

Vietnam Quarterly Review

2016 Q3

BSC Research

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Macro economy

- 9-month GDP growth is estimated at 5.94% YTD YoY, lower than the 6.63% in same period last year. Mining industry declined by 3.6% due to lower production output of oil and lower coal price. Agriculture has improved +0.05% YTD YoY.
- Growth of CPI was 0.54% in September after maintaining at a low level in July and August, leading to an inflation of 3.14% YoY. Sudden higher CPI due to higher educational expenditure and adjusted petrol price.
- SBV exchange rate kept upward trend established from the beginning of Q3, rose strongly in late September before Fed FOMC to decide whether to raise interest rate in September. However, exchange rate was reduced somehow in the last week of September thanks to Fed decision to keep the current interest rate
- Credit growth estimated in late September was at 10.46% YTD, only equal to 55% of what SBV planned in the beginning of 2016 and 0.3% lower than the growth of the same period in 2015

Stock market

- In Q32016, stock markets still maintained the long-term uptrend established from the beginning of 2016. VN-Index rose by 8.5% in Q3, by 21.9% from the beginning of the year while HN-Index only increase slightly by 0.32% in Q3 and more than 6.3% from the beginning of the year.
- Foreign Investors remained net buyers in Q3, kept large net sell in August and September. Considering the whole Q3, Foreign Investors have sold net of VND 3563 billion on HSX and VND 0.1 billion on HNX.
- PE of Vietnam stock markets are currently lower than regional and global markets.

Recommendations

- VN-Index is expected to fluctuate between 650 – 720 in Q4. Market liquidity and capitalization is expected to surge due to listing of large companies and divestments.
 - In positive scenario, if there will be now unexpected shock from USA presidential election, VN-Index may reach new highs of the year and stay in 680 – 720 zone at year end. Bluechips will be the main driver for VN-Index to rise while market will keep divergent based on outlooks and business results of listed firms.
 - In less positive scenatio, if Fed will raise interest rate in November and exchange rate and local interest raise will move in a negative way, SBV may adjust the expansionary monetary policy and VN-Index may lose increasing momentum after peaking in October or November and retreating to 650 – 660 zone.
- Recommended stocks:
 - Stocks with expected positive Q4 business results such as constructional material, IT, Steel, Seaport.
 - Potential stocks such as Real estates, Construction
 - Stocks with higher room for foreign investors, divestment plan, M&A and new listing
- For further stock pick by us, please refer to:
 - Vietnam Sector Outlook Q32016 ([Link](#))
 - Vietnam Weekly Review ([Link](#));
 - Sector and corporate reports ([Link](#))

Macroeconomic overview 09/2016

Economic growth

- 9 months 2016 GDP growth is estimated at 5.93%, lower than 6.53% last year although it still remain upward trend from beginning of the year;
- Mining industry has been facing difficulties while agricultural has shown signs of rebound;
- PMI maintained growth momentum in Q3. Employment rate is fastest in 5.5 years;
- Consumption rate of the processing sector remained positive;
- Retail sales keeps rising trend since the beginning of the year even though growth rate is on the decline.

9-month GDP growth is estimated at 5.93% YTD YoY, lower than the rate 6.53% of the same period in 2015. Nevertheless, quarterly GDP is still in rapid growth trend (Q1 + 5.48%, Q2 + 5.78%, Q3 + 6.4%). In particular, the services sector continued to achieve the highest growth rate in 5 years, at 6.66% YTD YoY, contributed the most to economic growth. Service sectors include: Wholesale and retail (+ 15.8% YTD YoY) and finance, banking, insurance (+ 7.38 YTD YoY). Sector with second highest weight is industry and construction with an increase of 7.50% YTD YoY, contributed 2.52% to GDP growth. Mining industry decreased by 3.6% in 9 months, mainly due to the impact from falling output and price of crude oil and coal price. Notably in Q3, the agricultural sector rebounded slightly, +0.05% YTD YoY. However, the agriculture, forestry and fishery products increased by 0.65% only, which is the lowest rate in six years.

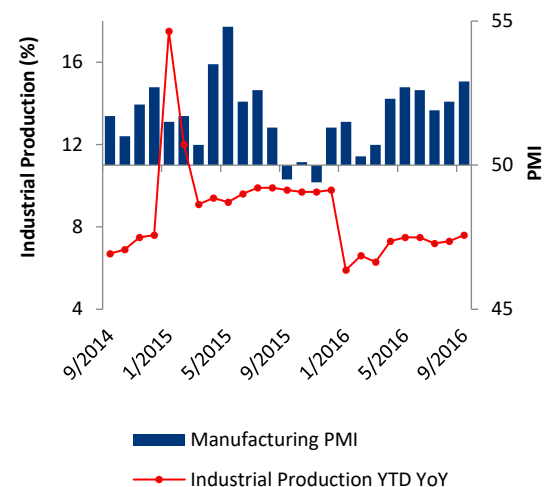
Compared to the previous year, industrial production this year is still worse. 9-month IIP is expected to rose by 7.6% YoY, lower than 9.9% in 2015. September IIP growth rate is 7.0% YoY. The picture of the whole industry has not changed much compared to the previous quarter when the processing industry, manufacturing (+ 9.9% YoY) contributed the most to the overall increase,

continuing to compensate for the shortfall from the mining industry (-4.1% YoY).

Consumption index for the entire processing industry, manufacturing till 08/2016 rose by 8.3% YoY, up from Q2. The whole industry inventory index increased by 9% YoY. This implies that the consumption rate is still at a good level.

Graph 1

Industrial production and PMI

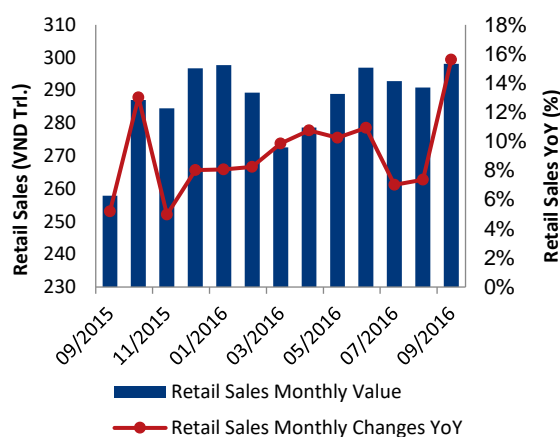


Source: GSO, BSC Research

PMI stood at 52.9 in September (+ 1.34% MoM), maintain growth momentum through Q3, up from 51.9 in the beginning of this quarter. Manufacturing output continued to rise, the number of new orders increased for 10 consecutive months along with rising new export orders, employment rate is fastest in 5.5 years and inventories of purchased and finished goods increased in September helped drastically improve manufacturing sector of Vietnam. Notably, the surveyed members showed the will to raise inventory further.

