3%	14%	6%	-46	-55%	-	0.32
VTO	Liquid	296	0%	18%	13%	31	158%	6.62	0.6
GSP	Liquid	248	7%	12%	13%	16	-11%	7.87	1.13
VNA	Bulk cargo	155	1%	36%	28%	-8	-58%	-	0.31
VIP	Liquid	129	-18%	21%	28%	15	-21%	10.72	0.55
PJT	Liquid	99	5%	8%	14%	7	49%	5.59	0.92
SKG	Tourist transport	87	36%	70%	65%	54	54%	13.21	5.9
VFR	Bulk cargo	62	-35%	-1%	-1%	1.2	-233%	-	0.73
HTV	Bulk cargo	46	-4%	22%	18%	6.2	13%	6.36	0.66

TCO	Bulk cargo	36	-10%	34%	24%	4	-41%	7.28	0.87
TJC	Bulk cargo	31	-30%	7%	10%	3.8	9%	8.01	0.64

Source: Company financial reports.

Cargo transportation demand in China will remain at low level. The PMI index of China in first quarter was down by 5.9% over the same period 2015, which indicated that bulk cargo transportation demand from China, the world largest market of bulk cargo transportation, is still in downward trend. Therefore, we believe that domestic bulk cargo transportation will be suffering until the end of 2016.

Investment recommendation – Underperform

We maintain our **Underperform** assessment for marine transportation sector. Even though compared with the beginning of year, bulk cargo transportation firms' business results had improved slightly, this trend will hardly remain in the last 2 quarters due to weak demand from China and still-in-place foreign exchange risks. When it comes to liquid transportation, thanks to demand from newly domestic projects, making us to assess Positive with this marine transportation branch and recommend **BUY** with PVT and GSP.

PVT- Buy- Target price 16.190 VND/share

PVT is the leading liquid transportation in Vietnam with capacity accounted for nearly 30% of Vietnam total liquid transportation capacity, with concrete business foundation thanks to being the only dirty tanker transportation firm of Dung Quat refinery and over 90% market share of LPG transportation and distribution. In the recent time, PVT share price has gone against domestic and international oil price. Please take notice that PVT is considered in the downstream of oil and gas industry. The low oil price will boost oil consumption, as the replacement for fossil raw materials such as coal, resulting in increase in demand transportation and decrease in input costs. In contrast, low oil price will directly affect revenue of PVD or PVS. The cargo transported is believed to increase thanks to: (1) Stable demand from Dung Quat refinery. (2) Act as dirty tanker and clean tanker for Nghi Son refinery (this project is expected to be put into operation in July 2017). (3) Act as the main transporter to distribute LPG for PV Gas trading for whole year 2016. (4) FSO/FPSO with high gross profit margin has high growth potential thanks to FSO Dai Dung Queen operated from May 2015 and O&M from April 2015.

GSP- BUY- Target price 15.200 VND/share.

GSP is PVT's subsidiary, operating as LPG transporter with market share of 90%. LPG is used for civil consumption, extracted directly from crude oil with C_3H_8 and C_4H_{10} to be main ingredients. Therefore, low oil price will boost oil consumption and transportation demand. GSP's revenue is forecasted to increase thanks to: (1) Act as main transporter for PV gas trading for whole year 2016 instead of a half year as it did in 2015. (2) The Nam Con Son pipeline will be in operation, helping increase LPG output of Dinh Co refinery by 25% yoy reaching 350.000 ton/year. (3) The Dung Quat LPG selling volume is forecasted to increase thanks to reducing tax rate from 20% to 10%. (4) GSP is planning on investment of VND 291 bil, in which

VND 140 bil (VND 42 bil of equity and VND 98 bil borrowing) is used to buy 4,000 DWT LPG fleet and VND 135 bil is used to purchase 2 barges under 700 dwt.

SKG- Tracking

In the first quarter 2016, thanks to low oil price, high transportation demand of tourist to Phu Quoc, SKG continued to impressive growth 36%yoy with gross profit margin of 70% (increase 5% compared with it in the same period in 2015). In 2016, we believe that tourists to Phu Quoc will remain high thanks to improvement of infrastructure, resulting in high transportation demand. However, investor should take notice the followings: (1) The passenger marine transportation to Phu Quoc has low barrier to entry, therefore some big firms with strong financial position such as VIC might invest fleets to operate in the region. (2) High business growth with high gross profit margin might attract competitors. (3) the development of substitutes such as low price Vietjet air will reduce industry's attractiveness.

VIP- Tracking

At the end of March 2016, VIP had sold its share in Vip-green Port, making profit of about VND 50 bil. On 20th June 2016, VIP had purchased 37,000 dwt fleet used to transport clean oil for parent company Petrolimex. When it comes to 2 real estate investment, Vip has not been able to divest yet. We notice that Petrolimex's subsidiaries such as VTO, PJT have recorded impressive growth in the first quarter 2016. As a result, their prices have been adjusted significantly in the second quarter. On the other hand, Vip share price is still fluctuated around 9,000 dong/share. We reckon VIP is worth noting in the next quarters thanks to: (1) Improvement in core business thanks to new fleet to be in operation. (2) VIP's dividend yield is consider to be attractive at the time.

Ticker	Revenue 2016(Bil)	NPAT 2016(bil)	EPS F 2016	P/E F 2016	P/B F 2016	ROE F 2016	Dividend 2016	Price 24/06/2016	Target price	Link report
PVT	6,358	507	1,742	7.4	0.97	13%	Share: 10%, cash 8%	12.900	16,190	link
GSP	1,132	71	1,922	7.13	1.03	20%	Cash 12%	13.700	15,200	link
SKG	382	218	8,921	10.65	4.88	37%	30%	95.000	N/A	
VIP	625	106	1,561	5.7	0.55	N/A	Cash: 8%	8.900	N/A	

Source: BSC Research

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Le Thi Hai Duong**Sales & Advisory**

Tel: 0439352722 (155)

Email: duonglh@bsc.com.vn**Tran Thang Long****Head of Research**

Tel: 0439352722 (118)

longtt@bsc.com.vn**EQUITY ANALYSTS****Luong Thu Huong**

Steel, Cement, Tiles, Technology

huonglt@bsc.com.vn**Nguyen Quoc Truong**

Real Estate, Construction

truongnq@bsc.com.vn**Le Thi Trang**

Textile, Sugar, Dairy

tranglt@bsc.com.vn**Tran Thi Hong Tuoi**

Banking, Pharmaceutical, Plastic,

Tire

tuoith@bsc.com.vn**Chu Tuan Phong**

Seaport, Marine Transport,

Aquaculture

phongct@bsc.com.vn**Vu Thu Ha**

Oil & Gas, Fertilizer, Power

havt@bsc.com.vn**Nguyen Bao Hoang Le**

Insurance, Automobile, Rubber

thanhtpn@bsc.com.vn**CONTACT****BSC Head Office**

10th, 11th Floor – BIDV Tower

35 Hang Voi Str – Hanoi

Tel: 84 4 39352722

Fax: 84 4 22200669

Website: www.bsc.com.vn**BSC Ho Chi Minh Branch**

9th Floor – 146 Nguyen Cong Tru Str.

District 1, Ho Chi Minh City

Tel: 84 8 3 8218885

Fax: 84 8 3 8218510

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146 Nguyen Cong Tru St, 9th Floor
Tel: (08) 3821 8508 - Fax: (08) 3821 8510