Graph 2

Retail sales



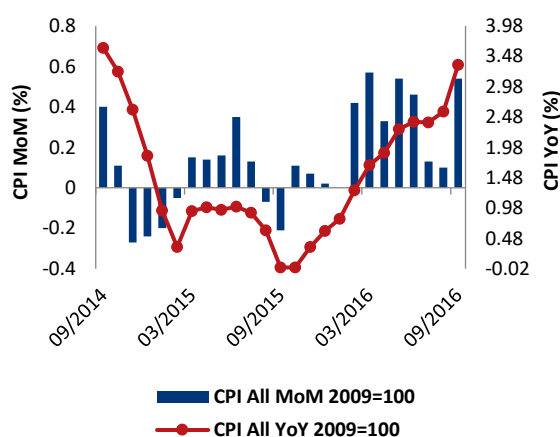
Source: GSO, BSC research

Purchasing power remained upward trend since the beginning of the year. Total retail sales and service turnover reached VND 2.605 trillion, up 12.9% MoM and 9.7% YoY. Although total retail sales remained positive MoM growth, growth rate is on a downward trend. Generally in 9 months, total retail sales increased by 9.5% YoY. Main contribution comes mostly from retail sales (+ 12.8% MoM), traveling services (+ 13.8% MoM), Housing, construction and materials (+ 12.5% MoM).

Inflation

Graph 3

Monthly CPI movements



Source: GSO, BSC research

CPI 0.54% MoM in September, close to the highest level achieved since the beginning of the year after with a low in July and May 8. 9-month average inflation 0.34%, up 1.81% over the previous year.

The commodity groups increased sharply affect CPI may include education (+ 19.7% MoM) implemented by the central government to adjust prices according to the schedule of tuition, transportation (+ 12.55% MoM) due to price adjustments 2 gasoline in the quarter. On the other side, groups of goods and services have not significantly increase or decrease, housing and construction materials rose in January fell 0.09% MoM.

Table 1

Increase/decrease of service sectors in September

Nr.	Sector	MoM (%)	YoY (%)
1	Food and catering	2.05	2.20
2	Transportation	0.55	-9.95
3	Health care	0.02	22.02
4	Housing & Construction material	0.09	2.19
5	Entertainment	0.18	1.58
6	Beverage and Cigarette	0.04	2.29
7	Clothing	0.14	2.26
8	Housing appliance	0.11	1.19
9	Education	7.19	4.83
10	Telecommunication	-0.07	0.63
11	Others	0.05	2.12
CPI		0.54	2.07

Source: GSO, BSC research

Foreign Direct Investment (FDI)

- FDI is still in the growth momentum up to 20/09;
- Hai Phong remains the biggest FDI receiver in the country, reached \$2.7 billion, more than five times same period last year;
- Attracting FDI as of 20/09 up to \$11.2 billion, + 1.1% YoY.

The total newly registered capital 9 months of 2016 up to \$11,164 million, increased 1.1% YoY, the number of new licensed projects reached 1,820, rose by 27.1% YoY. Total FDI reached 240.4 thousand billion VND, up 12.6% YoY.

Hai Phong continues to attract the largest new FDI, reached \$2.7 billion, amount to about 25% of new registered capital.

The countries with the largest investment are Korea, Japan, Singapore and Taiwan, respectively.

Trade, import - export

- Since beginning of the year, trade surplus is estimated at USD 2.72 bil.
- Trade deficit is estimated at USD 0.1 bil in September .

Graph 4

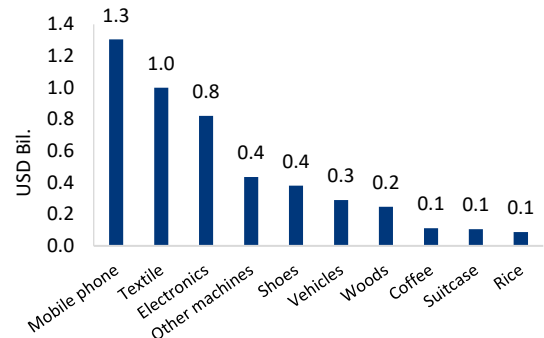
Trade balance (USD Bil.)



Source: GSO, BSC research

Graph 5

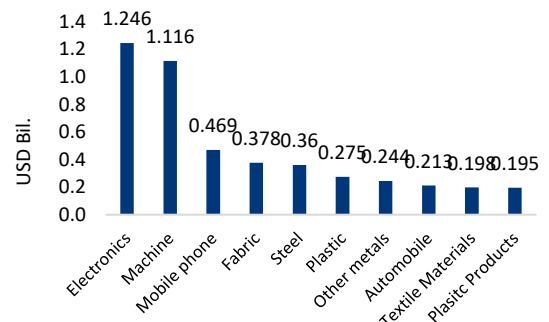
Top 10 exported goods in first half of Sep (Bil. USD)



Source: GSO, BSC research

Graph 6

Top 10 imported goods in first half of Sep (Bil. USD)



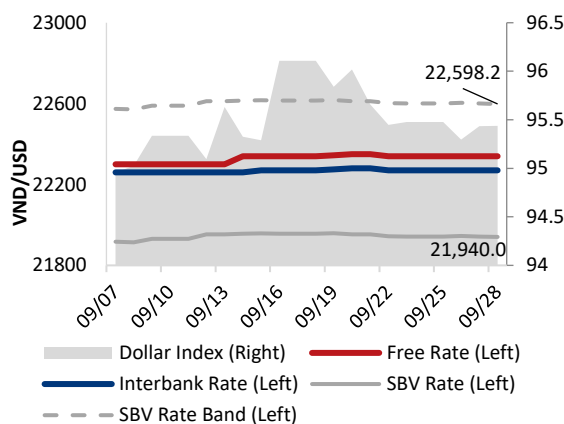
Source: GSO, BSC research

September export is estimated to reach \$15 billion, decreased by 6.8% MoM despite increased by 9% compared to the same period last year. The import in September is estimated to reach \$15.1 billion, decreased by 2.7% MoM and increased by 9.8% YoY. 9-month export was estimated at \$128.2 billion, increased by 6.7% YoY, while import was estimated at \$125.4 billion, bringing the trade surplus at about \$2.72 billion even though September deficit estimated at \$0.1 billion.

Forex market

Graph 7

Exchange rates movements



Source: Bloomberg, BSC research

SBV rate maintained upward trend since the beginning of Q3, surged at the end of September due to expectation of Fed rate hike in the month. However, Fed decided to maintain the current level of interest rates has helped cool down the rate in the last week of the month. Despite the central rate maintained upward trend, the interbank exchange rate was quite stable and only increased slightly before the FOMC meeting in September.

Banking – Interest rates

- **9-month credit growth is at 10.46%, equivalent to only 55% of what SBV planned for 2016**
- **Deposit rates experienced slight downward trending in late September**

Table 2

Lending rates

Term	2015	2016M9	Diff.
Short-term VND	6,8 - 9	6,8-9,0	0
Mid & long-term VND	9,3 - 11	9,3-11	0
Short-term USD	3 - 5,3	2,8-5,0	-0,2
Mid & long -term USD	5,5 - 6,5	5,1-6,0	-0,3

Source: SBV, BSC Research

Table 3

Deposit rates

Term	2015	2016M9	Diff.
------	------	--------	-------

VND

Demand deposit & one month	0,8 - 1,0	0,8 - 1,0	0
One month - 6 month	4,5 - 5,4	4,5 - 5,4	0
6 month - 12 month	5,4 - 6,5	5,4 - 6,5	0,05
Above 12 month	6,4 - 7,2	6,4 - 7,2	0,10

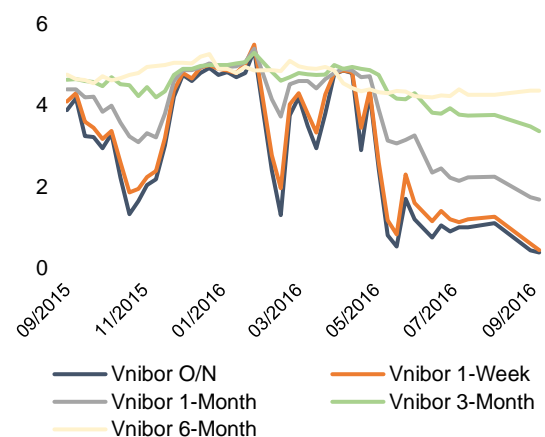
USD

Individual	0	0	0
Institution	0	0	0

Source: SBV, BSC Research

Graph 8

Interbank rates



Source: Bloomberg, BSC Research

Credit growth till the end of September is at 10.46% YTD, reaching only 55% of the target set for the whole year by SBV, 0.3% lower than the same period of 2015. In which, cumulative 8-month credit growth in VND increased by 10.76%, while foreign currency credit decreased by 0.33%. Up to early of August, mid and long-term credit increased by 6.79%, accounting for 8.3% of total, higher than the same period last year.

Banks and credit institutions simultaneously lowered deposit rates for terms of about 0.3 - 0.5%. Interbank interest rates maintain the downward trend from the beginning of the quarter and now stand at its lowest level since 2009.

Macro forecast for Q42016

On the international level, we will follow some important developments such as:

- **The US presidential election in October and November:** because it will influence foreign affair and economic policies of the US to Asian countries including Vietnam and the TPP agreement. Currently, Hilary Clinton is said to be more dominant than Donald Trump.
- **As predicted in the report of BSC in previous quarter, Fed did not change monetary policy even though the US economy is showing positive signs. Most likely, the Fed will not raise interest rates in October and November when the US presidential election will be taking place.** Therefore, interest rate raise will happen in December, make a direct impact on foreign cash flows and year end exchange rates, coincident with the time when exchange rate appreciation is under pressure.
- **On 29/09/2016, OPEC has agreed on a preliminary outline for the reduction of oil output.** Preliminary outline may reduce 750 thousand barrels / day, corresponding to 2% of output, with details for each country will be determined on 30/11/2016. The consensus of OPEC in freezing oil output will directly affect crude oil market, an export good that accounts for a large share of export turnover of Vietnam and in industrial production.

On the national level, some focus in Q42016 can be listed as follow:

- **PVN determined to further increase output by 1 million tons of oil at the end of 2016** in the context that oil price is in an upward trend since the beginning of year. This development is expected to improve the mining industry.
- **The budget deficit has not yet narrowed as expenditure rose faster than revenue.** Budget Deficit to GDP is likely to continue to remain high, at around 5.5% of GDP

Therefore, the specific macro expectations of BSC will be as followings:

- **Most likely, 2016 GDP will not reach the level set at the beginning of the year at 6.7%, but will not be too pessimistic at 6% as WB, ADB and several large investment banks cut.** The mining industry is expected to face less difficulties when the price of coal and oil are on the uptrend, simultaneously, the agricultural industry has also taken steps to recover and fishing yields for 9-month rose by 2.9% YoY despite marine pollution issues. Q4 GDP is expected to grow by 6.8%, bringing the whole year GDP to rise 6.2%.
- **Inflation in Q4 2016 is expected to be stable when it is no longer influenced by the education group.** Transportation group will be the main impact on Q4 inflation. 2016 inflation is expected at approximately 3%.
- **The foreign exchange market is expected to not change much until December in the context that Central bank's foreign exchange reserves are maintained at the highest level in 10 years.** Fed's decision in December on interest rate will have an impact on the USD; however, the USD exchange rate is expected to be in the range of 22062-22549.
- **Credit growth is expected to increase sharply** in the last quarter of 2016 when credit growth up to September only achieved more than half of the Central bank's plan.

Table 4

Macro indicators in Q3 and coming months

Indicator/Month	2016M1	2016M2	2016M3	2016M4	2016M5	2016M6	2016M7	2016M08	2016M09
GDP YoY (%)	-	-	5.46	-	-	-	5.55	5.55	
GDP YTD YoY (%)	-	-	5.46	-	-	-	5.55	5.55	5.93
PMI	51.5	50.3	50.7	52.3	52.7	52.6	51.9	52.2	52.9
IIP YoY (%)	5.9	7.9	6.2	7.9	7.8	7.4	7.2	7.3	7.6
IIP YTD YoY (%)	5.9	6.6	6.3	7.3	7.5	7.5			
Retail Sales YoY (%)	11.7	6.6	8.8	8.5	9	11	9.3	9	9.7
Retail Sales YTD YoY (%)	11.7	9.7	9.1	8.8	9.1	9.5	9.4	9.3	9.5
Retail Sales (<i>adjusted</i>) (%)	11	8.3	7.9	7.5	7.8	7.5			
CPI MoM (%)	0	0.42	0.57	0.33	0.54	0.46	0.13	0.1	0.54
CPI YoY (%)	0.8	1.27	1.69	1.33	2.28	2.4	2.39	2.57	3.34
Registered FDI (Bil USD)	1.33	2	1.23	2.85	3.27	1.23	1.665		
Disbursed FDI (Bil USD)	0.8	0.2	2	1.2	1.16	1.5	1.3		
Export (Bil USD)	13.4	10.1	15.1	14.1	14.6	14.8	14.7	15.2	15
Import (Bil USD)	12.6	10.3	14.5	14	15	14.9	14.6	15	15.1
Trade balance (Bil USD)	0.76	-0.19	0.62	0.1	-0.4	-0.1	0.1	0.2	-0.1
Exchange rate (VND/USD)	22,407	22,325	22,300	22,294	22,400	22,177	22.47	21.91	21.94
Credit growth (%)	-0.2	0.39	1.54	3.57	-	-	-	9.67	10.46
Bad debt (%)	-	-	-	-	-	-	-		

Stock market in Q3 2016

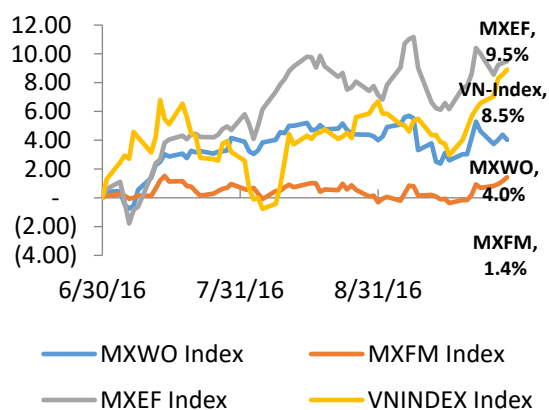
Market Overview

In the third quarter, the market remains in the long-term uptrend formed since the beginning of 2016. The VN-Index rose 8.5% in the third quarter, up 21.9% since the beginning of this year; while the HNX Index rose only slightly 0.32% in the third quarter, up 6.3% YTD.

The market bottomed in September and a strong rebound in scores as well as liquidity. Again, the VN-Index to conquer the old peak 680 and the last days of the month. The period of September is also the period in which the impact of the ETF structure has ended and trading psychology of investors in the market initially more excited.

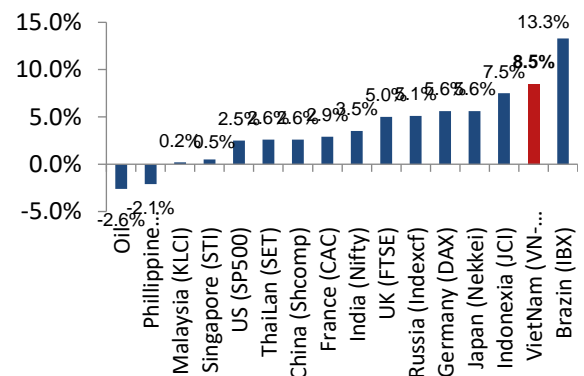
Stock market index of Vietnam were better than the frontier market index as well as world stock index in the third quarter. In the MSCI stock index group, the emerging market index countries still remained higher by 9.5% compared with the second quarter, while global stock indexes the frontier market index performance 4.0% and 1.4% respectively.

Graph 9
MSCI indices in Q3 2016 (USD)



Source: Bloomberg, BSC Research

Graph 10
Changes of key market in Q3 2016



Source: Bloomberg, BSC Research

Vietnam's stock market had better growth compared to other markets in the region in the third quarter. The Southeast Asian region countries such as Vietnam, Indonesia, Thailand, Philippines, Philippines reached efficiency 8.5%, 7.5%, 2.6% and -2.1% respectively. Indonesia's stock market also maintained a good momentum during the quarter, and quite similar to Vietnam's stock market trends which exceeded previous peak on the end sessions of the quarter. The major stock markets such as Europe, China and Japan also increased in Q3 including Nikkei up 5.6%, Shcomp up 2.6%, DAX up 5.6%, the CAC up 2.9%. The US market and other regions also maintain a slight increase.

Table 5
Net buy-sell activities of foreign investors (million USD) in Q3 2016

Country	Net transaction September	Net transaction Q3	2016
India	917	4069	7025
Indonesia	-279	1611	2596
Japan	(6759)	(14212)	(65860)
Philippine	(274)	110	571
Korea	1325	6065	9414
Sri Lanka	5	21.7	(20.3)
Taiwan	231	8017	14262
Thailand	510	2764	3802
China	(72140)	(157510)	(565060)
Pakistan	(33)	(30)	(71)
Vietnam	(123)	(152)	(230)

Source: Bloomberg, BSC Research

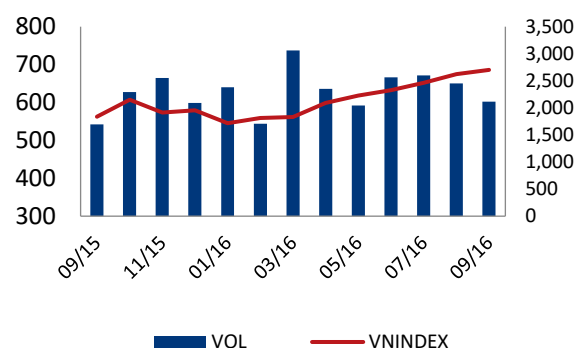
Vietnam's stock market is gradually active in the last trading session of the quarter, while the majority of regional markets and the world market have shown a downtrend in this quarter. VN-Index increased 21.9% in the first 9 months of the year, closing at 685.73 points. Some regional markets such as Korea, Taiwan also have similarities to dynamic stock market of Vietnam. Despite some impact of unexpected developments in world oil prices, the impact of the move to delay the Fed's interest rate increases in the third quarter and affected overall net withdrawal of investors foreign, Vietnam stock market has also become more active in September and escape the volatility in July, and the decline in most of the trading sessions in August.

End of the session of September, VN-Index closed at 685.73, while the HNX-Index closed at 85. Compared to the same period of Q3 2015, VN-Index increased 21.9% while HNX Index gained 6.3% .

The general trend of Vietnam's the stock market in Q3 was an uptrend. Specifically, the market in July was quite large fluctuation, fluctuation in the amplitude range from 620 to 680, while the market approach the peak of the past 8 years, this was the stage where the market trend weakened and unable to overcome the historical peak area. In this phase, investors have taken a "sell when news are released" strategy when they took profit on stocks already experienced strong growth in the last period when related information were disclosed. General markets were under pressure from corrected oil price and Vietnam economic growth cut from the World Bank, the IMF. August was the period that the market was bottoming and formed a rebound in the beginning of the month, moved slowly and sideways in month end, however, the fluctuation was narrower at the end of the month, in the range of 650-670. The reason is due to the pressure of the ETF structure, net selling pressure by foreign investors and psychological effects from the SSC through the decision to change the price tick starting from 09.12.2016. Market flourished again in September, when most of the impact from foreign net selling reduced, trading sentiment also became more active and investors pay more attention to Q3 earnings results and outlook of good fundamental and leading stocks. The market once again surpassed the resistance at 680 and

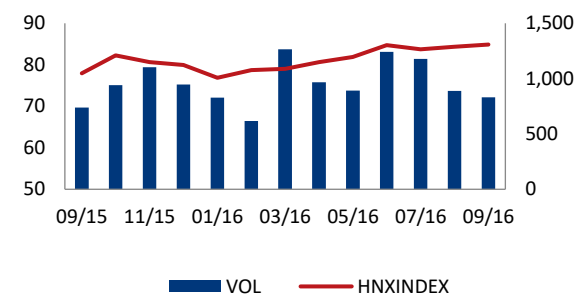
maintained gains thanks to cash flow switched between the pillars of market, creating excitement in the last trading days of the month.

Graph 11
Movement of VN-Index



Source: HSX, Bloomberg, BSC Research

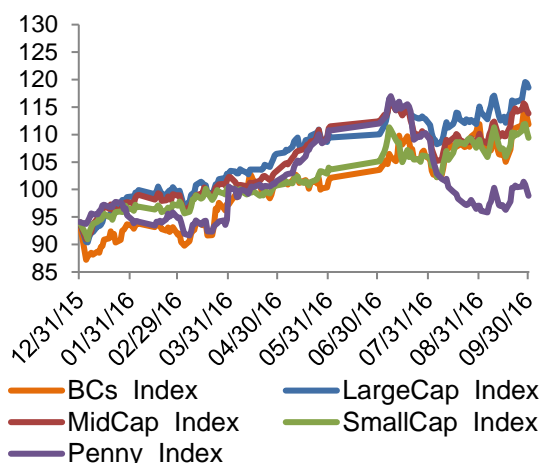
Graph 12
Movement of HNX-Index



Source: HNX, Bloomberg, BSC Research

Movements of stocks by market capitalization

Graph 13
Movements of stocks by market capitalization



Source: Bloomberg, BSC Research

Overall, in Q3 all stocks sorted by market capitalization gained except Penny stocks, and the market was led by LargeCap and BCs, this is the necessary support for the steady rise to challenge and conquer the old peak of the VN-Index at 680.

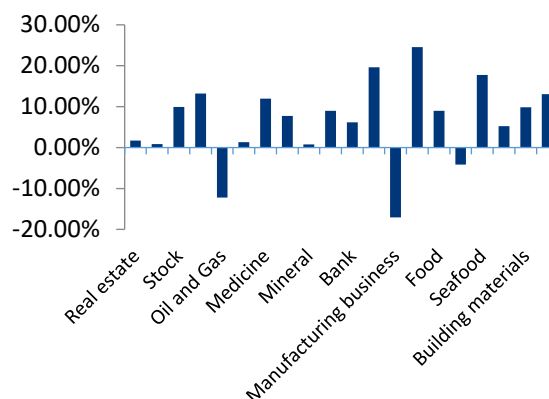
Continued momentum in July, in September, BCs continued to be the leading group to rise 6.5% MoM, followed by LargeCap, SmallCap, MidCap and Penny with an increase of 3.5%, 3.0%, 1.4 and -11.3% MoM, respectively. From beginning of the 2016, LargeCap (+ 31.6%), has the most impressive gains, BCs and MidCap + 28.3% while SmallCap (+ 22.6%), Penny (+ 11.7%) enjoyed less gain.

Movements of stocks by industry

Overall, in the third quarter, most of the sectors gained, only 3 sectors declined including production (-17.09%), oil and gas (-12.24%), commerce (-4.16%). The sectors rose more impressively than others consist of Plastics (+ 19.66%), steel (+ 24.53%), Fishery (+ 17.76%).

Graph 14

Stocks by industry in June



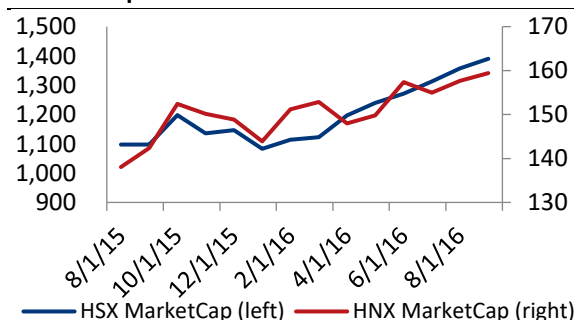
Source: Bloomberg, BSC Research

Market Capitalization

Market cap of 2 floors tend to rise from early 7.2016 despite the major impact from the trend of foreign net withdrawal in August. Closing session on 9.30, capitalization HSX and HNX were 1394 trillion (62.5 billion dollars) and 159.63 trillion (\$ 7.2 billion), respectively, equivalent to the growth of 9.74% and 1.44% compared to Q2.

Graph 15

Market Capitalization

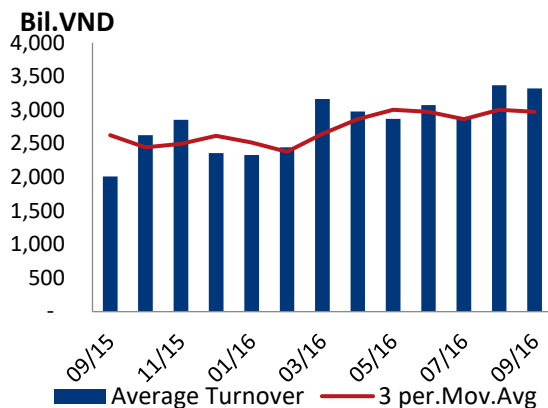


Source: Bloomberg, BSC Research

The average liquidity of market

Graph 16

Average trading value



Source: Bloomberg, BSC Research

Source: Bloomberg, BSC Research

Overall trend of market liquidity since beginning of the year is rising. In Q32016, market liquidity experienced strong fluctuations when trading value in August fell and rose again in September when market sentiment became more excited and Q3 earnings are coming, As of 29.9, average trading value of the month reached 3,356 billion, rebounded on both exchanges, equivalent to USD 150.51 million / day. In Q3, the 3-month average trading value reached 3,239 billion / session, equivalent to USD 145 million / day, equivalent to an increase of 8.97% compared to Q2 2016 and 23.44% over the same period in 2015.

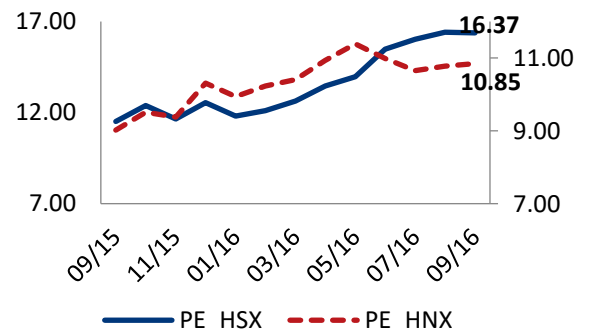
The price level of the stock market in VN

As of 30.9, the PE of the Vietnam stock market remained low compared to other markets in the region and the world. PE VN-Index is currently at 16.37, corresponding to No. 8, the PE of HNX-Index is currently at 10.85, corresponding to No. 2, kept the same ranking compared to August.

Considering 9 months, the general trend of the VN-Index PE is increasing. Notably, the increase of the VN-Index was 38.65% while the VN-Index PE increased by 9%, implying that the VN-Index price is rising faster than its profits. In addition, the VN-Index PE decreased by -0.27% while the HNX-Index PE rebounded by 0.72% compared to August.

Graph 17

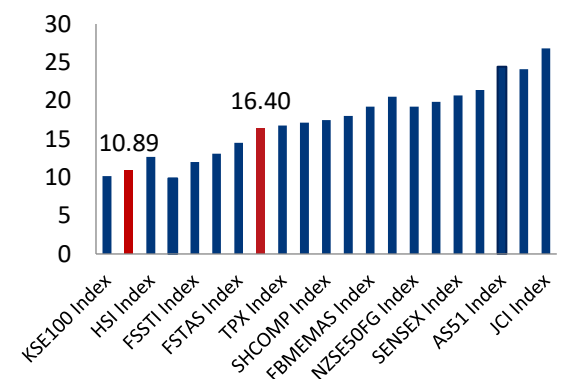
Vietnam stock markets P/E movements



Source: Bloomberg, BSC Research

Graph 18

P/E of VN market in comparison with others



Nguồn: Bloomberg, BSC Research

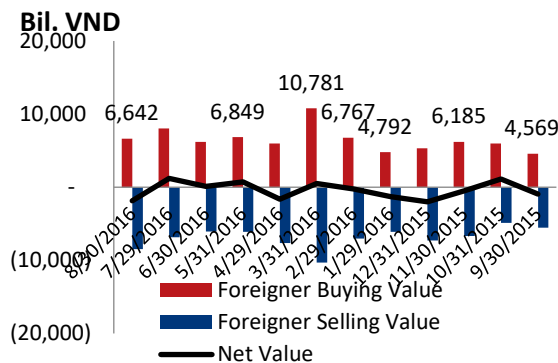
Foreign investors' transactions

Foreign investors were net buyers in July, maintained the momentum of fairly large net seller in August and remained net sells in September. Considering the whole Q3, foreigners' net sell value reached VND 3563 billion on the HSX and net buy value reached VND 252 million on HNX

In Q3, foreign investors bought net the most NT2, PVT, SSI, GAS, DRC, BVH, CTG, CTI, EVE, while sold net strongly FIT, VNM, VIC, VCB, PVD, HBC, HPG, STB, BID, PDR, KHD on HOSE. On HNX, foreign investors were net buyers on VND, PVS, BVS, VCG, VIX, VHL, PTI, HUT, TNG, and net sellers on SHB, NTP, VNR, AAA, SCR, DXP, VGS, SPP, LAS.

Graph 19

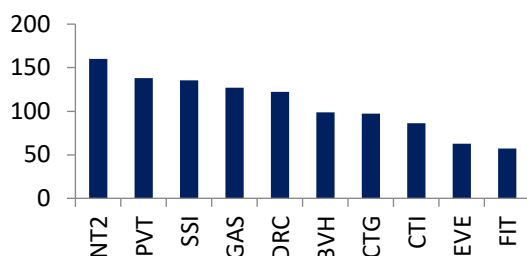
Buy-Sell activities of foreign investors on HSX



Source: BSC Research

Graph 20

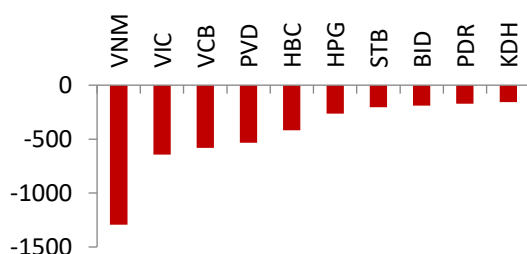
Top 10 net bought stocks by foreign investors on HSX (Bil VND)



Source: BSC Research

Graph 21

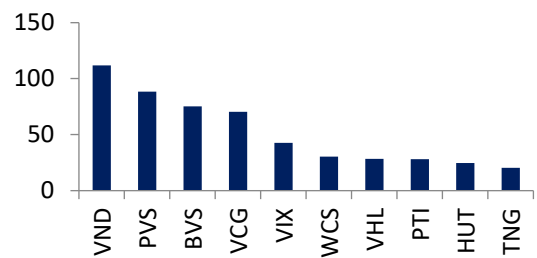
Top 10 net sold stocks by foreign investors on HSX (Bil VND)



Source: BSC Research

Graph 22

Top 10 net bought stocks by foreign investors on HNX (Bil VND)



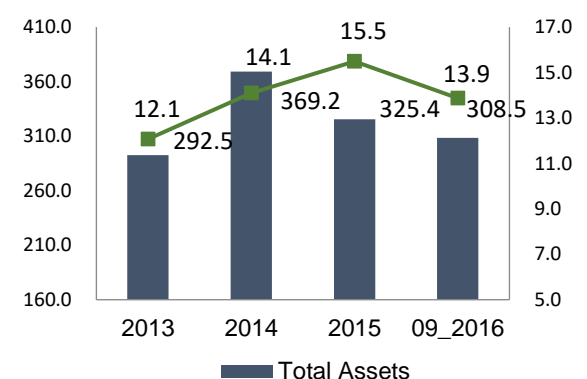
Source: BSC Research

Activities of ETFs

Since the beginning of 2016, the number of fund certificates of the ETF VNM decreased by 3.45 million (USD 3.6 million), equivalent to VND 80.94 billion sold. Number of ETF FTSE fund certificates fell by 1.62 million (USD 8.1 million), equivalent to VND 180.82 billion sold. The focus of the market is 2 reallocations in the early stage of September of 2 ETFs. Earlier, VNM has also been added to the MSCI Frontier Markets Index basket and FTSE Vietnam Index in quarterly portfolio reallocation after room for foreigners up to 100%. During this phase of reallocation, besides adding VNM, FTSE also added HSG and removed TTF from the list, ETF VNM added VNM with the weight of 8%, the highest in the new portfolio. In contrast, PVT and SHB were excluded with the weights of 2.16% and 1.52%, respectively, as of 09.09.

Graph 23

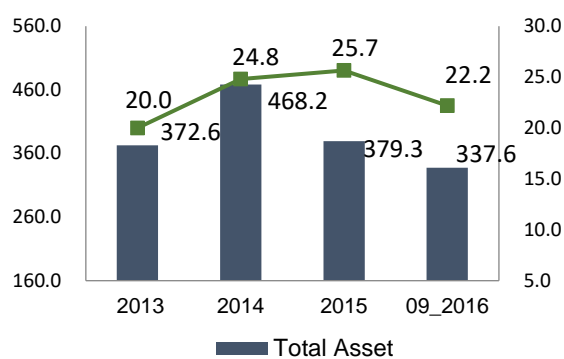
Total assets and outstanding shares of ETF VNM



Source: BSC Research

Graph 24

Total assets and outstanding shares of ETF FTSE



Source: BSC Research

Market outlook in Q42016

In Quarter 3 2016, the market has huge shift, notably:

Steel stocks continued to maintain its leading position while petroleum industry weakened: Steel stocks led the market rally thanks to its impressive Q2 earnings results and information support antidumping duty for galvanized steel import. Conversely, oil price adjustment and Q2 earning results not as expected made the petroleum stocks weakened and left the position for stocks with medium sized like Pharmacy, Plastic and Construction. LargeCap and VN30 stocks rose respectively by 10.2% and 8.5%, provided the basis for good growth market.

Strong market diversification between sectors and between stocks in the same industry. Only 10/20 industries had higher growth than the VN-index, in which 9 sectors fell. Vn30 also had 13 stocks fell. Industries that rose sharply focus in leading industries such as: Steel (HPG+36.9%, NKG+66%), Pharmacy (IMP+44%, DMC+22.4%), Plastic (BMP+32.7%, NTP+30.7%, DAG+30%), Seafood (VHC+29.2%), Construction (HBC+41%, CTD+34.5%).

Cash flow oriented in listed stocks that will likely be divested by the Government in 2016 and stocks that had outstanding 6-month business results. Margin operation remained focused on fundamental stocks. Number of stocks that had more than \$1 million liquidity rose from 22 to 28 stocks in the third quarter. Leading stocks in liquidity are VNM, HPG, HSG, and KBC. Many fundamental stocks had high liquidity, helped stabilize the market, avoiding a sharp decline risk from super-liquidity stocks like in 2015.

Foreign Investors sold net of 3,563 billion in Q3, the highest value for many years, in which ETFs sold 595 billion from scale reduction operation and Vietnam stock exposure reduction, the rest sold mainly due to profit-taking in strong surged stocks like VNM, VCB, HPG. Observing the fluctuation in the foreign exchange market, we realized a net withdrawal of cash flow remained in the market and are waiting for new opportunities in many large

stocks that going to be listed or with divestment during the year.

These shifts will be the mainstream in the last months of the year.

Factors that will affect markets in Q4:

Events	Content and impacts on market
Macro indicators late Q3	Improved after remaining sluggish in beginning 2016 Positive
Government solutions to boost growth as much as possible	Push Expansionary monetary policy, administration reform to free growth resources, ODA disbursement and government bond Positive
Second session of national assembly taking place in late Oct, 2016	Focus on economic, social, state budget and legislation issues Neutral
Business results Q32016	Positive
Prosecution of 6 large economic cases in Q4 – Q1 2017	Violation at printing company, commercial, Agribank services, Waterway constructions JSc., Que Vo textile corporation and Bac Ning funding branch, Vien Duong Vinashin transport, Bien branch of Vietinbank and Oceanbank Negative
Divestment and listing of large firms	Raise market cap, free float, improve liquidity though diluting market in short term Neutral in short term, positive in mid and long term
High and stable margin	Margin higher but liquidity is kept at stable degree while margin focuses in fundamental stocks

	Neutral, need attention in short term
FTA between Vietnam and EAEU from 05/10/2016	Tax cut for many goods. Benefited industries include textile, seafood while Steel and alcoholic beverage is on disadvantage Neutral
Presidential election on 08/11	Positive when Hillary wins, negative when Donald Trump wins
FOMC on 1 – 2/11 and 13 – 14/12 to decide on interest rate	FOMC in November may not raise interest rate yet before presidential election and likely raise in FOMC in Dec Negative
OPEC meeting on 30/11	Output cut after agreement on 28/09 and negotiations with Russia and US thereafter Positive

In the last months of the year, we appreciate the positive change of macroeconomic and solution to support growth of the Government, this will remain as an important platform for the stocks market to maintain growth momentum since the beginning of the year.

About the macroeconomic, GDP of Q3 had positive changes: increase 6.4% after slow growth in the first two quarter with an increase of 5.48% and 5.78%. GDP first 9 months increased about 5.93%, in which Industrial, Constructions and Services remained the main contributors for growth. The decline came from Mining industries and Agriculture make the growth slower than the same period.

In quarter 4, GDP is expected to maintain its growth momentum:

- Manufacturing sectors improved under the 7.6% momentum of industrial index in September, increase 0.1% compared to August. Moreover, Mining industries' negative impact on GDP will have chances to improve when Oil and Gas Group will increase output by 1 million tons of oil by the end of year and oil price tends to recover after the decision to reduce production of OPEC. Processing industry in the early 9 months, which has collected \$7.9 billion of new investment (account for

70.8% of newly registered investment), will also contribute to the growth of this sector.

- Services sector sustained growth and continued improvement in consumer cycle at the end of the year.
- Agriculture, forestry and fisheries sector grew slowly in the beginning of the year due to the negative changes of the weather, invasive mangrove ... will be improved due to improved climatic factors, shift from El Nino phenomenon to La Nina.

However, GDP growth in 9 months is still far from 6.7% target. Growth targets are very difficult to achieve, however, the Government still showed determined efforts to achieve the highest possible growth. Maintain expansionary monetary policy, administrative reform aimed at widening the social investment resources and accelerate ODA disbursement, government debt in late this year.

In the field of monetary policy, credit growth from beginning 2016 till 20/9 has reached 10.46%, room for credit growth is quite large if considering the 18-20% target this year. Expansionary monetary policy and credit growth target are still in favor because:

- CPI in the first 9 months at 3.14% while increasing tuition rates and a part healthcare fees were made in August and December. Driving factors to growing CPI include only increased hospital charges in Aug, Oct, Nov, Dec, increased fuel prices and increasing consumption trend at the end of the year. However, the low CPI growth trends in the world and in the region in spite of the stimulus policy make external factors negligible and the internal factors will be well controlled to constraint the target CPI below 5%.
- Foreign currency market was stable, the central bank purchased \$ 10 billion in the last 9 months, raising total foreign exchange reserves to 40 billion USD. Balance of payments remained surplus, high FDI disbursement, stable remittances and anti-dollarization policy have helped increase the amount of central bank reserves, stabilize the local currency and selling tools in case that exchange rate

fluctuations may occur when the Fed raises interest rates.

- The banking system enjoyed excess liquidity when Central Bank supplied VND to buy about \$10 billion this year. Even though VND has been withdrawn to buy Government bonds and regulated by the issuances of treasury bills, banking system liquidity remains high, help stabilize the interest rates, enabling a few commercial banks interest rates cut in late September.
- Credit operations increased on year end cycle, the total amount of that bank committed for lending out is more than VND 800,000 billion, 4 times the level of commitment at the end of 2014. Interest rate ranged in 6-9% / year for short-term loans, and ranged in 9-11% / year with mid and long-term credit promises to boom at the end of the year.

The market in Q3 rose by 8.45%, the best rate in six years, outperformed the average growth of 0.4% in 6 years. Stock market performance in the third quarter reflected a very positive expectation of investors about the prospects for economic growth and a significant contribution from the cash flow of domestic investors. Despite the strong net selling of foreign investors, the uptrend was quite sustainable and there were not many large price shocks. When expansionary monetary policy mentioned above is maintained, the trend of the stock market will remain positive till the end of the year.

Liquidity and market capitalization is expected to experience huge increase at year-end while many large enterprises such as Sabeco, Habeco, ACV will be listed. State decision to reduce their proportion of VNM and the others will also help increase the availability of shares traded (Free float), therefore, help to increase the liquidity of the market.

Statistics from the market in the fourth quarter for the last 6 years show that there are quite large fluctuations. The rising trend in October, correction November and rise again in December showed are quite possible. This November, the US presidential elections and the Fed meeting should also be noted as the possibility of surprise.

Table 6:

VN-index movement in Q4 2010 - 2015

	2010	2011	2012	2013	2014	2015
Oct	-0.4%	-1.6%	1.1%	1.0%	0.3%	8.0%
Nov	-	-	-	2.1%	-5.7%	-5.6%
Sep	7.3%	-7.6%	9.5%	-0.6%	-3.7%	1.0%
QIV	6.7%	18.8%	5.7%	2.4%	-9.1%	3.3%

Source: Bloomberg, BSC Research

VN-Index is expected to enjoy uptrend and will be moving in 650-720 range in Q4.

- In positive scenario, if there will be now unexpected shock from USA presidential election, VN-Index may reach new highs of the year and stay in 680 – 720 zone at year end. Bluechips will be the main driver for VN-Index to rise while market will keep divergent based on outlooks and business results of listed firms.
- In less positive scenario, if Fed will raise interest rate in November and exchange rate and local interest raise will move in a negative way, SBV may adjust the expansionary monetary policy and VN-Index may lose increasing momentum after peaking in October or November and retreating to 650 – 660 zone.

Recommended stocks:

- Stocks with expected positive Q4 business results such as constructional material, IT, Steel, Seaport.
- Potential stocks such as Real estates, Construction
- Stocks with higher room for foreign investors, divestment plan, M&A and new listing

For further stock pick by us, please refer to:

- Vietnam Sector Outlook Q32016 ([Link](#))
- Vietnam Weekly Review ([Link](#));
- Sector and corporate reports ([Link](#))

Disclosure

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